



Company: Ghabbour Auto
Conference Title: Q3 2014 Results
Presenters: Dr. Raouf Ghabbour, Mostafa El Mahdi
Date: Tuesday 11th November 2014

Operator: Good afternoon ladies and gentlemen. Thank you for joining our Third Quarter 2014 Results Presentation Conference Call. From GB Auto we have Dr. Raouf Ghabbour, CEO; and Mr. Mostafa El Mahdi, CFO presenting the Third Quarter 2014 Results. Today's conference is being recorded. I will now hand over to Dr. Ghabbour for his presentation and then we will have a question and answer session. Dr. Ghabbour, over to you.

Dr. Raouf Ghabbour: Thank you so much. Ladies and gentlemen, good afternoon and thank you for joining our Third Quarter 2014 Earnings Call. I am having the time of my life because GB Auto like Egypt is now entering what could prove to be a very significant period of growth and for GB Auto like Egypt, our success in capitalising on the opportunities now before us will be determined in large part by our clear strategy as well as the strength of our management team at every level. Of course this presumes that macro indicators continue moving in the right direction. It also presumes that political stability remains the order of the day but I am very confident this is going to prove the case. Looking to 2015 and beyond I'm reminded of the Egypt in which I first began doing business in 1977. Those were the early days of then President Sadat's open door policy. Our nation was emerging from a decade and a half of challenges with a new dynamism and we kicked off a five year period in which the private sector was reborn and the economy reshaped. Across Egypt the growth and optimism we now see is reminiscent of that nearly four decade old story. It is a set of circumstances for which GB Auto has prepared, having invested substantially in our home market of Egypt and nearly four years since the 2011 revolution, even as we have sought growth opportunities across our regional footprint. The hallmark of this investment has been that which we have made in our people at all levels of the organisation. As a result of our management team's ability to take difficult decisions during difficult times and then execute amid changing circumstances we are very well positioned today in all of our lines of business. This includes passenger cars where we have launched new brands, expanded CKD assembly capacity, new 3-S facilities and a revolution in after-sales capacity and



Ghabbour Auto Q3 2014 Results

quality, plus doubled our retail network. Commercial vehicles and construction equipment where we have increased our capacity for bus and trader manufacturing and added new representations, motorcycles and three-wheelers where we held onto our very strong market share; tyres where we have added new representations and our financing businesses where we now offer corporate and consumer finance as well as our exceptionally successful microfinance business. This is to say nothing of the potential we see in our newest businesses including retail, lubricants and pre-owned vehicles. While working at each turn to mitigate risk, our goal going forward is to continue to lead the transformation of our business at home and abroad in a five year cycle that we feel holds substantial promise. Our passenger car division will continue to be our largest line of business as we capture pent-up demand this year and early next, then look in the second half of 2015 to harness new consumer optimism as Egypt returns to meaningful economic growth. We will do so more efficiently than our competition, calling on our deep market intelligence network, our marketing prowess and the flexibility granted by both our strong relationships with key OEMs and our investment in assembly capacity. A return to broad-based economic growth will have a more pronounced impact on our commercial vehicles and construction equipment business which is now emerging from years of underperformance that began with the spill-over into our markets of the global financial crisis in 2008. Growth in this line of business will be driven not just by six years of pent-up demand but by three decades of underinvestment in infrastructure at a national level. I expect the impact of our investment programme over the last four years to be particularly pronounced in this segment where we continue to pursue export opportunities alongside tenders in our fleet businesses in our domestic market.

Our high margin motorcycles and three-wheelers division will likely remain our second-largest unit going forwards on the strength of persistent demand in urban and rural areas. Tyres and the financing businesses will continue to be engines of bottom line growth, while lubricants, retail and pre-owned vehicles will have the potential to become very significant contributors. Bottom-line profitability at all three will of course require patience as is the case with any new business but we have that fortitude and the balance sheet health to stay the course. None of this is to say we are taking our eyes off our key expansion markets, both current and potential. It appears we are now turning the corner in Algeria where we have made a substantial investment in establishing our presence and learning first hand this fascinating market. New models are



Ghabbour Auto Q3 2014 Results

beginning to gain consumer acceptance and our goal is to start posting a respectable sales performance in 2015. To the east, Iraq remains a market of exceptional long term potential and I'm very pleased that we have managed to continue growing there despite ongoing security challenges – a task that remains the order of the day at present. We will in the meantime maintain a watchful eye on Libya where we no longer maintain a day to day presence amid the current security vacuum as we look to compelling opportunities in the markets of East Africa. Fellow shareholders, I am exceptionally optimistic about our outlook both in our home market and in the Middle East in general as we now have the opportunity to watch as our investment in the people, systems, brands and physical infrastructure continues to pay off. I am honoured to have had your trust over the past years and we'll work to retain it in the years ahead.

With that I'll hand the call over to Mostafa El Mahdi, our CFO for a quick look at our financial performance in the fourth quarter. We will then open the floor to your questions. Mostafa, please.

Mr. Mostafa El Mahdi: Thank you Dr. Raouf. Good afternoon ladies and gentlemen. GB Auto revenues rose 40% in the nine months of 2014 over the same period of the last year and management efforts to control costs across all lines of businesses showed improvement filtering through to the bottom line which doubled year on year. Gross profit margins from the first nine months of this year stood at 15.2% while EBIT margins improved by 0.5% to reach 7% despite the higher warranty provisions. This performance was driven by management's emphasis on reducing SG&A as a percentage of the revenues, a ratio that also dropped by almost 1%. Net profit was EGP 141.9 million in the nine months of 2014, an increase of 100% over the EGP 70.9 million in the nine months 2015. Net profit margins also showed signs of a strong recovery reaching 1.6%, an achievement that comes despite pressure from increased forex losses and increased tax rates.

Total group debt increased by EGP 250 million in the third quarter of 2014 to reach EGP 4.5 billion as at 30th September 2014. The increase was mainly due to the financing business debt which increased by EGP 95 million to reach a total of EGP 634 million on the consolidated balance sheet. The total debt also includes a shareholder loan approved by the general assembly meeting held on 2nd June 2014. GB Auto has concluded two loan agreements with the main



shareholders including a US dollar tranche and another tranche in Egyptian pounds. The balance of the shareholder loan as at 30th September 2014 including accrued interest stood at EGP 506 million. The loan carried an annual interest rate of 10.5% on the Egyptian tranche compared to the company's current average borrowing rate of 11.9%. The US dollar portion carries an annual interest rate of 3.25% compared with 4.2% at the current average rate. In light of that, in the nine months of 2014 GB Auto's net debt to equity stood at 1.1 while net debt to EBITDA improved by 20 basis points compared to the first half of 2014 reaching 3.2 on the back of the strong operational results.

Inventory and receivables remains relatively stable during the third quarter of the year, maintaining a healthy turnover of around two months for inventory and 35 days on hand for receivables. On the other hand our payables balance rose by EGP 156 million leaving the company with a better cash conversion side. Management expects to see continued improvements of our key financial indicators going forward with top line performance being driven in particular by trends in the Egyptian economy, margin improvements as expected to be enhanced by our ongoing programme for expenses and rationalisations.

That concludes our presentation for today. Ladies and gentlemen, we would now be pleased to take any questions you may have.

Operator: Thank you. Ladies and gentlemen, to ask a question please press *1 on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Once again press *1 to ask a question. We will pause for a moment to allow everyone to signal. To ask a question at this time please press *1.

Our first question comes from Hadeel El Masry with Pharos. Please go ahead.

Hadeel El Masry: Hi everyone. Thank you first of all for holding this conference call and great job on the results. I just had a quick question, there was some news in July about a capital increase to finance for more expansions through a rights issue, something like that. Since then there was no updates, if you can give us an update about it? Thank you.



Mr. Mostafa El Mahdi: Ok. The updates regarding to that are as follows. First of all there are some potential investment opportunities which have been already studied by a committee from the investor and business developers as well as the finance team and this has been presented to the board of directors which requires more investigation. Currently we are reaching to conclude on those investments and based on that we are expecting to have another board of directors to present the results of these studies and we will keep you informed on this in nearly the coming quarter, which is the fourth quarter of 2014.

Hadeel El Masry: Thank you.

Operator: We will now take our next question from Nicholas Paton of HSBC.

Nicholas Paton: Good afternoon everybody, it's Nick Paton here at HSBC. A couple of quick questions if I may. First of all on the impact of the removal of the subsidies or some of the removal of subsidies, what have you seen in terms of the buying trends with cars? Has it been as you expected and what do you think is going to be the impact going forward? The second question, on the shareholder loan, do we have any more details on exactly how this is going to be structured? Is it intended that this loan will be paid off in a relatively short period of time or is this going to be effectively long term debt for the company? Thanks very much.

Dr. Raouf Ghabbour: As a matter of a fact the impact of removing partially the subsidies was tremendous, so the volumes of vehicle sales whether passenger cars or commercial vehicles or construction equipment has grown tremendously during the third quarter which was always my theory. Increasing the fuel prices in Egypt will not have any impact on the volumes of the market but will have an impact on more positive economy which will in the medium and long term be very positive, more further positive to the car sales and the only effect which it will do is reduce or rationalising the usage of the car, so probably people will start working on pooling rather than each one going to the office in his own car, using the car during weekends and using public transportation or the metro system during weekdays which will have a very positive impact on the traffic problem as well. That's the first question. Regarding your second question, possibly with a potential capital increase in the future the shareholder loan is going to be translated or transformed into equity, so I don't see it being repaid to the shareholders.



Nicholas Paton: Ok. Can I have one quick follow-up question on the first issue, it looks as though, it may just be coincidental but clearly there has been very strong growth in your sales and has that been in some way due to the subsidies? Is it possible that people are buying more fuel efficient cars to try to offset the fuel impact for instance?

Dr. Raouf Ghabbour: It isn't the case. I didn't see any reduction in the bigger car segments, so above 1.6L, above 2L the volumes are consistent and even growing. As I expected it it's not affecting the volumes. It's more affecting or driving the people to rationalise the consumption.

Nicholas Paton: Ok, thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: As a reminder to ask a question at this time please press *1 on your telephone keypad. Our next question comes from Samah Dissi of Beltone Financial.

Samah Dissi: Hello, thank you for holding the call. I had a question on the three-wheelers. You mentioned in the previous conference call on the second quarter results that the shipment came in Egypt after the expiration of the ban during the first week of August, so you commenced sales throughout the second half of the quarter and we've seen it evident in the slowdown in the volumes there of the three-wheelers. My question is are these volumes going to be compensated for during the fourth quarter? Do you see this coming or not? This is the first question. The other one is on Algeria. You mentioned in the earnings release that you've signed a couple of agreements with public and private entities for fleet sales. I was just wondering, does this relate to the old model that you entered the market with and do you expect to start realising revenues there in 2015 or afterwards? Thank you.

Dr. Raouf Ghabbour: Regarding the three-wheeler and two-wheeler, as a matter of fact yes, we received the first shipments after the waiver of the ban some time in early August but as a matter of fact we were gearing up our production capacity, so the volumes which the factory could deliver during August were minimal. So as a matter of a fact the third quarter result in two



and three wheeler is a result related to only one third of the quarter which is September. That tells you clearly that with the continued positive trends in sales which we have witnessed until now during October and until 11th November, we definitely expect that the fourth quarter will make it up for the two and three-wheelers for year. As for Algeria, the agreements with kinds of Ministries of Education, the retired military officers, their institutions are giving them some kind of grant or loans with which they buy cars at very advantageous terms. This is not related to the old models and by the way during this week I had a business meeting with our Algerian Managing Director and our old stock is now down to about 180 units which we expect to completely liquidate definitely before year end, so I clearly see 2015 is the first real business years of our JV maturing.

Samah Dissi: Do you expect to see it being recognised in 2015?

Dr. Raouf Ghabbour: Yes.

Samah Dissi: Great, thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: We will now take our next question from Samir Murad of NBK Capital.

Samir Murad: Hello, good evening Dr. Ghabbour. Congratulations on the very good results for the third quarter. I just have a very general high level question for you. Looking at the AMIC report this year you see very strong performance from GB Auto in terms of market share performance but also you see it change in the second player. We've seen them gaining a lot of ground in the second position. What are your thoughts in general on Nissan and especially in the news you always hear about them with the government setting up meetings? Do you think that's helping the market expand? Could I take your views on this topic please?

Dr. Raouf Ghabbour: As a matter of a fact Nissan was always active and probably was always in second place. The only difference is they did not report their volumes to AMIC in the past. They started reporting from 1st January this year, so you see from zero to second player in the market,



Ghabbour Auto Q3 2014 Results

but they have been always extremely aggressive and successful. I know that Carlos Ghosn had visits to Algeria. He was launching the Renault factory in Algeria which started a soft launch this week. Definitely it seems that Nissan-Renault is extremely keen on this part of the world, but I think the market is coming back, regardless of the volume increase you have seen this year, I can comfortably tell you that if I had extra capacity in my factory with 20% or 25% I would have sold. I am very confident about the years to come.

Samir Murad: Ok. What's the progress with GB regarding bringing in new CKD models? Do you have any news on this front?

Dr. Raouf Ghabbour: We are working on a second model which we are testing now and which I expect to be launched during next year.

Samir Murad: Will it be smaller than the Emgrand?

Dr. Raouf Ghabbour: Yes, it's the B segment.

Samir Murad: Thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: As a reminder to ask a question at this time please press *1 on your telephone keypad. We'll now take a follow-up question from Samah Dissi of Beltone Financial.

Samah Dissi: Hello. I have an extra question on a piece of news that was out today in the newspapers about you bidding for 150 buses for Alexandria Port Transport Authority. I was wondering how likely are you to win this bid, if there is any timeframe for the award?

Dr. Raouf Ghabbour: I didn't know that they are publicising it. I bid for two or three tenders a day, so if they keep on following me this way, the media is going to be very busy. But I would say that our chances are 50/50 because there are actually three participants, three bidders. One of them



I don't see has a chance so we have a 50/50 chance. We haven't seen yet the prices. We know technically that we are superior but if we are lucky with the pricing we'll get it.

Samah Dissi: Great, thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: We'll take our next question from Mehdi Kaoukabi of Duet. Please go ahead.

Mehdi Kaoukabi: Hello, yes. Thank you for hosting this call. I just had a quick question about the foreign exchange risk. I just wanted to know if you had any hedging strategy and if not what are your expectations in terms of EGP evolution and also in terms of your relationship with your suppliers? Do you have any mechanisms that offset part of the foreign exchange risk or not at all? Thank you.

Dr. Raouf Ghabbour: Unfortunately we have zero mechanisms to offset the foreign exchange risk with our suppliers. Unfortunately as well I have absolutely no vision about the future of the foreign exchange of the EGP. I know that Egypt has to repay \$2.5 billion by the end of this month to Qatar. Probably this is one of the factors currently pushing the Egyptian pound further down. I know as well that the Egyptian government is trying to repay the foreign petroleum companies for their dues which are billions of dollars, so probably this is putting a lot of pressure on the Egyptian pound. I have to tell you people who would ask me about what is the risk which can keep me awake at night, no other than the foreign exchange. I don't see the political risk. I think the economy although it's in a very difficult situation but I am very confident that it will improve. My main concern is the foreign exchange because the weakness of the Egyptian pound when it exceeds the level of 0.5% per month, it wipes either partially or completely our margin, so this is what is really...

Mehdi Kaoukabi: This is not something you can pass on to the customer I guess.

Dr. Raouf Ghabbour: You can pass to the customer up to 0.5%, so say 6%, 8% a year. When the devaluation is 10% then I lose 2%.



Mehdi Kaoukabi: Makes sense. Thank you for your answer. I have a second question about the operations in Iraq, so I just want to get more of an idea about first of all in which cities you do business and how is the business managed on a day to day basis? How do you manage the security concerns of your employees? How does it work exactly?

Dr. Raouf Ghabbour: We are existing in all cities of Iraq, so we are in the north where relatively security is ok. We are available in Baghdad and some other cities in the central regions; and we are available in Basra as well. Currently the situation in the north and in the south is 100% secure, so in Basra and any city in the south you have absolutely no problem. The business is back to normal, even better than before the crisis. The business in the north was very seriously affected at the beginning of the conflict. We have seen signs of improvement during October. I saw the business improving by 33%, so it became 35% or 40% of what it used to be and I see that it is improving by the day, so psychologically the people are now getting back to their normal life. In Baghdad the business is much more two governmental authorities rather than private sector and luckily we are securing very decent orders to the Ministry of XYZ, Interior and others. So I think the situation is improving gradually. The area where we are not present is the area which is very difficult which is the western/northern part of the central region which is dominated by ISIS. We have not had presence there so practically speaking I moved a lot of my Egyptian staff back to Dubai or back to Jordan so they are handling from there and the Iraqis are handling the day to day operations on the ground and the Egyptian people are visiting there and for quick visits every week or every other week.

Mehdi Kaoukabi: Ok. Thank you for your answers.

Operator: Thank you. As there are no further questions I will now hand you back to your host for any additional or closing remarks.

Dr. Raouf Ghabbour: Thank you very much ladies and gentlemen for attending to our conference call and I really wish and am confident to have further good results in the fourth quarter. Thank you.



Operator: Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation and you may now disconnect.