

## Al Yah Satellite Communications Co. PJSC

Decline in revenue and one-time fair value loss on convertible loan impacted profitability

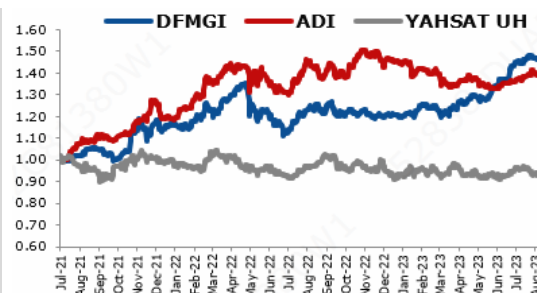
**Current Price**  
AED 2.56

**Target Price**  
AED 3.50

**Upside/Downside (%)**  
+37%

**Rating**  
**BUY**

- Al Yahsat witnessed a decline in performance in 2Q23 owing to a decline in revenue, EBITDA as well as the fair value loss that it recorded during the period.
- Al Yahsat contracted future revenue remained stable at USD 1.9 Bn which is equivalent to 4.4x times the company's revenue in the last twelve months in 2Q23.
- The Company's net debt stood negative at USD 138.8 Mn in 2Q23, with a negative net debt/ EBITDA of 2.2x in 2Q23.
- Al Yahsat entered a 15-year contract with the government worth USD 708 Mn for the provision of capacity and related services on the Thuraya 4 Next Generation System.



### 2Q23 Net Profit lower than our estimate

Al Yah Satellite Communications Co. PJSC (YAHSAT/the Company) reported a decrease in net profit to USD 18.2 Mn in 2Q23 compared to USD 25.3 Mn in 2Q22, lower than our estimate of USD 28.4 Mn. The decrease in net profit is primarily due to a decline in revenue, along with a fair value loss recorded on convertible loan and higher depreciation expense partially offset by a lower direct cost and an increase in net finance income. Net profit after adjusting for fair value loss on convertible loan stood at USD 24,600 Mn in 2Q23.

### P&L Highlights

YAHSAT revenue declined 2.0% YOY to USD 104.7 Mn in 2Q23. The revenue declined primarily due to a significant decrease in Managed and Data solutions partially offset by an increase in Mobility solutions and Infrastructure services. The infrastructure segment accounts for 58.0% of the total revenue and rose marginally 1.1% YOY to USD 60.0 Mn in 2Q23 owing to the long-term capacity services agreement with the government and inflation indexation. Infrastructure segment secured contracted future revenue of more than USD 1.6 Bn due to a 15-year agreement with the Government to provide capacity and associated services on the Thuraya 4 Next Generation System. Managed Solutions account for 19.0% of total revenue declined substantially 19.9% YOY to USD 19.1 Mn in 2Q23. The decline can be attributed to the slower growth momentum, largely influenced by the effects of the prior year, which saw USD 10 Mn turnkey component booking in 2Q22. Furthermore, Data solution revenue declined 2.8% YOY to USD 5.4 Mn in 2Q23. While the Mobility Solution grew 11.8% YOY to USD 20.1 Mn in 2Q23 mainly due to stronger equipment sales which reduced the shortfall for the segment. Equipment sales accounts for 35-40% of total mobility solution revenue as of 2Q23. Cost of revenue declined 12.7% YOY to USD 10.2 Mn in 2Q23 due to the strong cost measures. As a result, gross profit declined marginally

### Stock Information

Market Cap (AED, mm)	6,245.81
Paid Up Capital (mm)	2,439.77
52 Week High	2.92
52 Week Low	2.39
3M Avg. daily value (AED)	3,015,998

### 2Q23 Result Review (USD, mm)

Total Assets	2,051.5
Total Liabilities	1,141.4
Total Equity	909.1
EBITDA	62.5
Net Profit	18.2

### Financial Ratios

Dividend Yield (12m)	6.30
Dividend Pay-out (%)	163.27
Price-Earnings Ratio(x)	25.97
Price-to-Book Ratio (x)	2.02
Book Value (AED)	1.27
Return-on Equity (%)	7.64

### Stock Performance

5 Days	-1.16%
1 Months	-3.03%
3 Months	1.19%
6 Months	0.00%
1 Year	-4.12%
Month to Date (MTD%)	-3.76%
Quarter to Date (QTD%)	0.39%
Year to Date (YTD%)	2.40%

0.7% YOY to USD 94.5 Mn in 2Q23. However, gross profit margin grew from 89.0% in 2Q22 to 90.2% in 2Q23. Administrative expenses grew 2.6% YOY to USD 32.7 Mn in 2Q23. Other income rose from USD 0.5 Mn in 2Q22 to USD 0.7 Mn in 2Q23. EBITDA declined 2.1% YOY to USD 62.5 Mn in 2Q23 while the EBITDA margin remained almost stable to 59.7% in 2Q23 mainly due to a decline in revenue and an increase in administrative expenses. Infrastructure segment adjusted EBITDA grew 1.0% YOY to USD 46 Mn in 2Q23. Likewise, data solutions adjusted EBITDA loss rose 27.0% YOY to USD 0.6 Mn in 2Q23. Managed and Mobility solutions adjusted EBITDA declined 11.0% YOY and 3.0% YOY to USD 12 Mn and 5 Mn respectively in 2Q23. The Company recorded USD 6.4 Mn fair value loss on other financial assets compared to a gain of USD 0.8 Mn in 2Q22. Thus, operating profit declined significantly from USD 28.7 Mn in 2Q22 to USD 15.8 Mn in 2Q23. Net finance turned from a loss of USD 1.4 Mn in 2Q22 to a profit of USD 1.9 Mn in 2Q23 due to higher finance income. Loss from share of equity investments declined from USD 3.7 Mn in 2Q22 to USD 2.6 Mn in 2Q23. Income tax expense rose from USD 0.04 Mn in 2Q22 to USD 0.1 Mn in 2Q23. Loss attributable to non-controlling interest holders grew from USD 1.7 Mn in 2Q22 to USD 3.2 Mn in 2Q23 supporting profitability.

### Balance Sheet Highlights

Al Yah Satellite Communications net debt stood at negative at USD 138.8 Mn in 2Q23, with a negative net debt-to-EBITDA of 0.5x in 2Q23. Cash and cash equivalents increased from USD 555 Mn in 1Q23 to USD 619 Mn in 2Q23 mainly due to an increase in the collection of government receivables and advance payment related to T4-NGS programme. The net cash flow from operations increased from USD 74.1 Mn in 1H22 to USD 223.4 Mn in 1H23 mainly due to lower working capital requirements. CAPEX decreased 40.0% YOY to USD 53 Mn in 1H23 owing to the shift in the timeline of the T4-NGS programme and the higher return on investment of USD 5 Mn that the Company received from its associate Al Maisan.

### Target Price and Rating

We maintain our 'BUY' rating on Al Yahsat with an unchanged target price of AED 3.50. Al Yahsat witnessed a decline in performance in 2Q23 mainly due to a decline in revenue, EBITDA as well as the fair value loss that it recorded during the period. The decline in revenue is primarily attributed to a significant decrease in Managed Solutions owing to the slower growth momentum, largely influenced by the effects of the prior year. However, the Mobility and Infrastructure services segments recorded an increase in 2Q23. The Company further expects a mid-single-digit growth in revenue, largely driven by the expected strong performance of its commercial segments, which constitute a significant portion of the Company's total revenue. Furthermore, Al Yahsat contracted future revenue remained stable at USD 1.9 Bn equivalent to 4.4x times the company's revenue in the last twelve months in 2Q23. The contracted future revenue offers the company a strong sense of revenue predictability, ensuring stability and consistency in its financial outlook. ALYHSAT is in advanced negotiations with the UAE government to secure additional long-term contracts which will increase the backlog significantly beyond 2040. In February 2023, the Company signed an MoU with Bayanat to establish and operate a constellation of synthetic aperture radar (SAR) and optical imagery Earth observation (EO) satellites. The partnership will combine Al Yahsat's satellite and ground operations capabilities with Bayanat's strengths in image processing and AI-driven data analytics for comprehensive Earth observation. Moreover, Al Yahsat also plays an important role in developing UAE's space sector. Al Yahsat entered a 15-year contract with the government worth USD 708 Mn for the provision of capacity and related services on the Thuraya 4 Next Generation System. It also plans to launch the Thaurya-4 NGS satellite in 1H24 and another 2 satellites Al Yah 4 and Al Yah 5. Furthermore, the Company also maintained a strong balance sheet with a robust cash position, long-term future cash flows and negative net debt. The Company also maintained a solid liquidity of USD 686 Mn as of 2Q23, enabling it to support inorganic growth. Al Yahsat incurred a total capex of USD 53 Mn in 1H23 and further expects to incur USD 155-175 Mn in 2023. In addition, Al Yahsat is expected to generate a free cash flow of USD 130 Mn which would exceed the total expected dividend for 2023. The company is expected to pay a total dividend of 16.46 fils per share or a total of USD 109.3 Mn for the year ending 2023 leading to a dividend yield of 6.3% in 2023 that is considered to be the highest amongst other UAE companies. Thus, based on our analysis, we assign a 'BUY' rating to the stock.

#### Al Yahsat - Relative valuation

(at CMP)	2020	2021	2022	2023F
PE	NA	24.49	26.06	16.56
PB	NA	2.03	2.01	2.02
EV/EBITDA	NA	7.97	6.84	6.41
Dividend yield	NA	6.1%	6.3%	6.3%

FABS Estimates & Co Data

#### Al Yahsat - P&L

USD '000	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
<b>Total Revenue</b>	<b>106,872</b>	<b>100,355</b>	<b>104,717</b>	<b>108,592</b>	<b>-3.6%</b>	<b>-2.0%</b>	<b>4.3%</b>	<b>432,540</b>	<b>441,754</b>	<b>2.1%</b>
Cost of revenue	-11,704	-6,911	-10,213	-9,773	4.5%	-12.7%	47.8%	-48,296	-49,918	3.4%
<b>Gross Profit</b>	<b>95,168</b>	<b>93,444</b>	<b>94,504</b>	<b>98,818</b>	<b>-4.4%</b>	<b>-0.7%</b>	<b>1.1%</b>	<b>384,244</b>	<b>391,836</b>	<b>2.0%</b>
Administrative Expenses	-31,819	-33,609	-32,651	-34,402	-5.1%	2.6%	-2.9%	-130,448	-139,694	7.1%
Other Income	533	780	664	760	-12.6%	24.6%	-14.9%	3,884	3,092	-20.4%
<b>EBITDA</b>	<b>63,882</b>	<b>60,615</b>	<b>62,517</b>	<b>65,177</b>	<b>-4.1%</b>	<b>-2.1%</b>	<b>3.1%</b>	<b>257,680</b>	<b>255,234</b>	<b>-0.9%</b>
Depreciation	-35,999	-35,668	-40,360	-37,311	8.2%	12.1%	13.2%	-144,471	-149,244	3.3%
Fair value adj on invt prop	800	0	-6,366	0	NM	NM	NM	1,584	-6,366	NM
<b>Operating Profit</b>	<b>28,683</b>	<b>24,947</b>	<b>15,791</b>	<b>27,866</b>	<b>-43.3%</b>	<b>-44.9%</b>	<b>-36.7%</b>	<b>114,793</b>	<b>99,624</b>	<b>-13.2%</b>
Net Finance Cost	-1,395	3,220	1,926	1,670	15.3%	NM	-40.2%	-1,098	7,565	NM
Share of results	-3,668	-2,278	-2,567	-2,278	12.7%	-30.0%	12.7%	-53,303	-9,062	-83.0%
Income Tax	-38	-52	-100	-82	22.3%	NM	92.3%	-175	-294	68.2%
<b>Profit before NCI</b>	<b>23,582</b>	<b>25,837</b>	<b>15,050</b>	<b>27,176</b>	<b>-44.6%</b>	<b>-36.2%</b>	<b>-41.8%</b>	<b>60,217</b>	<b>97,833</b>	<b>62.5%</b>
NCI	-1,687	-1,235	-3,184	-1,235	157.8%	NM	NM	-5,347	-5,347	0.0%
<b>Net Profit</b>	<b>25,269</b>	<b>27,072</b>	<b>18,234</b>	<b>28,411</b>	<b>-35.8%</b>	<b>-27.8%</b>	<b>-32.6%</b>	<b>65,564</b>	<b>103,180</b>	<b>57.4%</b>

FABS estimate & Co Data

#### Al Yahsat - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Profit	89.0%	93.1%	90.2%	120	-287	88.8%	88.7%	-13
EBITDA	59.8%	60.4%	59.7%	-7	-70	59.6%	57.8%	-180
Operating Profit	26.8%	24.9%	15.1%	-1,176	-978	26.5%	22.6%	-399
Net Profit	23.6%	27.0%	17.4%	-623	-956	15.2%	23.4%	820

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Al Yahsat. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.89	70.0%	2.72
Relative Valuation (RV)	2.58	30.0%	0.77
<b>Weighted Average Valuation (AED)</b>			<b>3.50</b>
Current market price (AED)			2.56
Upside/Downside (%)			+37%

### 1) DCF Method:

Al Yahsat is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using cost of equity of 9.0% and after-tax cost of debt of 5.9%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 1.0, and an equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.9% is calculated after adjusting a tax rate of 0.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, 000)	453,257
Terminal value (USD, 000)	2,062,751
<b>FV to Common shareholders (USD, 000)</b>	<b>2,587,979</b>
No. of share ('000)	2,439,770
Current Market Price (AED)	2.56
<b>Fair Value per share (AED)</b>	<b>3.89</b>

### DCF Method

(All Figures in USD, 000)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	254,469	254,940	255,115	257,171	262,608
Capex	-175,038	-181,025	-124,613	-104,245	-82,581
Change in working capital	-3,003	-21,623	788	-27,245	-189
<b>Free Cash Flow to Firm (FCFF)</b>	<b>76,428</b>	<b>52,292</b>	<b>131,290</b>	<b>125,680</b>	<b>179,839</b>
Discounting Factor	0.97	0.90	0.83	0.77	0.71
<b>Discounted FCFF</b>	<b>74,263</b>	<b>46,923</b>	<b>108,797</b>	<b>96,180</b>	<b>127,096</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local and global peers to value Al Yahsat and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 6.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
SES S.A.	3,106	4.6	3.9	1.1	19.2
Comcast Corporation	194,000	7.6	7.3	13.2	11.8
Thaicom	417	13.9	13.2	33.8	45.0
Eutelsat Communications	1,514	5.2	6.4	4.7	2.2
Altice USA	1,487	7.4	7.3	8.32	7.9
Echostar Corporation	1,739	3.2	3.1	23.1	22.5
Telenet group holding INC	2,486	5.5	5.5	7.2	7.0
GOGO INC	1,645	13.8	12.2	11.9	18.7
<b>Average</b>		<b>7.6x</b>	<b>7.4x</b>	<b>12.9x</b>	<b>16.8x</b>
<b>Median</b>		<b>6.4x</b>	<b>6.8x</b>	<b>10.1x</b>	<b>15.3x</b>
<b>Max</b>		<b>9.2x</b>	<b>8.5x</b>	<b>15.7x</b>	<b>20.0x</b>
<b>Min</b>		<b>5.0x</b>	<b>5.1x</b>	<b>6.6x</b>	<b>7.7x</b>

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](mailto: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

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