TMG Holding reports net sales of EGP32.4bn in FY2021, the highest in recent history, and an adjusted net profit of EGP2,200mn[1], up 31.6% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the full year, ended 31 December 2021 (FY2021).

Key FY2021 financial highlights

- Revenues of EGP15.3bn, up 8.9% y-o-y, of which 21.1% or EGP3.24bn was generated from hospitality and other recurring income lines, growing 42.1% y-o-y, showing strong recovery from COVID-19 pressures witnessed a year earlier
- Gross profit of EGP4.99bn, up 21.4% y-o-y, of which 19.7% generated by recurring income lines
- Adjusted profit before minority interest and tax of EGP3,271mn, up 25.4% y-o-y
- Adjusted net profit after tax and minority interest of EGP2,200mn up 31.6% y-o-y
- Net cash position of EGP1.1bn as at end-FY2021, down from EGP1.8bn reported as at end-FY2020
- Debt-to-equity ratio of 26.9% only, one of the lowest in the industry
- Total backlog of EGP63.1bn and remaining cash collections of EGP50.0bn (including receivables as stated on the balance sheet and additional expected collections stipulated by contractual agreements)

Financial review

TMG Holding closed FY2021 with total consolidated revenues of EGP15.3bn, expanding by a strong 8.9% y-o-y. Development revenue came in at EGP12.1bn in FY2021, growing by 2.5% y-o-y from a high base reported for the same period last year and supported by EGP4bn land sale transaction captured in 9M2020. Development revenue was supported by timely scheduled delivery of 2,991 residential and non-residential units. Gross margin on development operations came in at a wide 33.1% in FY2021, improving from the 30.8% margin reported in FY2020. The solid margin, in line with previously reported figures, shows strong consistency in the company's pricing and costing strategy. Total revenue from recurring income segments (hotels, sporting clubs, retail, and others) showed an impressive growth of 42.1% y-o-y and came in at EGP3.24bn, aided by a noticeable improvement in the performance of all of these segments. Importantly, hospitality revenue in FY2021 delivered an extraordinary growth of 103.9% y-o-y, on the back of continued recovery from COVID-19 pressures, in particular during the second half of FY2021. Revenues from other recurring income lines combined expanded by a healthy 18.9% y-o-y. Adjusted net income after tax and minority interest expense came in at EGP2,200mn, growing by 31.6% y-o-y, if adjusted for the annual write-down of goodwill, which is being carried out annually but did not occur in FY2020.

The company closed FY2021 with total cash and equivalents of EGP10.5bn. The strong cash reserve provides ample liquidity for backlog development and continuing investment in recurring income segments. Following the successful issuance of the EGP2.0bn worth of Ijarah sukuk in April 2020, the company's debt-to-equity ratio now stands at a sound 26.9% only. Most of the company's debt remains tied to recurring income segments and is attractively priced.

[1] Figure adjusted for write-down of goodwill of EGP439mn. Post adjustment, net profit was reported at EGP1,762mn, up a strong 5.4% y-o-y.

City and Community Complexes segment performance

Noor net sales reach a record EGP18.6bn in FY2021, achieving the highest launch sales for a real estate developer in Egypt

In less than six months after signing a contract to acquire 5,000 feddans or 21mn square meters (sqm) of prime land in East Cairo from New Urban Communities Authority, towards the end of 2Q2021, the company has launched sales in "Noor", a new integrated mega-city. Since the launch, Noor has recorded unprecedented net sales of some EGP18.6bn for FY2021. The launch achieved the highest sales for a real estate developer in Egypt and met unmatched demand from new and existing clientele. Following a detailed market study and demonstrating a good understanding of the needs of our target segment of end-users and long-term investors in the current macroeconomic environment, multi-tenant and stand-alone units have been launched on very attractive and competitive payment plans of 5, 10 and 15 years in length.

Unique financial engineering applied in Noor significantly reduces long-term development risks while guaranteeing fixed profits

As evidenced by the remarkably strong sales result in Noor, TMG Holding's management has accurately recognized the market's need for long-term and affordable payment plans. These payment plans swiftly improve product affordability and unlock yet untapped additional demand and are provided without affecting the company's liquidity and working capital position going forward. Longer payment plans applied in Noor were achieved through a unique hedging mechanism between TMG Holding, National Bank of Egypt, Banque Misr and Banque du Caire, which eliminates any future interest rate risks on the Group while offering these long-term and affordable payment plans. Thanks to this arrangement, TMG Holding will be able to discount up to EGP15bn worth of uncollected receivables from Noor project post unit delivery at a net discounted value of EGP9bn (covering EGP33bn worth of sales) at a fixed and known cost, which the Group was able to already price into its payment plans upon launch. Given that TMG has already sold EGP18.4bn worth of units in Noor as at end of FY2021, it still has a significant room for some EGP15bn of new sales to be covered by this facility. This unique mechanism thus i) allows the Group to address untapped demand through longer payment plans improving product affordability, resulting in significant additional sales, ii) eliminates downside risks related to changing interest rate environment in the long-term and iii) allows the Group to recognize additional profits upon discounting of cheques post-delivery.

Online sales platform delivers remarkable performance during its first weeks of operation

Upon the launch of Noor and in swift recognition of new emerging trends in commerce, brought on us globally by the COVID-19 pandemic, TMG Holding has inaugurated its innovative state-of-the-art online sales platform, allowing its clients to view and purchase all available residential products in its portfolio online, without the need of visiting TMG's physical sales centres. This new sales channel has delivered a remarkable performance in the short timespan since its inauguration, contributing around EGP2bn of new sales in Noor and other projects. This major achievement bodes particularly well for the future, as more and more trades move online. Importantly, the new sales channel allowed the Group to tap into global international markets, with 41% of online sales originating outside of Egypt. The success of our online sales platform is also a good testimony to the strong purchasing power present in our target segments, exposing the limitless opportunities for online-based services that are and will be offered to TMG's vibrant communities, especially as we enter the Smart City era, marked by multi-platform mobility, new sales channels, and cash-less payments.

New sales surpass EGP32.4bn in FY2021, largely exceeding the sales guidance of EGP30bn

Following the launch of Noor and on the back of a strong demand for TMG-branded properties elsewhere, both retail and institutional, the company has booked total FY2021 new sales of EGP32.4bn, representing some 6.7 thousand residential and non-residential units. This is the strongest sale period for the Group and in the Egyptian real estate market recent history. Given the stronger than expected market response to the launch of Noor, as well as the still strong institutional demand for the Group's non-residential inventory in Madinaty and Al Rehab City, management increased the sales guidance mid-year to EGP30bn. The new guidance was met and largely surpassed by the end of 2021. Backlog stood at EGP63.1bn as of 31 December 2021. This are the highest sales and largest backlog among Egyptian real estate development and investment companies. These figures provide a clear visibility over the medium term on the Group's expected revenues and earnings from its development operations as the massive backlog will results in recognized revenues and profits over the following 5 years.

Massive liquidity unlocked since mid-2020 through innovative transactions with prominent financial institutions

Starting 2020, TMG Holding's management was also focused on unlocking new liquidity leveraging on the Group unmatched market expertise, high-quality infrastructure and its vibrant and ever-growing communities of Al Rehab and Madinaty. Accordingly, it has devised [4] unique and strategically important transactions with high-profile partners focusing on accelerating sales, profit recognition, uptake of existing unsold inventory and further de-risking its robust business model

- In August 2020, a transaction with First-Design Company, related to 335k sqm in Al Rehab and Madinaty, against cash proceeds of **EGP4.0bn,** collected between September 2020 and March 2021. The land plots will be developed by TMG Holding into quality mixed-use projects
- In December 2020, a bulk sale of a pool of non-residential assets to an entity owned by institutional investors worth **EGP1.5bn**
- In May 2021, a bulk sale of unfinished non-residential assets in Madinaty and Rehab to Rawasy, the real estate investment arm of National Bank of Egypt and Banque Misr, valued at some **EGP1.7bn**
- In June 2021, a bulk sale to Rawasy, valued at a massive **EGP9bn,** pertaining to some non-residential assets in Madinaty currently under development. Will result in gradual sales over the coming quarters. It will also generate additional revenues for the Group to be recognized until 2023.

Majority of the cash proceeds from these transactions have already been collected or will be collected in the next two years. Solid testimony of 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

These transactions have a positive impact on sales, liquidity and profitability and helped in mitigating the risks inherent to COVID-19 pandemic, providing liquidity available for early prepayment of various commitments and also providing liquidity for investments, such as Noor. That said, management believes that all required funding for Noor project is already in place.

The Group retains the role of property managers for these respective units. Furthermore, these bulk sales will facilitate a smooth lease out process, and this will positively contribute to footfall and rental yields achieved elsewhere.

The transactions set a clear and indisputable reference point for the inherent value of TMG Holding's remaining land assets which in the view of management, it is not accurately captured by the Group's current market capitalisation. Out of the 74mn sqm of total land bank, a small portion of fully-paid or almost fully-paid land bank of some 9.5mn sqm of prime residential and commercial land in Madinaty and Al Rehab Cities has been independently valued at circa EGP113bn. The value on these lands have been created through years of strategic development and successful creation of vibrant communities in their vicinity.

Hotels and Resorts segment performance

Operational and financial results of the company's hotel segment during FY2021 have shown significant improvement and a healthy recovery from the pressures witnessed in FY2020, marked by global challenges related to the COVID-19 pandemic and the resulting pressure on global travel patterns. Total revenue from hotel operations in FY2021 came in at EGP1.27bn, driven by an average occupancy of 53% and Average Room Rate of EGP4,057. Notably, FS Sharm El Sheikh continuous delivering strong improvement in its performance, with average occupancy of 54.8% in FY2021, recording impressive results in 4Q21 of 68.5%. Revenue of FS Sharm El Sheikh came in at EGP377mn in FY2021, more than doubling from EGP145mn reported in FY2020. The property delivered positive EBITDA of EGP111mn, contributing strongly the total consolidated hospitality EBITDA of EGP372mn achieved in FY2021. This remarkable performance bodes well with the opening of the new extension, already operational as of March 2022.

Hotel KPI summary

Four Seasons Nile Plaza

	FY2019	FY2020	1Q2020	1Q2021
ARR [EGP]	4,337	4,067	4,469	3,696
ARR [USD]	260	258	286	235
Occupancy	79.7%	24.6%	65.7%	22.8%
GOP [EGPmn]	464	22	84	3
GOP margin	52.9%	7.6%	48.2%	4.8%
EBITDA [EGPmn]	383	8	70	0
EBITDA margin	43.6%	2.9%	40.1%	0.6%

Four Seasons San Stefano

	FY2019	FY2020	1Q2020	1Q2021
ARR [EGP]	4,182	4,308	3,461	3,340
ARR [USD]	251	274	221	213
Occupancy	71.6%	31.6%	38.7%	31.2%
GOP [EGPmn]	81	-2	0.1	-6.9
GOP margin	30.4%	-1.5%	0.3%	N/M
EBITDA [EGPmn]	66	-11	-2	-8.2
EBITDA margin	24.9%	-8.1%	-5.6%	N/M

Four Seasons Sharm El Sheikh

	FY2019	FY2020	1Q2020	1Q2021
ARR [EGP]	4,589	3,723	4,286	4,043
ARR [USD]	273	236	274	258
Occupancy	44.3%	24.8%	26.8%	44.6%
GOP [EGPmn]	77	-31	-6	15
GOP margin	28.1%	-21.3%	-15.5%	22.2%
EBITDA [EGPmn]	51	-38	-10	11
EBITDA margin	18.5%	-26.2%	-23.1%	15.5%

Kempinski Nile Hotel

	FY2019	FY2020	1Q2020	1Q2021
ARR [EGP]	2,244	1,854	2,098	1,469
ARR [USD]	134	118	134	94
Occupancy	86.0%	29.0%	69.5%	29.9%
GOP [EGPmn]	91	1	16	-1
GOP margin	49.3%	2.0%	45.1%	N/M
EBITDA [EGPmn]	75	-6	12	-2.7
EBITDA margin	40.8%	-10.5%	34.6%	N/M

Consolidated income statement

In EGPmn, unless otherwise stated

	FY2020	FY2021	Change
Development revenue	11,817.8	12,107.5	2.5%
Development cost	(8,178.6)	(8,098.6)	-1.0%
Gross profit from development	**3,639.2**	**4,008.9**	**10.2%**
Hospitality revenue	622.4	1,269.2	103.9%
Hospitality cost	(672.6)	(903.1)	34.3%
Gross profit from hospitality operations	**(50.2)**	**366.1**	**N/M**
Service revenue*	1,657.6	1,971.3	18.9%
Service cost	(1,133.2)	(1,352.5)	19.4%
Gross profit from other recurring operations	**524.4**	**618.8**	**18.0%**
Total revenue	**14,097.8**	**15,348.0**	**8.9%**
Total gross profit	**4,113.4**	**4,993.8**	**21.4%**
Gross profit margin	29.2%	32.5%	3.4pp
Selling and marketing expenses	(81.8)	(95.3)	16.5%
General and administrative expenses	(572.8)	(655.7)	14.5%
Donations and governmental expenses	(181.4)	(352.4)	94.2%
Provisions (net)	(228.8)	(194.0)	-15.2%
Other income	479.4	542.4	13.1%
Capital gain (loss)	(0.5)	4.8	N/M
BoD remuneration	(1.2)	(1.2)	0.5%
Foreign exchange gain (loss)	17.6	3.6	-79.6%
Income before depreciation and financing expense	**3,543.8**	**4,245.9**	**19.8%**
Depreciation and amortisation	(302.3)	(317.3)	5.0%
Finance cost	(629.7)	(660.6)	4.9%
Reversal of finance cost provisions	0.0	2.4	N/M
Revaluation of AFS investments	(4.1)	0.0	N/M
Write-down of investments in subsidiaries	0.0	(438.7)	N/M
Net income before tax and minority interest expense	**2,607.8**	**2,831.8**	**8.6%**
Income tax	(957.4)	(1,048.6)	9.5%
Net income before minority interest	**1,650.4**	**1,783.2**	**8.0%**
Minority interest expense	21.6	(21.5)	N/M
Attributable net income	**1,672.0**	**1,761.7**	**5.4%**

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

Consolidated balance sheet

In EGPmn, unless otherwise stated

	FY2020	FY2021
Property, plant and equipment	5,790.1	5,412.1
Investment properties	373.9	419.7
Intangible assets	2.4	3.6
Projects under construction	5,824.1	8,603.2
Goodwill	12,504.8	12,066.1
Investment in associates	52.7	68.9
Financial investments available for sale	266.1	500.2
Financial investments held to maturity	3,698.0	4,334.5
Other financial assets	0.0	687.0
Deferred tax assets	0.0	46.0
Total non-current assets	**28,512.1**	**32,141.4**
Development properties	46,202.9	58,839.9
Inventories	1,119.4	1,096.0
Notes receivable for delivered units	8,393.0	4,029.2
Notes receivable for undelivered units	22,719.1	31,190.3
Prepaid expenses and other debit balances	6,403.9	5,773.1
Financial investments available for sale	0.0	0.0
Financial investments held to maturity	1,832.0	2,242.9
Financial assets at fair value	8.1	111.6
Cash and cash equivalents	2,705.1	3,293.5
Total current assets	**89,383.4**	**106,576.5**
Total assets	**117,895.5**	**138,717.8**
Paid-in capital	20,635.6	20,635.6
Legal reserve	313.5	337.9
General reserve	61.7	61.7
FX reserve	2.4	(2.9)
Revaluation reserve	0.0	7.5
Retained earnings	9,841.1	11,132.6
Profit for the period	1,672.0	1,761.7
Shareholders' equity	**32,526.4**	**33,934.1**
Minority interest	1,089.8	1,109.4
Total equity	**33,616.3**	**35,043.5**
Bank loans	3,127.4	4,307.2
Sukuk	2,000.0	2,000.0
Long-term liabilities	16,869.0	21,471.0
Other financial obligations	0.0	659.3
Deferred tax liabilities	5.1	192.8
Total non-current liabilities	**22,001.5**	**28,630.3**
Bank overdrafts	21.1	6.0
Bank facilities	1,544.5	1,522.7
Current portion of bank loans	12.5	1,580.0
Notes payable	10,604.5	7,775.4
Advance payments (collected)	15,150.9	20,017.5
Advance payments (checks)	22,719.1	31,190.3
Dividends payable	155.8	102.7
Provisions	198.2	183.8
Taxes payable	996.2	1,135.6
Accrued expenses and other credit balances	10,874.9	11,530.0
Total current liabilities	**62,277.7**	**75,044.1**
Total liabilities	**84,279.2**	**103,674.3**
Total liabilities and equity	**117,895.5**	**138,717.8**

Condensed cash flow statement

In EGPmn

	FY2020	FY2021
Net profit before taxes and non-controlling interest	2,607.8	2,831.8
Depreciation and amortization	302.3	317.3
Other adjustments	(221.7)	138.2
Gross operating cash flow	**2,688.4**	**3,287.3**
Net working capital changes	1,935.3	2,914.0
Change in accrued income tax	(885.4)	(797.7)
Net operating cash flow	**1,049.9**	**2,116.3**
Net investment cash flow	**(4,138.4)**	**(3,796.0)**
Net financing cash flow	**1,570.0**	**2,285.5**
FX impact	17.6	3.6
Net change in cash	**(1,500.9)**	**609.4**

— 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 1071 operational rooms in Cairo, Sharm El Sheikh and Alexandria and 877 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 of 31 December 2021