



EZZ STEEL REPORTS CONSOLIDATED FY22 RESULTS

Cairo, 2 April 2023 - 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 December 2022. The audited results have been prepared in accordance with Egyptian Accounting Standards.

Paste the following link into your web browser to download a PDF of the full financial statements related to this announcement:

http://www.ms-pdf.londonstockexchange.com/ms/0314I_1-2024-3-22.pdf

Key Highlights EGPM^h

	<u>FY22</u>	<u>FY21</u>
Net sales	83,984	67,819
Gross profit	18,778	13,770
Net profit before tax*	8,926	7,171
Net profit**	6,647	5,397
Earnings per share (EPS)**	7.98	6.61

* After allowing for an FX loss of EGP 3,472mn.

** Net profit does not include the related FX losses achieved in 1Q23 amounting to EGP 5.281 bn. for the period from 1/1/2023 till 1/3/2023 according the company's disclosure to EGX and LSE on 1/3/2023.

*** EPS = Net profit after tax & Minority Interest / No. of shares at the end of the period, for the three months period ending 31 December 2022.

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Comment

Commenting on the results, the board issued the following notes to the shareholders:

- Sales amounted to EGP 83,984 million in 2022 compared to EGP 67,819 million in 2021 (24% increase). Rebar sales accounted for 61% of total sales, and hot rolled (HRC) flat steel sales accounted for 38%.
- Export sales amounted to \$797 million in 2022, of which sales of HRC amounted to \$639 million, and sales of steel coils and rebars amounted to \$157 million. Exports in 2021 amounted to \$1,291 million, of which HRC sales for \$1,079 million and of steel coils and reinforcing steel sales for \$212 million. The decrease in exports was due to directing more quantities to meet the growing domestic consumption and also to the normalization in HRC price levels.
- As a result of lack of liquidity in foreign currencies in the banking sector, it has become vital for industrial companies to maximize their exports to cover their import requirements. Starting from 4Q22, the company shifted towards increasing exports gradually once again in order to secure the foreign currency needed for importing raw materials and consumables. The company took advantage of its active client network in more than 25 countries to achieve its goal - not only in HRC, but also in rebars.
- Foreign Exchange Loss amounted to EGP 3,472 million in 2022, in addition to EGP 994 million of losses related to financing fixed assets, which were capitalized in accordance with the accounting standards. The Egyptian pound had lost about 17% against the US dollar in March 2022, then another 5% drop in 3Q22: on October 27, 2022, CBE

announced a shift towards a flexible exchange rate, again resulting in further devaluation: the Egyptian Pound continues to be in a downward trend.

- Net profit before taxes amounted to EGP 8,926 million in 2022, compared to EGP 7,171 million in 2021. Income tax amounted to EGP 2,484 million, and deferred tax (asset) EGP 206 million.
- Net profit after tax amounted to EGP 6,647 million in 2022, compared to EGP 5,397 million in 2021 (23% increase). It is important to clarify that the full impact of FX losses in 2022 is beyond what was posted in the profit and loss account (or capitalized on fixed assets) from an accounting perspective. The company incurred additional forex losses the impact of which will appear in 1Q23, given that the official price of the US dollar was EGP 24.8 at the closing of 2022, and then starting January it ascended to reach EGP 29.6 by January 15, 2023 (and increased gradually after that). Accordingly, the company disclosed to the Egyptian Stock Exchange in March 2023 that currency losses for the period from 1/1/2023 to 1/3/2023 amounted to EGP 5.281 bn.
- Globally, central banks increased interest rates to contain inflation. In the United States (where the US Federal Reserve set the fiscal policy) interest rates rose from 0.25% at the beginning of the year to 4.5% at year end. In Egypt, the Corridor rate, which is regulated by the Central Bank of Egypt (CBE), increased from 9.25% at the beginning of 2022 to 17.25% at the end of the year (the "Lending Rate"). Furthermore, In November 2022 the Prime Minister resolved to cancel the interest rate initiative which had been in effect since March 2020 to support industry at 8%. With the expiry of most of the 8% interest rate facilities, the larger effect of an elevated interest rate environment will begin to impact the income statement starting from 1Q23.
- According to World Steel Association statistics, global crude steel production decreased by 3.9% in 2022 to reach 1,885 million tonnes, from 1,962 million tonnes in 2021. This stems largely from a 1.7% decrease in China's production (which accounts for 54% of the world's figures), due to extended shutdowns to avoid another outspread of COVID, constraining the Real Estate sector, along with more concern for the environment. It is noted that China is reconsidering these procedures. Global production in general has also been impacted of war between Russia and Ukraine, the increase in the cost of energy and the inflation that emerged at the end of Covid and its restrictive measures. the production of the European Union decreased by 10.8%, North America by 5.5%, and Russia and Ukraine by 20%. But on the other hand, Middle East production rose 6.6%.
- Domestic consumption of rebars increased 8% to reach 7,895 million tonnes in FY22 compared to 7,344 million tonnes in FY21. Private building consumption had witnessed good growth; however, high inflation rates are posing limitations on such consumption. In 4Q22 consumption was 1,905 million tonnes 10% below 3Q22 (2,107 million tonnes).
- The company's local sales of rebars increased by 15% from 2,659 thousand tons in 2021 to 3,058 thousand tons in 2022. High tensile steel of the rank (B500DWR), with its superior qualities and proven savings, continues to top the demand among consumers. Towards the end of the year, in line with the decline in local consumption, local rebars sales dropped in 4Q22 to 743 thousand tonnes by 20% compared to 3Q22 (918 thousand tonnes).
- Local HRC consumption increased to reach 1,655 thousand tonnes in FY22, 10% above the 1,508 thousand tonnes of FY21. The most important consuming segments are steel pipes and cold rolling, while the largest growth was in steel structures, and steel pipes. Worth mentioning that consumption of HRC in Egypt increased with a very good rates starting 2018; since then the average compounded annual growth rate (CAGR) reached 10.8% compensating for the limited growth for over a decade before that. Ezz Steel product remains the first choice for local downstream industries based on HRC -for its high quality, company-customer stable relation, in addition to imports decline coupled with Egyptian Pound devaluation.
- The company's domestic sales of HRC in 2022 increased to 1,127 thousand tons, up 24% over 2021 (906 thousand tons).

About Ezz Steel

Ezz Steel is the largest steel producer in the Arab World and North Africa according to the World Top Steel Makers for 2020 published by World Steel Association (WSA). The Company is the Egyptian market leader with a total capacity of 7 million tonnes of finished steel products per annum. Ezz Steel 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 2022, the Company produced 3.3 million tonnes of long products (typically used in construction) and 1.8 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 FY22 were EGP 83,984 million compared to EGP 67,819 million in FY21, representing a 24% increase.

EGPMn*	Ezz Steel Standalone	EZDK Consolidated	Ezz Steel Consolidated
Long	14,402	36,434	50,836
Flat	-	32,062	32,062
Others	-	1,086	1,086

Total	14,402	69,582	83,984
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*After the elimination of intercompany transactions.

Long steel products accounted for EGP 50.84 billion, or 61% of sales in FY22, while flat steel products represented 38% of sales at EGP 32.06 billion. Flat product exports accounted for 38% of total flat sales.

Sales Value <i>EGPM_n</i>	Domestic	%	Export	%
Long	47,718	94%	3,118	6%
Flat	19,886	62%	12,176	38%

Long sales volume increased 11% to reach 3.25 million tonnes during FY22 compared to 2.94 million tonnes during FY21. Flat sales volume decreased 9% to reach 1.82 million tonnes.

The group's consolidated sales volumes totalled 5.07 million tonnes in FY22 compared to 4.93 million tonnes in FY21, an increase of 3%.

Production

Long steel production volumes totalled 3.27 million tonnes during FY22 compared to 2.90 million tonnes in FY21, an increase of 13%. Flat steel production volumes decreased 13% to reach 1.79 thousand tonnes in FY22 compared to 2.05 million tonnes in FY21.

Cost of Goods Sold

Consolidated Cost of Goods Sold for FY22 represented 78% of sales compared to 80% in FY21. Consequently, gross profit margin increased to reach 22% in FY22 compared to 20% in FY21.

EGPM_n*	ESR Standalone	EZDK Consolidated	Ezz Steel Consolidated
Sales	14,402	69,582	83,984
COGS	12,770	52,436	65,206
COGS/Sales	89%	75%	78%

*After the elimination of intercompany transactions

Gross profit

Gross profit of EGP 18.78 billion was recorded for FY22 for Ezz Steel consolidated, a 36% increase compared to the EGP 13.77 billion recorded in FY21.

EBITDA

Consolidated EBITDA for FY22 amounted to EGP 16.8 billion, a 43% increase compared to the EGP 11.8 billion recorded in FY21.

Foreign Exchange Loss

The devaluation of the Egyptian Pound resulted in an unrealized foreign exchange loss of EGP 3,472 million.

Tax

During FY22, Ezz Steel had an income tax of EGP 2,484 million and a deferred tax of EGP 206 million.

Net profit

Net profit reached EGP 6.6 billion in FY22, compared to EGP 5.4 billion in FY21

Net profit after minority interests

Net result after tax and minority interests recorded a profit of EGP 4,252 million for FY22 compared to EGP 3,521 million in FY21.

Liquidity and capital resources

At the end of the period, Ezz Steel had cash on hand of EGP 13.2 billion and net debt of EGP 19.9 billion.

Outlook

- Industry experts forecast that world consumption in 2023 would maintain the same level as 2022 (1,885 million tonnes). Initial forecasts indicated that the market would start regaining its strength and could witness limited growth. However, world inflation is affecting consumption negatively, especially in the United States, Europe and Japan. Naturally, the Russian Ukrainian conflict is affecting the consumption of both countries. Balancing this, is 4% expected growth in Chinese consumption in 2023. It is also noted that Turkey plans to consume considerably higher quantities needed for the reconstruction of the unfortunate areas hit by the earthquake of February 2023.
- Consumption in Egypt started to suffer from high inflation and price increase as a consequence of the Egyptian Pound devaluing to foreign currencies. In view of this, local rebar and flat steel consumption estimate has been revised downwards to a drop of - initially- 10% below its level in 2022. It is worth noting that the reduction in market size to a relatively low level following currency devaluation is usually temporary. This is exactly what happened in 2017 after the first floating of the Egyptian Pound before the end of 2016. Development in market consumption will be closely followed and reviewed periodically.
- Interest rate levels continue to increase globally and locally in an effort to contain inflation. The US Fed's most recent increase has been 0.25% in March 2023 (9th increase in a row); now interest rate in USA ranges between 4.75 % and 5%. Although the possibility of further increases remain, however, the negative effect on the banking sector -three banks already went bankrupt- and on economic activities, might deter decisions to pass new increases. In Egypt, the Central Bank of Egypt (CBE) lifted the rates several times since the beginning of 2022. Most recently, on 30 March 2023, interest rates were pushed up again: the Lending Rate increased from 17.25% to 19.25%. Undoubtedly, this exceptionally high level of interest rates, coupled with cancelling the 8% low interest rate facilities initiative to industry, constitute a huge burden on manufacturers and consumers alike.
- Egyptian companies capable to export -among the most important of which is Ezz Steel- are committed to maximize their exports to support the national economy. In order to shrink the gap, which has recently expanded, between the State's forex sources and applications, exporting companies resort to export quantities the proceeds of which cover at least its imports of raw materials and consumables. This is of utmost importance to maintain same level of production. In this context Ezz Steel increased the percentage of its exports of flat steel and of rebars. Such elevated active export orientation comes contemporaneous with the start-up of the second melt shop of EFS (in April 2023). Ramp-up in production from the new unit would enable the company to achieve its ambitious export goals, while satisfying the local market in order to maintain its market share.
- The humanitarian disaster in South East Turkey and North West Syria as a consequence of February 2023 earthquake will require two or three years to re-build the essential structures needed to resume life and activity in the area. Ezz Steel directs some of its flat steel export shipments to Turkey, an important part of which is used in the re-construction efforts. In general, the heavy re-construction activities in Turkey leads to a temporary shift in the direction of steel trade to and from Turkey and Europe. The company follows this dynamic situation closely to optimize its export strategy.
- It is the second year for the Russian Ukrainian war without a solution in the horizon. Ambiguity continues to prevail, and with it there are fears of recession. In spite of the important presence of the two countries in the iron and steel sector, clients of both countries -including Ezz Steel- managed to secure their requirements from other international suppliers. However, aspiring for a prompt resolution for the conflict, the return of Russia and Ukraine to the international trade of iron and steel will be a significant and influential event as and when it occurs.

Divisional Overview

EZDK Standalone Sales (EGP):		FY 2022	FY 2021	4Q 2022	3Q 2022
Value:	Mn	61,711	47,931	18,200	16,509
Volume:					
Long:	000 Tonnes	2,238	2,059	557	602
Flat:	000 Tonnes	1,126	1,097	318	306
Exports as % of Sales:					
Long:		9%	13%	10%	4%
Flat:		40%	51%	32%	36%
EBITDA:	Mn	11,539	6,835	2,918	2,638
Production:					
Long Products:	000 Tonnes	1,915	1,859	459	455
Flat Products:	000 Tonnes	1,146	1,101	290	297
Billets:	000 Tonnes	2,183	2,090	545	560
Ezz Steel Standalone Sales (EGP):		FY 2022	FY 2021	4Q 2022	3Q 2022

Value:	Mn	16,666	13,170	4,879	4,978
Volume:	000 Tonnes	934	905	231	268
Exports as % of Sales:		-		-	-
EBITDA:	Mn	1,307	924	343	462
Production:					
Long Products:	000 Tonnes	895	839	223	232
Billets:	000 Tonnes	845	867	220	204

EZDK Consolidated Sales (EGP):		FY 2022	FY 2021	4Q 2022	3Q 2022
Value:	Mn	75,448	61,218	21,241	19,660
Volume:					
Long:	000 Tonnes	2,366	2,106	576	690
Flat:	000 Tonnes	1,824	1,997	498	419
Exports as % of Sales:					
Long:		8%	13%	10%	4%
Flat:		38%	56%	26%	32%
EBITDA:	Mn	15,472	10,825	3,782	3,244
EBT	Mn	8,416	6,757	1,026	1,953
Net Profit	Mn	6,428	5,837	924	1,417
Production:					
Long Products:	000 Tonnes	2,379	2,065	557	602
Flat Products:	000 Tonnes	1,787	2,051	478	398
Billets:	000 Tonnes	2,454	2,125	579	635
Ezz Steel Consolidated Sales (EGP):		FY 2022	FY 2021	4Q 2022	3Q 2022
Value:	Mn	83,984	67,819	23,341	22,147
Volume:					
Long:	000 Tonnes	3,248	2,936	799	946
Flat:	000 Tonnes	1,824	1,997	498	419
Exports as % of Sales:					
Long:		6%	9%	7%	3%
Flat:		38%	56%	26%	32%
EBITDA:	Mn	16,810	11,773	4,152	3,712
EBT	Mn	8,926	7,171	1,083	2,266
Net Profit	Mn	6,647	5,397	939	1,579
Production:					
Long Products:	000 Tonnes	3,274	2,904	780	834
Flat Products:	000 Tonnes	1,787	2,051	478	398
Billets:	000 Tonnes	3,299	2,992	799	838

Disclaimer:

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