



Final Transcript

BELTONE SECURITIES BROKERAGE: Telecom Egypt Q1 Results 2019

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SPEAKERS

Ahmed Adel – Beltone Financial
Mohamed Shamroukh – Telecom Egypt
Sarah Shabayek – Telecom Egypt
Wael Hanafy – Telecom Egypt
Tarek Abdelhamid – Telecom Egypt

PARTICIPANTS

Hassan Abdelgelil – CI Capital
Dalal Darwich – Arqaam Capital

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Telecom Egypt First Quarter 2019 Results Conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ahmed Adel. Please go ahead.

A.Adel Thank you. Good morning and good afternoon everyone. This is Ahmed Adel from Beltone Financial. I would like to welcome you all to Telecom Egypt's First Quarter 2019 Results Conference call.

From Telecom Egypt, we have with us Mr. Mohamed Shamroukh, Chief Financial Officer and Sarah Shabayek, Investor Relations Senior Director. As usual, the conference call will begin with a discussion of the key highlights of the period followed by a brief Q&A session.

I will now hand the call to the management. Thank you.

S.Shabayek

Thank you, Ahmed. This is Sarah Shabayek, Head of Investor Relations at Telecom Egypt and thanks to Beltone Financial for hosting this quarter's conference call. Good afternoon and welcome to our Q1 2019 Earnings Call.

The call will follow its usual format. We will start with a briefing of the operational and financial information in the quarter followed by the Q&A session. We have decided to keep the commentary on the results short and to the point to allow for more time for questions. We have provided a thorough presentation of the results on our IR website under the quarterly results section on the Financial Information tab on ir.te.eg.

I have with me on the call Mr. Mohamed Shamroukh, Telecom Egypt's CFO. I would like to apologize on behalf of Eng. Adel Hamed, our CEO, who is unable to join the call due to an urgent circumstance that he had to attend to. I also have with me Mr. Tarek Abdelhamid, the Chief Marketing Officer and Mr. Wael Hanafy, the Head of Finance.

Without further delay, I would like to draw your attention to our safe harbor statement. We may make some forward-looking statements in the course of this conference call. These statements will be based on the information available to us as of today, and you should, therefore, not assume in the future that we continue to hold these views. We do not commit to notify you if our views change. We refer to our public filings with some factors that may cause forward-looking statements to differ from actual future events or results.

I will now hand over the call to Mr. Mohamed Shamroukh.

M.Shamroukh

Thank you, Sarah. Good morning and good afternoon, everyone. Thank you for joining our call today.

I'm very proud of this quarter's performance that truly bears witness to our commitment to fulfill our strategic objectives across all pillars. On the retail side, our customer base is continuing to grow given our broad

spectrum of services that will soon include quad play following the nationwide IPTV license that we have recently acquired.

Our growth in both fixed and mobile data also falls in line with our strategy, bringing us closer to becoming Egypt's preferred data operator and enabling us to capture the potential in the underpenetrated data market. Such achievements shine brighter when supported by strong international and domestic wholesale performance. I am, therefore, very pleased with the revenue growth in the domestic and international wholesale segments. I would also like to highlight the PEACE cable system agreement signed in April during our visit to China with a total value of USD 45mn over the lifetime of the cable and the letter of intent with HengTong, PEACE's parent, granting the cable another fiber pair for an additional USD 20mn once the second agreement is signed, which will allow us to further monetize our investments in this field.

On another note, one of our core missions is to bring about nationwide digital transformation; these initiatives have been contributing to our results in the past and will continue to contribute more in the future. This quarter, we have completed two main projects: the distribution of data SIMS to school students and the connectivity of governmental buildings in Port Said. Both projects will continue in the future with an additional batch of students entering high school next year and the continuation of the connectivity project with five more governorates lined up for the second phase along with the rest of the governorates over a 2-year period. We have provided details on these projects on slide 5 of the presentation.

On the financials, I would only like to point out a few highlights:

As you can see, we have received the dividends from Vodafone Egypt at the end of Q1 and repaid our EGP facilities. Our free cash flow to firm, as such, jumped to 4.7bn in the quarter and our net debt to EBITDA declined significantly to 1.1x from 2.1x at the end of 2018. This, however, did not yet have an impact on interest expense but will start to show in Q2. Normalizing for the payment of debt at the end of the quarter, our effective interest rate would have been 8.6% in Q1 2019.

On the employee bonus, we have handed out a one-off bonus of EGP 175mn at the end of Q1, this is in relation to receiving the Vodafone dividend and is non-recurring in nature. The bonus represents 3.5% of total employee annual compensation.

I have reached the end of my comments and now we are ready to open the

floor for the Q&A session.

Moderator [Operator instructions]. Your first question comes from the line of Hassan Abdelgelil. Please go ahead.

H. Abdelgelil Hello. Good afternoon and congratulations on the results. I just have two questions. The first is related to the employee bonus that you just mentioned. Was it normally paid in the 4th quarter of the year?

The second one is related to the education reform program. You said you were able to distribute 600k data SIMs so my question is, what type of students are you targeting and what are the types of schools that we're talking about? Are they governmental schools or are they private ones? Thanks.

M. Shamroukh First of all, the bonus is a one-off payment related to receiving dividends from Vodafone and it will not happen again. It's not related to Q4.

As for the 600k SIMs, we distributed them among students in their first year of secondary school and as I previously mentioned, this took place in around 2,600 governmental schools. Private schools will be treated differently; I think it's a matter to be discussed between the government and private schools and we are not part of this discussion. They will both have to setup the framework to determine the parties' obligations and decide who will pay Telecom Egypt for connectivity.

We are expecting to connect more schools with fiber once the government decides to launch the second phase. We do believe that this initiative is just a pilot for the government's broad strategy that entails connecting second and third years of secondary school, as well as primary school, in the coming phases.

H. Abdelgelil Can you just repeat the last thing you said? When do you expect the next phase to be?

M. Shamroukh There are current discussions between the government and private schools about providing the latter with fiber connectivity, however, it is not settled yet who will pay Telecom Egypt for its services. The government is currently assessing and discussing the matter with the schools and once it is settled, we will start immediately.

We expect to provide more SIMs for schools and engage in other governmental initiatives with other ministries to support connectivity via our nation-wide fiber networks or our mobile network to fulfil the government's digital transformation plan.

- H. Abdelgelil Okay. Do you expect to connect other schools with fiber in 2019?
- M. Shamroukh It's not our call. It depends on the government's plans going forward.
- H. Abdelgelil Okay. If I may add, are there any new updates regarding the early retirement program?
- M. Shamroukh The Board of Directors approved the program and delegated the management to set the governing conditions for it and the appropriate timeframe for its execution. The program is expected to take off after the holy month of Ramadan given that a new Vice President for Human Resources has been hired yesterday so the internal processes and the governance plan for the program have not been determined yet.
- H. Abdelgelil Did you say 5% or is it just me that heard that?
- S.Shabayek We didn't say 5%. Not sure what you heard.
- H. Abdelgelil Okay, that's fine. So you'll start after Ramadan, right?
- S.Shabayek Yes.
- H. Abdelgelil Okay. Any numbers you can give us on this?
- S.Shabayek Not yet. We just announced that we're targeting 2,000 employees, that's the number that we have announced so far. The financial impact depends on how many people actually apply for the program and whether these cases are accepted or not so we cannot give you any numbers yet.
- H. Abdelgelil One last question on the school project and data SIMs: What is the expected ARPU for these data SIMs?
- S.Shabayek Let me explain the package, which is something that you need to understand in order to picture the ARPU dynamics. Through this data SIM, we have provided the first GB per month for EGP 5, which is a low price for students. Any additional usage beyond the first GB must be paid through subscribing for regular WE rate plans available in the market. So

the first GB, as I said, is for EGP 5, but the usage is usually higher than that so students usually have to subscribe for a data bundle.

H. Abdelgelil So the GB, which is for EGP 5, is it paid every month or just the first time?

S.Shabayek Every month. So basically, the initiative was to support students when they go back home. Given that their schools are connected with fiber, they have internet access there to be able to view their curriculum and when they go home, they have 1 GB to study. Anything else they do over the internet, including entertainment, has to be paid for. We benefit from the regular usage of the students based on their age bracket and usual habits, however, we're supporting them with the 1 GB that is solely dedicated to accessing the knowledge bank.

H. Abdelgelil Okay.

M. Shamroukh What Sarah is trying to say is that the 1 GB is just for accessing the knowledge bank. It's not supposed to be used for other activities on social media or browsing entertainment content, if so, they will have to recharge their data SIMs. The ARPU for these SIMS will be similar to other WE data SIMs in the market.

H. Abdelgelil Okay. Got it. Thank you, guys.

Moderator [Operator instructions]. You have a question from Dalal Darwich.

D.Darwich Thank you for the presentation and congrats on the results. I just have one quick question on the data SIMs that you have given out to students. Do the data SIMs also have a fee, like the fee on the normal SIM?

M. Shamroukh No, the government approved to waive the fee, so we are exempted from the fees for this project.

D.Darwich Okay, great. Thank you so much.

Moderator You have a follow up from Hassan.

H. Abdelgelil Hello again. If we exclude the impact of the 600k SIMs, we would have seen a decrease in mobile subscriptions by more than 200k subscribers so are we witnessing some sort of saturation in the mobile market and what's happening now is that churn overtaking the gross additions?

T.Abdelhamid Hello Hassan, this is Tarek Abdelhamid. Let me give you a quick answer. If you look at the market as a whole since the inception of the SIM tax, it has been shrinking on a quarterly basis. So this is just part of the cleanup that's happening in the market and because most of our customer base subscribed in early 2018, this is the normal sort of churn that's picking up in Q4 and Q1. Later on, this will be a very normal and stable trend.

H. Abdelgelil Okay, so what's the churn cycle?

T.Abdelhamid It's more or less comparable to the market's best practice.

H. Abdelgelil Which is four to six months?

S.Shabayek No, not four to six months.

T.Abdelhamid The cycle has different phases: mainly, the first 120 days are active and then we move into the deactivation phase, which is very similar to the market.

H. Abdelgelil Okay. So, more than six months?

T.Abdelhamid No. I didn't say more than six months.

H. Abdelgelil Okay, thanks.

A.Adel Could you please explain the reason behind the increase in the income tax and the positive figure in the deferred tax?

W.Hanafy As you know, the income from Vodafone is recognized based on the equity method in the consolidated financial statements. As we recognize this income, we also recognize the deferred tax liability. This quarter, the EGP 4.8bn we received from Vodafone in dividends increased our income tax in the standalone financials, which is offset by the previously recorded tax liability on the consolidated statements.

A.Adel So this will not continue in the next quarter?

W.Hanafy It's a one-time occurrence related to the dividends from Vodafone. As per the income tax law, we have to pay around 5% in advance as a withholding tax and other extra taxes that amount to around 3%, so the

total income tax is around 8% of the dividends we received. You can see around EGP 380mn related to the dividends from Vodafone.

A.Adel Thank you. I have a follow up question about spectrum. Are there any kind of talks with the NTRA regarding further spectrum for Telecom Egypt or even other operators in the market?

M.Shamroukh Spectrum is a very important resource and it's very rare that an operator would refuse to take spectrum, if available. We are definitely in need of more spectrum and we have received a preliminary communication from the regulator for a potential spectrum release. We requested to acquire more spectrum, especially 1800 MHz, based on our forecasts and the expected time to launch new services.

The process with the regulator is not mature enough and there is no clear roadmap for it. I think the whole market, including Telecom Egypt, is in need of more spectrum given the boom in data. There are currently no talks about price, allocation or about the bandwidth, we just filed a request highlighting our spectrum needs and we are waiting for the regulator's feedback.

S.Shabayek Just to clarify, the communication we received from the regulator was a letter asking the operators whether they need spectrum, it was not an offering of any frequencies.

A.Adel Alright. Thank you.

Moderator There are no further questions from the phone lines.

S.Shabayek Okay, thank you very much for participating in our call. If you need any further information, please contact Investor Relations.

Moderator Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.