

March 17, 2010

TELECOM EGYPT (ETEL.CA)

12-Month Fair Value: Under Review

Last Close (16 March, 2010): EGP 17.20

Recommendation: Under Review - Risk Level: Under Review

- Telecom Egypt (TE) reported consolidated revenue of EGP 9,960 million for FY2009, a slowdown of 1.5% compared to FY2008. This was slightly below our forecast of EGP 10,283 million (3% difference). Aggressive competition in the mobile market increased the fixed-to-mobile substitution. Thus, TE'S revenue growth was affected negatively.
- Looking at TE's revenue breakdown, we notice that retail revenue (which represented 58% of total revenue in FY2009) dropped by 7% compared to FY2008. According to TE's management, this drop is due to the short term promotional activities that TE had to undertake during 2009 to be able to compete with the other mobile operators. As for wholesale revenue (which represented 42% of total revenue in FY2009), it increased by 7% during FY2009. TE is benefiting from its infrastructure for collocation and transmission services, settlement and infrastructure leasing.
- According to TE's earning release, consolidated EBITDA before provision (based on the Egyptian accounting standards) witnessed a decline of 2% YoY, which translate into an EBITDA before provisions margin of 51%. We do not have TE's financial statements according to IFRS; hence we can't compare the reported EBITDA to our forecast; however, based on historical trends this could translate into an IFRS EBITDA margin that is in line or slightly lower than our forecast of 46%.
- Total income from TE's investments increased by 8% YoY. TE benefited from its 44.95% ownership in Vodafone Egypt. During the nine month ending December 2009 (as Vodafone Egypt's financial year is from 1st of April till 31th of March), Vodafone Egypt's net profit increased by 6% YoY. TE's net profit reached EGP 3,051 million, an increase of 9% YoY.
- Total CAPEX increased by 7% YoY during 2009 and reached EGP 980,798 million mainly due to the TE's network investment in TE North project. This was below management's prior guidance of EGP 1.2 billion which we had adopted in our forecast.
- We view these set of results for the year as more or less in line with our forecast. However, we are worried about the weakness witnessed in the fourth quarter which hints that TE is more focused on market share rather than profitability.
- This was further exacerbated by the guidance received during TE's conference call. TE's management is expecting total revenue to remain flat or to come under slight pressure in 2010 and EBITDA margin to be seen at mid 40% (Egyptian Acc. Standard). This is well below our previous forecast of 7-10% growth in revenue and 45% EBITDA margin (IFRS) for 2010. Furthermore, CAPEX guidance was set at around EGP 1.5 to 2 billion, higher than our previous forecast of EGP 1.2 billion.
- Furthermore, the company proposed cash dividend of EGP 0.75 per share for FY2009 (EGP 1.3 per share for FY2008) is well below consensus. According to management, the cut in dividends is due to TE exploring the opportunity of the fourth mobile license in Egypt. Although we believe this is highly unlikely, we believe that such an acquisition would not be beneficial to TE shareholders.
- The 2010 guidance and the reason for the cut of dividend would have a negative impact on our valuation for the stock. Hence, until we receive the IFRS financial statements and issue an update we are putting the company "Under Review".

Diala Hoteit

T. +971 4365 2855

E. diala.hoteit@nbkcapital.com

Related Research

- 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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NBK CAPITAL**Kuwait****Head Office**

38th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050
 Kuwait
 T. +965 2224 6900
 F. +965 2224 6905

MENA Research

35th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050, Kuwait
 T. +965 2224 6663
 F. +965 2224 6905
 E. menaresearch@nbkcapital.com.kw

Brokerage

37th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050, Kuwait
 T. +965 2224 6964
 F. +965 2224 6978
 E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
 Dubai International Financial Center
 P.O.Box 506506
 Dubai, UAE
 T. +971 4 365 2800
 F. +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
 Sun Plaza, 30th Floor,
 Dereboyu Sk. No.24
 Maslak 34398, Istanbul, Turkey
 T. +90 212 276 5400
 F. +90 212 276 5401

NATIONAL BANK OF KUWAIT**Kuwait****National Bank of Kuwait SAK**

Abdullah Al-Ahmed Street
 P.O. Box 95, Safat 13001
 Kuwait City, Kuwait
 T. +965 2242 2011
 F. +965 2243 1888
 Telex: 22043-22451 NATBANK

Jordan**National Bank of Kuwait SAK**

Head Office
 Al Hajj Mohd Abdul Rahim Street
 Hijazi Plaza, Building # 70
 P.O.Box 941297,
 Amman -11194, Jordan
 T. +962 6 580 0400
 F. +962 6 580 0441

United States of America**National Bank of Kuwait SAK**

New York Branch
 299 Park Avenue, 17th Floor
 New York, NY 10171, USA
 T. +1 212 303 9800
 F. +1 212 319 8269

Vietnam**National Bank of Kuwait SAK**

Vietnam Representative Office
 Room 2006, Sun Wah Tower
 115 Nguyen Hue Blvd, District 1
 Ho Chi Minh City, Vietnam
 T. +84 8 3827 8008
 F. +84 8 3827 8009

INTERNATIONAL NETWORK**Bahrain****National Bank of Kuwait SAK**

Bahrain Branch
 Seef Tower, Al-Seef District
 P.O. Box 5290, Manama, Bahrain
 T. +973 17 583 333
 F. +973 17 587 111

Lebanon**National Bank of Kuwait**

(Lebanon) SAL
 Sanayeh Head Office
 BAC Building, Justinian Street
 P.O. Box 11-5727, Riyad El Sholh
 1107 2200 Beirut, Lebanon
 T. +961 1 759 700
 F. +961 1 747 866

United Kingdom**National Bank of Kuwait (Intl.) Plc**

Head Office
 13 George Street,
 London W1U 3QJ, UK
 T. +44 20 7224 2277
 F. +44 20 7224 2101

China**National Bank of Kuwait SAK**

Shanghai Representative Office
 Suite 1003, 10th Floor,
 Azia Center, 1233 Lujiazui Ring Rd.
 Shanghai 200120, China
 T. +86 21 6888 1092
 F. +86 21 5047 1011

Saudi Arabia**National Bank of Kuwait SAK**

Jeddah Branch
 Al-Andalus Street, Red Sea Plaza
 P.O. Box 15385
 Jeddah 21444, Saudi Arabia
 T. +966 2 653 8600
 F. +966 2 653 8653

Iraq**Credit Bank of Iraq**

Street 9, Building 187
 Sadoon Street, District 102
 P.O.Box 3420, Baghdad, Iraq
 T. +964 1 7182198/7191944
 +964 1 7188406/7171673
 F. +964 1 7170156

NBK Investment

Management Limited
 13 George Street
 London W1U 3QJ, UK
 T. +44 20 7224 2288
 F. +44 20 7224 2102

France**National Bank of Kuwait (Intl.) Plc**

Paris Branch
 90 Avenue des Champs-Elysees
 75008 Paris, France
 T. +33 1 5659 8600
 F. +33 1 5659 8623

ASSOCIATES**Qatar****International Bank of Qatar (QSC)**

Suhaim bin Hamad Street
 P.O.Box 2001
 Doha, Qatar
 T. +974 447 3700
 F. +974 447 3710

United Arab Emirates**National Bank of Kuwait SAK**

Dubai Branch
 Sheikh Rashed Road, Port Saeed
 Area, ACICO Business Park
 P.O. Box 88867, Dubai
 United Arab Emirates
 T. +971 4 2929 222
 F. +971 4 2943 337

Egypt**Al Watany Bank of Egypt**

13 Al Themar Street
 Gameat Al Dowal AlArabia
 Fouad Mohie El Din Square
 Mohandessin, Giza, Egypt
 T. +202 333 888 16/17
 F. +202 333 79302

Singapore**National Bank of Kuwait SAK**

Singapore Branch
 9 Raffles Place #51-01/02
 Republic Plaza, Singapore 048619
 T. +65 6222 5348
 F. +65 6224 5438

Turkey**Turkish Bank**

Head Office
 Valikonagl Avenue No. 1
 P.O.Box 34371 Nisantasi,
 Istanbul, Turkey
 T. +90 212 373 6373
 F. +90 212 225 0353