

May 13, 2010

TELECOM EGYPT (ETEL.CA)

12-Month Fair Value: Under Review

Last Close (12 May, 2010): EGP 17.08

Recommendation & Risk Level: Under Review

- Telecom Egypt (TE) reported consolidated revenue of EGP 2,503 million for 1Q2010, a 1% decline YoY but a growth of 13% QoQ. The promotional activities that TE undertook during last quarter helped the company to improve its performance.
- TE is still witnessing a drop in the number of fixed-line subscribers which reached 9.3 million at the end of March 2010. With the financial crisis, TE amended its credit policy for disconnection from 12 months to 90 days. According to the company, the disconnected subscribers did not have a material impact on revenue growth as those subscribers spent less than EGP 23 per month.
- Looking at TE's revenue breakdown, we notice that retail revenue (52% of total revenue in 1Q2010) dropped by 12% YoY but increased by 5% QoQ. According to TE's management, the company is undertaking ongoing promotional activities to offset the mobile operators' promotions. Wholesale revenue (48% of total revenue in 1Q210) increased by 14% YoY, this increase is due to higher international wholesale revenue (76% of total wholesale revenue). TE has recognized around EGP 160 million from the submarine cable project.
- Consolidated EBITDA before provision (based on Egyptian accounting standards) witnessed a slight growth of 1% YoY, translating into an EBITDA before provisions margin of 55%. According to the earning release, the margin exceeded management's expectations.
- Total income from TEs investments decreased by 15% YoY. TE has exposure to the mobile market through its 44.95% stake in Vodafone Egypt (VE). VE was able to grasp 41% of new mobile subscribers during FY2009. In addition, VE acquired 48% of new mobile subscribers during 1Q2010. VE's mobile subscribers reached 24 million at the end of March 2010. VE total revenue (for the full year ending March 2010) grew by 2% YoY. Net profit declined by 2% YoY due to a one off adjustment related to employees' compensation.
- Total CAPEX during 1Q2010 witnessed a growth of 74% YoY mainly due to the final stage of TE's network investment in TE North project. Total CAPEX reached EGP 309 million which represents 12% of total sales.
- TE's management will hold the 1Q2010 result call today at 17:00 Cairo time.
- As we said earlier in our analyst comment dated March 17, 2010, the 2010 guidance and the reason for the dividend cut would have a negative impact on our valuation for the stock. Hence, we have put the company "Under Review". Now that we have the full financial statements based on the IFRS, we will issue soon an update on TE reflecting the performance of the company during 4Q2009 and 1Q2010.

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Related Research

- Telecom Egypt Analyst Comment - 17 March 2010
- Telecom Egypt Initiation of Coverage - 22 December 2009

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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