Commercial International Brokerage Co.

JULY 26, 2007

EGYPT TOURISM

Hany Mohamed Samy | hsamy@cicapitalegypt.com

EGYPTIAN FOR TOURISM RESORTS (ETR) BUY | MODERATE RISK

ETR: A resort to invest and rest

Reason for report: Initiation of Coverage

- Egypt's incoming tourism traffic has been on the rise since 2004 with a notable rise in Arab tourism. With 1.8 mn visitors from the MENA region in 2006, Egypt continues to be one of the most popular tourism destinations and a perennial favorite among Gulf-Arab travelers and a home away from home for many.
- The heavy influx of Arab tourists is primarily due to the aftermath of September 11, 2001, which deterred Arab nationals from visiting western countries on the one hand and the appreciation of the Euro currency, making traditional European destinations more expensive, on the other hand. In addition to the recent changes in Egypt's property law, attractive land and properties' prices have encouraged many Arabs to purchase holiday homes in Egypt, which remains the entertainment capital of the Middle East.
- Egyptian for Tourism Resorts (ETR)'s current thriving operations are expected to maintain their path for at least the next three years reflecting a bright outlook for the housing and touristic development industries that have been fueling a foreign investments spree and attracting a big chuck of the Arab petrodollars.
- Land development for touristic projects is ETR's core activity. Since inception in 1996, ETR was embarked in the development of a 32 mn sqm in Sahl Hasheesh (SH), 17 km south of Hurghada over three phases.
- The company is also in the process of acquiring 20 mn sqm in Ras Benas, 140 km south of Marsa Alam and 400 km south of Hurghada.
- During 1Q07, ETR was able to sell c. 244k sqm with a total value of c. LE 95 mn at an average selling price of LE 391/sqm or (US$68.9/sqm), additionally, in 2Q07, the company was able to sell c. 650k sqm land plot at a total price of c. US$42.5 mn, implying an average price of c. LE 373/sqm (c. US$65.4/sqm).
- Twenty reputable developers are planning to start their development operations in SH, including 17 Egyptian developers, one Jordanian, one Russian, and one Swedish.
- Our assessment yielded a fair value ranging from LE 18.98/share to LE 11.15/share for the best case and the worst case scenarios, respectively, with a weighted average value of LE 14.74/share, and a 12M target of LE 16.79/share, representing an upside potential of 34% and 52%, respectively, over the current market price. Hence, we initiate a BUY recommendation on ETR with a MODERATE risk rating.

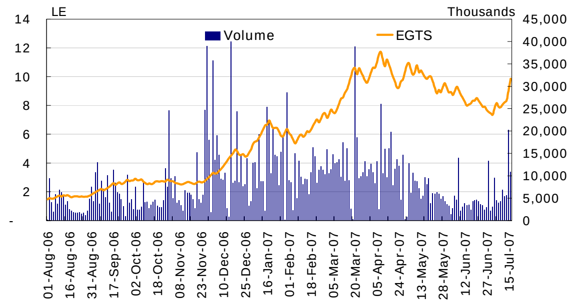
Fair Value	**LE 14.74**
12M Target	**LE 16.79**

Share Data

Reuters / Bloomberg	EGTS.CA / EGTS EY
Recent Price	LE 11.03
Number of O/S Shares*	700 mn
Free Float	31.54%
Market Cap	LE 7,721 mn
Weight in Market	1.3%
52-wk High/Low	LE 11.72 / LE 1.34
Average Daily Volume	8,516,853 shares
Average Daily Turnover	LE 55.1 mn

***Post the capital increase and the stock split**

Share Performance



Company Synopsis

Egyptian for Tourism Resorts (ETR) was incorporated in April 1996 as a shareholding company operating under Law no. 159/1981 and its executive regulations.

ETR's main activity is touristic development. Currently, it is undergoing the establishment of a fully-integrated touristic-residential community in Sahl Hasheesh, 17 km south of Hurghada. To achieve said objective, ETR can either supplies the land with infrastructure and sell it to other developers, or develop the land by itself, or in cooperation with other developers.

ETR owns 54.68% of Sahl Hasheesh for Touristic Development (SHTD) that was incorporated to establish and operate thirty 5-star touristic apartments (200 rooms) with the related services and supporting facilities in Sahl Hasheesh. The company has not started operations yet.

In February 1999, ETR had its shares listed on Cairo & Alexandria Stock Exchanges (CASE). On December 2006, ETR had an authorized capital of LE 700 mn, with a paid-in capital of LE 262.5 mn distributed over 262.5 mn shares with a par value of LE 1/share. On March 11, 2007, ETR approved increasing its authorized capital to LE 2 bn. On April 11, 2007, ETR announced an LE 262.5 mn capital increase, to be followed by a stock dividend at a ratio of 2:3. This brought paid-in-capital to its current level of LE 700 mn distributed over 700 mn shares.

Shareholders Structure

Banks, insurance co's. and other institutions	24.60%
Rowad Tourism (Al Rowad) Co.	13.80%
Kato For Investment	11.96%
First Arabia for Development and Investment	10.00%
Al Ahly Real Estate Development Co.	4.10%
Global One Ltd.	4.00%
Free Float	31.54%

I. INVESTMENT CASE

- POSITIVES

Growth in the tourism sector

The tourism and leisure industry is currently witnessing an uptrend evidenced by increasing tourists' nights, tourists' arrivals, tourism receipts and average spending per tourist. As such, the tourism sector remains one of Egypt's largest foreign currency earners and a main contributor to national GDP with a total share of 11.3% in FY05/06. Investments in tourism and leisure facilities have been significant and more developments are under way. Egypt has witnessed the construction and renovation of numerous hotels and touristic resorts since 2004. The majority of new developments concerned upper-end hotels and resorts, which registered an occupancy rate of c.62% in both 2005 and 2006. All said factors are believed to spur land development and fuel land demand to the north.

Arab developers investing in Egypt

Given the current economic growth and the GoE's positive policies towards the tourism sector and the upturn in touristic activities, Egypt has become a safe haven for the rising petrodollars in the oil-exporting countries of the Gulf region. Arab investors who are reluctant to invest in the US or Europe following the recent political and religious conflicts, see a comparatively low political risk in Egypt, and are creating an influx of touristic-related FDI. The GoE's positive policies include allowing foreigners to own properties in Egypt, which stimulated residential tourism activity, establishing and upgrading airports in major touristic destinations, and reducing internal flight rates to foreigners.

Relatively low political risk

ETR's land bank located on the Red Sea is not exposed to terrorists' attacks as compared to other touristic destinations in Sinai and upper Egypt. This low risk profile creates more demand for ETR's land bank, especially from foreign developers.

Land bank

a- Sahl Hasheesh

ETR land bank is located in Sahl Hasheesh (SH), 17 km south of Hurghada. ETR is developing its land bank over three phases. ETR was able to acquire c. 32 mn sqm since 1996 in SH, with 5.8 mn sqm, 6 mn sqm, and 20 mn sqm allocated to phase I, phase II, and phase III, respectively. Sellable area represents 77%, 88%, and 83% of original land bank for each phase respectively. 3.1 mn sqm and 2 mn sqm for phase I and phase II, respectively, have been already sold. As such, currently ETR owns c. 21 mn sqm of unsold land bank, of which c. 1.4 mn sqm, c. 3.2 mn sqm and c. 16.5 mn sqm are allocated to the three phases respectively.

Figure 1: Land bank breakdown

area (sqm)	Phase I	Phase II	Phase III	Total
Land bank	5,800,000	6,000,000	20,000,000	31,800,000
Total sellable area	4,465,710	5,300,000	16,500,000	26,265,710
Total sellable area / land bank	77%	88%	83%	83%
Area sold*	3,079,178	2,040,846	0	5,120,024
Unsold area*	1,386,532	3,259,154	16,500,000	21,145,686

** Area sold and area unsold sum up to total sellable area*
Source: ETR

b- Ras Benas

Following the success of its business model in SH, ETR is in the process of acquiring 14 mn sqm in Ras Benas (a.k.a. Bernice area), c. 140 km south of Marsa Alam and c. 400 km south of Hurghada. The development and selling of Ras Benas land is believed to increase value to shareholders.

Reputable developers

Twenty reputable developers are pursuing their development activities in SH area, including 17 Egyptian developers, one Jordanian, one Russian, and one Swedish. This highlights the potential of the location.

Hotels start operations in 2007

Currently there are 12 hotels under construction in phase I and phase II, 2 of which are to start operations in 2007, followed by 4 hotels and 6 hotels to start operations in 2008 and 2009, respectively. These hotels have a capacity of 14k rooms. The resort also encompasses many villas, touristic suites and apartments. The opening of the hotels and the inhabitation of the surrounding residential units will give life to the surrounding area and drive demand for the neighboring unsold areas.

Strong sales in 2007

Based on the above mentioned strong demand drivers, ETR's sales during 1Q07 amounted to LE 95 mn for an area of 243,808 sqm at an average price of LE 391/sqm (c. US$69/sqm) to five buyers including Hassan Allam Sons, Pyramisa Hotels and Touristic Villages, and Golden Resorts. During 2Q07, ETR was able to sell a 650k sqm land plot at a total price of c. US$42.5 mn and an average price of c. LE 373/sqm (c. US$65.4/sqm). Said transactions are expected to generate LE 275 mn of recognized sales during 1H07. The annualized 2007 sales figure would stand at LE 550 mn, 1.7x higher than that of FY06 of LE 326 mn.

54.68% ownership in SHTD

ETR owns 54.68% stake in Sahl Hasheesh for Touristic Development (SHTD), the owner of the commercial center of the project. The retail area of phase I amounts to c. 14k sqm. The derived rental income is expected to guarantee a continuous flow of cash to ETR.

New lines of business

Since inception, ETR restricted its activity to only land development and refrained from extending its operations to full projects' development. This followed strategy was intended to avoid direct competition with its clients of developers. This also permits ETR to limit its operational and business risks to the early stages of SH project.

ETR's management is currently studying the feasibility of establishing touristic residential projects. For phase I, management's vision is to establish 5 groups of touristic housing, 500 units each. Construction activity is expected to commence by the beginning of 2008.

Strong liquidity position

ETR enjoys a strong liquidity position necessary to develop its land bank. In FY06 year-end, cash balance amounted to LE 76 mn, 280% Y-o-Y. FY06's cash balance represented 11% of total assets, increasing from 5% in FY05. Additionally it represents 42% and 35% of phase I and phase II total budgeted costs of LE 182 mn and LE 221 mn, respectively.

Financial structure

ETR enjoys a very low debt profile, with long-term debt amounting to LE 56.108 mn in FY06, representing 8% of total assets compared to 17% of total assets in FY05. Additionally, long-term debt to equity registered 0.12x in FY06 vs. 0.28x in FY05. Said low debt profile gives ETR a room for increasing leverage, if needed, to finance future projects.

A liquid stock

ETR is one of the most active stocks in the tourism and leisure sector traded on Cairo and Alexandria Stock Exchanges (CASE) with average daily volume and value of 8,516,853 shares and LE 55.1 mn, respectively over the last 52 weeks. Additionally, ETR has a market capitalization of LE 7.72 bn, representing 26.7% of its sector's market capitalization and 1.3% of total market capitalization as of June 2007.

- NEGATIVES

Cyclicality of the industry

Touristic development is a cyclical activity stirred by both the local and global economic and political situation. The industry inherent cyclicality exposes ETR's activities to operational risk.

Competition

The main source of competition to SH as a touristic destination is the neighboring city of Hurghada, while for Ras Benas, competition will stem from the adjacent projects; an example of which, is Orascom Hotels and Development new 25-mn sqm project. This puts a pressure on ETR in terms of price setting and profitability. We believe that competition risk is far less for SH than for the less developed Ras Benas area as the former is well established and developed while the latter is not, which creates a stable level of demand for the former.

Speculation activities

As the increase in land price is a direct function of the level of development of the whole SH area, the fact that many speculators are acquiring several plots of land in anticipation of further price appreciation may halt the pace of progress of the area and cap the rate of price increase.

To mitigate this risk, ETR is diversifying its clients' base, in addition to applying sound measurements to restrict speculative activities including selling to reputable developers with a good track record.

II. VALUATION

Valuation methodology

We used the Discounted Cash Flow (DCF) methodology in valuating ETR's shares. Given that one of the key variables affecting ETR's fair value, as a land developer, is the estimated annual increase in land prices, we run a sensitivity analysis to capture the different paths land selling prices might take, in reflection to the state of the economy and the progress of the real-estate and tourism activities, that would ultimately affect the estimated annual increase in sales.

Our best case scenario assumes that selling prices will increase with a different rate each year over the forecasted period. This culminates into an average annual growth rate of 15%. On the other hand, the worst case scenario predicts an average annual growth rate of 7% over our forecasted horizon. Finally, the most probable scenario assumes an average annual growth rate of 13% over the same time frame.

Fair value of LE 14.74 per share

Accordingly, we reached a weighted average value of LE 14.74/share, representing an upside potential of 34% from the current market price of LE 11.03/share. The following figure shows ETR current fair value per share and the 12-month target under different scenarios.

Sensetivity analysis

Figure 2: Share value under different scenarios

a- Current fair value

Scenario	Best Case	Most Probable	Worst Case
Fair value per share	18.98	14.41	11.15
Weights	25%	50%	25%
Weighted average		14.74	

b- 12M target

Scenario	Best Case	Most Probable	Worst Case
Fair value per share	21.62	16.42	12.70
Weights	25%	50%	25%
Weighted average		16.79	

Source: CIBC estimates

Exclusion of Ras Benas

Given that ETR's acquisition of Ras Benas land bank is not yet finalized, we did not factor the potential cash flows generated from its development into our valuation model. However, we believe that said project will further fuel shareholders value to the north.

Sales forecast

We used the bottom-up approach in projecting ETR's sales taking into consideration the current available sellable land bank, current and estimated selling prices, and finally the state of the economy. Given the above, net sales are estimated to progress at a 33%, 6-year CAGR, reaching LE 1,789 mn in 2012.

III. Industry Overview

Emergence of the new urban communities

In the past, real estate and land ownership went hand in hand with wealth accumulation. During the 1990's, demand for real estate greatly outweighed supply, leading to a market chaos. By the mid-1990s, the real-estate market in Greater Cairo became saturated. With no where to move but out, the government adopted an ambitious program to encourage private-sector investment in residential real estates in new urban communities.

At that time, banks were embarked in a real-estate lending spree without proper feasibility or marketing plans. As more and more liquidity was tied in construction and development activities and projects were getting started, the economy crumbled and real-estate prices plummeted. Properties prices were almost halved in the second half of the 1990s and real estate stopped being perceived as a safe investment.

Those who had already purchased properties for investment purposes were left with dormant assets that were depreciating in value. Many people were anxious to get out before prices went down even further. These units, combined with the many units that were still unsold, furtherly saturated the market.

In the face of rising oil prices since 2003, emerging markets, especially in the Middle East, have grown ripe for investment. In Egypt, the new government of technocrats that took charge in July 2004, has loosened the bureaucratic strings that once kept big-name investors out of the country by overhauling customs bureaucracy and slashing corporate tax rates. It was by then that the Egyptian economy has entered a major period of recovery, complete with lower prices, increased spending and a rejuvenated stock market.

Key Drivers

Encouraging Regulatory Framework

In April 2005, Egypt revamped the property ownership laws to extend identical rights and privileges to foreigners in line with those enjoyed by native Egyptians. Ownership follows a freehold model, with the only exception being in Sinai, where the ownership is based on a 99-year long lease system. In addition, the New Real-Estate Tax Law that reduces taxes on land and buildings to 10% has been finalized. These recent reforms helped streamlining the process of property purchase in Egypt; facilitating property purchases for overseas buyers; and focusing investors' attention on Egypt as a prime location for real estate buyers as well as developers.

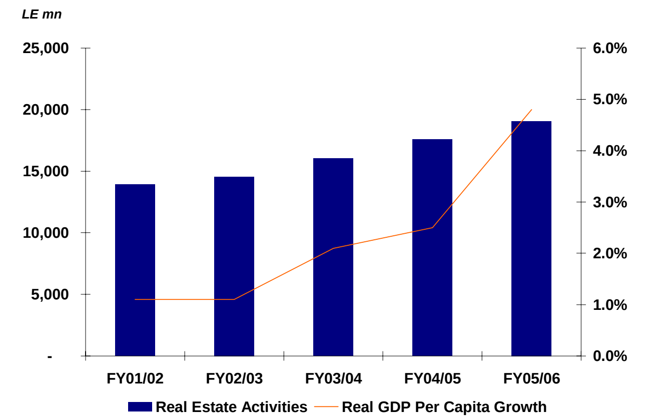
Mortgage Law

Compared to the deferred installment system, a developed mortgage finance system makes purchasing a house more affordable for more people through longer amortization terms, which ultimately stimulates and develops the property market. Yet, due to liquidity risk associated with the long-term financing nature of mortgage, the Central Bank of Egypt (CBE) allows banks to offer loans secured by properties at a ceiling of 10% of their loan portfolios. It is worth mentioning that total mortgage loans increased to LE 1 bn in December 2006, compared with LE 16 mn in December 2005, fueling further the purchase of properties and residential units in touristic resorts.

Increasing per capita income

Demand for property and residential tourism units is closely tied to growth in per capita income with a strong correlation coefficient of 0.945. 2006 estimates showed a rise in per capita income of 4.8% compared to 2.5% in 2005, boosted by the cut in personal income tax to 20% that was effected in June 2005. Such rise in per capita income stretches the purchasing and rental abilities for the developed projects, thus strengthening the grounds for further expansions. Moreover, strong growth in GDP per capita in key international destinations as Central and Eastern Europe (7.9%), European Union zone (5%), and the Middle East area (6.4%) acts as a driving force for property/residential tourism units' demand. These regions represent the bulk of international tourist arrivals to Egypt, and hence, highly contribute to real-estate demand potential.

Figure 3: Real estate activities vs. growth in real per capita GDP

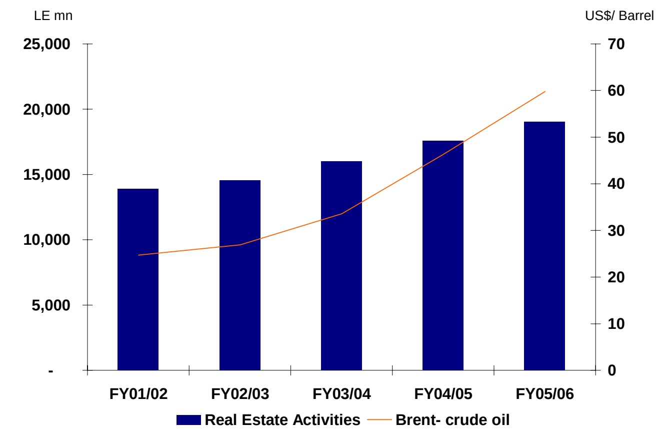


Source: Ministry of Finance

Petrodollars recycling fueled the property market

Strengthened oil prices reflected growing surpluses in oil exporting countries, namely those of the GCC region which registered an estimated current account surplus exceeding US$170 bn in 2006. Oil windfall pushed upward private wealth, which further boosted the recycling of petrodollars in value added opportunities as the real-estate market of prospective destinations, including Egypt, thus, further expanding the demand potential as well as expanding developers' capacities to invest in property and mixed-use projects.

Figure 4: Oil prices vs. real estate activities



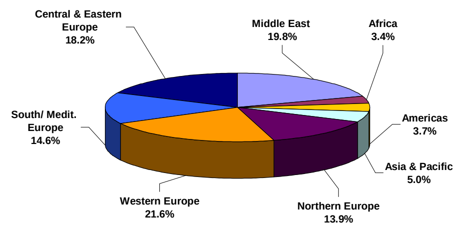
Source: CBE & Energy Information Administration

Strengthening tourist arrivals is another demand booster

The incoming tourism traffic to Egypt has seen an improvement since 2004 with a notable rise in Arab tourism. With 1.8 mn visitors from the MENA region in 2006 constituting 20% of the total number of tourists, Egypt continues to be one of the most popular tourism destinations and a perennial favorite among Gulf-Arab travelers and a home away from home for many. The heavy influx of Arab tourists is primarily due to the aftermath of September 11, 2001, which deterred Arab nationals from visiting western countries on the one hand and the appreciation of the Euro currency, making traditional European destinations more expensive, on the other hand. In addition to the recent changes in Egypt's property law, attractive land and properties' prices have encouraged many Arabs to purchase holiday homes in Egypt, which remains the entertainment capital of the Middle East.

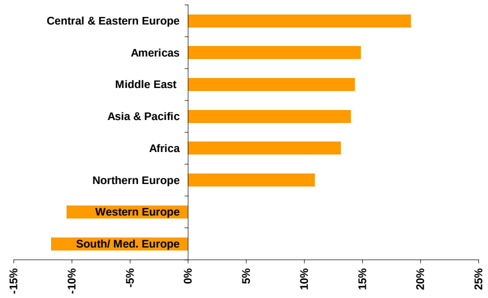
1Q07 continued to exhibit healthy growth; tourist arrivals increased 15.2%, reaching 2.48 mn, compared to the same period in 2006. Key tourists' inflow destinations are Europe and the Middle East, representing a significant combined share of 88% of total arrivals to Egypt. Repeated visits from these areas highlight potential purchasing of a second home, thus, serving as a target market for residential tourism. Moreover, the government's commitment to expand extensively the number of tourist arrivals to 14 mn by 2011, boosted by the plan to liberalize the aviation routes into the country underlines the growing potential demand for a second home in Egypt and satisfies the requirements of many prospective property developers.

Figure 5: Regional share of ITA in 2006



Source: Ministry of Tourism

Figure 6: Regional growth of ITA in 2006



Source: Ministry of Tourism

The increasing number of Arab tourists paved the way for the Arab's capital to step daringly into Egypt touristic and real-estate development sectors. Since then, Egypt has been witnessing an increase in tourism-related investments, raising Egypt's net foreign direct investment (FDI) to around US$5.38 bn in FY05/06. Arab investments totaled US$124.8 mn, US$363 mn and US$3,300 mn in 2004, 2005 and 2006, respectively. Properties demand has hence increased significantly as Gulf investors eyed different areas and products: huge tourism projects, land, villas and residences.

The Leisure & Lodging Market

With increasing tourism receipts and hotel occupancy rates, the tourism and leisure sector is regaining its importance as a main foreign currency earner and a main contributor to GDP with a total share of 11.3% in FY05/06 The leisure market offers a broad spread of facilities and opportunities, ranging from beach resorts and marinas to archeological and religious tourism to hotels and restaurants. Investments in tourism and leisure facilities have been significant and more developments are under way, through offering conference and exhibition facilities and therapeutic tourism, which will give rise to a new wave of tourism demand both internally and externally. As the number of annual visitors remains on the rise, the government has inaugurated new airports to accommodate the rising tourist arrivals.

Egypt has witnessed the construction and rehabilitation of numerous hotels and touristic resorts since 2004. The majority of new developments concern upper-end hotels and resorts registered nearly 62% occupancy in both 2005 and 2006.

The supply of upper-end hotels and touristic resorts will continue to increase in Egypt, especially in the Red Sea area, in the next five years as the construction of numerous four and five-star hotels is completed; it is likely that the market will have reached maturity by then and occupancy rates will fall.

The Residential Market

With proper public amenities and services, the urban sprawl of Cairo transformed neighboring suburbs into residential communities in Katameya and New Cairo to the East and Sixth of October and Sheikh Zayed to the West. These new developments have extended the limits of the capital city, creating new urban poles. But there still remains a clear shortage of budget housing.

The majority of residential development activity in Egypt was directed towards the upper-end residential real-estate market, which is getting closer to equilibrium. Prime residential real estate is benefiting from booming tourism, falling interest rates and stock markets volatility. However, any rush from developers to build new stock may quickly depress the market and reverse the ongoing recovery. In order to hedge against such risk, astute developers are now building only on a pre-sale basis. However with demand firming up and the cost of money reaching conformably low levels, a new wave of development could be on its way.

The Retail(Commercial) Market

The Egyptian retail market is concentrated in the city of Cairo. This market is witnessing a major transformation. With the opening of large supermarkets, shopping malls and international retail chains, shopping patterns are shifting away from scattered retail stores. Location remains the main factor driving the success of any retail developments. Accessibility also plays a major role in determining the optimal location of any new retail development.

Figure 7: Key recent real estate development projects

Area	Project
Cairo	Dubai-based, Al Futtaim Group, is developing a US$3.5 bn commercial and retail area"City Center" in Katameya over 200k sqm to establish a world-class complex that includes international retailers.
	The Dubai-based Emaar Properties is also developing the US$4 bn-project "Uptown Cairo" at the highest point of downtown Cairo (Mokatam) and will comprise residential buildings, a lively central town centre, a clubhouse, hotels, restaurants, schools, mosques, and healthcare and recreational facilities.
El-Ain El-Sokhna	Construction work for Porto Sokhna started in Jauary 2007; including three 22-floor towers and a golf resort with 6,800 serviced apartments.
Marsa Alam	Kharafi Group is also undertaking a tourism development project in the southern Red Sea area of Marsa Alam, with a total investment cost of US$1,200 bn to create the international destination resort of Port Ghalib over a total area of 8 mn km2. The project comprises 9 villages, 24 hotels, a marina, a conference center, residential properties, and an 18-hole golf course. Operations is expected to commence by October 2007.
	Another project in Port Ghalib is set to be finalized by the end of 2007, established by Sun International, a South African based company. The project includes a 5-star hotel with a total capacity of 309 rooms and an estimated investment cost of US$1,200 mn.
North Coast	The inauguration of Almaza Beach Resort was on May 30, 2007; of which it is the first of five hotels of Almaza Bay Resort developed by Travco Group and TUI AG, the largest integrated German travel and leisure group. The project is located over an area of 3 mn sqm and will bring the capacity of the bay to 2,300 rooms in addition to 1,000 residential and tourists' villas. The resort also includes a tennis academy, a shopping mall, a golf course, a spa and horseback riding tracks.
	In August 2006, Emaar won Sidi Abdel Rahman Project “Marasi”, which will include 5-star hotels and residential accommodations with a capacity of 9,300 rooms, golf courses, an international marina, restaurants and shops. The project will be located over an area of 6,200 sqm in Sidi Abdel Rahman. The preliminary estimate of the project’s investment cost is LE 11,000 mn and will be complete within five and half years of receiving the land.
	The Mansour Amer Group will complete the 1,200 serviced appartments residential complex in Porto Marina by June 2007.
Red Sea	The UAE-based company, DAMAC will start working in 2007 on the development of 29.73 mn sqm on the Gamsha Bay, north of Hurghada. The complex will offer over 55,000 units, including villas, townhouses, appartments, retail establishments, shopping centers, marinas as well as 5-start hotels, spa resort, and an 18-hole golf course. The estimated investment cost of the project is US$16,300 mn.
Sahl Hashish	A mega project was established south of Hurghada airport over an area of 32 mn sqm. The project will be implemented over three phases. Phase one includes 2,500 rooms and 3,500 residential accommodations (already complete) with an investment cost of LE 2,400 mn. Hotels are expected to start operations in 2007. Phase two includes 6,104 rooms; 180 villas; and 500 residential accommodations and its investment cost is LE 1,500 mn. The project includes a marina for yachts, a golf playground, tourists' track, planes' track and a medical center. About 80% of the units of phase one was sold as well as 20% of the second.
	A mega touristic resort will be established in Sahl Hasheesh by Shaheen Business & Investment Group with a total investment cost amounting to US$2 bn, covering an area of 3 mn sqm, which was bought in late 2006 from Egyptian Resorts Company (ERC). The Serrenia Resort will comprise a range of residential styles, including palaces, villas, large and luxurious appartments in addition to 200-bed room 7-star hotel, golf course, health centers and a marina. It is worth mentioning that construction has started in early 2007 and will take about a three-year period to commence its official operations.

Source: www.noozz.com, Iicom Estate & newspapers

IV. Company Profile

Lines of business

ETR's core operations are land development. In this regards, ETR acquired land plots amounting to c.32 mn sqm in SH area to establish a fully-integrated touristic-residential community.

According to its article of incorporation, not only ETR can perform land development activities but also it can establish touristic and residential projects by itself or in coordination with other developers.

Finally, ETR owns 54.7% of Sahl Hasheesh for Touristic Development, the possessor of SH project commercial center. The commercial center is comprised of shops and restaurants whose rental income can ensure a stable decent cash flow once the project becomes operative.

Land bank

a- Sahl Hasheesh

Since inception ETR acquired a total of c. 32 mn sqm of land. In 1996, ETR acquired c. 5.8 mn sqm in SH at an average cost of US$1/sqm, of which about c. 1.4 mn sqm or c.31% is unsold. Following the success of phase I, ETR started phase II of its project by acquiring an additional 6 mn sqm at US$1.25/sqm. So far, ETR has sold c. 2 mn sqm or 39% of phase II. Finally, ETR acquired 20 mn sqm in 2007 at US$1.4/sqm. As such, the current land bank available for sale amounts to c. 21 mn sqm with an average acquisition cost of c. US$1.35/sqm.

According to the company's officials, ETR is planning to complete the development of phase II by 2009, to be fully sold and delivered by 2010. Phase III master plan is scheduled for completion by 2007 year-end, post which land sales will start over a projected 4 to 6 year period.

b- Bernice/Ras Benas

ETR has tried to benefit from the success of SH project by mimicking the same business model in Ras Benas. In this respect, ETR is in the process of acquiring 14 mn sqm in Ras Benas, 140 km south of Marsa Alam and 400 km south of Hurghada. Ras Benas land bank represents an outstanding opportunity for ETR to benefit from the low acquisition cost and the estimated high selling price in the area that has come under the spotlight especially following the announcement of Orascom Hotels and Development project in the area.

Currently, ETR is waiting for the approval of the Touristic Development Authority (TDA) to finalize the purchase of 4 mn sqm as well as the rental of 10 mn sqm for 10 years in Ras Benas. Such buy-rental decision is a function of the pace of land development and demand by developers for Ras Benas land. According to the company's officials, the development process is scheduled for 2008, with an expected development duration of 8 years. Selling activity is therefore to start by mid 2008 and end in 6 years.

Land acquisition/renting agreement with TDA

In general, after receiving the concession right from the TDA, ETR can decide between renting the land and buying it. Once it decides on land acquisition, it pays an allocation and contracting fee of 7% as well as an initial installment of 20% of the land value with the remaining 80% paid over 10 years, including a 3-year grace period. ETR bears a 5% annual interest rate on the outstanding balance of the cost of the land purchased.

On the other hand, ETR rents the land for two reasons: (i), when the land plot is too large and the company does not have enough financing for a purchase; (ii) when there is a wide time lag between the time the land is acquired and the time the land is supplied with infrastructure and is ready for sale. In both cases, it is better for the company to pursue the renting avenue.

According to the terms of the agreement with TDA, ETR can rent the land for 10 years with a price of US¢1 per sqm in the first year which increases by US¢1 per sqm annually till it reaches US¢4 per sqm. This rent fee is then carried forward till the end of the rental period.

During the renting period, ETR can supply the land with infrastructure and retain the option to acquire it.

Sales recognition

The company recognizes sales upon the delivery of land to purchasers. By virtue of its agreement with the TDA, the latter is entitled to US$1.75 for each sqm sold.

Land developing costs

Phase I and phase II budgeted development costs are estimated at LE 56.15/sqm (c. US$9.9) and LE 40.91/sqm (c. US$7.2) respectively. Estimated budgeted costs for phase III are not declared yet.

Established projects

So far, ETR was successful in selling c. 5.1 mn sqm or c. 52% of phase I and II's sellable land bank which stands at 9.8 mn sqm, on which 12 hotels are under construction with a total capacity of 14k rooms.

Capital Structure

On December 2006, ETR had an authorized capital of LE 700 mn and a paid-in-capital of LE 262.5 mn distributed over 262.5 mn shares at a par value of LE 1 per share. On March 11, 2007, ETR approved increasing its authorized capital to LE 2 bn. On April 11, 2007, ETR announced a capital increase of LE 262.5 mn followed by a stock dividend at a ratio of 2:3; as such issued and paid-in-capital reached LE 700 mn distributed over 700 mn shares.

V. Operational and Financial Analysis

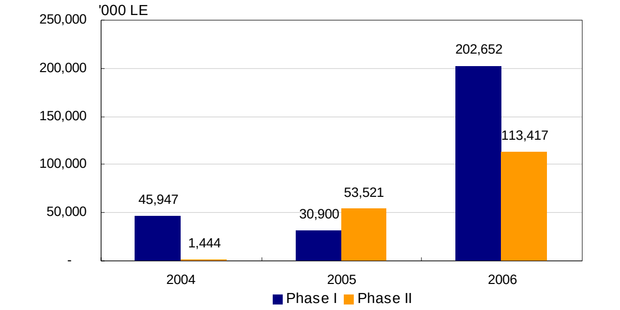
Sales analysis

ETR witnessed a tremendous Y-o-Y growth of 285% in net sales in FY06 to LE 325.6 mn compared to LE 84.5 mn in FY05. In 1H07, sales are estimated to reach c. LE 275 mn.

Land sales' breakdown by phase shows that phase I net sales accounted for 62% of FY06's net sales or LE 202.7 mn compared to 37% of FY05's net sales or LE 30.9 mn. On the other hand, Phase II sales represented 35% of FY06's net sales or c.LE 113.4 mn compared to 63% in FY05 or c .LE 53.5 mn.

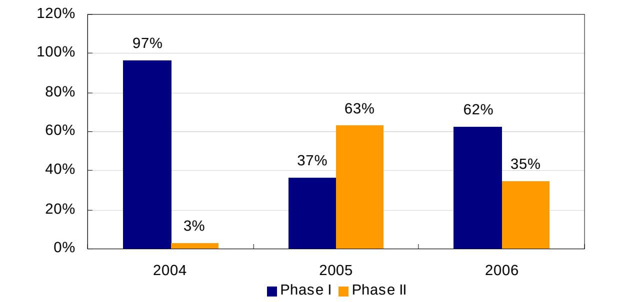
Land sales' breakdown by type shows that "land sales" amounted to c. LE 290 mn, representing 89% of FY06's net sales, while "sales of land allocated for villas" represented 8% of FY06's net sales. "Land sales" amounted to c.LE 61 mn or 72% of FY05's net sales with "sales of land allocated for villas" making up the balance.

Figure 8: Sales breakdown by phase (value)



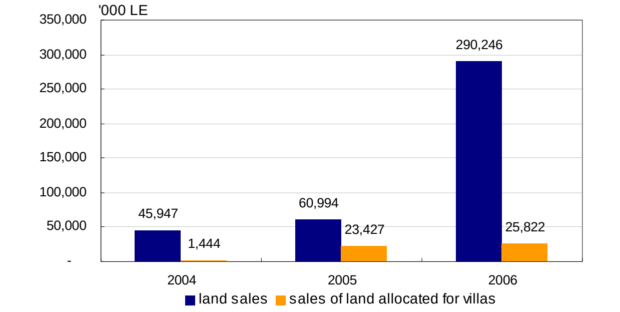
Source: ETR

Figure 9: Sales breakdown by phase (%)



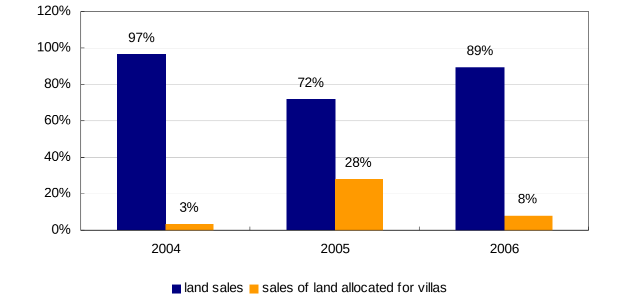
Source: ETR

Figure 10: Sales breakdown by type (value)



Source: ETR

Figure 11: Sales breakdown by type (%)



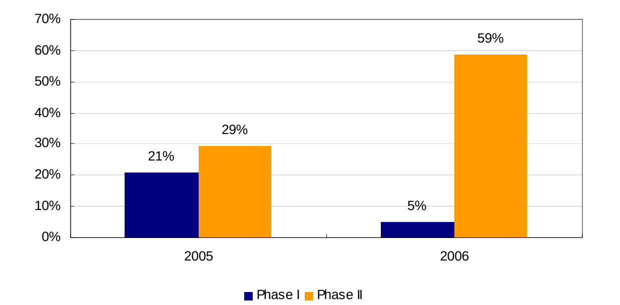
Source: ETR

Cost of Sales and margins

The CoS/Net sales ratio decreased 255 bps, reaching 23.7% in FY06 compared to 26.3% in FY05, pushing EBITDA margin to 73.7% vs. 67% a year ago.

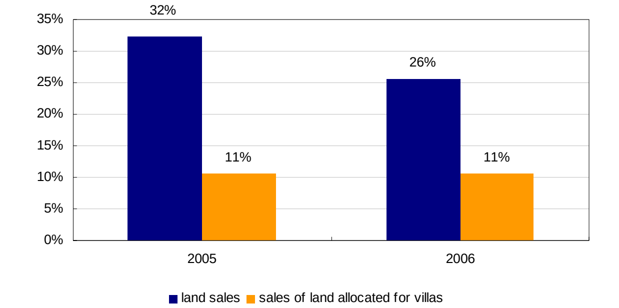
The following two figures show the CoS/Net sales ratio by phase and type over the last two years and highlight the improvement in the ratio over the period, except for that of phase II. Said improvement was the result of selling land originally acquired and developed in a low cost environment, at the current relatively inflated prices. On the other hand, the deterioration of the ratio for phase II from 29% in FY05 to 59% in FY06 was the result of adjusting the projects estimated costs in line with current prices.

Figure 12: CoS/Net sales by phase



Source: ETR

Figure 13: CoS/Net sales by type

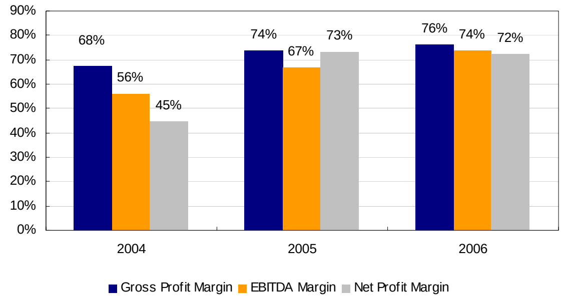


Source: ETR

Net profit and margin

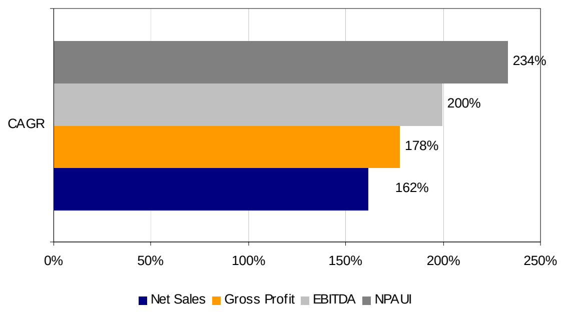
Bottom-line profits was almost quadrupled in FY06, hitting LE 235.5 mn from FY05 profits' level of c.LE 61.7 mn. Net profit increased at a CAGR of 234% between FY04 and FY06, with net profit margin hovering around the 73% level over FY05 and FY06.

Figure 14: FY04-FY06 Profit Margins



Source: ETR

Figure 15: FY04-FY06 CAGR



Source: ETR

Projects' financing

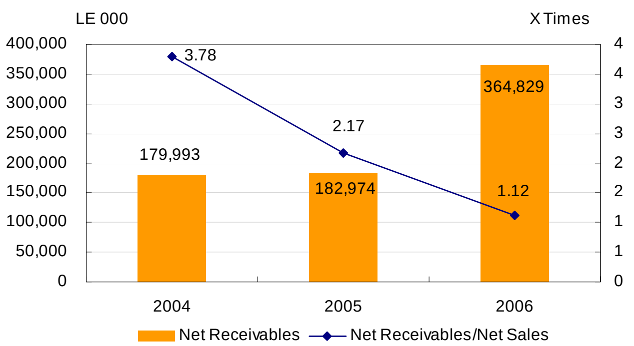
a) Cash

On the balance sheet front, ETR enjoys a strong liquidity position necessary to develop its land bank. In FY06, the cash balance was 280% up to LE 76 mn, representing 11% of total assets, increasing from 5% in FY05. This implies that the company could internally finance 42% and 35% of phase I and phase II total budgeted cost of LE 182 mn and LE 221 mn respectively.

b) Receivables

Total receivables increased 99% Y-o-Y to LE 365 mn in FY06 distributed between long-term and short-term receivables with a ratio of 44% and 56%, respectively on the back of the increase in land sales. The continuous collection of receivables guarantees a stable cash inflow that facilitates the financing of the development process. Total receivables represented 55% and 44% of total assets in FY06 and FY05, respectively. Additionally, FY06's total receivables represented 165% and 50% of total budgeted costs for phase I and II respectively.

Figure 16: Net Rec. and Net Rec. / Net sales



Source: ETR

b) Credit

ETR has a very low debt profile, with total long-term debt amounting to LE 56.1 mn in FY06, representing 8.4% of total assets. Long-term debt to equity ratio also ameliorated, registering 0.12x in FY06 vs. 0.28x in FY05. This low debt profile gives ETR a leeway for expanding leverage if needed, to finance future projects.

Tourism | ETR

Balance Sheet (LE mn)	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
Assets							
Cash & Cash Equivalent	76.0	1,131.4	1,607.1	2,475.9	3,734.9	5,270.4	6,951.7
Net Receivables	205.7	205.7	357.7	707.3	955.2	1,000.4	1,014.8
Total Inventory	155.0	183.6	265.4	273.6	270.8	291.3	319.0
Advance Payments to Suppliers	18.1	25.7	30.8	70.3	80.9	79.4	83.7
Other Trading Assets	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**457.6**	**1,549.3**	**2,263.9**	**3,530.0**	**5,044.6**	**6,644.4**	**8,372.0**
Net Plant	51.4	51.6	51.9	52.2	52.5	52.8	53.2
Long-Term Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Trading Non-Current Assets	159.2	159.2	312.1	509.6	562.2	555.1	576.6
Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**668.2**	**1,760.1**	**2,627.9**	**4,091.8**	**5,659.3**	**7,252.4**	**9,001.8**
Liabilities & Shareholders' Equity							
Short-Term Debt	0.0	209.6	419.4	946.0	1,612.7	2,367.1	3,269.1
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable	0.0	5.7	30.6	30.7	25.0	25.0	25.0
Accrued Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Down Payments	13.0	210.8	462.3	531.2	522.1	549.7	627.6
Taxes Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Payable	67.9	67.9	67.9	57.9	57.9	57.9	57.9
Other Spontaneous Finance	12.7	0.0	0.0	18.3	18.3	18.3	18.3
Other Current Liabilities	17.6	17.6	17.6	17.6	17.6	17.6	17.6
Total Current Liabilities	**111.1**	**511.5**	**997.8**	**1,601.7**	**2,253.6**	**3,035.5**	**4,015.4**
Total Long-Term Debt	56.1	128.1	128.1	109.8	91.5	73.2	54.9
Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Spontaneous Fin.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**167.3**	**639.7**	**1,125.9**	**1,711.5**	**2,345.1**	**3,108.7**	**4,070.4**
Deferred Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Provisions	0.4	0.6	0.8	0.9	1.1	1.3	1.4
Minority Interest	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Shareholders' Equity	**485.0**	**1,104.4**	**1,485.7**	**2,363.9**	**3,297.7**	**4,126.9**	**4,914.5**
Total Liab. & Shareholders' Equity	**668.2**	**1,760.1**	**2,627.9**	**4,091.8**	**5,659.3**	**7,252.4**	**9,001.8**

Income Statement (LE mn)	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
Revenues	**325.6**	**550.0**	**659.2**	**1,501.9**	**1,727.2**	**1,696.9**	**1,789.0**
COGS	(77.2)	(110.0)	(131.8)	(300.4)	(345.4)	(339.4)	(357.8)
Gross Profits	**248.4**	**440.0**	**527.3**	**1,201.5**	**1,381.7**	**1,357.5**	**1,431.2**
SG&A	(8.3)	(14.1)	(16.9)	(38.5)	(44.3)	(43.5)	(45.8)
EBITDA	**240.1**	**425.9**	**510.5**	**1,163.0**	**1,337.5**	**1,314.0**	**1,385.3**
Depreciation & Amortization	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)
EBIT	**239.8**	**425.6**	**510.1**	**1,162.7**	**1,337.1**	**1,313.6**	**1,384.8**
Interest Expense	0.0	(28.3)	(56.6)	(127.7)	(226.0)	(326.9)	(447.7)
Provisions	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest Income	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Investment Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non-Operating Income	0.0	0.0	0.0	10.0	0.0	0.0	0.0
Other Non-Operating Expenses	(4.7)	0.0	0.0	0.0	0.0	0.0	0.0
EBT	**235.5**	**397.8**	**454.0**	**1,045.4**	**1,111.6**	**987.2**	**937.6**
Taxes	0.0	0.0	(90.8)	(209.1)	(222.3)	(197.4)	(187.5)
NPAT	**235.5**	**397.8**	**363.2**	**836.4**	**889.3**	**789.8**	**750.1**
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAUI	**235.5**	**397.8**	**363.2**	**836.4**	**889.3**	**789.8**	**750.1**
Dividends	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***

Cash Flow (LE mn)	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
NOPAT	**240.1**	**425.6**	**419.3**	**953.6**	**1,114.7**	**1,116.1**	**1,197.3**
Depreciation & Amortization	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Gross Cash Flow (COPAT)	**240.4**	**425.9**	**419.7**	**953.9**	**1,115.2**	**1,116.6**	**1,197.8**
WI Change	(188.1)	167.2	(115.3)	(525.9)	(323.0)	(29.7)	10.2
Other Current Items	7.2	(12.7)	0.0	18.3	0.0	0.0	0.0
Cash After Current Operations	**59.4**	**580.4**	**304.3**	**446.3**	**792.2**	**1,086.9**	**1,207.9**
Financing Payments	**0.0**	**(28.3)**	**(56.6)**	**(127.7)**	**(226.0)**	**(326.9)**	**(447.7)**
Cash Before Long-Term Use	**59.4**	**552.1**	**247.7**	**318.6**	**566.2**	**760.0**	**760.2**
Net Plant Change	(18.0)	(0.6)	(0.6)	(0.7)	(0.7)	(0.8)	(0.8)
FCFF	**34.2**	**592.5**	**303.7**	**427.4**	**791.4**	**1,086.1**	**1,207.1**
Others	(60.5)	(807.8)	0.7	(7.6)	(17.6)	(17.6)	(17.6)
Cash Before Financing	**(19.1)**	**(256.3)**	**247.8**	**310.3**	**547.9**	**741.6**	**741.8**
Short-Term Debt	(0.0)	209.6	209.8	526.6	666.7	754.3	902.0
Long-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net-worth	(4.3)	221.5	18.2	41.8	44.5	39.5	37.5
Grey Area	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	35.8	0.0	0.0	(10.0)	0.0	0.0	0.0
Change in Cash	**13.9**	**174.8**	**475.7**	**868.8**	**1,259.0**	**1,535.4**	**1,681.3**

Note: A = Actual; F = Forecasted
Source: ERC and CIBC forecasts

Fact Sheet	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
ROE	48.6%	36.0%	24.4%	35.4%	27.0%	19.1%	15.3%
ROS	72.3%	72.3%	55.1%	55.7%	51.5%	46.5%	41.9%
ROA	35.3%	22.6%	13.8%	20.4%	15.7%	10.9%	8.3%
ROIC	43.1%	29.2%	20.5%	27.8%	22.2%	17.0%	14.5%
EBITDA Margin	73.7%	77.4%	77.4%	77.4%	77.4%	77.4%	77.4%
ATO	0.5	0.3	0.3	0.4	0.3	0.2	0.2
WI/ Sales	158.2%	65.6%	72.2%	65.5%	75.6%	78.7%	74.1%
ALEV	1.4	1.6	1.8	1.7	1.7	1.8	1.8
Debt/ Equity	0.3	0.6	0.8	0.7	0.7	0.8	0.8
Current Ratio	4.1	3.0	2.3	2.2	2.2	2.2	2.1

Share Ratios	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
Share Price	11.03	11.03	11.03	11.03	11.03	11.03	11.03
New No. Of Shares '000	262,500	700,000	700,000	700,000	700,000	700,000	700,000
Actual No. Of Shares '000	262,500	700,000	700,000	700,000	700,000	700,000	700,000
EPS	0.90	0.57	0.52	1.19	1.27	1.13	1.07
Diluted EPS	0.90	0.57	0.52	1.19	1.27	1.13	1.07
Div/Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenues/Share	1.24	0.79	0.94	2.15	2.47	2.42	2.56
Units Sold/Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capacity/Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BV/Share	1.85	1.58	2.12	3.38	4.71	5.90	7.02
Gross CF/Share	0.92	0.61	0.60	1.36	1.59	1.60	1.71
FCFF/Share	0.13	0.85	0.43	0.61	1.13	1.55	1.72
EBITDA/Share	0.91	0.61	0.73	1.66	1.91	1.88	1.98
EV/Share	10.95	9.90	9.52	9.00	8.13	6.99	5.85

Multiples	Dec-06 A	Dec-07 P	Dec-08 P	Dec-09 P	Dec-10 P	Dec-11 P	Dec-12 P
P/E	12.3	19.4	21.3	9.2	8.7	9.8	10.3
Diluted P/E	12.3	19.4	21.3	9.2	8.7	9.8	10.3
Div Yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/ Revenue	8.9	14.0	11.7	5.1	4.5	4.6	4.3
EV/ Revenues	8.8	12.6	10.1	4.2	3.3	2.9	2.3
P/ COPAT	12.0	18.1	18.4	8.1	6.9	6.9	6.4
EV/ COPAT	12.0	16.3	15.9	6.6	5.1	4.4	3.4
P/ FCFF	84.6	13.0	25.4	18.1	9.8	7.1	6.4
EV/ FCFF	84.0	11.7	21.9	14.7	7.2	4.5	3.4
P/ EBITDA	12.1	18.1	15.1	6.6	5.8	5.9	5.6
EV/ EBITDA	12.0	16.3	13.0	5.4	4.3	3.7	3.0
P/ BV	6.0	7.0	5.2	3.3	2.3	1.9	1.6

Recommendations Guide

Our three-tier recommendation matrix takes into account the imbedded risk in terms of company-, sector-, and share-specific factors in addition to the share's beta. The table to the right illustrates the new system depending on the upside potential calculated over the share market price. *(Example: If a share is rated HIGH risk, we would rate it a BUY if, and only if, it has an upside potential in excess of 10%.)*

RISK	HIGH	MODERATE	LOW
BUY	>10%	>5%	>0%
HOLD	5%-10%	0%-5%	0%--5%
SELL	<5%	<0%	<-5%