EGYPTIAN RESORTS COMPANY (ERC) RATING NEUTRAL

02 August 2010

المجموعة المالية هيرميس
EFG HERMES

Value Locked in Assets, No Near-Term Catalysts

REAL ESTATE | EGYPT

Jan Pawel Hasman
+20 2 35 35 6139
jpawel@efg-hermes.com

Downgrade to Neutral, Lower Our Fair Value

We lower our fair value (FV) to EGP2.2 per share from EGP3.2 per share and downgrade our recommendation to Neutral from Buy. We lowered the valuation of ERC's assets, which are not yet fully operational, and reassessed the value of the company's residual land bank. We believe that the company's residual land and other assets hold significant long-term value, however, the absence of clear project economics warrants a deeper discount to their potential Net Asset Value (NAV). Our concerns recently increased by a precedence of sales cancellations. ERC has 28 million square metres (sqm) of residual land in the Sahl Hasheesh area. Our new valuation for this land bank implies a discount to NAV of c79%. We believe that the stock does not offer a rapid NAV expansion and thus deserves a deeper discount to its estimated NAV.

No Land Sales Expected in 2010; Downgrade Our Forecasts

We believe that, despite signs of a real estate market recovery, ERC lacks a clear sales and development strategy, which limits its ability to sell. After the cancellation of a lucrative land sale deal valued at USD13 million, we downgrade our FY2010 revenue forecasts as we do not expect new land sale transactions this year. We believe that the company's insignificant top line, which is driven by its utilities provision business, could be strongly eroded by impairment expenses to be booked this year. We also expect the bottom line to be negative for the second year in a row.

Balance Sheet Still Strong...

A strong balance sheet helped ERC to withstand five quarters of no land sales without straining its cash balance. It has no formal bank debt on its books, aside from a land purchase liability of cEGP191 million that it owes to the Tourism Development Authority (TDA). The company is currently cash-rich and its existing cash balance is sufficient to cover all outstanding financial commitments.

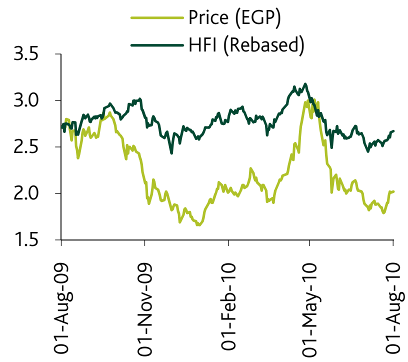
...But Receivables Might Need a Large Discount

A cause for concern is the deteriorating quality of the company's receivables (30% of total assets, or EGP448 million), which might result in further impairments. The lion's share of these outstanding payments is to be collected within the next 12 months from anchor developers who, in most cases, were unsuccessful in selling their units during the market downturn.

STOCK DATA

Price	**EGP2.0***
Fair Value	**EGP2.2**
Last Div. / Ex Date	N/A
Mkt. Cap / Shares (mn)	EGP2,090 / 1,050
Av. Mthly Liqdty (mn)	EGP563
52-Week High / Low	EGP3.1 / EGP1.7
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	39%

SHARE PRICE PERFORMANCE RELATIVE TO HFI REBASED



CONTENTS

I. LOWERING OUR FV TO EGP2.2 2
II. CHANGES TO OUR VALUATION METHODOLOGY 4
III. IN THE SPOTLIGHT – RECAP ON APRIL-MAY RALLY 10
IV. WHAT NEXT? 12
V. ZONING IN ON PHASE III 15
VI. CHANGES TO OUR FORECASTS 17
VII. FINANCIAL STATEMENTS 19

KEY FINANCIAL HIGHLIGHTS

December Year End (EGP mn)	2009a	2010e	2011e	2012e
Revenue	26	19	140	253
Net Income	(4)	(28)	26	75
EPS (EGP)	(0.00)	(0.03)	0.02	0.07
BVPS (EGP)	1.10	1.07	1.10	1.17
Net Debt (Cash)	(309)	(445)	(489)	(499)
Net Debt (Cash) - Inc. lnd. Liab.	(118)	(278)	(346)	(379)
P/BV (x)	1.8	1.9	1.8	1.7

*Price as at 1 August 2010
Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

KINDLY REFER TO THE IMPORTANT DISCLOSURES AND DISCLAIMERS ON BACK PAGE

I. LOWERING OUR FV TO EGP2.2 PER SHARE

We lower our fair value (FV) to EGP2.2 from EGP3.2 per share and downgrade our recommendation on the stock to Neutral from Buy, given that our new FV provides a modest 11% upside potential from the current share price.

We lower the value of ERC-owned assets, which are not yet fully operational, and adjust the value of its residual land bank.

We lower the value attributed to Sahl Hasheesh Company (SHC), in which ERC owns a 70% stake, as the former did not generate any revenue despite being operational since 2007. Similarly, because we did not see the anticipated pickup in its revenues and gross margin over the past two years, we lower the valuation of ERC's utilities business. We discuss in detail the changes to our valuation methodology in the following sections of this report.

We agree that ERC's stock offers a straightforward exposure to a substantial and attractive land bank on the Red Sea coast, with few liabilities or capex commitments attached. It also offers exposure to a modest portfolio of commercial lease properties and other miscellaneous assets on the company's balance sheet. However, at this point in the company's cycle, we think the value of ERC's stock is locked in the company's assets, due to the absence of near-term prospects for cash flow generation from these assets

Therefore, in light of very slow asset turnover, the lack of a crystallised sales and development strategy, the deteriorating quality of receivables and the precedence of sales cancellations, we believe that the stock does not offer a rapid NAV expansion and thus deserves a deeper discount to its estimated NAV.

We do not believe that quarterly earnings figures will serve as guidance for the company's performance as they would likely remain volatile for the next two years. We believe that there is a significant potential for valuation upgrades only if a sustained land sales recovery is confirmed, and when recurring revenues generated by SHC and the utilities business become significant contributors to the top line. For the time being, we believe that there is little visibility on these improvements.

HOW DOES THE MARKET CURRENTLY VALUE ERC'S LAND BANK?

We estimate that the market currently assigns only cEGP50 (or cUSD12) per square metre (sqm) - to c28 million sqm of the company's residual land bank based on the assumption that no value was assigned to its stake in SHC and its utilities business other then the book value of related assets.

FIGURE 1: IMPLIED MARKET VALUATION OF RESIDUAL LAND BANK
In EGP million, unless otherwise stated

Price	2.0
Mcap	2,090
Less: BV net of Work In Progress (Residual Land)	694
Residual Land Bank Value	1,1395
Residual Land Bank Size (sqm mn)*	28
EV/sqm (EGP)	**50**
EV/sqm (USD)	9

*Includes 2.5 million sqm to be developed by ERC and managed by OD Holding as per the recent agreement between the two companies
Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

CALCULATE THE NAV USING AN ADJUSTED BOOK VALUE METHODOLOGY

We choose USD85 per sqm as the starting sale price of land in phase III, which constitutes nearly the entire residual land bank of ERC. The assumed price is more than USD50 per sqm below the average price in 2008, but USD7 above the 2007 average. We believe this price assumption is justified by the area's size and relative distance to the sea shore encompassed by phases I and II. We elaborate further on this assumption in section II and IV of this report.

We estimate the adjusted book value's net asset value (NAV) for ERC at EGP6.6 per share, which implies that the stock is currently trading at a deep 70% discount to its NAV. We estimate the NAV of the residual land bank at cEGP218 per sqm, which implies that the market currently assigns a discount of over 77% to the residual land.

FIGURE 2: ADJUSTED BOOK VALUE NAV CALCULATION
In EGP million, unless otherwise stated. Values based on 1Q10 BS

Balance Sheet Item	BV	Premium/Discount	Adj.BV
Cash	295		295
Net A/R	448	-30%	314
WIP (unsold land)	380	(see table on the right)	6,320
Fixed Assets and PUC	347	20%	417
Other Assets	14		14
Total Assets	**1,484**		**7,359**
Less: Liabilities and MI	410		410
Total	**1,074**		**6,949**
NAV / Share			**6.6**

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

FIGURE 3: ADJUSTING THE VALUE OF RESIDUAL LAND BANK
In USD, unless otherwise stated

Residual Land Bank (mn sqm)*: Res. Land Bank Valuation	28
Average Sales Price / sqm	85
Infrastructure Costs (USD25)	(25)
Other Contingencies (10% of sales value)	(9)
Operating Profit / sqm	52
Taxes (at 20%)	(10)
Value / sqm	41
Value of Residual Land / WIP (EGP mn)	6,320
NAV of Residual Land (EGP)**	218

*Includes 2.5 million sqm to be developed by ERC and managed by OD Holding as per the recent agreement between the two companies
**Adjusted for the value of land purchase liability and outstanding development commitments
Source: EFG Hermes estimates

WHY DO WE THINK THAT THIS DISCOUNT IS JUSTIFIED?

We believe that ERC's residual land deserves a deeper discount to its estimated NAV given the nature of the land and its related contingencies. The land was acquired from the Tourism Development Authority (TDA) on preferential terms and with certain limitations regarding the land's development or disposal. It thus deserves a deeper discount to its estimated NAV given that the attached conditions limit its liquidity. Moreover, anchor developers acquiring plots in Sahl Hasheesh resort are required to abide by a grand master plan and development conditions as well, which to some may limit the land attractiveness given its limited potential usage and slow down the sales process.

II. CHANGES TO OUR VALUATION METHODOLOGY

Due to the prevailing slow asset turnover, we modify the way we value ERC's land bank and some of its other assets. We separate the value of outstanding receivables from historical sales and now include them in our valuation at a discount on a standalone basis, along with infrastructure commitments attributable to plots already sold.

We modify the way we value ERC's stake in SHC and the utilities provision business. Additionally, we simplify our land sales assumptions, given the prevailing lack of visibility on future land sales.

Our old valuation was composed of a core value of EGP4.5 per share and a 30% discount that we applied to this value to account for the company's slow asset turnover. The net effect of all the changes to our valuation methodology and adjustments to forecast assumptions trims our FV to EGP2.2 per share from EGP3.2 per share. We now believe that our core valuation better reflects the slow turnover concerns and no longer demands an overall discount.

Our SOTP valuation is composed of the following: i) residual land bank, ii) stake in SHC, iii) utilities business, iv) joint project with OD Holding, and v) miscellaneous balance sheet items.

A. RESIDUAL LAND BANK VALUATION

We value the residual land bank of 25 million sqm of sellable land (excluding OD Holding related project) through a DCF model and then compare the result with a simple NAV-based valuation. Our valuation yields EGP1,350 million (gross of land purchase liability), or EGP1.3 per share, and implies a discount to NAV of c79%.

Our new valuation of ERC's land is 46% less than the previous one at EGP2.45 per share (after incorporating the overall 30% discount). The difference stems from lowering price and price growth assumptions as well as separating cash flows from historical sales and adjusting cash collection assumptions.

We assume that ERC's remaining land will be sold over a period of 15 years. We also assume that in 2010 ERC will not sell any plots, but that new sales will commence in 2011. We expect a 2011 sales volume of 200,000 sqm, which we believe will increase to 500,000 sqm in 2012. In our model we assume that the company will be selling equal volumes of c2 million sqm per year starting in 2013.

Due to extremely low visibility, we assume that the price appreciation trend is linear and that the annual rate of price escalation is equal to 10% throughout the forecast horizon. We increase the discount rate to 20% from 19% due to declining sales and strategy visibility, deal cancellation precedence and the overall sales standstill.

We choose USD85 per sqm as a starting sales price of land in phase III. The assumed price is more than USD50 per sqm below the average sales price in 2008.

FIGURE 4: SENSITIVITY ANALYSIS

In EGP per share, unless otherwise stated

Starting price (USD/sqm)	Phase III Sell-Out Period (Years)										
FV / Share	10	11	12	13	14	15	16	17	18	19	20
40	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
50	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0
60	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3
70	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.5
80	2.2	2.1	2.1	2.0	2.0	1.9	1.9	1.9	1.8	1.8	1.8
90	2.5	2.4	2.4	2.3	2.3	**2.2**	2.2	2.1	2.1	2.1	2.0
100	2.9	2.8	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.3	2.3
110	3.2	3.1	3.0	3.0	2.9	2.8	2.7	2.7	2.6	2.6	2.5
120	3.5	3.4	3.4	3.3	3.2	3.1	3.0	3.0	2.9	2.8	2.8
130	3.9	3.8	3.7	3.6	3.5	3.4	3.3	3.2	3.1	3.1	3.0
140	4.2	4.1	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.3	3.2
150	4.6	4.4	4.3	4.2	4.1	4.0	3.9	3.8	3.7	3.6	3.5
160	4.9	4.8	4.6	4.5	4.4	4.3	4.1	4.0	3.9	3.8	3.7
170	5.3	5.1	5.0	4.8	4.7	4.5	4.4	4.3	4.2	4.1	4.0

Source: EFG Hermes estimates

We tested the sensitivity of our valuation to the initial sales price per sqm of land in phase III as well as the length of the sell-out period of the residual land bank. Our valuation is more sensitive to the initial price than the length of sale.

B. SHC STAKE VALUATION

We downgrade our valuation for the 70% stake that ERC holds in SHC to EGP208 million (EGP0.2 per share) from EGP566 million (EGP0.5 per share).

We previously valued SHC through a DCF model, and to account for the significant uncertainty regarding the company's operations and cash flows, we used a WACC rate of 20%. Given that SHC did not yet record any revenue and did not commence residential real estate sales that we previously expected, we opt to derive its valuation on a premium-to-book value basis rather than through a DCF model due to significant modelling risks that such a valuation would involve. We apply a premium of 20% on the book value of SHC stake on ERC's standalone balance sheet.

SHC nearly completed the construction of commercial centres in the Sahl Hasheesh downtown areas, but the properties are still unavailable to lease. We believe that they will not become operational until 2011 at the earliest.

We are aware that the upside risk to this valuation is considerable and creates significant potential for future upgrades once the company's operational strategy crystallises and its first revenues hit the consolidated income statement.

C. OD HOLDING MANAGED PROJECT VALUATION

Given the lack of an official project master plan and its overall economics, we refrain from coming up with our own assumptions (as we typically did with SHC's valuation, which we now revise) and value the project on an EV/sqm basis with a 20% premium on the EV/sqm value established for the residual land bank.

We believe that the land deserves this premium, given that OD Holding is already committed to its development, which implies that its value will be realised sooner than that of the unsold land bank.

We remain cautious on the deal, given that OD Holding planned a similar development back in 2005 that never materialised. Similarly, we note that OD Holding has a similar management agreement with Nasr City Housing (MNHD) to manage the development of its Nasr City Gardens projects which, so far, saw no visible progress.

D. UTILITIES BUSINESS VALUATION

Given very little visibility on the utilities provision segment, coupled with very low or negative gross margins and slower than previously expected revenue growth, we lower our valuation for this business to EGP0.2 per share from EGP0.8 per share. We now value the utilities provision segment by applying a 10% premium to the value of its related assets rather than through a DCF model, as we previously did. We now believe that the uncertainty regarding SHC's operations and its lack of any operational history do not allow its valuation from a cash flow perspective.

We note that this conservative valuation carries potential for future upgrades that could be possible once any significant improvement on the income statement level is visible.

E. MISCELLANEOUS BALANCE SHEET ITEMS

We value net miscellaneous assets at EGP0.3 per share. ERC has a total cash balance of EGP258 million (on a standalone basis, excluding cash attributable to SHC), which we include in our valuation at face value. We discount total outstanding receivables (EGP448 million, of which 87% is to be collected within the next 12 months) by 30% to account for their possible impairment and delay in collection. We adjust the resulting valuation by the amount of outstanding liabilities payable to the TDA (EGP191 million) as well as outstanding infrastructure development commitments on plots already sold (EGP38 million), both without a discount.

FIGURE 5: VALUATION OF MISCELLANEOUS BALANCE SHEET ITEMS
In EGP million, unless otherwise stated. Values as at 31 March 2010

Item	Value
Cash	258
Accounts Receivable at a 30% Discount	314
Less:	
TDA Liabilities	(191)
Infrastructure Development Commitments	(38)
Total value	**343**
Additional Value per share (EGP)	**0.3**

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

VALUATION SUMMARY

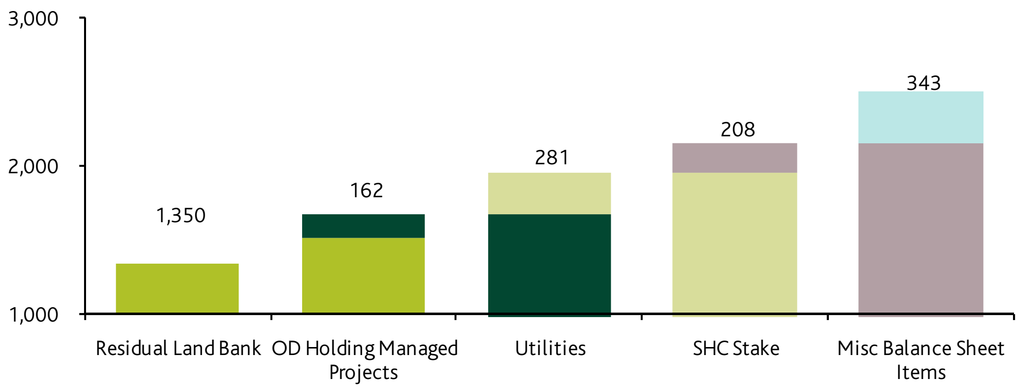
We value total ERC equity at EGP2,344 million, or EGP2.2 per share. Given the limited upside potential of our FV to the current market price, we downgrade our investment recommendation on the stock to Neutral from the previous Buy.

FIGURE 6: ERC VALUATION SUMMARY

	Land Area (sqm mn)	Method	EV (EGP mn)	EV/sqm (EGP)	EV/Share (EGP)
Residual Land Bank	25	DCF, WACC of 20%, Implies Discount to NAV of 70%	1,350	54	1.3
OD Holding Managed Projects	2.5	Residual EV/sqm + 20% Premium	162	65	0.2
Utilities		Book Value of Related Assets + 10% Premium	281		0.3
SHC stake		Book Value + 20% Premium	208		0.2
Misc Balance Sheet Items		Book Value at Discount	343		0.3
Total			**2,344**		**2.2**

Source: EFG Hermes estimates

FIGURE 7: ERC VALUATION SUMMARY
In EGP million, unless otherwise stated



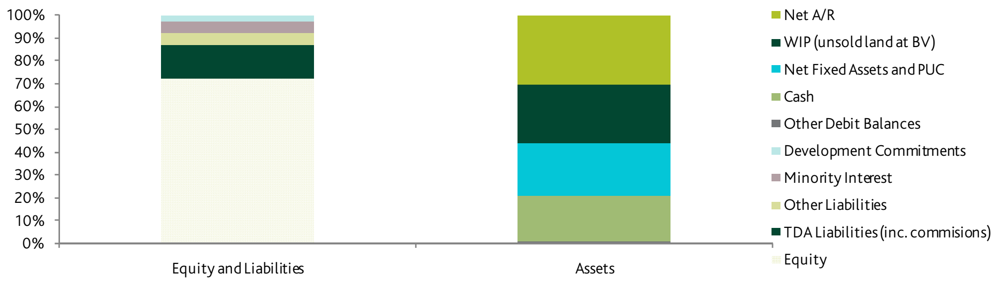
Source: EFG Hermes estimates

A SOLID BALANCE SHEET IS A LONG-TERM ADVANTAGE...

A strong balance sheet helped ERC to withstand five quarters of no land sales without straining its cash balance. The company has no formal bank debt on its books, aside from a land purchase liability of cEGP191 million that it owes to the Tourism Development Authority (TDA). The repayment terms are favourable (3 years grace period and 7 years payment) and the company will start repaying the dues once it obtains approval for the phase III master plan, which is expected by the end of 2010. Apart from this liability, ERC also has cEGP38 million in infrastructure development commitments related to land plots that were already sold. If the TDA liability is treated as a formal debt, ERC's debt-to-equity ratio equals 18%.

The company is currently cash-rich and its existing cash balance was EGP295 million (ex-receivables) as at the end of March 2010. The existing cash balance is sufficient to cover both the TDA liability and all development commitments.

FIGURE 8: COMPOSITION OF ERC BALANCE SHEET (1Q2010)



Source: Egyptian Resorts Company (ERC)

...BUT RECEIVABLES MIGHT NEED A LARGE DISCOUNT

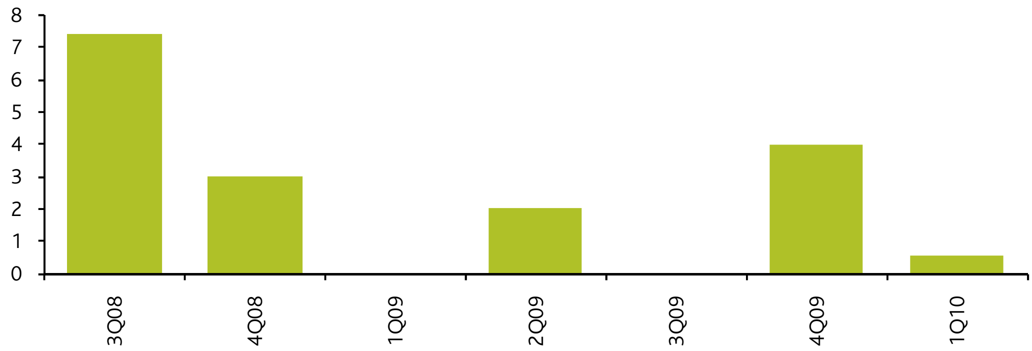
We expect that the company will further impair its receivables in 2010. ERC has EGP448 million in net receivables (adjusted for NPV and past impairments), of which 87% are short term in nature. Their collection will soon be a real test of their quality.

In 3Q2008, ERC began recording impairments of EGP7.4 million to account for the deterioration in the quality of some of its receivables. The company attributed the first impairment of EGP3 million to receivables related to retail land sales, and recorded a similar impairment in 4Q2008 (also EGP3 million). During FY2009, ERC recorded an impairment of EGP6 million, while in 1Q2010 it impaired another EGP0.6 million, bringing the total impairment recorded on the balance sheet to EGP17 million.

We think that the latest impairments are related to wholesale transactions rather than retail land sales, given that ERC ceased selling retail plots two years ago.

FIGURE 9: QUARTERLY IMPAIRMENTS TO RECEIVABLES

In EGP million, unless otherwise stated



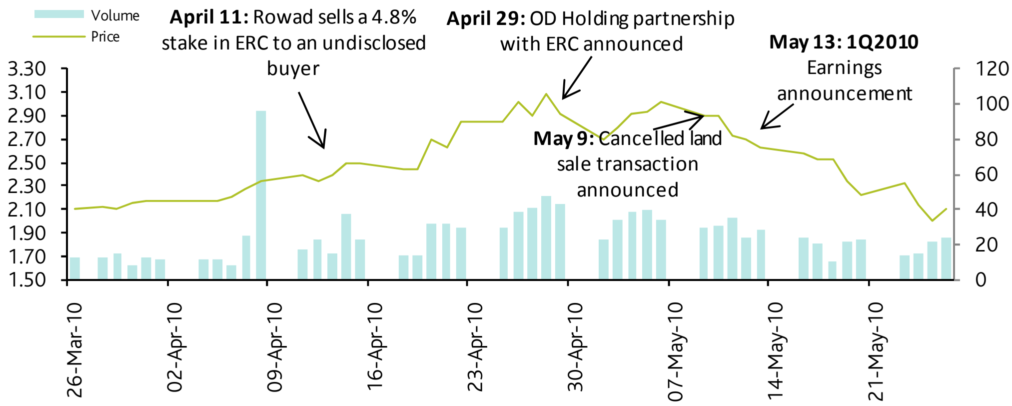
Source: Egyptian Resorts Company (ERC)

According to management, some of ERC's clients approached the company during 2009 and requested rescheduling of land payments as they were unable to generate sufficient cash flows from unit sales (sold mostly off-plan) due to unfavourable market conditions. Similar requests were made by Sahl Hasheesh hotel operators, who complained of insufficient occupancy rates that strained their cash flows, due to the global economic slowdown. The company was flexible in modifying payment terms for some of its clients, according to management, as their progress in construction, rather than their ability to meet land payment commitments, was of a greater long-term economic benefit to ERC.

Currently, according to management, ERC has a total balance of USD48 million of rescheduled receivables, which constitutes roughly 60% of the total receivables balance. Although we believe that the collection of these amounts is possible and do not imply an actual default on the side of the buyers, we also believe that ERC will likely record additional impairments in the future depending on the decisions of its audit committee. Even if no default was to occur on the side of the buyers, the payment terms are likely to be extended, thus decreasing the NPV of ERC's receivables.

III. IN THE SPOTLIGHT - RECAP ON APRIL-MAY RALLY

FIGURE 10: PRICE PERFROMANCE, VOLUME TRADED AND KEY EVENTS



Source: EFG Hermes estimates

Until end of May the stock was in the spotlight on the EGX trading floor. It rose by 38% to EGP3 per share by the end of April from EGP2.17 per share at the beginning of March, simultaneously recording one of the highest turnovers for a few consecutive sessions.

In the following sections, we try to explain the stock's performance in light of its associated news flow and sequence of events, some of which had little fundamental significance yet managed to push the stock to a new, much higher trading band.

As the performance was not triggered by any change in the company's fundamentals, the share price dropped significantly during the major panic sell-off in mid-May. However, ERC was one of the most liquid real estate stocks on the EGX during the past months.

ACT ONE: OD HOLDING BUYS A 4.5% STAKE IN ERC

In mid-April, one of ERC's main shareholders, Rowad Tourism, announced that it sold a part of its stake in ERC (4.8% out of 14.8% held before) to an unnamed buyer. The transaction was valued at EGP117 million, or EGP2.28 per share. By the end of April, the stock price surged to EGP3.0. This performance was supported by favourable market conditions at the time and fuelled by market talk regarding the identity of the new shareholder.

On 29 April 2010, Orascom Development Holding (OD Holding) disclosed that it purchased a stake of 4.5% in ERC. We note here that OD Holding's core subsidiary, Orascom Hotels and Development, previously owned a stake of 14% that it sold in 2006.

ACT TWO: OD HOLDING TO MANAGE PROJECT DEVELOPMENT IN SAHL HASHEESH

Along with the announcement of OD Holding's purchase of a stake in ERC, both ERC and OD Holding jointly declared their partnership to develop 2.5 million sqm of land in Sahl Hasheesh, of which 1.5 million sqm is the land that originally was granted to the Serrenia project (it was later taken back because the owner did not meet development obligations).

According to the partnership agreement, OD Holding is responsible for managing the development of the aforementioned land under a profit-sharing agreement. The project will include an as of yet undisclosed number of hotel rooms and residential units, and a marina.

OD Holding's business strategy is based on the acquisition of inexpensive land plots that are much cheaper than those of the Sahl Hasheesh resort. To gain exposure to possible projects that could be developed on such plots, OD Holding established Orascom Development and Management (ODM), which is responsible for project management for third parties under profit-sharing schemes.

ACT THREE: A LUCRATIVE LAND SALE CANCELLED; BOTTOM LINE IN THE RED AGAIN

Four days before the release of 1Q2010 results, ERC announced that its audit committee cancelled the sale of 44,354 sqm of land sold at a price of USD300 per sqm, due to the buyer's non-compliance with contract terms. The deal was initially valued at USD13.3 million.

We were expecting this deal to be booked in 1Q2010 and to bring ERC's total 1Q2010 revenue to cEGP60 million. However, this announcement implies that ERC was likely to close the quarter with a net loss rather than a net profit, given a very weak top line supported only by insignificant revenue from the sale of utilities.

FIGURE 11: ERC QUARTERLY INCOME STATEMENT HIGHLIGHTS

In EGP million, unless otherwise stated

	1Q09	2Q09	3Q09	4Q09	FY09a	1Q10a
Land Sales Revenue	4.8	6.7	2.9	1.1	15.5	1.9
Service Revenue	1.8	2.6	3.2	2.6	10.3	2.5
Total Revenue	**6.7**	**9.3**	**6.1**	**3.7**	**25.8**	**4.4**
Other Revenue	0.0	0.3	0.2	0.3	0.7	0.2
Gross Profit	**4.5**	**6.0**	**3.8**	**(2.1)**	**12.2**	**(0.4)**
Total Gross Profit Margin	68%	65%	62%	-55%	47%	-9%
SG&A	(4.9)	(3.8)	(4.7)	(5.0)	(18.4)	(5.7)
Net Interest	6.3	3.1	8.7	5.7	23.8	4.5
Other Income / Expenses	4.3	(3.0)	(7.8)	(15.1)	(21.5)	(0.6)
Net Income	**10.3**	**2.3**	**(0.0)**	**(16.4)**	**(3.9)**	**(2.3)**

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

IV. WHAT NEXT?

NO INCOME STATEMENT VISIBILITY; ANOTHER YEAR OF LOSSES POSSIBLE

We think that for the time being, ERC's story offers little potential for excitement, especially given the company's ongoing struggle to attract new buyers. We thus believe that the stock should be perceived through the value of its underlying assets (mainly land), rather than the cash flows that these assets could generate (given the current lack of visibility).

We do not, however, rule out a scenario of a land sales revival for ERC, although we do not think that this is likely in the short term. The company is still a few months away from finalising its master plan for phase III, which implies that the phase will not be ready for sale before the end of 2010. It is very likely that ERC will close another fiscal year with a net loss and will not finalise any land sales this year.

We reflect this view in our new 2010 forecasts. We bring sales volume to zero and build our top line forecast solely on accrued revenue from historical sales as well as insignificant revenue from the provision of utilities.

PHASES I AND II: SOLD OUT, BUT UNABLE TO YIELD ADDITIONAL VALUE

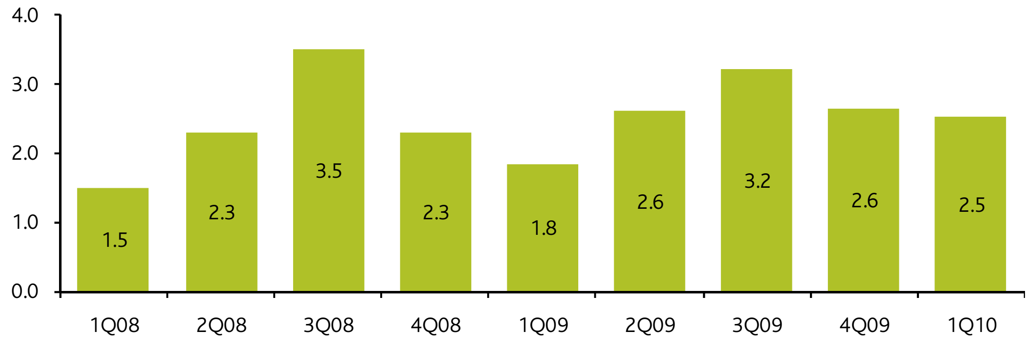
The first two phases of the Sahl Hasheesh resort, located on c13 million sqm, are sold out and gradually being developed. The first land plot sale in the resort took place in 1997, implying that the destination is approaching its maturity rather slowly.

Presently, there are six operational hotels with an aggregate capacity of 1,971 rooms, including domestic brands such as Palm Beach, Premier Le Rêve and Pyramisa. Another 4,716 rooms are under construction and expected to come on stream by 2011. Most of the hotel room supply is composed of standard/deluxe rooms and family chalets.

In the residential segment, 460 villas were delivered and 1,545 are in the construction pipeline. The resort is also comprised of 31,000 sqm of ready retail and entertainment built-up area (BuA), including a pier and promenade.

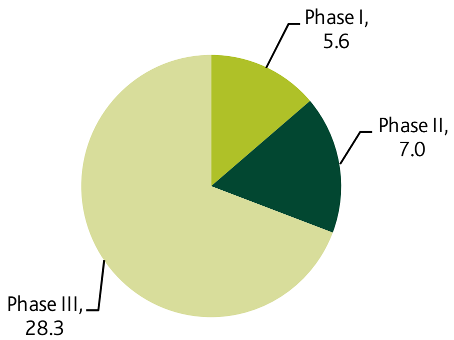
ERC's business model is designed to take advantage of tourism movement in projects developed in Sahl Hasheesh through its utilities business. However, the revenues generated by the existing dwellings are negligible so far.

FIGURE 12: QUARTERLY UTILITIES REVENUE
In EGP million, unless otherwise stated



Source: Egyptian Resorts Company (ERC)

FIGURE 13: GROSS LAND BANK COMPOSITION
In sqm million, unless otherwise stated



Source: EFG Hermes estimates

WHAT DOES OD HOLDING'S INVOLVEMENT CHANGE?

We believe that the partnership between ERC and OD Holding has positive long-term implications, yet we do not see how much of a fundamental impact it could have on ERC in the short term. Assuming that OD Holding and ERC will begin the development of their joint project within the next six months (we believe this is unlikely), any significant impact on ERC's financials will not be noticeable before the end of 2012.

Additionally, ERC may need to resort to external debt financing to proceed with the development of 2.5 million sqm. While we do not think that securing debt will be difficult for ERC given its clean balance sheet, we nevertheless believe that the process could be lengthy and thus delay execution of the project under the existing partnership. Debt would not be necessary if ERC was able to generate enough cash flow from land sales in phase III, however, we do not believe that sales could revive that quickly.

We highlight that OD Holding, specifically its subsidiary, OHD, proposed to develop the same area in 2005. OHD, a South African partner and SHC (established in 2007) were to each own an equal share in the project, whose first phase was to be delivered by mid-2007. The project was expected to include 10,000 residential units built around a marina. In 2005, OHD projected a 25% gross profit margin on this development. However, the partnership did not materialise, the land in question was sold to other developers and OHD divested its stake in ERC in 2006.

In the long term, the involvement of OD Holding in Sahl Hasheesh could have two positive fundamental impacts:

i) **Catalyst for new land sales:** We believe the involvement of OD Holding in the Sahl Hasheesh project could improve the appeal of ERC's land to prospective investors and increase confidence about the quality of the resort. Nevertheless, such an impact is difficult to quantify and translate into future demand, and thus we do not reflect it in our near-term forecasts.

ii) **Improve recurring revenue generation:** ERC will be able to leverage the extensive experience of OD Holding's resort community management and improve its recurring revenue portfolio. Until now, ERC was to be taking advantage of recurring lease revenue generated only by SHC, which was responsible for the development of commercial centres in the resort's downtown areas. On the other hand, SHC's operations are still at a nascent stage, which we believe possibly indicates a lack of adequate managerial know-how, which a partnership with OD Holding could provide.

According to management, OD Holding is expected to commence sales of residential units in the project by the end of 2010. We were informed that so far no project economics are available and ERC is still in the process of selecting master plan solutions proposed by OD Holding.

V. ZONING IN ON PHASE III

WHAT IS IT ALL ABOUT?

Sales of phase III, which covers 28 million sqm (of which 91% is sellable), have yet to be launched. Unlike the other two phases, the land in phase III has no direct access to the sea and spreads inland. Lack of direct sea access is compensated for by the area's relative elevation (up to 120 metres above sea level), which provides a panoramic view of the entire resort, as well as planned development of vast, inland water infrastructure (i.e. lakes, ponds etc.).

According to management, ERC is likely to redesign phase III of the Sahl Hasheesh resort to accommodate more residential, rather than purely touristic, projects. While we believe that this strategy is sound and that the initial target of supporting the development of 70,000 hotel rooms within Sahl Hasheesh is unrealistic, we fear that a greater focus on residential developments will require land price discounts. These would be necessary to attract investors who, while selling their products off-plan, are highly exposed to cash flow volatility risks.

WHAT WILL BE THE PRICE TAG?

All of ERC's residual land bank is currently located in phase III, and determining the initial price tag for its first plots is crucial to determine the value of ERC's equity. As previously stated, we think that the land in phase III is of a lesser quality than the sold land in phases I and II. We thus believe that it is unlikely to fetch the same prices as "recent" sales in the original phases, which sold for as much as USD200 per sqm. On the other hand, despite lacking direct access to the sea, phase III will likely leverage the established communities of phases I and II, and might therefore require a premium.

By looking at the currently prevailing prices of the residential real estate offered in Sahl Hasheesh, as well as the estimated construction costs, we conclude that new developers will be unwilling to pay more than USD220 per sqm of land to achieve a desired margin on their construction. Our conclusion is based on the following assumptions:

i) **Developer-required margin of at least 30%:** Residential development in resort areas is characterised by greater market and cash flow risks due to weak demand, sales seasonality and a narrow target market. Given that the minimum consensus developer margin for urban residential construction is c20%, we believe that residential developments in areas such as Sahl Hasheesh demand a premium of at least 10pp.

ii) **Current off-plan sales at USD2,000 per sqm of BuA:** According to management, residential developers selling their projects in the area attain an average price of USD2,000 per sqm, which we use as a base price for our analysis.

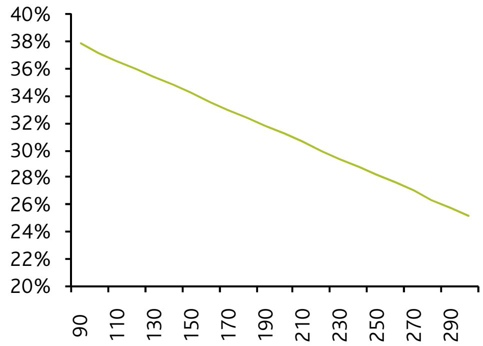
iii) **Construction costs at USD800 per sqm of BuA:** Following management guidance, we use this amount as the base cost of development.

iv) **Floor Area Ratio of 0.6x:** The master plan guidance for the Sahl Hasheesh resort laid down by the TDA stipulates that the total building footprint cannot exceed 20%, while any developer can build three floors maximum.

v) **Each project has a cost contingency of 10% on initial sale price:** The following assumption is determined by prevailing market trends in project valuation.

The table below illustrates how the assumptions described below imply a maximum cost of land that hypothetical developers are willing to pay to execute their projects.

FIGURE 14: COST OF LAND VERSUS THE IMPLIED DEVELOPER MARGIN



Source: EFG Hermes estimates

FIGURE 15: MAXIMUM COST OF LAND IMPLIED BY SALES PRICES AND CONSTRUCTION COSTS

In USD, unless otherwise stated

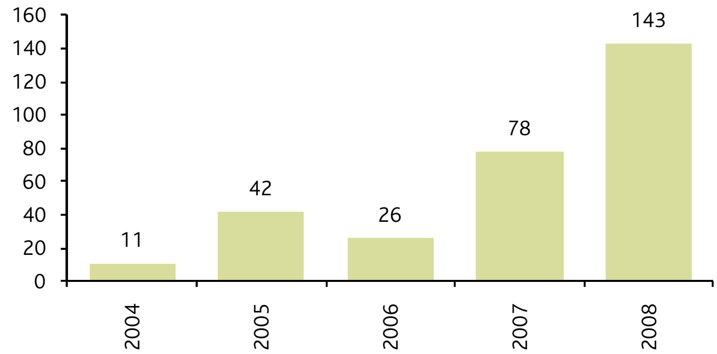
Floor Area Ratio (FAR)	0.6
Cost of Land / sqm	220
Cost of Land / sqm of BuA	367
Sale Price/sqm (BuA)	2,000
Cost / sqm (BuA)	(800)
Cost of Land / sqm (BuA)	(367)
Gross Profit (mn)	833
Contingency	(83)
Operating Profit (mn)	750
Taxes (mn)	(150)
Margin	600
Margin	30%

Source: EFG Hermes estimates

We believe that the first plots sold within phase III will offer deep discounts to encourage initial investment and stimulate movement within the destination. By looking at the historical prices achieved by ERC in phases I and II, we conclude that initial plots in phase III are likely to be offered for cUSD85 per sqm, which is the base price used in our valuation.

FIGURE 16: HISTORICAL LAND SALES PRICES IN SAHL HASHEESH

In USD per sqm, unless otherwise stated



Source: EFG Hermes estimates

VI. CHANGES TO OUR FORECASTS

We reiterate our opinion regarding significant modelling risks inherent in any quarterly or annual forecasts for ERC. We also note that our forecasts are intended to reflect the overall direction of the company's performance rather than focus on nominal income statement values that, on a standalone basis, are difficult to be assessed from an earnings surprise/disappointment perspective.

FIGURE 17: KEY CHANGES TO OUR FORECASTS
In EGP million, unless otherwise stated

	2009a	2010e		2011e		2012e	
		Old	New	Old	New	Old	New
Total Revenue	26	83	19	279	140	599	253
Gross Profit	11	60	(4)	215	49	482	105
Margin	44%	73%	-20%	77%	35%	81%	41%
EBIT	(16)	21	(45)	155	16	387	76
Net Income	(4)	19	(28)	125	26	310	75

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

2010 - LITTLE (NO) HOPE FOR INCOME STATEMENT IMPROVEMENT

We believe that despite signs of market recovery, ERC is still struggling with formalising its operational strategy. The company did not yet finalise the master plan for phase III, which is now more likely to add stress on the residential component. The recent sale cancelation amplifies our concerns as it leads to the conclusion that ERC might have failed to scrutinise the buyer.

We think that ERC is unlikely to close any land sale transaction in 2010, and we forecast that it will end the year with total revenue of EGP19 million only (versus our previous forecast of EGP83 million), comprised mostly of accrued revenue from historical sales and insignificant revenue from provisioning of utilities within Sahl Hasheesh. We forecast the utilities revenue to increase 26% Y-o-Y to EGP13 million.

We are looking at a negative total gross margin of 20%, pushed down by an increasing depreciation expense booked as part of COGS. If the depreciation expense was excluded, we would see a positive margin of 47%. We believe that in 2010 ERC is likely to record further impairments on receivables, which we forecast at cEGP21 million, which represents 5% of all receivables outstanding. Selling, general and administrative (SG&A) expenses are likely to stay at levels comparable to those of 2009.

We believe that ERC is likely to close another year with a net loss, therefore we forecast the bottom line at a negative EGP28 million.

2011 – PHASE III SALES COULD KICK IN

Our new forecasts assume that sales in phase III will open in 2011 and that the company will be able to sell, at most, 0.3 million sqm of land at an average price of USD85 per sqm. It will translate into land sales revenue of EGP120 million and constitute 86% of the total. Meanwhile, we expect the utilities revenue to increase 10% Y-o-Y to EGP14 million on improved utilisation in light of growing touristic movement in the destination.

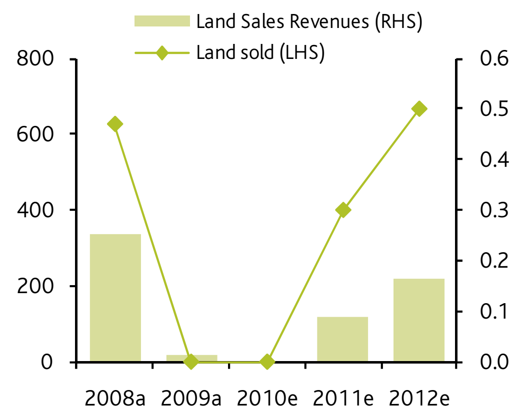
Given our land sale forecast, we expect a significant improvement in the total gross margin to reach 35%. We note here that our estimated cost of sales of 1 sqm of land in phase III is composed of USD25 of infrastructure costs, USD1.3 of actual land cost and USD1.75 of the TDA's commission. However, ERC currently estimates the infrastructure costs for phase III at roughly USD10 for accounting purposes, although we believe it is likely that the company will revise this estimate upwards.

The closure of land sale deals will likely have an impact on ERC's SG&A expenses, which we forecast to increase by 10% Y-o-Y to EGP21 million. Our income statement forecast for 2011 also assumes that ERC will further impair its receivables, at EGP10 million.

Our current forecasts assume that the company will close the year with a net income of EGP26 million.

FIGURE 18: LAND SALES REVENUE AND VOLUME SOLD

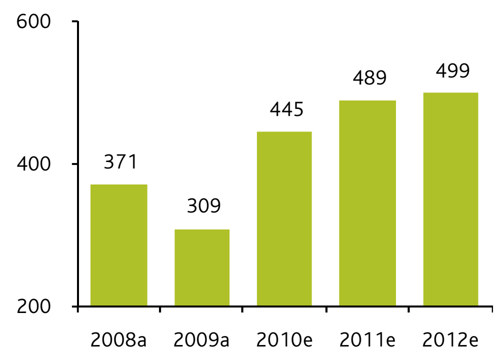
In EGP million (RHS); volume in sqm million (LHS)



Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

FIGURE 19: PROJECTED CASH BALANCE

In EGP million, unless otherwise stated



Source: EFG Hermes estimates

VII. FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In EGP million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Total Revenue	26	19	140	253	603
COGS	(14)	(23)	(91)	(149)	(337)
Gross Profit	**11**	**(4)**	**49**	**105**	**266**
Gross Profit Margin	44%	-20%	35%	41%	44%
SG&A	(18)	(19)	(21)	(26)	(65)
EBITDA	**(10)**	**(30)**	**32**	**95**	**220**
EBITDA Margin	-39%	-156%	23%	37%	37%
Depreciation	(1)	(2)	(2)	(2)	(2)
EBIT	**(16)**	**(45)**	**16**	**76**	**199**
Net Interest Income (Expense)	24	16	17	18	19
FX Gains (Losses)	(2)	0.2	-	-	-
Other Income (Expense)	(6)	(21)	(10)	-	-
Earnings before Taxes & Minority Interest	**8**	**(29)**	**33**	**94**	**218**
Taxes	(11)	(1)	(6)	(17)	(39)
Earnings before Minority Interest	**(3)**	**(31)**	**27**	**77**	**179**
Minority Interest	(1)	3	(1)	(2)	(5)
Net Income	**(4)**	**(28)**	**26**	**75**	**173**

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In EGP million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash	309	445	489	499	545
Net A/R	394	208	197	327	640
Work in Progress	373	373	371	367	358
Other Debit Balances	15	15	15	15	15
Total Current Assets	1,091	1,041	1,072	1,208	1,558
Fixed Assets and PUC	332	352	371	354	333
Net Accounts Receivables	74	39	37	62	120
Total Assets	**1,497**	**1,433**	**1,480**	**1,623**	**2,012**
Estimated Development Cost	42	42	91	175	386
Other Credit Balances	102	91	86	92	115
Total Current Liabilities	143	133	177	267	501
Liabilities to TDA	192	168	144	120	96
Deferred Tax	7	7	7	7	7
Minority Interest	78	76	77	79	84
Net Worth	1,076	1,048	1,074	1,149	1,323
Total Liabilities and Net Worth	**1,497**	**1,432**	**1,480**	**1,623**	**2,011**

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

CASH FLOW STATEMENT (DECEMBER YEAR END)
In EGP million, unless otherwise stated

	2009a	2010a	2011a	2012a	2013a
COPAT	(21)	(31)	26	78	181
Change in Working Investment	10	210	60	(61)	(129)
Cash Flow After Change in Working Investment	(11)	179	86	17	52
CAPEX	(6)	(35)	(35)	(1)	(1)
Free Cash Flow	(17)	144	51	16	51
Financing	82	(9)	(7)	(6)	(5)
Change in Cash	64	135	44	10	46

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

EGYPT SALES TEAM

Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 35 35 6054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 35 35 6045
amrk@efg-hermes.com

UAE SALES TEAM

call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM

call center
+800 123 4566
RiyadhCallCenter@efg-hermes.com
RiyadhTraders@efg-hermes.com

Director of Client Relationship
Mazen Matraji
+9661 279 8640
mmatraji@EFG-HERMES.com

Client Relationship
Khalid S. Al-Bihlal
+9661 279 8670
kalbihlal@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Wael Ziada
+20 2 35 35 6154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 35 35 6142
rsamir@efg-hermes.com

DISCLOSURES

I, Jan Pawel Hasman, hereby certify that the views expressed in this document accurately reflect my personal views about the securities and companies that are the subject of this report. I also certify that neither I nor my spouse or dependants (if relevant) hold a beneficial interest in the securities that are traded in The Egyptian Exchange. EFG Hermes Holding SAE hereby certifies that neither it nor any of its subsidiaries owns any of the securities that are the subject of this report.

Funds managed by EFG Hermes Holding SAE and its subsidiaries (together and separately, "EFG Hermes") for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

DISCLAIMER

This Research has been sent to you as a client of one of the entities in the EFG Hermes group. This Research must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity with which you have a client agreement.

Our investment recommendations take into account both risk and expected return. We base our fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by EFG Hermes or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation to the clients of EFG Hermes and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

GUIDE TO ANALYSIS

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment.

Effective 16 December 2009, EFG Hermes changed its investment rating approach to a three-tier, long-term rating approach, taking total return potential together with any applicable dividend yield into consideration.

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	Potential Upside (Downside) %
Buy	Above 15%
Neutral	(10%) and 15%
Sell	Below (10%)

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating.

COPYRIGHT AND CONFIDENTIALITY

No part of this document may be reproduced without the written permission of EFG Hermes. The information within this research report must not be disclosed to any other person if and until EFG Hermes has made the information publicly available.

CONTACTS AND STATEMENTS

Background research prepared by EFG Hermes Holding SAE. Report prepared by EFG Hermes Holding SAE (main office), Building No. B129, Phase 3, Smart Village - km 28 Cairo Alexandria Desert Road, Egypt. Tel +2 (0)2 3535 6140 | Fax +2 (0)2 3537 0939 which has an issued capital of EGP 1,939,320,000.

Reviewed and approved by EFG Hermes KSA (closed Joint Stock Company) which is commercially registered in Riyadh with Commercial Registration number 1010226534, and EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Level 6, The Gate, DIFC, Dubai, UAE. The information in this document is directed only at institutional investors. If you are not an institutional investor you must not act on it.