FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

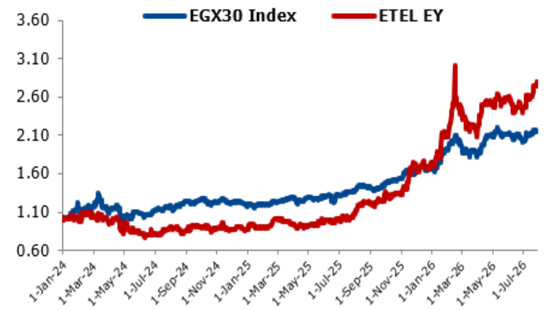
Egypt Equity Research | Sector: Telecom | Market: EGX

Telecom Egypt (ETEL)

Expanding customer base and tariff hikes drove profitability

Current Price	Target Price	Upside/Downside (%)	Rating
EGP 115.50	EGP 110.00	-4.8%	HOLD

- Fixed Broadband subscribers rose 8.6% YOY to 11.5 Mn, Fixed Voice subscribers base grew 5.6% YOY to 14.3 Mn, while Mobile subscribers grew 3.9% YOY to 15.2 Mn in 2Q26.
- Fixed Broadband ARPU increased 16% YOY to EGP 354, while Fixed Voice ARPU rose 6% YOY to EGP 49 in 1H26.
- Net debt/EBITDA ratio improved to 1.2x in 2Q26 from 1.3x in 1Q26.
- Maintained 2026 guidance at high single-digit revenue growth with EBITDA margin expected in the low 40% range, In service capex-to-sales in the low 20% range and FCFF-to-EBITDA in the mid 30% range.



Stock Information	
Market Cap (EGP, Mn)	196,125.46
Paid Up Capital (Mn)	17,070.72
52 Week High	120.00
52 Week Low	44.00
3M Avg. daily value (EGP)	102,355,900

2Q26 Result Review (EGP, Mn)	
Total Assets	236,024
Total Liabilities	162,358
Total Equity	73,666
EBITDA	13,815
Net Profit	11,830

Financial Ratios	
Dividend Yield (12m)	1.26
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	7.85
Price-to-Book Ratio (x)	2.66
Book Value (EGP)	43.13
Return-on Equity (%)	40.31

Stock Performance	
5 Days	0.78%
1 Months	10.89%
3 Months	20.32%
6 Months	22.09%
1 Year	149.76%
Month to Date (MTD%)	10.90%
Quarter to Date (QTD%)	24.47%
Year to Date (YTD%)	74.68%

2Q26 Net Profit higher than our estimate

Telecom Egypt's (ETEL/The Company) net profit attributable to equity shareholders increased from EGP 5,862 Mn in 2Q25 to EGP 11,830 Mn in 2Q26, higher than our estimate of EGP 5,826 Mn. The net profit growth was driven by higher operating revenue, increase in other net operating revenue, income from associates and profit from discontinued business coupled with positive movement in finance costs, partially offset by higher operating costs, selling and overhead expenses, provisions for expected credit losses and tax expenses coupled with decrease in finance income.

P&L Highlights

Telecom Egypt's revenue grew 20.6% YOY to EGP 31,005 Mn in 2Q26, mainly driven by strong growth across the Retail, Domestic Wholesale and International Carriers businesses, partially offset by lower revenue across the International Customers & Networks segment. Retail segment remained the key growth driver as revenue rose 25.3% YOY to EGP 19,043 Mn in 2Q26. Revenue from Home Services grew 27.2% YOY to EGP 16,337 Mn in 2Q26, supported by a growth in Data and Voice revenue, coupled with expansion in consumer base and tariff hikes. Enterprise Solution revenue grew 15.1% YOY to EGP 2,706 Mn in 2Q26, supported by growth in data, voice and connectivity services. Wholesale segment revenue grew 13.8% YOY to EGP 11,964 Mn in 2Q26. Domestic Wholesale revenue grew 23.7% YOY to EGP 2,900 Mn, primarily driven by higher infrastructure and transmission revenue. International Carriers revenue increased 28.1% YOY to EGP 6,215 Mn in 2Q26, benefiting from stronger international carrier activity, particularly incoming international traffic. International Customers & Networks revenue declined 14.2% YOY to EGP 2,849 Mn in 2Q26, mainly due to lower revenue from cable projects. Furthermore, operating costs rose 16.7% YOY to EGP 17,715

Mn in 2Q26. Thus, gross profit grew 26.2% YOY to EGP 13,290 Mn in 2Q26 with gross profit margin expanding by 191 bps YOY to 42.9% in 2Q26. Selling and overhead expenses increased 20.7% YOY to EGP 4,236 Mn in 2Q26, mainly due to increase in employee cost, agents commission and others S&D and G&A expenses. ETEL's net other operating revenue increased from AED 104 Mn in 2Q25 to EGP 232 Mn in 2Q26, while the provisions for expected credit loss increased 2.0% YOY to AED 321 Mn in 2Q26. Resultantly, operating profit rose 31.6% YOY to EGP 8,964 Mn in 2Q26. Operating margins increased 243 bps YOY to 28.9% in 2Q26. Similarly, the Company's EBITDA increased 23.7% YOY to EGP 13,815 Mn in 2Q26, whereas EBITDA margin expanded 111 bps to 44.6% in 2Q26, demonstrating strong revenue growth coupled with operational efficiency. Income from associates rose from EGP 3,544 Mn in 2Q25 to EGP 5,374 Mn in 2Q26, owing to the strong contribution from Vodafone Egypt driven by price hikes. Finance income declined from EGP 374 Mn in 2Q25 to EGP 186 Mn in 2Q26. Finance cost improved significantly in 2Q26, moving from a finance expense of EGP 3,023 Mn in 2Q25 to positive EGP 722 Mn in 2Q26, driven by higher foreign exchange gain and decline in borrowings. Income tax increased from EGP 1,890 Mn in 2Q25 to EGP 3,479 Mn in 2Q26. Additionally, profit from discontinued operations grew from EGP 53 Mn in 2Q25 to EGP 67 Mn in 2Q26. Non-controlling interest decreased 18.9% YOY to EGP 4 Mn in 2Q26.

Balance Sheet Highlights

Telecom Egypt's cash and cash equivalents (excluding financial assets at amortised costs) decreased from EGP 10.1 Bn in 1Q26 to EGP 8.0 Bn in 2Q26. Total debt stood declined from EGP 76.1 Bn in 1Q26 to EGP 71.5 Bn in 2Q26, while the net debt/EBITDA ratio improved to 1.2x in 2Q26 from 1.3x in 1Q26. Cash capex increased from EGP 8.8 Bn in 1Q26 to EGP 9.8 Bn in 2Q26, while the in-service capex increased from EGP 1.3 Bn in 1Q26 to EGP 3.6 Bn in 2Q26. However, due to elevated capex the free cash flow to firm declined from EGP 6.4 Bn in 1Q26 to EGP 3.6 Bn in 2Q26.

Target Price and Rating

We revise our rating from BUY to HOLD on Telecom Egypt with an Unchanged target price of EGP 110.00. ETEL delivered a strong quarter, supported by sustained revenue growth across the Retail and Wholesale segments alongside higher data revenue, tariff adjustments and resilient international carrier activity. In 2Q26, the Company's customer base continued to expand, with net addition of c. 230K subscribers to the customer base in 2Q26. The Fixed Voice base grew 5.6% YOY and 0.5% QOQ to 14.3 Mn in 2Q26, while the Fixed Broadband base grew 8.6% YOY and 2.1% QOQ to 11.5 Mn in 2Q26. The Mobile subscriber base increased 3.9% YOY but fell marginally by 0.5% QOQ to 15.2 Mn in 2Q26. This growth was supported by continued data adoption, higher ARPU and sustained investments in network capacity and quality. Data remained a key growth driver within the consumer business, supported by continued growth in the fixed broadband customer base and higher usage. The Company's Fixed Broadband ARPU increased 16% YOY and 6.0% QOQ to EGP 354 and Fixed Voice ARPU increased 6% YOY and QOQ to EGP 49 in 1H26. Furthermore, Telecom Egypt continued to advance its network roadmap, including the ongoing 5G rollout and expansion of long-term network capacity supporting the Company's next-generation service offerings. On the strategic front, ETEL is advancing its data-center strategy by transferring the existing data-center assets and operations into a 100% wholly owned subsidiary. The dedicated subsidiary will be supported by a specialized team, enabling greater focus on developing the data-center business, expanding its operations and accelerating growth. The move positions the Company to capitalize on rising demand for data-center services in Egypt and globally, while supporting its broader strategy of expanding beyond traditional connectivity services. The Company is evaluating multiple data-center opportunities based on expected returns and expansion potential, with the aim of scaling the business while creating value. The data center strategy is expected to leverage the Company's extensive domestic connectivity infrastructure and international subsea cable network, providing a platform to expand into broader digital infrastructure services. ETEL maintained elevated investment levels in 2Q26, with cash capex increasing to EGP 9.8 Bn in 2Q26 from EGP 8.8 Bn in 1Q26, while in-service capex rose to EGP 3.6 Bn from EGP 1.3 Bn over the same period. Going forward, the Company's plans to invest on FTTH migration, 5G deployment and data-center development within the Company's overall 23-25% of sales guidance. ETEL is also assessing several data-center projects, with one additional project expected to commence operations within the next couple of months. The Company expects the cable-project business to improve in 2H26 and 2027, following cyclical weakness. Furthermore, ETEL is investing in new infrastructure in Sinai and developing a new cable connecting Egypt with

Gulf countries to create alternative routes and reduce exposure to disruption on traditional routes, thereby supporting the recovery. The strong 1H26 performance also supports a positive dividend outlook, with 2026 dividend expected to be higher than the distributions made over the past two to three years. ETEL maintained 2026 guidance across all key KPI at high single-digit revenue growth, EBITDA margins in the low 40% range with management targeting around 45% for 2026, In service capex-to-sales in the low 20% range and FCFF to EBITDA in the mid 30% range. However, the revenue growth has already exceeded the high-single digit guidance in 1H26 with 17.4% YOY benefitting from tariff hike. Overall, strong revenue momentum, improving customer monetisation and continued capex execution across network and digital infrastructure initiatives position the Company well for sustained earnings growth in 2026. Despite the strong operating momentum and positive outlook, we assign our HOLD rating as the stock’s current valuation largely reflects the improved earnings outlook, limiting the potential for further upside.

Key Development

- **16 July 2026:** Telecom Egypt has announced not to proceed with the proposed Helios transaction for the Regional Data Centre Hub and the Company will establish a 100% wholly owned data-center subsidiary, supported by a specialized team to focus on expanding operations. This structure is expected to allow the Company to retain full control of the business and capitalize on rising data-center demand in Egypt.

Telecom Egypt - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	26.71	25.14	19.84	24.24	9.72	7.40
PB	4.47	4.27	3.89	4.31	3.11	2.25
EV/EBITDA	14.77	12.98	10.43	8.31	5.55	4.89
BVPS	25.960	27.168	29.798	26.897	37.284	51.541
EPS	4.343	4.614	5.847	4.786	11.933	15.677
DPS (EGP)	1.000	1.250	1.500	1.500	1.500	1.600
Dividend yield	0.9%	1.1%	1.3%	1.3%	1.3%	1.4%

FABS Estimates & Co Data

Telecom Egypt – P&L

EGP Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Operating Revenue	25,710	28,211	31,005	29,256	6.0%	20.6%	9.9%	106,673	126,904	19.0%
Operating costs	-15,181	-16,015	-17,715	-17,261	2.6%	16.7%	10.6%	-61,834	-72,716	17.6%
Gross profit	**10,529**	**12,196**	**13,290**	**11,995**	**10.8%**	**26.2%**	**9.0%**	**44,839**	**54,188**	**20.8%**
Selling & overhead exp	-3,509	-3,880	-4,236	-3,862	9.7%	20.7%	9.2%	-14,720	-17,322	17.7%
Net other operating revenue / (expense)	104	207	232	73	NM	NM	NM	-1,350	825	NM
(Provision)/Reversal of expected credit loss	-315	96	-321	-234	37.2%	2.0%	NM	-726	-635	-12.6%
Operating profit	**6,809**	**8,618**	**8,964**	**7,972**	**12.4%**	**31.6%**	**4.0%**	**28,042**	**37,056**	**32.1%**
EBITDA	**11,169**	**12,841**	**13,815**	**12,278**	**12.5%**	**23.7%**	**7.6%**	**47,495**	**54,335**	**14.4%**
Income from Associates	3,544	3,731	5,374	3,772	42.5%	NM	44.0%	14,828	19,721	33.0%
Finance Income	374	303	186	503	NM	NM	NM	1,794	1,247	-30.5%
Finance Cost	-3,023	-8,061	722	-3,912	NM	NM	NM	-13,753	-14,557	5.8%
Profit before Tax	**7,704**	**4,591**	**15,246**	**8,336**	**NM**	**NM**	**NM**	**30,911**	**43,468**	**40.6%**
Income tax	-1,890	-1,084	-3,479	-2,501	39.1%	NM	NM	-8,569	-12,171	42.0%
Profit before NCI	**5,814**	**3,507**	**11,767**	**5,835**	**NM**	**NM**	**NM**	**22,342**	**31,297**	**40.1%**
Non-controlling interest	-5	-4	-4	-9	NM	-18.9%	7.8%	-23	-47	NM
Profit from discontinued operations	53	69	67	0	NM	25.3%	-3.2%	237	136	NM
Net Profit	**5,862**	**3,572**	**11,830**	**5,826**	**NM**	**NM**	**NM**	**22,555**	**31,386**	**39.2%**

FABS estimate & Co Data

Telecom Egypt - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	41.0%	43.2%	42.9%	191	-37	42.0%	42.7%	67
EBITDA	43.4%	44.7%	44.6%	111	-19	44.5%	42.8%	-171
Operating Profit	26.5%	30.5%	28.9%	243	-164	26.3%	29.2%	291
Net Profit	22.8%	12.7%	38.2%	NM	NM	21.1%	24.7%	359

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and the Relative Valuation (RV) method to value Telecom Egypt. We have assigned 80% weight to DCF and 20% to the RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	108.48	80.0%	86.78
Relative Valuation (RV)	116.10	20.0%	23.22
Weighted Average Valuation (EGP)			**110.00**
Current market price (EGP)			115.50
Upside/Downside (%)			-4.8%

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 12.2%. It is arrived at after using the cost of equity of 12.4% and an after-tax cost of debt of 11.9%. Cost of equity is calculated by using a 10-year government bond yield of 4.3%, beta of 0.70 and an equity risk premium of 5.9%. 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 debt of 16.5% after adjusting for a tax rate of 27.7% to arrive at the after-tax cost of debt of 11.9%. 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)	66,500
Terminal value (EGP, Mn)	150,831
FV to Common shareholders (EGP, Mn)	**185,179**
No. of share (Mn)	1,707
Current Market Price (EGP)	115.50
Fair Value per share (EGP)	**108.48**

DCF Method

(All Figures in EGP Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	26,783	28,992	31,514	34,754	37,776
D&A	17,279	19,528	21,835	24,225	26,743
Changes in Working Capital	2,704	4,108	3,593	3,580	2,557
(-) Capex	-31,980	-35,344	-37,510	-39,601	-43,306
Free Cash Flow to Firm (FCFF)	**14,786**	**17,285**	**19,432**	**22,958**	**23,770**
Discounting Factor	*0.96*	*0.85*	*0.76*	*0.68*	*0.60*
Discounted FCFF	**7,082**[1]	**14,751**	**14,774**	**15,550**	**14,343**

Source: FAB Securities. [1] Partially adjusted for the year

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 2026 EV/EBITDA of multiple of 4.2x compared to a peer multiple of 5.7x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
OOREDOO	11,437	4.4	4.3	10.2	9.6
Maroc Telecom	9,253	5.7	5.6	15.9	15.6
Emirates Integrated Telecommunication Company	15,156	7.3	6.9	17.6	16.8
Mobile telecommunication company	8,732	6.1	5.6	9.2	8.7
Deutsche Telekom AG	157,573	6.1	5.7	12.5	11.0
Oman Telecommunications Co	2,832	5.0	4.6	11.3	10.3
Mobily	13,053	6.8	6.4	13.1	11.8
MTN Group LTD	21,634	4.0	3.3	11.4	8.8
Telkom SA	1,747	2.6	2.5	7.2	6.7
Average		**5.3x**	**5.0x**	**12.0x**	**11.0x**
Median		**5.7x**	**5.6x**	**11.4x**	**10.3x**
Max		**6.1x**	**5.7x**	**13.1x**	**11.8x**
Min		**4.4x**	**4.3x**	**10.2x**	**8.8x**

Source: FAB Securities

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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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