TMG Holding executes EGP20.2bn in total sales during 1Q2023, including core sales and resales realized for third parties; records a net profit of EGP747bn, up by a substantial 32% y-o-y, driven by strong hospitality results and timely real estate deliveries

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first quarter of the year, ending on the 31st of March 2023 (1Q2023).

Key 1Q2023 financial highlights

- Total revenues of EGP4.4bn, up 47% y-o-y, of which 35% or EGP1.6bn was generated from hospitality and other recurring income lines.
- Gross profit of EGP1.6bn, up 44% y-o-y, of which 47.8% or EGP740mn was generated by recurring income lines.
- Profit before minority interest and tax of EGP1.05bn, up 34% y-o-y
- Net profit after tax and minority interest of EGP747bn, up 32% y-o-y
- Net cash position of EGP2.7bn as at end-1Q2023
- Total backlog of EGP85.5bn and remaining collections of EGP60.7bn

Financial review

TMG Holding closed 1Q2023 with total consolidated revenues of EGP4.4bn, growing by a substantial 47% y-o-y, driven by timely deliveries from the development operations and by a particularly strong performance in hospitality and other recurring income lines. Development revenue came in at EGP2.9bn, growing by a significant 38% y-o-y, supported by the timely delivery of 205 residential and non-residential properties during the period. The gross margin on development operations came in at 29%, consistent with the company's expectations. Total revenue from recurring income segments (hotels, sporting clubs, retail, and others) reached EGP1.6bn, up by an impressive 66% y-o-y. Strong occupancies and significant growth to hotel ARRs both in EGP and USD terms, drove hospitality revenue up by a whopping 106% y-o-y to EGP799mn. The strong operational performance from our hospitality division was further helped by the devaluation of the EGP, which was fully reflected in this quarter's set of financials.

Net income after tax and minority interest expense came in at EGP747bn, expanding by a strong 32% y-o-y. As at end-March 2023, the company's total cash equivalents and liquid investment balance stood at considerable EGP14.3bn, while the company's net cash position stood at EGP2.7bn.

Our debt-to-equity ratio stands at a secure 30%, one of the lowest in the market. 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 slowdown.

City and Community Complexes segment performance

During 1Q2023, the company executed total sales of EGP20.2bn, comprising some EGP12.2bn in core sales, representing 2,152 units, and some EGP8bn worth of resales, executed for institutional third parties, some of which had previously acquired TMG-branded properties as investment assets. The demand for real estate properties witnessed in the quarter was unprecedented compared to EGP5.4bn in sales booked in the same quarter last year. The demand remained in place despite continuous and consistent price increases implemented by the Group since the beginning of the year to reflect the recent cost inflation and higher interest rates inbuilt into various payment plans. The demand also reflects the trust extended to the TMG brand by its clientele seeking residence and investment in already existing and very well-maintained communities equipped with superb infrastructure and facilities, and hosting a well-assembled portfolio of brands, such as retailers, restaurants, banks, education providers, etc. The deep real demand that we recorded in the quarter was further strengthened by the devaluation of the EGP occurring last year, which increased the investment appeal of real estate products, customarily considered a reliable hedge against inflation. As per our prior agreements with institutional buyers who had earlier acquired our products in bulks for investment purposes, the Group supports the resale of these properties in exchange for a fee, helping investors realize their target investment returns in suitable market conditions while retaining full control over the supply of new TMG-branded properties in the market. This additional source of income comes at virtually no cost to the company, as we leverage the vast network of sales offices and personnel already in place. The operational performance in the quarter is a solid testimony of TMG's unchallenged market leadership. It confirms management's ability to accurately identify and capture unique market opportunities while mitigating systemic challenges with a well-tailored business strategy and the well-execution of the long-term vision. Furthermore, the sales result testifies to the accuracy of the Group's sales and pricing strategy, as well as the well-diversified real estate product mix, ranging from smaller and affordable multi-tenant units to ultra-luxury serviced villas available across multiple distinct geographical locations, each surrounded by quality infrastructure.

Management remains upbeat on the immediate prospects of the real estate market in Egypt, specifically in East Cairo, where the Group remains the unchallenged hegemon in terms of high-quality residential and non-residential real estate supply. This also aligns with the Group's plan to continue extracting value from its vast non-residential land bank, where demand continues to expand on the back of the growing population and the increasing economic activity in East Cairo, to be further supported by the development of the New Administrative Capital.

Our real estate sales backlog stood at an unmatched EGP85.5bn as of end-1Q2023, reflecting the strong sales performance since 2H2017, adjusted for continuing timely deliveries across our projects. The backlog will result in total collections of EGP60.7bn (including some remaining collections from already delivered units) and net cash proceeds of over EGP36.7bn 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 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.

TMG

Hotels and Resorts segment performance

The hospitality segment delivered strong financial and operational performance during the first quarter of 2023, in continuation of the record period of FY2022. During 1Q2023, the segment generated total revenues of EGP799mn, up from EGP387mn recorded in 1Q2022, representing a year-on-year growth of 106%. During the same period, the EBITDA figure reached EGP453mn, at a 57% margin, compared to EGP170mn reported for 1Q2022, growing by 167% year-on-year. The growth recorded in the period is attributable to the well-tailored pricing and marketing strategy, implemented by the management team.

All properties recorded high ARRs, increasing in both EGP and USD, as well as strong occupancy rates throughout the quarter. On a consolidated level, the segment recorded an ARR of EGP9,777 or USD325 compared to a budget of EGP8,294 and increased significantly compared to last year's rate of EGP4,469. The room rates in EGP increased sharply, reflecting the recent devaluation of the Egyptian pound. However, the growth recorded in USD term is linked to the healthy demand that we have been recording since 4Q2021. The occupancy came in at 60%, in line with the budget and compared to last year performance of 62%. Peak occupancy was recorded in the properties in Cairo, with Four Seasons Nile Plaza at 72% and Kempinski at 78%. Four Seasons Sharm El Sheikh achieved the highest ARR, reaching EGP11,929, or USD397, in the quarter.

Hotel KPI summary

	Four Seasons Nile Plaza				*Four Seasons San Stefano*			
	FY2021	**FY2022**	**1Q2022**	**1Q2023**	**FY2021**	**FY2022**	**1Q2022**	**1Q2023**
ARR [EGP]	4,208	7,520	5,232	11,729	4,644	5,844	3,513	6,832
ARR [USD]	269	385	326	391	296	304	219	228
Occupancy	51%	65%	70%	72%	51%	53%	48%	44%
GOP [EGPmn]	208	615	98	262	58	89	3	1
GOP margin	40%	57%	51%	64%	25%	28%	6%	1%
EBITDA [EGPmn]	182	599	111	280	48	83	3	0.4
EBITDA margin	35%	56%	58%	69%	20%	26%	8%	1%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	FY2021	**FY2022**	**1Q2022**	**1Q2023**	**FY2021**	**FY2022**	**1Q2022**	**1Q2023**
ARR [EGP]	5,383	10,985	6,381	11,929	2,050	3,456	2,584	6,066
ARR [USD]	343	539	397	397	131	175	155	199
Occupancy	55%	42%	43%	42%	58%	82%	85%	78%
GOP [EGPmn]	144	497	29	75	50	163	28	68
GOP margin	38%	55%	28%	35%	36%	58%	55%	63%
EBITDA [EGPmn]	111	349	26	99	36	145	29	72.8
EBITDA margin	29%	39%	26%	47%	26%	52%	56%	68%

Consolidated income statement

In EGPmn, unless otherwise stated

	1Q2022	1Q2023	Change
Development revenue	2,081.2	2,867.6	38%
Development cost	(1,396.0)	(2,045.3)	47%
Gross profit from development	**685.2**	**822.3**	**20%**
Hospitality revenue	387.1	799.2	106%
Hospitality cost	(219.8)	(351.7)	60%
Gross profit from hospitality operations	**167.3**	**447.5**	**167%**
Other recurring revenue*	556.1	770.6	39%
Cost of other recurring revenue	(321.7)	(478.4)	49%
Gross profit from other recurring operations	**234.3**	**292.2**	**25%**
Total revenue	**3,024.3**	**4,437.5**	**47%**
Total gross profit	**1,086.8**	**1,562.0**	**44%**
Gross profit margin	*35.9%*	*35.2%*	*-0.7pp*
Selling and marketing expenses	(80.9)	(54.6)	-32%
General, administrative, selling and marketing expenses	(210.4)	(265.6)	26%
Universal Health Insurance Act	(9.5)	(19.5)	104%
Donations and governmental expenses	(108.4)	(129.7)	20%
Provisions (net)	-	(60.0)	N/M
Other income	167.1	187.3	12%
Capital gain (loss)	1.3	0.3	-79%
BoD remuneration	(0.4)	(0.7)	81%
FX gain (loss)	148.8	167.3	12%
Income before depreciation and financing expense	**994.4**	**1,386.8**	**39%**
Depreciation and amortisation	(82.2)	(110.9)	35%
Interest expense	(121.0)	(220.5)	82%
Net write-down of receivables	(7.9)	(9.5)	21%
Net income before tax and minority interest expense	**783.4**	**1,045.9**	**34%**
Income tax	(229.4)	(345.7)	51%
Net income before minority interest	**554.0**	**700.1**	**26%**
Minority interest	11.7	47.3	N/M
Attributable net income	**565.7**	**747.5**	**32%**

Consolidated balance sheet

In EGPmn

	FY2022	1Q2023
Property, plant and equipment	6,359.6	6,297.3
Investment properties	2,264.4	2,231.8
Intangible assets	3.3	3.4
Projects under construction	10,517.5	11,792.2
Goodwill	11,461.1	11,461.1
Investment in associates	96.8	107.3
Financial investments available for sale	622.0	718.8
Financial investments held to maturity	4,209.8	4,210.0
Other financial assets	534.4	496.2
Deferred tax assets	75.8	234.9
Total non-current assets	**36,144.6**	**37,553.1**
Development properties	73,746.0	78,268.6
Inventories	971.6	983.0
Notes receivable – for delivered units	4,696.2	5,555.2
Notes receivable – for undelivered units	33,186.0	37,392.2
Prepaid expenses and other debit balances	6,220.8	8,019.5
Financial investments held to maturity	1,680.1	3,103.5
Financial assets at fair value	243.0	306.5
Cash and cash equivalents	5,829.8	5,952.4
Total current assets	**126,573.5**	**139,580.9**
Total assets	**162,718.1**	**177,134.0**
Paid-in capital	20,635.6	20,635.6
Legal reserve	365.0	398.0
General reserve	61.7	61.7
FX reserve	112.0	208.7
Revaluation reserve	19.9	19.9
Retained earnings	14,699.2	14,974.3
Shareholders' equity	**35,893.4**	**36,298.4**
Minority interest	1,034.9	987.6
Total equity	**36,928.3**	**37,286.0**
Bank loans	5,423.8	7,668.0
Sukuk	1,400.0	1,400.0
Long-term liabilities	14,046.7	15,880.8
Other financial obligations	470.6	427.6
Deferred tax liabilities	351.9	582.5
Total non-current liabilities	**21,692.9**	**25,959.0**
Bank overdrafts	47.2	51.9
Bank facilities	1,371.9	1,558.8
Current portion of bank loans	251.1	285.2
Current portion of sukuk	350.0	350.0
Notes payable	16,197.7	15,322.7
Advance payments - collected	36,467.8	40,420.9
Advance payments - checks	33,186.0	37,392.2
Dividends payable	98.4	468.2
Provisions	306.0	358.2
Taxes payable	1,057.6	1,202.9
Accrued expenses and other credit balances	14,763.0	16,478.0
Total current liabilities	**104,096.8**	**113,889.0**
Total liabilities	**125,789.7**	**139,848.0**

Condensed cash flow statement

In EGPmn

	1Q2022	1Q2023
Net profit before taxes and non-controlling interest	783.4	1,045.9
Depreciation and amortization	82.2	110.9
Other adjustments	(266.5)	(237.6)
Gross operating cash flow	**599.0**	**919.2**
Net working capital changes	498.4	324.6
Change in accrued income tax	(45.8)	(128.9)
Net operating cash flow	**452.6**	**195.7**
Net investment cash flow	**(56.9)**	**(2,737.8)**
Net financing cash flow	**444.6**	**2,395.8**
FX impact	148.8	167.3
Net change in cash	**989.0**	**21.0**

— 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 0.8 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 1,041 operational rooms in Cairo, Sharm El Sheikh and Alexandria, and 940 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 March 2023