

# Telecom Egypt Q3 2023 Earnings Call Transcript

## Final Transcript

Telecom Egypt ([ETEL.CA](#); [TEEG.LN](#)) Q3 2023 earnings call dated 14 November 2023

## Call Coordinator:

Mariam Wael – *Al Ahly Pharos*

## Corporate Participants:

Mohamed Nasr Eldin – *Managing Director and Chief Executive Officer*

Mohamed Shamroukh – *Senior Vice President and Chief Financial Officer*

Tarek Abdelhamid – *Chief Marketing Officer*

Wael Hanafy – *Senior Director of Finance*

Ahmed Abdelmeguid – *Investor Relations Manager*

**Mariam Wael :** Hello everyone, this is Mariam Wael from Al Ahly Pharos. I'd like to welcome you all to Telecom Egypt's third quarter results' conference call.

I'm pleased to have on the line

- **Mr. Mohamed Nasr Eldin** - Managing Director and CEO;
- **Mr. Mohamed Shamroukh** - Chief Financial Officer;
- **Mr. Wael Hanafy** - Senior Director of Finance; and
- **Mr. Tarek Abdelhamid** - Chief Marketing Officer.
- **Ahmed Abdelmeguid** – Investor Relations Manager

Now, I'd like to hand over the call to Telecom Egypt's management team who will start with a brief update and then we will open the floor for questions.

Mr. Wael, please go ahead. Thank you.

**Wael Hanafy:** Thank you Mariam, and thanks to Al Ahly Pharos for hosting this quarter's conference call. Earlier today, we issued a press release announcing our financial results for the third quarter of 2023, as well as other operational highlights. A copy of the press release is available on our IR website.

We will start with a briefing of the operational performance in the quarter presented by our CEO, Mr. Mohamed Nasr, followed by the key financial highlights to be presented by our CFO, Mr. Mohamed Shamroukh. Our CMO, Mr. Tarek Abdelhamid, and IR Manager Ahmed Abdelmeguid will also be attending the call. Kindly note that the results presentation is available on our IR website under the quarterly results section of the financial information tab on [ir.te.eg](http://ir.te.eg).

Without further delay, I would like to draw your attention to our safe harbour 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 we continue to hold these views in the future. We do not commit to notify you if our views change. We refer to our public filings for some factors that may cause forward-looking statements to differ from actual future events or results.

I will now hand over the call to Mr. Mohamed Nasr to discuss the key operational highlights.

**Mohamed Nasr:** Good morning and good afternoon, everyone. Thank you for joining our call today. As seen in the earnings release published earlier today, we posted strong 9M 2023 financial results. We're growing our revenue and maintaining profitability, making significant capital investments and, most importantly, we're gaining market share.

We reported total revenue amounting to EGP 42.0bn, culminating from good broad-based growth across all business units, and reflecting the value of our consistency in enhancing our services. Retail revenue came through at the top again at EGP 23.2bn, up 16% YoY, driven by meaningful growth in fixed & mobile data services. Our wholesale business also gained traction with EGP 18.8bn in revenue, up a strong 52% YoY mainly from higher infrastructure, higher IDD - which I want to highlight is not just from USD appreciation, but also an increase in traffic of 12% YoY to be exact, as well as higher cable revenue. EBITDA margin came in at 42%. Meanwhile, operating profit reached EGP 10.6bn, up 23% on robust operational performance.

We believe that by aligning our interest with partners and end users we create more value, which reinforces our customer-centric strategy. With this in mind, we continue to innovate and deliver products and services that cater to the rapidly changing needs of our partners and end users. A

case in point on the international side is the recently launched WeConnect cross-connection ecosystem, which reflects our dedication to focus on our partners' connectivity needs by designing solutions and further developing our well-established infrastructure. Another example on the local side is "We Gold", our latest flagship product. This platform redefines the landscape of Fixed-Mobile Convergence (FMC) in Egypt, offering an unparalleled value proposition that combines cutting-edge technology, extensive coverage, and cost-effectiveness. This revolutionary service from [WE] seamlessly integrates fixed and mobile communication, providing users with a holistic and connected experience with the flexibility to satisfy each family's needs. We are confident these two new platforms will create sustainable financial returns and increase our shareholder value.

As we head toward 2024, our strategy will be to focus on the pathways that will deliver significant and sustainable profitability. We will pursue and prioritize different growth options and opportunities to monetize our assets, especially U.S. dollar-generated assets, to bring more agility to the investment outlays for our core business, and to manage our operating costs. We will continue to deploy and develop innovative technologies to enhance the business and improve the end-user experience while enhancing our pricing and marketing strategies. I remain confident in our long-term trajectory as we already have the right formula in place for continued success and long-term growth.

With that, I have completed my operational and strategic brief and will now hand the call over to Mr. Mohamed Shamroukh, our CFO, to discuss the key financial highlights.

Mohamed Shamroukh: Thank you Mr. CEO. I will begin by giving some colour on the Q3 results.

Top-line increased 16% YoY on higher IDD revenues, which increased by 73% YoY on higher inbound traffic and USD appreciation, followed by strong data performance, which contributed 44% to total revenue growth due to healthy operational KPIs. EBITDA realized a strong margin of 41%, exceeding management's guidance, driven by high-margin revenues, particularly data-related revenues, despite an exceptional salary increase in April 2023, which was a management incentive to compensate our employees against the currency devaluation, as we believe human capital is our greatest investment. Operating profit decreased 8% YoY, mainly due to the aforementioned higher costs, in addition to a 37% YoY increase in D&A, in line with the increased CapEX. As in the last quarter, we continued to procure CapEX requirements and settle vendor dues upfront to hedge against any possible FX fluctuations going forward. Reported VFE investment income amounted to EGP 1.5bn, an impressive 46% organic upside YoY, owing to strong operational performance. Meanwhile, net profit was almost flat YoY at EGP 2.5bn,

implying a margin of 17.7%, mainly impacted by the 3.4x interest expense inflation from foreign currency appreciation.

Regarding 9M 2023 results, our margins remained resilient against the inflationary pressures witnessed across the various cost elements (particularly the higher interest expense and currency devaluation), thanks to organic operational performance and substantial savings from the newly signed national roaming agreement that came into effect at the start of the year.

EBITDA jumped to EGP 17.6bn, recording a high margin of 42% on the back of an improved revenue mix. In addition, operating profit reached EGP 10.6bn, up 23% on robust operational performance despite the 38% YoY increase in D&A costs. Net profit increased 48% YoY, driven by the positive operational results and EGP 3.4bn investment income (+67% YoY). Net operating cash flow reached EGP 11.4bn, in line with the increase in CapEX; however, this resulted in a strained FCFF, amounting to negative of EGP 2.3bn, mainly due to the increase in vendor payments – as explained by Mr. CEO. Nonetheless, net debt/EBITDA on an annualized basis came almost flat at 1.5x vs. 1.4x in FY 2022 despite the 51% upside in gross debt that occurred due to foreign currency exposure revaluation.

With that I have reached the end of my comments. We are now ready to open the floor for the Q&A session. Thanks.

**Mariam Wael:** Thank you so much for that. I kindly remind participants that if you have any questions, please type that question in the Q&A box at the bottom of your zoom screen.

Until questions start kicking in, let me ask a couple of questions from my end. First, the market has been speculating that MNO's are awaiting price increases from NTRA. My question is, *can you discuss when do you expect to receive the letter of approval on price increases, and what is the expected magnitude of the increase?*

**Mohamed Nasr:** We have had discussions with the regulator over the last few months. In the beginning, we were expecting the price-up towards the end of the year, but now I think it might be in the first quarter of 2024. The increase, I think, will be between 20-30% on the retail value, but again, it will be different for different services, but we think that the average will be 20-30%.

**Mariam Wael:** Ok thank you. *To what extent could the potential price increases support margin expansions net, given the current cost pressures?*

**Mohamed Nasr:** I think with inflation, costs will increase as well. The increase might just justify or offset the cost increase, so we don't expect that much of an effect on the profitability, but at least to maintain the existing profitability.

**Mariam Wael:** Clear, thank you. We have a question about the 5G license. First part of the question: *Do you need the 5G license? And please shed more light on the expected cost, when do you expect it to be launched and the financial impact.* We can take the questions one by one.

**Mohamed Nasr:** It depends on the terms of the license. We will not be left alone in the market without the 5G license. So, it also depends on the movement of other operators in the market. Currently, the 4G market is expanding and we have achieved a lot of growth. We still see the potential of the 4G. Currently, we don't see much need for 5G on the consumer side yet; and on the enterprise side, we don't see maturity in the market in terms of a need for 5G. However, if the license is available in the market and there is any acquisition from the existing MNOs, we will need it to maintain our market position. So, we will need it if it's acquired by any of the existing operators.

**Mariam Wael:** Ok clear, second part of the question: *Please shed more light on the expected cost.*

**Mohamed Nasr:** We still don't have visibility on the expected cost, but it depends on whether the license will come with a spectrum associated with it or not. If it is with a spectrum, the cost and CapEX will be different. So, we don't have full clarity on the expected cost so far.

**Mariam Wael:** Ok. *When do you expect it to be launched?*

**Mohamed Nasr:** There is a high-level discussion with the regulator now. So, it might be at the end of the year or early next year.

**Mariam Wael:** Ok, thank you. Another question is asking about Vodafone Egypt: *Any update on Vodafone Egypt stake sale, partial or full, and to which investor? Are there any concrete offers currently being considered?*

**Mohamed Nasr:** We haven't received any official correspondence from any entity or investor regarding the Vodafone Egypt stake. We've also heard the rumours from the market, so we will continue to wait for any movement, but so far there's nothing solid.

**Mariam Wael:** Ok. *Regarding the dividends policy, assuming a stake sale, what will be the cash proceeds used for?*

**Wael Hanafy:** As we have mentioned, if the transaction is executed, definitely part of it will be to deleverage the company and definitely a decent part of the proceeds will be passed through to our shareholders in terms of dividends.

**Mohamed Nasr:** Again, it depends on whether it will be a partial or full sale, and it also depends on the proceeds. At that point, yes, if the transaction is executed, the expected cash will be used to deleverage the company. We will wait to see any transaction from that side.

**Mariam Wael:** Ok, thank you. *Are there any future or solid future expansion plans, whether organic or inorganic?*

**Mohamed Nasr:** Yes, I think on the international side we continue to invest organically in subsea cables because it guarantees proceeds in US dollars, which is very beneficial for our operations and also strengthens our position as the main corridor for traffic between Asia, Africa, and Europe. As for the inorganic side, based on our strategy for the next three years, there is a growth layer on associated services like financial services. We believe that moving inorganically on that side will be faster and more agile for us. That's why we are now studying different options to enter inorganically into financial services, and especially micro finance.

**Mariam Wael:** Ok, thank you. I would like to remind our participants, if you have any questions please type that question in the Q&A box. Another question is asking about the tower monetization: *What are the updates on the tower monetization plan? When could this materialize? How much are the expected proceeds, and what will you be doing with these proceeds?*

**Mohamed Shamroukh:** Actually, we have received the final unbinding offer this week for the tower sales and leaseback. We are doing our internal homework to make sure whether or not it's accretive to the company's long-term financial plan. We are expecting to present it to the Board during December's board meeting and once we have concluded something solid that's accretive to our shareholders, we will present it to the market. At this stage, we cannot determine the amount of proceeds. We are also waiting for the board resolution on this matter.

**Mariam Wael:** Ok, we have a few related questions to your FX exposure: *In case of another EGP devaluation, how could this impact your leverage profile? What are your plans to grow your USD revenues? What percentage of your debt, CapEX, and payables are USD-denominated?*

**Mohamed Shamroukh:** I understand that any devaluation will definitely impact the company ratios. But as we mentioned, a huge part of our revenue is USD-denominated, which should compensate against any further devaluation. If you take a look at the historical leverage ratio,

you will find that with every devaluation it goes up and then declines again thanks to the USD-denominated revenues. Management is committed to operate at 1.5-2x net debt/EBITDA margin; so, even with any further devaluation, we will maintain these leverage ratios thanks to the USD-denominated revenue. In this regard, Mr. CEO can explain his ambitious plans for submarine cables and USD asset monetization.

**Mohamed Nasr:** As you may know, Telecom Egypt has a unique advantage in terms of offering services related to the infrastructure between the Red Sea and Mediterranean Sea. The investment in this infrastructure is mainly in Egyptian pounds, comprising the civil work related to transferring and laying fibre, whereas all the revenue associated with this infrastructure is in USD, so we continue our partnership on that side. Part of stimulating more investment from partners on that side is to co-invest in subsea cables bringing traffic from east and south towards Europe because this stimulates new systems that will procure services from Egypt on that crossing. We are now in discussion with multiple consortiums to plan for new cables from Southeast Asia, which has very high demand on traffic from this region towards Europe. Being part of that consortium and those cables will help us first, to sell implant services -- whose costs are partially in USD and EGP but the proceeds are all in USD. The other side is the data centre, we now are signing our PO for the expansion of the RDH because the first phase of RDH has reached full capacity. We are now in the process of building the second phase of RDH -- the expected timeframe for this service to be ready is 18 months. We already have foreign OTTs and hyperscalers who are committed to rent space in the new phase. We managed to secure the build in EGP and most of the proceeds from the second phase of RDH will be in USD from these different hyperscalers or OTTs rentals. On the international side, we continue to secure USD proceeds from the data centre and subsea cables.

**Mariam Wael:** Ok thank you, clear. A related question: *How much CapEX have you spent in 2023 and what is the estimate for 2024?*

**Mohamed Shamroukh:** I think for the cash CapEX, as Mr. CEO highlighted that for securing against any FX fluctuation going forward, we closed most of our deals for CapEX expansion in EGP with a 100% upfront payment, which negatively impacted the cash CapEX. Upfront vendor payments were made to secure the equipment and dollar rate. However, we will not continue with this approach; we were only obliged to do so because of the macro situation. Going forward, we are not expecting to do the same; we have already secured most of the CapEX for 2023 and 2024. Management is committed to reducing CapEX as a percentage of revenue over time. We are expecting to reach a rough percentage of 26-28% based on the budget exercise we will present to the Board in December; however, we have not yet finalized the budget.

**Mariam Wael:** Okay, thank you. We have another question: *Could you please clarify the drop in cash receipts from customers from cash inflows of EGP 15.7bn during Q2 to EGP 8.7bn during Q3?*

**Wael Hanafy:** Comparing the cash collection from customers QoQ is not meaningful, especially given that around 50% of our revenue comes from wholesale, which is related to dealing with other mobile operators here in Egypt or with international customers who have different payment terms. The majority of the cash collected at the beginning of the year from such customers will be amortized over the year to be recognized as revenue; that is why there is some fluctuations in the cash collection. If you compare the total cash collected in 9mQ23 to the previous period, you will find a 20% increase YoY, or EGP 6bn. So, there is no risk in the cash collection; it just fluctuates from one quarter to another because the wholesale payment terms are different to those of retail subscribers.

**Mariam Wael:** Okay, thank you. Another question: *What is a sustainable long-term EBITDA margin levels during the coming 3-5 years?*

**Mohamed Shamroukh:** We are targeting to remain around 40 or 40+. But again, as you mentioned, price adjustment is mandatory, as there is huge pressure on our margin due to inflation and devaluation on the macro level. I think once we close the pricing deal, we can sustain EBITDA, and that is what we are trying to lobby with the government. This is our target: part of it is in our hand by reducing costs and CapEX while trying to grow our revenue. The other part is related to the regulatory framework, which is related to pricing.

**Mariam Wael:** Okay, thank you. I would like to remind the participants a final reminder because we only have 2 questions left. If you have any question, please type them in the Q&A box in the bottom of your screen. Another question is asking about the dividends: *What is the expected dividends distribution in 2023?*

**Mohamed Shamroukh:** We are trying to have as much dividends as possible. We are committed to increase the pay-out ratios over time. But again, the macro level is impacting the whole situation. From now until March it's a long time; however, I think we will maintain the same level of dividends and try to have a decent pay-out ratio. That is our commitment as management to our shareholders. We will have to wait and see how the macro level will evolve from now until the March dividends declaration.



**Mariam Wael:** Okay, thank you. Another question is about the digital transformation: *Should we expect any mega digital transformation projects in 2024? How much revenues were recognized from such projects in 2023?*

**Wael Hanafy:** Yes, we have phase 4 of the digital transformation project, which is around EGP 2bn, which has not yet been recognized at all because we signed at the beginning of the year. We believe a small part of it could be recognized in Q4 and the remainder will be recorded in 2024. So, for Q4, we might recognize an additional EGP 100-150mn; the remainder will hopefully be in 2024.

**Mariam Wael:** Okay, thank you. A question is asking about the geopolitical issues in Gaza: *How have you been affected by the situation in Gaza, if it at all?*

**Mohamed Nasr:** We are very sorry for the situation in Gaza of course. We wish for peace for all nations. If you're asking about the direct impact, aside from the situation that is impacting the economy globally, not only in Egypt. If we look at direct effects, there is some impact on the communication side but nothing major. We see more need for traffic exchange between families in Egypt and Gaza, which is also why we introduced a few promotions for people to use the service. But again, this is a minor impact in terms of revenue and cost. However, I do see another impact related to the various subsea cable initiatives launched over the past few years in the region around Gaza and Jordan. Initially investors were planning to consider the route from Saudi to Jordan and then to the Mediterranean across Israel, but now because of the situation, they are considering to put a major part of their traffic across Egypt. We have been in different discussions with investors who are considering landing their subsea cables in Egypt. So, the situation will have a positive impact on the proceeds from foreign currency as it continues to show investors and hyperscalers that the Egyptian route is the safest route for international traffic.

**Mariam Wael:** Okay, thank you. Another question is asking about the power cuts in Egypt: *How has this impacted your service if at all, especially at a time when fuel prices are seen increasing?*

**Mohamed Nasr:** Our network is fully secured with different power sources and generators, so we don't see any impact on our network operation. However, the main impact is on the customer side as they experience service disruption, especially the fixed broadband, due to disconnection at home or from the GPON or MSAN cabinets that serve them. Such disruptions affect customers for a maximum of 2 hours a day. We are communicating with the customers to enhance their experience by conveying the message that is mainly due to the outage which is not in our control. However, this does not have much of an impact on the revenue side because people will continue to stream online, etc. whenever the power comes back. Putting more pressure on the

use of diesel generators has a slight impact on the cost side: it forces us to use fuel, which results in us saving on electricity on the one side, but spending on fuel on the other side. However, it does not have a material impact on the performance.

**Mariam Wael:** Okay, thank you. A participant is asking *that you confirm if you received an offer regarding the tower sale? If yes, when do you expect finalization of the deal?*

**Mohamed Shamroukh:** I can confirm that we have received an official unbinding offer for the tower sale. We have to do our internal homework to make sure that we are not rushing to get dollars that could lead to a long-term negative impact on the financial performance of the company. We have to plug in the numbers and see if it's accretive or not for Telecom Egypt. Once that is done, we will present it to the Board, which is expected to be at the December board meeting. Then we will see if we can then proceed with the offer or put it on hold for the time being.

**Mariam Wael:** Okay, thank you. There is a question regarding the strong growth in IDD revenues: *How much of this was related to traffic and what were the drivers behind this growth in demand?*

**Mohamed Nasr:** We see a 12% increase in traffic which has impacted the IDD revenues. The international wholesale team is aggressively dealing with carriers globally to create different products and services. It's a legacy service, but at the same time it needs some innovation in terms of pricing and tactics related to driving more traffic to the direct channels, and we have been successful with those tactics to drive growth and incoming revenue.

**Mariam Wael:** Okay, thank you. A participant is asking: *Can you please shed more light on the WE Gold platform you mentioned earlier?*

**Mohamed Nasr:** I'll give Tarek the floor to give more insights on the WE Gold platform.

**Tarek AbdelHamid:** Hi everyone. We Gold is a post-paid platform that provides mobile, fixed broadband and fixed voice in one bundle under one bill. It's a true FMC platform where we provide innovative charging and billing mechanics that enable customers to downgrade, upgrade, or share resources between the three services. This allows for nothing to be left unconsumed at the end of the month, which provides huge savings for the customer. Additionally, part of the innovation is that it allows sharing of the resources with family members – reaching up to six members on the higher bundles. The objective is to have a compelling value proposition that is simple to use while providing a lot of savings for the customer. We aim to

attract much higher value customers than we have in the past, especially on the mobile side. This is the product in brief.

**Mariam Wael:** Ok, thank you. A final reminder to participants because we only have 2 questions left. If you have any questions, it's time to type them in now. Another participant asks: *What are the reasons behind the increase in enterprise fixed voice ARPU? Is it sustainable?*

**Wael Hanafy:** If you are asking about the increase in enterprise, it is related to the managed service that we provide enterprises and governmental entities.

**Mariam Wael:** Okay. *Is it sustainable and related to the fixed voice?*

**Wael Hanafy:** Yes, it is sustainable. It might fluctuate, but it is sustainable and growing as well.

**Mohamed Nasr:** I would like to add something related to the enterprise business. We have created a separate business unit for SME's and SOHO. Previously, we had one unit managing the key enterprise accounts such as government, banking and SME's. We would like to put more focus onto SME's, and that's why we split the enterprise into two units. We expect growth in SME's in the Egyptian market, and that's why this business unit is expected to flourish as we provide more services. But again, we will need some time to grow and build strong products to serving the SME's. As such, we might expect to see more growth on that side towards the second half of next year.

**Mariam Wael:** Ok, thank you. The final question - I know you answered this before but I am just going to read it - Could you provide us with any estimates regarding the anticipated proceeds from the sale of the Vodafone stake and the sale of the towers?

**Mohamed Nasr:** Again, on Vodafone side, we have not received any official correspondence. That is why whatever you might be hearing in the market are just rumours. In addition, we still don't know if it will be a partial or full stake sale, that's why it's very difficult to anticipate any proceeds on that. Regarding the towers, we have a confidentiality agreement that we need to consider with the tower company – as such, it's difficult to share proceeds. However, normally we are talking about USD 150-250mn depending on the due diligence for the towers.

**Mariam Wael:** Okay, thank you. We have no other pending questions so far, so I will now give back the call to you for any closing remarks.

**Wael Hanafy:** None, thank you.

**Mariam Wael:** Perfect, thank you all for joining us today and thanks to Telecom Egypt's management for their time. We can now conclude the call. Have a good day everyone!