

Earnings Flash: Egyptian Resorts Company

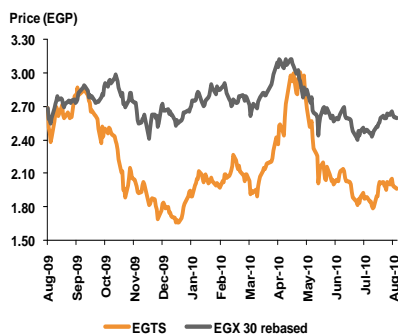
Stay tuned for the launch of SAWARI..!

Market Price (EGP)	1.96
Target Price (EGP)	4.20
Upside Potential	114%
Free Float	30.1%
Market Cap. (EGPm)	2058.0
Market Cap. (USDm)	361.7
Shares outstanding (m)	1050
Net debt/equity (x)	N/A
Book value/share (EGP)	1.02
Price/book (x)	1.92
Reuters code	EGTS.CA
Bloomberg code	EGTS EY

	2009a	2010f	2011f
Revenue (EGPm)	26	32	146
Net income (EGPm)	(3)	0	84
EPS (EGP)	nm	0.00	0.08
DPS (EGP)	0.0	0.0	0.0
PER (x)	nm	nm	24.5

Source: Naeem estimates

EGTS vs. EGX 30 Index



Source: Bloomberg, Naeem Research
Closing price as of 15 August 2010

Egyptian Resorts Company (EGTS) reported 1H10 net profit of EGP0.6m (2Q10 EGP2.97m). This is the 8th quarter with zero land sales, and we expect the sales famine to continue through 2010. Partnership with Orascom Development Holding (ODHN) remains the key catalyst for sales recovery in 2011.

Below the operating line items makes impact in 2Q10. Forex gain of EGP7.8m and Interest income of EGP6m were the key drives of net profit. Depreciation costs increased by EGP2.8m YoY to EGP3.2 in 2Q10 (8x) as more assets were capitalized during 2009/10. Drop in cash balance by EGP31m to EGP277.7m, is driven by capex on key infrastructure (c. EGP30m) despite success in collecting c. EGP27.7m of receivables in 1H10 (EGP8.4m in 2Q10).

2011 is the year to focus. Key catalysts for sales revival:

- ▶ 1Q11: ODHN to start marketing Marina development (2.5m m²), with revamped phase 3 master plan in place
- ▶ Renting of Phase 1 shops, opening of public beaches, two designer golf courses (to be ready in 3Q11) along with six fully operational hotels should generate traffic to the site
- ▶ Increase in tourism arrivals (20%+ in 1H10) and revival in developer appetite for second home projects

Marina project update: The project will be named "SAWARI" and the blue print is currently being finalized. EGTS is drafting a marketing plan including hiring advertising agencies. We expect the campaign to kick off in end 4Q10 and sales impact in 1Q11. Given ODHN's success with El Gouna and shortage of prime land in the Red Sea area, we expect the project to be a success.

Our 2011 forecasts reflect revenues from estimated minimum guarantees of the ODHN partnership (EGP83m), rental income from phase 1 shops (EGP39m) and community services (EGP15m).

Our NAV calculation indicates share is trading at USD11/m². Given the reduction of execution risk, we set our TP at EGP4.20, which equates to USD25/m² for land bank. Earlier our TP was set at USD15/m², which reflects forced sale value. Refer to the table below for implied land prices and the corresponding NAV. **BUY.**

Fig 1: EGTS NAV Valuation

	Amount (EGPm)	Per share (EGP)	(EGP) /m ²	(USD) /m ²
Share price (15/08/10)		1.96		
Cash (2Q10)	277.74	0.26		
Net Receivables (2Q10)	144.12	0.14		
- Provisions (15% of receivables)	(67.83)	(0.06)		
		0.34		
Value of Land (Sahl Hasheesh)	1,703.97	1.62	61.10	10.91
Available land bank (m m ²)*	27.89			

* Company data (including new 9m m² land bank)

Note. Exchange rate used EGP5.6=USD1. Shares Outstanding=1,050m. Source: Company data, Naeem estimates

Avg. Land price - USD	15	20	25	30	40	50	60
Corresponding Share price - EGP	2.7	3.5	4.2	4.9	6.3	7.9	9.3

Disclosure Appendix

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ACCUMULATE	>10% to 20%
HOLD	+10% to -10%
REDUCE	<-10% to -20%
SELL	< -20%

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REDUCE	0%
SELL	0%



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