

Emirates Integrated Telecommunications

Growth in Postpaid and broadband subscribers boosted profit

1Q23 Net profit in line with our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/The Company) net profit jumped to 19.1% YOY to AED 370 Mn in 1Q23, in line with our estimate of AED 363 Mn. The net profit rose mainly due to growth in top line and lower increase in cost as compared to revenue partially offset by an increase in royalty expense and normalization of expected credit losses on receivables.

P&L highlights

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. Services revenue is driven by robust performance of the mobile and fixed services revenue. Mobile segment revenue is owing to the healthy growth in post-paid and prepaid services. The post-paid segment witnessed 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. Prepaid segment also grew with a total customer base of 6.7 Mn owing to the attractiveness of Flexi plans and higher tourist's flow. DU mobile customer base increased 9.4% YOY ending the quarter with 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. The 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 10.7% YOY to AED 1,435 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 27 bps YOY and 65 bps QOQ to 41.7% 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 roses 12.2% YOY from AED 426 Mn to AED 478 Mn in 1Q23.

Balance sheet highlights

DU focused on expanding the fiber network and ongoing IT transformation for which incurred a capex of AED 408 Mn amounting to a capital intensity of 9.7% in 1Q23. The company's operating free cash flow rose marginally from AED 964 Mn in 1Q22 to AED 958 Mn in 1Q23. The company balance sheet stood strong with a net cash balance of AED 1,348 Mn in 1Q23 compared to AED 868 Mn in 4Q22.

Rating : BUY

First Look Note – 1Q23

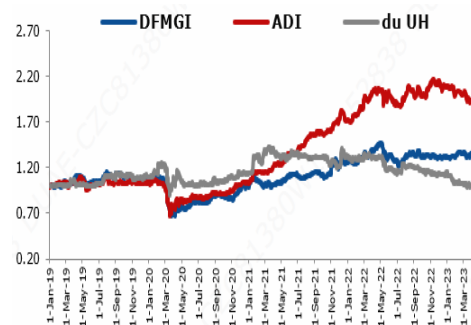
Sector: Telecommunication

Recommendation

Current Price (8-May-23)	5.18
Target Price (AED)	7.40
Upside/Downside (%)	+43%

Stock Information

Market Cap (mm)	23,480.45
Paid Up Capital (mm)	4,532.91
52 Week High	6.62
52 Week Low	4.95
3M Avg. daily value (AED)	1,188,038



Financial Ratios

Dividend Yield (12m)	4.63
Dividend Pay-out (%)	89.20
Price-Earnings Ratio (x)	18.29
Price-to-Book Ratio (x)	2.75
Book Value (AED)	1.89
Return-on Equity (%)	15.14
Earning Per Share (AED)	0.28
Beta	0.65

Stock Performance

5 Days	2.78%
1 Months	2.17%
3 Months	0.00%
6 Months	-9.28%
1 Year	-20.55%
Month to Date (MTD)	2.57%
Quarter to Date (QTD)	2.57%
Year to Date (YTD)	-10.69%

Target price and rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company continue to record strong growth in subscriber base across mobile and broadband. Postpaid segment recorded customer addition for the seventh consecutive quarter leading to a strong growth in the revenue of this segment due to attractive plans offered. The subscriber will be further boosted by a growth in population and tourism. 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. Broadband segment also added 18,000 customers during 1Q23 with a total customer base of 554,000. This segment is poised for healthy growth going forward. The company experienced healthy growth in its top line and gross margin benefitted due to higher revenue growth. EBITDA margins contracted 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. It 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
PE	13.3	13.5	16.2	21.2	19.1	17.8
PB	2.7	2.7	2.7	2.7	2.7	2.6
EV/EBITDA	3.8	3.7	4.7	4.8	4.2	4.0
Dividend Yield	6.8%	6.6%	5.4%	4.1%	4.7%	4.9%

FABS estimate & Co Data

DU - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,128	3,315	3,441	3,334	3.2%	10.0%	3.8%	12,754	13,222	3.7%
Costs	-1,777	-1,859	-1,953	-1,894	3.1%	9.9%	5.1%	-7,194	-7,471	3.8%
Marketing expense	-55	-95	-53	-53	-1.5%	-4.5%	-44.8%	-246	-238	-3.2%
Expected Credit Loss	-27	-58	-69	-40	71.9%	153.3%	19.4%	-174	-180	3.7%
EBITDA	1,269	1,303	1,366	1,347	1.4%	7.7%	4.8%	5,141	5,334	3.7%
D&A and Impairment	-514	-565	-513	-521	-1.5%	-0.1%	-9.2%	-2,112	-2,083	-1.4%
Operating profit	755	738	853	826	3.2%	13.0%	15.6%	3,029	3,251	7.3%
Finance inc/exp	-15	-7	-4	-13	-73.4%	-76.4%	-50.7%	-59	-70	17.3%
Pre-royalty profit	738	730	849	813	4.4%	15.1%	16.3%	2,963	3,181	7.3%
Federal Royalty	-426	-444	-478	-450	6.3%	12.2%	7.8%	-1,744	-1,871	7.3%
Net profit	311	286	370	363	2.1%	19.1%	29.4%	1,220	1,310	7.4%

FABS Estimates & Co Data

DU - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Gross Margin	43.2%	43.9%	43.2%	4	-69	43.6%	43.5%	-10
EBITDA Margin	40.6%	39.3%	39.7%	-86	39	40.3%	40.3%	3
Operating margin	24.1%	22.3%	24.8%	65	253	23.7%	24.6%	84
Net Profit margin	9.9%	8.6%	10.8%	82	213	9.6%	9.9%	34

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
DCF	7.49	70.0%	5.25
Relative	7.18	30.0%	2.15
Weighted Average Valuation (AED)			7.40
Current market price (AED)			5.18
Upside/Downside (%)			+43%

1) DCF Method:

DU is valued using free cash flow to equity since the Company is debt free. We have discounted the cash flow using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 1.0 and equity risk premium of 3.2%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	7,171
Terminal value (AED, Mn)	26,795
FV to Common shareholders (AED, Mn)	33,966
No. of share (Mn)	4,533
Current Market Price (AED)	5.15
Fair Value per share (AED)	7.49

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	1,310	1,323	1,342	1,297	1,514
D&A	2,086	2,174	2,213	2,282	2,374
Change in working capital	127	54	255	-149	244
(-) Capex	-1,983	-1,892	-1,655	-1,749	-1,751
Net change in debt	-129	-120	-110	-74	-68
Free Cash Flow to Equity (FCFE)	1,410	1,540	2,046	1,607	2,312
Discounting Factor	0.95	0.88	0.81	0.75	0.70
Discounted FCFE	1,340	1,353	1,663	1,208	1,608

2) Relative Valuation:

We have used local peers to value DU and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA of multiple of 6.1x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Saudi Telecom	47,834	6.7	6.2	13.7	13.1
Maroc Telecom	8,666	5.3	4.9	14.7	14.1
Mobile telecommunication company	7,899	4.9	4.4	10.4	9.7
Verizon Communication	156,000	6.1	5.9	7.5	7.3
SAFARICOM PLC	8,101	7.1	6.5	14.3	13.2
Deutsche Telekom AG	99,376	5.0	4.7	13.2	10.8
Telstra Group limited	31,280	7.0	6.9	21.9	20.2
Average		6.0x	5.6x	13.7x	12.6x
Median		6.1x	5.9x	13.7x	13.1x
Max		6.9x	6.4x	14.5x	13.7x
Min		5.2x	4.8x	11.8x	10.3x

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"