

Cut FV in Light of Higher Uncertainties Regarding Land Monetisation Timeline; Remain Neutral

Fair Value Change Real Estate Management & Development | Egypt

≡ Cut our FV by a third to incorporate a less-positive outlook on monetization timeline

We cut our fair value (FV) by 34% to EGP0.74/share, implying 2.2% upside potential, and thus maintain our Neutral rating. 2016e NAV is lowered by 9% to EGP2.51/share (from EGP2.77/share), where we assume lower selling prices in valuing the company's residual land bank (3.2 million sqm). We opt to use the four-year (2012-15) average selling price (cUSD100/sqm) rather than the 2015 average price (cUSD116/sqm) to reflect a slowdown in Egypt's tourism activity, which might discourage further significant investments in the sector in the short term. We also assign a higher discount rate to our calculated NAV of 70% (up from 60%), the highest within our coverage, along with Heliopolis Housing. This is to reflect increased concerns over the company's ability to monetise its land value and the timeline at which such value will be realised. The rise in our assigned discount to NAV explains around 75% of the cut in fair value.

≡ 2015 on track to mark a long awaited turn to profits

We expect a sequential improvement in the company's reported figures in 4Q2015, for which we expect revenue of EGP73.9 million and net income of EGP22.6 million, with further recognition of revenue from land sales completed in 1H2015. This will bring 2015 revenue to EGP390.1 million, surging almost eight-fold, pushing net income to the black for the first time in five years, at EGP194.6 million. ERC had recorded impressive land sales of USD74.4 million (cEGP568 million) in 1H2015 - levels that have not been seen since 2007.

≡ Less attractive versus peers despite price correction; remain Neutral

We believe the stock offers a less attractive investment opportunity compared to its local peers, given that: i) it is a one-project company, with limited land bank; ii) the nature of its business model, as a master-developer, limiting its ability to fully leverage on the increased demand on secondary homes; and iii) its high-risk-profile, in light of its association with the vulnerable tourism segment. The stock performance has reflected such risks, in our view, falling 29% over the last three months, underperforming EFG Hermes Real Estate index (-21%).

Key Financial Highlights

Dec Year End (EGP mn)	2014a	2015e	2016e	2017e
Revenue	51.3	390.1	354.7	293.1
EBITDA	(55.4)	232.5	110.1	36.5
Net Attributable Income	(37.5)	195.1	74.1	20.1
EPS (EGP)	(0.04)	0.19	0.07	0.02
Price to Earnings (x)	N/M	3.9	10.2	37.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
Net Debt (Cash)	(98.1)	(273.3)	(531.8)	(725.4)
ROAE (%)	(5.0)	23.5	7.7	2.0

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

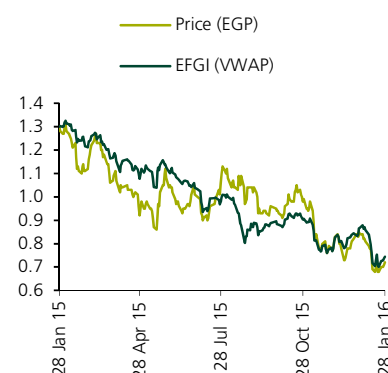
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Stock Data

Rating	Neutral
Price (28 Jan 2016)	EGP0.72
Fair Value	EGP0.74
Last Div. / Ex. Date	EGP0.16 on 18 May 2008
Mkt. Cap / Shares (mn)	EGP756.0 / 1,050
Av. Monthly Liquidity (mn)	EGP147.1
52-Week High / Low	EGP1.3 / EGP0.7
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	40.5%

Share Price Performance Relative To EFGI (VWAP)





DataMiner

(Dec Year End) In EGP million, unless otherwise stated	2014a	2015e	2016e	2017e
Income Statement				
Revenue	51.3	390.1	354.7	293.1
EBITDA	(55.4)	232.5	110.1	36.5
EBIT	(76.3)	211.7	89.3	15.7
Taxes and Zakat	1.0	29.2	21.6	5.8
Minority Interest	(4.0)	0.4	0.1	0.0
Reported Net Income	(37.5)	195.1	74.1	20.1
Attributable Net Income	(37.5)	195.1	74.1	20.1
Balance Sheet				
Cash and Cash Equivalents	98.1	273.3	531.8	725.4
Total Current Assets	927.5	1,214	1,361	1,400
Total Non-Current Assets	383.3	366.2	349.2	332.3
Total Assets	1,311	1,580	1,710	1,732
Total Current Liabilities	271.6	338.8	386.5	382.9
Total Non-Current Liabilities	260.6	267.9	275.7	281.1
Total Liabilities	532.2	606.7	662.2	664.0
Minority Interest	45.2	45.2	45.2	45.2
Total Equity	778.6	973.6	1,048	1,068
Total Net Debt	(98.1)	(273.3)	(531.8)	(725.4)
Cash Flow Statement				
Cash Operating Profit after Taxes	(39.5)	217.9	94.9	40.9
CAPEX and Investments	2.4	(0.3)	(0.3)	(0.3)
Free Cash Flow	4.6	169.3	256.9	194.6
Net Financing	(8.8)	0.0	0.0	0.0
Change in Cash	(4.2)	171.2	261.3	196.4
Per Share Financial Summary				
Normal Reported EPS (EGP)	0.0	0.2	0.1	0.0
Reported Dividend Per Share (EGP)	0.00	0.00	0.00	0.00
Book Value Per Share (EGP)	0.73	0.70	0.88	0.95
Valuation Metrics				
Price to Earnings (x)	N/M	3.9	10.2	37.7
Price to Book Value (x)	1.0	0.8	0.8	0.7
Price to Cash Flow	347.59	4.46	2.94	3.88
FCF Yield (%)	0.60	22.40	33.98	25.74
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	N/M	3.3	6.9	20.7
EV / Invested Capital (x)	1.1	1.1	1.5	2.2
ROAIC (%)	(10.8)	34.9	18.2	5.0
ROAE (%)	(5.0)	23.5	7.7	2.0
KPIs				
Revenue Growth (%)	77.5	660.1	(9.1)	(17.4)
EBITDA Growth (%)	(65.4)	519.4	(52.6)	(66.8)
Gross Profit Margin (%)	(82.7)	65.1	39.9	25.1
EBITDA Margin (%)	(108.0)	59.6	31.0	12.5
EBIT Margin (%)	(148.7)	54.3	25.2	5.4
Effective Tax Rate (%)	N/M	(13.0)	(22.5)	(22.5)
Net Debt (Cash) / BV (x)	(0.1)	(0.3)	(0.5)	(0.7)
Net Debt (Cash) / EBITDA (x)	1.8	(1.2)	(4.8)	(19.9)

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

Investment Thesis

Egyptian Resorts Company, ERC, is a master developer of the Sahl Hasheesh project that overlooks the Red Sea coast. The company's target market is focused on sub-developers that are developing residential communities and hotels within the project. ERC has access to 3.2 million sqm of residual land, with initial plans to develop around half of the area into a large community, Sawari, and sell the remaining part to third-party developers. Currently, land sales constitute, predominantly, ERC's biggest revenue and cash generator. The company also develops, constructs and markets residential and commercial real estate and provides community management services and supply utilities. ERC has a relatively limited land bank and high volatility profile being linked to the tourism activity in the country, which makes it a less attractive investment opportunity compared to its local peers, in our opinion. However, we believe ERC's valuation and growth potential will be affected significantly, should the company regain title for its 20 million sqm phase III land. This will add EGP8.0 billion (EGP5.9/share) to our 2016e NAV, on our numbers, assuming USD50 price/sqm (50% discount to current selling prices) and EGP1.77/share to our fair value.

Valuation and Risks

We set our fair value of EGP0.74 per share based on 0.3x 2016e NAV, where we think the stock should trade at a steep discount to its full NAV, which we estimate at EGP2.51 per share. Our NAV is derived by valuing the company's land bank based on recent land sales transaction prices within the community, according to management disclosure, which has been picking up recently, with improvement in Egypt's political situation and better tourism activity. We assign a 70% discount to our calculated 2016e NAV; the highest within our coverage universe in Egypt, in line with that applied to Heliopolis Housing, given the company's current business model adopted being a master developer and our relatively low visibility regarding development plans. Should the company manage to regain ownership over 20 million sqm phase III land, this will add EGP6.8 per share to our NAV, which would imply a significant upside potential to our valuation and offer a much better growth potential for the company's operations, especially in light of its currently limited residual land. Downside risks to our valuation primarily include a hard landing of Egypt's property market and increased political risk, which would affect our land valuation negatively.


Financial statements
Income Statement (Dec Year End)

In EGP million	2014a	2015e	2016e	2017e
Total Revenue	51	390	355	293
COGS	94	136	213	220
Gross Profit	(42)	254	142	73
Gross Profit Margin (%)	(82.7)	65.1	39.9	25.1
SG&A	37	49	55	61
Other Operating Income (Expense)	3	7	3	3
EBITDA	(55)	232	110	37
EBITDA Margin (%)	(108.0)	59.6	31.0	12.5
Depreciation and Amortisation	(21)	(21)	(21)	(21)
Net Operating Profit	(76)	212	89	16
Net Interest Income (Expense)	1	10	5	9
Other Non-Operating Income (Expense)	36	2	1	1
FX Gains (Loss)	1	3	0	0
Net Provisions	1	2	0	0
Income before Taxes and Zakat	(40)	225	96	26
Taxes and Zakat	1	29	22	6
Net Income before Minority Interest	(41)	195	74	20
Minority Interest	(4)	0	0	0
Net Income before Unusual Items	(37)	195	74	20
Normal Reported EPS (EGP)	0.0	0.2	0.1	0.0

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


Balance Sheet (Dec Year End)

In EGP million	2014a	2015e	2016e	2017e
Cash	98	273	532	725
Short-term Receivables and Prepayments	277	398	322	206
Investments & Financial Assets (ST)	0	0	0	0
Inventory / Finished Units	541	530	492	452
Other Current Assets	12	13	15	16
Total Current Assets	928	1,214	1,361	1,400
PP&E	139	119	98	78
Net Development Properties	179	179	179	179
Goodwill & Intangibles	0	0	0	0
Other Non-Current Assets	65	68	72	75
Total Non-Current Assets	383	366	349	332
Total Assets	1,311	1,580	1,710	1,732
Issued Capital and Share Premium	1,050	1,050	1,050	1,050
Treasury Shares	0	0	0	0
Reserves	132	132	132	132
Retained Earnings	(448)	(253)	(179)	(159)
Net Worth	733	928	1,003	1,023
Minority Interest	45	45	45	45
Total Equity	779	974	1,048	1,068
Long-Term Debt	0	0	0	0
Land Purchase Liabilities	256	261	269	274
Other Non-Current Liabilities	5	7	7	7
Total Non-Current Liabilities	261	268	276	281
Short-term Payables and Accrued Expense	140	121	178	183
CPLTD	0	0	0	0
Customer Advance Payments (ST)	14	100	103	106
Development Liabilities (ST)	68	68	55	42
Land Purchase Liabilities (ST)	36	36	37	38
Total Current Liabilities	272	339	387	383
Total Liabilities	532	607	662	664
Total Equity and Liabilities	1,311	1,580	1,710	1,732

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

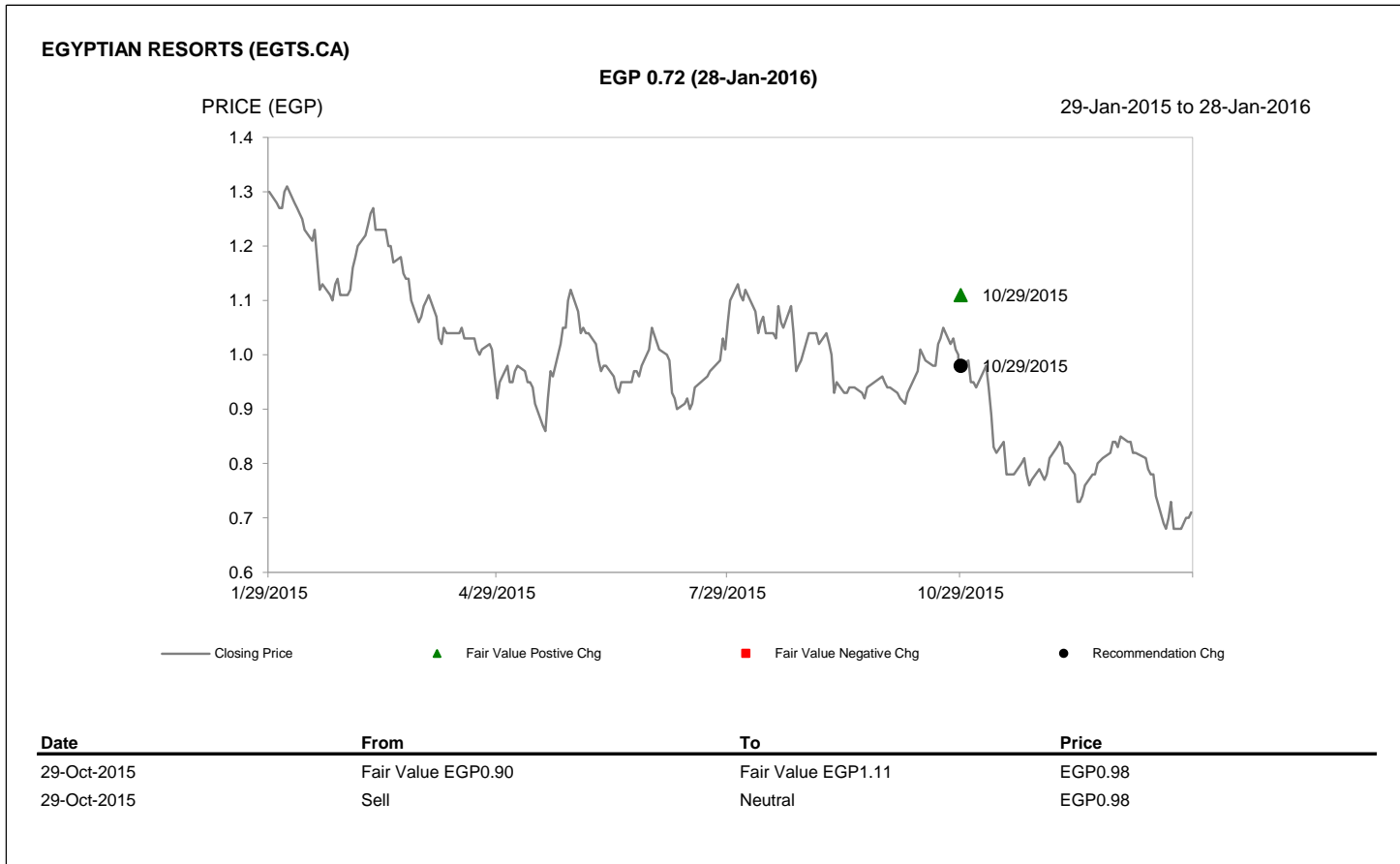
Cash Flow Statement (Dec Year End)

In EGP million	2014a	2015e	2016e	2017e
Cash Operating Profit after Taxes	(40)	218	95	41
Change in Working Capital	42	(48)	162	154
Cash Flow after Change in Working Capital	2	170	257	195
CAPEX and Investments	2	0	0	0
Free Cash Flow	5	169	257	195
Non-Operating Cash Flow	0	2	4	2
Cash Flow before Financing	5	171	261	196
Net Financing	(9)	0	0	0
Change in Cash	(4)	171	261	196

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



RATING AND FAIR VALUE CHART



RATING DISTRIBUTION

Rating	Coverage Universe %
Buy	56%
Neutral	39%
Sell	5%
N/R U/R	0%



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Neutral	(10%) and 15%
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