

## Tecom Group

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.05	AED 3.45	+13.1%	ACCUMULATE

### 4Q24 Net Profit lower than our estimate

- Tecom's revenue grew 10.8% YOY to AED 643 Mn in 4Q24, while direct cost increased 21.2% YOY to AED 241 Mn in 4Q24.
- Gross profit rose 5.4% YOY to AED 402 Mn in 4Q24 with a 321 bps YOY decline in gross profit margin to 62.5% due to higher direct cost.
- G&A expenses reduced 22.5% YOY to AED 53 Mn, whereas marketing & selling expenses increased 13.5% YOY to AED 26 Mn in 4Q24.
- Tecom's EBITDA rose 9.4% YOY to AED 458 Mn in 4Q24, with the EBITDA margin standing at 71.3% in 4Q24 compared to 72.2% in 4Q23.
- Operating profit grew 8.8% YOY to AED 346 Mn in 4Q24 due to higher gross profit and lower operating expense. Operating profit margin rose from 54.7% in 4Q23 to 53.7% in 4Q24.
- Tecom's net profit fell 8.0% YOY to AED 286 Mn in 4Q24 due to the implementation of corporate tax and an increase in financing cost for new acquisitions using facility drawdown.
- Tecom reached a high occupancy level of 94% across Commercial and Industrial leasing on 31 December 2024, while Land Leasing occupancy marginally improved to 95% on 31 December 2024 compared to 94% on 31 December 2023.
- Number of customers increased 8% YOY to more than 11,900 in 2024.
- Proposed dividend of AED 400 Mn for the second half of 2024 equivalent to 8 fils per share with pending approval from the board.

### Earnings Call Summary

- Despite ongoing geopolitical uncertainty and trade fragmentation, a solid economic environment along with a focus on technology and high-value businesses drove the demand and occupancy rate across Tecom's business segments.
- Tecom witnessed high rental rates due to robust occupancy levels. Moreover, strong demand for quality stock with lower supply benefited the Company's top line.
- Tecom has 11.6 Mn square feet of GLA within the industrial leasing segment and 178 Mn square feet of GLA within the land lease segment alongside a range of support services.
- The Company continues its cost control initiatives to enhance efficiency, while launching innovative projects. These efforts reinforce its value proposition, driving higher retention rates.
- Capitalizing on the strong economic environment, the Company achieved significant expansion, investing AED 2.7 Bn in premium commercial offices and industrial segment. The investments were made towards development projects, acquisition of operational assets, and land purchases.
- Overall retention rate improved 3% YOY to 92% in 2024.
- Overall tax rate for 2024 stood c. 3% due to operations in the free-zone.
- Borrowings increased by AED 860 Mn in 2024 due to the drawdown of AED 850 Mn to support investment and acquisition.
- Acquired a Grade A property "Office Park" located in Dubai Internet City for a consideration of AED 720 Mn.
- Announced phase three of the Innovation Hub in Dubai Internet City with an expected capex of AED 83 Mn.

- A grade A warehouse development is currently under construction with 200,000 GLA, similar to a grade A warehouse in Dubai Science Park with an expected capex of AED 75 Mn.
- Acquired two operational assets, along with the office space housing DPG headquarters and INJAS. Both properties are located in Duwain, Tennessee, at the heart of the tech hub, with a total eligible area of 340,000 square feet.
- Acquired 73 plots under the Land Leasing segment totaling c. 14 Mn square feet in Dubai Industrial City to meet the strong demand for industrial land with a total value of AED 410 Mn, nearly 80% of the land is already leased.
- Announced D3 Phase Two, a Grade A development spanning nearly 500,000 square feet. The project aims to address the strong demand for Grade A space in a prime location. The total development cost is estimated at AED 700 Mn, catering to both existing clients seeking expansion and new customers looking to establish a presence in D3 as a leading design destination.
- The current occupancy for CBD assets stood at 91% and for non-CBD at 90%.
- Partial part of the FFO will be used by the Company for the expansion of its portfolio.
- To sustain growth, the Company will continue investing in acquisitions, new developments, and land expansion. Given that it acquired 14 Mn square feet of land last year—80% of which has already been leased, the company expects to make a similar investment in 2025.

**TECOM – P&L**

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch
Revenue	580	611	643	616	4.4%	10.8%	5.3%
Direct costs	-199	-232	-241	-203	18.5%	21.2%	3.8%
<b>Gross profit</b>	<b>382</b>	<b>379</b>	<b>402</b>	<b>413</b>	<b>-2.5%</b>	<b>5.4%</b>	<b>6.2%</b>
Operating expenses	-92	-64	-79	-65	22.8%	-13.6%	23.2%
<b>Operating profit</b>	<b>317</b>	<b>391</b>	<b>346</b>	<b>357</b>	<b>-3.3%</b>	<b>8.8%</b>	<b>-11.6%</b>
<b>EBITDA</b>	<b>419</b>	<b>500</b>	<b>458</b>	<b>458</b>	<b>0.2%</b>	<b>9.4%</b>	<b>-8.2%</b>
<b>Profit before zakat</b>	<b>311</b>	<b>353</b>	<b>293</b>	<b>315</b>	<b>-6.8%</b>	<b>-5.7%</b>	<b>-16.9%</b>
Income Tax	0	-13	-7	-13	-43.1%	NM	-44.5%
<b>Profit to shareholders</b>	<b>311</b>	<b>340</b>	<b>286</b>	<b>302</b>	<b>-5.3%</b>	<b>-8.0%</b>	<b>-15.9%</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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