

CI Capital

Moderator: Monsef Morsy
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Operator: This is conference number 50693809

Thank you for standing by and welcome to the SODIC 1Q 2015 Results Call. 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.

I must advise you that this conference is being recorded today, Wednesday the 20th of May, 2015.

And I would now like to hand the conference over to your first speaker today, Monsef Morsy. Please go ahead, sir.

Monsef Morsy: Thank you. Good morning and good afternoon everyone. I'm Monsef Morsy from CI Capital. We are pleased today to host SODIC's 1Q 2015 conference call. I want to thank everyone for joining.

With us today from SODIC's management, Mr. Ahmed Badrawi, SODIC's Managing Director; Mr. Omar Elhamawy, Chief Financial Officer; and Miss Heba Makhoulf, Investor Relations Manager.

Now, I pass on the call to Mr. Badrawi. Please go ahead.

Ahmed Badrawi: Monsef, thank you very much. Thanks for CI for arranging and thank you for all the participants. I believe we've got quite a large number of over 20,

which I think the record since I've joined. So welcome and good morning and good afternoon.

I'm sure all of you have seen the release of Q1, so I'll try and run through a little bit of the Q1 and give you some updated numbers since we're a couple of months ahead of that.

On the face of it, obviously delighted with the results. A net profit figure that's I think probably higher than expectation, that I'm sure the market is very pleased with that. For those of you that follow the company and have heard our calls in the past, I think that you all know that we look at the net profit as only a very real small indicator of the actual performance, the nature of the financials of real estate companies specifically home builder is quite complex. And the net profit is a number that reflects here especially with our delivery accounting method that reflects really the number of deliveries that we've made in the quarter as opposed to real reflection of performance.

Having said that, I'm not trying to turn a positive into a negative. In fact, I'd want to reinforce the message that if you take a deeper look at our financials, our balance sheet, the big KPIs that we point and that I'll go through, I think you'll see really very, very healthy trends. The company is growing at a rapid pace, arguably the fastest that we've ever been. And I think it's a reflection of the company's strong reputation and the strong performance that is -- that's showing its way through all of our numbers from our sales to the collections, the deliveries and all of these things.

I mean, when I look at -- when I try to look at to assess the performance of the company, and I mean, I think you've seen the sales figure for the first quarter was 1.5 billion. Since then, we've hit just under 2 billion, by 1.95 billion. You'll see that most of that is focused in East Cairo, where today the majority of our land bank is in today where we're seeing much healthier trends across in both pricing and demand. And I think with all the activities that's happening with the new capital, the Suez and all of this, I think -- easy explanations why we're seeing a kind of more rapid pace going on in East Cairo over West Cairo.

Having said that, we're pleased with our performance well in West Cairo. There's even -- there's very recent talk of the military airport being converted to a civil airport, which I think would also be a good -- which I would say a good driver of continued momentum in West Cairo going forward as well.

So sales numbers continue to show healthy trends. If I look at that also compared to some of our peer group, I would say that we're continuing to grow our market share. I'd say that it's a much more competitive market today than it was in the last few years with the entry of new players, with the reentry of old players. But I think that SODIC today, we're continuing to capture greater market share. And I think that will continue as we continue to deliver projects.

I look at collections as well. One of the very strong indicators of performance, we're 72 percent up this Q compared to the same Q last year. Our collections rates of 180 million pounds a month with the lowest ever delinquencies below 5 percent is an extremely healthy number that gives me a lot of pleasure. I think back to the days of the company when we used to be collecting 60 million a month with very high delinquency rates, and I really -- it's very recent memory, and you know, it shows me that the size of the business according to that metric has tripled over the last few years.

Our cash balance continues to be healthy. You'll see, I think on the balance sheet that we are at 1.75 billion. So we're continuing to collect well, to spend well. We still have unutilized facilities and we still have quite a bit of free cash for the expansions and the acquisitions. And I'll talk about that a little bit more a bit later.

But the (upshot) of all that as well is that our receivables growing healthily at 5.5 billion pounds of receivables compared to the 3.9 at the same this year. Revenue to be recognized, for those of you that are following the P&L, revenue of 6.9 billion to be recognized compared to a number that was 4.6 billion last year.

So all of these number show that the business is growing very quickly. Our deliveries, we're ramping up again -- are associated with the sales of three or

four years ago. So this year, I don't think we'll see the full extent of the ramping up of our deliveries, but we're on track to meet our budgets and on track to meet the much more aggressive numbers that start to come on stream from next year.

So that's kind of the -- it's the quick run through the key numbers from our perspective.

Other indicators of the business that I'd wanted to talk about before I pass it on to the floor for questions -- we are -- well, we enjoyed the opening of the Hub which is one of our first commercial and entertainment projects. This weekend, we had a very strong turnout. We've got a good number of the stores that are already open and on track to have over 60 percent opened by the summer.

The Hub is a project that would help us in our quest to build communities. So the quest today is, I'd say very well occupied with residential obviously. We've got the office parts, we've got the schools, we've got the sports facilities. And I think this kind of entertainment type of offering is something that will only help to drive occupancy and to help build communities which in the long term will help to build sales as well.

So we're very excited about that Hub at its peak, or one that which is 100 percent occupancy, and collections were we're hoping will add an extra -- will add 30 million pound recurring revenue, annual recurring revenue to our income statement, and as most of you know with the leasable assets most of those are -- the bulk of that goes towards the profit line. So it's a nice start for our recurring revenue income and to be followed hopefully with additional projects both in East Cairo and in West Cairo.

That's really -- I think that covers the existing land banks in terms of new opportunities. I think you've heard most of -- you've heard in the past that we have participated during or just ahead of the conference. We've participated in a couple of revenue share models that were offered by the government. We missed out on the one in East Cairo, and we're continuing to monitor the situation on the 410 acres that's directly adjacent to our SODIC quest project.

The government has, I think just recently asked the bidders of which I think there were several, more than nine according to some accounts, to resubmit it. And we're looking at the moment, I think.

However, we have taken the view that there is a lot more certainty and predictability with the old method of the government's issuing of lands with the sealed envelope process, where the rules are certainly clear. A model of the contract for the revenue share has just been released with studying it to decide if it is enticing enough for us to continue down that path, or to focus on the old system.

On the old sealed envelope system, there were 11 plots that were attended, or were issued a couple of weeks ago, two or three weeks ago. We participated in those. We haven't heard back, neither the technical nor the financial evaluations have yet been done. But we're hoping that those will be looked at by the authorities in the next few weeks. Those represented about 650 acres in total. It leaves us in a little bit of a limbo situation where we'd really like to know the results of those before proceeding with some of the other opportunities. So we're actually having to put a few of the other opportunities that we've been looking at on the backburner or on hold, pending the results of those options.

Final thing, we've got a number of launches that continue before the end of the year in order to meet our sales target of 4 billion pounds. Mostly those are in a project in East and West Cairo. So east town in Villette on the East, as well as SODIC West where we're hoping we have a new launch of 40 West, our finished apartment product phase two, and additional both flats, apartments, and single family homes or townhomes more -- to be more precise in West Cairo. So those are -- several of those to be released before the end of the year.

As well as in the summer, we're working very hard in order to try and meet the summer deadline to launch on newly acquired North Coast project in (Caesars). And that's something that hopefully we're on track for before the end of July or certainly at the beginning of August.

So that's kind of a wrap of the current situation where we're at. I would like to refer you also to our website. There's a new IR website that Heba is very proud of, and where we try to post as much information as possible. And I ask you all to take a look. And all feedback is welcome.

And with that, Monsef, I pass it onto the floor for questions, whether of a detailed nature on the financials with Omar and Heba, or the more general nature to any of us. Monsef?

Monsef Morsy: Sure. Operator, can we open the floor for the Q&A session?

Operator: Of course, sir. Thank you. As a reminder, if you wish to ask a question, please press star and one on your telephone keypad and wait for your name to be announced. That's star and one on your telephone keypad.

If you wish to cancel your request, please press the hash key.

And your first question today comes from the line (Ashish James) from UAE. Please go ahead.

(Ashish James): Hi. Good evening gentlemen, thank you for hosting this call. I'm not sure if I heard it correctly. On the earlier presentation, you mentioned that the new sales is around 1.9 billion year to date. Could you clarify or could you please correct if I'm -- I mean, if I'm wrong. What is the actual thing that you were trying to mention there?

Ahmed Badrawi: Yes, so to date, so the number in the Q1, (Ashish), was 1.5. Today we're on the 20th of May, we've achieved 1.95 billion of sales to date. That is contracted ...

Male: Not revenue.

(Ashish James): Yeah, I understand that. And in your full year research call, you mentioned that you are targeting around 1.3 billion in new sales and contracted sales for second quarter. Are you on track to achieve your guidance?

Ahmed Badrawi: I don't remember giving that guidance, but the general guidance we've given, because we don't only break it down by quarter, (Ashish). So the general

guidance for the year is we're aiming for 4 billion of sales. So today where just before -- I mean, where before the obviously midpoint of the year, and we're at the midpoint of the target. So I'd say we're ahead of target at the moment.

(Ashish James): OK, thank you so much. That's it from me.

Ahmed Badrawi: Thank you.

Operator: Thank you. Once again, if you wish to ask a question today, please press star and one on your telephone keypad. That's star and one on your telephone if you wish to ask a question.

If you wish to cancel your request, you can press the hash key.

There seem to have no further questions at this time. But once again, it's star and one on your telephone keypad if you do wish to ask a question today.

Monsef Morsy: I have a couple of questions if I may. In the first quarter, you recorded a relatively small number of deliveries and West Town residences project. Should you expect a ramp up in deliveries in the projects throughout the remaining three quarters? And accordingly, should we expect margins to revert to the normal levels of the 35 percent?

Male: Yes, definitely. We do expect to ramp up in deliveries from West Town Residence, as more phases that were sold a couple of years back. More of these phases are actually, you know, are being ready. The constructions of those phases has concluded and we start delivering to clients.

So we're expecting three new phases to come between today and the end of the year. And we'll start delivering around those.

I must say for the gross margins during the first quarter, that was impacted by three big units in Allegria that were very high margin units on the golf course, very high selling land sale price per meter. So that had a bit of an impact on the gross margin.

So yes, in general for the year, we expect it right back to our normal levels.

Monsef Morsy: OK, sure. My second question would be after launching the West Town Hub, how do you see the progression of rental income over the coming three years?

Ahmed Badrawi: Monsef, thanks for that. It's a great question.

So I mean, in the past few years, we've been struggling with the rental with the re-leasing income, because we've only really had offices available for leasing. And offices in West Cairo specifically were unfortunately demand tailed often. We've ended up having to convert a lot of what was earmarked for leasing into sale, really as a result of supply and demand.

So demand continues to be strong to before acquisition at the office level, but not so strong at the other levels.

So I mean, what we're hoping for now with the Hub is we were hoping for a good start, and that has been a good start. That gives us confidence back for the retail entertainment product that we want to push out in both in East and West Cairo.

So we are hoping to progress our other recurring revenues, our leasing revenues from the leasing side on the entertainment and kind of the restaurants and that kind of stuff. And in East Cairo, we're seeing that there's a lot more demand even for the office space. And our project in East Town specifically on Road 90, there's a lot of interests in it, and we'll try and let's say make up for some of that lost recurring revenue from those stuff that we have to convert in West Cairo.

So I mean, going forward as I mentioned, the Hub alone provides about 30 million of annual recurring revenue. We're hoping to get that number to well above -- in the long term to well above 300 million with all of the recurring revenue projects that will be coming on stream over the next few years.

Monsef Morsy: Thank you. That will be it from my end.

Operator: Thank you. You have a couple more questions via the telephone lines. Your next one is from the line of (Medhi Wakhabi) from UAE. Please go ahead.

(Medhi Wakhabi): Hello, thank you very much for hosting the call. I have a couple of questions.

Just in terms of the deliveries and the contracted sales used to date, can you give us maybe -- maybe not now, maybe a release on your website for later, just a flavor of the split in terms of East versus West, or even if possibly like by development.

My second question, if you could just re-explain the East, who you were discussing about in terms of the new bidding process and how it's changed and how is that -- how does that affect you?

My third question is are you looking at any opportunities as co-developments as some of your other competitors have been doing?

And the last one on my side is that you're -- maybe you could tell me your target in terms of gross margins, and when we're talking about investment property and retail, are we talking especially in terms of revenue or income? Thank you very much.

Ahmed Badrawi: (Medhi), thanks for those all great questions.

East versus West deliveries -- so very focused on the West to date. We're hoping to start delivering products on the East before the end of the year, will be the first product that we start delivering in East Town, is we're trying to accelerate to catch before the year end. So the vast bulk of deliveries from between now until then are all on the West side. And I'll ask Heba to perhaps share more detail with you on the breakdown as well.

On the land acquisition from the government, so the revenue share versus the sealed bids -- historically, since the days of (Magrhabi), the only way that the government has been releasing land is by sealed bid auction process. So they release (to us) sort of the conditions of land issue, and all the developers have to pass a technical evaluation and then a financial evaluation based on the highest price.

So for example, that land that we acquired last year in East Cairo project, today Vilette, was acquired through that process. Since then, the government was talking with developers about their concern about appreciating rising land

prices and started talking about using the old lore of issuing lands directly. And we started those discussions with them and my assessment, they got post (key) ...

Operator: Sorry about that. I've had to release that line. Please continue.

Ahmed Badrawi: OK. So my assessment is that they thought about that and then thought better of it and decided that they would entertain this revenue share, but revenue share auction type process. So that they again asked us to participate with a share instead of naming a price for the land, giving a percentage of the revenues that you're able or willing to share with them. And then they moved that into an auction process.

So we started talking to them about, you know, we were thinking in the range of 25 percent or so. That was what we saw as a reasonable sum. And then it went into an auction type method and we've seen the prices depending on, I guess the location of the land. And we've heard the share moving up to about 40 percent plus.

But apart from the fact that the share has moved, you know, to what we think are, I mean, let's say on commercial levels, there are also lots of question marks about this new method of any -- what happens when -- what happens with the commercial or leasing side of stuff, what happens if you decide to release a phase of the project into you know, at lower price for example than what they think is the commercial price.

So I think there's still question mark and there's still implementing regulations to be released by the authorities. And as a result, then the government decided to release lands according to the old method with which we are kind of familiar and comfortable, we've decided, you know what, that's probably in light of what's happened over the last few years in all of the various legal challenges. It's probably a safer route to follow.

So that's let's say where we've concentrated our efforts and we're waiting to hear the results.

On your third question, co-developments, yes certainly. I think I've mentioned that we have quite a big cash pile that we wish to use for acquisition purposes. And the government is our first -- is our primary source of land. But co-development deals with quasi government land owners, developers and private are very much on the table. And ultimately the revenue share arrangement is something that we were strong supporters of because it can really help the cash flows and the IRRs of all the projects.

So yes, depending on what happens with the results of the auction, we are very interested in co-developments with other developers and we think it's a good one.

And on your final question, and I'm trying to read my writing here -- it was the level up, it was the recurring revenue -- the numbers that I've been giving have been purely revenue numbers. But I think we'll recognize that the revenue numbers translates, you know, usually 70 percent to 80 percent of that, translates into net income bottom line.

I hope that covers all of your questions, (Medhi).

Operator: Thank you sir. Once again, it's star and one on your telephone if you wish to ask a question.

And your next question is from the line of (Namet Dupree) from Egypt. Please go ahead.

(Namet Dupree): Good evening everyone. I had a question on the new terms of revenue sharing agreements with the government, specifically on the (clause) mentioning, the announcing of the project. It was written that the developer will not have the right to use the land as collateral. But I was looking to get from your understanding of this (clause) on whether the developer would be able to use his share of the receivables as bank collateral?

Ahmed Badrawi: (Namet), hello and thank you for the question. As you know, the regulations or the (quants) of the draft contract literally has just been received. And we have the same questions.

And so typically as you know, we don't -- we're not able to use the land as collateral. But typically, we are able to use the checks. So we will be very concerned if your interpretation that there is a question mark about the ability to use the checks as collateral is real one or not.

And there already, as I mentioned quite a few question marks about the process. This for us would be final nail on the coffin to be honest.

(Namet Dupree): OK, thanks Ahmed.

Operator: Thank you. You have no further questions at this time, sir. Please continue.

Sorry, I do beg your pardon, a couple more questions have come through. The next one is from (Tulaw Al Kamving) from Kuwait. Please go ahead.

(Tulaw Al Kamving): Hello everyone, good evening. I just remembered like, from the last call, I think it was for Q4 results, that it was before the conference you said that you bid for a land next to the Allegria project that you already have. Was that the land that you lost, like you lost a bid for, or is it another one?

Ahmed Badrawi: That was another one. So we bid on two (plots). The one we lost was on East Cairo. The 410, still the answers or the bid hasn't been awarded at all. And what have actually just in the last couple of days -- they have asked for us to resubmit to see if they can get more aggressive I think off this out to the bidders.

And if I was just to go a bit further, I would say out of -- the 410 is the only one that we would consider moving or continuing on this revenue share model, because the 410 is directly adjacent to our land. And it's a natural extension. So we would like to have it. So we would like to get it if commercially feasible.

(Tulaw Al Kamving): Thank you.

Operator: Thank you. And you have another question from the line of (Medhi Wakhabi) from UAE. Please go ahead.

(Medhi Wakhabi): Hello, sorry, actually I was cut off. I was trying to follow up but I was cut off later. Sorry for that.

I just actually had one follow up question in terms of contract that you say you use to date. Can you give us maybe a flavor about the evolution of prices per square meter?

And the second question -- in terms of the new auction process, outside of the revenue sharing and questions about being you're able to use the land as collateral or selling it or using it, are there any changes in terms of technical -- technically, the government change the way they look at leverage, or they would look at the technical ability of the developer to develop the land between the old process and the new process? Thank you very much.

Ahmed Badrawi: I'll tackle the second one first here, (Medhi). So I think strictly, yes they have strict rules about pre-qualification. Although there were pre-qualification rules in the earlier ones, it was just kind of -- it was a pass or fail. Now, I think they have a ranking system of giving points for things like track record and your -- for example for your payment history and stuff like that.

So they are supposed to be stricter the qualification requirements on the new methods.

But the other bits that you're talking about for example on the leverage and everything, that's still -- we're still trying to determine the exact situation on that.

On the pricing, I would say -- I would respond that, I mean, prices do continue to appreciate, sales prices continue to appreciate on both sides. I would mention that I do believe that there is beginning to be a little bit of a gap between East and West with pricing. In the East probably, there may be 15 percent or so premium to West.

I think I would also comment that the gap now between pricing of products residential inventory in the areas where we operate, in the East and West of Cairo, and pricing of existing product in Greater Cairo has narrowed significantly to the point now that practically much.

And as a result, I'm trying to indicate is that we're not able to appreciate pricing, perhaps quite as aggressively as the past. And I think it's the factor the fact that for example in East Cairo at 10,500 pounds and meet the (core shell) to be delivered in three years, is I think it's probably higher than our competitors, and beginning to compete with Greater Cairo.

So I do see appreciation on the pricing side beginning to slow down a little bit. And just to give you an example even in West Cairo in our recent, most recent launch of Courtyards, that we've decided that we only raise the pricing by 2.5 percent.

So in the past between launches, you usually see price appreciation of any significantly more than that, sometimes even above 10 percent.

So I think that as a result of a number of factors that I'd touched on, a greater competition, pricing reaching a level where the customers are beginning to reach, I think towards the ends of their limits. But you'll probably see pricing beginning to stabilize I think, in the next -- over the next few launches.

(Medhi Wakhabi): OK, makes sense. Thank you very much for your answer.

Ahmed Badrawi: Thank you very much.

Operator: Thank you. Once again, it's star and one on your telephone if you wish to ask a question.

And your next question comes from the line of (Hash Odsaf) from Egypt. Please go ahead.

(Hash Odsaf): Hello everyone. I have two questions. My first question with respect to your land which you acquired on the North Coast. Now you mentioned briefly that you are working on it to launch during the summer, but is it possible to give, like some more indication in terms of what's your strategy or how much kind of off-land sales you are expecting out of this project. Any additional information will be very helpful.

And the second question is regarding your balance sheet. Now definitely you have improvement in net cash, but by the end of this year, how much level you are looking at for debt equity or at net debt levels? Thank you.

Ahmed Badrawi: Thank you very much. I'll answer the first one and I'll let Omar answer the second.

The total -- this 100 acres of the project on the North Coast, we're estimating sales of around a billion, maybe 1.1 billion, which we will launch I would say to the summer somewhere in the region of 50 percent to 60 percent. That would be our initial expectation.

Bearing in mind that also that we do have a claim another 100 acres just behind us. So that would hopefully also result in more inventory for next year as well.

In terms of the net cash position, I'll let Omar have a stab with that one.

Omar Elhamawy: Well, our cash position now as you see is quite healthy. And how much we're going to end up with at the end of the year, it definitely depends significantly on how much we -- how much land we're able to get from the auctions that we have entered.

We have a big chunk about 600 million that is available that we have put aside for acquisition of the land. So that depends on what materializes mostly from the auctions that we have entered.

As for our debt situation, now we have facilities for our existing projects. And we've utilized about half of the available facilities which is about 1.1 billion. We expect that level from these existing facilities to reach about 1.8 billion by the end of the year. But again, whether if we get new (plots) from the auctions, that might require us to go out and seek new facilities from banks. But at the existing level, this is what we predict by the end of the year.

(Hash Odsaf): Thank you. Thank you very much.

Operator: Thank you very much. You have no further questions at this time, sir. Please continue.

Ahmed Badrawi: We want to thank you very much ...

Monsef Morsy: Thank you very much. Thank you, anytime.

Ahmed Badrawi: Alright, thank you everybody for listening. Thank you.

Monsef Morsy: We can end the call now, please.

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

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