

MEA Telecoms Q2 23e earnings preview

TMT sector to outperform in Q2 with KSA players registering the highest growth led by B2B/ICT.

- We pencil in a strong +7% y/y revenue growth in Q2 23e driven by the KSA market because of ICT/B2B (ELM/Solutions) and expats/Hajj.
- We see EBITDA growth contained at +2% y/y as operating margins retract (-2ppts y/y ACe) on less favorable revenue mix (B2B), tower leaseback charges, and higher network O&M costs (5G).
- We are upbeat about sector EPS (+21% y/y ACe) from a low base (vs. one-off losses). We see clean EPS growth at c.+6% y/y.
- We expect all KSA TMT names to outperform in Q2 led by ELM/Solutions, and pick DU in the UAE, and VFQS in Qatar.

In KSA, we expect strong results for all players with ICT giants Solutions and ELM leading in growth: We see Solutions registering the strongest top line growth (+38% y/y ACe) aided by M&A (Giza/CCC), with EPS up +17% y/y (NPM drop on lower inorganic profitability margins/higher Zakat). Elm will shine with a +30% y/y revenue growth ACe (driven by new digital platforms, launch of Nusk), while EPS rebounds 72% y/y ACe (higher margin platform revenues/spike in finance income). We pencil in y/y growth for all three KSA Telcos driven by i) 5G/FTTH uptake, ii) hajj/expats, and iii) B2B/GRE awards. STC will register strong top line growth (+8.8% y/y ACe) driven by Solutions, with EPS up +16% y/y ACe (higher finance income/lack of BGSM impairments). Zain KSA is a top beneficiary from the return of Hajj, while we see sustained support from B2B projects. Net income will further benefit from tower gains (SAR 107m ACe). Mobily continues to grow via B2B, while we see an EPS spike of 47% y/y aided by a drop in DD&A.

In Qatar we play VFQS on superior growth as ORDS faces operational headwinds in international markets (Tunisia/Myanmar/Oman), offsetting growth in Iraq/Algeria (aided by FX). This however should be offset at the EPS level via lower finance costs ACe. For VFQS, we expect a robust 13% y/y revenue growth driven by fixed broadband (GigaHome) and ICT/B2B. Operating margins should remain resilient, with growth filtering through EPS (c.+25% y/y ACe).

In Kuwait, we expect strong results from all 3 players, but Zain EPS is likely to reflect muted growth on leaseback commitments/ finance costs, and Sudan headwinds: We expect Zain Group to exhibit strong revenue growth of c.11% y/y on outperformance in Iraq (+13% y/y aided by FX; IQD/KWD +7% y/y), KSA (+11% y/y), and Sudan (despite a sequential decline). EPS however faces pressure from higher finance costs and tower leaseback commitments. STC KK will benefit from e-portal consolidation (Q3 22A), bolstering growth (revenues/EPS +14.4%/+15.4% y/y ACe). Ooredoo KK should exhibit strong growth via Algeria/Maldives, with EPS also benefiting from lower finance costs.

The UAE market continues its growth trajectory. We play DU but avoid e& on FX headwinds in international opcos/rising finance costs: We expect e& to register a limited <1% y/y revenue growth due to FX headwinds in Egypt and Pakistan (exhibits 2-3). We expect EPS to retract 9% y/y on rising finance costs (VF stake funding). e& continues to trade at a c.25% blended premium to the sector, while a potential venture into Ethiopia poses further risks. We expect DU to post strong numbers with revenues up +12% y/y on M/S gains and organic growth (expat/tourism recovery), filtering through to EPS (+22.5% y/y ACe).

TMT Q2 23e top picks

Outperformers in Q2:

Bloomberg code	ELM AB
Company name	ELM Company
Price target	SAR 635
Rating	Hold, 5% downside

Bloomberg code	SOLUTION AB
Company name	STC Solutions
Price target	SAR 290
Rating	Core Buy, 18% downside

Bloomberg code	STC AB
Company name	Saudi Telecom Company
Price target	SAR 50.0
Rating	Core Buy, 10% upside

Bloomberg code	EEC AB
Company name	Mobily
Price target	SAR 40.0
Rating	Hold, 16% downside

Bloomberg code	VFQS QD
Company name	Vodafone Qatar
Price target	QAR 2.0
Rating	Buy, 11% upside

Bloomberg code	DU UH
Company name	DU
Price target	AED 6.0
Rating	Hold, 11% upside

Overview of Q2 reporting season for MENA telecoms

- We pencil in a strong +7% y/y revenue growth in Q2 23e driven by ICT/B2B (KSA), GCC expat growth (UAE/KSA) and tourism activity/Hajj (UAE/KSA top beneficiaries).
- Sector EBITDA growth is contained at 2% y/y as operating margins retract (-216bps y/y ACe) on inflationary pressure, leaseback charges, and less favorable revenue mix (ICT).
- Reported Sector EPS to jump 21% y/y ACe from a low base (fines/impairments). Clean EPS growth (+5.7% y/y) will be driven by operational growth.
- We expect all KSA TMT names to outperform in Q2 led by ELM/Solutions, and pick DU in the UAE, and VFQS in Qatar. STC AB remains our top pick in the sector.

Exhibit 1: We see organic top line growth via B2B, filtering through to EPS

	Q2 23e	Q2 22A	y/y	Q1 23A	q/q
Revenues	15,131	14,112	7.2%	14,963	1.1%
EBITDA	5,987	5,888	1.7%	5,909	1.3%
EBIT	3,191	3,103	2.8%	3,138	1.7%
Net income	2,726	2,260	20.6%	2,856	(4.5%)
Adjusted Net income*	2,726	2,579	5.7%	2,592	5.2%
EBITDA margin (%)	39.6%	41.7%	(216 bps)	39.5%	7 bps
EBIT margin (%)	21.1%	22.0%	(90 bps)	21.0%	12 bps
Net margin (%)	18.0%	16.0%	200 bps	19.1%	(107 bps)
Adjusted Net margin (%)	18.0%	18.3%	(26 bps)	17.3%	69 bps

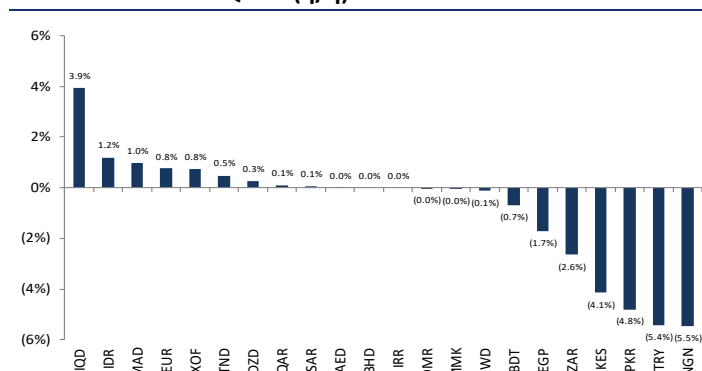
Source: Company Data, Arqaam Capital Research

NB: Stocks include ETISALAT UH, DU UH, ORDS QD, VFQS QD, ORDS OM, OTEL OM, STC KK, OOREDOO KK, ZAIN KK, STC AB, SOLUTION AB, EEC AB, ZAINKSA AB, IAM MC, YAHSAT UH, ELM AB and ETELEY. *Numbers are adjusted for consolidations

*Excluding one-off items: STC impairment and IAM MC ANRT fine in Q2 22, Zain KSA tower sale and gains from Ooredoo's KK number ranges case in Q1 23.

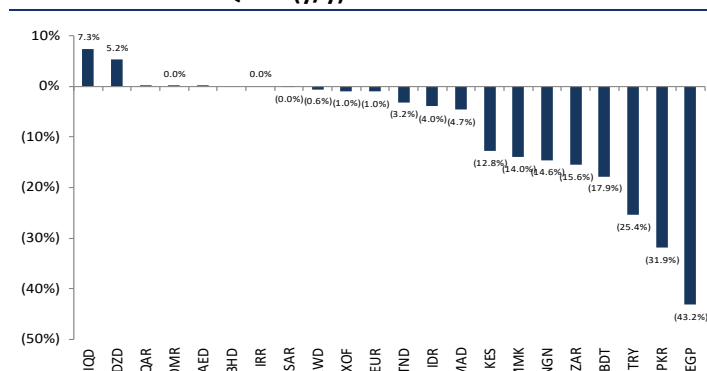
FX headwinds in Q2e to negatively impact e&: e& will face devaluation in i) EGP (-43% y/y), impacting >9% and >8% of e&'s revenue and EBITDA respectively, and ii) PKR (-32% y/y, -4.8% q/q) impacting >5% and >2.5% of revenue and EBITDA. The operator also faces MAD devaluation via Maroc Telecom (-4.7% y/y), despite a minor sequential recovery (+1% q/q). Zain and Ooredoo will benefit from appreciation in IQD (+7.3% y/y, +3.9% q/q). In addition, Ooredoo will be slightly affected by i) TND (-3.2% y/y) impacting 6.5%/7% of revenues/EBITDA, despite slight sequential recovery (+0.5% q/q), and ii) MMK via Myanmar (-14% y/y). On the other hand, the operator should benefit from DZD appreciation of 5.2% y/y impacting 10% and 8.5% of revenue and EBITDA, respectively.

Exhibit 2: Q2 23 average local currency movements vs. the USD in Q1 23 (q/q)



Source: Bloomberg, Company Data

Exhibit 3: Q2 23 average local currency movements vs. the USD in Q2 22 (y/y)



Source: Bloomberg, Company Data

Exhibit 4: Q2 23 results release timeline (Tentative dates in light blue)


Source: Bloomberg, Company Data, Arqaam Capital Research

Exhibit 5: MENA Telecoms valuation table

Company Name	Ticker	Rating	P/E		EV/EBITDA		FCF yield		DVD yield	
			FY 23e	FY 24e	FY 23e	FY 24e	FY 23e	FY 24e	FY 23e	FY 24e
Saudi Telecom Co	STC AB	Core Buy	17.0x	15.3x	8.2x	7.7x	7.5%	8.5%	3.6%	4.4%
Ooredoo Group	ORDS QD	Core Buy	13.9x	12.6x	5.2x	5.1x	10.6%	11.5%	3.5%	4.0%
STC Solutions	SOLUTION AB	Core Buy	37.7x	34.3x	29.0x	27.2x	2.2%	2.8%	1.7%	2.0%
Zain Group	ZAIN KK	Core Buy	9.4x	8.7x	5.7x	5.4x	9.2%	11.9%	6.2%	6.2%
Vodafone Qatar	VFQS QD	Buy	16.2x	14.9x	7.2x	6.9x	7.2%	7.9%	4.3%	4.9%
Ooredoo Oman	ORDS OM	Buy	13.2x	12.8x	3.4x	3.3x	9.0%	11.0%	6.7%	6.7%
Maroc Telecom	IAM MC	Buy	14.1x	13.8x	5.5x	5.5x	7.9%	8.4%	7.1%	7.2%
Mobily	EEC AB	Hold	25.0x	23.0x	7.5x	7.3x	5.5%	5.7%	2.6%	3.1%
DU	DU UH	Hold	18.2x	17.3x	7.0x	6.8x	6.7%	7.9%	5.2%	5.4%
Oman Telecom	OTEL OM	Hold	7.1x	11.6x	4.6x	4.6x	21.3%	14.8%	5.6%	5.6%
Telecom Egypt	ETEL EY	Hold	4.0x	3.8x	4.0x	3.8x	2.2%	3.7%	4.1%	8.2%
Ooredoo Kuwait	OOREDOO KK	Hold	14.7x	13.9x	2.6x	2.5x	20.1%	21.6%	4.3%	5.1%
Elm Co	ELM AB	Hold	40.7x	33.7x	34.7x	28.8x	2.1%	2.9%	1.3%	1.6%
STC Kuwait	STC KK	Hold	14.5x	11.3x	6.0x	5.4x	9.3%	10.1%	6.0%	6.8%
Yahsat	YAHSAT UH	Hold	18.3x	17.1x	7.2x	7.0x	8.5%	7.4%	6.2%	6.3%
Zain KSA	ZAINKSA AB	Sell	11.6x	16.6x	6.6x	6.4x	27.5%	6.4%	3.5%	3.5%
e&	EAND UH	Sell	19.9x	18.8x	10.5x	10.3x	4.6%	5.0%	3.6%	4.5%
AVERAGE-Telecom			17.7x	16.6x	7.8x	7.5x	6.7%	7.1%	3.6%	4.3%

Source: Company Data, Arqaam Capital Research
As of July 12th, 2023 closing prices

Middle East Telecommunication sector

Exhibit 6: Q2 23e Arqaam Capital Middle East telecoms earnings estimates

Middle East TMT							
Ticker	ETISALAT UH	DU UH	YAHSAT UH	ORDS QD	VFQS QD	ORDS OM	OTEL OM
Price target (LC)	19.0	6.0	2.9	12.5	2.0	0.50	1.00
Recommendation	Sell	Hold	Hold	Core Buy	Buy	Buy	Hold
AC estimates							
Q2 23e							
Currency	AEDm	AEDm	USDm	QARm	QARm	OMRm	OMRm
Revenues	13,072	3,514	109	5,673	797	65	730
EBITDA	6,283	1,422	64	2,434	327	33	249
EBIT	2,986	903	29	1,309	167	6	118
Net income	2,211	371	32	828	136	4	17
EBITDA margin (%)	48.1%	40.5%	59.4%	42.9%	41.0%	50.8%	34.1%
EBIT margin (%)	22.8%	25.7%	26.9%	23.1%	20.9%	9.0%	16.2%
Net margin (%)	16.9%	10.6%	29.6%	14.6%	17.0%	6.2%	2.3%
Q2 23e vs. Q2 22A (y/y)							
Revenues	0.6%	12.0%	1.5%	2.4%	13.0%	0.4%	10.7%
EBITDA	(5.4%)	12.2%	0.9%	(2.3%)	12.9%	(5.3%)	(0.9%)
EBIT	(8.5%)	19.9%	1.9%	(3.8%)	26.1%	(16.2%)	5.3%
Net income	(9.0%)	22.5%	26.9%	0.1%	24.6%	(23.4%)	3.7%
Q2 23e vs. Q1 23A (q/q)							
Revenues	0.5%	2.1%	8.1%	0.7%	2.7%	(1.9%)	(0.5%)
EBITDA	1.6%	4.1%	6.3%	1.1%	2.1%	5.6%	(0.1%)
EBIT	1.6%	5.9%	17.1%	0.5%	3.4%	6.7%	0.8%
Net income	1.1%	0.1%	18.5%	(13.8%)	1.8%	43.6%	(21.3%)
Historical results							
Q2 22A							
Revenues	12,996	3,137	107	5,541	705	64	660
EBITDA	6,644	1,267	64	2,491	289	35	251
EBIT	3,263	753	29	1,361	132	7	112
Net income	2,431	303	25	827	109	5	16
EBITDA margin (%)	51.1%	40.4%	59.8%	44.9%	41.0%	53.9%	38.1%
EBIT margin (%)	25.1%	24.0%	26.8%	24.6%	18.8%	10.7%	17.0%
Net margin (%)	18.7%	9.7%	23.6%	14.9%	15.4%	8.1%	2.4%
Q1 23A							
Revenues	13,002	3,441	100	5,635	776	66	734
EBITDA	6,183	1,366	61	2,408	320	31	249
EBIT	2,939	853	25	1,303	161	5	117
Net income	2,187	370	27	961	133	3	21
EBITDA margin (%)	47.6%	39.7%	60.4%	42.7%	41.3%	47.2%	33.9%
EBIT margin (%)	22.6%	24.8%	24.9%	23.1%	20.8%	8.2%	16.0%
Net margin (%)	16.8%	10.8%	27.0%	17.0%	17.2%	4.2%	2.9%

-Source: Arqaam Capital Research, Company Data

Middle East Telecommunication (continued)

Exhibit 7: Q2 23e Arqaam Capital Middle East telecoms earnings estimates

Middle East TMT								
Ticker	STC AB	SOLUTION AB	EEC AB	ZAINKSA AB	ELM AB	STC KK	OOREDOO KK	ZAIN KK
Price target (LC)	50	290	40.0	14.0	635	0.60	1.20	0.65
Recommendation	Core Buy	Core Buy	Hold	Sell	Hold	Hold	Hold	Core Buy
AC estimates								
Q2 23e								
Currency	SARm	SARm	SARm	SARm	SARm	KWDm	KWDm	KWDm
Revenues	18,431	2,880	4,166	2,450	1,348	88	156	466
EBITDA	6,349	423	1,627	734	368	22	58	166
EBIT	3,710	361	701	232	332	9	26	86
Net income	3,291	320	528	181	335	8	13	50
EBITDA margin (%)	34.4%	14.7%	39.0%	30.0%	27.3%	24.9%	37.2%	35.6%
EBIT margin (%)	20.1%	12.5%	16.8%	9.5%	24.7%	10.0%	16.4%	18.3%
Net margin (%)	17.9%	11.1%	12.7%	7.4%	24.9%	9.6%	8.1%	10.6%
Q2 23e vs. Q2 22A (y/y)								
Revenues	8.8%	38.1%	6.8%	11.1%	29.7%	14.4%	2.1%	10.8%
EBITDA	2.3%	20.9%	10.3%	(4.3%)	53.4%	10.3%	3.1%	(0.3%)
EBIT	(0.3%)	22.9%	36.9%	(11.5%)	56.6%	24.3%	9.0%	5.1%
Net income	16.0%	17.0%	46.8%	35.6%	71.8%	15.4%	2.4%	(1.5%)
Q2 23e vs. Q1 23A (q/q)								
Revenues	1.4%	7.6%	2.8%	1.1%	4.6%	1.6%	0.8%	(0.4%)
EBITDA	0.1%	0.9%	4.7%	3.9%	3.8%	1.6%	5.0%	0.3%
EBIT	(0.6%)	1.1%	11.8%	15.3%	3.7%	2.8%	9.0%	0.2%
Net income	5.9%	5.2%	13.5%	(67.7%)	4.0%	3.0%	(76.1%)	(8.4%)
Historical results								
Q2 22A								
Revenues	16,939	2,085	3,899	2,206	1,039	77	153	421
EBITDA	6,204	350	1,475	767	240	20	56	166
EBIT	3,720	294	512	262	212	7	24	81
Net income	2,837	273	360	134	195	7	12	50
EBITDA margin (%)	36.6%	16.8%	37.8%	34.8%	23.1%	25.9%	36.8%	39.5%
EBIT margin (%)	22.0%	14.1%	13.1%	11.9%	20.4%	9.2%	15.4%	19.3%
Net margin (%)	16.8%	13.1%	9.2%	6.1%	18.8%	9.6%	8.1%	12.0%
Q1 23A								
Revenues	18,179	2,676	4,051	2,422	1,288	87	155	468
EBITDA	6,343	419	1,554	707	355	22	55	165
EBIT	3,731	357	627	201	320	9	24	85
Net income	3,109	304	465	563	322	8	53	54
EBITDA margin (%)	34.9%	15.6%	38.3%	29.2%	27.5%	24.9%	35.7%	35.3%
EBIT margin (%)	20.5%	13.3%	15.5%	8.3%	24.9%	9.9%	15.2%	18.2%
Net margin (%)	17.1%	11.4%	11.5%	23.2%	25.0%	9.5%	34.2%	11.6%

Source: Arqaam Capital Research, Company Data

North Africa Telecommunication

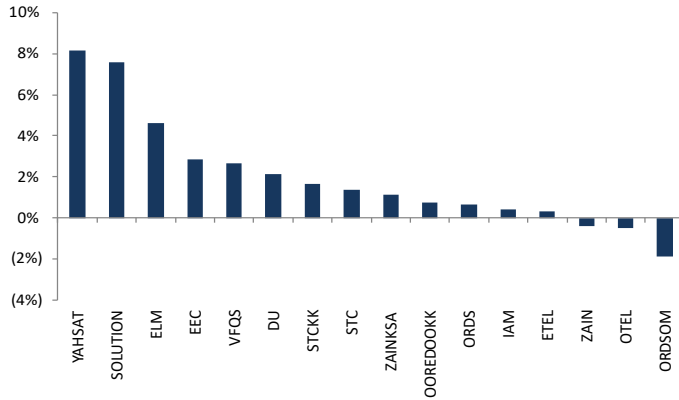
Exhibit 8: Q2 23e Arqaam Capital Africa telecoms earnings estimates

Africa TMT			
Ticker		IAM MC	ETEL EY
Price target (LC)		120	30.0
Recommendation		Buy	Hold
AC estimates			
Q2 23e			
Currency		MADm	EGPm
Revenues		9,129	14,006
EBITDA		4,674	6,093
EBIT		2,920	3,901
Net income		1,531	3,063
EBITDA margin (%)		51.2%	43.5%
EBIT margin (%)		32.0%	27.9%
Net margin (%)		16.8%	21.9%
Q2 23e vs. Q2 22A (y/y)			
Revenues		3.8%	27.5%
EBITDA		0.5%	35.9%
EBIT		515.5%	32.1%
Net income		nm	26.8%
Q2 23e vs. Q1 23A (q/q)			
Revenues		0.4%	0.3%
EBITDA		0.8%	(0.8%)
EBIT		1.0%	(0.8%)
Net income		0.3%	(19.7%)
Historical results			
Q2 22A			
Revenues		8,798	10,984
EBITDA		4,652	4,482
EBIT		474	2,953
Net income		(1,082)	2,415
EBITDA margin (%)		52.9%	40.8%
EBIT margin (%)		5.4%	26.9%
Net margin (%)		(12.3%)	22.0%
Q1 23A			
Revenues		9,093	13,959
EBITDA		4,637	6,142
EBIT		2,890	3,933
Net income		1,527	3,814
EBITDA margin (%)		51.0%	44.0%
EBIT margin (%)		31.8%	28.2%
Net margin (%)		16.8%	27.3%

Source: Arqaam Capital Research, Company Data

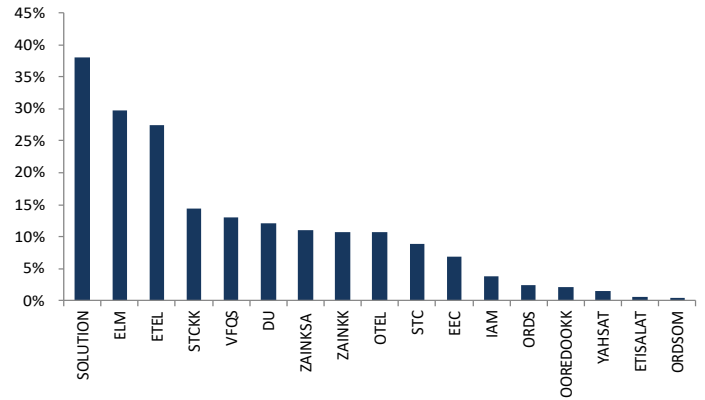
Q2 23e: P&L growth

Exhibit 9: Q2 23e revenue growth q/q



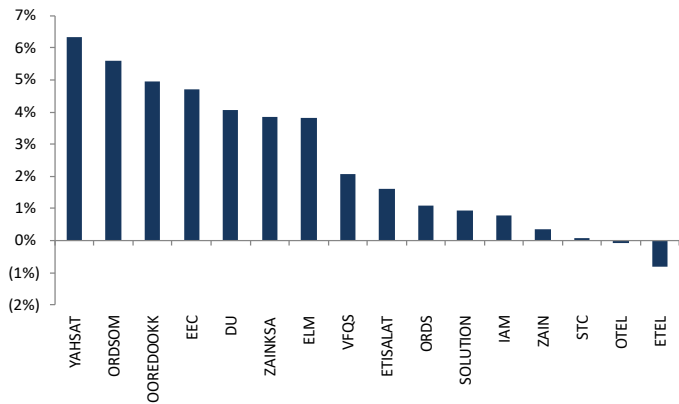
Source: Arqaam Capital Research

Exhibit 10: Q2 23e revenue growth y/y



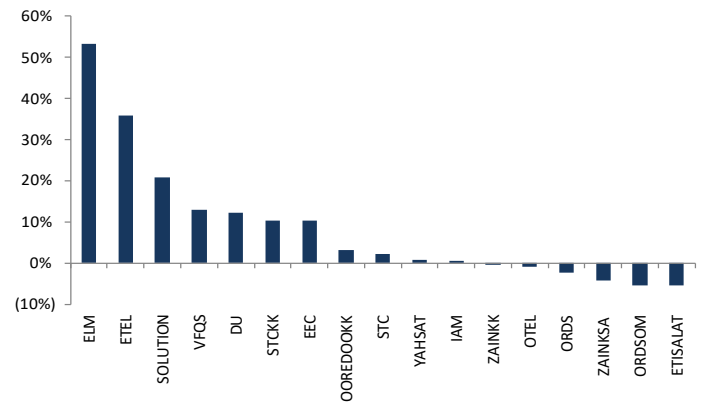
Source: Arqaam Capital Research

Exhibit 11: Q2 23e EBITDA growth q/q



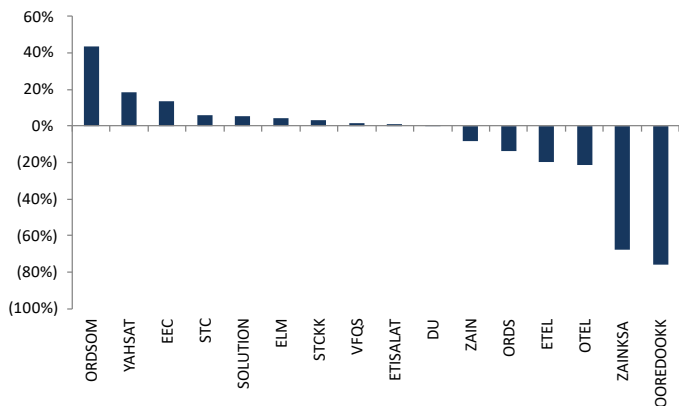
Source: Arqaam Capital Research

Exhibit 12: Q2 23e EBITDA growth y/y



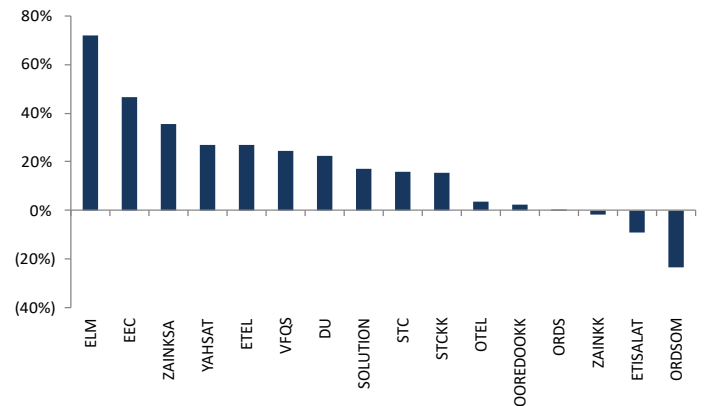
Source: Arqaam Capital Research

Exhibit 13: Q2 23e EPS growth q/q



Source: Arqaam Capital Research

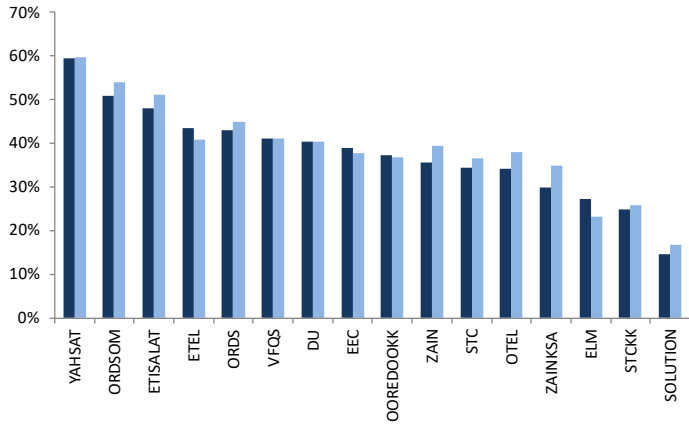
Exhibit 14: Q2 23e EPS growth y/y



Source: Arqaam Capital Research

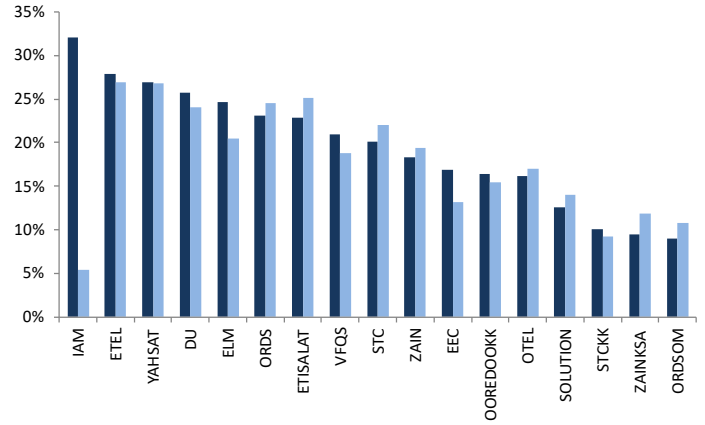
FY 23e Profitability and Returns

Exhibit 15: Q2 23e EBITDA margin (dark blue) vs. Q2 22A



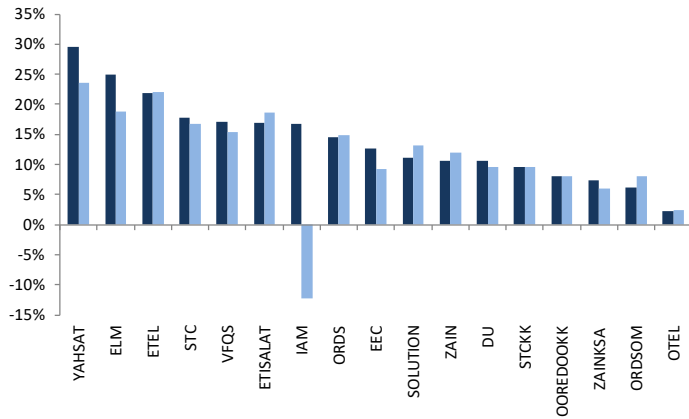
Source: Arqaam Capital Research

Exhibit 16: Q2 23e EBIT margin (dark blue) vs. Q2 22A



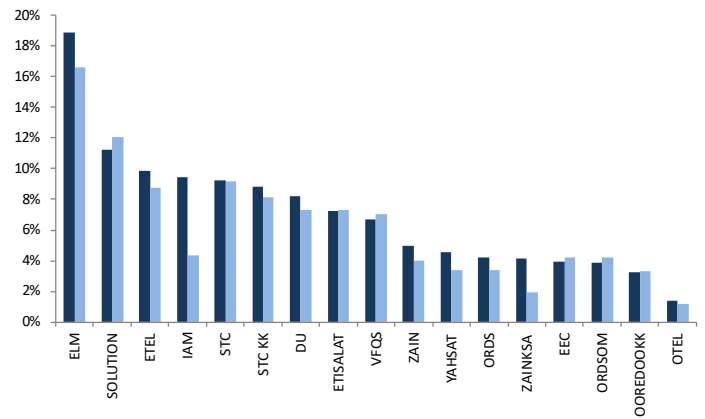
Source: Arqaam Capital Research

Exhibit 17: Q2 23e net margin (dark blue) vs. Q2 22A



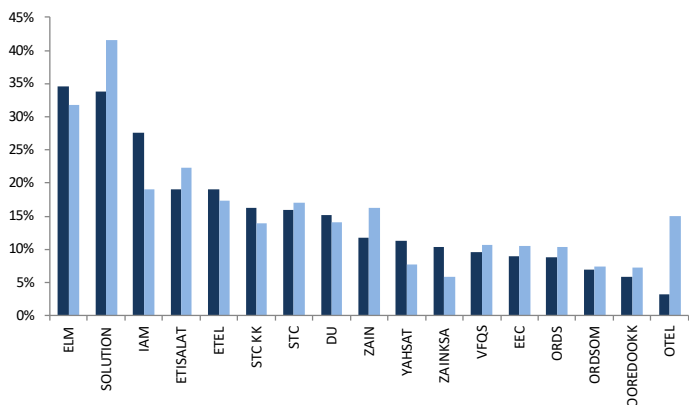
Source: Arqaam Capital Research

Exhibit 18: FY 23e RoA (dark blue) vs. FY 22A



Source: Arqaam Capital Research

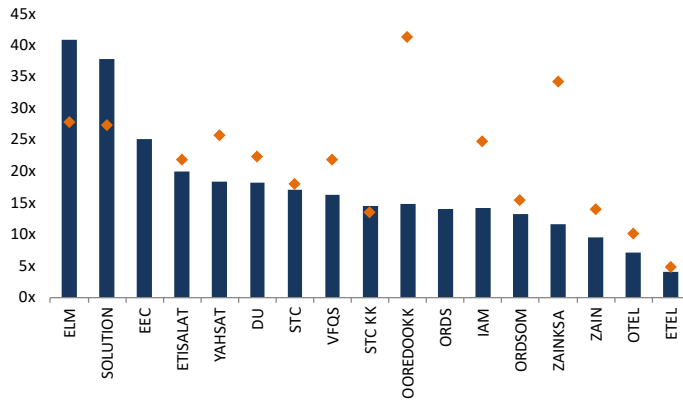
Exhibit 19: FY 23e RoE (dark blue) vs. FY 22A



Source: Arqaam Capital Research

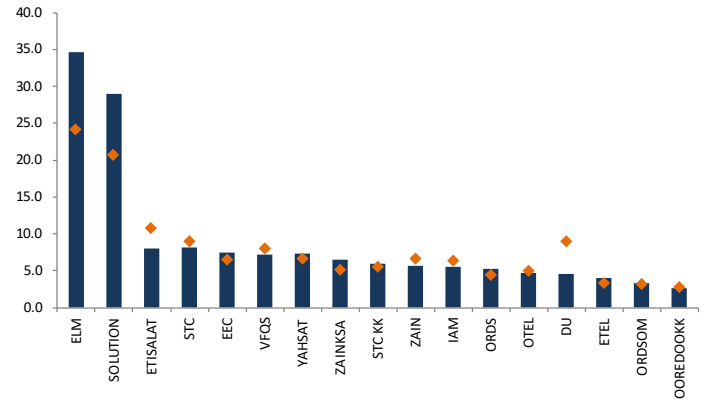
FY 23e: Current market valuation

Exhibit 20: FY 23e P/E (x) (bars) vs. 3-yr historical average (dots)



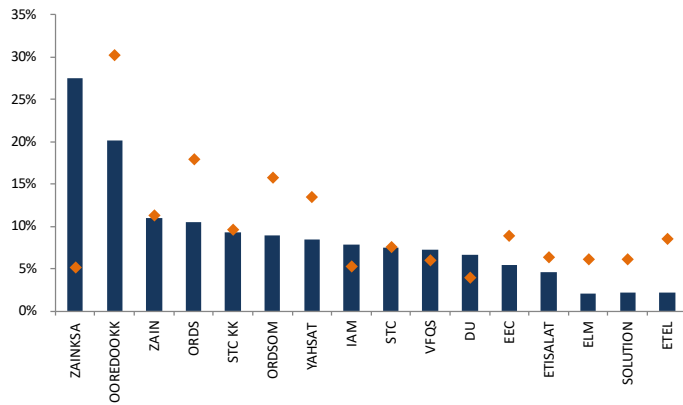
Source: Bloomberg, Arqaam Capital Research

Exhibit 21: FY 23e EV/EBITDA (x) vs. 3-yr historical average (dots)



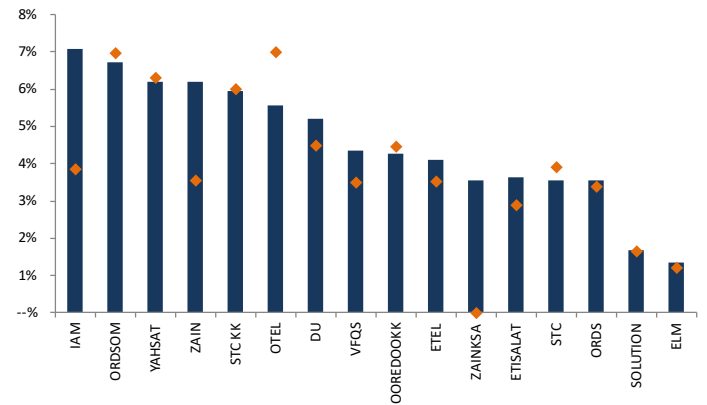
Source: Bloomberg, Arqaam Capital Research

Exhibit 22: FY 23e Free cash flow yield vs. 3-yr historical average (dots)



Source: Bloomberg, Arqaam Capital Research

Exhibit 23: FY 23e dividend yield vs. 3-yr historical average (dots)



Source: Bloomberg, Arqaam Capital Research

Exhibit 24: Q2 23 MEA Telecoms news bulletins

Date	News
25-Jun	ZainTech, du to drive innovation for net-zero future
25-Jun	STC Group invests in strengthening disaster recovery capabilities ahead of Hajj season
23-Jun	Eutelsat partners with du to boost broadcast services in MENA
22-Jun	Ooredoo and Ericsson extend partnership to advance 5G connectivity in Qatar
18-Jun	Solutions by STC signs pact to buy 40% of Devoteam Middle East
14-Jun	Elm signs SAR 69.9m contract for Makkah Route initiative execution
12-Jun	Solutions signs SAR 444m contract with NCGR
07-Jun	Qatar fund near deal on state-held Vodafone Egypt stake
05-Jun	Elm in initial talks to acquire PIF stake in Thiqah
02-Jun	Elm signs MoUs with Morocco and Senegal authorities
01-Jun	Ooredoo Oman issues tender to sell and lease back towers
30-May	Vodafone Qatar collaborates with Cisco to upgrade its 5G network
24-May	Naseej Tech awarded contract by Elm to supply technical devices for library management
23-May	Thuraya and eSAT Global announce satellite IoT breakthrough with low-latency messaging
15-May	Solutions announces signing a contract with STC Bank
14-May	Telecom Egypt BoD approved listing 10% stake on Egypt Bourse
14-May	Zain Group and Omantel to set up International JV
10-May	2Africa Subsea Cable Segment in Egypt completed with Port Said landing
20-Apr	Saudi Telecom said to near deal for United Group tower assets
11-Apr	Nokia wins contract to supply 5G equipment to Zain
03-Apr	Thuraya and Astrocast strengthen collaboration through a strategic investment in LEO
01-Apr	Giza Systems plans to invest up to USD 40m to acquire stakes in three or four companies in Egypt

Source: Bloomberg, Arqaam Capital Research

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