Egyptian Resorts Company "ERC"

Initiation of Coverage

December 23rd, 2007

Strategically located land bank

Egyptian Resorts Company's (ERC) land bank in Sahl Hashish area is the primary value driver, which extends over a total area of 32 million sqm on the shores of the Red Sea in a small bay.

A major beneficiary of the recent boom in the real estate and tourism sectors

Favorable market conditions will enable ERC to command premium prices (another value driver) on its sold land plots.

Diversification of revenue sources

Through its 73%-owned subsidiary Sahl Hashish Company for Touristic Investment (SHC), the owner of the commercial areas, ERC secured a new and ongoing revenue stream, which will materialize as the Sahl Hashish project gets more developed.

Plans to increase land bank

ERC is seeking to acquire 14 million sqm in Bernice, 150 km to the South of Marsa Allam, and 4 million sqm in Dahad on the coast of Al Aqaba bay.

Valuation Thesis

We are initiating coverage on Egyptian Resorts Company (ERC) with a buy recommendation. We reached a fair value per share of LE 14.16, using the Sum of the Parts (SOTP) analysis.

We derived the value by valuing ERC on a stand-alone basis using a blended DCF/Adjusted NAV valuation method (90:10 DCF:NAV), and SHC using the DCF method on a stand-alone basis, where ERC accounts for 85% and SHC accounts for 15% of ERC's total enterprise value. We discounted our free cash flow forecast for 2008 to 2013 period applying a 5% perpetual growth rate and a 16.76% weighted average cost of capital (WACC) with a target of 0% leverage.

Risks to Value

Main risks to our target price are the sale of the land plots falling short of the forecasted levels and/or a decline in the sale price, the two main value drivers.

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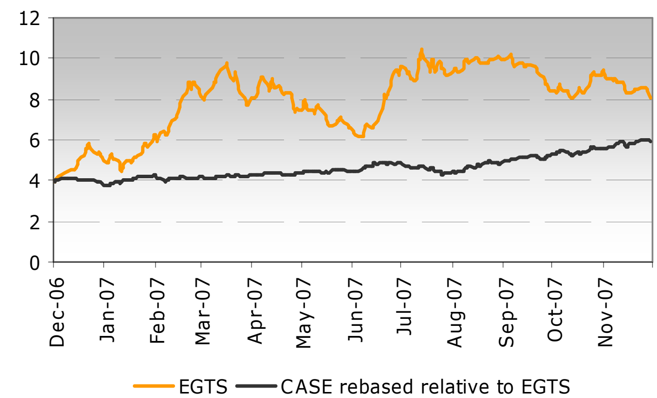
Recommendation	Buy
Fair Value	14.16
Market price	8.50
Upside potential	66.59%

Stock Data	
Reuters Code	EGTS.CA
Shares Outstanding (000)	840,000
Market Cap (LE 000)	7,140,000
Free Float (%)	34.67%
Free Cap (LE 000)	2,475,438
52-week range (LE)	3.94 - 10.45
Average Daily Trading Volume (000)	10,313
Average Daily Trading Value (LE 000)	80,544



Source: Reuters, Naeem Research

Financial Indicators

	2007E	2008F	2009F	2010F
Sales (LE 000)	519,607	828,838	1,267,883	1,999,788
Growth (%)	*59.6%*	*59.5%*	*53.0%*	*57.7%*
EBITDA (LE 000)	437,686	708,737	1,117,954	1,776,631
EBITDA Margin (%)	*84.2%*	*85.5%*	*88.2%*	*88.8%*
Net Income (LE 000)	386,206	704,093	888,076	1,408,090
EPS (LE)	0.46	0.84	1.06	1.68
Growth (%)	*63.8%*	*82.3%*	*26.1%*	*58.6%*

Valuation Multiples

	2007E	2008F	2009F	2010F
P/E	18.49	10.14	8.04	5.07
P/BV	4.86	3.17	2.28	1.57
P/Sales	13.74	8.61	5.63	3.57
EV/EBITDA	14.52	8.97	5.69	3.58

Table of Contents

Please refer to the analyst certification and disclaimer at the end of the report

Investment Summary

We are initiating coverage on Egyptian Resorts Company (ERC) using the Sum of the Parts (SOTP) method, where we divided ERC into two parts; ERC itself and Sahl Hashish for Touristic Investment Company (SHC), to determine the contribution of each Company to the total enterprise value. A fair value of LE 14.16 per share was reached based on a blended DCF:Adjusted NAV valuation methods for ERC and the DCF valuation method for SHC, offering a 66.59% upside potential from the current share price. ERC accounted for 85% of the Company's total value, while SHC accounted for 15%.

Egyptian Resorts Company (ERC) is a land developer, mainly engaged in the development of raw land plots by providing them with infrastructure and utilities services to resell them to property developers. ERC owns the exclusive development rights of Sahl Hashish bay, which stretches over a total area of 32 million sqm, 20 km to the south of Hurghada in the Red Sea. Sahl Hashish project will be developed on a three phases; phase I and II has a total areas of 5.8 million sqm and 6 million sqm, respectively, while phase III has a total area of 20 million sqm. The first two phases are already under development, whereas phase III master plan is not yet finalized. Moreover, ERC owns a controlling stake of 73% in Sahl Hashish Company for Touristic Investments (SHC), which will own and manage all the commercial spaces and entertainment areas in Sahl Hashish project.

The Demand on ERC land plots is mainly derived from property developers, who are engaged in providing tourism-related services and activities. Therefore, on the micro level (company's level) ERC is exposed to factors influencing real estate developers, while on the macro level (market level) ERC is affected by factors influencing the tourism industry.

The location of ERC land bank coupled with the current tourism and real estate sectors boom, and the ongoing development in the site, whether by the ERC or property developers (hotels and resorts developers), will help accelerate the development pace of Sahl Hashish project. We believe the outlook on ERC is positive, with the Company starting to reap the benefits from the development and progress in the first two phases of the Sahl Hashish project. This is evident by the substantial revenue growth of approximately 285% achieved over FY2006 compared to FY2005, which was mainly due to the sale of a 1.5 million sqm land plot to the Jordanian Shahin Group. Accordingly, we expect total revenues to grow at a CAGR of 37% over the coming 6 years.

Key Investment Strengths

- **Booming real estate and tourism sectors**
  The recent surge in the tourism activity, evident by the increase in the number of tourist arrivals nad the soaring prices in the real-estate-related activities on all fronts, will enable the Company to accelerate the development pace of its project as a whole and to command premium prices.

- **Distinguished land bank**
  ERC primary value driver is its Sahl Hashish land bank, which extends over a total area of 32 million sqm in a small bay. This land bank is located on the Red Sea shores, which is a major attraction site to tourists.

- **More revenue sources to come on stream**
  ERC's main revenue source is the sale proceeds of the land plots. However, through its 73%-owned subsidiary, SHC, the owner of the commercial and entertainment area, ERC will generate ongoing revenues from new sources, such as rental revenue. Moreover, ERC will assume an administrative role in Sahl Hashish project, where it will charge its clients against their use of the utilities services.

- **Acquisition of new land plots**
  ERC is currently attempting to increase its inventory of land plots, where the Company is seeking the approval of the Tourism Development Authority (TDA) to acquire 14 million sqm in Bernice, 150 km south to Marsa Allam. Furthermore, ERC's Board of Directors approved to acquire 70% in Rowad Dahab for Touristic Development Company, which owns a 4 million sqm adjacent to Abu Galoum natural reserve on the coast of Al Aqaba bay. In addition, ERC is looking for obtaining a land plot on the Northern Coast.

Key Investment Risks

- **Slowdown in the real estate and tourism sectors**
  ERC will be negatively affected by a reversal in the real estate and/or the tourism sectors trends, which will harmful the Company's sale prices. We believe that a slowdown in the tourism sector will more severely influence the sale price of land plots, as demand is dependent on property developers operating in the tourism sector.

- **Development risk**
  Any setback in the development of Sahl Hashish site would cause delay in the delivery dates of land plots, which is likely to cause reduction in demand by property developers. Consequently, negatively affecting the land plots sale price.

- **Concentration of land plots**
  Land plots owned by ERC are located along the shores of the Red Sea. These plots are mainly sold to clients, who operate in hotels and tourism sector. The more concentrated the land bank in areas related to the tourism activity, the more the Company's exposure to risks inherent in the tourism sector.

- **Regulatory changes in the land sale process**
  The TDA sells land plots for tourism development purposes at nominal values to encourage developers to establish new touristic locations. Accordingly, auctioning land plots instead, would increase the cost of acquiring new land plots, which will negatively affect the Company's future profit margins.

- **Reinvestment risk**
  ERC will accumulate large cash balances as more land plots are sold and Sahl Hashish project gets mature. This cash will be idle unless ERC acquired new land plots, in other words reinvest this cash, to expand in new locations.

SWOT Analysis

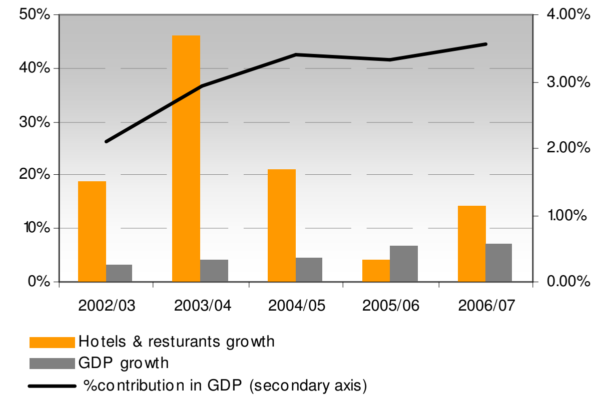
Strengths	Weaknesses
A distinguishable land bank on the shores of the Red Sea Diversification of revenue sources Reputable consultants to guarantee a world class designs Obtaining land plots at nominal values, which help the Company to realize good profit margins	Highly concentrated land bank in one location Increase in building materials prices No leverage, which has the effect of increasing the cost of capital, therefore depressing the Company's value
Opportunities	**Threats**
Booming real estate and tourism sectors Positive outlook on the economic performance in Europe in general, which represents the major tourists market for Egypt. Infrastructure developments, particularly airport expansions, would make Egypt a more accessible destination for tourists. Government objective to increase tourist arrivals Inflow of investments in the real estate sector in general from the GCC countries, backed by high oil prices Regulatory amendments, which allowed foreigners to own properties in Egypt	Cyclicality of the tourism sector Slowdown of real estate and tourism sectors Threat of terrorist attacks TDA changing the land sale process from selling land at nominal values to auctioning them Economic slowdown in countries where demand on Egypt as a tourism destination originate.

Market Overview

Tourism

Egypt accounts for around 25% of the Middle East and North Africa (MENA) tourists arrivals, and 33% of North Africa. Tourism industry is considered one of the important sectors in the Egyptian economy as it represents 3.6% of real GDP. In addition, the sector had a growth of 14.4% over the past FY 2006/07 and a CAGR of 16.6% over the past six years. The significance of the sector stems from its ability to generate foreign currency, which reached USD 8.0 billion based on the preliminary figures of the FY 2006/07, representing around 31% of total foreign currency receipts.

Figure(1):Hotels and Tourism sector against the economy in real terms



Source: Central Bank of Egypt

The tourism sector was negatively affected in FY2005/06, witnessing a sluggish growth of 0.5%, in terms of numbers of arrivals, due to the terrorists attacks on Sharm Al Sheikh in July 2005 and on Dahab in April 2006, which resulted in the reduction of the number of tourist nights by 0.7%. Luckily, the number of tourists arrivals bounced back and recorded a significant increase of 12.5% in FY 2006/07, coupled with an increase of 13.1% in the number of tourist nights.

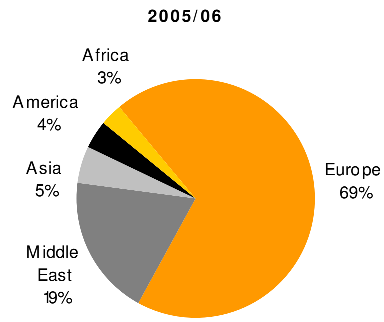
Table(1): Egyptian Tourism market statistics

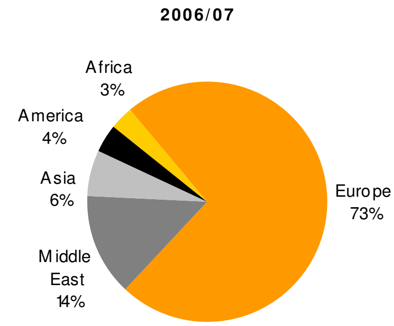
	2002/03	2003/04	2004/05	2005/06	2006/07*
No. of arrivals (000)	5,239	7,512	8,650	8,693	9,788
Growth (%)		*43.4%*	*15.1%*	*0.5%*	*12.6%*
No. of tourist nights (000)	33,011	73,002	85,730	85,113	96,270
Tourist average spending/night (US$)	115	75	75	85	85.2
Revenue (US$ million)	3,796	5,475	6,430	7,235	8,012
Average stay (nights)	6.8	9.4	10.6	10.4	9.8
Investments in hotels (LE million)	2,153	2,502	2,740	3,415	4,634
Growth (%)		16.2%	9.5%	24.6%	35.7%

Source: Central Bank of Egypt
* Preliminary

Given the increase of tourists arrivals and the number of tourist nights, a crucial need emerged to increase investments in hotels and resorts to meet the future anticipated demand and to attract more arrivals, especially that the government of Egypt is targeting to double the number of arrivals to 16 million during the coming several years. Investment in hotels and restaurants witnessed a significant increase over the past couple of years, recording a 25% and 36% increase in FYs 2005/06 and 2006/07, respectively.

Figure(2): Breakdown of tourists arrivals by region





Source: Central Bank of Egypt, Ministry of Economic Development

We believe that the recent strong performance of the tourism sector is expected to continue throughout the coming years, though not at the same high growth rate witnessed during FY 2006/07. According to the World Travel Tourism Council (WTTC) estimates, total demand on the Egyptian tourism market is expected to grow by 5.4% per annum, in real terms, between 2008 and 2017.

The anticipated positive outlook on the tourism sector is backed by the following factors:

Government plan to increase arrivals
The government objective is to double the number of holidaymakers over the next 6 years to reach 16 million. This will require the creation of additional 15,000 rooms per year to accommodate an extra one million visitors every year. Consequently, this will have a positive effect and will stimulate demand on the real estate and construction sectors, thus reducing the unemployment rate, as targeted by the government, where 200,000 jobs are created for every additional one-million-visitor, as stated by Minister of Tourism.

Strong economic performance in Europe
The European markets, especially Germany, Italy, France and the United Kingdom, are responsible for most of the total number of tourists arrivals to Egypt. In 2007, arrivals from Europe accounted for 73% of total arrivals compared to 69% in 2006. This increase in European share of total arrivals is attributable to the good economic performance in Europe, with the real GDP growth reaching 2.7% in 2006, and according to the Business Monitor International (BMI) is expected to be maintained at an average rate of 2.2% over the next five years.

Another factor is the strengthening of the Euro against the Egyptian pound. Since the beginning of 2007 till date, the Euro appreciated against the Egyptian pound by 7.4%, where the average exchange rate at the beginning of 2007 was 7.430 LE/€ , while it reached 7.981 LE/€ in December 2007. Moreover, good package deals, moderate climate all year long and proximity to Europe makes Egypt a preferred destination to European people.

Inflow of investments from the GCC countries
During the past couple of years, Egypt received heavy Foreign Direct investments (FDI) that amounted to USD 11.1 billion in FY2006/07, especially from the Gulf Cooperation Council (GCC) countries, backed by the higher oil prices, which created surplus liquidity (petrodollars) available for investments in their home countries and abroad. Investments from the GCC investors were mainly directed to all sub-sectors of the real estate industry, whether residential, commercial or tourism. Furthermore, arrivals from the Middle East, mainly from the GCC countries, accounted for 14% of total tourist arrivals to Egypt in FY2006/07. In addition, they are recurring visitors, whether for leisure or work purposes, due to Egypt's proximity to the Gulf region, which in turn can generate demand for a second home in the coastal areas, such as the Northern coast and the Red Sea coast.

Table(2): Planned tourism mega projects

Project	Developer	Nationality	Location	Area (Mn sqm)	Cost (Mn US$)	Time Frame
Marassi	Emaar	UAE	Sidi Abdel Rahman - Northern Coast	6.25	1,740	2006-11
Serrenia	Shahin Group	Jordanian	Sahl Hashish - Red Sea	1.50	2,000	2007-10
Gamsha Bay	DAMAC	UAE	Gamsha bay - Red Sea	30.00	16,000	2007-17
Port Ghaleb Resort	Al-Kharafi Group	Kuwaiti	Marsa Alam - Red Sea	N/A	1,200	2000-06
Total					**20,940**	

Source: Companies announcements

Political turmoil in the Middle East region

The political instability in the region, particularly in Lebanon, Iraq and Palestine, caused people from the GCC countries to shift their travel destination from Lebanon, which used to be a major tourism destination, to Egypt. Another effect caused by this disorder is that Lebanese and Iraqi people left their home countries and came to Egypt to settle down temporarily until the political issues in their respective countries are resolved, thus raising demand on housing in general, including tourism housing.

Infrastructure development

With the objective of promoting the efficiency of airport management and absorbing more traffic, the government of Egypt adopted a plan to renovate airports and increase the capacity of passenger terminals to accommodate the increasing number of arrivals. These expansion and renovations included Cairo, Sharm Al Sheikh, Hurghada and Luxor airports. This will have the effect of boosting Egypt’s ability to accommodate larger numbers of tourist arrivals.

Favorable regulatory amendments

The Egyptian government has taken several actions and initiatives to attract investments and stimulate property ownership. A law permitting foreigners to own properties in Egypt was issued, following a freehold model, with the exception of Sinai, which follows a leasehold model for 99 years. At the same time, the tax rate on real estate has been reduced to 10%, while property registration fees have been reduced from 12% to 3% with a cap of LE 2000. This will have the effect of expanding the market base on ownership of properties.

Despite the positive factors and initiatives undertaken by the government, which promises encouraging investment opportunities in the tourism sector, the tourism industry is very sensitive to the global economic and political stability, accordingly, the following risks embedded in the tourism industry should be considered:

Economic risk

A country could be severely affected by dire economic performance in countries making up a large percentage of its tourists market. In our case, the expected good economic performance of European countries and the soaring oil prices worldwide, reduce Egypt's tourism market exposure to the economic risk.

Threats of terrorist attacks

The Egyptian tourism industry suffered more than once from the consequences of terrorist attacks, especially that terrorists target touristic destinations. In July 2005, three bombs exploded simultaneously at two different places in Sharm Al Sheikh city. Whereas, in April 2006, the latest attack took place in Dahab, this risk is unpredictable and cannot be avoided.

Moreover, evident from the aftermath of September 2001 terrorist attack on the world trade center strongly emphasize that a terrorism act or political disorder in certain country or region could have a ripple effect that extend far beyond this country or region.

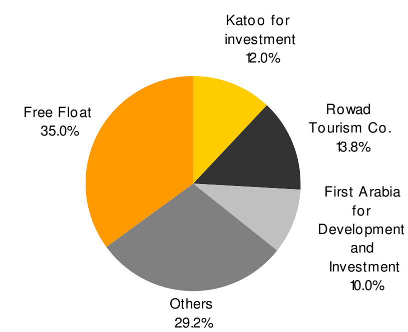
Company Overview

Background

Egyptian Resorts Company (ERC) was incorporated in 1996 as a joint stock company subject to law no. 159/1981 and its executive regulations. The Company was listed on Cairo and Alexandria Stock Exchanges on February 10th, 1999.

ERC main business activity is land development for touristic purposes. This includes reclamation, development and division of land and supplying all necessary infrastructure services and utilities. Currently, ERC main area of development is Sahl Hashish, located in the Red Sea governorate, 18 km south of Hurghada. Furthermore, The Company is seeking the approval of the TDA to acquire a 14-million-square-meter land plot in Bernice, located 150 km south of Marsa Allam.

Chart (3): ERC shareholder structure as of June 2007



Source: EGID

Capital

ERC's authorized capital is LE 2 billion. The issued and paid-in capital reached LE 840 million distributed over 840 million shares with a par value of LE 1 per share, after the Company effected a 1:5 stock dividend in December 2007.

Business Model

ERC adopts a unique business model, where the company performs a role similar to the New Urban Communities Authority (NUCA). ERC purchases raw land plots from the Tourism Development Authority (TDA) and develops these land plots by providing all necessary infrastructure and utilities services, and later sells them to property developers. Demand on ERC's land plots is mainly derived from property developers, who are interested in providing tourism-related services and activities. Therefore, on the micro level (company's level) ERC is exposed to factors influencing real estate developers, while on the macro level (market level) ERC is affected by factors influencing the tourism industry.

ERC philosophy is to limit its business to the development of land plots, making it a land developer not a property developer. Accordingly, ERC is only involved in the early development stages of land plots. The two reasons behind this is to restrict its exposure to market cycles and to avoid competition with its clients, the property developers.

To gain exposure to the tourism sector, ERC owns a 73% stake in Sahl Hashish Company for Touristic Investment (SHC), which owns all commercial spaces in the Sahl Hashish area. In addition SHC will develop some land plots and build luxurious tourism housing for high net worth individuals. Accordingly, ERC will be involved to some extent in the tourism sector through SHC, while at the same time, it will not be involved in the hotels and resorts development, which is the main specialist of its clients.

Stage 1

ERC purchases land plots from the TDA at nominal values. It pays 20% of the land price as a down payment, in addition to a 2% allocation fees and a 5% contracting fees. The remaining 80% of the land price is paid on seven equal annual installments with 5% interest rate, with the first payment starting after a three-year grace period.

Stage 2

Following the acquisition of a land plot, ERC starts the development process by putting a master plan in place for each phase of its project. Afterwards, ERC management or the technical department starts estimating the development cost of completing the acquired land plot in order to reach an average development cost per sqm. The estimated development cost for each phase includes the land price, development cost, share of each phase in the overall development cost of the project (much like overhead cost) and the TDA fees.

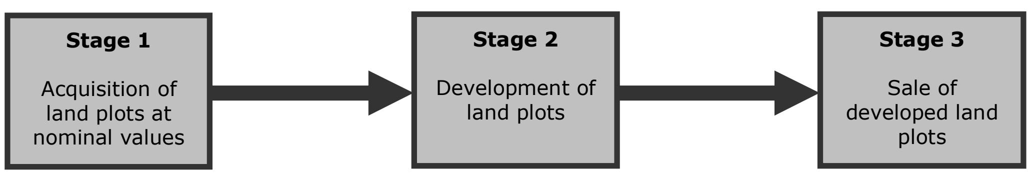
ERC hires reputable planning and design expertise for its projects. The consultants making major contributions to the Sahl Hashish project are Arthur Consulting Group International, RTKL, Bechtel International, Sabbour Associates and Environmental Quality Association.

Stage 3

At the time of the sale of a land plot, the TDA charges ERC with a fee either equals to 7.5% of the selling price or LE 11.25/sqm sold, whichever is higher. These fees were amended in July 2005 to become US$ 1.75 per sqm of sold plots.

ERC sale terms entail that the buyer pays a down payment of 30% of the sale price and the pay the remaining 70% on six equal semiannual installments.

Figure(4): ERC's business model



Source: ERC

Whenever, ERC sells a land plot an investigation on the potential buyers' technical and financial capabilities is undertaken, to prevent selling to speculative buyers, who buy land plots, in hope to resell them later at higher prices. This behavior will have the effect of deterring the development of the site and will negatively affect ERC sales.

ERC will provide also utilities services, such as providing electricity and potable water. Moreover, upon the completion of the project, ERC will take an administrative role in the maintenance and management of the project's public services.

Land Bank

ERC owns approximately a total land bank of 32 million sqm, located in Sahl Hashish, 18 km south of Hurghada. This land bank is divided into three phases, phase I and II have a total area of 5.8 and 6 million sqm, respectively, while phase III has a total land area of 20 million sqm. Phase I and II are currently under development, whereas phase III master plan has not been finalized yet. Moreover, the company is seeking the approval of the TDA to acquire a 14-million-sqm land plot in Bernice.

Phase I

Total land area of this phase is 5.8 million sqm, of which 1.03 million sqm are still unsold. The purchase price of this phase land plot was US$ 1.31/sqm. The estimated development cost of phase I, based on the Company's technical department estimates, is LE 56.15/sqm. ERC paid the last installment due on this phase in March 16, 2006.

Phase II

In March 2003, ERC obtained the TDA's preliminary approval to purchase phase II land plot having a total area of 6 million sqm. The unsold land area in this phase is approximately 2.66 million sqm. The purchase price of Phase II land plot was US$ 1.25/sqm, while the estimated development cost of the phase, based on the Company's technical department, is LE 40.91/sqm. During Q2 2007, ERC paid the remaining land value of phase II land plot to avoid incurring interest payments.

Phase III

In February 2007, TDA approved to sell 20 million sqm to ERC at a price of US$ 1.40/sqm. ERC paid 20% of the land value as a down payment, in addition to a 2% allocation fees and a 5% contracting fees. The estimated development cost of this phase is still not determined since the master plan is under development.

Figure(5): Phase I & II master plan

Source: ERC

Table(3): ERC current land bank

Land Bank	Sahl Hashish			
	Phase I	Phase II	Phase III	Total
Total land area (sqm)	5,800,000	6,000,000	20,000,000	31,800,000
Price per sqm (US$)	1.31	1.25	1.4	
Utilization rate	90%	90%	90%	90%
Sellable area	5,247,562	5,407,663	18,000,000	28,655,225
Remaining unsold area	1,033,529	3,659,742	18,000,000	23,096,447

Source: ERC

Bernice

Capitalizing on the success of the Sahl Hashish business model, ERC submitted an offer to the TDA to purchase a total land area of 14 million sqm in Bernice, 150 km south of Marsa Allam. Currently, ERC is awaiting the TDA's approval on its offer to purchase this land plot. If ERC was successful in acquiring this land, the Company's total land bank will increase to 45.8 million sqm. It is worth mentioning that Orascom Hotels and Development (OHD) have acquired 25 million sqm in Bernice in April 2006.

Subsidiaries

Sahl Hashish for Touristic Investments Company (SHC) is the only subsidiary of ERC, in which it owns a controlling stake of 73% and plans to increase it to 80% in the near future. SHC owns all the commercial and entertainment areas in Sahl Hashish, which have a total area of 220 thousand sqm approximately, distributed evenly between phases I and II. Currently, ERC is developing the downtown area, which has a total area of 14,000 sqm and will start operations in sequence, by the time of the starting of operations of the hotels, of which two have already started operations in the Q4 2007 and the other five will follow suit starting Q1 2008.

SHC will generate its revenue stream mainly from three sources; first, the rental of the commercial facilities, second, the sale of the luxurious tourism housing project, and third, the services provided to the hotel apartments. By doing this, ERC guarantees a continuous revenue stream from the ongoing rental revenue.

Moreover, ERC's Board of Directors’ meeting, held in October 2007, approved the acquisition of a minimum 70% stake in Rowad Dahab for Touristic Development Company, which owns 4 million sqm adjacent to Abu Galoum natural reserve on the coast of Al Aqaba bay. If the acquisition deal went through, Rowad Dahab for Touristic Development Company’s financial results would be consolidated in ERC. We did not take Rowad Dahab for Touristic Development Company into account when valuing ERC, as till date the deal is not finalized.

Recent Developments

Although, the revenues resulting from the hotels operation are not relevant to ERC but we need to highlight that as the hotels start operations and the projects gets more populated, the more the sale prices of land plots are expected to rise, which in turn will create more value to shareholders. In other words, ERC creates more value as the project gets more developed.

Currently, there are five hotels in the final stages of construction and are expected to be operational in sequence starting from the Q1 2008. All the hotels are expected to have a combined capacity of approximately 2900 rooms, which is translated into 1,055,215 annual room night. Once hotels starts operation, the downtown shopping mall and entertainment facilities will follow suit.

Table (4): Hotels under construction in Sahl Hashish project

Hotels	No. of rooms	Area (sqm)
Iberotel	246	52,400
Old Palace	300	61,556
Ibrahim Pasha Boutique	83	5,285
Alexandria Boutique	62	4,532
Pyramisa	700	118,941
Pharonic	900	146,903
Baron Palace	600	100,00
Total	**2,891**	**389,617**

Source: ERC

Financial Forecast

ERC derives its overall revenue from two main sources:

Direct source: generated by ERC itself, divided into two

- Sale of developed land plots
- Sale of utilities, water and electricity

Indirect source: through its subsidiary SHC, divided into three sources

- Rental of commercial facilities
- Sale of luxurious tourism housing and rental of related services
- Hotel Apartments

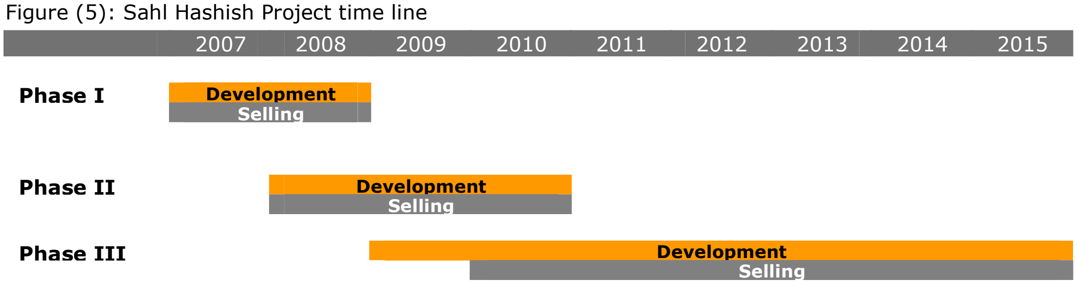
Land plots

Historically, ERC generated revenue from the sale of phases I and II land plots only, as phase III master plan is not finalized yet. Based on the Company's management guidance and our estimates, we assumed that all phase I land plots will be sold during the first half of 2008. In addition, we assumed that phase II land plots sales will be resumed in FY 2008, after stopping for the whole year of 2007, to be fully off loaded over a three-year period.

As long as phase III master plan is not finalized and the estimated cost for the completion of this phase is not calculated yet, we assumed that phase III cost per sqm would be 10% higher than that of phase II, resulting in a cost of LE 45 per sqm.

Phase III master plan is expected to be finalized soon and development to start in FY 2008. ERC is assumed to start the sale of phase III land plots starting from 2009, and to be fully sold out after seven years. Phase III will include a 2.5-million-sqm land plot allocated for villas and the remaining area will be sold to property developers, as stated by the Company's management.

Figure (5): Sahl Hashish Project time line

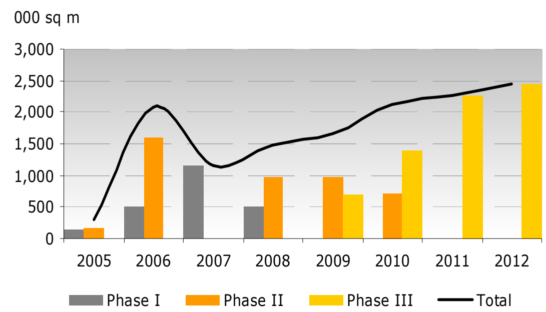


Source: ERC, Naeem Research

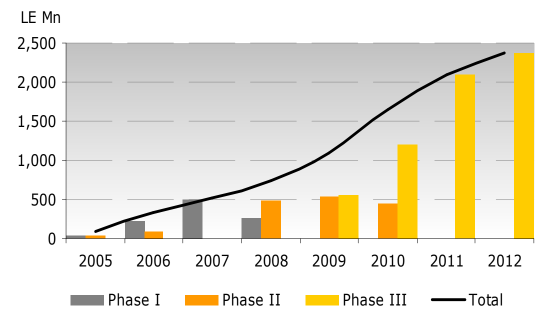
While estimating revenue from the sale of land plots, we have examined the historical prices of sold plots. We found that the sale price per sqm surged significantly during the past year, where it jumped from around US$ 60 per sqm at the beginning of 2007 to US$ 90 per sqm, currently. According to the Company's announcement, it will not sell land plots for less than US$ 90 per sqm. This price was determined based on an appraisal study undertaken by an independent appraiser, as stated by Company's management.

How fast the development of Sahl Hashish site goes, is a critical issue to ERC. The faster the development pace of the project site, whether by ERC and/or the property developers (hotels and resorts developers), the higher the sale price ERC would be able to command for the unsold plots. Another issue to consider is that as the Company sells more land plots and its inventory of land decrease, a scarcity value would be created for the remaining plots.

Figure(6): Land plots sold area by phase



Figure(7): Sales revenue of each phase

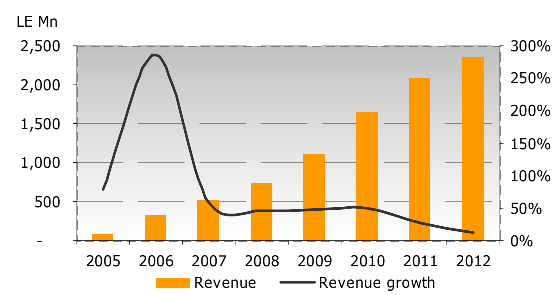


Source: ERC, Naeem estimates

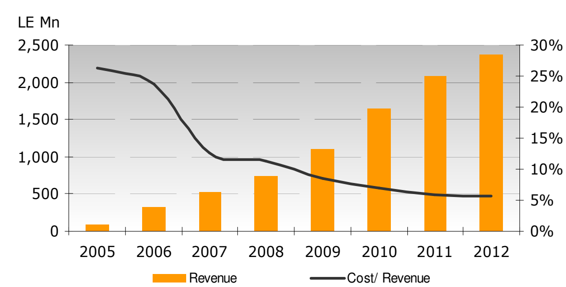
We believe that this increase in sale prices was due to the recent boom in the real estate sector and tourism sector, besides selling to clients with good track records and financial capabilities in tourism-related projects, which will help ERC to accelerate the project's development pace.

Therefore, we estimated that the sale price will increase on average by 7.72% annually, starting from a base sale price of US$ 90 *(an exchange rate of 5.60 LE/US$ was assumed throughout the forecast horizon)* for land plots allocated for projects. On the other hand, land plots allocated for villas are expected to have a sale price of US$ 360 per sqm, which we projected to increase by 5% annually starting from FY 2010. Based on our estimates for land plots sold areas and sale price per sqm, ERC land plots revenue is expected to grow at a CAGR of approximately 31% over the coming six years.

Figure(8): Land plots revenue and growth



Figure(9): Sales against Cost/Revenue



Source: ERC and Naeem estimates

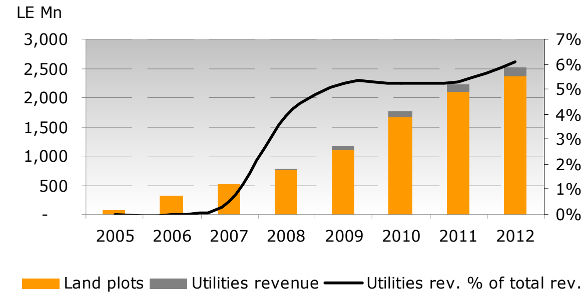
The accounting practice ERC follows is to record the estimated cost of sold plots on the Company's income statement not the actual cost. Therefore, ERC use a provision account on the balance sheet to reflect the actual cost on the income statement later on.

Our estimate for the cost of sales is based on the forecasted actual cost for the completion of each phase to neutralize the effect of the provision account on the balance sheet. Due to the recent increase in building materials prices, we added an extra 20% to the company's estimated cost for the completion of phases II and III. Meanwhile, we kept phase I cost as estimated by the Company's management as this phase is almost completed.

Utilities

ERC will provide utilities services, water and electricity, to the Sahl Hashish project. According to the management guidance, upon the completion of the project, water consumption is expected to reach 50,000 cubic meters per day at a sale price of LE 8.20 per cubic meter, while it will cost the Company LE 3.20 per cubic meter. This is translated into around 60% profit margin from providing potable water to the project. Furthermore, we assumed that the electricity revenue is expected to be 70% of water revenue and its corresponding cost to be 90% of water cost.

Figure (10): Land plots revenue against utilities revenue



Source: ERC and Naeem estimates

Table (5): ERC forecast assumptions

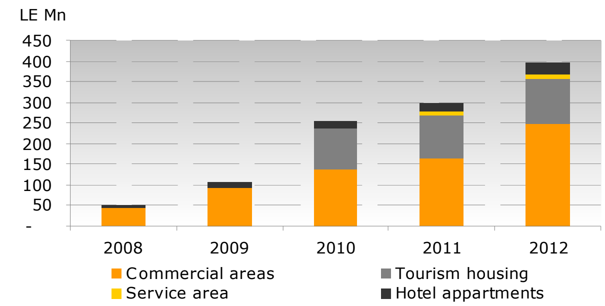
	2007	2008	2009	2010	2011	2012
Exchange rate (LE/US$)	5.60					
Land Plots						
Project Purposes						
Sold plots (sqm)	1,161,668	1,483,943	1,548,574	1,888,175	1,889,535	2,034,884
Price (US$/sqm)	90	90	100	110	121	130
Revenue (LE 000)	517,063	747,907	867,193	1,163,104	1,280,336	1,482,235
Villas Purposes						
Sold plots (sqm)	-	-	116,279	232,558	377,907	406,977
Prices (US$/sqm)			360	378	397	417
Revenue (LE 000)			234,419	492,279	839,951	949,791
Land plot revenue (LE 000)	517,063	747,907	1,101,612	1,655,383	2,120,287	2,432,026
Cost of revenue (LE 000)	65,222	83,916	92,545	116,464	122,343	131,754
Cost/Revenue (%)	*12.61*	*11.22*	*8.40*	*7.04*	*5.77*	*5.42*
Utilities						
Total annual water consumption (cubic meter)	182,500	2,190,000	4,380,000	6,570,000	8,395,000	10,950,000
Price (LE/cubic meter)	8.20	8.20	8.20	8.20	8.20	8.20
Water revenue (LE 000)	1,496	17,958	35,916	53,874	68,839	89,790
Electricity revenue (LE 000)	1,048	12,571	25,141	37,712	48,187	62,853
Utilities revenue (LE 000)	2,544	30,529	61,057	91,586	117,026	152,643
Utilities cost (LE 000)	1,110	13,315	26,630	39,946	51,042	66,576
Cost/Revenue (%)	*43.62*	*43.62*	*43.62*	*43.62*	*43.62*	*43.62*
ERC revenue (LE 000)	***519,607***	***778,436***	***1,162,669***	***1,746,969***	***2,208,215***	***2,517,295***
ERC cost (LE 000)	**66,332**	**97,232**	**119,175**	**156,409**	**173,384**	**198,330**
Cost/Revenue (%)	***12.77***	***12.49***	***10.25***	***8.95***	***7.85***	***7.88***
SG&A (LE 000)	**15,588**	**17,515**	**22,091**	**24,458**	**27,603**	**28,945**
SG&A/Revenue (%)	***3.00***	***2.25***	***1.90***	***1.40***	***1.25***	***1.15***
EBITDA (LE 000)	**437,686**	**663,690**	**1,021,403**	**1,566,102**	**2,007,228**	**2,290,016**
EBITDA margin (%)	***84.23***	***85.26***	***87.85***	***89.65***	***90.90***	***90.97***

Source: ERC, Naeem EStimates

Commercial Facilities

ERC will generate ongoing rent revenue from the commercial facilities, shopping malls and entertainment areas, through its ownership in SHC. SHC owns a total commercial area of 57,500 sqm in phase I, while phase II is expected to have an equivalent area, as stated by the Company's management. As long as phase III master plan is not in place, we did not take into consideration the commercial area of this phase in our forecast. On the other hand, the total rentable area of phases I and II is expected to be 73,500 sqm each.

Figure (11): Sources of SHC revenue



Source: ERC, Naeem estimates

Based on the Company's management guidance, we assumed that Commercial areas would be rented for LE 200 per sqm, which will increase by 5% annually. We further assumed that cost of sales will be 5% of rent revenue, as the tenant will bear the electricity, water and maintenance cost over the monthly rent value.

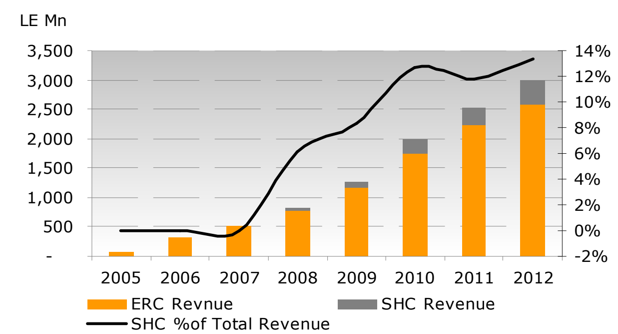
Luxurious tourism housing

SHC will undertake a luxurious tourism housing project, which will target high net worth individuals. The total investment cost for this project is approximately US$ 450 million. The project will be built on a total area of approximately 444 thousand sqm. The project will include villas, two-bedroom units, one-bedroom units and a retail area, which will represent around 6% of total area. The average sale price is expected to be US$ 1,750 per sqm, while the rent will be US$ 60 per sqm, as stated by the Company’s management. The development of the project will start in FY 2008, where SHC will start with phase I of the project, having a total area of approximately 103 thousand sqm.

Hotel Apartments

SHC will also be involved in the hotel business by establishing 740 hotel apartments divided equally between Phases I and II. These hotel apartments will be located in the commercial area, where shopping malls and entertainment facilities exist. The average monthly apartment rate is expected to be US$ 1000, which will increase by 5% annually starting from 2010. We assumed that the cost of sales will be 10% of the hotel apartment's revenue.

Figure (12): Split between ERC & SHC revenue



Source: ERC, Naeem estimates

To sum it up….

As Sahl Hashish project as a whole gets more developed and populated the revenue mix will evolve and new sources of revenue will come on stream. ERC generated its historical revenue solely from the sale of land plots. This situation is expected to change when SHC starts generating revenues, whether from selling the luxurious housing or renting commercial facilities or hotel apartments. According to our estimates, SHC is expected to account for 6% of FY’s 2008 total revenues and this percentage will increase to 17% in FY 2013.

Table (6): SHC forecast assumption

	2007	2008	2009	2010	2011	2012
Exchange rate (LE/US$)	5.6					
Commercial Area						
Rentable area (sqm)	-	18,375	36,750	51,450	58,800	84,525
Rent price (LE/sqm)	-	200	210	221	232	243
Revenue (LE 000)	-	44,100	92,610	136,137	163,364	246,578
Cost of Sales (LE 000)	-	2,205	4,630	6,807	8,168	12,329
Cost/Revenue (%)	-	5	5	5	5	5
Luxury Tourism Housing						
Sold area (sqm)	-	-	-	10,816	10,816	10,816
Average price (US$/sqm)	-	-	-	1,664	1,747	1,835
Retail rentable area (sqm)	-	-	-	-	2,160	2,520
Average rent (US$/sqm)	-	-	-	-	336	353
Revenue (LE 000)	-	-	-	100,800	114,549	121,801
Cost of Sales (LE 000)	-	-	-	25,806	26,241	26,339
Cost/Revenue (%)	-	-	-	25.60	22.91	21.62
Hotel Apartments						
No. of apartments	-	740	740	740	740	740
Utilization rate (%)	-	12.50	25.00	30.00	35.00	47.50
Apartment rate (US$/month)	-	1000	1000	1050	1,103	1,158
Revenue (LE 000)	-	6,302	12,605	15,882	19,455	27,724
Cost of sales (LE 000)	-	630	1,260	1,588	1,946	2,772
Cost/Revenue (%)	-	10.00	10.00	10.00	10.00	10.00
SHC revenue (LE 000)		**50,402**	**105,215**	**252,819**	**297,368**	**396,102**
SHC cost (LE 000)		**2,835**	**5,891**	**34,201**	**36,355**	**41,440**
Cost/Revenue (%)		**5.63**	**5.60**	**13.53**	**12.23**	**10.46**
SG&A (LE 000)		**2,520**	**2,772**	**8,089**	**8,898**	**12,833**
SG&A/Revenue (%)		***5.00***	***2.63***	***3.20***	***2.99***	***3.24***
EBITDA (LE 000)		**45,047**	**96,552**	**210,529**	**252,115**	**341,829**
EBITDA margin (%)		**89.37**	**91.77**	**83.27**	**84.78**	**86.30**

Source: ERC, Naeem Estimates

Valuation

We valued Egyptian Resorts Company (ERC) using the Sum of the Parts (SOTP) analysis, where ERC and Sahl Hashish for Touristic Investment Company (SHC) were valued on a stand-alone basis to determine the contribution of each Company to the total enterprise value. We valued ERC on a stand-alone basis using a blended Discounted Cash Flow (DCF)/Adjusted Net Asset Value approach with a weight of 90:10 (DCF:NAV), while we valued SHC using a DCF valuation methodology. This yielded a fair value per share of LE 14.16, based on a 5% perpetual growth rate and a 16.76% weighted average cost of capital (WACC), which represents 66.59% upside potential from the current market price of LE 8.5 per share.

ERC accounted for 85% of the total enterprise value, while SHC accounted for the remaining 15%. Moreover, we SHC accounts for 20% of the continuing value of ERC Company as a whole, which emphasizes that with the passage of time, SHC contribution to ERC total value will materialize.

The following table summarizes the valuation results

Table (7): ERC SOTP valuation summary
(LE million)

	DCF	NAV	Valuation method	Value	ERC Stake	Value to ERC
ERC	9,867	9,256	DCF:NAV (90%:10%)	9,806	100%	9,806
SHC	2,353	-	100% DCF	2,353	72.81%	1,713
Total Enterprise value (EV)						**11,519**
Cash	379					379
Equity Value						**11,898**
No. of outstanding shares (million)	840					840
Fair value per share (LE)						**14.16**

Sensitivity Analysis

Below is sensitivity analysis table, illustrating possible values given different perpetual growth rate and WACC assumptions

Table (8): Sensitivity analysis summary

		Perpetual growth rate		
		4%	**5%**	**6%**
WACC	**15.76%**	14.82	15.62	16.59
	16.76%	13.52	**14.16**	14.92
	17.76%	12.43	12.94	13.55

Risks to Value

Risks to our fair value include:

- Slower than forecasted sale of land plots and/or units of the tourism housing project
- Decline in sale price
- Lower than expected commercial area occupancy rate

Possible events that could trigger the above-mentioned outcomes individually and/or collectively:

- Slowdown in the European countries or the GCC countries economies where demand originate
- Possible terrorist attacks
- Slower than expected development pace in Sahl Hashish area, in general

ERC Valuation

We valued Egyptian Resorts Company (ERC) using a blended DCF/Adjusted NAV approach with 90:10 weight, respectively. We used this blended approach instead of a DCF approach alone to account for the execution risk for all phases in general and for Phase III, in specific, as its master plan is still being prepared.

DCF Valuation

We valued ERC using the DCF valuation approach, assuming a Weighted Average Cost of Capital (WACC) of 16.76% and a perpetual growth rate of 5%. When calculating the WACC, we assumed that the Company's debt ratio is zero. The reason behind this is that ERC's main debt obligation is the value of land purchased from the TDA, which the Company fully settles once it has enough cash.

Table (9): ERC Valuation on a stand-alone basis

DCF Valuation (LE 000)	2008	2009	2010	2011	2012	Perpetual
NOPLAT	716,153	861,169	1,253,318	1,606,379	1,832,428	
Depreciation	2,428	2,467	2,511	2,567	2,628	
Gross Cash Flow	718,582	863,636	1,255,830	1,608,946	1,835,056	
Gross Investment	355,187	263,273	515,497	655,741	480,140	
Operating FCF	363,395	600,363	740,333	953,205	1,354,916	2,068,588
PV of FCF	311,322	440,631	465,499	512,880	624,381	7,513,370
Total Value	**9,867,349**					

Source: Naeem Estimates

Relative Valuation

We found it difficult to value ERC using any of the common relative or multiple valuation methods, as the company does not have any comparables in the market.

Adjusted Net Asset Value Approach

We valued ERC based on the value of its current land bank and we arrived at an equity value of LE 9,256,193 thousand or a fair value of LE 11.02 per share using the Adjusted Net Asset Value approach.

Under this approach total assets were deducted from total liabilities after excluding the book value of land. The resulting net asset value is then added to the market value of the land plots owned by the Company in Sahl Hashish, after deducting the necessary development cost.

SHC Valuation

DCF Valuation

We valued Sahl Hashish for Touristic Investment Company (SHC) using a DCF valuation approach. We used the same assumptions regarding the WACC and perpetual growth rate of ERC, as the Company does not have any market data and it is almost affected by the same market conditions as ERC.

Table (10): SHC Valuation on a stand-alone basis

DCF Valuation (LE 000)	2008	2009	2010	2011	2012	Perpetual
NOPLAT	44,891	96,225	210,022	251,212	340,625	
Depreciation	156	327	507	904	1,204	
Gross Cash Flow	45,047	96,552	210,529	252,115	341,829	
Gross Investment	40,336	62,215	47,436	29,975	36,083	
Operating FCF	4,711	34,337	163,093	222,140	305,745	510,833
PV of FCF	4,036	25,201	102,548	119,660	141,095	1,968,916
Total Value	**2,352,695**					

Source: Naeem Estimates

ERC Consolidated Forecasted Financial Statements

Consolidated Balance Sheet (in LE 000's)

	2006A	2007E	2008F	2009F	2010F	2011F	2012F
Assets							
Operating Cash	18,698	44,079	41,442	63,394	99,989	125,279	145,670
Excess Cash	57,321	783,138	1,227,832	1,837,412	2,712,239	3,880,111	5,534,537
Net Accounts Receivables	205,673	253,525	290,789	462,434	674,785	993,846	1,287,643
Inventory	165,775	176,145	377,535	443,627	452,239	461,388	486,949
Other Current Assets	10,141	25,299	38,166	47,701	72,699	79,995	91,449
Total Current Assets	**457,608**	**1,282,187**	**1,975,764**	**2,854,568**	**4,011,951**	**5,540,618**	**7,546,248**
Other Non-Current Assets	159,181	291,961	424,010	469,795	819,018	1,163,056	1,379,380
Projects Under Implementation	44,420	28,233	30,996	41,262	52,599	49,065	63,911
Net Fixed Assets	6,971	34,405	52,142	69,038	86,050	116,904	132,365
Total Assets	**668,180**	**1,636,786**	**2,482,913**	**3,434,664**	**4,969,619**	**6,869,643**	**9,121,904**
Liabilities & Shareholder's Equity							
Short Term Debt	-	-	-	-	-	-	-
CPLTD	-	-	-	-	-	-	-
Accounts Payable	14,608	4,039	5,196	5,731	7,212	7,576	8,159
Accrued Expenses	552	2,543	3,836	4,794	7,307	8,040	9,191
Other Current Liabilities	28,094	67,347	114,515	159,800	241,287	279,680	339,253
Total Current Liabilities	**43,254**	**73,929**	**123,548**	**170,325**	**255,806**	**295,296**	**356,603**
Total Long Term Debt	34,320	-	-	-	-	-	-
Other Provisions	68,310	63,956	69,372	71,585	78,288	88,561	98,794
Other Non-Current Liabilities	21,788	14,975	14,975	14,975	14,975	14,975	14,975
Minority Interest	15,477	15,849	24,777	43,927	85,790	135,831	203,735
Total Liabilities	**183,148**	**168,709**	**232,672**	**300,812**	**434,859**	**534,663**	**674,108**
Shareholders' Equity	**485,032**	**1,468,077**	**2,250,241**	**3,133,852**	**4,534,760**	**6,334,980**	**8,447,797**
Total Liabilities and Shareholders' Equity	**668,180**	**1,636,786**	**2,482,913**	**3,434,664**	**4,969,619**	**6,869,643**	**9,121,904**

Consolidated Income Statement (in LE 000's)

	2006A	2007E	2008F	2009F	2010F	2011F	2012F
Revenues	325,611	519,607	828,838	1,267,883	1,999,788	2,505,583	2,913,397
COGS	77,193	66,332	100,067	125,066	190,610	209,739	239,770
COGS/ Revenue	*23.71%*	*12.77%*	*12.07%*	*9.86%*	*9.53%*	*8.37%*	*8.23%*
S, G& A Expenses	10,728	15,588	20,035	24,863	32,547	36,501	41,782
S, G& A/ Revenue	*3.29%*	*3.00%*	*2.42%*	*1.96%*	*1.63%*	*1.46%*	*1.43%*
EBITDA	**237,689**	**437,686**	**708,737**	**1,117,954**	**1,776,631**	**2,259,344**	**2,631,845**
EBITDA/ Revenue	*73.00%*	*84.23%*	*85.51%*	*88.17%*	*88.84%*	*90.17%*	*90.34%*
Depreciation	289	1,693	6,108	9,651	9,626	11,424	11,399
Operating Profit –EBIT	**237,400**	**435,993**	**702,628**	**1,108,303**	**1,767,005**	**2,247,919**	**2,620,446**
EBIT/ Revenue	*72.91%*	*83.91%*	*84.77%*	*87.41%*	*88.36%*	*89.72%*	*89.94%*
Interest Income	587	2,216	30,273	47,463	71,027	104,844	149,989
Investment Income	-	-	-	-	-	-	-
Interest Expense	-	-	-	-	-	-	-
Other Provisions	170	40,000	8,288	10,143	13,999	15,034	14,567
Other Non-Operating Income	10	9	9	9	9	9	9
Other Non-Operating Expenses	2,305	11,601	11,601	11,601	11,601	11,601	11,601
NPBT	**235,521**	**386,617**	**713,021**	**1,134,031**	**1,812,442**	**2,326,139**	**2,744,277**
NPBT/ Revenue	*72.33%*	*74.41%*	*86.03%*	*89.44%*	*90.63%*	*92.84%*	*94.20%*
Income Tax	(16)	412	-	226,806	362,488	465,228	548,855
NPAT	**235,537**	**386,206**	**713,021**	**907,225**	**1,449,954**	**1,860,911**	**2,195,422**
NPAT/ Revenue	*72.34%*	*74.33%*	*86.03%*	*71.55%*	*72.51%*	*74.27%*	*75.36%*
Unusual items	-	-	-	-	-	-	-
NPAUI	**235,537**	**386,206**	**713,021**	**907,225**	**1,449,954**	**1,860,911**	**2,195,422**
NPAUI/ Revenue	*72.34%*	*74.33%*	*86.03%*	*71.55%*	*72.51%*	*74.27%*	*75.36%*
Minority Interest	(304)	(27)	8,928	19,150	41,863	50,041	67,903
Net Attributable Income	**235,841**	**386,233**	**704,093**	**888,076**	**1,408,090**	**1,810,870**	**2,127,518**
NAI/ Revenue	*72.43%*	*74.33%*	*84.95%*	*70.04%*	*70.41%*	*72.27%*	*73.03%*

Key Financial Ratios

	2006A	2007E	2008F	2009F	2010F	2011F	2012F
Current Ratio (x)	10.58	17.34	15.99	16.76	15.68	18.76	21.16
Cash Ratio (x)	1.76	11.19	10.27	11.16	10.99	13.56	15.93
Inventory Turnover (x)	0.47	0.38	0.27	0.28	0.42	0.45	0.49
A/R Turnover (x)	1.57	1.77	2.48	2.47	2.73	2.37	2.15
A/P Turnover (x)	5.28	16.42	19.26	21.82	26.43	27.68	29.39
Total asset Turnover (x)	0.49	0.32	0.33	0.37	0.40	0.36	0.32
Working Investment Turnover (x)	0.91	1.23	1.26	1.42	1.80	1.74	1.66
Debt/Equity (%)	7.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Times Interest Earned (x)	-	-	-	-	-	-	-
ROA (%)	35.25%	23.60%	28.72%	26.41%	29.18%	27.29%	24.07%
Leverage Factor (x)	1.17	1.06	1.06	1.06	1.06	1.05	1.04
ROE (%)	41.41%	24.94%	30.41%	27.92%	30.86%	28.37%	25.09%
Revenue growth (%)	285.37%	59.58%	59.51%	52.97%	57.73%	25.29%	16.28%
EBITDA growth (%)	324.57%	84.14%	61.93%	57.74%	58.92%	27.17%	16.49%
EPS growth (%)	284.53%	63.77%	82.30%	26.13%	58.56%	28.60%	17.49%

Analyst Certification

I, Ahmed Abu Hussein, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about securities and companies that are the subject of this report. I also certify that no part of my compensation, whether pecuniary or in-kind, was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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