

EQUITY RESEARCH

Sector:
Telecommunication

17th October 2024

Ethiopian Investment Holdings floats 10% of EthioTel's shareholding at ETB 300 per share

Ethiopian Investment Holdings (EIH) – *which serves as the strategic investment arm of the Ethiopian government* – has proposed to sell 100,000,000 ordinary shares (10% shareholding) of Ethio Telecom Share Company (EthioTel) at a fixed offer price of 300 Ethiopian Birr (ETB) per share **to the general Ethiopian public.**

This follows the Ethiopian government's proposal on 14th September 2021 to partially privatize the company by selling up to 40% of the equity share capital of the company – with the decision communicated on 18th March 2022. To facilitate the privatization process, the company was converted from a public enterprise to a share company on 28th June 2024 – *by a board resolution* – and registered as a share company on 1 July 2024 in accordance with the commercial registration proclamation of Ethiopia. **We believe that the major shareholder will likely float c.30% shareholding (in line with the 40% partial privatization) following the offer that may be open to the broader investor community.**

Worth noting;

- The objective of the offer is to allow the Ethiopian public to participate in the ownership of the company.
- The offer is open to Ethiopian citizens and applications must be physically presented in Ethiopia when applying for the offer.
- The offer share comprises 100,000,000 ordinary shares at a fixed price of ETB 300 per share, representing 10% of the paid-up and issued share capital with a par value of ETB 100 each.
- The offer will run until 3rd January 2025, or when the total applications for the offer reach the application cap of 200,000,000 offer shares.
- The ordinary shares will, immediately on and from the completion of the Offer, be restricted from being traded, sold, transferred, or any such arrangement which takes on the nature of transferring ownership. The lock-in period is expected to run until the completion of the intended Ethiopian Securities Exchange (ESX) listing (estimated within 12 months from the completion of the offer).
- The offer is not underwritten.

Expected timetable of events

	Time & Date
Publication of this Prospectus	18:00 on 16 October 2024
Commencement of the Offer Period	00:00 (midnight) on 17 October 2024
Closure of the Offer Period	17:00 on 3 January 2025*
Completion of allotment and verification	24 January 2025*
Announcement of the results of allotment	31 January 2025*
Return of monies in respect of unsuccessful application and/or Not Allotted Shares	14 February 2025*
Crediting of Ordinary Shares to Prospective Investor accounts	14 February 2025*

Source: EthioTel Prospectus

Unless otherwise stated, all above-stated times are East Africa Time.

** In the event that the Offer Period closes earlier than 3 January 2025 due to the Application Cap being reached as set out in section 1.5.3, the date of closure of the Offer Period and all subsequent dates in the timetable set out above may be earlier than the dates shown.*

EthioTel Company Overview

EthioTel is a telecommunication service provider in Ethiopia with an estimated market share of 94.5% as of June 2024. The company has a subscriber base of 78.3m users with its principal operations spanning telco, infrastructure sharing, and mobile money – telco being the main revenue driver (c. 95.9% in 2024).

The company's 2G-enabled networks cover 99.2% of the population with 3G-enabled networks at 98.7% of the population. Management highlights that 4G technologies has been successfully rolled out in 424 cities across Ethiopia, covering 34.6% of the population with 5G-enabled networks in 5 cities as of June 2024.

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EthioTel floats 10% shareholding to Ethiopian Public

The company has 8,538 network towers – of which 8,343 are mobile sites, 160 are repeater and optical sites, and 35 are CDMA sites. On spectrum, the company has allocations of 300+ MHz across 450, 800, 850, 900, 1800, 2100, and 2600 MHz bands. The company also owns 21,693km of optical fibre network.

Prior to the entrance of the Safaricom-led consortium in July 2021, the company was the sole telco operator in the country. Its infrastructure-sharing business commenced in October 2022, with the company signing the Safaricom Infrastructure Agreement in April 2022. The agreement is for a 5-year sharing of backbone transmission and a 10-year sharing of power and tower infrastructure. Management notes that the agreement generated revenues of ETB 1.5bn in the year ended 30th June 2024 (with the prior year generating ETB 793.0m).

Its mobile money, dubbed Telebirr, was launched in May 2021 growing to a user base of 47.5m as of 30th June 2024. Management notes that the service is in 17 telecom regions in Ethiopia and 6 telecom zones in Addis Ababa. For the financial year ended 30th June 2024, Telebirr generated revenues of ETB 2.3bn (vis-à-vis ETB 757m, in the prior year). We note that the company had a first-mover advantage (*a plus for the business*) in an economy with cash as a dominant payment method. As we highlighted in our [Safaricom valuation update note](#), we opine mobile money will be key in achieving Ethiopia's revised National Financial Inclusion Strategy (NFIS 2021–2025) which targets to increase the digital payments usage rate from 20% of all adults in 2020 to 49% by 2025. We believe the telco player with the best cost structure, a rich agency network, and widespread customer education through marketing will successfully achieve scale in the segment.

EthioTel's Revenue (ETB, m)

	2024	2023	2022
Revenue (millions)			
Telecoms	87,580	69,976	59,443
Infrastructure Sharing	1,473	793	n/a
Mobile Financial Services	2,318	757	6
Revenue from contracts with customers	91,371	71,526	59,449

Source: EthioTel Prospectus

In the telco business, voice is the major revenue driver at c. 51.4% of the total telco revenues as of 2024. Data follows at c.27.5%. In the aforementioned Safaricom valuation update note, we noted that in Ethiopia, internet penetration was estimated at c. 19.4% of the total population at the start of 2024 – implying that c. 80% of the population is offline. In our analysis, we expressed that industry players with better connectivity and price propositions will be able to secure significant data market share in Ethiopia as penetration deepens.

Other areas of growth for the business, in addition to the core offerings, were highlighted as digital & lifestyle services and cloud & enterprise solutions – which are still being developed and are yet to be seen as standalone operating segments.

Summary statement of comprehensive income

	2024	2023	2022
ETB (millions)			
Revenue	91,371	71,526	59,449
Direct costs*	(25,607)	(11,319)	(9,749)
Operating expenses*	(28,607)	(27,700)	(20,872)
Net impairment (losses) / gains on financial and contract assets	(232)	(348)	272
Other income	4,294	5,460	2,315
EBITDA	41,220	37,620	31,414
Depreciation and amortisation	(8,362)	(6,497)	(6,632)
Operating profit	32,858	31,123	24,782
Net finance costs	(3,068)	(2,936)	(6,949)
Profit before income tax	29,790	28,187	17,834
Income tax expense	(10,777)	(10,159)	(8,834)
Profit after tax	19,013	18,028	9,000

Source: EthioTel Prospectus

Summary statement of financial position

	2024	2023	2022
ETB (millions)			
Non-current assets			
Property, plant, and equipment*	141,549	50,924	38,858
Right of use assets	1,247	1,208	961
Intangible assets	1,865	1,294	1,608
Other non-current assets	7,311	7,315	7,102
Deferred tax asset*	3,570	3,577	3,931
	155,542	64,318	52,460
Current assets			
Inventories*	14,921	14,999	6,308
Other current assets	4,566	2,974	3,017
Trade receivables	9,505	6,773	6,530
Other financial assets at amortised cost*	15	92,484	92,511
Cash and cash equivalents	29,643	33,545	28,191
	58,650	150,775	136,557
Total assets	214,192	215,093	189,018
Equity and Liabilities			
Liabilities			
Non-current liabilities			
Borrowings	13,002	16,928	20,576
Other non-current liabilities	1,848	1,373	1,245
	14,850	18,301	21,821
Current liabilities			
Borrowings	4,684	5,213	6,703
Contract liabilities	8,099	8,231	6,969
Trade and other payables	63,902	53,636	38,825
Other current liabilities	369	2,753	5,199
Current income tax	8,794	7,245	7,946
	85,848	77,079	65,642
Total liabilities	100,698	95,380	87,463
Equity attributable to owners			
Capital	100,000	100,000	100,000
Retained earnings *	10,202	17,242	115
Legal reserves	3,252	2,301	1,400
Other reserves	40	170	40
Total equity	113,494	119,713	101,555
Total equity and liabilities	214,192	215,093	189,018

Disclosure and Disclaimer

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