Conference Transcription

Date of conference	**:**	**8 May 2014**
Conference title	**:**	**GB Auto 1Q14 Results Presentation**

CONFERENCE DETAILS

Conference Date:	8 May 2014
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
(Inaudible - ….)	Words that are entirely inaudible for the specified reason

Operator: Good morning, good afternoon, ladies and gentlemen, thank you for joining our first quarter 2014, result presentation conference call.

From GB Auto we have Dr. Raouf Gabbour, CEO; and Mostafa El Mahdi, CFO, presenting First Quarter, 2014 Results.

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

Dr. Raouf Ghabbour: Thank you. Good afternoon, ladies and gentlemen, excuse me for a very difficult flue I'm suffering from, so maybe my voice is a bit changed. Again, good afternoon, ladies and gentlemen. Thank you for joining our First Quarter 2014 Earnings Call.

In today's call I'll provide look at our performance in the three months ending 31st March, which was excellent. But for the most part, I'm focused on the remainder of the year, and what we expect to see across our market.

For several years now, we have been telling you about our investments in diversification and in our staff. Our growth in the past three months is a clear signal that these long-term investments are paying off. With year-on-year revenue growth of more than 28%, despite substantial loss is due to the unfortunate ban on the import of motor cycles and three-wheelers in Egypt, the quarter just ended, demonstrates the strength of GB Auto's business model.

By definition investment is a cost, and that's clear when you look at our profit and loss for the quarter just ended. Our general and administrative expenses rose 17% to EGP 174.4 as we increased wages to keep pace with inflation, and continued investing in our extending network of territories and branded presentation. Notably, this drive was outpaced by our growth in revenues. As a percentage of sales our expenses spending is down 50 basis points in Q1, 2014, as compared to the same period last year.

Despite strong revenue and gross profit growth, and successful cost containment, margins are down just slightly year-on-year. Overall, I'm not terribly concerned about the curve on margins, it comes on the back of a number of factors. To start with Q1 '13 margins were particularly strong, bolstered by a sharp contribution from our Iraqi passenger car business on a one-off contract. Also interesting the slight drop in margins were lost sales in our high margins motor cycles and free wheeler segment. Looking ahead, the gradual phase out of fuel subsidies, is expected to begin later this year, will likely prove to be a short-term difficulty for a number of consumers, and automotive distributors, but will ultimately help our business and our country.

Consumers will look to replace high-consumption [vehicles] with smaller fuel-efficient models, and they will be far more conscious of their consumptions. Then we hope that subsidy removal will even lead to a trend of carpooling, and greater reliance of public transport for the daily commute, both of which would be an improvement in Cairo's famously-bad traffic.

In Egypt, the only really downside risk that I see in the coming periods of the evaluation at some point in the near to medium-term. The Central Bank of Egypt has successfully met its obligation on a number of fronts, including clearance of the backlog of foreign investor fund awaiting repatriation. And FDI is once again finding its way to Egypt. The country is stabilizing politically and economically, and consumer sentiment is once again, on the rise. Of course the performance of our Motorcycles & Three-Wheelers line of business will impacted by the ban on imports, and any potential evaluation.

But as was the case in the first quarter, our other lines of business would successfully pick up the slack. When we are again able receive shipments on these key units, I have no doubt that sales and margins will recover in lock step.

I'm pleased to say today that our Commercial Vehicles & Construction Equipment line of business has come out of a year's long slump and is reporting strong revenue and gross profit roles with very healthy margins. The weakness of Japanese yen in relation to the U.S. dollar and Egyptian pound, is a key factor in this. As is the recovery of the overall market which has seen an 11% increases in bus sales and, and 21% increase in [truck] sales, in comparison to Q1 '13.

The infrastructure the investments made possible by FDI in close, and grants from the Gulf are boosting demands for commercial banking and we are becoming increasingly busy across all division s of this line of business. Perhaps most notable ones on order for 350 buses placed by the Municipality of Cairo in Q1, 2014. We are actively participating in tenders for additional supply contracts to both the public and private sectors. I expect to see this activity continue throughout the year and into 2015 as well.

Boosting our long-term outlook for the Commercial Vehicles and Construction Equipment line of business is the interest that the GB Polo buses have generated from the Gulf and Africa. Our financing businesses meanwhile continue to be among the stars of our portfolio with all three having performed considerably in Q1 '14. Our outlook here is equally positive.

In Iraq the first quarter is typically quite -- quite slow -- and the markets usually begin picking up in April. This year has been different with the elections upcoming, and then the uncertain security environment related to that. I'm pleased with where our volume is present stands. As we have previously ticked the signals, we remain willing to sacrifice the margin to Iraq to sell more vehicles despite political turmoil and operational challenge.

In our view territories of Algeria and Libya, consumers have expressed interest in Geely vehicles but things are growing slowly. In Algeria we are quite optimistic and are taking a long view. The focus this year will be establishing our sense in the passenger car market, a process that will accelerate in full, when we adjust our model line up to the Algerian market. Furthermore the tires line of business is doing quite well in Algeria, with all brands being particularly well received.

We are also seeing strong signs, that there would be brand is gaining traction, helping us gain a foothold in this one developed market. In Libya meanwhile, sales has been acceptable, but the difficulties associated with that country's structure, political and security environment, have prompted us to be cautious about the rollout of additional points of presence or in person. I do see great potential in Libya and plan to keep to the status quo for the time being in the hopes that the situation there will normalize in the coming period.

Finally as part of our diversification and expansion drive GB Auto is actively exploring a number of domestic and regional investment opportunities. I looking to filling you all in -on the progress we are making on these exciting new opportunities in the near future.

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 will then open the floor for you question. Mostafa?

Mostafa El Mahdi: Thank you, Dr. Raouf. And good evening, ladies and gentlemen. This quarter will only underline the chance of our business model. It was also a reflection of the Company's maneuverability and adaptability to a different business clime. But despite a 20.4% increase in the revenues driven mainly Motorcycles & Three-Wheelers line of business, one of our most profitable business, the company maintains profitability.

Overall we grow our top line and gross profit by 28.1%, and 13.7% respectively. This came as our continued efforts to keep our SG&A as a percentage of the turnover at healthy levels start showing results in first quarter, 2014 with 0.5% reduction of the percentage of reduction. This reduction came despite our heavy investment which supports our expansion to a new geographic and new line of businesses.

Revenues in this quarter was mainly driven by a 56.1% increase in the commercial cases and construction equipment revenue, and 44.2% drive in revenues from the financing business, and a 39.1% increases in the overall passenger car revenues.

The Company's remain on efficiency and further reducing this percentage. As we do so, however, it will not be as an extent of our capability to pursue continuing investment and future expansion plan. Our bottom line in Egyptian transport EGP [8 million], slightly up from first quarter 2013 which was one of our strongest first quarters we have ever had. On the balance sheet front, the first quarter showed a slight increase in the inventory level, to reach EGP 2.2 billion.

Despite this, we'll reduced our Verna Kits stock significantly from the balance we have in the first quarter, 2013, as planned. Our net debt to date increased by [LE] 380 million over financial -- fiscal year 2013, but was not overly burdened with financing the increase of inventory. Instead it was largely focused on our growing financing business.

That said, total group -- that now stands at EGP 3.5 billion while the Company's ability to service that debt that has improved to EBITDA -- by implying EBITDA interest coverage to 2.2 times, up from 2 times at the end of fiscal year 2013.

Generally speaking, our working capital slightly shows a reasonable improvement, over all the comparative periods of 2013 which was effort to deliver further improvement as we continue to reducing our inventory levels, especially from Verna CKD Kits up from previous years.

On the cash flow front we manage to reduce the operation in cash flow deficit significantly to EGP 184 million in first quarter 2014, past the first quarter 2013 level. That was mainly driven by improvement of the Company' s profitability, and more importantly, better inventory management. It's worth mentioning that the Company's potential spending on the purchase of property spend, and equipment that’s mainly directive to growing performing leasing activities of the Group's financing business, which should grow in the net leased portfolio for 36% over end of 2013.

This investment is paying back as GB Lease is now ranked as Egypt's second-largest leasing company according to the tables maintained by the Egyptian Financial Supervisory Authority.

As we have noted in the past earnings release GB Auto is focused on long-term growth prospects, and has dedicated to maintain an aggressive space of investment, and our future expansions, this investment naturally leading to a cash flow pressure; we have every reason to expect that the investment will ultimately pay off, compensating for both our increasing cost, and the substantial staff work that the expansion effort are absorbing. Likewise, as these efforts evolve, we fully expect to see better capital utilization and return rates.

That concludes our presentation for today. Ladies and gentlemen, we would not be pleased to take any questions you may have. Operator?

Operator: Thank you. Ladies and gentlemen, if you wish a question please press the * followed by the 1 at this time. If you would like to withdraw your question please press the * followed by the 2. If you are using speaker equipment, please lift the handset before making your selection. Once again, to ask a question, please press the * followed by the 1 at this time.

One moment, please, for our first question. And our first question is from the line Samah Dissi with Beltone Financial. Please go ahead.

Samah Dissi: Good afternoon. I would like to thank you for holding the call. I have two questions, first of which relates to your press release. You mentioned that the tires line of business in Egypt was compressed, given that there was a mismatch between supply and demand. However, do you expect this to be different going forward? Given the markets have undergone a needed adjustment. I would appreciate if you could give more color on that front.

And the second question relates to the capital increase that was recently announced. I was wondering if you have more details on the amount and the location where the proceeds will be allocated. Thank you.

Dr. Raouf Ghabbour: Regarding the first question, as a matter of fact, during the third and fourth quarters of 2013, there was an oversupply of tires from Southeast Asia and Europe. And the inventory levels in the market were at a very high level at that time. And this definitely made that kind of, not pushing -- aggressively during the first quarter and we practically have seen the market coming back as of April.

As a matter of fact the first quarter was consumed to balance the inventory levels in the market which actively happened. Regarding capital increase we leveled varied the amount about capital increase. I have made the secondary offering, and we are still having our Board Meetings, and we will be calling for a general assembly to discuss the matter, and then we can talk about whether there will be a capital increase or not.

Samah Dissi: Okay. Thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: Once again, ladies and gentlemen, if you'd like to ask a question, please press the * followed by the 1 at this time. If you are using

	speaker equipment, please lift the handset before making your selection. And our next question is from the line of Youssef Tawfick, with Pharos Securities. Please go ahead.
Youssef Tawfick:	Yes. Good afternoon, everyone. I just a question about -- the first question is about Egypt's cars' margin compression this quarter, is it a lot of mixed of cars, or did you lower the prices or offers, or whatever? The second one is about Mazda sales. Is it going up over the coming quarters or this something exceptional? And if there are new models, because we've heard about new models, outside Egypt. So when are the models coming to Egypt? I have a few other questions, would you like me to go on, or would you like to answer to those two addressed?
Dr. Raouf Ghabbour:	Well, let's take it one by one.
Youssef Tawfick:	All right.
Dr. Raouf Ghabbour:	Okay. I'm not -- do you have the margins?
Speaker:	Yes.
Dr. Raouf Ghabbour:	You can take it…
Hoda Yehia:	Youssef, last quarter and the first quarter of 2013, the margins were exceptionally high, we did it at the level of 17.2, you know that is not the normal level.
Dr. Raouf Ghabbour:	No. Let me -- let me explain. First quarter of 2013 was not illustrative of normal margins of our business. What happened is at that time, including, abnormally, our margin. The first sector being in Egypt, we had some of our inventory fixed at the rate of [EGP 6 per $1]. And of course, when the exchange rate increased during the first quarter of 2013, we could take some advantage, setting those changes from the changing prices, which is a fluctuation which doesn't repeat that. On the other hand, in Iraq, during March, 2015, an opportunity to supply big volume of cars to [Alexandria], the Company, which is a company owned by the Iraqi Ministry of Industry, and those cars are sold at a very high premium, at a very high margin, because they are exempted from the license plate fees. Again, it's not a repetitive factor but, overall, our margins of passenger car in Q1 '14 are very healthy versus the normal margins we used to do historically. The other question was related to Mazda?
Youssef Tawfick:	Yes.

Dr. Raouf Ghabbour: We are increasing the new Mazda 3 sometime in Q3, 2014, Q3. We'll start selling in June. At the end of the day, let me tell you when we talk about of 60,000 cars, Mazda doesn't represent more than 2% of this budget, so it's not very relevant at the end of the day.

Youssef Tawfick: Okay. So about Iraq, I would to get back to the margins, because I understand from the release the margins, they did take a hit and they are going to consistently stay at this level or lower?

Dr. Raouf Ghabbour: No. What we have decided to do in Iraq is that because -- in that it doesn't anymore have constraints in supply, we have decided to grow our volume to 30,000 cars this year. You can't really, in this supply environment, spend almost [40%] extra number of cars without accepting certain action in the margin. So this is a strategy we have adopted in order to buy market share, and probably at the end of the year, end up with the team level -- net profitability but with a much bigger volume -- revenue, yeah.

Youssef Tawfick: Okay. I was wondering about the [Verna] inventory.

Dr. Raouf Ghabbour: Verna kits is currently at 13,000 units, and I'm talking not as of the end of --

Youssef Tawfick: Hello?

Dr. Raouf Ghabbour: Yeah. I'm with you. The inventory is at 15,000 vehicles. Our normal inventory level would be 6,000 to 7,000 level, so I assume that in three months' time we should be back to normal inventory situation -- environment.

Youssef Tawfick: Okay. And you're going to continue Verna until early 2015?

Dr. Raouf Ghabbour: No. I think Verna that probably we will continue within '16.

Youssef Tawfick: Within '16?

Dr. Raouf Ghabbour: Yeah. Yeah.

Youssef Tawfick: And how about the -- how was the replacement of Geely versus Verna going, because I think Geely's market share is a little bit lower than the 10% now, right?

Speaker: 9.2%

Dr. Raouf Ghabbour: It is about 9.2%.

Youssef Tawfick: Yes. So is this something that should concern our investors, or is it going to regain market share? To replace them I mean?

Dr. Raouf Ghabbour: Mind you that Verna -- the Geely model we are selling is not the same segment as Verna, it is the segment of a Lancer -- the market share, we have 9.3% market share we have achieved, it's almost from one model. So it's a huge market share--

Youssef Tawfick: Yes, yes I understand.

Dr. Raouf Ghabbour: -- from a single model. And I wouldn't decide Geely as a replacement to the Hyundai, because they are not really cannibalizing from each other. Hyundai has its customer, and Geely has customer which is aspiring to rise to buy a good at a cheaper price.

Youssef Tawfick: Yes.

Dr. Raouf Ghabbour: So we are expecting to launch sometime next year a new model from Geely which is called SG5, which is the same segment as Verna, and by that time I expect that Geely market share should grow to somewhere 22%, 23%.

Youssef Tawfick: Okay.

Dr. Raouf Ghabbour: And I still expect that this will affect the nine months of change anyway.

Youssef Tawfick: And one last question, I'm very sorry.

Dr. Raouf Ghabbour: Yes. Well, very briefly.

Youssef Tawfick: All right -- always say so. Two and three wheelers, they had very high margins this quarter, is it because of supply constraints or you raised the price?

Dr. Raouf Ghabbour: Yeah. Of course as I explained during the previous conference call, with the ban on importation, or I think we made a press release on it. With the ban on the importation, we looked at our available pipeline -- inventory in the pipeline, and really the decided to segment that pipeline until the end of the year, and at a slower rate. So, very high margin it's mainly because we have jacked up the price.

Youssef Tawfick: Okay. Thank you very much.

Dr. Raouf Ghabbour: Thank you,.

Operator: Thank you. And our next question is from the line of Alia El Mehlemy, with TI Capital. Please go ahead.

Alia El Meheny: I actually have questions related to the leasing business. Can you disclose first of all, the portfolio size at the end of Q1?

Dr. Raouf Ghabbour: Do you have it?

Hoda Yehia: What Alia? I'm sorry, I couldn't hear you. The size of the portfolio?

Alia El Meheny: Of the meeting portfolio.

Hoda Yehia: Right. You have the meeting portfolio now at 684million -- it's at the level of, let me tell you exactly. It's 684 million compared to 502 million] in the full year.

Alia El Meheny: Sorry the line is corrupted. 684 million versus--?

Dr. Raouf Ghabbour: And it's on the press -- it's on the earnings release, and we are separating it from the balance sheet (INAUDIBLE)

Alia El Meheny: Okay. great. I took to the Balance Sheet. The other thing is, I presume this will continue to grow, I see you're spending quite a lot. Can you provide some guidance on how much you plan to spend in the remainder of 2014 on growing your assets to be released?

Dr. Raouf Ghabbour: It's very difficult now to predict, however, according to our plans, it assumes that it's another EGP 200 million on the pipeline.

Mostafa El Mahdi: Now, let me suggest that the Chairman of our Financing Business could send you exactly as the budget, what is going to be the -- for the focus of the portfolio at the end of the year.

Alia El Meheny: Okay. And to be able to give up expectations on returns because I assume given the amount of cash flow being spent, or (INAUDIBLE) that you think this is a high margin or high return business. Can you give us a sense of what sort of returns you're targeting?

Dr. Raouf Ghabbour: Let me -- again, I'm a car guy, so. And I'm not executive in the finance business, so I will ask our Finance Business, our GB Chairman, to contact you and to give you all the details.

Alia El Meheny: Fair enough. Thank you.

Dr. Raouf Ghabbour: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press the * followed by the 1 at this time. And our next question is from the line of Samir Murad, with NBK Capital. Please go ahead.

Samir Murad: Hello. Good evening Dr. Raouf.

Dr. Raouf Ghabbour: Good evening.

Samir Murad: I just want to go back to the topic of Verna regarding the question the previous caller asked. You said you'll have inventory until 2015 for Verna?

Dr. Raouf Ghabbour: No. No. I didn't say this. I have inventory of 15,000 cars.

Samir Murad: Okay.

Dr. Raouf Ghabbour: I am selling 2,000-plus a month. It means that this inventory will expire by October, November, this year. We are -- at the moment we will normalize our inventory. We will start linking new orders, which we believe that [Hyundai] Motor can continue supply until end of --

Samir Murad: Sorry. I did not hear the last part of the sentence. Till what part Hyundai Motor can --?

Dr. Raouf Ghabbour: Till end of '16.

Samir Mura: Okay. So the constraint from Hyundai motor, on the Kits for Verna, the model has been kind of lifted?

Dr. Raouf Ghabbour: Yes.

Samir Murad: Okay. Because looking at the results and the Verna Model represented around 44% of the volume for GB Auto, so this model can continue for the next two years?

Dr. Raouf Ghabbour: Yeah. Yeah. Yeah. And again, you never know if Hyundai will give us a new model after this one, but in the meantime we are introducing the new Geely model in between segments of Verna by next year.

Samir Murad: Okay. Thank you.

Operator: Thank you. Once again, ladies and gentlemen , if there are any additional question, please press the * followed by the 1 at this time. Once again, ladies and gentlemen , if there are any additional question, please press the * followed by the 1 at this time.

And I am showing no further questions, I'd like to turn the call back over to management for closing remarks.

Dr. Raouf Ghabbour: Thank you, everyone, for joining our call today. And I hope to have you on the phone in August, for the second quarter, which I hope will be better.

Operator: Thank you. Ladies and gentlemen, this concludes our conference call for today. We'd like thank you for our participation. And you may now disconnect.

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