Chief Financial Officer's review

Despite the global economic headwinds in the first half of the year, the business rebounded strongly with an exceptional performance in Q4 2021.

Andrew Cole
Chief Financial Officer

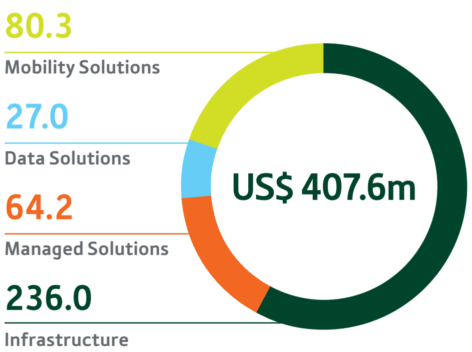
A Pivotal Year

In US$ million	2021	2020
Revenue	407.6	407.5
Adjusted EBITDA	240.5	246.9
Normalised EBITDA	244.6	232.9
Net Income	69.8	68.9
Normalised Net Income	80.9	54.9
Discretionary Free Cash Flow (DFCF)[1]	179.5	186.3

2021 was a significant year for Yahsat. Not only did we successfully list on the ADX stock exchange but, in parallel, we delivered a robust operational performance amidst challenging trading conditions. Despite the global economic headwinds in the first half of the year, the business rebounded strongly with an exceptional performance in Q4 2021, traditionally our strongest quarter, with revenues out-performing Q4 2020 and Q3 2021 by 7.9% and 31.0%, respectively. As a result, the 2021 full year revenues of US$ 407.6 million increased compared with the prior year (US$ 407.5 million), recovering from a Q1 2021 shortfall of -7.3% versus the prior year with a clear growth trajectory as we enter 2022.

1 Discretionary Free Cash Flow (DFCF) is defined as cash flow from operations less maintenance and development capital expenditure, investments, taxes and net finance costs.

Revenue (US$m)



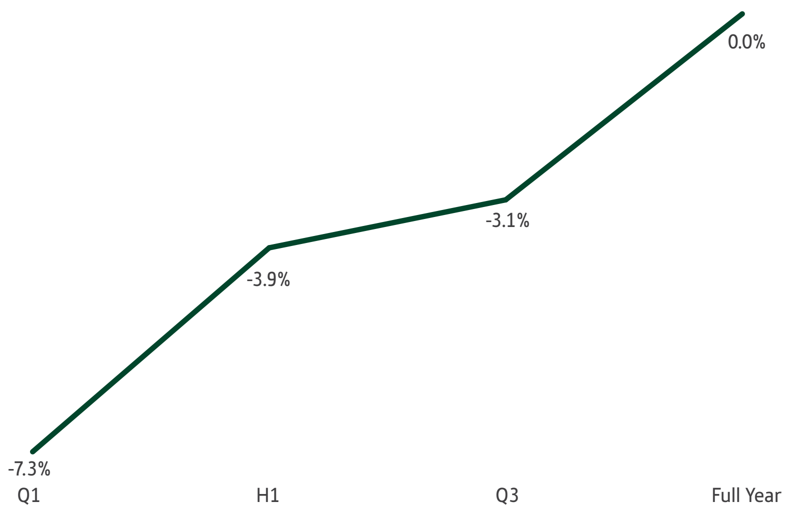
The Group's largest segment remained **Infrastructure** which generated revenues of US$ 236.0 million, broadly in line with 2020 (US$ 238.5 million) and accounting for approximately 58% of the Group's consolidated revenues. This mainly comprised the provision of satellite capacity to the UAE Government under an ongoing 15-year Capacity Services Agreement (CSA) in relation to services on our Al Yah 1 and Al Yah 2 satellites. These revenues are set to increase significantly following the launch of the Thuraya-4 NGS satellite, currently under construction, and the commencement of a further 15-year agreement with the UAE Government which will contribute additional annual revenues of US$ 47 million from mid-2024.

Managed Solutions also delivered a solid performance, contributing 16% to Group revenues with full year revenues of US$ 64.2 million, marginally above 2020 (US$ 63.2 million), a noteworthy performance after a challenging start to the year in which Q1 2021 revenues lagged prior year by 23.4%. Revenues from oil and gas customers were particularly strong, more than doubling year-on-year.

Mobility Solutions, which recorded Q1 2021 revenues 18.3% behind 2020, recovered strongly to close at US$ 80.3 million for the full year, up by 1.6%. This business, accounting for circa 20% of the Group's revenues, delivered growth in several key areas including Voice, Maritime and Equipment, the latter underpinned by a three-year deal commencing in Q4 2021 with a major distributor worth more than US$ 86 million.

Despite COVID-19 related challenges in several of its core markets, in particular South Africa, **Data Solutions** delivered revenues of US$ 27.0 million, broadly in line with 2020 (US$ 26.8 million), contributing approximately 6% to overall Group revenues. In 2021, it continued to grow its consumer subscriber base (by 20%) and notably more than doubled its contracted future revenues (amounting to more than US$ 22 million as at 31 December 2021). Given its extensive pipeline of Enterprise opportunities and the recent introduction of its direct-to-market consumer broadband model in Nigeria, the business is well positioned for continued growth in 2022 in both the Consumer and Enterprise segments.

Yahsat Group Gross Revenue – 2021 Cumulative Variance vs. 2020



Revenue

US$ 407.6m

Adjusted EBITDA

US$ 240.5m

Net Income

US$ 69.8m

Adjusted EBITDA reached US$ 240.5 million, generating a margin of 59%, slightly down by US$ 6.4 million on 2020 as a direct result of the effect of material one-off items that had a US$ 14 million positive impact in 2020 (relating to the transfer of orbital rights) and US$ 4.2 million of IPO-related costs in 2021. Staff costs and other operating expenses, in aggregate, fell by 9%, in part reflecting the release of provisions following the collection of certain long overdue receivables.

After taking into account the impact of these one-off items, normalised EBITDA of US$ 244.6 million exceeded prior year by US$ 11.7 million, or 5%, achieving a healthy margin of 60.0%.

Net Income increased by approximately 1.2% to US$ 69.8 million, the highest ever reported in Yahsat history, underpinned by a stronger performance of the Group's equity partnerships. This includes one-off costs of US$ 7 million related to the refinancing of existing debt and entering into a new term loan and export credit facility (ECA facility) totalling US$ 700.5 million. This refinancing has significantly reduced the Group's overall cost of finance going forward.

Adjusting for one-off items in both periods, Normalised Net Income of US$ 80.9 million exceeded the prior year by US$ 26 million or 47.4%, generating a margin of 19.9%.

Cash Flow and Balance Sheet

The Group's balance sheet remains strong. At the end of 2021, gross debt (including lease liabilities) stood at US$ 549.4 million, reflecting the completion of the refinancing exercise. Cash on balance sheet and short-term deposits exceeded US$ 400 million, resulting in a net debt of US$ 149.1 million. Our net leverage (net debt to adjusted EBITDA) stood at 0.6 times. Together with Discretionary Free Cash Flow for the year of approximately US$ 180 million and a cash conversion ratio of 97%, the Group is well positioned to meet its future dividend and capital expenditure commitments.

Capital Expenditure

Consolidated capital expenditure in 2021 was US$ 153.4 million, of which US$ 141.6 million related to the ongoing Thuraya-4 NGS programme, which is progressing according to schedule. Maintenance and Development capital expenditure of US$ 11.8 million accounted for the remainder.

Net Finance Costs

Net finance costs of US$ 17.3 million were broadly in line with prior year, notwithstanding the one-off costs totalling US$ 7 million relating to the refinancing exercise. Excluding these one-off costs, net finance costs were approximately 41% lower with the Group's 'all-in' cost of finance expected to reduce from 2022 onwards from around 6% in 2020 to below 2.5%.

Equity-accounted Investments

The Group's two equity partnerships, Yahlive and Hughes do Brasil (HdB), performed well in 2021. Yahlive returned to profitability after three consecutive years of losses. By 31 December 2021, HdB's active consumer broadband subscribers exceeded 220,000 whilst its Enterprise business continued to enjoy a strong pipeline of new orders and contract renewals.

Financial Outlook

Given the outstanding Q4 performance and the strong momentum since Q1 2021, we are well positioned to grow in 2022. Our 2022 guidance for the Group is for total revenues of US$ 415 million to US$ 440 million and stable Adjusted EBITDA. We expect our cash flow to remain healthy with Discretionary Free Cash Flow of US$ 210 million to US$ 240 million. Total capital expenditure is expected to be in the range of US$ 210 million and US$ 230 million, mainly relating to the ongoing Thuraya-4 NGS programme.

We remain confident in the underlying health and resilience of the business, underpinned by our contracted future revenues in excess of US$ 2 billion as at 31 December 2021, which is more than 35% higher than at the end of 2020. Accordingly, we remain strongly committed to our progressive dividend policy of a total dividend of US$ 105 million for the 2021 financial year, growing by at least 2% per year in subsequent years, with the intention to pay dividends on a semi-annual basis subject to approval of this express change to the dividend policy at the Company's AGM in 2022.