Telecom Sector – March 2023

Revenue diversification and 5G launch enable to offer of additional services to boost profitability

Sector Weighting:
MARKET WEIGHT
Preview Note 1Q 2023

MENA Telecommunication

Etisalat and DU are the major telecom operators in UAE with a mobile subscriber base of 20.0 Mn as of December 2022. Etisalat's mobile subscribers base stood at 12.1 Mn while DU's mobile subscribers stood at 7.9 Mn in 2022. Telecom companies in UAE are primarily focusing on 5G penetration which will drive the sector's growth in the forthcoming period. The rising number of subscribers, rapid 5G network expansion, and deployment of optic cables will increase product offerings and boost the revenues of the telecom companies in the region. UAE's telecom sector is experiencing strong demand for the Internet of Things (IoT), cloud services, data centres, and Subscriber video-on-demand (SVOD) services. Additionally, recovery in the tourism sector and various digital offerings fuel the sector's growth. DU rolled out unlimited power and data plans that attract as well as retain the existing customer base. DU in collaboration with Huawei Technologies announced the development and testing of 5G movable private network Multi-access Edge Computing (MEC) capability to deliver and provide better customer services through improved data speed and efficiency. DU and Etisalat signed an agreement with Aldar Properties to provide telecommunication infrastructure for Aldar's major projects. Furthermore, DU signed an MOU with Cisco for accelerating the digital transformation in the region and plans to work toward identifying new revenue streams and analyzing market trends. Etisalat acquired 100% stake in Service Souk DMCC and plans to diversify its business by strengthening the brand 'Smiles' an online marketplace that is into food and grocery delivery. Etisalat also increased its stake in Vodafone to 14.0% in February 2023. In addition, Etisalat acquired a majority stake in Careem Supper App which is into delivery, grocery, and other third-party services. The above-mentioned developments are expected to support the telecom sector growth in UAE.

The government of Saudi Arabia played a significant role in shaping the country's telecom industry making significant investments in infrastructure deploying fibre optic networks and establishing data centres. More than 65% of KSA's population is under the age group of 35 years while the country has a strong internet penetration of 99.0% as of 2022. Zain, Mobily, and STC are KSA's leading telecom operators. Telecom companies in KSA are actively investing in ICT, IoT, cloud, fintech, cybersecurity, fibre optic & undersea cables, and digital entertainment which is driving the telecom sector growth in the region with multiple product offerings. Digital transformation of the sector accelerates Vision 2030 goals of KSA. The undersea cable projects by telecom companies in KSA will connect KSA with multiple continents with high efficiency and secured fiber optic cables boosting the country's non-oil economy. STC's subsidiary Tawal signed an agreement with United Group for the acquisition of 4,800 towers across Croatia, Bulgaria, and Slovenia. STC reported more than 7,300 5G towers by the end of 2022 and further plans to acquire 500 5G towers by 2023. STC is collaborating with various organizations to provide the best IoT and cloud services in the region. Mobily in partnership with Ericsson launched Mobily Pay in KSA which provides services like money transfer, contactless painting, bill payment, digital card payments. Rapid infrastructure developments in KSA along with digitization will lead to various product offerings and boost the telecom sector and non-oil economy in the country.

Egypt's total population stood at 104.4 Mn in 2022 with 61% of 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. Egypt plays an important role in international cable infrastructure due to its strategic location. The undersea cables running across the region connects multiple continents. However, the transition from 4G to 5G network is still happening at a slower pace. Demand for OTT and PayTv services is rising in the country, driving data demand. The economic growth in the country is impacted due to the rising inflationary environment. Egypt's core inflation stood at 39.5% as of March 2023 while the Egyptian Pound continued to depreciate against the US dollar. Telecom Egypt obtained a new spectrum package of 5 MHz of spectrum in the 1800 MHz for 10 years. The spectrum was priced at USD 125 Mn whereas the additional spectrum will improve the company's voice and data quality with enhanced connectivity and efficiency. Egypt government currently holds 80% stake in Telecom Egypt and offers to sell 10% of its stake. Egypt government is undertaking several initiatives to develop a robust digital infrastructure in the country which will drive the growth of the telecom sector.

STC agrees to buy 100% of United Group's mobile tower infrastructure
STC's subsidiary Tawal signed an agreement to buy tower infrastructure of United Group's valued at EUR 1.22 Bn. After the completion of acquisition, Tawal will own more than 4,800 towers across Croatia, Bulgaria, and Slovenia. Tawal's first expansion in Europe marks the company's strategy to diversify its business internationally.

Etisalat (e&) signed a binding agreement to acquire USD 400 Mn stake in Careem Super app
Etisalat (e&) to acquire 50.03% stake in Careem's super app business for a consideration of USD 400 Mn. The transaction will be financed from internal accruals. Careem's Super App business provides various services like food, grocery, bike, pay, delivery and other third-party services. Etisalat aims to diversify its operations domestically as well as internationally. In addition, Careem's Ride Hailing business will be fully separated and owned by Uber.

UAE Yahsat's subsidiary YahClick signs USD 15 Mn deal to boost Africa presence
Al Yahsat's subsidiary YahClick signed a six-year partnership agreement to invest USD 15 Mn with Sudan's Canar Telecommunications to expand its presence in Africa. The strategic agreement is signed for six-year and will make Canar Telecommunications one of YahClick's largest service providers across the region. The partnership will improve services across Sudan with a digital transformation in the region and other remote areas.

Etisalat raises stake in Vodafone to 14% in February 2023
UAE's Etisalat (e&) increased its stake to 13% in Vodafone in January 2023 and further hiked its share to 14% in February 2023 diversifying into international markets. After the hike, Etisalat currently owns a total of 3.8 Bn shares in Vodafone group. E& is the single largest shareholder of the Vodafone Group.

DU and Etisalat to provide telecommunication infrastructure to Aldar's projects
DU in collaboration with Etisalat (e&) signed an agreement with Aldar Properties to provide telecommunication infrastructure for Aldar's projects across Abu Dhabi, Yas Island, Reem Island, and Saadiyat Island. Modern fixed communication services and solutions will be installed, maintained, and controlled by Du and Etisalat throughout Aldar's developments.

STC's 5G towers reach 7,300 in 2022 and further expects to add 500 towers in 2023
STC reported the number of 5G towers stood at more than 7,300 as of 2022 year-end and further expects to add 500 towers in 2023 along with 1,000 colocation sites for the 5G network. STC's net profit rose from SAR 11.3 Bn in 2021 to SAR 12.2 Bn in 2022 driven by strong growth across all revenue segments.

STC sold land in Khobar for USD 367 Mn
STC sold land in Khobar for a consideration of USD 367 Mn for maximizing its return on assets. STC will earn a profit of USD 245 Mn upon completion of the transaction. A total of four Mn square feet of land was sold through a public auction to Hasan Abdulrahman Almusleh Algahtani at a rate of SAR 336

per square meter. A non-refundable deposit of SAR 10 Mn along with a promissory note of SAR 1,368 Mn was the terms of payment. STC plans to invest the proceeds into upcoming opportunities in the KSA region.

Egypt government offers to sell 10% of its stake in Telecom Egypt

Egypt government offers to sell its 10% stake in Telecom Egypt out of the 80% stake held currently. CI Capital and Ahly Pharos are the local investment banks managing the transaction.

UAE telecoms group e& fully acquires ServiceMarket for USD 22 Mn

Etisalat (e&) acquires a 100% stake in Services Souk DMCC (ServiceMarket) for a consideration of USD 22 Mn. ServiceMarket is an online marketplace for household services. ServiceMarket's brand 'Smiles' is a food and grocery delivery platform with a strong market position.

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahsat
Rating	**HOLD**	**HOLD**	**BUY**	**BUY**	**BUY**	**BUY**
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	23.38	43.70	42.55	24.80	5.00	2.55
Target Price	25.00	46.00	54.00	32.00	7.40	3.50
Potential change (%)	**6.93%**	**5.26%**	**26.91%**	**29.03%**	**48.00%**	**37.25%**

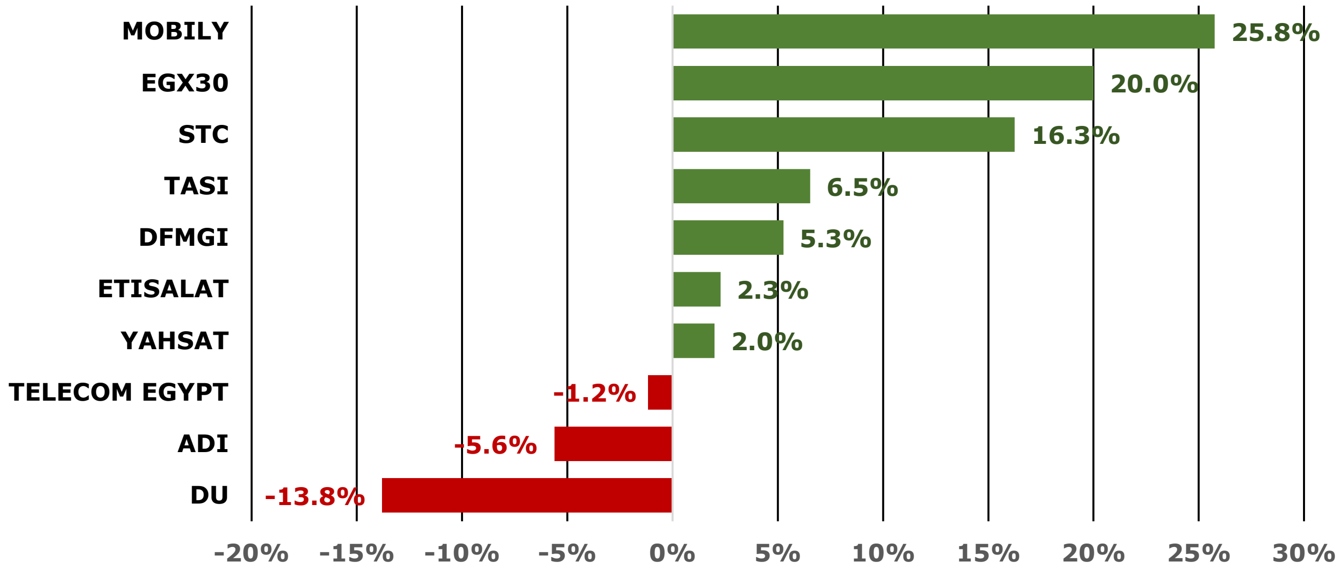
FABS Estimates & Co data

Contents:

Telecom stock performance in the YTD

Mobily is the best-performing stock among the peer group during YTD2023 followed by STC. DU is the worst-performing stock among all of them. Etisalat and Al Yahsat are the only two stocks which generated positive return during YTD2023 in UAE Markets. Mobily generated 25.8% return, while DU came in last with a decline of 13.8% during YTD2023.

MENA Telecom Stock & Market Indices Performance in YTD2023, ranked



Source: Bloomberg

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 22.58x (MOBILY) and 4.31x (TELECOM EGYPT). The EV/EBITDA ranges from 8.69x (ETISALAT) and 3.49x (TELECOM EGYPT). Al Yahsat expected 2023 dividend yield is the highest at 6.4%. TELECOM EGYPT has the lowest PB multiple of 0.78x. MOBILY Net Debt/EBITDA stood at 1.43x.

Relative Valuation

	ETISALAT	MOBILY	STC	TELECOM EGYPT	DU	AL YAHSAT
CMP (LCY)	23.38	43.70	42.55	24.80	5.00	2.55
Number of shares (mm)	8,697	770	5,000	1,707	4,533	2,440
Market cap (LCY mm)	203,330	33,649	212,750	42,334	22,665	6,221
Market cap (US$ mm)	55,403	8,973	56,733	1,383	6,176	1,695
Gross debt (LCY mm)	47,954	9,624	10,491	30,826	0	528
Cash (LCY mm)	32,839	828	17,794	6,811	1,546	545
Net debt/-cash (LCY mm)	15,115	8,796	-7,304	24,015	-1,546	-16
Non-controlling interest	7,735		2,526	15		71
EV	226,180	42,445	207,972	66,364	21,119	6,423
EBITDA (2023)	26,020	6,162	25,008	19,036	5,514	245
BVPS (2023)	5.15	21.24	15.72	31.85	1.95	0.35
EPS (2023)	1.09	1.94	2.62	5.75	0.29	0.04
DPS (2023)	0.80	1.35	1.60	1.00	0.25	0.04
EV/EBITDA (x)	8.69	6.89	8.32	3.49	3.83	7.15
P/BV (x)	4.54	2.06	2.71	0.78	2.57	2.01
PER (x)	21.53	22.58	16.26	4.31	17.30	16.55
Dividend yield	3.4%	3.1%	3.8%	4.0%	5.0%	6.4%
Payout ratio	73.7%	69.8%	61.1%	17.4%	86.5%	105.5%
Net debt/EBITDA (x)	0.58	1.43	-0.29	1.26	-0.28	-0.07

Source: FABS from Bloomberg

Market Weight:

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

MENA telecoms rating summary

	ETISALAT	MOBILY	STC	Telecom Egypt	DU	Al Yahsat
Rating	**HOLD**	**HOLD**	**BUY**	**BUY**	**BUY**	**BUY**
Local currency	AED	SAR	SAR	EGP	AED	AED
CMP	23.38	43.70	42.55	24.80	5.00	2.55
Target Price	25.00	46.00	54.00	32.00	7.40	3.50
Potential change (%)	**6.93%**	**5.26%**	**26.91%**	**29.03%**	**48.00%**	**37.25%**

FABS Estimates & Co data

1Q23 preview: Etisalat Group

Increased global uncertainties to pressurize margins

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

CMP(AED):23.38
Potential upside/(downside) (%): +6.93%

1Q23 Estimate

Etisalat Group (EAND) is expected to report a marginal decline in the net profit by 1.2% YOY to AED 2,406 Mn in 1Q23 primarily due to a decline in operating profit and a hike in finance and other cost partially offset by growth in finance and other income. Etisalat's revenue is expected to decline marginally 2.7% YOY to AED 12,978 Mn in 1Q23 owing to the uncertainties and inflationary pressures in the global market. The Operating Expenses are likely to decline marginally by 0.3% YOY to AED 8,241 Mn in 1Q23. The Impairment charges are likely to increase 5.5% YOY to AED 247 Mn in 1Q23. Thus, operating profit before federal royalty is expected to fall 4.6% YOY to AED 4,620 Mn in 1Q23. Federal royalty is anticipated to decline marginally 1.8% YOY to AED 1,402 Mn in 1Q23. As a result, operating profit is likely to decline 5.8% YOY to AED 3,218 Mn in 1Q23. Etisalat's EBITDA is expected to decrease 4.4% YOY to AED 6,505 Mn in 1Q23. Furthermore, finance and other income is expected to increase significantly from AED 212 Mn in 1Q22 to AED 519 Mn in 1Q23. Finance and other costs are likely to rise by 60.7% YOY to AED 779 Mn in 1Q23. Moreover, income tax expense is estimated to grow 9.6% YOY to AED Mn in 1Q23. In addition, the share of profit attributable to non-controlling interest holders is expected to decline from AED 318 Mn in 1Q22 to AED 124 Mn in 1Q23.

2022 Forecast

Etisalat's net profit is expected to decline marginally 5.6% to AED 9,446 Mn in 2023 driven by a decline in operating profit and an increase in finance and other costs partially offset by growth in finance and other income. The Company's revenue is expected to decline marginally 1.3% to AED 51,774 Mn in 2023. Operating Expenses are expected to decrease by 0.9% to AED 33,032 Mn in 2023. Impairment charges are expected to increase 28.4% to AED 1,035 Mn in 2023. Federal royalty is anticipated to rise 0.5% to AED 5,799 Mn in 2023. As a result, operating profit is expected to decline 4.9% to AED 12,322 Mn in 2023. Etisalat's EBITDA is expected to increase by 0.7% to AED 26,020 Mn in 2023. Furthermore, finance and other income is expected to rise 15.5% to AED 2,330 Mn in 2023 whereas finance and other costs are expected to increase 15.6% to AED 3,090 Mn in 2023 The Tax charges are estimated to decline 7.6% to AED 1,619 Mn in 2023. Share of profit attributable to non-controlling interest holders is anticipated to fall 4.1% YOY to AED 497 Mn in 2023.

4Q22 outturn

EAND's total revenue decreased 3.5% YOY to AED 13,134 Mn in 4Q22 due to significant exchange rate volatility in the Egyptian Pound, Pakistani Rupee, and Moroccan Dirham as a result of the macroeconomic turmoil around the world. It was partially offset by a solid performance in UAE and strong local currency growth in Egypt and Pakistan. The Company's UAE revenue grew 2.6% YOY to AED 8.0 Bn in 4Q22 due to population growth and a rebound in the tourist industry. Mobile segment revenue increased at 3% YOY to AED 2.9 Bn in 4Q22 due a growth in subscriber base while fixed segment revenue increased 4% YOY to AED 2.9 Bn in 4Q22 growth in internet and data services. Etisalat's revenue from consolidated international operations dropped 15.8% YOY to AED 4.8 Bn in 4Q22 attributable to unfavourable exchange rates of the Egyptian Pound, Pakistani Rupee, and Moroccan Dhiram. Marco Telecom revenue fell 16% to AED 2.9 Bn in 4Q22 due to the unfavourable exchange rate of MAD against AED, while local currency revenue fell 1% YOY. Revenue from Egypt also declined 20% YOY to AED 1.1 Bn in 4Q21, but it increased 21% YOY in the local currency due to solid growth in mobile data, voice, and wholesale revenue. Revenue from operations in Pakistan declined 10% YOY to AED 0.7 Bn in 4Q22 however, the local revenue rose 17% YOY due to strong development in the FTTH, corporate, and wholesale segments. The company's operating expense decreased 1.3% YOY to AED 8,906 Mn in 4Q22, primarily as a result of its cost-control measures. Impairment loss from trade receivables and contract assets recorded a sharp decline of 71.3% YOY to AED 136 Mn while the share of results from associates and JVs more than doubled from AED 89 Mn in 4Q21 to AED 190 Mn in 4Q22. During 4Q22, the company's federal royalty grew 2.0% YOY to AED 1,329 Mn, resulting in a 1.9% YOY growth in operating profit to AED 2,935 Mn. Additionally, EBITDA decreased 8.1% YOY to AED 6,042 Mn in 4Q22 due to currency volatility. EBITDA margin fell 228 bps YOY to 46.0% in 4Q22. Finance and other income more than doubled from AED 439 Mn in 4Q21 to AED 990 Mn in 4Q22 owing to higher benchmark rate and dividend income. Finance and other cost rose significantly 81.9% YOY to AED 794 Mn in 4Q22 due to higher benchmark rates. In line with an increase in profitability, income tax expenses rose 30.5% YOY to AED 461 Mn in 4Q22. Due to lower profit from Marco Telecom, PTCL, and Etisalat Misr, the share of profit attributable to non-controlling interest holders fell dramatically from AED 411 Mn in 4Q21 to AED 28 Mn in 4Q22.

Target price and recommendation

We maintain our HOLD rating on Etisalat with an unchanged target price of AED 25.00. The company aims to diversify its income source through acquisitions and investment in different and complementary business verticals to expand globally. Etisalat is focusing to expand its 5G coverage, identifying new revenue streams, and deployment of fibre optic cables to increase its offerings. Etisalat and DU signed an agreement with Aldar Properties for providing telecommunication infrastructure for Aldar's major projects. Furthermore, Etisalat acquired a 100% stake in Service Souk DMCC and it plans to diversify its business by strengthening its brand 'Smiles'. Smiles is an online marketplace that provides food and grocery delivery services. Etisalat increased its stake in Vodafone Group to 14.0% in February 2023 and became the largest shareholder of the Group. In addition, Etisalat acquired a 50.03% stake in Careem's Super App for a consideration of USD 400 Mn. Careem's Super app provides various services like food, grocery, bike, pay, delivery, and other third-party services. However, ride-hailing business will be separated from the Careem Super App business and will be operated by Uber Technologies. Etisalat also made acquisitions in Subscription video-on-demand and cloud management services in 2022. Etisalat maintained a strong balance sheet position despite robust expansionary measures. Etisalat's margins will remain under pressure due to currency devaluation in Egypt, Pakistan, and Morocco as a result of rising inflation and economic uncertainties in the region. Thus, based on our analysis, we assign a HOLD rating on the stock.

Etisalat - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	23.6	23.4	22.5	21.8	20.3	21.5
P/B (x)	4.5	4.4	4.1	4.3	4.8	4.5
EV / EBITDA	8.1	7.9	7.9	7.9	8.6	8.5
Dividend yield	3.4%	3.4%	5.1%	3.4%	3.4%	3.4%

FABS estimate and Co Data

Etisalat - P&L

AED mm	1Q22	4Q22	1Q23F	YOY	QOQ	2022	2023F	Change
Revenue	13,331	13,134	12,978	-2.7%	-1.2%	52,434	51,774	-1.3%
Operating expenses	-8,265	-8,906	-8,241	-0.3%	-7.5%	-33,323	-33,032	-0.9%
Impairment	-234	-136	-247	5.5%	80.7%	-806	-1,035	28.4%
Share of results of associates and JVs	11	190	130	1081.9%	-31.7%	417	414	-0.8%
Operating profit before federal royalty	**4,843**	**4,282**	**4,620**	**-4.6%**	**7.9%**	**18,722**	**18,121**	**-3.2%**
Federal royalty	-1,427	-1,329	-1,402	-1.8%	5.5%	-5,771	-5,799	0.5%
Operating profit	**3,416**	**2,953**	**3,218**	**-5.8%**	**9.0%**	**12,951**	**12,322**	**-4.9%**
EBITDA	**6,801**	**6,042**	**6,505**	**-4.4%**	**7.7%**	**26,202**	**26,020**	**-0.7%**
Finance and other income	212	990	519	144.9%	-47.6%	2,001	2,330	16.5%
Finance and other costs	-485	-794	-779	60.7%	-2.0%	-2,674	-3,090	15.6%
Profit before tax	**3,143**	**3,148**	**2,959**	**-5.9%**	**-6.0%**	**12,278**	**11,562**	**-5.8%**
Income tax expenses	-392	-461	-429	9.6%	-7.0%	-1,752	-1,619	-7.6%
Profit for the period	**2,752**	**2,687**	**2,530**	**-8.1%**	**-5.8%**	**10,526**	**9,943**	**-5.5%**
Non-controlling interests	318	28	124	-60.9%	336.8%	518	497	-4.1%
Net Profit Attributable to Owners	**2,434**	**2,658**	**2,406**	**-1.2%**	**-9.5%**	**10,007**	**9,446**	**-5.6%**

FABS estimate & Co Data

Etisalat - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
EBITDA	25.6%	22.5%	24.8%	-82	232	24.7%	23.8%	-90
Operating profit	51.0%	46.0%	50.1%	-89	412	50.0%	50.3%	29
Net Profit	18.3%	20.2%	18.5%	28	-170	19.1%	18.2%	-84

FABS estimate & Co Data

1Q23 preview: Etihad Etisalat Company (Mobily)

Deleveraging and operational efficiency enhancement strategies to boost profit

12-m target price:	Stock rating:
SAR 46.00	**HOLD**

CMP (SAR): 43.70
Potential upside/(downside) (%): +5.3%

1Q23 Estimate

Etihad Etisalat (Mobily) is expected to report 35.8% YOY increase in net profit to SAR 433 Mn in 1Q23, mainly driven by a healthy growth expected in revenue partially offset by an estimated rise in operating expenses and finance cost. Total revenue is estimated to grow 5.0% YOY to SAR 4,003 Mn in 1Q23, owing to an increase in revenue from all business segments owing to a rise in the activation and subscription fees. While the cost of revenue is expected to rise 1.5% YOY to SAR 1,597 Mn in 1Q23. As a result, the gross profit is expected to grow 7.5% YOY to 2,406 Mn in 1Q23, with a gross profit margin of 60.1% in 1Q23. Selling and marketing expenses are estimated to grow 0.1% YOY to SAR 360 Mn in 1Q23 whereas general and administrative expenses are anticipated to rise 4.5% YOY to SAR 392 Mn resulting in an 2.4% YOY hike in operating expenses to SAR 753 Mn in 1Q23. Furthermore, other income is expected to decline 3.5% YOY to SAR 7 Mn in 1Q23 whereas depreciation and amortization cost is anticipated to grow 1.5% YOY to SAR 993 Mn in 1Q23. As a result, total operating profit is likely to grow 42.8% YOY to SAR 668 Mn in 1Q23. EBITDA is expected to rise 14.9% YOY to SAR 1,660 Mn in 1Q23 primarily due to the growth in operating profit. Moreover, finance expenses are anticipated to grow significantly from SAR 125 Mn in 1Q22 to SAR 201 Mn in 1Q23 due to higher benchmark rates. Zakat expenses are expected to rise 31.9% YOY to SAR 40 Mn in 1Q23.

2023 Forecast

Mobily's net profit is estimated to decline by 10.1% to SAR 1,490 Mn in 2023, driven by an expected rise in operating expenses and growth in finance cost partially offset by a marginal hike in revenue. Mobily’s revenue is anticipated to rise 5.1% to SAR 16,431 Mn in 2022. On the other hand, cost of sales is estimated to rise 7.0% to SAR 6,749 Mn in 2023. Consequently, the Gross Profit is expected to increase by 3.7% to SAR 9,712 Mn in 2023 with a gross profit margin of 59.0%. Selling & marketing expenses are expected to rise by 6.9% to SAR 1,564 Mn in 2023.. Additionally, general and administrative expenses are expected to grow 5.1% to SAR 1,712 Mn in 2023. Thus, operating expenses are anticipated to grow 6.0% to SAR 3,276 Mn in 2023. Depreciation and amortisation expense is expected to grow 6.0% to SAR 4,081 Mn in 2023. As a result, operating profit is expected to rise by 2.5% to SAR 2,370 Mn in 2023. EBITDA is forecasted to increase 4.7% to SAR 6,451 Mn in 2023 but the EBITDA margin is expected to decline by 14 bps to 39.2% in 2023. Financial is expected to rise 32.6% to SAR 805 Mn in 2023 while finance income is expected to decline 38.4% to SAR 28 Mn in 2023. In addition, zakat expenses are expected to decline by 15.0% to SAR 104 Mn in 2023.

4Q22 Outturn

Mobily reported a robust growth in net profit of 89.1% YOY to SAR 607 Mn in 4Q22 driven by a healthy growth in revenue along with a decline in operating expenses partially offset by a rise in finance cost. Mobily’s revenue rose 6.0% YOY to SAR 4,132 Mn in 4Q22 driven by strong growth in overall business segments. On the other hand, the cost of sales rose marginally 0.5% YOY to SAR 1,639 Mn in 4Q22 resulting in a 9.9% YOY growth in gross profit to SAR 2,492 Mn. The Company’s selling and marketing expenses declined 5.0% YOY to SAR 338 Mn in 4Q22 while whereas general and administrative expenses declined significantly 22.5% YOY to SAR 410 Mn owing to the efforts taken towards cost optimization by the company. Depreciation and amortization cost declined 4.8% YOY to SAR 956 Mn in 4Q22. Mobily recorded impairment reversals of SAR 25 Mn in 4Q22 as compared to SAR 105 Mn in 4Q21. As a result, operating profit grew significantly to SAR 791 Mn in 4Q22, up from

SAR 492 Mn in 4Q21. EBITDA rose 16.8% YOY to SAR 1,748 Mn in 4Q22 with an EBITDA margin of 42.3%. Finance cost rose 43.7% YOY to SAR 189 Mn in 4Q22 wile finance income rose from SAR 1 Mn in 4Q21 to SAR 25 Mn in 4Q22. Zakat expenses more than doubled from SAR 22 Mn in 4Q21 to SAR 46 Mn in 4Q22.

Target price and recommendation

We revised our rating on Mobily from BUY to HOLD with a revised target price of SAR 46.00. The stock price moved up 21.4% since our last rating on 20 January 2023. Mobily registered its highest revenue and net profit in the last nine years. The strong growth in financials was primarily driven by rise in subscriber base, improved customer experience, a strategic expansion plan along with efforts undertaken by the company to increase its operating efficiency through the year. Mobily reduced its leverage by paying off more than SAR 1.2 Bn of its debt in the last twelve months resulting in a reduction in net debt to EBITDA ratio to 1.66x in 2022 as compared to 2.17x in 2021. The company incurred a total capex of SAR 2.1 Bn in 2022 spent towards rollout of 5G network, investments in IoT, and deployment of fibre optic cables to increase FTTH coverage. Mobily's operating cash flow increased 16.6% to SAR 4,067 Mn in 2022 owing to solid growth in EBTIDA. Furthermore, Mobily in partnership with Ericsson launched Mobily Pay in KSA which provides services like money transfer, contactless painting, bill payment, and digital card payments and also signed an MOU with Ericsson for expanding the cutting-edge 5G use cases. In addition, Mobily in collaboration with Cisco will build the largest IoT Cloud Platform in the region. The company aims to diversify its revenue streams and digitize its business to accelerate KSA's Vision 2030 goals. In addition, the company distributed a total dividend of SAR 885.5 Mn in 2022 amounting to SAR 1.15 per share 2022. Thus, considering the above-mentioned factors, we assign a HOLD rating on our stock.

Mobily – Relative Valuation

(At CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	NA	NA	42.96	31.40	20.31	22.58
P/B (x)	2.43	2.45	2.33	2.21	2.14	2.06
EV / EBITDA	10.12	9.00	8.23	7.58	6.56	6.16
Dividend yield	NA	Na	1.1%	1.9%	2.6%	3.1%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Services revenues	3,811	4,132	4,003	5.0%	-3.1%	15,669	16,461	5.1%
Cost of services	-1,573	-1,639	-1,597	1.5%	-2.6%	-6,306	-6,749	7.0%
Gross profit	**2,238**	**2,492**	**2,406**	**7.5%**	**-3.5%**	**9,363**	**9,712**	**3.7%**
Selling and marketing expenses	-360	-338	-360	0.1%	6.5%	-1,463	-1,564	6.9%
General & administrative expenses	-375	-410	-392	4.5%	-4.2%	-1,628	-1,712	5.1%
Operating expenses	**-735**	**-748**	**-753**	**2.4%**	**0.6%**	**-3,091**	**-3,276**	**6.0%**
Other income	7	-22	7	-3.5%	-131.8%	1	15	902.7%
Depreciation and amortisation	-978	-956	-993	1.5%	3.8%	-3,851	-4,081	6.0%
Impairment loss on acc receivable	-64	25	0	NA	NA	-112	0	NA
Operating Profit	**468**	**791**	**668**	**42.8%**	**-15.6%**	**2,312**	**2,370**	**2.5%**
EBITDA	**1,445**	**1,748**	**1,660**	**14.9%**	**-5.0%**	**6,162**	**6,451**	**4.7%**
Share in the loss of an associate	2	26	0	-100.0%	-100.0%	28	0	NA
Finance expenses	-125	-189	-201	61.3%	6.3%	-607	-805	32.6%
Finance income	5	25	7	53.4%	-71.4%	46	28	-38.4%
Profit before zakat	**350**	**652**	**474**	**35.5%**	**-27.4%**	**1,779**	**1,594**	**-10.4%**
Zakat	-31	-46	-40	31.9%	-12.0%	-122	-104	-15.0%
Profit attributable	**319**	**607**	**433**	**35.8%**	**-28.6%**	**1,657**	**1,490**	**-10.1%**

FABS estimate & Co Data

Mobily - Margins

	1Q22	4Q22	1Q23F	YOY	QOQ Ch	2022	2023F	Change
Gross profit	58.7%	60.3%	60.1%	139	-22	59.8%	59.0%	-76
EBITDA	37.9%	42.3%	41.5%	355	-83	39.3%	39.2%	-14
Operating profit	12.3%	19.2%	16.7%	441	-247	14.8%	14.4%	-35
Net profit	8.4%	14.7%	10.8%	245	-386	10.6%	9.1%	-152

FABS estimate & Co Data

1Q23 preview: Saudi Telecom Company

Abudant liquidity and stable margins help in business expansion

CMP (SAR): 42.05
Potential upside/(downside) (%): +26.91%

12-m target price:	Stock rating:
SAR 54.00	**BUY**

1Q23 Estimate

Saudi Telecom Company (STC) is estimated to report an increase 6.4% YOY in net profit to SAR 3,231 Mn in 1Q23. The increase in net profit is mainly driven by an anticipated growth in sales partially offset by higher direct cost and increase in selling and general expenses. Net sale is anticipated to rise 3.3% YOY to SAR 17,546 Mn in 1Q23 mainly driven by an ongoing strategic expansion plans and investments by the Company. Direct cost is anticipated to grow 4.1% YOY to SAR 8,159 Mn in 1Q23. Thus, gross profit is expected to grow 2.6% YOY to SAR 9,387 Mn in 1Q23 with a decline in gross profit margin from 53.9% in 1Q22 to 53.5% in 1Q23. Selling and overhead expenses are expected to increase 7.6% YOY to SAR 1,474 Mn in 1Q23. G&A expense is likely to increase 4.9% YOY to SAR 1,553 Mn in 1Q23. Thus, EBITDA is expected to grow 1.0% YOY to SAR 6,360 Mn in 1Q23. EBITDA margin is expected to decline 83 bps YOY to 36.3% in 1Q23. EBIT is expected to grow marginally from SAR 3,824 Mn in 1Q22 to SAR 3,830 Mn in 1Q23. Depreciation & amortisation expense is expected to increase 2.2% YOY to SAR 2,530 Mn in 1Q23. The other income/expenses are expected to decline significantly to SAR 169 Mn in 1Q23, as compared to SAR 362 Mn in 1Q22. The finance income is expected to increase 36.2% YOY to SAR 149 Mn in 1Q23. Finance charges are expected to increase from SAR 152 Mn in 1Q22 to SAR 219 Mn in 1Q23. As a result, the profit before zakat is expected to increase 5.0% YOY to SAR 3,591 Mn in 1Q23. Zakat charges are likely to decline 3.1% YOY to SAR 287 Mn in 1Q23. Profit before NCI is expected to increase 5.8% YOY to SAR 3,303 Mn in 1Q23. NCI is expected to decline from SAR 87 Mn in 1Q22 to SAR 73 Mn in 1Q23.

2023 Forecast

Saudi Telecom Company's net profit is estimated to increase 7.5% to SAR 13,083 Mn in 2023. Growth in net profit is mainly attributable due to the anticipated rise in revenue partially offset by an increase in direct cost and rise in selling and general expenses. Net sale is anticipated to grow 5.2% to SAR 70,945 Mn in 2023. Direct costs are expected to increase 5.1% to reach SAR 31,570 Mn in 2023. Selling and overhead expense are likely to increase 16.1% YOY to SAR 7,094 Mn in 2023 while general and administrative expenses are expected to grow 17.2% to SAR 7,272 Mn in 2023. EBITDA is anticipated to decline from SAR 25,079 Mn in 2022 to SAR 25,008 Mn in 2023. Thus, EBITDA margin is also anticipated to decline from 37.2% in 2022 to 35.3% in 2023. Depreciation and amortization expenses are expected to rise marginally 1.3% to SAR 10,121 Mn in 2023. As a result, EBIT is expected to decline from SAR 15,088 Mn in 2022 to SAR 14,887 Mn in 2023. Finance income is expected to decrease from SAR 602 Mn in 2022 to SAR 438 Mn in 2023. While finance Charges are likely to decrease 13.3% to SAR 604 Mn in 2023. Profit before zakat is expected to increase 7.1% to SAR 14,430 Mn in 2023. Zakat charges are anticipated to decline 2.4% to SAR 1,057 Mn in 2023. As a result, Profit before NCI is likely to increase 8.0% YOY to SAR 13,373 Mn in 2023. Share to NCI is expected to rise from SAR 216 Mn in 2022 to SAR 290 Mn in 2023.

4Q22 Outturn

STC's sales increased 5.6% YOY to SAR 17,034 Mn in 4Q22 mainly due to the improved growth in the overall products & services, and increase in the STC subscribers. Furthermore, direct costs increased 5.4% YOY to SAR 8,005 Mn in 4Q22. As a result, the gross profit grew 5.7% YOY to SAR 9,029 Mn in 4Q22 with an increase in gross profit margin from 52.9% in 4Q21 to 53.0% in 4Q22. Selling and marketing expenses increased drastically from SAR 1,128 Mn in 4Q21 to SAR 1,814 Mn in 4Q22. General & admin expenses increased 5.4% YOY to SAR 1,713 Mn in 4Q22. Depreciation and amortization marginally declined 1.2% YOY to SAR 2,533 Mn in 4Q22. Thus, operating profit declined

7.9% YOY to SAR 2,969 Mn in 4Q22. Finance income increased significantly from SAR 100 Mn in 4Q21 to SAR 253 Mn in 4Q22, whereas the finance charges increased 6.1% YOY to SAR 186 Mn in 4Q22. Zakat and income tax declined 22.4% YOY to SAR 220 Mn in 4Q22. Share to NCI also decreased from SAR 141 Mn in 4Q21 to SAR 18 Mn in 4Q22. Thus, the net profit rose 4.1% YOY to SAR 2,722 Mn in 4Q22 compared to SAR 2,614 Mn in 4Q21.

Target price and recommendation

We maintain our BUY rating on Saudi Telecom Company with a target price of SAR 54.00. STC reported consistent performance in the top line across all business categories and robust growth in net profit due to its integrated approach and investments in the value chain. STC recently signed a non-binding agreement with the Public Investment Fund (PIF) to acquire a 51% stake in TAWAL for SAR 21.9 Bn. The agreement is in line with the Company's strategy to grow and expand by retaining a stake in value-added strategic assets across subsidiaries in addition to benefiting from the return on assets in expansion and capital recycling. The telecom companies in KSA are likely to benefit from the low broadband penetration. STC FTTH and FWA subscribers rose 1.5% and 20.2% in 2022. Further, the Company's enterprises segment revenue rose 8.9% in 2022 supported by rapid technology development and digital transformation across KSA. In addition, STC is expected to pay stable dividend of SAR 0.4 per share per quarter until FY2024 with a potential upside of a special dividend if any announced by the company. The company maintains a strong balance sheet, adequate liquidity, low leverage and stable credit rating further aid in its internal or external expansion through internal accruals. 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)	19.74	19.95	19.35	18.81	17.48	16.26
P/B (x)	3.25	3.44	3.33	3.07	2.89	2.71
EV/EBITDA	10.10	10.02	9.22	9.10	8.41	8.00
Dividend yield	5.64%	3.76%	4.70%	3.76%	3.76%	3.76%

FABS Estimates & Co Data

STC - P&L

SAR mm	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Sales	16,991	17,034	17,546	3.3%	3.0%	67,432	70,945	5.2%
Direct costs	-7,841	-8,005	-8,159	4.1%	1.9%	-30,038	-31,570	5.1%
Gross profit	**9,150**	**9,029**	**9,387**	**2.6%**	**4.0%**	**37,393**	**39,374**	**5.3%**
Selling & overhead expenses	-1,370	-1,814	-1,474	7.6%	-18.7%	-6,110	-7,094	16.1%
General & admin Exp.	-1,481	-1,713	-1,553	4.9%	-9.4%	-6,204	-7,272	17.2%
EBITDA	**6,300**	**5,502**	**6,360**	**1.0%**	**15.6%**	**25,079**	**25,008**	**-0.3%**
Depreciation & Amortization	-2,476	-2,533	-2,530	2.2%	-0.1%	-9,990	-10,121	1.3%
Operating profit (EBIT)	**3,824**	**2,969**	**3,830**	**0.2%**	**29.0%**	**15,088**	**14,887**	**-1.3%**
Other income/(expenses)	-362	-76	-169	-53.3%	122.0%	-1,524	-273	-82.1%
Finance Income	109	253	149	36.2%	-41.1%	602	421	-30.1%
Financial charges	-152	-186	-219	44.0%	18.0%	-697	-604	-13.3%
Profit before zakat	**3,419**	**2,960**	**3,591**	**5.0%**	**21.3%**	**13,470**	**14,430**	**7.1%**
Zakat	-296	-220	-287	-3.1%	30.3%	-1,083	-1,057	-2.4%
Profit before NCI	**3,122**	**2,739**	**3,303**	**5.8%**	**20.6%**	**12,387**	**13,373**	**8.0%**
NCI	-87	-18	-73	NM	NM	-216	-290	34.0%
Profit attributable	**3,035**	**2,722**	**3,231**	**6.4%**	**18.7%**	**12,171**	**13,083**	**7.5%**

FABS estimate & Co Data

STC- Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Gross profit	53.9%	53.0%	53.5%	-35	50	55.5%	55.5%	5
EBITDA	37.1%	32.3%	36.3%	-83	395	37.2%	35.3%	-194
Operating profit	22.5%	17.4%	21.8%	-68	440	22.4%	21.0%	-139
Net profit	17.9%	16.0%	18.4%	55	244	18.0%	18.4%	39

FABS estimate & Co Data

1Q22 preview: Telecom Egypt

Growing customer base and strong revenue growth to drive profitability

	12-m target price:	Stock rating:
CMP (EGP): 24.80 Potential gain/(downside) (%): +29.0%	**EGP 32.00**	**BUY**

1Q23 Estimate

Telecom Egypt (ETEL) is estimated to report a significant increase in net profit from EGP 1,366 Mn in 1Q22 to EGP 2,519 Mn in 1Q23 owing to the anticipated growth in the retail and wholesale revenue segments and growth in the customer base across the board. Total revenue is estimated to rise 12.9% YOY to EGP 10.6 Bn in 1Q23. While the operating cost is anticipated to rise from EGP 5.8 Bn in 1Q22 to EGP 6.2 Bn in 1Q23. As a result, gross profit is expected to rise 22.7% YOY to EGP 4.5 Bn in 1Q23, with a gross profit margin of 41.9% in 1Q23. Further, selling and overhead expenses are anticipated to increase 9.7% YOY to EGP 1,967 Mn in 1Q23 from EGP 1,793 Mn in 1Q22. Consequently, the operating profit is expected to incline 34.9% YOY to EGP 2,515 Mn in 1Q23. Net finance cost is likely to increase to EGP 578 Mn in 1Q23 as compared to EGP 309 Mn in 1Q22. Resultantly, profit before zakat is expected to incline 40.0% YOY to EGP 2,622 Mn in 1Q23. Zakat expenses are anticipated to significantly fall to EGP 98 Mn in 1Q23 as compared to EGP 506 Mn in 1Q22.

2023 Forecast

We forecast Telecom Egypt's net profit to incline 6.9% to EGP 9,820 Mn in 2023 mainly due to the higher gross profit partially offset by the increase in net finance cost and zakat expense. Operating revenue is expected to increase 13.7% to EGP 50.3 Bn in 2023 mainly due to an expected rise in the mobile segment's customer base, particularly the fixed voice and broadband services and growing wholesale segment. Whereas, operating cost is anticipated to rise 15.0% to EGP 29.9 Bn in 2023. Thus, gross profit is anticipated to rise 11.8% to EGP 20.4 Bn in 2023. Selling and overhead expenses are estimated to rise 18.3% to EGP 9,561 Mn, owing to an expected increase in salaries and wages, as well as agent commissions. Resultantly, the operating profit is expected to increase 10.8% to EGP 11,121 Mn in 2023. Net finance cost is likely to increase to EGP 2,312 Mn in 2023 as compared to EGP 2,078 Mn in 2022. Therefore, profit before zakat is anticipated to increase 8.5% to EGP 11,558 Mn in 2023. Zakat expenses are anticipated to increase to EGP 1,734 Mn in 2023 as compared to EGP 1,467 Mn in 2022.

4Q22 Outturn

Net profit increased 30.0% YOY to EGP 3,009 Mn in 4Q22 mainly due to growth in revenue, reversal of FX loss and tax reversal partially offset by higher operating expense, D&A expense, higher ECL provision and lower investment income from Vodafone. Top line grew 12.0% YOY to EGP 11,999 Mn in 4Q22 driven by growth in retail partially offset by a decline in wholesale revenue. The growth in retail revenue is driven by an increase in data and enterprise revenue. Enterprise revenue is driven by one-off growth in complementary access revenue. The wholesale revenue declined 8.1% YOY due to decline in international customers & networks revenue partially offset by increase in domestic and international carriers affairs revenue. On the other hand, the operating cost rose 14.0% YOY to EGP 7,460 Mn in 4Q22 due to higher call costs and other expenses. The rise in operational expenses was mostly attributable to a 19.0% increase in overall call costs due to higher IDD and mobile voice revenues. Thus, gross profit increased 8.9% YOY to EGP 4,540 Mn in 4Q22. The selling and overhead expenses rose 11.2% YOY to EGP 2,379 Mn in 4Q22 due to an increase in salaries and wages by 9.0% YOY and the agent's commission, advertising and marketing expenses. Other operating revenue increased significantly to EGP 466 Mn in 4Q22 from EGP 137 Mn in 4Q21 due to increase in provision of ECL allowance. Resultantly, operating profit declined 10.4% YOY to EGP 1,695 Mn in 4Q22. Profit before zakat of the company also decreased 21.3% YOY to EGP 2,295 Mn in 4Q22 due to decline in in income from investment in Vodafone and increase in net finance cost. Zakat expense reversed from an expense of EGP 599 in 4Q21 to an income of EGP 719 Mn in 4Q22.

Target price and recommendation

We maintain our BUY rating on Telecom Egypt with a target price of EGP 32.00. ETEL reported strong revenue growth of 19.4% in 2022 due to the increase in revenue from the retail and wholesale segment. The home and consumer category expanded 19.1% in 2022, accounting for nearly 73% of retail growth. This was mostly due to a 21% increase in data as a result of a growing customer base and high ARPUs. Meanwhile, the EBITDA margin dropped marginally from 39.4% in 2021 to 39.0% in 2022, owing to record inflation in Egypt impacting the costs. The customer base grew across all segments, wherein fixed voice subscribers reached 11.6 Mn, fixed broadband reached 8.8 Mn subscribers, and mobile subscribers reached 12.5 Mn in 2022. Moreover, the company is targeting to achieve double-digit revenue growth, EBITDA margin in the mid-to-high thirties, and higher operating cashflows in FY2023. ETEL signed a national roaming pact with Orange Egypt which will start at end of 2022 and is expected to drive cost savings of EGP 1 Bn starting from 2023. In addition, the Company has announced its first landing of the 2Africa subsea cable at Ras Ghareb in the Red Sea, and another landing is anticipated to be in Port Said in the future, as a part of the 2Africa consortium. Furthermore, the company has announced that the National Telecom Regulatory Authority (NTRA) acceptance of the offer to have an additional 5MHz spectrum in the 1800 MHz band using the FDD technology. This would enable the Company to boost its client base and ARPU, allowing it to expand its home and consumer segment. Hence, based on our analysis we maintain a BUY rating for the stock.

Telecom Egypt –Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	16.54	11.81	10.74	5.72	4.61	4.31
P/B (x)	1.31	1.20	1.09	0.96	0.91	0.78
EV / EBITDA	9.42	9.84	5.45	3.81	3.84	3.49
Dividend yield	1.0%	1.0%	2.0%	4.0%	3.0%	4.0%

(at CMP)

Telecom Egypt-P&L

EGP mm	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Operating Revenue	9,417	11,999	10,635	12.9%	-11.4%	44,273	50,319	13.7%
Operating costs	-5,790	-7,460	-6,184	6.8%	-17.1%	-26,038	-29,940	15.0%
Gross profit	**3,627**	**4,540**	**4,451**	**22.7%**	**-2.0%**	**18,235**	**20,379**	**11.8%**
Selling & overhead expenses	-1,793	-2,379	-1,967	9.7%	-17.3%	-8,083	-9,561	18.3%
Net operating revenue (others)	31	-466	32	3.2%	-106.8%	-115	302	-362.7%
Operating profit	**1,865**	**1,695**	**2,515**	**34.9%**	**48.4%**	**10,037**	**11,121**	**10.8%**
Income from Associates	317	647	684	115.7%	5.8%	2,695	2,749	2.0%
Net Finance income/(cost)	-309	-46	-578	87.0%	1142.9%	-2,078	-2,312	11.3%
Profit before zakat	**1,873**	**2,295**	**2,622**	**40.0%**	**14.2%**	**10,655**	**11,558**	**8.5%**
Zakat	-506	719	-98	-80.6%	-113.7%	-1,467	-1,734	18.2%
Profit before N-C interests	**1,367**	**3,014**	**2,523**	**84.6%**	**-16.3%**	**9,187**	**9,824**	**6.9%**
Non-controlling interests	-1	-3	-4	510.3%	54.7%	-5	-4	-21.9%
Profit attributable	**1,366**	**3,012**	**2,519**	**84.4%**	**-16.4%**	**9,182**	**9,820**	**6.9%**

FABS estimate & Co Data

Telecom Egypt - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	38.5%	37.8%	41.9%	333	402	41.2%	40.5%	-1.7%
EBITDA	38.0%	29.8%	43.0%	497	1316	39.0%	37.8%	-3.0%
Operating profit	19.8%	14.1%	23.7%	385	953	22.7%	22.1%	-2.5%
Net profit	14.5%	25.1%	23.7%	918	-141	20.7%	19.5%	-5.9%

FABS estimate & Co Data

1Q23 preview: Emirates Integrated Telecommunications

Technology advancement and investments in 5G and fibre boost profitability

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

CMP(AED):5.06
Potential upside/(downside) (%): +46.24%

1Q23 Estimate

Emirates Integrated Telecommunications (DU) net profit is expected to increase 16.6% YOY to AED 363 Mn in 1Q23 mainly due to an expected increase in revenue and EBITDA partially offset by an increase in direct costs and federal royalty. Net revenue rose 6.6% YOY to AED 3,334 Mn in 1Q23. The increase in net revenue will mainly be supported by the Company's focus on 5G network roll-out, fiber development and an increase in subscribers. Costs are expected to increase 6.6% YOY to AED 1,894 Mn in 1Q23. While marketing expenses are expected to decrease 3.1% YOY to AED 53 Mn in 1Q23. Thus, EBITDA is expected to increase 6.5% YOY to AED 1,380 Mn in 1Q23 driven by higher revenue and cost control strategy. EBITDA margin is anticipated to rise 17 bps YOY to 41.6% in 1Q23. Depreciation expense is expected to increase 1.4% YOY to AED 521 Mn in 1Q23. As a result, the operating profit is expected to increase 10.8% YOY to AED 866 Mn in 1Q23. Operating profit margin is expected to rise from 25.0% in 1Q22 to 26.0% in 1Q23. Net finance expenses are expected to decline 11.2% YOY to AED 13 Mn in 1Q23. Federal Royalty is expected to increase 5.6% YOY to AED 450 Mn in 1Q23.

2023 Forecast

DU's net profit is expected to increase 7.4% to AED 1,310 Mn in 2023. The Revenue is expected to increase 3.7% to AED 13,222 Mn in 2023. The Costs are expected to increase 3.8% to AED 7,471 Mn in 2023. The Marketing Expense is expected to increase 3.2% to AED 238 Mn in 2023. Consequently, the EBITDA is expected to increase 3.7% to AED 5,514 Mn in 2023. Depreciation and amortization expenses are anticipated to decline 1.3% to AED 2,083 Mn in 2023. The Operating Profit is likely to rise 7.1% to AED 3,431 Mn in 2023. Net Finance Expense is likely to increase 17.3% to AED 70 Mn in 2023. As a result, Pre-royalty Profit is expected to increase 7.3% to AED 3,181 Mn in 2023. Federal Royalty is expected to surge 7.3% to AED 1,871 Mn in 2023.

4Q22 Outturn

DU has reported revenue growth 8.0% YOY to AED 3,315 Mn in 4Q22 led by a strong increase in fixed services and mobile services revenue partially offset by a decrease in the wholesale segment. Fixed services revenue increased 20.2% YOY to AED 916 Mn in 4Q22 due to healthy demand from consumer and enterprise services. Similarly, mobile services revenue grew 7.6% YOY to AED 1,496 Mn in 4Q22 supported by growth in post-paid services due to an increase in population and the launch of unlimited data plans while prepaid revenue stood stable. Other Segment revenue rose marginally 1.6% YOY to AED 903 Mn in 4Q22 mainly due to a decrease in wholesale activities. DU's mobile customer base increased 8.9% YOY to 7.9 Mn subscribers in 4Q22 supported by strong net additions of 494,000 as compared to 3Q22. On the other hand, the prepaid customer base witnessed a strong addition of 441,000 additions to 6.4 Mn subscribers in 4Q22 mainly due to growth in tourism activity. DU also attracted 27,000 subscribers in the fixed customer base during 4Q22 with a total count of 537,000 subscribers owing to fiber network footprint. The Company's wholesale revenue decreased 4.5% YOY to AED 464 Mn in 4Q22 owing to supply chain disruptions, resulting in a reduction in handsets revenue. Other revenue increased 17.6% YOY to AED 243 Mn in 4Q22 due to robust growth in ICT services. Direct cost increased marginally 0.3% YOY to AED 1,859 Mn in 4Q22 due to cost containment measures such as resource optimization, contract renegotiation, and automation. However, the marketing expenses increased significantly 44.8% YOY AED 95 Mn in 4Q22. Also, the Company recorded robust EBITDA growth of 18.3% YOY to AED 1,361 Mn in 4Q22 leading to a 358 bps YOY growth in EBITDA margin to 41.0%. Depreciation and amortization expenses decreased 4.8% YOY to AED 565 Mn in 4Q22. As a result, operating profit grew from AED 611 Mn in 4Q21 to AED 795 Mn in 4Q22. DU's net finance cost decreased from AED 22 Mn in 4Q21 to AED 7 Mn in 4Q22 owing to the repayment of debt. As a result of the company's recorded settlements of AED 130 Mn against legal disputes in 4Q21, other income reduced from AED 130 Mn in 4Q21 to AED 1 Mn in 4Q22. Federal royalty also climbed 23.7% YOY to AED 444 Mn in the 4Q22.

Target price and rating

We maintain our BUY rating on DU with a target price of AED 7.40. The Company reported robust growth in its subscriber base in 2022. Mobile subscribers increased 8.9% YOY to AED 7.9 Mn in 4Q22. We further expect the Company's mobile subscribers to grow mainly due to rise in tourism activity and population growth. Whereas fixed subscribers rose 37.3% YOY to 537,000 driven by commercial initiatives across various product categories. We anticipate that the company will continue to gain from the tourism sector's recovery and new product introductions, while EBITDA margins are anticipated to increase as a result of revenue growth and expenses optimization. DU focuses on enhancing its consumer offering further diversifying its top line. It plans to use a digital-first strategy for its product line, which will not only enhance cost savings but also provide a solid customer experience. Recently the company recently announced that it has inked an agreement with Cisco to accelerate its digital transformation strategy that will aid DU's shift to become an innovation platform while also exploring new revenue sources. DU also partnered with Dubai authorities to support their digital transformation strategy by operating state-of-the-art drone solutions. DU and e& have signed a Master Developer Agreement (MDA) with UAE-based Aldar Properties to deliver advanced and resilient telecom services. DU boasts a healthy balance sheet position with a cash balance of AED 4.5 Bn in 2022. The cash generation ability is further expected to boost as the 5G coverage almost covers 94% of the population. DU unlimited power plans continue to attract and retain the existing mobile customer base. We expect the company to generate healthy free cash flow and higher investment. Considering all these factors, we assign a BUY rating on the stock.

DU – Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	12.9	13.1	15.7	20.6	18.6	17.3
P/B (x)	2.7	2.6	2.6	2.7	2.6	2.6
EV/EBITDA	3.7	3.5	4.3	4.5	4.0	3.8
Dividend yield	7.0%	6.8%	5.6%	4.2%	4.8%	5.0%

FABS Estimates & Co Data

DU - P&L

AED mm	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Revenue	3,128	3,315	3,334	6.6%	0.6%	12,754	13,222	3.7%
Costs (ex D&A, marketing exp)	-1,777	-1,859	-1,894	6.6%	1.9%	-7,194	-7,471	3.8%
Marketing expense	-55	-95	-53	-3.1%	-43.9%	-246	-238	-3.2%
EBITDA	**1,296**	**1,361**	**1,387**	**7.0%**	**1.9%**	**5,315**	**5,514**	3.7%
Dep & Amort and Impairment	-514	-565	-521	1.4%	-7.9%	-2,112	-2,083	-1.4%
Operating profit	**782**	**795**	**866**	**10.8%**	**8.9%**	**3,203**	**3,431**	7.1%
Financing income/expense	-15	-7	-13	-11.2%	85.5%	-59	-70	17.3%
Other income/expense	0	1	0	NM	NM	2	0	NM
Share of profit of investments	-3	-2	0	NM	NM	-8	0	NM
Gain on disposal of investment	0	0	0	NM	NM	0	0	NM
Expected Credit Loss (net off recoveries)	-27	-58	-40	47.3%	-30.6%	-174	-180	3.7%
Pre-royalty profit	**738**	**730**	**813**	**10.2%**	**11.4%**	**2,963**	**3,181**	7.3%
Federal Royalty	-426	-444	-450	5.6%	1.5%	-1,744	-1,871	7.3%
Net profit	**311**	**286**	**363**	**16.6%**	**26.7%**	**1,220**	**1,310**	**7.4%**

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DU - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	43.2%	43.9%	43.2%	1	-72	43.6%	43.5%	-10
EBITDA	41.4%	41.0%	41.6%	17	55	41.7%	41.7%	3
Operating profit	25.0%	24.0%	26.0%	98	199	25.1%	25.9%	84
Net Profit	9.9%	8.6%	10.9%	93	225	9.6%	9.9%	34

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1Q23 preview: Al Yah Satellite Communications Co

Robust contracted revenues to drive profitability

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

CMP(AED):2.55
Potential upside (%): +37.25%

1Q23 Estimate

Al Yah Satellite Communications (Al Yahsat/the group) Net profit is expected to grow 5.3% YOY to USD 21.2 Mn in 1Q23. The growth in net profit is primarily driven by a healthy growth in revenue and a positive net finance income partially offset by a hike in operating expenses. The company's revenue is forecasted to grow 3.4% YOY to 102.1 Mn in 1Q23. Al Yahsat's revenue is likely to improve due to healthy growth in the overall operating segment with strategic expansion plans and recurring revenue from the multiple contracts with the UAE government. The group's cost of revenue is expected to grow marginally 1.4% YOY to USD 10.2 Mn in 1Q23. Administrative expenses are anticipated to grow 5.1% YOY to USD 32.7 Mn in 1Q2. On the other hand, other income is anticipated to decline 4.6% YOY to USD 0.5 Mn in 1Q23. Thus, EBITDA is forecasted to grow 2.7% YOY to USD 59.7 Mn in 1Q23. Depreciation expenses are expected to increase marginally 2.7% YOY to USD 36.9 Mn in 1Q23. As a result, operating income is likely to increase 2.8% YOY to USD 22.8 Mn in 1Q23. Furthermore, the net finance cost is anticipated to turn positive to USD 0.3 Mn in 1Q23 as compared to negative 0.7 Mn in 1Q22. Share of associate and joint venture is expected to reach USD 2.2 Mn in 1Q23 whereas income tax charges are estimated to increase 53.2% YOY to USD 0.1 Mn in 1Q23. Share of loss attributed to non-controlling interest holders is anticipated to decrease significantly from USD 1.5 Mn in 1Q22 to USD 0.25 Mn in 1Q23.

2023 Forecast

Al Yahsat is expected to record a 56.2% growth in net profit to USD 102.4 Mn in 2023 driven by an expected marginal growth in revenue partially offset by an estimated hike in operating expenses and net finance cost. The group's revenue is expected to grow 2.8% to USD 444.6 Mn in 2023. Consequently, the cost of revenue is estimated to increase 3.1% to USD 49.8 Mn in 2023, resulting in a 2.8% YOY growth in gross profit to USD 394.9 Mn. Administrative expenses are expected to rise 6.6% to USD 139.0 Mn in 2023 due to an expected hike in staff costs and other operating expenses. Other income is anticipated to decline 19.8% to USD 3.1 Mn in 2023. Thus, EBITDA is estimated to grow marginally 0.5% to USD 259.0 Mn in 2023. Depreciation charges are estimated to increase marginally 2.1% to USD 147.4 Mn in 2023. As a result, operating income is expected to decline 2.8% to USD 111.6 Mn in 2023. Net finance cost is expected to increase significantly from USD 1.09 Mn in 2022 to USD 5.18 Mn in 2023 mainly due to the increase in interest expense. The share of associates and joint ventures is expected to reach USD 10.6 Mn in 2023. Income tax charges are estimated to increase from SAR to USD 0.3 Mn in 2022.

4Q22 Outturn

Al Yahsat's revenue decreased 4.3% YOY to USD 117.9 Mn in 4Q22 owing to a decline in revenue across Data Solutions and Mobility Solutions Segment somewhat offset by an increase in revenue from the managed solutions and infrastructure segment. The infrastructure segment contributed 50.1% to the total revenue and increased 4.7% YOY to USD 59.5 Mn in 4Q22 due to a rise in the capacity services agreement revenue as per the contractual indexation clause. Revenue from Mobility Solutions and Data Solutions decreased 17.8% YOY and 37.0% respectively in 4Q22 owing to lower equipment sales, expiry of capacity leasing arrangement with Eutelsat, and lower enterprise sales offset by an increase in subscriber revenue. However, Managed Solutions revenue grew 8.0% YOY to USD 24.1 Mn in 4Q22. The company's cost of sales declined from USD 22.9 Mn to USD 17.9 Mn in 4Q22 whereas the gross profit margin rose from 81.4% in 4Q21 to 84.8% in 4Q22. Al Yahsat's administrative expenses increased 6.4% YOY 35.6 Mn in 4Q22. Other income stood at USD 2.3 Mn in 4Q22 as compared to USD 0.6 Mn in 4Q21. As a result, EBITDA marginally declined from USD 69.4 Mn in 4Q21 to USD 68.7 Mn in 4Q22. However, the EBITDA margin rose from 56.3% in 4Q21 to 58.3% in 4Q22 driven by a decline in cost of sales and growth in other income. Thus, Operating profit increased 6.9% YOY to USD 33.1 Mn in 4Q22. Net turned positive in 4Q22 to USD 0.4 Mn as compared to negative 2.5 Mn in 4Q21. Loss on share of equity investments declined from USD 3.4 Mn in 4Q21 to USD 3.3 Mn in 4Q22. Loss attributable to non-controlling interest holders decreased from USD 1.6 Mn in 4Q21 to USD 0.3 Mn in 4Q22 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 recorded a healthy growth in net profit of 14.9% YOY to USD 30.4 Mn in 4Q22. Al Yahsat plays an important role in developing UAE's space sector. The company expanded its scope of collaboration with the UAE government and now offers end-to-end managed solutions. 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. Al Yahsat plans to launch the Thaurya-4 NGS satellite in 2024 and another 2 satellites Al Yah 4 and Al Yah 5. Al Yahsat aims to diversify its commercial business in verticals like oil and gas, health, maritime, and education. The Company's balance sheet is positively geared with a revenue backlog of AED 7.3 Bn as of 2022 whereas the net debt to capital ratio stood at negative 0.3% in 4Q22 driven by advanced payments from the government for the T4-NGS program. The Company also granted USD 30 Mn for procurement of T4-NGS program. Al Yahsat incurred a total capex of USD 131 Mn in 2022 and further expects to incur USD 155-175 Mn in 2023. ALYAHSAT outlook stays strong with predictable contracted future investments of USD 2.0 Bn while two UAE government contracts make up for more than 90% of contracted future revenues. Al Yahsat generated a strong cash flow of USD 225 Mn in 2022 with a conversion ratio of 95.4%. The company is expected to pay a total dividend of 16.12 fils per share for the year ending 2022 leading to dividend yield of 6.3% in 2022. Thus, based on our analysis, we assign a 'BUY' rating on the stock.

Al Yahsat – Relative Valuation

(at CMP)	**2020**	**2021**	**2022**	**2023F**
P/E (x)	NA	24.30	25.86	16.55
P/B (x)	NA	2.01	1.99	2.01
EV/EBITDA	NA	7.92	6.79	6.84
Dividend yield	NA	6.2%	6.3%	6.4%

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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)	**1Q22**	**4Q22**	**1Q23F**	**YOY Ch**	**QOQ Ch**	**2022**	**2023F**	**Change**
Revenue	98,695	117,956	102,047	3.4%	-13.5%	432,540	444,750	2.8%
Cost of revenue	-10,059	-17,959	-10,205	1.4%	-43.2%	-48,296	-49,812	3.1%
Gross Profit	**88,636**	**99,997**	**91,842**	**3.6%**	**-8.2%**	**384,244**	**394,938**	**2.8%**
Administrative Expenses	-31,058	-33,561	-32,655	5.1%	-2.7%	-130,448	-139,011	6.6%
Other Income	535	2,286	510	-4.6%	-77.7%	3,884	3,113	-19.8%
EBITDA	**58,113**	**68,722**	**59,698**	**2.7%**	**-13.1%**	**257,680**	**259,040**	**0.5%**
Depreciation	-35,889	-36,428	-36,858	2.7%	1.2%	-144,471	-147,434	2.1%
Operating Profit	**22,224**	**33,078**	**22,839**	**2.8%**	**-31.0%**	**114,793**	**111,606**	**-2.8%**
Net Finance Cost	-742	401	306	NM	-23.7%	-1,098	-5,178	371.6%
Share of results	-2,898	-3,252	-2,174	-25.0%	-33.1%	-53,303	-9,062	-83.0%
Income Tax	-34	-54	-52	54.2%	-2.9%	-175	-292	66.9%
Profit before NCI	**18,550**	**30,173**	**20,919**	**12.8%**	**-30.7%**	**60,217**	**97,075**	**61.2%**
NCI	-1,542	-247	-247	-84.0%	0.0%	-5,347	-5,347	0.0%
Net Profit	**20,092**	**30,420**	**21,166**	**5.3%**	**-30.4%**	**65,564**	**102,422**	**56.2%**

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Al Yahsat - Margins

	1Q22	4Q22	1Q23F	YOY Ch	QOQ Ch	2022	2023F	Change
Gross profit	89.8%	84.8%	90.0%	19	523	88.8%	88.8%	-3
EBITDA	58.9%	58.3%	58.5%	-38	24	59.6%	58.2%	-133
Operating profit	22.5%	28.0%	22.4%	-14	-566	26.5%	25.1%	-145
Net profit	20.4%	25.8%	20.7%	38	-505	15.2%	23.0%	787

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