

## Emirates Telecommunications

Higher Revenue supported the bottom-line

### 4Q21 Net profit missed our estimate

Etisalat Group (now **e&**) reported an increase by 4.3% YOY in the Net Profit to AED2,136 Mn in 4Q21, up from a Net Profit of AED2,048 Mn in 4Q20, missing our expectation. This increase was primarily due to higher Revenue and lower Impairments, Finance cost and Taxes.

### P&L highlights

The Total Revenue increased by 4.2% YOY to AED13,613 Mn in 4Q21 as compared to AED13,064 Mn in 4Q20. The Operating Expenses was up by 4% YOY to AED6,643 Mn in 4Q21, up from AED6,389 Mn in 4Q20. The Impairment charges decreased by 6% YOY to AED475 Mn in 4Q21, as compared to AED506 Mn in 4Q20. These changes have led the EBITDA to increase by 5.3% YOY to AED6,495 Mn in 4Q21 from AED6,169 Mn in 4Q20. The Operating Profit increased by 1.4% YOY to AED2,898 Mn, despite the increase in Federal Royalty by 12.9% YOY from AED1,155 Mn in 4Q20 to AED1,304 Mn in 4Q21. The Profit before tax with a 5.5% YOY increase to AED2,900 Mn in 4Q21 from AED2,749 Mn in 4Q20. However, Finance Income increased by 4.7% YOY in 4Q21 to AED439 Mn, up from AED420 Mn in 4Q20, while Finance cost decreased by 17.5% YOY to AED437 Mn in 4Q21, down from AED529 Mn in 4Q20. The Tax Expense decreased by 20.6% YOY to AED354 Mn in 4Q21 from AED445 Mn in 4Q20. As a result, the Net Profit increased by 4.3% YOY to AED2.13 Bn in 4Q21, up from AED2.05 Bn in 4Q20.

### Balance sheet highlights

Total Assets decreased by 3.62% YOY to AED128.2 Bn in 4Q21 from AED133.02 Bn in 4Q20. Total Equity decreased by 4.93% YOY to AED57.56 Bn in 4Q21, down from AED60.55 Bn in 4Q20. Similarly, the Total Liabilities decreased by 2.53% YOY to AED70.63 Bn, as compared to AED72.47 Bn in 4Q20.

### Target price and recommendation

We maintain our SELL rating with a revised target price of AED25.00. Etisalat Group has rebranded and now is known as 'e&'. The Company strategizes to have a global influence in digitalization. It plans to retain its market position in UAE and International markets. As per Forbes Middle East, e& is the most valuable listed Company in the UAE. The Company plans to broaden its horizons while continuing to maintain operations in the current 16 markets. e& has successfully established consumer digital and enterprise digital business units. The e& life is focused on entertainment related technologies. The e& enterprise will aid digitalization of Government, Corporates and Enterprises. Fur-

**Rating : SELL**

### First Look Note – 4Q21

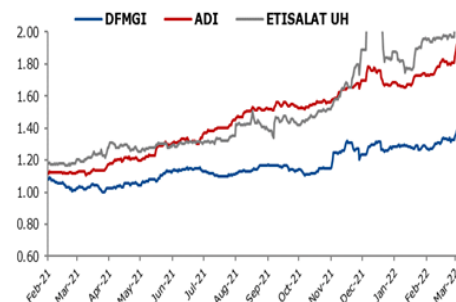
#### Sector: Telecommunication

#### Recommendation

|                         |       |
|-------------------------|-------|
| Current Price (7-March) | 36.20 |
| Target Price            | 25.00 |
| Upside/(Downside) (%)   | -31%  |

#### Stock Information

|                           |             |
|---------------------------|-------------|
| Market Cap (mm)           | 314,822.49  |
| Paid Up Capital (mm)      | 8,696.75    |
| 52 Week High              | 37.00       |
| 52 Week Low               | 19.72       |
| 3M Avg. daily value (AED) | 152,460,000 |



#### Financial Ratios

|                          |       |
|--------------------------|-------|
| Dividend Yield (12m)     | 3.31  |
| Dividend Pay-out (%)     | 74.67 |
| Price-Earnings Ratio (x) | 33.66 |
| Price-to-Book Ratio (x)  | 6.62  |
| Book Value (AED)         | 5.47  |
| Return-on Equity (%)     | 19.29 |
| Earning Per Share (AED)  | 1.08  |
| Beta                     | 0.94  |

#### Stock Performance

|                       |        |
|-----------------------|--------|
| 5 Days                | 3.43%  |
| 1 Months              | 9.37%  |
| 3 Months              | 2.55%  |
| 6 Months              | 46.09% |
| 1 Year                | 81.79% |
| Month to Date (MTD)   | 3.49%  |
| Quarter to Date (QTD) | 14.20% |
| Year to Date (YTD)    | 14.20% |

thermore, e& capital will undertake growth by merger and acquisition strategy and drive performance for the Group. The re-alignment of the business model is the part of the transformation plan to become global leader in technology and Investment conglomerate.

The Company witnessed a strong performance in the year 2021 with a 3.2% YOY increase in Net Profit to AED9,317 Mn, as compared to AED9,027 Mn in 2020. The Total Revenue grew by 3.2% YOY to AED53,342 Mn in 2021, up from AED51,708 Mn in 2020. The Company reports Total Revenue mainly via four segments – Mobile subscribers, Fixed subscribers, Equipment and Others. Furthermore, the Total Revenue is generated from UAE and International Markets namely– Maroc Telecom (Morocco), Egypt, Pakistan and Others. The Total Revenue from UAE increased slightly by 0.7% YOY to AED30,952 Mn in 2021. It comprises of 58% of the Group's Total Revenue. Within UAE, the Revenue is driven by Fixed Subscribers and Mobile Subscribers. The fourth quarter witnessed strong recovery in demand and increased segment Revenue by 5% YOY. It was driven by macroeconomic recovery that eased consumer and corporate spending. The Mobile segment grew by 6% YOY to AED2.8 Bn in 4Q21 driven by demand due to Expo2020 and ease in restrictions for tourists. The Fixed segment grew by 1% YOY amounting to AED2.8 Bn in 4Q21. It was positively impacted by internet and TV services. The Other segment witnessed strong growth by 12% YOY in Revenue mainly due to wholesale and digital services. For the year 2021, the Revenue from UAE market grew by 1% YOY to AED30.2 Bn. The performance was underpinned by growth in data, roaming services, digital services. The Voice revenue witnessed a decline in 2021, however, the Equipment services offset it. The Total Revenue from International markets comprise of 42% of the top-line. The Revenue from International markets increased by 7% YOY to AED22.6 Bn in 2021, driven by strong performance in Egypt, Pakistan and Maroc Telecom. The 4Q21 performance was mainly driven by Etisalat Misr and Moov Africa. Total Revenue from Maroc Telecom increased by 3% YOY in AED due to currency appreciation. The Mobile segment declined by 8% YOY, whereas the Fixed segment was stable. It was mainly due to competitive pressures. Overall, the segment was impacted by unfavorable foreign currency movements which was offset by demand in mobile data and mobile money. The Revenue from Egypt increased by 21% YOY to AED5 Bn in 2021. It was driven by strong growth in subscriber base, increase in mobile data and national roaming Revenue. Revenue from Pakistan increased by 4% YOY due to growth in mobile and fixed segment. Additionally, the Ubank segment contributed to the overall growth by deposit base and loan portfolio.

The aggregate subscriber growth is stable in 4Q21 with a 3% YOY growth to 159 Mn, up from 154 Mn in 4Q20. It was driven by strong subscriber acquisition in key markets such as Saudi Arabia, UAE, Morocco etc. The active subscriber base for UAE reached 12.7 Mn in 4Q21. The Expo2020 boosted the Group's subscriber base. Similarly, the eLife subscription continues to positively add value to the Group. The Maroc Telecom subscriber base grew by 2% YOY driven by increase in operations in Burkina Faso, Morocco etc. The base increased by 5% YOY in Egypt. However, it declined by 1% YOY in Pakistan due to lower mobile segment base. The Operating Expenses (excluding Depreciation, Amortization and FX) increased by 6.7% YOY to AED25.6 Bn in 2021, up from AED23.9 Bn in 2020. The Group witnessed higher direct costs associated with the increase in Revenue. The year 2021 witnessed changes in Revenue mix that further increased costs. Lastly, the rebound in economic activities added to the expenses. Depreciation and Amortization expenses grew by 4% YOY to AED8.2 Bn. As a percent of Revenue, it remained flat 15% in 2021. The Group EBITDA increased by 1% YOY to AED26.6 Bn in 2021, up from AED26.3 Bn in 2020. It was due to increase in Revenue and cost optimization initiatives. The EBITDA margin stood at 49.8% in 2021, a decline of 107 bps. As a result, the Net Profit increased by 3.2% YOY to AED9.32 Bn in 2021, up from AED9.03 Bn in 2020. The increase is driven by strong EBITDA level and around 50.7% YOY increase in performance of associates. Furthermore, lower Impairments and Royalties and improvement in Net finance income boosted the Group's performance. The Normalized operating free cash flow declined by 1.3% YOY to AED19.7 Bn in 2021.

The Group continues to invest in its strategic goals to maintain leadership position. The CAPEX grew by 18% YOY to AED8.4 Bn in 2021, up from AED7.1 Bn in 2020. The capital intensity ratio stood at 16% in 2021, up from 14% in 2020. The CAPEX was attributable to Spectrum costs in Pakistan and Egypt, costs related to network modernization such as 5-G rollout in UAE, the fibre investments in Morocco and Pakistan. Additionally, the capex included costs for network coverage and expansion in Egypt and Maroc Telecom. The Total Debt stood at AED25.7 Bn in 2021, a decline of AED1 Bn compared to 2020. The Debt is dominated by e& (62%) and Maroc Telecom Group (23%). The Company has a Net Cash position of AED2.8 Bn in 2021. The EPS stood at a AED1.07 in 2021, up from AED1.04 in 2020. The Board of Directors proposed AED40 fils per share for second half of 2021. The full year Dividend stood at AED80 fils per share. The proposal is subject to shareholder's approval. Based on our analysis, we assign a SELL rating.

**Etisalat - Relative Valuation**

| (At CMP)           | 2017  | 2018  | 2019  | 2020  | 2021  |
|--------------------|-------|-------|-------|-------|-------|
| P/E (x)            | 35.62 | 34.49 | 35.36 | 34.00 | 33.05 |
| P/B (x)            | 6.93  | 6.84  | 6.60  | 6.27  | 6.46  |
| Dividend yield (%) | 2.3%  | 2.3%  | 2.3%  | 2.3%  | 2.3%  |

FABS Estimates & Co data

**Etisalat - P&L**

| AED mm                          | 4Q20         | 3Q21         | 4Q21         | 4Q21F        | Var           | YOY Ch       | QOQ Ch        | 2020          | 2021          | Change       |
|---------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|
| Revenue                         | 13,064       | 13,294       | 13,613       | 13,356       | 1.9%          | 4.2%         | 2.4%          | 51,708        | 53,342        | 3.2%         |
| Operating expenses              | -6,389       | -6,240       | -6,643       | -6,269       | 6.0%          | 4.0%         | 6.5%          | -23,940       | -25,552       | 6.7%         |
| Impairment                      | -506         | -313         | -475         | -323         | 47.4%         | -6.0%        | 51.9%         | -1,456        | -1,217        | -16.4%       |
| <b>EBITDA</b>                   | <b>6,169</b> | <b>6,741</b> | <b>6,495</b> | <b>6,764</b> | <b>-4.0%</b>  | <b>5.3%</b>  | <b>-3.7%</b>  | <b>26,312</b> | <b>26,572</b> | <b>1.0%</b>  |
| Federal royalty                 | -1,155       | -1,435       | -1,304       | -1,469       | -11.3%        | 12.9%        | -9.2%         | -5,594        | -5,542        | -0.9%        |
| Depreciation, Amortization & FX | -2,216       | -2,111       | -2,383       | -2,121       | 12.3%         | 7.5%         | 12.8%         | -7,900        | -8,529        | 8.0%         |
| Share of assoc. & JVs           | 60           | 78           | 89           | 81           | 10.8%         | 49.0%        | 14.1%         | 197           | 297           | 50.7%        |
| <b>Operating profit</b>         | <b>2,859</b> | <b>3,273</b> | <b>2,898</b> | <b>3,254</b> | <b>-11.0%</b> | <b>1.4%</b>  | <b>-11.5%</b> | <b>13,015</b> | <b>12,799</b> | <b>-1.7%</b> |
| Finance income                  | 420          | 365          | 439          | 379          | 15.9%         | 4.7%         | 20.5%         | 1,112         | 1,289         | 15.9%        |
| Finance cost                    | -529         | -271         | -437         | -282         | 54.8%         | -17.5%       | 61.0%         | -2,361        | -1,284        | -45.6%       |
| <b>Profit before tax</b>        | <b>2,749</b> | <b>3,366</b> | <b>2,900</b> | <b>3,352</b> | <b>-13.5%</b> | <b>5.5%</b>  | <b>-13.8%</b> | <b>11,766</b> | <b>12,804</b> | <b>8.8%</b>  |
| Tax                             | -445         | -495         | -354         | -469         | -24.7%        | -20.6%       | -28.5%        | -1,451        | -1,745        | 20.3%        |
| <b>Profit after tax</b>         | <b>2,304</b> | <b>2,871</b> | <b>2,547</b> | <b>2,882</b> | <b>-11.6%</b> | <b>10.6%</b> | <b>-11.3%</b> | <b>10,316</b> | <b>11,059</b> | <b>7.2%</b>  |
| Non-controlling int.            | -256         | -435         | -411         | -437         | -5.8%         | 60.8%        | -5.5%         | -1,289        | -1,742        | 35.2%        |
| <b>Net profit</b>               | <b>2,048</b> | <b>2,436</b> | <b>2,136</b> | <b>2,446</b> | <b>-12.7%</b> | <b>4.3%</b>  | <b>-12.3%</b> | <b>9,027</b>  | <b>9,317</b>  | <b>3.2%</b>  |

FABS estimate & Co Data

**Etisalat - Margins**

| AED mm            | 4Q20  | 3Q21  | 4Q21  | YOY Ch | QOQ Ch | 2020  | 2021  | Change |
|-------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross Margin      | 51.1% | 53.1% | 51.2% | 11     | -186   | 53.7% | 52.1% | -160   |
| EBITDA margin     | 47.2% | 50.7% | 47.7% | 49     | -300   | 50.9% | 49.8% | -107   |
| Operating margin  | 21.9% | 24.6% | 21.3% | -60    | -333   | 25.2% | 24.0% | -118   |
| Net Profit margin | 15.7% | 18.3% | 15.7% | 1      | -264   | 17.5% | 17.5% | 1      |

FABS estimate & Co Data

**Research Rating Methodology:**

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

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