



Alert on Q1 2014 Earnings

Sector: Telecom
Country: Egypt
Date: July 10, 2014

Share Price (EGP): 5.39
Target Price (EGP): 5.60
Upside: 3.9%
Recommendation: HOLD
Risk: High

Upgrading to a HOLD rating with a target price of EGP 5.60 on potential improving fundamental conditions

We revise up our target price on Global Telecom to EGP 5.60 per share, upgrading to a HOLD recommendation as we believe the settlement of disputes in Algeria on top of the improving political and economic environments may translate into stronger fundamentals in the medium-term.

Our last recommendation in April 2014 expected the company's share price to be negatively affected by the absence of robust growth in fundamental indicators. Our estimates concerning the company's results came in line with Q1 2014 financials, however GTH shares were positively driven by major corporate and political developments. GTH resolved its long-running dispute in Algeria, the largest contributor to GTH's revenues and earnings, which will allow its mobile network Djezzy to strengthen its leadership position in the market and take advantage of the growing telecom sector, especially after allowing it to invest in a high speed 3G network and modernize its 2G network. Moreover, the election of Field Marshal Abdel Fattah el-Sisi and the positive news on possible drastic improvement on the fiscal front through the implementation of austerity measures, cutting fuel subsidies and raising income taxes may largely boost investors' sentiments, further lifting the Egyptian equity market.

Although we expect little to no fundamental growth during this year, we anticipate improving fundamental conditions post 2014. We believe the resolution of all disputes with the Algerian government will result in larger growth and profitability in Algeria. Additionally, we expect ongoing progress in Bangladesh and higher expansion in Pakistan following the launching of 3G services in Q2 2014. However, we continue to perceive negative effect on profitability from foreign exchange risk, mainly in Pakistan. Regarding market conditions, we believe the bourse may be negatively affected by the new law imposed on capital gains and cash dividends, which might also reinforce GTH long-standing probability of delisting from the EGX.

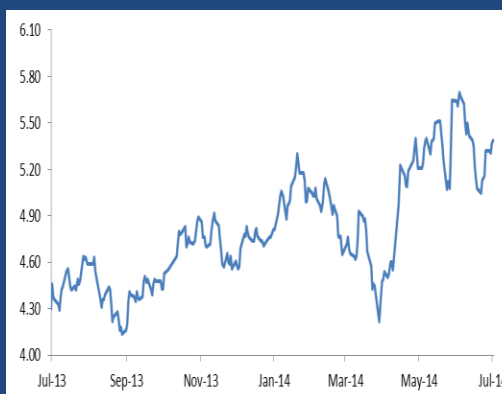
Djezzy resolves all disputes with the Algerian government

GTH resolved a long-running dispute with the Algerian government by selling a 51% stake in the Algerian mobile network, Djezzy, to Algeria's sovereign wealth fund for USD 2.6 billion. In details, GTH will keep a 45.6% stake and buy the remaining 3.4% of Djezzy shares from minority shareholder Cevital for USD 178 million. Although the Algerian government will own a majority stake in Djezzy, GTH will continue to exercise operational control, and consequently both GTH and VimpelCom, GTH's largest shareholder, will keep on fully consolidating Djezzy. Moreover, GTH will receive USD 1.86 billion in dividends from Djezzy prior to the closing of the transaction and will use these funds and the proceeds from the Djezzy stake sale (a total USD 4.0 billion) to pay down the shareholder loan provided by VimpelCom to GTH amounting USD 5.3 billion. The transaction is subject to the approval of the shareholders with a majority of two-third of the votes. To note that the Algerian government has been trying to nationalize Djezzy since 2010, accusing it of tax evasion and subjecting it to foreign exchange and import restrictions.

Share Data

Bloomberg Symbol	GTHE EY
Reuters Symbol	GTHE.CA
Market Cap (EGPm)	28,274
Number of Shares (m)	5,246
Free Float	48.1%
Price to 2014 Earnings	-
Price to 2014 Book Value	11.90

Share Performance



Source: Reuters

1 Month Return	-4.4%
3 Month Return	20.0%
6 Month Return	12.1%
12 Month Return	20.9%
52 Week Range	3.76 – 5.70

Source: Reuters

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Performance and Forecasts

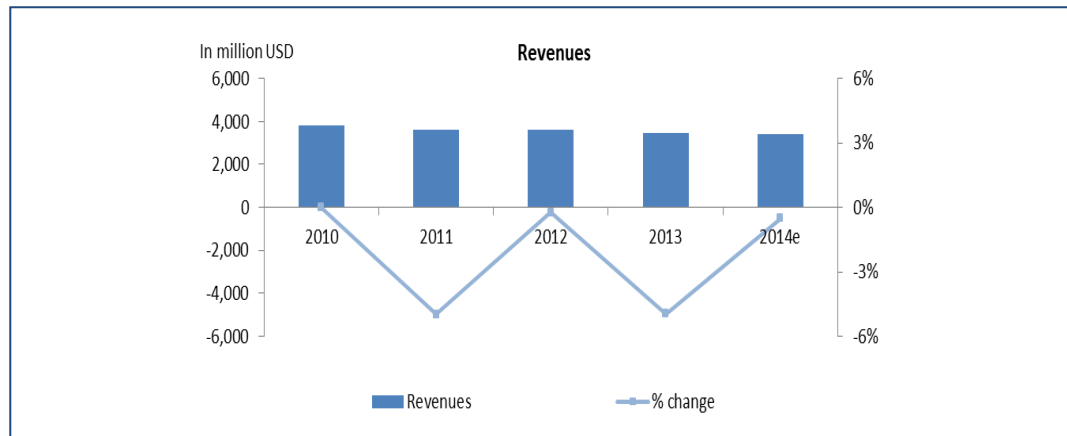
	2011	2012	2013	2014e
Revenues (USD millions)	3,636	3,627	3,447	3,429
EBITDA (USD millions)	1,647	1,755	1,657	1,647
Net Income (USD millions)	628	(225)	(944)	(41)
ROA (%)	7.0%	-2.8%	-11.8%	-0.5%
ROE (%)	26.6%	-12.6%	-74.3%	-2.5%

Source: GTH, Blominvest

Financial Highlights

GTH's top-line down on lower ARPU

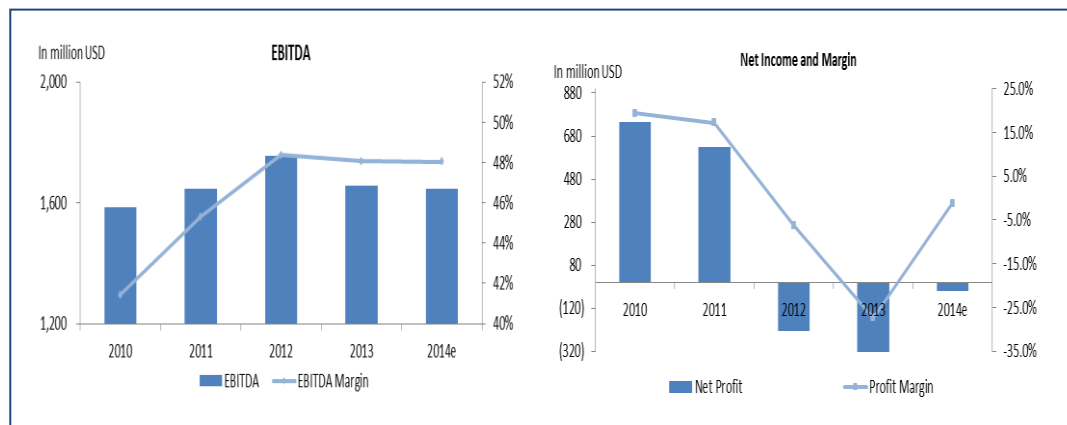
Despite an 8% growth in total subscribers to more than 90 million customers, Global Telecom Q1 revenues edged down by 2.2% y-o-y to reach USD 831 million, led by lower average revenue per user. Algeria's revenues, which account for almost half of the company's top-line, fell by 1% to USD 429 million, mainly due to competitive pressures following the launch of 3G services by other operators. Moreover, the unstable macro environment in Pakistan coupled with the local currency depreciation against the USD dragged revenues by 12% to USD 246 million. However, Bangladesh witnessed a 14% growth to USD 134 million, led by a 13% rise in its customer base, 3G rollout, and higher promise of economic growth following the general elections in January 2014. As for Telecel Globe, revenues jumped by 18% to USD 22 million, driven by a robust 26% pickup in Burundi's total subscribers. In 2014, we maintain our estimates of flat revenues at USD 3.4 billion, expecting a rise at a CAGR of 3.6% in the coming three years on potential strong growth in Algeria.



Source: GTH, Blominvest

Earnings shielded by absence of impairments and FX losses

Higher network and IT costs sent Algeria's EBITDA down by 4% to USD 246 million, while EBITDA in Pakistan slipped by 15% to USD 99 million as revenues decreased following higher withholding tax from 10% to 15% which was passed down to customers and consequently affected their spending. However, Bangladesh's EBITDA remained almost stable at USD 49 million, and Telecel Globe's EBITDA surged 47% to USD 9 million. Although the overall EBITDA of the company decreased by 4% to USD 395 million, GTH continues to deliver an industry leading EBITDA margin of 47.6%. As well, GTH managed to turn to a profit of USD 38 million compared to a loss of USD 208 million in Q1 2013 as the company stopped booking losses from its investment in Canada on top of the absence of impairments charges and foreign exchange losses recorded a year earlier. However, we maintain our view that GTH will register a marginal loss of USD 41 million in 2014, mostly as result of flat revenues. However, we expect GTH to swing back to profit post 2014, supported by stronger top-line and lower finance expenses once the shareholder loan is paid down to VimpelCom.



Source: GTH, Blominvest

PROJECTED INCOME STATEMENT

<i>In USD million</i>	2011	2012	2013	2014e
Revenues	3,636	3,627	3,447	3,429
Other Income	30	34	23	25
Total Expense	(2,019)	(1,912)	(1,814)	(1,807)
Net Unusual Items	-	6	-	-
EBITDA	1,647	1,755	1,657	1,647
Depreciation and Amortization	(773)	(705)	(773)	(664)
Impairment of non-Current Assets	(10)	(12)	(6)	(9)
Gain/Loss on Disposal of Non-Current Assets	58	(18)	(8)	(10)
Impairment of Assets Held for Sale	-	-	(58)	-
Operating Income	921	1,019	811	964
Financial expense	(536)	(458)	(503)	(481)
Financial Income	80	77	43	57
Forex gain/(loss)	(150)	(74)	(269)	(150)
Share of Profit (Loss) of Associates	(135)	(103)	(139)	(110)
Impairment of Financial Assets	(22)	(339)	(625)	(300)
Other Non-Operating Cost	-	(74)	-	-
Earnings before tax	158	48	(683)	(20)
Income tax	(244)	(253)	(18)	(18)
Profit from Continuing Operations	(86)	(206)	(924)	(38)
Gains from Discontinued Operations	746	-	-	-
Profit for the Period	660	(206)	(924)	(38)
<i>Attributable to:</i>				
Equity Holders of the Parent	628	(225)	(944)	(41)
Minority interest	(33)	(19)	(20)	(3)
Net Income	628	(225)	(944)	(41)

Source: GTH, Blominvest

BALANCE SHEET

<i>In USD million</i>	2011	2012	2013	Q1 2014
Current Assets				
Cash and Cash Equivalents	1,014	2,026	2,838	2,962
Trade and Other receivables	205	233	226	223
Other Current Assets	1,187	1,056	1,324	835
Total Current Assets	2,406	3,316	4,388	4,020
Non-Current Assets				
Fixed assets, Net	2,902	2,494	2,044	2,089
Intangible Assets	1,558	1,449	1,426	1,408
Other Non-Current Assets	1,089	858	88	89
Total Non-Current Assets	5,548	4,800	3,558	3,586
Total Assets	7,954	8,116	7,946	7,605
Current Liabilities				
Short-Term Debt	544	683	5,033	5,187
Trade Payables	738	710	815	833
Other Current Liabilities	1,013	785	861	2,082
Total Current Liabilities	2,295	2,178	6,709	8,101
Non-Current Liabilities				
Long-Term Debt	3,492	4,075	151	147
Other Non-Current Liabilities	255	233	190	406
Total Non-Current Liabilities	3,747	4,308	341	552
Total Liabilities	6,042	6,486	7,049	8,654
<i>Equity Attributable to:</i>				
Owners of the Company	1,855	1,556	801	(1,095)
Minority Interest	57	74	95	47
Total Shareholders' Equity	1,912	1,630	896	(1,048)
Total Liabilities & Equity	7,954	8,116	7,946	7,605

Source: GTH


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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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