Burgan Bank

1st Quarter 2019
Earnings Conference Call Transcript
20th May 2019

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Wednesday, 22nd of May 2019. Edited transcript of Burgan Bank earnings conference call that took place on Monday, 20th of May 2019 at 13:30 Kuwait time.

Burgan Bank Participants:

Mr. Raed Al Haqhaq – Chief Executive Officer – Kuwait

Mr. Khalid Al-Zouman - Group Chief Financial Officer

Chairperson:

Ms. Elena Sanchez – EFG Hermes

Operator: Good day and welcome to the Burgan Bank Q1 ’19 Earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Elena Sanchez. Please go ahead.

Elena Sanchez: Thank you. Good afternoon, everyone. This is Elena Sanchez from EFG Hermes. And I would like to welcome you all to Burgan Bank Q1 2019 Results conference call.

It is a pleasure to have with us on the call today the following speakers from Burgan Bank: Mr. Raed Al Haqhaq, Chief Executive Officer of Burgan Bank Kuwait and Mr. Khalid Al Zouman, Group Chief Financial Officer of Burgan Bank.

I would like to hand over the call now to Mr. Raed and Mr. Khalid who will comment on the Q1 ’19 results before we open the call for question and answers. Thank you.

Raed Al Haqhaq: Thank you, Elena. Good afternoon or good morning. We will start the investor call for the first quarter. You can see on slide number 2, this is basically how we will structure this call. Since this quarter we have adopted to maintain Kuwait at the normal three-month reporting, however for the subsidiaries we have closed them earlier by one month, i.e. two month closures. This is basically to allow us to expedite the reporting and the preparation of the financials.

If you have any question later on, please we'll be answered and of course Mr. Khalid, the Group CFO, he can add more input on that. If you don't mind, I will go to slide number 3. We can see from our earnings that our income is still strong keeping in mind that what I have just mentioned which is the earlier subsidiary closure. We are reporting 19.2 with strong income from Kuwait and lower cost of credit throughout the group and Kuwait.

Our capital is still strong at the CET1 of 11.8; this is after the earnings of 2018 and the capital increase. Overall CAR stands at 17.3. As far as efficiency, our cost of credit[1] continue to go down as we have mentioned, the last, we are targeting 40% at the Group. We have reached 41.8. Kuwait is extremely efficient at 28.4.

Liquidity we continue to be one of the highest liquid bank. And NSFR is at 118.1 and LCR is 151.9. I need to highlight here that we have managed to grow our customer deposits in the first quarter by 7%.

As far as revenue, I’m sure that you are familiar with this slide where we are now highlighting multiple ratios. Let me start with the net interest margin which is the profitability angle of the Group portfolio. We are maintaining even though that we have increased our Kuwait portfolio the same net interest margin, we're not sacrificing that. And even at the Group level it is almost at the same from 2.9 to 2.8.

You can go to the revenue side, which is the first chart. Revenue under Kuwait has grown by at 12% from 35.5 to 39.9. Under the Group will see it a bit distorted due to the fact that we are now comparing two month to a three month, 28.3 for the three months of the first quarter of 2018 against 18.1 of the two months of this year.

[1] Correct statement is Cost to Income Ratio rather than Cost of Credit.

Operating profit also our cost to income ratio which I have just highlighted on the previous slide, Kuwait keep on dropping from 36.8 to 28.4 and the Group from 46.2 to 41.8. As far as the operating profit, 27% growth in Kuwait from 22.4 to 28.5, again subsidiaries you can see at odds, this is only because of the reporting of two months against three months results.

Khalid Al Zouman: Slide number 6 if I continue – yes, sorry.

Raed Al Haqhaq: I will continue to slide number 5 and then I will give the chance to Mr. Khalid. This is an in depth look again into the cost of credit and how it is comparing to the last year and the Group and Kuwait level. Cost of credit has been maintained at .4 dropping from .5 from last year. At the Group level also you can see a drop from .9 to .7. From the actual (KD) value also you can see a drop from 3.8 to 3 and from 5.9 to 4.4 but this is also – I need to highlight it's due also under the Group to the two-month reporting.

Net income which is the one that have reported as the 19.2, you can see that a detailed breakdown of this 19.2 with Kuwait grew at 35% and Group again 3.1 against 6.1, this is due to the two-month reporting. Of course if you add the two figures will not come to the 19.2, this is mostly due to the consolidated adjustment. We have detail if anybody has a question we can go on in depth with it.

And the following slide which is the NPL ratio, Mr. Khalid Zouman, please.

Khalid Al Zouman: Thank you. Looking at the chart on the left hand side it shows our NPL ratio has gone down in terms of between 2017, 2018 where the bank had a lot of Write-Offs but some recoveries, however compared to Q1 in 2019 we have flat in Kuwait and our ratio is within the average of the Kuwaiti Bank compared to the Q1 when financial issues by other banks because the trade is between 1.5 and 2.8, so we were – think we are in the average with our peers. However, at the Group level we have (let it slide) by 30 basis points compared to December 2018 due some (NPL) incurred in Turkey. But overall we think that's still acceptable level but Turkey because incurred some (NPL).

On the right hand side it talks about our coverage ratio and we believe that the coverage ratio is still strong at 300% and still at the Group level still because of the (precautionary) provisions which the bank has been taking all over the – during the previous years.

Moving to slide number 7, it shows our – on the left hand side of the chart, it shows the composition of loans. You see the composition between Q1 to Q1 of 2018 still Kuwait we believe is healthy and is growing and feeding the whole group. However, at the commercial side it has been (flat), however the drop mainly coming from the devaluation of the Turkish lire now 10% has been devaluated from beginning of the year at least.

But overall, if you look at our balance sheet from December till March, we are almost like in a drop zone, we are mostly flat, only Kuwait has increase a little bit, because of, again, the devaluation of the currency. And from the liability side we see that still our liability is strong in terms of having various liability funding. And you see that only increase you see in Q1 of 2019 is a temporary deposit which came in to support our loan to deposit ratio, otherwise we feel that our funding is stable and our cost of fund expected to increase during the year but not – I don't think that much today. Our cost of fund at the Group level around 3.6% and our yields is around 6.1% so we're still in a healthy situation.

And if you move to slide number 8 which shows our regulatory capital, we feel that we have a comfortable zone compared to what the central bank asking us at 10.5. In December, yes, we have 11.9 in terms of CET1, today at this quarter 1 2019 is 11.8 so we still have stable. And why, because as you're right, the growth has not been hitting our assets so we are – have some buffer in terms of the regulatory requirement.

On the other side the liquidity metrics is shown our (LCR) and (NSFR), these ratios which are introduced with BASEL 3, however, (NFSR), if you look – we didn't show the ratio in 2017 because it's officially mandated by central banks from 2018. So although the required is (100) at the (LCR) and (NFSR) side, we still we have a comfortable level in terms keeping the bank liquidity comfortable zone.

And the last ratio is this – is a central bank regulation in terms of our liquidity ratio with a requirement around 20 22 where our bank is having like (26) so we feel that the bank is liquid, has a good liquidity ratio. And next slide I will hand it over to Raed.

Raed Al Haqhaq: This slide is a comparison or a snapshot of all subsidiaries including Kuwait performance. This quarter the only way we can do it honestly is to start everybody at two months. This is what is the first footnote is mentioning. The loan portfolio in Kuwait continue to be the largest which is 67% against Turkey at 21% - Algeria at 10. The remaining two subs either because of intentional that we have chosen not to grow at Iraq of course, or the activity base of Tunisia where it is not loan intensive.

Revenue Kuwait is 56% from the total group Turkey and also 19% and also 19% Algeria 3% Iraq and 2% Tunisia. The loan portfolio growth, as we have mentioned, we are targeting Kuwait to be the main percentage of growth which is 4% over the total loan portfolio that represents 67%, sorry, from the total loan portfolio. Iraq[2] we are maintaining the same side and we are even dropping it to some extent. This is where you can see a drop of 27% just like Mr. Khalid said, this is due to the (deval) and the intentional (de-growth) for the entity.

Algeria you can see a growth of 8%, this is where we are mostly focusing on the (trade) finance, evidenced by the revenue against the size, you can see that the revenue is 19% against a 10% size contribution. This is mostly due to the off balance sheet or the (LC & LG), which is their main activity.

I'll go now to the main indicator or our KPIs for these entities. Net interest margin, 2.3 in Kuwait; 4.1 in Turkey; 7% in Algeria; 1.8 and 2.5 in Iraq and Tunisia.

Our (CI) ratio is 28.4 in Kuwait; 55.3 in Turkey; 33% in Algeria; 75 – honestly this is due to the size of the organization or the subsidiary; and 41.5 on Tunisia.

Cost of credit continue to be healthy at .4 in Kuwait; 1.9 in Turkey; 2.1 in Algeria, and this is due to general provisioning mostly; 2.8 in Iraq and 5.6 in Tunisia.

[2] Correct Statement is Turkey rather than Iraq.

Khalid Al Zouman: I think in summary I think what we're trying to say to our investor and all the readers of our financial that still the bank is – has stable earnings despite what's happening in Turkey even we – are in very close contact with Turkey talking about – to them about their budget and what they're doing in 2019, to have – they will not make profit as last year but the bank still will be in profit. We have a capital healthy level in terms of keeping the required central bank ratios and Kuwait, we expect that going forward that it's going to be the main driver of bottom line in terms of the group. Thanks.

Raed Al Haqhaq: Thank you. Elena please, we can take any questions to any of the parts please.

Operator: Thank you. If you would like to ask a question, please press star 1 on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. A voice prompt on your phone line will indicate when your line is open. Please state your name before posing your question. Again, please press star 1. We'll now move to the first question. Please go ahead, your line is open.

Vikram Vis: Hello.

Raed Al Haqhaq: Hello.

Vikram Vis: Hello.

Khalid Al Zouman: Yes, we can hear you. Go ahead.

Vikram Vis: Okay, okay. This is (Vikram Vis) from NBK Capital. We had a question on the cost of credit. You explained that the international cost of credit reduced from 90 basis points to 70 basis points. But when we look at the geographical slides, we see that the average cost of risk went up by 90 basis points. So we were wondering if Turkey - Turkish cost of risk went up, how could the international cost of risk come down? Maybe you had an offset in some of the regions. If you can just provide some color on that it will be useful for us.

Khalid Al Zouman: I think as I mentioned earlier, I said that going from 2.7%, to 3%, yes, I said this may be coming from Turkey because we saw some NPL coming. And why? Mainly because of central bank regulation. Because if you go back to IFRS 9 of central bank is more rigid than the BRSA plus what's happening in Turkey in terms of microeconomics. So if I understand you correctly, whether Turkey has some NPL in carrying the yes, we are admitting that they have some NPL in carrying.

But the overall ratio of NPL ratio of Turkey with below 4%. In Q1, it's almost 3.7%, 3.8%. That's only of Turkey.

Vikram Vis: Sure. Thank you. My question is if the Turkish NPLs - Turkish cost of credit has increased, how does the international cost of credit drop?

Raed Al Haqhaq: Okay. Let me go over mathematically. If you can see that most of the size is coming from Kuwait, around 70%. So if you see a Kuwait drop of 0.5 to 0.4 and then you have Iraq dropping massively to 2.8. The combination this two is compensating the slight increase in Turkey like Mr, Khalid said and even in Algeria.

So mathematically, from the total portfolio is a drop from 0.9 to 0.7.

Vikram Vis: Okay. Thank you.

Raed Al Haqhaq: You're welcome.

Operator: As a reminder, to ask a question, please press star 1. Star 1 on your telephone keypad. We will now take the next question. Please go ahead caller. Your line is open.

Rakesh: Hi, team. My name is (Rakesh). I'm calling from Franklin Templeton. I had a couple of questions. First is regarding the change in your - can you hear me?

Raed Al Haqhaq: Yes, yes, absolutely. Please go on.

Rakesh: Okay, yes. So my first question is regarding the change in reporting that you mentioned at the start. So going forward, should we expect that every quarter, you'll be reporting two month results for the subsidiaries or would it be the last month of the previous quarter and the two months of this quarter starting from next quarter?

Khalid Al Zouman: I think - sorry -- is that the question?

Raed Al Haqhaq: Second question please, so (Mr. Khalid) and myself can answer both of them together.

Rakesh: Sure. My second question is around Turkey. So you mentioned that you have two-month numbers here. I'm not sure if you will be in a position to answer this but I wanted to check in any event. Would you be able to, at this stage, talk about what the capital levels for the Turkish operations are? And in terms of the total capital adequacy ratio and the CET 1 ratio and whether or not you see a potential need to recapitalize the Turkish operations.

Raed Al Haqhaq: Sure. Abu Fahad, if you can please cover the first question.

Khalid Al Zouman: I think for the first question, I think you will see that at year-end, we're going to be 11 months again, its 12 months under the subsidiary levels. However, in Q2 and Q3, it's going to be three months to three months. For example, for the (Subs), it's going to be from March until May. For Kuwait, it's going to be from March until June -- from April to June, sorry.

Rakesh: Okay. So when you release Q2, it will be March to May for the international subsidiaries and similarly when you release Q3, it will be accordingly the last month of the previous quarter, or last month of Q2 and of two months of Q3. So the change happens…

Raed Al Haqhaq: Absolutely. So if I can summarize, the change is only happening in this quarter. This year will be 11 months of subsidiaries and 12-month Kuwait. However, from the second quarter you will see a three-month from the subs and of course, from Kuwait.

Rakesh: Okay. That's clear.

Raed Al Haqhaq: Now, as far as your second question on the capital adequacy or the CAR ratio for Turkey. I can share with you absolutely. It is at 18% and if you need further details. Keep in mind that BBT Turkey, also they have their own website, and everything is published there. Of course, they will include their own financial normally under the three months going further.

But as far as the CAR, just to answer your question, it is 18%.

Rakesh: Okay. And what would be the minimum for CAR and the CET one? And do you have the CET 1 numbers as well?

Raed Al Haqhaq: Absolutely. CET 1 is 9.4.

Rakesh: And the minimum requirement?

Raed Al Haqhaq: Minimum for CAR is 12 and CET 1 (7).

Rakesh: Okay. Thank you very much.

Raed Al Haqhaq: You're welcome.

Operator: Again, as a reminder, to ask a question, please press star 1. Star 1 to ask a question. We will now take our next question. Please go ahead. Your line is open.

Vikram Vis: It is again we come from NBK Capital. One more question on the cost income ratio. On slide 9 where you show a numbers geographies, you show a big decline in the cost income ratio in Kuwait. The current cost income ratio is 28.4%. It came down by 840 basis points year-on-year. Is this because of the revenues or is this because you cut costs? Can you provide more color on this?

Raed Al Haqhaq: Absolutely. It is a combination of both, but honestly, the majority of the impact is coming from the revenue growth evidenced by the left slides where you can see that the revenue has grown. And even cost is almost flat with a slight increase, sorry, decrease. But most of the increase is happening from the revenue. You're right.

Vikram Vis: Okay. Thank you.

Raed Al Haqhaqs: You're welcome.

Operator: We will now take our next question. Please go ahead. Your line is open.

Sahil: Hello, can you hear me?

Raed Al Haqhaq: Yes.

Sahil: Hi, this is (Sahil) from Moody's. I have one question on your Turkish operations. So considering the current environment right now, is there anything changed in terms of strategy what is, like, the previous year or at the beginning of this year versus now? And which customer segment that you are targeting to grow your business in Turkish segment? This is one. And the second, could you please repeat your CET 1 in Turkey? I missed this number. Please. Thank you.

Raed Al Haqhaq: Sure. Let me start with the CET 1. The CET 1 end of first quarter is 9.4. And the CAR is 18 against 12 and 7.

Khalid Al Zouman: According to the strategy, actually, we had a couple of meetings between the higher management in BBT and our board here in Kuwait, plus the senior management in Kuwait. And we gave them guidelines in terms of their growth. We think that we keep the engine warm and keep the same level. However, we think that at the moment that thinks are improved. We're going to go back and grow in Turkey. We don't have intention to close it down or I think it's still, as I said in my earlier statement, although the bank will not make profits as 2018. But we believe, according to their budget, that we are monitoring them on monthly basis that they will make their forecast and they will make profits this year also.

And as you can see, all of the major indicators was it is the revenue or the KPIs. They are still performing within if not above the operating environment that they have.

Sahil: Sure. Yes. Okay. Thank you so much.

Raed Al Haqhaq: Thank you.

Operator: As there are no further questions, I'd like to hand the call back over to the speakers for closing remarks.

Raed Al Haqhaq: Thank you so much for joining us in this investor call. Looking forward to speaking to you on the second quarter. And please just a reminder, if you have any further questions, we are there. You can drop us an email or investor relationship unit. Thank you so much.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.