
DECISION NO. (22) of 2024

Etisalat's Weighted Average Cost of Capital

Issue Date: 11 July 2024

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1 INTRODUCTION

- 1.1 On [16.11.2023], the Telecommunications and Digital Government Regulatory Authority (“the TDRA”) shared with Licensees its (closed) Consultation document (Etisalat’s Weighted Average Cost of Capital).
- 1.2 Both Licensees were invited to review the TDRA’s findings and provide their comments.
- 1.3 The TDRA received comments from:
 - Emirates Telecommunications Corporation (“Etisalat”); and
 - Emirates Integrated Telecommunications Company (“EITC”).
- 1.4 Having reviewed and considered the written feedback received from Etisalat and EITC, the TDRA has provided a summary of the feedback, the TDRA’s assessment and the TDRA’s final position on the WACC and its parameters in a Consultation Response under separate cover.
- 1.5 This document sets out the TDRA’s final Decision on the regulatory cost of capital (WACC) that shall apply to Etisalat, from the Effective Date, in any relevant matters.

2 LEGAL REFERENCES

- 2.1 The Federal Law by Decree No. (3) of 2003 as amended (the Telecommunications Law), established, pursuant to Article 12, the TDRA as the ‘...*competent body to oversee the telecommunications sector in the State and all Licensees...*’.
- 2.2 The Telecommunications Law further provides, inter alia at:
 - I. Article 13 that the TDRA shall exercise its functions and powers to ‘...promote the interests of subscribers;’
 - II. Article 14 that the TDRA has powers to issue regulations, instructions, decisions and rules regulating
 - a) ‘*tariffs, charges and fees levied by Licensees...*’
 - b) ‘...ensuring competition in the telecommunication sector...’
- 2.3 The TDRA considers that these objectives are best achieved when the TDRA is undertaking its duties and functions with a knowledge of the

costs of providing services in the sector. This is because the outcome of functioning competition in a sector is typically that prices are set at the level of costs and such prices ensure optimal benefits to the users of telecommunication services and incentives to operators. The Cost of Capital (as measured by the WACC), i.e. the cost of financing the investments and operations in the sector are part of these costs. This is why the TDRA is reviewing the WACC from time to time to ensure that it reflects the costs that operators would incur in a competitive environment.

3 ANALYSIS

- 3.1 The TDRA has undertaken a comprehensive review of all of the individual parameters used in the calculation of Etisalat's regulatory Weighted Average Cost of Capital (WACC). That is, the TDRA's Consultation document presented the TDRA's initial views on the appropriate levels for each of the following parameters:
- Risk free rate;
 - Country risk premium;
 - Debt risk premium;
 - Market (equity risk premium);
 - Beta;
 - Financial gearing; and
 - Corporate income tax rate (applying royalty fee and corporate tax rate).
- 3.2 Based on these parameter values, the TDRA then proposed what it considered, prior to consultation, to be a reasonable range for Etisalat's WACC.
- 3.3 The approaches applied by the TDRA to estimate each parameter were based on the international expertise and experience of the Independent Regulators Group (IRG), the Body of European Regulators for Electronic Communication (BEREC), individual National Regulatory Authorities (NRAs), as well as reference cases and finance community best practice principles.
- 3.4 In applying these principles, the TDRA relied on multiple data sources. These included Reuters, Bloomberg, several other financial databases and analyst reports, as well as international benchmarking studies, operator specific information and investment bank reports. In some

instances, the TDRA used a sample of peer group operators, in order to benchmark the parameters included in the WACC calculation. In so doing, the TDRA sought to involve as many relevant peers as possible.

- 3.5 A detailed explanation of the approach adopted by the TDRA for the calculation of Etisalat’s regulatory WACC was provided to Licensees in the Consultation document.
- 3.6 Further assessments on relevant parameters in relation to comments received from Licensees and a revised estimate of the WACC are set out in the TRDA’s Consultation Response document.

4 DECISION

4.1 Pursuant to [...], the TDRA hereby determines that the value of Etisalat’s regulatory WACC shall be set at:

- A post-tax WACC of 6.7%; and
- A Pre-tax WACC of 12.6%.

4.2 The WACC is based on the parameter values summarised in Table 1.

Table 1: Range and point estimates from the WACC calculations

	TDRA Final Estimates
Risk-free Rate	4.6%
US 10yr government bond yield and forward curve	4.1%
Country Risk Premium (CRP)	0.5%
Cost of Debt	5.2%
Base Debt Risk Premium (DRP)	0.6%
Cost of Equity	7.5%
Beta	0.505
Market Risk Premium (MRP)	5.7%
Gearing	17.4%
Tax	47.0%
Post-tax WACC	6.7%
Pre-tax WACC	12.6%

5 EFFECTIVE DATE

5.1 This Decision shall become effective upon issuance.

6 ACKNOWLEDGEMENT

6.1 Each Licensee shall notify the TDRA in writing of receipt of this Determination within one (1) business day of the date it is received.