



EZZSTEEL REPORTS CONSOLIDATED Q1 2019 RESULTS

Cairo, 09 July 2019 – ezzsteel (EGX: ESRS; London Stock Exchange: AEZD), the largest independent steel producer in the MENA region and market leader in Egypt, today announced its consolidated results for the period ending 31 March 2019. The audited results have been prepared in accordance with Egyptian Accounting Standards.

Key highlights

EGP Mn

	<u>Q1 2018</u>	<u>Q1 2019</u>	<u>YoY % (+/-)</u>
☐ Net sales	12,608	12,616	0
☐ Gross profit	1,761	303	(83)
☐ EBITDA*	1,787	236	(87)
☐ Net profit after tax and minority interest	(67)	(1,082)	
☐ Earnings per share**	(0.12)	(1.99)	
☐ Net debt to equity	2.15x	5.21x	

*EBITDA = sales – cost of goods sold – selling & marketing expense – G&A expense + depreciation and amortisation

**EPS = Net profit after tax & Minority Interest / No. of shares at the end of the period

Comment

Commenting on the results, Mr Paul Chekaiban, Chairman and Managing Director of ezzsteel, said:

During the first quarter of 2019, contrary to all expectations and despite a robust industrial performance in all Ezz Steel plants, we registered a deterioration in our financial results.

The first reason is the continuing absence of any safeguard measures in Egypt which led to a major decrease in the selling price of our finished products during the first quarter of the year. The second reason is the detrimental price of natural gas, the increasing price of electricity, and the exceptionally high cost of funding, all of which remained at much higher levels compared to our global competitors. The third reason is the accidental collapse of a tailings dam in a Brazilian mine of Vale, the main worldwide supplier of Iron Ore that provoked a sharp surge in the price of our main raw material.

In the coming periods, we expect a gradual relief of these exceptional adverse circumstances which have negatively impacted the financial performance of Ezz Steel.

For further information:

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About ezzsteel

ezzsteel (formerly: Al Ezz Steel Rebars) is the largest independent steel producer in the Middle East and North Africa, and the Egyptian market leader, with a total actual capacity of 7 million tonnes of finished steel.

In 2018, the Company produced 3.5 million tonnes of long products (typically used in construction) and 1.4 million tonnes of flat products (typically used in consumer / industrial goods). ezzsteel deploys the latest in modern steel-making technology and is committed to further increasing vertical integration across its plants, boosting operational flexibility.

Operational Review

All of the below financial breakdowns are based on ezzsteel's consolidated financials, which include the financial performance of ESR/ERM, EZDK, and EFS.

Sales & Production

Consolidated net sales for Q1 2019 were EGP 12.6 billion and were flat on the prior-year period. This was largely driven by lower selling prices despite the higher sales volume.

Long steel as well as flat steel prices started to decline in both the domestic and export markets, marking the first significant quarter-on-quarter decline of the price environment in 18 months. Long export prices were down 6% compared with Q1 2018 to EGP 9,590 per ton while flat export prices fell 6% to EGP 9,947 per ton.

Sales after elimination				
<i>EGPMn</i>	ESR/ERM	EZDK	EFS	Consolidated
Long	2,029	4,191	2,980	9,200
Flat	-	3,014	268	3,282
Others	-	118	16	134
Total	2,029	7,323	3,264	12,616

Long steel products accounted for EGP 9.2 billion, or 73 per cent of sales in Q1 2019, while flat steel products represented 26 per cent of sales at EGP 3.3 billion. Long product exports accounted for 8 per cent of total long sales, while flat product exports accounted for 42 per cent of total flat sales.

Sales Value				
<i>EGPMn</i>	Domestic	per cent	Export	per cent
Long	8,464	92%	736	8%
Flat	1,889	58%	1,392	42%

Long sales volumes were 912 thousand tonnes during Q1 2019, representing an increase of 4 per cent compared to the 876 thousand tonnes sold during the same period last year.

Flat sales volumes increased by 5 per cent to reach 318 thousand tonnes in Q1 2019. While international markets weakened, the domestic market saw an increase in volume of 13% over Q1 2018 and 24% compared to the previous quarter.

The group's consolidated sales volumes totalled 1.23 million tonnes in Q1 2019, an increase of 4 per cent from the 1.18 million tonnes sold in Q1 2018.

The contributions of ESR/ERM, EZDK and EFS to the consolidated net sales for the period ending 31 March 2019 were 16 per cent, 58 per cent, and 26 per cent respectively.

Long steel production volumes totalled 897 thousand tonnes during Q1 2019, up 5 per cent compared to Q1 2018. Flat steel production volumes were down 5 per cent at 310 thousand tonnes for the period.

Cost of Goods Sold

Consolidated Cost of Goods Sold for Q1 2019 represented 98 per cent of sales, leading to a decline in gross profit margin of 12 percentage points year-on-year to 2.4 per cent in Q1 2019.

In the first quarter of 2019, the COGS/Sales ratios deteriorated at all three facilities. At EZDK, the COGS/Sales ratio stood at 94% compared to 85% in Q1 2018. ESR/ERM reported a COGS/Sales ratio of 99% per cent, nine percentage points higher than over the same period in the previous year. EFS' COGS/Sales ratio stood at 108 per cent, up 3 percentage points compared to Q1 2018.

<i>EGPMn</i>	Standalone figures			Consolidated
	ESR/ERM	EZDK	EFS	ezzsteel
Sales	3,557	7,928	3,265	12,616
COGS	3,511	7,454	3,513	12,313
COGS/Sales	99%	94%	108%	98%

Gross profit

Gross profit of EGP 303 million was recorded for Q1 2019, a decline of 83 per cent from the EGP 1,761 million in Q1 2018.

EBITDA

EBITDA for Q1 2019 amounted to EGP 236 million, representing a decrease of 87 per cent from EGP 1,787 million in Q1 2018.

Tax

In Q1 2019, ezzsteel had deferred liabilities of EGP 27.9 million and income tax expense of EGP 6.8 million.

Net result after tax and minority interests

The net result after tax and minority interests was a loss of EGP 1,082 million for Q1 2019 compared to a loss of EGP 67 million in the prior year period.

Liquidity and capital resources

At the end of the period, ezzsteel had cash on hand of EGP 2.4 billion and net debt of EGP 25 billion. The company has a gearing of Net Debt / Equity of 5.21 times.

Outlook

In the coming periods, we expect a gradual relief of the exceptional adverse circumstances that have negatively impacted the financial performance of Ezz Steel in the first quarter of 2019.

Divisional Overview

The below figures represent sales before elimination.

EZDK Sales (EGP):	Q1 2018	Q1 2019	
Value:	9,620	7,928	Mn
Volume:			
Long:	624,286	486,731	Tonnes
Flat:	272,090	291,553	Tonnes
Exports as % of Sales:			
Long:	10	16	
Flat:	48	48	
EBITDA:	1,386	416	Mn
Production:			
Long Products:	462,836	468,164	Tonnes
Flat Products:	276,879	284,576	Tonnes
Billets:	511,739	531,509	Tonnes
ESR/ERM Sales (EGP):			
Value:	3,828	3,557	Mn
Volume:	227,675	199,361	Tonnes
Exports as % of Sales:	-	-	
EBITDA:	351	(46)	Mn
Production:			
Long Products:	230,700	164,354	Tonnes
Billets:	147,809	161,967	Tonnes
DRI	272,503	345,224	Tonnes
EFS Sales (EGP):			
Value:	2,312	3,265	Mn
Volume:			
Long:	168,895	295,294	Tonnes
Flat:	30,445	26,239	Tonnes
Exports as % of Sales:			
Long:	-	-	
Flat:	48	-	
EBITDA:	(4)	(142)	Mn
Production:			
Long Products:	163,533	264,612	Tonnes
Flat Products:	49,126	25,553	Tonnes
Billets:	196,937	265,866	Tonnes

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Disclaimer

This press release is issued by ezzsteel (formerly: Al Ezz Steel Rebars S.A.E.) the “Company”, in connection with the disclosure of the Company’s financial results for the 3-month period ending 31 March 2019. This press release includes forward-looking statements. These forward-looking statements include all matters that are not historical facts. In particular, the statements regarding the Company’s strategy, the expected strength of demand for long and flat products in Egypt and in regional and international markets, and other future events or prospects are forward looking statements. Recipients of this document should not place undue reliance on forward looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the control of the Company. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Company’s actual results of operations, financial condition and liquidity, and the development of the industry in which the Company operates may differ materially from those expressed in or implied by the forward-looking statements contained in this document. The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Company, or persons acting on its behalf, may issue. Various factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements in this document including worldwide economic trends, global and regional trends in the steel industry, the economic and political climate of Egypt and the Middle East and changes in the business strategy of the Company and various other factors. These forward-looking statements reflect the Company’s judgment at the date of this document and are not intended to give any assurances as to future results. The Company undertakes no obligation to update these forward-looking statements, and it will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. None of ezzsteel, any of its directors, officers or employees or any other person can give any assurance regarding the future accuracy of the information set forth herein or as to the actual occurrence of any predicted developments. Furthermore, none of such parties shall assume, and each of them expressly disclaims, any obligation (except as required by law or the rules of the ESE, the LSE or the FCA) to update any forward-looking statements or to conform these forward-looking statements to ezzsteel’s actual results.