المراكز العربية
Arabian Centres

Q2-FY2021 EARNINGS PRESS RELEASE
Riyadh | 3 November 2020

Arabian Centres Company Releases Results for the Second Quarter Ended 30 September 2020

(Riyadh, 3 November 2020) Arabian Centres Company ("ACC" or the "Company"), the leading owner, developer and operator of lifestyle shopping centres in Saudi Arabia, announces its financial results for the second quarter ended 30 September 2020 (Q2-FY21), reporting a net profit of SAR 111.1 million on total revenues of SAR 464.8 million. On a year-to-date (YTD) basis, ACC booked a net profit of SAR 264.2 million on a top line of SAR 940.7 million for the six-month period ended 30 September 2020 (H1-FY21).

Summary Income Statement (SAR Mn)	Q2-FY21	Q2-FY20	*% Change*	H1-FY21	H1-FY20	*% Change*
Total Revenue	**464.8**	**559.1**	***-16.9%***	**940.7**	**1,131.6**	***-16.9%***
Gross Profit	**254.8**	**366.3**	***-30.5%***	**553.4**	**759.1**	***-27.1%***
Gross Profit Margin	*54.8%*	*65.5%*	*-10.7 pts*	*58.8%*	*67.1%*	*-8.2 pts*
Net Profit	**111.1**	**208.2**	***-46.6%***	**264.2**	**435.1**	***-39.3%***
Net Profit Margin	*23.9%*	*37.2%*	*-13.3 pts*	*28.1%*	*38.5%*	*-10.4 pts*
Key Profitability Metrics						
EBITDA	**361.5**	**426.7**	***-15.3%***	**754.1**	**872.3**	***-13.5%***
EBITDA Margin	*77.8%*	*76.3%*	*1.5 pts*	*80.2%*	*77.1%*	*3.1 pts*
Recurring EBITDA[1]	**392.5**	**426.7**	***-8.0%***	**792.2**	**872.3**	***-9.3%***
Recurring EBITDA Margin	*84.4%*	*76.3%*	*8.1 pts*	*84.1%*	*77.1%*	*7.0 pts*
FFO[2]	**193.5**	**283.0**	***-31.6%***	**427.9**	**583.1**	***-26.6%***
FFO margin	*41.6 %*	*50.6%*	*-9.0 pts*	*45.5%*	*51.5%*	*-6.0 pts*
Key Operational Metrics						
Total GLA (Mn sqm)	**1.253**	**1.202**	***4.2%***	**1.253**	**1.202**	***4.2%***
Period-End Occupancy Rate LFL (across 19 malls only)	**90.5%**	**93.2%**	***-2.7 pts***	**90.5%**	**93.2%**	***-2.7 pts***
Average Footfall (Mn)	**17.2**	**28.3**	***-39.2%***	**24.3**	**59.7**	***-59.3%***

Financial Highlights

- ***Total revenues declined by 16.9% y-o-y in Q2-FY21 and fell by 22.1% on a like-for-like (LFL) basis, recording SAR 464.8 million.*** The decrease was driven by the granting of nonrecurring, covid-related discounts to ACC's tenants during the quarter. On a YTD basis, H1-FY21 saw total revenues decrease by 16.9% y-o-y and by 22.2% in LFL terms, booking SAR 940.7 million, similarly impacted by covid-related discounts as well as a slight decrease in the Company's LFL occupancy rate. ACC estimates a total covid-related exposure of SAR 535.9 million on the Company's net rental revenue, to be recognized over the term of outstanding lease contracts.
- ***ACC's weighted average discount rate between internal and external tenants registered 14.4% (SAR 71.2 million) in Q2-FY21***, up sharply from 5.6% (SAR 33.1 million) as at Q2-FY20. Nonrecurring, covid-related discounts accounted for 96.4% (SAR 68.7 million) of all discounts granted during Q2-FY21. Similarly, the weighted average discount rate recorded 13.4% (SAR 137.4 million) in H1-FY20 against 3.7% (SAR 39.9 million) one year previously, with nonrecurring, covid-related discounts representing 97.7% of all discounts granted during the six-month period. A further SAR 20.4 million in nonrecurring covid-related discounts had been granted during Q4-FY20. When excluding covid-related discounts, rates maintain the clear downward trend observed since FY2018.

[1] Recurring EBITDA normalizes for the effects non-recurring items.
[2] Fund from operations: net profit for the year plus depreciation of investment properties and PP&E minus write-off of investment properties, if applicable.

- ***Gross profit recorded SAR 254.8 million for Q2-FY1, down by 30.5% y-o-y*** and yielding a 10.7-point decrease in the gross profit margin (GPM) to 54.8%. Decreased gross profitability followed from a contraction in the top line and heightened depreciation expenses, with new assets coming online during Q2-FY21 as compared with Q2-FY20 and expected to generate a growing top-line contribution as operations are ramped up. Gross profit was down by 27.1% y-o-y to SAR 553.4 million in H1-FY21, yielding a GPM of 58.8% - a decrease of 8.2 points from one year previously.
- ***EBITDA contracted by 15.3% y-o-y in Q2-FY21, recording SAR 361.5 million,*** with the EBITDA margin climbing by 1.5 points to 77.8% for the quarter. The absolute decrease in EBITDA was driven by declines in the top line and gross profitability, although broad cost control measures provided a boost to the EBITDA margin. EBITDA fell by 13.5% y-o-y on a YTD basis, recording a margin of 80.2% against the 77.1% booked one year previously. The margin was supported by a decline of 9.2% y-o-y in general and administrative expenses during H1-FY21.
- ***Recurring EBITDA, which normalizes for the effects of non-recurring items, decreased by 8.0% y-o-y in Q2-FY21, recording SAR 392.5 million,*** with the recurring EBITDA margin climbing by 8.1 points to 84.4% for the quarter. Recurring EBITDA fell by 9.3% y-o-y on a YTD basis, recording a margin of 84.1% for H1-FY21.
- ***Net profit fell by 46.6% y-o-y in Q2-FY21, booking SAR 111.1 million for the quarter.*** ACC's net profit margin (NPM) contracted by 13.3 percentage points in Q2-FY21, recording 23.9%. Bottom-line performance was affected by nonrecurring discount expenses and heightened interest expense on lease liabilities. Net profitability was further pressured by a nonrecurring write-off of SAR 26.0 million in accounts receivable for Q2-FY21. On a YTD basis, ACC saw a contraction of 39.3% y-o-y in net profit to SAR 264.2 million in H1-FY21, with the NPM decreasing by 10.4 percentage points to record 28.1%. The YTD decline in net profitability was driven by impairments on accounts receivable, with the Company adopting a conservative approach on receivables and increased provisions for the period.
- ***Funds from operations (FFO)[3] fell by 31.6% y-o-y to SAR 193.5 million*** in Q2-FY21, with the FFO margin declining by 9.0 percentage points to 41.6%. FFO declined 26.6% y-o-y to record SAR 427.9 million on a YTD basis, yielding a FFO margin of 45.5% in H1-FY21 against 51.5% in H1-FY20.
- ***Total CAPEX outlays*** on shopping centres in ACC's construction pipeline during Q2-FY21 and H1-FY21 reached SAR 109.7 million and SAR 156.0 million, respectively.
- ***Net debt[4] recorded SAR 6,137.8 million as at H1-FY21 (30 September 2020)*** versus SAR 5,970.1 million at year-end FY2020 (31 March 2020). ***Cash and cash equivalents on the Company's balance sheet booked SAR 878.6 million as at 30 September 2020***, up from SAR 422.9 million one year previously on the back of a successful refinancing transaction and ACC's drawdown of its revolving credit facility as a risk management exercise.
- Q2-FY21 saw ACC distribute a ***cash dividend of SAR 0.50 per share (SAR 237.5 million) for the second half of FY2020***.

Covid-19 Relief Program

- Arabian Centres has offered all tenants a waiver on contractual base rent and service charges for a period of six weeks from 16 March 2020. Tenants whose stores were mandatorily closed by government have received further relief. ***ACC extended SAR 68.6 million in nonrecurring, covid-related discounts during Q2-FY21, having previously recognized SAR 62.7 million in such discounts during Q1-FY2021.*** Since Q4-FY20, Arabian Centres has recognized a cumulative SAR 151.7 million in covid-related discounts to tenants, with an attendant effect on the Company's net rental revenue. Meanwhile, all escalations on lease contracts have been suspended for 2020 and 2021.

[3] Fund from operations: net profit for the year plus depreciation of investment properties and PP&E minus write-off of investment properties, if applicable.
[4] Net debt: financial debts minus cash and cash equivalents

- ACC has reached a number of mutually beneficial agreements with landlords at its leasehold lands and shopping centres, ameliorating rent expense. ***The Company received SAR 73.0 million in landlord discounts during H1-FY21, of which SAR 37.7 million were received during Q2-FY21***.

Operational Highlights

- ***ACC's portfolio included 21 shopping centres as of H1-FY21***. The Company inaugurated an extension to Nakheel Mall in Riyadh during Q2-FY21, bringing online c.16,000 square metres in additional gross leasable (GLA) area during the period. Approximately 86% of GLA at the extension had been pre-let as of 30 September 2020, with the financial impact expected to appear during Q3-FY21. ***Total GLA at ACC's portfolio recorded 1.253 million sqm at H1-FY21, up by 4.2% y-o-y***.
- ***Q2-FY21 saw ACC launch one cineplex each at four of its portfolio locations***. Cineplexes were launched at Jubail Mall and Al-Ahsa Mall, the first such theatres to be introduced in the Jubail and Al-Ahsa regions. Cineplexes were further launched at Haifa Mall in Jeddah and at the newly opened extension at Nakheel Mall in Riyadh. ***Cineplexes launched during the quarter brought online a total of 3,000 seats and 35 screens while occupying over 12,000 square meters in GLA***. The cineplex opened at Nakheel Mall stands as one of the Kingdom's largest such facilities, boasting 1,670 seats and 13 screens. In October 2020, Arabian Centres launched Saudi Arabia's largest cineplex to date at Mall of Dhahran. The facility includes 2,638 seats and 18 screens, occupying 9,663 square meters.
- ***Like-for-like period-end occupancy*** (across 19 malls only) recorded 90.5% as of 30 September 2020, down from the rate of 93.2% recorded in H1-FY20 due to the continued allocation of additional space to cineplex facilities during the period.
- ***Approximately 24.3 million visitors were welcomed during H1-FY21,*** down from 59.7 million during H1-FY20. Decreased footfall stems from the closure of the Company's shopping centres during Q1-FY21 in compliance with government efforts to stop the spread of the virus which causes covid-19. Peak annual footfall typically coincides with the months from April to June (Q1), so that restrictions during the period produced a sharp decline in footfall compared to the seasonal average. ***On a quarterly basis, however, footfall was up sharply to 17.2 million in Q2-FY21*** from c.7 million in Q1-FY21, reflecting the ongoing normalization of commercial activity as covid-related restrictions are eased.
- ***Despite pressure on rental rates, ACC renewed 1,343 leases during H1-FY21,*** representing 75% of leases due to expire during calendar year 2020. Pressure on rental rates resulted in a decrease in the rental rates applied to contracts renewed during the period, particularly at B- and C-category shopping centres.

CEO's Note

Following a series of challenging quarters since the onset of the covid-19 pandemic, Arabian Centres is firmly on the path to recovery. Footfall at ACC's shopping centres more than doubled compared to the previous quarter, as Saudi shoppers once again head to their favorite retail destinations, moviegoers explore an expanding range of cineplex offerings, and consumers look to complete purchases that had been postponed by the pandemic and attendant restrictions on mobility. Although the quarter's footfall of 17.2 million was down compared to the previous year, it was up sharply from the 7 million welcomed during Q1-FY2021, reflecting the ongoing normalization of commercial activity. The Company stands fully prepared to welcome this renewed influx of visitors and continues to implement the health and safety measures recommended by the Saudi Ministry of Health.

Although the Company's profitability markers remain sluggish, this stems primarily from the effects of nonrecurring discount expenses on the top line. Last quarter saw ACC move to provide all of its tenants with a waiver on contractual base rent and service charges for a period of six weeks from 16 March 2020, with additional support provided to tenants particularly affected by the pandemic. Management estimates total covid-related exposure of approximately SAR 536 million on the Company's rental revenue, with SAR 131.3 million in special discounts recognized as of H1-FY2021, following on the SAR 20.4 million that had been granted during Q4-FY20. We expect that the value covid-related discounts will be amortized over the remaining duration of outstanding lease contracts, and anticipate that the beginning of the next fiscal year will see ACC's weighted average rate for non- covid discounts returning to the downward trajectory observed during previous periods. Meanwhile, the Company is seeing concrete signs of commercial recovery, with turnover revenue contributing 1.3% of ACC's top line in Q2-FY21 against 0.9% during the previous quarter, indicating a pickup in tenant sales.

Management draws great confidence from the strength of ACC's balance sheet and the Company's exceptional liquidity position, which have enabled it to distribute dividends and meet all financial obligations all while pressing ahead with major investments in its portfolio. The second quarter saw us inaugurate a major cineplex-equipped extension at Nakheel Mall in Riyadh, launching a total of four cineplexes across our portfolio – including the first-ever cinema theaters constructed in either of the Jubail or Al-Ahsa regions. ACC continues to benefit from solid market fundamentals, with retail, leisure and entertainment continuing to grow in importance as Saudi Arabia seeks to effectively diversify economic activity. Further encouragement can be taken government's moves to exempt property deals from a 15 percent value-added tax and to purchase a SAR 3 billion portfolio of private mortgages. The moves will provide a significant stimulus to the residential and commercial real estate sector, a major motor of the Saudi economy, while strong mortgage growth indicates the resilience of consumer demand.

Arabian Centres remains fully confident in the dynamism and growth prospects of Saudi Arabia's retail space and is entirely committed to its strategy of championing Vision 2030 and its objectives for the Kingdom's leisure and entertainment sectors.

Faisal Al Jedaie
Chief Executive Officer

Complete financial statements are available for download on ir.arabiancentres.com.

About Arabian Centres Company

Arabian Centres is the leading owner, operator and developer of contemporary lifestyle centres in Saudi Arabia. For over a decade, the Company has provided customers with a complete range of high-quality lifestyle centres up to international standards, located in the most attractive areas of the country to satisfy all shopping needs and market requirements. As of 31 March 2020, Arabian Centres operates a portfolio of 21 assets strategically located in 10 major Saudi cities. The Company's developments include several iconic lifestyle centres, such as Mall of Arabia Jeddah, Mall of Dhahran, and Nakheel Mall Riyadh – which was recognized at the Arab Luxury World Forum in 2017 as being consumers' favourite shopping mall in Riyadh. The Company's lifestyle centres have more than 4,100 stores and hosted approximately 111 million visitors in FY2020. For more information about Arabian Centres Company, please visit www.arabiancentres.com

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Analyst Call and Earnings Presentation

ACC will be hosting an analyst call on the Company's half-year results on 3 November 2020 at 16:00 KSA time. For conference call details, please email ir@arabiancentres.com. The Company's full Earnings Presentation is available for download at ir.arabiancentres.com

Forward-Looking Statements

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