First Look Note | 3Q26

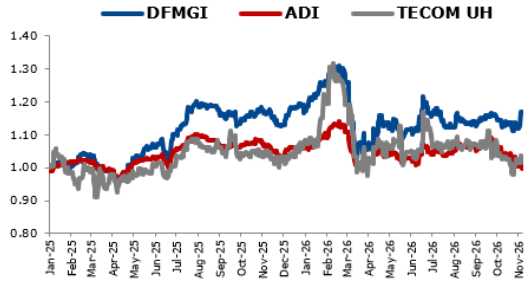
UAE Equity Research | Sector: Real Estate | Market: DFM

TECOM Group PJSC

Earnings supported by strong occupancy and customer retention

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.42	AED 4.60	+35%	BUY

- Tecom's occupancy rates for the commercial and industrial sectors remained strong at 95% and 98%, with tenant retention at 93% and 97% in 9M26.
- Operating lease income increased 13.9% YOY to AED 717 Mn in 3Q26, while service revenue declined 3.4% YOY to AED 92 Mn in 3Q26.
- The Company maintained the guidance of 8-11% YOY EBITDA growth for 2026.
- TECOM paid dividend of AED 440 Mn equivalent to 8.8 fils per share for 1H26 in 3Q26.



Stock Information	
Market Cap (AED, Mn)	17,100.00
Shares Outstanding	500.00
52 Week High	4.15
52 Week Low	3.06
3M Avg. daily value (AED)	2,261,773

3Q26 Result Review (AED, Mn)	
Total Assets	18,188
Total Liabilities	9,947
Total Equity	8,240
EBITDA	627
Net Profit	417

Financial Ratios	
Dividend Yield (12m)	5.15
Dividend Pay-out (%)	38.35
Price-Earnings Ratio(x)	8.04
Price-to-Book Ratio (x)	2.08
Book Value (AED)	1.65
Return-on Equity (%)	28.94

Stock Performance	
5 Days	4.59%
1 Months	5.23%
3 Months	3.01%
6 Months	0.59%
1 Year	4.27%
Month to Date (MTD%)	6.88%
Quarter to Date (QTD%)	0.29%
Year to Date (YTD%)	0.29%

3Q26 Net Profit in line with our estimate

Tecom Group PJSC (TECOM/the Company) net profit attributable to shareholders increased 11.6% YOY to AED 417 Mn in 3Q26, in line with our estimate of AED 405 Mn. The increase in net profit was driven by a rise in revenue, coupled with a decline in marketing & selling expenses, partially offset by increases in direct costs, G&A expenses, depreciation & amortization costs and income tax charges coupled by decline in other income and finance income.

P&L Highlights

Tecom's revenue increased by 11.7% YOY to AED 809 Mn in 3Q26, driven by strong growth in operating lease income, which increased 13.9% YOY to AED 717 Mn in 3Q26, partially offset by a 3.4% YOY decline in service income to AED 92 Mn in 3Q26. Commercial Leasing segment revenue increase by 6.3% YOY to AED 390 Mn in 3Q26, reflecting higher rental income with strong occupancy and customer retention. Industrial segment revenue rose by 11.3% YOY to AED 125 Mn in 3Q26, supported by continued demand for industrial properties, particularly from manufacturing and logistics customers. Land leasing segment surged by 34.7% YOY to AED 202 Mn in 3Q26. Direct cost increased 5.1% YOY to AED 275 Mn in 3Q26. Thus, gross profit increased 15.4% YOY to AED 534 Mn, with gross profit margin expanding 211 bps YOY to 66.0% in 3Q26. G&A expenses increased 3.4% YOY to AED 50 Mn in 3Q26. Marketing and selling expenses declined by 43.4% YOY to AED 5 Mn in 3Q26. Other income also declined to AED 14 Mn in 3Q26 from AED 34 Mn in 3Q25. Thus, the Company's operating profit increased 12.1% YOY to AED 493 Mn in 3Q26. The operating margin increased 26 bps YOY to 61% in 3Q26. Depreciation & amortisation increased 8.9% YOY to AED 134 Mn in 3Q26. Thus, EBITDA increased 11.4% YOY to AED 627 Mn in 3Q26, while EBITDA margin declined 16 bps YOY to 77.6% in 3Q26. Finance

income declined from AED 8 Mn in 3Q25 to AED 4 Mn in 3Q26, whereas finance cost increased 3.3% YOY to AED 66 Mn in 3Q26. The income tax expenses increased 32.3% YOY to AED 15 Mn in 3Q26.

Balance Sheet Highlights

Tecom's total assets grew 11.4% YOY to AED 18.2 Bn in 3Q26, reflecting continued expansion of the Company's real estate portfolio. The Company's investment properties increased 13.8% YOY to AED 16.2 Bn in 3Q26. Cash and bank balances declined 24.9% YOY to AED 410 Mn in 3Q26. Funds from Operations (FFO) increased by 11% YOY to reach AED 1.6 Bn in 9M26, attributable to strong operating performance and efficient cash collection. The Company's net cash inflows from operating activities increased from AED 527 Mn in 3Q25 to AED 557 Mn in 3Q26.

Target Price and Rating

We maintain our BUY rating on TECOM with a target price of AED 4.60. TECOM delivered a resilient operating performance in 3Q26, with revenue increasing 11.7% YOY to AED 809 Mn, supported by continued expansion across the leasing portfolio. The Company's operating performance continues to be underpinned by strong portfolio fundamentals, with commercial and industrial occupancy reaching 95% and 98%, while customer retention stood at 93% and 97% in 9M26. On a 9M26 basis, commercial revenue grew 10% YOY to AED 1,173 Mn. The commercial portfolio continues to benefit from demand for premium office space and an expanded leasable area, with a recently acquired investment comprising office and laboratory facilities expected to add c. 650K SQFT of business park space through a combination of built-to-lease and land-lease projects. The industrial revenue grew 14% YOY to AED 365 Mn supported by manufacturing and logistics customers. The land leasing revenue increased 26% YOY to AED 563 Mn in 9M26. Land-leasing growth was supported by an increase in leasable area to 201 Mn SQFT in 9M26 from 183 Mn SQFT at year-end 2025, alongside an increase in average rental rates to AED 3.9 per SQFT from AED 3.3 per SQFT, with new leases being signed at rates above AED 6 per SQFT, highlighting further potential to capture rental upside as existing contracts renew or undergo contractual escalations. The Company's service revenue declined 9.8% YOY to AED 249 Mn in 9M26. On QOQ basis, the service revenue increased 19.0% to AED 92 Mn in 3Q26, driven by improvement in visa demand alongside normalisation in Access revenue. The Company's diversified asset base and sustained occupancy levels continue to support recurring rental income and operating profitability. TECOM's in-place rents remain c. 25-35% below prevailing market levels, providing scope for further rental growth through renewals, with leases renewed achieved average rental increases of c. 8-9% in 2026. TECOM's Dubai Industrial City land programme continues to progress ahead of the original execution timeline. The initial 8 Mn SQFT phase was fully leased in 2025, while the subsequent 10 Mn SQFT phase was completed during 2Q26. The third 8 Mn SQFT phase is currently in advanced leasing discussions, with c. 79% of the overall 33 Mn SQFT programme either leased or supported by confirmed customer leads. The strong pace of execution reflects sustained demand for industrial land, supported by supply-chain localisation, manufacturing expansion and limited availability of quality industrial space. TECOM remains committed to delivering sustainable shareholder returns, with the Company distributing AED 440 Mn equivalent to 8.8 fils per share in 3Q26 for 1H26, in line with the 2026 dividend policy of AED 880 Mn. The remaining AED 440 Mn is expected to be distributed in March 2027, subject to the requisite approvals. Looking ahead, TECOM remains well positioned to capitalise on demand across Dubai's commercial, industrial and logistics real estate markets. The expansion of the Company's industrial land lease portfolio has contributed to stronger revenue growth particularly in 3Q26, while continued customer retention and high occupancy across the business districts provide visibility on recurring income. The Company's ability to achieve balanced growth across the leasing segments, alongside ongoing portfolio expansion is expected to support the medium-term growth outlook. The Company maintained EBITDA growth of c. 8-11% YOY for 2026. Accordingly, we maintain BUY rating on stock.

TECOM - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	21.27	16.67	14.84	13.02	7.67	9.68
PB	2.16	2.03	2.53	2.39	2.03	1.85
EV/EBITDA	13.88	12.62	12.47	11.91	10.03	9.26
BVPS	1.485	1.579	1.266	1.342	1.577	1.731
EPS	0.150	0.192	0.216	0.246	0.417	0.330
DPS	0.370	0.345	0.160	0.160	0.168	0.176
Dividend yield	10.8%	10.1%	4.7%	4.7%	4.9%	5.1%

FABS Estimates & Co Data

TECOM – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Sales	724	786	809	798	1.3%	11.7%	2.9%	2,858	3,182	11.3%
Direct cost	-261	-247	-275	-262	5.0%	5.1%	11.2%	-963	-1,029	6.8%
Gross profit	**463**	**539**	**534**	**537**	**-0.5%**	**15.4%**	**-0.9%**	**1,894**	**2,152**	**13.6%**
G&A expenses	-49	-59	-50	-58	-13.1%	3.4%	-14.5%	-184	-209	13.7%
Marketing & selling exp.	-9	-7	-5	-14	-62.9%	-43.4%	-32.1%	-56	-44	-22.5%
Other income	34	8	14	17	-12.9%	NM	NM	91	56	-38.5%
Operating profit	**440**	**480**	**493**	**482**	**2.3%**	**12.1%**	**2.7%**	**2,397**	**1,955**	**-18.4%**
Depr. & Amort	123	133	134	130	3.3%	8.9%	1.0%	485	524	8.0%
EBITDA	**563**	**613**	**627**	**612**	**2.5%**	**11.4%**	**2.3%**	**2,230**	**2,479**	**11.2%**
Finance income	8	3	4	9	-58.4%	NM	16.2%	31	15	-50.8%
Finance cost	-63	-66	-66	-69	-4.6%	3.3%	-1.0%	-253	-260	2.6%
Profit before zakat	**384**	**417**	**431**	**422**	**2.2%**	**12.2%**	**3.4%**	**2,175**	**1,710**	**-21.4%**
Income Tax	-11	-16	-15	-17	-15.7%	32.3%	-7.2%	-89	-58	NM
Profit to shareholders	**373**	**401**	**417**	**405**	**3.0%**	**11.6%**	**3.8%**	**2,086**	**1,652**	**-20.8%**

FABS estimate & Co Data

TECOM - Margins

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross margin	63.9%	68.5%	66.0%	211	-252	66.3%	67.6%	136
EBITDA margin	77.7%	78.0%	77.6%	-16	-44	78.0%	77.9%	-11
Operating margin	60.7%	61.1%	61.0%	26	-12	83.9%	61.4%	NM
Net profit margin	51.5%	51.1%	51.5%	-2	45	73.0%	51.9%	NM

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount Method (DDM), and Price/Funds From Operations (FFO) method to value TECOM. We have assigned 70% weight to DCF, and 15% each to DDM and Price/FFO method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.68	70.0%	3.28
Dividend Discount Method (RV)	3.08	15.0%	0.46
Price/ FFO	5.73	15.0%	0.86
Weighted Average Valuation (AED)			**4.60**
Current market price (AED)			3.42
Upside/Downside (%)			+35%

1) DCF Method:

TECOM is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using the cost of equity of 9.5% and after-tax cost of debt of 5.3% with a debt-to-equity ratio of 29.9%. The cost of equity is calculated by using a 10-year government bond yield of 5.4%, beta of 1.00 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 5.5% after adjusting a tax rate arriving at after-tax cost of debt of 5.3%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,221
Terminal value (AED, Mn)	22,588
Net debt as of Sep 2026 (AED Mn)	6,415
FV to Common shareholders (AED, Mn)	**23,394**
No. of share (Mn)	5,000
Current Market Price (AED)	3.42
Fair Value per share (AED)	**4.68**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
NOPAT	1,897	1,939	1,936	1,978	1,970	1,948
D&A	524	548	608	627	645	663
(-) Capex	-1,840	-1,681	-422	-442	-463	-462
Change in working capital	-29	-12	-9	-22	-38	-47
Free Cash Flow to Firm (FCFF)	**551**	**794**	**2,113**	**2,140**	**2,114**	**2,103**
Discounting Factor	*0.99*	*0.91*	*0.84*	*0.78*	*0.72*	*0.66*
Discounted FCFF	**136[1]**	**724**	**1,780**	**1,665**	**1,519**	**1,396**

Source: FAB Securities, [1]Adjusted for the partial year

2) DDM Method:

TECOM dividend grew in line with its policy and pays regular dividend to its shareholders. Strong cash flow generation of the Company enables continuous dividend payments. Thus, we have valued TECOM using DDM method. The dividend is discounted at the cost of equity of 9.5%.

Sum of PV (AED, Mn)	5,010
Terminal value (AED, Mn)	10,368
FV to Common shareholders (AED, Mn)	**15,378**
No. of share (Mn)	5,000
Current Market Price (AED)	3.42
Fair Value per share (AED)	**3.08**

DDM Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Dividend paid -						
H1	440	480	525	565	585	605
H2	440	480	525	565	590	615
Total dividend	**880**	**960**	**1,050**	**1,130**	**1,175**	**1,220**
Discounting Factor	*0.99*	*0.90*	*0.82*	*0.75*	*0.69*	*0.63*
Present Value of dividend	**867**	**864**	**863**	**848**	**805**	**763**

Source: FAB Securities

3) Price/FFO:

We have used average of local as well as international peers to value TECOM and it is valued using the Price/FFO multiple. It is valued at Price/FFO multiple of 13.5x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x)
Regional Peers				
Jadwa REIT Saudi Fund	380	16.8	21.9	18.3
Riyad REIT Fund	183	24.1	NA	70.9
Al Rajhi REIT	584	14.7	17.8	15.4
Bonyan REIT	348	11.3	13.7	11.0
Alahli REIT Fund 1	220	16.0	19.5	18.6
Derayah REIT	140	16.4	81.8	18.4
Mulkia Gulf Real Estate REIT	105	14.6	NA	16.4
Taleem REIT	136	14.1	14.0	12.7
Al Maather REIT Fund	125	13.0	15.1	12.2
Average		**15.7x**	**26.3x**	**21.5x**
Median		**14.7x**	**17.8x**	**16.4x**
Max		**16.4x**	**20.7x**	**18.4x**
Min		**14.1x**	**14.6x**	**12.7x**

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x)
International Peers				
Broadstone Net Lease Inc	3,377	17.1	28.7	10.7
Prologis Inc	125,364	26.1	44.0	20.1
Stag Industrial Inc	7,372	19.9	38.6	13.6
Lxp Industrial Trust	3,607	39.2	NA	17.6
Alexandria Real Estate Equity	7,414	11.4	NA	8.1
Vornado Realty Trust	6,540	10.2	NA	13.3
Douglas Emmett Inc	1,697	14.6	NA	7.4
Allied Properties Real Estate	532	19.2	7.7	4.7
SL Green Realty Corp	3,595	20.3	NA	7.9
Easterly Government Properties	1,073	13.6	69.7	7.3
Brookfield India Real Estate	2,752	18.7	34.8	NA
Covivio	5,564	21.2	7.5	9.0
Dexus/Au	4,382	42.8	10.3	10.6
Mapletree Logistics Trust	4,375	22.3	25.7	21.8
Yuexiu Real Estate Investment	410	18.3	NA	NA
Americold Realty Trust INC	4,168	14.0	NA	16.5
Average		**20.5x**	**29.7x**	**12.0x**
Median		**18.9x**	**28.7x**	**10.7x**
Max		**21.4x**	**38.6x**	**15.8x**
Min		**14.5x**	**10.3x**	**7.9x**

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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