

## TECOM Group PJSC

Decline in gross margins and higher net finance expenses impacted profitability

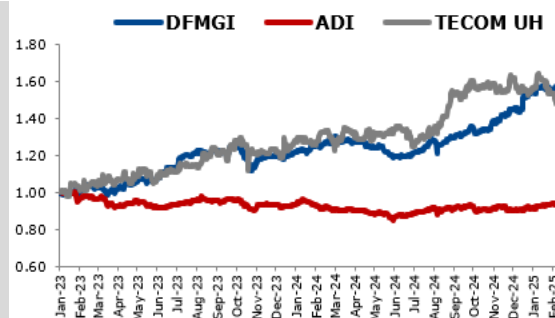
**Current Price**  
AED 3.19

**Target Price**  
AED 3.45

**Upside/Downside (%)**  
+8%

**Rating**  
HOLD

- Tecom has a total of 153 buildings commercially leased, coupled with 1,140 warehouses and 92 worker accommodations, along with 846 leased land plots.
- The Company is launching a grade-A office in phase 3 at Dubai Internet City, along with the acquisition of two existing grade-A office buildings for compensation of AED 420 Mn to add 334K SQFT of GLA in the premium segment.
- Tecom invested AED 2.7 Bn FY2024 for long-term growth in acquisitions and completion of development projects.
- Tecom's growth capex increased from AED 54 Mn in FY2023 to AED 1,591 Mn in FY2024, with maintenance and enhancement capex at AED 235 Mn in FY2024.
- The Company proposed a dividend payment of AED 400 Mn which is equivalent to 8 fils per share for 2H24, subject to board approval.



### 4Q24 Net Profit lower than our estimate

TECOM Group PJSC (TECOM/the Company) net profit declined 2.5% YOY to AED 286 Mn in 4Q24, lower than our estimate of AED 302 Mn. The decrease in net profit is attributable to a rise in direct cost, net finance cost, and the introduction of corporate tax in UAE, partially offset by higher revenues and lower operating expenditure.

### P&L Highlights

TECOM's revenue increased by 10.8% YOY to AED 643 Mn in 4Q24, supported by higher occupancy levels, growth in rental rates, and a healthy retention rate. Commercial Leasing segment revenue grew 7.0% YOY to AED 315 Mn in 4Q24, primarily due to new leases, an increase in gross GLA and higher rental rates. Similarly, the Industrial Leasing segment revenue increased 24.3% YOY to AED 99 Mn in 4Q24. Furthermore, revenue from land leasing declined 3.4% YOY to AED 137 Mn in 4Q24. The services revenue rose from AED 64 Mn in 4Q23 to AED 92 Mn in 4Q24. However, direct costs increased 21.2% YOY to AED 241 Mn in 4Q24. As a result, the Company's gross profit rose 5.4% YOY to AED 402 Mn in 4Q24. TECOM's G&A expenses dropped from AED 69 Mn in 4Q23 to AED 53 Mn in 4Q24, while selling and marketing expenses increased 13.5% YOY to AED 26 Mn in 4Q24. Furthermore, other income grew from AED 10 Mn in 4Q23 to AED 25 Mn in 4Q24. Total operating expenditure declined 30.5% YOY to AED 57 Mn in 4Q24. As a result, operating profit increased 15.2% YOY to AED 346 Mn in 4Q24 with operating margin rose 204 bps to 53.7% in 4Q24. The Commercial leasing segment EBITDA declined 4.3% YOY to AED 189 Mn in 4Q24, while the Industrial leasing segment EBITDA rose 19.0% YOY to AED 66 Mn. Furthermore, Service segment EBITDA improved from AED 37 Mn in 4Q23 to AED 72 Mn in 4Q24 and EBITDA of Land Leasing segment declined 5.6% YOY to AED 132 Mn in 4Q24. The Company's overall EBITDA increased 14.2% YOY to AED 458 Mn,

### Stock Information

|                           |           |
|---------------------------|-----------|
| Market Cap (AED, Mn)      | 15,950.00 |
| Shares Outstanding        | 500.00    |
| 52 Week High              | 3.40      |
| 52 Week Low               | 2.56      |
| 3M Avg. daily value (AED) | 5,806,293 |

### 4Q24 Result Review (AED, Mn)

|                   |        |
|-------------------|--------|
| Total Assets      | 16,291 |
| Total Liabilities | 9,583  |
| Total Equity      | 6,708  |
| EBITDA            | 458    |
| Net Profit        | 286    |

### Financial Ratios

|                         |       |
|-------------------------|-------|
| Dividend Yield (12m)    | 5.02  |
| Dividend Pay-out (%)    | 65.12 |
| Price-Earnings Ratio(x) | 13.02 |
| Price-to-Book Ratio (x) | 2.38  |
| Book Value (AED)        | 1.34  |
| Return-on Equity (%)    | 18.85 |

### Stock Performance

|                        |        |
|------------------------|--------|
| 5 Days                 | 4.59%  |
| 1 Months               | -1.85% |
| 3 Months               | 2.24%  |
| 6 Months               | 11.93% |
| 1 Year                 | 11.54% |
| Month to Date (MTD%)   | 2.57%  |
| Quarter to Date (QTD%) | 1.27%  |
| Year to Date (YTD%)    | 1.27%  |

with an EBITDA margin of 71.3% in 4Q24 compared to 69.2% in 4Q23. TECOM's finance income dropped to AED 11 Mn in 4Q24 from AED 41 Mn in 4Q23, while finance cost rose 33.9% YOY to AED 64 Mn in 4Q24 due to the additional facilities drawdown for new acquisitions. The Company recorded income tax expense of AED 7 Mn in 4Q24 due to the introduction of corporate tax in the UAE.

### Balance Sheet Highlights

TECOM's borrowings elevated from AED 4.6 Bn in 3Q24 to AED 5.2 Bn in 4Q24, excluding AED 2.4 Bn in an undrawn floating rate bank facility. The Company's funds from operations rose 13.5% YOY to AED 1,643 Mn in FY2024. Furthermore, TECOM's investment property rose from AED 13.0 Bn in 3Q24 to AED 13.8 Bn in 4Q24. The Company invested AED 235 Mn in maintenance capex and AED 1,591 Mn in growth expenditure during FY2024 for acquisitions and completion of development projects.

### Target Price and Rating

We maintain our HOLD rating on TECOM with an unchanged target price of AED 3.45. TECOM's revenue generation is driven by increasing rental rates and strong demand, which can drive rent by 13% YOY in FY2025 in Dubai, according to the UAE Industrial Report 2024 Cushman & Wakefield. Dubai has the second-highest office occupancy rate in the world at 92% in FY2024, benefiting the top line and is projected to achieve 94% occupancy by the end of FY2025. The BTS (Build-to-Suit) completed properties have developed the ability of the Company to gain revenues via future BTS projects. Dubai is emerging as a global business hub, with Tecom having a total of 153 buildings commercially leased, 1,140 warehouses and 92 worker accommodations, along with 846 land plots leased with lease periods ranging from one year to 50 years, generating recurring revenue streams. The Company's customer base reached more than 11,900 in FY2024. The loan-to-value ratio of the Company is 15.0% for FY2024. Tecom is investing AED 2.7 Bn for long-term growth in acquisitions and completion of projects. These projects include the development of six grade-A office buildings with phase 2 spanning GLA of 629K SQFT with an investment amount of AED 825 Mn, the launch of a grade-A office in phase 3 at Dubai Internet City, along with acquiring two existing grade-A office buildings with AED 420 Mn to add 334K SQFT of GLA in the premium segment, and acquisition of an AED 729 Mn office park in Dubai Internet City and a 13.9 Mn SQFT land bank in Dubai Industrial City for industrial leasing at AED 410 Mn. Businesses like OZON Pharma, Neelkanth Cables, and Elite Group Holding joined Dubai Industrial City in FY2024, demonstrating the demand. The Company generates 7.7% of the total electricity by solar power, with an increase of 15.5% YTD to 14.2 GWh in FY2024. Tecom's growth capex increased from AED 54 Mn in FY2023 to AED 1,591 Mn in FY2024, with maintenance and enhancement capex at AED 235 Mn in FY2024, focusing on organic and inorganic growth to generate future revenue. According to the dividend policy of Tecom, management announced a dividend payment of AED 400 Mn (8 fils per share) for 2H24, with AED 800 Mn dividend for FY2024 which results into a dividend yield of 5.0%. Thus, considering the abovementioned factors, we maintain our HOLD rating on the stock.

### TECOM - Relative valuation

| (at CMP)       | 2020  | 2021  | 2022  | 2023  | 2024  | 2025F |
|----------------|-------|-------|-------|-------|-------|-------|
| PE             | 26.68 | 20.54 | 16.10 | 14.33 | 12.58 | 14.12 |
| PB             | 1.06  | 0.79  | 0.72  | 0.93  | 1.01  | 1.00  |
| EV/EBITDA      | 16.73 | 13.52 | 12.32 | 12.14 | 10.78 | 11.34 |
| Dividend yield | 4.0%  | 11.8% | 11.0% | 5.0%  | 5.0%  | 5.5%  |

FABS Estimates & Co Data

**TECOM – P&L**

| AED Mn                        | 4Q23       | 3Q24       | 4Q24       | 4Q24F      | Var.         | YOY Ch       | QOQ Ch        | 2023         | 2024         | Change       |
|-------------------------------|------------|------------|------------|------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Sales                         | 580        | 611        | 643        | 616        | 4.4%         | 10.8%        | 5.3%          | 2,173        | 2,402        | 10.5%        |
| Direct cost                   | -199       | -232       | -241       | -203       | 18.5%        | 21.2%        | 3.8%          | -760         | -850         | 11.7%        |
| <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>   | <b>1,413</b> | <b>1,552</b> | <b>9.9%</b>  |
| G&A expenses                  | -69        | -56        | -53        | -53        | 0.6%         | -22.5%       | -4.0%         | -167         | -205         | 22.7%        |
| Marketing & selling exp.      | -23        | -9         | -26        | -11        | 125.8%       | 13.5%        | 197.1%        | -43          | -54          | 27.2%        |
| Other income                  | 10         | 76         | 25         | 12         | 101.3%       | 149.9%       | -67.3%        | 56           | 138          | 145.3%       |
| Other expenses                | 0          | 0          | -3         | -3         | -27.1%       | NM           | NM            | 0            | -6           | NM           |
| <b>Operating profit</b>       | <b>300</b> | <b>391</b> | <b>346</b> | <b>357</b> | <b>-3.3%</b> | <b>15.2%</b> | <b>-11.6%</b> | <b>1,259</b> | <b>1,424</b> | <b>13.1%</b> |
| Depr. & Amort                 | 102        | 109        | 113        | 100        | 12.5%        | 11.0%        | 3.7%          | 395          | 429          | 8.8%         |
| <b>EBITDA</b>                 | <b>402</b> | <b>500</b> | <b>458</b> | <b>458</b> | <b>0.2%</b>  | <b>14.2%</b> | <b>-8.2%</b>  | <b>1,654</b> | <b>1,854</b> | <b>12.1%</b> |
| Finance income                | 41         | 16         | 11         | 17         | -34.5%       | -72.1%       | -30.0%        | 82           | 66           | -19.1%       |
| Finance cost                  | -48        | -54        | -64        | -60        | 6.3%         | 33.9%        | 18.0%         | -262         | -224         | -14.8%       |
| <b>Profit before zakat</b>    | <b>293</b> | <b>353</b> | <b>293</b> | <b>315</b> | <b>-6.8%</b> | <b>0.0%</b>  | <b>-16.9%</b> | <b>1,078</b> | <b>1,267</b> | <b>17.5%</b> |
| Income Tax                    | 0          | -13        | -7         | -13        | -43.1%       | NM           | -44.5%        | 0            | -38          | NM           |
| <b>Profit to shareholders</b> | <b>293</b> | <b>340</b> | <b>286</b> | <b>302</b> | <b>-5.3%</b> | <b>-2.5%</b> | <b>-15.9%</b> | <b>1,078</b> | <b>1,228</b> | <b>13.9%</b> |

FABS estimate & Co Data

**TECOM - Margins**

|                   | 4Q23  | 3Q24  | 4Q24  | YOY Ch | QOQ Ch | 2023  | 2024  | Change |
|-------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross margin      | 65.8% | 62.0% | 62.5% | -321   | 55     | 65.0% | 64.6% | -38    |
| EBITDA margin     | 69.2% | 81.8% | 71.3% | 207    | -1,052 | 76.1% | 77.2% | 108    |
| Operating margin  | 51.7% | 63.9% | 53.7% | 204    | -1,024 | 57.9% | 59.3% | 136    |
| Net profit margin | 50.5% | 55.6% | 44.4% | -608   | -1,118 | 49.6% | 51.1% | 153    |

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount Method (DDM), and Price/Funds From Operations (FFO) method to value TECOM. We have assigned 70% weight to DCF, and 15% each to DDM and Price/FFO method.

| Valuation Method                        | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| DCF Method                              | 3.40   | 70.0%  | 2.38           |
| Dividend Discount Method (RV)           | 2.51   | 15.0%  | 0.38           |
| Price/ FFO                              | 4.65   | 15.0%  | 0.70           |
| <b>Weighted Average Valuation (AED)</b> |        |        | <b>3.45</b>    |
| Current market price (AED)              |        |        | 3.19           |
| Upside/Downside (%)                     |        |        | +8%            |

### 1) DCF Method:

TECOM is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.5%. It is arrived after using the cost of equity of 9.5% and after-tax cost of debt of 6.0% with a debt-to-equity ratio of 39.4%. The cost of equity is calculated by using a 10-year government bond yield of 5.7%, beta of 1.00 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai's 10-year spread over a 10-year US risk-free rate. The cost of debt is calculated using the cost of 6.2% and, after adjusting a tax rate, arriving at an after-tax cost of debt of 6.0%. Also, it assumed a terminal growth rate of 2.0%.

|  |               |
|--|---------------|
| Sum of PV (AED, Mn)                        | 6,001         |
| Terminal value (AED, Mn)                   | 16,074        |
| <b>FV to Common shareholders (AED, Mn)</b> | <b>22,075</b> |
| Net debt as of Dec. 2024 (AED Mn)          | 5,073         |
| No. of share (Mn)                          | 5,000         |
| Current Market Price (AED)                 | 3.19          |
| <b>Fair Value per share (AED)</b>          | <b>3.40</b>   |

### DCF Method

| (All Figures in AED Mn)              | FY 2025E     | FY 2026E     | FY 2027E     | FY 2028E     | FY 2029E     |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| NOPAT                                | 1,332        | 1,381        | 1,445        | 1,504        | 1,607        |
| D&A                                  | 462          | 471          | 478          | 486          | 493          |
| (-) Capex                            | -335         | -331         | -443         | -469         | -587         |
| Change in working capital            | -7           | 12           | 13           | 15           | 30           |
| <b>Free Cash Flow to Firm (FCFF)</b> | <b>1,452</b> | <b>1,533</b> | <b>1,493</b> | <b>1,537</b> | <b>1,543</b> |
| Discounting Factor                   | 0.93         | 0.86         | 0.79         | 0.73         | 0.67         |
| <b>Discounted FCFF</b>               | <b>1,351</b> | <b>1,314</b> | <b>1,180</b> | <b>1,119</b> | <b>1,036</b> |

Source: FAB Securities

## 2) DDM Method:

TECOM dividend grew in line with its policy and pays regular dividend to its shareholders. Strong cash flow generation of the Company enables continuous dividend payments. Thus, we have valued TECOM using DDM method. The dividend is discounted at the cost of equity of 9.5%

|  |               |
|--|---------------|
| Sum of PV (AED, Mn)                        | 3,791         |
| Terminal value (AED, Mn)                   | 8,738         |
| <b>FV to Common shareholders (AED, Mn)</b> | <b>12,529</b> |
| No. of share (Mn)                          | 5,000         |
| Current Market Price (AED)                 | 3.19          |
| <b>Fair Value per share (AED)</b>          | <b>2.51</b>   |

### DDM Method

| (All Figures in AED Mn)          | FY 2025E   | FY 2026E     | FY 2027E     | FY 2028E     | FY 2029E     |
|----------------------------------|------------|--------------|--------------|--------------|--------------|
| Dividend paid -                  |            |              |              |              |              |
| H1                               | 400        | 500          | 500          | 500          | 500          |
| H2                               | 500        | 500          | 500          | 500          | 500          |
| <b>Total dividend</b>            | <b>900</b> | <b>1,000</b> | <b>1,000</b> | <b>1,000</b> | <b>1,000</b> |
| Discounting Factor               | 0.92       | 0.84         | 0.77         | 0.70         | 0.64         |
| <b>Present Value of dividend</b> | <b>831</b> | <b>844</b>   | <b>770</b>   | <b>704</b>   | <b>642</b>   |

Source: FAB Securities

## 3) Price/FFO:

We have used local peers to value TECOM and it is valued using the Price/FFO multiple. It is valued at Price/FFO multiple of 14.7x in line with peers.

| Company                      | Market (USD Mn) | EV/EBITDA (x) Current | PE (x) <sup>1</sup> Current | Price/FFO (x) |
|------------------------------|-----------------|-----------------------|-----------------------------|---------------|
| Jadwa REIT Saudi Fund        | 551             | 12.2                  | 14.5                        | 18.6          |
| Riyad REIT Fund              | 298             | NA                    | 20.3                        | 42.9          |
| Al Rajhi REIT                | 616             | 16.2                  | 19.5                        | 15.5          |
| Bonyan REIT                  | 400             | 13.5                  | 11.3                        | 11.3          |
| Alahli REIT Fund 1           | 261             | 29.2                  | 18.7                        | 17.7          |
| Derayah REIT                 | 177             | 16.5                  | 15.5                        | 28.2          |
| Mulkia Gulf Real Estate REIT | 152             | 43.3                  | 20.1                        | 42.3          |
| Taleem REIT                  | 148             | 15.6                  | 15.3                        | 14.4          |
| Al Maather REIT Fund         | 154             | 13.0                  | 14.8                        | 12.8          |
| <b>Average</b>               |                 | <b>19.9x</b>          | <b>16.7x</b>                | <b>22.6x</b>  |
| <b>Median</b>                |                 | <b>15.9x</b>          | <b>15.5x</b>                | <b>17.7x</b>  |
| <b>Max</b>                   |                 | <b>19.6x</b>          | <b>19.5x</b>                | <b>28.2x</b>  |
| <b>Min</b>                   |                 | <b>13.4x</b>          | <b>14.8x</b>                | <b>14.4x</b>  |

Source: FAB Securities, <sup>1</sup>Based on 9M24 Results

