

Al Yah Satellite Communications Co.

Strong Backlog further improves Revenue Visibility

1Q22 Net profit higher than our estimate

Al Yah Satellite Communications (YAHSAT) reported an increase in net profit to USD 20.1 Mn in 1Q22 from USD15.9 Mn in 1Q21, higher than our estimate of USD18.8 Mn. The increase in net profit was mainly attributed to higher revenue and lower finance cost somewhat offset higher cost of sales.

P&L highlights

Al Yah Satellite Communications revenue grew 9.4% YOY to USD98.7 Mn in 1Q22 mainly due to strong growth in revenue across Managed Solutions and Mobility Solutions segment somewhat offset by a marginal decline in revenue from Infrastructure segment. Revenue from infrastructure segment made up 60% of total revenue and declined 1.1% YOY to USD 59.3 Mn in 1Q22. Managed Solutions, Mobility Solutions and Data Solutions revenue grew 26.0%, 45.4% and 4.4% YOY in 1Q22. These segments accounted for 15%, 19% and 6% of total revenue during 1Q22. Cost of sales rose 104.8% YOY to USD 10.1 Mn in Q122. Thus, gross profit recorded a lower growth of 3.9% YOY to USD 88.6 Mn with a gross margin of 89.8% in 1Q22. Marginally rise in operating expenses partially offset the impact of increase in cost of sales. EBITDA increased 6.8% YOY to USD 58.1 Mn in 1Q22. Operating profit rose 27.7% YOY to USD 22.2 million in 1Q22 due to decline in depreciation expenses. Net finance cost fell 75.0% YOY to USD 0.7 Mn in 1Q22 supporting the profitability. While, loss from equity investments rose from USD 0.3 million in 1Q21 to USD 2.9 million in 1Q22 dragging the profit. The other income stands at USD0.54 Mn in 1Q22. Loss attributable to non-controlling interest holders declined from USD 1.8 million in 1Q21 to USD 1.5 million in 1Q22.

Balance sheet highlights

Al Yah Satellite Communications discretionary free cash flow rose 5.5% YOY to USD 90.7 Mn in 1Q22. The company net debt declined from USD 132.0 Mn in 4Q21 to USD 87.4 Mn in 1Q22 due to increase in cash and cash equivalents.

Target price and recommendation

We maintain our BUY rating on Ychsat with a target price of AED 3.50. The company continued its steady performance in 1Q22. During the quarter, it was awarded a managed services contract worth USD 247.5 Mn from the UAE government. Ychsat also received a contract worth USD 7 Mn from Abu Dhabi Ship Building (ADSB) to provide satellite communication in ships produced by ADSB. Recent contract win underpins Ychsat position as a preferred satellite solution provider and strengthen its position in the region. The Company revenue backlog stood at USD 2.2 billion post recent contract win providing strong visibility to future earnings. Revenue backlog

Rating : BUY

First Look Note – 1Q22

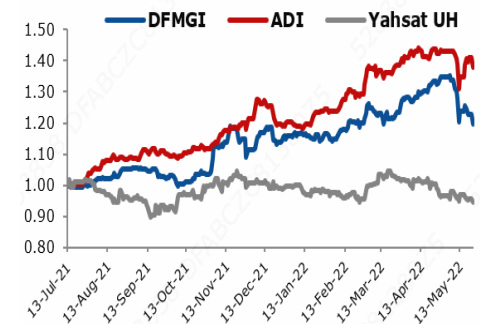
Sector: Telecom

Recommendation

Current Price (24-May-22)	2.59
Target Price	3.50
Upside/Downside (%)	+ 35%

Stock Information

Market Cap (mm)	6,319.00
Paid Up Capital (mm)	2,439.77
52 Week High	3.10
52 Week Low	2.46
3M Avg. daily value (AED)	12,225,940



Financial Ratios

Dividend Yield (12m)	6.0
Dividend Pay-out (%)	139.89
Price-Earnings Ratio (x)	N/A
Price-to-Book Ratio (x)	1.93
Book Value (AED)	1.35
Return-on Equity (%)	8.20
Earning Per Share (AED)	N/A
Beta	N/A

Stock Performance

5 Days	-2.26%
1 Months	-6.16%
3 Months	-0.38%
6 Months	-8.48%
1 Year	-
Month to Date (MTD)	-2.63%
Quarter to Date (QTD)	-7.50%
Year to Date (YTD)	-5.47%

is almost equivalent 5.4x of annualized revenue. Thus, leading the Company to maintain its FY2022 guidance. AI Yahsat balance sheet remain strong with net leverage ratio of 0.4x in 1Q22. It continues to generate strong discretionary cash flow in 1Q22 worth USD 90.7 Mn with a conversion ratio of 97.6% during 1Q22. Strong cash flow generation positioned the Company to meet its dividend payment and capex commitments. The stock is trading at an attractive dividend yield of 6.1% based on FY2022 financials. Based on our aforementioned factors, we assign a BUY rating to the stock.

AI Yahsat - Relative valuation

(at CMP)	2021	2022F
PE (X)	16.77	16.44
PB (X)	1.96	1.92
EV/EBITDA	7.87	7.48
Dividend Yield	6.0%	6.1%

FABS Estimates & Co Data
AI Yahsat - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Total Revenue	90,215	123,276	98,695	101,050	-2.3%	9.4%	-19.9%	407,569	425,000	4.3%
Cost of revenue	-4,911	-22,889	-10,059	-15,764	-36.2%	104.8%	-56.1%	-45,478	-47,609	4.7%
Gross Profit	85,304	100,387	88,636	85,286	3.9%	3.9%	-11.7%	362,091	377,391	4.2%
Admin Exp.	-31,322	-31,548	-31,058	-27,745	11.9%	-0.8%	-1.6%	-123,933	-132,000	6.5%
Other Income	428	554	535	505	5.9%	25.0%	-3.4%	2,323	1,700	-26.8%
EBITDA	54,410	69,393	58,113	58,046	0.1%	6.8%	-16.3%	240,481	247,091	2.7%
Depreciation	-37,011	-36,762	-35,889	-37,359	-3.9%	-3.0%	-2.4%	-148,590	-149,435	0.6%
Operating Profit	17,399	30,934	22,224	20,688	7.4%	27.7%	-28.2%	89,985	96,859	7.6%
Net Finance Cost	-2,972	-2,472	-742	-2,494	-70.2%	-75.0%	-70.0%	-17,308	-10,956	-36.7%
Share of results	-306	-3,429	-2,898	-1,265	129.1%	847.1%	-15.5%	-9,589	-5,500	-42.6%
Income Tax	-48	-137	-34	-85	-60.0%	-29.2%	-75.2%	-215	-281	30.7%
NCI	-1,825	-1,569	-1,542	-1,910	-19.3%	-15.5%	-1.7%	-6,889	-9,549	38.6%
Profit to owner	15,898	26,465	20,092	18,754	7.1%	26.4%	-24.1%	69,762	89,671	28.5%

FABS Estimates & Co Data
AI Yahsat - Margins

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
Gross Margin	94.6%	81.4%	89.8%	-475	838	88.8%	88.8%	-4
EBITDA margin	60.3%	56.3%	58.9%	-143	259	59.0%	58.1%	-86
Operating margin	19.3%	25.1%	22.5%	323	-258	22.1%	22.8%	71
Net Profit margin	17.6%	21.5%	20.4%	274	-111	17.1%	21.1%	398

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"