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Operator: Good morning, good afternoon, ladies and gentlemen, and thank you for joining our 1Q18 results presentation conference call. From GB Auto, we have Dr Raouf Ghabbour, CEO, Mr Abbas Sayid, Auto and Auto related finance director and Mr Ahmed Osama[?], GB Capital Finance Director presenting 1Q18 results. I will hand the presentation over to Dr Ghabbour for his presentation and then we will have a question and answer session. Please go ahead.

Raouf Ghabbour: Thank you. Good afternoon ladies and gentlemen, and thank you for joining our first quarter results call. With me here today are Mr Abbas Sayid, GB Auto and Auto Related finance Director, and Mr Ahmed Osama, GB Capital Finance Director. I cannot begin to tell you how proud I am of our performance this quarter. By and large, it's typically the weakest of the year in terms of demand volume in the car segment. We have taken the group back to profitability and I'm happy to report that this is the end of the [inaudible].

Ladies and gentlemen, I can highlight that our March numbers give us confidence that the run rate for the rest of the year will increase and that January was indeed a typical seasonal slowdown in what is a growing market. Customers have more or less fully absorbed the price increases by now. We have seen unit sales making a strong come back in almost every automotive line of business that GB Auto has to offer.

As we continue to see increased appetite for our passenger car, motorcycle and three-wheeler and automotive related products, we expect to see an improved second quarter 2018 compared to the seasonably muted first quarter. The era of reducing inventory at the expense of margins is



behind us. We now benefit from our lower net debt which is amplified by the reductions in interest rates. As we look forward, we intend to focus on margin recovery and growth. This quarter passenger car volume dipped from 10,030 units in fourth quarter '17 to 6,319 units due to seasonality effects on the segment.

Our year-on-year volumes surged 57% and revenues almost doubled with the segment's gross profit margin expanding. Market continuous to exceed our expectations. Many suppliers being short of good[?] as a result. We're expecting that the passenger car market in Egypt is likely to exceed our original forecast of 120,000 units sold this year. We also believe that we will continue to hold on to our leadership positions in the market.

With that, ladies and gentlemen, I will provide you with a quick business by business overview. On the passenger car front in Egypt we continued to maintain our market leadership for the segments in terms of market share, which reached 25.5% coupled with a healthy recovery in our profitability. We saw historical highs in the sales for the motorcycle and three wheelers. Key development has been that our components manufacturing facility has officially been completed. This has given the segment a strong operating leverage. At the same time, our sales team was able to pass on price increases without affecting volumes compared to fourth quarter '17.

For the commercial vehicles and construction equipment segment, we have increased both revenues and gross profit compared to last quarter. We believe the outlook for the segment is improving in the truck and bus segment due to the rise in tourism activity and increased private sector business. After sales showed a slight dip by the end of the quarter due to seasonality associated with other automotive lines of business.



Tyres performed relatively well compared to fourth quarter '17, taking the seasonality effect into consideration. However, on a year-on-year basis, our tyres business has increased revenues by 17% while maintaining the same level of profitability.

As for GB Capital, we are proud of the outstanding performance. We have increased the portfolio by 8% quarter-on-quarter and continue to capture more market share across all type subsidiaries. We have generated a return on equity of more than 35% while maintaining a strong risk discipline. We see credit quality remaining very strong. And Ahmed will share more details with you shortly.

I would like to give you some guidance for the second quarter of the year for our auto and auto-related division where we expect top line growth of 15% compared to the previous quarter while maintaining our gross profit margin at approximately 12%. And for our GB Capital division, we should see revenue rising 10% compared to the first quarter of the year while maintaining a gross profit margin over 25% after inter-company elimination.

With that, ladies and gentlemen, I'll conclude my remarks and turn the call over to Abbas who will give us a run down of GB Auto and auto-related financial performance. Thereafter Ahmed will take you through GB Capital's performance before we open the call up to your questions. Abbas please, go ahead.

Abbas Sayid: Thank you, Dr Raouf. GB Auto and auto-related segments [inaudible] profit was posted across the board in Q1. At both gross profit level and operating profit, the strong increase quarter-over-quarter is visible. As Dr Raouf mentioned earlier, it is clear from these results that our auto and auto related business lines has turned the corner from a focus on inventory reduction in 2017 to a renewed focus on profit growth in 2018.



GB Auto and auto related reported revenue came in at EGP4 billion down in Q1 2018 compared to EGP4.7 billion during Q4 2017 but are up 70% over Q1 2017.

Gross profit for the division is EGP488.7 million with a margin of 12%, up 66% compared to the Q4 of 2017. This underlines impressively how our management team has continued to deliver quarter-over-quarter profit improvements since the middle of last year when we started to separately report our auto and auto related division. The reduction of excess inventory was successfully concluded in the last quarter of 2017. Management has [inaudible] the inventory at the similar level at end of March than at the end of 2017.

While demand was seasonally low in January, we are still increasing our monthly sales figure during the quarter and hence position inventories to fulfil a profitable base of sales during Q2. As a consequence, the auto and auto related net debt has increased marginally to EGP4.3 billion balanced at the end of Q1 2018 versus the end of 2017. EBITDA for the quarter has significantly improved to EGP250.6 million, reaching a margin of 6.2%. This in turn has improved our EBITDA to finance cost ratio from 0.26 points to 1.01 points which is a trend we expect to continue.

Similarly, our net debt to EIBTDA has improved from 15 times to approximately four times. I would also like to point out that with our return to a meaningful EBITDA during Q1, we have achieved a return on capital employed of 13% in the quarter and will furnish further improvements in this metrics in the coming quarters.

That concludes my presentation today. Ladies and gentlemen, I will now turn the call over to Ahmed who will run you through GB Capital's financial performance for the quarter. Ahmed?

Ahmed Osama: Thank you, Abbas. I'm very happy to once again report that GB Capital as in Q1 2018 achieved yet another quarter-on-quarter growth in our revenues as we continue to bolster our



standing in the market that is looking for financing options. This has been achieved despite the usual slow car-related business environment at the start of the quarter in January, and is a testament to the diversification of our activities across financial products and different sectors of the economy.

In first quarter '18, we have achieved revenues of EGP1.17 billion. We have improved our profitability with annualised return on average equity at 38% compared to 34.2% during Q4 2017. When looking at our overall asset base and not taking account of leverage, we have improved our annualised return on average assets to 23%, approximately 200 basis points higher than fourth quarter 2017 as of our total cost of debt.

As you would expect, we have grown the loans to receivable portfolio and recorded nearly 8% growth in the first quarter of the year to EGP6.2 billion compared to EGP5.7 billion in fourth quarter '17. This sets up for further revenues growth in Q2 on the basis of this new originated transactions.

We have achieved these results by staying close to our customers while ensuring our credit standards are upheld. Consequently, I am pleased to say that our loan portfolio quality is healthy with non-performing loans at 1.6% and the NPL coverage ratio coming in at 145.6%. GB Capital companies remain conservatively leveraged. The total leverage for GB Capital stood at 4.45 times debt to equity as of 31st March 2018 compared to 4.51 times in fourth quarter 2017. From a regulatory definition, leverage is even lower at 3.55 times as per the regulatory definition.

GB Capital related companies debt stood at 4.7 billion pounds as of 31st March 2018. With that level, we expect it to continue to rise as we find the growth in our portfolio of loans under [inaudible]. I can assure you that we continue to adhere to our conservative debt to equity leverage objectives.



Ladies and gentlemen, that concludes my remarks for today. We now open the floor to your questions. Operator?

Operator: Thank you. If you would like to signal for a phone question, please press star one at this time. Once again that's star one to be placed in the queue, and we'll pause for a moment to allow everyone an opportunity to signal. And again, as a reminder, that's star one to signal. We'll go first to Hady Medhat with Pharos.

Hady Medhat: Hello. Congrats on the results. Really encouraging numbers. I had a few questions. I'll start with the PC segment. PC margins improved in the quarter significantly. I just wanted to make sure how sustainable these margins are going forward. Do you expect to maintain the margins you achieved in 1Q for the whole year?

Raouf Ghabbour: Actually markets is allowing us to gradually increase our prices and thus improving our margins. So, I expect that we might see slight improvements for the margins during coming quarter – during this quarter.

Hady Medhat: Okay. Sales were down 1Q across all markets but your market share went down to about 25%. Do you still expect to reach your 30% target market share?

Raouf Ghabbour: As a matter of fact, we suffered during this quarter from a strike at Hyundai Motors. So, we were very short of goods. So, I think that it could have shown 15% or 20% extra volume if we had availability.

Hady Medhat: Strike at the Hyundai Motors?



Raouf Ghabbour: Yeah, it was a strike at Hyundai Motors which affected our supply during Jan
[inaudible]

Hady Medhat: Okay. The recovery in the regional business, there was also a jump of like gross margins reached 10%. Do you expect also the recovery in the regional business to be sustainable or this is just a one-off?

Raouf Ghabbour: I see very clear improvement signs in the [inaudible] market. So, regional [inaudible] business is now is specifically [inaudible] because in Algeria we are almost stepping out[?] of the market. We have not [inaudible] items for manufacturing. But we have limited quota [inaudible] existing Algerian market. As for Iraq, definitely [inaudible] increase in oil prices. Economic conditions in Iraq are improving and the market is improving which is allowing us to increase our prices. So, I expect [inaudible] gross margin will [inaudible].

Hady Medhat: So, you believe there is like a turnaround in the Iraqi business?

Raouf Ghabbour: A turnaround in both the Iraqi and the Egyptian.

Hady Medhat: The Egyptian, okay. Recently GB Auto merged with RG Investments. I think that's like – to my understanding, that's the first step towards splitting off GB Capital. So, are there any news or any updates on GB Capital as a separate listing?

Raouf Ghabbour: As a matter of fact, what you read about the general assembly is the first step after which we are starting the process with Egyptian government or the merger we put [inaudible] about one year. So, then after that be in a position to start considering to [inaudible] and I do not expect [inaudible].



Hady Medhat: Sorry, [inaudible] nothing is going to happen.

Raouf Ghabbour: Yeah, it could happen in 2020.

Hady Medhat: 2020.

Raouf Ghabbour: The Egyptian government is very slow both in the merger – both this and the de-merging. Unfortunately, a matter of bureaucracy.

Hady Medhat: Okay, great. Thanks a lot.

Operator: And we have no further questions in the queue. But again, as a reminder, if you would like to signal, please press star one. Once again that's star one to be placed in the queue. We have no questions in the queue at this time. I do apologise, we do have another question. We'll go next to Nikhil Arora with Franklin Templeton Investments.

Nikhil Arora: Hello, Mr Ghabbour. Thank you so much for hosting the call and congratulations on a good set of 1Q numbers. I have a couple of questions, if I may. Number one is do you expect the auto business to come back to net profit positive at any point during 2018, especially in the second quarter? And my second question is how would the capital business net interest margin react to further interest rate cuts in Egypt? So, those are the two questions.

Raouf Ghabbour: Okay, regarding the first question. Yeah, thank you. Regarding the first question, in my guidance, it's clear that in the second quarter, passenger cars or automotive business is getting back to profitability. It's very clear. We see it. We have already half through the second quarter. I am very confident we have turned the corner. Automotive business will show serious profitability during this quarter and improving in the next quarter.



As for the second question, further reductions in interest rates will definitely improve, very positive for our business. First of all, it makes it more encouraging for the people to borrow because the cost of borrowing will be more reasonable and it will boost investment, which is important for our business. Second, in some of our finance businesses, we are borrowing variable and lending at fixed. So, in this case typical example of this in consumer finance [inaudible]. In this case – as well as micro finance.

So, in this case when the interest rate reduces, our cost of fund is reducing while the future collections are at a much higher charged interest rate. So, our margins will improve. So, definitely a cycle of reducing interest rates is in favour of finance business environment.

Nikhil Arora: Okay. Sure. Thank you so much.

Raouf Ghabbour: Thank you.

Operator: We'll go next to Manoj Shroff with Barings.

Manoj Shroff: Hello sir. Thanks for this. My question, I can take it offline as well but I thought since nobody is asking I thought I'll just ask this. For the Hyundai, what we've read or heard is that one of your key models of Hyundai is when its not continue making it or something like that. So, if you can shed some thought on that. And also on the auto policy, if you can share how will that affect us when we can imports –

Raouf Ghabbour: I didn't get rightly the first question.



Manoj Shroff: Sorry, Hyundai, one of our key models in Hyundai that can get discontinued something like that, there was something – so, I can take it offline as well. So, if there is something on that, if you want to share on that. And also on the auto policy, how will you –

Raouf Ghabbour: Auto policy, again the first question I didn't get.

Manoj Shroff: Okay, can I take it – take the first one offline, fine. Something like – or I can just ask in a different way. In terms of the Honda – in terms of the Hyundai car models, do we have any future issues that can come up in terms of the most popular cars not being produced by them or something like that?

Raouf Ghabbour: Okay. Regarding the first question, we are currently phasing out a model from Hyundai Motor which we are assembling in CKD which is called Verna. Verna has been assembled in our factories for the last 14 years. It just makes sense that it's not economical any more. And just for your information, this model currently is the only model generating losses among the total portfolio of automotive business, not only passenger car. So, we are very happy to be liquidating and getting out of this model because not having this model will improve our profitability by sparing the company its losses.

All other models, we are in discussion with Hyundai Motors to start new CKD project. We are – we have all the agreements in place with Hyundai Motors. We are waiting to launch or start the investment. At the moment, the automotive directives is in place. So, that will bring us to the second – your second question.

I have no information or official information except that I have seen the ministry of industry announcing a new regulation or ministerial decree last week which is related to redefinition of local content in automotive assembly industry, which to my opinion is a very clear indication that



the automotive directive is about to be sent from the ministry to the parliament for rectification in the very near future. I may be wrong in my assessment but this is my personal reading of the situation. We have spoken about the automotive directive for years. I am sick and tired and I refrain from even calling the minister or any governmental officials asking about it. I'm waiting for it to happen the moment it happens. My personal assessment from last week government decision is that it is a hot issue and it is about to be sent to the parliament. But I cannot be hold responsible for that because it's not my decision. I hope I have answered –

Manoj Shroff: Yes, sir, thank you so much. And I would like to – so, what I meant was will the imports – will the auto policy be positive for us or will it be positive for the importers where they would want to get cheaper imports or will they want – yeah.

Raouf Ghabbour: It's going to be positive for all assemblers. So, it's going to be positive for CKD business not for CDO business.

Manoj Shroff: Right, sir.

Raouf Ghabbour: Thank you.

Manoj Shroff: Thank you so much.

Operator: And again, as a reminder, that's star one to signal. We'll go next to Ahmed Saharty with TRG Management.

Ahmed Saharty: Yeah, Beidi you want to take this?



Beidi Gu: Yes, hi. Dr Ghabbour, this is Beidi from TRG. First of all, congratulations and turning the corner for the business. We're being tracking the progress for the past few years. So, this is very – congratulations on the results of the hard work. A couple of questions from us. You mentioned during the call that there is some inventory shortage that you – you are actually seeing demand stronger than the fly in the first quarter and there is some shortage otherwise the sales would have been higher. Just want to confirm that if that is the case. And also, kind of if you could update us on the inventory movement that you're seeing; are we now in a inventory replenishment stage? And as you mentioned, you were renegotiating with some of the suppliers in the past. So, just wonder how is that going and whether or not you expect to achieve some positive results, whether we will see some new inventories coming in the second quarter. I have a couple of questions. Maybe I'll stop first and then I'll follow up with some other questions.

Raouf Ghabbour: Yeah, okay. So, the first question was about demand and supply, okay. Definitely, yes, in Q1, we had shortage of supply, which was mainly due to two factors. The first factor I mentioned was the Hyundai strike, which delayed receiving orders we had planned, which was resolved now. So, from March we started receiving volumes.

The second reason was the management was coming from an era of very bad market conditions. Mentally they could not foresee or forecast better than 20% growth for this year. Obviously, the recovery is bigger, much bigger than the 20%. So, the management is adapting to the new reality and from Q2 volumes are improving. And if we see this is sustained, we will increase again in Q3. So, this is answering for your first question. Second question?

Speaker: Favourable inventory management.

Raouf Ghabbour: Yeah, of course, we are – the level of inventory at the end of last year, I wouldn't say is healthy. When somebody loses too much weight – overweight is very unhealthy but



underweight is as unhealthy. So, I think that in end of Q2 we reach level which I can describe as unhealthy in terms of inventory level. So, starting from this year, we are in the mood of replenishing inventory. And you should expect that our level of inventory will increase with a significant increase of business revenue and volume as well as you should expect our overdraft or debt level to start increasing again with this increase in business and in inventory. And negotiations with the suppliers –

Beidi Gu: Thank you. And then could you give us a sense –

Raouf Ghabbour: Negotiations, you asked about –

Beidi Gu: Please go ahead, sorry.

Raouf Ghabbour: Our negotiations with the suppliers, we have had extremely good results of our negotiations with all our suppliers across the board whether in passenger cars or truck and bus, two and three-wheeler, without which we would have found it very difficult to turn the corner and to achieve what we've achieved. So, I really appreciate their support and thank them for what they did and for their belief in the Egyptian market. The last supplier which we are hopefully concluding our agreements with very shortly is GB[?]. And I expect that with this last one being concluded, we should be seeing a serious volume of business for GB starting from Q3 this year.

Beidi Gu: Okay. And based on the kind of renewed supplier agreement, how do we think about your margins going forward? Do you feel – and also as a clarification, are we still mostly selling CKD or there is – can you give us an update on CDU and CKD, as well as how shall we think about your gross margins given the – what you see as the new supplier agreement?

Raouf Ghabbour: What you see where? Given what – you see where?



Beidi Gu: Sorry, just wanted to get an update on the mix between CBU and CKD and also your gross profit margin expectations given what you see as the new supplier agreement, the pricing level that you see from the suppliers?

Raouf Ghabbour: Currently, the share of CKD is 50%. Currently our mix is 60% CKD, 40% CBU. But profit really comes from CBU, not from CKD. So, what is affecting our CKD volume and profitability is the current legislation environment which is not favouring, which is very unfair to local assemblers, which is why automotive directive or the new law is very important. So, with the new law, we expect that this mix is going to even increase from 60/40 to 70/30 but with an very much improved level of profitability for CKD.

Beidi Gu: Okay. So, without the new legislation, do you expect growth – with the current mix, where do you think your gross profit margins to stabilise at?

Raouf Ghabbour: This is for all the automotive I have given in the guidance an average of 12% gross margin for this quarter. Hello?

Beidi Gu: Hello, yeah, sorry. Could you repeat that number again?

Raouf Ghabbour: So, I mentioned in the guidance for the second quarter that we are expecting a 12% gross margin for auto and auto related business.

Beidi Gu: Great. Thank you. My last question is regarding GB Capital. So, we've seen quite a lot of leasing and micro financing companies that is either going IPO and raising capital. So, just wondering if you could help us differentiate your leasing and micro-financing business versus your competitors, where do you see most of the competitors are competing on? Are they



competing on rates or are they competing on cost of funding or where do you see yourself at the competitive advantage versus a few others?

Raouf Ghabbour: Let us talk about the leasing separate from micro finance. In leasing, there are about 200 companies in Egypt. And you hear hundreds of others considering to establish new companies for leasing. So, we may have a thousand leasing companies in two years' time. But having 200 today, honestly speaking, I consider that I have two competitors, not more. So, that's CI Capital and EFG. All the others, I don't see them in the market, it's not consistent.

Regarding CI Capital and EFG, their cost of funds might be either similar to ours or I may claim that – I don't know but I may believe that we are slightly below because our management is extremely successful in – or trustworthy let's say. We have a very prudent approach. Our quality of portfolio is definitely the best in the market. And because of this, the management is able to get a fractional better cost of funds.

So, today the market may be having some competition, but at the end of the day, the customer is keen about the time it takes for a credit approval to happen and for the cash to be made available. And this is where the quality of the management really counts, and this is where GB lease[?] is really strong. So, I am very confident. I'm not at all worried about another 50 or 100 companies coming in. I am always CI Capital and EFG and I don't see anybody else.

In micro finance, our growth represents 36% plus of the total market growth. So, clearly, we are – if not the biggest today, we will definitely be the biggest before the end of this year. And I have to state also.

Beidi Gu: And for micro finance –



Raouf Ghabbour: Excuse me, I have to state also that for GB Capital, today we have about anywhere between 2.5 billion pounds to EGP3 billion available unutilised bank facility limit, which I am ready to bet no other player in Egypt has this. And this proves how good the portfolio quality and the management capability is because the Egyptian banks, they wouldn't be willing to extend those size of limits without having a huge confidence in the quality of the company they have lending.

Beidi Gu: Thank you very much. Just for micro finance, what do you see as the entry barrier here? Is it as you implied before, is it the brand recognition? Is it the branch network, the reach or you feel that's more of a capital availability?

Raouf Ghabbour: No, it's none of this because a few years ago we had zero network. We started with a very small capital. So, it's nothing like network, nothing like the capital. It is all about management. So, you have the management. You have the control. You have the money and you have the way, you make it.

Beidi Gu: All right. So, actually appreciate. Well, thank you so much. That's all my questions.

Raouf Ghabbour: Yeah. You should ask competitors in micro finance about default ratio, NPLs ratio and check with our guys the ratio, then you have a very clear picture about who is doing what in Egypt.

Beidi Gu: Got it. Okay. Thank you so much.

Operator: And we have no further questions in the queue.



Raouf Ghabbour: Thank you. Ladies and gentlemen, thank you very much for joining us today and I hope next quarter – that is for this quarter, I am going to be able to deliver to you brilliant results hopefully. Thank you. Bye.

Operator: And that does conclude today's conference. Thank you for your participation. You may now disconnect.