Talaat Moustafa Group

بلوم مصر لتداول الأوراق المالية
BLOM EGYPT SECURITIES

BLOMINVEST BANK

Equity Research – Initiation of Coverage	
Sector:	Real Estate
Country:	Egypt
Date:	February 4, 2013

Share Price (EGP):	4.30
Target Price (EGP):	4.77
Upside:	11%
Recommendation:	HOLD
Risk:	Medium-to-High

Initiating with a HOLD Rating and a target price of EGP 4.77 per share on the channels of analysis below

Residential sales dominate revenue mix but hotel revenues to rise

With a land bank of 50 million sqm, Talaat Moustafa Group (TMG) is the largest real estate developer in Egypt. Its revenue streams are mostly from sales of residential units which contribute to around 87% of the top line. The majority of these revenues are generated from TMG's flagship project, Madinaty, which is expected to continue until 2026 through several phases. TMG also owns four luxury hotels, which account for 9% of the revenue mix, and is expanding this recurring income stream with 5 new hotels so that the number of hotel rooms grows from 875 currently to around 2,400 by 2016.

Favorable outlook due to low leverage despite decline in revenues

Given Egypt's current economic and political situation, we estimate 2012 revenues to reach EGP 3,986 million, 21.8% lower than 2011 figure due to lower delivery units. Going forward, we estimate TMG's 3-year revenue CAGR at 18.3% with the most aggressive growth registered during 2015 due to the recognition of revenue from Al Rehab II project. The real estate developer has been relatively successful in weathering the local challenges in Egypt through its strong balance sheet. TMG finances its projects from customer advances leading it to maintain a low D/E ratio averaging 9.7% over the last five years.

Earnings shrink on higher taxes while Madinaty remains in the spotlight

TMG's earnings for 2012 are estimated at EGP 504 million, 12.6% lower than the EGP 577 million recorded in the previous year due to an increase in the corporate tax rate. As for the legal dispute over Madinaty, the case was recently transferred to the Supreme Court with the third hearing scheduled on April 16. We believe that the worst case scenario where the company will return the Madinaty land is unlikely. Instead, a fine may be the most realistic scenario at this stage.

Target Price offers promising potential but only once instability subsides

We estimate TMG's target price at EGP 4.77 per share using a SOTP methodology, where projects under construction were valued using a DCF model with a WACC of 15.47%. While we issue a HOLD rating, it is worth noting that the key reason behind this neutral view is the political unrest currently enveloping Egypt. When comparing TMG's price-to-earnings ratio of 16.62 to the MENA average estimated at 14.1, we find the company to be overvalued but mainly due to the severe drop in earnings at TMG. As for the price-to-book value comparison, TMG appears to be trading at a discount to both its Egyptian peers and the MENA average, which we attribute to the lawsuit surrounding Madinaty.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	8,873,050,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price to 2012 Earnings	16.62
Price to 2012 Book Value	0.31

Share Performance

Source: Reuters

1 Month Return	-9.98%
3 Month Return	-9.17%
6 Month Return	-9.78%
12 Month Return	27.67%
52 Week Range	3.18 – 5.70

Source: Reuters

Performance and Forecasts

Year	2010	2011	2012e	2013f	2014f
Revenues (EGP millions)	5,339	5,098	3,986	4,781	5,629
Net Income (EGP millions)	940	577	504	513	570
EPS (EGP)	0.46	0.28	0.24	0.25	0.28
BVPS (EGP)	12.45	12.75	12.97	14.23	14.41
ROA (%)	1.73%	1.06%	0.92%	0.90%	0.96%
ROE (%)	3.62%	2.17%	1.80%	1.74%	1.92%

Source: Blominvest, TMG

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FINANCIALS & VALUATION

Year	2010	2011	2012e	2013f	2014f
Profit & Loss Summary					
Revenue (EGPm)	5,339	5,098	3,986	4,781	5,629
Revenue Growth (%)	10.7%	-4.5%	-21.8%	20.0%	17.7%
Gross Profit (EGPm)	1,522	1,187	1,116	1,324	1,509
Gross Margin (%)	28.5%	23.3%	28.0%	27.7%	26.8%
Net Profit (EGPm)	940	577	504	513	570
Profit Margin (%)	17.6%	11.3%	12.6%	10.7%	10.1%
Net Profit Growth (%)	-15.1%	-38.6%	-12.6%	1.8%	11%
Earnings Per Share (EGP)	**0.46**	**0.28**	**0.24**	**0.25**	**0.28**
Price-to-Earnings (Forward P/E)	8.91	14.52	16.62	16.33	14.71
Balance Sheet Summary (EGPm)					
Cash & Cash Balances	578	225	319	335	450
Works In process	13,800	15,183	18,068	19,875	21,663
Accounts & Notes Receivables	15,522	14,064	12,675	13,865	14,073
Projects Under Construction	190	299	474	442	431
Total Assets	54,873	53,889	55,360	58,376	60,440
Total Liabilities	29,178	27,587	28,598	29,009	30,702
TOTAL EQUITY	25,685	26,302	26,762	29,366	29,738
Book Value Per Share (EGP)	**12.45**	**12.75**	**12.97**	**14.23**	**14.41**
Profitability					
ROA (%)	1.7%	1.1%	0.9%	0.9%	1.0%
ROE (%)	3.6%	2.2%	1.8%	1.7%	1.9%
Liquidity					
Cash / Current Liabilities	2.5	1.1	1.4	1.5	1.8
Current Assets / Current Liabilities	1.5	1.5	1.5	1.6	1.6
Net Working Capital / Current Assets	0.32	0.35	0.34	0.39	0.38

Comparables

	Valuation			Margin Analysis (%)			Profitability (%)	
	P/E	P/Rev	P/BV	Gross	Operat.	Net	ROE	ROA
TMG	16.6	2.1	0.3	23.3	14.1	11.3	2.2	1.0
MENA Average	14.1	3.4	1.4	47.4	33.0	28.7	10.6	4.6

Valuation

	EGP Million
Value from Real Estate Sales	10,444
Marsa Alam Land Value / Residential Project	605
Hotel Portfolio	1,517
Riyadh Land Value (4m sqm)	260
Add: Cash & Financial Assets	656
Less: Debt	(3,641)
Fair Value	9,841
Number of shares (in millions)	2,064
Share Value (EGP)	**4.77**

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INVESTMENT SUMMARY

We issue a HOLD rating on Talaat Moustafa Group (TMG) after carefully analyzing the following:

Macroeconomic Environment

Following the revolution, real estate activity has slowed due to fears of delay in delivery and legal allegations over land ownership. Nevertheless, the sector grew by almost 3.1% in the first half of FY2012 and represented 2.7% of GDP. The construction and building material industry, a key indicator of real estate activity, supports the view of a better-than-expected performance during FY2012 with sales of cement and steel almost stable over the period. Demographics are encouraging as well, with housing demand emanating from Egypt's growing population, 75% of which under the age of 35 along with 800,000 marriages per annum. In spite of the 2011 political cataclysms, mortgage loans have grown by an inspiring 105% to around EGP 3.6 billion since the beginning of the crisis in 2010 till the third quarter of 2012. The Egyptian government has been gradually reforming the real estate sector, knowing that the housing shortage is estimated at around 200,000 units per year. It is doing so through easing bureaucratic procedures for both developers and consumers and focusing on supplying units to families in poverty.

Business Model

TMG specializes in creating community developments by establishing self-sustained residential cities and community complexes for the upper and middle income segments. The company's revenue streams are mostly from sales of residential units which contribute to around 87% of the company's top line up to September 2012. The majority of revenues are generated from the Madinaty project, representing 79.4% of residential units and land sales. However, the share of recurring income, which accounts for 9% currently, is expected to substantially rise over the coming five years following the addition of five hotels and resorts projects.

TMG holds 86% of its land bank in Egypt and it may go up to 100% when TMG exits the Saudi market. The developer has a considerably underleveraged balance sheet as it finances its real estate sales through an off-plan sales model.

Growth

We estimate TMG's 3-year revenue CAGR at 18.3% with the most aggressive growth registered during 2015 due to the recognition of revenue from Al Rehab II project. Earnings are also estimated to grow at a CAGR of 11.3% in the next three years mostly due to higher deliveries and revenue recognition.

From a strategic point of view, despite the establishment of a 50-50 joint venture in Saudi Arabia between Talaat Moustafa and the Saudi-owned Al Oula Real Estate Development Company in 2009, TMG is exiting Saudi Arabia to focus on opportunities in the Egyptian market. Nasamat Al Riyadh residential project has been halted and TMG is negotiating the sale of its 4 million sqm plot there.

Profitability

We estimate 2012 revenues to reach EGP 3,986 million, 21.8% lower than 2011 due to lower unit delivery. Revenues recognized from real estate units, which accounts for around 68% of total revenues, are estimated to decrease by 21.2%. The Madinaty project is expected to continue dominating the majority of TMG's revenue, representing 76% of total revenues in 2012.

TMG's return-on-assets ratio is estimated to reach 0.92% in 2012, while hovering around 1% in the coming three years. We estimate the return-on-equity ratio to decrease from 2.2% in 2011 to 1.8% in 2012, its lowest level in the past four years on lower earnings caused by less revenue recognition. TMG's gross profit margin for 2012 is estimated at 28% as opposed to 23% registered in 2011 due to the drop in revenues outpacing the decline in gross profit.

Financial Position

TMG finances its projects primarily from advances of customers collected by off-plan sales, leading it to maintain a low debt to equity ratio averaging 9.7% over the last five years. This enables the company to reduce risk by avoiding unsold property and to only begin construction when a significant number of units have been sold. We expect TMG's debt-to-equity ratio to remain low at 13.6% in 2012 reflecting the company's low gearing and prudent cash management. However, we anticipate a rise in debt post-2015 as TMG may need to finance new land purchases once the current land bank gradually depletes.

Valuation

We estimate the target price of TMG's share at EGP 4.77 using a Sum-of-The-Parts (SOTP) methodology. Projects in construction are valued using a discounted cash flow (DCF) model while raw land areas are valued by applying a premium. Revenues and costs associated with land sold, BUA and infrastructure are recognized upon delivery. In our DCF model, we started recognizing revenues and costs following the delivery dates provided by the company.

While we issued a HOLD rating on TMG, it is worth noting that the key reason behind this neutral view is the political unrest currently enveloping Egypt. Once the instability subsides, we see TMG as an attractive opportunity with promising long term potential due to its vast experience in the market as well as its self-financing business model.

When comparing TMG's price-to-earnings ratio of 16.6 to the MENA average estimated at 14.1, the real estate developer appears to be overvalued. This is mainly attributable to the severe drop in earnings at TMG and other Egyptian real estate developers pressured by the market unrest in the country that caused hesitation in both potential buyers and existing contracts. From a price-to-revenues point of view, TMG is on par with other Egyptian developers and justifiably lower than the Middle Eastern average. As for the price-to-book value comparison, TMG appears to be trading at a discount to both its Egyptian peers and the MENA average, which we attribute to the lawsuit surrounding TMG's flagship project.

Risks

The prominent short term risk is the political tension and security situation. Although we expect little cancellations, the risk still looms if major events unfold on the political scene. This will also drive the risk of creating delivery delinquencies.

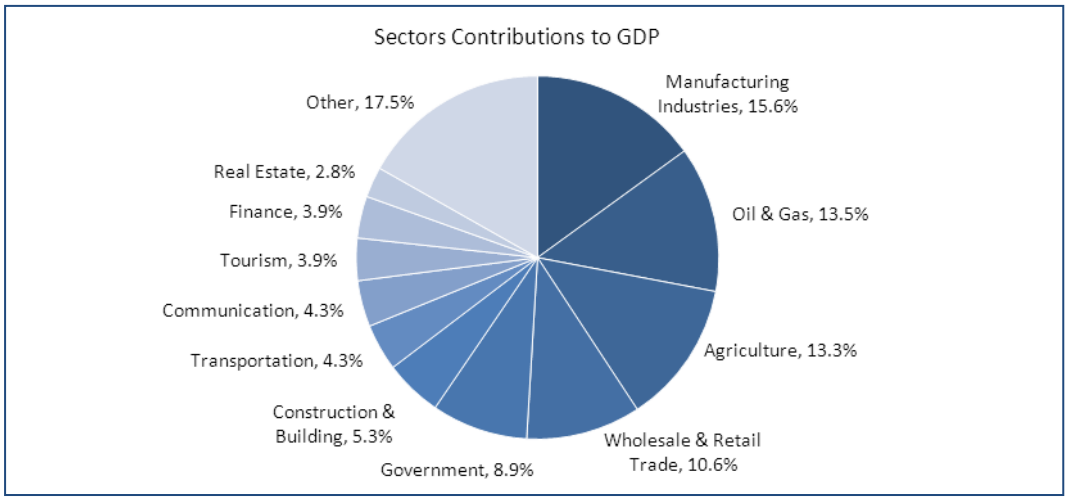
As for company specific risks, the Madinaty project represents 33 million sqm or 67% of total land area and around 78% of TMG's land in Egypt. This massive concentration of risk can materially impact the company's revenue, additionally stressed by the political downturn in Egypt and its effect on the economy. Furthermore, on the long term, TMG's depleting land bank will force the developer to purchase new land in the future either self-financed or via debt or a combination of both which might challenge TMG's low leveraged strategy paving way to liquidity risks.

Finally, real estate developers in Egypt have been facing lawsuits related to their acquisition of land. The most severe case was related to Talaat Mostafa's flagship project, Madinaty, in which the company had been accused with violating the law by acquiring land through a direct order from the government rather than through a public auction. The legal dispute is impacting negatively Talaat Moustafa's share price as the Madinaty project constitutes a large percentage of its land bank.

ECONOMIC OVERVIEW

Economy still in the dark but vital signs are beginning to resurface

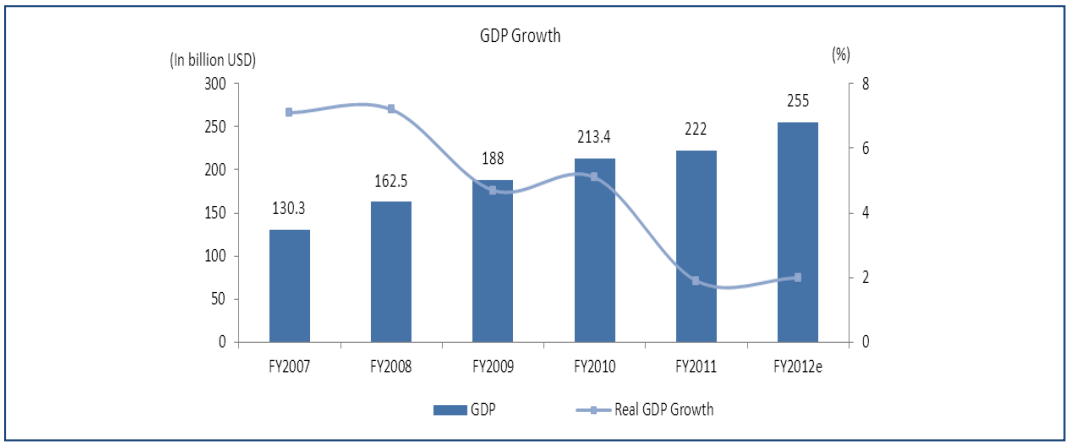
In the five years prior to the revolution, Egypt's economy was growing at an average annual rate of 5.2%. However, with the halt in capital expenditure and the large losses accrued in the external sector, real growth dropped to 1.8% in 2011. This began to change in the first few months of 2012, marking improvements in tourism and investment confidence although recovery to pre-2011 levels remains highly unlikely, given the unresolved political and reform issues as well as the still staggering global economy. GDP grew by 2.2% in the first half of 2012, up from 1.8% in the FY11, according to the Finance Ministry. The real estate sector is picking up in line with the country's real demand for housing. Tourists regained interest in Egypt after having avoided the region during its months of turmoil; noting that tourism accounts for an estimated 15% of Egypt's economy through its direct and indirect economic linkages. The government has forecasted tourism revenue to reach $10 billion in the financial year that started in July 2011, down sharply from $11.6 billion in FY10.



Source: Central Bank of Egypt

Growth expected to slowly kick in as confidence resumes

GDP is estimated to have increased by 2% in 2012, according to the International Monetary Fund (IMF). The economic recovery is expected to continue in 2013 but remaining below pre-crisis levels. While this trend of improving activity cannot be considered sustainable or stable enough, Egypt's economy will continue to be supported over the coming period by private spending. This in turn depends on the growing population and remittances from Egyptian expatriates.



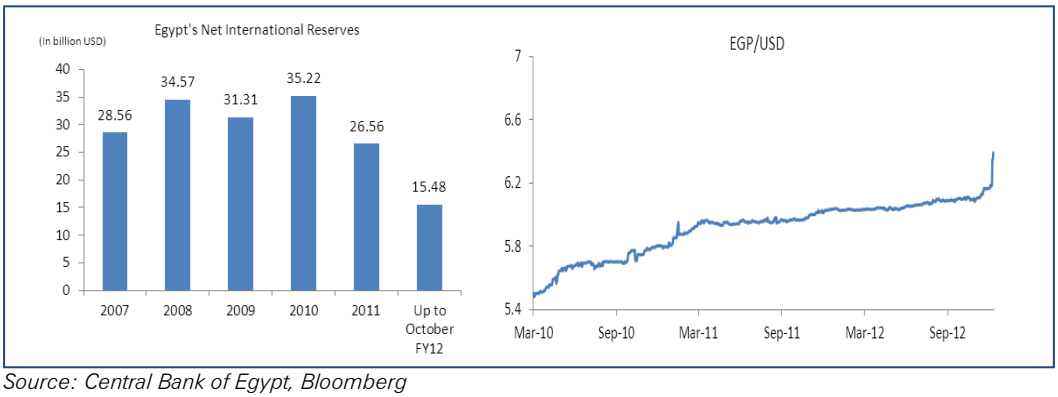
Source: Central Bank of Egypt, IMF

Capital outflows remain significant paving the way for further EGP depreciation

The risk of a full-blown balance of payments crisis lingers over the coming period since capital outflows remain significant due to portfolios liquidation by foreign investors, and sharp decrease in both foreign direct investment and tourism receipts following the country's political unrest. As a result, the central bank's foreign currency reserves halved during 2012 applying pressure on the exchange rate of the Egyptian pound which depreciated from 5.5 EGP/USD in January 2010 to around 6.35 EGP/USD at 2012 year-end.

Credit to private sector dries as banks focus on government funding

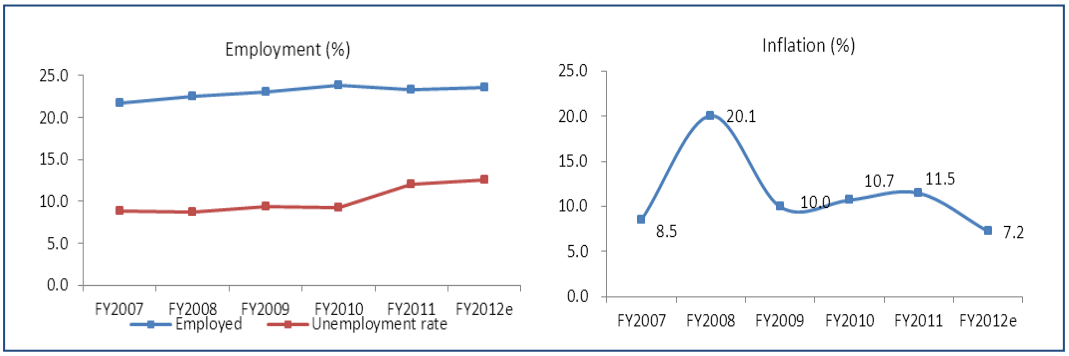
The widening budget deficit, the increasing country risk, and the portfolio liquidation by foreign investors led to the rise in government paper yields, thus crowding out lending to the private sector. Banks found it more profitable to lend to the government as yields on the 5-year bonds exceeded 13%, while it's extremely costly for the private sector to borrow at double digit rates. Compared to the 10-year US Treasury Risk-Free Bonds yielding 1.89%, the yield on the 10-year Eurobond issued by the Egyptian government increased from 12.81% in August 2010 to 16.32% in 2013, capturing the additional risk of investing in a smaller and higher risk country. Finally, the central bank increased its benchmark interest rate at the end of 2011 as part of its effort to slow the drop in foreign reserves and ease pressure on the pound.



Source: Central Bank of Egypt, Bloomberg

Unemployment remains high while inflation improves

Despite the country's slowing growth being offset by continued demand from Egypt's massive consumer base and the government increasing its spending to limit the impact of the political unrest, unemployment remains stubbornly high. Between 2005 and 2010, Egypt's labor force increased at an average rate of 3.8% y-o-y, continuously exceeding job creation and accelerating unemployment. The labor market is also at a disadvantage seeing that the downturn in both state projects and private businesses has yet to recover as unemployment reached 12.5% in Q3 2012. On a positive note, inflation is beginning to decline as it reached 6.7% in October 2012 compared to approximately 10% in 2011.



Source: Institute of International Finance

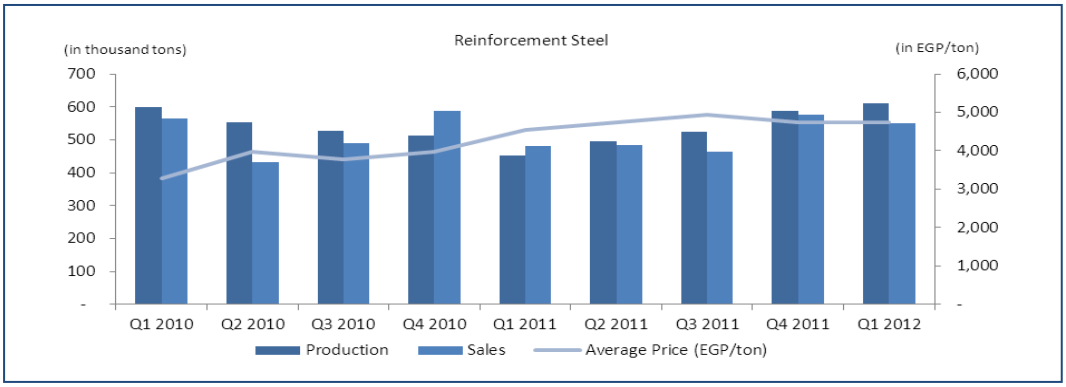
REAL ESTATE MARKET

The road to democracy has been very costly for businesses in Egypt, as the revolutionary tides have halted activities in most economic sectors. Real estate has been in the forefront of this decline, with the unfolding turmoil leading to precipitous declines in company profits. Fears of land confiscation still plague investors, while consumers have preferred waiting on the sidelines, unwilling to commit within this environment. Despite the cloudy outlook, strong foundations remain, anchored by favorable demographics, a shortage in housing supply, and a mortgage market that remains underpenetrated. Stabilization in economic activity and a return to growth will leave Egypt's real estate sector as one of the most attractive investment segments available.

Real estate sector stands firm as political turnaround continues

Following the revolution, real estate activity halted, especially for off-plan property sales, caused by fears of delay in delivery and legal allegations over land ownership. Nevertheless, the sector grew by almost 3.1% in the first half of FY2012 and contributed to 2.7% of GDP. This is slightly lower than the same period during FY2011, where the sector grew by 3.2% and contributed to 2.8% of GDP. On the other hand, sector growth during FY2008 and FY2009 exceeded 4.0% and even reached 7.1% in FY2007.

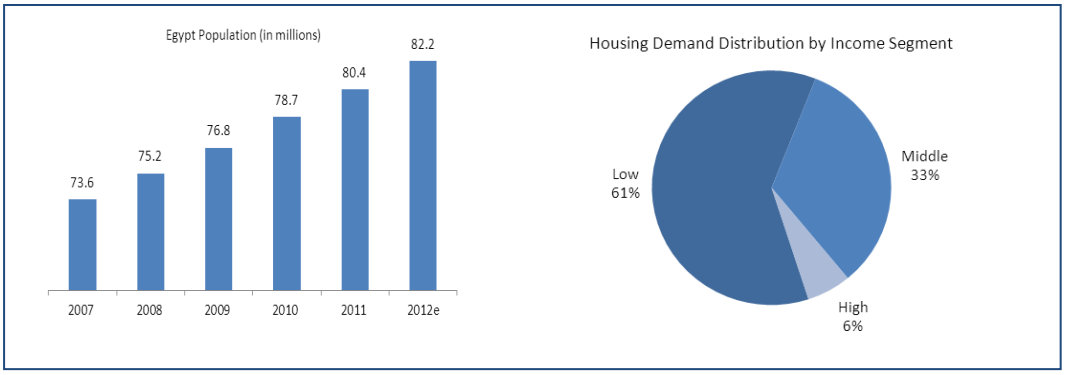
The construction and building material industry, a key indicator of the activity in the real estate sector, supports the view of a better-than-expected performance during FY2012 with sales of cement and steel almost stable over the period.



Source: Central Bank of Egypt

Shortage in middle income residential market backed by strong demographics

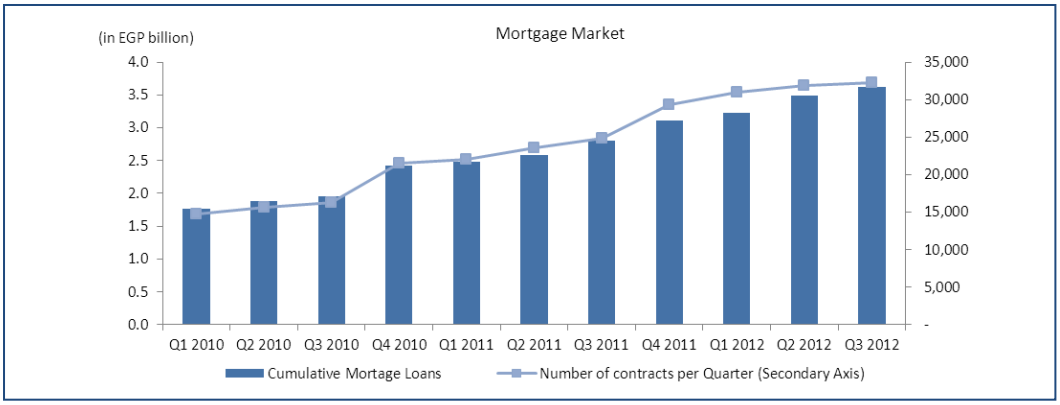
Demographics are encouraging to real estate investments since Egypt is witnessing a 2% average annual growth rate of its 82 million population having 75% under the age of 35. In addition, the high annual marriage rate at 800,000 reinforces demand for housing since, according to USAID, 46% of people seeking new houses are planning to get married. Actually, 61% of demand comes from the low income segment but since the latter cannot afford to seek houses, it is characterized as latent demand. Excluding the latent demand, 79% of projected demand for new homes is newly married couples coming from the middle income segment.



Source: *Institute of International Finance, CAPMAS*

Underpenetrated mortgage market grows despite political upheaval

In 2011, total mortgages represented around 0.5% of Egypt's GDP, compared to 1.3% in Saudi Arabia and 11.5% in Lebanon. An efficient mortgage market will reinforce demand through housing affordability and feasibility. Since 2004, 13 mortgage companies have been established with the total amount of mortgages increasing from EGP 193 million in September 2005 to EGP 3 billion in September 2011. This will be further enhanced by the government's announced plans in June 2010 to more than double the market size from EGP 4 billion to EGP 10 billion within three years. Institutional immaturity characterized by complicated mortgage registrations and time-consuming bureaucratic procedures have been the main cause of this under-penetration. In spite of the 2011 political cataclysms, mortgage loans grew by an inspiring 105% to around EGP 3.6 billion since the beginning of the crisis in 2010 till the third quarter of 2012 while the number of contracts surged 35% up to September 2012 to approximately 95,100 compared to a year earlier.



Source: Egyptian Financial Supervisory Authority

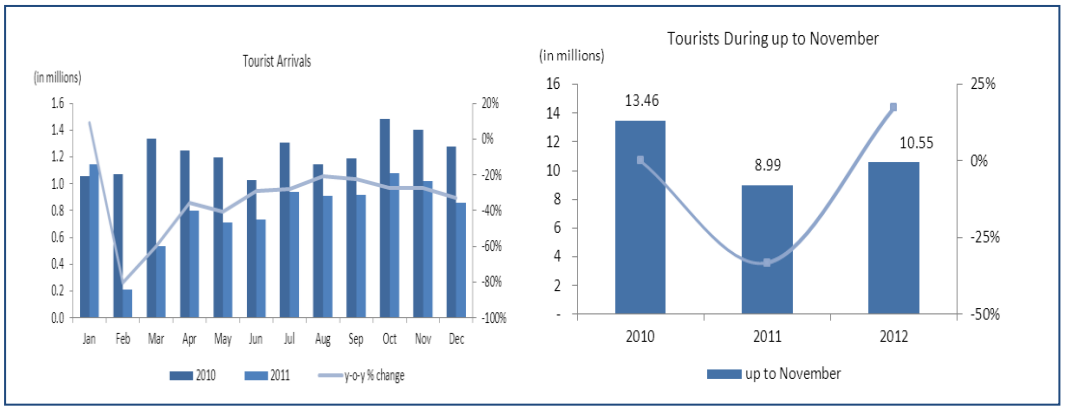
Government intervention and effective reform needed for sector progress

The Egyptian government has been gradually reforming the real estate sector, knowing that the housing shortage is estimated at around 200,000 units per year. It is doing so through easing bureaucratic procedures for both developers and consumers and focusing on supplying units to families in poverty. Post revolution, the Egyptian government launched the National Housing Project aiming to provide 1 million residential units through 5 years in 22 cities across the country. However, we do not expect this to affect prices of mid-end properties since there is a substantial shortage of supply. This shortage has been caused by the private sector's concentration on high-end projects due to their attractive profit margins.

Since Cairo has reached its population density limit, satellite cities around the capital (New Cairo, Sixth of October, etc.) have been drawing high and middle income residents to gated communities seeking to escape Cairo's congested lifestyle. Cairo has been worst affected by the political unrest in the country in contrast to its satellite cities. This is due to their close position to Cairo yet far enough from the hostilities that took place. Sixth of October City performed best having only suffered a contraction in the retail segment due to being considered as a "Smart Village" harboring inflows of technology and finance businesses; it is well suited for offices and commercial real estate.

Tourism slowdown reaches all corners of economy with retail taking a big blow

Following the weakening in private consumption and the losses suffered by the tourism industry, the retail sector was most affected as rental prices are expected to decline due to weak demand and low occupancy. Tourism employs 12% of Egypt's workforce having a share that ranges up to 15% of total GDP through its direct and indirect linkages to the economy. The sector has been widely affected by the turmoil with the number of tourists shrinking by 33%, tourist spending dropping by USD 1.6 billion and revenues from the sector falling by more than USD 4 billion in 2011. Nevertheless, we still have a positive outlook on the years to come as the economy heals, best translated by the 17% rise in tourists up to November 2012 compared to the same period in the previous year.



Source: CAPMAS

Developers adapt to new market dynamics

We expect the real estate sector to gradually begin its recovery with a focus on primary housing demand in the mid to low-income segments. As such, developers are shifting their activity to mid-end residential projects in order to capitalize on the shortage in supply for these income level groups. Foreign investments remain weak and may not recover as long as political risks persist and the tourism sector remains frail.

New marketing strategies are being developed by real estate firms due to the shortage in liquidity from banks. These include the reduction of down-payment to 5-10% instead of 30% and the possibility of increasing the number of installments and repayment period to more than 7 years.

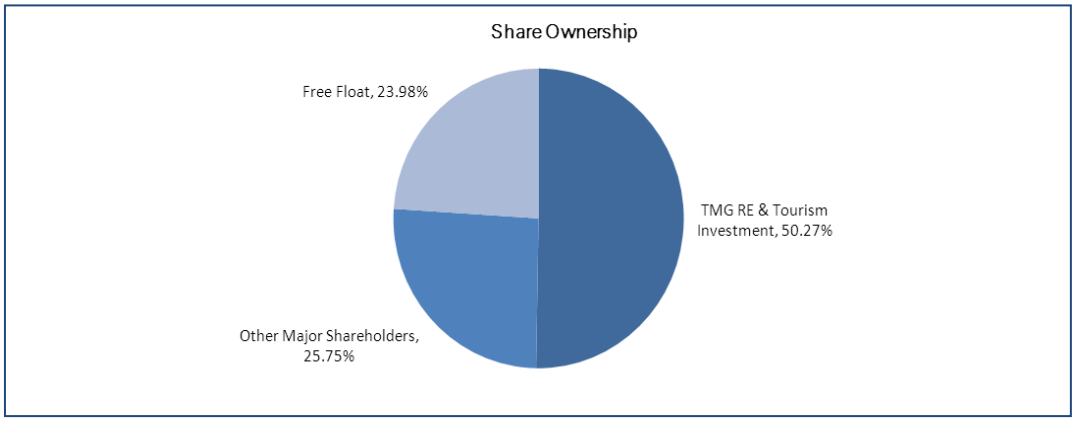
COMPANY PROFILE

Talaat Moustafa Group (TMG) is the largest real estate developer in Egypt with a land bank of approximately 50 million sqm located in prime locations and areas with high growth potential. The company specializes in creating community developments by establishing self-sustained residential cities and community complexes for the upper and middle class. It purchases large plots focused on the outskirts of Cairo at a commuting proximity to the business district with some projects in Alexandria, Sharm el Sheikh and Marsa Alam.

The company has also increased contribution of stable income by aggressively expanding into luxury hotel and resort development after identifying a market gap in Egypt for such offerings. It developed four hotel and resort complexes: Nile Plaza and Kempinski Nile in Cairo, San Stefano in Alexandria, and Four Seasons in Sharm El Sheikh. Five other Hotel & Resort projects are currently under development.

Ownership

The company was founded in 1975 as a construction business and expanded its activities into real estate development in the late 1980s. In October 2007, the company transformed into a holding company and consolidated its real estate and hotel activities under its main subsidiaries. TMG was listed on the Cairo and Alexandria Stock Exchange (CASE) on November 28, 2007, issuing 2.02 billion shares at a par value of EGP 10 per share, and currently has 2.063 billion shares outstanding. The company's largest shareholder is TMG for Real Estate and Tourism Investment which is held by members of the Talaat Moustafa family and Bin Laden family in Saudi Arabia.



Source: TMG

Board of Directors

Tarek Talaat Moustafa	Executive Chairman
Hani Talaat Moustafa	Board Member
Yehia Mohamed Awad	Board Member
Mohamed Ali Akbar	Board Member
Gamal El Guindy	Executive Director
Ahmad Ali Abou El Einein	Misr Insurance Company Representative
Mohamed Hisham Al Sharif	Board Member
Hossam Abdallah Helal	Chairman of the Audit Committee

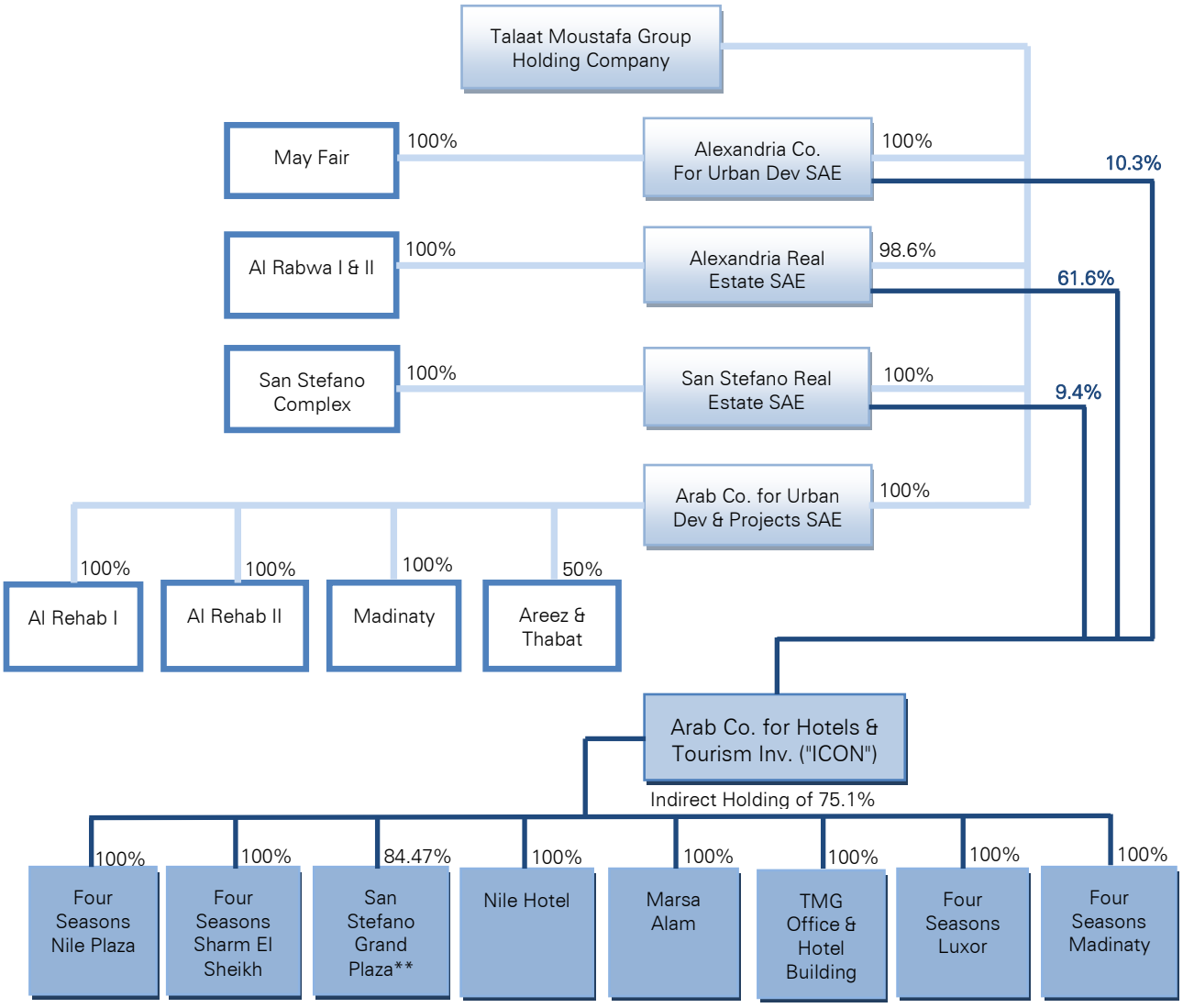
Source: TMG

Management

Tarek Talaat Moustafa	Executive Chairman
Sherif Ghoneim	V.P. Sales and Marketing
Jihad M. Sawaftah	V.P. Chief Financial Officer
Gamal El Guindy	V.P. Administration of the Chairman's Office
Ahmed Afifi	V.P. Madinaty Project Management
Mohamed Atef	V.P. Technical Affairs
Ashraf El Banna	V.P. Operations
Nagi El Touny	V.P. Touristic Projects
Sami Mokhtar	V.P. San Stefano Project
Mohamed Al Shazly	V.P. Sales

Source: TMG

Subsidiaries & Affiliates



***: ICON holds only the asset of the hotel, which does not include the residential units or the commercial property. These components of the complex are held by San Stefano Real Estate SAE*
Source: TMG

SWOT ANALYSIS

Strengths

- Well-recognized brand name, a proven track record with a reliable end-product
- Expertise in construction management and thorough knowledge of the Egyptian real estate market
- Off-plan business model reduces the risk of accumulating unsold developments
- Low-leveraged balance sheet with self-financing business model. The off-plan sales assist in financing projects. TMG's up-front costs are generally limited to preparing the development plan and initial infrastructure costs

Weaknesses

- The lawsuit filed against Talaat Mostafa's flagship project, Madinaty, related to the acquisition of land through a direct order from the government rather than through a public auction
- High land bank concentration risk as 94% of residential BUA is based in Egypt with 81% of the BUA concentrated in Madinaty

Opportunities

- Current demographic and economic trends are favorable to expand into affordable housing, with a 2% average annual growth rate of Egypt population and high annual marriage rate
- Opportunity to expand its city and community complexes businesses in the outskirts of Cairo

Threats

- Potential negative outcome on the Madinaty contract as the court judgment remains unclear at this stage
- Risk of a drop in profitability following the inability to acquire large plots of land in the future at favorable rates
- Slowdown in the economic and real estate activities may impact the company's overall business by limiting its ability to sell properties according to its planned sales schedule
- Slow recovery in tourism activity could affect the hotel industry, lowering TMG's recurring revenues which account for around 9% of the revenue mix
- The uncertainties of inflation and its side effect on construction costs as construction in any phase of TMG's city and community begins after a significant portion of units has been sold

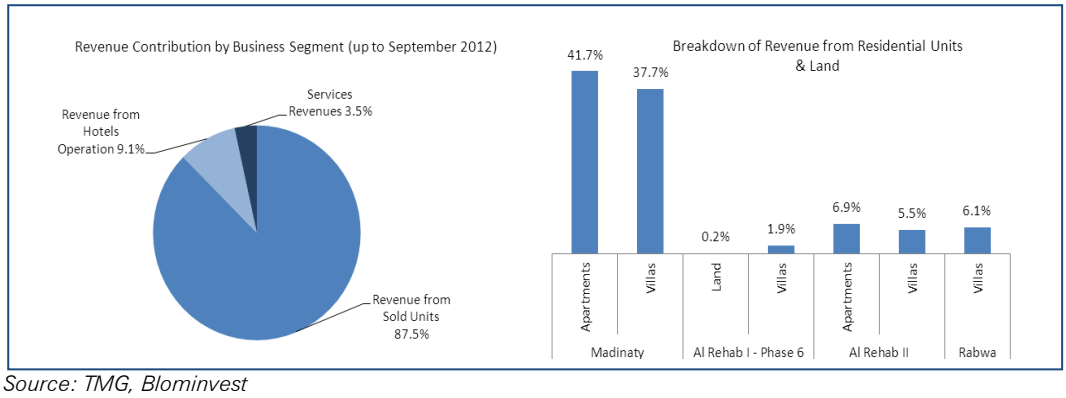
BUSINESS MODEL

Revenue Mix

Talaat Moustafa has three different revenue sources:

➢ Real estate & land sales

TMG's revenue streams are mostly from sales of residential units which contribute around 87% to the company's top line up to September 2012. The majority of revenues are generated from the Madinaty project, representing 79.4% of residential units and land sales (41.7% are raised from apartments sales and 37.7% from the sale of villas). However, TMG is diversifying its revenue base by enhancing its recurring income from hotel operations.



Source: TMG, Blominvest

➢ Recurring income from hotel operations

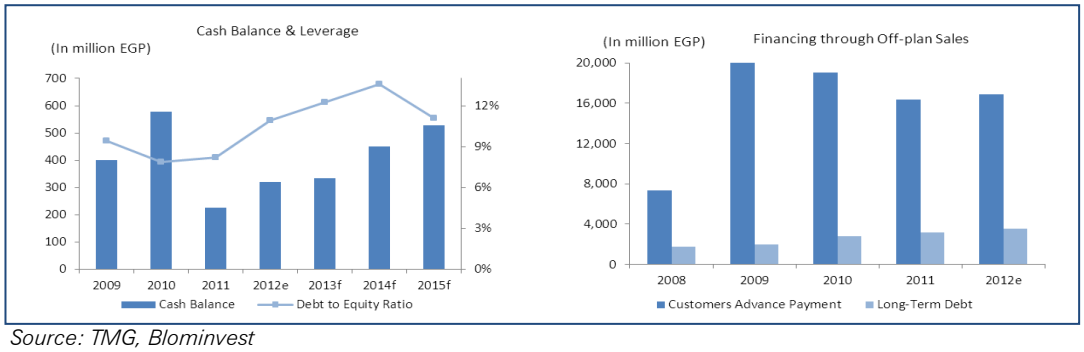
Recurring revenues from TMG's four luxury hotels accounted for around 9% of the revenue mix or EGP 291 million up to September 2012 with the Egyptian hospitality industry harshly hit by the revolution. We expect the share of recurring income to substantially rise over the coming five years due to the addition of five hotels and resorts projects, with an increase in the number of hotel rooms from 875 in 2011 to around 2400 in 2016. TMG is targeting 35% contribution of recurring revenue in the longer term, generated from hotels and services to be established on investment plots in Madinaty and Al Rehab which are going to be offered to mega strategic developers on joint venture basis.

➢ Services and other revenues

Services revenues represent a minor share of TMG's income, contributing only 4% of the company's top line in the first nine months of 2012. Revenues from services such as infrastructure and architectural design & planning reached EGP 111 million up to September 2012, almost unchanged from a year earlier.

Low-leveraged balance sheet as construction activity is backed by off-plan sales

When considering financial strength, TMG has a low risk balance sheet profile. The company relies little on debt to finance its residential projects; instead construction is backed by off-plan sales which reduce the company's risk of accumulating unsold developments. In the case of villas, it starts building an actual unit once it has been sold. As for apartments, construction begins only after a significant portion of units has been sold.



Source: TMG, Blominvest

Flexible phasing ensures development of large projects is manageable

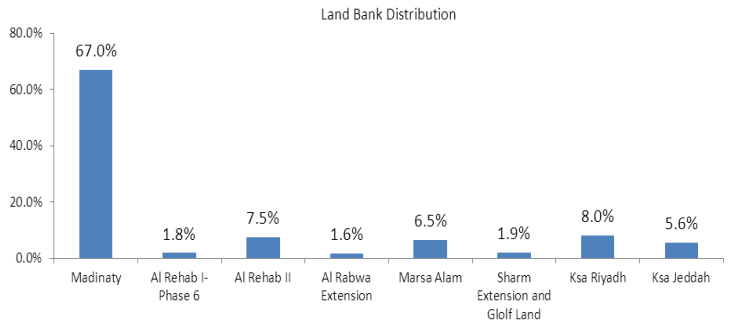
TMG's strategy is to construct its projects in phases. The company sells the clusters of building in any phase of a project's development plan before construction begins and prior to the initiation of a new cluster. This concept of phased sales and construction enables TMG to construct units only when required, adapting to changes in demand.

Bilateral agreements with government due to need for large-scale projects

TMG acquires its land through bilateral agreements with the government on attractive terms given the importance the government places on building large-scale housing in an undersupplied real estate market. In return, the government receives 7% of the residential BUA upon stage completion in the case of Madinaty, while payment is made in the form of units delivered to the government for Al Rehab II project, which is equivalent to 12% of total BUA. As for Al Rabwa, the payment was made in cash.

Land bank concentration with Madinaty project spanning 67% of land area

Of its 50 million sqm of land bank across Egypt and Saudi Arabia, the Madinaty project represents 33 million sqm or 67% of total land area and around 78% of TMG's land in Egypt. This massive concentration of risk can materially impact the company's revenue, additionally stressed by Egypt's political unrest.



Source: TMG, Blominvest

TMG plans to exit Saudi Arabia

The real estate developer is exiting Saudi Arabia to focus more on challenges in the Egyptian market despite its large potential for growth in KSA and a strong experience of the Saudi market acquired through the existence of the group's sales branches in Riyadh and Jeddah since 1991. TMG established Thabat Company for Real Estate Development in 2009, 50-50 joint venture between Talaat Moustafa and the Saudi-owned Al Oula Real Estate Development Company, which is specialized in developing various residential and commercial communities in the Kingdom. The joint venture intends to develop projects in both Riyadh and Jeddah with a total of 4 million sqm in land area (TMG's share is estimated at 2 million sqm). However, despite the approval taken by the Saudi Real Estate authority to release off-plan unit sales in the Nasamat Al Riyadh residential project in 2010, the project has been stopped and the company is planning to sell the 4 million sqm land bank.

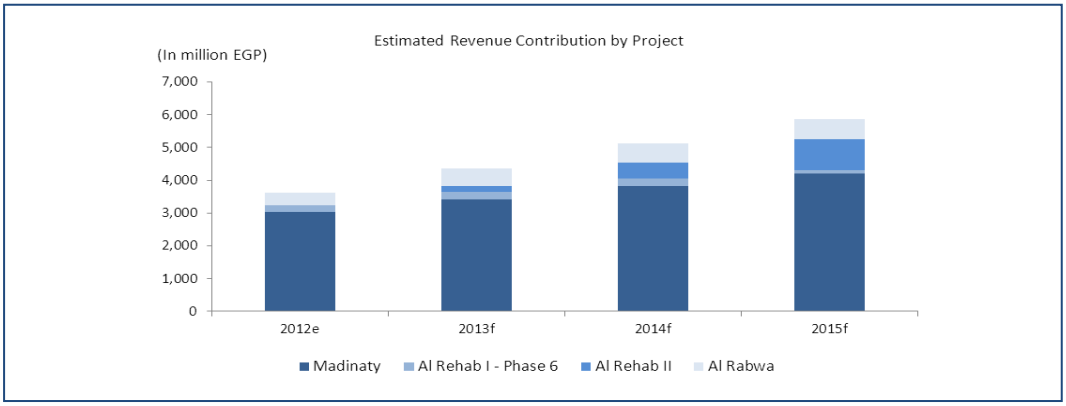
PROJECTS OVERVIEW

Project	Location	Commence	Expected Completion	Area (sqm)	Residential BUA	Nb of Units	Total Apartments	Total Villas	% Sold Residential BUA
Madinaty	New Cairo	Jul-06	2026	33,600,000	16,826,193	112,625	100,365	6,793	30%
-Phase 1 & 2	New Cairo			12,493,740	7,469,203	51,403	47,218	4,185	
-Phase 3 & 4	New Cairo			8,492,500	5,591,379	37,851	35,243	2,608	
-Phase 5 & 6	New Cairo			2,772,000	3,043,656	17,904	17,904	0	
Al Rehab I - Phase 6	New Cairo	Nov-96	2012	873,228	223,740	274	0	274	
Al Rehab II	New Cairo	Jul-06	2020	3,760,000	2,292,260	14,427	13,260	1,167	56%
Al Rabwa I	El Sheikh Zayed	Dec-94	2006	1,318,800					
Al Rabwa II	El Sheikh Zayed	Jan-06	2012	819,028	119,071	340		340	66%

Source: TMG, Blominvest

RECENT DEVELOPMENTS AT MAJOR PROJECTS

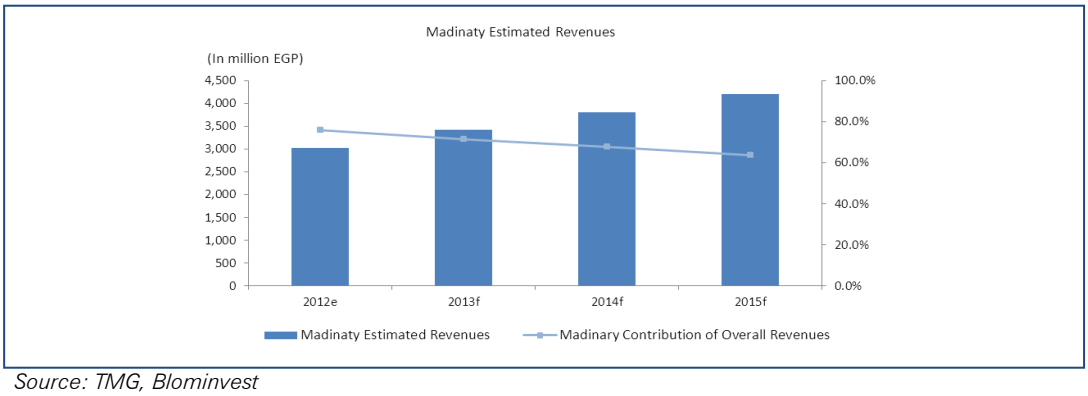
The real estate development segment constitutes the largest source of TMG's revenue, currently dominated by three large scale projects with 20 million sqm in residential BUA.



Source: TMG, Blominvest

Madinaty

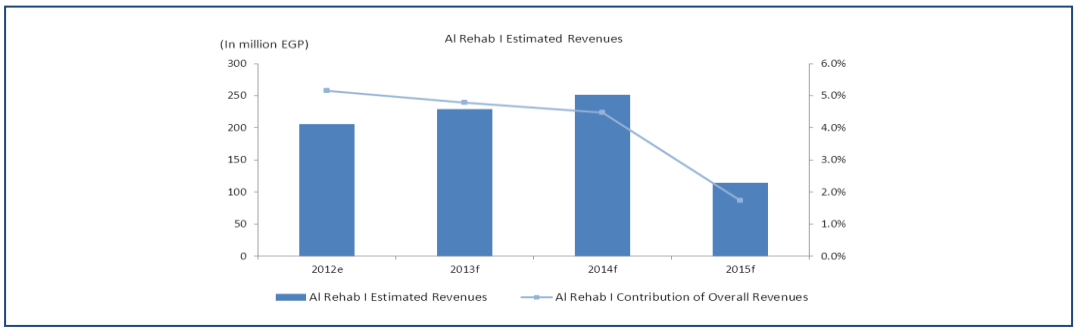
TMG's flagship project, Madinaty, is located approximately 35 kilometers east of Cairo with a total area of 33.6 million sqm (67% of the company's land bank) and a residential BUA of 16.8 million sqm. The project, which was launched in July 2006 and expected to be completed in 2026, is made up of 105,000 apartments, around 6,800 villas, spacious green areas, golf courses, university, and several hotels. Development and construction is planned in six phases, estimated between three to four years each. The project has been well received by buyers as 30% of the residential BUA have already been sold up to September 2012.



Source: TMG, Blominvest

Al Rehab

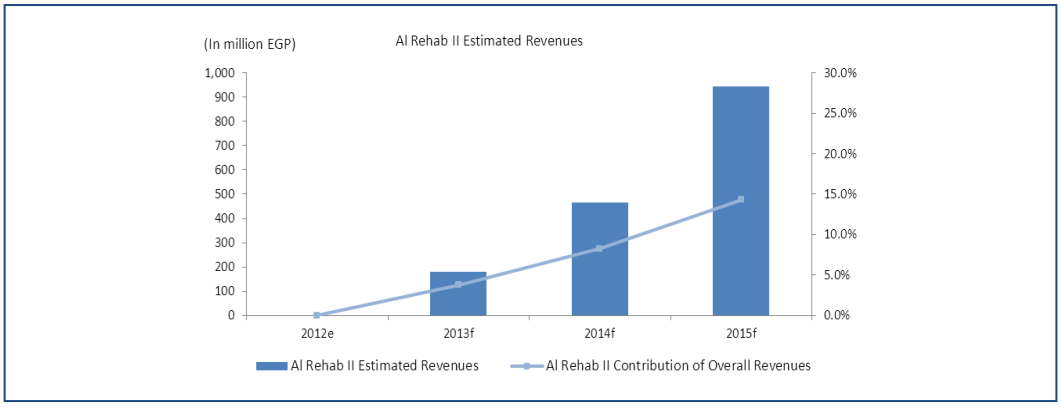
Al Rehab project is the first fully-integrated city and community complex in Egypt, spanning over a land area of 10 million sqm. The project is located approximately 27 kilometers east of Cairo and made up of apartments, villas, restaurants, a private leisure club, medical offices, schools, malls, mosques, and banks.



Source: TMG, Blominvest

- *Al Rehab I:* The project was launched in November 1996 with a total land area of 6.1 million sqm. It includes four schools, medical offices, restaurants, and two retail malls. Only a shopping center and phase 6 (633 villas) are yet to be completed, out of which 247 villas are still available for sale. The majority of the units in Al Rehab I were sold before TMG's construction began and the final delivery of units is expected in 2014.

- *Al Rehab II*: TMG launched an extension of Al Rehab I in July 2006, with a total land area of 3.8 million sqm. The project is planned in four phases, expected to be completed in 2017, with the final delivery of units estimated in 2020. Al Rehab II is composed of apartments and villas, of which 56% has already been sold up to September 2012.



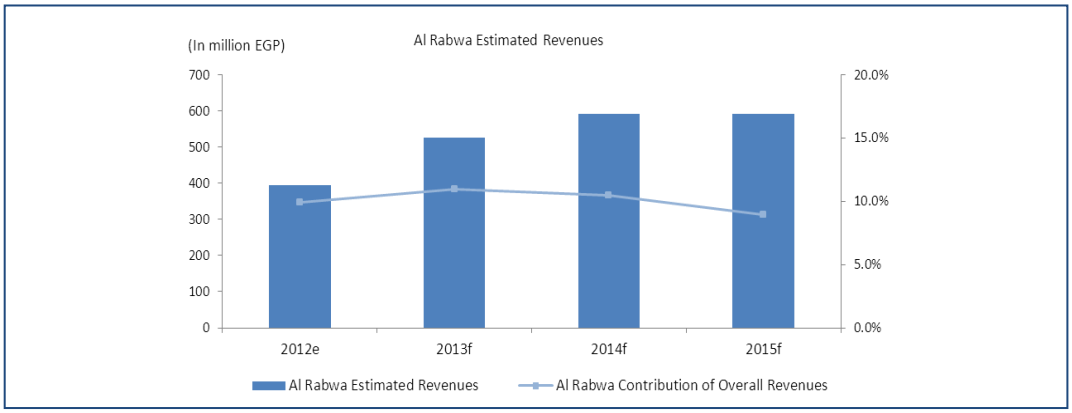
Source: TMG, Blominvest

Al Rabwa

Al Rabwa is located west of Cairo in the Al Sheikh Zayed district, approximately 4 kilometers from 6th of October City, occupying over 2 million sqm of land. As opposed to Al Rehab and Madinaty, Al Rabwa is an exclusive compound targeting the high-end of the market with a limited supply of villas.

- *Al Rabwa I:* was launched in December 1994 and was fully sold by 2005. The project is stretched over 1.3 million sqm and consists of 648 villas, a shopping center, a golf course, and a cinema.

- *Al Rabwa II:* is an extension to Al Rabwa I, launched in January 2006. The project is spread over 800,000 sqm and comprising 340 villas and an interlinking golf course. Construction of Al Rabwa II will take place in four phases, each comprised of 86 villas with 66% of the entire project already sold up to September 2012.



Source: TMG, Blominvest

Hotel and Resort Complexes

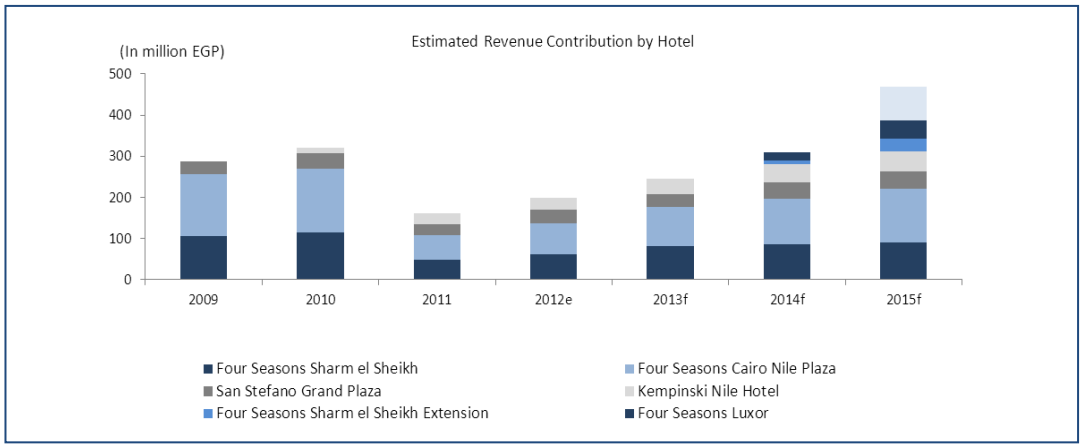
TMG currently has four operational hotels located in prime locations and operated under renowned "Four Seasons" and "Kempinksi" brands. Additionally, the company has five hotel and resorts projects in different stages of development, which are likely to increase the number of hotel rooms from 875 in 2011 to around 2400 in 2016.

Number of Hotel Rooms	2012	2013	2014	2015	2016
Four Seasons Sharm el Sheikh	200	200	200	200	200
Four Seasons Cairo Nile Plaza	366	366	366	366	366
San Stefano Grand Plaza	118	118	118	118	118
Kempinski Nile Hotel	191	191	191	191	191
Four Seasons Sharm el Sheikh Extension	-	-	96	96	96
Four Seasons Luxor	-	-	201	201	201
Marsa Alam Resort	-	-	-	750	750
TMG Hotel & Building	-	-	-	-	198
Four Seasons Madinaty	-	-	-	-	230
Total	**875**	**875**	**1172**	**1922**	**2350**

Source: TMG, Blominvest

Hotel revenues on the rise

We estimated 2012 hotel revenues to reach EGP 358 million, a 2.7% growth over 2011 led by higher occupancy rates. Four Seasons Sharm El Sheikh and Four Seasons Cairo Nile Plaza are expected to constitute 70% of total hotel revenues in 2012, while new openings will probably drive revenues significantly up in the future.



Source: TMG, Blominvest

Operating Hotels

Four Seasons Resort Sharm El Sheik: is TMG's first hotel, it opened in May 2002 and consists of 200 rooms with an average rate per room (ARR) estimated to reach EGP 2,134 in 2012. The resort is located on the Red Sea and managed by Four Seasons. It includes a residential component encompassing 34 villas and 112 chalets. We estimate total revenue from the hotel at EGP 62.3 million in 2012 with a 40% occupancy rate.

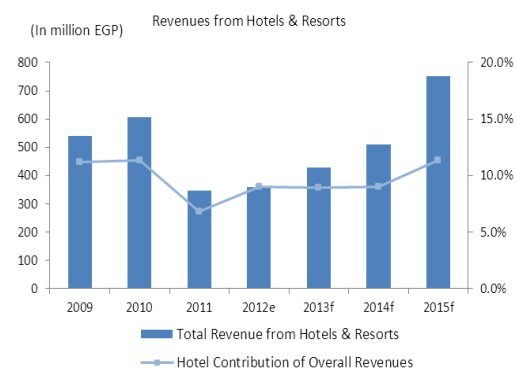
Four Seasons Nile Plaza: is TMG's most profitable hotel, it began operations in August 2004 and consists of 366 rooms with an estimated ARR of EGP 1,610 in 2012. The hotel is located in the Garden City area of Cairo and has 145 square meters of frontage facing the Nile. It comprises a residential component consisting of 131 residential units. We estimate the hotel occupancy rate to reach 35% in 2012 with total revenue of EGP 75.3 million.

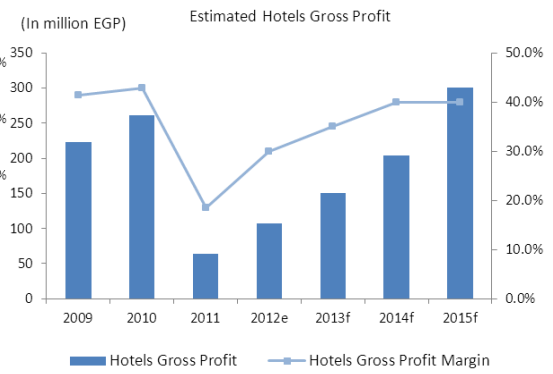
	Four Seasons Sharm El Sheikh	Four Seasons Nile Plaza	San Stefano Grand Plaza	Kempinski Nile Hotel
Location	Sharm El Sheikh	Cairo	Alexandria	Cairo
Rooms/keys	200	366	118	191
Units	146	128	945	0
Sold as of Sep-12	144	121	893	-
Commence	Nov-98	Sep-97	Feb-99	Aug-03
Complete	May-02	Aug-04	Jul-07	Jul- 10
Star rating	5 Star	6 Star	7 Star	8 Star
Facilities	8 restaurants	9 restaurants	9 restaurants	4 restaurants
	2 lounge bars	Spa	Marina	4 meeting rooms
	Spa	Ballroom	Shopping mall	Business center
	Ballroom	11 meeting rooms	Offices	Executive club
	4 meeting rooms	Business center	Ballroom	Mini business
	Business center	Shopping mall		center

Source: TMG

San Stefano Grand Plaza (Operated by Four Seasons): is the first luxury hotel constructed in Alexandria, it opened in July 2007 and comprises 118 rooms with an estimated ARR of EGP 1,532 in 2012. The complex includes 945 residential apartments, occupying approximately 28,000 sqm of land. We estimate total revenue from the hotel at EGP 33 million in 2012 with a 50% occupancy rate.

Kempinski Nile Hotel: is a luxury hotel, specifically targeting the increasing number of business travellers. It started operations in 2010 and consists of 191 rooms with an estimated ARR of EGP 1,012 in 2012. We estimate the hotel occupancy rate at 40% in 2012 with total revenue of EGP 28.2 million.





Source: TMG, Blominvest

Hotels & Resorts under Development

Hotel	Location	Operator	Expected Opening Date	Rooms	Residential Property
Four Seasons Sharm el Sheikh Extension	Sharm El Sheikh	Four Seasons	2014	96	114
Four Seasons Luxor	Luxor	Four Seasons	2014	201	-
Marsa Alam Resort	Red Sea	To be determined	2015	750	2250*
TMG Hotel & Building	New Cairo	To be determined	2016	198	-
Four Seasons Madinaty	Sixth of October	Four Seasons	2016	230	-

**: 1000 units in phase 1*
Source: TMG, Blominvest

LEGALITIES WITH LAND OWNERSHIP

During September 2010, a loophole in the laws surrounding land ownership has been exposed after a lawsuit was filed and appealed against Talaat Mostafa's flagship project, Madinaty. The company had been accused with violating the law by acquiring land through a direct order from the government rather than through a public auction. The legal dispute is impacting negatively Talaat Moustafa's share price as the Madinaty project constitutes almost 67% of its land bank.

> *Initially, a specific law issued in 1979 stated that the New Urban Communities Authority (NUCA), a government entity, has the right to sell land by direct order. However, in 1998, a general law was issued stating that land owned by government entities has to be sold through a tendering process and never by direct order. The cabinet and the government understand that specific laws supersede general laws. Nevertheless, this conflict can have an adverse effect on potential investors in Egyptian real estate and requires a proper solution by the government.*

In the case of Talaat Moustafa, the existing contract with NUCA was legally cancelled in September 2010, resulting in a new contract in November 8, 2010 according to the tenders and auctions law with the same conditions previously specified in the old contract dated August 1, 2005. The in-kind payment of Madinaty land price remained at 7% of the project's BUA, the method of payment was kept in the form of finished apartments delivered to NUCA, and the floor total value of in-kind units was set at EGP 9 billion upon completion of the full project. An appeal was made by TMG on the cancellation of that old contract.

As for the new Madinaty contract, signed November 8, 2010, a court verdict was issued on November 22, 2011 that the contract is valid, correct, and in accordance with the Egyptian laws, requesting a revaluation of the unutilized land of the project. Two appeals were made on the court verdict, one by TMG on the request to revalue the unutilized land and another by the claimant on the court verdict that the contract is valid. On the 16th of January 2013, the judge accepted the 2 appeals from a legal standpoint, and the case was transferred to the Supreme Administrative Court to investigate it in details and issue a final verdict. The third hearing for this lawsuit is scheduled on April 16, 2013.

In our opinion, the potential outcomes for Madinaty land dispute are as follows:

- Best case scenario: The judge issues a final verdict stating that the contract is valid.
- Base case scenario: TMG will be forced to pay a considerable fine.
- Worst case scenario: The judge issues a final verdict stating that the contract is invalid. In this case, the company should return the land to the government in its original state. However, TMG can't give back the land as 97% of the land is transformed and utilized. In this case, the only way to solve the legal dispute is to re-negotiate with the government a new contract.

We believe that the worst case scenario where the company will return the Madinaty land is unlikely as it's impossible to transform the land back to the same state as before development began. A fine may be the most realistic scenario at this stage.

RISKS

Land bank concentration risk

Almost 86% of TMG's land bank is located in Egypt and it may go up to 100% when TMG exits the Saudi market. The country has lately experienced significant political unrest, with all its effect on Egypt's economy. Moreover, TMG is highly sensitive to its operation in the Madinaty project, which by itself represents around 67% of total land area.

Cancellations and Delinquencies Dependent on Political Situation

While we expect little cancellations as a base case, the risk of higher cancellations still looms especially if major events occur on the political scene. This may also lead to delivery delinquencies if construction activity slows in the case that the political situation deteriorates. The prominent short term risk the dragging along of a shortage of liquidity in the private sector as banks are focused on lending to the public sector. However, as the economy recovers, banks should boost liquidity in the market.

New Real Estate Tax Law

A new real estate tax will go into effect as of January 2013. This heavily criticized law was issued under the previous government but has been later amended to overcome many of the problems of the original draft. After modification, the law exempts a person's home from the tax as it also states that 25% of the tax receipts will be utilized to develop slum areas.

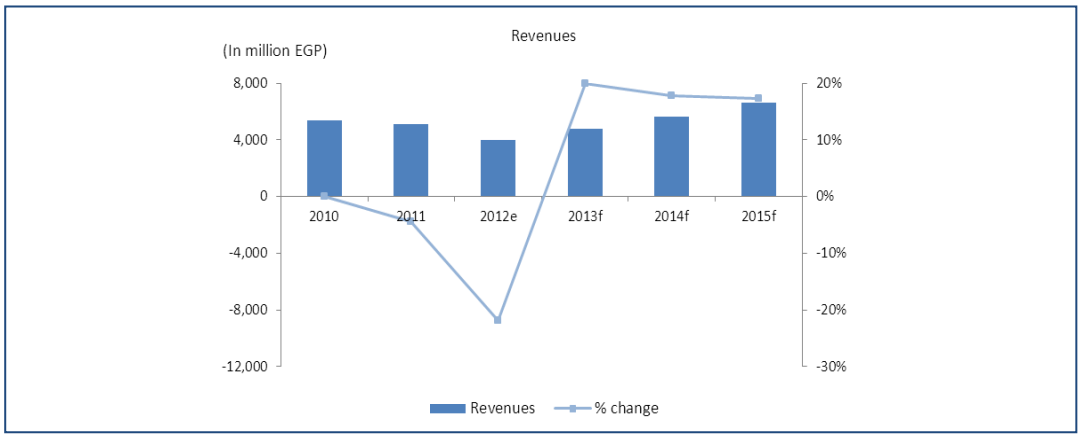
Shifting focus to the low-income market may affect TMG's development model

Two reasons may lead TMG to shift its focus to low-income housing, impacting its business model due to its expertise in the middle market. First, with the economic slowdown in the country, real estate companies may find themselves urged to concentrate their investments towards more affordable apartments. Additionally, changes in laws or government policy could adversely affect TMG's business; the imposition of certain conditions such as the developer agreeing to allocate a certain portion of the land to be developed for low-income housing may affect TMG's development model. This may also have a negative impact on sales of its residential units and the number and types of units developed and sold.

FINANCIAL ANALYSIS

Revenues

Given Egypt's current economic and political situation, we estimate 2012 revenues to reach EGP 3,986 million, 21.8% lower than 2011 figure due to lower delivery units. Revenues recognized from real estate units, which account for around 68% of total revenues, are expected to decrease by 21.2%. The Madinaty project is expected to continue dominating the majority of TMG's revenue, representing 76% of total revenues in 2012. We estimate revenues from hotels to edge up by 2.8% after recording a 42.7% y-o-y decline in the previous year following the instability in tourism flow and tourist spending.

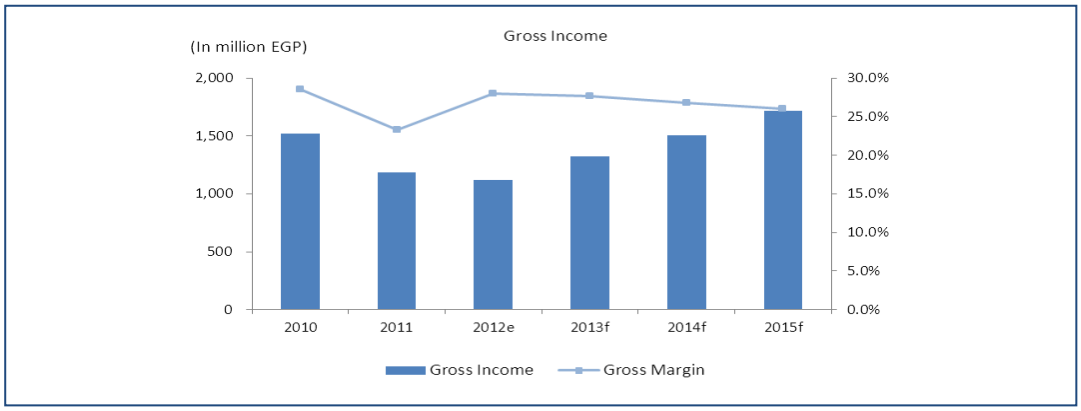


Source: Blominvest

TMG's revenues dropped by 4.5% in 2011 as Egypt's real estate sector had been severely hit following the revolution due to fears of delay in delivery and legal allegations over land ownership. So far, recognized revenues decreased by 26.6% in the first nine months of 2012 to reach EGP 3,210 million as a result of a 30% drop in revenue recognition from real estate units. Going forward, we estimate Talaat Moustafa's 3-year revenue CAGR at 18.3% with the most aggressive growth registered during 2015 due to the recognition of revenue from Al Rehab II project.

Gross Margin

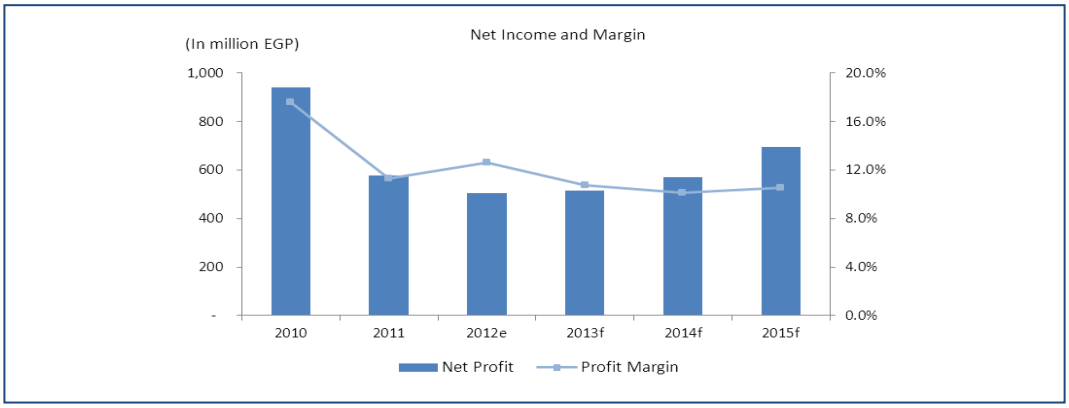
Gross income for 2012 is estimated to fall in line with the decline in recognized revenue, reaching EGP 1,116 million compared to EGP 1,187 million recorded during 2011. We estimate TMG's gross profit margin for 2012 at 28% as opposed to 23% registered in 2011 as revenues declined at a faster pace than gross earnings. Gross earnings are estimated to grow at a CAGR of 15.4% in the coming three years, with gross margin in the long run expected to hover around 27% based on our estimates.



Source: Blominvest

Earnings

We estimate TMG's net income at EGP 504 million during 2012, 12.6% lower than the EGP 577 million recorded in the previous year due to an increase in income taxes and deferred taxes. This is partially attributable to a rise in the income tax rate from 20% to 25% effective July 2011. Moreover, the 2011 units benefited from tax exemption, while the 2012 deliveries are not tax exempt. Earnings are estimated to grow at a CAGR of 11.3% in the next three years mostly due to higher deliveries and revenue recognition.

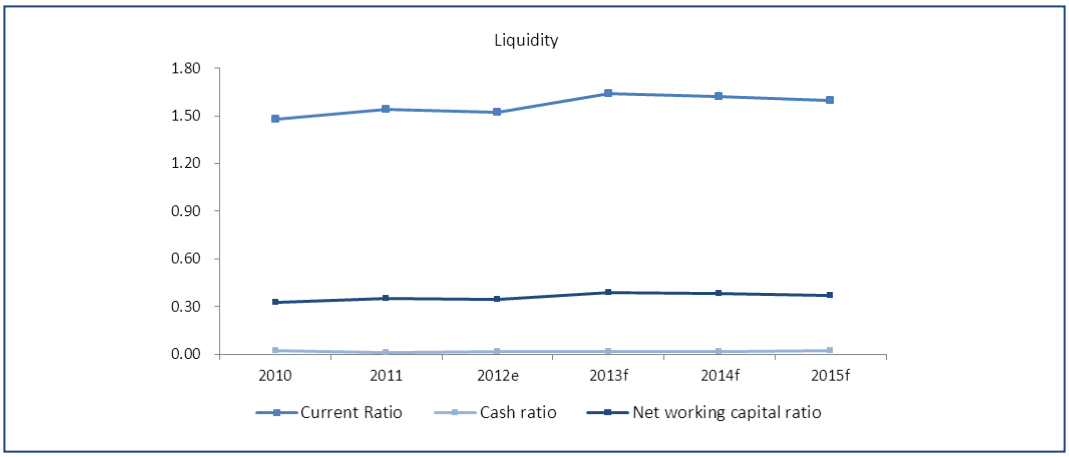


Source: Blominvest

Liquidity

We estimate the cash level to increase to EGP 319 million in 2012 after falling to EGP 225 million in 2011, its lowest level in the past five years. Hence, TMG's 2012 cash-to-current liabilities ratio is estimated to increase from 1.1 in 2011 to 1.4, hovering around its 2012 level in the near term. The company's current assets have always been at least 1.4x its current liabilities mostly due to very low debt. Additionally, TMG is estimated to continue maintaining a positive net working capital, partly due to carrying a much larger balance of Accounts Receivables in comparison to Accounts Payable.

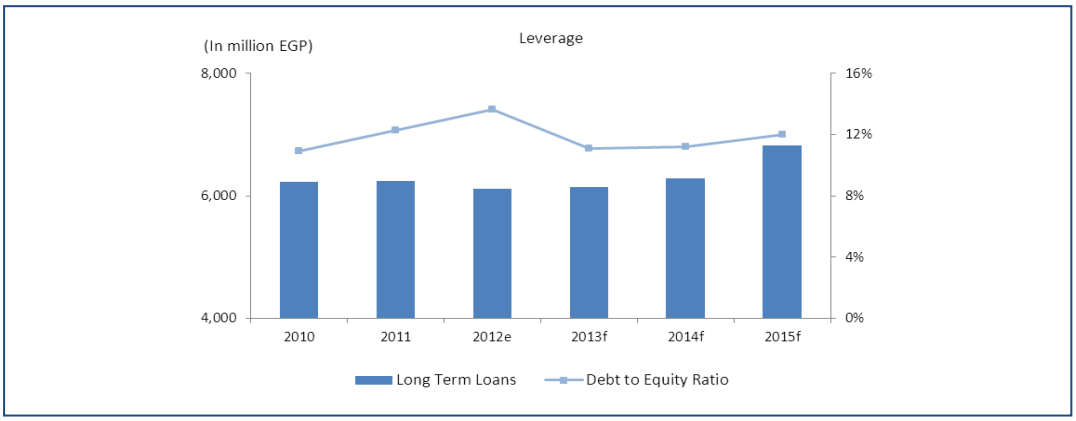
Current Ratio = Current Assets / Current Liabilities
Cash Ratio = Cash / Current Liabilities
Net Working Capital = (Current Assets – Current Liabilities) / Current Assets



Source: Blominvest

Leverage

TMG has a low leveraged balance sheet since its inception as a large portion of the company's land has been already paid for, in addition to residential units being financed by off-plan sales rather than debt. This enables the developer to raise additional financing if needed. We expect TMG's debt-to-equity ratio to remain low at 13.6% in 2012 reflecting the company's low gearing and prudent cash management. We anticipate a rise in debt post-2015 as TMG may need to finance new land purchases once the current land bank depletes.

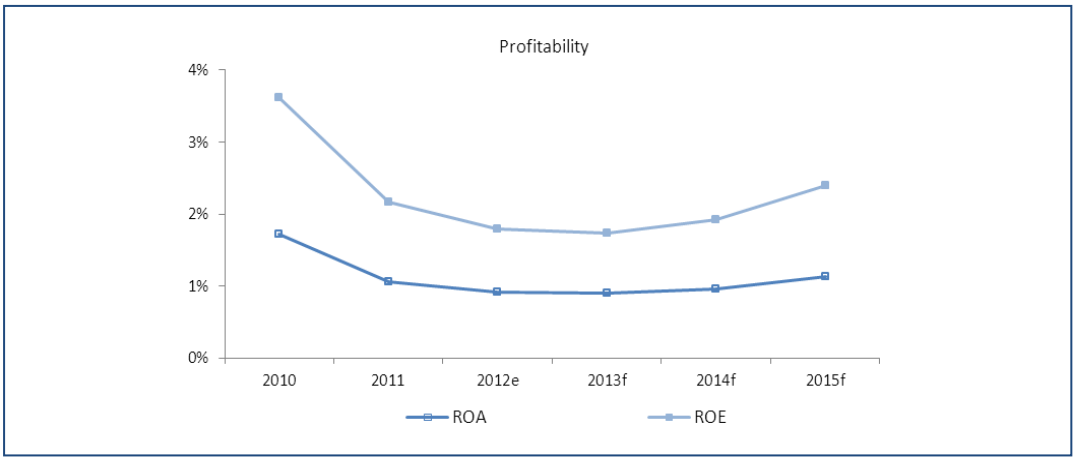


Source: Blominvest

Another interesting indicator to look at is the interest coverage ratio which shows by how many times TMG's operating income covers its interest expense. We treat this as a leading indicator to expose any financial troubles that may be looming in the horizon. Historically, this ratio has been hovering around 5 times and is estimated to swing around this level in the near term.

Profitability

As for profitability indicators, we estimate TMG's Return-on-Assets (ROA) ratio to reach 0.92% in 2012, hovering around 1% in the coming three years. Return-on-Equity (ROE) ratio is expected to decrease to 1.8% in 2012, its lowest level in the past four years on lower earnings caused by less recognized revenue.



Source: Blominvest

COMPARABLE ANALYSIS

When studying a company, we find it necessary to see how it compares to peers from three standpoints:

1. Profitability Comparison: Shows how well the company is managing its expenses through different margin analysis (Gross Margin, Operating Margin, Profit Margin)
2. Relative Valuation: Shows how the market perceives the company (overvalued, undervalued, or fairly valued)
3. Management Effectiveness: Shows how efficient management is at using its assets and equity to generate earnings.

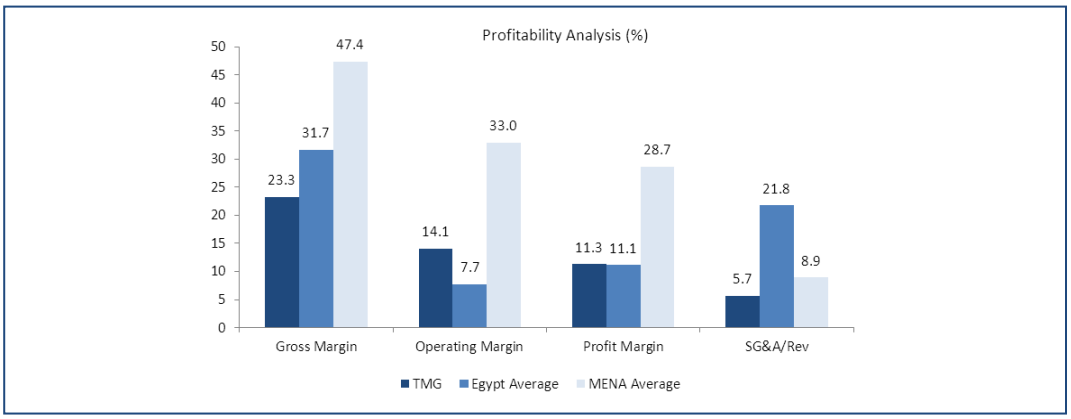
Comparable Firms

The list we compiled consists of 13 real estate companies that operate in the Middle East including 3 that operate in Egypt: "Palm Hills Development Company (PHDC)", "Sixth of October Development and Investment (SODIC)", and "Amer Group (AMER)". We compared TMG to the average of these 3 separately since they share common attributes dictated by their country such as political and market risks. The largest of the 13 has a market cap of USD 6.1 billion, while the smallest has USD 290 million and the average is USD 1.68 billion. On the other hand, TMG's market cap is approximately USD 1.45 billion.

The complete list of comparables is available in the appendix.

Profitability Comparison

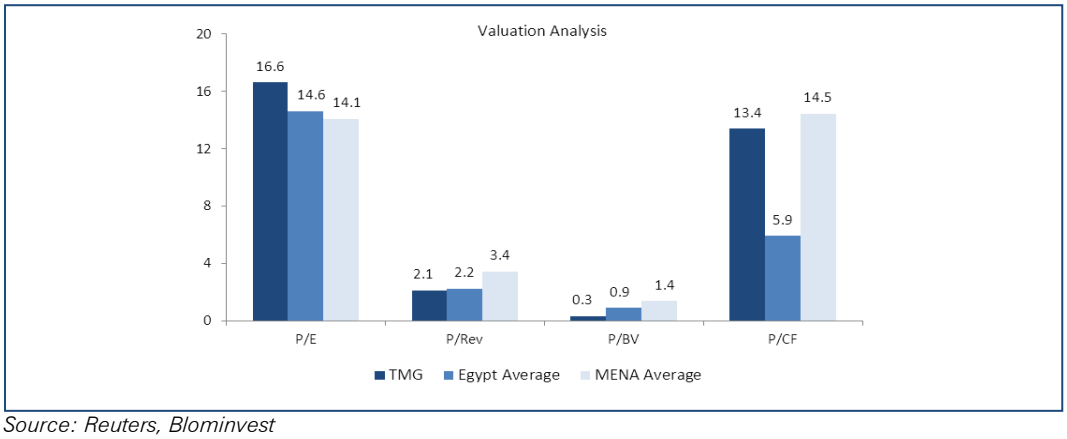
TMG's profitability ratios are considerably lower than the Middle Eastern average, however we find it unfair to compare as Egyptian developers continued to operate in an extremely challenging market. As such, we focus our comparison below on TMG and its Egyptian peers, which share the country risk and operating environment. TMG's gross margin at 23.3% is lower than 31.7% for the average in Egypt mostly due to the change of revenue mix as less land sales related to villas, TMG's most profitable segment, were recognized during the year. Additionally, lower margins from the hotels segment, which makes up a sizeable 9% of TMG's overall revenues, contributed to squeezing its profitability. The operating margin is higher than its Egyptian peers as SODIC pushed down the average by recording a negative operating margin after the cost of real estate sold reached 98% of revenues due to high cancellations. As for TMG's profit margin, it came on par with the Egyptian average at 11.3% as each developer struggles with its specific circumstances. The high finance costs and leveraged balance sheet at Palm Hills continues to pressure its performance, while SODIC had to deal with a stubborn stream of cancellations.



Source: Reuters, Blominvest

Relative Valuation

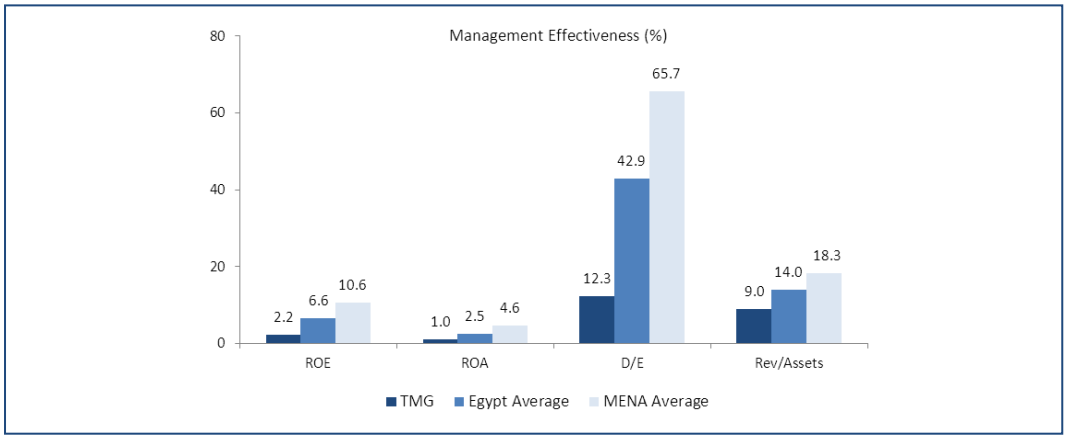
When comparing TMG's price-to-earnings ratio (P/E) of 16.6 to the MENA average estimated at 14.1, we find the real estate developer appears to be overvalued. This is mainly attributable to the severe drop in earnings at TMG and other Egyptian real estate developers pressured by the market unrest in the country that caused hesitation in both potential buyers and existing contracts. Its price-to-revenues ratio (P/Rev) at 2.1 is on par with other Egyptian developers and justifiably lower than the Middle Eastern average at 3.4. As for the price-to-book value (P/BV) comparison, TMG appears to be trading at a discount to both its Egyptian peers and the MENA average, which we attribute to the lawsuit surrounding TMG's flagship project.



Source: Reuters, Blominvest

Management Effectiveness

TMG's Return-on-Equity (ROE) and Return-on-Assets (ROA), at 2.2% and 1.0% respectively, are considerably lower than those of its Egyptian peers and Middle Eastern average on lower profitability and less leverage. Its debt-to-equity (D/E) at 12.3% is significantly lower than the Middle Eastern and Egyptian averages driven by its self-financing model. As for management's ability to generate revenues from its assets, the revenue-to-assets (Rev/Assets) ratio shows that TMG is underperforming both averages, attributed to carrying a significant asset associated with its large land bank.



Source: Reuters, Blominvest

Putting It Together

In conclusion, we attribute TMG's low profitability ratios to the challenging environment it operates in along with its considerably underleveraged balance sheet. Its ROA is significantly lower than others not just due to lower profitability, but because TMG carries a large land bank in its assets which further contributes to pressuring its ROA. In turn, this carries over to TMG's ROE magnified by the company's low leverage.

VALUATION

We estimate the target price of TMG's share at EGP 4.77 using a Sum-of-The-Parts (SOTP) methodology. Projects in Construction are valued using a discounted cash flow (DCF) model while raw land areas are valued by applying a premium depending on the attractiveness of the individual project.

Project	Value (in million EGP)	TMG Ownership	Value to TMG (in million EGP)
Madinaty Phase 1 & 2	4,408	100%	4,408
Madinaty Phase 3 & 4	2,511	100%	2,511
Madinaty Phase 5 & 6	481	100%	481
Al Rehab I	149	100%	149
Al Rehab II	2,527	100%	2,527
Al Rabwa II	367	100%	367
Marsa Alam Land Value / Residential Project	807	75%	605
Hotel Portfolio	2,023	75%	1,517
Riyadh Land Value (4m sqm)	520	50%	260
Add: Cash & Financial Assets			656
Less: Debt			(3,641)
Valuation for TMG			**9,841**
Number of Shares			2,064
Fair Value per Share (EGP)			**4.77**

Source: Blominvest

Assumptions in Valuation of Projects in Construction

Discount Rate

We used a WACC of 15.47% for the purpose of valuing TMG's equity derived as follows:

WACC = (Weight of Equity * Cost of Equity) + (Weight of Debt * Cost of Debt) * (1 – Tax Rate)
= (0.88 * 16.35%) + (0.12 *12 %) * (1 – 25%) = 15.47%

TMG Cost of Equity = Risk-Free Rate + (Beta * Market Risk Premium)
= 12.50% + (1.1 * 3.50%) = 16.35%

- We used a Risk-Free Rate of 12.50% represented by the 10-year Treasury bond recently issued by the Egyptian government. This captures the additional risk of investing in a relatively undeveloped country such as Egypt when comparing it to the U.S. Treasury.
- TMG's beta over the past 5 years is estimated at 1.1. This is a measure of the share volatility against the EGX-30 Index that represents the 30 largest shares on the Egyptian Stock Exchange.
- A Market Risk Premium of 3.50% is the result of the difference between the expected return of investing in the EGX-30 estimated at 16.00% and the Risk-Free Rate of 12.50%. This represents the premium investors expect to gain for realizing the additional risk of investing in securities.

Forecasts

Sales begin the year a project is launched and extend a few years depending on indicators for market demand. Sale projections are done separately for each project and vary based on:

- Consumer interest demonstrated though historic demand
- Supply of remaining unsold units
- TMG's presence and expertise in the project area
- TMG management input

- The price/sqm of land and BUA is concluded from TMG's records of recent pricing used in actual reservations and contracts for the different projects. Due to the challenges in the real estate market, we assumed no price growth in our forecasts and therefore, sales would continue to follow the same prices in the next few years.
- A 25% corporate tax rate is applied. The tax rate increased from 20% to 25% effective July 2011.

Revenue and Cost Recognition

- Annual revenues and costs associated with land sold, BUA and infrastructure are recognized upon delivery. In our DCF model, we started recognizing revenues and costs following the delivery dates provided by TMG.
- Annual revenues of sold units are recognized as a percentage of each project's total potential sales. We assumed no price growth in our forecasts and therefore, sales would continue to follow the same prices in the next few years.

PROJECTED INCOME STATEMENT

In EGP million	2009	2010	2011	2012e	2013f	2014f	2015f
Revenue	4,822	5,339	5,098	3,986	4,781	5,629	6,602
Cost of Revenue	(3,138)	(3,817)	(3,911)	(2,870)	(3,457)	(4,121)	(4,886)
GROSS PROFIT	1,684	1,522	1,187	1,116	1,324	1,509	1,717
Selling, General & Administrative	(215)	(308)	(290)	(279)	(335)	(394)	(462)
Depreciation & Amortization	(101)	(113)	(144)	(146)	(142)	(139)	(135)
Provisions	(1)	(1)	(2)	(2)	(2)	(2)	(2)
Rent expense	-	-	(35)	(39)	(43)	(48)	(50)
OPERATING PROFIT	1,367	1,099	716	650	802	926	1,067
Credit Interest	38	28	19	22	27	26	29
Income from Treasury Bills	29	1	-	-	-	-	-
Interest on bonds	5	30	29	29	32	35	36
Finance Costs	(207)	(175)	(185)	(159)	(180)	(186)	(192)
Dividend Income	1	3	3	4	4	4	4
Gain on Sale of Financial Invest.	30	17	3	17	12	11	13
Gain on Sale of Revalued Financial Assets	14	18	(25)	15	16	(25)	15
Revenue of revaluate IP	-	135	-	-	-	-	-
Other Income	31	51	61	47	56	67	78
Capital Gain	1	4	20	20	15	18	18
Foreign Exchange Gain (loss)	4	(9)	(36)	(7)	(9)	(15)	(20)
NET PROFIT FOR THE YEAR BEFORE TAX	1,313	1,202	605	638	775	860	1,049
Income Tax	(104)	(193)	(104)	(159)	(194)	(215)	(262)
Deferred Tax Expense	(9)	(5)	29	(16)	(17)	(19)	(24)
NET PROFIT FOR THE YEAR AFTER TAX	1,200	1,004	530	462	564	626	763
Minority Interest	(93)	(64)	47	41.62	(51)	(56)	(69)
NET PROFIT FOR THE YEAR	1,107	940	577	504	513	570	694

Source: TMG, Blominvest

PROJECTED BALANCE SHEET

In EGP million	2009	2010	2011	2012e	2013f	2014f	2015f
Current Assets							
Work in Progress	11,719	13,800	15,183	18,068	19,875	21,663	23,396
Inventory, net	29	34	32	29	32	34	34
Accounts & Notes Receivables	17,061	15,522	14,064	12,675	13,865	14,073	14,525
Prepayments & Other Debit Balances	3,073	2,921	2,412	2,028	2,218	2,252	2,324
Available for Sale Investments	8	26	26	26	26	26	26
Financial Assets at FV	461	299	77	188	132	160	146
Financial Assets Held to Maturity	-	-	121	149	149	149	149
Investment Debtors	1,305	808	809	809	809	809	809
Cash	399	578	225	319	335	450	528
Total Current Assets	**34,055**	**33,988**	**32,948**	**34,290**	**37,441**	**39,616**	**41,938**
Non-Current Assets							
Property & Equipment, net	3,729	4,341	4,224	4,118	4,015	3,915	3,817
Projects Under Construction	582	190	299	474	442	431	420
Investment property	-	419	430	432	432	432	432
Intangible Assets	-	-	15	13	13	13	13
Goodwill	15,135	15,394	15,394	15,394	15,394	15,394	15,394
Available for sales Investments	51	53	58	56	56	56	56
Investments in Associates	2	4	5	5	5	5	5
Bonds Held to Maturity	336	484	517	578	578	578	578
Total Non-Current Assets	**19,836**	**20,885**	**20,941**	**21,070**	**20,935**	**20,823**	**20,715**
TOTAL ASSETS	**53,891**	**54,873**	**53,889**	**55,360**	**58,376**	**60,440**	**62,653**
Current Liabilities							
Banks Overdraft	49	32	46	84	50	59	69
Creditors and Notes Payables	604	1,033	1,998	2,009	2,074	2,266	2,443
Current Portion of Loans & Facilities	752	752	1,122	1,634	1,139	1,204	1,276
Customers Advance Payment	20,513	19,040	16,369	16,860	17,703	19,119	20,266
Dividends Creditors	2	17	15	14	10	10	10
Accrued Expenses & Other Credit Balances	1,702	1,893	1,669	1,889	1,896	1,761	2,246
Accrued Income Tax	1	186	133	165	-	-	-
Total Current Liabilities	**23,622**	**22,953**	**21,352**	**22,490**	**22,871**	**24,420**	**26,310**
Non-Current Liabilities							
Loans & Facilities	1,240	2,021	2,058	1,923	2,074	2,060	2,199
Long Term Liabilities (Cust. Advances)	4,178	4,178	4,178	4,185	4,064	4,222	4,622
Deferred Tax Liability	21	26	-	-	-	-	-
Total Long Term Liabilities	**5,439**	**6,225**	**6,236**	**6,108**	**6,138**	**6,282**	**6,820**
TOTAL LIABILITIES	**29,061**	**29,178**	**27,587**	**28,598**	**29,009**	**30,702**	**33,131**
Equity							
Issued & Paid-in-Capital	20,302	20,132	20,636	20,636	20,636	20,636	20,636
Legal Reserves	162	167	221	232	247	264	285
General Reserves	26	62	62	62	62	62	62
Accumulative translation adjustment	-	6	35	35	35	35	35
Treasury Stocks	(134)	(30)	(30)	(30)	(30)	(30)	(30)
Retained Earnings	1,682	3,080	3,452	3,748	6,453	6,701	6,290
Net profit for the year	1,106	940	578	504	513	570	694
Minority Interest	1,685	1,328	1,350	1,575	1,450	1,500	1,550
TOTAL EQUITY	**24,829**	**25,685**	**26,302**	**26,762**	**29,366**	**29,738**	**29,522**

Source: TMG, Blominvest

APPENDIX

I-List of Comparable Peers

			Relative Valuation				Profitability Analysis				Management Effectiveness			
Company	Country	Mkt Cap (USDm)	P/E	P/Rev	P/BV	P/CF	Gross Margin	Oparat. Margin	Profit Margin	SG&A/Rev	ROE	ROA	D/E	Rev/TA
Local Peers														
Palm Hills Development	Egypt	411	-	2.02	0.72	4.59	60.30	36.11	45.39	8.47	16.30	4.78	80.81	11.00
Sixth of October Dev & Investment	Egypt	290	18.70	2.70	0.93	-	-4.30	-34.90	-35.62	37.29	-8.93	-2.91	25.55	8.00
Amer Group	Egypt	355	10.50	2.01	1.05	7.25	39.10	21.82	23.59	19.50	12.40	5.49	22.19	23.00
Egypt Average		**352**	**14.60**	**2.24**	**0.90**	**5.92**	**31.70**	**7.68**	**11.12**	**21.75**	**6.59**	**2.45**	**42.85**	**14.00**
Regional Peers														
Emaar Properties PJSC	UAE	6,103	9.83	2.76	0.72	8.36	52.20	27.05	23.64	14.33	5.75	3.13	29.86	13.00
Barwa Real Estate Company QSC	Qatar	2,923	8.96	2.41	0.88	7.74	40.00	26.82	28.84	17.91	10.70	1.83	235.30	6.00
Dar Al Arkan Real Estate Development Co.	KSA	2,448	8.09	2.77	0.60	8.33	41.30	37.75	32.84	2.74	7.36	4.59	48.81	14.00
Lebanese Co for Dev & Reconstruction	Lebanon	2,215	11.60	7.28	1.15	13.40	74.90	58.94	52.21	12.56	8.43	5.90	30.48	11.00
Saudi Real Estate Company	KSA	1,120	22.90	15.87*	1.32	23.80	67.90	60.60	56.57	7.14	4.70	4.35	0.00	8.00
Sorouh Real Estate PJSC	UAE	886	7.25	0.86	0.51	7.30	18.30	8.27	10.66	5.33	5.38	2.91	42.15	27.00
Salhia Real Estate Company K.S.C.	Kuwait	666	19.50	4.27	1.39	14.00	58.70	27.85	16.30	10.85	5.93	2.92	103.80	18.00
Alijarah Holding Co QSC	Qatar	619	8.24	3.64	2.22	9.68	60.00	41.30	34.84	8.12	30.50	11.60	19.53	33.00
Douja Promotion Group Addoha SA	Morocco	2,283	10.01	2.08	1.92	9.57	34.24	24.49	20.71	2.43	18.83	6.63	86.05	32.00
Compagnie Generale Immobiliere SA	Morocco	1,538	34.54	4.88	2.91	42.40	26.17	16.46	10.36	7.85	8.42	2.14	61.16	21.00
MENA Average		**2,080**	**14.09**	**3.44**	**1.36**	**14.46**	**47.37**	**32.95**	**28.70**	**8.93**	**10.60**	**4.60**	**65.71**	**18.30**
Talaat Moustafa Group Holding Co.	**Egypt**	**1,265**	**16.62**	**2.10**	**0.31**	**13.40**	**23.30**	**14.10**	**11.30**	**5.70**	**2.20**	**1.00**	**12.30**	**9.00**

*: Data excluded when calculating the average as it is an outlier

Source: Reuters, 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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