

## Q3 2019 Earnings Release

14 November 2019

Telecom Egypt today announces its Q3 2019 results ending 30 September 2019. The results are based on the consolidated financials prepared in accordance with Egyptian Accounting Standards.

### 9M 2019 key highlights

- **Consolidated revenue** landed at EGP 19bn with a 10% YoY increase. Normalizing for the Bharti deal recognized in Q3 2018, the underlying top line grew by 21% YoY on a 35% YoY growth in data revenue, followed by growth in submarine cable projects and infrastructure services.
- **Customer base** grew across the board; with fixed voice customers growing 11% YoY, fixed broadband increasing 15% YoY and mobile reporting a 27% growth.
- **The early retirement program (ERP)** was extended to a total of 3,000 employees with a total cost of EGP 1.5bn.
- **Adjusted EBITDA** for the Bharti deal and the ERP grew 6% YoY thanks to underlying revenue growth. Normalized EBITDA margin stood at 27% within our full year guidance.
- **Net profit** declined 8% YoY to reach EGP 3.2bn weighed down by the ERP costs and the base effect of the Bharti deal in 2018. Normalizing for such impacts, net profit would have reached EGP 4.4bn, increasing 39% YoY supported by FX gains, higher investment income from Vodafone and enhanced operational performance.
- **In-service Capex to sales** reached 33% as a result of the Capex acceleration program entailing the copper-to-fibre replacement across the country by mid-2020 instead of 2022.
- **Net debt** amounted to 13.7bn, representing 2.0x of annualized EBITDA (excl. ERP) compared to 2.1x in FY 2018.

### Adel Hamed, Group Chief Executive, commented:

“Since the beginning of the year, Telecom Egypt has invested heavily in its infrastructure in order to avail enhanced telecom services to all its customers. We pride ourselves on the execution of such an ambitious project that halved the time of implementation of a four-year project. The results we announce today are a signal that we are moving in the right direction with revenue continuing to grow at a double digit and filtering through to EBITDA, especially in light of the absence of any one-off or project based revenue in the quarter. That said, such investment led to a jump in depreciation and financing expenses that has pressured the bottom-line in spite of strong operational performance, yet we have created a large opportunity and exceptional positioning for us to monetize such investment for years to come. The demand for data is very strong in Egypt across all segments – home, enterprise and domestic operators – and we intend to leverage our positioning to capture a larger share of that growing demand.

On the cost side, we extended the early retirement program (ERP) that was reactivated in Q2 2019 for an additional 1000 employees. This extension will be financed using the extraordinary dividends we received from Vodafone Egypt in Q3 2019 and is expected to have a payback period of 2.5 years.”

## Telecom Egypt Latest Events

### Main events in Q3 2019

- ✓ In July, Telecom Egypt announced a new shift in its fixed broadband offering in line with its large project to develop its network capabilities and improve the quality of internet services in Egypt. TE raised the maximum speed of its internet bundles to start at 30Mbps instead of 5Mbps and increased the packages' quota to cater to the increased usage.
- ✓ In the same month, Telecom Egypt and Banque Misr signed an agreement to launch the WE mobile wallet. The service is designed to enable customers to safely and securely send, receive and store money using a smartphone application. The mobile wallet will allow customers to deposit and withdraw cash from WE stores and link their Banque Misr debit/ credit cards to the wallet.
- ✓ Also in July, Telecom Egypt and Etisalat Misr signed two virtual fixed voice agreements that enable Etisalat Misr to provide fixed voice services to its customers through utilizing part of Telecom Egypt's network. The parties also signed two bitstream agreements to enable Etisalat Misr to provide the new VDSL technology to its customers, relying on Telecom Egypt's network that recently underwent major developments.
- ✓ By the end of the month, Telecom Egypt signed a strategic partnership agreement with Cable Network Egypt (CNE) to provide Telecom Egypt's customers with Internet Protocol television services (IPTV) in collaboration with various content providers. Under this agreement, Telecom Egypt will provide its customers with content and TV channels through an interactive and unmatched IPTV platform. The company will offer numerous packages especially tailored to serve all customer segments and include content such as entertainment, sports, TV series, movies and kids channels, among others.
- ✓ In September, Telecom Egypt and the Administrative Capital for Urban Development (ACUD) signed an agreement to build and operate telecom networks in the new administrative capital as well as to provide smart and security services networks.

### Subsequent events to Q3 2019

- ✓ On 12 November, Telecom Egypt launched its digital wallet under the commercial name 'WE Pay', enabling its customers to enjoy a wide-range of electronic payment facilities including cross-net peer-to-peer transfers, person-to-merchant transactions and payments for a variety of services. Additionally, customers will be able to pay for all the WE portfolio of services in addition to utilities, insurance, education, tickets and tourism among other services.

## Customer Base

(000's)	3Q 19	3Q 18	Δ %yoy	2Q 19	Δ % qoq
<b>Fixed Line</b>					
Voice	8,387	7,589	11%	8,213	2%
Data	5,700	4,968	15%	5,536	3%
<b>Mobile</b>	4,575	3,589	27%	4,260	7%

## Revenue breakdown

EGPm	9M 19	9M 18	Δ % yoy	3Q 19	3Q 18	Δ % yoy	2Q 19	Δ % qoq
Home & Consumer	7,657	5,850	31%	2,717	2,085	30%	2,539	7%
Enterprise	2,560	2,363	8%	959	1,151	-17%	851	13%
Domestic Wholesale	3,260	2,753	18%	1,010	788	28%	941	7%
International Carriers	3,381	3,347	1%	1,111	1,111	0%	1,141	-3%
International Customers & Networks	2,154	3,046	-29%	519	2,099	-75%	1,137	-54%

## Income statement summary

EGPm	9M 19	9M 18	Δ %	3Q 19	3Q 18	Δ % yoy	2Q 19	Δ % qoq
<b>Revenue</b>	19,012	17,358	10%	6,316	7,233	-13%	6,609	-4%
<b>EBITDA</b>	3,700	5,329	-31%	1,063	2,036	-48%	735	45%
EBIT	3,577	5,132	-30%	1,272	2,052	-38%	442	188%
NPAT	3,220	3,506	-8%	1,089	1,448	-25%	516	111%
EPS	1.89	2.05	-8%	0.64	0.85	-25%	0.30	111%
<b>Margins</b>								
EBITDA Margin %	19.5%	30.7%	(1,124 bps)	16.8%	28.2%	(1,132 bps)	11.1%	572 bps
EBIT Margin %	18.8%	29.6%	(1,075 bps)	20.1%	28.4%	(824 bps)	6.7%	1,345 bps
NPAT Margin %	16.9%	20.2%	(326 bps)	17.2%	20.0%	(278 bps)	7.8%	944 bps

## Results discussion

### Q3 2019:

- **Total revenue** reached EGP 6.3bn, declining 13% YoY. Adjusted for the Bharti deal taking place in Q3 2018, total revenue grew 12%.
- **Retail** revenue increased 14% YoY on a 30% YoY hike in **Home & Consumer**, which offset a 17% YoY decline in **Enterprise** revenue. The latter is a base effect relating to the recognition of the schools' connectivity project in Q3 2018.
- **Mobile** revenue climbed 46% YoY, contributing a low double digit to total retail revenue, driven by a 27% YoY growth in our customer base.
- **Wholesale** revenue decreased 34% YoY on the recognition of the Bharti deal in Q3 2018. Excluding this deal, wholesale revenue grew 10% YoY on a 28% increase in domestic revenue driven by the growing demand for infrastructure services by local MNOs.
- **EBITDA** landed at EGP 1.1bn with a margin of 17%. The lower than typical margin relates to the ERP program. Excluding the Bharti deal from Q3 2018 and the ERP from Q3 2019 leads to a normalized flat EBITDA and a margin of 24%.
- **Income from Vodafone** increased due to the sale of a subsidiary, Vodafone International Services, the reversal of dispute related provisions and operational growth.
- **Net profit** came in at EGP 1.1bn, flat YoY when excluding the Bharti deal, as FX gains and higher investment income from Vodafone offset the ERP and higher depreciation expenses related to the accelerated Capex program.

### 9M 2019:

- **Top line** increased 10% YoY, reaching EGP 19bn. Adjusting for the base effect of the Bharti deal in 2018, top line would grow by 21% YoY.
- **Retail** revenue rose 24% YoY on a 35% YoY growth in data revenues.
- **Wholesale** witnessed a slight decrease of 4% YoY as the 18% YoY increase in Domestic revenues softened the 29% decline in IC&N.
- **EBITDA** stood at EGP 3.7bn. Excluding the ERP, EBITDA would have reached EGP 5.2bn recording a margin of 27% in line with our full year guidance. Adjusting for the Bharti deal, EBITDA would have exhibited a 6% YoY increase.
- **Adjusted net profit** landed at EGP 4.4bn, growing 39% YoY on FX gains, increased investment income from Vodafone and enhanced operational performance.

## Balance sheet summary

EGPm	9M 19	FY 18	Δ %
Current Assets	14,805	12,344	20%
Net Fixed Assets	25,298	21,534	17%
Long Term Investments	10,332	13,532	-24%
Other Long Terms Assets	16,468	16,497	0%
<b>Total Assets</b>	<b>66,904</b>	<b>63,907</b>	<b>5%</b>
Current Liabilities (Excl. STD)	12,095	12,280	-2%
CPLTD	9,889	13,304	-26%
LTD	5,229	550	851%
Other Non-Current Liabilities	5,360	5,285	1%
<b>Total Liabilities</b>	<b>32,573</b>	<b>31,419</b>	<b>4%</b>
<b>Total Shareholder Equity</b>	<b>34,330</b>	<b>32,488</b>	<b>6%</b>
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>66,904</b>	<b>63,907</b>	<b>5%</b>

## Cash flow summary

EGPm	9M 19	9M 18	Δ %
Net Cash Provided By Operating Activities	1,361	961	42%
Net Cash Flows from Investing Activities	-2,064	-6,405	68%
Net Cash Flows from Financing Activities	1,068	5,987	-82%
<b>Net Change In Cash &amp; Cash Equivalents</b>	<b>364</b>	<b>543</b>	<b>-33%</b>
Translation Differences of Foreign entities	-15	-4	-301%
Beginning of period cash	874	507	72%
<b>End of period cash</b>	<b>1,223</b>	<b>1,046</b>	<b>17%</b>

– End –

Please refer to Telecom Egypt's full financial statements that can be downloaded from the website [ir.te.eg](http://ir.te.eg)  
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## 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](http://ir.te.eg)