

Emirates Integrated Telecommunications Co PJSC (DU)

Solid growth in subscriber base and opex control drove the bottom-line

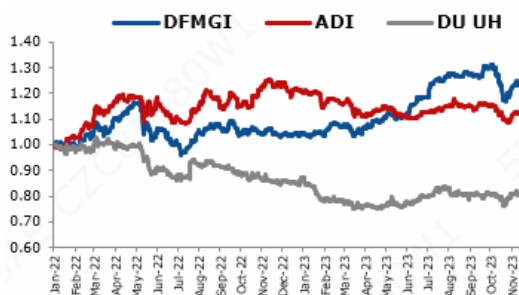
Current Price
AED 5.85

Target Price
AED 7.40

Upside/Downside (%)
+27%

Rating
BUY

- The Company launched "Du Pay" as an important step towards building a new revenue stream.
- Mobile subscribers grew 5.7% YOY to 8.7 Mn backed by strong growth in postpaid and prepaid subscribers.
- Fixed services customers also grew 11.1% YOY to 616,000 in 1Q24.
- DU incurred a capex of AED 359 Mn in 1Q24 towards 5G deployment, expanding fiber network, and transformation of IT and network infrastructure; Capex moderating on YOY basis.
- DU cancelled Term loan facility of AED 1.8bn in March 2024.



1Q24 Net Profit Higher than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit rose 62.7% YOY to AED 603 Mn in 1Q24, significantly higher than our estimate of AED 424 Mn. The increase in net profit is primarily driven by revenue growth owing to higher mobile revenue, opex control, and lower royalty expense.

P&L Highlights

DU's revenue grew 4.1% YOY to AED 3,581 Mn in 1Q24 primarily driven by a growth in Mobile, fixed, and other segments, offsetting the decrease in the wholesale segment. Mobile Service segment revenue grew 7.4% YOY to AED 1,602 Mn in 1Q24, mainly driven by postpaid revenue growth due to consistent enterprise sector demand, and prepaid revenue grew driven by the higher subscriber base. The post-paid segment customer base rose 10.1% YOY and 2.9% QOQ to 1.7 Mn in 1Q24 mainly due to attractive plans. Meanwhile, the prepaid segment customer base grew 4.7% YOY and 0.9% QOQ to 7 Mn in 1Q24 owing to the success of Alo, Easy Plans and Flexi prepaid offers. Furthermore, DU's total mobile customer base rose 5.7% YOY to 8.7 Mn subscribers in 1Q24. Fixed Service segment revenue recorded a growth of 2.9% YOY to AED 961 Mn in 1Q24 primarily due to growth in home wireless and enterprise broadband plans. Broadband customers recorded a growth of 11.1% YOY to 616 thousand subscribers in 1Q24. DU's Wholesale business revenue decreased 1.5% YOY to AED 453 Mn in 1Q24, while others revenue grew 1.8% YOY to AED 565 Mn, owing to higher interconnect and inbound roaming revenues offsetting the decrease in hubbing revenues. DU's cost of revenue, excluding D&A and marketing expenses, declined by 3.6% YOY to AED 1,882 Mn in 1Q24.

Stock Information

Market Cap (AED, mn)	26,608.16
Paid Up Capital (mn)	4,532.91
52 Week High	6.05
52 Week Low	4.98
3M Avg. daily value (AED)	2,696,825

1Q24 Result Review (AED, mn)

Total Assets	18,487
Total Liabilities	9,591
Total Equity	8,897
EBITDA	1,587
Net Profit	603

Financial Ratios

Dividend Yield (12m)	5.79
Dividend Pay-out (%)	92.41
Price-Earnings Ratio(x)	14.00
Price-to-Book Ratio (x)	2.99
Book Value (AED)	1.96
Return-on Equity (%)	21.78

Stock Performance

5 Days	4.45%
1 Months	4.26%
3 Months	3.71%
6 Months	9.51%
1 Year	13.98%
Month to Date (MTD%)	0.34%
Quarter to Date (QTD%)	1.56%
Year to Date (YTD%)	13.10%

Marketing expenses declined 4.4% YOY to AED 50 Mn in 1Q24 while ECL charges also fell 9.2% YOY to AED 62 Mn. The Company's EBITDA grew 16.1% YOY to AED 1,587 Mn in 1Q24 mainly due to higher revenue, favorable revenue mix, termination of beIN contract, and sustained opex control. Thus, EBITDA margin rose 460 bps YOY to 44.3% in 1Q24. Depreciation and amortization expenses increased 1.6% YOY to AED 521 Mn in 1Q24. The Company posted a finance income of AED 4 Mn in 1Q24 compared to a finance expense of AED 4 Mn in 1Q23. The federal royalty fell 15.1% YOY to AED 406 Mn and a tax expense of AED 59 Mn in 1Q24.

Balance Sheet Highlights

DU continued its efforts to expand the 5G coverage and fiber network and transform its IT and network infrastructure, which resulted in a Capex of AED 359 Mn with a capital intensity ratio of 10.0% in 1Q24 compared to a capex of AED 408 Mn and capital intensity ratio of 11.8% in 1Q23. DU's operating free cash flow rose 28.2% YOY to AED 1.2 Bn in 1Q24, driven by EBITDA growth and a reduction in capex. The Company is debt-free with a net cash balance of AED 2,648 Mn in 1Q24, which will support long-term growth plans for the business.

Target Price and Rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company's revenue rose 4.1% YOY to AED 3,581 Mn in 1Q24, driven by strong growth in customer base across both Mobile and Fixed Services as a result of sustained demand from enterprise customers. It prioritizes generating profitable growth from its core operations (Mobile and Fixed) and non-core ICT business. DU reported continued growth in postpaid subscribers and added 47 thousand customers in 1Q24, leading to a total subscriber base of 1.7 Mn in 1Q24. The increase is mainly attributed to attractive offerings for enterprises and consumers such as unlimited data power plans. DU's prepaid customer base rose 4.7% YOY to 7.0 Mn in 1Q24 due to attractive data and voice offers such as Alo, Easy, and Flexi plans. The Company's customer base for Fixed Services segments also grew 11.1% YOY to 616 thousand in 1Q24. DU's capex moderated on YOY basis and incurred a capex of AED 359 Mn in 1Q24 to expand and improve its 5G coverage and fibre deployment, aiming to further develop its IT and network infrastructure. DU, in an effort to build a new revenue stream, launched Du Pay. This will help UAE residents transition to a cashless economy and allow the company to provide other financial services products through the app. Additionally, the Company remains debt-free and maintained a strong balance sheet position with a net cash balance of AED 2,648 Mn in 1Q24. DU reaffirmed its guidance indicating strong business momentum. Du provides a dividend yield of 5.8% as of 2023. Thus, considering all these factors, we maintain our BUY rating on the stock.

DU - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	15.3	18.4	24.1	21.7	15.9	13.0
PB	3.1	3.1	3.1	3.0	2.9	2.8
EV/EBITDA	6.6	8.1	8.0	7.3	6.3	5.8
Dividend yield	5.8%	4.8%	3.6%	4.1%	5.8%	6.0%

FABS Estimates & Co Data

DU – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	3,441	3,558	3,581	3,502	2.3%	4.1%	0.7%	13,636	14,467	6.1%
Costs	-1,953	-1,995	-1,882	-1,885	-0.1%	-3.6%	-5.7%	-7,359	-7,652	4.0%
Marketing expense	-53	-85	-50	-60	-15.6%	-4.4%	-41.0%	-236	-231	-1.9%
Expected Credit Loss	-69	-47	-62	-60	4.9%	-9.2%	31.9%	-243	-257	6.1%
EBITDA	1,366	1,430	1,587	1,498	5.9%	16.1%	10.9%	5,799	6,326	9.1%
D&A and Impairment	-513	-537	-521	-549	-5.1%	1.6%	-3.0%	-2,198	-2,222	1.1%
Operating profit	853	893	1,065	949	12.2%	24.9%	19.3%	3,600	4,104	14.0%
Finance inc/exp	-4	1	4	-8	NM	NM	NM	-40	-32	-20.0%
Pre-royalty profit	849	892	1,068	941	13.5%	25.9%	19.8%	3,559	4,072	14.4%
Federal Royalty	-478	-496	-406	-476	-14.7%	-15.1%	-18.1%	-1,891	-1,833	-3.1%
Tax	0	0	-59	-42	41.9%	NM	NM	0	-202	NM
Net Profit	370	396	603	424	42.4%	62.7%	52.1%	1,668	2,038	22.2%

FABS estimate & Co Data

DU - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	43.2%	43.9%	47.4%	422	352	46.0%	47.1%	108
EBITDA	39.7%	40.2%	44.3%	460	410	42.5%	43.7%	121
Operating Profit	24.8%	25.1%	29.7%	495	464	26.4%	28.4%	197
Net Profit	10.8%	11.1%	16.8%	607	569	12.2%	14.1%	186

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	7.72	70.0%	5.41
Relative Valuation (RV)	6.64	30.0%	1.99
Weighted Average Valuation (AED)			7.40
Current market price (AED)			5.85
Upside/Downside (%)			+27%

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 8.5%. Cost of equity is calculated by using 10-year government bond yield of 5.9%, beta of 0.9 and an equity risk premium of 2.9%. 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)	7,791
Terminal value (AED, Mn)	27,222
FV to Common shareholders (AED, Mn)	35,013
No. of share (Mn)	4,533
Current Market Price (AED)	5.85
Fair Value per share (AED)	7.72

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	2,038	2,134	2,195	2,414	2,564
D&A	1,800	1,900	2,041	2,131	2,241
Change in working capital	-541	133	70	133	5
(-) Capex	-2,025	-1,934	-1,989	-2,045	-2,104
Net change in debt	-175	-170	-166	-162	-162
Free Cash Flow to Equity (FCFE)	728	2,063	2,153	2,470	2,543
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFE	690	1,801	1,732	1,831	1,737

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 4.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Mobile telecommunication company	6,849	4.4	4.2	9.7	8.7
Verizon Communication	165,000	6.3	6.0	8.8	8.4
SAFARICOM PLC	4,750	4.6	4.3	9.7	8.3
Deutsche Telekom AG	114,000	4.8	4.6	13.5	11.5
Etihad Etisalat	10,616	6.8	6.2	16.0	13.9
Average		5.4x	5.1x	11.5x	10.2x
Median		4.8x	4.6x	9.7x	8.7x
Max		6.3x	6.0x	13.5x	11.5x
Min		4.6x	4.3x	9.7x	8.4x

Source: FAB Securities

