

## Emirates Integrated Telecommunications Co (DU)

Core operation delivered strong performance fueled by a one-off effect

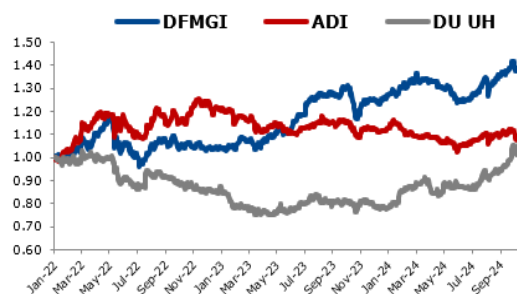
**Current Price**  
AED 7.50

**Target Price**  
AED 8.25

**Upside/Downside (%)**  
+10%

**Rating**  
**ACCUMULATE**

- Revenue rose 9.1% YOY due to robust growth across all segments.
- Mobile subscriber base rose 2.7% YOY to 8.3 Mn mainly driven by 12.5% YOY growth in postpaid customers to 1.8 Mn.
- Fixed subscribers base rose 14.2% to 655k with a net addition of 24k subscribers attributed to appealing fiber and home wireless offerings.
- DU launched two new sub-brands including du Tech and du Infra, in line with its aim to provide comprehensive digital transformation solutions.
- The Company recently won multiple contracts with government entities for its ICT Business including an agreement with Dubai Health Authority.



### 3Q24 Net Profit higher than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit rose 42.7% YOY to AED 719 Mn in 3Q24, higher than our estimate of AED 552 Mn. The increase in net profit was primarily driven by higher revenue and a decline in federal royalty partially offset by higher marketing expenses, 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.

### P&L Highlights

DU's revenue grew 9.1% YOY to AED 3,589 Mn in 3Q24 primarily driven by a healthy growth across all segments owing to solid growth in subscriber base and improved mix coupled with a rise in wholesale, equipment and ICT services. Mobile Service segment revenue grew 7.0% YOY to AED 1,633 Mn in 3Q24, driven by 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. Moreover, the mobile subscriber base rose 2.7% YOY to 8.3 Mn mainly driven by 12.5% YOY growth in postpaid customers to 1.8 Mn. Meanwhile, the prepaid customers rose marginally by 0.3% both on a YOY and QOQ basis to 6.5 Mn in 3Q24. Fixed Service segment revenue recorded 7.9% YOY growth to AED 1,013 Mn in 3Q24 primarily due to attractive Fibre and Home Wireless offerings coupled with fibre network expansion. Broadband subscribers recorded a strong growth of 14.3% YOY to 655k in 3Q24. Other revenues increased 14.1% YOY to 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

### Stock Information

Market Cap (AED, Mn)	33,996.79
Paid Up Capital (Mn)	4,532.91
52 Week High	7.50
52 Week Low	5.11
3M Avg. daily value (AED)	6,776,208

### 3Q24 Result Review (AED, Mn)

Total Assets	16,726
Total Liabilities	7,439
Total Equity	9,287
EBITDA	1,734
Net Profit	719

### Financial Ratios

Dividend Yield (12m)	5.47
Dividend Pay-out (%)	92.41
Price-Earnings Ratio(x)	14.75
Price-to-Book Ratio (x)	3.66
Book Value (AED)	2.05
Return-on Equity (%)	25.34

### Stock Performance

5 Days	1.76%
1 Months	11.11%
3 Months	24.38%
6 Months	28.21%
1 Year	39.93%
Month to Date (MTD%)	0.40%
Quarter to Date (QTD%)	7.45%
Year to Date (YTD%)	44.51%

managed services and data centres. DU's cost of revenue, excluding D&A and marketing expenses, rose 1.7% YOY to AED 1,729 Mn in 3Q24 owing to a growth in interconnect cost, staff cost, commission, amortization, outsourcing & other costs. Marketing expenses increased by 23.0% YOY to AED 59 Mn in 3Q24, while ECL charges also rose 18.0% YOY to AED 67 Mn. The Company's 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. The Company's finance cost significantly declined from AED 13 Mn in 3Q23 to AED 7 Mn in 3Q24. Furthermore, DU's Federal royalty charge fell 5.2% YOY to AED 395 Mn due to the implementation of the new royalty regime. In addition, tax expense amounted to AED 71 Mn in 3Q24 compared to nil in 3Q23 owing to the introduction of UAE corporate tax in FY2024.

### Balance Sheet Highlights

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 operating free cash flow rose 27.9% YOY to AED 1.2 Bn in 3Q24, driven by EBITDA growth and a moderation in capex. The Company remains debt-free with a net cash balance of AED 1.1 Bn in 3Q24, indicating a robust liquidity position and unleveraged balance sheet.

### Target Price and Rating

We revise our rating from BUY to ACCUMULATE on DU with a target price of AED 8.25. The Company recently won multiple contracts with government entities for its ICT 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 in line with its aim to strengthen its position in the data centre and cloud sectors. The contracts ensure revenue visibility. Moreover, DU's partnership with ORANGE, which is aimed at solidifying its collaboration and driving innovation in the telecom industry, is supporting the Company's transformation journey. It has signed various partnerships to boost the adoption of AI across all the business segments which is likely to benefit the Company by enhancing operation efficiency. DU also benefitted from the launch of the iPhone in 3Q24. DU's subscriber base witnessed solid growth in 3Q24 owing to dynamic B2B initiatives and attractive consumer offers. Going forward, the Company is focusing on driving innovation by launching new brands and expanding its product portfolio. 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 centres, 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 by offering a solid network infrastructure. Thus, considering the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

### DU - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	19.2	23.1	30.3	27.3	20.0	13.4
PB	3.9	3.9	3.9	3.8	3.6	3.4
EV/EBITDA	8.4	10.4	10.2	9.4	8.0	6.6
Dividend yield	4.6%	3.8%	2.9%	3.3%	4.6%	5.6%

FABS Estimates & Co Data

**DU – P&L**

<b>AED Mn</b>	<b>3Q23</b>	<b>2Q24</b>	<b>3Q24</b>	<b>3Q24F</b>	<b>Var.</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2023</b>	<b>2024F</b>	<b>Change</b>
Revenue	3,291	3,592	3,589	3,596	-0.2%	9.1%	-0.1%	13,636	14,540	6.6%
Costs	-1,701	-1,911	-1,729	-1,905	-9.2%	1.7%	-9.5%	-7,359	-7,563	2.8%
Marketing expense	-48	-47	-59	-54	9.6%	23.0%	25.4%	-236	-218	-7.6%
Expected Credit Loss	-57	-66	-67	-60	11.5%	18.0%	2.1%	-243	-262	7.9%
<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>	<b>5,799</b>	<b>6,497</b>	<b>12.0%</b>
D&A and Impairment	-553	-533	-543	-558	-2.8%	-1.8%	1.9%	-2,198	-2,150	-2.2%
<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>	<b>3,600</b>	<b>4,348</b>	<b>20.7%</b>
Finance inc/exp	-13	-6	-7	-8	-18.3%	-49.4%	2.6%	-40	-20	-49.8%
<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>	<b>3,559</b>	<b>4,328</b>	<b>21.6%</b>
Federal Royalty	-416	-392	-395	-404	-2.4%	-5.2%	0.7%	-1,891	-1,601	-15.3%
Tax	0	-58	-71	-55	30.7%	NM	23.1%	0	-245	NM
<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>	<b>1,668</b>	<b>2,481</b>	<b>48.8%</b>

*FABS estimate & Co Data*

**DU - Margins**

	<b>3Q23</b>	<b>2Q24</b>	<b>3Q24</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2023</b>	<b>2024F</b>	<b>Change</b>
Gross Profit	48.3%	46.8%	51.8%	351	504	46.0%	48.0%	195
EBITDA	45.1%	43.6%	48.3%	318	466	42.5%	44.7%	216
Operating Profit	28.3%	28.8%	33.2%	486	437	26.4%	29.9%	350
Net Profit	15.3%	16.2%	20.0%	473	386	12.2%	17.1%	483

*FABS estimate & Co Data*

## Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value DU. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	8.76	70.0%	6.13
Relative Valuation (RV)	7.07	30.0%	2.12
<b>Weighted Average Valuation (AED)</b>			<b>8.25</b>
Current market price (AED)			7.50
Upside/Downside (%)			+10%

### 1) DCF Method:

DU is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 8.9%. Cost of equity is calculated by using a 10-year government bond yield of 4.1%, beta of 0.9 and an equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	8,765
Terminal value (AED, Mn)	30,925
<b>FV to Common shareholders (AED, Mn)</b>	<b>39,690</b>
No. of share (Mn)	4,533
Current Market Price (AED)	7.50
<b>Fair Value per share (AED)</b>	<b>8.76</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	2,481	2,516	2,661	3,000	3,261
D&A	2,132	2,189	2,248	2,309	2,370
Change in working capital	-770	164	143	216	59
(-) Capex	-2,036	-2,014	-2,128	-2,089	-2,201
Net change in debt	-558	-522	-507	-503	-507
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,251</b>	<b>2,333</b>	<b>2,417</b>	<b>2,933</b>	<b>2,982</b>
Discounting Factor	0.99	0.90	0.83	0.76	0.70
<b>Discounted FCFE</b>	<b>308</b>	<b>2,114</b>	<b>2,011</b>	<b>2,240</b>	<b>2,092</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used international peers to value DU and it is valued using the EV/EBITDA multiple. It is valued at EV/ EBITDA multiple of 6.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Mobile telecommunication company	6,422	5.9	5.5	10.1	8.4
Verizon Communication	174,110	7.2	7.0	9.0	8.7
SAFARICOM PLC	5,188	5.0	4.6	9.5	8.3
Deutsche Telekom AG	149,270	6.3	6.1	15.4	14.0
Saudi Telecom	56,167	7.8	7.7	14.8	15.0
Emirates Telecommunications Group	41,435	6.7	6.3	13.1	12.3
Etihad Etisalat	10,497	6.8	6.4	13.7	13.2
<b>Average</b>		<b>6.5x</b>	<b>6.2x</b>	<b>12.2x</b>	<b>11.4x</b>
<b>Median</b>		<b>6.7x</b>	<b>6.3x</b>	<b>13.1x</b>	<b>12.3x</b>
<b>Max</b>		<b>7.0x</b>	<b>6.7x</b>	<b>14.3x</b>	<b>13.6x</b>
<b>Min</b>		<b>6.1x</b>	<b>5.8x</b>	<b>9.8x</b>	<b>8.6x</b>

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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