

Al Yah Satellite Communications Co. PJSC

Contracted revenues provides strong visibility to top-line and bottom-line

4Q22 Net profit higher than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported an increase in net profit to USD 30.4 Mn in 4Q22 Compared to USD 26.5 Mn in 4Q21, higher than our estimate of USD 26.6 Mn. The increase in net profit is mainly attributed to the lower cost of revenue, lower finance cost, higher other income, and gain on the fair value of investment partially offset by a decline in revenue.

P&L highlights

YAHSAT revenue dropped 4.3% YOY to USD 117.9 Mn in 4Q22 mainly due to a decline in revenue across Mobility Solutions and Data Solutions Segment somewhat offset by an increase in revenue from the Infrastructure and Managed Solutions segments. The infrastructure segment contributed 50.1% to the total revenue and grew 4.7% YOY to USD 59.5 Mn in 4Q22 due to an increase in the capacity services agreement revenue as per the contractual indexation clause. The Infrastructure Segment provides significant visibility on future cash flows with contracted future revenue of nearly USD 1.7 Bn as of 4Q22. Managed Solutions revenue grew 8.0% YOY to USD 24.1 Mn in 4Q22. However, the revenue from Mobility Solutions and Data solutions declined 17.8% YOY and 37.0% respectively in 4Q22 to lower equipment sales, expiry of capacity leasing arrangement with Eutelsat, and lower enterprise sales offset by an increase in subscriber revenue. The gross profit margin increased from 81.4% in 4Q21 to 84.8% in 4Q22 led by a decline in cost of sales from USD 22.9 Mn to USD 17.9 Mn during the same period. EBITDA decreased from USD 69.4 Mn in 4Q21 to USD 68.7 Mn in 4Q22 due to an increase in administrative expenses which grew 6.4% YOY in 4Q22. However, EBITDA margin grew from 56.3% in 4Q21 to 58.3% in 4Q22 mainly due to a decline in cost of sales and an increase in other income. Operating profit also rose 6.9% YOY to USD 33.1 Mn in 4Q22 due to a decline in depreciation expenses. Net finance cost reached USD 0.4 Mn in 4Q22 supporting the profitability. Loss from share of equity investments fell from USD 3.4 Mn in 4Q21 to USD 3.3 Mn in 4Q22. The other income stood at USD 2.3 Mn in 4Q22. Loss attributable to non-controlling interest holders declined from USD 1.6 Mn in 4Q21 to USD 0.2 Mn in 4Q22 supporting profitability.

Balance sheet highlights

Al Yah Satellite Communications net debt stood negative at USD 2 Mn in 4Q22, with a negative net gearing ratio of 0.3% in 4Q22. Cash and cash equivalents stood at USD 545 Mn in 4Q22. The net cash flow from operations increased to USD 387 Mn in 4Q22 mainly due to lower working capital requirements. CAPEX decreased 46% YOY to USD 25 Mn in 4Q22 owing to the shift in the timeline of the T4-NGS programme.

Target price and rating

We maintain our 'BUY' rating on Yahsat with a target price of AED 3.50. The company continued its steady performance in 4Q22. Revenue rose 6.0% YOY to USD 433 Mn in FY2022 owing to double-digit growth of 41.0% in its Managed Solutions and stable perfor-

Rating : BUY

First Look Note – 4Q22

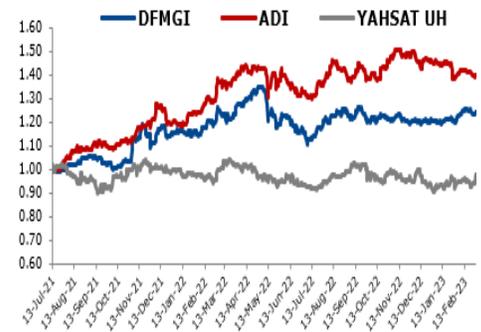
Sector: Telecom

Recommendation

Current Price (13-Mar-23)	2.55
Target Price (AED)	3.50
Upside/Downside (%)	+37%

Stock Information

Market Cap (mm)	6,221.41
Paid Up Capital (mm)	2,439.77
52 Week High	2.92
52 Week Low	2.47
3M Avg. daily value (AED)	4,043,297



Financial Ratios

Dividend Yield (12m)	6.26
Dividend Pay-out (%)	81.60
Price-Earnings Ratio (x)	25.84
Price-to-Book Ratio (x)	1.99
Book Value (AED)	1.28
Return-on Equity (%)	7.75
Earning Per Share (AED)	0.10
Beta	N/A

Stock Performance

5 Days	-3.41%
1 Months	-2.67%
3 Months	-4.49%
6 Months	-8.60%
1 Year	-9.89%
Month to Date (MTD)	-4.85%
Quarter to Date (QTD)	2.00%
Year to Date (YTD)	2.00%

mance across the Infrastructure and Mobility segments, underpinned by a substantial contracted future revenues of approximately USD 2 Bn. The Company further expanded its partnership with UAE Government to provide complete end-to-end managed solutions that include technology management services. YAHSAT will launch Thuraya-4 NGS satellite in 2024 followed by two potential new satellites, AI Yah 4 and AI Yah 5 in 2026. Furthermore, YAHSAT entered into a 15-year contract with the Government for the provision of capacity and associated services on Thuraya 4 Next Generation System worth USD 708 Mn, which will support revenue growth from FY2025. The recent contract with the government underpins Yahsat's position as a preferred satellite solution provider and strengthens its position in the region. The Company also signed multiple MoUs to access growth opportunities including a partnership with GAL-AMMROC to expand service offerings for Airborne Platforms, strategic partnership with Bayanat and Calidus to add value to key customers. The revenue backlog is almost equivalent to 4.6x of 2022's revenue providing strong visibility to future earnings. The Company is expecting up to mid-single-digit revenue growth in 2023 as a result of Managed Solution segment's strong performance in 2022. The Company's balance sheet remains strong with a net leverage ratio of negative 0.3x in 4Q22. It generated a strong discretionary cash flow of USD 225 Mn in 2022 with a conversion ratio of 95.4%. Strong cash flow generation positioned the Company to meet its dividend payment and capex commitments. It proposed to a dividend of 16.12 fils per share in 2022 with a yield of 6.3%. The dividend is expected to grow 2% YOY to 16.46 file per share amounting to USD 109.3 Mn in 2023. Based on the above factors, we assign a 'BUY' rating to the stock.

AI Yahsat - Relative valuation

(at CMP)	2020	2021	2022	2023F
P/E (x)	NA	24.40	25.96	18.44
P/B (x)	NA	2.02	2.00	2.04
EV/EBITDA	NA	7.94	6.82	6.94
Dividend Yield (%)	NA	6.2%	6.3%	6.4%

FABS Estimates & Co Data
AI Yahsat - P&L

(USD'000)	4Q21	3Q22	4Q22	4Q22F	Var	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	123,276	109,017	117,956	111,758	5.5%	-4.3%	8.2%	407,569	432,540	6.1%
Cost of revenue	-22,889	-8,574	-17,959	-17,413	3.1%	-21.5%	109.5%	-45,478	-48,296	6.2%
Gross Profit	100,387	100,443	99,997	94,345	6.0%	-0.4%	-0.4%	362,091	384,244	6.1%
Admin Exps.	-31,548	-34,010	-33,561	-36,473	-8.0%	6.4%	-1.3%	-123,933	-130,448	5.3%
Other Income	554	530	2,286	534	328.3%	312.6%	331.3%	2,323	3,884	67.2%
EBITDA	69,393	66,963	68,722	58,406	17.7%	-1.0%	2.6%	240,481	257,680	7.2%
Depreciation	-36,762	-36,155	-36,428	-36,447	-0.1%	-0.9%	0.8%	-148,590	-144,471	-2.8%
FV adj on inv	-1,697	0	784	0	NM	NM	NM	-1,906	1,584	NM
Operating Profit	30,934	30,808	33,078	21,959	50.6%	6.9%	7.4%	89,985	114,793	27.6%
Net Finance Cost	-2,472	638	401	667	-39.8%	NM	-37.1%	-17,308	-1,098	-93.7%
Share of results	-3,429	-43,485	-3,252	2,106	-254.4%	-5.2%	-92.5%	-9,589	-53,303	455.9%
Income Tax	-137	-49	-54	-44	23.6%	-60.6%	10.2%	-215	-175	-18.6%
Profit bef NCI	24,896	-12,088	30,173	24,688	22.2%	21.2%	-349.6%	62,873	60,217	-4.2%
NCI	-1,569	-1,871	-247	-1,871	-86.8%	-84.3%	-86.8%	-6,889	-5,347	-22.4%
Net Profit	26,465	-10,217	30,420	26,559	14.5%	14.9%	-397.7%	69,762	65,564	-6.0%

FABS Estimates & Co Data
AI Yahsat - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
GPM	81.4%	92.1%	84.8%	334	-736	88.8%	88.8%	-1
EBITDA Margin	56.3%	61.4%	58.3%	197	-316	59.0%	59.6%	57
OPM	25.1%	28.3%	28.0%	295	-22	22.1%	26.5%	446
Net margin	21.5%	-9.4%	25.8%	432	3,516	17.1%	15.2%	-196

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"