Telecom Sector - April 2022

Companies in the Middle East expected to reap the benefits of 5G and digital technology

Sector Weighting: **NEUTRAL**
Preview 1Q 2022

MENA Telecommunication

During the projected period of 2022-2027, the UAE telecom market is predicted to grow at a CAGR of 3.5%. Government initiatives and well-established policies promote the region's sophisticated telecommunications sector. With the increase of end-user industrial applications and growth in areas such as IoT, cloud, data centres, and 5G, the UAE's telecom business is booming. With the rise of the sector, such as video on demand, the country is also seeing an increase in internet use (VOD). Several organizations in the industry are developing novel internet plans to fulfil the growing demand for internet services and gain a large proportion of the market. Etisalat announced eLife Ultra in December 2021, a next-generation portfolio of home internet services aimed to fulfil UAE families' home connectivity and digital demands, combining fast internet speeds with 4K and HD TV channels as well as a variety of digital media advantages. The eLife Ultra Starter has a 500 Mbps speed, while the eLife Ultra Sports has a 750 Mbps speed. The eLife Ultra Fusion with 1 Gbps is a cost-effective way to get started with Gigabit speeds and includes the whole OSN and beIN ULTIMATE line-up. Furthermore, Dubai is on track to become one of the world's smartest cities, due to the technological developments, innovation, and initiatives such as the Dubai Data Strategy, Dubai 10X, Smart Dubai 2021, Dubai Blockchain Strategy, and Dubai Pulse Platform, among others. In addition, Dubai's Internet of Things (IoT) plan intends to create the world's most sophisticated IoT ecosystem to turn the city into a smart city model. Such initiatives would provide enormous development prospects for the sector under consideration. In addition, in response to increased financial risk, heightened competition, and consumer sophistication, the region's telecom sector has transformed from a growth play to a semi-defensive play during the last five years. Consumers have benefited from service price reductions since they have created a fierce rivalry between local carriers Etisalat and Du, necessitating innovation.

During the same anticipated period, the Saudi Arabia Telecom Market is expected to grow at a CAGR of more than 10%. In terms of technology advancements, service delivery, competitive environment, and telcos' service growth in the non-traditional telecom services area, the telecom business is fast evolving. Managed infrastructure services, data centre/co-location services, and cloud services are all examples. The country is one of the most populated in the GCC area, with young people making up the bulk of the population. There is growing demand for information communication technology (ICT) services as people become more technologically savvy. According to the Communications and Information Technology Commission (CITC), 93% of the country's population has an Internet connection, compared to 53% globally. Furthermore, with an increasing percentage of the population utilizing smartphones, operators' improved service quality, and technological and infrastructure enhancements, the number of internet users is likely to expand even more. Furthermore, the country's demographic composition, with about 69% of the population under the age of 40, predicts an increase in demand for ICT services in the future. Furthermore, 5G is expected to attract new investments as well as prospects for telecoms. Saudi Arabian telecommunications companies are heavily investing in 5G. However, transitioning from 2G, 3G, and 4G networks to 5G, bearing the costs of maintaining these networks until the transition is complete, availability of affordable 5G devices, and empowering 5G into vertical markets such as IoT and AI are all expected to be challenges for Saudi Arabia's telecom sector.

Egypt's large telecom industry is backed by a population of almost 103 million people and enjoys effective competition in most areas. Unified licenses, which allow operators to offer both fixed-line and mobile services, are possible because of a permissive regulatory system. The construction of the New Administrative Capital is only one of more than a dozen smart city initiatives that are spurring investment in 5G and fiber internet. The country aspires to become a major ICT hub in North Africa and the Middle East. The government has created several digital migration programs in recent years intending to raise average internet speeds. Egypt is one of Africa's most developed mobile markets, with one of the highest penetration rates. The lack of an appropriate spectrum has impeded progress in the deployment of mobile data services. To remedy this, the FCC declared 60MHz in the 2.6GHz band accessible in September 2020, albeit the spectrum was not assigned until late 2021. The extra spectrum will go a long way toward helping MNOs enhance the quality of their mobile broadband offerings. Later in 2022, further 5G experiments will be undertaken, with an emphasis on the New Administrative Capital. Egypt, which benefits from its geographic location, has a vital asset in the form of international cable infrastructure. Telecom Egypt has grown to become one of the main players in this market, with participation in several cable networks. The telecom revealed plans to develop the Hybrid African Ring Path system in mid-2021, which will connect several African landlocked nations with Italy, France, and Portugal. The system will make use of the company's current terrestrial and subsea cable networks in part.

Dubai DET & du introduce the Digital Business Hub, which will provide value-added services
The Digital Business Hub has been officially established by the Dubai Department of Economy and Tourism (DET) and du, the Emirates Integrated Telecommunications Company (EITC), to deliver value-added services to the business sector. This program is in line with the government's efforts to foster digital transformation and create smart initiatives that help to improve Dubai's commercial sectors' competitiveness and sustainability. It also aims to solidify Dubai's status as the perfect location for regional and global businesses to flourish and thrive.

e& has expanded its technology cooperation with Microsoft
e&, a worldwide telecom services operator based in the United Arab Emirates, has increased its cooperation with Microsoft, an American multinational technology business. Under the terms of the agreement, the companies will continue to develop a long-term strategic partnership, with e&'s mission to help businesses better their digitization journey. The deal will focus on e& (previously known as Etisalat) leveraging the Microsoft Cloud and partner ecosystem's agility to create new solutions, accelerate value creation for businesses of all kinds, engage customers, and empower e&'s employees.

e& intends to raise its stake in Mobily Saudi Arabia
e& has made a bid to raise its investment in Etihad Etisalat (Mobily), a Saudi telecom business, to 50% and one share. Mobily is owned by e&, which owns a 28 percent share. According to the release, e& has made a pre-conditional partial tender offer for Mobily shares at a price of $12.53 (47 Saudi riyals). The goal of the discussions is for e& to reach an agreement with the Mobily board of directors on the criteria that apply to the potential offer (including its implementation) that the Mobily board can recommend to Mobily's shareholders. The e& offer is intended to deepen its current links with Mobily and is in keeping with the company's strategic goals of expanding and optimizing its portfolio.

In Egypt, Etisalat Misr has chosen Ericsson to modernize its BSS platform
Etisalat Misr, Egypt's first integrated telecoms operator and a part of the UAE-based Etisalat Group, has chosen Ericsson of Sweden to update its Business Support Systems (BSS) in Egypt. Etisalat Misr's BSS platform will be improved and adjusted to accommodate increased data and Voice-over-LTE (VoLTE) traffic, as well as 5G and Internet of Things preparedness (IoT). Etisalat Misr will have a wide range of capabilities in the customer, product, and service management domains, as well as for enterprises, partners, network technologies, and events, across all its business activities. The agreement will also provide capacity growth for VoLTE using Ericsson Cloud VoLTE technology, allowing millions of consumers to enjoy a better customer experience.

e& a global leader in technology through new business tactics
Geographic expansion, deeper market penetration, new initiatives, and acquisitions are all part of e& ambition to develop into a worldwide technology leader. The Group's outstanding financial

performance and stellar business outcomes across all its markets have put it in a great position to begin a new chapter of success. In January 2022, the Group was named the world's most powerful telecoms brand. It also ranked #1 in Forbes MENA's Top 10 most valuable publicly traded corporations in the UAE. In 2021, it posted a healthy net profit of $2.53 billion, up 3.2% from the previous year. The company's total subscriber base increased by 3% to 159 million people. The Group's acquisition strategy has likewise been active.

Nokia has formed a partnership with Zain KSA to expand its digital infrastructure in Saudi Arabia
Nokia, a Finnish multinational telecoms corporation, has signed a deal with Zain KSA, Saudi Arabia's leading telecom provider, to expand the operator's digital infrastructure and network capabilities across the kingdom. The partnership intends to help Zain KSA expand its network coverage while also empowering its customers by providing sophisticated digital services that include high-bandwidth and low-latency technology for the finest broadband and communications experience. The agreement is in line with Zain KSA's efforts to position the Saudi telecom sector on a global scale and transform it into a major enabler of the Saudi Vision 2030's goals, which include comprehensive digital transformation, knowledge, and technology transfer, and localization, and improved quality of life.

Zain Saudi Arabia has partnered with Huawei to develop and extend its digital offerings
Zain KSA, Saudi Arabia's top telecom company, has agreed to grow and develop its cloud and digital services infrastructure with Huawei, a Chinese global technology corporation. Zain KSA's partnership with Huawei is part of the company's plan to become one of the Kingdom's major 5G carriers and invest in industry transformation. On the side-lines of the global future technologies event LEAP 2022, the announcement was made. Zain KSA attended the event to help the Ministry of Communications and Information Technology (MCIT) with its efforts and initiatives by administering and organising the historic event.

With over 15 deals at LEAP22, STC supports the region's digital transformation

The Saudi Telecom Company (STC), the Middle East and Africa's digital enabler have wrapped up its participation in the LEAP Conference by showcasing its many technologies and obtaining multiple partnership agreements. During the ceremony, STC was named the best-performing telecom service provider in terms of electronic gaming in the Kingdom in 2021 by the Communications and Information Technology Commission, earning the Platinum Operator Award. On the side-lines of LEAP, the telecom provider signed arrangements with Microsoft, Huawei, Ericsson, and Cisco, as well as deals with the Ministry of Municipal and Rural Affairs and Housing, the Ministry of Tourism, and the Saudi Tourism Authority.

During the occasion, STC announced plans to build a $1 billion major digital centre called "MEAN Hub" for the Middle East and North Africa (MENA) region, as well as plans to establish a $26.65 million company specializing in hosting services in data centres and regional and international connections. In addition, in collaboration with Huawei, the company announced plans to open a factory in Saudi Arabia to localize data centres. It has signed an agreement with Microsoft Arabia to explore areas of innovation, cloud technology initiatives, and 5G solutions, as well as collaborating with Ericsson to support the 5th Generation core network and business support systems to boost the independent 5G networks.

Etisalat has been named the world's strongest telecom brand, which is an outstanding achievement
Brand Finance, a renowned brand valuation authority located in the United Kingdom, has named Etisalat, the UAE's global telecom services operator, as the strongest telecom brand in the world. In addition, the UAE telecom provider is the first in the Middle East and Africa (MEA) area to receive this honour. Etisalat preserved its AAA brand grade as well as its position in MEA as the strongest brand across all categories and the most valuable brand portfolio, with a telecom portfolio worth well over $12.5 billion.

These awards recognize the UAE's global leadership in cutting-edge communications infrastructure and strategic digital transformation breakthroughs.

MENA telecoms rating summary

	ETISALAT	DU	STC	MOBILY	ETEL	YAHSAT
Rating	**REDUCE**	**ACCUMULATE**	**BUY**	**HOLD**	**BUY**	**BUY**
Local currency	AED	AED	SAR	SAR	EGP	AED
Target price	25.00	7.50	135.00	40.00	23.00	3.50
CMP	35.94	6.58	113.4	42.00	15.37	2.75
Potential change (%)	-30.4%	+14.0%	+19.0%	-5.0%	49.6%	27.3%

FABS Estimates & Co data

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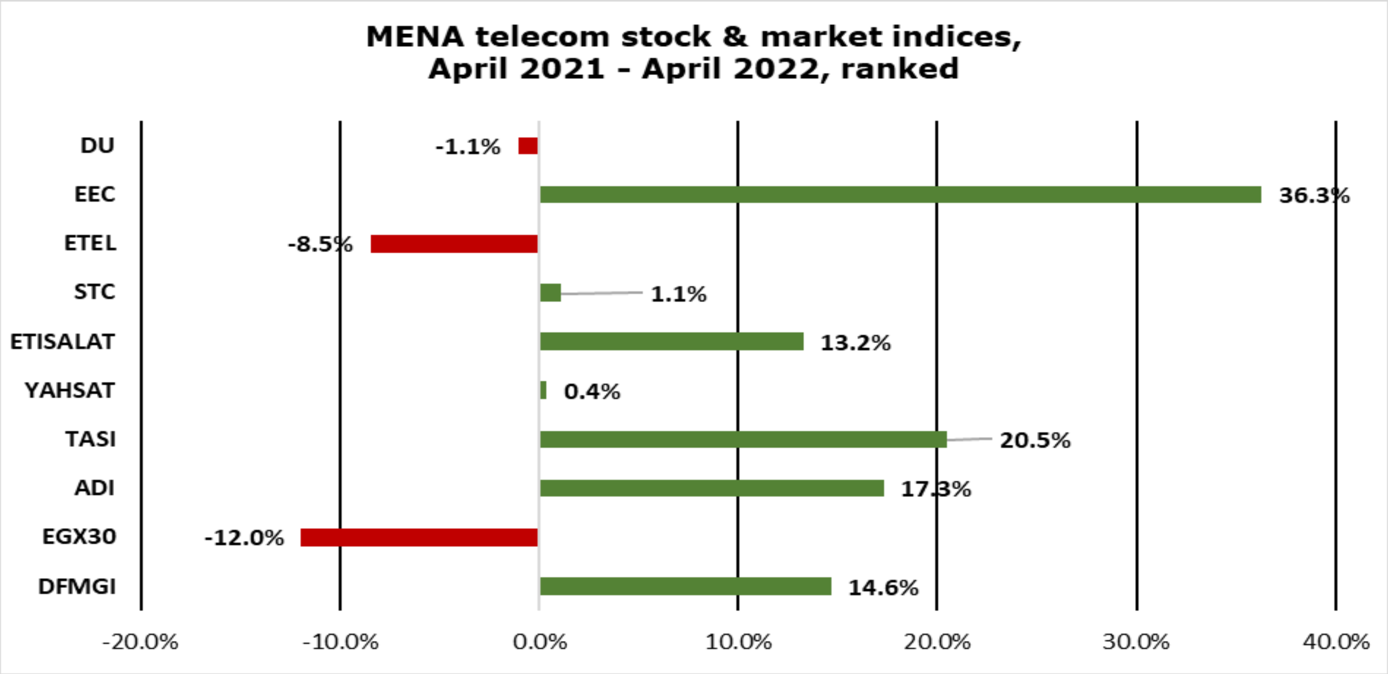
Telecom stock performance in the YTD

Etihad Etisalat is at the top rank with 36.3%, while Telecom Egypt came in last with a decrease of 8.5%. Etihad Etisalat came as the top performer (#1) among the telecom stocks under our coverage as of April 2022. Following Etihad Etisalat Co. is Etisalat at #2 (13.2%).



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 33.47x (ETISALAT) and 3.58x (ETEL). The EV/EBITDA ranges from 13.46x (ETISALAT) and 2.93x (ETEL). ETEL's expected 2021 dividend yield is the highest at 6.5%, while we estimate Mobily to pay no dividend in 2022. ETEL has the lowest PB multiple of 0.6x. EEC and ETEL Net Debt/EBITDA stood at 2.13x and 1.01x.

Relative Valuation

	ETISALAT	DU	STC	EEC	ETEL	YASHAT
CMP (LCY)	35.8	6.55	113.4	42.45	15.35	2.75
Number of shares (mm)	8,697	4,533	1,997	770	1,707	2,440
Market cap (LCY mm)	313,083	29,827	226,800	32,879	26,460	6,709
Market cap (US$ mm)	85,239	8,120	60,475	8,767	1,434	1,827
Gross debt (LCY mm)	28,386	2,425	14,440	13,955	18,146	1,955
Cash (LCY mm)	29,010	2,034	17,524	2,051	2,983	1,470
Net debt/-cash (LCY mm)	-623	391	-3,084	11,904	15,162	485
Non-controlling interest	9,978	0	2,115	0	13	282
EV	322,438	30,218	225,832	44,783	41,635	7,476
EBITDA (2021)	21,031	3,210	22,527	5,594	14,861	880
BVPS (2021)	5.47	1.88	34.68	19.74	25.96	1.27
EPS (2021)	1.07	0.24	5.66	1.39	4.34	0.11
DPS (2021)	0.80	0.21	4.00	0.85	1.00	0.15
EV/EBITDA (x)	13.46	9.30	9.92	6.40	2.93	8.40
P/BV (x)	6.58	3.50	3.27	2.16	0.60	2.17
PER (x)	33.47	27.34	20.04	30.57	3.58	25
Dividend yield	2.2%	3.2%	3.5%	0.0%	6.5%	2.9%
Payout ratio	74.7%	86.5%	70.6%	61.1%	23.0%	139.9%
Net debt/EBITDA (x)	-0.03	0.12	-0.14	2.13	1.01	0.55

Source: FABS from Bloomberg

Market Weight

With 3x BUYs, 1x ACCUMULATE, 1x HOLD and 1x REDUCE we remain NEUTRAL on MENA telecoms.

MENA telecoms rating summary

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FABS Estimates & Co data

1Q22 preview: Etisalat Group

Expected Increase in Finance Income to support profit

CMP(AED):35.94
Potential upside (%): -30.4%

12-m target price:	Stock rating:
AED 25.00	**REDUCE**

1Q22 Estimate

Etisalat is expected to increase its Net Profit by 3.1% YOY to AED2,423 Mn in 1Q22, up from AED2,350 Mn in 1Q21. The Revenue is expected to increase by 3.1% YOY to AED13,626 Mn in 1Q22, up from AED13,220 Mn in 1Q21. The Operating Expenses are likely to increase by 5.3% YOY to AED6,677 Mn in 1Q22, up from AED6,342 Mn in 1Q21. The Impairment charges are likely to surge by 69.4% YOY to AED309 Mn in 1Q21, up from AED182 Mn in 1Q21. The EBITDA level is expected to slightly decrease by 0.8% YOY to AED6,640 Mn in 1Q22, down from AED6,696 Mn in 1Q21. The Federal Royalty is expected to decrease by 1.7% YOY to AED1,363 Mn in 1Q22, down from AED1,387 Mn in 1Q21. The Depreciation charges are expected to increase by 6.7% YOY to AED2,144 Mn in 1Q22, up from AED2,010 Mn in 1Q21. The Share of associates and Joint Ventures is likely to increase by 46.7% YOY to AED90 Mn in 1Q22, up from AED61 Mn in 1Q21. The Operating Profit is expected to decrease by 4.1% YOY to AED3,224 Mn in 1Q22, down from AED3,361 Mn in 1Q21. The Finance Income is expected to increase by 96.7% YOY to AED396 Mn in 1Q22, up from AED201 Mn in 1Q21. The Finance Cost is likely to rise by 5.1% YOY to AED393 Mn in 1Q22, compared to AED374 Mn in 1Q21. The Tax charges are expected to increase by 5.6% YOY to AED387 Mn in 1Q22, up from AED367 Mn in 1Q21. The NCI is expected to drop by 11.9% YOY to AED415 Mn in 1Q22, down from AED471 Mn in 1Q21.

2022 Forecast

Etisalat is expected to report a 2.8% YOY increase in Net Profit to AED9,580 Mn in 2022, up from AED9,317 Mn in 2021. The Revenue is expected to increase by 2.3% YOY to AED54,588 Mn in 2022, up from AED53,342 Mn in 2021. The Operating Expenses are expected to increase by 5.5% YOY to AED26,953 Mn in 2022, up from AED25,552 Mn in 2021. The Impairment charges are expected to decline by 19.6% YOY to AED979 Mn in 2022, down from AED1,217 Mn in 2021. The EBITDA is expected to increase slightly by 0.3% YOY to AED26,656 Mn in 2022, up from AED26,572 Mn in 2021. The Federal Royalty is likely to increase by 1% YOY to AED5,595 Mn in 2022, up from AED5,542 Mn in 2021. The Depreciation charges are likely to increase by 1.2% YOY to AED8,631 Mn in 2022. The Operating Profit is expected to barely decrease YOY to AED12,795 Mn in 2022, down from AED12,799 Mn in 2021. The Finance Income is expected to rise by 22.9% YOY to AED1,584 Mn in 2022, up from AED1,289 Mn in 2021. The Finance Cost is expected to increase by 22.8% YOY to AED1,577 Mn in 2022, up from AED1,284 Mn in 2021. The Tax charges are expected to decrease by 12% YOY to AED1,536 Mn in 2022, down from AED1,745 Mn in 2021. The NCI is expected to decrease by 3.2% YOY to AED1,687 Mn in 2022, down from AED1,742 Mn in 2021.

4Q21 outturn

The Total Revenue increased by 4.2% YOY to AED13,613 Mn in 4Q21 as compared to AED13,064 Mn in 4Q20. The Operating Expenses was up by 4% YOY to AED6,643 Mn in 4Q21, up from AED6,389 Mn in 4Q20. The Impairment charges decreased by 6% YOY to AED475 Mn in 4Q21, as compared to AED506 Mn in 4Q20. These changes have led the EBITDA to increase by 5.3% YOY to AED6,495 Mn in 4Q21 from AED6,169 Mn in 4Q20. The Operating Profit increased by 1.4% YOY to AED2,898 Mn, despite the increase in Federal Royalty by 12.9% YOY from AED1,155 Mn in 4Q20 to AED1,304 Mn in 4Q21. The Profit before tax with a 5.5% YOY increase to AED2,900 Mn in 4Q21 from AED2,749 Mn in 4Q20. However, Finance Income increased by 4.7% YOY in 4Q21 to AED439 Mn, up from AED420 Mn in 4Q20, while Finance cost decreased by 17.5% YOY to AED437 Mn in 4Q21, down from AED529 Mn in 4Q20. The Tax Expense decreased by 20.6% YOY to AED354 Mn in 4Q21 from AED445 Mn in 4Q20. As a result, the Net Profit increased by 4.3% YOY to AED2.13 Bn in 4Q21, up from AED2.05 Bn in 4Q20. Total Assets decreased by 3.62% YOY to AED128.2 Bn in 4Q21 from AED133.02 Bn in 4Q20. Total Equity decreased by 4.93% YOY to AED57.56 Bn in 4Q21, down from AED60.55 Bn in 4Q20. Similarly, the Total Liabilities decreased by 2.53% YOY to AED70.63 Bn, as compared to AED72.47 Bn in 4Q20.

Target price and recommendation

We maintain our REDUCE rating with a target price of AED25.00. Etisalat Group has rebranded and now is known as 'e&'. The Company strategizes to have a global influence in digitalization. It plans to retain its market position in UAE and International markets. As per Forbes Middle East, e& is the most valuable listed Company in the UAE. The Company plans to broaden its horizons while continuing to maintain operations in the current 16 markets. e& has successfully established consumer digital and enterprise digital business units. The e& life is focused on entertainment related technologies. The e& enterprise will aid digitalization of Government, Corporates and Enterprises. Furthermore, e& capital will undertake growth by merger and acquisition strategy and drive performance for the Group. The re-alignment of the business model is the part of the transformation plan to become global leader in technology and Investment conglomerate. The Company witnessed a strong performance in the year 2021 with a 3.2% YOY increase in Net Profit to AED9,317 Mn, as compared to AED9,027 Mn in 2020. The Total Revenue grew by 3.2% YOY to AED53,342 Mn in 2021, up from AED51,708 Mn in 2020. The Company reports Total Revenue mainly via four segments – Mobile subscribers, Fixed subscribers, Equipment and Others. Furthermore, the Total Revenue is generated from UAE and International Markets namely– Maroc Telecom (Morocco), Egypt, Pakistan, and Others. The Total Revenue from UAE increased slightly by 0.7% YOY to AED30,952 Mn in 2021. It comprises of 58% of the Group's Total Revenue. Within UAE, the Revenue is driven by Fixed Subscribers and Mobile Subscribers. The fourth quarter witnessed strong recovery in demand and increased segment Revenue by 5% YOY. It was driven by macroeconomic recovery that eased consumer and corporate spending. The Mobile segment grew by 6% YOY to AED2.8 Bn in 4Q21 driven by demand due to Expo2020 and ease in restrictions for tourists. The Fixed segment grew by 1% YOY amounting to AED2.8 Bn in 4Q21. It was positively impacted by internet and TV services. The Other segment witnessed strong growth by 12% YOY in Revenue mainly due to wholesale and digital services. For the year 2021, the Revenue from UAE market grew by 1% YOY to AED30.2 Bn. The performance was underpinned by growth in data, roaming services, digital services. The Voice revenue witnessed a decline in 2021, however, the Equipment services offset it. The Total Revenue from International markets comprise of 42% of the top-line. The Revenue from International markets increased by 7% YOY to AED22.6 Bn in 2021, driven by strong performance in Egypt, Pakistan, and Maroc Telecom. The 4Q21 performance was mainly driven by Etisalat Misr and Moov Africa. Total Revenue from Maroc Telecom increased by 3% YOY in AED due to currency appreciation. The Mobile segment declined by 8% YOY, whereas the Fixed segment was stable. It was mainly due to competitive pressures. Overall, the segment was impacted by unfavorable foreign currency movements which was offset by demand in mobile data and mobile money. The Revenue from Egypt increased by 21% YOY to AED5 Bn in 2021. It was driven by strong growth in subscriber base, increase in mobile data and national roaming Revenue. Revenue from Pakistan increased by 4% YOY due to growth in mobile and fixed segment. Additionally, the Ubank segment contributed to the overall growth by deposit base and loan portfolio. The aggregate subscriber growth is stable in 4Q21 with a 3% YOY growth to 159 Mn, up from 154 Mn in 4Q20. It was driven by strong subscriber acquisition in key markets such as Saudi Arabia, UAE, Morrocco etc. The active subscriber base for UAE reached 12.7 Mn in 4Q21. The Expo2020 boosted the Group's subscriber base. Similarly, the eLife subscription continues to positively add value to the Group. The Maroc Telecom subscriber base grew by 2% YOY driven by increase in operations in Burkina Faso, Morocco etc. The base increased by 5% YOY in Egypt. However, it declined by 1% YOY in Pakistan due to lower mobile segment base. The Operating Expenses (excluding Depreciation, Amortization and FX) increased by 6.7% YOY to AED25.6 Bn in 2021, up from AED23.9 Bn in 2020. The Group witnessed higher direct costs associated with the increase in Revenue. The year 2021 witnessed changes in Revenue mix that further increased costs. Lastly, the rebound in economic activities added to the expenses. Depreciation and Amortization expenses grew by 4% YOY to AED8.2 Bn. As a percent of

Revenue, it remained flat 15% in 2021. The Group EBITDA increased by 1% YOY to AED26.6 Bn in 2021, up from AED26.3 Bn in 2020. It was due to increase in Revenue and cost optimization initiatives. The EBITDA margin stood at 49.8% in 2021, a decline of 107 bps. As a result, the Net Profit increased by 3.2% YOY to AED9.32 Bn in 2021, up from AED9.03 Bn in 2020. The increase in driven by strong EBITDA level and around 50.7% YOY increase in performance of associates. Furthermore, lower Impairments and Royalties and improvement in Net finance income boosted the Group's performance. The Normalized operating free cash flow declined by 1.3% YOY to AED19.7 Bn in 2021. The Group continues to invest in its strategic goals to maintain leadership position. The CAPEX grew by 18% YOY to AED8.4 Bn in 2021, up from AED7.1 Bn in 2020. The capital intensity ratio stood at 16% in 2021, up from 14% in 2020. The CAPEX was attributable to Spectrum costs in Pakistan and Egypt, costs related to network modernization such as 5-G rollout in UAE, the fibre investments in Morrocco and Pakistan. Additionally, the capex included costs for network coverage and expansion in Egypt and Maroc Telecom. The Total Debt stood at AED25.7 Bn in 2021, a decline of AED1 Bn compared to 2020. The Debt is dominated by e& (62%) and Maroc Telecom Group (23%). The Company has a Net Cash position of AED2.8 Bn in 2021. The EPS stood at a AED1.07 in 2021, up from AED1.04 in 2020. The Board of Directors proposed AED40 fils per share for second half of 2021. The full year Dividend stood at AED80 fils per share. The proposal is subject to shareholder's approval. Based on our analysis, we assign a REDUCE rating.

Etisalat - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	36.26	35.90	34.52	33.55	32.59
P/B (x)	6.95	6.70	6.37	6.56	5.31
Dividend yield	2.2%	2.2%	2.2%	2.2%	2.2%

FABS estimate and Co Data

Etisalat - P&L

AED mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	13,220	13,613	13,626	3.1%	0.1%	53,342	54,588	2.3%
Operating expenses	-6,342	-6,643	-6,677	5.3%	0.5%	-25,552	-26,953	5.5%
Impairment	-182	-475	-309	69.4%	-35.0%	-1,217	-979	-19.6%
EBITDA	**6,696**	**6,495**	**6,640**	**-0.8%**	**2.2%**	**26,572**	**26,656**	**0.3%**
Federal royalty	-1,387	-1,304	-1,363	-1.7%	4.5%	-5,542	-5,595	1.0%
Depreciation, Amortization & FX	-2,010	-2,383	-2,144	6.7%	-10.0%	-8,529	-8,631	1.2%
Share of assoc. & JVs	61	89	90	46.7%	1.0%	297	366	23.1%
Operating profit	**3,361**	**2,898**	**3,224**	**-4.1%**	**11.2%**	**12,799**	**12,795**	**0.0%**
Finance income	201	439	396	96.7%	-10.0%	1,289	1,584	22.9%
Finance cost	-374	-437	-393	5.1%	-10.0%	-1,284	-1,577	22.8%
Profit before tax	**3,188**	**2,900**	**3,226**	**1.2%**	**11.2%**	**12,804**	**12,803**	**0.0%**
Tax	-367	-354	-387	5.6%	9.5%	-1,745	-1,536	-12.0%
Profit after tax	**2,821**	**2,547**	**2,839**	**0.6%**	**11.5%**	**11,059**	**11,266**	**1.9%**
Non-controlling int.	-471	-411	-415	-11.9%	1.0%	-1,742	-1,687	-3.2%
Net profit	**2,350**	**2,136**	**2,423**	**3.1%**	**13.5%**	**9,317**	**9,580**	**2.8%**

FABS estimate & Co Data

Etisalat - Margins

AED mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Margin	52.0%	51.2%	51.0%	-103	-20	52.1%	50.6%	-147
EBITDA margin	50.6%	47.7%	48.7%	-192	102	49.8%	48.8%	-98
Operating margin	25.4%	21.3%	23.7%	-177	237	24.0%	23.4%	-56
Net Profit margin	17.8%	15.7%	17.8%	1	210	17.5%	17.5%	8

1Q22 preview: Etihad Etisalat Co.

Higher Sales expected to support the bottom-line

CMP (SAR): 42.00
Potential upside (%): -5.0%

12-m target price:	Stock rating:
SAR40.00	**HOLD**

1Q22 Estimate

Etihad Etisalat (Mobily) is estimated to report an increase by 48.5% YOY in Net Profit to SAR335 Mn in 1Q22, up from SAR226 Mn in 1Q21, mainly due to higher Sales. Sales are expected to rise by 8.3% YOY to SAR3,901 Mn in 1Q22, compared to SAR3,603 Mn in 1Q21. Whereas the Direct Costs are expected to increase by 4.5% YOY to SAR1,600 Mn in 1Q22, up from SAR1,531 Mn in 1Q21. Therefore, the Gross profit would increase by 11.1% YOY to SAR2,302 Mn in 1Q22, up from SAR2,072 Mn in 1Q21. Selling & overhead expenses are likely to rise by 18.2% YOY to SAR780 Mn in 1Q22, up from SAR660 Mn in 1Q21. EBITDA is expected to increase by 7.8% YOY to SAR1,522 Mn in 1Q22, as compared to SAR1,412 Mn in 1Q21. Operating profit would increase by 22.8% YOY to SAR520 Mn in 1Q22, up from SAR423 Mn in 1Q21. Financial Charges are expected to rise by 6.5% YOY to SAR134 Mn in 1Q22, compared SAR126 Mn in 1Q21. Total Impairment loss would decline by 44.3% YOY to SAR30 Mn in 1Q22. Zakat Expenses are expected to increase by 17% YOY to SAR21 Mn in 1Q22 compared to SAR18 Mn in 1Q21.

2022 Forecast

Mobily's Net Profit is expected to increase by 27.5% YOY to SAR1,367 Mn in 2022 from a Net Profit of SAR1,072 Mn in 2021. Sales are expected to increase by 5.4% YOY to SAR15,629 Mn in 2022 from SAR14,834 Mn in 2021. Moreover, Direct Costs are expected to rise by 4% YOY to SAR6,408 Mn in 2022 from SAR6,163 Mn in 2021. Consequently, the Gross Profit is projected to increase by 6.3% YOY to SAR9,221 Mn in 2022 from SAR8,672 Mn in 2021 with a Gross Profit margin of 59% as of 2022. Selling & overhead expenses are likely to rise by 4.2% YOY to SAR3,075 Mn in 2022. EBITDA is forecasted to increase by 7.4% YOY to SAR6,146 Mn in 2022 up from SAR5,721 Mn in 2021. The Operating Profit is expected to rise by 17.9% YOY to SAR2,134 Mn in 2022 from SAR1,810 Mn in 2021, with an increase by 145 bps in OPM to 13.7% compared to 12.2% in 2021. Impairment Loss on account would decrease by 15% YOY to SAR121 Mn in 2022 compared to SAR143 Mn in 2021. Financial charges would rise by 8.1% YOY to SAR546 Mn in 2022, up from SAR505 Mn in 2021. Finally, Zakat Expenses are expected to rise by 12.1% YOY to SAR87 Mn in 2022, as compared to SAR78 in 2021.

4Q21 Outturn

Sales increased by 10.3% YOY to SAR3,897 Mn in 4Q21 from SAR3,533 Mn in 4Q20. Also, the Direct Costs have increased by 4.3% YOY to SAR1,631 Mn in 4Q21, up from SAR1,564 Mn in 4Q20. Resultantly, the Gross Profit increased by 15.1% YOY to SAR2,267 Mn in 4Q21 from SAR1,969 Mn in 4Q20, with a Gross margin equal to 58.2% in 4Q21. Despite the increase by 34.5% YOY in Selling & overhead expenses to SAR883 Mn in 4Q21, the EBITDA has increased by 5.4% YOY to SAR1,384 Mn in 4Q21, up from SAR1,313 Mn in 4Q20. Depreciation & Amortization slightly increased by 0.3% YOY to SAR1,004 Mn in 4Q21, up from SAR1,001 Mn in 4Q20. Whereas the Other income has strongly grown to SAR7 Mn in 4Q21, as compared to SAR3 Mn in 4Q20. As a result, Operating Profit increased by 23% YOY to SAR387 Mn in 4Q21, up from SAR315 Mn in 4Q20. Moreover, Financial charges increased by 3.9% YOY to SAR132 Mn in 4Q21 from SAR127 Mn in 4Q20. Furthermore, the Company has reversed the Impairments in 4Q21 totaling a SAR105 Mn. The Zakat Expense significantly increased to SAR22 Mn in 4Q21 from SAR9 Mn in 4Q20. Mobily’s Total Assets increased by 2.5% YOY to SAR39.36 Bn in 4Q21, up from SAR38.41 Bn in 4Q20. Total Liabilities were up by 0.9% YOY to SAR24.17 Bn in 4Q21 from SAR23.96 Bn in 4Q20. Similarly, the Total Equity increased by 5.2% YOY to SAR15.2 Bn in 4Q21, as compared to SAR14.45 Bn in 4Q20.

Target price and recommendation

We assign a HOLD rating on Mobily, with a revised target price of SAR40.0. Etihad Etisalat (Mobily) is the second largest mobile operator in Saudi Arabia. Mobily provides integrated services for three main sectors, namely individuals, business, and carriers. The Company has one of the largest wireless networks by coverage in Saudi Arabia and the region. Additionally, Mobily has one of the widest FTTH networks and one of the largest data center systems worldwide. During the year ended 2021, the Company has reported a growth by 37% YOY in the Net profit hitting SAR 1.07 Bn, as compared to SAR 783 Mn in the same period last year. The increase in the bottom-line was mainly attributed by higher Sales along with lower Financial charges. Company's Sales were up by 5.6% YOY reaching SAR 14.83 Bn, up from SAR 14.05 Bn in 2020, driven by an increase from Consumer, Business, and the Direct Costs have surged by 4.6% YOY to SAR 6.16 Bn in 2021, up from SAR 5.89 Bn in 2020, mainly due to higher Network access charges, besides an increase in the Cost of utilized inventories. Consequently, the Gross profit grew by 6.4% YOY standing at SAR 8.67 Bn, as compared to SAR 8.15 Bn in the end of 2020, with a Gross margin equal to 58.5% in 2021, which is up by 42 bps from 58% in 2020. Similarly, the Selling and Marketing expenses barely reduced YOY to SAR 1.39 Bn at the end of 2021, led by lower Salaries, wages, and employees' benefits. While the General and Administrative expenses have surged by 11% YOY reaching SAR 1.56 Bn in 2021, due to higher Management fees. Despite the increase in the Selling and overhead expenses, the EBITDA were up by 7% YOY to reach SAR 5.72 Bn in 2021 from SAR 5.36 Bn in 2020, where the EBITDA margin stood at 38.6%, up from 38.1% in 2020. Meanwhile, the Depreciation and Amortization expenses have dropped by 1.1% YOY to SAR 3.93 Bn, as compared to SAR 3.97 Bn in the end of 2020. Furthermore, the Other income was up by 45% YOY to SAR 15 Mn at the year ended 2021. As a result, the Operating profit has grown by 29.7% YOY reaching SAR 1.81 Bn in 2021, with an OPM equal to 12.2%, up by 227 bps from 9.9% in 2020. Company's Financial charges have declined by 10% YOY reaching SAR 505 Mn, down from SAR 561 Mn in 2020. The Company has recorded a significant increase in the Total Impairment charges standing at SAR 143 Mn in 2021. The Company's share in loss of an associate stood at SAR 19 Mn at the year ended 2021. Thus, the Profit before zakat increased by 39% YOY to reach SAR 1.15 Bn in 2021. The Zakat Expense strongly increased by 81.8% YOY from SAR 43 Mn in 2020, to SAR 78 Mn in 2021. On the other hand, Mobily has shown a stable performance on the Balance Sheet, with an increase by 2.5% YOY in the Total Assets to SAR 39.36 Bn in 2021. In addition, the Company's Total shareholders' equity increased by 5.2% YOY reaching SAR 15.2 Bn at the year ended 2021. At the year ended 31 December 2021, Net debt was down by 7.4% YOY standing at SAR 11.9 Bn, mainly driven by lower Gross debt and higher Cash and cash equivalents. Resultantly, the Net debt to EBITDA ratio stood at 208.1%, compared to 240.2% in 2020. On November 2021, the Board of Directors have proposed a cash dividend of SAR 0.85 per share amounting to SAR 654.5 Mn, while the proposed dividend for the full year 2021 was not approved yet by the General Assembly. Based on our analysis, we assign a HOLD rating on the stock.

Mobily – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	-265.31	1061.25	41.62	30.54	23.92
P/B (x)	2.36	2.38	2.26	2.15	2.13
Dividend yield	0.0%	0.0%	1.2%	2.0%	2.0%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Sales	3,603	3,897	3,901	8.3%	0.1%	14,834	15,629	5.4%
Direct costs	-1,531	-1,631	-1,600	4.5%	-1.9%	-6,163	-6,408	4.0%
Gross profit	**2,072**	**2,267**	**2,302**	**11.1%**	**1.5%**	**8,672**	**9,221**	**6.3%**
Selling & overhead exp	-660	-883	-780	18.2%	-11.6%	-2,950	-3,075	4.2%
EBITDA	**1,412**	**1,384**	**1,522**	**7.8%**	**9.9%**	**5,721**	**6,146**	**7.4%**
D & A	-996	-1,004	-1,005	1.0%	0.1%	-3,927	-4,027	2.6%
Other income	7	7	4	-48.6%	-46.0%	15	15	0.6%
Operating profit	**423**	**387**	**520**	**22.8%**	**34.5%**	**1,810**	**2,134**	**17.9%**
Investment & oth. inc.	1	1	1	-5.0%	-7.5%	5	5	1.5%
Total Impairment loss	-54	105	-30	-44.3%	NM	-143	-121	-15.0%
Financial charges	-126	-132	-134	6.5%	2.0%	-505	-546	8.1%
Company's share in loss of an associate	0	-19	0	NA	NM	-19	-19	1.0%
Profit before zakat	**244**	**343**	**357**	**46.1%**	**4.0%**	**1,149**	**1,454**	**26.5%**
Zakat	-18	-22	-21	17.0%	-2.8%	-78	-87	12.1%
Profit attributable	**226**	**321**	**335**	**48.5%**	**4.5%**	**1,072**	**1,367**	**27.5%**

FABS estimate & Co Data

Mobily - Margins

SAR mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross margin	57.5%	58.2%	59.0%	150	84	58.5%	59.0%	54
EBITDA margin	39.2%	35.5%	39.0%	-18	349	38.6%	39.3%	76
Operating margin	11.8%	9.9%	13.3%	158	341	12.2%	13.7%	145
Net profit margin	6.3%	8.2%	8.6%	233	36	7.2%	8.7%	152

FABS estimate & Co Data

1Q22 preview: Saudi Telecom Company

Increase in Sales and Other income to support profit

CMP (SAR): 113.40
Potential upside (%): +19.0%

12-m target price:	Stock rating:
SAR135.00	**BUY**

1Q22 Estimate

STC is estimated to report an increase in Net Profit by 10.4% YOY to AED3,260 Mn in 1Q22, up from AED2,952 Mn in 1Q21. The Gross Profit is expected to increase by 3% YOY to AED8,817 Mn in 1Q22, as compared to AED8,557 Mn in 1Q21. It is likely to bedriven by 4% YOY increase in Sales to AED16,329 Mn in 1Q22, up from AED15,695 Mn in 1Q21. Similarly, the Direct Costs are likely to increase by 5.2% YOY to AED7,511 Mn in 1Q22, up from AED7,138 Mn in 1Q21. The EBITDA is expected to increase by 4% YOY to AED6,074 Mn in 1Q22, up from AED5,841 Mn in 1Q21. The Selling and Overhead expenses are expected to increase slightly by 0.4% YOY to AED1,355 Mn in 1Q22, up from AED1,350 Mn in 1Q21. The General and Administrative expenses are likely to increase by 1.6% YOY to AED1,388 Mn in 1Q22, up from AED1,366 Mn in 1Q21. The EBIT is expected to increase by 5.3% YOY to AED3,665 Mn in 1Q22, as compared to AED3,482 Mn in 1Q21. The Depreciation & Amortisation expenses are expected to increase by 2.1% YOY to AED2,409 Mn in 1Q22, as compared to AED2,360 Mn in 1Q21. The Other Income/Expenses are expected to increase significantly to AED12 Mn in 1Q22, as compared to expense of AED84 Mn in 1Q21. The Finance Income is expected to decline slightly by 1.1% YOY to AED101 Mn in 1Q22, down from AED102 Mn in 1Q21. The Financial Charges are expected to increase by 9.3% YOY to AED157 Mn in 1Q22, down from AED144 Mn in 1Q21. As a result, the Profit before Zakat is expected to increase by 7.9% YOY to AED3,620 Mn in 1Q22, as compared to AED3,355 Mn in 1Q21. The Zakat Charges are likely to decline by 18.5% YOY to AED290 Mn in 1Q22, down from AED355 Mn in 1Q21. The Profit before NCI is expected to increase by 11% YOY to AED3,331 Mn in 1Q22, up from AED3,000 Mn in 1Q21. As a result, the Net Profit is likely to increase by 10.4% YOY to AED3,260 Mn in 1Q22, up from AED2,952 Mn in 1Q21.

2022 Forecast

STC's Net Profit is expected to increase by 8.7% YOY to AED12,299 Mn in 2022, up from AED11,311 Mn in 2021. The Gross Profit is expected to increase by 4.6% YOY to AED35,338 Mn in 2022, up from AED33,794 Mn in 2021. The Sales are likely to increase by 4.7% YOY to AED66,367 Mn in 2022, up from AED63,417 Mn in 2021. Similarly, the Direct Costs are likely to increase by 4.7% YOY to AED31,029 Mn in 2022, up from AED29,623 Mn in 2021. The EBITDA is likely to increase by 4.7% YOY to AED23,922 Mn in 2022, up from AED22,841 Mn in 2021. The Selling and Overhead expenses are likely to increase by 3% YOY to AED5,625 Mn in 2022, up from AED5,463 Mn in 2021. The General and Administrative expenses are likely to increase by 5.5% YOY to AED5,791 Mn in 2022, up from AED5,490 Mn in 2021. The Operating Profit is expected to increase by 7.1% YOY to AED14,065 Mn in 2022, up from AED13,128 Mn in 2021. The Other Income / expenses are likely to decline by 38% YOY to AED156 Mn in 2022, down from AED252 Mn in 2021. The Finance Income is expected to increase by 8.2% YOY to AED409 Mn in 2022, up from AED378 Mn in 2021. Similarly, the Finance Charges are likely to increase by 3% YOY to AED638 Mn in 2022, up from AED619 Mn in 2021. The Profit before zakat is expected to increase by 8.3% YOY to AED13,681 Mn in 2022, up from AED12,635 Mn in 2021. The Zakat charges are likely to increase by 5.2% YOY to AED1,094 Mn in 2022, up from AED1,040 Mn in 2021. As a result, the Profit before NCI is likely to increase by 8.6% YOY to AED12,586 Mn in 2022, up from AED11,595 Mn in 2021. The NCI charges are likely to increase by 1.5% YOY to AED288 Mn in 2022, up from AED283 Mn in 2021. Therefore, the Net Profit is expected to increase by 8.7% YOY to AED12,299 Mn in 2022, up from AED11,311 Mn in 2021.

4Q21 Outturn

Sales increased by 5.7% YOY to SAR16,087 Mn in 4Q21, up from SAR15,217 Mn in 4Q20. Furthermore, Direct Costs increased by 11.8% YOY to SAR7,572 Mn in 4Q21, up from SAR6,770 Mn in 4Q20. As a result, the Gross Profit barely increased by 0.8% YOY to SAR8,516 Mn in 4Q21, up from SAR8,447 Mn in 4Q20, with a Gross margin equal to 52.9% from 55.5% in 4Q20. Selling and Marketing Expenses decreased by 13.7% YOY to SAR1,128 Mn in 4Q21 from SAR1,307 Mn in 4Q20. While the General & Admin Expenses increased by 7.4% YOY to SAR1,621 Mn in 4Q21, as compared to SAR1,509 Mn in 4Q20. Therefore, the EBITDA stood at SAR5,767 Mn in 4Q21, which is an increase by 2.4% YOY from SAR5,630 Mn in 4Q20. Whereas the Depreciation and Amortization increased by 5.7% YOY to SAR2,563 Mn in 4Q21, as compared to SAR2,425 Mn in 4Q20. Thus, the Operating Profit remained stable YOY at SAR3,204 Mn in 4Q21. Moreover, the Other income/expense decreased by 6.8% YOY to SAR105 Mn in 4Q21, down from SAR113 Mn in 4Q20. Zakat and Income tax declined by 35.4% YOY to SAR270 Mn in 4Q21, down from SAR418 Mn in 4Q20. The Total Assets increased by 4.8% YOY to SAR127.78 Bn in 4Q21, up from SAR121.97 Bn in 4Q20. Total Liabilities slightly declined by 0.5% YOY to SAR56.4 Bn in 4Q21, down from SAR56.71 Bn in 4Q20. Total equity increased by 9.4% YOY to SAR71.4 Bn in 4Q21, as compared to SAR65.3 Bn in 4Q20.

Target price and recommendation

We assign a BUY rating on STC with a Target Price of SAR135.0. Saudi Telecom Company (stc) is known as one of the most valuable telecom brands in Middle East with SAR39.77 Bn in Total Value. The Company witnessed a successful year in 2021. The Revenue increased strongly by 7.6% YOY to SAR63.4 Bn in 2021, up from SAR59 Bn in 2020. The Company mainly reports Revenue via three segments – STC, Channels by stc and Other Operating segments. STC segment drives the Total Revenue with 72% of the Total value. The Channels by stc increased the most and contributed SAR3.10 Bn in 2021. The stc KSA segment added SAR2.55 Bn and Other Operating segment another SAR2.03 Bn in 2021. Around 92.1% of the Total Revenue is generated from KSA, that is domestic operations, and the balance is from International Operations. The Cost of Revenue increased strongly by 18.5% YOY to SAR29.6 Bn in 2021, up from SAR25 Bn in 2020. As a result, the Gross Profit declined slightly by 0.5% YOY to SAR33.8 Bn in 2021, down from SAR34 Bn in 2020. The growth in Cost of Revenue outweighed the growth in Sales and contracted the Gross Profit. As a result, the Gross Profit Margin declined by 431 bps to 53.3% in 2021, down from 57.6% in 2020. The EBITDA increased by 3.4% YOY to SAR22.8 Bn in 2021, up from SAR22 Bn in 2020. It was mainly due to reduction in both Selling and General Expenses by 9.8% YOY and 5.5% YOY, respectively. The cost optimization strategies implemented by the Company supported the profitability. The Depreciation and Amortization charges increased by 3.8% YOY to SAR9.7 Bn in 2021, up from SAR9.4 Bn in 2020. As a result, the Operating Profit increased by 3.1% YOY to SAR13.1 Bn in 2021, up from SAR12.7 Bn in 2020. However, the Operating Margin declined by 89 bps to 20.7% in 2021, down from 21.6% in 2020. Profit before Zakat increased by 2.3% YOY to SAR12.6 Bn in 2021, up from SAR12.4 Bn in 2020. It was driven by strong increase in Other Expenses by 52.1% YOY to SAR252 Mn in 2021, up from 165 Mn in 2020. The Zakat charges declined by 11.1% YOY to SAR1 Bn in 2021, down from SAR1.2 Bn in 2020. The NCI contribution strongly increased by 48.9% YOY to SAR283 Mn in 2021, up from SAR190 Mn in 2020, due to rebound in business operations and profitability in 2021. As a result, the Net Profit to Shareholders increased by 2.9% YOY to SAR11.3 Mn in 2021, up from SAR 11 Bn in 2020. The Net Profit Margin contracted by 81 bps to 17.8% in 2021, down from 18.7% in 2020. The Total Capex declined to SAR8.2 Bn in 2021, down from SAR10.84 Bn in 2020. As a result, the Capex to Revenue ratio declined to 12.95% in 2021, down from 18.39% in 2020. The performance metrics have declined slightly in 2021. The ROA stood at 8.85% in 2021, down from 9.01% in 2020. Similarly, the ROE metric declined to 16.33% in 2021, down from 17.19% in 2020. However, the Free Cash Flow has increased by 30% YOY to SAR14.63 Bn in 2021, up from SAR11.25 Bn in 2020. The Debt-to-Equity ratio declined slightly to 13.43% in 2021, down from 13.99% in 2020. The Long-Term borrowings declined in 2021, however, the Company increased its Short-Term debt obligations. On the Business front, the Company operates via three business units - The Enterprise Business Unit, The Consumer Business Unit and The Wholesale Business Unit. The Revenue generated from the Enterprise Business Unit increased strongly by 20.9% YOY due to strong rebound in consumer demand from public and private sectors. Similarly, the Consumer Business Unit witnessed a strong increase in the Residential segment Revenues by 10.5% mainly due to FTTH and Fixed wireless access subscribers. Lastly, the Revenue from the Wholesale Business Unit increased by 2.9%. It was driven by stc's infrastructure investments to aid the growth in the Company's services. The Solutions by stc IPO in 2021 witnessed an overall coverage of 130 times and successful subscription in the Saudi Markets. It was met with very high demand in the region. The Enterprise business sector added an Advanced Tech and Cyber security company launched by stc to provide services in the sector. During 2021, stc launched a digital hub known as MENA hub with an investment of USD1 Bn. It ensures stc's market position in the region and the ICT sector. Under the DARE strategy, the Company witnessed growth via stcpay which availed digital banking license to operate as a digital bank. The segment has 8 million registered users and around 3 million cards were subscribed by the customers. The annual EPS grew to SAR5.66 per share in 2021, up from SAR5.50 per share in 2020. The Dividend Payout Ratio declined to 70.67% in 2021, down from 72.73% in 2020. Similarly, the Dividend Yield declined to 3.56% in 2021, down from 3.77% in 2020. The Company demonstrates healthy cash flow and stable financial position with regular dividend payments. It announced interim cash dividends worth SAR1.99 Bn for 4Q21. Based on our analysis we assign a BUY rating.

STC – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	21.08	21.31	20.65	20.07	18.45
P/B (x)	3.47	3.68	3.55	3.28	3.11
Dividend yield	3.5%	3.5%	3.5%	3.5%	3.5%

FABS Estimates & Co Data

STC - P&L

SAR mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2,021	2022F	Change
Sales	15,695	16,087	16,329	4.0%	1.5%	63,417	66,367	4.7%
Direct costs	-7,138	-7,572	-7,511	5.2%	-0.8%	-29,623	-31,029	4.7%
Gross profit	**8,557**	**8,516**	**8,817**	**3.0%**	**3.5%**	**33,794**	**35,338**	**4.6%**
Selling & overhead expenses	-1,350	-1,128	-1,355	0.4%	20.2%	-5,463	-5,625	3.0%
General & admin Exp.	-1,366	-1,621	-1,388	1.6%	-14.4%	-5,490	-5,791	5.5%
EBITDA	**5,841**	**5,767**	**6,074**	**4.0%**	**5.3%**	**22,841**	**23,922**	**4.7%**
Depreciation & amortization	-2,360	-2,563	-2,409	2.1%	-6.0%	-9,713	-9,856	1.5%
Operating profit (EBIT)	**3,482**	**3,204**	**3,665**	**5.3%**	**14.4%**	**13,128**	**14,065**	**7.1%**
Other income/(expenses)	-84	-105	12	-113.9%	-111.2%	-252	-156	-38.0%
Finance Income	102	100	101	-1.1%	1.0%	378	409	8.2%
Financial charges	-144	-175	-157	9.3%	-10.0%	-619	-638	3.0%
Profit before zakat	**3,355**	**3,024**	**3,620**	**7.9%**	**19.7%**	**12,635**	**13,681**	**8.3%**
Zakat	-355	-270	-290	-18.5%	7.3%	-1,040	-1,094	5.2%
Profit before NCI	**3,000**	**2,754**	**3,331**	**11.0%**	**20.9%**	**11,595**	**12,586**	**8.6%**
NCI	-48	-141	-71	48.0%	-49.7%	-283	-288	1.5%
Profit attributable	**2,952**	**2,614**	**3,260**	**10.4%**	**24.7%**	**11,311**	**12,299**	**8.7%**

FABS estimate & Co Data

STC- Margins

SAR mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2,021	2022F	Change
Gross margin	54.5%	52.9%	54.0%	-52	106	53.3%	53.2%	-4
Operating margin	22.2%	19.9%	22.4%	26	253	20.7%	21.2%	49
Net profit margin	18.8%	16.2%	20.0%	115	372	17.8%	18.5%	69

FABS estimate & Co Data

1Q22 preview: Telecom Egypt

Higher S&A expenses along with lower Net Operating revenue to reduce the profitability

	12-m target price:	Stock rating:
CMP (EGP): 15.37 Potential gain (%): +49.6%	**EGP23.00**	**BUY**

1Q22 Estimate

Telecom Egypt (ETEL) is estimated to report a 22.3% YOY increase in Net Profit to EGP2,598 Mn in 1Q22, up from EGP2,124 Mn in 1Q21. The Gross Profit is expected to increase by 19.1% YOY to EGP4,090 Mn in 1Q22, up from EGP3,434 Mn in 1Q21, mainly due to an expected rise by 28.1% YOY in the Operating Revenue to EGP10,763 Mn in 1Q22, up from EGP8,399 Mn in 1Q21. The Operating Costs would also increase by 34.4% YOY to EGP6,673 Mn in 1Q22, up from EGP4,965 Mn in 1Q21. The Selling and Overhead expenses are likely to increase by 26.3% YOY to EGP1,897 Mn in 1Q22, up from EGP1,501 Mn in 1Q21. The Net Operating Revenues are likely to decrease strongly YOY to reach negative EGP9 Mn in 1Q22, down from EGP299 Mn in 1Q21. As a result, the Operating Profit is expected to decline by 2.1% YOY to EGP2,185 Mn in 1Q22, down from EGP2,231 Mn in 1Q21. The Net Finance Income/Cost is likely to decrease YOY to EGP3 Mn in 1Q22 from EGP98 Mn in 1Q21. The Zakat charges are likely to decrease by 39.3% YOY to EGP583 Mn in 1Q22, down from EGP960 Mn in 1Q21.

2022 Forecast

Telecom Egypt's Net Profit is expected to increase by 7.9% YOY to EGP9,078 Mn in 2022, up from EGP8,417 Mn in 2021. The Gross Profit is expected to increase by 2.6% YOY to EGP15,530 Mn in 2022, up from EGP15,140 Mn in 2021. The Operating Revenue is expected to increase by 7.4% YOY to EGP39,819 Mn in 2022, up from EGP37,088 Mn in 2021. The Operating Costs is likely to increase by 10.7% YOY to EGP24,290 Mn in 2022, up from EGP21,948 Mn in 2021. The Selling and Overhead expenses are expected to increase by 7.3% YOY to EGP7,598 Mn in 2022, up from EGP7,081 Mn in 2021.The Net Operating Revenue is estimated to decrease YOY reaching EGP311 Mn in 2022, down from EGP328 Mn in 2021. Therefore, the Operating profit would decrease by 1.7% YOY to EGP8,242 Mn in 2022, as compared to EGP8,386 Mn in 2021. Income from Associates would increase by 18.2% YOY to EGP3,952 Mn in 2022, compared to EGP3,343 Mn in 2021. The Profit Before Zakat is expected to increase by 4.2% YOY to EGP11,591 Mn in 2022, up from EGP11,126 Mn in 2021. The Zakat expense is likely to decrease by 7.2% YOY to EGP2,510 Mn in 2022, down from EGP2,705 Mn in 2021. The NCI is likely to decrease by 19.6% YOY to EGP3 Mn in 2022.

4Q21 Outturn

The Company recorded an increase by 1.3% YOY in Gross Profit to EGP4,036 Mn in 4Q21, up from EGP3,983 Mn in 4Q20. It was mainly supported by 12% YOY increase in Operating Revenue to EGP10,710 Mn in 4Q21, as compared to EGP9,565 Mn in 4Q20. The increase in Operating revenue offset the 19.6% YOY increase in Operating costs to EGP6,674 Mn in 4Q21. The Operating Profit increased by 6.2% YOY to EGP1,891 Mn in 4Q21, up from EGP1,781 Mn in 4Q20. It was mainly due to a decrease by 3.6% YOY in the Selling & overhead expenses to EGP2,007 Mn in 4Q21, down from EGP2,082 Mn in 4Q20. The Net Operating revenue has reversed in 4Q21 to EGP138 Mn. The Profit before Zakat increased by 45.6% YOY to EGP2,918 Mn in 4Q21, up from EGP2,004 Mn in 4Q20. This was mainly supported by the Operating Profit and an increase by 59.4% YOY in Income from Associates to EGP1,024 Mn in 4Q21, up from EGP643 Mn in 4Q20. Zakat expense decreased by 12.4% YOY to EGP599 Mn in 4Q21 from EGP683 Mn in 4Q20. Total Assets increased by 7.4% YOY to EGP90.68 Bn in 4Q21, up from EGP84.42 Bn in 4Q20. Whereas the Total Equity increased by 14.4% YOY to EGP44.33 Bn in 4Q21, as compared to EGP38.76 Bn in 4Q20. Similarly, the Total liabilities slightly increased by 1.5% YOY to EGP46.36 Bn in 4Q21, up from EGP45.66 Bn in 4Q20.

Target price and recommendation

We assign a BUY rating on Telecom Egypt, with a revised target price of EGP23.00. Telecom Egypt Company is a joint stock company based in Egypt that offers landline, retail, and wholesale telecommunications services. Access, local, long distance, and international voice, Internet, data, and other telecommunications-related services are among the retail telecommunications services offered by the company. Broadband capacity leasing, Internet service, and national and international interconnection services are among its wholesale services. At the financial year ended 31 December 2021, the Company reported a significant growth by 73.5% YOY reaching EGP 8.42 Bn, as compared to EGP 4.85 Bn in the same period last year, mainly driven by an increase in both Operating Revenue and the Income from Associates. Company's Operating Revenues were up by 16.2% YOY hitting EGP 37.09 Bn in 2021, compared to EGP 31.91 Bn in 2020, led by an increase in the Home and personal communications, Enterprise, and Domestic wholesale revenues. It was offset by a decline in both International carriers and International cables and networks. Similarly, the Operating Costs have increased by 12.9% YOY to EGP 21.95 Bn, as compared to EGP 19.45 Bn in 2020. Therefore, the Gross Profit surged by 21.5% YOY standing at EGP 15.14 Bn at the end of 2021, with a Gross margin equal to 38.2%, down from 39.1% in 2020. While the Selling and overhead expenses have increased by 9% YOY reaching EGP 7.08 Bn in 2021, mainly due to an increase by 12.6% and 5% YOY in the G&A expenses and S&D expenses, respectively. The Other Operating revenues increased to EGP 563 Mn in 2021, while the Other operating expenses have declined by 56% YOY to EGP 235 Mn, down from EGP 532 Mn in 2020. Thus, the Net operating revenue was strongly up reaching EGP 328 Mn at the end of 2021. As a result, Operating profit increased by 42.2% YOY to EGP 8.39 Bn from EGP 5.9 Bn in 2020. The Operating profit margin stood at 19.5% in the year ended 2021. Moreover, the Company's income from associates grew by 51.5% YOY hitting EGP 3.34 Bn, up from EGP 2.21 Bn for the full year 2021. Consequently, the Profit before Zakat has grown by 68% YOY to EGP 11.13 Bn in 2021. Furthermore, the Zakat expense was up by 53.1% YOY standing at EGP 2.71 Bn, up from EGP 1.77 Bn in 2020. Meanwhile, the Company has reported a strong performance in the Balance Sheet, with an increase by 7.4% YOY in the Total Assets to EGP 90.68 Bn in 2021. Also, the Total equity grew by 14.4% YOY reaching EGP 44.3 Bn, up from EGP 38.8 Bn in 2020. The Company has shown a lower Net debt at the end of 2021 totalling of EGP 13.34 Bn, down from EGP 18.28 Bn at the same time last year. The 27% YOY drop in the Net debt was mainly attributed by lower Gross debt and higher Cash & cash equivalents. Additionally, the Return on Equity (ROE) and Return on Assets (ROA) both increased to 19% and 9.3%, respectively in 2021. Based on our analysis, we assign a BUY rating on the stock.

Telecom Egypt – Relative Valuation

(at CMP)	**2018**	**2019**	**2020**	**2021**	**2022F**
P/E (x)	10.33	7.38	6.71	3.57	2.91
P/B (x)	0.82	0.75	0.68	0.60	0.57
Dividend yield	1.6%	1.6%	3.2%	4.8%	4.8%

FABS Estimates & Co Data

Telecom Egypt-P&L

EGP mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Operating Revenue	8,399	10,710	10,763	28.1%	0.5%	37,088	39,819	7.4%
Operating costs	-4,965	-6,674	-6,673	34.4%	0.0%	-21,948	-24,290	10.7%
Gross profit	**3,434**	**4,036**	**4,090**	**19.1%**	**1.3%**	**15,140**	**15,530**	**2.6%**
Selling & overhead expenses	-1,501	-2,007	-1,897	26.3%	-5.5%	-7,081	-7,598	7.3%
Net operating revenue (others)	299	-138	-9	-102.9%	-93.7%	328	311	-5.3%
Operating profit	**2,231**	**1,891**	**2,185**	**-2.1%**	**15.5%**	**8,386**	**8,242**	**-1.7%**
Income from Associates	952	1,024	994	4.4%	-3.0%	3,343	3,952	18.2%
Net Finance income/(cost)	-98	3	3	-102.6%	-5.0%	-603	-602	-0.2%
Profit before zakat	**3,086**	**2,918**	**3,181**	**3.1%**	**9.0%**	**11,126**	**11,591**	**4.2%**
Zakat	-960	-599	-583	-39.3%	-2.7%	-2,705	-2,510	-7.2%
Profit before N-C interests	**2,125**	**2,320**	**2,598**	**22.3%**	**12.0%**	**8,421**	**9,081**	**7.8%**
Non-controlling interests	-1	0.7	-0.7	-37.0%	-205.0%	-4	-3	-19.6%
Profit attributable	**2,124**	**2,320**	**2,598**	**22.3%**	**12.0%**	**8,417**	**9,078**	**7.9%**

FABS estimate & Co Data

Telecom Egypt - Margins

EGP mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
GPM	40.9%	37.7%	38.0%	-288	32	40.8%	39.0%	-182
OPM	26.6%	17.7%	20.3%	-627	264	22.6%	20.7%	-191
Net margin	25.3%	21.7%	24.1%	-116	247	22.7%	22.8%	10

FABS estimate & Co Data

1Q22 preview: Emirates Integrated Telecommunications

Higher Revenue expected to support the Net profit

CMP(AED):6.58
Potential upside (%): +14.0%

12-m target price:	Stock rating:
AED7.50	**ACCUMULATE**

1Q22 Estimate

Emirates Integrated Telecommunications (DU) Net Profit expected to increase by 17.3% YOY to AED302 Mn in 1Q22, up from AED257 Mn in 1Q21, mainly due to an expected increase in Revenue. The EBITDA is expected to increase by 12.7% YOY to AED1,262 Mn in 1Q22, up from AED1,120 Mn in 1Q21, driven by an expected increase by 6.6% YOY in Revenue to AED3,073 Mn in 1Q22, up from AED2,883 Mn in 1Q21. The Costs are expected to increase by 1.3% YOY to AED1,751 Mn in 1Q22, up from AED1,730 Mn in 1Q21. The Marketing Expenses are expected to strongly increase by 76.3% YOY to AED59 Mn in 1Q22, up from AED34 Mn in 1Q21. The Depreciation Expense is likely to increase by 20.1% YOY to AED570 Mn in 1Q22, up from AED475 Mn in 1Q21. As a result, the Operating Profit is expected to increase by 7.2% YOY reaching AED692 Mn in 1Q22, compared to AED645 Mn in 1Q21. The Finance Income/Expense is expected to rise by 33.2% YOY standing at AED20 in 1Q22, up from AED15 Mn in 1Q21. The Other Income/Expense is expected to stand at nil in 1Q22. The Federal Royalty is expected to decrease slightly by 0.9% YOY to AED369 Mn in 1Q22, down from AED372 Mn in 1Q21.

2022 Forecast

DU's Net profit is estimated to increase by 7.4% YOY to AED1,182 Mn in 2022, up from AED1,101 Mn in 2021. The Revenue is expected to increase by 5.4% YOY to AED12,310 Mn in 2022, up from AED11,682 Mn in 2021. The Costs are expected to increase by 2.3% YOY to AED7,016 Mn in 2022, up from AED6,861 Mn in 2021. The Marketing Expense is expected to increase by 18% YOY to AED240 Mn in 2022, up from AED204 Mn in 2021. Thus, the EBITDA is expected to increase by 9.4% YOY to AED5,053 Mn in 2022, up from AED4,618 Mn in 2021. The Depreciation and Amortization is expected to increase by 6.2% YOY to AED2,316 Mn in 2022, up from AED2,181 Mn in 2021. The Operating Profit is likely to rise by 12.3% YOY to AED2,737 Mn in 2022, up from AED2,436 Mn in 2021. The Finance Expense is likely to increase by 2.1% YOY to AED80 Mn in 2022, up from AED79 Mn in 2021. Other income/expense slightly increase to AED132 Mn in 2022, as compared to AED131 Mn in 2021. As a result, the Pre-royalty Profit is expected to increase by 12.3% YOY to AED2,783 Mn in 2022, up from AED2,477 Mn in 2021. The Federal Royalty is expected to surge by 15.8% YOY to AED1,600 Mn in 2022, up from AED1,382 Mn in 2021.

4Q21 Outturn

The Revenue has increased by 12% YOY to AED3,070 Mn in 4Q21, up from AED2,740 Mn in 4Q20. The Costs (other than Depreciation and Marketing Expenses) have increased by 7% YOY to AED1,760 Mn in 4Q21, up from AED1,646 Mn in 4Q20. As a result, the Gross Profit Margin increased to 42.7% in 4Q21, up from 39.9% in 4Q20. The Marketing expenses increased by 20.95% YOY to AED47 in 4Q21, up from AED39 Mn in 4Q20. Resultantly, the EBITDA was up by 19.6% YOY to AED1,262 Mn in 4Q21, up from AED1,055 Mn in 4Q20. The Depreciation and Amortization expenses decreased by 21.1% YOY to AED671 Mn in 4Q21, down from AED851 Mn in 4Q20. Therefore, the Operating Profit strongly increased YOY to AED591 Mn in 4Q21, up from AED205 Mn in 4Q20. The Operating Profit Margin stood at 19.3% in 4Q21, up from 7.5% in 4Q20. The Finance Income/Expenses significantly increased YOY to AED22 Mn in 4Q21. Other Income/Expense strongly grown to reach AED130 Mn in 4Q21, as compared to AED6 Mn in 4Q20. Thus, the Pre-Royalty Profit increase significantly by 79.1% YOY to AED698 Mn in 4Q21 from AED389 Mn in 4Q20. The Federal Royalty grew by 5.1% YOY to AED359 Mn in 4Q21, up from AED341 Mn in 4Q20. The Total Assets increased by 5.1% YOY to AED16.68 Bn in 4Q21, up from AED15.87 Bn in 4Q20.

The Total Equity slightly declined by 0.4% YOY to AED8.53 Bn in 4Q21, down from AED8.57 Mn in 4Q20. Lastly, the Total Liabilities increased by 11.6% YOY to AED8.15 Bn in 4Q21, up from AED7.3 Bn in 4Q20.

Target price and recommendation

We maintain our ACCUMULATE rating on Du, with a target price of AED7.50. Emirates Integrated Telecommunications Company PJSC (Du) is a public joint stock company with limited liability. The Company provides fixed, mixed, wholesale, broadband, broadcasting, and associated telecommunications services in the UAE to enhance customer's life anytime and anywhere. Du has reported a decline by 23.7% YOY in the Net profit reaching AED 1.01 Bn at the end of 2021, as compared to AED 1.44 Bn in the same period last year. This drop was mainly due to a strong decrease in the Gain on disposal of investment, besides an increase in the Marketing expense. Despite the lower profit, the Company has reported an increase by 5.4% YOY in the Total Revenues to AED 11.68 Bn in 2021, up from AED 11.08 Bn in 2020, mainly driven by 10.7% YOY increase in the fixed revenues that was supported by solid contribution from the Consumer segment, disciplined execution of the broadband strategy, and a growth in the Enterprise segment, as well as a 15.5% YOY increase in the Other revenues through a continuous growth in the Equipment revenues and wholesale revenues. This was partially offset by 2.8% YOY decline in the Mobile revenues standing at AED 5.3 Bn, down from AED 5.45 Bn in 2020. Meanwhile, the Costs excluding D&A and Marketing expenses were up by 10.4% YOY reaching AED 6.86 Bn in 2021, compared to AED 6.21 Bn in 2020. Therefore, the Gross profit slightly decreased by 1% YOY to AED 4.82 Bn in the year ended 2021, with a Gross margin equal to 41.3%, down by 268 bps from 43.9% in 2020. Similarly, the Marketing expense has increased by 35.1% YOY to AED 204 Mn at the end of 2021. As a result, the EBITDA has decreased by 2.2% YOY from AED 4.72 Bn in 2020, down to AED 4.62 Bn in 2021. Moreover, the Depreciation, Amortization, and Impairment expenses have declined by 3.2% YOY totaling an AED 2.18 Bn, down from AED 2.25 Bn. Thus, the Operating profit has slightly dropped by 1.2% YOY to AED 2.44 Bn at the end of 2021, with an OPM equal to 20.9% in 2021. The Company's Pre-royalty profit was down by 16% YOY reaching AED 2.48 Bn, as compared to AED 2.96 Bn in 2020, mainly attributed by a strong decreased in the Gain on Disposal of investment standing at a loss of AED 6 Bn in 2021, as an increase by 42.5% YOY in the Financing income/ expense to AED 79 Mn in 2021. Additionally, the Other income/ expense significantly increased hitting AED 131 Mn, up from AED 14 Mn in 2020. Furthermore, the Federal Royalty stood at AED 1.38 Bn at the end of 2021, which is a decrease by 8.6% YOY from AED 1.51 Bn in 2020. On the other hand, the Company has shown an unleveraged Balance sheet at the year ended 31 December 2021, where the Cash and Term deposits have declined reaching AED 2.02 Bn, down from AED 2.24 Bn in 2020. On a monthly basis, the Company's Gross debt remained stable at AED 200 Mn at the year ended 2021. Moreover, Du has reflected a strong Liquidity position with a Total Liquidity of AED 5.58 Bn in 2021. Whereas the Cash &Term deposits amount a 36% from the Total liquidity, and the rest 64% for the Undrawn facility that stood at AED 3.57 Bn in 2021. The Capex was at the highest level to reach an AED 2.6 Bn, up by 39.1% YOY from AED 1.87 Bn in 2020, mainly due a strong deployment in 2021 through covering 91% of population with 5G service, continued transformation of IT and network infrastructure, and a continuous fiber deployment. In addition, the Operating free cash flow remained strong at AED 1.99 Bn in 2021, despite the decline by 24.5% YOY from AED 2.64 Bn in 2020. Finally, the Company proposed a final Cash dividend of AED 0.11 per share amounting to AED 498.62 Mn for the year 2021. Based on our analysis, we assign an ACCUMULATE rating on the stock.

DU – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	16.87	17.32	20.56	27.42	25.23
P/B (x)	3.50	3.45	3.48	3.50	3.38

FABS Estimates & Co Data

DU - P&L

AED mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Revenue	2,883	3,070	3,073	6.6%	0.1%	11,682	12,310	5.4%
Costs (ex D&A, marketing exp)	-1,730	-1,760	-1,751	1.3%	-0.5%	-6,861	-7,016	2.3%
Marketing expense	-34	-47	-59	76.3%	25.3%	-204	-240	18.0%
EBITDA	**1,120**	**1,262**	**1,262**	**12.7%**	**0.0%**	**4,618**	**5,053**	**9.4%**
Depreciation, Amortization, and Impairment	-475	-671	-570	20.1%	-15.0%	-2,181	-2,316	6.2%
Operating profit	**645**	**591**	**692**	**7.2%**	**17.0%**	**2,436**	**2,737**	**12.3%**
Financing income/expense	-15	-22	-20	33.2%	-10.0%	-79	-80	2.1%
Other income/expense	0	130	0	NM	NM	131	132	1.0%
Gain on disposal of investment	-1	-1	-1	64.0%	0.1%	-11	-6	-49.0%
Pre-royalty profit	**629**	**698**	**670**	**6.5%**	**-3.9%**	**2,477**	**2,783**	**12.3%**
Federal Royalty	-372	-359	-369	-0.9%	2.8%	-1,382	-1,600	15.8%
Net profit	**257**	**321**	**302**	**17.3%**	**-5.9%**	**1,101**	**1,182**	**7.4%**

FABS estimate & Co Data

DU - Margins

AED mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Margin	40.0%	42.7%	43.0%	299	34	41.3%	43.0%	173
Operating margin	22.4%	19.3%	22.5%	14	326	20.9%	22.2%	138
Net Profit margin	8.9%	10.4%	9.8%	89	-63	9.4%	9.6%	18

FABS estimate & Co Data

1Q22 preview: Al Yah Satellite Communications Co.

Higher Revenue expected to support the Net profit

12-m target price:	Stock rating:
AED3.50	**BUY**

CMP(AED):2.75
Potential upside (%): +27.3%

1Q22 Estimate

Al Yah Satellite Communications (Al Yahsat) Net Profit is expected to increase by 20% YOY to USD16.84 Mn in 1Q22, up from USD14.1 Mn in 1Q21. The Total Revenue is likely to increase by 12.01% YOY to USD101.1 Mn in 1Q22, as compared to USD90.2 Mn in 1Q21. The Cost of Revenue is expected to grow significantly to USD15.8 Mn in 1Q22, up from USD4.9 Mn in 1Q21. As a result, the Gross Profit is forecasted to decline slightly to USD85.28 Mn in 1Q22, down from USD85.3 Mn in 1Q21. The Administrative Expenses are likely to decline by 11% YOY to USD27.7 Mn in 1Q22, down from USD31.3 Mn in 1Q21. The Other Income is expected to increase by 18% YOY to USD0.505 Mn in 1Q22, as compared to USD0.43 Mn in 1Q21. As a result, the EBITDA is forecasted to increase by 7% YOY to USD58.05 Mn in 1Q22, up from USD54.4 Mn in 1Q21. The Depreciation Charges are likely to increase by 1% YOY to USD37.4 Mn in 1Q22, up from USD37 Mn in 1Q21. As a result, the Operating Profit is likely to increase by 19% YOY to USD20.7 Mn in 1Q22, up from USD17.4 Mn in 1Q21. The Net Finance Cost is expected to decline by 16% YOY to USD2.5 Mn in 1Q22, down from USD3 Mn in 1Q21. The Share of results of associates and Joint ventures are expected to increase significantly to USD1.3 Mn in 1Q22, up from USD0.306 Mn in 1Q21. As a result, the Net Profit is likely to increase by 20% YOY to USD16.84 Mn in 1Q22, as compared to USD14.1 Mn in 1Q21.

2022 Forecast

Al Yahsat's Net Profit is expected to increase by 27.4% YOY to USD80.12 Mn in 2022, as compared to USD62.9 Mn in 2021. The Gross Profit is expected to increase by 4.23% YOY to USD377.4 Mn in 2022, up from USD362.1 Mn in 2021. The Total Revenue is likely to increase by 4.28% YOY to USD425 Mn in 2022, up from USD407.6 Mn in 2021. Similarly, the Cost of Revenue is expected to increase by 4.7% YOY to USD47.6 Mn in 2022, up from USD45.5 Mn in 2021. The Administrative expenses are likely to increase by 6.51% YOY to USD132 Mn in 2022, up from USD123.9 Mn in 2021. However, the Other Income is expected to decline by 26.82% YOY to USD1.7 Mn in 2022, down from USD2.32 Mn in 2021. As a result, the EBITDA is expected to increase by 2.75% YOY to USD247.1 Mn in 2022, up from USD240.5 Mn in 2021. The Depreciation Charges are likely to increase slightly by 0.57% YOY to USD149.4 Mn in 2022, up from USD148.6 Mn in 2021. As a result, the Operating Profit is expected to increase by 7.64% YOY to USD96.9 Mn in 2022, up from USD90 Mn in 2021. The Net Finance Costs is expected to decline by 36.70% YOY to USD11 Mn in 2022, down from USD17.3 Mn in 2021. Similarly, the Share of results of associates and Joint ventures is forecasted to decline by 42.64% YOY to USD5.500 Mn in 2022, down from USD9.6 Mn in 2021. As a result, the Net Profit is expected to grow strongly by 27.4% YOY to USD80.12 Mn in 2022, up from USD62.9 Mn in 2021.

4Q21 Outturn

The Total Revenue increased by 7.9% YOY to USD123.3 Mn in 4Q21, up from USD114.3 Mn in 4Q20. The Cost of Revenue increased by 16.9% YOY to USD22.9 Mn in 4Q21 from USD19.6 Mn in 4Q20. As a result, the Gross Profit increased by 6% YOY to USD100.4 Mn in 4Q21, up from USD94.7 Mn in 4Q20. The EBITDA increased by 12.1% YOY to USD69.4 Mn in 4Q21, up from USD61.9 Mn in 4Q20. It was mainly improved by a decline by 4.9% YOY in Administrative Expenses to USD31.5 Mn in 4Q21 compared to USD33.2 Mn in 4Q20, besides an increase by 31.3% YOY in the Other income to USD0.55 Mn in 4Q21. Moreover, the Depreciation decreased by 2% YOY to USD36.8 Mn in 4Q21, down from USD37.5 Mn in 4Q20. Whereas the Fair value adjustments on investment property dropped by 16.4% YOY to USD1.7 Mn, down from USD2 Mn in 4Q20. Thus, the Operating Profit increased by 38.3% YOY to

USD30.93 Mn in 4Q21, up from USD22.37 Mn in 4Q20. Furthermore, the Net Finance Cost decreased significantly by 40.4% YOY to USD2.47 Mn in 4Q21, down from USD4.15 Mn in 4Q20. The Income Tax strongly increased to USD0.14 Mn in 4Q21, as compared to USD0.06 Mn in 4Q20. The NCI decreased by 26.5% YOY to USD1.57 Mn in 4Q21, down from USD2.14 Mn in 4Q20.

Target price and recommendation

We assign a BUY rating on Yahsat, with a revised target price of AED3.50 Al Yah Satellite Communications Company P.J.S.C. (Yahsat) is a public company listed on Abu Dhabi Securities Exchange and subsidiary of Mubadala Investment Company that provides multimission satellite services in over 150 countries across Europe, the Middle East, Africa, South America, Asia, and Australasia. During the end of 2021, the Company has reported a slight increase by 1.2% YOY in the Net profit reaching USD 69.8 Mn, as compared to USD 68.9 Mn in 2020, this increase was mainly due to a strong decline in the Share of results of equity-accounted investments. The Total Revenue broadly stable at USD 407.6 Mn in the end of 2021, compared to USD 407.5 Mn in 2020, this was mainly driven by 1.6% YOY increase in both Managed and Mobility Solutions through signing a 3-year distribution contract with a global service provider worth more than USD 86 Mn, along with a growth in Voice, Maritime, and Equipment revenues, as well as a 0.9% YOY increase in the Data Solutions that was supported by a 20% YOY in the Consumer Subscriber base, besides a signing of a 10 Enterprise deals in the second half of 2021 with a total contracted future revenues over USD 22 Mn. This was partially offset by a 1% YOY decline in the Infrastructure due to reallocation of C-band contracts totalling a USD 4.7 Mn and corresponding revenues to Managed and Data Solutions in 4Q21. Meanwhile, the Cost of revenue has surged by 13.6% YOY reaching USD 45.47 Mn at the end of 2021, up from USD 40.04 Mn in the same period last year. Therefore, the Gross profit has dropped by 1.5% YOY to USD 362.1 Mn in 2021, as compared to USD 367.5 Mn in 2020, with a Gross Profit Margin (GPM) equal to 88.8%, down by 133 bps from 90.2% in 2020. Moreover, the Administrative Expenses have declined by 9% YOY standing at USD 123.9 Mn, down from USD 136.2 Mn in 2020. Similarly, the Other Income has strongly decreased by 85.2% YOY to reach a USD 2.3 Mn in the year ended 2021. Consequently, the Adjusted EBITDA was down by 2.6% YOY reaching USD 240.5 Mn, down from USD 246.9 Mn in 2020. While the Normalised Adjusted EBITDA was up by 5% YOY to USD 244.6 Mn in 2021, as compared to USD 232.9 Mn in 2020, led by an increase in the Normalised Adjusted EBITDA for all Operating segments. Additionally, Depreciation expense has slightly decline by 0.7% YOY to USD 148.6 Mn in 2021. Also, the Fair Value adjustments on investment property have decreased by 6.1% YOY from USD 2.03 Mn in 2020, to USD 1.91 Mn in 2021. As a result, the Operating profit declined by 5.6% YOY reaching USD 90 Mn, down from USD 95.3 Mn in the end of 2020, where the OPM stood at 22.1% in 2021, down from 23.4% in 2020. Whereas the Net Finance Cost barely decreased by 0.4% YOY standing at USD 17.31 Mn in the year ended 2021. Furthermore, the Share of results of equity-accounted investments have significantly dropped by 41.4% YOY reaching USD 9.6 Mn at the end of 2021. Thus, the Profit before Tax was up by 2.4% YOY USD 63.1 Mn in 2021. While the Income Tax has surged by 7.5% YOY hitting USD 0.22 Mn, up from USD 0.2 Mn in 2020. On the other hand, the Company has shown a strong and stable performance in the Balance Sheet, with an increase by 11% YOY in the Total Assets to USD 1.86 Mn at the year ended 31 December 2021. This increase was mainly attributed by a strong growth by 78% YOY reaching USD 400.3 Mn, up from USD 224.9 Mn in 2020. The Company's Net debt increased due to higher Borrowings that stood at USD 532.3 Mn in 2021. Resultantly, the Net debt to Adjusted EBITDA stood at 0.6x for the year ended 2021. In addition, the Operating Free Cash Flow was strong by an increase to USD 236.5 Mn in 2021, mainly driven by Robust and attractive Normalised Adjusted EBITDA, low levels of maintenance CapEx, Negligible cash taxes, light balance sheet model with very low leverage, and Efficient working Capital management. Finally, the Board of Directors reported a Cash Dividend equal to 7.9 fils per share amounting of AED 192.8 Mn at the final year of 2021. Based on our analysis, we assign a BUY rating on the stock.

Al Yahsat - P&L

(USD'000)	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
Total Revenue	**90,215**	**123,276**	**101,050**	**12.01%**	**-18%**	**407,569**	**425,000**	**4.28%**
Cost of revenue	-4,911	-22,889	-15,764	221%	-31%	-45,478	-47,609	4.69%
Gross Profit	**85,304**	**100,387**	**85,286**	**0.0%**	**-15%**	**362,091**	**377,391**	**4.23%**
Administrative Expenses	-31,322	-31,548	-27,745	-11%	-12%	-123,933	-132,000	6.51%
Other Income	428	554	505	18%	-9%	2,323	1,700	-26.82%
EBITDA	**54,410**	**69,393**	**58,046**	**7%**	**-16%**	**240,481**	**247,091**	**2.75%**
Depreciation	-37,011	-36,762	-37,359	1%	2%	-148,590	-149,435	0.57%
Operating Profit	**17,399**	**30,934**	**20,688**	**19%**	**-33%**	**89,985**	**96,859**	**7.64%**
Net Finance Cost	-2,972	-2,472	-2,494	-16%	1%	-17,308	-10,956	-36.70%
Share of results	-306	-3,429	-1,265	313%	-63%	-9,589	-5,500	-42.64%
Income Tax	-48	-137	-85	76%	-38%	-215	-281	30.89%
NCI	-1,825	-1,569	-1,910	5%	22%	-6,889	-9,549	38.61%
Profit for Equity owners	**14,073**	**24,896**	**16,844**	**20%**	**-32%**	**62,873**	**80,122**	**27.43%**

FABS Estimate & Co. Data

Al Yahsat - Margins

AED mm	1Q21	4Q21	1Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Gross Margin	95%	81%	84%	-101.56	29.67	89%	89%	-0.44
Operating margin	19%	25%	20%	11.87	-46.20	22%	23%	7.12
Net Profit margin	16%	20%	17%	10.70	-35.26	15%	19%	34.26

FABS estimate & Co Data

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ISF ME Awards"

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in UAE 2016 and 2020
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in UAE 2016
by "IFA"

Best Equity Finance Company
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