FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 2Q26

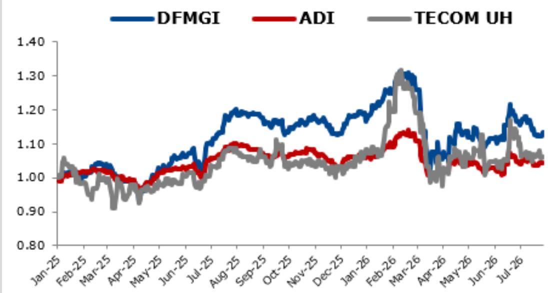
UAE Equity Research Sector: Real Estate Market: DFM

TECOM Group PJSC

Higher rental rates and sustained occupancy supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.38	AED 4.60	+36.1%	BUY

- Tecom's occupancy rates for the commercial and industrial sectors remained strong at 96% and 98%, respectively, with tenant retention at 94% and 99% in 1H26.
- Land leasing revenue increased 22% YoY to AED 361 Mn in 1H26, with an EBITDA of AED 333 Mn and a 92% margin in the same period.
- The Company aims of achieving 8-11% YOY EBITDA growth in 2026.
- TECOM confirmed an AED 440 Mn dividend for 1H26, expected to be paid in August 2026, while reiterating its dividend policy.



Stock Information	
Market Cap (AED, Mn)	16,900.00
Shares Outstanding	500.00
52 Week High	4.15
52 Week Low	2.96
3M Avg. daily value (AED)	1,429,251

2Q26 Result Review (AED, Mn)	
Total Assets	17,974
Total Liabilities	9,718
Total Equity	8,257
EBITDA	613
Net Profit	401

Financial Ratios	
Dividend Yield (12m)	4.97
Dividend Pay-out (%)	38.35
Price-Earnings Ratio(x)	7.95
Price-to-Book Ratio (x)	2.05
Book Value (AED)	1.65
Return-on Equity (%)	28.26

Stock Performance	
5 Days	0.30%
1 Months	0.30%
3 Months	1.50%
6 Months	-17.16%
1 Year	0.60%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-2.59%
Year to Date (YTD%)	-0.88%

2Q26 Net Profit in line with our estimate

Tecom Group PJSC (TECOM/the Company) net profit attributable to shareholders increased 6.6% YOY to AED 401 Mn in 2Q26, in line with our estimate of AED 410 Mn. The increase in net profit was driven by higher revenue, coupled with a decline in marketing & selling expenses, partially offset by increases in direct costs, G&A expenses, depreciation & amortization costs, and income tax charges, and decline in other income and finance income.

P&L Highlights

Tecom's revenue increased by 10.8% YOY to AED 786 Mn in 2Q26, driven by strong growth in operating lease income, which increased 14.8% YOY to AED 708 Mn in 2Q26, partially offset by a 16.5% YOY decline in service income to AED 77 Mn in 2Q26. Commerial Leasing segment revenue rose by 11% YOY to AED 783 Mn, Industrial segment revenue rose by 15% YOY to AED 239 Mn and Land leasing segment rose by 22% YOY to AED 361 Mn in 1H26 driven by improved rental rates for renewed contracts, improved occupancy and new leases at higher rates. Direct cost increased 5.0% YOY AED 247 Mn in 2Q26. Thus, gross profit increased 13.6% YOY to AED 539 Mn, with gross profit margin expanding 172 bps YOY to 68.5% 2Q26. G&A expenses increased to AED 59 Mn in 2Q26 from AED 40 Mn in 2Q25. Marketing and selling expenses declined by 38.0% YOY to AED 7 Mn in 2Q26. Other income also declined to AED 8 Mn in 2Q26 from AED 24 Mn in 2Q25. Thus, the Company's operating profit increased 7.6% YOY to AED 480 Mn in 2Q26. Depreciation & amortisation increased 9.1% YOY to AED 133 Mn in 2Q26. Thus, EBITDA increased 7.9% YOY to AED 613 Mn in 2Q26, while EBITDA margin declined 202 bps YOY to 78.0% in 2Q26 from 80.0% in 2Q25. Finance income declined from AED 9 Mn in 2Q25 to AED 3 Mn in 2Q26, whereas finance cost decrease marginally to AED 66 Mn in 2Q26. The income tax expenses also increased 30.5% YOY to AED 16 Mn in 2Q26.

Balance Sheet Highlights

Tecom's total assets grew 2.3% YOY to AED 18.0 Bn in 2Q26. The Company's investment properties increased marginally by 0.4% QOQ to AED 15.7 Bn in 2Q26. Cash and bank balances increased significantly from AED 327 Mn in 1Q26 to AED 675 Mn in 2Q26. Funds from Operations (FFO) increased by 12% YOY to reach AED 1.1 Bn in 1H26, attributable to diversified revenue streams and operational efficiency. The Company's net cash inflows from operating activities increased from AED 469 Mn in 2Q25 to AED 502 Mn in 2Q26.

Target Price and Rating

We maintain our BUY rating on TECOM with a revised target price of AED 4.60. Tecom delivered a strong operating performance in 2Q26, with operating profit increasing 7.6% YOY to AED 480 Mn, supported by 10.8% YOY revenue growth to AED 786 Mn and continued strength across its core leasing operations. The Company continues to benefit from solid portfolio fundamentals, with commercial and industrial occupancy remaining high at 96% and 98%, respectively, while tenant retention stood at 94% and 99% in 1H26. Land leasing remains a key growth driver, with revenue increasing 22% YOY to AED 361 Mn in 1H26, generating EBITDA of AED 333 Mn and an EBITDA margin of 92% during the same period. The segment continues to outperform expectations, with leasing rates achieved in the second phase exceeding those of the first phase. The Company also expects similar or better pricing in the upcoming phase. Commercial revenue increased 11% YOY to AED 783 Mn in 1H26, while industrial revenue grew 15% YOY to AED 239 Mn. Industrial EBITDA also rose 18% YOY to AED 181 Mn, with the segment delivering a robust EBITDA margin of 76% in 1H26. Commercial rents remain 25–30% below prevailing market rates despite average renewal increases of 6-7%, providing significant headroom for further rental uplifts across the existing portfolio. Demand continues to remain healthy, although some negotiations are taking longer to conclude, with overall portfolio occupancy remaining strong at 97% in 1H26. Additionally, the Services segment is expected to recover in 2H26, with monthly activity improving following a softer start to the year. The Company reiterated that the temporary weakness reflects the normalization of visa renewals after the one-off surge witnessed in 2025, rather than any structural slowdown. Execution of the Dubai Industrial (DI) land programme continues to progress ahead of schedule. The initial 8 Mn sq ft phase was fully leased by January 2026, the subsequent 10 Mn sq ft phase was signed during 2Q26, and another 8 Mn sq ft phase is currently being finalized. The Company stated that 79% of the total 33 Mn sq ft programme has either been signed or has confirmed customer leads, significantly ahead of the original 36-month leasing plan, with the remaining land expected to be absorbed over the next 12 months. Looking ahead, around 20% of the commercial portfolio and 30% of the industrial portfolio are scheduled for lease renewals over the next six months, providing further opportunities for rental resets as existing leases continue to converge toward market levels. The Company also remains positive on Dubai's industrial and logistics outlook, supported by strong warehouse and cold-storage demand, proximity to Jebel Ali Port, future Etihad Rail connectivity, and ongoing supply-chain localization. Tecom continues to maintain a healthy balance sheet, with net debt/EBITDA of 2.1x and an LTV ratio of 13.9%, providing sufficient financial capacity to support future growth initiatives. The Company also confirmed a dividend payment of AED 440 Mn for 1H26, expected to be paid in August 2026, while reiterating its commitment to the existing dividend policy. Furthermore, the Company aims of achieving 8-11% YOY EBITDA growth in 2026. Considering the Company's strong operating performance, we assign a BUY rating on the stock.

TECOM Group - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	22.47	17.61	15.67	13.76	8.10	10.27
PB	2.28	2.14	2.67	2.52	2.14	1.95
EV/EBITDA	14.46	13.13	13.02	12.40	10.43	9.61
BVPS	1.485	1.579	1.266	1.342	1.577	1.730
EPS	0.150	0.192	0.216	0.246	0.417	0.329
DPS	0.370	0.345	0.160	0.160	0.168	0.176
Dividend yield	10.9%	10.2%	4.7%	4.7%	5.0%	5.2%

FABS Estimates & Co Data

TECOM Group – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Sales	709	755	786	772	1.7%	10.8%	4.1%	2,858	3,149	10.2%
Direct cost	-235	-238	-247	-238	4.1%	5.0%	3.9%	-963	-1,012	5.1%
Gross profit	**474**	**517**	**539**	**535**	0.7%	**13.6%**	**4.2%**	**1,894**	**2,136**	**12.8%**
G&A expenses	-40	-48	-59	-54	8.3%	47.2%	21.2%	-184	-209	13.1%
Marketing & selling exp.	-12	-12	-7	-15	-52.1%	-38.0%	-36.2%	-56	-67	18.9%
Other income	24	14	8	22	-65.1%	-67.8%	-44.5%	91	88	-3.4%
Operating profit	**446**	**470**	**480**	**487**	-1.4%	**7.6%**	**2.1%**	**2,397**	**1,949**	**-18.7%**
Depr. & Amort	122	140	133	118	12.4%	9.1%	-4.8%	485	487	0.4%
EBITDA	**568**	**610**	**613**	**605**	1.3%	**7.9%**	**0.5%**	**2,230**	**2,435**	**9.2%**
Finance income	9	4	3	9	-64.2%	-65.5%	-19.2%	31	30	-4.3%
Finance cost	-66	-59	-66	-68	-2.4%	-0.3%	13.0%	-253	-262	3.5%
Profit before zakat	**389**	**416**	**417**	**428**	-2.6%	**7.3%**	**0.3%**	**2,175**	**1,716**	**-21.1%**
Income Tax	-12	-12	-16	-18	-11.3%	30.5%	29.0%	-89	-70	NM
Profit to shareholders	**377**	**403**	**401**	**410**	**-2.2%**	**6.6%**	**-0.5%**	**2,086**	**1,646**	**-21.1%**

FABS estimate & Co Data

TECOM Group - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross margin	66.8%	68.5%	68.5%	172	8	66.3%	67.8%	156
EBITDA margin	80.0%	80.8%	78.0%	-202	-281	78.0%	77.3%	-67
Operating margin	62.9%	62.3%	61.1%	-177	-123	83.9%	61.9%	NM
Net profit margin	53.1%	53.5%	51.1%	-201	-239	73.0%	52.3%	NM

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	4.71	70.0%	3.30
Dividend Discount Method (RV)	2.81	15.0%	0.42
Price/ FFO	5.87	15.0%	0.88
Weighted Average Valuation (AED)			**4.60**
Current market price (AED)			3.38
Upside/Downside (%)			+36.1%

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 8.7%. It arrived after using the cost of equity of 10.0% and after-tax cost of debt of 5.3% with a debt-to-equity ratio of 27.9%. The cost of equity is calculated by using a 10-year government bond yield of 5.7%, beta of 1.00 and equity risk premium of 4.3%. 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)	6,379
Terminal value (AED, Mn)	23,272
Net debt as of June 2026 (AED Mn)	6,085
FV to Common shareholders (AED, Mn)	**23,566**
No. of share (Mn)	5,000
Current Market Price (AED)	3.38
Fair Value per share (AED)	**4.71**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	1,878	1,987	2,050	2,105	2,130
D&A	487	499	545	561	576
(-) Capex	-1,345	-1,481	-422	-443	-464
Change in working capital	-22	2	29	-6	-31
Free Cash Flow to Firm (FCFF)	**998**	**1,007**	**2,202**	**2,216**	**2,211**
Discounting Factor	*0.97*	*0.89*	*0.82*	*0.75*	*0.69*
Discounted FCFF	**482[1]**	**895**	**1,802**	**1,669**	**1,532**

Source: FAB Securities, [1]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 10.0%

Sum of PV (AED, Mn)	4,111
Terminal value (AED, Mn)	9,918
FV to Common shareholders (AED, Mn)	**14,030**
No. of share (Mn)	5,000
Current Market Price (AED)	3.38
Fair Value per share (AED)	**2.81**

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	*0.96*	*0.87*	*0.80*	*0.72*	*0.66*
Present Value of dividend	**846**	**840**	**835**	**817**	**773**

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)
Regional Peers				
Jadwa REIT Saudi Fund	506	16.8	29.4	18.3
Riyad REIT Fund	220	24.1	NA	70.9
Al Rajhi REIT	594	14.7	15.1	15.4
Bonyan REIT	435	11.3	15.9	11.0
Alahli REIT Fund 1	240	16.0	47.8	18.6
Derayah REIT	153	16.4	65.2	18.4
Mulkia Gulf Real Estate REIT	127	14.6	NA	16.4
Taleem REIT	140	14.1	15.7	12.7
Al Maather REIT Fund	147	13.0	16.1	12.2
Average		**15.7x**	**29.3x**	**21.5x**
Median		**14.7x**	**16.1x**	**16.4x**
Max		**16.4x**	**38.6x**	**18.4x**
Min		**14.1x**	**15.8x**	**12.7x**

Source: FAB Securities

Company	Market (USD Mn)	EV/EBITDA (x) Current	PE (x) Current	Price/FFO (x)
International Peers				
Broadstone Net Lease Inc	4,108	17.1	35.0	13.0
Prologis Inc	138,186	26.1	49.7	22.5
Stag Industrial Inc	7,523	19.9	39.1	14.2
Lxp Industrial Trust	3,569	39.2	NA	17.4
Alexandria Real Estate Equit	8,966	11.4	103.1	8.6
Boston Properties Inc	7,409	10.2	10.9	16.0
Vornado Realty Trust	1,980	14.6	NA	8.3
Douglas Emmett Inc	1,287	19.2	NA	10.4
Allied Properties Real Estat	3,782	20.3	NA	9.9
Sl Green Realty Corp	1,132	13.6	79.7	7.8
Easterly Government Properti	2,979	19.4	44.2	NA
Brookfield India Real Estate	6,811	21.2	8.9	10.7
Covivio	4,526	28.7	11.3	9.6
Dexus/Au	4,914	22.3	24.5	24.6
Mapletree Logistics Trust	439	18.3	NA	NA
Yuexiu Real Estate Investmen	4,020	14.0	NA	15.3
Americold Realty Trust INC	4,108	17.1	35.0	13.0
Average		**19.7x**	**40.6x**	**13.4x**
Median		**19.3x**	**37.0x**	**11.9x**
Max		**21.4x**	**48.3x**	**15.8x**
Min		**14.5x**	**14.6x**	**9.7x**

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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