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

# Analysts/ Investors Conference Transcript for the Financial Year Ended 2022

Analysts/Investors Conference Transcript

For the Financial Year Ended 2022

Ali Alghanim Sons Automotive Company

Analysts/Investors Conference Transcript for the Financial Year Ended 2022 of Ali Alghanim Sons Automotive Company held on Wednesday 01/03/2023.

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. Ahmed Moataz

EFG Hermes

**Ahmed Moataz** Hello, everyone. This is Ahmed Moataz from EFG Hermes. Welcome to Ali Alghanim & Sons Automotive 2022 results conference call. I'm pleased to be joined by Yousef Al-Qatami, CEO, Chavijit, the CFO, and Yousef Mustafa, the Managing Director. And 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 Al-Qatami** This is Yousef Al-Qatami. I'd like to welcome everyone to our first yearly results. We will take you through our presentation, that will cover our board, company overview and accomplishments, and then the financial overview. To start off on the board, already, in Q3, we have established our committees. So, the board was done in Q3, and we have three committees, one is the audit, one is the risk, and one is the remuneration committee. Two, of which, are headed by our independent directors, so this has been set up as an update on the board. For our accomplishments for the yearly financials, we had revenue of around KD 188 million, and net profit for the company of KD 19.3 million and for the Q4 results, we had revenue of KD 50.2 million, and a net profit of KD 5.3 million. Obviously, we've had a very good Q4.

In terms of the breakdown of the business, around 71% comes from passenger cars. This is up from 68% in 21. The mix in cars obviously contributed to that. And that was obvious in the after sales and certified revenue contribution, which came in at around 13% and 6%. MAN trucks and heavy equipment, around the 4%, which is around the same, rental and leasing, due to lack of cars, went down to 1%, synergetic lines, 2%, and technology Initiatives at 1%. In terms of accomplishment, these were the major accomplishments we did. This is the Jahra area, which is around the northwest of Kuwait, and we now have presence with BMW and Geely as 3S facilities, which we opened at the end of last year. We also increased our remote service stations from 12 in 21 to 15 across Kuwait.

We also managed to maintain our order book of 3,000 plus bookings. Obviously, these bookings come with down payments, ranging from KD 1,000 to KD 5,000, but mostly with KD 5,000. So, therefore, they're solid bookings. Also, there was exceptional growth of around 50% in the affordable segment, in terms of volume. For our financial overview, for the Q4 results, and year-to-date, we went up around 25% in Q4 22 versus 21, and around 11% for the year 22 versus 21. In terms of net profit, we increased 89% in Q4 and 32% for the year-to-date. For the profit attributable to shareholders, it's around the same, 89% and 27% for the year. In terms of earnings per share, it comes in line with less treasury shares, basically, which is 91% and 28%. In terms of income statement, we grew our revenue by 11.3%, and we maintain a healthy gross profit of 22.6%.

This has been mainly because of the vehicle margin and luxury brands, and the increase in affordable brand sales. The increase in margin and luxury brands, I would like to highlight that we did not actually increase margins. It's just the product mix, because of the high volume of Range Rovers and Range Rover Sport that came in. This is what gave us the higher margin, but we did not increase prices per se. In terms of other income, there was a miscellaneous income in 21, and that's why there was a slight decrease. Share of results is coming, because of our Global Auto, which is our Egypt part of the company, and as it turns to share of results, these are now coming through. However I'd like to highlight that at the end of 22, we started sales, so this should be positive, inshallah, going forward in the year 2023. Expenses are within line with revenue. Net profit went up by around 32%, and earnings per share at around 28%.

In terms of Q4, it's within line, but we had a stronger Q4 than we had in 21, where we increased our sales by around 25%, and this gave us a healthy gross profit of around 28%. In terms of net profit, it went up by 88%, and earnings per share for that quarter went up 91%. In terms of balance sheet, at the end of each year, now, since we are a listed company, we have to revalue our lands. And because we were conservative with these values, the revaluation came in, and there was an increase on that part. For the non-current assets, because the investment in the associate went up, being Egypt, our current assets went up, due to the increase in inventory. So, that is a positive sign.

And also, we had an increase of 24% in our equity, mainly coming through from current year profits and land revaluations. Our non-current liabilities decreased, because of settlement of loans. And we have current liabilities increasing, also positively, because we have more trade payables, meaning more -inventory is coming in, which will increase our sales, and obviously, from the customer advances we keep getting on our car reservations. For the cash flow statement, we had a very healthy net cash flow from operating activities of around 31 million, mainly coming from the operation. For the net cash from investing, Capex was within line, normal year to year, but we also had the investment in the associate in Egypt and treasury shares of around KD 13 million.

In terms of financing activities, we obviously went up, because of a good thing, which is we paid dividends to our shareholders, and we had some loan settlements. In terms of the ratios, our ratios went down, in terms of liquidity. But that is a good thing, because we're repaying our loans, so therefore, we're using the cash. And for the quick ratios, also, it's going down, because of deposits from customers. So, our current liabilities are going up because of that, but that's also a positive sign. Profitability ratios, obviously both, we beat 21, in terms of gross profit margin and net profit margin. Performance ratios also went up in ROE and ROA. We're coming in ROA at 11.46% and ROE at 26.81%.

In terms of solvency ratios, obviously, this is now becoming more and more irrelevant, because of the good cash situation that the company is in, and net cash with the bank loan settlement is almost zero. So, we're going down in these ratios, which is also a good thing. I hope that covers the Q4 year end results. And the floor is open to any questions that you might have.

**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. Both options are on the right hand side of your screen. We'll take our first questions from the line of Nitin Garg from SICO. Please go ahead.

**Nitin Garg** Hi, this is Nitin from SICO. Thank you for the presentation and congratulations for a good set of results. So, the first question is your revenue growth was 12% for the full year 2022 versus 21. So, if you could share how much of this is driven by price and how much of it is driven by volumes. The 12% mix is how much in price and volume? And if you can provide any outlook on volumes, how volumes changed in 22, and any outlook on 23, how should we think about the volumes in 23? And how's the waiting period of vehicles? From what we know, the markets are very tight in 21 and 22, so has the waiting period reduced or it is still the same, the way it was? Thank you.

**Yousef Al-Qatami** Good questions. I'd like to highlight that part of the revenue is not only the volume. The volume is part of it, but as things are easing up, we're getting more cars, so that's part of it. But also, you always have to consider the mix of cars. So, the mix of cars towards the second half of the year was better, in terms of Range Rover and Range Rover Sport. Obviously, these are high ticket items, and a car that is sold for Range Rover will give you a higher contribution to the revenue. So, it's a bit of both. There is an easing up of volume, but there's also the mix being different, since we're getting the new Range Rover and the Range Rover Sport. What was your second part of the question?

**Nitin Garg** The outlook on volumes in 23.

**Yousef Al-Qatami** 23, yes. So, for that, we are seeing an easing of the allocation. Not fully. We're not fully back to normal. However, it is getting better, and this is shown in the results in 22 versus 21. We are expecting it to get even better in 23, inshallah. But we do have, let's say, initial plans with the franchises that are definitely looking better, in terms of volume. But obviously, they have to come through, and if we don't see any more corona stuff or chip issues, we should be fine and better than this year, in terms of allocation.

**Nitin Garg** Is it possible to share the numbers as in volumes, terms of segment, then we know how many vehicles were sold in 22 versus 21.

**Yousef Al-Qatami** I'm sorry, this is not public information, so it's not something we can share.

**Nitin Garg** Okay. Another question, the after sale segment, which is servicing, it used to be 14% during the IPO. I think now it is 13%. So, during IPO, the gross margins in this segment were 50% plus, roughly, 54%. It was a high margin segment. So, are the margin still the same, or have they gone down or gone up from 54%?

**Yousef Al-Qatami** Margins are still there. I'd like to highlight that there was no decrease in after sales, but because it's a percentage of revenue, the new cars went up. So, it's not really a decrease in after sales, let's say, revenue. It's more of an increase in vehicle sales.

**Nitin Garg** And the margins are in the same range, 54% gross margin?

**Yousef Al-Qatami** Yes. The margins are the same.

**Nitin Garg** Thank you.

**Ahmed Moataz** Thank you. We'll take some questions from the line. Mohamad Al-Talib is asking what is the number of bookings currently.

**Yousef Mustafa** The bookings currently is standing at above 3,000 cars, although we had an ease in the supply of cars, so we managed to, as you can see, sell more cars from the ratios and numbers that we gave you. But the healthy demand in the market is keeping our order book above the 3,000, although we're supplying more cars. So, we're looking at north of 3,200 cars, as we speak. Of course, this number changes daily, so this is as per the last time we looked at it. But it's very healthy. The more cars we get, we're met with an even increased demand.

**Ahmed Moataz** Thank you. Mohamad Al-Talib has another question. Shipping prices have gone down substantially, plus, China has reopened some factories of their luxury segment. Do you expect to fulfil your backlog quickly throughout the next 12 months?

**Yousef Mustafa** The opening of the China factory does not impact the region, in general, not only Kuwait, as there are no cars coming from China for the luxury side of our business. For the affordable side, the affordable, basically, cars business that we have Chinese. As Yousef Al-Qatami mentioned, our growth of close to 50%, year-on-year, between 21 and 22 is already a sign of that opening up in China. In terms of the shipping costs, the shipping costs, basically, takes a bit of time until it's fully realised in the market, as these contracts are usually set yearly by the manufacturers.

And why they have done that, if you remember last year, it was really hard for you to find any spot on a ship to get cars into market. So, most manufacturers lock down their shipping capacity with the shippers for at least a year. As you can see, it's not impacting us in terms of our gross margin at all. We're still very healthy, our profits are growing regardless of the change that is going to even impact us positively further when we get the full tailwind of the shipping cost reduction.

**Ahmed Moataz** Thank you. Another reminder to everyone, if you wish to ask questions, please, you can send them through the Q and A system or you can use the raise hand function. At this moment, we don't have further questions.

**Nitin Garg** Yes, can I ask one more question?

**Ahmed Moataz** Good, go on, Nathan.

**Nitin Garg** So going again back to the after sales segment. So what our understanding was, this is a high margin segment, 50% plus. We expected that eventually the margins will decline in the segment because as you go into affordable segments, the value part. Over there the maintenance cost is less, unlike Jaguar or BMW, you know they are expensive to maintain these cars compared to Chinese. But as you said, the margins have not declined, it's still 54, 55%. So I will probably think about that.

**Yousef Al-Qatami** It's true, that the affordable segment is lower. But in terms of margin increase, still maintain the same margin. So as an example, if we charge for an hour at BMW, KWD30, we'll charge KWD10 in the more affordable segment. However, the margin becomes smaller, but the percentage will be the same.

**Nitin Garg** Okay. One last question. During the last interaction, so because we are told I mean, think with the models which can fall from the market, whether lifecycle is over and, the new model is coming. So it was told that X5 and X6 will go up in 23, and 5 Series will go up in 24. But it will be compensated by X3 and X4 facelift, and 7 Series Plus. Is that still the same, or is there any change in this?

**Yousef Mustafa** Yes, it is still the same. The X5 and the X6 were announced anyway almost towards the end of last year. So during quarter four we already had the announcement from BMW going public that the new X5 and X6 is coming. And you can see the results in quarter four. Really strong sales. So as you have mentioned, the new models that came and all the facelifted cars that arrived more than covered for the cyclicality of the change of the X5 and the X6. And with regards to the, for example, only on BMW, the 7 Series. Right now the 7 Series is sold out. Although we managed to secure more production from BMW than what was promised to us before.

we still have a good order bank. The 7 Series alone, because of the average ticket, you can almost say that each 7 Series sale is as if it's a two X5 units in terms of profit. So, we're seeing it working exactly as was forecasted before and even better.

**Nitin Garg** Just one last thing, any change in view compared to last year, now the interest rates are very high. So any change in buying behaviour in Kuwait pertaining to these vehicles? And if you compare to…

**Yousef Mustafa** Yes, I understand the question. Currently in terms of the impact on retail, because of the increase in interest rate. To be honest, the only answer I can give that is convincing is our order bank. Our order bank did not shrink. Although we have more cars. We maintained a very healthy order bank of over 3,000 cars with a down payment of almost $15,000 per order. So that is a sign already that it did not deter the buyers from… Because of the increase in interest rate.

Second thing is the fact that the percentage of the finance deals that we have, and from the total percentage of sales is around, at best, 25% anyway, to start with. From the beginning, before an increase in interest rate. And it's continuing to be almost the same. So there is no impact that we can see until now reflective, neither on the order bank nor on the total sales that we have on a monthly basis.

**Nitin Garg** Thank you very much.

**Ahmed Moataz** Thank you, I'll take a couple of questions from the chat. Are spare parts sourced from the original factories of origin? Or does the supply of spare parts increase or is due to the Chinas opening?

**Yousef Al-Qatami** Every part we get for our cars is from the original factory. In fact, by contract we cannot go out of that. So that is not a thing that we can even look into. So everything is original. All our sales are original parts.

**Yousef Mustafa** And they all come from the manufacturer direct. And even if it's sorted from a different supplier, basically the part is not manufactured by the manufacturer. The manufacturer's the one making sure, due to obviously the economy of scale to negotiate on behalf of all of the supply chain, basically, and get us the rates, and make sure that we have the parts. And currently we do not have back order on parts of any notable business impacting manner. It's very usual that you have a certain part that there's delay, but it's business as usual, there is no change, to be honest.

**Yousef Al-Qatami** I guess it shows the impact of shortages more on vehicles not on parts.

**Ahmed Moataz** Thank you. There are two questions. The first one if you can give us the growth rate, not the numbers, the growth rate for overall volumes for 2022. And then second is if you can give us the split between luxury and affordable cars as percentage of total.

**Yousef Al-Qatami** The growth rate in affordable was around 50%. The growth rate in luxury is around 5%. Now the growth in luxury is obviously… It's between flat and 5%. But that is all affected by what volume we get. So if we get more volume we'll have higher growth, obviously.

**Yousef Mustafa** There is growth in the luxury side on the revenue more than the growth in units. Obviously because of the model mix. So more 7 Series, more Range Rover, more Range Rover Sport, more Defender, more X4. And this is something that basically reflected extremely well on our revenue, which matches the demand that we have in the market. It's not a one off thing. The potential is that with easing happening you will see an increase in units, and a revenue, obviously, on the smaller side of the luxury cars that we have. You will have more 3 Series, more 2 Series. Which is something that we already can see that is improving. For example, with BMW, the smaller cars with the launch of the new X1, we're getting healthy orders, and we're getting healthy stock coming into the market.

**Ahmed Moataz** Thank you. Sara Abu-Almaati is asking, can you update us on your activities in Egypt and Iraq?

**Yousef Al-Qatami** In Iraq things are going as usual. We've had one of our best years. So things are going well there. In Egypt we started operation in December. So obviously the numbers will only come through in this year, inshallah. And we have started sales there. So things are looking much, much better than they used to. I guess the investment and waiting period was done until 21. And now we start to reap the benefits, inshallah, going forward.

**Ahmed Moataz** Thank you. Another question from Mohamad Al-Talib. Some core manufacturers are slightly decreasing their production guidance. Did you guys get the same guidance, or is the story different for you?

**Yousef Al-Qatami** No, it's different. It's different. We are better. We have higher guidance than we had last year.

**Ahmed Moataz** Thanks. I think Nitin has follow ups.

**Nitin Garg** Yes, hi, this is Nitin again. One more question on pricing. So, what we know from previous interactions that pricing is your discretion, so the manufacturer guides you, but ultimately it's you which sets the pricing, looking at the competition and supply and demand. So your margins have increased, the net margin for the full year is 10% compared to 8.8% last year. So going forward, how should we think about pricing? I mean inflation, production costs, so…

**Yousef Al-Qatami** I would like to highlight that although, yes, you're right, we do have pricing power and not the manufacturer. However, we are within the guidelines of the recommended prices. Sometimes even lower. So, we are, to answer your question in a different way, if your question is, are we overcharging? No, we're not overcharging.

**Nitin Garg** No, my question is, can this pricing go down with lower inflation or you think to keep this pricing?

**Yousef Al-Qatami** No, the pricing can only go up. Because as I told you, we are within either recommended price or lower than that. So our margin, and the manufacturer's usually don't set for you things where you make on the cars, like 25, and 30, and 40%. So, we are within line or lower than that. So if anything, there is room to actually go up and not down.

**Yousef Mustafa** It's actually something that, Nitin, you can yourself check. If you go to the Land Rover configurator, just an example, and you configure a Range Rover you will get a price. If you call and come and visit, you'll discover that our price for the same spec car will be either equal or below the configurator. And the configurator. And the configurator is not managed by us, it's managed by Jaguar Land Rover themselves. So that's why they call it recommended price, they cannot force the price, it's all recommended. But the recommended selling price is on or below.

On the other side, if your question is related to the fact that, can prices go down? From our side, we never had our prices discounted throughout the history of operating in the automotive sector because that will obviously impact the resell value of the thousands of cars that we sold, for example, on a higher price if we decided to lower the price.

Our strategy is, if there is any change related to the cost of the car we mitigate that by either increasing, or reducing, for example, the options of the car. But the invoice amount itself never changes. And usually our margins are very stable. They make some of the margins, it's basically reflecting on the net, as you say, that there is an increase. Because let's assume that you sell 1,000 cars of X and now you sell 1,000 cars of Y and the Y is more expensive than the X, obviously the overall value that you make on the same fixed cost that you have is higher. So you end up with a positive impact on your profit because of the model mix.

And this is something that we have been fixing, to be honest, and we're very happy about. Because it's not like we're trying to push models in the market that the market doesn't want. So we're selling cars that the market want, and all the bank is something that we're pleased, that we're happy to be able to maintain all the time.

**Nitin Garg** Okay. What is the waiting period for a Range Rover Sport?

**Yousef Mustafa** A Range Rover Sport waiting period, obviously I cannot exactly answer you on the waiting period, because it's also related to how much they will give more cars. But our estimate, just an estimate right now, and you're looking at a waiting period of almost two years. On a Range Rover. Range Rover Sport you can say almost a year and a half, Defender is close to that, about a year and a half. 7 Series can go to a year. But if you want a weighted average, it's let's say 1.3 years.

**Nithin Garg** Okay. Fine, thank you. Thank you.

**Ahmed Moataz** Final reminder please to everyone, currently we have no questions in the chat. If you have questions you can either send them through the Q and A, or you can use the raise hand function. We'll take questions from the line of Alonoud Al-Rasheed from Jadwa, please go ahead.

**Alonoud Al-Rasheed** Hello, Salaam-Alaikum, and congratulations on your impressive results. I was wondering whether you sell to other independent showrooms, and I was wondering whether pricing differs from selling to individuals, and if you could share that level?

**Yousef Mustafa** We don't sell to independent dealers in the markets that we operate in, and specifically in Kuwait we don't have the need to do that even, because of the geographical spread that we have. For you to reach any of our showrooms, whether it be affordable or the luxury cars, you're looking at worst 20 to 25 minutes' drive from the furthest inhabited place in Kuwait. So there is no need to have sub-dealers, basically.

**Alonoud Al-Rasheed** I see. And my second question is regarding dividends. Have you announced the dividend for this year, and what's your dividend policy?

**Yousef Al-Qatami** You ruined my closing statement. My closing was going to be that the board has met and we've announced a 34 fils half-year dividend for the second half of last year, and we also went on to say that we will give 58 fils as a promise for next year as a minimum. It's not what is going to be given, it's the minimum that we will give as guidance for next year, 58 fils for the year.

**Alonoud Al-Rasheed** I see, wonderful, thank you very much. I'm sorry.

**Yousef Al-Qatami** No problem.

**Ahmed Moataz** We have not received any further questions, so I'll pass it back to you for any concluding remarks.

**Yousef Al-Qatami** I think we already concluded, so thank you for that. Let's leave a couple of questions for when we see you in Dubai next week, inshallah, or maybe now need to see you, you've asked all your questions. So see most of you, inshallah, in a week's time in Dubai.

**Nitin Garg** Thank you, well done.

**Yousef Al-Qatami** Thank you, take care.

**Yousef Mustafa** Thank you, guys.

**Ahmed Moataz** Thank you very much for answering all questions patiently. Have a good rest of the day, everyone. This concludes the conference call.

**Yousef Al-Qatami** Thank you, bye-bye.