TMG Holding reports net income of EGP309mn in 1Q2018, growing 7.2% y-o-y, and presales of EGP2.93bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first quarter ended 31 March 2018 (1Q2018).

Key 1Q2018 financial highlights

- Revenues of EGP1.61bn, up 25.5% y-o-y, of which 32% or EGP523mn generated from hospitality and other recurring income lines, growing 58.4% y-o-y
- Gross profit of EGP681mn, up 34.5% y-o-y; gross profit margin of 42.2%, up 2.8pp y-o-y
- Net profit before minority interest of EGP341mn, up 11.6%
- Net profit after tax and minority interest of EGP309mn, up 7.2% y-o-y
- Net cash position of EGP1.7bn as at end-1Q2018
- Debt-to-equity ratio of c18% only
- Total backlog of EGP30.5bn, of which EGP21.3bn is yet to be collected in cash

Financial review

TMG Holding closed 1Q2018 with total consolidated revenues of EGP1.61bn, growing 25.5% y-o-y, of which 32% or EGP523mn was generated by the company's recurring income lines, growing by a considerable 58.4% y-o-y. Consolidated gross profit increased 34.5% y-o-y and came in at EGP681mn, generating gross profit margin of 42.2%, 2.8pp wider than in the same quarter last year. Net income before minority interest expense came in at EGP341mn, growing 11.6% y-o-y. Net income attributable to shareholders came in at EGP309mn, growing 7.2% y-o-y, after a substantial 87.3% y-o-y increase in minority interest expense reflecting the strong y-o-y improvement in results of the group's hospitality business.

During the quarter, the company incurred EGP61mn of expenses related to faster monetization of outstanding receivables, which were absent during the same quarter last year and weighted down on growth delivered on the gross profit level on y-o-y basis. Adjusting for this amount, pre-tax net income would have come 17.6% higher y-o-y.

TMG Holding closed 1Q2018 with a net cash position of EGP1.7bn and EGP6.8bn of cash and cash equivalents as well as EGP21.3bn of remaining collections from historical sales. The balance sheet remains unlevered, with debt-to-equity ratio of 18% 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 EGP616mn in 1Q2018, compared to negative EGP49mn a year earlier.

City and Community Complexes segment performance

Our real estate development segment delivered revenues of EGP1.09bn, growing 14.1% y-o-y, on the back of continuing deliveries and new sales. The segment's gross margin came in at a strong 40.2%, contracting by only 1.1pp y-o-y as a result of different product mix sold and delivered this quarter. The company continues to benefit from sales and delivery momentum, as well as liquid balance sheet which assures swift execution of its backlog without any delays or cost overruns. Meanwhile, brand equity, attractive value proposal, superb infrastructure and world-class services available in TMG Holding's projects, allow the company to pass any development cost increases onto the customer without impacting its sales strength, despite new competition emerging in East Cairo over the past 2 years.

Total presales came in at EGP2.93bn in 1Q2018. Sales of residential units reached EGP2.33bn, coming in 10% above internal targets and 28% above EGP1.83bn booked in 1Q2017. Meanwhile, sales of non-residential units reached EGP601mn, exceeding internal targets by 4% but coming in below EGP2.44bn booked in 1Q2017, which was supported by phase I launch of Craft Zone in Madinaty, with comparable launches absent this quarter as per launch pipeline. The company will proceed with new launches of non-residential space in sector 4 of Madinaty in 3Q2018.

Our backlog stood at EGP30.5bn as at end-1Q2018, compared to EGP25bn as at end-1Q2017 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 EGP21.3bn of cash collections. Value of cancellations in 1Q2018 reached EGP639mn, echoing strong pickup in sales seen towards the end of 2H2017 and proactive backlog clean-up.

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. Capitalizing on its development success and very strong foothold in East Cairo, the company is ready to launch a new mixed-use development on 500 feddans in the New Administrative Capital towards the end of 2Q2018 which will significantly diversify its product offering as Rehab residential sales are nearing completion. Management targets revenue of at least EGP36bn from the new project. The company is very well positioned to take advantage of additional liquidity expected to fuel the residential and non-residential property market on the back of the monetary easing cycle commenced by Egypt's Central Bank this year. TMG Holding owns about 6.3mn sqm of land designated for non-residential development, able to accommodate about 3.5mn sqm of non-residential BuA, for which management sees increasing demand triggered by progressing urbanization of East Cairo and new residential project launches in Madinaty's neighbourhood, as well as declining costs of funding stimulating new investments and expansions by local and international businesses. During 1Q2018, TMG Holding entered into a lease agreement with Carrefour to become an anchor tenant in malls in Madinaty and Rehab. Additionally, the company signed JLL MENA to manage and operate the 86k sqm Open Air mall in Madinaty, in line with its strategy to further improve the value proposal of TMG's non-residential assets.

Hotels and Resorts segment performance

TMG Holding's hospitality operations delivered solid performance during 1Q2018. The segment's revenues grew by 66% y-o-y and came in at EGP395mn, compared to EGP237mn booked in 1Q2017, benefiting from increasing occupancies and ARRs across all properties, with significant growth driven by Four Seasons Nile Plaza, where ARR jumped by 67% y-o-y in USD terms and occupancies reached 81% during 1Q2018, up 16pp y-o-y. Also, we are witnessing a gradual recovery in KPIs of Four Season Sharm El Sheikh, where occupancies increased 16pp y-o-y and ARR in USD terms was 20% higher y-o-y. The property delivered an EBITDA margin of 14% compared to a negative 17% booked for the same period last year[1].

Global occupancy reached 68.5% in 1Q2018, compared to 53.9% in 1Q2017, 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 EGP184mn in 1Q2018, compared to EGP84mn posted in 1Q2017, reflecting a strong improvement in operating metrics and profitability and generating a margin of 46% compared to 35% delivered a year earlier.

A total of 380 new rooms is currently under construction or design stage, expected to start contributing to the segment's revenue within the next two-to-three years, with Four Seasons Sharm El Shaikh extension expected to come online in 2019 and Four Seasons Madinaty in 2020, where the company is now ready to take advantage of the community's maturity and the rapid urbanization of East Cairo, to be aided by the rapid development of the New Administrative Capital. Management is confident that stable growth in arrivals expected in 2018 will continue to positively contribute to the segment's performance and profitability while the ongoing expansions will cement TMG Holding's position in Egypt's high-end travel segment. Four Seasons Nile Plaza remains the venue of choice for international events, conferences and high-profile state visits while the anticipated removal of travel restrictions to South Sinai should accelerate the already ongoing recovery to Four Seasons Sharm El Sheikh KPIs.

Hotel KPI summary

	Four Seasons Nile Plaza		*Four Seasons San Stefano*	
	1Q2017	**1Q2018**	**1Q2017**	**1Q2018**
ARR [USD]	223	373	188	177
Occupancy	65%	81%	49%	68%
GOP [EGPmn]	76	178	8	7
GOP margin	53%	68%	42%	17%
EBITDA [EGPmn]	68	152	7	5
EBITDA margin	47%	58%	22%	13%

	Four Seasons Sharm El Sheikh		*Kempinski Nile Hotel*	
	1Q2017	**1Q2018**	**1Q2017**	**1Q2018**
ARR [USD]	212	254	112	131
Occupancy	16%	32%	75%	83%
GOP [EGPmn]	(3)	10	17	22
GOP margin	-12%	21%	52%	53%
EBITDA [EGPmn]	(4)	7	13	19
EBITDA margin	-17%	14%	40%	45%

[1] It is noteworthy that Four Season Sharm El Sheikh delivered a positive EBITDA margin of 10% during FY2017 despite negative performance in 1Q2017.

Consolidated income statement

In EGPmn, unless otherwise stated

	1Q2017	1Q2018	Change
Development revenue	955.7	1,090.2	14.1%
Development cost	(561.7)	(652.2)	16.1%
Gross profit from development	**394.0**	**438.0**	**11.2%**
Hospitality and other recurring revenue	330.2	523.1	58.4%
Cost of hospitality and other recurring revenue	(218.2)	(280.4)	28.5%
Gross profit from hospitality and other recurring revenue	**112.0**	**242.7**	**116.8%**
Total gross profit	**506.0**	**680.7**	**34.5%**
Gross profit margin	39.4%	42.2%	2.8pp
Selling and marketing expenses	(9.5)	(6.0)	-37.0%
Administrative expenses	(126.8)	(194.5)	53.4%
Donations and governmental expenses	(15.9)	(42.4)	166.4%
Interest income	36.2	46.6	28.4%
Income from financial investments held to maturity	1.5	4.7	209.2%
Amortisation of financial investments held to maturity	0.02	0.02	8.0%
Income from T-bills	18.2	16.6	-8.9%
Dividend income from financial investments	0.2	-	
Income from sale of financial investments	4.7	-	
Income (loss) from revaluation of financial investments	2.6	0.1	
Income from associates	1.4	-	
Other income	30.1	35.0	16.2%
Capital gain (loss)	0.2	(0.01)	
BoD remuneration	(0.2)	(0.1)	-12.6%
FX gain (loss)	(0.0)	(4.8)	
Income before depreciation, financing expense and write-downs	**448.9**	**535.9**	**19.4%**
Depreciation and amortisation	(34.4)	(38.9)	13.1%
Monetisation of receivables expense	-	(61.1)	
Interest expense	(31.6)	(33.4)	6.0%
Goodwill write-down	-	-	
Net income before tax and minority interest expense	**382.9**	**402.5**	**5.1%**
Income tax	(60.7)	(59.2)	-2.5%
Deferred tax	(16.9)	(2.7)	-84.1%
Net income before minority interest	**305.3**	**340.6**	**11.6%**
Minority interest expense	(16.7)	(31.2)	87.3%
Attributable net income	**288.6**	**309.4**	**7.2%**

Consolidated balance sheet
In EGPmn

	4Q2017	1Q2018
Property, plant and equipment	3,833.9	3,930.1
Investment properties	112.8	112.4
Intangible assets	2.3	2.1
Projects under construction	2,785.3	2,862.6
Goodwill	13,581.5	13,581.5
Investment in associates	3.0	3.0
Financial investments available for sale	98.0	96.9
Financial investments held to maturity	2,516.1	2,516.5
Total non-current assets	**22,932.9**	**23,105.0**
Ready units	21.7	21.7
Development properties	24,410.4	26,290.8
Inventories	58.0	119.0
Notes receivable	18,329.2	20,088.2
Prepaid expenses and other debit balances	3,460.8	3,983.4
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	554.4	390.5
Financial assets at fair value	3.1	3.2
Cash and cash equivalents	3,339.6	3,527.1
Total current assets	**50,186.5**	**54,433.4**
Total assets	**73,119.4**	**77,538.4**
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	45.6
FX reserve	2.4	2.4
Retained earnings	5,810.2	6,758.0
Profit for the period	1,326.8	309.4
Shareholders' equity	**28,133.9**	**28,087.2**
Minority interest	1,019.0	1,048.1
Total equity	**29,152.9**	**29,135.3**
Bank loans	2,948.6	2,915.0
Long-term liabilities	4,169.6	4,168.1
Deferred tax liabilities	108.3	111.0
Total non-current liabilities	**7,226.5**	**7,194.1**
Bank overdrafts	2.3	10.0
Bank facilities	1,726.6	1,763.2
Current portion of bank loans	555.2	449.0
Notes payable	3,720.4	5,101.5
Advance payments	24,118.0	26,315.7
Dividends payable	250.6	653.0
Taxes payable	515.1	504.0
Accrued expenses and other credit balances	5,851.8	6,412.5
Total current liabilities	**36,740.0**	**41,208.9**
Total liabilities	**43,966.5**	**48,403.1**

Condensed cash flow statement

In EGPmn

	1Q2017	1Q2018
Net profit before taxes and non-controlling interest	382.9	402.5
Depreciation and amortization	34.4	38.9
Other adjustments	(65.1)	(63.2)
Gross operating cash flow	**352.2**	**378.1**
Net working capital changes	(332.0)	308.4
Accrued income tax paid	(69.1)	(70.4)
Net operating cash flow	**(48.9)**	**616.2**
Net investment cash flow	**(96.0)**	**(48.4)**
Net financing cash flow	**303.9**	**(376.9)**
FX impact	0.0	(4.8)
Net change in cash	**159.0**	**186.1**

— 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 380 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 31 March 2018