

## 2Q2011 Results: In the Red, but Income Statement Numbers Irrelevant for Now

### RESULTS REVIEW

### REAL ESTATE & HOSPITALITY | EGYPT

#### ≡ Negative Gross Profit Margin on Services, Impairments Drive Net Loss

Egyptian Resorts Company (ERC) reported a negative gross margin of 17% in 2Q2011 at the utilities segment level, down from a positive 13% in 1Q2011 and a negative 4% in 2Q2010. Total gross profit margin reached 19% in 2Q2011, supported by high-margin land revenues. The company also booked impairments to receivables of EGP4.6 million in 2Q2011, which pushed earnings into negative territory. Net losses amounted to EGP2 million in 2Q2011. We note that in the absence of significant land sales we assign little importance to ERC's quarterly income statement numbers.

#### ≡ Top Line Supported by Minimal Land Revenues in Sawari

ERC closed 2Q2011 with no new land sales and revenues generated solely by its utilities business, minimal land revenue recognised from its Sawari project, and accrued revenue and interest on collected instalments from historical sales. Total revenues in 2Q2011 of EGP12.3 million were almost unchanged from 1Q2011 versus our EGP7.0 million forecast. Land revenues of EGP4.1 million generated by Sawari sales were not part of our projections. Accrued revenues of EGP1.8 million were almost in line with our EGP2 million estimate. Services and utilities revenues in 2Q2011 came in at EGP5.9 million, slightly above our EGP5 million forecast.

#### ≡ Balance Sheet Remains Liquid

The cash balance stood at EGP223 million and total receivables at EGP373 million. The only sizable commitments on the company's books amounted to EGP228 million in land purchase liabilities due to the Tourism Development Authority (TDA) for Phase III, and EGP113 million as a development commitment for historical land sales.

#### ≡ Maintain FV and Rating; Upside Risk if ERC Repurchases Phase III Land

We maintain our Sell recommendation and our fair value (FV) of EGP0.90/share. Our FV carries some upside risk should ERC restore its Phase III land on favourable terms. Our FV stood at EGP1.40/sqm before the withdrawal of Phase III and was based on the old purchase price of cUSD1.50/sqm. We note that according to historical news reports, the TDA offered to return the land to ERC at a price of USD8.75/sqm. We see the new land valuation as excessive and unaffordable, even in light of the company's strong balance sheet. We believe that the final payment terms proposal should be the main determinant of ERC's decision to repurchase the plot.

### KEY FINANCIAL HIGHLIGHTS

December Year End (EGP mn)	2010a	2011e	2012e	2013e
Revenue	15	14	93	900
Net Income	(4)	(30)	15	150
P/E* (x)	(273)	(35)	70	7
P/BV* (x)	1.15	1.03	1.02	0.89

\*Price as at 17 August 2011

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



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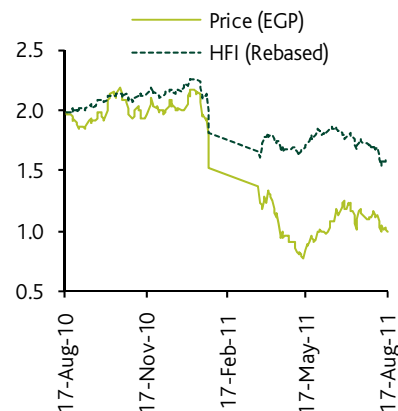
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### STOCK DATA

Price	EGP1.00*
Fair Value	EGP0.90
Last Div. / Ex Date	N/A
Mkt. Cap / Shares (mn)	EGP1,050 / 1,050
Av. Mthly Liqdtly (mn)	EGP213
52-Week High / Low	EGP2.19 / EGP0.78
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	39%

### SHARE PRICE PERFORMANCE RELATIVE TO HFI REBASED



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