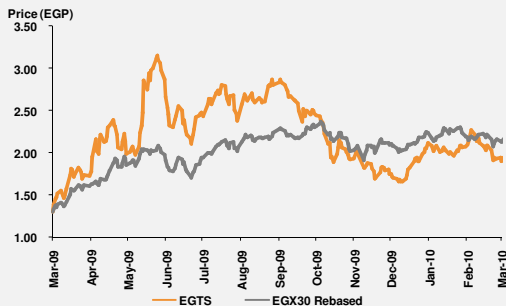


## EGTS: Sanguine over cash cushion – BUY

### EGTS vs. EGX30 Rebased



Source: Bloomberg, Naeem Research

**Egyptian Resorts Company (EGTS) reported 2009 results with zero land sales (as expected) and a net loss of EGP3.4m (vs. an EGP5.8m loss forecast). We conservatively expect EGTS' sales famine to continue through 1H11. We are comfortable with the 2009 year-end cash of EGP309m as it provides a sufficient cushion to survive over the next two years (cash SG&A expenses c. EGP50m/year) and continue development work. New management has already addressed some niggling issues and is focusing on rolling out the community management programme, developing key infrastructure and a cohesive sub-developer marketing plan. Our NAV calculation shows the shares are trading at implied value of USD10/m<sup>2</sup> but we believe the floor (i.e. distressed value) is at least USD15/m<sup>2</sup> (versus an average sale price of USD143/m<sup>2</sup>), which equates to EGP2.70/share, an upside of 42%. Investors should adopt a longer-term view (2-3 yrs) due to sales cyclicality.**

Market Price (EGP)	1.90
Target Price Range (EGP)	2.70
Upside Potential	42%
Free Float	36.9%
Market Cap. (EGPm)	1,995.0
Market Cap. (USDm)	362.7
Reuters Code	EGTS.CA
Bloomberg Code	EGTS EY

\* adjusted for stock split

\*\*Based on EGTS closing price as of 22 March 2010

Source: EGTS, Naeem estimates

Year to 31 Dec	Earnings EGP '000	EPS EGP	EPS %	FCFPS EGP	DPS EGP	PE	P/FCF	Yield	ROE
2007a*	285	0.27	nm	0.10	0.10	12.0	66.0	37%	26.2
2008a*	265	0.25	(7%)	0.26	0.00	7.3	6.8	nm	25.4
2009a	(3)	(0.0)	nm	(0.05)	0.00	nm	nm	nm	(0.4)
2010f	0	0.00	nm	0.02	0.00	nm	78.1	nm	0.0
2011f	23	0.02	nm	0.06	0.00	87.0	34.5	nm	2.1

**No land sales in 2009, famine to continue in 2010.** EGTS reported a 2009 net loss of EGP3.4m as expected (we estimated a loss of EGP5.8m). The company made no land sales during 2009, and revenue from community management (EGP10m) remains the bright spot. According to management, the recent announcement of land sale to a Saudi investor (44,354m<sup>2</sup> of land at US300/m<sup>2</sup> for USD13.3m) has not yet been finalised. Nevertheless, we take a conservative stance and expect the sales famine to continue for next 18-20 months.

**Cash collection tough, but manageable.** EGTS has c. EGP350m receivables due in 2010, of which EGP250m is technically past due and EGP150m of this is owed by five of its larger creditors. We are told that these larger creditors have agreed to a rescheduled payment plan and payments should recommence shortly. EGTS management expects to collect at least 50% of the receivables due this year, and to-date has managed to collect c. EGP15m. Management guided that c.70% of existing land plot sales were to resort operators and the rest to residential sub-developers. We expect resort operators to be in a better financial situation vis-a-vis sub-developers as tourism rebounded during 4Q09. Although cash collection has been tough for the company, we think the quality of receivables



remains acceptable.

**Boost to cash from Treasury stock sale.** EGTS's cash position improved by c.EGP50m QoQ in 4Q09 due to the sale of Treasury shares and receivables collection. Its 2009 year-end cash of EGP309m is more than sufficient to provide infrastructure for the remaining part of Phase II (5.5m<sup>2</sup> assuming a cost of EGP41/m<sup>2</sup> for EGP225m). We estimate annual cash SG&A expenses at c.EGP50m/year and are increasingly comfortable about the company's ability to ride out the lean patch in sales.

**New management acting quickly.** It has immediately addressed some nagging issues such as developments that did not adhere to overall master plans. (12 such cases have already been settled). Management is now focused on driving custom into development and is expected to lease Phase I shops by 2H10. We expect a revenue impact of EGP40m/year (c.35,000m<sup>2</sup> assuming 80% occupancy and USD250/m<sup>2</sup> per year lease rental). Further, management is accelerating development plans for key infrastructure (e.g. the marina), rolling out the community management programme and developing a cohesive marketing plan for all sub-developers, which is a good sign.

**Formal management and utility contracts being signed.** EGTS has started to sign formal community management and utility supply contracts with existing developers. This is to provide more clarity on previous contracts, which did not describe the obligations of each of the counterparties. Management believes formalising the contract is a vital step towards rolling out the community/utility management programme. Related to this, the company plans to deploy a 70MW (current peak-load 6MW) electric sub-station at a cost of EGP70m during the year, which is expected to be operational by end 2011. EGTS aims to purchase power at a cost of c.EGP0.13/kwh and to sell it back to resort operators at EGP0.27/kwh and to residential clients at EGP0.5/kwh. This is expected to increase the margin on power resale to 50-60% from the current 10-12%. Longer term, EGTS is looking at deploying its master development skills to other areas such as industrial parks, logistics and residential. We think logistics could be a winner should these plans materialise.

Our NAV calculation indicates EGTS's shares are trading at implied USD10/m<sup>2</sup>, but we believe the floor (i.e. in distressed sale) should be at least USD15/m<sup>2</sup>, which equates to EGP2.70/share, an upside of 42%. The risk to the implied land price stems from the possibility of the Tourism Development Authority releasing other government lands in Red Sea resort areas at a similarly low cost of acquisition (USD2/m<sup>2</sup>).

**Fig 1: EGTS NAV Valuation**

	Amount (EGPm)	Per share (EGP)	(EGP)/m <sup>2</sup>	(USD)/m <sup>2</sup>
Share price (22/03/10)		1.90		
Cash (FY09)	309.22	0.29		
Net receivables (FY09)	148.09	0.14		
- Provisions (15% of receivables)	(70.12)	(0.07)		
		<b>0.37</b>		
Value of land (Sahl Hasheesh)	1,607.81	1.53	<b>57.65</b>	<b>10.48</b>
Available land bank ('m m <sup>2</sup> )*	<b>27.89</b>			

\* Company data (including new 9m m<sup>2</sup> land bank). USD/EGP=5.5  
Source: EGTS, Naeem estimates

**Fig. 2: Implied land prices and the corresponding NAV share prices**

Avg. land price - USD	5	10	15	20	25	30	40	50	60
Corresponding share price - EGP	<b>1.2</b>	<b>1.9</b>	<b>2.7</b>	<b>3.5</b>	<b>4.2</b>	<b>4.9</b>	<b>6.3</b>	<b>7.9</b>	<b>9.3</b>

Source: Naeem estimates

# Disclosure Appendix

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REDUCE	<-10% to -20%
SELL	< -20%

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HOLD	37%
REDUCE	0%
SELL	0%



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