Arabian Centres Company Releases Results for the Third Quarter Ended 31 December 2020

(Riyadh, 04 February 2021) 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 third quarter ended 31 December 2020 (Q3-FY21), reporting a net profit of SAR 95.6 million on total revenues of SAR 469.4 million. On a year-to-date (YTD) basis, ACC booked a net profit of SAR 359.7 million on a top line of SAR 1,410.1 million for the nine-month period ended 31 December 2020 (9M-FY21).

Summary Income Statement (SAR Mn)	Q3-FY21	Q3-FY20	*% Change*	9M-FY21	9M-FY20	*% Change*
Total Revenue	**469.4**	**557.5**	***-15.8%***	**1,410.1**	**1,689.2**	***-16.5%***
Gross Profit	**248.9**	**361.7**	***-31.2%***	**802.4**	**1,120.8**	***-28.4%***
Gross Profit Margin	*53.0%*	*64.9%*	*-11.8 pts*	*56.9%*	*66.4%*	*-9.5 pts*
Net Profit	**95.6**	**110.6**	***-13.6%***	**359.7**	**545.8**	***-34.1%***
Net Profit Margin	*20.4%*	*19.8%*	*0.5 pts*	*25.5%*	*32.3%*	*-6.8 pts*
Key Profitability Metrics						
EBITDA	**331.4**	**418.0**	***-20.7%***	**1,073.4**	**1,290.2**	***-16.8%***
EBITDA Margin	*70.6%*	*75.0%*	*-4.4 pts*	*76.1%*	*76.4%*	*-0.3 pts*
Recurring EBITDA[1]	**349.8**	**418.0**	***-16.3%***	**1,128.9**	**1,290.2**	***-12.5%***
Recurring EBITDA Margin	*74.5%*	*75.0%*	*-0.4 pts*	*80.1%*	*76.4%*	*3.7 pts*
FFO[2]	**182.0**	**190.5**	***-4.5%***	**609.9**	**773.6**	***-21.2%***
FFO margin	*38.8%*	*34.2%*	*4.6 pts*	*43.3%*	*45.8%*	*-2.5 pts*
Key Operational Metrics						
Total GLA (Mn sqm)	**1.201**	**1.205**	***-0.4%***	**1.201**	**1.205**	***-0.4%***
Period-End Occupancy Rate LFL (19 malls only)	**90.2%**	**93.7%**	***-3.5 pts***	**90.2%**	**93.7%**	***-3.5 pts***
Average Footfall (Mn)	**18.0**	**24.9**	***-27.6%***	**42.3**	**84.6**	***-49.9%***

Financial Highlights

- ***Total revenues fell by 15.8% y-o-y in Q3-FY21 and decreased by 20.7% on a like-for-like (LFL) basis, booking SAR 469.4 million for the quarter.*** The top-line decrease comes as ACC continued to amortize nonrecurring, covid-related discounts granted to tenants, most of which had been disbursed during Q1-FY21 and Q2-FY21. Revenues were further affected by a reduction in the rental rates applied to contracts renewed during Q3-FY21, concentrated at C-class centres, and a slight decrease in the Company's LFL occupancy rate to 90.2% in Q3-FY21 from 90.2% in Q3-FY20. Total revenues fell by 16.5% y-o-y on a YTD basis, booking SAR 1,410.1 million for 9M-FY21. Covid-related discounts were the major driver of this YTD decrease in the top-line. On a like-for-like basis, revenues were down by 21.7% y-o-y in 9M-FY21. The total exposure of Covid-19 on ACC's net rental revenue amounts to SAR 569.0 million, to be realized over the term of outstanding lease contracts. ACC extended SAR 193.8 million in Covid-related discounts during 9M-FY21.
- ***ACC recorded a weighted average discount rate of 12.1% (SAR 59.8 million) for Q3-FY21***, up sharply from 2.8% (SAR 14.8 million) as at Q3-FY20. Nonrecurring, covid-related discounts accounted for 91.1% (SAR 54.5 million) of all discounts granted during Q3-FY21. Similarly, the weighted average rental discount rate recorded 13.2% (SAR

[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.

197.2 million) in 9M-FY21 against 3.4% (SAR 54.7 million) one year previously, with nonrecurring, covid-related discounts representing 93.1% of all rental discounts granted during the nine-month period. The cash impact from the recognition of COVID-related rent discounts had been fully recognized by the end of Q3-FY21. It is worth noting that, factoring out covid-related discounts, ACC's weighted average discount rate remains on the downward trajectory observed since FY2018.

- ***Gross profit booked SAR 248.9 million in Q3-FY1, down 31.2% y-o-y.*** ACC's gross profit margin (GPM) decreased by 11.8 percentage points to book 53.0% for the period. The decline in gross profitability stemmed from a decrease in the top line and an increase in the cost of revenue as ACC ramped up operations at new assets introduced during the previous quarters (Nakheel Mall Dammam, U-Walk, and the extension at Nakheel Mall in Riyadh). Gross profit fell by 28.4% y-o-y to book SAR 802.4 million in 9M-FY21, yielding a 9.5 percentage-point decrease in the GPM to 56.9%.
- ***EBITDA fell by 20.7% y-o-y in Q3-FY21, recording SAR 331.4 million,*** with a 4.4 percentage-point decrease in the EBITDA margin to 70.6%. Reduced EBITDA profitability reflects the effects of nonrecurring discounts disbursed during the quarter, increased impairment losses on accounts receivable, and an increase in advertisement and promotion and G&A expenses. These developments were somewhat balanced by income of SAR 40.3 million from the disposal of a noncore investment in Aswaq Almustaqbal Company for Trading, the company which holds ownership of Panorama Mall in Riyadh. On a YTD basis, EBITDA decreased by 16.8% y-o-y, booking a margin of 76.1% against the 76.4% recorded in 9M-FY20.
- ***Recurring EBITDA, which normalizes for the effects of non-recurring items[3], fell by 16.3% y-o-y in Q3-FY21, registering SAR 349.8 million,*** with the recurring EBITDA margin contracting by 0.4 percentage points to 74.5% for the quarter. Recurring EBITDA fell by 12.5% y-o-y on a YTD basis, yielding a 3.7 percentage-point increase in the recurring EBITDA margin to 80.1% for 9M-FY21. The YTD expansion in recurring EBITDA profitability reflects a decline of 2.5% y-o-y in G&A expenses during the nine-month period.
- ***Net profit declined by 13.6% y-o-y to record SAR 95.6 million in Q3-FY21.*** However, ACC's net profit margin (NPM) rose to 20.4% in Q3-FY21 from 19.8% in Q3-FY20. The absolute decline in net profits during the period reflects the impact of nonrecurring disbursement of covid-related discounts and an increase in impairment losses on accounts receivable. The increase in impairment losses reflects the adoption of a more conservative approach on receivables following the impact of COVID-related centre closures in Q1-FY21 and an update of the Company's model for internal credit loss (ICL) estimates. ACC's reduced net profitability in Q3-FY21 further reflects a rise in operational expenses for the period, the effects of which were partially mitigated by a y-o-y decrease of SAR 85.6 million in financial expenses. The decline in financial expenses for the period reflects a write-off of transaction costs amounting to SAR 63.5 million completed following a refinancing operation finalized in November 2019. Costs for Q3-FY21 were further mitigated by the receipt of SAR 40.3 million from the disposal of ACC's noncore investment in Aswaq Almustaqbal Company for Trading. On a YTD basis, ACC's net profit fell by 34.1% y-o-y to book SAR 359.8 million for 9M-FY21, yielding a 6.8 percentage-point contraction in the NPM to 25.5%.
- ***Funds from operations (FFO)[4] fell by 4.5% y-o-y to SAR 182.0 million*** in Q3-FY21. However, ACC's FFO margin expanded by 4.6 percentage points to record 38.8% for the quarter. On a YTD basis, FFO contracted by 21.2% y-o-y to record SAR 609.9 million, yielding a FFO margin of 43.3% in 9M-FY21 against 45.8% in 9M-FY20.
- ***Total CAPEX outlays*** on shopping centres in ACC's project pipeline booked SAR 111.5 million during Q3-FY21. In YTD terms, CAPEX outlays booked SAR 214.4 million for 9M-FY21. Meanwhile, total maintenance CAPEX booked on existing shopping centres recorded SAR 43.7 million for Q3-FY21 and SAR 98.9 million for 9M-FY21.

[3] Non-recurring items include one-time landlord discounts classified as other income, COVID-related discounts granted to tenants, and income from the disposal of noncore investments.
[4] Fund from operations: net profit for the year plus depreciation of investment properties and PP&E minus write-off of investment properties, if applicable.

- ***Net debt[5] recorded SAR 6,181.9 million as at 9M-FY21 (31 December 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 793.6 million as at 31 December 2020***, up from SAR 177.7 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, reflecting management's continuous efforts to optimize the Company's capital structure and its commitment to prudent cash management. Arabian Centres settled an amount of SAR 45.0 million on its outstanding Islamic facility during Q3-FY21.
- On 27 January 2021, the Board of Directors approved the full receipt of all dues from its sister company, FAS Holding Company for Hotels, amounting to SAR 350.3 million. The dues will be settled partly in cash and partly in-kind, with the Company receiving four strategically located plots of land and a building in the cities of Jeddah, Dammam, Al Ahsa, and Al Kharj. The assets concerned are strategically situated, with two of the plots being adjacent to the Company's centres, complementing ACC's strategic efforts at introducing differentiated lifestyle destinations. As agreed by the parties, ACC will consolidate these assets at a 9% discount from the valuation median, with the financial impact of the transaction set to appear in the Company's financial statements from Q4-FY2021.
- At the close of Q3-FY21, ACC's Board of Directors approved the distribution of a ***cash dividend of SAR 0.50 per share (SAR 237.5 million) for the first half of FY2021***. The dividend was distributed to shareholders on 14 January 2021.

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. Since Q4-FY20, ACC has recognized a cumulative SAR 214.2 million in nonrecurring, COVID-related discounts to tenants, with an attendant effect on the Company's net rental revenue. ***ACC extended SAR 193.8 million in Covid-related discounts during 9M-FY21.*** Of this amount, ACC recognized SAR 62.4 million during Q3-FY21, having previously recognized SAR 68.7 million in Q2-FY21 and SAR 62.7 million during Q1-FY21. Covid-related discounts for Q3-FY21 were down by 9.2% from the figure disbursed for the previous quarter, indicating an ongoing recovery in commercial activity as conditions continue to normalize.
- The Company has ***suspended all escalations on lease contracts for 2020 and 2021***.
- 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 76.7 million in landlord discounts during 9M-FY21, of which SAR 3.8 million were received during Q3-FY21***. In Q3-FY21, Arabian Centres successfully concluded negotiations with the Company's landlords at its under-construction U-Walk Jeddah Centre, formerly named Zahra Mall, reducing the total value of rent over the lifetime over the lease contract from SAR 1.785 billion to SAR 1.075 billion – a reduction of SAR 620 million.
- Arabian Centres has pursued multiple other paths for mitigating the effects of elevated discounts during the period, ***generating SAR 29.0 million in cost efficiencies and making SAR 28.9 million in interest expense savings for 9M-FY21***.
- On 28 January 2021, ***ACC reached an agreement with Quara Finance Company to facilitate the extension of credit facilities to ACC's tenants classified as small- and medium-sized enterprises (SMEs)***. Under the Kafalah SME Loan Guarantee Program, these tenants will gain access to competitive facilities geared to supporting their business needs, with simplified procedures, shorter credit study periods, and lower financing costs. As participating SMEs utilize facilities to settle their dues, the agreement is expected to reduce the level of receivables

[5] Net debt: financial debts minus cash and cash equivalents

held on ACC's balance sheet during the short-to-medium term. Meanwhile, the agreement is expected to support occupancy rates at the Company's shopping centres, where SMEs occupy c.45% of the existing GLA, as participants make use of facilities to mitigate rental costs, support working capital during high seasons, and finance CAPEX spending.

Operational Highlights

- ***ACC's portfolio stood at 21 shopping centres as at 9M-FY21***. The Company inaugurated of an extension to Nakheel Mall in Riyadh during Q2-FY21, bringing online c.16,000 square meters in additional gross leasable (GLA). Approximately 95% of GLA at the extension had been pre-let as of 31 December 2020. ***ACC's portfolio-wide gross leasable area (GLA) came in at 1.201 million square meters, down by 0.4% y-o-y*** as the Company refreshes its stock of presently unleasable areas. These areas are being refined will likely be allocated for the construction of cineplex or entertainment facilities in future.
- ***As at 9M-FY21, Arabian Centres had launched cineplexes at 10 of its 21 portfolio locations***. The Company aims to introduce cineplexes at an additional nine centres by September 2021.
- ***Like-for-like period-end occupancy*** (across 19 malls only) registered 90.2% as at 31 December 2020, slightly down from the 93.7% recorded one year previously, reflecting a slight decrease in lease renewal rates following the covid-related centre closures of Q1-FY21, concentrated at C-class centres, as well as the allocation of additional space to cineplex facilities.
- ***ACC welcomed approximately 42.3 million visitors during 9M-FY21,*** down from 84.6 million during 9M-FY20. Decreased footfall stems from the closure of the Company's shopping centres during Q1-FY21 in compliance with public efforts to arrest the spread of 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. ***Footfall continued to recover on a quarterly basis, climbing by 4.9% to 18.0 million in Q3-FY21 from 17.2 million in Q2-FY21*** as steady progress is made against the virus in the Kingdom of Saudi Arabia and consumer confidence remains elevated amid the normalization of commercial activity. ***The quarter-on-quarter footfall recovery was led by centres located in the Western region, where the number of visits rose by 8.1% between Q2-FY21 and Q3-FY21***. Centres in the Central region saw footfall increase by 2.3% q-o-q, while footfall in the Eastern region rose by 1.2% over the quarter. It should be noted that footfall at ACC's newly launched properties (U-Walk, Nakheel Mall Dammam, and the extension at Nakheel Mall in Riyadh) is excluded from the footfall figure reported for Q3-FY21. Including visitors at these properties, footfall for Q3-FY21 records 20.0 million against 18.0 million in LFL terms.
- ***ACC sustained its momentum on the leasing front, renewing 1,518 leases during 9M-FY21.*** Approximately 91.5% of leases due to expire during FY21 had been renewed as of 31 December 2020. However, 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

Arabian Centres continues to make tangible progress on the path to recovery. Thanks to the diligent efforts of public authorities, Saudi Arabia has managed to keep Covid-19 infections significantly below the peak seen in March. Public establishments continue to operate safely and as normally as possible given the circumstances. These achievements have redounded to ACC's benefit, with footfall recovering steadily quarter-on-quarter. Occupancy rates across the portfolio remain strong at 90.2%, supported by ACC's comprehensive tenant relief efforts. Although these efforts continue to affect ACC's net rental revenues due to elevated discount levels, we anticipate a steady reduction in the recognized discount amounts as they are amortized over the lifetime of outstanding lease contracts. Meanwhile, ACC has sustained its momentum on the leasing front, with the target of reaching an occupancy rate of 93-94%, while advancing our strategic objective of diversifying our tenant mix towards a lifestyle-oriented offering.

Thanks to far-sighted and speedy action by management, Arabian Centres has been able to safeguard both its market dominance and its core profitability margins. Despite outlays on nonrecurring Covid-related tenant discounts, the Company's net profit and FFO margins rose during Q3-FY21, thanks to the efficient rationalization of financial expenses, the disposal of noncore investments, and the mitigation of rental outlays through mutually beneficial agreements with the Company's landlords, such as that reached with our partners at U-Walk Jeddah, where we are set to achieve savings of SAR 620 million over the lifetime of our lease contract at the project.

The Company is tentatively optimistic with regards to market dynamics heading into the final quarter of FY2021 and the full of FY2022, which will encompass holiday seasons and traditional peaks in retail activity. We are fully committed to making the most of Saudi Arabia's dynamic retail space and are continuing to invest heavily in broadening our geographic reach, with two remaining projects in our near-term pipeline and six medium-term projects set to expand our total GLA by around 36% over the coming three years.

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 December 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 nine-month results on 08 February 2021 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

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