

## TECOM Group PJSC

Growth across all business segments along with strategic expansion boosted topline

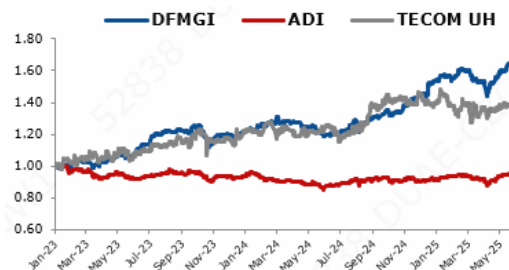
**Current Price**  
AED 3.35

**Target Price**  
AED 3.90

**Upside/Downside (%)**  
**+16%**

**Rating**  
**BUY**

- The Company's revenue grew at a healthy pace in 1H25, owing to a rise in rental rates, high occupancy levels, and income from strategic assets from the previous year.
- Funds from Operations (FFO) experienced a 17% YOY growth to AED 984 Mn in 1H25 due to improved revenue quality.
- Net profit grew 21.3% YOY, driven by effective cost management initiatives in 2Q25.
- Commercial and Industrial occupancy reached 95% in 1H25, up from 92% in 1H24, while the Land lease occupancy increased 3% YOY to 99%.
- The Company announced an interim dividend of AED 400 Mn for 1H25, equivalent to AED 0.08 per share.



### 2Q25 Net Profit higher than our estimate

TECOM Group PJSC (TECOM/the Company) net profit grew 21.3% YOY to AED 377 Mn in 2Q25, higher than our estimate of AED 340 Mn. Growth in sales and EBITDA drove the net profit along with lower operating expenses, partially offset by higher direct costs coupled with net finance costs and tax charges.

### P&L Highlights

TECOM's revenue soared 21.5% YOY to AED 709 Mn in 2Q25, attributed to strong growth across all business segments, supported by high occupancy and retention rates in its Commercial, Industrial, and Land Lease portfolio. Commercial Leasing segment revenue rose 18.8% YOY to AED 355 Mn in 2Q25, with an occupancy level of 95%. On the other hand, the Industrial Leasing segment revenue surged 24.2% YOY to AED 106 Mn in 2Q25, with an occupancy level of 95%. TECOM's revenue from land leasing grew 13.5% YOY to AED 156 Mn in 2Q25, with a healthy occupancy level of 99%. The services revenue rose sharply from AED 62 Mn in 2Q24 to AED 93 Mn in 2Q25. The Company's direct costs increased 23.2% YOY to AED 235 Mn in 2Q25. Thus, the gross profit grew 20.7% YOY to AED 474 Mn in 2Q25, while the gross profit margin shrank 46 bps YOY to 66.8% in 2Q25. The Company's G&A expenses significantly declined 22.2% YOY to AED 40 Mn in 2Q25, whereas the selling and marketing expenses grew 9.0% YOY to AED 12 Mn in 2Q25. Moreover, the other income increased 2.7% YOY to AED 24 Mn in 2Q25. Thus, TECOM's total operating expenditure declined by 28.2% YOY to AED 28 Mn in 2Q25, reflecting the impact of its effective cost management strategy. As a result, the operating profit rose 26.1% YOY to AED 446 Mn in 2Q25, while the operating margin expanded 229 bps YOY to 62.9% in 2Q25. The Commercial leasing segment EBITDA improved 22.5% YOY to AED 258 Mn in 2Q25, while the Industrial leasing segment EBITDA grew

### Stock Information

Market Cap (AED, Mn)	16,750.00
Shares Outstanding	500.00
52 Week High	3.48
52 Week Low	2.75
3M Avg. daily value (AED)	3,323,212

### 2Q25 Result Review (AED, Mn)

Total Assets	16,352
Total Liabilities	9,369
Total Equity	6,983
EBITDA	568
Net Profit	377

### Financial Ratios

Dividend Yield (12m)	4.78
Dividend Pay-out (%)	65.12
Price-Earnings Ratio(x)	12.39
Price-to-Book Ratio (x)	2.40
Book Value (AED)	1.40
Return-on Equity (%)	20.16

### Stock Performance

5 Days	-0.89%
1 Months	0.90%
3 Months	6.69%
6 Months	13.18%
1 Year	21.82%
Month to Date (MTD%)	-2.05%
Quarter to Date (QTD%)	4.04%
Year to Date (YTD%)	6.35%

30.4% YOY to AED 77 Mn in 2Q25. Furthermore, TECOM's Land leasing EBITDA rose 16.6% YOY to AED 164 Mn in 2Q25, while the Service segment EBITDA grew in line with revenue by 48.4% YOY to AED 69 Mn in 2Q25. The Company's EBITDA surged 24.3% YOY to AED 568 Mn in 2Q25, with an EBITDA margin which expanded 181 bps YOY to 80.0% in 2Q25. TECOM's finance income fell from AED 19 Mn in 2Q24 to AED 9 Mn in 2Q25, whereas the finance cost grew 18.3% YOY to AED 66 Mn in 2Q25. The Company recorded an income tax charge of AED 12 Mn in 2Q25.

### Balance Sheet Highlights

TECOM's debt remained steady at AED 5.2 Bn in 2Q25 compared with 1Q25, excluding AED 2.4 Bn in undrawn floating rate bank facility. Additionally, TECOM's investment property was flat at AED 13.9 Bn in 2Q25, compared to 1Q25. Funds from Operations (FFO) experienced a 17% YOY growth to AED 984 Mn in 1H25, while the cash and bank balances reached AED 1.0 Bn in 2Q25, up from AED 925 Mn in 1Q25. Growth capex stood at AED 458 Mn in 1H25 and maintenance capex stood at AED 181 Mn, during the similar period.

### Target Price and Rating

We revise our rating from ACCUMULATE rating to BUY on TECOM with a revised target price of AED 3.90. TECOM Group reported strong operational and financial performance in 2Q25, supported by healthy demand across its commercial and industrial real estate segments. Portfolio-wide occupancy rose to 95% (excluding land leasing), representing YOY growth of 3%, driven by limited new supply and a stable tenant base. The commercial segment reached 95% occupancy, while the industrial portfolio also achieved 97% occupancy in warehouses and 99% in labor accommodations. Tecom has 11.9 Mn square feet of GLA within the industrial leasing segment and 177 Mn square feet of GLA within the land lease segment alongside a range of support services. Revenue gains were further supported by ongoing economic momentum in Dubai and the UAE, alongside rising foreign direct investment. TECOM continued to attract prominent tenants, with PayPal inaugurating its first regional hub in Dubai Internet City, Pure Ice Cream launching an AED 80 Mn facility in Dubai Industrial City, and IMCD establishing new offices and labs in Dubai Science Park. These developments highlight the strategic value of TECOM's sector-focused business districts and their contribution to Dubai's broader economic goals. Land lease occupancy rose to 99% in 1H25, up 3% YOY, driven by sustained industrial demand and key government initiatives such as Operation 300bn, Make it in the Emirates, and the Dubai Economic Agenda D33. Funds from operations (FFO) increased 17% YOY to USD 984 Mn in 1H25, supported by a 99% collection rate and disciplined cost controls, including centralized procurement and energy-saving initiatives, which helped preserve margins. TECOM also demonstrated strong financial flexibility, with access to USD 3.2 Bn in liquidity, comprising USD 2.3 Bn in undrawn credit facilities and c. USD 0.8 Bn in unrestricted cash. Operating in free zones, the Company maintained a low tax rate of c. 3%. Management reaffirmed its 2025 guidance of 15-17% YOY revenue growth and 18-20% YOY EBITDA growth. The Group's retention rate improved to 95%, and it declared an interim dividend of AED 400 Mn for 1H25, with a planned 10% increase for 2H25. A potential dividend policy revision in 2026, supported by strong cash flows and a large land bank. Thus, considering the abovementioned factors, we assign BUY rating on the stock.

### TECOM - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	28.75	22.13	17.35	15.44	13.55	11.19
PB	1.14	0.85	0.77	0.97	1.09	1.07
EV/EBITDA	17.71	14.29	12.99	12.87	12.22	9.99
EPS	0.116	0.150	0.192	0.216	0.246	0.297
BVPS	2.911	3.918	4.309	3.426	3.053	3.102
DPS	0.130	0.370	0.345	0.160	0.160	0.168
Dividend yield	3.9%	11.0%	10.3%	4.8%	4.8%	5.0%

FABS Estimates & Co Data

#### TECOM – P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Sales	584	680	709	677	4.8%	21.5%	4.4%	2,402	2,801	16.6%
Direct cost	-191	-215	-235	-223	5.3%	23.2%	9.5%	-850	-881	3.8%
<b>Gross profit</b>	<b>393</b>	<b>465</b>	<b>474</b>	<b>453</b>	<b>4.5%</b>	<b>20.7%</b>	<b>2.0%</b>	<b>1,552</b>	<b>1,920</b>	<b>23.7%</b>
G&A expenses	-51	-45	-40	-50	-20.2%	-22.2%	-10.9%	-205	-180	-12.2%
Marketing & selling exp.	-11	-12	-12	-17	-31.1%	9.0%	-1.6%	-54	-51	-5.7%
Other income	23	16	24	18	30.1%	2.7%	51.8%	138	70	-49.1%
Other expenses	0	0	0	-3	NM	NM	NM	-6	-7	13.1%
<b>Operating profit</b>	<b>354</b>	<b>423</b>	<b>446</b>	<b>401</b>	<b>11.2%</b>	<b>26.1%</b>	<b>5.3%</b>	<b>1,424</b>	<b>1,752</b>	<b>23.0%</b>
Depr. & Amort	103	117	122	115	5.8%	18.2%	4.4%	429	453	5.6%
<b>EBITDA</b>	<b>457</b>	<b>540</b>	<b>568</b>	<b>516</b>	<b>10.0%</b>	<b>24.3%</b>	<b>5.1%</b>	<b>1,854</b>	<b>2,205</b>	<b>18.9%</b>
Finance income	19	11	9	16	-45.1%	-52.3%	-13.9%	66	50	-24.2%
Finance cost	-56	-63	-66	-64	3.4%	18.3%	6.1%	-224	-255	14.2%
<b>Profit before zakat</b>	<b>316</b>	<b>371</b>	<b>389</b>	<b>353</b>	<b>10.0%</b>	<b>22.8%</b>	<b>4.7%</b>	<b>1,267</b>	<b>1,546</b>	<b>22.1%</b>
Income Tax	-6	-10	-12	-13	-10.5%	NM	15.0%	-38	-59	53.7%
<b>Profit to shareholders</b>	<b>311</b>	<b>361</b>	<b>377</b>	<b>340</b>	<b>10.8%</b>	<b>21.3%</b>	<b>4.4%</b>	<b>1,228</b>	<b>1,487</b>	<b>21.1%</b>

FABS estimate & Co Data

#### TECOM - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross margin	67.3%	68.4%	66.8%	-46	-154	64.6%	68.5%	390
EBITDA margin	78.2%	79.5%	80.0%	181	57	77.2%	78.7%	153
Operating margin	60.6%	62.3%	62.9%	229	57	59.3%	62.5%	323
Net profit margin	53.2%	53.1%	53.1%	-12	-1	51.1%	53.1%	195

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount Method (DDM), and Price/Funds From Operations (FFO) method to value TECOM. We have assigned 70% weight to DCF, and 15% each to DDM and Price/FFO method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.96	70.0%	2.77
Dividend Discount Method (RV)	2.50	15.0%	0.38
Price/ FFO	5.03	15.0%	0.75
<b>Weighted Average Valuation (AED)</b>			<b>3.90</b>
Current market price (AED)			3.35
Upside/Downside (%)			+16%

### 1) DCF Method:

TECOM is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.8%. It is arrived after using the cost of equity of 9.8% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 36.2%. The cost of equity is calculated by using a 10-year government bond yield of 5.6%, beta of 1.00 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 6.2% after adjusting a tax rate arriving at after-tax cost of debt of 6.0%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	6,173
Terminal value (AED, Mn)	18,633
Net Debt (AED Mn) (As of June 2025)	4,986
<b>FV to Common shareholders (AED, Mn)</b>	<b>19,820</b>
No. of share (Mn)	5,000
Current Market Price (AED)	3.35
<b>Fair Value per share (AED)</b>	<b>3.96</b>

### DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	1,693	1,656	1,720	1,784	1,895
D&A	453	471	478	488	495
(-) Capex	-731	-377	-488	-514	-631
Change in working capital	-115	13	13	15	29
<b>Free Cash Flow to Firm (FCFF)</b>	<b>1,300</b>	<b>1,763</b>	<b>1,725</b>	<b>1,773</b>	<b>1,788</b>
Discounting Factor	0.97	0.89	0.82	0.75	0.69
<b>Discounted FCFF</b>	<b>629<sup>1</sup></b>	<b>1,567</b>	<b>1,409</b>	<b>1,332</b>	<b>1,235</b>

Source: FAB Securities, <sup>1</sup>Adjusted for the partial year

## 2) DDM Method:

TECOM dividend grew in line with its policy and pays regular dividend to its shareholders. Strong cash flow generation of the Company enables continuous dividend payments. Thus, we have valued TECOM using DDM method. The dividend is discounted at the cost of equity of 9.8%

Sum of PV (AED, Mn)	3,775
Terminal value (AED, Mn)	8,740
<b>FV to Common shareholders (AED, Mn)</b>	<b>12,515</b>
No. of share (Mn)	5,000
Current Market Price (AED)	3.35
<b>Fair Value per share (AED)</b>	<b>2.50</b>

### DDM Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend paid -					
H1	400	440	500	500	500
H2	440	440	500	500	500
<b>Total dividend</b>	<b>840</b>	<b>880</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
Discounting Factor	0.96	0.88	0.80	0.73	0.66
<b>Present Value of dividend</b>	<b>809</b>	<b>773</b>	<b>800</b>	<b>729</b>	<b>664</b>

Source: FAB Securities

## 3) Price/FFO:

We have used average of local as well as international peers to value TECOM and it is valued using the Price/FFO multiple. It is valued at Price/FFO multiple of 14.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x) (TTM)
<b>Regional Peers</b>				
Jadwa REIT Saudi Fund	513	10.3	11.1	18.1
Riyad REIT Fund	246	12.3	NM	NM
Al Rajhi REIT	607	14.4	13.7	15.5
Bonyan REIT	405	12.7	15.2	13.0
Alahli REIT Fund 1	255	NA	NA	18.3
Derayah REIT	160	14.2	28.5	20.8
Mulkia Gulf Real Estate REIT	130	19.2	36.5	25.0
Taleem REIT	132	12.7	15.2	13.3
Al Maather REIT Fund	154	14.3	13.9	12.8
<b>Average</b>		<b>13.8x</b>	<b>19.1x</b>	<b>17.1x</b>
<b>Median</b>		<b>13.4x</b>	<b>15.2x</b>	<b>16.8x</b>
<b>Max</b>		<b>14.3x</b>	<b>21.8x</b>	<b>18.9x</b>
<b>Min</b>		<b>12.6x</b>	<b>13.8x</b>	<b>13.2x</b>

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) <sup>1</sup> Current	Price/FFO (x)
<b><u>International Peers</u></b>				
Broadstone Net Lease Inc	3,162	15.9	29.2	10.7
Prologis Inc	99,899	23.4	40.6	17.9
Stag Industrial Inc	6,644	18.0	40.4	13.6
Lxp Industrial Trust	2,322	17.7	55.7	11.6
Alexandria Real Estate Equit	13,339	15.9	27.4	8.7
Boston Properties Inc	10,408	15.4	NA	9.4
Vornado Realty Trust	7,422	26.7	173.4	16.8
Douglas Emmett Inc	2,482	16.5	108.8	10.4
Allied Properties Real Estat	1,586	19.2	16.7	8.4
SI Green Realty Corp	4,000	39.5	NA	11.1
Easterly Government Properti	1,001	16.6	47.6	7.3
Brookfield India Real Estate	2,202	19.1	NA	NA
Covivio	7,242	20.8	82.4	12.2
Dexus/Au	4,989	35.8	NA	NA
Mapletree Logistics Trust	4,612	23.4	30.9	14.6
Yuxiu Real Estate Investmen	596	20.7	NA	NA
Americold Realty Trust INC	4,484	16.2	44.7	13.6
<b>Average</b>		<b>21.2x</b>	<b>58.1x</b>	<b>11.9x</b>
<b>Median</b>		<b>19.1x</b>	<b>42.6x</b>	<b>11.3x</b>
<b>Max</b>		<b>23.4x</b>	<b>62.4x</b>	<b>13.6x</b>
<b>Min</b>		<b>16.5x</b>	<b>30.5x</b>	<b>9.7x</b>

Source: FAB Securities, <sup>1</sup>Based on 9M24 Results

## 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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