

Egypt – Real Estate

Egyptian Resorts Company

EGTS EY (Hold, EGP 0.8, -2.4% upside): Positive overall read- land sales resurgence drives solid y/y growth and unexpected revenue recognition produces a comprehensive beat. Maintain Hold, pending further land sales and potential launch of Sawari Marina

Revenues: EGP 400.4m (+6.8x y/y, +21.4% vs. AC)

Gross profit: EGP 241.9m (+22.5% vs. AC)

Operating profit: EGP 206.5m (+4.6% vs. AC)

Net income: EGP 217.5m (+21.1% vs. AC)

- **Solid y/y growth, purely driven by a resurgence in land sales momentum:** ERC reported FY 15 revenues of EGP 400.4m (+6.8x y/y, +21.4% vs. AC). We attribute the strong beat vs. our revenue estimate to the unexpected partial recognition of a previously-concluded land transactions (EGP 570m), which stood at EGP 373m (+4.2x y/y, +24.7% vs. AC) and contributed 93% of total revenues. Management guidance suggests the recognition of the remaining balance (EGP 197) in FY 16e. Revenues emanating from services rendered to the Sahl Hasheesh community arrived at EGP 48m (+11.4% y/y, -3.9% vs. AC, 11.6% of revenues).
- **Land sales activity in FY 16e remains contingent on the recovery of the tourism sector:** The Egyptian tourism sector has been hit by the Russian plane crash in Sinai in last October, which prompted flight suspensions to the country. According to the ministry of tourism, Egypt accrued USD 6.1bn (-15% y/y) in tourism revenues in 2015, as the total number of tourists dropped by -6% y/y to 9.3m, while the total number of nights spent in the country declined by 14%. Developers, in our view, would consequently postpone land purchases as they await sector recovery. This uncertainty may adversely impact land sales momentum at ERC in FY 16e.

Valuation: ERC currently trades at 0.40x CMP/NAV, at 34% discount to domestic real estate plays. We maintain our Hold rating in place as FY 16e would involve the recognition of the remaining land sales (EGP 197m) and the potential launch of the Sawari Marina project (c. EGP 0.5-1/share, +63-125% further upside). Cash generation however will remain compromised in the absence of new land sales.

HOLD

EGP 0.80

Real Estate / Egypt

Bloomberg code	EGTS EY
Market index	EGX
Price target (local)	0.80
Upside (%)	-2.4

Market data 22/03/2016

Last closing price	0.82
52 Week range	0.6-1.2
Market cap (EGP m)	861
Market cap (USD m)	97
Average Daily Traded Value (EGP m)	6.3
Average Daily Traded Value (USD m)	0.7
Free float (%)	54%

Price Performance



Exhibit 1: ERC FY 15 results

<i>EGP m</i>	<i>FY 15A</i>	<i>AC estimates</i>	<i>Δ</i>	<i>FY 14A</i>	<i>y/y</i>
Revenues	400	330	21.4%	51	680.2%
Gross profit	242	197	22.5%	(49)	nm
EBIT	207	197	4.6%	(50)	nm
Net income	218	180	21.1%	(47)	nm
GPM	60.4%	59.9%	54 bps	nm	nm
EBIT margin	51.6%	59.9%	(828 bps)	nm	nm
Net margin	54.3%	54.4%	(12 bps)	nm	nm

Source: Company Data, Arqaam Capital Research

*FY 14A figures are restated

Exhibit 2: ERC Q4 15 results

<i>EGP m</i>	<i>Q4 15AAC estimates</i>		<i>Δ</i>	<i>Q4 14A</i>	<i>y/y change</i>	<i>Q3 15A</i>	<i>q/q change</i>
Revenues	84	14	517.8%	35	143.8%	17	403.1%
Gross profit	57	15	275.0%	18	220.7%	(9)	(720.3%)
EBIT	21	14	45.6%	44	(53.1%)	(19)	(207.7%)
Net income	45	10	356.7%	(2)	nm	5	848.1%
GPM	67.7%	111.5%	(4,383 bps)	51.5%	1,623 bps	(54.9%)	12,262 bps
EBIT margin	24.5%	103.9%	(7,945 bps)	127.4%	(10,287 bps)	(114.4%)	13,892 bps
Net margin	53.7%	72.7%	(1,894 bps)	(6.7%)	6,044 bps	28.5%	2,521 bps

Source: Company Data, Arqaam Capital Research

*Q4 14A figures are restated

Exhibit 3: Peer analysis

	<i>CMP/NAV</i>	<i>FY 15-18e EPS CAGR</i>	<i>FY 16e RoE</i>	<i>FY 16e RoC</i>
EGTS EY	0.4	(13%)	16%	18%
Local peers	0.6	35%	21%	17%

Source: Company Data, Arqaam Capital Research

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