

Al Yah Satellite Communications Co. PJSC

Strong revenue growth and higher finance income supported profitability

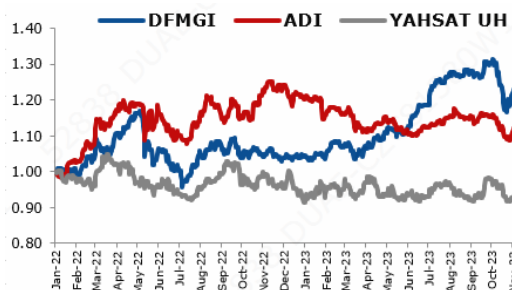
Current Price
AED 2.57

Target Price
AED 3.50

Upside/Downside (%)
+36%

Rating
BUY

- Al Yahsat recorded growth in profitability owing to a growth in revenue, EBITDA along with higher finance income
- Al Yahsat contracted future revenue stands at USD 6.9 Bn which is equivalent to 15.7x times the company's revenue in the last twelve months in 3Q23
- The Company's net debt stood negative at USD 171.4 Mn in 3Q23
- In September 2023, Al Yahsat government services arm Yahsat Government Solution received from the UAE government Authorization to Proceed (ATP) to provide satellite services and managed services for a period of 17 years valued at AED 18.7 Bn (USD 5.1 Bn)



3Q23 Net Profit lower than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported a growth in net profit to USD 26.4 Mn in 3Q23 compared to a net loss of USD 10.2 Mn in 3Q22, lower than our estimate of USD 31.4 Mn. The growth in net profit is primarily driven by rise in revenue, EBITDA and substantial rise in finance income partially offset by a higher direct cost and an increase in depreciation expense.

P&L Highlights

YAHSAT revenue grew 7.8% YOY to USD 117.5 Mn in 3Q23. The growth in revenue is primarily driven by rise in Mobility and Infrastructure services partially offset by a decline in revenue from Managed and Data solutions. Infrastructure segment accounts for 51.2% of the total revenue and rose marginally 1.1% YOY to USD 60.1 Mn in 3Q23 owing to the long-term capacity services agreement with the government. Infrastructure segment secured contracted future revenue of more than USD 6.6 Bn owing to USD 53 Mn from a 15-year agreement with the Government to provide capacity and associated services on the Thuraya 4 Next Generation System and USD 5.1 Bn from 17-year new capacity and managed services mandate (CMSM) given by government in 3Q23. Managed Solutions account for 19.1% of total revenue and declined substantially 17.6% YOY to USD 22.5 Mn in 3Q23. The decline can be attributed to the slower growth momentum, largely influenced by the effects of the prior year, which saw USD 10 Mn turnkey component booking in 2Q22. Furthermore, Data Solution revenue accounted for 5% of total revenue in 3Q23. Data Solution revenue declined 8.4% YOY to USD 5.5 Mn in 3Q23. While the Mobility Solution grew strongly from USD 16.2 Mn in 3Q22 to USD 29.3 Mn in 3Q23 mainly due to stronger equipment sales. Additionally, service revenue continued to grow

Stock Information

Market Cap (AED, mm)	6,294.61
Paid Up Capital (mm)	2,439.77
52 Week High	2.78
52 Week Low	2.39
3M Avg. daily value (AED)	4,910,149

3Q23 Result Review (USD, mm)

Total Assets	2,095.1
Total Liabilities	1,216.8
Total Equity	878.2
EBITDA	68.1
Net Profit	26.4

Financial Ratios

Dividend Yield (12m)	6.31
Dividend Pay-out (%)	163.27
Price-Earnings Ratio(x)	16.77
Price-to-Book Ratio (x)	2.11
Book Value (AED)	1.22
Return-on Equity (%)	12.53

Stock Performance

5 Days	1.18%
1 Months	1.18%
3 Months	0.78%
6 Months	1.57%
1 Year	-1.53%
Month to Date (MTD%)	1.57%
Quarter to Date (QTD%)	-3.73%
Year to Date (YTD%)	3.20%

driven by Maritime, Aero and Voice subsegments. Cost of revenue grew from USD 8.6 Mn in 3Q22 to USD 17.8 Mn in 3Q23. As a result, gross profit declined marginally 0.8% YOY to USD 99.7 Mn in 3Q23. Gross profit declined from 92.1% in 3Q22 to 84.8% in 3Q23. Administrative expenses declined 2.1% YOY to USD 33.3 Mn in 3Q23. Other income grew substantially from USD 0.5 Mn in 3Q22 to USD 1.7 Mn in 3Q23. EBITDA rose 1.6% YOY to USD 68.1 Mn in 3Q23. EBITDA margin also declined 349 bps YOY to 57.9% in 3Q23 mainly due to a rise cost of revenue. Infrastructure segment adjusted EBITDA grew 8.0% YOY to USD 47 Mn in 3Q23. Data solutions adjusted EBITDA grew to USD 1 Mn in 3Q23, compared to loss of USD 1 Mn in 3Q22. Managed solutions adjusted EBITDA declined 33.0% YOY to USD 13 Mn in 3Q23. While, Mobility solutions adjusted EBITDA grew 50% YOY to USD 7 Mn in 3Q23. The Company recorded USD 5.1 Mn fair value loss on other financial assets compared to a no gain or loss in 3Q22. Thus, operating profit declined 25.6% YOY to USD 22.9 Mn in 3Q23. Net finance cost grew from USD 638 Mn in 3Q22 to USD 4,759 Mn in 3Q23 mainly due to higher finance income. Loss from share of equity investments declined from USD 43.5 Mn in 3Q22 to USD 3.3 Mn in 3Q23. Income tax expense rose from USD 0.49 Mn in 3Q22 to USD 0.72 Mn in 3Q23. Loss attributable to non-controlling interest holders grew from USD 1.9 Mn in 3Q22 to USD 2.9 Mn in 3Q23 supporting profitability.

Balance Sheet Highlights

Al Yah Satellite Communications net debt stood at negative at USD 171.4 Mn in 3Q23. Cash and cash equivalents increased from USD 619 Mn in 2Q23 to USD 659 Mn in 3Q23 mainly due to an increase in the collection of government receivables and advance payment related to T4-NGS programme and higher net interest income. The net cash flow from operations declined from USD 343.7 Mn in 9M22 to USD 324.4 Mn in 9M23. CAPEX grew from USD 106 Mn in 9M22 to USD 111 Mn in 9M23. 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, as well as a greater return on investment of USD 5 Mn received by the Company from its associate, Al Maisan.

Target Price and Rating

We maintain our 'BUY' rating on Al Yahsat with a target price of AED 3.50. Al Yahsat witnessed a growth in profitability in 3Q23 mainly due to a rise in revenue, EBITDA along with higher finance income. The growth in revenue is primarily attributed to a significant rise in Mobility and Infrastructure services partially offset by a decline in Managed and Data Solutions. The Company expects a mid-single-digit growth in revenue, largely driven by the expected strong performance of its commercial segments, which constitute a significant portion of the Company's total revenue. Recently, in September 2023 Al Yahsat government services arm received from the UAE government Authorization to Proceed (ATP) to provide satellite services and managed services for a period of 17 years. The mandate is valued at AED 18.7 Bn (USD 5.1 Bn). The recent mandate will replace the existing agreements such as the Capacity Services Agreements (CSA) and the Mandate Service Mandate (MSM), which are expected to end in November and December 2026, respectively. According to the new mandate, Al Yahsat will provide the government of UAE secure and reliable satellite and managed services using the Al Yah 1 and 2 satellites which are currently in orbit. This mandate will be further supported by new satellites such as Al Yah 4 and Al Yah 5 which is expected to be launched in 2027 and 2028, respectively. Al Yahsat long-standing relationship with government which is more than two decades old almost since its inception and remained a preferred partner for the supply of satellite capacity and solutions. The new contract also expands the future revenue backlog to USD 6.9 Bn, equivalent to 15.7x times the company's last twelve-month revenue. In October 2023, Thuraya Telecommunications and YahClick partnered with South Sudanese startup G4T to introduce mobility and data services, aiming to assist in the nation's reconstruction by providing tailored satellite connectivity solutions to key sectors. The initiative by Yahsat reflects its enduring dedication to Africa and will aid in South Sudan's growth, development, and digital transformation in response to rising connectivity needs. Al Yahsat also plays an important role in developing UAE's space sector. Al 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 2024 and another 2 satellites Al Yah 4 and Al Yah 5. Furthermore, the Company also maintained a strong balance sheet with a robust cash position, long-term future cash flows and negative net debt. The Company also maintained a solid liquidity of USD 719 Mn as of 3Q23, enabling it to support inorganic growth. Al Yahsat incurred a total capex of USD 111 Mn in 9M23 and expects to incur USD 155-175 Mn in 2023. In addition, Al Yahsat also revised

upward its free cash flow forecast to USD 140-160 Mn for 2023. 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 6.3% in 2023 that is considered to be 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	2023F
PE	NA	24.49	26.06	16.56
PB	NA	2.03	2.01	2.02
EV/EBITDA	NA	7.97	6.84	6.28
Dividend yield	NA	6.1%	6.3%	6.3%

FABS Estimates & Co Data

Al Yahsat - P&L

USD '000	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Total Revenue	109,017	104,717	117,481	112,503	4.4%	7.8%	12.2%	432,540	441,754	2.1%
Cost of revenue	-8,574	-10,213	-17,827	-11,250	58.5%	107.9%	74.6%	-48,296	-49,918	3.4%
Gross Profit	100,443	94,504	99,654	101,252	-1.6%	-0.8%	5.4%	384,244	391,836	2.0%
Administrative Expenses	-34,010	-32,651	-33,291	-36,001	-7.5%	-2.1%	2.0%	-130,448	-139,694	7.1%
Other Income	530	664	1,695	675	NM	219.8%	155.3%	3,884	3,092	-20.4%
EBITDA	66,963	62,517	68,058	65,927	3.2%	1.6%	8.9%	257,680	255,234	-0.9%
Depreciation	-36,155	-40,360	-40,050	-37,311	7.3%	10.8%	-0.8%	-144,471	-149,244	3.3%
Fair value	0	-6,366	-5,101	0	NM	NM	NM	1,584	-6,366	NM
Operating Profit	30,808	15,791	22,907	28,616	-19.9%	-25.6%	45.1%	114,793	99,624	-13.2%
Net Finance Cost	638	1,926	4,759	2,367	101.1%	NM	147.1%	-1,098	7,565	NM
Share of results	-43,485	-2,567	-3,343	-2,670	25.2%	-92.3%	30.2%	-53,303	-9,062	-83.0%
Income Tax	-49	-100	-72	-85	-15.2%	46.9%	-28.0%	-175	-294	68.2%
Profit before NCI	-12,088	15,050	24,251	28,228	-14.1%	NM	61.1%	60,217	97,833	62.5%
NCI	-1,871	-3,184	-2,196	-3,184	-31.0%	17.4%	NM	-5,347	-5,347	NM
Net Profit	-10,217	18,234	26,447	31,412	-15.8%	NM	45.0%	65,564	103,180	57.4%

FABS estimate & Co Data

Al Yahsat - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	92.1%	90.2%	84.8%	-731	-542	88.8%	88.7%	-13
EBITDA	61.4%	59.7%	57.9%	-349	-177	59.6%	57.8%	-180
Operating Profit	28.3%	15.1%	19.5%	-876	442	26.5%	22.6%	-399
Net Profit	-9.4%	17.4%	22.5%	3,188	510	15.2%	23.4%	820

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	3.79	70.0%	2.65
Relative Valuation (RV)	2.83	30.0%	0.85
Weighted Average Valuation (AED)			3.50
Current market price (AED)			2.57
Upside/Downside (%)			+36%

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 8.7%. It is arrived after using cost of equity of 9.5% and after-tax cost of debt of 5.9%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.0 and equity risk premium of 5.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.9% is calculated after adjusting a tax rate of 0.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, 000)	456,415
Terminal value (USD, 000)	1,954,502
FV to Common shareholders (USD, 000)	2,517,321
No. of share ('000)	2,439,770
Current Market Price (AED)	2.57
Fair Value per share (AED)	3.79

DCF Method

(All Figures in USD, 000)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	257,817	257,479	257,796	260,029	265,689
Capex	-179,471	-182,800	-125,886	-105,359	-83,500
Change in working capital	-8,509	-20,124	575	-27,791	-455
Free Cash Flow to Firm (FCFF)	69,836	54,555	132,484	126,879	181,734
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	69,158	49,692	110,993	97,769	128,804

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 6.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
SES S.A.	2,557	4.5	3.7	1.0	16.2
Comcast Corporation	166,000	6.9	6.6	11.5	10.4
Thaicom	378	13.5	13.0	36.0	44.6
Eutelsat Communications	2,024	5.2	7.1	4.7	4.7
Altice USA	1,314	7.4	7.3	7.97	7.1
Echostar Corporation	1,162	2.0	1.9	14.8	21.5
GOGO INC	1,351	11.9	10.7	9.6	17.7
Average		7.3x	7.2x	12.2x	17.5x
Median		6.9x	7.1x	9.6x	16.2x
Max		9.6x	9.0x	13.2x	19.6x
Min		4.8x	5.2x	6.3x	8.8x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link

+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.