Earnings Flash: ERC (EGTS)

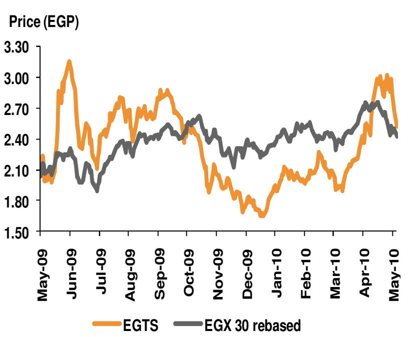
Sour yet sweet!

Market Price (EGP)	2.52
Target Price (EGP)	4.20
Upside Potential	67%
Free Float	30.1%
Market Cap. (EGPm)	2646.0
Market Cap. (USDm)	472.5
Shares outstanding (m)	1050
Net debt/equity (x)	N/A
Book value/share (EGP)	1.02
Price/book (x)	2.47
Reuters code	**EGTS.CA**
Bloomberg code	**EGTS EY**

	2009a	2010f	2011f
Revenue (EGPm)	26	32	146
Net income (EGPm)	(3)	0	84
EPS (EGP)	nm	0.00	0.08
DPS (EGP)	0.0	0.0	0.0
PER (x)	nm	nm	31.5

Source: Naeem estimates

EGTS vs. EGX 30 Rebased



Source: Bloomberg, Naeem Research
Closing price as of 16 May 2010

Egyptian Resorts Company (EGTS) reported a 1Q10 net loss of EGP2.9m as expected. This is the 7th quarter with zero land sales, and we expect the sales famine to continue through 2010. Partnership with Orascom Development Holdings (ODHN) remains the key catalyst for sales recovery in 2011.

Non-cash items makes EGP9.5m impact in 1Q10. Depreciation costs increased by c. EGP3m (5x YoY), with more assets capitalized during 2009/10. Forex gain has sharply fell by EGP 6.5m to EGP0.2m (from EGP6.7m in 1Q09). Drop in cash balance by EGP14m to EGP295m, is driven by capex on key infrastructure (c. EGP19m) despite success in collecting c. EGP20m of receivables in 1Q10.

2011 is the year to focus. Key catalysts for sales revival:

- ODHN to start marketing Marina development (2.5m m^2), with revamped phase 3 master plan in place, along with cohesive marketing effort by EGTS on behalf of all developers
- Renting of Phase 1 shops, opening of public beaches, two designer golf courses (to be ready in 3Q11) along with six fully operational hotels should generate traffic to the site and increase the perceived brand value
- Increase in tourism arrivals (+29% in 1Q10) and revival in developer appetite for second home projects

ODHN deal. The project is expected to officially kick off in 1Q11 and will run for nine years, with the Marina to be ready by 3Q12. Given ODHN's success with El Gouna and shortage of prime land in Red Sea area, we expect the project to be a success.

Our 2011 forecasts reflect revenue from estimated minimum guarantees (EGP83m) of the OHDN partnership, rental income from phase 1 shops (EGP39m) and community services (EGP15m).

Our NAV calculation indicates share is trading at USD14/m^2. Given the reduction of execution risk, we set our TP at EGP4.20, which equates to USD25/m^2 for land bank. Earlier our TP was set at USD15/m^2, which reflects forced sale value. Refer to the table below for implied land prices and the corresponding NAV prices.

Fig 1: EGTS NAV Valuation

	Amount (EGPm)	Per share (EGP)	(EGP) /m^2	(USD) /m^2
Share price (16/05/10)		2.52		
Cash (1Q10)	294.8	0.28		
Net Receivables (1Q10)	139.9	0.13		
- Provisions (15% of receivables)	(67.2)	(0.06)		
		0.35		
Value of Land (Sahl Hasheesh)	2,278.37	2.17	**81.69**	**14.59**
Available land bank ('m m^2)*	**27.89**			

* Company data (including new 9m m^2 land bank)
Note. Exchange rate used EGP5.6=USD1. Shares Outstanding=1,050m. Source: EGTS, Naeem estimates

Avg. Land price - USD	**15**	**20**	**25**	**30**	**40**	**50**	**60**
Corresponding Share price - EGP	**2.7**	**3.5**	**4.2**	**4.9**	**6.3**	**7.9**	**9.3**

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Disclosure Appendix

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REDUCE	<-10% to -20%
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