Transcription for PHD

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Corporate Participants

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Presentation

Operator
Good morning and good afternoon ladies and gentlemen. This is Omar El-Menawy from CI Capital. I would like to welcome you all to PHD's Q2 18 results conference call.

[Introductions]

[Webinar instructions]

I will pass the floor now to PHD's management. Thank you. Please go ahead.

Yasseen Mansour
Good afternoon ladies and gentlemen and thank you for joining our second quarter 2018 results. On today's call, I will briefly present to you the key highlights of the six months, then I will hand over the call to Tarek to walk you through the financial results and afterwards we will open the floor for questions and answers.

Despite the challenging property market condition, we had a good 2018, and we realised several major milestones on top of which are the following. The company beat market consensus in all metrics, coupled with strong profitable growth across the board. In May 2018, around the first half of May, we launched the first sales of Badya. By end of the quarter, so after 45 days, our new sales in the project amounted to 3.7 billion, which is a testimony for the on-going demand for quality offering by our company. New sales for the first half of the year recorded 7.8 billion, which is 29% year over year growth, mainly fuelled by the launch of Badya notably, sales growth was not only driven by the increase in selling prices, but also the number of units sold, which increased 66% year over year to reach 2,242 units. Looking at our commercial real estate portfolio demand, our commercial proposition remains strong, as we recorded sales of 1.1 billion in the projects, the Lane, VGK Mall, [inaudible] Mall and Palm Hills Medical Clinic.

During the first half of 2018, our recurring income portfolio contributed 15% to net profit, driven by partial recovery in tourism with room occupancies in the company's three operating hotels. Coupled with profitable growth in the Palm Hills Clubs operation. Profitability margins witnessed a solid improvement with gross profit registering an increase of 39% year over year to reach EGP 1.3 billion, a 10 points increase year over year enhancement in margin again to reach 39%. In the second quarter of 2018, our gross profit even improved further to reach 40%. Our EBITDA grew 43% year over year to reach EGP 902 million, with, again, eight-percentage point year over year enhancement in margin up to 27%. The company delivered 728 units, on schedule to meet the 2018 handing over target of 1,500 units. We spent EGP 900 million on construction and generated cash flows from operations of EGP 2.9 billion.

Looking into our balance sheet, it maintained its strong position with receivables of increasing and reaching EGP 16.8 billion, covering our net debt by 5.2 times. We remain committed to deleverage our balance sheet via a securitisation of receivables programme as we completed a securitisation of receivables transaction in May 2018, and received net proceeds of 261 million in relation to handed over units in Palm Hills Katameya Extension, Palm Parks, and Hacienda White 2. We expect to conclude another securitisation transaction of about 450-470 million, related to 453 units delivered in Hacienda Bay project during the second half of this year.

Looking at the new land acquisitions, we are the highest bidders for a prime land plot strategically located on the 26th of July corridor on West Cairo and expect to be awarded soon. The plot will be enveloped into a mix-use complex. We expect to sign the definitive agreement during the second half of this year. Based on an SDV between Palm Hills Development, Al Sharq, and Al Badr Group, they are the developers of the largest mall on the West Side of Cairo called [Arqem]. This agreement, again, is a revenue share with NUCA. Notably, this plot is expected to offer 500,000 square metres of commercial space.

Yesterday, our board of directors approved increasing issued capital by EGP 1.54 billion via a tradable rights issue at par value. The rights issue proceeds will be mainly allocated towards the development of Badya's infrastructure component following its successful launch, alongside the development of commercial component of Palm Hills New Cairo accelerating construction in The Crown project and [inaudible] capital for the 205 feddans that I just mentioned. The company will announce further details post-concluding related regulatory and shareholders' approval on the capital increase.

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

Tarek Abdel Rahman
Good afternoon everyone. As mentioned on the operational front, new sales for the first half reached EGP 7.8 billion, a growth of 29%, of which 6.7 billion was generated from residential sales and 1.1 billion from commercial sales. Growth in residential sales was mainly drive by the strong update of recently launched units in Badya, integrated development, which accounted for 47% of new sales in the first half of the year. We also had robust demand in Palm Hills New Cairo on the east side of the city. In the first half 2018, the number of units sold increased 66% to 2,242 units including 1,558 units in Badya compared to 1,300 units in the first half of 2017.

In the second quarter alone new sales more than doubled to reach 5.7 billion, residential sales grew 118% and recorded 4.8 billion and commercial sales recorded the balance. By end of the first half, our average construction costs per square metre was EGP 4,600, while we were selling an apartment at an average of EGP 11,500, while [inaudible] of standalone units stood on average of EGP 9,200 and land sold on average of EGP 9,367. This is taking into the effect of the Badya launch which was done at attractive prices.

Looking into the regions where we operate, West Cairo was the main beneficiary where we recorded sales of 4.9 billion of which residential sales was 4.6 billion. Badya booked EGP 3.7 billion. With regards to delivery, the company handed over 728 units during the first half of 2018, ahead of the schedule to deliver 1,500 by the end of 2018. Mind you, we have a very high season of delivery during the summer, especially in the north coast units where people are there on vacation.

Construction activities are progressing on schedule with earned value of EGP 900 million during the first half of the year.

Moving into our income statement, we continued our steady focus on enhancing the company's profitability, while maintaining the quality for which we are well known, which translated into a significant improvement in profitability margins. In the first half, the revenues were basically flat growing only 4% to 3.4 billion, on the back of high handing overs. We did not record new sales from pre-sales, because they were mainly the sales of apartments where the revenue is recognised upon delivery. However, our gross profit witnessed a strong increase of 39% reaching 1.3 billion, and a margin of nearly 40%. Improvement in gross profit margin was mainly due to the higher margin units and new sales of standalone units at Palm Hills New Cairo, but mainly due to handing over units which we sold at higher prices during 2014 and 2015.

EBITDA grew 43% to EGP 900 million in the first half of the year, with an EBITDA margin of 27%, while net profit grew 26% to reach EGP 440 million. In the second quarter, looking at Q2, revenues increased by 16% to 1.9 billion, while gross profit jumped 67% to 764 million, and translating into a record profit margin of 40%.

EBITDA again grew by 71% and had a margin of 27%. Net debt to EBITDA increased to 1.8 times compared to 2.8 times in the first half of 2017, which is the guidance we have given at the beginning of the year that we expect to close the year with net debt to EBITDA of around two times mark, which is a very safe mark given our cash flow. By end of first half 2018, we had receivables of nearly EGP 17 billion, covering our net debt by 5.2 times.

In terms of outlook, the company is expected to launch Hacienda Bay, the commercial component of Hacienda Bay and Golf Extension office park during the second half of the year.

With that, we open the floor for questions.

Question and Answer Session

Operator
[Operator instructions]

Omar El-Menawy
While we wait for questions, I have a couple of questions just to ask. Firstly, it is my understanding that the launch of Badya was Phase One A, which is around 300 feddans if I remember correctly. I wanted to know if we should expect any further mega launches or major launches within the project during 2018?

Yasseen Mansour
Yes, we started with 330 feddans. On Badya, I don't expect launching another big stage. We will be launching other smaller phases probably before the end of this year towards the fourth quarter of 2018.

Omar El-Menawy
Another question, if interest rates… we know that monetary easing has slowed down a bit in recent months. If interest rates remain at current levels, do you still plan on going through the 450-470 million securitisation plan.

Yasseen Mansour
Yes, we probably will. We have also an agreement with one of the banks to securitise on a floating rate basis.

Tarek Abdel Rahman
Mind you, even though that the interest rate is not decreasing, or it doesn't look it is increasing any time soon with the monetary easing slowing down, however, when we do the securitisation, it is priced off the [audio] Treasury Bill rate. Automatically 200-300 basis points is decreased over what we're paying to the banks, which [audio] of the [audio] corridor rate, so anyway it is cheaper to securitise like-for-like.

Operator
[Operator instructions]

Our next question comes from Seki Mutukwa, Ashmore. Please go ahead.

Seki Mutukwa
Could I just ask what the sort of indicative gross margins are on the new sales that you are making? For instance, in Badya, if you can talk about that relative to obviously the kinds of margins we're seeing on what is being – the delivered units. Part one. The other question was, if you could just give us a sort of update on the competitive landscape and what you're doing in response, whether that involves changes to any sort of payment terms etc or deposits. Thanks.

Yasseen Mansour
On the first note, on Badya, our gross profit is at 33%, which as you're aware in every launch we start at a lower margin and then you keep on increasing the margin as you go. But the good news is that we are already starting in that project at a 33% GP.

As far as what to expect as gross profit on new sales, our gross profit is 43%. On new sales, non-recorded sales on our financials, so on the 7.8 billion that we have sold so far this year, our GP on them is 43%.

On the other part of the question on the competitive landscape, Egypt Is becoming – the real estate market is becoming pretty crowded, especially on the east side, that is why we elected to go more on the west side with Badya. With Badya, I think, because we knew, we felt this was going to hit us, we were able to launch at very competitive prices with extremely profitable – when you start a project, at a GP 33% this is extremely solid. With Badya, it gave us the chance to be able to compete on the lower part of the pyramid, to compete on better prices and accordingly, but without jeopardising the margin. So the acquisition of Badya, the way it was done, helped us tremendously during the second quarter and will continue to help us, I think, over the coming there, four years.

As far as the competitive landscape, we are going more towards smaller sized units. Just to give you an example, we dropped our three bedroom apartments from an average of 200 metres, roughly, to about 150-160 metres. In Badya, the three bedroom is 150 metres, which is, again, we are making much more efficient designs, not only on apartments but also on villas. We have today townhouses with a plot of – on a plot of land of roughly 200 metres, with a built up area of 184 square metres. This is where we feel the market will be moving in for the coming period.

Seki Mutukwa
Could I just have one last question? In terms of the rights issue, I know details will come later, but are you significantly accelerating the construction spend for 2018 or is it more the land acquisition that is driving this rights issue.

Yasseen Mansour
Partially, it is the acquisition of the 205 feddans. As we mentioned, this is a very unique partial of land on the 26th of July corridor, which is the best commercial street in Cairo, in the West of Cairo at least. It is equivalent to on the east side, you're talking about Street 90, so it is the most lucrative area and there we have already, in the plot of land 500,000 square metres of

commercial, which again is a much less competitive environment, it is less competitive than the residential side.

As we mentioned, it will partially go into construction mainly on two fronts on Badya as a completely new project, and on the project called The Crown.

Operator
[Operator instructions]

Our next question comes from Mr Malek. Please go ahead.

Mr Malek
I was just wondering, giving [inaudible] the rights issue whether you had any schedule to reduce the debt on the balance sheet. Is there any fixed schedule there or do you have any update on that subject?

Yasseen Mansour
No, the capital increase will not be used to reduce debt, but debt will be reduced anyway because of the future cash flows coming from the existing projects.

Mr Malek
Because it seems that the price of equity seems to be a bit lower than the price of debt at the moment, wouldn't it make sense to do maybe a bigger one, bigger capital increase and reduce the debt with it.

Tarek Abdel Rahman
Yes, the price of equity does seem to be lower than the price of debt, but this is a temporary situation we think that will be reduced, and we look at the long-term capital structure of the company, not necessarily the one at the moment, but this is why we are raising equity, so that we can fund the new projects from equity rather than debt, which is at least, for the time being over the coming couple of years or the coming two, three years, because debt is very, very expensive. Until it comes down, and then we can resort to debt again for our funding requirements.

Operator
[Operator instructions]

[No further questions]

Yasseen Mansour
Thank you very much and we will see you next quarter.