

Target Price	Market Price	Recommendation	Upside Potential	Investment Grade
LE2.23	LE1.96	Accumulate	14%	Growth & Value

Share Data

Company Short Name	ERC
Sector	Tourism
Company Traded Market	EGX
Report Reason	H1 FY10 Update
Valuation Methodology	DCF
Previous Report Date	May 20, 2010
Previous Target	2.94
Exchange Rate	US\$5.69
Stock Currency	LE
Reuters Code	EGTS.CA
Outstanding Shares (000)	1,050
Par Value/Share (LE)	1
Financial Year Ending	December
Mkt. Cap (LE mn)	2,058
Weight to PGI	0.4%
Av. Daily Volume (000)	11,275
Price Low – High (LE) (52Wk.)	1.66 - 3.01

Shareholders

Ownership Stake

Misr Insurance	15%
KATO Investment	11.96%
Rowad Tourism Company	10%
First Arabian Company	10%
Al Ahly Capital Holding	8.99%
Orascom Development Holding	4.5%
Other Long Term Investors	9.47%
Free Float	30.08%

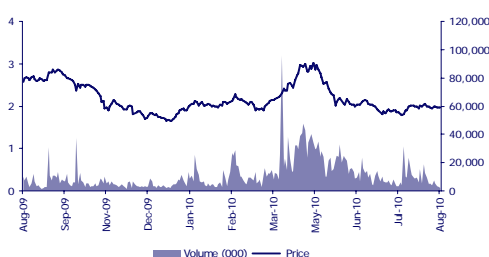
Analyst Rehab Taha, CFA

Phone	+202 3300 5724
Email	rtaha@egy.primegroup.org

Analyst Radwa Abul Naga

Phone	+202 3300 5718
Email	rabulnaga@egy.primegroup.org

Stock Performance Chart



Please refer to disclaimer on last page

ERC posted revenues of LE11.2 million in H1 FY10, down by 29.5% Y-o-Y but up by 53% Q-o-Q. With no land sales in H1 FY10, ERC's main source of revenues stemmed from sales of utilities services amounting to LE6 million, up by 38% Y-o-Y and 45% Q-o-Q. In addition to accrued interest on collection of historical sales recording LE5 million, down by 56% Y-o-Y but up by 64% Q-o-Q. COGS/Revenues ratio surged to 98% in H1 FY10 from 36% in H1 FY09 due to the increase in operational depreciation, amounting to LE6 million, upon adding new utility networks.

SG&A expenses edged upwards to LE12 million by 47% Y-o-Y and 24.7% Q-o-Q backed by the increase in the salaries paid to new experts hired in ERC and its subsidiary Shal Hasheesh. The surge in SG&A led to a negative EBITDA of LE12.7 million in H1 FY10 from LE1.4 million in the same comparable period last year.

It is worth mentioning that Q2 FY10 results were positively impacted by FX gains of LE7.8 million in Q2 FY10 with the appreciation of US\$ and EURO against EGP. In addition, interest income bounced to LE6 million in Q2 FY10 to lock in at LE10.6 million in H1 FY10. Therefore, net income figure improved to LE2.977 million in Q2 FY10 from net losses of LE2.911 in Q1 FY10 and reported LE622k in H1 FY10.

Although the company reported impairments of receivables amounting to LE3.9 million in Q2 FY10 due to the slowdown in cash collection process, ERC's management started to collect receivable of LE85 million after June 2010 driven by the improved cash position of sub-developers.

Accordingly, ERC's financial and operational performance came in below our estimates. Therefore, we have reduced our revenues assumptions in FY10 and expected no additional land sales in FY10. Consequently, top line and bottom line figures are expected to record LE24 million and LE1.9 million in FY10, respectively. Thereafter, **revenues and net income are forecasted to grow at a 5 year CAGR of 114% and 214% respectively backed by the following:**

- The strategic partnership with Orascom Development Holding to market, sell and develop of Sahl Hasheesh marina.
- Improvement of tourism activities and tourists arrivals.
- Developing of recurring revenues streams by launching retail and commercial centers.

Using a WACC of 17.33%, our DCF model has yielded a target price of LE2.23/share, illustrating upside potential of 14% over the current market price of LE1.96/share. Therefore, we **issue an "Accumulate" recommendation of the stock. Meanwhile, the company is trading at P/NAV of 0.37x FY10 above the average industry P/NAV of 0.32x.**

Fiscal Year	2008a	2009a	2010e	2011f	2012f
Revenues	347.78	25.78	24.17	173.54	259.17
Growth	-3.08%	-95.42%	55.90%	618.01%	49.35%
EBITDA Margin	85.49%	-9.92%	-36.22%	63.57%	64.17%
Net Income	265.81	-3.37	2.01	131.14	171.65
Net Attributable Income	264.602	-3.948	1.997	130.541	160.622
EPS (LE)	0.2520	-0.0038	0.0019	0.1243	0.1530
DPS (LE)	0.00	0.00	0.00	0.07	0.10
Book Value / Share (LE)	0.99	1.02	1.50	1.54	1.60
P/E (x)	7.78	-521.29	1,030.49	15.77	12.81
Dividend Yield (%)	0.00%	0.00%	0.00%	3.81%	4.98%
P/BV x	1.98	1.91	1.31	1.27	1.23

H1 FY10 Update

Egypt

FINANCIAL SUMMARY

(Figures in LE million)

Income Statement	2008a	2009a	2010e	2011f	2012f
Revenues	347.8	25.8	24.2	173.5	259.2
Growth	-3.08%	-95.42%	55.90%	618.01%	49.35%
COGS	15.6	0.0	11.2	28.5	41.0
SG & A	34.8	28.3	21.8	34.7	51.8
EBITDA	297.3	-2.6	-8.8	110.3	166.3
EBITDA Margin	85.49%	-9.92%	-36.22%	63.57%	64.17%
Depreciation & Amortization	2.2	5.7	9.6	9.8	10.0
Operating EBIT	295.1	-8.2	-18.4	100.5	156.3
Interest Income	21.5	23.9	20.9	63.4	58.3
Non-Operating Revenues	33.93	0.75	0.00	0.00	0.00
Pre Tax Income	340.0	10.3	2.5	163.9	214.6
Pre Tax Income Growth	14.42%	-96.97%	-75.67%	6436.53%	30.90%
Income Tax	80.1	11.5	0.5	32.8	42.9
Effective Tax Rate	23.56%	111.34%	20.00%	20.00%	20.00%
NPAT	259.9	-1.2	2.0	131.1	171.7
Extraordinary Items	5.97	0.00	0.00	0.00	0.00
Minority Interest	1.21	0.58	0.01	0.60	0.78
Net Income	265.8	-3.4	2.01	131.1	171.7
Profit Share to Employees & Board	0	0.0	0.0	0.0	10.3
Net Attributable Income - NAI	264.6	-3.9	1.997	130.5	160.6
ROS	76.08%	-15.31%	8.26%	75.22%	61.97%
Balance Sheet	2008a	2009a	2010e	2011f	2012f
Cash & Marketable Securities	371.2	309.2	353.2	1,092.0	1,022.8
Trade Receivables-Net	322.5	393.5	542.0	80.5	203.6
Inventory	351.3	373.5	417.6	459.8	571.9
Other Current Asset	25.5	15.0	0.0	0.0	0.0
Total Current Asset	1,070.5	1,091.2	1,312.7	1,632.4	1,798.4
Net Fixed Assets	36.7	179.8	174.0	167.8	183.8
Projects Under Implementation	231.2	152.1	175.0	201.2	231.4
Other Assets	211.7	74.0	70.3	66.7	63.4
Total Assets	1,550.1	1,497.1	1,732.0	2,068.2	2,277.1
Short Term Bank Debt	0.0	0.0	0.0	0.0	0.0
CPLTD	0.0	0.0	0.0	0.0	0.0
Accounts Payable	35.8	36.3	16.9	121.5	181.4
Dividend Payable	0.4	0.4	0.1	86.2	112.8
Other Current Liabilities	114.4	38.5	7.3	52.1	77.8
Total Current Liabilities	233.2	142.7	30.3	303.1	436.7
Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Provisions for Deferred Taxes	0.8	7.4	7.4	7.4	7.4
Provisions	0.4	0.4	0.4	0.4	0.4
Other non-current liabilities	196.3	192.1	27.5	28.9	35.1
Total Shareholders' Equity	1,041.4	1,076.0	1,575.5	1,619.9	1,678.0
Total Liab. & Shareholders' Equity	1,550.1	1,497.1	1,732.0	2,068.2	2,277.1
Free Cash Flow Statement	2008a	2009a	2010e	2011f	2012f
NOPLAT	222.8	-18.9	-14.7	80.4	125.0
Non-Cash Items	2.2	5.7	9.6	9.8	10.0
Gross Cash Flow	225.0	-13.2	-5.1	90.2	135.1
Gross Investments	-46.7	46.9	160.6	-568.8	181.0
Non -Operating Cash Flow	22.4	0.8	0.0	0.0	0.0
Free Cash Flow	294.0	-59.2	-165.7	659.0	-46.0
Financing Flow					
Interest Income After-Tax	-21.0	-21.2	-16.7	-50.8	-46.6
Investment Income After-Tax	0.0	0.0	0.0	0.0	0.0
Increase in Excess Cash & M. Sec.	0.0	0.0	348.3	709.0	-86.3
After-Tax Interest Expense	0.0	0.0	0.0	0.0	0.0
Decrease in Debt & Bonds	0.0	0.0	0.0	0.0	0.0
Dividends Paid	1.3	0.6	0.3	-7.1	76.7
Non-Appropriation Items	0.0	0.0	0.1	7.8	10.3
Total Financing Flow	294.0	-59.2	-165.7	659.0	-46.0

Source:ERC & Prime Estimates



Stock Recommendation Guidelines

Recommendation	Target-to-Market Price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$-25\% < x < -15\%$
Strong Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Equity Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

PRIME SALES TEAM

Sherif Nabih	Group Head – Global Securities Brokerage	☎	+971-2-6910758	✉	snabih@uae.primigroup.org
Heba Abadir	Deputy manager-Gulf & MENA Desk	☎	+202 3300 5617	✉	habadir@egy.primigroup.org
Shawkat Raslan	Head of Sales	☎	+971-2-6910713	✉	sraslan@uae.primigroup.org
Ahmed Al seesi	Assistant Manager– International Desk	☎	+202 3300 5624	✉	aalseesi@egy.primigroup.org
Ramy El Agamy	Assistant manager, International Desk	☎	+202 3300 5620	✉	relagamy@egy.primigroup.org
Amr Alaa, CFTe	Team Head, Local Institutional Desk	☎	+202 3300 5609	✉	aalaa@egy.primigroup.org
Mohamed Magdy	SRM—Gulf & MENA Desk	☎	+202 3300 5653	✉	mmagdy@egy.primigroup.org
Osama Mahmoud	Team Head, Foreign Sales Desk	☎	+202 3300 5623	✉	omahmoud@egy.primigroup.org
Mohamed Khaled Hafez	RM, International	☎	+971-2-6910702	✉	mkhaled@uae.primigroup.org
Amr El Sebaee	Manager, High Network	☎	+202 3300 5672	✉	asebaee@egy.primigroup.org

PRIME INVESTMENT RESEARCH

Mohamed Seddiek	Head of Research	☎	+202 3300 5720	✉	mseddiek@egy.primigroup.org
Rehab Taha, CFA	Manager	☎	+202 3300 5724	✉	rtaha@egy.primigroup.org
Monette Doss	Assistant Manager	☎	+202 3300 5726	✉	mdoss@egy.primigroup.org
Angad Rajpal	Team Head	☎	+971-4-407 0119	✉	arajpal@uae.primigroup.org
Mostafa Maghraby	Senior Analyst	☎	+971-4-407 0116	✉	mmaghraby@uae.primigroup.org
Ahmed Hindawy	Analyst	☎	+202 3300 5719	✉	aelhindawy@egy.primigroup.org
Karim Osman	Analyst	☎	+202 3300 5716	✉	kosman@egy.primigroup.org
Radwa Abulnaga	Analyst	☎	+202 3300 5718	✉	rabulnaga@egy.primigroup.org
Heba Monir	Junior Analyst	☎	+202 3300 5722	✉	hmonir@egy.primigroup.org
Heba Sherif	Junior Analyst	☎	+202 3300 5717	✉	hsherif@egy.primigroup.org
Hind Panicker	Junior Analyst	☎	+202 3300 5727	✉	hpanicker@egy.primigroup.org
Nihal Zaki, CFTe	Senior Technical Analyst	☎	+202 3300 5725	✉	nzaki@egy.primigroup.org
Lara Ahmed, CFTe	Technical Analyst	☎	+202 3300 5721	✉	lahmed@egy.primigroup.org

HEAD OFFICE

PRIME SECURITIES S.A.E.

Regulated by CMA license no. 179
 Members of the Cairo Stock Exchange
 2 Wadi El Nil St., Liberty Tower,
 7th-8th Floor, Mohandessin, Giza, Egypt
 Tel: +202 33005700/770/650/649
 Fax: +202 3760 7543

PRIME EMIRATES LLC. (UAE)

Members of the ADX and DFM
 Shiekh Zayed 1st Street, Khaldiyyah, Abu Dhabi, UAE, PO Box 60355
 Tel: +971 2 6910800 Fax: +971 2 6670907
 Email: research@primigroup.org

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