TMG

TMG Holding reports net profit of EGP812mn in 1H2019, growing 11.0% y-o-y, and real estate and club membership sales of EGP11.7bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first half ended 30 June 2019 (1H2019).

Key 1H2019 financial highlights

- Revenues of EGP4.94bn, up 24.6% y-o-y, of which 39% or EGP1.90bn generated from hospitality and other recurring income lines, growing 59.6% y-o-y
- Gross profit of EGP1.86bn, up 19.8% y-o-y
- Net profit before minority interest of EGP852mn, up 10.1% y-o-y
- Net profit after tax and minority interest of EGP812mn, up 11.0% y-o-y
- Net cash position of EGP3.42bn as at end-1H2019, compared to EGP3.06bn as at end-1H2018
- Debt-to-equity ratio of c16.7% only
- Total backlog of EGP48.0bn and remaining collections of EGP38.3bn, compared to EGP38.0bn and EGP27.4bn as at end-1H2019, respectively

Key 2Q2019 financial highlights

- Revenues of EGP2.74bn, up 16.4% y-o-y
- Gross profit of EGP996mn, up 13.6% y-o-y
- Net profit after tax and minority interest of EGP451mn, up 6.8% y-o-y

Financial review

TMG Holding closed 1H2019 with total consolidated revenues of EGP4.94bn, growing 24.6% y-o-y, of which 39% or EGP1.90bn was generated by the company's recurring income lines (hospitality, rental and club income, miscellaneous service income), growing by a considerable 59.6% y-o-y. Rental revenue combined with club segment revenue came in at EGP396mn, up 109.1% y-o-y, while revenue from services (contracting, transportation and others) grew by a significant 183.6% y-o-y to EGP723.1mn. Consolidated gross profit increased 19.8% y-o-y and came in at EGP1.86bn, at a wide gross profit margin of 37.7%. Net profit before minority interest expense came in at EGP852mn, growing 10.1% y-o-y. Net profit attributable to shareholders came in at EGP812mn, growing 11.0% y-o-y, supported by lower minority interest expense.

Internal cost control systems allowed the company to maintain a suitable net profit ratio. During 1H2019, the company incurred EGP131mn of FX expenses on FCY balances, reflecting strengthening of the EGP during the period, compared to FX income EGP9.6mn in 1H2018. Additionally, TMG Holding conservatively provisioned EGP40mn during 1Q2019 to account for any unforeseen future liabilities stemming from the accelerated growth of its core operations. No such provisioning took place in the same period last year. Adjusting for these one-off expenses in 1H2019, pre-tax net profit would have come 35.6% higher y-o-y, reflecting the strong growth momentum of the company's core operations.

The company closed 1H2019 with a net cash position of EGP3.42bn and EGP8.59bn of cash and cash equivalents, compared to EGP3.06bn and EGP8.12bn, respectively, booked in 1H2018. The balance sheet remains unlevered, with debt-to-equity ratio of just 16.7%, with most of the company's debt attributable to hospitality and other recurring income segments and backed by stable and growing cash flow stream.

City and Community Complexes segment performance

Total presales came in at EGP11.7bn in 1H2019. This compares to total presales of EGP12.9bn in 1H2018, supported by EGP1bn school transaction within an alliance with GEMS Education and EFG Hermes. No similar transaction took place in the 1H2019. Some 72% of total sales were contributed by Madinaty, TMG Holding's flagship project, were in May 2019 we launched a new upscale apartment neighbourhood - Privado, occupying 276 feddans adjacent to the Spine and the Central Park, with 9,846 prime apartments and total BuA of c1.1mn sqm. Privado will grant its residents an easy access to top-notch facilities of the compound as well as the services and amenities of Madinaty. Net sales in Privado until end-June 2019 reached EGP4.85bn, representing 1,253 units.

TMG Holding continues to capture more market share on the back of its track-record, maturity of its projects and its well-though sales and pricing strategy successfully addressing prevailing affordability constraints in its target market. During 1H2019, the company introduced a new shorter 7-year payment plan, further diversifying payment options for its clientele.

Our backlog stood at an unmatched EGP48.0bn as at end-1H2019, compared to EGP38.0bn as at end-1H2018, reflecting strong sales performance since the beginning of 2H2017, adjusted for continuing timely deliveries across our projects. The backlog is deliverable within the next 4 years, providing strong visibility on our earnings growth and cash flows. It will generate EGP38.3bn of cash collections. Cancellation rates in 1H2019 reached some 4% of total backlog and new sales, in line with FY2018.

Our real estate development segment delivered revenues of EGP3.04bn in 1H2019, growing 9.5% y-o-y, on the back of continuing deliveries, new residential and non-residential sales and reflecting historical price growth and changing product mix. The segment's gross margin came in at a strong 41.4% compared to 41.0% achieved in 1H2018.

Non-residential properties performance

Non-residential properties contributed some EGP968mn to the sales result in 1H2019, representing 106 units sold. Strong demand for TMG Holding's non-residential space recorded since 2017 affirms the company's readiness to extract value from its affluent captive populations in Al Rehab and Madinaty through its vast non-residential land bank and its growing portfolio of recurring income assets. We continue to progress with lease out of the Open Air Mall in Madinaty inaugurated in October 2018, where over 15k sqm of leasable space has been contracted as of today. We saw new openings in Building E of the Open Air Mall during 1H2019, bringing the total number of operating units to 17, with 24 more units currently under fitout. The mall is now host to brands such as Carrefour, Tradeline, Cinnabon, Vodafone, Mini So, among others. Recognized revenues from the company's rented mall spaces reached EGP107mn in total in 1H2019, up 18% y-o-y. Meanwhile, management remains upbeat on the prospects of TMG Holding's club segment, where sales targeting existing homeowners who had not acquired a membership alongside their real estate purchase, as well as existing tenants, have reached EGP178mn during 1H2019, compared to nil in the same period last year. The club segment generated revenues of EGP289mn[1] in the same period, up 193% y-o-y. The brand equity of Al Rehab and Madinaty sporting clubs is currently attracting substantial demand from outside of these projects.

[1] EGP195mn in revenues from new membership activation and 94mn in operating revenues

Hotels and Resorts segment performance

Hospitality revenue in 1H2019 reached EGP784mn, 4.8% up y-o-y compared to EGP748mn in 1H2018 which was boosted by high-profile visits by foreign government delegations in Four Seasons Nile Plaza and no such visit took place during 1H2019. Adjusting the comparable period, revenues would have come in 16.6% higher y-o-y as the segment continues to benefit from increasing occupancies and expanding ARRs.

Global occupancy reached 67.5% in 1H2019, compared to 62.9% a year earlier, reflecting the ongoing recovery to Egyptian business and luxury travel. Global ARR increased by 8.2% y-o-y in USD terms, reaching an average of USD228 per night, and by 4.8% y-o-y in EGP terms reaching EGP3,915 per night, reflecting the strengthening of local currency over 1H2019. Aggregate EBITDA of the four operating hotels came in at EGP281mn in 1H2019, up 6.8% y-o-y on adjusted basis and generated EBITDA margin of 36% compared to 39% in 1H2018, on adjusted basis, with the minor y-o-y contraction reflecting mainly the strengthening EGP.

The company is upbeat on the strong positive news flow surrounding Egyptian tourism industry, with a number of charter flights to the Red Sea resorts from key strategic markets resuming during 2018 and 2019, restoration of strategic flight connections and visible jump in business travel.

With an immediate focus on developing its recurring income and hospitality arms, TMG Holding had earlier 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*			
	1H18	**1H18 adj.**	**1H19**	**2Q18**	**2Q19**	**1H18**	**1H19**	**2Q18**	**2Q19**
ARR [EGP]	5,630	4,377	4,544	4,433	4,388	3,586	4,082	4,080	4,497
Occupancy	72%	69%	77%	62%	70%	66%	62%	63%	64%
GOP [EGPmn]	289	218	251	110	120	22	29	15	19
GOP margin	63%	57%	56%	57%	53%	23%	25%	27%	29%
EBITDA [EGPmn]	248	185	206	95	99	19	22	14	15
EBITDA margin	54%	49%	46%	49%	43%	19%	19%	24%	23%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	1H18	**1H19**	**2Q18**	**2Q19**	**1H18**	**1H19**	**2Q18**	**2Q19**
ARR [EGP]	4,573	4,635	4,657	4,412	2,285	2,338	2,263	2,240
Occupancy	37%	39%	41%	47%	77%	82%	71%	77%
GOP [EGPmn]	33	29	23	20	40	45	17	20
GOP margin	28%	23%	34%	28%	50%	49%	45%	46%
EBITDA [EGPmn]	25	17	18	13	34	36	15	15
EBITDA margin	21%	14%	27%	18%	43%	39%	40%	35%

Consolidated income statement

In EGPmn, unless otherwise stated

	1H2018	1H2019	Change
Development revenue	2,775.2	3,039.0	9.5%
Development cost	(1,636.2)	(1,780.1)	8.8%
Gross profit from development	**1,139.0**	**1,258.9**	**10.5%**
Hospitality revenue	748.2	784.4	4.8%
Hospitality cost	(425.4)	(508.0)	19.4%
Gross profit from hospitality operations	**322.8**	**276.3**	**-14.4%**
Rentals and sporting club revenue	189.4	396.0	109.1%
Cost of rental and sporting club revenue	(102.6)	(149.4)	45.5%
Gross profit from rentals and sporting clubs	**86.8**	**246.7**	**184.3%**
Service revenue (contracting, transportation and others)	255.0	723.1	183.6%
Cost of service revenue	(246.5)	(640.3)	159.8%
Gross profit from services	**8.5**	**82.8**	**869.7%**
Total revenue	**3,967.8**	**4,942.5**	**24.6%**
Total gross profit	**1,557.0**	**1,864.7**	**19.8%**
Gross profit margin	*39.2%*	*37.7%*	
Selling and marketing expenses	(15.4)	(15.0)	-2.8%
Administrative expenses	(401.8)	(412.8)	2.8%
Donations and governmental expenses	(45.9)	(37.6)	-18.2%
Provisions (net)	-	(39.7)	
Other income	196.6	229.4	16.7%
Capital gain (loss)	0.03	108.7	
BoD remuneration	(0.5)	(0.5)	-0.2%
FX gain (loss)	9.6	(131.4)	
Income before depreciation and financing expense	**1,299.6**	**1,565.6**	**20.5%**
Depreciation and amortisation	(71.5)	(92.6)	29.5%
Interest expense	(304.4)	(250.4)	-17.8%
Finance lease expense	-	(154.3)	
Net income before tax and minority interest expense	**923.6**	1,068.3	15.7%
Income tax	(145.7)	(213.3)	46.4%
Deferred tax	(3.7)	(2.8)	-25.8%
Net income before minority interest	**774.2**	**852.2**	**10.1%**
Minority interest expense	(42.5)	(39.9)	-6.1%
Attributable net income	**731.7**	**812.3**	**11.0%**

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Consolidated balance sheet

In EGPmn

	FY2018	1H2019
Property, plant and equipment	4,283.6	4,025.4
Investment properties	116.5	115.6
Intangible assets	1.7	1.2
Projects under construction	3,169.9	3,625.1
Goodwill	13,066.8	13,066.8
Investment in associates	3.0	4.6
Financial investments available for sale	98.2	92.7
Financial investments held to maturity	3,067.1	2,948.7
Total non-current assets	**23,806.7**	**23,880.1**
Ready units	270.7	-
Development properties	33,559.0	33,618.0
Inventories	97.7	625.3
Notes receivable	26,525.2	27,458.4
Prepaid expenses and other debit balances	7,114.5	11,362.3
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	14.8	359.2
Financial assets at fair value	2.4	3.0
Cash and cash equivalents	4,873.2	4,907.0
Total current assets	**72,466.8**	**78,342.4**
Total assets	**96,273.5**	**102,222.6**
Paid-in capital	20,635.6	20,635.6
Legal reserve	274.5	290.0
General reserve	61.7	61.7
Revaluation reserve	46.3	40.9
FX reserve	2.4	2.4
Retained earnings	6,735.4	7,962.6
Profit for the period	1,704.8	812.3
Shareholders' equity	**29,460.8**	**29,805.6**
Minority interest	1,036.7	1,073.4
Total equity	**30,497.5**	**30,879.0**
Bank loans	2,995.3	2,659.9
Long-term liabilities	3,247.5	4,282.9
Deferred tax liabilities	120.1	122.8
Total non-current liabilities	**6,362.9**	**7,065.6**
Bank overdrafts	1.3	4.8
Bank facilities	1,745.0	1,935.9
Current portion of bank loans	407.5	567.8
Notes payable	14,659.7	14,778.4
Advance payments	33,788.9	36,555.3
Dividends payable	385.2	563.8
Taxes payable	671.1	471.7
Accrued expenses and other credit balances	7,754.4	9,400.3
Total current liabilities	**59,413.2**	**64,278.0**
Total liabilities	**65,776.1**	**71,343.6**

Condensed cash flow statement
In EGPmn

	1H2018	1H2019
Net profit before taxes and non-controlling interest	923.6	1,068.3
Depreciation and amortization	82.0	92.6
Other adjustments	(206.3)	(99.8)
Gross operating cash flow	**799.4**	**1,061.2**
Net working capital changes	2,255.2	604.1
Change in accrued income tax	(397.0)	(348.0)
Net operating cash flow	**2,657.6**	**1,317.2**
Net investment cash flow	**(796.2)**	**(831.1)**
Net financing cash flow	**(326.9)**	**(229.8)**
FX impact	9.6	(131.4)
Net change in cash	**1,544.1**	**124.9**

— Ends —

About the company
Talaat Moustafa Group Holding S.A.E. (TMG Holding) is a leading publicly held Egyptian developer of large-scale integrated communities and tourism investment projects. It has a total land of over 50 million square meters spread across Egypt and, since its inception, has delivered residential units supporting formation of a community with some 0.7 million people in all of TMG Holding's projects, 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 construction.

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 2019