

Beyond real estate development, let's talk NAV

Land bank owners reconfirmed as our top picks

We looked at six real estate companies - Madinet Nasr for Housing and Development (MNHD), Heliopolis Company for Housing and Development (HELI), Emaar Misr for Development (EMFD), Talaat Moustafa Group Holding (TMGH), Orascom Hotels and Development (ORHD), and Egyptian Resorts Company (EGTS) - and conducted a net asset value (NAV) exercise that took into account each company's net cash, receivables, and residual land bank.

Given the current macroeconomic environment, real estate developers are reassessing pricing strategies to move forward with a strategy suitable to dealing with the increase in construction costs. Therefore, this exercise merely serves as an experiment to shed light on how much each company is worth now, disregarding any future project launches and subsequent development. Our exercise reconfirmed our positive stance on land bank owners such as MNHD, HELI, and TMGH. Our exercise also reconfirmed our positive stance on ORHD and EGTS.

Valuation methodology

We added each company's net cash to discounted receivables to residual land bank. We adjusted any foreign-denominated debt using an EGP/USD exchange rate of 17.00 and discounted each company's receivables by 50%. For land bank valuation, we used conservative average prices of EGP2,625/sqm for East Cairo, EGP2,200/sqm for West Cairo, EGP2,000/sqm for Central Cairo, EGP1,500/sqm for the North Coast, and EGP347/sqm for the Red Sea and deducted any associated land liabilities. These prices are far below the price of EGP5,500/sqm just quoted by the New Urban Communities Authority for land in New Cairo.

We calculated a measure that exhibits the market's perception of the residual land bank by deducting the BVs of net cash and receivables from the market capitalization and subsequently dividing the result by the residual land bank area. The results below indicate that the market is pricing each company's residual land area at prices far below Egyptian real estate norms, confirming our previous calls on these names.

Company	MNHD	HELI*	EMFD	TMGH	ORHD	EGTS
Residual Land Bank, m sqm	8	29	7	23	28	4
Residual Land Bank, EGP m	22,222	72,744	12,331	45,935	8,000	2,342
Net Cash, EGP m	(2)	(149)	5,548	2,062	(4,227)	120
Discounted Receivables, EGP m	1,571	541	900	7,589	463	350
NAV, EGP/share	47.58	164.34	4.07	26.94	19.11	2.68
Market Price, EGP/share	18.53	21.32	3.00	8.43	5.89	1.02
Valuation Gap	157%	671%	36%	220%	224%	163%
Residual Land NAV/Sqm, EGP	2,872	2,500	1,796	2,006	287	586
(Market Cap - (Net Cash + Receivables))/Sqm, EGP	792	294	948	7	90	63
Market Cap/Sqm, EGP	1,197	326	2,019	760	47	268

*Figures post 4:1 stock split

Source: Pharos Research



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