

# Flash Note: ERC (EGTS)

## Marina to breathe life into project - Raising TP to EGP4.20

Market Price (EGP)	2.82
Target Price (EGP)	4.20
Upside Potential	49%
Free Float	38.0%
Market Cap. (EGPm)	2961.0
Market Cap. (USDm)	538.4
Shares outstanding (m)	1050
Net debt/equity (%)	N/A
Book value/share (EGP)	1.02
Price/book (x)	2.76
<b>Reuters code</b>	<b>EGTS.CA</b>
<b>Bloomberg code</b>	<b>EGTS EY</b>

	2009a	2010f	2011f
Revenue (EGP m)	26	33	146
Net income (EGP m)	(3)	1	81
EPS (EGP)	nm	0.00	0.08
DPS (EGP)	0.0	0.0	0.0
PER (x)	nm	nm	36.5

Source: Naeem estimates

### EGTS vs. EGX 30 Rebased



Source: Bloomberg, Naeem Research  
Closing price as of 2 May 2010

Egyptian Resorts Company (EGTS) and Orascom Development Holding (ODHN) via a joint communiqué officially confirmed a partnership to develop the Marina and 2.5m m<sup>2</sup> of surrounding land in Sahl Hasheesh and ODHN's acquisition of a 4.5% stake in EGTS.

**We believe that EGTS is due for a risk reassessment and therefore re-rating as partnership with a strong brand such as ODHN should lead to a faster than expected revival in sales and reduce risk of project execution. Given the reduction of risk, we set our TP at EGP4.20, which equates to USD25/m<sup>2</sup> for land bank (vs. previous sale price of USD143/m<sup>2</sup>). Earlier our TP was set at USD15/m<sup>2</sup>, which reflects forced sale value.**

**Income guarantee.** In addition to the profit share, the project will ensure a minimum sales income guarantee for EGTS starting from 2011. We estimate the minimum income to be in the range of USD15-20m per annum, a much needed boost to its P&L. The project is expected to officially kick off in 1Q11 and will run for nine years, with the Marina to be ready by 3Q12. Given ODHN's success with El Gouna and shortage of prime land in Red Sea area, we expect the project to be a success. We have revised our 2011 forecasts to reflect revenue from minimum guarantees of the new partnership.

Recent press comments by ODHN's CEO Samih Sawiris on his interest in increasing the company's stake in EGTS, confirms his confidence on the project and could signal EGTS shares are undervalued compared to their potential. Egypt recorded a 24% YoY increase in tourism revenue in 1Q10 and arrivals up +29% YoY.

Key deliveries in Sahl Hasheesh: 3 more hotels due this year (Premier Romance - May, Ocean Breeze - Sep, and Baron Palace - Dec). Phase 1 shops are ready for occupation and expected to be operational towards end 2010. Two designer golf courses are under development and are expected to be ready by 3Q11.

**Our NAV calculation indicates shares are trading at USD17/m<sup>2</sup>.** We believe, given the reduction of project risk, the stock should re-rate to trade at USD25/m<sup>2</sup>, which equates to EGP4.20/share, an upside of 49%. Refer to the table below for implied land prices and the corresponding NAV share prices.

Fig 1: EGTS NAV Valuation

	Amount (EGPm)	Per share (EGP)	(EGP)/m <sup>2</sup>	(USD)/m <sup>2</sup>
Share price (2/05/10)		2.82		
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	2.45	<b>92.28</b>	<b>16.78</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	15	20	25	30	40	50	60
Corresponding Share price - EGP	2.7	3.5	4.2	4.9	6.3	7.9	9.3

# Disclosure Appendix

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

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REDUCE	11%
SELL	0%



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