

Telecom Egypt (ETEL)

Growth in ARPU and subscriber base benefitted top-line

Current Price
EGP 32.70

Target Price
EGP 41.00

Upside/Downside (%)
+25%

Rating
BUY

- Telecom Egypt's revenue grew significantly 48.1% YOY to EGP 20.5 Bn in 3Q24 mainly driven by solid growth in the Wholesale and Retail segments.
- Customer base rose steadily across fixed voice, fixed data and mobile segments by 4%, 8% and 9% YOY, respectively in 3Q24.
- Data was the key driver of growth for the retail segment expanding 47% YOY in 3Q24 due to growth in ARPU and customer base.
- Wholesale revenue growth was supported by growth in IDD due to EGP devaluation, infrastructure and capacity sales growth of 23% and 64% YOY in 3Q24.



Stock Information

Market Cap (EGP, mm)	55,872.45
Paid Up Capital (mm)	17,070.72
52 Week High	42.66
52 Week Low	28.76
3M Avg. daily value (EGP)	27,517,330

3Q24 Net Profit lower than our estimate

Telecom Egypt's (the Company) net profit declined 13.3% YOY to EGP 2,126 Mn in 3Q24, lower than our estimates of EGP 3,270 Mn. The fall in profitability is primarily attributed to increased operating costs due to inflationary pressures fueled by currency devaluation, a spike in finance costs owing to appreciation of the foreign currency-denominated debt, and FX losses of EGP 1.4 Bn, partially offset by solid growth in revenue and income from associates coupled with a decline in tax expenses.

3Q24 Result Review (EGP, mm)

Total Assets	190,690
Total Liabilities	145,317
Total Equity	45,373
EBITDA	8,032
Net Profit	2,126

P&L Highlights

Telecom Egypt's revenue grew 48.1% YOY to EGP 20,478 Mn in 3Q24 mainly driven by solid growth in the Wholesale and Retail segments. Revenue from Home & Consumer Services grew 45.1% YOY to EGP 9,305 Mn in 3Q24 due to an increase in data and voice revenue due to growth in customer base and higher ARPU. Enterprise Solutions business revenue rose 51.1% YOY to EGP 2,251 Mn in 3Q24. Domestic Wholesale segment revenues recorded robust growth of 50.8% YOY to EGP 8,922 Mn in 3Q24 attributed to strong growth in IDD revenue which rose 79% YOY due to foreign currency appreciation coupled with growth in infrastructure and capacity sales. Revenue from the International Carrier segment increased from EGP 1,974 Mn in 3Q23 to EGP 3,606 Mn in 3Q24 due to an increase in revenue of International Direct Dialing (IDD) owing to foreign currency appreciation, and higher incoming calls traffic. Revenue from the Domestic Wholesale segment grew 23.4% YOY to EGP 1,971 Mn in 3Q24 owing to an increase in infrastructure revenue. International Cable and Networks revenue increased from EGP 2,347 Mn in 3Q23 to EGP 3,344 Mn in 3Q24 due to strong growth in capacity sales. On the other hand, operating costs rose 56.5% YOY to EGP 12,887 Mn in 3Q24 mainly due to an increase in call cost and other operating cost owing to currency devaluation. Thus, gross profit grew by 35.8% YOY

Financial Ratios

Dividend Yield (12m)	4.59
Dividend Pay-out (%)	26.31
Price-Earnings Ratio(x)	6.06
Price-to-Book Ratio (x)	1.23
Book Value (EGP)	26.57
Return-on Equity (%)	19.62

Stock Performance

5 Days	-2.01%
1 Months	-2.27%
3 Months	5.58%
6 Months	1.61%
1 Year	-11.06%
Month to Date (MTD%)	-2.53%
Quarter to Date (QTD%)	-3.08%
Year to Date (YTD%)	-13.07%

to EGP 7,591 Mn in 3Q24. Gross profit margin fell 338 bps YOY to 37.1% in 3Q24. Selling and overhead expenses increased 33.0% YOY to EGP 3,294 Mn in 3Q24. Telecom Egypt recorded other operating revenue of EGP 120 Mn in 3Q24 compared to an expense of EGP 2 Mn in 3Q23. Operating profit grew 42.0% YOY to EGP 4,416 Mn in 3Q24. The Company's EBITDA rose 42.7% YOY to EGP 8,032 Mn in 3Q24. However, EBITDA margin declined by 149 bps YOY to 39.2% in 3Q24. Income from associates rose significantly from EGP 1,465 Mn in 3Q23 to EGP 2,354 Mn in 3Q24 mainly attributed to organic growth including an increase in pricing. Net finance cost increased significantly to EGP 4,150 Mn in 3Q24 compared to EGP 1,258 Mn in 3Q23 mainly due to a rise in debt owing to EGP devaluation with unchanged base debt. In addition, income tax expense stood at EGP 489 Mn in 3Q24 compared to EGP 864 Mn in 3Q23.

Balance Sheet Highlights

Telecom Egypt's cash and cash equivalents stood healthy at EGP 10.1 Bn in 3Q24 compared to EGP 7.4 Bn in 2Q24. Telecom Egypt's total debt rose to EGP 81.5 Bn in 3Q24, up from EGP 80.8 Bn in 2Q24. Thus, annualized net debt to EBITDA ratio declined from 2.4x in 1H24 to 2.3x in 9M24. The Company's in-service capex stood at EGP 4.7 Bn in 3Q24 compared to EGP 6.4 Bn in 2Q24 incurred on access network, transmission international cables, customer care, and other purpose. The cash capex stood at 3.0 Bn in 3Q24 as against 12.4 Bn in 2Q24. Telecom Egypt generated a positive free cash flow of EGP 4.5 Bn in 3Q24 compared to a negative free cash flow of EGP 5.7 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on Telecom Egypt with an unchanged target price of EGP 41.00. The company reported a notable decline in profitability in 3Q24 owing to an increase in operating and finance costs due to the devaluation of the Egyptian currency. However, the revenue growth is driven by solid growth in the Wholesale Segment with an impressive 50.8% YOY growth in 3Q24 followed by 46.2% YOY growth in the Retail Segment performance. Telecom Egypt's revenue is further expected to benefit from another price at the end of 2024 or early FY2025. It expects a price increase of more than 15% on all services. The Company's fixed-line subscribers increased to 12.9 Mn in 3Q24 from 12.8 Mn in 2Q24. Similarly, data subscribers rose from 9.8 Mn in 2Q24 to 10.0 Mn in 3Q24. Mobile subscribers grew from 13.1 Bn in 2Q24 to 13.6 Mn in 3Q24. Moreover, ARPU also witnessed healthy growth. The Company anticipates its EBITDA margin to stand in the high 30s in 2024 as the cost base rises to a new base and is largely stabilized providing flexibility going forward. The Company signed a landmark infrastructure service agreement with Vodafone Egypt worth EGP 30 Bn with multiple maturities up to 2034. The agreements intend to solidify Vodafone Egypt's network and support the launch of its 5G services. The Company remain optimistic about the ICN business following the successful landing of the 10,000 km Africa-1 Subsea Cable System Landing Ras Ghareb cable landing station followed by another landing at the Mediterranean coast, aimed at enhancing global connectivity by boosting broadband traffic capacity. This will help in securing future revenue growth for Telecom Egypt. Moreover, the Company entered into a partnership with Mobily to land the first submarine cable connecting KSA and Egypt via the Red Sea. The partnership will increase the international capacity and expand the reach of both the companies. Telecom Egypt selected Mada Communications as its partner for international SMS services by signing a multi-year agreement. The Company will capitalize on Mada's expertise, partnerships with local and international institutions, robust security and protection procedures. The agreement will benefit Telecom Egypt by increasing its customer base and revenue. Thus, based on our analysis, we maintain our BUY rating on the stock.

Telecom Egypt - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.7	14.3	7.6	6.1	4.9	5.2
PB	1.6	1.5	1.3	1.2	1.1	1.0
EV/EBITDA	12.2	6.7	4.9	4.7	4.3	4.1
Dividend yield	0.8%	2.3%	3.0%	3.8%	4.5%	4.5%

FABS Estimates & Co Data

Telecom Egypt – P&L

EGP mm	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Operating Revenue	13,823	20,466	20,478	21,547	-5.0%	48.1%	0.1%	56,679	79,335	40.0%
Operating costs	-8,232	-12,535	-12,887	-12,928	-0.3%	56.5%	2.8%	-34,290	-49,029	43.0%
Gross profit	5,590	7,931	7,591	8,619	-11.9%	35.8%	-4.3%	22,389	30,306	35.4%
Selling & overhead exp	-2,478	-3,233	-3,294	-3,469	-5.0%	33.0%	1.9%	-9,890	-13,328	34.8%
Net operating revenue	-2	103	120	162	-25.8%	NM	15.8%	-232	-229	-1.5%
Operating profit	3,111	4,801	4,416	5,311	-16.9%	42.0%	-8.0%	12,266	16,749	36.5%
EBITDA	5,627	8,247	8,032	8,917	-9.9%	42.7%	-2.6%	22,185	30,920	39.4%
Income from Associates	1,465	2,086	2,354	1,460	61.2%	60.7%	12.8%	5,033	7,549	50.0%
Net Finance inc/(cost)	-1,258	-3,547	-4,150	-2,794	48.5%	230.0%	17.0%	-3,909	-12,502	219.8%
Profit before zakat	3,318	3,341	2,620	3,977	-34.1%	-21.0%	-21.6%	13,390	11,796	-11.9%
Zakat	-864	-710	-489	-705	-30.7%	-43.4%	NM	-1,917	-849	-55.7%
Profit before NCI	2,454	2,631	2,131	3,272	-34.9%	-13.2%	-19.0%	11,473	10,946	-4.6%
Non-controlling interest	-2	-2	-6	-2	NM	224.1%	189.2%	-7	-7	-4.6%
Net Profit	2,453	2,629	2,126	3,270	-35.0%	-13.3%	-19.2%	11,466	10,939	-4.6%

FABS estimate & Co Data

Telecom Egypt - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	40.4%	38.8%	37.1%	-338	-168	39.5%	38.2%	-130
EBITDA	40.7%	40.3%	39.2%	-149	-107	39.1%	39.0%	-17
Operating Profit	22.5%	23.5%	21.6%	-94	-190	21.6%	21.1%	-53
Net Profit	17.7%	12.8%	10.4%	-736	-247	20.2%	13.8%	-644

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	39.44	70.0%	27.61
Relative Valuation (RV)	44.65	30.0%	13.39
Weighted Average Valuation (EGP)			41.00
Current market price (EGP)			32.70
Upside/Downside (%)			+25%

1) DCF Method:

Telecom Egypt is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 15.3%. It is arrived after using cost of equity of 18.6% and after tax cost of debt of 12.8%. Cost of equity is calculated by using Egypt 10-year government bond yield of 24.3%, beta of 0.71 and negative equity risk premium of 8.0%. We arrive at a negative risk premium due to a higher risk-free rate as compared to expected equity market return. Cost of debt is calculated using a cost of 16.0% after adjusting a tax rate of 20.0%. 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)	39,128
Terminal value (EGP, Mn)	83,330
FV to Common shareholders (EGP, Mn)	67,321
No. of share (Mn)	1,707
Current Market Price (EGP)	32.70
Fair Value per share (EGP)	39.44

DCF Method

(All Figures in EGP Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	15,046	18,034	19,333	20,371	23,571
D&A	14,172	16,137	18,101	20,150	22,255
Changes in Working Capital	2,090	2,818	408	-79	-467
(-) Capex	-31,178	-24,964	-25,304	-26,190	-26,749
Free Cash Flow to Firm (FCFF)	130	12,025	12,537	14,253	18,610
Discounting Factor	0.98	0.85	0.74	0.64	0.56
Discounted FCFF	32	10,269	9,288	9,161	10,378

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 2023 EV/EBITDA of multiple of 4.2x compared to peer multiple of 5.3x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
OOREDOO	10,400	4.3	4.4	9.6	9.6
Maroc Telecom	7,692	4.9	4.8	13.1	12.6
Emirates integrated telecommunication company	9,219	5.3	5.2	13.8	14.0
Mobile telecommunication company	2,478	5.7	5.4	26.7	17.1
Deutsche Telekom AG	149,223	6.3	6.0	15.8	14.3
Oman Telecommunications Co	1,851	5.0	4.7	10.2	6.8
Mobily	11,211	7.2	6.8	15.8	14.1
Average		5.5x	5.3x	15.0x	12.7x
Median		5.3x	5.2x	13.8x	14.0x
Max		6.0x	5.7x	15.8x	14.2x
Min		5.0x	4.8x	11.6x	11.1x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.