Transcript: KIPCO Q2 2019 earnings call

Introduction: Good afternoon everyone. This is Ahmed El Shazly from EFG Hermes. I would like to welcome you all to the KIPCO Second Quarter 2019 Results Conference Call. It is a pleasure to have with us in the call today the following speakers from KIPCO: Mr. Pinak Maitra (Group CFO) and Mr. Moustapha Chami (Vice President, Finance and Accounts department). At this time, I would like to handover the call to Mr. Pinak Maitra, who will give the presentation. Thank you.

Pinak Maitra: Thank you, Ahmed. Good afternoon everyone. We are glad that all of you have joined us for our second quarter earnings call of 2019. Please note the presentation we are using is also available on our website along with second quarter financial statements.

As we have done before, we draw your attention to page 2 of the presentation which reads out a brief disclaimer. Some of the statements that we will be making today, and information available in the presentation are forward looking. Such statements are based on KIPCO's current expectations, predictions and estimates. They are not guarantees of future performance, achievements or results.

I will now hand over to Moustapha to provide you with a performance update on page 4 of the presentation.

Moustapha Chami: Thank you, Mr. Pinak. The Group generated revenue of US$1.225 billion for the first half of the year 2019, which is marginally below the revenue generated during same period of 2018 (almost 1% lower). This is mainly attributable to revision in reporting of the financial statements' closing process at Burgan Bank by virtue of which they have reported only five months' results of its subsidiaries instead of six months. The resultant reduction in interest income vs. same period of last year has been partially compensated by increase in revenue from Hospitality & Real estate sector and the share of results of associates mainly in the Industrial and Insurance sectors.

We have reported a net profit of US$45 million for the period. This is an increase of 13% compared to the first half of last year. This translates into an EPS of 7.0 fils per share or 2.3 cents per share, an increase of 19% over H1 2018 EPS of 5.9 fils per share or 1.9 cents per share.

In the second quarter (the three months ended June 30, 2019), KIPCO reported a 10% rise in net profit to US$ 23 million compared to US$ 21 million reported in the same period of 2018.

Now, I will hand it back to Mr. Pinak.

Pinak Maitra: Thank you Moustapha. The next page 5 details performance of Burgan Bank, KIPCO's flagship banking arm. As you know Burgan Bank holds its own investor call. For this quarter Burgan Bank will hold its investor call at 3PM Kuwait time (1 PM GMT), about an hour and half from now. As such we will focus on key highlights of their first half results.

Before we move to the operating results, we would like to inform you all that Burgan Bank has successfully completed tender buy back of its previously issued tier 1 securities worth US$230mn, which were due for redemption on 30 September 2019. The Bank has replaced these bonds by successfully re-issuing US$500mn perpetual tier 1 securities during July 2019. It gives us immense pleasure to highlight that the orderbook was 4.4x oversubscribed reflecting the confidence that regional and international investors have in the Burgan Bank's growth strategy and prudent financial management. The result of this demand was that new bonds were issued at a price of 5.75% vs 7.25% coupon of our 2014 issued bond.

As was in case of Q1 2019, Burgan Bank's first half results for 2019 include a one-month lag i.e. they have reported only five months' performance of its subsidiaries instead of six months. As highlighted in our last call, this change in accounting will enable Burgan Bank to accelerate its financial closing process for earliest possible release of the Group's financial statements to its stakeholders. As such, the results should be read within this context.

- On top of page 5 you can see loan book was marginally lower by 1.5% in first half of 2019 vs. year-ended 31st December 2018. This was mainly due to lower loan volumes in Burgan Bank Turkey by US$245mn due to devaluation of the Turkish Lira and limited loan growth in that market. AGB loan volumes were also lower by US$50mn. This was partially offset by higher loan growth in Kuwait operations by US$95mn coming primarily from corporate customers.
- Deposits grew by 11% vs December 2018 mainly driven by Kuwait operations where around US$1.6bn deposits were added from December 2018. This was offset by around US$257mn reduction in deposits in Turkey and Algeria in total.
- Operating income for first half ending 30th June 2019 was US$384 million, lower by US$75 million compared to the first six months ended 2018. Of this decline, approximately US$30 million was due to the one-month lag in consolidation of results of subsidiaries coupled with one-off gains in H1'18 mainly from dividend income and recoveries. Net Interest Margin was at 2.4%. Headline cost to income ratio deteriorated by 261bps in first half of 2019 vs last year mainly on the back of lower operating revenues.
- As a result of the above-mentioned movements, the Group posted a net income of US$148 million in first half of 2019 vs US$166mn in H1 2018.
- Asset quality remained good as we reported a net NPA ratio of 2.3% flat with 31st December 2018. We continue to have prudent provisioning levels where around 91% of provisions are in the general category. Because of

this, coverage ratio was 249% after including these provisions along with the value of collateral. The Bank reported a healthy CET1 Ratio of 11.6% and CAR of 17.0% as at 30th June 2019, which points to an optimal capital structure.

On page 6, we have provided details on performance of the regional operations of Burgan Bank. Regional loan book remained broadly stable, with slight decline coming from Turkey operations which as we mentioned earlier was largely owing to TRY depreciation. Overall, share of our regional loan book was 32% of total Burgan Bank loan book and regional deposits accounted for 31% of Group's customer deposit base. The quarterly results on headline basis in first half of 2019 are lower in the regional operations compared to first half of 2018 due to the time lag in reporting that I mentioned earlier. However, when we look at important performance indicators at the bottom half of the slide, performance of all our regional operations are depicting an improving trend which is satisfying despite the challenging macro-economic environment. As you can see the net interest margins of our major regional operations have improved except for BoB, while average cost to income ratio has also visibly improved.

I will hand it back to Moustapha for Gulf Insurance Group section>

Moustapha Chami: Thank you Mr. Pinak. Our insurance company GIG is expected to announce their results by next week. We have therefore not disclosed the half year numbers in this call. As you can see on page 7, we have highlighted their Quarter 1 numbers. In half-yearly results, GIG is expected to maintain the growth trend they showed during first quarter.

Further, our primary focus during first half of the year remained on digitalization of customer journey. There have been significant developments in this regard in the second quarter of 2019. Our smart phone application and GIG health online have been revamped to provide customers with an improved experience. These applications went live in second half of June. We are in the midst of enhancing our digital distribution capabilities with a seamless omni-channel experience. Additionally, we are upgrading our core insurance system with another state-of-the-art system to boost operational efficiency. We believe that in doing this, we will increase customer retention and improve cross selling.

I will now hand over to Pinak to take you through the remaining portion of the presentation.

Pinak Maitra: Thank you Moustapha. On next slide, slide 8, for United Gulf Holding Company and United Real Estate Company, we have shown Q1 numbers as they have not yet announced their results. We have therefore not disclosed their half year numbers in this call. In half-yearly results, both the companies are expected to maintain the growth trend they showed during first quarter.

Moving to Page 10, that is OSN. Significant market opportunity exists in MENA pay TV sector which coupled with growing demand of SVOD in the region presents high growth avenue for OSN. We have exclusive linear as well as non-linear rights to a majority of western premium entertainment content for more than 20 countries.

As KIPCO's review of strategic options on OSN is in progress, we are not discussing the financial performance of OSN in detail. However, in the first six months, OSN business performance has shown positive trends. Revenue is around budget target and cost reduction goals have been exceeded. As result EBITDA has been ahead of budget by 30 %.

Since its launch in April 2019, our streaming platform Wavo continues to grow above our launch expectation. During the quarter, Wavo added more than 90,000 paying customers. The customer base at the end of the quarter crossed 100,000 paying customers. WAVO's success can be attributed to the diversity of premium content available on the best-in-class platform ranging from top rated TV shows like Chernobyl, Game of Thrones, latest Hollywood movies, Arabic movies & drama and a huge library of blockbuster movies. Our platform continues to stabilize and improve to provide a better customer experience. In the third quarter, customer will see additional features that will increase their experience on the platform. This will continue for the rest of 2019. As a result, OSN management team feels that Wavo is well positioned to harvest the opportunity to deliver quality content to large number of customers across the MENA region who want it.

Moving on to page 11. United Industries reported US$ 26million net profit for first half of 2019 which is higher by 34% as compared to first half of 2018. The growth can be attributed to increase in its share of income from Qurain Petrochemical Industries Company.

JKB is expected to announce its results soon. We have therefore not disclosed the half year numbers in this call. In half-yearly results, JKB is expected to maintain the growth trend that they showed during first quarter.

We now move on to page 12 that covers our funding profile. As you can see, we are well positioned in terms of overall debt maturity of our borrowings which is close to 5 years.

Our focus remains on long term and stable funding profile which matches with the long-term investment horizon of our assets. As you may be aware, we have successfully completed our rights issue subscription of KD 95 million in July 2019. We received an overwhelming response from our shareholders, leading to an oversubscription of 17% to the rights issue.

That concludes our today's presentation. We now hand over to the moderator to invite our listeners to raise any questions they may have.

Ahmed El Shazly: Hi, I have one question. Are you currently looking at any investment opportunities and if so, are there specific sectors that you are looking at? Also, are there any plans for exits from your current investments?

Pinak Maitra: Thank you. In terms of investment areas where we are interested to acquire, it's in the education sector and obviously anything in digital in the banking and insurance space, so that's in terms of the acquisition space. In terms of exits, we obviously have a couple of opportunities that we are progressing, one in the healthcare space. We have a rule, which is a 15-15 rule, we look at the long-term potential of these businesses, are they growing at 15% in revenue and are their net margins after 5 years going to be 15%. If any business of any operating company that does not meet the criteria, then we basically plan to exit in the next 5 years. Currently that's perhaps how I would describe the exit question.

Ahmed El Shazly: Okay, thank you.

Rakesh Tripathi: Thank you for the presentation. I had two specific questions. The first one was on your dividend receipts. Could you give a brief estimate of the dividends that have been received at the parent level in H1 2019? Second one is on the status of OSN, is there an update?

Pinak Maitra: Thank you. The expected dividend for 2019 is USD100mn, broadly in line with what we gave you in first quarter. We have received USD82mn dividend up to date. So, that is the answer of the question in terms of dividend receipts of the parent company.

In terms of OSN, we continue to progress with all the so-called check-list that our advisors have provided us and we continue to make good progress. These are as we had guided you earlier. Likely to see more advise from the strategic advisor to come during second half of the year. So, we will give you an update as the advisors ask us to. Operationally the business is doing better, in terms of content rights our position is getting stronger. In market place, we are seeing lesser competition. So, in broad terms, we are seeing a more favorable environment and the success of WAVO is something that is better than what we had originally hoped for. So cautiously, we seem to be moving in the right direction.

Moderator: At this time, there are no further questions.

Pinak Maitra: Thank you everybody. We appreciate all of your participation in this call.

Ahmed El Shazly: Thank you everyone.