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KIPCO

Investor Call Transcript
Q4 2023

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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 FY 2023 Earnings Call for Kuwait Projects Company (Holding) – KIPCO. It is a pleasure to have with us on the call today Mr Sunny Bhatia (Group CFO), Mr Moustapha Chami (Deputy Group CFO) 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. Ramadan Mubarak and good afternoon, everyone. We welcome you to our earnings call for the full year ended 31 December 2023. Please note that today's presentation is also available on our website along with financial statements for the year.

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. They are not a guarantee of future performance, achievement or results.

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

Sunny Bhatia: Thank you Eman. Ramadan Mubarak and good afternoon everyone.

As you know, 2023 has been an eventful year for KIPCO, where several key transactions of strategic significance were executed. These transactions have been reflected in the 2023 financial statements, in particular the sale of our stake in Gulf Insurance Group, realizing a net profit for KIPCO Group of approximately US$ 238m.

In addition to strengthening the financial performance of our key portfolio companies and developing strategic, revenue and cost synergies among our portfolio investments, a key area of focus for us continues to be proactively managing and lengthening our debt maturity profile and maintaining adequate levels of liquidity. In Q3 2023, KIPCO made a partial prepayment of US$ 330m of the US$ 525m syndicated facility. In Q1 2024, we fully repaid this facility by settling the remaining balance of US$ 195m. In November 2023, KIPCO had also repaid the remaining portion of its 5-year 2023 KD bond, amounting to US$ 92.9m, thereby fully resettling the 2023 bond.

During Q4 2023, we announced the signing of a binding agreement to combine OSN's streaming business, OSN+ with Anghami, which we will talk about in detail later in the presentation. As part of our efforts to streamline our operations and unlock value, KIPCO's wholly owned subsidiary, Al Rawabi United, purchased a 52% stake in Burgan Bank Turkey. Our oil services company, NAPESCO, bought KIPCO's 52.92% stake in United Oil Projects.

Moving on to slide 6, where we cover KIPCO's consolidated financial performance for FY 2023. We are pleased to report that KIPCO posted a net profit of US$ 97.9m, representing a net increase of 19% over FY 2022. This is primarily due to the overall performance across our foreign banking operations, as well as businesses in foodstuff, logistics and oil field services.

KIPCO posted a revenue of US$ 4.2b in FY 2023, an increase of 24% compared to US$ 3.4b reported at the end of 2022. 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$ 40.2b at the end of 2023, up 8% from the US$ 37.1b reported at year-end 2022.

Moving on to slide 7. Interest income from banking operations increased by 46% to reach US$ 1.9b compared to US$ 1.3b for the same period last year. Net fee & commission income increased by 40% to reach US$ 307.7m. Meanwhile, income from media & digital satellite network witnessed a 5% decrease to US$ 256.6m compared to US$ 269.9m for FY 2022, while hospitality and real estate income saw a drop of 6% in 2023 to US$ 274.5m. 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.

Total expenses increased to US$ 3.7b in FY 2023 versus US$ 2.4b for 2022 due to higher interest expenses by US$ 550m, generally due to the increase in interest rates and higher general & administrative (G&A) expenses by US$ 47m, as well as the increase in energy and industrial &

logistics expenses due to the consolidation of 12 months in 2023, compared to 2022 where the consolidation was done from the date of business combination.

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$ 105m during FY 2023 due to Burgan Bank operations in Turkey. For further details, please refer to Note (2.7) from the published consolidated financial statements.

I 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 9, where we cover key performance highlights of our banking operations. We start with Burgan Bank Group's results for FY 2023. I would like to note that Burgan Bank held its earnings call on February 20th and you can refer to the transcript for more details.

Operating income for FY 2023 came to US$ 723m, down 2.7% from the US$ 743m reported for FY 2022. Net income dropped 16.5% to US$ 142m versus US$ 170m for 2022, driven by higher operating expenses and hyperinflation-related monetary loss, along with proactive provisioning.

Burgan Bank's loan book maintained its position at US$ 13.8b, while deposits increased 14.1% to US$ 14.6b for FY 2023.

The bank reported a strong liquidity coverage ratio of 151% and a net stable funding ratio of 117% in comparison to 151% and 110% respectively reported at the end of 2022.

Provisions coverage ratio remains strong at 220%, with a considerable reduction in annual provision charge to US$ 16.3m at the end of 2023 from US$ 68.5m owing to improved performance in the bank's Turkey operations.

NPL ratio slightly increased to 2% at year-end 2023 from 1.9% the previous year. The bank reported a CET1 Ratio of 13.5% and CAR of 20.0% for FY 2023, well above regulatory requirements of 10.5% and 14.0% respectively.

We move on to slide 10 to cover JKB's performance for FY 2023. JKB reported a notable improvement in its operating results. During the year, JKB's loan book grew by 4% to US$ 2.8b versus US$ 2.7b at the end of 2022. Deposits also increased by 53% to US$ 5.2b compared to US$ 3.4b at the end of 2022. Total income grew 102% to reach US$ 397m versus US$ 196.9m in 2022. JKB's net profit for FY 2023 came to US$ 83.4m, 216% up from the US$ 26.4m reported for FY 2022.

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.

JKB also announced that it has commenced the technical, financial and legal due diligence on a possible merger with the Jordan-based Bank Al Etihad.

On slide 11 , we can see the performance of SADAFCO. The foodstuff company reported a 7% increase in revenue for 9M 2023/24 at US$ 563.1m compared to US$ 528.0m for the same period the previous year. Operating profit was up 21% for the period, registering US$ 90.5m compared to US$ 74.6m for the corresponding period in the previous financial year. SADAFCO posted a 50% increase in net profit to US$ 87.4m, compared to US$ 58.2m in 9M 2022/23 primarily driven by increased sales and improved gross margin.

SADAFCO's financial cash position remains strong with a US$ 273m cash balance. The company has changed its fiscal year from March-end to December-end and, as such, has posted 9-month results at the end of 2023. It is worthy to note that the Makkah depot became operational during the quarter, and that construction of the new depot in Yanbu has commenced.

United Gulf Holding Company (UGH) is featured on slide 12. UGH incurred a loss of US$ 41.9m in FY 2023 compared to a net loss of US$ 21.3m in FY 2022. Total revenue increased 1.7% to US$ 189.8m in 2023 compared to US$ 186.7m for the same period last year.

On slide 13 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% increase in rental and hospitality income, partially offset by a 20% decline in the contracting and services revenue, resulting in a 3% increase in revenue for 2023 at US$ 285m.

Operating income increased by 244% to reach US$ 82m versus a loss of US$ 57m in 2022, mainly due to reversal of provisions for impairment and lower G&A expenses. URC's net profit posted an increase of 27% for FY 2023 at US$ 14m versus US$ 11m in 2022.

Moving on to slide 14. Starting with our logistics and power rental business, Jassim Transport and Stevedoring Company. JTC reported a total revenue of US$ 93.9m for 2023, 5% higher than the US$ 89.5m reported for 2022. This increase is mainly attributed to a 15% growth in revenue from port management services. Gross profits for FY 2023 increased by 20% to reach US$ 30.6m versus US$ 25.5m for 2022. As such, JTC registered a net profit for 2023 amounting to US$ 19.6m, 37% higher than the reported US$ 14.3m 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 2023 increased 6% to reach US$ 129m versus US$ 121m in 2022. 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$ 28m for 2023, 27% up from US$ 22m the previous year.

Moving on to the healthcare sector with Advanced Technology Company. ATC witnessed a 2% increase in revenue to reach US$ 550m compared to US$ 540m in 2022. ATC achieved a net profit of US$ 16.4m in 2023 compared to US$ 23m last year, representing a 29% net decrease.

Finally, slide 15 shows the recent business updates on OSN. OSN continues to work on closing the merger between Anghami and OSN+. The deal, subject to regulatory and antitrust approvals, will create a streaming powerhouse in the MENA region with 120 million users, more than 2.5 million subscribers, and US$ 100 m in revenue at closing. The ultimate goal is to transform OSN into a media tech company, with AI at its core.

OSN 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.

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 Ali Dhaloomal, please go ahead.

Ali Dhaloomal: Good morning and Ramadan Kareem to you Eman, Sunny and Moustapha. I have a couple of questions. First, can you update on the dividend income that you received in 2023 and how much do you expect to receive this year from your subsidiaries? Second, is about the maturities coming due. I think you addressed many of them, but how much is still left at the holdco level in 2024 and 2025? My last question is about the GIG sale. You were guiding for US$ 200m to be received in fourth quarter and then to foreclose the installment of US$ 165m. So, how much has been received in the fourth quarter and how much do you expect to receive in 2024?

Sunny Bhatia: Thank you for your questions. I'll start with the dividend income projections. Our companies are still in the process of declaring their results and holding their Annual General Meetings, so it won't be appropriate to say how much we would be receiving in 2024. But generally, you can see when Moustapha presented, the performance of the individual companies. Each of the core operating companies remains on the path to grow their profitability and shareholder return. Because of this they should continue to do well, and we should see improvements in the dividend inflows to the company.

Now as far as the debt maturity profile of the company and the GIG sale proceeds are concerned, when we look at the debt maturity profile at the end of 2023, on a standalone basis, we had the total gross debt equivalent to US$ 2.87b, which had two KD bonds of US$ 752m, EMTN's of about US$ 1b, Sukuk of about US$ 333m and bank loans of US$ 790m. In the month of January, we fully settled our syndicated facility of US$ 195m. So, if you view this settlement, then we end up with a gross debt of about US$ 2.67b. So less than one year debt includes US$ 217m equivalent in KD bonds which is due on December 28, 2024 with face value of KD 66.5m or US$ 217m. Then we have our relationship banks loans equivalent of about US$ 146m which are usually the revolvers and subject to renewals. Then we have in the 1-3 year bucket the EMTN maturity of US$ 500m, which is due on October 26, 2026 and again some relationship driven bank loans of about US$ 300m. Our biggest debt maturity bucket is over 3 years, which is part of our strategy to extend the debt maturity profile. It includes KD bonds – KD 165m bullet or US$ 535m which are due on December 28, 2028, then EMTN of around US$ 500m which is due in February 2027, US$ 333m of Sukuk which is due in July 2029 and some bank loans of about US$ 125m. So as far as our maturity ladder is concerned, you will see that the next big maturity is the EMTN which is in the last quarter of 2026. In terms of our less than one year debt, we are fully covered by the cash in hand or the receivables which we have from the GIG sale proceeds.

Now, coming back to the GIG sale proceeds, as you may have tracked the announcements made earlier on the day of the closing. We received the gross sale proceeds of US$ 200m less the GIG dividend income. So, net there was a gross receipt of US$ 177m for the Group; 69% of that is parent and the remaining 31% is for the various subsidiaries of the Group. So, 69% of the cash flows are meant for use by the parent and what we have done is use these proceeds to settle the US$ 195m of the syndicated facility. As a result, now the US$ 535m syndicated facility stands fully settled. In the month of January, the three installments, which are installment #2, installment #3 and installment #4 of US$ 165m each, we discounted them, and we received around US$ 427m less some expenses which would accrue over the life of those installments. So closer to US$ 410m as net proceeds at the Group level and 69% of which are for the parent company. The usage of these proceeds are general corporate purposes, and it would cover the deleveraging strategy and part of that would cover our general cash flow needs and also the need for investments into the various Group entities. As and when there are any decisions in terms of the cash being used in accordance with our disclosure and transparency guidelines, we would be making the announcement on Boursa Kuwait. I hope that answers your question. Thank you.

Moderator: Thank you very much for this question. We've got a few questions from the Q&A box. First one is, are you able to provide the timeline around the OSN merger and what valuations are attached to OSN?

Sunny Bhatia: The OSN+ and Anghami merger is driven by the opportunity of growing scale and diversifying the business of OSN beyond media and adding music to it. In OSN, the biggest challenge the company has is the lesser number of the fee-paying customers and the OSN+ Anghami deal, as we have publicly announced, is to increase the number of fee-paying subscribers and this would also result in stabilizing the performance of the company. We are in the process of still seeking the regulatory approvals for this transaction, and our expectation is sometime in H1, subject to receiving all the regulatory approvals and completing the various steps associated with such a merger, we will be bringing those two companies together. It has revenue synergies because of the increased number of fee-paying subscribers, and also the cost synergies. It converts OSN into a more diversified media platform, thereby creating the potential for not only improving the revenues but also reducing the costs and thereby stabilizing its EBITDA.

Moderator: Thank you. Our next question is, could you give any color as to the carrying value of OSN on your books now and any impairments you may have to take stemming from the pending deal?

Sunny Bhatia: OSN being a privately held investment, we do not disclose specifically the carrying value of the investment but generally you've been seeing from our financial statements and more specifically in the segment information where we have the disclosure on the impairments we have taken for our media and satellite services on Note #28 of the 2023 published annual financial statements of KIPCO for the year 2023 and 2022. Within the media and satellite services segment, OSN constitutes a very significant, and majority portion of this segment. This gives you a fair understanding of how we have been complying with the required IFRS framework for assessing the impairment of this asset for each of the accounting period.

Moderator: OK. Thank you. We have a question from Nikita. What was the dividend income received during 2023?

Sunny Bhatia: US$ 106m.

Moderator: We have another question from Nikita, would you look to issue Sukuk in the dollar market?

Sunny Bhatia: What you have seen is that we have established a US$ 2b Sukuk program under UKLA and we had its first issuance of KD 103.1m in July 2023. In our capital structure, we believe that Islamic financing is an attractive asset class for our investors in our credit instruments. We have nothing specific planned as far as issuance is concerned, because if we had, we would have made the regulatory announcement. Generally, because this is a US$ 2b program, we would be able to use this instrument as and when the need arises.

Moderator: All right. Thank you. We just received the question. What is the LTV ratio by your calculation as of the end of 2023?

Sunny Bhatia: We do not disclose our LTV ratio. Both the rating agencies, Fitch as well as Moody's, published their reports sometime in December and they had indicated that our proforma computation of LTV would be slightly above 40% but less than 45%.

Moderator: Another question from Nikita. What was the average cost of debt during 2023 and are you focusing on repaying floating rate debt?

Sunny Bhatia: In terms of the fixed versus floating profile for the parent standalone debt, it is around 50-50, that means that in the event of the change in the interest rate environment post stabilization of inflation our debt profile is poised to benefit from the reduction in the interest rates. When you look at the bank debt, which is primarily from the Kuwaiti banks, it reprices without any lag because as soon as the Central Bank of Kuwait changes their rate of interest on the debt, it is repriced. In case of bonds and Sukuk from their interest payment dates which are usually six months, you can see that there would be some advantage of any reduction in the US rates.

In terms of the average cost of the debt, we haven't specifically disclosed the effective yield and the cost in our risk section, but generally you would have noticed that whatever actions we have been taking have worked to reduce the cost of the debt. For example, Sukuk issuance which had a significant fixed tranche was done at pricing of 6.5% and the expensive syndicated facility which was at a spread of 275 basis points, we made sure that we prepay it on an as soon as possible basis. The total amount drawn from US$ 525m facility, we settled almost 1.5 to 2 years ahead of its maturity. You can refer to the notes #13 and #14 of our financial statement, which has the specific information about all of debt.

Moderator: All right, we have another question from Ceki Aluf Medina. I see KD 114m loss in the media business and KD 38m is due to provisions. Does this mean the rest is mostly cash and can you comment on any cash necessity this raises at the parent company?

Sunny Bhatia: Because of the private nature of this investment, we do not specifically disclose the components. You can see from the note on the segment information, there is information on impairment, total results, segmental revenue and total loss for the year. As you may be aware that any segment information would have some inter-group pricing which gets eliminated through the inter-segmental eliminations. Although it would be a starting point to look at what is the cash loss by looking at the segment profit or loss with the impairment, but there is some element of the inter segments. When you compare 2023 with 2022, even the reported loss has halved as a result of the efforts which we are making in this line of business. The cash losses have been significantly reducing on each accounting year.

Moderator: Another question from Nikita. Other than US$ 50m that you plan to inject during the OSN merger, are there any other operating costs that need cash injection?

Sunny Bhatia: We have discussed OSN in detail by guiding you to the top-down strategy, how we are working towards stabilizing this business, what is the rationale of OSN+ and Anghami merger, high level qualitative information on the revenue and the cost synergies and we've also guided you to the direction which is reduction in the losses. Therefore, we would not like to specifically disclose if apart from the US$ 50m investment, would there be any other cash injection into the business. As we said earlier, cash injection into the business is reducing significantly as a result of our efforts to stabilize the business, reduce its operating cost, drive whatever possible synergies exist through the M&A approach and grow its revenue and subscriber base.

Moderator: Another question from Jad. Any upcoming plans to support Burgan Bank other than the acquired stake in Turkey?

Sunny Bhatia: As we have seen from Burgan Bank’s earnings release and their audited financial statements, their CET1 ratio has now improved from 10.8% to 13.5% as against the minimum regulatory requirement of 10.5%, which means that they have sufficient headroom to grow in their core areas of focus and as you would have seen in the Burgan’s earnings investors call, Kuwait and rest of the GCC remains an area of focus. So, they have sufficient capital headroom related to the regulatory minimum capital requirement and the bank seems adequately capitalized.

Moderator: Our next question comes from Edige. Can you please give us a clue on what is the amount of administrative expenses on standalone basis that we can expect in 2024 and do you expect that dividends will cover these expenses?

Moustapha Chami: We are expecting US$ 20-25m of G&A expense.

Moderator: We have no further questions at this point, so I'd like to hand the call back to management for any concluding remarks.

Eman: Thank you to everybody who joined us today. We look forward to being with you again next quarter. Have a good day.