



Company: Eurofins International Support Services LUX

Conference Title: GB Auto 4Q18/FY18 Results Presentation

Moderator: Raouf Ghabbour

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Operator: Good morning, good afternoon, ladies and gentlemen. Thank you for joining our Fourth Quarter 2018, Fiscal Year 2018 results presentation conference call. From GB Auto, we have Dr Raouf Ghabbour, CEO, presenting the Fourth Quarter 2018, Fiscal Year 2018 results. I will hand over to Dr Ghabbour for his presentation. Then we will have a quick question and answer session. Dr Ghabbour, please go ahead.

Raouf Ghabbour: Thank you very much. Good afternoon ladies and gentlemen and thank you for joining our results call for the full year and fourth quarter 2018. Ladies and gentlemen, despite the challenges faced throughout the year and particularly during the last quarter, our group's strong performance in 2018 is reflective of an overall recovering market. We delivered double digit volume growth for the full year across all lines of business and have reversed the previous year's losses with accelerating profitability. Our success was driven by management's ability to tailor our product and sales mix well suited to capitalize on the market's up trends while simultaneously extracting higher value through operational and working capital efficiency.

GB Auto's consolidated revenue was up as strong 46% in 2018 to approximately GBP 26 billion. Our gross profit nearly doubled to GBP 3.6 billion and we recorded a net profit of GBP 516 million for the year versus a loss of 667 million in 2017. These impressive results come despite the full [inaudible] demand during the fourth quarter of 2018. As consumers were anticipating a phase out of custom duties on European passenger car imports starting January 2019, demand slowed and our PC volume declined 15% year on year Q4 2018, typically the second strongest quarter for our industry.



Nonetheless, GB Auto sold a total of 37,375 units in 2018, up 19% and accompanied by a shift to higher margin basis. GB Auto continues to hold the largest share of the passenger car market at 25.4% at yearend 2018. Management however is cognizant about the adverse effects these new regulations would have on our industry in the coming months and we are working to leverage GB Auto's adaptive and versatile business model to turn new challenges into opportunities.

Our strategy will see us continue driving growth at our passenger car line of business by optimizing and realigning our portfolio to new market dynamics. In that regard, we will grow our CKD offering during the second half of 2019 and we will expand our CBU portfolio to stay ahead of the competition.

Overall, the auto and auto-related segment delivered a 26.7% growth in revenue in Q4 2018 and a faster 46.5% growth on a full year basis. The segment's bottom line for 2018 turned positive GBP 137.5 million. Segment growth was also supported by strong performance at our two and three-wheelers line of business. Three-wheeler volumes are breaking record highs with almost 98,000 units sold in 2018 while our motorcycle division almost tripled its volumes and is on track to historical levels.

I remain confident in the line of business potential going forward in light of its economic and job-creating role and our group's localized manufacturing capabilities and growing after sales service. Our line of business in the Egyptian auto and auto-related segments showed a top line growth across the board coupled with healthy margins where we had increased volumes in each line of business that helps us being in the leadership position in some of them such as tires.

I am also bullish on the prospects of our Iraqi operations where both the passenger cars and two and three-wheelers are delivering volume-driven growth supported by improving profitability. Total



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division revenues were up over 35% in 2018 to GBP 4 billion and we are expecting strong growth trajectory in 2019. Our strategy for the line of business would see us accelerate the expansion of our after-sales network for both divisions and work to replicate the success we have achieved in Egypt.

At GB Capital, all our financing subsidiaries delivered strong top line growth in 2018 that helped drive a consolidated 51.4% increase in revenue to GBP 5.1 billion as well as 39.3% increase in the bottom line reaching approximately GBP 360 million. GB Capital's low end receivables portfolio stood at GBP 8.1 billion at the close of the year after our 355 million securitization that took place in the third quarter. Up a strong 41% versus the 5.8 billion in 2017. Our portfolio health remained intact with nonperforming loans at 1.2% and with NPL coverage ratio of 220%[?].

During the year of 2018, the segment had strengthened its financial position and the quality of its loan portfolio, finalized the sale of minority stakes in [inaudible] to private equity investor CBI to help unlock new growth potentials and close the first securitization transaction at GBB. Heading in to 2019, I am very optimistic about this business potential and more so our ability to capitalize on this fast-growing market. Ladies and gentlemen, a key theme for our group in 2019 will be maximizing efficiency. Across all business lines, we are pushing for optimum working capital management as we seek to further streamline our operations and extract higher value from a growing top line. Optimize inventory level, efficient receivables collection, extended payables terms and prudent cash management are all areas that we are tightening and that will help transfer increased value down our income statement.

The key takeaway is that after having succeeded in driving revenue growth and margin recovery, we are now shifting management focus to growing our profitability and delivering shareholder value creation. Our rivals for 2019 will see us delivering over 25% revenue growth in auto and auto-related business lines with a gross profit margin over the 10%. At GB Capital, we expect a bottom



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line increasing by over 30% after minority. With that, ladies and gentlemen, I will conclude my remarks for today. We now open the call up to your questions. Operator, please.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for question. Again, press star one to ask a question. Dr Ghabbour, there appears to be no questions at this time. Please continue.

Raouf Ghabbour: Give it a couple of minutes or something. Give it a minute and maybe they will come up with some questions.

Operator: True, we could do that. Again, press star one to ask a question. We will take our first question from Hadeel Elmasry at Arqaam Capital, please go ahead, your line is open.

Hadeel Elmasry: Hi everyone, thanks for the call or holding your call. I just have a quick question; I didn't catch your target growth for GB Capital for a revenue growth for 2019. You advised 25% revenue growth in the auto and auto-related business but I didn't catch the growth target for GB Capital.

Raouf Ghabbour: Yeah, just a minute. We guided on the bottom line. The bottom line would increase by 30% after minority. Do you want the guidance on the top line?

Hadeel Elmasry: Yes, please.

Raouf Ghabbour: Obviously, we don't have the number. We will get back to you.



Hadeel Elmasry: Yes, okay, thank you.

Operator: If you find that your question has been answered, you may remove yourself from the queue by pressing star two. We will take our next question from Sarah Elawi at Capital Investments. Please go ahead, your line is open.

Sarah Elawi: Hi, can you shed more light on the regulations that will affect the auto part of the business please?

Raouf Ghabbour: There are no new regulations. Only change which happened happened at the beginning of the year with the full implementation of the European partnership agreement and the elimination of the last[?] 12% custom duties which European cars were paying, but otherwise we do not expect any further changes now.

Sarah Elawi: Okay, thank you.

Raouf Ghabbour: Thank you.

Operator: The next question comes from Ghada Alaa at CI Capital. Please go ahead. Your line is open.

Ghada Alaa: Hi everyone and thank you for the call. So, can you give us some more light on what are your expectations for the auto business in terms of passenger cars volumes for 2019? I think there are a lot of uncertainty in the market right now in the first quarter with all that's happening in terms of pricing and the domestic campaign, the [inaudible] and no one can actually right now have like an accurate [inaudible] of what is happening for demand and so on. And that's one point on the market and also on competition, so basically we are seeing more and more European brands



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rolling out models in actually categories that are at a different price level which is more or less
closer to what GB is operating, and so I would like to get your view on that.

Raouf Ghabbour: Let me start by telling you some good news. We started witnessing from late February a clear improvement in the market demands. This improvement is accelerating. We are watching it in both our showrooms, walk-in and finance arm drives the number of applications and number of cases which are being finalized. So, obviously, the campaign [inaudible] took its time and now its [inaudible] up. We expect the market to get back to full recovery by April this year. So, the other good news from my perspective is that slow demands during the last quarter which was in anticipation of the European zero customs, and during the first two months of this year, this demand is not gone. This demand is there and it tells me that periods from April to end of summer will be compensation time for that demand. So, you should expect a brilliant demand compensating for the loss of sales during the past few months. Having said that, I will let Nader who is deputy CEO answer your question about volumes.

Nader Ghabbour: Hello everyone. We still – as Dr Raouf mentioned, we are still adamant that the total market demand in 2019 will be in the range of 160-170,000 units on the back of the pent-up[?] demand coming in Q4 of last year and Q1 of this year. Having said that, passenger cars in Egypt, last year we delivered a volume of 37,000 units. We expect in 2019 to maintain the same volume of 38,000 units and this is while taking into account that we phased out one of our major CKD model which is the Verna during the end of last year and it contributed to about 7000 or 8000 units in last year's total volume. So, we are growing our – although we are maintaining the total passenger car volume this year, we are growing volumes from different models that were not existing last year. I hope this answers your question.

Ghada Alaa: Yes, thank you very much.



Raouf Ghabbour: Let me try to answer the first question about the finance business, revenue before elimination in 2018 was 5.1 billion. We expect a growth of 23.5% in top line to 6.2 billion in 2019 before elimination. Any further questions?

Operator: There is one more question in the queue. It comes from Nitin Saigal at Kora. Please go ahead. Your line is open.

Nitin Saigal: Thank you for the time. Could you just provide maybe a view on where you think ROEs can be and the GB Capital business long term and also what portfolio leverage you're comfortable with. We are seeing investor equity today just around four times. So, what level of leverage and then return on equity do you think is reasonable to assume long term?

Raouf Ghabbour: Ahmed Usama[?] is with you.

Speaker: Okay, concerning the leverage, we are operating for the factoring company and for the leasing company, the leverage as per the regulator up to nine times; and for the microfinance company, we are allowed to leverage up to ten times. However, our expectations or our reality that we are going to follow will not exceed six to seven times leveraged by any times. Currently, our leverage is below four times for the consolidated of GB Capital and we are all the time monitoring the leverage. We have already started the securitization in GB Lease and other financial business companies will follow in 2019 so that we can keep all the time our leverage to the lowest possible as per our acceptable limit. Concerning the return on average equity, our actuals for 2017 was above 40%. However, during 2018, due to some accounting treatment in the consolidated level, our return on average equity has fallen to be only 30%. However, we are expecting it to get back to the normal level above 55% to 40% starting from 2019.



Nitin Saigal: Thank you and just to clarify on the ownership. So, for the two, Mashroey and Tasaheel now GB Capital on 65% post transaction and there will be other businesses, is it a 100%?

Nader Ghabbour: Yes.

Nitin Saigal: Great, thank you very much and all the best for the year ahead.

Raouf Ghabbour: Thank you.

Operator: Once again, if you would like to ask a question, please press star one. The next question is from Yasser Al Qahtani at Jarir Investment. Please go ahead. Your line is open.

Yasser Al Qahtani: Hi, thanks for the call and congratulations for the good set of results. Just one question. Can you share some KPIs in terms of profitability for Mashroey and Tasaheel as compared to the other financial division?

Raouf Ghabbour: KPIs for Mashroey and Tasaheel profitability.

Nader Ghabbour: Usually, we report on the consolidated level of GB Capital, but however, as the general guideline for the two companies, definitely the microfinance companies are having spreads or net interest margins which is definitely higher than the other businesses. So, they are having a double digit spread for their portfolio, which is not usually the case for other leasing or factoring companies. So, definitely the profitability for the microfinance companies are relatively higher putting into consideration that it is labor-extensive and we are talking about more 350 branch and units, so number of employees are increasing 7000 employees. So, this what the indication that we can give about the two companies.



Yasser Al Qahtani: Thanks for that. Can you give some color on the growth profile of these two companies going forward?

Nader Ghabbour: Relatively you can say that it is more than 30% of the total portfolio of GB Capital. Growth in portfolio. Definitely, you will see huge increase in

Raouf Ghabbour: Profitability is about I would say 40%?

Nader Ghabbour: Yes, yes.

Raouf Ghabbour: We expect a growth of 40% in the profitability of Mashroey and Tasaheel this year.

Yasser Al Qahtani: And growth in the loan book, if you can give the numbers on that.

Raouf Ghabbour: We could get back – one moment. Over 30% growth in portfolio.

Yasser Al Qahtani: Great, thanks a lot.

Raouf Ghabbour: Thank you.

Operator: The next question comes from Ghada Alaa, CI Capital. Please go ahead. Your line is open.

Ghada Alaa: Yes, thank you, just one follow-up question from my side on the auto margins. So, basically, now you are guiding for lower margins than 2018 on the whole auto platform. So, that comes despite actually phasing out the Verna which I think was mostly loss-making, so is that



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basically because of the increasing competition from your team brands and are you cutting your prices more, should we expect some more price cuts over the coming quarter?

Raouf Ghabbour: Actually, that's basically on the account that we had to reposition our non-European original[?] vehicles in order to remain competitive after receiving certain price supports from suppliers. So, although we had slashed down prices by an average of 5% on non-European original vehicles, we are looking at the slight, even less reduction in the margin given the price support that we have seen. Having said that, I personally don't expect any further price reductions, in fact we are looking at increasing prices the moment starts coming back.

Ghada Alaa: Okay, thank you very much, and can you give us an update on the [inaudible]?

Raouf Ghabbour: Currently, we have general assembly later this month to take the approval of the assembly for the merger of RGI and GB Auto. Immediately upon finalizing this, which should happen in the last quarter of this year, we will start working on the demerger of GB Capital from GB Auto, which we expect would take another one year max.

Ghada Alaa: Thank you very much.

Raouf Ghabbour: Thank you.

Operator: There appears to be no further questions. You may continue.

Raouf Ghabbour: Thank you so much. Thank you. Ladies and gentlemen, I thank you for joining the call and hope to be able to give you even better results next quarter. Thank you.



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Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.