SODIC FY14 EARNINGS CONFERENCE CALL
Moderator: Muneeza Hasan
March 11, 2015
13:30 GMT

Operator: This is conference # 951900.

Muneeza Hasan: Good afternoon ladies and gentlemen. This is Muneeza Hasan from J.P. Morgan. And I'd like to welcome you all to SODIC's 2015 Results Call. We have an excellent lineup from SODIC senior management on the call with us today.

The main speakers include Mr. Ahmed Badrawi, SODIC's managing director; and CFO Omar Elhamawy. We also have Mahmoud Badran, SODIC's head of corporate finance and then we have Heba from the investor relations department. So without further delay, I'd like to invite Mr. Badrawi to take us through the numbers and then we'll follow it up with Q&A. Over to you, Mr. Ahmed.

Ahmed Badrawi: Muneeza, thanks for arranging the call and thank you host to J.P. Morgan. Thanks to everyone that's listening in. I'll try and give a kind of a general – my usual general overview of the year's performance and perhaps rely on the questions at the end for the more detailed, let's say, queries on the actual numbers that either Omar or myself will handle.

But let me just start by saying that 2014 was an incredible year for SODIC. I'm extremely happy and proud of the performance. I think it's an extremely healthy set of numbers that has been reported and reflects really the strongest year in our history.

Let's start – I think you all have looked at the net profit figure for the year which was ahead of budget. It's about 10 percent or so ahead of budget. I believe it was at the top end of the analyst consensus. So we're quite pleased with that.

There was a good surge in the deliveries in the last quarter and the last quarter was generally strong all round. The sales that we achieved in the last quarter exceeded a billion. I think it's one of our strongest ever quarters.

If I talked about the year as a whole, although we crossed the three billion pounds of sales for the first time which was a major achievement, the cash collected was over 2 billion, the deliveries of 490 smaller units. We always knew that 2014 was going to be a challenge in terms of deliveries because of the slowness of the three years before, 2011. And I think we'll start seeing from this year onwards that delivery starts to improve in terms of the number of actual units and as the companies gear up for any form of deliveries in future periods.

Additionally, on the – on the financial side, we were able to grow the balance sheets significantly with additional debts, 2.2 billion of facilities secured during the year, of about – of which about half was actually utilized. The 1 billion rights issue that was fully subscribed in the first round. The removal of some of the overhangs from the court cases that we have with the government, we're one of the first companies to settle. To the overhang of one of our shareholders and the entry of Ripplewood with a 9.3 percent stake.

So all of this resulted during the course of the year and the company practically doubling in size, I believe that was reflected in the market cap. It was 90 percent up excluding the rights issues, excluding the capital increase. But really – the company transformed during the course of 2014 with clean up, with growth – I believe reputation and the market share – everything was – and it was really quite pleasing.

If I followed that up with just an up to date on 2015, I'd say that the momentum is continuing and the lead up to the Sharm conference has been business as usual for SODIC. We've had a couple of launches already this year.

We are up to date sales figure that I can tell you is that it – well, I'll tell you actually plans that by the end of this month, we're hoping to have concluded contracts, and, as you know, we don't do reservations these are sold un-rescindable contracts of 1.2 billion we're hoping by the end of this month to have closed.

So basically, we've already had a couple of launches that have been taken up extremely well with pricing that, I'd say, still above the market, reflecting a premium that SODIC commands today. And we just got the administrative goals of closing many of those contracts, but we expect to hit around 1.2 billion by the end of Q1 and with still another approximately 1.3 billion of launches to come in the next quarter as well.

So we are well underway to achieving our target this year, our very aggressive sales target of 4 billion pounds by the end of the year which any – which is quite a substantial increase over last year of 3 billion which, in itself, was a record.

So the momentum continues. We continue to sell well across our three main projects today of – in SODIC West, in Eastown and in Villette. And I would say I would probably – I'd have to credit Villette for being a very big contributor to some of the more recent large sales. And it's something that we're very pleased – we're very proud of.

We're not able to shout as loudly as we would like about it because there is still certain procedures that are outstanding at the authorities level. We've submitted – we've completed all of our paperwork since now, almost three and a half to four months ago and waiting for the authorities to complete their side. But we're not hanging around. We need to – we need to capture the sales and we need to start with the projects and I think that's something that's understood by the authorities.

So, generally, operations on the residential side is extremely strong, market continues to look – it continues to look promising. Demand seems to be deep. We've talked about the reasons for demand over the years and I think that the east and west of Cairo really are now past any form of tipping point that everyone wants to move out and I don't think the developers are able to meet the demand fast enough. So, I mean, I think there's still plenty of room to go there.

In the non-residential side, we've got the Hub project opening in May. We've got about 13,000 square meters of GLA there, of which about 60 percent is leased up. So we're ready for a full launch in – hopefully in May. We're very excited about it. We've got a very impressive roster of tenants that have – that have come on board and we're still signing them up as we speak and we're expecting a good project there.

I would mention as well, or pre-empts one of the questions that will probably come up, that you've seen an announcement yesterday on the conclusion finally of a piece of land on the north coast, I think in many of the conversations or many of the discussions we've had in the past that there has been many questions about SODIC's expansion plans beyond the east and west of Cairo and I think we've always discussed that we've got loyal and strong customers base that would follow us into second home destinations.

We've always been keen on both the north coast and sokhna. Now, we've been trying to secure plots for a number of months, if not, years. We've mentioned to you in the past many of the challenges from the government conditions to the difficulties of dealing with private land owners.

We've finally been able to conclude on a plot on kilometer 82 on the north coast. It's about a 100 acre plot. But what's interesting about it is that it's partially already launched. There is a handful of units that are actually already sold, but the vast majority are unsold and it allows us to re-plan and to redesign the units and to put together a very, I would say, kind of unique project.

I think the trend over the last few years on the north coast is to build these large, big master plan destinations. We've taken an alternative route of trying to go back to basics and build a smaller community-based project probably around 400 or 500 units in total on this front plot.

I don't know if many of you have looked carefully into the wording of the release that we've actually bought both the land and the company that owns the land in this project. The reason for that is that the company has an option on an additional – an adjacent piece of land of 100 acres just behind. And that's something that – an option that we plan to pursue with the government to acquire the remainder of that land.

So we're very excited about that. It's a project that is ready. I mean, it could be ready for launch ahead of the summer. We're in the planning stages and seeing if it's realistic for us to launch before the summer. But in all cases, we believe that there's very good value there.

Just the front plot alone will produce over 1.2 billion pounds to 1.3 billion pounds of sales. And I think it will be a very healthy addition to SODIC's project portfolio and kind of we're very pleased to – it's been a long time since we were able to close on a private land acquisition, so I think that's been good.

It's part of – I mean, I think we've discussed also in the past that SODIC's cash position is very healthy. We've got a fair amount of cash that's available for expansion. So some of that – specifically, about 80 million of that has been used in the purchase of this plot on the north coast. That still leaves us a good 400 million or 500 million for the remaining payments and additional acquisitions.

Ahead of the Sharm conference, many of you will be aware that many lands have been released by, many projects and lands have been released by the government. And the government has also been listening to some of the – let's say, the concerns and the lobbying of the developers such as ourselves and they have produced a new scheme by which they are releasing lands and we're very welcome – welcoming of that scheme.

And effectively, it's a – it's an auction of – on a revenue share type basis. And we participated in two big plots. We submitted our bids earlier this week. And there is a suggestion, I don't know how realistic it is, that those bids will be evaluated and potentially even results announced during the course of the conference. So we – given the limited time that we had to look at those projects, we had to shortlist the ones that we were very comfortable with.

So in the end, we shortlisted ones that were what we would call plain vanilla residential plots in the east and west of Cairo and, to be more specific, the one that's immediately attached to Allegria – the 410 acres acres that we've been after aggressively for a number of years. And we're hoping this time that it's third time lucky, as well as another big plot on the east side of about 500 acres.

So it's very much in line with our core business. We're comfortable with it. The interesting thing about this model is that, with the revenue share model, it allows you to stretch the payments over a longer period of times.

So it can potentially improve the return for us and in the case that we've tried to make with the government we believe it increases the NPV that they can attract from the – from the plots itself as well. So I think it's win-win for both sides.

I think – I mean, that just gives you an idea of what – of what we're trying to do in order to expand, to utilize some of the spare cash. Additionally, in the long term, we are also focusing now on the Eastown commercial and trying to really build this recurring revenue side of the business in – let's say, in conjunction with the residential.

And we're – we feel that SODIC is in a strong a position as it's ever been. And we're quietly optimistic about the coming period especially post the conference assuming all goes well there which is what all I think confident and hopeful for.

So I'll stop babbling and I'll pass it back to the floor to – for any questions of either myself, Omar or Heba who are here. So Muneeza, can I pass it back to you?

Muneeza Hasan: Yes. Sure. Operator, can we open the floor for questions please?

Operator: Of course, thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. So that's star one if you wish to ask a question.

And your first question comes from the line of Harsh Oza. Please go ahead.

Harsh Oza: Hello, everyone. And thanks for the call and taking my question. I wanted to know something about the income statement – the interest income realized from installment during the period it has increased significantly from the 20 million in 2013 to 44 million. Now, I understand that this is the interest component of financing you are providing to the client. But if you can just – to give explanation for the increase and does it mean that you are aggressively – you have aggressively started forwarding financing to the client. And also, if you can give more color on the – on this line for 2015 also. Thank you.

(Omar Elhamawy): Are you – are you – Harsh, are you talking about our interest income – our interest income line?

Harsh Oza: Yes. From installments.

(Omar Elhamawy): From what?

Harsh Oza: Interest income from installments – from the other operating revenue component.

(Omar Elhamawy): OK. That's the number – that's the result of the interest income when we – when we recognize the revenue, the remaining installments are recorded on our balance sheets in the present value.

Harsh Oza: OK.

(Omar Elhamawy): And as the installments are collected, that interest is recognized on the income statement. So that number increases that means that we are – there's more revenue being recognized on the income statement and there's the bigger chunk of installments that are being collected over the years. So that's simply just a reflection of simply how the business has grown.

Harsh Oza: OK. So, going forward, I mean, we are – do you expect a significant – I mean, the same trend or you are – any kind of numbers or any guidance you can provide for 2015?

(Omar Elhamawy): We'll still increasing as we – as we recognize more revenue during the year.

Harsh Oza: OK. All right. And secondly, if I can ask one more question especially on the discount on early payment, I mean, I think you have discussed earlier also that you are providing discount on early payment on the annual cash collection efforts have been quite prudent so far. Annual balance sheet also has been pretty liquid. So I mean, I just wanted to know if there is any particular reason for giving a notable discount if the cash collected is just a parked in the balance sheet in the bank deposit or are you actually using this cash somewhere or are you planning to use this cash somewhere?

(Omar Elhamawy): It depends on where that cash is coming from. The cash that is coming from the clients, it's used for the construction of the project itself. Even though we have a very healthy cash balance right now, we're still getting it – we're giving the clients a discount which is lower than the interest that we pay the bank.

So it's definitely beneficial for us. And we also still have a big chunk of our cash that's as a result of the – of the capital increase. So this is where mainly the – where the cash is coming from.

Harsh Oza: Thank you.

Ahmed Badrawi: If I can add to that, just – I mean, so we have reduced the discount rate that we give to the customers from any – from – it what used to be close to 11 to 12 to below 9 now which is – so less incentive for them to pay cash up front.

It does – so still it is, let's day, good for us in the sense that it eliminates any kind of collection risk and cost associated with that. But I also mentioned and just because I think it's a very valid point as well that we do have cash. For example, in the project like Villette now, we’re no longer implementing the cash priority type system.

There is any – and we’re more interested in building the community and selecting the clients than we are in collecting the cash up front. Well, that’s all the reflection of today that – of the liquidity that we have.

Harsh Oza: All right. And finally, the service cost for Allegria and Beverly, I think there was a – there was a jump in that. So any more color on that or any guidance for 2015?

(Omar Elhamawy): This is the service cost for all of our – for all of our projects. As more projects come on stream, the more we have to – the more we have to look after those projects. And then, as the project is delivered, we start actually charging the clients for those amounts. So there is a period of time where we cover that expense. And then – and then, as soon as the clients take delivery, it’s charged back to them.

Harsh Oza: OK. Thank you very much.

Operator: As a reminder, that’s star one on your telephone if you wish to ask a question. Your next question comes from the line of Talal Alkhamis. Please go ahead.

Talal Alkhamis: Yes. Hi. Just wondering if you can provide us a bit more color on the newly acquired land plot. So it’s already been developed and so what are the margins expected from that land? Are they similar to the other developments?

Ahmed Badrawi: Talal, thanks for that. Talal, it’s not correct that it’s already developed – it’s partially developed. So literally, I mean, a very small fraction of the units have been developed but there is some infrastructure in place.

The landscaping is quite mature in many of the areas. So it allows you – it allows us to – let’s say, to launch it sooner rather than later. Even the master plan that’s in place something that we’re largely quite happy with. So it doesn’t involve a master plan change.

But in terms of the – in terms of the numbers – margins – the margins are in line with what we expect. So, I mean, talked about a sales figure on just the plot. That's a 100 acre plot that's available for about 1.3 billion. We're expecting gross margins of an excess of 35 percent.

So even though the land cost is lower, there's a little bit of less density that you get out of the project, but certainly, margins in line or above our – those that are typical with our existing projects.

Worth mentioning as well one of the features – one of the big benefits of this land is not changing the master plan is that the hotel regulation that our requirement doesn't apply to it. It's – it was a land that was acquired many years ago by the private owner and he got the master plan approved before these hotel regulations came in. So by us complying with the master plan, it allows us to avoid that regulation.

Talal Alkhamis: Can you clarify that regulation exactly? So, like, if you bought a hotel or, like …

Ahmed Badrawi: If you buy a project in – on the north coast today, the requirement – you apply for master plan approval, the requirement is you need to build a hotel room for every unit and sometimes every unit or even every room.

And we've always – one of the reasons that we haven't been able to transact on the north coast is that we felt that it's not a year-round destination that allows that number of hotel rooms. And in some of the big projects that you see there even, you know, the Emaars, the Maraasi's and everything I think are struggling to meet with that requirement and it is still to be seen what's going to be the consequence of that.

Talal Alkhamis: And does that apply to the adjacent lands, the option you have as well or no?

Ahmed Badrawi: No. The adjacent land, if we exercise the option, then we would have the hotel requirements.

Talal Alkhamis: And the infrastructure is done for the adjacent land or no?

Ahmed Badrawi: No. Not to the infrastructure. There is some – in fact, some of the infrastructure – some of the infrastructure facilities are actually located on that – on that adjacent land. And that's – I think that's one of the reasons why there is an option on it.

Talal Alkhamis: OK. All right. Thank you.

Ahmed Badrawi: Thank you.

Operator: There are no further questions at this time. But I'd send out a reminder for everybody. That's star one if you wish to ask a question.

Muneeza Hasan: Hi. Muneeza here from J.P. Morgan. I just had a couple of questions from my end, if I may. One is, you know, the price for your product has gone up quite significantly in the last year or so. What is your outlook on pricing in 2015? Is it going to move in line with inflation or are you still looking at an increased – higher inflation?

And the other thing is, on construction cost, how do you see the components within your construction cost moving? Have they also seen a similar increase or are you – or the outlook is pretty stable for your construction cost?

Ahmed Badrawi: Thanks, Muneeza. It's a – on the pricing side first, it's a question that we're constantly wrestling with. Let's say our bigger concern is to make sure that we're meeting our return metrics and our margins and all of this. But if there's – we pass on the pricing, let's say, increases that – that we feel are in line with inflation more than anything else.

And land cost – in the past couple of years that you see land cost appreciate quite significantly and that's one of the factors resulting in the – in the increase in pricing and not to mention some of the additional payments that were made.

So hopefully, now, as we see more lands released; as we see, let's say, less legal issues; as we see these more interesting types of partnership with the authorities, I'd expect there to be less pressure on the land side and, therefore, less pressure on the pricing side, say, for the regular inflation on that side.

On the cost side, it's interesting as well. Conflicting pressures – on the one side, you've got the lifting of the subsidies. On the other side, you've got the reduction of the oil prices worldwide. So there seems to be – there doesn't seem to be a very big at the moment change in the cost side of things. Costs are remaining quite stable.

I'd say that the big – let's say, the big threat to that for – in the coming year is actual availability of supply. And contractors are getting busier and they're bidding for more jobs and that's perhaps more the concern and that's where we hope that our track record with them over the last few years and our continued investments and early payments and when necessary helping them out through cash flow crisis. We're hoping that that would all work in our favor to make sure that we can keep costs constant and consistent.

Muneeza Hasan: Thank you that's very clear. That's all from my end.

Ahmed Badrawi: Thanks, Muneeza.

Operator: Your next question on the telephone comes from Ashish Jain. Please go ahead.

Ashish Jain: Hi. Good evening. Thank you for hosting this call. I have a follow-up question on the new land that we acquired. Do you have any sort of timeframe in your mind at the moment regarding the launch of the project and kind of delivering the project?

Ahmed Badrawi: Yes. Look, aggressively, Ashish, it would be very aggressive if we try to launch before the summer. So it's either side of the summer, I would say, to just – to give ourselves a little bit of a space. And in terms of any of the delivery cycle construction the normal – our normal two to three years certainly.

Ashish Jain: So you expect to kind of launch the project in one phase or there will be several phases?

Ahmed Badrawi: No. I'd expect that there would be a few. It is still quite big but, I mean, probably two or three.

Ashish Jain: OK. Thank you. This is from my side.

Ahmed Badrawi: Thanks very much.

Operator: Your next question comes from the line of Nemat Choucri. Please go ahead.

Nenat Choucri: Good afternoon, everybody. I just have two questions, if I may. The first one on the north coast land acquisition. Since there are no master plan changes, what sort of floor to area ratio we have there and if you can give us an idea on the adjacent plans since the acquisition land area is 410,000 square meters? By how much could this land bank increase and from whom will you acquire the additional land?

Ahmed Badrawi: I'll answer the second question first, Nemat. The second, the plot is almost equivalent to about 100 acres and we would be acquiring it from the authorities from the Mohafza. And the indications that we have for – when they're releasing lands today, it's in the range of about 300 pounds a square meter. That's what we're expecting for the option land.

In terms of the FAR for the project on the master plan, I would say to you – I'm trying to work it out, get it quickly – the built off area of 140.

Omar: 30 percent.

Ahmed Badrawi: I think about 30 percent. We just divided – but, very roughly, it's still – there's still some changes to be made and any – some adjustments to be made to the built up area that I think is even more relevant than just the FAR that you asked about. But if we said around, I think if you factored in around 35 percent to 40 percent. That's kind of the FAR we're talking about.

Nenat Choucri: Thank you for this. And I actually have another question. You mentioned that there are upcoming auctions and revenue share deals that you're considering one in the west and one in the east. I'm just a bit confused. Is this – the one in the west is 400 acres and the east, 500 acres?

Ahmed Badrawi: Correct, yes. 410 in the west and 500 in the east.

Nenat Choucri: OK. And would this be under the March conference or is it regular auctions?

Ahmed Badrawi: No. It's not regular auction. I mean, it is – this partnership, revenue share type model is something that I believe was fast tracked. It's something that has been in discussion for a long time. And it's been fast tracked in time for the conference. It's separate than the – it's separate than the auction lands, for example, that were released today on the – on the normal terms and conditions.

Nenat Choucri: OK. And are you at an advanced stage in any of the two?

Ahmed Badrawi: Well, we've submitted our bids. So the stage it's at is it's being evaluated by the authorities.

Nenat Choucri: OK. Thank you so much.

Ahmed Badrawi: Thank you.

Operator: There appear to be no further questions at this time, sir.

Ahmed Badrawi: Muneeza?

Muneeza Hasan: Yes. I think we can conclude the call if there are no further questions.

Ahmed Badrawi: Thank you very much. Thank you everybody for dialing in. And, as always, we are at your disposal – Heba, Omar and myself. Muneeza, thank you very much for organizing.

Muneeza Hasan: Thanks a lot.

Ahmed Badrawi: Thank you. Bye-bye.

Operator: Thank you. That does conclude our conference for today. Thank you all for participating. You may now disconnect.

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