Telecom Sector – June 2023

Sector Weighting:
MARKET WEIGHT
Preview Note
2Q 2023

Investment in adjacent business verticals to diversify revenue source

MENA Telecommunication

Etisalat and DU are the major telecom operators in UAE with a mobile subscriber base of 20.3 Mn as of 1Q23. The mobile subscriber base of both major companies continued to grow in 1Q23. Etisalat's mobile subscribers base grew to 12.2 Mn while DU's mobile subscribers rose to 8.2 Mn in 1Q23. Telecom companies in UAE are primarily focused on the adoption of 5G, which will drive the sector's growth in the upcoming period. The deployment of 5G, combined with a high rate of device turnover and customer needs for speed, signifies that telecom companies' mobile subscriber base, as well as ARPU, will continue to rise. Going forward, it is projected that the UAE telecom sector will expand owing to the expansion of end-user industrial uses and markets including IoT, cloud, data centres, and 5G technology. Additionally, as a result of technological advancements such as video on demand, the country is seeing a surge in internet usage. Additionally, recovery in the tourism sector and various digital offerings fuel the sector's growth. Moreover, the introduction of new products, particularly in collaboration with international businesses, provides an opportunity to stimulate growth and innovation. UAE telecoms operator e& entered into a joint venture with South Korea's Bespin Global to create a new company. e& invested USD 60 Mn to acquire a 10% stake in Bespin Global exchange. The JV will provide public cloud services in the Middle East, Turkey, Africa, and Pakistan. The acquisition aligns with e&'s strategic plans to diversify operations and expand its global reach. e& also signed an agreement to acquire a majority stake in Beehive Group Holdings Group which provides peer-to-peer lending to SMEs in the MENA region. e& will acquire a 61-69% stake in Beehive at an enterprise value of USD 35 Mn. Bayanat, Yahsat, and ICEYE jointly announced an ambitious program to expand commercial opportunities within the UAE space ecosystem. The program's objective is to establish a constellation of five LEO SAR satellites, with the launch of the first satellite planned in 1Q24.

The Saudi government played a significant role in building the country's telecom industry, by investing heavily in infrastructure, deploying fibre optic networks, and establishing data centres. According to the Communications, Space, and Technology Commission (CST), the Kingdom of Saudi Arabia's ICT market reached SAR 154 Bn by 2022, making it the biggest and most rapidly expanding digital economy in the MENA region. Over the last six years, total capital expenditure in digital infrastructure exceeded SAR 93 Bn, resulting in a considerable improvement in service quality. Additionally, as of 2022, 5G coverage in the Kingdom expanded to 53%, with Riyadh exceeding 94%. Telecom companies in KSA are also actively investing in ICT, IoT, cloud, fintech, cybersecurity, fibre optic & undersea cables, and digital entertainment which is driving the telecom sector growth in the region with multiple product offerings. Zain, Mobily, and STC are KSA's leading telecom operators. Recently, STC Solutions announced a binding offer with Devoteam SIS (France) and Ortel which includes the acquisition of a 40.0% share in Devoteam Middle East, a top-performing firm in the region's digital consulting. The step aligns with STC's strategic expansion and growth ambitions, which emphasise access to lucrative markets and investments. center3, a subsidiary of the STC Group and the largest digital hub and producer of hosting and data services in the MENA region, completed a 9.6MW expansion of its hyper scaler-grade data centre in Khurais in Riyadh. The expansion will increase center3's client hosting capacity and accelerates the development of the MENA region's digital industry. Additionally, the undersea cable projects by telecom companies in KSA will connect KSA with multiple continents with high efficiency and secured fiber optic cables, boosting the country's non-oil economy. Two subsea and terrestrial data cables (EMC West), which will link Saudi Arabia with Europe, will be built by center3, a company controlled by the STC group and Alcatel Submarine

Networks (ASN). The EMC project will help to build a new data corridor, putting the three countries at the centre of a digital connectivity infrastructure that will become a regional cornerstone.
Egypt's total population stood at 104.4 Mn in 2022 with 61% of the population below the age of 30 years. The country benefits from favourable demographics with 74% literacy and a low unemployment rate of 7.2% in 4Q22. According to IMF, Egypt's Real GDP grew 6.6% in 2022 and the growth is expected to slow down to 3.7% in 2023. The economic growth in the country is impacted due to the rising inflationary environment. According to the Central Bank of Egypt Statistics, Egypt's core inflation increased to 41.0% as of June 2023. Egypt plays an important role in international cable infrastructure due to its strategic location. In addition, ICT 2030 strategy is actively strengthening ICT infrastructure in Egypt boosting digital capabilities in the region with enhanced cybersecurity and corruptions combating technology. The Egyptian government sold a 10.0% ownership stake in Telecom Egypt (ETEL) for EGP 3.95 Bn. The government sold more than 170.7 Mn shares at a price of EGP 23.11 per share, with the offering oversubscribed by 2.5x.

Saudi internet users increased to 94.3% in 2022
According to the General Authority for Statistics, the percentage of Saudis who use the internet increased to 94.3% in 2022. According to the report, the percentage of people aged 15 and more who used the internet climbed to 94.3%, up 1.4% from 2021. While, the rate of Men who used the internet reached 95.0%, and women 93.3%. The Saudis made up 93.6% of internet users, while the non-Saudis accounted for 95.2% in 2022.

Egypt Government sold 10% of Telecom Egypt for USD 128.8 Mn
The Egyptian government sold a 10.0% ownership stake in Telecom Egypt (ETEL) for EGP 3.95 Bn. The government sold more than 170.7 Mn shares at a price of EGP 23.11 per share, with the offering being oversubscribed by slightly less than 2.5x. Local investors purchased the majority of the shareholding, while Arab and foreign investors only purchased a small percentage of the offered shares.

UAE's e& completed setting up a JV with Bespin Global
The UAE's e&, recently completed the formation of a joint venture (JV) with South Korea's Bespin Global through the creation of a new company. The newly formed JV will be accounted as a subsidiary of e&. e& also invested USD 60 Mn to acquire a 10% stake in Bespin Global exchange. In the JV 65% stake will be owned by e& and the remaining 35% by Bespin Global. The JV will provide public cloud services in the Middle East, Turkey, Africa, and Pakistan. The acquisition aligns with e&'s strategic plans to diversify operations and expand its global reach.

UAE's e& and Orange are both exploring bids for a 45% share in Ethio Telecom
UAE's Emirates Telecommunications Group Co. and France's Orange SA are considering bids for a 45.0% interest in Ethiopia's state-controlled telecom operator. In addition, E& and Orange are separately consulting with advisers to consider proposals for the holding in Ethio.

Saudi Telcos to offer big data services to government agencies
Leading Saudi telecom companies STC, Zain, and Mobily stated plans to form a collaboration to provide new services and products that will assist decision-making in government agencies. The alliance intends to maximise the benefit of huge data analysis in developing innovative products and solutions that assist decision-makers in government agencies meet their objectives. Furthermore, the cooperation will not only help them increase performance efficiency but will also help boost productivity and facilitate the provision of outstanding services in unique and creative ways. It is also expected to promote economic development and sustainability by offering innovative investment and economic opportunities and establishing new markets.

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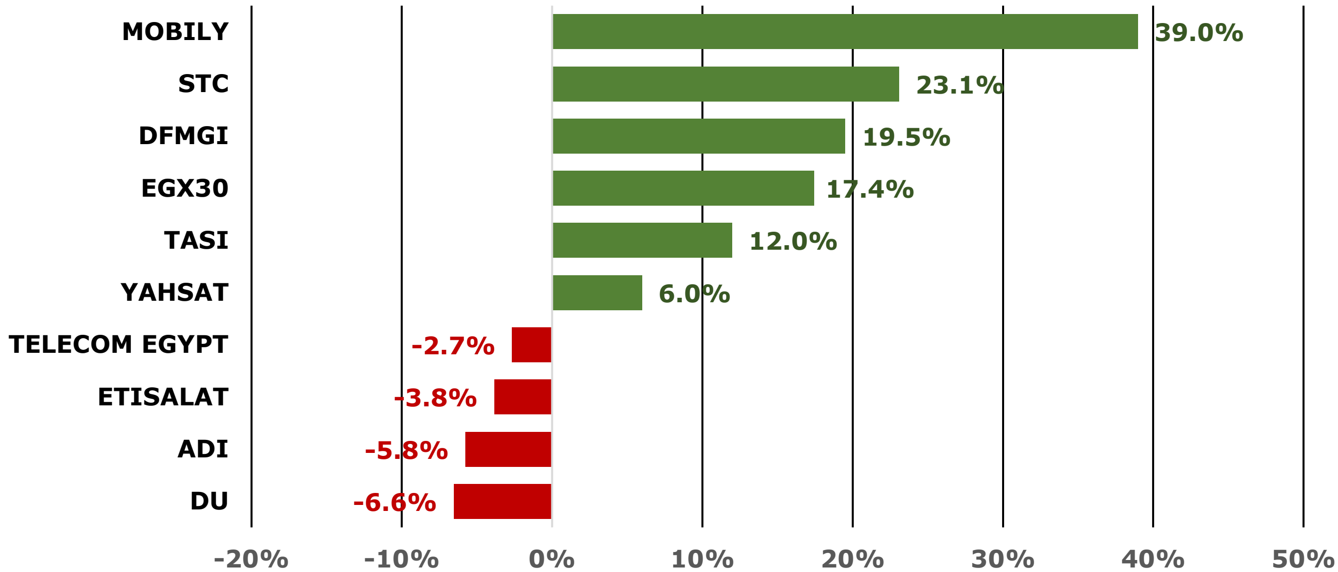
Telecom stock performance in the YTD

Mobily is the best performing stock among the peer group on YTD basis since December 2022 followed by STC. DU is the worst performing stock among all of them. Mobily, STC, and Al Yahsat generated positive return on YTD basis. Mobily generated 39.0% YTD return, while DU came in last with a decline of 6.6% YTD since December 2022.

MENA Telecom Stock & Market Indices Performance in December 2022 to YTD, ranked



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 20.31x (Mobily) and 4.05x (TELECOM EGYPT). The EV/EBITDA ranges from 8.18x (ETISALAT) and 3.61x (TELECOM EGYPT). Al Yahsat's expected dividend yield for 2023 is the highest at 6.1%. TELECOM EGYPT has the lowest PB multiple of 0.85x. TELECOM EGYPT's Net Debt/EBITDA stood highest at 1.48x followed by Mobily at 0.94x.

Relative Valuation

	ETISALAT	MOBILY	STC	TELECOM EGYPT	DU	AL YAHASAT
CMP (LCY)	21.98	48.25	45.00	24.43	5.42	2.65
Number of shares (mm)	8,697	770	5,000	1,707	4,533	2,440
Market cap (LCY mm)	191,155	37,153	225,000	41,702	24,568	6,465
Market cap (US$ mm)	52,086	9,907	60,000	1,350	6,694	1,762
Gross debt (LCY mm)	46,935	8,999	10,752	41,396	0	540
Cash (LCY mm)	31,454	2,981	26,074	12,372	1,926	555
Net debt/-cash (LCY mm)	15,481	6,018	-15,321	29,024	-1,926	-15
Non-controlling interest	6,732		2,351	11	0	70
EV	213,368	43,170	212,030	70,737	22,643	6,668
EBITDA (2023)	26,076	6,401	26,803	19,588	5,660	259
BVPS (2023)	5.17	21.24	15.87	28.65	1.95	0.35
EPS (2023)	1.11	2.38	2.77	6.03	0.33	0.05
DPS (2023)	0.80	1.35	1.60	1.30	0.25	0.04
EV/EBITDA (x)	8.18	6.74	7.91	3.61	4.00	7.02
P/BV (x)	4.25	2.27	2.84	0.85	2.78	2.06
PER (x)	19.77	20.31	16.24	4.05	16.34	15.84
Dividend yield	3.6%	2.8%	3.6%	5.3%	4.6%	6.1%
Payout ratio	72.0%	56.8%	57.7%	21.5%	75.4%	97.2%
Net debt/EBITDA (x)	0.59	0.94	-0.57	1.48	-0.34	-0.06

Source: FABS from Bloomberg

Market Weight:

With 4x BUYs and 2x HOLD we remain MARKET WEIGHT on MENA telecoms.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahsat
Rating	**HOLD**	**HOLD**	**BUY**	**BUY**	**BUY**	**BUY**
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	21.98	48.25	45.00	24.43	5.42	2.65
Target Price	24.00	49.00	54.00	32.00	7.40	3.50
Potential change (%)	+9.2%	+1.6%	+20.0%	+31.0%	+36.5%	+32.1%

FABS Estimates & Co data

2Q23 preview: Etisalat Group

Uncertainties and higher finance costs to drag profitability

12-m target price:	Stock rating:
AED 24.00	**HOLD**

CMP(AED):21.98
Potential upside/(downside) (%): +9.2%

2Q23 Estimate

Etisalat is expected to report a decline in the net profit by 9.1% YOY to AED 2,210 Mn in 2Q23 primarily due to a decline in operating profit and a hike in finance and other cost partially offset by growth in finance and other income. Etisalat's revenue is expected to decline marginally 0.2% YOY to AED 12,969 Mn in 2Q23, owing to the challenging economic environment and uncertainties in the global market. The Operating Expenses are likely to rise 3.7% YOY to AED 8,430 Mn in 2Q23. The impairment charges are anticipated to decline 30.4% YOY to AED 169 Mn in 2Q23. Thus, operating profit before federal royalty is expected to fall 4.2% YOY to AED 4,513 Mn in 2Q23. Federal royalty is expected to decline 2.5% YOY to AED 1,414 Mn in 2Q23. As a result, operating profit is likely to decline 5.0% YOY to AED 3,100 Mn in 2Q23. Etisalat's EBITDA is expected to remain stable at AED 6,644 Mn in 2Q23. Furthermore, finance and other income is expected to increase significantly from AED 292 Mn in 2Q22 to AED 545 Mn in 2Q23. Finance and other costs are likely to rise by 11.5% YOY to AED 908 Mn in 2Q23. Moreover, income tax expense is estimated to decline 12.5% YOY to AED 386 Mn in 2Q23. In addition, the share of profit attributable to non-controlling interest holders is expected to report AED 141 Mn as compared to the reversal of AED 132 Mn in 2Q22.

2022 Forecast

Etisalat's net profit is expected to decline 3.4% to AED 9,669 Mn in 2023 driven by a marginal rise in operating profit and an increase in finance and other costs partially offset by growth in finance and other income. The Company's revenue is expected to decline marginally 0.4% to AED 52,204 Mn in 2023. Operating expenses are expected to rise by 0.3% to AED 33,410 Mn in 2023. Impairment charges are expected to decline 12.6% to AED 705 Mn in 2023. Federal royalty is anticipated to decrease 2.3% to AED 5,638 Mn in 2023. As a result, operating profit is expected to rise marginally 0.6% to AED 13,025 Mn in 2023. Etisalat's EBITDA is expected to decrease 0.5% to AED 26,076 Mn in 2023. Furthermore, finance and other income is expected to rise 9.6% to AED 2,193 Mn in 2023 whereas finance and other costs are forecasted to increase 23.1% to AED 3,292 Mn in 2023. The Tax charges are estimated to decline 3.3% to AED 1,693 Mn in 2023. Share of profit attributable to non-controlling interest holders is expected to rise 8.6% YOY to AED 563 Mn in 2023.

1Q23 outturn

EAND's total revenue declined 2.5% YOY to AED 13,002 Mn in 1Q23 due to significant exchange rate volatility in Egyptian Pound, Pakistani Rupee, and Moroccan Dirham owing to global uncertainties partially offset by a strong performance in UAE. The Company's UAE revenue grew 2.1% YOY to AED 8.0 Bn in 1Q23 supported by a robust economic activity and population growth. Mobile segment revenue grew at 0.9% YOY to AED 2.9 Bn in 1Q23 due to growth in subscribers and bundled propositions offerted to customers in the enterprise & consumer segment while fixed segment revenue grew by 2.4% YoY to AED 2.9 Bn, owing to higher data, TV services, and internet offset by voice revenues. Other segment revenue in UAE grew 3.2% YOY to AED 2.2 Bn due to an increase in wholesale and handset revenues. International telecom revenue reported a decline of 13.7% YOY to AED 4.6 Bn in 1Q23 primarily due to adverse movement in the exchange rate of the Egyptian Pound, Moroccan Dirham, and Pakistani Rupee. Maroc Telecom's consolidated revenue decreased 5% YOY to AED 3.1 Bn in 1Q23 primarily due to the unfavorable exchange rate of MAD against AED while revenue in local currency increased 3.7% YOY. Egypt revenue declined 37% YOY to AED 0.8 Bn in 1Q23 but increased 15% YOY in local currency due to subscriber growth and strong contribution from mobile data and voice revenue despite the national roaming agreement ended with Telecom Egypt. Revenue from Pakistan fell 16% YOY to AED 0.6 Bn in 1Q23 owing to the unfavorable exchange rate, whereas revenue in local currency rose 23% YOY due to strong performance in FTTH, corporate, and wholesale segments. Etisalat's operating expense rose 5.3% YOY to AED 8,700 Mn attributed mainly to global inflationary pressures accompanied by double digit inflation in Egypt and Pakistan, higher handset, and content costs partially offset by lower staff costs, marketing costs, D&A, and network costs. Meanwhile, share of results of associates and JVs rose significantly from AED 11 Mn in 1Q22 to AED 141 Mn in 1Q23. The Company's federal royalty declined 6.0% YOY to AED 1,342 Mn in 1Q23 leading operating profit to decline 14.0% YOY to AED 2,939 Mn in 1Q23. Thus, the Company's EBITDA declined 9.7% YOY to AED 6,143 Mn in 1Q23 with a 377 bps YOY decline in EBITDA margin to 47.2%. Finance and other income more than doubled to AED 535 Mn in 1Q23 from AED 212 Mn in 1Q22 whereas finance and other cost increased significantly 78.0% YOY to AED 862 Mn due to higher benchmark rates. Income tax expense declined 21.0% YOY to AED 309 Mn in 1Q23 in line with a decline in profit. In addition, share of profit attributable to non-controlling interest holders declined 63.6% YOY to AED 116 Mn in 1Q23 supporting profit.

Target price and recommendation

We maintain our HOLD rating on EAND with a target price of AED 24.00. The Company recorded strong revenue growth in UAE despite, strong local currency growth in Pakistan and Egypt. However, Etisalat experienced a decline in revenue due to an unfavourable exchange rate, which can be attributed to high inflation in the region. Looking ahead, the Company expects its revenue to grow at a low to mid-single-digit in 2023. Notably, in 1Q23, the Company achieved its highest number of subscribers to date, reaching 163.8 Mn after adding 4.8 Mn subscribers over the last 12 months. The Company is focusing on expanding its 5G network coverage, diversifying its revenue sources, and bolstering its fixed-line business through the deployment of fiber optic cables. Etisalat and Vodafone group enters a strategic partnership to further offer cross-border digital services and solutions to multi-national customers and public sector organizations. The Company also successfully completed the JV with Bespin Global with a majority stake of 65%, offering public cloud managed and professional services in the Middle East, Turkey, Africa, and Pakistan. Further, the Company signed a binding agreement to acquire a majority stake of 61% - 69% in Beehive Group Holdings, which is the first regulated marketplace for lending crowdfunding platforms in the region. Moreover, the Company is planning to make a potential partnership with PPF group, one of the diverse international investment companies operating in the Czech Republic and 25 additional countries across Europe, North America, Asia, and Africa. All these initiatives are in line with the Company's objective to create a diversified portfolio. Further, the Company made a total consolidated capital expenditure of AED 1.1 Bn in 1Q23, in line with the Company's expected capex guidance for 2023. However, Etisalat's margins are further expected to stay under pressure over currency devaluation in Pakistan, Morocco, and Egypt. High-interest costs in the rising interest rate scenario is impacting the profitability of the Company. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

Etisalat - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	22.2	22.0	21.2	20.5	19.1	19.8
P/B (x)	4.3	4.1	3.9	4.0	4.5	4.3
EV / EBITDA	7.7	7.5	7.5	7.4	8.2	8.2
Dividend yield	3.6%	3.6%	5.5%	3.6%	3.6%	3.6%

FABS estimate and Co Data

Etisalat - P&L

AED mm	2Q22	1Q23	2Q23F	YOY	QOQ	2022	2023F	Change
Revenue	12,996	13,002	12,969	-0.2%	-0.3%	52,434	52,204	-0.4%
Operating expenses	-8,130	-8,700	-8,430	3.7%	-3.1%	-33,323	-33,410	0.3%
Impairment	-242	-163	-169	-30.4%	3.7%	-806	-705	-12.6%
Share of results of associates and JVs	89	141	143	59.5%	1.3%	417	574	37.6%
Operating profit before federal royalty	**4,712**	**4,281**	**4,513**	**-4.2%**	**5.4%**	**18,722**	**18,663**	**-0.3%**
Federal royalty	-1,450	-1,342	-1,414	-2.5%	5.4%	-5,771	-5,638	-2.3%
Operating profit	**3,263**	**2,939**	**3,100**	**-5.0%**	**5.5%**	**12,951**	**13,025**	**0.6%**
EBITDA	**6,644**	**6,143**	**6,644**	**0.0%**	**8.2%**	**26,202**	**26,076**	**-0.5%**
Finance and other income	292	535	545	86.8%	1.7%	2,001	2,193	9.6%
Finance and other costs	-814	-862	-908	11.5%	5.3%	-2,674	-3,292	23.1%
Profit before tax	**2,740**	**2,612**	**2,736**	**-0.1%**	**4.8%**	**12,278**	**11,925**	**-2.9%**
Income tax expenses	-441	-309	-386	-12.5%	24.8%	-1,752	-1,693	-3.3%
Profit for the period	**2,299**	**2,303**	**2,351**	**2.2%**	**2.1%**	**10,526**	**10,232**	**-2.8%**
Non-controlling interests	-132	116	141	NM	21.5%	518	563	8.6%
Net Profit Attributable to Owners	**2,431**	**2,187**	**2,210**	**-9.1%**	**1.1%**	**10,007**	**9,669**	**-3.4%**

FABS estimate & Co Data

Etisalat - Margins

	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
EBITDA	25.1%	22.6%	23.9%	-121	130	24.7%	25.0%	25
Operating profit	51.1%	47.2%	51.2%	11	399	50.0%	50.0%	-2
Net Profit	18.7%	16.8%	17.0%	-167	22	19.1%	18.5%	-56

FABS estimate & Co Data

2Q23 preview: Etihad Etisalat Company (Mobily)

Positives priced in

12-m target price:	Stock rating:
SAR 49.00	**HOLD**

CMP (SAR): 48.25
Potential upside/(downside) (%): +1.6%

2Q23 Estimate

Etihad Etisalat (Mobily) is expected to report 30.5% YOY increase in net profit to SAR 468 Mn in 2Q23, mainly due to the increase in operating profit and expected rise in finance income. Total revenue is estimated to grow 5.9% YOY to SAR 4,129 Mn in 2Q23, owing to an expected increase in the revenue from wholesale segment, business segment and consumer segments as well as increase in the activation and subscription fees. While the cost of revenue is expected to rise 10.8% YOY to SAR 1,734 Mn in 2Q23. As a result, the gross profit is expected to grow 2.7% YOY to 2,395 Mn in 1Q23, with a gross profit margin of 58.0% in 2Q23. Operating expenses are anticipated to decline 2.1% YOY to SAR 785 Mn in 2Q23. As a result, operating profit is expected to increase 25.9% YOY to SAR 653 Mn in 2Q23. While EBITDA is expected to rise 9.6% YOY to SAR 1,625 Mn in 2Q23. Total finance expense is expected to increase from SAR 143 Mn in 2Q22 to SAR 179 Mn in 2Q23. On the other hand, finance income is also expected to rise SAR 35 Mn in 2Q23 from SAR 8 Mn in 2Q22. Zakat expenses are expected to rise 64.2% to SAR 41 Mn in 2Q23.

2023 Forecast

Mobily's net profit is estimated to increase 10.4% YOY to SAR 1,829 Mn in 2023, owing to the expected growth in the operating profit and finance income partially offset by the increase in finance expenses. Revenue is expected to increase 4.7% YOY to SAR 16,412 Mn in 2023 primarily due to wholesale and consumer segments. Moreover, cost of revenue is estimated to rise by 6.7% YOY to SAR 6,729 Mn in 2023. Consequently, the Gross profit is projected to increase by 3.4% YOY to SAR 9,683 Mn in 2023 with a gross profit margin expected to decline 76 bps to 59.0% in 2023. Selling & marketing expenses forecasted to rise by 4.3% YOY to SAR 1,526 Mn in 2023. While general and administrative expenses expected to rise marginally 1.8% YOY to SAR 1,658 Mn in 2023. Thus, the operating expenses expected to rise 3.0% YOY to SAR 3,184 Mn in 2023. Whereas the operating profit is expected to rise 10.7% to SAR 2,559 Mn in 2023. EBITDA is forecasted to increase by 3.9% YOY to SAR 6,401 Mn in 2023 but the EBITDA margin is expected to decline 33 bps to 39.0% in 2023. Financial expenses would rise by 18.2% to SAR 718 Mn in 2023, while finance income is expected to rise SAR 139 Mn in 2023 from SAR 46 Mn in 2022. Hence the profit before zakat is expected to increase 11.7% to SAR 1,986 Mn in 2023. While zakat expenses expected to increase 29.0% YOY to SAR 157 Mn in 2023.

1Q23 Outturn

Mobily's revenue rose 6.3% YOY to SAR 4,051 Mn in 1Q23 driven by growth in business and consumer segments further supported by a robust growth in the subscriber base. Cost of revenue rose 10.9% YOY to SAR 1,745 Mn in 1Q23. As a result, gross profit increased 3.1% YOY to SAR 2,306 Mn in 1Q23 primarily due to a rise in revenue. However, the gross profit margin declined to 56.9% in 1Q23 from 58.7% in 1Q22. Operating expenses including depreciation charges fell 5.5% YOY to SAR 1,679 Mn in 1Q23 mainly due to a fall in depreciation charges which declined 5.2% YOY to SAR 927 Mn in 1Q23. EBITDA grew 8.0% YOY to SAR 1,554 Mn in 1Q23 driven by a growth in revenue in addition to operational efficiency. As a result, EBITDA margins improved 60 bps YOY in 1Q23 and stood at 38.4%. Operating profit rose 36.0% YOY to SAR 627 Mn in 1Q23 primarily due to a decline in depreciation and amortization charges, and operating profit margin declined 338 bps YOY to 15.5% in 1Q23. Finance expenses increased 37.9% YOY to SAR 172 Mn in 1Q23 owing to a rise in the interest rates in the economy. However, the profit before zakat rose 44.8% YOY to SAR 507 Mn in 1Q23. While zakat expenses rose 37.7% YOY to SAR 42 Mn in 1Q23 almost in line with an increase in profitability.

Target price and recommendation

We maintain our HOLD rating on Mobily with a revised target price of SAR 49.00. We expect the Company to maintain steady revenue growth supported by robust performance of B2B segment along with operating efficiency will help in keeping the margin intact. Mobily's revenue consistently improved due to a growth in the consumer segment as well as a growth in the overall subscriber base. Further, the Company reported robust growth in net income and increased 45.7% YOY in 1Q23 supported by disciplined cost management, deleveraging and an increase in finance income. Mobily’s EBITDA increased 8% YOY to SAR 1,554 Mn in 1Q23 mainly due to the resilient top-line performance in addition EBITDA margin also maintained at a strong level due to an ongoing operational efficiency measure and stood at 38.4% in 1Q23. Mobily continuously makes efforts to reduce its debt obligations supported by strong financials and strategic expansion plans to help gain market share in Saudi Arabia. The Company reduced its debt obligation from SAR 10.4 Bn in 1Q22 to SAR 9.0 Bn at the end of 1Q23 as an initiative of ongoing deleveraging strategy. It will further reduce leverage going forward due to robust cash flow generation. During 1Q23, Mobily incurred a total capex of SAR 224 Mn which will aid in accelerating the 5G services across a number of strategic locations, cloud, IoT, data centers, and digitization. The Company is also planning to expand its business to address new opportunities in the Technology Media & Telecom (TMT) industry, so as to reposition itself as a leader in new trends. In addition, the Company continues to generate robust free cash flow which rose 9.0% YOY to SAR 1,329 Mn in 1Q23. Further, we expect the Company to continue paying dividends in 2023 with a dividend yield of 2.8%. Despite all these positives, the stock is trading at EV/EBITDA multiple of 6.75x based on FY2023 financials as compared to the sector average of 5.7x renders it expensive. Thus, based on the above mentioned factors, we maintain a HOLD rating on the stock.

Mobily – Relative Valuation

(At CMP)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**
P/E (x)	NA	NA	48.12	35.18	22.75	20.61
P/B (x)	2.72	2.74	2.61	2.48	2.40	2.30
EV / EBITDA	11.03	9.83	8.99	8.31	7.22	6.75
Dividend yield	NA	Na	1.0%	1.7%	2.3%	2.8%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	**2Q22**	**1Q23**	**2Q23F**	**YOY Ch**	**QOQ Ch**	**2022**	**2023F**	**Change**
Services revenues	3,899	4,051	4,129	5.9%	1.9%	15,669	16,412	4.7%
Cost of services	-1,566	-1,746	-1,734	10.8%	-0.6%	-6,306	-6,729	6.7%
Gross profit	**2,333**	**2,306**	**2,395**	2.7%	3.9%	**9,363**	**9,683**	**3.4%**
Selling and marketing expenses	-375	-343	-372	-0.9%	8.4%	-1,463	-1,526	4.3%
General & administrative expenses	-427	-372	-413	-3.2%	11.1%	-1,628	-1,658	1.8%
Operating expenses	**-802**	**-714**	**-785**	-2.1%	9.8%	**-3,091**	**-3,184**	**3.0%**
Other income	7	14	14	115.6%	5.6%	1	16	997.0%
Depreciation and amortisation	-963	-927	-972	0.8%	4.8%	-3,851	-3,841	-0.2%
Impairment loss on acc receivable	-56	-38	0	NM	NM	-112	-115	2.9%
Operating Profit	**519**	**641**	**653**	25.9%	2.0%	**2,312**	**2,559**	**10.7%**
EBITDA	**1,482**	**1,567**	**1,625**	9.6%	3.7%	**6,162**	**6,401**	**3.9%**
Share in the loss of an associate	0	5	0	NM	NM	28	5	-81.0%
Finance expenses	-143	-172	-179	25.6%	4.1%	-607	-718	18.2%
Finance income	8	33	35	364.3%	5.1%	46	139	202.2%
Profit before zakat	**384**	**507**	**509**	32.7%	0.4%	**1,779**	**1,986**	**11.7%**
Zakat	-25	-42	-41	64.2%	-3.7%	-122	-157	29.0%
Profit attributable	**359**	**465**	**468**	**30.5%**	**0.7%**	**1,657**	**1,829**	**10.4%**

FABS estimate & Co Data

Mobily - Margins

	2Q22	1Q23	2Q23F	YOY	QOQ Ch	2022	2023F	Change
Gross profit	59.8%	56.9%	58.0%	-184	109	59.8%	59.0%	-76
EBITDA	38.0%	38.7%	39.4%	133	66	39.3%	39.0%	-33
Operating profit	13.3%	15.8%	15.8%	251	1	14.8%	15.6%	84
Net profit	9.2%	11.5%	11.3%	214	-13	10.6%	11.1%	57

FABS estimate & Co Data

2Q23 preview: Saudi Telecom Company

Solid expansion strategy to maintain the group's profitability

CMP (SAR): 45.00
Potential upside/(downside) (%): +20.0%

12-m target price:	Stock rating:
SAR 54.00	**BUY**

2Q23 Estimate

Saudi Telecom Company (STC) is expected to report a 22.0% YOY growth in net profit to SAR 3,463 Mn in 2Q23. The increase in net profit is mainly attributable to healthy sales growth partially offset by an increase in direct cost and a hike in operating expenses. STC's net sales is expected to grow 7.9% YOY to SAR 18,270 Mn in 2Q23 owing the Company's solid expansion strategy and overall sales growth. On the other hand, direct cost is expected to increase 8.2% YOY to SAR 8,404 Mn in 2Q23. Thus, gross profit is expected to increase 7.5% YOY to SAR 9,866 Mn in 2Q23 with a margin of 54.0%. STC's selling and overhead expenses is expected to increase 2.0% YOY to SAR 1,462 Mn in 2Q23 whereas G&A expenses are estimated to grow 11.7% YOY to SAR 1,717 Mn in 2Q23. Thus, EBITDA is likely to increase 7.8% YOY to SAR 6,687 Mn in 2Q23. EBITDA margin is expected to decline marginally 3 bps YOY to 36.6% in 2Q23. Depreciation and amortization expenses are anticipated to increase 5.9% YOY to SAR 2,631 Mn in 2Q23. As a result, operating income is likely to increase 9.0% YOY to SAR 4,056 Mn in 2Q23. Moreover, other expenses are estimated to decline 50.7% YOY to SAR 229 Mn in 2Q23. Furthermore, finance income is anticipated to increase 92.8% YOY to SAR 219 Mn in 2Q23 whereas finance cost is expected to grow 36.8% YOY to SAR 238 Mn in 2Q23. Zakat expenses are expected to increase 8.4% YOY to SAR 305 Mn in 2Q23. Share of profit attributable to non-controlling interest holders is expected to decline from SAR 77 Mn in 2Q22 to SAR 41 Mn in 2Q23.

2023 Forecast

Saudi Telecom Company's net profit is forecasted to increase 13.8% YOY to SAR 13,855 Mn in 2023 due to healthy growth in sales and a hike in finance income partially offset by an increase in operating expenses and higher finance cost. STC's sales are estimated to grow 8.0% YOY to SAR 72,833 Mn in 1Q23. On the other hand, direct cost is expected to increase 7.9% YOY to SAR 32,411 Mn in 2023. Thus, gross profit is expected to increase 8.1% YOY to SAR 40,422 Mn in 2Q23. Selling and overhead expenses are expected to increase 7.3% YOY to SAR 6,555 while G&A expenses are anticipated to grow 13.9% YOY to SAR 7,065 Mn in 2023. Thus, EBITDA is expected to increase 6.9% YOY to SAR 26,803 Mn in 2023. Depreciation and amortization expenses are estimated to increase 5.4% YOY to SAR 10,525 Mn in 2023. Furthermore, other expenses are predicted to decline 27.3% YOY to SAR 1,109 Mn in 2023. Finance income is expected to grow 69.6% YOY to SAR 1,022 Mn in 2023 whereas finance cost is expected to increase SAR 927 Mn in 2023. In addition, zakat expense is estimated to increase 14.9% YOY to SAR 1,244 Mn in 2023. Share of profit attributable to non-controlling interest holders is anticipated to decline 23.7% YOY to SAR 165 Mn in 2023.

1Q23 Outturn

STC's revenue grew 2.4% YOY to SAR 3,109 Mn in 2Q23 mainly driven by a healthy growth in sales and a decline in selling and overhead expenses along with strong growth in finance income partially offset by a hike in direct cost, an increase in G&A expenses and finance cost. STC's sales increased 7.4% YOY to SAR 18,179 Mn in 1Q23 whereas direct cost rose 13.6% YOY to SAR 8,825 Mn in 1Q23. Thus, gross profit rose 2.2% YOY to SAR 9,355 Mn in 1Q23. Selling and overhead expenses declined 6.0% YOY to SAR 1,298 Mn in 1Q23 whereas G&A expenses rose 16.6% YOY to SAR 1,713 Mn. As a result, EBITDA grew marginally 0.7% YOY to SAR 6,343 Mn in 1Q23. Depreciation and amortization expenses rose 5.5% YOY to SAR 2,613 Mn in 1Q23. Resultantly, operating profit declined 2.4% YOY to SAR 3,731 Mn in 1Q23. Other expenses declined 6.1% YOY to SAR 340 Mn in 1Q23. In addition, finance income increased significantly from SAR 109 Mn in 1Q22 to SAR 360 Mn in 1Q23 while finance cost increased 56.5% YOY to SAR 238 Mn in 1Q23. Furthermore, zakat expenses rose 27.2% YOY to SAR 377 Mn in 1Q23. Share of profit attributable to non-controlling interest holders declined from SAR 87 Mn in 1Q22 to SAR 26 Mn in 1Q23.

Target price and recommendation

We maintain our BUY rating on Saudi Telecom Company with a target price of SAR 54.00. STC Group retained its top position as the leading digital enabler in the Middle East's telecommunications sector. The Company reported consistent performance in the top line across all business categories and robust growth in revenue in 1Q23. STC witnessed the highest quarterly revenue of SAR 18.2 Bn in 1Q23 primarily due to strong growth in the Mobility segment. Moreover, the telecom companies in KSA are likely to benefit from the low broadband penetration. STC mobile subscribers rose 7.02% YOY mainly due to a substantial increase in prepaid and postpaid subscribers. While the fixed subscribers declined marginally 2.13% YOY in 1Q23. Recently the Company's subsidiary Tawal announced a sale and purchase agreement to acquire three tower companies for consideration of SAR 5 Bn. The acquisition is likely to boost Tawal's infrastructure growth plans by entering into international markets. In addition, STC entered the European market as its subsidiary Tawal signed a 20-year master service agreement to acquire United Group's tower assets. Post-acquisition, Tawal will own and operate around 4,800 sites across Croatia, Bulgaria, and Slovenia to provide infrastructure services. In accordance with the Company's dividend distribution policy for three years period which started in 4Q21, the Company commits to pay a minimum dividend of SAR 0.4 per share every quarter. STC paid a dividend of SAR 0.4 per share for the period 1Q23. The Company also maintains a strong balance sheet, adequate liquidity, low leverage, and stable credit rating further aiding in its internal as well as external expansion through internal accruals. Thus, based on our analysis, we maintain a BUY rating on the stock.

STC – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	20.9	21.1	20.5	19.9	18.5	16.2
P/B (x)	3.4	3.6	3.5	3.2	3.1	2.8
EV/EBITDA	10.7	10.6	9.8	9.6	8.5	7.9
Dividend yield	5.3%	3.6%	4.4%	3.6%	3.6%	3.6%

FABS Estimates & Co Data

STC - P&L

SAR mm	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Sales	16,939	18,179	18,270	7.9%	0.5%	67,432	72,833	8.0%
Direct costs	-7,765	-8,825	-8,404	8.2%	-4.8%	-30,038	-32,411	7.9%
Gross profit	**9,174**	**9,355**	**9,866**	**7.5%**	**5.5%**	**37,393**	**40,422**	**8.1%**
Selling & overhead expenses	-1,433	-1,298	-1,462	2.0%	12.6%	-6,110	-6,555	7.3%
General & admin Exp.	-1,537	-1,713	-1,717	11.7%	0.2%	-6,204	-7,065	13.9%
EBITDA	**6,204**	**6,343**	**6,687**	**7.8%**	**5.4%**	**25,079**	**26,803**	**6.9%**
Depreciation & Amortization	-2,485	-2,613	-2,631	5.9%	0.7%	-9,990	-10,525	5.4%
Operating profit (EBIT)	**3,720**	**3,731**	**4,056**	**9.0%**	**8.7%**	**15,088**	**16,278**	**7.9%**
Other income/(expenses)	-464	-340	-229	-50.7%	-32.8%	-1,524	-1,109	-27.3%
Finance Income	114	360	219	92.8%	-39.0%	602	1,022	69.6%
Financial charges	-174	-238	-238	36.8%	-0.4%	-697	-927	33.0%
Profit before zakat	**3,196**	**3,512**	**3,809**	**19.2%**	**8.5%**	**13,470**	**15,264**	**13.3%**
Zakat	-281	-377	-305	8.4%	-19.2%	-1,083	-1,244	14.9%
Profit before NCI	**2,915**	**3,135**	**3,504**	**20.2%**	**11.8%**	**12,387**	**14,020**	**13.2%**
NCI	77	26	41	NM	57.6%	216	165	-23.7%
Profit attributable	**2,837**	**3,109**	**3,463**	**22.0%**	**11.4%**	**12,171**	**13,855**	**13.8%**

FABS estimate & Co Data

STC- Margins

	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Gross profit	54.2%	51.5%	54.0%	-16	254	55.5%	55.5%	5
EBITDA	36.6%	34.9%	36.6%	-3	171	37.2%	36.8%	-39
Operating profit	22.0%	20.5%	22.2%	24	168	22.4%	22.3%	-3
Net profit	16.8%	17.1%	19.0%	220	185	18.0%	19.0%	97

FABS estimate & Co Data

2Q23 preview: Telecom Egypt

Strong topline growth and cost-saving to drive profit

CMP (EGP): 24.43 Potential gain/(downside) (%): +31.0%	12-m target price: **EGP 32.00**	Stock rating: **BUY**

2Q23 Estimate

Telecom Egypt (ETEL) is expected to report a 12.9% YOY decline in net profit to EGP 2,104 Mn in 2Q23 mainly driven by a decline in other operating income, income from associates along with an increase in operating expenses and higher finance cost partially offset by a healthy growth in revenue and lower tax expense. Telecom Egypt's revenue is expected to increase 11.3% YOY to EGP 12,223 Mn in 2Q23 driven by a healthy growth estimated in retail as well as wholesale segment revenue and increase in customer base. On the other hand, operating cost is anticipated to increase 16.5% YOY to EGP 7,334 Mn in 2Q23. Thus, gross profit is expected to increase 4.3% YOY to EGP 4,889 Mn in 2Q23. Selling and overhead expenses are anticipated to grow 10.5% YOY to EGP 2,163 Mn in 2Q23 whereas net other operating income is expected to decline significantly from EGP 325 Mn in 2Q22 to EGP 43 Mn in 2Q23. As a result, operating profit is estimated to decline 9.3% YOY to EGP 2,769 Mn in 2Q23 while EBITDA is predicted to grow marginally 1.7% YOY to EGP 4,560 Mn in 2Q23. Furthermore, net finance cost is estimated to increase substantially from EGP 564 Mn in 2Q22 to EGP 992 Mn in 2Q23 due to higher benchmark rates. Zakat expenses are expected to decline 57.2% YOY to EGP 343 Mn in 2Q23.

2023 Forecast

We forecast Telecom Egypt's net profit to increase 12.2% YOY to EGP 10,299 Mn in 2023 attributable to a strong growth expected in revenue and income from associates along with a decline in zakat expenses partially offset by a hike in operating expenses and higher finance cost. The Company's revenue is expected to increase 15.7% YOY to EGP 51,229 Mn in 2023 whereas operating cost is expected to increase 15.1% YOY to EGP 29,969 Mn. Thus, gross profit is anticipated to increase 16.6% YOY to EGP 21,260 Mn in 2023. Selling and overhead expenses are expected to grow 9.6% YOY to EGP 8,863 Mn in 2023. The Company is expected to record other operating income worth EGP 26 Mn in 2023 as compared to a loss of 115 Mn in 2022. As a result, EBITDA is expected to grow 14.5% YOY to EGP 19,588 Mn in 2023. Furthermore, income from associates is anticipated to increase 10.0% YOY to EGP 2,965 Mn in 2023 while net finance cost is expected to increase significantly from EGP 2,078 Mn in 2022 to EGP 3,967 Mn in 2023 due to higher benchmark rates. Zakat charges are expected to decline 23.8% YOY to EGP 1,118 Mn in 2023.

1Q23 Outturn

Telecom Egypt recorded revenue growth of 48.2% YOY to EGP 13,959 Mn in 1Q23 mainly driven by a solid growth across all segments. Revenue from Home & Consumer Services rose 17.2% YOY to EGP 5,864 Mn in 1Q23 due to an increase in data and voice operations coupled with a growth in the subscriber base and healthy ARPU. Revenue from the Enterprise Solutions business rose 42.9% YOY to EGP 1,689 Mn in 1Q23. Furthermore, the voice subscriber base rose 5.0% YOY to 11.7 Mn in 1Q23 while the data customer base inclined 7.0% YOY to 8.9 Mn. Wholesale segment revenues recorded solid growth owing to USD appreciation against EGP, and higher international traffic. Revenue from the Domestic Wholesale segment reported robust growth of 82.8% YOY driven by one-off revenue from Indefeasible Right of Use (IRU). International carrier business also reported strong growth of 76.7% YOY to EGP 1,828 Mn in 1Q23 due to the higher international incoming traffic and USD appreciation against EGP. While International Customers and Networks reported revenue more than doubled to EGP 2,022 Mn in 1Q23 as compared to EGP 797 Mn in 1Q22 due to the higher IRU capacity sales to tech giants and ancillary services. On the other hand, Operating costs rose 34.4% YOY to EGP 7,785 Mn in 1Q23 driven by growth in interconnection call cost, D&A expenses, and salaries & wages partially offset by a decline in operating cost. Thus, gross profit rose significantly 70.2% YOY to EGP 6,174 Mn in 1Q23 with a margin expansion of 571 bps YOY to 44.2% in 1Q23. Selling and overhead expenses rose 21.9% YOY to EGP 2,186 Mn in 1Q23 due to an increase in salaries & wages and agents' commissions partially offset by a decline in other expenses. Other operating income declined from EGP 31 Mn in 1Q22 to an expense of EGP 54 Mn in 1Q23. As a result, operating profit rose from EGP 1,865 Mn in 1Q22 to EGP 3,933 Mn in 1Q23. The Company's EBITDA rose significantly 68.8% YOY to EGP 6,040 Mn in 1Q23 with an improved EBITDA margin of 43.3% in 1Q23 as compared to 38.0% in 1Q22. Share of profit from associates rose from EGP 317 Mn in 1Q22 to EGP 894 Mn in 1Q23 and excluding the FX loss related to revaluation obligation in 1Q22 income rose 82% YOY to EGP 894 Mn in 1Q23. Net finance cost increased significantly from EGP 309 Mn in 1Q22 to EGP 1,029 Mn in 1Q23 mainly due to a rise in net interest expense owing devaluation of the local currency. The Company recorded a tax reversal of EGP 15 Mn in 1Q23 as compared to an income tax expense of EGP 506 Mn in 1Q22 supporting the profitability. Resultantly, the Company's net profit rose significantly from EGP 1,366 Mn in 1Q22 to EGP 3,813 Mn in 1Q23.

Target price and recommendation

We maintain our BUY rating on Telecom Egypt with a target price of EGP 32.00. The Company's total revenue recorded a robust growth of 48.2% YOY to EGP 14.0 Bn in 1Q23 is mainly driven by strong growth in wholesale revenue supported by robust IRU sales in the local and international markets. Revenue from the wholesale segment grew 98% YOY owing to the higher revenue growth in the transmission and infrastructure segment. Revenue of the mobile segment grew 19% YOY as the Company is focused on expanding its customer base across all fronts and reported 5% and 7% growth in fixed voice and broadband segment subscribers respectively. Mobile customers increased 22% YOY to 12.4 Mn in 1Q23. Similarly, the retail segment revenue grew 22% YOY to EGP 7.6 Bn due to the higher customer base and healthy ARPU trends. Meanwhile, Telecom Egypt EBITDA rose 68.8% YOY to EGP 6.0 Bn in 1Q23 with an improved EBITDA margin of 43.3% in 1Q23 as compared to 38.0% in 1Q22 owing to the strong revenue growth across all segments, cost saving, and new national roaming agreement assisting in reducing the inflationary expenses seen across other items. Moreover, the Company's revenue is growing in line with its 2023 expectation of double-digit growth. Recently, the Company announced that the National Telecom Regulatory Authority (NTRA) accepted the proposal of the financial and technical offer, which will add 5MHz of spectrum in the 1800 MHz band using FDD technology leading to an improvement in its service quality which will allow it to expand its customer base. Furthermore, Telecom Egypt successfully completed the landing of the 2Africa subsea cable and mark the second and final 2Africa landing in Egypt, further enhancing its value proposition. The Company's capex is expected to decline during 2023 which will result in a significant growth in free cash flow in the forthcoming period. Hence, based on our analysis we maintain a BUY rating for the stock.

Telecom Egypt –Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	16.29	11.63	10.58	5.63	4.54	4.05
P/B (x)	1.29	1.18	1.08	0.94	0.90	0.85
EV / EBITDA	9.31	9.73	5.39	3.85	3.84	3.61
Dividend yield	1.0%	1.0%	3.1%	4.1%	5.1%	5.3%

Telecom Egypt-P&L

EGP mm	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Operating Revenue	10,984	13,959	12,223	11.3%	-12.4%	44,273	51,229	15.7%
Operating costs	-6,297	-7,785	-7,334	16.5%	-5.8%	-26,038	-29,969	15.1%
Gross profit	**4,688**	**6,174**	**4,889**	**4.3%**	**-20.8%**	**18,235**	**21,260**	**16.6%**
Selling & overhead expenses	-1,958	-2,186	-2,163	10.5%	-1.0%	-8,083	-8,863	9.6%
Net operating revenue (others)	325	-54	43	-86.8%	NM	-115	26	-123.0%
Operating profit	**3,054**	**3,933**	**2,769**	**-9.3%**	**-29.6%**	**10,037**	**12,424**	**23.8%**
EBITDA	**4,482**	**6,040**	**4,560**	**1.7%**	**-24.5%**	**17,102**	**19,588**	**14.5%**
Income from Associates	727	894	671	-7.8%	-25.0%	2,695	2,965	10.0%
Net Finance income/(cost)	-564	-1,029	-992	75.8%	-3.6%	-2,078	-3,967	90.9%
Profit before zakat	**3,217**	**3,799**	**2,447**	**-23.9%**	**-35.6%**	**10,655**	**11,422**	**7.2%**
Zakat	-801	15	-343	-57.2%	NM	-1,467	-1,118	-23.8%
Profit before N-C interests	**2,416**	**3,814**	**2,105**	**-12.9%**	**-44.8%**	**9,187**	**10,303**	**12.1%**
Non-controlling interests	-1	0	0	NM	0.0%	-5	-4	-18.0%
Profit attributable	**2,415**	**3,813**	**2,104**	**-12.9%**	**-44.8%**	**9,182**	**10,299**	**12.2%**

FABS estimate & Co Data

Telecom Egypt - Margins

	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	42.7%	44.2%	40.0%	-268	-423	41.2%	41.5%	31
EBITDA	40.8%	43.3%	37.3%	-350	-597	38.6%	38.2%	-39
Operating profit	27.8%	28.2%	22.7%	-515	-553	22.7%	24.3%	158
Net profit	22.0%	27.3%	17.2%	-477	-1010	20.7%	20.1%	-64

FABS estimate & Co Data

2Q23 preview: Emirates Integrated Telecommunications

Strong subscriber growth to boost profitability

12-m target price:	Stock rating:
AED 7.40	**BUY**

CMP(AED):5.42
Potential upside/(downside) (%): +36.5%

2Q23 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to increase 31.9% YOY to AED 3,376 Mn in 2Q23 driven by a healthy growth expected in revenue and a decline in marketing expenses partially offset by an increase in cost, higher ECL, and a rise in federal royalty. DU's revenue is expected to increase 7.6% YOY to AED 3,376 Mn in 2Q23. The Company's cost is anticipated to rise 4.4% YOY to AED 1,857 Mn in 2Q23 while marketing expenses are estimated to decline 6.3%YOY to AED 47 Mn in 2Q23. As a result, EBITDA is expected to increase 12.5% YOY to AED 1,425 Mn in 2Q23. Thus, EBITDA margin will increase from 40.4% in 2Q22 to 42.2% in 2Q23. Depreciation and amortization expense is anticipated to increase 5.6% YOY to AED 543 Mn in 2Q23. Thus, operating profit is likely to grow 17.1% YOY to AED 882 Mn in 2Q23. Operating profit margin is expected to grow 212 bps YOY to 26.1% Net finance expense is expected to decline from AED 19 Mn in 2Q22 to AED 10 Mn in 2Q23. Federal Royalty is expected to increase 10.0% YOY to AED 473 Mn in 2Q23.

2023 Forecast

DU's net profit is expected to increase 23.3% YOY to AED 1,503 Mn in 2023. Revenue is expected to grow 7.4% YOY to AED 13,693 Mn in 2023 while cost is expected to increase 5.6% YOY to AED 7,599 Mn in 2023. Marketing expenses are anticipated to increase marginally 0.2% YOY to AED 246 Mn in 2023 while ECL is estimated to increase 7.4% YOY to AED 186 Mn in 2023. Thus, EBITDA is expected to increase 10.1% YOY to AED 5,660 Mn in 2023. Depreciation and amortization expense is anticipated to rise 2.8% YOY to AED 2,170 Mn in 2023. Thus, operating profit is likely to grow 15.2% YOY to AED 3,490 Mn in 2023. The operating profit margin will grow to 25.5% in 2023 as compared to 23.7% in 2022. Net finance expense is expected to increase 17.3% YOY to AED 70 Mn in 2023. Federal royalty is expected to increase 9.9% YOY to AED 1,917 Mn in 2023.

1Q23 Outturn

DU's revenue grew 10.0% YOY to AED 3,441 Mn in 1Q23 driven by the healthy performance of the service and other revenues. The robust performance of the mobile and fixed services revenue drives services revenue. Growth in mobile segment revenue is attributable to healthy growth in post-paid and prepaid services. The post-paid segment added new customers for the seventh consecutive quarter with net additions of 48,000 to 1.5 Mn customers in 1Q23 due to the popularity of unlimited non-stop data plans and constant demand from the enterprise sector. Whereas, the prepaid segment also grew with a total customer base of 6.7 Mn owing to the attractiveness of Flexi plans and higher tourist flow. DU mobile customer base increased 9.4% YOY to 8.2 Mn subscribers. Thus, mobile services revenue rose 9.5% YOY AED 1,773 Mn in 1Q23. Fixed service revenues jumped 14.8% YOY to AED 936 Mn due to sustained demand from enterprise customers and retail consumers. Consumer broadband remains extremely attractive with 554,000 subscribers following the additions of 18,000 subscribers in 1Q23. Overall, service revenues rise 9.5% YOY to AED 2,427 Mn. Other revenues grew by 11.2% YOY to AED 1,014 Mn, primarily due to the recovery in handset sales and sustained growth of the ICT unit. Handset revenues grew 30.4% YOY to AED 282 Mn due to an improved supply chain and higher availability of smartphones. The Company's EBITDA increased 7.7% YOY to AED 1,366 Mn, driven by higher service revenues partially offset by a marginal increase in network expenses, increased spectrum costs from network expansion and increased usage of 5G, and normalization of provisions for impairment on trade receivables. EBITDA margin rose from 40.6% in 1Q22 to 39.7% in 1Q23. Depreciation and amortization expenses remained flat at AED 513 Mn in 1Q23. The net finance cost declined from AED 15 Mn in 1Q22 to AED 4 Mn in 1Q23 mainly due to debt repayment. Moreover, DU's federal royalty rose 12.2% YOY from AED 473 Mn in 1Q23.

Target price and rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company continues to record strong growth in its subscriber base across mobile and broadband. The postpaid segment recorded customer addition for the seventh consecutive quarter, leading to strong growth in this segment's revenue due to attractive plans offered. Solid travel and tourism growth and a rising population will further aid subscriber growth. The mobile subscriber grew 9.4% YOY to 8.2 Mn in 1Q23 with a postpaid and prepaid subscriber base of 1.5 Mn and 6.7 Mn, respectively in 1Q23. The broadband segment also added 18,000 customers during 1Q23 with a total customer base of 554,000. The Company experienced healthy growth in its top line and gross margin benefitted due to a solid revenue growth. EBITDA margins contracted in 1Q23 due to higher network expense, spectrum cost, and normalization of impairment on trade receivables. Margins declined 86 bps YOY and improved 39 bps QOQ to 39.7% in 1Q23. The Company also managed to generate AED 1,029.7 Mn in cash flow from operation in 1Q23 marginally lower than AED 1,046.4 Mn in 1Q22 due to investment in working capital. DU boasts a healthy balance sheet position with a cash balance of AED 1.9 Bn in 1Q23. The cash generation ability is further expected to boost as the 5G coverage almost covers 94% of the population. Considering all these factors, we assign a BUY rating on the stock.

DU – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	14.0	14.2	17.0	22.3	20.1	16.3
P/B (x)	2.9	2.8	2.9	2.9	2.8	2.8
EV/EBITDA	4.1	3.9	5.0	5.1	4.5	4.0
Dividend yield	6.5%	6.3%	5.2%	3.9%	4.4%	4.6%

FABS Estimates & Co Data

DU - P&L

AED mm	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,137	3,441	3,435	9.5%	-0.2%	12,754	13,693	7.4%
Costs (ex D&A, marketing exp)	-1,779	-1,953	-1,889	6.2%	-3.3%	-7,194	-7,599	5.6%
Marketing expense	-50	-53	-48	-4.7%	-8.5%	-246	-246	0.2%
Expected Credit Loss	-40	-69	-48	19.2%	-30.1%	-174	-186	7.4%
EBITDA	**1,267**	**1,366**	**1,450**	**14.4%**	**6.1%**	**5,141**	**5,660**	10.1%
D&A & Impairment	-514	-513	-543	5.6%	5.8%	-2,112	-2,170	2.8%
Operating profit	**753**	**853**	**907**	**20.4%**	**6.4%**	**3,029**	**3,490**	15.2%
Financing income/expense	-19	-4	-10	-45.2%	190.6%	-59	-70	17.3%
share of profit of investments	-2	-1	0	NM	NM	-8	0	NM
Gain on disposal of investment	0	0	0	NM	NM	0	0	NM
Pre-royalty profit	**732**	**849**	**897**	**22.4%**	**5.7%**	**2,963**	**3,420**	15.4%
Federal Royalty	-430	-478	-481	11.9%	0.6%	-1,744	-1,917	9.9%
Net profit	**303**	**370**	**416**	**37.3%**	**12.2%**	**1,220**	**1,503**	**23.3%**

FABS estimate & Co Data

DU - Margins

	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	43.3%	43.2%	45.0%	172	177	43.6%	44.5%	90
EBITDA	40.4%	39.7%	42.2%	182	289	40.3%	41.3%	103
Operating profit	24.0%	24.8%	26.4%	240	162	23.7%	25.5%	174
Net Profit	9.7%	10.8%	12.1%	245	134	9.6%	11.0%	142

FABS estimate & Co Data

2Q23 preview: Al Yah Satellite Communications Co

Contracted revenue provides revenue visibility

CMP(AED):2.65
Potential upside (%): +32.1%

12-m target price:	Stock rating:
AED 3.50	**BUY**

2Q23 Estimate

Al Yah Satellite Communications (Al Yahsat/the group) Net profit is expected to grow 12.4% YOY to USD 28.4 Mn in 2Q23. The growth in net profit is driven by a growth in gross profit and a positive net finance income partially offset by a hike in operating expenses. The Company's revenue is forecasted to grow 1.6% YOY to 108.6 Mn in 2Q23. Al Yahsat is expected to enhance its revenue growth, driven by the expansion of its operating segment, strategic expansion initiatives, and consistent income from various contracts with the UAE government. The group's cost of revenue is expected to decline 16.5% YOY to USD 9.8 Mn in 2Q23. As a result, gross profit is expected to grow 3.8% YOY to 98.9 Mn in 2Q23. Administrative expenses are anticipated to grow 8.1% YOY to USD 34.4 Mn in 2Q23. On the other hand, other income is expected to grow 42.6% YOY to USD 0.8 Mn in 2Q23. Thus, EBITDA is forecasted to grow 2.0% YOY to USD 65.2 Mn in 2Q23. Depreciation expenses are expected to increase 3.6% YOY to USD 37.3 Mn in 2Q23. As a result, operating profit is likely to increase 2.8% YOY to USD 27.9 Mn in 2Q23. Furthermore, the net finance cost is anticipated to turn positive to USD 1.7 Mn in 2Q23 as compared to a negative 1.4 Mn in 1Q22. Share of associate and joint venture is expected to reach USD 2.3 Mn in 2Q23 whereas income tax charges are estimated to reach USD 0.8 Mn in 2Q23 from USD 0.4 Mn in 2Q22. Share of loss attributed to non-controlling interest holders is anticipated to decrease 26.8% to USD 1.2 Mn in 2Q23.

2023 Forecast

Al Yahsat is expected to record a 69.6% growth in net profit to USD 111.2 Mn in 2023 driven by expected marginal growth in revenue and an expected significant rise in net finance income partially offset by an estimated hike in operating expenses. The group's revenue is expected to grow 2.1% to USD 441.8 Mn in 2023. Consequently, the cost of revenue is estimated to increase 3.4% to USD 49.9 Mn in 2023, resulting in a 2.0% YOY growth in gross profit to USD 391.8 Mn. Administrative expenses are expected to rise 4.4% to USD 136.2 Mn in 2023 due to an expected hike in staff costs and other operating expenses. Other income is anticipated to decline 20.4% to USD 3.1 Mn in 2023. Thus, EBITDA is estimated to grow marginally 0.4% to USD 258.8 Mn in 2023. Depreciation charges are estimated to increase marginally 3.3% to USD 149.2 Mn in 2023. As a result, operating income is expected to decline 4.6% to USD 109.5 Mn in 2023. Furthermore, the net finance cost is anticipated to turn positive to USD 5.7 Mn in 2023 as compared to a negative 1.1 Mn in 2022. The share of associates and joint ventures is expected to reach USD 9.1 Mn in 2023. Income tax charges are estimated to increase from USD 0.2 Mn in 2022 to USD 0.3 Mn in 2023, while NCI is expected to remain stable at USD 5.3 Mn in 2023.

1Q23 Outturn

YAHSAT revenue grew 1.7% YOY to USD 100.4 Mn in 1Q23. The rise in revenue was primarily due to an increase in Managed Solutions further supported by a growth in Data Solutions Segment somewhat offset by a decrease in Mobility solutions revenue. The infrastructure segment accounts for 60.0% of the total revenue and rose 1.1% YOY to USD 60.1 Mn in 1Q23. Managed Solutions which account for the Company's 19.0% revenue grew substantially 28.7% YOY to USD 19.5 Mn in 1Q23. Furthermore, Data solution revenue rose 5.9% YOY to USD 6.1 Mn in 1Q23. While the Mobility Solution declined 20.0% YOY to USD 14.8 Mn in 1Q23 mainly due to the phasing of equipment sales. Cost of revenue declined significantly from USD 10.1 Mn in 1Q22 to USD 6.9 Mn in 1Q23. As a result, gross profit grew 5.4% YOY to USD 93.4 Mn in 1Q23 with an increase in gross profit margin from 89.8% in 1Q22 to 93.1% in 1Q23. Administrative expenses rose 8.2% YOY to USD 33.6 Mn in 1Q23. Other income rose significantly from USD 0.5 Mn in 1Q22 to USD 0.8 Mn in 1Q23. EBITDA grew from USD 58.1 Mn in 1Q22 to USD 60.6 Mn in 1Q23 with an increase in EBITDA margin from 58.9% in 1Q22 to 60.4% in 1Q23 mainly due to a decline in cost of revenue and an increase in other income. Operating profit also grew 12.3% YOY to USD 24.9 Mn in 1Q23. Net finance cost reached a positive USD 3.2 Mn in 1Q23 as compared to a negative USD 0.7 Mn in 1Q22 mainly due to higher finance income. Loss from share of equity investments declined from USD 2.9 Mn in 1Q22 to USD 2.3 Mn in 1Q23. Income tax expense rose from USD 34 Mn in 1Q22 to USD 52 Mn in 1Q23. Loss attributable to non-controlling interest holders declined from USD 1.5 Mn in 1Q22 to USD 1.2 Mn in 1Q23 supporting profitability.

Target price and rating

We maintain our 'BUY' rating on Al Yahsat with an unchanged target price of AED 3.50. Al Yahsat delivered a strong performance owing to a rise in revenue and EBITDA. The growth in revenue is primarily attributed to the strong growth of the Managed Solution segment, which recorded a 29.0% YOY increase in 1Q23. Additionally, Data Solution and Infrastructure segment also contributed to this positive trend. Looking ahead, the Company anticipates a mid-single digit growth in revenue, largely driven by the anticipated strong performance of its commercial segments, which constitute a significant portion of the Company's total revenue. In addition, the contracted future revenue which is equivalent to the Company's 4.4x of last twelve-month value of USD 1.9 Bn in 1Q23 provides revenue visibility. This contracted future revenue provides a high level of revenue visibility for the Company, ensuring stability and predictability in its financial outlook. Al Yahsat further aims to diversify its commercial business in value-added SatCom solutions which will further offer differentiated satellite solutions and services to strategic industries e.g., maritime, oil and gas, and telecom. 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. The Company is working on direct satellite-to-device connectivity offers the opportunity to reach billions of mainstream devices and is attracting significant interest from phone manufacturers and telecom operators in the future. Al Yahsat also maintained a robust balance sheet with a strong cash position, long-term future cash flows and negative net debt. Net Debt to capital gearing stood at 0.1% as of 1Q23. The Company also maintained a solid liquidity of USD 622 Mn as of 1Q23 which will enable it to support inorganic growth. Al Yahsat incurred a total capex of USD 31 Mn in 1Q23 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 6.1% in 2023. Thus, based on our analysis, we assign a 'BUY' rating to the stock.

Al Yahsat – Relative Valuation

(at CMP)	2020	2021	2022	2023F
P/E (x)	NA	25.25	26.87	15.84
P/B (x)	NA	2.09	2.07	2.06
EV/EBITDA	NA	8.19	7.05	7.02
Dividend yield	NA	6.0%	6.1%	6.1%

FABS Estimates & Co Data

Note - *Since the Company was listed on 27 Oct 2021 hence valuation multiples for 2020 are not included

Al Yahsat - P&L

(USD'000)	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	**106,872**	**100,355**	**108,592**	**1.6%**	**8.2%**	**432,540**	**441,754**	**2.1%**
Cost of revenue	-11,704	-6,911	-9,773	-16.5%	41.4%	-48,296	-49,918	3.4%
Gross Profit	**95,168**	**93,444**	**98,818**	**3.8%**	**5.8%**	**384,244**	**391,836**	**2.0%**
Administrative Expenses	-31,819	-33,609	-34,402	8.1%	2.4%	-130,448	-136,160	4.4%
Other Income	533	780	760	42.6%	-2.5%	3,884	3,092	-20.4%
EBITDA	**63,882**	**60,615**	**65,177**	**2.0%**	**7.5%**	**257,680**	**258,768**	**0.4%**
Depreciation	-35,999	-35,668	-37,311	3.6%	4.6%	-144,471	-149,244	3.3%
Operating Profit	**28,683**	**24,947**	**27,866**	**-2.8%**	**11.7%**	**114,793**	**109,524**	**-4.6%**
Net Finance Cost	-1,395	3,220	1,670	NM	-48.1%	-1,098	5,736	NM
Share of results	-3,668	-2,278	-2,278	-37.9%	0.0%	-53,303	-9,062	-83.0%
Income Tax	-38	-52	-82	115.2%	57.3%	-175	-319	82.1%
Profit before NCI	**23,582**	**25,837**	**27,176**	**15.2%**	**5.2%**	**60,217**	**105,880**	**75.8%**
NCI	-1,687	-1,235	-1,235	-26.8%	0.0%	-5,347	-5,347	0.0%
Net Profit	**25,269**	**27,072**	**28,411**	**12.4%**	**4.9%**	**65,564**	**111,227**	**69.6%**

FABS Estimate & Co. Data

Al Yahsat - Margins

	2Q22	1Q23	2Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	89.0%	93.1%	91.0%	195	-211	88.8%	88.7%	-13
EBITDA	59.8%	60.4%	60.0%	25	-38	59.6%	58.6%	-100
Operating profit	26.8%	24.9%	25.7%	-118	80	26.5%	24.8%	-175
Net profit	23.6%	27.0%	26.2%	252	-81	15.2%	25.2%	1,002

FABS estimate & Co Data

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