أبوظب ي الأول للأوراق المالية

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

FAB

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 postpaid 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 1023. 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 1022 Mn in 1023.

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 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 **DFMGI** - ADI — du UH 2.70 2.20 1.70 1.20 0.70 0.20 0 21 21 21

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 froward. 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
РВ	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	EV/EBI	TDA (x)	PE	(x)
	(USD Mn)	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



Research Rating Methodology:

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

FAB Securities Contacts:

Research AnalystsAhmad Banihani+971-2-6161629ahmad.banihani@Bankfab.comSales & ExecutionAbu Dhabi Head Office
Trading Desk+971-2-6161700/1
+971-2-6161777Online Trading Link
+971-2-6161777Institutional Desk
Sales and Marketing+971-4-4245765
+971-2-6161703Online Trading Link
+971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/ restrictions.



FAB Securities Awards

