

Q3 2018 Earnings Release

14 November 2018

Telecom Egypt today announces its Q3 2018 results ending 30 September 2018.

9M 2018 key highlights

- **Consolidated revenue** lands at EGP 17.4bn, a 32% hike YoY fuelled by the inclining pace of data services (+45% YoY) and the contribution of the deal sealed with Bharti Airtel of EGP1.6bn.
- **Customer base** continues to rise on all fronts. Mobile customers reached 3.6mn, adding c300k in Q3 2018 despite tax fees imposed in Q3 2018 on new SIMs. Fixed voice subscribers grew 10% YoY, while fixed broadband customers grew 29%.
- **EBITDA** recorded EGP 5.3bn growing 36% YoY boosted by the revenue growth maintaining a healthy margin of 31%.
- **Operating profit** grew 37% YoY absorbing the 49% YoY spike in depreciation and amortization.
- **Net Profit** amounted to EGP 3.5bn, revoking the H1 2018 18% YoY decline to come in constant YoY, thanks to strong operational growth offsetting the 4x higher finance cost.
- **In-service CapEx to sales** came in at 22% excluding Bharti deal revenue vs. 50% in 9M 2017.
- **Net Debt** rose to EGP 12.5bn as of Q3 2018 as a result of CapEx spending and the acquisition of the MENA Cable. The latter was fully recovered in October 2018 after collecting the cash from the Bharti deal which reduced the net debt to EGP 10.8bn and the net debt/annualized EBITDA to 1.6x compared to 1.3x in FY 2017.

Ahmed El Beheiry, Group Chief Executive, commented:

“We are proud to announce our Q3 2018 performance, which demonstrates two very important qualities of this organization: its exceptional execution ability and operational efficiency. In this quarter, we have been able to complete two large projects in a record time – the Bharti deal and the schools’ connectivity project. We have also reached a milestone of fundamental importance to our retail offering as WE launched its one-bill product including mobile, fixed voice and data services in a year from the brand’s introduction in the market. WE became the first truly integrated operator with its Indigo Plus offering. Our success in the quarter is crowned by being able to reverse the bottom line decline witnessed in H1 2018 to a constant net profit YoY in 9M 2018. Telecom Egypt’s top line growth is one of the highest in the telecom sector globally and we’ve been able to deliver a healthy EBITDA margin ahead of our guidance, offsetting the higher depreciation and amortization expenses and managing interest costs by restructuring our debt.”

Telecom Egypt Latest Events

Main events in Q3 2018

- ✓ TE signed an amendment of the national roaming agreement with Etisalat Misr sealed in June 2017. The new agreement provides better financial and service quality terms availing improved commercial conditions for Telecom Egypt. Both companies also signed the first letter of intent (LoI) for mobile termination rates, which included a preferential termination rate for Telecom Egypt.
- ✓ TE signed three agreements with Orange Egypt for international telecom, transmission, and mobile termination services.
- ✓ The Middle East Investor Relations Association (MEIRA) in partnership with Extel ranked Telecom Egypt among the top five leading corporates for investor relations in Egypt.
- ✓ TE signed a MOU with Liquid Telecom that will enable the latter to complete Africa's terrestrial fibre network stretching all the way from Cape Town, South Africa to Cairo in Egypt.
- ✓ TE announced a strategic partnership with Airtel for global submarine cable systems wherein, Airtel will get IRUs (Indefeasible Right of Use) on Middle East North Africa Submarine Cable (MENA Cable) and TE North Cable Systems. In addition, Airtel will also take large capacities on a long-term basis on two new state-of-the-art Cable Systems (SMW5 & AAE1).
- ✓ TE concluded the acquisition of Middle East and North Africa Submarine Cable "MENA" from Orascom Investment Holding "OIH" through its subsidiary Egyptian International Submarine Cable Company "EISCC" with a total enterprise value of USD 90mn.
- ✓ TE's BoD approved the acquisition of the remaining 50% of Egyptian International Submarine Cable Co. at a value of USD 15mn.
- ✓ TE signed a MoU with Etisalat Misr to provide the latter with virtual fixed voice services. This is the first such agreement in the market and covers all the basic terms that shall allow both companies to formalize a commercial agreement in due course .
- ✓ TE signed an agreement with Bharti Airtel for global submarine cable systems to formalize its strategic partnership announced on 6 August 2018. The agreement grants Airtel IRUs (Indefeasible Right of Use) on Middle East and North Africa Submarine Cable "MENA Cable" and TE North Cable Systems. Additionally, Airtel will take large capacities on a long-term basis on two new cable systems (SMW5 & AAE1).

Subsequent events to Q3 2018

- ✓ WE launched its 'one bill' offering under the name "Indigo PLUS" marking its transformation to a fully integrated total telecom operator bundling fixed broadband, fixed voice, and mobile.
- ✓ TE signed a USD 500mn medium-term syndicated loan to support its capital and operational expenditure and refinance existing short-term facilities. First Abu Dhabi Bank PJSC (FAB) and Mashreq Bank PSC (Mashreq) were mandated as Joint Bookrunners and Mandated Lead Arrangers of the facility.

Customer Base

(000's)	3Q 18	3Q 17	Δ %YoY	2Q 18	Δ % QoQ
Fixed Line					
Voice	7,589	6,913	10%	7,402	3%
Data	4,968	3,839	29%	4,643	7%
Mobile	3,589	352	920%	3,305	9%

Revenue breakdown

EGPm	9M 18	9M 17	Δ %	3Q 18	3Q 17	Δ % YoY	2Q 18	Δ % QoQ
Home & Consumer	5,850	4,008	46%	2,085	1,418	47%	1,935	8%
Enterprise	2,363	1,724	37%	1,151	537	114%	629	83%
Domestic Wholesale	2,753	2,449	12%	788	776	2%	1,085	-27%
International Carriers	3,347	3,795	-12%	1,111	1,283	-13%	1,140	-3%
International Customers & Networks	3,046	1,150	165%	2,099	375	459%	554	279%

Income statement summary

EGPm	9M 18	9M 17	Δ %	3Q 18	3Q 17	Δ % YoY	2Q 18	Δ % QoQ
Revenue	17,358	13,125	32%	7,233	4,389	65%	5,343	35%
EBITDA	5,329	3,923	36%	2,036	1,145	78%	1,787	14%
EBIT	5,132	4,413	16%	2,052	1,236	66%	1,835	12%
NPAT	3,506	3,483	1%	1,448	963	50%	1,284	13%
EPS	2.05	2.04	1%	0.85	0.56	50%	0.75	13%
Margins								
EBITDA Margin %	30.7%	29.9%	81 bps	28.2%	26.1%	206 bps	33.4%	(529 bps)
EBIT Margin %	29.6%	33.6%	(405 bps)	28.4%	28.2%	21 bps	34.3%	(596 bps)
NPAT Margin %	20.2%	26.5%	(633 bps)	20.0%	21.9%	(192 bps)	24.0%	(400 bps)

Results discussion

Q3 2018:

- **Total revenue** amounted to EGP 7.2bn growing 65% YoY.
- **Retail revenue** contributed with 45% of the total growth boosted by the Home & Consumer revenue, which grew 47% YoY.
- **Mobile** continued to grow sequentially despite the introduction of new levies in July 2018, contributing a high single digit to retail revenue.
- **Enterprise Solutions** witnessed an exceptional growth (114% YoY) due to the completion of the schools' project (EGP482mn) as well as growth from managed services, infrastructure projects and fixed data services.
- **Wholesale revenue's** performance was boosted by the Bharti deal recording a 64% YoY growth, excluding such the segment's revenue would have declined slightly by 2% on a base effect as Q3 2017 included higher low margin transit revenue.
- **Domestic Wholesale** came in flat YoY as lower outgoing international traffic offset the growth in infrastructure leasing revenue from the domestic mobile operators.
- **ICA** declined by 13% YoY as a result of the higher transit revenue in Q3 2017. The decline has however eased significantly to 3% QoQ.
- The hike in **IC&N** revenue relates to the USD 90mn deal with Bharti Airtel.
- **EBITDA** grew 78% YoY recording a margin of 28% weighed on by higher advertising expenses.
- **NPAT** came in at EGP1.4bn rising 50% YoY thanks to the strong operational growth offsetting the higher interest expense.

9M 2018:

- **Total revenue** amounted to EGP 17.4bn growing 32% YoY.
- **Retail revenue** contributed 47% of total top line synthesized with a 59% share of overall growth driven mainly by the continued growth of fixed data services.
- **Enterprise Solutions** bounced back recording +37% YoY coming from almost a flat H1 2018 YoY growth owing to the completion of the schools' connectivity project.
- **Domestic Wholesale** revenue inched up by 12% YoY on IRU sales.
- **ICA** softened its decline to 12% YoY with Q3 2018 exhibiting stable QoQ performance.
- **IC&N** revenue rose significantly on the recognition of the USD 90mn revenue coming from the Bharti Airtel agreement.
- **EBITDA** grew 36% YoY, through adopting strict cost control including the management of employee and call costs, offsetting the impact of higher advertising costs that amounts to 4% of revenue up from 1% in 9M 2017.
- **NPAT** recorded EGP3.5bn, stable YoY weighed on by the decrease in the share of Vodafone's income by 13% along with the hike in finance & interest costs. Normalizing for the share of Vodafone's income would lead to a 7% YoY elevation of NPAT.

Balance sheet summary

<i>EGPm</i>	9M 18	FY 2017	Δ %
Current Assets	13,540	8,905	52%
Net Fixed Assets	19,989	18,253	10%
Long Term Investments	12,881	11,824	9%
Other Long Terms Assets	13,881	13,650	2%
Total Assets	60,291	52,632	15%
Current Liabilities (Excl. STD)	11,612	12,784	-9%
CPLTD	13,115	6,679	96%
LTD	579	614	-6%
Other Non-Current Liabilities	2,472	2,066	20%
Total Liabilities	27,778	22,143	25%
Total Shareholder Equity	32,514	30,490	7%
Total Liabilities & Shareholder Equity	60,291	52,632	15%

Cash flow summary

<i>EGPm</i>	9M 18	9M 17	Δ %
Net Cash Provided By Operating Activities	961	3,563	-73%
Net Cash Flows from Investing Activities	-6,405	-5,307	21%
Net Cash Flows from Financing Activities	5,987	1,227	388%
Net Change In Cash & Cash Equivalents	543	-516	-205%
Translation Differences of Foreign entities	-4	-5	-18%
Beginning of period cash	507	1,101	-54%
End of period cash	1,046	580	80%

– End –

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

For more information, contact:

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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 own operation, the company owns a 45% stake in Vodafone Egypt, the leading and most profitable mobile operator in Egypt.

Telecom Egypt's shares and GDRs are traded on The Egyptian Exchange and the London Stock Exchange.