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Operator: Good afternoon everybody. This is the Eyad Faraj of Goldman Sachs International, and I would like to welcome you to the Fourth Quarter 2016 Earnings Conference Call for Palm Hills. So with us on the call today I'd like to introduce Chairman, Yaseen Mansour, who's also joined by co-CEO, Tarek Abdel Rachman, CFO, Ali Thabet, and IR and Investment Director, Mamdouh Abdelwahab. So, the structure of today's call, we'll begin with the management discussion, followed by a Q&A session. And just as a reminder, this conference is being recorded. With that, I'd like to hand over the call to the chairman Mr Mansour. You have the line, sir.

Yaseen Mansour: Thank you Eyad very much, thank you for hosting the call. Good afternoon ladies and gentlemen, and thank you for joining our Fourth Quarter and Full Year 2016 Earnings Conference Call. In today's call I will briefly just present you the key highlights. Then I will hand over the call to Tarek, to walk you through the financial results, and afterwards we will open the floor for any questions that you might have.

2016 marks another record year for the company in terms of new sales, profitability, and handover, driven by robust demand for our projects, accelerated phase of construction, supported by our strong management team, and stable financial position. Our strategy to accelerate construction and gear up our balance sheet was not appreciated by the market. This strategy has paid off. We delivered in 2016 the equivalent of 555 000 square meters of built–up[?] area, which is the highest amongst our peers. Over the last three years, we've spent more than EGP5 billion on construction, which today is allowing us to largely avoid the impact of inflation caused by the devaluation of local currency after the floatation of the Egyptian pound. With the acceleration in construction programme, we were able to speed up handovers, and hence improve customer satisfaction, which further cement the company position as the highest quality developer in Egypt.

In 2017 we remain committed to this strategy in the present inflationary environment, and expect to spent EGP2.3 billion on construction, and hand over more than 1,500 units. We expect to conclude a number of projects during this year, as we previously promised, including Palm Hills Katameya, Palm Hill Katameya Extension, Village Gate, CASA and Hacienda White [inaudible].

Full–year 2016 was a record year for the company with new sales of EGP8.24 billion, with a growth of roughly 30% year over year, construction amounting to EGP2 billion, and delivered units recording 2,049 units, or 555 000 square meters of built–up area. Our financial results reflected our operation excellence with record revenue of EGP5.6 billion and an inhibitor of a EGP1 billion. Despite us adopting the new accounting policies since the beginning of 2016, which works to defer profits, especially on land components, and stand-alone units, our balance sheet maintained a strong position with receivables of EGP11.3 billion, covering our net debt four times. We will continue to capitalise on that strength to grow our land bank portfolio, and launch new projects, as the ones currently under development reach completion during 2017 and 2018.

In terms of new launches planned for this year, we expect to launch the first phase of apartments in Palm Hills New Cairo, the second phase of apartments in Capital Gardens, Hacienda West, and the 190 [inaudible] that we just acquired. We are also working diligently to deleverage our balance sheet through a securitisation of receivable programmes[?] of EGP2.5 billion over the next two-three years. The first tranche was signed during the fourth quarter of 2016, and the transaction concluded in January 2017 with net proceeds of EGP404 million, related to receivable due on EGP465 million handed[?] [inaudible]. The securitisation programme is completely [inaudible] to the company, and was concluded at a lower interest than the existing debt, which will be fixed over the programme [inaudible].

Again 2016 was an exciting year for the company where we continued to replenish our land back. With the acquisition 190 [inaudible] in West Cairo, strategically located adjacent to Palm Hills Golf Views, and Golf Extension, and considered a natural extension to our flagship project, Palm Hills. We are in discussion to acquire several row[?] portions of land, including land in Alexandria and the 6,000 [inaudible] in West Cairo. Despite the challenging market condition [inaudible] the floatation of Egyptian pounds and resulting inflation, we will expect sales growth in full year 2017, fuelled by the launch of Palm Hills New Cairo in November 2016, where we sold 157 stand-alone units worth more than a £1 billion in one week.

Looking into 2017 new sales, we are targeting to achieve new sales of north of EGP8.5 million. We continue to closely monitor our construction costs, and have partially hedged any increase by securing through our contracted bulk deals for steel, cable, and aluminium. [Inaudible] increasing our sales prices, which recorded a year–on–year growth of 28% for land, 56%, and 43% for built-up area or stand-alone units, and apartments respectively. Looking into our commercial property portfolio, the segment contributed 11% of net profit in line with our strategy to achieve 25% in net profits from recurring income by the year 2020. The number of membership in our Palm Club crossed the 2,300 members, marked by the end of 2016. The company finalised all construction works of phase eight office building during the year. Construction of Palm Valley commercial mall commenced during the third quarter of 2016. We plan to finalise the mall's construction by 2018.

With that, I would like to hand over the call to Mr Tarek Abdel.

Tarek Abdel: Good afternoon, ladies and gentlemen, and, like Mr Mansour said, thank you, for joining the call. Let's drill down on the numbers a little bit. On the operational front[?], we were able to achieve sales of EGP8.2 billion growth of nearly 20% over 2015. Growth of new sales was driven by year–on–year increase in average selling prices and new launches. It is important to note that

58% of the units sold were in the range between EGP1.5–7 million. We had a very, very strong fourth quarter where new sales marked 60% increase, year on year, recording EGP2.7 billion, driven by the launch of Palm Hills New Cairo in November 2016, where we recorded EGP1.1 billion in sales from that project alone, in addition to our other projects, such as [inaudible] Extension [inaudible], Katameya Extension and Capital Gardens. In West Cairo we had the strongest growth with new sales recording 42% year on year, record EGP3.4 billion during 2016, of which EGP1.3 billion was generated from Palm[?] Extension, nearly a EGP1 billion was generated from Palm Valley, which we launched in the beginning of 2016, and nearly EGP 600 million by Golf Views. In East Cairo, new sales recorded a growth of 63%, year on year, to record EGP2.9 billion, due[?] mainly by the launch of Palm Hills New Cairo, and Capital Gardens, in addition to Palm Hills Katameya Extension, which is the extension to Palm Hills Katameya Extension, which is the new land we acquired in 2016.

In the North Golf[?] Coast, sales were largely flat[?] at EGP1.9 billion and [inaudible] EGP333 million during 2016 and the fourth quarter. There, the company's strategy was not to launch the new land required, which was the [inaudible], to focus on the existing inventory in Hacienda Bay and Hacienda White. We took the conscious decision to postpone Hacienda White to 2017 to deplete as much as possible the inventory in the existing projects.

Looking in the handovers[?], deliveries were at the record of 2,049 units, compared to 1,573 in 2015, a growth of 30%. During the fourth quarter alone, we handed over nearly 600 units in 2016. Our construction activities are progressing on schedule, where we recorded an earned value of EGP2 billion, an increase in 2016, an increase of 7% year on year. Like we said, when we started focusing on construction in the beginning of 2014, we had to finish the existing 12 projects. We have total construction spent of EGP8 billion, of which we've already spent EGP5 billion, which was on the old dollar and the old inflation. So we've largely spent most of the construction, and shielded ourselves from the effect of inflation and the floatation of the Egyptian pound.

Looking at the sales prices, we increased the average selling price of land by an average of 28% year on year, 56% of built–up of stand-alone units, and 43% of built–up[?] of apartments. As seen from that, we have been focused on increasing the price of the built–up faster than the increasing the price of the land because of the agreed[?] in the construction cost, which we foresaw from the beginning of the year because everybody knew that the decision to [inaudible] the pound was coming sooner, or later. So, we were very diligent in increasing the price of the built–up area to counter any increase that will be coming, or that has come already. in the price of construction.

Looking into our income statement, we had another record year in – when it came to our financial results. Our revenues grew by 55%, recording EGP5.6 billion in new[?] records of the company. Gross profits grew by 46%, EBITDA grew by 55% to record EGP1.7 billion for gross profit and EGP1 billion for EBITDA accordingly. Like we had said in previous calls, the company started to pay in taxes in 2016. And we had a large minority interest due to the launch of pound value, where a net profit came at EGP640 million, which was an increase over 2016 despite the change in the accounting which works to postpone our profitability.

MG&A to revenue decreased by 12%, compared to 14%[?] in 2016. Revenues for the quarter grew by a whopping 90% to EGP2 billion, boosted by strong deliveries over all our operating regions, in addition to the launch of Palm Hills New Cairo. Gross profit for the quarter increased by 140% to EGP573 million, EBITDA came by EGP315 million net profit after tax, and [inaudible] increased at 40% year on year to report EGP235 million. Our balance sheet remains extremely strong. Net debt to EBITDA recorded at 2.6 times and our receivable recover[?] our net debt more than 4 times.

We started the securitisation programme that the Chairman explained, where we launched the first tranche, and we expect the launch for the second tranche before the end of this quarter to work to deliver our balance sheet.

With that, you can open any question that you gentlemen, and ladies and gentlemen, may have.

Operator: The Q&A session for this call now has begun. Please press one, one on your telephone keypad to ask questions. Right now we have one question from Anthony[?]. Anthony, please go ahead.

Anthony: Yes. Hi, good afternoon, gentlemen. I have a couple of question here, if I may. First of all, on the CAPEX, you expect that to be EGP2 billion this year, which is in line with last year. I just wanted to understand how much is the inflation part, the inflation cost [inaudible] out of this EGP2 billion.

Yaseen Mansour: Okay. To answer your question, it's EGP2.3 billion, not EGP2 billion. That's our target for 2017. This, of course, includes the inflation. We have seen inflation creeping up on us for about 30% on the built–up area. We are trying to mitigate that, as we said, through purchasing in bulk cables, steel, and other materials. We do that on a project-by-project basis, i.e. each project has its unique phase of development where it is in the title of the development. We see what is the item that has the highest inflation impact on us, and we purchase it in bulk. So we have been able to do that. Have in mind also that for our old[?] projects, we have EGP3 billion remaining in our old projects, of which we have contracts with contractors for EGP2.8 million. So our risk is mainly on EGP200 million. As far as the EGP2.8 billion, the contracts we have with the contractors, it's only affected by the steel and cement prices. These are the only two effects that it has. But just to put things just into perspective, every EGP1,000 increase in steel, it increases our cost per square meter by EGP50. So it's not that much of risk.

Anthony: Okay. So just going back to my question, so EGP2.3 billion of CAPEX. So the inflation part should be what? 15% out of the –?

Yaseen Mansour: Yeah. It should be around 15%.

Anthony: Okay. On the guidance actually, which kind of EBITDA margin should we expect for next year, especially after you mentioned that you purchased in bulk, and you increased the prices etc.?

Yaseen Mansour: Our internal target, our [inaudible] rate is 30% EBITDA. The problem we had this year, you will find maybe our EBITDA is less than that. But have in mind, as probably everybody on the call knows, we have had a delay in construction due to what happened in Egypt in 2011, 2012, and 2013. So that's why, when you look at our EBITDA margin today, it's less than the 30% because a lot of these projects we were delivering units that were sold in 2008 and 2009, at today's prices – at today's cost.

Going forward our EBITDA should not be less than 30% of any new launch. And for the old phases actually, it should be much higher than 30% because the land is already purchased. But I would be comfortable in saying a minimum of 30%.

Anthony: So you're expecting actually your margin to [inaudible] quite substantially next year. I'm just trying to better understand. You [inaudible] –

Yaseen Mansour: Maybe, not 30% in 2017, but that's our outlook, i.e. for the old projects because we have units that were sold pre–2009 and 2008. So these were sold at much lower prices than what we selling today. And we delivering these units now, so this is why our EBITDA margin has been contracted tremendously below the 30% that I was just saying. Will it be in 30% in 2017? It will be in the twenties. Let's say from 22–28%.

Anthony: Yeah. Okay. So it makes more sense actually. I would just like to ask you the following question. The 2017 deliveries will be sales that has been pre-sold units three years back, something like this?

Yaseen Mansour: Exactly –

Anthony: So [inaudible] and higher cost, so why should we – [inaudible] margins?

Yaseen Mansour: Sorry?

Anthony: The deliveries of 2017 will been the reflection of units sold three years back, with costs, actually, which have recently increased now. So the margins should not go jump from 18% to 30%.

Yaseen Mansour: No, no, no, that's why I'm saying it will be around the 20-28%. But then it will stabilise at more than 30% on the old projects because have in mind most of the projects that we have today, we have been more than 75% of these multi-plan projects, okay? And, so the cost is in that 75%, and we still have inventory unsold on the old projects of more than EGP8 billion.

Tarek Abdel: And remember that, if I may, that the bulk of – so if we have a programme of EGP8 billion of which we have already done EGP5 billion. So nearly 65% of all the cost have already been incurred. And we have been increasing the prices by average of 35% year on year. So we expect that in two years, two to three years, EBITDA margins to be 30%. However, next year, we will still be handing over maybe older units, so we expect it to be within the 22–28% range, up from 18%, which is a very significant improvement in margin.

Yaseen Mansour: But to look at the cycle of the project, you should be looking at 30%. But for the sake of financials of next year, probably 22–28%.

Anthony: Yeah. Okay. I've got it. So the cost – if I just summarise, the cost of [inaudible] is 30% and you increased the prices actually quite substantially, just what you put in your press release. So how much has been the increase on average, I would say, in 2016 at the VUA[?] level, and how much do we expect in 2017?

Yaseen Mansour: For the built–up area, we have increased 56% and 43%, 56% on stand-alone units, and 43% on apartments – that's for the VUA. For 2017, we expect to increase by at least another 30–40%.

Anthony: Okay.

Yaseen Mansour: We have already started to increase. We have already done an increase in January actually.

Anthony: Okay. My follow-up question is just on the affordability actually. We have seen quite a lot of pressure on the disposable income for Egyptians actually. So can you just help us to understand how you can pass, actually, this 30–40% increase actually? And how this does not affect, actually, the pre–sale [inaudible]? The units sold have been in lower in 2016. So this is perhaps a question of lower [inaudible] in the country. But how do you see actually, the home buyers, the future home buyers, be able to buy, actually, after 60% increase in the VUA of over two years, let's put it in this way. How is it possible? Is that you provide delayed, extended payment plans? How does it work exactly?

Yaseen Mansour: Yes. What we've done is we've increased the payment plan from five to six years. We've to increase it to seven and eight, depending on the project itself. Now you have to look at this into two different things. I mean, at the end, what we are talking about is the sale of roughly 1,800, 1,900 units. You know, Egypt has a demand of close to 100, 000 units, for our product. So we're looking at only 2.8%, 3% of that – of the target.

Yes, we understand that the disposable income has been affected. But have in mind, although the disposable income has been affected mainly for the middle class, for the upper-middle, and upper class a lot of – actually, the impact has been in our favour for some people, i.e. a lot of the higher end of the market, they look at the wealth kind of a dollar based. So if they have any dollar savings, then houses have become extremely cheap for them to buy in Egypt.

Having said that, also when you look at out of our sales of EGP8.2 billion of last year, we sold roughly EGP900 million to mainly Egyptians not living outside of Egypt, which is roughly 12–13% of our total sales. Having said that, the year before this was maybe 2%. This is a market that we are targeting. We have targeted[?] with our sales team, and our marketing team will be going to the Golf actually, tomorrow. And we think this is a market that will grow tremendously. Have in mind that this EGP900 million mainly came in the second half of the year. So we think this will grow tremendously this year.

We feel that due to the fact we have changed, as you are aware, a lot of the new land that we getting is through a revenue share, and rather than buying the plots of land. This gives us flexibility on sales[?] [inaudible], and also gives us the flexibility to be able to go to smaller units and be able to complete better. We think that we feel pretty confident that the sales for us next year will be higher. We think that's what's happening in the markets, the market is extremely fragmented. We feel what's happening today will force a lot of the smaller players out of the market. And people, if you look at the pie[?] how people decide on buying units in Egypt, the brand is about 30% of that. But due to the conditions of Egypt today, and people are more afraid[?] about money much dearer[?] because it will be more scarce. This 30% in our estimate[?] goes up to 80%.

And I believe, in hindsight – I mean, what has happened to us in 2011, and 2012, and 2013, [inaudible], is actually affecting us extremely positive now, that we were able to sustain all this pressure, and continue delivering and – I mean, delivering 555,000 square meters in 2016. All of Egypt, including the government for middle housing, and low–income housing, and, and, and, produces 900 million square meters. So, just to let you know the magnitude of that.

Tarek Abdel: And mind you, we have increased our prices by maybe 15% in the beginning of January, and we have seen the strongest January yet, in terms of sale – the strongest January ever. So I think there will continue to be demand for our products, whether we increase our prices or not. And prices have been increasing by 35% year on year, and we've been increasing our sales value [inaudible].

Anthony: Okay. Just for – my last question just on the cost. How much is the inflation – for the cost for this year expected, actually, or projected when you saying that 15% increase in selling prices –

Tarek Abdel: No, 25% increase [inaudible] –

Anthony: [Inaudible]. How much?

Yaseen Mansour: No, we've increased our prices in January by 15%.

Anthony: Yes. How much was then cost increase, or how much is your cost increase, the expected cost increase?

Yaseen Mansour: For this year?

Anthony: Yes.

Yaseen Mansour: We don't expect the devaluation will affect our cost. Where we think the cost will be affected when, you know – as you know with IMF, the government has signed[?] on reducing the subsidy on old products. A third of that was done last year, so we have factored in – we are factoring in the 100%, the 100% of subsidy relief[?]. So we're affecting this in our price today.

Tarek Abdel: It's very important to note that on our old projects, where EGP3.2 billion remain, we've already contracted pre-devaluation nearly EGP2.8 billion of them. So the contractors – our contracts are on the old rates, with the only flexibility being in the price of cement and steel. And since these projects are coming to completion, every EGP1,000 increase in steel8 increases our built–up prices by EGP50. If you look at the new projects, the new projects is the new policy where we have fewer sales, or very minimum sales. Contractors are contracting with the new prices, but we able to reflect that in the selling price, and we're selling very well.

Anthony: Understood, understood. My very last question, if I may, gentleman, is just on the income [inaudible], actually. If you look at the [inaudible], roughly EGP342 million, which is roughly 12% of the [inaudible] actually. And this compares to roughly 9% last year actually. So how can you explain actually the increase of the [inaudible] rate?

Yaseen Mansour: Yes. I mean, the calculation were – a lot of them were largely driven by us for two reason. I mean, 9%, 8–9% is the normal rate of calculation[?] [inaudible], but two things. Number one, we've implemented a new system, whereby from the date of reservation to the date of the contract, people need to sign the contract in 45 days. If this does not happen, and the prices move, we cancel the contract, and they need to re-contract – we cancel the reservation. They need to contract with the new prices. Plus we've been very vigilant in people not paying their dues[?] within 60 days. We used to allow the contract to a court case, but now our contract gives us right to allow them automatically without going to court. And if the client has a problem, he goes to the court. Plus in a price–increasing environment, this is actually to our favour because with a 55% year–on–year increase, cancellations, we're able to re-sell them in the market, and make a very decent return.

And if you have seen, we had the highest number of cancellations in quarter two, if I'm not mistaken, in 2016. And it was basically for Capital Gardens because we had a significant portion in Capital Gardens of investors. And there was a competitor who opened another project at a much lower price. So, a lot of these investors cancelled their contracts and went to the competitor's projects. We were able to re-sell these units at higher prices, and we're just reviewing some of the detailed[?] numbers. The cancellation fees that we collect from the client alone have made that about EGP30 million in year 2016. So it's a net profit[?] to the company.

Anthony: Okay. So just on the cancellations, what's the – sorry, I'm asking you a silly question – what's the difference between what you have seen in 2011 with huge spike in cancellations, when actually the property[?] prices were still in quite, I would say, robust at that time? Yes, we've had lower confidence, etc., and you had some issues to deliver, etc. What is the [inaudible] – what makes you so, I would say, bullish today on this level of cancellation rate? And, actually, that can it increase? This is what we have seen [inaudible].

Yaseen Mansour: Okay. In 2011, mind you, Egypt has gone through – I'll talk about the real estate market in general. Egypt has gone through two major crisis. One was in 2008, last quarter of 2008, and 2011. What we've seen in these two cases was a high cancellation, [inaudible]. 2008, of course, was the financial crisis, and we've seen cancellations that lasted for the first two quarters of 2009. In 2011, the same thing happened. Also it paid maybe three quarters rather than two quarters, but about the same.

Now, where we are today is completely different. First of all, where we are today, from a cash low standpoint, is completely different than where we were in 2011. As Tarek was saying, January this year was a record, it was the highest January in our history. We are strictly[?] bullish on the market. We are becoming – in an environment where we've been increasing prices on a monthly basis, almost. We've increased prices in November, December, January. It is to your benefit. And also – I mean, since the beginning of the year – maybe not every month, but at least every two months, or every 45 days, it is in your benefit to make sure that whoever is reserving is not buying a hedge [inaudible]. So [inaudible] reservation is not transformed into a contract within a specific timeframe, automatically, on the system, this reservation is cancelled. There is no human interference. So these are cancellations that – I mean, take an example, last year we've cancelled 12%. This 12% is mainly – on average, you re-selling this 12% at 35% extra pricing. That's why when I said that basically, yes, our [inaudible] on EBITDA is 30%, but you can expect, on the existing projects for the new sales, much higher EBITDA than the 30%. So that why we are not scared.

Let me take you a step further. How are we countering – as a company, what has been our strategy to counter this high inflation? One, as everybody else, we've been doing price increases. We've been looking at more value engineering, I assume, as everybody else. But what we are doing also, is we reducing – for the new launches, we're reducing the size[?] of the launch so that our risk would be much lower. We have no cash flow needs to pay specific cash out for land purchase, which is a huge benefit, especially in a market like this. Last, but not least, we ensuring our receivables. And we will be hopefully achieving that in the first quarter of this year. We will be insuring the receivables of Palm Hills in case of any increase in bad debt. We already have two offers, and we're in the final stages.

Anthony: Okay. Any word on dividends?

Yaseen Mansour: Sorry?

Tarek Abdel[?]: Any word on dividend.

Anthony: Any word on dividend?

Yaseen Mansour: No. This year, because of the inflationary pressure, we're putting a lot of cash into bulk purchases for the existing projects, and the coming projects. What we could be looking at, later on in the year, is a buyback programme.

Anthony: Okay. So no dividends for this year, [inaudible] buyback programme, is that what you are saying? Okay, thank you very much

Yaseen Mansour: Thank you.

Operator: At this time we have no further questions.

Yaseen Masour: That's good. I think everything was answered.

Operator: Okay, great. Thank you very much, gentlemen. I think that will conclude the call.

Yaseen Mansour: Thank you very much, and thank you to Goldman Sachs for hosting this call.

Operator: Thank you. Thank you very much.

Yaseen Mansour: Bye. Take care, bye