DEUTSCHE BANK AG

Moderator: Yasseen Mansour
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OPERATOR: This is conference #: 11182853.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to today's Palm Hills Development first quarter 2017 earnings conference 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 1 on your telephone and wait for your name to be announced.

I must advise you that this conference is being recorded today, Wednesday, the 10th of May, 2017. I would now like to hand the conference over to your first speaker today, (Mamdouh Abdelwahab). Thank you, sir. Please go ahead.

(Mamdouh Abdelwahab): Thanks, operator. Good day, everyone, and welcome to our first quarter 2017 earnings conference call. On today's call we have the Founder and Chairman, Mr. Yasseen Mansour, the co-CEO; Tarek Abdel Rahman; and the CFO, Mr. Ali Thabet, and myself, and we'll have (inaudible) IR. Today's call, we'll make a brief presentation on the results and then we'll open the floor for questions.

And now I hand over the call to our chairman.

Yasseen Mansour: Thank you. Good afternoon, ladies and gentlemen, and thank you for joining first quarter 2017 earnings conference call. In today's call, I will briefly present you the key highlights, then I will hand over the call to Tarek to walk you through the financial results, and afterwards we'll open the floor for questions.

The first quarter of 2017 marked another record quarter for the company in terms of new sales, profitability, handovers, and handovers driven by robust demand for our product offering -- the continued accelerated pace of construction, supported by our strong management team and healthy financial position. Since our strategy was unveiled more than three years ago, we have been focusing on product quality, expediting construction and profitable growth, thus creating shareholder value and putting the brand name at its strongest position. This strategy has resulted in a significant improvement in operations and financial results witnessed during the first quarter of 2017.

The first quarter marked the highest quarterly new sales in the company history in terms of value and volume, the net new sales recording 3.1 billion Egyptian pounds, with an approximately 38 percent GP. This record take was a result of an increase in number of units. We sold 792 units during the first quarter. We handed over 418 homes, spent 676 million on construction, and generated over 1 billion pounds of cash flow from operations.

Our financial results for the first quarter of 2017 reflected our operational excellence with record revenue of 1.6 billion and EBITDA of 324 million, a growth of 48 percent and 70 percent, respectively. Net profit after minority interest doubled to reach 212 million Egyptian pounds. Our balance sheet maintained a strong position with receivables of 12.6 billion Egyptian pounds, covering our net debt more than four times.

One of the key performance matrices we are eying for this year is the return on equity. We are expecting improvements to happen over the year. Post the flotation of Egyptian pounds and resulting inflation, we still expect sales growth in -- for year 2017, driven by our new launches in Palm Hills New Cairo, Capital Gardens, (The Crown) and Hacienda White, in addition to new sales from our old projects, which cater to clients who want to move in within anywhere between one to two years. Accordingly, the company has increased its 2017 full year new sales target from the previously announced 8.5 billion to 9.5 billion Egyptian pounds, as we are not seeing any slowdown for demand for Palm Hills products.

The company remains committed to deleverage the balance sheet. Previous loans and credit facilities through its 2.5 billion securitization of receivables program over the new two to three years. During the first quarter of 2017, we concluded the first securitization transaction, which netted proceeds of 404 million pounds, which was utilized in paying down existing debt. The securitization program is completely non-recourse to the company and was concluded at the lower interest than existing debt, which will -- which will be fixed over the program's (inaudible). We are currently preparing for the second securitization transaction, which is expected to address receivables of roughly up to 500 million Egyptian pounds, with closure expecting to be within the second quarter of 2017.

We have completed all construction works in Village Gate project during the first quarter of this year, and expect to conclude a number of new projects during the year, as we previously have indicated, including Palm Hills Katameya, Palm Hills Katameya extension, Casa, and Hacienda White, too. We continue to replenish our land bank as all the project comes to completion between 2017 and '18, with the latest addition in Alexandria, the 135 (inaudible) co-development, positioning the company as the first major developer to enter the country's second-largest city. The company, again, is still in negotiations with Egyptian Ministry of Housing for the co-development of the 6,000 Feddan in West Cairo, and we hope to reach a definite agreement soon.

With that, I hand over the call to Tarek to walk you through the results.

Tarek Rahman: Good afternoon, everyone. Again, our first-quarter results have beat the market expectations. We have seen net new sales as a record for the company – 3.1 billion. Not only is this a testament to the strong real estate market in Egypt and specifically in Cairo, but our estimate is that we have been gaining market share. We don't have any accurate data, but since our net new sales have grown by 58 percent and we don't estimate the market to have grown by the same rate, I think Palm Hills not only is making use of a great real estate market, but in that market, we are gaining market share.

Like the chairman has said, we have seen that growth not only in terms of volume, where we sold 792 units compared to 519, but we have reacted to the devaluation and have increased our prices significantly in Q1 2016 compared to Q1 2017. To give you a flavor, apartments grew by 107 percent, the prices, and -- Sorry, standalone units, built up area (inaudible) prices by 107 percent, whereas prices for apartments increased by 60 percent and land for standalone units grew by 34 percent.

Looking at the product mix, 67 percent of all units sold were under 7 million Egyptian pounds, and this has been a strategy of ours whereby we've been reducing the size of our units to cater for a larger amount of the Egyptian consumer, considering inflation and erosion in people's real incomes. We have noticed -- we have witnessed a significant increase in new sales in East Cairo, 210 percent, with the launch of Palm Hills New Cairo. Since the product launch in November 2016, we recorded 2.9 billion in sales, EGP 2.9 billion, and 731 units in that project, only.

We've also launched, in East Cairo, the 2nd in April, the second stage of Capital Gardens, which is where sales are going very well. In west -- in the North Coast, as well, which was -- we've witnessed an increase in the value and the volume of our sales, while in West Cairo, sales have declined slightly because we're facing decreasing inventory, which was the same situation we were facing in, if you remember, in 2015, with New Cairo, where we didn't have any new projects and the older projects were coming to completion. However, today marks the launch of our latest project in West Cairo, which is The Crown, and we expect very good sales results, which will also buoy the sales for Q2.

Our construction activities are progressing ahead of schedule. We recorded an earned value of construction of 676 million, a 16-percent increase year-on-year. With regards to the commercial real estate portfolio, the segment contributed 14 percent to net profits. We are on target to achieve the 25 percent in net profits from recurring income. The number of membership in the club is near -- has surpassed the 2,500 mark, and I would like to remind everybody that this is a club that's built to house 12,000 members, so we still have a lot of growth in that regard.

We, in April 2017, which was after the -- I mean, let's come to the launch of the commercial real estate in April after we go through our financial results, first. Our revenue for the quarter grew by 48 percent to mark 1.6 billion.

Obviously this was due to the faster pace of construction, the handing over and the new sales, which recorded 3.2 billion. The growth in total -- the gross profit in absolute terms increased to 488 million, a growth of nearly 60 percent year-on-year. The gross profit margin stood at 31 percent, which is -- which is -- which is an improvement over fourth quarter 2016, which recorded 29 percent.

Our EBITDA grew remarkably by 70 percent to record 325 million. If you compare the margin in this quarter compared to last quarter, the margin grew from 16 percent in fourth quarter 2016 to 20 percent in Q1 2017, again a significant growth. We had promised that we are going to close this year around the 24 percent mark, EBITDA margin, and we are target -- we are on target to achieve these figures. Growth in net profits -- actually, net profits for the quarter doubled to 212 million with a net profit margin of 13 percent, also increasing 3-1/2 percent year on year, increasing nearly 2 percent over fourth quarter 2016.

We would like to draw your attention, that because of the securitization, we have to take the entire interest -- the entire value of the interest for the whole securitization -- in this quarter, and which we can not amortize it over the life of the securitization. Had we not done that, our net profit would have probably landed around the 320 million mark from 212 million, which would have been a three-time increase over the same number for 2016. We also promised to deliver and to take our net debt to EBITDA down. It’s reduced to 2.4 times from 2.6 times, and we are on target to reduce it around the 2 to 2.2 mark towards the end if not even lower.

Our receivables, now, have reached 12.6 billion, covering our net debt more than four times. In April, after the results, we opened sales in Office 8, which is an office building we’re building in West Cairo. We have nearly sold it all out, and we opened sales in Palm Valley Mall. We are experiencing extremely strong demand in both, and we have -- just to give you a flavor of, we sold Palm -- the Office 8 Mall for an average of 38,000 pounds a meter, which is the highest price per meter squared of any office building in Egypt, and we sold it out, I think, in probably a week, maybe less than a week.

(Crosstalk)

Tarek Rahman: Maybe less than a week. And it was mainly sold to residents of Palm Hills. Very soon we will release -- we will release -- we will release the figures for the sale of Palm Valley Mall and Office 8 Mall, as well as VGK Mall, which was sold last year, to show our shareholders and potential investors that we are unlocking significant value in our commercial real estate, not only through recurring income, when it makes sense, where the land is large enough, but also through sales when the land is not large enough or it's adjacent to one of our strategic pieces of land where we will generate recurring income.

With that, I would like to invite any questions that you may have.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star and 1 from the telephone and wait for your name to be announced. If you wish to cancel your request, you can press the # key. Once again, star and 1 to ask a question.

Ladies and gentlemen, once again, if you wish to ask a question, please press star and 1 from the telephone and wait for your name to be announced. If you wish to cancel your request, you can press the # key.

Our first question comes from the line of (Melick Boudieve). Your line is open.

(Melick Boudieve): Yes, hi. Thank you very much for your time, and congratulations for these results. I just had a question on the -- on the securitization program. I was a bit surprised by the 91 million of costs that are supposed to cover the unamortized discount. If I look -- when I look at the 2016 -- I might be confused about that, because when I look at 2016, the balance sheet, there was around 137 million of unamortized discount, but that was for 7 billion of notes receivables, so how come you have 91 million for maybe something around 500 million of notes receivable?

(Mamdouh Abdelwahab): Can you point us to where that is, (Melick), in the financials, please?

(Melick Boudieve): You mean on the 2016 numbers, or on page 21 of the …

(Mamdouh Abdelwahab): OK.

(Melick Boudieve): … financials, you know, the full ones for 2016? Or maybe, you know, we can formulate it another way, if you can just, you know, like for example, in gross, how much was -- how much of the notes did you securitize? Let's assume, like, what do I expect -- if I had 500 million of notes that I securitize, you know, if you can go a bit through the accounting treatment.

(Mamdouh Abdelwahab): Yes.

(Melick Boudieve): What can I expect in …

(Mamdouh Abdelwahab): So, the way it works is with 500 million, they run the receivable collection profile on the cost of debt. So, it was 1 and – 1-1/2. So, it was 1 percent over treasury. We amortized at that (WAC), 1 percent over treasury, on the lifetime of the securitized receivables. Having said that, because it's the first issue, we need from the proceeds – we need to overcollateralize by anywhere between 5 to 7 percent, depending on the tenor of the -- of the receivables.

(Melick Boudieve): OK.

(Mamdouh Abdelwahab): So what happens is, also from the accounting point of view, when you get that discount, you have to recognize that entire discount between the face value of the receivables and the present value of the receivables as interest expense, because you take it -- you take a one-time hit for the interest expense. You're not allowed to treat it as annual interest, because you've effectively sold off the receivables at -- none recourse to the company.

(Melick Boudieve): OK. OK, I see. And maybe a second question. In your revenue, how much of that -- you know, if you can just give an indication of the proportion of that revenue coming from your New Cairo project, you know, the new one, because, you know, or the sales that you had in the -- on the current quarter.

(Mamdouh Abdelwahab): In new sales?

(Melick Boudieve): Yes.

(Mamdouh Abdelwahab): In the new sales, we had -- this quarter we had 65 percent coming from East Cairo.

(Melick Boudieve): OK. OK. Thank you very much.

(Mamdouh Abdelwahab): Remember, this is a huge project -- 500, but then, with expected sales …

Yasseen Mansour: No, but I -- but I think the question -- the question was you want to know on the recognition on our P&L, how much of the -- of the -- of the gross profit or how much of the revenue is coming from New Cairo …

(Melick Boudieve): Yes, that's exactly -- yes.

Yasseen Mansour: As the revenue, what would you say, (Inaudible)? 10 to 15 percent? Can't tell you?

(Off-Mic)

Yasseen Mansour: It should be around 20 percent, but we'll get you the exact figure.

(Melick Boudieve): OK. Perfect.

(Off-Mic)

(Melick Boudieve): Thank you very much.

Operator: Thank you. Once again, if you wish to ask a question, please press star and 1 from the telephone. Our next question comes from the line of (Numad Chakri). Your line is open.

(Numad Chakri), your line is now open. Please go ahead.

Yasseen Mansour: (Numad), do you have a question?

(Numad Chakri): I'm sorry. I'm sorry. Hello, everyone. I have a question, please, on the interest expense for the quarter. It's included 19 million of lease -- of capital lease expense. I will please know the nature of this expense and (inaudible) going forward (inaudible) of your assets. Thank you.

Yasseen Mansour: No, ask again, because you cut out, here, (Numad). You want to know -- what's the question. We understood that it's a lease, but what do you want to know about the lease?

(Numad Chakri): The lease expense that was included as part of your interest expense (inaudible). Should we expect this, going forward, to continue to (inaudible) expenses, and any clarification on the nature of the rationale behind the action?

Yasseen Mansour: Yes. It is part of our financing structure, the same as debt. Net debt, entirely, including the lease, is 3 billion pounds, and I think the tenor of the lease is …

(Off-Mic)

Yasseen Mansour: OK.

Tarek Rahman: Seven to eight years.

Yasseen Mansour: Seven to eight years, so we should expect it going forward. It was actually there, also, last year, so we expect to, going forward. It was, at a point in time, it was cheaper than buying debt for certain assets that we had -- that we had. (Inaudible) we didn't want to saddle the projects with more debt, but, yes, you should expect it to -- seven to eight years, starting from last year.

(Numad Chakri): (Inaudible). You will get (inaudible) at the end of the lease period, you will be getting the (inaudible)?

Yasseen Mansour: The assets back, yes.

(Numad Chakri): Yes.

Yasseen Mansour: Right.

(Numad Chakri): OK. Thank you.

Yasseen Mansour: It also gives us a significant tax benefit of not only the interest tax deductible, but the principal, as well.

(Numad Chakri): OK. And the value of the liquidity of the value that you got in return of this is close to 1 billion right?

Yasseen Mansour: No, no. It's around 700 million pounds. (At least) 700 million pounds, am I right?

(Numad Chakri): 700 million pounds?

Yasseen Mansour: No, sorry. It's close to 1 billion. Yes, you're right.

(Numad Chakri): Close to a billion. OK.

Yasseen Mansour: (Inaudible). But it's included in the net debt figure.

(Numad Chakri): Yes, yes. OK. Great. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star and 1 from the telephone and wait for your name to be announced. If you wish to cancel your request, you can press the # key. Once again, star and 1 to ask a question.

There are no further questions at this time. Please continue.

(Mamdouh Abdelwahab): If we have no further questions, we can -- we can end the call, unless somebody has any comment or questions. If you can wait for it for a minute or so, and then ...

Operator: Yes, sir. For those who would like to make a comment or ask a question, you can press star and 1 from the telephone.

Oh, we have a question coming from the line of (Numad Chakri), again. Please …

(Mamdouh Abdelwahab): OK.

Operator: Please ask your question.

(Numad Chakri): Yes. Another question, please on the updated guidance for 2017. Are there any changes to the 2,000 unit deliveries and 2.3 billion construction costs, and any other guidance you can provide?

Yasseen Mansour: For guidance, as we said, I mean, we've increased our sales from 8.5 to 9.5. Again, we'll probably exceed that, and we might revisit the target again during the -- during the second or third quarter. As far as GP, we had mentioned earlier that on our financial, our post-profit will be improving, because, as I said, I've given an indication on the sales of 3.1 billion that we have done first quarter 2017. Our GP on that is 38 percent.

Have in mind that this sale of 3.1 billion included some launches of apartments in New Cairo. Having said that, usually your first launches are your lowest GP, so again, we can expect GP going higher than the 38 percent that we have. It's not recognized yet, but according to the sales, with the pricing that we already sold first quarter, our GP hovers around the 38 percent. We expect this, our new sales, increasing again by probably another two to three percentage points.

As far as construction, we're probably looking at roughly 2.8 billion Egyptian pounds -- 2.7, 2.8 -- construction for this year-- for our delivery, 1,600 units.

(Numad Chakri): Thank you.

Operator: Thank you. Once again, if you wish to ask a question or make a comment, please press star and 1 from the telephone. And our next question comes from the line of (Melick Boudieve). Your line is open.

(Melick), your line is now open. Please go ahead.

(Melick Boudieve): Sorry. Sorry. I was on mute. I just want to come back to your question on the gross profit margin of 38 percent. Are your construction costs hedged in some way? What if we have, like, an increase in construction costs in the coming years? Then your profit margin might decrease, no?

Yasseen Mansour: Yes, yes. That's -- it might decrease, but then we have contracts with our contractors. These are based on contracts signed. The only variance would be, again, steel and cement, and as we mentioned before, every 1,000 pounds on increase in prices in steel is 50 pounds in our costs. Every 100 pounds for cement, 50 -- I'm sorry, 20 pounds.

(Melick Boudieve): OK. OK. So, at the moment, if we look at your gross profit margin, it's still a bit kind of pulled down by the old deliveries.

Yasseen Mansour: No, no, no. No. No.

(Melick Boudieve): New delivery, old project?

Yasseen Mansour: No, no, no, no. The 38 percent that I said …

(Melick Boudieve): Yes.

Yasseen Mansour: … is just an indication. This is on the new sales.

(Melick Boudieve): OK.

(Crosstalk)

Yasseen Mansour: ... and now, but why is it 38? It's 38 because it's based on launches of apartments in the project Palm Hills New Cairo, and that's the first launch. We did the first launch for 250 -- sorry, 280 apartments that we sold. We increased the price by five percent for another 220 that we sold, also, and then we increased the price by another five percent for the third tranche that we are still selling as we speak.

(Melick Boudieve): OK. And can you, maybe, give a time indication when these -- the margins might reach these levels, you know, in what sort of quarter? Now we're at 31 percent. It's improving, so I assume we're going to continue to improve on the gross profit margin, and when do you think we reach a consistently high number?

Yasseen Mansour: Third to fourth quarter.

(Melick Boudieve): Third to fourth quarter, already?

Yasseen Mansour: Yes.

(Melick Boudieve): This year?

Yasseen Mansour: You will see improvements. You will see improvement quarter-over-quarter.

(Melick Boudieve): Quarter-over-quarter. OK.

Tarek Rahman: Our target, like we've reiterated many times before, is to reach an EBITDA margin of at least 30 percent.

(Melick Boudieve): OK.

Tarek Rahman: I think I can solidly say that we will raise that in 2018; however, improvements will be seen quarter-over-quarter with the end-of-year EBITDA margin that we have communicated. We aim for 24 percent, 25 percent, with 2018 improving to 30 percent.

(Melick Boudieve): OK. Perfect. Thank you very much.

Yasseen Mansour: Thank you.

Operator: Thank you. Once again, star and 1 to ask a question or make a comment.

(Mamdouh Abdelwahab): So, I think, with that, we conclude the call for today. In case you have any follow-up questions, please reach out to our investor relations team. Thank you for dialing in, and see you soon. Bye-bye. Thank you.

Operator: Thank you, sir. That does conclude our conference for today. Thank you all for participating. You may all disconnect.

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