Telecom Sector – September 2023

Telecom firms in MENA diversify beyond GCC region

Sector Weighting:
MARKET WEIGHT
Preview Note 3Q 2023

MENA Telecommunication

Etisalat and DU remain the largest telecom operators in UAE with a huge mobile subscriber base of 21.9 Mn as of 2Q23. Etisalat's mobile subscriber base stood at 13.9 Mn subscribers as of 2Q23 while DU's mobile subscribers stood at 8.0 Mn. Tourism sector in UAE witnessed a strong growth in 2Q23 with solid occupancy rates across UAE. The Abu Dhabi International Airport served more than 10 Mn passengers in 1H23 while Dubai International Airport welcomed 41.6 Mn guests. The rising tourism activity in the region fueled the growth in telecom sector. In addition, upcoming events like Abu Dhabi Formula 1 Grand Prix and COP 28 summit will further contribute towards revenue growth of telecom companies. Moreover, deployment of 5G will lead to a growing consumer demand in the UAE along with a strong demand for IOT, cloud services, and data will further lead to expansion of telecom industry in UAE. Telecom companies in GCC region are actively investing in international markets to enhance their global footprint. The Companies are also investing in adjacent and complementary businesses to enhance growth. Etisalat acquired majority stake in PPF Telecom. PPF telecom has a subscriber base of more than 10 Mn across Slovakia, Serbia, Hungary, and Bulgaria. Etisalat aims to enter into B2B and B2C digital services segment through this acquisition and also aims to strengthen its hold in Central and South East Europe. Etisalat also acquired 63.3% stake in Beehive which is an online marketplace for peer-to-peer lending in SMEs operating in MENA region. In addition, Etisalat also plans to invest EGP 6 Bn in Egyptian market in 2024. On the other hand, Al Yahsat awarded with a USD 5.1 Bn mandate from UAE government for providing satellite capacity and services for 17 years.

The Saudi government played a significant role in building the country's telecom industry, by investing heavily in infrastructure, deploying fibre optic networks, and establishing data centres. Zain, Mobily, and STC are KSA's leading telecom operators. Telecom Companies of KSA are also diversifying investment into technology and complementary business model to enhance growth. Saudi Telecom Company acquired 9.9% stake in Telefonica which has a significant presence in the European market with solid operations in Germany, Spain, Brazil, and the UK. STC's acquisition in the European market will enable the Company to develop and enhance global relations across Europe. In addition, STC's subsidiary Tawal, started its operations in Europe. Tawal owns and operates more than 4,800 sites across Croatia, Bulgaria, and Slovenia. Ooredoo, Zain, and TASC Towers holding company are in talks to create MENA's largest tower company. The three entities are set to merge their tower assets, creating a combined portfolio of nearly 30,000 towers spread across Qatar, Algeria, Kuwait, Tunisia, Jordan, and Iraq. The telecom companies in KSA are making significant investment in infrastructure and are slowly transforming into technology driven companies with strong developments in IoT, cloud centres, and other technological advancements. In addition, there is a noticeable increase in the number of new projects within the real estate sector, with a significant proportion of these projects focusing on the construction of smart homes, thus driving the demand for advanced technology. Whereas growing travel and tourism activity is also contributing towards the growth of telecom sector in KSA.

Egypt's total population stood at 104.4 Mn in 2022 with 61% of the population below the age of 30 years. The country benefits from favourable demographics with 74% literacy and a low unemployment rate of 7.2% in 4Q22. According to IMF, Egypt's real GDP grew 6.6% in 2022 and the growth is expected to slow down to 3.7% in 2023. Egypt's headline inflation stood at 37.4% in August as compared to 36.5% in July. Telecom Egypt and 4iG Plc signed an MOU to build high-capacity subsea cable between Albania and Egypt. Furthermore, Telecom Egypt and Medusa Submarine Cable System signed an agreement to extend Medusa cable to Red Sea through Telecom Egypt's extensive terrestrial crossing network. In addition, many telecom companies from MENA region look to invest in the Egypt telecom market due to favorable demographics and underpenetrated data market.

UAE's e& and Orange plan to bid for 45% stake in Ethio Telecom
UAE's e& and Orange plans to bid for 45% stake in Ethio, an Ethiopian state controlled telecom company. Ethiopia is also considering granting a license for a third mobile operator, and e& is interested in bidding. Ethiopia, with over 110 million people, is an attractive telecom market in Africa.

ADIA in talks with KKR & Co to invest in Telecom Italia
ADIA plans to collaborate with KKR & Co to bid for a USD 25 Bn stake in Telecom Italia SpA's landline network. ADIA is considering providing equity support for the bid, potentially through a direct investment in the network or by taking a stake in the KKR fund established for this purpose. Telecom Italia is selling its landline network to reduce its debt.

Ooredoo, TASC, and Zain plans to create MENA's largest tower company
Qatar's Ooredoo, Dubai's TAASC Tower Holding and Kuwait's Zain is in talks to merge around 30,000 tower assets in MENA region. The three companies plan to merge their tower assets located in Qatar, Kuwait, Algeria, Tunisia, Iraq and Jordan to create the MENA's largest tower company through cash and equity deal. Ooredoo and Zain will retain their active infrastructure such as wireless communication antennas, intelligent software, and intellectual property to manage telecom networks but divest their tower assets.

Etisalat acquires majority stake in PPF Telecom
Etisalat acquire 50% share and an additional share in PPF Telecom company to become majority shareholder of PPF telecom. Etisalat paid for a consideration of AED 8.7 Bn for the stake. The transaction also requires Etisalat to make an earn-out payment of AED 1.41 Bn if the PPF telecom assets exceed certain financial target agreed in the merger. PPF telecom with a subscriber base of more than 10 Mn across Slovakia, Serbia, Hungary, and Bulgaria. The combined entity aims realize significant opex and capex synergies and Etisalat also plan to roll-out its leading suite of B2B and B2C digital products in Central and Eastern Europe.

STC's subsidiary Tawal starts operation in Europe
Tawal acquired United Groups telecom assets across Croatia, Bulgaria, and Slovenia and now owns and operates more than 4,800 sites across the region. Tawal started its operation in Europe and its total tower portfolio exceeds 21,000 towers across five countries.

STC Group acquires 9.9% stake in Telefonica for USD 2.25 Bn to become the largest shareholder
Saudi Arabia's STC Group acquired a 9.9% stake in Spain's Telefonica for EUR 2.1 Bn (USD 2.25 Bn) to become the largest shareholder of the Spanish telecom provider. The holding includes 4.9% stake in Telefonica shares and 5% economic exposure through financial instruments. STC plans to secure voting rights for the 5% stake owned through financial instruments post regulatory approvals. Telefonica is one of the largest telecommunication operator in Europe with operations in Germany, Spain, the UK, and Brazil. STC aims to strengthen its presence in the European market and capitalize on Telefonica's strong capabilities across IoT, edge computing, and cognitive intelligence.

Al Yahsat awarded a mandate of USD 5.1 Bn from UAE government
Al Yahsat's government services arm, Yahsat Government Solutions, won a USD 5.1 Bn mandate from UAE government to provide satellite capacity and services for the next 17 years. Yahsat will use existing satellites (Al Yah 1 and Al Yah 2) and introduce two new satellites (Al Yah 4 and Al Yah 5,

expected to launch in 2027 and 2028) to provide secure and reliable satellite capacity and services. The UAE government will make an advance payment of USD 1 Bn in 2024.

Etisalat acquired a controlling stake in Beehive
Etisalat group acquired 60.3% stake in Beehive Group Holdings limited for a consideration of USD 23.6 Mn. Beehive which is an online marketplace which provides peer-to-peer lending to the SMEs operating in MENA region.

Telecom Egypt and 4iG sign MOU to construct subsea cable
Telecom Egypt and 4iG Plc signed an MOU to link UAE and Albania through a point-to-point, high-capacity subsea cable. This marks a significant enhancement to the current Mediterranean routes, linking up with major internet points of presence (PoPs) in Europe, including those situated in Budapest, Vienna, and Frankfurt, as well as various prospective PoPs in Eastern Europe. Telecom Egypt’s new platform WeConnect will enable its direct cross-connection capabilities with subsea cables.

Telecom Egypt signed an agreement with Medusa Submarine Cable Systems to extend Medusa to Red Sea
Telecom Egypt signed an agreement with Medusa to extend the Medusa cable to Red sea. Telecom Egypt's vast terrestrial crossing network will link the 8,760-kilometer-long submarine cable to Red Sea landing stations in Suez, Zafarana, and Ras Ghareb, with the cable expected to reach the Egyptian city of Port Said by the conclusion of 2025. The connection will facilitate direct access from all Medusa Mediterranean landings in both Europe and North Africa to the Red Sea. The various landing points in Egypt offer new connection opportunities for the Medusa submarine cable due to their geographical diversity.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahasat
Rating	BUY	ACCUMULATE	BUY	ACCUMULATE	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	18.76	44.05	36.70	28.53	5.22	2.62
Target Price	23.00	49.00	47.00	32.00	7.40	3.50
Potential change (%)	22.6%	11.2%	28.1%	12.1%	41.8%	33.6%

FABS Estimates & Co data

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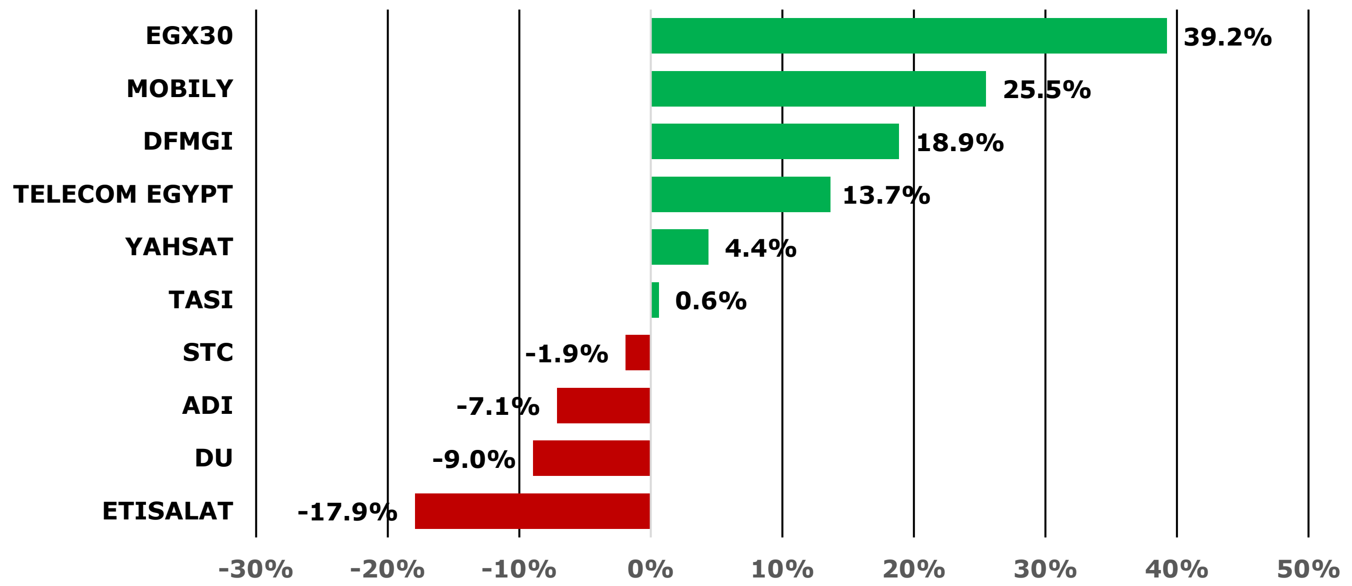
Telecom stock performance in the YTD

Mobily is the best performing stock among the peer group on YTD basis since December 2022 followed by Telecom Egypt. Etisalat is the worst performing stock among all of them. Al Yahsat generated positive return on YTD basis. Mobily generated 25.5% YTD return, while Etisalat came in last with a decline of 17.9% YTD since December 2022.

MENA Telecom Stock & Market Indices Performance from December 2022 to YTD, ranked



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 18.34x (Mobily) and 4.02x (TELECOM EGYPT). The EV/EBITDA ranges from 7.21x (ETISALAT) and 4.02x (TELECOM EGYPT). Al Yahsat's expected dividend yield for 2023 is the highest at 6.2%. TELECOM EGYPT has the lowest PB multiple of 0.97x. TELECOM EGYPT's Net Debt/EBITDA stood highest at 1.66x followed by Mobily at 1.03x.

Relative Valuation

	ETISALAT	MOBILY	STC	TELECOM EGYPT	DU	AL YAHASAT
CMP (LCY)	18.76	44.05	36.70	28.53	5.22	2.62
Number of shares (mm)	8,697	770	5,000	1,707	4,533	2,440
Market cap (LCY mm)	163,151	33,572	179,500	48,701	24,024	6,368
Market cap (US$ mm)	44,455	8,953	47,867	1,576	6,546	1,735
Gross debt (LCY mm)	47,217	8,921	10,713	44,041	0	1,764
Cash (LCY mm)	24,021	2,520	22,400	9,811	383	2,273
Net debt/-cash (LCY mm)	23,196	6,401	-11,687	34,230	-383	-509
Non-controlling interest	7,091		2,273	14	0	245
EV	193,438	39,973	170,086	82,945	23,641	5,398
EBITDA (2023)	26,832	6,227	24,720	20,644	5,756	255
BVPS (2023)	5.22	21.24	15.88	29.38	1.95	0.35
EPS (2023)	1.16	2.38	2.78	6.89	0.33	0.04
DPS (2023)	0.80	1.35	1.60	1.30	0.26	0.04
EV/EBITDA (x)	7.21	6.42	6.88	4.02	4.11	5.76
P/BV (x)	3.60	2.05	2.26	0.97	2.72	2.05
PER (x)	16.23	18.34	12.90	4.14	16.16	16.55
Dividend yield	4.3%	3.1%	4.5%	4.6%	4.9%	6.2%
Payout ratio	69.2%	56.8%	57.5%	18.9%	79.3%	103.1%
Net debt/EBITDA (x)	0.86	1.03	-0.47	1.66	-0.07	-2.00

Source: FABS from Bloomberg

Market Weight:

With 4x BUYs and 2x ACCUMULATE we remain MARKET WEIGHT on MENA telecoms.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahsat
Rating	BUY	ACCUMULATE	BUY	ACCUMULATE	BUY	BUY
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	18.76	44.05	36.70	28.53	5.22	2.62
Target Price	23.00	49.00	47.00	32.00	7.40	3.50
Potential change (%)	22.6%	11.2%	28.1%	12.1%	41.8%	33.6%

FABS Estimates & Co data

3Q23 preview: Etisalat Group

Unfavourable exchange rates might impact top-line growth

	12-m target price:	Stock rating:
CMP(AED):18.76 Potential upside/(downside) (%): +22.6%	**AED 23.00**	**BUY**

3Q23 Estimate

Emirates Telecommunications Group Co PJSC (EAND/ The Company) is expected to report an 4.2% YOY increase in net profit to AED 2,589 Mn in 3Q23 primarily due to an anticipated rise in revenue and decline in federal royalty partially offset by an expected increase in finance cost. EAND's revenue is expected to grow 5.6% YOY to AED 13,705 Mn in 3Q23 attributed to the expected expansion of its customer base and strategic focus on diversifying its offerings with new digital products for both consumer and business segments. Operating expenses are anticipated to grow 7.6% YOY to AED 8,634 Mn in 3Q23. The impairment charges are anticipated to rise 6.0% YOY to AED 206 Mn in 3Q23. Thus, operating profit before federal royalty is expected to grow 3.0% YOY to AED 5,030 Mn in 3Q23. Federal royalty is expected to decline 7.2% YOY to AED 1,453 Mn in 3Q23. As a result, operating profit is likely to rise 7.7% YOY to AED 3,577 Mn in 3Q23. EAND's EBITDA is expected to grow 2.7% YOY at AED 6,896 Mn in 3Q23. Furthermore, finance and other income is expected to decline 8.1% YOY to AED 466 Mn in 3Q23. Finance and other costs are likely to rise from AED 581 Mn in 3Q22 to AED 822 Mn in 3Q23. Moreover, income tax expense is estimated to decline 2.9% YOY to AED 444 Mn in 3Q23. In addition, the share of profit attributable to non-controlling interest holders is expected to decline 38.3% YOY to AED 187 Mn in 3Q23 supporting profitability.

2022 Forecast

EAND's net profit is expected to rise marginally 0.5% to AED 10,053 Mn in 2023 driven by a rise in revenue and EBITDA partially offset by an increase in finance and other costs. The Company's revenue is expected to rise 3.3% to AED 54,141 Mn in 2023. Operating expenses are expected to rise 3.7% to AED 34,542 Mn in 2023. Impairment charges are expected to decline 9.3% to AED 731 Mn in 2023. Federal royalty is anticipated to grow 1.3% to AED 5,847 Mn in 2023. As a result, operating profit after federal royalty is expected to rise 5.1% to AED 13,616 Mn in 2023. EAND's EBITDA is expected to grow 2.4% to AED 26,832 Mn in 2023. Furthermore, finance and other income is expected to rise 13.7% to AED 2,274 Mn in 2023. Finance and other costs are also expected to increase 23.1% to AED 3,292 Mn in 2023. Tax charges are estimated to rise 2.1% to AED 1,789 Mn in 2023. Share of profit attributable to non-controlling interest holders is expected to rise from AED 518 Mn in 2022 to AED 757 Mn in 2023 dragging down profitability.

2Q23 outturn

EAND's total revenue inclined 4.8% YOY to AED 13,614 Mn in 2Q23 due to the growth in all key markets and robust performance in UAE owing to commercial momentum and strong economic growth. EAND's operating expense rose 4.7% YOY to AED 8,512 Mn attributed mainly to global inflationary pressures accompanied by double-digit inflation in Egypt and Pakistan accompanied by investments in new revenue streams partially offset by lower staff, regulatory and D&A costs. Meanwhile, the share of results of associates and JVs rose significantly from AED 89 Mn in 2Q22 to AED 167 Mn in 2Q23. The Company's federal royalty declined 2.7% YOY to AED 1,411 Mn in 2Q23 leading operating profit to grow 10.0% YOY to AED 3,590 Mn in 2Q23. EAND's EBITDA declined marginally 1.1% YOY to AED 6,568 Mn in 2Q23 with a 288 bps YOY decline in EBITDA margin to 48.2% majorly due to the challenging global macro environment, inflationary pressure and termination of national Egypt roaming agreement. Finance and other income surged 67.8% YOY to AED 489 Mn in 2Q23 whereas finance and other cost increased 5.7% YOY to AED 860 Mn in 2Q23 due to higher borrowings. Income tax expense declined 2.4% YOY to AED 431 Mn in 2Q23. In addition, the share of profit attributable to non-controlling interest stood at AED 266 Mn in 2Q23 compared to a loss of AED 132 Mn in 2Q22.

Target price and recommendation

We revise our rating from HOLD to BUY on EAND with an unchanged target price of AED 23.00. The Company recorded healthy overall revenue growth despite currency fluctuation and reported strong growth of 12% YOY in constant currency. Further, EAND expects its revenue to grow at a low to mid-single-digit in 2023. The Company recorded the highest-ever aggregate subscribers base of 165 Mn grew which grew 3.0% YOY in 2Q23 and added 5.0 Mn subscribers over the last 12 months. The company spent AED 1.9 Bn on capex in 2Q23. EAND capital investment mainly focused to increase 4G and 5G mobile network coverage, expansion of FTTH, and enhancement of mobile and fixed network capacity. Notably, EAND acquired the controlling stake in PPF Telecom to expand into Central and Eastern Europe, obtaining a majority stake of 50% for EUR 2,150 Mn. PPF Telecom owns a leading market position in the four markets of Slovakia, Hungary, Serbia and Bulgaria. Expansion into these markets enhances the geographical footprint and provides the potential for further expansion in Central and South East Europe. EAND made multiple investments in the digital space to diversify its earnings. It invested USD 400 Mn in Careem for a 50.03% stake, USD 10 Mn investment in Bespin Global for a 65% stake and investment of USD 24 Mn for a 63.3% stake in Beehive. Despite a net debt balance of AED 23.2 Bn, the Company maintains a healthy debt rating of AA- from S&P and Aa3 from Moody's with a stable outlook. Net Debt-to-EBITDA stood at 0.9x in 2Q23 providing enough room to finance opportunities using leverage. Furthermore, the Company's board of directors also approved an interim dividend of AED 40 fils for 1H23 generating a dividend yield of 3.9% for 2023. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

Etisalat - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	18.9	18.8	18.1	17.5	16.3	16.2
P/B (x)	3.6	3.5	3.3	3.4	3.9	3.6
EV / EBITDA	6.6	6.4	6.4	6.4	7.1	7.2
Dividend yield	4.3%	4.3%	6.4%	4.3%	4.3%	4.3%

FABS estimate and Co Data

Etisalat - P&L

AED mm	3Q22	2Q23	3Q23F	YOY	QOQ	2022	2023F	Change
Revenue	12,973	13,614	13,705	5.6%	0.7%	52,434	54,141	3.3%
Operating expenses	-8,021	-8,512	-8,634	7.6%	1.4%	-33,323	-34,542	3.7%
Impairment	-194	-268	-206	6.0%	-23.3%	-806	-731	-9.3%
Share of results of associates and JVs	127	167	164	29.5%	-1.5%	417	596	42.7%
Operating profit before federal royalty	**4,885**	**5,001**	**5,030**	**3.0%**	**0.6%**	**18,722**	**19,464**	**4.0%**
Federal royalty	-1,565	-1,411	-1,453	-7.2%	3.0%	-5,771	-5,847	1.3%
Operating profit	**3,320**	**3,590**	**3,577**	**7.7%**	**-0.4%**	**12,951**	**13,616**	**5.1%**
EBITDA	**6,714**	**6,568**	**6,896**	**2.7%**	**5.0%**	**26,202**	**26,832**	**2.4%**
Finance and other income	507	489	466	-8.1%	-4.7%	2,001	2,274	13.7%
Finance and other costs	-581	-860	-822	41.4%	-4.4%	-2,674	-3,292	23.1%
Profit before tax	**3,246**	**3,219**	**3,221**	**-0.8%**	**0.1%**	**12,278**	**12,598**	**2.6%**
Income tax expenses	-458	-431	-444	-2.9%	3.2%	-1,752	-1,789	2.1%
Profit for the period	**2,788**	**2,789**	**2,776**	**-0.4%**	**-0.4%**	**10,526**	**10,809**	**2.7%**
Non-controlling interests	304	266	187	-38.3%	-29.6%	518	757	46.0%
Net Profit Attributable to Owners	**2,484**	**2,522**	**2,589**	**4.2%**	**2.6%**	**10,007**	**10,053**	**0.5%**

FABS estimate & Co Data

Etisalat - Margins

	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
EBITDA	25.6%	26.4%	26.1%	51	-27	24.7%	25.2%	45
Operating profit	51.8%	48.2%	50.3%	-143	207	50.0%	49.6%	-41
Net Profit	19.1%	18.5%	18.9%	-26	36	19.1%	18.6%	-52

FABS estimate & Co Data

3Q23 preview: Etihad Etisalat Company (Mobily)

Rise in operating profit and finance income to boost profitability

	12-m target price:	Stock rating:
CMP (SAR): 44.05 Potential upside/(downside) (%): +11.2%	**SAR 49.00**	**ACCUMULATE**

3Q23 Estimate

Etihad Etisalat (Mobily/the Company) is forecasted to report a 28.1% YOY growth in net profit to SAR 477 Mn in 3Q23 owing to strong growth expected in revenue and a decline in G&A expenses partially offset by an estimated rise in direct cost and finance expenses. Mobily's revenue is expected to grow 8.5% YOY to SAR 4,152 Mn in 3Q23 owing to an expected increase in the revenue from the wholesale, business, and outsourcing segments. On the other hand, cost of revenue is expected to rise by 15.8% YOY to SAR 1,769 Mn in 3Q23. Resultantly, gross profit will likely grow 3.6% YOY to SAR 2,383 Mn in 3Q23. Selling and marketing expenses are estimated to decline 1.0% YOY to SAR 386 Mn in 3Q23. Whereas, G&A expenses are anticipated to decline 9.3% YOY to SAR 378 Mn in 3Q23. Thus, EBITDA is anticipated to increase 6.9% YOY to SAR 1,579 Mn in 3Q23. Furthermore, D&A expense is estimated to decline 1.1% YOY to SAR 942 Mn in 3Q23. As a result, operating profit is expected to increase 22.3% YOY to SAR 653 Mn in 3Q23. In addition, Mobily's finance cost is expected to increase 17.1% YOY to SAR 176 Mn in 3Q23 whereas finance income is anticipated to grow from SAR 9 Mn in 3Q22 to SAR 36 Mn in 3Q23. Zakat expense is expected to increase significantly 73.0% YOY to SAR 36 Mn in 3Q23.

2023 Forecast

Mobily is expected to record a 15.4% growth in net profit to SAR 1,912 Mn in 2023 driven by a healthy growth expected in revenue and a decline in G&A expenses partially offset by an estimated rise in direct cost, selling and marketing expenses, and finance cost. Mobily's revenue is anticipated to increase 6.5% to SAR 16,695 Mn in 2023 driven by a healthy growth in overall business. The Company's cost of revenue is anticipated to increase 13.3% to SAR 7,145 Mn in 2023. Thus, gross profit will grow 2.0% to SAR 9,549 Mn in 2023. Selling and marketing expenses are anticipated to increase 5.0% to SAR 1,536 Mn in 2023 whereas G&A expenses are expected to decline 6.7% to SAR 1,519 Mn in 2023. Other income is expected to grow significantly to SAR 50 Mn in 2023 as compared to SAR 1 Mn in 2022. Moreover, the Company's EBITDA is predicted to increase 2.4% to SAR 6,311 Mn in 2023. Depreciation and amortization expenses are expected to decline 2.9% to SAR 3,741 Mn in 2023. As a result, operating profit is likely to grow 13.3% to SAR 2,620 Mn in 2023. The Company's finance expenses are expected to increase 15.2% to SAR 699 Mn in 2023. Similarly, finance income is expected to increase from SAR 46 Mn in 2022 to SAR 145 Mn in 2023. In addition, zakat expense is estimated to increase 28.0% to SAR 156 Mn in 2023.

2Q23 Outturn

Mobily's revenue rose 9.0% YOY to SAR 4,248 Mn in 2Q23 driven by healthy growth across all revenue streams primarily due to an increase in the overall subscriber base coupled with increased data consumption, data traffic, and voice calls due to the Hajj season. Cost of revenue rose 15.8% YOY to SAR 1,812 Mn in 2Q23. Thus, gross profit increased 4.4% YOY to SAR 2,435 Mn in 2Q23 primarily due to a rise in revenue. However, the gross profit margin declined to 57.3% in 2Q23 from 59.8% in 2Q22. Further, selling and marketing expenses grew 4.3% YOY to SAR 391 Mn in 2Q23 as the Company aims to strengthen its market share while the G&A expenses declined 9.8% YOY to SAR 385 Mn in 2Q23 due to disciplined cost management by the Company. Thus, the operating expenses declined 3.2% YOY to SAR 776 Mn in 2Q23. The company's other income increased to SAR 13 Mn in 2Q23 from SAR 7 Mn in 2Q22. However, depreciation charges declined 3.5% YOY to SAR 930 Mn in

2Q23. As a result, operating profit rose 29.0% YOY to SAR 669 Mn in 2Q23 whereas operating profit margin inclined 245 bps YOY to 15.8% in 2Q23. Mobily's EBITDA grew 7.5% YOY to SAR 1,586 Mn in 2Q23 driven by a growth in revenue and reflecting the company's efficiency in managing its operation. However, EBITDA margins declined 51 bps YOY in 2Q23 and stood at 37.3%. Finance expenses increased 23.0% YOY to SAR 176 Mn in 2Q23 owing to higher benchmark rates. In addition, finance income rose from SAR 8 Mn in 2Q22 to SAR 39 Mn in 2Q23. Additionally, zakat expenses rose 31.5% YOY to SAR 33 Mn in 2Q23 in line with growth in profitability.

Target price and recommendation

We revise our rating on Mobily from HOLD to ACCCUMULATE with an unchanged target price of SAR 49.00. Healthy growth in the subscriber base along with the Hajj season positively contributed to the Company's bottom line in 2Q23. Saudi's data consumption reached 49 thousand TB with an average per capital consumption of 786 MB from 19 June 2023 to 29 June 2023. The Company's 5G coverage areas grew by 86% YOY during the Hajj season with a 133% YOY increase in 5G data traffic and 121% YOY growth in voice calls through 4G. Additionally, the company also witnessed 200% growth in international calls and 68% growth in data consumption. Mobily's EBITDA increased 7.5% YOY to SAR 1,586 Mn in 2Q23 mainly due to the resilient top-line performance however EBITDA margin fell 51 YOY and 104 QOQ to 37.3% in 2Q23. Mobily is actively making efforts to enhance its market presence in Saudi Arabia. The Company signed multiple deals in the business segment to expand its network coverage to boost its digital infrastructure. Mobily expanded its network coverage and introduced specialized services for pilgrims through the Hajj season. Whereas, the Company also renewed a few international roaming agreements in the wholesale segment at competitive prices. In addition, the Company continues to generate robust free cash flow which rose 6.9% YOY to SAR 1,236 Mn in 2Q23. It will further reduce leverage going forward due to robust cash flow generation. Mobily incurred a total capex of SAR 350 Mn which will be spent over accelerating the 5G services across a number of strategic locations, cloud, IoT, data centers, and digitization of operations. Thus, based on above mention factors we maintain our ACCUMULATE rating on the stock.

Mobily – Relative Valuation

(At CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	NA	NA	43.0	31.4	20.3	17.6
P/B (x)	2.4	2.4	2.3	2.2	2.1	2.1
EV / EBITDA	10.3	9.1	8.3	7.6	6.6	6.4
Dividend yield	NA	NA	1.1%	1.9%	2.6%	3.1%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Services revenues	3,828	4,248	4,152	8.5%	-2.3%	15,669	16,695	6.5%
Cost of services	-1,527	-1,812	-1,769	15.8%	-2.4%	-6,306	-7,145	13.3%
Gross profit	**2,300**	**2,435**	**2,383**	**3.6%**	**-2.2%**	**9,363**	**9,549**	**2.0%**
Selling and marketing expenses	-390	-391	-386	-1.0%	-1.2%	-1,463	-1,536	5.0%
General & administrative expenses	-416	-385	-378	-9.3%	-1.8%	-1,628	-1,519	-6.7%
Operating expenses	**-806**	**-776**	**-764**	**-5.3%**	**-1.5%**	**-3,091**	**-3,055**	**-1.2%**
Other income	10	13	16	65.5%	18.9%	1	50	NM
Depreciation and amortisation	-953	-930	-942	-1.1%	1.3%	-3,851	-3,741	-2.9%
Impairment loss on acc receivable	-17	-74	-40	NM	NM	-112	-184	64.5%
Operating Profit	**534**	**669**	**653**	**22.3%**	**-2.5%**	**2,312**	**2,620**	**13.3%**
EBITDA	**1,477**	**1,586**	**1,579**	**6.9%**	**-0.4%**	**6,161**	**6,311**	**2.4%**
Share in the loss of an associate	1	-3	0	NM	NM	28	3	-91.0%
Finance expenses	-150	-176	-176	17.1%	0.0%	-607	-699	15.2%
Finance income	9	39	36	NM	-7.3%	46	145	NM
Profit before zakat	**393**	**530**	**513**	**30.5%**	**-3.2%**	**1,779**	**2,068**	**16.2%**
Zakat	-21	-33	-36	73.0%	10.1%	-122	-156	28.0%
Profit attributable	**373**	**497**	**477**	**28.1%**	**-4.0%**	**1,657**	**1,912**	**15.4%**

FABS estimate & Co Data

Mobily - Margins

	3Q22	2Q23	3Q23F	YOY	QOQ Ch	2022	2023F	Change
Gross profit	60.1%	57.3%	57.4%	-270	6	59.8%	57.2%	-256
EBITDA	38.6%	37.3%	38.0%	-55	70	39.3%	37.8%	-152
Operating profit	13.9%	15.8%	15.7%	178	-4	14.8%	15.7%	94
Net profit	9.7%	11.7%	11.5%	176	-21	10.6%	11.5%	88

FABS estimate & Co Data

3Q23 preview: Saudi Telecom Company

One-time gain to boost profitability

12-m target price:	Stock rating:
SAR 47.00	**BUY**

CMP (SAR): 36.70
Potential upside/(downside) (%): +28.1%

3Q23 Estimate

Saudi Telecom Company (STC) is expected to report a 7.8% YOY decline in net profit to SAR 3,263 Mn in 3Q23. The decline in net profit is mainly attributable to an increased direct cost, finance costs, higher operating expenses, and zakat expenses partially offset by a healthy growth expected in revenue and finance income along with a decline in other expenses. STC's revenue is expected to increase 9.6% YOY to SAR 18,046 Mn in 3Q23 driven by overall sales growth. The Company's direct cost is expected to increase 33.4% YOY to SAR 8,572 Mn in 3Q23. Thus, the Company's gross profit is expected to decline 5.6% YOY to SAR 9,474 Mn in 3Q23. STC's selling and general expenses are anticipated to increase 8.7% YOY to SAR 1,624 Mn in 3Q23 whereas G&A expenses are predicted to rise 10.2% YOY to SAR 1,624 Mn. Thus, EBITDA is anticipated to decline 12.0% YOY to SAR 6,226 Mn in 3Q23. Depreciation and amortization expenses are expected to grow 7.6% YOY to SAR 2,686 Mn in 3Q23. As a result, operating income is likely to decline 22.7% YOY to SAR 3,540 Mn in 3Q23. Other expenses are expected to decline significantly from SAR 622 Mn in 3Q22 to SAR 34 Mn in 3Q23. Moreover, finance income is anticipated to more than double from SAR 126 Mn in 3Q22 to SAR 361 Mn in 3Q23. Whereas, finance expense is forecasted to grow 27.0% YOY to SAR 235 Mn in 3Q23. In addition, zakat expense is anticipated to increase 14.6% YOY to SAR 327 Mn in 3Q23. Share of profit attributable to non-controlling interest holders is expected to decline 40.6% YOY to SAR 41 Mn in 3Q23.

2023 Forecast

Saudi Telecom Company's net profit is expected to increase 4.7% to SAR 12,739 Mn in 2023 driven by a healthy growth expected in sales along with strong growth in finance income and anticipated decline in other expenses partially offset by an increase in operating expenses, finance cost, and zakat expenses. STC's net sales are estimated to grow 8.1% to SAR 72,921 Mn in 2023. On the other hand, direct cost is anticipated to increase 17.5% to SAR 35,294 Mn in 2023. As a result, gross profit will grow 0.6% to SAR 37,627 Mn in 2023. STC's selling and overhead expenses are expected to grow 0.2% to SAR 6,125 Mn in 2023 while G&A expenses are anticipated to increase 9.3% to SAR 6,782 Mn in 2023. Thus, EBITDA is estimated to decline 1.4% to SAR 24,720 Mn in 2023. Moreover, depreciation and amortization expenses are predicted to increase 5.4% to SAR 10,525 Mn in 2023. Resultantly, operating profit is anticipated to decline 5.9% to SAR 14,195 Mn in 2023. Furthermore, other operating expenses are expected to decline significantly from SAR 1,524 Mn in 2022 to SAR 475 Mn in 2023. Finance income is estimated to more than double from SAR 602 Mn in 2022 to SAR 1,495 Mn in 2023 whereas finance cost is expected to increase 37.3% to SAR 957 Mn in 2023. Additionally, Zakat expenses are forecasted to grow 25.1% to SAR 1,355 Mn in 2023 dragging profitability. Share of profit attributable to non-controlling interest holders is anticipated to decline 23.7% to SAR 165 Mn in 2023.

2Q23 Outturn

STC's revenue grew 8.9% YOY to SAR 18,327 Mn in 2Q23 owing to 8.2% YOY increase in mobile subscribers to 24.9 Mn. On the other hand, direct cost rose 20.1% YOY to SAR 9,194 Mn in 2Q23. Thus, gross profit declined marginally 0.4% YOY to SAR 9,133 Mn in 2Q23 with a decline in gross profit margin from 54.5% in 2Q22 to 49.8% in 2Q23. Selling and overhead expenses increased 7.4% YOY to SAR 1,567 Mn in 2Q23, while, G&A expenses grew 15.6% YOY to SAR 1,745 Mn in 2Q23. The increase in operating cost is mainly attributable to STC's ongoing investment in new domains aligned with the Group's strategy. Resultantly, EBITDA declined 6.2% YOY to SAR 5,821 Mn in 2Q23 with a

510 bps YOY decline in EBITDA margin to 31.8% in 2Q23. Depreciation and amortization expenses grew 2.2% YOY to SAR 2,540 Mn in 2Q23. Thus, operating profit declined 11.8% YOY to SAR 3,281 Mn in 2Q23 with a 420 bps YOY decline in operating profit margin to 17.9% in 2Q23. Other expenses declined significantly from SAR 464 Mn in 2Q22 to SAR 37 Mn in 2Q23. Finance income rose significantly from SAR 114 Mn in 2Q22 to SAR 382 Mn in 2Q23 while finance cost rose 42.6% YOY to SAR 248 Mn in 2Q23. Zakat expense increased 17.7% YOY to SAR 331 Mn in 2Q23 dragging profitability.

Target price and recommendation

We maintain our BUY rating on Saudi Telecom Company with a target price of SAR 54.00. STC witnessed the highest quarterly revenue of SAR 18.3 Bn in 2Q23 primarily due to strong growth in the Mobility segment. STC Mobile subscribers rose 8.6% YOY due to increased prepaid, postpaid, and m2m subscribers. While the fixed subscribers declined marginally by 1.6% YOY in 2Q23. STC acquired 9.9% stake in Telefonica for a consideration of SAR 8.5 Bn. Telefonica is a telecommunications company with a significant presence in Germany, the UK, Spain, and Brazil. STC's subsidiary, TAWAL started its operations in Europe and now owns and operates around 4,800 sites of United Group across Bulgaria, Croatia, and Slovenia. This led to an expansion in STC’s international footprint and supporting infrastructure expansion plans. These sites will be leased for 20 years by United Group to provide telecom services. The Group also announced the completion of all procedures related to the sale of its entire 49% stake in Contact Center Co. (CCC) at a total enterprise value of SAR 450 Mn to Solutions. Solutions by STC announced signing a binding offer with Devoteam SIS (France) and Ortel company which includes the acquisition of a 40% stake in Devoteam Middle East. Furthermore, center3 announced the signing of two subsea and terrestrial data cables that will connect Saudi Arabia with Europe. This move aligns with the Group’s strategic expansion and growth plans, focusing on accessing lucrative sectors and investments. STC also continues to monetize its assets and in 3Q23 sold its land in Khobar City for SAR 1,378 Mn recording a gain of SAR 1,296 Mn. Asset monetization will help the company in diversifying its investment, strengthen its balance sheet and pay healthy dividend. Furthermore, as per the Company's dividend distribution policy for three years, which began from 4Q21, the company commits to pay a minimum dividend of SAR 0.4 per share every quarter. Additionally, STC distributed a quarterly dividend of SAR 0.4 per share for the period 2Q23. Thus, based on our analysis, we maintain a BUY rating on the stock.

STC – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	16.4	16.6	16.1	15.6	14.5	12.7
P/B (x)	2.7	2.9	2.8	2.6	2.4	2.2
EV/EBITDA	8.3	8.3	7.6	7.5	6.5	6.8
Dividend yield	6.8%	4.5%	5.7%	4.5%	4.5%	4.5%

FABS Estimates & Co Data

STC - P&L

SAR mm	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Sales	16,468	18,327	18,046	9.6%	-1.5%	67,432	72,921	8.1%
Direct costs	-6,428	-9,194	-8,572	33.4%	-6.8%	-30,038	-35,294	17.5%
Gross profit	**10,040**	**9,133**	**9,474**	**-5.6%**	**3.7%**	**37,393**	**37,627**	**0.6%**
Selling & overhead expenses	-1,494	-1,567	-1,624	8.7%	3.6%	-6,110	-6,125	0.2%
General & admin Exp.	-1,474	-1,745	-1,624	10.2%	-6.9%	-6,204	-6,782	9.3%
EBITDA	**7,073**	**5,821**	**6,226**	**-12.0%**	**7.0%**	**25,079**	**24,720**	**-1.4%**
Depreciation & Amortization	-2,496	-2,540	-2,686	7.6%	5.7%	-9,990	-10,525	5.4%
Operating profit (EBIT)	**4,576**	**3,281**	**3,540**	**-22.7%**	**7.9%**	**15,088**	**14,195**	**-5.9%**
Other income/(expenses)	-622	-37	1,262	-302.8%	NM	-1,524	821	-153.9%
Finance Income	126	382	361	186.7%	-5.5%	602	1,495	148.1%
Financial charges	-185	-248	-235	27.0%	-5.3%	-697	-957	37.3%
Profit before zakat	**3,896**	**3,378**	**4,927**	**26.5%**	**45.9%**	**13,470**	**15,555**	**15.5%**
Zakat	-285	-331	-443	55.6%	34.0%	-1,083	-1,478	36.4%
Profit before NCI	**3,610**	**3,047**	**4,484**	**24.2%**	**47.1%**	**12,387**	**14,077**	**13.6%**
NCI	69	39	41	-40.6%	6.3%	216	165	-23.7%
Profit attributable	**3,541**	**3,008**	**4,443**	**25.5%**	**47.7%**	**12,171**	**13,912**	**14.3%**

FABS estimate & Co Data

STC- Margins

	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Gross profit	61.0%	49.8%	52.5%	-847	266	55.5%	51.6%	-385
EBITDA	43.0%	31.8%	34.5%	-845	274	37.2%	33.9%	-329
Operating profit	27.8%	17.9%	19.6%	-818	171	22.4%	19.5%	-291
Net profit	21.5%	16.4%	24.6%	312	820	18.0%	19.1%	103

FABS estimate & Co Data

3Q23 preview: Telecom Egypt

New service offerings to boost topline and profitability

CMP (EGP): 28.53 Potential gain/(downside) (%): +12.2%	12-m target price: **EGP 32.00**	Stock rating: **ACCUMULATE**

3Q23 Estimate

Telecom Egypt (ETEL/the Company) is expected to report a 6.6% YOY increase in net profit to EGP 2,545 Mn in 3Q23 driven by an expected increase in revenue, decline in zakat expenses and decline in net finance cost, partially offset by an estimated rise in operating cost and selling and overhead expenses. Telecom Egypt's revenue is forecasted to grow 2.0% YOY to EGP 12,109 Mn in 3Q23 driven by expected growth in the retail segment supported by an increase in subscriber base partially offset a decline in wholesale segment revenues. On the other hand, operating cost is estimated to rise 7.3% YOY to EGP 6,963 Mn in 3Q23 resulting in a 4.4% YOY decline in gross profit to EGP 5,147 Mn. Selling and overhead expenses are anticipated to increase 11.6% YOY to EGP 2,180 Mn in 3Q23. As a result, total operating profit will likely decline 11.2% YOY to EGP 3,042 Mn in 3Q23. The Company's EBITDA is expected to fall 7.4% YOY to EGP 4,836 Mn in 3Q23. Income from associates is predicted to increase marginally 1.3% YOY to EGP 1,017 Mn in 3Q23. However, the net finance cost is anticipated to fall 8.5% YOY to EGP 1,060 Mn in 3Q23. In addition, Zakat expenses are predicted to decline 48.9% YOY to EGP 450 Mn in 3Q23.

2023 Forecast

We forecast Telecom Egypt's net profit to grow 28.1% to EGP 11,759 Mn in 2023 owing to strong growth expected in revenue, income from associates, and lower zakat expenses partially offset by a hike in operating cost, selling and overhead expenses, and net finance cost. The Company's revenue is expected to grow 18.6% to EGP 52,497 Mn in 2023 whereas operating cost is estimated to increase 14.9% to EGP 29,923 Mn in 2023. Thus, gross profit is anticipated to increase 23.8% to EGP 22,574 Mn in 2023. Selling and overhead expenses are estimated to increase 14.3% to EGP 9,239 Mn in 2023. Thus, operating profit is expected to grow 34.2% to EGP 13,469 Mn in 2023. Moreover, the Company's EBITDA is anticipated to grow 20.7% to EGP 20,644 Mn in 2023. Furthermore, income from associates is predicted to increase 45.0% to EGP 3,908 Mn in 2023. However, the Company's net finance cost is expected to increase significantly from EGP 2,078 Mn in 2022 to EGP 4,239 Mn in 2023. Zakat expenses are anticipated to decline 6.4% to EGP 1,374 Mn in 2023.

2Q23 Outturn

Telecom Egypt revenue grew substantially 29.1% YOY to EGP 14,177 Mn in 2Q23 mainly driven by solid growth across all the business segments. Revenue from Home & Consumer Services grew 15.0% YOY to EGP 6,205 Mn in 2Q23 due to an increase in data and voice revenue coupled with an increase in customer base and healthy ARPU. Revenue from the Enterprise Solutions business rose 0.6% YOY to EGP 1,438 Mn in 2Q23. Furthermore, the voice subscriber base rose 4.8% YOY to 11.8 Mn in 2Q23 while the fixed broadband customers inclined 7.7% YOY to 9.1 Mn in 2Q23. Wholesale segment revenues recorded robust growth owing to an increase in cable revenue resulting from the further monetization of cable projects, amounting to c. USD 40 Mn in 2Q23. Revenue from the Domestic Wholesale segment grew 11.9% YOY to EGP 1,895 Mn in 2Q23. International Carrier Affairs business also reported strong growth of 49.6% YOY to EGP 1,945 Mn in 2Q23 due to the higher traffic and USD appreciation against EGP. International Cable and Networks rose 120.6% YOY to EGP 2,695 Mn in 2Q23 due to strong growth in cable project and growing capacity sales. On the other hand, operating costs rose 30.9% YOY to EGP 8,241 Mn in 2Q23 driven by growth in interconnection call cost, D&A expenses, and salaries & wages, frequencies and licensing charges, and other operating cost. Thus, gross profit rose 26.6% YOY to EGP 5,936 Mn in 2Q23 with a decline in margin from 42.7% in 2Q22 to

41.9% in 2Q23. Selling and overhead expenses rose 27.6% YOY to EGP 2,498 Mn in 2Q23 due to an increase in salaries & wages and advertising expenses partially offset by agents' commissions. Other operating revenue/expense declined from EGP 325 Mn in 2Q22 to loss of EGP 4 Mn in 2Q23 due to decline in operating revenue and provision for expected credit loss as compared to reversal. Thus, operating profit grew 12.5% YOY to EGP 3,434 Mn in 2Q23. The Company's EBITDA rose 28.2% YOY to EGP 5,747 Mn in 2Q23 with a slight decrease in EBITDA margin of 27 bps YOY to 40.5% in 2Q23. Income from associates rose from EGP 727 Mn in 2Q22 to EGP 1,070 Mn in 2Q23 mainly due to strong operational performance. Net finance cost increased significantly from EGP 564 Mn in 2Q22 to EGP 1,131 Mn in 2Q23 mainly due to a rise in net interest expense due to the local currency's devaluation. Zakat expenses declined 39.1% YOY to EGP 487 Mn in 2Q23 supporting profitability.

Target price and recommendation

We revise our rating on Telecom Egypt from BUY to ACCUMULATE with a target price of EGP 32.00. The company reported strong growth in profitability with a substantial increase in revenue and EBITDA. The increase is mainly attributable to the robust growth in the wholesale sector followed by strong retail performance. Total revenue grew 29.0% YOY driven by an increase in ICA and strong operational performance resulting in an uptick in data performance. Telecom Egypt further expects its revenue to record double-digit growth in 2023. The Company's voice subscribers increased to 11.8 Mn, similarly, data subscribers rose from 8.4 Mn in 2Q22 to 9.1 Mn in 2Q23. Mobile subscribers also grew 6.7% YOY to 12.6 Mn in 2Q23 amid healthy ARPU trends. EBITDA recorded a strong 28.2% YOY owing to high margin revenue from the cables and data revenue. The Company further anticipates its EBITDA margin to stand in the mid-to-high 30s in 2023. Additionally, as of 1H23, the company announced that the National Telecom Regulatory Authority accepted its request to secure an additional 5 MHz of spectrum in the 1800 MHz band using FDD technology that will lead to an improvement in its service quality which in turn will enable to increase and broaden its customer base. Likewise, Telecom Egypt also announced the successful landing of the 2Africa subsea cable to Port Said, enhancing its commitment to the value proposition. Furthermore, the Company also maintained a strong balance sheet with a robust cash position of EGP 9.8 Bn in 2Q23. The Company's in-service capex grew to EGP 4.5 Bn while the cash capex grew to EGP 11.2 Bn as of 1H23. It further expects its in-service capex to grow in the early 20s in 2023. The company reported a negative free cash flow of EGP 1.7 Bn as of 1H23. However, this was partially mitigated receipt of EGP 2.1 Bn in dividends in July 2023, ultimately leading to a positive free cash flow of EGP 0.5 Bn for 1H23. Telecom Egypt further expects its free cash flow to improve in coming quarters owing to the dividend collection which it indicated earlier and also due to the collection of revenues from the new cable projects that were recognized in 2Q23. Thus, based on our analysis, we maintain our BUY rating on the stock. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

Telecom Egypt –Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	19.02	13.59	12.35	6.57	5.30	4.14
P/B (x)	1.51	1.38	1.26	1.10	1.05	0.97
EV / EBITDA	10.50	10.93	6.02	4.33	4.25	4.02
Dividend yield	0.9%	0.9%	2.6%	3.5%	4.4%	4.6%

Telecom Egypt-P&L

EGP mm	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Operating Revenue	11,873	14,177	12,109	2.0%	-14.6%	44,273	52,497	18.6%
Operating costs	-6,492	-8,241	-6,963	7.3%	-15.5%	-26,038	-29,923	14.9%
Gross profit	**5,381**	**5,936**	**5,147**	**-4.4%**	**-13.3%**	**18,235**	**22,574**	**23.8%**
Selling & overhead expenses	-1,952	-2,498	-2,180	11.6%	-12.7%	-8,083	-9,239	14.3%
Net operating revenue (others)	-4	-4	75	NM	NM	-115	135	NM
Operating profit	**3,424**	**3,434**	**3,042**	**-11.2%**	**-11.4%**	**10,037**	**13,469**	**34.2%**
EBITDA	**5,221**	**5,747**	**4,836**	**-7.4%**	**-15.9%**	**17,102**	**20,644**	**20.7%**
Income from Associates	1,004	1,070	1,017	1.3%	-5.0%	2,695	3,908	45.0%
Net Finance income/(cost)	-1,158	-1,131	-1,060	-8.5%	-6.3%	-2,078	-4,239	104.0%
Profit before zakat	**3,270**	**3,373**	**2,999**	**-8.3%**	**-11.1%**	**10,655**	**13,138**	**23.3%**
Zakat	-880	-487	-450	-48.9%	-7.7%	-1,467	-1,374	-6.4%
Profit before N-C interests	**2,390**	**2,886**	**2,549**	**6.6%**	**-11.7%**	**9,187**	**11,763**	**28.0%**
Non-controlling interests	-1	-4	-4	NM	0.0%	-5	-5	-6.4%
Profit attributable	**2,389**	**2,882**	**2,545**	**6.6%**	**-11.7%**	**9,182**	**11,759**	**28.1%**

FABS estimate & Co Data

Telecom Egypt - Margins

	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	45.3%	41.9%	42.5%	-282	63	41.2%	43.0%	181
EBITDA	44.0%	40.5%	39.9%	-405	-60	38.6%	39.3%	70
Operating profit	28.8%	24.2%	25.1%	-372	90	22.7%	25.7%	299
Net profit	20.1%	20.3%	21.0%	90	69	20.7%	22.4%	166

FABS estimate & Co Data

3Q23 preview: Emirates Integrated Telecommunications

Rising Mobile and fixed customer base to boost profitability

12-m target price:	Stock rating:
AED 7.40	**BUY**

CMP(AED):5.22
Potential upside/(downside) (%): +41.8%

3Q23 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to report 28.0% YOY growth in net profit to AED 409 Mn in 3Q23. The increase in net profit will be mainly driven by a growth expected in revenue partially offset by an increase in federal royalty. DU's revenue is expected to rise 5.9% YOY to AED 3,362 Mn in 3Q23. The Company's cost is anticipated to decline 0.2% YOY to AED 1,775 Mn in 3Q23 while marketing expenses are estimated to grow 11.3% YOY to AED 50 Mn in 3Q23. As a result, EBITDA is expected to increase 12.8% YOY to AED 1,469 Mn in 3Q23. Thus, we expect EBITDA margin to improve 267 bps YOY to 43.7% in 3Q23. Depreciation and amortization expense is anticipated to increase 4.4% YOY to AED 543 Mn in 3Q23. Thus, operating profit is likely to grow 18.3% YOY to AED 926 Mn in 3Q23. Operating profit margin is expected to grow 289 bps YOY to 27.6% in 3Q23. Net finance expense is expected to decline from AED 18 Mn in 3Q22 to AED 13 Mn in 3Q23. In addition, federal royalty is expected to increase 13.5% YOY to AED 504 Mn in 3Q23.

2023 Forecast

DU's net profit is expected to increase 21.9% to AED 1,487 Mn in 2023. Revenue is expected to grow 6.1% to AED 13,530 Mn in 2023 while cost is expected to increase 2.1% to AED 7,347 Mn in 2023. Marketing expenses are anticipated to decline marginally 1.0% to AED 244 Mn in 2023 while ECL is estimated to increase 6.1% to AED 184 Mn in 2023. Thus, EBITDA is expected to increase 11.9% to AED 5,756 Mn in 2023. EBITDA margin is expected to rise 223 bps to 42.5% in 2023. Depreciation and amortization expense is anticipated to rise 2.7% to AED 2,170 Mn in 2023. Thus, operating profit is likely to grow 18.4% to AED 3,585 Mn in 2023. The operating profit margin is anticipated to grow from 23.7% in 2022 to 26.5% in 2023. Net finance expense is expected to increase 17.3% to AED 70 Mn in 2023. Federal royalty is expected to increase 16.4% to AED 2,029 Mn in 2023 dragging profitability.

2Q23 Outturn

DU's revenue grew 6.7% YOY to AED 3,347 Mn in 2Q23 driven by the healthy growth of the service and other revenues. Services revenue is driven by robust performance of the mobile and fixed services revenue. Other revenues inclined marginally 1.1% YOY to AED 885 Mn, primarily due to the strong growth in the roaming services along with robust demand for ICT services including security, data center, and cloud services. DU cost of revenue excluding D&A, marketing expense declined 3.9% YOY to AED 1,710 Mn in 2Q23 due to one-time reversal, effective cost management and ongoing operational efficiency. Marketing expenses too fell 0.6% YOY to AED 50 Mn in 2Q23. The Company's EBITDA increased 19.8% YOY to AED 1,517 Mn, driven by higher service and improvement of the revenue mix and one-off reversal. Thus, the EBITDA margin rose 495 bps YOY and 563 bps QOQ to 45.3% in 2Q23 as a result of ongoing operational efficiency and effective cost management. Moreover, depreciation and amortization expenses grew 15.9% YOY to AED 595 Mn in 2Q23. While the net finance cost increased 29.0% YOY to AED 24 Mn in 2Q22 mainly due to the increase in the interest expense. In addition, DU's federal royalty rose 16.5% YOY to AED 501 Mn in 2Q23.

Target price and rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company delivered strong performance in 2Q23 mainly due to increase in revenue and strong rise in EBITDA. Net revenue grew 6.7% YOY in 2Q23 owing to the strong rise in Mobile, Fixed and Other service revenue partially offset by a decline in Wholesale service revenue. DU's mobile customer base rose 8% YOY to 8 Mn subscribers owing to the innovative and attractive service offerings. Fixed services customers also recorded a growth of 18.3% YOY to 559,000 customers in 2Q23. DU further anticipates a high demand for its residential broadband services because of the ongoing expansion of its fiber network, which has already reached over 14,000 households. EBITDA of the Company recorded a double-digit growth of 19.8% YOY in 2Q23. The increase in EBITDA was mainly fueled by strong revenue growth, favorable business mix, and effective cost management practices led by the Company. EBITDA margins expanded 495 bps YOY and 563 bps on QOQ to 45.3% in 2Q23. Furthermore, the Company also maintained a healthy balance sheet with a cash balance of AED 383 Mn in 2Q23 with a debt-free balance sheet position. It also incurred a capex of AED 506 Mn in 2Q23 on account of 5G deployment, expanding fiber network and ongoing IT transformation. The Company free cash flow also increased 43.3% YOY to AED 1,016 Mn in 2Q23 mainly due to strong EBITDA growth. In addition, the Company's board of director also approved an interim cash dividend of AED 0.13 per share. Thus, considering all these factors, we maintain our BUY rating on the stock.

DU – Relative Valuation

(at CMP)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**
P/E (x)	13.7	13.9	16.6	21.8	19.7	16.2
P/B (x)	2.8	2.8	2.8	2.8	2.7	2.7
EV/EBITDA	4.0	3.8	4.8	5.0	4.4	3.8
Dividend yield	6.6%	6.4%	5.3%	4.0%	4.5%	4.9%

FABS Estimates & Co Data

DU - P&L

AED mm	**3Q22**	**2Q23**	**3Q23F**	**YOY Ch**	**QOQ Ch**	**2022**	**2023F**	**Change**
Revenue	3,175	3,347	3,362	5.9%	0.4%	12,754	13,530	6.1%
Costs (ex D&A, marketing exp)	-1,778	-1,710	-1,775	-0.2%	3.8%	-7,194	-7,347	2.1%
Marketing expense	-45	-50	-50	11.3%	0.5%	-246	-244	-1.0%
Expected Credit Loss	-48	-69	-67	38.8%	-3.1%	-174	-184	6.1%
EBITDA	**1,303**	**1,517**	**1,469**	**12.8%**	**-3.2%**	**5,141**	**5,756**	11.9%
D&A & Impairment	-519	-595	-543	4.4%	-8.8%	-2,112	-2,170	2.7%
Operating profit	**783**	**922**	**926**	**18.3%**	**0.5%**	**3,029**	**3,585**	18.4%
Financing income/expense	-18	-24	-13	-27.2%	-44.6%	-59	-70	17.3%
Share of profit of investments	-2	-1	0	NM	NM	-8	0	NM
Pre-royalty profit	**763**	**898**	**913**	**19.6%**	**1.7%**	**2,963**	**3,516**	18.7%
Federal Royalty	-444	-501	-504	13.5%	0.7%	-1,744	-2,029	16.4%
Net profit	**319**	**397**	**409**	**28.0%**	**2.9%**	**1,220**	**1,487**	**21.9%**

FABS estimate & Co Data

DU - Margins

	3Q22	**2Q23**	**3Q23F**	**YOY Ch**	**QOQ Ch**	**2022**	**2023F**	**Change**
Gross profit	44.0%	48.9%	47.2%	321	-171	43.6%	45.7%	210
EBITDA	41.0%	45.3%	43.7%	267	-164	40.3%	42.5%	223
Operating profit	24.7%	27.6%	27.6%	289	1	23.7%	26.5%	275
Net Profit	10.1%	11.9%	12.2%	210	29	9.6%	11.0%	143

FABS estimate & Co Data

3Q23 preview: Al Yah Satellite Communications Co

Contracted future revenue and expansion plans to support profit

12-m target price:	Stock rating:
AED 3.50	**BUY**

CMP(AED):2.62
Potential upside (%): +33.6%

3Q23 Estimate

Al Yah Satellite Communications (Al Yahsat/the Group) is expected to report a net profit of USD 30.0 Mn in 3Q23, compared to a loss of USD 10.2 Mn in 3Q22. The growth in net profit is anticipated to be driven by decline in administrative expenses and share of results from associates partially offset by a marginal decline in revenue and EBITDA. The Group revenue is forecasted to decline marginally 0.4% YOY to 108.5 Mn in 3Q23. The group's cost of revenue is expected to incline 26.6% YOY to USD 10.8 Mn in 3Q23. As a result, gross profit is expected to decline 2.7% YOY to 97.7 Mn in 3Q23. Administrative expenses are anticipated to decline 1.7% YOY to USD 33.4 Mn in 3Q23. On the other hand, other income is expected to grow 22.9% YOY to USD 0.7 Mn in 3Q23. Thus, EBITDA is forecasted to decline 3.1% YOY to USD 64.9 Mn in 3Q23. Depreciation expenses are expected to rise 3.2% YOY to USD 37.3 Mn in 3Q23. As a result, operating profit is likely to decline 10.4% YOY to USD 27.6 Mn in 3Q23. Furthermore, the net finance cost is anticipated to rise substantially from USD 0.6 Mn in 3Q22 to USD 2.0 Mn in 3Q23. Additionally, share of associate and joint venture is expected to decline and reach USD 2.7 Mn in 3Q23 from USD 43.5 Mn in 3Q22 whereas income tax charges are estimated to reach USD 0.08 Mn in 3Q23 from USD 0.05 Mn in 3Q22. Share of profit attributed to non-controlling interest holders is anticipated to increase 70.2% YOY to USD 3.2 Mn in 3Q23.

2023 Forecast

Al Yahsat is expected to report 59.9% growth in net profit to USD 104.8 Mn in 2023 driven by expected marginal growth in revenue and a significant rise in net finance income partially offset by an estimated hike in operating expenses. The Group's revenue is expected to grow 2.1% to USD 441.8 Mn in 2023. Consequently, the cost of revenue is estimated to increase 3.4% to USD 49.9 Mn in 2023, resulting in a 2.0% YOY growth in gross profit to USD 391.8 Mn in 2023. Administrative expenses are expected to rise 7.1% to USD 139.7 Mn in 2023 due to an expected hike in staff costs and other operating expenses. Other income is anticipated to decline 20.4% to USD 3.1 Mn in 2023. Thus, EBITDA is estimated to decline marginally 0.9% to USD 255.2 Mn in 2023. Depreciation charges are estimated to increase 3.3% to USD 149.2 Mn in 2023. As a result, operating income is expected to decline 13.2% to USD 99.6 Mn in 2023. Furthermore, Al Yahsat is expected to record a net finance income of USD 9.2 Mn in 2023 as compared to a net finance cost of USD 1.1 Mn in 2022. The share of associates and joint ventures is expected to reach USD 9.1 Mn in 2023. Income tax charges are estimated to increase from USD 0.2 Mn in 2022 to USD 0.3 Mn in 2023, while NCI is expected to remain stable at USD 5.3 Mn in 2023.

2Q23 Outturn

YAHSAT revenue declined 2.0% YOY to USD 104.7 Mn in 2Q23. The revenue declined primarily due to a significant decrease in Managed and Data solutions partially offset by an increase in Mobility Solutions and Infrastructure services. Cost of revenue declined 12.7% YOY to USD 10.2 Mn in 2Q23 due to the strong cost measures. As a result, gross profit declined marginally 0.7% YOY to USD 94.5 Mn in 2Q23. However, gross profit margin grew from 89.0% in 2Q22 to 90.2% in 2Q23. Administrative expenses grew 2.6% YOY to USD 32.7 Mn in 2Q23. Other income rose from USD 0.5 Mn in 2Q22 to USD 0.7 Mn in 2Q23. EBITDA declined 2.1% YOY to USD 62.5 Mn in 2Q23 while the EBITDA margin remained almost stable to 59.7% in 2Q23 mainly due to a decline in revenue and an increase in administrative expenses. The Group recorded USD 6.4 Mn fair value loss on other financial assets compared to a gain of USD 0.8 Mn in 2Q22. Thus, operating profit declined significantly from

USD 28.7 Mn in 2Q22 to USD 15.8 Mn in 2Q23. Al Yahsat recorded net finance income of USD 1.9 Mn in 2Q23 as compared to net finance cost of USD 1.4 Mn in 2Q22. Loss from share of equity investments declined from USD 3.7 Mn in 2Q22 to USD 2.6 Mn in 2Q23. Income tax expense rose from USD 0.04 Mn in 2Q22 to USD 0.1 Mn in 2Q23. Share of profit attributable to non-controlling interest holders grew from USD 1.7 Mn in 2Q22 to USD 3.2 Mn in 2Q23 supporting profitability.

Target price and rating

We maintain our 'BUY' rating on Al Yahsat with an unchanged target price of AED 3.50. Al Yahsat witnessed a decline in performance in 2Q23 mainly due to a decline in revenue, EBITDA as well as the fair value loss that it recorded during the period. The decline in revenue is primarily attributed to a significant decrease in Managed Solutions owing to the slower growth momentum, largely influenced by the effects of the prior year. However, the Mobility and Infrastructure services segments recorded an increase in 2Q23. The Company further expects a mid-single-digit growth in revenue, largely driven by the expected strong performance of its commercial segments, which constitute a significant portion of the Company's total revenue. Recently, Al Yahsat government services arm will receive from the UAE government Authorization to Proceed (ATP) to provide satellite services and managed services for a period of 17 years. The mandate is valued at AED 18.7 Bn (USD 5.1 Bn). The recent mandate will replace the existing agreements such as the Capacity Services Agreements (CSA) and the Mandate Service Mandate (MSM), which are expected to end in November and December 2026, respectively. According to the new mandate, Al Yahsat will provide the government of UAE secure and reliable satellite and managed services using the Al Yah 1 and 2 satellites which are currently in orbit. This mandate will be further supported by new satellites such as Al Yah 4 and Al Yah 5 which is expected to be launched in 2027 and 2028, respectively. Al Yahsat long-standing relationship with government which is more than two decades old almost since its inception and remained a preferred partner for the supply of satellite capacity and solutions. The new contract also expands the future revenue backlog to AED 25.7 bn (USD 7.0 Bn) equivalent to 16x times the company's revenue of 2022. This also extends the backlog beyond 2040 and providing visibility over future cash flows. In February 2023, the Company signed an MoU with Bayanat to establish and operate a constellation of synthetic aperture radar (SAR) and optical imagery Earth observation (EO) satellites. The partnership will combine Al Yahsat's satellite and ground operations capabilities with Bayanat's strengths in image processing and AI-driven data analytics for comprehensive Earth observation. Moreover, Al Yahsat also plays an important role in developing UAE's space sector. Al Yahsat entered a 15-year contract with the government worth USD 708 Mn for the provision of capacity and related services on the Thuraya 4 Next Generation System. It also plans to launch the Thaurya-4 NGS satellite in 1H24 and another 2 satellites Al Yah 4 and Al Yah 5. Furthermore, the Company also maintained a strong balance sheet with a robust cash position, long-term future cash flows and negative net debt. The Company also maintained a solid liquidity of USD 686 Mn as of 2Q23, enabling it to support inorganic growth. Al Yahsat incurred a total capex of USD 53 Mn in 1H23 and further expects to incur USD 155-175 Mn in 2023. In addition, Al Yahsat is expected to generate a free cash flow of USD 130 Mn which would exceed the total expected dividend for 2023. The company is expected to pay a total dividend of 16.46 fils per share or a total of USD 109.3 Mn for the year ending 2023 leading to a dividend yield of 6.3% in 2023 that is considered to be the highest amongst other UAE companies. Al Yahsat declared a dividend of 8.23 fils per share or USD 54.7 Mn for 1H23 on 20 September 2023. Thus, based on our analysis, we assign a 'BUY' rating to the stock.

Al Yahsat – Relative Valuation

(at CMP)	2020	2021	2022	2023F
P/E (x)	NA	24.87	26.46	16.55
P/B (x)	NA	2.06	2.04	2.05
EV/EBITDA	NA	8.08	6.95	6.52
Dividend yield	NA	6.0%	6.2%	6.2%

FABS Estimates & Co Data

Note - *Since the company was listed on 27 Oct 2021 hence valuation multiples for FY2019 and 2020 are not included

Al Yahsat - P&L

(USD'000)	3Q22	2Q23	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	**109,017**	**104,717**	**108,545**	**-0.4%**	**3.7%**	**432,540**	**441,754**	**2.1%**
Cost of revenue	-8,574	-10,213	-10,854	26.6%	6.3%	-48,296	-49,918	3.4%
Gross Profit	**100,443**	**94,504**	**97,690**	**-2.7%**	**3.4%**	**384,244**	**391,836**	**2.0%**
Administrative Expenses	-34,010	-32,651	-33,432	-1.7%	2.4%	-130,448	-139,694	7.1%
Other Income	530	664	651	22.9%	-1.9%	3,884	3,092	-20.4%
EBITDA	**66,963**	**62,517**	**64,910**	**-3.1%**	**3.8%**	**257,680**	**255,234**	**-0.9%**
Depreciation	-36,155	-40,360	-37,311	3.2%	-7.6%	-144,471	-149,244	3.3%
Fair value adjustments on invt	0	-6,366	0	NM	NM	1,584	-6,366	NM
Operating Profit	**30,808**	**15,791**	**27,599**	**-10.4%**	**74.8%**	**114,793**	**99,624**	**-13.2%**
Net Finance Cost	638	1,926	1,996	NM	3.7%	-1,098	9,199	NM
Share of results	-43,485	-2,567	-2,670	-93.9%	4.0%	-53,303	-9,062	-83.0%
Income Tax	-49	-100	-81	64.8%	-19.2%	-175	-299	71.0%
Profit before NCI	**-12,088**	**15,050**	**26,844**	**NM**	**78.4%**	**60,217**	**99,463**	**65.2%**
NCI	-1,871	-3,184	-3,184	70.2%	NM	-5,347	-5,347	NM
Net Profit	**-10,217**	**18,234**	**30,028**	**NM**	**64.7%**	**65,564**	**104,810**	**59.9%**

FABS Estimate & Co. Data

Al Yahsat - Margins

	3Q22	2Q23F	3Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	92.1%	90.2%	90.0%	-214	-25	88.8%	88.7%	-13
EBITDA	61.4%	59.7%	59.8%	-162	10	59.6%	57.8%	-180
Operating profit	28.3%	15.1%	25.4%	-283	1035	26.5%	22.6%	-399
Net profit	-9.4%	17.4%	27.7%	3,704	1025	15.2%	23.7%	857

FABS estimate & Co Data

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