9M2018 earnings release

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TMG Holding reports record-high sales of EGP18.3bn in 9M2018, growing 98% y-o-y, and net profit of EGP1.19bn, growing 12.1% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the nine months (9M2018) and third quarter (3Q2018) ended 30 September 2018.

Key 9M2018 financial highlights

- Revenues of EGP6.81bn, up 21.3% y-o-y, of which 30% or EGP2.06bn generated from hospitality and other recurring income lines, growing 76.0% y-o-y
- Gross profit of EGP2.42bn, up 25.5% y-o-y; gross profit margin of 35.6%, up 1.2pp y-o-y
- Net profit before minority interest of EGP1.25bn, up 12.5%
- Net profit after tax and minority interest of EGP1.19bn, up 12.1% y-o-y
- Net cash position of EGP3.0bn as at end-9M2018, compared to EGP1.0bn as at end-9M2017
- Debt-to-equity ratio of c16.7% only
- Total backlog of EGP41.3bn and remaining collections EGP30.6bn, compared to EGP28bn and EGP16.5bn as at end-9M2017, respectively

Key 3Q2018 financial highlights

- Revenues of EGP2.84bn, up 24.6% y-o-y
- Gross profit of EGP855mn, up 17.5% y-o-y; gross profit margin of 30.1%, down 1.8pp y-o-y
- Net profit after tax and minority interest of EGP455mn, up 17.9% y-o-y

Financial review

TMG Holding closed 9M2018 with total consolidated revenues of EGP6.81bn, growing 21.3% y-o-y, of which 30% or EGP2.06bn was generated by the company's recurring income lines, growing by a considerable 76.0% y-o-y. Consolidated gross profit increased 25.5% y-o-y and came in at EGP2.42bn, at a gross profit margin of 35.6%, 1.2pp wider than in the same period last year. Net profit before minority interest expense came in at EGP1.25bn, growing 12.5% y-o-y. Net profit attributable to shareholders came in at EGP1.19bn, growing 12.1% y-o-y. During 9M2018, the company incurred EGP234.4mn of expenses related to faster monetization of outstanding receivables, compared to EGP236.1mn booked in 9M2017. Additionally, the company booked EGP154.7mn of financing expenses related to a newly signed finance lease agreement (net EGP120.3mn adjusted for capital gains, nil in 9M2017) backed by operational retail properties in Al Rehab development. The agreement provides 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 its club and hospitality segments. Adjusting for these amounts, pre-tax net profit would have come 23.2% higher y-o-y. TMG Holding closed 9M2018 with a net cash position of EGP3.0bn and EGP8.1bn of cash and cash equivalents. The balance sheet remains unlevered, with debt-to-equity ratio of 16.7% 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 EGP2.09bn in 9M2018, compared to negative EGP247mn a year earlier.

City and Community Complexes segment performance

Our real estate development segment delivered revenues of EGP4.75bn in 9M2018, growing 6.9% 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 36.0%, expanding 1.0pp y-o-y.

Total presales came in at a record-high EGP18.3bn in 9M2018, growing by a strong 98% y-o-y and exceeding our initial targets by 48%. Sales were primarily driven by Celia, our new development launched in the New Administrative Capital, which contributed EGP10.7bn to the total sales result for the period since the project's launch in June 2018.

In line with its strategy to accelerate monetisation of TMG Holding's non-residential land holdings and extract value from access to captive populations within its projects, in September 2018 the company launched a new non-residential property, All Seasons Park in Sector 4 of Madinaty, which contributed cEGP502mn to 9M2018 sales. All Seasons Park comprises of retail, food and beverage, entertainment and medical space. Overall, non-residential properties contributed some EGP2.4bn to the sales result in 9M2018. Management believes that the strong uptake of newly launched space is a yet another testimony to the strength of TMG Holding brand equity and investment appeal of the company's properties. That said, the 86k sqm Open Air mall in Madinaty became operational towards the end of October, with the opening of Carrefour supermarket which saw very strong interest from residents and is already witnessing very strong footfall.

Our backlog stands at an unmatched EGP41.3bn as at end-9M2018, compared to EGP28bn as at end-9M2017 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 EGP30.6bn of cash collections. Value of cancellations and contract alterations in 9M2018 reached EGP1.62bn, of which EGP885mn related to sales in 9M2018[1] and the remaining EGP738mn related to sales booked in prior years, implying a cancellation rate of c4.5% for current sales and only c2.5% for historical sales. This compares to total cancellations of EGP703mn reported in 9M2017, representing c7% of sales in that period. 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.

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.

Management is upbeat on the prospects of its club segment, which generated revenues of EGP115mn in 9M2018, at a gross margin of 89%. The brand equity of Al Rehab and Madinaty sporting clubs is currently attracting substantial demand from outside of these projects. Such sales reached over EGP50mn to date since end-September when they were initiated.

[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 9M2018, with the segment's revenues growing by 38% y-o-y and coming in at EGP1,126mn, compared to EGP816mn booked in 9M2017. The segment continues to benefit from increasing occupancies and ARRs across all properties, with significant growth driven by Four Seasons Nile Plaza in 9M2018, where ARR jumped by 43% y-o-y in USD terms and occupancies reached 73% during the period, up 10pp y-o-y. Recovery in KPIs of Four Season Sharm El Sheikh continues, with occupancies increasing 12pp y-o-y and ARR in USD terms growing 22% y-o-y. The property delivered an EBITDA margin of 22% compared to just 12% booked for the same period last year.

Global occupancy reached 66.2% in 9M2018, compared to 56.6% 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 21% y-o-y in USD terms, reaching an average of USD234 per night. Aggregate EBITDA of the four operating hotels came in at EGP470mn in 9M2018, up 52% y-o-y compared to EGP309mn in 9M2017, reflecting a strong improvement in operating metrics and generating a margin of 42% compared to 38% delivered 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, as well as the restoration of Cairo-Moscow connection earlier this year.

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

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	9M17	**9M18**	**3Q17**	**3Q18**	**9M17**	**9M18**	**3Q17**	**3Q18**
ARR [USD]	223	283	223	216	215	224	247	254
Occupancy	62.7%	72.6%	70.8%	74.4%	61.6%	71.3%	79.4%	79.4%
GOP [EGPmn]	236	379	91	91	54	54	32	32
GOP margin	53.2%	59.2%	55.2%	50.0%	37.5%	31.2%	46.7%	41.6%
EBITDA [EGPmn]	205	328	78	80	48	47	28	28
EBITDA margin	46.3%	51.3%	47.4%	44.2%	32.9%	27.1%	41.2%	36.7%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	9M17	**9M18**	**3Q17**	**3Q18**	**9M17**	**9M18**	**3Q17**	**3Q18**
ARR [USD]	241	279	256	314	115	132	122	137
Occupancy	26.9%	38.8%	32.9%	42.7%	73.1%	79.5%	81.3%	85.2%
GOP [EGPmn]	25	54	11	21	51	63	20	23
GOP margin	19.7%	29.0%	23.3%	30.1%	49.9%	49.8%	51.3%	50.0%
EBITDA [EGPmn]	15	40	7	15	41	55	17	20
EBITDA margin	12.2%	21.6%	15.6%	22.1%	39.7%	43.0%	42.3%	42.9%

TMG Holding

Consolidated income statement

In EGPmn, unless otherwise stated

	9M2017	9M2018	Change
Development revenue	4,443.2	4,748.4	6.9%
Development cost	(2,891.8)	(3,040.5)	5.1%
Gross profit from development	**1,551.5**	**1,707.8**	**10.1%**
Hospitality and other recurring revenue	1,172.6	2,063.5	76.0%
Cost of hospitality and other recurring revenue	(794.2)	(1,349.0)	69.9%
Gross profit from hospitality and other recurring revenue	**378.4**	**714.5**	**88.8%**
Total gross profit	**1,929.9**	**2,422.4**	**25.5%**
Gross profit margin	*34.4%*	*35.6%*	*1.2pp*
Selling and marketing expenses	(21.7)	(26.3)	21.2%
Administrative expenses	(420.8)	(553.8)	31.6%
Donations and governmental expenses	(90.4)	(87.6)	-3.1%
Provisions	(0.4)	-	N/M
Interest income	132.1	207.4	57.0%
Income from financial investments held to maturity	11.7	14.6	24.6%
Amortisation of financial investments held to maturity	0.04	0.05	13.6%
Income from T-bills	51.6	20.7	-59.9%
Dividend income from financial investments	1.4	0.6	-60.4%
Income from sale of financial investments	25.6	0.1	-99.7%
Income from revaluation of financial investments	(17.2)	0.2	N/M
Other income	87.9	61.7	-29.8%
Capital gain (loss)	0.85	35.4	N/M
BoD remuneration	(0.4)	(0.7)	62.7%
FX gain (loss)	59.4	11.5	-80.6%
Income before depreciation and financing expense and write-downs	**1,749.5**	**2,106.2**	**20.4%**
Depreciation and amortisation	(108.5)	(125.3)	15.4%
Monetisation of receivables expense	(236.1)	(234.4)	-0.7%
Interest expense	(100.2)	(104.6)	4.4%
Finance lease expense	-	(154.7)	N/M
Net income before tax and minority interest expense	**1,304.7**	**1,487.3**	**14.0%**
Income tax	(176.9)	(233.8)	32.2%
Deferred tax	(20.3)	(7.8)	-61.7%
Net income before minority interest	**1,107.4**	**1,245.7**	**12.5%**
Minority interest expense	(48.5)	(58.5)	20.7%
Attributable net income	**1,058.9**	**1,187.1**	**12.1%**

TMG Holding

Consolidated balance sheet

In EGPmn

	FY2017	9M2018
Property, plant and equipment	3,833.9	4,005.7
Investment properties	112.8	117.0
Intangible assets	2.3	1.9
Projects under construction	2,785.3	3,047.6
Goodwill	13,581.5	13,581.5
Investment in associates	3.0	3.4
Financial investments available for sale	98.0	97.4
Financial investments held to maturity	2,516.1	2,669.7
Total non-current assets	**22,932.9**	**23,524.2**
Ready units	21.7	270.1
Development properties	24,410.4	33,884.4
Inventories	58.0	95.4
Notes receivable	18,329.2	23,271.9
Prepaid expenses and other debit balances	3,460.8	6,130.6
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	554.4	206.3
Financial assets at fair value	3.1	2.3
Cash and cash equivalents	3,339.6	4,802.9
Total current assets	**50,186.5**	**68,673.2**
Total assets	**73,119.4**	**92,197.3**
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	6,820.2
Profit for the period	1,326.8	1,187.1
Shareholders' equity	**28,134.0**	**29,028.0**
Minority interest	1,019.0	1,050.6
Total equity	**29,152.9**	**30,078.6**
Bank loans	2,948.6	2,865.8
Long-term liabilities	4,169.6	4,168.1
Deferred tax liabilities	108.3	116.1
Total non-current liabilities	**7,226.5**	**7,150.0**
Bank overdrafts	2.3	33.3
Bank facilities	1,726.6	1,455.8
Current portion of bank loans	555.2	662.6
Notes payable	3,720.4	12,690.7
Advance payments	24,118.0	31,416.2
Dividends payable	250.6	245.8
Taxes payable	515.1	299.4
Accrued expenses and other credit balances	5,851.9	8,164.9
Total current liabilities	**36,740.0**	**54,968.8**
Total liabilities	**43,966.5**	**62,118.7**

Condensed cash flow statement

In EGPmn

	9M2017	9M2018
Net profit before taxes and non-controlling interest	1,304.7	1,487.3
Depreciation and amortization	108.5	125.3
Other adjustments	(265.1)	(256.1)
Gross operating cash flow	**1,148.1**	**1,356.4**
Net working capital changes	(1,068.1)	1,179.0
Accrued income tax paid	(326.8)	(449.5)
Net operating cash flow	**(246.8)**	**2,085.9**
Net investment cash flow	**(408.8)**	**(367.3)**
Net financing cash flow	**749.9**	**(329.1)**
FX impact	59.4	11.5
Net change in cash	**153.6**	**1,400.9**

— 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 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 30 September 2018