

TECOM Group PJSC

Improved collections and effective capital management strategies boosted the bottom line

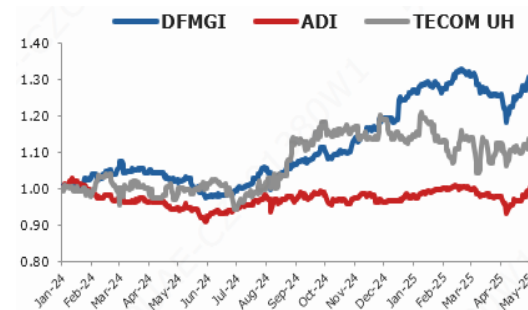
Current Price
AED 3.08

Target Price
AED 3.55

Upside/Downside (%)
+15.3%

Rating
BUY

- Dubai Internet City contributed 65% of Dubai's tech sector GDP, according to an Impact Assessment study with Accenture, launched during Step Dubai in February, where the district served as Strategic Partner.
- Fabtech at Dubai Industrial City partnered with French industrial leader Groupe M to advance UAE nuclear and sustainable energy sectors. In February, the district announced AED 350 Mn in 2024 F&B investments at Gulfood.
- Net profit grew 23.4% YOY to AED 361 Mn in 1Q25 due to improved collections and the strong performance of income-generating assets.
- Commercial and industrial spaces reached 95% occupancy, while land leases occupancy hit 98% in 1Q25.
- The Company distributed a dividend of AED 400 Mn for 2H24.



1Q25 Net Profit higher than our estimate

TECOM Group PJSC (TECOM/the Company) net profit rose 23.4% YOY to AED 361 Mn in 1Q25, higher than our estimate of AED 295 Mn. The increase in net profit is due to improved collections and the strong performance of income-generating assets, coupled with effective capital management strategies and growth in FFO, partially offset by higher direct costs, Marketing and Selling expenses and net finance cost.

P&L Highlights

TECOM's revenue surged 20.5% YOY to AED 680 Mn in 1Q25, due to double-digit growth across all business segments, combined with the Group's strategic roadmap for expansion. Commercial Leasing segment revenue grew 21.4% YOY to AED 348 Mn in 1Q25, with occupancy level of 95%. Similarly, the Industrial Leasing segment revenue also grew 24.8% YOY to AED 102 Mn in 1Q25 with healthy occupancy level of 95%. Furthermore, revenue from land leasing increased 10.6% YOY to AED 141 Mn in 1Q25, with occupancy level of 98%. The services revenue rose significantly 30.2% YOY to AED 88 Mn in 1Q25. However, direct costs increased 16.0% YOY to AED 215 Mn in 1Q25. As a result, the Company's gross profit rose 22.7% YOY to AED 465 Mn in 1Q25. Gross profit margin also expanded 123 bps YOY to 68.4% in 1Q25. TECOM's G&A expenses rose slightly 0.6% YOY to AED 45 Mn in 1Q25, while selling and marketing expenses increased 34.9% YOY to AED 12 Mn. Furthermore, other income grew from AED 13 Mn in 1Q24 to AED 16 Mn in 1Q25. Other expenses declined from AED 4 Mn in 1Q24 to nil in 1Q25. Thus, total operating expenditure declined 6.2% YOY to AED 41 Mn in 1Q25. As a result, operating profit increased 26.5% YOY to AED 423 Mn in 1Q25 with operating margin rose 296 bps to 62.3% in 1Q25.

Stock Information

Market Cap (AED, Mn)	15,400.00
Shares Outstanding	500.00
52 Week High	3.40
52 Week Low	2.56
3M Avg. daily value (AED)	2,385,743

1Q25 Result Review (AED, Mn)

Total Assets	16,186
Total Liabilities	9,563
Total Equity	6,623
EBITDA	540
Net Profit	361

Financial Ratios

Dividend Yield (12m)	5.19
Dividend Pay-out (%)	65.12
Price-Earnings Ratio(x)	12.07
Price-to-Book Ratio (x)	2.33
Book Value (AED)	1.32
Return-on Equity (%)	20.16

Stock Performance

5 Days	-1.28%
1 Months	5.48%
3 Months	3.01%
6 Months	-2.22%
1 Year	12.82%
Month to Date (MTD%)	-1.28%
Quarter to Date (QTD%)	-0.32%
Year to Date (YTD%)	-2.22%

The Commercial leasing segment EBITDA grew 26.7% YOY to AED 260 Mn in 1Q25, while the Industrial leasing segment EBITDA also grew 28.7% YOY to AED 78 Mn in 1Q25. Furthermore, Service segment EBITDA improved from AED 53 Mn in 1Q24 to AED 69 Mn in 1Q25 and EBITDA of Land Leasing grew in line with revenue by 10.7% YOY to AED 132 Mn in 1Q25. The Company's overall EBITDA increased 23.0% YOY to AED 540 Mn with an EBITDA margin rose 161 Bps to 79.5% in 1Q25 due to accelerating revenue growth and enhancing operational efficiency to fuel long term success. TECOM's finance income dropped to AED 11 Mn in 1Q25 from AED 19 Mn in 1Q24, while finance cost rose 26.2% YOY to AED 63 Mn in 1Q25. The Company recorded income tax expense of AED 10 Mn in 1Q25.

Balance Sheet Highlights

TECOM's borrowings remained stable at AED 5.2 Bn in 1Q25 compared with 4Q24, excluding AED 2.4 Bn in undrawn floating rate bank facility. Furthermore, TECOM's investment property marginally rose from AED 13.8 Bn in 4Q24 to AED 13.9 Bn in 1Q25. Funds from Operations (FFO) also rose 16% YOY to AED 480 Mn in 1Q25. Cash and bank balances of Tecom group stood at AED 925 Mn in 1Q25 compared to AED 1,017 Mn in 4Q24.

Target Price and Rating

We revised our rating on TECOM to BUY with a revised target price of AED 3.55. TECOM's revenue generation is driven by strong demand across all business segment combined with its strategic roadmap for expansion, these initiatives reinforce TECOM revenue to drive by 20.5% YOY in 1Q25. TECOM Group advanced several initiatives poised to drive revenue growth across its districts. Epson's new Innovation Centre at Dubai Production City is set to boost industrial R&D activity and attract technology investment. Dubai Internet City's report highlighting its 65% contribution to Dubai's tech sector GDP reinforces its position as a premier destination for tech companies, supporting tenant expansion and attraction. Dubai Industrial City secured over AED 350 Mn in new F&B investments and announced a strategic agreement between Fabtech Engineering and Groupe M to accelerate innovation in energy sectors, both enhancing industrial demand and infrastructure utilization. Dubai Science Park also onboarded biopharmaceutical company, MSD's new regional office, strengthening the healthcare innovation ecosystem and attracting further life sciences tenants. The Company's customer base reached more than 12,000 in 1Q25. Tecom also recorded healthy occupancy across its business segment. Occupancy level of commercial and industrial segments stood at 95% and land leasing segment occupancy stood at 98% during 1Q25. In 2024, TECOM Group reinforced its growth strategy by investing AED 2.7 Bn across development projects, acquisitions, and land purchases, dedicating AED 1.2 Bn specifically to new developments. In 2024, TECOM Group expanded its industrial land inventory by 13.9 Mn square feet in Dubai Industrial City (DI), near key logistics hubs. By 2025, the Group expects 380–400 operational factories and over 19 Mn square feet of leased land under development. It plans further land acquisitions in DI to grow its warehousing segment and meet rising industrial demand. TECOM also aims to diversify offerings, including build-to-suit facilities, while strengthening partnerships with government and private stakeholders to enhance services and the overall business environment in its industrial zones. According to the dividend policy of Tecom, company distributed a dividend of AED 400 Mn for 2H24, with AED 800 Mn dividend for 2024 (AED 0.16 per share). Thus, considering the abovementioned factors, we revise our rating to BUY on the stock.

TECOM - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	26.59	20.47	16.05	14.28	12.54	12.16
PB	1.06	0.79	0.71	0.92	1.01	0.99
EV/EBITDA	16.69	13.49	12.29	12.11	10.75	10.59
DPS	0.13	0.37	0.34	0.16	0.16	0.17
Dividend yield	4.2%	12.0%	11.2%	5.2%	5.2%	5.5%

FABS Estimates & Co Data

TECOM – P&L

	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
AED Mn										
Sales	564	643	680	648	4.9%	20.5%	5.7%	2,402	2,616	8.9%
Direct cost	-185	-241	-215	-229	-6.0%	16.0%	-10.8%	-850	-900	6.0%
Gross profit	379	402	465	419	10.9%	22.7%	15.5%	1,552	1,716	10.5%
G&A expenses	-45	-53	-45	-57	-21.7%	0.6%	-16.1%	-205	-206	0.8%
Marketing & selling exp.	-9	-26	-12	-14	-14.4%	34.9%	-53.1%	-54	-57	4.1%
Other income	13	25	16	18	-10.7%	18.8%	-37.3%	138	70	-49.1%
Other expenses	-4	-3	-	-3	NM	NM	NM	-6	-13	111.2%
Operating profit	335	346	423	362	17.0%	26.5%	22.5%	1,424	1,509	6.0%
Depr. & Amort	104	316	109	116	1.0%	4.2%	-65.6%	429	454	5.6%
EBITDA	439	662	540	477	13.1%	23.0%	-18.4%	1,854	1,963	5.9%
Finance income	19	11	11	15	-29.8%	-45.3%	-7.9%	66	60	-9.1%
Finance cost	-50	-64	-63	-70	-11.0%	26.2%	-1.9%	-224	-253	13.0%
Profit before zakat	304	293	371	306	21.2%	22.0%	26.7%	1,267	1,317	3.9%
Income Tax	-12	-7	-10	-12	-10.4%	-10.7%	41.8%	-38	-50	30.9%
Profit to shareholders	293	286	361	295	22.4%	23.4%	26.3%	1,228	1,267	3.1%

FABS estimate & Co Data

TECOM – Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross margin	67.1%	62.5%	68.4%	123	582	64.6%	65.6%	96
EBITDA margin	77.8%	102.9%	79.5%	161	-2,343	77.2%	75.0%	-213
Operating margin	59.3%	53.7%	62.3%	296	858	59.3%	57.7%	-160
Net profit margin	51.9%	44.4%	53.1%	123	867	51.1%	48.4%	-272

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	3.61	70.0%	2.53
Dividend Discount Method	2.51	15.0%	0.38
Relative Valuation (Price/ FFO)	4.32	15.0%	0.65
Weighted Average Valuation (AED)			3.55
Current market price (AED)			3.08
Upside/Downside (%)			+15.3%

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 9.6% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 39.6%. The cost of equity is calculated by using a 10-year government bond yield of 5.6%, beta of 1.00 and equity risk premium of 4.0%. 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 6.2% after adjusting a tax rate arriving at after-tax cost of debt of 6.0%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	6,083
Terminal value (AED, Mn)	17,146
FV to Common shareholders (AED,Mn)	23,230
Net debt as of Mar. 2025 (AED Mn)	5,179
No. of share (Mn)	5,000
Current Market Price (AED)	3.08
Fair Value per share (AED)	3.61

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,459	1,480	1,537	1,595	1,697
D&A	454	463	471	480	488
(-) Capex	-337	-333	-444	-470	-588
Change in working capital	-44	12	14	15	30
Free Cash Flow to Firm (FCFF)	1,532	1,622	1,578	1,619	1,627
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFF	1,089¹	1,416	1,269	1,200	1,110

Source: FAB Securities, ¹Adjusted 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 9.8%

Sum of PV (AED, Mn)	3,704
Terminal value (AED, Mn)	8,838
FV to Common shareholders (AED, Mn)	12,542
No. of share (Mn)	5,000
Current Market Price (AED)	3.08
Fair Value per share (AED)	2.42

DDM Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid -					
H1	400	440	500	500	500
H2	440	440	500	500	500
Total Dividend	840	880	1,000	1,000	1,000
Discounting Factor	0.94	0.86	0.78	0.71	0.65
Present Value of Dividend	791	757	785	717	654

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 13.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) ¹ Current	Price/FFO (x)
Regional Peers				
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

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) ¹ Current	Price/FFO (x)
<u>International Peers</u>				
Broadstone Net Lease Inc	3,031	15.9	29.2	10.4
Prologis Inc	100,013	23.4	40.6	18.2
Stag Industrial Inc	6,414	18.0	40.4	13.4
Lxp Industrial Trust	2,384	17.7	55.7	12.6
Alexandria Real Estate Equit	12,722	15.9	27.4	7.9
Boston Properties Inc	10,242	15.4	NA	9.4
Vornado Realty Trust	7,102	26.7	173.4	16.8
Douglas Emmett Inc	2,368	16.5	108.8	9.8
Allied Properties Real Estate	1,351	19.2	16.7	7.1
SI Green Realty Corp	3,903	39.5	NA	10.3
Easterly Government Properties	912	16.6	47.6	6.7
Brookfield India Real Estate	2,093	19.1	NA	NA
Covivio	6,348	20.8	82.4	11.2
Dexus/Au	5,212	35.8	NA	NA
Mapletree Logistics Trust	4,423	23.4	30.9	14.1
Yuxiu Real Estate Investment	491	20.7	NA	NA
Americold Realty Trust INC	5,330	16.2	44.7	15.3
Average		21.2x	58.1x	11.7x
Median		19.1x	42.6x	10.8x
Max		23.4x	62.4x	13.9x
Min		16.5x	30.5x	9.5x

Source: FAB Securities, ¹Based on 9M24 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%

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 Online Trading Link

+971-2-6161777

Institutional Desk +971-4-4245765

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