

Q3 2020 Earnings Release

12 November 2020

Telecom Egypt today announces its Q3 2020 results ending 30 September 2020.

9M 2020 key highlights

- **Consolidated revenue** increased 18% YoY, landing at EGP 22.3bn. The growth is mainly driven by a 31% YoY hike in retail revenue boosted by strong data growth.
- **Customer base** remains on an uptrend across the board with fixed voice and broadband growing 9% and 16% YoY, respectively, and mobile customers growing 55% YoY, reaching 7.1mn.
- **EBITDA** reached EGP 7.5bn, recording a strong 34% margin. Adjusting for the ERP cost (EGP 1.3bn) incurred in 2019, EBITDA would grow by 45% YoY.
- **Operating profit** grew 46% YoY, after excluding the effect of the ERP cost, on a high margin revenue mix that overshadowed the 35% YoY increase in D&A costs.
- **Net profit** came in at EGP 3.5bn in 9M 2020, slightly increasing by 3% YoY due to the abundance of one-offs in 2019. Normalizing for the ERP cost, FX, VIS Sale, and impairments during 9M 2020, net profit would have increased by 21% YoY. Q3 net profit reached EGP 1.5bn, growing 14% YoY.
- **In-service CapEx** reached EGP 6bn, representing 27% of revenue.
- **Net debt** amounted to 16.9bn, representing 1.7x of annualized EBITDA compared to 2.1x in FY 2019 (adjusted for the ERP cost), while the effective interest rate continued to decline to 6.3%.
- **Net operating cash flow** reached a record high EGP 5.7bn in tandem with the continued revenue growth.

Adel Hamed, Group Chief Executive, commented:

"I am very proud of this quarter's results as they substantiate our outstanding operational performance and demonstrate Telecom Egypt's huge growth potential, especially in Egypt's highly lucrative data market. Our top line increased 17% YoY, fuelled by the growth of the retail segment thanks to the hike in data revenues, which continued to impress on a QoQ and YoY basis. With a strong EBITDA margin of 33% and a 2x higher operating profit this quarter, the company continues to benefit from the retail segment's growing contribution to the top line, now standing at 64%, and its enhanced revenue mix that tilts towards improved profitability. The aforementioned has led to a considerable growth in the company's net operating cash flow that has reached EGP 5.7bn year-to-date and has consequently supported the expedited CapEx rollout program.

Recently, the NTRA accepted our request for additional spectrum, a step that will support us in our endeavour to upgrade and maintain our nationwide mobile network to best serve our customers and improve our profitability further. We have also recently announced that we are building the country's largest internationally certified data center facility and in result, all our customers will receive the highest levels of availability and technical resiliency in the market."

Vodafone Egypt deal developments

Vodafone developments

- ✓ On January 29, Vodafone Group (VFG) announced that it has signed a MoU with Saudi Telecom Company (STC) in relation to a potential sale of Vodafone's 55% shareholding in Vodafone Egypt (VFE) to STC for a cash consideration of USD 2.4bn.
- ✓ On February 5, The FRA asserted that the potential acquisition is subject to the provisions of Chapter Twelve of the Executive Regulations of the Egyptian Capital Market Law No. 95/1992 regarding tender offer.
- ✓ On February 13, VFE contacted the Egyptian Competition Authority (ECA) to determine whether Telecom Egypt's right of first refusal granted to the company in VFE's articles of association, if exercised, would be compatible with the Competition Protection Law.
- ✓ On February 19, Telecom Egypt's BoD approved to engage with EFG Hermes and Citi as investment advisors and Al Tamimi & Co. as its legal advisor to assess TE's options in light of the announced deal.
- ✓ On July 12, STC and VFG agreed to extend the MoU for 60 days.
- ✓ On September 13, the MoU between VFG and STC expired without reaching an agreement to conclude the transaction. The discussions between both parties are ongoing, however, Telecom Egypt has not received a proposal from either of the two parties involved nor does it have any insight on the state of the discussions or the terms being discussed between the parties.

TE's current position

- ✓ TE continues to monitor developments closely given its significant interest in VFE. The company continues to work with its advisors to assess its options and enable their feasibility in light of its rights in this potential transaction, which include:
 - its right of first refusal granted in Vodafone Egypt's shareholders' agreement and its articles of association;
 - the right to accept a mandatory tender offer in accordance with the letter received from the Egyptian Financial Regulatory Authority in regards to the application of Chapter 12 of the Executive Regulations of the Egyptian Capital Market Law No. 95/1992 regarding tender offers; and
 - any other rights guaranteed by the relevant Egyptian laws and the shareholders' agreement.
- ✓ TE has strong conviction that its existing agreements and/or regulatory directives mean it could ultimately execute a number of strategic options, including maintaining its ownership as is, buying out VDG's shares in VFE, or selling its shares in VFE.
- ✓ Telecom Egypt will act solely in the interests of its shareholders and will ultimately pursue whatever option maximizes long-term shareholder value. Shareholders will be informed as soon as any decision has been reached.

Telecom Egypt Latest Events

Main events in Q3 2020

- ✓ In September, Telecom Egypt announced that it has submitted a financial and technical offer to the National Telecom Regulatory Authority (NTRA) to apply for additional spectrum. The spectrum will be in the 2600MHz band, utilizing TDD technology, with a right of use of 10 years.

Subsequent events to Q3 2020

- ✓ In October, Telecom Egypt announced that it is building Egypt's largest international data center facility. Expected to be commissioned in early 2021 with access to all the global submarine cable systems that land in Egypt, the new data center is going to be the first in the country with the Uptime Institute's certifications in the Design, Constructed Facility, and Operational Sustainability categories.
- ✓ In November, Telecom Egypt announced that the National Telecommunications Regulatory Authority (NTRA) has accepted and approved its financial and technical offer for additional spectrum that was submitted on the 17th of September, 2020. The company is expected to receive 20MHz of spectrum in the 2600MHz band for USD 305mn.

Customer Base

(000's)	3Q 20	3Q 19	Δ %yoy	2Q 20	Δ % qoq
Fixed Line					
Voice	9,152	8,387	9%	9,688	-6%
Data	6,620	5,700	16%	6,333	5%
Mobile	7,097	4,575	55%	6,720	6%

Revenue breakdown

EGPm	9M 20	9M 19	Δ % yoy	3Q 20	3Q 19	Δ % yoy	2Q 20	Δ % qoq
Home & Consumer	10,515	7,657	37%	3,756	2,717	38%	3,629	4%
Enterprise	2,917	2,560	14%	998	959	4%	1,132	-12%
Domestic Wholesale	3,608	3,260	11%	1,046	1,010	4%	1,314	-20%
International Carriers	3,338	3,381	-1%	1,070	1,111	-4%	1,132	-5%
International Customers & Networks	1,968	2,154	-9%	531	519	2%	734	-28%

Income statement summary

EGPm	9M 20	9M 19	Δ % yoy	3Q 20	3Q 19	Δ % yoy	2Q 20	Δ % qoq
Revenue	22,347	19,012	18%	7,402	6,316	17%	7,941	-7%
EBITDA	7,517	3,911	92%	2,476	1,273	94%	2,758	-10%
EBIT	5,441	3,776	44%	1,889	1,478	28%	1,893	0%
NPAT	3,532	3,420	3%	1,474	1,295	14%	746	97%
EPS	2.07	2.00	3%	0.86	0.76	14%	0.44	97%
<i>Margins</i>								
EBITDA Margin %	33.6%	20.6%	1,307 bps	33.4%	20.2%	1,329 bps	34.7%	(128 bps)
EBIT Margin %	24.3%	19.9%	448 bps	25.5%	23.4%	212 bps	23.8%	168 bps
NPAT Margin %	15.8%	18.0%	(218 bps)	19.9%	20.5%	(60 bps)	9.4%	1,051 bps

Results discussion

Q3 2020:

- **Total revenue** came in at EGP 7.4bn, climbing 17% YoY mainly driven by higher retail revenue (+29% YoY), which constituted 64% of the top line.
- **Retail revenue** growth was primarily led by the 39% YoY and 4% QoQ increase in data on an expanding customer base and a healthy ARPU uptrend.
- **Wholesale** came in flat YoY at EGP 2.6bn. The slight increase in both domestic (+4% YoY) and IC&N revenues (+2% YoY) offset the 4% YoY decline in IC&A, the latter due to the drop in low margin transit revenue.
- **EBITDA** amounted to EGP 2.5bn, recording a margin of 33%. Adjusting for the ERP cost (EGP 262mn) incurred in Q3 2019, EBITDA would grow by 61% YoY on higher margin revenues, especially data.
- **Operating profit** doubled, growing 106% YoY, after adjusting for the ERP cost in Q3 2019, in spite of the 16% YoY increase in D&A costs.
- **Net profit** landed at EGP 1.5bn, growing 14% YoY. Adjusting for the sale of VIS, the ERP cost, FX, and impairment impacts, net profit would grow by 69% YoY on enhanced operational performance.

9M 2020:

- **Consolidated revenue** increased 18% YoY, landing at EGP 22.3bn. The growth was fuelled by the hike in data revenues followed by voice and infrastructure revenues.
- **Home & Consumer** grew 37% YoY owing to the rise in data (+39% YoY) and voice revenues (+32%YoY), which were driven by the growing customer base and healthy ARPU.
- **Enterprise** climbed 14% YoY mainly on higher managed data services and digital transformation revenues. During FY 2019 and 9M 2020, TE recognized cEGP 670mn in total out of the EGP1.1bn for the 1st phase of the digital transformation contract.
- **Wholesale** came in almost flat YoY as the 11% YoY increase in domestic revenue coming from infrastructure and transmission revenues (+16% YoY) offset the decline in IC&N (-9%YoY).
- **ICA** came in almost flat YoY due to the EGP appreciation although international incoming calls revenue increased in USD terms by 8% YoY supported by higher traffic (+23% YoY).
- **EBITDA** landed at EGP 7.5bn with a strong margin of 34%. Adjusted for the ERP cost, EBITDA grew 45% YoY supported by a higher margin revenue mix comprised of data and infrastructure revenues.
- Adjusting for the ERP cost, FX, VIS sale, and impairment impact, **net profit** would have increased by 21% YoY, owing to strong organic operational growth.

Balance sheet summary

EGPm	9M 20	FY 19	Δ %
Current Assets	17,477	15,404	13%
Net Fixed Assets	33,741	29,728	13%
Long Term Investments	11,765	10,898	8%
Other Long Terms Assets	16,212	17,222	-6%
Total Assets	79,194	73,251	8%
Current Liabilities (Excl. STD)	15,981	14,850	8%
CPLTD	14,518	11,666	24%
LTD	3,637	4,786	-24%
Other Non-Current Liabilities	7,648	6,729	14%
Total Liabilities	41,784	38,030	10%
Total Shareholder Equity	37,410	35,221	6%
Total Liabilities & Shareholder Equity	79,194	73,251	8%

Cash flow summary

EGPm	9M 20	9M 19	Δ %
Net Cash Provided By Operating Activities	5,727	1,361	321%
Net Cash Flows from Investing Activities	-7,125	-2,064	245%
Net Cash Flows from Financing Activities	1,299	1,068	22%
Net Change In Cash & Cash Equivalents	-98	364	-127%
Translation Differences of Foreign entities	-8	-15	-51%
Beginning of period cash	1,311	874	50%
End of period cash	1,206	1,223	-1%

– End –

Please refer to Telecom Egypt's full financial statements that can be downloaded from the website ir.te.eg

For more information, contact:

The investor relations team

Email: investor.relations@te.eg

About Telecom Egypt

Telecom Egypt is the first total telecom operator in Egypt providing all telecom services to its customers including fixed and mobile voice and data services. Telecom Egypt has a long history serving Egyptian customers for over 160 years maintaining a leadership position in the Egyptian telecom market by offering its enterprise and consumer customers the most advanced technology, reliable infrastructure solutions and the widest network of submarine cables. Aside from its mobile operation "WE", the company owns a 45% stake in Vodafone Egypt. Telecom Egypt's shares and GDRs (Ticker: ETEL.CA; TEEG.LN) are traded on The Egyptian Exchange and the London Stock Exchange. Please refer to Telecom Egypt's full financial disclosure on ir.te.eg