



## Final Transcript

### **BELTONE SECURITIES BROKERAGE: Oriental Weavers Q3 2018 Results**

November 1, 2018/2:00 p.m. GMT

#### **SPEAKERS**

Soha Saniour – Beltone Financial

Farida Khamis – Vice President of Corporate Finance, Oriental Weavers

Ingy El Diwany – IR Director, Oriental Weavers

Jonathan Witt – President of Oriental Weavers USA

Radwa Kamel – Group Treasury and Budgeting Manager, Oriental Weavers

Ashraf

Amin

#### **PRESENTATION**

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Oriental Weavers 3Q 2018 Results conference call. At this time, your telephone lines are in a listen-only mode. Later, there will be an opportunity for questions and answers, with instructions provided at that time. [Operator instructions]. As a reminder, today's conference call is being recorded.

S. Saniour I'll now turn the conference call over to your host, Soha Saniour from Beltone Financial. Please go ahead.  
Good morning and good afternoon, everyone. This is Soha Saniour from Beltone Financial. I would like to welcome you all to Oriental Weavers' Third Quarter 2018 Results conference call. As usual, the conference call

will begin with a discussion of the key highlights of the period, followed by a brief Q&A session.

I will now hand the call to Farida Khamis, the Company's Vice President of Corporate Finance, who will introduce the rest of the team and start with the presentation.

F. Khamis

Thank you. Welcome to Oriental Weavers' quarterly conference call. We have with us Jonathan, President of OW USA, we have the finance team from Egypt, two of our export directors from Egypt, and Ingy, our IR Director. We'll update you briefly on the Company's results for the third quarter of 2018, and Ingy will provide updated guidance for the full year.

In the third quarter we generated sales of EGP 2.6 billion, down 2% year-on-year. For the period, our EBITDA was EGP 272 million, 18% lower year-on-year, equivalent to 10.6% of sales. Earnings during the quarter were negatively impacted by inflated costs, mainly due to 16% higher average polypropylene prices, reaching \$1,294 per ton, and 42% higher electricity tariffs due to gradual phasing of energy subsidiaries, this besides the challenging market which added to the margin pressure in the Tufted and the Non-woven segments.

Oriental Weavers received nine state-of-the-art looms in Egypt and in the US in order to expand our product range, this in addition to seven new yarn machines to relieve the bottlenecks in yarn manufacturing. This added 3% to our production capacity.

I. El Diwany

As for the updated guidance for year-end, we maintain our previous guidance, with a flat top line figure of EGP 10.2 billion.

On the export front, as previously mentioned, exports during the quarter slowed in 3Q by 5%, mainly on product development for our European customers, while simultaneously discontinuing some products. Yet, our US subsidiary reported solid revenue growth that helped support the group's overall export performance. Accordingly, we maintain our guidance for 2% lower export sales in 2018.

On the local front, we still maintain our previous guidance of 4% to 5% local sales growth by year-end. We believe demand was impacted by the inflationary pressures. We implemented a 5% price increase in September, and currently we are developing new qualities to outprice competitors. As for the EBITDA margin for 2018, we expect it to be around 11%.

As for full year earnings, we expect them to be down 20%, to EGP 530 million to EGP 550 million.

Now we can open the floor for questions.

Moderator [Operator instructions]. We'll first go to the line of Samir Murad from NBK Capital. Go ahead, please.

S. Murad Hello. Good afternoon, ladies and gentlemen. Thank you for hosting this call. A quick question from my part on the outlook for the local market in 2019. Do you feel there is a possibility to see a recovery in the consumer sentiment that would positively impact Oriental Weavers in the following year? That's one.

Two, if you can talk to us a little bit about the outlook on the export side. In terms of pricing, is it likely to see a good increase in prices from a year-year perspective in dollar terms for the export market?

Three, if you can give us some guidance on the outlook for the dividends. Are you looking to keep the dividends at the same level like last year, or would it be falling in line with the guidance on the net income?

F. Khamis Thank you, Samir. As for the outlook for the local market, we expect local sales to continue to recover, and our guidance is 7% to 8% growth in 2019.

As for the outlook for the export prices, I'm going to leave the answer to Mr. Ashraf [indiscernible] who is handling the Ikea account, and he is going to brief us about the new program that we started shipping in September.

Ashraf Hello, everybody. This is Ashraf from the Export department. Regarding the Ikea export, we have had in the business here some changes in the families running inside Ikea, two of the very important families have been discontinued already and we started already new developments replacing these two families. We started to ship already one part of these families from September 2018, and we will continue to complete the fulfillment of these families in the beginning of 2019. Our expectations during the year 2019 is that we will have growth of at least of 5% in the total value compared with what we have done in 2018.

- S. Murad Can we get some color on the breakdown? How much of it would be volume and how much will be prices?
- Ashraf What we are planning to end this year is about USD 48 million, and the expectation for the next year will be around USD 50.4 million.
- S. Murad Okay.
- Ashraf This is the expectations.
- S. Murad Okay.
- Ashraf The average price, we have changed already. The average price this year will be about €7 per meter square, which increased already compared with the previous average price in the year 2018, was around €5. So the quantities will be decreased, but then the volume will be increased, as I mentioned earlier, around 5%.
- S. Murad Okay. Thank you.
- Ashraf You're welcome. As for the dividend—hello? As for the dividend, we expect to maintain the same dividends of last year, EGP 1.5 per share. Hello?
- Moderator You are still connected. There are no further questions in queue at this time. [Operator instructions]. We have a question in queue from the line of Nada Amin with EFG. Go ahead.
- N. Amin Hello, everyone. I was just wondering, on the exports rebate fund, I know that your backlog was EGP 420 million, but do you think there's any prospects of being able to accelerate or expedite the [indiscernible] in maybe the next year? Are there any signs of improving collection? Thank you.
- I. El Diwany Thank you, Nada. No, so far we haven't received any notification that the government is going to speed up the disbursement process. So I think we will lower the estimate for the collected amount by year-end to be around 110, not as the previous of 113.
- N. Amin Thanks, Ingy.
- I. El Diwany Thank you.

- Moderator                    There are no further questions in queue at this time.
- S. Saniour                    Operator, if there are no questions, can I ask a question of management?
- Moderator                    You certainly can. Go ahead.
- S. Saniour                    I wanted to ask about your outlook on oil and the polypropylene prices in the fourth quarter of 2018 and 2019, and if you think the uptrend in oil is going to persist, what strategy is the company adopting to mitigate the drop in margins, which would result accordingly?
- I. El Diwany                Currently, demand for polypropylene is soft in all markets, and we have seen the price, starting in September, going down by around 5%. The current average price for polypropylene is around 1,255 compared to 1,350 and 1,380 in the second quarter of the year.
- So going to next year, it's still not clear, we don't have any visibility about the direction of oil prices next year. Saudi Arabia has just announced that they are willing to fill in any gaps resulting from the curfew, or from the ban on Iran exports. So it's still not clear about oil prices for next year, but generally we expect prices to be the same level as this year, within the range of 1,250 to 1,280 or 1,300.
- If prices continue to go up, definitely we are going to set a strategy for how to face this, whether by raising our selling prices, because at this point all the producers in the market are going to raise their selling prices, or seek other financial alternatives, like hedging or anything else.
- S. Saniour                    Thank you, Ingy. I also wanted to ask—sorry.
- Ashraf                        I just wanted to mention that the dividend, the company will pay the same amount as last year, as the company is paying dividends over the net profit of the standalone financial statements, not the consolidated. And still, the company is collecting dividends from its subsidiaries.
- S. Saniour                    Also, Jonathan, would you like to give us a brief about the market in the US and the developments that you expect resulting from the tariffs that the US imposed on Chinese products? Jonathan?
- J. Witt                        Hello?
- S. Saniour                    Yes?

J. Witt

Okay. Sorry. Sure. Obviously, when you review the numbers, our Q3 was a great quarter. Some of that was driven by some rollouts and promotions that traditionally would have shipped in the second quarter of the year but were delayed somewhat by the retailers. Our second quarter numbers could have been stronger, but we definitely made up for that in the third with those shipments. So the 22% increase was super.

During Q3, as we all know, the trade debate, so to speak, with China and the 10% tariffs, which are increasing to 25% in January, are creating opportunities. The Chinese market has been a major supplier of, especially shag and microfiber type products at great prices and strong placements in the US, and since the 10% has stayed active, and at this point there's no indication that the 25% will not take effect in January, we've had several large retailers come to us with the challenge to replace some of their existing products. And we've already received positive commitments on those, which should spur growth in Q1 and Q2 of 2019.

So that's a great opportunity. And for this year we feel that we should end the 12 months positive, in the 8.5% to 9% range for 2018 versus 2017.

S. Saniour

Okay. Amin will brief us about the latest developments in Egypt.

Amin

Hello, everybody. On the other hand, we are preparing for an event in Egypt, we are inviting a lot of customers from the US, from Europe, and we're expecting more than 25 customers will be visiting us in the coming two or three weeks to use our new developments prepared for the January fair. Some of these products have been developed during the last six weeks, and we started receiving orders on this. Some products were made for wall-to-wall carpet, 4 meter width, for the residential market in the Middle East, and it was very well received. We started receiving orders and we're expecting the success of these products will be in the first quarter of 2019 as well.

We developed around 25 new products and new colors based on the new session we had monitored during the last four fairs we attended in Europe and the US, and this will help us to get the feedback from our customers to make sure that we are introducing in January all the fashion in color and design. And as I said, some of these products were already well received and we started receiving orders, and this could be seen in the first quarter of 2019.

- I. El Diwany Radwa, our Group Treasurer, will brief us about the latest developments on the treasury side.
- R. Kamel Actually from a treasury perspective we are very flexible. We managed to benefit from the flotation, so flotation we changed all our cash management strategy, which resulted positively on our financials. For the first time this year we managed to record a positive net credit interest of 17 million versus a debit interest of 43 million last year, which impacted positively on the financials.
- Also, we signed a deal with our bank, an interest rate swap deal, and currently as we speak the mark to market value of this deal is around \$200,000 positive. We are very flexible, so whenever we see any change in the reduction of the currency in the market, we have the flexibility to maneuver, especially that we can secure polypropylene from our sister company, ETP, which gives us a chance to maneuver in the currency payments.
- I. El Diwany I think we are done from our side. Hello?
- S. Saniour Yes, Ingy, I think if there are no questions, operator—
- Moderator [Operator instructions]. And we have no one queuing up for questions at this time. You may proceed.
- S. Saniour Okay. Thank you very much.
- Moderator Will you be concluding your conference call now?
- S. Saniour Yes. Thank you.
- Moderator Thank you. Ladies and gentlemen, that will conclude your conference call for today. Thank you for your participation and for using AT&T's Executive TeleConference Service. You may now disconnect.