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Moderator: Sarah Maged
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Operator: Good morning – good afternoon and thank you for joining our first quarter 2017 results presentation call. From GB Auto we have Dr Raouf Ghabbour, CEO, Mr Mustafa Al Mahdi, CFO, Mrs Minat Allah Sadek, CIO, presenting first quarter 2017 results. I would now hand the call over to Dr Ghabbour for his presentation, and then we will have a question and answer session.

Dr Ghabbour, please go ahead.

Raouf Ghabbour: Thank you, operator. Good afternoon ladies and gentlemen, and thank you for joining our first quarter results call. With me here today is Minat Sadek, our Chief Investments Officer, while Mustafa Mahdi, our CFO, is dialling in from abroad.

While not exactly in equal measures, 2017 has so far been both very frustrating and quite gratifying. Frustrating because it's never pleasant to see your core market pass through a two-month period of paralysis, as we did in January and February, but still gratifying as the years we have been – we have spent building higher margin, less cyclical businesses have paid off. This has given us a critical shock absorber during the period following the November float of the Egyptian pound, the impact of which on the market is essentially a first measure[?].

There is no changing the fact that January and February are lost months for our passenger car business, and there is no denying that the coming two or three quarters will be challenging for that business. That's why we have focussed on driving promotions to test the market and get a handle on its new dynamics. We have launched these promotions across the board to gather intelligence,



and have continued to do so with a particular emphasis on specific models. That promotion drive has paid off. From a low of just over 200 passenger cars in February, volumes recovered to north of 2500 in March. We have so far seen recovery in demands for CKD models including Elantra, Verna and Tiggo. Importantly, those are the models on which we are best stocked. We are also seeing signs that CBU will be challenging for the coming months, which again plays in our favour as our inventory levels there are acceptable.

As most of you know, I do not formally discuss monthly sales figures or performance outside of the quarter in which we are reporting, but I will take a moment today to note that the market developed in April in line with our expectations. The same holds true for May. April saw us move 2000 units. That's a bit below March, on the back of a seasonal effect including a long stretch of holidays towards the end of the month, and we saw a slow-down of sales, particularly outside Cairo, in the wake of the Palm Sunday bombings. So far in May, we have seen car sales continue their progress back towards historical levels, but we do not expect to see a full recovery until closer to year's end and as the market adapts to the new pricing. If increase in either, as many analysts expect, this will obviously be positive for our outlook.

Outside of the passenger cars, I'm delighted with the business. Motorcycles and three-wheelers are – were impacted in the first quarter, but recovered faster than passenger cars. Our forecast is that they will continue to do so and will return to their pre-float run rate before the end of the year.

There are very encouraging signs on the commercial vehicles and construction equipment front. We have seen a shift towards investment in transportation infrastructure, where we have enhanced our leadership position in the city and inter-city bus sector. We are also, for the first time in a very long time, now seeing an uptick in demand from the tourism sector, which has largely held back from investment in fleet renewal since 2011. Meanwhile, our high margin tyres[?], financing and



after-sales businesses had very strong quarters, posting double-digit growth in the top line and gross profit. It is on this front that I am very optimistic about the future.

Yes, it will take time for the passenger car business to come back. Motorcycles and three-wheelers will beat it in the race for recovery, but outside that core segment we are building multiple new businesses that have become very significant contributors to our top and bottom line, a trend that is expected to continue. We see continued double-digit growth for after-sales, which is already an engine of profitability. Our tyres business has exceptional prospects and will close this year close to the £1 billion mark. I'm very excited about the prospects for our lubricants business, like tyres[?], another counter-cyclical offering and one in which we have only begun to scratch the surface. And I see exceptional unrealised potential in our financing business, which is coming off a record month of March, and where we have extension plans that suggest to us that the story we have written so far is only the beginning.

This journey will be challenging. It will demand strength of character and clarity of purpose, and it will involve building businesses in both new and existing segments. But that is the joy of leading an organisation like GB Auto in an emerging market. Where there is nothing, you can create something. Where there was fragmentation, you can create a market-leading business. You do this by deploying the people, systems and deep market know-how that have already allowed us to organically transform our business in less than a decade from a few [inaudible] car company into a diversified automotive and transportation business with growing counter-cyclical contributors, revenue and profitability including non-banking financial institutions. I'm delighted to have so many of you along with us on this journey as shareholders.

With that, ladies and gentlemen, I'll conclude my remarks and turn the floor over to Mustafa, who will recap our financial performance. Minat will then provide some more colour on both our results and our strategy. Then we'll open the call to your questions. I hope we can have a lively discussion,



not just of our results in a very challenging quarter, but also of our outlook for the year and our plan to continue to build and grow the business. Mustafa, please.

Mustafa Al Mahdi: Thank you, Dr Raouf. Ladies and gentlemen, GB Auto saw annual sales revenue increase, a slight[?] of 1.3% year-on-year, with a 36.4% decrease in passenger car revenues being mainly compensated for by the 71.6% year-on-year increase in the financing business, and 49% year-on-year increase in after-sales revenue. The devaluation of the Egyptian pound in November 2016 impacted consumer demand in the first two months of 2017. However, March saw some positive signals from the market when we sold around 50 percent of our normal volumes as we launched a limited promotion on prices. Despite the decrease in the passenger car revenues, which are typically the highest contributors to the top line of GB Autos solid, non-auto business proved they could support the group and continue to deliver superior growth and profitability that is largely non-cyclical. The £500.1 million Egyptian gross profit at a 16.9% margin was a result of the strong contribution from the financing business, after-sales division and other ancillary lines.

Despite this, improved profitability from operation was eaten up by three factors, the first being a higher FG&E[?] expenses of £294.8 million compared to a hundred – £217.3 million during the first quarter of last year. This was a result of increased expenses associated with expanding financing business, inflation arising from the floatation of the Egyptian pound, and higher depreciation expenses due to devaluation of the assets that followed the floatation of the Egyptian pound. The second factor was a foreign currency loss of £104.5 million Egyptian pounds due to the fluctuation of the US dollar exchange rate in Feb and March, as well as changes in the net position of the group's monetary assets and liabilities dominated in foreign currency. And the third were increased finance cost which reached £277.8 million during the quarter due to 5.5% increase in the interest rate and additional working capital requirements for day-to-day operation as a result of higher costs following the devaluation. In line with the last few months as the company continued to struggle to generate positive cash flows due to the slow-down in sales, which were even slower than reduced



inventory build-up. This resulted in a deeply negative net cash flow from operation. Management is working on balancing this by reducing the order frequency and pushing for accelerated sales.

The group's net debt stood at £9.5 billion Egyptian pounds, an increase of £2 billion compared to the previous quarter. Net debt to equity was 1.9 times as of 31st March 2017, up from 1.5 times at the end of December 2016. At the end of the first quarter, total consolidated debt increased to £10.4 billion, which includes £3.1 billion in financing business debt as we continue to expand the operations. We expect to return to normal [inaudible] in the next couple of quarters, with our cash flow situation anticipated to improve compared to the first quarter of the year, which should be the peak of company's inventory.

That concludes my presentation for today, ladies and gentlemen. I'm going to hand the call now to Menat Sadek, our CIO, who will provide you with a bit more insight of our strategy before opening the floor to you for questions. Menat?

Menat Allah Sadek: Thank you, Mustafa, and thank you, Dr Raouf. I just returned from the latest investor conference, where I had the opportunity to see many of you on the sidelines and provide an in-depth explanation of our first quarter results. I have to say that despite the reported loss, the results came as no surprise to many of you. You knew about the challenging quarter to come, the higher interest expense that would eat up our operational profitability, and the outlook for the passenger car market as a whole, so I won't dwell on that.

Instead I want to look at the results differently. Passenger cars, which were previously the largest contributors to revenue and profitability at some point in the past, they have in the first quarter contributed less than 30% of our top line. That is compared to historically 50%, and even 70% if you look more than six years ago. Moreover, they've only added about – they were only about



25% of our gross profits, and this is a huge change from the historic number of around 40%, or even 50% at some points as well.

On the other hand, the financing businesses, after-sales, two and three-wheelers and tyres combined reported increased contributions to both the top line and the profitability, and they made up over 50 percent of our gross profits during the quarter. This is what I want to focus on: the fact that our non-auto business is becoming the core contributor to our profitability, a promise that we've been making to you guys for the past six years or even a bit more, and this is what dominated the discussions between you and your good self in our most recent meetings, and this is the current high priority for management. We've gone from discussing the long-awaited automotive directive, the effect of the foreign currency on the market and on our sales, to talking about a more diversified business that will continue to contribute to profitability. And that's a substantial upside.

That is not to say there are no risks associated with the current situation, because there are. As Mustafa pointed out, we need to work on improving our cash flow situation, and we need to manage our inventory more efficiently given market demand. Our leverage ratios are substantial, and so we need to put the debt we have into perspective. Last but not least is to acknowledge the fact that our balance sheet is looking more like a non-banking financing institution versus an auto player[?], distributor, trader, assembler. We need to stress the importance of aggregating this business to position it better as to judge our overall performance. We are looking forward to improving our reporting standards by making this separation, as well as being more transparent on various matrix. This will hopefully pay off and result in a better, more fair valuation of our business.

And now that you've both seen enough of me and heard much from me, let me wrap this up and open the floor to your questions. Operator, please?



Operator: Thank you. If you'd like to signal for a question, please press star one. Once again, that's star one to be placed in the queue. We have no questions in the queue, but again, as a reminder, please press star one.

Once again, that's star one to signal. And we'll go – and once again as a reminder, that's star one to signal. We'll go first to Amni Wafi[?] with Renaissance Capital.

Amni Wafi: Hi everyone, and thank you for the call. Just one quick question for me. Could you share more light on the net profit line, and especially the impact of the higher net finance cost which is in this quarter, and how do you see these going forward in the next two or three quarters? Thank you.

Raouf Ghabbour: As a matter of fact, we have not been – we have been rationalising our orders in a way to really reduce drastically our inventory levels in the coming period. I have mentioned during the last conference call that the first quarter will see the peak of our finance costs and our inventory levels. Going forward, I am very happy to see that the sales are coming back and stock replenishment is done in a very rational way, so I see that starting from Q2 you will start seeing our inventory levels reducing and our finance costs reducing as well. And I see this progressing through the year, and I think that by end of this year we will see a company back to normal. Does this answer your question?

Amni Wafi: Yes, very much, thank you. And another follow-up question on something that's [inaudible]. Could you share a latest update on the new two and three-wheelers activity. I remember last time, during the last call you mentioned that we were in the later stage of the land contract. Where do we stand now at – when can we expect the –



Raouf Ghabbour: We have already – okay, the project – it's actually two projects. It's the assembly facility which is going to be built in Suez area, and we have another facility which is another big investment as well for field component manufacturing to supply to this factory for motorcycles and three-wheelers. The component factory is almost finished, and I was just an hour ago in a meeting and I think that it will be completed by July this year, start producing from July this year, and it will start applying to our existing two and three-wheeler factory, which is the whole factory. The big assembly facility we have already obtained the land, and we are working now on making tenders for the contractors to start building, and we have almost finalised an agreement with the paint shop supplier of that facility, which is the most important investment in the project.

Amni Wafi: Okay. And do you still expect a better recovery on this segment and, for instance on the passenger car segment, as you were at the beginning of the year?

Raouf Ghabbour: Yeah, it's – let me tell you that, in my script today it was a bit understated. As a matter of fact, our peak sales were 8000 units monthly for three-wheelers. Last month we had sold 5500. This month we are expecting anywhere between 6000 to 6500. And I think that, comfortably by end of this year we'll see the 8000 back. In the motorcycles it's a bit more complicated. I used to sell about 5000 units a month. Currently we are selling about 1700 units a month, but that's mainly because the custom duty was increased from 20% to 30% and we are paying the 30%.

But we are starting nowadays a project to assemble or manufacturing the chassis of the motorcycle and paint it in our existing car facility, and through this project, which I expect to be completed within the next quarter, we'll be able to pay the custom duty based on the component duty rate rather than the motorcycle duty rate, which will bring down our custom duty from 30% to about 7%. With this, I believe that we will be able immediately to recover, if not the whole 5000, a big portion of it.



So practically speaking, what I'm doing nowadays is that I am liquidating my stock gradually. I'm not pushing the sales. And I'm not ordering any new motorcycles until this project is realised.

Amni Wafi: Okay. Very clear, thank you very much.

Raouf Ghabbour: I can comfortably say that two and three-wheelers is almost back to normal. The problem really is the passenger cars.

Amni Wafi: Yeah. Okay. Thank you very much.

Raouf Ghabbour: Thank you.

Operator: And we have no further questions in the queue, but again as a reminder, that's star one to signal. And again as a reminder, that's star one to signal. We'll go next to Hutim Allah [?] with Hermes.

Hutim Allah: Hello. Thank you very much for the call. I just have a question regarding the leverage and the inventory level. Is there any kind of target you can share that you expect us to be by the end of the year, assuming the current sales you're seeing in the market, or a modest improvement from current levels?

Raouf Ghabbour: Yeah. Let me tell you, the problem is mainly in – in the passenger inventory issue – is mainly in the passenger cars. In the passenger cars we have an inventory of almost 20,000 vehicles. At the current run rate, this could be something like eight to nine months period. But we – I am pushing to make it a bit shorter than that. So we – actually, today I have – I have authorised another promotion which will put the sales to about 3000 vehicles a month. For 3000 vehicles a month definitely by end of this year, we will be – we will have completely liquidated.



On the other hand, we are starting – we obtained from our suppliers a good level of support for some of the models, which we are starting to receive from July, and in those models there is demand, and with the new prices we have it's going to be profitable. So we are expecting to have the 3000 monthly sales out of the liquidation program, but on top of the 3000, some other models, imported models, will improve the numbers. So I think that comfortably by end of this year our inventory level, and of course automatically the debt level, is going to drop.

Hutim Allah: Thank you very much.

Raouf Ghabbour: Thank you.

Operator: Once again as a reminder, that's star one to signal. And we have no further questions in the queue.

Raouf Ghabbour: Okay. Ladies and gentlemen, thank you very much for joining our call, and I appreciate your questions, and hopefully will be able to give you better results during our conference – our call in August. Hopefully. Thank you.

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