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

Analysts/ Investors Conference Transcript for the Financial Year Ended 2023

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For the Financial Year Ended 2023

Ali Alghanim Sons Automotive Company

Analysts/Investors Conference Transcript for the Financial Year Ended 2023 of Ali Alghanim Sons Automotive Company hold on Thursday 22/02/2024.

Participants of Ali Alghanim Sons Automotive Company:

Mr. Yousef Al Qatami - Vice Chairman and CEO

Mr. Chavijit Bawa - Chief Financial Officer

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

Chairperson:

Mr. Ahmed Moataz

EFG Hermes

Ahmed Moataz Hello, everyone. This is Ahmed Moataz, from EFG Hermes, and welcome to Ali Alghanim Sons Automotive results conference call for the period 2023. I'm pleased to be joined by Yousef Al Qatami, CEO, Chavijit Bawa, CFO, Yousef Mustafa, and Managing Director. As usual, the company will start with a brief presentation, and then we'll open the floor for Q&A. Gentlemen, please go ahead.

Yousef Mustafa Very good day to you all. Thank you for attending the call. Today, we're here to share with you the results of Q4 2023 and the full year of 2023. I'll start with the agenda, the board of directors, the company overview and our accomplishment for the quarter and the year, the financial overview overall, and leave some time for Q&A at the end.

No change in the board of directors overall, the same board of directors and the independent board is unchanged. In terms of our accomplishments, we have managed to get to a revenue in Q4 of KWD 67.3 million, which is equivalent to $219 million. Our net profit for the quarter is KWD 8.7 million, which is $28.4 million. For the full year, our revenue got to KWD 262.8 million, equivalent to $856 million. And our net profit is KWD 33 million, approximately $108 million for the year.

In terms of the revenue breakdown, as you can see it did not change much from the usual, except that passenger cars is now at 77% for the full year. Aftersales is 11%, however I need to highlight that aftersales did grow in terms of revenue, but the passenger cars overgrew the growth of aftersales, and usually aftersales takes time to catch up when we start getting the cars back for service and repair and body shop.

Used cars is at 5%. 4% for the heavy machinery and trucks. Rental and leasing at 1%. Synergetic lines for our parts and tires and lubes at 2%, and for the technology initiatives we have, mainly driven by Rove, a ride hailing company, at 1% from revenue.

How do we fare against last year Q4 and last year full year? In terms of revenue, we have grown 34%, quarter on quarter, in comparison to 2022-2023, from KWD 50 million to KWD 67.25 million. However, in terms of the full year, the growth is even higher at 40%, from KWD 188 million to KWD 262 million. In terms of net profit, we grew, quarter on quarter, 63%, from KWD 5.31 million to KWD 8.67 million, and the full year from KWD 19.26 million to KWD 33.24 million, a 73% growth for the full year.

Attributed to equity holders, the profit grew, quarter on quarter, by 49%, from KWD 5.07 million to KWD 7.55 million, and 52% for the full year in comparison to 2022, from KWD 18.7 million to KWD 28.5 million approximately over the full year. However, in terms of EPS, 49% growth quarter on quarter, from 18.5 to 27.56 fils, and for the full year grew at 54%, from 67.7 to 103.9 fils for the full year in 2023.

In terms of the income statement, as you can see, the growth is reflected in revenue, the increase in net profit was led by new cars volume increase and model mix. We're going back, getting closer and closer to our natural sales volume. We're not there yet but we're getting closer to it. Share of results of equity accounted investees mainly consist of share of income from Global Auto, which is Egypt BMW and Mini.

Full year, same picture. Obviously, it was higher for the full year, led by new car sales, as mentioned, and the model mix, as we're getting healthier model mix even from the increased volume that we started getting from the manufacturer to drive us back to where we want, both on volume and the model mix that the market demands and the share of results is driven by Global Auto, BMW and Mini Egypt.

In terms of balance sheet, healthy balance sheet. The position of the company is still as it's always been. Cash flow, as you can see, very healthy. Operating cash flow, KWD 44.9 million, very strong performance. And the net profit increase, obviously reflected very positively on the cash flow statement. Healthy profits.

Our ratios are, as ever, strong and healthy. The liquidity ratio is mainly due to increase in inventory and cash balances, it's a very healthy increase. The gross profit and net profit margin proved to be model mix, as I've mentioned, and the total volume. The performance ratio is increasing due to the increase in net profit as you will know.

In a nutshell, our strong performance is way ahead of what we are promised in the prospectus. We continue to beat what we have promised and, inshallah, we'll always be able to do so. We have achieved 198% of what was forecasted in the memorandum for 2023.

We have already achieved 180% of the forecasted net profit attributed to equity holders, as was promised in the offering memorandum. Not only that, we have crossed significantly the 2024 forecasted net profit and it's profit attributed to equity holders as was offered in the offering memorandum already in 2023. And I'll leave it now to you. If you have any questions or slides you would like me to go back to, to explain further. Thank you.

Ahmed Moataz Thank you very much. To all participants on this call, if you wish to ask questions, you can either send them through the Q&A, or you can use the Raise Hand function. The first question, actually a couple of questions from Metehan from Waha. First one, could you please talk about the timeline for the project of Auto Mobility to invest up to 100 million USD in Egypt for Geely manufacturing? And some other points on the same point is what are the internal rate of return criteria for the project? What type of profits do you expect, and what type of market share do you expect to achieve in Egypt?

Yousef Al Qatami For the timeline of investment, we've made most of our investments already, so that has been made especially with regards to BMW and Mini. And this had already turned to be profitable. For the Geely side, we have made the initial investment. There is another investment coming to make sure that the CKD's operating. We're hoping to get the CKD running in the second half of this year. So that has been made also. So to answer the question, most of the required investment for Egypt has been done already. BMW has already turned profitable. Geely, we have just started sales, but CBU units, not CKD. And CKD will be, inshallah, coming in the second half of this year.

Ahmed Moataz Thank you. A related question on this is should we consider that the company sees Egypt as the main growth channel for the overall business going forward?

Yousef Al Qatami It's one of the growth channels, not the only growth channel. We have a lot of growth coming from our affordable segment in Kuwait, and we also have seen, especially last year, much growth in the operation in Iraq also

Ahmed Moataz Thank you very much. Another question, given the very strong sales performance in 2023, should we expect 2024 to slow down as some of the pent-up demand fades? And on the same point, what type of revenue growth do you expect in 2024?

Yousef Al Qatami The answer to that is no, because the pent-up demand was there which means it actually held back our growth. So with availability, we should expect the same, if not better, going to the future, inshallah.

Ahmed Moataz Thank you. Another question, do you expect to add any new brands to the portfolio across, Kuwait, Iraq and Egypt?

Yousef Al Qatami I think from our track record you can see that we are continuously looking into new opportunities. If there's a new opportunity, of course we will announce that in the market first. However, our track record has proven that we have consistently looked for new opportunities if they are feasible, and we'll continue to do that in the future, inshallah.

Ahmed Moataz Thank you. Eranjan from Derayah is asking do you feel potentially lower interest rates will have a positive impact on demand?

Yousef Al Qatami Yes. Having said that, actually it's not affecting us as much because around 20% of our volume is based on financing. So yes, it will improve it, but it's not a hindering factor right now, even if it stays on the higher end.

Ahmed Moataz Understood. Another question is that has the supply conditions improved from manufacturers? And, on the same point, how much are the current backlog levels?

Yousef Al Qatami They have drastically improved recently, not to the point where we get everything we're looking for but they've improved a lot in the last year. I think, on the other side, logistics went up during 2023, however our profits include that cost, so if anything it would be better in the future, as logistics costs normalise.

Ahmed Moataz Understood. We have two more questions in the chat, but before I ask them, please if anyone else has any questions, you can either send them through the Q&A or you can use the Raise Hand function. The first one is could you tell us what's the percentage of participation in the Geely joint venture in Egypt, and confirm that production will target 40,000 cars per year?

Yousef Al Qatami I didn't get the second question. What was the second question?

Ahmed Moataz If you could confirm that the production of this facility will target 40,000 cars per year.

Yousef Al Qatami It will not target 45,000 to begin with. However, in the future, this is a possible number that we can look into. But this is definitely not the current target. I don't know where the 40,000 came from, but it is definitely in the tens of thousands that we're targeting. As to the first question, we currently, through our subsidiary, own around 50%, but with other partners our effective ownership is 25%.

Ahmed Moataz Thank you. We've received more questions. The first one, is the conflict over the Red Sea impact or expected to impact the company's expenses and margins?

Yousef Al Qatami As I mentioned before, especially this quarter, the logistics costs have gone up, so this has already been taken into account. So if anything, if it improves in the future, it will even be better. However, Q4 includes all this that is happening with logistics. The other side of it is it has a longer period of arrival to Kuwait, which means that we have to order earlier, which is already taken into account again. And in the future, once it improves, it improves our operations.

Ahmed Moataz Great. Question from Mario from Sabinvest. Could you share where Egypt stands in terms of the cost of car ownership as opposed to Kuwait? And also, colour on the average monthly cost, including insurance and fuel would be much appreciated.

Yousef Al Qatami I think the two markets are not comparable. In Egypt, we have to be proactive because of the currency issues, so it's not something I can compare, straightforwardly, no.

Ahmed Moataz Understood. Karim Abbas is asking can you give us some more colour on the performance of Rove and other small businesses? Are they progressing as you had hoped? And would you consider divesting?

Yousef Mustafa Regarding the smaller businesses that we have, specifically in Rove, as the question was asked, Rove is performing really well. We have expanded the fleet by almost 25% to cater for the increased demand. The business is doing really well, profitable, and we currently are looking into maintaining the level of service we have.

We're not sure if we're going to expand the fleet within Kuwait or abroad. The decision is not decided yet, but it's definitely a scalable business, meaning the app IP is owned by us and we run the operation fully. And Rove is a different approach to ride hailing, where we actually made it profitable, although our operating cost is higher as we own the leases of the cars. The cars are not owned by drivers who are financed by a different company. And we employ the drivers too, so the entire value chain is managed and expensed or owned by us. We're ready to expand it whenever we see an opportunity for it, and it's something that is being discussed.

The other small businesses are also growing, especially on the TLB Parts sales side, with the supply of cars increasing not only for our own brands and for others, these synergetic lines do supply and service the market in full, including our brands and others. With the supply increasing for others also, our volume is growing, and hence it maintained the same revenue share in Q4 and for the year in comparison to them. So we are growing that lines along with almost the same growth level that we have in our new cars.

Yousef Al Qatami On divesting the business, it is not something we're against, however currently we're growing it, so we're going to continue with that stake, and if the right opportunity comes along, we're not against divesting.

Ahmed Moataz Understood, thank you. Two questions from Sean from Trowe. First one, how do you expect the continued devaluation of the Egyptian pound to affect profitability in Egypt? And the second part is what is the medium-term profitability target for Egypt?

Yousef Al Qatami I think the devaluation that happened in the early part of 2023, the first half, was as big if not bigger than the current devaluation in terms of percentage, and the Egyptian market, what happens is that the cost is passed on to customers. And luckily, because we've moved in late to the market, we were dollar-based to begin with, and therefore it did not affect us as much. And moving forward, basically what is happening is that our pricing at the high end, we're recouping the right amount of US dollars in terms of exchange rate.

Ahmed Moataz Thank you. Karim Abbas is asking are you seeing pressure on the lower end of luxury from the Chinese brands? If so, how do Geely and Haval compare to other Chinese cars? And do they occupy similar parts of the market?

Yousef Mustafa We don't see a different type of pressure at all. The business is growing well. Actually, it has the longest runway, if that applies from our businesses as we're new to the market with the brands. We practically started at the end of 2019, so 2020 was the first year, and it was COVID, so now we're still in a very healthy growth phase in terms of volume. The pressure is more on the supplying of cars, and we are being able to get more and more cars, so I don't really see a different type of pressure at all. It's actually a very good, healthy growth runway ahead of us. And the second part, if you can repeat it again?

Ahmed Moataz Sure. He's asking whether they occupy similar parts of the market.

Yousef Mustafa No, they don't occupy similar parts of the market. If I understood your question correctly, they are growing in terms of market share overall from the market, not only us, the Chinese in general, and they are not competing or overlapping with the models, with the brands that we have, and hence we chose these brands and Chinese manufacturers, to make sure that we lower the entry level in Ali Alghanim Sons group, whether in Kuwait or in Egypt, that grows us into the customers that we want to groom into our luxury without overlapping with our luxury. So the business is totally over-and-above rather than cannibalising from any business line we have.

Yousef Al Qatami Just as an example, the lowest BMW we have is higher than the highest that we have in the Chinese. So they don't overlap even in price.

Yousef Mustafa There is a 20% gap from the most expensive Geely we have to the lowest price BMW have, and obviously the cars are totally different, one is a small sedan, which is the BMW, versus a large mid-sized SUV from Geely. And the price difference is around 20%.

Ahmed Moataz We have a few other questions that came into the chat. First one is, is the Geely joint venture in Egypt eligible to receive government incentives? And if so, could you share an amount and timeline alongside the budgeted capital expenditure requirements that you have for this entity?

Yousef Al Qatami There are rules and regulations in Egypt, and as per the rules and regulations, you can be eligible if you meet certain criteria. So we're going by the rules and regulations, nothing has been done just for us. However, as an example, if you go with a certain percentage of localisation, you get tax breaks for everyone. So as long as you meet these criteria, you get these tax breaks. So yes, we do get some, but it's similar to every other manufacturer over there, and it's within the line of the standards that the Egyptian government has set.

Ahmed Moataz Understood. Another question is on whether there are any changes being seen on the EV front.

Yousef Mustafa Right now, with regards to the EV, let's segment the question to market-specific. For Kuwait, the EV, I'll give an example from a big, almost 110,000 cars total TIV, and the EV did not exceed 70 cars total sales for the year in Kuwait, approximately. So until now, the adoption of EVs in Kuwait is extremely, extremely low. Maybe it came to our benefit, given the fact that most manufacturers started backtracking on their promises on when to go fully electric, because they understood that normal combustion engines are here to stay longer than they expected, by far.

So we're not really under pressure to get the electric car stock going into Kuwait, neither from a demand side or a push from the manufacturers' side, as they understood that the market is not there yet in Kuwait. But we are however ready. Since 2018, we have done all the CAPEX required to electrify the dealership, which is the major investment requirement usually in the body shop, when the cars are being fixed after accidents. The CAPEX has been done to the highest level to manage whatever volume of electric cars is required, in terms of sales.

Yousef Al Qatami And our employees have been trained all to handle electric car in the future, so I think Ali Alghanim is best situated to be on the trend of electric, as it happens, we are ready, however it has not happened in Kuwait so far.

Yousef Mustafa And in terms of Egypt, if discussing Egypt, with the CKD being in place, we are ready to cater for whatever is required from the market, be it combustion engine or EVs. So we're ready to basically switch a button, a switch to turn from combustion engines to electric in terms of CKD. The complication in getting CKD running on electric or combustion is not so different and the production lines can handle it.

Ahmed Moataz Understood, thank you. A question is whether you expect Kuwait to go ahead and implement a 15% corporate tax in 2025.

Yousef Al Qatami The law has not been passed, but we do hear of some laws that affect some companies. However, it's a lot more complicated than that, from what we've heard. Nothing is official, but there are certain different laws for companies above a certain revenue and working in different geographical expansion. The law is not clear currently and it has not been passed, it has just been discussed. Until we see an official thing, we cannot give a number on that for an answer.

Ahmed Moataz Thank you. Final question that we've received for the time being is can you anticipate a reversal in the number of registered passenger cars in 2024 for Egypt, after it had declined 50% in 2023? That's the first part of the question. And the second is what should we look at in order to track improvements among the EGP unofficial or official FX spreads and exports from Chinese and German manufacturers to Egypt?

Yousef Mustafa The first question, regarding reversal, you mean the market going back to where it was or you mean?

Ahmed Moataz I think what he means is recovery after we saw a 50% decline in 2023.

Yousef Al Qatami I'll say the following, the expectation for the Egyptian market is to grow. However, having said that, even a declining market, we were very profitable in Global Auto last year, and we reached our targets in BMW. So in the future, as well as it improves, we have better revenues coming in and net profit from Egypt in the year 2024, and we don't expect anything different from them.

Ahmed Moataz Great. The second, let me repeat it…

Yousef Al Qatami that we're talking about, a large number of bookings in Egypt right now that we're not able to satisfy still. So this is not a worry for me on that.

Ahmed Moataz Okay. So his second part of the question was what should we look at in order to track the improvements between the official and unofficial EGP-USD spread, and also how to track exports from Chinese and German manufacturers in Egypt? I don't think he's after certain metrics but rather your on-the-ground insights of what's been happening.

Yousef Al Qatami I think what's on the ground and how we track it stays with us. So I think he can find his own methods of tracking this.

Ahmed Moataz Understood, thank you very much. We haven't received any further questions, so final reminder, if anyone wants to ask further questions, either send them through the Q&A or you can use the Raise Hand function. Gentlemen, we haven't received anything, so I'll pass it back to you for any concluding remarks.

Yousef Mustafa Thank you so much. Thanks for attending the call. Obviously, our contacts are on the investor email if there are any follow-up questions that nobody thought about and would like to ask, we're always available to answer their email. Again, thank you, and looking forward to another successful quarter call in three to four months from now. Thank you.

Yousef Al Qatami Absolutely, thank you, guys, and we have the conference soon in Dubai, inshallah, and I think during the end of first week of March, so if anyone wants to join, we'll be there also and we'll see you there. Thank you.

Ahmed Moataz Thank you very much. This concludes today's earnings call. Have a good rest of the day.

Yousef Mustafa Thank you.

Chavijit Bawa Thank you very much.