

Etihad Etisalat

CP: 83.5

FV: 76.0

Rating: Hold

Net profit came in at SAR 1,687 mn, vs. our estimate of SAR 1,580 mn and Bloomberg consensus of SAR 1,673 mn. Despite the mild 4% Y-o-Y growth in revenues, Mobily managed to sustain its earnings in the double-digit earnings growth territory once again, amid lower cost of sales which stood at 47.9% for the quarter, vs. 51.7% in Q3-12 and 50.0% in Q2-13. This consequently, resulted into higher than expected EBITDA margin of ~38.0%, vs. 35.6% in Q3-12 and 38.7% in Q2-13, respectively. Management attributed the increase in revenues to the business sector, carriers and wholesale services. Data comprised 26% of 9-month net profits, a moderate 7% growth compared to the same period of last year.

- **Revenue growth slowdown:** Q3 revenues grew 4% and 8% Y-o-Y and Q-o-Q, respectively. The business sector revenues recorded 37% increase compared to the previous quarter supported by an increase in the revenues of the hosted and managed services, which constitutes a main component of the ICT services. In addition, revenues of fiber optic and LTE networks recorded an increase of 17% Q-o-Q. Equipment sales as a percentage of the business sector revenues contributed 3%, which according to the company enhanced the profit margins.
- **EBITDA margin expansion aiding in boosting profits:** Amid lower cost of sales which stood at 47.9% for the quarter, vs. 51.7% in Q3-12 and 50.0% in Q2-13, EBITDA margin expanded to ~38%, vs. 35.6% in Q3-12 and 38.7% in Q2-13.
- **Profits continuing to grow at double-digits Y-o-Y:** Net profits recorded SAR 1,687 mn vs. our estimate of SAR 1,580 mn, growing 12% Y-o-Y and 5% Q-o-Q, respectively.
- **Other developments:** The company has completed connecting more than 400k residential units with fiber optic up till now, aiming at linking a total of 500k units by the end of this year, up to 1.2 mn units by end of 2014.
- **Dividend & valuation:** Mobily is trading at an expected PE13e of 9.8x, alongside an expected DY13e of 5.7%. The Board of Directors declared a dividend of SAR 1.2/share for the quarter, commensurate with the dividend paid in Q2-13. We re-iterate our Hold recommendation on the stock, and will likely revisit estimates, and fair value upwards upon conclusion of the buy-out stake in Etihad Atheeb.

| (in SAR mn) | Q3-12 A | Q2-13 A | Q3-13 A | Q3-13 E | QoQ | YoY | Vs ASIB Est |
|-------------------------|--------------|--------------|--------------|--------------|-----|-----|-------------|
| Income Statement | | | | | | | |
| Revenues | 6,183 | 5,972 | 6,445 | 6,370 | 8% | 4% | 1% |
| EBTIDA | 2,200 | 2,312 | 2,425 | 2,330 | 5% | 10% | 4% |
| EBITDA Margin | 35.6% | 38.7% | 37.6% | 36.6% | -3% | 6% | 3% |
| Net Income | 1,512 | 1,611 | 1,687 | 1,580 | 5% | 12% | 7% |
| EPS | 1.96 | 2.09 | 2.19 | 2.05 | 5% | 12% | 7% |

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