Integrated Holding Q1 2021 Earnings Call and Webcast

Thursday, 20 May 2021

Mohamad Haidar Hello, everyone, and welcome to the Integrated Holding Company first quarter 2021 earnings webcast and conference call.

This is Mohamad Haidar from Arqaam Capital Research and, as usual, we are joined today by Mr Joseph Fernandes, Group Financial Controller at Integrated Holding, and Mr Vinayak Prabhu, the Finance Manager at Integrated Holding. I'll hand over the call now to Mr Joseph. Please go ahead.

Joseph Fernandes Good afternoon and greetings to all the participants of analyst call for the first quarter of year 2021. Q1 2021 has recorded marginal improvements in the profitability of the Company by recording a net profit of KD126,000 after a net loss for the consecutive three previous quarters.

The performance of the Company for the first quarter once again was under the pressure of restrictions imposed to curb the spread of the virus. Again, a restriction on travel to bring back our employees stranded in their country and consequent shortages of the manpower, slowdown in the projects and delay in start of the new projects impacted the performance of Q1 2021.

New activity of the Port Operations in Kuwait is a new segment of business from year 2021.

A stock dividend of 15% has been approved by the shareholders at the Annual General Meeting held on 26 April 2021.

Let me move forward, giving highlights on financial performance.

Slide number 6 on revenue, the first quarter revenue of KD5.3 million is lower by 13.8% comparing with the previous year first quarter. The continuation of the restrictive measures to control the spread of the virus and lower utilisation of the equipment due to delay and slower execution of the projects are the main factors responsible for the drop in the revenue.

Moving on to slide number 7 on net profit, after the net loss for the previous consecutive three quarters, the Group registered a nominal net profit of KD126,000 in the first quarter 2021 versus KD1 million net profit in first quarter 2020. The impact of COVID-19 was insignificant during the first quarter of year 2020.

Decrease in consolidated operational costs was only 4% while the depreciation is higher by 5% and standalone operational costs outside Kuwait is up by 12%. As a result, a corresponding reduction in the operation cost commensurate with the lower revenue could not happen.

Moving on to slide number 8 on revenue contribution by geography, there is a noteworthy change in the revenue composition by geography. Kuwait operations' share in the total revenue has gone down. It is about 67% which was 81% in last year first quarter. The revenue from Kuwait operations was lower by 28% during the corresponding period. Revenues' share from outside Kuwait, that is from Qatar and Bahrain, is 33% versus 19% in Q1 2020. In terms of the value, revenue from outside Kuwait has shown an increase of 47% when compared with the revenue of previous year quarters. Revenue from Qatar operations alone increased by 17% comparing with Q1 2020 revenue.

Revenue contribution of each operational segment is presented in slide number 9. Port operations is the new segment reported in Q1 2021. Initially with a slow beginning, it has contributed KD237,000, around 5% of total revenue. Constraints on the manpower availability was the reason for not achieving higher volume of port operations business.

Equipment leasing revenue continues to contribute about 61% of the total revenue. It was 64% in 2020. Current quarter a decline of 8% in equipment leasing revenue with the corresponding period is noted. Revenue from heavy lift increased marginally by 3% while composition to the total revenue is almost flat. However, this contribution to the total revenue is much lower comparing with the historical figure, and this is one of the main reasons for the drop in the profitability of the Company. Oilfield services, which started in 2020, has shown good improvement in the revenue by contributing 4% of the total revenue.

Slide number 10 on the statement of financial position. Comparing with the financial position as at 31 December 2020, there is no noteworthy change in assets and liabilities as at 31 March 2021.

A few highlighting elements are. On property and equipment, KD1.2 million is the addition during first quarter 2021. Bank borrowings have been reduced by KD1 million. Debt-to-equity ratio is 0.37 versus 0.39 as at 31 December 2020.

Moving on, slide number 11 on statement of income, revenue and net profit have been discussed earlier. EBITA was down by 23% comparing with Q1 2020 figures due to the drop in the revenue. EBITA margin is 41% as compared to 37% in the financial year 2020. EPS is adjusted after taking into account the bonus shares approved by the shareholders in the AGM.

On slide number 13 on company highlights, about the capacity utilisation, revenue from cranes contribute 62% of the total revenue. Utilisation of the cranes is 41% versus 52% in Q1 2020, and it was 40% in the previous year. Utilisation percentage of other equipment are almost on a similar level as that of Q4 2020.

Slide number 14 on capital expenditure. Having spent significant amount of capex of KD18 million in 2020, current year capex will be lower. For the first quarter of 2021, capex incurred was KD1.21 million, mainly to cater the new projects in Qatar and this capex is based on the commitment made in the previous year.

That's all from my side and we welcome any questions and clarification required on this presentation. Thank you, all, for joining. Over to Mr Haidar.

Mohamad Haidar Thank you, Joseph. We have a question from Zoheb Burges. So, revenue from outside Kuwait was higher in Q1 2020 where profits were lower. What is the rationale behind this?

Joseph Fernandes Revenue from Kuwait for the year 2020 is still higher. It is in first quarter 2021, revenue from Kuwait has gone down, as we showed in slide number 8. The previous year first quarter, revenue from Kuwait alone was 81% whereas outside Kuwait was 19%. Last year Q 1, Qatar operations alone was there in outside Kuwait operations but current year Qatar as well as Bahrain operations is clubbed together. So, outside Kuwait revenue is still lower value wise. And profitability-wise it is on the same level of profitability and volume of business has improved. So, outside Kuwait profitability will increase because current quarter, when we established new activities, additional expenditure was required. Moving forward, it will be rationalised.

Mohamad Haidar Thank you, Joseph. We have a question from Nadine Mdeihli. What is the progress on projects from the LNG expansion in Qatar? Is there any progress?

Joseph Fernandes LNG expansion projects have been already awarded, but it is with the main contractor to start execution. As what we had disclosed in the Q4 2020 presentation, the award details of the project, which was awarded to Chiyoda Corporation and Technip, as well as Samsung C&T Corporation, these projects will move forward. But from the execution part, still we are not clear. Because of the current crisis, there will be some delay.

Mohamad Haidar Thank you, Joseph. Another question from Nadine. How much does the new segment, which is port operations, contribute to revenues in the future?

Joseph Fernandes As we move forward, when normalcy comes, we can target more from the port operations. It is very difficult to quantify at this moment. We have to get manpower stranded outside as well as new manpower because port operation requires a huge manpower. Only after that we can handle more volume of it. Now approximately 5% of the total revenue we can easily double up or triple up, but it depends on normalcy.

Mohamad Haidar Understood. Another question on utilisation rate. So, when do you expect crane utilisation to recover to 60%?

Joseph Fernandes In my opinion, year 2023 we hope to achieve more than 60%.

Mohamad Haidar Understood. What factors led to the increase in gross margin? A question from Zaheb.

Joseph Fernandes Improvement in the utilisation rate, increase in the revenue rate, these factors both will help to increase our gross margin substantially.

Mohamad Haidar Thank you. We currently have no questions. Operator, can you give a reminder, please?

Operator Of course. Ladies and gentlemen, if you would like to register a question, please use the chat box function provided. We have no further questions, so I'll hand back over to you, Mohamad.

Mohamad Haidar Thank you. We have a question from Zaheb, also a follow-up. So, utilisation is flat quarter on quarter. Then what led to gross margin increase?

Joseph Fernandes Gross margin depends on different category of the equipment where we work on. In certain cases, some projects generally gross margins are good. Those type of work we are taking up. One of the examples, in oilfield services, we have started last year, revenue improved and gross margins also have been improving.

Mohamad Haidar Thank you, Joseph. Let's wait a few minutes, if anyone else wants to ask. We have a question from Zaheb. Have rental rates stabilised for cranes and other equipment or are they are still falling?

Joseph Fernandes The rental rates are still lower. Only when normalcy comes back, then we hope activities will increase and the rates also will go up.

Mohamad Haidar Until we have a question, Joseph, I have a question from my side. So, when will the 15% stock dividend be implemented or executed?

Joseph Fernandes In June 2021 it will be vested with the shareholders.

Mohamad Haidar Understood, thank you. We have a follow-up question from Zaheb. Are the rental rates lower than last quarter?

Joseph Fernandes The rental rates are steady, fourth quarter 2020 and first quarter 2021, almost the same.

Mohamad Haidar Thank you. Operator, maybe one final reminder, please.

Operator Of course. Ladies and gentlemen, if you would like to register a question, please use the chat box function provided. We have no further questions.

Mohamad Haidar Thank you, Daisy. It appears we don't have any other questions. Joseph and Vinayak, thank you so much for your time today. Thank you, everyone, for joining and we look forward to having everyone with us next quarter. Thank you.

Joseph Fernandes Thank you.