



Alert on H1 2014 Earnings

Sector: Real Estate

Country: Egypt

Date: September 05, 2014

Share Price (EGP): 11.00

Target Price (EGP): 12.48

Upside: 13.5%

Recommendation: ACCUMULATE

Risk: Medium

Maintaining an ACCUMULATE rating with a higher target price of EGP 12.48 per share on strong operational and financial performance

We maintain our ACCUMULATE rating on TMG, revising up our target price to EGP 12.48 per share on promising outlook following robust off-plan sales, high deliveries, enhanced earnings visibility and healthy liquidity led by strong cash collections and proceeds from Saudi land sales. We believe the stability in Egypt following major political developments will pave the way for better economic conditions, positively weighing on sales of residential units and hotels revenues at TMG. We expect a development in the Egyptian property sector especially with the government's efforts to offer new lands, the central bank's loans incentive as well as the investment of more than \$26 billion in the construction sector in 2013. Moreover, we believe TMG revenues from hotels will grow in the medium-term as the political stability following the presidential election on top of the government's plans to promote tourism and the lifting of travel bans imposed on Egypt by many countries may lead to a gradual recovery in the troubled Egyptian hospitality industry.

TMG shares price jumped by 135% during the past year, tracking the upsurge in the Egyptian bourse which benefited from large foreign inflows mostly into the real estate sector. We believe the easing political tensions in Egypt and the progress in economic activity will continue to drive the uptrend in the equity market in the short-term, positively impacting TMG's stock price that we anticipate will remain highly affected by the market trend and the local political developments. However, worth noting that we continue to perceive company specific risk from the lawsuit filed against the ownership of Madinaty, TMG's biggest land asset, which was subject to a court dispute for more than two years.

Top-line grows on higher deliveries and hotels revenues

TMG H1 top-line rose by 10% y-o-y to reach EGP 2.7 billion as sales from real estate units, which account for 86% of revenues, registered an 11% growth on higher delivery units. Similarly, TMG managed to record a 7% upswing in revenues from hotels to EGP 232 million despite the 25% y-o-y fall in tourists flow to 4.5 million in H1. On a more positive note, new sales of real estate units, an indicator for the upcoming year, edged up by a notable 17% to EGP 4.1 billion. As for cancellations, they remained within the normal rates of 4.3% with the value of cancelled units reaching EGP 346 million as opposed to EGP 357 million a year earlier. Looking forward, we expect TMG's top-line to record a 5.4% growth in 2014 to EGP 5.1 billion on solid real estate sales and recurring income from hotels operations.

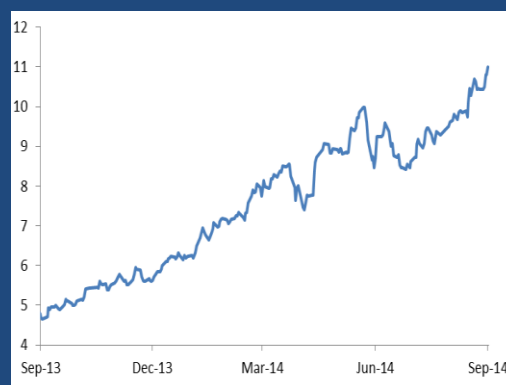
TMG posts healthy set of financial results

TMG's gross income went up by 16% y-o-y to reach EGP 819 million in H1 2014 in line with the growth in recognized revenue, while gross margin rose to 30.8% from 29.2% a year earlier. Earnings followed suit, recording a double-digit growth of 12% to reach EGP 351 million as the EGP 105 million foreign exchange gains and EGP 272 million gains from Saudi land sales offset the EGP 351 million impairment of investment from subsidiaries. Going forward, we expect 2014 earnings to remain strong at EGP 692 million on higher deliveries and revenue recognition.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	22,698,500,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price-to-Earnings 2014e	32.82
Price-to-Book 2014e	0.82

Share Performance



Source: Reuters

1 Month Return	14.3%
3 Month Return	26.3%
6 Month Return	37.7%
12 Month Return	134.5%
52 Week Range	4.66 – 11.00

Source: Reuters

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Performance and Forecasts

In EGP millions	2011	2012	2013	2014e
Revenues (EGP millions)	5,098	4,636	4,858	5,118
Net Income (EGP millions)	577	546	585	692
EPS (EGP)	0.28	0.26	0.28	0.34
BVPS (EGP)	12.75	12.77	13.03	13.44
ROA (%)	1.06%	1.00%	1.06%	1.23%
ROE (%)	2.19%	2.05%	2.27%	2.56%

Source: TMG, Blominvest

QUARTERLY INCOME STATEMENT

<i>In EGP million</i>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenue	1,522	897	837	1,602	1,139	1,524
Cost of Revenue	(1,166)	(547)	(583)	(1,278)	(827)	(1,017)
GROSS PROFIT	356	350	254	324	312	507
Selling, General & Administrative	(72)	(69)	(88)	(93)	(93)	(90)
Depreciation & Amortization	(31)	(31)	(31)	(31)	(31)	(31)
Rent expense	(28)	(15)	(1)	0	-	-
OPERATING PROFIT	225	235	135	200	188	386
Credit Interest	4	6	3	7	5	12
Income from Treasury Bills	0	0	0	4	8	8
Interest on bonds	9	7	7	4	-	-
Finance Costs	(33)	(35)	(33)	(29)	(27)	(27)
Dividend Income	1	1	2	1	2	2
Gain on Sale of Financial Invest.	0	2	1	1	-	-
Gain on Sale of Revalued Financial Assets	1	(1)	6	6	7	-
Other Income	17	13	5	8	22	15
Capital Gain	5	2	0	1	0	(2)
Foreign Exchange Gain (loss)	(52)	(25)	14	(7)	1	105
Impairment in investment from subsidiaries	-	-	-	-	-	(351)
Gain on sale of current assets held for sale	-	-	-	-	-	272
NET PROFIT FOR THE YEAR BEFORE TAX	176	205	140	194	206	419
Income Tax	(68)	(39)	(41)	(34)	(54)	(229)
Deferred Tax Expense	10	(5)	(1)	3	7	(7)
NET PROFIT FOR THE YEAR AFTER TAX	118	161	98	163	159	183
Minority Interest	21	12	7	6	2	7
NET PROFIT FOR THE YEAR	139	173	105	169	161	191

Source: TMG

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Revenue	5,098	4,636	4,858	5,118
Cost of Revenue	(3,911)	(3,408)	(3,574)	(3,767)
GROSS PROFIT	1,187	1,228	1,285	1,351
Selling, General & Administrative	(290)	(301)	(322)	(343)
Depreciation & Amortization	(144)	(131)	(124)	(120)
Provisions	(2)	-	(0)	-
Rent expense	(35)	(32)	(44)	-
OPERATING PROFIT	716	764	795	889
Credit Interest	19	19	19	20
Income from Treasury Bills	-	1	4	10
Interest on bonds	29	33	26	12
Finance Costs	(185)	(158)	(131)	(137)
Dividend Income	3	4	5	5
Gain on Sale of Financial Invest.	3	17	4	8
Gain on Sale of Revalued Financial Assets	(25)	14	12	13
Other Income	51	51	45	49
Capital Gain	20	19	8	13
Foreign Exchange Gain (loss)	(36)	(56)	(70)	80
Impairment in investment from subsidiaries	-	-	-	(351)
Gain on sale of current assets held for sale	-	-	-	272
NET PROFIT FOR THE YEAR BEFORE TAX	605	691	716	882
Income Tax	(104)	(152)	(183)	(220)
Deferred Tax Expense	29	(29)	7	(22)
NET PROFIT FOR THE YEAR AFTER TAX	530	510	540	639
Minority Interest	47	35	45	52
NET PROFIT FOR THE YEAR	577	546	585	692

Source: TMG, Blominvest



BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013	Q2 2014
Current Assets				
Non-current Assets Held for Sale	-	94	94	-
Work in Progress	15,183	17,222	16,372	16,270
Inventory, net	32	30	41	38
Accounts & Notes Receivables	14,064	12,944	13,880	14,592
Prepayments & Other Debit Balances	2,412	2,482	2,406	2,116
Available for Sale Investments	26	26	26	26
Financial Assets at FV	77	143	148	130
Financial Assets Held to Maturity	121	583	495	360
Investment Debtors	809	-	-	-
Cash	225	332	681	1,574
Total Current Assets	32,948	33,854	34,143	35,105
Non-Current Assets				
Property & Equipment, net	4,224	4,122	4,028	3,977
Projects Under Construction	299	1,249	1,304	1,367
Investment property	430	-	-	-
Intangible Assets	15	12	9	7
Goodwill	15,394	15,394	15,394	15,042
Available for sales Investments	55	58	62	64
Investments in Associates	5	5	5	5
Bonds Held to Maturity	517	270	351	601
Deferred tax assets	3	-	-	-
Total Non-Current Assets	20,941	21,110	21,153	21,064
TOTAL ASSETS	53,889	54,964	55,296	56,169
Current Liabilities				
Banks Overdraft	46	69	17	67
Creditors and Notes Payables	1,998	2,465	2,707	2,411
Bank Facilities	514	881	911	843
Current Portion of Loans & Facilities	609	829	626	574
Customers Advance Payment	16,369	15,756	16,789	17,914
Dividends Creditors	15	14	14	80
Accrued Expenses & Other Credit Balances	1,669	2,266	2,795	3,027
Accrued Income Tax	133	174	214	310
Total Current Liabilities	21,352	22,454	24,072	25,228
Non-Current Liabilities				
Loans & Facilities	2,058	1,856	2,219	2,162
Long Term Liabilities (Cust. Advances)	4,178	4,280	2,088	1,826
Deferred Tax Liability	-	27	20	20
Total Long Term Liabilities	6,236	6,163	4,328	4,007
TOTAL LIABILITIES	27,587	28,617	28,400	29,235
Equity				
Issued & Paid-in-Capital	20,636	20,636	20,636	20,636
Legal Reserves	217	217	218	219
General Reserves	62	62	62	62
Accumulative translation adjustment	39	7	11	13
Treasury Stocks	(30)	-	-	-
Retained Earnings	3,452	3,923	4,472	4,750
Net profit for the year	578	546	585	352
Minority Interest	1,350	958	912	903
TOTAL EQUITY	26,302	26,347	26,896	26,934

Source: TMG

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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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