

Al Yah Satellite Communications Co. PJSC

Strong contracted revenue boosts visibility

2Q22 Net profit higher than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported an increase in net profit to USD 25.3 Mn in 2Q22 from USD 14.2 Mn in 2Q21, higher than our estimate of USD 19.1Mn. The increase in net profit was mainly attributed to higher revenue and lower finance cost somewhat offset higher cost of sales.

P&L highlights

YAHSAT revenue grew 6.9% YOY to USD 106.9 Mn in 2Q22 mainly due to strong growth in revenue across Managed Solutions and Mobility Solutions segment somewhat offset by a marginal decline in revenue from the Infrastructure and Data solutions segments. Revenue from the infrastructure segment made up 55.7% of total revenue and declined 1.1% YOY to USD 59.3 Mn in 2Q22 due to the reallocation of C-band contracts to Managed and Data Solutions Segment since 4Q21. The Infrastructure Segment provides significant visibility on future cash flows with contracted future revenue of nearly USD 1.8 Bn as of 2Q22. Managed Solutions and Mobility Solutions revenue grew 41.5% and 7.8% YOY, respectively in 2Q22. These segments accounted for 22.5% and 16.8% of total revenue during 2Q22. The revenue from 5-year supports managed Solutions revenue growth managed service contract awarded worth USD 247 Mn in February 2022. Growth in Mobility Solutions revenue is supported by strong growth in both services and equipment revenue. Cost of sales rose 37.6% YOY to USD 11.5 Mn in 2Q22. Thus, gross profit recorded a lower growth of 4.1% YOY to USD 95.2 Mn with a gross margin of 89.0% in 2Q22 as compared to 91.5% in 2Q21. Operating expenses grew 3.7% YOY to USD 32.0 Mn in 2Q22. As a result, EBITDA increased 3.9% YOY to USD 63.9 Mn in 2Q22 with an EBITDA margin of 59.8% in 2Q22 compared to 61.5% in 2Q21. The decline in margin is mainly due to change in sales mix. Operating profit also rose 15.7% YOY to USD 28.7 Mn in 2Q22 due to a decline in depreciation expenses. Net finance cost fell 85.7% YOY to USD 1.4 Mn in 2Q22 supporting the profitability. While loss from equity investments rose from USD 2.5 Mn in 2Q21 to USD 3.7 Mn in 2Q22 dragging the profit. The other income stood at USD 0.53 Mn in 2Q22. Loss attributable to non-controlling interest holders declined from USD 1.8 Mn in 2Q21 to USD 1.5 Mn in 2Q22.

Balance sheet highlights

Al Yah Satellite Communications net debt stood at USD 221 Mn in 2Q22, with a net leverage ratio of 0.9x in 2Q22. Cash and cash equivalents stood at USD 373 Mn in 2Q22. The net cash flow from operations decreased YOY to USD 74 Mn in 2Q22 mainly due to higher working capital requirements. CAPEX increased significantly 82.5% YOY to USD 88 Mn in 2Q22 owing to the projected Capex of USD 200 Mn related to the T4-NGS program.

Target price and rating

We maintain our 'BUY' rating on Yahsat with a target price of AED 3.50. The company continued its steady performance in 1H22. Revenue rose 8.1% YOY to USD 206 Mn in 1H22 owing to double-digit growth in its Managed Solutions and Mobility Solution Segments. The Company is further expected to report a solid performance in 3Q22 supported by new partnerships with key national stakeholders that will continue to add to contracted future revenue backlog.

Rating : BUY

First Look Note – 2Q22

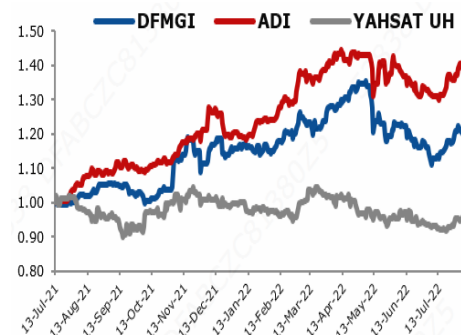
Sector: Telecom

Recommendation

Current Price (09-Aug-22)	2.67
Target Price (AED)	3.50
Upside/Downside (%)	+31%

Stock Information

Market Cap (mm)	6,489.79
Paid Up Capital (mm)	2,439.77
52 Week High	2.91
52 Week Low	2.46
3M Avg. daily value (AED)	4,392,260



Financial Ratios

Dividend Yield (12m)	2.97
Dividend Pay-out (%)	139.89
Price-Earnings Ratio (x)	21.02
Price-to-Book Ratio (x)	2.02
Book Value (AED)	1.32
Return-on Equity (%)	9.57
Earning Per Share (AED)	0.13
Beta	N/A

Stock Performance

5 Days	1.92%
1 Months	3.91%
3 Months	0.76%
6 Months	0.00%
1 Year	-1.12%
Month to Date (MTD)	1.53%
Quarter to Date (QTD)	3.10%
Year to Date (YTD)	-2.92%

Almost 90.0% of the remaining estimated revenue for 2022 is already contracted. YAHSAT started a five-year agreement with the UAE government mission to provide advanced managed services for satellite communications with contracted revenue of USD 247 Mn in 2Q22. The Company also received a contract worth USD 7 Mn from Abu Dhabi Ship Building (ADSB) to provide satellite communication in ships produced by ADSB. The recent contract win underpins Yahsat's position as a preferred satellite solution provider and strengthens its position in the region. YAHSAT revenue backlog stood at USD 2.1 Bn post the recent contract win providing strong visibility to future earnings. The revenue backlog is almost equivalent to 5.2x of 2021 revenue. Thus, leading the Company to raise its lower end of the revenue guidance from USD 415 Mn to USD 420 Mn in FY2022. YAHSAT's two satellites Al Yah 4 and Al Yah 5 are expected to be launched in 2026. The Company's balance sheet remains strong with a net leverage ratio of 0.9x in 2Q22. It generated a strong discretionary cash flow of USD 61 million in 1H22 with a conversion ratio of 93.1%. Strong cash flow generation positioned the Company to meet its dividend payment and capex commitments. The stock is trading at an attractive dividend yield of 6% based on 2022 financials. Based on our aforementioned factors, we assign a 'BUY' rating to the stock.

AI Yahsat - Relative valuation

(at CMP)	2021	2022F
P/E (x)	16.90	16.56
P/B (x)	2.11	1.91
EV/EBITDA	7.92	7.51
Dividend Yield (%)	5.9%	6.0%

FABS Estimates & Co Data
AI Yahsat - P&L

(USD'000)	2Q21	1Q22	2Q22	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	99,968	98,695	106,872	104,161	2.6%	6.9%	8.3%	407,569	438,785	7.7%
Cost of revenue	-8,505	-10,059	-11,704	-11,458	2.1%	37.6%	16.4%	-45,478	-47,417	4.3%
Gross Profit	91,463	88,636	95,168	92,703	2.7%	4.1%	7.4%	362,091	391,368	8.1%
Admin Exps.	-30,691	-31,058	-31,819	-32,050	-0.7%	3.7%	2.5%	-123,933	-130,330	5.2%
Other Income	709	535	533	583	-8.6%	-24.8%	-0.4%	2,323	2,447	5.3%
EBITDA	61,481	58,113	63,882	61,236	4.3%	3.9%	9.9%	240,481	263,485	9.6%
Depreciation	-36,473	-35,889	-35,999	-38,922	-7.5%	-1.3%	0.3%	-148,590	-155,686	4.8%
Operating Profit	24,799	22,224	28,683	21,616	32.7%	15.7%	29.1%	89,985	105,702	17.5%
Net Finance Cost	-9,732	-742	-1,395	-931	49.9%	-85.7%	88.0%	-17,308	-4,224	-75.6%
Share of results	-2,543	-2,898	-3,668	-2,956	24.1%	44.2%	26.6%	-9,589	-11,944	24.6%
Income Tax	-72	-34	-38	-71	-46.4%	-47.2%	11.8%	-215	-358	66.6%
Profit before NCI	12,452	18,550	23,582	17,658	33.5%	89.4%	27.1%	62,873	89,176	41.8%
NCI	-1,750	-1,542	-1,687	-1,465	15.2%	-3.6%	9.4%	-6,889	-5,721	-17.0%
Net Profit	14,202	20,092	25,269	19,123	32.1%	77.9%	25.8%	69,762	94,896	36.0%

FABS Estimates & Co Data
AI Yahsat - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
GPM	91.5%	89.8%	89.0%	-244	-76	88.8%	89.2%	35
EBITDA Margin	61.5%	58.9%	59.8%	-173	89	59.0%	60.0%	104
OPM	24.8%	22.5%	26.8%	203	432	22.1%	24.1%	201
Net margin	14.2%	20.4%	23.6%	944	329	17.1%	21.6%	451

FABS estimate & Co Data

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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