TMG

TMG Holding reports 1Q2020 net income of EGP375mn, up by 3.9% y-o-y despite pandemic headwinds; development revenue grows by 9.5% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first quarter ended 31 March 2020 (1Q2020).

Key 1Q2020 financial highlights

- Revenues of EGP2.29bn, up 5.1% y-o-y, of which a significant 43% or EGP976mn was generated from hospitality and other recurring income lines, almost flat y-o-y despite coronavirus lockdown
- Gross profit of EGP836mn, down 1.5% y-o-y, of which 37% generated by recurring income lines
- Net profit before minority interest of EGP382mn, up 1.9% y-o-y
- Net profit after tax and minority interest of EGP375bn, up 3.9% y-o-y
- Net cash position of EGP2.88bn as at end-1Q2020
- Debt-to-equity ratio of 14.2% only, down from 16.4% a year earlier
- Total backlog of EGP49.4bn and remaining collections of EGP40.6bn

Financial review

TMG Holding closed 1Q2020 with total consolidated revenues of EGP2.29bn, growing 5.1% y-o-y, of which 43% or EGP976bn was generated by the company's recurring income lines (hospitality, rental and club income, miscellaneous service income), which declined by just 0.5% y-o-y despite the negative effects of the global and local COVID-19 lockdowns, affecting non-residential business lines. Consolidated gross profit came in at EGP836mn, down 1.5% y-o-y, affected primarily by lower profitability of the hotel segment which was temporarily stalled by the suspension of international flights and preventive measures taken by the government. Net profit before minority interest expense came in at EGP382mn, growing 1.9% y-o-y. Net profit attributable to shareholders came in at EGP375mn, growing 3.9% y-o-y and helped by lower minority interest expenses in the quarter. Internal cost control systems allowed the company to maintain a suitable net profit ratio.

The company closed 1Q2020 with a net cash position of EGP2.88bn, after further investment in recurring income segments, and EGP7.47bn of cash and cash equivalents. Importantly, the company's debt-to-equity ratio now stands at the very low 14.2%, compared to 16.9% as at end-1Q2019. Sellable development operations remain debt-free, giving the company significant flexibility in cash flow management going forward. Most of the company's debt remains attributable 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 decline. Importantly, Arab Company for Projects and Urban Development (Arab Company), the owner of Madinaty and Rehab projects, has successfully issued Islamic sukuk worth EGP2.0bn in April 2020, in a first-of-its kind transaction in Egypt. The sukuk is the largest EGP-denominated debt issuance in the history of Egypt's capital market, successfully executed in challenging times and market conditions and providing further strong testimony to TMG Holding's unmatched investment appeal and creditworthiness. The proceeds will be used to accelerate the completion of Open Air Mall, a flagship retail property of a unique design, hosting prominent international brands and located in a prime spot in Madinaty, and raise the mall's estimated market value to over EGP8.5bn at its full inauguration. The mall is the newest addition to the already sizable portfolio of recurring income assets within TMG Holding's projects. This falls in line with the group's announced strategy to expand its recurring income lines and capitalize on the massive populations and growth already present in these projects and expand residents' access to high-quality services, retail, entertainment and infrastructure of international standards.

City and Community Complexes segment performance

Our real estate sales backlog stood at an unmatched EGP49.4bn as at end-1Q2020, reflecting strong sales performance since the beginning of 2H2017, adjusted for continuing timely deliveries across our projects. The backlog will result in total collections of EGP40.6bn and net cash proceeds of some EGP15bn after expensing construction costs before delivery of these units.

The backlog will be delivered over the coming 4 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.

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 EGP1.32bn in 1Q2020, growing by a strong 10% y-o-y, on the back of continuing timely deliveries, despite new operational challenges stemming from the COVID-19 precautions and bottlenecks. The segment's gross margin came in at a strong and stable 39.8% compared to 39.7% achieved in 1Q2019. New real estate sales reached EGP2.2bn in 1Q2020, generated primarily in Madinaty, despite the imposed curfew and other preventive measures, which confirms the strength of brand equity of TMG Holding in the market. Non-residential sales reached EGP564mn.

Hotels and Resorts segment performance

Operational and financial results of the company's hotel segment during 1Q2020 have been impacted by the outbreak of COVID-19 pandemic. Rapidly changing global travel patterns caused by the outbreak during January and February stunned revenue and EBITDA growth in these months, with January-February EBITDA declining by 7% y-o-y, followed by a more noticeable decline in the segment's revenue and EBITDA witnessed during 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 already responded to these conditions with an aggressive plan to temporarily lower hotel operating costs, which will mitigate the impact of current disruptions on the liquidity position of these assets. Nonetheless, we expect to see further negative effect on their financial performance during 2Q2020, when compared to last year's results.

Overall, the segment's revenue during 1Q2020 declined by 22.9% y-o-y and came in at EGP289mn, compared to EGP375mn during 1Q2019. This contraction came in despite a 3.5% y-o-y increase in USD-denominated average room rate (ADR) during the quarter and mainly on the back of declining global occupancy (53.5% in 1Q2020 vs. 69.9% in 1Q2019) and less favourable exchange rate as most of the segment's revenues are earned in hard currencies which depreciated against the EGP over the course of the past 12 months. Consolidated EBITDA of the segment came in at EGP70mn in 1Q2020, declining by 49.3% y-o-y, compared to EGP139mn recorded in 1Q2019. Meanwhile, EBITDA margin declined by 12.7pp to 24% in the same period, compared to 37% recorded in 1Q2019. This erosion is primarily attributable to i) sharp decline in revenue during the month of March following the country's lockdown to international air travel and time needed to adjust the segment's fixed cost base and ii) unfavourable base effect when compared to financial and operational results of March 2019, which was especially strong.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	FY18*	**FY19**	**1Q19**	**1Q20**	**FY18**	**FY19**	**1Q19**	**1Q20**
ARR [EGP]	4,034	4,337	4,675	4,469	3,961	4,182	3,655	3,461
ARR [USD]	227	260	268	286	223	251	209	221
Occupancy	75.0%	79.7%	84.7%	65.7%	71.3%	66.7%**	61.9%	38.7%
GOP [EGPmn]	385	464	131	84	71	81	10	0.1
GOP margin	50.6%	52.9%	58.5%	48.2%	30.5%	30.4%	19.6%	0.3%
EBITDA [EGPmn]	335	383	107	70	61	66	8	-2
EBITDA margin	44.1%	43.6%	47.7%	40.1%	26.4%	24.9%	14.0%	-5.6%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	FY18	**FY19**	**1Q19**	**1Q20**	**FY18**	**FY19**	**1Q19**	**1Q20**
ARR [EGP]	4,864	4,589	4,973	4,286	2,379	2,244	2,426	2,098
ARR [USD]	274	275	285	274	134	134	138	134
Occupancy	41.1%	44.3%	31.5%	26.8%	81.1%	86.0%	87.3%	69.5%
GOP [EGPmn]	81	77	9	-6	88	91	25	16
GOP margin	31.0%	28.1%	17.0%	-15.5%	50.0%	49.3%	51.2%	45.1%
EBITDA [EGPmn]	60	51	4	-10	75	75	21	12
EBITDA margin	23.1%	18.5%	8.0%	-23.1%	42.8%	40.8%	42.4%	34.6%

Notes:

* Four Seasons Nile Plaza results for FY2018 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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Consolidated income statement

In EGPmn, unless otherwise stated

	1Q2019	1Q2020	Change
Development revenue	1,200.8	1,315.5	9.5%
Development cost	(724.1)	(792.0)	9.4%
Gross profit from development	**476.7**	**523.5**	**9.8%**
Hospitality revenue	375.1	289.0	-22.9%
Hospitality cost	(238.7)	(220.4)	-7.7%
Gross profit from hospitality operations	**136.4**	**68.6**	**-49.7%**
Other recurring revenue*	605.2	686.8	13.5%
Cost of other recurring revenue	(369.3)	(443.0)	19.9%
Gross profit from other recurring operations	**235.9**	**243.8**	**3.4%**
Total revenue	**2,181.1**	**2,291.4**	**5.1%**
Total gross profit	**848.9**	**835.9**	**-1.5%**
Gross profit margin	38.9%	36.5%	(2.4pp)
General, administrative, selling and marketing expenses	(211.4)	(193.9)	-8.2%
Donations and governmental expenses	(39.6)	(44.3)	11.8%
Provisions (net)	(40.0)	-	
Other income	144.9	95.0	-34.5%
Capital gain (loss)	0.6	0.2	-73.1%
BoD remuneration	(0.3)	(0.4)	34.1%
FX gain (loss)	(70.9)	(7.3)	-89.7%
Income before depreciation and financing expense	**632.3**	**685.2**	**8.4%**
Depreciation and amortisation	(54.9)	(71.4)	30.2%
Interest expense	(117.9)	(104.2)	-11.6%
Revaluation of AFS investments	-	(1.2)	
Net income before tax and minority interest expense	**459.6**	**508.4**	**10.6%**
Income tax	(83.9)	(131.7)	57.0%
Deferred tax	(1.0)	5.1	
Net income before minority interest	**374.7**	**381.8**	**1.9%**
Minority interest expense	(13.5)	(6.5)	-52.2%
Attributable net income	**361.2**	**375.3**	**3.9%**

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

Consolidated balance sheet

In EGPmn

	FY2019	1Q2020
Property, plant and equipment	5,714.7	5,682.4
Investment properties	114.7	35.3
Intangible assets	0.8	0.6
Projects under construction	4,092.8	4,458.2
Goodwill	12,504.8	12,504.8
Investment in associates	3.6	3.6
Financial investments available for sale	32.8	31.6
Financial investments held to maturity	3,559.9	3,690.3
Deferred tax assets	-	0.5
Total non-current assets	**26,024.2**	**26,407.2**
Development properties	36,480.9	38,750.1
Inventories	1,002.0	1,011.6
Notes receivable	30,772.8	31,712.5
Prepaid expenses and other debit balances	5,306.7	6,007.3
Financial investments available for sale	12.0	11.0
Financial investments held to maturity	67.7	67.7
Financial assets at fair value	3.2	7.8
Cash and cash equivalents	4,211.7	3,660.7
Total current assets	**77,857.1**	**81,228.8**
Total assets	**103,881.2**	**107,636.0**
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	9,902.8
Profit for the period	1,872.2	375.3
Shareholders' equity	**31,126.3**	**31,291.4**
Minority interest	1,104.7	1,110.2
Total equity	**32,230.9**	**32,401.7**
Bank loans	3,019.0	2,957.5
Long-term liabilities	1,868.0	1,868.0
Deferred tax liabilities	4.6	-
Total non-current liabilities	**4,968.5**	**4,825.5**
Bank overdrafts	26.8	28.5
Bank facilities	1,242.1	985.9
Current portion of bank loans	402.7	621.6
Notes payable	15,826.4	17,616.9
Advance payments	39,115.1	39,575.1
Dividends payable	341.2	492.2
Taxes payable	924.8	893.0
Accrued expenses and other credit balances	8,879.5	10,195.8
Total current liabilities	**66,681.8**	**70,408.9**
Total liabilities	**71,650.3**	**75,234.4**

Condensed cash flow statement
In EGPmn

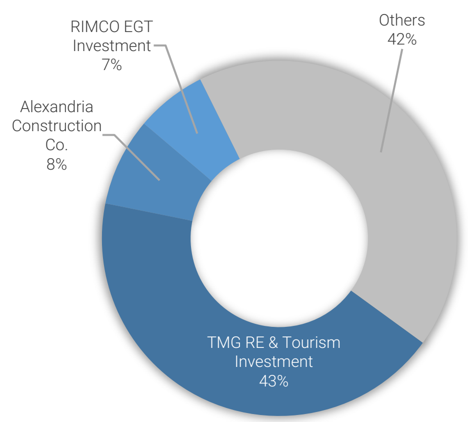
	1Q2019	1Q2020
Net profit before taxes and non-controlling interest	459.6	508.4
Depreciation and amortization	54.9	71.4
Other adjustments	16.9	(86.6)
Gross operating cash flow	**531.3**	**493.2**
Net working capital changes	1,295.1	(194.6)
Change in accrued income tax	41.6	(163.5)
Net operating cash flow	**1,868.0**	**135.0**
Net investment cash flow	**(1,646.7)**	**(454.2)**
Net financing cash flow	**(394.5)**	**(15.3)**
FX impact	(70.9)	(7.3)
Net change in cash	**(244.2)**	**(341.8)**

— 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 March 2020



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