

Etisalat Group

Exchange rate volatility impacted top-line growth

3Q22 net profit higher than our estimate

Etisalat Group Co PJSC (EAND/The Company) net profit rose slightly 1.9% YOY to AED 2,484 Mn in 3Q22, higher than our estimate of AED 2,295 Mn. The marginal increase in net profit is mainly attributed to higher associate income, lower D&A expenses, partially offset by the impact of an increase in foreign exchange losses, net finance cost and other costs, and federal royalty charges.

P&L Highlights

EAND's total revenue declined 2.4% YOY to AED 13.0 Bn in 3Q22. The decline was primarily due to the result of significant exchange rate volatility in the Egyptian Pound, Pakistani Rupee, and Moroccan Dirham as a result of global macroeconomic turmoil. This was partially offset by strong performance in the UAE as well as strong local currency growth in Etisalat Egypt, Maroc Telecom, and PTCL Group operations. Consolidated total revenue in constant currency rose 5.5% YOY due to a growth in all markets. Etisalat UAE's revenue increased 3% YOY to AED 7.7 Bn in 3Q22 as a result of growth in mobile, fixed data, and digital services. Revenue from consolidated international operations declined 11.0% YOY to AED 5.1 Bn in 3Q22 owing to unfavorable movement in the Egyptian Pound, Pakistan Rupees, and Moroccan Dirham against AED. Operating expenses fell 4.0% YOY to AED 8,021 Mn in 3Q22 owing primarily to the Company's ongoing efforts to control and optimize costs in order to offset inflationary pressure. This led to a fall in marketing, staff cost, D&A, and network costs partially offset by an increase in cost of sales. Impairments loss on trade receivables and contract asset fell from AED 313 Mn in 3Q21 to AED 194 Mn in 3Q22. Share of profit from associates and JVs rose from AED 78 Mn in 3Q21 to AED 127 Mn in 3Q22 benefitting profitability. It has entered into JV with multiple companies in UAE and internationally. Furthermore, EBITDA remained flat at AED 6,741 Mn with a EBITDA margin which rose 125 bps YOY to 52.0% in 3Q22. The marginal increase in EBITDA is primarily due to significant growth in the UAE and Egypt operations, which offset losses in other international operations. Federal royalty rose 9.0% YOY to AED 1,565 Mn in 3Q22. Operating profit increased 1.4% YOY to AED 6.7 Bn in 3Q22. Finance cost rose from AED 271 Mn in 3Q21 to AED 581 Mn in 3Q22 due to an increase in debt and benchmark rates. While finance income rose from AED 365 Mn in 3Q21 to AED 507 Mn in 3Q22. Income tax expense fell 7.4% YOY to AED 458 Mn in 3Q22. Share to non-controlling interest holders stood at AED 304 Mn in 3Q22 compared to AED 435 Mn in 3Q21.

Balance Sheet Highlights

Consolidated capital expenditure decreased 41.0% YOY to AED 1.6 Bn resulting in a capital intensity ratio of 12%, 8 percentage point lower than 3Q21. The company's capital spending declined due to decline in capex spend in Pakistan on account of spectrum acquisition in 3Q21. Excluding, spectrum cost in Pakistan capex intensity remains flat at 12% in 3Q22 compared to 3Q21. It continues to invest on ongoing commitment to expanding its superior quality network and reinforcing leadership position. In UAE capital expenditure rose 6.0% YOY to AED 0.6 Bn in 3Q22 with a capital intensity ratio of 7% in 3Q22. International Operations represented 65% of the Company's total CAPEX and decreased 52% YOY to AED 1.0 Bn in 3Q22. Furthermore, total consolidated debt amounted to AED 40.1

Rating : HOLD

First Look Note – 3Q22

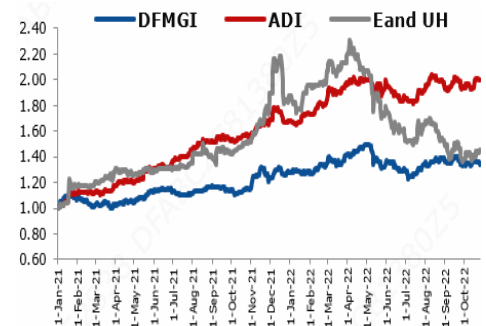
Sector: Telecom

Recommendation

| | |
|---------------------------|-------|
| Current Price (03-Nov-22) | 24.40 |
| Target Price (AED) | 25.00 |
| Upside/Downside (%) | +2.5% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 212,200.80 |
| Paid Up Capital (mm) | 8,696.75 |
| 52 Week High | 39.06 |
| 52 Week Low | 22.66 |
| 3M Avg. daily value (AED) | 52,517,960 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 3.28 |
| Dividend Pay-out (%) | 74.67 |
| Price-Earnings Ratio (x) | 22.27 |
| Price-to-Book Ratio (x) | 5.19 |
| Book Value (AED) | 4.71 |
| Return-on Equity (%) | 21.80 |
| Earning Per Share (AED) | 1.10 |
| Beta | 1.25 |

Stock Performance

| | |
|-----------------------|---------|
| 5 Days | -3.94% |
| 1 Months | 3.83% |
| 3 Months | -12.86% |
| 6 Months | -30.29% |
| 1 Year | -7.65% |
| Month to Date (MTD) | -5.43% |
| Quarter to Date (QTD) | 4.45% |
| Year to Date (YTD) | -23.03% |

Bn as of 30 September 2022 compared to AED 25.7 Bn on 31 December 2021. Around 84% of the debt balance is of long-term maturity which is due after 3Q23. Currency mix for external borrowings includes 55% in USD, 19% in Euros, 8% in MAD, 5% in AED and 13% in other currencies. The consolidated cash balance stood at AED 26.0 Bn as of 30 September 2022, leading to a net debt position of AED 14.1 Bn in 3Q22. Net Debt/EBITDA ratio stood at 0.53x in 3Q22. EAND continues to generate steady free cash flow from operations and generated USD 15.1 Bn in 9M22.

Target price and recommendation

We maintain our HOLD rating on EAND with an unchanged target price of AED 25.00. EAND is focusing on diversifying its revenue sources. Recently EAND subsidiary E-Vision and ADQ (an Abu Dhabi-based investment holding company) completed the acquisition of a 57% stake in STARZPLAY ARABIA. The acquired company is the region's leading provider of Subscription Video on Demand (SVOD) and streaming services. The acquisition will scale up EAND's revenue from the entertainment vertical. SVOD demand in UAE is expected to grow at a CAGR of 6.24% from USD 145.2 Mn in 2022 to USD 196.5 Mn in 2027. Also, in order to expand and diversify its international business, e& acquired a 9.8% ownership stake in Vodafone Group plc. EAND entered into a JV with G42 data center under Khazna to operate the center. This will diversify the revenue sources for EAND. EAND holds a leading market share in UAE with approximately ~60% of revenue and 62% EBITDA and is strongly positioned due to limited competition. Furthermore, the aggregate subscriber base of the company increased 4% YOY to 162 Mn in 3Q22, reflecting a strong subscriber base from the UAE, which rose 11% YOY to 13.3 Mn in 3Q22. The aggregate subscribers base of the company increased mainly due to significant subscriber acquisition in Egypt, the UAE, Burkina Faso, Chad, Benin, Ivory Coast, and Pakistan. The Company also plans to raise its stake in Mobily from 28% to 50%. We view this plan to raise stake in Mobily as positive. However, EAND operation in Africa and Pakistan continue to get negatively impacted due to adverse foreign exchange movements and regulatory changes. EAND share price is trading at FY2022 EV/EBITDA 9.1x with a dividend yield of 3.1% compared to peer average of 5.8x and 6.7%, respectively. Based on the above we assign HOLD rating on the stock.

Etisalat Group - Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022F |
|--------------------|------|------|------|------|-------|
| P/E (x) | 24.8 | 25.5 | 24.5 | 23.8 | 22.8 |
| P/B (x) | 4.9 | 4.8 | 4.5 | 4.7 | 4.4 |
| EV/EBITDA | 8.9 | 8.6 | 8.6 | 8.5 | 9.1 |
| Dividend Yield (%) | 3.1% | 3.1% | 4.7% | 3.1% | 3.1% |

FABS Estimates & Co Data

Etisalat Group - P&L

| AED mm | 3Q21 | 2Q22 | 3Q22A | 3Q22F | Var | YOY | QOQ | 2021 | 2022F | Ch |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Revenue | 13,294 | 12,996 | 12,973 | 13,061 | -0.7% | -2.4% | -0.2% | 53,342 | 52,817 | -1.0% |
| Operating expenses | -8,351 | -8,130 | -8,021 | -8,098 | -0.9% | -4.0% | -1.3% | -34,081 | -32,798 | -3.8% |
| Imp loss on trade recv. | -313 | -242 | -194 | -232 | -16.5% | -38.0% | -19.9% | -1,217 | -898 | -26.2% |
| Share of results of as-soc | 78 | 89 | 127 | 80 | 57.4% | 61.9% | 41.7% | 297 | 322 | 8.3% |
| Operating profit before federal royalty | 4,708 | 4,712 | 4,885 | 4,811 | 1.5% | 3.8% | 3.7% | 18,341 | 19,443 | 6.0% |
| Federal royalty | -1,435 | -1,450 | -1,565 | -1,437 | 8.9% | 9.0% | 7.9% | -5,542 | -6,064 | 9.4% |
| Operating profit | 3,273 | 3,263 | 3,320 | 3,375 | -1.6% | 1.4% | 1.7% | 12,799 | 13,379 | 4.5% |
| EBITDA | 6,741 | 6,644 | 6,741 | 6,400 | 5.3% | 0.0% | 1.5% | 26,721 | 26,728 | 0.0% |
| Finance and other income | 365 | 292 | 507 | 327 | 55.3% | 39.1% | 74.0% | 1,289 | 1,349 | 4.6% |
| Finance and other costs | -271 | -814 | -581 | -1,014 | -42.7% | 114.4% | -28.6% | -1,284 | -2,555 | 98.9% |
| Profit before tax | 3,366 | 2,740 | 3,245 | 2,687 | 20.8% | -3.6% | 18.4% | 12,804 | 12,173 | -4.9% |
| Income tax expenses | -495 | -441 | -458 | -336 | 36.3% | -7.4% | 3.8% | -1,745 | -1,671 | -4.2% |
| Profit for the period | 2,871 | 2,299 | 2,788 | 2,351 | 18.6% | -2.9% | 21.2% | 11,059 | 10,502 | -5.0% |
| Non-controlling interests | 435 | -132 | 304 | 59 | 417.3% | -30.1% | -330.5% | 1,742 | 756 | -56.6% |
| Net Profit | 2,436 | 2,431 | 2,484 | 2,292 | 8.4% | 1.9% | 2.2% | 9,317 | 9,746 | 4.6% |

FABS Estimates & Co Data

Etisalat Group - Margins

| | 3Q21 | 2Q22 | 3Q22 | YOY Ch | QOQ Ch | 2021 | 2022 | YOY Ch |
|------------------|-------------|-------------|-------------|---------------|---------------|-------------|-------------|---------------|
| EBITDA | 24.6% | 25.1% | 25.6% | 97 | 48 | 24.0% | 25.3% | 134 |
| Operating Profit | 50.7% | 51.1% | 52.0% | 125 | 84 | 50.1% | 50.6% | 51 |
| Net Profit | 18.3% | 18.7% | 19.1% | 82 | 44 | 17.5% | 18.5% | 99 |

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"