Analyst Comment

NBK CAPITAL

August 16, 2010

TELECOM EGYPT (ETEL.CA)

12-Month Fair Value: EGP 20.10
Last Close (15 August, 2010): EGP 17.02
Recommendation: Accumulate - Risk Level: 4

- Telecom Egypt (TE) reported its 2Q2010 results, revenues grew by 1% YoY and by 8% QoQ to EGP 2.7 billion. Revenues came in 8% higher than our forecast of EGP 2.5 billion, which is attributable to a higher than expected level of growth in the fixed-line and data segments during 2Q2010.

- Looking at TE's revenue breakdown, we notice that retail revenues (52% of total revenues in 2Q2010) dropped by 9% YoY but increased by 9% QoQ to EGP 1.4 billion. Management accredits the growth to its promotional activities during the quarter: TE provided free minutes to residential customers (3,000 minutes to be consumed over a span of six months) and a waiver of installation fees.

- The recent promotional activities had a positive effect on the number of subscribers. After 15 months of witnessing decline in fixed-line subscribers, TE was able, during 2Q2010, to increase the number of fixed-line subscribers by around 110 thousand. We view the customer response to TE's promotional efforts, as a positive for TE's fixed-line segment. However, we would like to monitor closely, the growth of this segment over the current quarter, in order to gauge the sustainability of the trend.

- Wholesale revenues (48% of total revenues in 2Q210) increased by 15% YoY to EGP 1.3 billion. The growth of this segment was fuelled by a 34% YoY growth in domestic wholesale and a 10% YoY growth in international wholesale segments. This growth relates to the heightened activity of third party operators, such as ISPs and mobile operators, utilizing TE's services for domestic and international operations.

- Consolidated EBITDA before provisions (based on Egyptian accounting standards) declined by 4% YoY, but increased by 3% QoQ to EGP 1.4 billion. The resulting EBITDA margin before provisions stood at 52% during 2Q2010 versus 54% in both 1Q2010 and 2Q2009.

- Total income from TE's investments increased by 54% YoY to EGP 435 million in 2Q2010, which largely relates to Vodafone Egypt (VE). VE was able to secure net additional subscribers of 1.19 million over 2Q2010 versus 1.28 million during 1Q2010. This compares with only 27 thousand net subscriber additions for Mobinil during 2Q2010. According to management, VE has not suffered from dials shortage over 1H2010. While TE's management accredits the QoQ softness in subscriber net additions to new rules on subscriber de-activation, they do not foresee dials shortage to be an issue for the operator going forward.

- Net Profit for the quarter increased by 23% YoY to EGP 971 million.

- CAPEX during 1H2010 increased by 19% YoY to EGP 519 million (representing 10% of revenues). The management stated that CAPEX during 1H2010 was within its expectations and furthermore maintains its CAPEX guidance of between EGP 1.5 billion and EGP 2 billion for FY2010.

- Overall we view the growth in the wholesale segment and in the fixed-line and mobile subscriber base, as positives for the operator. We maintain our fair value for the stock at EGP 20.10 per share which is 18% higher than last close and our recommendation on the stock is "Accumulate."

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Related Research

- Telecom Egypt Update - 08 June 2010

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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