1H2018 earnings release

Cairo | 15 August 2018

TMG Holding

TMG Holding reports record-high sales of EGP12.9bn in 1H2018, growing 150% y-o-y, and net income of EGP732mn, growing 9% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first half (1H2018) and second quarter (2Q2018) ended 30 June 2018.

Key 1H2018 financial highlights

- Revenues of EGP3.97bn, up 19.1% y-o-y, of which 30% or EGP1.19bn generated from hospitality and other recurring income lines, growing 49.7% y-o-y
- Gross profit of EGP1.57bn, up 30.3% y-o-y; gross profit margin of 39.5%, up 3.4pp y-o-y
- Net profit before minority interest of EGP774mn, up 11.1%
- Net profit after tax and minority interest of EGP732mn, up 8.8% y-o-y
- Net cash position of EGP3.1bn as at end-1H2018
- Debt-to-equity ratio of c17% only
- Total backlog of EGP38.0bn and remaining collections EGP27.4bn

Key 2Q2018 financial highlights

- Revenues of EGP2.35bn, up 15.0% y-o-y
- Gross profit of EGP887mn, up 27.3% y-o-y; gross profit margin of 37.7%, up 3.6pp y-o-y
- Net profit after tax and minority interest of EGP422mn, up 10.0% y-o-y

Financial review

TMG Holding closed 1H2018 with total consolidated revenues of EGP3.97bn, growing 19.1% y-o-y, of which 30% or EGP1.19bn was generated by the company's recurring income lines, growing by a considerable 49.7% y-o-y. Consolidated gross profit increased 30.3% y-o-y in 1H2018 and came in at EGP1.57bn, generating gross profit margin of 39.5%, 3.4pp wider than in the same period last year. Net income before minority interest expense came in at EGP774mn, growing 11.1% y-o-y. Net income attributable to shareholders came in at EGP732mn, growing 8.8% y-o-y, after a substantial 76.7% y-o-y increase in minority interest expense reflecting the strong y-o-y improvement in results of the group's hospitality business. During 1H2018, the company incurred EGP232.4mn of expenses related to faster monetization of outstanding receivables, compared to EGP104.5mn booked in 1H2017, as the group accumulates spare liquidity ahead of rapid expansion in all of its business lines. Adjusting for these amounts, pre-tax net income would have come 25.7% higher y-o-y. TMG Holding closed 1H2018 with a net cash position of EGP3.1bn and EGP8.1bn of cash and cash equivalents as well as EGP27.4bn of remaining collections from historical sales. The balance sheet remains unlevered, with debt-to-equity ratio of 17% only, with most of the company's debt attributable to hospitality and other recurring income segments and backed by stable and growing cash flow stream. TMG Holding continues to rely on the self-financing nature of the off-plan sales model, abstaining from leveraging its sellable development product to limit potential execution risks going forward. Net operating cash flow came in at a whopping EGP2.71bn in 1H2018, compared to negative EGP703.2mn a year earlier.

City and Community Complexes segment performance

Our real estate development segment delivered revenues of EGP2.78bn in 1H2018, growing 9.4% y-o-y, on the back of continuing deliveries and new residential and non-residential sales. The segment's gross margin came in at a strong 41.0%, expanding 3.9pp y-o-y and reflecting improvement in profitability on the back of historical and current price increases outpacing the effective cost of construction, as the company continues to benefit from meticulous and timely execution and significant economies of scale provided by its large integrated projects.

Total presales came in at a record-high EGP12.9bn in 1H2018, exceeding our initial targets by 75%, growing by a whopping 150% y-o-y and driven by Celia, our new development launched in the New Administrative Capital in June 2018. During only 25 days, Celia generated mammoth sales of EGP7.2bn out of the total residential sales of EGP11.2bn booked during the period, with 1.7k apartments and 258 villas sold by the end 1H2018 on the back of a very good market reception as a testimony to our supreme brand equity. The 500-feddan project offers four different types of 8-floor multitenant buildings and five types of stand-alone units ranging from 213 to 373 sqm. Its master plan also accommodates for a sporting club, which will be an addition to our already existing sporting club platform where we envision a substantial revenue growth in the coming years. Celia is earmarked for completion within the next 5-7 years and significantly strengthens our dominance in the high-growth East Cairo areas. Management remains upbeat on the potential offered by the existing pent-up demand and urbanization of East Cairo areas, aided by the ongoing improvement in Egypt's macroeconomic outlook.

Our backlog stands at an unmatched EGP38.0bn as at end-1H2018, compared to EGP28bn as at end-1H2017 and reflecting strong sales performance since the beginning of 2H2017. It is deliverable within the next 4 years, providing strong visibility on our earnings growth and cash flows. It will generate EGP27.4bn of cash collections. Value of cancellations and contract alterations in 1H2018 reached EGP1.03bn, echoing strong pickup in sales seen towards the end of 2H2017 and continuous proactive backlog clean-up.

In line with our previously announced strategy, we are working hard to optimize management of non-core and non-residential assets within our projects and constantly aim at improving the quality of services provided to homeowners in our communities. This will be achieved by entrusting operatorship and management of non-core assets, such as schools or hospitals, falling beyond the scope of TMG Holding's core competencies, to renowned operators with outstanding expertise, international presence and strong branding. Having this in mind, we formed an alliance with GEMS Education and EFG Hermes towards the end of 1H2018 to continue developing a world-class education system within our projects. Under the agreement, our partners acquired 4 existing schools in Rehab and Madinaty and GEMS Education assumed their management with an immediate effect. The transaction was valued at a EGP1bn which has been already received by TMG Holding, contributing to the total of EGP1.73bn of non-residential sales booked by TMG Holding in 1H2018.

Hotels and Resorts segment performance

TMG Holding's hospitality operations delivered solid performance during 1H2018, with the segment's revenues grew by 52% y-o-y and came in at EGP748mn, compared to EGP493mn booked in 1H2017. The segment continues to benefit from increasing occupancies and ARRs across all properties, with significant growth driven by Four Seasons Nile Plaza in 1H2018, where ARR jumped by 43% y-o-y in USD terms and occupancies reached 72% during the period, up 13pp y-o-y. Also, we continue to witness a gradual recovery in KPIs of Four Season Sharm El Sheikh, where occupancies increased 13pp y-o-y and ARR in USD terms was 12% higher y-o-y. The property delivered an EBITDA margin of 21% compared to just 10% booked for the same period last year.

Global occupancy reached 64.0% in 1H2018, compared to 52.1% in 1H2017, reflecting the ongoing recovery to Egyptian travel but also management's strategic efforts to reposition the segment ahead of a complete industry rebound. Aggregate EBITDA of the four operating hotels came in at EGP326mn in 1H2018, compared to EGP179mn in 1H2017, reflecting a strong improvement in operating metrics and profitability and generating a margin of 43% compared to 36% delivered a year earlier.

With an immediate focus on developing its recurring income and hospitality arms, where TMG Holding saw strong improvement in KPIs over the past 12 months and where we see a strong potential to generate additional value for shareholders, during 1Q2018 TMG Holding contributed cEGP1bn to capital increase of its hospitality arm, ICON, at par value. It increased our stake in the subsidiary from 77.9% to 83.3%. ICON will utilize the capital increase proceeds in development of new hospitality projects, namely the completion of FS Sharm El Sheikh extension, development of FS Madinaty and renovations of FS Nile Plaza.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	1H17	**1H18**	**2Q17**	**2Q18**	**1H17**	**1H18**	**2Q17**	**2Q18**
ARR [USD]	222	319	223	250	190	203	193	230
Occupancy	59%	72%	52%	62%	53%	66%	56%	63%
GOP [EGPmn]	145	289	69	110	22	22	14	15
GOP margin	52%	63%	51%	57%	29%	23%	32%	27%
EBITDA [EGPmn]	127	248	59	95	19	19	12	14
EBITDA margin	46%	54%	44%	49%	26%	19%	28%	24%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	1H17	**1H18**	**2Q17**	**2Q18**	**1H17**	**1H18**	**2Q17**	**2Q18**
ARR [USD]	231	259	240	263	110	129	109	128
Occupancy	24%	37%	31%	41%	69%	77%	63%	71%
GOP [EGPmn]	14	33	16	23	31	40	14	17
GOP margin	17%	28%	31%	34%	49%	50%	46%	45%
EBITDA [EGPmn]	8	25	12	18	24	34	11	15
EBITDA margin	10%	21%	23%	27%	38%	43%	36%	40%

TMG Holding

Consolidated income statement

In EGPmn, unless otherwise stated

	1H2017	1H2018	Change
Development revenue	2,535.9	2,775.2	9.4%
Development cost	(1,593.7)	(1,636.2)	2.7%
Gross profit from development	**942.2**	**1,139.0**	**20.9%**
Hospitality and other recurring revenue	796.8	1,192.6	49.7%
Cost of hospitality and other recurring revenue	(536.4)	(764.0)	42.4%
Gross profit from hospitality and other recurring revenue	**260.5**	**428.6**	**64.5%**
Total gross profit	**1,202.6**	**1,567.5**	**30.3%**
Gross profit margin	36.1%	39.5%	3.4pp
Selling and marketing expenses	(15.6)	(15.4)	-0.8%
Administrative expenses	(297.0)	(401.8)	35.3%
Donations and governmental expenses	(18.2)	(45.9)	152.1%
Interest income	79.4	110.9	39.7%
Income from financial investments held to maturity	9.2	9.3	0.9%
Amortisation of financial investments held to maturity	0.03	0.03	12.1%
Income from T-bills	34.3	20.7	-39.7%
Dividend income from financial investments	1.4	0.6	-60.4%
Income from sale of financial investments	8.3	0.1	-99.2%
Income from revaluation of financial investments	1.3	0.1	-89.3%
Other income	39.1	55.0	40.6%
Capital gain (loss)	0.21	0.03	-85.3%
BoD remuneration	(0.3)	(0.5)	88.3%
FX gain (loss)	40.5	9.6	-76.4%
Income before depreciation, financing expense and write-downs	**1,085.3**	**1,310.1**	**20.7%**
Depreciation and amortisation	(72.5)	(82.0)	13.2%
Monetisation of receivables expense	(104.5)	(232.4)	122.5%
Interest expense	(65.4)	(72.1)	10.2%
Net income before tax and minority interest expense	**843.0**	**923.6**	**9.6%**
Income tax	(127.3)	(145.7)	14.5%
Deferred tax	(19.1)	(3.7)	-80.6%
Net income before minority interest	**696.5**	**774.2**	**11.1%**
Minority interest expense	(24.0)	(42.5)	76.7%
Attributable net income	**672.5**	**731.7**	**8.8%**

TMG Holding S.A.E.
34/36 Mossadek St., Dokki
Giza, Egypt

مجموعة طلعت مصطفى القابضة ش.م.م.
٣٦/٣٤ شارع مصدق، الدقي
الجيزة، مصر

☎ +20 2 3331 2000
IR@tmg.com.eg
www.talaatmoustafa.com

TMG Holding

Consolidated balance sheet

In EGPmn

	FY2017	1H2018
Property, plant and equipment	3,833.9	4,627.6
Investment properties	112.8	117.4
Intangible assets	2.3	1.9
Projects under construction	2,785.3	2,950.7
Goodwill	13,581.5	13,581.5
Investment in associates	3.0	3.0
Financial investments available for sale	98.0	98.0
Financial investments held to maturity	2,516.1	2,589.2
Total non-current assets	**22,932.9**	**23,969.3**
Ready units	21.7	21.7
Development properties	24,410.4	32,646.5
Inventories	58.0	302.6
Notes receivable	18,329.2	18,810.9
Prepaid expenses and other debit balances	3,460.8	5,825.8
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	554.4	232.1
Financial assets at fair value	3.1	2.3
Cash and cash equivalents	3,339.6	4,929.8
Total current assets	**50,186.5**	**62,781.0**
Total assets	**73,119.4**	**86,750.3**
Paid-in capital	20,635.6	20,635.6
Legal reserve	250.3	274.5
General reserve	61.7	61.7
Revaluation reserve	46.9	46.7
FX reserve	2.4	2.4
Retained earnings	5,810.2	6,820.2
Profit for the period	1,326.8	731.7
Shareholders' equity	**28,134.0**	**28,573.0**
Minority interest	1,019.0	1,034.6
Total equity	**29,152.9**	**29,607.5**
Bank loans	2,948.6	2,934.3
Long-term liabilities	4,169.6	5,194.3
Deferred tax liabilities	108.3	112.0
Total non-current liabilities	**7,226.5**	**8,240.5**
Bank overdrafts	2.3	17.1
Bank facilities	1,726.6	1,478.1
Current portion of bank loans	555.2	639.7
Notes payable	3,720.4	11,423.6
Advance payments	24,118.0	27,965.0
Dividends payable	250.6	246.4
Taxes payable	515.1	263.9
Accrued expenses and other credit balances	5,851.9	6,868.4
Total current liabilities	**36,740.0**	**48,902.3**
Total liabilities	**43,966.5**	**57,142.8**

Condensed cash flow statement

In EGPmn

	1H2017	1H2018
Net profit before taxes and non-controlling interest	843.0	923.6
Depreciation and amortization	72.5	82.0
Other adjustments	(174.6)	(151.3)
Gross operating cash flow	**740.8**	**854.4**
Net working capital changes	(1,213.9)	2,255.2
Accrued income tax paid	(230.0)	(397.0)
Net operating cash flow	**(703.2)**	**2,712.7**
Net investment cash flow	**(176.6)**	**(795.7)**
Net financing cash flow	**1,051.3**	**(382.4)**
FX impact	40.5	9.6
Net change in cash	**212.0**	**1,544.1**

— Ends —

About the company

Talaat Moustafa Group Holding S.A.E. (TMG Holding) is a leading publically held Egyptian developer of large-scale integrated communities and tourism investment projects. It has a land bank of about 45mn square meters spread across Egypt and, since its inception, has delivered residential units ready to house over 0.5mn inhabitants, accompanied by high-quality amenities and infrastructure. Aside from other renowned projects, TMG Holding is the developer of Madinaty, its flagship community occupying 33.6mn square meters in East Cairo. It owns four upscale hotels with a total of 875 operational rooms in Cairo, Sharm El Sheikh and Alexandria and 443 additional rooms under development.

Note on forward-looking statements

In this communication, TMG Holding may make forward-looking statements reflecting management's expectations on business prospects and growth objectives as of the date on which they are made. These statements are not factual and represent beliefs regarding future events, many of which are uncertain and subject to changing conditions of the competitive landscape, macroeconomic and regulatory environment and other factors beyond management's control. Therefore, recipients of this communication are cautioned not to place undue reliance on these forward-looking statements.

Shareholder structure as at 30 June 2018