



Company: SODIC
Conference Title: Q3 2015 Earnings
Presenter: Ayten Anwar
Date: Tuesday 17th November 2015

Operator: Good day and welcome to the SODIC Q3 2015 Earnings Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Ayten. Please go ahead.

Ayten Anwar: Good morning and good afternoon everyone. This is Ayten Anwar from Beltone Financial. I would like to welcome you all to SODIC's Third Quarter 2015 Results Conference Call. From SODIC we have with us Mr. Magued Sherif, the Managing Director; Mr. Omar El Hamawy, the CFO; Miss Heba Makhlof, Head of Corporate Finance; and Mr. Ihab Abo Taleb, Head of Investor Relations and Finance Projects. As usual the conference call will begin with a discussion of the key highlights of the period followed by a brief Q&A session.

I will now leave the floor to Mr. Magued Sherif to give you an overview on the results and the strategic directions. Thank you.

Magued Sherif: Thank you Ayten. This is Magued Sherif, good morning, good afternoon to you. I will just start with a brief introduction of myself. I was appointed starting November 7th so this is actually probably my fifth week with the company. Very briefly my background, my academic background, I graduated as an architect in '86. I got an MBA from the American University in '98. My professional background, the highlights were seven years with BEK Tel, '88 through '95 followed by a couple of years with Arthur Anderson; and then I became General Manager of Palm Hills '97 through 2008. I moved from Palm Hills to MAF, Majid Al Futtaim Properties as Head of the Properties business in Egypt and country heads. I moved from MAF in 2011 to join Hyde Park Properties which was originally owned by DAMAC in Egypt doing mixed use developments. I stayed with Hyde Park for three years. I left for the States for a year and a half and I'm back to join SODIC as managing director.



That's something very brief about my background, so my background, my expertise is in development. I did a little bit of financial analysis. I was an architect for a period of time, so here I'm back to Egypt, I'm glad to be managing SODIC, a great company.

Very briefly we had a very good third quarter of 2015 and our results for the first nine months were as follows. I'm sure everybody received the report but I will just give a few highlights from the report. When we talk operational our contracted sales for the first nine months were EGP 3 billion. Our sales in New Cairo represented 68% of this amount. We have two projects in East Cairo, one of them is Vilette and the other one is Eastown. On the North Coast which was our first development outside Cairo was a great success, it was launched in Q3 and the amount of revenue contributed to the EGP 3 billion of 17%, about EGP 500 million. Our rate of cancellations sits at 6% which is a very reasonable percentage compared to the market. Our cash collections for the first nine months amounted to EGP 1.6 billion. Our deliveries amounted to 425 units which is on target and contributes to achieving our target of 600 units for 2015. We acquired one plot of land which is 30 acres through an auction by the Egyptian government.

When we go to our very quick financial highlights, our recorded revenues for the first nine months amounted to 890 million. Our gross profit margin is 40%. Our net profit margin is 20% as a result of an EGP 224 million net profit. Our cash balance stands at EGP 1.9 billion while the debt level is at EGP 1.1 billion. Our receivables amount to EGP 6 billion.

That's a very brief review of our financials. Talking about our strategy going forward, I strongly believe that we should be growing our land bank, we should be focusing on the quality of land that we acquire. It's not about quantities or square meterage. It's about the quality of the land that we acquire, so we are keeping an eye and participating in land auctions by the government. We are also not only that we are seeking growing our land bank in Cairo on the East side and the West side, we are also looking at the coastal cities. We're looking at the North coast, as I mentioned earlier our launch of Caesar which is our first North coast development, it was a great success, so we are looking at expanding our land bank and replicating the model. We're also looking at other coastal cities on the Red Sea and we're looking at different locations right now and evaluating them in terms of economic stability as well as the market appeal. We're also looking at secondary cities and this is not an easy thing to do because securing land in secondary



SODIC Q3 2015 Earnings

cities is not always an easy thing to do, so we are right now entertaining in our business model, we're right now looking at a number of plots and we're considering them for future developments. We're also looking at opportunities on the Red Sea in different areas. We also continue to look at secondary cities through programmes launched or rolled out by the government. With regards to our income streams we are also focusing on growing our recurring income stream. This is something that we're doing by strengthening our leasing and asset management capabilities. I think this is an area that we will be focusing on in the near future.

I guess that's it. I would like to at this point open the discussion for any questions. I'm more than happy to answer any questions and the team will also help me in responding to your questions.

Ayten Anwar: Ok Mary, we're ready to receive questions please.

Operator: Thank you. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. 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. We will pause for just a moment to allow everyone to signal.

We will now take our first question from Athmane Benzerroug from Deutsche Bank. Please go ahead, your line is open.

Athmane Benzerroug: Yes, hi. Good afternoon everyone, this is Athmane from Deutsche Bank. A quick question on 2016: what is the kind of guidance you can provide on the pre-sales for next year? This is my first question. The second one on the...what is the expected cash collection and the capex for 2016?

Omar El Hamawy: Thank you very much for your question. Right now we are still working on preparing our budget for 2016 so right now we don't have the figures, but generally in terms of sales I think we're looking at somewhere between 4.5-5 billion in contracted sales.



Athmane Benzerroug: Ok, and at this stage you cannot shed some light on how much capex you expect to incur next year and what is the kind of cash collection you can collect?

Omar El Hamawy: Not yet. Definitely we expect our capex to increase significantly as we progress within the projects we are operating in and as we proceed with construction in the North coast, but again the numbers...we are not yet ready with the numbers.

Athmane Benzerroug: Ok. Just a very quick question just on the pre-sales, it seems that next year you are expecting growth in pre-sales. A lot of investors are quite sceptical on Egypt and on the slowdown in the growth actually. What makes you confident that the sector will continue to grow next year?

Magued Sherif: I think Egypt is different in terms of the genuine demand for real estate, the nature of demand. Demand is genuine and is real. We have a young population, we have a housing gap of 3 million units and this gap grows by around 600,000-800,000 units a year. All what's provided for right now is about 20,000 units, so we feel strong about the market. That's demand for our products. Our performance has been solid, so we are quite confident that there is a market, there is room for growth in 2016.

Athmane Benzerroug: Ok, thank you very much. Just on the potential cancellations actually in 2010, obviously they were not in the same political landscape but we had quite substantial cancellations for some developers and so they had a few cancellations. What makes you confident that next year with the economic slowdown you cannot have a slowdown in pre-sales and an increase in cancellations?

Magued Sherif: I think again demand is real and Egyptians love real estate and they think of it as a safe way for them to save, a safe way to save. It's not only that they love real estate, it's a safe savings scheme for them. We don't have a reason to feel that cancellations will be above the current rates. We don't have a reason to believe so.

Omar El Hamawy: If I can add also, in 2011 this wave of cancellations definitely was ignited definitely by the revolution and there were a lot of people that actually fled the country at the



time. This time things are different. The profile of our buyers is a lot different and also the prices have increased so much over the past 2-3 years and people understand if they cancel now that they are going to lose so much value that they have accumulated over that period, so the cancellations will be...it's not going to be an option that many people would be entertaining.

Athmane Benzerroug: Ok, thank you very much, that's very helpful. Very last question on the potential cancellations, what is today the legal framework that developers can use in case of cancellations? What is the typical policy that you have and how can you enforce it?

Omar El Hamawy: What we have now in our contracts, number one it is up to our discretion whether to cancel the contract or not and if we do, our contract stipulates that we get 10% of the total value of the contract and we pay back the rest to the client over the same time period that he has paid them, so if he has been paying for two years now of quarterly instalments, we pay back over quarterly instalments over two years.

Athmane Benzerroug: And you keep 10% of the sales value?

Omar El Hamawy: Yes, 10%.

Athmane Benzerroug: Ok, thank you very much.

Operator: We will now take our next question from Ashish Jain from NBK Capital. Please go ahead, your line is open.

Ashish Jain: Hello, good evening, this is Ashish Jain. I have two questions, my first question related to the land bank acquisition that you are looking at mainly in the cost allocation. Would you be able to shed some light...the deals that you are considering, are they on a revenue sharing basis or you are planning to buy those land plots? That's my first question. Second question is regarding the contracted sales during the third quarter. If I calculate correctly it feels that around 850 million of net contracted sales in the third quarter, roughly 500 million were related to the North coast project, so within Cairo it seems that there were around 350 million of net contracted sales. This number seems a bit low to me compared to if I look at your last several



quarters. Was there any specific factor that could explain such a low net contract sale within your projects in Cairo? Thank you.

Magued Sherif: Ok. Your first question regarding what form of agreement or arrangement regarding the land, whether it's an acquisition or a revenue sharing type of arrangement. We are in discussions with a number of owners. Some of them are interested in just selling and exiting. Others are interested in a revenue sharing model, so to answer your question we are looking at both models right now depending on the sellers. That's your first question. Your second question regarding the contracted units in New Cairo third quarter – there has been no recent launches during Q3 in East Cairo and that's why the number is low. We had a launch that was postponed from Q3 to Q4, so this will change the whole picture at the end of Q4.

Omar El Hamawy: Generally speaking the third quarter is the summer quarter and before we had a project in the North coast it was a very slow season for us. Everybody is on holiday so it's difficult to have big launches and to have big sales. Now that we have a project in the North coast, we have an active quarter but again sales in Cairo are generally slow at this time of the year and this is why we don't have launches during that time.

Ashish Jain: Thanks. So you expect the fourth quarter to be a more normalised quarter from new sales within Cairo perspective?

Magued Sherif: Yes sir.

Ashish Jain: Ok, thank you so much. This is very helpful.

Operator: We will now take our next question from Nemat Choucri HC Brokerage. Please go ahead, your line is open.

Nemat Choucri: Hello everyone. I have a question more related to the industry. It was announced in the first half that there is a new system for supplying land to the market which was kind of a lottery system and I was hoping to get some clarity from you on it based on your communication?



Magued Sherif: I think this comes as part of the efforts to regulate the market to ensure that only serious players are actively engaged in the market. I think there's still clarity that needs to be brought to the table about how this works, but again I think the objective was to as part of the new regulations is to classify developers in terms of credibility and financial muscle and to classify them so as to make sure that when land is auctioned, only qualified developers are allowed to participate. So in doing that they are reducing the number of participants in making sure that only serious ones participate. What comes next as to what happens with this lottery, I think there's clarity that needs to be brought to the table, it's not yet very clear how it's going to be administered? Is it through NUCA or through GAFI? I think there's still a lot of information that needs to be disclosed.

Nemat Choucri: Ok. So based on the fact that you don't have much info at the moment, you cannot really tell which system will prefer the revenue sharing or the lottery, correct?

Magued Sherif: The revenue sharing model is a model that we are looking at just in the North coast right now. We are not looking at revenue sharing models in Cairo or on the West side, so the North coast...

Nemat Choucri: I just wanted to say that the 400 plot that you're bidding for in the west of Cairo, my understanding is that from a revenue share basis it's with the government.

Omar El Hamawy: Yes, we did bid for that plot. This is a plot right adjacent to our Al-Agrea project here. We bid for that lot but that is currently on hold and we still haven't had any updates recently.

Magued Sherif: It's on hold by the government. I think when it comes to the dynamics of implementation I think the government is not yet clear about the dynamics and that's why they put this on hold.

Nemat Choucri: Ok. One last question on the expansion on the Red Sea, you will be targeting something like Ain Sokhna or other areas?



Magued Sherif: We are studying the whole model...right now we are still doing our research and not yet decided whether we want to stay at Ain Sokhna if we find a suitable plot of land or go beyond Ain Sokhna.

Nemat Choucri: Ok, thanks a lot.

Omar El Hamawy: Thank you.

Operator: We will now take our next question from Patrick Gaffney from HSBC. Please go ahead, your line is open.

Patrick Gaffney: Thank you. I just had a couple of questions, if you could just talk about if there have been any difficulties in getting materials because of lack of foreign exchange in the market and if that has impacted any of your customers as well? Then the second question is you said that you are looking for land throughout Egypt. In general what is your priority? Do you feel that you need more land on the east side of Cairo or more on the west side of Cairo? If you could have any land where would you want it to be? What do you think makes the most sense right now? Thank you very much.

Magued Sherif: Ok. How foreign currency exchange is affecting us, I would like to break this into two components, the first component being units that are delivered as core and shell and this represents the majority of our products. This is a component that is to a great extent least affected by currency exchange and I wouldn't really be concerned about the effect of currency exchange on local materials other than how much it affects cost of transportation and there are some elements that are affected but the major effect is really on the other component which is the finished products because when we sign contracts with clients it's for a product that's to be finished in a couple of years. You cannot secure the finishing materials right now and the finishing materials to a great extent are more sensitive to currency fluctuations, so I would say that this is the major element that is affected by...or that may represent a risk in our contracts but again it's a minimal percentage compared to our portfolio. Omar, would you like to...?



Omar El Hamawy: Right now when it comes to the core and shell products, what we source from abroad constitutes about maybe 2-3% of our costs. We're talking about maybe elevators and some very minor items, so at this point in time it doesn't represent any...well, it's a very small amount so it doesn't represent a problem for us compared to other industries.

Patrick Gaffney: Core and shell as a percentage of total sales compared to the finished units?

Omar El Hamawy: Maybe more than 90%, 95%.

Patrick Gaffney: Ok, thanks.

Magued Sherif: That's your first question. Your second question is what would be our preference, is it to secure land on the east side of Cairo or on the west side of Cairo? To answer your question I would like to...it depends really on the asset class, if we're just thinking about residential, land comes at a cheaper price on the west side than it is on the east side, however the end product is less expensive on the west side so to answer your question on residential, I think we're ok securing land on either sides. If we were to talk about the commercial developments, we would like to secure land on the east side because demand for commercial/retail property on the east side is way above the demand on the west side.

Patrick Gaffney: Ok, thank you.

Operator: As a reminder to ask a question at this time, please press *1 on your telephone keypad. There are no further questions in the queue at this time. I'd like to hand the call back to our host for any additional remarks.

Heba Makhoulf: Ayten, I think that's all from our side.

Ayten Anwar: Ok, I would like to thank everybody for joining in and participating and sorry again for the disruption that happened in the middle and thank you very much everybody. Have a nice evening.



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