



Alert on Q1 2014 Earnings

Sector: Real Estate
Country: Egypt
Date: June 24, 2014

Share Price (EGP): 8.78
Target Price (EGP): 10.07
Upside: 14.7%
Recommendation: ACCUMULATE
Risk: Medium-to-High

Maintaining an ACCUMULATE rating with a target price of EGP 10.07 per share after accounting for revised forecasts

Lower delivery units drag TMG's top-line

TMG reported a 25% y-o-y decline in Q1 revenues to reach EGP 1.1 billion as real estate revenues, which constitute 85% of the company's top-line, decreased by 29% to EGP 972 million on lower number of units delivered. However, despite the shrink in tourists' inflow and spending during the quarter, TMG managed to register a 1.5% increase in revenues from hotels to EGP 97 million. As a positive indicator for the upcoming year, new sales of real estate units during Q1 remained strong, surging by 25% y-o-y to EGP 2.2 billion. Moreover, cancellations hang around the normal rates of 4.3% with the value of cancelled units reaching EGP 136 million in Q1 2014 compared to EGP 107 million a year earlier. Looking forward, we expect the inauguration of President Abdel Fatah al-Sisi to revive the troubled Egyptian economy, translating into better economic conditions and faster recovery in the 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. Consequently, we estimate TMG's 2014 top-line to rise by 6.5% to EGP 5.2 billion on higher recurring and real estate revenues.

Earnings lifted by lower FX losses

TMG's gross profit edged down by 12% y-o-y to EGP 312 million in Q1 2014 following lower recognized revenues. However, gross margin rose to 27% compared to 23% recorded in Q1 2013 as the drop in revenues was outpaced by the decline of cost of goods sold, reaching 73% of revenues as opposed to 77% a year earlier. As for earnings, they increased by 16% y-o-y to reach EGP 161 million, mainly backed by a substantial fall in foreign exchange losses. Going forward, we estimate a resilient growth in 2014 net income to EGP 643 million on higher deliveries and revenue recognition.

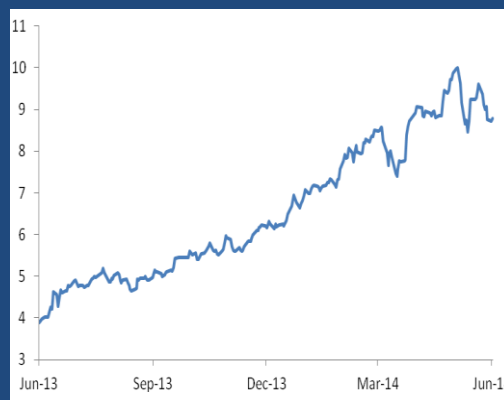
The new political climate may usher a brighter economic picture

We maintain an ACCUMULATE rating on TMG, revising our target price up to EGP 10.07 per share from EGP 9.17 per share previously. Our favorable rating is supported by the recovering economic conditions which may translate into improving fundamentals in the medium term. As well, the clearer political environment in Egypt following the election of a new president may create a sense of confidence in the market and boost investors' sentiment. On a more positive note, the recent first cash dividends announcement of EGP 0.145 for the FY 2013 which will be distributed in two installments on April and June indicates TMG's strong confidence in the company's future performance and internal liquidity. In the short-term, we expect the surge in the Egyptian equity market to continue, positively weighing on TMG shares price that we believe will remain market-driven. However, we believe the recently discussed 10% tax on capital gains realized on the stock exchange, if applied, may negatively affect local and foreign investments in the stock market. Additionally, 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.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	18,117,530,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price-to-Earnings 2014e	28.18
Price-to-Book 2014e	0.74

Share Performance



Source: Reuters

1 Month Return	-11.0%
3 Month Return	3.5%
6 Month Return	42.5%
12 Month Return	125.1%
52 Week Range	3.90 – 9.99

Source: Reuters

Contact Information:

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

Head of Equities: Maya Mantach, CFA
maya.mantach@blominvestbank.com

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

Performance and Forecasts

In EGP millions	2011	2012	2013	2014e
Revenues (EGP millions)	5,098	4,636	4,858	5,172
Net Income (EGP millions)	577	546	585	643
EPS (EGP)	0.28	0.26	0.28	0.30
BVPS (EGP)	12.75	12.77	13.03	11.86
ROA (%)	1.06%	1.00%	1.06%	1.13%
ROE (%)	2.19%	2.05%	2.27%	2.34%

Source: TMG, Blominvest

QUARTERLY INCOME STATEMENT

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

Source: TMG

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Revenue	5,098	4,636	4,858	5,172
Cost of Revenue	(3,911)	(3,408)	(3,574)	(3,802)
GROSS PROFIT	1,187	1,228	1,285	1,370
Selling, General & Administrative	(290)	(301)	(322)	(336)
Depreciation & Amortization	(144)	(131)	(124)	(120)
Provisions	(2)	-	(0)	-
Rent expense	(35)	(32)	(44)	(40)
OPERATING PROFIT	716	764	795	874
Credit Interest	19	19	19	26
Income from Treasury Bills	-	1	4	1
Interest on bonds	29	33	26	34
Finance Costs	(185)	(158)	(131)	(144)
Dividend Income	3	4	5	4
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	40
Capital Gain	20	19	8	13
Foreign Exchange Gain (loss)	(36)	(56)	(70)	(50)
NET PROFIT FOR THE YEAR BEFORE TAX	605	691	716	819
Income Tax	(104)	(152)	(183)	(205)
Deferred Tax Expense	29	(29)	7	(21)
NET PROFIT FOR THE YEAR AFTER TAX	530	510	540	593
Minority Interest	47	35	45	48
NET PROFIT FOR THE YEAR	577	546	585	643

Source: TMG, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2010	2011	2012	2013	Q1 2014
Current Assets					
Non-current Assets Held for Sale	-	-	94	94	94
Work in Progress	13,800	15,183	17,222	16,372	16,427
Inventory, net	34	32	30	41	40
Accounts & Notes Receivables	15,522	14,064	12,944	13,880	14,206
Prepayments & Other Debit Balances	2,921	2,412	2,482	2,406	2,522
Available for Sale Investments	26	26	26	26	26
Financial Assets at FV	299	77	143	148	261
Financial Assets Held to Maturity	-	121	583	495	361
Investment Debtors	808	809	-	-	-
Cash	578	225	332	681	811
Total Current Assets	33,988	32,948	33,854	34,143	34,747
Non-Current Assets					
Property & Equipment, net	4,341	4,224	4,122	4,028	4,001
Projects Under Construction	190	299	1,249	1,304	1,330
Investment property	419	430	-	-	-
Intangible Assets	-	15	12	9	8
Goodwill	15,394	15,394	15,394	15,394	15,394
Available for sales Investments	53	55	58	62	63
Investments in Associates	4	5	5	5	5
Bonds Held to Maturity	484	517	270	351	462
Deferred tax assets	-	3	-	-	-
Total Non-Current Assets	20,885	20,941	21,110	21,153	21,263
TOTAL ASSETS	54,873	53,889	54,964	55,296	56,010
Current Liabilities					
Banks Overdraft	33	46	69	17	39
Creditors and Notes Payables	1,033	1,998	2,465	2,707	2,237
Bank Facilities	-	514	881	911	907
Current Portion of Loans & Facilities	752	609	829	626	652
Customers Advance Payment	19,040	16,369	15,756	16,789	17,484
Dividends Creditors	17	15	14	14	319
Accrued Expenses & Other Credit Balances	1,893	1,669	2,266	2,795	3,116
Accrued Income Tax	185	133	174	214	251
Total Current Liabilities	22,953	21,352	22,454	24,072	25,004
Non-Current Liabilities					
Loans & Facilities	2,021	2,058	1,856	2,219	2,157
Long Term Liabilities (Cust. Advances)	4,178	4,178	4,280	2,088	2,089
Deferred Tax Liability	26	-	27	20	13
Total Long Term Liabilities	6,225	6,236	6,163	4,328	4,258
TOTAL LIABILITIES	29,178	27,587	28,617	28,400	29,263
Equity					
Issued & Paid-in-Capital	20,132	20,636	20,636	20,636	20,636
Legal Reserves	165	217	217	218	219
General Reserves	62	62	62	62	62
Accumulative translation adjustment	8	39	7	11	11
Treasury Stocks	(30)	(30)	-	-	-
Retained Earnings	3,080	3,452	3,923	4,472	4,749
Net profit for the year	940	578	546	585	161
Minority Interest	1,328	1,350	958	912	909
TOTAL EQUITY	25,685	26,302	26,347	26,896	26,747

Source: TMG, Blominvest

**BLOMINVEST BANK s.a.l.**

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

Tel: +961 1 743 300

research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
 +961 1 743 300 Ext: 1234

Maya Mantach, Head of Equities
maya.mantach@blominvestbank.com
 +961 1 1 743 300 Ext: 1240

Malak Hawa, Equity Analyst
malak.hawa@blominvestbank.com
 +961 1 1 743 300 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

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