

TMG Holding reports new sales of EGP12.1bn in 9M2020 despite pandemic headwinds, net profit increases 19.6% y-o-y to EGP1.57bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the nine months ended 30 September 2020 (9M2020).

Key 9M2020 financial highlights

- Revenues of EGP10.4bn, up 34.2% y-o-y, of which 14.6% or EGP1.51bn was generated from hospitality and other recurring income lines, affected by coronavirus lockdowns
- Gross profit of EGP3.32bn, down 16.5% y-o-y, of which 7.3% generated by recurring income lines
- Profit before minority interest and tax of EGP2.14bn, up 18.9% y-o-y
- Net profit after tax and minority interest of EGP1.57bn, up 19.6% y-o-y
- Net cash position of EGP3.1bn as at end-9M2020
- Debt-to-equity ratio of 19.8% only
- Total backlog of EGP49.8bn and remaining collections of EGP41.9bn

Key 3Q2020 financial highlights

- Revenues of EGP5.83bn
- Gross profit of EGP1.74bn
- Net profit after tax and minority interest of EGP863mn

Financial review

TMG Holding closed 9M2020 with total consolidated revenues of EGP10.4bn, expanding 34.2% y-o-y despite negative headwinds from the prevailing COVID-19 pandemic affecting hospitality and other recurring income lines during the period. Development revenue came in at EGP8.90bn, growing by a considerable 74.7% y-o-y, supported by recognition of some EGP4bn in revenue stemming from a strategic land transaction completed in August. The transaction and its profit contribution counteracted some of the negative pressure witnessed by our recurring income segments due to pandemic-related slowdown in their activity. Gross margin on development operations came in at 34.6% in 9M2020, broadly in line with last year's result of 36.6%, confirming the company's ability to mitigate cost pressures arising from the operational challenges witnessed by the economy during the period. Total revenue from recurring income segments (hotels, sporting clubs, retail and others) contracted by 43.1% in 9M2020 and came in at EGP1.51bn, affected mainly by a 63.2% y-o-y drop in hotel revenues resulting from partial hotel closures and absence of inbound tourism throughout 2Q2020 and weak inbound arrivals throughout 3Q2020. Despite this, net income after tax and minority interest expense came in at EGP1.57bn, expanding by 19.6% y-o-y and exceeding the company's target of 10.0%.

The company closed 9M2020 with a net cash position of EGP3.1bn, sustaining continuous investment in recurring income segments, and EGP9.8bn of cash and cash equivalents. Following the successful issuance of EGP2.0bn worth of Ijarah sukuk in April 2020, the company's debt-to-equity ratio now stands at an optimal 19.8%, compared to 14.6% as at end-FY2019. Sellable development operations remain debt-free, giving the company significant flexibility in cash flow management going forward. Most of the company's debt remains tied to recurring income segments and is attractively priced, posing no additional burden on the business in case of a temporary market slow-down, especially as interest rates continue to decline.

City and Community Complexes segment performance

Our real estate sales backlog stood at an unmatched EGP49.8bn as at end-9M2020, reflecting strong sales performance since 2H2017, adjusted for continuing timely deliveries across our projects. The backlog will result in total collections of EGP41.9bn and net cash proceeds of some EGP15bn after expensing construction costs before delivery of these units.

The backlog will be delivered over the coming 4 years without any anticipated delays, providing a very solid visibility on the company's profitability during this period. The company expects to maintain and further improve its profitability on the back of already incurred expenditure on sites (e.g. completed infrastructure, low land cost etc.) and ever-growing economies of scale. Additionally, the company has accumulated a leftover inventory of almost completed units which will be generating new sales over the coming period without the need for further cash outlay, further strengthening its backlog quality and cash flows.

Due to the COVID-19 pandemic and its disruptive effect on the economy, we continue monitoring the collection rates of customer cheques and any potential delays will be met with postponing the delivery of their units, in order maintain our construction cash outflows in sync with collections. To date, collection and cancelation rates remain unaffected.

TMG Holding's business model is low-risk and based on self-financed off-plan development model leveraging on longstanding marketing and engineering expertise. Diverse and balanced portfolio of well-engineered and affordable payment plans allows for recovery of land and construction costs upon unit delivery, on average. TMG Holding's execution is leveraging on collections from past sales rather than new sales. Moreover, our business model remains easily scalable in case of any market slow-down. Majority of the land liability related to Madinaty land has already been settled.

Our real estate development segment delivered revenues of EGP8.90bn in 9M2020, growing by a strong 74.7% y-o-y on the back of EGP4bn worth strategic land transaction closed in August 2020 as well as on the back of continuing timely deliveries during 9M2020. The lands will be developed into quality mixed-use projects (residential neighbourhoods, retail outlets, and offices) by TMG Holding starting from 2023, leveraging on its unmatched market expertise, high-quality infrastructure and its vibrant and ever-growing communities of Rehab and Madinaty. Capex required for the development of these lands, excluding the EGP4.0bn deal proceeds, will be financed through the off-plan sales business model. The new projects will contribute a new type of high-quality product in the two cities and further improve the quality of services available to residents, promoting new demand, and ongoing population build-up and inbound footfall and thus giving rise to significant monetary and strategic value to all parties, which management believes was one of the key reasons encouraging the two banks to enter into such an alliance. TMG Holding will use the cash proceeds for early payment of some of its outstanding liabilities due by September 2022, in a bid to further strengthen the company's cash position and balance sheet in times of increased market volatility stemming from the prevailing COVID-19 pandemic. The transaction is a solid testimony to TMG Holding management's ability to swiftly and proactively tap into unconventional and sizable sources of funding to the benefit of the Group and its shareholders while maintaining its very prudent approach to capital structure and further mitigating any unforeseen liquidity risks while maximizing the value of its assets. It also confirms management's ability to identify unconventional solutions to address any unforeseen challenges.

The segment's gross margin came in at a strong and stable 34.6% compared to 36.6% achieved in 9M2019. New real estate sales reached EGP12.1bn in 9M2020, generated primarily in Madinaty, despite the imposed curfew and other preventive measures emerging from the end of 1Q2020, which confirms the strength of brand equity of TMG Holding in the market. Non-residential sales reached EGP1.0bn, in addition to the EGP4.0bn worth of mixed-use land.

Hotels and Resorts segment performance

Operational and financial results of the company's hotel segment during 9M2020 have been impacted by the outbreak of COVID-19 pandemic. During January and February, the company posted c15% y-o-y growth in hotel revenue in USD-terms but rapidly changing global travel patterns caused by the outbreak stunned revenue growth during March, after a large number of European countries implemented total lockdowns, followed by suspension of air travel by Egypt in mid-March 2020. The company has responded to these conditions with an aggressive plan to temporarily lower hotel operating costs, which mitigates the impact of disruptions on the liquidity position of these assets. Meanwhile, we have used the period of closure to thoughtfully train our staff and implement World Health Organisation safety guidelines before full recovery of inbound travel. The pressure on the segment continued throughout 2Q2020 and 3Q2020 on the back of weak inbound travel, with temporary closures of the country's hotels, lasting from mid-March until mid-May, when the authorities allowed for partial reopening. While Egypt has restored international air routes on 1 July 2020, we expect to see further negative effect on the financial performance of the segment during 4Q2020, when compared to last year's results.

Consolidated revenue of the segment came in at EGP438mn in 9M2020, contracting 63.2% y-o-y. The pressure came in mainly in 2Q2020 when quarterly hospitality revenues amounted to just EGP35mn, down 91.5% y-o-y, due to partial closures and insignificant occupancies. Following noticeable operational improvements during 3Q2020, revenue in the quarter improved significantly q-o-q and came in at EGP114mn but remained 72% below last year's result. Consolidated EBITDA of the segment came in at a negative EGP51mn in 9M2020 compared to positive EGP425mn recorded in 9M2019. Management remains confident that the long-term potential and outlook for the segment remains positive, with current global headwinds for the travel industry being temporary and expected to resolve gradually.

Hotel KPI summary

	Four Seasons Nile Plaza						Four Seasons San Stefano					
	FY18*	FY19	9M19	9M20	3Q19	3Q20	FY18	FY19	9M19	9M20	3Q19	3Q20
ARR [EGP]	4,034	4,337	4,332	4,205	3,922	3,307	3,961	4,182	4,355	4,531	4,730	5,482
ARR [USD]	227	260	254	266	237	209	223	251	255	287	286	347
Occupancy	75.0%	79.7%	77.9%	26.5%	78.9%	9.0%	71.3%	66.7%**	68.1%	30.2%	79.6%	40.6%
GOP [EGPmn]	385	464	347	23	96	-21	71	81	66	-5	37	7
GOP margin	50.6%	52.9%	53.4%	10.5%	48.6%	N/M	30.5%	30.4%	31.9%	N/M	40.6%	15.8%
EBITDA [EGPmn]	335	383	284	12	78	-23	61	66	54	-10	32	5
EBITDA margin	44.1%	43.6%	43.7%	5.5%	39.5%	N/M	26.4%	24.9%	26.3%	N/M	34.9%	11.3%

	Four Seasons Sharm El Sheikh						Kempinski Nile Hotel					
	FY18	FY19	9M19	9M20	3Q19	3Q20	FY18	FY19	9M19	9M20	3Q19	3Q20
ARR [EGP]	4,864	4,589	4,704	3,747	4,816	3,300	2,379	2,244	2,279	1,971	2,172	1,494
ARR [USD]	274	275	276	237	291	209	134	134	134	125	132	94
Occupancy	41.1%	44.3%	42.3%	18.0%	48.0%	21.8%	81.1%	86.0%	85.0%	29.1%	90.2%	16.3%
GOP [EGPmn]	81	77	52	-44	23	-15	88	91	66	0	21	-8
GOP margin	31.0%	28.1%	26.5%	N/M	32.5%	N/M	50.0%	49.3%	48.2%	N/M	47.2%	N/M
EBITDA [EGPmn]	60	51	33	-47	16	-16	75	75	54	-6	18	-9
EBITDA margin	23.1%	18.5%	16.8%	N/M	22.5%	N/M	42.8%	40.8%	39.0%	N/M	39.1%	N/M

Notes:

* Four Seasons Nile Plaza results for FY2018 are adjusted for one-off events.

** Number of available keys in Four Seasons San Stefano increased by 30 keys to 148 keys during 4Q2019, reflecting on reported occupancy. Like-for-like comparable occupancy in FY2019 stood at some 72%.

Consolidated income statement

In EGPmn, unless otherwise stated

	9M2019	9M2020	Change
Development revenue	5,091.7	8,895.4	74.7%
Development cost	(3,228.4)	(5,819.8)	80.3%
Gross profit from development	1,863.3	3,075.6	65.1%
Hospitality revenue	1,191.0	437.9	-63.2%
Hospitality cost	(772.9)	(491.5)	-36.4%
Gross profit from hospitality operations	418.1	(53.6)	N/M
Other recurring revenue*	1,476.6	1,079.0	-26.9%
Cost of other recurring revenue	(910.8)	(782.7)	-14.1%
Gross profit from other recurring operations	565.7	296.3	-47.6%
Total revenue	7,759.3	10,412.3	34.2%
Total gross profit	2,847.1	3,318.3	16.5%
Gross profit margin	36.7%	31.9%	-4.8pp
General, administrative, selling and marketing expenses	(547.0)	(573.1)	4.8%
Donations and governmental expenses	(90.1)	(171.6)	90.5%
Provisions (net)	(39.7)	(27.1)	-31.8%
Other income	329.6	204.9	-37.8%
Capital gain (loss)	1.8	1.7	-6.4%
BoD remuneration	(0.8)	(0.9)	11.7%
FX gain (loss)	(164.0)	14.7	N/M
Income before depreciation and financing expense	2,336.9	2,766.9	18.4%
Depreciation and amortisation	(220.8)	(225.8)	2.3%
Interest expense	(297.4)	(397.0)	33.5%
Finance lease cost	0.0	0.0	N/M
Revaluation of AFS investments	(17.1)	(2.8)	-83.9%
Net income before tax and minority interest expense	1,801.6	2,141.3	18.9%
Income tax	(432.2)	(592.3)	37.0%
Net income before minority interest	1,369.4	1,549.0	13.1%
Minority interest expense	(57.3)	20.1	N/M
Attributable net income	1,312.2	1,569.1	19.6%

Note (*): Includes retail lease revenue, sporting club revenue, contracting revenue, utilities, transportation and others.

Consolidated balance sheet

In EGPmn

	FY2019	1H2020
Property, plant and equipment	5,714.7	5,994.0
Investment properties	114.7	39.6
Intangible assets	0.8	1.1
Projects under construction	4,092.8	5,178.9
Goodwill	12,504.8	12,504.8
Investment in associates	3.6	53.5
Financial investments available for sale	32.8	30.1
Financial investments held to maturity	3,559.9	3,501.5
Deferred tax assets	0.0	0.0
Total non-current assets	26,024.2	27,303.5
Development properties	36,480.9	39,621.6
Inventories	1,002.0	1,074.3
Notes receivable	30,772.8	31,359.4
Prepaid expenses and other debit balances	5,306.7	6,600.8
Financial investments available for sale	12.0	9.0
Financial investments held to maturity	67.7	1,595.9
Financial assets at fair value	3.2	38.5
Cash and cash equivalents	4,211.7	4,613.1
Total current assets	77,857.1	84,912.5
Total assets	103,881.2	112,216.0
Paid-in capital	20,635.6	20,635.6
Legal reserve	290.0	313.5
General reserve	61.7	61.7
FX reserve	2.4	2.4
Retained earnings	8,264.3	9,883.2
Profit for the period	1,872.2	1,569.1
Shareholders' equity	31,126.3	32,465.6
Minority interest	1,104.7	1,092.0
Total equity	32,230.9	33,557.6
Bank loans	3,019.0	3,057.8
Sukuk	0.0	2,000.0
Long-term liabilities	1,868.0	1,868.0
Deferred tax liabilities	4.6	9.8
Total non-current liabilities	4,891.5	6,935.5
Bank overdrafts	26.8	17.3
Bank facilities	1,242.1	1,260.6
Current portion of bank loans	402.7	313.0
Notes payable	15,826.4	19,778.6
Advance payments	39,115.1	38,334.6
Dividends payable	341.2	161.5
Taxes payable	924.8	791.2
Accrued expenses and other credit balances	8,879.5	11,066.0
Total current liabilities	66,758.8	71,722.8
Total liabilities	71,650.3	78,658.4

Condensed cash flow statement

In EGPmn

	9M2019	9M2020
Net profit before taxes and non-controlling interest	1,801.6	2,141.3
Depreciation and amortization	220.8	225.8
Other adjustments	(110.6)	(191.3)
Gross operating cash flow	1,911.9	2,175.9
Net working capital changes	2,608.3	2,477.3
Change in accrued income tax	(391.5)	(721.1)
Net operating cash flow	2,216.8	1,756.2
Net investment cash flow	(1,519.2)	(2,925.5)
Net financing cash flow	14.5	1,599.0
FX impact	(164.0)	14.7
Net change in cash	548.1	444.3

— 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 905 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 September 2020

