CIBC

Moderator: Jan Hasman
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Operator: This is Conference #67795316

Ladies and gentlemen thank you for standing by and welcome to the SODIC Full-Year 2015 Results Conference Call, hosted by CI Capital.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question you will need to press star and one on your telephone keypad.

This conference is being recorded today, on Thursday, the 17th of March, 2016. And I would now like to hand the conference over to Jan. Please go ahead sir.

Jan Hasman: Thank you (Rose). Good morning and good afternoon ladies and gentlemen. I'm Jan Hasman from CI Capital. I would like to welcome you all SODIC Full-Year 2015 Results Conference Call and thanks for your participation in this event.

We have a four-person strong representation from SODIC with us today: Managing Director, Engineer Maged Sherif; Chief Financial Officer, Mr. Omar Al Hamawy; Head of Corporate Finance, Miss Heba Makhlouf; and Head of IR and Finance Projects, Mr. Ihab Abo Taleb.

I would like to thank management for their precious time devoted for this call and congratulate them on their recently released financial results that we are here to discuss today.

We will first have a presentation followed by a Q&A session and without any further delay, I would like to leave the floor for SODIC's team. Please go ahead.

Engineer Maged Sherif: Good morning, good afternoon, this is Maged Sherif, Managing Director of SODIC. I'd like to thank you for being with us today.

I'll walk you through a quick brief on the 2015 financial results. My colleagues are around for any you know, detailed questions on the results and then we'll open the floor for a Q&A session.

We had a great -- another great year in 2015. Our sales figures amounted to EGP 4.4 billion as opposed to 3 billion in 2014, that's a 43 percent year-on-year growth. Our cancellations remained at a very low percentage of around 5 percent.

Our revenues, our recognized revenues amounted to EGP 1.47 billion. The gross profit margin is at 41 percent. Our net profit is 310 million post minority interest. Our net profit margin is at 21 percent and that's probably around double that of last year. Our receivables at the end of the year were EGP 6.9 billion.

Looking at the cash collections, our collections amounted to 2.4 billion displaying a 17 percent growth over the same period of last year. The delinquencies remained at very low percentage in the neighborhood of 5 percent and that contributed positively to our year-end cash balance of EGP 2 billion.

Our deliveries, we were ahead of a target of 600 plus, we actually delivered 721 units and that's a substantial increase over the year, 490 units delivered in the 2014.

As for our land bank, SODIC acquired key plots of land in 2015 for a total of 3.3 billion, I'm sorry million square meters of land. These were basically Caesar on the north coast which is our first development on the north coast.

The second acquisition was the 30 acres acquisition on the west side of Cairo in the 6th, of October City, and this was acquired from the Ministry of Housing, in the NUCA, New Urban Communities Authority.

And our final -- and we actually closed this year but we were in discussions since last year, the revenue share agreement with the Heliopolis Housing Company and that's a co-development agreement for a 2.751 million square meters of land, to develop a mixed-use development, the majority of it is residential, while some of the components are the regular commercial, retail and other services, complementing services in the development.

The structure of the deal is basically a 30 percent of the top line, is the Heliopolis Housing Company share and they are committed to providing the land and the hook-up point for the infrastructure at the perimeter of the land, while 70 percent of the revenues is our share, the SODIC share, and we are committed to doing everything other than the land and the hook-up points including the briefing, the master planning, the design the marketing and sales, the construction, the actual development, and at the facility management later on.

I think that's just a very quick brief on where we are today. We are very proud of our results, we continue to show growth in our revenues, in our sales, in the number of units delivered. Our stock actually is showing amazing, good, results over the past week after the devaluation.

We've achieved a 40 percent growth in the share value but most of it -- I mean, that's over the past month, most of it is actually has been realized in the past week.

I guess that's it unless any of the team would like to add anything. I think we're -- we're -- we're done and we are more than happy to receive any questions. Thank you.

Operator: Ladies and gentlemen if you do wish to ask a question at this point, please press star and one on your telephone keypad and wait for your name to be announced. That's star and one if you wish to ask a question.

And your first question comes from Patrick Gaffney. Please go ahead.

Patrick Gaffney: Hi. Thanks for taking my call. If you could I guess just restate what have -- what sale or can you give us an idea of what's happening with sales so far this year, have you seen any problems, what do you think will be the impact of the devaluation, either on costs or on your sales going forward?

And then, for the fourth quarter it seems like there was some fairly large impact from higher operating expenses or higher finance expenses that happened in between the gross profit line and the net profit line, that wasn't really disclosed in your results but could you give us a sense of what that was and was that one time, it seems like the difference between gross profit margin and net profit margin was higher than it had been -- than it would -- than we had seen through the rest of the year? Thanks.

Thank you Patrick for your question, I'll -- I'll leave Omar Al Hamawy, the CFO, to comment on your -- on the last part of your question but I'll just give you a brief on what's happening this year.

We -- I mean, the plan is to continue to rollout new phases in our projects. We started with our first launch of The Courtyards, the Westown Courtyards. It was a very successful launch and it -- the pattern continues to be the pattern that we've experienced in 2015 and that simply -- that over -- about may be 7 to 10 days since we've launched, we've sold around 60 percent of that phase and this is the usual pattern.

And yes, I mean, if the pattern continues then in a couple, two to three months then we should have, you know, sold 90 percent of the phase so, we are not experiencing any changes in the pattern so far, as a matter of fact we foresee devaluation as an opportunity for us, we as Egyptians love investing in real estate, we think of it as a very safe way to store value.

And accordingly with the devaluation, was the scarcity and the difficulty to secure you know, U.S. dollar as a means of you know, storing value. The only way for Egyptians to store value is to invest in real estate and in bad times, people tend to invest and buy property with credible real estate developers and I think SODIC is considered to be one of the top players in Egypt.

I guess that this answers your question but I'll leave Omar to comment on the final part of it regarding the difference in the gross margin and the net margin in Q4 of 2014 -- 2015.

Omar Al Hamawy: OK. The difference between those two numbers is basically a result of a couple of entries. There is -- there is a big interest income and this is of course as a result of us having a huge cash balance today and if that balance goes down soon as a result of may be the -- another big land acquisition or so then definitely you're going to see an impact on that or as our -- as our utilization of the existing facilities increases. So that is going to be dependent on how the cash moves over the next year.

The other part is, it's a result of either the NPV recognition of the existing -- of the existing units that's already been recognized and now we're recognizing the NPV of the -- of the remaining installments or fees from cancellations or assignments or stuff like that which both are regular part of the operations, so this will continue as long as our -- as our operations continue to grow, so that I would not expect a major change there.

Patrick Gaffney: OK. Thanks. I guess just two follow-ups, first was there a big increase in the operating expenses in the fourth quarter?

And then the second point is, in terms of cost because of the devaluation do you expect to have significantly higher costs and will that change margins?

Engineer Maged Sherif: It's me Maged, I'll answer your second part of your question regarding our costs going forward.

As far as our existing projects are concerned, we have long-term contracts with general contractors and the -- it is unlikely that we'll see any significant changes to the amount of those contracts.

The other very important factor is that we deliver most of our projects as (co-loan share) product and accordingly there's very little, probably as little as three percent of our cost structure is imported products and these are the components that are largely impacted by devaluation and by currency devaluation, so it's an insignificant amount and we don't foresee major problems a result -- as a result of the devaluation.

Omar will answer the -- your first (part of the) question.

Omar Al Hamawy: Yes, with regard to the fourth quarter expense, the jump you see is the result of the year-end bonus which is -- which is always recognized in the fourth quarter. So if you go back you know, to the previous years you will see a similar jump every year in the fourth quarter.

Patrick Gaffney: OK. Thank you.

Engineer Maged Sherif: (Sure). Thank you Patrick.

Operator: And your next question comes from Mayar El Ashry. Please go ahead

Mayar El Ashry: Hello. I just have a quick question, where do you see housing prices going in 2016?

Engineer Maged Sherif: You mean in 2016?

Mayar El Ashry: Yes. Where do you see prices heading in 2016?

Engineer Maged Sherif: Let me tell you that the average price increase in 2015 has been in the neighborhood of 12 percent to basically to mirror inflation and we see this pattern to be continuing in 2016.

Mayar El Ashry: OK. Thank you very much.

Operator: As a reminder ladies and gentlemen, if you do wish to ask a question please press star and one on your telephone keypad now and wait for your name to be announced. That's star and one if you wish to ask a question.

And your next question comes from (Admaya Mavol). Please go ahead.

(Admaya Mavol): Hi. I have a couple of questions, the first one is, how big is the current land bank that the Company has and how many as of where could -- would that be?

Engineer Maged Sherif: OK. OK. I'll answer that question. Prior to the new agreement that we signed with Heliopolis Company our land bank was in -- was 3.3 million square meters of land however post the agreement our land bank has grown -- has gone up to 6 million …

Engineer Maged Sherif: … to 6 million square meters of land. I mean, before the acquisition that would have you know, sufficed around probably three to four years, that would have been depleted by three to four years, however with the new agreement that pipeline of work of around 10 years and that's the duration of the development agreement with Heliopolis Company.

(Admaya Mavol): What was the average cost per square meter of the land, the 3.3 million square meters?

Engineer Maged Sherif: They come from different projects across our -- across our land bank. I mean, there are projects, land that was acquired long time ago and it sits on our books at about a EGP 150 and there's land that was acquired more recently for EGP 1,900, so it varies significantly across each project -- each project.

(Admaya Mavol): And what is the outstanding revenue sitting at and what will be the impact of the change in accounting methods as to how long that will hit the income statement?

Engineer Maged Sherif: Well currently we recognize our revenue based upon deliveries and that probably will not change in the near future.

(Admaya Mavol): OK. So you are not going to early adopt the IR -- IFRS 15 …

Engineer Maged Sherif: No.

(Admaya Mavol): … for percentage recognition?

Engineer Maged Sherif: Not at this point, it doesn't -- it doesn't -- it doesn't work well practically with our -- you know, with our existing nature of the business.

(Admaya Mavol): OK. All right, thank you.

Omar Al Hamawy: Thank you.

Operator: Your next question comes some the line of (Hamza Taag). Please go ahead.

(Hamza Taag): Hello. Thank you so much for your time. I would like -- I would like you to elaborate more on Q1 sales so far, what's the number for contracted sales please? Hello?

Engineer Maged Sherif: Yes. Thank you for your question. I think we're having a very good start for Q1 of 2016. We've only launched well we've only had one launch since the year -- the beginning of the year and accordingly it's not a reflection of anything really, it's -- what's -- what's -- what is a reflection of how well this launch did and that I explained before -- do we have the figures, that we can communicate?

Yes, it's -- honestly I don't have anything to -- I mean, we don't have even a complete quarter and I don't have anything ready on me to report right now.

(Hamza Taag): OK. And your target for the year is 4.4 billion -- yes, 4.6 billion, I'm sorry, correct?

Engineer Maged Sherif: We are still in discussions with our Board of Directors and once we have a clear plan we will communicate this plan with you.

(Hamza Taag): Thank you.

Engineer Maged Sherif: Our pleasure.

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

Nemat Choucri: Good evening everyone. I have two questions if I may, the first one on, if you can share with us what's the plan with (these, the 655 feddans project with the Heliopolis Housing), in terms of the residential and retail components and the (float variations) for each component?

And the second question, it was mentioned in the newspapers that you might need to take some debt, so I was wondering, (this would need to find) -- (to) finance what -- (those debt)? Thank you.

Engineer Maged Sherif: OK. Thank you. I think that the main -- the main outline of the agreement is the 30:70 revenue share on the residential side and the 30.2 percent, 69.8 percent on the non-residential components in the project.

I can provide you late -- I mean, I don't have it, the details the breakdown, this is too detailed but I can give you some very brief numbers on the residential. We're planning to develop around 8,400 units, residential units, more details I can work on them and provide you the information.

On the -- on the debt side, I'll leave Omar to talk about that.

Omar Al Hamawy: We're -- with regards to debt, this project specifically, yes we might -- we might need some debt however this is not yet -- it will be -- it will depend on a lot of things, on how we will go about executing some of the -- some of the components of the project, specifically the commercial and retail components, so yes, we might require some debt but how much is still yet to be determined once we have a complete master plan, and this will -- this will then become a lot clearer.

Nemat Choucri: OK. Thank you so much.

Engineer Maged Sherif: Pleasure.

Operator: Your next question comes from (Sinedo McGurgy). Please go ahead.

(Sinedo McGurgy): Good afternoon everybody and thanks for and congratulations on the (great results). I just had a question, I wanted to understand from you what you -- the state of the consumer, the state of your customer at this point in time. Are you seeing a need to extend your payment terms in the current environment and if so what kind of payment terms are you now offering?

And yes if you could just elaborate as well, given the Heliopolis deal, what sort of funding requirements and how this will be funded? Thanks. That's all (from me).

Engineer Maged Sherif: OK. On the payment terms side it is very important and crucial that we be competitive and listen to the market. We've seen that most developers are offering extended terms of payments, up to seven years and in order to be competitive we had to offer a seven year payment plan on our first launch this year and we're doing it in a way that's not affecting our present value, so yes, we are being responsive to the market. It is simply that the competition are offering extended plans and we have to be competitive.

On the funding requirements for Heliopolis, I think Omar has just mentioned that once we have a clear master plan, once we have clear phasing for the project because the project is going to be executed on three phases and the phases are be it -- are to be determined based on the master plan, that's the contract and this is what the contract stipulates.

Once we have a clear vision on that, I think we will be in a better position to discuss funding requirements.

(Sinedo McGurgy): Is it a possibility that you will need equity or you anticipate that you can source it?

Engineer Maged Sherif: No. We probably won't require to use equity. We already have a lot of cash sitting on our -- on our balance sheet and we do have access to debt banks, or still have a lot of appetite to lend us, so I don't think we will require any additional equity from the shareholders for that project.

(Sinedo McGurgy): OK. Thanks. That's all from me.

Engineer Maged Sherif: Thank you.

Operator: As a reminder ladies and gentlemen, if you do wish to ask a question please press star and one on your telephone keypad now. That's star and one to ask a question.

And your next question comes from (Maha Suesi). Please go ahead.

(Maha Suesi): Hi gentlemen. Thank you for this call. I have two quick questions, when you say target for the year (stays at) 4.6 billion, can you break that down for us in terms of projects?

And can you please just elaborate on courtyards a bit more, the first phase, what is the total size of the project and what are your expectations there? Thank you.

Engineer Maged Sherif: Thank you. I think we -- once we communicate the 4.6 billion officially, then we can provide you a breakdown but as we mentioned a bit earlier, we are still in discussions with our Board of Directors, we're discussing our rollout plan for next year and accordingly the breakdown and the total figures.

So once we are ready to communicate that after we've discussed and had it blessed by the Board, we definitely will communicate.

As far as The Courtyards is concerned, the launch was about 10 days ago, the total contracted sales and down payments paid are in the neighborhood of 60 to 61 percent of the total launch. The total launch amounts to EGP 460 million.

I hope this answers your question?

(Maha Suesi): How much to expect from total courtyards as it -- as when the whole project unfolds?

Engineer Maged Sherif: I think I'll -- I'll probably would like to look into that in detail because it's a number of launches (Maha), and we'll get back to you on that.

(Maha Suesi): OK, OK. Thank you so much.

Engineer Maged Sherif: Thank you.

Operator: And you have a follow-up question from (Admaya Mavol). Please go ahead.

(Admaya Mavol): I'm just looking at some of their historic projects, you have Forty West which I think is it Q3 last year was only 50 percent sold, 50 percent sold but you are now launching projects which are -- which gets sold 60 percent in 10 days, what could be the problem with Forty West?

Engineer Maged Sherif: OK. Forty West is a high-end product with very high specifications, bigger units, so what we're doing is in launching new phases in Forty West, we are accommodating, we're responding to the market, we're not compromising quality, however we're you know, reducing a little bit the specifications, optimizing space and making sure that the new phases address what the market expects.

But to answer your questions, Forty West is a heavy, moving, product being a high-end type of product.

(Admaya Mavol): Maybe the second question is that when you compare the deal that you have done, this core development, what would have been the -- what are the implications when you compare the 30 percent revenue that you're going to pay to the owner of the land and if it what land out right?

Engineer Maged Sherif: This is a -- I think in every -- in old terms, this is the best revenue share agreement that has been signed in Egypt in terms of -- in terms of the splits, percentages and in terms of the balance, you know structure of the agreement.

Acquiring lands right now is becoming very difficult and it's -- I mean, the numbers don't make sense, other developers like Heliopolis are struggling with you know, selling land, so the only way that makes logic going forward (for them) if they were to remain also in business, is to get into revenue share type of agreements.

It is very difficult to compare, it is difficult to compare like an outright sale or acquisition to this form of agreement because collections, they get 30 percent out of every dollar we collect. Collections are estimated to be over, anywhere between 17 to 20 years, so depending on what we launch, where -- when we launch and what the payment terms are and how long it takes to collect the 30 percent, we strongly believe and our, you know, calculations that we ran indicate that it makes a lot of sense -- numbers make a lot of sense the way the deal was structured.

I don't know whether you'd like to add?

Operator: So once again ladies and gentlemen, if you do wish to ask a question need to press star and one and one on your telephone keypad now. That's star and one on your telephone if you do wish to ask a question or make a comment.

As a final reminder, that's star and one now, if you wish to ask a question.

And we have no further questions at this time. Please continue.

Engineer Maged Sherif: OK. I guess if we're -- if we have no more questions …

Operator: Apologies sir, we have had another follow-up question from (Admaya Mavol), if you are happy to take that question?

Engineer Maged Sherif: Absolutely.

Operator: OK. (Admaya) your line is now open.

(Admaya Mavol): Could you -- could you give us more color on the expansion in your margins, what are -- what is the driver in the expansion of your gross margins?

Engineer Maged Sherif: Well, basically the margins this year again, as you know we recognize our income based on deliveries and what we've been delivering this year, the bulk of our deliveries comes from Westown Residences project on the west side of town. And this project is a very high-margin product partially because it's been selling so well and also partially because, it's historic lands that we've had for a long time.

So as a result of that the bulk of our delivery is coming from this project, this is why we have a -- have this uptick in margins, also we have some high-margin units in Allegria and the Strip but mainly Westown Residences has the bulk of those deliveries.

(Admaya Mavol): OK. Thank you.

Operator: And there are no further questions at this time. Please continue.

Engineer Maged Sherif: I think if we have no more questions, we thank you very much for being with us. We are more than happy to stay in touch with you and we look forward to our next communication.

Thank you so much.

Operator: Ladies and gentlemen that does conclude today's call. Thank you very much for participating. You may now disconnect. Speakers, please stay on the line.

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