

Telecom Egypt

Rise in opex, finance cost, and tax charges dragged the bottom-line

Current Price
EGP 39.28

Target Price
EGP 41.00

Upside/Downside (%)
+4.4%

Rating
HOLD

- Telecom Egypt's net revenue grew 22.7% YOY in 4Q23, driven by an increase in both wholesale and retail revenue, which is owing to a rise in fixed customer base, cable projects, and capacity. Likewise, due to strong revenue growth, EBITDA rose 24.1% YOY in 4Q23.
- The Company's voice subscribers increased 7.7% YOY to 12.5 Mn in 2023, similarly data subscribers rose from 8.8 Mn in 2022 to 9.5 Mn in 4Q23. However, the Mobile customer base was stable YOY at a level of 12.5 Mn.
- The company reported a negative FCFF of EGP 3.6 Bn in 2023 compared to negative 2.1 Bn in 2022. However, it received a receipt of EGP 1.9 Bn in dividends in 2023 from Vodafone Egypt.



4Q23 Net Profit in line with our estimate

Telecom Egypt's (the Company) net profit declined 23.1% YOY to EGP 2,317 Mn in 4Q23, in line with our estimates of EGP 2,296 Mn. The fall in profitability is primarily attributed to an increase in the cost of revenue, operating expenses, finance cost, and tax charges partially offset by a solid growth in revenue and an increase in income from associates.

P&L Highlights

Telecom Egypt's revenue grew substantially 22.7% YOY to EGP 14,721 Mn in 4Q23, mainly driven by solid growth in both the Wholesale and Retail segments owing to higher cable project and capacity coupled with an increase in fixed customer base. Revenue from Home & Consumer Services grew 13.0% YOY to EGP 6,550 Mn in 4Q23 due to an increase in data and voice revenue coupled with the increase in customer base and healthy ARPU. Enterprise Solutions business revenue fell 9.4% YOY to EGP 1,802 Mn in 4Q23. Wholesale segment revenues recorded robust growth of 51.2% YOY to EGP 6,369 Mn in 4Q23. Revenue from the International Carrier segment increased 41.7% YOY to EGP 1,833 Mn in 4Q23 due to a rise in International Direct Dialing (IDD). Revenue from the Domestic Wholesale segment grew 17.0% YOY to EGP 1,968 Mn in 4Q23 owing to an increase in infrastructure (MNO's and IRU circuit) revenue. International Cable and Networks revenue more than doubled from EGP 1,237 Mn in 4Q22 to EGP 2,568 Mn in 4Q23 due to strong growth in cable projects and capacity sales. On the other hand, operating costs rose 23.3% YOY to EGP 10,164 Mn in 4Q23 mainly due to inflationary pressure across all cost elements and increase in interconnection call cost, service cost, maintenance cost, salaries and wages, and other cost. Thus, gross profit grew by 21.3% YOY to EGP 4,557 Mn in 4Q23 from EGP 3,755 Mn in 4Q22. Selling and overhead

Stock Information

Market Cap (EGP, mm)	67,053.79
Paid Up Capital (mm)	17,070.72
52 Week High	42.66
52 Week Low	20.23
3M Avg. daily value (EGP)	63,715,290

4Q23 Result Review (EGP, mm)

Total Assets	150,640
Total Liabilities	99,755
Total Equity	50,885
EBITDA	5,074
Net Profit	2,317

Financial Ratios

Dividend Yield (12m)	3.18
Dividend Pay-out (%)	26.31
Price-Earnings Ratio(x)	6.89
Price-to-Book Ratio (x)	1.32
Book Value (EGP)	29.80
Return-on Equity (%)	20.04

Stock Performance

5 Days	0.80%
1 Months	-3.04%
3 Months	7.03%
6 Months	35.92%
1 Year	59.55%
Month to Date (MTD%)	1.76%
Quarter to Date (QTD%)	4.33%
Year to Date (YTD%)	4.33%

expenses increased 14.7% YOY to EGP 2,729 Mn in 4Q23. Other operating expenses declined 56.5% YOY EGP 172 Mn in 4Q23. Operating profit grew 68.9% YOY to EGP 1,656 Mn in 4Q23. The Company's EBITDA rose 24.1% YOY to EGP 5,074 Mn in 4Q23 with a slight increase in EBITDA margin by 40 bps YOY to 34.5% in 4Q23. Income from associates more than doubled from EGP 647 Mn in 4Q22 to EGP 1,603 Mn in 4Q23. Net finance cost increased significantly to EGP 359 Mn in 4Q23 from net finance income of EGP 668 Mn in 4Q22 mainly due to a rise in net interest expense due to the local currency's devaluation. In addition, income tax expense stood at EGP 580 Mn in 4Q23 compared to a tax reversal of EGP 719 Mn in 4Q22.

Balance Sheet Highlights

Telecom Egypt's cash and cash equivalents stood healthy at EGP 11.0 Bn in 2023 compared to EGP 6.8 Bn in 2022. The Company's net cash flow from operating activities increased to EGP 16.9 Bn in 2023 as against 14.6 Bn in 2022 while free cash flow to the firm reached stood negative at EGP 3.6 Bn in 2023 compared to negative EGP 2.1 Bn in 2022. However, after including the dividend amount from Vodafone Egypt, free cash flow stood negative at EGP 1.7 Bn in 2023. Telecom Egypt's total debt rose to EGP 49.3 Bn in 2023, up from EGP 30.8 Bn in 2022. Thus, annualized net debt-to-EBITDA ratio also grew from 1.4x in 2022 to 1.7x in 2023. The Company's in-service capex stood at EGP 20.3 Bn in 2023 compared to EGP 12.6 Bn in 2023 out of which 60% is incurred on access network and 19% on transmission while the remaining is spent towards international cables, customer care, and other purpose. The cash capex stood at 23.6 Bn in 2023 as against 13.7 Bn.

Target Price and Rating

We maintain our HOLD rating on Telecom Egypt with an unchanged target price of EGP 41.00. The company reported a notable decline in profitability in 4Q23 owing to challenging macroeconomic conditions and currency devaluation. However, the revenue growth is driven by solid wholesale sector performance with an impressive 51.2% YOY growth during 4Q23 followed by healthy retail performance. Telecom Egypt further expects its revenue to record mid-double-digit growth in 2024. The Company's voice subscribers increased to 12.5 Mn in 2023 from 11.6 Mn in 2022. Similarly, data subscribers rose from 8.8 Mn in 2022 to 9.5 Mn in 2023. Mobile subscribers marginally declined by 0.3% YOY to 12.5 Mn in 2023 along with healthy ARPU trends. EBITDA recorded a strong 24.1% YOY owing to high margin revenue from the cables and data revenue partially offset by inflationary pressure across cost elements. The Company anticipates its EBITDA margin to stand in the high 30s in 2024. Additionally, the National Telecom Regulatory Authority (NTRA) awarded Telecom Egypt the first license 5G license for mobile phones at USD 150 Mn valid for 15 years. Moreover, Telecom Egypt signed an agreement with NaiTel for the construction of "Coral Bridge" a subsea cable that will connect Egypt and Jordan whereas the Company also signed an agreement with 4iG for the construction of the express subsea cable from Egypt to Albania. Furthermore, in early February, Telecom Egypt, Telin, e&, and an Indian operator signed an MOU to develop the ICE IV Project. This new Data Center (DC) to DC system in the ICE IV Project will connect Indonesia and Singapore to India, Egypt, Oman, and UAE. Multiple subsea cable projects will contribute positively to the Company's financials as the investments in the cable infrastructure are mainly in Egyptian Pounds but it provides proceeds in US dollars which benefits the Company's operations and also compensates against the devaluation of the Egyptian Pound. Furthermore, the Company also maintained a strong balance sheet with robust cash and cash equivalents of EGP 11 Bn in 2023. Telecom Egypt further expects its free cash flow to improve in upcoming quarters owing to the dividend collection which it indicated earlier and also due to the collection of revenues from the new cable projects that were recognized in 4Q23. The board of directors proposed a dividend of EGP 1.5 per share for 2023 resulting in a dividend yield of 3.8%. Thus, based on our analysis, we maintain our HOLD rating on the stock.

Telecom Egypt - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	19.91	18.10	9.64	7.77	6.23	5.73
PB	2.03	1.84	1.61	1.54	1.40	1.16
EV/EBITDA	14.81	8.06	5.92	5.58	4.95	4.34
Dividend yield	0.8%	2.0%	2.6%	3.2%	3.8%	3.8%

FABS Estimates & Co Data
Telecom Egypt - P&L

EGP mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Operating Revenue	11,999	13,823	14,721	14,027	4.9%	22.7%	6.5%	44,273	56,679	28.0%
Operating costs	-8,244	-8,100	-10,164	-8,626	17.8%	23.3%	25.5%	-26,485	-34,290	29.5%
Gross profit	3,755	5,723	4,557	5,402	-15.6%	21.3%	-20.4%	17,788	22,389	25.9%
Selling & overhead exp	-2,379	-2,478	-2,729	-2,552	6.9%	14.7%	10.1%	-8,083	-9,890	22.4%
Net operating revenue	-396	-2	-172	40	NM	-56.5%	NM	-115	-232	NM
Operating profit	980	3,243	1,656	2,889	-42.7%	68.9%	-48.9%	9,590	12,266	27.9%
EBITDA	4,088	5,627	5,074	5,151	-1.5%	24.1%	-9.8%	17,102	22,185	29.7%
Income from Associates	647	1,465	1,603	1,556	3.0%	147.8%	9.4%	2,695	5,033	86.7%
Net Finance income/cost	668	-1,390	-359	-1,353	-73.5%	NM	-74.2%	-1,630	-3,909	NM
Profit before zakat	2,295	3,318	2,900	3,092	-6.2%	26.3%	-12.6%	10,655	13,390	25.7%
Zakat	719	-864	-580	-795	-27.0%	NM	-32.8%	-1,467	-1,917	30.7%
Profit before NCI	3,014	2,454	2,319	2,297	1.0%	-23.1%	-5.5%	9,187	11,473	24.9%
Non-controlling interest	-3	-2	-2	-2	17.7%	-30.9%	6.2%	-5	-7	41.2%
Net Profit	3,012	2,453	2,317	2,296	0.9%	-23.1%	-5.5%	9,182	11,466	24.9%

FABS estimate & Co Data
Telecom Egypt - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	31.3%	41.4%	31.0%	-34	-1,045	40.2%	39.5%	-68
EBITDA	34.1%	40.7%	34.5%	40	-624	38.6%	39.1%	51
Operating Profit	8.2%	23.5%	11.2%	308	-1,222	21.7%	21.6%	-2
Net Profit	25.1%	17.7%	15.7%	-936	-200	20.7%	20.2%	-51

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	40.56	70.0%	28.39
Relative Valuation (RV)	42.02	30.0%	12.61
Weighted Average Valuation (EGP)			41.00
Current market price (EGP)			39.28
Upside/Downside (%)			+4.4%

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 15.6%. It is arrived after using cost of equity of 19.6% and cost of debt of 9.8%. The cost of equity is calculated using Egypt 10-year government bond yield of 29.1%, beta of 0.72 and negative equity risk premium of 13.3%. We arrive at a negative risk premium due to a higher risk-free rate as compared to the expected equity market return. Cost of debt is calculated using a cost of 11.6% after adjusting a tax rate of 15.0%. Also, assumed a terminal growth rate of 2.0%. We also added the book value of Vodafone Egypt to arrive at the valuation of Telecom Egypt.

Sum of PV (EGP, Mn)	32,985
Terminal value (EGP, Mn)	59,810
FV to Common shareholders (EGP, Mn)	69,245
No. of share (Mn)	1,707
Current Market Price (EGP)	39.28
Fair Value per share (EGP)	40.56

DCF Method

(All Figures in EGP Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	13,482	14,464	15,660	16,474	17,258
D&A	10,688	10,688	11,811	12,893	13,890
Changes in Working Capital	-3,787	-3,787	-1,790	-1,254	-2,145
(-) Capex	-14,527	-16,163	-13,346	-13,203	-12,997
Free Cash Flow to Firm (FCFF)	4,737	5,203	12,336	14,910	16,006
Discounting Factor	0.89	0.77	0.67	0.58	0.50
Discounted FCFF	4,213	4,003	8,211	8,585	7,973

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 expects this discount to be maintained as the risk will not fade out any time sooner. It is valued at 2023 EV/EBITDA of multiple of 3.7x compared to peer multiple of 4.6x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
OOREDOO	9,990	4.1	4.0	10.8	11.3
Maroc Telecom	9,080	5.4	5.4	16.2	15.1
Emirates integrated telecommunication company	7,220	4.4	4.3	14.3	13.3
Mobile telecommunication company	7,090	4.7	4.5	9.9	9.2
Deutsche Telekom AG	120,000	5.0	4.7	13.0	11.5
Mobily	11,180	7.4	6.4	17.9	14.9
Average		5.2x	4.9x	13.7x	12.6x
Median		4.9x	4.6x	13.7x	12.4x
Max		5.3x	5.2x	15.7x	14.5x
Min		4.5x	4.4x	11.4x	11.4x

Source: FAB Securities

