

## Telecom Egypt

Improved operational performance & higher income from Vodafone boosted profitability

### 3Q21 Net profit higher than our estimate

Telecom Egypt (ETEL) reported an increase by 51.1% YOY in Net Profit to EGP2,227 Mn in 3Q21, up from EGP1,474 Mn in 3Q20, beating our estimate of EGP1,830 Mn by 21.7%. This was mainly attributed to strong operational performance, supported by higher income from Vodafone and lower interest expenses

### P&L highlights

Top line grew 22% YoY on higher retail and whole sale revenues (+23% and +19%, respectively) on a higher customer base, AR-PUs, and infrastructure revenues. The Company recorded a significant increase by 45.8% YOY in Gross Profit to EGP3,941 Mn in 3Q21, up from EGP2,703 Mn in 3Q20. It was mainly supported by 21.7% YOY increase in Operating Revenue to EGP9,006 Mn in 3Q21, as compared to EGP7,402 Mn in 3Q20. The increase in Operating revenue offset the 7.8% YOY increase in Operating costs to EGP5,065 Mn in 3Q21. The Operating Profit increased by 56.3% YOY to EGP2,170 Mn in 3Q21, up from EGP1,388 Mn in 3Q20. It was mainly due to significant increase in Net Operating revenues to EGP106 Mn in 3Q21, from EGP68 Mn in 3Q20. The Selling and Overhead expenses rose by 35.7% YOY to EGP1,877 Mn in 3Q21, as compared to EGP1,383 Mn in 3Q20. The Profit before Zakat increased by 45.3% YOY to EGP2,762 Mn in 3Q21, up from EGP1,901 Mn in 3Q20. This was mainly supported by the Operating Profit and an increase by 34.9% YOY in Income from Associates to EGP753 Mn in 3Q21, up from EGP558 Mn in 3Q20. Zakat expense increased by 25.2% YOY to EGP534 Mn in 3Q21 from EGP426 Mn in 3Q20.

### Balance sheet highlights

Total assets increased by 6.7% YOY to EGP84.51 Bn in 3Q21, up from EGP79.19 Bn in 3Q20. Whereas the Total Equity increased by 12.9% YOY to EGP42.23 Bn in 3Q21, as compared to EGP37.41 Bn in 3Q20. Similarly, the Total liabilities slightly increased by 1.2% to EGP42.27 Bn in 3Q21, up from EGP41.78 Bn in 3Q20.

### Target price and rating

We maintain our BUY rating on the stock with a target price of EGP18.70. Telecom Egypt is one of the largest telecom operators in the region with fixed, mobile and data services. In July 2021, Telecom Egypt (ETEL) launched its voice over LTE (VoLTE) service in Egypt offering a high quality connecting to 5 times faster than conventional voice calls. The Consolidated Revenue increased by 18% YOY to EGP26.37 Bn in 9M21, up from EGP22.35 Bn in 9M20, driven by strong data revenue, which made up 66% of top line growth, followed by infrastructure and voice revenues. The Company has mainly five business units that contribute to the top -line namely Home & Personal Communications, Enterprise, Domestic Wholesale, International carrier and International cables & networks. The Home and Personal unit contributed 50.5% to the

**Rating : BUY**

### First Look Note – 3Q21

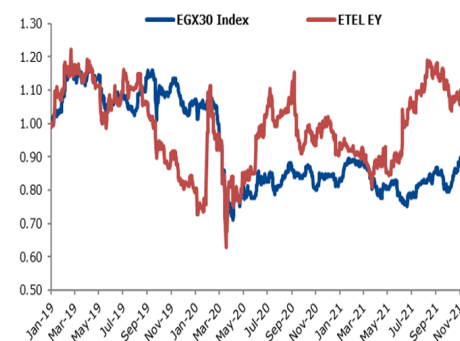
**Sector: Telecommunication**

#### Recommendation

Current Price (28-Nov)	14.24
Target Price (EGP)	18.70
Upside (%)	+31%

#### Stock Information

Market Cap (mm)	24,308.71
Paid Up Capital (mm)	17,070.72
52 Week High	15.35
52 Week Low	10.12
3M Avg. daily value (EGP)	11,377,950



#### Financial Ratios

Dividend Yield (12month)	5.27
Dividend Payout	21.23
Price-Earning Ratio	3.70
Price-to-Book Ratio	0.58
Book Value	24.73
Return-on Equity	16.54
Earning Per Share	3.85
Beta	0.97

#### Stock Performance

5 Days	-0.77%
1 Months	4.94%
3 Months	-2.33%
6 Months	26.69%
1 Year	11.42%
Month to Date (MTD%)	6.27%
Quarter to Date (QTD%)	0.71%
Year to Date (YTD%)	19.36%

top-line in 9M21, followed by domestic wholesale. The Revenue from Home & Personal segment increased by 26.9% YOY mainly due to subscriber growth and increase in mobile & internet services. It was also supported by increase in ARPU. The Domestic segment grew by 17.3% YOY, supported by demand for transmission services related to MNOs and ISPs. The Enterprise segment increased by 18.2% YOY to EGP3.44 Bn in 9M21 and contributed 13% to the Consolidated Revenue. It was mainly due to complimentary access services and recognition of infrastructure projects. International cables & networks increased to EGP2.22 Bn in 9M21 up from EGP1.97 Bn in 9M20, an increase by 12.7% YOY and contributing to 8.4% of Total Revenues. The International carriers and declined by 6.1% YOY while contributing to 11.88% of Total Revenues. The fixed line customers – Voice and Data have been following an increasing trend for almost 5 years now surpassing 40% market penetration in 9M21.

The operating Income reached EGP6.5 Bn in 9M21 compared to EGP4.11 Bn in 9M20, an increase by 57.8% YOY, supported by enhanced revenue mix and the cost optimization initiatives. EBITDA grew 37% YoY, recording a strong margin of 39.1% on a higher revenue mix and cost containment initiatives. The Net Profit increased robustly by 72.5% to EGP6.1 Bn in 9M21 up from EGP3.5 Bn in 9M20, mainly due to strong operating results and Vodafone Egypt's contribution via Investment Income.

The Cash from Operating Activities grew strongly YOY to EGP12.23 Bn as at end of 9M21 up from EGP5.72 Bn same period last year. The company reported robust performance in its Balance Sheet with Total Assets stable at EGP84.5 Bn as of September 30, 2021, while Total Liabilities decreasing by 7.5% YOY to EGP42.27 Bn in 3Q21 down from EGP45.7 Bn in 3Q20 mainly due to the decrease in Short-Term Loans and Credit Facilities.

Total Equity increased by 9% YOY reaching EGP42.23 Bn in 9M21 up from EGP38.73 Bn in 9M20, in line with the increase in profitability. Finally, given the modified Shareholders' Agreement signed between ETEL and Vodafone Group in June 2021, ETEL distributed a one-time Cash Dividend for EGP4.5 Bn over 2 tranches in 1Q21 and 3Q21 for EGP0.9 Bn and EGP3.6Bn, Based on the above. We assign a BUY rating on this stock.

#### Telecom Egypt - Relative Valuation

	2017	2018	2019	2020	2021E
P/E (x)	10.58	9.73	6.95	6.21	4.56
P/B (x)	0.82	0.77	0.71	0.64	0.58
Dividend Yield (%)	1.8%	1.8%	1.8%	5.3%	5.3%

FABS estimate & Co Data

**Telecom Egypt-P&L**

EGP mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Operating Revenue	7,402	8,974	9,006	9,153	-1.6%	21.7%	0.4%	31,912	35,694	11.9%
Operating costs	-4,699	-5,245	-5,065	-5,309	-4.6%	7.8%	-3.4%	-19,663	-20,510	4.3%
<b>Gross profit</b>	<b>2,703</b>	<b>3,729</b>	<b>3,941</b>	<b>3,844</b>	<b>2.5%</b>	<b>45.8%</b>	<b>5.7%</b>	<b>12,249</b>	<b>15,184</b>	<b>24.0%</b>
Selling & overhead expenses	-1,383	-1,697	-1,877	-1,730	8.5%	35.7%	10.6%	-6,281	-6,835	8.8%
Net operating revenue (others)	68	61	106	73	44.3%	54.9%	73.4%	-70	540	NM
<b>Operating profit</b>	<b>1,388</b>	<b>2,093</b>	<b>2,170</b>	<b>2,188</b>	<b>-0.8%</b>	<b>56.3%</b>	<b>3.7%</b>	<b>5,898</b>	<b>8,889</b>	<b>50.7%</b>
Income from Associates	558	613	753	632	19.2%	34.9%	22.8%	2,206	3,110	41.0%
Net Finance income/(cost)	-46	-347	-161	-357	-54.8%	NM	-53.5%	-1,480	-852	-42.4%
<b>Profit before zakat</b>	<b>1,901</b>	<b>2,360</b>	<b>2,762</b>	<b>2,462</b>	<b>12.2%</b>	<b>45.3%</b>	<b>17.0%</b>	<b>6,625</b>	<b>11,148</b>	<b>68.3%</b>
Zakat	-426	-612	-534	-631	-15.4%	25.2%	-12.8%	-1,767	-2,756	56.0%
<b>Profit before N-C interests</b>	<b>1,474</b>	<b>1,748</b>	<b>2,228</b>	<b>1,831</b>	<b>21.7%</b>	<b>51.1%</b>	<b>27.5%</b>	<b>4,858</b>	<b>8,391</b>	<b>72.8%</b>
Non-controlling interests	-1	-1.7	-1.3	-1.8	-26.5%	77.9%	-22.9%	-7	-6	-2.6%
<b>Profit attributable</b>	<b>1,474</b>	<b>1,746</b>	<b>2,227</b>	<b>1,830</b>	<b>21.7%</b>	<b>51.1%</b>	<b>27.5%</b>	<b>4,851</b>	<b>8,385</b>	<b>72.9%</b>

FABS estimate & Co Data

**Telecom Egypt - Margins**

EGP mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	36.5%	41.6%	43.8%	724	220	38.4%	38.2%	-18
OPM	18.8%	23.3%	24.1%	534	77	18.5%	19.5%	99
Net margin	19.9%	19.5%	24.7%	482	527	15.2%	16.6%	138

FABS estimate & Co Data

**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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