



EGTS 2015: land sales boost earnings, B/S; 2016 likely to moderate - maintain BUY

- ▶ **Surge in land sales resulted in an 8x YoY revenue boost in 2015, trickling down to a bottom-line profit of EGP218m compared to a loss of EGP43m in 2014**
- ▶ **Contracted sales of USD71.9m booked in 2015; however, with off-plan sales absent for 4Q15 - we expect sales to moderate in 2016**
- ▶ **On-going land dispute to continue impeding new sales, in our opinion**
- ▶ **We maintain a BUY on EGTS with a TP of EGP1.26/share**

Egyptian Resorts Company (EGTS) 2015 results summary: Net income of EGP218m compares to a loss of EGP43m in 2014. For 4Q15, net income stood at EGP45m, as against a loss of EGP2m in 4Q14. The YoY turnaround in the bottom-line was attributed to land sales, which boosted the top-line by almost 8x to EGP400m during the full year, compared to EGP50m in 2014. EGTS reported gross profit of EGP242m in 2015, compared to a loss of EGP49m in 2014, led by the surge in land sales. General and admin expense grew 6% YoY to EGP30m during the period. At the operating level, EGTS reported a profit of EGP200m in 2015, compared a loss of EGP50m in 2014.

Balance sheet improves on land sales: The surge in land sales resulted in the cash balance improving 38.2% YoY to EGP136m as of 2015. Cash collections from sub-developers and retail buyers stood at EGP164.9m; up by almost 84% YoY. Also, total receivables (both current and non-current) grew 81% YoY to EGP619m.

Liquidity still working as a backup in the absence of business: With EGP136m of net cash as of 4Q15, we believe existing B/S liquidity as being sufficient to honor short term financing and capex requirements. However, for sustainability, ERC would still need to monetize on its land bank and commence generating revenues in order to be in a much stronger financial footing in the longer run. Out of the contracted sales of USD71.9m (EGP632.7m), EGTS has already recognised EGP317m as revenue, with the remaining likely to be booked/executed in 2016. Important to note that EGTS recognizes revenue upon 25% of land sales receipt from clients.

Off-plan sales for 4Q15 absent, we expect moderation in performance from current projects in 2016: Contracted sales of USD71m during 2015 helped revenue and cash generation run rates. However, the performance in 4Q15 was somewhat subdued with cancellations offsetting off-plan sales; resulting in net cancellations worth USD2.6m. Given the current slowdown in tourism activities (post the Russian plane incident), we expect moderate performance in 2016. EGTS is expected to launch a marketing campaign during 2Q16 - targeting the domestic red sea markets - which could lead to additional sales. The launch of Sawari Marina project, post the approval from the Tourism Development Authority, should help EGTS book additional contracted sales. We expect EGTS' sea side apartment project 'Taway'a' which was launched with Palm Hills, to contribute further to contracted sales going forward.

Update on the legal disputes:

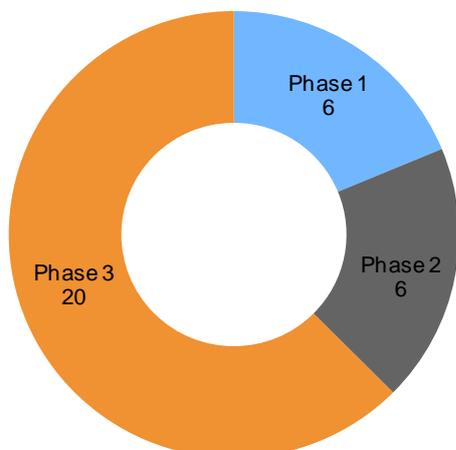
Sahl Hasheesh court case still remains unresolved - The on-going Sahl Hasheesh court case now remains with the Commissioners' Committee at the State Council, requesting the Committee to issue a report on the lawsuit. EGTS has filed a defense brief, highlighting committee members' attention to Law 32, which regulates third-party complaints regarding contracts entered into with the Government of Egypt.

EGTS received favorable judgment on 22nd March 2016 on the land allocation lawsuit: The court accepted EGTS intervention in the case and declared inadmissibility of the lawsuit with respect to the accuser's lack of the requisite legal standing.

With respect to the lawsuit brought in by Pyramisa, the next hearing is scheduled on 5th April 2016 for review and submission of the final memos.

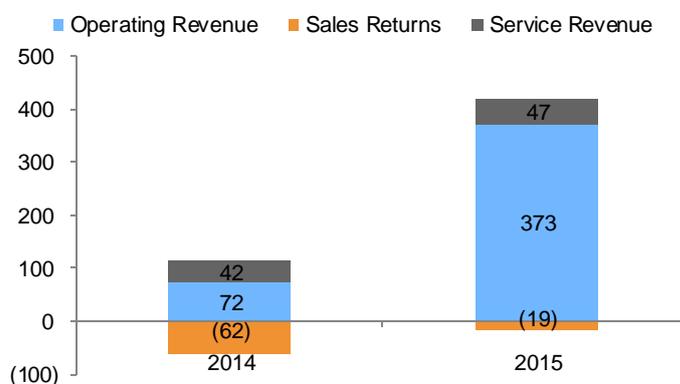
Recommendation	BUY
Market Price (EGP)	0.91
Target Price (EGP)	1.26
Upside (%)	38.5
Market Cap. (EGPm)	945.0
Market Cap (USDm)	107.4
2016e P/E(x)	9.49
2016e P/B(x)	1.04
Reuters Code	EGTS.CA
Bloomberg Code	EGTS EY

EGTS Land Bank in Sahl Hashesh (32msqm)



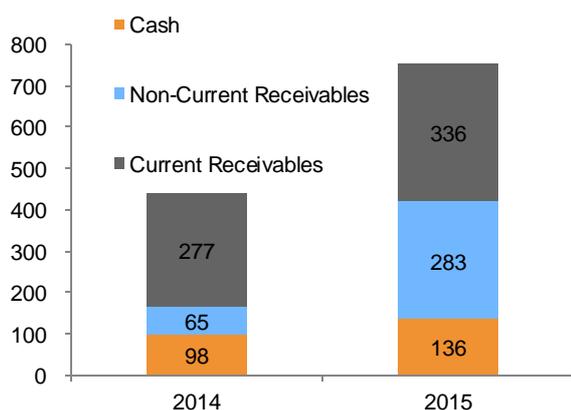
Source: Company Data, NAEEM Research

EGTS Revenue break-down (EGPm)



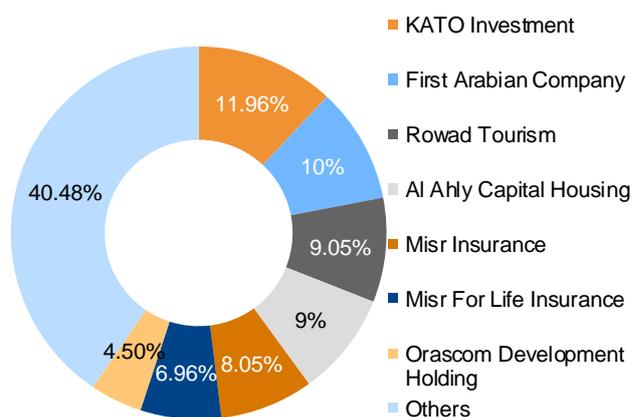
Source: Company Data, NAEEM Research

EGTS cash balance and receivables (EGPm)



Source: Company Data, NAEEM Research

Shareholding Pattern



Source: Company Data, NAEEM Research

EGTS: Key Financial Indicators, Forecast and Valuation Multiples

EGP m	2014a	2015a	2016e	2017f
Revenue	51	400	315	385
Gross Profit	(49)	242	126	154
GPM (%)	-95%	60%	40%	40%
EBIT	(50)	206	44	54
EBIT Margin (%)	-97%	51%	35%	35%
Net Income	(43)	218	101	123
P/E (x)	NM	4.39	9.49	7.76
P/B (x)	1.53	1.13	1.04	0.95
ROE	NM	30%	11%	13%
Net Debt (Cash)	98	136	136	136
Net Debt/Equity (x)	0.16	0.16	0.15	0.13

Source: Company Data, Naeem Research

Disclosure Appendix

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HOLD	+10% to -10%	35%
REDUCE	< -10% to -20%	4%
SELL	< -20%	4%

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