

## **UAE Equity Research**

### **Etisalat Group**

Volatility in exchange rate impacted top-line

#### 2Q22 net profit higher than our estimate

Etisalat's net profit rose marginally 1.5% YOY to AED 2,431 Mn in 2Q22, marginally higher than our estimate of AED 2,360 Mn. The growth in bottom line is owing to higher associates' income, decline in D&A expense along with decline in depreciation and amortization expense and lower share of profit attributable to minority interest holders partially offset by foreign exchange loss, high interest expense and the regulatory fine in Mexico.

**P&L Highlights** 

Etisalat's revenue fell 1.7% YOY to AED 12.9 Bn due to significant depreciation in the exchange rate of Egyptian Pound, Moroccan Dirham, and Pakistani Rupee against AED. This was largely offset by strong performance in the UAE and robust performance in local currency in PTCL operations and Etisalat Egypt. Revenue growth in the UAE is supported by momentum in core operations and sustained economic growth. Revenue from consolidated international operations declined 9% YOY to AED 5.1 Bn due to unfavourable movement in the Egyptian Pound, Pakistan Rupees, and Moroccan Dirham against AED. Operating expense fell 2.7% YOY to AED 8,130 Mn primarily due to ongoing efforts to control and optimize costs to offset inflationary pressure. Furthermore, EBITDA remained stable to AED 6,644 Mn and EBITDA margin expanded 85 bps YOY to 51.1% in 2Q22. The marginal increase is mostly due to the UAE and Egypt operations, which recorded significant growth offsetting the loss in other international operations. The Company recorded impairment expense of AED 242 Mn in 2Q22 compared to AED 247 Mn in 2Q21. Federal royalty rose 2.4% YOY to AED 1,450 Mn in 2Q22. The total number of subscribers increased from 156 Mn in 2Q21 to 160 Mn in 2Q22, due to significant subscriber acquisition in Egypt, the UAE, Burkina Faso, Chad, Benin, Ivory Coast, and Pakistan. Finance cost rose from AED 202 Mn in 2Q21 to AED 814 Mn in 2Q22 due to rise in interest costs. Income tax expense fell 18.5% YOY to AED 416 Mn in 2Q22. Loss attributable to noncontrolling interest holder stood at AED 132 Mn in 2Q22 compared to a profit of AED 425 Mn in 2Q21.

#### **Balance Sheet Highlights**

Consolidated capital expenditure grew 13% YOY to AED 1.8 Bn resulting in a capital intensity ratio of 14%, 2bps higher than 2Q21. The growth is mainly driven by ongoing network enhancements in several markets to support traffic growth, spectrum costs in Egypt, and ongoing network modernization. International Operations represented 78% of the group's total CAPEX and rose 29% to AED 1.4 Bn in 2Q22. Furthermore, total consolidated debt amounted to AED 39.7 Bn as of 30 June 2022 compared to AED 25.7 Bn on 31 December 2021. Around 87% of the debt balance is of long-term maturity which is due after 2Q23. Currency mix for external borrowings includes 55% in USD, 21% in Euros', 6% in MAD, 5% in AED and 13% in various currencies. The consolidated cash balance stood at AED 25.2 Bn as of 30 June 2022, leading to a net debt position of AED 14.5 Bn.

## **Rating: REDUCE**

#### First Look Note – 2Q22

**Sector: Telecom** 

# Recommendation Current Price (3-Aug-22) 28.00 Target Price (AED) 25.00 Upside/Downside (%) -10.7%

Stock Information

Stock Imolination	
Market Cap (mm)	245,248.46
Paid Up Capital (mm)	8,696.75
52 Week High	39.06
52 Week Low	22.34
3M Avg. daily value (AED)	75,360,740
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2.84
74.67
25.79
5.17
5.42
20.02
1.09
1.24

Stock Performance	
5 Days	3.98%
1 Months	10.16%
3 Months	-19.43%
6 Months	-13.87%
1 Year	16.82%
Month to Date (MTD)	0.86%
Quarter to Date (QTD)	7.82%
Year to Date (YTD)	-11.23%

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#### Target price and recommendation

We revise our rating from HOLD to REDUCE with an unchanged target price of AED 25.00. Etisalat holds a leading market share in UAE and strongly positioned due to limited competition. The Company generate approximately ~59% of revenue and 62% EBITDA from this region. We expect this contribution from UAE is expected remain stable in the short-to-medium term. In order to expand and diversify its international business, e& acquired a 9.8% ownership stake in Vodafone Group plc. Etisalat entered into a JV with G42 data center under Khazna to operate the center. This will diversify revenue source for Etisalat. It also entered into a key strategic partnership to drive innovation and digital transformation. In UAE, Etisalat launched GoChat messenger to strengthen digital offering. Total number of subscribers increased from 156 Mn in 2Q21 to 160 Mn in 2Q22, due to significant subscriber acquisition in Egypt, the UAE, Burkina Faso, Chad, Benin, Ivory Coast, and Pakistan. Apart from this, the performance of Egypt operation continues to remained strong with 9% YOY growth in subscribers to 29.1 Mn in 2022. Etisalat generated operating free cash flow (FCF) of AED 4.8 Bn in 2022. The deal to integrate e& and G42's data centers in the UAE into a new JV operating as Khazna Data Centers was finalized in 2Q22. The Company also plans to raise stake in Mobily from 28% to 50%. We view the Company plan to raise stake in Mobily as positive. However, Etisalat operation in Africa and Pakistan continue to get negatively impacted due to adverse foreign exchange movements and requlatory changes. Etisalat share price is trading at FY2022 EV/EBITDA and dividend yield of 9.8x and 2.8% compared to peer average of 6.6x and 4.2% respectively. Based on the above we assign RE-DUCE rating on the stock.

#### **Etisalat Group - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	27.2	28.0	26.9	26.1	26.8
P/B (x)	5.4	5.2	5.0	5.1	4.9
EV/EBITDA	10.3	10.1	10.0	9.9	9.7
Dividend Yield (%)	2.9%	2.9%	4.3%	2.9%	2.9%

FABS Estimates & Co Data

#### Etisalat Group - P&L

AED mm	2Q21	1Q22	2Q22	2Q22F	Var	YOY	QOQ	2021	2022	Ch
Revenue	13,216	13,331	12,996	13,065	-0.5%	-1.7%	-2.5%	53,342	53,633	0.5%
Operating expenses	-8,353	-8,265	-8,130	-8,307	-2.1%	-2.7%	-1.6%	-34,081	-33,735	-1.0%
Imp loss on trade recv.	-27	-234	-242	-289	-16.1%	-1.8%	3.6%	-1,217	-1,180	-3.0%
Operating profit be- fore federal royalty	4,685	4,843	4,712	4,469	5.4%	0.6%	-2.7%	18,341	18,818	2.6%
Federal royalty	-1,416	-1,427	-1,450	-1,306	11.0%	2.4%	1.6%	-5,542	-5,677	2.4%
Operating profit	3,269	3,416	3,263	3,163	3.2%	-0.2%	-4.5%	12,799	13,141	2.7%
EBITDA	6,641	6,801	6,641	6,402	3.7%	0.0%	-2.4%	26,721	27,368	2.4%
Finance and other income	284	212	292	405	-28.0%	2.7%	37.6%	1,289	1,452	12.6%
Finance and other costs	-202	-485	-814	-399	103.9%	302.3%	68.0%	-1,284	-2,990	132.8%
Profit before tax	3,350	3,143	2,740	3,169	-13.5%	-18.2%	-12.8%	12,804	11,604	-9.4%
Income tax expenses	-530	-392	-441	-416	6.1%	-16.8%	12.6%	-1,745	-1,583	-9.3%
Profit for the period	2,820	2,752	2,299	2,753	-16.5%	-18.5%	-16.4%	11,059	10,021	-9.4%
Non-controlling interests	425	318	-132	393	-133.5%	-131.0%	-141.5%	1,742	957	-45.1%
Net Profit	2,395	2,434	2,431	2,360	3.0%	1.5%	-0.1%	9,317	9,064	-2.7%

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#### **Etisalat Group - Margins**

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch	2021	YOY Ch
EBITDA margin	50.3%	50.7%	48.3%	51.0%	51.1%	1.7%	50.1%	1.9%
Operating margin	24.7%	24.6%	21.3%	25.6%	25.1%	1.5%	24.0%	2.1%
Net Profit margin	18.1%	18.3%	15.7%	18.3%	18.7%	3.2%	17.5%	-3.2%
ROA	1.8%	1.9%	1.7%	1.9%	1.9%	0.6%	7.1%	-0.8%
ROE	4.2%	4.2%	3.7%	4.2%	4.2%	1.1%	15.8%	-2.8%

FABS estimate & Co Data

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#### **Research Rating Methodology:**

Rating Upside/Downside potential

BUY Higher than +15%

ACCUMULATE Between +10% to +15% HOLD Lower than +10% to -5% REDUCE Between -5% to -15%

SELL Lower than -15%

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Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Equity Finance Company in UAE 2016 by "IFA"

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