

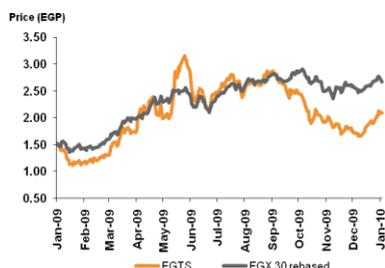
Positive news provide breathing space - Upgrading to Buy

Market Price (EGP)	2.09
Target Price (EGP)	2.70
Upside Potential	29%
Free Float	36.9%
Market Cap. (EGPm)	2,194.5
Shares outstanding (m)	1,050
Net debt/equity (%)	N/A
Book value/share (EGP)	1.08
Price/book (x)	1.94
Reuters code	EGTS.CA
Bloomberg code	EGTS EY

	2008a	2009e	2010f
Revenue (EGPm)	362	60	60
Net income (EGPm)	210	-5.8	-5.8
EPS (EGP)	1.48	-0.01	-0.01
DPS (EGP)	0	0	0
PER (x)	7.3	N/A	N/A

Source: Naeem estimates

EGTS vs. EGX 30 Rebased



*Source: Reuters, Naeem Estimates

*Based on EGTS closing price of 24 January 2010

Egyptian Resorts Company announced a flurry of positive news last week, including land sales and leadership changes, which we think is overall positive. On the back of the news, we feel EGTS gains a much needed cushion to ride out a lean patch in sales. We maintain our TP at EGP2.70 but upgrade the stock from HOLD to BUY as EGTS' shares are trading at an implied NAV of just USD11/m² for its land, which is below our minimum floor value of USD15/m². We analyse the news flow as follows:

- Change of Non-Executive Chairman and CEO could turn out to be positive.** Although both the appointees lack direct real estate sales experience, their international background and exposure to M&A could turn out to be a key catalyst (possible tie ups?). The former CEO has been retained as a senior advisor (consultancy basis), for smooth succession. The changes to expat management could also result in lower SG&A.
- Sale of 44,354m² of land at US300/m² for a total of USD13.3m** to a Saudi-based real estate investment company to establish a world class hotel in 2014. The consideration will be paid on six annual instalments starting December 2009 and is the first land sale in almost a one and half year. The land is located in-land (not beach-front), closer to the downtown area of Shahl-Hasheesh (Phase 1), which we think is significant. Although we don't necessarily equate this one transaction to a revival in sales, it does bring necessary breathing space in terms of much needed liquidity. We earlier estimated the company would experience a lean patch in sales through 2011. The price of USD300/m² is significantly higher than EGTS' average selling price to date of US\$143/m² and could suggest that further deals or corporate actions with the Saudi group are in the offing.
- WATG selected as phase 3 master planner.** Phase 3 of Sahl Hasheesh is the largest phase of the project with an area of 28.3m². It is expected that the master planning phase for this area will last for 6-12 months. We forecast sales impact of phase 3 to be 2-3 years away.
- 2009e year-end cash level of EGP300 (USD54m)** is roughly enough to provide infrastructure for 3m m² (<10% of total land bank, assuming a cost of USD18/m²).
- Our NAV calculation suggests the shares are trading at USD11/m²** but believe the floor should be at least USD15/m², which equates to EGP2.70/share, an upside of 29%. Refer to the table below for implied land prices and the corresponding NAV share prices. The risk to the implied land price stems from the possibility of the Tourism Development Authority "TDA" releasing other government lands in Red Sea resort areas at a similarly low cost of acquisition (USD2/m²).

Fig 1: EGTS NAV Valuation

	Amount (EGPm)	Per share (EGP)	(EGP)/m ²	(USD)/m ²
Share price (24/01/10)		2.09		
Cash (3Q09)	256.05	0.24		
Net Receivables (3Q09)	189.38	0.18		
- Provisions (15% of receivables)	(78.15)	(0.07)		
		0.35		
Value of Land (Sahl Hasheesh)	1,827.23	1.74	65.52	11.91
Available land bank ('m m ²)*	27.89			

* Company data (including new 9m m² 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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HOLD	29%
REDUCE	0%
SELL	0%