

Al Yah Satellite Communications Company (YAHSAT)

Lower direct costs and higher finance income supported the bottom line

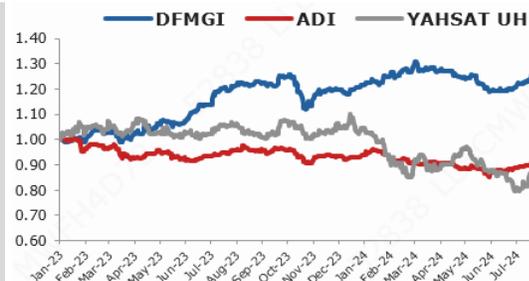
Current Price
AED 2.11

Target Price
AED 3.20

Upside/Downside (%)
+52%

Rating
BUY

- Al Yahsat's contracted future revenue stands at USD 6.7 Bn in 2Q24, which is equivalent to 15x of the Company's last twelve-month revenue.
- Free cash flow declined 4% YOY to USD 78 Mn, while the cash conversion ratio stood at 93% in 1H24.
- Revised its cash Capex and investment range from USD 470-500 Mn to USD 400-430 Mn due to the later-than-expected signing of the Al Yah 4 and 5 procurement contracts with Airbus.
- Expect revenue to range between USD 415-435 Mn, while discretionary free cash flow to be between USD 120-140 Mn in 2024.



Stock Information

Market Cap (AED, mn)	5,099.12
Paid Up Capital (mn)	2,439.77
52 Week High	2.85
52 Week Low	1.95
3M Avg. daily value (AED)	3,763,044

2Q24 Net Profit lower than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported a growth of 11.7% YOY in net profit to USD 20.4 Mn in 2Q24, lower than our estimate of USD 24.2 Mn. The increase in net profit is primarily attributed to lower direct costs, the decline in fair value adjustments on investment property, and higher finance income coupled with a lower share to NCI partially offset by a decline in revenue and higher administrative and income tax expense.

P&L Highlights

Al Yahsat's revenue declined 5.7% YOY to USD 99 Mn in 2Q24, mainly due to a decline in the mobility and data solutions segment partially offset by an increase in the infrastructure and managed solutions segment. The infrastructure segment, which accounts for 61.4% of total revenue, increased marginally 1.1% YOY to USD 61 Mn in 2Q24, driven by the long-term Capacity Services Agreement (CSA) indexation clause. The infrastructure segment is strongly positioned with contracted future revenues of USD 6.5 Bn as of 2Q24. Managed Solutions segment accounts for 21.7% of the total revenue and recorded growth of 11.3% YOY to USD 21 Mn in 2Q24, mainly attributable to new projects such as satcom product certification and the installation of solutions on naval vessels and aircraft. Data solution business revenue declined 5.8% YOY to USD 5 Mn in 2Q24, primarily due to lower subscriber's numbers. The Data solution segment is also impacted by foreign exchange movements and highly competitive pressure. Mobility solutions revenue declined 42.3% YOY to USD 12 Mn in 2Q24, primarily due to the lower equipment sales. Cost of revenue declined significantly 36.1% YOY to USD 7 Mn in 2Q24. However, gross profit declined 2.4% YOY to USD 92 Mn in 2Q24. However, gross profit margin grew from 90.2% in 2Q23 to 93.4% in 2Q24. Administrative expenses grew 6.3% YOY to USD 35 Mn in

2Q24 Result Review (USD, mn)

Total Assets	1,945
Total Liabilities	1,033
Total Equity	912
EBITDA	58
Net Profit	20

Financial Ratios

Dividend Yield (12m)	7.88
Dividend Pay-out (%)	99.08
Price-Earnings Ratio(x)	10.04
Price-to-Book Ratio (x)	1.63
Book Value (AED)	1.29
Return-on Equity (%)	16.31

Stock Performance

5 Days	-2.79%
1 Months	3.47%
3 Months	-13.99%
6 Months	-8.33%
1 Year	-20.83%
Month to Date (MTD%)	-0.95%
Quarter to Date (QTD%)	5.03%
Year to Date (YTD%)	-19.92%

2Q24. Other income grew 1.7% YOY to USD 0.67 Mn in 2Q24. EBITDA declined 7.0% YOY to USD 58 Mn in 2Q24. EBITDA margin declined from 59.7% in 2Q23 to 58.9% in 2Q24, mainly due to the decline in revenue and higher administrative expenses. Infrastructure segment adjusted EBITDA remained stable at USD 46 Mn in 2Q24 compared to 2Q23. Data solutions adjusted EBITDA recovered from a negative EBITDA of USD 0.6 Mn in 2Q23 to a positive EBITDA of USD 0.04 Mn in 2Q24. Managed solutions adjusted EBITDA grew 8.3% YOY to USD 13 Mn in 2Q24, whereas Mobility Solutions adjusted EBITDA declined from positive USD 5 Mn in 2Q23 to negative USD 1 Mn in 2Q24. The Company recorded lower fair value adjustments on investment property of USD 0.5 Mn in 2Q24 compared to USD 6 Mn in 2Q23. Thus, operating profit grew 12.7% YOY to USD 18 Mn in 2Q24. Net finance cost increased from USD 2 Mn in 2Q23 to USD 5 Mn in 2Q24, mainly due to higher finance income. Loss from share of equity investments grew 3.1% YOY to USD 3 Mn in 2Q24. Income tax expense rose from USD 0.1 Mn in 2Q23 to USD 2 Mn in 2Q24 due to the introduction of corporate income tax in UAE. Loss attributable to non-controlling interest holders declined from USD 3.2 Mn in 2Q23 to USD 2.7 Mn in 2Q24.

Balance Sheet Highlights

Al Yah Satellite Communications net debt stood at USD 31 Mn in 2Q24 compared to negative USD 162 Mn in 1Q24. Cash and short-term deposits decreased to USD 398 Mn in 2Q24 from USD 615 Mn in 1Q24, mainly due to increased capex related to A4 & A5 programme, dividend payment and repayment of outstanding term loan. The net cash flow from operations declined from USD 223 Mn in 1H23 to USD 66 Mn in 1H24. Free cash flow declined from USD 82 Mn in 1H23 to USD 78 Mn in 1H24.

Target Price and Rating

We maintain our 'BUY' rating on Al Yahsat with a target price of AED 3.20. YAHSAT's core business segments Infrastructure and Managed Solutions, accounting for the major portion of revenue, continued to grow, offsetting the decline in the Mobility and Data Solutions segments in 2Q24. The Company expects its revenue to range USD 415-435 Mn in 2024. YAHSAT's future revenue backlog stands at USD 6.7 Bn, equivalent to 15x of the Company's last twelve-month revenue, provides strong revenue visibility. The Company is expected to launch its new satellites, Al Yah 4 (AY4) and Al Yah 5 (AY5) in 2027 and 2028 to replace the current CSA capacity provided by AY1 and AY2. YAHSAT is also scheduled to launch Thuraya 4 (T4) in 2H24, which will start rendering services in 2025. Furthermore, the Company's and Bayanat merger 'Space42' is anticipated to be completed in 2H24. Upon its completion, 'Space42' aims to provide vertically integrated mobility and AI-powered geospatial solutions, business intelligence, and satellite communications. Yahsat also aims to grow its commercial business from 2025 onwards, focusing on the new capabilities of T4 and mobile satellite services through Thuraya. Furthermore, the Company revised its cash Capex and investment range from USD 470-500 Mn to USD 400-430 Mn due to the later-than-expected signing of the Al Yah 4 and 5 procurement contracts with Airbus. YAHSAT maintained a strong balance sheet with a robust cash position, long-term future cash flows, and low leverage. The Company's free cash flow stood at USD 78 Mn, with a cash conversion ratio of 93% in 1H24. In addition, the Company expects its free cash flow to be between USD 120-140 Mn in 2024, which is anticipated to meet the Company's dividend policy. The stock also trades at an attractive dividend yield of 7.8% in 2024, considered one of the highest amongst other UAE companies. Thus, based on our analysis we maintain our BUY rating on the stock.

Al Yahsat - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	46.98	20.36	20.11	21.39	12.71	11.95
PB	1.55	1.56	1.67	1.65	1.67	1.65
EV/EBITDA	6.45	6.21	6.70	5.66	5.05	5.44
Dividend yield	7.5%	7.5%	7.5%	7.6%	7.8%	7.8%

FABS Estimates & Co Data

Al Yahsat – P&L

USD '000	2Q23	1Q24	2Q24A	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Total Revenue	104,717	101,017	98,730	102,674	-3.8%	-5.7%	-2.3%	456,738	428,971	-6.1%
Cost of revenue	-10,213	-6,096	-6,527	-6,982	-6.5%	-36.1%	7.1%	-56,633	-53,192	-6.1%
Gross Profit	94,504	94,921	92,203	95,692	-3.6%	-2.4%	-2.9%	400,105	375,778	-6.1%
Administrative Expenses	-32,651	-29,817	-34,716	-31,542	10.1%	6.3%	16.4%	-138,450	-136,361	-1.5%
Other Income	664	30,778	675	1,027	-34.3%	1.7%	-97.8%	4,450	32,602	NM
EBITDA	62,517	95,882	58,162	65,178	-10.8%	-7.0%	-39.3%	266,105	272,019	2.2%
Depreciation	-40,360	-38,073	-39,914	-40,223	-0.8%	-1.1%	4.8%	-154,512	-158,317	2.5%
FV adj on invt property	-6,366	-2,910	-459	0	NM	-92.8%	-84.2%	-13,578	0	NM
Operating Profit	15,791	54,899	17,789	24,955	-28.7%	12.7%	-67.6%	98,015	113,702	16.0%
Net Finance Cost	1,926	4,017	4,549	3,303	37.7%	136.2%	13.2%	15,278	14,508	-5.0%
Share of results	-2,567	-2,890	-2,647	-2,746	-3.6%	3.1%	-8.4%	-9,914	-10,112	2.0%
Profit before tax	15,150	56,026	19,691	25,513	-22.8%	30.0%	-64.9%	103,379	118,097	14.2%
Income Tax	-100	-5,399	-2,026	-2,449	-17.3%	1926.0%	-62.5%	-1,213	-10,629	NM
Profit before NCI	15,050	50,627	17,665	23,063	-23.4%	17.4%	-65.1%	102,166	107,468	5.2%
NCI	-3,184	-2,282	-2,697	-1,153	133.9%	-15.3%	18.2%	-8,202	-9,887	20.5%
Net Profit	18,234	52,909	20,362	24,216	-15.9%	11.7%	-61.5%	110,368	117,355	6.3%

FABS estimate & Co Data

Al Yahsat – Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	90.2%	94.0%	93.4%	314	-58	87.6%	87.6%	0
EBITDA	59.7%	94.9%	58.9%	-79	-3601	58.3%	63.4%	515
Operating Profit	15.1%	54.3%	18.0%	294	-3633	21.5%	26.5%	505
Net Profit	17.4%	52.4%	20.6%	321	-3175	24.2%	27.4%	319

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	3.29	70.0%	2.30
Relative Valuation (RV)	3.00	30.0%	0.90
Weighted Average Valuation (AED)			3.20
Current market price (AED)			2.11
Upside/Downside (%)			+52%

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 8.5%. It is arrived after using the cost of equity of 8.7% and after-tax cost of debt of 5.8%. The cost of equity is calculated by using a 10-year government bond yield of 4.9%, beta of 0.90, and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.8% is calculated after adjusting a tax rate of 9.0%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, 000)	336,549
Terminal value (USD, 000)	1,929,370
FV to Common shareholders (USD, 000)	2,187,675
No. of shares (^000)	2,439,770
Current Market Price (AED)	2.11
Fair Value per share (AED)	3.29

DCF Method

(All Figures in USD, 000)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	103,073	100,052	120,819	143,035	169,266
Depreciation & amortization	158,317	160,142	161,198	162,233	162,880
Capex	-415,771	-140,912	-125,038	-132,136	-139,713
Change in working capital	-45,579	-22,513	-21,237	-23,618	-17,753
Free Cash Flow to Firm (FCFF)	-199,959	96,770	135,742	149,514	174,679
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Discounted FCFF	-96,655¹	86,261	111,569	113,310	122,064

Source: FAB Securities, ¹FCFF adjusted for partial year

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 2024 EV/EBITDA multiple of 7.6x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
SES S.A.	2,360	3.4	3.0	14.3	16.1
Comcast Corporation	158,000	6.6	6.6	10.9	10.0
Thaicom	388	13.6	16.7	42.4	71.4
Eutelsat Communications	2,480	7.6	6.8	NA	NA
Altice USA	971	7.4	7.5	8.04	15.9
Echostar Corporation	5,340	15.3	14.1	NA	NA
GOGO INC	1,140	12.6	8.8	21.9	14.1
Average		9.5x	9.0x	19.5x	25.5x
Median		7.6x	7.5x	14.3x	15.9x
Max		13.1x	11.4x	21.9x	16.1x
Min		7.0x	6.7x	10.9x	14.1x

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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