TMG Holding reports net profit of EGP1.31bn in 9M2019, growing 10.5% y-o-y, and recurring revenues of EGP2.67bn, growing 29.3% y-o-y and representing 34% of the top line while real estate and club membership sales reach a robust EGP14.5bn

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the nine months ended 30 September 2019 (9M2019).

Key 9M2019 financial highlights

- Revenues of EGP7.76bn, up 13.9% y-o-y, of which a significant 34% or EGP2.67bn was generated from hospitality and other recurring income lines, growing 29.3% y-o-y
- Gross profit of EGP2.85bn, up 17.5% y-o-y, of which 35% generated by recurring income lines
- Net profit before minority interest of EGP1.37bn, up 9.9% y-o-y
- Net profit after tax and minority interest of EGP1.31bn, up 10.5% y-o-y
- Net cash position of EGP3.10bn as at end-9M2019, compared to EGP3.04bn as at end-9M2018
- Debt-to-equity ratio of c17.6% only
- Total backlog of EGP47.7bn and remaining collections of EGP37.9bn, compared to EGP41.3bn and EGP30.6bn as at end-9M2018, respectively

Key 3Q2019 financial highlights

- Revenues of EGP2.82bn, down 1.0% y-o-y
- Gross profit of EGP982mn, up 13.5% y-o-y
- Net profit after tax and minority interest of EGP500mn, up 9.8% y-o-y

Financial review

TMG Holding closed 9M2019 with total consolidated revenues of EGP7.76bn, growing 13.9% y-o-y, of which 34% or EGP2.67bn was generated by the company's recurring income lines (hospitality, rental and club income, miscellaneous service income), growing by a 29.3% y-o-y. Rental revenue combined with club segment revenue came in at EGP711mn, up 83.9% y-o-y, while revenue from services (contracting, transportation and others) grew by a significant 35.2% y-o-y to EGP766mn. This comes in line with the company's strategy to continue 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 EGP2.85bn, at a wide gross profit margin of 37.1%, increasing almost 2pp y-o-y. Some 35% of gross profit in 1H2019 was contributed by recurring income segments. Net profit before minority interest expense came in at EGP1.37bn, growing 9.9% y-o-y. Net profit attributable to shareholders came in at EGP1.31bn, growing 10.5% y-o-y and in line with earlier guidance. Internal cost control systems allowed the company to maintain a suitable net profit ratio. During 9M2019, the company incurred EGP164mn of FX expenses on foreign currency balances, reflecting strengthening of the EGP during the period, compared to FX income EGP11.5mn in 9M2018. Additionally, TMG Holding conservatively provisioned some EGP40mn during 9M2019 to account for any unforeseen future liabilities stemming from the accelerated growth of its core operations. No such provisioning took place in the same period last year. Adjusting for these one-off expenses in 9M2019, pre-tax net profit would have come 35.9% higher y-o-y, reflecting the strong growth momentum of the company's core operations. The company closed 9M2019 with a net cash position of EGP3.10bn and EGP8.7bn of cash and cash equivalents, compared to EGP3.04bn and EGP8.05bn, respectively, booked in 9M2018. The balance sheet remains unlevered, with debt-to-equity ratio of just 17.6%, with most of the company's debt attributable to hospitality and other recurring income segments and backed by stable and growing cash flow stream.

City and Community Complexes segment performance

Total presales came in at EGP14.5bn in 9M2019. This compares to total presales of EGP18.3bn in 9M2018, supported by EGP1bn school transaction within an alliance with GEMS Education and EFG Hermes, as well as the unmatched launch of Celia project in the New Administrative Capital. Adjusting for Celia sales last year, sales in 9M2019 would have come 54% higher y-o-y. Some 70% of total sales were contributed by Madinaty, TMG Holding's flagship project, were in May 2019 we launched a new upscale apartment neighbourhood - Privado, occupying 276 feddans adjacent to the Spine and the Central Park, with 9,846 prime apartments and total BuA of c1.1mn sqm. Privado will grant its residents an easy access to top-notch facilities of the compound as well as the services and amenities of Madinaty. TMG Holding continues to capture market share on the back of its track-record, maturity of its projects and its well-though sales and pricing strategy successfully addressing prevailing affordability constraints in its target market. During 9M2019, the company introduced a new shorter 7-year payment plan, further diversifying payment options for its clientele.

Our backlog stood at an unmatched EGP47.7bn as at end-9M2019, compared to EGP41.3bn as at end-9M2018, 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 years, providing strong visibility on our earnings growth and cash flows. It will generate an estimated EGP38bn of cash collections.

Our real estate development segment delivered revenues of EGP5.09bn in 9M2019, growing 7.2% 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 36.6% compared to 36.0% achieved in 9M2018.

Non-residential properties performance: Open Air mall uptake gains steam with a line-up of tenants in three new buildings

Non-residential sales contributed some EGP1.94bn to the sales result in 9M2019, representing 146 units sold. Strong demand for TMG Holding's non-residential space recorded since 2017 affirms the company's readiness to extract value from its affluent captive populations in Al Rehab and Madinaty through its vast non-residential land bank and its growing portfolio of recurring income assets. We continue to progress with lease out of the Open Air Mall in Madinaty inaugurated in October 2018, where some 47k sqm of leasable space has been contracted as of today or is under negotiations. We saw new openings in Building E of the Open Air Mall during the period, bringing the total number of operating units to 28, with 17 more units currently under fitout. The mall is now host to brands such as Carrefour, Tradeline, Cinnabon, Vodafone, Mini So, among others. The contribution of the mall to the company's retail revenues next year is expected to increase substantially as current fitouts are completed, rent grace periods expire and new rates take effect. Meanwhile, management remains upbeat on the prospects of TMG Holding's club segment, where sales targeting existing homeowners who had not acquired a membership alongside their real estate purchase, as well as existing tenants, have reached EGP282mn during 9M2019, compared to almost nil in the same period last year. The brand equity of Al Rehab and Madinaty sporting clubs is currently attracting substantial demand from outside of these projects.

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Hotels and Resorts segment performance

Hospitality revenue in 9M2019 reached EGP1.2bn, 7.2% up y-o-y compared to EGP1.1bn in 9M2018 which was boosted by high-profile visits by foreign government delegations in Four Seasons Nile Plaza and no such visit took place during 9M2019. Adjusting the comparable period, revenues would have come in 14.8% higher y-o-y as the segment continues to benefit from increasing occupancies and expanding ARRs.

Global occupancy reached 69.9% in 9M2019, compared to 66.2% a year earlier, reflecting the ongoing recovery to Egyptian business and luxury travel. Global ARR increased by 7% y-o-y in USD terms, reaching an average of USD228 per night, and by 2.1% y-o-y in EGP terms reaching EGP3,852 per night, reflecting the strengthening of local currency over 1H2019. Aggregate EBITDA of the four operating hotels came in at EGP425mn in 9M2019, up 4.5% y-o-y on adjusted basis and generated EBITDA margin of 36% compared to 39% in 9M2018, on adjusted basis, with the minor y-o-y contraction reflecting mainly the strengthening EGP and increasing cost of utilities following recent subsidy cuts.

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

Hotel KPI summary

	Four Seasons Nile Plaza					*Four Seasons San Stefano*			
	9M18	**9M18 adj.**	**9M19**	**3Q18**	**3Q19**	**9M18**	**9M19**	**3Q18**	**3Q19**
ARR [EGP]	5,018	4,193	4,331	3,858	3,921	3,968	4,355	4,530	4,730
Occupancy	72.6%	70.8%	77.9%	74.4%	79.0%	71.3%	68.1%	80.5%	79.6%
GOP [EGPmn]	379	308	347	91	96	54	66	32	37
GOP margin	59%	55%	53%	50%	49%	31%	32%	42%	41%
EBITDA [EGPmn]	328	265	284	80	78	47	54	28	32
EBITDA margin	51%	47%	44%	44%	39%	27%	26%	37%	35%

	Four Seasons Sharm El Sheikh				*Kempinski Nile Hotel*			
	9M18	**9M19**	**3Q18**	**3Q19**	**9M18**	**9M19**	**3Q18**	**3Q19**
ARR [EGP]	4,950	4,704	5,592	4,816	2,343	2,279	2,446	2,172
Occupancy	38.8%	42.3%	42.7%	48.0%	79.5%	85.0%	85.2%	90.2%
GOP [EGPmn]	54	52	21	23	63	66	23	21
GOP margin	29%	27%	30%	32%	50%	48%	50%	47%
EBITDA [EGPmn]	40	33	15	16	55	53	20	18
EBITDA margin	22%	17%	22%	22%	43%	39%	39%	39%

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Consolidated income statement

In EGPmn, unless otherwise stated

	9M2018	9M2019	Change
Development revenue	4,748.4	5,091.7	7.2%
Development cost	(3,040.5)	(3,228.4)	6.2%
Gross profit from development	**1,707.8**	**1,863.3**	**9.1%**
Hospitality revenue	1,110.8	1,191.0	7.2%
Hospitality cost	(650.0)	(772.9)	18.9%
Gross profit from hospitality operations	**460.8**	**418.1**	**-9.3%**
Rentals and sporting club revenue	386.5	710.8	83.9%
Cost of rental and sporting club revenue	(180.1)	(251.2)	39.5%
Gross profit from rentals and sporting clubs	**206.4**	**459.6**	**122.7%**
Service revenue (contracting, transportation and others)	566.2	765.8	35.2%
Cost of service revenue	(518.9)	(659.7)	27.1%
Gross profit from services	**47.3**	**106.1**	**124.2%**
Total revenue	**6,811.9**	**7,759.3**	**13.9%**
Total gross profit	**2,422.4**	**2,882.1**	**19.0%**
Gross profit margin	*35.6%*	*37.1%*	*+1.6pp*
Selling and marketing expenses	(26.3)	(35.7)	36.1%
Administrative expenses	(553.8)	(511.3)	-7.7%
Donations and governmental expenses	(87.6)	(90.1)	2.8%
Provisions (net)	-	(39.7)	
Other income	339.7	329.6	-3.0%
Capital gain (loss)	1.0	1.8	76.1%
BoD remuneration	(0.7)	(0.8)	15.1%
FX gain (loss)	11.5	(164.0)	
Income before depreciation and financing expense	**2,106.2**	**2,336.9**	**11.0%**
Depreciation and amortisation	(125.3)	(220.7)	76.2%
Interest expense	(339.0)	(297.4)	-12.3%
Finance lease expense	(154.7)	-	
Revaluation of AFS investments	-	(17.1)	
Net income before tax and minority interest expense	**1,487.3**	**1,801.6**	**21.1%**
Income tax	(233.8)	(388.6)	66.2%
Deferred tax	(7.8)	(43.6)	461.4%
Net income before minority interest	**1,245.7**	**1,369.4**	**9.9%**
Minority interest expense	(58.5)	(57.3)	-2.2%
Attributable net income	**1,187.1**	**1,312.2**	**10.5%**

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Consolidated balance sheet

In EGPmn

	FY2018	9M2019
Property, plant and equipment	4,283.6	7,289.2
Investment properties	116.5	115.2
Intangible assets	1.7	1.0
Projects under construction	3,169.9	3,794.3
Goodwill	13,066.8	13,066.8
Investment in associates	3.0	4.6
Financial investments available for sale	98.2	34.3
Financial investments held to maturity	3,067.1	2,949.4
Total non-current assets	**23,806.7**	**27,254.7**
Ready units	270.7	-
Development properties	33,559.0	34,871.7
Inventories	97.7	872.6
Notes receivable	26,525.2	28,922.7
Prepaid expenses and other debit balances	7,114.5	5,340.6
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	14.8	79.5
Financial assets at fair value	2.4	3.1
Cash and cash equivalents	4,873.2	5,625.7
Total current assets	**72,466.8**	**75,725.2**
Total assets	**96,273.5**	**102,979.9**
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	8,353.8
Profit for the period	1,704.8	1,312.2
Shareholders' equity	**29,460.8**	**30,655.7**
Minority interest	1,036.7	1,088.3
Total equity	**30,497.5**	**31,744.1**
Bank loans	2,995.3	3,058.8
Long-term liabilities	3,247.5	3,461.0
Deferred tax liabilities	120.1	57.9
Total non-current liabilities	**6,362.9**	**6,577.7**
Bank overdrafts	1.3	17.1
Bank facilities	1,745.0	2,046.1
Current portion of bank loans	407.5	475.8
Notes payable	14,659.7	14,831.4
Advance payments	33,788.9	38,016.3
Dividends payable	385.2	337.8
Taxes payable	671.1	668.2
Accrued expenses and other credit balances	7,754.4	8,265.5
Total current liabilities	**59,413.2**	**64,658.2**
Total liabilities	**65,776.1**	**71,235.8**

Condensed cash flow statement

In EGPmn

	9M2018	9M2019
Net profit before taxes and non-controlling interest	1,487.3	1,801.6
Depreciation and amortization	125.3	220.7
Other adjustments	(255.8)	(110.6)
Gross operating cash flow	**1,356.7**	**1,911.8**
Net working capital changes	1,179.0	2,740.0
Change in accrued income tax	(449.5)	(391.5)
Net operating cash flow	**2,086.2**	**4,260.2**
Net investment cash flow	**(367.9)**	**(3,795.1)**
Net financing cash flow	**(328.9)**	**246.9**
FX impact	11.5	(164.0)
Net change in cash	**1,400.9**	**548.1**

— Ends —

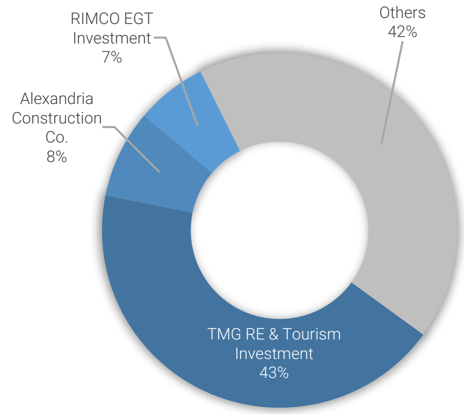
About the company

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 875 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 30 September 2019



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