

## Etisalat Group

Currency devaluation due to global uncertainties dragged profit

### 1Q23 Net profit below our estimate

Etisalat Group (EAND/The Company) net profit declined 10.2% YOY to AED 2,187 Mn in 1Q23, below our estimate of AED 2,406 Mn. The decline in net profit was mainly attributed to a decline in revenue due to foreign exchange losses, operating expenses impacted by inflationary pressure, rise in finance cost due to higher borrowing cost attributable to investment in Vodafone Group, partially offset by an increase in finance income, decline in federal royalty, and lower profit attributable to non-controlling interests.

### P&L Highlights

EAND's total revenue declined 2.5% YOY to AED 13,002 Mn in 1Q23 due to significant exchange rate volatility in Egyptian Pound, Pakistani Rupee, and Moroccan Dirham owing to global uncertainties partially offset by a strong performance in UAE. However, local currency growth stood strong in Egypt and Pakistan. The Company's UAE revenue grew 2.1% YOY to AED 8.0 Bn in 1Q23 supported by a robust economic activity and population growth. Mobile segment revenue grew at 0.9% YOY to AED 2.9 Bn in 1Q23 due to growth in subscribers and bundled propositions offered to customers in the enterprise & consumer segment while fixed segment revenue grew by 2.4% YoY to AED 2.9 Bn, owing to higher data, TV services, and internet offset by voice revenues. Other segment revenue in UAE grew 3.2% YOY to AED 2.2 Bn due to an increase in wholesale and handset revenues. International telecom revenue reported a decline of 13.7% YOY to AED 4.6 Bn in 1Q23 primarily due to adverse movement in the exchange rate of the Egyptian Pound, Moroccan Dirham, and Pakistani Rupee. Maroc Telecom's consolidated revenue decreased 5% YOY to AED 3.1 Bn in 1Q23 primarily due to the unfavorable exchange rate of MAD against AED while revenue in local currency increased 3.7% YOY. Egypt revenue declined 37% YOY to AED 0.8 Bn in 1Q23 but increased 15% YOY in local currency due to subscriber growth and strong contribution from mobile data and voice revenue despite the national roaming agreement ended with Telecom Egypt. Revenue from Pakistan fell 16% YOY to AED 0.6 Bn in 1Q23 owing to the unfavorable exchange rate, whereas revenue in local currency rose 23% YOY due to strong performance in FTTH, corporate, and wholesale segments. Etisalat's operating expense rose 5.3% YOY to AED 8,700 Mn attributed mainly to global inflationary pressures accompanied by double digit inflation in Egypt and Pakistan, higher handset, and content costs partially offset by lower staff costs, marketing costs, D&A, and network costs. Meanwhile, share of results of associates and JVs rose significantly from AED 11 Mn in 1Q22 to AED 141 Mn in 1Q23. The company's federal royalty declined 6.0% YOY to AED 1,342 Mn in 1Q23 leading operating profit to decline 14.0% YOY to AED 2,939 Mn in 1Q23. Thus, the Company's EBITDA declined 9.7% YOY to AED 6,143 Mn in 1Q23 with a 377 bps YOY decline in EBITDA margin to 47.2%. Finance and other income more than doubled to AED 535 Mn in 1Q23 from AED 212 Mn in 1Q22 whereas finance and other cost increased significantly 78.0% YOY to AED 862 Mn due to higher benchmark rates. Income tax expense declined 21.0% YOY to AED 309 Mn in 1Q23 in line with a decline in profit. In addition,, share of profit attributable to non-controlling interest holders declined 63.6% YOY to AED 116 Mn in 1Q23 supporting profit.

### Balance Sheet Highlights

**Rating : HOLD**

### First Look Note – 1Q23

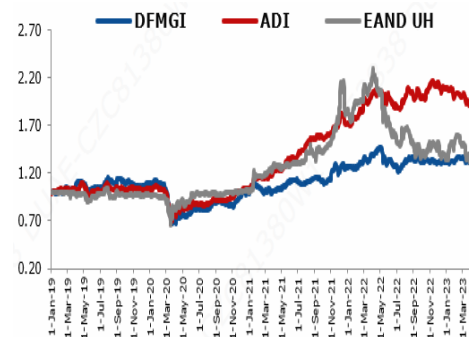
Sector: Telecom

#### Recommendation

Current Price (09-May-22)	23.28
Target Price (AED)	24.00
Upside/Downside (%)	+7.4%

#### Stock Information

Market Cap (mm)	204,199.78
Paid Up Capital (mm)	8,696.75
52 Week High	34.54
52 Week Low	22.06
3M Avg. daily value (AED)	36,141,130



#### Financial Ratios

Dividend Yield (12m)	3.41
Dividend Pay-out (%)	69.52
Price-Earnings Ratio (x)	20.86
Price-to-Book Ratio (x)	4.56
Book Value (AED)	5.15
Return-on Equity (%)	20.83
Earning Per Share (AED)	1.13
Beta	1.29

#### Stock Performance

5 Days	1.21%
1 Months	2.18%
3 Months	-12.65%
6 Months	-8.64%
1 Year	-30.90%
Month to Date (MTD)	-2.17%
Quarter to Date (QTD)	6.44%
Year to Date (YTD)	2.71%

Etisalat's consolidated capex declined 33% YOY to AED 1.1 Bn in 1Q23 with a capital intensity ratio of 8%. Etisalat's capital spending focused on 5G network rollout and network modernization in UAE, expansion of FTTH network & 4G network coverage in Marco Telecom, upgrading network capacity and 4G deployment in Egypt, and enhancement of fixed network capacity in Pakistan. The Company's total debt declined 2.1% QOQ to AED 46.9 Bn in 1Q23 driven by repayment of bank borrowings worth AED 1.0 Bn. Out of the total debt, 51% is of long-term maturity and due after one year. In addition, the currency mix for external borrowings stood at 47% in USD, 19% in EUR, 16% in UAE, and remaining 19% in other currencies. The Company's cash balance stood at AED 31.5 Bn in 1Q23 compared to 29.1 Bn in 1Q22. Resultantly, net debt to EBITDA ratio stood at 0.61x in 1Q23. Additionally, the company declared a dividend of AED 0.80 per share for 2022 with a dividend yield of 3.4%.

### Target price and recommendation

We maintain our HOLD rating on EAND with a revised target price of AED 24.00. The Company recorded a strong revenue growth in UAE despite, strong local currency growth in Pakistan and Egypt, Etisalat's revenue declined due to unfavourable exchange rate attributable to high inflation in the region. Etisalat's expects its revenue to grow low to mid-single digit in 2023. The Company recorded its highest number of subscribers till date to 163.8 Mn in 1Q23 post addition of 4.8 Mn subscribers in last 12 months. The Company focuses on expanding its 5G network coverage, diversifying its revenue sources, and increase its fixed line business by deploying fibre optic cables. Etisalat acquired 50.03% stake in Careem's Super App business for a consideration of USD 400 Mn. Careem's Super App business provides food and grocery delivery and other third-party services. However, Etisalat's margins are further expected to stay under pressure over currency devaluation in Pakistan, Morocco, and Egypt. High interest cost in the rising interest rate scenario is impacting profitability of the company. Thus, considering the above-mentioned factors, we maintain our HOLD rating on the stock.

### Etisalat Group - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	23.6	23.4	22.5	21.8	20.3	21.5
P/B (x)	4.5	4.4	4.2	4.3	4.8	4.5
EV/EBITDA	8.2	7.9	8.0	7.9	8.6	8.6
Dividend Yield (%)	3.4%	3.4%	5.1%	3.4%	3.4%	3.4%

FABS Estimates & Co Data

### Etisalat Group - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY	QOQ	2022	2023F	Change
<b>Revenue</b>	13,331	13,134	13,002	12,978	0.2%	-2.5%	-1.0%	52,434	51,774	-1.3%
Operating expenses	-8,265	-8,906	-8,700	-8,241	5.6%	5.3%	-2.3%	-33,323	-33,032	-0.9%
Imp loss on trade recv.	-234	-136	-163	-247	-34.1%	-30.5%	19.1%	-806	-1,035	28.4%
Share of results of assoc.	11	190	141	130	8.5%	NM	-25.9%	417	414	-0.8%
<b>Operating profit before federal royalty</b>	<b>4,843</b>	<b>4,282</b>	<b>4,281</b>	<b>4,620</b>	<b>-7.3%</b>	<b>-11.6%</b>	<b>0.0%</b>	<b>18,722</b>	<b>18,121</b>	<b>-3.2%</b>
Federal royalty	-1,427	-1,329	-1,342	-1,402	-4.3%	-6.0%	0.9%	-5,771	-5,799	0.5%
<b>Operating profit</b>	<b>3,416</b>	<b>2,953</b>	<b>2,939</b>	<b>3,218</b>	<b>-8.7%</b>	<b>-14.0%</b>	<b>-0.5%</b>	<b>12,951</b>	<b>12,322</b>	<b>-4.9%</b>
<b>EBITDA</b>	<b>6,801</b>	<b>6,042</b>	<b>6,143</b>	<b>6,505</b>	<b>-5.6%</b>	<b>-9.7%</b>	<b>1.7%</b>	<b>26,202</b>	<b>26,020</b>	<b>-0.7%</b>
Finance and other inc.	212	990	535	519	3.1%	152.6%	-45.9%	2,001	2,330	16.5%
Finance and other costs	-485	-794	-862	-779	10.8%	78.0%	8.6%	-2,674	-3,090	15.6%
<b>Profit before tax</b>	<b>3,143</b>	<b>3,148</b>	<b>2,612</b>	<b>2,959</b>	<b>-11.7%</b>	<b>-16.9%</b>	<b>-17.0%</b>	<b>12,278</b>	<b>11,562</b>	<b>-5.8%</b>
Income tax expenses	-392	-461	-309	-429	-27.9%	-21.0%	-33.0%	-1,752	-1,619	-7.6%
<b>Profit for the period</b>	<b>2,752</b>	<b>2,687</b>	<b>2,303</b>	<b>2,530</b>	<b>-9.0%</b>	<b>-16.3%</b>	<b>-14.3%</b>	<b>10,526</b>	<b>9,943</b>	<b>-5.5%</b>
Non-controlling interests	318	28	116	124	-6.9%	-63.6%	NM	518	497	-4.1%
<b>Net Profit</b>	<b>2,434</b>	<b>2,658</b>	<b>2,187</b>	<b>2,406</b>	<b>-9.1%</b>	<b>-10.2%</b>	<b>-17.7%</b>	<b>10,007</b>	<b>9,446</b>	<b>-5.6%</b>

FABS Estimates & Co Data

**Etisalat Group - Margins**

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
EBITDA	25.6%	22.5%	22.6%	-302	12	24.7%	23.8%	-90
Operating Profit	51.0%	46.0%	47.2%	-377	124	50.0%	50.3%	29
Net Profit	18.3%	20.2%	16.8%	-144	-342	19.1%	18.2%	-84

*FABS estimate & Co Data*

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Etisalat. We have assigned 70% weight to DCF, and 30% to RV method. We have also included the value of interest owned by Etisalat in Vodafone Plc and Etihad Etisalat Co. Etisalat's value of ownership in both entities are included in DCF and RV.

Valuation Method	Target	Weight	Weighted Value
DCF	26.97	70.0%	18.88
Relative Valuation	17.08	30.0%	5.12
<b>Weighted Average Valuation (AED)</b>			<b>24.00</b>
<b>Current market price (AED)</b>			<b>23.28</b>
<b>Upside/Downside (%)</b>			<b>+7.4%</b>

### 1) DCF Method:

Etisalat is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It is arrived after using cost of equity of 8.4% and after tax cost of debt of 5.1% with debt to equity ratio of 23.5%. Cost of equity is calculated by using 10-year government bond yield of 4.4%, beta of 0.86 and equity risk premium of 4.6%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 5.9% after adjusting a tax rate of 14.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	56,087
Terminal value (AED, Mn)	176,371
<b>FV to Common shareholders (AED, Mn)</b>	<b>232,458</b>
No.of share (Mn)	8,697
Current Market Price (AED)	23.40
Net debt as of 31 Mar 2023	-22,213
Mobily share included in Etisalat	9,579
Vodafone share included in Etisalat	14,691
<b>Total Equity Value</b>	<b>234,516</b>
<b>Fair Value per share (AED)</b>	<b>27.00</b>

### DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBITDA*(1-tax)	22,377	23,065	23,728	24,386	25,043
(-) Changes in Working Capital	-2,440	647	-865	87	-946
(-) Capex	-8,905	-9,083	-9,255	-9,429	-9,608
<b>Free Cash Flow to Firm (FCFF)</b>	<b>11,032</b>	<b>14,628</b>	<b>13,608</b>	<b>15,044</b>	<b>14,490</b>
Discounting Factor	0.95	0.88	0.82	0.76	0.70
<b>Discounted FCFF</b>	<b>10,494</b>	<b>12,899</b>	<b>11,122</b>	<b>11,397</b>	<b>10,175</b>

## 2) Relative Valuation:

We have used international peers to value Etisalat and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 5.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Saudi Telecom	47,834	7.0	6.6	14.3	13.7	4.7	5.0
Maroc Telecom	8,506	5.2	4.5	14.3	14.2	6.2	6.8
Emirates integrated telecommunication(du)	6,750	4.6	4.5	18.5	17.6	4.8	5.0
Mobile telecommunication company	7,882	5.1	4.6	9.9	9.1	6.5	6.7
Verizon Communication	172,000	6.4	6.2	8.3	8.0	6.5	6.6
SAFARICOM PLC	6,813	5.9	5.4	11.8	11.0	7.0	7.5
Deutsche Telekom AG	111,000	5.3	5.0	15.0	12.1	3.7	4.2
Telstra Group limited	32,988	7.4	7.1	24.8	22.1	4.1	4.4
Mobily	7,249	5.6	5.2	18.0	15.8	3.5	4.2
<b>Average</b>		5.9x	5.4x	15.0x	13.7x	5.2%	5.6%
<b>Median</b>		5.6x	5.2x	14.3x	13.7x	4.8%	5.0%
<b>Max</b>		6.4x	6.2x	18.0x	15.8x	6.5%	6.7%
<b>Min</b>		5.2x	4.6x	11.8x	11.0x	4.1%	4.4%

**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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