July 2021

Etihad Etisalat Co.(Mobily)

Result Flash Note Q2-21

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Etihad Etisalat Co. (Mobily)'s net profit jumped 31.9% Y/Y to SAR 244mn in Q2-21, in line with our and consensus estimates of SAR 246mn and SAR 253mn, respectively. Growth in the bottom line was mainly driven by revenue growth, improved operating margin, and lower finance charges. Revenue increased 4.7% Y/Y to SAR 3.7bn due to the continued growth in the Business segment, improvement in the Consumer segment, and increase in fiber-to-the-home (FTTH) active subscribers. We maintain our TP of SAR 32.0/share but revise our rating on the stock to "Neutral".

- Mobily's net profit grew 31.9% of SAR 244mn in Q2-21, in line with our and consensus estimates of SAR 246mn and SAR 253mn, respectively. Net profit growth was driven by the increase in the top line, further supported by higher operating margin and lower finance expense. Finance expenditure declined 12.5% Y/Y to SAR 121mn.
- Revenue rose 4.7% Y/Y to SAR 3,728mn, in line with our estimate of SAR 3,676mn. Top line growth was driven by continued strength in the Business segment and improvement in the Consumer segment. Expansion of the FTTH active base also supported revenue growth.
- Gross profit (GP) rose 4.1% Y/Y to SAR 2,147mn, in line with our estimate of SAR 2,131mn. GP margin contracted 30 bps Y/Y to 57.6%, as growth in cost of revenue (+5.6% Y/Y) outpaced that in top line.
- Operating profit jumped 15.0% Y/Y to SAR 384mn, in line with our estimate of SAR 385mn. Operating margin expanded to 10.3% in Q2-21 from 9.4% in Q2-20, despite the contraction in GP margin, as depreciation and amortization declined 2.7% Y/Y due to a drop in CAPEX. Total CAPEX in H1-21 stood at SAR 425mn compared to SAR 1,017mn in H1-20.

AJC view: Mobily's Q2-21 results were in line with our expectations. Consistent and robust performance from the Business segment and the expanding FTTH subscriber base are likely to continue to boost the company's top line in the coming quarters. Moreover, improvement in operating margin and recovery in the Consumer segment during the quarter are positives for Mobily. We expect the Consumer segment to grow further in H2-21, as the Kingdom plans to allow vaccinated foreign pilgrims to perform Umrah from August 10. Additionally, lower finance costs would continue to support the bottom line in FY21, owing to low interest rates and refinancing of a major part of the company's debt. Mobily's stock is currently trading at a P/E multiple of 25.3x and EV/EBITDA multiple of 2.5x based on our FY21 estimates. We maintain our TP of **SAR 32.0/share** but revise our rating on the stock to "**Neutral**".

Results Summary

SARmn	Q2-20	Q1-21	Q2-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,559	3,603	3,728	4.7%	3.5%	1.4%
Gross Profit	2,062	2,072	2,147	4.1%	3.6%	0.7%
Gross Margin	57.9%	57.5%	57.6%	-	-	-
EBIT	334	369	384	15.0%	4.1%	-0.2%
Net Profit	**185**	**226**	**244**	31.9%	8.0%	-0.8%
EPS	**0.24**	**0.29**	**0.32**	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	**32.0**
Upside / (Downside)*	**0.0%**

Source: Tadawul *prices as of 25th of July 2021

Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenue	13,450	14,046	14,801
Growth %	13.4%	4.4%	5.4%
Net Profit	31	783	974
Growth %	NM	NM	24.3%
EPS	0.04	1.02	1.26

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	58.0%	58.0%	57.8%
Net Margin	0.2%	5.6%	6.6%
P/E (x)	High	28.2	25.3
P/B (x)	1.4	1.5	1.6
EV/EBITDA (x)	1.4	1.9	2.5

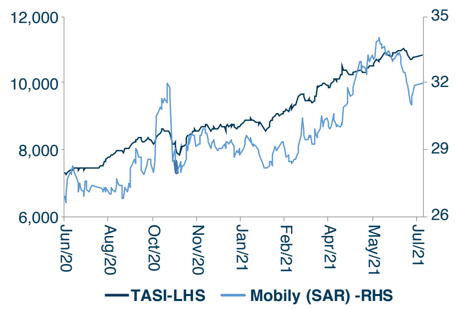
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	25.1
YTD%	11.7%
52 week (High)/(Low)	34.30/26.65
Share Outstanding (mn)	770.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated “Overweight” will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated “Underweight” would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated “Neutral” is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer