

TRADING CALL: EGYPTIAN RESORTS CO.

EGTS EY / EGTS.CA

Share details

Closing price (25 October 2016) (EGP)	0.66
6M avg daily value (USDmn)	0.37
%Δ: m-o-m / 6M / y-o-y	(12) / (30) / (37)
Rel. %Δ: m-o-m / 6M / y-o-y	(14) / (41) / (44)
No. of shares (mn)	1,050
Market cap (USDmn)	78
Market cap (EGPmn)	693

Ownership structure

Misr Insurance Company*	15%
KATO Investment Company	12%
First Arabia Development	10%
Pioneers of Tourism	9%
Al Ahly Capital Holding Company	9%
Free float	45%

Note: (*) inclusive of Misr Life Insurance

Performance



Source: Bloomberg
Note: Prices as of 25 October 2016

An overlooked devaluation beneficiary

Stock should respond to FX rate change. Following the 14% USD:EGP devaluation that took place in Mar-16, ERC shares appreciated 34% by end of month (vs. 15% for EGX30). We argue that the stock could rerate again should the CBE devalue the EGP as expected (every 5% devaluation ahead of our 2017e USD:EGP average of 12.27 adds 2.2% to our TP). On our numbers, c88% of ERC's value stems from USD-denominated assets. Our TP of EGP0.93/share implies c41% upside, and while we remain cautious on immediate tourism demand and reiterate our Neutral rating, we believe that devaluation could offer a short-term catalyst for the stock.

Improvements could be seen in cash collections. ERC collects most of its receivables in EGP at the prevailing USD:EGP rate at settlement. Receivables stood at EGP662mn at 1H16 (cUSD63mn, booked at EGP8.9/USD, and the balance in EGP), at 40% of total assets. Devaluation may i) help hasten collection as investors try to avoid higher rates and, ii) result in gains on uncollected amounts. We estimate that ERC is to collect its existing receivables in the next 8 years at a yearly impairment rate of 25%, relatively in line with historical rates.

But even extended receivables collection, higher impairment rates leave upside.

We are expecting collection rates from outstanding receivables to improve during 3Q16, given market-wide devaluation expectations, resulting in cEGP30mn in revenue recognized from legacy land sales. That said, if we assume that receivables will be collected in double the time used in our numbers (16 years instead of 8), with a doubled impairment rate, ERC would still offer 15% upside on the current stock price, strengthening our view of a potential rally post devaluation.

Phase 3 not a major value driver right now. We continue to believe that the potential repossession of the phase would not be a significant game changer against low demand and deep discounts to NAV assigned by the market to idle assets. ERC continues to struggle to find buyers for phases 1 and 2. Nevertheless, we do believe that any news on phase 3 would act as a strong short-term catalyst for the stock. Restoration of the phase would improve the economics of utilities segment in the long run, once developed. The next hearing is on 8 November.

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KPI summary

	2015a	2016e	2017e	2018e	2019e
Revenue (EGPmn)	400	201	596	776	664
Gross profit margin (%)	60.4	34.0	63.4	57.9	62.8
Net income (EGPmn)	217	23	269	331	245
Net cash position (EGPmn)	136	56	232	491	573
RoE (%)	25.8	2.6	23.7	22.6	14.3
P/E (x)	3.2	30.7	2.6	2.1	2.8
P/BV (x)	0.8	0.8	0.6	0.5	0.4

Source: ERC, CI Capital estimates

Financial statements

	2015a	2016e	2017e	2018e	2019e
Income statement					
Revenue	400	201	596	776	664
COGS	(159)	(133)	(218)	(327)	(247)
Gross profit	242	69	378	449	417
EBITDA	232	42	305	366	326
Depreciation	(26)	(25)	(25)	(25)	(26)
EBIT	206	18	280	340	300
Net interest income	9	4	2	7	15
PBT	217	24	283	349	317
Taxes	1	(1)	(14)	(17)	(71)
Net income	217	23	269	332	246
Attributable net income	217	23	269	331	245

Balance sheet

Cash and equivalents	136	56	232	491	573
Accounts receivable	336	371	460	506	542
Work in progress	525	547	642	726	958
Other current assets	10	11	11	11	11
Total current assets	1,007	986	1,345	1,734	2,084
PPE	139	123	106	89	71
Investment property	154	151	149	146	143
Accounts receivable	283	371	460	506	542
Other non-current assets	41	40	40	40	40
Total assets	1,624	1,671	2,099	2,515	2,881
Provisions	12	12	12	12	12
Customer advances	70	101	206	252	270
Entitlements to TDA	73	75	79	84	88
Other current liabilities	308	301	349	383	481
Total current liabilities	463	488	647	731	851
Land creditors	273	273	273	273	273
Deferred tax liabilities	-	-	-	-	-
Total liabilities	737	762	921	1,004	1,125
Shareholder's equity	843	864	1,133	1,465	1,710
Minority interests	45	45	45	46	46
Total equity and liabilities	1,624	1,671	2,099	2,515	2,881

Cash flow statement

Operating cash flow	227	(3)	315	375	344
Working capital changes	(143)	(71)	(134)	(110)	(257)
Net operating cash flow	85	(74)	182	264	87
Net investment cash flow	(19)	(6)	(6)	(6)	(6)
Net financing cash flow	0	-	-	-	-
Net change in cash	65	(79)	176	259	82

Source: Company data, CI Capital estimates

Note: Prices as of 25 October 2016

	2015a	2016e	2017e	2018e	2019e
Basic & per-share data					
Enterprise value (EGPmn)	602	602	602	602	602
EPS (basic) (EGP)	0.2	0.0	0.3	0.3	0.2
DPS (EGP)	-	-	-	-	-
BVPS (EGP)	0.8	0.8	1.1	1.4	1.6
FCFPS (EGP)	0.1	(0.1)	0.2	0.2	0.1

Valuation

P/E (basic) (x)	3.2	30.7	2.6	2.1	2.8
P/BV (x)	0.8	0.8	0.6	0.5	0.4
Dividend yield (%)	-	-	-	-	-
FCF yield (%)	9.2	(11.4)	25.4	37.3	11.8
EV/revenue (x)	1.5	3.0	1.0	0.8	0.9
EV/EBITDA (x)	2.6	14.2	2.0	1.6	1.8

Growth

Revenue (% y-o-y)	680.2	(49.7)	196.0	30.1	(14.4)
EBITDA (% y-o-y)	(1,172.9)	(81.8)	620.9	20.1	(10.9)
EBIT (% y-o-y)	(569.1)	(91.4)	1,485.4	21.7	(11.8)
EPS (% y-o-y)	(679.3)	(89.6)	1,091.9	23.3	(26.0)

Profitability

RoE (%)	25.8	2.6	23.7	22.6	14.3
RoA (%)	13.4	1.3	12.8	13.2	8.5
RoIC (%)	24.6	1.9	23.4	22.1	13.4
Asset turnover (x)	0.2	0.1	0.3	0.3	0.2
EBITDA margin (%)	58.0	21.0	51.1	47.2	49.1
Net profit margin (%)	54.3	11.2	45.1	42.8	37.0

Liquidity

EBITDA/net interest (x)	26.7	10.4	180.5	52.5	22.1
Net debt/equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Net debt/total assets (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Net debt/EBITDA	(0.6)	(3.2)	(0.4)	(0.4)	(0.4)
Current ratio (x)	1.4	1.3	1.5	1.7	1.9
Quick ratio (X)	1.1	1.0	1.1	1.4	1.4



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