

Emirates Telecommunications Group Co PJSC

Healthy revenue growth and strong growth in other income drove profitability

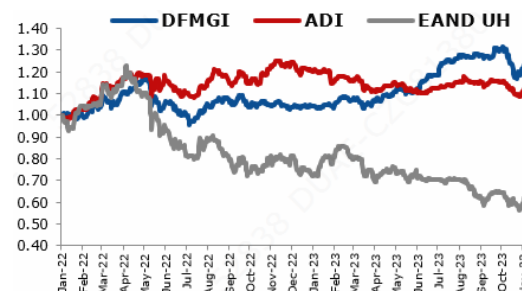
Current Price
AED 20.08

Target Price
AED 23.00

Upside/Downside (%)
+15%

Rating
BUY

- EAND revised its 2023 revenue guidance upwards to high single-digit growth from low-to-mid single-digit growth due to the Company's strong performance in 9M23
- EAND revenue grew 3.3% YOY while UAE continued its momentum and contributed 61% of total revenue in 3Q23
- EAND reached a milestone of 167 Mn aggregate subscribers base which grew 1.2% QOQ in 3Q23 with a net addition of 5.4 Mn subscribers in the last 12 months
- Maintained flexible balance sheet while investing in growth opportunities with a net debt/EBITDA below 1x in spite of gross debt of AED 46.9 Bn in 3Q23



3Q23 Net Profit higher than our estimate

Emirates Telecommunications Group Co PJSC (EAND/The Company) net profit grew 20.0% YOY to AED 2,979 Mn in 3Q23, higher than our estimate of AED 2,589 Mn. The rise in net profit is mainly attributed to increase in revenue, decline in operating expenses, strong growth in finance and other income, and decline in income tax expenses partially offset by rise in federal royalty and growth in finance and other cost.

P&L Highlights

EAND's total revenue rose 3.3% YOY to AED 13,397 Mn in 3Q23 driven by healthy growth in UAE region and higher other income partially offset by decline in international business. EAND's UAE revenue rose 5.8% YOY to AED 8,130 Mn in 3Q23 driven by an increase in subscriber base and better customer offering along with addition of new products. Mobile segment's revenue rose 2.6% YOY to AED 2.9 Bn in 3Q23 due to rise in subscribers and solid offers coupled with increase in outbound roaming. Fixed segment revenue grew 2.6% YOY to AED 2.9 Bn in 3Q23 driven by new offer schemes like Business Pro and Home Wireless services which led to increased demand for internet and data services partially offset by decline in TV revenue due to termination of beIN contract. Other segment revenue rose 14.7% YOY to AED 2.3 Bn mainly due to rise in wholesale and handset revenues. However, EAND's international revenue fell 3.4% YOY to AED 5.0 Bn, attributable to adverse change in the exchange rate of the Egyptian Pund and Pakistani Rupee. Maroc Telecom's consolidated revenue rose 4.9% YOY to AED 3.2 Bn in 3Q23 driven by healthy revenue growth from international operations of Moov Africa despite a decline in revenue in local currency. Egypt's revenue fell 25.3% YOY to AED 1.0 Bn in 3Q23 but increased 20.9% YOY in local currency due

Stock Information

Market Cap (AED, mm)	174,630.82
Paid Up Capital (mm)	8,696.75
52 Week High	27.30
52 Week Low	17.70
3M Avg. daily value (AED)	38,840,280

3Q23 Result Review (AED, mm)

Total Assets	139,510
Total Liabilities	91,337
Total Equity	48,173
EBITDA	6,896
Net Profit	2,979

Financial Ratios

Dividend Yield (12m)	3.98
Dividend Pay-out (%)	69.52
Price-Earnings Ratio(x)	16.90
Price-to-Book Ratio (x)	4.27
Book Value (AED)	4.71
Return-on Equity (%)	25.28

Stock Performance

5 Days	2.34%
1 Months	6.81%
3 Months	-5.73%
6 Months	-8.81%
1 Year	-21.13%
Month to Date (MTD%)	8.78%
Quarter to Date (QTD%)	-1.76%
Year to Date (YTD%)	-12.16%

to rise in customer base and increase in mobile data and voice revenue partially offset by high inflationary pressure and end of the national roaming agreement with Telecom Egypt. Revenue from Pakistan declined 3.3% YOY to AED 0.6 Bn in 3Q23 due to unfavorable exchange while the revenue in local currency recorded a healthy growth of 25.3% YOY driven by growth in mobile data, fixed broadband, business solution and mobile banking services despite challenging economic conditions. Etisalat's operating expenses marginally declined 0.6% YOY to AED 7,973 Mn in 3Q23 due to decline in D&A expenses and other operating expenses partially offset by increase in staff cost, network & related cost, marketing expenses, and inflationary pressure. Meanwhile, share of results of associates and JVs rose 39.9% YOY to AED 177 Mn in 3Q23. The Company's federal royalty rose 13.6% YOY to AED 1,777 Mn in 3Q23 with a 27 bps YOY decline in EBITDA margin to 51.5%. As a result, operating profit increased 9.4% YOY to AED 3,630 Mn in 3Q23. EAND's total EBITDA rose 2.7% YOY to AED 6,896 Mn in 3Q23 driven by cost discipline. Etisalat's EBITDA in UAE rose 5.6% YOY to AED 4,334 Mn in 3Q23 while EAND international EBITDA grew marginally 0.5% YOY to AED 2,545 Mn in 3Q23. Finance and other income more than doubled from AED 507 Mn in 3Q22 to AED 1,297 Mn in 3Q23 whereas finance and other cost increased significantly from AED 581 Mn in 3Q22 to AED 1,309 Mn in 3Q23. Furthermore, income tax expense declined 25.1% YOY to AED 343 Mn in 3Q23. In addition, the share of profit attributable to non-controlling interest declined 3.0% YOY to AED 295 Mn in 3Q23.

Balance Sheet Highlights

EAND's consolidated capex rose 11.2% YOY to AED 1.8 Bn in 3Q23 with a capital intensity ratio of 13%. The Company's capital spending is mainly focused on deploying latest technology and modernized network. EAND's capex declined 26.8% YOY in UAE and is focused on advancement of 5G network capabilities. Whereas, EAND international's capex rose 37.5% YOY. Marco Telecom capital spending is focused on expanding FTTH network and 4G mobile network coverage and increasing the network capacity. Capex in Pakistan is focused on expanding FTTH network and improving efficiency of mobile and fixed network's capacity. While Capex in Egypt is focused on development of 4G network and improving network capacity. Etisalat's total debt marginally declined 0.7% QOQ to AED 46.9 Bn in 3Q23. Out of the total debt, c. 76% is of long-term maturity. Whereas, the currency-mix for external borrowings stood at 51% in AED, 12% in EUR, 12% in USD, and remaining 19% in other currencies. The Company's cash balance stood at AED 24.2 Bn in 3Q23 compared to AED 24.0 Bn in 2Q23. Thus, the debt to EBITDA ratio stood at 0.88x in 3Q23 as compared to 0.91x in 2Q23.

Target Price and Rating

We maintain our BUY rating on EAND with a target price of 23.00. The Company recorded a healthy growth in revenue despite currency fluctuation and inflationary pressure. Pakistani Rupee on an average declined 3.1% QOQ impacting profitability. EAND revised its 2023 revenue guidance upwards to high single-digit from low-to-mid single-digit growth due to the Company's strong performance in 9M23. Moreover, the Company's aggregate subscriber base rose 1.2% QOQ to 167 Mn in 3Q23. Etisalat added 5.4 Mn subscribers over the last 12 months. A higher subscriber base will lead to increased demand for data and voice services, improving EAND's mobile segment revenue. The Company spent AED 1.8 Bn on capex in 3Q23, which is focused on increasing 4G and 5G mobile network coverage, expansion of FTTH, and enhancement of the region's mobile and fixed network capacity. Rapid deployment of 4G and 5G mobile networks allows the company to introduce attractive plans and products to further aid revenue growth. Furthermore, according to the new royalty guidelines from the UAE's Ministry of Finance, EAND will have to pay federal royalty at the rate of 38% on the sum of the regulated and non-regulated net profit generated from the UAE operations. The impact of royalty and corporate tax is expected to be neutral on EAND's financials. Meanwhile, EAND also signed a binding agreement to acquire a controlling stake in PPF Telecom on 1 August 2023. The transaction accelerates EAND's strategy to diversify in new geographies and will add an incremental 14% and 11% of EAND's total revenue and EBITDA, based on FY2022 financial. The Company's net debt stood at AED 22.7 Bn in 3Q23 with a net debt to EBITDA ratio stood of 0.88x which provides strong room for financing opportunity using leverage. Thus, the above-mentioned factors, we assign an BUY rating on the stock.

EAND - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	20.3	20.1	19.3	18.7	17.5	16.6
PB	3.9	3.7	3.6	3.7	4.1	3.8
EV/EBITDA	7.0	6.8	6.9	6.8	7.5	7.5
Dividend yield	4.0%	4.0%	6.0%	4.0%	4.0%	4.0%

FABS Estimates & Co Data
EAND – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY	QOQ	2022	2023F	Change
Revenues	12,973	13,614	13,397	13,705	-2.2%	3.3%	-1.6%	52,434	53,893	2.8%
Operating expenses	-8,021	-8,512	-7,973	-8,634	-7.7%	-0.6%	-6.3%	-33,323	-33,953	1.9%
Imp loss on trade recv.	-194	-268	-194	-206	-5.7%	0.0%	-27.7%	-806	-728	-9.8%
Share of results of assoc.	127	167	177	164	7.8%	39.9%	6.1%	417	647	55.0%
Operating profit before federal royalty	4,885	5,001	5,407	5,030	7.5%	10.7%	8.1%	18,722	19,860	6.1%
Federal royalty	-1,565	-1,411	-1,777	-1,453	22.3%	13.6%	25.9%	-5,771	-5,928	2.7%
Operating profit	3,320	3,590	3,630	3,577	1.5%	9.4%	1.1%	12,951	13,931	7.6%
EBITDA	6,714	6,568	6,898	6,896	0.0%	2.7%	5.0%	26,202	27,171	3.7%
Finance and other inc.	507	489	1,297	466	NM	NM	NM	2,001	2,802	40.1%
Finance and other costs	-581	-860	-1,309	-822	59.2%	NM	52.2%	-2,674	-3,850	44.0%
Profit before tax	3,245	3,219	3,617	3,221	12.3%	11.5%	12.4%	12,278	12,884	4.9%
Income tax expense	-458	-431	-343	-444	-22.8%	-25.1%	-20.3%	-1,752	-1,417	-19.1%
Profit for the period	2,788	2,789	3,274	2,776	17.9%	17.5%	17.4%	10,526	11,466	8.9%
Non-controlling interest	304	266	295	187	57.3%	-3.0%	10.8%	518	917	77.0%
Net Profit	2,484	2,522	2,979	2,589	15.1%	20.0%	18.1%	10,007	10,549	5.4%

FABS estimate & Co Data
EAND - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Operating profit margin	25.6%	26.4%	27.1%	151	73	24.7%	25.9%	115
EBITDA margin	51.8%	48.2%	51.5%	-27	324	50.0%	50.4%	44
Net profit margin	19.1%	18.5%	22.2%	310	371	19.1%	19.6%	49

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value EAND. We have assigned 70% weight to DCF, and 30% to RV method. We have also included the value of interest owned by EAND in Vodafone Plc and Etihad Etisalat Co. EAND's value of ownership in both entities are included in DCF and RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	25.13	70.0%	17.59
EV/EBITDA	18.02	30.0%	5.41
Weighted Average Valuation (AED)			23.00
Current market price (AED)			20.0
Upside/Downside (%)			+15%

1) DCF Method:

EAND is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.7%. It is arrived after using cost of equity of 8.2% and after-tax cost of debt of 6.7% with debt-to-equity ratio of 26.85%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 3.7%. 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 5.1% after adjusting a tax rate of 14.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	46,598
Terminal value (AED, Mn)	187,736
FV to Common shareholders (AED, Mn)	234,334
No. of share (Mn)	8,697
Current Market Price (AED)	20.08
Net debt as of 30 June 2023	-29,939
Minority Interest (AED, mn)	-7,241
Mobily share included in EAND	10,001
Vodafone share included in EAND	11,400
Total Equity Value	218,555
Fair Value per share (AED)	25.13

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	15,464	15,209	15,497	15,789	15,695
Depreciation & Amortization	7,230	7,732	8,247	8,755	9,258
(-) Changes in Working Capital	1,857	-406	122	-740	279
(-) Capex	-9,270	-10,005	-10,306	-10,614	-10,931
Free Cash Flow to Firm (FCFF)	15,281	12,530	13,560	13,190	14,302
Discounting Factor	0.99	0.92	0.85	0.79	0.74
Discounted FCFF	2,523	11,523	11,576	10,454	10,523

Source: FAB Securities

2) Relative Valuation:

We have used international peers to value EAND and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 6.4x 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	3,308	6.4	5.9	11.3	16.1
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
Mobily	9,467	6.9	6.2	17.9	15.5
Average		6.5x	5.8x	13.7x	13.5x
Median		6.4x	5.9x	11.7x	14.4x
Max		7.1x	6.5x	16.5x	15.8x
Min		5.9x	5.4x	9.6x	10.1x

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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