



# News Bulletin

SECURITIES BROKERAGE

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## Egyptian Resorts Company (EGTS.CA), ( EGTS EY)

### 1Q08 Consolidated Results: Below Expectations

- A Drop in sales to EGP6.3 million from EGP101.6 million
- A decline in margins across the board as the company did not sell any land in 1Q08
- A net loss of EGP7.6 million in 1Q08

#### Revenues Plummeted On Lower Land Revenues....

Egyptian Resorts Company (ERC) recorded total revenues of EGP6.3 million, down 93.8% from EGP101.6 million in 1Q07. The drop in revenue stemmed from the fact that ERC did not sell any land in 1Q08, rather ERC received payments from land plots sold earlier, thus land revenue reached EGP4.8 million in 1Q08 down 95.3% YoY. On the other hand, service revenue, from administration, maintenance and provision of utilities, recorded EGP1.5 million in 1Q08 versus a nil figure in 1Q07.

Table 1: Sales Breakdown

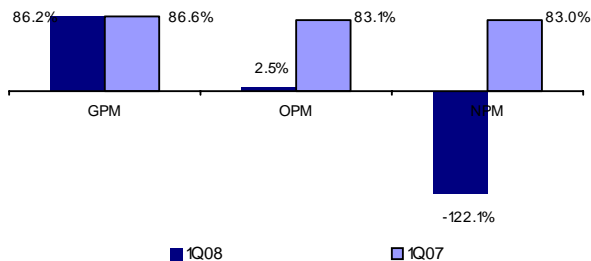
Subsidiary	1Q08	1Q07	Growth
<b>Figures in EGP Million</b>			
Land Revenue	4.8	101.6	-95.3%
Service Revenue	1.5	-	100.0%
<b>Total Revenue</b>	<b>6.3</b>	<b>101.6</b>	<b>-93.8%</b>

Source: EGTS, HC Brokerage.

#### ...Which led to a Decline in Margins across the board...

GPM remained almost unchanged due to services' high GPM, resulting in a consolidated GPM of 86.2%, down from 86.6% in 1Q07. However, due to an increase in SG&A/sales reaching 75.5% from 3.5% in 1Q07, OPM decreased to 2.5% from 83.1% in 1Q07.

Chart 1: ERC Profitability Margins



Source: Egyptian Resorts Company, HC Brokerage

#### ... and a Net Loss of EGP7.6 million

The decline in sales, rise in S,G&A to sales ratio and an increase in other non-operating expenses led to a net loss of EGP7.6 million compared to a net income of EGP84.3 million in 1Q07.

#### Low Leverage & High Liquidity

Current assets increased by 7.2% YTD to EGP1.05 billion in March 2008, meanwhile current liabilities increased by 16.9% YTD to EGP159.1 million in March 2008. Therefore, current ratio decreased to 6.6x from 7.2x in December 2007, yet liquidity remains high.

A 16.9% YTD decrease in total debt as a portion of long term debt was settled, led to a fall in debt to equity ratio to 0.03x from 0.04x. Nevertheless leverage remains very low.

#### Latest Developments

- Mr. Ibrahim Kamel, Chairman of Egyptian Resorts Company, announced that the company is negotiating two new projects in the Red Sea, and studying another project on the North Coast in order to benefit from Egypt's growing tourism sector. Mr. Kamel assured that the projects will be financed from the company's current excess liquidity.
- ERC announced paying its EGP0.20 dividend per share on June 5th, 2008 to shareholders as of June 2nd, 2008.

#### Valuation

Despite weak quarter performance in 1Q08, we maintain our **EGP10.99** target price for **Egyptian Resorts Company** (Re: City by the Sea, HSCI Update Report, March 3rd, 2008, also available on [www.hc-si.com](http://www.hc-si.com)). ERC sales level vary from one quarter to the other and hence a weak quarter doesn't necessarily reflect the company's expected performance for the year. Our DCF target price offers a 41.4% upside potential to EGP7.77, the company's latest closing price, which results in a **"Strong Buy"** recommendation.

We believe that Egyptian Resorts Company is currently trading at a forecast P/E (08e) of 14.7x, lower than the market average PER (08e) of 16.4x.

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## 1Q08 Financials

<b>Income Statement</b>	<b>1Q08</b>	<b>1Q07</b>	<b>Growth</b>
<b>Figures in EGP Million</b>			
<b>Revenues</b>	<b>6.3</b>	<b>101.6</b>	<b>-93.8%</b>
Cost of Goods Sold	(0.9)	(13.6)	-93.7%
<b>Gross Profit</b>	<b>5.4</b>	<b>88.0</b>	<b>-93.9%</b>
<b>Gross Margin</b>	<b>86.2%</b>	<b>86.6%</b>	
SG & A Expenses	(4.7)	(3.6)	32.9%
Depreciation	(0.5)	(0.1)	563.0%
<b>Operating Profit</b>	<b>0.2</b>	<b>84.4</b>	<b>-99.8%</b>
<b>Operating Margin</b>	<b>2.5%</b>	<b>83.1%</b>	
Net Interest Income	4.0	0.2	1999.1%
Net non- Oper. Income	(5.4)	(0.2)	2380.5%
<b>Pre-Tax Income</b>	<b>(1.2)</b>	<b>84.3</b>	<b>-101.5%</b>
Taxes	(5.8)	(0.0)	100.0%
<b>Net Income Before Minority</b>	<b>(7.0)</b>	<b>84.3</b>	<b>-108.3%</b>
Minority Interest	0.6	0.1	706.5%
<b>Net Income</b>	<b>(7.6)</b>	<b>84.3</b>	<b>-109.1%</b>
<b>Net Margin</b>	<b>-122.1%</b>	<b>83.0%</b>	

<b>Balance Sheet</b>	<b>Mar. 08</b>	<b>Dec. 07</b>	<b>Growth</b>
Cash & Marketable Securities	525.9	462.3	13.8%
Net Receivables	393.8	394.6	-0.2%
Inventory	130.5	123.0	6.1%
<b>Total Current Assets</b>	<b>1,050.3</b>	<b>979.8</b>	<b>7.2%</b>
Net Fixed Assets	34.5	34.8	-0.9%
Projects Under Construction	62.4	58.2	7.3%
Other Long Term Assets	182.7	180.4	1.3%
<b>Total Long Term Assets</b>	<b>279.6</b>	<b>273.4</b>	<b>2.3%</b>
<b>Total Assets</b>	<b>1,329.9</b>	<b>1,253.3</b>	<b>6.1%</b>
CPLTD	26.7	33.9	-21.5%
Accounts Payable	67.5	38.2	76.6%
Distributions	0.0	0.5	-99.8%
Other Current Liabilities	64.9	63.4	2.5%
<b>Total Current Liabilities</b>	<b>159.1</b>	<b>136.1</b>	<b>16.9%</b>
Long Term Debt	9.8	9.9	-1.3%
Provisions	0.4	0.4	0.0%
Other Long-Term Liabilities	0.4	0.5	-7.7%
<b>Total Long Term Liabilities</b>	<b>10.6</b>	<b>10.8</b>	<b>-1.6%</b>
<b>Total Liabilities</b>	<b>169.7</b>	<b>146.9</b>	<b>15.6%</b>
<b>Shareholder's Equity</b>	<b>1,082.9</b>	<b>1,090.5</b>	<b>-0.7%</b>
Minority Interest	77.3	15.9	385.7%