

Telecom Egypt

Solid growth in ARPU and Customer base doubled profitability

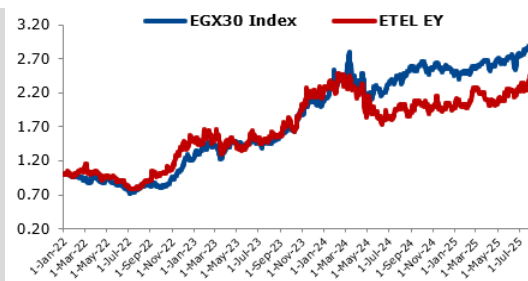
Current Price
EGP 46.40

Target Price
EGP 57.00

Upside/Downside (%)
+23%

Rating
BUY

- Revenue grew significantly 26.1% YOY to EGP 25.8 Bn in 2Q25, mainly driven by solid growth across the Wholesale and Retail segments.
- Customer base rose steadily across fixed voice, fixed data and mobile segments by 6.1%, 7.7% and 11.7% YOY, respectively, during 2Q25.
- Telecom Egypt signed an MoU to jointly develop the AAE-2 subsea cable, which will connect Hong Kong and Singapore to Italy via high-capacity, secure terrestrial.
- Telecom Egypt and Orange Egypt signed agreements worth c. EGP 15 Bn, extending transmission services through 2032.



2Q25 Net Profit higher than our estimate

Telecom Egypt's (the Company) net profit more than doubled from EGP 2,629 Mn in 2Q24 to EGP 5,862 Mn in 2Q25, beating our estimates of EGP 3,722 Mn. This robust growth is supported by healthy revenue growth across both the Retail and Wholesale segments, along with higher income from associates and a decline in net finance cost. The growth in top line is partially offset by an increase in operating costs, SG&A expenses, tax expense.

P&L Highlights

Telecom Egypt's revenue grew 26.1% YOY to EGP 25,799 Mn in 2Q25, mainly driven by solid growth in the Retail and Wholesale segments. The retail segment revenue rose 37.7% YOY to EGP 15,230 Mn in 2Q25 due solid growth across Home services business. Revenue from Home Services grew 44.6% YOY to EGP 12,843 Mn in 2Q25, supported by a rising customer base, and higher ARPU due to price hike. On the other hand, Enterprise Solution revenue grew 9.8% YOY to EGP 2,387 Mn in 2Q25, mainly driven by healthy contribution from Managed data services. The Wholesale segment revenues grew 12.3% YOY to EGP 10,569 Mn in 2Q25, due to strong growth across International Carrier Affairs (ICA) and International Cable and Network (IC&N) revenues partially offset by a decline in domestic revenues. Domestic Wholesale revenue fell 11.1% YOY to EGP 2,347 in 2Q25. ICA revenue surged significantly 34.4% YOY to EGP 4,852 Mn in 2Q25 owing to an increase in an increase in international calls traffic and foreign currency appreciation, while IC&N revenue increased 6.7% YOY to EGP 3,371 Mn due to healthy contribution from cable projects and customer support. Furthermore, operating costs rose 21.3% YOY to EGP 15,201 Mn in 2Q25 due to an increase in call cost, staff cost and other operating costs. Thus, gross profit grew by 33.6% YOY to EGP 10,598 Mn in 2Q25. Selling and overhead expenses increased 8.5% YOY to EGP 3,509 Mn in 2Q25. Telecom Egypt recorded other operating

Stock Information

Market Cap (EGP, Mn)	79,208.12
Paid Up Capital (Mn)	17,070.72
52 Week High	46.95
52 Week Low	30.90
3M Avg. daily value (EGP)	24,045,400

2Q25 Result Review (EGP, Mn)

Total Assets	215,588
Total Liabilities	83,374
Total Equity	51,744
EBITDA	11,246
Net Profit	5,862

Financial Ratios

Dividend Yield (12m)	3.23
Dividend Pay-out (%)	36.57
Price-Earnings Ratio(x)	6.51
Price-to-Book Ratio (x)	1.53
Book Value (EGP)	30.29
Return-on Equity (%)	25.57

Stock Performance

5 Days	3.57%
1 Months	21.09%
3 Months	29.21%
6 Months	24.33%
1 Year	45.05%
Month to Date (MTD%)	13.17%
Quarter to Date (QTD%)	22.11%
Year to Date (YTD%)	40.18%

expenses of EGP 211 Mn in 2Q25 compared to an income of EGP 103 Mn in 2Q24. Hence, operating profit rose 43.3% YOY to EGP 6,878 Mn in 2Q25. The Company's EBITDA rose 38.1% YOY to EGP 11,246 Mn in 2Q25, whereas EBITDA margin surged 380 bps YOY to 43.6% in 2Q25 due to cost optimization efforts. Income from associates rose significantly 69.9% YOY to EGP 3,544 Mn in 2Q25, owing to the strong contribution from Vodafone Egypt. Net finance cost fell 25.3% YOY to EGP 2,650 Mn in 2Q25, mainly due decline in finance cost. In addition, income tax expense more than doubled from EGP 710 Mn in 2Q24 to EGP 1,906 Mn in 2Q25.

Balance Sheet Highlights

Telecom Egypt's cash and cash equivalents declined from EGP 12.8 Bn in 1Q25 to EGP 9.3 Bn in 2Q25. The Company's total debt stood at EGP 81.0 Bn in 2Q25, down from EGP 84.1 Bn in 1Q25. The annualized net debt to EBITDA ratio remained unchanged at 1.6x in 1H25 compared to 1Q25. The Company's in-service capex grew from EGP 2.3 Bn in 1Q25 to EGP 2.5 Bn in 2Q25. Similarly, the cash capex (excluding mobile licenses) increased from EGP 6.6 Bn in 1Q25 to EGP 7.6 Bn in 2Q25. Telecom Egypt generated EGP net cash from operating activities increased from EGP 7.7 Bn in 1Q25 to EGP 9.1 Bn in 2Q25.

Target Price and Rating

We maintain our BUY rating on Telecom Egypt with a revised target price of EGP 57.00. The Company's share price rose 29% since our previous rating. Telecom Egypt delivered strong financial results in 2Q25, supported by higher revenues driven by improved ARPU, a growing subscriber base, rising call traffic, and continued momentum in cable projects. The Company's customer base increased in 2Q25, with Mobile customers increasing by 12% YOY to 14.6 Mn, Fixed Broadband subscribers up by 7.7% YOY to 10.6 Mn, and Fixed Line users rising by 6.1% YOY to 13.6 Mn. Moreover, the Fixed Line and Fixed Data ARPU increased 35.9% and 30.7% YOY, respectively, in 2Q25, mainly driven by the implementation of a price hike. The Company witnessed solid growth in income from associates on the back of strong performance of Vodafone, and further anticipates upside from associate income supported by Vodafone's newly signed dividend policy, with expected dividends of EGP 2.5 Bn in 2025. Telecom Egypt and SubCom completed two landings of the SEA-ME-WE-6 subsea cable in Egypt at Port Said and Ras Ghareb, interconnected by diverse terrestrial routes. Strengthening its role as a global digital hub, Telecom Egypt also signed an MoU with PCCW Global, Sparkle, and Zain Omantel International to jointly develop the AAE-2 subsea cable, which will connect Hong Kong and Singapore to Italy via high-capacity, secure terrestrial pathways across Thailand, the Arabian Peninsula, and Egypt. On the other hand, Telecom Egypt and Orange Egypt have signed agreements worth c. EGP 15 Bn, extending transmission services through 2032, introducing a fiber-to-the-site (FTTS) contract for Orange's mobile sites, and establishing a Service Level Agreement to enhance 5G readiness. These investments underpin Telecom Egypt's ability to generate sustainable revenues in the long-term. Thus, based on our analysis, we assign a BUY rating on the stock.

Telecom Egypt - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	20.06	10.68	10.06	7.94	9.70	4.7
PB	2.04	1.79	1.71	1.56	1.73	1.3
EV/EBITDA	8.76	6.47	6.04	5.19	4.63	3.8
EPS	2.313	4.343	4.614	5.847	4.786	9.787
BVPS	22.697	25.960	27.168	29.798	26.897	35.186
DPS (EGP)	0.75	1.00	1.25	1.50	1.50	1.80
Dividend yield	1.6%	2.2%	2.7%	3.2%	3.2%	3.9%

FABS Estimates & Co Data

Telecom Egypt – P&L

EGP mm	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Operating Revenue	20,466	24,798	25,799	24,605	4.9%	26.1%	4.0%	82,037	1,01,500	23.7%
Operating costs	-12,535	-14,289	-15,201	-15,341	-0.9%	21.3%	6.4%	-51,242	-61,915	20.8%
Gross profit	7,931	10,509	10,598	9,265	14.4%	33.6%	0.8%	30,795	39,585	28.5%
Selling & overhead exp	-3,233	-3,375	-3,509	-3,322	5.6%	8.5%	4.0%	-12,836	-14,413	12.3%
Net operating revenue	103	-141	-211	-135	55.8%	NM	49.3%	-301	-914	NM
Operating profit	4,801	6,993	6,878	5,808	18.4%	43.3%	-1.6%	17,658	24,259	37.4%
EBITDA	8,143	10,870	11,246	9,830	14.4%	38.1%	3.5%	32,953	40,061	21.6%
Income from Associates	2,086	3,187	3,544	2,805	26.4%	69.9%	11.2%	8,663	13,860	60.0%
Net Finance inc/(cost)	-3,547	-4,023	-2,650	-3,282	-19.3%	-25.3%	-34.1%	-15,758	-12,399	-21.3%
Profit before zakat	3,341	6,158	7,773	5,331	45.8%	NM	26.2%	10,562	25,720	NM
Income tax	-710	-1,504	-1,906	-1,599	19.2%	NM	26.7%	-451	-6,173	NM
Profit before NCI	2,631	4,654	5,867	3,731	57.2%	NM	26.1%	10,111	19,547	93.3%
Non-controlling interest	-2	-8	-5	-10	-46.0%	NM	-34.9%	-13	-29	NM
Net Profit	2,629	4,646	5,862	3,722	57.5%	NM	26.2%	10,098	19,518	93.3%

FABS estimate & Co Data

Telecom Egypt - Margins

	2Q24	1Q25	2Q25F	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	38.8%	42.4%	41.1%	233	-130	37.5%	39.0%	146
EBITDA	39.8%	43.8%	43.6%	380	-24	40.2%	39.5%	-70
Operating Profit	23.5%	28.2%	26.7%	320	-154	21.5%	23.9%	238
Net Profit	12.8%	18.7%	22.7%	987	399	12.3%	19.2%	692

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) method to value Telecom Egypt. We have assigned 70% weight to DCF and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	55.02	70.0%	38.51
Relative Valuation (RV)	61.61	30.0%	18.48
Weighted Average Valuation (EGP)			57.00
Current market price (EGP)			46.40
Upside/Downside (%)			+23%

1) DCF Method:

Telecom Egypt is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 13.9%. It is arrived at after using the cost of equity of 15.3% and an after-tax cost of debt of 12.6%. Cost of equity is calculated by using a 10-year government bond yield of 10.0%, beta of 0.70 and an equity risk premium of 7.6%. Government bond yield is calculated after adding Egypt's 10-year spread over the 10-year US risk-free rate. Cost of debt is calculated using a cost of 16.8% after adjusting for a tax rate of 25.4%. Also, assumed a terminal growth rate of 2.5%. We also added the book value of Vodafone Egypt to arrive at the valuation of Telecom Egypt.

Sum of PV (EGP, Mn)	47,716
Terminal value (EGP, Mn)	95,266
FV to Common shareholders (EGP, Mn)	93,922
No. of share (Mn)	1,707
Current Market Price (EGP)	46.40
Fair Value per share (EGP)	57.00

DCF Method

(All Figures in EGP Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	18,109	17,840	18,175	18,188	18,171
D&A	15,803	17,569	19,238	20,894	22,539
Changes in Working Capital	-3,906	163	-213	-255	-417
(-) Capex	-24,360	-21,610	-21,623	-21,335	-21,495
Free Cash Flow to Firm (FCFF)	5,646	13,962	15,578	17,492	18,798
Discounting Factor	0.95	0.84	0.73	0.64	0.57
Discounted FCFF	2,691	11,682	11,438	11,273	10,632

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Telecom Egypt and it is valued using the EV/EBITDA multiple. We applied a discount to peer valuation since it operates in a region which faced considerable currency risk and expect this discount to be maintained as the risk will not fade out any time soon. It is valued at 2025 EV/EBITDA of multiple of 3.9x compared to peer multiple of 6.4x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
OOREDOO	11,623	4.9	4.9	10.5	10.5
Maroc Telecom	11,700	6.7	6.6	17.6	17.7
Emirates Integrated Telecommunication Company	12,526	6.4	6.1	15.9	15.2
Mobile telecommunication company	7,574	6.4	6.0	10.7	9.6
Deutsche Telekom AG	1,76,334	6.8	6.4	15.2	13.9
Oman Telecommunications Co	1,928	5.5	5.1	9.9	9.0
Mobily	13,276	7.6	7.1	15.4	13.5
Average		6.3x	6.0x	13.6x	12.8x
Median		6.4x	6.1x	15.2x	13.5x
Max		6.8x	6.5x	15.7x	14.5x
Min		5.9x	5.6x	10.6x	10.0x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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