



Transcript: KIPCO H1-2021 earnings call

Introduction: Good afternoon everyone. This is Ahmed Al Shazly and on behalf of EFG Hermes, I welcome you all to the KIPCO's First Half 2021 Results Conference Call. It is a pleasure to have with us in the call today Mr. Anuj Rohtagi (Group Senior Vice President, Group Financial Control) and Mr. Moustapha Chami (Group Senior Vice President, Finance and Accounts) at KIPCO. I would like to handover the call to Mr. Anuj Rohtagi. Thank you.

Anuj Rohtagi: Thank you, Ahmed. Good afternoon everyone. Thank you for joining us in our First Half 2021 earnings call. We hope all of you are in good health. Please note that today's presentation is also available on our website along with financial statements for the period.

As usual, 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 can be forward looking. Such statements are based on KIPCO's current expectations, predictions and estimates and are subject to risks and uncertainties which may adversely or otherwise affect the future outcome. They are not guarantee of future performance, achievements, or results.

Our group companies continued to show stable or improved operational performance during the first half of this year. As done in previous calls, we will discuss performance of our key companies today.

I will now hand over to Mr. Moustapha to provide you with KIPCO's financial performance update on page 4 of the presentation.

Moustapha Chami: Thank you, Anuj and good afternoon everyone.

Referring to page 4 of the presentation, revenues decreased by 4% in H1 2021 to reach US\$ 1.248 billion compared to US\$ 1.301 billion in H1 2020. The year-on-year

decrease in revenue is mainly due to a one-time investment income booked in H1 2020 from the remeasurement of previously held equity interest in Panther Media Group Limited, as explained in note 3 and note 10 of the financial statements. In addition, we also recorded a lower interest income from our banking operations at US\$ 487 million in H1 2021 compared to US\$ 553 million in H1 2020. The decrease was partly offset by foreign exchange gain.

We reported an operating income of US\$ 227 million during H1 2021 compared to an income of US\$ 214 million during the same period last year, before booking provisions for credit losses and investments of US\$ 187 million in H1 2021 compared to provision of US\$ 159 million in H1 2020.

We have reported a net profit of US\$ 11 million for H1 2021 although during second quarter of 2021, we reported a net profit of US\$ 39 million. The profit in Q2 2021 was driven by increase in investment income in addition to higher results of the group companies in the insurance and banking sectors. This translates into an earnings per share of 0.2 fils per share or 0.1 cents per share for H1 2021. The earning per share for H1 2020 was 3.6 fils per share or 1.2 cents per share.

Now, I will hand over the presentation to Mr. Anuj.

Anuj Rohtagi:

Thank you Moustapha. We can now go to page 5 that covers Burgan Bank's results. We would like to direct you all to Burgan Bank's H1 2021 earnings call transcript and presentation which can be found on Burgan Bank's official website for details. The call was held on 3rd August 2021. In our presentation today, we will be covering key performance highlights of the Bank.

Loan book declined in H1 2021 by 2% or US\$ 352 million vs. FYE 2020 to US\$ 14.1 billion as on 30th June 2021. The key driver was reduction in Turkey loan book by 10%, that is US\$ 259 million due to lower loan volumes, Turkish Lira depreciation and

decline in Kuwait loan book by US\$ 203 million. This was partially offset by growth of US\$ 105 million in Algeria.

Deposits grew by 6% in H1 2021 or US\$ 859 million vs. FYE 2020 to reach US\$ 14.4 billion as on 30th June 2021. The increase in deposit base was driven by Kuwait operations which increased by 6% (that is US\$ 598 million) and in Algeria by US\$ 226 million.

We would like to once again remind you that Bank of Baghdad was reclassified as asset held for sale and its operations are not consolidated in the income statement for six months ending 30th June 2021 compared to the corresponding period ending 30th June 2020.

Operating income for H1 2021 was US\$ 372 million, higher by US\$ 15 million compared to H1 2020. This increase is attributable to higher non-interest income of US\$ 56 million driven by higher fee and commission income and security gains. Net interest margin for H1 2021 decreased year on year to 2.0% vs 2.3% in H1 2020 mainly due to impact of interest rate cuts that were implemented in Q1'20. Net Interest Margin for Q2 2021 stood at 2.4%, higher vs 2.1% in Q2 2020 and vs 1.7% in Q1 2021. The improvement in margin in Q2 2021 was driven by normalization of two non-performing loans, recognized in Q1 2021, which brought back net interest income to normal levels and continued reduction in funding costs.

Provisions charged to income statement increased to US\$ 129 million in H1 2021 as against US\$ 109 million in H1 2020 mainly driven by Kuwait operations.

As a result of the above-mentioned key movements, Burgan Bank Group posted a net income of US\$ 80 million in H1 2021 vs US\$ 76 million in H1 2020, an increase of around 6%.

Non-performing assets ratio, declined significantly from Q1 2021 due to regularization of NPL accounts in Kuwait, was at 3.7% as of 30th June 2021 vs 4.9% in

Q1 2021 and 3.5% on December 2020. The bank reported CET1 Ratio of 10.4% and CAR of 16.5% as on 30th June 2021. This is against minimum required ratios of 8.0% and 11.5% respectively.

Moving on to page 6, regional loan book declined by US\$ 157 million in H1 2021. The reduction in regional loan book was driven by currency depreciation in Turkey as stated earlier. Deposits increased by US\$ 258 million or by 7.0% in H1 2021 vs. as at FYE 2020 mainly contributed by Algeria as mentioned earlier. Overall, share of our regional loan book and customer deposit was 26% and 27% of total Burgan Bank loan book and customer deposits, respectively. Net profit from regional operations is lower in H1 2021 by US\$ 9 million vs H1 2020 primarily due to high provisioning in Burgan Bank Turkey and impact of interest rates.

Overall, the focus of the Bank remains on maintaining the quality of its assets which has shown tangible improvement in Q2 2021 and to achieve digital transformation which will lay foundation for improvement in non-interest income and optimize its operating cost.

We can now go to page 7 of the presentation, which summarizes Gulf Insurance Group's performance.

GIG continued its strong performance for the six months ended 30th June 2021. Gross premium written was US\$ 840 million, registering a healthy growth of 10% i.e. US\$ 74 million vs. US\$ 766 million reported in H1 2020. The increase is driven by positive contribution from all business lines, with notable increase in medical and engineering business.

On the bottom left chart, you can see that the combined ratio stands at 92% in line with the corresponding period last year. If you look at the top right-hand side chart, net investment income for H1 2021 increased by 40% to US\$ 34 million from US\$ 24

million last year. This was driven by increase in quoted held for sale investments as well as increase in unquoted unit linked funds held by GIG - Kuwait.

As a result of revenue growth and higher investment income GIG reported a net profit of US\$ 39 million for H1 2021, a 20% growth over a profit of US\$ 33 million in H1 2020. Additionally, GIG has received some of the regulatory approvals for its acquisition of AXA's Middle East operations. The acquisition is expected to be completed subject to regulatory approvals, during this year.

I will now handover to Moustapha, to take you through UGH's performance update.

Moustapha Chami: Thank you, Anuj. As United Gulf Holding has not released their results yet, hence we have not included their H1'21 results in our presentation. In the slide, you can see their first quarter results. We expect them to post positive results for H1'21 which is an improvement over last year's performance.

We can now move to slide 9. United Real Estate Company has just announced its results and this is why it was not shown in the presentation. The profit for the six months ended 30th June 2021 is US\$ 4.2 million, compared to a loss of US\$ 18.8 million in the comparative period of 2020. The real estate sector was highly impacted last year due to Covid-19. The increase in current year profitability indicates the back-to-normal activities, mainly driven by an increase in rental and hospitality income and the reduction in impairment of investments.

I will now hand over to Anuj to cover the remaining pages.

Anuj Rohtagi: Thank you. We are now on page 10, that covers OSN. OSN is progressing on its transformation journey and continues to be one of the leaders in both OTT as well as pay TV services in the region. OSN streaming is growing steadily with ~550k subs as of June 2021. OSN also continues to carry one of the best mixes of exclusive Western and Arabic content portfolio in the region with movies and series from well-known quality brands, thematic and kids channels and increasing number of Originals. OSN

Originals have been receiving good response from customers. Three Originals were launched in 2020, three have been launched so far in 2021 till date and more are in pipeline in 2021. OSN has continued to showcase first in the region releases of shows like the Friends Reunion at the same time as their international release.

During May 2021, OSN unveiled a brand new digital-first platform, putting technology and content at its core. The platform now enables multiple user profiles, allowing demographic profiling of users and content presentation focusing on enhanced search and discovery. The platform has been designed to learn from user behavior to tailor recommendations over time, hence improving overall customer experience.

Moving on to slide 11. As Qurain Petrochemical Industries Company (QPIC) has March ending financial year, we have shown results for the three-month period ending 30 June 2021, where QPIC reported a net profit of US\$ 5 million during this period, compared to a profit of US\$ 8 million for the same period last year. This 13% year on year decrease in the net profit is primarily attributable to lower revenue of Sadafco, its food and dairy subsidiary, during the three-month period.

Jordan Kuwait Bank reported a steady operating performance, with net interest income remaining largely stable in H1 2021 vs. H1 2020, while both deposits and loan book showed similar levels as FYE 2020. Further, the bank reported a net profit of US\$ 4 million in H1 2021 as compared to a net loss of US\$ 8 million in H1 2020 largely since high provisions were made in 2020 due to macro-economic conditions while in H1 2021 there have been provisions reversals of ~US\$1 million.

These were our key highlights for H1 2021 results. Our group companies are generally positioned towards reversing the impact of pandemic, though the risk remains. The progress in digital transformation for these companies has continued during the period and we expect this along with other revenue initiatives to be a positive trend for the Group in future.

We now hand over to Ahmed to invite our listeners to raise any questions they may have.

Moderator: Thank you, Anuj and Moustapha for that presentation. If you want to ask a question you can send it to the Q&A section in the bottom right of the screen or you can use the raise hand function and we will unmute your microphone. We have from the chat a few questions from Mr. Rakesh Tripathi.

Rakesh Tripathi: The first question is what is the tentative amount of funds to be raised via the rights issue?

Anuj Rohtagi: Thank you, Rakesh. As you would have noticed in the disclosures made, we are offering KD 80 million value of shares including the premium.

Rakesh Tripathi: How much have you budgeted for capital infusion into Burgan.

Anuj Rohtagi: This is a forward looking statement; we have not given such guidance in past. This is in progress and as we develop further on this subject, we can disclose the exact number.

Rakesh Tripathi: Can you please share the holding company level cash balance and actual dividend received in H1 2021, and do you expect any other dividends in H2 2021?

Anuj Rohtagi: We have reported a cash balance as of 30th June 2021 of US\$ 589 million. We have received US\$ 18 million dividends till date. With regard to the second half, we do not have any clear visibility as of now. Typically, most of the companies do not pay interim dividends but we may have a situation in one of our companies. Either it will be received in 2021 or it could be received in 2022. We will see how it progresses but at this stage all we can share with you is that we received US\$ 18 million dollars in H1 2021.

Rakesh Tripathi: Thank you very much for answering the questions. Just couple of clarifications if I may seek the same. So, first one was on the plan that you mentioned, the sort of spending plan for the year at the beginning. You mentioned that there would be around US\$ 150 million that would go towards investment in subsidiaries, and we can see obviously that cash balance has come down a bit in Q2, so have those investments been done already in second quarter or we expect the US\$ 150 million to still go out from the existing cash levels?

Anuj Rohtagi: Thanks Rakesh. Our guidance remains within the same range for the year which was around US\$ 150 million. Some of the investments have been made. We, at this stage, are not able to disclose further break-up. But overall, for the year, we are broadly on track in-terms of US\$ 150 million plan.

Rakesh Tripathi: Okay, thanks, and lastly just one thing. On the rights issue, what are your expectation on use of this cash. Is it just to boost the liquidity level at Holdco level to make sure that you have adequate cash? Normally, you prefer to keep enough cash to cover the next maturity, so is it in line with that strategy?

Anuj Rohtagi: That's the broad idea, basically to boost the liquidity and generally we define it as general corporate purposes. One of the corporate purposes is to boost the liquidity keeping in mind the maturities of 2023. So, you are correct, that's the broad intention.

Rakesh Tripathi: Great. Could you talk a bit about the current financial performance at OSN and where we are in terms of the EBITDA break-even and how do we see the performance of the entity?

Anuj Rohtagi: OSN is broadly performing as per the plan, directionally there have been ups and downs in terms of both revenue and cost, so, there has been offsetting changes. That's the best direction I can give you. We have been targeting EBITDA positive for this year. We are still holding to that guidance, and we hope, by the year end

we will be EBITDA positive. It has been delayed by some quarters, that's why I mentioned directionally we are going towards achieving that objective that we have set for ourselves at the beginning of the year. It is a privately held company and we are not able to share any further information at this moment.

Rakesh Tripathi: That's very helpful. Thank you very much. That's all for me.

Anuj Rohtagi: Thank you.

Moderator: Thank you Rakesh. We have a couple of questions from Vladimir David.

Vladimir David: How many OTT subscribers does OSN need to break-even on EBITDA and how many for Free Cash Flows?

Anuj Rohtagi: That is something related to a moving subject in terms of financial profile, hence we will not be able to share that detail. As the levers are available both the sides – both revenue and cost, which makes it a moving target. So, I will not be able to give a precise answer to that.

Vladimir David: Does the US\$150 million infusion plan into subsidiaries include the Burgan Bank infusion?

Anuj Rohtagi: Yes.

Moustapha Chami: Just to add onto that about Burgan Bank's infusion. Burgan Bank till date has not announced any capital increase so far. They have mentioned in their investor call that they will be announcing any capital increase, whenever needed.

Anuj Rohtagi: That's correct. They have simply mentioned it as Moustapha described, so we have to follow the process. But with regard to our planning for the year, it remains within the initially shared US\$ 150 million, subject to what Moustapha mentioned.

Moderator: Okay, thank you. We can pause for a moment just to make sure we have no more questions. So, the next question is from Jinwoo Kim

Jinwoo Jim: Are you concerned about the S&P rating downgrade?

Anuj Rohtagi: These are independent agencies. We provide them information and leave it to them for their opinion. The reports are available on our website, you must have gone through them. Obviously, we are aware of their concerns, and we are looking at several options how we can provide them more comfort in terms of their concerns, helping to improve the ratios that they monitor. So, that is always our objective, and we'll continue to monitor them.

Jinwoo Kim: Can you comment on whether S&P will downgrade further at year end?

Anuj Rohtagi: We have not received any communication in this respect from them.

Moderator: Thank you. We have a question from Vikas Bolinjkar.

Vikas Bolinjkar: How much is the investment portfolio value at end of H1 2021?

Anuj Rohtagi: Our portfolio value, which is based on our own evaluation, where we take value of our share of listed entities at market value, and unlisted entities at book value. For OSN, we take the value at the time of merger in 2009. So, based on this, our portfolio value is ~US\$ 3.8 billion.

Moderator: Thank you. We have a follow-up question from Vladimir David.

Vladimir David: What was the rationale behind United Industries Company (UIC) acquiring a UGH stake from KIPCO and what are the proceeds?

Moustapha Chami: The UGH stake acquired by our subsidiary UIC is mainly part of a restructuring exercise within the Group, and this is part of the diversification at the level of the entity itself. But overall, it is just a restructuring within the Group. For the proceeds, it will be a cash transaction between the two entities, post H1 2021 and it will be eliminated at consolidation level in the financial statements .

Moderator: We have another question from Dmitry Ivanov.

Dmitry Ivanov: Could you please specify your valuation approach for UGH, if it is market capitalization or internal valuation?

Anuj Rohtagi: It is based on the quoted market price.

Moderator: Thank you. We have another follow-up question from Vladimir David.

Vladimir David: What is the value of the 6.6% stake?

Moustapha Chami: The transaction is at the market price.

Moderator: Since we have no more questions at the moment, I will hand over the call back to Anuj and Moustapha for any closing remarks.

Anuj Rohtagi: Thank you everyone for your time and participation and we wish all of you have a nice day.



Disclaimer

This presentation is not an offer or invitation to subscribe to or purchase any securities.

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This presentation contains forward-looking statements. These statements may be identified by such words as "may", "plans", "expects", "believes" and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions. Various factors could cause future results, performance or events to differ materially from those described in these statements. No obligation is assumed to update any forward-looking statements.

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Note: : Exchange rate of USD/KD of 0.30105 has been used in the presentation for financial numbers

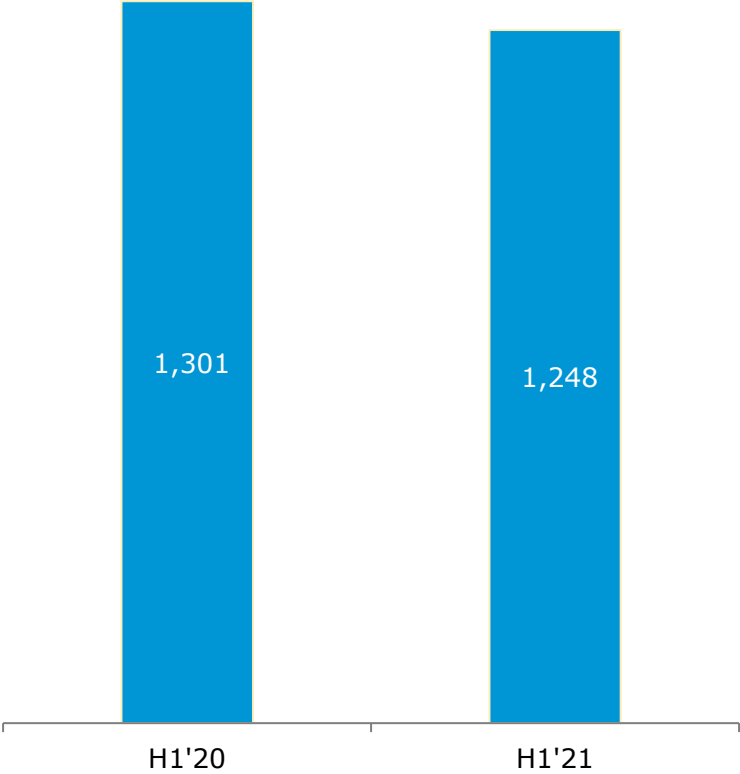


Performance Update

KIPCO consolidated: Financial performance

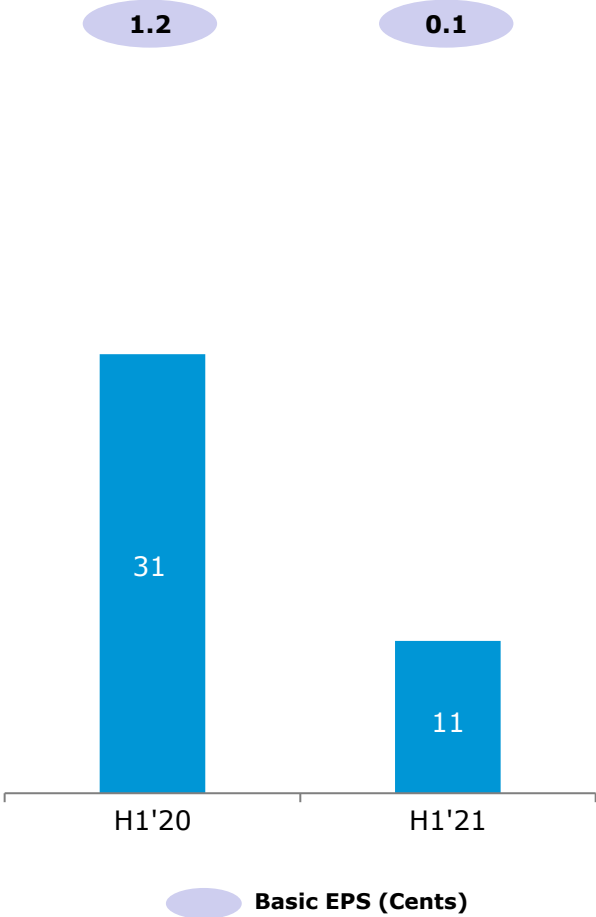
Revenue

USDmn



Net Profit/ (loss)

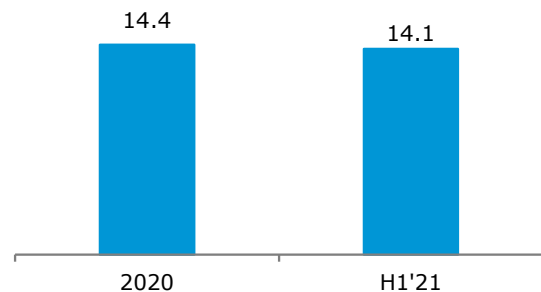
USDmn



Burgan Bank Group (BBG)

Loans

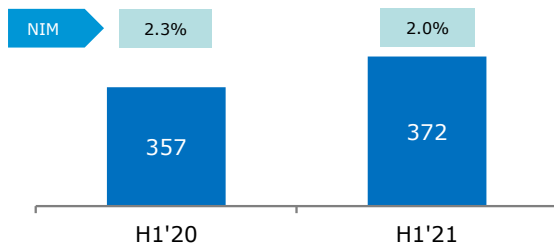
USDbn



Operating Income

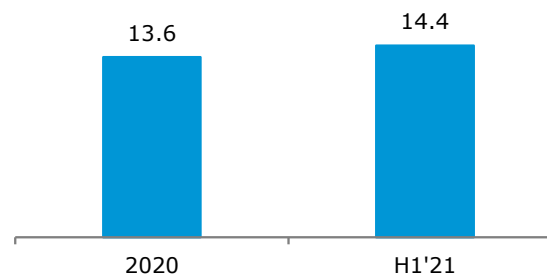
USDmn

	H1'20	H1'21
Kuwait	177	237
International	181	135



Deposits

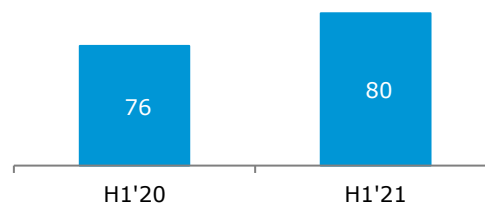
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Net Profit & Provision

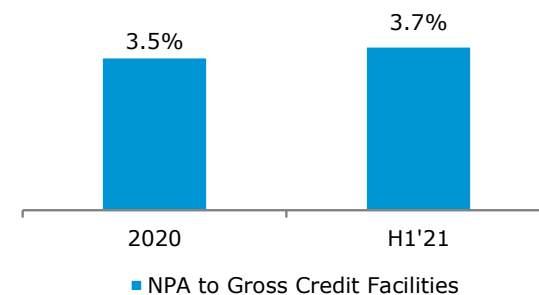
USDmn

	H1'20	H1'21
Provisions	109	129



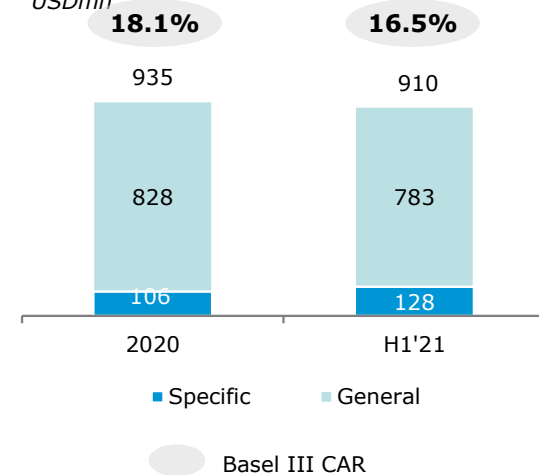
Asset Quality

NPA coverage with collateral	
2020	214%
H1'21	195%
NPA coverage without collateral	
2020	136%
H1'21	124%



Total Provision & CAR

USDmn

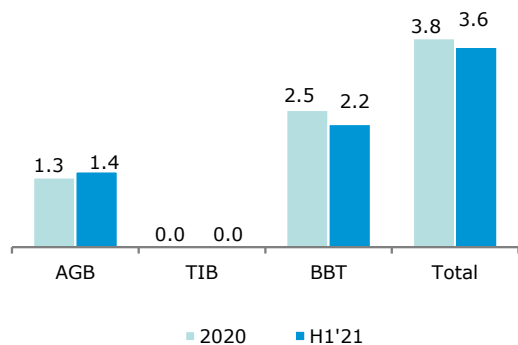


Note: During H1'21, BoB is classified as "Asset held for sale" and results are not consolidated in Income Statement.

BBG: Regional operations

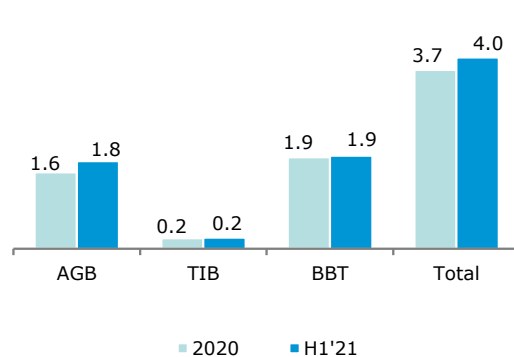
Loans[^]

USDbn



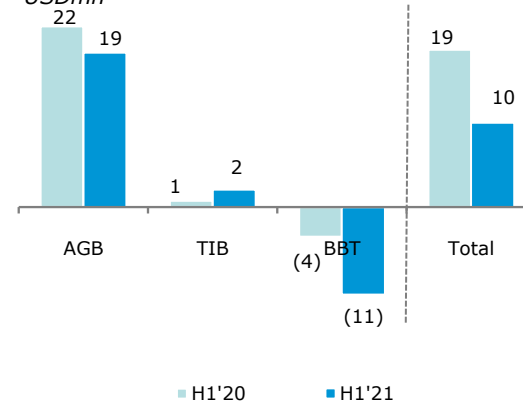
Deposits[^]

USDbn



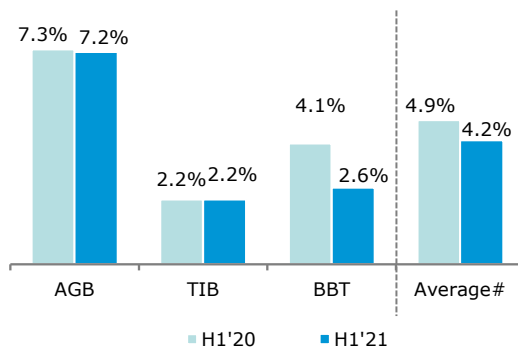
Net Profit/ (loss)

USDmn



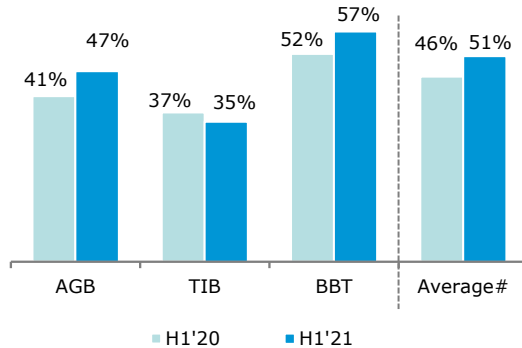
Net Interest Margin

Percentage



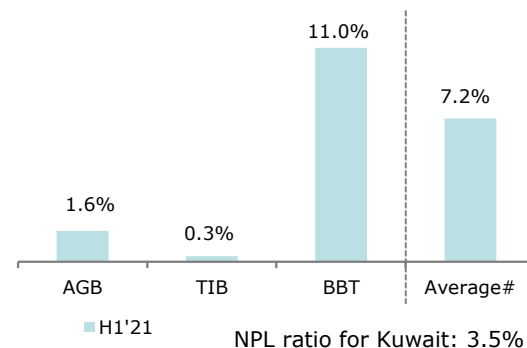
Cost to Income

Percentage



Non-Performing Loans*

Percentage



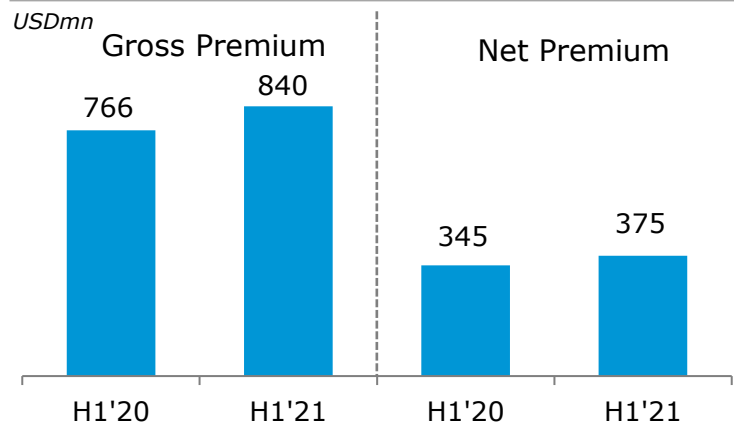
Represents weighted average figures using the denominator of respective ratio as weights

[^] BoB is classified as asset for sale, hence excluded from the results

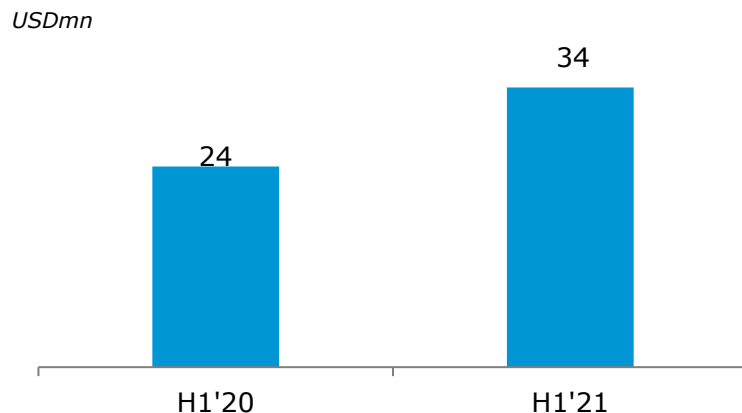
*NPL ratio is as per CBK computation

Gulf Insurance Group (GIG)

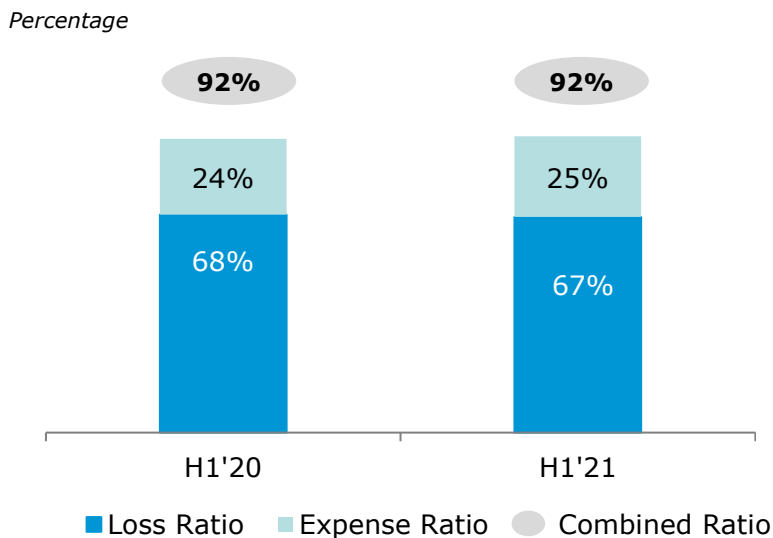
Gross and Net Premium written



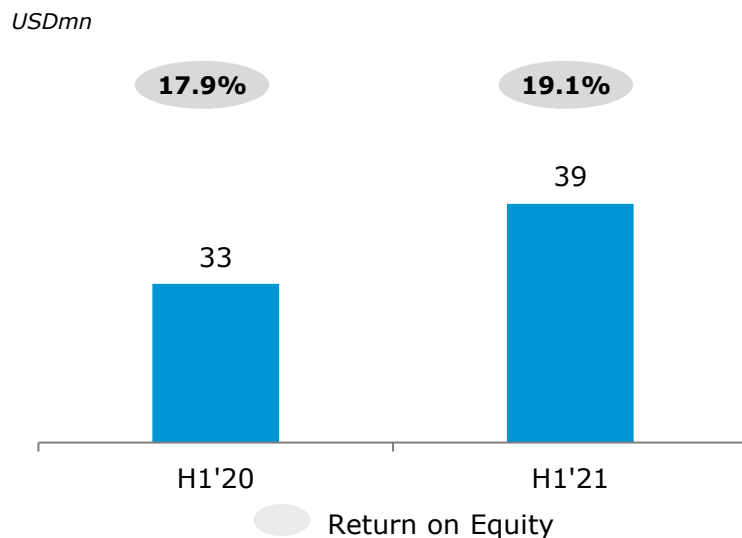
Net Investment Income



Combined Ratio



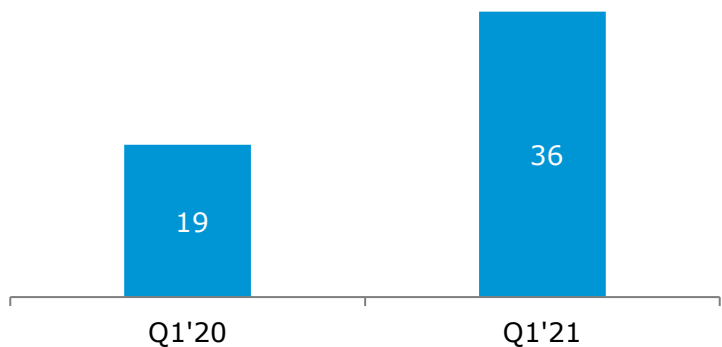
Net Profit & ROE



United Gulf Holding Company (UGH)

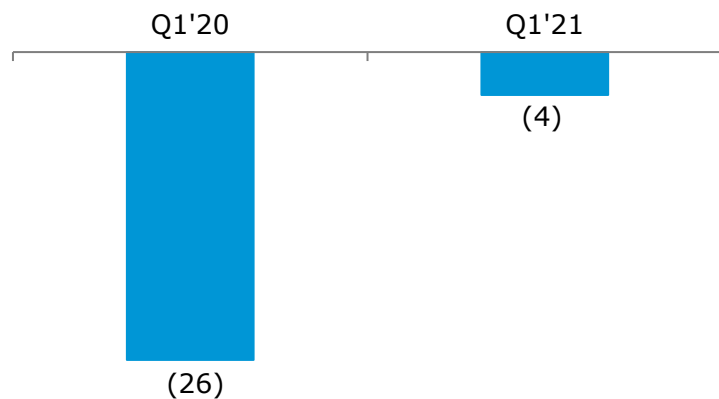
Revenue

USDmn



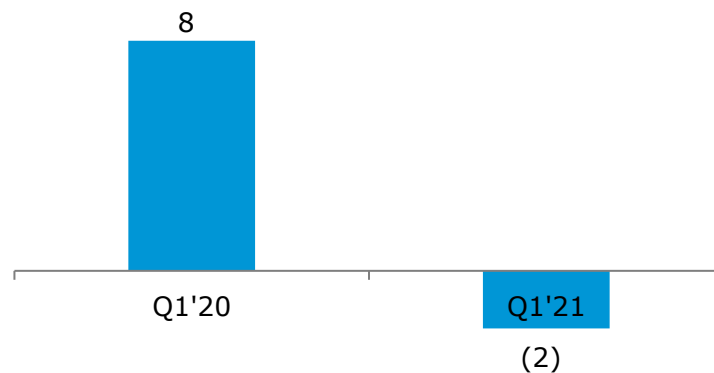
Net Profit

USDmn



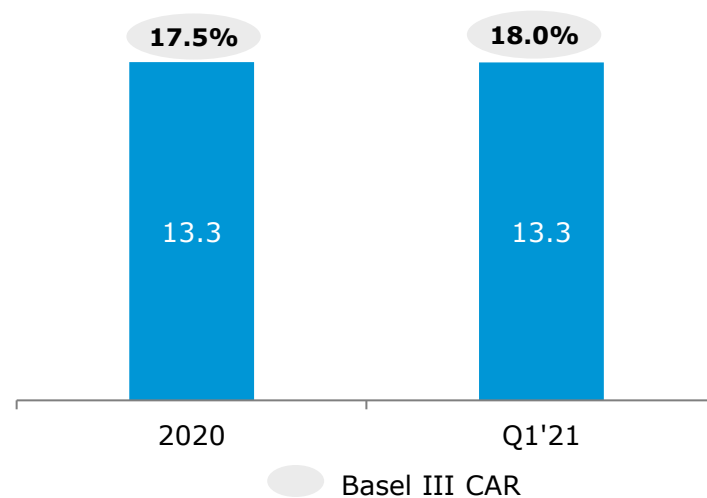
Provisions for Credit Losses

USDmn



AuM & Capitalisation

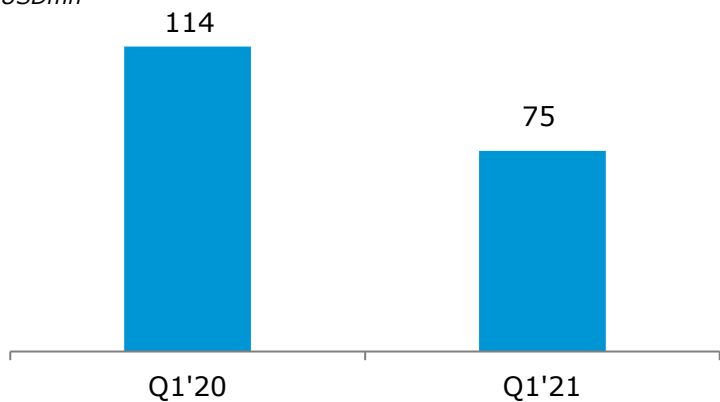
USDbn



United Real Estate (URC)

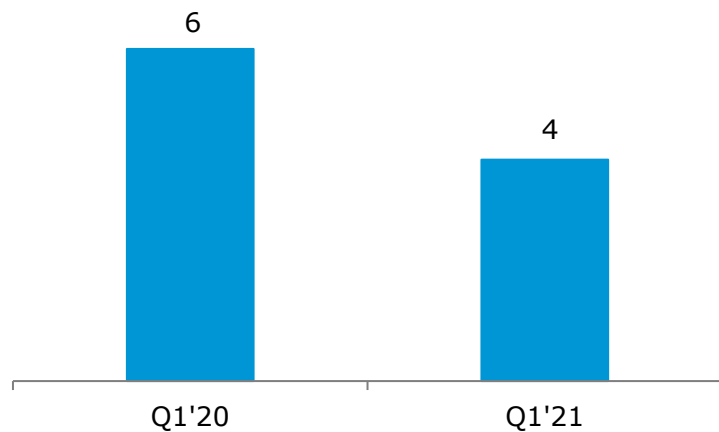
Total Revenue

USDmn



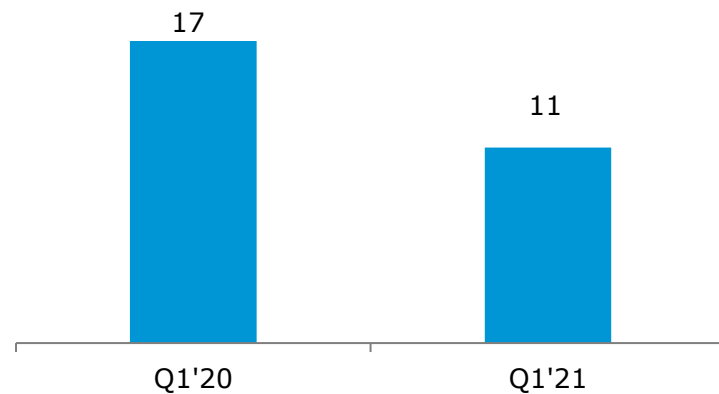
Net Profit

USDmn



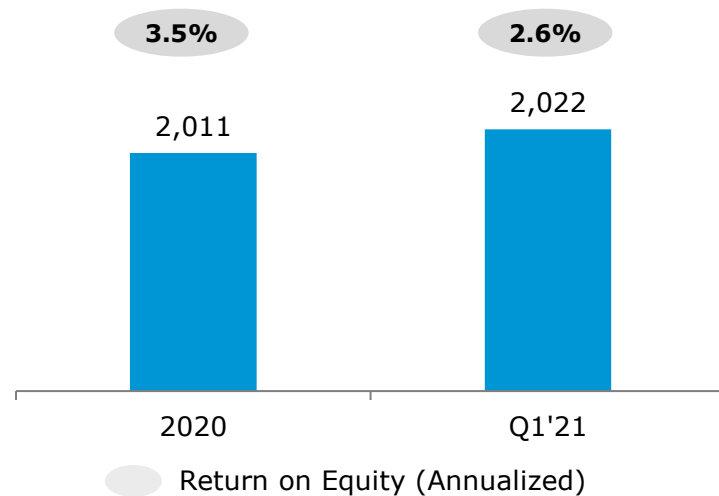
Operating Profit

USDmn



Total Assets & ROE

USDbn



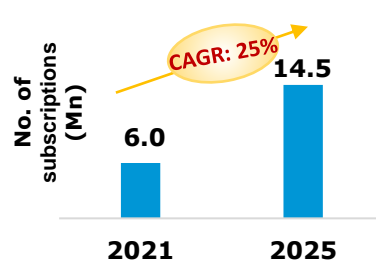
Overview

- ▶ Largest general entertainment platform in MENA, operating across multiple platforms
 - Direct-to-home (DTH)
 - Cable fibre & Internet Protocol television (IPTV)
 - Over-the-top streaming (OTT)
 - Business - Large commercial setups & hotels
- ▶ Premium content offerings with 71 channels in linear TV and 30,000 hours of content on-demand in streaming
 - Exclusive contracts with major Hollywood studios
 - 1st pay window on Pay-tv and SVOD
 - Tailored local offering - Premium Arabic content, Originals
- ▶ Licensed to operate in 25 countries
- ▶ Packages from \$10 to \$50+ p.m., for all income segments
- ▶ ~660 people, has 21 retail locations and network of 71 partners

Strategy / Recent developments

- ▶ Push growth by a connected OSN
- ▶ Streaming to be key component for future growth
- ▶ Traditional OSN TV migrating to on-demand
- ▶ Best in class UI/UX supported by strong analytical capabilities for optimal customer enjoyment
- ▶ Strengthen Originals portfolio - Six launches since 2000 till date and many more are in pipeline in 2021
- ▶ Partner with all major telcos in the region
- ▶ Strong executive management

Expected growth of OTT in MENA*



* Key Markets (KSA, UAE, KWT, QAT, EGY and Other territories)

Source: Mckinsey and OMDIA

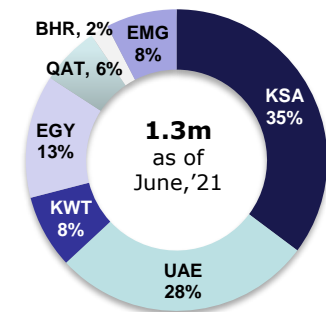
MENA Pay TV Potential

Region	Latin America	TV HHs (Mn)	Pay TV/ TV HHs (%)
MENA¹	367	72	~10%
Latin America	621	56	44%
UK	67	27	56%
India	1,352	197	66%
US	329	120	79%

¹MENA region represents data of: Bahrain, Egypt, Jordan, Kuwait, KSA, Qatar, UAE, Algeria, Lebanon, Libya, Morocco, Oman,, Sudan, Syria, Tunisia and Yemen (OSN's core and target markets)

Source: IMF WEO Database October 2019, Euromonitor, Statista, Nielsen, Broadband TV News, Economic times

Subscribers by Country



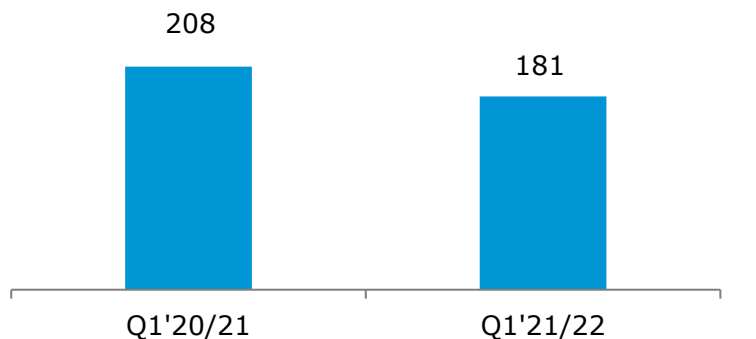
Includes ~550K OTT subscribers

Other key entities

Qurain Petrochemical Industries Company (QPIC)*

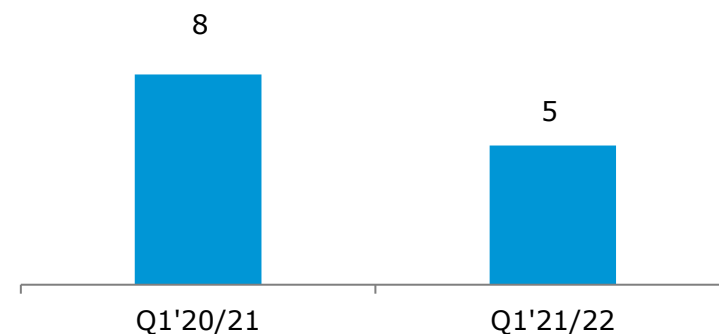
Total Revenue

USDmn



Net Profit

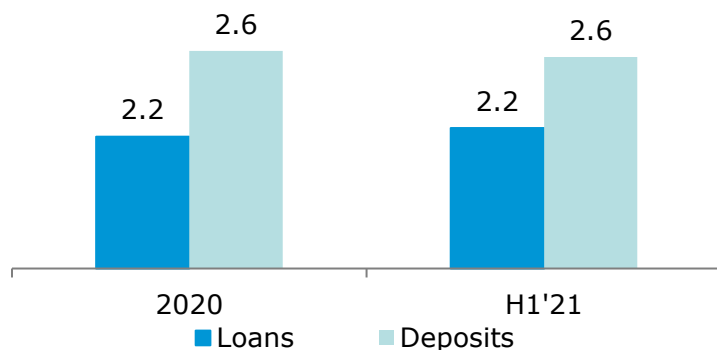
USDmn



Jordan Kuwait Bank (JKB)

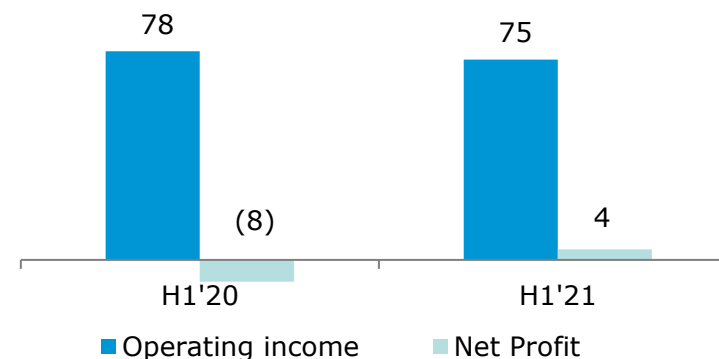
Loans & Deposits

USDbn



Operating Income & Net Profit/ (loss)

USDmn



*As QPIC's year end is 31st March. The above numbers are for 3 months ending 30th June 2021



Annexure



KIPCO consolidated: Balance Sheet

Consolidated Balance Sheet (USDmn)	2020*	H1'21
Cash in hand and at banks	4,474	3,871
Treasury bills, bonds & other debt securities	1,663	1,774
Investment in associates	1,159	1,151
Investment properties	2,074	1,693
Other investments	2,140	2,252
Other assets (inc. goodwill & intangibles)	22,874	22,600
Total assets	34,384	33,341
Due to Banks & Other FI's	4,225	2,970
Deposits from Customers	17,141	17,886
Debt	6,568	6,268
Other liabilities	3,483	3,226
Equity attributable to equity holders of the Parent Company	651	688
Perpetual capital securities	509	509
Non-controlling interest	1,808	1,794
Total liabilities and shareholders equity	34,384	33,341

**restated; Please refer Note 3 for details on restatement*

KIPCO consolidated: Income Statement

Consolidated Income Statement (USDmn)	H1'20	H1'21
Interest income	553	487
Investment income	252	158
Fees and commission income	89	99
Share of results of associates	28	36
Share of results of a media joint venture	(20)	-
Media and digital satellite network services income	-	166
Hospitality and real estate income	186	152
Other revenues	107	151
Total revenues	1,301	1,248
Interest Expenses	427	350
General and administrative expenses	303	293
Other expenses and provisions	516	566
Taxation	17	15
Non-controlling interest	7	14
Net profit/ (loss) attributable to Equity Holders of the Parent Company	31	11
Basic Earnings/ (Loss) Per Share, Cents (Reported)	1.2	0.1



Thank you