

DEUTSCHE BANK AG

Moderator: Magued Sherif
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Operator: This is Confirmation # 21559626

Thank you very much for standing by, and welcome to the SODIC Q1 earnings conference call. At this time all participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, you'll need to press star and one on your telephone.

I must advise you that this conference is being recorded today, Thursday the 2nd of June, 2016. I'd now like to hand the conference over to Athman Benzerroug from Deutsche Bank. Please go ahead.

Athman Benzerroug: Yes, hi, good morning, good afternoon everyone. This is Athman Benzerroug from Deutsche Bank. We are delighted to organize SODIC Q1 '16 earnings call. We have today the management with Mr. Magued Sherif (managing director), Omar Elhamawy (chief financial officer), Mahmoud Badran (finance director) and Ihab Abo- Taleb (head of investor relations)

Please, go ahead.

Magued Sherif: Good morning, good afternoon. This is Magued Sherif, managing director of SODIC. For those of you who will be fasting next week, may I wish you behalf of the team and the company, a happy Ramadan as well.

Let me just walk you through some brief results of the company, and then I'll be more than happy to entertain or to respond to any questions should you have any. Let me begin by briefing you on the sales during the first quarter, which amount to 673 million EGP. This, obviously is compared to Q1 of last year is lower than last year, same period. And this basically is limited to the

fact that in Q1 2015, we closed all phase one sales of the Vilette project which was launched very late in December. In addition to that, we closed – or actually, we launched phase two of the same project. However, in 2016, we only had on launce during the period. And we are quite satisfied with the results achieved for this launch.

Just to bring comfort, this is exactly in line with what we had planned for the year. And just to let you know, again, we in 2016, most of our roll-out, development roll-out is back-loaded. So, most of the sales should be happening in Q3 and Q4 of the year.

As far as cash collections are concerned, cash collections amounted to 662 million EGP compared to 547 in Q1 of 2015. Deliverables – I'm sorry, deliveries, we delivered 101 units in Q1 compared to 108 in the same period of last year. Recorded revenues amounted to 187 million compared to 284 the same period of last year. And again, basically what's happening here is that the recorded revenue is a result of delivering low margin units compared to high margin units that were delivered and recorded in the first quarter of 2015.

Total revenue recorded in Q1 amounted to 170 as earlier said compared to 284. The gross profits amounted to 77 million EGP, again compared to 128 in the first quarter on 2015. Net profit, before tax is 72 compared to 113, and the net profit is 51 as opposed to 76 in 2015.

Just a very quick brief on our plans for 2016: we are targeting a net sales figure of 4.9 billion EGP compared to the 4.4 realized in 2015. We are shooting for a delivery of 935 units as opposed to seven hundred twenty one units delivered in 2015. Our budgeted CAPEX for 2016 is about 2 billion EGP, including the land payments compared to about 1.75 billion in the same period in 2015.

I guess that's it. Something very brief and I'm more than happy to take any questions, should you have any.

Ihab Abo-Taleb: Athman are you still – are you on the line?

Athman Benzerroug: Yes. Yes, I'm on the line. Operator, do we have any questions?

Operator: If anybody would like to ask a question, it's star and one on their telephone key pad please.

And this one comes from (Mark Lawrence) from (T.Rowe Price). Please, go ahead.

Mark Lawrence: Good afternoon, gentlemen. Just a sort of general question on macro environment. I mean, I know you've scaled back on launches in Q1 it looks like, and you've settle to see your second half loaded. But, can you give us a sense of how difficult it is out there, and how you're going to maybe augment your launch strategy this year and next? Clearly, looking at the macro economy to the eyes of the bank and (some) of the consumer stocks. Things are difficult, confidence maybe a little bit lower. Is that reflecting in the sales cycle do you think? Or, this is just pure seasonality?

Magued Sherif: Thank you (Mark) for your question. I just comment on what you've just said regarding the back-loading. This purely has to do purely with our rollout plan. It has nothing to do with seasonality; it has nothing to with appetite. Our appetite for risk taking or the markets appetite to purchase property basically has to do with our rollout plan, our pipeline of projects and our pipeline of launches.

I guess with what's happening and the devaluation, again, I always stress on the fact that we as a property buying loving culture and as we always think of our real estate as a safe way to store value. This is a good time for us to increase our business and do what we are doing before. So we are not really – I wouldn't say we are concerned, but we keep an eye on what's going on in the market and we continue to do what is done well before.

Mark Lawrence: Very clear, thank you. In terms of just a sense of Vilette or other project, Eastown, how are they phasing through the rest of year, or what are you looking to do?

Magued Sherif: We have a number of launches for different phases in Vilette and Easown. I don't have them handy on me right now, but I'm sure we can provide you the information immediately.

Mark Lawrence: No, that's fine. Thanks. As we sit today, the launch plans for this year are as you planned for last year, you're not changing anything.

Magued Sherif: No, no we're not. We're just moving from one quarter to another, giving priorities in terms of based on readiness of projects so we are organizing or shuffling dates, but we're not – I mean this is basically internally, and it's not affected by the external environments.

Mark Lawrence: OK. And final question, if I may. What's going to sell better this year? Is sort of outskirts of Cairo, or is it North Coast?

Magued Sherif: Both. We continue to launch in addition to continuing launching our phases, new phases in easy Cairo and west Cairo. We have a final stage to launch this summer on the north coast. In addition to our continuous efforts to secure additional land, and we are in discussions, advanced discussions with a number of land owners on the north coast to secure additional lands.

Mark Lawrence: Very clear. Thank you for your answers.

Magued Sherif: Our pleasure, sir.

Operator: Thank you very much. And your next question comes from the line of Mehdi Kaoukabi from Duet. Please go ahead.

Mehdi Kaoukabi: Hello, gentlemen. Thank you for hosting the call and (Mubarak) Ramadan to you, too. I've got a few questions from my side. The first one has to do with cancellations, which reached eight percent. Which I believe your average over the last few years was about five percent. So, if you could just shed some light on that. My second question has to do with the deliveries. I think 101 or 108 this quarter out of 900. So, is there just the delivery dates that

way, or any units delayed through Q1 to the others quarters. I guess that's it from my side.

Magued Sherif: Omar Elhamawy would like to answer this question.

Omar Elhamawy: regarding the cancellations, in terms of the number of cancellations comparing Q1 2016 to 2015, we've actually had a low number. It's 19 cancellations versus 21 last year. But this year it included two big units in Villette, combining for about 17 million EGP, so this is why it have inflicted the number for this quarter. And because it's such a small period, so a couple of transactions like this would skew the numbers. But we're not seeing any worrying signs of heavy cancellations or anything.

To answer you second question about deliveries, this year we're starting the deliveries of East Town. And East Town will be responsible for about 450 units of the 930 that we're projected for the year. But we've only started deliveries on East Town in May. So, this was according to schedule. We've launched Phase One in May 2013, and three years now to the day we're starting to deliver on Phase One of East Town. So, again, it is as planned and as it has been scheduled.

Magued Sherif: As much as we would like to see a smooth curve of deliveries throughout the year, it's very difficult to plan it that way because it's very dependent on a pipeline of launches that took place two or three years ago and commitments that were made with owners. So, it is really very difficult to smoothen the curve that much. So, this, what we're saying is that this is according to plan. And a big bulk of this year's deliveries is going to be on the East Town project which actually has started to take place in May, like Omar has mentioned.

Mehdi Kaoukabi: OK. Thank you very much gentlemen.

Magued Sherif: Our pleasure.

Operator: The next question comes from the line of (Shahif Harmas) of (National Real Estate). Please go ahead.

(Shahif Harmas): Yes, hi. My question is what are the biggest challenges you face as a developer in Egypt today with the current economy and social environment, that's first question.

Magued Sherif: OK, I think our – we have a number of challenges. What I would say or what I would consider to be the major challenge is securing land and replenishing our land bank, because with the prices skyrocketing to the levels they've reached today, the traditional type of transactions, acquiring and buying land and developing land is becoming, I mean here in Cairo East and West is becoming very difficult.

And accordingly, switching to the model of co-development agreement based on revenue share models appears to be the right way to go forward and this is exactly what we've done with the Heliopolis company. This obviously is the major challenge. It's less of a challenge when you go to the coastal cities because to a great extent, the prices have not – have remained at still at reasonable levels.

I would say another challenge is the competition because maybe they're not as strong, they do not possess a brand as strong as SODIC or maybe because they would like to catch additional business, they are providing longer credit terms of payments plans. This is putting a lot of pressure on us to respond and at least try to match those so as to remain competitive. We try to do that, however we try to do it in a way so as, as much as possible as we don't effect the net present value of our proceeds. I think those are the two main challenges.

One more challenge I would say is the devaluation and the FX risks. The way we mitigated this is simply by offering more than 95 percent of our products as a core and shell product and accordingly, the imported element in the components of our development are very limited.

However, we would like to offer more finished products and we are skeptical about doing that because this means that we have to take additional risks. So, this is another challenge which is basically our appetite to offer a fully-finished product, however we are trying to stay away as much as possible from the FX risk.

(Shahif Harmas): OK, OK. Since you touched the devaluation, the company going on devaluation (at the FX) currency in foreign currency. How have you been able to manage the unit price to manage the devaluation?

Omar Elhamawy: We've seen over the past two years, especially in 2014 when it started to build up, we've seen very strong increases in the selling prices; however construction costs have not increased by the same rate. Now, we're still – I mean we're seeing increases of course in imported material but as Magued said, the important component in our costs is very limited. It's limited to very few things, like you know, like elevators and some MEP components and stuff like that.

So we have seen increases but also, we might see increases going forward but at this point in time, we're seeing regular price increases that sort of mirror inflation, like 10 to 12 percent a year.

(Shahif Harmas): OK, OK. Thanks for the explanation.

Operator: Thank you very much. Your next question comes from the line of (Mohammed Minhoe) from (Safeguard). Please go ahead.

(Mohammed Minhoe): Hello, hi everyone. Thank you for having the call. Just to follow-up on the pricing, so following the devaluation, your guidance for the year is 10 to 15 percent still remain to be the same?

Magued Sherif: Yes, we're keeping our price increases at around 10 to 12 percent. I mean, I'd rather stay conservative and not project a big – a big price increase at this point in time. You know, we're still going to be guided by what the market dictates to us.

(Mohammed Minhoe): OK. So if I'm right, cancellations. So, you've mentioned that two – two big units actually contribute 26 percent. Can you give us more detail especially for that which I guess on the high-end products or what triggered such a cancellation for these two big units?

Magued Sherif: It's normal that you have cancellations in every project. You have two big units; I mean I don't think it's anything to worry about. Its two big units out of what we've sold in Villette and how much -- how many units we sold? We sold like a good...

(Mohammed Minhoe): But I mean two big units contributing for what, a quarter of total cancellations, is there anything that – un-normal that you saw in those two units or what do you think?

Magued Sherif: Not un-normal. Again, it happens – it happens in every project so we see cancellation and generally what happens then is that we get 10 percent of the value of the unit and then we re-price it and sell it at the new – at the new...

Magued Sherif: The higher price.

(Mohammed Minhoe): Higher price, OK.

Magued Sherif: nothing to worry about, yes.

(Mohammed Minhoe): OK. If I'd like, if I might also ask you about the – so yes, the contracted sales that you mentioned, that was a single launch in Courtyards. I can't remember, how many launches did you have last year? Was it more than one launch, (viewing) the first quarter of 2016?

Magued Sherif: I think we explained a bit earlier, (Mohammed). What we did is what we launch in (25th) of December 2014, we launched phase one of Villette. So all of most of the things that happened in phase one closed in – because we only record contracted sales, so...

(Mohammed Minhoe): Sure.

Magued Sherif: most of the closing happened in January. In addition to that, we launched phase two. So actually...

(Mohammed Minhoe): OK.

Magued Sherif: we had two launches during Q1 of the same – at the same period of 2015.

Magued Sherif: And they're also big launches. Each of them was more than a billion pounds. On the other hand, we had – we had one launch in the quarter, it's Q1 of 2016. Then in Q2, we've already launched another phase of Courtyards, we've launched a phase in Eastown and in Vilette as well. So, we're proceeding, we're going forward there.

(Mohammed Minhoe): OK. And your sales target, you started to say for the year remains to be the same, 4.6?

Magued Sherif: 4.9 and a half.

(Mohammed Minhoe): 4.9. OK, great thank you. Thank you very much.

Operator: Again that's...

Magued Sherif: more questions?

Operator: There are no questions at the moment (day).

We just had one coming through from Patrick Gaffney from HSBC. Please go ahead.

Patrick Gaffney: Yes. Could you give us an idea of how costs per steel and cement have been trending lately? Has there been a big increase since the devaluation? And then I had a second question on when you will start to launch the Heliopolis co-development project?

Omar Elhamawy: Regarding the Heliopolis project, the plan is to launch in Q1 2017. We are currently working on the master planning of the whole area because it's a big plot, so we're taking our time in preparing the master plan and hopefully launch in Q1 2017.

Regarding the cement and steel prices, steel recently we saw – we saw a big spike of about 20 percent that went on for like a couple of weeks and then it went down again to its previous level. I'm not sure if that's attributable to the foreign currency issue or not, but this the trend we've seen.

Cement on the other hand has been fairly stable over the past maybe six months or so. Going further back, there were issues with the pricing. There was a lot of fluctuations but that was mostly as a result of the shortage of natural gas and the shortage of supply coming out of cement factories here in Egypt. But since that has been resolved and most cement factories switched to coal, prices have been fairly stable.

Operator: No questions at the present moment.

Magued Sherif: Do you have any more questions?

Operator: There's no further questions at the present moment.

Magued Sherif: OK. At this point...

Magued Sherif: I'm sorry? Do we have any other questions?

Magued Sherif: I was going to say at this point, if we don't have any other questions, we would like to thank you again and we look forward to our Q2 call. Thank you.

Operator: Thank you very much. That does conclude the conference.

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