Company: **EFG Hermes Holding SAE**

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Operator: Good day, and welcome to the Oriental Weavers Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Mohamad Al Hajj. Please go ahead sir.

Mohamad Al Hajj: Hi everyone. It's Mohamad Hajj from EFG Hermes. Thanks everyone for joining us for the Oriental Weavers' 2Q Results conference call and sorry for the delay to start this call. I have with me on the line, Farida Khamis, the VP of Corporate Finance; Jonathan Witt, Oriental Weavers' USA Vice President; Madani Hozayen, the Group CFO; and Ingy Diwany, the IR Manager. I'll hand over the call to Oriental Weavers' management to start the call. Thanks.

Ingy Diwany: Thank you, Mohamad. Good afternoon, everyone. On behalf of Farida Khamis, I'd like to welcome you all to our quarterly conference call. I have also with me, Amin Zohni, the Group Export Director. And Farida apologises for not be able to join us on the call because she is sick. So I will start with a brief update about the second quarter results and then give you an updated guidance for year-end and then we can open the floor for questions.

In the second quarter, we generated sales of EGP2.5 billion, up 5% year-on-year. For the period, our EBITDA was EGP270 million, 30% lower year-on-year, which is equivalent to 10.7% of sales. Earnings during the quarter were negatively impacted by inflated costs due to 17% higher average polypropylene prices, reaching US$1,300 per tonne and 60% higher electricity tariffs. This, besides challenging markets, was added to the margin pressure in the tufted and the non-woven segments.

OW received seven state-of-the-art weaving glooms in its factories in Egypt and the US in order to meet international demand and to expand our products range. This, in addition to five new yarn machines to release the bottlenecks in yarn manufacturing.

We expect to receive an additional three looms and three yarn machinery before year end. This should bring our total CapEx during 2018 to EGP560 million, adding almost 2% to our production capacity. OW management is keeping a close eye on the macroeconomic climate changes in the region with a target to maintain our global market position.

In August, polypropylene prices have started to slow to US$1,290, 3% lower compared to July prices. As for the guidance for year-end, we expect almost flat top line figure in 2018 to EGP10.2 billion. On the export front, management expects the pace of growth in the woven exports in the second half of 2018 to normalise on the high base effect, as well as due to developing new products for our key European customers, which should be reflected in our sales figure in the first half of the year 2019. This in addition to challenging export markets for the tufted and the non-woven segments.

Accordingly to expect 2% to 3% lower export sales in 2018. On the local front, we still maintain our previous guidance of 5% to 6% local sales growth by year-end. Demand during August was negatively impacted by the one-week Eid vacation. We are implementing a 3% to 5% price increase starting September in the local markets.

We expect EBITDA margin for the full year to be around 11% and 18% lower earnings to EGP560 million to EGP600 million. As for our dividend estimates for the year, we expect to distribute the same DPS as last year.

Now we can move to the Q&A section please Mohamad. Hello?

Operator: Thank you. If you would like to ask question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Again, press star one to ask a question. It appears there are no questions at this time.

Ingy Diwany: Okay. Jonathan, would you like to give us like what's your strategy following the devaluation of the lira and what you expect regarding the US-China trade war?

Jonathan Witt: Sure. I can give a quick update on that. Regarding the Turkish lira, I think, obviously there is some short-term competition and/or opportunities for retailers in the US due to that strength of the dollar to make some one-time opportunity type bias[?]. However, we do see that most retailers are a little bit – maybe just a little more conservative in their view of placing any Turkish programmes into a long-term commitment just due to the US Administration's continued discussions of how we'll move forward and what possible tariffs or other political situation we'll have with Turkey in a short-term or in the mid-term.

So as it stands, it's yet to be seen what will happen in the next two to three months if there is some dollars that flow from retailers to Turkey to take advantage of the situation. But over the long-term, we expect that we'll be – have opportunities and in fact we even have some built-in production in Egypt today that are shipping in the stores in the US into two or three of the largest chains replacing Turkish programmes. So we see that as a real positive regardless of their situation.

And also with China, we'll see early in September, the results of the tariff decisions by the government. And if they will go with the 25% or the original 10% tariffs with China, that actually has presented some new opportunities for us we feel. And because of again that uncertainty that retailers have about long-term programmes on what effect it will have on their cost dealing with China since that's been so top of mind for the administration as well. So we have actively being targeting some of the products that are only produced in China to bring those to Egypt and to our US manufacturing facility.

Ingy Diwany: Thank you, Jonathan. As for the export release, I'm going to give you an update. The backlog is almost EGP414 million and we collected lately EGP200 million, so it seems that the pace of disbursements is getting higher. So we expect by year-end, the total collected amount to be within the range of EGP120 million to EGP130 million.

Madani Hozayen: Just to mention, if you look to the income statement, the financial – the financing part that the fact that Treasury efforts especially this year to net financing costs amounting to EGP25 million last year, so we are down EGP19 million net profit this year. So however the company is paying dividends every year of 90% of that profit. But we still – we are still very hedged in cash and we – in fact the net debt that we have to cover all our financing costs.

Ingy Diwany: As for the polypropylene prices, as I've just mentioned, they are coming down 3% lower compared to July prices. And on a global level, we are seeing lower demands in Turkey given the slowdown that facing the market there. And also in China, prices of polypropylene have started to slow as a result of the US-China trade tensions now. So if oil prices are expected to be within the range of $65 next year, then polypropylene prices are going to be within the range of $1,250 to $1,290 which is almost similar to this year.

In 2019, our outlook for the local markets remains positive. We expect the demand to continue revising in 2019 backed by the several real estate projects, and especially the new administrative capital that's where the expected amount of 50,000 government workers are going to move there. As for the export business, we are expecting around 3% to 5% growth in next year, which is expected to result from the launch of the new programme with IKEA and the new export orders to Europe under the partnerships with [inaudible].

Madani Hozayen: Also for exports, we are working these days on the new development getting ready for the last quarter in January market and chose. We are inviting most of our customers during this period of the year to get ready and finalise our collection for January. The third quarter was slow a little bit due to IKEA. They dropped three lines and we already replace and we will start shipping starting week 36, which is next week. We just got an approval for all the samples and the pre-production samples. So this will be reflected on the fourth quarter.

On the other hand, the fourth quarter is our pick in the outdoor business. So we will start shipping all the outdoor promotions, mainly to the United States. And this will be reflected by the end of Q4 and early 2019 in quarter one.

Ingy Diwany: I think we can conclude the call.

Mohamad Al Hajj: Do you want to check if there are questions now?

Ingy Diwany: Yeah, let's check.

Mohamad Al Hajj: John, can you check if there is any questions?

Operator: Of course, sir. It appears there is one question in the queue. We will now take our first question from Gerred Howe of Rock Creek. Please go ahead sir.

Gerred Howe: Yes, hello. Thank you for taking time for the call. I'd like to explore just a little bit more. I know you touched on exports in the US. But if you could talk a little bit more about exports across Europe and what's your strategy is there, that would be terrific. And then also margins continue to impress and a lot of that is a little bit out of your control as far as polypropylene prices. But what things are you doing internally to manage costs in order to manage margins and then what do you see as a longer term EBITDA margin target? Thanks.

Amin Zohni: As for in general, strategically we know however the costs are increasing but we have a strategy to maintain our market share, our global market share. So in case, we need to have any pressure in the margins to maintain the market share, we do it[?]. Our vision is to be the market leader and maintain our place. This is what – this is the most important.

Ingy Diwany: Jonathan, would you like to add anything?

Jonathan Witt: Concerning the rest of the world, I would defer to Amin on that front, and also what you've already said.

Ingy Diwany: In the US markets?

Gerred Howe: So if I look across, lot of you say you're trying to maintain market share. But if you look across market share within the local market, you're struggling to grow any of those markets. So what you're telling me that margins will continue to compress as you back from market share then?

Ingy Diwany: Well, actually for the local market, we have started to see in the second quarter revising demand and this was reflected in 13% growth of local sales in the second quarter of 2018.

Gerred Howe: So local markets you're doing fine.

Ingy Diwany: Yeah. So your question is about the export markets?

Gerred Howe: Correct.

Ingy Diwany: Yes, for the export market, as Madani has just said, that our main aim is to maintain our global market position. So management is willing to reduce the selling prices by maximum of 3% in order to maintain our market share. But still we haven't seen any negotiation from our customers regarding reducing the selling prices so far.

Gerred Howe: So there are no cost savings you're able to put through on the operations level in order to increase margin?

Madani Hozayen: Within the operating level, we have a lot of projects, internal projects to reduce the energy[?] consumptions, whether electricity or water and gas diesel. So we are working on that and we expect to see the results during 2019.

Gerred Howe: And so if assuming polypropylene prices stays stable, what would you see as margins in 2019 then?

Ingy Diwany: Stable margins only.

Gerred Howe: Okay. Thank you.

Ingy Diwany: Thank you.

Operator: It appears there are no further questions in the queue at this time. I'd like to turn the conference back to you for any additional or closing remarks.

Ingy Diwany: Okay, thank you all for joining the call and we wish you all success.

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