

EARNINGS RELEASE – First Half 2019

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ERC Announces Consolidated Results for the first half of 2019

ERC's top line expanded by 29% year-on-year, supported by double-digit revenue growth in both its core real estate development services and its recurring services, proof positive that the strategic realignment is beginning to bear fruit

H1-2019 Financial and Operational Highlights

- Net revenues stood at EGP 81.0 million in 1H 2019, up by 29% y-o-y from EGP 63.0 million in 1H2018
- Net loss reached EGP 12.8 million for the period, down from EGP 9.3 million in recorded in 1H 2018
- Total contracted sales & reservations recorded EGP 150.5 million during 1H 2019, up by 180%
- Contracted unit sales at Bay village, launched in October 2018, climbed to EGP 203 million
- Recurring revenue from services rendered grew by 27% y-o-y to EGP 49.8 million in 1H 2019 from EGP 39.1 million in 1H 2018

Egyptian Resorts Company (EGX: EGTS.CA), one of Egypt's leading master and real estate developers, announced today its consolidated results for the six-month period ending 30 June 2019. Net revenues came in at EGP 81.0 million for the first half of 2019, up by 29% y-o-y from EGP 63.0 million booked during the same period last year. We see this as testament to the initial success of our strategic realignment strategy, in which ERC halted its land sales to focus on its core real estate activities and service provision, alongside a comprehensive rehaul of its sales and marketing-related functions. Revenue growth for the period was supported by double-digit growth in both its focus segments by 31% and 27% y-o-y respectively.

Despite solid growth in ERC's top line, net losses came in at EGP 12.8 million in 1H 2019 due to lower revenues to cost of sales. This came on the back of increased cost of sales and selling and marketing expenses during 1H 2019.

With the company's average development cycle at 3-4 years to delivery, management expects its undelivered backlog of contracted sales executed between 2017 and 2019 to begin to have a material impact on the company's income statement by late-2020 and grow significantly over the next four years.

Cash receipts from community management services and utilities came in at EGP 44.3 million in 1H 2019, representing a y-o-y increase of 63%, compared to cash receipts of EGP 15.3 million from subdevelopers and retail buyers. Management is in different stages of negotiations with a number of investors and developers to reschedule and restructure their financial dues.

With a number of sub-developers struggling to pay their due contracted amounts, ERC took the decision to realign its focus to real estate development and recurring revenue streams and increase its sales and marketing efforts towards individual investors, commercial entities and hospitality sub-developers and away from real estate developers and investors. The last six months has seen us reallocate our budget and efforts significantly to enhance the capabilities of our sales, marketing, customer service functions along with its IT and software infrastructure in order to strengthen our brands and drive sales of existing and newly launched developments. ERC continued to make progress in its efforts to grow its direct and indirect sales network with its sales team more than doubling in size during the year. The company has also recruited a number of external real estate brokerages and marketing companies with extensive experience in the Red Sea real estate market to further expand its reach. These efforts



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have already begun to bear fruit, with EGP 150.5 million in contracted sales and reservations in 1H 2019, up by 180% y-o-y from 1H 2018.

Real Estate Contracted Sales & Reservations

Bay Village recorded contracted unit sales of EGP 203 million, with an average selling price of EGP 20,500 per sqm, representing 55% of the project to date. Reservations amounted to EGP 33.6 million. Launched in October 2018, Bay Village is an 11,000 sqm multipurpose development with a total built-up area of c.18,500 sqm, located in Sahl Hasheesh's Old Town district. Its design consists of nine residential complexes with 202 units overlooking two swimming pools, a restaurant and a shopping complex. Management estimates that Bay Village will be completely delivered by 2023. With more than half of the development already sold before the second half of 2019, the company will continue to intensify and enhance its marketing efforts to investors looking to enter Egypt's ever-expanding second home market.

In June 2019, ERC launched its latest project, **Bay Condos**, through its subsidiary Sahl Hasheesh. Bay condos is a 2,525 sqm mixed-use development with a total built-up-area of 4,200 sqm, located in the heart of the Old Town district. Its primary design includes 60 new housing units ranging from one-bedroom studios to three-bedroom condos, with 1,210 sqm of the built-up-area allocated for commercial use. Sales contracts have been exceptionally promising, thanks to management's push in its real estate sales and marketing infrastructure, with EGP 27 million of contracted unit sales and reservations to date, representing 20% of its total sales value. Completion of this project is also expected by 2023.

Meanwhile, at **Tawaya**, ERC's strengthened effort alongside Palm Hills Development to market and sell the development's upscale units resulted in EGP 295 million in contracted unit sales, or 83% of the updated project's targeted sales. At **Jamaran**, ERC's exclusive in-house offering of seaside villas along the Sahl Hasheesh coast, revenue from unit sales recorded EGP 14.4 million in 1H 2019, up by 41% y-o-y from 1H 2018. Management expects the sale of its remaining villas to be completed by 2019 year-end, with the average selling price for the seafront units at EGP 31,000 per sqm.

Infrastructure and Facility Management Revenues

Recurring revenues came in at EGP 49.8 million in 1H 2019, representing an increase of 27% y-o-y. Growth was again spread across all service sub-categories, including water supply, electricity supply, water irrigation services, communication services and community management services. Electricity supply services took up the lion's share of growth in 1H 2019, at 42%, with community management services following closely behind, at 36% of absolute growth for the period. The increased consumption of these subdivisions represent higher occupancy rates at Sahl Hasheesh's resorts, growing demand for Sahl Hasheesh's second home market and, more importantly, the continued exceptional recovery of Egypt's tourism sector. ERC has since repriced its infrastructure services and management fees, with the full cooperation of its existing clients, to reflect this market growth and offset the effect of increased subsidies, with the new pricing scheme officially adopted by the company as of 1 July 2019.

Looking Ahead

While ERC continues to intensify its sales and marketing efforts beyond the first half of 2019, the next phase of the ERC's new strategy includes a redesign, subject to TDA approval, of Sahl Hasheesh's masterplan and steps to enhance the value of its c.3.4 million sqm land bank.

ERC will continue to launch its own real estate developments and is currently in the process of completing studies, designs, licenses, and approvals for a number of new distinctive projects which will cater to multiple segments across the real estate spectrum, one of which is planned to launch in 4Q 2019. In parallel, to capture a portion of the ongoing growth in Egypt's tourism industry, management will move forward on the development of new resorts over the coming five years as a crucial element to its upcoming strategy, with studies currently underway on a number of hospitality plays and the expansion of its resort management services to maximize potential revenues from this important sector. ERC will also allocate the sale of 100,000 sqm of land annually to select hospitality sub-developers, while halting any residential-related land sales from 2018 onwards.



ERC has devoted significant resources towards the development of its recurring income assets in the Old Town area, which is considered Sahl Hasheesh's flagship commercial and residential district and a vital meeting point for the Sahl Hasheesh community. A multi-faceted renovation is underway, encompassing the beach, the walkway, its transport network and facilities. Management has identified the optimal retail offering, including a combination of essential services including banks, restaurants, health clinics and food stores, to provide all the comforts necessary for the community to thrive in a resort-like atmosphere. The company will also provide support to commercial tenants and service providers through attractive leases, preferential supply agreements and commercial sponsorship activities.

On July 7, 2019, ERC's Board of Directors decided to take legal action to recover past-dues from clients who have defaulted on their payments. A ruling in ERC's favor is expected to have a significant accounting consequences, with a one-time boost in Sales Returns expected to negatively impact our results throughout 2019 and 2020 if plots of land are returned to the company from the defendants. Despite this, the move is a necessary step for ERC to recover and extract value from otherwise idle unpaid land, and the company is expected to reap its benefits in the long-run. Any returned landbank's value will automatically be enhanced, with its re-sale at new market prices expected to exceed its returned purchase price, which will be at the original selling price.

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About ERC

Egyptian Resorts Company S.A.E. (EGX: EGTS.CA) is a real estate and master developer of international standard communities on a fully-integrated management basis. The company is incorporated in Egypt and headquartered in Cairo. ERC is developing multiple recurring revenue streams that include the supply of utilities (water, electricity, communications) through its project partners, as well as community management and maintenance fees and revenues generated by its subsidiary, Sahl Hasheesh Company.

Capital Structure

Authorized Capital EGP 2,000,000,000

Issued and Paid-In Capital EGP 1,050,000,000 (1,050,000,000 shares @ EGP 1.00 / share)

Shareholder Structure (as of **June 30th, 2019**)

Red Sea Hotels Holding & Related Parties	22.59%
First Arabian Company	10.00%
Misr Insurance	8.05%
Misr for Life Insurance	6.96%
Rowad Tourism Company	5.53%
Ashraf Soliman & Related Parties	15.88%
Others	30.99%

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