

Emirates Integrated Telecommunications

Higher Revenue & Other income besides lower D&A and Impairment expenses supported profitability

Rating : ACCUMULATE

First Look Note – 4Q21

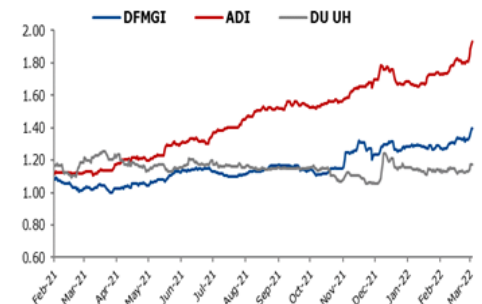
Sector: Telecommunication

Recommendation

Current Price (7-March)	6.68
Target Price	7.50
Upside/(Downside) (%)	+12.3%

Stock Information

Market Cap (mm)	30,279.81
Paid Up Capital (mm)	4,532.91
52 Week High	7.28
52 Week Low	5.90
3M Avg. daily value (AED)	8,139,698



Financial Ratios

Dividend Yield (12m)	3.73
Dividend Pay-out (%)	86.48
Price-Earnings Ratio (x)	27.83
Price-to-Book Ratio (x)	3.56
Book Value (AED)	1.88
Return-on Equity (%)	12.87
Earning Per Share (AED)	0.24
Beta	0.67

Stock Performance

5 Days	-1.04%
1 Months	1.37%
3 Months	-1.76%
6 Months	1.37%
1 Year	-4.57%
Month to Date (MTD)	1.52%
Quarter to Date (QTD)	0.91%
Year to Date (YTD)	0.91%

4Q21 Net profit higher than our estimate

Emirates Integrated Telecommunications (DU) reported a strong growth in Net Profit to AED321 Mn in 4Q21, up from AED48 Mn in 4Q20, beating our estimate of AED312 Mn by 2.7%. This increase was mainly due to increase in Revenue and Other income, as well as a decline in Depreciation, Amortization and Impairment expenses.

P&L highlights

The Revenue has increased by 12% YOY to AED3,070 Mn in 4Q21, up from AED2,740 Mn in 4Q20. The Costs (other than Depreciation and Marketing Expenses) have increased by 7% YOY to AED1,760 Mn in 4Q21, up from AED1,646 Mn in 4Q20. As a result, the Gross Profit Margin increased to 42.7% in 4Q21, up from 39.9% in 4Q20. The Marketing expenses increased by 20.95% YOY to AED47 in 4Q21, up from AED39 Mn in 4Q20. Resultantly, the EBITDA was up by 19.6% YOY to AED1,262 Mn in 4Q21, up from AED1,055 Mn in 4Q20. The Depreciation and Amortization expenses decreased by 21.1% YOY to AED671 Mn in 4Q21, down from AED851 Mn in 4Q20. Therefore, the Operating Profit strongly increased YOY to AED591 Mn in 4Q21, up from AED205 Mn in 4Q20. The Operating Profit Margin stood at 19.3% in 4Q21, up from 7.5% in 4Q20. The Finance Income/Expenses significantly increased YOY to AED22 Mn in 4Q21. Other Income/Expense strongly grown to reach AED130 Mn in 4Q21, as compared to AED6 Mn in 4Q20. Thus, the Pre-Royalty Profit increase significantly by 79.1% YOY to AED698 Mn in 4Q21 from AED389 Mn in 4Q20. The Federal Royalty grew by 5.1% YOY to AED359 Mn in 4Q21, up from AED341 Mn in 4Q20.

Balance sheet highlights

The Total Assets increased by 5.1% YOY to AED16.68 Bn in 4Q21, up from AED15.87 Bn in 4Q20. The Total Equity slightly declined by 0.4% YOY to AED8.53 Bn in 4Q21, down from AED8.57 Mn in 4Q20. Lastly, the Total Liabilities increased by 11.6% YOY to AED8.15 Bn in 4Q21, up from AED7.3 Bn in 4Q20.

Target price and rating

We maintain an ACCUMULATE rating on Du, with a target price of AED7.50. Emirates Integrated Telecommunications Company PJSC (Du) is a public joint stock company with limited liability. The Company provides fixed, mixed, wholesale, broadband, broadcasting, and associated telecommunications services in the UAE to enhance customer's life anytime and anywhere. Du has reported a decline by 23.7% YOY in the Net profit reaching AED 1.01 Bn at the end of 2021, as compared to AED 1.44 Bn in the same period last year. This drop was mainly due to a strong de-

crease in the Gain on disposal of investment, besides an increase in the Marketing expense. Despite the lower profit, the Company has reported an increase by 5.4% YOY in the Total Revenues to AED 11.68 Bn in 2021, up from AED 11.08 Bn in 2020, mainly driven by 10.7% YOY increase in the fixed revenues that was supported by solid contribution from the Consumer segment, disciplined execution of the broadband strategy, and a growth in the Enterprise segment, as well as a 15.5% YOY increase in the Other revenues through a continuous growth in the Equipment revenues and wholesale revenues. This was partially offset by 2.8% YOY decline in the Mobile revenues standing at AED 5.3 Bn, down from AED 5.45 Bn in 2020. Meanwhile, the Costs excluding D&A and Marketing expenses were up by 10.4% YOY reaching AED 6.86 Bn in 2021, compared to AED 6.21 Bn in 2020. Therefore, the Gross profit slightly decreased by 1% YOY to AED 4.82 Bn in the year ended 2021, with a Gross margin equal to 41.3%, down by 268 bps from 43.9% in 2020. Similarly, the Marketing expense has increased by 35.1% YOY to AED 204 Mn at the end of 2021. As a result, the EBITDA has decreased by 2.2% YOY from AED 4.72 Bn in 2020, down to AED 4.62 Bn in 2021. Moreover, the Depreciation, Amortization, and Impairment expenses have declined by 3.2% YOY totaling an AED 2.18 Bn, down from AED 2.25 Bn. Thus, the Operating profit has slightly dropped by 1.2% YOY to AED 2.44 Bn at the end of 2021, with an OPM equal to 20.9% in 2021. The Company's Pre-royalty profit was down by 16% YOY reaching AED 2.48 Bn, as compared to AED 2.96 Bn in 2020, mainly attributed by a strong decreased in the Gain on Disposal of investment standing at a loss of AED 6 Bn in 2021, as an increase by 42.5% YOY in the Financing income/ expense to AED 79 Mn in 2021. Additionally, the Other income/ expense significantly increased hitting AED 131 Mn, up from AED 14 Mn in 2020. Furthermore, the Federal Royalty stood at AED 1.38 Bn at the end of 2021, which is a decrease by 8.6% YOY from AED 1.51 Bn in 2020.

On the other hand, the Company has shown an unleveraged Balance sheet at the year ended 31 December 2021, where the Cash and Term deposits have declined reaching AED 2.02 Bn, down from AED 2.24 Bn in 2020. On a monthly basis, the Company's Gross debt remained stable at AED 200 Mn at the year ended 2021. Moreover, Du has reflected a strong Liquidity position with a Total Liquidity of AED 5.58 Bn in 2021. Whereas the Cash & Term deposits amount a 36% from the Total liquidity, and the rest 64% for the Undrawn facility that stood at AED 3.57 Bn in 2021. The Capex was at the highest level to reach an AED 2.6 Bn, up by 39.1% YOY from AED 1.87 Bn in 2020, mainly due a strong deployment in 2021 through covering 91% of population with 5G service, continued transformation of IT and network infrastructure, and a continuous fiber deployment. In addition, the Operating free cash flow remained strong at AED 1.99 Bn in 2021, despite the decline by 24.5% YOY from AED 2.64 Bn in 2020. Finally, the Company proposed a final Cash dividend of AED 0.11 per share amounting to AED 498.62 Mn for the year 2021. Based on our analysis, we assign an ACCUMULATE rating on the stock.

DU –Relative valuation

(at CMP)	2017	2018	2019	2020	2021
PE (x)	17.79	17.33	17.79	21.13	28.17
P/B (x)	3.81	3.60	3.54	3.58	3.59
Dividend yield	5.18%	5.18%	5.03%	4.14%	3.11%

FABS estimate & Co Data

DU - P&L

AED mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Revenue	2,740	2,874	3,070	3,011	1.9%	12.0%	6.8%	11,084	11,682	5.4%
Costs (ex D&A, marketing exp)	-1,646	-1,703	-1,760	-1,783	-1.2%	7.0%	3.4%	-6,213	-6,861	10.4%
Marketing expense	-39	-57	-47	-47	0.0%	20.9%	-17.2%	-151	-204	35.1%
EBITDA	1,055	1,114	1,262	1,181	6.8%	19.6%	13.3%	4,720	4,618	-2.2%
Depreciation, Amortization, and Impairment	-851	-535	-671	-553	21.4%	-21.1%	25.5%	-2,254	-2,181	-3.2%
Operating profit	205	580	591	629	-6.0%	NM	1.9%	2,467	2,436	-1.2%
Financing income/expense	181	-22	-22	-23	-2.7%	NM	0.2%	-55	-79	42.5%
Other income/expense	6	0	130	0	NM	NM	NM	14	131	NM
Gain on disposal of investment	-3	-2	-1	-2	-11.6%	-47.1%	-32.9%	529	-6	NM
Pre-royalty profit	389	556	698	604	15.4%	79.1%	25.5%	2,955	2,483	-16.0%
Federal Royalty	-341	-282	-359	-292	22.8%	5.1%	27.0%	-1,512	-1,382	-8.6%
Net profit	48	283	321	312	2.7%	NM	13.2%	1,443	1,101	-23.7%

FABS estimate & Co Data
DU - Margins

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Gross Margin	39.9%	40.8%	42.7%	271	190	43.9%	41.3%	-268
Operating margin	7.5%	20.2%	19.3%	1179	-92	22.3%	20.9%	-140
Net Profit margin	1.8%	9.9%	10.4%	868	59	13.0%	9.4%	-360

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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