

Full Year 2019 Earnings Release

20 February 2020

Telecom Egypt today announces its FY 2019 results ending 31 December 2019.

Full year 2019 key highlights

- **Consolidated revenue** increased 13% YoY, landing at EGP 25.8bn. The growth was mainly driven by higher data-related revenue across the Home, Enterprise and Domestic wholesale segments.
- **Customer base** is growing on all fronts with fixed voice and broadband customers growing 11% and mobile customers 33% YoY.
- The **Early Retirement Program (ERP)** was a success with c3,000 employees enrolled at a total cost of EGP1.3bn.
- **EBITDA** stood at EGP 5.8bn, flat YoY. Excluding the ERP, EBITDA would have reached EGP 7.1bn, growing 21% YoY and recording a margin of 28%, within our full year guidance.
- **Net profit** climbed 33% YoY to EGP 4.4bn thanks to our strong top line performance, FX gains and higher investment income from Vodafone, which offset the effect of the ERP and the hike in D&A expenses.
- **In-service CapEx intensity** exceeded our guidance reaching 49% in light of the company's expedited plan to complete its copper-to-fibre replacement program in 2 years rather than 4, ending by mid-2020.
- **Net debt** amounted to EGP 15bn, representing 2.1x of (ERP adjusted) EBITDA compared to 2.2x in FY 2018.
- The management proposed a **dividend of EGP 0.25** per share for FY 2019.

Adel Hamed, Group Chief Executive, commented:

"Telecom Egypt has come out of 2019 with very strong performance and results. The company was able to provide liquidity to carry out a crucial cost saving initiative, namely the Early Retirement Program (ERP), and provide and execute the investments needed to dramatically improve internet quality and infrastructure in Egypt. Our revenue and EBITDA (ERP adjusted) have grown by double digits, fuelled by the increased demand for high quality data services in both the retail and wholesale business units. We have also recorded the highest net profit in the company's history, crossing EGP 4.4bn, and would have reached the EGP 5bn mark if it were not for the effect of the ERP.

This year, we were predominantly focused on preparing ourselves for a digital future both within Telecom Egypt and across the nation. We are strictly abiding by our overarching strategic pillars designed to promote Telecom Egypt's development into a total ICT provider able to position the country as a regional digital hub. Our CapEx for the year has amounted to EGP 12.7bn, reflecting our strong commitment to developing our network infrastructure. In result, Telecom Egypt was able to bear the fruits of its investments with the successful commercial launch of WE SPACE, which introduced unmatched speeds to the market, and supported the expedited execution of the digital national initiative to connect governorates with fibre.

I would also like to take this opportunity to reiterate our position in regards to the potential transaction between Vodafone Group and STC. Telecom Egypt has ensured that its options are open to make an educated decision that serves the benefits of its shareholders in regards to its investment in Vodafone Egypt. We have worked tirelessly to ensure that our legal rights are enforceable and that our decision is based on the best interest of our shareholders, who we are committed to protect. We see an opportunity to be unlocked in multiple scenarios whether through in-market synergies or an exit that ensures that the monetization of the asset is utilized to create shareholder returns. Today, our Board of Directors has also approved to engage with EFG Hermes and Citi Bank as investment advisors and Al Tamimi & Co. as our legal advisor. With this strong consortium on our side, Telecom Egypt is very well positioned to ensure that its shareholders gain the maximum benefit out of the opportunities that are currently presented.”

Telecom Egypt Latest Events

Main events in Q4 2019

- ✓ In 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.
- ✓ Telecom Egypt and the Saudi Telecom Company (STC) signed a deal to provide STC with bundled capacities on Telecom Egypt's TE North and MENA cables. This solution offers the Kingdom of Saudi Arabia a new integrated route connecting Jeddah to Mazara in Italy, passing through new secure terrestrial paths and landing stations in Egypt.
- ✓ After the completion of the Port Said pilot in Q1 2019, Telecom Egypt signed an EGP 1.1bn contract for the first phase of the initiative to connect governmental entities in 5 different governorates (Luxor, Aswan, South Sinai, Ismailia, and Suez) in addition to connecting other governmental access points across Egypt.

Subsequent events to Q4 2019

- ✓ Following the news regarding Vodafone Group's intention to divest its stake in Vodafone Egypt, Telecom Egypt announced that it was in the process of appointing an investment bank(s) to study its options and their consequences in light of Telecom Egypt's 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.

Main events in the 9 months ending September 2019

- ✓ In January 2019, the government of Egypt, being TE's major shareholder with an ownership of 80%, announced that it is changing some of its representatives in TE's Board of Directors by a decree from the Egyptian Prime Minister with immediate effect and for the Board of Directors' remaining period. The Board of Directors appointed Eng. Adel Hamed as the new Managing Director and Chief Executive Officer. The decision came in line with the Egyptian government's plan to speed up the national digital transformation initiative, where Telecom Egypt has a strategic role in facilitating and accelerating such transformation for the country.
- ✓ In February, Telecom Egypt and Orange Data announced the signing of a new agreement on bitstream access services enabling Orange Data, as the first operator to sign this agreement, to provide its customers with higher speed internet services.
- ✓ In the same month, Telecom Egypt and Vodafone Egypt announced the signing of two ten-year transmission and infrastructure agreements with a total value of EGP 10.85bn. Additionally, Vodafone Egypt distributed a dividend of EGP12.2bn, of which Telecom Egypt's share was equivalent to EGP 5.5bn. The dividends were paid on two tranches, the first of which amounted to EGP 4.8bn and was paid in March 2019 and the remainder in June 2020.
- ✓ During MWC Barcelona held in late February 2019, Telecom Egypt signed MOUs with several technology providers including Huawei, Ericsson, Nokia and CISCO to assess and develop its network in the fields of 5G, artificial intelligence, IoT and cloud computing. Telecom Egypt also signed an agreement with Microsoft to extend Microsoft's cloud network to Egypt.
- ✓ In March, Telecom Egypt published an all-encompassing integrated annual report about its operations in 2018 and its strategic directions, resuming an important practice to come closer to its goal of providing timely, accurate and comprehensive disclosures.
- ✓ During the same month, Telecom Egypt announced that its Board of Directors approved to proceed with a voluntary early retirement program for its employees. The program is one of the largest cost saving initiatives and led to the early retirement of c3000 employees in Q2 and Q3 of 2019. The total cost of the program amounted to EGP 1.3bn.
- ✓ By the end of March, Telecom Egypt's Ordinary General Assembly (GA) appointed its Board of Directors for a new term of three years. The GA renewed its confidence in the seven representative members of the government from the previous term for a new term and approved the change of two independent board members.
- ✓ In April, Telecom Egypt signed a landing party agreement with Pakistan & East Africa Connecting Europe (PEACE) Cable International Network Co. and PCCW Global. The total value of the agreement amounts to USD 45mn over the lifetime of the cable.
- ✓ During the same month, Telecom Egypt signed a binding letter of intent (LoI) with PEACE and its parent HENGTONG OPTIC-ELECTRIC. Under the LoI, PEACE will be granted an additional fibre pair to its redundant cross Egypt routes with a total value of USD 20mn, and in return, HENGTONG shall provide TE with fibre optic cables based on competitive pricing that will be utilized in TE's strategic plans for fibre deployment inside Egypt.

- ✓ Telecom Egypt announced in July 2019 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.
- ✓ Telecom Egypt and Banque Misr signed an agreement in July 2019 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.
- ✓ Telecom Egypt and Etisalat Misr signed four agreements in July 2019 to provide the latter with virtual fixed voice and bitstream services.
- ✓ In July 2019, 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.
- ✓ 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.

Customer Base

(000's)	4Q 19	4Q 18	Δ %yoy	3Q 19	Δ % qoq
Fixed Line					
Voice	8,760	7,865	11%	8,387	4%
Data	5,807	5,237	11%	5,700	2%
Mobile	5,129	3,861	33%	4,575	12%

Revenue breakdown

EGPm	FY 19	FY 18	Δ % yoy	4Q 19	4Q 18	Δ % yoy	3Q 19	Δ % qoq
Home & Consumer	10,474	8,064	30%	2,817	2,215	27%	2,717	4%
Enterprise	3,809	3,215	18%	1,249	852	47%	959	30%
Domestic Wholesale	4,155	3,571	16%	894	818	9%	1,010	-11%
International Carriers	4,383	4,424	-1%	1,002	1,077	-7%	1,111	-10%
International Customers & Networks	2,984	3,496	-15%	830	450	84%	519	60%

Income statement summary

EGPm	FY 19	FY 18	Δ %	4Q 19	4Q 18	Δ % yoy	3Q 19	Δ % qoq
Revenue	25,805	22,771	13%	6,793	5,413	26%	6,316	8%
EBITDA	5,834	5,876	-1%	2,133	547	290%	1,063	101%
EBIT	5,216	5,592	-7%	1,639	459	257%	1,272	29%
NPAT	4,399	3,297	33%	1,179	-209	664%	1,089	8%
EPS	2.10	1.50	40%	0.57	-0.23	248%	0.64	-11%
Margins								
<i>EBITDA Margin %</i>	22.6%	25.8%	(320 bps)	31.4%	10.1%	2,130 bps	16.8%	1,457 bps
<i>EBIT Margin %</i>	20.2%	24.6%	(434 bps)	24.1%	8.5%	1,564 bps	20.1%	400 bps
<i>NPAT Margin %</i>	17.0%	14.5%	257 bps	17.4%	-3.9%	2,122 bps	17.2%	12 bps

Results discussion

FY 2019:

- **Total revenue** reached EGP 25.8bn, growing 13% YoY driven by data revenue, which constituted 68% of total growth, followed by increased infrastructure & transmission revenue and managed services. Data growth was fuelled by growth in both the fixed and mobile customer bases and ARPU in light of Telecom Egypt's continuous network investments and value propositions in both segments.
- **Retail** revenue dominated the top line, constituting 55%, and growing 27% YoY. Data revenue was the main driver of growth, increasing 33% YoY, followed by voice services that rose 16% YoY.
- **Mobile** revenue grew 61% YoY, representing c20% of overall growth, fuelled by a growing customer base and healthy ARPU.
- **Wholesale** came in stable YoY as domestic revenue surged (+16% YoY), neutralizing the decline in IC&N (-15% YoY) revenue due to the base effect of the Bharti deal signed in 2018.
- The continuing demand for data from MNO customers and our successful bitstream products that support their fixed broadband growth drove **Domestic Wholesale** growth.
- **ICA** is stable YoY as the appreciation of the EGP against the USD was offset by the increase in international incoming traffic.
- **EBITDA** stood at EGP 5.8bn, stable YoY, in spite of the large-scale ERP program that amounted to a total cost of EGP 1.3bn. Normalizing for the ERP, EBITDA margin would reach 28%, in line with our guidance, +171bps YoY on higher contribution of retail revenue.
- **Operating profit**, normalized for the ERP, increased 13% in spite of the 36% YoY hike in D&A expenses.

- **Interest expense** remained flat in spite of the 19% growth in gross debt given the successful debt restructuring, leading the effective interest rate to decline to 7.1% from 9.1% last year (after excluding the syndicated loan's admission fees). Additionally, FX gains completely neutralized the interest and financing costs.
- **Net profit** grew 33%, recording EGP 4.4bn for the first time. Excluding the effect of the ERP and the sale of Vodafone International Services by Vodafone Egypt in Q3 2019, net profit would have reached EGP 5.0bn. The growth stems from FX gains followed by strong operational growth, both for Telecom Egypt and Vodafone Egypt.

Q4 2019:

- **Top line** grew 26% YoY on the back of increased data revenue followed by higher cable projects revenue and the fast tracked progress in the digital transformation project.
- **Home & Consumer** increased 27% YoY, constituting 60% of total retail growth, mainly driven by the boom in data revenue. Mobile witnessed a normalized growth of 46% YoY.
- **Enterprise solutions** climbed 47% YoY, mainly driven by the EGP 407mn recognized in complementary access services relating to NUCA projects and the first phase of the digital transformation initiative.
- **Wholesale services** witnessed a 16% YoY hike in light of increased **IC&N** revenue. Telecom Egypt recognized EGP 305mn in cable projects relating to two different carrier deals.
- **EBITDA** stood at EGP 2.1bn with a margin of 31% due to high margin complementary access services and cable projects revenues. We note that salaries included an EGP 210mn reversal in ERP costs as that amount was borne by the loyalty pension fund. As such, adjusted EBITDA margin for the quarter stands at 28%.
- **NPAT** reached EGP 1.2bn purely on strong operational growth as higher YoY FX gains and lower YoY interest expense offset the higher YoY D&A expenses and impairments in the quarter.

Balance sheet summary

EGPm	FY 19	FY 18	Δ %
Current Assets	15,125	12,367	22%
Net Fixed Assets	29,728	21,520	38%
Long Term Investments	10,898	13,532	-19%
Other Long Terms Assets	17,222	16,358	5%
Total Assets	72,973	63,777	14%
Current Liabilities (Excl. STD)	14,571	12,337	18%
CPLTD	11,666	13,304	-12%
LTD	4,786	550	770%
Other Non-Current Liabilities	6,729	5,285	27%
Total Liabilities	37,752	31,475	20%
Total Shareholder Equity	35,221	32,301	9%
Total Liabilities & Shareholder Equity	72,973	63,777	14%

Cash flow summary

EGPm	FY 19	FY 18	Δ %
Net Cash Provided By Operating Activities	2,991	3,496	-14%
Net Cash Flows from Investing Activities	-5,261	-9,272	43%
Net Cash Flows from Financing Activities	2,729	6,156	-56%
Net Change In Cash & Cash Equivalents	459	379	21%
Translation Differences of Foreign entities	-21	-12	-72%
Beginning of period cash	874	507	72%
End of period cash	1,311	874	50%

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Please refer to Telecom Egypt's full financial statements that can be d

ownloaded 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 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