PHAROS

Real Estate 2018 Valuation Update

The State of Real Estate

December 19, 2017

Goodbye, 2017

2017 posed a number of challenges for real estate developers, such as the 30% y/y increase in construction costs, the rise in land acquisition costs, and the high interest rate environment. Real estate developers managed to get through these challenges by increasing their prices by 30-40% y/y and simultaneously extending installment schedules to an average seven-year plan in addition to offering smaller-sized units to mitigate the price effect on affordability. Indeed, most real estate developers are on track to meet their 2017 sales targets.

Hello, 2018

We view 2018 as the calm after the storm that real estate developers have taken in stride as previously mentioned. We believe that the hike in costs in 2017 should be followed by cost normalization, embodied in the 15% rise in 2018 and 5% annual escalation thereafter assumed in our models, and that residential prices will rise at a lower rate, reflected in the 10% annual growth assumed in our models. The extension in installment schedules has already taken place, and we do not believe real estate developers will extend them further.

The Macro Picture

Even though we expect inflation to decelerate next year, we believe real estate will continue to be viewed as the hedge against it. In addition, a portion of the freed up liquidity resulting from the 20% yield certificates of deposit maturing in 2018 should be injected into the real estate sector. The floatation of the EGP in November 2016 also sparked the interest of foreign customers and Egyptian expats in Egyptian real estate, a trend we believe will continue in 2018.

Cairo Congestion an Ever-Growing Concern

The issue of substantial congestion in Cairo is an ongoing concern that has driven and will continue to drive demand for real estate companies' project offerings on the east and west side of Cairo. This suburban migration constitutes recycled demand, where families are moving out of Cairo, and fresh demand, where families purchase houses for their offspring, a cultural norm that is embedded in Egyptian households.

What About Land?

Co-development agreements are a trend we believe will continue in 2018 given the latest land transactions (around EGP4,400/sqm in East Cairo) that render land acquisition quite expensive given the bulk outflow that is unmatched in timing with customers' installments. The pay-as-you-go nature of co-development agreements is less cash hefty to real estate developers (OCDI and PHDC) and renders land bank owners (MNHD and HELI) their complementary counterparts. Therefore, the pitch in favor of land bank owners still stands.

TOP PICKS

- TMGH
- MNHD
- HELI
- ORHD

	Recommendation	FV, EGP/Share
TMGH	Overweight	16.50
MNHD	Overweight	15.70
HELI	Overweight	60.02
ORHD	Overweight	35.00
OCDI	Overweight	27.77
PHDC	Overweight	5.00
EMFD	Overweight	4.57
EGTS	Overweight	1.81
PORT	Overweight	0.47
AMER	Equalweight	0.40

Source: Pharos Research

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES ON LAST PAGE OF THIS REPORT

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The State of Real Estate

Real Estate 2018 Valuation Update

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The table below portrays each company's net cash position, balance sheet receivables, 9M17 sales performance, and residual land area. Residual land is land that is yet to be monetized. Residual land signed up for co-development agreements is taken into account in the land owner's residual land bank figure, not the developer's. The term 'operations' in the table encompasses residential development, commercial activities, hotels, and land ownership.

	TMGH	MNHD	HELI	ORHD	OCDI	PHDC	EMFD	EGTS	PORT	AMER
Residual Land Bank, m sqm	24.3	7.7	26.4	26.1	2.1	11.5	5.6*	3.4	1.6	0.2
Market Cap/Sqm, EGP	846	1,366	551	187	3,250	807	2,936	479	1,052	8,939
Net Cash (Net Debt), EGP m	760	(201)	(305)	(3,448)	1,883	(3,370)	9,123	158	61	505
Receivables, EGP m	17,808	6,858	961	1,414	9,797	14,397	2,040	1,350	730	473
Sales in 9M17, EGP m	9,520	3,645		978	3,051	8,154			2,071	795
Sales Y/Y Growth in 9M17	72.1%	127.7%		100.8%	-6.6%	43.6%			17.6%	-15.4%
Sales in 9M17, units	2,962	1,496		192	788	1,709			1,575	485
Operations in East Cairo	✓	✓	✓		✓	✓	✓		✓	✓
Operations in West Cairo	✓				✓	✓	✓		✓	
Operations in Central Cairo	✓	✓	✓				✓			✓
Operations on the North Coast	✓				✓	✓	✓		✓	✓
Operations on the Red Sea Coast	✓			✓		✓		✓	✓	✓
Operations in New Administrative Capital	✓									

*Estimate

Source: Pharos Research

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Talaat Moustafa Group Holding

PHAROS

The Company That Has It All

December 19, 2017

We reiterate our Overweight recommendation of TMGH based on our FV of EGP16.50/share. Our top pick in the real estate sector, TMGH offers exposure to residential operations, commercial operations, hospitality, and land bank accumulation. TMGH was the best-selling real estate company in 2017, having achieved sales of EGP12 billion in the first eleven months of 2017 (11M17), sales performance the company has not witnessed since 2008. We reiterate our Overweight recommendation given the company's 3.8 million sqm commercial BUA in Madinaty and Al Rehab. Indeed, commercial sales contributed 30.7% to 11M17 sales, compared to its 8.3% contribution to full-year 2016 sales.

Key Assumptions

- An 11-year sales schedule and eight-year installment schedule for Madinaty's residential BUA, starting at EGP16,023/sqm in 2018 which grows by 10% annually. Construction cost of EGP5,233/sqm in 2018 which grows by 5% annually.
- A 16-year sales schedule and three-year installment schedule for Madinaty's sellable commercial BUA, starting at EGP68,250/sqm in 2018 which grows by 5% annually. Construction cost of EGP15,497/sqm in 2018 which grows by 5% annually.
- Madinaty's leasable commercial BUA to reach full occupancy in 2030, with 2018 and 2019 seeing zero occupancy.
- An eight-year sales schedule and three-year installment schedule for Al Rehab's sellable commercial BUA, starting at EGP68,250/sqm in 2018 which grows by 5% annually. Construction cost of EGP15,497/sqm in 2018 which grows by 5% annually.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

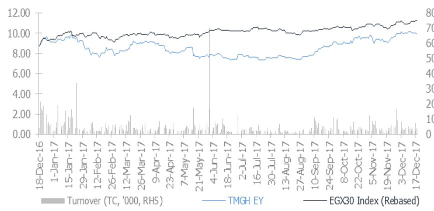
	Value, EGP	FV, EGP/Share	Percentage of FV
Madinaty	30,619,961,328	14.84	89.9%
Al Rehab	5,364,762,452	2.60	15.8%
Hotels	1,605,886,133	0.78	4.7%
Others	(4,301,807,044)	(2.08)	-12.6%
Net Cash (Net Debt)	760,248,118	0.37	2.2%
Total	34,049,050,988	16.50	100%

Source: Pharos Research

OVERWEIGHT | FV EGP16.50/Share

Trading Data

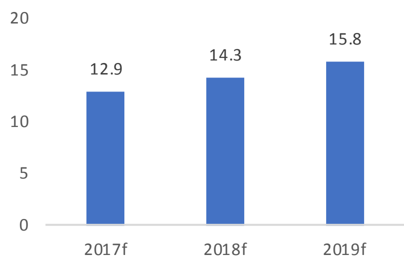
Reuters/Bloomberg	TMGH.CA/TMGH EY
Fair Value, EGP/Share	16.50
Last Price, EGP/Share	9.97
Valuation Gap	65.5%
Shares Outstanding, m	2,063.6
Market Cap, EGP m	20,573.7
52W H-L, EGP/Share	10.35 - 7.30
52W ADTV, EGP m	50.8



Shareholder Structure

TMG for Real Estate and Tourism Investment	43.15%
Alexandria Construction Company	8.03%
RIMCO EGT Investment LLC	6.45%
Free Float	42.37%

Sales Forecast, EGP Billions



Source: Pharos Research

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Land Bank? Check. Development? Check.

December 19, 2017

We reiterate our Overweight recommendation of MNHD based on our FV of EGP15.70/share. MNHD is the perfect example of a land bank owner-turned-developer. With its two liability-free land plots in East Cairo, MNHD has been successful in developing its own projects. Given the rise in land prices, MNHD stands as a worthy candidate to collaborate with on co-development projects, a previous example of which is Capital Gardens, its co-development project with PHDC.

Key Assumptions

- A five-year land sales schedule and seven-year installment schedule for Taj City's 2.9 million sqm residual land, starting at EGP5,000/sqm in 2018 which grows by 10% annually.
- A seven-year land sales schedule and seven-year installment schedule for Sarai's 4.9 million sqm residual land, starting at EGP3,850/sqm in 2018 which grows by 10% annually.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

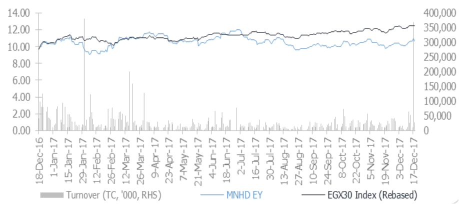
	Value, EGP	FV, EGP/Share	Percentage of FV
Residual Land	13,807,613,537	13.85	88.2%
Development Projects	2,051,844,284	2.06	13.1%
Net Cash (Net Debt)	(201,096,513)	(0.20)	-1.3%
Total	15,658,361,307	15.70	100%

Source: Pharos Research

OVERWEIGHT | FV EGP15.70/Share

Trading Data

Reuters/Bloomberg	MNHD.CA/MNHD EY
Fair Value, EGP/Share	15.70
Last Price, EGP/Share	10.60
Valuation Gap	48.1%
Shares Outstanding, m	997.1
Market Cap, EGP m	10,569.3
52W H-L, EGP/Share	12.21 - 8.92
52W ADTV, EGP m	30.9



Shareholder Structure

BIG Investment Group	19.93%
National Company for Construction and Development	15.19%
BPE Holding for Financial Investments	7.50%
Free Float	57.38%

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Heliopolis Company for Housing and Development

The Bigger the Better

December 19, 2017

OVERWEIGHT | FV EGP60.02/Share

We reiterate our Overweight recommendation of HELI based on our FV of EGP60.02/share. HELI is a beneficiary of the rise in land prices and a clear follower in MNHD's footsteps, given HELI's two land plots in East Cairo, which it is both developing and offering to other developers for co-development projects, an example of which is SODIC East, its co-development project with OCDI.

Key Assumptions

- A 25-year land sales schedule and seven-year installment schedule for the 19 million sqm residual land in New Heliopolis, starting at EGP3,850/sqm in 2018 which grows by 10% annually until 2035 and 5% annually thereafter.
- A 15-year land sales schedule and seven-year installment schedule for Heliopark's 7.4 million sqm residual land, starting at EGP3,850/sqm in 2018 which grows by 10% annually.
- 20% discount rate over the forecast horizon.

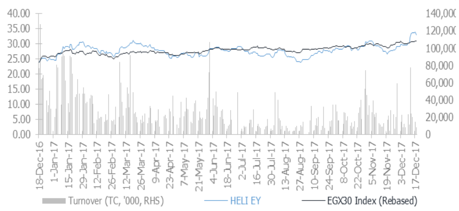
Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Residual Land	24,333,487,080	54.68	91.1%
SODIC East	2,307,652,550	5.19	8.6%
Receivables	373,634,554	0.84	1.4%
Net Cash (Net Debt)	(304,675,439)	(0.68)	-1.1%
Total	26,710,098,744	60.02	100%

Source: Pharos Research

Trading Data

Reuters/Bloomberg	HELI.CA/HELI EY
Fair Value, EGP/Share	60.02
Last Price, EGP/Share	32.70
Valuation Gap	83.5%
Shares Outstanding, m	445.0
Market Cap, EGP m	14,552.4
52W H-L, EGP/Share	34.68 - 23.41
52W ADTV, EGP m	26.7



Shareholder Structure

National Company for Construction and Development	72.25%
Free Float	27.75%

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Give Me More Gouna

December 19, 2017

We reiterate our Overweight recommendation of ORHD based on our FV of EGP35.00/share. ORHD offers the best exposure to the turnaround tourism story in Egypt as indicated by the 55.3% y/y surge in the number of tourist arrivals to Egypt in 9M17. ORHD stands to be a major beneficiary of this significant pickup in tourist arrivals given that around 80% of visitors to El Gouna, the company's flagship project on the Red Sea, are foreigners. Besides being perfectly positioned to reap the rewards of the return of tourists to Egypt, ORHD owns 20.8 million sqm of residual land in El Gouna which will keep its pipeline full in terms of hotels and residential projects, the former of which witnessed 77% occupancy in 9M17 and the latter of which have been selling very well with 9M17 sales doubling y/y.

Key Assumptions

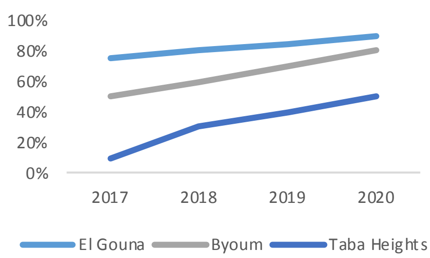
- A land price of USD20/sqm (a weighted average price of discounted prices based on historical sub-development transactions, government offerings, and book value) to value the 20.8 million sqm residual land in El Gouna.
- Occupancy rate of 80% in El Gouna hotels in 2018 which grows to 90% in 2021.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Residual Land	8,451,671,505	38.13	109.0%
Hotels	1,823,947,404	8.23	23.5%
Receivables	714,903,277	3.23	9.2%
Tamweel	215,057,449	0.97	2.8%
Net Cash (Net Debt)	(3,448,422,850)	(15.56)	-44.5%
Total	7,757,156,785	35.00	100%

Source: Pharos Research

Total Hotel Room Occupancy Rate Assumptions

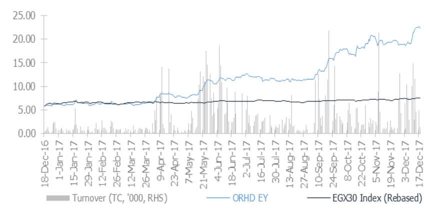


Source: Pharos Research

OVERWEIGHT | FV EGP35.00/Share

Trading Data

Reuters/Bloomberg	ORHD.CA/ORHD EY
Fair Value, EGP/Share	35.00
Last Price, EGP/Share	22.00
Valuation Gap	59.1%
Shares Outstanding, m	221.7
Market Cap, EGP m	4,876.6
52W H-L, EGP/Share	23.19 - 5.51
52W ADTV, EGP m	4.2



Shareholder Structure

Orascom Development Holding	84.79%
Free Float	15.21%

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East, We Have Arrived

December 19, 2017

OVERWEIGHT | FV EGP27.77/Share

We reiterate our Overweight recommendation of OCDI based on our FV of EGP27.77/share. Supported by strong brand equity and solid track record in development, the story of OCDI revolves around its focus on East Cairo to try to replicate its sturdy existence on the west side of Cairo. Indeed, OCDI's East Cairo development portfolio is the largest contributor to our FV. OCDI also has one of the healthiest balance sheets out of this report's stock pool. Its net cash position represents 19.8% of our FV.

Key Assumptions

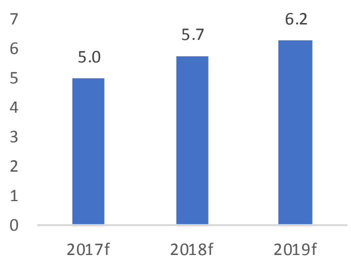
- An average residential selling price of EGP20,600/sqm in 2018 which grows by 10% annually with installment schedules ranging from five to seven years.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Development Projects	5,868,336,998	17.14	61.7%
Commercial Land	1,122,794,900	3.28	11.8%
Raw Land	630,000,000	1.84	6.6%
Net Cash (Net Debt)	1,882,840,051	5.50	19.8%
Total	9,503,971,950	27.77	100%

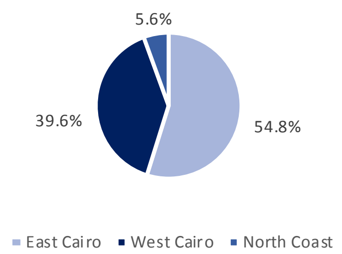
Source: Pharos Research

Sales Forecast, EGP Billions



Source: Pharos Research

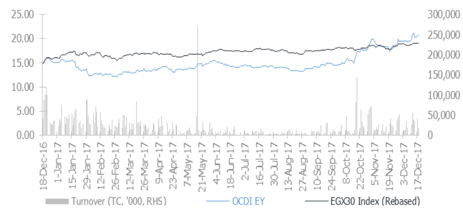
Development Portfolio Value Distribution



Source: Pharos Research

Trading Data

Reuters/Bloomberg	OCDI.CA/OCDI EY
Fair Value, EGP/Share	27.77
Last Price, EGP/Share	20.36
Valuation Gap	36.4%
Shares Outstanding, m	342.3
Market Cap, EGP m	6,969.2
52W H-L, EGP/Share	21.53 - 11.53
52W ADTV, EGP m	24.3



Shareholder Structure

Olayan Saudi Investment Company	12.60%
Abanumay Family	11.47%
RA Six Holdings Limited	9.35%
RIMCO EGT Investment LLC	7.45%
Free Float	59.13%

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Once Upon a Time in the West

December 19, 2017

We reiterate our Overweight recommendation of PHDC based on our FV of EGP5.00/share. Supported by strong brand equity and its large development portfolio, PHDC takes initiative in expanding its project portfolio both in size, as evidenced by October Oasis, its 3,000-feddan co-development project in West Cairo, and in location, as shown by its co-development project in Alexandria.

Key Assumptions

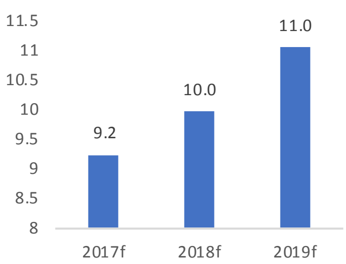
- An average residential selling price of EGP18,500/sqm in 2018 which grows by 10% annually with installment schedules ranging from five to ten years.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Development Projects	9,856,529,076	4.17	83.3%
Hotels and Club	309,652,677	0.13	2.7%
Commercial Land	743,881,470	0.32	6.4%
Raw Land	4,241,431,200	1.84	36.7%
Net Cash (Net Debt)	(3,370,201,919)	(1.46)	-29.2%
Total	11,781,292,503	5.00	100%

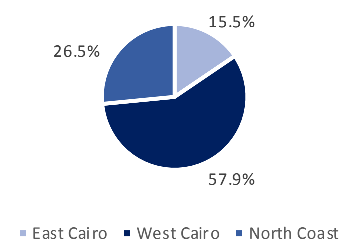
Source: Pharos Research

Sales Forecast, EGP Billions



Source: Pharos Research

Development Portfolio Value Distribution

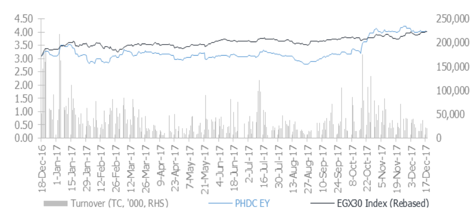


Source: Pharos Research

OVERWEIGHT | FV EGP5.00/Share

Trading Data

Reuters/Bloomberg	PHDC.CA/PHDC EY
Fair Value, EGP/Share	5.00
Last Price, EGP/Share	4.02
Valuation Gap	24.5%
Shares Outstanding, m	2,308.9
Market Cap, EGP m	9,282.0
52W H-L, EGP/Share	4.28 - 2.76
52W ADTV, EGP m	40.6



Shareholder Structure

MMID	41.36%
Aabar Investments	5.55%
Free Float	53.09%

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That Cash Though

Emaar Misr for Development

December 19, 2017

We took a net asset valuation (NAV) approach to EMFD due to lack of disclosure on sales performance by the company. Taking into account residual land and balance sheet position, we recommend an Overweight of EMFD based on our FV of EGP4.57/share. EMFD's balance sheet sports an excellent net cash position of EGP9.1 billion, 55% of its current market cap.

Key Assumptions

- Land prices of EGP2,500/sqm, EGP2,200/sqm, EGP2,000/sqm, and EGP1,500/sqm to value the residual land in Mivida, Cairo Gate, Uptown Cairo, and Marassi, respectively.
- 50% discount to receivables.

Valuation Breakdown

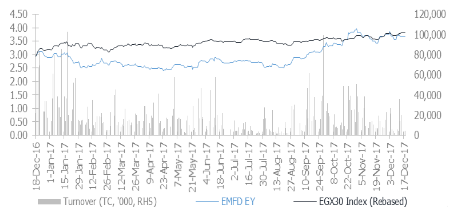
	Value, EGP	FV, EGP/Share	Percentage of FV
Land	10,570,000,000	2.33	51.0%
Receivables	1,020,024,744	0.23	4.9%
Net Cash (Net Debt)	9,123,361,794	2.01	44.0%
Total	20,713,386,538	4.57	100%

Source: Pharos Research

OVERWEIGHT | FV EGP4.57/Share

Trading Data

Reuters/Bloomberg	EMFD.CA/EMFD EY
Fair Value, EGP/Share	4.57
Last Price, EGP/Share	3.63
Valuation Gap	26.0%
Shares Outstanding, m	4,529.3
Market Cap, EGP m	16,441.5
52W H-L, EGP/Share	4.02 - 2.38
52W ADTV, EGP m	18.8



Shareholder Structure

Emaar Properties	86.97%
Free Float	13.03%

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Egyptian Resorts Company

A Dormant Story

December 19, 2017

OVERWEIGHT | FV EGP1.81/Share

We recommend an Overweight of EGTS on our NAV-based FV of EGP1.81/share which takes into account the residual land in Sahl Hasheesh and balance sheet position. The company is still largely reliant on land plot sales which explains its income statement volatility. We exclude the 20 million sqm phase (Phase 3) of Sahl Hasheesh due to the legal issue that still presides over its license. Retaining this land would be a major catalyst and a game changer for the company and would potentially add EGP6.08/share to our FV.

Key Assumptions

- A land price of USD20/sqm to value the 3.4 million sqm residual land in Sahl Hasheesh.
- 50% discount to receivables.

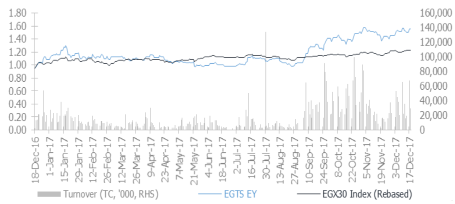
Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Land	1,071,781,727	1.02	56.3%
Receivables	675,207,278	0.64	35.4%
Net Cash (Net Debt)	157,918,494	0.15	8.3%
Total	1,904,907,499	1.81	100%

Source: Pharos Research

Trading Data

Reuters/Bloomberg	EGTS.CA/EGTS EY
Fair Value, EGP/Share	1.81
Last Price, EGP/Share	1.55
Valuation Gap	17.0%
Shares Outstanding, m	1,050.0
Market Cap, EGP m	1,627.5
52W H-L, EGP/Share	1.59 - 0.94
52W ADTV, EGP m	18.7



Shareholder Structure

Red Sea Hotels	16.5%
First Arabian Company	10.0%
Misr Insurance	8.1%
Misr for Life Insurance	7.0%
Rowad Tourism Company	6.5%
Al Ahly Capital Holding	4.5%
Free Float	47.4%

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Porto Group Holding

PHAROS

Porto Here, Porto There, Porto Everywhere

December 19, 2017

OVERWEIGHT | FV EGP0.47/Share

We reiterate our Overweight recommendation of PORT based on our FV of EGP0.47/share. PORT's development portfolio expands to multiple locations across Egypt. The company also targets the middle-income segment, a market that is largely overlooked by other real estate developers. PORT particularly enjoys a favorable revenue split in its co-development projects as indicated by its 80% revenue share in most of its co-development projects.

Key Assumptions

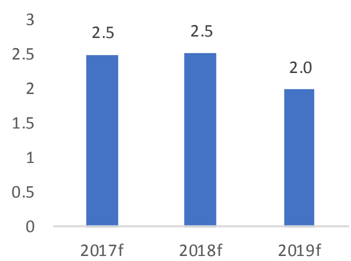
- An average residential selling price of EGP12,440/sqm which grows by 10% annually. Construction cost of EGP4,600/sqm in 2018 which grows by 5% annually.
- 20% discount rate over the forecast horizon.

Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Development Projects	1,675,352,193	0.33	71.3%
Land	486,361,559	0.10	20.7%
Others	128,837,713	0.03	5.5%
Net Cash (Net Debt)	60,530,429	0.01	2.6%
Total	2,351,081,894	0.47	100%

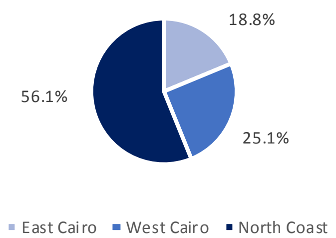
Source: Pharos Research

Sales Forecast, EGP Billions



Source: Pharos Research

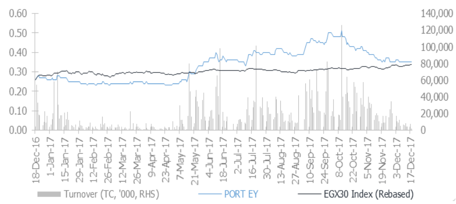
Development Portfolio Value Distribution



Source: Pharos Research

Trading Data

Reuters/Bloomberg	PORT.CA/PORT EY
Fair Value, EGP/Share	0.47
Last Price, EGP/Share	0.34
Valuation Gap	37.9%
Shares Outstanding, m	5,015.5
Market Cap, EGP m	1,705.3
52W H-L, EGP/Share	0.53 - 0.22
52W ADTV, EGP m	19.6



Shareholder Structure

Sol Global Holding Limited	35.19%
Amer Wakf LTD	12.25%
Mohamed El Amin Ragab Ahmed Gomaa	6.79%
Abdelsalam Massoud Abdelkareem	5.06%
Free Float	40.71%

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Amer Group Holding

Not Quite a Developer

EQUALWEIGHT | FV EGP0.40/Share

December 19, 2017

We recommend an Equalweight of AMER based on our FV of EGP0.40/share. The company's operations are split between land investments, commercial space, restaurants, hotels, and its Vacation Club where it sells memberships in a timeshare rental program, a product offering that is not common among real estate players. The company is moving away from real estate development and is more interested in playing land bank contributor in co-development projects, as reflected by its co-development project portfolio with PORT. However, AMER is still contemplating whether to develop or co-develop its land in Heliopolis.

Key Assumptions

- Vacation Club units taken at NAV using a BUA price of EGP5,000/sqm.
- Commercial land and Heliopolis land taken at NAV using a land price of EGP2,000/sqm.
- Hotel occupancy rate of an average of 50%.
- 20% discount over the forecast horizon.

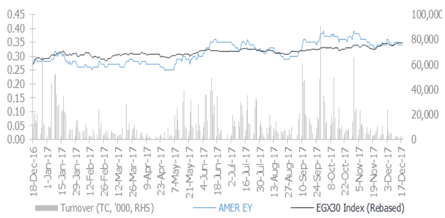
Valuation Breakdown

	Value, EGP	FV, EGP/Share	Percentage of FV
Development Projects	443,709,943	0.09	22.4%
Land	199,430,000	0.04	10.1%
Hotels	64,900,986	0.03	8.0%
Restaurants	1,327,090	0.00	0.1%
Vacation Club	873,000,000	0.17	44.0%
Others	(197,230,873)	(0.04)	-9.9%
Net Cash (Net Debt)	505,235,043	0.10	25.5%
Total	1,890,372,189	0.40	100%

Source: Pharos Research

Trading Data

Reuters/Bloomberg	AMER.CA/AMER EY
Fair Value, EGP/Share	0.40
Last Price, EGP/Share	0.34
Valuation Gap	16.3%
Shares Outstanding, m	5,015.5
Market Cap, EGP m	1,705.3
52W H-L, EGP/Share	0.40 - 0.24
52W ADTV, EGP m	13.5



Shareholder Structure

Sol Global Holding Limited	35.19%
Amer Wakf LTD	10.54%
Lantess International Limited	10.37%
Mohamed El Amin Ragab Ahmed Gomaa	6.79%
Free Float	37.11%

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