

Bahrain Cinema Company

Investors' Conference Call (HY – 2022)- Transcript

10 August 2022

Mr. Chiro Ghosh- Good morning ladies and gentlemen. I would like to welcome you all for the Bahrain Cinema Company Group's first half 2022 result conference call. It's my pleasure to host Cineco Group Senior Management today. We have here with us Mr. Ahmed Rashed, AlBastaki, MD and CEO, and Mr. K. Yugandhar, Chief Financial Officer of the Company. By now you should have received the earnings release and the detailed financial results for the first half of the year 2022. It is also available on Bahrain Bourse website. You can view the presentation on the webcast. You can post the questions on the web link or you can raise your hand function and we can pick up your question. Now without any further delay, I will hand over the call to Mr. Yugandhar to begin the presentation.

Mr. Yugandhar- Good morning and welcome to the Bahrain Cinema Company's first Investors' Call presentation for the Half-yearly financial results. We will start with the presentation and then we can take up the questions.

Financial Performance- the Operating income for the 6 months ended 30th June 2022 is BD 2.4 million as compared to BD 608K for the 6 months ended 30th June 2021. The Company reported Gross Profit of BD 224k for the current year six months as compared to Gross Loss of BD 469K for six months of the year 2021. The Net Profit for the 6 months of the year 2022 is BD 250k as compared to BD 325K for the 6 months ended 30th June 2021. Income from Investment has reduced from BD 749k for the six months of the year 2021 to BD 570k for the 6 months of the current year. The Net loss for the second quarter of the year 2022 is BD 659k as against the Net Profit of BD 646k for the second quarter of the year 2021. The current ratio of the Company is healthy at 1.53 for the current period.

If you see the financial performance, I have already discussed the operating income and Net Profit in the earlier slide. The operating cost for six months of the year 2022 is BD 2.19 million from BD 1.07 million in the last year. The Earnings per share for the HY of 2022 is 3 fils as compared to 4 fils for the corresponding period in the previous year.

The total assets amounted to BD 82.45 million for 6 months of 2022 and BD 72.34 million in 2021. The capital and reserves have reduced from BD 59.75 million for six months in the last year to BD 58.82 million in the current year. The non-current liabilities are BD 13.9 million against year BD 4.08 million last year and the current liabilities are BD 9.67 million in the current year against BD 8.51 million for six months in the last year.

This slide shares the significant financial statement trends such as the income from cinema, concession counter and restaurants and cinema attendance. The blue line represents the year 2019 which was before COVID-19 while the yellow line represents 2022 figures. If you see, current year we are getting better as compared to 2021 and 2020 but still the performance is not in par of 2019 levels.

This is the segment wise representation of the operating income comparison of last year's and current year's performance. The cinemas were mostly closed in the last year and income from cinema was BD 59k as compared to current year cinema income of BD 855k. The major contributor in the income in 2021 was rental income as other operations were closed and so very marginal

income was generated. The different segments are now operating normally and so the income from these segments is evenly distributed.

This slide shows the screen distribution in Bahrain. Oasis mall has 10 screens, Seef Mall has 16 screens. We have 6 screens in Wadi al Sail Mall, 1 in Al Hamra and 20 screens in City Centre in Joint Venture with VOX.

This is the Joint Venture performance for the cinema in City Centre. Revenue has increased from BD 136k in the last year to BD 1.91 million now. Profit from operations has increased from BD 86k in the last year to BD 1.2 million in the current period. Share of profit is BD 208k for the current period as against negative BD 141k in the last year. The Company has earned interest income of BD 141k for this year as compared to BD 106k for the last year from the amount receivable from Majjid Al Futtaim towards sale of 50% stake in cinema City Centre.

Matters to Note- Share of profit from investment in associate (vox cineco) accounted in books based on unaudited management accounts.

During the period, the Group has made an investment in CBB Bonds 2044 amounting BD13.95m (USD37m), which is classified under amortised cost, as the Company has an intention to hold the investment till maturity and to earn the profit on investment. Investment is partially financed through lending by Ahli United Bank. Group has injected the funds of USD12.5m and Ahli United Bank has provided the funds of USD24.5m at LIBOR plus 2.5%.

Recent developments- Cineco has terminated the management agreement with Ban Management Co. W.L.L. for managing a multi-screen Cineplex in Amwaj Lifestyle Mall, Amwaj Islands.

The Company has opened a new Entertainment Sports facility in Bahrain Mall under the brand name "TRAX" on 21st July 2022. The project consists of Indoor electric Go-karting, Mirror maze adventure, Wall Climbing, Roller skate track and Rope Adventure.

The Company is in the process of developing the framework and strategies for ESG.

Future Outlook- These are some big movies slated for release in the second half of the year 2022 which will improve the cinema attendance in the theatre and positively impact on the revenue.

With this I conclude the presentation and over to Mr. Chiro for the Q&A.

Mr. Chiro Ghosh- Please use the raise hand icon if you have any questions.

Deepak Babu- Thank you for the call. The presentation has been very handy and as well has cleared up lots of the queries I initially had. I want to understand that with the introduction of the theatres in KSA and the growth of the OTT platforms, by when do you see the theatre occupancy levels and the performance of other operations reaching pre pandemic level and is it plausible.

Mr. Ahmed A. Rashed AlBastaki- Due to opening of the cinemas in KSA, we have lost around 70% of our Saudi customers and to reach 2019 levels does not seem possible.

Mr. Deepak Babu- Correct me if I'm wrong. The contribution of Saudis pre-pandemic was it 60% or so or is there any way you can quantify the contribution of Saudis in cinema income pre-pandemic?

Mr. Ahmed A. Rashed AlBastaki- There is actually no precise data but we can say that their footfall was around 60% to 70% over the weekends. Earlier, we thought that we will not lose many Saudi customers because the censor Board in KSA will be strict but the censorship in KSA is at par with Bahrain and so we have lost many Saudi customers as they have no need to come to Bahrain for cinemas.

Mr. Deepak Babu- So, at this point of time I guess there is no plan for BCC to re-explore the idea of opening new cinemas in KSA

Mr. Ahmed A. Rashed AlBastaki- Saudi market is now saturated and all the promising locations have been taken by either VOX or MUVI which belongs to Al Hokair group and AMC. There are no good locations for us, so we abandoned the idea to open cinemas there unless we have some promising locations.

Mr. Chiro Ghosh- Now we will take the questions from the chat line. The first question has come from Mr. Mohammed Salman- "Are there any remaining theaters in Qatar that are related to CINECO's investment. Also are there any future plans for expansion in GCC?"

Mr. Ahmed A. Rashed AlBastaki- As of now there are no plans for expansion unless we get a good location and in that case we will study the feasibility of the project.

Mr. Yugandhar- In Qatar we have impaired our investments during the embargo time but still we are managing the cinemas and once the position improves we hope to recover our investments in future.

Mr. Chiro Ghosh – The next question we have from Ms. Jumana AlMajed- "How much revenue are you making from Awal Plaza?"

Mr. Ahmed A. Rashed AlBastaki- Its around BD 1 million per annum. We have let most of the commercial places and around 90% of the residential spaces have been let out, only 10% is vacant.

Mr. Chiro Ghosh – She has another question- "How much revenue boost do you expect from the indoor go-karting business i.e. TRAX? Do you expect seasonality to impact the business i.e. lower business in winter etc.?"

Mr. Ahmed A. Rashed AlBastaki- It is too early to judge the business. We will be in a better position to make any projection in the next couple of months.

Mr. Chiro Ghosh- The next question has come from Mr. Reem Albarri- "How many screens do you plan to add over the next year?"

Mr. Ahmed A. Rashed AlBastaki- We have no plans to add any new screens as of now.

Mr. Chiro Ghosh- Ms. Reem further asks “can you give some clarity on the KSA business, and why did you not go ahead with it?” I think this has already been answered. Anybody else has a question.

We have a question from Mr. Sriram- “Dear All, Thanks for the good presentation. Wondering if you can answer the following points: Net revenue on a sustained basis in a normal year (say post pandemic environment)say BD0.75m to BD1m in theatres and restaurant and BD 0.75m to BD 1m from Associate and BD 1m to BD 1.25m from dividend income and financial investment. Costs of BD 1.5 m to BD2 m (G&A and financial expenses) with a net profit of BD 1 to BD 1.5m. How realistic is the same” i.e. Net Profit of BD1 to BD 1.5m and “Treasury Shares: Any plans on continuing the same.”

Mr. Ahmed A. Rashed AlBastaki- No plans to buy any more treasury shares.

Mr. Chiro Ghosh- What about sustaining the Net profit of BD1 to BD 1.5m

Mr. Yugandhar- We can have better results provided there is no valuation loss on investments.

Mr. Ahmed A. Rashed AlBastaki- It depends upon how our investments will do and it is not in our hand.

Mr. Sriram- Just to reiterate the point, I’m looking at the recurring income and so I’m not looking at any extra-ordinary volatile changes. Let’s assume fair value changes, because investment income is probably more volatile so we don’t take it, it’s not part of the recurring income. What sort of recurring income you expect in a normal year like in 2019 pre-pandemic when business was normal. Let’s say that we go back to normality in 2023, then what sort of sustained recurring income do you expect from your business.

Mr. Ahmed A. Rashed AlBastaki- As we said that our business is affected due to Saudi customers not coming to Bahrain. Another thing is that in this year itself, three blockbuster movies were censored and banned in Bahrain- Eternals, Doctor Strange and Thor. This affects our business. Thor was banned in early stages and it was supposed to release during Eid holidays. Later it was released and then again it was pulled from the market. We cannot make predictions how things will move ahead unless the rules change.

Mr. Yugandhar- Apart from operations income from cinemas, restaurants and Go-karting, we have recurring income in the form of Awal Plaza rental income and Sukuks profit share from the earlier investment and this year investment in CBB Bonds 2044 of \$37 million. We will be getting additional interest income around BD600k per year interest from Bonds. Earlier we use get around half a million Sukuks income. Apart from this, we have dividend income around BD400k in a year. I’m not talking about valuation changes during the year.

Mr. Sriram- This probably will account for BD2 million to BD2.5 million of recurring income from dividend, sukuks, cinemas, Awal Plaza etc. all put together and you have costs which is G&A plus finance expenses which is about BD 1m to BD 1.5m. The sukuks income and Bonds interest income may be offset by finance charges.

Mr. Yugandhar- I'm taking about net interest income after all the cost in case of sukuks and Bonds Income

Mr. Sriram -But you have not seen this kind of recurring income of BD2 million to BD2.5 million in the last few years and probably not in 2019 also on a net profit level.

Mr. Yugandhar- Net Profit if you are talking about, it varies based on the valuation gains or losses of the investment and subject to direct operating expenses.

Mr. Sriram- Yes, that is true and it is a separate number. But even adjusting for those and if you normalize those earnings do you have that sort of number

Mr. Yugandhar- Whatever recurring income I'm taking about, the new investment income from CBB Bond 2044 is going to come from 2nd quarter of this year, last year it was not there. Rest of the incomes was there in the last year as well. In fact, during the pandemic, only investment income and rental income was there as cinemas and restaurants were closed.

Mr. Sriram- Going forward you are talking about Go-karting in Bahrain Mall, you've done a good job. I think there seems to be a reasonable amount of income in the first few weeks you have done the business. But to look at it in the long term perspective, let's say you have probably put in close to BD 2m, is that about right? And you expect about BD 250k to 300k net income from that go-karting venture. Does that seem right? Do you plan to do more of this in Bahrain and other GCC countries?

Mr. Ahmed A. Rashed AlBastaki- Ofcourse, we have plans to expand outside of Bahrain but one project will be enough for Bahrain at this time. Some interested parties contacted us and we will see the feasibility to do it in Saudi provided we have good location for the same.

Mr. Sriram- What sort of investment are you planning. You have some BD 2million investment in this Bahrain venture. Correct me if I'm wrong. And are you thinking of similar investment or much larger scale in Saudi.

Mr. Ahmed A. Rashed AlBastaki - We invested more in Go-karting in Bahrain than what we were supposed to do initially. The project took very long time to open. First, plan was to have it in Kingdom Mall. The mall still did not open. So we were forced to move out and shift the project to Bahrain Mall. We approached many mall but we did not get enough height for the project. We require more than 18 mts for the project which is not available at all the mall except for Bahrain Mall. Now, a similar project in future will cost around BD 1.5 million. But we do not have plans to make a project larger than this as this is the largest in the world. There are smaller version but this is the largest and to have a project larger than this one will be complicated.

Mr. Sriram So, this is the largest e-karting in the world.

Mr. Ahmed A. Rashed AlBastaki Yes, this is the largest electric karting in the world and also the highest as it is on three levels. There are other go-karting setups but they are either on one level or two levels and they are mostly battery operated, not e-karts.

Mr. Chiro Ghosh- I will take the next question from the chat line, Mr. Deepak Babu asks “What drove the sharp QoQ decline in G&A expenses in Q2'22 (from BD 400k for the year 2019 to BD 291k)? Should we look at the H1'22 run-rate of BD 740k of G&A expenses (BD 1.5mn annualized) as the sustainable run-rate going forward?”

Mr. Yugandhar- This is mainly due to the lease agreement with Seef properties. We have come to a settlement with Seef Properties in the 2nd quarter. As per IFRS we have gained some income on that lease that we have accounted due to which expenses have come down in the 2nd quarter.

Mr. Chiro Ghosh- Another question has come from Mr. Mohamed Salman- “Is there any intention or plan for investing in rendezvous restaurants business outside Bahrain?”

Mr. Ahmed A. Rashed AlBastaki- Right now there are no plans. But we are looking forward to get good location in Saudi Arabia for restaurants.

Mr. Chiro Ghosh- Mr. Deepak Babu you said you have some question.

Mr. Deepak Babu- Most of my questions were answered in the follow up questions. But I'm just trying to understand one other aspect. We saw during the quarter that call was taken to leverage and buy CBB Bonds 2044. So I wanted to understand how the management views such investment actions going forward. Is it a case where any kind of pull back is being used and if required to leverage up and add more to the investment portfolio? How exactly is it managed and how will it be taken in future?

Mr. Ahmed A. Rashed AlBastaki- There is a possibility because we will be getting some cash. We may not go for leverage, we will invest in Bonds or Sukuks because that is the best yielding investment. We don't want to enter in risky investments and stocks of listed companies are risky at the moment and speculative. We think that in the interest of the shareholders, it is better to have a fixed income so we would like to invest in long term investment. We are getting around a BD 1 million income annually from these two investments.

Mr. Chiro Ghosh- We will wait for a couple of minutes if anybody has any questions. Since we do not have any further questions, I would like to thank everybody for their participation in Bahrain Cinema Company's first Investor Call's presentation to discuss the financials for the 1st half of the year 2022. Now I will handover to Mr. Ahmed A. Rashed AlBastaki for the closing.

Mr. Ahmed A. Rashed AlBastaki- We thank you very much for attending this conference call and we hope to see you and have similar conferences in future. Thank you very much gentlemen.