

# **Telecom Egypt**

Growth in customer base across segments boosted revenue

**Current Price Target Price Upside/Downside (%)** Rating EGP 37.80 **EGP 48.00** 

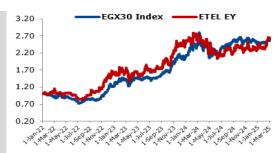
- Telecom Egypt's revenue grew significantly 60.4% YOY to EGP 23.6 Bn in 4Q24 mainly driven by solid growth in the Wholesale and Retail segments.
- Customer base rose steadily across fixed voice, fixed data and mobile segments by 5.9%, 7.7% and 12.6% YOY, respectively
- Telecom Egypt secures an EGP 18 Bn syndicated loan from 13 banks to refinance short-term facilities.
- The Company's Fixed Line ARPU and Fixed Data ARPU increased 28.2% YOY and 44.9% YOY in 4024.

### **4024 Net Profit lower than our estimate**

Telecom Egypt's (the Company) net profit declined 43.0% YOY to EGP 1,461 Mn in 4Q24, lower than our estimates of EGP 2,061 Mn. The fall in profitability is primarily attributed to increased operating costs due to inflationary pressures fueled by currency devaluation, rise in selling and overhead expenses, and significant spike in finance costs owing to appreciation of the foreign currency-denominated debt. This was partially offset by solid growth in revenue, lower net operating expenses, substantial higher income from associates, and a decline in tax expenses.

### **P&L Highlights**

Telecom Egypt's revenue grew 60.4% YOY to EGP 23,606 Mn in 4Q24 mainly driven by solid growth in the Retail and Wholesale segments. The Retail segment boosted 40.9% YOY to EGP 11,767 Mn in 4Q24, due to growth in Home Services and Enterprise Solutions revenue. Revenue from Home Services expanded 49.2% YOY to EGP 9,771 Mn in 4Q24, driven by a growth in data revenue, which fueled by increased customer base and higher ARPU. On the other hand, Enterprise Solution increased 10.8% YOY to EGP 1,996 Mn in 4Q24, attributed to Managed Data Services. The Wholesale segment revenues recorded robust growth of 85.9% YOY to EGP 11,840 Mn in 4Q24, due to strong growth across Domestic Wholesale, International Carrier and International Cable and Network revenues. Domestic Wholesale revenue boosted 50.5% YOY to EGP 2,963 in 4Q24, due to growth in infrastructure revenue, whereas International Carrier revenue surged significantly from EGP 2,079 Mn in 4Q23 to EGP 4,184 in 4Q24, driven by strong growth in IDD revenue, which rose 88%, fueled by foreign currency appreciation and increased international call traffic. Additionally, International Cable and Network revenue increased 82.8% YOY to EGP 4,693 Mn in 4Q24, primarily attributed to cable projects, which boosted 168 % YOY in 4Q24.



Stock Information	n
Market Cap (EGP, Mn)	62,973.87
Paid Up Capital (Mn)	17,070.72
52 Week High	41.49
52 Week Low	28.76
3M Avg. daily value (EGP)	29,333,030

4Q24 Result Review (EGP, Mn)					
Total Assets	197,953				
Total Liabilities	152,015				
Total Equity	45,938				
EBITDA	9,468				
Net Profit	1,461				

Financial Ratios	
Dividend Yield (12m)	4.07
Dividend Pay-out (%)	36.57
Price-Earnings Ratio(x)	7.71
Price-to-Book Ratio (x)	1.37
Book Value (EGP)	26.90
Return-on Equity (%)	16.88

Stock Performan	ce
5 Days	-2.97%
1 Months	7.08%
3 Months	7.80%
6 Months	5.70%
1 Year	-5.41%
Month to Date (MTD%)	-2.92%
Quarter to Date (QTD%)	11.45%
Year to Date (YTD%)	11.45%



Furthermore, Operating costs rose 56.5% YOY to EGP 15,294 Mn in 4Q24, mainly due to an increase in call cost and other operating costs owing to currency devaluation. Thus, gross profit grew by 68.0% YOY to EGP 8,312 Mn in 4Q24, whereas, Gross profit margin fell 160 bps YOY to 35.2% in 4Q24. Selling and overhead expenses increased 25.9% YOY to EGP 3,434 Mn in 4Q24. Telecom Egypt recorded net operating expenses of EGP 53 Mn in 4Q24 compared to an expense of EGP 172 Mn in 4Q23. Hence, Operating profit expanded from EGP 2,047 Mn in 4Q23 to EGP 4,825 Mn in 4Q24, coupled with an increase in operating profit margin by 653 bps YOY to 20.4% in 4Q24. The Company's EBITDA rose 86.6% YOY to EGP 9,468 Mn in 4Q24, whereas EBITDA margin surged 564 bps YOY to 40.1% in 4Q24. This growth in EBITDA is due to the Company's strategic cost optimization efforts. Income from associates rose significantly from EGP 1,851 Mn in 4Q23 to EGP 3,324 Mn in 4Q24. Net finance cost increased significantly from EGP 750 Mn in 4Q23 to EGP 6,395 Mn in 4Q24, mainly due to the appreciation of the FX-denominated debt and a rise in the effective interest in 4Q24. In addition, income tax expense stood at EGP 289 Mn in 4Q24 compared to EGP 580 Mn in 4Q23.

### **Balance Sheet Highlights**

Telecom Egypt's cash and cash equivalents stood at EGP 8.3 Bn in 4Q24 compared to EGP 10.1 Bn in 3Q24. Telecom Egypt's total debt declined to EGP 80.7 Bn in 4Q24, from EGP 81.5 Bn in 3Q24, due to the Company refinances its shot-term loan facilities. Thus, annualized net debt to EBITDA ratio increased from 2.2x in FY2023 to 2.8x in FY2024. The Company's in-service capex stood at EGP 19.8 Bn in FY2024 compared to EGP 20.3 Bn in FY2023 incurred on access network, transmission international cables, customer care, and other purpose. The cash capex (excluding mobile licenses) stood at EGP 29.1 Bn in FY2024 as against EGP 24.3 Bn in FY2023. Telecom Egypt generated a Net Cash from Operating Activities of EGP 21.5 Bn in FY2024 compared to an EGP 16.9 Bn in FY2023.

### **Target Price and Rating**

We maintain our BUY rating on Telecom Egypt with a revised target price of EGP 48.00. The Company reported a notable decline in profitability in 4Q24 due to higher operating costs from the Egyptian currency's devaluation and increased finance costs driven by the appreciation of foreign currency-denominated debt and higher effective rate of borrowing, partially offset by an impressive revenue growth of 60.4% YOY to EGP 23,606 in the Retail and Wholesale Segments. This growth is fueled by growth in data revenue and cable projects, followed by growth in infrastructure and IDD revenue. Telecom Egypt secures an EGP 18 Bn syndicated loan from 13 banks to refinance short-term facilities, to improve cash flow balance and enhance financial flexibility. The Company's customer base expanded across both fixed line and mobile segments in 4Q24. Fixed-line Voice customers grew 5.9% YOY to 13.2 Mn, while Data customers increased 7.7% YOY to 10.3 Mn in 4Q24. Meanwhile, mobile customers boosted 12.6% YOY to 14.0 Mn in 4Q24. Similarly, Fixed Data ARPU surged to EGP 243.6 in 4Q24 compared to EGP 232.7 in 3Q24 and EGP 168.1 in 4Q23. Additionally, Fixed Line ARPU increased to EGP 37.45 in 4Q24 from EGP 29.22 in 4Q23. Telecom Egypt and China Mobile International Form Strategic Alliance to enhance productivity. Furthermore, Mobily, a Media and Telecom company, has partnered with Telecom Egypt to strengthen regional connectivity by landing the first Saudi submarine cable, linking Saudi Arabia and Egypt through the Red Sea. Additionally, Telecom Egypt and Vodafone Egypt have strengthened their strategic partnership through new infrastructure service agreements to enhance Vodafone Egypt's networks and support its 5G rollout. Telecom Egypt and Alcatel Submarine Networks announce the successful landing of the Africa 1 subsea cable system in Egypt at the Ras Ghareb station on the Red Sea. The finance expenses of the Company increased more than two-fold during 4024 due to the appreciation of foreign exchange-denominated debt, which raised the effective interest rate to c. 16% during 4Q24. However, Telecom Egypt expects low-twenties annual growth in revenue with a high-thirties EBITDA margin in FY2025. 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	16.36	8.71	7.03	5.51	6.39	4.6
PB	1.67	1.46	1.39	1.27	1.41	1.2
EV/EBITDA	7.44	5.44	5.18	4.54	4.18	3.7
Dividend yield	2.0%	2.6%	3.3%	4.0%	4.1%	5.1%

FABS Estimates & Co Data

# Telecom Egypt - P&L

EGP mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Operating Revenue	14,721	20,478	23,606	20,904	12.9%	60.4%	15.3%	56,679	82,037	44.7%
Operating costs	-9,773	-12,887	-15,294	-13,081	16.9%	56.5%	18.7%	-34,290	-51,242	49.4%
Gross profit	4,947	7,591	8,312	7,823	6.3%	68.0%	9.5%	22,389	30,795	37.5%
Selling & overhead exp	-2,729	-3,294	-3,434	-3,847	-10.7%	25.9%	4.2%	-9,890	-12,836	29.8%
Net operating revenue	-172	120	-53	58	-191.0%	NM	-144.3%	-232	-301	29.5%
Operating profit	2,047	4,416	4,825	4,034	19.6%	NM	9.2%	12,266	17,658	44.0%
EBITDA	5,074	8,032	9,468	7,889	20.0%	86.6%	17.9%	22,662	32,953	45.4%
Income from Associates	1,851	2,354	3,324	2,210	50.4%	79.6%	41.2%	5,280	8,663	64.1%
Net Finance inc/(cost)	-750	-4,150	-6,395	-3,548	80.2%	NM	54.1%	-3,909	-15,758	NM
Profit before zakat	3,147	2,620	1,754	2,696	-35.0%	-44.3%	-33.1%	13,638	10,562	-22.5%
Income tax	-580	-489	-289	-629	-54.1%	-50.2%	-40.9%	-1,917	-451	-76.5%
Profit before NCI	2,567	2,131	1,465	2,067	-29.2%	-42.9%	-31.3%	11,721	10,111	-13.7%
Non-controlling interest	-2	-6	-4	-7	-43.7%	NM	-33.9%	-7	-13	77.1%
Net Profit	2,565	2,126	1,461	2,061	-29.1%	-43.0%	-31.3%	11,713	10,098	-13.8%

FABS estimate & Co Data

# **Telecom Egypt - Margins**

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross Profit	33.6%	37.1%	35.2%	160	-186	39.5%	37.5%	-196
EBITDA	34.5%	39.2%	40.1%	564	88	40.0%	40.2%	19
Operating Profit	13.9%	21.6%	20.4%	653	-113	21.6%	21.5%	-12
Net Profit	17.4%	10.4%	6.2%	-1124	-419	20.7%	12.3%	-836

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	44.12	70.0%	30.88
Relative Valuation (RV)	57.06	30.0%	17.12
Weighted Average Valuation (EGP)			48.00
Current market price (EGP)			37.80
Upside/Downside (%)			+27%

### 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 15.2%. It is arrived at after using the cost of equity of 17.3% and an after-tax cost of debt of 13.5%. Cost of equity is calculated by using Egypt 10-year government bond yield of 22.8%, beta of 0.70 and negative equity risk premium of 7.8%. 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 16.8% 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)	51,023
Terminal value (EGP, Mn)	78,115
FV to Common shareholders (EGP, Mn)	75,322
No. of share (Mn)	1,707
No. of share (Mn) Current Market Price (EGP)	1,707 37.80

#### **DCF Method**

(All Figures in EGP Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	15,421	16,534	17,436	18,138	18,963
D&A	16,651	18,452	20,232	22,040	23,880
Changes in Working Capital	3,377	629	51	-430	-982
(-) Capex	-23,824	-21,930	-22,158	-22,630	-22,947
Free Cash Flow to Firm (FCFF)	11,625	13,685	15,561	17,117	18,914
Discounting Factor	0.89	0.77	0.67	0.58	0.51
Discounted FCFF	10,354	10,582	10,447	9,978	9,662

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 4.1x compared to peer multiple of 5.8x.

Company	Market	EV/EBI	TDA (x)	P/E	(x)
Company	(USD Mn)	2023F	2024F	2023F	2024F
OOREDOO	11,087	4.6	4.5	10.1	10.2
Maroc Telecom	10,200	6.1	6.3	15.9	15.6
Emirates integrated telecommunication company	10,059	5.4	5.4	14.2	14.3
Mobile telecommunication company	6,578	5.8	5.4	9.4	8.4
Deutsche Telekom AG	178,913	7.3	6.9	15.9	14.2
Oman Telecommunications Co	1,570	4.9	4.8	8.8	8.1
Mobily	12,384	7.2	6.8	14.6	13.1
Average		5.9x	5.7x	12.7x	12.0x
Median		5.8x	5.4x	14.2x	13.1x
Max		6.6x	6.5x	15.2x	14.3x
Min		5.1x	5.1x	9.7x	9.3x

Source: FAB Securities



### **Research Rating Methodology:**

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

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