

# **UAE Equity Research**

## **Etisalat Group**

Growth in core markets and efficient cost management supported profitability

## 1Q22 net profit in line with our estimate

Etisalat's net Profit increased 3.6% YoY to AED 2,434 Mn in 1Q22, in line with our estimate of AED 2,423 Mn, owing to higher revenue and effective cost management along with, the decline in depreciation expense and lower share of profit attributable to minority interest holders.

#### **P&L** highlights

Etisalat's revenue rose 0.8% YoY to AED 13.3 Bn due to growth in revenue from UAE and Egypt operations, somewhat offset by a decline in revenue from Marco Telecom (MT Group) and Pakistan operations. UAE operations benefited from growth in mobile and digital services, Egypt revenue grew in double-digits supported by growth in data and voice revenue, MT Group revenue declined pressured by the mobile segment in Morocco, and Moov Africa (part of MT Group) revenue was affected due to mobile termination rate cuts and Pakistan was impacted due to currency devaluation. Although total revenue rose 3.5% YoY on a constant currency basis. Total subscribers rose 2.9Mn YoY to 159.0 Mn in 1022. On a OoO basis, it only added 0.3 Mn subscribers. UAE revenue grew 3.6% YoY to AED 7.8 Bn attributable to the momentum in core activities and ongoing recovery in the economy along with, the EXPO 2020 that resulted in an increase in prepaid and postpaid revenues. Revenue of consolidated international operations declined 3.1% YoY to AED 5.4 Bn due to unfavorable movement in the Egyptian Pound, Pakistan Rupees, and Moroccan Dirham against AED. Operating expenses fell 1.0% YoY to AED 8,265 Mn in 1Q22 primarily due to ongoing efforts to control and optimize costs to offset inflationary pressure. Consequently, consolidated EBITDA rose marginally 0.5% YoY to AED 6.8 Bn in 1Q22 resulting, in an EBITDA margin of 51.0% compared to 51.2% in 1Q21. Share of associate and joint ventures results declined from AED 61 Mn in 1021 to AED 11 Mn in 1Q22. The company recorded impairment expense of AED 223 Mn in 1Q22 compared to AED 121 Mn in 1Q21. Federal royalty rose 2.9% YoY to AED 1,427 Mn in 1Q22. Net finance costs rose from AED 173 Mn in 1Q21 to AED 273 Mn in 1Q22 due to a rise in interest costs. It recorded a tax rate of 11.5% 1Q21 compared to 12.5% in 1Q22. Non-Controlling interest fell from AED 417 Mn in 1021 to AED 318 Mn due to a lower share of profit attributable to subsidiaries.

#### **Balance sheet highlights**

Consolidated capital expenditure grew 52% YoY to AED 1.6 Bn resulting in a capital intensity ratio of 12%, 4bps higher YoY. The growth is mainly driven by ongoing network enhancements in several markets to support traffic growth, spectrum costs in Egypt, and ongoing network modernization. International Operations represented 75% of the group's total CAPEX. Total consolidated debt

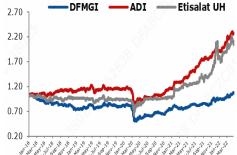
## **Rating: REDUCE**

## First Look Note - 1Q22

**Sector: Telecom** 

Recommendation	
Current Price (28-Apr-22)	35.00
Target Price	25.00
Upside/Downside (%)	-29%

Stock Information	
Market Cap (mm)	304,386.34
Paid Up Capital (mm)	8,696.75
52 Week High	39.06
52 Week Low	21.16
3M Avg. daily value (AED)	81,778,570



Financial Ratios	
Dividend Yield (12m)	2.29
Dividend Pay-out (%)	74.67
Price-Earnings Ratio (x)	32.24
Price-to-Book Ratio (x)	6.22
Book Value (AED)	5.63
Return-on Equity (%)	20.09
Earning Per Share (AED)	1.09
Beta	1.17

Stock Performance	
5 Days	-0.28%
1 Months	-2.67%
3 Months	5.80%
6 Months	36.72%
1 Year	65.25%
Month to Date (MTD)	-4.87%
Quarter to Date (QTD)	-4.87%
Year to Date (YTD)	10.91%

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amounted to AED 24.2 Bn in 1Q22 compared to AED 25.7 Bn on 31st December 2021. Around 78% of the debt balance is of long-term maturity that is due beyond the first quarter of 2023. Currency mix for external borrowings is 36% in Euros', 24% USD, 11% MAD and 29% in various currencies. The consolidated cash balance stood at AED 29.2 Bn as of 31st March 2022, leading to a net cash position of AED 4.9 Bn.

## **Target price and recommendation**

We maintain our REUDCE rating with a target price of AED25. Etisalat holds a leading market share in UAE and strongly positioned due to limited competition. The company generate approximately ~56-59% of revenue and EBITDA from this region. We expect this contribution from UAE is expected remain stable in the short-to-medium term. Apart from this, the performance of Egypt operation continues to remain on strong footing due to strong execution driving operational and financial performance. Additionally, Etisalat balance sheet also remained strong with a net cash balance of AED 4.9 Bn in 1Q22. It is able to generate sustainable free cash flow (FCF) across the period and FCF as percentage of revenue stood at 40.9% in 1Q22. The company also plans to raise stake in Mobily from 28% to 50%. We view the company plan to raise stake in Mobily as positive. Mobily is leading telecom player in Saudi Arabia. However, Etisalat operation in Africa and Pakistan continue to get negatively impacted due to adverse foreign exchange movements and regulatory changes in Africa. Additionally, Etisalat share price is trading at 2022 EV/EBITDA and dividend yield of 11.60 and 2.3% compared to sector average of 7.6x and 3.2%, respectively. Due to higher than sector multiple renders the share expensive leading us to assign REDUCE rating on the stock.

#### **Etisalat Group - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	34.0	35.0	33.7	32.7	32.8
P/B (x)	6.77	6.53	6.21	6.40	6.06
EV/EBITDA	11.95	11.73	11.70	11.58	11.60
Dividend Yield (%)	2.3%	2.3%	3.4%	2.3%	2.3%

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#### Etisalat Group - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	13,220	13,613	13,331	13,626	-2.2%	0.8%	-2.1%	53,342	54,588	2.3%
Operating expenses	-8,351	-9,025	-8,265	-8,821	-6.3%	-1.0%	-8.4%	-34,081	-35,584	4.4%
Impairment	-121	-394	-223	-309	NM	84.1%	-43.5%	-1,217.4	-979.0	-19.6%
Share of assoc.& JVs	61	81	11	90	NM	-82.1%	-86.5%	290	366	26.4%
EBIT before federal royalty	4,747	4,193	4,843	4,586	5.6%	2.0%	15.5%	18,333	18,391	0.3%
Federal royalty	-1,387	-1,304	-1,427	-1,363	4.7%	2.9%	9.5%	-5,542	-5,595	1.0%
Operating profit	3,361	2,890	3,416	3,223	6.0%	1.6%	18.2%	12,792	12,796	0.0%
EBITDA	6,765	6,573	6,801	6,640	2.4%	0.5%	3.5%	26,721	26,656	-0.2%
Finance and other in- come	201	439	212	396	-46.5%	5.4%	-51.8%	1,289	1,584	22.9%
Finance and other costs	-374	-429	-485	-393	23.3%	29.6%	12.9%	-1,277	-1,577	23.5%
Profit before tax	3,188	2,900	3,143	3,226	-2.6%	-1.4%	8.4%	12,804	12,803	0.0%
Income tax expenses	-367	-353	-392	-387	1.2%	6.8%	10.9%	-1,745	-1,536	-12.0%
Profit for the period	2,821	2,547	2,752	2,839	-3.1%	-2.5%	8.0%	11,060	11,267	1.9%
Non-controlling int.	-471	-411	-318	-415	NM	-32.6%	-22.7%	-1,742	-1,687	-3.2%
Net Profit	2,350	2,136	2,434	2,424	0.4%	3.6%	14.0%	9,317	9,580	2.8%

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## **Etisalat Group - Margins**

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
EBITDA margin	51.2%	48.3%	51.0%	-16	273	50.1%	48.8%	-126
Operating margin	25.4%	21.2%	25.6%	20	439	24.0%	23.4%	-54
Net Profit margin	17.8%	15.7%	18.3%	48	257	17.5%	17.5%	8
ROA	7.0%	6.7%	7.6%	54	82	7.1%	7.5%	34
ROE	20.1%	18.2%	20.2%	11	193	19.3%	20.6%	132

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### **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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Best New Mobile Application in UAE 2016 by "IFA"



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



Best Equity Finance Company in UAE 2016 by "IFA"

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