

## Saudi Electricity Company ('SEC')

### Financial results for the three and nine months period ended 30 September 2019

**Consumption rationalization, higher depreciation and finance charges impact net profit, however it was partially offset by continued growth in subscribers' base, other operating revenue and other income.**

**Riyadh, 5 November 2019** – 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 2019.

Figures in SAR million	Quarterly Periods			Nine Months Periods		
	Q3 2019	Q3 2018	% change	9M 2019	9M 2018	% change
Revenue	<b>20,831</b>	21,930 <sup>(1)</sup>	(5.0)%	<b>48,746</b>	51,033	(4.5)%
Gross Profit	<b>3,760</b>	5,971 <sup>(1)</sup>	(37.0)%	<b>4,944</b>	8,286	(40.3)%
Gross Profit Margin %	<b>18.0%</b>	27.2%	(9.2) pp <sup>(3)</sup>	<b>10.1%</b>	16.2%	(6.1)pp
Operating Profit	<b>3,854</b>	5,982	(35.6)%	<b>5,192</b>	8,175	(36.5)%
Operating Profit Margin %	<b>18.5%</b>	27.3%	(8.8) pp	<b>10.7%</b>	16.0%	(5.4) pp
Net Profit	<b>2,679</b>	4,925	(45.6)%	<b>1,979</b>	5,558	(64.4)%
Earnings per Share (SAR)	<b>0.64</b>	1.18	(45.8)%	<b>0.47</b>	1.33	(64.7)%
Net Comprehensive Income	<b>2,613</b>	5,072	(48.5)%	<b>1,574</b>	5,791	(72.8)%
EBITDA <sup>(2)</sup>	<b>8,263</b>	9,739	(15.2)%	<b>18,229</b>	19,727	(7.6)%
EBITDA Margin %	<b>39.7%</b>	44.4%	(4.7) pp	<b>37.4%</b>	38.7%	(1.3) pp

(1) Reported revenue and gross profit of Q3 2018 has been modified due to reclassification of some comparative figures.

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

(3) pp : percentage points

### HIGHLIGHTS

- 4.5% and 5% YoY decline in operating revenue during 9M 2019 and Q3 2019 respectively is primarily driven by lower electricity sales due to consumption rationalization.
- Lower operating revenue, higher depreciation and finance charges impact net profit during 9M2019 and Q32019, albeit partially offset by lower G&A expenses and higher other income.
- Consumption rationalization continues to reduce the burden of capital expenditure on SEC and indicates the success of KSA's reform policy in raising demand-side consumption efficiency. SAR 15 billion invested in capital projects during 9M 2019 (9M 2018: SAR 22 billion), representing a 31.8% YoY decline.

- SEC continues to be one of the highest rated corporates in Saudi Arabia with A2/A-/A- ratings by Moody's, Fitch and S&P respectively.

## PERFORMANCE REVIEW

### Revenue

Item (SAR million)	9M 2019	% of total	9M 2018	% of Total	%Change
Electricity sales	45,072	92%	47,804	94%	(5.7)%
Meter reading, maintenance and bill preparation income	1,007	2%	974	2%	3.4%
Electricity connection tariff	1,196	2%	1,068	2%	12.0%
Transmission system revenue	814	2%	779	2%	4.5%
Other operating revenue	656	1%	408	1%	60.8%
<b>Total operating revenue</b>	<b>48,746</b>	<b>100%</b>	<b>51,033</b>	<b>100%</b>	<b>(4.5)%</b>

- 4.5% YoY decrease in 9M 2019 total operating revenue is mainly driven by lower electricity sales, which was partially offset by an increase in the other items of operating revenue.
- 5.7% YoY decline in electricity sales in 9M 2019 is reflecting lower electric power volume sold in 9M 2019 of 217.7Twh <sup>(1)</sup> (9M 2018 : 226.6Twh <sup>(1)</sup>), which is primarily driven by change in consumer behaviour toward rationalization, moreover, the change in the sales mix toward higher contribution of consumption in lower tariff slabs.
- Higher revenue from the tariffs charged for meter reading, maintenance and bills preparation is principally reflecting 3.9% YoY growth in the subscriber base to 9.67 million from 9.31 million.
- 12% YoY increase in electricity connection fee revenue is principally attributable to new connections added over the period and is in line with the continued growth in subscribers' base.
- Higher transmission system revenue is due to increased wheeling charges on other producers who use SEC's transmission national grid to transmit power.
- 60.8% YoY increase of in other operating revenue is primarily driven by higher revenue for reconnecting customers, higher fibre optic lease revenue, higher reactive power charges and a one-off penalty charges related to a violation of agreed consumption limits by industrial consumers.

### Cost of Sales

Item (SAR million)	9M 2019	% of total	9M 2018	% of total	Change
Fuel	6,106	14%	6,046	14%	1.0%
Purchased energy	5,717	13%	5,900	14%	(3.1)%
Operation and maintenance	7,045	16%	6,909	16%	2%
Government fees	11,284	26%	11,753	27%	(4.0)%
Depreciation <sup>(2)</sup>	13,651	31%	12,139	28%	12.5%
<b>Cost of Sales</b>	<b>43,803</b>	<b>100%</b>	<b>42,747</b>	<b>100%</b>	<b>2.5%</b>

<sup>(1)</sup> The sold volume is adjusted in both reported periods to exclude one-off adjustments related to previous years' consumption.

<sup>(2)</sup> Depreciation relating to operating assets and the right of use of assets

- Marginal increase in fuel costs is reflecting change in the fuel mix toward usage of more diesel and crude oil in 9M 2019 compared to similar prior year period's fuel mix. The thermal efficiency of the overall generation fleet in kingdom remained stable in 9M 2019 at 39.9% (9M 2018: 39.8%).
- 3.1% YoY decrease in purchased power cost is mainly due to lower purchased power volume from IPPs and IWPPs generation driven by unplanned/planned outages of some IPPs and IWPPs during 9M2019.
- 2% YoY increase in operations and maintenance costs is mainly due to the increase in contracts and materials costs which are partially offset by decrease in labour costs driven by the human resources productivity improvement program.
- The Government fees (which comprise an amount equal to the additional revenue generated as a result of the new tariffs introduced effective from 1 January 2018 as compared to the previous tariffs) decline 4% YoY primarily due to continued consumption rationalization.
- 12.5% increase in depreciation is reflecting the growth in the operating asset base as projects amounting to SAR 33 billion were completed and became operational over the course of the last 12 months, this as well as the first time application of IFRS 16 which added about SAR 113 million from right of use asset depreciation.

#### **EBITDA, Margin, and Net Profit**

- Reflecting the foregoing items, EBITDA is 7.6% down YoY in 9M 2019 to SAR 18,229 million. EBITDA margin is down to 37.4% during 9M 2019 (9M 2018: 38.7%).
- 45.6% decrease YoY in net profit in 9M 2019 is mainly due to lower electricity sales, higher depreciation and higher finance charges, this is despite the increase in other income that is mainly attributable to higher dividend income, fines and amortization of Government grant revenue and lower miscellaneous expenses.
- 64.4% YoY decrease in net profit in Q3 2019 compared to Q3 2018 is mainly due to lower electricity sales and higher operating costs, this is partially offset by an increase in the other items of operating revenue.

#### **Cash Flow and Capital Expenditure**

- 3.9% YoY decrease in cash flow from operations of SAR 19.5 billion in 9M 2019 (9M 2018: SAR 20.3 billion) is reflecting lower net income achieved during 9M 2019.
- 38.6% YoY decrease in overall net outflow of cash due to investing activities to SAR 13.7 billion in 9M 2019 (9M 2018: SAR 22.3 billion), in line with SEC's strategy to rationalize capital expenditure to meet the demand, improve reliability of supply, connect new customer.
- Net cash outflow from financing activities during 9M 2019 of SAR 4.69 billion compared to net inflow of SAR 15.33 billion in 9M 2018 is primarily driven by proceeds drawn down from commercial loan facilities totaling SAR 12.66 billion and receipts of government grant of SAR 0.09 billion, This is as opposed to total repayments of loans of SAR 13.46 billion, paid finance costs of SAR 3.15 billion, lease contracts obligations of SAR 0.104 billion and dividend disbursements of SAR 0.736 billion.
- SEC closed 9M 2019 with a gross cash position of SAR 3.6 billion (9M 2018: SAR 14.4 billion).

#### **Asset and Equity Base**

- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. During 9M 2019, SEC's asset base had grown 2.7% to SAR 477.3 billion

(2018 end: SAR 464.6 billion), with shareholders' equity growing 1.1% to SAR 74.5 billion (2018 end: SAR 73.7 billion).

- Starting from 1<sup>st</sup> January 2019, SEC has adopted IFRS 16 (leases). For further details, note 2.1 (Effect of changes in accounting policies as a result of application of new standards) can be read in the notes of the consolidated interim financial statements for the nine months ended 30 September 2019.

#### 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 77-6 bn (US\$23.6 bn) as at 30 September 2019, 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 9.67 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is driven by favorable demographic makeup and an increasingly diversified and growing economy.

For further information on SEC and the full interim financial statements for the nine months period ended 30 September 2019, please refer to the corporate website: [www.se.com.sa](http://www.se.com.sa)

***End of Release.***