



شركة أولاد علي الغانم للسيارات ش.م.ك.ع
Ali Alghanim Sons Automotive Company K.S.C.P

**Analysts/ Investors Conference Transcript
for Q1 of the Financial Year 2023**



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Analysts/Investors Conference Transcript for Q1 of the Financial Year 2023 of Ali Alghanim Sons Automotive Company hold on Tuesday 16/05/2023.

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. Hatem Alaa

EFG Hermes



Hatem Alaa Hello, everyone. This is Hatem Alaa, from EFG Hermes, and welcome to Ali Alghanim Sons Automotive Company first quarter '23 results call. I'm pleased to have on the call today from the company, Yousef Al-Qatami, CEO, Chavijit Bawa, CFO, and Yousef Mustafa, Managing Director. We'll start by a presentation from management and then we'll open the floor for Q&A. As an initial reminder, to ask a question you can either type it in the Q&A chat box or you can click on the Raise Hand button and I'll unmute your lines. Gentlemen, please go ahead.

Yousef Mustafa Thank you, Hatem. Thank you, everyone. Thanks for attending. Welcome. I'll take you through a quick presentation on the company and the results. I'll start with first that there is no change in the board of directors as presented last time. We do have two independent board members and no names have changed within the board. In terms of the company overview, performance. In Q1 we came in with a very strong performance of close to KWD 63 million in revenue, around USD 192 million, and our net profit grew to KWD 6.5 million, approximately USD 20 million. In terms of the composition of the revenue, there were some changes positively impacted by the overgrowth in the passenger cars.

The passenger cars overgrew the growth in aftersales. You can see that the composition, in terms of percentage and revenue, has changed. Basically, in the automotive business the passenger car sales comes in first and then, after that, naturally within a few months or a year the growth in aftersales start catching up to the same percentage approximately of the new cars sales. Having said so, I need to say that aftersales did grow in comparison to Q1 2022. However, due to the fantastic growth we had in passenger car sales, you see the percentage here dropping to 11% but overall it did grow.

In terms of the accomplishments that we did, during the quarter we managed to sign a dealership contract for the Geely brand, for the Egyptian market, through one of our subsidiaries. That's big news and another growth and basically that expansion that we've shown in Egypt on top of BMW and MINI Egypt. We also managed to maintain our order book of 2,700 confirmed bookings with sizeable downpayments for our luxury cars. In Kuwait, we also managed to have exceptional growth in our affordable, luxury and ultra luxury car segments, firing on every cylinder, as they say, in both affordable and luxury. And we got awarded Retailer of the Year for the Middle East and Africa Region with McLaren.

Basically, the financial overview based on our performance, in Q1 we managed to have a fantastic growth in revenue of 58% in comparison to the same quarter of last year and the net profit grew to 55%. In terms of profit attributed to equity holders, the growth came in very strong at 47% in comparison to the same quarter last year and earnings per share attributed to equity holders at 49% in comparison to the year before, very strong performance on revenue and profit. In terms of the balance sheet, super healthy balance sheet. As you can see, there is a slight increase in the property, plant and equipment. We have a new storage location. We have very strong current assets increase and that's actually for a very positive thing, which is we increased cash and deposits with the downpayments of the cars. The equity drop is due to a very strong dividend declared during the period and our current liabilities increased for the declared dividends during the period.

In terms of our cash flow statement, as you can see, the growth on the cash in operating activities is very strong, coming in at KWD 9.643 million. It's due to the increase in profits, with the positive performance of the new cars and aftersales and in the companies that we manage within the Ali Al-Ghanim Sons holding company. In terms of the ratios, as you can see our ratios are all doing extremely well. One thing that I need to focus on is if you can look at the return on assets and the return on equity trailing 12 months, you will see that the performance is getting better and better. To start with it was a very strong performance and now it's even getting better and better.



To try to basically bring everything together, we had a strong performance and we are ahead of our forecast. If we want to compare our current performance with regards to the forecast in the offering memorandum that we had, we actually achieved in 2022 almost the entire year that we forecasted for 2024. In the first quarter of 2023, we are almost at 32-33% of the entire 2024 forecast in just one quarter. We also minimised our exposure to any increased interest rates as debt net of cash is positive, so we're immune to the increase in interest rates to a certain extent in the environment that we're facing currently and we have managed to secure outstanding financial results which surpassed the growth forecast in the offering memorandum, and we are beating most of the market players when it comes to our performance. That was a quick brief on our performance. Please, do ask us any questions, if you have any.

Hatem Alaa Thank you very much. To ask a question, you can either type it in the Q&A chat box or you can click on the Raise Hand button and I'll unmute your lines. Again, to ask a question, you can either type it in the Q&A chatbox or you can click on the Raise Hand button. We'll take the first question from the line of Belal Sabbah. Your line is open.

Belal Sabbah Thank you. I was wondering if you could give us more feedback on the distribution agreement that you signed for Geely in Egypt. How does this work? Is this going to be an exclusive distribution agreement and what is your percentage ownership with the subsidiary there? Thank you.

Yousef Al-Qatami There are, generally speaking now, worldwide there are no exclusive dealerships given to anyone in any country. So, the world exclusive is out of the question. Even though you might operate solely in a country, exclusivity is not there anymore in any contracts for any brand. So, the answer is no, it's not exclusive.

Yousef Mustafa With regards to the second part of your question which is the percentage of ownership in the Geely brand in Egypt?

Yousef Al-Qatami In regards to that question, the ownership is through a company and through that company, which we own half of, they own 50% of that. So, therefore, the effective ownership of Geely brand is 25%.

Belal Sabbah Thank you. I was just wondering on your outlook for Geely sales in Kuwait. You had the benefit of having zero market share there and then there was a fantastic increase in your market share. I'm just wondering on the growth rate going forward. Any guidance you can share?

Yousef Al-Qatami The brand is still growing in a solid way, Alhamdulillah. We still have double-digit growth even for Q1 versus Q1 of last year. So, it's going in the right direction so far and we do expect this growth for this year to continue, In sha'Allah.

Belal Sabbah Thank you so much.

Hatem Alaa Again, as a reminder, to ask a question you can either type it in the Q&A chat box or you can click on the Raise Hand button. We have a question in the chat from Nitin. Your distribution costs have slightly...

Yousef Mustafa Sorry, I think we lost you, Hatem. We couldn't hear the question.

Hatem Alaa Sorry, you can hear me now?

Yousef Mustafa Yes, I can.

Hatem Alaa Your distribution cost has gone up to 7.6% of revenue compared to 6%. Anything worth mentioning here?



Yousef Mustafa No, there isn't. The whole idea that basically whenever you end up with more cars to sell you start basically having more campaigns, for example, in the affordable sector. We started marketing activities, basically intensified a little bit in comparison to before. So, there isn't anything of magnitude that impacted the overall cost of retail, for us to do the business. Our margins are still super healthy. Our pricing power is there and that's reflected in the growth in profit. So, there isn't anything of magnitude beside normal business.

Hatem Alaa A question from Ahmed Saleh. Could you shed some light on your Egyptian operations other than the new Geely brand?

Yousef Al-Qatami I guess that means it is BMW. BMW, we've started sales in November/December of last year and we had an even better quarter so far in Egypt. So, things are moving in the right direction there and hopefully by the end of the year we'll have Egypt fully up and running. We already have the showrooms and the aftersales facilities that we already bought and invested in the past. They're all up and running and are profitable basically. So, going forward, In sha'Allah, we'll see very good things from Egypt. One thing I'd like to mention is that the currency situation right now is not as we want it to be. However, we're in a good position because we have invested recently and a lot of our money is in dollars. So, it actually might be to our benefit.

Hatem Alaa Thank you. A question from Mohamad Al-Talib, from Ajeej. Very strong numbers, congratulations. Some brands, such as Tesla, are seeing price cuts indicating a weak global consumer. Also, some manufacturing indicators are showing future weakness. Do you expect to see your allocations from brands increase even more since they're seeing low demand in other countries? And what are you hearing from the brands lately?

Yousef Al-Qatami First of all, I don't think Tesla applies to us. Tesla don't even sell in our market. They are mostly based in the US, so it's a completely different market. That's in terms of Tesla. In terms of our brands, Alhamdulillah, we've been getting better allocation, so we're getting there. I think it will take us this year and next year to get completely back to normal. However, right now, we're getting better allocations and that's why we're getting the better profit and margins out of them. Now, if people want to say that because of more volume the margins might be at risk, I think we already proved that the margins have been maintained with the increase of allocation and that basically shows you how strong the market is and the demand that's in the market right now.

Yousef Mustafa And, on top of that, we have managed to maintain our order bank at similar numbers, at around 2,700 cars we're standing right now, as of end of quarter one in our order bank. So, even with the increased allocation from the manufacturers our order bank managed to be maintained. We don't really see risk in losing any pricing power at all. We still have the order bank there and, to be honest, this question, rightfully so, has been asked before last year. Since we started the earnings calls this question has been asked, as I've mentioned, rightfully so, but we have managed to always maintain our order bank high.

I need to emphasise something very important, which is we have a unique selling and value proposition to our customers. I'm talking specifically about Kuwait on the luxury side, where we have the upper hand absolutely when it comes to service centres and the proximity to customers with our remote service stations that we have. Nobody else can match whatsoever what we have offered in the market from our side. We've close to 15 service centres. The closest after us is a competitor and they have around three service centres only. So, customers do want to buy cars, not only because of the brand, it's also because of what we give them in terms of value when they're buying services from us.



Hatem Alaa Thank you. Again, as reminder, to ask a question you can type it in the chat or click on the Raise Hand button. We have a question from Nour Saad. I'm particularly interested in the strong revenue increase in the first quarter of '23 due to passenger cars. Any speculation or guidance on the growth throughout the year? Do you expect this growth in Q1 to continue?

Yousef Al-Qatami As we said, the allocation forecast is getting better, so we're seeing better vehicles. I want people to know that we are sold out. We are currently sold out, so the more cars we get the more profit we make. Therefore, if allocations are improving, I think that answers your question.

Hatem Alaa Thank you. Again, as a reminder, to ask a question you can either type it in the chat or click on the Raise Hand button. A question from Fatema Al Doseri. What's the current wait period for the Range Rover versus the end of last year?

Yousef Al-Qatami Almost the same. It's about two years.

Hatem Alaa Thank you. Again, as a reminder, to ask a question you can type it in the chat or click on the Raise Hand button. A question, follow-up from Mohamad Al-Talib, from Ajeej. A hypothetical question. When things fully ramp up in Egypt, what is the possible run rate of cars you could sell there?

Yousef Mustafa Hypothetically, the market size is quite sizeable. On luxury, I can tell you the history of BMW, which is known knowledge, BMW managed to reach to 6,000 cars before and not in the so distant past. So, BMW did 6,000 cars before. In terms of our affordable segment, on the Geely brand, if you look at historical brands that have strong presence with okay network in terms of capex investment, some of these brands manage to get to 20,000 cars a year. So, as a run rate, hypothetically, based on history the potential can reach to, between luxury and affordable, to 26,000.

Hatem Alaa Thank you. A question from Akber. Has the availability of Rolls-Royce improved in line with other brands in 2023? And what is the wait time now?

Yousef Mustafa The wait time is almost similar but it's not because the availability from the manufacturer basically stayed as is. Actually, the wait time with us is similar to before although the allocation has improved from the manufacturer. We've got more demand on our Rolls-Royce vehicles but the supply is improving. But the wait is still within the year and a half approximately on a, for example, Rolls-Royce Cullinan.

Hatem Alaa Another follow-up from Mohamad, from Ajeej. He's asking for a clarification that you don't see that the bottleneck will be the logistics but supply.

Yousef Mustafa Sorry, I didn't understand. You're asking if the bottleneck is logistics or supply? I didn't understand it.

Hatem Alaa No. He's asking the bottleneck will not be logistics, but supply.

Yousef Mustafa Yes.

Yousef Al-Qatami Yes.

Hatem Alaa Thank you. Again, as a final reminder, to ask a question you can ask in the Q&A chat or click on the Raise Hand button. Just a question from my end, are there any significant new model launches slated for this year that could be good sales drivers, particular for BMW and Range Rover?



Yousef Mustafa Yes, actually, there are very good launches coming in. I'll answer per brand. We have on BMW the totally new 5 Series coming in the second half of the year. We have the basically new X5 and X6 coming in late in quarter two, early quarter three. These are volume cars, all of them, the three. XM was launched already this year. We received it in February and the volumes are ramping up. On Land Rover, we have three new add-ons. We have the facelift Velar and facelift Evoque. These are major volume players within the model line-up that we have. And we have the Defender 130 for ramp-up with engine derivatives launched also. On niche but very profitable launches with Land Rover, we're going to have the new Range Rover SVR and this is, although niche, but you're looking at a very profitable car coming in with okay volume for the Range Rover Sport SVR.

On Rolls-Royce we have the Spectre, the fully-electric Rolls-Royce coming towards the end of the year, also fully sold out. And on Geely, we have already received this month the facelift of the new Coolray doing really well and we're going to have the replacement of a model called Azkarra, which is one of the biggest cars they have, coming in within the coming two months, arriving to Kuwait. So, launches in terms of cars, both affordable and luxury. It's going to be a busy calendar year for us with new cars coming in.

Hatem Alaa Great. Thank you very much. There are no further questions at this point.

Yousef Mustafa Thank you. Thank you, so much. If anybody wants to ask any question, I think our contacts are with everyone. Shoot us an email and we'll be more than happy to answer.

Hatem Alaa Thank you very much. Thank you to the Alghanim management and thank you, everyone, for participating. Have a good day. This concludes today's call. Thank you.

Chavijit Bawa Thank you.