

Emirates Integrated Telecommunications Co PJSC (DU)

Favorable revenue mix and cost optimization drove profits on the bottom-line

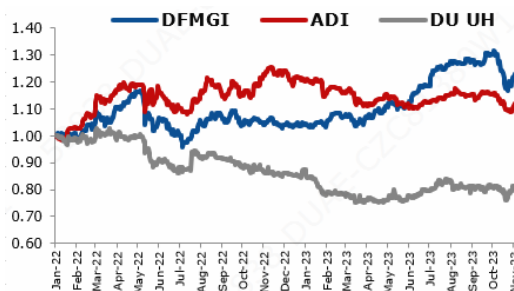
Current Price
AED 5.30

Target Price
AED 7.40

Upside/Downside (%)
+40%

Rating
BUY

- DU's net profit grew 57.7% YOY mainly due to strong EBITDA growth, lower sales cost and the one-off reversals of AED 87 Mn in 3Q23.
- DU's revenue reached AED 3.29 Bn on account of strong performance across postpaid and fixed services.
- DU's Mobile subscribers grew 9.4% YOY to 8.1 Mn backed by strong growth in postpaid and prepaid subscribers.
- Fixed services customers continued to record double-digit growth of 12.4% YOY to 573,000 customers in 3Q23
- DU incurred a capex of AED 527 Mn on account of 5G deployment, expanding fiber network and ongoing IT transformation.



Stock Information

Market Cap (AED, mm)	24,024.40
Paid Up Capital (mm)	4,532.91
52 Week High	5.89
52 Week Low	4.95
3M Avg. daily value (AED)	990,832

3Q23 Result Review (AED, mm)

Total Assets	16,449
Total Liabilities	7,588
Total Equity	8,860
EBITDA	1,485
Net Profit	504

3Q23 Net Profit higher than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit jumped 57.7% YOY to AED 504 Mn in 3Q23, higher than our estimate of AED 409 Mn. The growth in net profit is mainly driven by a rise in the EBITDA, higher finance income and one-time reversals of AED 87 Mn partially offset by normalization of expected credit losses on receivables, and higher D&A Charges. Without the one-off reversals the net profit grew 30.7% YOY to AED 417 Mn in 3Q23 compared to our estimate of AED 409 Mn.

P&L Highlights

DU's revenue grew 3.7% YOY to AED 3,291 Mn in 3Q23 mainly attributable to growth in the service segment driven by mobile postpaid and fixed segments partially offset by a decline in other revenues. The post-paid segment customers grew 10.3% YOY to 1.6 Mn mainly due to the steady growth, higher acquisition led by the iPhone launch, and the launch of new partnerships. On the other hand, the prepaid segment customer base grew 9.2% YOY with a total customer base of 6.5 Mn. Further, DU's total mobile customer base grew 9.4% YOY with 8.1 Mn subscribers in 3Q23. Thus, mobile services revenue rose 5.7% YOY to AED 1,525 Mn in 3Q23. Fixed service revenues recorded stable growth of 5.3% YOY to AED 939 Mn owing to continued demand from enterprise and retail consumers. The consumer broadband remains extremely attractive with 573,000 subscribers following the 12.4% YOY growth in subscribers in 3Q23. Thus, the overall service revenues grew 5.5% YOY to AED 2,464 Mn in 3Q23. Other revenues fell 1.5% year on year to AED 827 million, mainly due to lowered handset sales and hubbing revenue, partially offset by a rise in roaming and ICT service revenue. DU cost of revenue excluding D&A, marketing expense declined 4.4% YOY to

Financial Ratios

Dividend Yield (12m)	4.91
Dividend Pay-out (%)	89.20
Price-Earnings Ratio(x)	15.50
Price-to-Book Ratio (x)	2.71
Book Value (AED)	1.95
Return-on Equity (%)	17.99

5 Days	-0.75%
1 Months	4.95%
3 Months	-0.93%
6 Months	4.95%
1 Year	-6.85%
Month to Date (MTD%)	-1.49%
Quarter to Date (QTD%)	-0.93%
Year to Date (YTD%)	-8.62%

AED 1,701 Mn in 3Q23 due to Company's effective cost management and ongoing operational efficiency. Marketing expenses rose 6.1% YOY to AED 48 Mn in 3Q23. The company's EBITDA grew 14.0% YOY to AED 1,485 Mn, driven by higher service revenue, growth in gross profit, improvement of the revenue mix and better cost management strategy. Thus, the EBITDA margin rose 409 bps YOY to 45.1% in 3Q23. Moreover, depreciation and amortization expenses grew 6.4% YOY to AED 553 Mn in 3Q23. While the net finance cost declined 29.9% YOY to AED 13 Mn in 3Q22. In addition, DU's federal royalty declined 6.3% YOY to AED 416 Mn in 3Q23.

Balance Sheet Highlights

DU focused on expanding the fibre network, 5G deployment, and ongoing IT transformation led to incur a capex of AED 527 Mn amounting to a capital intensity of 16.0% in 3Q23. The Company's operating free cash flow grew 65.1% YOY to AED 956 Mn in 3Q23. The Company maintained its debt-free position with a strong balance sheet and a net cash balance of AED 1,079 Mn in 3Q23.

Target Price and Rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company delivered strong performance mainly due to rise in revenue, lower cost of sales, strong growth in EBITDA and the one-off reversals recorded in 3Q23. Net revenue grew 3.7% YOY in 3Q23 owing to the strong growth in the service segment partially offset by a marginal decline in other revenue. DU's mobile customer base rose 9.4% YOY to 8.1 Mn subscribers owing to the innovative and attractive service offerings. The Company's postpaid subscribers witnessed ninth consecutive quarter of net add of 32,200, with total postpaid reaching 1.6 Mn owing to steady growth in the consumer market along with launch of new partnership and higher acquisition led by the iPhone launch. While the prepaid customer base grew 9.2% YOY, totaling 6.5 Mn customers supported by growth in Virgin mobile and robust rise in tourist footfall. In addition, Fixed services customers continued to record double-digit growth of 12.4% YOY to 573,000 customers in 3Q23 due to attractive plans. DU also anticipates to build new revenue sources and provide innovative products that cater to customers digital lifestyle needs, which will provide boost to its revenue going forward. EBITDA reported a strong growth of 14.0% YOY in 3Q23 driven by growth in gross profit, improvement in the revenue mix and better cost management strategy. EBITDA margins expanded 409 bps YOY to 45.1% in 3Q23. Furthermore, the Company also maintained a healthy balance sheet with a cash balance of AED 1,079 Mn in 3Q23 with a debt-free balance sheet position. It also incurred a capex of AED 527 Mn in 3Q23 on account of 5G deployment, expanding fiber network and ongoing IT transformation. The Company free cash flow also grew from AED 579 Mn in 3Q22 to AED 956 Mn in 3Q23 mainly due to strong EBITDA growth and capex normalization. Thus, considering all these factors, we maintain our BUY rating on the stock.

DU - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	13.8	14.0	16.8	22.1	19.9	15.0
PB	2.9	2.8	2.8	2.8	2.8	2.7
EV/EBITDA	4.0	3.8	4.9	5.0	4.4	4.0
Dividend yield	6.5%	6.3%	5.2%	3.9%	4.5%	4.9%

FABS Estimates & Co Data

DU – P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,175	3,347	3,291	3,362	-2.1%	3.7%	-1.7%	12,754	13,530	6.1%
Costs	-1,778	-1,710	-1,701	-1,775	-4.2%	-4.4%	-0.5%	-7,194	-7,347	2.1%
Marketing expense	-45	-50	-48	-50	-4.7%	6.1%	-4.2%	-246	-244	-1.0%
Expected Credit Loss	-48	-69	-57	-67	-15.1%	17.9%	-17.8%	-174	-184	6.1%
EBITDA	1,303	1,517	1,485	1,469	1.1%	14.0%	-2.1%	5,141	5,756	11.9%
D&A and Impairment	-519	-595	-553	-543	1.9%	6.4%	-7.1%	-2,112	-2,170	2.7%
Operating profit	783	922	932	926	0.6%	19.0%	1.1%	3,029	3,585	18.4%
Finance inc/exp	-18	-24	-13	-13	-3.7%	-29.9%	-46.6%	-59	-70	17.3%
Pre-royalty profit	763	898	920	913	0.8%	20.5%	2.4%	2,963	3,517	18.7%
Federal Royalty	-444	-501	-416	-504	-17.5%	-6.3%	-16.9%	-1,744	-1,934	10.9%
Net Profit	319	397	504	409	23.2%	57.7%	26.8%	1,220	1,583	29.8%

FABS estimate & Co Data

DU - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	44.0%	48.9%	48.3%	434	-58	43.6%	45.7%	210
EBITDA	41.0%	45.3%	45.1%	409	-21	40.3%	42.5%	223
Operating Profit	24.7%	27.6%	28.3%	366	78	23.7%	26.5%	275
Net Profit	10.1%	11.9%	15.3%	525	344	9.6%	11.7%	213

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	7.63	70.0%	5.34
Relative Valuation (RV)	6.86	30.0%	2.06
Weighted Average Valuation (AED)			7.40
Current market price (AED)			5.30
Upside/Downside (%)			+40%

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 9.2%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.0 and equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,410
Terminal value (AED, Mn)	27,194
FV to Common shareholders (AED, Mn)	34,603
No. of share (Mn)	4,533
Current Market Price (AED)	5.30
Fair Value per share (AED)	7.63

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	1,616	1,817	1,943	2,085	2,446
D&A	2,255	2,249	2,281	2,400	2,383
Change in working capital	-9	3	199	-130	236
(-) Capex	-2,007	-2,043	-2,090	-2,179	-2,277
Net change in debt	-129	-118	-78	-54	-31
Free Cash Flow to Equity (FCFE)	288	1,908	2,256	2,123	2,757
Discounting Factor	0.99	0.91	0.83	0.76	0.70
Discounted FCFE	284	1,727	1,870	1,611	1,917

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 of multiple of 5.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Telecom	51,050	7.3	6.7	15.1	14.4
Mobile telecommunication company	6,744	4.5	4.2	8.9	8.7
Verizon Communication	148,000	6.1	5.9	7.9	7.7
SAFARICOM PLC	3,311	5.6	4.3	11.7	8.5
Deutsche Telekom AG	108,000	5.3	4.9	6.5	11.8
Telstra Group limited	27,870	8.2	6.9	25.7	20.3
Average		6.1x	5.5x	12.6x	11.9x
Median		5.9x	5.4x	10.3x	10.2x
Max		7.0x	6.5x	14.3x	13.8x
Min		5.3x	4.5x	8.1x	8.5x

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%

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