



## EGTS receives approval for phase-1 of Sawari development, positive; upgrade to BUY

- ▶ **EGTS received an approval for Sawari, a positive catalyst for earnings visibility, in our view**
- ▶ **Considering this to be a positive development, we expect land sales to resume, following the launch of Phase-1 of Sawari by EGTS and Orascom Development Management**
- ▶ **We are optimistic on the changing market conditions, with increasing interest coming from developers for the available land**
- ▶ **We upgrade the stock to BUY from SELL, while maintaining TP at EGP1.26/share**

**Egyptian Resorts Company (EGTS) gains approval for Sawari:** The approval from the Tourism Development Authority (TDA) is to proceed with phase-1 of Sawari. Following the approval, EGTS, along with Orascom Development Management, will commence preparations to launch Phase 1 of Sawari; which is spread across 1.1msqm. The development follows the TDA approval of EGTS's request to redefine the boundaries of Sahl Hasheesh's Phase 2 (in which Sawari Phase 1 is located), which will lead to total Phase 2 allocation area of 6msqm; unchanged, but authorising a 391,000sqm land swap that will permit EGTS and its development and management partner Orascom Development and Management to begin work on the first phase of Sawari. EGTS targets Phase 1 of Sawari to be able to accommodate vessels of up to 60 meters in length or more, and to include two 5-star hotels and a 4-star property around the marina basin. The phase will also include more than 1,000 villas and apartments along the marina basin and lagoon, as well as an extensive pedestrian promenade featuring more than two kilometers of boutique shopping, fine dining and cafés as well as nightlife and entertainment venues.

Recommendation	BUY
Market Price (EGP)	0.92
Target Price (EGP)	1.26
Upside (%)	37.0
Market Cap. (EGPm)	1,029.0
Market Cap (USDm)	134.8
2015e P/E(x)	NM
2015e P/B(x)	1.1
Reuters Code	EGTS.CA
Bloomberg Code	EGTS EY

**We view this as positive news for EGTS** as the approval to redefine boundaries of Sahl Hasheesh Phase 2 was pending for quite some time; acting as a hurdle to launch the Sawari project. EGTS and Orascom should be making an announcement in the near term regarding timing of the pre-launch sales and the full opening of its sales window for Sawari. The commencement of off-plan sales should help EGTS improve on its financial performance, which has been lacklustre amidst lack of significant land sales; especially after the slump in tourism and second-home market in Egypt. However, we note that commencement of off-plan sales could take time as EGTS should re-visit its strategy and plans with respect to the launch and execution of the project. EGTS management has also indicated of witnessing a surge in demand for second homes. Also, we note that EGTS' sea side apartment project 'Tawayá' which is launched with Palm Hills has been doing well; we expect it to be reflected in the 2Q15 results.

**Land sales have been the principal revenue generator in the past.** ERC also generates revenue from utilities and community services; however cash generated from this business is insufficient to cover costs. Whilst the business model has a potential to generate stable cash flows in the longer run, slower growth in development/executions acts as a major hindrance to sustained profitability – and to a large extent, curtailing an upward re-rating of the stock.

**Sahl Hasheesh court case still remains unresolved-** The on-going Sahl Hasheesh court case now remains with the Commissioners' Committee at the State Council. EGTS management has filed a defence brief, highlighting committee members' attention to Law 32, which regulates third-party complaints regarding contracts entered into with the Government of Egypt.

**Upgrade EGTS to BUY from SELL on share price correction:** We await the commencement of off-plan sales in the near term; which should drive cash flows and improve EGTS's financial performance. Also, we are optimistic about the changing market conditions, with increasing interest coming from developers for the available land, and most importantly, translating into better revenue visibility for EGTS. Also, from a share price perspective, we now see value in the stock; given share price correction over the past one year, following our downgrade in March 2014. We maintain our TP of EGP1.26/share and upgrade EGTS to BUY from SELL.

# Disclosure Appendix

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ACCUMULATE	>10% to 20%	11%
HOLD	+10% to -10%	35%
REDUCE	<-10% to -20%	4%
SELL	< -20%	4%

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