

Etihad Etisalat (Mobily)

Higher top-line and operational efficiency boosted profitability

2Q22 Net profit higher than our estimate

Etihad Etisalat (Mobily/the Company) reported a significant increase in net profit to SAR 360 Mn in 2Q22 from SAR 244 Mn in 2Q21, exceeding our estimate of SAR 312 Mn. This increase is primarily due to expansion in top line owing to growth in the wholesale and business segments as well as robust increase in the FTTH active and total subscriber base. As a result, EBITDA improved due to strong growth in revenue as well as improvement in operational efficiency.

P&L highlights

Revenue rose 4.6% YOY to SAR 3.9 Bn in 2Q22 driven by a growth in Wholesale and Business segment. This is further supported by an increase in FTTH active and total subscriber base. Direct Cost fell marginally to SAR 1.57 Bn in 2Q22 from SAR 1.58 Bn in 2Q21. As a result, gross profit increased 8.7% YOY to SAR 2.33 Bn with an expansion in margin from 57.6% in 2Q21 to 59.8% in 2Q22. The improvement in gross margin is driven by increase in revenue and operational efficiency. EBITDA also rose 10.3% YOY to SAR 1.48 Bn in 2Q22 from SAR 1.34 Bn in 2Q21 reflecting a resilient growth in revenues in addition to operational efficiencies. As a result, EBITDA margin improved to 38.0% in 2Q22, up from 36.1% in 2Q21. Operating profit rose 35.3% YOY in 2Q22 to SAR 519 Mn owing to an rise in EBITDA. Financial charges rose 17.6% YOY in 2Q22 to SAR 143 Mn mainly due to an increase in interest rate. Zakat expenses stood at SAR 25 Mn in 2Q22 compared to SAR 20 Mn in 2Q21.

Balance sheet highlights

The company's net debt increased 2.4% QOQ to SAR 11.9 Bn in 2Q22 with Net debt/EBITDA ratio of 2.06x. Free cash flow to firm decreased 5.1% QOQ to SAR 1,163 Mn in 2Q22 mainly due to an increase in CAPEX. CAPEX increased 45.3% YOY to SAR 319 Mn in 2Q22 from SAR 220 Mn in 1Q22, owing mostly to the continuous rollout of 5G and Internet-of-Things (IoT) infrastructure.

Target price and rating

We upgraded our rating to BUY on Mobily with a revised target price of SAR 43.00. Mobily reported a significant improvement in its revenue owing to the strong growth in its wholesale and consumer segments, along with an increase in FTTH active and overall subscribers' base. The Company continues undertake measures to improve operational efficiency which led it to improve margin levels. We expect margin to improve further. Mobily is deleveraging its balance sheet as debt levels reduced more than SAR 1 Bn in the last twelve months. It further plans to deleverage using cash generated from operations. Mobily launched Mobily TV service and signed an agreement with Tech Mahindra to develop advanced e-commerce platform in order to establish new revenue streams across digital and ICT sector. In addition, the Company also intends to introduce a direct carrier billing solution on Huawei Mobile Services, which will boost revenue generation. Mobily also received license from SAMA for mobile payment marking its entry into fintech space. KSA Central Bank plans to reduce dependency upon cash and increase the rate of electronic payment to 70% by 2025. Mobily revenue is expected to benefit from this service offering. Considering these factors, we assign BUY rating on the stock.

Rating : BUY

First Look Note – 2Q22

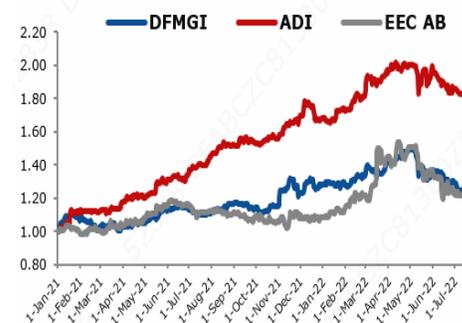
Sector: Telecom

Recommendation

Current Price (31-Jul-22)	37.35
Target Price (SAR)	43.00
Upside/Downside (%)	+15%

Stock Information

Market Cap (mm)	29,414.00
Paid Up Capital (mm)	7,700.00
52 Week High	44.70
52 Week Low	29.20
3M Avg. daily value (SAR)	43,178,140



Financial Ratios

Dividend Yield (12m)	2.23
Dividend Pay-out (%)	61.08
Price-Earnings Ratio (x)	22.95
Price-to-Book Ratio (x)	1.89
Book Value (SAR)	20.26
Return-on Equity (%)	7.69
Earning Per Share (SAR)	1.66
Beta	0.78

Stock Performance

5 Days	3.24%
1 Months	9.14%
3 Months	-11.68%
6 Months	16.29%
1 Year	18.82%
Month to Date (MTD)	2.28%
Quarter to Date (QTD)	9.14%
Year to Date (YTD)	22.63%

Mobily - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	NA	933.4	37.16	27.16	22.27
P/B (x)	2.10	2.12	2.01	1.91	1.77
EV/EBITDA	9.09	8.07	7.38	6.77	6.22
Dividend Yield (%)	NA	NA	1.3%	2.2%	2.6%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	2Q21	1Q22	2Q22	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Services revenues	3,728	3,811	3,899	3,894	0.1%	4.6%	2.3%	14,834	15,720	6.0%
Cost of services	-1,581	-1,573	-1,566	-1,616	-3.1%	-0.9%	-0.5%	-6,163	-6,516	5.7%
Gross profit	2,147	2,238	2,333	2,278	2.4%	8.7%	4.3%	8,672	9,205	6.1%
Operating Profit	384	468	519	465	11.5%	35.3%	11.0%	1,668	1,929	15.6%
EBITDA	1,344	1,445	1,482	1,493	-0.7%	10.3%	2.5%	5,594	6,027	7.7%
Profit before zakat	263	350	385	331	16.3%	46.2%	10.1%	1,149	1,390	20.9%
Zakat	-20	-31	-25	-18	35.4%	27.9%	-18.1%	-78	-83	6.5%
Net Profit	244	319	360	312	15.2%	47.7%	12.8%	1,072	1,307	21.9%

FABS Estimates & Co Data

Mobily - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
GPM	37.6%	41.7%	44.7%	713	304	42.0%	42.3%	27
EBITDA Margin	31.6%	31.7%	33.0%	141	128	31.9%	32.0%	12
OPM	28.7%	29.1%	29.9%	120	79	29.0%	29.1%	9
Net margin	23.7%	24.9%	30.1%	640	524	27.0%	26.4%	-64

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by “Banker Middle East”



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by “IFA”



Best Brokerage in the UAE
2016 By “Global Investor/
ISF ME Awards”



Best Research House
in UAE 2016 and 2020
by “IFA”



Best New Mobile Application
in UAE 2016
by “IFA”



Best Equity Finance Company
in UAE 2016
by “IFA”