

## Today's Story



## ETEL Posts a Solid Set of Results in Q1 2019 – Conference Call Highlights

☒ Mohamed Sobol | Equity Analyst | [msobol@shuaasecurities.com](mailto:msobol@shuaasecurities.com)

Telecom Egypt (ETEL) reported a robust set of results in Q1 2019, where earnings more than doubled and total revenues grew by a substantial 27% y/y and EBITDA jumped 26% y/y. ETEL continued to capitalize on the nation-wide digital transformation as it distributed 613,000 data SIMs in just four days and geared up more than 650 public buildings in Port Said with fiber connectivity.

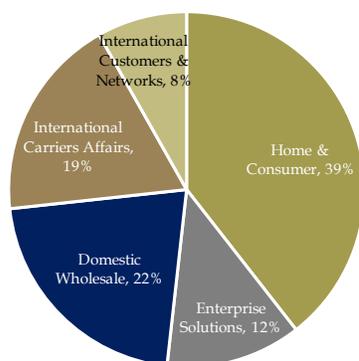
- **Earnings boosters:** Earnings shot higher 109% y/y to EGP1.6bn in Q1 2019 vs. EGP774mn in Q1 2018. This solid earnings growth is a result of (1) 27% y/y stronger revenues of EGP6.1bn, lifted by sound growth in most of ETEL's business segments, (2) 26% y/y higher EBITDA of EGP1.9bn, thanks to substantially better revenues, (3) an annual recovery in investment income which reached EGP647mn (vs. EGP287mn in Q1 2018) from **Vodafone Egypt (VFE)**, and (4) FX gains of EGP413mn on favorable revaluation of USD-denominated credit facilities. Adjusted earnings (i.e. excluding one-off items and FX gains) would have still increased 26% y/y to EGP977mn.
- **Revenue boosters:** IRU sales of EGP400mn during Q1 2019 supported the 27% y/y growth in ETEL's total revenues. Retail business revenues, which climbed 31% y/y to EGP3.15bn, also stimulated revenue growth. Fixed-line (voice and data) customer base grew 17% y/y to 13.6mn. Meanwhile, mobile customer base leapt 45% y/y to 4.2mn. Currently, mobile revenues contribute a low-double digit percentage to total retail business revenues, according to ETEL. Moreover, connectivity projects brought in EGP179mn revenues from the enterprise segment, which grew 29% y/y to EGP750mn. ETEL mentioned that IRU sales are considered volatile on a quarterly basis but should be stable on an annual basis. Excluding IRU sales, total revenues would have stood at EGP5.7bn (+19% y/y).
- **EBITDA rose 26% despite higher employment costs:** EBITDA reached EGP1.9bn (+26% y/y), backed by revenue growth that offset the 35% hike in employee cost resulting from annual salary increases and one-off bonus of EGP175mn during the quarter. Meanwhile, reported EBITDA of EGP1.9bn implied an EBITDA margin of 31.3%, nearly unchanged vs. 31.5% in Q1 2018.
- **The future:** ETEL's management stated that the EGP4.8bn dividends collected from VFE during Q1 2019 helped in repaying a portion of their credit facilities—a move that should reflect positively on interest expense in Q2 2019. Also, ETEL paid the one-off bonus of EGP175mn to their employees after receiving the dividends. According to management, the 613,000 data SIMs distributed to students have a data bundle priced at EGP5 for the first 1 GB, then the payment for any additional data usage have to be made through **WE's** existing data bundles. Management expects to distribute more data SIMs and continue to execute fiber connectivity projects for schools, but no timelines were given. Also, ETEL's board nodded the early-retirement program, the implementation of which is expected to begin after Ramadan.
- **Conclusion:** ETEL delivered a good set of results overall, even after excluding the one-off items. ETEL currently trades at a cheap TTM P/E of 5.1x. We are optimistic about the company's outlook for 2019. With the recent PEACE cable agreement signed in April, ETEL could be adding USD20mn in revenues the following quarter. Our optimism also stems from less intense interest expense as ETEL settled all its high interest EGP-denominated loans, thus lowering its debt to EGP9.6bn vs. EGP13.8bn in Q4 2018, thanks to VFE's dividends. Lastly, we remind our readers that ETEL has been part of our **EGX Model Portfolio** from the start, noting that our latest valuation for the stock was EGP18.6/share (+43% upside).

## Results summary

EGPmn	Q1 2019	Q1 2018	y/y	Q2 2018/19	q/q
Home & Consumer	2,401	1,829	31%	2,215	8%
Enterprise Solutions	750	583	29%	852	-12%
Domestic Wholesale	1,309	880	49%	818	60%
International Carriers Affairs	1,128	1,096	3%	1,077	5%
International Customers & Networks	498	393	27%	450	11%
<b>Total Revenues</b>	<b>6,087</b>	<b>4,782</b>	27%	<b>5,412</b>	12%
<b>EBITDA</b>	<b>1,903</b>	<b>1,506</b>	26%	<b>802</b>	137%
<b>Net Income</b>	<b>1,615</b>	<b>774</b>	109%	<b>(22)</b>	nm
EBITDA Margin	31%	31%	-24 bps	15%	16 ppts
Net Margin	27%	16%	10 ppts	0%	nm

Source: Company reports.

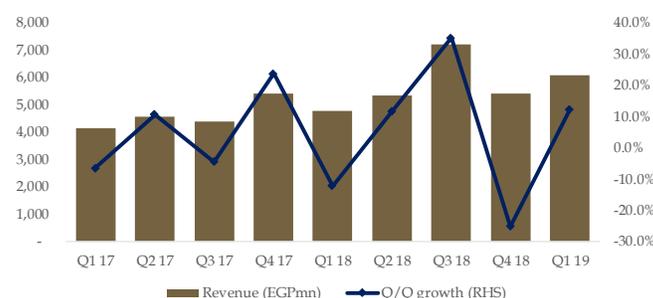
## Revenue contribution by segment in Q1 2019



Note: Home & Consumer and Enterprise Solutions are classified as Retail. Domestic Wholesale, Int. Carriers Affairs and Int. Customers & Networks are classified as Wholesale

Source: Company reports.

## Quarterly revenue progression



Source: Company reports.

## Top Headlines

## Corporate

- **Egypt Kuwait Holding Co.'s (EKHO)** net profit rose 13.5% y/y to USD28.8mn in Q1 2019, while net operating income reached USD45.4mn (+36% y/y). Revenues rose 19.5% to USD134mn, thanks mainly to the fertilizers & petrochemicals and energy segments. Management is cautiously optimistic regarding the future upgrades to P1 reserve levels and is carefully building a development plan for the concession's potential deep-layer reserves. EKHO is exploring opportunities to bring on an equity partner with proceeds being directed at an exploratory well. ([Company disclosure](#), [Company disclosure](#))
- **Credit Agricole – Egypt (CIEB)** released its preliminary indicators for Q1 2019, posting a 15% y/y higher consolidated earnings of EGP694mn, widely ahead of our estimates (SSEe). Net interest income climbed 12% y/y to EGP811mn, in line with SSEe. Gross loans grew 7% ytd to EGP23.20bn (above SSEe of 5% for gross loan growth), while deposits—surprisingly—contracted by 4% ytd to EGP42.17bn, pushing GLDR to settle north of 55% vs. 50% in Q4 2018. ([Company disclosure](#)) Furthermore, we note that the stand-alone results published this morning showed a reversal of booked credit losses provisions (i.e. EGP155mn) which drove in part such a positive variance. Adjusted for this provision reversal, earnings would have been close to our estimates of EGP511mn on a consolidated level.
- **Talaat Moustafa Group Holding's (TMGH)** preliminary earnings grew 17% y/y to EGP361.2mn in Q1 2019 as revenues leapt 39% y/y to EGP2.24bn. New sales shot up 50.5% to EGP4.41bn in Q1 2019 compared to EGP2.93bn in Q1 2018. TMGH decided to contribute EGP1bn to the capital increase of its 99.9%-owned subsidiary **Arab Co. for Projects & Urban Development** to support its recurring income. ([Company disclosure](#))
- **EFG Hermes Holding's (HRHO)** earnings after minority surged to EGP374mn in Q1 2019 (+50% y/y, +26% q/q), boosted by a strong momentum that took the top line to EGP1.34bn (+42% y/y, +1% q/q). Top-line growth was sparked by private equity fees coming from the **Vortex** exit deal. The NBFI segment, topped by **Tanmeyah**, also contributed handsomely to top-line growth. We note that opex retreated sequentially by 6%, supporting q/q margin improvement. ([Company disclosure](#))
- Official sources said that the settlement between **Emaar Misr for Development (EMFD)** and **El-Nasr Housing & Development** concerning *Uptown Cairo* project included an additional payment under the name of “donation”. Meanwhile, the sources that the dispute will be settled within days after being presented to the **Ministerial Committee for Settlement of Investment Disputes** and the **Cabinet** to ratify the settlement. (Al-Borsa)
- **Export Development Bank of Egypt's (EXPA)** stand-alone earnings hit EGP294mn in Q3 FY2018/19 (+113% y/y, +5% q/q) despite a quarterly weakness in net interest income of EGP435mn (+53% y/y, -3% q/q) on lower asset yields. Earnings growth was supported by fixed-asset sales, which led to substantial capital gains. Deposits rose sequentially to EGP36.78bn (+5% q/q) but slower than the pace of lending as gross loans grew to EGP24.29bn (+6% q/q), pushing GLDR higher to 66%. ([Company disclosure](#)) On a separate note, EXPA's BoD decided on Monday to sell its headquarters located in the Fifth Settlement. ([Company disclosure](#))
- **Porto Group Holding's (PORT)** earnings jumped 28% y/y to EGP63mn in Q1 2019 on 11% y/y higher revenues of EGP418mn. While gross margin was pressured by 2.4 ppts down to 38%, net margin widened by 2 ppts to 15%. PORT's sales fell c.30% y/y to EGP348mn on less unit sales. ([Company disclosure](#), [Company disclosure](#))

- **Egyptian Resorts Co.** (EGTS) suffered net losses of EGP8.7mn in Q1 2019 on 12% y/y lower revenues and overall negative margins. Contractual sales rocketed 2.82x to EGP82.7mn, 69% of which was generated by its latest project *Bay Village*. ([Company disclosure](#), [Company disclosure](#))
- **Sarwa Capital's** (SRWA) earnings after minority hit EGP120mn (+130% y/y) in Q1 2019, helped by higher securitization proceeds and a higher gross profit of EGP92mn (+34% y/y). Strong annual growth in earnings was also supported by an increase in other operating revenues and a decrease in other operating costs. ([Company disclosure](#))

## Non-Corporate

- **The Public Enterprise Minister** Hisham Tawfik said that a contract on a management partnership for a key housing company will soon be declared. The company has a large land portfolio, and the contract duration will be no less than seven years. On another note, the minister said that a public offering of this “un-named” company is still possible. ([Hapi](#))
- The **Manpower & Labor Force Committee** of the **House of Representatives** agreed on the submitted government bill to increase pensions by 15% and a minimum of EGP150, with minimum monthly pension to be EGP900. (Al-Akhbar)
- The **House of Representatives** approved an EUR4mn grant by a fund affiliated with **African Development Bank**. The grant is allocated to foster entrepreneurship in **Egypt**. ([Al-Borsa](#))
- The **Central Bank of Egypt (CBE)** said foreign cash flows from different sources have hit a record, registering USD24.7bn since January. ([Egypt Today](#))
- **UAE** investments in **Egypt** exceeded USD6.66bn during 2018, compared to USD6.51bn in 2017, according to the **UAE Ambassador** to Egypt Gomaa Mubarak Al-Junaibi. ([Egypt Today](#))

## Markets

↗	EGX 30	14,024.15	0.85%	↗	EGX 70	621.03	0.06%
↗	DFMGI	2,612.98	3.46%	↘	ADSMI	4,802.58	(2.57%)
↗	TASI	8,374.27	0.09%	↗	QE Index	9,798.74	0.60%
↗	S&P 500	2,834.41	0.80%	↘	MSCI EM	1,014.48	(0.20%)
↘	Gold	1,293.23	(0.28%)	↘	Brent Oil	71.03	(0.29%)

\*As of market close, except for commodities at spot price as of 8.53am CLT.

- **MENA Markets:** Egypt's benchmark EGX 30 was back in the green zone on Tuesday, driven by stronger COMI and EAST. UAE's DFMGI rose on support from its **construction** and **banking** sectors, while ADSMI fell, pulled down by **banking** stocks. Meanwhile, Saudi Arabia's TASI was up, powered by **banks** and **materials** stocks.
- **Global Markets:** A slight soother tune in trade tension escalation between the **US** and **China** provided markets with a breather on Tuesday, pushing **US indices** higher. Elsewhere, **Asian shares** rebounded slightly this morning. Meanwhile, **Brent oil** prices were north of USD70/bbl, as geopolitical tension boosted price.

## Number of the Day

9%

Market share of Al-Arish Cement's Beni Suef plant in Q1 2019.

## Today's Quiz

What was Orascom Construction's (ORAS) consolidated backlog in Q1 2019?

(Answer located at the end of this newsletter)

## Corporate Events

Company	Ticker	Event Type	Event Date	Reason
GB Auto	AUTO	Conference Call	15-May	Discussing Q1 2019 results
Suez Bags	SBAG	BoD	15-May	Reviewing Agenda Items
Medinet Nasr for Housing & Development	MNHD	EGM	15-May	Amending some of the company's articles of incorporation
Medinet Nasr for Housing & Development	MNHD	AGM	15-May	Authorizing the BoD to enter into netting contracts
Global Telecom Holding	GIHE	EGM	15-May	Amending some of the company's articles of association
Amer Group Holding	AMER	Lawsuit	15-May	Legal disputes relevant to Porto Tartous project
TMG Holding	TMGH	Dividends	15-May	Payment date (EGP0.088/share)
Ibsina Pharma	ISPH	Dividends	15-May	Ex-date (EGP0.07/share); Last eligible date (14 May)
MM Group for Industry	MTIE	BoD	15-May	Discussing Q1 2019 results
MM Group for Industry	MTIE	Conference Call	16-May	Discussing Q1 2019 results
Ibsina Pharma	ISPH	Dividends	19-May	Payment date (EGP0.07/share)
Egyptian for Developing Building	EDBM	EGM	19-May	Discussing capital increase
Misr Fertilizers Production Co.	MFPC	Dividends	20-May	Ex-date (EGP2.25/share); Last eligible date (19 May)
General Silos & Storage	GSSC	AGM	20-May	Reviewing Agenda Items
Orascom Construction	ORAS	AGM	21-May	Discuss dividends of USD0.30/share
Orascom Construction	ORAS	Results	22-May	Q1 2019 results
Misr Fertilizers Production Co.	MFPC	Dividends	22-May	Payment date (EGP2.25/share)
Middle Egypt Flour Mills	CEFM	EGM / AGM	22-May	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	23-May	Legal disputes relevant to Porto Tartous project
Sidi Kerir Petrochemicals	SKPC	Dividends	25-May	Ex-date (EGP1.25/share); Last eligible date (26 May)
South Cairo & Giza Mills	SCFM	EGM / AGM	26-May	Reviewing Agenda Items
Sidi Kerir Petrochemicals	SKPC	Dividends	29-May	Payment date (EGP0.50/share)
Heliopolis Housing & Development	HELI	AGM	1-Jun	Reviewing Agenda Items
Eastern Company	EAST	EGM / AGM	2-Jun	Reviewing Agenda Items
Egypt Aluminum	EGAL	EGM	2-Jun	Reviewing Agenda Items
Arabia Investments Holding	AIH	Lawsuit	9-Jun	Legal disputes against French Peugeot
Amer Group Holding & Porto Group Holding	AMER / PORT	Lawsuit	23-Jun	Legal Disputes relevant to Porto Tartous project
Global Telecom Holding	GIHE	AGM	26-Jun	Discussing capital increase
Egyptian Transport and Commercial	ETRS	Dividends	27-Jun	Payment date (EGP0.50/share)
TMG Holding	TMGH	Dividends	15-Jul	Payment date (EGP0.088/share)
Orascom Construction	ORAS	Results	8-Aug	1H 2019 results
Ismailia Misr Poultry	ISMA	Dividends	8-Aug	Payment date (EGP0.10/share)
Sidi Kerir Petrochemicals	SKPC	Dividends	22-Aug	Payment date (EGP0.50/share)
Sidi Kerir Petrochemicals	SKPC	Dividends	16-Oct	Payment date (EGP0.25/share)

## Quiz Answer

USD4.2bn.

## Contact Details

☎ +(202) 16331

📍 143, Bank Zone, 5th Settlement,  
New Cairo, First Abu Dhabi Bank Building (6<sup>th</sup> Floor)  
Cairo, Egypt

## Analyst Certification

We, **analysts mentioned in this document**, employed with SHUAA Securities Egypt, and authors to this document, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or security(ies). We also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, we certify that neither ourselves nor any of our close relatives hold or trade into the subject securities.

## Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the analysts in this document about the subject issuer(s) or security(ies). I also certify that the authors of this document, has not received any compensation directly related to the contents of the document.

## Disclaimer

This document has been issued by SHUAA Securities Egypt for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. SHUAA Securities Egypt has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. Accordingly, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by SHUAA Securities Egypt or by any of its respective officers, employees, agents or affiliates in relation to the accuracy, completeness or fairness of the information or opinions contained herein or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Securities Egypt. SHUAA Securities Egypt is regulated by the Financial Regulatory Authority under license number 91.

## Issuer of Report

SHUAA Securities Egypt

Website: [www.shuaasecurities.com](http://www.shuaasecurities.com)