Al Yah Satellite Communications Company PJSC (“Yahsat”)

Q3 and 9M 2022 Earnings Call Transcript (call conducted 8 November 2022)

Company Participants

- Ali Al Hashemi, Group Chief Executive Officer
- Andrew Cole, Chief Financial Officer
- Shadi Salman, VP Investor Relations

Other participants

- Sellside analysts
- Buyside investors

This document should be read in conjunction with Yahsat’s Q3 and 9M Results Presentation. A video replay of the webinar is also accessible from the corporate website. Within the transcript below, we use the terms “the Group”, “Company”, “we”, and “our” to refer to Yahsat.

Presentation

Shadi Salman, VP Investor Relations:

Good morning, afternoon and evening. Welcome to Yahsat’s earnings call for the third quarter and first nine-months of 2022 – we’re very happy to have you with us today! My name is Shadi Salman and I’m heading Investor Relations at Yahsat. I will also be hosting this webinar today.

All participants are currently in listen-only mode. We will have a question-and-answer session at the end of the presentation when we will open the floor to questions. In the meantime, please feel free to use the Q&A feature in Zoom to post your questions in writing as we go through the slides. Written questions will come to me and I will endeavour to read them out and have them answered during the Q&A session. Please include your name and your organization as well. If you would like to ask the question verbally, please use the ‘raise your hand’ feature and we will hand the floor over to you to announce yourself and ask the question.

Please be aware that we will be recording this webinar to offer a replay through our website afterwards, at www.yahsat.com in the ‘Investors’ section. For any members of the media, please be reminded to share your questions separately with Yahsat’s corporate communications team.

I am joined today by Ali Al Hashemi, Yahsat’s Group CEO and Andrew Cole, our CFO. A few more housekeeping points, however, before I hand over.

I would like to draw everyone’s attention to the disclaimer at the front of this presentation, in particular to the section on forward-looking statements.

Lastly, the agenda, which we will use to structure this call. Ali, our Group CEO will go through key highlights for what was a very strong quarter and nine-month period when we look at the underlying, like-for-like performance of the Company. This will cover some of the key drivers of growth that we have seen and the strong financial position we find ourselves in as a result. This will set it up nicely for Ali to highlight some of the exciting growth opportunities we are seeing in the sector and which we look to pursue. In the section that follows, Andrew, our CFO, will go through our financial results in more detail, including overall Group metrics and normalised results, the performance of our four business segments, our differentiating backlog of future contracted revenues, strong cash flow generation capabilities and our dividend policy. Ali will finally give closing remarks and open the floor for discussion and questions.

Over to you, Ali.

Ali Al Hashemi, Group CEO:

Thank you Shadi. Good afternoon everyone and thank you for taking the time to be with us today as we discuss Yahsat's third quarter and nine-month 2022 results. I am pleased to report that Yahsat has delivered another set of strong results, with growth picking up in the third quarter compared to H1. For the nine-month period, revenue was up 11% year-on-year driven by strong performance of both Managed Solutions and Mobility Solutions business. We maintained healthy EBITDA margin, enabling us to deliver 39% year-on-year growth in normalized net income.

Yahsat's large backlog of contracted future revenues remains a key differentiator for us. At the end of the period, it stood at USD 2.1 billion, amounting to more than 5 times annual revenue. As we enter the final quarter of 2022, we remain on track to meet our 2022 financial guidance. Strong foundations provided by our stable, long-term contracted Infrastructure business and our robust financial position allow us to pursue an ambitious growth strategy and sustain a progressive dividend policy.

Full year 2022 dividend is expected to increase by at least 2% to AED 16.12 fils per share, of which half is already paid in October, while the remaining half is expected to be paid around April 2023.

Next slide please. Taking a more detailed look at our operational performance. Our Infrastructure segment benefits from a long-term Capacity Services Agreement with the UAE Government, underpinning our stable and predictable revenues. Through the T4-NGS satellite, which we expect to launch in the first half of 2024 and enter operations in the first half of 2025, we remain well positioned to meet the UAE Government's increasing demand for advanced SatCom solutions. The T4-NGS Government contract is worth USD 708 million, which will support revenue growth from 2025 onwards. Two new satellites, Al Yah 4 and Al Yah 5, also remain under consideration for launch in 2026, which will secure continuity of service well beyond the lifetime of our existing fleet and support growth.

The Managed Solutions business continued to deliver robust growth, supported by a 5-year mandate worth USD 247.5 million awarded by the UAE Government at the start of this year. The new mandate provides for an additional component of technology management in addition to O&M services, demonstrating our focus to expand across the value chain. Our Mobility Solutions delivered strong top line growth during the nine-month period, driven by increases in both Service and Equipment revenue. The Data Solutions business also recovered in 9M 2022, delivering strong performance in Q3 2022 as it has now absorbed the impact of a capacity leasing deal to Eutelsat which ended in Q3 2021. Performance was underscored by continued momentum in our consumer broadband business which saw its subscriber base increase by 19% year-on-year.

Please go to the next slide. Finally, I would like to talk about how we're progressing against our growth priorities. As our industry continues to witness an exciting period of innovation and investment, we remain committed to pursuing a growth strategy that capitalizes on our key strengths: a robust balance sheet, infrastructure, our geographic footprint and spectrum rights.

In terms of our government business, we are looking forward to further strengthening our service offering to the UAE Government through the T4-NGS satellite, which is currently under construction, and the expansion of our fleet with two potential new satellites, Al Yah 4 and Al Yah 5, which will ultimately replace Al Yah 1 and Al Yah 2.

T4-NGS's advanced capabilities will enable many new products and applications that will be offered to the Government and other commercial customers. The two new satellites (AY4 & AY5) would provide increased coverage, capabilities and higher capacities to meet the next generation demands of the Government.

We have also identified several other promising growth opportunities across the space industry, that we are well-positioned to take advantage of. Some of these opportunities include:

- Value chain expansion to offer solutions and services to strategic industries, such as maritime, oil and gas, telecom.

- Increased demand for IoT and M2M applications using satellite systems. Our recent investment in eSAT Global provides platform to grow our offering by leveraging on our L-band spectrum rights and eSAT's low-power low-data rate IoT products under development.

- Direct satellite-to-device connectivity also offers the opportunity to reach billions of mainstream devices and Yahsat is uniquely positioned to play a key role with its valuable L-band spectrum rights.

- UAE Space Agency's announcement of a USD 800 million national investment and development fund for the space sector also presents opportunities. We aim to play a key role in this national initiative by further developing our earth observation and remote sensing capabilities.

We also continue to explore potential M&A and inorganic growth opportunities that can complement our strategy and maximize shareholder value.

I'll now hand over to Andrew who will talk you through the financial overview.

Andrew Cole, Group CFO:

Thank you very much, Ali. Good afternoon and good morning, everyone, thank you very much for making time for this call. Let me just take you through a high-level highlights about financials.

I'm very pleased to say that it's been an excellent Q3 performance. You might remember that in H1, our revenues were up 8.1% versus prior year, EBITDA was up about 5% versus prior year. In Q3, we really kicked on and you'll see that the Q3 revenues are actually up 15.8% against the prior year, which means that for the nine months, our revenues are now 10.7% up.

Now where has that growth come from? It has mostly come from the Managed Solutions business. This business, you might remember, was awarded a very significant mandate at the beginning of the year worth USD 247.5 million over five years and of that USD 247.5 million, about USD 45 million has been recognised in the nine-month period and quite a lot of it was recognized in Q3 and another USD 10 or 11 million to be recognised in Q4. And then for the remaining four years, we expect to recognise USD 47.5 million a year. So, that's clearly been a big driver. But also, as Ali mentioned earlier, our Mobility Solutions business also had a very strong nine months. It's up about 15% year-on-year. The Data solutions business is relatively stable, but I think that's a bit deceptive, those numbers – if we look below the surface, there's a lot of good news going on in consumer broadband.

The cost base is under control and I'll say a bit more about that later.

It means that when you get down to EBITDA, we are up about 10.4% against prior period for the nine months. For the quarter, it's up about 21% versus Q3 last year, so a very significant increase. Then we have an overall EBITDA margin, just above 60%, which is excellent, certainly at the high end of expectation. Then our net income adjusted for one of non-recurring items is also up 39% year-on-year and 75% just for the quarter alone. So a very good Q3. Good performance it certainly builds on what was a very positive H1. If we look further ahead now, as Ali said, our contracted future revenues continue to exceed USD 2 billion, and that's worth about five times or so our 2021 annual revenue. So that provides terrific visibility over cash flows going forward.

Our balance sheet has never really been stronger. We've got more cash and debt at the moment – we've got negative leverage with very strong levels of cash conversion over 90% and a DFCF of USD 182 million for the nine months. It means we're very confident being able to reiterate our rock-solid commitment to a progressive dividend.

As you know, we have a progressive dividend policy to grow the dividend by at least 2% for the year. In 2021, we paid USD 105 million. In 2022, we expect to pay out at least USD 107.1 million and half of that was paid as an interim last month and a remaining half is subject to shareholder approval and that will be paid in April or May next year. Of course, that's a minimum. It is feasible that the dividend could also increase going forward beyond 2%.

If we go to the next page. There are quite a few numbers on this page.

Revenue line, I've already touched on the strong quarter-on-quarter growth as well as the for the nine months. I'm going to a bit more detail on that on the following slides.

The next three lines – cost of revenue, staff cost and other opex. That's basically our entire cost base and you'll see, year-on-year, there have been some increases which are not particularly surprising. The cost of revenue has gone up, but that is reflecting increase in the top line revenue, in particular, equipment sales in Mobility Solutions, which is up 46% year-on-year. So, about USD 3 million of USD 7 million increase in cost of revenue relates to cost of equipment. Managed Solutions revenues are up 59% year-on-year and that is driving much of the remaining increase in cost of revenue.

You see the staff costs are actually less than they were last year. I think, for the full year, we can expect staff costs to be maybe 1% or 2% higher than prior full year. The other opex is up about USD 6 or 7 million. Again, nothing to be alarmed about there. The number in the prior year did benefit from about USD 2 million more in provision releases than we had in the current period nine months, mostly in bad debts and a little bit in inventory and there are some other factors in 'other opex', which are entirely expected. For example, as a listed company now for the full nine months versus prior year when we were listed only for two months in the first nine months, there are some additional costs we fully expected to have such as costs of an annual AGM, quarterly reviews by external auditors and annual reports – there're quite a few additional costs there as well. When you get down to EBITDA, our margin is still preserved at a very good level of 60.1% and a solid increase year and year of 10.4%.

Now if we go down to net income, you will notice that our net income is down and that is purely because we took a non-cash impairment charge in our 20% investment in Brazil in Q3. That impairment has arisen solely as a result of an increase in the discount rate used to value that business. The actual underlying operational performance of that business is sound and has not significantly deteriorated. The impairment is very much a product of the rising interest rates that we see across the world, rising risk premiums which is fed into the impairment assessment. Of course, if the discount rate does fall in the future, it's perfectly possible that the non-cash impairment could in whole or in part be reversed. It is important to know that this has no impact on our ability to pay dividends or our ability to meet our obligations as they fall due.

If you normalise net income, that is you strip out one-off items from both periods, then you'll see that the normalised result is actually very, very good – it has significantly improved versus prior year with Q3 normalised net income up 75% year-on-year and for the nine months, it's up 39%. So, on a recurring basis, the performance of the business is very, very strong. Discretionary free cash flow is up 15% and we expect this cash flow for the full year to basically cover our dividend by a multiple of two times. Cash and short-term deposits have also significantly increased, from USD 400 million at the end of December last year to USD 631 million at the end of September.

If we go on to the next page, we can show you then the effect of these one-off items. This is a slide that we always show you, it's not new, and you can see on the left-hand side our EBITDA as reported for the nine months: USD 189 million versus USD 171 million last year. If we adjust for one off items – there were none in the current period and there was a USD 4 million in one-off IPO costs in the prior year period – then actually, the true like-for-like comparison as you can see is USD 189 million versus USD 175 million. This is still a good increase, perhaps not 10.4% as reported, but still up 7.8% year-on-year and a margin of just over 60 percent.

On the right-hand side, then we extend that analysis down to the bottom line to net income and you can see that the prior year had a number of one-off items: not just the IPO cost but also costs associated with the refinancing, which was completed in June last year. This meant that our normalised net income last year was USD 54 million. Clearly, if we normalise the current period for the impairment in Brazil, then we're looking at a comparison of USD 76 million versus USD 54 million or an increase of 39%.

Next page, please. So, this is a split of the business. I think you are all familiar with this page. It shows the relative share or contribution that each of our four segments makes to the Group revenues and EBITDA overall. Not surprisingly, the Infrastructure business makes up a majority of the revenue and EBITDA: 57% of revenue and 72% of EBITDA. What is interesting here is that Managed Solutions has certainly increased its relative share. In H1, it made up about 19% of revenue and 16 or 17% of EBITDA. Now you can see that, and coincidentally it's the same for both, it's actually contributing 21.1% of overall Group revenues and EBITDA and that obviously reflects the significant growth we have seen in this segment in Q3.

The Mobility Solutions, this is the Thuraya business, that continues to make up quite a respectable amount of our revenue, 16-17% and 8% of overall EBITDA. Data solutions remains the smallest segment, about 5 or 6 percent of gross revenues and it is still slightly EBITDA negative at this stage. We'll just go through each of these segments in turn, to give you a bit of colour as to what's happened year-on-year.

Next page, please. So, starting with Infrastructure, this is the foundation of the business. This is where you get the stable and long-term predictable revenues. This is essentially one contract with the UAE Government or the Capacity Services Agreement that runs until November 2026 and still, as at the end of September, has approximately USD 1 billion of this contract to run. You'll see that the numbers here are quite stable, which is what we would expect, and that the EBITDA margin is very high at 76%. Of course, this doesn't include the government contract, which is yet to commence, relating to the new satellite for Thuraya 4, which would be launched in 2024 and become operational in 2025 and that will then generate more than USD 700 million of revenue over a 15-year period from 2025 onwards. This also doesn't include either Al Yah 4 or Al Yah 5 that Ali was mentioning earlier, two new satellites, which ultimately are expected to replace Al Yah 1 and Al Yah 2, scheduled to be launched with estimate at around 2026 and attached to that would undoubtedly be a very significant government contract over 15 years. Of course, that still all being worked through at this stage but there's some real growth potential in this segment to come.

On the right-hand side, the Managed Solutions business, I think the numbers really speak to themselves. You can see the revenues are up 59% year-on-year, the EBITDA is more double. Then just look at the Q3 revenues there. They've more than doubled versus Q3 last year and like I said earlier, this is all really driven by the Managed Services Mandate that was awarded earlier this year. As I said, for the full year this year, we expect to recognise about USD 57 million revenue from that contract of which about 45 or 46 has been recognised in the 9-month period. Then, for the next four years, we expect to recognise about USD 47.5 million each year related to that contract alone. That's obviously been a very significant driver for the results, not just for Managed Solutions but for the Group as a whole.

Next slide please and we come on to the Mobility Solutions business, Thuraya. It is a pleasing performance here, revenues are up 15% a year-on-year, most of this increase has actually come from higher equipment sales, which increased by 46%, but also service revenue that comes with a much higher margin and which was also up by about 5% with some really nice growth in certain service lines such as voice and data. So, there are some very pleasing numbers there. EBITDA is slightly down here, but that's because the prior year, as I said earlier, did benefit from the provision releases which really fed through into Thuraya numbers. On a like-for-like basis, you would actually see the improvement here overall in EBITDA. I think for the year as a whole, for Mobility Solutions, you can expect growth versus the prior year of up to 5 percent. I expect that Q4 revenues to be slightly down versus last year and this is just down to the phasing of equipment sales.

On Data Solutions, the revenues are relatively stable. I think you need to look below the surface here to understand what's going on. The prior year of 2021 had a benefit of a capacity contract with Eutelsat whereby we were selling satellite capacity from one of our satellites to Eutelsat, which generated USD 2.6 million of revenue last year. That contract came to an end in July 2021 and there's no such similar revenue in 2022. Of course, if we strip those out, like-for-like, then actually revenues are up USD 2.6 million or 18%. That growth has really come from the largest part of this business, which is consumer broadband. You might recall, that this business provides consumer board connectivity to subscribers in unserved or underserved areas of rural Africa. Subscribers are up 19% year-on-year; related revenues are up about 15%. It's not the first time I've said this, I mean every quarter we're able to point quite pleasingly to quite significant subscriber growth in this business and you'll see it is starting to work its way through now in EBITDA. The last year loss was minus USD 2.6 million, at the moment, it's minus USD 1.5 million. We always said we were trying to get this to EBITDA breakeven this year, maybe next year at this stage, but you can see there's clearly a trajectory of improvement here in the business.

Next slide. This is our contracted future revenue or our backlog. As you see, on the left-hand side, how this has evolved from the end of last year: it's still actually higher now than it was at the end of last year, by about 30 million, stands at well over USD 2 billion, equivalent to about 5.1 times annual revenues. You can see that the vast majority of this relates to government contracts – USD 994 million of Capacity Services Agreement, USD 755 million of T4 government contract and within the USD 311 million from 'Others', there is a sizable portion from the Managed Services Mandate. So, largely government contracts give you huge visibility over future cash flows. You can see how this backlog rolls out over the next five years. You can see that USD 94 million of this backlog will roll out in Q4, which incidentally is about 90% of the required revenues in order to meet a low end of revenue guidance for full year. I think there's no doubt that we are going to meet our guidance. Now, we do emphasise this slide as Yahsat finds itself in quite unique position. It's true that many of our peers have substantial backlogs but not many of them have four or five times or more than 5 times annual revenues already secure and also secure from such a credit worthy customer, the UAE Government.

Next side, please. So, here's our balance sheet, no real surprises here. You see the capital work in-process has clearly increased as the T4 pogramme progresses. T4 programs is now about the 50-55 percent complete. By the end of the year, it will be about 64% complete and by the end of next year about 92 percent complete. So clearly, you know, this is moving forward quite rapidly.

The cash and short-term deposits have jumped up, and the main reason for that is of course, as you might recall that for the T4 government contract that we have in place and worth over USD 700 million, we are actually paid USD 300 million of that USD 700 million upfront, in 2 instalments: USD 150 million in July this year, which came through and is reflected in these figures, and another USD 150 million, which will come through in June or July next year.

Other than that, the other key point to note is that borrowings are going up slightly as we draw down on the ECA financing to fund the construction of the satellite and we expect that to go up. Other liabilities have jumped up and that really is the other side of the upfront payment we got from the UAE Government of USD 150 million – you debit 'cash' and you credit 'advance from customers', which feeds into 'other liabilities' – and also included in there is a USD 52.5 million accrual for the interim dividend payment, which was accrued as at the end of September but was actually paid in October.

Next slide please. So, all this slide is really designed to show you is the strength of our cash flow. We've got very high levels of cash conversion, I can't actually ever remember a cash conversion that we had of less than 90% and you'll also see that our free cash flow is up quite substantially versus prior year and we expect that to be in the region of USD 200 million plus by the end of the year, more than covering our dividends for 2022.

So, when you look at our backlog, look at the strength of the balance sheet, look at the amount of cash that we have on hand and also our ability to generate cash, that really is underpinning our commitment to the progressive dividend going up by at least two percent a year.

I think the next slide does actually deal in a bit more detail with the dividends, we could just turn to that slide. You'll see how in 2021 we've paid a dividend of 15.80 fils. In 2022, we'll pay at least 16.12 fils per share. Now 8.06 fils was paid last month and the remainder, subject to shareholder approval, of course, will be paid in Q2 next year. You can then see how that would roll around in 2023 assuming that we maintain the growth rate of 2%. Like I said before, it could be more than that. When you put this in context with the current share price, this is offering investors a yield of roundabout 6%. So, it's quite substantial in the current volatile market environment.

Next slide. So, this is the final slide I present before handing back to Ali. This is our guidance. We're on track to meet our guidance. It's all unchanged except for 'capex and investments', which I will talk about in a minute. The revenue still remains between USD 420-440 million. I think you could reasonably assume that we're going to come in somewhere in the middle of that range, which you know indicates full year growth within a region of five to six percent. I don't think you're going to find that many satellite operators out there with revenue growth of 5 to 6 percent. We have kept EBITDA guidance stable at this stage, there's probably a little bit of upside on that. 'Discretionary free cash flow' between USD 210 to 240 million, maybe a bit more towards the low end of that but even so it's very, very strong, more than covering our dividend by a multiple of two times. 'Capex and investments' is reduced slightly and that's just reflects couple of things actually: first of all, some of the milestones of T4 have shifted slightly to the right; secondly, we have been awarded ground for USD 30 million, which actually ends up being a reduction in overall cost of T4 program and USD 5 million of that feeding through into our numbers in 2022; there's some other drivers as well, for example, we received about USD 4.5 million from one of our investments, which is netted off this figure. That's really driving it, more timing and reflective of a reduction in the T4 programme cost than anything else. Now, I hand back over to Ali for closing remarks before we open it up to Q&A.

Ali Al Hashemi, Group CEO:

Thank you, Andrew. In conclusion, the strength of our business was clearly demonstrated in the first nine months of 2022 as we continued to grow revenue and record a robust EBITDA margin, despite a challenging macroeconomic environment. Looking ahead we remain positive on the outlook for FY'22 and beyond with growth supported by significant contracted future revenue, new satellite launches and expansion in high growth areas.

Serving the Government's growing and advanced satellite communication needs is central to Yahsat's growth strategy, building on an increasing trend for sovereignty and self-reliance over satellite assets. Finally, we continue to maintain a strong balance sheet, with low leverage and a high cash conversion ratio which positions us to meet future growth and capex requirements, whilst also committing to a progressive dividend policy of minimum 2% growth per year.

We are now happy to answer any questions you may have.

Questions and Answers:

Shadi Salman, VP Investor Relations

Right. Thank you, Ali, and thank you, Andrew. If you wish to ask a question, please use the either Q&A feature in zoom to post the question in writing, or if you'd like to ask the question verbally, please use the 'raise your hand' feature, and we'll hand the floor over to you.

So, we do have a first question from Omar Maher at EFG Hermes. Over to you, Omar.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

Thank you. Hi, everyone. And thank you for this presentation, Ali and Andrew. I have a few questions, if I may. I will try to leave some perhaps to the end of the Q&A to give a chance to everyone, but the first one is actually on the delay in launch of T4-NGS.

You clarified in the disclosures that this is coming from Airbus side, but was hoping to get more colour on why exactly there is a delay, what is driving this? As far as I remember, from the time of the IPO, I think you mentioned that the plan for a launch in 2023 and operational start in 2024 had already accounted for a few months of potential delays. So, there was some sort of headroom for any unexpected delays and that was accounted for in that timetable. In the last few quarters as well, your comments regarding T4-NGS were mostly that there are no risks of delays due to supply chain issues or any shortage of materials given what's happening globally. So, I would appreciate if you could give some more colour on what specifically went there.

A – Andrew Cole (Group CFO)

Omar, there isn't any one specific driver for the delay. The T4-NGS programme entails a very complex procurement project at the end of the day: USD 550 million that extends over four or five years. It's not at all unusual for there to be some slight slippages and delays. We've seen many of our peers, SES for example, as you know, announced various delays for its O3b mPOWER programme.

So, first of all, I would say do not be alarmed by this. We don't expect any further delays and there is absolutely no impact on our ability to serve the end-customer – there's no risk of us not being able to deliver on the commits we made to the UAE government. That's the first point.

As regards to the causes of the delay, it's really a collection of different issues to be honest and some of them reside with the subcontractors of Airbus, and some of them with Airbus themselves. There are provisions in the contract that we have with Airbus, incidentally, to claim back any damages in the event of a delay and we do have recourse to do that, but of course, that's not something we can consider or contemplate until we get to the end of program. At this stage, however, we don't expect any further delays and we don't expect any material impact on the business.

The only real commercial impact, I guess for us, is when you look at the rollout of our backlog, revenues, that's six months of T4-NGS government contract revenue that is just shifted to the right. That is shown in the backlog slide we just presented.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

Yes, that's clear – thank you, Andrew. My next question is on Al Yah 4 and Al Yah 5. I noticed that to there was a mention of a launch in 2026 and I think the replacement capex of USD 600 million was meant to be spent between 2026 and 2029 because Al Yah 1 and Al Yah 2 would be going out of service in 2029 and 2030. If I remember correctly, the IPO guidance was that there would be no replacement capex spent before second half of 2026. So, my question here is: does this mean the potential capex of USD 600 million will be spent earlier than H2 2026 as initially expected? If so, when?

In the case of T4-NGS, given the six-month delay and the change in the timetable, can you also delay the repayment of the UAE Armed Forces' advance of USD 300 million?

A – Andrew Cole (Group CFO)

So, there are two questions, Omar. On the USD 300 million upfront payment on T4-NGS, rather than get repaid, it gets offset against the cash that we receive when we start commercial operations for the Armed Forces. So yes, that will get pushed back slightly and it will only start when the commercial operations start. We're are only talking of a maximum of up to six months later than originally envisaged and it could also be less than that.

On Al Yah 4 & 5, that's interesting and I'm trying to remind myself of what was said during the IPO. You are absolutely right that we referred to a capex envelope of USD 600 million although you will appreciate that back then that was very much an estimate and we are, basically, completing the RFP exercise now on Al Yah 4 & 5 with various satellite manufacturers. Evaluation is now complete and we're in the process now of downselecting a preferred supplier. So, I suspect that the overall program costs may be a little bit more than USD 600 million, obviously we will update you in due course, when we can. On the timing of the launch of these two satellites, while it's not absolutely certain that it will be 2026, we think that 2026 or 2027 will be the most likely because Al Yah 1 & 2, which are currently serving the UAE government with the Capacity Services Agreement, that agreement comes to an end in the November 2026. While the satellites themselves have enough fuel to last well through to the end of the decade and even the early 2030s, the plan is that Al Yah 4 and 5 would operate for period of time side by side with Al Yah 1 & 2 and then ultimately take over from Al Yah 1 & 2 towards, you know, perhaps the end of the decade.

So, certainly the capex for Al Yah 4 & 5 we would expect to start incurring that earlier than the timeframe that you have. You've seen, however, the strength of our balance sheet and we'd look, if we could, to do this through ECA financing, which very favourable financing that's open to us. So, we don't have any kind of concerns on our ability to fund that along with all our other obligations such as, you know, our commitment to the dividend.

Sellside Analyst (Omar Maher, EFG Hermes)

All right, thank you Andrew.

Q – Shadi Salman, VP Investor Relations

The next question comes in writing from Ankur Agarwal at HSBC and it reads as follows: in the context of an increase in interest rates or EIBOR (Emirates Interbank Offered Rate), would you consider increasing dividends as the spread of dividend yield versus the risk-free rate has decreased since the listing of the business?

A – Andrew Cole (Group CFO)

It is a very good question, Ankur. All I can do, is to reiterate our commitment to increase the dividend by at least 2% a year. Obviously, there is the potential to increase the dividend by more than 2% a year, but that would have to be considered, you know, by the board and taking into account, all the other obligations and commitments that we have.

We just talked about Al Yah 4 and 5, where we may have a USD 600, 700 or even 800 million commitment there. I don't really want to be too precise as it is still going through the procurement process, but I think we have to look at all the things and around, but what I think is clear, Ankur, is if you look at the strength of the business, the growth trajectory, and our cash generation, we're certainly in a very good position, you know, to consider increasing dividend going forward.

Shadi Salman, VP Investor Relations:

Thanks, Andrew. Third set of questions from Hani Zantout. Please go ahead and maybe announce the organisation you represent.

Q – Sellside Analyst (Hani Zantout, Arqaam Capital)

Hello and congratulations on the strong results. I am Hani Zantout from Arqaam Capital. So, I have two questions. The first is do you have any specific reason why Managed Solutions during Q3 had such a high EBITDA margin. Do you see this as being sustainable due to the new Managed Services Mandate? My second question is that was there any specific reason why the impairment in Brazil happened in Q3 and not towards the end? So, I guess the question is why was the revaluation done in the middle of the year?

A – Andrew Cole (Group CFO)

Sure, I can take those, thank you. So, for Managed Solutions, you are absolutely right to identify that the margin year-to-date is very high: EBITDA margin of 60%, if I am not mistaken, for the nine months. The reason for that is there was a catch up in revenue recognition in Q3 that was booked, probably about USD 11 or 12 million that was related to previous periods but from an accounting perspective we couldn't book. So, there was a catch-up relating to the Managed Service Mandate that all came through in Q3. That's one driver. The other driver is that the costs of serving that contract are more kind of back-loaded to the end of this year. If I'm not mistaken, we incurred cost of about USD 8-9 million serving that contract in nine months and we expect to incur a similar amount in Q4. So, what you will see in Managed Solutions is the 60% EBITDA margin for the nine months, but for the full year, I would expect the EBITDA margin to come down towards 50%. If you see the revenue year-on-year for the nine months was up 58%. For the full year, I'd expect a revenue to be up versus prior by about 30%. So, it's more around phasing of revenue recognition and phasing of costs.

Q – Sellside Analyst (Hani Zantout, Arqaam Capital)

So, this is like, you could say, like a one-off margin increase in Q3?

A – Andrew Cole (Group CFO)

I think you could. Yes, I wouldn't say that 60% is the long-term sustainable margin of that segment. We've always said in the past that the margins of this segment between 40 and 50% and I would expect that the for the full year it could be towards the upper end. Maybe slightly above the upper end of that range for full year.

Sellside Analyst (Hani Zantout, Arqaam Capital)

Perfect, Thank you, very clear.

A – Andrew Cole (Group CFO)

Then on Brazil, a very good question as to why Q3 and we would have liked, I think, to address this in Q4. What has triggered the Brazil impairment is a very, very significant, sharp and sudden increase in the discount rate, and as that rate shot up, under IFRS, that was deemed to be an indicator of impairment, which under IAS 36 requires us to undertake an impairment assessment. So, when we took the latest business plan cash flows of this business and we scheduled those out and we then discount them at this much higher discount rate of 14%, we found that the carrying value of the investment is actually higher than the present value of the future cash flows. Hence, we had to make this impairment.

I think, what’s driven this increase in the discount rate, obviously, it's quite complicated. It's got risk-free rate, it's got country risk premium, it's got cost of debt. We saw that all of these metrics had increased, literally in the space of three months – it wasn't like this at the end of H1. In particular, the risk-free rate, 10-year rate over 4%, cost of debt virtually doubled, country risk premium in Brazil has gone up from 2.2% to over 4%. Everything has gone the wrong way, all at the same time and unfortunately, under IFRS, we have no choice but to deal with it at a point in time at the balance sheet date and that's why we had to book the impairment in Q3.

Sellside Analyst (Hani Zantout, Arqaam Capital)

OK, thank you so much.

A - Shadi Salman, VP Investor Relations

Thank you, Hani, and I will just add on to Andrew's point as well. You might see this more on the sellside as well. This is not something too particular to Yahsat. This accounting standard applies to everyone's treatment of investments and associates and so you might very well see this across companies whereby the change or the deterioration in the macroeconomic environment causes all of them to at least undertake an impairment test. Whether that actually causes an impairment depends on the specific situation of each company and the carrying value that they have for those investments. We suspect, however, that this is potentially a common theme given the Fed hiking, you know, 75 basis points a clip, successively. So, this might be a common theme you might see.

Omar Maher, you have your hand raised. So, please go ahead.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

Yes, thank you, Shadi. Another question perhaps, Andrew, as you mentioned the remaining fuel on board Al Yah 1 & 2. I wanted to ask about T3 actually. Whether there are any updates on the attempts to extend the useful life of T3, based on the anomaly that happened. If I remember correctly, it was supposed to go out of service by 2031, but then there were comments from management that there could be a way to extend the useful life of T3 by adding more fuel. So, are there any updates on this or is this an exercise that probably takes place years from now? And if there are no changes to the current decommissioning date then are there any replacement plans in place already or is the capacity of T3 is going to be covered by T4-NGS?

A - Ali Al Hashemi, Group CEO

So far, all satellites are nominal and operational, and actually, we score 100% on the availability so far this year and there is no exercise to increase the life of the satellite. So, all the metrics are very well monitored and that satellites are operating very well and everything is nominal. That's what I can say so far.

Estimated lives of the satellites remain as we have announced previously.

A – Andrew Cole (Group CFO)

It is worth noting, Omar, that T3 is probably the healthiest satellite that we've got, with, like you say, very significant amounts of fuel. So, this is a satellite that's performing very well with plenty of fuel in place.

So, it's not something that we're immediately concerned about, it's replacement. I mean, you could consider another satellite T5, and that is an option, but that's not something that we have concluded at this stage.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

I'm sorry, I might be confusing satellites. Isn't it the T3 satellite that had the anomaly, and its useful life reduced from 15 years to nine years based on the displacement?

A - Ali Al Hashemi, Group CEO

Okay, you mean Al Yah 3. So, for Al Yah 3, nothing is determined so far about the life of satellite if I'm not mistaken Andrew, and we are going through that exercise and if there is any feedback, we would let you know. As a reminder, this satellite was shot into a different orbit and we brought it back, and that's why the useful life was reduced, but today it is operating nominally. The satellite is operational and we are serving our customers.

A – Andrew Cole (Group CFO)

It is worth noting that there are lots of options available. You don't have to necessarily build a new satellite. There's always a possibility to have a mission extension. There are companies out there which, believe it or not, and I'm not sure how they do it, but they are able to extend the life of a satellite by attaching a pod onto the satellite and adding extra fuel or power to it – that's one option. Another option is simply to lease capacity from another third party. There's a lot of satellite capacity out there on the market and it may actually be more beneficial to do that rather than spend huge amounts of upfront capex to fund new satellite. So, there are options available to us.

A - Ali Al Hashemi, Group CEO

Al Yah 3 is completely commercial satellite and there is no government payload on it. So leasing is an option, and if we see opportunities for very cheap lease, it could be an option that we consider.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

That's very insightful, thank you. Is this sort of like a near-term exercise that you would have to consider or is it something you're going to perhaps look at in five years' time?

A - Ali Al Hashemi, Group CEO

We always look for opportunities to have very cheap capacity in the region and deals that give us leverage to have a cheap capacity for Al Yah 3. So, if there is something that we have to do right away, we will do right away. We are always looking in the market for opportunities, but again there's no urgency to replace the capacity at the moment.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

Thank you. One last question from my end if I may. Do you have any updates on the UAE corporate tax and have you had any discussions with the government? I heard they did a public consultation and started discussions with affected parties. Are you part of this dialogue and essentially, what have you told them and what are they telling you?

A – Andrew Cole (Group CFO)

Well, I'd have to double check the extent of our involvement in those discussions, Omar, but as far as I'm aware, we're still awaiting the detailed legislation coming out on this. I think the expectation is almost certainly that there's going to be a 15% tax rate to be applied across net income from, in our case, 2024 onwards. That's what we're kind of expecting, but I believe there's more detailed legislation due to come out across variety of topics including transfer pricing and various other elements.

So, I'm afraid we can't give you absolute clarity on this particular topic until we've got all the guidance.

Sellside Analyst (Omar Maher, EFG Hermes)

Thank you, Andrew. Thank you, Ali.

Q – Shadi Salman, VP Investor Relations

We have a question in writing from Zohaib Pervez at Al Rayah Investments and it goes like this: with the Fed increasing rates further, should we expect more impairments?

A – Andrew Cole (Group CFO)

This is a fair question. The fact that the Fed increases interest rates doesn’t automatically assume that the discount rate will go up. Because the discount rate, ultimately includes the 10-year kind of forward rate. So, it's really around expectations of future rates evolution.

I think no one's got a crystal ball at this stage. We certainly don't expect any more impairments at this stage, either in Brazil or other parts of our business, but we're not really in a position to say, a hundred percent guaranteed, there won’t be and I don't think anyone can give you that guarantee, but as of now we're not expecting any further impairments.

A - Shadi Salman, VP Investor Relations

Yeah, just to reiterate that point. The Fed is obviously affecting the front end of the curve more directly. So, the risk-free rates or the discount rates are more on the 10 year which is more of an average of future expectations. So, it's not a one-to-one change in rates versus the Fed short-term rate changes. Further, apart from the Brazilian impairment, which was a one-off, the increase in rates has actually been quite beneficial in reducing our finance costs, given we have significant amounts of cash placed in short-term deposits.

A – Andrew Cole (Group CFO)

Yeah Shadi, actually that's a very good point. It's worth noting, aside from the fact that those higher interest rates have brought us a significant amount of interest income, if you look at our net finance cost, there are virtually no net finance costs – there's only USD 1.5 million for the nine months versus USD 15 million last year or even USD 7 or 8 million normalized last year.

It is also worth noting is that we entered into an interest rate swap to fix the interest on all our debt in June last year, before this cycle of rate hikes. This derivative, this interest rate swap, is now heavily in the money – you'll see on our balance sheet, there's a derivative asset over USD 50 million as a result of that. In other words, we're paying interest at a rate far below what's being paid to us now on the receiving leg and the benefit of this interest rates swap will recycle itself through our finance charges over the duration of this debt and we will start to see the real benefit coming through our net income as a result of that.

Q – Shadi Salman, VP Investor Relations

Another question in writing from Vijay Harpalani at Al Tayer Group: could you please elaborate on the revenue and cost recognition policy for the new mandate in Managed Solutions?

A – Andrew Cole (Group CFO)

Yes, so the contract is worth USD 247.5 million, and of that USD 247.5 million, USD 10 million relates to a specific milestone that was completed in H1 this year. The remainder – USD 237.5 million – is then recognising on linear basis over five years on the basis of what we're providing is a service and under IRFS 15, the revenue recognition accounting standard, you spread that revenue over the duration of the contract. The costs are a little bit more lumpy and will not necessarily follow exactly the same basis.

So, I'd expect it to have broadly similar amount of cost year-on-year. I'm sure you'll understand that we don't give specific margins by contract publicly, but what I would say is that I would expect the EBITDA margin in this business as a whole to remain very healthy. We always said between 40 to 50%. may well be that we will re-evaluate that at the end of the year, maybe we'll increase that. We certainly expect the margin this year, however, to be towards the upper end of that range.

Shadi Salman, VP Investor Relations

Right. Any further questions? Omar, you still have your hand raised.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

Yes, sorry, just a follow up on the corporate tax rate again. I think while answering my question a few minutes ago, did you say 15%? Because I thought it was 9%

A – Andrew Cole (Group CFO)

I believe it's 15%, if I'm not mistaken. Shadi?

A - Shadi Salman, VP Investor Relations

Yes, so it's 9% for non-multinationals or companies which are local to the UAE. We believe that our classification, however, will be as a multinational, under the OECD rules. I mean, the idea of the tax rates is to kind of harmonise minimum tax rates across OECD countries, but Andrew, I think you might know more about that one.

A – Andrew Cole (Group CFO)

You're right. I don't have all of the exact terminology to hand, but I do recall that we are qualified as an MNE, part of a multinational enterprise because we form part of the Mubadala Group and are more than 50% owned. Because of that controlling stake that Mubadala holds, it means we are captured at a rate of 15% - I am quite certain that would the rate that applied.

Q – Sellside Analyst (Omar Maher, EFG Hermes)

So how does the classification work essentially? What says you would have to pay 15% based on your classification being an MNE? What defines this?

A – Andrew Cole (Group CFO)

I think there's a certain threshold. Something to do with the amount of revenue exceeding EUR 700 or 800 million, but the point is because we are consolidated at the Mubadala level, we are considered to be part of Mubadala and we come under the same threshold and the same tax rate that would be applied to Mubadala. Now, this is what we expect and probably I would rephrase what I said. I said quite certain, I think we're still waiting for the law to be finalised, and until that is finalised, we can't be absolutely sure what that rate would be. Our expectation is that it will be 15 percent.

Shadi Salman, VP Investor Relations

Great. There are no hands raised at the moment. So, in case there are no further questions, then this concludes our presentation. Of course, if you have any further follow-up questions, please feel free to contact us and the investor relations team – our email address is ir@yahsat.ae – and we will be more than happy to answer them.

So, in conclusion, thank you very much for attending and goodbye for now. Thank you, everyone.