A’ayan Leasing & Investment Company (K.S.C.P)

Analyst Conference Transcript – 9M 2024

14th November 2024

Edited transcript of A’ayan Leasing & Investment Company (K.S.C.P) earnings conference call that took place on Thursday, 14th November 2024 at 12:45pm Kuwait time.

Speakers from A’ayan Executive Management:

- Mr Abdullah Mohammed Al-Shatti, Chief Executive Officer
- Mr Seyed Abu Thahir, Assistant CEO - Finance and Financial Planning
- Mr Abdullah Abu Hadedah, Assistant CEO - Investment and Corporate Finance

Chairperson:

- Mr. Ahmed El Shazly, EFG-HERMES

Ahmed El-Shazly
EFG Hermes

Good afternoon, everyone and welcome to A'ayan Leasing and Investment's Q3 2024 results conference call. This is Ahmed El-Shazly from EFG Hermes. It's a pleasure to have with us on the call today from A'ayan's management, Mr Abdullah Mohammed Al-Shatti, CEO, Mr Seyed Abu Thahir, Assistant CEO - Finance and Financial Planning, and Mr Abdullah Abu Hadedah, Assistant CEO - Investment and Corporate Finance.

I now hand over the call to Mr Abdullah Abu Hadedah to start with the presentation.

Thank you.

Abdullah Abu Hadedah
A'ayan

Thank you, Ahmed.

May Peace be upon you with God's mercy and blessings

Good afternoon, everyone. Thank you for joining us today to cover A'ayan Leasing and Investment Company's Q3 2024 financial results.

In today's presentation, our CEO Mr. Abdullah Al-Shatti will shed some light on the company's most recent developments and financial highlights. Afterwards, Mr. Seyed Abu Thahir, our Assistant CEO – Finance and Financial Planning will take you through the details of our financial results. This shall be followed by a Q&A session.

Please note that we can only comment on questions and information that has been publicly disclosed. In addition, the presentation will be available on our website.

Before we begin, I would like to draw your attention to the disclaimer on slide three. Please take note regarding the forward-looking statements and the confidentiality of the information presented.

On the next slides, we present our board of directors and our executive management team, along with the company's overview.

Now, I would like to hand over the presentation to my colleague, Mr. Abdullah Al-Shatti.

Abdullah Al-Shatti
A'ayan

May Peace be upon you with God's mercy and blessings

I am pleased to welcome you to this conference. It is an honor to share with you the latest developments and provide a summary of the financial highlights for the nine-months period ending September 30, 2024.

As shown in the key financial metrics table, total income and net profit attributable to equity shareholders of A'ayan have reached KD 17 million and KD 9 million, respectively for the nine-months period, with earnings per share of 13.76 Fils.

The major financial highlights during the current period are:

- Increase in sales revenue of both operating lease & used cars sales, although there is a reduction in the profit margins of used cars sales
- Relative fall in the equity portfolio performance during the current period, as compared to previous period
- The recurring and operational share of results from associates has increased during the current period. However, the overall decline in the share of results from associates is primarily due to the reversal of provisions recorded by the associates in the corresponding period last year

On the financial position,

- A'ayan Group's total assets have increased to KD 165 million as of 30th September 2024, reflecting a 7% growth level
- On the other hand, total liabilities increased to KD 52 million during the same period, representing a 14% rise
- The increase in total assets and liabilities is primarily attributed to the growth in right-of-use assets and corresponding liabilities which we actually mentioned in the previous quarter, resulting from the extension of leasehold rights in a real estate project in the Jahra area.
- Equity attributable to the equity holders of A'ayan has reached KD 101 million, reflecting a 5% increase. This growth is net of the cash dividends distributed to shareholders.

During the current period, the Group has paid its first two instalments totaled KD 2 million out of its KD 10 million drawn facility. The remaining KD 10 million facility is not utilized yet.

For the second consecutive year, Aayan has distributed cash dividends of 7.5 Fils per share for the year 2023.

We are keen and constantly exploring and evaluating various opportunities across different industries, targeting to rebuild and further strengthen our business sectors.

This is briefly A’ayan’s performance and its financial position for the nine months.

Now, Mr. Seyed Abu Thahir will continue the presentation on the financial results and financial position of A’ayan.

Seyed Abu Thahir
A’ayan

Thank you, Mr. Abdullah. May Peace be upon you with God's mercy and blessings Good afternoon, everyone.

I would like to extend a warm welcome to all of you joining us for the analyst conference call on A'ayan's earnings for the first nine months of 2024. During this session, we present an overview of A'ayan's performance and financial position. Please note that the reviewed consolidated financial statements are available on both A'ayan’s website and the Boursa Kuwait portal.

In the performance snapshot for Q3-2024, net profit attributable to A’ayan’s equity shareholders for three months period reached KD 2.7 million, with earnings per share of 4.05 Fils. The decrease in net profit for Q3-2024 is primarily attributed to the gain on the sale of real estate recorded in Q3-2023, as well as a reduction in the changes in the fair value of financial assets at fair value through profit or loss.

In the segmental total income analysis for the current nine-month period, the leasing sector contributed 61%, while the remaining portion came from both the investment and real estate sectors.

On the next slide, you will find a detailed view of the consolidated income statement.

In the snapshot of financial position, I would like to highlight that the book value per share has increased by around 8 Fils since September 2023, after the distribution of 7.5 Fils in cash dividends. This represents a 5% growth rate.

On the next slide, you will find a detailed view of the consolidated statement of financial position.

The next slide outlines the entire equity movements from 31st December 2022 until 30th September 2024.

Referring to the consolidated statement of cash flows, dividend payments to shareholders, principal repayments of Islamic financing payable & its finance costs, purchase of investment properties, expansion in operating lease fleet are the major reasons for overall net cash outflows during the current period.

On the Key Financial Ratios, it is clear that profitability ratios, current and leverage ratios remain steady and healthy during the period.

The next slide shows the quarterly trend in various key figures.

With these highlights, we now open the floor for a Q&A session. Thank you.

Ahmed El-Shazly
EFG Hermes

Thank you, gentlemen, for the presentation. We will now open the floor for questions. So, if you'd like to ask a question, you can send it through the Q&A box on your screen. I think we've already got a question to start with.

The first question is, can you please comment on the outlook on the car leasing business in 2025 and 2026, given the interest rate outlook and the increased sales of Chinese cars.

Abdullah Al-Shatti
A'ayan

Thank you for the question. We believe the growth in the operating business is there, and we are looking to sustain a good level of growth on the operating business side, both in Chinese and other brands in the market. The interest rate decrease is not something that affects us significantly in the operating business. However, it should improve the margins in general for us, since we have, sometimes we use leverage to finance our operation. So, this reduction in the interest rate will be beneficial for us, reducing the overall cost.

Ahmed El-Shazly
EFG Hermes

Thank you, the next question, what is the current fleet size and what's the expected fleet size in 2025 and 2026?

Abdullah Al-Shatti
A'ayan

The current fleet size is around 9,000 cars. You need to keep in mind that post-COVID, we have significantly increased our fleet size from 7,000 cars to 9,000 as per our approved plan. So, with this substantial expansion of that big size, we are now in the phase of in-depth focus and stabilizing and smoothening all our operation and services, from end to end. At the same time, we are very keen now on gradually growing our fleet, which can enhance the net results of leasing before going for another bigger step, or a similar jump for a further significant expansion in the fleet.

Ahmed El-Shazly
EFG Hermes

Can you update on Tawazun? How should we think about upstreaming of dividends from Tawazun?

Abdullah Al-Shatti
A'ayan

So basically, there are two elements in Tawazun, in terms of cash. There is cash redemption from the capital redemption whenever there is a major cash available in Tawazun. Then they will reduce the capital of Tawazun and distribute the cash. Secondly, there is the cash coming from the return in the form of dividend.

We are following up with Tawazun and looking forward to potentially receive some cash next year, since there is an announcement from Aayan Real Estate that they are willing to buy Tawazun's stake in the Yaal Mall with certain terms over certain period, so the cash available from the sale of the building will be distributed in the form of capital redemption in Tawazun over the coming years. Of course, this is subject to approvals from related parties in terms of all the stakeholders.

Ahmed El-Shazly
EFG Hermes

Ok, thank you, the next question is, what's the dividend policy for Aayan and is it linked to the payout ratio?

Abdullah Al-Shatti
A'ayan

Well, first of all, as we mentioned, we need to understand that this is the second year for the company to distribute cash dividends from the very solid cash flow position and the growing profitability. It's very important for us to sustain the level of cash flow in the short to long run, along with the healthier financial position.

In order for the business to grow further, we want to maintain solid and sustainable cash flow with the objective of building the direct investment sector, and as we target to optimize both the operational return and cash dividend for the long run. So basically, we want to sustain and gradually grow with a good level of cash flow to benefit both the shareholders and the company in the long run.

Ahmed El-Shazly
EFG Hermes

Can you comment on the strategy relating to investments going forward?

Abdullah Al-Shatti
A'ayan

Well, we are hunting for opportunities in Kuwait and abroad. We have looked at many opportunities in Kuwait, for example, in the education and health sector. Also, we are looking at the services sector as well. We are still in negotiation with many potential new opportunities, and nothing has been reached to advances level at the moment. This is on the sectors we are looking for.

Also, we are looking for a specific opportunity in the real estate sector abroad. If there is a unique opportunity due to the market condition, there is a good opportunity in the real estate also. Right now, we are in discussion with certain parties to invest, for example, in the UK and in the US as well. However, this should be in a very attractive yield similar to our budgeted targets

Ahmed El-Shazly
EFG Hermes

Can you provide any guidance on growth and assets and net profit for the coming two years?

Abdullah Al-Shatti
A'ayan

Well, our mandate is to grow in all sectors, especially to regain the asset level of both investment and real estate that was affected by the debt settlements. So also, our objective is to enhance the return of each of the assets we have on hand, and convert underperforming assets into better performing ones, to invest into assets at a better operational yield from its recurring operation and consistent cash flow to enhance the overall performance of the company, to further enhance the equity value of A'ayan's shareholders. Although we have a strategy that maps us in the right direction and understanding various activities, there are no specific numbers at this point to indicate our growth level for the next three to five years.

So, I would say that we have been growing during the last two years, both on operational lease and direct investments, and we aim to further expand the direct investment. This is our immediate next plan and implementation in our strategy.

Ahmed El-Shazly
EFG Hermes

Have you heard anything on the implementation of VAT, corporate tax in Kuwait?

Abdullah Al-Shatti
A'ayan

What I hear is what everyone in the market is hearing, and we have been monitoring the market, and we will be ready once things are clear for every company

Ahmed El-Shazly
EFG Hermes

Ok thank you, we can pause for just a moment to make sure that we have no further questions

I believe we have no further questions. I would like to thank everyone for joining and I would like to thank management for taking the time for us today.

Thank you, everyone, and have a good day

Abdullah Al-Shatti
A'ayan

Thank you very much

Ahmed El-Shazly
EFG Hermes

This concludes this call, thank you for joining. You may now disconnect your line.