



EZZ STEEL REPORTS CONSOLIDATED Q1 2021 RESULTS

Cairo, 15 June 2021 – Ezz Steel (EGX: ESRS; London Stock Exchange: AEZD), the largest independent producer of steel in the MENA region and market leader in Egypt, today announced its consolidated results for the period ending 31 March 2020. The audited results have been prepared in accordance with Egyptian Accounting Standards.

Key Highlights

	EGP Mn	
	<u>Q1 2021</u>	<u>Q1 2020</u>
□ Net sales*	13,498	10,786
□ Gross profit	2,870	80
□ EBITDA**	2,701	(37)
□ Net profit before tax	1,243	(1,414)
□ Net profit	1,188	(1,350)
□ Earnings per share (EGP)***	1.44	(1.58)

* Sales including intercompany transactions: Q1 2020: EGP 13,701 million Q1 2021: EGP 15,375 million

** 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

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Comment

Commenting on the results, Mr. Mamdouh El Rouby, Chairman of Ezz Steel, said:

“1,188 million Egyptian Pounds was the net profit after tax realised by Ezz Steel on a consolidated basis in Q1 2021.

This achievement came after a year to remember. In 2020, the harsh economic effect of the COVID-19 pandemic led to a global shrinkage in the consumption of steel products, which limited international trade of steel and put pressure on product prices. The exception was China, which was able to recover faster than others and resume normal economic activities quickly, including steel production and consumption. As China represents about two thirds of the world’s demand and supply of steel, iron ore prices remained high throughout the year. This led to a decorrelation between raw materials prices and product prices, thus increasing pressure on international producers.

In 2020, the building materials sector in Egypt – just as the case with many other sectors affected by the pandemic– experienced shrinkages. Local rebar consumption in 2020 reached 6.9MT (down 7% yoy). The temporary suspension of issuing new permits for residential buildings from May to November 2020 – a decision taken to tackle a decades-long practice of unregulated building – affected demand from the household sector. On the other hand, however, government’s national mega-projects and its major infrastructure initiatives were instrumental in supporting the economy and preventing further shrinkage. The latent demand awaiting expiry of the six-month building permits suspension period in November 2020 helped increase rebar consumption starting 4Q20. Ezz Steel was able to compete effectively while reflecting the raw materials price increases in the pricing of rebars; the market absorbed such price increases. Launching the modified regulations for new building permits on 18 December 2020, “Planning & Building Regulations and Requirements”, has been an important catalyst.

Ezz Steel never lost track of its role as a leading manufacturer of steel in Egypt. Way ahead of its competitors, the company continued to produce the newly introduced high steel grade B500WDR which is now its standard rebar specification. After closely collaborating with research centres, universities, and government bodies, for almost 18 months, grade B500WDR was successfully incorporated in the Egyptian code (ECP 203 – 2020) in November 2020. With its superior properties (strength, weldability, ductability and suitability for earthquake design codes), as well as its considerable savings in quantity, it is gradually becoming the product of choice in the Egyptian market. This is further strengthening the company’s technical superiority.

With respect to flat steel, a significant development has occurred in local market, where Ezz Steel is one of the most important suppliers: after years of hovering around the 1.2 million tons per year in local consumption, market size expanded to 1.5 million tons, backed by increasing demand from national mega-projects and high level of consumption by cold rollers. Local consumption in 1Q21 continued with the same drive. Flat steel Hot Rolled Coils (HRC) sales volume reached 519 thousand tons in 1Q21, an increase of 8% over 4Q20; this being supported by the positive GDP growth Egypt -amongst very few countries- maintained in 2020.

Globally, receding infection rates after the first wave of the pandemic and the expectation of imminent vaccines in 3Q20 allowed many countries to resume normal economic activities, helping the steel market regain some momentum. Consequently, demand for flat steel increased and prices firmed. Ezz Steel has been putting emphasis on flat steel exports. With its flexible electric arc furnace (EAF) technology, Ezz Steel was able to swiftly direct its molten steel capacity in Sokhna, Suez, to the production of HRC to satisfy the growing demand. In addition, the HRC mill in Dekheila, Alexandria, has been also producing to capacity. The advanced technical abilities of both mills enable the company to maximise thin gauge production and capitalise on this niche market. As of 4Q20, HRC exports leaped to a much higher level than previous quarters in 2020 reaching 263 thousand tons (more than double 3Q20). Such high level was maintained in 1Q21 with 259 thousand tons of exports. Exports sales proceeds reached USD 208 million in 1Q21 compared to USD 137 million in 4Q20, an increase of 53%.

Egyptian industry associations have been in discussions with the government with the aim of reconsidering natural gas price, given it is high compared to that paid by steel manufacturers in other natural gas producing countries. On interest rates, the Central Bank of Egypt's considerable reductions of interest rates on Egyptian Pound in 2020, and the initiative to finance working capital facilities for manufacturing companies at a reduced rate, benefited the company as the overall interest expense was reduced.

A significant step in the restructuring of the group companies was accomplished by mid-2020. Ezz Steel increased its shareholding stake in EZDK from 55% to 64% in return of EZDK fully acquiring EFS and ERM. Although COVID-19 delayed the aspired positive outcome due to synergy, size and strength of EZDK as an integrated steel company, performance in 1Q21 clearly demonstrate that matters are on the right track.

About Ezz Steel

Ezz Steel is the largest independent steel producer in the Middle East and North Africa, and the Egyptian market leader, with a total capacity of 7 million tonnes of finished steel products per annum. The company was established on 2/4/1994 as an Egyptian joint stock company in accordance with the provisions of Law No. 159 for the year 1981.

In 2020, the Company produced 3.1 million tonnes of long products (typically used in construction) and 1.3 million tonnes of flat products (typically used in engineering industries, automotive, steel pipes and consumer products). Ezz Steel 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 Ezz Steel's consolidated financials, which include the consolidated financial performance of EZDK. Following the latter's acquisition of EFS/ERM, both are full subsidiaries of EZDK.

Sales

Consolidated net sales for Q1 2021 were EGP 13.5 billion compared to EGP 10.79 billion during Q1 2020, representing an increase of 25%. This resulted mainly from an increase in flat sales volume by 65%, and an increase in both the long and flat average selling prices by 37% and 44% respectively, more than compensating for a decrease in long sales volume.

Sales after elimination

EGPMn

	Ezz Steel Standalone	EZDK Consolidated	Ezz Steel Consolidated
Long	2,038	4,893	6,930
Flat	-	6,373	6,373
Others	-	195	195
Total	2,038	11,461	13,498

Long steel products accounted for EGP 6.93 billion, or 51% of sales in Q1 2021, while flat steel products represented 47% of sales at EGP 6.37 billion. Long product exports accounted for 14% of total long sales. Flat product exports accounted for 52% of total flat sales.

Sales Value EGPMn	Domestic	%	Export	%
Long	5,971	86%	959	14%
Flat	3,086	48%	3,287	52%

Long sales volumes were 595 thousand tonnes during Q1 2021, 37% lower than the 941 thousand tonnes sold in Q1 2020. It is worth noting that Q1 2020 was the last full quarter before the negative effect of COVID-19 and the suspension of building permits. As of Q3 2020 the company started to direct molten steel capacity in Sokhna to produce flat steel instead of long. This explains the increase in consolidated flat sales volume to reach 535 thousand tonnes, a leap of 66% in Q1 2021 over Q1 2020.

The group's consolidated sales volumes totalled 1.13 million tonnes in Q1 2021, a decrease of 10% from the 1.26 million tonnes in Q1 2020.

Production

Long steel production volumes totalled 715 thousand tonnes during Q1 2021, down 23% compared to 932 thousand tonnes in Q1 2020.

Flat steel production volumes however increased by 40% to 500 thousand tonnes for the period, compared to 357 thousand tonnes in Q1 2020.

Cost of Goods Sold

Consolidated Cost of Goods Sold for Q1 2021 represented 79% of sales, compared to 99.25% of sales in Q1 2020. This led to an increase in the gross profit margin from 0.25% in Q1 2020 to 21% in Q1 2021.

Ezz Steel Standalone reported a COGS/Sales ratio of 87% for Q1 2021, compared to 99% in Q1 2020.

<i>EGPMn</i>	ESR Standalone	EZDK Consolidated	Ezz Steel Consolidated
Sales	2,038	11,461	13,498
COGS	1,765	8,864	10,628
COGS/Sales	87%	77%	79%

Gross profit

Gross profit of 2.87 billion was recorded for Q1 2021 for Ezz Steel consolidated, compared to a gross loss of 80 million in Q1 2020.

EBITDA

Ezz Steel consolidated EBITDA for Q1 2021 amounted to EGP 2.7 billion, compared to an EBITDA loss of EGP 37 million in Q1 2020.

Tax

During Q1 2020, Ezz Steel had deferred taxes in the amount of EGP 37.3 million and income tax of EGP 18.2 million.

Net profit

Net profit after tax reached EGP 1,188 million in Q1 2021, compared to a loss of EGP 1,350 million during the same period in 2020.

Net result after tax and minority interests

Net result after tax and minority interests recorded a profit of EGP 784 million for Q1 2021, compared to a loss of EGP 860 million during the same period in 2020.

Liquidity and capital resources

At the end of the period, Ezz Steel had cash on hand of EGP 2.95 billion and net debt of EGP 33.5 billion.

Outlook

Some decisions and decrees to complement the requirements for building are expected to be announced during the year: in particular to guide implementation. This will have a good impact as it would end of the state of anticipation that prevailed in the local market for rebars. As for Ezz Steel, production of the high-grade steel B500WDR would effectively support Ezz Steel's sales efforts. The company also follows the developments of the flat steel markets, locally and internationally, with the objective to continue to be competitive; Ezz Steel will benefit from its strong distribution network that comprises major consumers and international trade companies.

Ezz Steel keeps a close eye on "Green Steel" initiatives worldwide. The company stands to benefit from its low carbon footprint: not only is the reliance on a feedstock of DRI -reduced by natural gas- and scrap is much more favourable than blast furnaces as far as emissions are concerned, but, additionally, upstream from this, the electric energy for all the company's electric arc furnaces relies on Egypt's power generation which is mostly natural gas based. Carbon dioxide (CO₂) emissions of Ezz Steel is calculated to be 1.22 tons/ton of molten steel, about half the 2.33 tons of the blast furnace route, and 36% lower than the world average of 1.85 tons. With the discussions on carbon tax in Europe gaining momentum, the company would be able to monetize its relatively low carbon footprint in due course.

Divisional Overview

EZDK Standalone Sales (EGP):			Q1 2021	Q1 2020
Value:	Mn		8,847	8,034
Volume:				
Long:	000 Tonnes		390	674
Flat:	000 Tonnes		311	283
Exports as % of Sales:				
Long:			21%	7%
Flat:			41%	37%
EBITDA:	Mn		1,859	211
Production:				
Long Products:	000 Tonnes		487	457
Flat Products:	000 Tonnes		280	287
Billets:	000 Tonnes		500	519
Ezz Steel Standalone Sales (EGP):				
Value:	Mn		2,092	1,994
Volume:	000 Tonnes		176	232
Exports as % of Sales:				
EBITDA:	Mn		213	(81)
Production:				
Long Products:	000 Tonnes		194	217
Billets:	000 Tonnes		224	203
EZDK Consolidated* Sales (EGP):				
Value:	Mn		11,461	8,859
Volume:				
Long:	000 Tonnes		424	718
Flat:	000 Tonnes		535	323
Exports as % of Sales:				
Long:			20%	5%
Flat:			52%	40%
EBITDA:	Mn		2,500	54
EBT	Mn		1,146	(1,144)
Net Profit	Mn		1,023	(1,079)
Production:				
Long Products:	000 Tonnes		522	715
Flat Products:	000 Tonnes		500	357
Billets:	000 Tonnes		532	723

*Figures include ERM

Ezz Steel Consolidated			Q1 2021	Q1 2020
Sales (EGP):				
	Value:	Mn	13,498	10,786
	Volume:			
	Long:	000 Tonnes	595	941
	Flat:	000 Tonnes	535	323
	Exports as % of Sales:			
	Long:		14%	5%
	Flat:		52%	40%
	EBITDA:	Mn	2,701	(37)
	EBT	Mn	1,243	(1,414)
	Net Profit	Mn	1,188	(1,350)
Production:				
	Long Products:	000 Tonnes	715	932
	Flat Products:	000 Tonnes	500	357
	Billets:	000 Tonnes	756	926

Disclaimer:

This press release is issued by Ezz Steel (formerly: Al Ezz Steel Rebars S.A.E.) the “Company”, in connection with the disclosure of the Company’s financial results for the quarter ending 31 March 2021. 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, 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 Ezz Steel, 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, no 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 Ezz Steel's actual results.