Date: 11/08/2022 | **IR/ALG/45/2022 :إشارة** | **التاريخ: 2022/08/11**

Dear/Boursa Kuwait Company
Greeting,

Subject: Analysts/ Investors Conference Transcript for Q2 of the Financial Year 2022

With reference to the above subject, and in the interest of Ali Alghanim Sons Automotive Company (ALG) to adhering with requirements of article No. (7-8-1/4) of Boursa Kuwait Rulebook. Kindly find attached the Analysts/ Investors Conference Transcript for Q2 of the financial year 2022.

sincerely yours,

السادة/ شركة بورصة الكويت المحترمـــين
تحية طيبة وبعد،

الموضوع: محضر مؤتمر المحللين/ المستثمرين للربع الثاني من السنة المالية 2022

بالإشارة إلى الموضوع أعلاه، وحرصاً من شركة أولاد علي الغانم للسيارات (الغانم) على الإلتزام بمتطلبات المادة رقم (7-8-4/1) من كتاب قواعد البورصة، نرفق لكم محضر مؤتمر المحللين/ المستثمرين للربع الثاني من السنة المالية 2022.

وتفضلوا بقبول فائق التحية والإحترام،

يوسف

Yousef Abdullah Al Qatami
Vice Chairman & CEO

يـوسف عـبدالله الـقطـامي
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هاتف: ٢٢٢٤٦٠٠٠(٩٦٥) فاكس: ٢٤٨٣٠٥١١(٩٦٥)
س.ت: ٣٩٩٣٤٧ | رأس المال المدفوع: ٢٧,٧٥٠,٠٠٠ د.ك

شركـة أولاد علـي الغانـم للسيـارات ش.م.ك.ع
Ali Alghanim Sons Automotive Company K.S.C.P

Analysts/ Investors Conference Transcript for Q2 of the Financial Year 2022

Analysts/Investors Conference Transcript

Q2 of the Financial Year 2022

Ali Alghanim Sons Automotive Company

Analysts/Investors Conference Transcript for Q2 of the Financial Year 2022 of Ali Alghanim Sons Automotive Company hold on Monday 08/08/2022.

Participants of Ali Alghanim Sons Automotive Company:

Mr. Yousef Al Qatami – Vice Chairman and CEO

Mr. Chavijit Bawa - Chief Financial Officer

Mr. Yousef Mustafa - Sales & Marketing Director

Chairperson:

Mr. Ahmed Moataz

EFG Hermes

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Ahmed Moataz

Hello, everyone. This is Ahmed Moataz from EFG Hermes and welcome Ali Alghanim Sons Automotive second quarter of 2022 results conference call. It's our pleasure to have from the company's side Yousef Al Qatami, CEO, Chavijit Bawa, the CFO, and Yousef Mustafa, the Director of Sales and Marketing. The company, as usual, will start with a brief presentation, and then we'll open the floor for Q&A. Gentlemen, please go ahead.

Yousef Al Qatami

Thank you, everyone, for attending our first conference of 2022 for Ali Alghanim Sons. As mentioned, there's myself, Yousef Al Qatami, the CEO, Mr Bawa, our CFO, and Yousef Mustafa, our Sales and Marketing Director. Today, we'd like to take you through our board and executive management team, as there will be slight changes on that coming soon. Also, I'd like to take you through a company overview and a financial overview, and then we'll open the floor for questions.

The Board, as currently constituted, is the same as we shared in the presentations of the IPO. However, we have an OGM coming soon on 25th August, and in that OGM, in order to be in compliance with the rules and regulations of the CMA and Boursa, we will vote for two independent board members to be added to the team of the board. The Executive Management has not changed and is the same as currently stated.

In terms of the company overview, I would like to take you through the first half numbers, and then Q2 in detail versus 2021 later. In terms of revenues, we have reached KD 88.3 million, which reflects to around $287.7 million. which got us to a profit of KD 9 million, around $30 million. In terms of Q2, on a separate note, it was KD 48.5 million, $158 million. And in terms of net profit for Q2 alone, it was KD 4.8 million, which is around $15.6 million.

In terms of the breakdown of the revenue, it is not very far of our stated numbers in the pre-IPO presentation. Passenger cars, however, did increase a little. It was on the verge of 70, it went to around 73% to 75% in Q2, and in the first half, it was around 73%. After sales is stable and the rest of the business is around the same. In terms of what we have done for this first half, our board has already proposed an interim dividend of 23.78 fils.

That is equivalent to 3% dividend, half year dividend, semi-annual, of the IPO share price. When we did the IPO, of course, we promised around 6% dividend for the year, so we're on track to achieve that. The first half, we achieved that already. And so, half of it is done, and then the other half, once we close the year, we're on track inshallah, to do the same.

Also, some of the highlights, there was exceptional growth in the affordable segment, both in our two brands, Geely and Haval. We grew at around 63% in Geely and 86% in Great Wall. For the premium segment, we already have right now more than 2,000 bookings with down payments, significant down payments, so the premium segment is doing well. What is holding us back is basically stock availability, but even with that, we overachieved our targets.

A couple of highlights, we're opening two new facilities in Jahra, which is situated in the northwest of Kuwait. We have a facility for BMW, a 3S facility that will open, inshallah, in Q3. And in Q4, we're expecting our Geely facility, which is right next to it, to also open. We also achieved 100% sales process and retail standards rated by the OEMs. So, we're always on track and we're very proud to achieve that.

We also had a successful launch of the BMW new seven series, as well as the Land Rover Sport. And both have been very significant in terms of getting very significant down payments that contributed to the 2,000 cars that were done. In terms of coming models, we have a couple of very new models for the Geely brand, Manjaro and the Emgrand. And also, we have a sub-brand that is coming for Haval, which is called Tank. That will also, inshallah, boost us in terms of sales for the affordable segment.

We'll now take you through the financial overview. Just to look at it holistically, for the first half of 22, we both had a growth in our revenue in Q2 and in the first half. That translated to a net profit of around 9 million the first half. For Q2, specifically, we made around 4.79, in terms of net profit. For the profit attributable to shareholders, it was around 8.8 for the first half, with 4.7 coming in the second quarter.

And in terms of earnings per share, relative to what we forecasted, which was 52 fils in the pre-IPO figures for the year, we have achieved, for half the year, 31.72. So, we're well on track to beat what we have forecasted. In terms of the contribution of the segments, obviously, we stated earlier, the passenger cars and the after sales are the most significant, including used cars.

And then if you look at the profit contribution, in terms of gross profit, even the after sales have a higher portion of that, because we have higher margins in after sales, generally speaking, especially on parts. So, it comes in at around 20% and around 70% for the vehicles. In terms of the income statement, our revenues went up by 4%. This is due to increases in the sales of affordable brands, and slightly from the luxury brands. However, in terms of gross profit, we went higher.

And the main reason for that is because of the extra margins we're getting on the luxury brands. We have increased our margins and this has given us a larger gross profit growth. And it is something that we foresee for the future, especially that the availability of cars is still we're short on cars, so we are able to price accordingly. And to add to that, I would like to highlight that our euro has been hedged at around the 0.350 range.

So, it does not reflect that in terms of now, because we usually hedge for the future. And once that hedging is utilised, then we'll even have higher gross margins going forward. In terms of the expenses, if you compare the expenses, there is a slight increase in the expenses. However, we'd like to highlight that in 21, if you want to do the comparison, there was a significant writeback of provisions because of sales that happened. And that decreased the expenses of the first half of 21. That's why you see a 22% growth in that. It's not actually 22%, if you normalise the writeback of provisions.

In terms of net profit, as I said, it was the two main factors. One is the increase of affordable brands in terms of sales, and specifically, the increase in margins of the luxury brands. In terms of our highlights, this is Q2 versus Q2. The first one was the first half, and this is only Q2. It has the same factors that we had in Q1, nothing has changed there.

And we basically came in with 17.04 fils and 31.72 fils for the first half. In terms of our balance sheet, just to take you through this quickly, there was a decrease in the plant property and equipment, mostly related to the sale on retirement of rental vehicles. Because we had a shortage of cars, we had concentrated on the sale of cars, the direct sale of cars, and therefore, we did not replace the rental vehicles, and that's why our assets decreased in terms of that.

And also, we had a lot of replacement capex in terms of cars that are used in our fleet for the demo, for the employee cars. Those were also not replaced because of the shortage in cars. So, that is why it's reflected in terms of that decrease. In terms of the current asset decreases, it was because of the improvement in the receivables. And plus, we repaid our bank debt. So, that also had an effect there.

The reduction in non-current liabilities, because we had a lot of settlement of around KD 19 million of debt, so if you take our total debt net bank borrowing inclusive of cash, we're actually positive now. We have around KD 7 million plus bank borrowing inclusive of cash. So, that reduction happened in the first half of 22. In terms of current liabilities, it increased, which was a good thing, because we had a lot of advances in terms of prepayments. This is related to the 2,000 cars of bookings that we had, and that was a significant increase, but obviously, it's a positive factor.

In terms of the cash flow statement, obviously, the most important line is the first line. And you see a significant improvement in the operating activities. Changes in working capital, we had a plus this time. Obviously, this is also related to time periods when the payments are being made. We had a large shipment of Land Rover coming in at the end of June, and therefore, our payables have increased and that's why you see our working capital is a plus. But it can be a plus or a minus, depending on timing. I think the more important line is the first line.

In terms of capex, it was around the same with a million in replacement. And in terms of the cash flow from investing activities, I think you can see there, a lot of it was utilised for the loans and borrowings, and some of it was also used in the dividend payment. In terms of the key ratios, in terms of the liquidity ratios, I want to highlight that yes, they did decrease, but this is mainly due to the drop in cash, because we closed out loans. Obviously, if we'd kept the cash, then the liquidity ratios would be fine. But we utilised that for the repayment of loans, and hence, why you see the liquidity ratios changing. However, I'd like to stress that we're in a very good position where we actually have plus cash net of bank borrowings. In terms of profitability, we have increased both our gross margin and our net profit margin versus 2021. And also, in terms of ROA and ROE, both saw an improvement.

And for the solvency, I think it's almost irrelevant, because if you take the cash, like we said, net of bank borrowing, it's plus, it's positive now. So, there are no worries there. This is what we have for you for today, and please, we're open to any questions that you might have regarding anything that happened in the first half of 2022.

Ahmed Moataz

Thank you very much to all participants on the call. If you wish to ask questions, you can either send them through the Q&A system or you can use the raise hand function. We have three questions from Ahmad Alanani from Sancta Capital. I'll take them one by one. The first one is what exactly is driving the expansion in margins in the luxury segment?

Yousef Al Qatami

The luxury segment, what happened, basically, is we repriced, both due to demand and due to shortage of cars. So, we have repriced the vehicles and we're still short of delivering what we can deliver. Obviously, not due to any reason from our side, it's basically due to the shortage. However, as you can see, we have achieved all our numbers, so I'd like to stress that when we say shortage, it's already been figured in when we did the numbers.

So, that's why we're still overachieving. So, I do not want people to panic because of the shortage. We figured that in the numbers when we did our numbers, and that's why we're overachieving now, so it's not something that someone should be worried about. However, we are over exceeding these numbers, so we're on the good side on this.

Ahmed Moataz

Thank you. The second question is related one, can you comment further on supply chain disruptions, the freight costs, and delivery times?

Yousef Al Qatami

Freight costs have been increasing, we agree on that. However, this has been passed on to customers. And on top of that, we've increased the margin. So, it's not something we should be worried about. But yes, there are increasing costs. In terms of the supply chain getting better, we're seeing a slight improvement in the supply chain. And the manufactures are telling you that the fourth quarter and going into 23 would be better, inshallah.

But I'd like to let everyone again know that these have been figured into our projections when we first did them, and we were on the conservative side. And I know that we've told a lot of people that we were on the conservative side, some believed, some did not, I don't know. But obviously, the numbers now are coming in and we proved that we are the conservative side, so whatever upside we can get in the supply chain is a plus for us.

Ahmed Moataz

Thank you. His third question is what is the status of the Egyptian expansion?

Yousef Al Qatami

The status of the Egyptian expansion is it's still going on in terms of setup. We're hoping that by the end of the year, inshallah, we will start sales. But that is still part of the setup that we're doing right now. In terms of the Egypt expansion, anything that we get from Egypt is a plus, basically, it's over and above. So, if it comes in at Q4, at end of Q4, that will be a plus for us for the end of the year and the year 2023, inshallah.

Ahmed Moataz

Thank you. We'll take our next questions from the line of Fatima from Sequel. Please go ahead.

Fatima

Hi, and thanks for the call. I’m so sorry, I don't have the presentation, but it seems like your second quarter revenues, or growth and revenues, was much higher than the first quarter. I’m just wondering if there was any, again, supply issues in the first quarter that led to a delay in sales into the second quarter? That's the first question. And in terms of are there any losses from discontinued operations that happened in the first half of the year? If you can elaborate on that.

And the third, you've touched upon the hedge in terms of euro hedge? Again, if you can just explain a bit further in terms of your exposure that you have in terms of currency. Because I was under the assumption is that when you closed the books, you don't really have currency exposure.

Yousef Al Qatami

In terms of the first question, it's supply chain applied to both quarters, however, we had shipments that started to come in in Q2, specifically, for the Range Rover. And the Range Rover is a much higher ticket item with a better margin. So, the effect of the Range Rover is what took place in Q2. However, we have a lot of reservations, so now, we did not solve the supply chain issue, it wasn't more related to the supply chain issue.

It was more related to the Range Rover coming in with better margins and better revenue. So, that answers your first question. If you could repeat the second question.

Fatima

Were their losses from discontinued operations in the first half of the year?

Chavijit Singh Bawa

Let me answer that question. We are in the transition of the Egyptian expansion, as Yousef touched upon. And this is just classification as per the IFRS, when we are being classified. the losses, which have incurred, which are mainly the expenses, which have been dealt with in the first half as no revenue generation has taken place as yet. So, these are basically a flow through of the expenses.

Fatima

Sorry, just to clarify that, the losses that are appearing are basically related to your Egyptian operations, which are not discontinued, but they are your expansion into Egypt?

Chavijit Singh Bawa

Yes. The classification of discontinued operations as per the IFRS regulations.

Yousef Al Qatami

Just for you to know that losses are coming in. We already have staff that we have right now onboard, but we haven't finalised the setup, so that is incurring the expense with no revenue to offset it. So, once the operation starts, the revenue will obviously offset it and more, inshallah.

Fatima

Okay. And regarding the currency exposure you have.

Yousef Al Qatami

Okay, I'll explain that. Usually, we don't like to make calls on the currencies. So, what we do is we lock in our margins with forward covers. We're not in the currency business. So, what we do is once we have a set year or a set business plan, we lock in our euro rate for that, because as you know, once the euro fluctuates, it might change positively or negatively for us, but we're not into that business.

So, what we do is we hedge our currency and then we build our margins, based on the number that we have. Currently, right now, in our euro, when we started hedging last year, it was around the 0.350 range. And I'm just giving you an approximate number here. So, based on that, there's, let's say, a 10% gap currently between 0.350 and 0.320 that we could have made more money with.

Obviously, this will not be all made in the future, however, there is a gap in the currency from where it is now to where we are hedged, where the profits we made are at the current hedge rate. So, all I'm saying is that the euro is lower than where we are hedged.

Fatima

Okay, got it. Just one more question, if I may. In terms of volumes, how are your volumes looking in the first half of the year versus last year? Volumes of [unclear].

Yousef Al Qatami

Volumes for the affordable, we had stock, so we had around a 60% to 80% growth in each of the brands. For the premium segment, there was a slight growth, but it was restricted by the amount of cars that we had.

Fatima

Okay, thank you.

Yousef Al Qatami

You're welcome.

Ahmed Moataz

Thank you. We have a question from [Unclear] from Bank Muscat. He's asking if luxury vehicle models could decline, if and when supply chain disruptions are resolved?

Yousef Al Qatami

No. Because first of all, two reasons. The demand is there. I just explained the euro part, so there is a bar in the second layer for the future. So, no, it should not be declining at all. In fact, we see it positive in the future, because as of right now, to give you an example, to explain the demand, we mentioned at the beginning of the presentation that there were 2,000 cars with down payments that we are not able to provide the vehicles for. That’s a brand’s one year sales. So, I think we're set on the demand side, the problem is having the ability at this time.

Ahmed Moataz

Thank you. We'll take our next question from the line of Abdulmalik Alothaim from Alpha Capital. Please go ahead.

Abdulmalik Alothaim

Hello, thank you. Actually, my questions were answered, however, congratulations on achieving great numbers for the first half of 2022 versus last year. Just a quick question, actually, in terms of margins, would you guide for the future to be for this level of margins to be sustainable? Since luxury brands might not pull down in terms of prices?

Yousef Al Qatami

I think the demand in the luxury brands right now versus the supply, it’s out of the normal equation. So, no, I don't think the margins are out of range. I would like to stress that in the past, and when we did the projections, we did it on margins that were lower than OEM recommended margins. So, right now, if you look at our margins, they're actually within line of the OEM recommended. So, us increasing them is not out of scope of what we usually do, it’s just we’re getting in line again.

As we were growing in the past, we were trying to go for more volume and a little bit lower than the recommended price. As of right now, we don't have the stocks, so we're going by recommended price. Recommended price is usually always feasible, especially with the OEMs. It means that you will probably have this. Going higher than that is usually where it's not sustainable. So, to answer your question, no, it's completely sustainable.

Abdulmalik Alothaim

But wouldn't, and correct me if I'm wrong, wouldn't going forward, if the affordable cars contributed more, it should add pressure on margins? And therefore, it might be impacted.

Yousef Al Qatami

Not when you have 2,000 cars already booked for sale.

Yousef Mustafa

we have forecast that in our prospectus, so the growth of the affordable was already reflected in the prospectus for the volumes, the revenue, and the profit, obviously. And even though it's reflected, the margins that we managed to get are higher, and the demand that we have incorporated was as Mr Qatami has mentioned already, we were too conservative and we continue to be, and we managed to overachieve it already.

So, we don't really see the risk of the growth in the affordable segment to reduce the overall margin of the business, due to the fact that we are still very conservative in comparison to reality on the ground, as you can see from the first half performance.

Abdulmalik Alothaim

And can I just get some clarity on the 2,000 cars. Is it for this year?

Yousef Al Qatami

It’s 2,000 cars on down payments. Now, depending on availability, I cannot say it's for this year only, but depending on what is supplied to us, we might close half of it. we e might close a third of it. It depends on what they provide us.

Yousef Mustafa

But with the history that we have already for the last 12 months, the profit for the year, if they continue supplying the cars is as promised, as forecasted on the prospectus, shouldn't be an overreach. Inshallah, we're going to be performing really well, just like we did in the first half.

Abdulmalik Alothaim

Inshallah, no doubt, and thank you very much for the call and best of luck.

Yousef Al Qatami

Thank you.

Unidentified Male

Thank you.

Ahmed Moataz

We currently have no further questions either in the chat nor the Q&A, so please, a final call to all participants. If you want to ask questions, you can either send them through the Q&A or you can use the raise hand function. Mohammed Al Taleb is asking how many luxury cars are procured per quarter? It doesn't have to be accurate, a best guess will do.

Yousef Al Qatami

Per quarter, it’s around, depending on the availability right now, I cannot go into the number exactly, but sometimes it's up, sometimes it's down, depending on the availability and the new cars that are available. But in total, for the year, we sell over 5,000 cars, in terms of luxury.

Ahmed Moataz

Thank you. [Unclear] has another question. How much would the luxury segment accounted for in terms of revenue and net profit currently?

Yousef Al Qatami

It’s around 80%, and affordable is coming up to 20%. Almost there. But we're seeing the growth in affordable, obviously, from what you saw in the numbers is faster, as we started only in 2019. So, the base was lower, obviously, so the growth numbers are higher.

Ahmed Moataz

Another question in the chat, what are the arrangements with your brands in terms of exclusivity in the end market?

Yousef Al Qatami

In terms of exclusivity, there is no exclusivity for anyone in the market, and that includes all brands, not us only. But as you know, in our country, it's very difficult to open a second importership. This applies not only to us, it applies to everyone else. If you look at Mercedes, Lexus, in terms of luxury, or Audi or Porsche, we are all with one local importer only.

Yousef Mustafa

And we have this arrangement for 36 years already. And as you can see, we're still the only importer for, for example, of BMW and for Land Rover. It's been around 20 years plus and we're still the only one. And as mentioned in our prospectus, with almost KD 140 million in assets, for anyone to try to compete, they need to cough up that and to do a second importership in a market, like Kuwait, it's going to be difficult for them to come up with a business case to allow them to do this business and compete with us.

Chavijit Singh Bawa

And moreover, we have only acquired new agencies over the years.

Ahmed Moataz

Thank you very much. Another question from Mohammed Al Taleb as well. Any disruptions in the supply or logistics of spare parts?

Yousef Al Qatami

The same applies. I think, spare parts availability is better than car availability. And I think the OEMs are aware of that, that's why they have to make sure that we run our fleets that are currently in markets in the proper way. Logistics, prices have increased, yes, but this has been factored into pricing anyway.

Ahmed Moataz

Right, gentlemen, we don't have any further questions, neither in the chat nor in the Q&A.

Yousef Al Qatami

Okay. Just to close, I'd like to thank everyone that joined and for all the questions. Just a quick highlight, I think, from the numbers we've seen, we've already achieved what we promised, and this is a promise that we made when we first listed our company. In the pre-IPO numbers, we always said we were conservative, and that going forward, inshallah, we would overachieve these numbers. I think this is our first analyst conference and we did that, and hopefully, we will continue to do that in the future. Thank you.

Ahmed Moataz

Thank you very much to management and to all participants. Have a good rest of the day. This concludes the call.

Yousef Al Qatami

Thank you.

Chavijit Singh Bawa

Thank you.

Yousef Mustafa

Thank you.