

## ERC 4Q2012: Significant Impairment to Receivables as the Industry Struggles

### Results Review

Real Estate & Hospitality | Egypt

#### Record Impairment to Receivables Drives Earnings Miss

Egyptian Resorts Company (ERC) has reported a 4Q2012 net loss of EGP84 million, higher than our estimated net loss of EGP12 million for the quarter, driven by impairments to receivables of EGP90 million. This is the highest level of quarterly impairments booked since 2010. We have previously indicated that the quality of the company's receivables is likely to deteriorate further due to i) ongoing weakness of the second-home market in remote Red Sea areas; and ii) ERC's legal disputes over Sahl Hasheesh land. Nonetheless, we were not expecting an impairment of such a considerable size and we view the event negatively as it poses a further downside to our NAV-based valuation for ERC.

#### Top-line Better than Expected, Albeit Still Negligible

ERC has not reported any major land sales achieved over the quarter as we had been expecting. Nonetheless, total revenue reached EGP20 million in 4Q2012, significantly above our EGP8 million estimate, driven by the utilities segment. We note, however, that gross profit came in exactly in line with our estimate, implying lower-than-expected profitability for the quarter.

#### Cash Reserves Remain in Place

The company's balance sheet remained relatively stable Q-o-Q, with cash and equivalents at EGP162 million. We note that cash equivalents of EGP73 million are held in liquid investments. The company continues to present its land liability due to the Tourism Development Authority (TDA) for its phase III of Sahl Hasheesh (which was withdrawn by the authority in 2011).

#### Key Financial Highlights

Dec Year End (EGP mn)	2011a	2012e	2013e	2014e
Revenue	34.1	28.4	30.4	30.7
EBITDA	(11.4)	(28.5)	(31.6)	(31.8)
Net Attributable Income	(0.4)	(27.3)	(28.1)	(26.7)
EPS (EGP)	0.00	(0.03)	(0.03)	(0.03)
Price to Earnings (x)	N/M	N/M	N/M	N/M
Dividend Yield (%)	0.0	0.0	0.0	0.0
Net Debt (Cash)	(200.0)	(239.0)	(323.3)	(312.2)
ROAE (%)	0.0	(3.0)	(3.2)	(3.2)

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



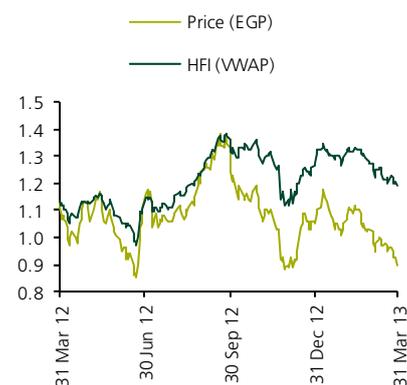
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#### Stock Data

Rating	Sell
Price (31 Mar 2013)	EGP0.90
Fair Value	EGP0.90
Last Div. / Ex. Date	N/R
Mkt. Cap / Shares (mn)	EGP945.0 / 1,050
Av. Monthly Liquidity (mn)	EGP77.9
52-Week High / Low	EGP1.4 / EGP0.9
Bloomberg / Reuters	EGTS EY / EGTS.CA
Est. Free Float	31.9%

#### Share Price Performance Relative To HFI (VWAP)



## DataMiner

(Dec Year End) In EGP million, unless otherwise stated	2011a	2012e	2013e	2014e
<b>Income Statement</b>				
Revenue	34.1	28.4	30.4	30.7
EBITDA	(11.4)	(28.5)	(31.6)	(31.8)
EBIT	(26.1)	(46.3)	(49.4)	(49.6)
Taxes and Zakat	(4.1)	(2.1)	0.0	0.0
Minority Interest	7.0	2.1	3.5	0.8
Reported Net Income	(0.4)	(27.3)	(28.1)	(26.7)
Attributable Net Income	(0.4)	(27.3)	(28.1)	(26.7)
<b>Balance Sheet</b>				
Cash and Cash Equivalents	200.0	239.0	323.3	312.2
Total Current Assets	1,014	1,003	1,008	998.4
Total Non-Current Assets	440.6	422.9	386.8	370.2
Total Assets	1,454	1,426	1,395	1,369
Total Current Liabilities	260.0	261.0	262.0	262.9
Total Non-Current Liabilities	216.4	216.4	216.4	216.4
Total Liabilities	476.4	477.4	478.5	479.4
Minority Interest	66.0	63.9	60.4	59.5
Total Equity	977.7	948.3	916.7	889.2
Total Net Debt	(200.0)	(239.0)	(323.3)	(312.2)
<b>Cash Flow Statement</b>				
Cash Operating Profit after Taxes	14.5	(30.6)	(31.6)	(31.8)
CAPEX and Investments	(18.5)	(0.9)	(1.0)	(0.5)
Free Cash Flow	(74.3)	19.2	65.4	(33.5)
Net Financing	0.0	21.1	21.3	22.8
Change in Cash	(74.3)	40.3	86.7	(10.7)
<b>Per Share Financial Summary</b>				
Normal Reported EPS (EGP)	0.0	0.0	0.0	0.0
Reported Dividend Per Share (EGP)	0.00	0.00	0.00	0.00
Book Value Per Share (EGP)	0.87	0.84	0.82	0.79
<b>Valuation Metrics</b>				
Price to Earnings (x)	N/M	N/M	N/M	N/M
Price to Book Value (x)	1.0	1.1	1.1	1.1
Price to Cash Flow	(16.94)	47.05	14.23	(28.59)
FCF Yield (%)	(7.86)	2.03	6.92	(3.55)
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	N/M	N/M	N/M	N/M
EV / Invested Capital (x)	0.9	1.0	1.2	1.2
ROAIC (%)	(4.1)	(6.5)	(7.6)	(8.5)
ROAE (%)	0.0	(3.0)	(3.2)	(3.2)
<b>KPIs</b>				
Revenue Growth (%)	128.5	(16.8)	7.0	1.1
EBITDA Growth (%)	14.8	(150.0)	(10.6)	(0.7)
Gross Profit Margin (%)	14.4	(40.4)	(34.8)	(34.0)
EBITDA Margin (%)	(33.5)	(100.5)	(103.9)	(103.4)
EBIT Margin (%)	(76.7)	(163.3)	(162.5)	(161.4)
Effective Tax Rate (%)	126.2	7.7	0.0	0.0
Net Debt (Cash) / BV (x)	(0.2)	(0.3)	(0.4)	(0.4)
Net Debt (Cash) / EBITDA (x)	17.5	8.4	10.2	9.8

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

### Investment Thesis

ERC offers direct exposure to a land bank located on the Red Sea coast of Egypt, with few liabilities attached. It is a master developer of resort communities established in 1996 to develop 41 million sqm in Sahl Hasheesh into an international destination. The Tourism Development Authority (TDA) withdrew c28 million sqm of its undeveloped land bank in April 2011, leaving ERC with residual sellable land of c2.5 million sqm. The company appealed the decision and could regain ownership of the withdrawn land, possibly at a higher valuation. ERC has one announced project of its own within Sahl Hasheesh, developed jointly with Orascom Development Holding through a profit-sharing agreement. ERC also provides utility and community management services and has a 70% stake in Sahl Hasheesh Company (SHC), the sole developer of commercial centres within Sahl Hasheesh. SHC began leasing its commercial centres but has, to date, attracted very few tenants.

### Valuation and Risks

Our fair value of EGP0.9/share is based on a NAV approach and captures the value of ERC's residual land bank (ex-withdrawn Phase III), assets attributable to its utilities segment, the stake in SHC, and miscellaneous assets on its balance sheet. ERC is cash rich and has no formal bank debt. We believe the loss of Phase III land poses additional risks to ERC's receivables collection. While ERC may have the opportunity to regain ownership of the withdrawn land, the price could change. The company's reacquisition of the land is likely to depend on the new price and the payment conditions, in our view. Our current FV carries potential upside risk, if a swift agreement is reached between ERC and the TDA to return the land. We also see potential for future valuation upgrades if/when ERC establishes a solid track record in its rental business and for its remaining idle assets.


**Results Review**
**Fig. 1. Income Statement Highlights**

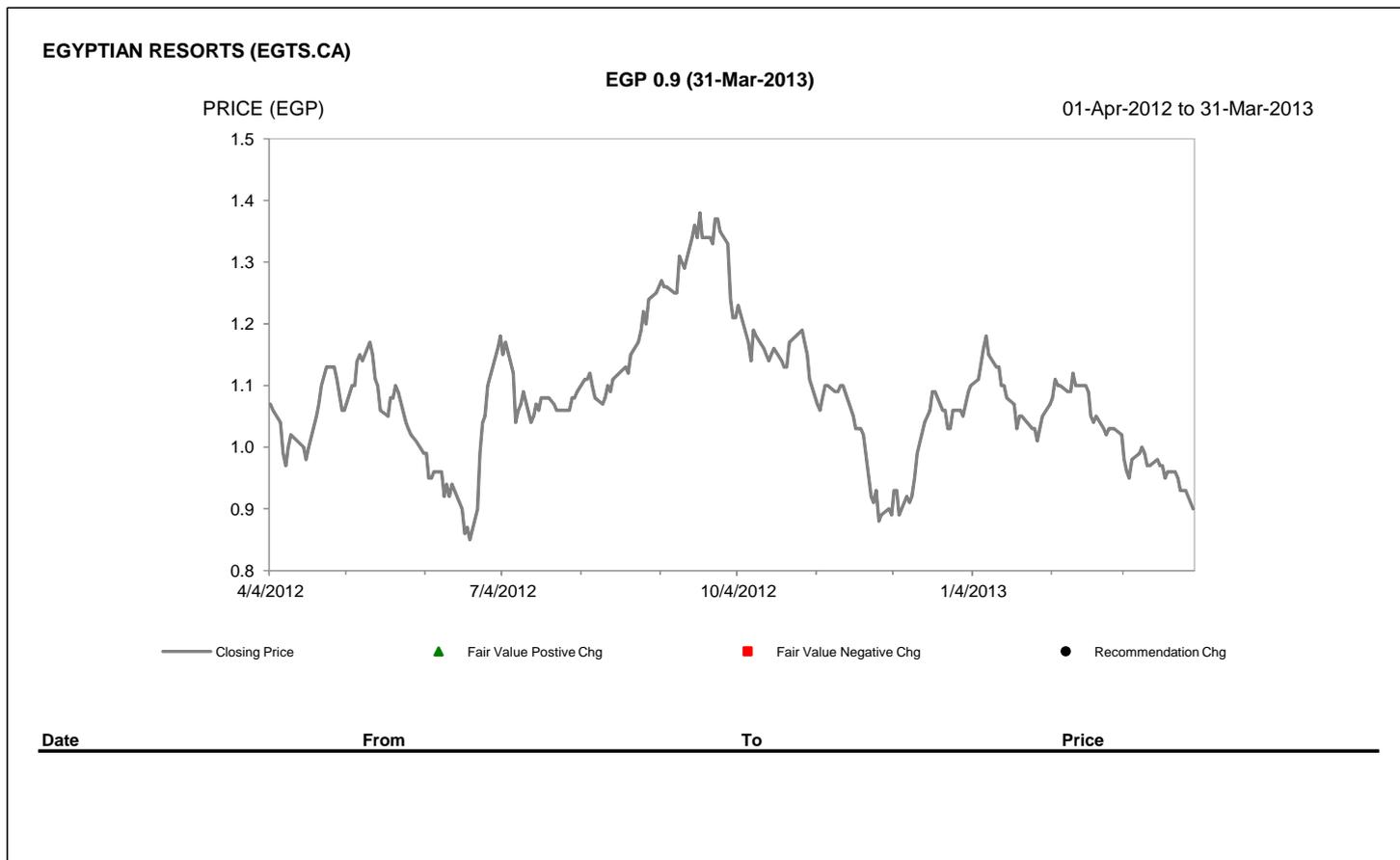
In EGP million, unless otherwise stated

	1Q11a	2Q11a	3Q11a	4Q11a	1Q12a	2Q12a	3Q12a	4Q12a	4Q12e
<b>Total Revenue</b>	<b>12.3</b>	<b>12.3</b>	<b>6.4</b>	<b>9.9</b>	<b>6.7</b>	<b>6.7</b>	<b>7.2</b>	<b>19.9</b>	<b>7.9</b>
<b>Gross Profit</b>	<b>2.8</b>	<b>2.3</b>	<b>0.4</b>	<b>(1.9)</b>	<b>(3.5)</b>	<b>(7.0)</b>	<b>(7.4)</b>	<b>6.5</b>	<b>6.5</b>
<i>GPM</i>	<i>23%</i>	<i>19%</i>	<i>6%</i>	<i>-19%</i>	<i>-52%</i>	<i>-104%</i>	<i>-103%</i>	<i>33%</i>	<i>82%</i>
SG&A	(7.9)	(9.0)	(8.1)	(8.4)	(6.4)	(6.1)	(5.6)	(10.8)	(10.4)
<b>EBT</b>	<b>3.7</b>	<b>(2.2)</b>	<b>(3.2)</b>	<b>(5.7)</b>	<b>(4.9)</b>	<b>(6.3)</b>	<b>(8.3)</b>	<b>(87.1)</b>	<b>(7.4)</b>
<b>Net Income</b>	<b>6.6</b>	<b>(2.0)</b>	<b>(2.5)</b>	<b>(6.4)</b>	<b>(3.6)</b>	<b>(6.0)</b>	<b>(5.6)</b>	<b>(83.8)</b>	<b>(12.2)</b>

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



## RATING AND FAIR VALUE CHART



## RATING DISTRIBUTION

Rating	Coverage Universe %
Buy	46%
Neutral	47%
Sell	6%
N/R U/R	1%



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