
Investor Call Transcript
Q2 2022
كيبكو
KIPCO
شركة مشاريع الكويت (القابضة)
Kuwait Projects Company (Holding)

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Introduction: Good afternoon, everyone. This is Ahmed El Shazly and on behalf of EFG Hermes, I welcome you all to the KIPCO's First Half 2022 Results Conference Call. It is a pleasure to have with us in the call today Mr Sunny Bhatia (Group CFO), Mr Moustapha Chami (Deputy Group CFO), Mr Anuj Rohtagi (Group Senior Vice President, Financial Control) and Ms Eman Al Awadhi (Group Senior Vice President, Corporate Communications & IR) at KIPCO. I would like to handover the call to Ms Eman Al Awadhi. Thank you.

Eman Al Awadhi: Thank you, Ahmed and good afternoon, everyone. We welcome you to our earnings call for the six months ending 30 June 2022. Please note that today's presentation is also available on our website along with financial statements for the period.

Page 2 of the presentation 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. I will now hand over to Sunny

Sunny Bhatia: Thank you Eman and good afternoon, everyone.

We will start with key highlights for second quarter of 2022 or second half of 2022 on page 3 of the presentation. We have reported a net profit of US$ 18 million for first half of financial year 2022. In the following slides we will provide you further details on the key drivers of performance, including the performance of our key companies. Secondly, KIPCO has progressed well on key milestones in relation to the merger. We received Capital Markets Authority or CMA's approval of the merger contract including swap ratio, as a result of approval of valuation and fairness opinion reports. Further to this, CMA also approved an increase of KIPCO's share capital by 2.408 billion shares (all numbers we are quoting are rounded) to execute the merger. Each share of QPIC will be swapped with 2.24 shares in KIPCO. This will result in KIPCO's authorized, issued and paid-up capital of US$ 1,644 million compared to US$ 860 million as of June 30, 2022, an increase of 91%. In addition to CMA's approvals, we recently received Competition Protection Agency approval of the economic concentration in relation to the merger. We are currently in process of completing regulatory steps to set a date for Extraordinary General Assembly of KIPCO shareholders to approve the merger and share capital increase.

We have also made good progress towards the end of the second quarter in strengthening the liquidity position of the company by executing a US$ 375 million committed credit facility with a group of six international banks during Q2 2022. Along with our reported cash balance this sufficiently covers our next 12 months debt maturities. Supported by a significant increase in equity capital base of the company, we are well placed to further strengthen and diversify our funding profile.

I will now hand over to Moustapha to provide details on the financial performance of the Group.

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

Let us move to slide 5, covering consolidated financial performance of the Group. H1 2022 revenue of US$ 1,098 million was 6.7% or US$ 79 million less compared to H1 2021 revenue of US$ 1,177 million. Interest income from banking operations increased by US$ 43 million or 9% recorded at US$ 521 million compared to US$ 478 million in H1 2021. Share of results from associates also increased by US$ 21 million to US$ 57 million in H1 2022 mainly driven by improved results of GIG and QPIC. The overall revenue decrease was largely due to lower investment income which decreased from US$ 155 million in H1 2021 to US$ 48 million in H1 2022 due to adverse market performance and H1 2021 also included a onetime gain of US$ 89 million on derecognition of a subsidiary. Additionally, there was a decrease of US$ 28 million in media and digital satellite network services income.

On the other side, total expenses of the Group during H1 2022 were also lower than H1 2021 by US$ 9 million. There was a decrease of US$ 34 million in media and digital satellite network services expenses and a decrease of US$ 20 million in hospitality and real estate expenses. These were offset by increase in expenses across other expense line items. Below the operating profit line, provisions for credit losses and investments reduced to US$ 38 million in H1 2022 compared to US$ 184 million in H1 2021. The Group recorded a net monetary loss of US$36 million during the period due to application of hyperinflation accounting for its banking subsidiary in Turkey. For further details, please refer to Note 2.5 in KIPCO's Interim Condensed Consolidated Financial Information for H1 2022.

As a result of these key revenue and expenses line items, KIPCO reported a net profit of US$ 18 million in H1 2022 compared to a profit of US$ 10 million in H1 2021. This translates into an earnings per share of 0.8 fils per share or 0.26 cents per share for H1 2022 compared to earnings per share of 0.2 fils per share or 0.07 cents per share for H1 2021.

We can now go to page 7, which covers Burgan Bank Groups' results. We would like to direct you to Burgan Bank's H1 2022 earnings call held on August 3, 2022 for more details. In our presentation today, we will be covering key performance highlights of the bank.

The loan book as of 30 June 2022 was US$ 13.7 billion, recording a marginal decline of US$ 281 million i.e., -2% compared to December 2021. The decline was contributed by Turkey (US$ -114 million or 6%), Kuwait (US$ -91 million or 1%) and Algeria (US$ -67 million or 5%).

Deposits were stable at US$13.6bn as of 30 June 2022. Higher deposits in Kuwait by US$ 228 million or 2% was partly offset by decline in deposits related to Turkey operations by US$ 89 million or 5%.

The bank reported operating income for H1 2022 at US$ 360 million, which is similar to H1 2021. Net interest income grew by 8% to US$ 217 million in H1 2022 vs US$ 201 million in H1 2021 driven by improvement in net interest margins by 10bps to reach 2.1% in H1 2022 vs 2.0% in H1 2021 largely driven by lower cost of funds in the Kuwait franchise. Increase in net interest income was offset by lower investment income.

Provisions charged to income statement reduced significantly to US$ 36 million in H1 2022 as against US$ 127 million in H1 2021 reflecting the improving operating environment and stringent risk practices in subsidiaries. The bank applied IAS 29 “Financial Reporting in Hyperinflationary Economies” for its Turkish operations in H1 2022 which resulted in recognition of net monetary loss of US$ 36 million in its income statement.

As a result of the above-mentioned key movements, Burgan Bank Group posted a net income of US$ 89 million in H1 2022 vs US$78 million in H1 2021, an increase of 13% on a year-on-year basis.

Non-performing loans (NPL) percentage, improved to 2.6% as at June 30, 2022 as against 4.5% on June 30, 2021. The bank reported a CET1 ratio of 11.1% and CAR of 17.2% as at June 30, 2022, well above regulatory requirements.

Page 8 highlights performance of regional operations of the Group. The regional loan book declined by US$ 183 million or 5% in H1 2022. The reduction in regional loan book was mainly driven by cautious growth strategy in Turkey, Turkish Lira depreciation and reduction in the Algeria loan book. Deposits, on the other hand, decreased by US$ 58 million or 2% in Q1 2022 vs. as at FYE 2021 mainly contributed by Turkey. Overall, share of regional loan book and customer deposit was 23% and 27% of total Burgan Bank Group loan book and customer deposits, respectively. Net profit from regional operations was higher in H1 2022 by US$ 26 million vs H1 2021 primarily due to lower provisioning in Burgan Bank Turkey.

Overall outlook for our banking operations remains sound with improving margins and improvement in cost of credit. Now, I will hand over to Anuj to present GIG and other Group companies' performance.

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

We can now go to page 9 of the presentation which summarizes Gulf Insurance Group's performance. GIG posted significant growth in the first half ended June 30, 2022. The Group reported gross premiums of US$ 1,496 million in 1H 2022, which were about 81% higher than the gross premiums reported during same period last year at US$ 825 million. The first half results also include impact of acquisition of AXA's Gulf operations in September 2021 in comparison to first half of 2021.The increase was driven by growth of both conventional as well as Takaful insurance premiums with significant contribution from newly acquired AXA business.

On the bottom left chart, you can see that the combined ratio stands at 93% in line with the corresponding period last year. The net investment income for H1 2022 increased by 62% to US$ 47 million from US$29 million last year. This was driven by increased investment book volume, which was driven partially by AXA acquisition. GIG booked US$ 19 million net monetary loss on account of hyperinflation adjustments in relation to Gulf Sigorta, its subsidiary in Turkey. Driven by all these factors, GIG reported a net profit of US$ 49 million for H1 2022, a 28% growth over a profit of US$ 38 million in H1 2021.

Moving to page 10, United Gulf Holding reported revenue for first half ended June 30, 2022 in line with H1 2021, at US$ 92 million, reflecting a 3% decrease from US$

95 million during same period last year. This is largely on account of reduced investment income from US$ 22 million in H1 2021 to US$ 8 million in H1 2022, as the markets witnessed a negative impact on account of unstable macro-economic environment. However, there was an increase in share of results from associates to US$ 22 million in H1 2022 from US$ 19 million in H1 2021. Fee & Commission income also grew by 17% during H1 2022 to US$ 40 million from US$ 34 million during same period last year.

Expenses during the period remained stable with US$ 84 million in H1 2022 compared to US$ 85 million in H1 2021. Overall, UGH reported a loss of US$ 3 million during H1 2022 as compared to a profit of US$ 0.5 million during the same period last year.

We can now move to page 11 that shows URC's results. Operating profit for the company increased by 52% to US$ 32 million in first half ending June 30, 2022, from US$ 21 million during the same period last year. URC also reported an increase in net profit during the period to US$ 21 million from US$ 4 million during the first half last year. The improvement in operating performance resonates with the improving market conditions during the year, post the lifting of covid related restrictions.

If you move to the next page, OSN continues to maintain its focus on enhancing the user experience on its digital platforms. This is underpinned by keeping its position of premium content provider in the region offering variety of channels and streaming content. The company has performed in line with its plans particularly in managing the operational costs during first half of 2022.

Moving on to page 13. As QPIC has its financial year start on April 1, we have shown results for the three months period ended June 30, 2022, where QPIC reported a net profit of US$ 21 million during the period, compared to a profit of US$ 5 million for the same period last year. The growth in net profit is primarily attributable to US$ 8 million segmental profit from investments in petrochemical sector vs. a segmental loss in same period last year and higher share in income from SADAFCO, its food and dairy subsidiary.

Let us please move to page 14. In line with improving market conditions for the banking sector, Jordan Kuwait Bank reported better operating results. Loan book has increased to US$ 2.5 billion as of June 2022 vs. US$ 2.4 billion as at December 2021 while deposits increased by 10% to US$ 3.0 billion during the same period. Operating income grew by 33% to US$ 100 million in H1 2022 compared to US$ 75 million during the same period last year. Further, the bank reported a net profit of US$ 11 million in H1 2022 as compared to a net profit of US$ 4 million in H1 2021 due to higher operating income and lower provisions.

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

Moderator: We have our first question from Rakesh Tripathi, please go ahead.

Rakesh Tripathi: Thank you very much for the presentation. Can you talk a little bit about the cash levels at the end of Q2 at HoldCo level and what were the key transactions that led to the changes during the quarter as well?

Anuj Rohtagi: Thank you Rakesh. We have a reported cash balance of US$ 364 million as of June 2022. This is in line with our guidance that we will maintain sufficient liquidity and that is what we have achieved. Due to the ongoing merger process, we are unable to disclose full details of all the transactions, but movement in cash balance is a combination of the business-as-usual line items like interest expense, G&A expenses, and the cash flows from dividends.

Rakesh Tripathi: Sure, that is understandable. You mentioned about the regulatory approvals that are coming in for the merger. Can you help us understand a little bit about what else is pending for the merger to go through at this stage, or you see no further pending approvals and it is just a matter of time? When do you tentatively see the merger getting completed?

Anuj Rohtagi: We have received several approvals, including the Capital Markets Authority (CMA) and the Competition Protection Agency both having approved the merger. We have also received approval from both KIPCO as well as the QPIC Boards of Directors and the next step is setting up Extraordinary General Assembly meetings, which we expect to be held during early part of September.

Rakesh Tripathi: So, once the extraordinary general meetings happen and the shareholder approvals are there in place, then you have to simply finish the merger exercise, correct?

Anuj Rohtagi: Yes.

Rakesh Tripathi: Ok, that's perfect and that answers my questions. Thank you very much.

Anuj Rohtagi: Thank you.

Moderator: Thank you Rakesh. We have another question from Dmitry Ivanov, please go ahead.

Dmitry Ivanov: **T**hank you for the presentation. I have a quick question on the credit facility. Can you remind us of the maturity of this facility and what is the availability of the facility? Is it available for one year? After you draw down the facility, what is the final repayment date for this credit facility?

The second question is on the other liquidity sources/credit facilities you have which are undrawn at this stage but might also be available for any liquidity exercises going forward. Thank you very much.

Anuj Rohtagi: Thank you Dmitry. Answering the first question, the facility was signed at end of June 2022 with 18 months maturity, that is till end of 2023 and in terms of availability, it is available for 9 months from the signing, i.e., until March 31, 2023. The structuring has been done in a way that fully covers the upcoming maturity along with the sufficient cash balance we have. We endeavor to always strengthen the overall funding profile and while at this stage we believe it is adequate, we keep looking at all our other options and keep ourselves ready to utilize those options as and when needed.

Dmitry Ivanov: Understood. So this facility can be used explicitly to repay any other outstanding facilities like claims from this outstanding bond for 2023 and the use of proceeds of this facility allows you to do it directly?

Anuj Rohtagi: Yes, the use of this facility is linked to the maturity in March 2023.

Dmitry Ivanov: Understood. Thank you very much.

Moderator: We have our next question from Zafar Nazim, please go ahead.

Zafar Nazim: I have a couple of questions. First, regarding the committed facility. Is there any condition that needs to be satisfied before the company can draw down on the facility or are there any material adverse macro clauses related to this facility?

Anuj Rohtagi: Thanks, Zafar. The facility is governed by a standard agreement and there are no onerous conditions that the company needs to meet to be able to drawdown the facility.

Zafar Nazim: Thanks, got it. Given this is a short-term facility, if you draw it down, you will have to repay it back very quickly. And, considering KIPCO's financial condition, I think markets are not very reliable. So, what is the plan in terms of repaying the facility?

Sunny Bhatia: What this facility does is that it meets two objectives. One is to ensure that irrespective of the market access and condition, the 2023 EMTN bond is fully covered. Secondly, if the need arises, we can drawdown on this facility plus use the available cash at the parent level to meet the payment obligations. Also, as Anuj mentioned, in accordance with our funding strategy we are working on various aspects to strengthen our liquidity position to take care of all the 2023 maturities and beyond, be it the EMTN or Kuwaiti bond or the loan capital market to ensure that we have multiple sources of funding available. Thus, we are working on all the options and once the transaction is concluded, we would be making further public announcement regarding funding.

Zafar Nazim: Thanks that is very helpful. Just a quick question on the cash flow and cash balances. You mentioned that your HoldCo cash balance is around US$ 364 million at the end of current quarter. Considering the company's regular cash flows, I'm not able to reconcile the stated cash balance. I guess you received most of the dividends during the quarter except Qurain. So, the amount received should be in the range of US$ 35-40 million and against that you made a dividend payment of US$ 42 million to your shareholders and US$ 25 million in interest expenses and US$ 10 million towards G&A. So ideally the cash should have gone down, but it has gone up. I'm thinking either you had some asset sale or you have raised additional debt, but I don't see any additional debt at the HoldCo level. And this excludes the investment you typically make in OSN. I know you cannot get into the details but can you provide a high level view on this?

Anuj Rohtagi: Yes, I think you have already reached the answer. We do recognize a tactical portfolio portion in our overall asset profile and that can be considered as Plan B or Plan C that you referred. We have monetized this portion during second quarter to generate cash.

Zafar Nazim: So, once the merger is completed, would you be able to disclose the details of the asset you have moved around to generate cash?

Anuj Rohtagi: Well, the overall disclosure typically happens in various ways. We report the composition of our assets on a regular basis and as you rightly pointed out, because of the ongoing merger process, we are a bit restricted. We will resume with further disclosures once the transaction is completed.

Zafar Nazim: Regarding OSN, without going into the details and amount, can you comment on whether there was any investment into OSN in the current quarter?

Anuj Rohtagi: At this point of time, I will not be able to provide any details regarding the investment. But we are closely monitoring it and we look at the management requests on a month-by-month or quarter-by-quarter basis. And again because of the ongoing merger process, we are unable to give any forward looking data or guidance.

Zafar Nazim: In KIPCO's consolidated financial statements, there is a line item in the income statement, i.e., media and digital satellite income. Please correct me if I am wrong, but this line has been declining consistently quarter on quarter. Can you please confirm this is the OSN revenue line and secondly, it is on the decline trajectory? Am I reading this correctly? Or is there something else I should be looking at?

Anuj Rohtagi: So, this is the line item that includes our media business. The OSN business, as you must be aware, consists of two portions, the satellite and cable and related legacy businesses as well as the new business, i.e., the streaming business. So, there is a negative movement in one segment, however the new segment is where we have seen most of the new subscribers coming in. Additionally, this line item also includes results of United Networks, which is a satellites business.

It should also be noted that there is a corresponding expense line, which is improving much more than the reduction in revenue line item, which implies that the overall expenses are being effectively controlled in the business. In the OSN section, we covered that the company has been performing as per the plan. We are now gradually moving from conventional mode of distribution to more of streaming mode of distribution, which takes time. At the same time, focus is to align the costs according to change in the segmental revenue profile. There is a positive aspect of the business operations that there is ongoing cost optimization that we have targeted for the year, and it has exceeded that target till June of this year.

Zafar Nazim: Agreed, it's visible that the expense line has been reduced quite a bit. But even after the reduction of the expense plan, the expenses associated with this segment are still higher than the revenue line. It suggests that the business is still in the red. Am I reading this correctly that OSN is still loss-making as far as operating expenses are concerned?

Anuj Rohtagi: Based on the numbers that is true. The plan is to move the legacy segments of distribution to the new ones, so the management is focused on enhancing the content profile based on new segmental focus and that has been pretty much achieved in the first half.

Zafar Nazim: Thank you very much, Anuj.

Moderator: We do not have any other questions. I will hand over to the management for any concluding remarks.

Eman Al Awadhi: Thank you Ahmed. Thank you everyone for joining us on this call. If you have any further questions, you are welcome to send us an email. We wish you a very good day.