

Al Yah Satellite Communications Co. PJSC

Steady growth in core operation and one-off impacted bottom line

3Q22 Net profit missed our estimate

Al Yah Satellite Communications (YAHSAT/ The Company) reported a loss of USD 10.2 Mn compared to a profit of USD 13.2 Mn in 3Q21, lower than our estimate of USD 23.7 Mn. After adjusting the net profit for the impairment loss of USD 40.6 Mn in 3Q22, net profit amounted to USD 30.4 Mn in 3Q22. The impairment loss was on account of equity accounted JV in HPE Brazil, YAHSAT owns 20% stake in the firm. On adjusted basis, the net profit exceeded our estimate and more than doubled to USD 30.4 Mn in 3Q22 as compared to USD 13.2 Mn in 3Q21. This is primarily due to strong growth in revenue, slower growth in expenses as compared to revenue and higher finance income coupled with decline in interest expense following debt refinancing.

P&L highlights

YAHSAT total revenue increased 15.8% YOY to USD 109.0 Mn in 3Q22 mainly due to strong growth in revenue across Managed and Data solutions segments somewhat offset by a marginal decline in revenue from the Mobility. Infrastructure revenue remain stable at USD 59.5 Mn in 3Q22 as compared to 3Q21 with a contracted future revenue of USD 1.7 Bn, including a 15-year contract with the government for the provision of capacity and associated services on the Thuraya 4 Next Generation System. The T4-NGS Government contract is worth USD 708 Mn and will support revenue growth commencing through 2025. The infrastructure segment accounts for 54.6% of total revenue in 3Q22. Managed solution revenue rose more than doubled from USD 12.9 Mn in 3Q21 to USD 27.2 Mn in 3Q22. The strong growth is mainly driven by an award of USD 247.5 Mn in managed services contracts from the government earlier in 2022. The contract will require to recognize of revenue of USD 47.5 Mn per year over the next five years. Mobility Solutions revenue declined marginally 1.7% YOY to USD 16.2 Mn in 3Q22 due to phasing of equipment sales. Data solution revenue rose 11.0% YOY to USD 6 Mn in 3Q22 as the segment completely absorbs the impact of a capacity leasing contract to Eutelsat which ended in 3Q21. Cost of sales declined 6.5% YOY to USD 8.6 Mn in 3Q22. As a result, gross profit rose 18.3% YOY to USD 100.4 Mn in 3Q22 with an increase in gross profit margin to 92.1% in 3Q22 as compared to 90.3% in 3Q21. Operating expenses grew 12.0% YOY to USD 34.0 Mn in 3Q22. Thus, EBITDA increased 21.3% YOY to USD 66.9 Mn in 3Q22 with an increase in EBITDA margin to 61.4% in 3Q22 as compared to 58.7% in 3Q21. Operating profit also rose significantly to USD 30.8 Mn in 3Q22 as compared to USD 16.8 Mn in 3Q21 due to a decline in depreciation expenses. Net finance cost fell to USD 0.63 Mn in 3Q22 from USD 2.13 Mn in 3Q21. Share of results of associates includes an impairment loss of investment in associates of USD 43.4 Mn in 3Q22. Thus, loss attributable to non-controlling interest holders declined from USD 1.7 Mn in 3Q21 to USD 1.8 Mn in 3Q22.

Balance sheet highlights

The Company's strong business model enables to generate healthy cash flows due to robust margin, low unfunded capex, negligible cash taxes and low leverage. It also results in sustainable cash conversion ratio of 95.1% in 9M22 compared to 96.1% in 9M21. YAHSAT discretionary cash flow from operations rose 15% YOY to USD 182 Mn in 9M22. This also enables to maintain healthy liquidi-

Rating : BUY

First Look Note – 3Q22

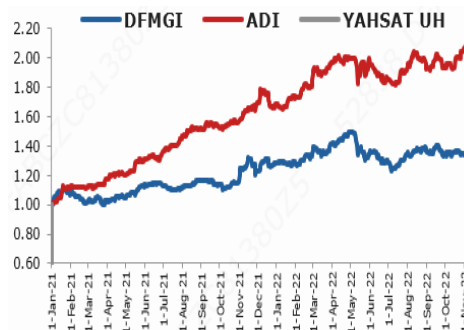
Sector: Telecom

Recommendation

Current Price (11-Nov-22)	2.69
Target Price (AED)	3.50
Upside/Downside (%)	+30.6%

Stock Information

Market Cap (mm)	6,538.58
Paid Up Capital (mm)	2,439.77
52 Week High	2.92
52 Week Low	2.51
3M Avg. daily value (AED)	6,616,220



Financial Ratios

Dividend Yield (12m)	5.96
Dividend Pay-out (%)	139.89
Price-Earnings Ratio (x)	28.90
Price-to-Book Ratio (x)	2.18
Book Value (AED)	1.23
Return-on Equity (%)	7.56
Earning Per Share (AED)	0.09
Adjusted BETA (6M)	0.475

Stock Performance

5 Days	-1.47%
1 Months	1.13%
3 Months	0.00%
6 Months	1.13%
1 Year	-3.25%
Month to Date (MTD)	-2.19%
Quarter to Date (QTD)	-1.11%
Year to Date (YTD)	-2.19%

ty and cash position at the firm level. On 30 September 2022, total liquidity stood at USD 742 Mn including cash and short-term deposit of USD 631 Mn and undrawn ECA facility of USD 111 Mn. The cash level boosted from USD 400 Mn in 4Q21 to USD 631 Mn in 3Q22 due to receipt of USD 150 Mn in advances payments from the government under the terms of the T4-NGS contract and strong cash generation. Thus, net debt fell from a positive USD 149 Mn in 4Q21 to a negative USD 30 Mn in 3Q22. Net debt to Adjusted EBITDA stood at negative 0.1x in 3Q22 compared to 0.6x in 4Q21. During 9M22, capex fell 5% YOY to USD 101 Mn. More than 90% of capital expenditure to date has been allocated to the T4-NGS satellite construction programme and related new product development.

Target price and rating

We maintain our "BUY" rating on AI Yahsat with a target price of AED 3.50. The company continued to deliver a steady performance in 9M22. Total revenue rose 10.7% YOY to USD 314.6 Mn in 9M22 owing to robust performance in Managed Solutions and Mobility Solution Segments. Adjusted EBITDA rose 10.4% YOY to USD 189.0 Mn in 9M22. YAHSAT is further expected to report a healthy performance as it has a contracted future revenue of USD 2.1 Bn. The revenue backlog is almost equivalent to 5.0x of FY2021 revenue with UAE Government. It remain focused on expansion in new markets and strong growth areas aligned to UAE space strategy, value added Satcom solutions, IoT and other opportunities. Recently YAH-SAT acquired a minority stake in eSAT Global Inc, an innovative Internet of Things (IoT) connectivity solutions provider. Over the next five years, the overall IoT market is expected to grow at a CAGR of 22% to USD 525 Bn, with the satellite IoT business expected to generate a total revenue of USD 6 Bn. The investment in eSAT reflects a chance to take part in a fast-growing but under-penetrated industry, which is closely aligned with Yahsat's strategy of prioritizing growth sectors. In addition, Mobility Solution top-line expected to benefit from strong growth in service segment across voice and data and Data Solution to benefit from expansion in Africa with a growth in consumer broadband subscriber base. The recent contract win underpins Yahsat's position as a preferred satellite solution provider and strengthens its position in the region. YAHSAT's two satellites Al Yah 4 and Al Yah 5 are expected to be launched in 2026 which will ensure service continuity far beyond the life of the company's current fleet. Furthermore, the Company procures T4-NGS satellite and is aiming to launch in 1H24 with the operation to begin in 1H25. T4-NGS will also provide strong support to Company's commercial operations in Mobility Solutions segment. The Company also maintained a strong financial position, with negative net debt and healthy discretionary free cash flow visibility, which underpins its ability to invest in further growth opportunities. Moreover, strong cash flow generation positioned the Company to meet its dividend payment and capex commitments. The Board of directors of the YAHSAT declared the Company's first interim cash dividend of USD 53.5 Mn for 1H22. The company also expects to pay a total dividend of USD 107.1 Mn in FY2022. The stock is trading at an attractive dividend yield of 6.0% based on 2022 financials. Based on these aforementioned factors, we assign a 'BUY' rating to the stock.

AI Yahsat - Relative valuation

(at CMP)	2020	2021	2022F
P/E (x)	NA	25.61	31.41
P/B (x)	NA	2.12	2.00
EV/EBITDA	NA	8.30	7.18
Dividend Yield (%)	NA	5.9%	6.0%

FABS Estimates & Co Data

AI Yahsat - P&L

(USD'000)	3Q21	2Q22	3Q22A	3Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	94,110	106,872	109,017	109,017	0.0%	15.8%	2.0%	407,578	426,382	4.6%
Cost of revenue	-9,173	-11,704	-8,574	-13,082	-34.5%	-6.5%	-26.7%	-45,478	-43,753	-3.8%
Gross Profit	84,937	95,168	100,443	95,935	4.7%	18.3%	5.5%	362,100	382,629	5.7%
Admin Exps.	-30,372	-31,819	-34,010	-33,494	1.5%	12.0%	6.9%	-123,933	-132,384	6.8%
Other Income	632	533	530	581	-8.8%	-16.1%	-0.6%	2,323	2,214	-4.7%
EBITDA	55,197	63,882	66,963	63,022	6.3%	21.3%	4.8%	240,490	252,459	5.0%
Depreciation	-38,344	-35,999	-36,155	-37,251	-2.9%	-5.7%	0.4%	-148,590	-145,294	-2.2%
Fair value adj on inv	0	800	0	0	NM	NM	-100.0%	-1,906	800	-142.0%
Operating Profit	16,853	28,683	30,808	25,771	19.5%	82.8%	7.4%	89,994	107,965	20.0%
Net Finance Cost	-2,132	-1,395	638	-2,052	NA	NA	NA	-17,308	-3,825	-77.9%
Share of results	-3,311	-3,668	-43,485	-3,741	1062.3%	1213.3%	1085.5%	-9,589	-53,867	461.8%
Income Tax	42	-38	-49	-80	-38.7%	NA	28.9%	-215	-201	-6.3%
Profit before NCI	11,452	23,582	-12,088	19,898	NA	NA	NA	62,882	50,072	-20.4%
NCI	-1,745	-1,687	-1,871	-1,704	9.8%	7.2%	10.9%	-6,889	-6,821	-1.0%
Net Profit	13,197	25,269	-10,217	21,602	NA	NA	NA	69,771	56,893	-18.5%

FABS Estimates & Co Data

AI Yahsat - Margins

	3Q21	2Q21	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
GPM	90.3%	89.0%	92.1%	188	309	88.8%	89.7%	90
EBITDA Margin	58.7%	59.8%	61.4%	277	165	59.0%	59.2%	20
OPM	17.9%	26.8%	28.3%	1,035	142	22.1%	25.3%	324
Net margin	14.0%	23.6%	-9.4%	-2,339	-3,302	17.1%	13.3%	-378

FABS estimate & Co Data

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 Analysts

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

Sales and Marketing +971-2-6161703

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