

Al Yah Satellite Communications Co. PJSC

Healthy revenue growth driven by long-term contracts supported profitability

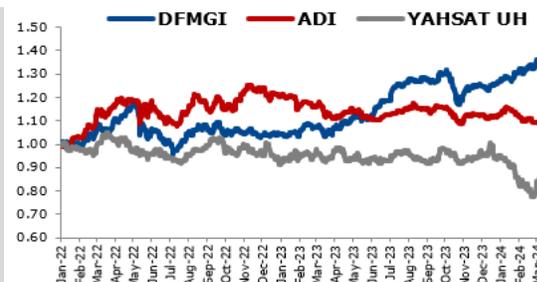
Current Price
AED 2.34

Target Price
AED 3.30

Upside/Downside (%)
+41%

Rating
BUY

- Al Yahsat contracted future revenue stands at USD 6.8 Bn in 2023 which is equivalent to 15 times the Company's full-year revenue.
- Al Yahsat is expected to launch its new satellites, Al Yah 4 (AY4) and Al Yah 5 (AY5), which will replace the current CSA capacity provided by AY1 and AY2. The Company expects to launch AY4 & AY5 in 2027 and 2028. Al Yahsat also plans to launch Thuraya 4 (T4) in 2H24 which will start rendering services in 2H24.
- Al Yahsat is expected to pay a total dividend of 16.46 fils per share or a total of USD 109.3 Mn for the year ending 2023, leading to a dividend yield of 7.0%.



Stock Information

Market Cap (AED, mm)	5,709.06
Paid Up Capital (mm)	2,439.77
52 Week High	2.85
52 Week Low	2.09
3M Avg. daily value (AED)	6,929,488

4Q23 Net Profit higher than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported a 33.9% YOY growth in net profit to USD 38.6 Mn in 4Q23, higher than our estimate of USD 32.3 Mn. The growth in net profit is primarily driven by an increase in revenue partially offset by a higher direct cost, rise in operating expenses, finance cost, and depreciation expense.

P&L Highlights

YAHSAT revenue grew 13.8% YOY to USD 134.2 Mn in 4Q23. The revenue growth is primarily driven by a robust growth in the Managed Solutions and Mobility Solutions segment coupled with an increase in revenue from the Data Solutions and Infrastructure Services segment. The infrastructure segment which accounts for 44.8% of total revenue increased marginally 1.1% YOY to USD 60.2 Mn in 4Q23 driven by an increase in the Capacity Services Agreement (CSA) revenue. The infrastructure segment is strongly positioned with contracted future revenues of USD 6.6 Bn in 2023. Managed Solutions segment accounts for 22.9% of the total revenue and recorded solid growth of 27.8% YOY to USD 30.8 Mn in 4Q23 driven by an improved business mix. Data Solution business revenue accounted for 5.8% of total revenue in 4Q23 while the segment recorded a strong growth of 27.5% YOY to USD 7.8 Mn in 4Q23 due to solid enterprise customer revenues and an increase and rise in equipment sales. Mobility Solutions' business revenue recorded a robust growth of 25.4% YOY to USD 35.5 Mn in 4Q23, owing to growth in service revenue from voice, Elections, and Marime sub-segments. Cost of revenue grew 20.7% YOY to USD 21.7 Mn in 4Q23. As a result, gross profit declined 12.5% YOY to USD 112.5 Mn in 4Q23. Gross profit margin declined 93 bps YOY to 83.8% in 4Q23. Administrative expenses declined 15.9% YOY to USD 38.9 Mn in 4Q23. Other income fell 42.7% YOY to

4Q23 Result Review (USD, mm)

Total Assets	1,988
Total Liabilities	1,084
Total Equity	905
EBITDA	75
Net Profit	39

Financial Ratios

Dividend Yield (12m)	6.96
Dividend Pay-out (%)	99.08
Price-Earnings Ratio(x)	14.08
Price-to-Book Ratio (x)	1.85
Book Value (AED)	1.27
Return-on Equity (%)	13.04

Stock Performance

5 Days	4.00%
1 Months	4.00%
3 Months	-11.36%
6 Months	-8.59%
1 Year	-10.69%
Month to Date (MTD%)	4.00%
Quarter to Date (QTD%)	-10.34%
Year to Date (YTD%)	-10.34%

USD 1.3 Mn in 4Q23. EBITDA rose 9.0% YOY to USD 74.9 Mn in 4Q23. However, the EBITDA margin declined 243 bps YOY to 55.8% in 4Q23 mainly due to a rise in cost of revenue. Infrastructure segment adjusted EBITDA grew 4% YOY to USD 43 Mn in 4Q23. Data solutions adjusted EBITDA declined from USD 2 Mn in 4Q22 to USD 1 Mn in 4Q23. Managed solutions adjusted EBITDA declined 63% YOY to USD 21 Mn in 4Q23 whereas the Mobility Solutions adjusted EBITDA declined 19% YOY to USD 10 Mn. Thus, operating profit grew 3.9% YOY to USD 34.4 Mn in 4Q23. Net finance cost increased significantly from USD 0.4 Mn in 4Q22 to USD 5.4 Mn in 4Q23 mainly due to higher finance income. Loss from share of equity investments declined from USD 3.3 Mn in 4Q22 to USD 1.7 Mn in 4Q23. Income tax expense rose from USD 0.5 Mn in 4Q22 to USD 1.0 Mn in 4Q23. Loss attributable to non-controlling interest holders grew from USD 0.3 Mn in 4Q22 to USD 1.6 Mn in 4Q23 supporting profitability.

Balance Sheet Highlights

Al Yah Satellite Communications net debt stood at negative USD 109 Mn in 2023 compared to negative USD 2 Mn in 2022, with a negative net debt-to-EBITDA of 0.4x in 2023. Cash and cash equivalents increased to USD 562 Mn in 2023 from USD 545 Mn in 2022 mainly due to an increase in the collection of government receivables and advance payment related to the T4-NGS programme and higher net interest income. The net cash flow from operations declined from USD 386.8 Mn in 2022 to USD 331.7 Mn in 2023. CAPEX grew from USD 131 Mn in 2022 to USD 136 Mn in 2023. The increase in capex was due to USD 43 Mn allocated to new CAPEX for the AY4 and AY5 procurement program with satellite manufacturer Airbus, partially offset by a higher return on investment of USD 8 Mn received by the Company from its associate, Al Maisan and construction milestones of the T4 programme.

Target Price and Rating

We maintain our 'BUY' rating on Al Yahsat with a revised target price of AED 3.30. Al Yahsat witnessed a steady growth in revenue during 2023 driven by its stable revenue-generating contracts with the UAE Government. The Company expects its revenue to stay stable in 2024 between the range of USD 440-460 Mn. The Company's future revenue backlog stands at USD 6.8 Bn equivalent to 15 times the Company's full-year revenue. Al Yahsat is expected to launch its new satellites, Al Yah 4 (AY4) and Al Yah 5 (AY5) which will replace the current CSA capacity provided by AY1 and AY2. The Company expects to launch AY4 & AY5 in 2027 and 2028. Al Yahsat also plans to launch Thuraya 4 (T4) in 2H24 which will start rendering services in 2H24. The new satellites will be equipped with upgraded capabilities which will allow it to increase its offerings coupled with upgraded services. Al Yahsat also aims to strengthen its foothold in Direct-to-Device (D2D) and IoT technologies with the launch of its new satellites. In addition, the proposed merger of Al Yahsat and Bayanat will create a space technology champion that will provide vertically integrated mobility and AI-powered geospatial solutions, business intelligence, and satellite communications. The merger is aimed to operate synthetic aperture radar (SAR) and Earth observation (EO) satellites which will capture the Earth's surface irrespective of weather conditions. Furthermore, the Company also maintained a strong balance sheet with a robust cash position, long-term future cash flows and negative net debt. Al Yahsat maintained a solid liquidity of USD 908 Mn in 2023 compared to USD 622 Mn in 2022. The Company repaid USD 120 Mn in principal loan and arranged a short-term bridge facility of USD 300 Mn for capex relating to AY4 and AY5. Al Yahsat incurred a capex of USD 136 Mn in 2024 spent towards the T4 satellite construction programme and product development along with the AY4 & AY5 procurement programme post-signing of authorization-to-proceed (ATP). Al Yahsat is further expected to make investments and capex of USD 470-500 Mn in 2024. Al Yahsat is expected to pay a total dividend of 16.46 fils per share or a total of USD 109.3 Mn for the year ending 2023 leading to a dividend yield of 7.0% in 2023 that is considered to be one of the highest amongst other UAE companies. Thus, based on our analysis, we assign a 'BUY' rating to the stock.

Al Yahsat - Relative valuation

(at CMP)	2020	2021	2022	2023	2024F
PE	NA	22.30	23.73	14.09	12.41
PB	NA	1.85	1.83	1.85	1.81
EV/EBITDA	NA	7.34	6.25	5.63	6.36
Dividend yield	NA	6.7%	6.9%	7.0%	7.1%

FABS Estimates & Co Data
Al Yahsat – P&L

USD `000	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Total Revenue	117,956	117,481	134,185	124,349	7.9%	13.8%	14.2%	432,540	456,738	5.6%
Cost of revenue	-17,959	-17,827	-21,682	-23,146	-6.3%	20.7%	21.6%	-48,296	-56,633	17.3%
Gross Profit	99,997	99,654	112,503	101,203	11.2%	12.5%	12.9%	384,244	400,105	4.1%
Administrative Expenses	-33,561	-33,291	-38,899	-33,000	17.9%	15.9%	16.8%	-130,448	-138,450	6.1%
Other Income	2,286	1,695	1,311	1,330	-1.4%	-42.7%	-22.7%	3,884	4,450	14.6%
EBITDA	68,722	68,058	74,915	69,533	7.7%	9.0%	10.1%	257,680	266,105	3.3%
Depreciation	-36,428	-40,050	-38,434	-40,218	-4.4%	5.5%	-4.0%	-144,471	-154,512	7.0%
Operating Profit	33,078	22,907	34,370	29,315	17.2%	3.9%	50.0%	114,793	98,015	-14.6%
Net Finance Cost	401	4,759	5,373	4,196	28.1%	NM	12.9%	-1,098	15,278	NM
Share of results	-3,252	-3,343	-1,726	-3,539	-51.2%	-46.9%	-48.4%	-53,303	-9,914	-81.4%
Income Tax	-54	-72	-989	-62	NM	NM	NM	-175	-1,213	NM
Profit before NCI	30,173	24,251	37,028	29,910	23.8%	22.7%	52.7%	60,217	102,166	69.7%
NCI	-247	-2,196	-1,587	-2,415	-34.3%	NM	-27.7%	-5,347	-8,202	53.4%
Net Profit	30,420	26,447	38,615	32,325	19.5%	26.9%	46.0%	65,564	110,368	68.3%

FABS estimate & Co Data
Al Yahsat – Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	84.8%	84.8%	83.8%	-93	-98	88.8%	87.6%	-123
EBITDA	58.3%	57.9%	55.8%	-243	-210	59.6%	58.3%	-131
Operating Profit	28.0%	19.5%	25.6%	-243	612	26.5%	21.5%	-508
Net Profit	25.8%	22.5%	28.8%	299	627	15.2%	24.2%	901

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	3.40	70.0%	2.38
Relative Valuation (RV)	3.05	30.0%	0.91
Weighted Average Valuation (AED)			3.30
Current market price (AED)			2.34
Upside/Downside (%)			+41%

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 8.3%. It is arrived after using cost of equity of 8.9% and after-tax cost of debt of 6.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 6.3% is calculated after adjusting a tax rate of 1.2%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, 000)	310,707
Terminal value (USD, 000)	1,891,306
FV to Common shareholders (USD, 000)	2,260,326
No. of share (^000)	2,439,770
Current Market Price (AED)	2.34
Fair Value per share (AED)	3.40

DCF Method

(All Figures in USD, 000)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	108,485	135,862	154,470	164,558	168,571
Depreciation & amortization	161,623	159,651	160,511	165,326	170,060
Capex	-442,751	-150,233	-133,311	-136,895	-140,585
Change in working capital	-59,025	-6,299	-18,567	-32,353	-25,969
Free Cash Flow to Firm (FCFF)	-187,265	138,980	163,103	160,636	172,076
Discounting Factor	0.94	0.87	0.80	0.74	0.68
Discounted FCFF	-175,551	120,280	130,315	118,486	117,177

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 Cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
SES S.A.	2,850	3.6	3.4	16.0	12.9
Comcast Corporation	167,000	6.6	6.5	10.7	9.9
Thaicom	375	12.5	17.3	53.9	NM
Eutelsat Communications	1,880	6.8	5.6	NM	NM
Altice USA	1,140	7.3	7.3	8.56	7.8
Echostar Corporation	3,530	12.3	11.1	NM	NM
GOGO INC	1,110	12.9	8.5	22.6	13.3
Average		8.9x	8.5x	22.4x	11.0x
Median		7.3x	7.3x	16.0x	11.4x
Max		12.4x	9.8x	22.6x	13.0x
Min		6.7x	6.1x	10.7x	9.4x

Source: FAB Securities

