Chief Financial Officer's Review

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Chief Financial Officer

2022 Highlights

Revenue
US$ 433m

Adjusted EBITDA
US$ 258m

Net income
US$ 66m

Normalised Net Income
US$ 106m

Despite a challenging economic backdrop, the business delivered a strong financial performance in 2022, recording robust year-on-year growth in both revenue and adjusted EBITDA.

Strong Financial Performance

In US$ million

	2022	2021
Revenue	**433**	408
Adjusted EBITDA	**258**	240
Normalised EBITDA	**258**	245
Net Income	**66**	70
Normalised Net Income	**106**	81
Discretionary Free Cash Flow (DFCF)[1]	**225**	180

In 2022, against a backdrop of global economic turbulence caused by geopolitical tensions and rising inflation, Yahsat delivered a strong financial performance with total revenues of US$ 433 million, in line with its guidance of US$ 420–440 million, representing year-on-year growth of over 6%.

The Group's largest segment remained **Infrastructure**, which generated revenues of US$ 238 million, above 2021 (US$ 236 million), accounting for 55% 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 provided on our Al Yah 1 and Al Yah 2 satellites. The revenues from this segment are set to increase significantly following the anticipated launch of the Thuraya-4 NGS satellite, currently under construction, and the commencement of a 15-year agreement with the UAE Government that will contribute additional annual revenues of over US$ 50 million from the first half of 2025.

Managed Solutions, the Group's second largest segment and accounting for 21% of consolidated revenues, delivered a stellar performance in each quarter of the year, with full year revenues surging by more than 41% to US$ 91 million, significantly above 2021 levels (US$ 64 million). The growth was underpinned by the award of a new 5 year Managed Services Mandate by the UAE Government in February 2022, valued at US$ 247.5 million. Under this Mandate service revenue is recognised equally over the 5 years, from 2022 to 2026, at US$ 47.5 million per year, whilst a US$ 10 million additional component was recognised in the first half of 2022. It replaces and expands the scope of the previous smaller contract worth US$ 32 million per year, which was limited to Operations & Maintenance (O&M) services and which expired at the end of 2021.

Mobility Solutions, accounting for 19% of the Group's revenues in 2022, delivered a solid and commendable performance in challenging conditions, with full year revenues of US$ 81 million, an increase of 1% from 2021 with growth recorded across a number of key areas including Voice, Maritime and Data.

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.

Data Solutions, the Group's smallest segment and accounting for 5% of consolidated revenues, delivered full year revenues of US$ 23 million, a decline of 13% vs 2021 (US$ 27 million) with the shortfall largely reflecting the wind down of the capacity leasing contract with Eutelsat, which ended in Q3 2021 and a more prudent approach taken regarding the sale of equipment across core markets in Africa. Despite the shortfall, the business remains well positioned to grow in 2023 with momentum clearly evident in its consumer broadband business in which subscribers grew by 21% year-on-year and a downward trajectory in its cost base. In 2022 this contributed to a substantial improvement in the EBITDA of the business (by more than US$ 4 million), turning positive for the first time.

Adjusted EBITDA of US$ 258 million, generating a margin of 60% (2021: 59%), represented an increase of more than 7% or US$ 17 million vs 2021. This was largely driven by Managed Solutions, which started to recognise revenues under the 5 year managed services mandate with a portion of the related costs shifting from Q4 2022 to Q1 2023. After considering the effect of material one-off items (none in 2022 and US$ 4 million of IPO related costs in 2021), Normalised Adjusted EBITDA of US$ 258 million exceeded 2021 by US$ 13 million or 5%.

Net Income of US$ 66 million decreased by 6% versus 2021 after taking into account a one-off, non-cash impairment of US$ 41 million against the Group's equity-accounted joint-venture HNS Participacoes Empreendimentos S.A. (HPE) in Brazil, in which it owns a non-controlling 20% stake. This impairment reflected a rapid deterioration in the global macro-economic environment, which significantly increased the discount rate used in assessing the recoverable amount of this investment.

In 2021, Net Income included one-off costs of US$ 7 million related to the refinancing of debt with a new term loan and export credit facility (ECA facility) totalling US$ 700.5 million. Adjusting for one-off items in both periods, Normalised Net Income of US$ 106 million exceeded the prior year by US$ 25 million, or 31%, generating a margin of 24.5%.

With dividends expected to reach at least US$ 107 million for 2022, in line with our progressive dividend policy (a minimum annual increase of at least 2%), this would imply a reduction in the pay-out ratio, for the first time, to around 100% of Normalised Net Income for 2022.

Cash Flow and Balance Sheet

Consistent with prior periods the Group's balance sheet remains very strong. At the end of 2022, gross debt (including lease liabilities and excluding unamortised transaction costs) stood at US$ 542 million, whilst cash on balance sheet and short-term deposits were US$ 545 million, resulting in a negative net debt of US$ 3 million. Our net leverage (net debt to Adjusted EBITDA) was also negative. Together with Discretionary Free Cash Flow for the year of US$ 225 million and a cash conversion ratio of 95%, the Group remains well positioned to meet its future dividend and capital expenditure commitments, and retains significant headroom within its existing debt covenant arrangements for further borrowing to fund new programmes (such as Al Yah 4 and Al Yah 5) and to pursue Yahsat's growth strategy.

Capital Expenditure

Consolidated capital expenditure in 2022 was US$ 131 million, of which US$ 120 million related to the ongoing Thuraya-4 NGS programme. Maintenance and Development capital expenditure accounted for the remainder.

Net Finance Costs

Net finance costs of only US$ 1 million were significantly lower than prior year (US$ 17 million), in part due to one-off prior year costs totalling US$ 7 million relating to the debt refinancing exercise, as well as higher levels of interest generated in 2022 on the Group's significant cash deposits. In addition the Group benefited from interest rate swaps entered into and fixed at low rates of interest at the time of the debt refinancing exercise in 2021, prior to the rapid increase in global interest rates.

Equity-accounted Investments

The Group continued to retain an interest in two equity partnerships, Yahlive and HPE with SES and Hughes, respectively. Yahlive performed well with strong levels of EBITDA and more than US$ 4 million returned to the Group during the year. In spite of the impairment recorded in HPE Brazil (see above), the business performed broadly in line with expectations, with future growth expected to arise from a record backlog in the Enterprise segment, a declining churn rate in consumer broadband and new satellite capacity expected following the launch of Jupiter 3 in 2023.

Financial Outlook

Yahsat has recorded a strong financial performance in 2022 and we expect this to continue in 2023 underpinned by the launch of our new growth strategy. Our 2023 guidance for the Group is for total revenues of US$ 435 million – US$ 455 million, implying revenue growth of up to 5% and Adjusted EBITDA of US$ 240 – US$ 260 million, lower than 2022 at mid-point of guidance range reflecting the timing of cost recognition relating to the managed services mandate. We expect our cash flow to remain healthy with Discretionary Free Cash Flow of US$ 130 – US$ 150 million, lower than 2022 reflecting the linear amortisation over the following four years (January 2023 – November 2026) of US$ 291 million previously received during the construction phase of the Al Yah 1 and Al Yah 2 satellites (approximately US$ 75 million per annum). Total capital expenditure and investments are expected to be in the range of US$ 155 – US$ 175 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 of US$ 2.0 billion as at 31 December 2022. We expect this to grow significantly in the event we finalise a new long-term FSS capacity agreement with the UAE Government for two potential new satellites (Al Yah 4 and Al Yah 5), which are currently under consideration. Accordingly, we remain strongly committed to our progressive dividend policy of a minimum total dividend of US$ 107 million for the 2022 financial year, growing by at least 2% this year and in subsequent years, with an amount of US$ 54 million already paid as an interim dividend for the first half of 2022 in October 2022.

Revenue (US$m)