



Company: GB Auto
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Moderator: Sarah Maged
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Operator: Good morning, good afternoon, ladies and gentlemen. Thank you for joining our Third Quarter 2017 Results Presentation Conference Call. Please note that today's call is being recorded. From GB Auto, we have Dr. Raouf Ghabbour, CEO, and Mr. Mostafa El Mahdi, CFO, presenting third quarter 2017 results. I will hand over to Dr. Ghabbour for his presentation. Then we will have a question and answer session. Dr. Ghabbour, you may begin.

Raouf Ghabbour: Thank you very much. Good afternoon, ladies and gentlemen, and thank you for joining our third quarter results call. With me here today is Mostafa El Mahdi, our Chief Financial Officer. As you know, we continued to disclose our financial for the auto and auto-related and GB Capital separately. We believe that breaking down the financial in this way, we are giving you more clarity on how we operate and making it easier for shareholders and analysts to forecast top-line growth, cash flow generation and relevant net financial debt.

Broadly speaking, the third quarter unfolded as expected. Consumers buying entry-level cars are struggling with the impact of high inflation. As a result, they are adapting slowly to new vehicle prices. On the other hand, consumers buying mid-segment cars have no issue adapting with the new vehicle prices. Against this backdrop, our emphasis throughout this year has been to reduce inventory levels. This strategy continues throughout the third quarter and we are seeing some early signs of a slow market recovery that we expect could gain base in 2018. Particularly important is that our vehicles are moving at an improved pace.



We have maintained our market share above 30% and we expect to return to our historical 33% rate by yearend[?]. Our inventory position in the auto and auto-related business division has been reduced by more than 25% to EGP3.8 billion in the third quarter.

As we aim to regain market share, we will also be working to reduce debt. Quite simply, our debt structure in the current interest rate environment is eroding profitability. Profitability that, as you know, was already hampered by slow sales. We've tackled this on two fronts. We are cutting debt and financing charges and we're working with suppliers to obtain better pricing and terms on models going forward. Together with rising revenues, this has allowed us to reduce auto and auto-related net debt to EGP4.8 billion at the end of the quarter. We see this trend continuing in the coming quarters.

In parallel, we are reaching a level of price positioning that with current exchange rate will give us a reasonable margin. Looking forward, that will be a game-changer for us. If 2017 was about decreasing inventory level and bringing down auto and auto-related net debt, 2018 will be about returning to profitability against a backdrop of better price positioning, lower debt, we hope, and we hope falling interest rates.

With that, ladies and gentlemen, I'll give you a quick business-by-business overview of the third quarter, and then Mostafa will take the call to walk you through financials. On the passenger car front, it is safe to say that by the end of the third quarter inventory reduction is no longer a focal point of our business strategy. Going forward, our focus will be on regaining margins.

Moving to motorcycles and three wheelers, it's clear to us that the market of three wheelers is back to its historical levels. As they are income-generating assets for their owners, they are picking up. But motorcycles are a consumer product. The slower sales recovery reflect this and was also influenced by a hike in custom duties. We have an aggressive plan to bring price



competitive motorcycles back to the markets. We expect in December to begin manufacturing Boxer[?] brand chassis and we'll be doing complete [inaudible] with local value-added content. This will see total custom duties on motorcycles fall to about 5%, down from 30%, allowing us to cut prices and drive volume growth back to historical levels.

After-sales continues to be a bright spot. The slow market has seen a drop in walk-in traffic as fewer new models come in for under warranty service, but a slower replacement cycle is also driving people to maintain older vehicles. We are aggressively pushing after-sales and have renegotiated pricing on spare parts with a number of key suppliers, allowing us to maintain volumes, and in some cases, improve margins.

Tires is similarly operating at historical highs and the turnaround of our lubricant business continues [inaudible]. We have growth strategies kicking in now for both businesses. We are proud of the impressive performance of GB Capital, which continues to capture more market share across its five subsidiaries. We believe 2018 will be another record-breaking year in terms of revenues, portfolio size and profitability.

I'd like to start giving you some guidance for the upcoming quarter per line of business. For passenger cars, we expect revenues in the range of EGP2.3 billion. As for two and three wheeler division, we expect revenues in the range of EGP725 million. We expect revenues of tires in the range of EGP225 million. The commercial vehicle in construction equipment division should see revenues in the range of EGP300 million. For our regional operations, we expect revenue in the range of EGP560 million. Revenues for the after-sales division are expected to be in the range of EGP250 million. GB Capital should see revenue in the range of EGP950 million. Finally, the Group's consolidated gross profits will be in the range of 11%. So I did not add up but I think this is about EGP5.3 billion total sales revenue at 11% gross margins.



With that, ladies and gentlemen, I'll conclude my remarks and turn the call over to Mostafa, who will recap our financial performance. Then we'll open the call to your questions. Mostafa please?

Mostafa El Mahdi: Thank you, Dr. Raouf. The profit margins of GB Auto and auto-related segments were hampered by our inventory reduction efforts. However the passenger car segment is showing signs of recovery with revenues for the division gaining 76.2% quarter on quarter. GB Auto was successful in recapturing market share in the third quarter of 2017, which climbed to 36.6% compared to 31.3% in second quarter 2017.

Revenues from Egypt passenger car recorded a 76.2% quarter on quarter, increased in third quarter 2017 to EGP2.2 billion on back of significantly higher volumes. GB Auto sold a total of 10,977 units during this quarter, which is 59.3% higher than second quarter. We have seen auto and auto-related net debt fall to EGP4.8 billion, down from EGP5.5 billion at the end of the second quarter, a trend we expect to continue throughout the coming quarters.

GB Capital delivered solid performance in third quarter with revenues up to 41.3% year on year after inter-company elimination reaching EGP604.9 million, contributing 12% on group revenues and 24.8% on revenues growth in absolute terms. GB Capital has gained – has again delivered a strong performance with net portfolio assets worth EGP5.3 billion, up by 40% since the beginning of the year. And annualised return on average equity stood at 31.5% and the return on average assets at 19.9%.

Portfolio health and quality have remained very solid. GB Capital's provision levels have grown in line with loan portfolio growth as a matter of prudent risk management. GB Capital remain conservatively leveraged compared to regulatory caps which allowed the company to borrow for long-term debt up to eight times of shareholders equity for GB Lease and drive[?]. Total leverage



for GB Capital stood at 4.26 times as of 30 September 2017, versus 3.37 times as per the regulator definition.

At the consolidation group level, GB Auto net margin during the nine-month period were affected by increased finance cost of EGP954.6 million. That results from higher levels of – results from higher levels of official interest rates, which increased 7% since November 2016.

That concludes my presentation for today. Ladies and gentlemen, we can now open the floor to your questions. Operator?

Operator: Thank you, sir. Ladies and gentlemen, if you would like to ask a question at this time, please signal by pressing star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signals to reach our equipment. Again, please press star one if you would like to ask a question. We will pause for just a moment to allow for everyone to signal for a question. Thank you. We will now take the first question from Haydi Medat[?] from Fairways[?] Brokerage. Please go ahead.

Haydi Medat: Hello. Thanks for hosting the call. I just have one question on margins. You indicated that you plan to regain margins going forward and that inventory liquidation is not the focal point. How do you plan to increase margins? Do you plan like to increase prices on cars in 4Q and going forward?

Raouf Ghabbour: Yeah, well, Haydi, as a matter of fact, from Q3 we started a gradual monthly increase in prices for passenger car models. Currently, as we speak, we are making two increases a month, so we do an increase at the beginning of the month and other increase at the middle of the month. And what helps us doing this is that we see competition is – there is no supply or the supply of the competition is becoming much less than before. So although the



market is not that strong, but the supply is even weaker than the weak market, so that's about passenger cars.

In terms of two and three wheelers, we actually in Q1 and Q2 tried to reenergize the market by compromising our margins. We see the market has come back already in the three wheelers, so we are trying to regain the margins we historically enjoyed. We are yet not close to that, but we are quarter by quarter, if you compare our margins in Q3 compared to Q2, you will definitely see an improvement, a clear improvement. Comparing Q4 to Q3, I hope you would be able to see further improvement.

So I don't want to waste your time but all over the business we see that there is room now to improve our margins. We are not any more in the mood of inventory liquidation. We are almost there. I believe that by the end of this year, we will have reached the real optimum level of inventory. We will not need to further reduce and we don't have a pressure to make us compromise on margins any further. We are gaining market share. We are improving our margins. And you can read this in the reports of [inaudible] how our market share have been growing from less than 20% to today over 30%, and another 3% or 4% will be regained during this quarter.

Haydi Medat: Okay, so you don't think the price increases might slow down sales?

Raouf Ghabbour: We haven't seen this in the past, so we are not applying 5% or 10% price increase, but we are applying 0.5% or 1% price increase, which is very well absorbed or received by the market. We are not doing it once a month. We are doing it twice a month so even if you are talking about 0.5%, which is the minimum price increase we apply, this means 1% per month, which means a 12% per year. And with the stability of the foreign currency, that will definitely



show a clear improvement in the margins. I don't think to say that we'll continue increasing the prices that aggressively, but at least we will do that until we regain our normal margin levels.

Haydi Medat: Okay, great. Thank you.

Raouf Ghabbour: Thank you.

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll pause for a few moments to allow for any questions. There are no further questions in the telephone queue at this time, gentlemen.

Mostafa El Mahdi: Are you sure?

Operator: Once again –

Raouf Ghabbour: Can you ask them again?

Operator: Certainly sir. Once again as a reminder to our participants, please press star one if you would like to ask a question or make a comment on today's results. Once again, star one on your telephone keypad. There are no further questions on the telephone queue at this time.

Raouf Ghabbour: Thank you. Ladies and gentlemen, thank you very much for attending our call and I hope we will be able to deliver very good results for the fourth quarter hopefully in March. .
Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation today. You may now disconnect.