

Saudi Electricity Company ('SEC')

Financial results for the three and nine months' periods ended 30 September 2020

Customer base growth pace continues, while consumption and operating revenue remains stable.

Riyadh, 29 October 2020 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for the three and nine months' period ended 30 September 2020.

Figures in SAR million	Quarterly Periods			Nine Months Periods		
	Q3 2020	Q3 2019	% change	9M 2020	9M 2019	% change
Operating Revenue	20,517	20,831	(1.5%)	48,583	48,746	(0.3%)
Gross Profit	3,151	3,760	(16.2%)	2,711	4,944	(45.2%)
Gross Profit Margin %	15.4%	18.0%	(2.6)pp ⁽²⁾	5.6%	10.1%	(4.6)pp
Operating Profit	3,368	3,854	(12.6%)	2,447	5,192	(52.9%)
Operating Profit Margin %	16.4%	18.5%	(2.1)pp	5.0%	10.7%	(5.6)pp
Net Profit / (Losses)	2,201	2,678	(17.9%)	(1,109)	1,979	-
Reported Earnings/ (Losses) per Share (SAR)	0.53	0.64	(17.9%)	(0.27)	0.47	-
Net comprehensive income/(losses)	2,248	2,613	(14%)	(1,657)	1,574	-
EBITDA ⁽¹⁾	7,733	8,260	(6.4%)	16,234	18,248	(11%)
EBITDA Margin %	37.7%	39.7%	(2.0)pp	33.4%	37.4%	(4.0)pp

(1) EBITDA = net profit/losses + depreciation + net interest expense + net zakat and tax expense + net amortization

(2) pp: percentage points

(3) EBITDA in 9M 2020 is excluding one-offs related to fuel dues settlement and the reversal of deferred tax

HIGHLIGHTS

- Total operating revenue in 9M 2020 and Q3 2020 are broadly stable with a slight decline YoY of -0.3% and -1.5% respectively.
- Overall consumption volume remains stable albeit with higher contribution from the lower margin Residential segment due to a change in the sales mix during Corona virus "Covid-19" pandemic.
- The reported net losses in 9M 2020 were mainly driven by one-off fuel dues settlement expense, changing sales mix during Covid-19 pandemic, higher purchased power, provisions recording and higher finance charges.

- SAR 20.8 billion invested in capital projects during 9M 2020 (9M 2019: SAR 15 billion).
- SEC successfully priced a US\$1.3 billion dual-tranche RegS Green Sukuk issuance, which marks the first USD denominated Green Sukuk Issuance from KSA.
- SEC continues to be one of the highest rated corporate in Saudi Arabia with A2, Negative / A-, Stable / A-, Stable ratings by Moody's, Fitch and S&P respectively.

PERFORMANCE REVIEW

Operating Revenue

Item (SAR million)	9M 2020	% of total	9M 2019	% of Total	%Change
Electricity sales	44,776	92.2%	45,073	92.5%	(0.7%)
Meter reading, maintenance and bill preparation income	1,039	2.1%	1,007	2.1%	3.1%
Electricity connection tariff	1,468	3.0%	1,196	2.5%	22.7
Transmission system revenue	936	1.9%	814	1.7%	15.0%
Other operating revenue	364	0.7%	656	1.3%	(44.5%)
Total operating revenue	48,583	100%	48,746	100%	(0.3%)

- Total operating revenue was broadly stable in 9M 2020 (-0.3% YoY) reflecting the following:
- 0.7% YoY decline in electricity sales in 9M 2020 over the corresponding period of 2019 is reflecting the change in the sales mix towards higher residential and lower commercial and governmental consumption during the Covid-19 pandemic.
- Overall consumption volume in 9M 2020 remained almost stable at 216.3 Twh, while Residential consumption grew 8% YoY and contributed to 50% of total volume sold. Commercial and government consumption declined 10% YoY respectively, while other segment remained stable. Electricity consumption mix in Q3 2020 has gradually returned to normal reflecting a recovery from the Covid-19 lockdown period.
- Higher revenue from the tariffs charged for meter reading, maintenance and bills preparation are in line with the continuing increase in the customer base.
- 22.7% YoY increase in electricity connection fee revenue is mainly driven by a 3.6% YoY growth in the customer base to 10.0 million at end of 9M 2020 compared to 9.67 million at end of 9M 2019, and higher recognized component of deferred revenue.
- Higher revenue of transmission systems is due to higher wheeling charges to other power producers who use SEC's transmission national grid to transmit power.
- 44.5% YoY decrease in other operating revenue is primarily driven by the absence of one-off penalty charges which was booked in 9M 2019, lower disconnection fee revenue in 9M 2020 partially offset by strong growth (102% YoY) in fiber optic lease revenue due to increasing utilization of FTTH connections.

Cost of Sales

Item (SAR million)	9M 2020	% of total	9M 2019	% of total	Change
Fuel	6,020	13.1%	6,106	13.9%	(1.4%)
Purchased energy	6,433	14.0%	5,717	13.1%	12.5%
Operation and maintenance	7,759	16.9%	7,044	16.1%	10.1%
Government fees	11,862	25.9%	11,284	25.8%	5.1%
Depreciation ⁽¹⁾	13,798	30.1%	13,651	31.2%	1.1%
Cost of Sales	45,872	100%	43,802	100%	5%

⁽¹⁾ Depreciation related to operating assets and right of use assets

- 1.4% YoY decrease in fuel costs is reflecting lower produced power volume by SEC and an improvement in fuel mix towards lower usage of diesel and heavy fuel oil. The aforementioned was partially offset by increased fuel transportation and treatment costs.
- 12.5 % YoY increase in purchased power cost is due to an additional IPP becoming operational in 2020, and higher output from IPPs/IWPPs producers as opposed to some IPPs outages in the same prior year period.
- 10.1% YoY increase in operations and maintenance costs is mainly driven by higher contracts and material costs. Furthermore, 9M 2019 included a one-off a reversal of provisions as opposed to additional provisions allocated in 9M 2020.
- 5.1% YoY increase in Government fees is primarily reflecting the change in the consumption mix towards higher contribution of the lower margin residential segment.
- 1.1% increase in depreciation is reflecting the positive change in estimate of residual value of property, machinery and equipment in 9M 2020 by 1.8% of the historical cost (previously estimated at zero), this change resulted in SAR 670 million reduction in depreciation expense.

EBITDA and Net Profit/ Losses

- 9M 2020 includes a one-off settlement of fuel dues differences to Saudi Aramco of SAR 808 million relates to the supply of light fuel oil rather than heavy fuel oil to one of the Company's power plants.
- 23.1% YoY increase in other income, net in 9M 2020 is reflecting higher amortization of Government grants.
- The reported net losses in 9M 2020 compared to a net profit in similar period last year are mainly reflecting the aforementioned one-off expense, higher purchased power costs, changing consumption mix, higher provisions and higher finance charges, which has been partially offset by the reversal of deferred tax expense.
- 17.9% YoY decline in Q3 2020 net profit is mainly driven by higher purchased power, lower other operating revenue and lower recognized component of deferred electricity connection revenue.
- Reflecting the aforementioned factors, EBITDA is down 11% YoY in 9M 2020 to SAR 16,234 million.

Cash Flow and Capital Expenditure

- 8.7% YoY increase in cash flow from operating activities to SAR 21.2 billion (9M 2019: SAR 19.5 billion) is mainly arrived from the change in working capital.

- 42.8% YoY increase overall to SAR 19.5 billion in 9M 2020 (9M 2019: SAR 13.7 billion) net outflow of cash due to investing activities, is in line with SEC's strategy to meet the demand, improve reliability of supply, connect new customers, and the roll out of the smart metering project.
- Net cash outflow from financing activities during 9M 2020 of SAR 2.2 billion (9M 2019: SAR 4.7 billion) is reflecting proceeds drawn down from commercial loan facilities and Sukuk (totaling SAR 14.9 billion) and received government grant of SAR 0.178 billion, and these were offset by repayments of loans of SAR 8.1 billion, paid finance costs of 3.93 billion, lease contracts obligations and dividend disbursements of SAR 0.835 billion.
- SEC closed 9M 2020 with a gross cash position of SAR 5.8 billion (9M 2019: SAR 3.6 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC is continuing major investments into its generation, transmission and distribution capabilities. As of Q3 2020 end, SEC's asset base had grown 4.9% to SAR 503 billion (2019 YE: SAR 479.8 billion), with shareholders' equity declining 3.3% to SAR 71.2 billion. (2019 YE: SAR 73.6 billion).

Further enquiries

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Overview of Saudi Electricity Company ("SEC")

SEC is the largest utility in the MENA region with a market capitalization of SAR 82.8 bn (US\$ 19.1 bn) as at 30 September 2020, and is one of the largest companies listed on the Saudi Tadawul by market size. It is a vertically integrated company involved in the generation, transmission and distribution of electricity to over 10 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is growing driven by favorable demographic makeup and an increasingly diversified and growing economy.

For further information on SEC and the consolidated interim financial statements for the nine and three months period ended 30 September 2020, please refer to the corporate website: www.se.com.sa

End of Release.