



Update for FY 2012

Sector: Real Estate

Country: Egypt

Date: March 13, 2013

Share Price (EGP): 4.11

Target Price (EGP): 4.40

Upside: 7.0%

Recommendation: HOLD

Risk: Medium-to-High

Maintaining a HOLD with a Target Price of EGP 4.40 per share pending further clarity on Madinaty case

Top-line for 2012 beats estimates on an impressive Q4

Talaat Moustafa Group (TMG) reported a 9% y-o-y drop in revenues to EGP 4,636 million during 2012, as the delay of unit delivery caused real estate revenues to decline by 13% y-o-y. This annual drop was milder than our expectations, as TMG reported a stellar Q4 with revenues surging by 74% over Q3 2012. On the other hand, revenues from hotels increased by 21% to EGP 421 million from the trough of EGP 348 million reached in 2011, as tourism activity slightly improved.

Rise in taxes overcomes lower interest and depreciation expenses

TMG's gross profit increased 3% during 2012 as a result of considerable improvement in profit margins despite less recognized revenue. Net profit before tax followed suit, rising 14% to EGP 691 million due to a 15% drop in interest expense coupled with a 9% decline in depreciation expense following the removal of Saudi-based Thabat assets. However, FY earnings fell 6% to EGP 546 million due to an increase in the income tax rate from 20% to 25% effective July 2011, and a rise in deferred taxes mostly attributed to the expiration of a tax exemption for a few hotels.

TMG exits Saudi Arabia as it focuses on legal challenges at home

TMG is selling its share in Saudi-based Thabat Company for Real Estate Development with no intention to launch new residential projects outside Egypt. While the sale proceeds will be disbursed onto the company's ongoing projects, its share price will continue to be negatively impacted by the long-running legal disputes. In detail, the Madinaty case was transferred to the Supreme Administrative Court with the third hearing scheduled on April 16. As for Marsa Alam, the legal action to nullify the allocation of its 3 million sqm land plot has been adjourned until April 30.

Maintaining a HOLD rating until investment sentiment improves

We estimate TMG's target price at EGP 4.40 per share, maintaining a HOLD recommendation after taking into account the country's shaky economic and political conditions. TMG is trading at a slight premium with a price-to-earnings of 15.5 compared to the MENA average estimated at 14.7. Going forward, we estimate a sustainable level of earnings similar to 2012 on the condition that no major delays in deliveries occur, and cancellations remain within manageable rates. We believe that TMG's share price will remain news-flow driven with the political impasse considerably weighing on investor confidence over the short to medium term. The depreciation of the EGP and the steep decline of the Central Bank Foreign Reserves along with a key IMF loan facing several hurdles continue to negatively affect Egyptian equities.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	8,480,985,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price to 2012 Earnings	15.54
Price to 2012 Book Value	0.32

Share Performance



Source: Reuters

1 Month Return	-2.61%
3 Month Return	5.38%
6 Month Return	-16.46%
12 Month Return	-12.18%
52 Week Range	3.51 – 5.70

Source: Reuters

Performance and Forecasts

Contact information:

Equity Analyst: Malak Hawa
malak.hawa@blominvestbank.com

Head of Equities: Issa Frangieh
issa.frangieh@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Year	2011	2012	2013e	2014f	2015f
Revenues (EGP millions)	5,098	4,636	5,168	5,589	5,947
Net Income (EGP millions)	577	546	559	566	601
EPS (EGP)	0.28	0.26	0.27	0.27	0.29
BVPS (EGP)	12.75	12.77	12.86	12.82	12.68
ROA (%)	1.1%	1.0%	1.0%	1.0%	1.1%
ROE (%)	2.2%	2.1%	2.1%	2.2%	2.3%

Source: TMG, Blominvest



PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Revenue	5,339	5,098	4,636	5,168	5,589	5,947	6,707
Cost of Revenue	(3,817)	(3,911)	(3,408)	(3,824)	(4,164)	(4,490)	(5,131)
GROSS PROFIT	1,522	1,187	1,228	1,344	1,425	1,457	1,576
Selling, General & Administrative	(309)	(290)	(301)	(336)	(363)	(387)	(436)
Depreciation & Amortization	(113)	(144)	(131)	(142)	(139)	(135)	(132)
Provisions	(1)	(2)	-	(2)	(2)	(2)	(2)
Rent expense	-	(35)	(32)	(40)	(40)	(40)	(40)
OPERATING PROFIT	1,099	716	764	823	881	893	966
Credit Interest	28	19	19	21	20	22	23
Income from Treasury Bills	1	-	1	-	-	-	-
Interest on bonds	30	29	33	15	15	16	18
Finance Costs	(175)	(185)	(158)	(152)	(156)	(159)	(173)
Dividend Income	3	3	4	4	4	4	4
Gain on Sale of Financial Invest.	17	3	17	12	11	14	12
Gain on Sale of Revalued Financial Assets	16	(25)	14	15	(25)	14	15
Revenue of revaluate IP	135	-	-	-	-	-	-
Other Income	52	62	36	26	28	30	34
Capital Gain	4	20	19	14	14	17	16
Foreign Exchange Gain (loss)	(9)	(36)	(56)	(44)	(47)	(59)	(67)
NET PROFIT FOR THE YEAR BEFORE TAX	1,202	605	691	734	743	790	847
Income Tax	(193)	(104)	(152)	(184)	(186)	(198)	(212)
Deferred Tax Expense	(5)	29	(29)	(18)	(19)	(20)	(21)
NET PROFIT FOR THE YEAR AFTER TAX	1,004	530	510	532	539	573	614
Minority Interest	(64)	47	35	27	27	29	31
NET PROFIT FOR THE YEAR	940	577	546	559	566	601	644

Source: TMG, Blominvest



BALANCE SHEET

<i>In EGP million</i>	2009	2010	2011	2012
Current Assets				
Non-current Assets Held for Sale	-	-	-	94
Work in Progress	11,719	13,800	15,183	17,222
Inventory, net	29	34	32	30
Accounts & Notes Receivables	17,061	15,522	14,064	12,944
Prepayments & Other Debit Balances	3,073	2,921	2,412	2,482
Available for Sale Investments	8	26	26	26
Financial Assets at FV	461	299	77	143
Financial Assets Held to Maturity	-	-	121	583
Investment Debtors	1,305	808	809	-
Cash	399	578	225	332
Total Current Assets	34,055	33,988	32,948	33,854
Non-Current Assets				
Property & Equipment, net	3,729	4,341	4,224	4,122
Projects Under Construction	582	190	299	1,249
Investment property	-	419	430	-
Intangible Assets	-	-	15	12
Goodwill	15,135	15,394	15,394	15,394
Available for sales Investments	51	53	55	58
Investments in Associates	2	4	5	5
Bonds Held to Maturity	336	484	517	270
Total Non-Current Assets	19,836	20,885	20,941	21,110
TOTAL ASSETS	53,891	54,873	53,889	54,964
Current Liabilities				
Banks Overdraft	49	32	46	69
Creditors and Notes Payables	604	1,033	1,998	2,465
Bank Facilities	-	-	514	881
Current Portion of Loans & Facilities	752	752	609	829
Customers Advance Payment	20,447	19,040	16,369	15,756
Dividends Creditors	2	17	15	14
Accrued Expenses & Other Credit Balances	1,702	1,893	1,669	2,266
Accrued Income Tax	-	185	133	174
Total Current Liabilities	23,622	22,953	21,352	22,454
Non-Current Liabilities				
Loans & Facilities	1,240	2,021	2,058	1,856
Long Term Liabilities (Cust. Advances)	4,178	4,178	4,178	4,280
Deferred Tax Liability	21	26	-	27
Total Long Term Liabilities	5,439	6,225	6,236	6,163
TOTAL LIABILITIES	29,061	29,178	27,587	28,617
Equity				
Issued & Paid-in-Capital	20,302	20,132	20,636	20,636
Legal Reserves	163	165	217	217
General Reserves	26	62	62	62
General Reserves	(1)	2	4	7
Accumulative translation adjustment	-	6	35	-
Treasury Stocks	(134)	(30)	(30)	-
Retained Earnings	1,682	3,080	3,452	3,923
Net profit for the year	1,106	940	578	546
Minority Interest	1,685	1,328	1,350	958
TOTAL EQUITY	24,829	25,685	26,302	26,347

Source: TMG

BLOMINVEST BANK s.a.l

Research Department
Verdun, Rachid Karamah Street
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 747 802 Ext: 1234

Issa Frangieh, Head of Equities
issa.frangieh@blominvestbank.com
+961 1 1 747 802 Ext: 1208

Malak Hawa, Equity Analyst
malak.hawa@blominvestbank.com
+961 1 1 747 802 Ext: 1260

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

IMPORTANT DISCLAIMER

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Blom Bank SAL or BlomInvest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2013 BlomInvest SAL.

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of BlomInvest SAL.