



PRIMETime

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Telecom Egypt – Still Worth It

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Market participants had penciled in this Thursday, 10 September, as the deadline for KSA-based STC [**KSA: 7010**] to make up its mind with regards to its intended acquisition of Vodafone Group's [**UK: VOD**] 55% stake in Vodafone Egypt [**VODE**—Egypt's largest mobile operator in terms of size and profitability, in which Telecom Egypt [**ETEL**] still owns a 45% stake. Back on 29 January 2020, STC said it was considering acquiring VOD's 55% stake for USD2.39bn, valuing VODE at USD4.35bn. Since then, VOD's stock traded on London Stock Exchange fell 31%, while STC's stock traded on Tadawul advanced 8%, and ETEL jumped 30%. Yesterday, [media reports](#) suggested that STC wants to reduce its non-binding USD2.39bn offer, citing people with direct knowledge of the deal. By way of background, on 29 January 2020, both STC and VOD had signed a 75-day memorandum of understanding (MOU) which was later extended twice; for 90 days then for another 60 days ending this Thursday. **Today, after 223 days, we lay down the options available for all parties, ending with our own opinion.**

1. The buyer (STC): Saudi Arabia's No. 1 telecom operator is the state-owned incumbent in the kingdom, which has exposure to other GCC and Asian countries. Operating in four Asian countries, STC's acquisition of VODE would be its first foray into Africa and will help improve its growth profile in the most populous country in the Arab region.

2. The seller (VOD): As part of its restructuring plan, VOD had decided to exit Egypt in an effort to simplify the group into two differentiated, scaled geographic regions, namely Europe and sub-Saharan Africa. Thus, sooner or later VOD will need to divest its Egypt operations.

3. The target (VODE): Egypt's No. 1 mobile operator, VODE stands to benefit off the growing demand for data with double-digit growth envisaged, especially in the wake of COVID-19 crisis.

4. The partner (ETEL): Egypt's incumbent operator, ETEL has a choice—remain a partner in VODE, make a counterbid for VOD's 55% stake, or tag along and sell its 45% to STC.

Our opinion: STC could be trying to bargain over the price it needs to shell out for VOD's 55%, thinking that the world post-COVID is totally different than before-COVID, especially that it might need to buy out ETEL as well, almost doubling its cost. If the reduction in the deal is large enough, it might make sense for ETEL to make that counterbid and swallow up VODE altogether then decide later what to do with its mobile venture "we". Regardless, whether the STC-VOD deal goes

through or not and whatever the decision ETEL will make, **we continue to believe that ETEL is deeply undervalued at market price.** The STC-VOD deal values VODE at USD4.35bn (5.8x LTM EBITDA and 11.5x LTM P/E), implying USD1.96bn for ETEL's 45% stake or EGP18.1/share, gross of taxes (EGP14.8/share, net of capital gains taxes). This means that the market is currently attaching a negative value to ETEL's other lines of business, which we believe—based on latest financials—could be worth EGP8.3/share (only 3.5x LTM EBITDA of EGP8.71bn). In other words, **we value ETEL at EGP23.1/share.** Now, assuming STC's deal value is slashed by 30% (around the same price drop of VOD's stock price since 29 January 2020), VODE's value would fall to USD3.04bn, which would reduce ETEL's stake to EGP10.6/share, **cutting ETEL's overall value to EGP18.9/share (still c.30% upside).**

Please [drop us an email](#) if you would like to see our valuation exercise.

1. Today's Trading Playbook

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KEY THEMES

STC's news report of a possible reduction in VODE's deal value could be a short-term headwind for ETEL's stock performance. However, the floor is still open for all scenarios. Thus, regardless of the situation, we believe ETEL—at current market price—is all worth it. Either way, ETEL stands to benefit. If the deal goes through, ETEL may tag along; if it does not, ETEL may still want to buy out VOD at the reduced price. Besides, we believe VODE has the capacity to take on more debt if needed as part of ETEL's financing its VODE acquisition as a leveraged buyout deal.

POSITIVE

ETEL: Please see above.

Now, on to the top news and analysis for the day.

2. TOP NEWS & ANALYSIS

MACRO NEWS

Egypt's net foreign reserves reached USD38.36bn at the end of August, up from USD38.315bn in July, the central bank said on Monday. ([CBE](#)) Further details will be published in our monthly report soon.

Daily production from the Zohr field in the Mediterranean Sea exceeds more than 3bn cubic feet, 40% of Egypt's total gas production per day, the petroleum ministry said on Monday. ([Egypt Today](#))

Egypt's sovereign credit rating is “particularly” exposed to water stress and drought risks, Fitch

Ratings suggests. ([Fitchratings](#))

Ration card holders will receive a 14% discount on goods covered by the government's consumer spending initiative, up from 10% currently. ([Masrawy](#))

Moody's credit rating agency, said that the rating of the effectiveness of Egyptian monetary and economic policies at BA reflects the ability of CBE to maintain price stability, which paved the way to cut interest by 300bps in mid-March to strengthen its response in the face of COVID-19. ([Al-Borsa](#))

CORPORATE NEWS

Saudi Telecom Co. (STC) is in discussions to reduce its non-binding USD2.39bn offer for the 55% stake in Vodafone Egypt Telecommunications [VODE]. The discussions come as a deadline nears for STC to move ahead after STC extended the memorandum of understanding (MoU) for 60 days on 12 July 2020 due to the impact of COVID-19. Egyptian market regulations would require STC to submit a mandatory tender offer for all of VODE, including the 45% stake held by Telecom Egypt [ETEL]. ([Yahoo Finance](#))

FRA approves the demerger of Orascom Investment Company [OIH] to two companies, keeping the current shareholder structure as is for the both companies. The demerging company, Orascom Financial Holding, authorized capital of EGP8bn and the demerged company, Orascom Investment Holding [OIH] capital of EGP 2.5bn. ([Company disclosure](#))

Palm Hills Developments [PHDC] signed a facility agreement with National Bank of Egypt (NBE) estimated at EGP1bn by using receivables from the sale of ready to move units. The facility will be used to finance the sales of ready to move units with payment terms up to 10 years, which will be securitized in accordance with the company's adopted securitization program.The company also disclosed that its committed to meet the EGP1.5bn debt target set for 2020. ([Al-Borsa](#))

The sale of state-owned United Bank to a strategic investor has been postponed until the COVID-19 pandemic has abated.([Masrawy](#))

Porto Group Holding [PORT] is developing an electronic sales platform to help boost sales by generating new leads and to recover from COVID-19 impact. ([Hapi](#))

Advanced Projects & Systems ADCOM bought a 3.2% stake, or a million shares, in Egyptian Transport & Commercial Services Co. [ETRS]. ([Company disclosure](#))

Speed Medical Co.'s [SPMD] BoD approved to allocate 1.25% of activity revenues to medical R&D, which will help the company hire local and foreign scientists. ([Company disclosure](#))

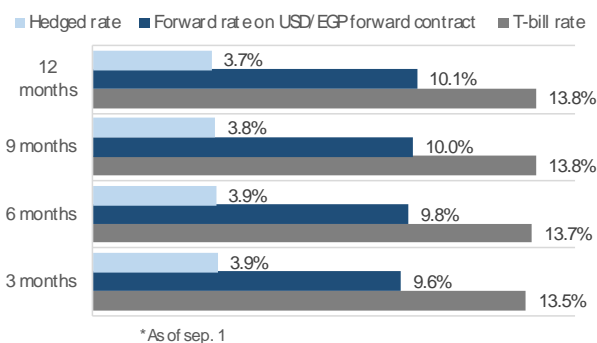
GLOBAL NEWS

Oil prices fell on Monday after Saudi Arabia made its deepest monthly price cuts to supply for Asia in five months and as uncertainty over Chinese demand clouds the market's recovery. ([Reuters](#))

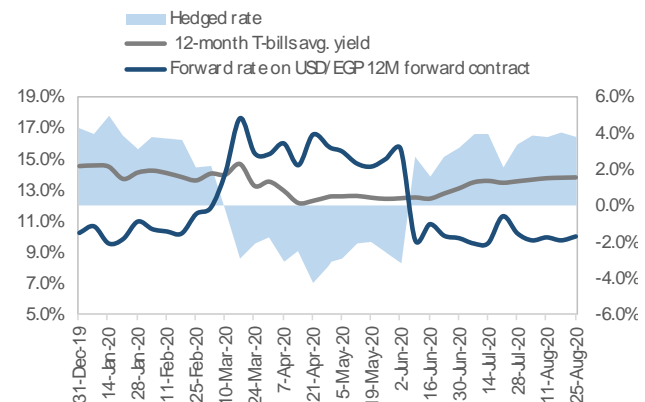
The U.S. Federal Reserve's landmark shift to a more tolerant stance on inflation will be a drag on the dollar for years and will raise hard questions about the role of central banking, challenging policymakers from Frankfurt to Tokyo. ([Reuters](#))

3. CHART OF THE DAY

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



















Source: Bloomberg, CBE.



Data on the difference between USD/EGP forward contracts with different maturities and yields on T-bills rate shows that hedging is relatively cheap in Egypt's local debt market. Currently, the spread between USD/EGP forwards and T-bills provides investors with the opportunity to lock in a positive hedged rate, after being negative since mid of March until early June.

4. MARKETS PERFORMANCE

Current equity market cap (EGPbn)						625.1		Equity turnover (EGPmn): Last, ytd avg.				1,070.6		905.1				
						daily chg.	ytd chg.					daily chg.	ytd chg.					
		EGX 30	11,136.03	0.57%	(20.24%)			Gold	1,933.64	(0.02%)	27.30%			Silver	26.83	(0.29%)	50.84%	
		EGX 30 TR	4,241.64	(0.38%)	(17.93%)								Brent Oil	42.01	(1.52%)	(33.56%)		
		EGX 70 EWI	1,853.24	0.62%	46.26%			WTI	39.77	(3.87%)	(33.34%)				Natural Gas	2.59	4.06%	16.77%
		EGX 100 EWI	2,742.83	0.51%	25.56%						EGP				USD/EGP	15.80	(0.08%)	(1.56%)
		DFMGI	2,271.29	0.56%	(17.85%)			EUR/USD	1.18	(0.18%)	5.37%			GBP/USD	1.32	(0.85%)	(0.88%)	
		ADSMI	4,507.95	(0.33%)	(10.96%)								¥		USD/JPY	106.27	0.03%	(2.17%)
		TASI	8,050.14	0.32%	(4.04%)			S&P 500	3,426.96	(0.81%)	6.07%			Dow 30	28,133.31	(0.56%)	(1.42%)	
		NASDAQ	11,313.13	(1.27%)	26.09%			VIX	30.75	(8.48%)	123.15%			1Y TB yield	13.55	(27)	(102)	
													10Y TB yield	14.70	(8)	100		
																		
		STOXX 50	3,314.07	1.64%	(11.51%)			2Y TB yield	0.15	0	(142)		10Y TB yield	0.72	0	(120)		
EM		MSCI Emerging	1,094.56	(0.45%)	(1.80%)			30Y TB yield	1.47	0	(92)							
FM		MSCI Frontier	510.53	(0.56%)	(12.87%)													

* As of market close, except for commodities and currencies at 8.38am CLT. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

5. LATEST EGX VALUATION MULTIPLES

[Find out](#) how your favorite stocks compare to the rest of the market.

6. KEY DATES

DATE	TICKER	TYPE	EVENT
9-Sep-20	DAPH	OGM	Discussing netting contracts.
9-Sep-20	CPCI	Stock dividend	Record date for 25% stock dividend.
10-Sep-20	CPCI	Stock dividend	Distribution date for a 25% stock dividend.
10-Sep-20	SPHT	EGM	Amending articles No. 4, 6, 7 & 60 of the company's bylaws.
12-Sep-20	EGTS	Lawsuit	A court session discussing legal disputes relevant to the company.
15/16-Sep-20		FOMC	Deciding on the USD interest rate.
16-Sep-20	AMES	Stock dividend	Record date for a dividend at ratio of 0.083:1.
17-Sep-20	AMES	Stock dividend	Distribution date for a dividend at ratio of 0.083:1.
17-Sep-20	ORAS	EGM	Voting on hiring Nada Shousha as an independent non-executive independent director.
17-Sep-20	RMDA	EGM	Amending article No. 4 of the company's bylaws.
20-Sep-20	ORWE	EGM	Amending some articles of the company's bylaws.
21-Sep-20	EHDR	EGM	Approving splitting the par value per share and amending articles No. 6 & 7 of the company's bylaws.
21-Sep-20	CICH	OGM	Discussing adding two seats to the BoD.
21-Sep-20	MFSC	Cash dividend	Record date for EGP0.995/share.
22-Sep-20	MFSC	Cash dividend	Ex-Dividend date for EGP0.995/share.

24-Sep-20	MFSC	Cash dividend	Distribution date for EGP0.995/share.
24-Sep-20		MPC Meeting	Discussing interest rate decision.
26-Sep-20	IFAP	OGM	Approving the financial statements ending 30 Jun. 2020.
26-Sep-20	ABUK	OGM	Approving the financial statements ending 30 Jun. 2020.
26-Sep-20	CPCI	OGM	Approving the financial statements ending 30 Jun. 2020.
26-Sep-20	AXPH	OGM	Approving the financial statements ending 30 Jun. 2020.
26-Sep-20	ADCI	OGM	Approving the financial statements ending 30 Jun. 2020.

7. LATEST RESEARCH

DATE	PUBLISHED REPORT
3-Sep-20	<u>MACROView – Job losses and the bumpy road to recovery</u>
18-Aug-20	<u>Oriental Weavers Carpet [ORWE] - Q2 2020 Results</u>
13-Aug-20	<u>Credit Agricole Egypt [CIEB] – Q2 2020 Results</u>
10-Aug-20	<u>MACROView – Muted inflation environment still dominates</u>
9-Aug-20	<u>MACROView – Recovery of FX revenues is a long-term goal, but the economy is still well armed</u>
5-Aug-20	<u>MACROView – Toward gradual recovery</u>
29-Jul-20	<u>MACROView – CAD gains eroded by financial account vulnerability</u>
14-Jul-20	<u>Commercial International Bank - [COMI] - Q2 2020 results</u>
9-Jul-20	<u>MACROView – Inflation driven by non-food baskets and unfavorable base effect</u>
8-Jul-20	<u>MACROView – Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position</u>
7-Jul-20	<u>MACROView – Non-oil private sector keeps perking up in June, but demand stays depressed</u>
25-Jun-20	<u>EFG Hermes Holding [HRHO] – Behind the Optics of the Arab Investment Bank Potential Acquisition</u>
10-Jun-20	<u>MACROView – Lowest annual reading in five months, but monthly figures show no changes</u>
8-Jun-20	<u>Oriental Weavers Carpet [ORWE] – Operating margins improve despite COVID-19, thanks to lower PP and nylon prices</u>
8-Jun-20	<u>MACROView – Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19</u>
3-Jun-20	<u>MACROView – Non-oil private sector took a breather in May, but outlook remains cloudy</u>
18-May-20	<u>Abu Dhabi Islamic Bank [ADIB] – Q1 2020 Results</u>
18-May-20	<u>Al Baraka Bank Egypt [SAUD] – Q1 2020 Results</u>
17-May-20	<u>Credit Agricole Egypt [CIEB] – Q1 2020 Results</u>
13-May-20	<u>MACROView – Yesterday's CBE conference call with Deputy Governor</u>
11-May-20	<u>MACROView– Acceleration in April driven by food prices – as expected</u>
7-May-20	<u>MACROView – Keeping head above water amid pandemic uncertainties</u>
5-May-20	<u>Commercial International Bank (CIB) - Egypt [COMI] – Q1 2020 Results</u>

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