TMG Holding reports net sales of EGP16.6bn in FY2020 despite pandemic headwinds, and net profit of EGP1.67bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the financial year ended 31 December 2020 (FY2020).

Key FY2020 financial highlights

- Revenues of EGP14.1bn, up 20.0% y-o-y, of which 16.2% or EGP2.28bn was generated from hospitality and other recurring income lines, affected by COVID-19 preventive measures
- Gross profit of EGP4.11bn, down 8.8% y-o-y, of which 11.5% generated by recurring income lines
- Profit before minority interest and tax of EGP2.61bn, down 3.8% y-o-y
- Net profit after tax and minority interest of EGP1.67bn, down 10.7% y-o-y
- Net cash position of EGP1.8bn as at end-FY2020, increasing by EGP1.5bn in new proceeds during first week of January 2021
- Debt-to-equity ratio of 19.9% only
- Total backlog of EGP50.8bn and remaining collections of EGP43.0bn

Financial review

TMG Holding closed FY2020 with total consolidated revenues of EGP14.1bn, expanding 20.0% y-o-y despite negative headwinds from the prevailing COVID-19 pandemic affecting hospitality and other recurring income lines during the period. Development revenue came in at EGP11.8bn, growing by a considerable 45.0% y-o-y, supported by recognition of some EGP4bn in revenue stemming from a strategic land transaction completed in August as well as timely deliveries. The transaction and its profit contribution counteracted some of the negative pressure witnessed by our recurring income segments due to pandemic-related slowdown in their activity. Gross margin on development operations came in at 30.8% in FY2020, affected by a non-cash discount of EGP338mn applied to development revenue in 4Q2020 to account for time-value of outstanding receivables pertaining to development revenues recognized to date, as required by new accounting standards. The discount will be gradually reversed through the income statement in form of finance income as these receivables are collected in the coming months or, alternatively, will lower the cost of financing or securitization should these receivables be monetized ahead of time. Total revenue from recurring income segments (hotels, sporting clubs, retail and others) contracted by 36.5% in FY2020 and came in at EGP2.28bn, affected mainly by a 61.2% y-o-y drop in hotel revenues resulting from partial hotel closures and weak inbound tourism throughout 2Q2020 and 2H2020. Net income after tax and minority interest expense came in at EGP1.67bn, contracting just 10.7% y-o-y despite a significant 65.7% decline in gross profit from recurring income lines, in addition to EGP229mn of provisions conservatively taken during the year to account for any unforeseen volatility. Also, it is noteworthy that general, administrative and government expenses and donations cumulatively declined 2.2% y-o-y despite a 20% y-o-y jump in revenue, reflecting the effectiveness of cost cutting strategies as well as savings on the back of bulk sale deals concluded during the year. The company closed FY2020 with a net cash position of EGP1.8bn, followed by collection of EGP1.5bn during the first week of January 20201 as proceeds from a large sale transaction closed in 4Q2020. The company continued investment in recurring income segments during the year. Following the successful issuance of EGP2.0bn worth of Ijarah sukuk in April 2020, the company's debt-to-equity ratio now stands at an optimal 19.9%, compared to 14.6% as at end-FY2019. Sellable development operations remain debt-free, giving the company significant flexibility in cash flow management going forward. Most of the company's debt remains tied to recurring income segments and is attractively priced, posing no additional burden on the business in case of a temporary market slow-down, especially as interest rates continue to decline.

City and Community Complexes segment performance

Our real estate sales backlog stood at an unmatched EGP50.8bn as at end-FY2020, reflecting strong sales performance since 2H2017, adjusted for continuing timely deliveries across our projects. The backlog will result in total collections of EGP43.0bn and net cash proceeds of over EGP15bn after expensing construction costs before delivery of these units.

The backlog will be delivered over the coming 4-5 years without any anticipated delays, providing a very solid visibility on the company's profitability during this period. The company expects to maintain and further improve its profitability on the back of already incurred expenditure on sites (e.g. completed infrastructure, low land cost etc.) and ever-growing economies of scale. Additionally, the company has accumulated a leftover inventory of almost completed units which will be generating new sales over the coming period without the need for further cash outlay, further strengthening its backlog quality and cash flows.

Due to the COVID-19 pandemic and its disruptive effect on the economy, we continue monitoring the collection rates of customer cheques and any potential delays will be met with postponing the delivery of their units, in order maintain our construction cash outflows in sync with collections. To date, collection and cancelation rates remain unaffected.

TMG Holding's business model is low-risk and based on self-financed off-plan development model leveraging on longstanding marketing and engineering expertise. Diverse and balanced portfolio of well-engineered and affordable payment plans allows for recovery of land and construction costs upon unit delivery, on average. TMG Holding's execution is leveraging on collections from past sales rather than new sales. Moreover, our business model remains easily scalable in case of any market slow-down. Majority of the land liability related to Madinaty land has already been settled.

Our real estate development segment delivered revenues of EGP11.8bn in FY2020, growing by a strong 45.0% y-o-y on the back of EGP4bn worth strategic land transaction closed in August 2020 as well as on the back of continuing timely deliveries during FY2020. The lands will be developed into quality mixed-use projects (residential neighbourhoods, retail outlets, and offices) by TMG Holding starting from 2023, leveraging on its unmatched market expertise, high-quality infrastructure and its vibrant and ever-growing communities of Rehab and Madinaty. Capex required for the development of these lands, excluding the EGP4.0bn deal proceeds, will be financed through the off-plan sales business model. The new projects will contribute a new type of high-quality product in the two cities and further improve the quality of services available to residents, promoting new demand, and ongoing population build-up and inbound footfall and thus giving rise to significant monetary and strategic value to all parties, which management believes was one of the key reasons encouraging the two banks to enter into such an alliance.

Such transactions are a solid testimony to TMG Holding management's ability to swiftly and proactively tap into unconventional and sizable sources of funding to the benefit of the Group and its shareholders while maintaining its very prudent approach to capital structure and further mitigating any unforeseen liquidity risks while maximizing the value of its assets. It also confirms management's ability to identify unconventional solutions to address any unforeseen challenges.

Well-adjusted sales strategy based on good understanding of the market needs yielded a very strong sales result of FY16.6bn in FY2020, the highest in the market and supported by the said bulk transactions. Additional club sales reached a strong EGP230mn despite temporary restrictions.

The segment's gross margin came in at a stable 30.8% compared to 38.4% achieved in FY2019. The y-o-y contraction in margin is primarily attributed to i) specific lower-margin revenue mix recognized in 3Q2020 as well as ii) discount of EGP338mn applied to revenues of 4Q2020 and pertaining to adjustment for time-value of all receivables related to revenues recognized to date. The discount would result in additional interest income to recognized on the income statement as these receivables are collected.

Acquisition of 21mn sqm of new land in Capital Gardens, East Cairo

In January 2021, TMG Holding has signed a contract with the New Urban Communities Authority (NUCA) to acquire 5,000 feddans or 21.0mn square meters (sqm) of prime land in East Cairo, located near the New Administrative Capital, in Capital Gardens City on the Cairo-Suez road, in very close proximity to the company's mega-cities of Madinaty and Rehab, as well as Celia neighbourhood in the New Administrative Capital. The new project is expected to comprise an estimated 140 thousand residential units, in addition to various non-residential services, such as retail space, a 5-star hotel, schools, international university and others. The design of the new project will focus on environmental sustainability, exploiting the features of its terrain to create an authentic and natural experience for its residents, maximizing walkable areas and cycling lanes and focusing on health and wellness. It will follow the trusted, albeit upgraded and refined master planning, design and development standards of TMG Holding's existing cities, characterised by innovation, application of smart technologies significantly lowering long-term operational costs, increased privacy and increased connectivity and access to quality services and infrastructure for its residents, driving further economic and societal growth in the area. The project is expected to house a population of some 600 thousand individuals upon its completion.

The contract marks yet another expansion of TMG Holding's land bank in the high growth area of East Cairo, the key geographical domain of the company, where quality infrastructure, including two international airports, as well as the establishment of the New Administrative Capital, will be driving a significant population growth and economic activity in the foreseeable future. This remarkable potential of East Cairo was the key factor behind the plot's selection as TMG Holding has an extensive experience in the area where, starting from the 1990's, management has accurately identified its extraordinary growth prospects, undertaking large-scale greenfield projects that since then have become notable landmarks and sources of remarkable economic and social activity. It is expected to significantly increase the company's hegemony in East Cairo, capitalizing on the strong brand-equity of its existing developments in the area, as well as their portfolio of services, without diluting their remaining residential and non-residential sales.

Importantly, the acquisition of this large plot of land secures ample space for the company to grow its annual sales as well as its recurring income portfolio for the next 20 years, with the project's total sales estimated at a whopping EGP826bn, in addition to an estimated EGP58bn in rental proceeds and club membership sales within this period. The land will be paid for through a combination of in-kind housing units and cash instalments, providing strong flexibility in managing working capital over the project's duration and contributing positively to medium and long-term cash flows. The project has an estimated investment cost of some EGP500bn.

It will follow the trusted development philosophy of Madinaty and Rehab cities, which has been well-tested and indisputably successful, having delivered outstanding operational and financial performance over the past decades, at its core underpinned by the low-risk and self-financing off-plan model targeting real housing demand, strongly benefiting the company's recurring income lines as the project reaches maturity.

The contract marks another important milestone in TMG Holding's growth story and comes in line with the previously announced land bank expansion policy. Management believes that the city land acquisition is an important step in securing continuity of its strong development operations once the sellable inventory in its existing projects is depleted. This major land bank expansion will increase the company's total land to a whopping 74mn square meters, the largest among listed real estate developers in Egypt and the largest in the Middle East region, providing a cornerstone for decades of new operational and financial growth and strongly growing new real estate sales. The well-tested development strategy of TMG has already helped in providing the market with over 100 thousand real estate units and quality housing to over 700 thousand residents in the company's current projects.

Hotels and Resorts segment performance

Operational and financial results of the company's hotel segment during FY2020 have been impacted by the outbreak of COVID-19 pandemic. During January and February, the company posted c15% y-o-y growth in hotel revenue in USD-terms but rapidly changing global travel patterns caused by the outbreak stunned revenue growth starting March, after a large number of European countries implemented total lockdowns, followed by suspension of air travel by Egypt in mid-March 2020. The company has responded to these conditions with an aggressive plan to temporarily lower hotel operating costs, which mitigates the impact of disruptions on the liquidity position of these assets. The pressure on the segment continued throughout 2Q2020 and 2H2020 on the back of weak inbound travel, with temporary closures of the country's hotels, lasting from mid-March until mid-May, when the authorities allowed for partial reopening. While Egypt has restored international air routes on 1 July 2020, inbound arrivals remained weak until end-FY2020.

Consolidated revenue of the segment came in at EGP622mn in FY2020, contracting 61.2% y-o-y. The pressure came in mainly in 2Q2020 when quarterly hospitality revenues amounted to just EGP35mn, down 91.5% y-o-y, due to partial closures and insignificant occupancies. Following noticeable operational improvements during 3Q2020 and 4Q2020, revenue in the last quarter of the year improved significantly q-o-q (+61.8%) and came in at EGP184mn but remained 55% below last year's result. Consolidated EBITDA of the segment came in at a negative EGP47mn in FY2020 compared to positive EGP575mn recorded in FY2019. Management remains confident that the long-term potential and outlook for the segment remains positive, with current global headwinds for the travel industry being temporary and expected to resolve gradually, especially on the back of global COVID-19 vaccine rollout which should encourage more travel in 2021 and onwards.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	FY2019	**FY2020**	**4Q2019**	**4Q2020**	**FY2019***	**FY2020**	**4Q2019***	**4Q2020**
ARR [EGP]	4,337	4,067	4,351	3,492	4,182	4,308	3,662	3,762
ARR [USD]	260	258	271	223	251	274	228	240
Occupancy	79.7%	24.6%	85.3%	19.0%	71.6%	31.6%	62.7%	35.8%
GOP [EGPmn]	464	22	117	-1	81	-2	15	3
GOP margin	52.9%	7.6%	51.3%	-1.9%	30.4%	-1.5%	25.3%	9.5%
EBITDA [EGPmn]	383	8	99	-4	66	-11	12	-0.7
EBITDA margin	43.6%	2.9%	43.3%	-5.8%	24.9%	-8.1%	20.1%	-2.0%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	FY2019	**FY2020**	**4Q2019**	**4Q2020**	**FY2019**	**FY2020**	**4Q2019**	**4Q2020**
ARR [EGP]	4,589	3,723	4,302	3,696	2,244	1,854	2,144	1,499
ARR [USD]	273	236	268	236	134	118	133	96
Occupancy	44.3%	24.8%	50.2%	45.3%	86.0%	29.0%	89.0%	28.6%
GOP [EGPmn]	77	-31	25	13	91	1	25	1
GOP margin	28.1%	-21.3%	32.3%	19.8%	49.3%	2.0%	52.4%	6.9%
EBITDA [EGPmn]	51	-38	18	9	75	-6	22	-0.5
EBITDA margin	18.5%	-26.2%	22.9%	14.6%	40.8%	-10.5%	46.0%	-2.5%

Notes:

* Number of available keys in Four Seasons San Stefano increased by 30 keys to 148 keys during 4Q2019

Consolidated income statement

In EGPmn, unless otherwise stated

	FY2019	FY2020	Change
Development revenue	8,151.6	11,817.8	45.0%
Development cost	(5,023.3)	(8,178.6)	62.8%
Gross profit from development	**3,128.3**	**3,639.2**	**16.3%**
Hospitality revenue	1,602.6	622.4	-61.2%
Hospitality cost	(1,037.0)	(672.6)	-35.1%
Gross profit from hospitality operations	**565.6**	**(50.2)**	**N/M**
Other recurring revenue*	1,989.4	1,657.6	-16.7%
Cost of other recurring revenue	(1,171.5)	(1,133.2)	-3.3%
Gross profit from other recurring operations	**817.9**	**524.4**	**-35.9%**
Total revenue	**11,743.6**	**14,097.8**	**20.0%**
Total gross profit	**4,511.8**	**4,113.4**	**-8.8%**
Gross profit margin	38.4%	29.2%	-9.2pp
General, administrative, selling and marketing expenses	(713.8)	(654.6)	-8.3%
Donations and governmental expenses	(140.8)	(181.4)	28.8%
Provisions (net)	(42.2)	(228.8)	N/M
Other income	429.9	479.4	11.5%
Capital gain (loss)	0.4	(0.5)	N/M
BoD remuneration	(1.0)	(1.2)	20.4%
FX gain (loss)	(148.0)	17.6	N/M
Income before depreciation and financing expense	**3,896.3**	**3,543.8**	**-9.0%**
Depreciation and amortisation	(261.6)	(302.3)	15.5%
Interest expense	(345.1)	(629.7)	82.5%
Finance lease cost	0.0	0.0	N/M
Revaluation of AFS investments	(17.4)	(4.1)	-76.8%
Write-down of investments in subsidiaries	(562.0)	0.0	N/M
Net income before tax and minority interest expense	**2,710.2**	**2,607.8**	**-3.8%**
Income tax	(762.2)	(957.4)	25.6%
Net income before minority interest	**1,948.0**	**1,650.4**	**-15.3%**
Minority interest expense	(75.7)	21.6	N/M
Attributable net income	**1,872.2**	**1,672.0**	**-10.7%**

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

Consolidated balance sheet
In EGPmn

	FY2019	FY2020
Property, plant and equipment	5,714.7	6,124.6
Investment properties	114.7	39.4
Intangible assets	0.8	2.4
Projects under construction	4,092.8	5,824.1
Goodwill	12,504.8	12,504.8
Investment in associates	3.6	52.7
Financial investments available for sale	32.8	266.1
Financial investments held to maturity	3,559.9	3,698.0
Deferred tax assets	0.0	0.0
Total non-current assets	**26,024.2**	**28,512.1**
Development properties	36,480.9	46,202.9
Inventories	1,002.0	1,119.4
Notes receivable	30,772.8	31,112.1
Prepaid expenses and other debit balances	5,306.7	6,403.9
Financial investments available for sale	12.0	0.0
Financial investments held to maturity	67.7	1,832.0
Financial assets at fair value	3.2	8.1
Cash and cash equivalents	4,211.7	2,705.1
Total current assets	**77,857.1**	**89,383.4**
Total assets	**103,881.2**	**117,895.5**
Paid-in capital	20,635.6	20,635.6
Legal reserve	290.0	313.5
General reserve	61.7	61.7
FX reserve	2.4	2.4
Retained earnings	8,264.3	11,513.1
Profit for the period	1,872.2	0.0
Shareholders' equity	**31,126.3**	**32,526.4**
Minority interest	1,104.7	1,089.8
Total equity	**32,230.9**	**33,616.3**
Bank loans	3,019.0	3,127.4
Sukuk	0.0	2,000.0
Long-term liabilities	1,868.0	6,514.8
Deferred tax liabilities	4.6	5.1
Total non-current liabilities	**4,891.5**	**11,647.3**
Bank overdrafts	26.8	21.1
Bank facilities	1,242.1	1,544.5
Current portion of bank loans	402.7	12.5
Notes payable	15,826.4	22,363.4
Advance payments	39,115.1	37,870.0
Dividends payable	341.2	155.8
Taxes payable	924.8	996.2
Accrued expenses and other credit balances	8,879.5	9,668.4
Total current liabilities	**66,758.8**	**72,631.9**
Total liabilities	**71,650.3**	**84,279.2**

Condensed cash flow statement

In EGPmn

	FY2019	FY2020
Net profit before taxes and non-controlling interest	2,710.2	2,607.8
Depreciation and amortization	261.6	302.3
Other adjustments	313.0	(263.6)
Gross operating cash flow	**3,284.8**	**2,646.4**
Net working capital changes	(773.2)	1,864.5
Change in accrued income tax	(518.2)	(885.4)
Net operating cash flow	**1,993.5**	**979.1**
Net investment cash flow	**(1,778.1)**	**(4,067.6)**
Net financing cash flow	**(563.5)**	**1,646.6**
FX impact	(148.0)	17.6
Net change in cash	**(496.2)**	**(1,424.2)**

— 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 74 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 2020