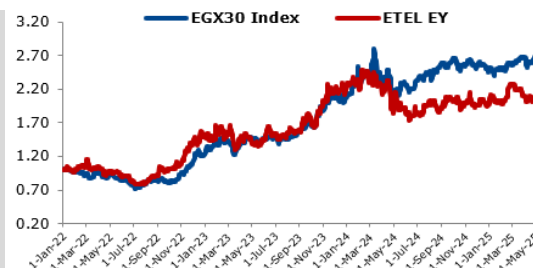


## Telecom Egypt (ETEL)

Rising customer base across all services boosted the top-line

Current Price	Target Price	Upside/Downside (%)	Rating
EGP 37.01	EGP 48.00	+30%	BUY

- Revenue grew significantly 41.8% YOY to EGP 24.8 Bn in 1Q25, mainly driven by solid growth across the Wholesale and Retail segments.
- Customer base rose steadily across fixed voice, fixed data and mobile segments by 4.3%, 7.6% and 10.0% YOY, respectively, during 1Q25.
- Telecom Egypt expects to receive EGP 2.5 Bn in dividends from Vodafone in 2025 under a new dividend policy.
- The Company expects revenue growth in the low 20% range, with total cash Capex projected between EGP 20-22 Bn for 2025.



### 1Q25 Net Profit higher than our estimate

Telecom Egypt's (the Company) net profit grew 19.7% YOY to EGP 4,646 Mn in 1Q25, beating our estimates of EGP 4,135 Mn. This robust growth is supported by increased operational revenue and higher income from associates, partially offset by higher operating costs, selling and overhead expenses, and a significant spike in finance costs owing to the appreciation of the foreign currency-denominated debt.

### P&L Highlights

Telecom Egypt's revenue grew 41.8% YOY to EGP 24,798 Mn in 1Q25, mainly driven by solid growth in the Retail and Wholesale segments. The retail segment boosted 40.3% YOY to EGP 14,258 Mn in 1Q25 due to revenue growth in the Home Services and Enterprise solutions. Revenue from Home Services grew 45.1% YOY to EGP 11,857 Mn in 1Q25, supported by strong growth across the Data revenue. This strong performance was supported by a 38% YOY rise in ARPU, which was fueled by direct price adjustments implemented in 2024 and a consistently growing customer base. On the other hand, Enterprise Solution grew 20.4% YOY to EGP 2,401 Mn in 1Q25, mainly driven by growth in Fixed data service. The Wholesale segment revenues recorded robust growth of 44.0% YOY to EGP 10,540 Mn in 1Q25, due to strong growth across Domestic Wholesale, International Carrier Affairs (ICA) and International Cable and Network (IC&N) revenues. Domestic Wholesale revenue rose 55.8% YOY to EGP 2,703 Mn in 1Q25, due to strong growth in infrastructure revenue supported by revised agreements with VFE and Orange Egypt. ICA revenue surged significantly from EGP 2,711 Mn in 1Q24 to EGP 4,449 Mn in 1Q25, primarily due to 72.0% YOY increase in IDD revenue driven by foreign currency appreciation and rise in international incoming call traffic. Additionally, IC&N revenue increased 17.8% YOY to EGP 3,388 Mn in 1Q25. Furthermore, Operating costs rose 35.8% YOY to EGP 14,289 Mn in 1Q25 is mainly due to increased call costs and other operating costs due to currency devaluation.

### Stock Information

Market Cap (EGP, Mn)	63,178.72
Paid Up Capital (Mn)	17,070.72
52 Week High	38.30
52 Week Low	28.76
3M Avg. daily value (EGP)	15,511,250

### 1Q25 Result Review (EGP, Mn)

Total Assets	204,933
Total Liabilities	158,841
Total Equity	46,092
EBITDA	10,870
Net Profit	4,646

### Financial Ratios

Dividend Yield (12m)	4.05
Dividend Pay-out (%)	36.57
Price-Earnings Ratio(x)	7.07
Price-to-Book Ratio (x)	1.37
Book Value (EGP)	26.99
Return-on Equity (%)	20.58

### Stock Performance

5 Days	5.44%
1 Months	9.82%
3 Months	-0.83%
6 Months	12.08%
1 Year	15.84%
Month to Date (MTD%)	6.97%
Quarter to Date (QTD%)	4.84%
Year to Date (YTD%)	11.81%

Thus, gross profit grew by 51.0% YOY to EGP 10,509 Mn in 1Q25, with an increase in gross margins of 257 bps YOY to 42.4% in 1Q25. Selling and overhead expenses increased 17.4% YOY to EGP 3,375 Mn in 1Q25. Telecom Egypt recorded net operating expenses of EGP 141 Mn in 1Q25 compared to an expense of EGP 471 Mn in 1Q24. Hence, Operating profit expanded from EGP 3,616 Mn in 1Q24 to EGP 6,993 Mn in 1Q25, coupled with an increase in operating profit margin by 752 bps YOY to 28.2% in 1Q25. The Company's EBITDA rose 48.7% YOY to EGP 10,870 Mn in 1Q25, whereas EBITDA margin surged 204 bps YOY to 43.8% in 1Q25. The growth in EBITDA is primarily due to the Company's strategic cost optimization efforts. Income from associates rose significantly from EGP 899 Mn in 1Q24 to EGP 3,187 Mn in 1Q25, owing to the strong contribution from Vodafone Egypt. Net finance cost increased significantly from EGP 1,666 Mn in 1Q24 to EGP 4,023 Mn in 1Q25, mainly due to the appreciation of the FX-denominated debt and a rise in the effective interest to 16.0% in 1Q25. In addition, income tax expense stood at EGP 1,504 Mn in 1Q25 compared to EGP 1,036 Mn in 1Q24.

### Balance Sheet Highlights

Telecom Egypt's cash and cash equivalents stood at EGP 12.8 Bn in 1Q25 compared to EGP 8.3 Bn in 4Q24. The Company's total debt increased to EGP 84.1 Bn in 1Q25, from EGP 80.7 Bn in 4Q24, due to refinancing of its short-term loan facilities. Thus, the annualized net debt to EBITDA ratio improved from 2.2x in 4Q24 to 1.6x in 1Q25. The Company's in-service capex grew from EGP 1.6 Bn in 1Q24 to EGP 2.3 Bn in 1Q25 with investment incurred on access network, transmission international cables, customer care, and other purposes. However, the cash capex (excluding mobile licenses) declined from EGP 8.7 Bn in 1Q24 to EGP 6.6 Bn in 1Q25. Telecom Egypt generated a net cash from operating activities of EGP 7.7 Bn in 1Q25 compared to an EGP 8.6 Bn in 1Q24.

### Target Price and Rating

We maintain our BUY rating on Telecom Egypt with a target price of EGP 48.00. Telecom Egypt recorded a robust financial performance in 1Q25 due to strong growth in revenue attributable to strong performance across the Retail and Wholesale segments. The Company's Retail segment grew strongly 40.3% YOY to EGP 14.3 Bn in 1Q25, primarily driven by a 45% YoY increase in the Home and Consumer unit, supported by a 30% price adjustment implemented in December 2024. The Company also reported growth across its customer base in 1Q25, with Mobile customers increasing by 10.0% YOY, Fixed Broadband subscribers up by 7.6% YOY, and Fixed Voice users rising by 4.3% YOY in 1Q25. Furthermore, the Wholesale segment recorded a strong growth of 44.0% YOY to EGP 10.5 Bn in 1Q25, driven by higher Domestic and ICA business growth. In addition, Telecom Egypt's income from associates rose to EGP 3.2 Bn in 1Q25, reflecting strong contributions from Vodafone Egypt. The Company anticipates further upside from associate income supported by Vodafone's newly signed dividend policy, with expected dividends of EGP 2.5 Bn in 2025. The Company is also technically prepared for 5G deployment and has already activated its 5G license. Upon receiving regulatory approval, it is expected to promptly launch 5G services across pre-equipped sites in commercially strategic locations, specifically targeting areas with a high concentration of value-driven customers and strong adoption of 5G compatible devices. This is expected to support Telecom Egypt's long-term growth by unlocking new revenue streams and attracting high-value customers. The Company expects revenue growth in the low 20s range, with total cash Capex projected between EGP 20-22 Bn for 2025. Additionally, it aims to reduce Capex by at least EGP 2 Bn annually in the coming years. Telecom Egypt also plans to achieve a net cash position within four years by driving strong cash flow generation, maintaining disciplined Capex, and allocating all available cash to debt repayment. 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	15.09	8.04	7.57	5.97	7.29	5.0
PB	1.54	1.34	1.28	1.17	1.30	1.1
EV/EBITDA	7.00	5.10	4.89	4.32	4.03	3.6
DPS (EGP)	0.750	1.000	1.250	1.497	1.497	1.800
Dividend yield	2.0%	2.7%	3.4%	4.0%	4.0%	4.9%

FABS Estimates & Co Data

**Telecom Egypt – P&L**

EGP Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Operating Revenue	17,487	23,606	24,798	22,559	9.9%	41.8%	5.0%	82,037	96,718	17.9%
Operating costs	-10,526	-15,294	-14,289	-14,212	0.5%	35.8%	-6.6%	-51,242	-59,965	17.0%
<b>Gross profit</b>	<b>6,961</b>	<b>8,312</b>	<b>10,509</b>	<b>8,347</b>	<b>25.9%</b>	<b>51.0%</b>	<b>26.4%</b>	<b>30,795</b>	<b>36,753</b>	<b>19.3%</b>
Selling & overhead exp	-2,874	-3,434	-3,375	-3,948	-14.5%	17.4%	-1.7%	-12,836	-15,088	17.5%
Net operating revenue/(exp)	-471	-53	-141	-153	-7.5%	-70.0%	NM	-301	-704	134.1%
<b>Operating profit</b>	<b>3,616</b>	<b>4,825</b>	<b>6,993</b>	<b>4,246</b>	<b>64.7%</b>	<b>93.4%</b>	<b>44.9%</b>	<b>17,658</b>	<b>20,961</b>	<b>18.7%</b>
<b>EBITDA</b>	<b>7,309</b>	<b>9,468</b>	<b>10,870</b>	<b>8,409</b>	<b>29.3%</b>	<b>48.7%</b>	<b>14.8%</b>	<b>32,953</b>	<b>36,664</b>	<b>11.3%</b>
Income from Associates	899	3,324	3,187	3,490	-8.7%	NM	-4.1%	8,663	11,694	35.0%
Net Finance inc/(cost)	-1,666	-6,395	-4,023	-3,063	31.3%	NM	-37.1%	-15,758	-12,657	-19.7%
<b>Profit before zakat</b>	<b>2,848</b>	<b>1,754</b>	<b>6,158</b>	<b>4,673</b>	<b>31.8%</b>	<b>NM</b>	<b>NM</b>	<b>10,562</b>	<b>19,998</b>	<b>89.3%</b>
Income tax	1,036	-289	-1,504	-532	NM	NM	NM	-451	-5,999	NM
<b>Profit before NCI</b>	<b>3,884</b>	<b>1,465</b>	<b>4,654</b>	<b>4,140</b>	<b>12.4%</b>	<b>19.8%</b>	<b>NM</b>	<b>10,111</b>	<b>13,998</b>	<b>38.4%</b>
Non-controlling interest	-2	-4	-8	-5	56.5%	NM	NM	-13	-35	165.4%
<b>Net Profit</b>	<b>3,882</b>	<b>1,461</b>	<b>4,646</b>	<b>4,135</b>	<b>12.3%</b>	<b>19.7%</b>	<b>218.0%</b>	<b>10,098</b>	<b>13,963</b>	<b>38.3%</b>

FABS estimate & Co Data

**Telecom Egypt - Margins**

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	39.8%	35.2%	42.4%	257	717	37.5%	38.0%	46
EBITDA	41.8%	40.1%	43.8%	204	373	40.2%	37.9%	-226
Operating Profit	20.7%	20.4%	28.2%	752	776	21.5%	21.7%	15
Net Profit	22.2%	6.2%	18.7%	-347	1,255	12.3%	14.4%	213

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	44.72	70.0%	31.30
Relative Valuation (RV)	55.66	30.0%	16.70
<b>Weighted Average Valuation (EGP)</b>			<b>48.00</b>
Current market price (EGP)			37.01
Upside/Downside (%)			+30%

### 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 13.4%. It is arrived at after using the cost of equity of 14.5% and an after-tax cost of debt of 12.6%. Cost of equity is calculated by using a 10-year government bond yield of 10.7%, beta of 0.70 and an equity risk premium of 5.5%. 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 12.6% 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)	48,694
Terminal value (EGP, Mn)	77,120
<b>FV to Common shareholders (EGP, Mn)</b>	<b>76,334</b>
No. of share (Mn)	1,707
Current Market Price (EGP)	37.01
<b>Fair Value per share (EGP)</b>	<b>44.72</b>

### DCF Method

(All Figures in EGP Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	15,647	16,193	16,520	16,492	16,413
D&A	15,703	17,290	18,894	20,485	22,058
Changes in Working Capital	2,425	698	-83	218	-3,599
(-) Capex	-21,278	-20,889	-20,805	-20,643	-20,248
<b>Free Cash Flow to Firm (FCFF)</b>	<b>12,497</b>	<b>13,293</b>	<b>14,527</b>	<b>16,553</b>	<b>14,624</b>
Discounting Factor	0.93	0.82	0.72	0.64	0.56
<b>Discounted FCFF</b>	<b>8,677</b>	<b>10,853</b>	<b>10,461</b>	<b>10,512</b>	<b>8,191</b>

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 6.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
OOREDOO	11,280	5.0	4.9	10.0	10.6
Maroc Telecom	10,487	6.4	6.3	16.3	16.0
Emirates Integrated Telecommunication Company	10,983	5.7	5.6	15.1	14.7
Mobile telecommunication company	6,818	6.1	5.7	9.7	9.1
Deutsche Telekom AG	179,496	7.1	6.8	16.5	14.5
Oman Telecommunications Co	1,636	5.2	5.0	8.5	8.0
Mobily	12,153	6.9	6.5	14.4	12.6
<b>Average</b>		<b>6.1x</b>	<b>5.8x</b>	<b>12.9x</b>	<b>12.2x</b>
<b>Median</b>		<b>6.1x</b>	<b>5.7x</b>	<b>14.4x</b>	<b>12.6x</b>
<b>Max</b>		<b>6.7x</b>	<b>6.4x</b>	<b>15.7x</b>	<b>14.6x</b>
<b>Min</b>		<b>5.4x</b>	<b>5.3x</b>	<b>9.8x</b>	<b>9.8x</b>

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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