

Tecom Group PJSC

Improved occupancy and impairment reversal boost profitability

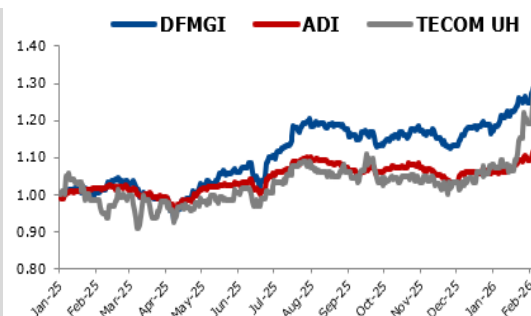
Current Price
AED 4.05

Target Price
AED 4.90

Upside/Downside (%)
+21%

Rating
BUY

- Funds from Operations (FFO) rose by 19% YOY to AED 2 Bn in 2025, supported by stronger performance from income-generating assets and improved collection efficiency.
- TECOM launched Phase 4 of its Innovation Hub project in Dubai Internet City in December 2025 to meet the rising demand for premium office space from global companies in high-growth sectors.
- Commercial and Industrial occupancy reached 97%, as of December 2025, up from 94% in December 2024. While the Land lease occupancy increased to 97% as of December 2025 from 95% in December 2024.
- TECOM Group proposed a dividend of AED 440 Mn for 2H25, and announced an updated dividend policy for 2026, targeting dividend of AED 880 Mn in two equal instalments.



Stock Information

Market Cap (AED, Mn)	20,250.00
Shares Outstanding	500.00
52 Week High	4.15
52 Week Low	2.82
3M Avg. daily value (AED)	2,006,920

4Q25 Result Review (AED, Mn)

Total Assets	17,163
Total Liabilities	9,281
Total Equity	7,883
EBITDA	559
Net Profit	975

Financial Ratios

Dividend Yield (12m)	3.95
Dividend Pay-out (%)	38.35
Price-Earnings Ratio(x)	9.87
Price-to-Book Ratio (x)	2.57
Book Value (AED)	1.58
Return-on Equity (%)	28.60

Stock Performance

5 Days	-0.74%
1 Months	19.47%
3 Months	22.73%
6 Months	20.90%
1 Year	36.82%
Month to Date (MTD%)	7.71%
Quarter to Date (QTD%)	18.77%
Year to Date (YTD%)	18.77%

4Q25 Adjusted Net Profit in line with our estimate

TECOM Group PJSC (TECOM/the Company) net profit expanded from AED 286 Mn in 4Q24 to AED 975 Mn in 4Q25. The substantial growth in net profit is primarily due to one-off impairment reversal recorded in 4Q25, along with rise in revenue supported by increase in occupancy rates, healthy rent escalation and new acquisitions & developments, along with decline in G&A expenses, marketing expenses, and finance cost, partially offset by rise in direct cost, D&A expenses, alongside lower finance income and higher income tax charges. However, the Company's adjusted net profit (after adjusting the one-off gains from impairment reversal net of tax of AED 608 Mn related to higher asset valuation) grew from AED 286 Mn in 4Q24 to AED 367 Mn in 4Q25, in line with our estimate of AED 366 Mn.

P&L Highlights

TECOM's revenue expanded 15.7% YOY to AED 745 Mn in 4Q25, driven by new leases from recent acquisitions and developments, robust rental escalations, high tenant retention and occupancy, warehouse expansions, full leasing of last year's acquisitions at higher rental rates, and increased visa-related transactions. Commercial Leasing segment revenue rose 18.3% YOY to AED 373 Mn in 4Q25, with an occupancy level of 95%. Similarly, Industrial Leasing segment revenue surged 18.3% YOY to AED 117 Mn in 4Q25, with an occupancy level of 98%. TECOM's revenue from land leasing grew 15.8% YOY to AED 159 Mn in 4Q25, with a healthy occupancy level of 97%. The service revenue rose from AED 92 Mn in 4Q24 to AED 95 Mn in 4Q25. The Company's direct costs increased 4.4% YOY to AED 252 Mn in 4Q25. Thus, the gross profit grew 22.5% YOY to AED 493 Mn in 4Q25, with the gross profit margin expanding 366 bps YOY to 66.2% in 4Q25. The Company's G&A expenses declined 4.6% YOY to AED 51 Mn in 4Q25, whereas the selling and marketing expenses

fell 9.2% YOY to AED 23 Mn in 4Q25. Moreover, the other income declined from AED 25 Mn in 4Q24 to AED 17 Mn in 4Q25. The Company recorded the one-off impairment reversal (net of tax) of AED 608 Mn in 4Q25. As a result, the operating profit rose substantially from AED 346 Mn in 4Q24 to AED 1,088 Mn in 4Q25, while the operating margin increased from 53.7% in 4Q24 to 146.1% in 4Q25. The Commercial leasing segment's EBITDA improved 18.8% YOY to AED 250 Mn in 4Q25. While the Industrial leasing segment's EBITDA grew 31.6% YOY to AED 82 Mn in 4Q25. The Company's land leasing segment's EBITDA expanded 30.2% YOY to AED 148 Mn in 4Q25. Whereas, Service segment's EBITDA rose 9.2% YOY to AED 79 Mn in 4Q25. Thus, TECOM's total EBITDA increased 21.9% YOY to AED 559 Mn in 4Q25. EBITDA margin expanded from 71.3% in 4Q24 to 75.0% in 4Q25. TECOM's finance income fell from AED 11 Mn in 4Q24 to AED 4 Mn in 4Q25, whereas the finance cost declined 4.7% YOY to AED 61 Mn in 4Q25. The Company recorded an income tax charge of AED 55 Mn in 4Q25, compared to AED 7 Mn in 4Q24.

Balance Sheet Highlights

TECOM's debt declined from AED 5.2 Bn in 3Q25 to AED 4.9 Bn in 4Q25. Additionally, TECOM's investment property increased from AED 14.2 Bn in 3Q25 to AED 15.2 Bn in 4Q25. Funds from Operations (FFO) recorded a 19% YOY growth to AED 2 Bn in 2025, driven by stronger contributions from income-generating assets and improved collection efficiency. The cash and bank balances decreased from AED 545 Mn in 3Q25 to AED 441 Mn in 4Q25. The Company's net cash inflows from operating activities increased from AED 496 Mn in 4Q24 to AED 514 Mn in 4Q25.

Target Price and Rating

We maintain our BUY rating on TECOM with a revised target price of AED 4.90. TECOM share price increased 18.6% since our last rating. The Company's reported a strong performance in 4Q25, supported by sustained growth across its portfolios, driven by consistent demand for its assets, higher occupancy rates, and continued focus on operational efficiency. The Company's net income increased substantially in 4Q25, driven by a one-off impairment reversal and a strong uplift in revenue coupled with lower operating expenses. TECOM's Commercial and Industrial occupancy rate increased from 94% in 4Q24 to 97% in 4Q25. Additionally, Industrial Land Lease portfolio occupancy rate also increased from 95% in 4Q24 to 97% in 4Q25. Thereby, reflecting sustained strong demand for the high-quality assets and robust customer retention across the portfolio. The Company's funds from operations (FFO) grew 19.0% YOY to AED 2 Bn in 2025, driven by improved collections and stronger performance from income-generating assets. TECOM's fair value of investment properties increased by 23% YOY to AED 34.5 Bn in 2025, supported by an 18% like-for-like (LFL) uplift. TECOM has further invested over AED 2.5 Bn in strategic development projects and acquisitions in 2025, indicating a continued focus on expanding and upgrading the portfolio to capture long-term demand, and enhance asset quality. Additionally, in December 2025, TECOM launched Phase 4 of its Innovation Hub project in Dubai Internet City catering to the increasing demand for premium office spaces from global companies operating in high-growth sectors, with a gross leasable area of 263,000 sq.ft. and a total project value of AED 615 Mn, this further reinforces the Company's ability to effectively leverage favourable market dynamics to drive growth across its diversified asset portfolio. Furthermore, sustained demand for premium commercial and industrial assets in Dubai, alongside a strong growth outlook for the commercial office sector in 2026 driven by rising rental rates, is expected to support TECOM's financial performance. The Company is further focusing on delivering outsized returns in line with its post-IPO objectives, driven by new leases, rental rate increases, high occupancy and retention, and selective acquisitions and developments. TECOM Group's Board of Directors proposed a cash dividend of AED 440 Mn for the 2H25, representing a 10% increase over previously approved payouts and setting a new benchmark for dividend distribution. Additionally, the Company, announced an updated dividend policy for 2026, under which it expects to distribute an aggregate cash dividend of AED 880 Mn, to be paid in two equal instalments of AED 440 Mn each in August 2026 and March 2027. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

TECOM - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	26.72	20.95	18.64	16.36	9.64	12.51
PB	2.71	2.55	3.18	3.00	2.55	2.33
EV/EBITDA	16.52	14.93	14.95	14.08	11.87	11.10
BVPS	1.485	1.579	1.266	1.342	1.577	1.722
EPS	0.150	0.192	0.216	0.246	0.417	0.321
DPS	0.370	0.345	0.160	0.160	0.168	0.176
Dividend yield	8.9%	8.3%	3.9%	3.9%	4.0%	4.2%

FABS Estimates & Co Data

TECOM – P&L

AED Mn	4Q24	3Q25	4Q25	4Q25F	Var.	YOY Ch	QOQ Ch	2024	2025	Change
Sales	643	724	745	734	1.4%	15.7%	2.8%	2,402	2,858	19.0%
Direct cost	-241	-261	-252	-252	-0.2%	4.4%	-3.7%	-850	-963	13.4%
Gross profit	402	463	493	482	2.3%	22.5%	6.5%	1,552	1,894	22.0%
G&A expenses	-53	-49	-51	-45	14.0%	-4.6%	4.8%	-205	-184	-10.1%
Marketing & selling exp.	-26	-9	-23	-21	10.0%	-9.2%	NM	-54	-56	3.5%
Other income	25	34	17	22	-23.0%	-31.1%	-49.9%	138	91	-33.9%
Other expenses	-3	0	0	-7	NA	NA	NA	-6	0	NA
Impairment reversals on investment property - net	0	0	652	0	NA	NA	NA	NA	652	NA
Operating profit	346	440	1,088	431	NM	NM	NM	1,424	2,397	68.3%
Depr. & Amort	113	123	123	123	0.3%	9.0%	-0.1%	429	485	12.9%
EBITDA	458	563	559	554	0.9%	21.9%	-0.7%	1,854	2,230	20.3%
Finance income	11	8	4	10	-64.1%	-67.4%	-53.7%	66	31	-52.5%
Finance cost	-64	-63	-61	-63	-3.4%	-4.7%	-4.2%	-224	-253	13.3%
Profit before zakat	293	384	1,031	379	NM	NM	NM	1,267	2,175	71.7%
Income Tax	-7	-11	-55	-12	NM	NA	NA	-38	-89	NM
Profit to shareholders	286	373	975	366	NM	NM	NM	1,228	2,086	69.8%

FABS estimate & Co Data

TECOM - Margins

	4Q24	3Q25	4Q25	YOY Ch	QOQ Ch	2024	2025	Change
Gross margin	62.5%	63.9%	66.2%	366	230	64.6%	66.3%	166
EBITDA margin	71.3%	77.7%	75.0%	379	-268	77.2%	78.0%	84
Operating margin	53.7%	60.7%	146.1%	NM	NM	59.3%	83.9%	NM
Net profit margin	44.4%	51.5%	131.0%	NM	NM	51.1%	73.0%	NM

FABS estimate & Co Data

Key Developments:

- **18 December 2025** - TECOM Group has launched Phase 4 of its Innovation Hub in Dubai Internet City, a AED 615 million development spanning 263,000 sq.ft., responding to rising demand for Grade-A office spaces from multinational companies in future-focused sectors. Aligned with the UAE's Digital Economy Strategy and Dubai Economic Agenda 'D33', the launch raises TECOM Group's total investments in the Innovation Hub to AED 2 Bn, strengthens Dubai Internet City's position as a leading technology hub, and supports the Group's strategic expansion to deliver sustainable shareholder value.
- **28 August 2025** - In August 2025, TECOM Group approved the acquisition of 138 land plots in Dubai Industrial City for AED 1.6 Bn, raising its total investments to AED 4.3 Bn since 2024. This expansion increases TECOM's land portfolio to over 209 Mn sqft, supporting the UAE's industrial sector in line with major economic initiatives. With Dubai Industrial City operating at 99% occupancy, the demand from manufacturing and logistics companies remains strong. The acquisition, financed through existing resources, is expected to generate revenue within 12 to 24 months.
- **21 October 2024** - In October 2024, TECOM Group, via TECOM Investments FZ LLC, acquired Office Park in Dubai Internet City for AED 720 Mn from Emirates REIT, solidifying its leadership in Dubai's commercial real estate market. This Grade-A property spans 370,761 sqft, boasts an 88% occupancy rate, and is home to global tenants such as Coca-Cola, Uber, and Red Hat. With this deal, TECOM's total investments in 2024 surpass AED 2.7 Bn, supporting its strategy to expand high-quality assets.

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	5.13	70.0%	3.59
Dividend Discount Method (RV)	2.75	15.0%	0.41
Price/ FFO	5.99	15.0%	0.90
Weighted Average Valuation (AED)			4.90
Current market price (AED)			4.05
Upside/Downside (%)			+21%

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 5.3% with a debt-to-equity ratio of 28.6%. The cost of equity is calculated by using a 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 4.6%. 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 5.5% after adjusting a tax rate arriving at after-tax cost of debt of 5.3%. Also, it assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,017
Terminal value (AED, Mn)	23,944
Net debt as of Dec. 2025 (AED Mn)	5,309
FV to Common shareholders (AED, Mn)	25,652
No. of share (Mn)	5,000
Current Market Price (AED)	4.05
Fair Value per share (AED)	5.13

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	1,861	2,005	2,128	2,268	2,325
D&A	457	462	505	520	534
(-) Capex	-1,145	-1,481	-423	-424	-445
Change in working capital	-14	23	35	24	6
Free Cash Flow to Firm (FCFF)	1,159	1,009	2,246	2,388	2,420
Discounting Factor	0.93	0.85	0.78	0.72	0.66
Discounted FCFF	1,074	860	1,760	1,720	1,603

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)	3,946
Terminal value (AED, Mn)	9,788
FV to Common shareholders (AED, Mn)	13,735
No. of share (Mn)	5,000
Current Market Price (AED)	4.05
Fair Value per share (AED)	2.75

DDM Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend paid -					
H1	440	480	525	565	585
H2	440	480	525	565	590
Total dividend	880	960	1,050	1,130	1,175
Discounting Factor	0.92	0.84	0.76	0.70	0.63
Present Value of dividend	809	805	802	786	745

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 15.3x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x) ¹
Regional Peers				
Jadwa REIT Saudi Fund	565	15.8	38.0	18.1
Riyad REIT Fund	233	22.7	NA	26.8
Al Rajhi REIT	599	14.3	12.0	15.5
Bonyan REIT	411	13.5	17.9	13.0
Alahli REIT Fund 1	237	15.9	41.4	18.3
Derayah REIT	148	16.8	56.8	20.8
Mulkia Gulf Real Estate REIT	127	19.8	NA	25.0
Taleem REIT	138	14.3	15.1	13.3
Al Maather REIT Fund	151	14.3	14.8	12.8
Average		16.4x	28.0x	18.2x
Median		15.8x	17.9x	18.1x
Max		16.8x	39.7x	20.8x
Min		14.3x	15.0x	13.3x

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x)
<u>International Peers</u>				
Broadstone Net Lease Inc	3,644	15.9	45.5	12.5
Prologis Inc	130,037	25.9	53.5	22.3
Stag Industrial Inc	7,492	18.0	42.5	15.1
Lxp Industrial Trust	3,050	17.7	83.4	15.7
Alexandria Real Estate Equit	9,687	11.4	54.2	8.7
Vornado Realty Trust	6,006	26.7	7.7	13.4
Douglas Emmett Inc	1,773	16.5	NA	7.5
Allied Properties Real Estat	1,318	19.2	4.8	7.6
SI Green Realty Corp	3,118	20.6	NA	9.6
Easterly Government Properti	1,114	16.6	66.3	7.8
Brookfield India Real Estate	3,004	16.0	44.5	NA
Covivio	7,204	20.8	14.5	11.7
Dexus/Au	4,882	28.7	44.2	NA
Mapletree Logistics Trust	5,341	23.4	39.9	16.6
Yuxiu Real Estate Investmen	553	20.7	NA	NA
Americold Realty Trust INC	3,606	16.2	52.2	13.9
Average		19.7x	42.6x	12.5x
Median		18.6x	44.5x	12.5x
Max		21.5x	53.5x	15.1x
Min		16.4x	39.9x	8.7x

Source: FAB Securities, ¹Based on 2024 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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