FY2017 earnings release

Cairo | 4 March 2018

TMG Holding

TMG Holding reports net income of EGP1.33bn in FY2017, growing 60.6% y-o-y, and record-high presales of EGP13.1bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the financial year ended 31 December 2007 (FY2017).

Key FY2017 financial highlights

- Revenues of EGP8.53bn, up 29.8% y-o-y, of which 25% or EGP2.13bn generated from hospitality and other recurring income lines, growing 64.2% y-o-y
- Gross profit of EGP3.12bn, up 31% y-o-y; gross profit margin of 36.6%, up 0.35pp y-o-y
- Net profit after tax and minority interest of EGP1.33bn, up 60.6% y-o-y
- Net cash position of EGP1.5bn as at end-FY2017
- Debt-to-equity ratio of 18.1% only
- Total backlog of EGP30bn, of which EGP22bn is yet to be collected

Key 4Q2017 financial highlights

- Revenues of EGP2.92bn, up 10.4% y-o-y
- Gross profit of EGP1.19bn, up 9.9% y-o-y; gross profit margin of 40.7%, down 0.2pp y-o-y
- Net profit after tax and minority interest of EGP268mn, up 27.5% y-o-y

Financial review

TMG Holding closed FY2017 with total consolidated revenues of EGP8.53bn, growing 29.8% y-o-y. Consolidated revenues in 4Q2017 came in at EGP2.92bn, growing 10.4% y-o-y. Consolidated gross margin in FY2017 showed minor y-o-y improvement and reached 36.6%, with a significant improvement in 4Q2017 driven by growing hospitality and other recurring income segments paired with improvement in profitability of development revenues. Net income attributable to shareholders of the parent company came in at EGP1.33bn in FY2017, up by a significant 60.6% y-o-y, driven by expansion in gross profit and aided by higher interest income, FX gains and normalizing effective tax rate, more-than-offsetting higher financing expenses and overheads. The company closed 4Q2017 with net attributable income of EGP268mn, up 27.5% y-o-y, after a periodic goodwill write-down of EGP520mn occurring in the last quarter of the year.

Implementing effective cost cutting strategies allowed TMG Holding to curb growth in its absolute selling, general and administrative expenses at levels close to annual inflation, despite significant y-o-y increase in sales and revenues.

The company closed the year with a net cash position of EGP1.5bn and EGP6.8bn of cash and cash equivalents and EGP22bn of remaining collections. The balance sheet remains unlevered, with debt-to-equity ratio of 18.1% only, with most of the company's debt attributable to hospitality and other recurring income segments and backed by stable cash flow stream.

City and Community Complexes segment performance

Our real estate development segment delivered revenues of EGP6.41bn, growing 21.3% y-o-y, on the back of continuing deliveries and new sales. The segment's gross margin was maintained at 36.5% in FY2017 despite market-wide construction cost increases following EGP devaluation in November 2016. The company was able to swiftly pass cost increases onto the new buyers and maintain robust growth in sales despite increasing competition in East Cairo in 2H2017, on the back of its strong branding, solid execution track record and very attractive value proposal underpinned by superb services and social infrastructure already developed in its communities, including schools, clinics, restaurants, retail outlets and others.

New sales reached EGP13.1bn during 2017, up 100% y-o-y, of which EGP3.6bn was generated from non-residential BuA launches in Rehab and Madinaty. The achieved sales figure is the highest since 2008 and reflects the positive impact of strategic changes implemented in 2H2017, focusing on better management of client relationships, improved after-sale service and new architectural designs matching current market needs and the changing competitive landscape. In 2H2017, the company launched the last remaining units in Rehab Extension, met with very good market reception despite shorter payment plans. The company sold 808 residential and 115 non-residential units in Rehab Extension during the year and plans to complete sale of the remaining prime residential inventory during 2018.

TMG Holding continues to capitalize on its superb execution track-record and monetizes significant population build-up within its communities through new residential and non-residential sales. Management believes that the company's first-mover advantage and readiness to expand its non-residential service offering in Madinaty and Rehab will allow the company to take advantage of the ongoing urbanization of East Cairo through non-residential BuA sales and Built-to-Lease development, allowing it to steadily build its recurring income portfolio and shield it from any potential downturns in the residential sales market in the long-term.

Cancellation rates in FY2017 were within the norm, not exceeding 4.5% of total backlog since inception as the company continues to refrain from haphazard and volume-oriented launches and focuses on backlog quality and real rather than speculative demand. Value of units cancelled in FY2017 amounted to EGP890mn compared to EGP844mn in FY2016, disproportionate to the staggering growth in sales reported during the year.

Our backlog stood at EGP30bn as at end-2017, compared to EGP22bn as at end-2016, expected to generate net pre-tax cash flow in excess of EGP8.7bn. The backlog is deliverable between 2018 and 2021.

The existing land bank is sufficient for about 17 years of sales and development while our strong balance sheet position and cash surplus allow us to consider opportunistic expansions in the near future. TMG Holding expects to launch a new project in 2018, located on 500 feddans (2.1mn sqm) in the New Administrative Capital, further diversifying its product portfolio. Our land bank as of today is able to accommodate a substantial 16mn sqm of BuA yet to be sold and developed, of which 3.5mn sqm is earmarked for sellable and leasable non-residential properties.

Hotels and Resorts segment performance

TMG Holding's hospitality operations delivered solid financial performance during FY2017 despite the still ongoing recovery of the sector. The segment's revenues came in at EGP1.12bn in FY2017, compared to EGP741mn in 2016 and benefiting from EGP weakness as well as increasing occupancies. The segment's EBITDA reached EGP428mn in FY2017. It compares to EG382mn in FY2016, which was supported by FX gains amounting to EGP106mn following revaluation of FX-denominated cash balances. Global occupancy in FY2017 increased to 58.2% from 50.2% in FY2016.

We implemented a number of improvements within our properties during the year and began re-hiring new talent in the anticipation of imminent recovery of Egyptian tourism expected during 2018 and onwards, on the back of improved security, ongoing investments in sector and its very competitive pricing following currency liberalization. Management believes that the company is well positioned to take advantage of this recovery as a leader in the high-end business and leisure travel segment.

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. Management is confident that stable growth in arrivals expected in 2018 will positively contribute to the segment's performance and profitability.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	FY16	**FY17**	**4Q16**	**4Q17**	**FY16**	**FY17**	**4Q16**	**4Q17**
ARR [USD]	302	228	218	240	245	206	206	182
Occupancy	54%	65%	52%	70.5%	61%	64%	52%	71%
GOP [EGPmn]	218	355	55	98	54.5	66	12	12
GOP margin	50%	53%	47%	54.5%	38%	35%	35.5%	27.5%
NOP [EGPmn]	225	271	87.5	79	59	52	24	9
NOP margin	52%	42.5%	76%	44%*	41%	28%	71%	20%*

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	FY16	**FY17**	**4Q16**	**4Q17**	**FY16**	**FY17**	**4Q16**	**4Q17**
ARR [USD]	267	241	237.5	238	131.5	117	109	122.5
Occupancy	25%	29%	23%	33%	62.5%	73%	58%	73%
GOP [EGPmn]	9	37	4	12	38	71	12.5	20
GOP margin	9%	21%	12%	26%	48%	51%	55%	53%
NOP [EGPmn]	27	17	25	5.5	47	52	26	16
NOP margin	26%	10%	81%	11.5%*	59%	37%	114%	42%*

Note (*): Relative y-o-y decline in NOP margins in 4Q2017 vs. 4Q2016 was attributable to gains booked on FX-denominated cash balances occurring in 4Q2016 post EGP devaluation.

TMG Holding

Consolidated income statement

In EGPmn, unless otherwise stated

	FY2016	FY2017	Change
Development revenue	5,280.3	6,406.4	21.3%
Development cost	(3,356.8)	(4,067.1)	21.2%
Gross profit from development	**1,923.5**	**2,339.3**	21.6%
Hospitality and other recurring revenue	1,296.4	2,127.9	64.2%
Cost of hospitality and other recurring revenue	(838.9)	(1,348.4)	60.7%
Gross profit from hospitality and other recurring revenue	**457.5**	**779.5**	**70.4%**
Total gross profit	**2,381.1**	**3,118.8**	**31.0%**
Gross profit margin	*36.2%*	36.6%	0.3pp
Selling and marketing expenses	(31.9)	(36.6)	14.6%
Administrative expenses	(285.7)	(406.2)	42.1%
Donations and governmental expenses	(195.5)	(223.0)	14.1%
Provisions	-	(2.4)	
Interest income	80.1	188.3	135.1%
Income from financial investments held to maturity	6.0	18.9	214.7%
Amortisation of financial investments held to maturity	2.2	0.1	-97.3%
Income from T-bills	50.2	68.3	36.0%
Loss on sale of financial investments	-	(3.4)	
Dividend income from financial investments	2.9	3.7	25.4%
Income from sale of financial investments	4.6	29.0	
Income (loss) from revaluation of financial investments	20.9	(17.0)	
Income from associates	(3.8)	0.8	
Other income	70.7	46.9	-33.7%
Capital gain (loss)	(0.2)	(1.5)	
BoD remuneration	(0.5)	(0.5)	0.6%
FX gain (loss)	39.2	57.6	46.8%
Income before depreciation, financing expense and write-downs	**2,140.2**	**2,841.6**	**32.8%**
Depreciation and amortisation	(136.8)	(144.8)	5.9%
Monetisation of receivables expense	(132.7)	(250.0)	88.4%
Interest expense	(77.9)	(133.4)	71.3%
Goodwill write-down	(545.2)	(520.0)	-4.6%
Net income before tax and minority interest expense	**1,247.7**	**1,793.3**	**43.7%**
Income tax	(407.5)	(383.1)	-6.0%
Deferred tax	(11.2)	(27.2)	142.4%
Net income before minority interest	**829.0**	**1,383.0**	**66.8%**
Minority interest expense	(2.4)	(56.1)	
Attributable net income	**826.5**	**1,326.8**	**60.6%**

Consolidated balance sheet
In EGPmn

	FY2016	FY2017
Property, plant and equipment	3,807.6	3,833.9
Investment properties	114.5	112.8
Intangible assets	0.7	2.3
Projects under construction	1,992.0	2,785.3
Goodwill	14,101.5	13,581.5
Investment in associates	1.0	3.0
Financial investments available for sale	100.3	98.0
Financial investments held to maturity	1,978.9	2,516.1
Total non-current assets	**22,096.5**	**22,932.9**
Ready units	23.1	21.7
Development properties	19,896.6	24,410.4
Inventories	28.0	58.0
Notes receivable	15,521.8	18,329.2
Prepaid expenses and other debit balances	2,138.5	3,460.8
Financial investments available for sale	27.5	9.3
Financial investments held to maturity	753.2	554.4
Financial assets at fair value	74.2	3.1
Cash and cash equivalents	3,257.8	3,339.6
Total current assets	**41,720.8**	**50,186.5**
Total assets	**63,817.3**	**73,119.4**
Paid-in capital	20,635.6	20,635.6
Legal reserve	236.4	250.3
General reserve	61.7	61.7
Revaluation reserve	52.2	46.9
FX reserve	2.3	2.4
Retained earnings	5,424.5	5,810.2
Profit for the period	826.5	1,326.8
Shareholders' equity	**27,239.3**	**28,134.0**
Minority interest	899.2	1,019.0
Total equity	**28,138.5**	**29,152.9**
Bank loans	3,022.6	2,948.6
Long-term liabilities	1,792.3	4,169.6
Deferred tax liabilities	81.1	108.3
Total non-current liabilities	**4,896.1**	**7,226.5**
Bank overdrafts	12.9	2.3
Bank facilities	945.4	1,726.6
Current portion of bank loans	766.1	555.2
Notes payable	3,371.7	3,720.4
Advance payments	20,357.8	24,118.0
Dividends payable	70.2	250.6
Taxes payable	379.8	515.1
Accrued expenses and other credit balances	4,878.8	5,851.9
Total current liabilities	**30,782.6**	**36,740.0**
Total liabilities	**35,678.7**	**43,966.5**

Condensed cash flow statement

In EGPmn

	FY2016	FY2017
Net profit before taxes and non-controlling interest	1,247.7	1,793.3
Depreciation and amortization	136.8	144.8
Other adjustments	343.0	177.8
Gross operating cash flow	**1,727.4**	**2,115.9**
Net working capital changes	128.0	(984.7)
Accrued income tax paid	(478.2)	(247.8)
Net operating cash flow	**1,377.3**	**883.5**
Net investment cash flow	**(1,219.9)**	**(1,290.1)**
Net financing cash flow	**1,600.9**	**501.5**
FX impact	39.2	57.6
Net change in cash	**1,797.5**	**152.5**

— Ends —

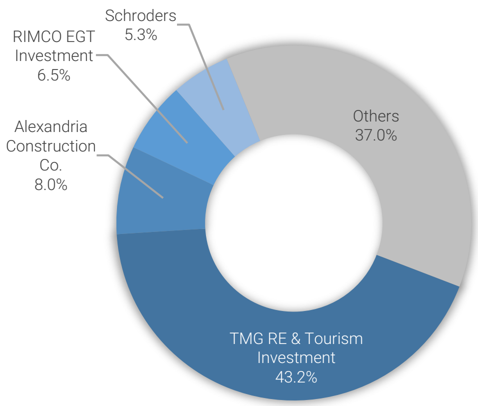
About the company

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 December 2017



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