

NEUTRAL

Target price (EGP)	1.10
Share price (EGP)	0.97
Potential upside (%)	13.4

Share details

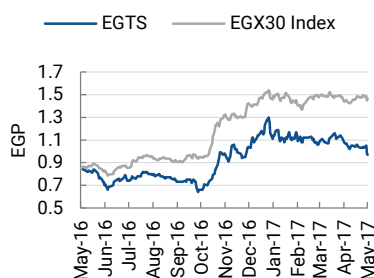
6M avg daily value (EGPmn)	0.67
%Δ: m-o-m / 6M / y-o-y	(10) / 0 / 14
Rel %Δ: m-o-m / 6M / y-o-y	(12) / (12) / (58)
No. of shares (mn)	1,050
Market cap (USDmn)	56
Market cap (EGPmn)	1,019

Ownership structure

Misr Insurance Company*	15%
KATO Investment	12%
First Arabia Development	10%
Rowad Tourism Company	9%
Al Ahly Capital Holding	9%
Orascom Development Holding	5%
Free float	40%

*Includes Misr Life Insurance

Performance



Source: Bloomberg
Closing price as of 23 May 2017

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EGYPTIAN RESORTS COMPANY

EGTS EY / EGTS.CA

Turn Neutral following stock correction

Tourism investment remains under pressure. We still believe that the operating environment for ERC remains challenging due to: i) a volatile FX rate and high interest rates discouraging land acquisitions, ii) the ongoing Russian travel ban, and iii) subdued investment sentiment as tourism recovery takes longer-than-expected (1Q17 arrivals +51% y-o-y, but still 58% below 4Q10 levels), with demand in tertiary residential market still lacking foreign support, despite the EGP-devaluation, in our view. The stock fell c25% since its 3-year high in January; and our TP at EGP1.10/share now offers a 13% upside, warranting a rating upgrade to Neutral from Underweight.

Collection of receivables remains the main concern. ERC's last reported receivables stood at cEGP1.3bn, up from cEGP700mn pre-devaluation, with minimal collections during 2016. The company had previously guided that these receivables would be fully collected within the next 5 years. However, we argue that the recent EGP weakness is not in favour of collections, with clients unlikely to settle at current FX rates without a sustainable recovery in tourism and tempered interest rates. Accordingly, our TP prices in a 10-year collection period.

Awaiting 1Q17 results, but unlikely to be a game changer. ERC passed the EGX mid-May deadline to publish its 1Q17 results; we expect the numbers in the coming days. We are looking for a top line of cEGP20mn, mainly comprised of low-margin revenue from utilities, with minimal support from Tawaya. We are expecting a loss of cEGP10mn on the gross level and a loss of cEGP30mn on the bottom line, pressured by our SG&A forecast of cEGP20mn.

2H17 unlikely to deliver a turnaround. Following the sale of EGP140mn worth of land during 4Q16, we assume no further land sales during 2017, seeing muted touristic investment demand. Therefore, we view the recent land sale as more of a one-off rather than an emerging trend. We are expecting top line in the vicinity of EGP97mn for 2017, primarily comprised of revenue from the loss-making services (utilities, rentals, etc.) and sales within the Tawaya, with revenue from legacy land sales posing an upside risk to our numbers. We expect a net loss of cEGP70mn for the full year, while looking for recovery starting 2018.

KPI summary

(EGPmn)	2016a	2017e	2018e	2019e	2020e
Revenue	208	97	311	337	774
Gross profit margin (%)	40.5	(15.7)	36.0	46.9	62.0
Net income	78	(71)	23	36	192
Net cash position	131	87	247	230	273
RoE (%)	8.5	(8.4)	2.6	4.0	17.4
P/BV (x)	1.1	1.2	1.2	1.1	0.9

Source: ERC, CI Capital estimates
Closing price as of 23 May 2017

Financial statements

FY end: Dec EGPmn	2016a	2017e	2018e	2019e	2020e
Income statement					
Revenue	208	97	311	337	774
COGS	(124)	(112)	(199)	(179)	(294)
Gross profit	84	(15)	112	158	480
EBITDA	31	(60)	54	70	295
Depreciation	(24)	(25)	(25)	(27)	(29)
EBIT	7	(85)	29	43	266
Net interest income	98	4	2	7	7
PBT	105	(79)	33	52	275
Taxes	(95)	-	(7)	(12)	(62)
Net income	10	(79)	26	40	213
Att. net income	78	(71)	23	36	192
Balance sheet					
Cash and equivalents	131	87	247	230	273
Accounts and notes receivable	775	662	606	621	811
Work in progress	570	596	584	631	728
Other current assets	19	19	19	19	19
Total current assets	1,496	1,365	1,456	1,502	1,830
Property, plant & equipment	122	105	108	109	108
Investment property	146	144	142	139	137
Accounts and notes receivable	509	542	496	508	663
Other non-current assets	48	48	48	48	48
Total assets	2,321	2,204	2,249	2,307	2,787
Customer advances	99	91	139	158	300
Entitlements to TDA	129	130	131	132	138
Other current liabilities	446	415	387	384	503
Total current liabilities	675	637	657	674	941
Land creditors	666	666	666	666	666
Total liabilities	1,341	1,303	1,323	1,340	1,607
Shareholder's equity	921	850	873	909	1,101
Minority interests	(23)	(31)	(29)	(25)	(3)
Total equity and liabilities	2,321	2,204	2,249	2,307	2,787
Cash flow statement					
FCO	71	(55)	58	80	304
Working capital	(76)	17	127	(70)	(236)
Net FCO	(5)	(38)	185	10	68
CFI	(25)	(6)	(26)	(26)	(26)
CFF	6	-	-	-	-
Net change in cash	(24)	(44)	159	(16)	42
FCF	(10)	(44)	159	(16)	42
Basic & per-share data					
Enterprise value (EGPmn)	864	864	864	864	864
EPS (basic) (EGP)	0.1	(0.1)	0.0	0.0	0.2
DPS (EGP)	-	-	-	-	-
BVPS (EGP)	0.9	0.8	0.8	0.9	1.0
FCFPS (EGP)	(0.0)	(0.0)	0.2	(0.0)	0.0
Valuation					
P/E (basic) (x)	13.0	n/a	44.3	27.9	5.3
P/BV (x)	1.1	1.2	1.2	1.1	0.9
Dividend yield (%)	-	-	-	-	-
FCF yield (%)	(1.0)	(4.3)	15.6	(1.6)	4.2
EV/revenue (x)	4.2	8.9	2.8	2.6	1.1
EV/EBITDA (x)	n/a	n/a	16.0	12.3	2.9
Growth (% y-o-y)					
Revenue	(48.1)	(53.4)	221.0	8.3	129.9
EBITDA	(86.5)	(291.1)	(189.7)	30.6	319.3
EBIT	(96.6)	(1,314.9)	(133.8)	50.4	516.3
EPS	(63.9)	(191.2)	(132.2)	58.4	425.8
Profitability (%)					
RoE	8.5	(8.4)	2.6	4.0	17.4
RoA	3.4	(3.2)	1.0	1.6	6.9
RoIC	(9.6)	(10.0)	2.4	3.5	18.6
Asset turnover (x)	0.1	0.0	0.1	0.1	0.3
EBITDA margin	15.1	(62.1)	17.4	20.9	38.2
Net profit margin	4.9	(81.9)	8.2	12.0	27.5
Liquidity					
EBITDA/net interest (x)	0.3	(17.0)	24.3	10.1	45.4
Net debt/equity (x)	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)
Net debt/total assets (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Net debt/EBITDA	(4.2)	2.2	(2.4)	(1.9)	(0.4)
Current ratio (x)	1.1	1.0	1.1	1.1	1.1
Quick ratio (X)	1.4	1.3	1.4	1.3	1.2

Source: Company data, CI Capital estimates
Closing price as of 23 May 2017



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