

Emirates Integrated Telecommunications

Higher Mobile and Fixed Services Revenue supported Profitability

1Q22 Net profit slightly higher than our estimate

Emirates Integrated Telecommunications (DU) net profit rose 21.0% YOY to AED 311 Mn in 1Q22, slightly higher than our estimate of AED 302 Mn. The increase in net profit was mainly attributed to higher revenue, partially offset by increased depreciation charges triggered by infrastructure investment and higher royalty charges.

P&L highlights

DU total revenue rose 8.5% YOY to AED 3,128 Mn in 1Q22 due to strong growth in revenue across mobile services revenue and fixed services revenue. Mobile services revenue rose 6.9% YOY to AED 1,402 Mn in 1Q22 due to strong subscriber addition across postpaid and prepaid segment. Postpaid subscriber based stood at an all-time high of 1.38 Mn and prepaid subscriber base continue to grow for second consecutive quarter stood at 6.1 Mn in 1Q22. Fixed services revenue rose 22.8% YOY to AED 815 Mn driven by fiber network expansion, attractive and innovative offering and healthy demand for enterprise services. Direct cost rose 4.3% YOY to AED 1,804 Mn in 1Q22 due to better cost control. Marketing Expenses increased significantly 64.2% YOY to AED 55 Mn in 1Q22. EBITDA increased 13.3% YOY to AED 1,269 Mn in 1Q22 driven by higher service revenue and cost control. Thus, EBITDA margin improved 172 bps to 40.6% in 1Q22. Depreciation expense increased 8.2% YOY to AED 514 Mn in 1Q22 due to previous capex spend. As a result, operating profit rose 17.0% YOY to AED 755 Mn in 1Q22. Net finance expense fell slightly 0.4% YOY to AED 15 in 1Q22. Federal royalty expense increased 14.6% YOY to AED 426 Mn in 1Q22 due to increase in profitability.

Balance sheet highlights

DU spent AED 305 Mn on CAPEX in 1Q22 and expect 2022 capex spend is skewed towards second half. It also generated AED 964 Mn in free cash flow in 1Q22 due to lower capex and improving profitability. DU balance sheet remained strong with cash & term deposit of AED 2.5 Bn against a total debt of AED 200 Mn in 1Q22.

Target price and rating

We Upgraded our rating to BUY on Emirates Integrated Telecommunications, with a target price of AED7.50. DU ended 1Q22 with mobile subscribers of 7.5 million due to healthy net additions across the postpaid and prepaid segments. The postpaid subscriber base remains at all-time high, and the prepaid subscriber base continues to benefit from increased tourist footfall. Fixed service revenue will continue to benefit from fiber network expansion and

Rating : BUY

First Look Note – 1Q22

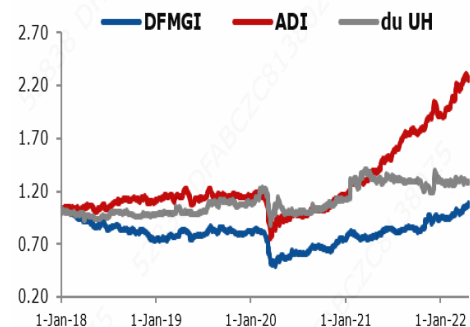
Sector: Telecommunication

Recommendation

Current Price (11-May-22)	6.47
Target Price	7.50
Upside/Downside (%)	+16%

Stock Information

Market Cap (mm)	29,327.90
Paid Up Capital (mm)	4,532.91
52 Week High	7.28
52 Week Low	5.90
3M Avg. daily value (AED)	3,844,925



Financial Ratios

Dividend Yield (12m)	3.25
Dividend Pay-out (%)	86.48
Price-Earnings Ratio (x)	25.81
Price-to-Book Ratio (x)	3.51
Book Value (AED)	1.84
Return-on Equity (%)	14.00
Earning Per Share (AED)	0.25
Beta	0.58

Stock Performance

5 Days	-1.82%
1 Months	-1.82%
3 Months	-1.97%
6 Months	1.57%
1 Year	-4.15%
Month to Date (MTD)	-1.82%
Quarter to Date (QTD)	-0.46%
Year to Date (YTD)	-2.27%

supported strong momentum for innovative service offerings. EBITDA and margins will continue benefit from this topline expansion and better cost control. We expect the company to generate healthy free cash flow as CAPEX intensity is expected to normalize. DU generated AED 964 Mn in free cash flow in 1Q22. Balance sheet remained strong with net cash balance of AED 2,260 Mn in 1Q22. Based on our analysis, we assign a BUY rating on the stock.

DU- Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE	17.1	17.3	20.8	27.2	21.6
PB	3.5	3.5	3.5	3.5	3.0
EV/EBITDA	5.76	5.57	7.02	6.89	6.33
Dividend Yield	5.3%	5.1%	4.2%	3.2%	3.5%

FABS Estimates & Co Data
DU - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	2,883	3,070	3,128	3,073	1.8%	8.5%	1.9%	11,682	12,210	4.5%
Cost	-1,730	-1,760	-1,804	-1,751	3.0%	4.3%	2.5%	-6,861	-6,989	1.9%
Marketing expense	-34	-66	-55	-59	-6.7%	64.2%	-16.2%	-204	-220	8.1%
EBITDA	1,120	1,244	1,269	1,262	0.5%	13.3%	2.0%	4,618	5,001	8.3%
D&A and Impair	-475	-671	-514	-570	-9.9%	8.2%	-23.4%	-2,181	-2,152	-1.3%
Operating profit	645	573	755	692	9.1%	17.0%	31.9%	2,436	2,849	16.9%
Financing inc./exp.	-15	-22	-15	-20	-24.9%	-0.4%	-32.7%	-79	-69	-12.4%
Other inc./exp	0	130	0	0	NA	131.3%	NA	131	0	-100.0%
Gain on disp. of inv	0	0	0	-1	NA	NA	NA	0	0	NA
Pre-royalty profit	629	679	738	670	10.1%	17.2%	8.6%	2,483	2,780	12.0%
Federal Royalty	-372	-359	-426	-369	15.5%	14.6%	18.9%	-1,382	-1,566	13.3%
Net profit	257	321	311	302	3.0%	21.0%	-2.9%	1,101	1,214	10.3%

FABS Estimates & Co Data
DU - P&L KPI

	1Q21	4Q21	1Q22A	YOY Bps	QOQ Bps	2021	2022F	Change
Gross Margin	40.0%	42.7%	42.3%	231	(34)	41.3%	42.8%	149
EBITDA Margin	38.8%	40.5%	40.6%	172	4	39.5%	41.0%	143
Operating margin	22.4%	18.7%	24.1%	176	548	20.9%	23.3%	248
Net Profit margin	8.9%	10.4%	9.9%	103	(49)	9.4%	9.9%	52

FABS Estimates & 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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