

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

Head of Sell-Side Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

Head of Securities

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

Head of Sales and Distribution

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

Head of International and Institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

RESEARCH DIVISION

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

- 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.
- 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.
- 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.
- 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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068