

## Emirates Telecommunications Group Co (e&)

**Current Price**

AED 16.36

**Target Price**

AED 21.20

**Upside/Downside (%)**

+30%

**Rating**

**BUY**

### 2Q24 Net Profit higher than our estimate

- E&'s revenue grew 3.5% YOY to AED 14.1 Bn in 2Q24 owing to the strong performance of all segments, particularly by telecom and digital verticals as well as healthy growth in domestic and international subscriber base.
- Mobile segment revenue rose 2.7% YOY to AED 6.5 Bn, fixed segment revenue grew 2.5% YOY to AED 4 Bn, equipment revenue rose 8.0% YOY to 729 Mn and other revenues increased 5.7% YOY to 3 Bn in 2Q24.
- E&'s EBITDA rose 5.5% YOY to AED 6.9 Bn in 2Q24 due to cost control measures. The company recorded an EBITDA Margin of 49.2% in 2Q24 compared to 48.2% in 2Q23 owing to changes in revenue mix and inflationary pressures.
- Net profit grew 25.5% YOY to AED 3.2 Bn in 2Q24, primarily driven by an increase in revenue, lower impairments loss on trade receivables, higher share of results from associates and income tax reversal. Net profit margin improved 393 bps YOY to 22.5% in 2Q24.
- E&'s Capex fell 8.0% YOY to AED 1.8 Bn in 2Q24 with capex intensity of 13%. It was incurred on 5G network expansion, network modernization, and indoor coverage for e& UAE as well as on e& international in Egypt for capacity enhancement and expansion of the mobile network.
- E&'s mobile subscriber base grew 6.1% YOY to 175.1 Mn in 2Q24 mainly driven by solid subscriber acquisition in UAE, Egypt, Pakistan, and Africa operations.
- Operating free cash flow grew 3% YOY to AED 4.8 Bn in 2Q24.

### Earnings Call Summary

- e& announced a dividend of 41.5 per share in 1H24 compared to 40.0 fils per share in 1H23
- The Company signed an agreement with Mediterra Capital to fully acquire GlassHouse, a cloud services provider. The acquisition will enable e& enterprise to enter the Turkish IT services & cloud market and capitalize on GlassHouse SAP's capabilities in the UAE and KSA regions.
- The cash balance declined in 2Q24 owing to an outlay worth AED 10 Bn for royalty fees as well as dividend payment for the FY2023
- e&'s acquisition of PPF telecom assets is under investigation but the company will get all the approvals and finalize the transaction before the end of FY2024. Moreover, it will also conclude the acquisition of Telenor Pakistan before the end of FY2024
- e&Life recorded a negative EBITDA of AED 211 Mn in 2Q24 due to the consolidation of the e& super app, leading to higher investments focused on growing the business
- e& reduced debt by AED 1.3 Bn compared to 4Q23 owing to the repayment of bank borrowings, particularly in international operations
- e&'s Careem app customers are growing in addition to a rise in spend per customer owing to the services offered in the app. The penetration of Careem Plus increased from 27% to 40%. The company recently introduced the app in Abu Dhabi which led to a growth in Gross Transaction Value.
- e& money witnessed robust growth in 2Q24 owing to a significant increase in remittances and gross transaction volume (GTV), which more than tripled in 1H24 compared to 1H23. The number of cards issued exceeded 620,000, and the registered user base grew to over 1.15 Mn. It obtained approval from the Central Bank of the UAE to offer wage protection system services, which will likely benefit its topline.
- The company signaled a likely price increase in Egypt owing to hyperinflation impacting the margins.

- Vodafone operation is on track and waiting for board approval to dispose of the operation in Italy. It already disposed of operations in Spain and used the proceeds from disposals to reduce leverage.
- Recorded a tax credit of AED 413 Mn in 1H24 owing to a fine in Morocco operation which led to a tax credit.
- Price increase in Egypt is less than inflation and there will be additional price increases going forward.
- e& received approval to increase stake in Vodafone but it has no intention to do the same.
- Gradually introducing all portfolio of services in KSA such as cybersecurity, cloud proposition, IoT, smart city services and others.
- Plan to introduce cloud services in Turkey, which will help in diversifying revenue and Glass House earns 80% of revenue in USD.

**Etisalat P&L**

<b>(AED mm)</b>	<b>2Q23</b>	<b>1Q24</b>	<b>2Q24A</b>	<b>2Q24F</b>	<b>VAR</b>	<b>YOY</b>	<b>QOQ</b>
Revenue	13,614	14,214	14,092	14,503	-2.8%	3.5%	-0.9%
Operating expenses	-8,512	-9,614	-9,039	-9,572	-5.6%	6.2%	-6.0%
Imp loss on trade recv. and Contract assets	-268	-243	-207	-305	-32.0%	-22.8%	-14.6%
Share of results of assoc and JV	167	453	691	363	90.7%	313.9%	52.6%
<b>Operating profit before federal royalty</b>	<b>5,001</b>	<b>4,810</b>	<b>5,538</b>	<b>4,989</b>	<b>11.0%</b>	<b>10.7%</b>	<b>15.1%</b>
Federal royalty	-1,411	-1,345	-1,404	-1,668	-15.8%	-0.5%	4.5%
<b>Operating profit</b>	<b>3,590</b>	<b>3,465</b>	<b>4,133</b>	<b>3,321</b>	<b>24.5%</b>	<b>15.1%</b>	<b>19.3%</b>
<b>EBITDA</b>	<b>6,568</b>	<b>6,369</b>	<b>6,929</b>	<b>6,807</b>	<b>1.8%</b>	<b>5.5%</b>	<b>8.8%</b>
Finance and other income	489	639	559	653	-14.4%	14.2%	-12.5%
Finance and other costs	-860	-1,162	-2,106	-769	173.8%	144.8%	81.3%
<b>Profit before tax</b>	<b>3,219</b>	<b>2,943</b>	<b>2,587</b>	<b>3,205</b>	<b>-19.3%</b>	<b>-19.6%</b>	<b>-12.1%</b>
Income tax expenses	-431	-484	71	-433	-116.4%	-116.5%	-114.7%
<b>Profit for the period</b>	<b>2,789</b>	<b>2,459</b>	<b>2,658</b>	<b>2,772</b>	<b>-4.1%</b>	<b>-4.7%</b>	<b>8.1%</b>
Non-controlling interests	266	130	-507	163	-411.0%	-290.7%	-491.4%
<b>Net Profit</b>	<b>2,522</b>	<b>2,330</b>	<b>3,165</b>	<b>2,609</b>	<b>21.3%</b>	<b>25.5%</b>	<b>35.9%</b>

FABS estimate & Co Data

**Research Rating Methodology:**

<b>Rating</b>	<b>Upside/Downside potential</b>
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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