

## Q2 2020 Earnings Release

13 August 2020

Telecom Egypt today announces its Q2 2020 results ending 30 June 2020.

### H1 2020 key highlights

- **Consolidated revenue** climbed 18% YoY, landing at EGP 15bn, on a 37% YoY increase in data revenue, followed by growth in voice and infrastructure revenues.
- **Customer base** continued to grow YoY with a 20% YoY increase in fixed voice, 9% YoY in fixed broadband, and a 58% YoY increase in mobile customers, the latter reaching 6.7mn subscribers.
- **EBITDA** came in at EGP 5bn, recording a 34% margin. Normalizing for the EGP 1bn ERP costs incurred in Q2 2019, EBITDA grew 38% YoY on a higher margin revenue mix.
- **Operating profit** grew 27% YoY (adjusted for the ERP) on the back of a high margin revenue mix that offset the 48% YoY increase in D&A costs.
- **Net profit** reached EGP 2.1bn, declining slightly by 3% as a result of the FX loss in Q2 of EGP 549mn and a 26% higher net interest expense, which was offset by the solid operational performance. Normalizing for the ERP, the FX loss, and one-off impairments, net profit would have grown by 4%.
- **In-service CapEx intensity** came in at 17% amounting to EGP 2.6bn, while cash CapEx stood at EGP 5.5bn, representing 36% of top line.
- **Net debt** amounted to 16.2bn, representing 1.6x of annualized EBITDA compared to 2.1x in FY 2019 (adjusted for the ERP).

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

"I am very proud of Telecom Egypt's performance this quarter as the strong set of operational and financial results demonstrate the company's remarkable ability to grasp the potential in the data market and monetize its massive network investments. Our top line grew 18% YoY and filtered through to a healthy EBITDA margin of 34% thanks to the upsurge in data, infrastructure, and digital transformation revenues. This exhibits that all our business units are strongly benefiting and capitalizing on investments made in prior years, which have enabled our robust infrastructure to withstand unprecedented traffic growth from our different customer segments.

Such successful P&L indicators have also reflected significantly on our cash flows in the first half of the year, with the company recording its highest operating cash flow in any reporting period to date while continuing to make large payments to its suppliers and fulfilling CapEx commitments. Operating cash flow reached EGP 4.7bn, more than 2x as much as any prior corresponding period, and Telecom Egypt made EGP 5.5bn in cash CapEx payments, leading it to almost break-even on FCF for the period.

We are closely monitoring our liquidity and financing costs to ensure that our shareholders recognize the returns that are expected from the very strong operational growth. On that front, net debt to

EBITDA declined to 1.6x, flat YoY, and down from 2.1x in FY 19. This comes as a result of the significant operational growth that offset the 52% increase in gross debt."

## 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 offers.
- ✓ 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.

### 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 Q2 2020

- ✓ In May, China Mobile International, Facebook, MTN Global Connect, Orange, STC, Telecom Egypt, Vodafone, and WIOCC announced that they will partner to build 2Africa, which will be the most comprehensive subsea cable to serve the African continent and Middle East region. The consortium and Airtel also signed an agreement with TE to provide a completely new crossing that links the Red Sea to the Mediterranean.
- ✓ In June, Telecom Egypt and Etisalat Misr signed two first of its kind agreements relating to transmission and mobile-to-fixed interconnection. The first agreement extends for three and a half years with a total value of EGP 2bn, where Etisalat Misr, for the first time, signed a long-term agreement including an annual commitment. Additionally, the two companies have signed a mobile-to-fixed termination agreement representing the first commercial arrangement on mobile-to-fixed between Telecom Egypt and Etisalat Misr and the second for Telecom Egypt in the Egyptian market.

### Customer Base

(000's)	2Q 20	2Q 19	Δ %yoy	1Q 20	Δ % qoq
<b>Fixed Line</b>					
Voice	9,893	8,213	20%	9,523	4%
Data	6,041	5,536	9%	5,925	2%
<b>Mobile</b>	6,720	4,260	58%	6,181	9%

### Revenue breakdown

EGPm	H1 20	H1 19	Δ % yoy	2Q 20	2Q 19	Δ % yoy	1Q 20	Δ % qoq
Home & Consumer	6,759	4,940	37%	3,629	2,539	43%	3,131	16%
Enterprise	1,918	1,601	20%	1,132	851	33%	786	44%
Domestic Wholesale	2,562	2,250	14%	1,314	941	40%	1,248	5%
International Carriers	2,268	2,270	0%	1,132	1,141	-1%	1,136	0%
International Customers & Networks	1,438	1,635	-12%	734	1,137	-35%	703	4%

## Income statement summary

EGPm	H1 20	H1 19	Δ % yoy	2Q 20	2Q 19	Δ % yoy	1Q 20	Δ % qoq
Revenue	14,945	12,696	18%	7,941	6,609	20%	7,004	13%
EBITDA	5,041	2,638	91%	2,758	735	275%	2,283	21%
EBIT	3,552	2,298	55%	1,893	439	332%	1,659	14%
NPAT	2,059	2,124	-3%	746	512	46%	1,312	-43%
EPS	1.21	1.24	-3%	0.44	0.30	46%	0.77	-43%
<i>Margins</i>								
EBITDA Margin %	33.7%	20.8%	1,295 bps	34.7%	11.1%	2,361 bps	32.6%	213 bps
EBIT Margin %	23.8%	18.1%	566 bps	23.8%	6.6%	1,720 bps	23.7%	15 bps
NPAT Margin %	13.8%	16.7%	(296 bps)	9.4%	7.7%	165 bps	18.7%	(933 bps)

## Results discussion

### Q2 2020:

- **Total revenue** reached EGP 8bn, increasing 20% YoY. The growth was mainly driven by the 40% YoY spike in retail revenue.
- **Retail** revenue constituted 60% of the top line thanks to high data and voice revenues resulting from the growing customer base and ARPU. This was followed by the rise in complimentary access services as Q2 included cEGP 300mn in revenue relating to digital transformation and NUCA projects.
- **Wholesale** came in almost flat YoY at EGP 3.2bn in spite of the 40% YoY increase in domestic revenue, which was driven by bitstream and IRU (the latter +173mn YoY) revenues, as the growth was offset by the base effect of the IC&N decline given that Q2 2019 included EGP 605mn of project revenue.
- **EBITDA** landed at EGP 2.8bn with a margin of 35% in light of the high margin revenue mix.
- **Operating profit** grew 55% YoY (adjusted for the ERP), coming in at EGP 1.5bn, in spite of a 59% YoY growth in D&A in line with our accelerated CapEx rollout in 2019.
- **Net profit** amounted to EGP 746mn as it was weighed on by EGP 151mn of one-off impairments and 549mn of FX losses. Additionally, net interest expense grew by 61% on a 52% higher gross debt. This was supported by our EBITDA growth as net debt to EBITDA came in stable YoY at 1.6x and lower compared to the 2.1x reported at the end of FY 19. Adjusted net profit for the ERP, FX, and impairments would have grown by 37% YoY on enhanced operational performance and higher investment income from Vodafone (+12% YoY).

## H1 2020:

- The 18% YoY increase in the **top line** was led by retail growth (+33% YoY) driven by strong data and voice revenues that collectively represented 84% of the total top line growth on an expanding customer base and healthy ARPU.
- **Wholesale** witnessed a slight 2% YoY increase as the 14% YoY increase in **domestic** revenue that came as a result of the increasing demand for data services by ISPs was softened by the 12% YoY decline in **IC&N** in light of Q2 2019's increased cable revenues that amounted to EGP 605mn, including the PEACE cable crossing.
- **EBITDA** stood at EGP 5bn with a margin of 34%, exceeding the management's FY guidance, on a higher margin revenue mix. Adjusted for the ERP, EBITDA grew 38% YoY.
- **Operating profit**, adjusted for the ERP, grew 27% YoY thanks to strong EBITDA growth outpacing the 48% YoY growth in D&A stemming from the accelerated CapEx rollout in 2019.
- **Net profit** came in at EGP 2.1bn, declining 3% YoY as a result of higher interest expense, FX losses, and one-off impairments plus an 11% decline in income from Vodafone Egypt. Excluding the first three items, net profit grew by 4% YoY due to the strong operational growth.

## Balance sheet summary

EGPm	H1 20	FY 19	Δ %
Current Assets	17,633	15,404	14%
Net Fixed Assets	33,134	29,728	11%
Long Term Investments	11,198	10,898	3%
Other Long Terms Assets	14,706	17,222	-15%
<b>Total Assets</b>	<b>76,671</b>	<b>73,251</b>	<b>5%</b>
Current Liabilities (Excl. STD)	17,991	14,850	21%
CPLTD	13,740	11,666	18%
LTD	4,066	4,786	-15%
Other Non-Current Liabilities	4,911	6,729	-27%
<b>Total Liabilities</b>	<b>40,708</b>	<b>38,030</b>	<b>7%</b>
<b>Total Shareholder Equity</b>	<b>35,963</b>	<b>35,221</b>	<b>2%</b>
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>76,671</b>	<b>73,251</b>	<b>5%</b>

## Cash flow summary

EGPm	H1 20	H1 19	Δ %
Net Cash Provided By Operating Activities	4,658	1,724	170%
Net Cash Flows from Investing Activities	-5,240	1,241	-522%
Net Cash Flows from Financing Activities	706	-2,546	128%
<b>Net Change In Cash &amp; Cash Equivalents</b>	<b>124</b>	<b>419</b>	<b>-70%</b>
Translation Differences of Foreign entities	-4	-9	-53%
Beginning of period cash	1,308	1,082	21%
<b>End of period cash</b>	<b>1,428</b>	<b>1,492</b>	<b>-4%</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)