NEUTRAL

Target price (EGP)	0.93
Share price (EGP)	0.85
Potential upside (%)	9.4

Share details

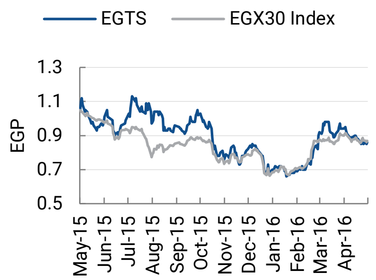
6M avg daily value (USDmn)	0.8
%Δ: m-o-m / 6M / y-o-y	(9) / 13 / (18)
Rel %Δ: m-o-m / 6M / y-o-y	(5) / (5) / (1)
No. of shares (mn)	1,050
Market cap (EGPmn)	903
Market cap (USDmn)	102

Ownership structure

Misr Insurance Company*	15%
KATO Investment Company	12%
First Arabia Development	10%
Pioneers of Tourism	9%
Al Ahly Capital Holding Company	9%
Free float	45%

Note: (*) inclusive of Misr Life Insurance

Performance



Source: Bloomberg
Note: Pricing as of 23 May 2016

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Note: (*) This report constitutes a transfer of coverage and re-initiation of the companies within

EGYPTIAN RESORTS COMPANY (ERC)

EGTS EY / EGTS.CA

Phase 3 not key right now; initiate with Neutral

Upside is limited amid challenging industry backdrop. Our target price of EGP0.93/share offers 9.4% upside, with USD-priced land and receivables jointly representing 74% of valuation. ERC's balance sheet remains debt-free, but has a cash burn rate of cEGP50mn p.a., endurable for 3 years without any additional sales. The market cap implies the 2.3mn sqm residual land bank is worth cUSD22/sqm, compared to a price of USD26/sqm set for smaller Red Sea plots by NUCA in March 2016, and our implied EV/sqm of USD24/sqm. The stock currently trades at a P/B multiple of 1.0x, in line with its 3-year historical average. p. 2

Collection of USD receivables vital. Receivables from historical land sales, currently standing at EGP620mn (2012-15 CAGR of 23%), can be collected in EGP at the prevailing USD:EGP rate, with only a certain amount collected in USD for Tourism Development Authority's sales commissions, facilitating the collection process. Timely collection is vital as receivables comprise 27% of our target price, at an NPV of EGP268mn. We expect collection rates to slightly improve due to i) likelihood of further USD:EGP devaluation, and ii) new third-party projects within Sahl Hasheesh becoming operational. p. 7

Launches, deliveries, and recognition of projects on the horizon. ERC's subsidiary, SHC, has fully developed the Tawaya project, with 20% of the available 147 apartments sold to date and the delivery set to commence in 2H16. Sawari, the company's largest project, is expected to launch in 2017, with construction starting in the same year. Jamaran, a 51 villa project, has already sold out, with BuA revenue expected to be recognised in 2018. The projects contribute 13% to our target price. p. 8

Monetising phase 3 will take time. We think that ERC will eventually recover the phase but it would not be a major game changer in current market conditions, with muted domestic demand for tertiary residences and weak inbound tourist arrivals. Phase 3 would add EGP0.10/share to our target price, with an initial selling price of USD45/sqm, if reclaimed by ERC. p. 11

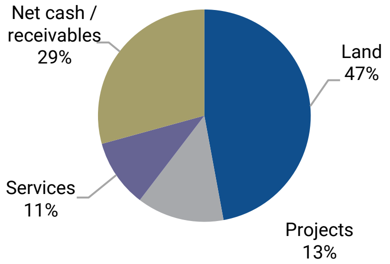
KPI summary

EGPmn	2015a	2016e	2017e	2018e	2019e
Revenue	400	197	494	676	558
Gross profit margin (%)	60.4	33.0	60.4	55.5	59.9
Net income	217	88	228	296	214
Net cash position	136	128	302	564	677
RoE (%)	25.8	9.5	19.7	20.3	12.9
P/E (x)	4.1	10.1	3.9	3.0	4.2
P/BV (x)	1.1	1.0	0.8	0.6	0.5

Source: ERC, CI Capital estimates

Investment thesis

Target price breakdown



Source: CI Capital Research

We derive our target price of EGP0.93/share for Egyptian Resorts Company (ERC) using the sum-of-the-parts (SotP) valuation method and it implies an upside of 9.4%, warranting a Neutral rating. While our view on the Egyptian tourism sector remains bearish, we find the company relatively immune to weak inbound tourist arrivals due to its business model benefiting from long-term investment demand rather than immediate occupancies. While we see limited downside from the current levels, we think that the market is almost accurately pricing ERC's assets right now. The stock is currently trading at a P/B multiple of 1.0x, in line with its historical 3-year average following recent rerating driven by i) EGP devaluation and ii) noticeable improvement in land bank turnover (major transaction in 2015).

About 88% of our target price represents ERC's USD-denominated assets (including projects). That said, the stock could theoretically offer a currency hedge. We note that our target price factors in our in-house USD exchange rate forecast, which assumes further weakening of the EGP in the coming years. The 14% devaluation that took place on 14 March 2016 pushed the stock up by 34% by the end of the same month.

ERC's upcoming portfolio of projects targeting local buyers (estimated sales value of EGP3.3bn) could act as a catalyst for the stock once deliveries/new sales progress, especially given the prevailing demand for secondary homes witnessed in 2015 against all odds.

Valuation breakdown

Project	Methodology	Stake (%)	Prop. EV (EGPmn)	EV/share (EGP)	as % of EV	as % of TP
Phases 1 & 2	DCF	100	418.7	0.40	61	43
SHC land	DCF	78	41.9	0.04	6	4
Total land			460.5	0.44	67	47
Sawari	DCF	100	77.7	0.07	11	8
Jamaran	DCF	100	1.3	0.00	0	0
Tawaya	DCF	78	50.7	0.05	7	5
Total projects			129.7	0.12	19	13
SHC rentals	DCF	78	3.9	0.00	1	0
Utilities	NAV	100	97.3	0.09	14	10
Total services			101.2	0.10	15	10
Total value			687.5	0.66	100	71
Add: cash			135.6	0.13		14
Add: receivables	NPV		267.6	0.25		27
Less: infrastructure	NPV		(117.0)	(0.11)		(12)
Net cash and A/R			286.3	0.27		29
TP				0.93		100

Source: CI Capital Estimates

A potential play on further currency devaluation but weak market should also be taken into account

Tourism development prices to remain stagnant in next 3 years amid challenging tourism outlook

We believe that tourism development land prices will remain stagnant in USD terms in the next 3 years, largely due to the challenging tourism outlook. However, as land and unit pricing in Red Sea resorts remains tied to the USD:EGP exchange rate, outstanding dues for historical land sales offer a currency hedge, assuming these dues are fully collected. In addition to land sales, the ongoing and upcoming development projects undertaken by ERC are also priced in USD, with most of their development costs priced in EGP.

We think that further EGP devaluation could encourage investment in the sector despite a still challenging outlook as the Red Sea resorts attract additional local demand, increasing the speed of monetisation of prime residual land of 2.3mn sqm owned by ERC, representing 47% of our target price. The current share price assigns an EV/sqm of USD22 for the residual land available for sale, compared to the last selling rate of USD26/sqm reported by NUCA in March 2016 and EV/sqm of USD24/sqm or EGP212/sqm implied by our target price.

Receivables of EGP620mn to be collected in the next 5-8 years are all USD-denominated

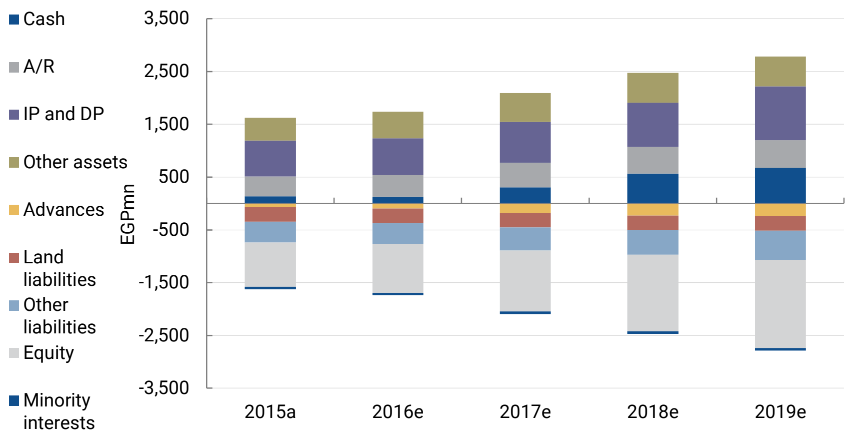
Total receivables, related mostly to historical land sales, stood at EGP620mn as of end-2015 (38% of total assets). According to management, these receivables are to be collected in the next 5 years and are all USD-denominated, calculated at the prevailing USD:EGP rate of EGP8.88. While investors have the option to settle their dues in EGP (as evidenced by the company's limited USD holdings), their instalments are determined at an official exchange rate at the date of settlement.

We believe that the stock offers a moderate hedge against devaluation concerns

Our in-house forecasts assume devaluation with a CAGR of 8% by 2018, implying prospective gain on receivables of cEGP170mn, based on our assumption for annual collections extended to 8 instead of 5 years, with a delinquency rate of 25%, fairly in line with the average historical impairment rate of 29%. Accordingly, we believe that the stock offers a moderate hedge against devaluation concerns. We estimate the NPV of ERC's receivables at EGP268mn, accounting for our in-house FX forecasts. This translates into EGP0.25/share (27% of our target price).

The company has an abundance of cash and no banking debt (net cash of EGP137mn), with a cash burn-rate of cEGP50mn per year, allowing it to cover its operating expenses for the next 2-3 years in the absence of any other activity or receivables collection should its sales and development plans face further delays.

Balance sheet evolution forecast



Source: Company data, CI Capital estimates

Value drivers and upside risks

- **Upcoming project launches, sales, and deliveries:** The 3 residential projects developed by ERC are expected to fuel top line growth up until 2028 and cash inflows until 2030. As the projects progress, increasing inhabitancy within the Sahl Hasheesh area should benefit monetisation of the residual land bank as well as revenues from utilities, community management, and rental portfolio.
- **Increasing demand for secondary homes in resort areas:** 2015 witnessed strong secondary home demand from local buyers in the Mediterranean, which we believe could be sustained beyond 2016 and gradually start reflecting on demand in more remote Red Sea areas, facilitating sales in ERC's Sawari and Tawaya. As demand from foreign buyers continues to suffer from weak tourist arrivals and poor appeal due to capital controls and security challenges, we think that Red Sea developers will continue repositioning themselves to accommodate local buyers with more affordable product.
- **Recovery in the Egyptian tourism sector:** We do not expect a significant tourism recovery in 2016 as long as the European travel alerts and Russian flight ban remain in place. However, a gradual rebound in tourism arrivals should act as an additional value driver, supporting occupancies within the destination and improving the appeal of ERC's remaining land. Increased tourism receipts could facilitate investment in tourism infrastructure, currently largely on hold, stimulating additional demand from the local market.
- **Reclamation of phase 3:** As the TDA gradually resumes offering land, we believe that the likelihood of ERC regaining access to the disputed phase 3 (c20mn sqm) increases substantially, given that the plot is unlikely to attract interest from other investors since it has no access to the sea front and is a natural extension of the 2 already developed phases of Sahl Hasheesh. Management believes that the company holds a very strong legal position, and believe that they will be able to reclaim the land in the near future for the originally set price. However, we think that recovery of phase 3 would not be a major game changer in the medium-term. Phase 3 is not included within our valuation but could add EGP0.10/share to the current target price if regained.

Potential concerns

- **Inability to collect existing receivables:** ERC impaired 29% of its receivables during the past 3 years. The impairments do not constitute defaults and could be reversed eventually. The company has an option to withdraw lands from clients not able to honour their commitments but, in most cases, takes an accommodative approach in order to facilitate development within Sahl Hasheesh translating into future occupancies and footfall.
- **Further pressure on Egyptian tourism sector:** According to our in-house forecast, tourism receipts are not expected to reach pre-2011 levels within the next 2 years, instead declining 25% y-o-y in FY15/16e. Bans imposed by Russia and the UK following the plane crash in November 2015 are unlikely to be lifted within the coming months. Additionally, despite not knowing the cause, the EgyptAir MS804 plane crash, is expected to add further pressure on the sector. Further security-related incidents could have a negative impact on touristic investment and decrease the appeal of Red Sea secondary homes to local buyers.
- **Sourcing foreign exchange:** Due to the existing shortage in USD, ERC has chosen to provide land and real estate buyers with the option to settle in EGP at the prevailing USD:EGP official rate. Accordingly, the growing gap between the official rate and the parallel market rate poses a risk to the company when sourcing USD. Despite ERC's provision of flexible payment terms to its clients, the company is not afforded the same luxury by the TDA. All sell-on fees from ERC to the Tourism Development

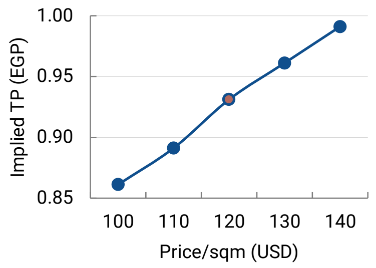
Authority (TDA) are in USD. Accordingly, the company includes clauses in contracts with buyers that a certain percentage of the total settlement be paid in USD.

- **Legal disputes:** ERC's ownership of Sahl Hasheesh land is currently being challenged in local courts but management believes that the case would conclude without any legal liability on the company. The dispute falls within the scope of lawsuits initiated by individual lawyers in 2010-11, challenging historical land contracts signed by the Egyptian authorities, such as NUCA or the TDA, in violation of the 1998 auctions and bidders framework. Most prominent legal cases in the industry have been resolved to date. ERC's ownership of Sahl Hasheesh is being challenged by one of its clients/investors.

Sensitivity analysis

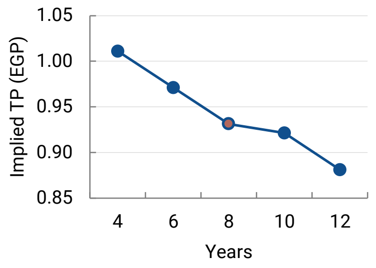
With ERC's residual land and its receivables from legacy sales comprising 74% of the company's value, we believe that the target price will be most sensitive to any fluctuations in these 2 areas. Accordingly, we run a sensitivity analysis to test the effect of changes in land prices in phases 1 and 2, as well as the impairment rates and collection period for receivables, on our target price. Across the ranges that we tested, we observed significant variance in our target price when adjusting the relevant variables (land prices: 14% variance in TP; receivables collection period: 14%; receivables impairments: 21%). Thus, we conclude that ERC is highly dependent on the collection of receivables, and is very sensitive to any changes in land prices.

Land prices



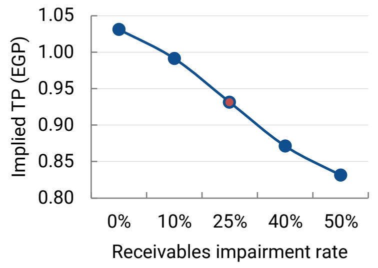
Source: CI Capital Research
Note: Not inclusive of phase 3 & land owned by SHC

Receivables collection period



Source: CI Capital Research

Receivables impairment rate



Source: CI Capital Research

ERC in a nutshell

ERC was founded in 1995 and listed on the Egyptian exchange in 1999 as a master developer of Sahl Hasheesh area on the Red Sea Coast c40km south of Hurghada. Sahl Hasheesh occupies 32mn sqm (including the 20mn sqm under dispute). The company mandate was to acquire the plot, develop a master plan for it, equip the land with the required infrastructure, and sell parcels to sub-developers or develop parts of the project independently. Once a sub-developer's project becomes operational, ERC begins to generate recurring income from the provision of utilities as well as community management. Additionally, the company owns 78.4% of its subsidiary, Sahl Hasheesh Company, which owns a rental portfolio of c120 units, in addition to almost 700k sqm of raw land in Sahl Hasheesh.

Details on Sahl Hasheesh

Acquisition year	1995
Location	Red Sea
Area (mn sqm)	32
Operational hotels	6
Operational rooms	3,200
Rooms under construction	6,000

Source: Company data

Sustained volumes, stagnant prices

Phases 1 and 2 on the verge of depletion

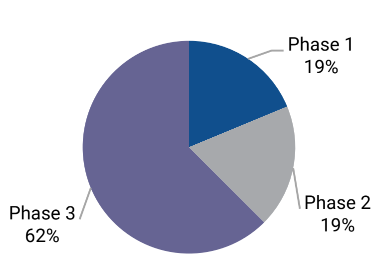
ERC's total land bank is 32mn sqm, all within Sahl Hasheesh. The land was acquired from the Tourism Development Authorities (TDA) in 1995 for a fixed price of USD1.32/sqm in addition to a sell-on fee. However, this total includes phase 3 of the project—the 20mn sqm currently under dispute—as well as the c700k sqm plot owned by Sahl Hasheesh Company. Out of the company's current undisputed and fully owned land bank of 11.3mn sqm, c10mn sqm has been developed or is currently under development, leaving 1.6mn sqm of residual land available for sale. There are currently six operational hotels within Sahl Hasheesh, including the likes of Pyramisa and Baron Palace and further 6,000 rooms under construction aside from secondary home projects.

ERC land bank breakdown

Sahl Hasheesh	Total area	Sold
Phase 1 (k sqm)	6,000	5,500
Phase 2 (k sqm)	6,000	3,800
Phase 3 (k sqm)	20,000	-

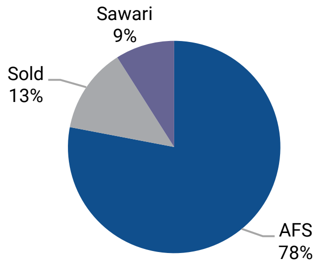
Source: Company data
Note: SHC 666k sqm within the sold area in phases 1 and 2. Phase 3 currently under dispute

Sahl Hasheesh breakdown



Source: Company data

Undisputed land bank breakdown



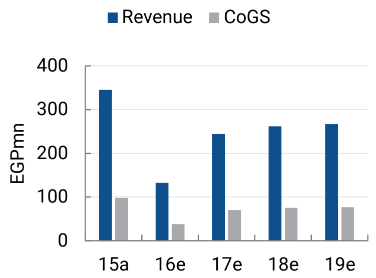
Source: Company data
Note: Jamaran, Tawaya and SHC land in sold area

Devaluation and volumes vs. stagnant prices

Land sale has been the company's dominant segment in the last 2 years, following a slowdown in the 3-4 years prior due to political instability and diminishing appetite for tourism investment.

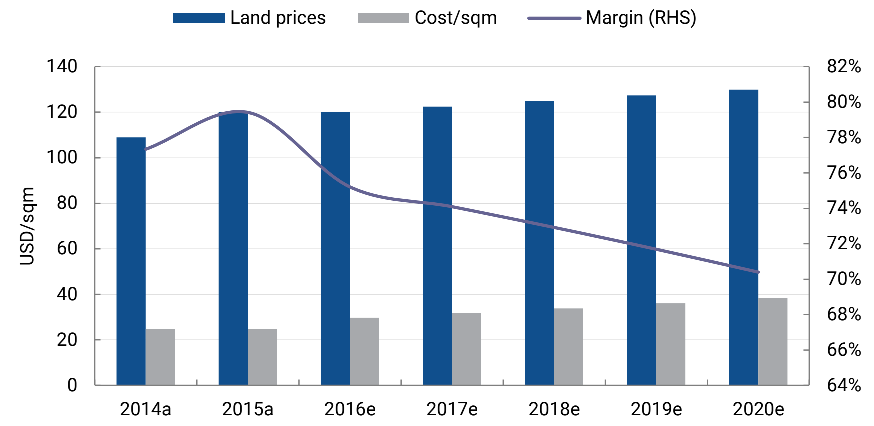
We expect land sales to continue to hold the lion's share of revenue generated going forward. Prices reached USD120/sqm as of December 2015, implying a 3-year CAGR of 44%, but 21% lower than 2012 prices. We estimate price growth of only 2% per year going forward, muted by devaluation though volumes could potentially strengthen as a result. We expect land revenues, excluding SHC land, to average cEGP235mn in the next 5 years. Margins on land sales have averaged 73% in the last 4 years, excluding a one-off land sale at a discount for the development of a school, but we assume that margins will narrow to an average of 71% in the upcoming 5 years.

Land revenue forecasts



Source: CI Capital estimates

Land prices, cost/sqm, and margins



Source: Company data, CI Capital Research
Note: Not inclusive of SHC land

Land cost/sqm (USD)

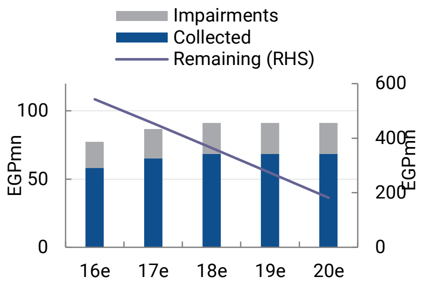
Infrastructure cost	23.0
Cost of land to TDA	1.32
Fixed fee on sale to TDA	1.75
Total cost/sqm	**26.0**

Source: Company data
Note: USD1.32/sqm have been fully settled by ERC, numbers as of 9M15

Payments to Tourism Development Authority (TDA)

Even though ERC allows investors and developers to pay in local currency, valued at the official USD exchange rate at the time of settlement, the company has to provide the TDA with its entitlements in USD. In addition to USD1.32/sqm paid for the cost of land, which has been fully settled by ERC (for phase 1 and 2), the TDA is entitled to a fixed fee of USD1.75 for every sold square metre. Although this has averaged only 1.3% of the selling price in the last 3 years, ERC has inserted clauses in contracts, allowing it to collect down payments in USD in order to avoid any USD-liquidity constraints going forward.

Receivables forecasts



Source: CI Capital estimates

Impairments and delays the main concern

Due to the magnitude of the receivables still outstanding from legacy projects and land sales, as well as the volatility of the USD:EGP rate according to in-house forecasts, we valued them using a DCF model discounted at 18%. We conservatively assumed collection over 8 years (against management's guidance of 5) and applied an impairment rate of 25%, slightly more bullish than the 3-year historical rate of 29%. This resulted in an FX gain on receivables of EGP170mn, implying a premium of c27% and an end value 1.3x the original value. This exercise brought the EGP620mn of receivables to an NPV of EGP268mn, adding EGP0.25/share to our target price.

Additionally, the remaining infrastructure costs of EGP156mn (recently revalued from EGP65mn) that ERC are still liable to with regard to legacy land sales were valued using DCF and a discount rate of 15%. According to management, these infrastructure commitments are expected to be completed within the upcoming 5 years, resulting in an NPV of EGP117mn. Our valuation conservatively assumes that the commitment will be sensitive to USD exchange rate, which is likely not the case. This translates into a negative contribution of EGP0.11/share to our target price.

Land valuation methodology

According to management, the company is looking to fully deplete its undisputed land bank in the next 5 years, but we conservatively assume 9 years due to the challenging outlook on the Egyptian tourism sector, affecting investment climate. The residual land owned by ERC, excluding the land owned by SHC, was last priced at USD120/sqm. Since the land is priced in USD, we use our in-house forecasts for the USD:EGP rate within our valuation horizon. We valued this land using a DCF model, incorporating a cost of equity estimate of 20%, yielding EGP0.40/share, c43% of our target price.

The land owned by SHC is earmarked to become the commercial hub of the Sahl Hasheesh area as a whole. We believe that the plot is of a strategic importance, with its development likely to have a positive effect on occupancy within Sahl Hasheesh going forward. Accordingly, although the plot is located within phase 1 and phase 2 of Sahl Hasheesh, it is priced at a 17% premium (USD140/sqm) to the remainder of the unsold land in the aforementioned phases. Management also believe that this land will be sold by 2020, but we conservatively applied a timeline of 8 years for this plot, with the success of this commercial hub being highly dependent on the inhabitancy that surrounds it. We value this land with a DCF model and a discount of 21%, resulting in a price of EGP0.04/share. We expect land sales to average 56% of revenues in the next 5 years.

Projects expected to support land sales

From master developer to sub-developer

ERC is currently in the process of launching, developing, and selling three projects

Adding to the company's expertise as a master-developer and land seller, ERC will act as the sub-developer in upcoming projects. ERC is currently in the process of launching, developing, and selling three projects. The company has already fully constructed Tawaya, through its subsidiary in association with Palm Hills. Another project currently in the pipeline is the 51-villa Jamaran project. It is currently sold out, but construction is yet to commence. The company's largest project to date is the Sawari project, a co-development with Orascom Hotels and Development. This is a 1.1mn sqm project which is expected to launch in 2017, with construction expected to quickly follow.

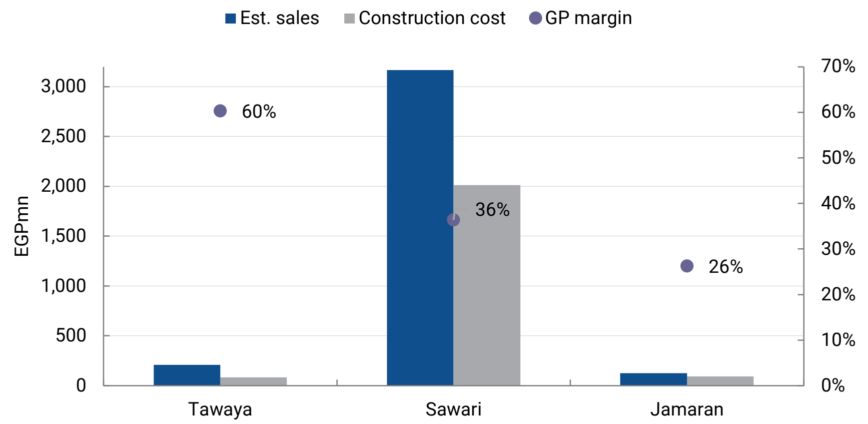
Project valuation methodology

With sales and construction expected to commence by 2017, we expect Sawari to be fully sold out by 2025 and fully constructed by 2027. With land revenue recognised after 25% of the total value is paid, an amount usually paid as a down payment, we expect the top line to start benefiting from sales in the project throughout 2017. Cash flow is expected to continue up until 2030, according to our numbers. We value this project with a DCF model and a more favourable WACC of 19%, resulting in EGP0.07/share.

Real estate sales to average 27% of revenues generated in the next 5 years

Tawaya and Jamaran do not contribute largely to our enterprise value estimate, with their combined BuA just under 30k sqm. With Jamaran fully sold out, we expect cash flow to continue until 2019 according to schedule. As for Tawaya, only 20% has been sold to date, and we assume that the project will be fully sold by 2020, generating cash flow up until 2024. We value both projects using a DCF model and a WACC of 19%, resulting in them jointly adding EGP0.05/share. The 3 projects together make up EGP0.12/share (13% of our target price). We expect real estate sales to average 33% of revenues generated in the next 5 years.

Contracted revenue, estimated cost, and GP margin



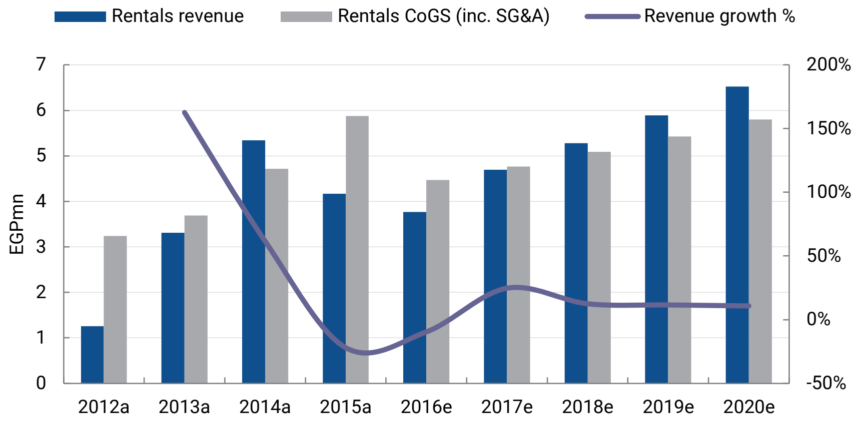
Source: Company data, CI Capital estimates

Occupancies at underwhelming levels

Negative sentiment on tourism taking its toll

ERC's 78.4%-owned subsidiary, Sahl Hasheesh Company, owns a commercial rental portfolio of 120 shops located in Old Town, a legacy project within Sahl Hasheesh. The current occupancy rate for these shops is c41%, with only 49 out of the available 120 shops leased. Rental of these units minimally affects the value of the company, with the revenue generated from these units averaging EGP900k/annum in the past 3 years. We assume occupancy rates of 10% for 2016, with gradual improvement going forward.

Rentals revenue and growth



Source: Company data, CI Capital Research

Rentals valuation methodology

The segment just broke even on the EBITDA level in 2014, recording a profit of EGP600k (EBITDA margin of 12%). Adjusting for depreciation, the segment is operating at a loss and this trend continues throughout our valuation horizon. In 2015, the segment recorded an EBITDA margin of -19%, leading us to believe it will not record positive EBITDA margins before 2018. We valued this segment using a DCF model, with a WACC of 18% and perpetual growth of 3%, resulting in an EV/share of less than EGP0.01. We predict rental income to average 1% of revenues generated in the next 5 years.

Utilities not expected to contribute significantly any time soon

Potential with too many dependencies

All the utilities used within Sahl Hasheesh, such as water, sewage, electricity, and communications, are provided by ERC. The company charges sub-developers for the provision of these utilities, creating a recurring income stream. The current capacity of water PPE is 14k cbm, with the potential to expand to 75k cbm by 2035. ERC has budgeted a capex of EGP100mn to build a new 40 MW electricity substation, adding to the already existing 20 MW station. The capacity has the potential to increase to 300 MW by 2035. It is important to note that the growth trajectory of this segment is highly dependent on reclamation of phase 3, with this phase composing 62% of Sahl Hasheesh.

Utility capacities

Water	
Current (k cbm)	14.0
2035 est. (k cbm)	75.0
Electricity	
Current (MW)	20.0
2035 est. (MW)	300.0

Source: Company data

Utilities valuation methodology

The utilities segment is driven by occupancy within Sahl Hasheesh. The source of the majority of the utility revenue generated comes from the 6 operational hotels in Sahl Hasheesh, with only less than 5% of property owners in Sahl Hasheesh permanent residents. There are currently c3,200 rooms with an occupancy rate of 25-30% and at these levels, the utilities segment is operating at a loss. Over 6,000 rooms are currently under construction; we do not expect this segment to break even until there are c5,000 rooms available operating at an occupancy rate of 60-70%. In our view, this will not be the case within our valuation horizon, and possibly not the case without phase 3. Accordingly, we value this segment at book, with an implied discount of 70% due to the complexity of selling utility PPE. This results in a price of EGP0.09/share (10% of our target price). We predict utilities income to average 10% of revenues generated in the next 5 years.

Projects overview

Sawari

Details on Sawari

BuA (k sqm)	130.0
Units	1,191.0
Est. sales (EGPmn)	3,200.0
Const. cost (EGPmn)	2,000.0
Launch date	2017

Source: Company data

Sawari is a 2.5mn sqm seafront mixed-use community, located around a 330-boat marina. The project is a co-development between Orascom Hotels and Development and ERC, with the former in charge of the project management and the latter acting as the sub-developer. Out of the 2.5mn sqm, c1.4mn sqm are located in phase 3 of Sahl Hasheesh, the area currently under dispute, and therefore we only value the remaining 1.1mn sqm which are parcelled into Sawari phase 1. Recently, the approval for the development of the marina was granted, leaving the building heights approval as the only pending matter in phase 1, which is expected to be resolved during 2016, according to management. The 1.1mn sqm plot will contain c130k sqm of residential BuA divided into 1,020 apartments and 171 villas. In addition to the residential area, the project includes 3 plots of land allocated for hotels. Presales for the project are expected to commence by 2017, with construction shortly following in the same year. Construction for this project is expected to last 11 years with a total investment cost of cEGP2bn, inclusive of the EGP350mn paid to OHD.

Tawaya

Details on Tawaya

BuA (k sqm)	14.3
Units	147.0
Est. sales (EGPmn)	200.0
Const. cost (EGPmn)	80.0
Launch date	2Q15

Source: Company data

Tawaya is a 147-apartment project located in Old Town, Sahl Hasheesh. The project combines the calmness of a resort with the excitement of the city with its sea-view apartments located within the commercial centre. It is a co-development between Sahl Hasheesh Company, ERC's subsidiary, and Palm Hills. SHC will be in charge of project development, whereas Palm Hills will be responsible for the marketing of the project and the finishing of the apartments for an undisclosed cost. The sales opened for the project in 2Q15, with 20% sold to date and the remainder expected to be sold during the next 3 years, according to guidance. The contracted revenue for this project is estimated at EGP280mn. The project is fully constructed; however, minor design adjustments are being made, leaving it as the only remaining liability. The project's construction cost is EGP80mn, pushing its total investment cost up to EGP130mn.

Jamaran

Details on Jamaran

BuA (k sqm)	15.0
Units	51.0
Est. sales (EGPmn)	124.0
Const. cost (EGPmn)	92.0
Launch date	2014

Source: Company data, CI Capital Research

Jamaran is a 320k sqm residential project. The residential BuA for this project is 15k sqm, divided into 51 seafront villas with an average size of 324 sqm. The project's close proximity to Old Town, one of ERC's legacy projects, provides the Jamaran residents with the required amenities. The average villa selling price is USD335k, translating into an average of USD1,024/sqm. The project is fully sold out, with contracted revenue of USD13mn, and at 2014 rates translating into EGP92.3mn, to be fully recognised by 2018 according to guidance. According to our numbers, ERC will collect cEGP86mn in cash between 2016 and 2019 and recognise EGP88.5mn of revenue in 2018. Construction for this project is expected to commence in 2H16, lasting for 3 years, with an estimated construction cost of EGP92mn.

Phase 3

The dispute

Phase 3 is a 20mn sqm plot in Sahl Hasheesh currently under dispute. The dispute began in 2011 when the Tourism Development Authorities (TDA) withdrew the land from ERC, with the reason provided being that ERC had not concluded a master plan for the plot in a timely manner. The land was originally obtained for USD1.3/sqm, but this sum has not yet been settled. The TDA offered the withdrawn land back to ERC for a price of USD9/sqm in a bid to resolve the dispute, but ERC rejected the offer. The dispute is still ongoing and negotiations are currently underway. There is no clear indication as to when and if this dispute will be resolved and the land restored to the company.

Valuation

Unlike phases 1 and 2, phase 3 is not seafront land. Assuming phase 3 is reclaimed, the land is earmarked by ERC to be the equivalent of a city rather than a seaside resort. Accordingly, we expect selling prices to be at a discount to those of the preceding phases, in the USD45-55/sqm range. We do not factor phase 3 into our valuation due to the aforementioned dispute, but including it would add EGP0.10/share to our target price. We use DCF valuation at the previously mentioned price per sqm, with a discount of 21% to value the plot. This would push our target price up to EGP1.03/share.

Valuation including phase 3

Project	EV (EGPmn)	EV/share (EGP)	% of EV	% of TP
Phase 3	102.3	0.1	13	9
Other land	460.5	0.4	58	43
Total land	**562.8**	**0.5**	**71**	**52**
Total projects	129.7	0.1	16	12
Total services	101.2	0.1	13	9
Total value	**793.7**	**0.8**	**100**	**73**
Net cash and A/R	286.3	0.3		27
Target price	**-**	**1.03**		**100**

Source: CI Capital estimates

Comparable valuation

Comparable companies in the region

Name	Ticker [Rating | TP]	Mkt cap (USDmn)	Country	P/E (x)			EV/EBITDA (x)			P/B (x)		
				16e	17e	18e	16e	17e	18e	16e	17e	18e
TMG	TMGH EY [Overweight | TP EGP8.30]	1,381	Egypt	12.3	13.5	12.3	9.9	11.0	10.4	0.5	0.4	0.4
Emaar Misr	EMFD EY [Overweight | TP EGP3.50]	1,197	Egypt	9.8	5.9	4.1	6.8	3.6	2.4	1.3	1.1	0.9
MNHD	MNHD EY [Overweight | TP EGP25.2]	822	Egypt	9.7	14.4	22.4	6.9	10.0	15.7	4.4	3.4	3.0
PHD	PHDC EY [Overweight | TP EGP3.20]	604	Egypt	5.3	3.2	8.0	4.9	3.4	8.6	0.7	0.6	0.6
Heliopolis Housing	HELI EY [Neutral | TP EGP56.9]	593	Egypt	23.6	21.4	19.1	18.6	18.1	16.1	7.1	6.3	5.6
SODIC	OCDI EY [Overweight | TP EGP14.3]	413	Egypt	11.2	12.2	8.8	7.0	7.2	5.2	1.0	0.9	0.9
ERC	EGTS EY [Neutral | TP EGP0.93]	102	Egypt	10.1	3.9	3.0	7.2	3.1	2.5	1.0	0.8	0.6
Egypt Average				11.7	10.6	11.1	8.8	8.1	8.7	2.3	1.9	1.7
Emaar Economic City	EMAAR AB	3,158	KSA	10.9	11.5	11.5	14.8	13.4	13.4	1.1	1.0	1.0
Dar Al Arkan	ALARKAN AB	1,582	KSA	9.3	8.5	10.0	13.6	10.8	12.8	0.3	0.3	0.3
Arriyadh Development	ADCO AB	687	KSA	13.1	12.9	12.9	13.6	12.7	12.7	1.3	1.3	1.3
Saudi Real Estate Company	SRECO AB	602	KSA	11.1	10.7	10.0	17.0	16.1	15.3	0.6	0.6	0.5
Emaar Properties	EMAAR UH	12,033	UAE	9.9	7.2	5.8	5.9	5.6	4.7	1.0	0.9	0.8
Aldar	ALDAR UH	5,474	UAE	9.3	9.2	8.5	8.7	8.4	8.0	0.9	0.9	0.8
Damac	DAMAC UH	3,702	UAE	3.1	3.4	4.7	1.6	2.1	2.9	1.2	1.0	0.9
GCC Average				10.6	9.8	10.1	9.8	9.0	9.3	1.6	1.4	1.3
MENA average				9.0	9.1	9.1	9.3	10.7	9.4	1.7	1.5	1.4

Source: Bloomberg, CI Capital estimates

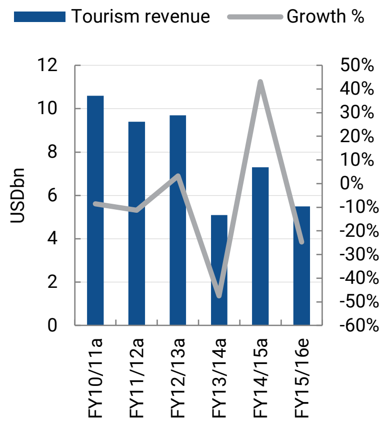
Tourism outlook remains challenging

The company's performance is not entirely dependent on tourism arrivals, with only utilities and rental revenue (c13% of 2015 top line) dependent on occupancies and footfall, currently supported by local demand.

In the long term, improvement and stability to inbound arrivals should have a positive effect on tourism investment and demand for land in Egypt's resort areas, driving additional value for ERC, should it regain access to the disputed phase 3. In other words, while arrivals or lack of thereof remain of a secondary importance in the upcoming 18-24 months, prolonged pressure on the sector could put a break on investment and diminish the prospects of divesting ERC's residual land bank at attractive pricing and collection terms, in our view.

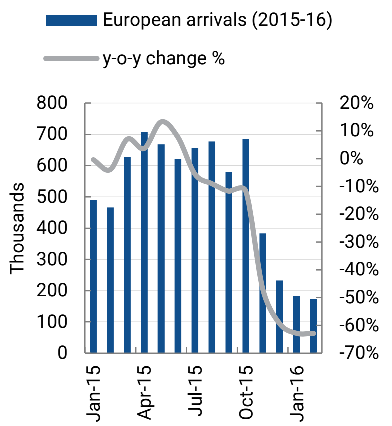
Our in-house FY15/16 GDP forecast factors in tourism arrivals of 6.0mn, down 50% y-o-y. The weakness is attributed to i) prevailing flight bans imposed following the Metrojet crash in November 2015, ii) numerous security incidents involving foreign tourists in Egypt and other MENA markets, and iii) increasing competition from other regional markets such as Turkey and the UAE. Overall, we expect tourism receipts in FY15/16 to decline 25% y-o-y to USD5.5bn compared to cUSD10.6bn booked in FY10/11 before Egypt's political turmoil.

Tourism revenue



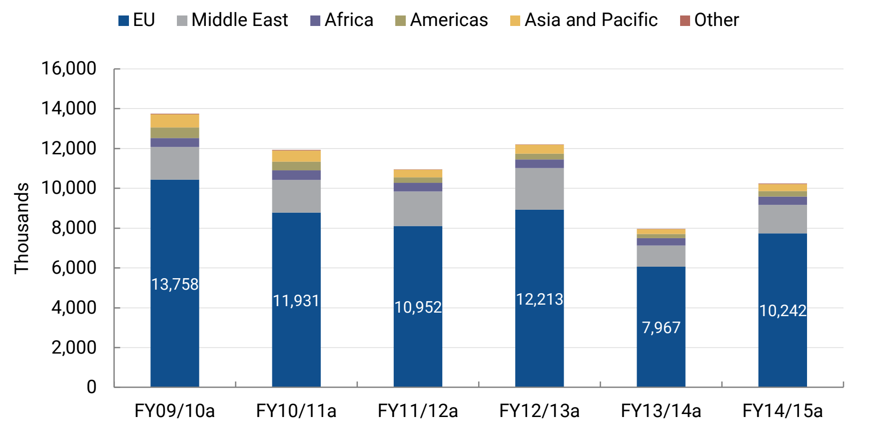
Source: CBE, CI Capital Research

European arrivals in 2015, y-o-y change



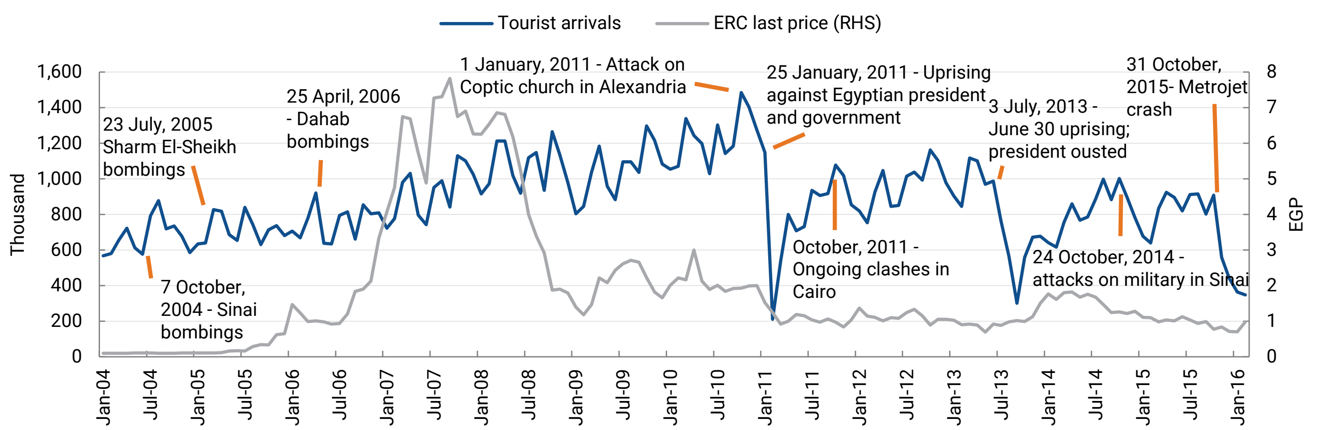
Source: CBE

Tourist arrivals by region



Source: CBE

Sector continues to generate negative news flow



Source: CI Capital Research

Appendix 1. ERC's total land bank by phase

Source: Google Earth, CI Capital Research

Appendix 2. ERC's business model

1 Land acquisition and preparation

- ERC acquires large areas of coastal land from TDA
- Current land bank acquired at average cost of USD1.32/sqm
- ERC creates a master plan for the whole destination
- Land is parcelled and prepared for sale

2 Sales

- The company markets the destination and its master plan among regional developers
- Land is sold to anchor developers on installments, averaging 3-5 years
- Land is priced in USD but clients can still settle their dues in EGP at prevailing rate
- ERC pays a commision to TDA for each sqm sold, currently at USD1.75/sqm

3 Development

- ERC develops central infrastrucuture in the destination (e.g. desalination plant, electricity grid etc.)
- ERC develops external infrastructure for sold plots
- External infrastructure is delivered before anchor developers complete their project

4 Service

- ERC provides basic utilities to developed projects, securing recurring income

Source: CI Capital Research

Financial statements

Financial statements

Income statement	2015a	2016e	2017e	2018e	2019e
Revenue	400	197	494	676	558
CoGS	(159)	(132)	(196)	(301)	(224)
Gross profit	242	65	298	375	334
EBITDA	232	111	260	326	284
Depreciation and amortisation	(26)	(25)	(25)	(25)	(26)
EBIT	206	87	235	301	258
Net interest income (expense)	9	4	4	9	17
PBT	217	93	240	312	277
Taxes	1	(5)	(12)	(16)	(62)
Net income	217	88	228	296	215
Attributable net income	217	88	228	296	214
Balance sheet					
Cash and equivalents	136	128	302	564	677
Accounts and notes receivable	336	370	431	465	481
Development properties	525	547	622	692	880
Other assets	10	11	11	11	11
Total current assets	1,007	1,055	1,367	1,731	2,049
Property, plant & equipment	139	123	106	89	71
Investment property	154	151	149	146	143
Projects under construction	283	370	431	465	481
Accounts and notes receivable	41	40	40	40	40
Total assets	1,624	1,738	2,093	2,471	2,784
Provisions	12	12	12	12	12
Customer advances	70	99	182	230	241
Entitlements to TDA	73	75	78	82	86
Other current liabilities	308	304	343	374	457
Total current liabilities	463	490	616	698	796
Purchase of land creditors	273	273	273	273	273
Total liabilities	737	764	890	971	1,069
Shareholder's equity	843	930	1,158	1,454	1,668
Minority interests	45	45	45	46	46
Total equity and liabilities	1,624	1,738	2,093	2,471	2,784
Cash flow statement					
Operating cash flow	227	65	268	339	303
Working capital changes	(143)	(68)	(88)	(71)	(184)
Net operating cash flow	85	(3)	180	267	119
Net investment cash flow	(19)	(6)	(6)	(6)	(6)
Net financing cash flow	0	-	-	-	-
Net change in cash	65	(8)	175	262	113
FCF	64	(8)	175	262	113

Basic & per-share data	2015a	2016e	2017e	2018e	2019e
Enterprise value (EGPmn)	802	802	802	802	802
EPS (basic) (EGP)	0.2	0.1	0.2	0.3	0.2
DPS (EGP)	-	-	-	-	-
BVPS (EGP)	0.8	0.9	1.1	1.4	1.6
FCFPS (EGP)	0.1	(0.0)	0.2	0.2	0.1
Valuation					
P/E (basic) (x)	4.1	10.1	3.9	3.0	4.2
P/BV (x)	1.1	1.0	0.8	0.6	0.5
Dividend yield (%)	-	-	-	-	-
FCF yield (%)	7.2	(0.9)	19.6	29.3	12.7
EV/revenue (x)	2.0	4.1	1.6	1.2	1.4
EV/EBITDA (x)	3.5	7.2	3.1	2.5	2.8
Growth					
Revenue (% y-o-y)	680.2	(50.9)	151.4	36.7	(17.4)
EBITDA (% y-o-y)	(1,172.9)	(52.1)	133.1	25.7	(13.0)
EBIT (% y-o-y)	(569.1)	(57.9)	170.4	28.2	(14.2)
EPS (% y-o-y)	(679.3)	(59.4)	158.9	29.7	(27.5)
Profitability					
RoE (%)	25.8	9.5	19.7	20.3	12.9
RoA (%)	13.4	5.1	10.9	12.0	7.7
RoIC (%)	24.6	8.8	19.2	19.6	11.7
Asset turnover (x)	0.2	0.1	0.2	0.3	0.2
EBITDA margin (%)	58.0	56.6	52.5	48.3	50.9
Net profit margin (%)	54.3	44.9	46.2	43.9	38.5
Liquidity					
EBITDA/net interest (x)	26.7	27.4	67.9	36.0	16.8
Net debt/equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Net debt/total assets (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Net debt/EBITDA	(0.6)	(1.2)	(0.5)	(0.4)	(0.5)
Current ratio (x)	1.4	1.4	1.5	1.8	1.9
Quick ratio (X)	1.1	1.1	1.3	1.5	1.5

Source: Company data, CI Capital estimates
Note: Prices as of 23 May 2016

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