

## Emirates Integrated Telecommunications Co (DU)

**Current Price**

AED 7.37

**Target Price**

AED 8.25

**Upside/Downside (%)**

+11.9%

**Rating**

ACCUMULATE

### 3Q24 Net Profit higher than our estimate

- DU's revenue grew 9.1% YOY to AED 3.6 Bn in 3Q24 primarily driven by healthy growth across all segments. The growth in services revenue is driven by solid growth in subscriber base and improved mix. Other revenue growth is attributed to a growth in wholesale, equipment and ICT services.
- Mobile Services rose 7.0% YOY to AED 1,633 Mn due to growth in the Postpaid customer base and higher ARPU owing to the focus on high-value products and the success of customer value management strategy.
- Fixed service revenue grew 7.9% YOY to AED 1,013 Mn attributable to a robust performance of Fibre and Home Wireless products as well as expansion of the Fibre network.
- Other revenues increased 14.1% YOY to AED 944 Mn in 3Q24 owing to the healthy performance of wholesale business and high equipment sales benefiting from the successful launch of iPhone16. It also benefitted from growth in cloud and managed services and data centres.
- EBITDA rose 16.8% YOY to AED 1.7 Bn in 3Q24 with an EBITDA Margin of 48.3% in 3Q24 compared to 45.1% in 3Q23 due to revenue growth, better revenue mix and effective cost management in addition to the one-off effect of accruals after the conclusion of negotiation. Excluding this, the growth in EBITDA amounted to 6.7% with an EBITDA margin of 44.1% in 3Q24.
- Net profit grew significantly by 42.7% YOY to AED 719 Mn in 3Q24 primarily driven by higher revenue and a decline in federal royalty partially offset by higher marketing expense, expected credit losses and tax charges. The net profit witnessed a positive one-off effect in royalty and cost of sales excluding this the profit would amount to AED 599 Mn in 3Q24 compared to AED 504 Mn in 3Q23.
- DU's Capex moderated 3.0% YOY to AED 511 Mn in 3Q24 with capex intensity of 14.2% spent on expanding 5G coverage, deployment of fibre, and transformation of IT and infrastructure to enhance efficiency.
- DU's mobile subscriber base grew 2.7% YOY to 8.3 Mn in 3Q24 mainly driven by 12.5% YOY growth in postpaid customers to 1.8 Mn owing to dynamic B2B initiatives and attractive consumer offers.
- Prepaid consumers grew marginally 0.3% YOY to 6.5 Mn in 3Q24.
- Operating free cash flow grew 27.9% YOY to AED 1.2 Bn in 3Q24 due to moderation in capex and EBITDA growth.

### Earnings Call Summary

- DU recently won multiple contracts with government entities for its ICP Business including agreements with Dubai Health Authority to improve security, efficiency, agility, and healthcare across multi-cloud services, cyber security, and seamless data migration.
- It also signed a contract with AI Hosting Hub to launch the first Nvidia supercluster in the GCC region.
- DU's partnership with ORANGE, which is aimed at solidifying its collaboration and driving innovation in telecom industry, is supporting the Company's transformation journey. It has signed various partnerships to boost adoption of AI across all the business segments.
- The capex moderated since most of the investment for 5G is completed.
- The undrawn facility stands at USD 2.0 Bn.
- Growth in residential segment was driven by back-to-school campaigns and customized offers to blue-collar workers.
- Service revenues offer the highest gross margins to the Company.

- DU benefitted from the launch of i-Phone.
- It is focusing on launching new brands and expanding its product portfolio.
- DU is maintaining its dividend policy for FY2024.
- It reached 99% 5G population coverage.
- The Company will continue to normalize its capex.
- Net impact of one-off on the net income is positive AED 120 Mn in 3Q24 due to conclusion of certain negotiation and royalty rate.
- Staff cost rose in 3Q24 compared to 3Q23 to nil one-off realized in 3Q24 compared to 3Q23.
- DU reaffirmed the revenue guidance at 5-7% and EBITDA margin guidance higher than 43% in FY2024.
- EBITDA growth was boosted in 3Q24 owing to the one-off effect of accruals after the conclusion of negotiation, excluding this the growth would amount to 6.7%. Excluding this one-off effect, EBITDA margin would amount to 44.1% in 3Q24.

**DU – P&L**

| (AED mm)                  | 3Q23         | 2Q24         | 3Q24         | 3Q24F        | Var.         | YOY Ch       | QOQ Ch       |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                   | 3,291        | 3,592        | 3,589        | 3,596        | -0.2%        | 9.1%         | -0.1%        |
| Costs                     | -1,701       | -1,911       | -1,729       | -1,905       | -9.2%        | 1.7%         | -9.5%        |
| Marketing expense         | -48          | -47          | -59          | -54          | 9.6%         | 23.0%        | 25.4%        |
| Exp. Credit losses        | -57          | -66          | -67          | -60          | 11.5%        | 18.0%        | 2.1%         |
| <b>EBITDA</b>             | <b>1,485</b> | <b>1,568</b> | <b>1,734</b> | <b>1,570</b> | <b>10.5%</b> | <b>16.8%</b> | <b>10.6%</b> |
| Dep, Amrtz, Impr          | -553         | -533         | -543         | -558         | -2.8%        | -1.8%        | 1.9%         |
| <b>Operating profit</b>   | <b>932</b>   | <b>1,035</b> | <b>1,191</b> | <b>1,018</b> | <b>17.0%</b> | <b>27.8%</b> | <b>15.1%</b> |
| Finance income/exp        | -13          | -6           | -7           | -8           | -18.3%       | -49.4%       | 2.6%         |
| <b>Pre-royalty profit</b> | <b>920</b>   | <b>1,030</b> | <b>1,185</b> | <b>1,010</b> | <b>17.3%</b> | <b>28.8%</b> | <b>15.0%</b> |
| Federal Royalty           | -416         | -392         | -395         | -404         | -2.4%        | -5.2%        | 0.7%         |
| Tax                       | 0            | -58          | -71          | -55          | 30.7%        | NM           | 23.1%        |
| <b>Net Profit</b>         | <b>504</b>   | <b>581</b>   | <b>719</b>   | <b>552</b>   | <b>30.4%</b> | <b>42.7%</b> | <b>23.8%</b> |

FABS estimate & Co Data

### 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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