

Telecom Egypt Q1 2024 Earnings Call Transcript

Final Transcript

Telecom Egypt (ETEL.CA; TEEG.LN) Q1 2024 earnings call dated 30 May 2024

Call Coordinator:

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Corporate Participants:

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

Wael Hanafy – *Chief Financial Officer*

Tarek Abdelhamid – *Chief Marketing Officer*

Ahmed Abdelmeguid – *Investor Relations Manager*

Nada Abou Zeid: Hello everyone, this is Nada Abou Zeid from Beltone Holding. I'd like to welcome you all to Telecom Egypt's fourth quarter results' conference call.

I'm pleased to have on the call today

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

Now, I'll hand over the call to Mr. Ahmed, who will start with a brief update and then we will open the floor for questions.

Ahmed Abdelmeguid: Thank you, Nada, and thanks to Beltone Holding for hosting this quarter's conference call. Earlier today, we issued a press release announcing our financial results for the first quarter of 2024, 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. Wael Hanafy. Our CMO, Mr. Tarek Abdelhamid, 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.

Without further delay, I would like to draw your attention to our 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 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: Thank you Ahmed. I'm glad to report that Q1 has set off on a strong note, setting the tone for the year. Our operational and financial results reflect the resilience of our business in the face of macroeconomic challenges and our ability to leverage on what's within our control to our benefit--in this case, pricing and continuous operational developments across our diversified portfolio.

We delivered revenue growth of 25% YoY, reporting EGP 17.5bn--our best quarterly revenue to date. This hike was mainly due to continued demand for our data services, in parallel to the approved price up that came into effect in January across all our retail services and a growing customer base across the board. In fact, this also clearly demonstrates our clear dedication to both our customer-centric approach and business excellence.

Wholesale also had a positive contribution to this hike, mainly due to the growth in volume and FX appreciation of capacity sales, IDD, and cable projects, which helped us offset the inflationary pressures while managing our hard currency obligations.

Our proactive marketing strategy has helped us to capture more market share with fixed voice and broadband up 9% and 8% YoY, respectively, while mobile customers increased by 4% YoY to reach 13mn.

EBITDA increased 19% YoY, landing at EGP 7.3bn, with a notable 42% margin. This performance underscores the company's robust organic growth, including the impact of the strategic price adjustments. Overall, this strong momentum to start the year puts us well on track of achieving thriving full-year results.

Moving ahead, we are keen to pursue all avenues that will be valuable to people and businesses, while at the same time help us enhance our cost efficiency and monetize our assets, particularly those that generate returns in foreign currency. Looking at our roadmap, we are determined to continue elevating the local, regional, and global connectivity waves with our newly awarded 5G license and the ground-breaking partnerships and agreements inked in this quarter. We will continue to develop new products, add services, and enhance our business model in our pursuit to become a leading ICT player in the region by staying ahead of the curve and meeting the rapidly changing needs of our customers.

To round up, I can confidently say we are poised for the next phase of growth across all areas of our business, as we are already seeing good momentum. We have many exciting and valuable opportunities to pursue and will continue executing our strategy, leveraging our team and core strengths to better serve our customers, and increase shareholders' value.

With that, I have completed my operational brief, and I will now hand the call over to Mr. Wael Hanafy, to discuss the key financial highlights.

Wael Hanafy: Thank you, Mr. Nasr. I will now go over our key financial results for the first quarter of 2024. Overall, our business resilience, reflected in our strong organic performance, supported by the price up as well as higher sales volume from our FX income streams and the FX currency appreciation, has helped us overcome the significant EGP depreciation and inflationary pressures on all fronts.

Data was the largest contributor to revenue growth at 62%, reporting EGP 7.2bn, thanks to the price up across all retail segments in January 2024, which took a huge toll on data.

Capacity sales, cable projects, and IDD, which recorded 8% higher traffic, showed incremental growth this quarter of 100%, 52%, and 29%, respectively, partially due to the FX effect. Such growth offset the 30% drop in domestic revenue, which was caused by the absence of IRU circuits' revenue this quarter versus EGP 0.9bn in Q1 2023. However, we are expecting this base effect will be neutralized by the full year.

Operating profit landed at EGP 3.6bn, down 5% YoY due to 41% YoY higher D&A costs, which was a result of new CapEx additions as well as the capitalization of FX losses in light of the special accounting treatment stated by the prime minister, in addition to provisions recorded during the quarter. Meanwhile, net profit reported EGP 3.9bn, marking a modest 2% increase YoY, as the robust financial performance was partially offset by the 2.2x hike in the interest expense, the aforementioned D&A increase, and the flat income from associates that was caused by the currency devaluation. As mentioned, income from associates came flat YoY, reporting EGP 0.9bn despite higher operating margins, impacted by FX loss recognized on their P&L during Q1 2024, definitely related to the currency devaluation.

FCFF amounted to EGP -4.7bn. However, if we exclude the mobile licenses CapEx it would be a positive EGP 1.6bn. On that note, we assure you that we remain committed to enhancing our free cash flow in the period ahead through several strategic initiatives, including the phasing out of our CapEx, without humbling the growth momentum we have achieved.

Net debt/EBITDA (excluding vendor finance) recorded 2.1x vs. 1.9x in Q4 2023, despite gross debt being inflated by +62% QoQ due to the revaluation of our foreign-currency debt, with no additional debt drawn.

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

Nada Abou Zeid: Thank you, Dear ladies and gentlemen, please type in your questions in the chat box at the bottom of your screen or press the raise hand button if you'd like to speak directly to management.

Our first question comes from Ziad Itani: *Any updates on tower sales?*

Mohamed Nasr: We were observing the developments on the macroeconomic level because we did not receive accretive offers from the tower-sharing providers during the last tender process of our towers. Following the enhancement and stability of the macroeconomy, we have now reconvened discussions with different tower-sharing companies globally, including some in the local market and some outside. We currently have multiple NDAs signed with digital infrastructure entities that are interested in exploring tower-sharing investments. However, the current regulatory framework dictates

that only certain types of investors can own tower-sharing licenses. We have discussed with the regulator the possibility of expanding the tower-sharing framework to allow digital infrastructure entities to own the towers but be operated by an MNO. I think this will be very positive for the market in general, and for Telecom Egypt, to have this model. We see flexibility from the regulator and that's why we have started inviting multiple digital infrastructure providers to consider our portfolio.

Wael Hanafy: I just wanted to add something here to what Mr. CEO said. After the stability in the macroeconomic dynamics, we have now started to review the old portfolio with our financial and technical advisors. The timeline to finalize this business plan should be June, after implementing the stability effects of the macro situation, FX, and all possible drivers that should be revisited in the business plan. We will also update the memorandum of information. And starting next month, we will pitch to potential buyers--both previous ones and new ones.

Nada Abou Zeid: Thank you. We have a question *about your guidance for top line/EBITDA margin and net income for 2024*, and Shady Afifi is asking about your *guidance for CapEx spending for the rest of the year*.

Wael Hanafy: Let me start with the first question related to the guidance. The guidance that we reported at the end of last year was reported on a quarterly basis. You can find it on the last page of our presentation, but let me tell you that the revenue growth was mid-double-digit; EBITDA margin, high 30s; CapEx to Sales - In-service, early 20s; and free cash flow to EBITDA, early 40s. When we did this calculation and reported our guidance, it was based on dollar terms that are different to what we have right now. Also, we didn't take into consideration the price up that happened at the beginning of this year. Now that we have the actual Q1 numbers, we are going to forecast the 9M and then we will end up with the updated guidance. We will revise our guidance and send it out to the market, but we don't expect to do this before the end of Q2.

On the CapEx side, as we promised before, we are going to do an initiative this year to end up having positive free cash flow for 2024. We have already started to rationalize CapEx and will continue, even after paying for the 5G license at the beginning of the year, as we are committed to having positive free cash flow at the end of this year.

Nada Abou Zeid: Thank you. Amr Demerdash is asking: *What are your plans if you sell your shares in VFE?*

Wael Hanafy: He is asking about the proceeds from the sale, right? As we mentioned before, we don't have any official offers right now. However, let's assume that we have one; we will do our homework and review with our external advisors, including our legal and financial advisors, and then follow with the normal procedures. If the offer is lucrative for Telecom Egypt and definitely for the shareholders, and we assume that we have concluded the transaction, we will then use a big bulk of the proceeds to deleverage the company, and for sure, a decent part will be distributed to our shareholders as a one-time exceptional dividend.

Nada Abou Zeid: Thank you. Our next question is from Amr El Alfy: *Can you please update us on the cash dividends being received from VFE? And, how much do you expect to receive in 2024?*

Wael Hanafy: After signing the modified shareholders' agreement with VFE two years ago, we got two tranches of dividends: EGP 1.2bn two years ago and almost EGP 2.1bn

last year. This year, we expect to receive something in the range of EGP 2 – 2.4bn. As for the timing, it will be by the end of July this year, as usual.

Nada Abou Zeid: Thank you. Another question: *Can you comment on the taxes for Q1 2024?*

Wael Hanafy: Sure, I know we got some calls in the morning related to this issue. As you may know, as long as we have a devaluation, we will have FX losses. As such, we adopted the exceptional accounting treatment by taking the FX losses recorded on the income statement and capitalizing them over the fixed assets or partially on the OCI. As such, we're going to have to do some sort of tax calculation for the part we capitalized over fixed assets because, at the end of the day, it's a loss, and we have to enjoy the tax shield. What we have done is record a deferred tax asset in this quarter to match the FX losses, and then we will benefit from this tax asset when the FX losses materialize. Let's assume that I have a debt of USD 1 and I'm going to pay it one year from today--that USD 1 will now have an FX loss of around EGP 20. What I will do, which is like what we did, is apply an accounting treatment where I add a deferred tax asset amounting to EGP 20, which I will enjoy and then deduct from the tax expenditure in the next year when I pay the USD 1 to the lender. It's simply an accounting treatment. I know it may look sophisticated, but this is the case. This is also what we did last year and the year before when we had the previous devaluations.

Nada Abou Zeid: Thank you. Shady Afifi is asking: *How much did the 5G mobile license contribute to Q1 2024?*

Wael Hanafy: Yes, it's about USD 150mn that we paid at the beginning of this year.

Nada Abou Zeid: Amr has a follow-up question: *How do you replace the earnings you receive from your share in VFE if you sell it?*

Wael Hanafy: As I mentioned, we will deleverage some of our debt, so we will mitigate the risk of having to pay the interest that we pay today, which will allow for interest savings. We will also do a lot for the normal organic operations. Nevertheless, even if we only save on the interest, it will definitely be equal to the dividends we're getting from VFE today.

Mohamed Nasr: One other thing: We see a lot of potential in general in the data usage in Egypt. As we have seen in this quarter, we have continued growth in data utilization on both the fixed broadband and mobile side. We saw a 25% increase YoY in traffic or average utilization per day on the mobile. While on the fixed side, we saw a 15% YoY increase, and an average data usage of almost 55PB per day. This is a considerable amount and reflects the growth of the market with more direction from the consumer towards data on the fixed and mobile sides. Any investment on the retail side, both fixed and mobile, will result in high proceeds, but the CapEx spend associated with the rollout of fiber networks, mobile networks, and spectrum acquisition, together with our subsea investments--which are also a very profitable side of our business--will put high pressure on our CapEx. So, if we manage to get a lucrative offer for VFE at any point in time the loss of our share of VFE's income will be offset or even surpassed by the returns we can generate by using these proceeds to expand our core business, putting special focus on all the aspects that will result in high return on investment for us.

Nada Abou Zeid: Thank you. We have another question from Mohamed Maher: *Can you provide more details about the expected value of the towers and explain how you intend to utilize the proceeds?*

Mohamed Nasr: Sure. With the devaluation and the price up, of course, which helped to generate higher proceeds from the mobile business, we expect a range of USD 200-250mn. This is the range that we believe will be attractive enough for us to close a deal. However, if we find a deal that will reduce our OPEX significantly, we might go lower than this value, considering that we might have a very attractive OPEX associated with the existing towers.

Nada Abou Zeid: Thank you, we have another question: *How much is the FX loss on the income statement?*

Wael Hanafy: As mentioned above, no losses were recorded in the income statement. This is because we have applied the exceptional accounting treatment that allows us to remove FX losses from the income statement and record a portion of them in PP&E, if eligible, and the remainder in OCI. That's why there is no FX loss in the income statement.

Nada Abou Zeid: Shady Afifi has a follow-up question: *Can you please clarify at what FX rate the USD 150mn related to the 5G license is calculated?*

Wael Hanafy: EPG 30.8 - because we paid at the beginning of the quarter before the devaluation.

Nada Abou Zeid: Thank you. *Can you explain how the devaluation impacted your share of net income from VFE this quarter?*

Wael Hanafy: Around EGP 1bn. And, if there was no devaluation, we would have expected to record more than EGP 2bn in this quarter. So, let's assume our share and their devaluation impact to be around EGP 1bn.

Nada Abou Zeid: Thank you. Just a quick question from my side: *Do you think you still need further loans in USD terms to facilitate your CapEx levels for the rest of the year?*

Wael Hanafy: No, as we have secured around USD 600mn. That gives us a lot of muscle to service our debt in hard currency--principal and interest. And the remainder, we will use to finance our CapEx in hard currency and also local currency. Our business is doing very well in that regard; we are generating much more in dollar terms year after year, so I don't think we need any debt in hard currency. However, what we are now going to do is convert our current short-term debt to longer-term debt. We may also do some transactions just to convert the short-term liabilities to long-term.

Nada Abou Zeid: Thank you.

Wael Hanafy: That's why, about two weeks ago, we finalized the transaction with Banque Misr UAE for USD 200mn. We will use the total amount, as mentioned, to convert our short-term liabilities to long-term ones. Another ticket that we may complete in the next two or three months will be for an extra USD 150mn from one of the largest financial institutions in the Gulf. It will be used for the same purpose, which is to simply convert the short-term liabilities to longer-term obligations.

Nada Abou Zeid: Yes, understood.

Wael Hanafy: Our plan is to convert all our current overdrafts, even those in Egyptian pound by the way. This is why we are in negotiations for syndicated loans with some of the big banks here in Egypt. We hope to have reached a conclusion by the end of the year and take the same course of action of converting the short-term EGP overdrafts to medium or long-term.

Nada Abou Zeid: Understood, thank you. I'd like to remind all of our participants to type in your questions in the chat box or press your raise hand button if you'd like to speak directly to management.

There are no further questions. I will now hand over back to management for the final conclusion.

Mohamed Nasr: I would like to thank all our shareholders for their trust in Telecom Egypt and its management for doing their best performance and bringing value to our shareholders. We promise our shareholders that we will continue to work hard to maximize our profitability and optimize our operations to serve them and encourage more customer loyalty. We see a huge opportunity in the Egyptian market. It's a growing market, it's young, and that's putting pressure on us to better serve this population and the whole network, including all the mobile operators at the wholesale level. It also brings us a lot of opportunities for future growth on different levels. So again, thank you and we look forward to the next call with better performance.

Nada Abou Zeid: I'd like to thank the management team for their time and valuable input. We also want to thank all our participants for attending the call. Have a great day everyone. Thank you and goodbye.