

2Q2010 Results: Bottom Line Helped by Non-Operating Income

RESULTS REVIEW

REAL ESTATE | EGYPT

≡ No Major Top Line Surprises, Gross Profit In line

Egyptian Resorts Company (ERC) closed 2Q2010 with no new land sales and revenues generated solely by its utilities business, as well as accrued revenue (or interest) on collected instalments from historical sales. The operational performance in 2Q2010 was broadly in line with our expectations. Although relatively insignificant, revenues of EGP5.8 million exceeded our forecast of EGP5.2 million. Utilities revenue came in at EGP2.6 million, 5% above our estimate, growing 5% Q-o-Q and 1% Y-o-Y. Accrued revenue reached EGP3.1 million, significantly up from EGP1.9 million in 1Q2010 and above our forecast of 2.7 million. ERC broke even on gross profit, in line with our expectations.

≡ Impairments Lower Than Expected, SG&A Expenses Increase

ERC reported impairments to receivables of cEGP4 million versus our provisional estimate of EGP10 million. We note here that the impairment expense has been restated and the company has now reported it as a discount to its total revenues rather than as a non-operating expense. SG&A expenses increased 25% Q-o-Q to EGP7 million and came in above our estimate of EGP5.5 million.

≡ Earnings Supported by Non-Operating Income

Increasing non-operating income pushed ERC's bottom line into positive territory, despite our conservative forecasts. USD-denominated deposits and receivables generated FX gains of EGP8 million in 2Q2010, as the EGP weakened. Our quarterly forecasts did not incorporate FX movements. Also, net interest income came in stronger than expected at EGP6 million versus an estimated EGP4 million. Minority interest share in losses came in much stronger than expected at EGP2.2 million versus our estimate of EGP0.7 million. Net income in 2Q2010 reached EGP5 million versus our estimated net loss of EGP11 million.

≡ Reiterate Neutral Rating and Keep FV Unchanged

In our opinion, ERC's 2Q2010 results brought nothing new to the company's story and were broadly in line with our modest expectations with a few positive non-operational surprises, which are unsustainable, in our view. We reiterate our Neutral rating on the stock and keep our fair value (FV) of EGP2.2 per share unchanged.

KEY FINANCIAL HIGHLIGHTS

December Year End (EGP mn)	2009a	2010e	2011e	2012e
Revenue	26	19	140	253
Net Income	(4)	(28)	26	75
EPS (EGP)	(0.00)	(0.03)	0.02	0.07
BVPS (EGP)	1.10	1.07	1.10	1.17
Net Debt (Cash)	(309)	(445)	(489)	(499)
Net Debt (Cash) - inc. Ind. Liab.	(118)	(278)	(346)	(379)
P/BV (x)	1.8	1.8	1.8	1.7

*Price as at 16 August 2010

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



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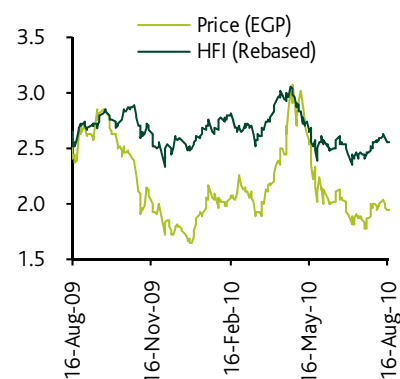
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STOCK DATA

Price	EGP1.9*
Fair Value	EGP2.2
Last Ex / Div. Date	N/A
Mkt. Cap / Shares (mn)	EGP2,037 / 1,050
Av. Mthly Liqdtly (mn)	EGP565
52-Week High / Low	EGP3.1 / 1.7
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	39%

SHARE PRICE PERFORMANCE RELATIVE TO HFI REBASED





HIGHLIGHTS OF 2Q2010 RESULTS

FIGURE 1: ERC QUARTERLY INCOME STATEMENT HIGHLIGHTS

In EGP million, unless otherwise stated

	1Q09	2Q09	3Q09	4Q09	FY09a	1Q10a	2Q10a	Q-o-Q	Y-o-Y	2Q10e	FY10e
Land Sales Revenue	5	7	3	1	16	2	3	64%	-53%	3	6
Service Revenue	2	3	3	3	10	3	3	5%	1%	3	13
Total Revenue	7	9	6	4	26	4	6	30%	-38%	5	19
Other Revenue	0	0	0	0	1	0	0	23%	-28%	0	1
Gross profit	5	6	4	(2)	12	(0)	0	N/M	N/M	(0)	(3)
Total Gross Profit Margin	68%	65%	62%	-55%	47%	-9%	0%			-2%	-16%
SG&A	(5)	(4)	(5)	(5)	(18)	(6)	(7)	25%	88%	(5)	(19)
Net Interest	6	3	9	6	24	4	6	35%	98%	4	16
Other Income / (Expenses)	4	(3)	(8)	(15)	(6)	(1)	5	N/M	N/M	(10)	(21)
Net Income	10	2	(0)	(16)	(4)	(2)	5	N/M	130%	(11)	(28)

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

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