

## TECOM Group PJSC

Record occupancy with a high retention rate and a rise in rental rates drove the top-line

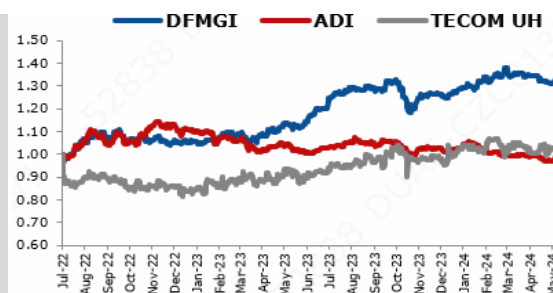
**Current Price**  
AED 2.73

**Target Price**  
AED 3.15

**Upside/Downside (%)**  
+15%

**Rating**  
BUY

- TECOM's customer base rose 10% to more than 11,000 in 1Q24.
- TECOM experienced a strong occupancy of 91% in 1Q24 across commercial and industrial portfolio with a retention rate of 98%.
- TECOM expanded in Dubai Science Park (DSP) and launched D/Quarters co-working solutions coupled with storage and logistics space of 200,000 square feet of GLA with a capex of AED 75 Mn
- TECOM's recurring free cash flow grew 12.9% YOY to AED 332 Mn in 1Q24.
- c. 25% of TECOM's portfolio is due for renewal in 2024, which will lead to an upside rental renewal in the range of 5-10.
- Shareholders approved a dividend of 8 fils per share in 2H23, resulting in an annual dividend of 16 fils per share with a healthy dividend yield of 5.9%.



### 1Q24 Net Profit higher than our estimate

TECOM Investment PJSC (TECOM/the Company) net profit increased 14.7% YOY to AED 293 Mn in 1Q24 higher than our estimate of AED 248 Mn. The increase in net profit is mainly attributable to strong growth in revenue, an increase in other income, and net finance income partially offset by a rise in direct cost, higher operating expenses, and tax expense.

### P&L Highlights

TECOM's recorded a strong growth in revenue of 9.8% YOY to AED 564 Mn in 1Q24, driven by record-high occupancy rates across industrial and commercial leasing attributable to strong demand from the leasing and service segment. Revenue growth is also supported by solid macroeconomic environment and supportive government policies. Commercial Leasing segment revenue rose 7.5% YOY to AED 296 Mn in 1Q24 owing to healthy occupancy driven by high demand for quality workplaces due to limited supply and increase in rental rates. Similarly, the Industrial Leasing business recorded a solid revenue growth of 16.7% YOY to AED 82 Mn in 1Q24 attributable to increased occupancy across warehouses and worker accommodation along with higher leasing rates. Rental in the Industrial segment rose due to demand outpacing supply. Furthermore, revenue from Land Leasing increased 13.9% YOY to AED 127 Mn in 1Q24 due to strategic connectivity and location coupled with high demand from new customers while Services revenue rose 3.9% YOY to AED 59 Mn owing to new visa transactions and escalating demand for co-working spaces. On the other hand, direct cost rose 8.3% YOY to AED 185 Mn in 1Q23. Thus, the Company's gross profit increased 10.5% YOY to AED 379 Mn in 1Q24. TECOM's G&A expenses rose 17.2% YOY to AED 45 Mn in 1Q24, whereas selling and marketing expenses increased 34.9% YOY to AED 9 Mn in 1Q24.

### 1Q24 Result Review (AED, mn)

Total Assets	15,187
Total Liabilities	8,924
Total Equity	6,245
EBITDA	439
Net Profit	293

### Financial Ratios

Dividend Yield (12m)	5.86
Dividend Pay-out (%)	74.19
Price-Earnings Ratio(x)	11.83
Price-to-Book Ratio (x)	2.16
Book Value (AED)	1.27
Return-on Equity (%)	17.54

### Stock Performance

5 Days	-0.73%
1 Months	1.87%
3 Months	-3.87%
6 Months	5.00%
1 Year	9.64%
Month to Date (MTD%)	-1.09%
Quarter to Date (QTD%)	-1.09%
Year to Date (YTD%)	-0.73%

Furthermore, other income increased significantly from AED 3 Mn in 1Q23 to AED 13 Mn in 1Q24, while other expenses stood at AED 4 Mn in 1Q24 compared to nil in 1Q23. As a result, operating profit rose 11.1% YOY to AED 335 Mn in 1Q24. Commercial Leasing EBITDA increased 8.5% YOY to AED 214 Mn in 1Q24 while Industrial Leasing EBITDA rose 13.8% YOY to AED 61 Mn. EBITDA from Land Leasing grew 13.4% YOY to AED 120 Mn in 1Q24. Similarly, Service segment EBITDA increased 4.8% YOY to AED 44 Mn in 1Q24. Thus, the Company's overall EBITDA rose 10.1% YOY to AED 439 Mn in 4Q23 with an EBITDA margin of 77.8% in 1Q24 compared to 77.6% in 1Q23. TECOM's finance income increased substantially from AED 12 Mn in 1Q23 to AED 19 Mn in 1Q24, while finance cost fell 14.5% YOY to AED 50 Mn in 1Q24 due to refinancing of loan at lower interest rates.

### Balance Sheet Highlights

TECOM's borrowings increased marginally 0.2% YOY to AED 4.4 Bn in 1Q24 with committed undrawn bank facilities of AED 3.2 Bn. The Company's funds from operations rose 15% YOY to AED 413 Mn 1Q24 attributable to an improvement in collections and better performance of income-generating assets. Furthermore, TECOM's recurring free cash flow grew 12.9% YOY to AED 332 Mn in 1Q24 due to strong growth in core operations. The Company incurred a maintenance and growth capex of AED 80 Mn and AED 14 Mn in 1024 compared to AED 65 Mn and AED 20 Mn in 1Q23, respectively.

### Target Price and Rating

We revise our rating on TECOM from ACCUMULATE to BUY with an unchanged target price of AED 3.15. TECOM witnessed record-high occupancy across its Commercial and Industrial portfolio due to strong demand which drove the bottom line during 1Q24. The strong performance of Dubai's real estate sector due to high demand with limited availability of office spaces resulted in high occupancy during the period. The Company expects the demand to continue to outpace supply and lead to high occupancy and rental rates in the mid-term. TECOM aims to increase its occupancy and rental rates while taking advantage of the strong macroeconomic conditions and limited supply. TECOM's customer base increased 10% YOY to more than 11,000 in 1Q24 coupled with robust retention across the portfolio. The Company started its specialized warehouse development in Dubai Science Park with a space of c. 200,000 square feet of GLA with a capex of AED 75 Mn expected to be completed by 1Q25. On the other hand, c. 25% of TECOM's portfolio is due for renewal in 2024, leading to an upside rental renewal in the range of 5-10. Moreover, TECOM has very less inventory left in its land bank and plans to refill its inventory in the land leasing segment on a priority basis owing to a large demand. Furthermore, TECOM seeks to tap new sources of growth by activating its land bank or through the right of first offer from Dubai Holding Asset Management. Likewise, to address the supply shortage, TECOM might acquire land, yielding assets, or develop new assets inside or outside the free zone. The group can further use the AED 3.2 Bn undrawn revolving credit facility for its expansion plans. Furthermore, the strong core operations of the Company resulted in robust recurring free cash flow of AED 332 Mn in 1Q24 while the solid occupancy across its warehouses and commercial spaces affirms strong further cash flow visibility. TECOM's major portfolio falls under free-zone which enjoys 0% tax resulting in an effective tax rate of 3.7 – 3.9%. The shareholders approved a dividend of 8 fils per share for the second half of 2023, leading to an annual dividend 16 fils per share with a healthy dividend yield of 5.8%. Thus, considering the abovementioned factors, we assign a BUY rating on the stock.

### TECOM - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	22.10	24.18	18.61	14.59	12.98	13.38
PB	0.86	0.96	0.71	0.70	0.90	0.89
EV/EBITDA	14.95	15.53	12.58	11.50	11.26	10.53
Dividend yield	10.5%	4.6%	13.2%	12.3%	5.9%	5.9%

FABS Estimates & Co Data

**TECOM – P&L**

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	514	579	564	572	-1.3%	9.8%	-2.7%	2,169	2,298	5.9%
Direct cost	-171	-204	-185	-186	-0.3%	8.3%	-9.2%	-760	-770	1.3%
<b>Gross profit</b>	<b>343</b>	<b>375</b>	<b>379</b>	<b>386</b>	<b>-1.8%</b>	<b>10.5%</b>	<b>0.9%</b>	<b>1,409</b>	<b>1,528</b>	<b>8.5%</b>
G&A expenses	-38	-63	-45	-44	1.1%	17.2%	-29.6%	-154	-163	5.8%
Marketing & selling exp.	-7	-23	-9	-10	-6.4%	34.9%	-60.5%	-43	-43	0.7%
Other income	3	10	13	11	19.0%	295.7%	31.8%	47	47	-1.1%
Other expenses	0	0	-4	0	NM	NM	NM	0	0	NM
<b>Operating profit</b>	<b>301</b>	<b>299</b>	<b>335</b>	<b>343</b>	<b>-2.4%</b>	<b>11.1%</b>	<b>11.8%</b>	<b>1,259</b>	<b>1,369</b>	<b>8.7%</b>
Depr. & Amort	98	102	104	99	5.9%	7.1%	2.8%	395	414	4.9%
<b>EBITDA</b>	<b>399</b>	<b>401</b>	<b>439</b>	<b>442</b>	<b>-0.6%</b>	<b>10.1%</b>	<b>9.5%</b>	<b>1,654</b>	<b>1,783</b>	<b>7.8%</b>
Finance income	12	41	19	20	-3.8%	62.1%	-53.0%	82	80	-2.0%
Finance cost	-58	-48	-50	-90	-45.0%	-14.5%	4.1%	-262	-361	37.5%
<b>Profit before zakat</b>	<b>255</b>	<b>293</b>	<b>304</b>	<b>273</b>	<b>11.5%</b>	<b>19.2%</b>	<b>4.0%</b>	<b>1,078</b>	<b>1,088</b>	<b>0.9%</b>
Income Tax	0	0	-12	-25	-52.4%	NM	NM	0	-41	NM
<b>Net Profit</b>	<b>255</b>	<b>293</b>	<b>293</b>	<b>248</b>	<b>17.8%</b>	<b>14.7%</b>	<b>0.0%</b>	<b>1,078</b>	<b>1,047</b>	<b>-2.9%</b>

FABS estimate & Co Data

**TECOM - Margins**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	66.7%	64.8%	67.1%	45	235	64.9%	66.5%	155
EBITDA margin	77.6%	69.2%	77.8%	23	865	76.2%	77.6%	134
Operating margin	58.6%	51.7%	59.3%	68	767	58.0%	59.6%	152
Net profit margin	49.7%	50.5%	51.9%	221	138	49.7%	45.5%	-416

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	3.06	70.0%	2.14
Dividend Discount Method (RV)	2.53	15.0%	0.38
Price/ FFO	4.19	15.0%	0.63
<b>Weighted Average Valuation (AED)</b>			<b>3.15</b>
Current market price (AED)			2.73
Upside/Downside (%)			+15%

### 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 8.6%. It is arrived after using the cost of equity of 9.5% and after-tax cost of debt of 6.5% with a debt-to-equity ratio of 38.6%. The cost of equity is calculated by using a 10-year government bond yield of 5.7%, beta of 1.00 and equity risk premium of 3.8%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 6.7% after adjusting a tax rate arriving at after-tax cost of debt of 6.5%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	5,239
Terminal value (AED, Mn)	14,028
<b>FV to Common shareholders (AED, Mn)</b>	<b>15,309</b>
No. of share (Mn)	5,000
Current Market Price (AED)	2.73
<b>Fair Value per share (AED)</b>	<b>3.06</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	1,327	1,362	1,403	1,468	1,520
D&A	414	429	441	447	455
(-) Capex	-492	-334	-280	-481	-637
Change in working capital	-119	36	8	7	6
<b>Free Cash Flow to Firm (FCFF)</b>	<b>731</b>	<b>1,493</b>	<b>1,573</b>	<b>1,443</b>	<b>1,344</b>
Discounting Factor	0.95	0.87	0.80	0.74	0.68
<b>Discounted FCFF</b>	<b>693</b>	<b>1,303</b>	<b>1,263</b>	<b>1,066</b>	<b>914</b>

Source: FAB Securities

## 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 8.8%

Sum of PV (AED, Mn)	3,693
Terminal value (AED, Mn)	8,954
<b>FV to Common shareholders (AED, Mn)</b>	<b>12,646</b>
No. of share (Mn)	5,000
Current Market Price (AED)	2.73
<b>Fair Value per share (AED)</b>	<b>2.53</b>

### DDM Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Dividend paid -					
H1	400	400	500	500	500
H2	400	500	500	500	500
<b>Total dividend</b>	<b>800</b>	<b>900</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
Discounting Factor	0.94	0.86	0.79	0.72	0.66
<b>Present Value of dividend</b>	<b>755</b>	<b>775</b>	<b>787</b>	<b>719</b>	<b>657</b>

Source: FAB Securities

## 3) Price/FFO:

We have used local peers to value TECOM and it is valued using the Price/FFO multiple. It is valued at Price/FFO multiple of 13.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) <sup>1</sup> Current	Price/FFO (x)
Jadwa REIT Saudi Fund	648	23.2	74.4	16.2
Riyad REIT Fund	387	18.9	23.1	14.7
Al Rajhi REIT	650	17.0	28.6	18.3
Bonyan REIT	426	13.0	NA	12.0
Alahli REIT Fund 1	317	17.4	23.6	16.7
Derayah REIT	227	17.8	48.3	31.8
Mulkia Gulf Real Estate REIT	167	22.4	NM	19.8
Taleem REIT	151	16.2	16.6	16.4
Al Maather REIT Fund	149	15.8	NA	13.7
<b>Average</b>		<b>18.0x</b>	<b>81.6x</b>	<b>17.7x</b>
<b>Median</b>		<b>17.4x</b>	<b>28.6x</b>	<b>16.4x</b>
<b>Max</b>		<b>18.9x</b>	<b>61.4x</b>	<b>18.3x</b>
<b>Min</b>		<b>16.2x</b>	<b>23.4x</b>	<b>14.7x</b>

Source: FAB Securities, <sup>1</sup>Based on H12023 Results

## 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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