

Emirates Integrated Telecommunications Co (DU)

Growth in subscriber base drove topline

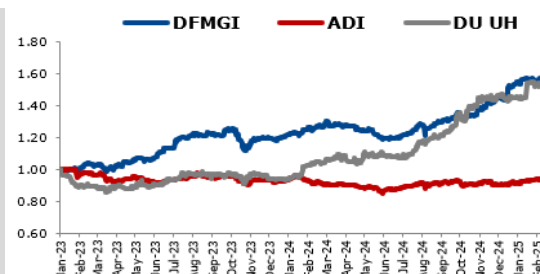
Current Price
AED 7.87

Target Price
AED 8.55

Upside/Downside (%)
+8.6%

Rating
HOLD

- Mobile Services revenue rose 8.0% YOY to AED 1,702 Mn in 4Q24 due to growth in the Postpaid as well as prepaid customer base attributable to rise in tourism activity and a better mix coupled with increased focus on higher ARPU products.
- The Company's EBITDA rose 10.6% YOY to AED 1,581 Mn in 4Q24 with an EBITDA Margin of 40.8% in 4Q24 compared to 40.2% in 4Q23.
- The board of directors recommended a final dividend of 34 fils per share for 2H24 bringing the total dividend for the FY2024 to 54 fils per share.



Stock Information

Market Cap (AED, Mn)	35,673.97
Paid Up Capital (Mn)	4,532.91
52 Week High	8.34
52 Week Low	5.51
3M Avg. daily value (AED)	4,692,447

4Q24 Result Review (AED, Mn)

Total Assets	18,560
Total Liabilities	8,682
Total Equity	9,878
EBITDA	1,581
Net Profit	585

Financial Ratios

Dividend Yield (12m)	5.21
Dividend Pay-out (%)	98.40
Price-Earnings Ratio(x)	14.31
Price-to-Book Ratio (x)	3.61
Book Value (AED)	2.18
Return-on Equity (%)	26.02

Stock Performance

5 Days	-3.55%
1 Months	-1.01%
3 Months	5.21%
6 Months	24.92%
1 Year	35.92%
Month to Date (MTD%)	-0.13%
Quarter to Date (QTD%)	5.07%
Year to Date (YTD%)	5.07%

4Q24 Net Profit in line with our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/ The Company) net profit rose 47.5% YOY to AED 585 Mn in 4Q24, higher than our estimate of AED 579 Mn. The increase in net profit was primarily driven by higher revenue and a decline in federal royalty partially offset by higher marketing expense, expected credit losses and tax charges.

P&L Highlights

DU's revenue grew 8.8% YOY to AED 3,873 Mn in 4Q24 primarily driven by healthy growth across mobile, fixed and others segments. The growth in services revenue is driven by solid growth in subscriber base and improved mix. Other revenue growth is attributed to a growth in wholesale, equipment and ICT services. Mobile Services revenue rose 8.0% YOY to AED 1,702 Mn in 4Q24 due to growth in the Postpaid as well as prepaid customer base attributable to rise in tourism activity and a better mix coupled with increased focus on higher ARPU products. Moreover, the mobile subscriber base rose 4.2% YOY to 8.9 Mn mainly driven by 10.0% YOY growth in postpaid customers to 1.8 Mn. Meanwhile, the prepaid customers rose by 2.9% YOY to 7.1 Mn in 4Q24. Fixed service revenue grew 9.8% YOY to AED 1,046 Mn attributable to a robust performance of Fibre and Home Wireless products as well as expansion of the Fibre network. Broadband subscribers recorded a strong growth of 12.8% YOY to 682k in 4Q24. Other revenues increased 9.3% YOY to AED 1,125 Mn in 4Q24 driven by ICT, visitor roaming, interconnect and handset sale coupled with 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 6.2% YOY to AED 2,120 Mn in 4Q24. Marketing expenses increased by 26.3% YOY to AED 108 Mn in 4Q24, while ECL charges also rose 38.3% YOY

to AED 65 Mn in 4Q24. The Company's EBITDA rose 10.6% YOY to AED 1,581 Mn in 4Q24 with an EBITDA Margin of 40.8% in 4Q24 compared to 40.2% in 4Q23. The Company recorded a finance cost of AED 1 Mn in 4Q24 compared to a finance income of AED 1 Mn in 4Q23. Furthermore, DU's Federal royalty charge fell 23.4% YOY to AED 380 Mn in 4Q24 due to the implementation of the new royalty regime. In addition, tax expense amounted to AED 58 Mn in 4Q24 compared to nil in 4Q23 owing to the introduction of UAE corporate tax in FY2024.

Balance Sheet Highlights

DU's Capex moderated from AED 759 Mn in 4Q23 to AED 729 Mn in 4Q24 with capex intensity of 18.8%. DU's operating free cash flow grew 26.8% YOY to AED 852 Mn in 4Q24 due to moderation in capex and EBITDA growth. The Company remains debt-free with a net cash balance of AED 2.3 Bn in 4Q24, indicating a robust liquidity position and unleveraged balance sheet.

Target Price and Rating

We maintain our HOLD rating on DU with a target price of AED 8.55. The Company recorded robust financial performance in 4Q24. Apart from recording growth in the subscribers, it is focusing on diversifying revenue streams by offering other technology related services, forging partnerships, launching new brands and expanding its product portfolio. DuPay performed favorably by targeting underserved segments with tailored offerings. The government's focus on digital transformation, economic diversification, and infrastructure investment continues to create opportunities for DU. It expects to witness strong growth in the fixed segment. The Company expects revenue to grow by 5-7% in FY2025. DU partnered with Telefonica to explore potential joint business opportunities in areas such as B2B and B2C, digital services, technology, innovation, procurement, and other key strategic sectors to drive growth in business. DU became the first telecom operator in the UAE to commercially launch 5G Voice over New Radio (VoNR) service and receive full certification for compatibility with its 5G Standalone Access (5G SA) network. The Company expects FY2025 EBITDA margin to be higher than the 44.2% margin reported in FY2024. DU partnered with PEACE Cable International Network to extend the PEACE Cable System into the UAE and Gulf region. The partnership includes the construction of a new branch, the PEACE Gulf Extension, which will link the UAE to a global network spanning over 22,000 km across three continents. It is anticipated to be launched by 2H26. DU announced an exclusive partnership with Cyberspace Technologies to launch Tairra, an all-in-one business management platform designed to optimize workflow, boost productivity, and improve team coordination. The board of directors recommended a final dividend of 34 fils per share for 2H24 bringing the total dividend for the FY2024 to 54 fils per share. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

DU - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	24.66	32.33	29.18	21.33	14.30	13.3
PB	4.15	4.17	4.06	3.85	3.60	3.6
EV/EBITDA	11.18	10.96	10.02	8.61	7.04	6.4
Dividend yield	3.6%	2.7%	3.1%	4.3%	6.9%	6.9%

FABS Estimates & Co Data

DU – P&L

AED Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	3,558	3,589	3,873	3,777	2.5%	8.8%	7.9%	13,636	14,636	7.3%
Costs	-1,995	-1,729	-2,120	-2,041	3.8%	6.2%	22.6%	-7,359	-7,642	3.8%
Marketing expense	-85	-59	-108	-62	74.7%	26.3%	82.0%	-236	-264	11.9%
Expected Credit Loss	-47	-67	-65	-66	-0.7%	38.3%	-2.8%	-243	-261	7.7%
EBITDA	1,430	1,734	1,581	1,609	-1.7%	10.6%	-8.8%	5,800	6,472	11.6%
D&A and Impairment	-537	-543	-557	-553	0.7%	3.6%	2.5%	-2,198	-2,154	-2.0%
Operating profit	893	1,191	1,024	1,056	-3.0%	14.7%	-14.0%	3,601	4,319	19.9%
Finance inc/exp	1	-7	-1	-11	-92.0%	NM	-86.6%	-40	-10	-75.0%
Pre-royalty profit	892	1,185	1,023	1,045	-2.1%	14.6%	-13.7%	3,559	4,306	21.0%
Federal Royalty	-496	-395	-380	-409	-7.3%	-23.4%	-3.8%	-1,891	-1,572	-16.9%
Tax	0	-71	-58	-57	2.7%	NM	-18.2%	0	-247	NM
Net Profit	396	719	585	579	1.1%	47.5%	-18.7%	1,668	2,488	49.1%

FABS estimate & Co Data

DU - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross Profit	43.9%	51.8%	45.3%	134	-656	46.0%	47.8%	175
EBITDA	40.2%	48.3%	40.8%	63	-749	42.5%	44.2%	169
Operating Profit	25.1%	33.2%	26.4%	136	-674	26.4%	29.5%	310
Net Profit	11.1%	20.0%	15.1%	396	-494	12.2%	17.0%	477

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF Method	8.90	70.0%	6.23
Relative Valuation (RV)	7.74	30.0%	2.32
Weighted Average Valuation (AED)			8.55
Current market price (AED)			7.87
Upside/Downside (%)			+9%

1) DCF Method:

DU is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 9.1%. Cost of equity is calculated by using a 10-year government bond yield of 4.5%, beta of 0.9 and an equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	10,962
Terminal value (AED, Mn)	29,376
FV to Common shareholders (AED, Mn)	40,338
No. of share (Mn)	4,533
Current Market Price (AED)	7.87
Fair Value per share (AED)	8.90

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Income	2,678	2,777	2,865	2,986	3,143
D&A	2,229	2,275	2,316	2,350	2,388
Change in working capital	135	97	243	171	181
(-) Capex	-2,008	-2,077	-2,000	-2,019	-2,073
Net change in debt	-526	-509	-501	-500	-503
Free Cash Flow to Equity (FCFE)	2,509	2,563	2,923	2,989	3,136
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Discounted FCFE	2,326	2,177	2,276	2,133	2,051

Source: FAB Securities

2) Relative Valuation:

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

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Telstra Group limited	28,742	7.4	7.1	20.2	18.5
Verizon Communication	170,000	6.2	5.9	9.0	8.7
SAFARICOM PLC	5,739	4.8	4.1	9.5	8.3
Deutsche Telekom AG	175,000	6.6	6.2	15.4	14.0
Saudi Telecom	57,680	8.3	8.3	14.8	15.0
Emirates Telecommunications group	41,435	6.7	6.3	13.1	12.3
Etihad Etisalat	10,497	6.8	6.4	13.7	13.2
Average		6.7x	6.3x	13.7x	12.9x
Median		6.7x	6.3x	13.7x	13.2x
Max		7.1x	6.8x	15.1x	14.5x
Min		6.4x	6.0x	11.3x	10.5x

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.