

Unexpected land revenue recognition lifts 3Q16 results; raise FV, maintain Neutral



FV Change & Results Review

Real Estate Mgmt & Dev | Egypt

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ERC posts better results in 3Q16 on land revenue recognition

Egyptian Resorts Company (ERC) 3Q16 revenue came in at EGP49.5mn (3Q15: EGP16.7mn, 2Q16: EGP5.9mn), of which EGP29.1mn was from the recognition of revenue from previous land sales. Revenue from services was EGP16.7mn (+11% Y-o-Y, +61% Q-o-Q). Gross profit was EGP13.0mn (3Q15: EGP11.7mn and 2Q16: EGP17.9mn, both in the red). Net income was EGP7.9mn (3Q15: EGP12.0mn, 2Q16: EGP35.1mn, both in the red). 9M16 revenue totalled EGP65.8mn (-79% Y-o-Y); gross loss: EGP15.1mn (9M15: EGP197.3mn in gross profit) and net loss: EGP21.9mn (9M15: EGP165mn in net income).

Adjust 3Q16 estimates; raise FV following EGP floatation

We raise our assumptions for 2016 to account for higher-than-expected land and services revenue in 3Q16 and for an expected cEGP10.5mn FX gain in 4Q16 (c14% of its cash balance is in FCY). We expect it to return to profitability in 2019 on a boost from revenue from higher new land sales and better recognition. We raise our FV by 37% to EGP1.12 to reflect a USD/EGP exchange rate of EGP13.09 (vs. the original rate of EGP8.88), in line with our economist's estimate for 2017. We note that ERC's contracts are USD-based, with amounts payable in EGP, at an official exchange rate. We maintain our Neutral rating with our FV implying c14% upside.

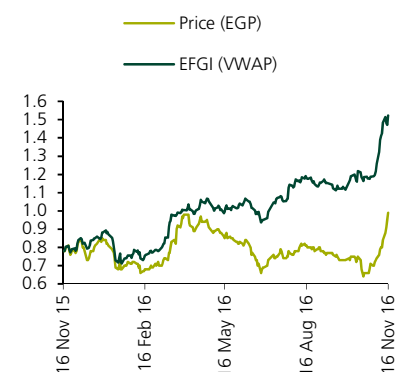
Slightly better outlook for 2017

We expect minimal land sales to be completed in 2017 (nil in 2016), with a slight improvement seen near year-end, to reflect the prevailing weakness in the tourism sector in Egypt. Receivable collection is expected to improve through the year resulting in c39% revenue expansion, up from a weak 2016. Non-land revenue will grow modestly over the year, weighed-down by low destination occupancy. Faster-than-expected improvement in sentiment around the tourism sector in Egypt, the launch of Sawari and most importantly, the return of phase III land would make us more positive.

Stock Data

Rating	Neutral
Price (16 Nov 2016)	EGP0.99
Fair Value	EGP1.12
Last Div. / Ex. Date	EGP0.16 on 18 May 2008
Mkt. Cap / Shares (mn)	EGP1,040 / 1,050
Av. Monthly Liquidity (mn)	EGP114.0
52-Week High / Low	EGP1.0 / EGP0.6
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	40.5%

Share Price Performance Relative To EFGI (VWAP)



Key Financial Highlights

Dec Year End (EGP mn)	2015a	2016e	2017e	2018e
Revenue	400.4	84.4	90.3	179.5
EBITDA	223.9	(61.9)	(69.2)	(18.7)
Net Attributable Income	217.9	(24.2)	(63.1)	(24.8)
EPS (EGP)	0.21	(0.02)	(0.06)	(0.02)
Price to Earnings (x)	4.8	N/M	N/M	N/M
Dividend Yield (%)	0.0	0.0	0.0	0.0
Net Debt (Cash)	(174.7)	(336.6)	(364.4)	(192.3)
ROAE (%)	29.7	(2.9)	(8.0)	(3.3)

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates



DataMiner

(Dec Year End) In EGP million, unless otherwise stated	2015a	2016e	2017e	2018e
Income Statement				
Revenue	400.4	84.4	90.3	179.5
EBITDA	223.9	(61.9)	(69.2)	(18.7)
EBIT	198.7	(86.1)	(93.5)	(43.0)
Taxes and Zakat	(0.8)	(9.5)	(18.4)	(7.2)
Minority Interest	(0.4)	(8.4)	(0.2)	(0.1)
Reported Net Income	217.9	(24.2)	(63.1)	(24.8)
Attributable Net Income	217.9	(24.2)	(63.1)	(24.8)
Balance Sheet				
Cash and Cash Equivalents	174.8	336.6	364.4	192.3
Total Current Assets	1,046	1,111	1,196	1,420
Total Non-Current Assets	578.1	568.5	574.4	566.9
Total Assets	1,624	1,680	1,771	1,987
Total Current Liabilities	463.3	537.0	683.1	917.9
Total Non-Current Liabilities	273.5	279.4	287.8	293.5
Total Liabilities	736.7	816.4	970.9	1,211
Minority Interest	44.8	44.8	44.8	44.8
Total Equity	887.4	863.1	800.0	775.2
Total Net Debt	(174.7)	(336.6)	(364.4)	(192.3)
Cash Flow Statement				
Cash Operating Profit after Taxes	212.6	0.5	(38.9)	(0.5)
CAPEX and Investments	(19.5)	(0.4)	(0.4)	(0.4)
Free Cash Flow	50.3	262.6	49.2	(161.5)
Net Financing	0.1	0.0	0.0	0.0
Change in Cash	50.3	253.9	27.8	(172.1)
Per Share Financial Summary				
Normal Reported EPS (EGP)	0.2	0.0	(0.1)	0.0
Reported Dividend Per Share (EGP)	0.00	0.00	0.00	0.00
Book Value Per Share (EGP)	0.80	0.78	0.72	0.70
Valuation Metrics				
Price to Earnings (x)	4.8	N/M	N/M	N/M
Price to Book Value (x)	1.2	1.3	1.4	1.4
Price to Cash Flow	14.90	3.95	20.96	(6.45)
FCF Yield (%)	4.84	25.26	4.73	(15.54)
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	4.1	N/M	N/M	N/M
EV / Invested Capital (x)	1.3	1.7	2.1	1.6
ROAIC (%)	30.8	(15.4)	(23.2)	(9.9)
ROAE (%)	29.7	(2.9)	(8.0)	(3.3)
KPIs				
Revenue Growth (%)	680.2	(78.9)	7.0	98.8
EBITDA Growth (%)	479.8	(127.6)	(11.9)	73.0
Gross Profit Margin (%)	60.4	(33.4)	(31.9)	16.2
EBITDA Margin (%)	55.9	(73.3)	(76.6)	(10.4)
EBIT Margin (%)	49.6	(102.0)	(103.5)	(23.9)
Effective Tax Rate (%)	0.4	N/M	N/M	N/M
Net Debt (Cash) / BV (x)	(0.2)	(0.4)	(0.5)	(0.2)
Net Debt (Cash) / EBITDA (x)	(0.8)	5.4	5.3	10.3

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

Investment Thesis

Egyptian Resorts Company, ERC, is a master developer of the Sahl Hasheesh project that overlooks the Red Sea coast. The company's target market is focused on sub-developers that are developing residential communities and hotels within the project. ERC has access to 3.2mn sqm of residual land, with initial plans to develop around half of the area into a large community, Sawari, and sell the remaining part to third-party developers. Currently, land sales constitute, predominantly, ERC's biggest revenue and cash generator. The company also develops, constructs and markets residential and commercial real estate and provides community management services and supply utilities. ERC has a relatively limited land bank and high volatility profile being linked to the tourism activity in the country, which makes it a less attractive investment opportunity compared to its local peers, in our opinion. However, we believe ERC's valuation and growth potential will be affected significantly, should the company regain title for its 20mn sqm phase III land. This will add EGP10.7bn (EGP10.1/share) to our 2017e NAV and EGP3.33/share to our fair value, on our numbers, assuming USD53 price/sqm (50% discount to the assumed selling prices).

Valuation and Risks

We set our fair value of EGP1.12 per share based on 0.3x 2017e NAV, where we think the stock should trade at a steep discount to its full NAV, which we estimate at EGP3.72 per share. Our NAV is derived by valuing the company's land bank based on recent land sales transaction prices within the community, according to management disclosure, which has been picking up recently, with improvement in Egypt's political situation and better tourism activity. We assign a 70% discount to our calculated 2017e NAV; the highest within our coverage universe in Egypt, in line with that applied to Heliopolis Housing, given the company's current business model adopted being a master developer and our relatively low visibility regarding development plans. Should the company manage to regain ownership over 20mn sqm phase III land, this will add EGP6.9 per share to our NAV, which would imply a significant upside potential to our valuation and offer a much better growth potential for the company's operations, especially in light of its currently limited residual land. Downside risks to our valuation primarily include a hard landing of Egypt's property market and increased political risk, which would affect our land valuation negatively.



I. Financial Statements

Income Statement (Dec Year End)

In EGP million	2015a	2016e	2017e	2018e
Total Revenue	400	84	90	180
COGS	159	113	119	150
Gross Profit	242	(28)	(29)	29
Gross Profit Margin (%)	60.4	(33.4)	(31.9)	16.2
SG&A	49	68	75	82
Other Operating Income (Expense)	6	10	10	10
EBITDA	224	(62)	(69)	(19)
EBITDA Margin (%)	55.9	(73.3)	(76.6)	(10.4)
Depreciation and Amortisation	(25)	(24)	(24)	(24)
Net Operating Profit	199	(86)	(93)	(43)
Net Interest Income (Expense)	18	10	12	11
Other Non-Operating Income (Expense)	2	2	0	0
FX Gains (Loss)	0	33	0	0
Net Provisions	2	0	0	0
Income before Taxes and Zakat	217	(42)	(82)	(32)
Taxes and Zakat	(1)	(9)	(18)	(7)
Net Income before Minority Interest	217	(33)	(63)	(25)
Minority Interest	0	(8)	0	0
Reported Net Income	218	(24)	(63)	(25)
Normal Reported EPS (EGP)	0.2	0.0	(0.1)	0.0

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates


Balance Sheet (Dec Year End)

In EGP million	2015a	2016e	2017e	2018e
Cash	175	337	364	192
Short-term Receivables and Prepayments	336	222	267	672
Investments & Financial Assets (ST)	0	0	0	0
Inventory / Finished Units	527	544	555	544
Other Current Assets	8	9	10	11
Total Current Assets	1,046	1,111	1,196	1,420
PP&E	140	116	92	69
Net Development Properties	154	154	154	154
Goodwill & Intangibles	0	0	0	0
Other Non-Current Assets	284	298	328	344
Total Non-Current Assets	578	568	574	567
Total Assets	1,624	1,680	1,771	1,987
Issued Capital and Share Premium	1,050	1,050	1,050	1,050
Reserves	132	132	132	132
Retained Earnings	(339)	(363)	(426)	(451)
Net Worth	843	818	755	730
Minority Interest	45	45	45	45
Total Equity	887	863	800	775
Long-Term Debt	0	0	0	0
Land Purchase Liabilities	273	279	287	293
Other Non-Current Liabilities	0	0	0	0
Total Non-Current Liabilities	273	279	288	294
Short-term Payables and Accrued Expense	148	100	99	125
CPLTD	0	0	0	0
Customer Advance Payments (ST)	70	190	335	542
Development Liabilities (ST)	156	156	156	156
Land Purchase Liabilities (ST)	73	75	76	78
Total Current Liabilities	463	537	683	918
Total Liabilities	737	816	971	1,211
Total Equity and Liabilities	1,624	1,680	1,771	1,987

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

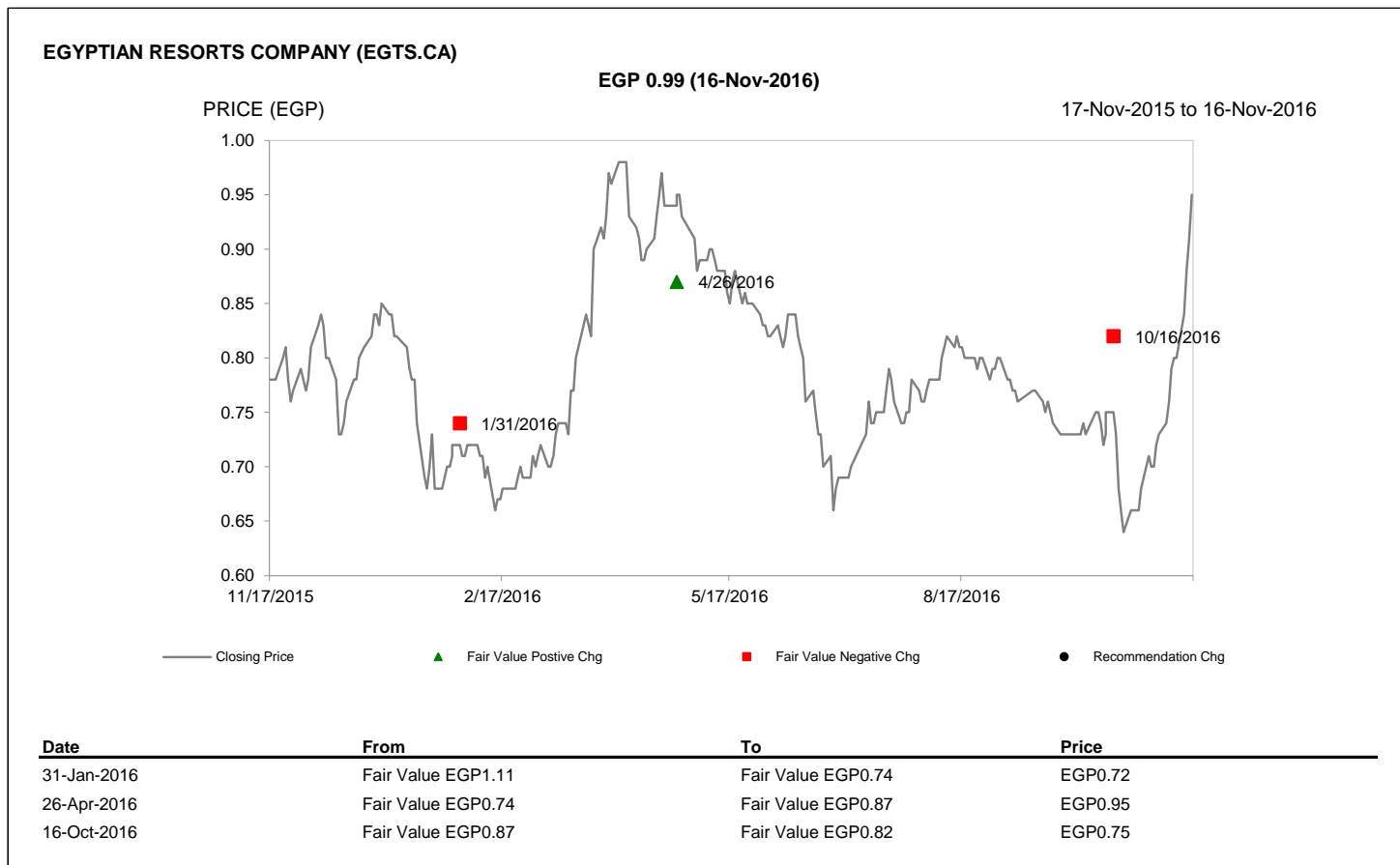
Cash Flow Statement (Dec Year End)

In EGP million	2015a	2016e	2017e	2018e
Cash Operating Profit after Taxes	213	0	(39)	0
Change in Working Capital	(143)	263	88	(161)
Cash Flow after Change in Working Capital	70	263	50	(161)
CAPEX and Investments	(20)	0	0	0
Free Cash Flow	50	263	49	(161)
Non-Operating Cash Flow	0	(9)	(21)	(11)
Cash Flow before Financing	50	254	28	(172)
Net Financing	0	0	0	0
Change in Cash	50	254	28	(172)

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates



RATING AND FAIR VALUE CHART



RATING DISTRIBUTION

Rating	Coverage Universe %
Buy	41%
Neutral	50%
Sell	9%
N/R U/R	0%



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