

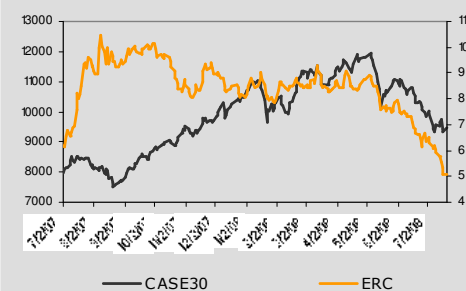


Recommendation	Buy
Value (LE)	15.10
Market Price (LE)	5.09
Up/Downside Potential	304%

Stock Data

Reuters Code	EGTS.CA
Shares Outstanding (000s)	840,000
Market Cap (LE 000s)	4,258,800
Free Float (%)	34.95%
52-week range (LE)	5-10.7
Average Daily Trading Value (LE 000)	59,135

ERC vs. Case 30



Source: Reuters

ERC vs. OHD

	ERC	OHD
Land Bank (000sqm)	24,196	90,000
Market Cap (mn EGP)	4,166	10,991
M.Cap/sqm (EGP)	172.19	122.12
ERS*(EGP/share)	0.57	1.84
PER (x)	8.7	26.91

*Based on 2007 results

Huge land bank with minimal cost

The Egyptian tourism sector is enjoying a positive outlook. Demand is expected to grow by 5.4% per annum between 2008 and 2017, as per the World Travel Tourism Council estimates. This demand is met by an increasing flow of investments in Hotels amounting to EGP 4.63 billion in FY2006/07, 35% higher than the previous year's total investments. Since Egyptian Resorts Company (ERC) is tourism-driven rather than real-estate driven company, it is capitalizing on the favorable sector circumstances, in addition to the unique location of its land bank in Sahl Hasheesh, knowing that the Red Sea accounts for more than 50% of total tourists' arrivals to Egypt, in creating its value as a land developer.

In addition to its land location, ERC is benefiting from a very low cost/sales ratio that does not exceed 15%. Land was purchased with an average price of EGP 5/sqm and infra-structure cost averaged EGP 43.5/sqm for phase I and II. This leaves the company on the safe side, assuming any slowdown in land prices.

ERC management is keen on differentiating its business by working on two fronts; expanding its land bank and creating recurring revenue streams. Currently, ERC is looking for opportunities to acquire land plots on the red sea, Dahab and the north coast, meanwhile the company is focusing on services; i.e. community, utilities and lease management to build its internal capacities and secure a recurring revenue streams. Though taking serious steps, the contribution of the services is still minimal in generating cash flows to the company.

ERC has sufficient flow of funds, where it realized a down payment of 30% of the land value upon sale of land. Cash balance stands at more than EGP 300 million with zero debt balance. The company is intending to use its cash, in addition to a further capital increase of EGP 210 million, to finance the development of Phase III land, stretched over 20 million sqm in Sahl Hasheesh.

ERC value is mainly derived from plots sales which acquire 70% of the company's value whereas Utilities services accounts for 23% of ERC value. We upgrade our valuation of ERC, reaching an intrinsic value of EGP 15.10/share.

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Valuation Thesis

We derived ERC value by summing up the values generated from each revenue stream on a standalone basis. We triggered the value of ERC land plots using NAV method whereas Utilities serviced are valued using DCF method. The contribution of SHC in the value was based on a combined Income/Asset approach. Cash flows are discounted at a cost of equity of 17%.

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LATEST DEVELOPMENTS

- ▶ ERC took the approval to raise its capital by EGP 210 million, from EGP 840 million to EGP 1,050 million through the distribution of a 1:4 stock dividend, 100% financed from FY2007 retained earnings. Distribution date is not declared yet.
- ▶ On June 2008, the Board of Directors agreed to sell 3 plots of land with total area of 211,854 sqm at a total value of USD32.12 million at an average price of USD 151 per sqm. Meanwhile, the Board agreed preliminary and conditionally on selling another 3 plots of land with a total land area of 270,552 sqm worth USD 50 million at an average price of USD186 per sqm.
- ▶ ERC submitted a request to the Tourism Development Authority (TDA) to purchase 14 million sqm in Bernice on the Red Sea south of Hurghada.
- ▶ On January 2008, the Board of Directors approved selling 996,559 sqm at a total value of EGP 455.427 million at an average price of EGP 457 per sqm.

BUSINESS ACTIVITIES

ERC business model provides three revenue streams; Plots sales, Utilities & Community Management and Commercial Leasing & Development Management through its subsidiary, Sahl Hasheesh Company. Currently more than 95% of the revenues are generated from land sale where the contribution of the services revenues is still not significant.

A. Land Plots Sales

Since its inception in 1995, ERC acquired 32 million sqm in Sahl Hasheesh on the Red Sea. The land is divided into three phases; phase I, which is spread over 6 million sqm, is almost sold. Phase II, which totaled to another 6 million sqm, is currently the main generator of land sales. The master plan of phase III has not been set yet

ERC sells land plots to developers for the construction of hotels, residential apartments and villas, golf courses and other leisure real estate activities where the land use is predetermined by ERC. Upon signing the contract, ERC pockets 30% of the land value and the remaining amount is paid over 5-6 semi-annual installments. The cost of land to ERC comprises the purchase cost of land, estimated infrastructure cost and a commission on sales of USD 1.75/sqm to the Tourism Development Authority (TDA), which is settled immediately following the sale of land. Infrastructure works are delivered in 30-60 days before delivery of the completed project by the developer.

Project	Remaining Land (sqm)	Cost of Land (EGP/sqm)	Infrastructure cost (EGP/sqm)	TDA commission (EGP/sqm)
Phase I	610,355	3.85	35.00	9.28
Phase II	3,585,908	5.75	52.00	9.28
Phase III	20,000,000	5.75	127.20	9.28
Total	24,196,263			

Source: ERC

B. Utilities and Community Management

ERC began generating revenues from utilities management in 2007 as to secure recurring sources of revenue. ERC management is planning to provide services through four profit centers; Water Desalination, Electricity, Communication and Maintenance Management. We believe that engaging in the utilities and community Management will directly affect revenues through providing another stream of revenues that will have a more significant contribution when reaching the planned capacity of Sahl Hasheesh land, and it will augment in case of any further expansions. Furthermore, utilities and community management shall indirectly accelerate land sales, which is the intrinsic value of providing services.

▼ Water

ERC is developing water desalination plants, where it subcontracts plant management and maintenance for a fixed fee. Fees are charged on a monthly basis and running costs are post-paid following receipt of payment. Current consumption of desalinated water is 4,000 m³/day at a prevailing market price of EGP8-10/m³. The planned capacity upon completion of the entire resort is to reach 200,000 m³/day in 2024. Gross profit margins ranged from 50%-60%.

▼ Electricity

ERC invests in internal electricity network. ERC makes a spread between wholesale and retail rates charged by ERC and collected from developers. Due to lack of information regarding the current consumption or the planned capacity as there is lots of construction on site and hotels are still opening, we disregarded the cash flows generated from electricity when calculating ERC value.

▼ Communication

ERC is currently studying the construction of an equipment and black fiber network throughout the entire site. Since ERC has not yet reached an agreement with a business partner to provide such service, we did not include this segment in our valuation.

▼ **Maintenance Management Incentive Fees**

ERC is negotiating with experienced resort community managers for general upkeep and maintenance of public areas and equipments. The company stated a planned capacity of 150,000 dwelling at Sahl Hasheesh. ERC will start generating revenues from maintenance management in 2009 and the management expects that it will reach the planned capacity by 2024. We assumed that ERC will charge USD 30 per week per dwelling in 2009 with an annual gross growth rate of 10%. It is expected to achieve a gross profit margin of 40%-60% from maintenance fees.

C. Sahl Hasheesh Co. (SHC)

ERC owns a controlling stake of 70% in Sahl Hasheesh Company, which operates in three activities; rental of commercial facilities, sale of luxurious tourism housing, and providing hotel apartment services. Over one million sqm is to be developed by SHC in phases I and II where it acquired 632,660 sqm from ERC at an average price of EGP 533/sqm and reserved 483,593 sqm.

Plot no.	Size (m ²)	Purchase price (EGP/sqm)	Type of development
Acquired – Phases (I) and (II)			
9A	57,528	705	Downtown Commercial
60	97,528	318	Mixed Use
13	420,000	477	Entertainment Center/ Mixed Use/ Condos
19	57,000	633	Downtown Commercial
Total	632,716	533	

Reserved- Phase (II)

46/50/51/55/56 483,593 Mixed Use

Source: ERC

SHC acts as the sole developer for Phases I and II downtown areas, as it build-to-lease all commercial retail and entertainment space for phases I and II. At present, SHC is developing two plots with net leasable area of more than 200,000 sqm and a weighted average lease rate of EGP 1,870/ m² per year. As per the management guidance, plot 9A roll out completion will be by 2013 whereas plot 19 will be completed by 2016.

In sqm	Phase I	Phase II	Total
Plot #	9A	19	
Land Footprint	57,528	57,660	115,188
Net Leasable Area (estimate)	97,528	318	217,275
Currently available for lease	31,309	-	31,309

Source: ERC

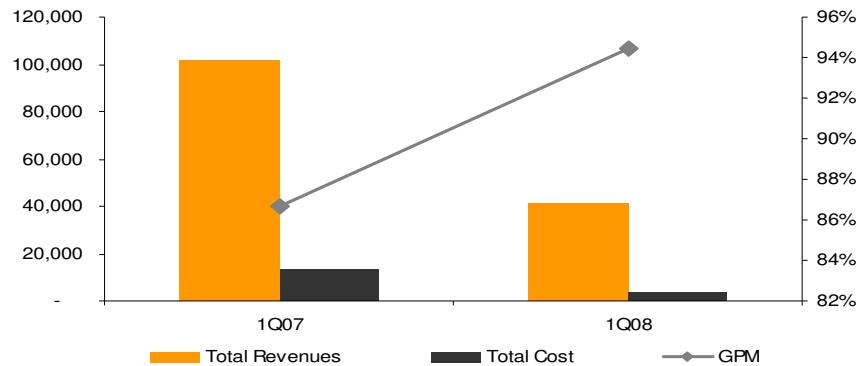
Financial Highlights

1Q 2008 results

ERC posted a modest net income of EGP 23.56 million during the 1Q08 compared to EGP 84.51million recorded in the comparable period. Land sales amounted to EGP 40.07 million mainly generated from selling land plots in Phase II to Sahl Hasheesh Co., whereas services sales didn't exceed EGP 1.5 million. Backed up by very low land cost/sales, the company rendered its gross profit at a very high level of 94%.

The bottom line was negatively affected by FX losses of EGP 7.04 million and Income tax of EGP 5.78 million since ERC tax holiday has ended in 2007.

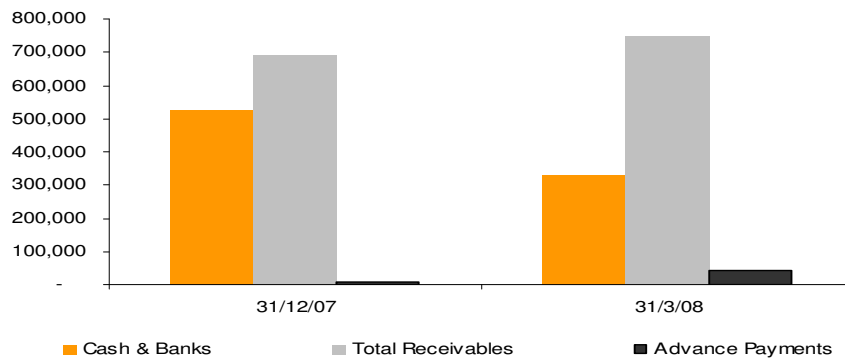
Profitability Indicators



Source: Naeem estimates

ERC assets grew by 3% during the 1Q08 totaling to EGP 1.52 billion supported by a strong cash balance of EGP 329.98 million and an increasing receivables balance of EGP 747.38 million, since ERC is installing 70% of the land amount on 5-6 equal semi annual installments. Also Advance Payments amounted to EGP 41 million up from EGP 8.9 million in 2007.

Sources of funds



Source: Naeem estimates

During 1Q08, ERC raised its share in Sahl Hasheesh Company to 69.38% up from 54.68% through subscribing in SHC capital increase of EGP 200 million with an allocation ratio of 69.61%. Hence, Long term Investments reached EGP 173.45 million as compared to EGP 34.22 million by the end of 2007.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▼ Very low cost of land ▼ Land bank located in a prime location ▼ Self-financing ▼ Approach Utilities and Community management 	<ul style="list-style-type: none"> ▼ Land bank is concentrated in Sahl Hasheesh
Opportunities	Threats
<ul style="list-style-type: none"> ▼ Increasing investments in the tourism sector. ▼ Approach Egypt's costal areas ▼ An acquisition target 	<ul style="list-style-type: none"> ▼ Fear from a slow-down in land prices

Valuation

Since ERC is diversifying its revenues through providing utilities and community management services, in addition to commercial leasing through SHC, we valued each revenue stream separately using the appropriate valuation method and then we used the sum of the parts (SOTP) method to reach ERC value.

A. Land Plots

We use the Asset approach (NAV) in valuing ERC's remaining land bank amounting to 24,196,263 sqm in Sahl Hasheesh using an average market price of USD 110/sqm at the prevailing exchange rate (5.3 EGP/USD). Total cost includes land purchase price, estimated infrastructure cost, the TDA commission and registration cost of EGP 13 million.

	Total land (000 sqm)	Sellable land (000 sqm)	Total Cost (000 EGP)	Market Price (EGP/sqm)	NAV (000 EGP)
Phase I	610	536	32,155	583	280,660
Phase II	3,586	3,232	250,733	583	1,633,510
Phase III	20,000	16,000	2,844,500	583	6,483,500
Total	24,196	19,768	3,127,389		8,397,670
Land debt					(36,437)
Cash					329,982
NAV					8,691,216

Source: Naeem estimates

B. Utilities and Community Management

ERC management is planning to provide services through four profit centers; Water Desalination, Electricity, Communication and Maintenance Management. We used the Discounted Cash Flow approach (DCF) in deriving the contribution of both Water Desalination and Maintenance Management fees in the value of ERC. Due to lack of information with regard to Electricity capacity, we disregarded its contribution in the value. Meanwhile, Communication services are still studied with business partners; accordingly we did not include its contribution as well.

We used year 2024 as our base year, when reaching the planned capacity, in calculating the terminal value, assuming a constant growth rate of 3% for Water and 5% for Maintenance Management. Cash flows are discounted by a cost of equity of 17%.

	2008	2009	2010>	2024
Water					
Capacity (m ³ / day)	4,000	4,800	5,760		200,000
Average price (EGP/m ³)	9.00	9.45	9.92		19.65
Operating Profit (000 EGP)	6,480	8,164	10,287		707,251
Free Cash Flow	5,184	6,531	8,230		565,801
Terminal Value					4,104,050
Discount factor	1.07	1.26	1.47		13.58
DCF	4,837	5,200	5,591		343,875
Maintenance Management					
Estimated charge (EGP/week/dwelling)		159	175		665
Capacity (# of dwellings)		4,000	4,800		150,000
Operating Profit (000EGP)		15,264	20,148		2,391,056
Free Cash Flow		15,264	20,148		1,912,845
Terminal Value					16,463,014
Discount factor		1.26	1.47		13.58
DCF		12,152	13,687		1,353,150

Source: Naeem estimates

C. Sahl Hasheesh Co. (SHC)

SHC owns four plots of land with a total area of 623,716 sqm. Currently, SHC is developing two commercial areas on plots (9A and 19). We used the Discounted Cash Flow approach (DCF) in valuing the two projects, assuming that the company will sell the underdeveloped area at the prevailing market price of USD 2000/ sqm, subject to an average annual inflation rate of 10%. With an implied cost of land of USD 200/sqm, infrastructure cost of USD 50/sqm and construction cost of USD 350/sqm, subject to an average annual inflation rate of 11%, SHC will achieve a gross profit margin of more than 70% for the two plots under development. Cash flows are discounted at a cost of equity of 17%. As for the other two plots (#60 & 13), we used the Net Asset Value approach (NAV) in valuing them since they are still not developed. We used an average market price of USD 110/sqm and the prevailing exchange rate.

Plot #9A Free Cash Flow	2008	2009	2010	2011	2012	2013
Operating Profit (mnEGP)	55.7	27.5	32.3	40.5	41.5	28.7
Gross Profit	87%	74%	76%	83%	82%	83%
Tax rate	0%	0%	0%	0%	0%	0%
NOPLAT (000 USD)	55.7	27.5	32.3	40.5	41.5	28.7
Ex. Rate (EGP/USD)	5.5	5.8	6.0	6.1	6.1	6.1
NOPLAT (mn EGP)	306.3	159.6	193.8	247.4	253.3	175.5
Discount factor	1.07	1.26	1.47	1.73	2.02	2.37
DCF (000 EGP)	285,874	127,075	131,655	667,143	125,319	74,064

Plot #19 FCF	2009	2010	2011	2012	2013	2014	2015	2016
Operating Profit (mnEGP)	18.3	21.5	38.1	38.9	39.2	40.3	30.1	40.3
Gross Profit	73%	74%	76%	75%	74%	74%	75%	80%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%
NOPLAT (000 USD)	18.3	21.5	38.1	38.9	39.4	40.3	30.1	40.3
Ex. Rate (EGP/USD)	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.1
NOPLAT (mnEGP)	106.4	129.5	232.6	237.4	240.7	245.8	184.0	246.1
Discount factor	1.26	1.47	1.73	2.02	2.37	2.78	3.26	3.81
DCF (000 EGP)	84.7	87.9	134.8	117.4	101.6	88.5	56.5	64.5

	Total land (sqm)	Sellable Land (sqm)	Total Cost (EGP mn)	Market Price (EGP/sqm)	NAV (EGP)
Plot #60	97,528	87,775	36,093	583	15,079,314
Plot #13	420,000	378,000	222,180	583	(1,806,000)
NAV					13,273,314

Valuation Wrap-up

Company	Valuation Method	Value	% of ownership	ERC Value
ERC				
1-Land Plots	NAV	8,691,216,461	100%	10.35
2-Utilities				-
Water	DCF	626,571,230	100%	0.75
Maintenance	DCF	2,228,360,567	100%	2.65
Sahl Hasheesh				
Plot# 9A	DCF	887,440,342	70%	0.74
Plot# 19	DCF	736,218,658	70%	0.61
Plots # 60&13	NAV	13,273,314	70%	0.01
				-
ERC Value (EGP/share)				15.10

ERC Financial Statements

Income Statement (in EGP 000)

	31/12/06	31/3/07	31/12/07	31/3/08
Land sales	325,611	101,570	578,258	40,073
Services sales	-	-	2,647	1,455
Total revenues	325,611	101,571	580,906	41,529
Land cost	(77,193)	(13,572)	(72,447)	(2,820)
Operating cost	-	-	(4,357)	(860)
Gross Profit	248,418	87,998	504,102	37,849
GPM	76%	87%	87%	94%
S,G&A Expenses	(9,951)	(3,382)	(13,953)	(4,438)
Sundry Revenues (Expenses)	(2,278)	(105)	(3,076)	(4,095)
Earning before tax	236,189	84,513	487,074	29,317
Income Tax	-	-	(2,725)	(5,825)
Net Income	236,189	84,513	484,349	23,492
Return on Sales	73%	83%	84%	59%

Standalone Balance Sheet (in EGP 000)

	31/12/07	31/3/08
Cash & Banks	526,255	329,983
Net Receivables	693,148	747,377
Inventory	122,989	130,542
Advance Payments	61,801	101,207
Debtors & other debit balances	3,649	6,250
Total Current Assets	1,407,843	1,315,358
Net Fixed Assets	34,801	34,492
Long Term Investments	34,220	173,448
Total Assets	1,476,864	1,523,298
Customers Deposits	13,230	42,575
Estimated Cost provision	61,139	56,904
Creditors & other credit balances	24,370	29,590
Other Provisions	420	420
Total Current Liabilities	99,159	129,489
Land Debt	43,861	36,437
Provisions for Deferred Taxes	467	431
Total Liabilities	143,487	166,358
Paid-in Capital	840,000	840,000
Legal Reserves	99,395	99,395
Retained Earnings	393,982	417,546
Total Liabilities and Equity	1,476,864	1,523,298

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