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Telecom Egypt announces Q1 2014 Results

Presenters

Mr. Mohamed ELnawawy, Managing Director and Chief Executive Officer,
Mr. Mohamed Shamroukh, Chief Financial Officer.
Mr. Mohamed Kamal, General Manager of Investor Relations

Operator: Welcome to Telecom Egypt's First Quarter 2014 Results Conference Call.

Ladies and gentlemen, while we are waiting, may I remind everyone that a replay for the call will be available for 14 days. The number to access the replay is +44-207-959-6720, and the access code is 4682501.

I will now pass the call over to our host, Mr. Omar Maher, with EFG Hermes. Please go ahead, sir.

Omar Maher: Thank you very much. Good morning and good afternoon, everyone. This is Omar Maher, from EFG Hermes.

I would like to welcome you all to Telecom Egypt's First Quarter 2014 Results Conference Call.

From Telecom Egypt we have with us Mr. Mohamed Amin Elnawawy, Managing Director and Chief Executive Officer; Mr. Mohamed Shamroukh, Chief Financial Officer; and Mr. Mohamed Kamal, General Manager for Investor Relations.

As usual the conference call will begin with the discussion of the key highlights of the period, followed by a brief Q&A session.

I will now hand the call to Mohamed Kamal for the Safe Harbor Statement. Thank you very much.

Mohammed Kamal: Thank you, Omar. And once again, thanks to EFG for hosting the conference call. Good morning and good afternoon, everyone.

As a standard rule of corporate governance of Telecom Egypt, I'll start, first of all, by reading the Safe Harbor Statement.

We may make some forward-looking statements in the course of this conference call. These statements will be based on the information available to us, as of today, and you should, therefore, not assume that in the future, that we continue we continue to hold these views.

We do not commit to notify you if our views change. And we refer-we refer you to our public filings for some factors that may cause forward-looking statements to differ from future from actual future events or results.

So that was the statement. I'll now pass you over to Mr. Mohamed Elnawawy, Managing Director, and Chief Executive Officer of Telecom Egypt.

MOHAMED ELNAWAWY: Thank you, Mohamed. So today's results show that our Home BU (Business Unit) started another growth to even increase in revenues by 5.8% on the same period last year.

Fixed Broad Band market share grew to an all-time high of 63.4% from 61.3% compared to the same period last year.

While growing our market share in broadband there have been some pressures in other areas of our business.

In the First Quarter 2014 we reported a 5.6% y-on-y drop in our top line performance to EGP 2.5 billion, mainly driven by the decline in wholesale services.

Going mobile we offer a way to diverse and reverse this attrition.

We are still confident that we will meet our announced revenue guidance of 4% by year end.

That said, an EBITDA margin in the early 30s range is in line with our general market guidance.

NPAT margin has improved slightly on Q4 2013, but NPAT has of course been impacted by lower revenues and lower income from investments.

Overall, the four quadrants of this highly dynamic telecommunications market continue to move at very different speeds but on anticipated path.

Fixed voice has been in long-term decline for some time. This quarter had witnessed reverse attrition of the fixed line customers, supported by the huge effort to mobilize the regional presence of te and the modernization programme of its access network to meet the demand from customers.
Mobile voice as a standalone is flattening out, and certainly Broadband is the future

.

Fixed broadband continues to attract more users. We have been seeing a 25% growth in subscribers during the first three months of the year and remain focus on maintaining our ADSL market share at low-end mid-60s.

Mobile data services demand is the real future growth driver. Over the last three years, mobile broadband in Egypt has recorded growth of 48% (CAGR).

Access technologies have become commoditized. Double play operations and transaction based models are no longer sustainable.

In market with around two thirds of its populations is under the age of 25, a population growing around 2% annually, with around 18.2 million homes, growing by approximately 2.5% annually.
There is great potential in the Egyptian mobile market.

The strongest and most attractive growth category is mobile broadband services.

I talked to you last quarter about our new focus. We have already changed into a customer service company. We see this as a critical driver for our company's future.

Customer experience is the name of the game Our “New Beginning” slogan really places the customer’s needs at the heart of all that we do.
We are looking to the future; to enable, to innovate and to drive prosperity.

One vital step on this path is the ability to directly meet the needs of our customers for a single bundled service. Our story continues to evolve in the Total Telecoms regard.

With its official statement in April 2014, The Ministry of Communications and Information Technology and the National Regulator dually confirmed that it will grant te a license to provide mobile services. This gives us similar rights and obligations to those of existing operators in Egypt. We will soon be the global telecommunications industry’s oldest start up!

Critically, mobile capability levels the playing field for TE, allowing us to compete fairly; ultimately to benefit the customer and the people of Egypt.

As announced earlier, te has also signed off the cost of the license - EGP 2.5 billion. Our strong cash balance – EGP 6.3 billion at end of Q1 2014 - means that we can comfortably afford to pay for the license without the need for external finance.

We will now be finalizing terms with all parties, within the Framework set down by the MCIT. Technically and commercially, we stand ready to soft launch mobile services within 6 to 8 weeks of receiving the mobile license.

According to the Total Telecoms License Framework announced by the Ministry, our launch will be at most during Q3 2014.
We will start with a bundled offer to our existing customer footprint. By the end of our first year of mobile operations we expect to reach 5% of total mobile subscriber base.

By offering our existing customers bundled services with a single invoice and having modernized te's access network with modern fiber optic technologies, over time, we intend to partially reverse the attrition we have been witnessing for years now in our retail fixed line business.

With the cost of the network upgrade and in the event of an upfront payment of 2.5 billion Egyptian Pounds for the mobile license, CAPEX to sales will rise further to 48% in 2014. We expect this to be normalized at industry standards of around 10% of sales revenues thereafter.

Ultimately, mobile allows us to deliver a top line with double-digit growth once again. We go back to being a retailer from being a wholesaler, with the associated margin improvement, and at the same time we reduce our reliance on wholesale revenues and expect of low margins, and various other challenges.

This would enable us to maintain EBITDA margins at the early-30s level for the medium term cannot emphasize strongly enough that by securing mobile we secure the future for our 45 thousand employees, we continue to support vital economic growth in the business sector and

We protect and enhance shareholder value – not least the government's own valuable investment stake in our company.

With that I will open to questions. Operator, please go ahead.

Operator: Thank you, Mr. Elnawawy. We'll now begin the question-and-answer session. If you'd like to ask a question, please press the * followed by the 1 on your touch-tone phone. If you would like to withdraw your question, please press the * followed by the 2. If you use speaker equipment it will be necessary to pick up your handset before making a selection; one moment, for our first question.

And our first question comes from the line of Sarah Shabayek CI Capital. Please go ahead with your question.

Speaker: Good evening, ladies and gentlemen. Basically, my question relates to -- there is couple of questions. The first is on investment income from Vodafone. I was wondering where the drop is coming from? Is it margins, or is it like some sort of the one of the expense that tips the bottom line of Vodafone Egypt?

And the second question relates to CapEx. Basically, in your cash flow it says for the first quarter you spent EGP 226 million only. How does that does this compare to your CapEx guidance for the year? Will you be feeding CapEx in the upcoming quarters?

Mohamed Elnawawy: So, thanks for your two questions. I think the CapEx question; it's really the heart of what we are doing in Telecom Egypt. And I'll ask our CFO to answer your question, related to investments in the Company's like VFE

So, with respect to what we are doing, your analysis is totally right. However, the way we engage is through something we refer to as Frame Agreements. Frame Agreements define the scope by which we engage the vendors in order to be able to first apply from these vendors in order to implement project.

In fact, projects in the realm of fiber are always preceded by intense civil works, and very often that does take some time. Once we are at the point of provisioning, or actually putting the equipment in place, we start

drilling from the frame agreements and accordingly start realizing CapEx. While we may start a little bit slow for Q1 from that point of view, we think that we will be able to accept this considerably in the next period, and our guidance remain unchanged.

I'll let our CFO answer question related to investments for Vodafone.

Mohamed Shamroukh: Thank you. Regarding Vodafone, actually, what happened in the same period last year, some provisions of reversals had- took place at the time of Vodafone income statement. While also in this quarter, Vodafone did some adjustment regarding some impairment policies which affected, negatively, the net profit of around EGP 82 million. So it's just -- it is just some financial adjustment on the income statement. It's one-off and will not continue anymore.

Speaker: Okay. Just to follow-up on both questions; did I understand correctly from Mr. Elnawawy's earlier comments, that CapEx to sales for this year will be 48% of sales? That’s the first one, and the second one is -- I don't know whether you can inform us about the need for such impairment, why did Vodafone incur such a big amount in the quarter?

Mohamed Shamroukh : As you know, Vodafone, up until now, did not approve the service outsource of last quarter which is -- we just can share some minor information about that. Which is, what I can say, it's just -- it is only some adjustment for financial statement of some provisional policy, but I cannot disclose any more information about that, because that Vodafone did not approve its full year financial results.

Mohamed Elnawawy As for the third question, that’s related to CapEx to sales, the guidance we have offered the market is in the vicinity of EGP 2.5 billion, which is approximately 23% or 24% ratio, CapEx to sales. Assuming we pay the licenses fee and some additional CapEx for some systems integration,

we will add EGP 2.5 billion to the -- EGP 2.5 billion that we have already forecasted and given guidance for, and accordingly we would reach the 46% CapEx to the -- the 48% CapEx to pay the payout Ratio.

Mohamed Shamroukh : If I may,. This will be fully financed from the cash we have already in our balance sheet right now.

Speaker: Okay. Great. But that's assuming that you will not pay the licenses on installments, right -- and still in negotiations to do so?

Mohamed Elnawawy: Absolutely. And accordingly this is just a theoretical figure right now. But you are right; installment is certainly one of the things that we are looking at right now.

Speaker: Okay. Thank you very much. That's very helpful.

Operator: Thank you. And your next question comes from the line of Ranjan Sharma with JPMorgan.

Ranjan Sharma: Hi. Good evening. It's Ranjan Sharma from JPMorgan. Thank you, for the presentation. A couple of questions from my side as well; firstly, on the international wholesale revenues, if you can share what's happening there, I mean they are down quite significantly year-on-year. Any thoughts you can share on that will be much appreciated.

Secondly, on Vodafone, have you received the formal communication from the government that you are required to sell your stake within a year? Thank you.

Mohamed Elnawawy: Yes. Thank you for your questions. So up until now we have not received the first communications, we received information related to the fact that Vodafone is a very important asset government had decided to study various options in terms of seeing how this asset should be dealt with. And that is something that is certainly important, because we are totally aligned. We believe that shareholder wealth should be protected and that resolution, or evolvement would be positive really a fundamental part of management's vision, and it's certainly important for major shareholders.

Now, with respect to the wholesale revenues, you are right. For Q1, we have seen a reduction in the amount of traffic inbound from Saudi Arabia. As you may remember, Egypt received, perhaps, two-thirds of the international inbound traffic from the Arabian Peninsula, and presently, Saudi Arabia, various operators generate approximately two-thirds of the two-thirds, so nearly half of their traffic.

Now what we have seen in the first quarter is that there is significant drop in the amount of inbound traffic, and while we analyze, we anticipate that this is related to the policy of issuing SIM cards and enabling phone lines in the KSA. Now we are still confident that we will be able to mitigate this decline, and still be able to meet with our targets for the year.

Ranjan Sharma: Thank you, sir. Thank you so much for the call . Just a follow-up question on Vodafone; suppose you are required to sell your stake, do you have any plans for the procedure or the -- or maybe with your official dividend coming out from Telecom Egypt?

Mohamed Elnawawy: To tell you the truth, I'll just answer purely theoretically. I mean, if Telecom Egypt is able to offload a large asset and have considerable capital gains on that large asset, certainly the interim dividends would be among the total. Certainly the cash accomplished would be from the low point of view would be actually, distributable dividends within the year's profit –

within the year. So, certainly, shareholders would be able to vote on allowing us to distribute such a dividend. I hope this answers your question.

Ranjan Sharma: Thank you, sir. That’s perfect. Thank you so much.

Operator: Thank you. Once again, ladies and gentlemen, if you'd like to ask a question, please press the *1 at this time. If you're using speaker equipment, you'll need to lift the handset before making a selection. Once again, if you'd like to ask a question, please press *1 at this time.

Thank you, ladies and gentlemen. We do not have any further questions. I would now like to turn the call back over to Telecom Egypt's Managing Director and CEO, Mr. Mohamed Elnawawy. Please go ahead, sir.

Mohamed Elnawawy: Thank you, all, for taking the time to join us in this quarterly results call, thank you for the opportunity to refine commercial focus and business structure of TE, and I look forward to reporting profits to you in the next quarter.

In the meantime, if you have any further queries, please do not hesitate to get in touch with our Investor Relations Team. Thank you very much.

Operator: Again, a replay of today's conference call will be made available for 14 days. The number to access this replay is +44-207-959-6720, and the access code is 4682501.

Thank you for your participation. You may now disconnect.