

## Emirates Integrated Telecommunications Co PJSC (DU)

Robust demand for post-paid and fixed services drove profitability

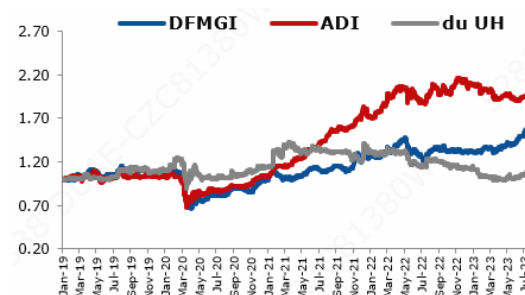
**Current Price**  
AED 5.31

**Target Price**  
AED 7.40

**Upside/Downside (%)**  
+39.4%

**Rating**  
BUY

- DU's revenue reached AED 3.35 Bn on account of strong performance across postpaid and fixed services.
- On the back of innovative services and personalized experience the company's mobile customer base reported a growth of 8% YOY to 8 Mn subscribers.
- Expansion of fiber network support the broadband segment and grew 18.3% YOY to reach a milestone of 559,000 customers.
- DU incurred a capex of AED 506 Mn to expand its business and enhance its productivity by adopting newer technologies.



### Stock Information

Market Cap (AED, mm)	24,069.73
Paid Up Capital (mm)	4,532.91
52 Week High	6.20
52 Week Low	4.95
3M Avg. daily value (AED)	2,106,738

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

Total Assets	15,947
Total Liabilities	7,000
Total Equity	8,947
EBITDA	1,517
Net Profit	397

### Financial Ratios

Dividend Yield (12m)	4.90
Dividend Pay-out (%)	89.20
Price-Earnings Ratio(x)	17.65
Price-to-Book Ratio (x)	2.69
Book Value (AED)	1.97
Return-on Equity (%)	15.61

### Stock Performance

5 Days	-3.80%
1 Months	-0.19%
3 Months	4.12%
6 Months	2.12%
1 Year	-12.95%
Month to Date (MTD%)	-3.80%
Quarter to Date (QTD%)	0.57%
Year to Date (YTD%)	-8.45%

### 2Q23 Net Profit lower than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/The Company) net profit jumped to 31.2% YOY to AED 397 Mn in 2Q23, lower than our estimate of AED 416 Mn. The growth is mainly driven by a growth in the top line and a decline in cost of sales and marketing expenses partially offset by an increase in royalty expense, normalization of expected credit losses on receivables, and higher D&A Charges.

### P&L Highlights

DU's revenue grew 6.7% YOY to AED 3,347 Mn in 2Q23 driven by the healthy growth of the service and other revenues. Services revenue is driven by robust performance of the mobile and fixed services revenue. Mobile segment revenue drove healthy growth in post-paid and fixed services. The post-paid segment added new customers for the eighth consecutive quarter with net additions of 13,000 customers in 2Q23 due to the popularity of unlimited non-stop data plans and constant demand from the enterprise sector. On the other hand, the prepaid segment customer base grew 7.4% YOY with a total customer base of 6.5 Mn. Further, DU's mobile customer base increased 8.0% YOY ending the quarter with 8.0 Mn subscribers. Thus, mobile services revenue rose 7.6% YOY to AED 1,513 Mn in 2Q23. Fixed service revenues jumped 10.9% YOY to AED 948 Mn owing to continued demand from enterprise and retail consumers. The consumer broadband remains extremely attractive with 559,000 subscribers following the 18.3% YOY growth in subscribers in 2Q23. Thus, the overall service revenues grew 8.9% YOY to AED 2,461 Mn in 2Q23. Other revenues inclined marginally 1.1% YOY to AED 885 Mn, primarily due to the strong growth in the roaming services along with robust demand for ICT services including security, data center, and cloud services. DU cost of revenue excluding D&A, marketing expense

declined 3.9% YOY to AED 1,710 Mn in 2Q23 due to one-time reversal, effective cost management and ongoing operational efficiency. Marketing expenses too fell 0.6% YOY to AED 50 Mn in 2Q23. The company's EBITDA increased 19.8% YOY to AED 1,517 Mn, driven by higher service and improvement of the revenue mix and one-off reversal. Thus, the EBITDA margin rose 495 bps YOY and 563 bps QOQ to 45.3% in 2Q23 as a result of ongoing operational efficiency and effective cost management. Moreover, depreciation and amortization expenses grew 15.9% YOY to AED 595 Mn in 2Q23. While the net finance cost increased 29.0% YOY to AED 24 Mn in 2Q22 mainly due to the increase in the interest expense. In addition, DU's federal royalty rose 16.5% YOY to AED 501 Mn in 2Q23.

### Balance Sheet Highlights

DU focused on expanding the fibre network, 5G deployment, and ongoing IT transformation leading to incur a capex of AED 506 Mn amounting to a capital intensity of 15.1% in 2Q23. The Company's operating free cash flow grew 43.3% YOY to AED 1,016 Mn in 2Q23 with a cash conversion of 66.8%. The company maintained its debt-free position with a strong balance sheet and a net cash balance of AED 383 Mn in 2Q23.

### Target Price and Rating

We maintain our BUY rating on DU with a target price of AED 7.40. DU's mobile customer base rose 8% YOY to 8 Mn subscribers owing to the innovative and attractive service offerings. The Company continues to record strong growth in its subscriber base across mobile and broadband customers. The post-paid mobile and fixed services reported strong growth and supported the quarterly revenue to reach AED 3.35 Bn in 2Q23. The postpaid segment recorded customer addition for the eighth consecutive quarter leading to strong growth in the revenue of this segment due to unlimited data plans with differentiated customer offerings. The postpaid segment added 13,000 new customers while the prepaid subscriber base increased 7.4% YOY to 6.5 Mn in 2Q23. The broadband segment also rose 18.3% YOY to reach a total customer base of 559,000 in 2Q23. Thus, the Company experienced healthy growth in its top line and gross margin benefitted due to a solid revenue growth, favorable business mix, effective cost management and operational efficiency. EBITDA margins expanded 495 bps YOY and 563 bps on QOQ to 45.3% in 2Q23 due to cost management and operational efficiency. The company also managed to generate AED 1,016 Mn in cash flow from operation in 2Q23 increased 43.3% YOY and incurred a capex of AED 506 Mn in 2Q23 on account of 5G deployment, expanding fiber network and ongoing IT transformation. DU boasts a healthy balance sheet position with a cash balance of AED 383 Mn in 2Q23 and maintained its debt-free position in the market. Thus, considering all these factors, we assign a BUY rating on the stock.

#### DU - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	13.7	13.9	16.7	21.9	19.7	16.0
PB	2.8	2.8	2.8	2.8	2.7	2.7
EV/EBITDA	4.0	3.8	4.9	5.0	4.4	3.9
Dividend yield	6.6%	6.4%	5.3%	4.0%	4.5%	4.9%

FABS Estimates & Co Data

**DU – P&L**

AED mm	2Q22	1Q23	2Q23F	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,137	3,441	3,347	3,435	-3%	6.7%	-2.7%	12,754	13,693	7.4%
Costs	-1,779	-1,953	-1,710	-1,889	-10%	-3.9%	-12.5%	-7,194	-7,599	5.6%
Marketing expense	-50	-53	-50	-48	4%	-0.6%	-4.6%	-246	-246	0.2%
Expected Credit Loss	-40	-69	-69	-48	44%	72.0%	0.9%	-174	-186	7.4%
<b>EBITDA</b>	<b>1,267</b>	<b>1,366</b>	<b>1,517</b>	<b>1,450</b>	<b>5%</b>	<b>19.8%</b>	<b>11.1%</b>	<b>5,141</b>	<b>5,660</b>	<b>10.1%</b>
D&A and Impairment	-514	-513	-595	-543	10%	15.9%	16.0%	-2,112	-2,170	2.8%
Operating profit	<b>753</b>	<b>853</b>	<b>922</b>	<b>907</b>	<b>2%</b>	<b>22.4%</b>	<b>8.1%</b>	<b>3,029</b>	<b>3,490</b>	<b>15.2%</b>
Finance inc/exp	-19	-4	-24	-10	135%	29.0%	583.9%	-59	-70	17.3%
Pre-royalty profit	<b>732</b>	<b>849</b>	<b>898</b>	<b>897</b>	<b>0%</b>	<b>22.6%</b>	<b>5.8%</b>	<b>2,963</b>	<b>3,420</b>	<b>15.4%</b>
Federal Royalty	-430	-478	-501	-481	4%	16.5%	4.7%	-1,744	-1,917	9.9%
<b>Net Profit</b>	<b>303</b>	<b>370</b>	<b>397</b>	<b>416</b>	<b>-4.5%</b>	<b>31.2%</b>	<b>7.2%</b>	<b>1,220</b>	<b>1,503</b>	<b>23.3%</b>

FABS estimate & Co Data

**DU - Margins**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross margin	43.3%	43.2%	48.9%	563	568	43.6%	44.5%	90
EBITDA margin	40.4%	39.7%	45.3%	495	563	40.3%	41.3%	103
Operating margin	24.0%	24.8%	27.6%	355	277	23.7%	25.5%	174
Net profit margin	9.7%	10.8%	11.9%	222	110	9.6%	11.0%	142

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	7.43	70.0%	5.21
Relative Valuation (RV)	7.31	30.0%	2.19
<b>Weighted Average Valuation (AED)</b>			<b>7.40</b>
Current market price (AED)			5.31
Upside/Downside (%)			+39.4%

### 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 8.5%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 1.0, and an equity risk premium of 3.4%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,980
Terminal value (AED, Mn)	25,705
<b>FV to Common shareholders (AED, Mn)</b>	<b>33,686</b>
No. of share (Mn)	4,533
Current Market Price (AED)	5.31
<b>Fair Value per share (AED)</b>	<b>7.43</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	1,503	1,563	1,588	1,640	1,902
D&A	2,255	2,253	2,287	2,408	2,390
Change in working capital	251	132	364	-53	363
(-) Capex	-2,054	-2,082	-2,114	-2,188	-2,270
Net change in debt	-128	-118	-77	-54	-31
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,828</b>	<b>1,748</b>	<b>2,048</b>	<b>1,753</b>	<b>2,355</b>
Discounting Factor	0.97	0.89	0.82	0.76	0.70
<b>Discounted FCFE</b>	<b>1,768</b>	<b>1,559</b>	<b>1,683</b>	<b>1,327</b>	<b>1,643</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used regional and global peers to value DU, which is valued using the EV/EBITDA multiple. It is valued at EV/ EBITDA of multiple of 5.9x in-line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Telecom	60,668	8.4	7.8	17.3	16.2
Mobile telecommunication company	7,329	4.9	4.5	9.9	9.5
Verizon Communication	144,000	6.2	6.0	7.5	7.4
SAFARICOM PLC	4,739	5.2	5.7	11.7	11.2
Deutsche Telekom AG	109,000	5.0	4.7	7.2	12.3
Telstra Group limited	33,199	7.7	7.4	25.9	22.9
<b>Average</b>		<b>6.2x</b>	<b>6.0x</b>	<b>13.3x</b>	<b>13.2x</b>
<b>Median</b>		<b>5.7x</b>	<b>5.9x</b>	<b>10.8x</b>	<b>11.8x</b>
<b>Max</b>		<b>7.3x</b>	<b>7.0x</b>	<b>15.9x</b>	<b>15.2x</b>
<b>Min</b>		<b>5.1x</b>	<b>5.0x</b>	<b>8.1x</b>	<b>9.9x</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%

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