

13 May 2010

Buy

Target price
E£20.05

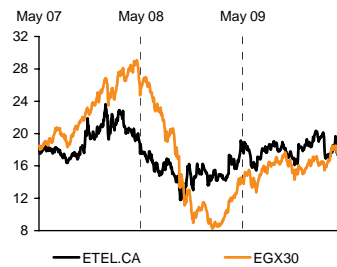
Price
E£17.24

Short term (0-60 days)
n/a

Sector view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	17.85	20.30	16.83
Absolute (%)	-3.4	-15.1	2.4
Rel market (%)	6.2	-13.9	-11.1
Rel sector (%)	14.4	-0.5	n/a



Market capitalisation
E£29.43bn (€4.14bn)

Average (12M) daily turnover
E£31.38m (€4.44m)

Sector: EGX30 Telecoms
RIC: ETEL.CA, ETEL.EY
Priced at close of business 12 May 2010.
Source: Bloomberg

Analyst

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Telecom Egypt

1Q10 results

We forecast flat annual revenue growth for FY10. As with most telecom operators, the first quarter of the year is usually the lowest in terms of revenue, which tend to pick up during the second half. Telecom Egypt will hold a conference call later today, to discuss its 1Q10 financial results.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (E£m)	10,117	9,960	10,028	9,722	9,937
EBITDA (E£m)	5,048	4,579	4,469	4,404	4,545
Reported net profit (E£m)	2,448	3,051	3,093	3,079	3,191
Normalised net profit (E£m)	2,448	3,051	3,093	3,079	3,191
Normalised EPS (E£)	1.43	1.79	1.81	1.8	1.87
Dividend per share (E£)	1.3	0.75	1.45	1.53	1.68
Dividend yield (%)	7.54	4.35	8.41	8.89	9.76
Normalised PE (x)	12	9.64	9.52	9.56	9.22
EV/EBITDA (x)	5.92	6.12	6.05	5.91	5.54
EV/invested capital (x)	1.14	1.08	1.06	1.04	1.02

Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Dec, fully diluted

Retail services

Total retail revenues for 1Q10 were E£1,296m, down 12% yoy but up nearly 5% qoq as customers responded to Telecom Egypt's ongoing promotional activities aimed at countering continued aggressive promotional activities from mobile operators. These promotions were not in place during 1Q09. Meanwhile, TE Data, Telecom Egypt's fully-owned internet and data arm, increased its customer base by 42% yoy, to reach a market share of 61.1% at end-1Q10, compared to 60.9% at end-FY09 and 59.6% at end 1Q 09. In our forecasts, we believe TE Data could improve market share to 64% by endFY10. Revenues from internet and data increase 29% yoy, totalling E£189m, mostly attributable to TE Data.

Wholesale services

Wholesale revenues are central to Telecom Egypt's revenue mix, accounting for 48% of total service related revenues in 1Q10, vs 42% in the first three months of 2009. Total wholesale revenues reached E£1,207m during the first three months of 2010, representing a 14% yoy rise. The increase can largely be attributed to international wholesale revenues, which accounted for 76% of 1Q10 total wholesale revenues. TE has recognised nearly E£160m from cable systems for the period.

Income from investments

Total income from investments for the period was E£300m, including income from Vodafone Egypt (VFE). Despite intense competition from mobile operators and a highly dynamic operating environment over the last 12 months, VFE increased its customer base by 30% to reach more than 24m subscribers as at 31 March 2010. VFE generated revenues of E£11,987m in the 12 month period ending 31 March 2010, a 2% increase on the previous period. Net profit for the year reached E£3,019m, compared to E£3,080m for the 12 months ended 31 March 2009. This marginal decrease does not reflect performance but relates directly to a one-off accounting adjustment by VFE in relation to its employee compensation.

Important disclosures can be found in the Disclosures Appendix.

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Key takeaways

- Total consolidated revenues reached E£2,503m, an annual decline of 0.9%.
- EBITDA before provisions was up 1% reaching E£1,364m, delivering a margin of 54.5%.
- Net profit after tax reached E£992m, translating to a net profit margin of 39.6%.
- Earnings per share (EPS) for the period reached E£0.58.
- Capex-related cashflows were up 73.8% at E£309m on the same period in 2009.
- As at 31 March 2010, total fixed line subscribers stood at 9.3m.
- Retail ADSL market share reached 61%, up 2.5% on the same period in 2009.
- Positive contribution of share of profits from Vodafone Egypt of E£300m.

Financials reported are according to Egyptian Accounting Standards

Income statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	10117	9960	10028	9722	9937
Cost of sales	-2868	-3269	-3409	-3208	-3180
Operating costs	-2201	-2112	-2149	-2110	-2212
EBITDA	5048	4579	4469	4404	4545
DDA & Impairment (ex gw)	-3144	-2475	-2233	-2116	-2113
EBITA	1904	2104	2237	2288	2432
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	1904	2104	2237	2288	2432
Net interest	-117.5	-5.31	-44.0	-19.1	4.15
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	1180	1411	1366	1273	1235
Reported PTP	2966	3510	3558	3542	3672
Taxation	-512.3	-453.4	-459.6	-457.5	-474.2
Minority interests	-5.71	-5.35	-5.71	-5.85	-6.21
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2448	3051	3093	3079	3191
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	5048	4579	4469	4404	4545
Normalised PTP	2966	3510	3558	3542	3672
Normalised net profit	2448	3051	3093	3079	3191

Source: Company data, RBS forecasts

year to Dec

Balance sheet

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	2735	2453	3451	3981	4358
Other current assets	5326	4767	4794	4689	4545
Tangible fixed assets	18213	17368	16368	15418	14618
Intang assets (incl gw)	155.0	0.00	-10.0	-19.0	-26.0
Oth non-curr assets	7009	7873	8680	9466	10227
Total assets	33438	32461	33284	33535	33723
Short term debt (2)	0.32	6.78	0.00	0.00	0.00
Trade & oth current liab	5485	4272	4404	4494	4726
Long term debt (3)	1663	857.9	850.8	459.1	0.00
Oth non-current liab	486.3	56.6	56.6	56.6	56.6
Total liabilities	7634	5193	5312	5010	4783
Total equity (incl min)	25804	27268	27973	28525	28941
Total liab & sh equity	33438	32461	33284	33535	33723
Net debt	475.6	-1409	-2403	-3415	-4226

Source: Company data, RBS forecasts

year ended Dec

Cash flow statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	5048	4579	4469	4404	4545
Change in working capital	-1089	228.6	60.1	282.4	339.2
Net interest (pd) / rec	-341.6	-208.7	-44.0	-19.1	4.15
Taxes paid	-449.3	-1250	-459.6	-457.5	-474.2
Other oper cash items	1180	923.4	1366	1273	1235
Cash flow from ops (1)	4348	4272	5391	5483	5650
Capex (2)	-918.9	-980.8	-1223	-1157	-1306
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	1555	1046	-807.6	-785.7	-761.4
Cash flow from invest (3)	636.0	65.2	-2030	-1943	-2067
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-1706	-2367	-2474	-2617	-2872
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-1869	-2049	84.6	-397.3	-344.1
Cash flow from fin (5)	-3576	-4415	-2390	-3014	-3216
Forex & disc ops (6)	1.23	-290.0	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	1410	-367.8	971.3	526.1	366.1
Equity FCF (1+2+4)	3429	3292	4169	4326	4344

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, RBS forecasts

year to Dec

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside. Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Telecom Egypt (RIC: ETEL.CA, Rec: Buy, CP: E£17.24, TP: E£20.05): Our target price is based on an equal weighting of our DCF-based and multiples-based valuations. The main downside risk is the addition of a second fixed-line operator in Egypt, and the prevalent fixed-to-mobile substitution trend, arising from the aggressive competition of mobile operators.

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