

Telecom Sector – December 2022

Steady growth in core business and investment in new business domain to drive valuation

Sector Weighting:
MARKET WEIGHT
Preview Note 4Q 2022

MENA Telecommunication

Etisalat and DU are the two major telecom operators that continue to control the majority market share with a mobile subscriber base of 19.1 Mn in UAE. Etisalat's mobile subscribers amounted to 11.7 Mn whereas DU's held mobile subscribers of 7.4 Mn in 3Q22. The telecom companies plans to enter into new business domain to maximize benefit from the digital investment. Etisalat (e&) entered into a binding agreement with Bepin Global to form a joint venture. This will support Etisalat's strategic objective of expanding the e& enterprise vertical along with a strong local market presence by enhancing its digital capabilities. Etisalat group increased its equity stake to 12.0% in Vodafone Group to diversify away from the GCC region. Furthermore, Etisalat's subsidiary E-vision with ADQ acquired 57% stake in StARZPLAY ARABIA, a Subscription Video On Demand (SVOD) and streaming service provider in the MENA region. Etisalat and AlEskan Al Jamae, a real estate development and management firm, also formed a new joint venture to provide enhanced Wi-Fi service and a digital experience for workers. According to Etisalat's guidance for FY2022, the company expects low-to-mid single-digit revenue growth, improved EPS and profitability margins, and lower Capex resulting in higher FCF. In the UAE, DU, Nokia, and MediaTek combined three 5G TDD carriers to reach the greatest throughputs ever. It will allow DU to offer high-speed internet access to UAE citizens through a range of 5G products, including its 'Home Wireless' service. The developments mentioned above are expected to benefit from digitalization, the Internet of Things (IoT), and big data developments.

There has been a considerable increase in the penetration of both fixed and mobile in KSA during the last few quarters. The number of mobile subscribers reached 55 Mn, with a penetration rate of nearly 157%, which is greater than the four-year average of 135%. Saudi Arabia's leading telecom operators are STC, Mobily, and Zain. The recent tower deal of Zain KSA with the Public Investment Fund (PIF) is expected to strengthen KSA's telecom infrastructure and financial position. Zain Group in Iraq entered into a 15-year agreement to sell and leaseback a portfolio of 4,968-tower portfolio to TASC Towers Iraq for USD 180 Mn. Zain KSA is expected to receive a proceed of SAR 3.02 Bn (USD 803.5 Mn). So far, it transferred 3,000 of the 8,089 tower assets. STC signed a non-binding agreement with Public Investment Fund (PIF) to acquire 51% stake in TAWAL for a consideration of SAR 21.9 Bn. Once this transaction is concluded the company is likely to pay special dividend which will boost shareholders return. STC group is the leading service provider in KSA, achieving success in various sectors, including 5G network, artificial intelligence, data analysis, the Internet of Things, and cybersecurity. STC deployed 7,247 5G towers as of 3Q22. STC developed its 5G infrastructure capabilities by utilizing a new additional 5G spectrum to become the first operator in MENA Region to enable 5G Carrier aggregation technologies. This is expected to increase the 5G network capacity up to 60% and also improve download speeds for consumers.

Egypt's total population amounted to 103.5 Mn with 61% of the population below the age of 30 years. The country benefits from favourable demographics as 74% of the population is literate whereas, the country experiences a low unemployment rate of 7.3% in FY2021-22. The telecom players are expected to benefit from lower data penetration stood at 73% in 1H22. Egypt's telecommunications industry saw a number of significant developments in recent years. The sector saw rapid development in terms of both revenues and subscribers in the mobile and Internet segment, while the fixed line segment recorded slow growth. Telecom Egypt signed a commercial agreement with Orange Egypt for national roaming services. The five-year arrangement, which continues till the end of 2027, will ensure that Telecom Egypt continues to offer its customers with high-quality voice and data mobile network

coverage across the country. Egypt's government is undertaking several investments, capacity-building and training programs, and infrastructure improvements. Along with this, the Ministry of Communication and Information Technology (MCIT) took initiative to train 100,000 young Egyptians for developing ICT skills. Thus, Egypt's telecom market is expected to positively benefit from telecom operators' robust infrastructure investments along with the government focus on the sector. Due to Egypt's strategic location, international cable infrastructure is a significant asset for the country. With a powerful cable network and an arrangement with local operators for a recurring revenue stream during the period, Telcom Egypt had multiple cables going across the world.

Etisalat by e& enters into a strategic partnership with AlEskan Al Jamae

Etisalat UAE (Etisalat by e&) formed a strategic partnership with AlEskan Al Jamae, a real estate development, and management company, to offer enhanced Wi-Fi service and a digital experience for workers in ICAD residential city. The agreement will provide end-to-end infrastructure for interconnecting Wi-Fi components. The digital infrastructure will provide reliable, high-speed, unlimited Wi-Fi access and solutions to over 58,000 workers and tenants.

Zain KSA completed the first phase of sale of tower assets to Saudi PIF for USD 803 Mn

Zain KSA completed the first phase of sale of tower assets to the Saudi's Public Investment Fund for SAR 3.02 Bn (USD 803.5 Mn). The agreement requires transfer of 8,089 towers to PIF led consortium, the Golden Lattice Investment Company (GLI). It transferred 3,000 out of the 8,089 tower assets by January 2023. The remaining towers will be transferred to GLI within 18 months of the deal completion. agreement states that all units will be transferred to GLI within 18 months after the financial completion. The asset sale was intended to reduce the company's reliance on capital expenditures and strengthen Zain KSA's financial position.

Zain Iraq completed the sale and leaseback of 4,968 towers

Zain Group in Iraq entered into a 15-year agreement to sell and leaseback of 4,968 towers to TASC Towers Iraq for USD 180 Mn. The agreement enables TASC Towers Iraq to extend its network and add additional tower sites around the country to meet the increasing demand for data connection in accordance with local market requirements, including an agreement to build 198 new sites over the next 12 months.

Etisalat UAE will form a JV with Bepin Global in South Korea

Etisalat (e&), UAE telecommunications company signed a binding agreement with Bepin Global, a multi-cloud solution provider in South Korea to form a joint venture (JV) with an initial capital of USD 10 Mn. Bepin Global will control 35% of the JV, which will be known as Bepin Global MEA, while e& enterprise will own the remaining 65%. Additionally, e& is committed to offer the JV a shareholder loan of USD 40 Mn to help finance the expansion.

Tawal acquires Saudi's KAEC telecommunication towers

Tawal, a leading provider of integrated ICT infrastructure in Saudi Arabia, and King Abdullah Economic City (KAEC) agreed to a strategic partnership under which Tawal would acquire all of the towers held by the KAEC as well as the In-Building Solutions (IBS). Tawal will manage and operate the assets for telecom service providers as part of the agreement, and it will also provide ICT infrastructure solutions. These solutions will increase the efficiency of KAEC's telecommunications network through the implementation of best practices and international standards.

Saudi telecom operator STC injects an additional USD 300 Mn into STV

Saudi Telecom Company (STC) announced an additional investment of USD 300 Mn in Saudi venture capital firm STV, followed by its prior investment of USD 500 Mn. STC expects MENA region will create 45 unicorn companies by 2030. The new funding will be used to further support STV's mission of

backing and scaling. The decision will provide STC an investment opportunity of USD 100 Bn, through the local initial public offerings.

Riyadh reported 93.6% 5G coverage in 3Q22

According to Saudi Arabia's Communications, Space and Technology Commission (CST), Riyadh reported an average internet download speed of 248 megabits per second (Mbps) in 3Q22, along with a total 5G coverage rate reaching 93.6%. With an average download speed of 283.5 Mbps, stc topped the list of telecom service providers in Riyadh. Mobily ranked second with a speed of 218.13 Mbps on average, while (Zain KSA) came in third with a speed of 206.85 Mbps. Zain topped the ranking in Riyadh for 5G coverage with an 89.9% coverage rate, followed by stc and Mobily at 81.7% and 74.2%, respectively.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahasat
Rating	HOLD	BUY	BUY	BUY	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	25.70	36.00	37.50	24.15	5.37	2.62
Target Price	25.00	43.00	54.00	32.00	7.40	3.50
Potential change (%)	-2.72%	19.44%	44.00%	32.51%	37.80%	33.59%

FABS Estimates & Co data

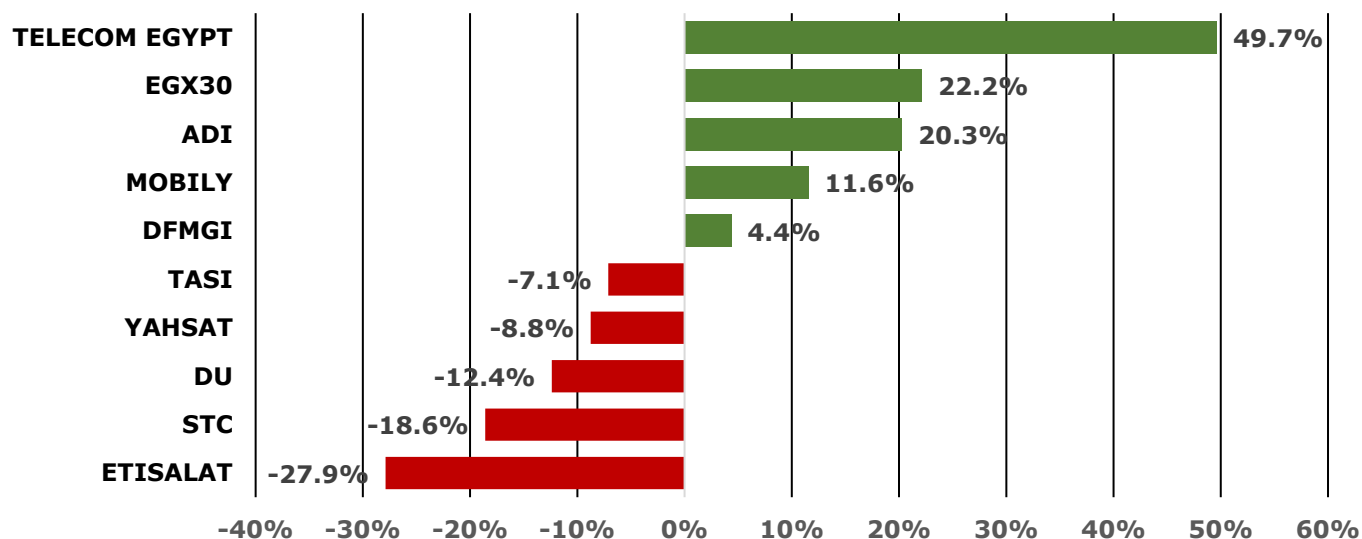
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Telecom stock performance in the YTD

Telecom Egypt is the best performance stock among the peer group in 2022 followed by Mobily. Etisalat is the worst performing stock among all of them. Telecom Egypt and Mobily are the only two stocks which generated positive return during 2022. Mobily generated 11.6% return, while Etisalat came in last with a decline of 27.9% in FY2022.

MENA Telecom Stock & Market Indices Performance in FY2022, ranked



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the **PE** falls between 28.23x (ALYAHSAT) and 4.90x (TELECOM EGYPT). The **EV/EBITDA** ranges from 11.47x (ETISALAT) and 3.32x (TELECOM EGYPT). ALYAHSAT expected 2022 **dividend yield** is the highest at 6.1% followed by STC at 4.8%. TELECOM EGYPT has the lowest **PB** multiple of 0.89x. MOBILY **Net Debt/EBITDA** stood at 1.28x.

Relative Valuation

	ETISALAT	MOBILY	STC	TELECOM EGYPT	DU	AL YAHASAT
CMP (LCY)	25.70	36.00	37.50	24.15	5.37	2.62
Number of shares (mm)	8,697	770	5,000	1,707	4,533	2,440
Market cap (LCY mm)	223,507	27,720	187,500	41,224	24,342	6,392
Market cap (US\$ mm)	60,901	7,392	50,000	1,390	6,633	1,742
Gross debt (LCY mm)	40,140	9,695	10,212	20,265	0	586
Cash (LCY mm)	26,024	2,008	14,808	2,350	941	631
Net debt/-cash (LCY mm)	14,116	7,687	-4,596	17,916	-941	-45
Non-controlling interest	7,447		2,698	12		72
EV	245,070	35,407	185,602	59,152	23,401	6,419
EBITDA (2022)	21,367	6,009	25,353	17,818	5,126	247
BVPS (2022)	5.61	20.40	14.67	27.17	1.87	0.34
EPS (2022)	1.13	1.87	2.48	4.93	0.28	0.03
DPS (2022)	0.80	1.00	1.80	1.00	0.25	0.04
EV/EBITDA (x)	11.47	5.89	7.32	3.32	4.57	7.07
P/BV (x)	4.58	1.76	2.56	0.89	2.87	2.13
PER (x)	22.65	19.25	15.12	4.90	19.18	28.23
Dividend yield	3.1%	2.8%	4.8%	4.1%	4.6%	6.1%
Payout ratio	70.5%	53.5%	72.6%	20.3%	89.3%	173.6%
Net debt/EBITDA (x)	0.66	1.28	-0.18	1.01	-0.18	-0.18

Source: FABS from Bloomberg

Market Weight:

With 5x BUYs and 1x HOLD we remain MARKET WEIGHT on MENA telecoms.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahasat
Rating	HOLD	BUY	BUY	BUY	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	25.70	36.00	37.50	24.15	5.37	2.62
Target Price	25.00	43.00	54.00	32.00	7.40	3.50
Potential change (%)	-2.72%	19.44%	44.00%	32.51%	37.80%	33.59%

FABS Estimates & Co data

4Q22 preview: Etisalat Group

Steady core business and revenue diversification to drive bottom line

CMP(AED):25.70

Potential upside/(downside) (%): -2.72%

12-m target price:

AED 25.00

Stock rating:

HOLD

4Q22 Estimate

Etisalat is estimated to report a 18.0% YOY increase in net profit to AED 2,519 Mn in 4Q22. The revenue is expected to decline 2.7% YOY to AED 13,247 Mn in 4Q22. The decrease in revenue is primarily due to the exchange rate volatility caused by global macroeconomic turbulence. While operating expenses are anticipated to decline 9.7% YOY to AED 8,284 Mn in 4Q22 as a result of the company's ongoing efforts to control and optimize costs to combat inflationary pressure. Thus, operating profit is anticipated to increase 22.1% YOY to AED 3,537 Mn in 4Q22. As a result, the EBITDA level is expected to grow 12.1% YOY to AED 5,699 Mn in 4Q22, with an EBITDA margin of 43.0% in 4Q22. Finance and other income is expected to grow 14.5% YOY to AED 503 Mn in 4Q22. The finance cost is likely to increase from AED 438 Mn in 4Q21 to AED 662 Mn in 4Q22. Tax expense is likely to increase 17.1% YOY to AED 414 Mn in 4Q22. Profit attributable to non-controlling interest is expected to increase to AED 445 Mn in 4Q22.

2022 Forecast

Etisalat is expected to report a 5.9% increase in net profit to AED 9,868 Mn in FY2022. The increase in net profit is likely to be driven by a decline in operating costs and impairment charges which is offset by an increase in finance and other costs. Total revenue is expected to decline marginally 1.5% to AED 52,547 Mn in FY2022 mainly due to the exchange rate volatility. While, the operating expenses are expected to decline 4.5% to AED 32,564 Mn in FY2022. Impairments charges are expected to decrease to AED 898 Mn in FY2022, as compared to AED 1,217 Mn in FY2021. EBITDA is expected to increase 1.8% to AED 21,367 Mn in FY2022 with an increase in EBITDA margin to 40.7% in FY2022 from 39.4% in FY2021. The company's federal royalty is likely to increase 6.4% to AED 5,899 Mn in FY2022. Resultantly, operating profit is expected to increase 5.8% YOY to AED 13,536 Mn in FY2022. Finance income is expected to grow 17.5% to AED 1,514 Mn in FY2022. While the finance cost is expected to significantly increase to AED 2,542 Mn in FY2022 as compared to AED 1,284 Mn in FY2021. Tax charges are expected to decline 2.3% to AED 1,704 Mn in FY2022. Profit attributable to non-controlling interest is expected to increase to AED 934 Mn in FY2022.

3Q22 outturn

EAND's net profit rose slightly 1.9% YOY to AED 2,484 Mn in 3Q22 mainly attributed to higher associate income, lower D&A expenses, partially offset by the impact of an increase in foreign exchange losses, net finance cost and other costs, and federal royalty charges. EAND's total revenue declined 2.4% YOY to AED 13.0 Bn in 3Q22. The decline was primarily due to the result of significant exchange rate volatility in the Egyptian Pound, Pakistani Rupee, and Moroccan Dirham as a result of global macroeconomic turmoil. This was partially offset by strong performance in the UAE as well as strong local currency growth in Etisalat Egypt, Maroc Telecom, and PTCL Group operations. Revenue from consolidated international operations declined 11.0% YOY to AED 5.1 Bn in 3Q22. Operating expenses fell 4.0% YOY to AED 8,021 Mn in 3Q22 owing primarily to the Company's ongoing efforts to control and optimize costs in order to offset inflationary pressure. Impairments loss on trade receivables and contract asset fell from AED 313 Mn in 3Q21 to AED 194 Mn in 3Q22. Share of profit from associates and JVs rose from AED 78 Mn in 3Q21 to AED 127 Mn in 3Q22 benefitting profitability. Furthermore, EBITDA declined marginally from AED 5,272 Mn in 3Q21 to AED 5,150 Mn in 3Q22 with a flat EBITDA margin of 39.7% in 3Q22. Federal royalty rose 9.0% YOY to AED 1,565 Mn in 3Q22. Operating profit increased 1.4% YOY to AED 6.7 Bn in 3Q22. Finance cost rose from AED 271 Mn in

3Q21 to AED 581 Mn in 3Q22 due to an increase in debt and benchmark rates. While finance income rose from AED 365 Mn in 3Q21 to AED 507 Mn in 3Q22. Income tax expense fell 7.4% YOY to AED 458 Mn in 3Q22. Share to non-controlling interest holders stood at AED 304 Mn in 3Q22 compared to AED 435 Mn in 3Q21.

Target price and recommendation

We maintain our HOLD rating on Etisalat with a target price of AED 25.00. EAND is focusing on diversifying its revenue streams from telecom business to other non-legacy offerings. It plans to implement this strategy through inorganic route and started to acquire and enter into JVs. EAND subsidiary E-Vision and ADQ (an Abu Dhabi-based investment holding firm) acquired 57% stake in STARZPLAY ARABIA. The acquisition will increase the revenue from the entertainment vertical. Recently, EAND entered into a JV with Bepin Global, a South Korean-based multi-cloud solution provider to offer cloud-managed and professional services in the Middle East, Turkey, Africa and Pakistan (METAP). This will benefit the company to diversify the revenue non-telecom business. In addition, in order to expand and diversify its operations globally, e& further increased its stake in Vodafone Group plc to 12.0% by January 2023. Furthermore, the company's aggregate subscriber base grew 4% YOY to 162 Mn in 3Q22, supported by a strong subscriber base from the UAE, which increased 11% YOY to 13.3 Mn in 3Q22. EAND held leading market share in the UAE, generating approximately 59% of revenue and 61% of EBITDA, and is well positioned due to limited competition. In addition, the company intends to increase its holding in Mobily from 28% to 50%, which in our view will positively impact the company. However, EAND operations in Africa and Pakistan continue to deteriorate as a result of adverse foreign exchange movements and regulatory changes. Based on the above factors, we assign a HOLD rating on the stock.

Etisalat - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F	2023F
P/E (x)	26.0	25.8	24.9	24.1	22.7	21.8
P/B (x)	5.0	4.8	4.6	4.7	4.6	4.6
EV / EBITDA	9.0	8.7	8.7	11.0	11.5	10.8
Dividend yield	3.1%	3.1%	4.7%	3.1%	3.1%	3.1%

FABS estimate and Co Data

Etisalat - P&L

AED mm	4Q21	3Q22	4Q22F	YOY	QOQ	2021	2022F	Change
Revenue	13,613	12,973	13,247	-2.7%	2.1%	53,342	52,547	-1.5%
Operating expenses	-9,025	-8,021	-8,147	-9.7%	1.6%	-34,081	-32,564	-4.5%
Impairment	-475	-194	-225	-52.6%	16.1%	-1,217	-895	-26.5%
Share of results of associates and JVs	89	127	119	33.5%	-6.1%	297	347	16.5%
Operating profit before federal royalty	4,201	4,885	4,994	18.9%	2.2%	18,341	19,435	6.0%
Federal royalty	-1,304	-1,565	-1,457	11.8%	-6.9%	-5,542	-5,899	6.4%
Operating profit	2,898	3,320	3,537	22.1%	6.5%	12,799	13,536	5.8%
EBITDA	5,084	5,150	5,699	12.1%	10.7%	20,995	21,367	1.8%
Finance and other income	439	507	503	14.5%	-0.8%	1,289	1,514	17.5%
Finance and other costs	-438	-581	-662	51.3%	13.9%	-1,284	-2,542	98.0%
Profit before tax	2,900	3,246	3,378	16.5%	4.1%	12,804	12,507	-2.3%
Income tax expenses	-354	-458	-414	17.1%	-9.6%	-1,745	-1,704	-2.3%
Profit for the period	2,547	2,788	2,964	16.4%	6.3%	11,059	10,803	-2.3%
Non-controlling interests	411	304	445	8.1%	46.3%	1,742	934	-46.4%
Net Profit Attributable to Owners	2,136	2,484	2,519	18.0%	1.4%	9,317	9,868	5.9%

FABS estimate & Co Data

Etisalat - Margins

	4Q21	3Q22	4Q22F	YOY	QOQ	2021	2022F	Change
EBITDA	37.3%	39.7%	43.0%	568	332	39.4%	40.7%	130
Operating profit	21.3%	25.6%	26.7%	541	111	24.0%	25.8%	176
Net Profit	15.7%	19.1%	19.0%	333	-13	17.5%	18.8%	131

FABS estimate & Co Data

4Q22 preview: Etihad Etisalat Company (Mobily)

Consistent revenue growth and deleveraging to drive valuation

CMP (SAR): 36.00

Potential upside/(downside) (%): +19.44%

12-m target price:

SAR 43.00

Stock rating:

BUY

4Q22 Estimate

Etihad Etisalat (Mobily) is expected to report a substantial 22.3% YOY increase in net profit to SAR 392 Mn in 4Q22, mainly due to an increase in revenues and a decline in operating expenses. Net revenue is expected to rise 4.5% YOY to SAR 4,072 Mn in 4Q22. The revenue growth is driven by consistent growth in wholesale, business, and consumer units along with an increase in the FTHH active and total subscriber base. While the cost of revenue is expected to marginally decrease 0.4% YOY to SAR 1,625 Mn in 4Q22. As a result, the gross profit is expected to grow 8.0% YOY to SAR 2,447 Mn in 4Q22, with a gross profit margin of 60.1% in 4Q22. Operating expenses are anticipated to decrease 2.7% YOY to SAR 859 Mn in 4Q22. EBITDA is estimated to grow 6.6% YOY to SAR 1,595 Mn in 4Q22, driven by the Company's topline performance and continuous operational efficiency initiatives. Total finance expense is expected to increase to SAR 160 Mn in 4Q22 up from SAR 125 Mn in 4Q21. Zakat expenses are expected to increase to SAR 24 Mn in 4Q22, as compared to SAR 22 Mn in 4Q21.

2022 Forecast

Mobily's net profit is expected to increase 34.7% YOY to SAR 1,443 Mn in FY2022. The increase in net profit is mainly driven by an expected increase in total revenue and a rise in EBITDA as a result of Mobily's ongoing growth momentum and operational efficiency measures. Total service revenue is anticipated to rise 5.2% YOY to SAR 15,610 Mn in FY2022 mainly led by estimated revenue increase in the Wholesale and Business segment. While, the cost of revenue is expected to rise from SAR 6,163 Mn in FY2021 to SAR 6,291 Mn in FY2022. Resultantly, gross profit is expected to increase 7.5% YOY to SAR 9,319 Mn in FY2022, with an increase of 124 bps in gross profit margin to 59.7% in FY2022. Operating expenses are likely to rise 8.6% YOY to SAR 3,202 Mn in FY2022, while impairment losses is anticipated to increase from SAR 143 Mn in FY2021 to SAR 137 Mn in FY2022. Thus, the operating profit is expected to rise 25.3% YOY to SAR 2,089 Mn in FY2022. EBITDA is forecasted to increase 7.4% YOY to SAR 6,009 Mn, with an expected increase in EBITDA margin from 37.7% in FY2021 to 38.5% in FY2022. Total finance cost is anticipated to increase to SAR 578 Mn in FY2022 from SAR 505 Mn in FY2021. Zakat expenses are expected to rise to SAR 100 Mn in FY2022.

3Q22 Outturn

Revenue rose 6.1% YOY to SAR 3,828 Mn in 3Q22 driven by a strong growth in the Wholesale unit and steady performance of consumer and business unit. This is further supported by an increase in FTHH active and total subscriber base. Direct cost grew recorded higher growth than top line from SAR 1,420 Mn in 3Q21 to SAR 1,527 Mn in 3Q22. As a result, gross profit increased 5.2% YOY to SAR 2,300 Mn in 3Q22. However, gross profit margin declined from 60.6% in 3Q21 to 60.1% in 3Q22. However, EBITDA rose 7.0% YOY to SAR 1,487 Mn in 3Q22 reflecting a resilient growth in revenues and efficiency in managing operations. As a result, the EBITDA margin improved to 38.8% in 3Q22 from 38.5% in 3Q21. Operating profit rose 26.1% YOY to SAR 534 Mn in 2Q22, owing to a rise in EBITDA. Impairment loss on accounts receivable significantly fell from SAR 80 Mn in 3Q21 to SAR 17 Mn in 3Q22. Finance expense rose 19.7% YOY to SAR 150 Mn in 3Q22 mainly due to an increase in interest rate. Zakat expenses stood at SAR 21 Mn in 3Q22 compared to SAR 18 Mn in 3Q21.

Target price and recommendation

We maintain our BUY rating on Mobily with a target price of SAR 43.00. Mobily's revenue increased significantly in 9M22 due to strong growth in the wholesale, consumer, and business units as well as an increase in the number of FTTH active and overall subscriber base. EBITDA also increased 7.7% YOY to 4,414 Mn in 9M22 mainly due to the resilient top-line performance with an EBITDA margin of 38.3% in 9M22. We further expect margins to improve owing to the company's operational efficiency and expected rise in revenue. Furthermore, Mobily's continued deleveraging strategy lowered its debt by more than SAR 1 Bn over the last nine months. Furthermore, the company is focusing on entering into new revenue streams across digital, information, and communications technology, and differentiating through innovative products and services. Mobily recently collaborated with Equinix and launched Equinix Internet Exchange to improve internet quality and speed. Mobily also received a license from SAMA for mobile payment marking its entry into the fintech space. By 2025, the KSA Central Bank intends to minimize reliance on cash and boost the percentage of electronic payment to 70%. This service offering is projected to increase Mobily's revenue. However, the Company's finance expense is expected to rise due to record interest rates which might pressurize profitability given higher debt balance. Considering all these factors, we maintain our BUY rating on the stock.

Mobily – Relative Valuation

(At CMP)	2018	2019	2020	2021	2022F	2023F
P/E (x)	NA	886.5	35.29	25.80	19.16	18.13
P/B (x)	1.99	2.01	1.91	1.82	1.76	1.76
EV / EBITDA	8.76	7.77	7.10	6.51	5.88	5.60
Dividend yield	NA	Na	1.4%	2.4%	2.8%	3.1%

FABS Estimates & Co Data

Mobily - P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
SAR mm								
Services revenues	3,897	3,828	4,072	4.5%	6.4%	14,834	15,610	5.2%
Cost of services	-1,631	-1,527	-1,625	-0.4%	6.4%	-6,163	-6,291	2.1%
Gross profit	2,267	2,300	2,447	8.0%	6.4%	8,672	9,319	7.5%
Selling and marketing expenses	-356	-390	-415	16.7%	6.5%	-1,390	-1,540	10.8%
General & administrative expenses	-527	-416	-444	-15.7%	6.6%	-1,560	-1,662	6.6%
Operating expenses	-883	-806	-859	-2.7%	6.5%	-2,950	-3,202	8.6%
Other income	7	10	7	-8.7%	-31.8%	15	30	94.9%
Depreciation and amortisation	-1,004	-953	-1,026	2.1%	7.6%	-3,927	-3,920	-0.2%
Impairment loss on acc receivable	105	-17	0	NM	NM	-143	-137	-3.8%
Operating Profit	492	534	569	15.6%	6.6%	1,668	2,089	25.3%
EBITDA	1,496	1,487	1,595	6.6%	7.3%	5,594	6,009	7.4%
Share in the loss of an associate	-19	1	0	NM	NM	-19	3	-114.2%
Finance expenses	-132	-150	-160	21.4%	6.5%	-505	-578	14.4%
Finance income	1	9	8	NM	-16.3%	5	29	454.5%
Profit before zakat	343	393	417	21.5%	5.9%	1,149	1,543	34.3%
Zakat	-22	-21	-24	10.0%	16.6%	-78	-100	29.0%
Profit attributable	321	373	392	22.3%	5.4%	1,072	1,443	34.7%

FABS estimate & Co Data

Mobily - Margins

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	58.2%	60.1%	60.1%	194	0	58.5%	59.7%	124
EBITDA	38.4%	38.8%	39.2%	77	32	37.7%	38.5%	78
Operating profit	12.6%	13.9%	14.0%	135	3	11.2%	13.4%	214
Net profit	8.2%	9.7%	9.6%	141	-10	7.2%	9.2%	202

FABS estimate & Co Data

4Q22 preview: Saudi Telecom Company

Strategic partnership and investments to support top-line growth

CMP (SAR): 37.50

Potential upside/(downside) (%): +44.00%

12-m target price:

SAR 54.00

Stock rating:

BUY

4Q22 Estimate

Saudi Telecom Company (STC) is expected to record a 21.1% YOY increase in net profit to SAR 2,974 Mn in 4Q22. The increase is mainly driven by growth in the top line due to strategic expansion plans, partly offset by a rise in general and administration expenses. STC's revenue is estimated to increase 6.5% YOY to SAR 17,140 Mn in 4Q22. In line with the revenue, direct cost is expected to grow 5.7% YOY to AED 8,004 Mn in 4Q22. Thus, gross profit is expected to grow 7.3% YOY to SAR 9,135 Mn in 4Q22. Selling and overhead expenses are forecasted to increase significantly 50.5% YOY to SAR 1,697 Mn whereas, general and administrative expenses are expected to rise marginally 2.6% YOY to SAR 1,663 Mn in 4Q22. As a result, EBITDA will rise marginally 0.2% YOY to SAR 5,776 Mn in 4Q22 due to a rise in selling and overhead expenses. Depreciation and amortization expenses are expected to increase 1.3% YOY to SAR 2,530 Mn in 4Q22. Thus, Company's operating profit is estimated to rise 1.3% YOY to SAR 3,246 Mn in 4Q22. Other expenses are expected to reach SAR 13 Mn in 4Q22 whereas financial charges are anticipated to grow 8.2% YOY to SAR 189 Mn mainly due to interest rate hikes. While financed income is estimated to grow 58.2% YOY to SAR 158 Mn in 4Q22. Zakat expenses are likely to decrease from SAR 270 Mn in 4Q21 to SAR 158 Mn in 4Q22.

2022 Forecast

Saudi Telecom Company's net profit is estimated to increase 9.5% YOY to SAR 12,387 Mn in 2022. Profits are mainly driven by robust growth in revenue which is expected to rise 6.5% YOY to SAR 67,537 Mn in 2022. Similarly, direct costs are expected to increase 1.4% YOY to reach SAR 30,037 Mn in 2022. Selling and overhead expenses are moderately expected to rise 9.7% YOY to SAR 5,993 Mn whereas general and administrative expenses are anticipated to grow significantly 12.1% YOY to SAR 6,154 Mn in 2022. EBITDA is expected to grow 11.0% YOY to SAR 25,353 Mn in 2022. Furthermore, depreciation and amortization expenses are expected to grow marginally 2.8% YOY to SAR 9,987 Mn in 2022. Resultantly, the operating profit will reach SAR 15,366 Mn in 2022 from SAR 13,128 Mn in 2021. Consequently, other expenses are expected to grow significantly from SAR 252 Mn in 2021 to SAR 1,461 Mn in 2022 while the financial charges are anticipated to rise 13.0% YOY to SAR 700 Mn in 2022. The Company financed income is estimated to grow 34.1% YOY to SAR 507 Mn in 2022. Zakat expenses are expected to decline 1.8% YOY to SAR 1,021 Mn in 2022 whereas share to NCI are expected to increase from SAR 283 Mn in 2021 to SAR 304 Mn in 2022.

3Q22 Outturn

STC's revenue rose 4.7% YOY to SAR 16,468 Mn in 3Q22 due to diverse investments and integrated strategy used by the company supported by strong growth in the GCC region. Direct cost declined significantly 12.7% YOY to SAR 6,428 Mn in 3Q22 mainly due to the reversal of contingent liability provision worth SAR 1,079 Mn. Thus, gross profit rose 20.0% YOY to SAR 10,040 in 3Q22. Adjusted gross profit for one-off reversal of contingent liability provision rose 7.1% YOY to SAR 8,961 Mn in 3Q22 with a gross margin of 54.4%. Selling and overhead expenses rose 1.9% YOY to SAR 1,494 Mn in 3Q22 while, G&A expenses grew 13.5% YOY to SAR 1,474 Mn in 3Q22. Consequently, EBITDA rose 26.2% YOY to SAR 7,073 Mn in 3Q22. Adjusted EBITDA grew 6.9% YOY to SAR 5,994 Mn in 3Q22 with a margin of 36.4%. Moreover, operating profit grew from SAR 3,192 Mn in 3Q21 to SAR 4,576 Mn in 3Q22 with strong growth in operating margin from 20.3% in 3Q21 to 27.8% in 3Q22. Adjusted operating profit expanded 9.6% YOY to SAR 3,498 Mn with a margin of 21.2%. Total other expenses rose to SAR 622 Mn YOY in 3Q22. While Zakat charges rose from SAR 196 Mn in 3Q21 to SAR 285 Mn in 3Q22 due to an increase in profitability. Thus, net profit rose 21.1% YOY to SAR 3,541 Mn in 3Q22.

Target price and recommendation

We maintain our BUY rating on Saudi Telecom Company with a target price of SAR 54.00. STC recorded steady performance in top line across all business segments, and robust growth in net profit due to its integrated strategy and investments in multiple sectors across the globe. The Company balance sheet will be further strengthened by sale of a land in Khobar city and sale of entire 49% stake in Contact Centre Company (CCC) to Arabian Internet and Communication Services Company (SOLUTIONS). It will receive proceeds of SAR 1.8 Bn post completion of both transactions. This will be favourable in the rising interest rate scenario. In addition, STC signed a non-binding agreement with Public Investment Fund (PIF) to acquire 51% stake in TAWAL for a consideration of SAR 21.9 Bn. Once this transaction is concluded the company is likely to pay special dividend which will boost shareholders return. Furthermore, STC deployed around 7,247 5G towers in 3Q22 whereas, the group recorded strong growth in FTTH and FWA subscriber base by 1.5% and 18.1% respectively in 3Q22. STC is engaging in number of partnerships and announcing investments in new domains in order to grow its reach and scope. STC announced a partnership agreement with Oracle Corporation, a multinational cloud and technology company, to better serve both local and regional markets by providing needed cloud-based technological infrastructure and applications. STC is committed to invest an additional USD 300 Mn in Saudi Venture Capital firm (STV, following the prior investment of USD 500 Mn. The investment will be used by STV to scale and build new digital champions in the region. To support its internal and external expansion plans, STC maintained a healthy balance sheet, low leverage, and a strong credit rating profile. The expansion plan envisaged by the Group will positively impact the topline. STC continued to pay stable dividends for the last four years. Thus, based on our analysis, we maintain a BUY rating on the stock.

STC – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F	2023F
P/E (x)	17.28	17.46	16.94	16.47	15.04	13.96
P/B (x)	2.84	3.02	2.91	2.69	2.54	2.54
EV/EBITDA	8.76	8.78	8.02	7.94	7.27	7.10
Dividend yield	5.37%	4.30%	4.30%	4.30%	4.83%	5.37%

FABS Estimates & Co Data

STC - P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
SAR mm								
Sales	16,087	16,468	17,140	6.5%	4.1%	63,417	67,537	6.5%
Direct costs	-7,572	-6,428	-8,004	5.7%	24.5%	-29,623	-30,037	1.4%
Gross profit	8,516	10,040	9,135	7.3%	-9.0%	33,794	37,500	11.0%
Selling & overhead expenses	-1,128	-1,494	-1,697	50.5%	13.6%	-5,463	-5,993	9.7%
General & admin Exp.	-1,621	-1,474	-1,663	2.6%	12.8%	-5,490	-6,154	12.1%
EBITDA	5,767	7,073	5,776	0.2%	-18.3%	22,841	25,353	11.0%
Depreciation & Amortization	-2,563	-2,496	-2,530	-1.3%	1.4%	-9,713	-9,987	2.8%
Operating profit (EBIT)	3,204	4,576	3,246	1.3%	-29.1%	13,128	15,366	17.0%
Other income/(expenses)	-105	-622	-13	-87.8%	-97.9%	-252	-1,461	480.5%
Finance Income	100	126	158	58.2%	25.3%	378	507	34.1%
Financial charges	-175	-185	-189	8.2%	2.3%	-619	-700	13.0%
Profit before zakat	3,024	3,896	3,202	5.9%	-17.8%	12,635	13,712	8.5%
Zakat	-270	-285	-158	-41.3%	-44.4%	-1,040	-1,021	-1.8%
Profit before NCI	2,754	3,610	3,043	10.5%	-15.7%	11,595	12,691	9.5%
NCI	-141	-69	-69	-50.6%	0.0%	-283	-304	7.1%
Profit attributable	2,614	3,541	2,974	21.1%	-16.0%	11,311	12,387	9.5%

FABS estimate & Co Data

STC- Margins

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
Gross profit	52.9%	61.0%	53.3%	36	-767	53.3%	55.5%	224
EBITDA	35.9%	43.0%	33.7%	-215	-925	36.0%	37.5%	152
Operating profit	19.9%	27.8%	18.9%	-98	-885	20.7%	22.8%	205
Net profit	16.2%	21.5%	17.4%	110	-415	17.8%	18.3%	50

FABS estimate & Co Data

4Q22 preview: Telecom Egypt

Growing customer base and higher ARPUs to drive profitability

CMP (EGP): 24.15

Potential gain/(downside) (%): +32.51%

12-m target price:

EGP 32.00

Stock rating:

BUY

4Q22 Estimate

Telecom Egypt (ETEL) is estimated to report a 2.9% YOY increase in net profit to EGP 2,383 Mn in 4Q22 owing to the expected rise in revenue and customer base. Total revenue is expected to rise marginally 0.9% YOY to EGP 10,808 Mn in 4Q22. While the operating cost is likely to decrease 5.7% YOY to EGP 6,167 Mn in 4Q22, as compared to EGP 6,541 Mn in 4Q21. As a result, gross profit is estimated to decline 11.3% YOY to EGP 4,641 in 4Q22, with a gross profit margin of 42.9% in 4Q22. Further, selling and overhead expenses are expected to increase to EGP 2,033 Mn in 4Q22 from EGP 2,140 Mn in 4Q21. Consequently, the operating profit is estimated to increase 35.8% YOY to EGP 2,569 Mn in 4Q22. Net finance cost is likely to increase to EGP 1,119 Mn in 4Q22. Resultantly, profit before zakat is expected to decrease to EGP 2,805 Mn in 4Q22. However, Zakat expenses are estimated to decrease to EGP 421 Mn in 4Q22 as compared to EGP 599 Mn in 4Q21.

2022 Forecast

Telecom Egypt is expected to grow 1.6% YOY to EGP 8,554 Mn in net profit in FY2022 mainly due to the increase in revenue. Operating revenue is expected to increase 16.2% YOY to EGP 43,082 Mn in FY2022 mainly due to an expected rise in the customer base in the retail and wholesale segment. Whereas, operating cost is anticipated to rise to EGP 24,745 Mn in FY2022. As a result, gross profit is anticipated to rise 21.1% YOY to EGP 18,337 Mn in FY2022. Selling and overhead expenses are estimated to rise 9.3% YOY to EGP 7,737 Mn in FY2022, owing to an expected increase in salaries and wages, as well as agent commission and collection organization costs. Resultantly, the operating profit is likely to grow 30.1% YOY to EGP 10,912 Mn in FY2022. Net finance cost is expected to increase to EGP 3,151 Mn in FY2022. Whereas, income from associates is estimated to increase marginally 1.8% YOY to EGP 3,404 Mn in FY2022. Therefore, profit before zakat is anticipated to increase marginally 0.3% YOY to EGP 11,165 Mn in FY2022. Zakat expenses are expected to decrease from EGP 2,705 Mn in FY2021 to EGP 2,607 Mn in FY2022.

3Q22 Outturn

Telecom Egypt reported a 7.3% YOY increase to EGP 2,389 Mn in net profit in 3Q22, up from EGP 2,227 Mn in 3Q21, mainly due to an expected increase in revenue by 31.8% YOY to EGP 11,873 Mn in 3Q22. The growth in revenue is primarily driven by the high revenue growth in both data and cable projects. ETEL's customer base grew on all fronts, with fixed voice reaching 11.4 Mn subscribers, fixed broadband reaching 8.6 Mn subscribers, and mobile subscribers reaching 11.9 Mn in 3Q22. Operating cost grew 23.1% YOY to EGP 6,492 Mn in 3Q22. As a result, gross profit increased from EGP 3,733 Mn in 3Q21 to EGP 5,381 Mn in 3Q22. The selling and overhead expenses increased to EGP 1,952 Mn in 3Q22 from EGP 1,669 Mn in 3Q21 due to an increase in salaries and wages and the agent's commission and advertising and marketing expenses. Resultantly, operating profit rose significantly 57.5% YOY to EGP 3,424 Mn in 3Q22. Profit before zakat of the company rose 18.4% YOY to EGP 3,270 Mn in 3Q22 mainly due to a significant increase in income from associates by 33.3% YOY to EGP 1,004 Mn in 3Q22 and an increase in the net finance cost of the Company to EGP 1,158 Mn in 3Q22. Zakat expense also rose to EGP 880 Mn in 3Q22, as compared to EGP 534 Mn in 3Q21.

Target price and recommendation

We maintain our BUY rating on Telecom Egypt with a revised target price of EGP 32.0. The Company stock price rallied 39.0% since our last rating (BUY). ETEL reported a strong revenue growth of 22.3% in 9M22 due to the increase in revenue from the retail and wholesale segment. The home and consumer category expanded 18.9% YOY in 9M22, accounting for nearly 83% of retail growth. This was mostly due to a 21% increase in data as a result of a growing customer base and high ARPUs. Meanwhile, the EBITDA margin increased from 39.1% in 9M21 to 41.3% in 9M22, owing to an improved revenue mix, a growing customer base, and a healthy ARPU on the operational front. The customer base grew across all segments, wherein fixed voice subscribers reached 11.4 Mn, fixed broadband reached 8.6 Mn subscribers, and mobile subscribers reached 11.9 Mn in 9M22. Moreover, the company is targeting to achieve double-digit revenue growth, EBITDA margin in the mid-to-high thirties, and higher operating cashflows in FY2023. ETEL will continue to earn recurring revenue by monetizing infrastructure and implementing cost optimizing strategy. Recently, Telecom Egypt also announced a commercial five-year agreement with Orange Egypt for national roaming services. The five-year agreement, which runs until the end of FY2027, will provide recurring revenue stream to Telecom Egypt. In addition, ETEL owns 45% stake in Vodafone Egypt monetization of this stake will help in deleveraging and earning one-time special dividend. ETEL total debt stood at EGP 20.3 Bn and almost 80% of the Company's debt is denominated in the local currency which will negatively impact profit in a rising interest rate scenario. Interest expense rose from EGP 970 Mn in 9M21 to EGP 2,089 Mn in 9M22. Interest rate in Egypt is further expected to rise as core inflation continues to remain. Considering, all these factors we assign BUY rating on the stock.

Telecom Egypt –Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F	2023F
P/E (x)	16.28	11.63	10.57	5.63	4.87	4.56
P/B (x)	1.29	1.18	1.08	0.94	0.90	0.71
EV / EBITDA	9.30	9.72	5.39	3.88	3.35	3.15
Dividend yield	1.0%	1.0%	3.1%	4.1%	4.1%	4.5%
(at CMP)						

Telecom Egypt-P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
EGP mm								
Operating Revenue	10,710	11,873	10,808	0.9%	-9.0%	37,088	43,082	16.2%
Operating costs	-6,541	-6,492	-6,167	-5.7%	-5.0%	-21,948	-24,745	12.7%
Gross profit	4,169	5,381	4,641	11.3%	-13.7%	15,140	18,337	21.1%
Selling & overhead expenses	-2,140	-1,952	-2,033	-5.0%	4.1%	-7,081	-7,737	9.3%
Net operating revenue (others)	-137	-4	-39	-71.4%	NM	328	312	-4.8%
Operating profit	1,892	3,424	2,569	35.8%	-25.0%	8,386	10,912	30.1%
Income from Associates	1,024	1,004	1,355	32.3%	35.0%	3,343	3,404	1.8%
Net Finance income/(cost)	0	-1,158	-1,119	NM	-3.3%	-603	-3,151	422.2%
Profit before zakat	2,916	3,270	2,805	-3.8%	-14.2%	11,126	11,165	0.3%
Zakat	-599	-880	-421	-29.7%	-52.2%	-2,705	-2,607	-3.6%
Profit before N-C interests	2,317	2,390	2,384	2.9%	-0.2%	8,421	8,557	1.6%
Non-controlling interests	-1	-1	-1	11.8%	-23.3%	-4	-4	1.6%
Profit attributable	2,316	2,389	2,383	2.9%	-0.2%	8,417	8,554	1.6%

FABS estimate & Co Data

Telecom Egypt - Margins

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	38.9%	45.3%	42.9%	402	-238	40.8%	42.6%	174
EBITDA	36.2%	44.5%	44.5%	822	0	38.3%	39.2%	93
Operating profit	17.7%	28.8%	23.8%	611	-507	22.6%	25.3%	272
Net profit	21.6%	20.1%	22.1%	42	193	22.7%	19.9%	-284

FABS estimate & Co Data

4Q22 preview: Emirates Integrated Telecommunications

Continued network expansion and higher service revenue to support bottom-line

CMP(AED):5.37

Potential upside/(downside) (%): +37.80%

12-m target price:

AED 7.40

Stock rating:

BUY

4Q22 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to decrease 1.1% YOY to AED 317 Mn in 4Q22, mainly due to an expected increase in cost by 2.9% YOY to AED 1,812 Mn in 4Q22 and due to an expected rise in Federal Royalty fees. Net revenue is expected to increase 2.6% YOY to AED 3,151 Mn in 4Q22. The Company's profitability will be strongly supported by the continuous fibre network expansion, network densification, focus on 5G rollout and robust corporate demand for ICT services. Marketing expenses are expected to decline 21.4% YOY to AED 52 Mn in 4Q22. While, EBITDA is expected to increase 3.5% YOY to AED 1,287 Mn in 4Q22 driven by higher revenue and cost control. Depreciation expense is likely to decrease 20.3% YOY to AED 535 Mn in 4Q22. As a result, the operating profit is expected to increase 31.3% YOY reaching AED 752 Mn in 4Q22. Net Finance Expense is expected to decline 13.5% YOY standing at AED 19 Mn in 4Q22. Federal Royalty is expected to increase significantly 16.0% YOY to AED 416 Mn in 4Q22.

2022 Forecast

DU's net profit is estimated to increase 13.6% YOY to AED 1,2591 Mn in 2022. The revenue is expected to increase 7.8% YOY to AED 12,591 Mn in 2022. Consequently, the EBITDA is expected to increase 11.0% YOY to AED 5,126 Mn in 2022. The depreciation and amortization are expected to decrease 4.6% YOY to AED 2,082 Mn in 2022. Operating profit is expected to grow 24.9% YOY to AED 3,044 Mn in 2022. Net finance expense is likely to decrease 9.1% YOY to AED 72 Mn in 2022. As a result, Pre-royalty profit is expected to increase 19.5% YOY to AED 2,967 Mn in 2022. Federal Royalty is expected to surge 24.2% YOY to AED 1,716 Mn in 2022. Overall, the Company's performance will mainly be driven by its focus on commercial initiatives across various product categories and the network expansion strategy throughout the country.

3Q22 Outturn

DU's revenue rose 10.5% YOY to AED 3,175 Mn in 3Q22 driven by strong growth in broadband and mobile services revenue. Fixed services revenue rose 22.2% YOY to AED 892 Mn in 3Q22 due to strong subscriber addition led by network expansion and healthy demand of Enterprise Services. The Mobile services revenue inclined 10.7% YOY to AED 1,443 Mn in 3Q22 mainly driven by growth in the post-paid segment and voice revenue led by the expansion of customer base and traffic. DU added a total of 32,000 subscribers in the post-paid segment with a total subscriber count of 1.4 Mn in 3Q22. In addition, the prepaid subscriber base stood stable at 6.0 Mn in 3Q22. Similarly, the broadband customer base further expanded to 510,000 subscribers following the addition of 37,000 customers in 3Q22 as compared to 2Q22. Direct cost increased 7.3% YOY to AED 1,827 Mn in 3Q22. However, marketing expenses declined 4.1% YOY to AED 45 Mn in 3Q22. Thus, DU recorded a 15.9% YOY growth in EBITDA to AED 1,303 Mn in 3Q22 with 193 bps YOY and 65 bps QOQ expansion in margin to 41.0%. This is the highest EBITDA margin reported by the Company in the last two years. D&A expense declined 2.8% YOY to AED 519 Mn in 3Q22. As a result, operating profit rose to AED 783 Mn in 3Q22 up from AED 589 Mn in 3Q21. Net finance cost declined 17.1% YOY to AED 18 Mn in 3Q22 mainly due to the full repayment of debt. Furthermore, federal royalty rose from AED 282 Mn in 3Q21 to AED 444 Mn in 3Q22 owing to a rise in regulated revenue and reversal of AED 70 Mn recorded in 3Q21.

Target price and rating

We maintain our BUY rating on Emirates Integrated Telecommunications, with a target price of AED 7.40. The Company mobile subscribers base stood at 7.4 Mn due to healthy net additions across the post-paid and prepaid segments. Revenue from mobile service segment is expected to increase 0.7% YOY to AED 1,625 Mn in 4Q22, mainly due to consistent demand from corporate and consumer segments, and strong commercial offering. The growth in post-paid segment and voice revenues supported by customer base and resulted in four consecutive quarters of revenue growth in the mobile service segment. Fixed service revenue will continue to benefit from continued fiber network expansion and strong momentum for innovative service offerings. EBITDA and margins will continue to benefit from this top-line expansion and better cost control. In 3Q22, EBITDA margin stood at 2-year high, and EBITDA increased 15.9% YOY to AED 1,303 Mn in 3Q22, due to the higher service revenues and improving gross margin. DU unlimited power plans continues to attract and retain existing mobile customer base. We expect the Company to generate healthy free cash flow as it expects capex intensity to return to normal following two years of high investment. DU generated AED 579 Mn in operating free cash flow in 3Q22. The balance sheet remained strong with net cash balance of AED 910 Mn in 3Q22. It trades at an attractive EV/EBITDA multiple of 4.7x in FY2022 compared to the peer average of 5.9x. Based on our analysis, we assign a BUY rating on the stock.

DU – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F	2023F
P/E (x)	14.0	14.2	17.1	22.4	19.7	18.5
P/B (x)	2.9	2.8	2.9	2.9	2.9	2.9
EV/EBITDA	4.1	3.9	4.8	5.0	4.7	4.5
Dividend yield	6.4%	6.3%	5.2%	3.9%	4.6%	4.8%

FABS Estimates & Co Data

DU - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	3,070	3,175	3,151	2.6%	-0.8%	11,682	12,591	7.8%
Costs (ex D&A, marketing exp)	-1,760	-1,827	-1,812	2.9%	-0.8%	-6,861	-7,262	5.9%
Marketing expense	-66	-45	-52	-21.4%	14.1%	-204	-203	-0.5%
EBITDA	1,244	1,303	1,287	3.5%	-1.2%	4,618	5,126	11.0%
Dep & Amort and Impairment	-671	-519	-535	-20.3%	3.0%	-2,181	-2,082	-4.6%
Operating profit	573	783	752	31.3%	-3.9%	2,436	3,044	24.9%
Financing income/expense	-22	-18	-19	-13.5%	4.5%	-79	-72	-9.1%
Share of profit of investments	-1	-2	0	NM	NM	-6	-6	8.0%
Pre-royalty profit	679	763	733	7.9%	-4.0%	2,483	2,967	19.5%
Federal Royalty	-359	-444	-416	16.0%	-6.4%	-1,382	-1,716	24.2%
Net profit	321	319	317	-1.1%	-0.7%	1,101	1,251	13.6%

FABS estimate & Co Data

DU - Margins

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	42.7%	42.5%	42.5%	-17	4	41.3%	42.3%	105
EBITDA	40.5%	41.0%	40.9%	33	-17	39.5%	40.7%	118
Operating profit	18.7%	24.7%	23.9%	522	-79	20.9%	24.2%	332
Net Profit	10.5%	10.1%	10.1%	-39	1	9.4%	9.9%	51

FABS estimate & Co Data

4Q22 preview: Al Yah Satellite Communications Co

Solid revenue backlog to drive profitability

CMP(AED):2.62

Potential upside (%): +33.59%

12-m target price:

AED 3.50

Stock rating:

BUY

4Q22 Estimate

Al Yah Satellite Communications (Al Yahsat/the group) net profit is estimated to grow significantly from USD 26.4 Mn in 4Q21 to USD 26.5 Mn in 4Q22. The growth in net profit is primarily driven by 23.9% YOY decrease expected in the cost of revenue to USD 17.4 Mn in 4Q22. The group's revenue is anticipated to decline 9.3% YOY to USD 111.7 Mn in 4Q22. Moreover, the company's revenue is expected to rise going forward owing to the stellar performance in Managed Solutions and Mobility Solutions with procurement of new satellites and recurring revenue from the multiple contracts with the UAE government. Administrative expenses are anticipated to grow 15.6% YOY to USD 36.4 Mn in 4Q22 mainly due to an increase in staff cost. On the other hand, the other income is expected to decline 3.7% YOY to USD 534 Mn in 4Q22. As a result, EBITDA is estimated to decline 15.8% YOY to USD 58.4 Mn in 4Q22. Depreciation expenses are estimated to decline 0.9% YOY to USD 36.4 Mn in 4Q22. As a result, operating income is likely to decrease from USD 30.9 Mn in 4Q21 to USD 21.9 Mn in 4Q22. The share of results from associates and joint ventures is estimated to be USD 2.1 Mn in 4Q22, while income tax charges are expected to remain at USD 0.04 Mn in 4Q22. Loss attributable to non-controlling interest holders is expected to rise 19.2% YOY to USD 1.8 Mn in 4Q22.

2022 Forecast

Al Yahsat is estimated to record 11.6% YOY decline in net profit to USD 61.7 Mn in 2022 due to the rising share of results of associates and joint ventures, partially offset by healthy revenue growth. Net revenue is expected to rise 4.6% YOY to USD 426.3 Mn in 2022. In line with the revenue, the cost of revenue is estimated to grow 5.0% YOY to USD 47.7 Mn in 2022, resulting in a 4.6% YOY growth in gross profit to USD 378.5 Mn in 2022. Administrative expenses are expected to rise 7.6% YOY to USD 133.4 Mn in 2022 due to an expected hike in staff costs and other operating expenses. Other income is expected to decline 8.2% YOY to USD 2.1 Mn in 2022. As a result, EBITDA is expected to grow 2.9% YOY to USD 247.3 Mn in 2022. Depreciation charges are estimated to decline 2.8% YOY to USD 144.4 Mn in 2022. As a result, operating income is expected to grow 15.2% YOY to USD 103.6 Mn in 2022. Finance cost is expected to significantly decline from USD 17.3 Mn in 2021 to USD 0.8 Mn in 2022, reflecting significantly higher finance income. The share of results of associates and joint ventures is expected to reach USD 47.9 Mn in 2022. Income tax charges are estimated to increase 23.4% YOY to USD 0.2 Mn in 2022. Loss attributable to non-controlling interest is expected to increase marginally 1.2% YOY to USD 6.9 Mn in 2022.

3Q22 Outturn

Al Yahsat's total revenue increased 15.8% YOY to USD 109.0 Mn in 3Q22 mainly due to strong growth in revenue across Managed and Data solutions segments somewhat offset by a marginal decline in revenue from the Mobility. Cost of sales declined 6.5% YOY to USD 8.6 Mn in 3Q22. As a result, gross profit rose 18.3% YOY to USD 100.4 Mn in 3Q22 with an increase in gross profit margin to 92.1% in 3Q22 as compared to 90.3% in 3Q21. Operating expenses grew 12.0% YOY to USD 34.0 Mn in 3Q22. Thus, EBITDA increased 21.3% YOY to USD 66.9 Mn in 3Q22 with an increase in EBITDA margin from 58.7% in 3Q21 to 61.4% in 3Q22. Operating profit also rose significantly to USD 30.8 Mn in 3Q22 as compared to USD 16.8 Mn in 3Q21 mainly due to a decline in depreciation expenses. Net finance cost fell to USD 0.63 Mn in 3Q22 from USD 2.13 Mn in 3Q21. Share of results of associates includes an impairment loss of investment in associates of USD 43.4 Mn in 3Q22. Thus, the loss attributable to noncontrolling interest holders increased from USD 1.7 Mn in 3Q21 to USD 1.8 Mn in 3Q22.

Target price and rating

We maintain our "BUY" rating on Al Yahsat with a target price of AED 3.50. The group recorded strong revenue growth of 10.7% YOY in 9M22, underpinned by double-digit growth in Managed Solutions and Mobility Solutions. YAHSAT is further expected to report a healthy performance as it has a contracted future revenue of USD 2.1 Bn. The revenue backlog is almost equivalent to 5.0x of FY2021 revenue with UAE Government. It remains focused on expansion in new markets and strong growth areas aligned to UAE space strategy, value added Satcom solutions, IoT and other opportunities. Recently YAHSAT acquired a minority stake in eSAT Global Inc, an innovative Internet of Things (IoT) connectivity solutions provider. Over the next five years, the overall IoT market is expected to grow at a CAGR of 22% to USD 525 Bn, with the satellite IoT business expected to generate a total revenue of USD 6 Bn. The investment in eSAT reflects a chance to take part in a fast-growing but underpenetrated industry, which is closely aligned with Yahsat's strategy of prioritizing growth sectors. In addition, Mobility Solution topline expected to benefit from strong growth in service segment across voice and data and Data Solution to benefit from expansion in Africa with a growth in consumer broadband subscriber base. The recent contract win underpins Yahsat's position as a preferred satellite solution provider and strengthens its position in the region. YAHSAT's two satellites Al Yah 4 and Al Yah 5 are expected to be launched in 2026 which will ensure service continuity far beyond the life of the company's current fleet. Furthermore, the Company procures T4-NGS satellite and is aiming to launch in 1H24 with the operation to begin in 1H25. T4-NGS will also provide strong support to Company's commercial operations in Mobility Solutions segment. The Company also maintained a strong financial position, with negative net debt and healthy discretionary free cash flow visibility, which underpins its ability to invest in further growth opportunities. Moreover, strong cash flow generation positioned the Company to meet its dividend payment and capex commitments. The Board of directors of the YAHSAT declared the Company's first interim cash dividend of USD 53.5 Mn for 1H22. The company also expects to pay a total dividend of USD 107.1 Mn in FY2022. The stock is trading at an attractive dividend yield of 6.3% based on 2022 financials. Based on these aforementioned factors, we assign a 'BUY' rating to the stock.

Al Yahsat – Relative Valuation

(at CMP)	2020	2021	2022F	2023F
P/E (x)	NA	24.47	27.67	19.86
P/B (x)	NA	2.03	2.09	2.09
EV/EBITDA	NA	7.97	7.01	6.75
Dividend yield	NA	5.9 %	6.1%	6.9%

FABS Estimates & Co Data

Note - *Since the company was listed on 27 Oct 2021 hence valuation multiples for FY2019 and 2020 are not included

Al Yahsat - P&L

(USD'000)	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	123,276	109,017	111,758	-9.3%	2.5%	407,569	426,342	4.6%
Cost of revenue	-22,889	-8,574	-17,413	-23.9%	103.1%	-45,478	-47,750	5.0%
Gross Profit	100,387	100,443	94,345	-6.0%	-6.1%	362,091	378,592	4.6%
Administrative Expenses	-31,548	-34,010	-36,473	15.6%	7.2%	-123,933	-133,360	7.6%
Other Income	554	530	534	-3.7%	0.7%	2,323	2,132	-8.2%
EBITDA	69,393	66,963	58,406	-15.8%	-12.8%	240,481	247,364	2.9%
Depreciation	-36,762	-36,155	-36,447	-0.9%	0.8%	-148,590	-144,490	-2.8%
Fair value adj on invest prop	-1,697	0	0	NM	NM	-1,906	800	NA
Operating Profit	30,934	30,808	21,959	-29.0%	-28.7%	89,985	103,674	15.2%
Net Finance Cost	-2,472	638	667	NM	NM	-17,308	-832	-95.2%
Share of results	-3,429	-43,485	2,106	NM	NM	-9,589	-47,945	400.0%
Income Tax	-137	-49	-44	-68.1%	-10.8%	-215	-165	-23.4%
Profit before NCI	24,896	-12,088	24,688	-0.8%	NA	62,873	54,732	-12.9%
NCI	-1,569	-1,871	-1,871	19.2%	0.0%	-6,889	-6,971	1.2%
Net Profit	26,465	-10,217	26,559	0.4%	NA	69,762	61,703	-11.6%

FABS Estimate & Co. Data

Al Yahsat - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross profit	81.4%	92.1%	84.4%	299	-772	88.8%	88.8%	-4
EBITDA	56.3%	61.4%	52.3%	-403	-916	59.0%	58.0%	-98
Operating profit	25.1%	28.3%	19.6%	-544	-861	22.1%	24.3%	224
Net profit	21.5%	-9.4%	23.8%	230	3,314	17.1%	14.5%	-264

FABS estimate & Co Data

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