

Business

KIPCO looks to 2020 with caution as it monitors COVID's business impact

'A lot will depend on how developments unfold in H2 2020: Vice Chairman



KUWAIT: Faisal Al-Ayyar (second left) addresses KIPCO's annual Shafafiyah 'Transparency' Investor' Forum



KUWAIT: At its Annual Shafafiyah 'Transparency' Investor' Forum, KIPCO – the Kuwait Projects Company (Holding) – said that it would remain cautious in 2020, as it closely monitor the business impact of the evolving COVID-19 pandemic and the oil price drop we have witnessed so far in the average price of the barrel compared to 2019. At the company's investors' forum, KIPCO presented a review of its activities in 2019 and its outlook for 2020. In line with the health authorities' guidelines regarding social distancing, the event was broadcast live to an audience of shareholders, financial analysts and institutional investors.

Annual General Assembly

The forum followed the company's General Assembly meeting where KIPCO's shareholders approved a cash dividend of 10 percent (10 fils per share) and elected the Board of Directors for a three-year term.

Highlights of 2019

As part of its review of 2019, KIPCO highlighted that while growth remained somewhat flat, net profit grew 6 percent to KD 30 million (\$99 million) for the year ended 31 December 2019, compared to KD 28.3 million (\$93.4 million) reported in 2018.

The company highlighted the continued support of its shareholders, as demonstrated by the successful completion of its rights issue in the summer of 2019. KIPCO raised KD 95 million (\$314 million) in equity, with a 17 percent oversubscription in the company's shares. KIPCO also issued a landmark seven-year \$500 million (KD 151 million) bond during 2019 under its \$3 billion Euro Medium Term Note (EMTN) Program. The demand of \$3.6 billion on the order book was KIPCO's largest ever in international debt capital markets, representing a 7.1 times oversubscription. The bond was issued at a fixed rate coupon of 4.229 percent, the company's lowest ever coupon rate. The bond, executed in under three weeks, resulted in the extension of KIPCO's debt

maturity from 4.1 years to 4.7 years, and the reduction of the company's annual cost of funding by around \$26 million once the July 2020 notes are repaid.

Performance of Group companies

KIPCO highlighted the performance of its main operating companies. Burgan Bank registered a 3 percent increase in net profit and successfully issued \$500 million Perpetual Tier 1 Capital Securities with a yield of 5.75 percent.

Gulf Insurance Group's net profit was up 12 percent and gross written premiums (GWP) increased 8 percent. The company continues to be among the top five insurance companies in the Middle East in terms of GWPs.

United Gulf Holding recorded a revenue growth of 8 percent. Its subsidiary, Kamco Invest, reported a 47 percent growth in revenue following the completion of its merger with Global Investment House.

United Education Company, meanwhile, continued to grow its facilities and student base, registering a revenue growth of 6 percent. KIPCO's real estate arm, United Real Estate, registered a revenue growth of 10 percent, with its financial performance impacted by the losses incurred from the revaluation of property.

Qurain Petrochemical Industries (QPIC), meanwhile, registered a 13 percent growth in revenue for the first nine months of the financial year. QPIC acquired a 60 percent stake in Jassim Transport Company in June 2019, and the company is moving into petrochemical upstream projects with good potential. The Saudia Dairy & Foodstuff Company (SADAFCO), a subsidiary of QPIC, registered a net profit increase of 21 percent and a revenue growth of 11 percent for the first nine months of the financial year.

As for OSN, KIPCO announced that an operational turnaround has been achieved. The pay-tv company is now able to deliver its products to 25 countries in the region through 'OSN Streaming', its OTT platform, thereby giving the company a larger reach. The streaming application

includes Disney+ as of April 2020. Furthermore, OSN continues to have exclusive content rights to seven major Hollywood studios, and work is underway to produce original Arabic content.

The streamlining of OSN's business is being carried out successfully, with content cost rationalized and savings of \$120 million against the contractual value in 2019. The pay-tv company also recorded a 28 percent reduction in general and administrative expenses and staff costs in 2019 compared to the year before. The management team was strengthened in the necessary areas of expertise.

Digital journey

KIPCO noted that 2019 saw the beginning of several digital journeys in its core operating companies, which will continue in 2020. Burgan Bank launched its new online bank smart phone application with easy-to-use, secure features.

OSN rebranded its streaming application to 'OSN Streaming' and added Disney+ to its offering. The application enjoys a 4.4 star rating on the Apple Store, ranking higher or equal to its competitors. Its IMDb rating is at 8.7 stars, putting it ahead of many of the other OTT platforms worldwide. Gulf Insurance Group, meanwhile, has invested in digital distribution channels through enhancing its website and web portal, and the acquisition of a stake in 'yallahcompare'. The insurance group has taken several key initiatives to strengthen and develop its digital products and services, including motor telematics.

Initial 2020 observations

In its initial 2020 observations, KIPCO said that its core insurance business presented a stable picture, with lower claims being offset by slower revenue growth. The performance of the investment book, however, would be hard to predict due to the volatility of the market.

In the media sector, KIPCO said its business had outperformed the outlined budget in the first five months of the year, with increased customer consumption and lower churn. The closure of re-

tail outlets because of the lock down has impacted new sales numbers.

KIPCO noted that for its banking operations, uncertainty in the loan book quality will remain. Due to market volatility, it would be hard to predict the performance of the investment book, noting that regulatory directives are uncertain. KIPCO said that fundamental matters affecting the real estate and hospitality sector include population size and restrictions on travel and mobility in light of the COVID-19 pandemic.

Needless to say, KIPCO's businesses operating in the petrochemical sector will be impacted by the moves in oil prices.

Outlook for 2020

In its outlook for 2020, KIPCO said that with the onset of the COVID-19 pandemic and the need for businesses to adapt in order to continue to provide their services, all teams across the Group companies have risen to the occasion and adapted to working from home.

KIPCO said it would continue to monitor the global impact of the COVID-19 pandemic, which is significant and evolving. Faisal Al-Ayyar, KIPCO's Vice Chairman (Executive) said: "We remain cautious about 2020, as we closely monitor the business impact of the pandemic and that of the drop in oil prices. During the COVID-19 crisis, we have been working with the management teams in our Group companies to ensure that we continue to serve our customers in the best way possible, and minimize the financial impact that the pandemic will have on our businesses. While we continue to be operationally ready for a full-scale launch of business in the different markets we operate in, we are also mindful that new business opportunities that may present themselves as a result of these difficult times that the world is living."

He added: "Although the execution of new initiatives, in some instances, has been constrained for our companies, we believe that a lot will depend on how developments unfold in the second half of 2020. Reporting profitability would be an achievement for any business."