

Egypt in the firing line: Can Vodacom maintain the recovery?

Vodacom's share price is hovering around the levels it first reached in January 2013 yet has gained 47% off the lows reached in 2023. Africa's largest telco company (by revenue) has faced numerous headwinds of late, namely, high interest rates and rampant inflation which has led to exchange rate devaluations in key growth markets like Egypt and Ethiopia. With anemic growth in its largest market, South Africa, Vodacom's management believe that its non-domestic operations could grow at higher rates despite challenging geopolitical and regulatory factors. The current Bloomberg consensus earnings point to better days ahead. This article re-examines the outlook and investment case for Vodacom, considering recent events.



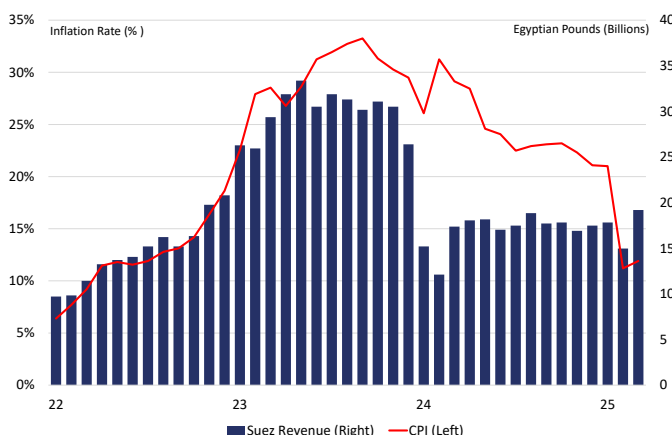
Nick Rogers

Firstly, a brief re-cap on why Vodacom ventured into Egypt. The country boasts the second-largest economy in Africa with GDP at \$380 billion (2024), second only to South Africa at \$403 billion, Vodacom's largest market, but its unemployment rate is just 6.3%. Mobile usage is high and growing rapidly, thanks to the tech-savvy youthful population (average age of 24 years) and skilled workforce. Vodafone Egypt is the

country's largest mobile operator with 43% market share by revenue and 40% in terms of subscribers. Consequently, Vodacom's management were looking to Egypt to inject much-needed earnings growth over the medium term.

In December 2022, Vodacom completed the acquisition when

EGYPT: SUEZ REVENUE AND CPI



Egypt's revenue from the Suez Canal plummeted after the Israeli / Hamas war and has yet to recover. Inflation soared due to macro headwinds and surging food prices, but it is now moderating.

SPEED READ

- Valued at R43.6 billion, the 55% stake in Vodacom Egypt was the largest acquisition in Vodacom's history.
- After inflation peaked at 38%, Egypt's Central Bank devalued the currency and raised interest rates to 27.75%. Inflation is forecast to moderate and average 9% between 2025 and 2030.
- From a parity rate in late 2022, the Egyptian Pound is now worth just 36 SA cents, in turn hurting Vodacom's Rand-reported earnings. Any exchange rate recovery will have a meaningful impact on Group results.
- Medium-term earnings guidance has seen HEPS increase from high-single to double-digit growth or a three-year CAGR of 18.6%.
- M-PESA (M for mobile, PESA is Swahili for money) remains Africa's largest mobile money platform by total transaction value (\$450 billion). Vodacom owns a 34.4% stake.
- 78% of Vodacom's 211 million customers live beyond South African borders.
- Key risks include the pending "Please Call Me" litigation appeal and escalating tension in the Middle East.

the Rand/Egyptian Pound exchange rate was at parity. Just three months later, when Russia invaded Ukraine, Egypt felt the tremors. Most will remember learning about the Sahara Desert, the Nile River and the pyramids in those early Geography and History lessons. With just 3% of arable land and a population of 118 million people, modern Egypt is the world's largest importer of wheat. Russia and Ukraine account

for c30% of the world's grain exports, so as the war intensified, Egypt experienced rampant food and energy inflation, resulting in its inflation rate soaring to a staggering 38% by late-2023.

After Hamas's assault into Israel on 7th October 2023, Yemen's Iranian-backed Houthi rebels declared that they would target the Red Sea. Just to the north lies the entrance to the Suez Canal which typically handles about 12% of global maritime trade. Why? This route reduces the journey from Asia to Europe by c3,700 miles by avoiding the tip of Africa. Consequently, US dollars charged per ship provides a crucial source of foreign currency for Egypt. In 2023, the canal generated a record \$10.25 billion of revenue but this plummeted to \$3.9 billion in 2024. As macro headwinds built and USD earnings fell, Egypt received a \$35 billion investment from the UAE to develop Ras El-Hekma into a bustling economic and tourist hub. The government also received \$22 billion in support from the IMF, EU and World Bank. These foreign currency inflows averted a debt default and stabilized the economy. In March last year, the Central Bank of Egypt simultaneously devalued the currency and raised interest rates by 6% to 27.75%. Fortunately, Egypt's ancient history has continued to attract tourists. In the 1st quarter of 2025, 3.9 million tourists arrived, marking a 25% year-on-year increase. Egypt's GDP growth is expected to rebound to around 4.3% for the fiscal year 2024/2025 which bodes well too.

Returning to Vodacom's results for the year to March 2025

VODACOM: UNDERSTANDING EGYPT'S GROWTH				
Full Year 2025	Egyptian Pounds (Million)	% Change Egyptian Pounds	Rand (Millions)	% Change in Rands
Revenue	82,881	49.7%	30,751	-5.4%
Service Revenue	74,665	45.2%	27,710	-8.2%
Beyond Mobile Revenue	12,966	60.8%	4,807	1.8%
EBITDA	36,250	70.4%	13,447	2.9%
Group EBITDA			55,511	-1.1%

Egypt has reported strong local currency earnings and profits, but these were diluted by currency weakness when translated into Rands. Any strength in the Egyptian currency will be a tailwind for Vodacom in the years ahead.

where an improvement in sentiment has seen the share price, which touched R88, recover to R130 (+47%). South Africa's contribution to operating profit has declined from 71% to 55%, with Egypt now contributing 28%. More importantly, with the Egyptian Pound now worth just 36c per Rand, a record low, any small recovery in Egypt can boost Rand earnings. Given that Egyptian inflation is expected to average 9% between 2025-2030 and FY2026 results will see earnings lap this very

low currency base, analysts have upped earnings guidance. The last time the Group delivered double-digit growth was in FY '13. Other positives include:

- The South African operations are showing growth again, assisted by lower costs as loadshedding subsides.
- M-Pesa continues to drive financial inclusion across its markets, so Vodacom remains well-placed to capitalize from the large African fintech opportunity.
- Network sharing (50:50 JVs ideally) with other Telcos to reduce costs. For example, Vodacom completed a deal with Orange to extend coverage in 2,000 rural locations in the DRC.
- De-risked balance sheet with 88% of financial debt now Rand-based and benefitting from the recent reduction in our interest rates.
- 5% increase in the dividend, from 590c to 620c. Dividends are forecast to grow at an average rate of 17% over the next three years.
- Partnering with Amazon.com's Kuiper satellite project and potentially also with Elon Musk's Starlink network to grow its customer base from 211 million to 260 million subscribers by 2030.

Nonetheless, there are also risks, including:

- The pending "Please Call Me" litigation appeal where the SCA has indicated a minimum compensation of R29 billion. Vodacom have not provisioned for this material outcome.
- Escalating tension in the Middle East negatively impacting Vodafone Egypt's forecast earnings.
- Competition Tribunal's ruling against the Maziv JV to roll-out fiber across the SA low-income households. The appeal is due to be heard in late July.

In conclusion, having remained patient, the share price has largely re-rated and now reflects the positive momentum highlighted above. Despite the possibility of further upside momentum, we have recently banked the annual dividend and are now actively looking to reduce our exposure to the company. This is primarily driven by our assessment that the investment case for telco companies is similar to that of airlines. Modern life cannot function without cellphones or air travel, yet neither make for compelling long-term investments, due to the high regulatory nature of the industry, regulated tariffs (in many markets) and the vast capital expenditure required to keep networks (or fleets) modern and competitive. In addition, Vodacom faces rising risk due to growing currency risk, and the "Please Call Me" issue is the elephant in the room. This issue has been kicked down the road for years but will at some stage come to a head. Despite the potential for higher growth from its African operations, and Egypt in particular, events over the past two weeks have illustrated just how fragile the Middle East is. We will be using periods of positive momentum and share price strength to gradually reduce our exposure.



Our next seminar will be held in September in Johannesburg and the Midlands. The topic will be communicated in due course."



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Topic: **To be announced**

Natal Midlands

Date: 11th of September, 2025

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 9th of September, 2025

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: N/A

Venue: SSISA Conference Centre, Boundary Road, Newlands, Morne du Plessis Boardroom, 4th floor

Time: 7.30am

Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West

Time: 5.30pm for 6pm



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