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Ali Alghanim Sons Automotive Company K.S.C.P

Analysts/ Investors Conference Transcript for Q3 of the Financial Year 2023

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Analysts/Investors Conference Transcript for Q3 of the Financial Year 2023 of Ali Alghanim Sons Automotive Company hold on Monday 13/11/2023.

Participants of Ali Alghanim Sons Automotive Company:

Mr. Yousef Al Qatami – Vice Chairman and CEO.

Mr. Yousef Mustafa - Managing Director - Ali Alghanim & Sons Automotive Company.

Chairperson:

Mr. Omar Maher

EFG Hermes

Omar Maher Good afternoon everyone. This is Omar Maher from EFG Hermes. On behalf of my colleague, Hatem Alaa, I would like to welcome everyone to Ali Alghanim Sons Automotive 3Q23 results call. I'm pleased to be joined by Mr Yousef Al Qatami, Chief Executive Officer of Ali Alghanim Sons Automotive and Mr Yousef Mustafa, Managing Director of Ali Alghanim & Sons Automotive. As usual, the call will begin with a discussion of the key highlights for the quarter, and this will be followed by the Q&A session. I would now hand the call over to Mr Yousef Mustafa to begin the presentation. Thank you very much.

Yousef Mustafa Thank you, Omar. Good day to all. Today we are presenting our quarter three and year-to-date results for Ali Alghanim Sons Automotive Company. We're going to take you through the agenda, which is the board of directors. No changes there in the news. The company overview and accomplishments for Q3 and year-to-date, the financial overview and then we're going to leave a few minutes for Q&A. As mentioned, no change in the board of directors. In terms of the company overview and accomplishments, we had a great quarter in quarter three, with KD 69 million in revenue for the quarter and a net profit of KD 9.2 million. The year-to-date figures are at KD 195.5 million in revenue and KD 24.6 million in net profit year-to-date.

The split of the revenue is, as you can see, in passenger cars, at 76%. That has grown. We have managed to secure more production across all brands that we have. We had also growth in after-sales, but the percentage dropped from 13 to 11 year-to-date this year versus the same period last year because the passenger car sales have trumped the growth that we had in after-sales. Usually, after-sales catches up later on when the cars start coming back for service. And usually, there is a lag between sales and after-sales of nine to 12 months. So, we're going to see a growth catching up in after-sales later in the coming months. The used car department is at 5%, and the remaining are at 4%, with the commercial and heavy equipment, rental and leasing went up to 2%, partially because of the increase in the supply of new cars we managed to increase the leased cars. Synergistic lines at 2% as is and our technology initiatives at 1%.

The financial overview coming from that, as mentioned, we have had a 39% growth in quarter three versus the same period last year in revenue. And if you want to look at the year-to-date versus year-to-date last year, we had a 42% increase at KD 57.7 million, basically, a comparison between last year an increase. In net profit, we have increased the quarter three versus the same period last year at 86%, with an increase of KD 4.24 million. And the year-to-date, basically, versus the same period last year increased at 76%, with KD 10.62 million increase versus last year of the same period. The profit attributed to equity holders grew at 56%. The growth is KD 2.68 million, versus last year standing at KD 7.5 million for quarter three, and the year-to-date versus the same period at 54%, with standing at KD 20.93 million, with a growth of KD 7.3 million versus last year same period.

Earnings per share for the quarter is 27.42 versus 17.5 for the same period last year, a 57% increase. And year-to-date is 76.37 versus 49.22, which is a 55% increase for the same period year-to-date this year. The income statement reflects the performance that we had in this quarter. We have a revenue of KD 69 million, an increase of 39%. What I need to, basically, highlight here is the significant increase in net profit is led dominantly by the growth of new car sales and the model mix that these new car sales constituted. We have managed to secure a better allocation from the manufacturers for the cars that come in highly spec, as the demand of the market has requested, which secured for us the revenue and the profit that we managed to achieve.

The share of the result of equity-accounted investees mainly constitutes the share of income from Global Auto. Global Auto, as you can see in quarter three is at KD 773,000. The year-to-date reflecting the same picture. The success in securing more units to supply the market reflects on the year-to-date also, and as you can see, the share of results of equity-accounted investees also doing extremely well year-to-date, September 2023.

Our assets have grown by 18.2% to KD 222 million and, as you can see, is driven by our current assets and PPE. The current assets in more volume that we have managed to secure, usually, the volume arrives towards the end of the month, so it gives us the ability to be able to offload it. The picture from the end of the month to the beginning of the month usually changes where the current assets drop because our sales are delivered usually towards the end of the month, beginning of the month after. Our cash flow statement coming in very strong, as you can see KD 33 million cash in operating activities and the performance in selling cars and after-sales is doing really well this year with the secured production on both sales and after-sales that is reflecting on our cash flow statement.

The change in working capital is dominantly for a positive reason. Our inventory is going up, while we're securing more cars to be able to supply the market. The key ratios are all performing really well, given the performance that we have year-to-date and in the third quarter. If you want to look at the current ratio, it's standing at 1.17, which is really good and mainly driven by the fact that we have managed to secure more cars to be able to supply the market. Something that I would like to end with, is the fact that we have managed to achieve 146 % of our 2023 forecasted net profit that we have submitted in the memorandum within the first nine months of the year only. Not only that, we have managed to over-achieve our forecasted profit for 2024 full year, the one that we submitted memorandum in the first nine months of 2023.

We are very confident of the performance of the company and with the improvement in allocation of cars and our ability to deliver to the market. We see this performance as something that we can all rely on and the picture is looking even better going forward, Insha Allah. Thank you for your time. That was just a quick brief. I'll leave it now open for your Q&A if you have any.

Omar Maher Thank you for the presentation. If anyone would like to ask any questions, please either use the raise hand function to ask your question verbally or you can simply put your question in the Q&A box, and we will pause for a moment to get the questions. Thank you. First question is in the Q&A box, and it says, would you kindly elaborate on your future dividend policy?

Yousef Al Qatami Our future dividend policy as you can see from our first half dividend, is similar to what we talked about, which is between 70 and 80% of our net profit. And that is what it seems to be going forward. So nothing has changed from what we announced to begin with.

Omar Maher Thank you. Once again, if anyone has any questions, please use the raise hand function or put your question in the Q&A box. We have a question from Fatima. Fatima, please go ahead.

Fatima Just having a question regarding the future demand. Again, are we going to see the same mix in terms of Range Rovers or are we going to see a higher mix of the BMWs, since there is a new model? And you mentioned that inventories are high because of your outlook. Are these pre-paid orders that you have in your inventories? Or if you can just explain that bit.

Yousef Mustafa Thank you, Fatima. We do see a positive outlook for our cars in terms of demand because of, first, the order bank that we have. Second thing is the ability to generate more orders going forward is solid. The model mix that we have delivered already on Range Rover and BMW and also our Chinese brands is determined by the market. We're not trying to change the trend. We're basically responding to what the market is demanding. Even for the models that did not have the same significant order bank, the cars are arriving and being delivered really quickly. And the cars that are demanded are actually almost fully loaded. And we have witnessed that trend even in our Chinese cars.

So, we always wanted to basically have two derivatives from each model. One is on the lower cost side, and one is a bit more fully loaded. What we have noticed that if both are available and presented to the customers, the customers are dominantly choosing the highly spec cars versus the much more affordable one from the same model, basically, often that we have. We don't see this trend changing at all. Actually, we see it increasing.

Omar Maher Thank you. Next question is from Zahid Pervez. He's asking, what are the updates on the Egyptian operation.

Yousef Al Qatami The Egyptian operation is going well alhamdulillah, now we've been securing more dollars to go ahead. We're getting shipments more frequently and hence you can see from the change just below break-even negative last year, now to a fully-fledged profitable company. And even though there are changes in the currency, we are managing that and we're managing to get the dollars, so the whole thing is going in the right direction. However, we are still restricted in terms of profit because of the volume we are getting. And once that volume adjusts, then we'll see much better numbers going forward, Insha Allah.

Omar Maher Thank you. There's a follow-up from Zahid as well. He's asking, what is the current backlog of cars?

Yousef Mustafa The current backlog we're looking at is around 2,000 cars overall.

Omar Maher Thank you. And then, next question is from Talal Samori. He's asking, how are your Egypt plans fairing? I think maybe it is related to the previous question.

Yousef Mustafa I'm sorry, Omar. The first part of the question is, how is the Egypt plan going? I didn't really hear.

Omar Maher Yes, exactly.

Yousef Mustafa Okay.

Omar Maher And the second part of the question is, are you having any demand coming for electric vehicles?

Yousef Al Qatami Electric vehicles, currently the demand is low, so it's not something we've moved on. However, what we have done from our side is we are fully ready and capable to go ahead with electric. Our staff in sales and after-sales have been fully trained, including our body shop, so we are ready to make that jump whenever it's necessary, given the market will lead us in that direction. However, as of now, the sales of electric are very minimal in our markets. Until that happens, we're not selling any. However, we are ready to go ahead with it.

In terms of the plans for Egypt, I think I've already covered that in the previous question. So we've turned it to be profitable. Generally speaking, we are still restricted in the volumes. And with the better volumes coming through, not properly, but better volumes coming through, we have already turned around the company to be positive and, hopefully, the future is looking brighter for that, with better allocation and sales in the company. And this has all been done with the currency issues that are going on in Egypt.

Omar Maher Thank you. There is a question from Samir Habib. He's asking, do you see more demand for Chinese model cars and what are the margins blended between high-end versus affordable cars?

Yousef Mustafa We do see high demand going on the Chinese side of our business. And as I've mentioned, what honestly also surprised us is the fact that even within the Chinese model, when we are presenting two derivatives of the same model, customers are prominently going for the fully loaded one, the more expensive one. The margin difference between the Chinese and the luxury is in percentage, around five percentage points to seven percentage points less between the luxury and the Chinese. But as I've mentioned, the Chinese is a volume game. The volume and the quick stock turn is the game in the Chinese business, and this is what we're focused on. It's growing really well, and the volume is coming in and the customers are choosing the fully loaded cars, which allows us to have more profits. Not the same percentage, but more profit per unit in terms of value.

Omar Maher Thank you. Next question from Bader Mokdad. He's asking, would you kindly provide us with any future growth expectations, forward-looking plans regarding new dealerships, new brands, new markets or future acquisition plans?

Yousef Al Qatami Anything that is related to that will be announced on the Boursa site. So, you know that we are restricted in terms of giving any plans that are there. If anything happens, definitely the market will know as soon as it's done.

Omar Maher And there's a follow-up from Fahid, as well. Do you plan to have any stock repurchases or stock buybacks?

Yousef Al Qatami Stock buybacks in terms of treasury stock?

Omar Maher Yes, I think that's the question.

Yousef Al Qatami Nothing is planned currently, but we do have an approval from the CMA to buy at any time. But nothing is being done currently, no.

Omar Maher Thank you. There's another question from Talal again, asking whether there are any plans to expand or acquire in terms of brands or other countries. I think repeated question again.

Yousef Mustafa We have announced lately our latest acquisition, Geely in Egypt, which is substantial, that yet to show its revenue and income, Insha Allah. However, just one comment on this. Usually, for you to acquire brands, that means that it has been usually abandoned by another importer or the importer got cancelled. This is not something that comes across quite frequently. For us to be able to add BMW Egypt and Geely Egypt, Geely Kuwait, and Great Wall Motors Kuwait in the span of the last four to five years is already one of the biggest accomplishments. If you compare it to any other importer or dealer in the region, you will not see that they have managed to more than double their logos or geographical coverage in just under five years.

And what we're excited about is Geely Egypt, just as much as we are excited about BMW that turned profitable and, hopefully, grow. We are waiting for Geely Egypt to show its real potential and that's what we're focused on.

Yousef Al Qatami Geely's operation should be we're looking to start it in the second half of 24, Insha Allah.

Omar Maher Thank you. Next one is from Zahid again. Why are volumes restricted in Egypt?

Yousef Al Qatami Because of the dollar conversion. And it's the whole market. It's not us. Just for you to know as our audience, the market is down around anywhere between 70% plus-minus.

Omar Maher Thank you. And then, we have a good question from Naveed Ahmed. Naveed, please go ahead.

Naveed Ahmed I have a couple of questions. My first question is related to the level of promotions or offers that the competition in Kuwait is giving. Has there been any increased promotions that are happening in the Kuwaiti market or are prices firm across the entire industry?

Yousef Mustafa Okay. First thing, thank you, Naveed. In terms of offers dominantly received more on the lower segment of the market, so the Chinese, the Korean, the Japanese. There isn't much going on anything north of that. Nothing to be mentioned, to be honest, sizeable enough to be mentioned. But the game in the Chinese anyway was and still is even during COVID, to a certain extent, because most of the Chinese brands' ability to deliver volume during COVID was already almost at full capacity before or after COVID. They managed to maintain their production levels, so the business was also during COVID as challenging. The offers are almost, give or take, the same versus last year.

Naveed Ahmed Okay, and my second question is, as the supply chain situation improves, say, heading into next year, do you think that there will be a downward pressure on car prices in general? Because ever since COVID, as we are all aware, car prices have increased across all brackets, all types of cars the prices have gone up. If the supply chain improves, do you think that the prices will come off a bit, which might impact your margins?

Yousef Al Qatami I've been working in this industry, this is my 17th year, and we went through the 2008 crash, among others. I've never ever seen any franchise decrease their price ever. Whenever it's increased, they might not increase it more for a certain year and keep it the same, but they've never ever decreased it. That should answer your margin issue.

Naveed Ahmed Okay, that's very clear. Thank you so much.

Omar Maher Thank you. Next question from Samir Habib. He's asking irrespective of the expected backlog, do you see prices coming off for the high-end cars, given expectations of slowing demand in the next year? BMW Group's Q3 outlook was fairly cautious, or do you see demand in the region insulated from global developments? Two questions.

Yousef Al Qatami I'll talk about our group, specifically, rather than BMW or Land Rover worldwide. In our group, already we spoke about Egypt and there's already potential there to go up, actually, because of the current restrictions. Please keep in mind that we turned around the company in Egypt and made profit when the market was down 70%. Any improvement in that market will make massive leaps for us. In terms of Kuwait, no we don't see demand slowing. The market is there. The restrictions have been better, yes, so the growth might not be as high, but they are still there in terms of model mix, in terms of options, in terms of number of cars, in terms of certain models, it's still there. That also gives us the potential for growth next year, Insha Allah.

Omar Maher Thank you. Just one last reminder in case anyone would like to ask any questions. Follow-up from Naveed, asking, what is the current split of Chinese versus luxury brands in terms of revenues and is there a target split that you have in mind?

Yousef Al Qatami Sorry, can you repeat that again?

Omar Maher Yes. The question is about the current split of Chinese versus luxury brands in terms of revenues. Is there a target split that you have in mind, a revenue split?

Yousef Al Qatami There is no target split that we're looking at. We're working with each franchise separately, and as and when we set our business plan, it's based on each market separately and they don't compete with each other. So, no, there is no target split between them and we continue to aim to grow both of them.

Omar Maher And would you be able to provide the current revenue split between both?

Yousef Al Qatami No. No, that's something we'd like to keep here.

Yousef Mustafa Don't forget, Naveed, that we are the only listed company and there is no data available in the market. Part of our competitive advantage is unless everyone shares information, we prefer not to be the only ones that do.

Omar Maher That's clear. Thank you. It looks like we don't have any more questions in the queue, so back to you if you would like to make any concluding remarks.

Yousef Al Qatami We thank you for your time. And, hopefully, we've shown good growth for this year so far. We aim to continue this for the fourth quarter and into next year, Insha Allah. And the potential both here in Kuwait and in Egypt and Iraq is looking positive. Thank you everyone and hope to see you soon.

Omar Maher Thank you gentlemen for the presentation and thanks to everyone for your participation. This concludes the call. Have a nice day.

Yousef Al Qatami Thank you. Bye-bye.

Yousef Mustafa Thank you. Bye-bye.