Egyptian Resorts Company

Initiation of Coverage 4 May 2010

Turnaround on the Horizon

- **Current market levels provide attractive valuation for underlying land**
- **ODH's involvement to help speed up land turnover resulting in faster value realization**
- **We initiate on ERC with a Buy recommendation and a TP of EGP4.1/share, with a potential upside of 38%**

Egyptian Resorts Company (ERC) is a play on Egyptian tourism through a 28 million sqm land bank located on the red sea. The company has a unique business model relying on acquiring huge plots of land and creating value by developing master plans and infrastructure and then selling plots to sub developers and investors engaged in hotel, resorts, and residential development and management. ERC's client based includes local and international developers and hotel chains such as Pyramisa and the Marriott. While historically the company has been focused on selling land for resorts development, going forward it plans to diversify into residential and industrial developments.

ODH's involvement to help speed up land turnover resulting in faster value realization. The strategic profit-sharing arrangement with ODH to develop, market, sell, and manage the 2.5 million sqm marina indicates a new approach towards land bank utilization. ODH was previously interested in acquiring the marina in 2006 but was outbid. We believe its renewed interest in the project highlights its importance as it is expected to provide an attractive recurring income stream for ERC.

While thematically we prefer primary home Cairo-based land banks over resort land banks, at current levels ERC provides underlying land at attractive valuations. We conservatively value ERC's land at EGP134/sqm, which is at an 82% discount to the 2008 plot sale achieved by the company.

We initiate on ERC with a Buy recommendation and a TP of EGP4.1/share, implying a potential upside of 38%. We value real estate companies using a combination of DCF and land valuation. We conduct an in-depth land bank valuation analysis by adopting a relative approach, which we label the "sister land approach". This allows us to evaluate the market implied land valuation's deviation from its fair value, identifying the most undervalued land portfolios. To be conservative, at this stage we exclude future projects from our valuation and apply a 50% discount to the land bank. Our valuation implies ERC at a 47% discount to its 2010e NAV of EGP7.8/share.

ERC's resumption of land sale and a rerating of Egyptian secondary market land are the main catalysts for the stock. A delay in ramping up plot sales and slower implementation of development work are the key risks.

KPIs (EGP mn)	2009a	2010e	2011e	2012e	2013e	2014e
Revenue	25.8	10.7	11.2	11.8	12.4	13.0
EBITDA	(5.7)	(8.8)	(9.3)	(9.9)	(10.5)	(11.2)
EBIT	(13.6)	(22.9)	(23.6)	(22.8)	(22.1)	(21.4)
NPAT	(3.9)	(10.1)	(7.0)	(2.5)	1.8	5.7

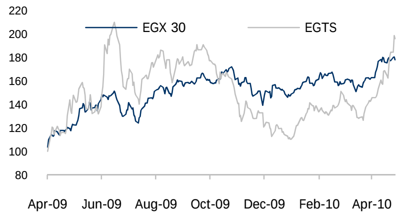
a=actual; e/f=HC's estimates/forecasts; c=consensus estimates

Buy

Target Price (EGP)	4.1
Market Price (EGP)*	3.0
Upside	38%
Listed on	EGX
Bloomberg Code	EGTS EY
RIC	EGTS.CA
Enterprise Value (EGP mn)	2,919
Net Debt (EGP mn)	(309)
Market Cap. (EGP mn)	3,150
Market Cap. (USD mn)	568
Number of Shares (mn)	1,050
Daily Turnover (EGP mn)	23.3
Daily Turnover (USD mn)	4.2

Shareholder Structure	
Free Float	38.5%
Misr Insurance	14.0%
KATO Investment	12.0%
Rowad Tourism	10.0%
First Arabian	10.0%
Ahly Capital	9.0%
ODH	4.5%
National Insurance	2.0%

Price Performance Chart



*Price as of 29 April 2010

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* Disclaimer: See page 15

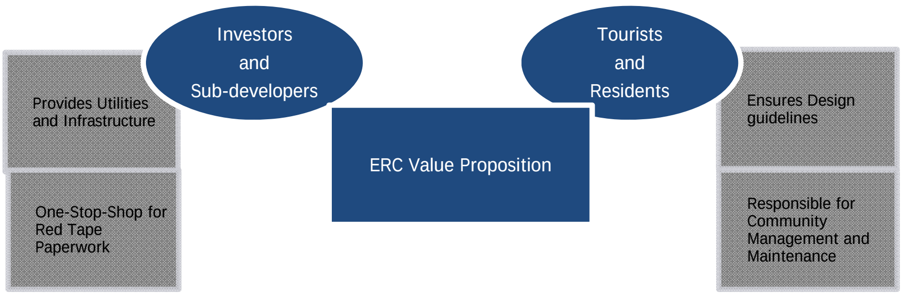
Business Model and Strategy

- **ERC is a play on Egyptian tourism through a 28 million sqm land bank located on the red sea**
- **Unique business model, relying on acquiring large land parcels and creating value by master planning and adding infrastructure before selling them on to sub-developers**
- **Strategic profit-sharing arrangement with ODH to develop, market, sell, and manage the 2.5 million sqm marina to help accelerate land bank turnover, resulting in faster value realization**

Egyptian Resorts Company is currently Egypt's largest mega-master developer for resort communities. Founded in 1996, ERC purchased 28 million sqm of land in the Sahl Hasheesh area, which is located on the Red Sea, 22km south of Hurghada, and 510km from Cairo extending along a 12.5km bay on the Red Sea. A barren desert, Sahl Hasheesh was bought from the Tourism Development Authority (TDA) at nominal values (average of USD1.2/sqm) with the intention to transform the area into a fully-fledged community. We understand that ERC plans to transform Sahl Hasheesh from a resorts-based community into a fully integrated city with schools, hospitals, and universities, which we believe should improve the project's sustainability and appeal. The company has a unique business model, relying on acquiring huge plots of land and creating value by developing master plans and infrastructure and then selling plots to sub-developers and investors engaged in hotel, resort, and residential development and management. ERC's client base includes local and international developers and hotel chains such as Pyramisa and the Marriott.

Chart 1

ERC Value Proposition

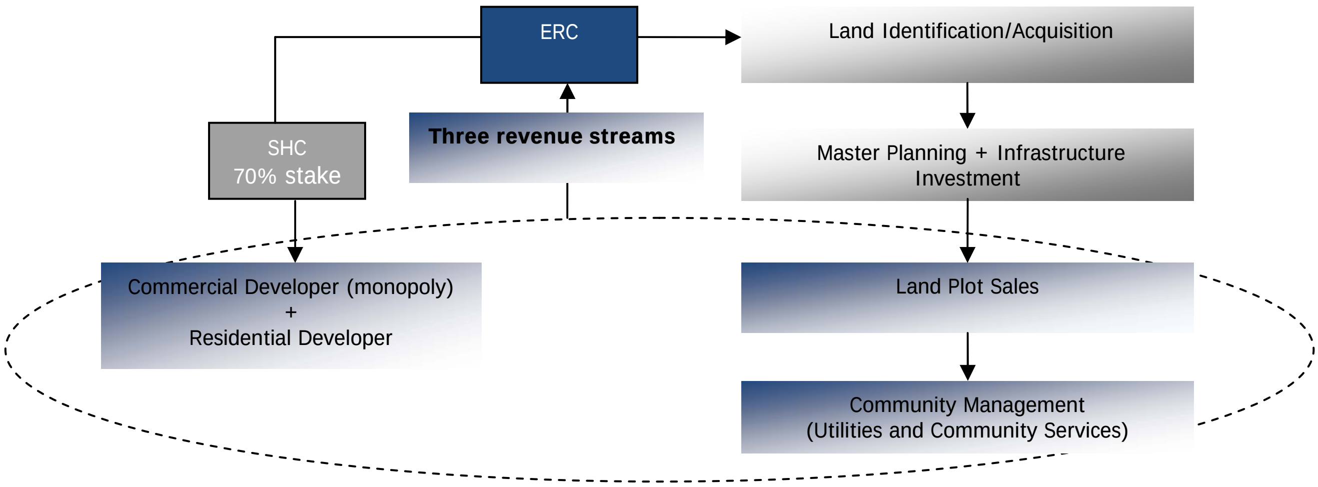


Source: ERC, HC Research

ERC implements guidelines and community management rules and regulations, which the sub-developer has to abide by. ERC also acts as a one-stop-shop for the sub-developers where all the bureaucratic licensing of building approvals and permits are undertaken by the company. After development, ERC exclusively provides utility services like water desalination and treatment, electricity, and communication networks as well as the maintenance of resort communities.

Chart 2

ERC creates value through...



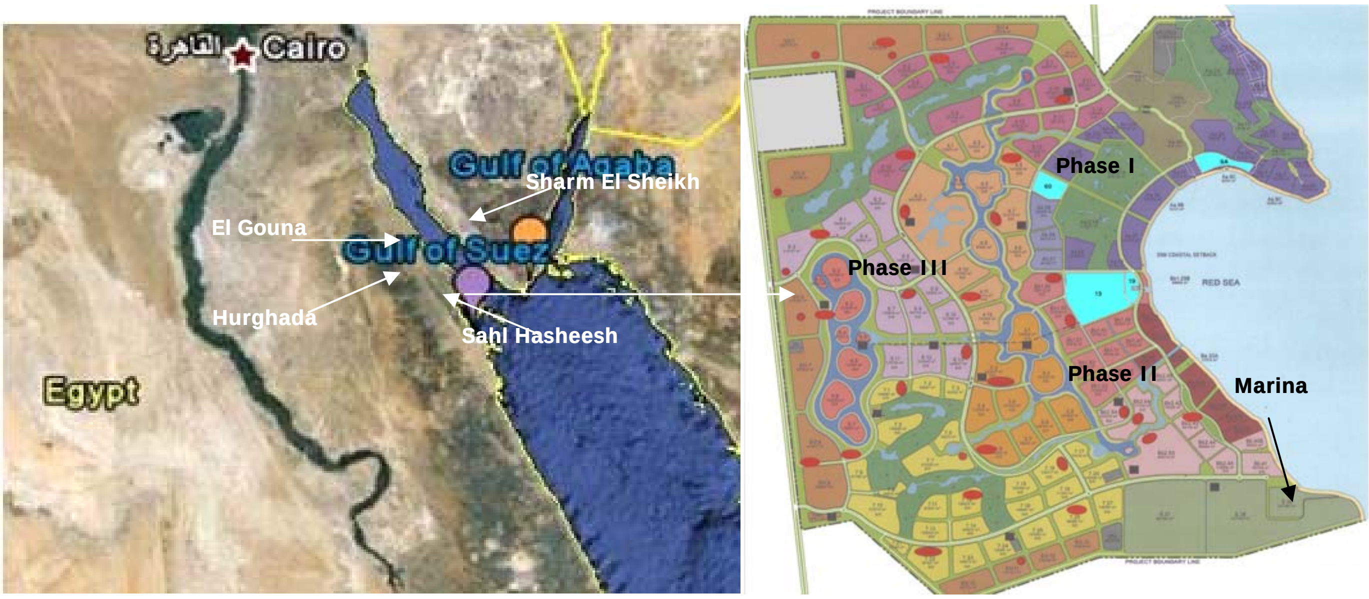
Source: ERC, HC Research

Land

Land sales are the primary revenue generators for ERC where land plots are released deliberately at the discretion of the board of directors. Land release decisions are planned ahead to rationalize spending on infrastructure development and cash outflows. To be conservative and to avoid investor speculation, ERC delivers infrastructure 120 days prior to operations and transfers land title upon the completion and operation of the project. As per TDA regulations, the footprint is 20% of total area and a G+3 height.

Chart 3

Sahl Hasheesh's Location in Perspective *

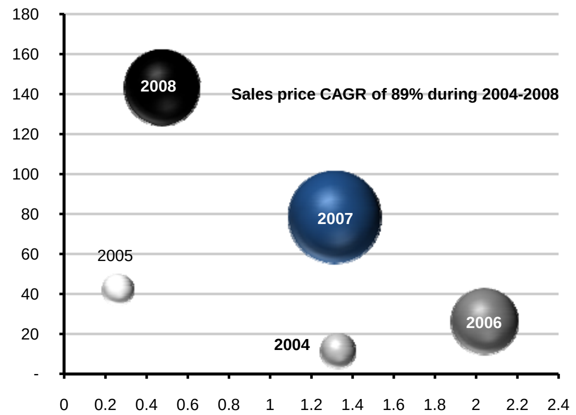


Source: Google Maps, HC Research | Source: ERC, * Preliminary Master Plan

Acquired at an average of USD1.2/sqm, ERC fully paid its liabilities for phase I and phase II to the TDA. Phase III land payments are still outstanding and are due over seven annual installments at an interest of 5%. The company is also entitled to a three-year grace period. ERC's weighted average cost of selling land stands at around USD21/sqm, (USD18/ infrastructure costs, and a fixed fee of USD1.75/sqm paid to the TDA on every sale. As shown in chart 4, the average sale price rose at a CAGR of c89% from 2004 (USD11/sqm) to 2008. The company did not make any land sales in 2009.

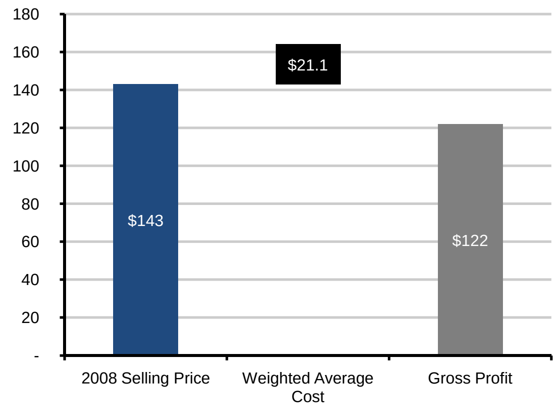
Chart 4

ERC's Selling Prices USD/ m^2 (y-axis), Area Sold mn m^2 (x-axis), Value (bubble)



Source: ERC, HC Research

Gross Profit Margins on Land c85%



Source: ERC, HC Research

Land sales normally yield high margins and ERC's 85% gross profit margin is no exception. This is well above the industry norm where average margins on land sales stand at 70% in UAE and 50% in Saudi Arabia.

Development phases

The Sahl Hasheesh land is divided into three phases where phase III is the biggest at 28 million sqm. To date, Phase I is almost fully sold, while phase II still has unsold plots, which will be redesigned and merged with phase III in the master planning phase.

Table 1: Sahl Hasheesh Master Plan

Phase	Area (mn sqm)	Sellable (mn sqm)	Remaining (mn sqm)	Completion	Hotel (rooms)	Residential (units)	Leisure/Retail
Phase I	5.6	4.4	0.05	2013	4,097	1,645	31,000 sqm
Phase II	7.0	6.9	2.6*	2017	2,590	360	500,000 sqm
Phase III	28.3	25.4	25.3	2023	MP	MP	MP
Total	**40.9**	**36.7**	**28.0**	**2023**	**6,687**	**2,005**	**531,000 sqm**

Source: ERC, HC Research
*Excludes the returned Marina land

To date, around 40% of rooms are operational in phase I, 15% of rooms are operational in phase II, and 28% of total villas are ready in phase I. The remaining developments are expected to be delivered in 2010 and 2011. Upon completion, the Sahl Hasheesh International Resort Community is expected to house 210,000 units divided equally between the hospitality and residential segments.

Table 2: Land Data

Phase	Area (mn sqm)	Land Cost USD/sqm*	Total Land Cost (EGP mn)	Status	Outstanding (EGP mn)	2008 Infrastructure Development Costs (EGP/sqm)*
Phase I	5.6	1.0	22.5	Paid	-	22.4
Phase II	7.0	1.3	53.3	Paid	-	34.3
Phase III	28.3	1.4	226.7	Part-Paid	190	TBD
Total	**40.9**	**1.2**	**302.5**		**190**	**29.3**

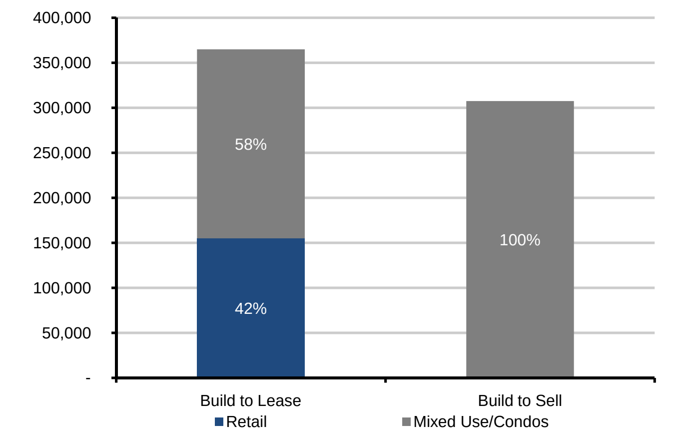
Source: ERC, HC Research
*Total represents average cost

Sahl Hasheesh for Touristic Investments Company (SHC)

While ERC is solely involved in master planning and community management, it is indirectly engaged in development through its subsidiary Sahl Hasheesh for Touristic Investments Company (SHC), in which it has a c70% stake. As such, ERC can be viewed as operating a vertical business model. SHC was established in 2007 with the aim of developing the downtown area, which is expected to include hotels, shopping malls, and cinemas. SHC intends to be the sole developer of c600,000 sqm for mixed use and retail purposes units in phase I and phase II. To provide recurring income for the company, 40% of development will be leased out while the remaining will be sold. SHC does not get preferential treatment and acquires land at market prices just like any other sub-developer, where land was acquired from ERC at an average price of USD138/sqm. The development portfolio is skewed towards mixed use and condos (around 76% of total development), while the rest will be dedicated for retail and commercial leased property (63% in phase I and the balance in phase II).

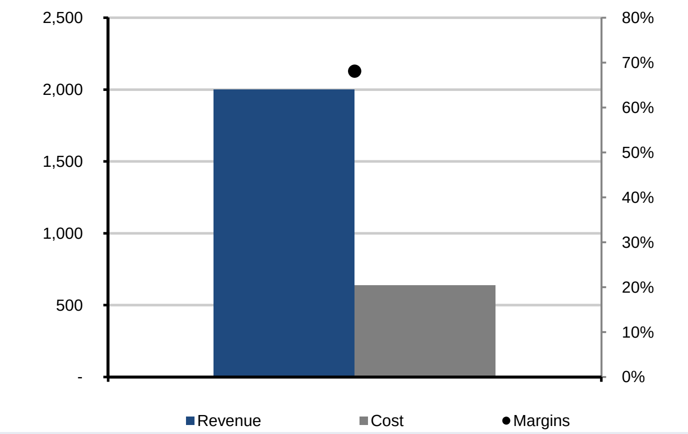
Chart 5

SHC Development Portfolio



Source: ERC, HC Research

SHC Selling Margins (USD)



Source: ERC, HC Research

As shown in the table below, the current land sale prices implies abnormally high developers' margins. By assuming average selling prices of EGP 7,000/sqm and construction costs of EGP2000/sqm, developers enjoy up to 55% margins, well above the typical 25%. Using this same data, we believe ERC can further increase its land prices by 4-5x as the project gains momentum.

Table 3

	Current Developer's Margin	Standard Developer's margin
Average Property Selling Price (EGP/m^2)	7,000	7,000
Construction Cost (EGP/m^2)	1,500	1,500
Overhead Cost (EGP/m^2)	500	500
BUA Density	60%	60%
BUA Based Cost of Land (EGP/m^2)	1,100	3,250
Implied margin	**55%**	**25%**

Source: ERC, HC estimates

For SHC's build-to-lease business, the average lease rate is around USD500/sqm while average costs for construction and land are estimated at USD780/sqm at a FAR of 1.89. At these rates, the payback period for SHC's leasing operations is expected to be 1.6 years. Lease rates are subject to a yearly review.

Utilities and Community Management

Table 4: Utilities and Community Management

Service	Price Charged	Margins	Capacity
Utilities			
Water	EGP8.8	50%-60%	20,000 m^3
Electricity*		5%-10%	20MW
Communications	TBD	TBD	TBD
Community Management			
	Budget cost of EGP20-30 million allocated proportionately among developers according to area ownership	40%-60%	150,000 dwellings

Source: ERC, HC Research
*The company is finalizing an agreement with the government to build a sub-station with an investment cost of EGP70 million, which will increase the capacity to 70MW and margins to 50%-60%

ERC has exclusive rights to provide utilities and community management services for sub-developers. The company invests in water desalination plants, electricity grids, and communication network. ERC is charged a flat fee for utility usage by the government. On the other hand, the company charges a variable fee to sub-developers, correlated to service usage (i.e, the higher the usage, the higher the fee). For the community management line of business, Ernest Body Corporate is resort administrator, which charges a variable fee for all maintenance and community services rendered. ERC is now seeking to finalize all utility and community-related services agreements with the sub-developers and will start implementing its community management model.

Strategy and Operational Priorities

ERC appointed in early 2010 a new CEO, who seeks to implement strategic and operational changes. The company is focusing on diversifying into other real estate segments like residential or industrial while applying the same vertically integrated business model.

Strategic priorities for 2010 include (i) identifying and focusing on the company's key strategic assets like the marina and phase III of Sahl Hasheesh, (ii) expanding its land bank beyond the Rea Sea, (iii) finalizing utilities and community service agreements with sub-developers and implementing the community management model, and (iv) selling to sub-developers with clear payment capabilities.

On the operational front, ERC will direct its efforts to (i) finalize all infrastructure requirements with the government for its electricity sub-station and the communication network, (ii) work with SHC to launch its Old Town project (residential, retail, entertainment), attracting flow to the destination and increasing average selling prices of the residual land bank (we understand the project should be operational by year-end), (iii) complete and launch the beach plan together with all the necessary rules and regulations, with the launch expected in 2011, (iv) solve any outstanding issues related to sub-developers, and (v) increase staff to accommodate to the company's expansion plans.

Recent Developments

Table 5: ERC's Timeline of Events

Design	Construction and Marketing	Design, Construction, Marketing, and Community Management	Recent Developments
• **1995** • Land acquired for Sahl Hasheesh project at USD1/m^2 • **1996-1997** • Incorporation of ERC • Concept development and MP for phase I and II by RTKL • **1998** • First plot sold for USD37/m^2	• **1999** • Infrastructure work begins with Bechtel Supervision • **1999-2003** • Aggressive marketing to counter tourism industry crash • Appreciation of financial climate lead to practical and market sales terms and development schedules • **2004-2007** • Unprecedent sales success due to relationship marketing and private roundtable negotiations	• **2007** • First regional four-star hotel begins operations • Phase III MP begins • ERC submits offer for additional 14 million m^2 on the Red Sea in Bernice* • **2008 Onwards** • New management augment existing internal structure and includes key support functions in HR plan • Development of community services management and utilties • Second regional four-star hotel begins operations • Focus on completing key strategic assets	• **2010** • New CEO appointed • Strategic and operational priorities put forth • Rowad Tourism sells 5% of its stake in ERC • ODH buys a 4.5% stake in ERC • ODM signs an agreement with ERC to promote and manage the development of the Marina

*According to management, the purchase did not take place

Source: ERC, HC Research

The 2.5 million sqm marina land, which was previously sold in 2006 for the Serrenia project at USD20/sqm, has been returned to ERC. Accordingly, all related receivables and liabilities (customer deposits) have been taken off ERC's books. ERC plans to continue owning the asset and is currently working on designing the marina. Additionally, it has entered into an agreement with Orascom Development Management, a subsidiary of ODH to develop and manage the project.

ODM is to market, sell, and manage the development of the 2.5 million sqm marina in return for a revenue-and-profit-sharing scheme, while ERC will remain the owner of the asset. Details of the agreement have not yet been disclosed. We believe the interest of ODH (through ODM) in the marina highlights its strategic importance as a source of recurring income.

In early April, ERC's largest shareholder, Rowad Tourism, sold 5% of its stake in the company, bringing down its share to 10%. ODH, which divested its c9% stake in ERC in 1H06, has taken a 4.5% stake in the company.

Financials and Valuation

- **Given the cyclical nature of land sales, at this stage we do not assume any new sales in our revenue forecasts**
- **We focus on accurately assessing ERC's land bank value, relying on our "sister land approach"**
- **We initiate on ERC with a Buy Recommendation and TP of EGP4.1/share, implying a 38% upside**

Financials

ERC sells land on an installment payment basis, where 20% is paid up-front, and the rest is paid in six semi-annual equal installments. That said, the company recognizes partial revenue upon sale, where the down payment is fully recognized, while installments are discounted at an interest rate of 5% for sale transactions conducted in USD and 13% for EGP transactions. The difference between the total sales value and the recognized value is booked as deferred revenue allocated evenly over the period of the installment.

Land sales are the main source of revenue for ERC. Earlier, the company used to sell smaller plots of land to individuals for the purpose of constructing villas. However, in 2007 the company altered the strategy to better implement its master plan. While ERC did not book any land sales for 2009, deferred revenue on installments and services rendered contributed to marginal revenue of EGP26 million. For its subsidiary SHC, ERC has yet to recognize revenue given that SHC is currently developing the downtown area, which is yet to contribute. Operations for the downtown area are scheduled to commence by the end of 2010.

Receivables from the sale of land represent the largest item on the balance sheet at EGP468 million as of FY09. Land liabilities at roughly EGP218 million mainly represent long-term purchase liabilities for phase III of Sahl Haheesh and also includes TDA payable commissions (USD1.75) on previously sold land.

ERC records its development expenses differently by providing the expenses upfront. On the balance sheet, ERC records actual costs incurred and estimated costs as an asset (WIP), with the estimated future amount as a liability (provisions). On sale of land, the estimated cost of land is adjusted for the actual costs in WIP while the change in new cost estimates (revised on an annual basis) is also adjusted for. On the income statement, the cost of land sold represents both actual and estimated costs, which include the cost of land purchased, infrastructure costs, and a fixed fee of USD1.75/sqm paid to the TDA for every sale.

ERC has a healthy cash stance where it has always been in a net cash position given its zero leverage policy. At the end of FY09 ERC's cash balance stood at EGP309 million with no debt. Having said that, the company follows a self-financing model, whereby a 20% down payment and recurring installment payments are used to finance its infrastructure development, limiting external funding needs. ERC used to enjoy a tax holiday until it expired in 2007 when effectively the 20% down payment received on land sales began going out as tax payments. On the other hand, SHC is still tax-exempt until 2018, thus easing the tax burden at this stage. In the short term, given the uncertainties related to land sales, we do not expect any dividend pay out, instead it plans to reinvest its cash to support its growth strategy.

Valuation

We value real estate companies using a combination of DCF and land valuation. Where a final master plan is available, we use DCF. Otherwise, we use land valuation only. To be conservative, at this stage we exclude future projects from our valuation and apply a 50% discount to the land bank. Given the cyclical nature of land sales, it is difficult to assess the impact of the company's recurring income stream. Therefore, our focus at this stage is tilted towards land valuation rather than DCF.

We initiate on ERC with a Buy Recommendation and a target price of EGP4.1/share, implying an upside potential of 38%. ERC is mainly a play on land, which makes up around 88% of our target price with the balance coming from project DCF. As we mentioned earlier, further potential upside could be driven by upward revision of land selling prices, which at current levels imply a sub-developer margin of 60%, versus the typical 20% industry average. For ERC, we use a WACC of 14.5% based on a risk-free rate of 9%, country risk premium of 5.5%, and a beta of 1.0.

Table 6: Land Valuation

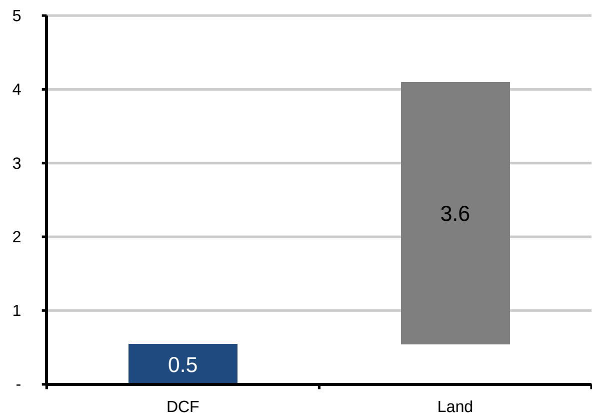
Land	Location	Land Area	Total Plot Cost	EGP PSM	Total Value (EGP mn)	Value after 50% Disc. (EGP mn)
Sahl Hasheesh phase I	Red Sea	0.1	0.7	275	13.8	6.9
Sahl Hasheesh phase II	Red Sea	2.6	40.6	275	715.0	357.5
Sahl Hasheesh phase III	Red Sea	25.3	407.8	275	6,957.5	3,478.8
Total		**28.0**	**449**		**7,686**	**3,843.1**
					Less: Liabilities	*(217)*
					Total Value	3,626
					Value/ Share (EGP)	**3.6**

Source: HC estimates

We opt to remain conservative in valuing ERC's land bank by applying a uniform value of EGP275/sqm for all phases regardless of location (phase I and II overlooking the Red Sea, while phase III is more inland). A catalyst for a higher valuation of the land is the completion of strategic assets like the marina in phase II and the downtown area.

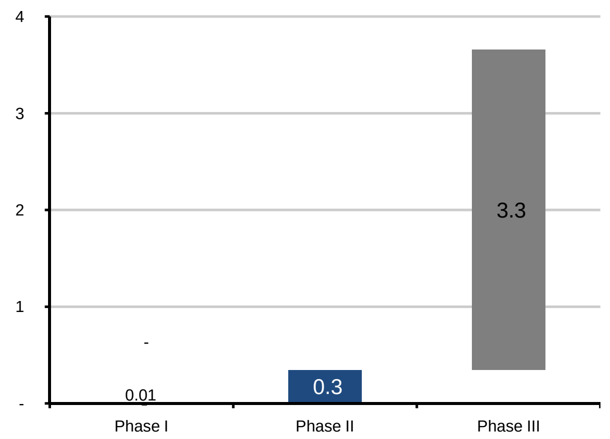
Chart 6

Land bank contributes c88% to overall valuation



Source: HC estimates

We apply uniform price across phases



Source: HC estimates

At current price levels, we believe the market is not giving value to land for real estate players (See *Land in Focus* published on 4 May 2010). Although our main theme suggests our preference for Cairo-based land over second-home destination land, we believe ERC's current stock price provides a pricing opportunity on the underlying land, which is currently priced at EGP92/sqm as shown in chart 7. This is compared to our estimates of EGP134/sqm, 60% above market value, but still at an 80% discount to 2008 achieved price average of USD143/sqm or EGP787/sqm.

Table 7: Free Cash Flow

Year	2008a	2009a	2010e	2011e	2012e	2013e	2014e	...	
EBIT	**318**	**(14)**	**(23)**	**(24)**	**(23)**	**(22)**		**(19)**	**318**
Tax Rate	0	-	-	-	-	-		-	0
EBIT * (1-T)	271	(14)	(23)	(24)	(23)	(22)		(19)	271
Depreciation and Amortization	(2)	(6)	(9)	(9)	(10)	(11)		(24)	(2)
Capital Expenditure	(150)	(70)	(10)	(10)	(10)	(10)		(10)	(150)
Changes in Working capital	(77)	(70)	98	104	104	104		-	(77)
Free Cash Flow: Explicit Period	**39**	**(159)**	**56**	**61**	**61**	**62**		**(53)**	**39**
Terminal Growth Rate									*3%*
FCF: Terminal									(235)
FCF: Total	**39**	**(159)**	**56**	**61**	**61**	**62**		**(530)**	**39**

Source: HC estimates

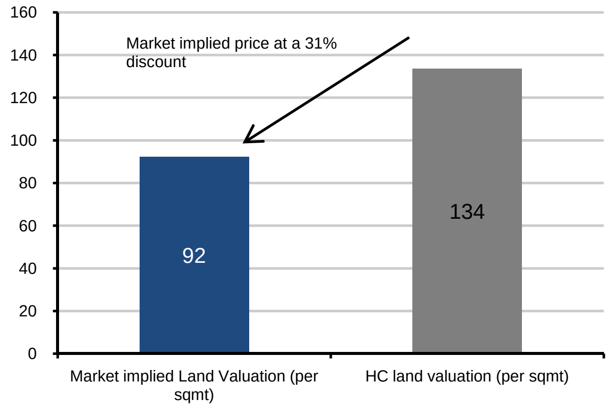
Table 8: DCF and WACC

Terminal Growth Rate	3.0%	WACC	
NPV: FCF	**178**	Beta	1.0
Net Debt/ (Cash)	(391)	Risk Free Rate	9.0%
Equity	570	Country Risk Premium	5.5%
Outstanding Shares	1,050	Cost of Equity	14.5%
DCF Value	**0.5**	Cost of Debt	10.0%
		After tax cost of debt	8.5%
		Weights (Amount in EGP mn)	
		Equity Market Capitalization	3,150
		Debt	-
		Total	3,150
		Tax Rate	15.0%
		WACC	**14.5%**

Source: HC estimates

Chart 7

Land valued at 32% discount over market implied value



Source: HC estimates

ERC trading at a discount to 2010e NAV of 61%

Source: Bloomberg, HC estimates

Our target price of EGP4.1/share implies a 47% discount to estimated NAV for 2010e of EGP7.8/share. To derive the NAV we adjust ERC's equity to reflect the market value of the land based on our "sister land model". The higher discount to NAV reflects the company's maturity profile with a larger portion of its value coming from land.

Table 9: NAV Calculation

ERC 2010e NAV	
Forecasted Equity as of 2010e	**1,144**
Add: Market Value of Land	7,470
Less: Book Value of Land	(449)
2010e NAV	8,165
Total Number of shares	1,050.0
NAV per Share (EGP)	**7.8**
Target Price	4.1
Implied (Discount)/ Premium to NAV	*-47%*
Market (Discount)/ Premium to NAV	*-61%*

Source: HC estimates

We conduct an in-depth land bank valuation analysis by adopting a relative approach. This allows us to evaluate the market-implied land valuation's deviation from its fair value, identifying the most undervalued land portfolios. Accordingly, we estimate that ERC's market price implies a discount of 32% to our fair land valuation.

Table 10: Market Implied Land Bank Valuation

Current Stock price (A)	3.0
Less: Backlog and Hotel Valuation (as per DCF) (B)	(0.5)
Market Implied Land Valuation (per share) (A-B)	2.5
HC Land Valuation (per share)	3.6
HC Premium/ (discount) to the Market	45%
Outstanding Shares	1050
Total HC Land Value (EGP mn)	2580
Undeveloped Land Area (mn sqm)	28.0
Market Implied Land Valuation (per sqm)	92
HC Land Valuation (per sqm)	134
HC Premium to Market	45%

Source: HC estimates

Company-Specific Risks

- **Land bank concentration**: Since ERC's large land bank is concentrated in the Red Sea, which already has several projects, attracting new developers might be challenging.

- **Value concentration:** ERC's valuation is highly dependent on its land valuation, accounting for 88% of total value. Accordingly, the company is largely leveraged on property price movements.

- **Execution risk:** As the project size is large, it might entail execution risks, leading to delays and impacting our valuation.

Financial Statements

Table 11: Income Statement (EGP mn)

Year to December	2008a	2009a	2010f	2011f	2012f	2013f	2014f
Land Sales	309	-	-	-	-	-	-
Villa Sales	-	-	-	-	-	-	-
Deferred Revenue Recognized	28.8	15.5	-	-	-	-	-
Services Revenue	9.6	10.3	10.7	11.2	11.8	12.4	13.0
Revenue	**347.8**	**25.8**	**10.7**	**11.2**	**11.8**	**12.4**	**13.0**
Cost of Land	(15.6)	-	-	-	-	-	-
Cost of Villas	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Other Operating Costs	(6.5)	(10.0)	(5.3)	(5.6)	(5.9)	(6.2)	(6.5)
Total Costs	**(22.1)**	**(10.0)**	**(5.3)**	**(5.6)**	**(5.9)**	**(6.2)**	**(6.5)**
% of sales	*6%*	*39%*	*50%*	*50%*	*50%*	*50%*	*50%*
Gross Profit	**325.7**	**15.8**	**5.3**	**5.6**	**5.9**	**6.2**	**6.5**
Margin	*94%*	*61%*	*50%*	*50%*	*50%*	*50%*	*50%*
Operating Expenses:							
SGA Expenses	(28.4)	(18.4)	(20.2)	(20.6)	(19.5)	(18.6)	(17.6)
Bank Charges	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other Operating Income	33.9	0.7	0.8	0.8	0.9	0.9	0.9
Depreciation	(2.2)	(5.7)	(8.8)	(9.3)	(9.9)	(10.5)	(11.2)
Receivables Impairment	(10.4)	(6.0)	-	-	-	-	-
Provisions	-	-	-	-	-	-	-
Operating Expenses	**(7.2)**	**(29.4)**	**(28.3)**	**(29.2)**	**(28.7)**	**(28.3)**	**(27.9)**
EBIT	**318.5**	**(13.6)**	**(22.9)**	**(23.6)**	**(22.8)**	**(22.1)**	**(21.4)**
Margin	*92%*	*-53%*	*-215%*	*-210%*	*-193%*	*-178%*	*-165%*
Net Financing cost	27.4	21.7	12.9	16.6	20.3	24.2	28.2
Associate Income	-	-	-	-	-	-	-
Profit before Taxes	**345.9**	**8.1**	**(10.1)**	**(7.0)**	**(2.5)**	**2.1**	**6.8**
Income Taxes	(80.1)	(11.5)	-	-	-	(0.3)	(1.0)
Minority Shareholder Interest	1.2	0.6	-	-	-	-	-
Net Profit (Loss)	**264.6**	**(3.9)**	**(10.1)**	**(7.0)**	**(2.5)**	**1.8**	**5.7**
Margin	*76%*	*-15%*	*-94%*	*-62%*	*-21%*	*14%*	*44%*
Basic EPS	**0.3**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**0.0**	**0.0**

Source: Company data, HC estimates

Table 12: Balance Sheet (EGP mn)

Year to December	2008a	2009a	2010e	2011e	2012e	2013e	2014e
ASSETS							
Cash and Cash Equivalents	371.2	309.2	391.8	483.4	579.3	679.3	732.7
Inventories	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Trade and Other Receivables (Current and Non-Current)	534.2	467.5	375.8	268.5	161.1	53.7	-
Work in Process	351.2	373.4	361.0	361.0	361.0	361.0	361.0
Advance Payments Purchase of Land	-	-	-	-	-	-	-
Debtors	25.5	15.0	12.0	9.0	6.0	3.0	-
Current Assets	**1,282.2**	**1,165.2**	**1,140.7**	**1,121.8**	**1,107.4**	**1,097.1**	**1,093.7**
Property, Plant, and Equipment	36.7	179.8	189.8	199.8	209.8	219.8	229.8
Projects in Progress	231.2	152.1	147.6	143.2	138.9	134.8	130.8
Permanent	**267.8**	**331.9**	**337.4**	**343.0**	**348.8**	**354.6**	**360.6**
Total Assets	**1,550.1**	**1,497.1**	**1,478.1**	**1,464.9**	**1,456.1**	**1,451.7**	**1,454.3**
LIABILITIES							
Customer Deposits	34.6	33.7	33.7	33.7	33.7	33.7	33.7
Creditors and Other Credit Balances	35.8	36.3	36.3	36.3	36.3	36.3	36.3
TDA Payables	23.8	25.9	18.5	13.2	7.9	2.6	-
Development Costs	58.9	41.6	41.6	41.6	41.6	41.6	41.6
Dividends Payable	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Provisions	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Income Tax Provisions	79.8	4.9	3.3	2.4	1.4	0.5	-
Current Liabilities	**233.6**	**143.1**	**134.1**	**127.9**	**121.7**	**115.5**	**112.4**
Borrowing and LT Debt	-	-	-	-	-	-	-
TDA Payables	4.0	1.3	1.3	1.3	1.3	1.3	1.3
Deferred tax Liability	0.8	7.4	7.4	7.4	7.4	7.4	7.4
Advances from Customers	-	-	-	-	-	-	-
Purchase of Land-Creditors	192.3	190.8	190.8	190.8	190.8	190.8	190.8
Long Term Liabilities/Non-Current	**197.1**	**199.5**	**199.5**	**199.5**	**199.5**	**199.5**	**199.5**
Minority Interest in Subsidiaries	**77.9**	**78.5**	**78.5**	**78.5**	**78.5**	**78.5**	**78.5**
Paid-Up Capital	1,050.0	1,050.0	1,050.0	1,050.0	1,050.0	1,050.0	1,050.0
Statutory and Other Reserves	61.6	130.0	130.0	130.0	130.0	130.0	130.0
Retained Earnings	(334.9)	(100.1)	(114.1)	(121.1)	(123.6)	(121.8)	(116.1)
Shareholder Equity	**1,119.3**	**1,154.5**	**1,144.4**	**1,137.4**	**1,134.9**	**1,136.7**	**1,142.4**
Total Liabilities and Equity	**1,550.1**	**1,497.1**	**1,478.1**	**1,464.9**	**1,456.1**	**1,451.7**	**1,454.3**

Source: Company data, HC estimates

Table 13: Cash Flow Statement (EGP mn)

Year to December	2008a	2009a	2010e	2011e	2012e	2013e	2014e
Net Profit Before Minorities	**345.9**	**8.1**	**(10.1)**	**(7.0)**	**(2.5)**	**1.8**	**5.7**
Depreciation and Amortization	2.2	5.7	4.5	4.4	4.3	4.1	4.0
Change in Working Capital	(77.4)	(69.6)	98.1	104.2	104.2	104.2	53.6
Gain/Loss	0.1	-	-	-	-	-	-
Impairment of Trade Receivables	10.4	6.0	-	-	-	-	-
Net Cash Generated from Operating Activities	**281.2**	**(49.9)**	**92.6**	**101.6**	**105.9**	**110.1**	**63.3**
Investments Activities:							
CAPEX PPE	(4.1)	(5.7)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Work in Progress Payments	(146.3)	(64.1)	-	-	-	-	-
Net Cash Generated from Investment Activities	**(150.4)**	**(69.8)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**
Financing Activities:							
Dividends Paid	(170.2)	-	-	-	-	-	-
Issuance Premium	(51.6)	-	-	-	-	-	-
Others	-	57.7	-	-	-	-	-
Net Cash Generated from Financing Activities	**(221.9)**	**57.7**	**-**	**-**	**-**	**-**	**-**
Net addition (deduction) in cash	**(91.1)**	**(62.0)**	**82.6**	**91.6**	**95.9**	**100.1**	**53.3**
Cash at Beginning of Fiscal Year	6,799.4	371.2	309.2	391.8	483.4	579.3	679.3
Cash at End of Fiscal Year	**371.2**	**309.2**	**391.8**	**483.4**	**579.3**	**679.3**	**732.7**

Source: Company data, HC estimates

Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

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