

Short-Term Rec.: Neutral

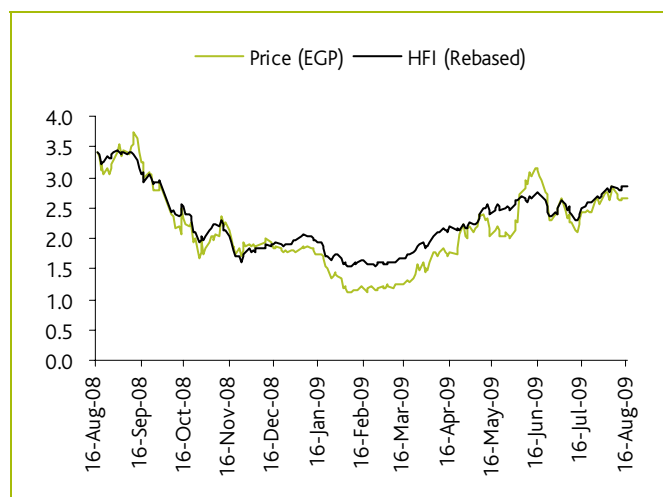
Current Price*: EGP2.65

Long-Term Rec. : Buy

LT Fair Value : EGP3.60

- Third Consecutive Quarter with No Land Sales:** The company did not book any land sales in 2Q2009, although, consolidated accounting revenue grew 40% Q-o-Q to EGP9.3 million, comprising EGP2.6 million in services revenue (utilities) and EGP6.7 million in accrued revenue from historical sales (recognized upon receiving payments from clients). The company had not announced closing any deals in 2Q2009, so the absence of land sales was not a surprise.
- Year Getting Tougher:** Even though the results were not surprising, we are becoming worried that ERC may not seal any deals in the coming two quarters. We had previously downgraded our sales volumes forecast for ERC and now look for a total sales volume of c100,000 square meters (sqm) in FY2009e (versus 476,000 in FY2008) at an average selling price of USD80/sqm, but risk to our forecast is greater to the downside. Management indicated earlier that they would be aiming to sell land for staff housing, which has a relatively lower sale price/sqm, but we have not seen any sign that a deal is completed.
- Cheap, but We Are ST Neutral with No Near Term Catalyst:** We had previously downgraded our ST recommendation to Reduce in the aftermath of a rally in the share price. The share price has been trading between EGP2.4-2.8 over the past month and it seems it has found a new trading range. We however upgrade our ST recommendation to Neutral only in the absence of short term catalysts in sight and the downside risk to our 2009 forecasts. We re-iterate our LT Buy recommendation as the stock remains fundamentally very cheap trading at an 26% discount to our estimated NAV.
- Gross Margin on Services Continues to Shrink:** Despite the Y-o-Y and Q-o-Q growth in the services revenue, which represents 28% of total revenue, ERC is generating a loss on these services. If we excluded the accrued revenue, which does not have any costs, the gross profit margin falls to -24% in 2Q2009 versus 6% in 1Q2009. We attribute this decline to lower utilities usage as a result of weak demand for the destination's hospitality properties, in addition to some trickle down effect of the fixed costs incurred in 1Q2009 as a result of increasing utilities capacity that was not matched by usage.
- Margin Improves but EBITDA Remains Insignificant:** EBITDA margin surged to 24% in 2Q2009 versus a mere 0.5% in 1Q2009 but still down considerably from 85% in 2Q2008 to EGP2.2 million. We attribute the improvement to a decline in selling, general and administrative expenses in 2Q2009 when compared to 1Q2009 as a result of a cost cutting strategy adopted by the management.
- Bottom Line Falling Q-o-Q and Y-o-Y, but Exceeds our Expectations:** ERC recorded EGP2 million in discount to receivables in 2Q2009. The company has previously recorded such provisions (in 3Q2008 and 4Q2008) to account for impairment in receivables from a very small number of retail clients (villa owners) who may default on their instalment payments. ERC no longer offers villas for sale, and the amounts sold have been minimal so far. ERC recorded net income of EGP1.5 million, versus our estimate of zero. Despite improvement in the top line in 2Q2009 versus 1Q2009, the bottom line came weaker as result of recording discount to receivables, lower interest income and nearly no FX gains compared to last quarter.

FLASH NOTE



	2009e	2010e	2011e
EPS*	0.28	0.02	0.08
PER(x)	9.33	N/R	35.31
DPS	0.00	0.00	0.03
Div. Yield	0.0%	0.0%	1.3%
CFPS	0.23	0.02	0.09
PCF(x)	11.28	N/R	30.43
BVPS	0.99	1.06	1.13
PBV(X)	2.67	2.51	2.34

*Attributable

Stock data:

Last Ex-Div Date	EGP0.2 on 3 June 08
Mkt. Cap. / Shares (mn)	EGP2,783 / 1,050
Av. Mthly Liqd. (mn)	EGP319
52-Week High / Low	EGP3.8 / 1.1
Bloomberg / Reuters	EGTSEY / EGTSCA
Est. Free float	40%

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* Prices as at 16 August 2009

ERC Financial Performance Highlights

In EGP million, unless otherwise stated

	2Q08a	1H08a	1Q09a	2Q09a	Q-o-Q	Y-o-Y	2Q09e	Diff.	1H09a	Y-o-Y	2009e
Land Sales Revenues	221	226	4.8	6.7	39%	-97%	5.1	31%	11.5	-95%	49
Service Revenues	2.3	3.8	1.8	2.6	41%	13%	2.3	13%	4.5	18%	12
Total Revenues	223	230	6.7	9.3	40%	-96%	7.4	25%	16	-93%	60
Total COGS	(17.6)	(18.5)	(1.7)	(3.2)	86%	-82%	(1.8)	76%	(5.0)	-73%	(11.5)
Gross Profit	206	211	4.9	6.1	23%	-97%	5.6	9%	11	-95%	49
<i>Margin</i>	92%	92%	74%	65%	-9pp	-27pp	75%	-10pp	69%	-23pp	81%
SG&A	(15)	(20)	(4.9)	(3.8)	-21%	-74%	(5.2)	-27%	(8.7)	-56%	(23)
EBITDA	191	191	0.0	2.2	-	-99%	0.3	-	2.3	-99%	26
<i>EBITDA Margin</i>	85%	83%	1%	24%	23pp	-61pp	5%	19pp	14%	-69pp	43%
Depreciation	(0.5)	(1.0)	(0.6)	(0.7)	10%	36%	(0.6)	10%	(1.3)	31%	(2.6)
Net Interest Income (Expense)	5.2	9.2	6.3	3.1	-51%	-41%	(0.6)		9.4	2%	(2.2)
Other Income (Expense)	0.5	0.6	0.0	0.3		-37%	0.3	13%	0.3	-44%	1.1
Impairment of Receivables				(2.0)					(2.0)		
FX Gains (Losses)	(11)	(17)	6.7	0.4	-94%				7.2	-142%	
EBTMI	185	183	12	3.3	-73%	-98%	(0.6)		16	-91%	22
Taxes	(35.7)	(41)	(3.2)	(1.5)	-54%	-96%	(0.2)		(4.7)	-89%	(6.3)
EBMI	149	142	9.3	1.9	-80%	-99%	(0.7)		11	-92%	16
Minority Interest	(2.1)	(2.7)	1.0	(0.4)		-82%	0.7		0.7	-124%	2.9
Net Income	147	139	10	1.5	-85%	-99%	(0.0)		12	-92%	19

Source: ERC, EFG-Hermes estimates

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