

Al Yah Satellite Communications Co. PJSC

One-off gains and lower direct costs drove the bottom line

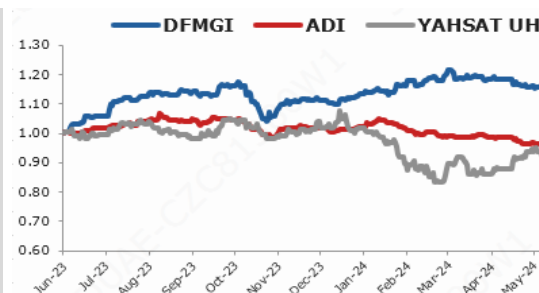
Current Price
AED 2.28

Target Price
AED 3.20

Upside/Downside (%)
+40%

Rating
BUY

- Al Yahsat contracted future revenue stands at USD 6.7 Bn in 1Q24, which is equivalent to 15x of the Company's last twelve-month revenue.
- Al Yahsat is expected to launch its new satellites, Al Yah 4 (AY4) and Al Yah 5 (AY5), in 2027 & 2028 to replace the current CSA capacity provided by AY1 and AY2. Al Yahsat also plans to launch Thuraya 4 (T4) in 2H24 which will start rendering services in 2025.
- Free cash flow grew from USD 33 Mn in 1Q23 to USD 69 Mn in 1Q24 with a cash conversion ratio of 95% in 1Q24.
- Al Yahsat and Bayanat merger 'Space42' is anticipated to be completed in 2H24 or early by July 2024.



Stock Information

Market Cap (AED, mm)	5,562.68
Paid Up Capital (mm)	2,439.77
52 Week High	2.85
52 Week Low	2.09
3M Avg. daily value (AED)	5,685,968

1Q24 Result Review (USD, mm)

Total Assets	2,044
Total Liabilities	1,088
Total Equity	955
EBITDA	96
Net Profit	53

Financial Ratios

Dividend Yield (12m)	7.22
Dividend Pay-out (%)	99.08
Price-Earnings Ratio(x)	11.12
Price-to-Book Ratio (x)	1.69
Book Value (AED)	1.35
Return-on Equity (%)	15.42

Stock Performance

5 Days	0.00%
1 Months	-2.56%
3 Months	7.04%
6 Months	-11.63%
1 Year	-10.24%
Month to Date (MTD%)	-5.00%
Quarter to Date (QTD%)	3.17%
Year to Date (YTD%)	-12.64%

1Q24 Net Profit higher than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported a robust growth of 95.4% YOY in net profit to USD 52.9 Mn in 1Q24, higher than our estimate of USD 27.5 Mn. The rise in net profit is primarily attributed to one-off liquidated damages related to the procurement contract of the T4 satellite and lower direct costs partially offset by higher NCI and tax expenses. Normalized net income declined 8% YOY to USD 27 Mn in 1Q24 (in line with our estimate of USD 27.5 Mn) after adjusting for normalized adjusted EBITDA and the impact of tax expense of USD 3 Mn.

P&L Highlights

YAHSAT revenue grew marginally by 0.7% YOY to USD 101.0 Mn in 1Q24. The revenue growth is primarily driven by the rise in the Managed Solutions and Infrastructure segment partially offset by a decline in revenue from the Data Solutions and Mobility Solutions segment. The infrastructure segment, which accounts for 60.0% of total revenue, increased marginally by 1.1% YOY to USD 60.6 Mn in 1Q24 driven by an increase in the government's Capacity Services Agreement (CSA) revenue as per the contractual indexation clause. The infrastructure segment is strongly positioned with contracted future revenues of USD 6.5 Bn as of 1Q24. Managed Solutions segment accounts for 22.9% of the total revenue and recorded solid growth of 18.5% YOY to USD 23.2 Mn in 1Q24 driven by new projects like satcom product certification and solutions installation on naval vessels and aircraft coupled with a Managed Services Mandate (MSM) contact from the government awarded in 1Q22. Data Solution business revenue accounted for 4.9% of total revenue in 1Q24 while the segment recorded a decline of 19.4% YOY to USD 4.9 Mn in 1Q24 owing to a reduced subscriber base across both enterprise and consumer subsegments.

Mobility Solutions business revenue recorded a decline of 16.4% YOY to USD 12.4 Mn in 1Q24 due to fewer equipment sales coupled with lower service revenue. Service sector revenue declined primarily due to lower lease, intercarrier and maritime revenues, partially offset by higher voice call usage. Cost of revenue declined 11.8% YOY to USD 6.1 Mn in 1Q24. As a result, gross profit rose marginally 1.6% YOY to USD 94.9 Mn in 1Q24. Gross profit margin increased 85 bps YOY to 94.0% in 1Q24. Administrative expenses declined 11.3% YOY to USD 29.8 Mn in 1Q24. Other income substantially increased from USD 0.8 Mn in 1Q23 to USD 30.8 Mn in 1Q24 owing to one-off liquidated damages related to the procurement contract of the T4 satellite. EBITDA grew strongly 58.2% YOY to USD 96 Mn in 1Q24. EBITDA margin grew from 60.4% in 1Q23 to 94.9% in 1Q24, mainly due to a decline in cost of revenue and growth in other income. Normalized adjusted EBITDA (adjusted for material and one-off items) increased 7% YOY to USD 67 Mn in 1Q24. Whereas Normalized adjusted EBITDA margins grew to 67% compared to 63% in 1Q23 due to a reduction in cost base. Normalized Adjusted EBITDA includes adjustments for one-off advisory costs of USD 1 Mn associated with the proposed merger between Yahsat and Bayanat and an additional USD 30 Mn other income from liquidated damages about the T4 procurement contract. Infrastructure segment adjusted EBITDA grew strongly from USD 45 Mn in 1Q23 to USD 77 Mn in 1Q24. The growth in EBITDA was primarily driven by lower staff cost and substantial growth of USD 30 Mn in other income attributed to one-off gains from the T4 satellite contract. Data solutions adjusted EBITDA remained flat at USD 1 Mn in 1Q24 compared to 1Q23. Managed solutions adjusted EBITDA grew 22% YOY to USD 14 Mn in 1Q24, whereas Mobility Solutions adjusted EBITDA grew 5% YOY to USD 4 Mn. Thus, operating profit more than doubled from USD 24.9 Mn in 1Q23 to USD 54.9 Mn in 1Q24. Net finance cost increased 24.8% YOY to USD 4.0 Mn in 1Q24 mainly due to higher finance income. Loss from share of equity investments grew 26.9% YOY to USD 2.9 Mn in 1Q24. Income tax expense rose from USD 0.1 Mn in 1Q23 to USD 5.4 Mn in 1Q24 due to the introduction of corporate income tax in UAE. Loss attributable to non-controlling interest holders grew from USD 1.2 Mn in 1Q23 to USD 2.3 Mn in 1Q24.

Balance Sheet Highlights

Al Yah Satellite Communications net debt stood at negative USD 162 Mn in 1Q24 compared to USD 109 Mn in 4Q23. Cash and short-term deposits increased to USD 615 Mn in 1Q24 from USD 562 Mn in 4Q23, mainly due to an increase in the collection of receivables partially offset by an increase in capex related to the T4-NGS and A4 & A5 programme. The net cash flow from operations more than doubled from USD 33.4 Mn in 1Q23 to USD 71.8 Mn in 1Q24. Capex declined from USD 31 Mn in 1Q23 to USD 19 Mn in 1Q24. The decline in capex was due to higher expenditure in the 1Q23 related to T4 construction as well as higher non-satellite Capex.

Target Price and Rating

We maintain our 'BUY' rating on Al Yahsat with a revised target price of AED 3.20. Al Yahsat witnessed a flat growth in revenue during 1Q24 driven by its stable revenue-generating contracts with the UAE Government. The Company further expects its revenue to range USD 415-435 Mn in 2024 lower than its previous guidance mainly due to the impact of an anomaly in the T3 satellite affecting the operations of the Mobility segment. YAHSAT's future revenue backlog stands at USD 6.7 Bn equivalent to 15x of the Company's last twelve-month revenue. The Company is expected to launch its new satellites, Al Yah 4 (AY4) and Al Yah 5 (AY5) in 2027 and 2028 to replace the current CSA capacity provided by AY1 and AY2. YAHSAT is also scheduled to launch Thuraya 4 (T4) in 2H24 which will start rendering services in 2H25. The new satellites will be equipped with enhanced capabilities that will enable it to expand its range of services and upgrade its offerings. The Company also aims to advance along the value chain and provide differentiated satellite solutions and services to strategic industries such as enterprise/VNOs, oil and gas, maritime, and telecom and strengthen its foothold in Direct-to-Device (D2D), and IoT technologies with the launch of its new satellites. Furthermore, the Al Yahsat and Bayanat merger 'Space42' is anticipated to be completed by 2H24. Upon the completion, 'Space42' is aimed to provide vertically integrated mobility and AI-powered geospatial solutions, business intelligence, and satellite communications. YASHAT also maintained a strong balance sheet with a robust cash position, long-term future cash flows, and negative net debt. The Company incurred a capex of USD 19 Mn in 1Q24 with the majority spent on the new AY4 and AY5 procurement programme while the remaining related to the T4 satellite construction programme. YASHAT further expects the capex to range from USD 470-500 Mn in 2024. Free cash

flow grew from USD 33 Mn in 1Q23 to USD 69 Mn in 1Q24 with a cash conversion ratio of 95% in 1Q24. Furthermore, the Company expects its free cash flow to be between USD 120-140 Mn in 2024 which is expected to meet the Company's dividend policy. The stock also trades at an attractive dividend yield of 7.3% in 2024 which is considered to be one of the highest amongst other UAE companies. Thus, based on our analysis we maintain our BUY rating on the stock.

Al Yhsat - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	50.5	21.9	21.6	23.0	13.7	12.7
PB	1.7	1.7	1.8	1.8	1.8	1.8
EV/EBITDA	6.9	6.6	7.1	6.1	5.5	6.0
Dividend yield	7.0%	7.0%	7.0%	7.1%	7.2%	7.3%

FABS Estimates & Co Data

Al Yhsat - P&L

USD '000	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Total Revenue	100,355	134,185	101,017	112,237	-10.0%	0.7%	-24.7%	456,738	434,821	-4.8%
Cost of revenue	-6,911	-21,682	-6,096	-11,224	-45.7%	-11.8%	-71.9%	-56,633	-54,353	-4.0%
Gross Profit	93,444	112,503	94,921	101,014	-6.0%	1.6%	-15.6%	400,105	380,468	-4.9%
Administrative Expenses	-33,609	-38,899	-29,817	-35,355	-15.7%	-11.3%	-23.3%	-138,450	-140,230	1.3%
Other Income	780	1,311	30,778	1,122	NM	NM	NM	4,450	33,916	NM
EBITDA	60,615	74,915	95,882	66,781	43.6%	58.2%	28.0%	266,105	274,155	3.0%
Depreciation	-35,668	-38,434	-38,073	-40,406	-5.8%	6.7%	-0.9%	-154,512	-161,109	4.3%
Operating Profit	24,947	34,370	54,899	26,375	108.1%	120.1%	59.7%	98,015	113,046	15.3%
Net Finance Cost	3,220	5,373	4,017	3,407	17.9%	24.8%	-25.2%	15,278	13,617	-10.9%
Share of results	-2,278	-1,726	-2,890	-1,795	61.0%	26.9%	67.4%	-9,914	-6,940	-30.0%
Profit before tax	25,889	38,017	56,026	27,987	100.2%	116.4%	47.4%	103,379	119,722	15.8%
Income Tax	-52	-989	-5,399	-2,519	114.3%	NM	NM	-1,213	-10,775	NM
Profit before NCI	25,837	37,028	50,627	25,469	98.8%	95.9%	36.7%	102,166	108,947	6.6%
NCI	-1,235	-1,587	-2,282	-2,037	12.0%	84.8%	43.8%	-8,202	-9,587	16.9%
Net Profit	27,072	38,615	52,909	27,506	92.4%	95.4%	37.0%	110,368	118,535	7.4%

FABS estimate & Co Data

Al Yhsat - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	93.1%	83.8%	94.0%	85	1012	87.6%	87.5%	-10
EBITDA	60.4%	55.8%	94.9%	3,452	3909	58.3%	63.1%	479
Operating Profit	24.9%	25.6%	54.3%	2,949	2873	21.5%	26.0%	454
Net Profit	27.0%	28.8%	52.4%	2,540	2360	24.2%	27.3%	310

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Al Yahsat. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.21	70.0%	2.25
Relative Valuation (RV)	3.17	30.0%	0.95
Weighted Average Valuation (AED)			3.20
Current market price (AED)			2.28
Upside/Downside (%)			+40%

1) DCF Method:

Al Yahsat is valued using free cash flow to 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 9.0% and after-tax cost of debt of 5.8%. The cost of equity is calculated by using a 10-year government bond yield of 5.3%, beta of 1.00, and equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.8% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, 000)	312,823
Terminal value (USD, 000)	1,706,934
FV to Common shareholders (USD, 000)	2,132,743
No. of shares ('000)	2,439,770
Current Market Price (AED)	2.28
Fair Value per share (AED)	3.21

DCF Method

(All Figures in USD, 000)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	102,271	112,514	130,050	148,569	162,609
Depreciation & amortization	161,109	158,822	159,460	164,136	168,877
Capex	-429,225	-143,083	-127,262	-133,612	-140,155
Change in working capital	-67,614	-6,680	-12,539	-28,528	-23,615
Free Cash Flow to Firm (FCFF)	-145,264	121,573	149,709	150,565	167,717
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFF	-137,845	106,044	120,035	110,968	113,622

Source: FAB Securities

2) Relative Valuation:

We have used local and global peers to value Al Yahsat and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 7.3x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
SES S.A.	2,340	3.4	3.0	14.2	16.1
Comcast Corporation	150,000	6.4	6.3	10.1	9.5
Thaicom	390	13.7	17.0	43.1	72.6
Eutelsat Communications	2,100	6.8	6.2	-7.6	-39.8
Altice USA	934	7.3	7.5	8.49	17.6
Echostar Corporation	4,740	14.6	13.6	-14.9	-6.9
GOGO INC	1,370	14.4	10.2	26.4	17.2
Average		9.5x	9.1x	11.4x	12.3x
Median		7.3x	7.5x	10.1x	16.1x
Max		14.1x	11.9x	20.3x	17.4x
Min		6.6x	6.3x	0.4x	1.3x

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%

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