

Al Yah Satellite Communications Co. PJSC

Higher revenue and finance income boosted profitability

1Q23 Net Profit higher than our estimates

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported an increase in net profit to USD 27.1 Mn in 1Q23 compared to USD 20.1 Mn in 1Q22, higher than our estimate of USD 21.2 Mn. The increase in net profit is primarily due to a marginal increase in revenue, decline in cost of revenue, higher finance income, and lower share of profit attributable to non-controlling interest holders partially offset by an increase in operating expenses and rise in income tax.

P&L highlights

YAHSAT revenue grew 1.7% YOY to USD 100.4 Mn in 1Q23. This is the first quarter in the Company's history when revenue exceeded USD 100 Mn. The rise in revenue was primarily due to an increase in Managed Solutions further supported by a growth in Data Solutions Segment somewhat offset by a decrease in Mobility solutions revenue. The infrastructure segment accounts for 60.0% to the total revenue and rose 1.1% YOY to USD 60.1 Mn in 1Q23 owing to an increase in the capacity services agreement revenue as per the contractual indexation clause. Infrastructure segment secured contracted future revenue of over USD 1.6 Bn owing to a 15-year agreement with the Government to provide capacity and related services on the Thuraya 4 Next Generation System. Managed Solutions which account for the Company's 19.0% revenue grew substantially 28.7% YOY to USD 19.5 Mn in 1Q23. Furthermore, Data solution revenue rose 5.9% YOY to USD 6.1 Mn in 1Q23 mainly due to the addition of new enterprise customer. While, the Mobility Solution declined 20.0% YOY to USD 14.8 Mn in 1Q23 mainly due to the phasing of equipment sales. The equipment sale is more evenly distributed throughout the previous year, resulting in a higher comparative base for the 1Q23. Cost of revenue declined significantly from USD 10.1 Mn in 1Q22 to USD 6.9 Mn in 1Q23. As a result, gross profit grew 5.4% YOY to USD 93.4 Mn in 1Q23 with an increase in gross profit margin from 89.8% in 1Q22 to 93.1% in 1Q23. Administrative expenses rose 8.2% YOY to USD 33.6 Mn in 1Q23. Other income rose significantly from USD 0.5 Mn in 1Q22 to USD 0.8 Mn in 1Q23. EBITDA grew from USD 58.1 Mn in 1Q22 to USD 60.6 Mn in 1Q23 with an increase in EBITDA margin from 58.9% in 1Q22 to 60.4% in 1Q23 mainly due to a decline in cost of revenue and an increase in other income. Operating profit also grew 12.3% YOY to USD 24.9 Mn in 1Q23. Net finance cost reached a positive USD 3.2 Mn in 1Q23 as compared to a negative USD 0.7 Mn in 1Q22 mainly due to higher finance income. Loss from share of equity investments declined from USD 2.9 Mn in 1Q22 to USD 2.3 Mn in 1Q23. Income tax expense rose from USD 34 Mn in 1Q22 to USD 52 Mn in 1Q23. Loss attributable to non-controlling interest holders declined from USD 1.5 Mn in 1Q22 to USD 1.2 Mn in 1Q23 supporting profitability.

Balance sheet highlights

Al Yah Satellite Communications net debt stood negative at USD 14.8 Mn in 1Q23, with a negative net debt/ EBITDA of 0.2x in 1Q23. Cash and cash equivalents stood at USD 555 Mn in 1Q23. The net cash flow from operations decreased from USD 95.2 Mn in 1Q22 to USD 33.4 Mn in 1Q23 mainly due to higher working capital requirements. CAPEX decreased 37% YOY to USD 31 Mn in 1Q23 owing to the shift in the timeline of the T4-NGS programme.

Rating : BUY

First Look Note – 1Q23

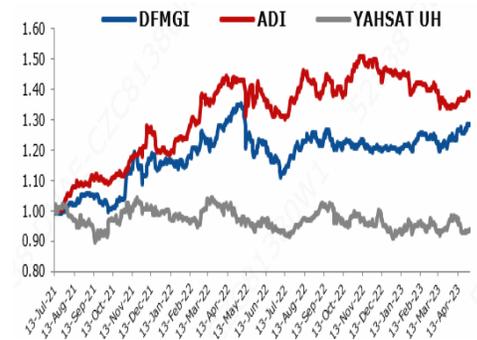
Sector: Telecom

Recommendation

Current Price (15-May-23)	2.54
Target Price (AED)	3.50
Upside/Downside (%)	+38%

Stock Information

Market Cap (mm)	6,172.62
Paid Up Capital (mm)	2,439.77
52 Week High	2.92
52 Week Low	2.39
3M Avg. daily value (AED)	2,555,129



Financial Ratios

Dividend Yield (12m)	6.37
Dividend Pay-out (%)	81.60
Price-Earnings Ratio (x)	23.14
Price-to-Book Ratio (x)	1.93
Book Value (AED)	1.31
Return-on Equity (%)	8.19
Earning Per Share (AED)	0.11
Beta	0.36

Stock Performance

5 Days	-3.80%
1 Months	-3.80%
3 Months	-3.80%
6 Months	-3.80%
1 Year	-5.24%
Month to Date (MTD)	-1.95%
Quarter to Date (QTD)	-5.26%
Year to Date (YTD)	0.80%

Target price and rating

We maintain our 'BUY' rating on AI Yahsat with an unchanged target price of AED 3.50. AI Yahsat delivered a strong performance owing to a rise in revenue and EBITDA. The growth in revenue was primarily driven by the Managed Solution which rose 29.0% YOY in 1Q23 and further rise in Data Solution and Infrastructure segment. The Company further expects the revenue to grow by mid-single digit owing to an expected strong performance of its commercial segments which accounts for quarter of Company's total revenue. In addition, the contracted future revenue which is equivalent to the Company's 4.4x of last twelve-month value of USD 1.9 Bn in 1Q23 provides revenue visibility. AI Yahsat further aims to diversify its commercial business in verticals like oil and gas, health, maritime, and education. Moreover, AI Yahsat also plays an important role in developing UAE's space sector. AI Yahsat entered a 15-year contract with the government worth USD 708 Mn for the provision of capacity and related services on the Thuraya 4 Next Generation System. It also plans to launch the Thaurya-4 NGS satellite in 1H24 and another 2 satellites AI Yah 4 and AI Yah 5. AI Yahsat also maintained a robust balance sheet with strong cash position, long term future cash flows and negative net debt. Net Debt to capital gearing stood at 0.1% as of 1Q23. The Company also maintained a solid liquidity of USD 622 Mn as of 1Q23 which will enable it to support inorganic growth. AI Yahsat incurred a total capex of USD 31 Mn in 1Q23 and further expects to incur USD 155-175 Mn in 2023. In addition, AI Yahsat is expected to generate a free cash flow of USD 130 Mn which would exceed the total expected dividend for 2023. The company is expected to pay a total dividend of 16.46 fils per share for the year ending 2023 leading to dividend yield of 7.0% in 2023. Thus, based on our analysis, we assign a 'BUY' rating on the stock.

AI Yahsat - Relative valuation

(at CMP)	2020	2021	2022	2023F
P/E (x)	NA	24.20	25.75	16.49
P/B (x)	NA	2.01	1.98	2.00
EV/EBITDA	NA	7.89	6.77	6.82
Dividend Yield (%)	NA	6.2%	6.3%	6.4%

FABS Estimates & Co Data

AI Yahsat - P&L

(USD'000)	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	98,695	117,956	100,355	102,047	-1.7%	1.7%	-14.9%	432,540	444,750	2.8%
Cost of revenue	-10,059	-17,959	-6,911	-10,205	-32.3%	-31.3%	-61.5%	-48,296	-49,812	3.1%
Gross Profit	88,636	99,997	93,444	91,842	1.7%	5.4%	-6.6%	384,244	394,938	2.8%
Admin Exps.	-31,058	-33,561	-33,609	-32,655	2.9%	8.2%	0.1%	-130,448	-139,011	6.6%
Other Income	535	2,286	780	510	52.9%	45.8%	-65.9%	3,884	3,113	-19.8%
EBITDA	58,113	68,722	60,615	59,698	1.5%	4.3%	-11.8%	257,680	259,040	0.5%
Depreciation	-35,889	-36,428	-35,668	-36,858	-3.2%	-0.6%	-2.1%	-144,471	-147,434	2.1%
FV adj on inv	0	784	0	0	NM	NM	-100.0%	1,584	0	-100.0%
Operating Profit	22,224	33,078	24,947	22,839	9.2%	12.3%	-24.6%	114,793	111,606	-2.8%
Net Finance Cost	-742	401	3,220	306	951.8%	-534.0%	703.0%	-1,098	-5,178	371.6%
Share of results	-2,898	-3,252	-2,278	-2,174	4.8%	-21.4%	-30.0%	-53,303	-9,062	-83.0%
Income Tax	-34	-54	-52	-52	-0.8%	52.9%	-3.7%	-175	-292	66.9%
Profit bef NCI	18,550	30,173	25,837	20,919	23.5%	39.3%	-14.4%	60,217	97,075	61.2%
NCI	-1,542	-247	-1,235	-247	400.0%	-19.9%	400.0%	-5,347	-5,347	0.0%
Net Profit	20,092	30,420	27,072	21,166	27.9%	34.7%	-11.0%	65,564	102,422	56.2%

FABS Estimates & Co Data

AI Yahsat - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
GPM	89.8%	84.8%	93.1%	331	834	88.8%	88.8%	-3
EBITDA Margin	58.9%	58.3%	60.4%	152	214	59.6%	58.2%	-133
OPM	22.5%	28.0%	24.9%	234	-318	26.5%	25.1%	-145
Net margin	20.4%	25.8%	27.0%	662	119	15.2%	23.0%	787

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF	3.98	70.0%	2.79
Relative Valuation	2.38	30.0%	0.71
Weighted Average Valuation (AED)			3.50
Current market price (AED)			2.54
Upside/Downside (%)			37.8%

1) DCF Method:

AI Yahsat is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.6%. It is arrived after using cost of equity of 8.2% and after-tax cost of debt of 5.9%. Cost of equity is calculated by using 10-year government bond yield of 4.2%, beta of 1.0 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 5.9% after adjusting a tax rate of 0.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD,000)	422,746
Terminal value (USD,000)	2,238,444

FV to Common shareholders (USD,000) 2,646,293

No. of share (Mn) 2,439,770

Current Market Price (AED) 2.54

Fair Value per share (AED) 3.98

DCF method

(All Figures in USD,000)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	258,263	256,667	256,840	257,742	262,629
(-) Capex	-176,212	-182,232	-125,432	-104,468	-82,587
(-) Change in net working capital	-21,417	-27,767	-1,724	-32,004	-5,928
Free Cash Flow to Firm (FCFF)	60,634	46,668	129,684	121,270	174,114
Discounting Factor	0.95	0.89	0.82	0.77	0.71
Discounted FCFF	57,883	41,388	106,846	92,821	123,808

2) Relative Valuation:

We have used local peers to value Al Yahsat and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 6.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
SES S.A.	3,100	5.6	4.0	1.2	13.3
Comcast Corporation	151,356	6.7	6.5	10.7	9.4
Thaicom	467	13.2	16.4	38.9	48.1
Eutelsat Communications	1,749	5.2	4.8	6.4	7.2
Altice USA	1,738	7.3	7.1	8.49	6.5
Echostar Corporation	1,640	2.4	1.8	32.3	44.8
Telenet group holding INC	1,680	4.9	4.9	4.7	4.9
GOGO INC	1,990	15.4	12.6	29.8	22.6
Average		7.6x	7.3x	16.6x	19.6x
Median		6.2x	5.7x	9.6x	11.3x
Max		8.8x	8.5x	30.4x	28.2x
Min		5.1x	4.6x	5.9x	7.0x

FAB Securities Awards



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