

**Telecom Sector - July 2021**

Stable performance despite COVID-19 impact

Sector Weighting:  
**NEUTRAL**  
**Preview 2Q 2021****MENA Telecommunication**

Despite COVID-19, the UAE maintained its global leadership in the competitiveness indicators that measure the rate of subscriptions to mobile broadband Internet and mobile services in countries around the globe, by being ranked first in the world in terms of mobile broadband Internet subscribers per 100 people and the index of public-private collaboration and its influence on technical growth for 2020, as well as according to a report released by the Telecommunications and Digital Government Regulatory Authority, the UAE also ranked first in the world in the index of competition on the Internet and telephone sectors. According to the Global Innovation Index Report, the UAE rated first in the Arab and regional ICTs Pillar, ICT Access Indicator, and ICT Use Indicator in 2020. In addition, the UAE topped the Arab area in terms of generic top-level domains (gTLDs) and country-code top-level domains (ccTLDs). The UAE also tops the worldwide mobile index with the fastest mobile network speed in the 1Q21, surpassing South Korea and Qatar in the mobile wide speed test, with a download speed of 178.52 Mbps in March. Regularly, the Speed Test Global index, which evaluates over 135 nations, analyzes internet speed data from around the world. The index is based on the hundreds of millions of tests conducted each month by real individuals taking the speed test. The speed of a country's mobile network is a crucial determinant of its well-being, economic riches, and social prosperity. This achievement has several positive consequences for future objectives, the country's ICT strategy, and company productivity. The outcomes are the product of a sustained and cumulative effort over many years, in which the authority's work teams collaborated with its private sector partners, namely Etisalat and Du. Meanwhile, Saudi Arabia has experienced the highest adoption of 5G technology among its Gulf neighbors, with the most devices linked to the technology since its commercial launch in 2019. 5G speed was also far faster than the world average, it had a median download speed of 322.42 Mbps, which was 127% faster than average. Qatar came in second, followed by the United Arab Emirates. Oman was at the bottom of the list, having only debuted 5G earlier this year. The Saudi Telecom Company was named the quickest operator in the Kingdom, although customers gave Mobily the highest rating. The smartphone market in the GCC increased by 30% to 5.53 million units in the 1Q21, meanwhile, the whole mobile phone market increased by 15% to 6.21 million devices QoQ. The market's growth was aided by the launch of numerous new Android models, as well as the region's effective immunization programs and somewhat improved economic outlook. Retail efforts supported by the government, such as the Dubai Shopping Festival (DSF), have also aided consumer purchases in places like the UAE. Saudi Arabia accounted for most smartphone shipments in the GCC, accounting for 53.8% of all smartphone shipments in the first quarter, while the UAE accounted for 25.7%. In 2021, the GCC smartphone market is predicted to expand by 12.5% YoY. The smartphone market is expected to rise in the second half of the year, with the vaccine rollout continuing, travel resumed, and supply chain limitations and component shortages resolved.

**Thuraya, Has Launched SatTrack for Marine Clients**

Thuraya, the UAE-based Al Yah Satellite Communications Company Satellite Services subsidiary, has announced the debut of its web-based SatTrack marine tracking and monitoring service in collaboration with FrontM, an international software application developer. Designed for Thuraya MarineStar Solution-served boats and fleets. SatTrack promotes sustainable fishing methods as well as crew welfare and safety. SatTrack from Thuraya enables MarineStar users to stay in control and achieve a competitive advantage. The information reported by onboard MarineStar terminals is displayed on a user-friendly dashboard by the web system. SatTrack also allows for the whitelisting and blacklisting of call numbers, thereby limiting the amount of money spent by crews. Owners and operators may make crucial choices more effectively by monitoring asset activity, resulting in significant cost savings. Thuraya SatTrack is

a user-friendly, feature-rich tracking and monitoring software that provides a lot of value to its consumers. Unrestricted, real-time access to the most recent fishing reports, weather information, news, and other notifications may make a huge impact on the business's profitability.

### **Telecom Egypt Has Launched a Service for SMEs Called WE Access'**

The WE Access service has been developed by Telecom Egypt to assist small and medium-sized businesses. The service seeks to make it simple for businesses to link offices and branch locations while maintaining the greatest level of control and data protection. WE Access offers SMEs extensive technological solutions as well as enhanced data security via a smart private wireless network. It also enables businesses to manage more than 250 individuals on each hotspot. The program also delivers extensive, reliable reports that allow users to make data-driven decisions. It also strives to help small businesses in a way that helps to the creation of new jobs in all industries.

### **Etisalat's First-Quarter Earnings Increased by 7.9% as the Number of Users Increased**

Etisalat's consolidated net profit increased 7.9% to Dh2.3 billion in the first quarter, owing to the company's business operations' resilience and agility in the aftermath of the Covid-19 outbreak, meanwhile consolidated revenues for the period January to March 2021 registered Dh13.2 billion. The Etisalat Group's first-quarter results reflect a continuation of the company's great success over the previous year, thanks to the company's resilience and adaptability across all its business activities. In the new hybrid environment, the firm achieved record results by assisting users in adapting to a new work-and-learn-from-anywhere reality while continuing to provide innovative services that subscribers need. During 1Q21, the total number of subscribers increased by 4% to 156 million, and the number of subscribers in the United Arab Emirates has risen to 12.4 million. Etisalat has introduced the region's first online Mobile Service Centre, which gives corporate clients real-time access and control over their mobile usage. During the quarter, Etisalat Misr and Huawei executed the first VoLTE call utilizing Huawei's Virtual IMS. To make telecom customers' lives easier, the telecom group extended its collaboration with other government agencies. It teamed up with Smart Dubai to offer cybersecurity services to Dubai government agencies.

### **Dubai Alternative to Europe for Tech Companies**

Due to the pandemic and its effects, many tech corporate occupiers are taking a longer-term view of their real estate needs following a year of remote and mixed operating. Companies globally started prioritizing flexible lease options caused by uncertainties over a sustainable global economic rebound, resulting in increased demand for co-working and serviced office accommodation. As more businesses are currently following a hybrid operating model, the number of companies who have decreased their office space when relocating to smaller, higher-quality developments has increased.

Currently, the real estate policy of corporations reflects mainly employee well-being within a Grade A space, that is why Dubai is now being seen as a potential alternative to many European cities due to its handling of the pandemic, juggling an aggressive inoculation campaign, and keeping its economy open for business.

### **Etisalat Will Assist Abu Dhabi SMBs in their Digital Transformation Efforts**

Etisalat has unveiled its value propositions, which cater to the diverse needs of Abu Dhabi's small and medium enterprises. This follows the recent announcement by the Khalifa Fund for Medium Enterprise Development that Etisalat and Microsoft. Etisalat is committed to assisting the expansion of the UAE's SMB sector, which employs over 86% of the private sector workforce and accounts for over 94% of the total number of enterprises operating in the UAE.

Registered e-Empower SMBs will get access to Etisalat's 'Hello Business Hub,' a one-stop-shop for all things business. SMBs may make use of the specialized business hub's customized telecoms and value-added services. It allows them to launch their activities in the UAE with simplicity and flexibility. SMBs supported by the Khalifa Fund will also have access to Etisalat's digital academy, which offers a variety

of educational films, interviews with subject matter experts, and webinars. A comprehensive digital platform that addresses the demands of the startup community might be beneficial.

### **In the First Quarter, Telecom Egypt's Profit Increased Significantly**

In the first quarter of this year, Telecom Egypt reported a consolidated net profit before minority interest of EGP 2.124 billion. When compared to EGP 1.312 billion in 1Q20, this represented a 62% increase YoY. In 1Q21, standalone net profit was EGP 1.849 billion, up 226% from EGP 566.914 million in 1Q20. To provide integrated communication services, the telecom provider inked a partnership pact with MARAKEZ for Real Estate Investment. It provides a variety of fixed-line and retail telephony services.

### **Juniper Networks is Chosen by Telecom Egypt for its Excellent Performance and Service Assurance**

Telecom Egypt has chosen Juniper Networks to design and install a large network capacity increase and upgrade. Telecom Egypt has 9.8 million fixed-line customers, 6.9 million broadband customers, and 7.3 million mobile customers. This change is following Telecom Egypt's continued exponential rise in bandwidth demand and service quality standards. Telecom Egypt's most recent Juniper implementation is a configurable, automated high-performance network. The system is a flexible, automated infrastructure that collects, analyzes, and responds to real-time data. Juniper's purpose-built IP transport portfolio with custom silicon will be used to equip the network with 400G ports. The customized silicon will provide high density, consistent data throughput, and cheap per-bit cost. This will be supplemented by standards-based automation, which will provide a better operating experience.

### **Zain KSA Experiences a 14% Increase in Earnings**

For the first quarter of 2021, Zain KSA reported sales of SAR 1,938 million and a net profit of SAR 41 million, representing a 14% increase over the 4Q20. These figures demonstrate the company's operations' long-term profitability, which has lasted for 11 quarters. Despite the pandemic's challenges, the organization will continue to work on improving the quality of its services and diversifying its investment ventures in the future. In keeping with the objective of the 2025 Digital Transformation Component, a core program of Saudi Vision 2030, the company will expedite the country's digital transformation. Zain KSA's consistent hallmark successes have garnered it several awards and led to the company's success on both the local and global levels. As a result, Opensignal, an independent worldwide standard for measuring consumer mobile experiences, has awarded several prizes to the company.

### **Zain Saudi Arabia is the Best Performance in 5G Services**

The Kingdom's Communications and Information Technology Commission (CITC) placed Zain KSA #1 in the Meqyas report. During the first quarter of 2021, it provided the greatest 5G services. Meanwhile, Zain KSA maintained its lead in the 5G rollout across the Kingdom, with its services spanning 12 of the Kingdom's 13 administrative areas. With 99.87%, it likewise topped the Fixed Internet Video Streaming quality indicator. In terms of latency for the Kingdom's most popular social media platforms, Zain KSA came out on top in the Twitter application. Zain KSA has the best 5G coverage throughout Riyadh. It also had the quickest start time for YouTube videos and internet surfing. In Riyadh, it has the greatest mobile data experience in 4G and 5G, as well as the best coverage and peak data rates.

### **In Collaboration with Wipro, the UAE Will Open a New Cyber Defense Center**

Emirates Integrated Telecommunications Company (EITC) and Wipro have announced the opening of a new Cyber Defense Center. To foresee and prevent cyber-attacks that put enterprises at risk, public and private companies need around-the-clock detection and response capacity. The next-generation Cyber Defense Center will guarantee that incident detection, analysis, and response are all done smoothly and efficiently. The Cyber Defense Center will provide government and commercial customers with important security skills and knowledge. By outsourcing their cybersecurity monitoring and management

operations, they will be able to expedite their digital innovation journeys. du is dedicated to promoting excellence and innovation in the Emirati economy and society. It looks forward to assisting and assuring everyone for many years to come. The Cyber Defense Center is a collection of managed security services designed to satisfy the needs of customers. It provides tools, methods, and people that are among the best in the business. SIEM, security orchestration, automation and response, and threat intelligence are all part of the platform. Enterprises will also be able to be more flexible and expandable thanks to the Cyber Defense Center. It will enable businesses to take advantage of a highly effective Security Operations Center (SOC) with a low total cost of ownership (TCO) The center will offer a variety of services, including monitoring, reporting, and response, as well as log preservation. To guarantee optimal security, it may be configured, installed, and controlled.

**Etisalat Group, du, STC, Mobily and Zain come together to commit on the implementation of Open RAN solutions**

Zain Group, Etisalat Group, stc, Mobily, and du, from Emirates Integrated Telecommunications Company (EITC), are joining forces to push forward the implementation of Open Radio Access Network (Open RAN) solutions in their existing telecom networks, share their industry knowledge and experience setting a clear path to drive innovation for the ICT sector across the Middle East. The Memorandum of Understanding (MoU) between the five operators confirms commitment to deploy Open RAN across their footprint, providing an opportunity to traditional RAN vendors to adopt open interfaces, software and hardware to build more agile and flexible mobile networks in the 5G and 4G era, support new entrants with innovative solutions and achieve cost efficiencies in RAN deployments. This partnership will open immense opportunities for operators and the telecom ecosystem with the availability of interoperable, competitive and commercial-grade Open RAN products, building a framework to exchange best practices and technical outcomes. For customers, they will gain advantage with service catering to the local market requirements with faster time to market while using the most advanced mobile access networks. With operators focusing on introducing software capabilities in the Open RAN environment it will bring technologies like Artificial Intelligence (AI) in the forefront.

**MENA telecoms rating summary**

	<b>ETISALAT</b>	<b>DU</b>	<b>STC</b>	<b>MOBILY</b>	<b>ETEL</b>
Rating	<b>HOLD</b>	<b>ACCUMULATE</b>	<b>HOLD</b>	<b>REDUCE</b>	<b>BUY</b>
Local currency	AED	AED	SAR	SAR	EGP
Target price	21.00	7.50	120.00	29.85	18.70
CMP	22	6.68	126.2	31.9	13.91
Potential change (%)	-4.5%	12.3%	-4.9%	-6.4%	34.4%

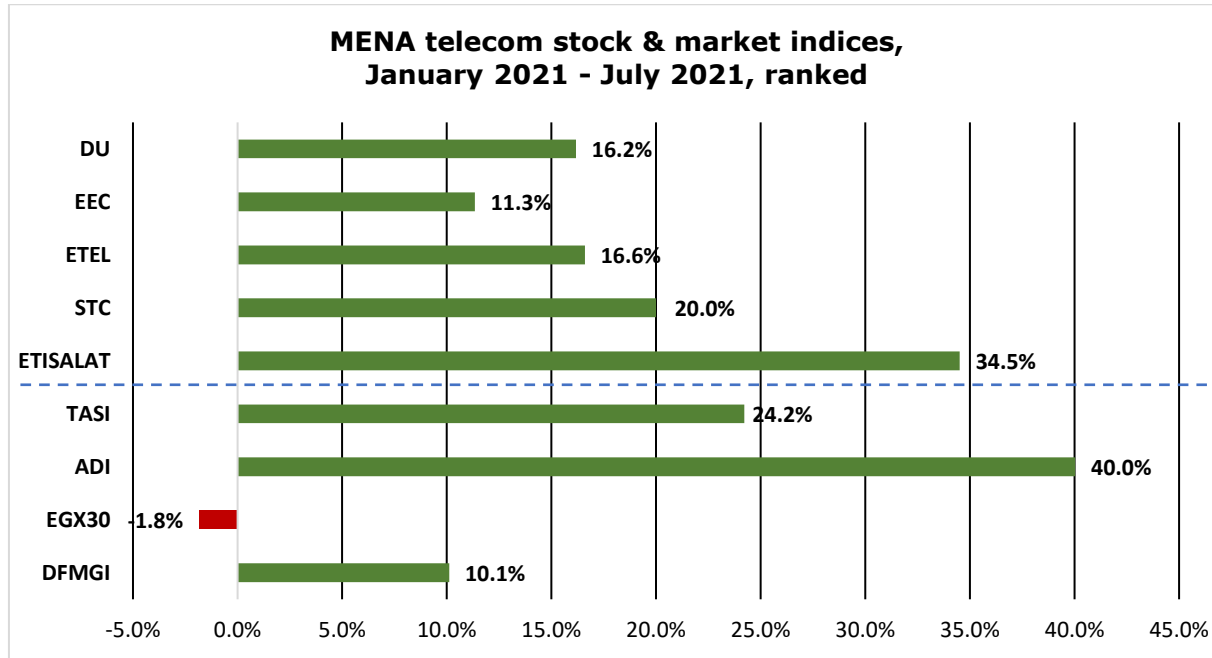
FABS Estimates & Co data

## Contents

MENA Telecommunication .....	1
Telecom stock performance in the YTD .....	6
Statistical Data .....	7
Relative valuation and rating .....	8
Market Weight .....	9
2Q21 preview: Etisalat Group .....	10
2Q21 preview: Emirates Integrated Telecommunications (du) .....	13
2Q21 preview: Etihad Etisalat Co. ....	15
2Q21 preview: Saudi Telecom Company .....	17
2Q21 preview: Telecom Egypt .....	20
FAB Securities Contacts: .....	23
FAB Securities Awards: .....	24

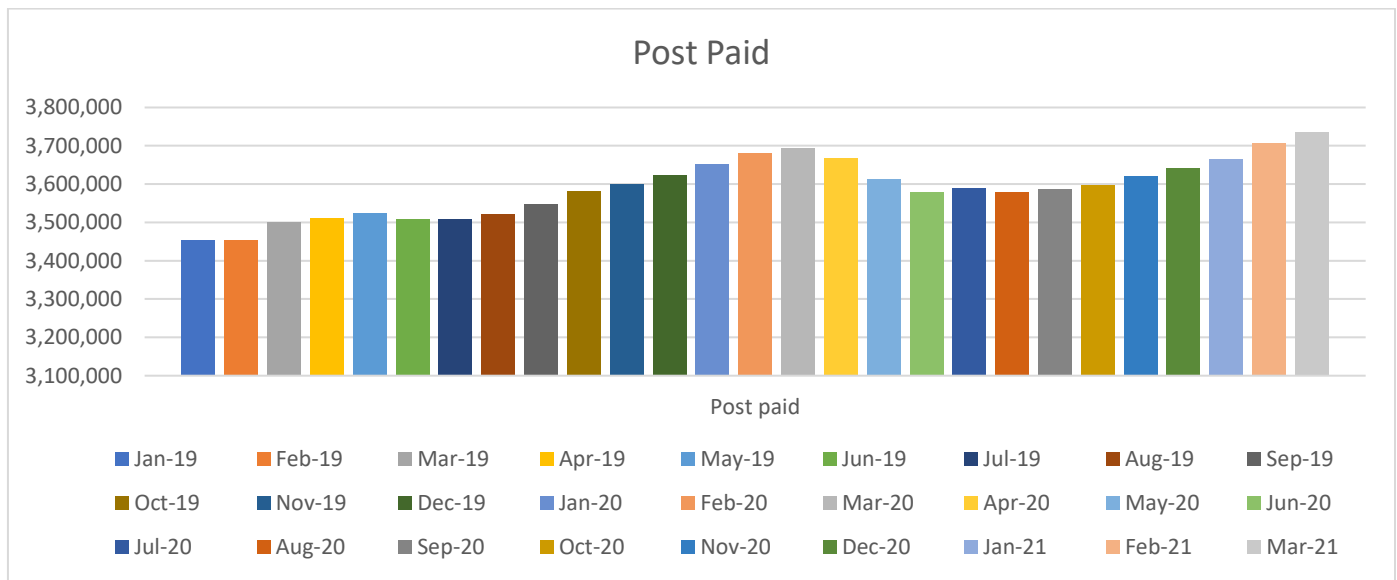
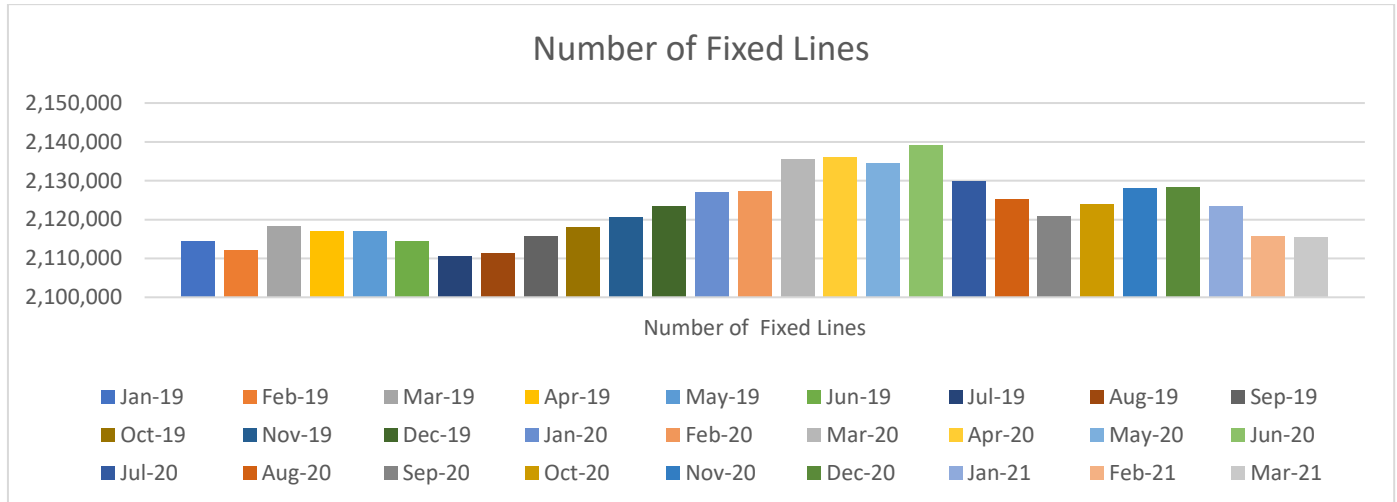
**Telecom stock performance in the YTD**

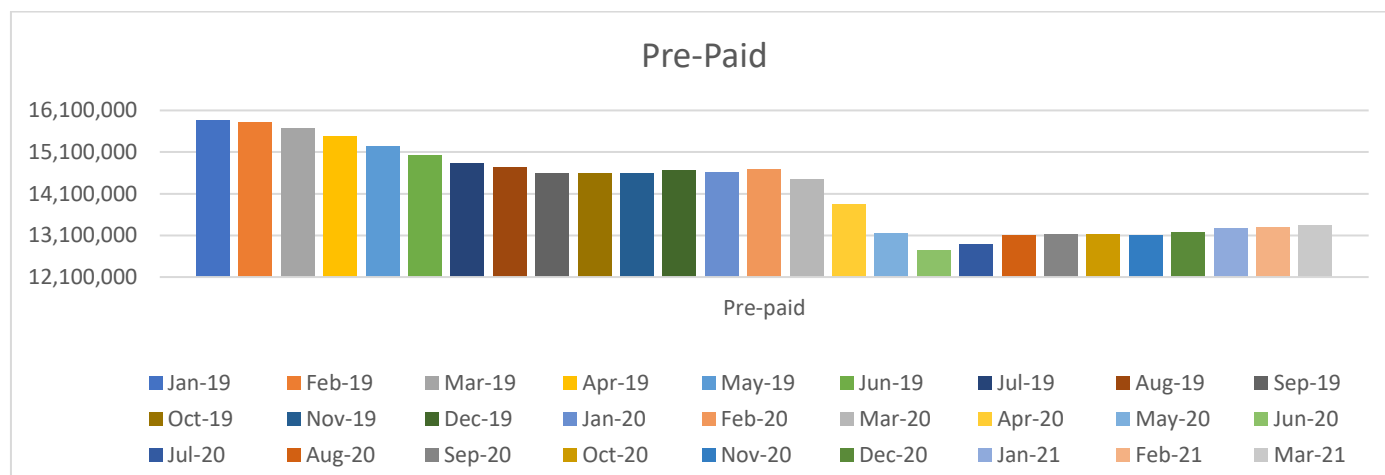
Etisalat stood at the top rank with 34.5%, while EEC came in last with an increase by 11.3%. Etisalat emerged as the top performer (#1) among the telecom stocks under our coverage as of July 2021 by rising by 34.5% even exceeded its benchmark DFMGI that stood at 10.1%. Following Etisalat is STC at #2 (20%) and ETEL at #3 (16.6%).



**Statistical Data**

The Number of fixed lines decreased by 0.94% to 2,115,353 in March 2021 from 2,135,473 in March 2020. Post-paid plan increased by 1.11% to 3,735,880 in March 2021 from 3,694,952 in March 2020. Pre-paid has decreased by 7.61% in March 2021 reaching 13,339,308 from 14,438,735 in March 2020.





Source: TRA

### Relative valuation and rating

The PE falls between 28.00x (EEC) and 5.22x (ETEL) among the telecom stocks we cover. The EV/EBITDA ranges from 9.68x (STC) and 3.49x (ETEL). ETEL's expected 2021 dividend yield is the highest at 5.4%, while we estimate Mobily to pay no dividend in 2021. ETEL has the lowest PB multiple of 0.79x. EEC and ETEL net debt/EBITDA stood at 2.27x and 2.19x.

### Relative Valuation

	ETISALAT	DU	STC	EEC	ETEL
CMP (LCY)	22.3	6.68	126.2	31.9	13.91
Number of shares (mm)	8,697	4,533	1,997	770	1,707
Market cap (LCY mm)	193,938	30,280	252,400	24,563	23,745
Market cap (US\$ mm)	52,801	8,244	67,291	6,549	1,512
Gross debt (LCY mm)	29,486	2,309	14,563	14,089	20,287
Cash (LCY mm)	32,420	2,261	19,619	1,229	2,003
Net debt/-cash (LCY mm)	-2,934	48	-5,056	12,859	18,284
Non-controlling interest	11,516	0	1,321	0	16
EV	199,169	29,949	246,467	36,849	45,317
EBITDA (2019)	20,552	2,995	21,490	5,336	11,063
BVPS (2019)	5.14	1.80	32.58	19.06	17.52
EPS (2019)	1.04	0.32	5.50	1.02	2.35
DPS (2019)	0.80	0.28	4.00	0.50	0.50
EV/EBITDA (x)	7.46	8.68	9.68	6.51	3.49
P/BV (x)	4.34	3.72	3.87	1.67	0.79
PER (x)	21.13	22.22	22.87	28.00	5.22
Dividend yield	5.4%	4.2%	3.2%	0.0%	5.4%
Payout ratio	115.6%	88.0%	90.9%	49.2%	21.2%
Net debt/EBITDA (x)	-0.32	-0.11	-0.32	2.27	2.19

Source: FABS from Bloomberg



## Market Weight

We remain NEUTRAL on MENA telecoms with 1x BUY, 1x ACCUMULATE, 2x HOLDS, and 1x REDUCE.

### MENA telecoms rating summary

	<b>ETISALAT</b>	<b>DU</b>	<b>STC</b>	<b>MOBILY</b>	<b>ETEL</b>
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FABS Estimates & Co data

## 2Q21 preview: Etisalat Group

Growth in Revenue and lower Finance Costs to support the earnings

CMP(AED):22.0

Potential upside (%): -4.5%

12-m target price:

**AED 21.00**

Stock rating:

**HOLD**

### 2Q21 Estimate

Etisalat is expected to report 3.3% YOY increase in Net profit to AED2,467 mm in 2Q21, compared to a Net profit of AED2,388 mm in 2Q20. This is mainly due to an expected rise in Revenue and decline in Impairment. We expect Revenue to increase by 16.4% YOY to AED14,542 mm in 2Q21 from AED12,492 mm in 2Q20. Operating expenses are expected to rise by 18.6% YOY to AED7,125 mm in 2Q21 from AED6,009 mm in 2Q20. Impairment charges are expected to fall by 41.8% YOY to AED192 mm from AED329 mm in 2Q20. As a result, the EBITDA is forecasted to rise by 17.4% YOY to AED7,225 mm in 2Q21 from AED6,154 mm in 2Q20 with EBITDA margin equal to 49.7% in 2Q21 compared to 49.3% in 2Q20. Operating profit is estimated to increase by 10.3% YOY to AED3,584 mm in 2Q21 from AED3,249 mm in 2Q20, with OPM reaching 24.6% from 26% in 2Q20. Finance income is expected to significantly decrease by 40.5% YOY to AED211 mm from AED355 mm in 2Q20 and Finance cost is expected to also decrease by 50.8% YOY to AED411 from AED835 mm in 2Q20.

### 2021 Forecast

Etisalat is expected to report a 1.3% YOY increase in Net profit to AED9,140 mm in 2021 from AED9,027 mm in 2020, with Net margin 17.3% compared to 17.5% in 2020. This increase in Net profit is due to an expected increase in revenue which is expected to rise by 2.5% YOY to AED52,975 mm in 2021 from AED51,708 mm in 2020. Operating expenses are expected to increase by 1.8% YOY to AED24,369 mm from AED23,940 mm in 2020. Impairment charges are forecasted to rise by 5.5% YOY to AED1,536 mm from AED1,456 mm in 2020. Thus, EBITDA is estimated to advance by 2.9% YOY to AED27,070 mm in 2021 compared to AED26,312 mm in 2020, with an increase by 21 bps YOY in EBITDA margin to 51.1% from 50.9% in 2020. At the same time, the operating profit is expected to marginally decline by 0.4% YOY to AED12,957 mm from AED13,015 mm in 2020, with an OPM equal to 24.5% from 25.2% in 2020. As we anticipate the Finance income to decline by 2.2% YOY to AED1,088 mm in 2021 from AED1,112 mm in 2020, in addition, Taxes are expected to decline by 0.9% to AED1,437 mm in 2021 from AED1,451 mm in 2020.

### 1Q21 outturn

Etisalat reported a Net Profit of AED2,350 mm in 1Q21, which is a 7.9% YOY increase from a Net Profit of AED2,179 mm in 1Q20. The Net Profit exceeded our expectation by 2.8% primarily due to lower Impairment charges and lower Finance costs recorded by the company. The Total Revenue increased slightly by 0.8% YOY to AED13,220 mm in 1Q21 as compared to AED13,113 mm in 1Q20. The Operating expenses decreased by 2.2% YOY to AED6,342 mm in 1Q21 from AED6,483 mm in 1Q20. The Impairment charges reduced significantly by 48.5% YOY to AED182 mm in 1Q21 as compared to AED354 mm in 1Q20. The improvement in Operating expenses and Impairment charges decreased which supported the increase in the EBITDA by 6.7% YOY to AED6,696 mm in 1Q21. The Operating Profit increased by 1.6% YOY to AED3,361 mm, despite the increase in Depreciation and Amortization expenses. The Profit before tax increased by 10.2% YOY to AED3,188 mm in 1Q21 from AED2,893 mm in 1Q20. The significant increase in the Finance Income and a 26% YOY decrease in the Finance cost supported the growth in PBT. The Tax expense increased by 2.5% YOY to AED367 mm in 1Q21. Total Assets increased by 3.7% YOY to AED135 bn in 1Q21 from AED130 bn in 1Q20. Total Equity increased by 0.7% YOY to AED56.4 bn in 1Q21 from AED56 bn in 1Q20. Total Liabilities increased by 6.04% from AED74 bn in 1Q20 to AED78bn in 2020.

### Target price and recommendation

We assign a rating of HOLD with a target price of AED21.00. Etisalat Group is one of the leading telecommunications companies in the MENA region. In the first quarter of 2021, the Group reported a 7.9% increase in the Net Profit, despite the ongoing uncertainty regarding the impact of COVID-19. The Company also recorded a 4% increase in their customer base during the same period. The Group's cost optimization methods helped to sustain a healthy EBITDA margin of 51%. Etisalat's presence in UAE and Maroc Telecom (MT) Group comprises 57% and 26% of the company's total revenue. Egypt, Pakistan, and Others comprise of the rest of the Total Revenue. The company has recorded an increase in subscribers for their domestic post-paid plans and eLife segments. The blended average revenue per line (ARPU) increased in 1Q21. The fixed broadband subscriber numbers and its ARPU remained stable in 1Q21. However, the Domestic Revenue and EBITDA growth rates were negatively impacted by the impact of COVID-19 and lower voice revenue. The International operations, in particular Etisalat Misr, witnessed Revenue growth mainly due to an increase in demand for mobile data packages. The growth is also attributable to the increase in subscriber base in all the international regions. The revenue growth momentum in Maroc Telecom Group was mainly due to favorable exchange rate movements and growth momentum in International Subsidiaries. The Revenue in Egypt grew by 13% (in AED, 12% in EGP) mainly due to robust growth in the mobile data packages. The Revenue growth of 6% (in AED, 7% IN PKR) in Pakistan was attributable to all the segments of the Group. The Group's consolidated EBITDA increased slightly by 0.7%, mainly due to increase in Revenue and optimization of the Operating expenses. The EBITDA from the international operations increased by 6% YOY and contributed around 39% to the Group's total EBITDA. The Capex to Revenue stood at a stable 8% with CAPEX at AED 1.1 bn 1Q21. The Group recorded an increase in CAPEX expenditure in the UAE, in line with the aim to modernise and maintain the network. However, the capital expenditure in international segments decreased by 21% YOY. The MT Group witnessed a reduction in CAPEX for both the domestic and international segments. The reduction in capital expenditure in Egypt was mainly due to network distribution. Similarly, in Pakistan, it was due to mobile network facilities. The company spent around 56% of the total capital expenditure for operations in the UAE. Around 40% of the international capital expenditure was spent in Egypt in the international segments, followed by 37% spend in MT Group. The Group is expected to continue to invest in digital and network facilities to aide transformation. The company is focused on improving margins and improved the Gross Profit margin by 146 bps to 52% in 1Q21. Similarly, the EBITDA margin and OPM margin improved due to cost optimization to 51% and 18% respectively. The Group has improved its liquidity position by increasing the Net cash balances by 77% to AED8.2 bn in 1Q21 from the previous quarter. However, the operating cash flow reduced marginally due to changes in working capital, mainly due to an increase in Inventories and Trade Receivables. The cash outflow from Investing activities was mainly due to lower level of cash capex. Furthermore, the Group repaid bank borrowings in 1Q21, resulting in Financing cash outflow and directly on the cash balance. The Free cash flow (FCF) increased by 0.9% YOY to AED5.7 bn in 1Q21. The S&P Global has rated the company AA- with a stable outlook. Similarly, Moody's has rated the company Aa3 with a stable outlook. The company's debt profile is diversified with Bank borrowings and Bonds as largest components of the Liabilities. The PB multiple is 4.17x. Therefore, we assign a HOLD rating to Etisalat.

#### Etisalat - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	22.02	21.58	21.36	20.54	21.36
P/B (x)	4.18	4.13	3.99	3.79	2.94
Dividend yield	3.7%	3.7%	3.7%	3.7%	3.7%

FABS estimate and Co Data

**Etisalat – P&L**

(AED mm)	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	12,492	13,220	14,542	16.4%	10.0%	51,708	52,975	2.5%
Operating expenses	-6,009	-6,342	-7,125	18.6%	12.4%	-23,940	-24,369	1.8%
Impairment	-329	-182	-192	-41.8%	5.0%	-1,456	-1,536	5.5%
<b>EBITDA</b>	<b>6,154</b>	<b>6,696</b>	<b>7,225</b>	<b>17.4%</b>	<b>7.9%</b>	<b>26,312</b>	<b>27,070</b>	<b>2.9%</b>
Federal royalty	-1,509	-1,387	-1,527	1.2%	10.1%	-5,594	-5,731	2.5%
Depreciation, Amortization	-1,445	-2,010	-2,179	50.7%	8.4%	-7,900	-8,544	8.2%
Share of assoc. & JVs	49.1	61	65	31.4%	5.0%	197	162	-18.0%
<b>Operating profit</b>	<b>3,249</b>	<b>3,361</b>	<b>3,584</b>	<b>10.3%</b>	<b>6.6%</b>	<b>13,015</b>	<b>12,957</b>	<b>-0.4%</b>
Finance income	355	201	211	-40.5%	5.0%	1,112	1,088	-2.2%
Finance cost	-835	-374	-411	-50.8%	10.0%	-2,361	-2,359	-0.1%
<b>Profit before tax</b>	<b>2,768</b>	<b>3,188</b>	<b>3,384</b>	<b>22.2%</b>	<b>6.1%</b>	<b>11,766</b>	<b>11,686</b>	<b>-0.7%</b>
Tax	-239	-367	-422	76.7%	15.0%	-1,451	-1,437	-0.9%
<b>Profit after tax</b>	<b>2,529</b>	<b>2,821</b>	<b>2,962</b>	<b>17.1%</b>	<b>5.0%</b>	<b>10,316</b>	<b>10,248</b>	<b>-0.7%</b>
Non-controlling int.	-142	-471	-495	NM	5.0%	-1,289	-1,109	-14.0%
<b>Net profit</b>	<b>2,388</b>	<b>2,350</b>	<b>2,467</b>	<b>3.3%</b>	<b>5.0%</b>	<b>9,027</b>	<b>9,140</b>	<b>1.3%</b>

*FABS Estimate & Co Data*

Etisalat – Margins	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Gross Margin	51.9%	52.0%	51.0%	-90	-103	53.7%	54.0%	30
Operating margin	26.0%	25.4%	24.6%	-136	-78	25.2%	24.5%	-71
Net Profit margin	19.1%	17.8%	17.0%	-215	-81	17.5%	17.3%	-20

*FABS Estimate & Co Data*

## 2Q21 preview: Emirates Integrated Telecommunications (du)

Increase in Revenue to increase the profitability

CMP(AED):6.68

Potential upside (%): +12.3%

12-m target price:

**AED7.50**

Stock rating:

**ACCUMULATE**

### 2Q21 Estimate

We forecast 29.7% YOY increase in Du's Net profit to AED279 mm in 2Q21 from AED215 mm in 2Q20, with a Net margin at 9.4% in 2Q21, the increase in net profit is mainly due to an expected increase in Revenue by 11.2% YOY to AED2,968 mm in 2Q21 as compared to AED2,668 mm in 1Q20 along with a significant decrease in financing expenses by 81.4% reaching AED17 mm in 2Q21 from AED89 mm in 2Q20. While Costs (excluding D&A, marketing expenses) are anticipated to increase by 16.5% YOY to AED1,756 mm in 2Q21 from AED1,507 mm in 2Q20, resulting in 3.8% YOY increase in EBITDA to AED1,170 mm from AED1,126 mm in 2Q20, the EBITDA margin expected to decrease by 280 bps to 39.4% YOY in 2Q21 from 42.2% EBITDA margin in 2Q20. Therefore, Operating profit would also increase by 4.9% YOY to AED700 mm from AED667 mm in 2Q20; and the Operating profit margin would drop by 142 bps to 23.6% in 2Q21 compared 25% in the corresponding period last year.

### 2021 Forecast

DU is estimated to advance by 7.5% YOY in Net profit to AED1,551 mm in 2021 from a Net profit of AED1,443 mm in 2020. This is mainly due to the anticipation of increase in Revenue and Operating profit. Revenue is expected to rise by 6% YOY to AED11,749 mm in 2021 from AED11,084 mm in 2020, while Total Costs are estimated to slightly increase by 0.9% YOY to AED6,814 mm in 2021 compared to AED6,756 mm in 2020. As a result, EBITDA is forecasted to increase by 14.1% to AED4,765 mm in 2021 from AED4,177 mm in 2020, with EBITDA margin at 40.6% in 2021 as compared to 37.7% in 2020. Depreciation and Amortization expenses are projected to increase by 3.3% to AED1,532 mm in 2021 as compared to AED 1,483 mm in the previous year. Thus, Operating profit would come in 20% higher at AED3,233 mm from AED2,694 mm in 2020, with Operating Profit Margin (OPM) at 27.5% in 2021 from 24.3% in 2020. Federal royalty expenses would increase by 8.5% to AED1,641 mm in 2021 from AED1,512 mm as at end of 2020.

### 1Q21 Outturn

Emirates Integrated Telecommunications (DU) reported a drop by 3.5% YOY to AED2,883 from AED2,988 in 1Q20, While Total Costs increased by 8% YOY to AED1,730 mm in 1Q21 from AED1,601 mm in 1Q20. As a result, EBITDA has decreased by 16.3% YOY to AED1,120 mm in 1Q21 compared to AED1,339 mm in 1Q20, with EBITDA margin at 38.8% from 44.8% in 1Q20. Depreciation and Amortization rose by 3.7% YOY to AED475 mm in 1Q21 from AED458 mm in 1Q20. Therefore, Operating profit declined by 26.7% YOY to AED645 mm from AED881 mm in 1Q20, with OPM at 22.4% from 29.5% in 1Q20. Total Assets decreased by 1.9% YOY to AED16.4 bn in 1Q21 from AED16.8 bn in 1Q20. Total Equity decreased also by 9.5% YOY to AED8.1 bn in 1Q21 from AED9 bn in 1Q20. Total Liabilities increased by 6.8% from AED7.8 bn in 1Q20 to AED8.3 bn in 1Q21.

### Target price and rating

We maintain our rating on DU to ACCUMULATE with revised target price at AED7.50. DU has invested its efforts to gradually improve and start the recovery post-COVID-19 pandemic phase. The company's financial figures reflected its willingness and commitment to outperform despite the global situation. Du has extended its increasing revenue trend for the third consecutive quarter to reach AED 2.88 Bn, a 5.2% increase from its previous quarter but still 3.5% below its yearly revenues in first quarter of 2020 for AED 2.99 Bn given that COVID-19 effect was very minimal in the same period of the year 2020. EBITDA recorded an improvement as compared to fourth quarter 2020 reaching AED 1.12 Bn driven by

higher revenues and lower outsourcing and contracting costs. Net income for first quarter 2021 also outperformed the previous quarter by 38.7% reaching AED 257 Bn, without considering the AED 151 Mn impairment and goodwill. The mobile revenues showed stability at AED 1.31 Bn due to a 1.9% increase in the mobile subscribers' base reaching 6.8 Mn customers reducing the impact of the 0.7% decrease in Average revenue per user (ARPU) as compared to the previous quarter. Despite the QoQ increase, mobile revenues are still below the first quarter 2020 figures by 12.7% knowing that the impact of COVID-19 was minimal same period last year whereas the ARPU scored an increase of 2.9% to AED 87 with a better customer mix. Nevertheless, fixed revenues kept their increasing trend both QoQ (2.8%) and YoY (3.4%) reaching an all-time peak of AED 663 Mn in first quarter 2021 reflecting the improvement in the economy. The launching of iPhone 12 and the high customer appetite reflected in the increased demand, with the continuous plan to boost 5G implementation, has led retail revenues to increase by 16.5% as compared to previous quarter and 7.6% as compared to first quarter 2020 to reach AED 908 Mn. The company's capital intensity reached 19.7% as the company continued the implementation of the capital development plan focusing mainly on deployment of 5G services and better coverage and capacity. As a result of the aggressive plan, Du's cash flow recorded a 42.3% decrease in first quarter 2021 as compared to last year's cash while improving in comparison to fourth quarter 2020 from AED 490 Mn to AED 552 Mn by end of first quarter 2021. The outlook remains positive with the hope of less restrictions on local and international mobility as a result of the worldwide vaccination campaign. Hence, we assign our ACCUMULATE rating on the stock.

#### DU - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	17.58	17.13	17.58	20.88	19.65
P/B (x)	3.77	3.56	3.50	3.53	3.43
Dividend yield	5.2%	5.2%	5.1%	4.2%	4.6%

FABS Estimates & Co data

#### DU - P&L

(AED mm)	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY
Revenue	2,668	2,883	2,968	11.2%	2.9%	11,084	11,749	6.0%
Costs (ex D&A, marketing exp)	-1,507	-1,730	-1,756	16.5%	1.5%	-6,756	-6,814	0.9%
Marketing expense	-35	-34	-42	21.6%	26.1%	-151	-170	12.9%
<b>EBITDA</b>	<b>1,126</b>	<b>1,120</b>	<b>1,170</b>	<b>3.8%</b>	<b>4.4%</b>	<b>4,177</b>	<b>4,765</b>	<b>14.1%</b>
Depreciation and Amortization	-459	-475	-470	2.3%	-1.0%	-1,483	-1,532	3.3%
<b>Operating profit</b>	<b>667</b>	<b>645</b>	<b>700</b>	<b>4.9%</b>	<b>8.4%</b>	<b>2,694</b>	<b>3,233</b>	<b>20.0%</b>
Financing income/expense	-89	-15	-17	-81.4%	10.0%	-55	-61	10.0%
Other income/expense	0	0	0	NM	NM	14	10	-28.1%
Gain on disposal of investment	0.422	-1	0	NM	NM	302	10	-96.7%
<b>Pre-royalty profit</b>	<b>579</b>	<b>629</b>	<b>683</b>	<b>18.0%</b>	<b>8.5%</b>	<b>2,955</b>	<b>3,192</b>	<b>8.0%</b>
Federal Royalty	-363	-372	-404	11.1%	8.6%	-1,512	-1,641	8.5%
<b>Net profit</b>	<b>215</b>	<b>257</b>	<b>279</b>	<b>29.6%</b>	<b>8.5%</b>	<b>1,443</b>	<b>1,551</b>	<b>7.5%</b>

FABS Estimates & Co data

#### DU - Margins

AED mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	Change
Gross Margin	43.5%	40.0%	40.8%	-268	83	39.0%	42.0%	296
Operating margin	25.0%	22.4%	23.6%	-142	120	24.3%	27.5%	321
Net Profit margin	8.1%	8.9%	9.4%	133	48	13.0%	13.2%	19

FABS Estimates & Co data

## 2Q21 preview: Etihad Etisalat Co.

Increase in Revenue to support earnings

CMP (SAR): 31.9

Potential upside (%): -6.4%

12-m target price:

**SAR29.85**

Stock rating:

**REDUCE**

### 2Q21 Estimate

Etihad Etisalat (Mobily) is estimated to report an advance by 28.3% YOY in Net profit to SAR238 mm in 2Q21 from SAR185 mm in 2Q20, mainly due to a 5.5% YOY increase in Gross Profit to SAR2,175 mm in 2Q21 from SAR 2,062 mm in 2Q20 and an increase by 17.2% YOY in Operating Profit to SAR430 mm from SAR367 mm in 2Q20. Sales is expected to rise by 6.3% YOY to SAR3,783 mm in 2Q21 from SAR3,559 mm in 2Q20. EBITDA is expected to rise by 5.7% YOY to SAR1,437 mm in 2Q21 from SAR1,360 mm in 2Q20, mainly due to an anticipated increase in Sales and improvement in Operational performance. We estimate Mobily to expand their selling activities (such as advertising costs, salaries of employees, sales commissions etc), resulting in the projected rise of Selling and overhead expenses by 5% YOY to SAR738 mm in 2Q21 from SAR702 mm in 2Q20. Financial charges are expected to fall by 10.9% YOY to SAR124 mm in 2Q21 from SAR139 mm in 2Q20. Zakat expenses are expected to increase by 7.5% YOY to SAR18 mm in 2Q21 compared to SAR17 mm in 2Q20.

### 2021 Forecast

Mobily's Net Profit is expected to increase by 30% YOY to SAR1,018 mm in 2021 from a Net profit of SAR783 mm in 2020. This is mainly due to an expected increase in Gross profit and Operating profit. Sales are expected to increase by 4% YOY to SAR14,608 mm in 2021 from SAR14,046 mm in 2020. Moreover, Direct costs are expected to rise by 4.1% YOY to SAR6,135 mm in 2021 from SAR5,894 mm in 2020. Subsequently, the Gross Profit is projected to increase by 3.9% YOY to SAR8,473 mm in 2021 from SAR8,152 mm in 2020 with a Gross profit margin of 58% as of 2021 almost the same as 2020 with an insignificant decrease by 4 bps. The Operating Profit is expected to rise by 17.4% YOY to SAR1,639 mm in 2021 from SAR1,396 mm in 2020, with an increase by 128 bps in OPM to 11.2% compared to 9.9% in 2020. Zakat expenses are expected to rise by 25.2% to SAR54 mm in 2021 compared to SAR43 in 2020.

### 1Q21 Outturn

Etihad Etisalat (Mobily) recorded a significant increase in Net Profit to SAR226 mm in 1Q21 from a Net profit of SAR130 mm in 1Q20, beating our Estimate of SAR185 mm. The increase in Net profit was mainly attributed to a decrease in General & Administrative expenses and in Finance Expense, in addition to a stable Direct Cost. Sales increased by 0.1% YOY to SAR3,603 mm in 1Q21 from SAR3,600 mm in 1Q20. Direct costs decreased slightly by 0.2% YOY to SAR1,531 mm in 1Q21 from SAR1,534 mm in 1Q20. Resultantly, the Gross profit increased by 0.3% YOY to SAR2,072 mm in 1Q21 from SAR2,065 mm in 1Q20. EBITDA increased by 6.3% YOY to SAR1,412 mm in 1Q21 from SAR,328 mm in 1Q20, because of an improvement in the company's efficiency in managing its General and Admin expenses. The EBITDA margin rose to 39% for 1Q21 compared to 37% for 1Q20. Financial charges decreased by 21.9% YOY to SAR126 mm in 1Q21 from SAR162 mm in 1Q20, reflecting the company's efforts to lower funding costs by refinancing large portions of its debts, and the decline in interest rates. Total Impairment loss increased to SAR54 mm in 1Q21 from SAR47 mm in 1Q20. Zakat expenses increased by 29% YOY to SAR18 mm for 1Q21 from SAR14 mm in 1Q20. Total assets increased by 1% YOY to SAR38.8 bn in 1Q21 from SAR38.4 bn in 1Q20. Total liabilities increased by 0.7% YOY to SAR24.1 bn in 1Q21 from SAR23.96 bn in 1Q20. Cash and cash equivalents inclined by 38% YOY to SAR1.3 bn in 1Q21 from SAR929 mm in 1Q20.

### Target price and recommendation

We revise our rating on Mobily to REDUCE with a target price of SAR29.85. Mobily is one of the top ranked telecom companies in Saudi Arabia. Mobily's first quarter performance was maintained through a slight increase in revenues by 0.08%, reaching SAR 3,603 mm in 1Q21 from SAR 3,600 mm in 1Q20 due to growth in business unit and optic fiber sales despite the COVID-19 precautionary measures. The increase in revenue drove gross profit higher by 3% reaching SAR 2,071.56 mm in 1Q21 as compared to SAR 2,065.4 mm in 1Q20 with higher operating profit and lower financing costs. The company posted a 73.4% increase in net profit reaching SAR226 mm in 1Q21 as compared to SAR130.28 mm in 1Q20 mainly due to a decrease in operating expenses from SAR737 mm in 1Q20 to SAR 660 mm in 1Q21 which led to an increase in operating profit from SAR 344 mm in 1Q20 to SAR 423 mm in 1Q21. Financial charges dropped to SAR126 mm in 1Q21 from SAR162 mm in 1Q20 reporting a healthier financial position with a decrease by 21.9% on a YoY basis. Mobily's Capex for 1Q21 decreased by almost 65% to reach SAR155 mm compared to SAR441 mm in 1Q20. The earnings per share (EPS) increased to SAR 0.29 per share in 1Q21 from SAR 0.17 per share in 1Q20. Mobily BOD proposed dividends of SAR0.5 per share for the fiscal year 2020, issuing SAR385 mm dividends in total. We believe all these achievements are vital in demonstrating Mobily's financial performance and future outcome. The stock is trading at a P/B multiple of 1.76x. Based on the above, we assign a REDUCE rating on the stock.

### Mobily – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	-34.67	-199.38	797.50	31.27	24.17
P/B (x)	1.72	1.77	1.79	1.70	1.59
Dividend yield	0.0%	0.0%	0.0%	1.6%	1.9%

FABS Estimates & Co Data

### Mobily – P&L

SAR mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Sales	3,559	3,603	3,783	6.3%	5.0%	14,046	14,608	4.0%
Direct costs	-1,497	-1,531	-1,608	7.4%	5.0%	-5,894	-6,135	4.1%
<b>Gross profit</b>	<b>2,062</b>	<b>2,072</b>	<b>2,175</b>	<b>5.5%</b>	<b>5.0%</b>	<b>8,152</b>	<b>8,473</b>	<b>3.9%</b>
Selling & overhead exp	-702	-660	-738	5.0%	11.8%	-2,798	-2,910	4.0%
<b>EBITDA</b>	<b>1,360</b>	<b>1,412</b>	<b>1,437</b>	<b>5.7%</b>	<b>1.8%</b>	<b>5,355</b>	<b>5,563</b>	<b>3.9%</b>
D & A	-987	-996	-1,015	2.9%	2.0%	-3,970	-3,944	-0.6%
Other income	-6	7	8	NM	1.0%	11	20	88.7%
<b>Operating profit</b>	<b>367</b>	<b>423</b>	<b>430</b>	<b>17.2%</b>	<b>1.4%</b>	<b>1,396</b>	<b>1,639</b>	<b>17.4%</b>
Investment & oth. inc.	7	1	1	-78.9%	1.0%	21	27	29.8%
Impairment loss on accounts	-18	-54	-52	NM	-5.0%	-15	-16	10.0%
Impairment loss on property and equipment	-14	0	0	-100.0%	NM	-14	-16	10.0%
Financial charges	-139	-126	-124	-10.9%	-2.0%	-561	-562	0.2%
<b>Profit before zakat</b>	<b>202</b>	<b>244</b>	<b>256</b>	<b>26.5%</b>	<b>4.7%</b>	<b>826</b>	<b>1,072</b>	<b>29.7%</b>
Zakat	-17	-18	-18	7.5%	-1.5%	-43	-54	25.2%
<b>Profit attributable</b>	<b>185</b>	<b>226</b>	<b>238</b>	<b>28.3%</b>	<b>5.2%</b>	<b>783</b>	<b>1,018</b>	<b>30.0%</b>

FABS Estimate & Co Data

### Mobily – Margins

SAR mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Gross margin	57.9%	57.5%	57.5%	-44	0	58.0%	58.0%	-4
Operating margin	10.3%	11.8%	11.4%	105	-40	9.9%	11.2%	128
Net profit margin	5.2%	6.3%	6.3%	108	1	5.6%	7.0%	139

FABS Estimate & Co Data



## 2Q21 preview: Saudi Telecom Company

Initiatives in technology to boost revenue and profitability

CMP (SAR): 126.2

Potential upside (%): -4.9%

12-m target price:

**SAR120.00**

Stock rating:

**HOLD**

### 2Q21 Estimate

STC is estimated to report a profit of SAR3,178 mm in 2Q21, which is a 16.7% YOY increase making the net profit margin rise by 103 bps to 19.3% in 2Q21 from 18.3% in 2Q20. We expect a rise by 14.6% YOY in Gross Profit to SAR9,559 mm in 2Q21 from SAR8,341 mm in 2Q20, led by an expected growth by 10.5% YOY in the Revenues to SAR16,480 mm in 2Q21. The expected increase in the Gross profit will lead to an increase by 210 bps in the GPM margin to 58% in 2Q21 compared to 55.9% in 2Q20. STC is likely to register an increase of 17.1% YOY in EBITDA to SAR6,254 mm in 2Q21 as compared to SAR5,342 mm in 2Q20. Operating profit margin (OPM) is expected to increase to 23% in 2Q21 from 20.5% in 2Q20. Financial charges are likely to decrease by 8.4% YOY to SAR145 mm in 2Q21 from SAR158 mm in 2Q20. Finance Income is expected to decrease by only 0.7% YOY to SAR104 mm in 2Q21 from SAR105 mm in 2Q20. Provision for zakat is expected to increase by 66.1% YOY to SAR391 mm in 2Q21 from SAR235 mm in 2Q20.

### 2021 Forecast

STC's Net profit is expected to slightly increase by 1.2% YOY to SAR11,124 mm from SAR10,995 mm in 2020. Revenues are expected to increase by 3% YOY in 2021 to SAR60,722 mm from SAR58,953 mm in 2020, while Direct cost will also increase by 3.2% YOY reaching SAR25,807 mm in 2021 from SAR24,999 mm in 2020. Subsequently, the Gross Profit is expected to increase by 2.8% YOY to SAR34,915 mm in 2021 from SAR 33,954 mm in 2020 with a Gross profit margin of 57.5% in 2021 from 57.6% in 2020. Due to a slight increase of 0.7% YOY in Depreciation and amortisation expenses to SAR9,424 mm and an increase by 1.9% in General & administrator expense to SAR5,920 in 2021, the Operating Profit is likely to increase by 5.2% YOY to SAR13,396 mm in 2021 compared to SAR12,731 mm in 2020, leading to a rise by 47 bps in the OPM to 22.1% from 21.6% in 2020. Finance Income is likely to increase by 9.5% YOY to SAR453 mm in 2021 from SAR414 mm in 2020, while financial charges are likely to increase by 9.2% to SAR682 mm in 2021 from SAR624 in 2020.

### 1Q21 Outturn

Saudi Telecom Company (STC) reported a 1.34% YOY increase in Net profit of SAR2,952 mm in 1Q21 compared to a Net profit of SAR2,913 mm in 1Q20. This is mainly due to revenues rose by 12.63% to SAR15,695 mm in 1Q21 from SAR13,935 mm in 1Q20. Sales increase is mainly due to the rise in the Enterprise Business Unite sales as a result of increased demand for the company's services and goods, as well as the ability to respond quickly and competitively to consumer requests and demands. Direct costs increased by 24.3% YOY to SAR7,138 mm in 1Q21 from SAR5,739 mm in 1Q20. Gross profit increased by 4.4% YOY to SAR8,557 mm in 1Q21 from SAR8,196 mm in 1Q20. Operating costs decreased by SAR116 mm as a result of an SAR55 mm reduction in selling and promotion expenses and an SAR95 mm reduction in G&A expenses. Selling and marketing expenses decreased by SAR55 mm YOY compared to 1Q20. General & admin expenses decreased by SAR95 mm YOY compared to 1Q20. Operating profit increased by 15.9% YOY to SAR3,482 mm in 1Q21 from SAR3,004 mm in 1Q20. Zakat and Income tax increased by SAR125 mm YOY compared to 1Q20. Earnings before interest, taxes, zakat, depreciation, and amortization (EBITDA) increased by 9.59% YOY to SAR5,841 mm in 1Q21 from SAR5,330 mm in 1Q20. Saudi Telecom Company (STC) will be distributing SAR1 per share dividends on 31/05/2021 for a total amount of SAR2,000 mm. Total assets increased by 3.07% to SAR124.46 bn in 1Q21 from SAR120.76 bn in 1Q20. Total liabilities rose by 2.57% to SAR58.2 bn in 1Q21 from SAR56.7 in 1Q20. Total equity increased by 3.5% on a YoY basis to SAR66.26 bn in 1Q21 from SAR64 bn in 1Q20.

### Target price and recommendation

We assign a HOLD rating on Saudi Telecom Company, with a target price of SAR120. Saudi Telecom is the largest telecom operator in the MENA region with an 87.23% market cap of SAR254 bn and operations in 4 countries. It is the market leader in Saudi Arabia with 73% market share as at end of 2020, the largest market share in the region. It is the regional pioneer in 5G deployment. STC's sales revenue for 1Q21 has increased by 12.6% on a YoY basis reaching SAR15.7 bn from SAR13.93 bn in 1Q20, while revenues from STC's subsidiaries grew by 23.2%, contributing positively to the overall performance of the group. 93% of the revenues are generated locally in Saudi Arabia while only 7% are international revenues. EBITDA also increased by 9.6% as compared to same period last year from SAR5.33 bn to SAR5.84 bn with an EBITDA margin of 37.2% slightly below 1Q20 margin of 38.2%. Operating profit and operating margin have both increased to reach SAR3.48 bn and 22.2% respectively as compared to SAR3 bn and 21.6% same period last year. Net profit margin has decreased as compared to 1Q20 from 20.9% to 18.8% but has increased as compared to year-end 2020 from 17%. Net profit has increased by 1.4% on a YoY comparison reaching SAR2.95 bn from SAR2.91 bn in 1Q20. Return on Assets (ROA) had increased in 1Q21 to 9.49% from 9.01% as at end of 2020 and Return on Equity (ROE) has also increased to 18.15% from 17.19 as at the end of 2020. Total debt in 1Q21 slightly dropped to SAR8.84 bn from SAR8.96 mm in December 2020. STC's Debt/EBITDA ratio decreased from 1Q21 to 37.81% from 40.54% at the end of year 2020, while Debt/Assets and Debt/Equity decreased to 7.1% and 13.48%, respectively from 7.31% and 13.99%, respectively at the end of 2020. Cash balance has decreased to SAR6.84 bn in 1Q21 from SAR9 bn at the end of 2020 with total assets increasing to SAR124.46 bn from SAR121.97 at the end of 2020. STC maintained its dividend distribution policy approved in 2018, of paying SAR1 per share per quarter, which shows healthy cash flows and stable performance, despite the COVID-19 situation. And currently, the company is considering paying additional variable amounts of dividends subject to the board approval and based on the company's quarterly performance. P/E multiple for 1Q21 has reached 21.42 from 17.91 as at end of 2020 and EPS increased to SAR1.48 per share in 1Q21 from SAR1.3 per share in December 2020. Therefore, we assign a HOLD rating on the stock.

### STC – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	25.19	23.41	23.68	22.95	22.70
P/B (x)	0.25	0.26	0.24	0.25	0.27
Dividend yield	3.2%	3.2%	3.2%	3.2%	3.2%

FABS Estimates & Co data

**STC - P&L**

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2,020	2021F	YOY ch
Sales	14,920	15,695	16,480	10.5%	5.0%	58,953	60,722	3.0%
Direct costs	-6,579	-7,138	-6,922	5.2%	-3.0%	-24,999	-25,807	3.2%
<b>Gross profit</b>	<b>8,341</b>	<b>8,557</b>	<b>9,559</b>	<b>14.6%</b>	<b>11.7%</b>	<b>33,954</b>	<b>34,915</b>	<b>2.8%</b>
Selling & overhead expenses	-1,593	-1,350	-1,574	-1.2%	16.6%	-6,054	-6,175	2.0%
General & admin Exp.	-1,406	-1,366	-1,730	23.0%	26.7%	-5,811	-5,920	1.9%
<b>EBITDA</b>	<b>5,342</b>	<b>5,841</b>	<b>6,254</b>	<b>17.1%</b>	<b>7.1%</b>	<b>22,090</b>	<b>22,819</b>	<b>3.3%</b>
Depreciation & amortization	-2,279	-2,360	-2,465	8.1%	4.5%	-9,359	-9,424	0.7%
<b>Operating profit (EBIT)</b>	<b>3,062</b>	<b>3,482</b>	<b>3,789</b>	<b>23.7%</b>	<b>8.8%</b>	<b>12,731</b>	<b>13,396</b>	<b>5.2%</b>
Other income/(expenses)	6	-84	-131	NM	54.6%	-165	-667	NM
Finance Income	105	102	104	-0.7%	2.0%	414	453	9.5%
Financial charges	-158	-144	-145	-8.4%	1.0%	-624	-682	9.2%
<b>Profit before zakat</b>	<b>3,014</b>	<b>3,355</b>	<b>3,617</b>	<b>20.0%</b>	<b>7.8%</b>	<b>12,356</b>	<b>12,501</b>	<b>1.2%</b>
Zakat	-235	-355	-391	66.1%	10.0%	-1,170	-1,184	1.1%
<b>Profit before NCI</b>	<b>2,779</b>	<b>3,000</b>	<b>3,227</b>	<b>16.1%</b>	<b>7.6%</b>	<b>11,185</b>	<b>11,317</b>	<b>1.2%</b>
NCI	-55	-48	-48	-11.9%	1.0%	-190	-192	1.1%
<b>Profit attributable</b>	<b>2,724</b>	<b>2,952</b>	<b>3,178</b>	<b>16.7%</b>	<b>7.7%</b>	<b>10,995</b>	<b>11,124</b>	<b>1.2%</b>

*FABS Estimate & Co Data*
**Margins**

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	Change
Gross margin	55.9%	54.5%	58.0%	210	348	57.6%	57.5%	-10
Operating margin	20.5%	22.2%	23.0%	247	81	21.6%	22.1%	47
Net profit margin	18.3%	18.8%	19.3%	103	48	18.7%	18.3%	-33

*FABS Estimate & Co Data*

## 2Q21 preview: Telecom Egypt

Higher Operating Revenues and investment income could support the profitability

CMP (EGP): 13.91  
Potential gain (%): +34.4%

12-m target price:  
**EGP18.70**

Stock rating:  
**BUY**

### 2Q21 Estimate

Telecom Egypt (ETEL) is estimated to significantly increase Net profit to EGP2,223 mm in 2Q21, mainly due to a significant growth in Net Operating Revenues to EGP304 mm 2Q21 compared to a negative of EGP73 mm in 2Q20 and a significant decrease in Net Finance. Revenue is expected to grow by 8.9% YOY to EGP8,651 mm in 2Q21 from EGP7,941 mm in 2Q20, whereas the Cost of Revenue is expected to increase by 6.3% YOY to EGP5,130 mm in 2Q21 from EGP4,828 mm in 2Q20. Therefore, the Gross profit would increase by 13.1% YOY to EGP3,521 compared to EGP3,113 mm in 2Q20, with a GPM 40.7% in 2Q21. Selling and overhead expenses are projected to decline by 2.3% YOY to EGP1,500 mm in 2Q21 from EGP1,536 mm in 2Q20. We expect the Net Finance Cost to decrease by 89.9% YOY to EGP105 mm compared to EGP1,037 mm in 2Q20. Zakat expenses are expected to increase significantly to EGP901 mm in 2Q21 from EGP255 mm in 2Q20. The NCI is expected to decline by 41.7% YOY to EGP1 mm in 2Q21.

### 2021 Forecast

Telecom Egypt's Net Profit is expected to increase by 12.4% YOY to EGP5,455 mm in 2021 from EGP4,851 mm in 2020 due to an expected increase by 2.6% YOY in the Gross profit to EGP12,568 mm in 2021 from EGP12,249 mm in 2020, led by an expected rise by 3.1% YOY in Revenues to EGP32,902 mm in 2021 from EGP31,912 mm in 2020. Selling and distribution expenses are expected to rise by 5.9% YOY to EGP3,126 mm in 2021 from EGP2,951 mm in 2020. While General and Administrative expenses are expected to decline by 1.2% YOY to EGP3,290 mm in 2021 from EGP3,330 mm in 2020. Thus, Operating Profit is expected to grow by 8.6% YOY to EGP6,408 mm from EGP5,898 mm in 2020 with OPM equal to 19.5% from 18.5% in 2020, an increase of 99 bps YoY. Zakat expenses are expected to decline by 3.7% at EGP1,702 mm in 2021 compared to EGP1,767 mm in 2020 to help the profitability advance.

### 1Q21 Outturn

Telecom Egypt reported a Net Profit of EGP2,124 mm in 1Q21, up from EGP1,312 mm in 1Q20. The Company beat our expectations mainly due higher than expected Operating Profit. The Company recorded an increase by 28.8% YOY in Gross Profit to EGP3,434 mm in 1Q21, up from EGP2,666 mm in 1Q20. It was mainly supported by 19.9% YOY increase in Operating Revenue to EGP8,399 mm in 1Q21, as compared to EGP7,004 mm in 1Q20. The increase in operating revenue offset the 14.5% YOY increase in Operating costs to EGP4,880 mm in 1Q21. The Operating Profit increased robustly by 82.3% YOY to EGP2,231 mm in 1Q21, up from EGP1,224 mm in 1Q20. It was mainly due to significant increase in Net Operating revenues to EGP299 mm in 1Q21, from EGP62 mm in 1Q20. The Selling and Overhead expenses reduced by 0.2% YOY to EGP1,501 mm in 1Q21, further supporting Operating Profit's growth. The Profit before Zakat increased by 79.9% YOY to EGP3,086 mm in 1Q21, up from EGP1,715 mm in 1Q20. This was mainly supported by the Operating Profit and a significant increase in Income from Associates to EGP952 mm in 1Q21, up from EGP469 mm in 1Q20. Zakat has significantly increased to EGP960 mm from EGP402 mm in 1Q20. Total assets increased from EGP74.1 bn in 1Q20 to EGP87.7 bn in 1Q21, an increase by 18%. Total Equity increased by 9% to EGP38.5 bn in 1Q21 compared to EGP35.2 bn in 1Q20. Total liabilities increased by 27% from AED38.8 bn in 1Q20 to EGP49.2 bn in 1Q21.

### Target price and recommendation

We assign a BUY rating with a revised target price of EGP18.74. Telecom Egypt is one of the largest telecom operators in the region with fixed, mobile and data services. The Consolidated Revenue increased by 19.9% YOY to EGP8.4 bn in 1Q21, up from EGP7 bn in 1Q20. The Company has mainly five business units that contribute to the top-line, namely Home & Personal Communications, Enterprise, Domestic Wholesale, International carrier and International cables & networks. The Home and Personal unit contributed 49.9% to the top-line in 1Q21, followed by domestic wholesale. The Revenue from Home & Personal segment increased by 34% YOY mainly due to subscriber growth and increase in mobile & internet services. The increase in ARPU also supported it. The Domestic segment grew by 9.3% YOY, supported by demand for transmission services related to MNOs and ISPs. The Enterprise segment increased by 43.6% YOY to EGP1.129 bn in 1Q21 and contributed 13% to the Consolidated Revenue. It was mainly due to complimentary access services and recognition of infrastructure projects. The International carriers and International cables & networks declined by 7.6% YOY and 5.4% YOY respectively. The ICA declined mainly due to decrease in traffic and the ICN segment had recorded a EGP270 mm in 1Q20 pertaining to the agreement with Google. The fixed line customers – Voice and Data increased by 7% YOY and 22% YOY, respectively. The Mobile customer base increased by 38% YOY. The EBITDA increased by 42% YOY to EGP3.2 bn in 1Q21 supported by enhanced revenue mix and the cost optimization initiatives. The Net Profit increased robustly by 62% to EGP2.1 bn in 1Q21 mainly due to strong operating results and Vodafone Egypt's contribution via Investment Income. The Net Profit excluding non-operational items grew by 77% YOY. The Cash from operating activities grew strongly by 80% YOY to EGP3.4 bn in 1Q21. The Cash Capex stood at EGP5.7 bn in 1Q21. The In-service capex/sales ratio stood at 14% in 1Q21 due to the outflow for first tranche of the new spectrum acquisition. The Net Debt stood at EGP19.8 bn in 1Q21, 1.5x of annualized EBITDA. The effective interest rates decreased to 5.7% in 1Q21, compared to 7.4% in 1Q20. In the month of January 2021, the Company signed an agreement with Google to provide capacity and Egypt's crossing routes. The project will commence in H1 2021. During the same month, the Company signed an agreement with Ministry of Social Solidarity and agreed to provide 3.5mn mobile sims with several services at nominal cost. In March, the Company announced to launch Hybrid African Ring Path (HARP) by 2023. In March, the Group increased its announced dividends from EGP0.50 per share to EGP0.75 per share for FY20.

#### Telecom Egypt – Relative Valuation

	2017	2018	2019	2020	2021E
(at CMP)					
P/E (x)	10.08	9.27	6.62	5.92	4.35
P/B (x)	0.78	0.74	0.67	0.61	0.55
Dividend yield	1.8%	1.8%	1.8%	5.4%	5.4%

FABS Estimates & Co data

**Telecom Egypt-P&L**

EGP mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY
Operating Revenue	7,941	8,399	8,651	8.9%	3.0%	31,912	32,902	3.1%
Operating costs	-4,828	-4,965	-5,130	6.3%	3.3%	-19,663	-20,333	3.4%
<b>Gross profit</b>	<b>3,113</b>	<b>3,434</b>	<b>3,521</b>	<b>13.1%</b>	<b>2.5%</b>	<b>12,249</b>	<b>12,568</b>	<b>2.6%</b>
Selling & overhead expenses	-1,536	-1,501	-1,500	-2.3%	-0.1%	-6,281	-6,416	2.1%
Net operating revenues (others)	-73	299	304	NM	1.6%	-70	255	NM
<b>Operating profit</b>	<b>1,504</b>	<b>2,231</b>	<b>2,324</b>	<b>54.5%</b>	<b>4.2%</b>	<b>5,898</b>	<b>6,408</b>	<b>8.6%</b>
Income from Associates	537	952	905	68.6%	-5.0%	2,206	2,272	3.0%
Net Finance income/(cost)	-1,037	-98	-105	-89.9%	6.7%	-1,480	-1,517	2.6%
<b>Profit before zakat</b>	<b>1,004</b>	<b>3,086</b>	<b>3,124</b>	<b>NM</b>	<b>1.3%</b>	<b>6,625</b>	<b>7,163</b>	<b>8.1%</b>
Zakat	-255	-960	-901	NM	-6.2%	-1,767	-1,702	-3.7%
<b>Profit before N-C interests</b>	<b>748</b>	<b>2,125</b>	<b>2,224</b>	<b>NM</b>	<b>4.6%</b>	<b>4,858</b>	<b>5,461</b>	<b>12.4%</b>
Non-controlling interests	-2	-1	-1	-41.7%	2.0%	-7	-7	0.0%
<b>Profit attributable</b>	<b>746</b>	<b>2,124</b>	<b>2,223</b>	<b>NM</b>	<b>4.6%</b>	<b>4,851</b>	<b>5,455</b>	<b>12.4%</b>

*FABS estimate & Co Data*
**Telecom Egypt-Margins**

EGP mm	2Q20	1Q21	2Q21F	YOY ch	QOQ Ch	2020	2021F	Change
GPM	39.2%	40.9%	40.7%	150	-18	38.4%	38.2%	-18
OPM	18.9%	26.6%	26.9%	793	30	18.5%	19.5%	99
Net margin	9.4%	25.3%	25.7%	1629	40	15.2%	16.6%	138

*FABS Estimate & Co Data*

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