

Etihad Etisalat (Mobily)

Lower financial charges improved net profit

4Q20 Net profit lower than our estimate

Etihad Etisalat (Mobily) recorded a significant increase in Net Profit to SAR246 mm in 4Q20 from a Net loss of SAR125 mm in 4Q19, missing our estimate of SAR276 mm. The increase in net profit was mainly attributed to a slightly increase in Revenue, in addition to the decrease in Financial Charges and Selling & Overhead expense.

P&L highlights

Sales decreased by 0.5% YOY to SAR3.53 bn in 4Q20 from SAR3.51 bn in 4Q19. Direct costs increased by 2.6% YOY to SAR1.564 bn in 4Q20 from SAR1.525 bn in 4Q19. Resultantly, the Gross profit decreased by 1% YOY to SAR1.969 bn in 4Q20 from SAR1.990 bn in 4Q19. EBITDA increased by 10.5% YOY to SAR1.3 bn in 4Q20 from SAR1.2 bn in 4Q19, as a result of an improvement in the company's efficiency in managing its Selling and overhead expenses. Mobily's 2020 EBITDA rose by 6.8% in comparison to 2019 due to efficiency in managing operations and better revenue mix. The EBITDA margin rose to 37.2% for 4Q20 compared to 33.8% for 4Q19. Financial charges decreased by 56.9% YOY to SAR127 mm in 4Q20 from SAR294 mm in 4Q19, 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 SAR65 mm in 4Q20 from SAR22 mm in 4Q19. Zakat expenses decreased by 1.1% YOY to SAR8.9 mm for 4Q20 from SAR9 mm in 4Q19.

Balance sheet highlights

Total assets decreased by 2% YOY to SAR38.4 bn in 2020 from SAR39.2 bn in 2019. Total liabilities declined by 5.9% YOY to SAR23.9 bn in 2020 from SAR25.4 bn in 2019. Cash and cash equivalents declined by 25.7% YOY to SAR929 mm in 2020 from SAR1.25 bn in 2019.

Target price and rating

We maintain our HOLD rating on Mobily with a target price of SAR29.85. Mobily is ranked the 9th most valuable Saudi Arabian telecom company valued at more than SAR4 billion, increasing its value by more than 31%. Mobily acquired 5G spectrum in 2.6 GHz and 3.7 GHz, and was able to successfully extend the 5G service coverage reaching 53 cities in Saudi Arabia. Furthermore, Mobily successfully made the first 5G voice call (VoNR) in the ME, using 5G standalone (SA) network, as well as 5G (SA) network capability for data services, which provides independent 5G technology without any dependency on a 4G network. Mobily posted a more than 24x net profit returns of SAR783 mm for 2020 compared to SAR31 mm in 2019, mainly due to an improvement in topline performance, decline of financing charges and healthy EBITDA. We believe this is a major achievement for Mobily. The company also reduced its total debt by more than SAR1 billion, and therefore reported a healthy Net debt to EBITDA ratio of 2.26x in 2020. Mobily was able to attain healthy levels of net debt by decreasing financial charges for 2020 to reach SAR561 mm compared to SAR929 mm in 2019, displaying a decline of 39.6%. Mobily's Capex for 2020 rose by 1.2% to reach SAR2,792 million compared to SAR2,760 million in 2019 and the CAPEX intensity ratio (CAPEX to revenues) was at 20%. This displays Mobily's commitment to improve the quality of service and invest in the infrastructure. Mobily's operational cash flow rose by 17% to SAR2,558 mm compared to 2019 due to the improvement in topline growth and continuous efficiency in operational cost management. We believe all these achievements are vital in demonstrating Mobily's financial performance and future outcome.

Rating : HOLD

First Look Note – 4Q20

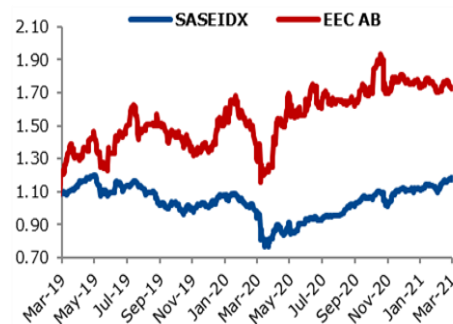
Sector: Telecom

Recommendation

Current Price (4-March)	28.40
Target Price	29.85
Upside (%)	+5.1%

Stock Information

Market Cap (mm)	22,022.00
Paid Up Capital (mm)	7,700.00
52 Week High	32.30
52 Week Low	18.50
3M Avg. daily value (SAR)	45,064,500



Financial Ratios

Dividend Yield (12month)	1.75
Dividend Pay-out	49.15
Price-Earning Ratio	28.06
Price-to-Book Ratio	1.52
Book Value	18.76
Return-on Equity	5.56
Earning Per Share (SAR)	1.02
Beta	1.04

Stock Performance

5 Days	-0.69%
1 Months	1.06%
3 Months	-2.56%
6 Months	4.00%
1 Year	24.35%
Month to Date (MTD%)	-0.52%
Quarter to Date (QTD%)	0.00%
Year to Date (YTD%)	0.00%

We believe all these achievements are vital in demonstrating Mobily's financial performance and future outcome. Mobily board of directors recommended a 5% cash dividend for the fiscal year 2020, at SAR 0.5 per share, amounting to SAR 385 million (Dividend Yield 1.75), for the first time since 2014. The stock is trading at a P/B multiple of 1.5x. Therefore, we maintain our HOLD rating on the stock.

Mobily - Relative Valuation

(At CMP)	2016	2017	2018	2019	2020
P/E	NM	NM	NM	NM	28.1
P/B	1.5	1.5	1.6	1.6	1.5
Dividend yield	-	-	-	-	1.7%

FABS estimate & Co data
Mobily – P&L

SAR mm	4Q19	3Q20	4Q20	4Q20F	Var	YOY Ch	QOQ Ch	2019	2020	YOY Ch
Sales	3,514	3,355	3,533	3,501	0.9%	0.5%	5.3%	13,450	14,046	4.4%
Direct costs	-1,525	-1,299	-1,564	-1,365	14.5%	2.6%	20.4%	-5,650	-5,894	4.3%
Gross profit	1,990	2,056	1,969	2,136	-7.8%	-1.0%	-4.2%	7,800	8,152	4.5%
Selling & overhead exp	-802	-702	-656	-718	-8.6%	-18.1%	-6.5%	-2,786	-2,798	0.4%
EBITDA	1,188	1,354	1,313	1,418	-7.4%	10.5%	-3.0%	5,014	5,355	6.8%
D & A	-1,010	-993	-1,001	-1,001	0.0%	-0.9%	0.8%	-3,917	-3,970	1.3%
Other income	11	10	3	8	-65.5%	-74.5%	-71.1%	43	11	-75.2%
Operating profit	189	371	315	425	-25.9%	66.5%	-15.1%	1,140	1,396	22.4%
Investment & other income	12	3	2	5	-66.4%	-85.1%	-30.9%	43	21	-52.0%
Financial charges	-294	-134	-127	-130	-2.1%	-56.9%	-5.3%	-929	-561	-39.6%
Profit before zakat	-116	225	255	288	-11.6%	NM	13.4%	81	826	NM
Zakat	-9	-3	-9	-12	-25.3%	-1.1%	NM	-49	-43	-13.3%
Net profit	-125	222	246	276	-11.0%	NM	10.9%	31	783	NM

FABS estimate & Co data
Mobily—Margins

Margins	4Q19	3Q20	4Q20	YOY Ch (bp)	QOQ Ch (bp)	2019	2020	YOY Ch (bp)
GPM	56.6%	61.3%	55.7%	-88	-554	58.0%	58.0%	5
OPM	5.4%	11.0%	8.9%	353	-214	8.5%	9.9%	146
Net margin	-3.6%	6.6%	7.0%	1052	35	0.2%	5.6%	534

FABS estimate & Co data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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