

Emirates Integrated Telecommunications Co PJSC (DU)

Solid growth in subscriber base and equipment sales drives top-line

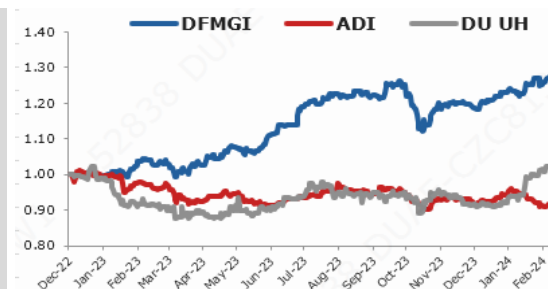
Current Price
AED 5.71

Target Price
AED 7.40

Upside/Downside (%)
+30%

Rating
BUY

- DU's net profit grew 38.5% YOY, mainly due to solid growth in mobile as well as fixed subscriber base.
- DU's Mobile subscribers grew 8.3% YOY to 8.5 Mn backed by strong growth in postpaid and prepaid subscribers
- Fixed services customers grew strongly from 12.6% YOY to 604,000 in 4Q23.
- DU incurred a capex of AED 759 Mn in 4Q23 towards 5G deployment, expanding fiber network, and ongoing IT and infrastructure development.
- The Board of Directors proposed a cash dividend of 34 fils per share for 2023, resulting in an attractive dividend yield of 5.9%.



4Q23 Net Profit lower than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit rose 38.5% YOY to AED 396 Mn in 4Q23, lower than our estimate of AED 436 Mn. The increase in the net profit is primarily driven by healthy growth in the revenue owing to an increase in subscriber base, a decline in marketing expenditures, ECL expenses, and D&A charges partially offset a rise in direct cost and federal royalty.

P&L Highlights

DU's revenue grew 7.3% YOY to AED 3,558 Mn in 4Q23 primarily driven by robust growth across all service segments. The Mobile Service segment revenue grew 9.4% YOY to AED 1,851 Mn in 4Q23 mainly due to growth in postpaid revenues in both enterprise and consumer segments and an increase in subscriber base owing to seasonality and commercial momentum. The post-paid segment customer base rose 10.5% YOY and 4.0% QOQ to AED 1.6 Mn in 4Q23 mainly due to data-centric plans and attractive offers like unlimited power plans, data carry forward, roaming benefits for premium plans, and special international calling tariffs. Meanwhile, the prepaid segment customer base grew 7.8% YOY and 6.0% QOQ to AED 6.9 Mn in 4Q23 supported by the increased tourism activity and promotional campaigns. Furthermore, DU's total mobile customer base rose 8.3% YOY to 8.6 Mn subscribers in 4Q23. The Fixed Service segment revenue recorded a growth of 4.1% YOY to AED 954 Mn in 4Q23 primarily due to enterprise and home wireless connections. The broadband customer recorded a growth of 12.7% YOY and 604 thousand subscribers in 4Q23 driven by unique content offerings, introductions of 5G/office wireless for SMEs and successful implementation of broadband strategy. DU's Wholesale business revenue increased 2.1% YOY to AED 473 Mn in 4Q23 while Other revenue grew 15.6% YOY to AED 281 Mn owing to a rise in mobile

Stock Information

Market Cap (AED, mm)	25,882.89
Paid Up Capital (mm)	4,532.91
52 Week High	5.83
52 Week Low	4.95
3M Avg. daily value (AED)	1,727,822

4Q23 Result Review (AED, mm)

Total Assets	17,704
Total Liabilities	8,461
Total Equity	9,243
EBITDA	1,430
Net Profit	396

Financial Ratios

Dividend Yield (12m)	4.51
Dividend Pay-out (%)	92.41
Price-Earnings Ratio(x)	15.73
Price-to-Book Ratio (x)	2.82
Book Value (AED)	2.04
Return-on Equity (%)	18.52

Stock Performance

5 Days	-1.55%
1 Months	6.73%
3 Months	7.33%
6 Months	7.13%
1 Year	9.81%
Month to Date (MTD%)	1.06%
Quarter to Date (QTD%)	10.02%
Year to Date (YTD%)	10.02%

handset sales, visitor roaming, and expansion in ICT driven by increased demand for data center and cloud services. The Company's equipment revenue boosted due to strong sales of iPhone 15 handsets supported by fixing of supply chain issues. DU's cost of revenue excluding D&A, and marketing expenses rose from 7.3% YOY to AED 1,995 Mn in 4Q23. Marketing expenses declined 10.5% YOY to AED 85 Mn in 4Q23 while ECL charges fell 17.9% YOY to AED 47 Mn. The Company's EBITDA grew 9.8% YOY to AED 1,430 Mn in 4Q23 mainly due to improvement in revenue mix, higher gross profits, and effective cost management strategies. Thus, EBITDA margin rose 89 bps YOY to 40.2% in 4Q23. Moreover, depreciation and amortization expenses declined 5.0% YOY to AED 537 Mn in 4Q23. The Company recorded a finance cost of AED 7 Mn in 4Q22 compared to a finance income of AED 1 Mn in 4Q23. In addition, DU's federal royalty rose 11.7% YOY to AED 496 Mn in 4Q23.

Balance Sheet Highlights

DU concentrated on extending indoor 5G coverage, expanding the fibre network, and continuing IT and network infrastructure development resulting in a Capex of AED 2.2 Bn with a capital intensity of 16.1% in 2023 compared to a capex of 2.2 Bn and capital intensity ratio of 17.4% in 2022. DU's operating free cash flow rose to AED 3.6 Bn in 2023 from AED 2.9 Bn in 2022. The company remained debt-free in 2023 and recorded a net cash balance of AED 1.9 Bn in 2023 compared to AED 1.6 Bn in 2022.

Target Price and Rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company's revenue rose 6.9% YOY to AED 13,636 Mn in 2023, owing to a strong expansion in its customer base across both Mobile and Fixed Services coupled with strong growth in equipment sales. It intends to improve digitization in the primary business segments by reinforcing a digital-first strategy and transforming retail operations aiming to deliver an innovative and appealing customer experience. DU witnessed continuous growth in postpaid subscribers, adding 63,000 customers in 4Q23 leading to a total subscriber base of 1.6 Mn in 2023. The increase is mainly attributed to data-focused plans and attractive offers. DU's prepaid customer base rose 7.8% YOY to 6.9 Mn in 2023, due to collaborations with the General Directorate of Residency and Foreigners Affairs (GDRFA) for tourists SIMs and partnership with the Ministry of Human Resources and Emiratization (MoHRE). In addition, the Company's Fixed Services segment recorded a healthy growth of 12.6% YOY to 604 thousand customers in 2023. DU incurred a capex of AED 2.2 Bn in 2023 to expand its core and non-core business to improve indoor 5G coverage and expand the fibre network. It aims to further develop its IT infrastructure by delivering best-in-class technology. DU foresees to build a new revenue stream by introducing innovative tailored products to meet customers' digital lifestyle needs, which is further expected to boost its revenue in the future. Additionally, the Company stood debt-free and maintained a strong balance sheet position with a net cash balance of AED 1,937 Mn in 2023. The Board of Directors proposed a cash dividend of 34 fils per share for 2023 resulting in an attractive dividend yield of 5.9%. Thus, considering all these factors, we maintain our BUY rating on the stock.

DU - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE	14.9	15.2	18.2	23.9	21.6	15.8	15.0
PB	3.1	3.0	3.1	3.1	3.0	2.8	2.8
EV/EBITDA	7.0	6.5	8.1	7.9	7.3	6.2	6.5
Dividend yield	6.0%	5.9%	4.8%	3.6%	4.1%	5.9%	6.0%

FABS Estimates & Co Data

DU – P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	3,315	3,291	3,558	3,383	5.2%	7.3%	8.1%	12,754	13,636	6.9%
Costs	-1,859	-1,701	-1,995	-1,781	12.1%	7.3%	17.3%	-7,194	-7,359	2.3%
Marketing expense	-95	-48	-85	-51	66.7%	-10.5%	77.2%	-246	-236	-4.1%
Expected Credit Loss	-58	-57	-47	-54	-11.9%	-17.9%	-17.1%	-174	-243	39.8%
EBITDA	1,303	1,485	1,430	1,498	-4.5%	9.8%	-3.7%	5,141	5,799	12.8%
D&A and Impairment	-565	-553	-537	-550	-2.4%	-5.0%	-2.8%	-2,112	-2,198	4.1%
Operating profit	738	932	893	947	-5.7%	21.1%	-4.2%	3,029	3,600	18.9%
Finance inc/exp	-7	-13	1	-22	NM	NM	NM	-59	-40	-32.6%
Pre-royalty profit	730	920	892	925	-3.6%	22.2%	-3.0%	2,963	3,559	20.1%
Federal Royalty	-444	-416	-496	-490	1.2%	11.7%	19.1%	-1,744	-1,891	8.4%
Net Profit	286	504	396	436	-9.0%	38.5%	-21.3%	1,220	1,668	36.8%

FABS estimate & Co Data

DU - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	43.9%	48.3%	43.9%	1	-440	43.6%	46.0%	244
EBITDA	39.3%	45.1%	40.2%	89	-493	40.3%	42.5%	222
Operating Profit	22.3%	28.3%	25.1%	285	-323	23.7%	26.4%	266
Net Profit	8.6%	15.3%	11.1%	251	-417	9.6%	12.2%	267

FABS estimate & Co Data

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	7.33	70.0%	5.13
Relative Valuation (RV)	7.57	30.0%	2.17
Weighted Average Valuation (AED)			7.40
Current market price (AED)			5.71
Upside/Downside (%)			+30%

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 8.7%. The cost of equity is calculated using 10-year government bond yield of 4.7%, beta of 1.0 and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,389
Terminal value (AED, Mn)	25,825
FV to Common shareholders (AED, Mn)	33,215
No. of share (Mn)	4,533
Current Market Price (AED)	5.71
Fair Value per share (AED)	7.33

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	1,755	1,843	1,967	2,453	2,671
D&A	2,100	2,148	2,307	2,345	2,477
Change in working capital	-410	168	-144	281	-181
(-) Capex	-2,101	-2,190	-2,252	-2,348	-2,254
Net change in debt	-175	-170	-166	-162	-161
Free Cash Flow to Equity (FCFE)	1,013	1,800	1,713	2,569	2,551
Discounting Factor	0.93	0.86	0.79	0.72	0.67
Discounted FCFE	942	1,540	1,348	1,860	1,699

Source: FAB Securities

2) Relative Valuation:

We have used international peers to value DU and it is valued using the EV/EBITDA multiple. It is valued at EV/ EBITDA of multiple of 5.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Telecom	55,224	7.3	6.9	15.4	14.2
Mobile telecommunication company	7,179	4.6	4.3	9.4	8.9
Verizon Communication	170,000	6.4	6.2	8.9	8.7
SAFARICOM PLC	3,616	4.1	3.9	8.7	7.4
Deutsche Telekom AG	119,000	5	4.7	12.6	11.4
Telstra Group limited	29,098	7.1	6.7	21.2	19.9
Average		5.8x	5.5x	12.7x	11.8x
Median		5.7x	5.5x	11.0x	10.2x
Max		6.9x	6.6x	14.7x	13.5x
Min		4.7x	4.4x	9.0x	8.8x

Source: FAB Securities

