



Alert on FY 2013 Earnings

Sector: Telecom
Country: Egypt
Date: April 14, 2014

Share Price (EGP): 4.50
Target Price (EGP): 4.20
Upside: -6.7%
Recommendation: REDUCE
Risk: High

Issuing a REDUCE rating with a lower target price of EGP 4.20 after accounting for revised forecasts

Top-line shrinks on weak performance in most markets

GTH recorded a 5% drop in revenues during 2013 to USD 3.4 billion with the average revenue per user falling at a higher pace than the 7% growth in total subscribers. This was mainly attributable to regulatory and government measures, unstable macro environment in Pakistan and Bangladesh as well as local currency depreciation against the USD, mainly in Algeria and Pakistan. Algeria's revenues, accounting for 54% of the company's top-line, fell by 4% due to the continuous ban on Djezzy's 2G network. Similarly, revenues in Pakistan edged down 17% following the shaky security situation in the country, while Bangladesh registered a 7% decline as nationwide strikes impacted usage per customers. Conversely, Telecel Globe revenues rose by 2% on higher revenues in Burundi. We believe GTH's top-line will remain almost flat at USD 3.4 billion on ongoing unstable macroeconomic and regulatory conditions.

Earnings mostly hit by FX losses and write-down of Canada to zero

GTH endured a challenging year with unimpressive results. EBITDA dropped by 6% to USD 1.7 billion with Algeria's EBITDA falling by 5% on higher technical and G&A expenses. Likewise, Pakistan's EBITDA slumped 24% following power outages, government network shutdowns, and an increase in withholding tax from 10% to 15% which was passed down to customers and consequently affected their spending. In Bangladesh, EBITDA plummeted 16% on intensifying political tensions and regulatory measures. As a result, GTH recorded a USD 944 million loss compared to USD 225 million loss a year earlier, further affected by high foreign exchange losses, a one-time accelerated depreciation of USD 130 million in Pakistan, and a full impairment of the company's assets in Canada amounting to USD 619 million due to market and regulatory challenges. Going forward, we expect GTH to register a loss of USD 41 million in 2014, mainly as a result of flat revenues with lack of strong indicators of growth.

Downgrading to REDUCE on macro and regulatory concerns

We revise down our target price on Global Telecom to EGP 4.20 from a previous EGP 5.18, updating our recommendation to REDUCE in the absence of clear prospects for the future. We believe the upside potential will remain highly sensitive to the unstable macroeconomic and political environments of the countries in which the subsidiaries operate, foreign exchange exposure risk, in addition to the ongoing regulatory restrictions on Algeria's Djezzy. When comparing GTH to its regional peers, we find the company to be considerably undervalued with an EV/EBITDA of 3.64 compared to 5.98 for Middle Eastern peers. However, this discount is justified as we attribute it to the added risk associated with GTH's losses and high leverage, in addition to its exposure to undeveloped countries with high macro and political risks.

Share Data

Bloomberg Symbol	GTHE EY
Reuters Symbol	GTHE.CA
Market Cap (EGPm)	23,606
Number of Shares (m)	5,246
Free Float	48.1%
Price to 2014 Earnings	-
Price to 2014 Book Value	9.94

Share Performance



Source: Reuters

1 Month Return	-3.4%
3 Month Return	-8.4%
6 Month Return	-1.1%
12 Month Return	-1.7%
52 Week Range	3.76 – 5.30

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

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
Current Assets			
Cash and Cash Equivalents	1,014	2,026	2,838
Trade and Other receivables	205	233	226
Other Current Assets	1,187	1,056	1,324
Total Current Assets	2,406	3,316	4,388
Non-Current Assets			
Fixed assets, Net	2,902	2,494	2,044
Intangible Assets	1,558	1,449	1,426
Other Non-Current Assets	1,089	858	88
Total Non-Current Assets	5,548	4,800	3,558
Total Assets	7,954	8,116	7,946
Current Liabilities			
Short-Term Debt	544	683	5,033
Trade Payables	738	710	815
Other Current Liabilities	1,013	785	861
Total Current Liabilities	2,295	2,178	6,709
Non-Current Liabilities			
Long-Term Debt	3,492	4,075	151
Other Non-Current Liabilities	255	233	190
Total Non-Current Liabilities	3,747	4,308	341
Total Liabilities	6,042	6,486	7,049
<i>Equity Attributable to:</i>			
Owners of the Company	1,855	1,556	801
Minority Interest	57	74	95
Total Shareholders' Equity	1,912	1,630	896
Total Liabilities & Equity	7,954	8,116	7,946

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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