



Investor Call Transcript
Q3 2023

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Moderator: Good afternoon, everyone. This is Ahmed El Shazly and on behalf of EFG Hermes, I welcome you all to the Q3 2023 Earnings Call for Kuwait Projects Company (Holding) – KIPCO. It is a pleasure to have with us on the call today Mr. Moustapha Chami, Deputy Group CFO; and Ms. Eman Al Awadhi, Group Senior VP – Corporate Communications & IR. I would like to hand over 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 first nine months ended September 30th, 2023. Please note that today's presentation is available on our website along with interim financial statements for the period in review.

Moving on to the presentation, please refer to the brief disclaimer on slide 2. 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. Those statements are not guarantees of future performance, achievements, or results.

I will now hand the call over to Moustapha to take you through some of the highlights for the period.

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

As you know, in July we successfully completed our debut Sukuk issuance under KIPCO's US\$ 2 billion Trust Certification Program. The issuance was KD 103.1m (US\$ 335.8m) and has a six-year tenor. With this transaction, KIPCO has become the first-ever Kuwaiti incorporated entity to issue a KD denominated Sukuk transaction. The proceeds were primarily used to make a US\$ 330m partial prepayment of the US\$ 525m syndicated loan facility signed in February of this year, effectively extending our 3-year facility – or 2+1 facility – into a 6-year tenor.

KIPCO also fully repaid the remaining portion of its 5-year KD bond amounting to KD 28.5m (US\$ 92.2m) on its due date.

Moving on to slide 5 for details for the first nine months of 2023, we are pleased to report that KIPCO posted a net profit of US\$ 37.9m, representing a net increase of 95% over the same period of 2022. This is primarily due to the positive overall performance across our foreign banking operations, as well as our businesses in foodstuff, logistics and oil field services.

KIPCO posted a revenue of US\$ 3.0b in 9M 2023, an increase of 88% from the US\$ 1.6b achieved for the same period last year. This net increase is mainly attributable to the increased income from banking operations, as well as the increase in revenue from the industrial and logistics sector that was consolidated in Q4 2022 following the completion of the merger with QPIC.

Total assets of KIPCO at the consolidated level stood at US\$ 38.5b at the end of 9M 2023, up 4% from US\$ 36.9b reported at the end of 2022.

Moving on to slide 6. Interest income from banking operations increased 57% to reach US\$ 1.3b compared to US\$ 830m for the same period last year. Fee & commission income increased 48% YoY to reach US\$ 225.1m. Meanwhile, income from media & digital satellite network witnessed a 4% decrease to US\$ 193.6m compared to US\$ 201.3m during the same period last year, while hospitality and real estate income saw a drop of 10% YoY to US\$ 191.9m. Post the merger with QPIC in November 2022, the energy and industrial & logistics segments were consolidated, hence the increase in revenue and expenses in these two sectors.

With that being said, total expenses increased to US\$ 2.7b in 9M 2023 versus US\$ 1.45b for the same period last year due to higher interest expenses by US\$ 475m, and higher general & administrative (G&A) expenses by US\$ 85m, as well as the increase in energy and industrial & logistics expenses by US\$ 593m.

Furthermore, the Group's consolidated financial statements include the effects of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" stemming from our Turkish operations. As a result, the Group recorded a net monetary loss of US\$ 77m during 9M 2023 due to Burgan Bank operations in Turkey. For further details, please refer to Note (2.4) from the published interim financial statements.

Moving on to slide 8, where we cover key performance highlights of our banking operations. We start with Burgan Bank Group's results for 9M 2023. I would like to note that Burgan Bank held its earnings call on November 1st and you can refer to the transcript for more details.

Operating income during 9M 2023 came to US\$ 629.8m, up 17% from the US\$ 537.2m reported in 9M 2022, supported by improved fee income, FX income and recoveries. Net income dropped 27% to US\$ 97.5m in 9M 2023 versus US\$ 133.5m during the same period of last year, driven by higher operating expenses and hyperinflation-related monetary loss, along with proactive provisioning.

Burgan Bank's loan book dropped 2% from the end of 2022 to US\$ 13.4b in 9M 2023, while deposits increased 13% to US\$ 14.3b for the same period.

The bank reported a strong liquidity coverage ratio of 174% and a net stable funding ratio of 120% in comparison to 151% and 110% respectively reported at the end of 2022.

Loan loss provisions charged to income statement significantly increased 165% YoY to US\$ 114.1m in 9M 2023 against US\$ 43m in 9M 2022 due to provisioning by the bank on certain exposures.

Burgan Bank Group posted a net profit amounting to US\$ 97.5m in 9M 2023 versus US\$ 133.5m during the same period of last year.

NPL ratio significantly declined to 2.0% as of 9M 2023 from 2.6% in 9M 2022, mainly due to BBT NPL improvement. The bank reported a CET1 Ratio of 11.3% and CAR of 17.6% as of 9M 2023, well above regulatory requirements of 10.5% and 14.0% respectively.

We move on to slide 9 to cover JKB's performance for 9M 2023. JKB reported a notable improvement in its operating results. During the nine-month period, JKB's loan book grew by 7% to US\$ 2.9b versus US\$ 2.7b at the end of 2022. Deposits also increased by 44% to US\$ 4.9b compared to US\$ 3.4b at the end of 2022. Total income grew in 9M 2023 by 88% to reach US\$ 272.6m versus US\$ 145.3m in 9M 2022. JKB's net profit for 9M 2023 came to US\$ 72.6m, 354% up from the US\$ 16.0m reported during the same period last year.

It is also worth highlighting that in October, JKB successfully sold 66.97% of UAE-based BHM Capital Financial Services to Ethmar International Holding for JOD 30.6m (US\$ 43.2m). JKB retained a 10% stake in the company.

On slide 10, we can see the performance of SADAFCO. The foodstuff company reported a 7.4% increase in revenue for H1 2023/24 at US\$ 379.5m compared to US\$ 353.4m for the same period the previous year. Operating profit was up 19.1% for the period, registering US\$ 64.9m compared to US\$ 54.5m for the corresponding period in the previous financial year. SADAFCO posted a 60% increase in net profit to US\$ 59.5m, compared to US\$ 37.3m in H1 2022/23 primarily driven by increased sales and improved gross margin. It is worthy to note that SADAFCO announced the construction of a new depot in Yanbu, replacing the current leased depot. The company's Board of Directors also approved the fiscal year change from March-end to December-end. As such, SADAFCO will be posting 9-month results at the end of 2023.

United Gulf Holding Company (UGH) is featured on slide 11. UGH incurred a loss of US\$ 36.5m for 9M 2023 compared to a net loss of US\$ 13.6m in 9M 2022. Total revenue increased 8% to US\$ 133.2m in 9M 2023 compared to US\$ 123.7m for the same period

last year, despite the 82% increase YoY in interest income. This decline is mainly attributed to lower contribution from associates, lower fee and commission income, reduced investment income and rising interest rate environment.

On slide 12 we have the results of United Real Estate Company (URC). The company registered visible improvement across key income streams of the business, reporting a 36.5% YoY increase in rental and hospitality income, partially offset by a 23% YoY decline in the contracting and services revenue, resulting in a 2% increase in revenue for 9M 2023 at US\$ 201.1m, compared to 9M 2022.

Operating income increased by 41% to reach US\$ 60.9m versus US\$ 43.1m during the same period last year, mainly due to reversal of provisions for impairment and lower G&A expenses during 9M 2023. However, URC's net profit posted a decrease of 42% for 9M 2023 at US\$ 15.3m versus US\$ 26.5m during the same period last year, primarily due to increased finance cost .

Moving on to slide 13. Starting with our logistics and power rental business, Jassim Transport and Stevedoring Company (JTC). JTC reported a total revenue of US\$ 70m for 9M 2023, 10% higher than the US\$ 63.8m reported for 9M 2022. This increase is mainly attributed to a 24.5% YoY growth in revenue from port management services. Gross profits for the nine months increased by 27% YoY to reach US\$ 22.5m versus US\$ 17.7m during the same period last year. As such, JTC registered a net profit for 9M 2023 amounting to US\$ 14.3m, 35% higher than the reported US\$ 10.6m for the same period last year, and that was due to the higher revenue and margins.

Moving to National Petroleum Services Company (NAPESCO), our oilfield services provider. NAPESCO's revenue for 9M 2023 increased 11% to reach US\$ 96m versus US\$ 86.4m during the same period last year. This was supported by the additional service contracts that were secured in the last twelve months on the back of the improved business environment and margins across both oilfield and non-oilfield segments.

NAPESCO posted a net profit of US\$ 20.8m for 9M 2023 versus US\$ 17.5m during the same period last year.

Moving on to the healthcare sector with Advanced Technology Company (ATC). ATC witnessed a 7% decrease in revenue to reach US\$ 377.5m in 9M 2023 as compared to US\$ 404.8m in 9M 2022. ATC achieved a net profit of US\$ 12.5m in 9M 2023 compared to US\$ 18.8m for the same period of last year, representing a 33% net decrease.

Finally, slide 14 shows the recent business updates on OSN. OSN continues to focus on growing its streaming business through the optimal use of technology, digital marketing and content diversification. Our ultimate goal is to transform OSN into a media tech with AI at its core. It continues to improve the dishless OSNtv box that was launched earlier in the year. This is a plugin box that users with or without a dish subscription can plug in to. The new product reflects OSN's strategy towards streaming tv with a linear environment. OSN continues to achieve cost optimization through obtaining long-term content contracts, as well as operational day-to-day overheads. OSN reported a 40% increase in engagement from its subscribers in the last 12 months, measured in hours viewed.

I will now hand over the call to Ahmed to invite our listeners to raise any questions they may have.

Moderator: We have our first question from Zafar Nazim.

Zafar Nazim: Thank you for the call and the prepared remarks. I have a couple of questions. One, can you please tell us what was the total amount that you injected into any of your operating subsidiaries during the quarter? The second question is that Burgan has disclosed recently that they sold 52% of stake in the Turkish subsidiary to the KIPCO owned subsidiary, Al Rawabi Holdings. Can you please tell us what amount Al Rawabi paid for this 52% and whether this amount was self-funded by Al Rawabi or was this an injection from the parent, KIPCO, into Al Rawabi for the purposes of buying this stake?

Moustapha Chami: Thank you, Zafar. I'll start from the second question, which is a recent disclosure by Burgan Bank, selling 52% of the 99.4% that they own in Burgan Turkey to a wholly owned subsidiary of KIPCO, Al Rawabi Holding. As you may know, Al Rawabi is a shareholding entity, and it has its own independent board and capital structure. The feasibility of that transaction was studied at board level for Al Rawabi, and the decision was taken accordingly. From a Group perspective, that particular transaction will unlock capital at Burgan Bank, so it will create positive room for growth and the details of this will be disclosed by Burgan Bank at closing.

With regards to the first question, I will give you a bit of color based on the publicly available information. So, we've disclosed our closing balance of cash, which is US\$ 329m by the end of September 2023 (KD 102m) and that was reported in the financial statements. That number decreased from KD 125m reported in June, mainly due to interest payments and also G&A. During the quarter, there were two major events: we had the issuance of Sukuk in July of almost US\$ 334m and that was mainly used to partially repay the syndicated loan taken earlier this year in February 2023, by an amount of US\$ 330m. We have also received interim dividends from Equate and SADAFCO amounting to US\$ 13m in Q3 2023. The total amount of loans is already disclosed at the parent level, along with the amounts of Sukuk, KD bonds and EMTN for the parent in the financial statements, so that can give you a bit of color on the interest payments and that G&A is in line with what we used to pay with an increase to compensate for inflation. That being said, as a holding company, and as was communicated by the Group CEO on the company's vision, we will remain dedicated to bringing our current portfolio to the next level of growth and value creation, while also looking for some new opportunities, particularly in sectors like healthcare, logistics and also technology.

As a result, we are working closely with our portfolio companies' management and their boards to strengthen their operating performance and we are also checking closely with them the areas of risk and opportunities and whatever investment is required for any growth potential, which will lead to long term value creation and to make sure the

companies perform as planned. This is the governance framework that's being enhanced and now there is closer monitoring. We will not be able to share specific details about the injections, but that goes in line with our planned budget. I have given you a bit of color about the movement and that can help deriving the numbers.

Zafar Nazim: Ok. If I look at these numbers, the cash change, the change in debt and as well as the inflows from dividends, I get to a number around US\$ 90m or US\$ 95m. Does that seem to be in the ballpark of what could have been the investment during the quarter?

Moustapha Chami: The investment is lower than this. I won't be able to give a specific number other than what we've disclosed given the recent transactions that we are into, but I have given you all the movement of the major items between G&A, interest and dividends and the movement of debt which is also disclosed in our financial statements.

Zafar Nazim: Is there any particular reason why you cannot disclose the overall investment you've made? Because we are not asking for specifics on where the money has gone into. What we're interested in is figuring out is how much of the cash went into interest, how much went into G&A and how much went into investments.

Moustapha Chami: As you may know, we have the ongoing GIG transaction, and given the governance framework, we are limiting our disclosures to whatever is publicly disclosed. So, we are limiting all disclosures within that particular governance framework. But if we do simple math, the particular moving block is a number between US\$ 40-50m.

Zafar Nazim: So, the other question that I asked about Burgan Turkey. Was there cash involved in this transaction or not?

Moustapha Chami: I will leave this for Burgan to disclose, and will currently refer you to whatever Burgan has already disclosed. They will put out all the details once the transaction is executed, because they just received the BRSA approval for the execution of the transaction, the mechanism of payments will be disclosed by Burgan at closing.

Zafar Nazim: Got it. Thank you very much.

Moderator: Thank you, Zafar. We have another question from Rakesh Tripathi.

Rakesh Tripathi: I have a couple of questions, and some were covered already. Just to reconfirm the dividend receipts in the third quarter you said were US\$ 30m or US\$ 13m?

Moustapha Chami: Yes, that's KD 4m, roughly US\$ 13m.

Rakesh Tripathi: Ok great, thanks for confirming that. I think you just mentioned that your cash decline in the third quarter was predominantly because of higher interest costs at the parent level or at the standalone level. Can you give us an update on where you are in terms of the GIG sale right now? Should we expect this to be completed this quarter or this is going to roll to the next month or next quarter i.e., next year basically?

Moustapha Chami: The GIG transaction was conditional to obtaining regulatory approvals. The Competition Protection Agency approval was obtained last week and there is one more condition precedent which should be fulfilled within the next one or two weeks. The transaction is expected to close before the end of the year.

Rakesh Tripathi: Ok, wonderful. And where are you in terms of the LTV? The way the rating agency, Moody's, looks at it right now, you were 45%. Are you around the same number right now or a little higher?

Moustapha Chami: So, as rightly mentioned you know the LTV is a product of two components, one of them is driven by capital markets since most of our portfolio is composed of listed shares and the current geopolitical situation in the region has created pressure to the market prices. So that has put a bit of pressure on our LTV, which has not been far from 45%, so it's around the 48% for this quarter and we continue to engage with the rating agencies and provide them with the relevant information based on which they can express their credit opinion. All of this is available in the public domain.

Rakesh Tripathi: Thanks. My last question is about OSN. So, you've touched briefly upon the ongoing strategy, as to how OSN is supposed to be managed. I understand you cannot give us specifics, but would it be possible to confirm if there are continued cash injections? I mean if you've done further cash injections into OSN this year and if there are any plans

next year and whether you are looking at the possibility of onboarding a strategic investor for the business.

Moustapha Chami: OSN's journey, specifically in the past two years, has focused on the following main pillars: streaming as the main business line and trying to reduce cost and we've done this through negotiating the content contracts. We have secured HBO as well Universal, Sony, MGM and also Paramount. We also revamped the business by introducing the new dishless box, the OSNtv box, trying to revamp that particular vertical. We are continuously talking to strategic partners to join forces in our streaming journey, working on creating a media tech platform powered by AI. That's the journey we are looking for and that's our objective. Any particular funding will be toward that particular objective and in line with our budget.

Rakesh Tripathi: Understood. Thank you very much. That's it from my side.

Moderator: Thank you, Rakesh. Our next question comes from Dmitry Ivanov.

Dmitry Ivanov: Thank you very much for the presentation. On the GIG transaction, I remember that you expected US\$ 860m with the first instalment being US\$ 240-250m. Any updates on the proceeds since there were certain CPs? Secondly, can you provide any color on the use of proceeds for these instalments?

Moustapha Chami: Thank you. With regards to the first question, the total proceeds from transaction are US\$ 860m minus the dividend received, which is to be received as follows: a downpayment of US\$ 200m minus the dividend received which is around US\$ 21m, and then four receipts each at the anniversary of the closing of the transaction for four years. There are certain discussions internally and we are looking for the best and optimal solution for KIPCO, whether to monetize or not, and we are looking at KIPCO's capital structure. We will decide on optimum use of proceeds. In terms of use of GIG proceeds, while our first objective will be to deleverage the parent company, we will also look at investment opportunities in line with our strategy and vision. However, the primary use of proceeds will be to deleverage.

Dmitry Ivanov: Thank you. On the syndicate facility you prepaid, what is the remaining amount under syndicate facility. Secondly, please confirm GIG receipt numbers. What is the timeline for the first tranche from GIG transaction?

Moustapha Chami: The syndicate facility signed in February was a US\$ 525m facility and the Sukuk raised in July 2023 was US\$ 334m. We used US\$ 330m of the Sukuk receipt to repay the syndicate facility. On the second question, the first instalment of GIG is the downpayment which is US\$ 200m minus the dividend to be received upon closing of the transaction which should be before this year-end. Subsequently, four payments of US\$ 165m, each of which will be received each year starting 12 months after closing of transaction.

Moderator: Thank you, Dmitry. I believe we have no further questions at this moment. I will hand over the call back to the management for any concluding remarks.

Eman Al Awadhi: Thank you Ahmed and thank you very much everyone for joining us. We look forward to having you again with us in the next quarter. Have a good evening.