



EZZSTEEL REPORTS CONSOLIDATED 9M 2019 RESULTS

Cairo, 02 January 2020 – ezzsteel (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 9-month period ending 30 September 2019. The audited results have been prepared in accordance with Egyptian Accounting Standards.

Key highlights

EGPMn

	<u>9M 2018</u>	<u>9M 2019</u>	<u>YoY % (+/-)</u>
□ Net sales	37,447	35,258	(6)
□ Gross profit	4,642	529	(89)
□ EBITDA*	4,588	246	(95)
□ Net profit after tax and minority interest	(1,005)	(3,590)	
□ Earnings per share**	(1.85)	(6.61)	

*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 third quarter of 2019, ezzsteel had to face extremely adverse economic circumstances, including:

- the total collapse in prices of finished steel products in both domestic and international markets,
- the excessive spike in iron ore prices and the erratic availability of iron ore direct reduction pellets,
- the unsustainable cost of natural gas and electricity and the harmful level of interest rates in Egypt, and
- the crippling effect of safeguard measures on steel products applied all over the world but not yet implemented in our domestic market.

In combination, these factors translated into a consolidated bottom line loss in the third quarter that was slightly higher than the negative results already generated in each of the preceding quarters of 2019.

Looking forward, we expect a gradual relief from the adverse circumstances which have negatively impacted the financial performance of our company.

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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 per annum.

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 9M 2019 were EGP 35.3 billion, representing a decrease of 6 per cent year on year. This can be attributed to a 6 and 11 per cent decrease in realised blended prices (export and local market) for long and flat steel respectively in the first nine months of 2019. Such a challenging price environment, combined with a 17 per cent decrease in sold flat volumes, led to an overall decrease in top line results for the period.

Over the 9-month period 2019, long and flat steel prices were down in both the local and export market. Local sales volumes increased by 6 per cent; however, export markets continued to be more challenging and decreased by 16%.

Sales after elimination				
<i>EGPMn</i>	ESR/ERM	EZDK	EFS	Consolidated
Long	5,584	14,794	6,408	26,786
Flat	-	7,464	553	8,017
Others	-	387	68	455
Total	5,584	22,645	7,029	35,258

Long steel products accounted for EGP 26.8 billion, or 77 per cent of sales in 9M 2019, while flat steel products represented 23 per cent of sales at EGP 8 billion. Long product exports accounted for six per cent of total long sales. Flat product exports accounted for 50 per cent of total flat sales.

Sales Value				
<i>EGPMn</i>	Domestic	per cent	Export	per cent
Long	25,183	94	1,602	6
Flat	4,048	50	3,969	50

Long sales volumes, which contribute about three quarters of the total revenue, were 2.66 million tonnes during 9M 2019, nine per cent higher than the 2.44 million tonnes sold during the same period last year. In the local market, long sales volumes were up 11 per cent. However, the export market showed a relative decline and was down 8 per cent year on year.

Flat sales volumes declined by 17 per cent to 813 thousand tonnes in 9M 2019. The protection measures that have spread worldwide negatively affected international trade volumes as well as price. Exported flat volumes further decreased in 9M 2019. They were down 19 per cent to 409 thousand tonnes compared to the 503 thousand tonnes in 9M 2018.

The group's consolidated sales volumes totalled 3.47 million tonnes in 9M 2019, an increase of two per cent from the 3.42 million tonnes sold in 9M 2018.

The contributions of ESR/ERM, EZDK and EFS to consolidated net sales for the 9M period ending 30 September 2019 were 16 per cent, 64 per cent, and 20 per cent respectively.

Long steel production volumes totalled 2.5 million tonnes during 9M 2019, one per cent up compared to 9M 2018. Flat steel production volumes decreased by 19 per cent to 888 thousand tonnes for the period, compared to 1.1 million tonnes produced in the 9-month period 2018.

Cost of Goods Sold

Consolidated Cost of Goods Sold for 9M 2019 represented 99 per cent of sales, which led to a significant decrease in gross profit margin from more than 12 per cent in 9M 2018 to 1.5 per cent in 9M 2019.

EFS's Cost of Goods Sold to Sales ratio was at 113 per cent, compared with 111 per cent in the same period last year. At 95 per cent, EZDK showed a weaker COGS to sales ratio for 9M 2019 compared to the 84 per cent achieved in the 9M 2018 period. At ESR/ERM, the COGS to sales ratio also deteriorated from 93 per cent in 9M 2018 to 99 per cent in 9M 2019.

<i>EGPMn</i>	Standalone figures			Consolidated
	ESR/ERM	EZDK	EFS	ezzsteel
Sales	8,999	26,472	7,041	35,258
COGS	8,948	25,177	7,976	34,730
COGS/Sales	99%	95%	113%	99%

Gross profit

Gross profit of EGP 529 million was recorded for 9M 2019.

EBITDA

EBITDA for 9M 2019 amounted to EGP 246 million.

Tax

During 9M 2019, ezzsteel had deferred tax liabilities of EGP 32.8 million and tax expense of EGP 34.8 million.

Net result after tax and minority interests

The net result after tax and minority interests was a loss of EGP 3.6 billion for 9M 2019 compared to a loss of EGP 1.0 billion during the same period in 2018.

Liquidity and capital resources

At the end of the period, ezzsteel had cash on hand of EGP 1.6 billion and net debt of EGP 28.9 billion.

Outlook

Looking forward, we expect a gradual relief from the adverse circumstances which have negatively impacted the financial performance of our company. In particular, natural gas price and interest rates are contenders for reconsideration by the authorities.

Divisional Overview

Figures before the elimination of inter-company transactions.

EZDK Sales (EGP):	9M 2018	9M 2019	
Value:	28,196	26,472	Mn
Volume:			
Long:	1,768,978	1,819,411	Tonnes
Flat:	783,400	812,904	Tonnes
Exports as % of Sales:			
Long:	10	9	
Flat:	46	50	
EBITDA:	4,318	1,038	Mn
Production:			
Long Products:	1,495,508	1,404,993	Tonnes
Flat Products:	832,099	853,487	Tonnes
Billets:	1,509,922	1,562,413	Tonnes
ESR/ERM Sales (EGP):			
Value:	10,823	8,999	Mn
Volume:	639,670	547,544	Tonnes
Exports as % of Sales:	-	-	
EBITDA:	550	(191)	Mn
Production:			
Long Products:	645,128	516,588	Tonnes
Billets:	471,266	487,037	Tonnes
DRI:	822,376	723,101	Tonnes
EFS Sales (EGP):			
Value:	6,366	7,041	Mn
Volume:			
Long:	390,534	654,119	Tonnes
Flat:	191,283	57,333	Tonnes
Exports as % of Sales:			
Long:	-	-	
Flat:	73	0	
EBITDA:	(377)	(646)	Mn
Production:			
Long Products:	377,802	625,801	Tonnes
Flat Products:	262,691	34,306	Tonnes
Billets:	392,575	616,464	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 9-month period ending 30 September 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.