



Update for Q3 2013

Sector: Real Estate

Country: Egypt

Date: November 27, 2013

Share Price (EGP): 5.61

Target Price (EGP): 6.18

Upside: 10.2%

Recommendation: ACCUMULATE

Risk: Medium-to-High

Issuing an ACCUMULATE rating with a Target Price of EGP 6.18 per share after accounting for revised forecasts

Q3 growth in real estate revenue offsets plunge in hotels income

TMG reported a 2.3% y-o-y increase in Q3 revenue to reach EGP 837.3 million, supported by a 3.6% growth in real estate revenues on higher unit deliveries. However, Egypt's tourism crisis took its toll on revenues from hotels which tumbled by 40% to EGP 60.5 million following the ongoing dramatic impact of the revolution on tourist inflow and spending. During the first nine months of 2013, revenues increased by a slight 1.5% to EGP 3,256 million as the rise in services revenue generated from malls rentals and Madinaty services balanced the respective 1.8% and 4.9% shrink in real estate sales and hotel revenues. However, despite the political and economic instability, the company was able to register a 30% y-o-y increase in new sales of real estate units to EGP 4,635 million.

High FX losses continue to hurt earnings

Q3 earnings remained almost equal to Q3 2012 level at EGP 104.6 million as TMG benefited from the small improvement in exchange rate compared to a year earlier, which counterbalance the rise in SG&A expenses. As for the first nine months of 2013, the company managed to maintain the gross profit margin at 29% in spite of the prevailing political situation. TMG's bottom-line decreased by 3.7% y-o-y to EGP 417.9 million, largely affected by foreign exchange losses. Cancellations remain within normal rates of 4.2% up to September with the value of cancelled units reaching EGP 368 million as opposed to EGP 685 million a year earlier. We estimate 2013 earnings at EGP 578 million, growing at a CAGR of 11% during the next three years.

Issuing an ACCUMULATE rating on easing legal and political tensions

We revise our target price on TMG up to EGP 6.18 per share from EGP 4.40 per share previously after it was reached during July 2013 and continues to surge. This represents an upside potential of 10.2% over the recent closing price leading us to issue an ACCUMULATE recommendation. TMG stock rallied by more than 40% during the past six months to reach a 32-month high on easing macroeconomic and legal uncertainties. In September, the Supreme Administrative Court postponed the hearing on Madinaty case till January 28, 2014. Moreover, the ousting of Mr. Morsi in addition to the \$4 billion aid deposited in July, coming from the UAE, Saudi Arabia, and Kuwait restored some confidence in the market as the EGX30 also rose by around 15% in the past six months. However, we believe TMG shares will remain highly sensitive to the short term political developments in addition the company specific risk associated with Madinaty lawsuit.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	11,576,235,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price to 2013 Earnings	21.21
Price to 2013 Book Value	0.44

Share Performance



Source: Reuters

1 Month Return	8.8%
3 Month Return	19.8%
6 Month Return	41.6%
12 Month Return	32.4%
52 Week Range	3.68 – 5.96

Source: Reuters

Performance and Forecasts

Year	2011	2012	2013e	2014f	2015f
Revenues (EGP millions)	5,098	4,636	4,933	5,790	6,371
Net Income (EGP millions)	577	546	578	634	697
EPS (EGP)	0.28	0.26	0.28	0.31	0.34
BVPS (EGP)	12.75	12.77	13.73	13.56	13.72
ROA (%)	1.06%	1.00%	1.03%	1.08%	1.16%
ROE (%)	2.19%	2.00%	2.05%	2.25%	2.46%

Source: TMG, Blominvest

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PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Revenue	5,339	5,098	4,636	4,933	5,790	6,371	7,392
Cost of Revenue	(3,817)	(3,911)	(3,408)	(3,601)	(4,285)	(4,746)	(5,544)
GROSS PROFIT	1,522	1,187	1,228	1,332	1,505	1,625	1,848
Selling, General & Administrative	(309)	(290)	(301)	(330)	(376)	(414)	(480)
Depreciation & Amortization	(113)	(144)	(131)	(122)	(139)	(136)	(133)
Provisions	(1)	(2)	-	(2)	(2)	(2)	(2)
Rent expense	-	(35)	(32)	(40)	(40)	(50)	(50)
OPERATING PROFIT	1,099	716	764	837	948	1,022	1,182
Credit Interest	28	19	19	22	21	23	25
Income from Treasury Bills	1	-	1	-	-	-	1
Interest on bonds	30	29	33	15	15	16	18
Finance Costs	(175)	(185)	(158)	(151)	(162)	(181)	(206)
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	(5)
Revenue of revaluate IP	135	-	-	-	-	-	-
Other Income	53	51	51	51	51	51	52
Capital Gain	4	20	19	14	14	17	16
Foreign Exchange Gain (loss)	(9)	(36)	(56)	(61)	(53)	(67)	(77)
NET PROFIT FOR THE YEAR BEFORE TAX	1,202	605	691	757	830	913	1,029
Income Tax	(193)	(104)	(152)	(189)	(207.53)	(228)	(257)
Deferred Tax Expense	(5)	29	(29)	(17)	(19)	(21)	(26)
NET PROFIT FOR THE YEAR AFTER TAX	1,004	530	510	551	604	664	746
Minority Interest	(64)	47	35	28	30	33	37
NET PROFIT FOR THE YEAR	940	577	546	578	634	697	784

Source: TMG, Blominvest



BALANCE SHEET

<i>In EGP million</i>	2010	2011	2012	2013e
Current Assets				
Non-current Assets Held for Sale	-	-	94	-
Work in Progress	13,800	15,183	17,222	19,030
Inventory, net	34	32	30	36
Accounts & Notes Receivables	15,522	14,064	12,944	13,812
Prepayments & Other Debit Balances	2,921	2,412	2,482	2,486
Available for Sale Investments	26	26	26	26
Financial Assets at FV	299	77	143	121
Financial Assets Held to Maturity	-	121	583	500
Investment Debtors	808	809	-	-
Cash	578	225	332	592
Total Current Assets	33,988	32,948	33,854	36,602
Non-Current Assets				
Property & Equipment, net	4,341	4,224	4,122	4,036
Projects Under Construction	190	299	1,249	1,291
Investment property	419	430	-	-
Intangible Assets	-	15	12	13
Goodwill	15,394	15,394	15,394	15,394
Available for sales Investments	53	55	58	56
Investments in Associates	4	5	5	5
Bonds Held to Maturity	484	517	270	270
Deferred tax assets	-	3	-	-
Total Non-Current Assets	20,885	20,941	21,110	21,065
TOTAL ASSETS	54,873	53,889	54,964	57,668
Current Liabilities				
Banks Overdraft	33	46	69	66
Creditors and Notes Payables	1,033	1,998	2,465	2,521
Bank Facilities	-	514	881	700
Current Portion of Loans & Facilities	752	609	829	763
Customers Advance Payment	19,040	16,369	15,756	16,544
Dividends Creditors	17	15	14	10
Accrued Expenses & Other Credit Balances	1,893	1,669	2,266	2,359
Accrued Income Tax	185	133	174	145
Total Current Liabilities	22,953	21,352	22,454	23,108
Non-Current Liabilities				
Loans & Facilities	2,021	2,058	1,856	1,909
Long Term Liabilities (Cust. Advances)	4,178	4,178	4,280	4,440
Deferred Tax Liability	26	-	27	25
Total Long Term Liabilities	6,225	6,236	6,163	6,373
TOTAL LIABILITIES	29,178	27,587	28,617	29,481
Equity				
Issued & Paid-in-Capital	20,132	20,636	20,636	20,636
Legal Reserves	165	217	217	275
General Reserves	62	62	62	62
Accumulative translation adjustment	8	39	7	35
Treasury Stocks	(30)	(30)	-	-
Retained Earnings	3,080	3,452	3,923	5,251
Net profit for the year	940	578	546	578
Minority Interest	1,328	1,350	958	1,350
TOTAL EQUITY	25,685	26,302	26,347	28,187

Source: TMG, Blominvest



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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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