Telecom Egypt FY 2024 Earnings Call Transcript

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Corporate Participants:

Mohamed Nasr – *Managing Director and Chief Executive Officer*
Mohamed Mokhtar – *Budgeting Senior Director*
Tarek Abdelhamid – *Senior Director of Consumer Sales and Marketing*
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Omar Maher: Good morning and good afternoon, everyone. This is Omar Maher. I'd like to welcome you all to Telecom Egypt's Full Year 2024 Results Conference Call. As usual, the call will begin with a discussion of the key highlights for the period, followed by a Q&A session. I will now hand the call over to Mr. Ahmed Zayed, the Director of Investor Relations. Thank you.

Ahmed Zayed: Thank you Omar, and thanks to EFG Hermes for hosting this quarter's conference call. Earlier today, we released our financial and operational results for the full year 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 on 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 Budgeting Senior Director, Mr. Mohamed Mokhtar. After that, the floor will be open to your questions. Our Consumer Marketing Senior Director, Mr. Tarek Abdelhamid, and our Corporate Strategy Senior Director, 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.

Without further delay, I will now hand the line over to Mr. Mohamed Nasr.

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

Telecom Egypt continues to lead the Egyptian telecommunications market with outstanding performance during 2024, as reflected in the full year results we released earlier today. The Egyptian market is promising and filled with growth opportunities—which Telecom Egypt is well-positioned to seize while navigating any regional or global economic challenges with resilience and a steadfast commitment to delivering on its strategic priorities—reinforcing its position as a strong and reliable partner for all domestic and global stakeholders.

We successfully closed the year by a remarkable growth, with total revenue increasing by 45% YoY to reach EGP 82 billion, driven by robust growth across both the Retail and Wholesale segments. Throughout the year, achieving our targeted margins remained a key focus. Total expenses—including operating costs, G&A, and S&D—rose in proportion to revenue growth, increasing by 45% YoY despite inflationary pressures and EGP 574 million in one-off costs related to the optional early retirement program. As a result, EBITDA grew by 45% YoY to EGP 33 billion, achieving our targeted 40% margin. This highlights our operational efficiency and the success of cost optimization initiatives.

The Retail segment continues to grow organically, increasing by 42% YoY, driven by an expanding customer base and price adjustments implemented at the start of the year, with the effect of the second price adjustment implemented in December yet to be materialized during the current year. I'm happy to share that our customer base witnessed a YoY increase of 13% in Mobile, 8% in Fixed Broadband, and 6% in Fixed Voice.

Meanwhile, the Wholesale segment delivered strong 48% YoY growth, with the ICA revenue increasing by 75% YoY, the IC&N revenue by 46% YoY, and the Domestic Wholesale by 22% YoY. Our USD-denominated international businesses continue to perform well, driven mainly by the growth in International Direct Dialing (IDD) and Capacity Sales revenues, contributing 16% and 5% to total revenue growth, respectively. Our Domestic Wholesale business continues to thrive as well, driven by the growth in our Infrastructure Services revenue, which contributed 6% to our total revenue growth, in line with our continued partnerships and commercial agreements with the local MNOs.

We continue to optimize and monetize our domestic and international infrastructure to meet the evolving needs of the Egyptian market and strengthen the broader telecommunications ecosystem. At the same time, we are reinforcing our position as a key global connectivity hub by enabling seamless international connectivity and capitalizing on the growing demand from cloud providers, content platforms, and global carriers.

Our income from Vodafone Egypt surged by 64% YoY to EGP 8.7 billion, significantly contributing to EBIT, which increased by 50% YoY to EGP 26 billion. However, our finance costs were significantly impacted by the EGP devaluation, with net finance costs rising to EGP 15.8 billion compared to EGP 3.9 billion in 2023. This increase was primarily driven by EGP 4.9 billion in FX losses and a 1.5x rise in interest expenses, which grew from EGP 4.4 billion to EGP 10.9 billion. Importantly, this increase was predominantly a result of the devaluation's impact on foreign-currency-denominated debt, not due to higher borrowing levels.

To mitigate these challenges, we implemented a debt-refinancing program during the year aimed at extending maturities for both EGP and foreign currency debt, improving liability matching, and reducing foreign currency exposure. In parallel, we revisited our consolidated business plan and took proactive steps to optimize our capital structure, enhance profitability, and improve free cash flow for the current year and beyond.

Moving to net profit, it stood at EGP 10.1 billion. Excluding EGP 4.9 billion in non-recurring FX losses and EGP 0.6 billion in optional early retirement compensation, normalized net profit reaches EGP 14.3 billion, reflecting a 22% YoY increase and a 17% margin, underscoring the company's strong operational performance.

The strong foundations we established in 2024 position us for sustainable growth in the years ahead. We expect to deliver robust financial results in 2025, supported by a strengthened financial position - the full impact of the December price adjustments yet to materialize - disciplined capital allocation, and robust operational performance, driven by our vast fixed fiber network and our best-in-the-market mobile network, enabling us to deliver premium, fully-integrated services to our customers.

With that, I have completed my brief, and I will now hand the call over to Mr. Mohamed Mokhtar, our Budgeting Senior Director, to discuss the key financial highlights.

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

Looking at our Q4 results, we achieved a remarkable top-line increase of 60% YoY, amounting to EGP 23.6 billion. This growth was driven by a 42% YoY rise in Retail segment revenue and an 84% YoY increase in Wholesale segment revenue. Within the Retail segment, data revenue grew by 53% YoY, making it the primary driver of this robust performance and representing 33% of our total revenue growth. This growth is attributed to the base effect of two price adjustments implemented across the Retail segment in January and December 2024, as well as the increase in the customer base across the board.

In the Wholesale segment, performance was mainly attributed to Cable Projects, which increased by 168% YoY and contributed 18% to total revenue growth. This was followed by IDD revenue growth, which increased by 88% YoY and contributed 16% to total revenue growth, primarily supported by foreign currency appreciation and increasing international call traffic, while Domestic Infrastructure Services also grew by 66% YoY, contributing 13% to total revenue growth.

EBITDA surged by 87% YoY, reflecting an improved margin of 40% compared to 34% in Q4 2023. This strong performance was driven by robust top-line growth, which outpaced the rise in our cost structure.

On the D&A side, we saw expenses increase by 61% YoY, reaching EGP 4.6 billion. This was primarily due to the capitalization of a portion of FX losses following the special accounting treatment applied in response to the EGP devaluation, as well as new asset additions during the period.

Turning to our investment income, VFE delivered excellent growth, increasing by 80% YoY to report EGP 3.3 billion. This was backed by strong operating performance, driven by organic growth, including the impact of price adjustments.

On the other hand, our interest expense rose significantly, increasing almost 2.5x YoY. This was mainly driven by the appreciation of FX-denominated debt, which raised the effective interest rate to 16% in Q4 2024.

Excluding EGP 3.0 billion in FX loss and EGP 0.3 billion in early retirement compensation, our net profit reached EGP 4.0 billion, marking a 63% YoY increase and reflecting a healthy 17% margin.

Moving on to our FY 2024 financial highlights, we achieved solid growth of 45% YoY in our top-line, exceeding our mid double-digit guidance. Additionally, we achieved a significant EBITDA growth of 45% YoY to reach EGP 33 billion, recording an EBITDA margin of 40%, exceeding our set guidance of high 30s. Normalized net profit, after excluding EGP 5.9 billion in FX loss and EGP 0.6 billion in optional early retirement compensations, landed at EGP 14.3 billion, increasing by 22% YoY, and implying a net profit margin of 17%. Our in-service CapEx for the year recorded EGP 19.8 billion, representing 24% of sales, in line with our guidance. Meanwhile, cash CapEx, excluding the mobile license, amounted to EGP 29.1 billion, or 36% of sales. It's important to note that the inflated cash CapEx was primarily driven by foreign currency appreciation.

Our Net Debt/EBITDA ratio stood at 2.2x for FY 2024, compared to 1.7x in FY 2023, mainly reflecting the impact of currency depreciation.

Finally, we are pleased that our Free Cash Flow to Firm (FCFF), excluding the mobile license fees, reached EGP 4.4 billion, delivering on our target to achieve a positive free cash flow to firm by year-end and reflecting the company's strong cash flow generation capabilities.

Looking ahead, we are focused on building sustainable growth, enhancing operational efficiencies, and maintaining disciplined capital allocation to drive stronger cash flow and maximize shareholder value.

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.

Omar Maher: Thank you very much for the presentation. We will now move to the Q&A part of the call. If you would like to ask any verbal question, you can do so by using the "Raise Hand" function. Or, if you would like, you can put your question in writing through the Q&A box.

Our first question is from Nada Hashem: *"Could you please shed light on the progress of the tower sale and any potential sale of the Vodafone Egypt stake?"*

Mohamed Nasr: There are ongoing discussions regarding the tower sale are ongoing. We initiated the process last year for the second time, as we didn't receive lucrative proposals during the initial round. Currently, we are in discussions with multiple interested parties.

We are negotiating the deals to ensure that the impact of the sales —specifically since it's a sale and lease-back arrangement—does not negatively affect our EBITDA margins in the coming years. We are aiming to optimize the offers received and will proceed with one of them if it aligns with our business plan for the next few years.

Regarding the Vodafone Egypt stake, we continue to see positive results from this very strong asset, which has consistently appreciated in value year-over-year. We have seen 64% growth in our revenue share from Vodafone Egypt, demonstrating the strength of the investment.

As of now, we have not received any proposals for the stake. However, if we do receive offers, we will carefully evaluate them against the benefits of retaining the stake before making a decision at the time.

Omar Maher: The next question is from Yasser Al Qahtani: *"The enterprise business remains largely flat. Can you please share details on this?"*

Tarek Abdelhamid: The enterprise business is divided into two segments: large accounts and SMEs. Overall, we saw an organic growth of 31% YoY in enterprise revenue. However, we acknowledge that this rate is not big, given that the market is still growing.

One of the reasons for this moderate growth is that Egypt is a developing market. Enterprise expansion is primarily happening in newly developed areas, such as the New Administrative Capital and other urban developments. These areas take time to become fully operational and inhabited, and only then can say we have begun providing services there.

Much of the infrastructure we've invested in over the years is already in place to connect these enterprises but they aren't operational yet. However, the full utilization of that infrastructure will occur gradually as these businesses begin their operations.

To further enhance this segment, we have created a dedicated business unit for SMEs, which will allow us to focus on their specific needs without diluting it in key accounts. So, we expect a surge in enterprise revenue in the coming years.

Omar Maher: There's a second question from Yasser*: "When did you take the last price hike on data, and are there any plans for price hikes this year?"*

Tarek Abdelhamid: The first price adjustment for data services was implemented at the beginning of 2024, which contributed significantly to the increase in revenues from our home business and mobile.

The second price adjustment was introduced at the end of the year. While this adjustment has already been implemented, its impact will only be reflected in our 2025 results, starting from Q1.

We do not expect another price increase in 2025, as we have already implemented two increases within one year. Additionally, there has been some stabilization in inflation and the Egyptian pound's devaluation, so there is no justification for an additional price hike.

We are also very cautious about this matter, as we recognize that we operate in a price-sensitive market. Further increases could lead to customer churn. It's worth noting that there were no price increases at all between 2017 and 2024, so having two adjustments within one year should be sufficient for now.

Omar Maher: As a follow-up question: *"What was the percentage increase in the last price adjustment?"*

Tareq Abdelhamid: The price increase varies depending on the package, but on average, it was between 20% and 25%.

Omar Maher: Do you mean the expected increase in prices going forward will be 20 to 25%?

Tareq Abdelhamid: No, the actual price-up that took place at the end of the year will contribute about 20 to 25% of the revenue.

Omar Maher: Thank you, that's clear. The next question is from Ezzat Yasser: *"What was the specific amount of the FX losses recorded during Q4 2024, and what were the primary drivers for these FX losses?"*

Mohamed Mokhtar: The FX losses recorded during Q4 amounted to EGP 3 billion.

Mohamed Nasr: This was mainly due to our debt structure, as approximately 60% of our debt is denominated in foreign currency. The devaluation of the Egyptian pound led to the revaluation of this debt, causing the FX losses.

For the initial devaluation, we were allowed to amortize FX losses associated with assets under a Prime Minister's decree. However, for the additional devaluation that occurred in Q4, there were no further decrees issued. As a result, the full impact of this devaluation was absorbed directly into our profit and loss statement.

Omar Maher: *"Could you kindly provide CapEx guidance for 2025 and 2026, and share details on CapEx allocation?"*

Mohamed Nasr: For 2025, we aim to maintain in-service CapEx at approximately 20% of **sales**, which will have a positive impact on our free cash flow.

One of the main reasons for the increase in our CapEx was the devaluation of the Egyptian pound, as most of our equipment is purchased in foreign currency. This increase was primarily driven by the inflationary impact of foreign exchange (FX) fluctuations rather than an actual increase in investments. Moving forward, we hope that FX fluctuations will not be significant. However, we are taking precautionary measures to manage our CapEx spending effectively.

Omar Maher: We have a follow-up from Yasser: *"Does this imply that higher free cash flow will be paid out as dividends?"*

Mohamed Nasr: If free cash flow increases, which we aim to target through less CapEx spending, we will evaluate how best to utilize it based on the investment plan at year-end. This could include increasing dividend payouts or reinvesting in the business. If large investments are not required, we may consider allocating more cash to dividends.

Ahmed Zayed: We are targeting 40% free cash flow to EBITDA for next year.

Omar Maher: Thank you. We have another question from Lilian Mwikali: *"Please share guidance on EBITDA margin over the medium term."*

Mohamed Nasr: We continue to maintain a margin in the range of 40%, which we consider healthy. It has been a challenging target, but we have managed to sustain it despite operational costs increasing by 49%. We will continue to focus on maintaining this margin.

Omar Maher: Another follow-up question from Yasser Al Qahtani: *"What is your market share in retail data, and do you intend to grow it further?"*

Tareq Abdelhamid: We currently hold an 81% market share of the fixed broadband data. This is a decent market share, and it's very challenging to increase it.

However, we are making efforts to dominate the market by providing the fastest fixed and mobile networks. For example, we launched a bundled offering, "WE Gold," which combines fixed and mobile data services. This product has gained strong momentum in the market and is helping us expand further in both segments.

Our focus now is to maintain this significant market share while driving further growth in the mobile data segment.

It's also worth noting that the remaining 19% market share, held by other operators, indirectly benefits us, as we are the primary provider of bitstream services to them. While we may lose this share on the retail side, we effectively capture it on the wholesale side.

Omar Maher: Thank you. The next question is from Johannes De Bruin: *"What will be the annual impact on your income statement from the recently announced deal with Orange?"*

Mohamed Nasr: The deal with Orange reflects a continuation of our position as the infrastructure partner of choice in the market. We already provide Orange with transmission and infrastructure services, but this agreement extends the tenure of these deals over a longer term.

This provides mutual benefits: it gives us stability in forecasting demand and allows us to design the network with fewer surprises on demand. Having a longer-term agreement gives us clarity on where and when we need to invest for them.

On top of that, Orange has also acquired a 5G license, which requires fiber-to-the-site capabilities, similar to what happened with Vodafone. That's why the deal includes additional provisions for fiber-to-the-site services.

This whole deal is expected to generate EGP 15 billion in revenue over the next ten years from Orange alone. However, we expect that in a few years, this agreement will expand further, as it is a dynamic arrangement. Over time, we will add more capacity and meet additional requirements.

Omar Maher: Thank you. Next is a follow-up from Johan again: *"Can you give us some guidance on the income tax, and why there's such a big difference between income tax and cash tax paid?"*

Ahmed Zayed: This is mainly due to the devaluation effect, which requires the revaluation of our assets and liabilities. This is the primary driver of the difference between the income tax reported in the income statement and the actual cash tax paid. You can also observe this in the change in deferred tax.

Omar Maher: Thank you. Coming back to a follow-up question from Hany Genena: *"Given income destruction last year, do you detect any contraction in voice or data usage due to the increase in prices in 2024? And do you expect this to happen in 2025?"*

Mohamed Nasr: We've observed a cycle where, after a price increase, there's usually an immediate churn, especially among customers who used to renew early or frequently top up their packages. These customers tend to reduce their usage for one to three months, but after that, they generally return to their usual recharge behavior.

We expect the same pattern in 2025. Any churn may impact usage for one to three months at most, but it will eventually return to the norm.

Omar Maher: Thank you.

Mohamed Nasr: It's a pattern. People are accustomed to using data in a certain way, and it's very difficult to permanently change this behavior—especially for home users. For home users, it's typically a family, so the need for data is essential. While they may attempt to limit usage temporarily, they usually return to their standard consumption patterns.

Additionally, when comparing mobile data charges to fixed broadband, mobile data charges are significantly higher. This makes fixed internet the more economical solution for accessing the internet.

Omar Maher: Thank you, Mohamed. There's another follow-up from Johan: *"What is the CapEx you have budgeted for 2025? What is it going to be spent on? My understanding is that the bulk of the CapEx has been spent, and this should be trending down in absolute terms."*

Ahmed Zayed: We are budgeting for in-service CapEx to remain in the low twenties as a percentage of revenue. This is true—we revisited our business plan during the year, and we aim to restrain in-service CapEx going forward and focus more on enhancing our capital structure and free cash flow.

Omar Maher: *What is it going to be spent on, mainly?*

Mohamed Nasr: We will continue to expand fiberization because fiber is the future of broadband in different markets. Part of the CapEx will be allocated to the fiberization plan, which is a long-term initiative. This investment in broadband has proven to be essential, as more than 30% of our revenue is derived from data—a direct result of our previous investments in broadband networks, including fiber-to-the-cabinet infrastructure.

Currently, all greenfield projects are being equipped with fiber-to-the-home, and we are also working on fiberizing the last mile to accommodate the growing demand for data traffic.

Data demand is increasing significantly, with an average year-over-year growth of 48%, which necessitates continuous enhancement of our infrastructure to meet this demand.

Another portion of the CapEx will go toward subsea investments. We have mega deals with hyperscalers for infrastructure across Egypt, including landing stations and cross-border connectivity. Additionally, we will allocate CapEx for maintenance to ensure the continuity of our services.

Omar Maher: Thank you. Next question is from Karim El Gammal: *"The increase from the cable projects revenue recorded was EGP 2.4 billion compared to EGP 981 million—a significant 154% QoQ increase. Can you please share more details on that?"*

Mohamed Nasr: The nature of cable projects is such that they often take five to six years to plan and negotiate agreements. It's a cycle that cannot be precisely predicted by months or even years. Once the agreements are finalized, we can start recognizing revenue.

We closed several deals that had been under discussion for some time, and we managed to finalize them in the last quarter. Thanks to the team's efforts, we were able to book this revenue before the end of the year.

This is the typical nature of cable projects—they require lengthy negotiations to close a deal, but once completed, they generate substantial revenue. Since we already have the necessary infrastructure in place, we can book this revenue more quickly due to the readiness of the network.

Omar Maher: Thank you. A question from Mai Nehad: *"Any updates on the data center monetization plans?"*

Mohamed Nasr: Our team is actively working on data center monetization. We have already initiated the process and released the monetization proposal to several interested parties. We have received non-binding offers from a few of them, and we are currently evaluating these offers to decide the next step with one of them.

We hope to close one of these deals before the end of the year.

Omar Maher: Thank you. Darren Smith is asking, *"Regarding CapEx spend on fiber, is it largely for last-mile connections, or are there large parts of the country that have not yet been covered by fiber?"*

Mohamed Nasr: The large parts of the country that do not yet have fiber infrastructure are typically greenfield developments with no existing network. This is part of normal business operations, and we handle these projects through agreements with urban developers, which are already generating revenue.

What we are focusing on now is upgrading the existing copper networks by converting them to fiber-to-the-cabinet and fiberizing the last mile to replace the copper network. This isn't just about enhancing service quality; it's also about generating more revenue.

We are doing this in two ways: In some areas, we're dealing with congestion and waiting lists, so instead of expanding the outdated copper technology network, we replace it with fiber to connect both existing and new customers, which allows us to add more customers in areas where demand is high. At the same time, in areas that are already covered by copper networks but are out of capacity, we address the waiting lists by reusing the dismantled MSAN cabinets, instead of buying new copper network elements, to connect more customers.

By upgrading to fiber, we're not only improving service quality but also increasing traffic by 15% to 20%. This enables us to enhance revenue streams, connect more customers in congested areas, and utilize existing resources (MSAN units) more efficiently to meet demand.

For newly developed areas, such as those under Egypt's urban development projects, the CapEx is covered externally, so we are not bearing that cost.

Omar Maher: Thank you. Next, we have a question from Mahitab Nail: *"Are there any new updates on the 5G service?"*

Mohamed Nasr: Since acquiring the 5G license, we have been preparing the network technically for 5G and are now ready to offer the service.

We are being selective about the areas where we will launch the service and where 5G-compatible handsets are available. We are prioritizing locations that will derive the most benefit from 5G.

Because we entered the 4G market late, our network sites are already equipped for 5G, so no additional hardware upgrades have been required.

Once we receive regulatory approval, we will launch the commercial service. We expect all operators to launch simultaneously, based on their priorities and focusing on areas with a higher concentration of customers using 5G-compatible handsets.

Omar Maher: Thank you. Next, a follow-up from Yasser Al Qahtani: *"Will customers need to change their SIM cards to 5G SIMs, and will you charge for that?"*

Mohamed Nasr: No, most of the SIM cards currently in use are already 5G-compatible, so customers won't need to do anything from their side to get the service. We are testing now using the existing SIM cards.

Commercially, we are also not planning to charge anything extra for 5G. Instead, we will benefit from the different revenue streams from the service. The whole market will follow this approach, so we will not be different from others.

Omar Maher: Thank you. A final reminder in case anyone would like to ask any questions.

So, those are all the questions in the queue today. Back to you in case you would like to make any concluding remarks.

Ahmed Zayed: Thank you, Omar, and thank you all for joining our call today. We remain committed to executing our priorities and plans for expansion, enhancing the network, and maintaining strong financial performance in the future. Our focus remains on maximizing shareholder value while addressing their concerns and meeting their expectations. Thank you, everyone.

Omar Maher: Thank you very much to the senior management team for the presentation, and thank you to all participants for your time today. That concludes the call. Have a nice day.

Mohamed Nasr: Thank you.