



Alert on Q3 2014 Earnings

Sector: Real Estate

Country: Egypt

Date: December 05, 2014

Share Price (EGP): 10.20

Target Price (EGP): 11.29

Upside: 10.7%

Recommendation: ACCUMULATE

Risk: Medium

Maintaining an ACCUMULATE rating on TMG with a lower target price of EGP 11.29 per share as risks from the long-running Madinaty case keep on pressuring share performance

We maintain our ACCUMULATE rating on TMG, revising down our target price to EGP 11.29 per share as the unresolved Madinaty case continues to take its toll on investors' sentiments. Our last recommendation in September expected TMG's share price to track the upsurge in the Egyptian stock market and benefit from the large foreign inflows mostly into the real estate sector. Our expectations came in line with the company's financial results and TMG shares rallied to its highest level in 6 years after breaking the EGP 11.5 level in September. However, concerns over land ownership pressured the company's share performance which witnessed a sharp downtrend following the court hearing for Madinaty on September 24 as the hearing was postponed till the 24th of February 2015 and the case remained unresolved with no final verdict.

Although we continue to perceive risks from Madinaty land dispute, we maintain our favorable rating as we believe TMG's share price has room to appreciate in the medium-term, supported by strong off-plan sales, enhanced earnings visibility, healthy liquidity, and progress in Egypt's economic activity which may translate into higher sales of residential units and growing hotels revenues. Moreover, we believe the company will continue to benefit from the development in the Egyptian property sector 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.

Hotels revenues driving growth in TMG's top-line

TMG's revenues rose by 2.2% y-o-y to reach EGP 3.3 billion during the first nine months of 2014. Sales from real estate units, which represent 82% of revenues, declined by 1% to EGP 2.7 billion, mainly due to lower delivery units during Q3 2014. Deliveries from historical sales continued per schedule but the Q3 decrease is mainly due to the effect of catching up in Q3 2013 to overcome the delay in deliveries following the instability in Egypt. However, this was largely offset by a 34% growth in revenues from hotels to EGP 370 million as the Egyptian hospitality industry started to recover gradually following the lifting of travel bans imposed on Egypt by many countries. On a more positive note, new sales of real estate units, an indicator for the upcoming year, jumped by an impressive 23.9% y-o-y to EGP 5.7 billion. As for cancellations, they hang around the normal rates of 4.2% with the value of cancelled units reaching EGP 368 million compared to EGP 493 million a year earlier. Looking forward, we expect TMG's top-line to reach EGP 4.9 billion in 2014 on higher real estate sales and recurring income from hotels operations.

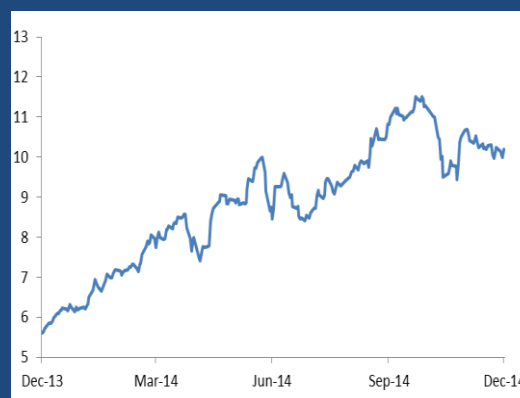
TMG posts strong earnings in the first 9 months

TMG's gross profit increased by 15.7% y-o-y to reach EGP 1.1 billion up to September 2014, while gross margin improved to 33.4% from 29.5% a year earlier following a remarkable drop in cost of goods sold to 66.6% of revenues compared to 70.5% last year. Earnings followed suit, surging by 16.9% to reach EGP 488 million, further supported by EGP 110 million foreign exchange gains and EGP 20 million lower interest expenses. Going forward, we estimate 2014 earnings at EGP 638 million, expecting higher revenue recognition, no major delays in deliveries, and cancellations within manageable rates.

Share Data

Bloomberg Symbol	TMGH.CA
Reuters Symbol	TMGH EY
Market Cap (EGP)	21,047,700,000
Number of Shares	2,063,500,000
Free Float	23.98%
Price-to-Earnings 2014e	32.97
Price-to-Book 2014e	0.74

Share Performance



Source: Reuters

1 Month Return	-4.6%
3 Month Return	-5.6%
6 Month Return	20.6%
12 Month Return	82.1%
52 Week Range	5.60 – 11.52

Source: Reuters

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Performance and Forecasts

In EGP millions	2011	2012	2013	2014e
Revenues (EGP millions)	5,098	4,636	4,858	4,923
Net Income (EGP millions)	577	546	585	638
EPS (EGP)	0.28	0.26	0.28	0.31
BVPS (EGP)	12.75	12.77	13.03	13.74
ROA (%)	1.06%	1.00%	1.06%	1.14%
ROE (%)	2.19%	2.05%	2.27%	2.41%

Source: TMG, Blominvest

QUARTERLY INCOME STATEMENT

<i>In EGP million</i>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Revenue	1,522	897	837	1,602	1,139	1,524	666
Cost of Revenue	(1,166)	(547)	(583)	(1,278)	(827)	(1,017)	(373)
GROSS PROFIT	356	350	254	324	312	507	292
Selling, General & Administrative	(72)	(69)	(88)	(93)	(93)	(90)	(82)
Depreciation & Amortization	(31)	(31)	(31)	(31)	(31)	(31)	(31)
Rent expense	(28)	(15)	(1)	0	-	-	-
OPERATING PROFIT	225	235	135	200	188	386	180
Credit Interest	4	6	3	7	5	12	7
Income from Treasury Bills	0	0	0	4	8	8	9
Interest on bonds	9	7	7	4	-	-	0
Finance Costs	(33)	(35)	(33)	(29)	(27)	(27)	(28)
Dividend Income	1	1	2	1	2	2	0
Gain on Sale of Financial Invest.	0	2	1	1	-	-	1
Gain on Sale of Revalued Financial Assets	1	(1)	6	6	7	-	8
Other Income	17	13	5	8	22	15	17
Capital Gain	5	2	0	1	0	(2)	(0)
Foreign Exchange Gain (loss)	(52)	(25)	14	(7)	1	105	4
Impairment in investment from subsidiaries	-	-	-	-	-	(351)	-
Gain on sale of current assets held for sale	-	-	-	-	-	272	-
NET PROFIT FOR THE YEAR BEFORE TAX	176	205	140	194	206	419	198
Income Tax	(68)	(39)	(41)	(34)	(54)	(229)	(56)
Deferred Tax Expense	10	(5)	(1)	3	7	(7)	(4)
NET PROFIT FOR THE YEAR AFTER TAX	118	161	98	163	159	183	137
Minority Interest	21	12	7	6	2	7	(1)
NET PROFIT FOR THE YEAR	139	173	105	169	161	191	136

Source: TMG

PROJECTED INCOME STATEMENT

<i>In EGP million</i>	2011	2012	2013	2014e
Revenue	5,098	4,636	4,858	4,923
Cost of Revenue	(3,911)	(3,408)	(3,574)	(3,446)
GROSS PROFIT	1,187	1,228	1,285	1,477
Selling, General & Administrative	(290)	(301)	(322)	(345)
Depreciation & Amortization	(144)	(131)	(124)	(122)
Provisions	(2)	-	(0)	-
Rent expense	(35)	(32)	(44)	-
OPERATING PROFIT	716	764	795	1,011
Credit Interest	19	19	19	23
Income from Treasury Bills	-	1	4	33
Interest on bonds	29	33	26	-
Finance Costs	(185)	(158)	(131)	(116)
Dividend Income	3	4	5	5
Gain on Sale of Financial Invest.	3	17	4	4
Gain on Sale of Revalued Financial Assets	(25)	14	12	20
Other Income	51	51	45	58
Capital Gain	20	19	8	5
Foreign Exchange Gain (loss)	(36)	(56)	(70)	115
Impairment in investment from subsidiaries	-	-	-	(351)
Gain on sale of current assets held for sale	-	-	-	272
NET PROFIT FOR THE YEAR BEFORE TAX	605	691	716	1,079
Income Tax	(104)	(152)	(183)	(432)
Deferred Tax Expense	29	(29)	7	(22)
NET PROFIT FOR THE YEAR AFTER TAX	530	510	540	626
Minority Interest	47	35	45	13
NET PROFIT FOR THE YEAR	577	546	585	638

Source: TMG, Blominvest

BALANCE SHEET

<i>In EGP million</i>	2011	2012	2013	Q3 2014
Current Assets				
Non-current Assets Held for Sale	-	94	94	-
Work in Progress	15,183	17,222	16,372	16,795
Inventory, net	32	30	41	35
Accounts & Notes Receivables	14,064	12,944	13,880	14,617
Prepayments & Other Debit Balances	2,412	2,482	2,406	1,845
Available for Sale Investments	26	26	26	26
Financial Assets at FV	77	143	148	116
Financial Assets Held to Maturity	121	583	495	486
Investment Debtors	809	-	-	-
Cash	225	332	681	1,683
Total Current Assets	32,948	33,854	34,143	35,601
Non-Current Assets				
Property & Equipment, net	4,224	4,122	4,028	3,966
Projects Under Construction	299	1,249	1,304	1,387
Investment property	430	-	-	-
Intangible Assets	15	12	9	7
Goodwill	15,394	15,394	15,394	15,042
Available for sales Investments	55	58	62	45
Investments in Associates	5	5	5	8
Bonds Held to Maturity	517	270	351	909
Deferred tax assets	3	-	-	-
Total Non-Current Assets	20,941	21,110	21,153	21,365
TOTAL ASSETS	53,889	54,964	55,296	56,966
Current Liabilities				
Banks Overdraft	46	69	17	9
Creditors and Notes Payables	1,998	2,465	2,707	1,758
Bank Facilities	514	881	911	549
Current Portion of Loans & Facilities	609	829	626	578
Customers Advance Payment	16,369	15,756	16,789	19,054
Dividends Creditors	15	14	14	80
Accrued Expenses & Other Credit Balances	1,669	2,266	2,795	3,514
Accrued Income Tax	133	174	214	353
Total Current Liabilities	21,352	22,454	24,072	25,895
Non-Current Liabilities				
Loans & Facilities	2,058	1,856	2,219	2,155
Long Term Liabilities (Cust. Advances)	4,178	4,280	2,088	1,826
Deferred Tax Liability	-	27	20	25
Total Long Term Liabilities	6,236	6,163	4,328	4,006
TOTAL LIABILITIES	27,587	28,617	28,400	29,901
Equity				
Issued & Paid-in-Capital	20,636	20,636	20,636	20,63686
Legal Reserves	217	217	218	219
General Reserves	62	62	62	62
Accumulative translation adjustment	39	7	11	9
Treasury Stocks	(30)	-	-	-
Retained Earnings	3,452	3,923	4,472	4,750
Net profit for the year	578	546	585	488
Minority Interest	1,350	958	912	902
TOTAL EQUITY	26,302	26,347	26,896	27,065

Source: TMG

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Equity Rating Key

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

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

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

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

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

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

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

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

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