Company: **Ghabbour Auto**

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

Moderator: **Dr Raouf Ghabbour**

Date: **Thursday 12th November 2015 – 16h00 Egyptian Time**

Operator: Good morning, good afternoon, ladies and gentlemen. Thank you for joining our Third Quarter 2015 Results Presentation conference call. From GB Auto, we have Dr Raouf Ghabbour, CEO, and Mr. Mostafa El Mahdi, CFO, presenting Third Quarter 2015 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, sir.

Dr Raouf Ghabbour: Thank you. Good afternoon, ladies and gentlemen, and thank you for joining our third quarter 2015 earnings call. I have a handful of items I'd like to cover up on before we open the floor to your questions. In fact, almost all of what I have to say centres around two issues, the first being the foreign currency situation in Egypt, the second is the prospect for legislation that would protect domestic assemblers from unfair international competition.

On the foreign exchange front, let me tell you this. Subsequent to our meetings with many of you at investor conferences during the last quarter, we saw a fundamental change in market conditions. To be clear on that, in a matter of days, we went from a very strong sales performance to a position that saw us coping with an exceptional shortage of foreign currency that left us unable to satisfy strong market demand. This shortage had a pronounced impact on our operations in September and early October, the full effect of which might not be apparent until we report results for the fourth quarter. We continued to receive reasonable foreign exchange allocations as late as August, and that's what we communicated to our shareholders and to the market at that time. Those allocations took longer and longer to secure but they ultimately came through. In early September, however, the flow became much slower and since has come to a near complete halt.

Allow me to be very blunt about how this has affected our business. Fundamentally, we had challenges securing stocks of CBU during the last couple of months and that's also for fully imported products like tyres, parts and so forth. But more dangerously, we were forced to stop operations on our assembly line for some 20 days during September and October due to a critical shortage of assembly components. In essence, we basically had less production input. Our assembly line is operating again today but like every other company in Egypt, we have limited visibility on the future availability and pricing of foreign exchange. We are doing our best to secure better allocations from the bank and to avoid any shutdowns in the future. We do believe, however, that the chances of any more disruption are becoming increasingly remote.

The foreign exchange crunch has had the heaviest impact on the passenger car and tyre segment. As you have read in our earnings newsletter, our commercial vehicles and construction equipment division continues to perform well and secure the foreign exchange it needs to replenish stocks. Motorcycles and three-wheelers has good inventory and on-hand and continues to post very strong figures in the quarter. And the financing business remains among the stars of our Group, adding significantly to our margins and serving as a driver for other core lines of business.

Like everyone else in Egypt, we are watching monetary policy developments closely but unlike some, we have a strong record of thriving amid adversity. I have managed the business through the currency crisis of 1981 and the devaluation of 2003. Today we are operating from a playbook we developed and tested several times through the global financial crisis and through revolution, and believe me when I tell you that it actually works.

I think this covers the foreign exchange challenge and the overall economic challenge in our most important market of Egypt and forgive me for allocating much time to it but it is truly a critical matter.

Now, more importantly, what have we done as a company and what will we continue to do? You can mark these points as insights from our playbook. First, we will continue to use our pricing power in the market not only to preserve margins for as long as possible but also to have a buffer for any unforeseen developments. Second, we will control our SG&A costs and preserve working capital. Third, we'll continue to operate for the long term, with an emphasis on transformative projects such as tyre manufacturing and two- and three-wheeler vehicles. Fourth, most immediately, we'll continue to be strong advocates for legislation that will protect the entire Egyptian assembly industry against unfair competition from other markets. This will become an important driver of profitability at our assembly operations for our overall business performance, a game-changer to say the least. We are increasingly confident that the government of Egypt will move on the so-called Automotive Directive that would give preferential tax breaks to CKD vehicles assembled in Egypt provided we in the industry go further down the value chain and increase the share of local components in manufacturing. The Council of Ministers has studied the proposal and we are optimistic they will soon pass it on to the President to make it law. We have made substantial investments in our assembly facilities over the years including the building of the first fully robotic paint shop in the MENA region. We have worked hard to forge agreements with the best domestic parts manufacturers. We have preferential logistics packages increase that have allowed us to be cost efficient.

If the Automotive Directive comes into force, it will allow us not just to leverage our assembly capacity but that of Egypt's Aboul Fotouh Automotive, with whom we recently entered into a tripartite agreement with Chery International. Under this, we will exclusive deliver Chery brand vehicles to our nationwide network. What's more, the entry into force of preferential treatment for Made in Egypt vehicles would allow us to explore new opportunities to move up the value chain. Doing so would allow us not just to serve the domestic market but to target new export peripheries too as we are already doing with GB Polo.

In the meantime, we look forward to the introduction of the Elantra as our second CKD brand from Hyundai, in early 2016. We will launch three new Hyundai CBU models when the foreign exchange situation permits, including two highly sought-after compact SUVs. We see strong prospects for Mazda product in Egypt as well and we'll continue to stay the course in Iraq and Algeria.

In commercial vehicles, we see the government and business alike continuing to spend on infrastructure projects even in the face of devaluation and inflation. This will be supportive of demand even if it cools somewhat from the peak of the past year or year and a half. Much has been said in the local press about bans on tuk-tuks on major roads. As a matter of fact, we understand this ban. Tuk-tuks are ideally suited to informal settlements, peri-urban areas and rural communities, not to urban centres, and it is in these outlying rural and underprivileged areas that are selling the vast majority of our vehicles. High demand for motorcycles and three-wheelers from our corporate and consumer clients will continue to drive growth in our microfinancing business.

Yes, ladies and gentlemen, the current macro backdrop in Egypt is challenging but as we have proven time and time again, we have the strategy, the management depth and the product line-up we need to weather any storm and emerge successful. As we do so, we look forward to reporting on new upcoming developments including the Automotive Directive and progress on our manufacturing projects.

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 and then open the floor to your questions. Thank you. Mostafa please.

Mostafa El Mahdi: Thank you, Dr Raouf. Good afternoon, ladies and gentlemen. For the third quarter and first nine months of the year 2015, GB Auto saw revenues increase year-on-year by 2.9% and 8.4% respectively despite the operational and financial challenges faced towards the close of this quarter. The growth in revenue was driven mainly by strong performances of motorcycles and three-wheelers, the commercial vehicles and the financing business segments. Meanwhile, as Dr Raouf noted, fundamental changes in market conditions, particularly with regards to a foreign currency shortage, led to a slowdown on our passenger car and tyres segments, which was also coupled by the adverse market conditions in Iraq. Our gross profit margin meanwhile inched down slightly in the nine months of 2015 to 12.4%, only a 0.9 percentage point dip compared to the same period in 2014. Overall, the Company's net profit increased by 90% year-on-year in the third quarter, reflecting one-time gains resulting from re-assessing the fair market value of the investment properties by the subsidiary GB Polo. If we exclude the effects of this revaluation, the bottom line for the third quarter 2015 still shows 7.5% improvement over the comparable quarter last year on the back of the lower corporate tax rate standing at 22.5%.

Meanwhile, the funds from operations during the first nine months period of 2015 came in at a strong EGP 622.5 million compared to a deficit of EGP 178.3 million in the same period last year, this thanks to GB Auto's new payable days on hand terms with its main supplier. Having said that, management is considering reducing the payment terms in the coming period in order to reduce our exposure to the fluctuation of the currency – the risk of currency fluctuation.

On the back of the stronger funds from operations, the Group's net debt stood at EGP 2.8 billion, a decrease of EGP 179 million compared to the second quarter of this year, and a significant drop of EGP 874 million compared to the end of 2014. This has reflected on the following. Net debt to equity dropped sharply to 0.7 times at 30th September 2015 down from 1.3 times at the end of 2014. Net debt to EBITDA also improved, standing at 2.5 times versus 3.45 times at 31st December 2014. The total debt was stable at EGP 5 billion at the end of the nine months period, which includes EGP 1.05 billion for financing business debt as we continue to grow our operations of this group.

Going into the final quarter of the year, GB Auto is in a better position to face the anticipated currency and operations challenges. This is owing to the positive net cash flow, strong balance sheet and solid demand for all our lines of business. Meanwhile, our limited capex of EGP 157 million in the nine months period compares to our depreciation expenses of EGP 186 million leaves us with ample liquidity to execute our plans of expansion in the tyres and two- and three-wheelers business.

That concludes our presentation for today. Ladies and gentlemen, we would now be pleased to take any questions you may have. Thank you. 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. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. As a reminder, to ask a question at this time please press *1 on your telephone keypad. We have no questions at this time, sir.

Apologies, sir, we have our first question. Our first question is from Abdel Rahman Khalifa from Beltone Financial. Please go ahead. Please go ahead, sir, your line is open.

Abdel Rahman Khalifa: Hello? Thank you, Dr Raouf.

Dr Raouf Ghabbour: Yes, Abdel Rahman.

Abdel Rahman Khalifa: Thank you for holding the call. I have a question related to your announcement that was published today on your website. It says that the board agrees initially to acquire a company, a free zone company in Port Saïd and in addition to that, changing the way available for sale assets are classified. So I would appreciate if you can tell us more about these points.

Dr Raouf Ghabbour: Regarding the first point of acquiring a free zone company in Port Saïd, this is one of our strategies to increase the channels of selling our products. It's just a very early stage of negotiations to acquire this and we are not concluding any deal in this regard.

Regarding to the reclassification of the assets for sale, those assets have been both classified as held for sale in 2013, by that time there was a vision that we will not need for them and we are seeking to sell some of our real estate which are not in use. Currently, those assets are in our plan for our expansion then to be used; that's why a board resolution has been passed to reverse that from assets for sale to be reclassified as a long-term asset or a fixed asset.

Abdel Rahman Khalifa: Okay, thank you. When do you expect to have a more clear picture on the acquisition?

Dr Raouf Ghabbour: By the end of this year if we conclude that.

Mostafa El Mahdi: Yes, but it's not a material thing, so it's a very small thing. So we are trying to make this acquisition. It may fly; it may not fly. Even if it flies, it's then an immaterial acquisition, it's very small.

Abdel Rahman Khalifa: Okay, thank you.

Dr Raouf Ghabbour: Thank you.

Operator: As a reminder, to ask a question, please press *1 on your telephone keypad. We will now take our next question from Nada Amin from EFG-Hermes. Please go ahead.

Nada Amin: Hi gentlemen, good afternoon. Thank you for taking this call. I just, given that FX is such an important focus, especially in this results set, I was wondering if maybe you could shed some light on how much of your FX needs are provided by banks and how much you go to the parallel market for.

Dr Raouf Ghabbour:Very sensitive.

Nada Amin: I understand the nature of the question may be sensitive so that's fine but it was…

Dr Raouf Ghabbour:Yes. Actually the banks are covering, I would say, almost all our manufacturing imports of components and manufacturing materials, which represents about maybe 60% of the total company requirement. The banks are able to partially allocate foreign currency for part of the remaining 40%, and we have to refer to other sources to finance the rest.

Nada Amin: Okay, thank you very much.

Dr Raouf Ghabbour:Thank you.

Operator: As a reminder, to ask a question, please press *1 on your telephone keypad. That's *1 to ask a question. At this time, sir, we have no further questions.

Dr Raouf Ghabbour: Hello?

Operator: Hello, as a final reminder, please press *1 to ask a question. We have no further questions at this time, sir.

Dr Raouf Ghabbour: Thank you, and ladies and gentlemen, thank you for joining our call today and we hope we'll be able to give you a good final quarter results by March next year. Thank you.

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