



# Flash Note: ERC (EGTS)

4:00pm Cairo / 10 March 2010

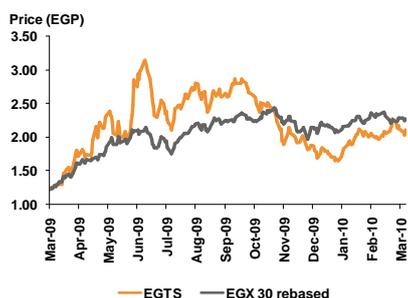
## Fresh impetus - BUY

Market Price (EGP)	2.11
Target Price (EGP)	2.70
Upside Potential	28%
Free Float	36.9%
Market Cap. (EGPm)	2,215.5
Shares outstanding (m)	1,050
Net debt/equity (%)	N/A
Book value/share (EGP)	1.1
Price/book (x)	1.92
<b>Reuters code</b>	<b>EGTS.CA</b>
<b>Bloomberg code</b>	<b>EGTS EY</b>

	2008a	2009a	2010f
Revenue (EGPm)	348	26	60
Net income (EGPm)	266	-3.4	-5.8
EPS (EGP)	0.25	-0.00	-0.01
DPS (EGP)	0	0	0
PER (x)	7.16	N/A	N/A

Source: Naeem estimates

### EGTS vs. EGX 30 Rebased



\*Source: Reuters, Naeem Estimates

\*Based on EGTS closing price as of 10 March 2010

**Egyptian Resorts Company (EGTS) reported a FY09 net loss of EGP3.4m as expected (we estimated a loss of EGP5.8m).** The company made no land sales during FY09, and the impact of the recent land sale to a Saudi investor (44,354m<sup>2</sup> of land at US300/m<sup>2</sup> for USD13.3m) is expected in 1Q10. Key takeaways:

- EGTS has c.EGP150m receivables due in 2010 and has collected c.EGP15m to date.
- 2009e year-end cash of EGP309 (USD56m) is roughly enough to provide infrastructure for 5.6m<sup>2</sup> (80% of phase 2 or c.14% of total land bank, assuming a cost of USD10/m<sup>2</sup>). EGTS's cash position improved by c.EGP50m QoQ due to sale of treasury shares and receivables collection.

**This morning, we met with recently appointed CEO, Mr Mohammed Kamel. The following are key takeaways:**

- Management is focused on accelerating development plans for key infrastructure and rolling out the community management program. Formal utility supply contracts are beginning to be signed by developers. EGTS plans to deploy a 70MW (current peak-load 6MW) electric sub-station at a cost of EGP70m during the year.
- EGTS is working on a cohesive marketing plan for all sub-developers, which is a good sign. Also, they have addressed some nagging issue such as developments that did not adhere to overall master plans. (12 such cases have already been settled).
- EGTS will not go ahead with the Ras Benas land plot. The company is looking at deploying its master development skills to other areas such as industrial parks, logistics and residential.
- Management said there are few other plot sales under consideration, but nothing concrete yet. The management believes that future land sales will be in the region of c.USD120-140/m<sup>2</sup>.
- Phase 1 retail shops are ready for occupation and the company is seeking tenants. EGTS is also interested in developing three public beaches. The idea is to increase traffic to the site.
- The marina development in phase 2 will be undertaken by EGTS (Serrenia project cancellation notice has been sent to developer)
- EGTS understands community development has long business cycles (4-5 years), and is bracing itself for another tough two years.

**Our NAV calculation indicates the shares are trading at USD12/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 28%. Refer to the table below for implied land prices and the corresponding NAV share prices. We will release a detailed report after analysing the financials.**

**Fig 1: EGTS NAV Valuation**

	Amount (EGPm)	Per share (EGP)	(EGP)/m <sup>2</sup>	(USD)/m <sup>2</sup>
Share price (10/03/10)		2.11		
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)	1,828.31	1.74	<b>65.55</b>	<b>11.92</b>
Available land bank ('m m <sup>2</sup> )*	<b>27.89</b>			

\* Company data (including new 9m m<sup>2</sup> land bank)

Note. Exchange rate used EGP5.5=USD1. Shares Outstanding=1,050m. Source: EGTS, Naeem estimates

Avg. Land price - USD	5	10	15	20	25	30	40	50	60
Corresponding Share price - EGP	1.2	1.9	2.7	3.5	4.2	4.9	6.3	7.9	9.3



## Disclosure Appendix

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

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