

TMG Holding reports record-high sales of EGP21.3bn in FY2018, growing 62% y-o-y, and net profit of EGP1.70bn, growing 28.5% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the financial year ended 31 December 2018 (FY2018).

Key FY2018 financial highlights

- Revenues of EGP10.93bn, up 28.0% y-o-y, of which 31% or EGP3.43bn generated from hospitality and other recurring income lines, growing 61.3% y-o-y
- Gross profit of EGP4.06bn, up 30.1% y-o-y; gross profit margin of 37.1%, up 0.6pp y-o-y
- Net profit before minority interest of EGP1.77bn, up 28.0% y-o-y
- Net profit after tax and minority interest of EGP1.70bn, up 28.5% y-o-y
- Net cash position of EGP3.1bn as at end-FY2018, compared to EGP1.6bn as at end-FY2017
- Debt-to-equity ratio of c16.9% only
- Total backlog of EGP41.7bn and remaining collections of EGP31.3bn, compared to EGP30bn and EGP22bn as at end-FY2017, respectively

Key 4Q2018 financial highlights

- Revenues of EGP4.12bn, up 41.0% y-o-y
- Gross profit of EGP1.63bn, up 37.5% y-o-y; gross profit margin of 39.7%, down 1.0pp y-o-y
- Net profit after tax and minority interest of EGP518mn, up 93.2% y-o-y

Financial review

TMG Holding closed FY2018 with total consolidated revenues of EGP10.93bn, growing 28.0% y-o-y, of which 31% or EGP3.43bn was generated by the company's recurring income lines, growing by a considerable 61.3% y-o-y. Consolidated gross profit increased 30.1% y-o-y and came in at EGP4.06bn, at a gross profit margin of 37.1%, 0.6pp wider than in the same period last year. Net profit before minority interest expense came in at EGP1.77bn, growing 28.0% y-o-y. Net profit attributable to shareholders came in at EGP1.70bn, growing 28.5% y-o-y. During FY2018, the company incurred EGP264.7mn of expenses related to faster monetization of outstanding receivables, compared to EGP250.0mn booked in FY2017. Additionally, the company booked EGP263.7mn of financing expenses related to a newly signed finance lease agreement (net EGP194.6mn adjusted for capital gains, nil in FY2017) backed by operational retail properties in Al Rehab development. The agreement provided a new source of funding for the group at a lower cost as it proceeds with development of its non-residential and recurring asset portfolio, namely the completion of the Open Air mall and expansion of other recurring income segments. Adjusting for these amounts, pre-tax net profit would have come 44.6% higher y-o-y. TMG Holding closed FY2018 with a net cash position of EGP3.1bn and EGP8.3bn of cash and cash equivalents. The balance sheet remains unlevered, with debt-to-equity ratio of 16.9% 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. Net operating cash flow came in at a whopping EGP2.69bn in FY2018, compared to just EGP883mn a year earlier.

City and Community Complexes segment performance

Total presales came in at a record-high EGP21.3bn in FY2018, growing by a strong 62% y-o-y and exceeding our initial targets by 52%. Sales growth was primarily driven by Celia, our new development launched in the New Administrative Capital, which contributed EGP12.0bn to the total sales result for the period since the project's launch in June 2018.

Non-residential properties contributed some EGP2.9bn to the sales result in FY2018. 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. That said, the Open Air mall in Madinaty with 92k sqm of BuA became operational towards the end of October, with the opening of Carrefour hypermarket which saw very strong interest from residents and is already witnessing very strong footfall. To date, the company has leased out over 7k sqm of retail space in the property, which will start meaningfully contributing to our financial results during 2019.

Our backlog stood at an unmatched EGP41.7bn as at end FY2018, compared to EGP30bn as at end-FY2017 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 EGP31.3bn of cash collections.

Cancellation rates dropped from 4.5% of total backlog and new sales in FY2017 to about 4% in FY2018, as the company focuses on backlog quality and real rather than speculative demand. Value of cancellations in FY2018 reached EGP2.2bn, of which EGP1.3bn related to sales in FY2018¹ and the remaining EGP874mn related to sales booked in prior years. The contained and healthy level of cancellations is an outcome of tailored sales strategy, focusing on end-users seeking to relocate into a functioning vibrant community with full-fledged services (retail, schools, nurseries, entertainment, medical etc.) and healthy long-term investment demand as opposed to speculative demand.

Our real estate development segment delivered revenues of EGP7.50bn in FY2018, growing 17.0% 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 37.8%, expanding 1.3pp y-o-y.

We continue 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, nurseries or hospitals, falling beyond the scope of TMG Holding's core competencies, to renowned operators with outstanding expertise, international presence and strong branding.

Additionally, 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, have reached EGP107mn since end-September when such sales were initiated until end-December. Meanwhile, the club segment generated revenues of EGP426mn in FY2018, up 62% y-o-y, at a gross margin of 81%. The brand equity of Al Rehab and Madinaty sporting clubs is currently attracting substantial demand from outside of these projects.

¹ Our reported sales figure has been adjusted for this amount.

Hotels and Resorts segment performance

TMG Holding's hospitality operations delivered solid performance during FY2018, with the segment's revenues growing by 44% y-o-y and coming in at EGP1.62bn, compared to EGP1.12bn booked in FY2017 and EGP741mn achieved in FY2016, implying a 3-year CAGR of 48% since EGP-devaluation. The segment continues to benefit from increasing occupancies and ARR across all properties, with significant growth driven by Four Seasons Nile Plaza in FY2018, where ARR jumped by 36% y-o-y in USD terms and occupancies reached 76% during the period, up 11pp y-o-y. Recovery in KPIs of Four Season Sharm El Sheikh continues, with occupancies increasing 13pp y-o-y and ARR in USD terms growing by 14% y-o-y. The property delivered an EBITDA margin of 23% compared to just 13% booked for the same period last year.

Global occupancy reached 68.5% in FY2018, compared to 58.2% a year earlier, reflecting the ongoing recovery to Egyptian travel but also management's strategic efforts to reposition the segment ahead of a complete industry rebound. Global ARR increased 27% y-o-y in USD terms, reaching an average of USD247 per night and already exceeding the ARR of cUSD242 achieved in FY2016 before the sharp EGP-devaluation. Aggregate EBITDA of the four operating hotels came in at EGP695mn in FY2018, up 63% y-o-y compared to EGP428mn in FY2017 and just EGP382mn in FY2016, reflecting a strong improvement in operating metrics and generating a margin of 42% compared to 38% achieved a year earlier.

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 during the year 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

	<i>Four Seasons Nile Plaza</i>					<i>Four Seasons San Stefano</i>				
	FY16	FY17	FY18	4Q17	4Q18	FY16	FY17	FY18	4Q17	4Q18
ARR [USD]	302	228	310	240	378	245	206	223	182	221
Occupancy	54.0%	64.7%	76.0%	70.5%	86.0%	61.2%	63.9%	71.3%	70.7%	71.3%
GOP [EGPmn]	218	334	576	98	197	55	66	71	12	17
GOP margin	50.0%	54.0%	60.3%	55.8%	62.4%	38.2%	35.2%	30.5%	27.5%	28.5%
EBITDA [EGPmn]	225	289	498	84	170	59	58	61	10	14
EBITDA margin	52.0%	46.7%	52.2%	47.8%	53.9%	44.4%	30.6%	26.4%	22.8%	24.3%

	<i>Four Seasons Sharm El Sheikh</i>					<i>Kempinski Nile Hotel</i>				
	FY16	FY17	FY18	4Q17	4Q18	FY16	FY17	FY18	4Q17	4Q18
ARR [USD]	267	241	274	238	261	131	117	134	123	139
Occupancy	25.1%	28.6%	41.1%	33.4%	47.9%	62.5%	73.2%	81.1%	73.4%	86.0%
GOP [EGPmn]	9	37	81	12	27	38	71	88	20	25
GOP margin	8.6%	21.3%	31.0%	25.7%	35.9%	47.7%	50.7%	50.0%	52.8%	50.6%
EBITDA [EGPmn]	30	22	60	7	20	47	52	75	17	21
EBITDA margin	28.8%	12.8%	23.1%	14.5%	26.7%	62.8%	37.4%	42.8%	46.0%	42.1%

Consolidated income statement

In EGPmn, unless otherwise stated

	FY2017	FY2018	Change
Development revenue	6,406.4	7,495.5	17.0%
Development cost	(4,067.1)	(4,661.7)	14.6%
Gross profit from development	2,339.3	2,833.8	21.1%
Hospitality and other recurring revenue	2,127.9	3,432.1	61.3%
Cost of hospitality and other recurring revenue	(1,348.4)	(2,209.1)	63.8%
Gross profit from hospitality and other recurring revenue	779.5	1,223.0	56.9%
Total gross profit	3,118.8	4,056.8	30.1%
<i>Gross profit margin</i>	<i>36.5%</i>	<i>37.1%</i>	<i>0.6pp</i>
Selling and marketing expenses	(36.6)	(38.5)	5.2%
Administrative expenses	(406.2)	(554.1)	36.4%
Donations and governmental expenses	(223.0)	(205.4)	-7.9%
Universal Healthcare Act contribution	-	(16.6)	N/M
Provisions	(2.4)	-	N/M
Interest income	188.3	297.5	58.0%
Income from financial investments held to maturity	18.9	13.2	-29.9%
Amortisation of financial investments held to maturity	0.06	0.07	14.3%
Income from T-bills	68.3	20.7	-69.7%
Dividend income from financial investments	3.7	2.3	-39.0%
Income (loss) from sale of financial investments	29.0	0.1	-99.8%
Income from revaluation of financial investments	(20.4)	0.3	N/M
Income from associates	0.8	-	
Other income	46.9	111.5	137.8%
Capital gain (loss)	(1.5)	70.7	N/M
BoD remuneration	(0.5)	(1.1)	99.2%
FX gain (loss)	57.6	9.9	-82.9%
Income before depreciation and financing expense and write-downs	2,841.6	3,767.2	32.6%
Depreciation and amortisation	(144.8)	(174.4)	20.4%
Monetisation of receivables expense	(250.0)	(264.7)	5.9%
Interest expense	(133.4)	(139.7)	4.7%
Finance lease expense	-	(263.7)	N/M
Net income before tax and minority interest expense	1,793.3	2,398.8	33.8%
Income tax	(383.1)	(616.8)	61.0%
Deferred tax	(27.2)	(11.8)	-56.8%
Net income before minority interest	1,383.0	1,770.2	28.0%
Minority interest expense	(56.1)	(65.4)	16.5%
Attributable net income	1,326.8	1,704.8	28.5%

Consolidated balance sheet

In EGPm

	FY2017	FY2018
Property, plant and equipment	3,833.9	4,283.6
Investment properties	112.8	116.5
Intangible assets	2.3	1.7
Projects under construction	2,785.3	3,169.9
Goodwill	13,581.5	13,066.8
Investment in associates	3.0	3.0
Financial investments available for sale	98.0	98.2
Financial investments held to maturity	2,516.1	3,067.1
Total non-current assets	22,932.9	23,806.7
Ready units	21.7	270.7
Development properties	24,410.4	33,559.0
Inventories	58.0	97.7
Notes receivable	18,329.2	26,525.2
Prepaid expenses and other debit balances	3,460.8	7,114.5
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	554.4	14.8
Financial assets at fair value	3.1	2.4
Cash and cash equivalents	3,339.6	4,873.2
Total current assets	50,186.5	72,466.8
Total assets	73,119.4	96,274.5
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	46.3
FX reserve	2.4	2.4
Retained earnings	5,810.2	6,735.4
Profit for the period	1,326.8	1,704.8
Shareholders' equity	28,134.0	29,460.8
Minority interest	1,019.0	1,036.7
Total equity	29,152.9	30,497.5
Bank loans	2,948.6	2,995.3
Long-term liabilities	4,169.6	3,247.5
Deferred tax liabilities	108.3	120.1
Total non-current liabilities	7,226.5	6,362.9
Bank overdrafts	2.3	1.3
Bank facilities	1,726.6	1,745.0
Current portion of bank loans	555.2	407.5
Notes payable	3,720.4	14,659.7
Advance payments	24,118.0	33,788.9
Dividends payable	250.6	385.2
Taxes payable	515.1	671.1
Accrued expenses and other credit balances	5,851.9	7,754.4
Total current liabilities	36,740.0	59,413.2
Total liabilities	43,966.5	65,776.1

Condensed cash flow statement

In EGPmn

	FY2017	FY2018
Net profit before taxes and non-controlling interest	1,793.3	2,398.8
Depreciation and amortization	144.8	174.4
Other adjustments	177.8	180.5
Gross operating cash flow	2,115.9	2,753.7
Net working capital changes	(984.7)	396.7
Accrued income tax paid	(247.8)	(460.8)
Net operating cash flow	883.5	2,689.5
Net investment cash flow	(1,290.1)	(1,067.1)
Net financing cash flow	501.5	(23.3)
FX impact	57.6	9.9
Net change in cash	152.5	1,609.0

— 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 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 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 31 December 2018

