

Emirates Integrated Telecommunications

Higher Revenue supports the bottom line.

Rating : ACCUMULATE

2Q21 Net profit lower than our estimate

Emirates Integrated Telecommunications (DU) reported a significant increase by 11.4% YOY in Net profit to AED240 mm in 2Q21 compared to a Net profit of AED215 mm in 2Q20, missing our estimate by 14% mainly due to higher Revenue and Lower Expected credit losses on contract assets, trade receivables and due from related parties (net off recoveries)

P&L highlights

Revenue increased by 7% YOY to AED2,855 Mn from AED2,668 Mn in 2Q20, While Total Costs increased by 10.7% YOY to AED1,668 Mn in 2Q21 from AED1,507 Mn in 2Q20. As a result, EBITDA has marginally increased by 0.3% YOY to AED1,130 Mn in 2Q21 compared to AED1,126 Mn in 2Q20, with EBITDA margin at 39.6% from 42.2% in 2Q20. Depreciation and Amortization rose by 9% YOY to AED501 Mn in 2Q21 from AED459 Mn in 2Q20. Therefore, Operating profit declined by 5.7% YOY to AED629 Mn from AED667 Mn in 2Q20, with OPM at 22% from 25% in 2Q20.

Balance sheet highlights

Total Assets increased by 4.7% YOY to AED15.13 bn in 2Q21 from AED14.44 bn in 2Q20. Total Equity increased also by 1.4% YOY to AED8.38 bn in 2Q21 from AED8.26 bn in 2Q20. Total Liabilities increased by 9.1% YOY to AED6.74 bn in 2Q21 from AED6.17 bn in 2Q20.

Target price and rating

We maintain our ACCUMULATE Rating on DU with the target of AED 7.50. EITC (DU) has reported a strong performance in key aggregates in 2Q21 and has returned to growth compared to 2Q20. The Revenues are up by 7% YOY to AED2,855 Mn in 2Q21, up from AED2,668 Mn in 2Q20. The Company reports Revenue via four segments – Mobile services, Fixed Services, Wholesale Equipment Sales and Others. The Mobile services segment declined in 2Q21 by 0.8% YOY. The ARPU increased by 7.1% YOY to AED88 in 2Q21. It was mainly due to high voice traffic than the pre-pandemic levels. However, due to offload, the data usage remained stable. The no. of customers increased by 2.3% YOY in 2Q21. Most of the customer base use prepaid plans, however the postpaid customer plan is improving. The prepaid customer base was impacted by disconnection backlog related to COVID. However, the Gross-adds are maintained above the pandemic levels. The Fixed services grew by 6.5% YOY to AED687 Mn in 2Q21. The Consumer and Enterprise segments performed robustly and contributed to the segment's growth levels in 2Q21. The Consumer segment had attractive plans that materialized for the Company. The no. of customers grew significantly by 23.2% YOY to 279,000 in 2Q21. It was mainly driven by need for stronger network due to social distancing requirements by the

First Look Note – 2Q21

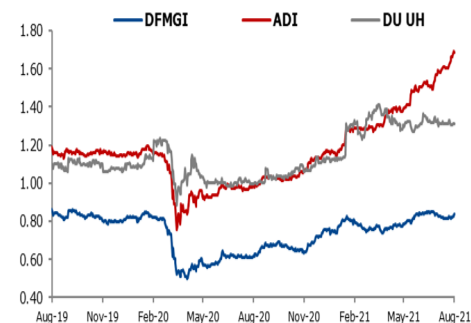
Sector: Telecommunication

Recommendation

Current Price (09-Aug)	6.56
Target Price	7.50
Upside/(Downside) (%)	14%

Stock Information

Market Cap (mm)	29,962.51
Paid Up Capital (mm)	4,532.91
52 Week High	7.22
52 Week Low	5.08
3M Avg. daily value (AED)	4,754,207



Financial Ratios

Dividend Yield (12m)	3.78
Dividend Pay-out (%)	87.96
Price-Earnings Ratio (x)	21.98
Price-to-Book Ratio (x)	3.57
Book Value (AED)	1.85
Return-on Equity (%)	16.45
Earning Per Share (AED)	0.30
Beta	0.62

Stock Performance

5 Days	-1.34%
1 Months	-1.05%
3 Months	-1.49%
6 Months	1.54%
1 Year	30.12%
Month to Date (MTD)	-0.60%
Quarter to Date (QTD)	-3.92%
Year to Date (YTD)	14.96%

Government. The increase is significant as compared to the previous quarter. The Other revenues segment increased robustly by 21.5% YOY to AED873 Mn in 2Q21 up from AED718 Mn in 2Q20. It was driven by the attractive financing plan and the 5G handset sales with robust demand. The handset sales increased robustly due a postpaid plan. Furthermore, the 5G technology with the handsets boosted the sales. The Wholesale revenues recovered in 2Q21 mainly due to higher voice traffic. The EBIDTA increased by 0.3% YOY to AED1,130 Mn in 2Q21 despite the 10.7% YOY increase in Direct costs mainly due to the handsets and Interconnect. However, the growth in EBITDA was supported by the decline in the Indirect costs by 8.8% due to the cost reduction initiatives by the Company. As a result, the Net Profit increased by 11.4% YOY to AED240 Mn in 2Q21, up from AED215 Mn in 2Q20. The Capex increased significantly by 27.5% to AED649 Mn in 2Q21 as compared to AED509 Mn in 2Q20. The Company plans to modernize the network, expand its existing capacity to generate more Revenue and focus on the advancement of its 5G network services. The Operating Free Cash Flow reduced by 11.7% YOY to AED481 Mn in 2Q21, down from AED545 Mn in 2Q20. The decline is in line with the Company's high capital intensity program to fund its development. On 21st April 2021, the Company paid final cash dividend amounting to AED 0.15 per share for FY20. For the FY21, cash dividend of AED0.10 per share is proposed. Based on our analysis, we assign an ACCUMULATE rating.

DU –Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
PE (x)	17.18	16.74	17.18	20.41	19.21
P/B (x)	3.68	3.48	3.42	3.45	3.35
Dividend yield	5.4%	5.4%	5.2%	4.3%	4.7%

FABS estimate & Co Data
DU - P&L

AED mm	2Q20	1Q21	2Q21	2Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	2,668	2,883	2,855	2,968	-3.8%	7.0%	-1.0%	11,084	11,749	6.0%
Costs (ex D&A, marketing exp)	-1,507	-1,730	-1,668	-1,756	-5.0%	10.7%	-3.6%	-6,756	-6,814	0.9%
Marketing expense	-35	-34	-57	-42	34.9%	64.0%	70.1%	-151	-170	12.9%
EBITDA	1,126	1,120	1,130	1,170	-3.4%	0.3%	0.9%	4,177	4,765	14.1%
Depreciation and Amortization	-459	-475	-501	-470	6.5%	9.0%	5.5%	-1,483	-1,532	3.3%
Operating profit	667	645	629	700	-10.1%	-5.7%	-2.5%	2,694	3,233	20.0%
Financing income/expense	-89	-15	-19	-17	15.3%	-78.5%	26.8%	-55	-61	10.0%
Other income/expense	0.37	0.07	0.11	0	NM	-69.7%	65.7%	14	10	-28.1%
Gain on disposal of investment	0.422	-1	-1	0	NM	NM	74.6%	302	10	-96.7%
Pre-royalty profit	579	629	609	683	-10.9%	5.2%	-3.3%	2,955	3,192	8.0%
Federal Royalty	-363	-372	-369	-404	-8.7%	1.5%	-0.9%	-1,512	-1,641	8.5%
Net profit	215	257	240	279	-14.0%	11.4%	-6.7%	1,443	1,551	7.5%

FABS estimate & Co Data
DU - Margins

AED mm	2Q20	1Q21	2Q21	YOY ch	QOQ ch	2020	2021F	Change
Gross Margin	43.5%	40.0%	41.6%	-194	157	39.0%	42.0%	296
Operating margin	25.0%	22.4%	22.0%	-296	-34	24.3%	27.5%	321
Net Profit margin	8.1%	8.9%	8.4%	33	-52	13.0%	13.2%	19

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2-6161628	shiv.prakash@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

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"