FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 2Q26

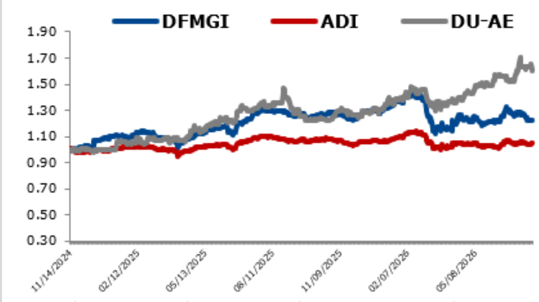
UAE Equity Research | Sector: Telecommunication | Market: DFM

Emirates Integrated Telecommunications Co PJSC (DU)

Resilient core performance supports earnings amid regional headwinds

Current Price	Target Price	Upside/Downside (%)	Rating
AED 12.02	AED 12.50	+4.0%	HOLD

- DU's mobile subscriber base increased 1.6% YOY to 9.3 Mn in 2Q26, driven by growth in the postpaid subscriber base, partially offset by a decline in prepaid subscribers.
- DU's Capex amounted to AED 653 Mn in 2Q26, with a capital intensity of 16.0% of total revenue.
- DU launched du Ventures, a USD 50 Mn corporate venture fund with Shorooq to invest in emerging technology startups.
- The Company revised its 2026 revenue growth guidance to 4%-6%, while maintaining its EBITDA margin guidance of 46%-47%.
- Board approved an interim cash dividend of AED 0.26 per share for 1H26, up 8.3% YOY, reflecting the Company's strong financial performance and commitment to shareholder returns.



Stock Information	
Market Cap (AED, Mn)	54,848.16
Paid Up Capital (Mn)	4,532.91
52 Week High	12.80
52 Week Low	9.05
3M Avg. daily value (AED)	2,518,647

2Q26 Result Review (AED, Mn)	
Total Assets	17,621
Total Liabilities	7,654
Total Equity	9,967
EBITDA	1,994
Net Profit	798

Financial Ratios	
Dividend Yield (12m)	5.30
Dividend Pay-out (%)	99.86
Price-Earnings Ratio(x)	15.29
Price-to-Book Ratio (x)	4.38
Book Value (AED)	2.24
Return-on Equity (%)	29.01

Stock Performance	
5 Days	-0.82%
1 Months	5.22%
3 Months	15.24%
6 Months	16.35%
1 Year	21.49%
Month to Date (MTD%)	6.14%
Quarter to Date (QTD%)	6.14%
Year to Date (YTD%)	23.47%

2Q26 Net Profit slightly higher than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/The Company) reported a 9.8% YOY increase in net profit to AED 798 Mn in 2Q26, slightly higher than our estimate of AED 762 Mn. The increase in net profit is primarily driven by higher revenue and lower direct costs, partially offset by higher operating expenses (excl. D&A), coupled with an increase in depreciation, amortization expense, federal royalty and income tax charges.

P&L Highlights

DU's revenue increased 4.6% YOY to AED 4.1 Bn in 2Q26, driven by continued growth in Mobile, Fixed, and Wholesale revenues, partially offset by lower ICT revenues. Mobile Services revenue rose 3.7% YOY to AED 1.8 Bn in 2Q26, supported by healthy growth in the postpaid subscriber base and an improved customer mix, supporting ARPU. The mobile subscriber base increased 1.6% YOY to 9.3 Mn in 2Q26. Postpaid subscribers grew 9.0% YOY to 2.1 Mn in 2Q26, reflecting strong demand for premium consumer offerings and enterprise services, while prepaid subscribers declined 0.4% YOY to 7.2 Mn in 2Q26, due to lower tourism activity during the quarter, partially offset by growth from enhanced prepaid offerings. Fixed service revenue grew 11.6% YOY to AED 1.2 Bn in 2Q26, supported by strong enterprise connectivity demand and continued growth in Home Wireless services. The fixed subscriber base increased 5.5% YOY to 744K in 2Q26, supported by continued demand for Home Wireless and fibre broadband services. Other revenues declined 0.8% YOY to AED 1.1 Bn in 2Q26, primarily due to lower handset sales and lower non-recurring ICT revenues booked in the prior year. DU's direct costs declined 2.4% YOY to AED 1.3 Bn in 2Q26, mainly due to lower device-related costs, partially offset by higher interconnect, and commission costs. Consequently, gross profit increased 8.2% YOY to AED 2.8 Bn in 2Q26, with the gross profit margin expanding 225 bps YOY to 69.1% in 2Q26. Net operating expenses (excluding D&A) increased 5.8% YOY to AED 826 Mn in 2Q26, primarily driven by higher network and other maintenance expenses, telecommunication fees, other operating expenses and impairment charges, partially offset by lower staff and administrative expenses. EBITDA increased 9.2% YOY to AED 2.0 Bn in 2Q26, with the EBITDA Margin expanding 203 bps YOY to 48.8% in 2Q26, supported by a favourable product mix, stronger gross margin, and continued cost optimisation. D&A and impairment expenses increased 8.0% YOY to AED 573 Mn in 2Q26. Operating Profit rose 9.7% YOY to AED 1.4 Bn in 2Q26, with the operating profit margin improving 160 bps YOY to 34.8% in 2Q26. The Company’s net finance expenses increased 9.4% YOY to AED 7 Mn in 2Q26. Furthermore, federal royalty charges increased 9.7% YOY to AED 537 Mn in 2Q26, while tax expenses rose 9.3% YOY to AED 79 Mn in 2Q26.

Balance Sheet Highlights

DU’s capex amounted to AED 653 Mn, with a capex intensity of 16.0% of total revenue in 2Q26, reflecting continued investment in network infrastructure and accelerated capital deployment in data centres. DU’s operating free cash flow increased 4.6% YOY to AED 1.3 Bn in 2Q26, supported by EBITDA growth despite higher capital expenditure. The Company remains debt-free, with a net cash balance of AED 307 Mn in 2Q26 and an undrawn facility of AED 2.0 Bn as of 2Q26, reflecting its healthy liquidity position.

Target Price and Rating

We maintain our HOLD rating on DU with a revised target price of AED 12.50. DU delivered a strong 2Q26 performance, despite the challenging operating environment, supported by healthy growth in core service revenues, continued strength in postpaid and fixed operations, and disciplined cost management. While the regional conflict continued to weigh on tourism, roaming activity, and gross subscriber additions, the Company maintained disciplined cost management, and continued executing its strategic investment plans. The Company noted that the financial impact remained largely confined to demand-sensitive areas, while the core mobile, fixed, enterprise and ICT businesses remained resilient, with traffic patterns normalizing following the end of temporary work-from-home and distance-learning measures. DU’s mobile subscribers increased 1.6% YOY to 9.3 Mn in 2Q26. Postpaid subscribers grew 9.0% YOY to 2.1 Mn in 2Q26, reflecting strong demand for premium consumer offerings and enterprise services, while prepaid subscribers declined 0.4% YOY to 7.2 Mn in 2Q26, due to lower tourism activity during the quarter. Meanwhile, the fixed subscribers base increased 5.5% YOY to 744K in 2Q26, supported by continued demand for Home Wireless and fibre broadband services. DU continued to accelerate investments in digital infrastructure, including data centres, while maintaining network expansion. The Company expects the first Microsoft data centre to become operational in 4Q26, with an immaterial earnings contribution in 2026 and a more meaningful contribution from 2027 onwards. DU also entered into an MoU with Open Innovation AI, in collaboration with the UAE Cyber Security Council, to support sovereign Agentic AI adoption through the integration of du Tech's CSC-certified National Hypercloud with Open Innovation AI's GPU orchestration platform, enabling secure, in-country AI deployment for government and enterprise customers. DU continued to strengthen its "beyond the core" strategy through the launch of du Ventures, a USD 50 Mn corporate venture fund established in partnership with Shorooq to invest in startups across AI, fintech, cybersecurity, cloud, gaming, and enterprise solutions, supporting digital innovation and the Company's expansion into a broader digital ecosystem. The Company also deployed next-generation 5G technology, expanded its retail footprint, and introduced AI-driven SME solutions. DU also joined the Department of Economy and Tourism's 'SME in a Box' initiative as the telecom partner, providing tailored connectivity and digital solutions to support the digitalisation and growth of startups, freelancers, and SMEs. DU remains focused on strengthening and monetising its core business through a digital-first approach while enhancing customer experience. The Company maintained a strong liquidity position, supported by robust operating cash generation, an unlevered balance sheet, and AED 2.0 Bn of undrawn committed credit facilities. DU revised its 2026 revenue growth guidance to 4-6% from 5-7% reflecting the uncertain regional operating environment, while maintaining its EBITDA margin guidance at 46-47%, highlighting continued confidence in cost discipline and underlying profitability. The Board also approved an interim cash dividend of AED 0.26 per share for 1H26, up 8.3% YOY, reflecting the Company's strong financial performance and commitment to shareholder returns. Overall, we remain positive on DU’s resilient core operations, improving revenue mix and longer-term digital growth opportunities. However, near-term uncertainty surrounding tourism, roaming and subscriber additions, coupled with elevated capital deployment, warrants a balanced view. Accordingly, we maintain our HOLD rating on the stock with a revised target price.

DU - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	49.83	44.97	32.89	22.05	18.88	17.28
PB	6.43	6.25	5.93	5.55	5.40	5.26
EV/EBITDA	17.94	16.29	14.08	8.43	7.43	7.20
BVPS	1.882	1.935	2.039	2.179	2.239	2.299
EPS	0.243	0.269	0.368	0.549	0.641	0.700
DPS	0.210	0.240	0.340	0.540	0.640	0.640
Dividend Yield	1.7%	2.0%	2.8%	4.5%	5.3%	5.3%

FABS Estimates & Co Data

DU – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	3,902	4,114	4,083	4,110	-0.6%	4.6%	-0.7%	15,905	16,784	5.5%
Direct Costs	-1,295	-1,322	-1,263	-1,385	-8.8%	-2.4%	-4.5%	-5,259	-5,572	5.9%
Gross Profit	**2,608**	**2,792**	**2,820**	**2,725**	**3.5%**	**8.2%**	**1.0%**	**10,646**	**11,212**	**5.3%**
Net Operating Expenses excl. D&A	-781	-754	-826	-828	-0.2%	5.8%	9.6%	-3,308	-3,390	2.5%
EBITDA	**1,826**	**2,038**	**1,994**	**1,896**	**5.2%**	**9.2%**	**-2.1%**	**7,338**	**7,821**	**6.6%**
D&A	-531	-560	-573	-543	5.5%	8.0%	2.4%	-2,168	-2,181	0.6%
Operating profit	**1,295**	**1,478**	**1,421**	**1,353**	**5.0%**	**9.7%**	**-3.9%**	**5,170**	**5,640**	**9.1%**
Finance income/expense	-6	2	-7	-3	NM	9.4%	NM	-20	-16	-19.9%
Pre-royalty profit	**1,288**	**1,479**	**1,414**	**1,350**	**4.7%**	**9.7%**	**-4.4%**	**5,149**	**5,624**	**9.2%**
Federal Royalty	-490	-562	-537	-513	4.7%	9.7%	-4.4%	-1,957	-2,137	9.2%
Tax	-72	-83	-79	-75	4.5%	9.3%	-4.9%	-287	-314	9.2%
Net Profit	**727**	**834**	**798**	**762**	**4.8%**	**9.8%**	**-4.4%**	**2,905**	**3,174**	**9.2%**

FABS estimate & Co Data

DU - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit Margin	66.8%	67.9%	69.1%	225	121	66.9%	66.8%	-13
EBITDA	46.8%	49.5%	48.8%	203	-70	46.1%	46.6%	46
Operating Profit	33.2%	35.9%	34.8%	160	-113	32.5%	33.6%	110
Net Profit	18.6%	20.3%	19.5%	91	-74	18.3%	18.9%	64

FABS estimate & Co Data

Key Developments:

- **11 June 2026** – DU joined the Department of Economy and Tourism's 'SME in a Box' initiative as the telecom partner, offering tailored connectivity and digital solutions to support startups and SMEs while advancing Dubai's D33 vision.

- **4 June 2026** – DU signed an MoU with Open Innovation AI, in collaboration with the UAE Cyber Security Council, to accelerate sovereign Agentic AI adoption by integrating du Tech's CSC-certified National Hypercloud with Open Innovation AI's GPU orchestration platform. The partnership aims to enable secure, in-country AI deployment for government entities and enterprises while strengthening the UAE's sovereign AI ecosystem.

- **3 June 2026** – DU launched du Ventures, a USD 50 million corporate venture fund in partnership with Shorooq to invest in startups across fintech, AI, cybersecurity, cloud, gaming, and enterprise solutions. The fund aims to accelerate digital innovation, with a significant share of investments focused on UAE-based ventures, while supporting du's expansion into a broader digital ecosystem.

- **9 April 2026** – DU refinanced its AED 2 Bn revolving credit facility with a 7-year tenor, enhancing liquidity flexibility and supporting future strategic investments; the facility remains undrawn and reflects strong lender confidence.

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value DU. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	13.07	70.0%	9.15
Relative Valuation (RV)	11.18	30.0%	3.35
Weighted Average Valuation (AED)			**12.50**
Current market price (AED)			12.02
Upside/Downside (%)			+4.0%

1) DCF Method:

DU is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 9.1%. Cost of equity is calculated by using a 10-year government bond yield of 5.4%, beta of 0.9 and an equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	13,697
Terminal value (AED, Mn)	45,531
FV to Common shareholders (AED, Mn)	59,229
No. of share (Mn)	4,533
Current Market Price (AED)	12.02
Fair Value per share (AED)	**13.07**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Income	3,174	3,489	3,819	4,162	4,617
D&A	2,181	2,255	2,348	2,442	2,536
Change in working capital	150	590	542	526	607
(-) Capex	-2,400	-2,517	-2,639	-2,659	-2,779
Net change in debt	-322	-322	-322	-326	-332
Free Cash Flow to Equity (FCFE)	**2,783**	**3,495**	**3,748**	**4,146**	**4,650**
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Discounted FCFE	**1,340[1]**	**3,085**	**3,033**	**3,076**	**3,163**

Source: FAB Securities, [1]Adjusted for partial year

2) Relative Valuation:

We have used international peers to value DU and it is valued using the EV/EBITDA multiple. It is valued at 2026 EV/ EBITDA multiple of 6.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Telstra Group limited	38,632	8.4	8.1	24.4	22.8
Verizon Communication	1,81,637	7.1	6.9	8.8	8.3
SAFARICOM PLC	11,001	6.7	6.3	13.7	12.3
Deutsche Telekom AG	1,48,376	6.3	6.0	12.1	10.7
Saudi Telecom	57,565	8.4	7.9	15.1	14.3
Emirates Telecommunications Group	47,212	6.4	6.0	15.1	12.1
Etihad Etisalat	12,652	6.6	6.3	12.6	11.6
Average		**7.1x**	**6.8x**	**14.5x**	**13.2x**
Median		**6.7x**	**6.3x**	**13.7x**	**12.1x**
Max		**7.7x**	**7.4x**	**15.1x**	**13.3x**
Min		**6.5x**	**6.1x**	**12.4x**	**11.2x**

Source: FAB Securities

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

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