

**EGYPTIAN RESORTS COMPANY ... Valuable beach-front land plots – but only guaranteeing the business model continuity up to 10-years in our view.**

**“ACCUMULATE”**

MARKET PRICE EGP 1.48  
FAIR VALUE EGP 1.70  
UPSIDE 15%

**INVESTMENT GRADE**

**“VALUE”**

**Stock Data**

Outstanding Shares [in mn]	1,050.0
Mkt. Cap [in mn]	1,554.0
Bloomberg – Reuters	<b>EGTSEY / EGTSCA</b>
52-WEEKS LOW/HIGH	EGP 0.65 – EGP 1.51
52-WEEKS DAILY TURNOVER	EGP 15.9MN

**Ownership**

First Arabian Company	10.00%
Al Ahly Capital	9.00%
Rowad Tourism	8.51%
Misr Insurance	8.05%
Mist for Life Insurance	6.96%
Free Float & Others	57.48%

In this speed valuation round, we valued ERC business model based on our NAV-DCF methodology, yielding an upside of 15% over the latest market close; where we only considered 2.7mn Sqm of land plots owned by EGTS, 0.67K Sqm owned by Sahl Hasheesh Company, 78% owned by EGTS. In Addition to liquidating the company’s current outstanding receivables and cash payables over different appropriate periods in addition to considering the un-expensed infrastructure costs concerning prior sold land plots up to 1H2017.

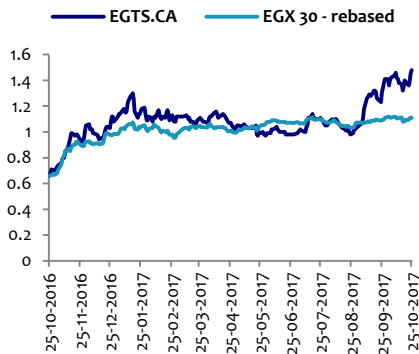
**ERC business model majorly depends on selling land plots to sub-developers or to Sahl Hasheesh Company – a 78% subsidiary; for hospitality and secondary housing development – few kilometers away from Hurghada and El Gouna.** Positively, the majority of land sale proceeds comes in FCY or FCY-tagged. However, this posed a problem of tumbling receivables collection, as receivables rose up to EGP 1.36bn by 1H2017 up from EGP 0.7bn in 9M2016 following the EGP flotation. Hence, in our NAV-DCF model, we assumed a 10-years collection for such balance, discounted at WACC, and conservatively considering an annual write-off of 20% - almost double the current impairment rate and deferred interest altogether.

**Currently ERC has 3 outstanding development projects;** Tawaya project (58.5%) through owning 78% in Sahl Hasheesh company which entered a 75:25 JV with Palm Hills to develop a 17K BUA project, divided over 152 units from which 15 will be leased or sold as small studios. The project total estimated sales in our view comes in the range of EGP 250mn, from which 50% was sold since 2015 up till 1H2017. Sawari a 1.1mn Sqm beach front plot, previously planned to include a marina, commercial area and residential component. Currently management is yet to decide whether to develop such plot on its own, or sell it to sub-developers. ERC also works on Jamaran project, the company does not own the project, it only helps with its infrastructure and construction process whenever it is being contracted solely. As ERC recognized main revenue stream from the project was booked based on land sales.

**ERC is one of Egypt’s few liquid and listed tourism related stocks,** based on multiples the company might be considered overvalued relative to the tourism sector, however, its superior liquidity over other names, and being the only tourism related included in EGX 30 might justify such premium. Another justification for trading at a P/BV of 2.18x might be that in our view, some might consider Heliopolis Housing trading multiples and range as an indicator for ERC, as both companies almost share the same model of land sales or development allocation, but at different regions. **Based on the domestic sample we gathered we valued EGTS at EGP 0.96/share, with a downside of 35%, mainly as the company’s book value has been impacted by previous losses, while the company’s topline is heavily volatile, as we expect EGP 217mn of revenues in 2017.**

**However, although at the current moment ERC has a decent upside potential, we are concerned over the company’s future path.** As the utilities and commercial revenue streams expected pick up over the upcoming 3-5 years will not be majorly supportive to maintain current land revenues, following land bank depletion. **Hence, as we do not see beyond 10-years of land depletion, we conducted a liquidation exercise which yielded EGP 2.06/share.**

**In our opinion, EGTS business model depending on selling scattered land plots is not the most efficient, instead of developing its land bank for its own benefit.**



Source: Bloomberg

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## Base Valuation

EGTS NAV –DCF Valuation - in EGP mn	Ownership	Estimated Value	Value per share	Contribution to EV
SHC Owned 0.67mn Sqm Land	78%	233.81	0.22	13.97%
Sawari Land 1.1mn Sqm Land	100%	500.56	0.48	29.91%
Residual 1.6mn Sqm Land	100%	660.01	0.63	39.43%
<b>Aggregate Residual Land Valuation</b>		<b>1,394.39</b>	<b>1.33</b>	<b>83.31%</b>
Add: Discounted Receivables – 10 years		526.40	0.50	31.45%
Less: Discounted Payables – 5 years		-143.86	-0.14	-8.59%
Less: Discounted Infrastructure - 5 years		-103.10	-0.10	-6.16%
<b>Working Capital</b>		<b>279.43</b>	<b>0.27</b>	<b>16.69%</b>
<b>Enterprise Value</b>		<b>1,673.82</b>	<b>1.59</b>	<b>100.00%</b>
Add: Cash		123.06	0.12	
Less: Debt		-10.33	-0.01	
<b>Equity Value</b>		<b>1,786.55</b>	<b>1.70</b>	
Market Cap		1,554.00	1.48	
<b>Upside (Downside) Potential</b>			<b>15%</b>	

SOURCE: PRIME RESEARCH

### Here we present part of our land valuation model for the 0.67mn Sqm of owned land by SHC.

SHC has plans to develop such land into mixed use properties for recurring revenue streams over upcoming years. Here we estimated the land value based on a 10-years sales period and deducted all related costs, as our NAV-DCF model here almost depicts the company's actual business model. Sawari was valued same way utilizing same assumptions and sales duration so that total estimated annual sales area matches the company's average historical path. While the residual land plot of 1.6mn Sqm were rated at USD 100/Sqm in 2017, estimated at a discount to Sawari and SHC land, as they are both fully located on the beach front. It is worthy to note that although we utilized a USD 73/Sqm for El Gouna residual land plots in 2017, El Gouna beach front land plots is at least being marketed at USD 400/Sqm.

SHC Owned land	2018	2019	2020	2021	2022	2027
Land Sales Assumptions - in Sqm 0.67mn Sqm	13,320.00	19,980.00	33,300.00	53,280.00	66,600.00	119,880.00
<b>in USD</b>						
Price/Sqm	123.0	126.1	129.2	132.5	136.4	158.2
Land Sale Proceeds - in mn	1.64	2.52	4.30	7.06	9.09	18.96
Aggregate Proceeds - in mn	96.60					
Total Cost per Sqm	32.9	33.7	34.5	35.2	36.0	40.4
SG&A per Sqm	6.2	6.3	6.5	6.6	6.8	7.9
EBITDA per Sqm	83.9	86.1	88.3	90.6	93.6	109.9
<b>FX Rates</b>	<b>16.25</b>	<b>15.13</b>	<b>15.13</b>	<b>15.13</b>	<b>15.13</b>	<b>15.13</b>
<b>in EGP</b>						
Land Proceeds – in mn	26.62	38.10	65.09	106.74	137.43	286.78
Aggregate Proceeds - in mn	1,462.86					
Total Costs - in mn	8.46	12.09	20.61	33.73	43.18	87.54
EBITDA	18.16	26.01	44.48	73.01	94.25	199.23
NAV –DCF – in mn	14.34	16.89	25.05	34.38	37.11	32.05
Aggregate Discounted NAV – in mn	233.81					
NPV/Share	0.22					
Current NAV in EGP mn	1,398.60		@ USD 120/Sqm			
Discount to NAV	79%					
NPV equivalent rate per Sqm - USD	25.59					

SOURCE: PRIME RESEARCH

## EGTS is Overvalued based on Multiples – currently trading at hybrid multiples of Real Estate and Tourism Listed names

Tourism	Sample	P/BV - 2017	P/S - 2017
SPHT EY Equity	EL SHAMS PYRAMIDS FOR HOTELS	5.202	
RMTV EY Equity	ROWAD MISR TOURISM INVESTMEN	1.859	15.972
MMAT EY Equity	MARSA ALAM DEVELOPMENT	1.662	
EITP EY Equity	EGYPTIAN INTERNATIONAL TOURI	1.587	0.553
EGTS EY Equity	EGYPTIAN RESORTS CO	1.231	5.453
ORHD EY Equity	ORASCOM HOTELS & DEVELOPMENT	1.148	0.963
GPPL EY Equity	GOLDEN PYRAMIDS PLAZA	0.842	4.887
ELWA EY Equity	EL WADI CO FOR TOURISTIC INV	0.639	5.127
PHTV EY Equity	PYRAMISA HOTELS	0.630	5.403
MHOT EY Equity	MISR HOTELS CO	0.413	26.331
SDTI EY Equity	SHARM DREAMS	0.351	12.037
Median		1.148	5.403
Tourism & Land Owners	Replicating Sample	P/BV - 2017	P/S - 2017
HELI EY Equity	HELIOPOLIS HOUSING	18.683	13.925
Median		1.190	5.428

Multiples Valuation: a sell call based on multiples - as EGTS has rallied imitating RE names					
Multiples Valuation	Description	Samples Median P/S	EGTS Fundamentals	Valuation Based on P/S	Per share
Sales	2017	5.428	216.767	1176.602	1.121
Book Value	2017	1.190	707.258	841.546	0.801
				Average Valuation	0.961
				Market Price	1.48
				Downside	(35.07%)

Finally, in a stress test to find out the company's liquidation value, which is a hypothetical scenario following Phase 1 and Phase 2, residual land plots depletion, which might pose a risk incase replenishment did not take place or Phase 3 (20mn Sqm – excluded from valuation) was still under dispute with the TDA. We added the current Owners' equity to our NAV – DCF land valuation, yielding EGP 2.06/share.



<b>Stock Recommendation Guidelines</b>	
<b>Recommendation</b>	<b>Target-to-Market Price (x)</b>
Strong Buy	$x > 40\%$
Buy	$x > 15\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$x < -15\%$

<b>Investment Grade</b>	<b>Explanation</b>
Growth	3 Yr. Earnings CAGR > 20%
Value	Equity Positioned Within Maturity Stage of Cycle
Speculative	Quality Earnings Reflect Above Normal Risk Factor

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