

## TMG Holding reports 1H2020 net income of EGP706mn; development revenue grows by 8.8% y-o-y despite pandemic headwinds

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first half ended 30 June 2020 (1H2020).

### Key 1H2020 financial highlights

- Revenues of EGP4.58bn, down 7.3% y-o-y, of which 28% or EGP1.28bn was generated from hospitality and other recurring income lines, affected by coronavirus lockdown
- Gross profit of EGP1.58bn, down 15.5% y-o-y, of which 17% generated by recurring income lines
- Net profit before minority interest of EGP685mn, down 19.6% y-o-y
- Net profit after tax and minority interest of EGP706mn, down 13.1% y-o-y
- Net cash position of EGP2.6bn as at end-1H2020
- Debt-to-equity ratio of 20.4% only
- Total backlog of EGP48.6bn and remaining collections of EGP40.4bn

### Key 2Q2020 financial highlights

- Revenues of EGP2.29bn
- Gross profit of EGP740mn
- Net profit after tax and minority interest of EGP330mn

## Financial review

TMG Holding closed 1H2020 with total consolidated revenues of EGP4.58bn, showing a contained contraction of 7.3% y-o-y as a result of COVID-19 pandemic affecting hospitality and other recurring income lines during the period. Importantly, development revenue came in at EGP3.30bn, growing by a considerable 8.8% y-o-y, despite operational challenges caused by preventive measures imposed by the government during this period. Gross margin on development operations came in at 39.6% in 1H2020, broadly in line with last year's result of 41.4%, confirming the company's ability to mitigate any 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 32.9% in 1H2020 and came in at EGP1.28bn, affected mainly by the 58.7% y-o-y drop in hotel revenues resulting from partial hotel closures and absence of inbound tourism throughout 2Q2020. Net income after tax and minority interest expense came in at EGP706mn, contracting only 13.1% y-o-y despite some pressures on recurring income lines emerging towards the end of 1Q2020 and lasting throughout 2Q2020.

The company closed 1H2020 with a net cash position of EGP2.6bn, after further investment in recurring income segments, and EGP9.27bn 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 20.4%, 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 attributable 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 decline.

## City and Community Complexes segment performance

Our real estate sales backlog stood at an unmatched EGP48.6 bn as at end-1H2020, reflecting strong sales performance since the beginning of 2H2017, adjusted for continuing timely deliveries across our projects. The backlog will result in total collections of EGP40.4bn 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.

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 EGP3.30bn in 1H2020, growing by a strong 8.8% y-o-y, on the back of continuing timely deliveries, despite new operational challenges stemming from the COVID-19 precautions and bottlenecks.

The segment's gross margin came in at a strong and stable 39.6% compared to 41.4% achieved in 1H2019. New real estate sales reached EGP4.5bn in 1H2020, generated primarily in Madinaty, despite the imposed curfew and other preventive measures, which confirms the strength of brand equity of TMG Holding in the market. Non-residential sales reached EGP734mn.

## Hotels and Resorts segment performance

Operational and financial results of the company's hotel segment during 1H2020 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 will mitigate the impact of current 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 in the total absence of inbound tourism, 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 some international air routes on 1 July 2020, we expect to see further negative effect on their financial performance during 3Q2020, when compared to last year's results.

Consolidated revenue of the segment came in at EGP324mn in 1H2020, contracting 58.7% y-o-y. The pressure came in mainly in 2Q2020 where hospitality revenues amounted to just EGP35mn, down 91.5% y-o-y, due to partial closures and insignificant occupancies. Consolidated EBITDA of the segment came in at a negative EGP8mn in 1H2020 compared to positive EGP281mn recorded in 1H2019.

### Hotel KPI summary

|                | Four Seasons Nile Plaza |       |       |       |       |       | Four Seasons San Stefano |         |       |       |       |       |
|----------------|-------------------------|-------|-------|-------|-------|-------|--------------------------|---------|-------|-------|-------|-------|
|                | FY18*                   | FY19  | 1H19  | 1H20  | 2Q19  | 2Q20  | FY18                     | FY19    | 1H19  | 1H20  | 2Q19  | 2Q20  |
| ARR [EGP]      | 4,034                   | 4,337 | 4,544 | 4,320 | 4,388 | 2,385 | 3,961                    | 4,182   | 4,082 | 3,719 | 4,497 | 4,641 |
| ARR [USD]      | 227                     | 260   | 263   | 274   | 258   | 150   | 223                      | 251     | 236   | 236   | 264   | 292   |
| Occupancy      | 75.0%                   | 79.7% | 77.3% | 35.4% | 70.1% | 5.1%  | 71.3%                    | 66.7%** | 61.6% | 24.8% | 61.3% | 10.9% |
| GOP [EGPmn]    | 385                     | 464   | 251   | 44    | 120   | -40   | 71                       | 81      | 29    | -13   | 19    | -13   |
| GOP margin     | 50.6%                   | 52.9% | 55.5% | 23.9% | 52.5% | N/M   | 30.5%                    | 30.4%   | 24.9% | N/M   | 28.8% | N/M   |
| EBITDA [EGPmn] | 335                     | 383   | 44    | 35    | 99    | -35   | 61                       | 66      | 22    | -15   | 15    | -13   |
| EBITDA margin  | 44.1%                   | 43.6% | 45.6% | 19.3% | 43.4% | N/M   | 26.4%                    | 24.9%   | 19.4% | N/M   | 23.3% | N/M   |

  

|                | Four Seasons Sharm El Sheikh |       |       |       |       |       | Kempinski Nile Hotel |       |       |       |       |       |
|----------------|------------------------------|-------|-------|-------|-------|-------|----------------------|-------|-------|-------|-------|-------|
|                | FY18                         | FY19  | 1H19  | 1H20  | 2Q19  | 2Q20  | FY18                 | FY19  | 1H19  | 1H20  | 2Q19  | 2Q20  |
| ARR [EGP]      | 4,864                        | 4,589 | 4,635 | 4,053 | 4,412 | 2,866 | 2,379                | 2,244 | 2,338 | 2,082 | 2,240 | 1,381 |
| ARR [USD]      | 274                          | 275   | 268   | 257   | 259   | 180   | 134                  | 134   | 135   | 132   | 132   | 87    |
| Occupancy      | 41.1%                        | 44.3% | 39.4% | 16.0% | 47.2% | 5.3%  | 81.1%                | 86.0% | 82.3% | 35.6% | 77.4% | 1.6%  |
| GOP [EGPmn]    | 81                           | 77    | 29    | -28   | 20    | -22   | 88                   | 91    | 45    | 7     | 20    | -8    |
| GOP margin     | 31.0%                        | 28.1% | 23.1% | N/M   | 27.5% | N/M   | 50.0%                | 49.3% | 48.7% | 20.7% | 45.8% | N/M   |
| EBITDA [EGPmn] | 60                           | 51    | 17    | -31   | 13    | -21   | 75                   | 75    | 36    | 3     | 15    | -9    |
| EBITDA margin  | 23.1%                        | 18.5% | 13.5% | N/M   | 17.6% | N/M   | 42.8%                | 40.8% | 38.9% | 7.4%  | 35.0% | 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

|                                                            | 1H2019         | 1H2020         | Change        |
|------------------------------------------------------------|----------------|----------------|---------------|
| Development revenue                                        | 3,039.0        | 3,305.3        | 8.8%          |
| Development cost                                           | (1,780.1)      | (1,998.0)      | 12.2%         |
| <b>Gross profit from development</b>                       | <b>1,258.9</b> | <b>1,307.3</b> | <b>3.8%</b>   |
| Hospitality revenue                                        | 784.4          | 323.9          | -58.7%        |
| Hospitality cost                                           | (508.0)        | (334.1)        | -34.2%        |
| <b>Gross profit from hospitality operations</b>            | <b>276.3</b>   | <b>(10.3)</b>  | <b>N/M</b>    |
| Other recurring revenue*                                   | 1,119.1        | 953.1          | -14.8%        |
| Cost of other recurring revenue                            | (789.6)        | (673.8)        | -14.7%        |
| <b>Gross profit from other recurring operations</b>        | <b>329.5</b>   | <b>279.3</b>   | <b>-15.2%</b> |
| <b>Total revenue</b>                                       | <b>4,942.5</b> | <b>4,582.3</b> | <b>-7.3%</b>  |
| <b>Total gross profit</b>                                  | <b>1,864.7</b> | <b>1,576.4</b> | <b>-15.5%</b> |
| <i>Gross profit margin</i>                                 | 37.7%          | 34.4%          | -3.3pp        |
| General, administrative, selling and marketing expenses    | (412.8)        | (356.2)        | -13.7%        |
| Donations and governmental expenses                        | (52.6)         | (56.1)         | 6.7%          |
| Provisions (net)                                           | (39.7)         | (25.9)         | -34.8%        |
| Other income                                               | 229.4          | 180.6          | -21.3%        |
| Capital gain (loss)                                        | 108.7          | 0.2            | -99.8%        |
| BoD remuneration                                           | (0.5)          | (0.7)          | 21.8%         |
| FX gain (loss)                                             | (131.4)        | (1.7)          | -98.7%        |
| <b>Income before depreciation and financing expense</b>    | <b>1,565.6</b> | <b>1,316.5</b> | <b>-15.9%</b> |
| Depreciation and amortisation                              | (92.6)         | (146.2)        | 57.9%         |
| Interest expense                                           | (250.4)        | (241.8)        | -3.4%         |
| Finance lease cost                                         | (154.3)        | 0.0            | N/M           |
| Revaluation of AFS investments                             | 0.0            | (2.3)          | N/M           |
| <b>Net income before tax and minority interest expense</b> | <b>1,068.3</b> | <b>926.1</b>   | <b>-13.3%</b> |
| Income tax                                                 | (216.1)        | (240.7)        | 11.4%         |
| <b>Net income before minority interest</b>                 | <b>915.0</b>   | <b>685.4</b>   | <b>-25.1%</b> |
| Minority interest expense                                  | (39.9)         | 20.5           | N/M           |
| <b>Attributable net income</b>                             | <b>875.1</b>   | <b>705.9</b>   | <b>-19.3%</b> |

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          | 5,924.3          |
| Investment properties                      | 114.7            | 39.9             |
| Intangible assets                          | 0.8              | 1.0              |
| Projects under construction                | 4,092.8          | 4,859.9          |
| Goodwill                                   | 12,504.8         | 12,504.8         |
| Investment in associates                   | 3.6              | 33.5             |
| Financial investments available for sale   | 32.8             | 30.5             |
| Financial investments held to maturity     | 3,559.9          | 3,690.9          |
| Deferred tax assets                        | -                | 51.2             |
| <b>Total non-current assets</b>            | <b>26,024.2</b>  | <b>27,136.0</b>  |
| Development properties                     | 36,480.9         | 39,893.0         |
| Inventories                                | 1,002.0          | 1,041.0          |
| Notes receivable                           | 30,772.8         | 30,775.6         |
| Prepaid expenses and other debit balances  | 5,306.7          | 6,276.3          |
| Financial investments available for sale   | 12.0             | 11.0             |
| Financial investments held to maturity     | 67.7             | 1,899.3          |
| Financial assets at fair value             | 3.2              | 160.9            |
| Cash and cash equivalents                  | 4,211.7          | 3,479.6          |
| <b>Total current assets</b>                | <b>77,857.1</b>  | <b>83,536.7</b>  |
| <b>Total assets</b>                        | <b>103,881.2</b> | <b>110,672.7</b> |
| 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          | 9,939.7          |
| Profit for the period                      | 1,872.2          | 705.9            |
| <b>Shareholders' equity</b>                | <b>31,126.3</b>  | <b>31,658.9</b>  |
| Minority interest                          | 1,104.7          | 1,083.1          |
| <b>Total equity</b>                        | <b>32,230.9</b>  | <b>32,742.0</b>  |
| Bank loans                                 | 3,019.0          | 3,082.0          |
| Sukuk                                      | -                | 2,000.0          |
| Long-term liabilities                      | 1,868.0          | 1,868.0          |
| Deferred tax liabilities                   | 4.6              | 0.0              |
| <b>Total non-current liabilities</b>       | <b>4,891.5</b>   | <b>6,950.0</b>   |
| Bank overdrafts                            | 26.8             | 44.6             |
| Bank facilities                            | 1,242.1          | 1,113.6          |
| Current portion of bank loans              | 402.7            | 448.2            |
| Notes payable                              | 15,826.4         | 20,393.6         |
| Advance payments                           | 39,115.1         | 38,294.8         |
| Dividends payable                          | 341.2            | 381.9            |
| Taxes payable                              | 924.8            | 526.7            |
| Accrued expenses and other credit balances | 8,879.5          | 9,777.2          |
| <b>Total current liabilities</b>           | <b>66,758.8</b>  | <b>70,980.7</b>  |
| <b>Total liabilities</b>                   | <b>71,650.3</b>  | <b>77,930.7</b>  |

## Condensed cash flow statement

In EGPmn

|                                                      | 1H2019         | 1H2020           |
|------------------------------------------------------|----------------|------------------|
| Net profit before taxes and non-controlling interest | 1,068.3        | 926.1            |
| Depreciation and amortization                        | 92.6           | 147.1            |
| Other adjustments                                    | (99.8)         | (176.8)          |
| <b>Gross operating cash flow</b>                     | <b>1,061.2</b> | <b>896.4</b>     |
| Net working capital changes                          | 1,730.0        | 1,042.6          |
| Change in accrued income tax                         | (412.8)        | (694.7)          |
| <b>Net operating cash flow</b>                       | <b>1,317.2</b> | <b>347.9</b>     |
| <b>Net investment cash flow</b>                      | <b>(831.1)</b> | <b>(3,040.4)</b> |
| <b>Net financing cash flow</b>                       | <b>(229.8)</b> | <b>2,021.3</b>   |
| FX impact                                            | (131.4)        | (1.7)            |
| <b>Net change in cash</b>                            | <b>124.9</b>   | <b>(672.8)</b>   |

— 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 June 2020

