



**Transcription for ORIENTAL WEAVERS**

*May 22<sup>nd</sup> 2018*



## Corporate Participants

**Khaled Sadek**

*CI Capital*

**Farida Khamis**

*Oriental Weavers – VP of Corporate Finance*

**Jonathan Witt**

*Oriental Weavers – President of Oriental Weavers USA*

**Madani Hozayen**

*Oriental Weavers – Group CFO*

**Ahmed Kamal**

*Oriental Weavers – Regional Export Director*

**Ingy Diwany**

*Oriental Weavers – IR Director*

## Conference Call Participants

**Ahmed H. Kamal**

*Rasmala*

**Ahmed Mansi**

*HC Securities and Investment*

**Ambereen Jivani**

*Ajeej Capital*

**Jack Ward**

*Ashmore Group*

**Jarrold Howe**

*Rock Creek*

**Jonathan Milan**

*Waha Capital*

**Mohamed Saad**

*Saad securities.*

**Nada Amin**

*EFG Hermes*

**Sandi Dlamini**

*Rudarius*

**Soha Saniour**

*Beltone Financial*

**Talal Noueihed**

*Lazard*

**Yara Khalil**

*CI Capital*

## Presentation

### Operator

Ladies and gentlemen, welcome to Oriental Weavers First Quarter 2018 results conference call. I will now hand over to your host, Mr Khaled Sadek. Sir, please go ahead.

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**Khaled Sadek**

Good day everyone. Thank you for joining Oriental Weavers 1Q18 results conference call.

*[Introductions]*

I will now hand over the line to Farida who will begin with an overview on the results and then we will open the floor for Q&A. Farida, please go ahead.

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**Ingy Diwany**

Good morning everyone, thank you all for joining Oriental Weavers quarterly investor conference call. Today, we will give you a brief update about the company's results for the first quarter 2018 and revise our guidance for yearend.

In the first quarter, we generated sales of EGP 2.5 billion, almost flat over the prior year. Our woven export business reported 8% growth in USD terms, owing to the keen expansion strategy of attracting new clients and expanding both traditional and online sales, which helped offset the other business segments lacklustre performance. Our EBITDA margin maintained its second half 2017 level, owing to the 18% increase year-on-year in raw material prices, and the impact of the devaluation currently settling. Management is currently assessing market conditions for cost passing possibilities.

Below the EBIT line, we recorded an overall net interest income of EGP 13 million compared to the first quarter of 2017 3 million net interest expense. As a result of the efficient utilisation of our cash balance through investments in high yield Treasury bills and interest bearing current account. On 31<sup>st</sup> March 2018, our debt breakdown was 80% USD, 19.5% euro and 0.5% EGP. We will soon call for an AGM to approve a 50% stock dividend following the regulator's approval. As for our outlook for yearend, we have revised our guidance for yearend net sales to reach EGP 10.5 billion, which is almost 4% higher compared to last year, and we expect flat earnings in 2018. Our EBITDA margin estimate is expected to reach 13%. As for our expansion plan for 2018, we expect to maintain our CapEx guidance of €15-20 million. We are expecting to add six to eight new looms in addition to five yarn machinery.

Then Khaled, we can now open the floor for questions.

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## Question and Answer Session

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### Operator

*[Operator instructions]*

We have a question from [Zahra Rage] from EFG Hermes. Please go ahead.

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### Nada Amin

I just had a question if you could please shed some light on the outlook for this year. You were saying you're expecting revenue growth of close to 4%. Could you please break that down a little bit more into local and export expectations.

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### Ingy Diwany

As for the local sales, we are expecting 5% higher sales, and for the exports, we are expecting 4% growth.

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### Nada Amin

For the exports in particular, do these account for any pricing revisions, given the movement we have seen in polypropylene prices?

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### [Madani Hozayen]

Not for the time being, we still wait for the market to move together.

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### Nada Amin

You haven't really seen this reflected in international market prices yet?

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### [Madani Hozayen]

The 4% takes into consideration no increases.

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### Khaled Sadek

I would like to ask one before having your closing remarks, it is on the guidance as well, just wanted to get a sense of what do you include in the guidance in terms of FX rate and export rebate collection and polypropylene prices as well.

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**Ingy Diwany**

As for the export rebates, we prefer for the time being to maintain the same figure which was collected last year of almost close to EGP 91 million. S for the polypropylene prices, we are factoring in \$1,350 per ton. Currently, the price is around 1,330. What else, we are factoring in provisions of almost 40 million.

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**Khaled Sadek**

And the FX rate, you are assuming spot FX rate.

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**Ingy Diwany**

17.7.

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**Operator**

We have a question from Jonathan Milan from Waha Capital. Please go ahead.

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**Jonathan Milan**

I have a quick question on the polypropylene. Previously, you were talking about potentially hedging for polypropylene prices. Are there any updates with regards to that?

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**Ingy Diwany**

Well, actually, we are still in talks with a few of the providers for hedging, hedging providers in the industry, but we haven't settled anything yet. It is very risky. We are afraid of the exposure fluctuating of polypropylene prices, it is fluctuating every now and then is subject to supply and demand. Currently, all the estimates that pricing during Ramadan is going to slow a little bit given the lower demand during the month of Ramadan and probably it is going to pick up again in June. For the time being, we are reassessing the possibilities of hedging.

Also, on the other side...

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**[Madani Hozayen]**

On the other side, we are in the process of building a model together with [Ikea] where prices can be affected with a change in polypropylene and euro/dollar forex. We start the process and once we will have it, this will be [audio] to change the prices at any fluctuation of polypropylene.



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**Jonathan Milan**

This, for now, will just be for Ikea, but will you consider replicating it with other big customers.

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**[Madani Hozayen]**

[Audio] Ikea, we can do it with others.

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**Jonathan Milan**

Has this been done before, is this common practice in Europe, Turkey, U.S.?

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**Ingy Diwany**

It's usually we work with them on an open book basis, not under the same contract per se, but we... when we first built our relationship with Ikea, that's how it was and was a lot of other customers, where it's kind of open book and it's acceptable to pass on these increases, but the past few years, Ikea have quite tough so this was a good indicator, but it's just too difficult for us to continue having these [audio] and pass it on, so we requested a formal kind of arrangement or contract and it looks like it's going to be accepted, so we're in the stages of negotiations. So basically it is common, but we're just trying to formalise it.

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**Company Representative**

And adding [audio] main partnership is like with a big distributor in France that will handle Spain, France, Italy, and Germany called [inaudible], who are just starting a partnership process, that will end up with an added value between 5-6 million for the end of the year for Europe, so this will accumulate the growth that has already been impact with Ikea then I believe in the third quarter.

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**Jonathan Milan**

Yes and I recall in a previous call you mentioned there was this event that happened in a city in Germany and you guys came back from there very optimistic about future sales in Europe. I'm sorry I forget which city.

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**Company Representative**

... Hanover



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**Jonathan Milan**

Yes, I'll Hanover and has there been any follow-up from that in terms of interest translating into orders?

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**Company Representative**

Yes, you know, after [inaudible] we get, you know, the performance for the orders and output was better than the year before and in terms of deliveries for the orders that have been in place has been reflected in positive figures achieved in the first quarter, and we keep on because we start to get more repeats, so it will start to affect by end of the second quarter and start to be more clear as a figure in third quarter.

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**Jonathan Milan**

Okay and my last question is on competition from Turkey. Are you seeing increased competition from Turkey, I mean especially with a devaluation of the Turkish lira, and I think they get a higher rebate than... export rebate than you guys, so are you seeing much tougher competition from Turkey? Will this eventually prevent you from at some point increasing prices to offset higher [inaudible] prices and therefore EBITDA margins will trend down further?

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**Company Representative**

Therefore in the presentation if we speak about competition product by product, yes, there is a big competition and the terms of payment they are offering as well, and there are very small margins they are putting, so we are trying just to manoeuvre between the markets they are starting to get aggressive in, and do more for the other markets, they have [inaudible] advantage in terms of their position, geographical position, and so on, so so far it's not really affected, but it's just for let's say the big option, sometimes we get this high competition and reflect our prices and margin according to this one, yeah.

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**Ingy Diwany**

Jonathan Witt, would you like to elaborate on the competition in the U.S. market?

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**Jonathan Witt**



Sure. When it comes to the Turkish product, really over the past year I wouldn't say that we've seen much of an increase. Most of those manufacturers don't have an infrastructure in the U.S. to service customers or retailers, excuse me, the way that we need to through warehousing and daily shipments to customers, consumers' homes, so we're not feeling the effects quite as much as I think the mother company does just selling to other distributors and importers.

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#### **Operator**

Our next question comes from Jarrod Howe, Rock Creek. Please go ahead.

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#### **Jarrod Howe**

Yes, I was wondering if you could just give a little more detail on what was impacting the lower volumes across your export businesses. It looks like the Egyptian business is doing just fine and it's really the export businesses that are suffering, and how you're going to protect margins or actually what will be the focus going forward for the rest of the year, will it be driving volumes or protecting margins? Thank you.

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#### **Ingy Diwany**

Yes, for the woven segment, as you can see, we have recorded like growth of 4% on the export level in the first quarter, but it's the problem with the tufted and the non-woven segment that we have seen a drop in the export volumes, given the delayed promotions that took place in the first quarter of this year, so the promotions were delayed to the second and third quarter of this year, and also last year there was a strong one-time order that took place on the tufted segment level, which was not repeated this year. So these were the two main reasons for the lower volumes on the tufted and the non-woven segment – the export business. As for the local market, we have seen a pick-up in demand starting in March this year and for the woven segment you can see that the volumes are higher, but it's only for the tufted segment that the volumes were lower, because last year we managed to sell large volumes of lower priced stock that we used to have from previous years and we managed to sell it last year following the floatation of the Egyptian pound, given that their prices were low. But this year if you look at the average selling prices for the tufted segment, you will see that it's higher by around 20 or 30%, but the volumes were lower because we are only now selling higher grade product on the tufted level. Does this answer your question?

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#### **Jarrod Howe**



The second part of the question is going forward, you know, you've given me some nice colour regarding volumes, but given the polypropylene prices and other costs, will you be focused more on margin protection or driving volume growth for the rest of the year?

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**Ingy Diwany**

Well, for the rest of the year we are going to focus more on expanding our market share, given the competition in the markets, and we are going to focus on volume growth, so we are expecting this year around 3% volume growth, and for the next year it seems to be the same case, around 3-4% volume growth, and we hope that we will be able to introduce higher price points next year. We are guiding for 6-7% revenue growth in 2019.

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*[No further questions]*

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**Ingy Diwany**

Okay, thank you all for joining the call and if you have any further questions, please you can email it on our... on my email [ieldiwany@orientalweavers.com](mailto:ieldiwany@orientalweavers.com) Thank you.

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