

Emirates Telecommunications

Higher Revenue, lower royalty fees and finance cost offset the rise in OPEX and D&A

2Q21 Net profit missed our estimate

Etisalat reported a Net Profit of AED2.395 Bn in 2Q21, which is a 0.3% YOY increase from a Net Profit of AED2.388 Bn in 2Q20. The Net Profit missed our expectation by 2.9% primarily due to Higher Revenue, lower Federal royalty fees and lower finance cost.

P&L highlights

The Total Revenue increased by 5.8% YOY to AED13.21 Bn in 2Q21 as compared to AED12.49 Bn in 2Q20. The Operating Expenses increased as well by 6.1% YOY to AED6.37 bn in 2Q21 from AED6 Bn in 2Q20. The Impairment charges reduced significantly by 25.1% YOY to AED247 Mn in 2Q21 as compared to AED329 Mn in 2Q20. These changes have led the EBITDA to increase by 7.1% YOY to AED6.59 Bn in 2Q21 from AED6.15 Bn in 2Q20. The Operating Profit slightly increased by 0.6% YOY to AED3.269 Bn, despite the increase in Depreciation and Amortization Expenses by 36.7% from AED1.44 Bn in 2Q20 to AED1.97 Bn in 2Q21. The Profit before tax increased by 21% YOY to AED3.35 Bn in 2Q21 from AED2.76 Bn in 2Q20 despite the decrease in Finance Income by 19.9% to AED284Mn in 2Q21 from AED355 Mn in 2Q20, which was mitigated by a substantial decrease in Income Cost by 75.8% reaching AED202 Mn in 2Q21 from AED835 Mn in 2Q20. The Tax Expense, on the other hand, increased drastically YOY to AED530 Mn in 2Q21 from AED239 Mn in 2Q20. Net Profit for the second quarter is AED2.395 Bn compared to AED2.388 Bn in 2Q20, an increase by 0.3% YOY.

Balance sheet highlights

Total Assets increased by 2.7% YOY to AED125 Bn in 2Q21 from AED122 Bn in 2Q20. Total Equity increased by 5.44% YOY to AED58.35 Bn in 2Q21 from AED55.34 Bn in 2Q20. Total Liabilities increased by 0.49% from AED66.55 Bn in 2Q20 to AED66.87 Bn in 2Q21.

Target price and recommendation

We revise our rating to REDUCE with a target price of AED21.00. Etisalat Group is one of the leading telecommunication companies in the MENA region with operations in different countries and a strategic expansion through subsidiaries. As at end of 2Q21, the Group has witnessed subscriber growth in mobile post-paid and eLife segments. In 2Q21 the group has reported Revenues for AED 13.2 Bn from AED 12.49 Bn, an increase by 5.8% YOY, this increase is attributable to both domestic and international operations. UAE constitutes 56% of Total Revenues in 2Q21 followed by Maroc Telecom (MT) constituting 26% of the total. Higher Revenue and more cost efficiency drove EBITDA higher by 7.1% YOY to reach AED 6.6 Bn in 2Q21 from AED 6.15 Bn in 2Q20 with increase in EBITDA margin by 279 bps to 49.9% in 2Q21. The highest growth in Revenues was reported in Egypt by 27% YOY attributable to strong growth in mobile data and

Rating : REDUCE

First Look Note – 2Q21

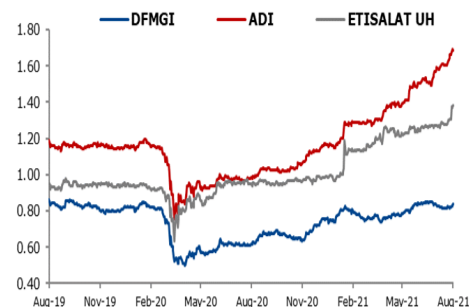
Sector: Telecommunication

Recommendation

Current Price (10-Aug)	23.92
Target Price	21.00
Upside/(Downside) (%)	-12.5%

Stock Information

Market Cap (mm)	208,722.10
Paid Up Capital (mm)	8,696.75
52 Week High	25.80
52 Week Low	16.13
3M Avg. daily value (AED)	43,854,670



Financial Ratios

Dividend Yield (12m)	5.00
Dividend Pay-out (%)	115.62
Price-Earnings Ratio (x)	22.52
Price-to-Book Ratio (x)	4.43
Book Value (AED)	5.42
Return-on Equity (%)	19.90
Earning Per Share (AED)	1.07
Beta	0.87

Stock Performance

5 Days	-0.41%
1 Months	8.89%
3 Months	11.32%
6 Months	23.07%
1 Year	47.92%
Month to Date (MTD)	5.26%
Quarter to Date (QTD)	9.09%
Year to Date (YTD)	44.77%

wholesale, followed by an increase by 16% of Revenues in Pakistan and 8% increase in Revenues reported by MT due to favourable exchange rate changes along the growth in international subsidiaries. Net Profit also increased by 0.3% in 2Q21 to AED 2.395 Bn from AED 2.388 Bn in 2Q20, mainly due to the increase in Revenues, better contribution from associates, lower Net Financing Costs and lower Impairment charges, while maintaining a Net Profit Margin of 18.1% with a marginal decrease of 1% YOY. On the other hand, Capital Expenditures (CAPEX) increased in 2Q21 by 6% as compared to 2Q20 reaching AED 1.6 Bn supporting the growth in traffic and network coverage mainly due to international operations while the UAE maintained a lower capital spending and was focused on network maintenance and capacity extension. It is worth noting that the CAPEX-to-Revenue ratio remained stable at 12% as compared to 2Q20. The Group has expanded its customer base by 7% and has maintained Revenue growth despite all the challenges throughout the year. Etisalat Group managed to maintain a strong balance sheet with low leverage despite the decrease in Total Assets from AED 133 Bn as at end of 2020 to AED 125 Bn in 2Q21 and a decrease in Total Debt from AED 26.7 Bn in December 2020 to AED 24.47 Bn in 2Q21 and a decrease as well in Total Equity from AED 60.55 Bn as at end of 2020 to AED 58.35 Bn in 2Q21. The proposed cash DPS with respect to 2Q21 performance is AED 0.4 with a total of AED 3.48 Bn to be paid. The group has a rating of AA-, stable by S&P Global and Aa3 stable by Moody's. We assign a REDUCE rating to Etisalat.

Etisalat - Relative Valuation

(At CMP)	2017	2018	2019	2020	2021E
P/E (x)	22.02	21.58	21.36	20.54	21.36
P/B (x)	4.18	4.13	3.99	3.79	3.56
Dividend yield (%)	3.7%	3.7%	3.7%	3.7%	3.7%

FABS Estimates & Co data

Etisalat P&L

(AED mm)	2Q20	1Q21	2Q21	2Q21F	VAR	YOY ch	QOQ ch	2020	2021F	YOY ch
Revenue	12,492	13,220	13,216	14,542	-9.1%	5.8%	0.0%	51,708	52,975	2.5%
Operating expenses	-6,009	-6,342	-6,377	-7,125	-10.5%	6.1%	0.6%	-23,940	-24,369	1.8%
Impairment	-329	-182	-247	-192	28.7%	-25.1%	35.1%	-1,456	-1,536	5.5%
EBITDA	6,154	6,696	6,592	7,225	-8.8%	7.1%	-1.5%	26,312	27,070	2.9%
Federal royalty	-1,509	-1,387	-1,416	-1,527	-7.3%	-6.2%	2.1%	-5,594	-5,731	2.5%
Depreciation, Amortization	-1,445	-2,010	-1,976	-2,179	-9.3%	36.7%	-1.7%	-7,900	-8,544	8.2%
Share of assoc. & JVs	49.1	61	68	65	6.0%	39.3%	11.3%	197	162	-18.0%
Operating profit	3,249	3,361	3,269	3,584	-8.8%	0.6%	-2.7%	13,015	12,957	-0.4%
Finance income	355	201	284	211	34.5%	-19.9%	41.2%	1,112	1,088	-2.2%
Finance cost	-835	-374	-202	-411	-50.8%	-75.8%	-45.9%	-2,361	-2,359	-0.1%
Profit before tax	2,768	3,188	3,350	3,384	-1.0%	21.0%	5.1%	11,766	11,686	-0.7%
Tax	-239	-367	-530	-422	25.7%	NM	44.6%	-1,451	-1,437	-0.9%
Profit after tax	2,529	2,821	2,820	2,962	-4.8%	11.5%	0.0%	10,316	10,248	-0.7%
Non-controlling int.	-142	-471	-425	-495	-14.1%	NM	-9.8%	-1,289	-1,109	-14.0%
Net profit	2,388	2,350	2,395	2,467	-2.9%	0.3%	1.9%	9,027	9,140	1.3%

FABS estimate & Co Data

Margins	2Q20	1Q21	2Q21	YOY ch	QOQ ch	2020	2021F	YOY ch
Gross Margin	51.9%	52.0%	51.7%	-90	-103	53.7%	54.0%	30
EBITDA margin	49.3%	50.6%	49.9%	279	-550	50.9%	51.1%	21
Operating margin	26.0%	25.4%	24.7%	-136	-78	25.2%	24.5%	-71
Net Profit margin	19.1%	17.8%	18.1%	-215	-81	17.5%	17.3%	-20

FABS estimate & Co Data

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%

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