



Conference Transcription

Date of conference : 14 November 2013
**Conference title : Ghabbour Auto –
GB Auto 3Q13
Results
Presentation**

CONFERENCE DETAILS

Conference Date: 14 November 2013

Conference Time: 14:00 GMT

Chairperson: Raouf Ghabbour

Speakers: Mr Mostafa El Mahdi

KEY:	
words in bold	Unsure if words heard correctly - please check
??	Words could not be distinguished
<i>(Inaudible -)</i>	Words that are entirely inaudible for the specified reason

Operator: Good afternoon, ladies and gentlemen. Thank you for joining our third quarter 2013 results presentation conference call. From GB Auto we have Dr. Raouf Ghabbour, CEO, and Mr. Mostafa El Mahdi, CFO, presenting third quarter 2013 results.

I will hand over to Dr. Ghabbour for his presentation then we will have a question and answer session. Dr. Ghabbour, please go ahead.

Raouf Ghabbour: Thank you. Good afternoon, ladies and gentlemen, and thank you for joining our third quarter 2013 earnings call. I'll be very brief today because I believe we have already covered the fundamentals of the last quarter's performance in our earnings newsletter.

I would instead offer a brief overview of why we are now more optimistic about our medium-term prospects across our markets. This should allow us more time to discuss your questions.

As I said in our earnings newsletter, there is no question in my mind that 2013 has absolutely been the most challenging year I have had in all of my time in business; that's 37 years. I believe all of us doing business in Egypt can be forgiven for feeling as if we have writing a book one day at a time since January 2011. Make no mistake that this is a thriller and the title is How to Grow and Thrive Despite Two Revolutions and Three Years of Uncertainty. And like any good potboiler, the story so far has been marked by quick cuts, plot twists, and surprise turns at the end of each chapter.

Looking ahead we expect that the next six months could bring more turbulence on the back of political unrest. This is natural. Voters must still head to the polls for the constitutional referendum and parliamentary elections and, of course, we need to choose a president.

That said, I'm more optimistic each day that we are on the right track. To begin with, we had our first ever LE1 billion sales month in September 2013.

It was not clear at the time whether this was solely due to the release of pent-up demand after slow sales in the run up to the events of 30th of June and on the back of the August curfew. It now appears that the spike in September sales was not only the release of pent-up demand.

October sales closed just short of LE1 billion mark. November figures are obviously some weeks away but we are reporting strong sales across the board so far.

I look forward to reporting a solid recovery in the coming six or seven months with ups and downs on consumer sentiment related to political stability. And we are considerably more optimistic about the second half of 2014 and beyond.

On the Egyptian passenger car front, it is clear that consumers prefer more economical models today and we have a strong lineup there. I'm very pleased with the performance of Geely. Led by the Emgrand 7, we have captured a monthly market share of 10%. We expect this to go further next year.

We have built up our inventory of Hyundai Verna CKD kits to a level that will support continued assembly into late 2014 or early 2015. This, of course, comes at the expense of continued finance costs but it is necessary to maintain our flexibility.

Meanwhile, we see prospects for short-term growth in Iraqi passenger cars being dampened by the fluid security situation there. This may have a more pronounced impact as we get closer to the April 2014 elections. We remain confident, however, that we can continue to grow our sales in Iraq, given the position we have built since we started our operations a few years back.

Also, on the regional front, commercial operations have finally begun in our newest passenger car markets of Libya and Algeria. Of the two markets, Libya is, so far, the standout. As we have reported, an extensive marketing campaign in the first week of October that ran through the 1st of November was very well received. We are seeing very strong interest in products delivered to market with strong sales already achieved, especially in our Great Wall pickup truck offering.

Our rollout in Algeria has been somewhat slower. However, we saw strong market interest near the end of our one-month marketing campaign, scheduled to end in mid-October. As a result, we extended the campaign to run through the end of this month.

I also expect continued strong growth from our after-sales operations, particularly in Egypt, as our investment in tripling capacity continues to pay off with high-margin revenue contributions.

On the motorcycles and three-wheelers front, our sales were obviously curbed in the first quarter by difficulties moving product from port-side to Cairo on the back of the curfew and road closures. I'm confident, based on September and October sales, that our monthly run rates for three-wheelers in 2014 will be at the range of 6,000 units per month. Overall, I expect margins for this segment to ease slightly next year, as we see a rising contribution from lower-margin motorcycles and price stability on three-wheelers.

I am, perhaps, most excited about the prospects of our Commercial Vehicles and Construction Equipment business. Sample products from the new GB Polo range have been very well received in the Gulf and we are producing for export under a contract with General motors. We see very strong prospects in exports next year and beyond and beginning later in 2014, from domestic sales on the back of a potential economic recovery and the government's ongoing stimulus spending.

At the same time, our new microbus product on a JAC chassis and the Chery micro-microbus will both be rolled out to the market in December. This will give us very strong benefits in product categories where from which we have largely absent.

Meanwhile, our Tire line of business continues to exceed our very high expectations and the numbers from the Financing businesses speak for themselves.

Finally, I'd like to note that our continued investment in SG&A to roll out new local and regional businesses supported by high-caliber staff was a drain on the bottom line this quarter. This is natural in any investment cycle. We look forward to matching revenues against these expenses and are also looking for a ways of easing spending in the meantime.

Ladies and gentlemen, it has indeed been one of the most challenging years I have ever seen in business but, heading into the final weeks of 2013, I am optimistic that 2014 will be a good recovery and that we'll be writing a new chapter in our growth story by 2015.

Again, I'd like to stress that we continue to invest in our business expansions whether it means producing new segments, investing in new consumer concepts, or capitalizing new local and regional businesses. We expect this to constitute, in the future, one of the most interesting chapters in the GB Auto story.

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

Mostafa El Mahdi: Ladies and gentlemen, good evening. Our performance has been mixed in the first nine months. To put it gently, we have been riding the same roller coaster in Egypt and the rest of our markets.

We began with a very strong first quarter sales and profits. The second quarter saw weaker performance across the globe's major segments. And the third quarter has clearly been the weakest. As a result, our revenues and EBIT show nearly flat performance year on year in the first nine months.

Despite these challenges, we saw strong funds from operation in the third quarter. We generated more than LE224 million during the quarter as the management continued to focus on reducing inventories and receivables balances.

The slower rate of reduction compared to the previous quarter was a direct result of our market conditions. Our trade receivables now stated at LE597 million, down about 20% from the close of the second quarter. This is also a reduction of nearly LE370 million from the end of first quarter of this year.

Despite the margin reduction in our inventories compared to Q2 we are still building our stock of Verna CKD and Geely inventory. As I have mentioned previously in Q2, this will continue to put pressure on our inventory balances.

Other factors contributing to this pressure includes investment in the first nine months as to continue both our personnel and management staff expansion of key lines of business and consolidation of both our financing and regional business. This will begin making important contribution to our top and bottom line in the coming years.

Our total debt continued to rise this quarter, reaching LE3.2 billion at the end of September 2013, around 10% since June 30th. And, as a result of our interest expenses rose by 24% to reach LE273.7 million in the first nine months as compared to the same period last year. EBITDA interest coverage significantly weakened to 1.9 while net debt to equity stood at .84 at the end of third quarter.

As Dr. Raouf has explained, we faced significant market challenges in the third quarter as a result of political turbulence. This translated into lower sales than expected and has resulted in a mismatch in cash flow as we continue to invest in growing the business for the long term.

We fully expect that the payoff from our new business will more than compensate for our increased costs, leaving us anticipating better capital utilization and return ratios beginning some time in 2014.

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

Operator:

Thank you very much. Ladies and gentlemen, at this time we will begin the question and answer session. If you do have a question today, please press the * followed by the 1 on your push-button telephone. You may also decline from the polling process at any time by pressing the * followed by the 2. And, as a reminder, if you are on speakerphones, you'll need to lift the handsets first before making your selection.

And our first question does come from the line of Maha Salem with CI Capital.

- Maha Salem: I have a question about the commercial vehicles or specifically the buses. What is the room in growth for buses? Are there any capacity constraints in terms your plans? And what are the targeted areas or markets for GB Polo, JAC, and Chery? Thank you.
- Raouf Ghabbour: Yes. Can you repeat? Because your voice is very unclear. I didn't hear your question.
- Maha Salem: Okay. Is there any room for growth in the buses segment in terms of any capacity constraints in your plants? And what are the targeted markets for GB Polo and JAC and Chery? If it's local markets, export markets, mix of both?
- Raouf Ghabbour: Yes. Okay. The issue is not the capacity. We have a huge capacity. The issue is the market. And as a matter of fact, our export market, we were not prepared with the right products as far deliveries to export markets in terms of (INAUDIBLE) -- can you hear me?
- Maha Salem: No, I can't.
- Raouf Ghabbour: Can you hear me now?
- Maha Salem: Yes. Now I can hear you. Yes.
- Raouf Ghabbour: Okay. The issue was not (INAUDIBLE) where our new models (INAUDIBLE) at the beginning of this year. We actually started selling to Kenya and to (INAUDIBLE). To my opinion are just the beginning, which would be followed by the (INAUDIBLE)
- Maha Salem: The line is breaking up.
- Raouf Ghabbour: Yes. As for the local (INAUDIBLE).
- Operator: Ladies and gentlemen, please continue to stand by (INAUDIBLE). Please go ahead.
- Raouf Ghabbour: Hello?
- Maha Salem: Hello.
- Raouf Ghabbour: Yes. Back to the GB Polo. I'm sorry. The lines --
- Maha Salem: Yes, the line's breaking up.
- Raouf Ghabbour: As a matter of fact the issue is not the capacity. The issue was the local markets. There was absolute both reasons because of the political

recent and the investments were very poor. So, accordingly, the demand for buses in general for taxi reasons, the demand did not exist.

What was happening, we didn't have in 2011 and 2012 the proper models delivered to our export market. Since the beginning of this year, we have all the products range ready and we started, as a matter, of fact applying sample units to all the distributors in the Gulf region and Saudi Arabia. Those orders started repeating.

We have managed to book very good contracts with General Motors for distributing our buses in the whole region of East Africa. I think that, as well, the local markets started turning, coming back, from September and, as a matter of fact, I think that we'll be able to announce very shortly really good news about big tenders we are almost finalizing. Does this answer your question?

Maha Salem: Yes, sure. It's very good. Thank you.

Raouf Ghabbour: Thank you.

Operator: Ladies and gentlemen, if there are any additional questions, please press the * followed by the 1 at this time. Again, as a reminder, if you're on speakerphone, you'll need to lift the handset first before making your selection. And at this time, I'm not showing and further questions.

Raouf Ghabbour: So anyway, thank you, ladies and gentlemen, for attending this call and I hope we'll be able to give you very good news for the fourth quarter of 2013. Thank you very much, ladies and gentlemen.

Operator: Ladies and gentlemen, that will conclude the conference for today. We do thank you for your participation. You may now disconnect your lines at this time.

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