Telecom Egypt 9M 2024 Earnings Call Transcript

Telecom Egypt (ETEL.CA; TEEG.LN) 9M 2024 earnings call dated 14 November 2024

Call Coordinator:

Noha Baraka – CI Capital

Corporate Participants:

Mohamed Nasr – *Managing Director and Chief Executive Officer*
Wael Hanafy – *Chief Financial Officer*
Tarek Abdelhamid – *Senior Director of Consumer Sales and Marketing*
Hind Ebeid – *Senior Director of Corporate Strategy and Business Processes*
Ahmed Zayed – *Investor Relations Director*

Noha Baraka: Hello, everyone, and thank you for dialing in. This is Noha Baraka from CI Capital Research. We have the pleasure of hosting today's Telecom Egypt 3Q Results Conference Call. From the management team, we are pleased to be joined by:

- **Mr. Mohamed Nasr** - Managing Director and Chief Executive Officer;
- **Mr. Wael Hanafy** - Chief Financial Officer;
- **Mr. Tarek Abdelhamid** – Senior Director of Consumer Sales and Marketing;
- **Ms. Hind Ebeid** - Senior Director of Corporate Strategy and Business Processes; and
- **Mr. Ahmed Zayed** – Investor Relations Director

I would like to remind you that if you have any questions, please type them in the Q&A box at the bottom of your screen. With no further delays, I will now hand over the call to Telecom Egypt. The floor is yours.

Ahmed Zayed: Thank you, Noha. I'll take over from you. I'm Ahmad Zayed, Head of Investor Relations. Thank you, Noha, and thanks to CI Capital for hosting this quarter's conference call.

Earlier today, we released our financial and operational results for the nine month period of 2024. Kindly note that the results presentation is available on our IR website, ir.te.eg, under the quarterly results section of the financial information tab.

We will start with a briefing of the key highlights of the period presented by our CEO, Mr. Mohamed Nasr, followed by more details on our financial performance - to be presented by our CFO, Mr. Wael Hanafy. After that, the floor will be open to your questions. Our Senior Director of Consumer Sales and Marketing, Mr. Tarek Abdelhamid and our Senior Director of Corporate Strategy, Ms. Hind Ebied, are also attending the call.

Before we begin our discussion today, please allow me to read out the following disclaimer:

The information and opinions on this call, provided as of today's date, are based on general information gathered at such date and are subject to changes without notice. None of the future projections, expectations, estimates, or prospects discussed on this call should be taken as forecasts or promises. Such forward-looking statements contain known and unknown risks, uncertainties, and other important factors that may cause the Company's actual results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Thank you everyone for your patience. Without further delay, I will now hand over the call to Mr. Mohamed Nasr.

Mohamed Nasr: Thank you, Ahmed, and thank you all for joining our call today.

I'm pleased to report that Telecom Egypt has once again demonstrated its ability to navigate a complex and challenging environment. Despite ongoing macroeconomic pressures, we have successfully maintained healthy results, underscoring the strength and resilience of our business model.

Our total revenue increased by 39% YoY, reaching EGP 58.4 billion. EBITDA grew by 34% YoY, reaching EGP 23.5 billion and recording a 40% margin, thanks to strong top-line growth and effective cost-optimization measures, which allowed us to maintain margins at targeted levels despite continued inflationary pressures. However, net profit declined by 6% YoY, landing at EGP 8.6 billion, despite the strong operational growth and a 56% increase in our income from VFE, as the 3x YoY higher net finance costs caused by the devaluation of the EGP and the higher interest rates during the period pressured the bottom line.

The Retail segment continues to grow organically, increasing 42% YoY, driven by an expanding customer base and price adjustments implemented at the start of this year. Our customer base witnessed a YoY increase of 9% in Mobile, 8% in Fixed Broadband, and 4% in Fixed Voice. Data revenue remains the primary growth engine for this segment, reflecting broader global trends of rapidly increasing data consumption due to the rise of digital services, cloud adoption, social media usage, and streaming services.

Meanwhile, the Wholesale segment is also performing well, increasing 36% YoY. Just this week, we signed long-term, landmark infrastructure service agreements with Vodafone Egypt, with varying maturities up to 2034, worth a total value of EGP 30 billion. These agreements align with our strategic plan to monetize our existing assets and network infrastructure, further solidifying our role as the nation's leading telecommunications infrastructure services provider. Telecom Egypt continues to be the backbone of the country's telecom sector, providing critical infrastructure, connectivity, and wholesale services to all local mobile network operators.

Our USD-denominated ICA business line has sustained healthy growth rates, growing by 66% YoY, mainly on the appreciation of the USD and a 16% YoY increase in traffic. It is essential to highlight that our efforts in this business line to leverage strategic partnerships and provide competitive commercial offerings continue to offset the effect of declining international voice traffic, which is being partially replaced by data usage.

Despite some geopolitical effects on our IC&N business, we met our budget targets, with ICN growing 33% YoY, supported by the appreciation of the USD. Looking ahead, we are optimistic about this business, particularly following the successful landing of the 10,000 km Africa-1 subsea cable system at our Ras Ghareb cable landing station, which will be followed by another landing on our Mediterranean coast. In addition, as a member of the Africa-1 consortium, we not only serve as a landing party but also share in the cable's capacity, securing future revenue streams for our ICN business. Moreover, we recently signed a cooperation agreement with Mobily to land the first Saudi subsea cable linking Saudi Arabia and Egypt. This new subsea cable will further strengthen Egypt’s position as a critical node in regional and global telecom infrastructure, facilitating faster data transfer and expanding bandwidth availability across key markets.

Overall, our business remains resilient, and we remain optimistic about the future, particularly as we witness stabilizing macroeconomic conditions. We are witnessing a stabilization in the exchange rate, a gradual decline in inflation, and a reduction in Federal Reserve interest rates. Given these trends, we expect local interest rates to follow suit in the near future. This stabilization will help enhance our financial performance moving forward. While our cost structure has risen to a new base, it has now largely stabilized, giving us greater visibility into the future after nearly two years of uncertainty and turbulence, which will enable us to scale up our revenue and enhance our margins.

To further strengthen our financial position, we are actively working on refinancing our short-term debt with long-term facilities without increasing our total debt balance. In line with this strategy, this month, we secured an EGP 18 billion seven-year syndicated facility to refinance our EGP-denominated short-term facilities. This builds on the progress we made earlier this year when we successfully secured a USD 200 million medium-term loan from Banque Misr, UAE, which was used to refinance part of our existing short-term USD facilities. This critical process is helping us rebalance our cash flow, ensure adequate liquidity, and enhance our financial flexibility as we continue to execute our long-term growth strategies.

On the CapEx front, our investments in subsea cables, fiber optic networks, mobile networks, and the 5G license were essential to our growth plans and to secure our position in the market. However, we are working tirelessly to optimize next year's expenditures without hindering our revenue growth momentum to achieve a healthier cash flow.

As we approach the end of 2024, we remain focused on delivering innovative solutions and exceptional value to our customers and partners. Through the ongoing enhancement of our service portfolio, optimization of expenditures, and the strategic monetization of our assets and infrastructure, we remain steadfast in our commitment to maximizing shareholder value and driving sustainable growth across our core business lines. With confidence in our ability to achieve our targets, we reaffirm our 2024 guidance and remain dedicated to creating long-term value for our shareholders.

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

Wael Hanafy: Thank you, Mr. Nasr. I will now go over our key financial results.

Looking at our Q3 results, we achieved a top-line increase of 48% YoY, amounting to EGP 20.5 billion, driven by a 46% YoY rise in Retail revenue and a 51% YoY increase in Wholesale revenue. The robust Retail performance was primarily driven by a 46% YoY increase in Data revenue, owing to a significant rise in ARPU (+38% YoY) and a notable expansion of the customer base (+8% YoY). On the Wholesale front, the increase in revenue was driven by a 79% YoY surge in IDD revenues, a 64% YoY hike in Capacity Sales, and a 23% YoY increase in Infrastructure revenues.

EBITDA increased 43% YoY, recording a margin of 39%. If we adjust for the one-off payment we made in Q3 related to the early retirement program of EGP 315 million, the EBITDA margin would have been 41%. This performance was driven by the robust top-line growth, which superseded the increase in the cost structure due to inflationary pressures fueled by the currency devaluation.

We continued to see a hike in D&A, amounting to EGP 3.7 billion, representing a 49% increase YoY, mainly due to the rise in asset base caused by the capitalization of part of the FX losses following the special accounting treatment applied in response to the EGP devaluation.

Our income from VFE marked an impressive 61% increase due to organic growth, landing at EGP 2.4 billion. On the other hand, our interest expense hiked 2.5x compared to last year due to appreciation of FX debt, resulting in an effective interest rate of 16%. This interest expense hike, the EGP 1.4 billion in FX losses recorded during the period, and the EGP 315 million one-off payment for the early retirement plan overshadowed the gains from the solid operational growth and income from VFE. As such, our bottom line was pressured, with net profit experiencing a 13% YoY decrease and a margin of 10%.

Moving on to our 9M 2024 financial highlights, we remain in line with our full-year guidance. We achieved a solid growth of 39% YoY in our top-line. Additionally, we achieved a significant EBITDA growth of 34% YoY to reach EGP 23.5 billion, recording an EBITDA margin of 40%. Net profit landed at EGP 8.6 billion, declining by 6% YoY, and implying a net profit margin of 15%. The bottom line came pressured despite strong operational growth and a 56% increase in VFE income, mainly on the 3x YoY higher net finance costs, driven by the devaluation of the EGP and definitely, the rise in interest rates during the period.

Our in-service CapEx reported EGP 12.8 billion or 22% of sales, while cash CapEx reported EGP 30.1 billion or 52% of sales. This inflated Cash CapEx was primarily driven by foreign currency appreciation.

Our Net debt/EBITDA scored 2.3x in 9M 2024 vs 1.7x in FY 2023, mainly on currency devaluation.

Looking at our Free Cash Flow to Firm (FCFF), we saw an enhancement during Q3 2024, reporting EGP (5.9) billion in 9M 2024 compared to EGP (10.4) billion in H1 2024. So it seems we are on the right track, as the amount of FCF reported in Q3 alone is around EGP 4.5 billion.

Excluding the license we paid at the beginning of this year, the FCFF would be around EGP 48 million.

Moving forward, as Mr. Nasr stated, we remain committed to achieving a healthier cash flow by optimizing next year's CapEx without hindering our revenue growth momentum.

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

Noha Baraka: Thank you very much, Mr. Nasr and Mr. Hanafi, for the presentation. I think we're now ready to open the Q&A session. If we have any questions, please feel free to use the raise hand button on the right-hand side of the screen, and I'll unmute your line. Alternatively, you could use the Q&A box to type in your questions.

Ok, we have a couple of questions in the Q&A box: *Could you please comment on the potential price increases? And what is the expected interest income savings from the refinancing?*

Mohamed Nasr: Regarding the price increase, we were initially expecting it to take place in November. However, there has been a slight delay. We now anticipate the increase to occur later this month or, maximum, early next year. The potential price increase is expected to be no less than the previous one implemented earlier this year, meaning it will likely exceed 15%.

As for the interest income savings from the refinancing...

Wael Hanafy: What we are going to pay for the short-term facilities is almost the same as what we would pay for the longer-term facilities. However, the key benefit lies in the visibility we gain regarding payment amounts and timelines. This allows us to better align or match our liabilities with our resources, both in US dollars and Egyptian pounds.

By stabilizing and structuring our short-term facilities into a well-defined, matured payment schedule, we ensure clarity on when and how these payments will be made, likely at the end of the tenure. In terms of interest savings, there isn't a significant difference—what we pay for short-term facilities is almost the same as what we would pay for medium- or long-term facilities.

Mohamed Nasr: Regarding the tower sales, we have been progressing discussions with potential buyers. We shared the relevant documents with interested parties through our investment bank, and we are expecting to receive non-binding offers within the next few weeks. You may remember that we went through a similar process previously, but at the time, the macroeconomic conditions were unfavorable, which prevented us from receiving attractive proposals for our assets. That's why we decided to restart the process once there was greater stability on the macroeconomic front.

On the Vodafone side, we continue to benefit from the synergies with Vodafone Egypt. We see positive crossovers in areas like distribution and the retail business, which remain advantageous for us. However, if we do receive any compelling offers for our stake, we would, of course, review them carefully and take the best course of action for our shareholders.

Noha Baraka: As a reminder, if you have any questions, please feel free to use the raise hand button on the right-hand side of the screen, and I'll unmute your line. Alternatively, you could use the Q&A box to type in your questions.

We'll pause for a moment to allow for questions to come in.

There is a question: *It's not very clear what benefit the company is getting from refinancing. Please re-explain. Also, can you speak a little more on the price increases?*

Wael Hanafy: For the refinancing, the benefit is achieving better alignment between our payment obligations and our cash inflows, essentially mitigating any mismatch that could arise from paying off overdrafts. If you have a large amount of overdrafts, you would need to settle it all at once. However, with the refinancing, we'll be able to convert this into more manageable installments spread over a longer period, ensuring it matches our cash income more effectively.

Mohamed Nasr: Regarding the price adjustments, we previously said that we were expecting the price increases to take place in November or December. We are following with the regulator on this matter, and if it doesn't happen in December, it is likely to be early next year. We are expecting a price increase across all our core services of more than 15%.

Noha Baraka: Thank you. Another question: W*hy did the data center and cloud computing services revenues fall quarter-on-quarter?*

Wael Hanafy: It's not actually a decline quarter-on-quarter. We started recognizing data center revenues in Q2, and the fluctuation you see is tied to the invoicing schedule for our customers. The hike in Q2 will remain – as we recorded approximately EGP 500 million from this segment over the last two quarters. Additionally, we have completed our Regional Data Hub, which is a Tier III, state-of-the-art data center, and we are now actively providing services and generating more cash flow from it. So, there's no real decline—it's just a base effect.

Noha Baraka: There seems to be no further questions on the line. So, back to the management team: *Any closing remarks from your end?*

Wael Hanafy: I think we have another question *about the update on 5G.*

Mohamed Nasr: Okay, for the 5G, Telecom Egypt was the first to receive the license earlier in 2024, and we have been conducting network testing since then. We successfully tested the service in areas that we believe will be commercially lucrative for us. However, the regulator has recently issued licenses to the other three operators as well.

We do not anticipate a full commercial launch of 5G across the market before Q1 2025. Meanwhile, we are preparing our network to ensure it is ready to accommodate more 5G customers as soon as the regulator allows us to launch the service commercially.

Noha Baraka: There's one quick question about the dividend forecast: *Is there is any guidance on the dividend forecast?*

Wael Hanafy: Yes, our plan is to have a steady dividend payment. We expect that the dividend pay this year will not be less than what we paid last year. However, at the end of the day, the final decision will be based on our cash position at the time of payment. But for sure, we are confident that it will not be less than last year's payout.

Ahmed Zayed: Right now, if we don't have any other questions, I just want to note that if there are any follow-up questions, please feel free to reach out to Telecom Egypt's Investor Relations team. Thank you. Okay, we have one more question.

Mohamed Nasr: For the early retirement program, we initially launched the program with a target of 1,000 employees. We received requests for more than 300, which have already been processed and paid, with the financial impact recorded in this quarter. We expect to have more in the next quarter, and we have informed employees that we are extending the submission period for early retirement applications.

We view the early retirement program not merely as a cost-cutting or job cutting measure but as a way to optimize employee utilization and resources. We see it as a strategy to enhance workforce management and improve efficiency, while focusing on retaining employees who are fully committed to the company.

Again, the first phase of the program has progressed well, with over 300 participants so far, and we anticipate this number to reach around 500 by the end of the year.

Noha Baraka: Thank you very much. On behalf of CI Capital, I would like to thank the Telecom Egypt management team for their time and comprehensive responses today, and thank you everyone for dialing in.

Mohamed Nasr: Thank you. I would like to thank our shareholders. We are looking forward to the end of the year results, which we are hopeful will be fantastic and great for our shareholders. We look forward to more success together.