

TMG Holding reports real estate sales of EGP4.41bn in 1Q2019, growing 50% y-o-y, and net profit of EGP361mn, growing 16.8% y-o-y

Talaat Moustafa Group Holding (TMG Holding) has released its consolidated financial results for the first quarter ended 31 March 2019 (1Q2019).

Key 1Q2019 financial highlights

- Revenues of EGP2.24bn, up 38.9% y-o-y, of which 46% or EGP1.04bn generated from hospitality and other recurring income lines, growing 50.1% y-o-y
- Gross profit of EGP909mn, up 33.5% y-o-y
- Net profit before minority interest of EGP375mn, up 10.0% y-o-y
- Net profit after tax and minority interest of EGP361mn, up 16.8% y-o-y
- Net cash position of EGP3.13bn as at end-1Q2019, compared to EGP1.67bn as at end-1Q2018
- Debt-to-equity ratio of c16.4% only
- Total backlog of EGP43.3bn and remaining collections of EGP33.1bn, compared to EGP30.5bn and EGP21.3bn as at end-1Q2018, respectively

Financial review

TMG Holding closed 1Q2019 with total consolidated revenues of EGP2.24bn, growing 38.9% y-o-y, of which 46% or EGP1.04bn was generated by the company's recurring income lines, growing by a considerable 50.1% y-o-y. Notably, revenue from lease of retail and other assets, combined with revenue generated by the club segment, came in at EGP665mn in 1Q2019, growing by a considerable 123.6% y-o-y.

Consolidated gross profit increased 33.5% y-o-y and came in at EGP909mn, at a wide gross profit margin of 40.6%. Net profit before minority interest expense came in at EGP375mn, growing 10.0% y-o-y. Net profit attributable to shareholders came in at EGP361mn, growing 16.8% y-o-y and supported by lower minority interest expenses in 1Q2019.

During 1Q2019, the company incurred EGP70.9mn of FX expenses on FCY balances, reflecting strengthening of the EGP during the period, compared to just EGP4.8mn in 1Q2018. Additionally, TMG Holding conservatively provisioned EGP40mn in 1Q2019 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 1Q2019, pre-tax net profit would have come 40.1% higher y-o-y, reflecting the strong growth momentum of the company's core operations.

The company closed 1Q2019 with a net cash position of EGP3.13bn and EGP8.1bn of cash and cash equivalents, compared to EGP1.67bn and EGP6.8bn, respectively, booked in 1Q2018. The balance sheet remains unlevered, with debt-to-equity ratio of just 16.4%, declining steadily over the past few quarters, with most of the company's debt attributable to hospitality and other recurring income segments and backed by stable and growing cash flow stream. Net operating cash flow came in at a strong EGP1.87bn in 1Q2019, compared to just EGP616.2mn a year earlier.

City and Community Complexes segment performance

Total presales of real estate product came in at EGP4.41bn in 1Q2019, growing by a strong 50% y-o-y and exceeding sales reported by direct peers by a considerable margin. TMG Holding continues to capture more market share on the back of its track-record, maturity of its projects and its well-thought sales and pricing strategy successfully addressing prevailing affordability constraints in its target market. Sales were primarily driven by Madinaty, followed by a strong contribution from Celia, and continue to benefit from TMG Holding's superb brand equity and strong demand for well-established communities accompanied by quality services.

Non-residential properties contributed some EGP834mn to the sales result in 1Q2019, growing by a meaningful 39% y-o-y and driven primarily by non-residential space sold in Madinaty. 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 over 12k sqm of leasable space has been contracted as of today.

Our backlog stood at an unmatched EGP43.3bn as at end 1Q2019, compared to EGP30.5bn as at end-1Q2018, 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 EGP33.1bn of cash collections.

Cancellation rates in 1Q2019 reached some 3% of total backlog and new sales, down from about 4% in FY2018.

Our real estate development segment delivered revenues of EGP1.2bn in 1Q2019, growing 30.5% 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 39.7%, stable y-o-y.

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 EGP78mn during 1Q2019, compared to nil in the same period last year. Meanwhile, the club segment generated revenues of EGP209mn¹ in the same period, coming in at a gross margin of 72%². The brand equity of Al Rehab and Madinaty sporting clubs is currently attracting substantial demand from outside of these projects.

¹ EGP164mn in revenues from new membership activation and 45.5mn in operating revenues
² Includes EGP4mn of depreciation charges booked above the gross profit line

Hotels and Resorts segment performance

Hospitality revenue in 1Q2019 reached EGP375mn, compared to EGP396mn in 1Q2018 which was boosted by a high-profile visits by foreign government delegations in Four Seasons Nile Plaza and no such visit took place during 1Q2019. Adjusting the comparable period, revenues would have come in 18.7% higher y-o-y as the segment continues to benefit from increasing occupancies and expanding ARR.

Global occupancy reached 70.0% in 1Q2019, compared to 66.2% a year earlier, reflecting the ongoing recovery to Egyptian business and luxury travel. Global ARR increased by 10.5% y-o-y in USD terms, reaching an average of USD227 per night, and by 9.5% in EGP terms reaching EGP3,967 per night, reflecting the strengthening of local currency over 1Q2019. Aggregate EBITDA of the four operating hotels came in at EGP139mn in 1Q2019, up 15.6% y-o-y on adjusted basis and generated EBITDA margin of 37% compared to 38% in 1Q2018, on adjusted basis.

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.

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

	<i>Four Seasons Nile Plaza</i>			<i>Four Seasons San Stefano</i>	
	1Q2018	1Q2018 adj.	1Q2019	1Q2018	1Q2019
ARR [EGP]	6,562	4,330	4,675	3,111	3,655
Occupancy	81.0%	75.6%	84.7%	68.2%	68.7%
GOP [EGPmn]	178	107	131	7	9
GOP margin	67.6%	58.2%	58.5%	16.5%	19.6%
EBITDA [EGPmn]	152	89	107	5	7
EBITDA margin	57.8%	48.3%	47.7%	12.8%	14.0%
	<i>Four Seasons Sharm El Sheikh</i>		<i>Kempinski Nile Hotel</i>		
	1Q2018	1Q2019	1Q2018	1Q2019	
ARR [EGP]	4,465	4,973	2,303	2,426	
Occupancy	32.2%	31.5%	82.7%	87.3%	
GOP [EGPmn]	10	9	22	25	
GOP margin	20.9%	17.0%	52.7%	51.2%	
EBITDA [EGPmn]	7	4	19	21	
EBITDA margin	14.1%	8.0%	45.5%	42.4%	

Consolidated income statement

In EGPmn, unless otherwise stated

	1Q2018	1Q2019	Change
Development revenue	920.4	1,200.8	30.5%
Development cost	(551.8)	(724.1)	31.2%
Gross profit from development	368.6	476.7	29.3%
Hospitality revenue	395.5	375.1	-5.2%
Hospitality cost	(213.7)	(238.7)	11.7%
Gross profit from hospitality operations	181.8	136.4	-25.0%
Other recurring revenue	297.5	665.2	123.6%
Cost of other recurring revenue	(167.2)	(369.3)	121.0%
Gross profit from other recurring operations	130.3	295.9	127.1%
Total revenue	1,613.3	2,241.1	38.9%
Total gross profit	680.7	908.9	33.5%
<i>Gross profit margin</i>	42.2%	40.6%	-1.6pp
Selling and marketing expenses	(6.0)	(2.7)	-55.1%
Administrative expenses	(194.5)	(257.7)	32.5%
Donations and governmental expenses	(42.4)	(39.6)	-6.5%
Provisions	-	(40.0)	N/M
Interest income	46.6	51.6	10.8%
Income from financial investments held to maturity	4.7	-	N/M
Amortisation of financial investments held to maturity	0.02	-	N/M
Income from T-bills	16.6	1.5	-90.7%
Dividend income from financial investments	0.1	0.2	70.1%
Income from revaluation of financial investments	-	0.1	N/M
Other income	35.0	31.5	-10.0%
Capital gain (loss)	(0.0)	0.6	N/M
BoD remuneration	(0.1)	(0.3)	81.0%
FX gain (loss)	(4.8)	(70.9)	N/M
Income before depreciation and financing expense	535.9	583.3	8.8%
Depreciation and amortisation	(38.9)	(54.9)	41.1%
Monetisation of receivables expense	(61.1)	(23.6)	-61.3%
Interest expense	(33.4)	(45.2)	35.2%
Net income before tax and minority interest expense	402.5	459.6	14.2%
Income tax	(59.2)	(83.9)	41.7%
Deferred tax	(2.7)	(1.0)	-63.3%
Net income before minority interest	340.6	374.7	10.0%
Minority interest expense	(31.2)	(13.5)	-56.8%
Attributable net income	309.4	361.2	16.8%

Consolidated balance sheet

In EGPmn

	FY2018	1Q2019
Property, plant and equipment	4,283.6	5,407.2
Investment properties	116.5	116.1
Intangible assets	1.7	1.4
Projects under construction	3,169.9	3,479.8
Goodwill	13,066.8	13,066.8
Investment in associates	3.0	4.6
Financial investments available for sale	98.2	95.7
Financial investments held to maturity	3,067.1	2,884.9
Total non-current assets	23,806.7	25,056.4
Ready units	270.7	515.2
Development properties	33,559.0	33,493.9
Inventories	97.7	87.7
Notes receivable	26,525.2	26,768.7
Prepaid expenses and other debit balances	7,114.5	7,570.1
Financial investments available for sale	9.3	9.3
Financial investments held to maturity	14.8	355.2
Financial assets at fair value	2.4	2.9
Cash and cash equivalents	4,873.2	4,571.9
Total current assets	72,466.8	73,374.9
Total assets	96,273.5	98,431.3
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	43.8
FX reserve	2.4	2.4
Retained earnings	6,735.4	8,017.4
Profit for the period	1,704.8	361.2
Shareholders' equity	29,460.8	29,412.1
Minority interest	1,036.7	1,029.2
Total equity	30,497.5	30,441.3
Bank loans	2,995.3	2,836.5
Long-term liabilities	3,247.5	3,247.5
Deferred tax liabilities	120.1	121.0
Total non-current liabilities	6,362.9	6,205.0
Bank overdrafts	1.3	1.5
Bank facilities	1,745.0	1,842.3
Current portion of bank loans	407.5	313.7
Notes payable	14,659.7	14,134.4
Advance payments	33,788.9	35,948.6
Dividends payable	385.2	743.0
Taxes payable	671.1	796.6
Accrued expenses and other credit balances	7,754.4	8,004.9
Total current liabilities	59,413.2	61,785.0
Total liabilities	65,776.1	67,990.0

Condensed cash flow statement

In EGPmn

	1Q2018	1Q2019
Net profit before taxes and non-controlling interest	402.5	459.6
Depreciation and amortization	38.9	54.9
Other adjustments	(63.2)	16.9
Gross operating cash flow	378.1	531.3
Net working capital changes	308.4	1,295.1
Change in accrued income tax	(70.4)	41.6
Net operating cash flow	616.2	1,868.0
Net investment cash flow	(48.4)	(1,646.7)
Net financing cash flow	(376.9)	(394.5)
FX impact	(4.8)	(70.9)
Net change in cash	186.1	(244.2)

— 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 bank 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 31 March 2018

