

## Telecom Sector

Digital Transformation and Advancing Connectivity to drive Telecom sector growth

Sector Weighting:  
**Market Weight**

### MENA Telecommunication

Etisalat and DU are the two largest telecom operators in the UAE with a solid mobile subscriber base of 21.3 Mn as of 3Q24. Etisalat's mobile subscriber base stood at 13.0 Mn while DU's mobile subscriber base stood at 8.3 Mn as of 3Q24. The tourism sector in UAE witnessed solid growth during 9M24. According to the Government of Dubai, during January to November 2024, Dubai welcomed 16.8 Mn international visitors, compared to 15.4 Mn visitors in the same period during 2023. Furthermore, Abu Dhabi welcomed 21.7 Mn passengers during 9M24, marking a 31.2% YOY increase in passenger traffic, reflecting the emirate's growing popularity as a key destination for business & leisure travellers. The growth in the tourism sector is likely to benefit the telecom sector.

UAE's telecom industry is advancing through strategic partnerships, focusing on digital transformation, 5G private networks, and Industry 4.0 technologies to enhance operational efficiency and innovation across sectors. The industry is also expanding into global markets, diversifying revenue streams, and introducing services to promote safety, connectivity, and sustainability. Du partnered with Cyberspace Technologies to launch Tairra, a business management platform that streamlines operations for businesses of all sizes by providing an integrated suite of tools to improve collaboration, efficiency, and customer experience. Du formed a strategic partnership with Nokia to accelerate industry digital transformation by implementing 5G private wireless networks and generative AI technologies, to improve operational efficiency and foster innovation across sectors such as manufacturing, pharmaceuticals, chemicals, and utilities. The partnership will provide customized 5G solutions, AI-powered tools, and automation features to support smarter, safer, and more efficient operations in the UAE. Du collaborated with Unilever Gulf to evaluate the applications of Industry 4.0 technologies in warehousing and supply chain management in the UAE by conducting a feasibility study to enhance efficiency, sustainability, and digital transformation. The partnership aims to develop innovative solutions and establish new industry benchmarks for automation in the region with Du's IoT and smart technology expertise and Unilever's supply chain knowledge. Moreover, e& acquired a controlling stake in PPF Telecom Group's service and infrastructure companies across Bulgaria, Hungary, Serbia, and Slovakia. The partnership aims to transform the telecom landscape in Central and Eastern Europe (CEE) by providing customers with advanced technologies, new product offerings, and innovative digital services. Additionally, e& Enterprise acquired a 100% stake in GlassHouse for USD 60 Mn, on a cash and debt-free basis, in 3Q24 to diversify its revenue streams and facilitate its entry into the Turkish IT services and cloud market. e& launched its new global brand positioning, "Go for More," in November 2024 signalling its transformation into a global technology leader. The Company invited audiences across the globe to experience e&'s huge ecosystem of innovative services and solutions. e& UAE launched Kids SIM Card and Parental Control Service to ensure a safer digital environment for children. The Kid's SIM Card is designed to help children stay connected while promoting safety and learning through online activities.

Saudi Arabia's digital transformation is driven by various government-led programs and initiatives aligned with Vision 2030. The Ministry of Communications and Information Technology (MCIT) has played a key role in leading these efforts, focusing on developing world-class digital infrastructure to support the Kingdom's broader economic objectives. The KSA telecom industry is advancing digital transformation through investments in cybersecurity, innovative solutions to prevent data leaks, and expanded spectrum licenses to enhance 5G capabilities. Efforts focus on strengthening digital infrastructure, protecting against cyber threats, and meeting the growing demand for advanced mobile and connectivity services. The KSA telecom industry is advancing digital transformation through

investments in cybersecurity, innovative solutions to prevent data leaks, and expanded spectrum licenses to enhance 5G capabilities. Telcos in KSA are striving to meet the growing demand for advanced mobile and connectivity services. Sirar, STC's subsidiary, entered into several agreements with public and private sector companies in the healthcare, insurance, and government services sectors to solidify digital infrastructure and cybersecurity. The key contracts include partnerships with National Water Company and Riyadh Airports, under which Sirar will provide customized and integrated cybersecurity solutions by delivering advanced solutions to secure the digital systems supporting its management and operations. Sirar introduced "Athar," a Saudi-developed innovative solution aimed at preventing data leaks and strengthening organizational resilience against cyber threats. Mobily obtained a 15-year license for 120 MHz of spectrum in the 600, 700, and 3800 MHz bands, worth SAR 2.49 Bn, to strengthen its mobile network. Mobily is well-positioned to deliver high-speed 5G services to accelerate the country's digital transformation and meet the increasing demand for cutting-edge mobile solutions in Saudi Arabia owing to this addition to its existing 320 MHz spectrum.

Egypt's Ministry of Communication and Information Technology's ICT 2030 Strategy seeks to establish the country as a telecom hub both domestically and internationally. The National Telecommunication Regulatory Authority plans to introduce regulations that foster a competitive atmosphere within the telecom sector to achieve this goal. According to the IMF, Egypt's total population stood at 107.3 Mn in 2024 and is further expected to reach 109.5 Mn in 2025 and 111.6 Mn in 2026. China Mobile International (CMI) and Telecom Egypt entered into a strategic commercial agreement to enhance their subsea cable infrastructure and deliver innovative digital and business services that cater to the increasing global demand for data. The collaboration strengthens the networks of both companies, expands their global presence, and aims to offer tailored digital solutions to facilitate the digital transformation of businesses in Egypt as well as overseas.

#### **e& and Amazon Web Services secure USD 1 Bn deal UAE**

UAE telecom provider e& has entered into a US 1 Bn (AED 3.7 Bn) deal with Amazon Web Services (AWS) to drive digital transformation and cloud innovation in the region. The six-year agreement will focus on core cloud services such as storage, computing, networking, cybersecurity, AI, and machine learning. e& will modernize platforms like Careem and Starzplay Arabia using AWS's services. The partnership will also enhance AI capabilities and Smart Home services, enabling small entrepreneurs to access the AWS Marketplace. AWS will launch a second cloud region in the UAE and commit to a USD 5 Bn investment by 2036.

#### **Strategic alliance between SBA and STC TV for content licensing in Saudi Arabia**

The Saudi Broadcasting Authority (SBA) and STC TV have formed a strategic partnership to enhance cooperation in licensing broadcast content. The deal grants full rights to broadcast SBA Network channels simultaneously on the "STC TV" app and home receivers, offering high-definition content. The collaboration seeks to elevate Saudi content, provide broader viewing options, and enrich the media landscape in the Middle East.

#### **PIF sold 2% stake in STC for USD 1 Bn**

Saudi Arabia's sovereign wealth fund, PIF, sold 2% of its stake in Saudi Telecom Company (STC) for over USD 1 Bn, reducing its holding to 62% by offering 100 Mn shares at 38.6 riyals (USD 10.29) per share. After the sale, PIF's remaining shares in STC will be subject to a 90-day lock-up period. Goldman Sachs Saudi Arabia and SNB Capital are joint global coordinators and bookrunners.

#### **STC to increase stake in Telefonica to 9.97% after Spain government's approval**

The Spanish government approved Saudi Arabia's STC Group to increase its stake in Telefonica from 5% to 9.97%. Last year, STC announced plans to raise its ownership in the Spanish telecom giant to 9.9%, an investment valued at approximately EUR 2.4 Bn (USD 2.53 Bn), positioning itself as a major

shareholder. Telefonica is considered a strategic company due to its role in national defense, so the deal required government authorization. Previously, Spanish officials' opposition to STC's move led Spain to acquire a 10% stake in Telefonica through its state-holding company, SEPI.

### Zain Group acquires 70% stake in HIS Kuwait

Zain Group agreed to acquire IHS Holding Limited's 70% stake in IHS Kuwait Limited, increasing its existing 30% stake to 100%. The remaining 70% is valued at USD 134 Mn. IHS Kuwait will continue to provide independent tower infrastructure services within Kuwait. This acquisition forms part of Zain's broader strategy to expand its regional digital infrastructure and improve capital efficiency.

	ETISALAT	MOBILY	STC	Telecom Egypt	DU
Rating	<b>BUY</b>	<b>ACCUMULATE</b>	<b>HOLD</b>	<b>BUY</b>	<b>HOLD</b>
Local currency	AED	SAR	SAR	EGP	AED
CMP	17.10	57.60	42.45	33.61	7.98
Target Price	21.20	65.00	46.00	41.00	8.55
Potential change (%)	24.0%	12.8%	8.4%	22.0%	7.1%

FABS Estimates & Co data

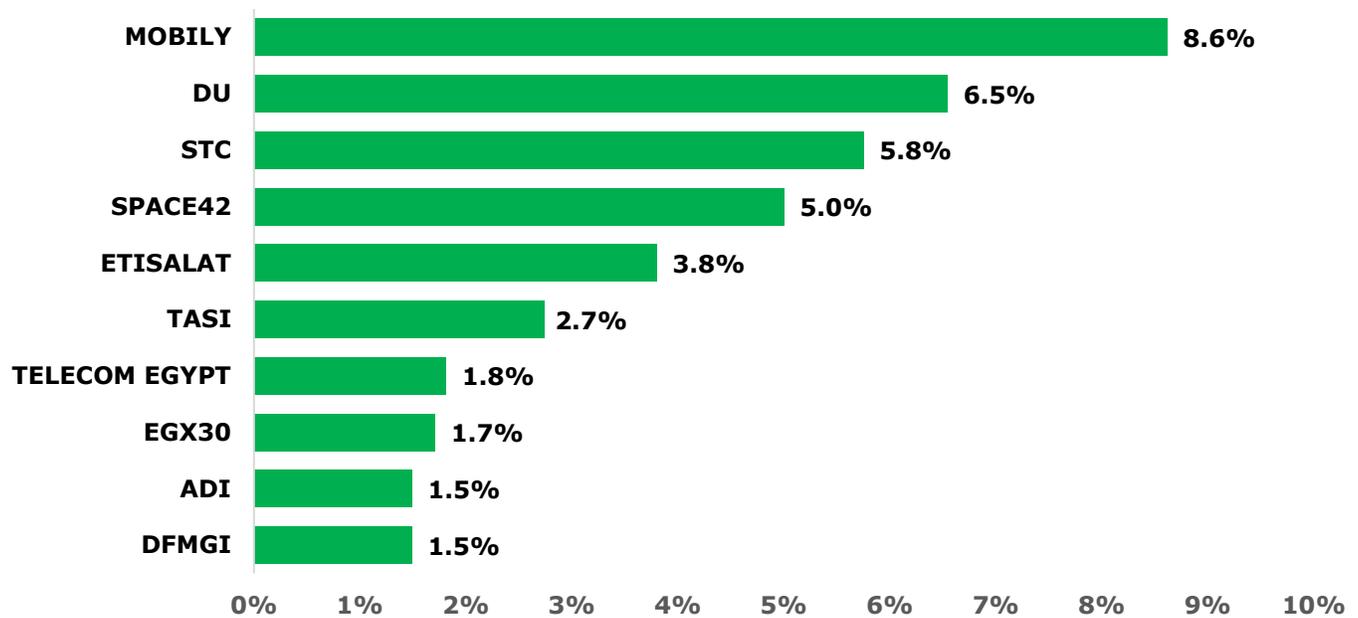
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### Telecom stock performance in the YTD

Mobily is the best-performing stock among the peer group on YTD basis since December 2024 followed by DU. Telecom Egypt generated the lowest returns among all of them. Mobily generated 8.6% YTD return, while Telecom Egypt came in last with a 1.8% YTD return since December 2024.

#### MENA Telecom Stock & Market Indices Performance from December 2024 to YTD, ranked



Source: Bloomberg

### Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 15.9x (Mobily) and 5.4x (TELECOM EGYPT). The EV/EBITDA ranges from 8.1x (STC) and 4.2x (TELECOM EGYPT). DU's expected dividend yield for 2024 is the highest at 5.1%. TELECOM EGYPT has the lowest PB multiple of 1.1x. TELECOM EGYPT's Net Debt/EBITDA stood highest at 2.30x followed by ETISALAT at 0.95x and MOBILY at 0.52x.

### Relative Valuation

	ETISALAT	MOBILY	STC	TELECOM EGYPT	DU
CMP (LCY)	16.60	57.80	42.20	33.70	8.00
Number of shares (mm)	8,697	770	5,000	1,707	4,533
Market cap (LCY mm)	144,366	44,506	211,000	57,526	36,263
Market cap (US\$ mm)	39,337	11,868	56,267	1,862	9,881
Gross debt (LCY mm)	51,608	6,310	15,326	81,525	0
Cash (LCY mm)	25,721	2,775	24,442	10,055	1,111
Net debt/-cash (LCY mm)	25,887	3,535	-9,116	71,470	-1,111
Non-controlling interest	6,852	0	2,661	20	0
EV	177,105	48,041	204,545	129,016	35,152
EBITDA (2024)	27,157	6,844	25,311	31,039	6,497
BVPS (2024)	5.37	25.08	15.70	31.45	2.18
EPS (2024)	1.26	3.64	2.91	6.27	0.55
DPS (2024)	0.82	2.00	1.75	1.50	0.41
EV/EBITDA (x)	6.5	7.0	8.1	4.2	5.4
P/BV (x)	3.1	2.3	2.7	1.1	3.7
PER (x)	13.2	15.9	14.5	5.4	14.5
Dividend yield	4.9%	3.5%	4.1%	4.5%	5.1%
Payout ratio	65.1%	54.9%	60.1%	23.9%	74.5%
Net debt/EBITDA (x)	0.95	0.52	-0.36	2.30	-0.17

Source: FABS from Bloomberg

### Market Weight:

With 2x BUYs, 1x ACCUMULATE and 2x HOLD we remain MARKET WEIGHT on MENA telecoms.

	ETISALAT	MOBILY	STC	Telecom Egypt	DU
Rating	<b>BUY</b>	<b>ACCUMULATE</b>	<b>HOLD</b>	<b>BUY</b>	<b>HOLD</b>
Local currency	AED	SAR	SAR	EGP	AED
CMP	17.10	57.60	42.45	33.61	7.98
Target Price	21.20	65.00	46.00	41.00	8.55
Potential change (%)	<b>24.0%</b>	<b>12.8%</b>	<b>8.4%</b>	<b>22.0%</b>	<b>7.1%</b>

FABS Estimates & Co data

## 4Q24 preview: Etisalat Group

Strategic acquisitions and partnerships to drive to-line

<b>Current Price</b> AED 17.10	<b>12-m Target Price</b> AED 21.20	<b>Upside/Downside (%)</b> +24.0%	<b>Rating</b> BUY
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### 4Q24 estimate

Emirates Telecommunications Group Co PJSC (e&/ The Company) is expected to record a 3.1% YOY decline in net profit to AED 2,534 Mn in 4Q24 primarily due to an expected increase in operating expenses, net finance and other costs, and tax expenses partially offset by anticipated rise in revenue and share of results of associate & JV along with a decline in impairments and federal royalty. e&'s revenue is expected to grow 12.5% YOY to AED 15,456 Mn in 4Q24 driven by its solid expansion plans and a growing customer base. Operating expenses are anticipated to grow 12.4% YOY to AED 10,324 Mn in 4Q24. The share of results of associates and joint ventures is anticipated to increase significantly from AED 276 Mn in 4Q23 to AED 441 Mn in 4Q24. Moreover, the impairment loss on receivables and contract assets is expected to fall 11.7% YOY to AED 314 Mn in 4Q24 owing to higher loss on trade receivables, contract assets, and other assets. Thus, operating profit before federal royalty is expected to rise 17.6% YOY to AED 5,259 Mn in 4Q24. Federal royalty is expected to decline 22.9% YOY to AED 1,386 Mn in 4Q24. As a result, Etisalat's operating profit is anticipated to rise significantly 44.9% YOY to AED 3,873 Mn in 4Q24. e&'s EBITDA is expected to rise 19.3% YOY to AED 7,720 Mn in 4Q24. Additionally, finance and other income are expected to decline 61.4% YOY to AED 569 Mn in 4Q24, whereas finance and other costs are likely to rise 16.8% YOY to AED 1,047 Mn. Income tax expense is estimated to grow 8.2% YOY to AED 510 Mn in 4Q24. In addition, the share of profit attributable to non-controlling interest holders is expected to more than double to AED 351 Mn in 4Q24 from AED 163 Mn in 4Q23.

### 2024 forecast

e&'s net profit is expected to grow 6.7% YOY to AED 10,991 Mn in 2024 driven by anticipated growth in revenue and share of results of associates & JVs along with a decline in federal royalty partially offset by a rise in operating expenses and net finance and other costs. The Company's revenue is expected to expand 8.2% YOY to AED 58,186 Mn in 2024 driven by growth in subscriber base and a rise in product offerings across all geographies. Operating expenses are expected to rise 12.1% YOY to AED 38,519 Mn in 2024. Impairment charges are anticipated to rise marginally 0.9% YOY to AED 989 Mn in 2024. Share of results of associates and JVs is estimated to increase significantly from AED 761 Mn in 2023 to AED 2,037 Mn in 2024. Federal royalty is anticipated to decline 14.5% YOY to AED 5,411 Mn in 2024. As a result, operating profit after federal royalty is expected to grow 19.3% YOY to AED 15,303 Mn in 2024. Moreover, e&'s EBITDA is expected to grow 4.0% YOY to AED 27,157 Mn in 2024. Furthermore, finance and other income is expected to decline 38.7% YOY to AED 2,327 Mn in 2024, whereas finance and other costs are predicted to increase 27.6% YOY to AED 5,014 Mn in 2024. Tax charges are estimated to rise marginally 2.6% YOY to AED 1,514 Mn in 2024. The share of profit attributable to non-controlling interest holders is expected to decline significantly to AED 111 Mn in 2024 compared to AED 840 Mn in 2023.

### 3Q24 outturn

e&'s total revenue 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 by 0.8% YOY to AED 680 Mn in 3Q24 due to a growth in cloud services and cybersecurity partially offset by project delays. E& Life's revenue 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.

### Target price and recommendation

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 program. 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.

#### Etisalat - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	16.61	15.99	15.49	14.43	14.01	13.13
P/B (x)	3.10	2.94	3.03	3.42	3.38	3.09
EV / EBITDA	5.68	5.72	5.67	6.38	6.62	6.52
Dividend yield	4.8%	7.2%	4.8%	4.8%	4.8%	4.9%

FABS estimate and Co Data

**Etisalat - P&L**

AED mm	4Q23	3Q24	4Q24F	YOY	QOQ	2023	2024F	Change
<b>Revenue</b>	13,738	14,424	15,456	12.5%	7.2%	53,752	58,186	8.2%
Operating expenses	-9,186	-9,542	-10,324	12.4%	8.2%	-34,372	-38,519	12.1%
Impairment	-356	-225	-314	-11.7%	39.6%	-981	-989	0.9%
Share of results of associates and JVs	276	451	441	60.0%	-2.0%	761	2,037	167.6%
<b>Operating profit before federal royalty</b>	<b>4,472</b>	<b>5,107</b>	<b>5,259</b>	<b>17.6%</b>	<b>3.0%</b>	<b>19,161</b>	<b>20,714</b>	<b>8.1%</b>
Federal royalty	-1,799	-1,276	-1,386	-22.9%	8.6%	-6,329	-5,411	-14.5%
<b>Operating profit</b>	<b>2,673</b>	<b>3,831</b>	<b>3,873</b>	<b>44.9%</b>	<b>1.1%</b>	<b>12,832</b>	<b>15,303</b>	<b>19.3%</b>
<b>EBITDA</b>	<b>6,469</b>	<b>6,488</b>	<b>7,720</b>	<b>19.3%</b>	<b>19.0%</b>	<b>26,117</b>	<b>27,157</b>	<b>4.0%</b>
Finance and other income	1,474	561	569	-61.4%	1.3%	3,795	2,327	-38.7%
Finance and other costs	-896	-700	-1,047	16.8%	49.5%	-3,928	-5,014	27.6%
<b>Profit before tax</b>	<b>3,250</b>	<b>3,692</b>	<b>3,395</b>	<b>4.5%</b>	<b>-8.0%</b>	<b>12,698</b>	<b>12,616</b>	<b>-0.6%</b>
Income tax expenses	-471	-592	-510	8.2%	-13.8%	-1,554	-1,514	-2.6%
<b>Profit for the period</b>	<b>2,779</b>	<b>3,100</b>	<b>2,885</b>	<b>3.8%</b>	<b>-6.9%</b>	<b>11,144</b>	<b>11,102</b>	<b>-0.4%</b>
Non-controlling interests	163	138	351	115.3%	154.6%	840	111	-86.8%
<b>Net Profit Attributable to Owners</b>	<b>2,616</b>	<b>2,963</b>	<b>2,534</b>	<b>-3.1%</b>	<b>-14.5%</b>	<b>10,305</b>	<b>10,991</b>	<b>6.7%</b>

*FABS estimate & Co Data*
**Etisalat - Margins**

	4Q23	3Q24	4Q24F	YOY	QOQ	2023	2024F	Change
Operating Profit	19.5%	26.6%	25.1%	560	-150	23.9%	26.3%	24
EBITDA	47.1%	45.0%	49.9%	286	497	48.6%	46.7%	-19
Net Profit	19.0%	20.5%	16.4%	-265	-414	19.2%	18.9%	-3

*FABS estimate & Co Data*

## 4Q24 preview: Etihad Etisalat Company (Mobily)

Significant growth coupled with reduced expenses fuels expansion

**Current Price**  
SAR 57.60

**12-m Target Price**  
SAR 65.00

**Upside/Downside (%)**  
+12.3%

**Rating**  
**ACCUMULATE**

### 4Q24 estimate

Etihad Etisalat (Mobily/the Company) is forecasted to report 9.0% YOY decline in net profit to SAR 679 Mn in 4Q24 owing to the expected increase in cost of service and impairments partially offset by an estimated rise in revenue, lower selling & marketing and zakat expenses. Mobily's revenue is expected to grow 6.2% YOY to SAR 4,572 Mn in 4Q24 owing to an expected increase in the revenue across all segments. On the other hand, the cost of revenue is expected to increase 14.4% YOY to SAR 2,107 Mn in 4Q24. Resultantly, gross profit is anticipated to rise marginally 0.1% YOY to SAR 2,466 Mn in 4Q24. Selling and marketing expense is projected to decline 28.0% YOY to SAR 386 Mn in 4Q24, while G&A expenses are estimated to rise significantly from SAR 38 Mn in 4Q23 to SAR 351 Mn in 4Q24. Mobily's EBITDA is anticipated to decline 9.1% YOY to SAR 1,696 Mn in 4Q24. Furthermore, the Company is expected to record other income of SAR 7 Mn in 4Q24 compared to other loss of SAR 44 Mn in 4Q23. Impairments loss on account receivables is anticipated to grow 42.8% YOY to SAR 32 Mn in 4Q24. Depreciation and amortization expense is expected to rise marginally 1.2% YOY to SAR 894 Mn. As a result, operating profit is expected to decrease 18.4% YOY to SAR 802 Mn in 4Q24. In addition, Mobily's finance cost is expected to decline 13.2% YOY to SAR 156 Mn in 4Q24, whereas finance income is anticipated to fall 31.8% YOY to SAR 38 Mn. Zakat expense is expected to decline from SAR 95 Mn in 4Q23 to SAR 29 Mn in 4Q24.

### 2024 forecast

Mobily is expected to record a 25.7% YOY growth in net profit to SAR 2,806 Mn in 2024 driven by an expected rise in revenue, lower zakat charge, and finance expenses partially offset by an estimated rise in direct cost and G&A expenses. Mobily's revenue is anticipated to grow 7.9% YOY to SAR 18,082 Mn in 2024 driven by healthy growth in the overall business. The Company's cost of revenue is anticipated to increase 12.5% YOY to SAR 8,227 Mn in 2024. Thus, gross profit is anticipated to grow 4.3% YOY to SAR 9,854 Mn in 2024. Selling and marketing expenses are anticipated to decline 3.9% YOY to SAR 1,410 Mn in 2024, whereas G&A expenses are expected to rise 20.8% YOY to SAR 1,419 Mn in 2024. Moreover, the Company's EBITDA is expected to grow 3.3% YOY to SAR 6,844 Mn in 2024. The Company is expected to record other income of SAR 54 Mn in 2024 compared to a loss of SAR 32 Mn in 2023. D&A expense is expected to fall 2.1% YOY to SAR 3,569 Mn in 2024. As a result, operating profit is likely to grow 10.0% YOY to SAR 3,275 Mn in 2024. The Company's finance expense is expected to decline 10.2% YOY to SAR 620 Mn in 2024. Similarly, finance income is expected to rise 2.8% YOY to SAR 168 Mn in 2024. In addition, zakat expense is estimated to decline 44.1% YOY to SAR 122 Mn in 2024.

### 3Q24 outturn

Mobily's service revenue grew 9.2% YOY to SAR 4,499 Mn in 3Q24 attributable to strong expansion across all the revenue segments. Revenue from the Consumer segment increased 5.7% YOY to SAR 2,829 Mn in 3Q24 due to a rise in mobile subscribers and the launch of new products, while the Business segment revenue increased substantially 18.1% YOY to SAR 1,085 Mn owing to the expansion of the product portfolio and offering a broad range of digital solutions. Similarly, the Wholesale segment revenue increased 9.9% YOY to SAR 479 Mn in 3Q24 attributable to the expansion of service offerings and growing market share. Outsourcing segment income grew significantly 22.6% YOY to SAR 105 Mn in 3Q24. The Company's cost of services increased 7.4% YOY to SAR 1,933 Mn in 3Q24. Additionally, Mobily recorded a one-time withholding tax reversal of SAR 140 Mn in 3Q24. Thus, the Company's gross profit rose 10.6% YOY to SAR 2,566 Mn in 3Q24. Consequently, operating expenses grew marginally

0.6% YOY to SAR 672 Mn in 3Q24 owing to a 5.3% YOY growth in selling & marketing expenses to SAR 320 Mn partially offset by 3.3% YOY reduction in G&A expenses to SAR 352 Mn. On the other hand, D&A expenses decreased 2.3% YOY to SAR 886 Mn in 3Q24, while impairment loss on accounts receivable declined 7.7% YOY to SAR 48 Mn in 3Q24. Hence, Mobily's operating profit increased 38.7% YOY to SAR 960 Mn in 3Q24. Furthermore, the Company's EBITDA grew 15.4% YOY to SAR 1,846 Mn in 3Q24 due to an increase in the subscriber base and expansion of services. Mobily's other income grew from SAR 4 Mn in 3Q23 to SAR 9 Mn in 3Q24. Finance expenses rose 2.9% YOY to SAR 167 Mn in 3Q24 due to the impact of hedge contracts optimization arising from financial agreements signed in 1Q24. Similarly, finance income increased 9.5% YOY to SAR 38 Mn in 3Q24. Mobily's zakat expenses decreased 38.3% YOY to SAR 29 Mn in 3Q24. The Company recorded 58.2% YOY growth in net profit to SAR 829 Mn in 3Q24.

### Target price and recommendation

We revise our rating on Mobily from BUY to ACCUMULATE with an unchanged target price of SAR 65.00. Mobily's revenue grew 9.2% YOY to SAR 4.5 Bn in 3Q24 owing to a healthy growth across all segments. The Company further expects its revenue to grow by mid to high-single digit in 2024. Mobily's mobile subscribers expanded 1.7% YOY to SAR 11.7 Mn in 3Q24, whereas FTTH subscribers increased 0.4% YOY to 283 thousand in 3Q24. The Company is enhancing its internal capabilities, and expanding its product portfolio to deliver a comprehensive end-to-end ICT ecosystem. It launched the Postpaid X-Stream package that offers free content streaming on selected OTT platforms. Furthermore, Mobily signed an agreement with Red Bull Mobile to host MVNOs leveraging its existing network infrastructure and also enhanced its service offerings in the Wholesale segment. Besides, it expanded its footprint by winning connectivity services deals from domestic and international clients. Mobily incurred a capex of SAR 1.1 Bn in 9M24 to enhance connectivity. Moreover, Mobily generated 12.2% YOY growth in free cash flow to SAR 1.4 Bn in 3Q24. Additionally, the Company's gross debt declined 18.4% YOY to SAR 9.7 Bn in 3Q24 along with a 21.9% YOY reduction in net debt to SAR 6.9 Bn in 3Q24. Moreover, the Company's efforts to strengthen its market position through investments in technology and digitization will positively contribute towards its topline growth. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

### Mobily – Relative Valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	NA	56.82	41.53	26.86	19.94	15.86
P/B (x)	3.2	3.08	2.93	2.72	2.53	2.30
EV / EBITDA	11.3	10.28	9.55	8.30	7.40	7.02
Dividend yield	NA	0.9%	1.5%	2.0%	2.5%	3.1%

FABS Estimates & Co Data

**Mobily - P&L**

	<b>4Q23</b>	<b>3Q24</b>	<b>4Q24F</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2023</b>	<b>2024F</b>	<b>Change</b>
<b>SAR mm</b>	<b>4Q23</b>	<b>3Q24</b>	<b>4Q24F</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2023</b>	<b>2024F</b>	<b>Change</b>
Services revenues	4,306	4,499	4,572	6.2%	1.6%	16,763	18,082	7.9%
Cost of services	-1,842	-1,933	-2,107	14.4%	9.0%	-7,311	-8,227	12.5%
<b>Gross profit</b>	<b>2,464</b>	<b>2,566</b>	<b>2,466</b>	<b>0.1%</b>	<b>-3.9%</b>	<b>9,452</b>	<b>9,854</b>	<b>4.3%</b>
Selling and marketing expenses	-537	-320	-386	-28.0%	20.9%	-1,467	-1,410	-3.9%
General & administrative expenses	-38	-352	-351	NM	-0.2%	-1,175	-1,419	20.8%
<b>Operating expenses</b>	<b>-575</b>	<b>-672</b>	<b>-738</b>	<b>28.3%</b>	<b>9.8%</b>	<b>-2,642</b>	<b>-2,830</b>	<b>7.1%</b>
Depreciation and amortisation	-884	-886	-894	1.2%	0.9%	-3,647	-3,569	-2.1%
Impairment loss on acc receivable	-22	-48	-32	42.8%	-33.8%	-186	-181	-2.6%
<b>Operating Profit</b>	<b>983</b>	<b>960</b>	<b>802</b>	<b>-18.4%</b>	<b>-16.5%</b>	<b>2,977</b>	<b>3,275</b>	<b>10.0%</b>
<b>EBITDA</b>	<b>1,867</b>	<b>1,846</b>	<b>1,696</b>	<b>-9.1%</b>	<b>-8.1%</b>	<b>6,625</b>	<b>6,844</b>	<b>3.3%</b>
Other income	-44	9	7	NM	-19.5%	-32	54	NM
Finance expenses	-180	-167	-156	-13.2%	-6.4%	-690	-620	-10.2%
Finance income	56	38	38	-31.8%	-0.5%	164	168	2.8%
<b>Profit before zakat</b>	<b>841</b>	<b>858</b>	<b>708</b>	<b>-15.8%</b>	<b>-17.5%</b>	<b>2,449</b>	<b>2,928</b>	<b>19.5%</b>
Zakat	-95	-29	-29	-69.4%	-1.3%	-217	-122	-44.1%
<b>Profit attributable</b>	<b>746</b>	<b>829</b>	<b>679</b>	<b>-9.0%</b>	<b>-18.1%</b>	<b>2,232</b>	<b>2,806</b>	<b>25.7%</b>

FABS estimate & Co Data

**Mobily - Margins**

	<b>4Q23</b>	<b>3Q24</b>	<b>4Q24E</b>	<b>YOY</b>	<b>QOQ Ch</b>	<b>2023</b>	<b>2024F</b>	<b>Change</b>
Gross profit	57.2%	57.0%	53.9%	-330	-312	56.4%	54.5%	-189
EBITDA	43.3%	41.0%	37.1%	-625	-395	39.5%	37.9%	-167
Operating profit	22.8%	21.3%	17.5%	-529	-380	17.8%	18.1%	35
Net profit	17.3%	18.4%	14.8%	-247	-357	13.3%	15.5%	221

FABS estimate & Co Data

## 4Q24 preview: Saudi Telecom Company (STC)

Lowered costs and expenses to enhance profitability

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

### 4Q24 Estimate

Saudi Telecom Company (STC) is expected to report an 17.5% YOY rise in net profit to SAR 2,898 Mn in 4Q24. The growth in net profit will be primarily driven by an expected increase in revenue, lower G&A expenses, finance cost, and zakat charge partially offset by predicted rise in direct costs, and selling & overhead expenses. STC's revenue is expected to grow 3.6% YOY to SAR 18,433 Mn in 4Q24. The Company's direct cost is likely to increase 14.6% YOY to SAR 9,141 Mn in 4Q24. Thus, gross profit is estimated to decline 5.4% YOY to SAR 9,292 Mn in 4Q24. We expect the gross margins to fall 476 bps YOY to 50.4% in 4Q24, primarily due to increased direct cost. STC's selling and overhead expenses are anticipated to increase 5.7% YOY to SAR 1,490 Mn in 4Q24, and G&A expenses are predicted to fall 5.0% YOY to SAR 2,165 Mn in 4Q24. Thus, EBITDA is anticipated to decline 8.0% YOY to SAR 5,636 Mn in 4Q24. Depreciation and amortization expenses are expected to decline 14.5% YOY to SAR 2,576 Mn in 4Q24. Moreover, operating profit is likely to decline 1.8% YOY to SAR 3,061 Mn in 4Q24. Other expenses are expected to grow 3.6% YOY to SAR 241 Mn in 4Q24. Moreover, finance income is anticipated to rise 2.1% YOY to SAR 450 Mn in 4Q24, whereas finance expense is forecasted to decrease significantly from SAR 547 Mn in 4Q23 to SAR 285 Mn in 4Q24. In addition, zakat expense is anticipated to decline 6.5% YOY to SAR 303 Mn in 4Q24.

### 2024 Forecast

Saudi Telecom Company's net profit is expected to rise 9.4% YOY to SAR 14,545 Mn in 2024, driven by an increase in revenue, finance income, and lower zakat charge. STC's revenue is estimated to grow 4.1% YOY to SAR 75,330 Mn in 2024. On the other hand, direct cost is anticipated to increase 6.2% YOY to SAR 36,686 Mn in 2024. As a result, gross profit is likely to grow 2.2% YOY to SAR 38,644 Mn in 2024. STC's selling and overhead expenses are expected to grow 4.4% YOY to SAR 6,177 Mn in 2024, while G&A expenses are anticipated to decline 0.7% YOY to SAR 7,156 Mn in 2024. Thus, EBITDA is estimated to grow 2.5% YOY to SAR 25,311 Mn in 2024. Moreover, D&A expenses are predicted to decline 3.7% YOY to SAR 10,100 Mn in 2024. Meanwhile, operating profit is anticipated to increase 7.1% YOY to SAR 15,211 Mn in 2024. Furthermore, other expense is anticipated to reach SAR 716 Mn in 2024 compared to other income of SAR 353 Mn in 2023. Finance income is estimated to rise 15.4% YOY to SAR 1,745 Mn in 2024, whereas finance cost is expected to rise 16.6% YOY to SAR 1,481 Mn in 2024. Additionally, Zakat expenses are forecasted to decline 24.9% YOY to SAR 1,033 Mn in 2024. The share of profit attributable to non-controlling interest holders is anticipated to grow from SAR 124 Mn in 2023 to SAR 247 Mn in 2024.

### 3Q24 Outturn

STC's revenue grew 3.4% YOY to SAR 18,643 Mn in 3Q24 owing to a rise in revenue from STC's KSA and its subsidiaries. STC's KSA revenue increased 0.5% YOY to SAR 12,442 Mn in 3Q24, driven by a rise in its subscriber base. STC KSA's fixed subscribers base grew 2.3% YOY to 5.8 Mn in 3Q24, while the mobile subscriber base boosted 7.9% YOY to 27.6 Mn in 3Q24. STC's Channel's revenue expanded 11.4% YOY to 3,583 Mn in 3Q24. STC Kuwait's revenue increased 3.9% YOY to SAR 1,070 Mn in 3Q24, however, its mobile based subscribers reduced 4.2% YOY to 2.3 Mn in 3Q24. STC's Bank revenue grew 6.8% YOY to SAR 320 Mn in 3Q24, coupled with a significant increase in other operating segments by 38.9% YOY to SAR 616 Mn in 3Q24. The Company's direct costs declined 2.0% YOY to SAR 8,247 Mn in 3Q24 attributed to a reversal of a withholding tax provision of SAR 1,500 Mn in 3Q24 compared to a reversal of a provision of non-recurring item of SAR 641 Mn in 3Q24. Thus, gross profit increased 8.1% YOY to SAR 10,395 Mn in 3Q24. Selling & overhead expenses increased 18.2% YOY to SAR 1,937 Mn in

3Q24 due to the booking of doubtful debt provision amounting to SAR 554 Mn, coupled with an increase in G&A expenses by 5.1% YOY to SAR 1,672 Mn in 3Q24. Hence, EBITDA expanded 6.2% YOY to SAR 6,786 Mn in 3Q24. Moreover, EBITDA margin of the Company expanded by 97 bps YOY and 291 bps QOQ to 36.4% in 3Q24. STC's depreciation expenses grew 2.6% YOY to SAR 2,376 Mn in 3Q24. Hence Company's operating profit was boosted by 8.3% YOY to SAR 4,410 Mn in 3Q24 and the operating profit margin grew 107 bps YOY to 23.7% in 3Q24. STC finance income increased 26.4% YOY to 417 Mn in 3Q24, partially offset by growth in financial charges by 15.9% YOY to SAR 276 Mn in 3Q24. However, the Company recorded other expenses of SAR 47 Mn in 3Q24 against other income of SAR 963 Mn in 3Q23 due to recording a gain from the land sold in Alkhobar City amounting to SAR 1,296 Mn. STC's Zakat expenses declined 48.6% YOY to SAR 177 Mn in 3Q24. The Company's profit from discontinued operations boosted significantly by 101.6% to SAR 385 Mn in 3Q24.

### 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. STC experienced revenue growth from both its KSA and its subsidiaries. In 3Q24, STC's KSA fixed subscribers rose 2.3% YOY to 5.7 Mn, and mobile subscribers increased 7.9% YOY to 27.6 Mn. The Company's borrowing declined substantially from 23.9 Bn in 2Q24 to 15.3 Bn in 3Q24, reflecting effective debt management by the Company. STC's EBITDA margin was boosted by 97 bps YOY in 3Q24 due to its prudent approach to cost management. STC took multiple steps to enhance communication and technology to increase its customer base and product range. The Company collaborated with China Mobile International Limited to boost the development of IoT connectivity services in multiple industries across the region. The Company established a strategic partnership with its subsidiaries, Sirar and Saudi Railway Company to transform the field of information technology and innovation. The Company also signed a triparty MoU with Flynas Airlines and Sky Five Arabia to accelerate the inflight connective experience. STC's Solution segment along with US-based Nile entered a strategic joint venture to boost the network solution in Saudi Arabia. Further, STC signed a strategic agreement with PLDT, an integrated Telecom company in the Philippines to execute international voice service for Filipinos abroad. Additionally, the Company has launched a network for the development of digital infrastructure for seamless sharing infrastructure for various significant projects in the Kingdom. The Company has deployed more than 8.8K 5G towers, with 49.95% coverage in the Saudi region. STC also has more than 21K towers under management across five countries. The Company also entered into a sales agreement with PIF of Saudi Arabia for Tawal, a tower management entity of STC, whereby, PIF will acquire 51% stakes in the Tawal and joint entity plans to own and manage a portfolio of around 30,000 towers across 5 countries. STC has also signed a strategic partnership with New Murabba to build advanced communications and information technologies at New Murabba. The STC Bank also became the founding partner of Saudi Arabia's new fintech program, 24 Fintech which hosted finance, policy, technology, and investment leaders in Riyadh. The Company announced a new dividend policy for the next three years starting from 4Q24 to pay a dividend of SAR 0.55 per share compared to the previous SAR 0.4 every quarter till 3Q27. STC trades at a 2025 PE valuation of 16.8x compared to the average peer multiple of 14.8x which renders the stock expensive. 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)	19.78	19.19	18.65	17.34	15.87	14.51
P/B (x)	3.42	3.30	3.05	2.87	2.67	2.70
EV/EBITDA	9.94	9.14	9.03	7.90	8.40	8.08
Dividend yield	3.8%	4.7%	3.8%	3.8%	6.2%	5.2%

FABS Estimates & Co Data

**STC - P&L**

SAR mm	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Sales	17,796	18,643	18,433	3.6%	-1.1%	72,337	75,330	4.1%
Direct costs	-7,979	-8,247	-9,141	14.6%	10.8%	-34,533	-36,686	6.2%
<b>Gross profit</b>	<b>9,817</b>	<b>10,395</b>	<b>9,292</b>	<b>-5.4%</b>	<b>-10.6%</b>	<b>37,804</b>	<b>38,644</b>	<b>2.2%</b>
Selling & overhead exp	-1,410	-1,937	-1,490	5.7%	-23.1%	-5,914	-6,177	4.4%
General & Admin Exp.	-2,278	-1,672	-2,165	-5.0%	29.4%	-7,206	-7,156	-0.7%
<b>EBITDA</b>	<b>6,129</b>	<b>6,786</b>	<b>5,636</b>	<b>-8.0%</b>	<b>-16.9%</b>	<b>24,683</b>	<b>25,311</b>	<b>2.5%</b>
Depreciation & Amortization	-3,014	-2,376	-2,576	-14.5%	8.4%	-10,483	-10,100	-3.7%
<b>EBIT</b>	<b>3,115</b>	<b>4,410</b>	<b>3,061</b>	<b>-1.8%</b>	<b>-30.6%</b>	<b>14,200</b>	<b>15,211</b>	<b>7.1%</b>
Other inc./(exp.)	-233	-47	-241	3.6%	NM	353	-716	NM
Finance Income	441	417	450	2.1%	8.0%	1,513	1,745	15.4%
Financial charges	-547	-276	-285	-47.8%	3.4%	-1,271	-1,481	16.6%
<b>Profit before zakat</b>	<b>2,777</b>	<b>4,504</b>	<b>2,984</b>	<b>7.5%</b>	<b>-33.7%</b>	<b>14,795</b>	<b>14,760</b>	<b>-0.2%</b>
Zakat	-324	-177	-303	-6.5%	71.5%	-1,375	-1,033	-24.9%
<b>Profit before NCI</b>	<b>2,453</b>	<b>4,327</b>	<b>2,681</b>	<b>9.3%</b>	<b>-38.0%</b>	<b>13,419</b>	<b>13,726</b>	<b>2.3%</b>
Profit from disc oper	0	385	266	NM	-30.9%	0	1,066	NM
NCI	-12	70	50	NM	-28.2%	124	247	99.1%
<b>Profit attributable</b>	<b>2,465</b>	<b>4,643</b>	<b>2,898</b>	<b>17.5%</b>	<b>-37.6%</b>	<b>13,295</b>	<b>14,545</b>	<b>9.4%</b>

FABS estimate & Co Data

**STC- Margins**

	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross profit	55.2%	55.8%	50.4%	-476	-535	52.3%	51.3%	-96
EBITDA	34.4%	36.4%	30.6%	-387	-582	34.1%	33.6%	-52
Operating profit	17.5%	23.7%	16.6%	-90	-705	19.6%	20.2%	56
Net profit	13.9%	24.9%	15.7%	187	-918	18.4%	19.3%	93

FABS estimate & Co Data

## 4Q24 preview: Telecom Egypt (ETEL)

Sharp rise in finance cost to dent profitability

<b>Current Price</b> EGP 33.61	<b>12-m Target Price</b> EGP 41.00	<b>Upside/Downside (%)</b> +22.0%	<b>Rating</b> BUY
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### 4Q24 Estimate

Telecom Egypt's (ETEL/the Company) is expected to report an 11.1% YOY decrease in net profit to EGP 2,061 Mn in 4Q24, driven by an expected rise in operating costs, increase in selling & overhead expenses, substantial rise in net finance cost, and increase in income tax partially offset by an anticipated rise in revenue and income from associate. Telecom Egypt's revenue is expected to surge 42.0% YOY to EGP 20,904 Mn in 4Q24 due to growth across retail and Wholesale segments. On the other hand, the Company's operating cost is estimated to increase 33.8% to EGP 13,081 Mn. Thus, gross profit is anticipated to grow 58.1% YOY to EGP 7,823 Mn in 4Q24. Moreover, Telecom Egypt's selling and overhead expenses are expected to increase 41.0% YOY to EGP 3,847 Mn in 4Q24. The Company is expected to generate net other operating revenue of EGP 58 Mn in 4Q24 compared to a loss of EGP 172 Mn in 4Q23 due to a reduction in other operating expenses. Thus, operating profit will likely grow from EGP 2,047 Mn in 4Q23 to EGP 4,034 Mn in 4Q24 with 540 bps YOY growth in operating profit margin to 19.3% in 4Q24. The Company's EBITDA is expected to increase 55.5% YOY to EGP 7,889 Mn in 4Q24. Additionally, the income from associates is expected to increase 37.9% YOY to EGP 2,210 Mn in 4Q24. However, the Company's net finance cost is projected to increase more than fourfold, rising from EGP 750 Mn in 4Q23 to EGP 3,548 Mn in 4Q24. The tax expense is estimated to surge 8.4% YOY to EGP 629 Mn in 4Q24.

### 2024 Forecast

We forecast Telecom Egypt's net profit to decline 6.7% YOY to EGP 10,698 Mn in 2024 owing to an expected increase in operating costs, a rise in selling & overhead expenses, and an increase in net finance costs partially offset by anticipated growth in revenue, rise in income from associate and decrease in income tax. The Company's revenue is expected to grow 40.0% YOY to EGP 79,335 Mn in 2024, driven by strong growth in the Retail and Wholesale segments. On the other hand, operating cost is estimated to increase 43.0% YOY to EGP 49,029 Mn in 2024. Thus, gross profit is projected to grow 35.4% YOY to EGP 30,306 Mn in 2024. Selling and overhead expenses are estimated to grow 34.0% YOY to EGP 13,249 Mn in 2024. Moreover, Telecom Egypt's operating profit is expected to grow 37.5% YOY to EGP 16,868 Mn in 2024. The Company's EBITDA is anticipated to increase 39.9% YOY to EGP 31,039 Mn in 2024. Furthermore, income from associates is predicted to increase 50.0% YOY to EGP 7,549 Mn in 2024. However, the Company's net finance cost is expected to grow significantly from EGP 3,909 Mn in 2023 to EGP 12,911 Mn in 2024 due to rise in benchmark rates. Income tax is assumed to decrease from EGP 1,917 Mn in 2023 to EGP 791 Mn in 2024.

### 3Q24 Outturn

Telecom Egypt's revenue grew 48.1% YOY to EGP 20,478 Mn in 3Q24 mainly driven by solid growth in the Wholesale and Retail segments. Revenue from Home & Consumer Services grew 45.1% YOY to EGP 9,305 Mn in 3Q24 due to an increase in data and voice revenue, supported by growth in customer base and higher ARPU. Enterprise Solutions business revenue rose 51.1% YOY to EGP 2,251 Mn in 3Q24. Wholesale segment revenues recorded robust growth of 50.8% YOY to EGP 8,922 Mn in 3Q24 attributed to strong growth in IDD revenue which rose 79% YOY due to foreign currency appreciation coupled with growth in infrastructure and capacity sales. Revenue from the International Carrier segment increased from EGP 1,974 Mn in 3Q23 to EGP 3,606 Mn in 3Q24 due to an increase in revenue of International Direct Dialing (IDD) owing to foreign currency appreciation, and higher incoming calls traffic. Revenue from the Domestic Wholesale segment grew 23.4% YOY to EGP 1,971 Mn in 3Q24 owing to an increase in infrastructure revenue. International Cable and Networks revenue increased from EGP 2,347 Mn in

3Q23 to EGP 3,344 Mn in 3Q24 due to strong growth in capacity sales. On the other hand, operating costs rose 56.5% YOY to EGP 12,887 Mn in 3Q24 mainly due to an increase in call cost and other operating cost owing to currency devaluation. Thus, gross profit grew 35.8% YOY to EGP 7,591 Mn in 3Q24. Gross profit margin fell 338 bps YOY to 37.1% in 3Q24. Selling and overhead expenses increased 33.0% YOY to EGP 3,294 Mn in 3Q24. Telecom Egypt recorded other operating revenue of EGP 120 Mn in 3Q24 compared to an expense of EGP 2 Mn in 3Q23. Operating profit grew 42.0% YOY to EGP 4,416 Mn in 3Q24. The Company's EBITDA rose 42.7% YOY to EGP 8,032 Mn in 3Q24. However, EBITDA margin declined by 149 bps YOY to 39.2% in 3Q24. Income from associates rose significantly from EGP 1,465 Mn in 3Q23 to EGP 2,354 Mn in 3Q24 mainly attributed to organic growth including an increase in pricing. Net finance cost increased significantly to EGP 4,150 Mn in 3Q24 compared to EGP 1,258 Mn in 3Q23, mainly due to a rise in debt owing to EGP devaluation with unchanged base debt. In addition, income tax expense stood at EGP 489 Mn in 3Q24 compared to EGP 864 Mn in 3Q23.

### Target price and recommendation

We maintain our BUY rating on Telecom Egypt with an unchanged target price of EGP 41.00. The company reported a notable decline in profitability in 3Q24 owing to an increase in operating and finance costs due to the devaluation of the Egyptian currency. However, the revenue growth is driven by solid growth in the Wholesale Segment with an impressive 50.8% YOY growth in 3Q24 followed by 46.2% YOY growth in the Retail Segment performance. Telecom Egypt's revenue is further expected to benefit from another price increase at the end of 2024 or early FY2025. It expects a price increase of more than 15% on all services. The Company's fixed-line voice subscribers increased to 12.9 Mn in 3Q24 from 12.8 Mn in 2Q24. Similarly, fixed-line data subscribers rose from 9.8 Mn in 2Q24 to 10.0 Mn in 3Q24. Additionally, fixed-line Mobile subscribers grew from 13.1 Bn in 2Q24 to 13.6 Mn in 3Q24. Moreover, ARPU also witnessed healthy growth. The Company anticipates its EBITDA margin to stand in the high 30s in 2024 as the cost base rises to a new base and is largely stabilized providing flexibility going forward. The Company signed a landmark infrastructure service agreement with Vodafone Egypt worth EGP 30 Bn with multiple maturities up to 2034. The agreements intend to solidify Vodafone Egypt's network and support the launch of its 5G services. The Company remain optimistic about the ICN business following the successful landing of the 10,000 km Africa-1 Subsea Cable System Landing Ras Ghareb cable landing station followed by another landing at the Mediterranean coast, aimed at enhancing global connectivity by boosting broadband traffic capacity. This will help in securing future revenue growth for Telecom Egypt. Moreover, the Company entered into a partnership with Mobily to land the first submarine cable connecting KSA and Egypt via the Red Sea. The partnership will increase the international capacity and expand the reach of both companies. Telecom Egypt selected Mada Communications as its partner for international SMS services by signing a multi-year agreement. The Company will capitalize on Mada's expertise, partnerships with local and international institutions, and robust security and protection procedures. The agreement will benefit Telecom Egypt by increasing its customer base and revenue. Thus, based on our analysis, we maintain our BUY rating on the stock.

### Telecom Egypt –Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	16.05	14.59	7.76	6.27	5.02	5.38
P/B (x)	1.63	1.48	1.30	1.24	1.13	1.07
EV / EBITDA	12.44	6.81	4.95	4.77	4.32	4.16
Dividend yield	0.7%	2.2%	3.0%	3.7%	4.5%	4.5%

FABS estimate & Co Data

**Telecom Egypt-P&L**

EGP mm	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Operating Revenue	14,721	20,478	20,904	42.0%	2.1%	56,679	79,335	40.0%
Operating costs	-9,773	-12,887	-13,081	33.8%	1.5%	-34,290	-49,029	43.0%
<b>Gross profit</b>	<b>4,947</b>	<b>7,591</b>	<b>7,823</b>	<b>58.1%</b>	<b>3.1%</b>	<b>22,389</b>	<b>30,306</b>	<b>35.4%</b>
Selling & overhead expenses	-2,729	-3,294	-3,847	41.0%	16.8%	-9,890	-13,249	34.0%
Net operating revenue (others)	-172	120	58	NM	-51.3%	-232	-189	-18.5%
<b>Operating profit</b>	<b>2,047</b>	<b>4,416</b>	<b>4,034</b>	<b>97.1%</b>	<b>-8.6%</b>	<b>12,266</b>	<b>16,868</b>	<b>37.5%</b>
<b>EBITDA</b>	<b>5,074</b>	<b>8,032</b>	<b>7,889</b>	<b>55.5%</b>	<b>-1.8%</b>	<b>22,185</b>	<b>31,039</b>	<b>39.9%</b>
Income from Associates	1,603	2,354	2,210	37.9%	-6.1%	5,033	7,549	50.0%
Net Finance income/(cost)	-750	-4,150	-3,548	NM	-14.5%	-3,909	-12,911	NM
<b>Profit before zakat</b>	<b>2,900</b>	<b>2,620</b>	<b>2,696</b>	<b>-7.0%</b>	<b>2.9%</b>	<b>13,390</b>	<b>11,505</b>	<b>-14.1%</b>
Zakat	-580	-489	-629	8.4%	28.7%	-1,917	-791	-58.7%
<b>Profit before N-C interests</b>	<b>2,319</b>	<b>2,131</b>	<b>2,067</b>	<b>-10.9%</b>	<b>-3.0%</b>	<b>11,473</b>	<b>10,714</b>	<b>-6.6%</b>
Non-controlling interests	-2	-6	-7	NM	17.5%	-7	-16	115.8%
<b>Profit attributable</b>	<b>2,317</b>	<b>2,126</b>	<b>2,061</b>	<b>-11.1%</b>	<b>-3.0%</b>	<b>11,466</b>	<b>10,698</b>	<b>-6.7%</b>

FABS estimate & Co Data

**Telecom Egypt - Margins**

	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	33.6%	37.1%	37.4%	381	35	39.5%	38.2%	-130
EBITDA	34.5%	39.2%	37.7%	327	-148	39.1%	39.1%	-2
Operating profit	13.9%	21.6%	19.3%	540	-227	21.6%	21.3%	-38
Net profit	15.7%	10.4%	9.9%	-588	-52	20.2%	13.5%	-674

FABS estimate & Co Data

## 4Q24 preview: **Emirates Integrated Telecommunications (du)**

Higher revenue growth across business segments to drive profitability

Current Price	12-m Target Price	Upside/Downside (%)	Rating
AED 7.98	AED 8.55	+7.1%	HOLD

### 4Q24 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to grow 46.0% YOY to AED 579 Mn in 4Q24. The rise in net profit will be mainly driven by anticipated growth in revenue, decrease in marketing expenses, and lower federal royalties partially offset by an expected increase in direct costs and higher expected credit. DU's revenue is expected to grow 6.2% YOY to AED 3,777 Mn in 4Q24, mainly due to an anticipated increase in Fixed and other revenue segments driven by healthy growth in equipment and ICT. The overall increase in revenue is partially offset by an estimated decline in income from the mobile segment. The Company's cost of sales, excluding depreciation & amortization and marketing expenses, is anticipated to rise 2.3% YOY to AED 2,041 Mn in 4Q24, while marketing expenses are estimated to decline 27.7% YOY to AED 62 Mn in 4Q24. Additionally, expected credit losses (ECL) are projected to rise significantly 39.3% YOY to AED 66 Mn in 4Q24. As a result, EBITDA is expected to grow 12.5% YOY to AED 1,609 Mn in 4Q24. EBITDA margin will likely rise from 40.2% in 4Q23 to 42.6% in 4Q24. Depreciation and amortization expense is anticipated to increase marginally 2.9% YOY to AED 553 Mn in 4Q24. Thus, operating profit is predicted to grow 18.2% YOY to AED 1,056 Mn in 4Q24. Operating profit margin is expected to grow from 25.1% in 3Q24 to 28.0% in 4Q24. The Company is expected to record a net finance expense of AED 11 in 4Q24 compared to a gain of AED 1 Mn in 4Q23. In addition, federal royalty is expected to fall 17.4% YOY to AED 409 Mn in 4Q24 while tax expense is anticipated to amount to AED 57 Mn.

### 2024 Forecast

DU's net profit is expected to rise 48.8% YOY to AED 2,481 Mn in 2024 due to anticipated growth in revenue, decline in marketing expenses and federal royalty partially offset by rise in direct cost, increase in expected credit loss and implementation of tax charge. Revenue is expected to grow 6.6% YOY to AED 14,540 Mn in 2024 due to projected growth in Fixed and Other revenue segments. Cost of sales excluding depreciation & amortization and marketing expenses is expected to grow 2.8% YOY to AED 7,563 Mn in 2024. Marketing expenses are anticipated to decline 7.6% YOY to AED 218 Mn in 2024, while ECL is estimated to surge 7.9% YOY to AED 262 Mn in 2024. Thus, EBITDA is expected to rise 12.0% YOY to AED 6,497 Mn in 2024. EBITDA margin is likely to rise from 42.5% in 2023 to 44.7% in 2024. Depreciation and amortization expense is anticipated to decline 2.2% YOY to AED 2,150 Mn in 2024. Thus, operating profit is predicted to grow 20.7% YOY to AED 4,348 Mn in 2024. Operating profit margin is anticipated to grow from 26.4% in 2023 to 29.9% in 2024. Moreover, net finance expense is expected to fall from AED 40 Mn in 2023 to AED 20 Mn in 2024. Federal royalty is expected to decline 15.3% YOY to AED 1,601 Mn in 2024, and tax expense is anticipated to amount to AED 245 Mn in 2024 owing to the introduction of corporate tax in the UAE in 2024.

### 3Q24 Outturn

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 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 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 1,734 Mn 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.

### Target price and rating

We revise our rating from ACCUMULTE to HOLD rating on DU with a revised target price of AED 8.55. 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 strong 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 a HOLD rating on the stock.

#### DU – Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	20.95	25.13	32.94	29.73	21.74	14.61
P/B (x)	4.19	4.23	4.25	4.13	3.92	3.68
EV/EBITDA	9.25	11.41	11.19	10.22	8.78	7.18
Dividend yield	4.3%	3.5%	2.6%	3.0%	4.3%	5.1%

FABS Estimates & Co Data

**DU - P&L**

AED mm	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	3,558	3,589	3,777	6.2%	5.2%	13,636	14,540	6.6%
Costs (ex D&A, marketing exp)	-1,995	-1,729	-2,041	2.3%	18.1%	-7,359	-7,563	2.8%
Marketing expense	-85	-59	-62	-27.7%	4.1%	-236	-218	-7.6%
Expected Credit Loss	-47	-67	-66	39.3%	-2.1%	-243	-262	7.9%
<b>EBITDA</b>	<b>1,430</b>	<b>1,734</b>	<b>1,609</b>	<b>12.5%</b>	<b>-7.2%</b>	<b>5,799</b>	<b>6,497</b>	<b>12.0%</b>
D&A & Impairment	-537	-543	-553	2.9%	1.8%	-2,198	-2,150	-2.2%
<b>Operating profit</b>	<b>893</b>	<b>1,191</b>	<b>1,056</b>	<b>18.2%</b>	<b>-11.4%</b>	<b>3,600</b>	<b>4,348</b>	<b>20.7%</b>
Financing income/expense	1	-7	-11	NM	67.9%	-40	-20	-49.8%
<b>Pre-royalty profit</b>	<b>892</b>	<b>1,185</b>	<b>1,045</b>	<b>17.1%</b>	<b>-11.8%</b>	<b>3,559</b>	<b>4,328</b>	<b>21.6%</b>
Federal Royalty	-496	-395	-409	-17.4%	3.8%	-1,891	-1,601	-15.3%
Tax	0	-71	-57	NM	-20.3%	0	-245	NM
<b>Net profit</b>	<b>396</b>	<b>719</b>	<b>579</b>	<b>46.0%</b>	<b>-19.5%</b>	<b>1,668</b>	<b>2,481</b>	<b>48.8%</b>

FABS estimate & Co Data

**DU - Margins**

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	43.9%	51.8%	46.0%	204	-587	46.0%	48.0%	195
EBITDA	40.2%	48.3%	42.6%	239	-572	42.5%	44.7%	216
Operating profit	25.1%	33.2%	28.0%	285	-523	26.4%	29.9%	350
Net Profit	11.1%	20.0%	15.3%	418	-472	12.2%	17.1%	483

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