TMG Holding reports net profit of EGP1.87bn in FY2019, growing 10% y-o-y, and new sales of EGP20.4bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the financial year ended 31 December 2019 (FY2019).

Key FY2019 financial highlights

- Revenues of EGP11.74bn, up 7.5% y-o-y, of which a significant 31% or EGP3.59bn was generated from hospitality and other recurring income lines, growing 4.7% y-o-y
- Gross profit of EGP4.51bn, up 11.2% y-o-y, of which 31% generated by recurring income lines
- Net profit before minority interest of EGP1.95bn, up 10.0% y-o-y
- Net profit after tax and minority interest of EGP1.87bn, up 9.8% y-o-y
- Net cash position of EGP3.20bn as at end-FY2019, compared to EGP3.11bn as at end-FY2018
- Debt-to-equity ratio of c14.6% only, down from 16.9% a year earlier
- Total backlog of EGP49.5bn and remaining collections of EGP40.8bn, compared to EGP41.7bn and EGP31.3bn as at end-FY2018, respectively

Key 4Q2019 financial highlights

- Revenues of EGP3.98bn, down 3.2% y-o-y
- Gross profit of EGP1.66bn, up 1.8% y-o-y
- Net profit after tax and minority interest of EGP560mn, up 8.2% y-o-y

Financial review

TMG Holding closed FY2019 with total consolidated revenues of EGP11.74bn, growing 7.5% y-o-y, of which 31% or EGP3.59bn was generated by the company's recurring income lines (hospitality, rental and club income, miscellaneous service income), growing by a 4.7% y-o-y. The company continues strengthening its recurring income lines, extracting value from captive populations and furthering improving the robustness of its business model. Consolidated gross profit increased 17.5% y-o-y and came in at EGP4.51bn, at a wide gross profit margin of 38.4%, increasing by 1.3pp y-o-y. Some 31% of gross profit in FY2019 was contributed by recurring income segments. Net profit before minority interest expense came in at EGP1.95bn, growing 10.0% y-o-y. Net profit attributable to shareholders came in at EGP1.87bn, growing 9.8% y-o-y, in line with earlier guidance. Internal cost control systems allowed the company to maintain a suitable net profit ratio. During the year, the company incurred EGP148mn of FX expenses on foreign currency balances, reflecting strengthening of the EGP during the period, compared to FX income EGP9.9mn in FY2018. Adjusting for these one-off expenses in FY2019, as well as provisions of some EGP17mn, pre-tax net profit would have come 20.3% higher y-o-y, reflecting the strong growth momentum of the company's core operations.

The company closed FY2019 with a net cash position of EGP3.20bn and EGP7.9bn of cash and cash equivalents. Importantly, total debt declined by some EGP458mn during FY2019 and the company's debt-to-equity ratio now stands at the very low 14.6%, compared to 16.9% as at end-FY2018. Most of the company's debt remains attributable to hospitality and other recurring income segments and backed by stable and growing cash flow stream.

City and Community Complexes segment performance

New sales in FY2019 reached a robust EGP20.4bn, confirming the company's unchallenged leadership in terms of market share and its ability to take advantage of the existing demand in the local market with well-tailored and appropriately priced product, supported by strong brand equity, superb facilities, infrastructure, upkeep, after-sale service and unmatched community and facility management, in addition to an unmatched delivery track-record of some 100 thousand units delivered across all of the company's projects since inception. Despite the brief market slow-down in 2H2019, as evidenced by extensions to payment plans or price discounts implemented by other developers to simulate new sales during the year, the result came in only EGP0.9bn or 4% short of FY2018 sales, which were supported by a non-core EGP1bn school transaction pertaining to 4 existing schools in the company's projects compared to just one school sold off-plan for EGP300mn this year. Last year's result was additionally supported by successful launch of Celia, which benefited from a novelty effect and significant pent-up demand for TMG-branded product in the new geography. It is noteworthy that TMG Holding has not resorted to payment plan extensions or lowering down payments during the year, preserving its target gross margins and seeing meaningful down payment amounts as a crucial "first credit check", guaranteeing good backlog quality and stability of future cash flows. In short, management views the FY2019 sales result very positively and believes that the company's sales are of better quality than these reported by other developers as they were generated without comprising profitability or increasing risk of future defaults and cancellations. During FY2019, the company introduced a new shorter 7-year payment plan, further diversifying payment options for its clientele.

Total non-residential sales contributed a significant 27% or EGP5.4bn to the total sales result during FY2019, up 86% y-o-y and compared to 14% or EGP2.9bn recorded in FY2018. This comes in line with TMG Holding's ambitious program to extract value from its vast non-residential land bank, where demand continues to grow on the back of population build-up in the company's projects as well as the continuously growing economic activity in East Cairo, to be further supported by the development of the New Administrative Capital. The company remains upbeat on the outlook for additional non-residential sales to be completed in the coming future.

The year also witnessed a successful launch of a new upscale apartment neighbourhood in Madinaty, in the close proximity to the Spine project - Privado, where the company booked total net sales of EGP5.7bn since the project's launch in June 2019, contributing positively to the FY2019 sales result. Moreover, TMG Holding booked some EGP473mn of sales of luxury serviced residential apartments and villas during the year, to be developed as part of a large upscale residential community adjacent to the 5-start star hotel in the East of Madinaty and to be serviced by Four Seasons.

Meanwhile, total sales of memberships across TMG Holding's sporting clubs reached some EGP931mn, up by a significant 92% y-o-y, of which EGP355mn was contributed by additional sales to existing unit owners. This comes in line with management's vision to continue building its recurring income portfolio on the back of the rapidly growing affluent populations in the company's projects which, through segments such as the sporting clubs, will secure stable and predictable sources of revenue in the future, shielding the business from future natural volatility inherent in the real estate market.

Our backlog stood at an unmatched EGP49.5bn as at end-FY2019, compared to EGP41.7bn as at end-FY2018, reflecting strong sales performance since the beginning of 2H2017, adjusted for continuing timely deliveries across our projects. The backlog is deliverable within the next 4-5 years, providing strong visibility on our earnings growth and cash flows. It will generate an estimated EGP40.8bn of cash collections.

Our real estate development segment delivered revenues of EGP8.15bn in FY2019, growing 8.8% 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 and stable 38.4% compared to 37.8% achieved in FY2018.

Hotels and Resorts segment performance

Hospitality revenue in FY2019 reached EGP1.60bn, unchanged from the result in FY2019 which was boosted by high-profile visits by foreign government delegations in Four Seasons Nile Plaza and weaker EGP. No such visits took place during FY2019. Adjusting the comparable period, revenues would have come in some 12% higher y-o-y as the segment continues to benefit from increasing occupancies and expanding ARRs.

Global occupancy reached 71.1% in FY2019, compared to 68.1% a year earlier, reflecting the ongoing recovery to Egyptian business and luxury travel. Global ARR increased by 9% y-o-y in USD terms, reaching an average of USD228 per night, and by 3% y-o-y in EGP terms reaching EGP3,810 per night, reflecting the strengthening of local currency over the year. Aggregate EBITDA of the four operating hotels came in at EGP575mn in FY2019, up 8.0% y-o-y on adjusted basis and generated EBITDA margin of 36% compared to 37% in FY2018, on adjusted basis, with the minor y-o-y contraction reflecting mainly the strengthening EGP and increasing cost of utilities following energy subsidy cuts.

The company increased its room base by 30 keys to 905 keys during 2019, reflecting key additions in Four Seasons San Stefano in Alexandria, with more keys to be added in the medium-term. 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 and visible jump in business travel. Management is upbeat on the recent restoration of UK flights to Sharm El Sheikh, which should further support the performance of the destination.

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 Four Seasons Sharm El Sheikh extension, development of Four Seasons Madinaty and renovations of Four Seasons Nile Plaza.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	FY18*	**FY19**	**4Q18***	**4Q19**	**FY18**	**FY19**	**4Q18**	**4Q19**
ARR [EGP]	4,034	4,337	3,935	4,351	3,961	4,182	3,942	3,662
ARR [USD]	227	260	220	271	223	251	221	228
Occupancy	75.0%	79.7%	81.3%	85.3%	71.3%	66.7%**	71.3%	62.7%**
GOP [EGPmn]	385	464	76	117	71	81	17	15
GOP margin	50.6%	52.9%	41.8%	51.3%	30.5%	30.4%	28.5%	25.3%
EBITDA [EGPmn]	335	383	70	99	61	66	14	12
EBITDA margin	44.1%	43.6%	38.6%	43.3%	26.4%	24.9%	24.3%	20.1%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	FY18	**FY19**	**4Q18**	**4Q19**	**FY18**	**FY19**	**4Q18**	**4Q19**
ARR [EGP]	4,864	4,589	4,654	4,302	2,379	2,244	2,476	2,144
ARR [USD]	274	275	261	268	134	134	139	133
Occupancy	41.1%	44.3%	47.9%	50.2%	81.1%	86.0%	86.0%	89.0%
GOP [EGPmn]	81	77	27	25	88	91	25	25
GOP margin	31.0%	28.1%	35.9%	32.3%	50.0%	49.3%	50.6%	52.4%
EBITDA [EGPmn]	60	51	20	18	75	75	21	22
EBITDA margin	23.1%	18.5%	26.7%	22.9%	42.8%	40.8%	42.2%	46.0%

Notes:

* Four Seasons Nile Plaza results for FY2018 and 4Q2018 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%.

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TMG

Consolidated income statement

In EGPmn, unless otherwise stated

	FY2018	FY2019	Change
Development revenue	7,495.5	8,151.6	8.8%
Development cost	(4,661.7)	(5,023.3)	7.8%
Gross profit from development	**2,833.8**	**3,128.3**	**10.4%**
Hospitality revenue	1,606.6	1,602.6	-0.3%
Hospitality cost	(923.3)	(1,037.0)	12.3%
Gross profit from hospitality operations	**683.4**	**565.6**	**-17.2%**
Other recurring revenue*	1,825.5	1,989.4	9.0%
Cost of other recurring revenue	(1,285.8)	(1,171.5)	-8.9%
Gross profit from other recurring operations	**539.6**	**817.9**	**51.6%**
Total revenue	**10,927.6**	**11,743.6**	**7.5%**
Total gross profit	**4,056.8**	**4,511.8**	**11.2%**
Gross profit margin	37.1%	38.4%	1.3
Selling and marketing expenses	(38.5)	(65.6)	70.3%
Administrative expenses	(554.1)	(648.2)	17.0%
Donations and governmental expenses	(221.9)	(167.0)	-24.7%
Provisions (net)	-	(15.9)	
Other income	445.6	429.9	-3.5%
Fain on finance lease	69.1	-	
Capital gain (loss)	1.6	0.4	-73.8%
BoD remuneration	(1.1)	(1.0)	-3.5%
FX gain (loss)	9.9	(148.0)	
Income before depreciation and financing expense	**3,767.2**	**3,896.3**	**3.4%**
Depreciation and amortisation	(174.4)	(261.6)	50.0%
Interest expense	(404.3)	(345.1)	-14.7%
Finance lease expense	(263.7)	-	
Revaluation of AFS investments	-	(17.4)	
Goodwill write-down	(526.0)	(562.0)	6.8%
Net income before tax and minority interest expense	**2,398.8**	**2,710.2**	**13.0%**
Income tax	(616.8)	(771.9)	25.1%
Deferred tax	(11.8)	9.7	
Net income before minority interest	**1,770.2**	**1,948.0**	**10.0%**
Minority interest expense	(65.4)	(75.7)	15.8%
Attributable net income	**1,704.8**	**1,872.2**	**9.8%**

Note (*): Includes retail lease revenue, sporting club revenue, contracting revenue, utilities, transportation and others.

Consolidated balance sheet
In EGPmn

	FY2018	FY2019
Property, plant and equipment	4,283.6	5,714.7
Investment properties	116.5	114.7
Intangible assets	1.7	0.8
Projects under construction	3,169.9	4,092.8
Goodwill	13,066.8	12,504.8
Investment in associates	3.0	3.6
Financial investments available for sale	98.2	32.8
Financial investments held to maturity	3,067.1	3,559.9
Total non-current assets	**23,806.7**	**26,024.2**
Ready units	270.7	-
Development properties	33,559.0	36,480.9
Inventories	97.7	1,002.0
Notes receivable	26,525.2	30,772.8
Prepaid expenses and other debit balances	7,114.5	5,306.7
Financial investments available for sale	9.3	12.0
Financial investments held to maturity	14.8	67.7
Financial assets at fair value	2.4	3.2
Cash and cash equivalents	4,873.2	4,211.7
Total current assets	**72,466.8**	**77,857.1**
Total assets	**96,273.5**	**103,881.2**
Paid-in capital	20,635.6	20,635.6
Legal reserve	274.5	290.0
General reserve	61.7	61.7
Revaluation reserve	46.3	-
FX reserve	2.4	2.4
Retained earnings	6,735.4	8,264.3
Profit for the period	1,704.8	1,872.2
Shareholders' equity	**29,460.8**	**31,126.3**
Minority interest	1,036.7	1,104.7
Total equity	**30,497.5**	**32,230.9**
Bank loans	2,995.3	3,019.0
Long-term liabilities	3,247.5	1,868.0
Deferred tax liabilities	120.1	4.6
Total non-current liabilities	**6,362.9**	**4,968.5**
Bank overdrafts	1.3	26.8
Bank facilities	1,745.0	1,242.1
Current portion of bank loans	407.5	402.7
Notes payable	14,659.7	15,826.4
Advance payments	33,788.9	39,115.1
Dividends payable	385.2	341.2
Taxes payable	671.1	924.8
Accrued expenses and other credit balances	7,754.4	8,879.5
Total current liabilities	**59,413.2**	**66,681.8**
Total liabilities	**65,776.1**	**71,650.3**

Condensed cash flow statement

In EGPmn

	FY2018	FY2019
Net profit before taxes and non-controlling interest	2,398.8	2,710.2
Depreciation and amortization	174.4	261.6
Other adjustments	180.5	313.0
Gross operating cash flow	**2,753.7**	**3,284.8**
Net working capital changes	396.7	(773.2)
Change in accrued income tax	(460.8)	(518.2)
Net operating cash flow	**2,689.5**	**1,993.5**
Net investment cash flow	**(1,067.1)**	**(1,778.1)**
Net financing cash flow	**(23.3)**	**(563.5)**
FX impact	9.9	(148.0)
Net change in cash	**1,609.0**	**(496.2)**

— 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 31 December 2019