

## Etisalat Group

Cost management initiatives offset by exchange rate volatility

### 4Q22 net profit exceeding our estimate

Etisalat Telecommunications Group Co PJSC (EAND/The Company) net profit rose 24.5% YOY to AED 2,685 Mn in 4Q22, higher than our estimate of AED 2,345 Mn. The growth in net profit is mainly driven by a marginal decline in operating expenses, a decline in impairment on trade receivables and contract assets, higher profit from share of associates, higher finance income, and lower share of profit attributable to non-controlling shareholders partially offset by a decline in revenue, higher finance cost, and higher income tax expense.

### P&L Highlights

EAND's total revenue declined 3.5% YOY to AED 13,134 Mn in 4Q22 driven by a significant exchange rate volatility in the Egyptian Pound, Pakistani Rupee, and Moroccan Dirham as a result of global macroeconomic turmoil. It was partially offset by a solid performance in UAE and strong local currency growth in Egypt and Pakistan. The Company's UAE revenue rose 2.6% YOY to AED 8.0 Bn in 4Q22 owing to a growth in population, recovery in the tourism sector and strong economic growth. Mobile segment revenue grew at 3% YOY to AED 2.9 Bn in 4Q22 due to rise in subscribers whereas fixed segment revenue rose 4% YOY to AED 2.9 Bn in 4Q22 supported by high internet and data services. Etisalat's revenue from consolidated international operations declined 15.8% YOY to AED 4.8 Bn in 4Q22 attributable to an unfavourable movement in exchange rates of the Egyptian Pound, Pakistani Rupee, and Moroccan Dirham. Marco Telecom revenue declined 16% to AED 2.9 Bn in 4Q22 due to the unfavourable exchange rate of MAD against AED, whereas revenue declined 1% YOY in local currency. Revenue from Egypt also fell 20% YOY to AED 1.1 Bn in 4Q21, however, in the local currency rose 21% YOY due to solid growth in mobile data, voice, and wholesale revenue. Revenue from Pakistan operation declined 10% YOY to AED 0.7 Bn in 4Q22, whereas in the local revenue rose 17% YOY due to strong growth in FTTH, corporate, and wholesale segment. The Company's operating expenses declined 1.3% YOY to AED 8,906 Mn in 4Q22 mainly due to the cost discipline followed by the company. Operating cost declined as a result of decrease in D&A expenses, network costs, marketing expenses, and other operating expenses partially offset by a rise in direct cost and staff expenses. Impairment loss from trade receivable and contract assets declined significantly 71.3% YOY to AED 136 Mn whereas share of result of associates and JVs more than doubled from AED 89 Mn in 4Q21 to AED 190 Mn in 4Q22. The company's federal royalty increased 2.0% YOY to AED 1,329 Mn in 4Q22 resulting in a 1.9% YOY growth in operating profit to AED 2,953 Mn. Moreover, EBITDA declined 8.1% YOY to AED 6,042 Mn in 4Q22 due to volatility in foreign currency. EBITDA margin also fell 228 bps YOY to 46.0% in 4Q22. Finance and other income more than doubled from AED 439 Mn in 4Q21 to AED 990 Mn in 4Q22 owing higher interest bank on deposits and higher dividend income offset by a decline in net loss on investments and lower other income. Finance and other cost rose significantly 81.9% YOY to AED 794 Mn due to higher benchmark rates. Income tax expenses rose 30.5% YOY to AED 461 Mn in line with growth in profitability. Share of profit attributable to non-controlling interest holders declined significantly from AED 411 Mn in 4Q21 to AED 28 Mn in 4Q22 due to lower profit from Marco Telecom, PTCL, and Etisalat Misr.

**Rating : HOLD**

### First Look Note – 4Q22

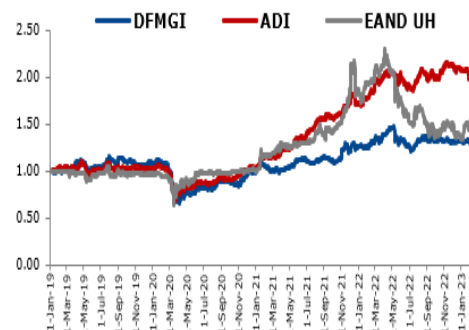
**Sector: Telecom**

#### Recommendation

Current Price (13-Mar-23)	24.62
Target Price (AED)	25.00
Upside/Downside (%)	+1.5%

#### Stock Information

Market Cap (mm)	214,114.08
Paid Up Capital (mm)	8,696.75
52 Week High	39.06
52 Week Low	22.66
3M Avg. daily value (AED)	39,833,270



#### Financial Ratios

Dividend Yield (12m)	3.25
Dividend Pay-out (%)	69.52
Price-Earnings Ratio (x)	21.30
Price-to-Book Ratio (x)	5.07
Book Value (AED)	4.86
Return-on Equity (%)	22.28
Earning Per Share (AED)	1.16
Beta	1.28

#### Stock Performance

5 Days	-3.83%
1 Months	-9.49%
3 Months	6.03%
6 Months	0.08%
1 Year	-29.66%
Month to Date (MTD)	-3.45%
Quarter to Date (QTD)	7.70%
Year to Date (YTD)	7.70%

### Balance Sheet Highlights

Etisalat's consolidated capex declined 3.9% to AED 8.0 Bn in 2022 resulting in a capital intensity ratio of 15% in line with previous year. The Company's capital spending is focused on expanding 5G network in UAE, FTTH and mobile network expansion in MT group, spectrum and network deployment in Egypt, and FTTH and mobile coverage in PTCL group. Excluding spectrum and license acquisition costs, the Company's capex rose 11% YOY in 2022. Furthermore, the Company's total debt rose significantly from AED 25.7 Bn in 4Q21 to AED 48.0 Bn in 4Q22 mainly attributable to bank borrowings made to finance investments in Vodafone Group. Out of the total debt, 50% is of long-term maturity due after 2023. In addition, the currency mix for external borrowings stood at 46% in USD, 18% in Euros, 16% in AED, and 20% in other currencies. The Company's cash balance stood at AED 32.8 Bn in 2022 as compared to AED 28.6 Bn in 2021 with a net debt to EBITDA ratio of 0.58x as compared to 0.11x in 2021.

### Target price and recommendation

We maintain our HOLD rating on EAND with an unchanged target price of AED 25.00. The Company focuses on maintaining its market leadership position by incurring a high capex aimed towards expanding its 5G coverage, mobile network expansion, fibre network expansion, to maintain a strong customer base. EAND maintained steady revenue and EBITDA margin in domestic as well as international operations. It further expects to maintain steady growth in top line and EBITDA margin going forward. The Company plans to diversify its business and revenue stream to new business verticals through innovative service offerings. Etisalat increased its share in the Vodafone group to 11% in 2022 and further extended to 14% in February 2023. Etisalat's subsidiary E-Vision and ADQ acquired a controlling stake in STARZPLAY ARABIA which gives Etisalat an opportunity for international expansions across 20 global telcos. Etisalat also acquired a leading service provider of Subscription Video on Demand (SVOD) and streaming services in UAE. Furthermore, EAND entered into a JV with Bepin Global to offer cloud management and professional services in the METAP region. The entry and investment into new business opportunities is still in the nascent stage of development. The Company also aims to grow its revenue segment to enhance its product offerings. EAND proposed a final dividend of 40 fils per share for 2H22 amounting to a total dividend of 80 fils per share in 2022 with a dividend yield of 3.2% in 2022. Thus, based on the above-mentioned factors, we assign a HOLD rating on the stock.

### Etisalat Group - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	25.5	25.3	24.3	23.6	21.9	22.7
P/B (x)	4.9	4.7	4.5	4.6	5.2	4.9
EV/EBITDA	8.8	8.5	8.6	8.5	9.2	9.0
Dividend Yield (%)	3.2%	3.2%	4.8%	3.2%	3.2%	3.2%

FABS Estimates & Co Data

Etisalat P&L										
(AED mm)	4Q21	3Q22	4Q22	4Q22F	Var	YOY	QOQ	2021	2022	Change
Revenue	13,613	12,973	13,134	13,405	-2.0%	-3.5%	1.2%	53,342	52,434	-1.7%
Operating expenses	-9,025	-8,021	-8,906	-8,378	6.3%	-1.3%	11.0%	-34,081	-33,323	-2.2%
Impairment loss on trade recv. and	-475	-194	-136	-268	-49.1%	-71.3%	-29.7%	-1,217	-806	-33.8%
Share of results of associates and joint ventures	89	127	190	121	57.5%	112.8%	49.6%	297	417	40.3%
<b>Operating profit before federal royalty</b>	<b>4,201</b>	<b>4,885</b>	<b>4,282</b>	<b>4,879</b>	<b>-12.2%</b>	<b>1.9%</b>	<b>-12.3%</b>	<b>18,341</b>	<b>18,722</b>	2.1%
Federal royalty	-1,304	-1,565	-1,329	-1,340	-0.8%	2.0%	-15.1%	-5,542	-5,771	4.1%
<b>Operating profit</b>	<b>2,898</b>	<b>3,320</b>	<b>2,953</b>	<b>3,539</b>	<b>-16.6%</b>	<b>1.9%</b>	<b>-11.1%</b>	<b>12,799</b>	<b>12,951</b>	<b>1.2%</b>
<b>EBITDA</b>	<b>6,573</b>	<b>6,714</b>	<b>6,042</b>	<b>7,433</b>	<b>-18.7%</b>	<b>-8.1%</b>	<b>-10.0%</b>	<b>26,721</b>	<b>26,202</b>	-1.9%
Finance and other income	439	507	990	469	111.0%	125.3%	95.2%	1,289	2,001	55.2%
Finance and other costs	-437	-581	-794	-670	18.5%	81.9%	36.6%	-1,284	-2,674	108.3%
<b>Profit before tax</b>	<b>2,900</b>	<b>3,246</b>	<b>3,148</b>	<b>3,338</b>	<b>-5.7%</b>	<b>8.5%</b>	<b>-3.0%</b>	<b>12,804</b>	<b>12,278</b>	-4.1%
Income tax expenses	-354	-458	-461	-408	13.0%	30.5%	0.8%	-1,745	-1,752	0.4%
<b>Profit for the period</b>	<b>2,547</b>	<b>2,788</b>	<b>2,687</b>	<b>2,929</b>	<b>-8.3%</b>	<b>5.5%</b>	<b>-3.6%</b>	<b>11,059</b>	<b>10,526</b>	-4.8%
Non-controlling interests	411	304	28	586	-95.1%	-93.1%	-90.6%	1,742	518	-70.3%
<b>Net Profit</b>	<b>2,136</b>	<b>2,484</b>	<b>2,658</b>	<b>2,343</b>	<b>13.4%</b>	<b>24.5%</b>	<b>7.0%</b>	<b>9,317</b>	<b>10,007</b>	<b>7.4%</b>

Margins	4Q21	2Q22	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	YOY Ch
Operating Profit	21.3%	25.1%	25.6%	22.5%	119	-311	24.0%	24.7%	71
EBITDA	48.3%	51.1%	51.8%	46.0%	-228	-575	50.1%	50.0%	-12
Net Profit	15.7%	18.7%	19.1%	20.2%	455	109	17.5%	19.1%	162

FABS Estimates & 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%

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