

Emirates Telecommunications Group Co PJSC

Healthy revenue growth and ongoing expansion plans to support profitability

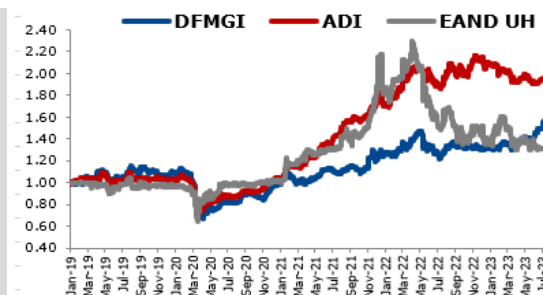
Current Price
AED 21.10

Target Price
AED 23.00

Upside/Downside (%)
+9%

Rating
HOLD

- EAND expands its footprint by acquiring a controlling stake in PPF telecom with operations in Bulgaria, Serbia, and Slovakia. The expansion is in line with EAND expansion plans.
- The Company plans to pay a dividend of 40 fils per share equivalent to AED 3.5 Bn in 1H2023.
- EAND revenue grew 4.8% YOY while UAE continued its momentum and contributed 65% of total revenue in 2Q23.
- EAND reached a milestone of 165 Mn aggregate subscribers base, which grew 3% YOY in 2Q23 with a net addition of 5 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 total debt of AED 42.7 Bn in 2Q23.



Stock Information

Market Cap (AED, mm)	183,501.51
Paid Up Capital (mm)	8,696.75
52 Week High	27.96
52 Week Low	20.82
3M Avg. daily value (AED)	49,141,430

2Q23 Result Review (AED, mm)

Total Assets	138,842
Total Liabilities	90,013
Total Equity	48,828
EBITDA	6,568
Net Profit	2,522

Financial Ratios

Dividend Yield (12m)	3.79
Dividend Pay-out (%)	69.52
Price-Earnings Ratio(x)	18.58
Price-to-Book Ratio (x)	4.40
Book Value (AED)	4.80
Return-on Equity (%)	22.17

Stock Performance

5 Days	-5.38%
1 Months	-5.21%
3 Months	-6.55%
6 Months	-21.74%
1 Year	-24.37%
Month to Date (MTD%)	-5.80%
Quarter to Date (QTD%)	-5.80%
Year to Date (YTD%)	-7.70%

2Q23 Net Profit higher than our estimate

Emirates Telecommunications Group Co PJSC (EAND/The Company) net profit grew 3.8% YOY to AED 2,522 Mn in 2Q23, higher than our estimate of AED 2,210 Mn. The rise in net profit was mainly attributed to higher income from associates and JVs, higher net finance income, lower D&A expenses, federal royalty and tax expenses partially offset by a rise in impairment loss and higher profit attributed to non-controlling shareholders.

P&L Highlights

EAND's total revenue inclined 4.8% YOY to AED 13,614 Mn in 2Q23 due to the growth in all key markets and robust performance in UAE owing to commercial momentum and strong economic growth. The Company's UAE revenue grew 5.8% YOY to AED 8.2 Bn in 2Q23. The growth in the UAE's revenue is mainly attributed to robust ongoing business activity in the country supported by population growth and the company's strategic focus on diversification into new digital products. Mobile segment sustains revenue growth momentum and reported 3.1% YOY to AED 2.9 Bn, fueled by expanding subscribers base and attractive bundled propositions for enterprise & consumer segments. Fixed segment revenue grew 1.8% YOY to AED 2.8 Bn, driven by new offerings such as business pro and home wireless services resulting in increased demand of internet and data services. Other segment revenue in UAE grew 14.4% YOY to AED 2.4 Bn due to an increase in wholesale and handset revenues. International revenue declined 5.0% YOY to AED 4.9 Bn in 2Q23 primarily due to adverse movement in the exchange rate of the Egyptian Pound, Moroccan Dirham, and Pakistani Rupee. Maroc Telecom's consolidated revenue rose 4.4% YOY to AED 3.2 Bn in 2Q23 despite an unfavorable exchange rate of MAD against AED while revenue in local currency

increased 5.8% YOY. Egypt's revenue fell 27.1% YOY to AED 0.9 Bn in 2Q23 but increased 21.2% YOY in local currency due to strong subscriber growth with healthy contribution from mobile data and voice revenue partially offset by higher inflation and the end of the national roaming agreement with Telecom Egypt. Revenue from Pakistan fell 12% YOY to AED 0.6 Bn in 2Q23 owing to the unfavourable exchange rate, whereas revenue in local currency rose 30.3% YOY due to strong performance in FTTH, corporate, and wholesale segments. EAND's operating expense rose 4.7% YOY to AED 8,512 Mn attributed mainly to global inflationary pressures accompanied by double-digit inflation in Egypt and Pakistan accompanied by investments in new revenue streams partially offset by lower staff, regulatory and D&A costs. Meanwhile, the share of results of associates and JVs rose significantly from AED 89 Mn in 2Q22 to AED 167 Mn in 2Q23. The company's federal royalty declined 2.7% YOY to AED 1,411 Mn in 2Q23 leading operating profit to grow 10.0% YOY to AED 2,590 Mn in 2Q23. EAND's EBITDA declined marginally 1.1% YOY to AED 6,568 Mn in 2Q23 with a 249 bps YOY decline in EBITDA margin to 48.6% majorly due to the challenging global macro environment, inflationary pressure and termination of national Egypt roaming agreement. Finance and other income surged 67.8 % YOY to AED 489 Mn in 2Q23 from AED 292 Mn in 2Q22 whereas finance and other cost increased 5.7% YOY to AED 860 Mn due to higher borrowings. Income tax expense declined 2.4% YOY to AED 431 Mn in 2Q23. In addition, the share of profit attributable to non-controlling interest stood at AED 266 Mn compared to a loss of AED 132 Mn in 2Q22.

Balance Sheet Highlights

EAND's consolidated capex increased 6.2% YOY to AED 1.9 Bn in 2Q23 with a capital intensity ratio of 14%. EAND's capital spending focused on adopting the latest technologies and upgrading the network to bring the best experience to customers. In UAE, the spending focused on acceleration 5G network and network modernization. Marco Telecom capex focused on expanding FTTH network and 4G mobile network coverage while Egypt capex emphasized 4G deployment and upgrading network capacity. Pakistan focused on expanding the FTTH network and enhancing the mobile and fixed network's capacity. The Company's total debt grew 0.6% QOQ to AED 47.2 Bn in 2Q23. Out of the total debt, 76% is of long-term maturity and due for expire after one year. In addition, the currency mix for external borrowings stood at 50% in AED, 19% in EUR, 12% in USD, and the remaining 19% in other currencies. Resultantly, the net debt-to-EBITDA ratio stood at 0.91x in 2Q23. The Company's cash balance stood at AED 24.0 Bn in 2Q23 compared to AED 31.5 Bn in 1Q23. The decline in cash balance is due to the repayment of the final dividend and federal royalty.

Target Price and Rating

We maintain our HOLD rating on EAND with a revised target price of AED 23.00. The Company recorded healthy overall revenue growth despite currency fluctuation and reported strong growth of 12% YOY in constant currency. Further, EAND expects its revenue to grow at a low to mid-single-digit in 2023. The Company recorded the highest-ever aggregate subscribers base of 165 Mn grew which grew 3.0% YOY in 2Q23 and added 5.0 Mn subscribers over the last 12 months. The company spent AED 1.9 Bn on capex in 2Q23. EAND capital investment mainly focused to increase 4G and 5G mobile network coverage, expansion of FTTH, and enhancement of mobile and fixed network capacity. Notably, EAND acquired the controlling stake in PPF Telecom to expand into Central and Eastern Europe, obtaining a majority stake of 50% for EUR 2,150 Mn. PPF Telecom owns a leading market position in the four markets of Slovakia, Hungary, Serbia and Bulgaria. Expansion into these markets enhances the geographical footprint and provides the potential for further expansion in Central and South East Europe. EAND made multiple investments in the digital space to diversify its earnings. It invested USD 400 Mn in Careem for a 50.03% stake, USD 10 Mn investment in Bepin Global for a 65% stake and investment of USD 24 Mn for a 63.3% stake in Beehive. Despite a net debt balance of AED 23.2 Bn, the Company maintains a healthy debt rating of AA- from S&P and Aa3 from Moody's with a stable outlook. Net Debt-to-EBITDA stood at 0.9x in 2Q23 providing enough room to finance opportunities using leverage. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

EAND - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	21.5	21.3	20.5	19.9	18.5	19.2
PB	4.1	4.0	3.8	3.9	4.4	4.1
EV/EBITDA	7.4	7.2	7.3	7.2	7.9	8.3
Dividend yield	3.8%	3.8%	5.6%	3.8%	3.8%	3.8%

FABS Estimates & Co Data
EAND – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY	QOQ	2022	2023F	Change
Revenues	12,996	13,002	13,614	12,969	5%	4.8%	4.7%	52,434	52,204	-0.4%
Operating expenses	-8,130	-8,700	-8,512	-8,430	1%	4.7%	-2.2%	-33,323	-33,410	0.3%
Imp loss on trade recv.	-242	-163	-268	-169	59%	10.8%	65.0%	-806	-705	-12.6%
Share of results of assoc.	89	141	167	143	17%	86.8%	18.6%	417	574	37.6%
Operating profit before federal royalty	4,712	4,281	5,001	4,513	11%	6.1%	16.8%	18,722	18,663	-0.3%
Federal royalty	-1,450	-1,342	-1,411	-1,414	0%	-2.7%	5.2%	-5,771	-5,638	-2.3%
Operating profit	3,263	2,939	3,590	3,100	16%	10.0%	22.2%	12,951	13,025	0.6%
EBITDA	6,644	6,143	6,621	6,644	0%	-0.4%	7.8%	26,202	26,005	-0.8%
Finance and other inc.	292	535	489	545	-10%	67.8%	-8.6%	2,001	2,193	9.6%
Finance and other costs	-814	-862	-860	-908	-5%	5.7%	-0.3%	-2,674	-3,292	23.1%
Profit before tax	2,740	2,612	3,219	2,736	18%	17.5%	23.3%	12,278	11,925	-2.9%
Income tax expense	-441	-309	-431	-386	12%	-2.4%	39.3%	-1,752	-1,693	-3.3%
Profit for the period	2,299	2,303	2,789	2,351	19%	21.3%	21.1%	10,526	10,232	-2.8%
Non-controlling interest	-132	116	266	141	89%	NM	129.8%	518	563	8.6%
Net Profit	2,431	2,187	2,522	2,210	14.1%	3.8%	15.4%	10,007	9,669	-3.4%

FABS estimate & Co Data
EAND - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Operating profit margin	25.1%	22.6%	26.4%	126	377	24.7%	25.0%	25
EBITDA margin	51.1%	47.2%	48.6%	-249	139	50.0%	49.8%	-16
Net profit margin	18.7%	16.8%	18.5%	-18	171	19.1%	18.5%	-56

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	25.72	70.0%	18.00
EV/EBITDA	16.64	30.0%	4.99
Weighted Average Valuation (AED)			23.00
Current market price (AED)			21.10
Upside/Downside (%)			+9%

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 7.9%. It is arrived after using cost of equity of 8.5% and after-tax cost of debt of 5.1% with debt-to-equity ratio of 25.49%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.0%. 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 5.9% after adjusting a tax rate of 14.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	58,947
Terminal value (AED, Mn)	180,970
FV to Common shareholders (AED, Mn)	239,917
No. of share (Mn)	8,697
Current Market Price (AED)	21.30
Net debt as of 30 June 2023	-30,287
Minority Interest (AED, mn)	-7,091
Mobily share included in EAND	9,664
Vodafone share included in EAND	11,469
Total Equity Value	223,672
Fair Value per share (AED)	25.72

DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBITDA*(1-tax)	22,312	23,129	23,857	24,586	25,034
(-) Change in working capital	1,810	-624	118	-717	270
(-) Capex	-8,979	-9,691	-9,982	-10,281	-10,588
Free Cash Flow to Firm (FCFF)	15,143	12,814	13,992	13,588	14,716
Discounting Factor	0.97	0.90	0.83	0.77	0.72
Discounted FCFF	14,713	11,534	11,669	10,498	10,534

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 6.2x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Telecom	60,668	8.4	7.8	17.3	16.2
Mobile Telecommunication Company	7,329	4.9	4.5	9.9	9.5
Verizon Communication	144,000	6.2	6.0	7.5	7.4
SAFARICOM PLC	4,739	5.2	5.7	11.7	11.2
Deutsche Telekom AG	109,000	5.0	4.7	7.2	12.3
Telstra Group Limited	33,199	7.7	7.4	25.9	22.9
Mobily	9,334	6.6	6.2	23.5	17.3
Average		6.3x	6.0x	14.7x	13.8x
Median		6.2x	6.0x	11.7x	12.3x
Max		7.2x	6.8x	20.4x	16.8x
Min		5.1x	5.2x	8.7x	10.3x

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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