

# FY 2020 Earnings Conference Call

## Results Presentation

April 5<sup>th</sup>, 2021



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## Agenda

1. **Highlights**
2. Financial performance
3. Regulatory reforms progress
4. Fleet overview
5. Q&A

# Key takeaways : 2020 is a year of historical transformative reforms, operations resilience and major achievements for SEC



## Resilient business performance

- **Safe and reliable service** maintained for our country despite Covid-19 measures.
- **Swift and effective Covid-19 containment and economic support measures** by KSA government reflects on maintained demand stability, however with a change in the consumption mix



## Transformative regulatory and financial reforms

- **Reclassification** of net government liabilities to Mudaraba **perpetual equity like instrument** of **SAR167.92 billion**, **cancellation** of Government fees and transition to a **RAB based regulatory framework** from 2021 forward.
- More structured **government support** through clear **formulaic Balancing Account**
- Mechanism to ensure **timely payment of public sector** electricity consumption.



## Clear and sound capital structure

- **Reformed capital structure** provides more **financial flexibility** and along with the undergoing reforms improves SEC's financial position to meet all obligations and ensure its **financial sustainability**.
- Greater headroom for SEC to **fund projects** to further improve **the quality and reliability of service** and pursue its strategy in line with **Vision 2030**.
- SEC Board has **recommended** a total dividend for the year 2020 of 2.9 BSAR ( **0.7 SAR /share**)



## Grid smartification, digitalization and automation

- **8.8 million** smart meters installed in 2020 on a record time, on track to reach **100% penetration** by 2021. **Smart meters infrastructure** will be enabling the new era of **distribution automation** and improving **energy efficiency**
- Major strides in creating an **information** infrastructure, using business intelligence, **integrating** the grid **smart** components and boasting energy and cost **efficiencies**

# Financial highlights (1/2)

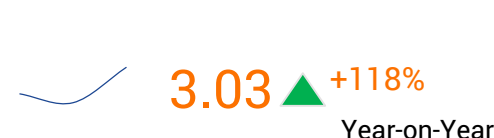
## Income statement

- Higher balancing account and continued growth in subscribers' base had significant positive impact on earnings;
- Partly offset by Covid-19 impact on sales, one-off settlement expense, and higher uncontrollable cost

### Revenue (BSAR)



### Net income (BSAR)



### EPS<sup>1</sup> (SAR)



## Balance sheet

- Classification of the perpetual financial instrument under equity reflects positively on equity base and lower net debt levels

### Total assets (BSAR)



### Equity (BSAR)



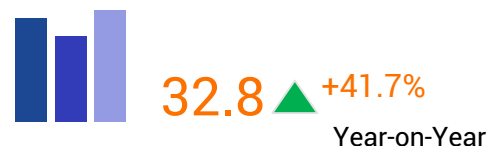
### Net Debt<sup>2</sup> (BSAR)



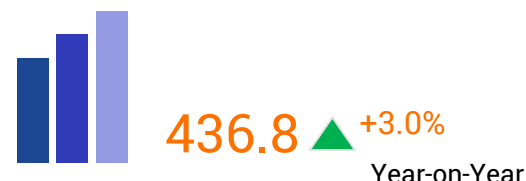
## CAPEX, PP&E & Dividends

- Strong growth in Capex deployed reflects increased investments in smartification and automation
- Steady growth on PP&E base continues during 2020

### Capex (BSAR)



### PP&E, Net (BSAR)



### 2020 Dividend Recommendation

0.7 SAR / share

# Financial highlights (2/2)

## Key credit metrics

- Reformed capital structure improves SEC's credit ratios
- Implemented reforms reflects positively on SEC's credit rating

### Net debt/Equity (%)

0.44 ▼ -79%  
Year-on-Year

### FFO/Net debt(%)

28% ▲ +54.4%  
Year-on-Year

### Net debt/EBITDA

4.1 ▼ -36.4%  
Year-on-Year

## Credit rating

FitchRatings

**A- / stable**

- Standalone rating maintained at **BBB-**
- Upgrade triggers are :
  - Track record under new framework
  - Positive rating action on KSA
  - FFO net leverage < 4.0x

MOODY'S

**A1 / negative**

- Senior rating improved to **A1** from A2
- Current rating is on par with the sovereign
- Upgrade triggers are :
  - Track record under new regulatory regime
  - Positive rating action on KSA

S&P Global  
Ratings

**A- / stable**

- Standalone rating improved to **BBB-** from BB-
- Upgrade triggers are :
  - Track record under new framework
  - Positive rating action on KSA

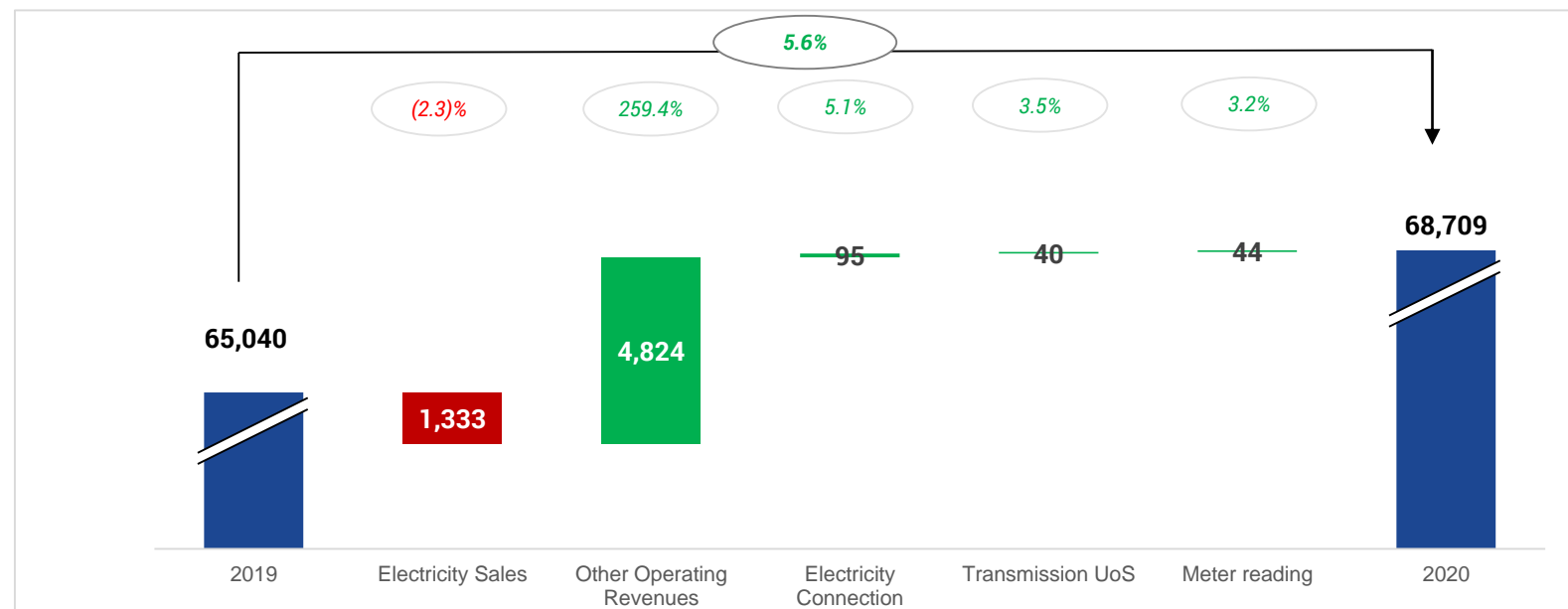


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# Revenue

SAR million



Lower electricity sales due to slightly lower volume sold and the change in consumption mix driven by the containment measures of the "Covid-19" pandemic.

Mainly driven by higher balancing account payment for 2020 of 6.1 SAR (2019: 1.1 BSAR) and strong growth (118% YoY) in fiber optic lease revenue to MSAR 215.

As a result of 384,917 (2019: 370,373) new connections during 2020 and higher recognized component of deferred revenue

Increased wheeling charges on other producers who use SEC's transmission national grid to transmit power

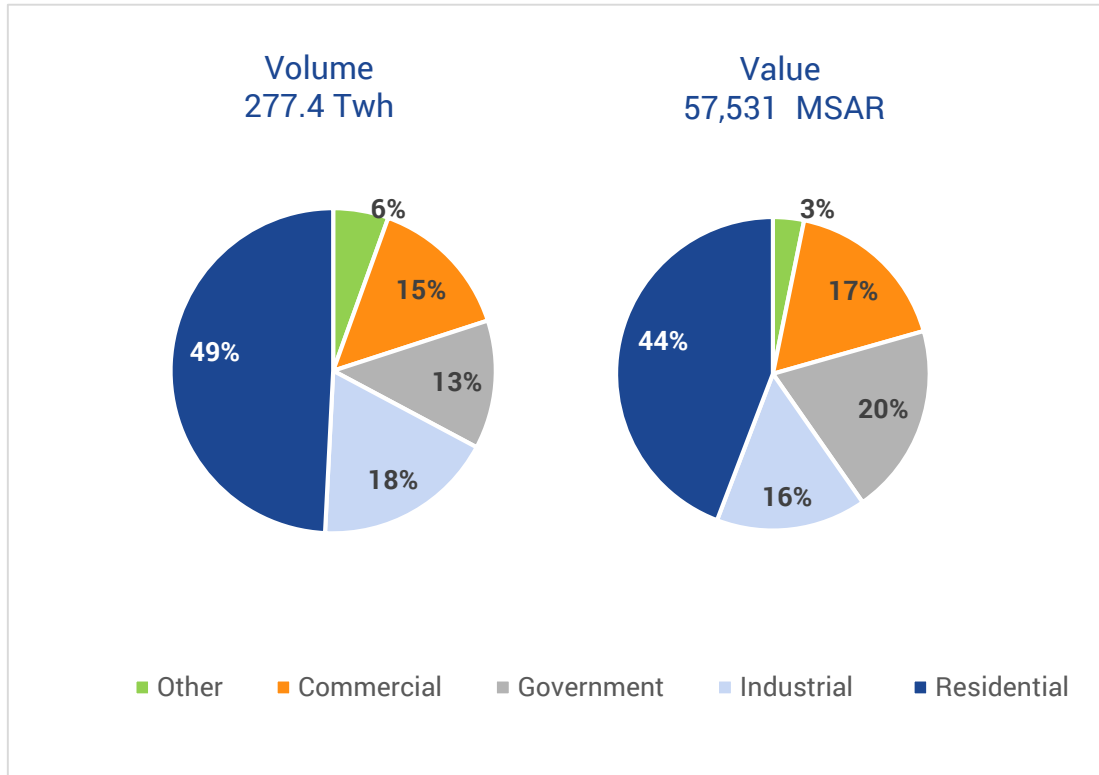
Due to continued growth in the subscriber base



# 2020 consumption mix

- A slight decline in overall electricity consumption
- Covid-19 measures impact consumption in commercial, government which is partly offset by increase in residential and industrial segment

## 2020 consumption split



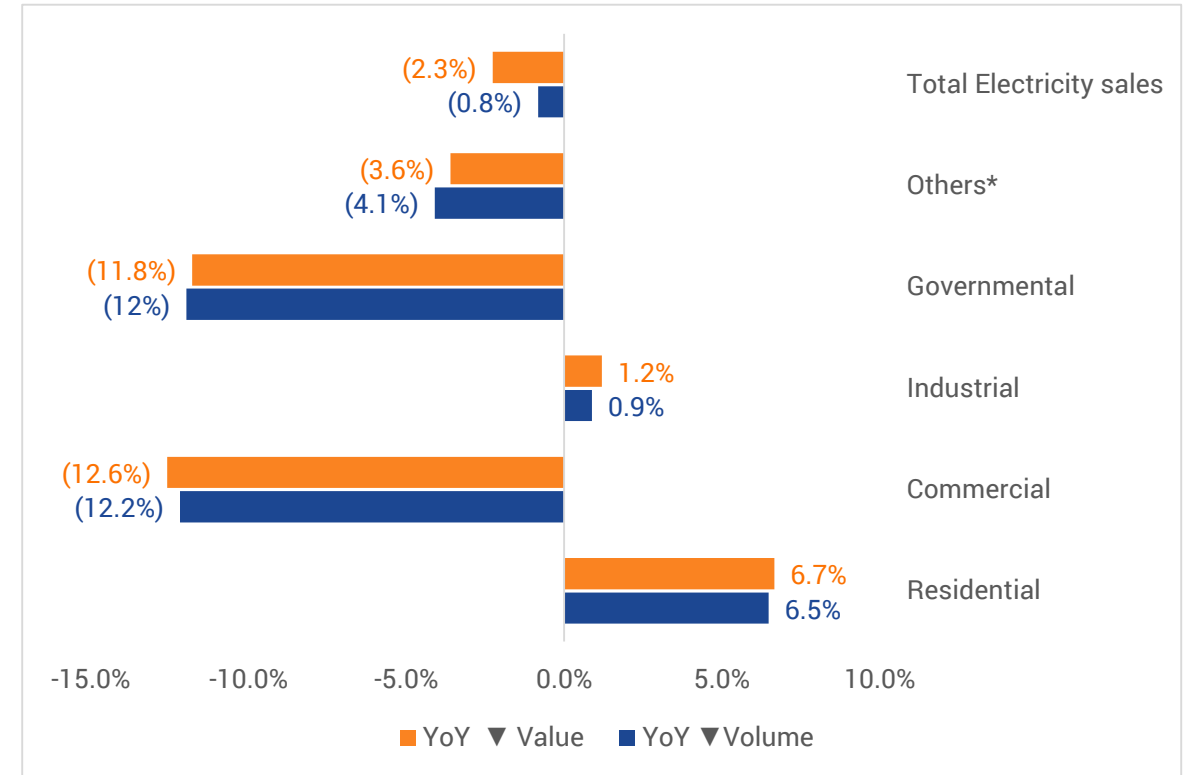
## Electricity consumption (Twh)

YoY change



(0.8%)

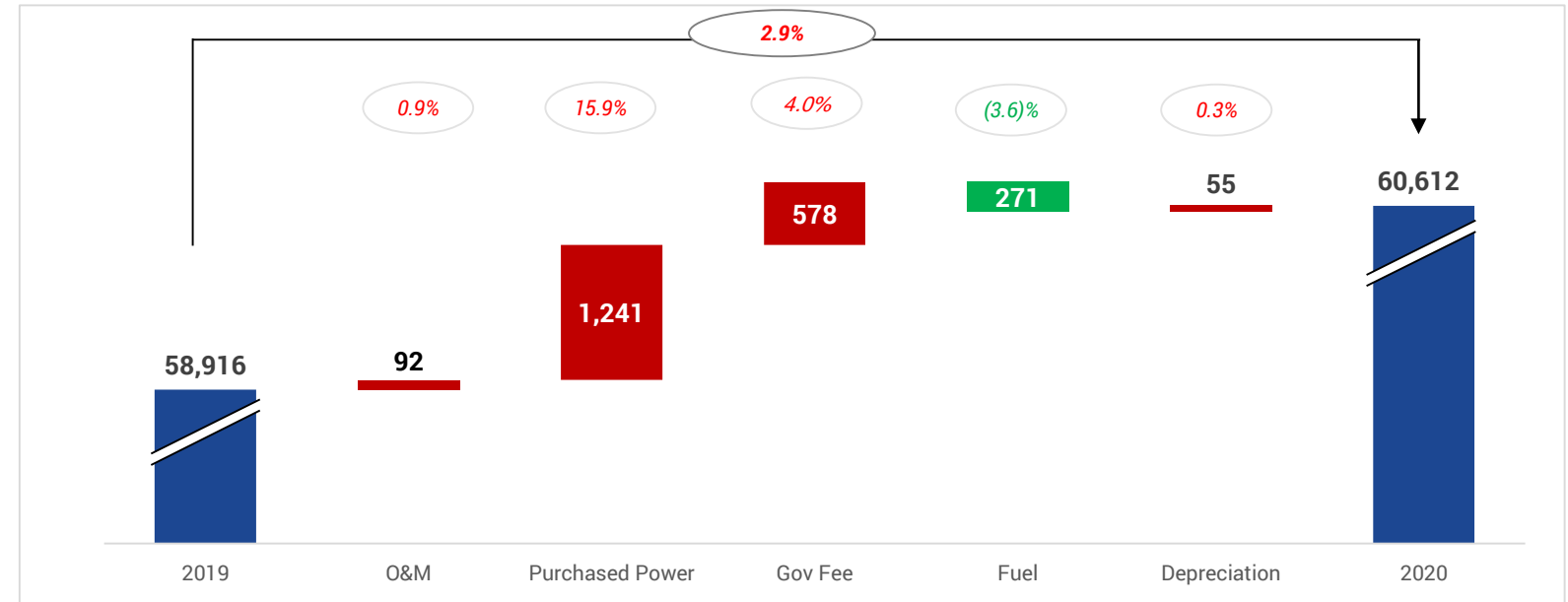
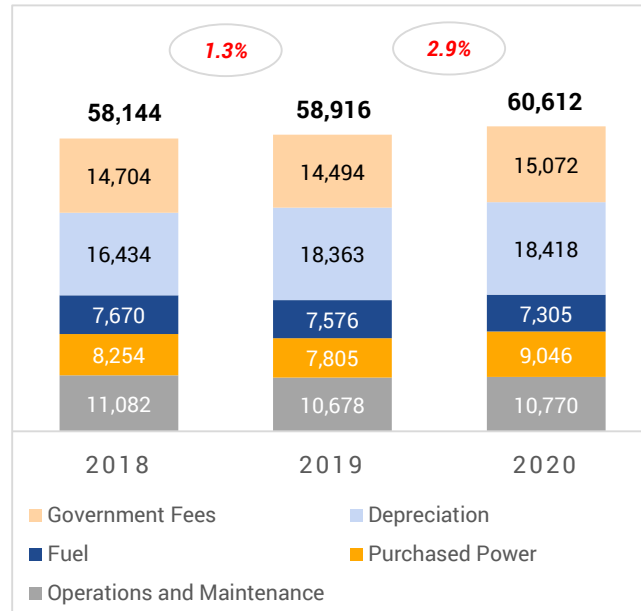
## YoY change in volume and value by segment



\*: Others include SWCC, agriculture, health and education

# Costs of Sales

SAR million



Mainly driven by higher material costs this in addition to higher provisions as opposed to a reversal of provisions in 2019.

Due to an additional IPP becoming operational in 2020 & higher output from some IPPs/IWPPs producers as opposed to IPP outages in 19

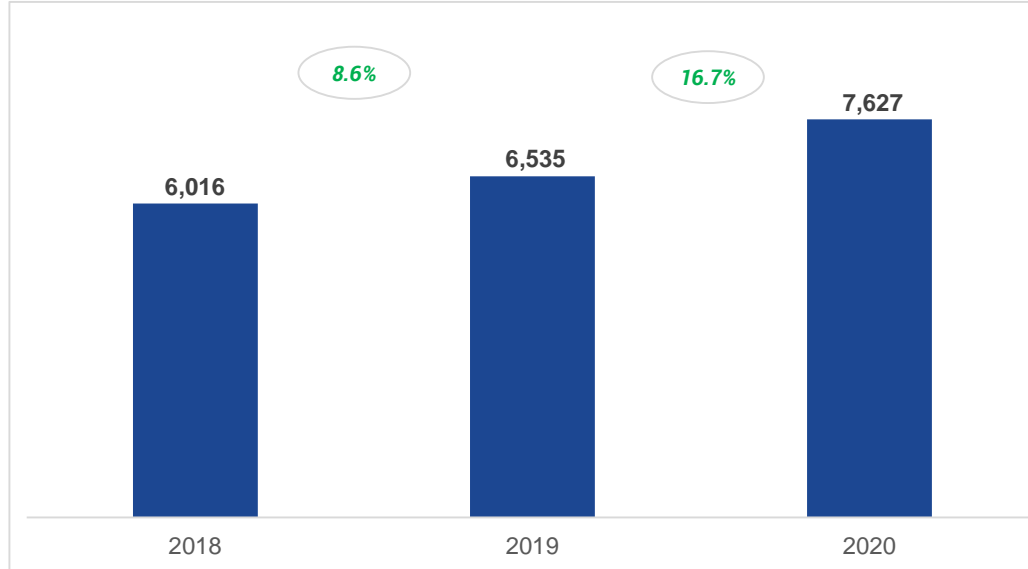
Reflecting the change in the sales mix towards higher residential & lower commercial, governmental consumption due to the containment measures of "covid 19" pandemic

Reflecting lower generation volume by SEC and change in fuel mix towards higher usage of light crude and gas.

Reflecting the addition of new assets which was partially offset by positive change in estimate of residual value of PPE.

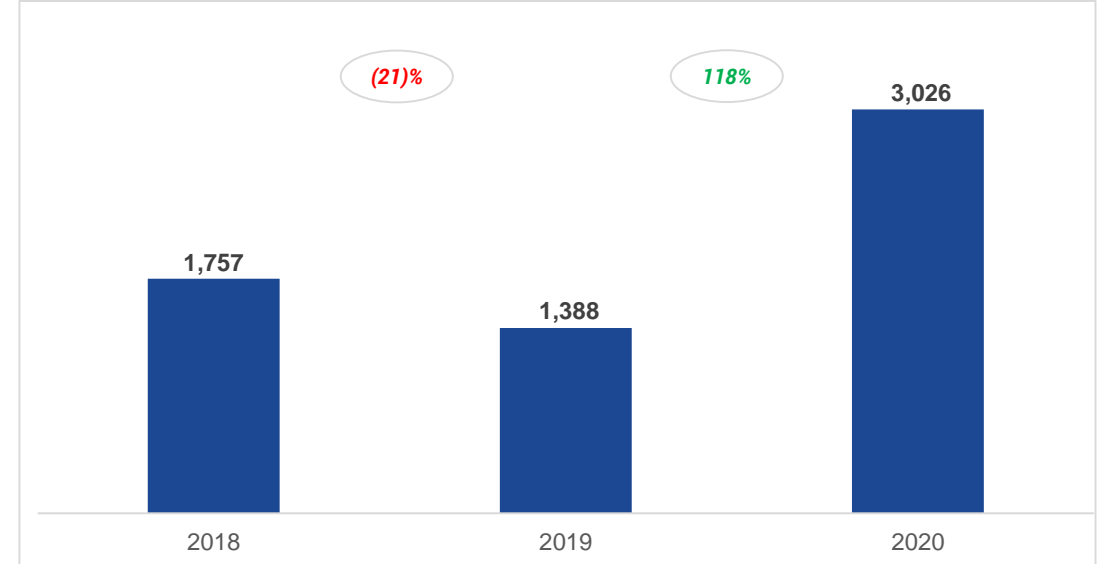
# Operating & Net profit

## Operating profit SAR million



- 2020 EBIT 16.7% YoY growth is mainly due to the following:
  - Higher operating revenues offsets pressure from lower electricity sales, the change in consumption mix, a one-off expense of fuel dues differences and lower other income
  - Lower other income reflects a one-off impairment related to replacement of mechanical meters.

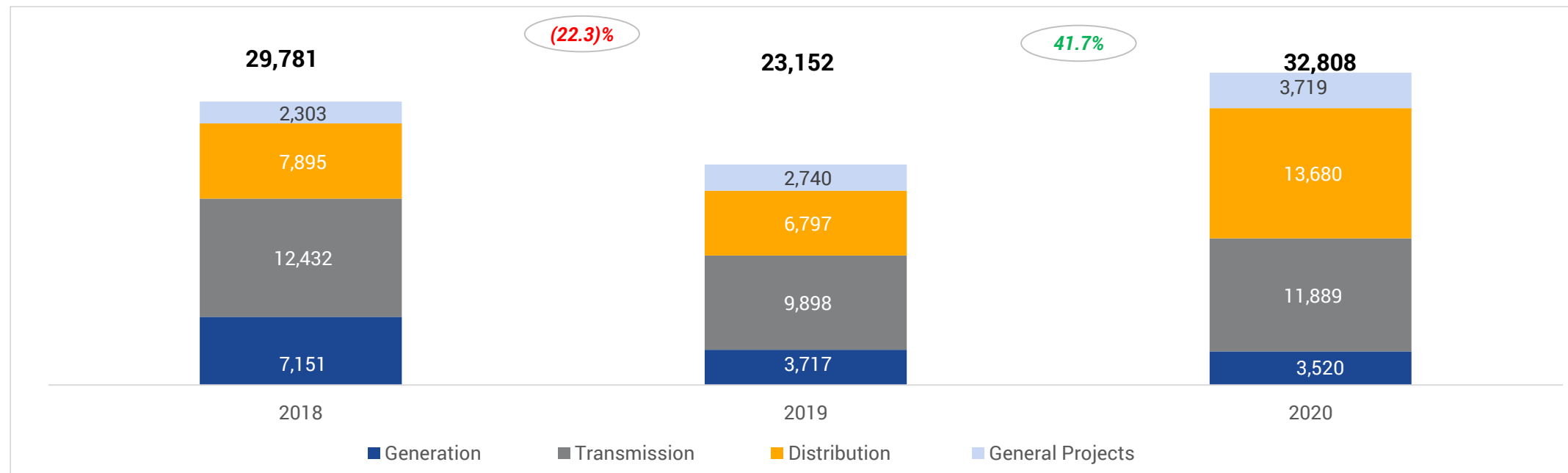
## Net Profit SAR million



- In conclusion, the strong growth in net profit is demonstrating the resilience of our business and the on-track implementation of the supportive regulatory reforms approved and announced in November 2020.
- Net profit attributable to common shares (after deducting profit attributable to Mudaraba Instrument of SAR 927 million) grew 51.2% YoY amounted to 2,098 MSAR.

# Capital Expenditure

SAR million

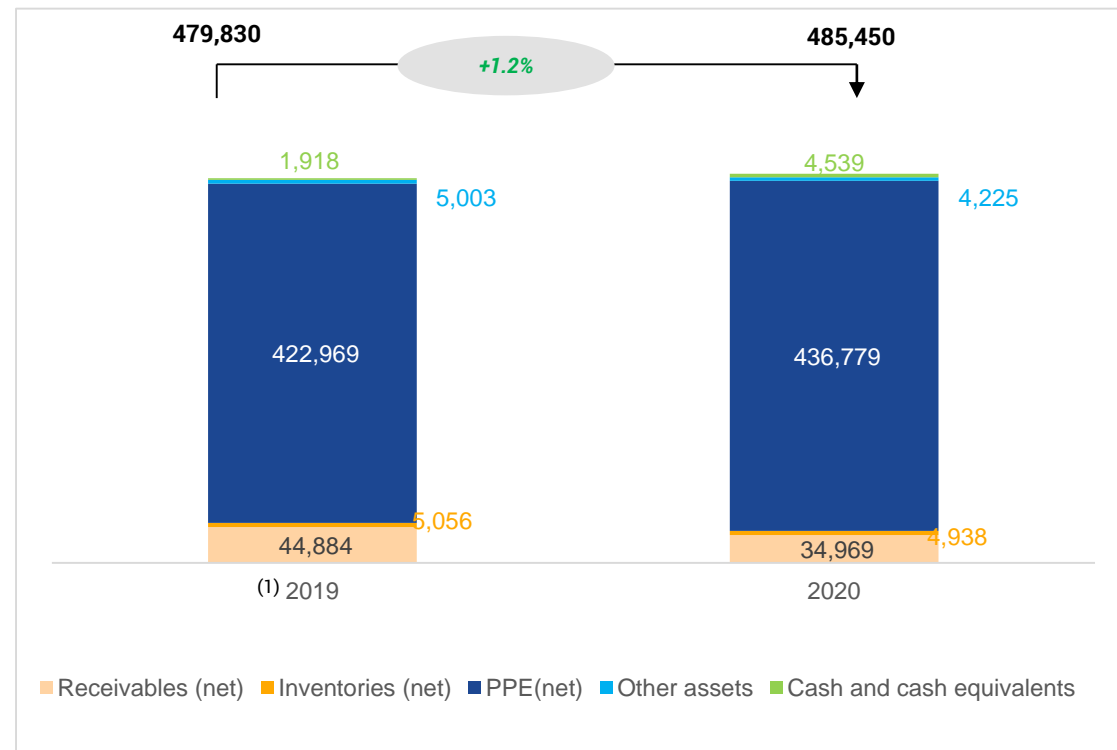


- **Key planned investments by SEC during 2021-2023 period includes:**
  - 3.8 GW generation capacity addition from SEC's existing generation project under development
  - 8.2 GW generation capacity addition by the private sector which will be connected to the grid by SEC
  - About 5.4K c.km of transmission lines and 86 transforming substation
  - About 126.4K c.km of distribution lines
  - Connecting 1 million new customer

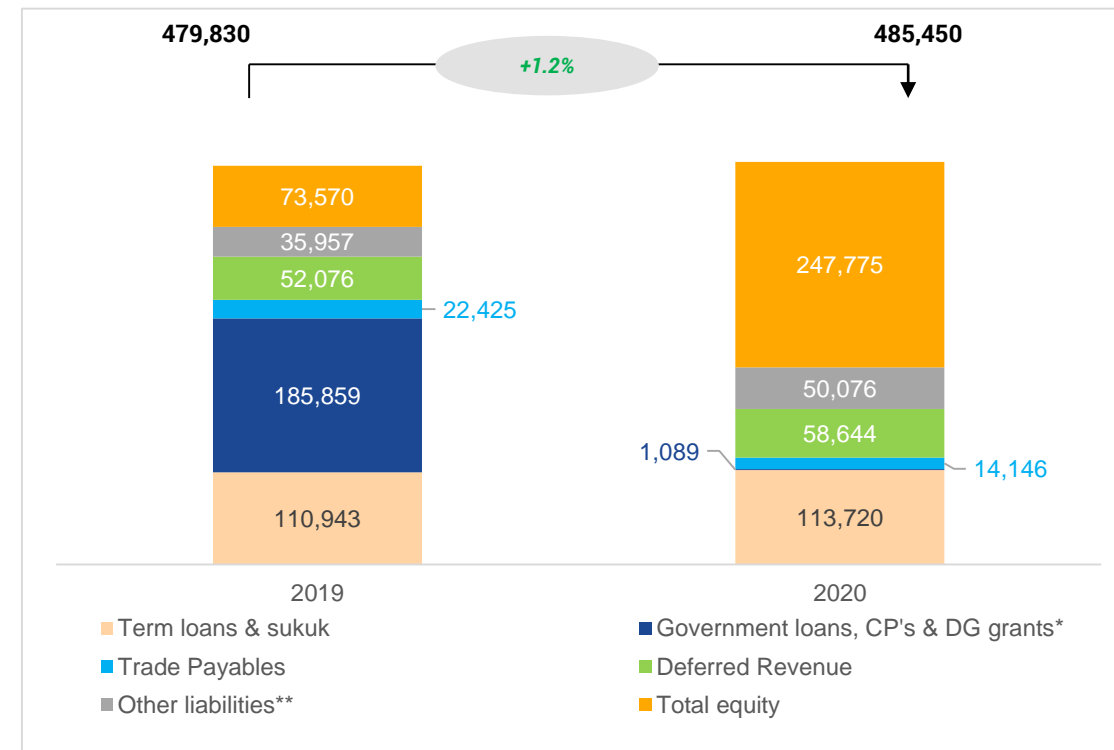
# Balance Sheet

SAR million

## Assets split



## Liabilities and Equity split



- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities.
- Total equity significant YoY growth to SAR 247.8 billion (2019: 73.6 billion) is reflecting the classification of perpetual equity-like Mudaraba instrument of SAR167.92 billion under shareholder equity following the supportive regulatory and financial reforms approved in 2020.



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# Holistic reforms are reinforcing the commitment of govt. support to the electricity sector and SEC

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1

**RAB-based regulatory framework<sup>1</sup>** balancing the interest of key stakeholders

2

**Balancing account** to cover the difference between required and actual revenues

3

Allow **SEC to receive fair and transparent annual revenues**

4

**Public Sector electricity consumption bill mechanism** to deal with payment delays

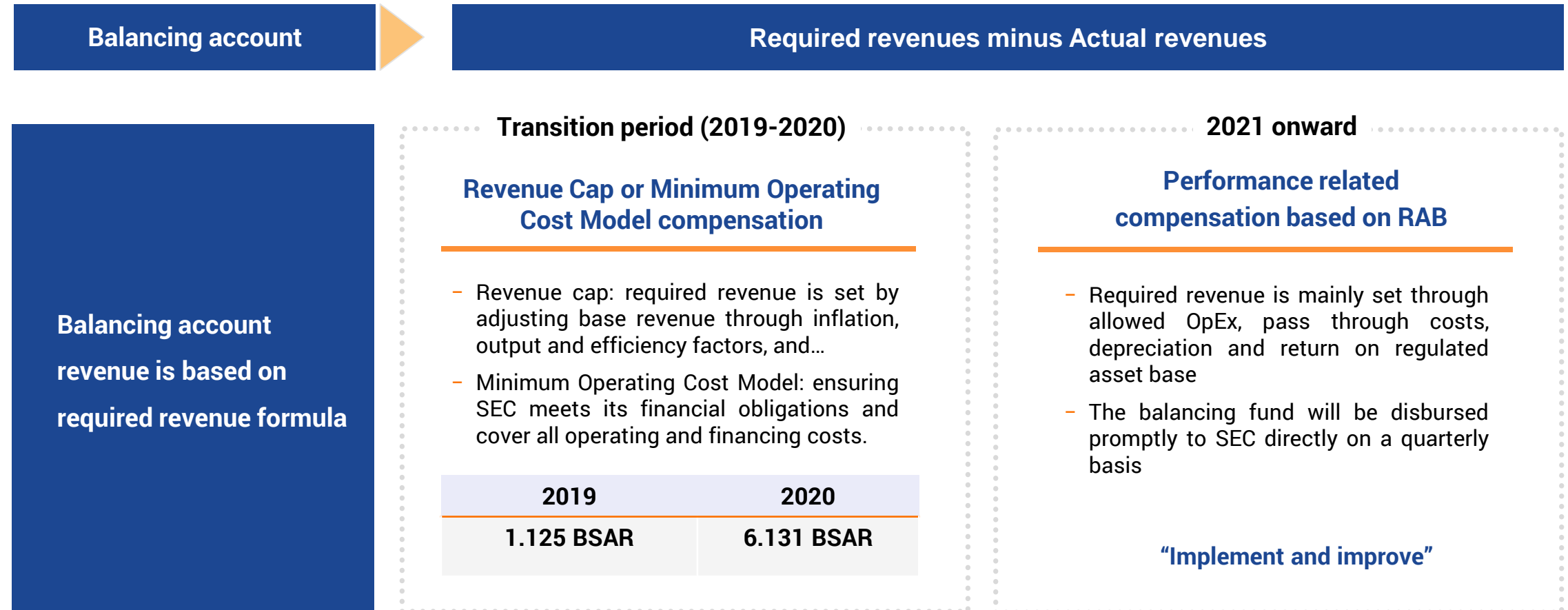
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Enable SEC to **fulfil payment commitments to all stakeholders** (fuel and dividends)

6

**Capitalisation of SEC legacy obligations** for a stronger and sustainable capital structure

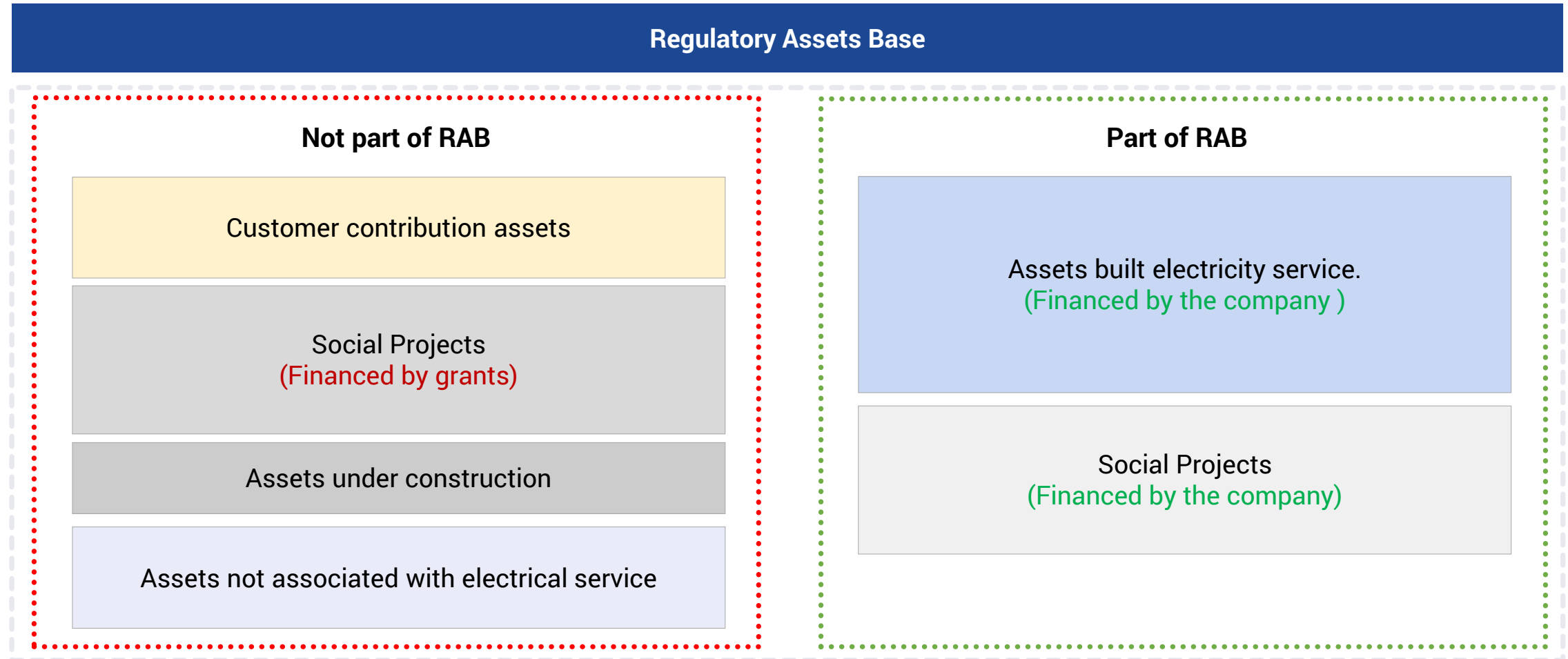
# Government support track record through the balancing account



Balancing account is a measure of shortfall of regulated revenues as well as the extent of tariff support for customers.



# Regulatory Asset Base – Inclusion/Exclusion



# Key attributes of the financial instrument executed in Mudaraba format

1

**No fixed repayment date** and therefore, like common equity, are **perpetual in nature**

2

**Deeply subordinate**, senior only to common equity

3

**Remuneration is pre-defined but discretionary**, non-cumulative, and is directly linked to the payment of dividends and balancing account

4

**Restricting the ability to transfer** the Mudaraba instrument only to PIF, thereby, aligning incentives between the Mudaraba holder and the majority shareholder

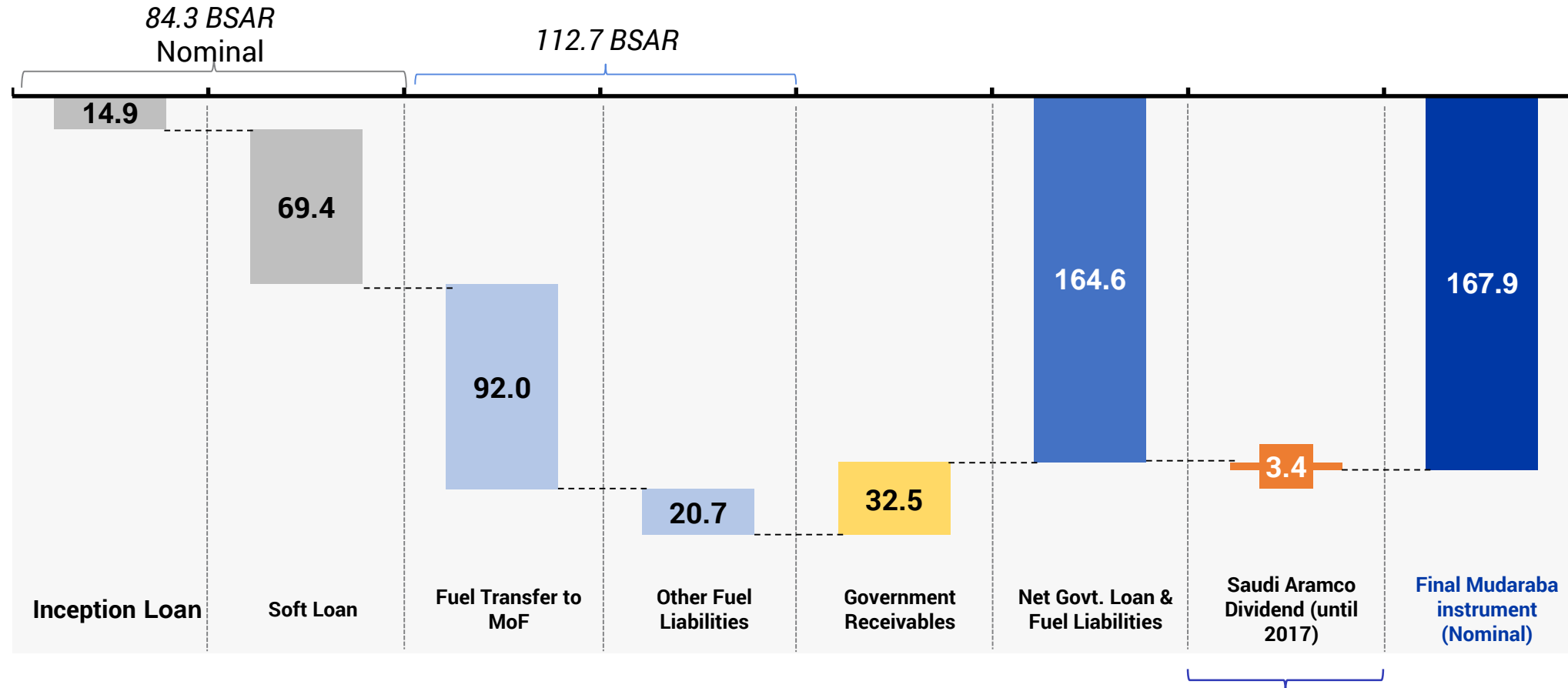
5

**Provide transparency** to senior creditors









# The Financial Instrument = Net Govt. loans, fuel & dividend liabilities (2000-2019)

Amount in BSAR



Approved by SEC's AGM on 27 Dec 2020 and effective since then

# The holistic reforms result in SEC being naturally hedged from multiple risks

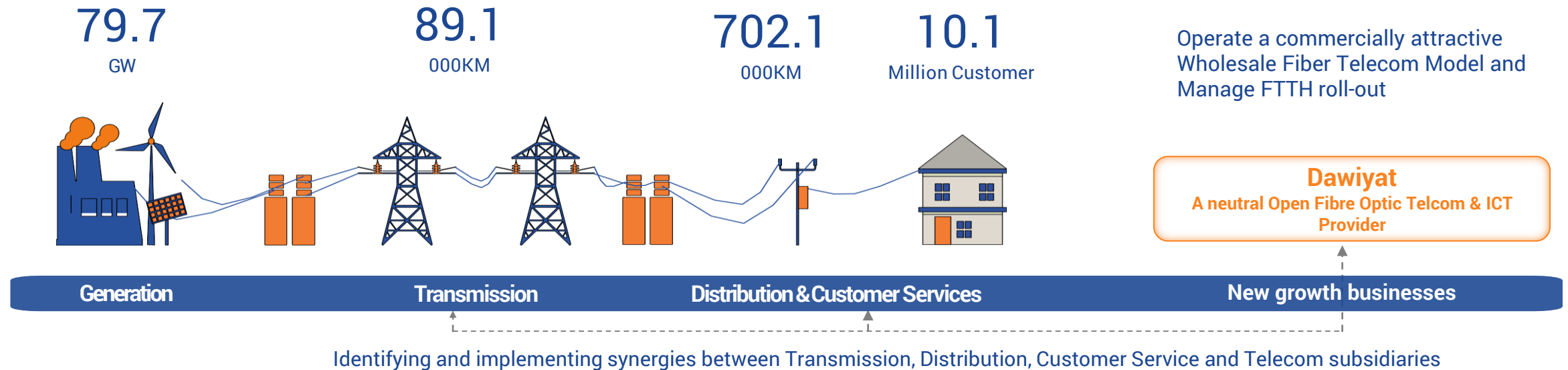
Theoretical shock	Automatic adjustment
 Increase / decrease in tariff	Decrease / increase in balancing account
 Increase / decrease fuel	Increases / decreases in balancing account
 Increase / decrease volume	Decrease / increase in balancing account
 Increase funding costs	WACC adjustment in next regulatory period
 Build-up government receivables	Public sector consumption mechanism
 Bad debts	Adjustment in regulatory formula



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# SEC is vertically integrated across the value chain, and is pursuing a new and diversified non-regulated sources of revenue



<b>69.1</b>	GW SEC (15.9 JVs)	<b>1150</b>	Substations	<b>574.2 k</b>	Transformers	<b>508 K</b>	FTTH (Bit-Stream access)
<b>10.5</b>	GW Non-SEC	<b>3,521</b>	Transformers	<b>8.8 million</b>	Smart meters	<b>Mega projects, businesses and banks</b>	Fiber connectivity and capacity, dark fiber and ICT services
<b>39.66%</b>	Efficiency	<b>80.9 k KM</b>	Fiber Optic	<b>96%</b>	e-Services	<b>Modular T-III Certified commercial DC in KAUST</b>	Data centers & Colocation

# Q & A

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