

Etihad Etisalat Co. (Mobily)'s net profit surged to SAR 185mn in Q2-20 from SAR 38mn in Q2-19, above our and consensus estimates of SAR 105mn and SAR 148mn, respectively. The deviation from our estimate was primarily due to the lower-than-expected finance cost and higher operating margin. Revenue increased 6.8% Y/Y to SAR 3.6bn in Q2-20, driven by growth in the wholesale and business unit segments, and expansion of the FTTH active base. We maintain our recommendation of "Neutral" on the stock with a revised TP of **SAR 27.5/share**.

- Mobily posted net profit of SAR 185.0mn in Q2-20 compared to SAR 37.8mn in Q2-19. The results were above AJC's and the market consensus estimates of SAR 105mn and SAR 148mn, respectively. The variance in net income from our estimate was mainly due to lower-than-expected finance charges and higher-than-expected operating margin. Finance cost during the quarter eased 36.2% Y/Y to SAR 139mn, indicating a refinancing of a Murabaha agreement worth SAR 7.6bn for seven years in Q4-19, aided by a lower interest rate.
- Revenue for Q2-20 jumped 6.8% Y/Y to SAR 3,559mn in line with our estimate of SAR 3,601mn. Growth was led by strong performance from the business unit and wholesale segments amid rising data demand. Additionally, continued expansion of the FTTH customer base supported the rise in revenue. Certain services such as roaming, and visitor services were adversely affected by coronavirus-led lockdown during the quarter, but the decline was offset by strong growth in other segments.
- Gross profit (GP) rose 5.4% Y/Y to SAR 2,062mn from SAR 1,956mn. GP margin contracted by 80 bps Y/Y to 57.9% as cost of revenue grew 8.9% Y/Y to SAR 1,497mn.
- Operating profit surged 28.0% Y/Y to SAR 334mn as top-line growth was further bolstered by improved operating efficiency. Operating margin stood at 9.4% (~+150bps Y/Y) in Q2-20 against our estimate of 7.6% due to lower-than-anticipated OPEX.

AJC view: Mobily's Q2-20 revenue was in line with our expectation and we anticipate similar revenue growth trend in H2-20, despite the negative impact of the suspension of Umrah and restriction of Hajj to limited pilgrims. The momentum in wholesale revenue and the increase in FTTH subscribers are likely to boost the company's top line. Mobily's finance cost reduced significantly during the quarter and is likely to stay at this level for the rest of FY20, given low interest rates and the refinancing of a major part of the company's debt. Moreover, Mobily and Zain KSA are seeking various options for their tower business. If they are successful in attracting investment in the tower business or sale of the tower business, the proceeds can be used to lower net debt from the current level of SAR 10.6bn and invest in 5G deployment. Mobily's stock is currently trading at a P/B ratio of 1.4x, against our forward FY20 P/B ratio of 1.5x. We maintain our recommendation of "Neutral" on Mobily but increase TP to **SAR 27.5/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,331	3,600	3,559	6.8%	-1.1%	-1.2%
Gross Profit	1,956	2,065	2,062	5.4%	-0.1%	-0.8%
Gross Margin	58.7%	57.4%	57.9%	-	-	-
EBIT	261	296	334	28.0%	12.8%	22.8%
Net Profit	38	130	185	389.8%	42.3%	76.0%

Source: Company reports, Aljazira Capital, *Not Meaningful

Neutral

Target Price (SAR) **27.5**

Upside / (Downside)* **-0.4%**

Source: Tadawul *prices as of 21st of July 2020

Key Financials

(in SAR mn, unless specified)	FY18	FY19	FY20E
Revenue	11,865	13,450	14,435
Growth %	4.5%	13.4%	7.3%
Net Profit	-123	31	521
Growth %	82.7%	NM	1581%
EPS	-0.16	0.04	0.68

Source: Company reports, Aljazira Capital, *Not Meaningful

Key Ratios

	FY18	FY19	FY20E
Gross Margin	55.5%	58.0%	57.0%
Net Margin	-1.0%	0.2%	3.6%
P/E	NM	High	40.8
P/B	0.9x	1.4x	1.5x
EV/EBITDA	NM	1.5x	1.8x

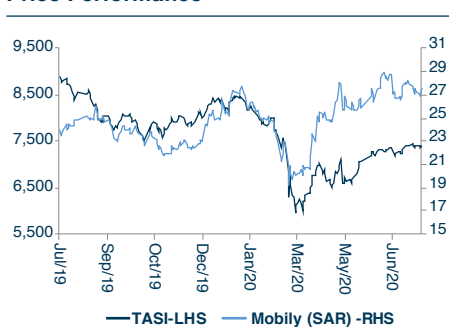
Source: Company reports, Aljazira Capital, *Not Meaningful

Key Market Data

Market Cap(mn)	21,252
YTD%	7.6%
52 week (High)/(Low)	29.30/18.50
Share Outstanding (mn)	770.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.

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