

TECOM Group PJSC

Decline in gross margins and higher net finance expenses impacted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.19	AED 3.45	+8%	HOLD

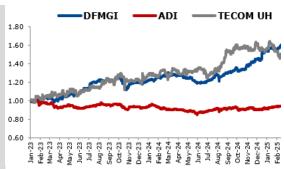
- Tecom has a total of 153 buildings commercially leased, coupled with 1,140 warehouses and 92 worker accommodations, along with 846 leased land plots.
- The Company is launching a grade-A office in phase 3 at Dubai Internet City, along with the acquisition of two existing grade-A 1.20 office buildings for compensation of AED 420 Mn to add 334K SQFT of GLA in the premium segment.
- Tecom invested AED 2.7 Bn FY2024 for long-term growth in acquisitions and completion of development projects.
- Tecom's growth capex increased from AED 54 Mn in FY2023 to AED 1,591 Mn in FY2024, with maintenance and enhancement capex at AED 235 Mn in FY2024.
- The Company proposed a dividend payment of AED 400 Mn which is equivalent to 8 fils per share for 2H24, subject to board approval.

4024 Net Profit lower than our estimate

TECOM Group PJSC (TECOM/the Company) net profit declined 2.5% YOY to AED 286 Mn in 4Q24, lower than our estimate of AED 302 Mn. The decrease in net profit is attributable to a rise in direct cost, net finance cost, and the introduction of corporate tax in UAE, partially offset by higher revenues and lower operating expenditure.

P&L Highlights

TECOM's revenue increased by 10.8% YOY to AED 643 Mn in 4Q24, supported by higher occupancy levels, growth in rental rates, and a healthy retention rate. Commercial Leasing segment revenue grew 7.0% YOY to AED 315 Mn in 4Q24, primarily due to new leases, an increase in gross GLA and higher rental rates. Similarly, the Industrial Leasing segment revenue increased 24.3% YOY to AED 99 Mn in 4Q24. Furthermore, revenue from land leasing declined 3.4% YOY to AED 137 Mn in 4Q24. The services revenue rose from AED 64 Mn in 4Q23 to AED 92 Mn in 4Q24. However, direct costs increased 21.2% YOY to AED 241 Mn in 4Q24. As a result, the Company's gross profit rose 5.4% YOY to AED 402 Mn in 4024. TECOM's G&A expenses dropped from AED 69 Mn in 4023 to AED 53 Mn in 4024, while selling and marketing expenses increased 13.5% YOY to AED 26 Mn in 4Q24. Furthermore, other income grew from AED 10 Mn in 4Q23 to AED 25 Mn in 4Q24. Total operating expenditure declined 30.5% YOY to AED 57 Mn in 4Q24. As a result, operating profit increased 15.2% YOY to AED 346 Mn in 4Q24 with operating margin rose 204 bps to 53.7% in 4Q24. The Commercial leasing segment EBITDA declined 4.3% YOY to AED 189 Mn in 4Q24, while the Industrial leasing segment EBITDA rose 19.0% YOY to AED 66 Mn. Furthermore, Service segment EBITDA improved from AED 37 Mn in 4Q23 to AED 72 Mn in 4Q24 and EBITDA of Land Leasing segment declined 5.6% YOY to AED 132 Mn in 4Q24. The Company's overall EBITDA increased 14.2% YOY to AED 458 Mn,



Stock Information					
Market Cap (AED, Mn)	15,950.00				
Shares Outstanding	500.00				
52 Week High	3.40				
52 Week Low	2.56				
3M Avg. daily value (AED)	5,806,293				

4Q24 Result Review (AED, Mn)				
Total Assets	16,291			
Total Liabilities	9,583			
Total Equity	6,708			
EBITDA	458			
Net Profit	286			

Financial Ratios	
Dividend Yield (12m)	5.02
Dividend Pay-out (%)	65.12
Price-Earnings Ratio(x)	13.02
Price-to-Book Ratio (x)	2.38
Book Value (AED)	1.34
Return-on Equity (%)	18.85

Stock Performance					
5 Days	4.59%				
1 Months	-1.85%				
3 Months	2.24%				
6 Months	11.93%				
1 Year	11.54%				
Month to Date (MTD%)	2.57%				
Quarter to Date (QTD%)	1.27%				
Year to Date (YTD%)	1.27%				



with an EBITDA margin of 71.3% in 4Q24 compared to 69.2% in 4Q23. TECOM's finance income dropped to AED 11 Mn in 4Q24 from AED 41 Mn in 4Q23, while finance cost rose 33.9% YOY to AED 64 Mn in 4Q24 due to the additional facilities drawdown for new acquisitions. The Company recorded income tax expense of AED 7 Mn in 4Q24 due to the introduction of corporate tax in the UAE.

Balance Sheet Highlights

TECOM's borrowings elevated from AED 4.6 Bn in 3Q24 to AED 5.2 Bn in 4Q24, excluding AED 2.4 Bn in an undrawn floating rate bank facility. The Company's funds from operations rose 13.5% YOY to AED 1,643 Mn in FY2024. Furthermore, TECOM's investment property rose from AED 13.0 Bn in 3Q24 to AED 13.8 Bn in 4Q24. The Company invested AED 235 Mn in maintenance capex and AED 1,591 Mn in growth expenditure during FY2024 for acquisitions and completion of development projects.

Target Price and Rating

We maintain our HOLD rating on TECOM with an unchanged target price of AED 3.45. TECOM's revenue generation is driven by increasing rental rates and strong demand, which can drive rent by 13% YOY in FY2025 in Dubai, according to the UAE Industrial Report 2024 Cushman & Wakefield. Dubai has the second-highest office occupancy rate in the world at 92% in FY2024, benefiting the top line and is projected to achieve 94% occupancy by the end of FY2025. The BTS (Build-to-Suit) completed properties have developed the ability of the Company to gain revenues via future BTS projects. Dubai is emerging as a global business hub, with Tecom having a total of 153 buildings commercially leased, 1,140 warehouses and 92 worker accommodations, along with 846 land plots leased with lease periods ranging from one year to 50 years, generating recurring revenue streams. The Company's customer base reached more than 11,900 in FY2024. The loan-to-value ratio of the Company is 15.0% for FY2024. Tecom is investing AED 2.7 Bn for long-term growth in acquisitions and completion of projects. These projects include the development of six grade-A office buildings with phase 2 spanning GLA of 629K SQFT with an investment amount of AED 825 Mn, the launch of a grade-A office in phase 3 at Dubai Internet City, along with acquiring two existing grade-A office buildings with AED 420 Mn to add 334K SQFT of GLA in the premium segment, and acquisition of an AED 729 Mn office park in Dubai Internet City and a 13.9 Mn SQFT land bank in Dubai Industrial City for industrial leasing at AED 410 Mn. Businesses like OZON Pharma, Neelkanth Cables, and Elite Group Holding joined Dubai Industrial City in FY2024, demonstrating the demand. The Company generates 7.7% of the total electricity by solar power, with an increase of 15.5% YTD to 14.2 GWh in FY2024. Tecom's growth capex increased from AED 54 Mn in FY2023 to AED 1,591 Mn in FY2024, with maintenance and enhancement capex at AED 235 Mn in FY2024, focusing on organic and inorganic growth to generate future revenue. According to the dividend policy of Tecom, management announced a dividend payment of AED 400 Mn (8 fils per share) for 2H24, with AED 800 Mn dividend for FY2024 which results into a dividend yield of 5.0%. Thus, considering the abovementioned factors, we maintain our HOLD rating on the stock.

TECOM - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	26.68	20.54	16.10	14.33	12.58	14.12
PB	1.06	0.79	0.72	0.93	1.01	1.00
EV/EBITDA	16.73	13.52	12.32	12.14	10.78	11.34
Dividend yield	4.0%	11.8%	11.0%	5.0%	5.0%	5.5%

FABS Estimates & Co Data



TECOM - P&L

AED Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Sales	580	611	643	616	4.4%	10.8%	5.3%	2,173	2,402	10.5%
Direct cost	-199	-232	-241	-203	18.5%	21.2%	3.8%	-760	-850	11.7%
Gross profit	382	379	402	413	-2.5%	5.4%	6.2%	1,413	1,552	9.9%
G&A expenses	-69	-56	-53	-53	0.6%	-22.5%	-4.0%	-167	-205	22.7%
Marketing & selling exp.	-23	-9	-26	-11	125.8%	13.5%	197.1%	-43	-54	27.2%
Other income	10	76	25	12	101.3%	149.9%	-67.3%	56	138	145.3%
Other expenses	0	0	-3	-3	-27.1%	NM	NM	0	-6	NM
Operating profit	300	391	346	357	-3.3%	15.2%	-11.6%	1,259	1,424	13.1%
Depr. & Amort	102	109	113	100	12.5%	11.0%	3.7%	395	429	8.8%
EBITDA	402	500	458	458	0.2%	14.2%	-8.2%	1,654	1,854	12.1%
Finance income	41	16	11	17	-34.5%	-72.1%	-30.0%	82	66	-19.1%
Finance cost	-48	-54	-64	-60	6.3%	33.9%	18.0%	-262	-224	-14.8%
Profit before zakat	293	353	293	315	-6.8%	0.0%	-16.9%	1,078	1,267	17.5%
Income Tax	0	-13	-7	-13	-43.1%	NM	-44.5%	0	-38	NM
Profit to shareholders	293	340	286	302	-5.3%	-2.5%	-15.9%	1,078	1,228	13.9%

FABS estimate & Co Data

TECOM - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross margin	65.8%	62.0%	62.5%	-321	55	65.0%	64.6%	-38
EBITDA margin	69.2%	81.8%	71.3%	207	-1,052	76.1%	77.2%	108
Operating margin	51.7%	63.9%	53.7%	204	-1,024	57.9%	59.3%	136
Net profit margin	50.5%	55.6%	44.4%	-608	-1,118	49.6%	51.1%	153

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	3.40	70.0%	2.38
Dividend Discount Method (RV)	2.51	15.0%	0.38
Price/ FFO	4.65	15.0%	0.70
Weighted Average Valuation (AED)			3.45
Current market price (AED)			3.19
Upside/Downside (%)			+8%

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 8.5%. It is arrived after using the cost of equity of 9.5% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 39.4%. 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 Dubai's 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 6.2% and, after adjusting a tax rate, arriving at an after-tax cost of debt of 6.0%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	6,001
Terminal value (AED, Mn)	16,074
FV to Common shareholders (AED,	22,075
Mn)	22,075
Net debt as of Dec. 2024 (AED Mn)	5,073
No. of share (Mn)	5,000
Current Market Price (AED)	3.19
Fair Value per share (AED)	3.40

DCF Method

2 01 110011011					
(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,332	1,381	1,445	1,504	1,607
D&A	462	471	478	486	493
(-) Capex	-335	-331	-443	-469	-587
Change in working capital	-7	12	13	15	30
Free Cash Flow to Firm (FCFF)	1,452	1,533	1,493	1,537	1,543
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Discounted FCFF	1,351	1,314	1,180	1,119	1,036

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 9.5%

Fair Value per share (AED)	2.51
Current Market Price (AED)	3.19
No. of share (Mn)	5,000
FV to Common shareholders (AED, Mn)	12,529
Terminal value (AED, Mn)	8,738
Sum of PV (AED, Mn)	3,791

DDM Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid -					
H1	400	500	500	500	500
H2	500	500	500	500	500
Total dividend	900	1,000	1,000	1,000	1,000
Discounting Factor	0.92	0.84	0.77	0.70	0.64
Present Value of dividend	831	844	770	704	642

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 14.7x in line with peers.

Company	Market	EV/EBITDA (x)	PE (x) ¹	Price/FFO (x)
	(USD Mn)	Current	Current	
Jadwa REIT Saudi Fund	551	12.2	14.5	18.6
Riyad REIT Fund	298	NA	20.3	42.9
Al Rajhi REIT	616	16.2	19.5	15.5
Bonyan REIT	400	13.5	11.3	11.3
Alahli REIT Fund 1	261	29.2	18.7	17.7
Derayah REIT	177	16.5	15.5	28.2
Mulkia Gulf Real Estate REIT	152	43.3	20.1	42.3
Taleem REIT	148	15.6	15.3	14.4
Al Maather REIT Fund	154	13.0	14.8	12.8
Average		19.9x	16.7x	22.6x
Median		15.9x	15.5x	17.7x
Max		19.6x	19.5x	28.2x
Min		13.4x	14.8x	14.4x

Source: FAB Securities, ¹Based on 9M24 Results



Research Rating Methodology:

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution
Abu Dhabi Head Office

Trading Desk +971-2-6161700/1

+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

Online Trading Link