

Telecom Sector

Diversification of revenue streams & tourism to drive growth in Telecom sector

Sector Weighting:
Market Weight

MENA Telecommunication

e& and DU are the two largest telecom operators in the UAE with a solid mobile subscriber base of 22.8 Mn as of 2Q24. e& mobile subscriber base stood at 14.6 Mn while DU's mobile subscriber base stood at 8.2 Mn as of 2Q24. The tourism sector in UAE witnessed solid growth during 1H24. According to the Central Bank of the UAE (CBUAE) in 1H24, the airports of UAE witnessed a 14.2% YOY rise in passenger traffic which reached 71.7 Mn. Dubai International Airport (DXB) experienced an 8% YOY increase in the number of passengers in 1H24 reaching 44.9 Mn attributed to robust travel demand. Abu Dhabi's Zayed International Airport welcomed more than 13.7 Mn passengers in 1H24, marking a 33.8% YOY growth in the number of passengers, solidifying the emirate's status as a key transportation hub. The total number of international visitors in Dubai during January to July 2024 reached 10.62 Mn, compared to 9.83 Mn in the same period during 2023. The growth in the tourism sector is likely to benefit the telecom sector.

Telecom companies in the GCC region are focusing on diversifying their revenue streams by providing various services including cloud computing, cybersecurity, data centers, artificial intelligence (AI) and machine learning (ML). Du launched two new sub-brands including du Tech and du Infra, in line with its aim to provide comprehensive digital transformation solutions. Du Tech will provide advanced ICT solutions including data centre, hybrid cloud, cyber security, IoT, AI, and blockchain. On the other hand, Du Infra aims to optimize network operations for government agencies as well as business agencies through offering a solid network infrastructure. e& signed a deal worth USD 1 Bn with Amazon Web Services to collectively offer cloud services. Under the agreement, which has a tenure of six years, both the Companies will deliver cloud services including storage, computing, networking, cybersecurity, and artificial intelligence (AI) & machine learning. Moreover, e& enterprise entered into a strategic partnership with Payit to transform payment acceptance and enhance customer satisfaction for companies across the UAE. The collaboration will capitalize on Payit's advanced digital wallet technology to boost conversion rates and enhance overall customer satisfaction.

The Saudi government plans to achieve its long-term digital transformation goals and the telecom companies will play a pivotal role. The telecom companies continue to build robust telecom infrastructure to accomplish it. STC Group signed a memorandum of understanding (MoU) with Ooredoo Group to strengthen the information and communication technology (ICT) ecosystem as well as expand digital services & connectivity in the MENA region through strategic collaboration. STC TV signed a partnership agreement with the Saudi Broadcasting Authority (SBA) to solidify cooperation in licensing broadcast content. The partnership provides complete rights and licenses for the simultaneous broadcasting of SBA Network channels through the "STC TV" digital app and home receivers, delivering high-definition content to users.

Egypt's Ministry of Communication and Information Technology's ICT 2030 Strategy intends to reshape the country into a telecom hub on local and international levels. In line with this aim, the National Telecommunication Regulatory Authority aims to implement favourable regulations to create a competitive environment for the telecom sector. According to the IMF, Egypt's total population stood at 105.7 Mn during 2023 and is further expected to reach 107.8 Mn in 2024 and 109.9 Mn in 2025. Telecom Egypt is focusing on the International Cables & Networks segment as part of its strategy to diversify its international service portfolio as well as expand its footprint. In line with this aim, the Company plans to add over six submarine cables, over four cable landing stations, and more than four terrestrial crossing routes. The international expansion plans are likely to benefit the Company. Vodafone Egypt,

Orange, and e& Egypt are anticipated to sign an agreement to launch fifth-generation (5G) services, following Telecom Egypt's move to secure a 5G license in Egypt. Telecom Egypt will raise funds worth USD 150 Mn to restructure its current debts and extend the duration.

Vodafone sold a further 10% stake in Vantage Towers for USD 1.4 Bn

Vodafone Group Plc sold a further 10% stake in Oak Holdings GmbH, the infrastructure consortium that controls the Vantage Towers. The stake in the consortium is sold to GIP and KKR. In November 2022, Vodafone shifted its 81.7% stake in Vantage Tower to the new consortium Oak Holdings. The consortium is formed in partnership with Global Infrastructure Partners (GIP) and KKR. At the time of the formation of the consortium, Vodafone agreed that it would gradually reduce its stake to bring parity in ownership in the consortium. With this stake, Vodafone achieved an equal ownership split in the consortium. Oak Holdings owns an 89.3% stake in Vantage Towers with an effective ownership of 44.7% by Vodafone. The proceeds from the transaction will be used to reduce debt.

U Mobile mulls over USD 500 Mn IPO in Malaysia in 2025

U Mobile, a Malaysian mobile data service company is planning an Initial Public Offering (IPO) in Malaysia to raise more than USD 500 Mn by 1H25. The deal would value the firm at more than USD 2 Bn. According to LSEG data, this deal could be the largest IPO in Malaysia in the last eight years. Proceeds from IPO could be used for network expansion however, no confirmation has been received.

Telecom Egypt to borrow USD 150 Mn for debt restructuring

Telecom Egypt is planning to raise USD 150 Mn to restructure its current debts. The loan is likely to be finalised in two months. It is distinct from USD 369 Mn raised by the company to cover its entire overdraft balance and convert short-term obligations to long-term when the interest rate increased.

Egypt awarded 5G licences to Vodafone, Orange, e& Egypt

Egypt's Ministry of Communications and Information Technology (MCIT) entered into agreements with Vodafone Egypt, Orange Egypt, and e& Egypt for Phase 2 of 5G licences. The agreements intend to improve 5G services, expand the capacity of the network for optimum performance, and enhance the quality of communication services. It is a part of the government's goal to provide advanced technological services to the citizens as well as support key sectors including logistics, healthcare, and agriculture.

	e&	MOBILY	STC	Telecom Egypt	DU
Rating	BUY	BUY	HOLD	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED
CMP	17.56	50.7	42.45	32.01	7.13
Target Price	21.20	58.36	46.00	41.00	8.25
Potential change (%)	20.7%	15.1%	8.4%	28.1%	15.7%

FABS Estimates & Co data

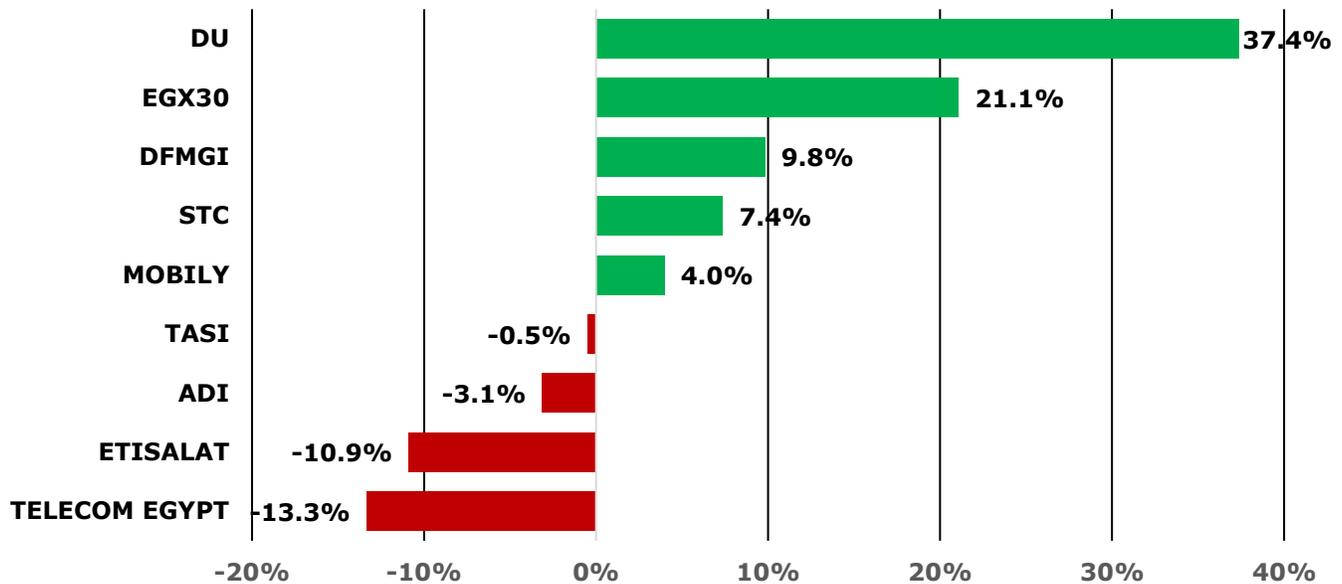
Contents

MENA Telecommunication	1
Telecom stock performance in the YTD	4
Relative valuation and rating	5
3Q24 preview: Emirates Telecommunications Group	6
3Q24 preview: Etihad Etisalat Company (Mobily)	9
3Q24 preview: Saudi Telecom Company (STC)	11
3Q24 preview: Telecom Egypt (ETEL)	14
3Q24 preview: Emirates Integrated Telecommunications (du)	17
FAB Securities Contacts:	20

Telecom stock performance in the YTD

Du is the best-performing stock among the peer group on YTD basis since December 2023 followed by STC. Telecom Egypt is the worst-performing stock among all of them. Mobily generated a positive return on YTD basis, generating 4.0% YTD return, while Telecom Egypt came in last with a decline of 13.3% YTD since December 2023.

MENA Telecom Stock & Market Indices Performance from December 2023 to YTD, ranked



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 16.0x (STC) and 4.6x (TELECOM EGYPT). The EV/EBITDA ranges from 8.1x (STC) and 4.1x (TELECOM EGYPT). DU expected dividend yield for 2024 is the highest at 5.2%. TELECOM EGYPT has the lowest PB multiple of 1.2x. TELECOM EGYPT's Net Debt/EBITDA stood highest at 2.27x followed by e& at 0.86x and MOBILY at 0.62x.

Relative Valuation

	e&	MOBILY	STC	TELECOM EGYPT	DU
CMP (LCY)	17.50	51.00	42.25	33.94	7.13
Number of shares (mm)	8,697	770	5,000	1,707	4,533
Market cap (LCY mm)	152,193	39,270	211,250	57,936	32,320
Market cap (US\$ mm)	41,470	10,472	56,333	1,875	8,806
Gross debt (LCY mm)	47,721	6,463	23,851	80,794	0
Cash (LCY mm)	23,861	3,061	26,400	7,368	656
Net debt/-cash (LCY mm)	23,860	3,402	-2,549	73,427	-656
Non-controlling interest	6,611	0	2,546	15	0
EV	182,664	42,672	211,247	131,377	31,664
EBITDA (2024)	27,593	6,824	26,179	32,288	4,650
BVPS (2024)	5.30	24.96	15.39	28.96	2.16
EPS (2024)	1.19	3.53	2.64	7.32	0.49
DPS (2024)	0.82	2.00	1.75	1.50	0.37
EV/EBITDA (x)	6.6	6.3	8.1	4.1	6.8
P/BV (x)	3.3	2.0	2.7	1.2	3.3
PER (x)	14.7	14.4	16.0	4.6	14.5
Dividend yield	4.7%	3.9%	4.1%	4.4%	5.2%
Payout ratio	68.9%	56.7%	66.2%	20.5%	75.0%
Net debt/EBITDA (x)	0.86	0.50	-0.10	2.27	-0.14

Source: FABS from Bloomberg

Market Weight:

With 4x BUYs, and 1x HOLD we remain MARKET WEIGHT on MENA telecoms.

	e&	MOBILY	STC	Telecom Egypt	DU
Rating	BUY	BUY	HOLD	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED
CMP	17.56	50.7	42.45	32.01	7.13
Target Price	21.20	58.36	46.00	41.00	8.25
Potential change (%)	20.7%	15.1%	8.4%	28.1%	15.7%

FABS Estimates & Co data

3Q24 preview: **Emirates Telecommunications Group**

Higher opex to drag profitability

Current Price
AED 17.56

12-m Target Price
AED 21.20

Upside/Downside (%)
+20.70%

Rating
BUY

3Q24 estimate

Emirates Telecommunications Group Co PJSC (EAND/ The Company) is expected to report a decline of 11.0% YOY in net profit to AED 2,651 Mn in 3Q24 primarily due to an anticipated rise in operating expenses and impairment loss coupled with higher tax expenses and decline in finance income partially offset by an expected increase in revenue, share of results of associates, and lower federal royalty. EAND's revenue is expected to grow 3.8% YOY to AED 13,904 Mn in 3Q24 driven by its solid expansion plans and a growing customer base. Operating expenses are anticipated to grow 13.3% YOY to AED 9,038 Mn in 3Q24. The share of results of associates and joint ventures is anticipated to grow significantly from AED 177 Mn in 3Q23 to AED 695 Mn in 3Q24. Moreover, the impairment loss on receivables and contract assets is expected to rise 21.9% YOY to AED 236 Mn in 3Q24 owing to higher loss on trade receivables, contract assets, and other assets. Thus, operating profit before federal royalty is expected to decline marginally 1.5% YOY to AED 5,325 Mn in 3Q24. Federal royalty is expected to decline 13.9% YOY to AED 1,529 Mn in 3Q24. As a result, EAND's operating profit is anticipated to rise 4.6% YOY to AED 3,796 Mn in 3Q24. EAND's EBITDA is expected to fall by 1.5% YOY to AED 6,797 Mn in 3Q24. Additionally, finance and other income is expected to decline 46.4% YOY to AED 695 Mn in 3Q24. Moreover, finance and other costs is likely to decline 14.2% YOY to AED 1,124 Mn in 3Q24. Income tax expense is estimated to grow 27.6% YOY to AED 438 Mn in 3Q24. In addition, the share of profit attributable to non-controlling interest holders is expected to decline 5.6% YOY to AED 278 Mn in 2Q24.

2024 forecast

EAND's net profit is expected to be estimated to grow 0.5% YOY to AED 10,355 Mn in 2024 driven by anticipated growth in revenue and share of results of associates & JVs partially offset by rise in operating expenses and finance costs coupled with decline in finance income. The Company's revenue is expected to expand 5.6% YOY to AED 56,770 Mn in 2024 driven by a growth in subscriber base and a rise in product offerings across all geographies. Operating expenses are expected to rise 7.4% YOY to AED 36,900 Mn in 2024. Impairment charges are anticipated to fall 1.6% YOY to AED 965 Mn in 2024. Share of results of associates and JVs is estimated to rise from AED 761 Mn in 3Q23 to AED 2,555 Mn in 3Q24. Federal royalty is anticipated to decline 1.3% YOY to AED 6,245 Mn in 2024. As a result, operating profit after federal royalty is expected to rise 18.6% YOY to AED 15,214 Mn in 2024. Moreover, EAND's EBITDA is expected to grow 5.7% YOY to AED 27,593 Mn in 2024. Furthermore, finance and other income are expected to decline 25.2% YOY to AED 2,838 Mn in 2024. Whereas, finance and other costs are expected to increase 40.9% YOY to AED 5,535 Mn in 2024. Tax charges are estimated to fall 3.3% YOY to AED 1,502 Mn in 2024. The share of profit attributable to non-controlling interest holders is expected to decline 21.3% YOY to AED 661 Mn in 2024.

2Q24 outturn

EAND's total revenue rose 3.5% YOY to AED 14.1 Bn in 2Q24, driven by strong performance across both telecom and digital verticals. EAND's UAE revenue grew 4.6% YOY to AED 8,213 Mn in 2Q24, mainly due to the Company's efforts to diversify with new digital products in both the consumer and business sectors. On the other hand, the e& international revenue grew 1.3% YOY to AED 4,951 Mn in 2Q24, driven by strong performance in PTCL and Afghanistan. Marco Telecom Group's revenue decreased 0.8% YOY to AED 3,206 Mn in 2Q24, mainly due to the decline in Morocco's mobile segment, partially offset by growth in Fixed data and Moov Africa operation. Egypt's revenue fell 7.6% YOY to AED 826 Mn in 2Q24. Revenue from Pakistan surged 19.0% YOY to AED 733 Mn in 2Q24, attributable to strong

performance in the consumer segment, underpinned by significant growth in fixed broadband, mobile data, and business solutions. EAND Life's revenue also grew strongly from AED 286 Mn in 2Q23 to AED 510 Mn in 2Q24, mainly due to the recent consolidation of Careem Technologies. The Company's operating expenses rose 6.2% YOY to AED 9,039 Mn in 2Q24, driven by the consolidation of newly acquired entities under digital verticals and inflationary pressures leading to higher marketing expenses, network costs, staff costs, and other operating expenses. Total impairment loss, including trade receivables and other assets, declined from AED 268 Mn in 2Q23 to AED 207 Mn in 2Q24. The share of profits from associates and joint ventures rose from AED 167 Mn in 2Q23 to AED 691 Mn in 2Q24. EAND's federal royalty declined 0.5% YOY to AED 1,404 Mn in 2Q24. As a result, the Company's operating profit increased 15.1% YOY to AED 4,133 Mn in 2Q24. The Company's total EBITDA remained flat at AED 6,573 Mn in 2Q24 compared to 2Q23. EBITDA margin declined from 48.2% in 2Q23 to 46.6% in 2Q24. EAND's UAE EBITDA rose by 4.2% YOY to AED 4,274 Mn in 2Q24, driven by positive revenue growth and operational efficiency. EAND's international EBITDA grew 0.8% YOY to AED 2,349 Mn in 2Q24 due to higher revenue growth partially offset by inflationary pressure and unfavourable exchange rate movements. EBITDA for EAND Enterprises fell 33.9% YOY to AED 63 Mn in 2Q24, while EAND Life reported a negative EBITDA of AED 211 Mn in 2Q24, mainly due to the consolidation of Careem Technology, which is still focused on growth and expansion of the business. Finance and other income grew 14.2% YOY to AED 559 Mn in 2Q24 and finance and other costs increased significantly from AED 860 Mn in 2Q23 to AED 2,106 Mn in 2Q24. The Company recorded an income tax reversal of AED 71 Mn in 2Q24 compared to an income tax expense of AED 431 Mn in 2Q23. The Company's net profit increased 25.5% YOY to AED 3,165 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating on e& with a target price of AED 21.20. The Company's net revenue increased 3.5% YOY to AED 14.1 Bn in 2Q24. In terms of constant currency growth, revenue grew 6.3% YOY in 2Q24. EAND's aggregate subscriber base grew to 175 Mn, with an increase of 10.1 Mn subscribers over the past 12 months. The growth was primarily driven by robust subscriber acquisition in the UAE, Egypt, Pakistan, and Moov Africa. The Company spent AED 1.8 Bn on capex in 2Q24, mainly focusing on expanding the 5G network and deploying the latest technologies. Recently, the Company signed an agreement with Mediterra Capital to fully acquire GlassHouse, a cloud services provider. The acquisition is expected to diversify e& enterprise's revenue streams and facilitate its entry into the Turkish IT services and cloud market. Additionally, it will leverage GlassHouse SAP's capabilities to strengthen its presence in the UAE and KSA regions. The Company also released a new whitepaper presenting a strategic guide for integrating artificial intelligence (AI) in telecommunications, detailing the use of over 400 AI use cases and 160 machine learning (ML) models across its operations. Furthermore, EAND's acquisition of PPF telecom assets are under review, with all approvals expected and the transaction to be finalized by the end of 2024. The Company's recent acquisitions and strategic partnerships are expected to enhance its service offerings and drive revenue growth. EAND also maintained a strong balance sheet, with a net debt to EBITDA ratio of 0.91x in 2Q24, providing substantial room for financing opportunities through leverage. It also paid a dividend of AED 0.41 per share in 1H24, and trades at healthy dividend yield of 4.7% in 2024. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

e& - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	17.5	16.9	16.3	15.2	14.8	14.7
P/B (x)	3.3	3.1	3.2	3.6	3.6	3.3
EV / EBITDA	6.0	6.0	6.0	6.7	6.9	6.6
Dividend yield	4.6%	6.9%	4.6%	4.6%	4.6%	4.7%

FABS estimate and Co Data

e& - P&L

AED mm	3Q23	2Q24	3Q24F	YOY	QOQ	2023	2024F	Change
Revenue	13,397	14,092	13,904	3.8%	-1.3%	53,752	56,770	5.6%
Operating expenses	-7,973	-9,039	-9,038	13.3%	0.0%	-34,372	-36,900	7.4%
Impairment	-194	-207	-236	21.9%	14.2%	-981	-965	-1.6%
Share of results of associates and JVs	177	691	695	NM	0.5%	761	2,555	235.7%
Operating profit before federal royalty	5,407	5,538	5,325	-1.5%	-3.8%	19,161	21,459	12.0%
Federal royalty	-1,777	-1,404	-1,529	-13.9%	8.9%	-6,329	-6,245	-1.3%
Operating profit	3,630	4,133	3,796	4.6%	-8.2%	12,832	15,214	18.6%
EBITDA	6,898	6,573	6,797	-1.5%	3.4%	26,117	27,593	5.7%
Finance and other income	1,297	559	695	-46.4%	24.4%	3,795	2,838	-25.2%
Finance and other costs	-1,309	-2,106	-1,124	-14.2%	-46.6%	-3,928	-5,535	40.9%
Profit before tax	3,617	2,587	3,367	-6.9%	30.2%	12,698	12,518	-1.4%
Income tax expenses	-343	71	-438	27.6%	NM	-1,554	-1,502	-3.3%
Profit for the period	3,274	2,658	2,929	-10.5%	10.2%	11,144	11,016	-1.2%
Non-controlling interests	295	-507	278	-5.6%	NM	840	661	-21.3%
Net Profit Attributable to Owners	2,979	3,165	2,651	-11.0%	-16.2%	10,305	10,355	0.5%

FABS estimate & Co Data
e& - Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
EBITDA	27.1%	29.3%	27.3%	20	-203	23.9%	26.8%	293
Operating profit	51.5%	46.6%	48.9%	-260	225	48.6%	48.6%	2
Net Profit	22.2%	22.5%	19.1%	-317	-339	19.2%	18.2%	-93

FABS estimate & Co Data

3Q24 preview: Etihad Etisalat Company (Mobily)

Robust performance of all segments to drive revenue

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 50.70	SAR 58.36	+15.10%	BUY

3Q24 estimate

Etihad Etisalat (Mobily/the Company) is forecasted to report 23.8% YOY growth in net profit to SAR 648 Mn in 3Q24 owing to an expected increase in revenue and finance income coupled with a decline in finance expenses and operating expenses partially offset by an anticipated growth in cost of services. Mobily's revenue is expected to grow 7.6% YOY to SAR 4,412 Mn in 3Q24 owing to an expected increase in the revenue across all segments. On the other hand, the cost of revenue is expected to grow 15.5% YOY to SAR 2,007 Mn in 3Q24. Resultantly, gross profit is anticipated to increase 1.8% YOY to SAR 2,404 Mn in 3Q24. Selling and marketing is projected to decline 1.0% YOY to SAR 353 Mn while G&A expenses are estimated to fall 7.3% YOY to SAR 331 Mn in 3Q24. Mobily's EBITDA is anticipated to rise 5.0% YOY to SAR 1,677 Mn in 3Q24. Furthermore, other income is expected to expand to SAR 22 Mn in 3Q24 from to SAR 7 Mn in 3Q23. Impairments loss on account receivables is anticipated to decline from SAR 52 Mn in 3Q23 to SAR 44 Mn in 3Q24. Depreciation and amortization is expected to fall marginally by 0.3% YOY to SAR 905 Mn. As a result, operating profit is expected to increase 12.0% YOY to SAR 772 Mn in 3Q24. In addition, Mobily's finance cost is expected to decline 14.4% YOY to SAR 139 Mn in 3Q24 whereas finance income is anticipated to rise 6.6% YOY to SAR 37 Mn in 3Q24. Zakat expense is expected to increase 2.6% YOY to SAR 49 Mn in 3Q24.

2024 forecast

Mobily is expected to record a 21.6% YOY growth in net profit to SAR 2,715 Mn in 2024 driven by an expected rise in revenue, and decline in finance cost and zakat expense partially offset by an estimated rise in direct cost and operating expenses. Mobily's revenue is anticipated to grow 7.0% YOY to SAR 17,935 Mn in 2024 driven by healthy growth in the overall business. The Company's cost of revenue is anticipated to increase 10.9% YOY to SAR 8,107 Mn in 2024. Thus, gross profit is anticipated to grow 4.0% YOY to SAR 9,829 Mn in 2024. Selling and marketing expenses are anticipated to grow 0.2% YOY to SAR 1,471 Mn in 2024 whereas G&A expenses are expected to rise 14.5% YOY to SAR 1,345 Mn in 2024. Other income is expected to increase significantly to SAR 72 Mn in 2024 compared to a loss of SAR 32 Mn in 2023. Moreover, the Company's EBITDA is expected to grow 3.0% YOY to SAR 6,824 Mn in 2024. D&A expense is expected to fall marginally 0.7% YOY to SAR 3,620 Mn in 2024. As a result, operating profit is likely to grow 7.6% YOY to SAR 3,204 Mn in 2024. The Company's finance cost is expected to decline 13.5% YOY to SAR 597 Mn in 2024. Similarly, finance income is expected to decline 0.7% YOY to SAR 163 Mn in 2024. In addition, zakat expense is estimated to decline 25.7% YOY to SAR 161 Mn in 2024.

2Q24 outturn

Mobily's revenue grew 4.6% YOY to SAR 4,465 Mn in 2Q24 due to healthy growth across all revenue segments. The revenue from the business segment is mainly driven by enhanced digitization offering and solid digital solutions for SMEs and Public sector. However, the Company's revenue declined 1.8% QOQ in 2Q24 because of a decline in consumer revenue. Mobily's mobile subscriber base stood at 12.2 Mn in 2Q24 compared to 12.3 Mn in 1Q24. Cost of revenue grew 11.6% YOY to SAR 2,087 Mn in 2Q24. Thus, gross profit declined marginally 0.9% YOY to SAR 2,378 Mn in 2Q24. Mobily's gross profit margin declined 294 bps YOY to 53.3% in 2Q24. Moreover, the operating profit rose from 14.0% YOY to SAR 759 Mn in 2Q24, whereas the operating profit margin improved 140 bps YOY to 17.0% in 2Q24. EBITDA stood at SAR 1,650 Mn in 2Q24 recording a 3.4% YOY growth. On the other hand, the EBITDA margin fell 43 bps YOY to 37.0% in 2Q24. Finance expenses declined 26.2% YOY to SAR 130 Mn in 2Q24 mainly due to a decline in debt portfolio. Also, zakat expenses declined 12.4% YOY to SAR 29 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating on Mobily with an unchanged target price of SAR 58.36. Mobily's revenue grew 4.6% YOY to SAR 4,465 Mn in 2Q24 owing to growth in revenue across all the segments. It further expects its revenue to grow by mid to high-single digit in FY2024. The company is focused on enhancing digital offerings and expanding its FTTH and 5G presence. Mobily prioritizes customer satisfaction with implementation of its robust customer care strategy and focuses on expanding IoT investments and developing data centers with the help of strategic partnerships. The Company is deleveraging and reducing its debt burden. It has repaid SAR 2.4 Bn of debt in the last twelve months and is further expected to reduce debt owing to healthy cash generation. Furthermore, the Company continues to generate healthy free cash flow which rose 1.4% YOY to SAR 1,264 Mn in 2Q24. Mobily incurred a total capex of SAR 386 Mn in 2Q24 investing it in digitization, IoT, expansion of data centres, FTTH, and 5G network. In addition, the Company is further expected to invest 14-16% of revenue during FY2024. Mobily seeks to make strategic investments that enable digital transformation and optimize innovative offerings to its customers. Thus, based on our analysis we assign an BUY rating to the stock.

Mobily – Relative Valuation

(At CMP)	2019	2020	2021	2022	2023F	2024F
P/E (x)	NA	50.1	36.6	23.7	17.6	14.5
P/B (x)	2.9	2.7	2.6	2.4	2.2	2.0
EV / EBITDA	10.2	9.3	8.6	7.5	6.6	6.3
Dividend yield	NA	1.0%	1.7%	2.3%	2.8%	3.9%

FABS Estimates & Co Data

Mobily - P&L

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
SAR mm								
Services revenues	4,100	4,465	4,412	7.6%	-1.2%	16,763	17,935	7.0%
Cost of services	-1,738	-2,087	-2,007	15.5%	-3.8%	-7,311	-8,107	10.9%
Gross profit	2,362	2,378	2,404	1.8%	1.1%	9,452	9,829	4.0%
Selling and marketing expenses	-357	-352	-353	-1.0%	0.3%	-1,467	-1,471	0.2%
General & administrative expenses	-357	-329	-331	-7.3%	0.4%	-1,175	-1,345	14.5%
Operating expenses	-713	-681	-684	-4.1%	0.4%	-2,642	-2,816	6.6%
Depreciation and amortisation	-907	-891	-905	-0.3%	1.6%	-3,647	-3,620	-0.7%
Impairment loss on acc receivable	-52	-46	-44	-15.1%	-5.0%	-186	-188	1.4%
Operating Profit	689	759	772	12.0%	1.6%	2,977	3,204	7.6%
EBITDA	1,596	1,650	1,677	5.0%	1.6%	6,625	6,824	3.0%
Other income	7	4	22	NM	491.1%	-32	72	NM
Finance expenses	-162	-130	-139	-14.4%	7.0%	-690	-597	-13.5%
Finance income	35	46	37	6.6%	-19.3%	164	163	-0.7%
Profit before zakat	571	690	697	22.0%	1.1%	2,449	2,876	17.4%
Zakat	-48	-29	-49	2.6%	70.8%	-217	-161	-25.7%
Profit attributable	524	661	648	23.8%	-1.9%	2,232	2,715	21.6%

FABS estimate & Co Data

Mobily - Margins

	3Q23	2Q24	3Q24F	YOY	QOQ Ch	2023	2024F	Change
Gross profit	57.6%	53.3%	54.5%	-310	124	56.4%	54.8%	-159
EBITDA	38.9%	37.0%	38.0%	-93	104	39.5%	38.1%	-147
Operating profit	16.8%	17.0%	17.5%	69	48	17.8%	17.9%	10
Net profit	12.8%	14.8%	14.7%	192	-11	13.3%	15.1%	182

FABS estimate & Co Data

3Q24 preview: Saudi Telecom Company (STC)

Higher Direct costs to impact profitability

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 42.45	SAR 46.00	+8.4%	HOLD

3Q24 Estimate

Saudi Telecom Company (STC) is expected to report a 22.3% YOY decline in net profit to SAR 3,809 Mn in 3Q24. The net profit was boosted in 3Q23, as a result of a one-off gain of SAR 1,316 Mn arising from the sale of land, compared to nil one-off gain to be realized in 3Q24 impacting profitability. STC's revenue is expected to grow 5.0% YOY to SAR 19,019 Mn in 3Q24, driven by anticipated growth in the earnings of subsidiaries. The Company's direct cost is likely to grow 8.4% YOY to SAR 8,368 Mn in 3Q24. Thus, gross profit is estimated to grow 2.5% YOY to SAR 10,650 Mn in 3Q24. We expect the gross margins to decline 137 bps YOY to 56.0% in 3Q24, primarily due to higher direct cost. STC's selling and overhead expenses are anticipated to rise 3.5% YOY to SAR 1,712 Mn in 3Q24, whereas G&A expenses are predicted to rise 1.4% YOY to SAR 1,807 Mn in 3Q24. Thus, EBITDA is anticipated to rise 2.6% YOY to SAR 7,132 Mn in 3Q24. Depreciation and amortization expenses is expected to fall 0.7% YOY to SAR 2,597 Mn in 3Q24. Moreover, operating profit is likely to grow 4.6% YOY to SAR 4,535 Mn in 3Q24. STC is anticipated to incur other expenses of SAR 314 Mn in 3Q24 compared to other income of SAR 956 Mn in 3Q23. Moreover, finance income is anticipated to grow 34.1% YOY to SAR 456 Mn in 3Q24. Whereas, finance expense is forecasted to increase significantly from SAR 304 Mn in 3Q23 to SAR 454 Mn in 3Q24. In addition, zakat expense is anticipated to decline 4.5% YOY to SAR 338 Mn in 3Q24. The share of profit attributable to NCI is estimated to rise 8.5% YOY to SAR 78 Mn in 3Q24.

2024 Forecast

Saudi Telecom Company's net profit is expected to decline marginally 0.6% YOY to SAR 13,213 Mn in 2024, due to a one-time gain of SAR 1,316 Mn recorded in 2023, an increase in direct cost, finance expense and share of profit attributable to non-controlling interest holders partially offset by growth in topline and decline in the operating expenses. STC's revenue is estimated to grow 5.8% YOY to SAR 76,547 Mn in 2024. On the other hand, direct cost is anticipated to increase 8.6% YOY to SAR 37,508 Mn in 2024. As a result, gross profit is likely to grow 3.3% YOY to SAR 39,039 Mn in 2024. STC's selling and overhead expenses are expected to fall 1.6% YOY to SAR 5,818 Mn in 2024, while G&A expenses are anticipated to decline 2.3% YOY to SAR 7,042 Mn in 2024. Thus, EBITDA is estimated to grow 6.1% YOY to SAR 26,179 Mn in 2024. Moreover, D&A expenses are predicted to fall marginally 0.9% YOY to SAR 10,386 Mn in 2024. Resultantly, operating profit is anticipated to increase 11.2% YOY to SAR 15,793 Mn in 2024. Furthermore, other expense is anticipated to reach SAR 957 Mn in 2024 compared to other income of SAR 353 Mn in 2024. Finance income is estimated to rise 15.4% YOY to SAR 1,745 Mn in 2024, whereas finance cost is expected to rise 43.8% YOY to SAR 1,828 Mn in 2024. Additionally, Zakat expenses are forecasted to fall 5.6% YOY to SAR 1,298 Mn in 2024. Share of profit attributable to non-controlling interest holders is anticipated to grow from SAR 124 Mn in 2023 to SAR 242 Mn in 2024.

2Q24 Outturn

STC's revenue grew 4.5% YOY to SAR 19.2 Bn in 2Q24 owing to a rise in subscriber base and an increased contribution from STC subsidiaries. STC KSA's mobile subscribers rose 9.7% YOY to 27.4 Mn in 2Q24, while the fixed subscriber base increased 2.5% YOY to 5.65 Mn. Channel segment revenue rose 2.1% YOY to SAR 3.8 Bn in 2Q24, while Solutions segment revenue grew 2.6% YOY to SAR 2.8 Bn. STC's direct cost grew 2.9% YOY to SAR 9.6 Bn in 2Q24. Thus, gross profit increased 6.2% YOY to SAR 9.6 Bn in 2Q24. Gross profit margin increased 78 bps YOY and 82 bps QOQ to 50.0% in 2Q24. Selling and overhead expenses declined 3.2% YOY to SAR 1.5 Bn YOY in 2Q24. Moreover, G&A Expenses fell 6.0% YOY to SAR 1.6 Bn in 2Q24. As a result, the Company's EBITDA rose 10.2% YOY to SAR 6.4

Bn in 2Q24. EBITDA margin increased from 31.8% in 2Q23 to 33.5% in 2Q24. Depreciation and amortization expenses marginally declined 0.4% YOY to SAR 2.5 Bn in 2Q24. Thus, operating profit rose 18.4% YOY to SAR 3.9 Bn in 2Q24 with a 238 bps YOY and 9 bps QOQ growth in operating margin to 20.3%. The Company's other expenses rose from SAR 37 Mn in 2Q23 to SAR 122 Mn in 2Q24. STC's finance income rose 14.1% YOY to SAR 436 Mn in 2Q24. On the other hand, finance charges increased significantly from SAR 248 Mn in 2Q23 to SAR 505 Mn in 2Q24 due to a significant increase in debt. In addition, zakat expense declined 7.1% YOY to SAR 307 Mn in 2Q24. The share of profit attributable to non-controlling interest holders increased from SAR 39 Mn in 2Q23 to SAR 82 Mn in 2Q24.

Target price and recommendation

We revise our rating on Saudi Telecom Company from BUY to HOLD with an unchanged target price of SAR 46.00. The Company share price rose 11.6% since our last rating. STC's KSA Mobile subscribers rose 9.7% YOY to 27.4 Mn in 2Q24 and fixed subscribers increased 2.5% YOY to 5.7 Mn. Strong growth in revenue of subsidiaries, gross margin expansion and lower opex drove profitability in 2Q24. Voice call volumes in the Mosque of Makkah rose 13% YOY in Ramadan while data volumes witnessed a 38% YOY increase due to solid technological developments and enhanced efficiency of services. Also, the Company increased its digital capacity and services to accommodate a large number of visitors in Madinah city. STC increased data network capacity in Madinah city by 35% YOY and reinforced 5G services to meet the growing demand resulting in the 60% additional data capacity compared to the previous year. STC Pay received formal approval from the Saudi Central Bank (SAMA) for Beta launch in April 2024, which will be available for selected customers and marks as the next step for STC Pay's transition into STC Bank. Additionally, STC signed a strategic agreement with PLDT to deliver seamless international voice services for Filipinos living overseas and enterprise customers. The agreement positions the Company as an exclusive international voice traffic aggregator for PLDT and Smart. STC also entered into a strategic partnership with Saudi Cloud Computing Company (SCCC) to establish a center of excellence in the KSA. The Company plans to accelerate the Kingdom's digital transformation by utilizing Alibaba Cloud technologies to provide advanced digital platforms and cloud solutions to meet customer expectations. The Company announced an interim dividend of SAR 0.40 per share amounting to SAR 1,995 Mn for 2Q24 in line with the three-year dividend policy started in 4Q21. STC announced a new dividend policy on 24 August 2024. It commits to pay a dividend of SAR 0.55 per share for the next three years starting from 4Q24 until 3Q27. Thus, based on our analysis, we assign a HOLD rating on the stock.

STC – Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	19.8	19.2	18.7	17.4	15.9	16.0
P/B (x)	3.4	3.3	3.0	2.9	2.7	2.7
EV/EBITDA	10.0	9.1	9.0	7.9	8.4	8.1
Dividend yield	3.8%	4.7%	3.8%	3.8%	6.2%	4.1%

FABS Estimates & Co Data

STC - P&L

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
SAR mm								
Sales	18,106	19,155	19,019	5.0%	-0.7%	72,337	76,547	5.8%
Direct costs	-7,718	-9,584	-8,368	8.4%	-12.7%	-34,533	-37,508	8.6%
Gross profit	10,388	9,571	10,650	2.5%	11.3%	37,804	39,039	3.3%
Selling & overhead expenses	-1,654	-1,517	-1,712	3.5%	12.8%	-5,914	-5,818	-1.6%
General & admin Exp.	-1,782	-1,639	-1,807	1.4%	10.2%	-7,206	-7,042	-2.3%
EBITDA	6,952	6,415	7,132	2.6%	11.2%	24,683	26,179	6.1%
Depreciation & Amortization	-2,614	-2,530	-2,597	-0.7%	2.6%	-10,483	-10,386	-0.9%
Operating profit (EBIT)	4,338	3,885	4,535	4.6%	16.8%	14,200	15,793	11.2%
Other income/(expenses)	956	-121	-314	NM	NM	353	-957	NM
Finance Income	340	436	456	34.1%	4.7%	1,513	1,745	15.4%
Financial charges	-304	-505	-454	49.1%	-10.1%	-1,271	-1,828	43.8%
Profit before zakat	5,330	3,694	4,224	-20.7%	14.3%	14,795	14,754	-0.3%
Zakat	-354	-307	-338	-4.5%	9.9%	-1,375	-1,298	-5.6%
Profit before NCI	4,976	3,387	3,886	-21.9%	14.7%	13,419	13,455	0.3%
NCI	72	82	78	8.5%	-5.8%	124	242	95.2%
Profit attributable	4,904	3,304	3,809	-22.3%	15.3%	13,295	13,213	-0.6%

FABS estimate & Co Data

STC- Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross profit	57.4%	50.0%	56.0%	-137	603	52.3%	51.0%	-126
EBITDA	38.4%	33.5%	37.5%	-89	401	34.1%	34.2%	8
Operating profit	24.0%	20.3%	23.8%	-11	357	19.6%	20.6%	100
Net profit	27.1%	17.3%	20.0%	-706	277	18.4%	17.3%	-112

FABS estimate & Co Data

3Q24 preview: Telecom Egypt (ETEL)

Strong operating performance to drive profitability and return

Current Price
EGP 32.00

12-m Target Price
EGP 41.00

Upside/Downside (%)
+28.1%

Rating
BUY

3Q24 Estimate

Telecom Egypt (ETEL/the Company) is expected to report an increase in net profit by 33.3% YOY to EGP 3,270 Mn in 3Q24 driven by an expected rise in operating revenue partially offset by growth in operating cost, selling and overhead expenses coupled with higher net finance cost. Telecom Egypt's revenue is expected to grow 55.9% YOY to EGP 21,547 Mn in 3Q24 driven by expected growth across both, Retail and Wholesale segments due to an anticipated exceptional increase in the revenue of International Carrier. On the contrary, the Company's operating cost is estimated to increase 59.6% YOY to EGP 12,928 Mn in 3Q24 due to the impact of higher inflation on the cost. Thus, gross profit is anticipated to grow 50.6% YOY to EGP 8,619 Mn in 3Q24. Moreover, Telecom Egypt's selling and overhead expenses are anticipated to increase 40.0% YOY to EGP 3,469 Mn during 3Q24. The Company is expected to generate net other operating revenue of EGP 162 Mn in 3Q24 compared to provision of EGP 2 Mn in 3Q23 due to the anticipated reversal of the credit loss provision. The total operating profit is likely to grow 63.8% YOY to EGP 5,311 Mn and EBITDA by 58.5% YOY to EGP 8,917 Mn in 3Q24. Additionally, the income from associates is expected to remain unchanged at EGP 1,460 Mn in 3Q24 compared to 3Q23. However, the Company's net finance cost is projected to nearly double, from EGP 1,390 Mn in 3Q23 to EGP 2,794 Mn in 3Q24. This surge is anticipated due to elevated benchmark rates and higher borrowings. The tax expense is estimated to decline 18.4% YOY to EGP 705 Mn in 3Q24.

2024 Forecast

We forecast Telecom Egypt's net profit to grow 9.0% YOY to EGP 12,498 Mn in 2024 owing to strong growth expected in revenue partially offset by a hike in operating cost, selling and overhead expenses, and net finance cost, The Company's revenue is expected to grow 41.2% YOY to EGP 80,003 Mn in 2024 driven by strong growth in Retail as well as Wholesale segments. On the other hand, operating cost is estimated to increase 41.2% YOY to EGP 48,402 Mn in 2024. Thus, gross profit is anticipated to increase 41.1% YOY to EGP 31,601 Mn in 2024. Selling and overhead expenses are estimated to increase 32.7% YOY to EGP 13,121 Mn in 2024. Moreover, Telecom Egypt's operating profit is expected to grow 50.1% YOY to EGP 18,410 Mn in 2024. The Company's EBITDA is anticipated to increase 45.5% YOY to EGP 32,288 Mn in 2024. Furthermore, income from associates is predicted to increase 20.0% YOY to EGP 6,039 Mn in 2024. However, the Company's net finance cost is projected to surge dramatically to EGP 10,802 Mn in 2024 owing to the devaluation of the Egyptian pound, an expected rise in net borrowing from EGP 49,342 Mn in 2023 to EGP 80,794 Mn in 2024, and an increase in the interest rates. Income tax expense is anticipated to decline 40.5% YOY to EGP 1,141 Mn in 2024 compared to EGP 1,917 in 2023 due to deferred tax reversal of EGP 1,834 Mn in 1H24. NCI is expected to increase 5.2% to EGP 8 Mn in 2024.

2Q24 Outturn

Telecom Egypt's total revenue experienced a remarkable increase of 44.4% YOY, reaching EGP 20,466 Mn in the 2Q24. This growth was driven by substantial contributions from both the Retail and Wholesale segments. The Retail segment exhibited the revenue growth rate of 46.0% YOY in 2Q24 to EGP 11,155 Mn was mainly driven by 48% YOY growth in data revenue further supported by the recent price hike of retail services and increase in the customer base. The Wholesale segment saw the revenue growth of 42.5% in 2Q24 to EGP 9,311 Mn due to rise in contribution from Domestic Wholesale, International Carrier and International Cable & Network. The Domestic Wholesale demonstrated a robust revenue growth rate of 46.1% YOY to EGP 2,637 Mn in 2Q24. The International Carriers experienced a remarkable surge of 72.5%, reaching EGP 3,511 Mn, driven by foreign currency appreciation.

Additionally, the International Customers & Networks segment grew 17.3% YoY to EGP 3,163 Mn, fuelled by increased traffic. The operating costs increased by 49.7% YOY to EGP 12,535 due to rise in call cost by 50% YOY, driven primarily by currency devaluation, along with a 5% YOY higher growth in outgoing traffic and a 17% YOY higher increase in incoming traffic. Thus, gross profit grew 36.7% to EGP 7,931 Mn. However, the gross margin declined from 40.9% in 2Q23 to 38.8% in 2Q24. Selling and overhead expenses grew 29.4% YOY to EGP 3,233 Mn in 2Q24, due to a rise in G&A expenses 29.1% YOY to EGP 1,530 Mn and selling & distribution expenses 29.7% YOY to EGP 1,730 Mn. Marketing expenses within the selling and distribution category grew 41% YOY, while still accounting for a consistent 3% of total revenue compared to the previous year. The net operating revenue for 2Q24 reached EGP 103 Mn, a significant improvement from a loss of EGP 4 Mn in 2Q23. This positive change is attributed to an 87.5% YOY increase in other operating revenue. EBITDA grew 41.7% YOY to EGP 8,247 Mn in 2Q24, resulting in a margin of 40.3%. This growth was primarily driven by exceptional top-line performance, supported by effective cost optimization initiatives that helped mitigate inflationary pressures stemming from currency devaluation. Income from associates rose by 94.9% YOY to EGP 2,086 Mn, while finance costs more than tripled, increasing from EGP 999 Mn in 2Q23 to EGP 3,547 Mn in 2Q24. The income tax increased from EGP 487 Mn in 2Q23 to EGP 710 Mn in 2Q24. Net income decreased 8.8% YOY to EGP 2,629 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating with an unchanged target price of EGP 41.00. The company exhibited a healthy revenue growth rate of 44.4% YOY, to EGP 20,466 Mn in the 2Q24. The strong expansion in revenue of Retail and Wholesale Segments drives this growth. Telecom Egypt's fixed line ARPU increased from EGP 32.44 in 2Q23 to EGP 37.29 in 2Q24 and fixed data ARPU from EGP 166.93 in 2Q23 to EGP 231.49 in 2Q24. The Company's Fixed Line subscribers increased 8.3% YOY to 12.8 Mn, Fixed Broadband subscribers 7.9% YOY to 9.8 Mn and Mobile subscribers 4.4% YOY to 13.1 Mn in 2Q24. EBITDA rose 41.7% YOY to EGP 8,247 Mn in 2Q24. The company committed to turn free cash flow positive at the end of this year and achieve positive free cash flow to EBITDA in the range of 20% to 30%. It has also reduced its foreign currency debt to 63% in 2Q24 compared to 70% in 1Q24 and plans to convert its short-term debt to medium to long-term debt in the future to provide stability to the balance sheet. The company changed the national roaming partner for mobile business which reduced the costs by 50% and is expected to positively benefit the bottom line. Telecom Egypt is considering partnerships with key global developers to find a working model to expand on the data centres, capture the market demand and leverage connectivity. Telecom Egypt is enhancing mobile data service in strategic hot spots using Nokia 5G Technology. The collaboration aims to revolutionize the country's telecom landscape by introducing the transformative power of 5G to cities such as Alexandria, Giza, Luxor, and Aswan. The introduction of 5G technology will bring numerous benefits, including increased capacity for seamless connectivity in some of Egypt's most densely populated areas. This will support a wide range of applications and services, resulting in faster downloads, smoother streaming, and improved network performance. Telecom Egypt, and 4iG Group, and IT group in Hungary and the Western Balkans, signed a Memorandum of Understanding (MoU) to establish a joint venture to build, operate and commercialize Fiber-to-the-Home (FTTH) and Fiber-to-the-Site (FTTS) fiber access infrastructure on a wholesale basis in Egypt. The joint investment aims to construct a most modern fiber network that provides at minimum around six million households access to a state-of-the-art, high-speed network in the future. Telecom Egypt started focusing on attracting high-paying customers, by improving their postpaid plans, which has already started to benefit by raising their overall ARPU. The Company expects this positive trend to continue, and ARPU will be more competitive in the next few years. Considering these factors, we assign a BUY rating on the stock.

Telecom Egypt –Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	16.2	14.7	7.8	6.3	5.1	4.6
P/B (x)	1.6	1.5	1.3	1.2	1.1	1.2
EV / EBITDA	12.5	6.8	5.0	4.8	4.3	4.1
Dividend yield	0.7%	2.2%	2.9%	3.7%	4.4%	4.4%

FABS estimate & Co Data
Telecom Egypt-P&L

EGP mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Operating Revenue	13,823	20,466	21,547	55.9%	5.3%	56,679	80,053	41.2%
Operating costs	-8,100	-12,535	-12,928	59.6%	3.1%	-34,290	-48,432	41.2%
Gross profit	5,723	7,931	8,619	50.6%	8.7%	22,389	31,621	41.2%
Selling & overhead expenses	-2,478	-3,233	-3,469	40.0%	7.3%	-9,890	-13,129	32.7%
Net operating revenue (others)	-2	103	162	NM	56.1%	-232	-71	-69.5%
Operating profit	3,243	4,801	5,311	63.8%	10.6%	12,266	18,421	50.2%
EBITDA	5,627	8,247	8,917	58.5%	8.1%	22,185	32,301	45.6%
Income from Associates	1,465	2,086	1,460	-0.3%	-30.0%	5,033	6,039	20.0%
Net Finance income/(cost)	-1,390	-3,547	-2,794	101.0%	-21.2%	-3,909	-10,802	176.3%
Profit before zakat	3,318	3,341	3,977	19.8%	19.0%	13,390	13,659	2.0%
Zakat	-864	-710	-705	-18.4%	NM	-1,917	-1,143	-40.4%
Profit before N-C interests	2,454	2,631	3,272	33.3%	24.4%	11,473	12,516	9.1%
Non-controlling interests	-2	-2	-2	14.6%	2.3%	-7	-8	5.2%
Profit attributable	2,453	2,629	3,270	33.3%	24.4%	11,466	12,508	9.1%

FABS estimate & Co Data
Telecom Egypt - Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	41.4%	38.8%	40.0%	-140	125	39.5%	39.5%	0
EBITDA	40.7%	40.3%	41.4%	68	109	39.1%	40.3%	121
Operating profit	23.5%	23.5%	24.6%	119	119	21.6%	23.0%	137
Net profit	17.7%	12.8%	15.2%	-257	233	20.2%	15.6%	-460

FABS estimate & Co Data

3Q24 preview: **Emirates Integrated Telecommunications (du)**

Growth in subscriber base to support profitability

Current Price
AED 7.13

12-m Target Price
AED 8.25

Upside/Downside (%)
+15.7%

Rating
BUY

3Q24 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to grow 9.5% YOY to AED 552 Mn in 3Q24. The rise in net profit will be mainly driven by anticipated growth in revenue and decline in federal royalty partially offset by an increase in direct costs, marketing expenses and higher tax charges. DU's revenue is expected to grow 9.3% YOY to AED 3,596 Mn in 3Q24. The Company's cost of sales excluding D&A and marketing expenses is anticipated to increase from AED 1,701 Mn in 3Q23 to AED 1,905 Mn in 3Q24 while marketing expenses are estimated to rise 12.2% YOY to AED 54 Mn in 3Q24. Expected credit losses (ECL) are projected to rise 5.8% YOY to AED 60 Mn in 3Q24. As a result, EBITDA is expected to grow 5.7% YOY to AED 1,570 Mn in 3Q24. However, we expect EBITDA margin to fall 171 bps YOY to 43.7% in 3Q24. Depreciation and amortization expense is anticipated to increase marginally 1.0% YOY to AED 558 Mn in 3Q24. Thus, operating profit is likely to grow 9.2% YOY to AED 1,018 Mn in 3Q24. Operating profit margin is expected to grow 127 bps YOY to 28.3% in 3Q24. Net finance cost is expected to decline from AED 13 Mn in 3Q23 to AED 8 Mn in 3Q24. In addition, federal royalty is expected to fall 2.9% YOY to AED 404 Mn in 3Q24 and tax expense is anticipated to amount to AED 55 Mn in 3Q24 compared to nil in 3Q23 due to the introduction of the UAE corporate tax.

2024 Forecast

DU's net profit is expected to rise 33.6% YOY to AED 2,227 Mn in 2024 due to growth in revenue coupled with a decline in marketing expenses and federal royalty partially offset by rise in direct costs and tax charge. Revenue is expected to grow 6.4% YOY to AED 14,515 Mn in 2024 while direct cost excluding D&A and marketing expense is expected to grow 5.6% YOY to AED 7,772 Mn in 2024. Marketing expenses are anticipated to decline 7.7% YOY to AED 218 Mn in 2024 while ECL is estimated to inch up 0.5% YOY to AED 244 Mn in 2024. Thus, EBITDA is expected to rise 8.3% YOY to AED 6,281 Mn in 2024. EBITDA margin is expected to improve 75 bps YOY to 43.3% in 2024. Depreciation and amortization expense is anticipated to decline 1.3% YOY to AED 2,171 Mn in 2024. Thus, operating profit is likely to grow 14.2% YOY to AED 4,111 Mn in 2024. Operating profit margin is anticipated to grow from 26.4% in 2023 to 28.3% in 2024. Net finance expense is expected to fall 20.0% YOY to AED 32 Mn in 2024. Federal royalty is expected to decline marginally 13.7% YOY to AED 1,632 Mn in 2024 boosting profitability. The Company is estimated to incur a tax expense of AED 220 Mn in 2024 compared to nil in 2023 owing to the introduction of corporate tax in the UAE in 2024.

2Q24 Outturn

DU's revenue grew 7.3% YOY to AED 3,592 Mn in 2Q24 primarily driven by a healthy revenue across all segments. Mobile Service segment revenue grew 6.6% YOY to AED 1,612 Mn in 2Q24, driven by strong growth in postpaid revenues, rise in demand from enterprise sector, and innovative offers. Moreover, the Mobile subscriber base rose 2.9% YOY to AED 8.2 Mn mainly driven by 11.3% YOY growth in postpaid customers to 1.7 Mn owing to consumer offers and innovative solutions for enterprises. Meanwhile, the prepaid customers grew 0.9% YOY and fell 6.4% QOQ to 6.5 Mn in 2Q24 owing to seasonality due to a slowdown in tourist activity, expiry of the offer launched in 4Q23, and removing the inactive customer base. Fixed Service segment revenue recorded 3.3% YOY growth to AED 982 Mn in 2Q24 primarily due to launch of unlimited Home Wireless Gaming offer and fibre network expansion. Broadband customers recorded a growth of 12.7% YOY to 630 thousand subscribers in 2Q24. DU's Wholesale business revenue increased 6.7% YOY to AED 455 Mn in 2Q24 while others revenue grew 18.3% YOY to AED 543 Mn, driven by solid growth in ICT and interconnected business coupled with launch of duPay. DU's cost of revenue, excluding D&A and marketing expenses, rose 11.8% YOY to AED

1,911 Mn in 2Q24 owing to a rise in product cost, outsourcing & contracting cost, and network operation & maintenance cost partially offset by a decline in other cost. Marketing expenses declined 6.0% YOY to AED 47 Mn in 2Q24 while ECL charges also fell 4.9% YOY to AED 66 Mn. The Company's EBITDA grew 3.3% YOY to AED 1,570 Mn in 2Q24 and EBITDA Margin stood at 43.7% in 2Q24 compared to 45.4% in 2Q23 mainly impacted by the positive one-off effect in 2Q23. The Company's finance cost significantly declined to AED 6 Mn in 2Q24 compared to AED 24 Mn in 2Q23. Furthermore, DU's Federal royalty charge witnessed a sharp fall of 21.8% YOY to AED 392 Mn due to the implementation of the new royalty regime. In addition, tax expense amounted to AED 58 Mn in 2Q24 compared to nil in 2Q23 owing to the introduction of UAE corporate tax.

Target price and rating

We maintain our BUY on DU with a revised target price of AED 8.25. The Company's revenue rose 7.3% YOY to AED 3,592 Mn in 2Q24 primarily driven by healthy growth across all segments. Moreover, net profit margin improved by 430 bps YOY to 16.2% in 2Q24 driven by higher EBITDA and lower royalty charge owing to a new royalty regime. DU's ARPU grew 3.2% QOQ to AED 64 in 2Q24 owing to postpaid revenue growth due to the success of its unlimited data plan, wireless gaming unlimited offer and other consumer offers. The company further expects a 5-7% YOY growth in revenue for FY2024 with an EBITDA margin above 43%. DuPay launched in 1Q24, witnessed a positive response from the customers owing to data offerings, competitive pricing and unique features which is likely to drive other segment revenue in the future. DU introduced innovative offerings like the UAE pass for digitally acquiring prepaid customers which turns out to be an alternative for store visits and physical sim. The launch of new products and offerings in the other segment is likely to improve the sales mix and it reflects the company's focus on generating higher revenue from its core as well as non-core business. DU will also launch Hyperscale Cloud and Sovereign AI Services through the deployment of Oracle Alloy. The company will provide over 100 Oracle Cloud Infrastructure (OCI) services to the UAE government and public sector companies. The Company witnessed several enquiries for the service of Oracle Alloy after the announcement of the partnership. Additionally, the Company remains debt-free and maintained a strong balance sheet position with a net cash balance of AED 656 Mn in 2Q24. DU reaffirmed its guidance indicating strong business momentum. The country is expected to witness a surge in tourism activity and sustained population growth likely to benefit the telecom sector. In addition, the board approved an interim cash dividend of 20 fils per share for 1H24. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

DU – Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	18.7	22.4	29.4	26.5	19.4	14.5
P/B (x)	3.7	3.8	3.8	3.7	3.5	3.3
EV/EBITDA	8.2	10.1	9.9	9.1	7.8	6.8
Dividend yield	4.8%	3.9%	2.9%	3.4%	4.8%	5.2%

FABS Estimates & Co Data

DU - P&L

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
AED mm								
Revenue	3,291	3,592	3,596	9.3%	0.1%	13,636	14,515	6.4%
Costs (ex D&A, marketing exp)	-1,701	-1,911	-1,905	12.0%	-0.3%	-7,359	-7,772	5.6%
Marketing expense	-48	-47	-54	12.2%	14.4%	-236	-218	-7.7%
Expected Credit Loss	-57	-66	-60	5.8%	-8.4%	-243	-244	0.5%
EBITDA	1,485	1,570	1,570	5.7%	0.0%	5,799	6,281	8.3%
D&A & Impairment	-553	-533	-558	1.0%	4.8%	-2,198	-2,171	-1.3%
Operating profit	932	1,035	1,018	9.2%	-1.6%	3,600	4,111	14.2%
Financing income/expense	-13	-6	-8	-38.1%	25.6%	-40	-32	-20.0%
Pre-royalty profit	920	1,030	1,010	9.8%	-2.0%	3,559	4,080	14.6%
Federal Royalty	-416	-392	-404	-2.9%	3.2%	-1,891	-1,632	-13.7%
Tax	0	-58	-55	NM	-5.8%	0	-220	NM
Net profit	504	581	552	9.5%	-5.0%	1,668	2,227	33.6%

FABS estimate & Co Data

DU - Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	48.3%	46.8%	47.0%	-130	23	46.0%	46.5%	42
EBITDA	45.1%	43.7%	43.7%	-146	-4	42.5%	43.3%	75
Operating profit	28.3%	28.8%	28.3%	-1	-50	26.4%	28.3%	192
Net Profit	15.3%	16.2%	15.3%	3	-83	12.2%	15.3%	311

FABS estimate & Co Data

FAB Securities Contacts:

Research Analysts

Ahmad Banihani	+971-2	-6161629	ahmad.banihani@Bankfab.com
----------------	--------	----------	--

Sales & Execution

Trading Desk Abu Dhabi Head Office	+971-2	-6161777	
------------------------------------	--------	----------	--

	+971-4	-5659593	
--	--------	----------	--

Institutional Desk	+971-4	-5658595	
--------------------	--------	----------	--

Sales and Marketing	+971-2	-6161703	
---------------------	--------	----------	--

Customer Service

Abu Dhabi Office	+971-2	-6161600	Online Trading Link
------------------	--------	----------	-------------------------------------

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorized by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange, Dubai Financial Market and NASDAQ Dubai. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.