

Emirates Integrated Telecommunications Co PJSC (DU)

Solid growth in subscriber base and lower royalties drove the bottom line

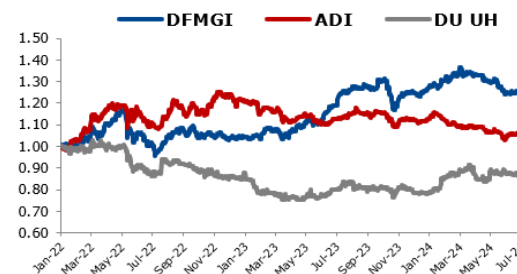
Current Price
AED 6.23

Target Price
AED 7.40

Upside/Downside (%)
+19%

Rating
BUY

- Post-paid customers rose 11.3% YOY and 1.9% QOQ to 1.7 Mn in 2Q24, mainly due to innovative solutions for enterprises and consumer offers.
- DU will also launch Hyperscale Cloud and Sovereign AI Services through the deployment of Oracle Alloy. The company will provide over 100 Oracle Cloud Infrastructure (OCI) services to the UAE government and public sector companies.
- DuPay launched in 1Q24, witnessed a positive response from the customers owing to data offerings, competitive pricing and unique features which is likely to drive other segment revenue in the future.
- Board approved a dividend of 20 fils per share for 1H24.



2Q24 Net Profit slightly higher than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit rose 46.2% YOY to AED 581 Mn in 2Q24, slightly higher than our estimate of AED 560 Mn. The increase in net profit is primarily driven by revenue growth across all segments owing to an increase in subscriber base, lower finance and royalty expenses partially offset by a rise in direct cost and tax charge.

P&L Highlights

DU's revenue grew 7.3% YOY to AED 3,592 Mn in 2Q24 primarily driven by a healthy revenue across all segments. Mobile Service segment revenue grew 6.6% YOY to AED 1,612 Mn in 2Q24, driven by strong growth in postpaid revenues, rise in demand from enterprise sector, and innovative offers. Moreover, the Mobile subscriber base rose 2.9% YOY to AED 8.2 Mn mainly driven by 11.3% YOY growth in postpaid customers to 1.7 Mn owing to consumer offers and innovative solutions for enterprises. Meanwhile, the prepaid customers grew 0.9% YOY and fell 6.4% QOQ to 6.5 Mn in 2Q24 owing to seasonality due to a slowdown in tourist activity, expiry of the offer launched in 4Q23, and removing the inactive customer base. Fixed Service segment revenue recorded 3.5% YOY growth to AED 982 Mn in 2Q24 primarily due to launch of unlimited Home Wireless Gaming offer and fibre network expansion. Broadband customers recorded a growth of 12.7% YOY to 630 thousand subscribers in 2Q24. DU's Wholesale business revenue increased 6.7% YOY to AED 455 Mn in 2Q24 while others revenue grew 18.3% YOY to AED 543 Mn, driven by solid growth in ICT and interconnected business coupled with launch of duPay. DU's cost of revenue, excluding D&A and marketing expenses, rose 11.8% YOY to AED 1,911 Mn in 2Q24 owing to a rise in product cost, outsourcing & contracting cost, and network operation

Stock Information

Market Cap (AED, Mn)	28,658.03
Paid Up Capital (Mn)	4,600.00
52 Week High	6.26
52 Week Low	4.98
3M Avg. daily value (AED)	2,484,376

2Q24 Result Review (AED, Mn)

Total Assets	16,430
Total Liabilities	6,955
Total Equity	9,475
EBITDA	1,570
Net Profit	581

Financial Ratios

Dividend Yield (12m)	5.46
Dividend Pay-out (%)	92.41
Price-Earnings Ratio(x)	13.55
Price-to-Book Ratio (x)	2.98
Book Value (AED)	2.09
Return-on Equity (%)	22.62

Stock Performance

5 Days	4.36%
1 Months	9.11%
3 Months	10.85%
6 Months	10.85%
1 Year	12.25%
Month to Date (MTD%)	9.30%
Quarter to Date (QTD%)	9.30%
Year to Date (YTD%)	20.04%

& maintenance cost partially offset by a decline in other cost. Marketing expenses declined 6.0% YOY to AED 47 Mn in 2Q24 while ECL charges also fell 4.9% YOY to AED 66 Mn. The Company's EBITDA grew 3.3% YOY to AED 1,570 Mn in 2Q24 and EBITDA Margin stood at 43.7% in 2Q24 compared to 45.4% in 2Q23 mainly impacted by the positive one-off effect in 2Q23. The Company's finance cost significantly declined to AED 6 Mn in 2Q24 compared to AED 24 Mn in 2Q23. Furthermore, DU's Federal royalty charge witnessed a sharp fall of 21.8% YOY to AED 392 Mn due to the implementation of the new royalty regime. In addition, tax expense amounted to AED 58 Mn in 2Q24 compared to nil in 2Q23 owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

DU's capex declined 12.3% YOY to AED 442 Mn in 2Q24 spent on enhancement of 5G coverage, development of IT & network infrastructure, and fibre deployment. The capital intensity ratio fell from 15.1% in 2Q23 to 12.3% in 2Q24. DU's operating free cash flow rose 10.9% YOY to AED 1.1 Bn in 2Q24, driven by EBITDA growth and a reduction in capex. The Company remains debt-free with a net cash balance of AED 656 Mn in 2Q24, indicating a robust liquidity position and unleveraged balance sheet.

Target Price and Rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company's revenue rose 7.3% YOY to AED 3,592 Mn in 2Q24 primarily driven by healthy growth across all segments. Moreover, net profit margin improved by 430 bps YOY to 16.2% in 2Q24 driven by higher EBITDA and lower royalty charge owing to a new royalty regime. DU's ARPU grew 3.2% QOQ to AED 64 in 2Q24 owing to postpaid revenue growth due to the success of its unlimited data plan, wireless gaming unlimited offer and other consumer offers. The company further expects a 5-7% YOY growth in revenue for FY2024 with an EBITDA margin above 43%. DuPay launched in 1Q24, witnessed a positive response from the customers owing to data offerings, competitive pricing and unique features which is likely to drive other segment revenue in the future. DU introduced new innovative offerings like the UAE pass for digitally acquiring prepaid customers which turns out to be an alternative for store visit and physical sim. The launch of new products and offerings in the other segment is likely to improve the sales mix and it reflects the company's focus on generating higher revenue from its core as well as non-core business. DU will also launch Hyperscale Cloud and Sovereign AI Services through deployment of Oracle Alloy. The company will provide over 100 Oracle Cloud Infrastructure (OCI) services to the UAE government and public sector companies. The Company witnessed several enquiries for the service of Oracle Alloy after the announcement of the partnership. Additionally, the Company remains debt-free and maintained a strong balance sheet position with a net cash balance of AED 656 Mn in 2Q24. DU reaffirmed its guidance indicating strong business momentum. The country is expected to witness a surge in tourism activity and sustained population growth likely to benefit the telecom sector. In addition, the board approved an interim cash dividend of 20 fils per share for 1H24. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

DU - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	15.9	19.1	25.1	22.6	16.6	12.0
PB	3.2	3.2	3.2	3.1	3.0	2.8
EV/EBITDA	6.9	8.5	8.4	7.7	6.6	5.7
Dividend yield	5.6%	4.6%	3.4%	3.9%	5.6%	6.2%

FABS Estimates & Co Data

DU – P&L

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	3,347	3,581	3,592	3,731	-3.7%	7.3%	0.3%	13,636	14,490	6.3%
Costs	-1,710	-1,882	-1,911	-1,976	-3.3%	11.8%	1.5%	-7,359	-7,611	3.4%
Marketing expense	-50	-50	-47	-49	-2.8%	-6.0%	-6.1%	-236	-232	-1.8%
Expected Credit Loss	-69	-62	-66	-63	4.0%	-4.9%	5.6%	-243	-243	0.3%
EBITDA	1,520	1,587	1,570	1,643	-4.5%	3.3%	-1.0%	5,799	6,404	10.4%
D&A and Impairment	-595	-521	-533	-543	-1.8%	-10.5%	2.2%	-2,198	-2,170	-1.3%
Operating profit	922	1,065	1,035	1,101	-5.9%	12.3%	-2.8%	3,600	4,234	17.6%
Finance inc/exp	-24	4	-6	-8	-20.4%	-73.7%	NM	-40	-32	-20.0%
Pre-royalty profit	898	1,068	1,030	1,093	-5.7%	14.8%	-3.5%	3,559	4,203	18.1%
Federal Royalty	-501	-406	-392	-478	-18.0%	-21.8%	-3.5%	-1,891	-1,681	-11.1%
Tax	0	-59	-58	-55	4.6%	NM	-2.6%	0	-227	NM
Net Profit	397	603	581	560	3.8%	46.2%	-3.7%	1,668	2,295	37.6%

FABS estimate & Co Data

DU - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	48.9%	47.4%	46.8%	-211	-65	46.0%	47.5%	144
EBITDA	45.4%	44.3%	43.7%	-171	-59	42.5%	44.2%	167
Operating Profit	27.6%	29.7%	28.8%	127	-92	26.4%	29.2%	282
Net Profit	11.9%	16.8%	16.2%	430	-66	12.2%	15.8%	361

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value DU. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	7.11	70.0%	4.97
Relative Valuation (RV)	8.08	30.0%	2.43
Weighted Average Valuation (AED)			7.40
Current market price (AED)			6.23
Upside/Downside (%)			+19%

1) DCF Method:

DU is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 9.3%. Cost of equity is calculated by using 10-year government bond yield of 4.2%, beta of 0.9 and an equity risk premium of 4.3%. Government bond yield is calculated after adding Dubai's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	8,297
Terminal value (AED, Mn)	23,912
FV to Common shareholders (AED, Mn)	32,209
No. of share (Mn)	4,533
Current Market Price (AED)	6.23
Fair Value per share (AED)	7.40

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	2,295	2,129	2,190	2,408	2,557
D&A	1,748	1,900	2,041	2,130	2,240
Change in working capital	-702	274	70	133	5
(-) Capex	-2,029	-1,929	-1,984	-2,040	-2,099
Net change in debt	-175	-170	-166	-162	-162
Free Cash Flow to Equity (FCFE)	1,137	2,204	2,152	2,469	2,542
Discounting Factor	0.96	0.88	0.81	0.74	0.67
Discounted FCFE	1,094	1,939	1,733	1,819	1,713

Source: FAB Securities

2) Relative Valuation:

We have used international peers to value DU and it is valued using the EV/EBITDA multiple. It is valued at EV/ EBITDA multiple of 5.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Mobile telecommunication company	6,390	5.5	5.1	11.1	8.4
Verizon Communication	164,540	6.9	6.8	8.6	8.4
SAFARICOM PLC	4,920	4.9	4.5	8.8	7.9
Deutsche Telekom AG	130,513	5.9	5.7	13.4	11.9
Etihad Etisalat	11,070	7.0	6.6	17.4	13.9
Average		6.0x	5.7x	11.9x	10.1x
Median		5.9x	5.7x	11.1x	8.4x
Max		6.9x	6.6x	13.4x	11.9x
Min		5.5x	5.1x	8.8x	8.4x

Source: FAB Securities

