

# Telecom Egypt [ETEL]

**Market Price**  
**EGP18.61**  
at close of 2 Nov 2022

**12MPT**  
**EGP46.7** (+151%)  
set on 3 Nov 2022

Impact **POSITIVE**  
Degree **STRONG**

## Life Above 40

More about the underlying business, not just a stake sale

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**No, this is not a midlife crisis story. This is a story about a deeply unappreciated value-growth combo play in one of Egypt’s vibrant sectors, if not the most: the telecom sector. Yes, we were the first in the market to attach Telecom Egypt’s [ETEL] stock with a price tag way into the 20s (EGP22.5/share on 8 June 2021), at a time when the stock was trading in the low teens. We were also the first in the market to raise our price target to the high 20s earlier this year (to EGP28.1/share on 30 January 2022, page 46). Our previous somewhat bold calls have been quite positive so far; the first returned +41% (vs. +13% for EGX 30), and the second +14% (vs. -2% for EGX 30). At intraday highs, the first call generated +50%, more than double the EGX 30’s +21%. By all means, ETEL has outperformed EGX 30 since 8 June 2021. Today, we are making an even bolder call, tagging ETEL with a price target of EGP46.7/share! We might be a bit too bold to set a price target that is double the current average consensus price target of EGP23.5/share, but we have our reasons and it is not just Vodafone Egypt [VODE].**

**Figure 1: Prime Research price target history**

Date	Price Target (EGP/share)
8-Jun-21	22.5
30-Jan-22	28.1
<b>3-Nov-22</b>	<b>46.7</b>

Source: Prime Research.

**Figure 2: Breakdown of our new price target \***

Segment	EGP/ETEL share
c.45% stake in Vodafone Egypt	28.7
ETEL’s other businesses	18.0
<b>Total ETEL</b>	<b>46.7</b>

\* For more details, please see Figure 3.  
Source: Prime Research.

**Our valuation rationale:** Let’s jump to how we reached our EGP46.7/share price target. By way of background, ETEL had amended its shareholder agreement with **Vodafone Group** concerning **VODE** back in mid-2021, which triggered a re-rating of its stock to reflect a more amicable agreement that eventually led to a more consistent dividend payout within a clearer dividend policy. Recently, [media reports](#) alluded to a potential deal, where **Qatar Investment Authority (QIA)** could be interested in grabbing a 20% stake in VODE from ETEL’s 45% stake, which [ETEL refuted](#) saying it did not receive anything in that regard. Still, if ETEL receives an offer from QIA (or any other suitor), we think ETEL will not likely settle for less than VODE’s implied valuation from the **Vodacom** deal, when Vodafone Group transferred its 55% stake to Vodacom at EUR2.365bn (equivalent at the time to USD2.738bn). **True, a VODE stake sale would unlock value in ETEL, but we think the market is ignoring ETEL’s underlying businesses that generate strong operating earnings as we highlight below:**

- **VODE:** At Vodacom’s implied VODE valuation, ETEL’s 45% stake would be worth EGP53.7bn or EGP31.5/share, based on an exchange rate of EGP24/USD. Assuming ETEL would only sell a 20% stake at the Vodacom valuation, ETEL would generate cash proceeds of EGP19.1bn or EGP11.2/share, net of capital gains tax (CGT). Valued at the same Vodacom valuation (but not counting for CGT), ETEL’s remaining 25% stake would be worth EGP29.8bn or EGP17.5/share. Hence, ETEL’s total investment in VODE would amount to **EGP48.9bn or EGP28.7/share.**
- **ETEL’s other businesses:** Considering that ETEL’s other businesses could generate operating earnings of EGP6.2bn in 2022 (net of income tax), valuing the stub at only 5x (a very low P/E), we capture another **EGP30.8bn or EGP18/share.**
- **All in:** ETEL could be worth **EGP79.7bn or EGP46.7/share.**



*We understand that our “out of consensus” opinion and price target may raise many eyebrows as well as a few comments.*

*We beg to differ from consensus, yet we try here to address as many as five comments that are likely to be raised after reading page 1 of this note.*

*In a nutshell, even after trying to kill ETEL’s valuation, there is still value to be had, and only time will prove us right or wrong.*

## “Likely Raised Comments” ... and Our Responses

**Comment 1: The Vodacom deal was for a majority stake, suggesting a control premium that does not apply to ETEL’s minority stake.**

**Response 1:** We realize that ETEL’s 45% is a minority stake, but it is a sizable one. Add to this the recent shareholder agreement, and whoever takes up that stake or even a portion of it should enjoy a clear stream of cash dividends down the road. Even if we apply a 25% minority discount to VODE’s implied valuation from the Vodacom deal, ETEL’s total investment in VODE would still amount to **EGP36.8bn or EGP21.6/share**, which takes **ETEL’s total value to EGP67.6bn or EGP39.6/share**.

**Comment 2: ETEL’s remaining 25% stake should also be net of CGT.**

**Response 2:** Since we assumed that ETEL could be selling only a 20% stake in VODE, we applied CGT only to that stake but not the remaining 25% stake. Even if we apply CGT to ETEL’s full 45% stake, ETEL’s total investment in VODE would still amount to **EGP32.6bn or EGP19.1/share**, which takes **ETEL’s total value to EGP63.4bn or EGP37.1/share**.

**Comment 3: Valuing ETEL’s other businesses at 5x is a bit high given the current market valuation.**

**Response 3:** EGX 30’s P/E hovers around 6-7x, a function of a high market risk premium in our view. But considering that [ETEL’s budget for 2023](#) suggests double-digit revenue growth and a high EBITDA margin in the mid to high thirties, we think 5x is not too demanding at all for a business that has been growing at double digits for the past six years in a row and is on its way to deliver two more years of double-digit growth in 2022 and 2023. Even if we apply a 3x P/E multiple to ETEL’s operating earnings, its **other businesses would then be worth EGP18.5bn or EGP10.8/share** and **ETEL’s total value would be EGP51.0bn or EGP29.9/share**.

**Comment 4: More than 90% of ETEL’s debt is in foreign currency, which could be a drag on its bottom-line earnings in view of a weaker EGP.**

**Response 4:** Indeed, ETEL’s consolidated debt at end of 2021 amounted to EGP16.3bn, 91% of which was in foreign currency. However, we should not overlook that ETEL also has FX-denominated earnings. Even if we do ignore any other FX-denominated monetary assets that ETEL may have, adjusting for FX gains/losses in the trailing 12-month period ended June 2022 and assuming an FX rate of EGP24/USD, ETEL’s annual operating earnings would be EGP3.7bn. At 3x operating earnings, ETEL’s **other businesses would then be worth EGP11.1bn or EGP6.5/share** and **ETEL’s total value would be EGP43.6bn or EGP25.6/share**, notwithstanding any tax shield.

**Comment 5: Given a more tightening environment, the market should punish leveraged companies, including ETEL.**

**Response 5:** We do not think ETEL is highly leveraged with a TTM debt-to-EBIT of 2.0x and only 2.7x if FX debt is revalued at EGP24/USD, assuming no revaluation of other FX-based items above EBIT. Assuming higher interest rates on FX debt and at 3x operating earnings, ETEL’s other businesses would then be worth **EGP8.8bn or EGP5.1/share** and **ETEL’s total value would be EGP41.3bn or EGP24.2/share**, notwithstanding any tax shield.

**Bottom line: If we kill ETEL’s valuation, we still see at least a 30% upside, which is why we continue to have a high conviction on ETEL.**



**Figure 3: All five comments considered**

All figures in EGPmn, except otherwise noted	ETEL's 45% stake in VODE	EGP/ ETEL share	ETEL's other businesses	EGP/ ETEL share	Total ETEL	EGP/ ETEL share
	(A)		(B)		(C = A + B)	
<b>Our base case scenario</b>	<b>20% stake sale, net of CGT + 25% of VODE (both at Vodacom deal)</b>		<b>5x ETEL's TTM operating income</b>			
100% of VODE's implied value (USDmn)	4,978					
<b>100% of VODE's implied value</b>	<b>119,476</b>					
ETEL's stake	44.95%					
<b>ETEL's stake value</b>	<b>53,705</b>	<b>31.5</b>				
Capital gains tax	(4,780)					
<b>ETEL's stake value net of CGT</b>	<b>48,925</b>	<b>28.7</b>	<b>30,798</b>	<b>18.0</b>	<b>79,723</b>	<b>46.7</b>
<b>Comment 1</b>	<b>20% stake sale, net of CGT + 25% of VODE (both at a 25% discount to Vodacom deal)</b>		<b>5x ETEL's TTM operating income</b>			
Minority discount	25.00%					
ETEL's stake	44.95%					
<b>ETEL's stake value after minority discount</b>	<b>40,278</b>	<b>23.6</b>				
Capital gains tax	(3,436)					
<b>ETEL's stake value net of CGT</b>	<b>36,843</b>	<b>21.6</b>	<b>30,798</b>	<b>18.0</b>	<b>67,641</b>	<b>39.6</b>
<b>Comment 2</b>	<b>20% stake sale + 25% of VODE (both net of CGT and at a 25% discount to Vodacom deal)</b>		<b>5x ETEL's TTM operating income</b>			
Minority discount	25.00%					
ETEL's stake	44.95%					
<b>ETEL's stake value after minority discount</b>	<b>40,278</b>	<b>23.6</b>				
Capital gains tax	(7,722)					
<b>ETEL's stake value net of CGT</b>	<b>32,557</b>	<b>19.1</b>	<b>30,798</b>	<b>18.0</b>	<b>63,355</b>	<b>37.1</b>
<b>Comment 3</b>	<b>20% stake sale + 25% of VODE (both net of CGT and at a 25% discount to Vodacom deal)</b>		<b>3x ETEL's TTM operating income</b>			
Minority discount	25.00%					
ETEL's stake	44.95%					
<b>ETEL's stake value after minority discount</b>	<b>40,278</b>	<b>23.6</b>				
Capital gains tax	(7,722)					
<b>ETEL's stake value net of CGT</b>	<b>32,557</b>	<b>19.1</b>	<b>18,479</b>	<b>10.8</b>	<b>51,036</b>	<b>29.9</b>
<b>Comment 4</b>	<b>20% stake sale + 25% of VODE (both net of CGT and at a 25% discount to Vodacom deal)</b>		<b>3x ETEL's TTM operating income, adjusted for FX losses from a weaker EGP</b>			
Minority discount	25.00%					
ETEL's stake	44.95%					
<b>ETEL's stake value after minority discount</b>	<b>40,278</b>	<b>23.6</b>				
Capital gains tax	(7,722)					
<b>ETEL's stake value net of CGT</b>	<b>32,557</b>	<b>19.1</b>	<b>11,064</b>	<b>6.5</b>	<b>43,620</b>	<b>25.6</b>
<b>Comment 5</b>	<b>20% stake sale + 25% of VODE (both net of CGT and at a 25% discount to Vodacom deal)</b>		<b>3x ETEL's TTM operating income, adjusted for FX losses from a weaker EGP &amp; higher interest rates</b>			
Minority discount	25.00%					
ETEL's stake	44.95%					
<b>ETEL's stake value after minority discount</b>	<b>40,278</b>	<b>23.6</b>				
Capital gains tax	(7,722)					
<b>ETEL's stake value net of CGT</b>	<b>32,557</b>	<b>19.1</b>	<b>8,791</b>	<b>5.1</b>	<b>41,348</b>	<b>24.2</b>

Source: Prime Research.

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