

## GBCM Research: Renaissance Services- Q2 2019 Results Conference Call- Key Highlights

*(Closing Price: RO 0.270; Rating: Under Review, Fair Value: Under Review)*

### Standalone performance to improve in 2020, Stock under review until capital reduction...

The Management of Renaissance Services had conducted their Q2 2019 Group Results conference call on 20<sup>th</sup> Aug 2019 to discuss about the performance during the last quarter and on the outlook for 2019 and going forward.

### Topaz Sale Transaction- Key Updates

- During July 2019, Renaissance Services had accepted the final binding offer from DP World to acquire 100% of Topaz Energy and Marine for an enterprise value of RO 415 million (c. USD 1,079 million). The shareholders have approved the transaction on 29<sup>th</sup> July 2019. **The financial closure of this deal is expected to happen during Q3 2019, subject to all customary conditions and regulatory approvals.**
- As per the management, Topaz Sale transaction to DP World is progressing as planned and the same is expected to be closed within the next 20 days. All key conditions have been addressed in this deal. Management expect the deal to be closed during this quarter.
- End of Q2 2019, the assets and liabilities of Topaz have been classified as held for sale in the accounts (as per IFRS 5). The assets and liabilities of disposal are valued at lower of carrying value or fair value less cost to sell. The net results (after considering goodwill impairment of RO 5.7 million) of Topaz for H1 2019 is RO 10.6 million and have been classified as discontinued operations.

### Emergence of deleveraged Renaissance

- **Post Topaz sale deal completion and during Q4 2019, the company will be proposing the plan towards the pre-payment of Debt, Standard Chartered Private Equity obligations (RO 39 million) and buy back of existing Perpetual Bonds (about RO 48 million) immediately.** As per our workings, on the receipt of cash from DP World, Renaissance would be cash positive of about RO 12 million post settling the debt and other obligations
- On completion of this transaction, Renaissance would become a single services business player with a proposed strategy to diversify the business sectors (various services related activities) and potential geographical expansion.

- The key objective is to deleverage the balance sheet, de-risk the company, meeting capital obligations and to improve overall liquidity of the group.
- As part of the deal, Renaissance would receive settlement from Topaz towards shareholder loan, which is worth RO 30.2 million (USD 78.6 million). **As per the management, the leverage ratio of the company will be reduced significantly to about 1.3X. Overall debt would be about RO 80 million as against estimated equity of RO 60 million.** This would augur well for the future in terms of strengthening the balance sheet and remain deleveraged.

#### Capital Reduction to follow post debt and other settlements

- As a next step, post completion of the proposed deleveraging using the cash received from Topaz sale, the company is looking at options regarding Capital reduction program to nullify the accumulated losses and ensure the company is ready for dividend payment in 2020.
- At the end of Q2 2019, Total networth of Renaissance (excluding Perpetual/ Minority) is about RO 57.7 million. **Current Paid up share capital of the group company is about RO 36.7 million and accumulated losses is about RO 22.8 million (approximately 60% of the paid-up capital). As per our view, the accumulated losses are expected to be adjusted against the share capital.** Caveat on new capital structure to remain subject to the completion of Topaz sale and other transactional adjustments.
- The management has indicated that steps will be would be taken towards the capital reduction of the company towards the end of this year, subject to regulatory and other statutory approvals. If delayed for any reasons, the company may look to complete the process during Mar 2020 EGM/ AGM.



### Current Business Performance

- The company has reported total revenue from continuing operations of RO 51 million during H1 2019 as compared to RO 46.5 million in the same period of last year, an increase of 9.8% YoY amidst ramp-up in Duqm operations. Currently, the contracting business division of the company caters to diversified business sectors with marque clients including PDO, BP, Ministry of Health, Al Mouj etc.
- Gross profit has increased 25% YoY to RO 9.15 million. H1 2019 profit from continuing operations increased to RO 3.2 million as compared to RO 2 million during the same period of the last fiscal year.
- Duqm Renaissance Village performance continued to improve with current occupancy levels of 60%. This is expected to increase to about 100% levels by end of 2019.
- **Assuming 100% utilization in Duqm, total estimated annual revenues from Duqm Village is estimated about RO 30 to 33 million with strong EBITDA margin of about 45% levels.** We see major positives due to higher occupancy levels which would increase revenue contribution during the coming quarters.
- Due to demand pickup in Duqm Village, the company has planned to increase the total bed capacity from 16,960 to 18,655. The increase in total demand has led to strong growth prospects for the company during the coming quarters.
- As per the management, the business of other Renaissance villages in PDO Oil & Gas fields is also showing encouraging signs. The company has reported higher levels of occupancy rates (>90%, end H1 2019) during this period.
- **UAE Business Operations have recovered with reduced levels of net losses and look set to break-even by the end of 2019. Management continue to show optimism on this recovery.**
- The company is looking at new contract gains in its Waste Management joint venture with Sager SRL, Italy. Long term prospects remain strong in this segment.

## Overall Outlook

As we have reiterated in our earlier updates, Topaz Capital Event remains critical for the overall Renaissance group outlook. We had remained neutral on the capital initiatives for the shareholders of Renaissance due to the other obligations and debt settlement. **Though the deal hasn't given the estimated premium to the shareholders of Renaissance as one would have strived for, the timely sale transaction has ensured all the obligations and covenants of the Group company are met.**

**Now, with the imminent completion of Topaz sale to DP World, the standalone company will emerge with a deleveraged and de-risked balance sheet.**

On our ball park workings, we estimate annual revenues in 2020 from the existing continuing business will be about RO 130 million with net profit margin estimated to be about 8 to 10% levels.

As per the management, the annual estimated free cash flow is likely to remain about RO 10 to 12 million in 2020. Effectively post capital reduction program, the company will be able to pay dividends to its shareholders.

**The stock price is down more than 40% since the deal was announced on lower than estimated equity valuation and continues to remain under pressure till date.** Currently, we have kept the stock under review and would revisit our earnings and fair value post finalization of the sale and its capital adjustments.

### 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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