

AL Yah Satellite Communications Co

Revenue declined due to slow economic recovery

1H21 profit higher than our estimate

Al Yabsat Net Profit has decreased by 2% YOY, from USD27.1 Mn in 1H20 to USD26.5 Mn in 1H21. The performance is higher than our estimate of USD25.4 Mn by 4%, in 1H21. The profitability was driven up by lower Revenue by 4%, higher Cost of Revenue by 4% in addition to increase in Finance Cost by 42%.

P&L highlights

The Total Revenue decreased by 4% YOY to USD190.2 Mn in 1H21, down from USD197.9 Mn in 1H20. The Cost of Revenue increased by 4% YOY to USD13.4 Mn in 1H21. As a result, the Gross Profit declined by 4% YOY to USD176.7 Mn in 1H21, down from 185.1 Mn in 1H20. The EBITDA decreased by 4% YOY to USD115.9 Mn in 1H21, down from USD121.02 Mn in 1H20. It was mainly impacted by decline in Other Income by 51% YOY to USD1.1 Mn in 1H21, down from USD2.3 Mn in 1H20. The Administrative Expenses decreased by 7% YOY to USD62 Mn in 1H21, down from USD66 Mn in 1H20. However, the decline in Gross Profit and lower Other Income contracted the EBITDA levels of the Company in 1H21. The Depreciation decreased slightly by 1% YOY to USD73.5 Mn in 1H21, down from USD74.4 Mn in 1H20. However, the Operating Profit decreased by 9 % YOY to USD42.2 Mn in 1H21, down from USD46.6 Mn in 1H20. The Net Finance Cost increased significantly by 42% YOY to USD12.7 Mn in 1H21, up from USD8.9 Mn in 1H20. It was mainly due to increase in Finance costs of the Company, in line with the Company's increase in leverage. The NCI increased by 3% YOY to USD3.6 Mn in 1H21, up from USD3.5 Mn in 1H20. As a result, the Net Profit declined by 2% YOY to USD26.5 Mn in 1H21, down from 27.1 Mn in 1H20.

Balance sheet highlights

The Total Assets increased by 8% to USD1.8 Bn in 1H21, up from USD1.7 Bn in FY2020. The Total Liabilities increased by 20% to USD832 Mn in 1H21, up from USD695 Mn in FY2020. The Total Equity increased slightly by 0.5% to USD985 Mn in 1H21, up from USD980 Mn in FY2020.

Target price and rating

We assign a BUY rating on YAHSAT with a target price of AED3.30. Al Yahsat is a leading Satellite Connectivity and Solutions provider based in UAE. The Company is a subsidiary of the Abu Dhabi Sovereign Fund – Mubadala, majority shareholder. In 1H21, the Company initiated an initial public offering and raised

Rating : BUY

First Look Note – 1H21

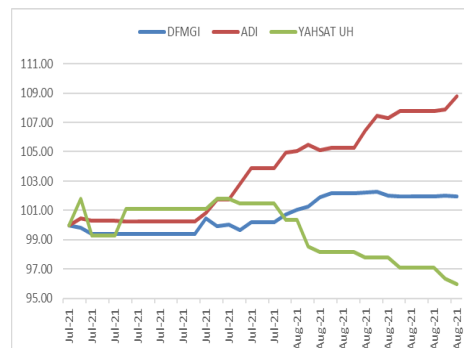
Sector: Satellite Communication

Recommendation

Current Price (16-Aug)	2.65
Target Price	3.30
Upside/(Downside) (%)	25.0%

Stock Information

Market Cap (mm)	6,464.45
Paid Up Capital (mm)	N/A
52 Week High	3.10
52 Week Low	2.63
3M Avg. daily value (AED)	N/A



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	52.25
Price-Earnings Ratio (x)	NA
Price-to-Book Ratio (x)	1.94
Book Value (AED)	1.36
Return-on Equity (%)	N/A
Earning Per Share (AED)	N/A
Beta	N/A

Stock Performance

5 Days	-1.49%
1 Months	-2.93%
3 Months	NA
6 Months	NA
1 Year	NA
Month to Date (MTD)	-5.02%
Quarter to Date (QTD)	NA
Year to Date (YTD)	NA

USD 731 Mn. The Net Profit decreased by 2% YOY to USD26.5 Mn in 1H21, as compared to USD27.1 Mn. It was mainly impacted by COVID-19 implications on the economy and the sluggish recovery in the key markets. The Company mainly operates via four segments – Infrastructure services, Managed Solutions, Mobility Solutions and Data solutions. The Infrastructure segment is the highest contributor at 63% in 1H21, followed by Managed Solutions and Mobility Solutions at 15% and 6% in Data Solutions. The Infrastructure segment improved slightly by 1% YOY to USD120.5 Mn in 1H21.

The segment mainly comprises of contracted revenue with major customers that comprise of Government entities. The **Managed solutions** and **Mobility solutions** both declined by 11% and 12% YOY to USD 29.1 Mn and USD29.4 Mn respectively in 1H21. It was mainly impacted due to delays in projects because of pandemic restrictions that slowed down the activities. The Mobility Solutions is operated by the acquisition of Thuraya in 2018. The segment was impacted by COVID-19 and negatively impacted the demand for services. Around 52% of the Revenue is generated from Middle East and Central Asia. The **Data solutions** segment contracted by 10% YOY to USD12.3 Mn in 1H21, down from USD13.9 Mn in 1H20. The segment is concentrated in Africa with 71.4% contribution from the region. The lockdowns and slow recovery in Africa majorly impacted the Revenue generated from the segment. The Company has significant future revenue backlog, backed majorly by Government Entities. The Net Profit was supported by the **Infrastructure** and **Managed solutions** and negatively impacted by the Data and Mobility solutions. The Net Loss from Mobility Solutions increased significantly to USD3.5 Mn in 1H21, up from USD1.5 Mn in 1H20.

The Cost of Revenue increased by 4% YOY to USD13.4 Mn in 1H21, up from USD12.9 Mn in 1H20. Therefore, the Gross Profit Margin declined slightly by 56 bps to 93% in 1H21, down from 94% in 1H20. The Depreciation Expenses decreased by 1% YOY to USD73.5 Mn in 1H21, down from USD74.5 Mn in 1H20. The Depreciation expenses are mainly contributed by the Assets for the Infrastructure segment followed by the Data solutions. As a result, the Operating Profit declined by 9% YOY to USD42.2 Mn in 1H21, down from USD46.6 Mn in 1H20. The Operating Profit Margin declined by 134.3 bps to 22% in 1H21, down from 24% in 1H20. The Share of results from HPE and Al Maisan improved in 1H21. The HPE continued to report loss, however at a lower level. The contribution from Al Maisan improved to USD677K in 1H21, after a loss in 1H20.

The Company significantly increased its borrowing to USD415.3 Mn in 1H21, up from USD272.8 Mn in FY2020. It is in line with the expansion plan related to the new satellite program for the Infrastructure segment. As a result, the Net Finance Costs increased significantly by 42% YOY to USD12.7 Mn in 1H21, up from USD8.9 Mn in 1H20. The Debt Structure of the company mainly comprises of Term loans and Export Credit Facility. The ECA will be partly used to fund the capital expenditure for the Thuraya 4-NGS, the new satellite program.

The Company's Share Capital stands at USD664 Mn as of 1H21, due to the IPO offering program. In 2020, the Company planned to procure the T4-NGS satellite and an option for an additional Thuraya 5-NGS. These next generation satellites are likely to boost the Company's profitability and secure a robust position. The T4-NGS contracted revenue stands at USD708.4 Mn as of 1H21 and is expected to commence from second half of 2024. The Company's Asset base increased by 8% to USD1.8 Bn in 1H21 as compared to FY2020. The Company has Capital work in progress related to the satellite expansions. The Company's Cash Flow from Operating activities declined by 23% YOY to USD81 Mn in 1H21, down from USD105 Mn in 1H20. It was mainly due to lower profitability levels in 1H21 and unfavourable Working Capital Adjustments. However, the Company demonstrated resilience via its contracted nature of business operations and reported strong cash position. During 1H21, the Company distributed USD36 Mn in dividends, representing USD3.6 per share. Based on the above, We assign a BUY rating on the Stock.

Al Yahsat - P&L

(USD'000)	1H20	1H21	1H21F	Var	YOY Chn	2020	2021F	YOY Chn
Total Revenue	197,914	190,183	190,001	0.1%	-4%	407,507	422,515	4%
Cost of revenue	-12,853	-13,416	-13,870	-3.3%	4%	-40,041	-45,464	14%
Gross Profit	185,061	176,767	176,131	0.4%	-4%	367,466	377,051	3%
Administrative Expenses	-66,346	-62,013	-62,244	-0.4%	-7%	-136,204	-136,365	0%
Other Income	2,310	1,137	1,140	-0.3%	-51%	15,668	2,328	-85%
EBITDA	121,025	115,891	115,026	0.8%	-4%	246,930	243,014	-2%
Depreciation	-74,454	-73,484	-74,100	-0.8%	-1%	-149,567	-150,256	0%
Operating Profit	46,571	42,198	40,527	4.1%	-9%	95,333	91,428	-4%
Net Finance Cost	-8,929	-12,704	-11,652	9.0%	42%	-17,373	-2,139	-88%
Share of results	-10,457	-2,849	-3,300	-13.7%	-73%	-16,360	-8,250	-50%
Income Tax	-113	-120	-128	-6.2%	6%	-200	-284	42%
NCI	-3,460	-3,575	-3,930	-9.0%	3%	-7,502	-9,824	31%
Net profit ('USD 000)	27,072	26,525	25,447	4%	-2%	61,400	80,756	32%

Al Yahsat - Margins

	1H20	1H21	YOY Change	2020	2021	YOY Change
GPM	94%	93%	-56.0	90%	89%	-93
OPM	24%	22%	-134.3	23%	22%	-176
NPM	14%	14%	26.8	15%	19%	405

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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