

Earnings Flash: Egyptian Resorts Company

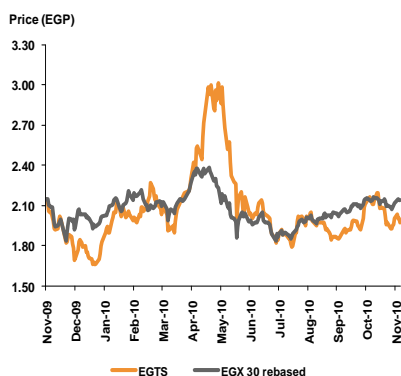
Investing for the future

Market Price (EGP)	1.97
Target Price (EGP)	4.20
Upside Potential	113%
Free Float	30.1%
Market Cap. (EGPm)	2068.5
Market Cap. (USDm)	359.7
Shares outstanding (m)	1,050
Net debt/equity (x)	N/A
Book value/share (EGP)	1.00
Price/book (x)	1.97
Reuters code	EGTS.CA
Bloomberg code	EGTS EY

	2009a	2010f	2011f
Revenue (EGPm)	26	32	146
Net income (EGPm)	(4)	0	82
EPS (EGP)	nm	0.00	0.08
DPS (EGP)	0.0	0.0	0.0
PER (x)	nm	nm	24.6

Source: Company data, NAEEM estimates

EGTS vs. EGX 30 Index



Source: Bloomberg, NAEEM Research
Closing price as of 10 November 2010

Egyptian Resorts Company (EGTS) reported 3Q10 net loss of EGP9.2m. The loss expected due to weak topline as the company has not recorded land sales since 3Q08. We expect a sales revival within the next 6 months as the partnership with Orascom Development Holding (ODHN) kicks in.

Key drivers of the Net loss in 3Q10 are lower interest income (EGP2.2m vs. EGP6.1m in 2Q10) and FX loss of EGP1.7m vs. a gain of EGP7.8m in 2Q10 due to depreciation of the EGP. On a positive note, utilities revenue grew to EGP5.6m (+53% QoQ, +74% YoY).

Cash balance dropped by EGP13.4m QoQ to reach EGP264.4m. Driven mainly by an increase in capex on key infrastructure (c. EGP80m on 70MW electric substation), partially offset by the success in receivables collection. EGTS management expects to collect community management fees from key sub-developers starting 2011, reducing cash burden by EGP7m/quarter.

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

- 1Q11: ODHN to start marketing Marina development (2.5m sqm), with revamped phase 3 master plan in place
- Renting of Phase 1 shops, opening of public beaches, having two designer golf courses (to be ready in 3Q11) along with six fully-operational hotels, should generate traffic to the site
- Increase in tourism arrivals (2010e: +18% YoY) and revival in developer appetite for second home projects

Marina project update: The project will be named "SAWARI" and the blue print is being finalized and a soft launch is due in 4Q10. ODHN will get 6% of the turnover and 15% of the bottom line of the project. In return, we estimate ODHN has guaranteed sales of USD15-20m pa. Given ODHN's success with El Gouna and the shortage of prime land in the Red Sea area, we expect this to be a success.

Our NAV calculation indicates the share is trading at USD11/sqm. Given the reduction of execution risk due to ODHN partnership, we set our TP at EGP4.20, which equates to USD25/sqm for land bank. Refer to the table below for implied land prices and the corresponding NAV. **BUY**

Fig 1: EGTS NAV Valuation

	Amount (EGPm)	Per share (EGP)	(EGP) /m ²	(USD) /m ²
Share price (10/11/10)		1.97		
Cash (3Q10)	264.39	0.25		
Net Receivables (3Q10)	38.37	0.04		
- Provisions (15% of receivables)	(51.08)	(0.05)		
		0.24		
Value of Land (Sahl Hasheesh)	1,816.82	1.73	65.14	11.33
Available land bank (m m ²)*	27.89			

* Company data (including new 9m m² land bank)

Note. Exchange rate used EGP5.75=USD1. Shares Outstanding=1,050m. Source: Company data, 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

Disclosure Appendix

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ACCUMULATE	>10% to 20%
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REDUCE	<-10% to -20%
SELL	< -20%

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