

Emirates Integrated Telecommunications

Rising tourist footfall and population drove bottom line

4Q22 Net profit lower than our estimate

Emirates Integrated Telecommunications Co. PJSC (DU/The Company) net profit declined 10.7% YOY to AED 286 Mn in 4Q22, marginally lower than our estimate of AED 317 Mn. The decline in net profit is mainly driven by a significant rise in marketing expenses, higher royalty charges, higher D&A expense, an increase in expected credit losses, and a decline in other income partially offset by a healthy growth in revenue and cost containment despite inflationary pressure. Adjusted net profit excluding a one-time gain from the settlement of legal dispute rose 50.4% YOY to AED 286 Mn.

P&L highlights

DU's revenue rose 8.0% YOY to AED 3,315 Mn in 4Q22 driven by robust growth in fixed services and mobile services revenue partially offset by a decline in the wholesale segment. Fixed services revenue rose 20.2% YOY to AED 916 Mn in 4Q22 owing to healthy demand from consumer and enterprise services. Similarly, mobile services revenue rose 7.6% YOY to AED 1,496 Mn in 4Q22 driven by growth in post-paid services due to a rise in population and the launch of unlimited data plans while prepaid revenue stood stable. Revenue from Other Segment softened 1.6% YOY to AED 903 Mn in 4Q22. DU's mobile customer base rose 8.9% YOY to 7.9 Mn subscribers in 4Q22 supported by strong net additions of 493,000 as compared to 3Q22. On the other hand, prepaid customer base witnessed a robust addition of 440,000 additions to 6.4 Mn subscribers in 4Q22 mainly due to growth in tourism activity. The Company's wholesale revenue declined 4.5% YOY to AED 464 Mn in 4Q22 driven by supply chain disruptions, resulting in a drop in handsets revenue. Other revenue rose significantly 17.6% YOY to AED 243 Mn in 4Q22 due to healthy growth in ICT services. DU added a total of 27,000 subscribers in the fixed customer base during 4Q22 with a total count of 537,000 subscribers due to the expansion of fiber network footprint. Direct cost rose marginally 0.3% YOY to AED 1,859 Mn in 4Q22 due to cost containment measures such as resource optimization, contract renegotiation, and automation. However, the marketing expenses rose significantly 44.8% YOY AED 95 Mn in 4Q22. Moreover, the Company recorded a strong EBITDA growth of 18.3% YOY to AED 1,361 Mn in 4Q22 leading to a 358 bps YOY growth in EBITDA margin to 41.0%. Depreciation and amortization expenses declined 4.8% YOY to AED 565 Mn in 4Q22. As a result, operating profit increased from AED 611 Mn in 4Q21 to AED 795 Mn in 4Q22. DU's net finance cost declined from AED 22 Mn in 4Q21 to AED 7 Mn in 4Q22 mainly due to the repayment of debt. Other income declined from AED 130 Mn in 4Q21 to AED 1 Mn in 4Q22 as the company recorded settlements worth AED 130 Mn against legal dispute in 4Q21. In addition, federal royalty increased 23.7% YOY to AED 444 Mn in 4Q22.

Balance sheet highlights

DU incurred a capex of AED 2.2 Bn in 2022 as compared to AED 2.6 Bn in 2021 while the company anticipates the capex to normalize in the upcoming period. Furthermore, the company's operating free cash flow grew significantly 47.3% to AED 2.9 Bn in 2022 mainly due to improvements in EBITDA and moderation of capex. DU repaid the AED 200 Mn debt fully in 3Q22 resulting in strong cash and term deposits of AED 1.5 Bn and AED 3.8 Bn of undrawn facilities as of

Rating : BUY

First Look Note – 4Q22

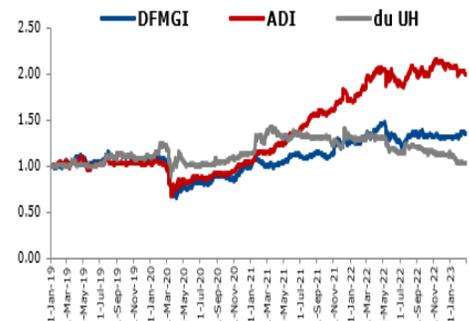
Sector: Telecommunication

Recommendation

Current Price (10-Mar-23)	5.15
Target Price (AED)	7.40
Upside/Downside (%)	+44%

Stock Information

Market Cap (mm)	23,072.49
Paid Up Capital (mm)	4,532.91
52 Week High	6.79
52 Week Low	4.95
3M Avg. daily value (AED)	997,227



Financial Ratios

Dividend Yield (12m)	4.27
Dividend Pay-out (%)	89.20
Price-Earnings Ratio (x)	18.85
Price-to-Book Ratio (x)	2.66
Book Value (AED)	1.93
Return-on Equity (%)	14.10
Earning Per Share (AED)	0.27
Beta	0.66

Stock Performance

5 Days	-1.55%
1 Months	-2.12%
3 Months	-10.23%
6 Months	-15.45%
1 Year	-23.80%
Month to Date (MTD)	-2.12%
Quarter to Date (QTD)	-12.24%
Year to Date (YTD)	-12.24%

December 2022. Thus, the Company's total liquidity stood strong at AED 5.3 Bn in 2022. Thus, the Company's total liquidity stood strong at AED 5.3 Bn in 2022.

Target price and rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company witnessed solid growth in its subscriber base in 2022. Mobile subscribers rose 8.9% YOY to 7.9 Bn in 4Q22 whereas fixed subscribers increased 37.3% YOY to 537,000. Strong recovery in the tourism sector, population growth, and the launching of unlimited data plan drove the company's revenue in 2022. The growth in prepaid consumer base was mainly driven by the launch of unlimited and non-stop data plans while the postpaid customer base rose mainly due to rising population and increased tourism activities. We expect the company to further benefit due to recovery in the tourism sector and innovative product launches whereas EBITDA margins are expected to improve due to revenue growth coupled with cost optimization. DU focuses on improving its consumer offering further diversifying its top line. It aims to adopt a digital-first approach for its product offering which will not only enhance cost savings but also provide a solid customer experience. Moreover, continuous investment in IT and network infrastructure, increasing 5G coverage, and deployment of fiber cables will further strengthen the company's profitability and cash flow. DU's balance sheet position stood strong with cash and term deposits of AED 1.6 Bn and AED 2.9 Bn operating free cash flow in 2022. The cash generation is further expected to improve as the 5G coverage almost covers 94% of the population. In addition, the board paid an interim dividend of 11 fils and further proposes to pay 13 fils dividends in the second half of 2022 amounting to a total dividend of 24 fils per share in 2022 with a dividend yield of 4.7%. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock ings. EBITDA and margins will continue benefit from this top line expansion and better cost control. In the 3Q22, EBITDA margin stood at 2-year high. DU unlimited power plans continues to attract and retain existing mobile customer base. We expect the Company to generate healthy free cash flow as the company expects capex intensity to return to normal following two years of high investment. DU generated AED 579 Mn in free cash flow in 3Q22. The balance sheet remained strong with net cash balance of AED 910 Mn in 3Q22. It is an attractive EV/EBITDA multiple of 4.9x in FY2022 compared to the peer average of 5.8x. Considering all these factors, we assign a BUY rating on the stock.

DU - Relative Valuation

(At CMP)	2018	2019	2020	2021	2022	2023F
PE	13.27	13.49	16.18	21.21	19.14	18.16
PB	2.74	2.70	2.72	2.74	2.66	2.64
EV/EBITDA	3.83	3.67	4.47	4.66	4.10	3.96
Dividend Yield	6.8%	6.6%	5.4%	4.1%	4.7%	4.9%

FABS estimate & Co Data

DU - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	3,070	3,175	3,315	3,151	5.2%	8.0%	4.4%	11,682	12,754	9.2%
Costs	-1,854	-1,778	-1,859	-1,812	2.6%	0.3%	4.5%	-6,861	-7,194	4.9%
Marketing expense	-66	-45	-95	-52	84.2%	44.8%	110.0%	-204	-246	20.9%
EBITDA	1,150	1,351	1,361	1,287	5.7%	18.3%	0.7%	4,618	5,315	15.1%
D&A and Impairment	-540	-519	-565	-535	5.7%	4.8%	8.8%	-2,025	-2,112	4.3%
Operating profit	611	832	795	752	5.7%	30.2%	-4.4%	2,592	3,203	23.5%
Financ inc/exp	-22	-18	-7	-19	-62.7%	-67.8%	-61.1%	-79	-59	-24.5%
Other inc/exp	130	0	1	0	NM	NM	NM	131	2	-98.7%
Pre-royalty profit	679	763	730	733	-0.5%	7.5%	-4.4%	2,483	2,963	19.4%
Federal Royalty	-359	-444	-444	-416	6.6%	23.7%	-0.1%	-1,382	-1,744	26.2%
Net profit	321	319	286	317	-9.8%	-10.7%	-10.4%	1,101	1,220	10.8%

FABS Estimates & Co Data

DU – Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross Margin	39.6%	44.0%	43.9%	431	-7	41.3%	43.6%	233
EBITDA Margin	37.5%	42.6%	41.0%	358	-151	39.5%	41.7%	214
Operating margin	19.9%	26.2%	24.0%	410	-221	22.2%	25.1%	292
Net Profit margin	10.4%	10.1%	8.6%	-181	-142	9.4%	9.6%	14

FABS estimate & Co Data

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"