Suez Cement Announces Consolidated Results for Q3 2019

Persistent gap between supply and demand in the wider industry continues to exert pressure on top line; net profit down on the back of intensified competition.

Q3 2019 At a Glance

EGP 1.6bn	EGP (0.4) mn	EGP 47.7 mn	EGP (193.8) mn	1.7 MT	13.8% YTD
Revenue	Gross Profit	EBITDA	Net Profit	Volume Sold	Market Share
▼7.4% y-o-y	-0.02% margin	3.0% margin	-12.3% margin	▼13.4% y-o-y	▼0.1 ppts

(1st December 2019 – Cairo) The Suez Cement Group of Companies ("Suez Cement" or the "Group", SUCE on the Egyptian Exchange), Egypt's leading producer of cement, announces its results for the third quarter ended 30 September 2019, reporting a decrease in its top line of 7.4% year-on-year to EGP 1,576.6 million in Q3 2019 on the back of a weakening industry backdrop. The Group recorded a fall in EBITDA to EGP 47.7 million in Q3 2019 from EGP 142.9 million in Q3 2018. Weakening operating profitability levels trickled down to a net loss of EGP 193.8 million in Q3 2019 compared to a net profit of EGP 97.0 million in Q3 2018. On a year-to-date basis, revenues fell 13.3% year-on-year to EGP 4,910.5 million while net losses amounted to EGP 495.6 million in 9M 2019 compared to a net profit of EGP 335.4 million in the first 9 months of the previous year.

Summary Income Statement (EGP mn)	9M19	9M18	% Change	3Q19	3Q18	% Change
Revenue	4,910.5	5,666.4	*-13.3%*	1,576.6	1,702.0	*-7.4%*
Gross profit	**(64.0)**	**550.6**	***n/a***	**(0.4)**	**54.9**	***n/a***
GP%	*-1.3%*	*9.7%*	-	*-0.02%*	*3.2%*	-
EBITDA	**52.8**	**696.1**	***-92.4%***	**47.7**	**142.9**	***-66.6%***
EBITDA margin	*1.1%*	*12.3%*	-	*3.0%*	*8.4%*	-
Net profit	**(495.6)**	**335.4**	***n/a***	**(193.8)**	**97.0**	***n/a***
Net profit margin	*-10.1%*	*5.9%*	-	*-12.3%*	*5.7%*	-

"Prices in the market recorded its lowest level since the devaluation of the Egyptian currency on the back of intensified disruptive competition. Without any serious legislation changes to benefit the cement industry and reduce our expenses, or limit production, we do not foresee a recovery in the market as it falls deeper into a recession. The excess capacities combined with demand dilution will continue to add pressure to market prices, and our price and volume forecast for 2020 indicates no change from the current situation."

Jose Maria Magrina
Group CEO

Income Statement Highlights

- **Revenues** came in at EGP 1,576.6 million in Q3 2019, representing a 7.4% year-on-year decline from EGP 1,702.0 million recorded in Q3 2018. Suez Cement's decreasing top line was a consequence of depressed market prices amidst a widening supply gap. Despite its year-on-year contraction, revenues grew by 4.1% quarter-on-quarter from EGP 1,514.3 million in Q2 2019.
- The Group booked a minor **gross loss** of EGP 0.4 million in Q3 2019 compared to a positive gross profit of EGP 54.9 million in Q3 2018. This decrease was driven by continuously falling prices due to disruptive competition coupled by expanding input costs on the back of Egypt's currency float and the eventual elimination of subsidies.
- **General and administrative** expense for the quarter recorded EGP 106.2 million in Q3 2019, representing a slight expansion of 1.1% year-on-year and 6.7% of revenues compared to 6.2% of revenues in Q3 2018, and included part of the restructuring cost and end of service benefits, attributable to Tourah closure, of EGP 46 million in Q3 2019 versus Zero in Q3 2018.
- Suez Cement recorded **EBITDA** of EGP 47.7 million in Q3 2019, compared to EGP 142.9 million in Q3 2018, with its margin further dampened on account of low prices and increasing operating expenses.
- **Net loss** stood at EGP 193.8 million in Q3 2019 compared to a net profit of EGP 97.0 million in Q3 2018. The fall in net profit follows a 5.4 percentage-point fall in the EBITDA margin during the period on the back of drop in gross profit, in addition to losses made from receivables impairment, sale of fixed assets and sale of obsolete inventory of EGP 10.3 million, EGP 12.2 million and EGP 12.4 respectively during the same period.

Summary Balance Sheet (EGP mn)	9M19	FY18	% Change
Total Assets	**8,455.5**	**9,205.7**	***-8.1%***
Current Assets	3,603.7	3,701.8	*-2.6%*
Assets Held for Sale	29.1	414.2	*-93.0%*
Noncurrent Assets	4,822.7	5,089.7	*-5.2%*
Total Liabilities	**5,120.7**	**5,176.5**	***-1.1%***
Current Liabilities	4,670.8	4,677.6	*-0.1%*
Liabilities Associated with Assets Held for Sale	-	62.8	*n/a*
Noncurrent Liabilities	449.9	436.1	*3.1%*
Total Shareholders' Equity	**3,334.8**	**4,029.3**	***-17.2%***
Net Working Capital	831.2	(59.0)	*n/a*
Net Fixed Assets	**3,227.0**	**3,395.7**	***-5.0%***
Net Debt	976.5	(277.3)	*n/a*

Balance Sheet Highlights

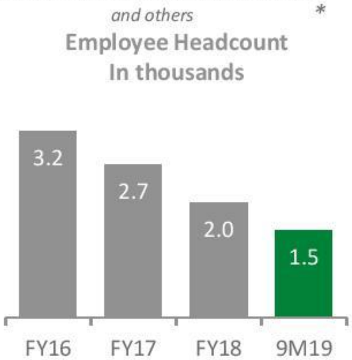
- **CAPEX** outlays year-to-date came to EGP 160.2 million, down 47.3% year-on-year from EGP 235.9 million invested during the first nine months of 2018. The bulk of the Group's CAPEX outlay for the period went primarily to projects already under construction.
- **Net debt** amounted to EGP 976.5 million as of 30 September 2019 compared to a net cash level of EGP 277.3 million just nine months earlier.

Operational Highlights

- In 9M 2019, Suez Cement recorded a **market share** of 13.8% compared to 13.9% in 9M18, enabling the Group to maintain its position as an industry leader in Egypt's grey cement market.

- **Consolidated volumes of cement and clinker sold** fell by 13.4% year-on-year to 1.70 million from 1.96 million tons in Q3 2018.
- **Employee headcount** stood at 1.5 thousand as of 30 September, 2019.

** Includes Tourah & Ready-mix subsidiaries and others*



CEO's Note

As we near the end of 2019, we look back on what has been a difficult year for Egypt's cement industry, with no players spared. Despite a slight improvement of 4.1% quarter-on-quarter, Suez Cement's revenues fell by 7.4% year-on-year to EGP 1,576.6 million in Q3 2019 from EGP 1,702.0 million in Q3 2018. The Group's falling top line was a consequence of significant problems in oversupply coupled with the continued decline in demand, resulting in disruptive competition and lower prices compared to last year. Along with declining revenues and increasing direct costs, as well as the cost attributed to the closure of Tourah in May, the Group's margins dampened considerably on both the operating and net level, resulting in net loss of EGP 193.8 million for the Group in Q3 2019 compared to net profit of EGP 97.0 million in Q3 2018.

The volume of cement and clinker sold reached 1.70 million tons in 3Q19 from 1.96 million tons in Q3 2018, representing a decrease of 13.4% year-on-year. The decline in cement orders came on the back of new legislations introduced during the year, on top of the increased royalty on limestone and clay used in the manufacture of cement (which, among other factors, caused a 35% increase in raw materials cost) a new real estate tax imposed on factories, and the gradual increase of VAT in the last few years from 5% to 14%. Other factors that affected cement demand included new legislation on illegal buildings as well as lack of liquidity for contractors due to delays in payment for the State's mega projects. Prices in the market averaged EGP 639 per ton in Q3 2019, recording its lowest level since the devaluation of the Egyptian currency on the back of intensified disruptive competition between our peers to preserve respective market shares as well as new cement players, who typically compete for volume. Despite lower volumes, we successfully maintained our market share at c.14% in 9M19 due to the market contracting at almost the same rate as our revenues during the period, at 6.4% year-on-year. Since the beginning of the year, Suez Cement has been making losses from the gross profit level down to its bottom line, recording a gross loss of EGP 0.4 million in Q3 2019 compared to a gross profit of EGP 54.9 million in Q3 2018. This came on the back of low prices as a direct consequence of the increasing oversupply and disruptive competition, in addition to rising input costs due to Egypt's currency float and the continuous elimination of subsidies. The majority of the Group's loss was attributed to the closure of Tora, whose related direct expenses consists primarily of compensation paid to leaving employees, were significant during the period. Despite lower fuel costs for this quarter on account of lower prices as well as improved energy consumption per ton, increasing electricity costs more than made up for the decrease in direct costs due to a tariff hike of 14.9% in July. Nevertheless, we have managed to successfully stabilize our gross loss quarter-on-quarter from EGP 37.3 million to less EGP 0.5 million in Q3 2019. Our cost reduction campaign, which has seen us dramatically decrease our employee count, resulting in an exceptional jump in productivity per employee from 2,585 tons to 3,416 tons, and use alternative fuels in our plants at an unprecedented level exceeding 20% of our overall fuel mix, and continuously searching for cheaper types of fuel.

Without any serious legislation changes to benefit the cement industry and reduce our expenses, or limit production, we do not foresee a recovery in the market as it falls deeper into a recession. The excess capacities combined with demand dilution will continue to add pressure to market prices, and our price and volume forecast for 2020 indicates no change from the current situation. Despite its grim forecast, Suez Cement will continue to position itself to maintain and enhance its leading position in the cement market once it recovers.

Jose Maria Magrina
Group CEO

About Suez Cement

The Suez Cement Group of Companies (“Suez Cement” or the Group, SUCE on the Egyptian Exchange), is Egypt’s leading producer of cement. Since 1977, Suez Cement has manufactured and distributed the highest quality cement, aggregates and ready-mix concrete, and its products have been used to build some of Egypt’s most recognizable landmarks. With a web of subsidiaries spanning Suez, Kattameya, Tourah and Helwan, Suez Cement’s industrial network affords it a degree of national exposure unmatched by competitors for its comprehensiveness and longevity. The Group’s 1,500 professionals pursue continuous innovation, providing customers at home and abroad with a suite of services that differentiates the Group’s offering. Suez Cement is majority owned by the Heidelberg Cement Group, making it part of a family of organizations that represents one of the world’s largest building materials companies.

Share Information

SUCE on the Egyptian Exchange
Listed: 8 August 1983
Shares Outstanding: 181,856,507

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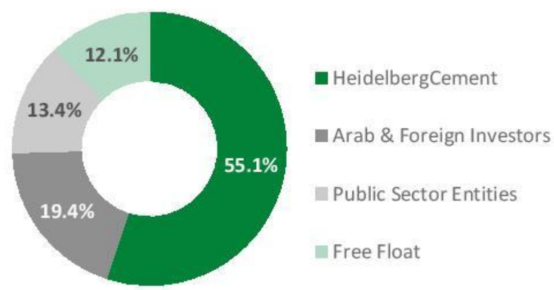
Shareholder Structure

(as at 30 September 2019)



Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as “according to estimates”, “anticipates”, “assumes”, “believes”, “could”, “estimates”, “expects”, “intends”, “is of the opinion”, “may”, “plans”, “potential”, “predicts”, “projects”, “should”, “to the knowledge of”, “will”, “would” or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding our business and management, our future growth or profitability and general economic and regulatory conditions and other matters affecting us.

Forward-looking statements reflect our management’s (“Management”e) current views of future events, are based on Management’s assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause our actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include fluctuations in prices, costs, ability to retain the services of certain key employees, ability to compete successfully, changes in political, social, legal or economic conditions in Egypt, worldwide economic trends, the impact of war and terrorist activity, inflation, interest rate and exchange rate fluctuations and Management’s ability to timely and accurately identify future risks to our business and manage the risks mentioned above.