



GBCM Research: Renaissance Services- Q1 2019 Results Conference Call- Key highlights

(Closing Price: RO 0.520; Rating: Neutral, Fair Value: RO 0.484)

Topaz Capital Initiative to remain critical for balance sheet de-risking, Remain Neutral

Topaz Performance

- Q1 2019 revenue of the company stood at USD 114 million as compared to USD 66 million in the same period last year. The strong growth is driven by higher contribution in the Caspian market, growth achieved in the MENA and the African regions. Topaz Solutions also contributed significantly to this increase.
- Operating costs and overheads increased by 45% YoY and more in line with revenue increase and TCO ramp-up during the quarter.
- EBITDA for the quarter increased by 100% YoY to USD 66 million. EBITDA margin increased to 58% levels during Q1 2019 as compared to 50% levels in Q1 2018 and more similar to the levels seen in Q4 2019.
- **As per the company, Q1 EBITDA of Topaz is about USD 66 million, comprises of both cash and non-cash components. Cash EBITDA is about USD 35 million (52% of total) and the non-cash EBITDA is about USD 31.8 million (48% of total). The non-cash EBITDA is due to the client pre-payments for the Tengiz (TCO) contracts and related amortization against revenue generated during the contracted period.**
- On the other hand, the interest expenses increased by 33% YoY to USD 20 million during the quarter. **Net profit for Q1 2019 stood at USD 17 million as against reported losses during the same period of last year.** We estimate the earnings of 2019 and 2020 to remain strong for Topaz.

Updates on Tengiz Project

- Tengiz project (Topaz Solutions- TCO) has ramped up as per expectations with all 20 vessels earnings full revenue during the quarter. The utilization levels are at 100% levels.
- **As per the company, TCO project has contributed US\$ 50 million in revenue and US\$ 44 million in EBITDA (cash and non-cash) during Q1 2019. Out of this non-cash EBITDA is about USD 32 million (73% of Total Project EBITDA during the quarter) related to client pre-payments for this contract.**
- TCO contract EBITDA margin remained higher during the quarter as compared to management guidance of 70% levels; Operating results are better in this contract better due to various factors. Management guidance remain still around 70% levels. We would wait for couple of more quarters to see the normalization of this segment performance. **As per our view, the cash EBITDA margin is about 24% levels.**



Topaz Capital Initiative Vs De-risking or De-Leveraging

- **End Q1 2019, Renaissance Group has non-current debt of about RO 387 million (c. USD 1 billion), of which the debt related to Topaz is about USD 850 million.** The balance sheet remains considerably leveraged and hence the ongoing capital initiative would remain critical to adjust the level of debt to normal levels and improve shareholder value.
- The ongoing capital event (refer as Scenario 1) would remain critical and could be achieved through IPO, consolidation or other options. This would depend on the external market conditions and the delivery of business performance during the coming quarters. The company is looking at engaging with all key stakeholders and take them into confidence on this plan towards de-risking the balance sheet.

Topaz- Current Debt to Equity ratios (end of Q1 2019)

Topaz- Term Loans	Q1 2019	Comments
In USD 000s		
Term Loan, LIBOR+ 2.75% p.a.	320,409	Until April 2022
\$375 million, 9.125% Senior Notes	368,489	Until July 2022
Term Loan, LIBOR+ 1.4% p.a.	80,804	
Bill Discounting Facility, LIBOR +3.75%	4,238	
	773,940	
Current Portion	(41,882)	
Non-Current Portion- Term Loans	732,058	
		% of Total
Due within One year	41,882	5.7%
Due between two to five years	690,370	94.3%
Due after five years	41,688	5.7%
	773,940	
Topaz- Loans due to Parent (Renaissance)	Q1 2019	% of Total
In USD 000s		
Term Loans	78,600	Subordinated- extended repayment term (Coupon-8.5% per annum)
Current Portion	(42,094)	
Non-Current Portion	36,506	
Due within one year	42,094	53.6%
Due between two to five years	36,506	46.4%
Total Loans	852,540	
Total Equity Attributable to owners	188,949	
Total Debt (Inc. shareholder loan) to Equity	4.51	
Total Debt (ex. shareholder loan) to Equity	4.10	

Source: Topaz Financials, GBCM Research



In addition, as per our workings, estimated total EBITDA of Topaz during 2019 would be about USD 270 to 300 million (including Cash and non-Cash). Of this, Cash EBITDA in 2019 is estimated to be about USD 150 to 180 million.

On this, we would consider Debt (ex. Shareholder loans) to Cash EBITDA ratio at about 4.3X levels.

In terms of Group obligations (excluding term loans and other debt), key events to watch out during the coming quarters

SCB Liquidity Event (Topaz)- As per the management total obligations towards Standard Chartered Bank (SCB) event would be about **USD 110 million** and this is due on **Oct 2019**. The subscription agreement with SCB for Topaz equity stake includes guaranteed yield of 8% (from 12% initially- in 2014) and the deadline within which the liquidity event may occur has been extended to 6 years (from 3 years).

Perpetual Bonds (Renaissance)- The first Call Option of Perpetual Bonds is due on **July 2020**. Currently the company pays 7.9% as coupon for this bond, if not called during July 2020, then the interest rate would be increased to about 12.9% levels. The total obligation regarding this due / call is about RO **46.8 million (USD 122 million)**. Key investors of this perpetual bond issuance include local Banks, Pension Funds and Institutions.

According to our views, the money raised by the capital initiative (depends on the success of the event) would be able to settle the above obligations. We believe the ongoing Capital Initiative (if completed) could well de-risk or de-leverage the balance sheet of the group company. This would be able to take care of the liabilities/ obligations and may not benefit the shareholders in terms of cash / additional dividends coming in post either an IPO/ consolidation or other events. We remain neutral on this event, unless we have more clarity coming during the coming months.

Currently, the group is fully compliant with its financial obligations and covenants. Based on our views, If the capital event is not complete for Topaz due to challenging market conditions, there is a risk that Topaz Balance Sheet would remain weak and may breach few financing covenants during the coming 12 months, hence the proposed Capital/ Equity event completion remains critical.

Management indicated that they are looking at Scenario 2 to ensure a backup plan is ready if Scenario 1 is not working out and wait for market conditions to improve in order to proceed with Capital Event.

Scenario 2 could be in the form of discussions with the different stakeholders towards further extension (including SCB and Perpetual Bond holders). The company would discuss with all stakeholders to ensure other options available with time extension.



Performance of Duqm PAC

- Currently, the utilization level of Duqm PAC is about 50% and the company expect to fully utilize the initial capacity of about 16,000 rooms (excluding captive requirements) before end of the current fiscal year.
- The current expansion or conversion of rooms would be funded through shareholder equity and internal accruals. Post current expansion, total bed capacity (including rooms for captive requirements) has increased to 18,655 rooms from While the company is contemplating on doubling the capacity to cater to the growing needs.
- During the time of peak manpower requirements related to Duqm Refinery project (in 2020), the total accommodation requirements would reach around 24,000.
- The study of working out sustainable room demand in Duqm is going on, post this clarity, the management expects to take a call on further expansion (to be done in phases) during the coming months.
- **Current EBITDA of Duqm operations remain strong at 40% levels. We estimate improvement in EBITDA contribution from Duqm PAC in Renaissance numbers during 2019 and going forward.**

UAE Catering Business

Renaissance has reentered UAE market as part of diversification and sees this investment as a long term (potential seen). The company reported losses of about RO 100K during the quarter.

Outlook on Renaissance

Overall debt ratios of Topaz and Renaissance Group remain at elevated levels, the completion of Topaz capital raising program would be key for the Group deleveraging, this would remain as a key test for the management guidance. Caveat to remain on delay in Topaz Capital Enhancement program which would also lead to delays in deleveraging / de-risking initiatives. In addition, the increased contribution from Duqm village would also strengthen the Group's balance sheet. Any delay in Duqm contribution to impact the contract services segment performance.

The stock price of Renaissance Services has increased 40% since April 2019 and is currently trading above our revised fair valuations. At the current levels, the stock trades at PE (2019E) of 10.5X. On PBV basis, the stock trades at PBV (2019E) of 2.4X. Our revised fair value of the stock is at RO 0.484, we have a Neutral rating.

Currently, based on our views, we remain Neutral on upcoming capital initiative for the shareholders of Renaissance. We would wait for the progress of ongoing Capital Initiative during the coming quarters and its relevant impact on the shareholders to revise our position in the stock.



Stock Rating Methodology:

- Buy** - Upside more than 20%
- Accumulate** - Upside between 10% and 20%
- Neutral** - Upside or downside less than 10%
- Reduce** - Downside between 10% and 20%
- Sell** - Downside more than 20%
- Not Rated** - Stocks not in regular research coverage

LT- Long Term

ST- Short Term

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