

Emirates Telecommunications Group Co (e&)

Higher opex and net finance costs impacted profitability

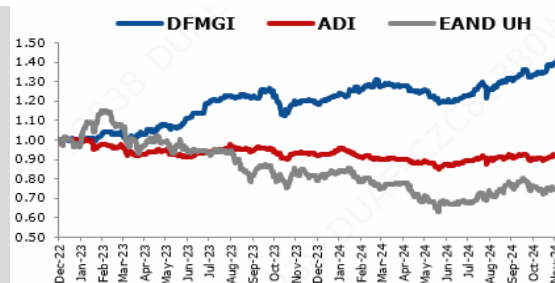
Current Price
AED 17.52

Target Price
AED 21.20

Upside/Downside (%)
+21%

Rating
BUY

- e&'s aggregate subscriber base grew 6.1% YOY to 177 Mn.
- Total debt declined to AED 51.6 Bn in 3Q24, compared to AED 47.7 Bn in 2Q24.
- The Company spent AED 1.8 Bn on capex in 3Q24, mainly focusing on upgrading its capacities and enhancing customer satisfaction by modernizing networks along with improving network quality.
- e& enterprise completed the full acquisition of GlassHouse for a consideration of USD 60 Mn.
- e& share in Vodafone Group increased to 15.01% after Vodafone's share buyback programme.
- European Commission approved e&'s acquisition of a controlling stake in PPF Telecom's assets in Bulgaria.



3Q24 Net Profit higher than our estimate

Emirates Telecommunications Group Co PJSC (e&/The Company) net profit declined marginally 0.6% YOY to AED 2,963 Mn in 3Q24, higher than our estimate of AED 2,651 Mn. The decrease in net profit is mainly driven by an increase in operating expenses, impairment loss on trade receivables and other assets, income tax expenses, and net finance & other cost partially offset by a rise in revenue and decline in federal royalty.

P&L Highlights

e&'s total revenue rose 7.7% YOY to AED 14,424 Mn in 3Q24, driven by strong performance across both domestic and international operations. e& UAE revenue grew 4.2% YOY to AED 8,172 Mn in 3Q24, mainly due to the Company's strategic product offerings, growth in mobile subscriber base, and a stable ARPU. On the other hand, the e& international revenue grew 2.6% YOY to AED 5,079 Mn in 3Q24. In constant currency, international revenue increased 10.0% YOY in 3Q24, due to the devaluation of the Egyptian Pound and Franc. Marco Telecom Group's revenue increased 1.4% YOY to AED 3,274 Mn in 3Q24, mainly due to a favorable exchange rate. However, e& Egypt's revenue fell 8.7% YOY to AED 873 Mn in 3Q24 due to the devaluation of the Egyptian Pound. Nevertheless, revenue from e& Egypt grew 43.3% YOY in constant currency owing to a rise in subscriber base and higher data revenue due to price hikes. Revenue from Pakistan surged 20.5% YOY to AED 737 Mn in 3Q24, due to higher data and voice revenue further supported by a large mobile base. Besides, Etisalat Afghanistan's revenue grew 26.1% YOY to AED 195 Mn in 3Q24. Moreover, revenue from e& Enterprise rose marginally 0.8% YOY to AED 680 Mn in 3Q24 due to a growth in cloud services and cybersecurity partially offset by projects delay. E& Life's revenue

Stock Information

Market Cap (AED, mn)	152,367.13
Paid Up Capital (mn)	8,696.75
52 Week High	20.32
52 Week Low	14.90
3M Avg. daily value (AED)	36,872,820

3Q24 Result Review (AED, mn)

Total Assets	145,721
Total Liabilities	95,682
Total Equity	50,039
EBITDA	6,488
Net Profit	2,963

Financial Ratios

Dividend Yield (12m)	4.65
Dividend Pay-out (%)	67.52
Price-Earnings Ratio(x)	10.09
Price-to-Book Ratio (x)	3.53
Book Value (AED)	4.97
Return-on Equity (%)	26.33

Stock Performance

5 Days	-2.12%
1 Months	-2.12%
3 Months	3.67%
6 Months	4.41%
1 Year	-10.70%
Month to Date (MTD%)	-1.13%
Quarter to Date (QTD%)	-5.30%
Year to Date (YTD%)	-10.79%

more than doubled from AED 186 Mn in 3Q23 to AED 484 Mn in 3Q24, due to the consolidation of Careem Technologies. e&'s operating expenses rose 19.7% YOY to AED 9,542 Mn in 3Q24, driven by the incorporation of new entities under digital verticals and inflationary pressures leading to higher marketing expenses, network costs, staff costs, and other operating expenses. Total impairment loss on trade receivables and other assets increased 16.1% YOY to AED 225 Mn in 3Q24. The share of profits from associates and joint ventures rose significantly from AED 177 Mn in 3Q23 to AED 451 Mn in 3Q24. e&'s federal royalty declined 28.2% YOY to AED 1,276 Mn in 3Q24. As a result, the Company's operating profit increased 5.5% YOY to AED 3,831 Mn in 3Q24. Total EBITDA declined 5.9% YOY to AED 6,488 Mn in 3Q24 whereas, the EBITDA margin fell from 51.5% in 3Q23 to 45.0% in 3Q24. Etisalat's UAE EBITDA declined 0.9% YOY to AED 4,215 Mn in 3Q24 due to changes in the revenue mix. e& International EBITDA fell 10.2% YOY to AED 2,286 Mn in 3Q24 due to inflationary pressure and base-year impact of exceptional items from Egypt and Pakistan. EBITDA for e& Enterprises fell 39.4% YOY to AED 53 Mn in 3Q24, while e& Life reported a negative EBITDA of AED 185 Mn in 3Q24 compared to negative AED 4 Mn in 3Q23, mainly due to the consolidation impact of Careem Technology. Finance and other income fell 56.7% YOY to AED 561 Mn in 3Q24, whereas finance and other costs declined significantly from AED 1,309 Mn in 3Q23 to AED 700 Mn in 3Q24. The Company recorded an income tax expense of AED 592 Mn in 3Q24 compared to AED 343 Mn in 3Q23.

Balance Sheet Highlights

e&'s consolidated capex rose 1.3% YOY to AED 1.8 Bn in 3Q24, with a capital intensity ratio of 13%. e& increased its domestic capex by spending lower in the international markets. The Company aims to upgrade its capacities to maintain its growing pace and enhance customer satisfaction by modernizing networks along with improving network quality. The Company's domestic capex rose 65.9% YOY to AED 673 Mn in 3Q24, while the capex in international markets fell 24.3% YOY to AED 1.1 Bn. e&'s total debt declined to AED 51.6 Bn in 3Q24, compared to AED 47.7 Bn in 2Q24. Cash balance stood at AED 25.7 Bn in 3Q24, up from AED 23.9 Bn in 2Q24, resulting in a net debt-to-EBITDA ratio of 1.0x in 3Q24.

Target Price and Rating

We maintain our BUY rating on e& with an unchanged target price of AED 21.20. The Company's net revenue increased 7.7% YOY to AED 14.4 Bn in 3Q24. In terms of constant currency, revenue grew 10.4% YOY in 3Q24. e&'s aggregate subscriber base grew 6.1% YOY to 177 Mn in 3Q24. The growth was primarily driven by strong subscriber acquisition across both domestic and international markets. The Company spent AED 1.8 Bn on capex in 3Q24, mainly focusing on upgrading its capacities, enhancing network quality, and expanding the 5G network. e& enterprise acquired a full stake in GlassHouse for a consideration of USD 60 Mn on cash and debt-free basis in 3Q24. The acquisition will diversify e& enterprise's revenue streams and facilitate its entry into the Turkish IT services and cloud market. Meanwhile, e& stake in Vodafone Group increased to 15.01% with an unchanged number of shares at 3.94 Bn owing to Vodafone's share buyback programme. Furthermore, the European Commission approved e&'s acquisition of a controlling stake in PPF Telecom's assets in Bulgaria. Additionally, e& UAE launched its second AI-powered autonomous store in Dubai Mall that provides an effortless shopping experience with no wait time. The Company's recent acquisitions and strategic partnerships are expected to enhance its service offerings and drive top-line growth. e& also maintained a strong balance sheet, with a net debt to EBITDA ratio of 1.0x, providing substantial room for financing opportunities through leverage. 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
PE	17.6	17.0	16.5	15.3	14.9	13.0
PB	3.3	3.1	3.2	3.6	3.6	3.2
EV/EBITDA	6.0	6.1	6.0	6.7	7.0	6.6
Dividend yield	4.5%	6.8%	4.5%	4.5%	4.6%	5.0%

FABS Estimates & Co Data

e& - P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	VAR	YOY	QOQ	2023	2024F	Change
Revenues	13,397	14,092	14,424	13,904	3.7%	7.7%	2.4%	53,752	57,842	7.6%
Operating expenses	-7,973	-9,039	-9,542	-9,038	5.6%	19.7%	5.6%	-34,372	-37,250	8.4%
Imp loss on trade recv.	-194	-207	-225	-236	-4.7%	16.1%	8.8%	-981	-983	0.3%
Share of results of assoc.	177	691	451	695	-35.2%	NM	-34.8%	761	1,793	NM
Operating profit before federal royalty	5,407	5,538	5,107	5,325	-4.1%	-5.5%	-7.8%	19,161	21,401	11.7%
Federal royalty	-1,777	-1,404	-1,276	-1,529	-16.6%	-28.2%	-9.1%	-6,329	-5,900	-6.8%
Operating profit	3,630	4,133	3,831	3,796	0.9%	5.5%	-7.3%	12,832	15,502	20.8%
EBITDA	6,898	6,573	6,488	6,797	-4.6%	-5.9%	-1.3%	26,117	28,293	8.3%
Finance and other inc.	1,297	559	561	695	-19.3%	-56.7%	0.4%	3,795	3,008	-20.7%
Finance and other costs	-1,309	-2,106	-700	-1,124	-37.7%	-46.5%	-66.7%	-3,928	-5,014	27.6%
Profit before tax	3,617	2,587	3,692	3,367	9.7%	2.1%	42.7%	12,698	13,495	6.3%
Income tax expense	-343	71	-592	-438	35.1%	72.4%	NM	-1,554	-1,619	4.2%
Profit for the period	3,274	2,658	3,100	2,929	5.8%	-5.3%	16.7%	11,144	11,876	6.6%
Non-controlling interest	295	-507	138	278	-50.5%	-53.3%	NM	840	119	-85.9%
Net Profit	2,979	3,165	2,963	2,651	11.8%	-0.6%	-6.4%	10,305	11,757	14.1%

FABS estimate & Co Data
e& - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Operating profit	27.1%	29.3%	26.6%	-54	-277	23.9%	26.8%	293
EBITDA	51.5%	46.6%	45.0%	-651	-166	48.6%	48.9%	33
Net profit	22.2%	22.5%	20.5%	-170	-192	19.2%	20.3%	116

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value e&. We have assigned 70% weight to DCF, and 30% to RV method. We have also included the value of interest owned by E& in Vodafone Plc and Etihad Etisalat Co. e&'s value of ownership in both entities is included in DCF and RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	21.29	70.0%	14.50
EV/EBITDA	21.00	30.0%	6.30
Weighted Average Valuation (AED)			21.20
Current market price (AED)			17.52
Upside/Downside (%)			+21%

1) DCF Method:

e& is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.4%. It is arrived after using cost of equity of 9.3% and after-tax cost of debt of 5.0% with debt-to-equity ratio of 33.6%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 1.0 and equity risk premium of 4.5%. 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 5.7% after adjusting a tax rate of 12.2%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	50,578
Terminal value (AED, Mn)	147,329
FV to Common shareholders (AED, Mn)	197,908
No. of share (Mn)	8,697
Current Market Price (AED)	17.52
Net debt as of September 2024	-29,341
Minority Interest (AED, mn)	-6,852
Mobily share included in E&	10,993
Vodafone share included in E&	12,416
Total Equity Value	185,124
Fair Value per share (AED)	21.29

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT * (1-tax rate)	17,362	17,290	17,688	17,931	15,931
Depreciation & Amortization	7,104	6,942	7,360	7,764	7,616
(-) Changes in Working Capital	751	921	-768	268	125
(-) Capex	-9,428	-10,082	-10,355	-10,539	-10,727
Free Cash Flow to Firm (FCFF)	15,788	15,071	13,925	15,424	12,945
Discounting Factor	0.99	0.91	0.84	0.78	0.72
Discounted FCFF	3,901¹	13,740	11,710	11,964	9,262

Source: FAB Securities, ¹FCFF adjusted for partial year

2) Relative Valuation:

We have used international peers to value e&, which is valued using the EV/EBITDA multiple. It is valued at a 2024 EV/EBITDA multiple of 6.9x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Telecom	55,959	7.8	7.6	14.7	14.9
Mobile Telecommunication Company	2,531	5.7	5.4	27.1	17.4
Verizon Communication	170,785	7.1	6.9	8.8	8.6
SAFARICOM PLC	4,863	3.7	3.4	8.9	7.8
Deutsche Telekom AG	149,794	6.3	6.1	15.5	14.2
Telstra Group Limited	29,866	7.4	7.1	20.0	18.3
Mobily	10,680	6.9	6.5	15.4	13.5
Average		6.4x	6.2x	15.8x	13.5x
Median		6.9x	6.5x	15.4x	14.2x
Max		7.3x	7.0x	17.8x	16.1x
Min		6.0x	5.8x	11.8x	11.0x

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%

FAB Securities Contacts:

Research Analyst

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

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. 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.