



Transcript of Boubyan Petrochemical Company's Conference Call (17-May-2018)

Rita Guindy: Good morning and good afternoon Ladies and Gentlemen, and thank you for joining us today. This is Rita Guindy, and on behalf of Arqaam Capital I'm delighted to welcome you to Boubyan Petrochemical Company's conference call to discuss 2017 results. I have with me here today Mr. Mohammad Abdul Aziz Al Bahar, General Manager and Mr. Nawaf Arhamah, Chief Financial Officer of Boubyan. With no further delay, I will now turn over the call to Mr. Mohammad Al Bahar.

Mohammad: Ladies and Gentlemen, good afternoon. First, I'd like to wish everyone a great Holy Month of Ramadan. And then I'd like to thank Arqaam Capital as well as Ms. Rita for arranging this investor conference call.

I'd like to start by a quick run through the history of Boubyan; then Mr. Nawaf Arhamah, our CFO, will go through the financials of the company in more detail. Now Boubyan Petrochemical Company was established in February of 1995, as the first privately held company to enter into the petrochemical arena, which was confined to the government institutions back then.

As a result, Boubyan Petrochemical entered into a JV, with PIC (Petrochemical Industrials Company), a government owned company, and Union Carbide, which was later acquired by Dow Chemical. The end result was the formation of Equate Petrochemical Company, which is the largest petrochemical complex in Kuwait back then, and remains to be today.

Boubyan has ever since evolved into a modern industrial holding company with investments focused in petrochemicals and industrial / manufacturing sectors, in general. Boubyan also ventured into diversifying its sources of income by recently entering into the education and healthcare sectors. Ever since its formation in 1995 and until now, Equate represents the cornerstone of Boubyan's core assets. In terms of size, in terms of return on investment, and even in terms of the per share earnings.

The reason for acquiring the many industrial and other investments, which were carefully selected, aims at enhancing shareholder's value as well as diversifying our sources of income. Last year was exceptional in terms of the size of investments made, where almost 92 million Kuwaiti Dinars were utilized to make acquisitions in education, healthcare, and manufacturing sectors among others.

That constituted a great development towards implementing Boubyan's strategy in terms of being opportunistic in acquiring those investments and assets with calculated risks and good returns and where we see room for growth, such as in the educational sector. Now Equate group, no doubt, represents around two thirds of Boubyan's total assets, which speaks for the significance of Equate and its contribution to our bottom line.





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Now the portfolio of our key investments, includes the following: Equate Group, which is Equate Petrochemical Company, along with their recently acquired MEGlobal, as well as the Kuwait Olefins Company, that's TKOC. Then we have the educational group, EDU group, then AlKout industrial projects, specialized in the salt and chlorine business, then we have AlBorg Medical Labs, followed by Awazel, the insulating materials manufacturing company; then Nafais Holding company, and finally, of course, and not least Muna Noor group of companies, which is based in Oman, and is specialized in the PVC and PE pipes and fittings manufacturing, and sales.

As for the financial results, operating profits were excellent this year, as it grew by more than 31% over the previous year. Cash flow was exceptional again, due to the positive performance of Equate and its dividends distribution, as well as our subsidiaries, associates, and other investments.

However, the 35 million Kuwaiti Dinars impairments, and provisions taken conservatively on our investments across the board have impacted the bottom line in a big way compared to the previous year. That, however, did not affect the company's financial position or its ability to service its debt as well as being able to announce and distribute, hopefully, the cash dividends amounting 45% or 45 fils per share, which is the highest over the past 10 years.

Finally, I'd like to highlight the size of our total assets, which has grown from a mere 32 million Kuwaiti Dinars, back in 1996, to almost half a billion Kuwaiti Dinars, or exactly 495 million Kuwaiti Dinars by the end of April, 2018, which is a record high, while shareholder's equity remains strong at around 291 million Kuwaiti Dinars.

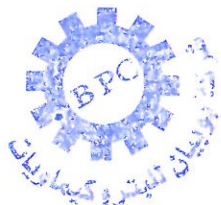
I wish to thank you for your kind attention, and now I'd like to pass the mic to our CFO, Mr. Nawaf Arhamah. Thank you.

Nawaf:

Good afternoon and welcome everyone. On Sunday, we reported strong results for our fiscal year, ended 30th of April, 2018. Before I get into the details of the results, I'd like to take a minute to explain how we think of our business: Boubyan's portfolio can basically can be split into three buckets.

First is the Equate group, which represents about two thirds of our portfolio. Other key investments, which include six companies, representing about 27% of our portfolio, and finally, the remaining 6 percent comprise our non-core investments.

I'll get into the details of the six investments, but I'm going to start off with an overall picture. We have generated 39 million KUWAITI DINARS in income before unusual items, 30 million came from Equate, 7 million came from key investments, and the rest came from non-core investment, and other income.





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This year we have continued to take a conservative approach on the valuation of our assets. Our general guidelines is to follow the conservative interpretation of accounting rules, with the way of reducing the clutter in our balance sheet, and expectation that our investors will come up with their own valuations of our portfolio.

With that in mind, we have taken a total of 35 million KUWAITI DINARS in impairments, 15 million of which came from subsidiaries, 11 million came from available for sale investments, and 8 million came from associates. We also had the evaluation of TKOC of about 9 million KUWAITI DINARS, which brings the total of our unusual items to negative 26.8 million KUWAITI DINARS.

I'll take you through the details about key investments starting with Equate. And the fiscal year ended in December 2017, Equate generated a net income of 1.1 billion US dollars, and paid the same amount in dividends. Our share was 100 million dollars. This improved performance in 2017 had two drivers. First, recovering commodity prices and second, is the increase in volume due to the acquisition of MEGlobal in late 2016.

With regards to our key investments, I'll start with Education Holding Group, which we acquired this year. For the fiscal year ended in August 2017, Educational Holding Group had a strong year. It generated 5.8 million KUWAITI DINARS in net income, of which our share was around 3 million. Although we now own 82.7%, we didn't own it for the entire year, and that's why we only took 3 million and not more.

The other key investment is AlKout, which we owned 24% at the beginning of the year and acquired an additional 21% towards the end of the year. And the fiscal year ended 31st of December 2017. AlKout generated net income of 6.2 million, which contributed about 1.5 million to our income. Starting next year our share of Al Kout will become 46.5%.

The next company is Nafais, which is relatively recent acquisition. It continued to make strong profits, it contributed 2.3 million to our income this year.

With regards to our Saudi investments, Al Borg had another strong year – contributing 1 million Kuwaiti Dinars to our income. The other Saudi investment, Awazel, also performed strongly – contributing 461,000 Kuwaiti Dinars to our income.

Finally, Muna Noor is the only loss making core investment that we have in our portfolio, we have taking concrete steps to turn it around and we expect it to return into profitability very soon.

A final note about our net debt position, this year we've invested 92 million Kuwaiti Dinars in new acquisitions, we borrowed 67 million to finance acquisitions, and the remainder was funded through our internally generated cash. With that, I'd like to conclude and open the floor for questions. Thank you.





Questions and answers:

Operator: Our first questions comes from Nadeem Parkar, KFH Capital. Please go ahead.

Nadeem: Salam aleikum, good Ramadan. My questions are regarding EDU please. I want to know the number of students that you have in Education Holding in GUST basically, and the teacher- student ratio. Can you give some more highlights on the EDU, just to understand how the earnings will span out in the next year or so.

Nawaf : Hi Nadim, this is Nawaf, CFO, Boubyan. I will just give you a general idea about EDU. These specific numbers we didn't disclose in the financial statements of EDU. But I will attempt to address your questions in a different way. Currently, EDU comprise three components – GUST , the Arabic school and American Academy for Creativity. Since your question was specifically about GUST, I will talk about the number of students there. The number of students have been growing over the past few years. Now we are close to capacity and we do not expect large growth within the current structure. We have announced that we are planning to build an engineering school. We have received approvals from Private Universities Council (PUC). We are currently in planning phase of the construction. Currently, we are targeting two academic years from today to launch it. In terms of growth, in the next couple of years we are close to capacity in terms of students. However, we have started initiatives to optimize the cost and profitability and you should see some improvements.

EDU Holding has two other growth drivers – SAMA, still not at capacity. There is quite sizable room for growth there and AFAQ also has a large room for growth. Mind you, AFAQ is a small component of EDU, contributed less than a million last year, but we think that it will witness sizeable growth.

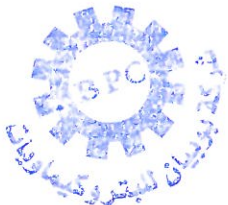
Nadeem: Just a follow up question on the GUST or overall your fee component in EDU. I believe this fee increase is generally in a period of 3-5 years by the government. Are we expecting any fee increase in 2018/19 or 19/20.

Nawaf : The five years is not a law, it's a general practice. The last fee increase we got in 2014/15 about 3 years ago. So, we expect the next one to be in the academic year 19/20 or 20/21 depending on how discussions with PUC go.

Nadeem: Correct, so again on EDU you said your EDU made an 8 million profit of which Boubyan share is 3 million because consolidation is..

Nawaf : 5.8 million.

Nadeem: So the 5.8 million, alright, ok. So if I am not wrong, I would say the next growth drivers for you would be EDU and Al Kout (because Al Kout percentage has increased so your profitability from associates will increase) and obviously Equate which is cornerstone of your earnings per share... Any other growth divers that you look for which I missed out or something?





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Nawaf : As I mentioned, the Six companies are the main growth drivers. They are EDU, Al Kout, Awazel, Muna Noor, Nafais and Al Borg. You will find them in our investor presentation which we will post today. Now, Nafais will have a bit of growth also, it also has two schools and Mowasat. We are thinking about in the neighborhood of 10% growth in that business. Al Borg and Awazel are also operating in Saudi, not very much clarity in terms of overall market in Saudi but Al Borg is a very strong business and so is Awazel. So we think also there will be some growth there.

Muna Noor which, as I mentioned, we have actually taken lots of initiatives and it has been the focus of our team over the last year and we think it will turn around and will generate profit starting as early as April 2019 and hopefully down the line even further. So I would say the reason we classified the six investments as key because we see all of them as value drivers. All of them will have potential for growth.

Nadeem: The 10% growth in Nafais you are saying is in earnings or sales?

Nawaf : It is in our share of results

Nadeem: Your share of results, alright.

Operator: Our next question comes from the line of Rajap Bajjee from NBK Capital.

Rajap: Good afternoon, than you for the call. What is the strategy for non-equate portfolio? How do u see portfolio growth going forward? if you could comment on the funding sources for growth?

Nawaf: Rajab, As I explained, we look at our six investments as core investments and sources of growth. They're in different industries. However, last year our chairman Mr. Al-Dabbous has explained that we're expanding to healthcare and education. Our six investments fall in three sectors: healthcare, education and our core business petrochemicals. So in terms of the way we manage our portfolio, we manage them in different styles, we have some investments where we sit on board and involved in management while others where we only sit on board.

Our investment strategy has been that we acquire companies which we can have influence in being on board or management. For now educational holding, we have quite a bit of influence as the board of EDU consists of Boubyan employees. So, to answer your question in a nutshell, we manage companies directly where we see value and create value. We think these six companies will witness double digit growth for the next couple of years. With regards to funding, we have been able to finance them through part debt and part with internally generated cash. This year we borrowed 67 million Kuwaiti Dinars additional debt and we finance the rest from our own cash, we expect to follow the same path as we see opportunities. We will borrow to buy it or from our cash depending on availability. We have no problems accessing banks. If you look at our cost of debt to total debt it is quite low and competitive. Banks like to lend us and we have been very successful with that.





Rajap: For Equate portfolio, we have a robust floor for dividends flowing in. But for non-Equate portfolio, where do you see contribution from that part of the business in 3-5 years time from now? In terms of your share of profits.

Nawaf: This year non-equate portfolio actually contributed about 7 million to our pre-expense income and 30 million from Equate. Our target is to balance Equate to non-Equate growth, cash flow generation. Our medium term plan is to get about 20 m from non-Equate investments. It's not going to happen next year of course, it requires some effort, but this our vision and where we are trying to head.

Rajap: What kind of capital would you require to generate 20m from non-equate?

Nawaf: This year, we generated 40 million of free cash flow and we paid only dividends of 20 million so that will reduce our debt by 20. For next year, if we maintain the same debt to equity ratio, we can borrow 10-15 million to be able to invest 30-40 this year. We are planning to maintain the same funding strategy. Our cost of equity is about 12% and we look at IRR north of 15% usually for new acquisitions. So we have to invest roughly 70-80 million to reach our target of 20m recurring cashflow from non-equate.

Rajap: Another question on Al Kout, can you comment on the increase in Kouts's numbers, is there any capacity expansions?

Nawaf: For Al Kout, they have their own annual report and I'm not sure to what extent I can disclose information. But I can speak generally, the company is selling chlor-alkaline and hydrochloric acid and we sell to the Ministry of Electricity and Water. This business is quite robust and growth is correlated to Kuwait's growth, as water needs increase, these products should follow suits. With regards to hydrochloric acid, the largest buyer is the oil industry and it is correlated to drilling activities and prices have been robust. So, growth of Al Kout will follow the growth of the Kuwaiti economy and population growth. I cannot comment on any expansion plans but we have maybe that's a question we can ask to Al Kout investor relations.

Operator: We have no further questions.

This concludes today's conference call. Thank you for your participation.

