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Conference Title: **Oriental Weavers 1Q17 Results**

Moderator: **Nermeen Abdel Khalek**

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Operator: Good day and welcome to the Oriental Weavers Q1 2017 results conference call. Today's conference is being recorded. And at this time, I'd like to turn the conference over to Mr. Mohamed Abu-bashar. Please go ahead, sir.

Mohamed Abu-bashar: Thank you. Good morning and good afternoon, everyone. Welcome to the Oriental Weavers 1Q17 conference call. We have with us today Oriental Weavers management team. So, I guess without further ado, I will just pass on the call to Farida. Farida, please go ahead.

Farida Mohamed: Thank you and we apologise for the delay. And we'd like to thank you for your interest in Oriental Weavers and for your interest in our quarterly results. We are going to update you on the results for the first Q and provide guidance for the year end. Oriental Weavers has recorded strong performance in first Q 2017. During the quarter, our revenues rose 73% to EGP2.5 billion. We successfully managed to record a recovering export performance in US dollars, and our successful response to the floating of the EGP helped us record the highest quarterly EBITDA margins in Q1 2009. For this reason, our EBITDA and earnings figures doubled compared to the same period a year ago. We thought we'd open the floor for Q&A and the whole management team is here to respond to any questions, and then we'll provide some guidance or outlook at the end of the call.

Operator: If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is switched off to allow your signal to reach our equipment. Again, ladies and gentlemen, star one to ask a question; and we'll pause for a moment to allow everyone an opportunity to signal for questions. Our first question comes from Julien Veron from Investec. Please go ahead, sir, your line is open.

Julien Veron: Good afternoon and congratulations for the Q1 results. I have a couple of questions starting with the year-to-date performance post Q1. Could you give us a bit of colour how the volume and pricing have fared in both the local and export market? That would be my first question. Would you like the whole series of questions or should I just shoot one question one at a time?

Farida Mohamed: I think one at a time so we are able to handle each one separately.

Julien Veron: Okay, certainly.

Farida Mohamed: Were you asking about the Q1 volumes or post Q1?

Julien Veron: Post Q1; you had given us all the details for Q1. Post Q1, I just wondered how things fared in both markets; local and export.

Farida Mohamed: Okay, Ingy will respond.

Ingy El Diwany: Hi Julien.

Julien Veron: Hi Ingy.

Ingy El Diwany: I have the numbers till [inaudible] of April but the intercompany transactions are not eliminated. So, I'm going to tell you segment by segment. So, for the woven segment in the local market, we have seen 22% increase in the first four months of the year and 13% lower volumes. For MAC, which is the tufted division, we have seen 10% higher volumes and 40% higher values. For EFCO, which is the non-woven, we have seen 3% higher volumes and 63% higher values. This is for the local market. For the export market for Oriental Weavers, we have seen 4% lower volumes and 93% higher value. For MAC, the tufted we have seen 31% higher values -- sorry, higher volumes and 160% higher value. So, these are the two main segments.

Julien Veron: Okay. On the export market, I have worked out the dollar price of about $5.5 all in for -- the average standard price for the export market, which on my calculation is down 7%. Can you put a bit colour as to why it is done in that fashion? Is it the Euro creeping back in the mix, is it customers exacting low price, and what would be the expectation for that dollar price down the line?

Farida Mohamed: Amin is going to answer this question; he is our export director, business development.

Mahmoud Amin Saad: Well, the market witnessed a drop in prices due to competition especially in Europe, Middle East and United States. We haven't lost the same in volume but the dollar value or the dollar turnover went down a little bit, yes. Nothing happened in Euro/dollar mix or not affected by the Euro/dollar exchange rate. What happened is a tougher competition; prices went down, prices offered by our competitors went again down. So, we have to compete and to stay in the market to keep our market share.

Julien Veron: Okay, Amin, that's interesting. I thought the Turks were out of the market or there were supply disruptions coming in out of Turkey which meant you would have seen less competition. Is it Chinese competition that exacerbated or --

Mahmoud Amin Saad: It's not -- the Chinese prices didn't change. Actually the reason of the competition came actually from our competitors in Turkey. They are more aggressive in their pricing strategy and they are offering very low prices in the United States and in Europe.

Julien Veron: Okay. Thank you for that one. On GP margins, so we have a bit of a, how can I put this, a bit of a disconnect between the top line which is obviously very strong and the cogs inflation which is not insignificant but it seems it could have been stronger. So, there is an inventory play I guess that's factored in there. And I just wondered whether you could maybe describe to us how the next batch of inventory that's going to be throw down[?] is going to impact GP margins and whether there is a need to increase prices especially in the local market. I just want to understand the inventory dynamic and how it impacted GP margins and pricing down the line.

Mahmoud Amin Saad: Actually margins increased and will be -- will sustain to be increased due to the part[?] of course in Egyptian pound which is attested by the devaluation and the increase in the cost is not equivalent to the same percentage of the increase in the value in US dollars.

Julien Veron: Yeah, I mean you mentioned in your presentation that 65% of your costs are in dollars. Is it 65% that's paid in dollars or is it 65% that's influenced by the dollar directly or indirectly?

Ingy El Diwany : Influenced. So, for example the polypropylene we pay partially in Egyptian pound; so, they are priced in dollars. So, it's, of course, affected by the floatation in price.

Julien Veron: Okay, good. The inventory that you have on the balance sheet in Q1, would it have been captured at what dollar EGP exchange rate?

Mahmoud Amin Saad: Actually the inventory is priced at the historical rate[?], at the month where we buy the raw material. The devaluation had effect the third of November. So, most of the low cost was amortised in 2016. However, the weighted average in Jan and Feb was still bellow the US dollar rate.

Julien Veron: Okay. So, basically in Q2 this year, with -- from Q2 onward, we will see the full impact on cost[?]?

Mahmoud Amin Saad: On cost, yes.

Julien Veron: Okay, very good. And on export subsidies, could you give us a bit of colour of how -- what we should expect going forward? You collected 39 million down 32% year-on-year, how should we think about export subsidy captured for the year; down year-on-year for the full year, or is there a catch-up later on?

Ingy El Diwany: We expect to collect possibly 40 million, the same amount that we collected in Q1. So, I believe by year end, we will have collected like 160 million.

Julien Veron: 160; okay, very good. Last question; so, in your debt mid you have -- if I'm not mistaken, you have got dollar debts, it’s about 60% of your debt, you have got Euro debt that's 15% and the remedial 25% would be EGP debt. On the cash, I'm so sure about the split, but -- EGP in foreign currency, but I was just wondering whether you had more EGP cash and you had EGP debt and whether the hike that took place recently is actually beneficial for you in terms of your treasury management skills. So, maybe you could give us what is the cash split between EGP and foreign currency so we can work out which side, you know, would it be positive or negative.

Radwa Mostafa: Hello. Hi, this is Radwa, the group treasurer.

Julien Veron: Hi.

Radwa Mostafa: In regards of cash, we have a slight surplus in foreign currency. You can say that it's 55%, the cash flow; it's 55% in foreign currency and like 45% in Egyptian pounds. So, we have a slight excess in foreign currency. In terms of debt, last year the structure was 75% in foreign currency and 75% in local currency. By the end of this year -- by the end of the first quarter, it was 85% foreign currency debt and 15% in Egyptian pounds. As we speak, it's 13% in local currency and 87% in foreign currency.

Julien Veron: Sorry, yes, that's clear. For the cash, the cash you have got about a billion, short of a billion EGP of cash. What -- the 45/55 split, is this pertaining to cash or cash flow? You mentioned cash flow.

Radwa Mostafa: I'm talking about the cash, yeah.

Julien Veron: The cash on balance sheet, okay. So, the billion is 55 in foreign currency and 45 in EGP, okay.

Radwa Mostafa: If you're talking about the cash flow, the 55% is the cash flow. If you are talking about the financials --

Julien Veron: I'm talking about the financial balance sheet, what -- the cash you have on balance sheet, the billion short, or actually it's more than a billion.

Radwa Mostafa: In the sense -- sorry, 82% in Egyptian pound and the remaining in foreign currency. Mostly Egyptian pounds, the cash is --

Julien Veron: Sorry?

Radwa Mostafa: -- financially, it is mainly in Egyptian pounds.

Julien Veron: Okay, very good. Thank you for taking my question.

Radwa Mostafa: Okay, thank you.

Farida Mohamed: Thank you.

Julien Veron: Thank you.

Operator: As you know, ladies and gentlemen, star one to ask a question. We'll take our next question from [inaudible] from East Capital.

Speaker 1: Hi. Most of my questions were already asked by Julien, but my one question is I see a bunch of export orders in your presentation. Could you sort of give us some sort of timeline on how this will play out? We see seven percent volume growth in Q1; but how do you see these bunch of export orders? Can you give us some timeline how it will play out?

Farida Mohamed: Jonathan, would you like to answer regarding the US, and then we'll answer regarding the other regions with Assond[?]?

Jonathan Witt: Sure. .Morning, afternoon. I will say Q1 was obviously great, and great for our performance in the US. Q2 based on historical timing, we don't have quite as many promotional orders or large roll out orders for retailers coming in as we have in the past. However, our look for Q4, end of Q3, we have major commitments from retailers, not only that we historically have handled their business in the important seasonal holiday timeframe but we have several new customers onboard where we have taken market share. As mentioned, it is a very competitive market. So, we do have to play in some of our lower price points, more entry-level product, but it is substantial volume and value for the company that we see coming for Q4.

Speaker 1: I understand correctly, I mean is everything in the presentation going to be done in 2017; all these orders would be fulfilled;- we see them in the numbers by the end of this year; is that reasonable to assume?

Jonathan Witt: Yes, from a US perspective, I can tell you that everything within the order bank right now would be shipping in 2017.

Speaker 1: And could you give me a sense of the absolute amount of orders, I mean just ballpark maybe?

Jonathan Witt: Honestly, I would have to pull that in terms of the -- a few things were just finalised in the past two weeks.

Speaker 1: But -- like indicate -- it doesn't have to be exactly. So, just an indicator number maybe.

Jonathan Witt: Yeah, I expect we'll see 8-10% increase in Q4 on our imported goods from Egypt.

Farida Mohamed: This is for the US market. So, for the rest of the market, Assond[?] will give you like an update of the orders that we have.

Mahmoud Amin Saad: Yeah. Well, actually at the end of the Q1, what we had for the orders in hand for not delivered I mean, the undelivered orders in hand was plus 9% for the dollar orders and minus 5% for the Euro orders or the orders paid in Euro. And the reason why we were minus was at that time we were still having or facing some difficulties or technical issues to produce the new collection of IKEA which is expected to be delivered during this year.

Speaker 1: But the negative 5% is from IKEA is what you said?

Mahmoud Amin Saad: I'm sorry?

Speaker 1: You said negative 5% is for the Euro orders.

Mahmoud Amin Saad: That was at the end of Q1, but we already started shipping this new collection. Just -- I was commenting on the Q1 results but right now we already started shipping the new collection of IKEA; That's why we are expecting not to have any negative in the Euro orders in hand.

Speaker 1: Understood. And lastly, if you don't mind, when you give the guidance in the end, could you also give a sense of after 2017 how would things look like? Just indicative of the structural story, I mean it doesn't have an accurate answer but just a sense of how we can model this out going forward after 2017, but you can answer that maybe in the end I guess.

Farida Mohamed: Okay. But I will give you like IKEA in the first quarter, exports to IKEA was down 21% because IKEA discontinued some items that they are no longer selling at their stores for the sake of the development of new products. So, we were working in the first quarter on the new development for the new shipment that we expect to ship soon. So, by year end, we expect to achieve or to export to IKEA the same value that we exported last year, which was almost $45 million. And the impact of the new programme is going to be reflected starting June this year till June next year. So, you are going to see the impact also in the first half of next year.

Speaker 1: Understood.

Mahmoud Amin Saad: Also, IKEA is going to change some of their SKU's by August this year and we have been invited to participate into the bidding. And we attended one meeting in Sweden last month. Until this moment, we haven't seen any -- we haven't received any answers from them. What we got from them during that meeting was that they had a comment on their sales from their showrooms which is down by 5% by coincidence. Their sales out of their showrooms worldwide[?] is minus 5% for the first quarter.

Speaker 1: That's all from me.

Operator: Once again, ladies and gentlemen, star one to ask a question. And we'll pause to allow everyone an opportunity to signal for more questions. We have a question from the line of Manoj Sah from Jarir Investment. Please go ahead.

Manoj Sah: Yeah. Good afternoon. My question is with respect to the volume in Egypt. How do you see the volume panning out for the rest of the year, the rest of the three quarters? At first quarter, it is down by around 9%. And also if you can comment on the export volumes for the rest of the year.

Farida Mohamed: In the local market we expect 10-15% lower volumes by year end and in the export market we expect 10 to 15% higher volumes by end of the year.

Manoj Sah: Okay. And in terms of the pricing in exports, how do you see for the rest of the year?

Mahmoud Amin Saad: At the beginning of the year, we started with minus 3% in prices; we offered a discounted price for 3% but not for -- on our price list but only to our biggest customers. To continue offering more price discounts is not planned at this moment. According to our market study, to most of our regions, the Turkish price is very competitive with us. We are having a very nice and competitive position. So, we are not planning to offer any more discounts, unless raw materials is affected or changed by any means.

Manoj Sah: Okay, thank you.

Farida Mohamed: Jonathan, would you like to elaborate on the pricing in the US market?

Jonathan Witt: I think it's a very similar situation to what was just described. We have seen the Turkish while weakened, and I think we've discussed that on previous calls and was referenced earlier, they are hungry for orders I think just to survive in a lot of cases. So, we have run into competitive situations on price. However, there are concerns from most of the major retailers about the consistency of supply coming from Turkey. So, we have been able to overcome some of the lower price concerns just through the reliability and confidence they have in our company.

Manoj Sah: And with respect to your IKEA, basically, order on the site, how does it fare in 2017? How do you expect it to fare as compared to what it was two or three years back; what would be the -- how much difference it has?

Mahmoud Amin Saad: Could you please repeat the question?

Manoj Sah: With respect to the IKEA, the amount of the sales that you used to generate from IKEA two to three years back, and now what do you expect to generate in 2017 if you can comment on that?

Mahmoud Amin Saad: Well, actually there two reasons; one of them is during the revolution in Egypt, IKEA offers moved back to Turkey to Istanbul and the management of IKEA was changed at that time and they adopted a new strategy of having or adding more suppliers; that affected our sales. This is number one.

Number two is that according to the changes, we are gaining back the market currently. The first phase is why we lost the business, but now we are -- it's our decision not to give IKEA the same ratio of our sales collection, the client mix. So, we are not going to offer them the same 40% of our sales and turnover. And on the other side, we have been pushed by IKEA to get more business or to give us back the same business that we used to have. So, it's our decision not to give IKEA the same. I'm not sure if I was clear enough to -- actually it is a strategic decision not to have -- not to have a full diversification. We will not accept any customer to have more than 10% of the total portfolio. This is the management decision in the group.

Manoj Sah: Okay, fine. Thank you.

Farida Mohamed: The size of the exports to IKEA in 2014 was almost 90 million Euros. The figure that we are targeting this year is 45 million Euros, which is in line with our strategy not to increase the exposure to IKEA up to 10% of our revenue.

Manoj Sah: Okay, fine. Thank you.

Operator: Once again, star one to ask a question. We will pause for a moment to allow more questions to signal. There are no further questions signalled. I would like to turn the conference back to you for any additional or closing remarks.

Farida Mohamed: Are there any further questions?

Operator: No, there are no further questions signalled at this time.

Farida Mohamed: Perfect. We'd like to thank you for joining this call. Our outlook for 2017 remains positive. Oriental Weavers continues to track new clients, pursue new opportunities and expand traditional and online sales. Additionally, OW is moving ahead with plans to add 8 to 10 state-of-the-art weaving looms to meet international demands and expand our product range with a total estimated CAPEX figure of around $10 million or so. We also wanted Radwa to comment about our treasury efforts given what's been happening with the bank's decision last night to increase interest rates on EGP debt, [inaudible].

Radwa Mostafa: Our main focus now is how to contain the financing charges. In Q1 we were worried [inaudible] FX impact; so, we were cautiously watching and we were a little bit conservative about selling the surplus dollar, yet we managed to reduce the financing charges, the next financing charges by around 5 million Egyptian pounds compared to the same period last year. Now we are more confident that the interest impact will be stronger. And in light of yesterday's news, we believe that the interest expense would outweigh any FX impact. From mid of March, we signed three forward deals with banks with a total notional of $10 million on an average rate of 18.7.

As we speak, we're becoming more aggressive. We'll invest lots of efforts in order to quickly limit any EGP borrowings and we will highly invest any excess we have in treasury bills. I expect the net financing charges to be higher in Q2 due to the exceptionally paid dividends. I believe this would be reversed in Q3 and Q4. And our target in 2017 will be to [inaudible] the same net financing charges before these last few years or slightly higher. For our year-end guidance, we maintain our top line guidance of 10 to 11 billion pounds by end of 2017, and also we expect our earnings to range around 750 million, similar to our previous guidance. For 2018, we expect top line growth to be around 6-7%, and earnings growth of around 10-15%. Thank you.

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