Company: **Ghabbour Auto**

Conference Title: **First Quarter 2015 Results Presentation**

Moderator: **Dr. Raouf Ghabbour, Mr. Mostafa El Mahdi**

Date: **Wednesday 13th May 2015 – 16h00 Egyptian Time**

Operator: Good morning, good afternoon, ladies and gentlemen. Thank you for joining our First Quarter 2015 Results Presentation conference call. From GB Auto we have Dr. Raouf Ghabbour, CEO, and Mr. Mostafa El Mahdi, CFO, presenting first quarter 2015 results. I will hand over to Dr. Ghabbour for his presentation and then we will have a Q&A session. Dr. Ghabbour, please go ahead.

Dr. Raouf Ghabbour: Thank you very much. Good afternoon and thank you for joining our first quarter 2015 earnings call. Ladies and gentlemen, our first quarter was, to say the least, mixed. As a group we saw our top and bottom line rise but revenue for our core passenger car line of business dropped. Egyptian operations performed solidly for the most part, meeting or exceeding our expectations. On the other hand, our expansion territories were challenging due to factors outside of anyone’s control. And let me not forget to mention that SG&A expenses have dropped as a percentage of revenue for the third quarter running. At the same time though, FOREX losses, attributed mainly to January, rose substantially compared to last year, a trend that eased in late February and March. Let me explain how we got there and offer you my thoughts about where we are going.

Firstly, please allow me to reiterate that this is nowhere where we've not been before. We have a proven track record of success in the face of challenges, staying the course with our investments and positioning ourselves for the leadership position when the market recovered. This case will be no different but first have a view of the quarter.

I’ll begin with a review of our Egyptian operations. Our passenger car line of business remains core to GB Auto’s performance and our Egyptian passenger car operations are a primary driver of this success, accounting for a full 45% of our total group revenue in the first quarter of this year, and that comes in spite of a reported 56% decline in revenues from Geely operations in the quarter on a significant 71.7% decline in sales of Geely completely knocked down or CKD units. Those of you who read our earnings newsletter know that this was a result of our decision to withhold deliveries to dealers as we sought to correct a market oversupply. That issue has been addressed and we have started seeing relatively normalised sales after quarter closure. Hyundai continues to account for the lion's share of our sales here and I'm pleased to note that sales of completely built-up units or CBU vehicles rose a substantial 60.7% in the quarter. CKD units also rose, albeit a more modest 7.2%. I see these increases, and especially the CBU increase, as a clear sign of strong consumer demand and also consumer confidence. Likewise, Mazda posted an almost threefold increase in unit sales and is showing strong signs of continued growth. We are very open to offering new Mazda models should customs regimes permit such a move.

Unfortunately, even as revenues rose comfortably, margins were pressured by the depreciation of the Egyptian pound against both the US dollar and the Korean won. At the same time, Japanese and European vehicles are benefiting from depreciation and improving their profits even as they leave their prices static. This has prevented us from passing the full effect of the foreign exchange differential on to consumers, a practice which we have been successfully doing since official devaluation started. More potentially damaging in both the short and long terms of course is the unfair customs advantage enjoyed by European, Turkish and Moroccan vehicles against assembled-in-Egypt cars. I remain hopefully that the current government will address this issue. In fact, we have seen several trial balloons in the domestic press as to how this might unfold. At the same time, pressure on the government is rising. Mercedes Benz has announced it will stop assembling in Egypt.

Looking at motorcycles and three-wheelers, the primary news for this line of business is our planned expansion. Of course it continues to deliver a strong performance in the first quarter of this year, which is traditionally a slow season for sales of these vehicles. I don't want to say this is expected after the attempt last year to ban imports of kits, but this much is clear: there is a remarkable market for these vehicles not just in Egypt but abroad. That's where our expansion plans come in. our current assembly facilities in Egypt are considered the first motorised Bajaj line outside of India. We are currently finalising studies to install new painting and welding shops with considerable components and process localisation. Proceeds from the capital increase will in part by used to finance this expansion. We have seen positive consumer acceptance of three-wheeler sales in prior sales in Iraq and initial signs suggest that this business could be a replica of the Egyptian success story.

The commercial vehicles and construction equipment line of business has again grown revenues and gross profit as the market conditions continue to be quite favourable. We are continuing to reduce overstock of high-cost material and are confident that in the long term our superstructure business, the only manufacturing business of its kind in the country, will remain a small, almost niche, market but quite successful in spite of that. Exports of buses continue with very promising indicators and a focus on the Gulf and the sub-Saharan Africa region.

Our tyres line of business meanwhile had a difficult first quarter as sales revenues in Egypt fell by more than a third. This was unfortunate but expected. The drop comes as a result of our strategic decision to change customer payments options from credit-based to cash-and-carry as we seek to mitigate risk. The last of the outstanding credit debt has been collected and I see tyre demand coming back very strong in second quarter – during this quarter.

The financing businesses meanwhile are reporting excellent growth and excellent asset quality. I'm particularly pleased with the long-term prospects and growth potential for this line of business and I expect to be making an interesting announcement about it shortly.

Finally, our new businesses are proceeding apace. I am pleased to report that Fabrika, our preowned vehicle line of business, has already reported positive contributions to gross profit.

The last thing I want to say about our Egypt operations is that I'm confident that the foreign exchange troubles are now largely behind us. Rather than the currency being at the whim of the black marketeers, the Governor of the Central Bank of Egypt has taken control of the Egyptian pound. This is not to say that I think the currency devaluation will not continue – it will, but it will do so in an orderly manner and one that is conducive to good business.

The hardest news for me in the first quarter of this year was the continued deterioration and fragmentation of the Iraqi market. The political, economic and security situation in this previously robust market are very poor and consumer confidence is unsurprisingly quite dismal.

That said, we are actively seeking solutions that will see us adjust to the new reality on the ground and continue to operate successfully.

In Libya, we are in the process of liquidating and I want to reaffirm that we have no personnel in Libya and that our in-country inventory is fully insured.

The Algerian market was soft for us in the first quarter as currency issues impeded revenue growth. However, passenger car sales in the country are continuing at a reasonable pace and our tyre division there is reporting very strong sales. I can also tell you that in Algeria, as in Iraq and even Egypt, we are looking into possible expansions to best capitalise on the potential of this market.

Finally, second quarter developments, part one for which the groundwork was laid in the first quarter of this year, I'm pleased to report that we closed our EGP 960 million capital increase on May 5 very successfully. Existing shareholders and purchasers of tradable subscription rights together representing 99.86% of GB Auto's shares exercised their right to participate in the capital increase and our paid-in and issued capital is now set to rise to EGP 1.094 billion. This success comes in spite of the weak performance of the Egyptian stock exchange, confirming the commitment of our shareholders to our future plans as well as the strong interest from new investors in the stock who took the opportunity of the tradable rights issue to build a position in the company. We are proud of that achievement. We intend to use the proceeds from the transaction to finance growth activities including the tyre plant and a motorcycle and three-wheeler manufacturing facility. At the same time, we have continued the development of investments already in progress. Indeed, I believe that the remainder of this year will be one of growth in our home market and the laying of the foundations for growth in a number of expansion markets. We want to thank you all once more for your ongoing support as we navigate these interesting times and look forward to reporting our progress on these exciting initiatives going forward.

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

Mr. Mostafa El Mahdi: Thank you, Dr. Raouf. Good afternoon, ladies and gentlemen. During the first quarter of 2015, GB Auto revenues increased 20% over first quarter '14, while EBITDA increased 14.6% year-on-year. EBITDA margin was stable quarter-on-quarter at 8.65. Although the first quarter is usually the weakest quarter of the year, first quarter 2015 offered an exceptionally good performance. Excluding what we can now refer to as one-off forex loss which resulted from the devaluation of Egyptian pound against US dollar from EGP 7.18 to EGP 7.63, GB Auto reported a normalised net income around EGP 110 million excluding the one-off forex loss, an increase of approximately 67% over first quarter of 2014. EBITDA interest coverage improved to reach 2.95 times in first quarter '15, up from 2.55 times in first quarter '14.

GB Auto's robust business model yet again proved to be solid as the weakness in Iraq passenger car sales was offset by the healthy performance of Egyptian Hyundai business. Market growth across most of our product segments has resulted in a reported increase in inventory to match our revenue growth potential in the quarters to come. Despite the said increase of EGP 350 million in inventory during this quarter, GB Auto reversed the course of its negative cash flow from operation by changing the terms of payment with our main suppliers, as promised in previous earnings release. This has resulted in solid cash inflows from operating activities to be EGP 400 million in the first quarter 2015 versus a negative cash outflow from operating activities of EGP 185.6 million in the first quarter 2014.

Total debt continued to climb although at decreased rates as our operations are run more efficiently, while net debt declined quarter-on-quarter mainly while total debt stood at approximately EGP 5 billion at 31 March 2015 compared to approximately EGP 4.8 billion at 31 December 2014, net debt declined to EGP 3.5 billion as of end of first quarter compared to approximately EGP 3.6 billion as of end of full year 2014. Our leverage position improves if we exclude the following from our operating debt calculation so we can take a better look at the real business leverage: the total debt from the financing business which is backed up by high-quality assets and which stood at approximately about EGP 945 million at the end of first quarter 2015; and the shareholder loan of EGP 538.7 million which was subsequently used to settle the subscription of the main shareholders to the Company's capital increase shortly after the quarter closed. Excluding both of these figures would bring our total debt to approximately

EGP 3.5 billion, which means that the Company has plenty of room to fund the expansion plans, especially after very successful completion of the capital increase through our rights issue process which was 99.86% subscription.

As we enter to the second quarter 2015 with a positive net cash flow, a strong balance sheet and a solid growth in all our business lines, we look forward to our new investments which should strengthen our position, numbers and [ratings] further upon their successful completion.

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

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

Our first question today comes from Samah Dissi of Beltone Financial. Please go ahead.

Samah Dissi: Good evening. Thank you for holding the call. I had a question concerning the incentive package that the Ministry of Finance announced around two weeks ago. They did not give details for us; however, we've noticed over the past couple of days that more trends toward car manufacturing coming on board. So do you believe that these incentives could include tax for example or investment incentives for car manufacturing and if so, will you be looking at that front? This is the first question and the second one relating to the inauguration of sales of two- and three-wheelers in Iraq, do you expect going forward after the completion of the new facility, will it be used for exports as well or will it be only directed for the local market? Thank you.

Dr. Raouf Ghabbour: Yes, thank you. Regarding the incentives the government is currently considering to give to the automotive manufacturing, nothing has been announced officially yet so we really do not know. But what I can assure you is that I've had meetings, lots of meetings with the Minister of Finance and with the Minister of Industry and Trade and with the Prime Minister and across the board, they say that we will do anything it will take us to ensure and guarantee that automotive manufacturing not only survives but transforms itself from an assembly manufacturing into a complete manufacturing of cars, they are determined to bring Egypt or to make Egypt *the* production hub for auto making for Middle East and Africa. What they are considering exactly, we have given them our ideas but we do not know what they will come back with but what I know is that they are currently testing new regulations regarding customs and sales tax but the details we really cannot – we don't know. But I am, I have to say that I have very big confidence that very soon we will have a completely different geography of regulations attracting serious investments into this business and completely changing the geography of the market from 50/50 – 50% CKD and 50% CBU market into a 75% CKD, 25% CBU market. And I hope it will bring some kind of balance in the treatment between the free trade agreement Europe, Turkey and Morocco and other countries of origin like Japan, China and US.

As for the second question, absolutely the new investment we are doing is not only to supply to the Egyptian market. It is bound to supply to all the free trade agreement markets we have. So we are looking at the GAFTA markets and one of them is Iraq. So it's not going to be only Iraq but it's going to be pan-Arab, we will sell wherever the motorcycles or three-wheelers are needed. Across the Arab world we'd be selling as well as COMESA, which is the East African markets. And as you know, on the 10 July Egypt will sign the tripartite agreement which is linking the COMESA to South Africa as well. So it's going to be a pan-African, almost pan-African free trade agreement. So those will be extremely widely open to receive our products from two- and three-wheelers.

Samah Dissi: Thank you. Only one last question please on the FX shortage in Egypt. How do you think this could impact operations for the remainder of the year?

Dr. Raouf Ghabbour: I have to say that during the last month and a half, we have seen a very gradual and I would say good level of improvement in the forex allocation provided to us from banks, which leads me to believe that there will not be any impacts of the shortage of foreign currency and I do not see shortage of foreign currency within or beyond the period of let's say July or August. So of course we have hedged our position by eroding our strategic inventory level so –

and immediately afterwards, it was compensated by allocations of foreign currency so we have not missed business opportunities.

Samah Dissi: Okay. Okay, thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. Once again ladies and gentlemen, please press *1 if you would like to ask a telephone question. There are currently no further questions in the telephone queue at the moment. We have a further question, my apologies, from Mohamed Zein of CI Capital. Please go ahead.

Mohamed Zein: Hi, thank you for taking the call. My question really is on the tyre manufacturing facility. Can you kindly update us on this one, on this venture?

Dr. Raouf Ghabbour: We are currently in the negotiation with a global player for the know-how transfer and the distribution rights and the rights to use the brand name. I assume that hopefully we'll be able to get preliminary approvals within this quarter, which hopefully when it happens will be able to get into the negotiation regarding the terms of the contract and so forth which I assume should be completed during the third quarter. So by that time we'll be able to make announcements related, very clear announcements related to the project.

Mohamed Zein: Thank you very much.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. We will now move to our next question from Manoj Sah of Jarir Investments. Please go ahead.

Manoj Sah: Yes, good afternoon, gentlemen. My question is with respect to two-wheeler and three-wheeler assembly plant. I just wanted to get an idea like how much improvement in margin it will lead to from the current operations?

Dr. Raouf Ghabbour: From the current operations?

Manoj Sah: Yes.

Dr. Raouf Ghabbour: So I don't see improvement in margins will be the benefit. The benefit will be more than doubling the volumes which will of course improve the bottom line and the other benefits will be saving lots of costs which are not actually required so we don't need to pay that much rate. So producing locally voluminous components will efficiently reduce the costs. We'll be able to, as well, increase our market share because definitely we'll be able to get customs reduction which will make us much more competitive than where we are today, and finally it will give us a lot of protection, political protection because as you know, we have had an experience last year whereby there was a ban of importation. The three-wheelers specifically is not that well perceived by not only the Egyptian government but by all governments everywhere in the world. So having a manufacturing facility employing lots of people and generating foreign currency through export will make it more difficult for the government to consider unfavourable future decisions.

Manoj Sah: Okay. Now when do you see this facility coming up, starting commercial production?

Dr. Raouf Ghabbour: I have a meeting actually in two weeks in India…

Manoj Sah: Yes please.

Dr. Raouf Ghabbour: Which should complete our agreement. I do not think that the factory will take more than a year and a half to be completed so I expect launching of the production by the end of next year or latest by early 2017.

Manoj Sah: Thank you very much.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. For any further questions, please press *1 on your telephone keypad. We will take our next question from Marie Mohamed of Cairo Financial.

Mohamed Marie: Hello Dr. Raouf and everyone. Sir, please advise us concerning the surge in financial business's revenues and other revenues multiple-folds increase as well?

Dr. Raouf Ghabbour: Finance business revenues?

Mohamed Marie: Yes.

Dr. Raouf Ghabbour: And you said what other business what?

Mohamed Marie: The other – the segment of "other" revenues.

Dr. Raouf Ghabbour: Yes.

Mohamed Marie: It increased from 1.4 in the first quarter of 2014 to 12.6 in the first quarter of 2015 so kindly advise.

Dr. Raouf Ghabbour: Okay, you are talking about the total company?

Mohamed Marie: Yes.

Dr. Raouf Ghabbour: Yes. The total company, the surge in business, let's say passenger cars, the year before we did about 40,000 cars and in 2014 we did 62,000 cars. So you had more than 50% growth in business. You have the same growth in commercial vehicles. Other lines of business, of course you had another 50% or more in finance business. Other lines of business did not grow as much. So that's one part. So the market is really coming back. You understand that 2014 was a very difficult year so the market is coming back. On the other hand, of course the valuation played some part in raising the top line because we had to adjust the prices versus the devaluation.

As for the finance business, finance business you are actually a company – 2014 was the second year for Drive company and it grew almost by over 100% during that year. GB Lease is continuing to outperform. I have to say that during 2014, GB Lease was ranked second largest market share among financial leasing companies in Egypt and by the way, the last quarter of 2014 GB Lease was the number one market share in Egypt. So again, we have an excellent management team there. We are willing to increase the capitalisation of this company to grow it further. It's a very good business which we believe in and especially when we look at the quality of the assets and the quality of the portfolio. So across the board, we would have had even a far better growth in finance business if the ban of imports for two- and three-wheeler was not applied from February which affected our business from February until August last year. So six months of the year was a bad performance for our microfinance company. So I expect that the growth you have seen last year in the financial business is going to be outperformed during 2015.

Mohamed Marie: Okay, thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. We will now move to our next question from Abdel-Rahman Khalifa of Beltone Financial. Please go ahead.

Abdel-Rahman Khalifa: Yes, thank you for holding the call. I have a question on the financing business. The margins fell on an annual basis by 6%, almost falling from 28% to 22%. So can you offer an explanation for this? And we've seen great growth in the construction – in the commercial vehicles and construction equipment segment. For how long do you expect the tenders and the government funding on this to last in the coming couple of months or so, or years?

Menatalla Sadek: Hi Abdel-Rahman, this is Menatalla Sadek, the Chief Investment Officer. I'll answer your question about the financing business and then Dr. Raouf will take care of the construction vehicles. So basically the thing is when you look at financing businesses, gross profit is not the best measure you have to look at because you have to look at the NIM, the net interest margins, you have to look at the size of the portfolio and basically your measure is your return on average assets. So if you aggregate – also what we do is that what we report is the aggregated performance of four completely different lines of business. So to answer your question about margins, the margins are not the best measure here because it depends on a lot of factors including for example, or for instance, the inclusion of Haram Touristic, which is a small company compared to the others, which has completely different margins, etc. But in order to give you some sort of an indication about the performance of the financing businesses, I can tell you that the full return on assets, on average assets for the business, exceeded 23% and that includes also the new business. The portfolio – I can tell you about the size of the portfolio. I can tell you that the nonperforming loans were under 1%. So I think that answers most of the queries you have. If you need any more details, we're happy to share with you specific questions about each and every part of the business.

Concerning commercial vehicles?

Dr. Raouf Ghabbour: Abdel-Rahman, concerning commercial vehicles, we are confident that this will continue. The first quarter of this year was almost half a billion sales, commercial vehicles and their aftersales which if annualised will make it to EGP 2 billion, which is more than double last year. I think that with all the projects the government has announced, whether power projects, whether infrastructure, roads, bridges, which will continue for the next three years, whether the new industrial region around the Suez Canal with lots of investment being attracted there, and we are one of those guys. So this gives me confidence that this demand for commercial vehicles and construction equipment is going to continue and I would put it even more bluntly. With a population of 90 million people and with the level of spending in infrastructure during the last 35 years, I do not see this country being sustainable unless lots of investment is happening in infrastructure, otherwise we will never be able to reach our offices, we'll be stuck in the roads. We'll now have power at home. And then there will be no country. So I am very confident Egypt is too big to fail.

Abdel-Rahman Khalifa: Great, thank you very much.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. Once again, please press *1 if we have any further questions today. There are now no further questions in the queue so I would like to hand the call back to our speakers today for any additional or closing remarks. Thank you.

Dr. Raouf Ghabbour: Thank you. I thank you for joining our call today and I hope we will be able to make a very good conference call in August talking about the second quarter. Thank you very much.

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