

## ERC 1Q2013 Results: Losses Continue, Balance Sheet Remains Liquid

### Results Review & Rating Change Real Estate & Hospitality | Egypt

#### Net Loss, as Expected

Egyptian Resorts Company (ERC) has released its full financial statements showing a net loss of EGP3.82 million versus our estimated net loss of EGP5.4 million. The earnings figure has improved significantly from a net loss of EGP84 million booked in 4Q2012 (which was driven by receivable impairments). The company has continued to book impairment on receivables, but it was relatively minor this time around compared to that booked in the previous quarter. Our current valuation for the company's residual land bank as well as assets attributable to its utilities segment is NAV-based and is not driven by forecasts of the company's income statement figures.

#### Some Cancellations in Sawari, but the Balance Sheet is Strong

ERC reversed EGP2.1 million in revenue during 1Q2012, as sales returned in Sawari. Total revenue was mostly dominated by provision of utilities revenue of EGP7 million. The margin on utilities provision was almost in line with our 5% estimate. ERC closed the quarter with a cash balance of EGP131 million (up from EGP88 million at the end of 2012). Cash equivalents stood at cEGP70 million, almost in line with the previous quarter. The company continued to report land liabilities of EGP244 million, attributable to its withdrawn Phase III land and which is due to the Tourism Development Authority (TDA). This suggests, in our view, that the company is still hoping to retain the phase.

#### Upgrade to Neutral After Share Price Correction, FV Unchanged

We upgrade our rating on ERC to Neutral from Sell. We do not believe the company's fundamentals have improved, but the stock has corrected significantly from its recent highs and is now trading within a narrow band close to our unchanged FV of EGP0.9/share. At current levels the stock is fairly valued, in our view.

#### Key Financial Highlights

Dec Year End (EGP mn)	2012a	2013e	2014e	2015e
Revenue	40.5	30.4	30.7	32.8
EBITDA	(28.5)	(31.6)	(31.8)	(31.8)
Net Attributable Income	(99.5)	(28.1)	(26.7)	(32.7)
EPS (EGP)	(0.09)	(0.03)	(0.03)	(0.03)
Price to Earnings (x)	N/M	N/M	N/M	N/M
Dividend Yield (%)	0.0	0.0	0.0	0.0
Net Debt (Cash)	(162.1)	(323.3)	(312.2)	(294.1)
ROAE (%)	(11.5)	(3.4)	(3.2)	(4.0)

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates



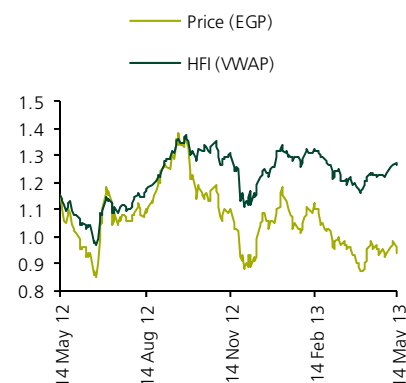
Jan Pawel Hasman  
+20 2 35356139  
jpawel@efg-hermes.com

Shaza El Kady  
+20 2 35356158  
selkady@efg-hermes.com

#### Stock Data

Rating	Neutral
Price (14 May 2013)	EGP0.94
Fair Value	EGP0.90
Last Div. / Ex. Date	N/R
Mkt. Cap / Shares (mn)	EGP987.0 / 1,050
Av. Monthly Liquidity (mn)	EGP68.5
52-Week High / Low	EGP1.4 / EGP0.9
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	31.9%

#### Share Price Performance Relative To HFI (VWAP)



## DataMiner

(Dec Year End) In EGP million, unless otherwise stated	2012a	2013e	2014e	2015e
<b>Income Statement</b>				
Revenue	40.5	30.4	30.7	32.8
EBITDA	(28.5)	(31.6)	(31.8)	(31.8)
EBIT	(135.9)	(49.4)	(49.6)	(43.7)
Taxes and Zakat	(3.1)	0.0	0.0	0.0
Minority Interest	10.5	3.5	0.8	1.0
Reported Net Income	(99.5)	(28.1)	(26.7)	(32.7)
Attributable Net Income	(99.5)	(28.1)	(26.7)	(32.7)
<b>Balance Sheet</b>				
Cash and Cash Equivalents	162.1	323.3	312.2	294.1
Total Current Assets	971.2	1,008	998.4	981.2
Total Non-Current Assets	394.6	386.8	370.2	354.5
Total Assets	1,366	1,395	1,369	1,336
Total Current Liabilities	271.2	262.0	262.9	263.7
Total Non-Current Liabilities	226.9	216.4	216.4	216.4
Total Liabilities	498.1	478.5	479.4	480.1
Minority Interest	55.4	60.4	59.5	58.5
Total Equity	867.7	916.7	889.2	855.5
Total Net Debt	(162.1)	(323.3)	(312.2)	(294.1)
<b>Cash Flow Statement</b>				
Cash Operating Profit after Taxes	(0.1)	(31.6)	(31.8)	(26.7)
CAPEX and Investments	(26.0)	(1.0)	(0.5)	(0.6)
Free Cash Flow	(71.7)	65.4	(33.5)	(28.4)
Net Financing	1.8	21.3	22.8	11.0
Change in Cash	(69.8)	86.7	(10.7)	(17.4)
<b>Per Share Financial Summary</b>				
Normal Reported EPS (EGP)	(0.1)	0.0	0.0	0.0
Reported Dividend Per Share (EGP)	0.00	0.00	0.00	0.00
Book Value Per Share (EGP)	0.77	0.82	0.79	0.76
<b>Valuation Metrics</b>				
Price to Earnings (x)	N/M	N/M	N/M	N/M
Price to Book Value (x)	1.2	1.2	1.2	1.2
Price to Cash Flow	(21.63)	14.86	(29.86)	(35.50)
FCF Yield (%)	(7.26)	6.62	(3.40)	(2.88)
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	N/M	N/M	N/M	N/M
EV / Invested Capital (x)	1.0	1.2	1.3	1.3
ROAIC (%)	(18.7)	(7.6)	(8.5)	(7.7)
ROAE (%)	(11.5)	(3.4)	(3.2)	(4.0)
<b>KPIs</b>				
Revenue Growth (%)	18.8	(25.0)	1.1	6.7
EBITDA Growth (%)	(150.0)	(10.6)	(0.7)	0.0
Gross Profit Margin (%)	(28.0)	(34.8)	(34.0)	(12.7)
EBITDA Margin (%)	(70.5)	(103.9)	(103.4)	(97.0)
EBIT Margin (%)	(335.5)	(162.5)	(161.4)	(133.3)
Effective Tax Rate (%)	2.9	0.0	0.0	0.0
Net Debt (Cash) / BV (x)	(0.2)	(0.4)	(0.4)	(0.4)
Net Debt (Cash) / EBITDA (x)	5.7	10.2	9.8	9.3

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates

### Investment Thesis

ERC offers direct exposure to a land bank located on the Red Sea coast of Egypt, with few liabilities attached. It is a master developer of resort communities established in 1996 to develop 41 million sqm in Sahl Hasheesh into an international destination. The Tourism Development Authority (TDA) withdrew c28 million sqm of its undeveloped land bank in April 2011, leaving ERC with residual sellable land of c2.5 million sqm. The company appealed the decision and could regain ownership of the withdrawn land, possibly at a higher valuation. ERC has one announced project of its own within Sahl Hasheesh, developed jointly with Orascom Development Holding through a profit-sharing agreement. ERC also provides utility and community management services and has a 70% stake in Sahl Hasheesh Company (SHC), the sole developer of commercial centres within Sahl Hasheesh. SHC began leasing its commercial centres but has, to date, attracted very few tenants.

### Valuation and Risks

Our fair value of EGP0.9/share is based on a NAV approach and captures the value of ERC's residual land bank (ex-withdrawn Phase III), assets attributable to its utilities segment, the stake in SHC, and miscellaneous assets on its balance sheet. ERC is cash rich and has no formal bank debt. We believe the loss of Phase III land poses additional risks to ERC's receivables collection. While ERC may have the opportunity to regain ownership of the withdrawn land, the price could change. The company's reacquisition of the land is likely to depend on the new price and the payment conditions, in our view. Our current FV carries potential upside risk, if a swift agreement is reached between ERC and the TDA to return the land. We also see potential for future valuation upgrades if/when ERC establishes a solid track record in its rental business and for its remaining idle assets.


**Results Review**
**Fig. 1. Income Statement Highlights**

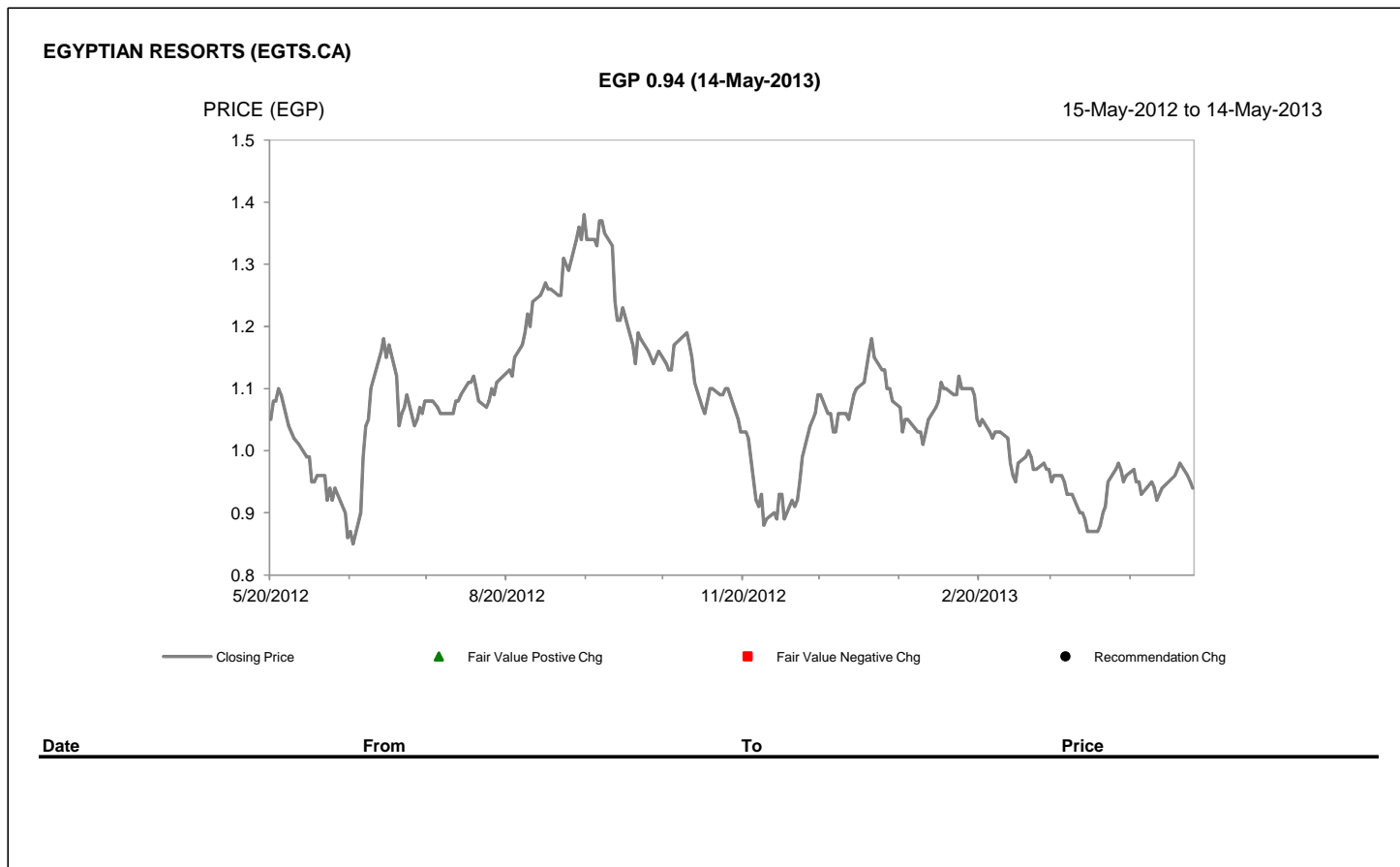
In EGP million, unless otherwise stated

	1Q12a	2Q12a	3Q12a	4Q12a	1Q13a	1Q13e	Q-o-Q	Y-o-Y	Variance
<b>Total Revenue</b>	<b>6.7</b>	<b>6.7</b>	<b>7.2</b>	<b>19.9</b>	<b>5.9</b>	<b>7.5</b>	<b>-70%</b>	<b>-11%</b>	<b>-21%</b>
COGS	(10.1)	(13.7)	(14.6)	(13.4)	(10.9)	(9.9)			
<b>Gross Profit</b>	<b>(3.5)</b>	<b>(7.0)</b>	<b>(7.4)</b>	<b>6.5</b>	<b>(5.0)</b>	<b>(2.4)</b>			
<i>Gross Profit Margin</i>	<i>-52%</i>	<i>-104%</i>	<i>-103%</i>	<i>33%</i>	<i>-84%</i>	<i>-32%</i>			
SG&A	(6.4)	(6.1)	(5.6)	(10.8)	(8.2)	(7.0)			
Discount to Receivables	(1.4)	(2.1)	(2.0)	(89.9)	(2.6)	(1.0)			
Other Income (Expense)	7.0	9.3	6.8	6.1	(0.2)	5.0			
<b>EBT</b>	<b>(4.9)</b>	<b>(6.3)</b>	<b>(8.3)</b>	<b>(87.1)</b>	<b>(5.7)</b>	<b>(6.1)</b>			
Taxes	(0.7)	(0.8)	0.6	(2.2)	(6.3)	(0.7)			
<b>EBMI</b>	<b>(5.5)</b>	<b>(7.1)</b>	<b>(7.7)</b>	<b>(89.3)</b>	<b>(12.0)</b>	<b>(6.9)</b>			
Minority Interests	2.0	1.0	2.0	5.5	8.2	1.7			
<b>Net Income</b>	<b>(3.6)</b>	<b>(6.0)</b>	<b>(5.6)</b>	<b>(83.8)</b>	<b>(3.8)</b>	<b>(5.1)</b>	<b>-95%</b>	<b>7%</b>	<b>-26%</b>

Source: Egyptian Resorts Company (ERC), EFG Hermes estimates



## RATING AND FAIR VALUE CHART



## RATING DISTRIBUTION

Rating	Coverage Universe %
Buy	48%
Neutral	45%
Sell	7%
N/R U/R	1%



## ANALYST CERTIFICATION

We, Jan Pawel Hasman and Shaza El Kady, hereby certify that the views expressed in this document accurately reflect our personal views about the securities and companies that are the subject of this report. We also certify that neither we or our spouse[s] or dependants (if relevant) hold a beneficial interest in the securities that are subject of this report. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## IMPORTANT DISCLOSURES

EFG Hermes Holding, or any of its subsidiaries or officers (other than the authors of this report) may have a financial interest in one or any of the securities that are the subject of this report. Funds managed by EFG Hermes Holding SAE and its subsidiaries (together and separately, "EFG Hermes") for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The author(s) of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which the author(s) has/have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee-earning mandates for companies that are either the subject of this report or are mentioned in this report. Research reports issued by EFG Hermes are prepared and issued in accordance with the requirements of the local exchange conduct of business rules, where the stock is primarily listed.

## INVESTMENT DISCLAIMERS

This research report is prepared for general circulation and has been sent to you as a client of one of the entities in the EFG Hermes Group and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security.

It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. This research report must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity with which you have a client agreement. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendation(s) and fair value estimate(s) for the company or companies mentioned in this report. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by EFG Hermes or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

The decision to subscribe to or purchase securities in any offering should not be based on this report and must be based only on public information on such security and/or information made available in the prospectus or any other document prepared and issued in connection with the offering.

Investment in equities or other securities are subject to various risks, including, among others, market risk, currency risk, default risk and liquidity risk. Income from such securities, and their value or price may therefore fluctuate. Basis and levels of taxation may change which would impact the expected return from such securities. Foreign currency rates of exchange may affect the value or income of any security mentioned in this report. Investors should therefore note that by purchasing such securities, including GDRs, they effectively assume currency risk.

This report may contain a short- or medium-term recommendation or trading idea, which underscores a near-term event that would have a short-term price impact on the equity securities of the company or companies' subject of this report. Short-term trading ideas and recommendations are different from our fundamental equity rating, which reflects, among other things, both a longer-term total return expectation and relative valuation of equity securities relative to other stocks within their wider peer group. Short-term trading recommendations may therefore differ from the longer-term stock's fundamental rating.

## Investment Banking Business

EFG Hermes, or any of its subsidiaries does and seeks to do business with companies mentioned in its research reports. As a result, investors should be aware that the firm or any of its subsidiaries may have a material conflict of interest that could affect the objectivity of this report.



## GUIDE TO ANALYSIS

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment.

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	Potential Upside (Downside) %
Buy	Above 15%
Neutral	(10%) and 15%
Sell	Below (10%)

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating.

## COPYRIGHT AND CONFIDENTIALITY

No part of this document may be reproduced without the written permission of EFG Hermes. The information within this research report must not be disclosed to any other person if and until EFG Hermes has made the information publicly available.

## CONTACTS AND STATEMENTS

Report prepared by EFG Hermes Holding SAE (main office), Building No. B129, Phase 3, Smart Village, KM 28, Cairo-Alexandria Desert Road, Egypt 12577, Tel +20 2 35 35 6140 | Fax +20 2 35 37 0939 which has an issued capital of EGP 2,391,473,750.

Reviewed and approved by EFG Hermes KSA (closed Joint Stock Company) which is commercially registered in Riyadh with Commercial Registration number 1010226534, and EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Level 6, The Gate, DIFC, Dubai, UAE. The information in this document is directed only at institutional investors. If you are not an institutional investor you must not act on it.

**BLOOMBERG EFGH REUTERS PAGES .EFGS .HRMS .EFGI .HFISMCAP .HFIDOM**  
**[efghermesresearch.com](http://efghermesresearch.com)**



EGYPT TEAM	UAE TEAM	KSA TEAM	RESEARCH MANAGEMENT
<b>Local Call Center</b> 16900 cc-hsb@efg-hermes.com	<b>Call Center</b> +971 4 306 9333 uaerequests@efg-hermes.com	<b>Call Center</b> Call Center: +966 1 1111292 RiyadhCallCenter@efg-hermes.com RiyadhTraders@efg-hermes.com	Cairo General + 20 2 35 35 6140 UAE General + 971 4 363 4000 efgresearch@efg-hermes.com
<b>Institutional Sales</b> Mohamed <b>Aly</b> +20 2 35 35 6052 maly@efg-hermes.com	<b>Institutional Sales</b> Ramy <b>El Essawy</b> +971 4 363 4093 ressawy@efg-hermes.com	<b>GCC High Net Worth Sales</b> Loay <b>Abdel Meneam</b> +9665 488 00544 labdelmeneam@efg-hermes.com	<b>Head of Research</b> Wael <b>Ziada</b> +20 2 35 35 6154 wziada@efg-hermes.com
<b>GCC High Net Worth Sales</b> Hatem <b>Adnan</b> +20 2 35 35 7005 hadnan@efg-hermes.com	<b>GCC High Net Worth Sales</b> Rami <b>Samy</b> +971 4 363 4099 rsamy@efg-hermes.com		<b>Head of Products</b> Ahmad <b>Gad</b> +971 4 363 1904 agad@efg-hermes.com
<b>Individual Sales</b> Bassam <b>Nour</b> +20 2 35 35 6069 bassam@efg-hermes.com			<b>Head of Publ. and Distribution</b> Rasha <b>Samir</b> +20 2 35 35 6142 rsamir@efg-hermes.com