

US\$9.16bn
Market Cap.

71.97%
Free Float

US\$10.42mn
Avg. Daily Value traded

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Neutral

Price Target (SAR): 53.0

Current: 44.8

Upside/Downside: 18.3% above current

Valuation Multiples	23E	24E	25E
P/E (x)	16.5	14.6	13.7
EV/EBITDA (x)	6.2	5.8	5.5

Major Shareholders % Ownership

Etisalat	27.99
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Price Performance	1M	3M	YTD
Absolute	2.5%	-6.9%	28.8%
Relative to TASI	7.2%	5.7%	29.4%

Earnings

(SAR mn)	2023E	2024E	2025E
Revenue	16,644	17,424	18,029
Y-o-Y	6.2%	4.7%	3.5%
Gross profit	9,612	9,994	10,314
Y-o-Y	2.7%	4.0%	3.2%
Gross margin	57.7%	57.4%	57.2%
EBITDA	6,453	6,693	6,902
EBITDA margin	38.8%	38.4%	38.3%
Net profit	2,088	2,239	2,544
Y-o-Y	26.0%	7.2%	13.6%
EPS (SAR)	2.7	2.9	3.3
DPS (SAR)	1.60	1.74	1.98
Payout ratio	59%	60%	60%
ROE	12.1%	12.4%	13.3%
ROA	5.1%	5.5%	6.2%

Source: Company data, Al Rajhi Capital

Mobily.

Mobily continues to deliver strong performance backed by business segment growth

Mobily continued the topline growth during the third quarter, supported mainly by higher sales from the business segment, while the consumer segment growth was flat. Sales growth came at 7.1% y-o-y, lower than the previous quarter which witnessed higher growth in the consumer segment due to seasonal factors and Haj season. At the gross profit level, the company grew its gross profit by 2.7% y-o-y, lower than the sales growth, likely due to lower margins from the business segment. However, Mobily managed to lower operating cost by SAR92mn y-o-y from 21.0% of sales to 17.4% in the current quarter. Operating profit came in at SAR689mn, translating to 31.2% y-o-y growth and a 16.8% EBIT margin. Mobily continued its deleveraging plan and paid down SAR543mn during the third quarter, bringing the overall finance expense to SAR162mn vs SAR176mn in 2Q23. Overall, net profit beat our expectations by 5%, reaching SAR524mn and a 12.8% net margin vs our estimate of SAR499mn and 12.0%, respectively. As such, we revise our target price from SAR46/sh to SAR53/sh and maintain overweight while the current market price is SAR44.75/sh, implying an upside of 18.3%.

Figure 1 Earnings Summary Q3 2023

3Q23 Results	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	ARC	vs ARC
Revenue	4,100	3,828	7.1%	4,248	-3.5%	4,146	-1.1%
Gross Profit	2,362	2,300	2.7%	2,435	-3.0%	2,392	-1.3%
G. margin	57.6%	60.1%		57.3%		57.7%	
Op. profit	689	525	31.2%	656	5.0%	688	0.1%
Op. margin	16.8%	13.7%		15.4%		16.6%	
Net profit	524	373	40.5%	497	5.4%	499	5.0%
Net margin	12.8%	9.7%		11.7%		12.0%	

Source: Company data, Al Rajhi Capital; Revenues excluding discontinued operations (concrete segment)

Segment overview and analysis: The business segment grew by 35% y-o-y in 3Q23 backed by the government digitalization initiative and the activation of Etimad platform which enabled Mobily improve its services to the government entities. Going forward, we believe the business segment will continue to grow at a high single digit CAGR over the medium term. On the other hand, the consumer segment performance was flat during 3Q23 and is expected to grow by low single digit given the limited growth opportunities.

Balance sheet and cashflow: We believe, the company maintains a healthy balance sheet with adequate cash position of SAR3bn. Also, Mobily managed to repay around SAR1.4bn of debt y-o-y, bringing the total interest-bearing debt to SAR8.4bn, while net debt/EBITDA stood at 0.9x (1.3x including leases). Although receivables are growing due to the change in the revenue mix towards higher contribution from business segment, we believe it is not a concern as the majority of the clients are government entities. At the cashflow level, we believe the company is in good shape, nine months OCF grew by 6.5%, capex declined by 12.6% (usually fourth quarter is capex heavy, however, we do not believe it will be a higher than usual), and the company paid down debt. We believe the company has the capacity to increase dividend and we believe the dividend for the year would be between SAR1.6/sh to SAR1.8/sh.

Valuation: We arrived at our target price for Mobily using an equal mix of DCF and P/E. The DCF target price is SAR56.0/sh, based on a 2.0% terminal growth rate and 9.4% weighted average cost of capital. The EV/EBITDA target price is SAR50.0/sh derived from 8x multiple of FY 2024E EBITDA. Overall, we maintain our overweight rating and we change our target price from SAR46.0/sh to SAR53.0/sh, while the current market price is SAR44.8/sh.

Risks:

1. Higher competition in the B2B, resulting in lower margins.
2. Higher operating expenses than anticipated, impacting the company's profitability.

Financials

Figure 2 Income Statement

(SAR mn)	2023e	2024e	2025e
Revenue	16,644	17,424	18,029
Cost of revenue	(7,033)	(7,430)	(7,715)
Gross profit	9,612	9,994	10,314
SGA expenses	(3,044)	(3,187)	(3,297)
D&A expenses	(3,672)	(3,729)	(3,763)
Other, net	(114)	(114)	(114)
Operating profit	2,782	2,964	3,139
Interest expense	(685)	(635)	(460)
Other income	166	79	57
Profit before zakat	2,263	2,408	2,735
Zakat	(175)	(169)	(191)
Net income	2,088	2,239	2,544

Source: Company Data, Al Rajhi Capital

Figure 4 Cash Flow Statement

(SAR mn)	2023e	2024e	2025e
Cash from operating activities	5,285	5,123	5,436
Cash from investing activities	(2,713)	(2,840)	(2,939)
Cash from financing activities	(1,920)	(2,112)	(2,324)
Net change in cash	651	171	174
Beginning cash	828	1,479	1,650
Ending cash	1,479	1,650	1,823

Source: Company Data, Al Rajhi Capital

Figure 5 Key Ratios

(SAR mn)	2023e	2024e	2025e
ROA (%)	5.1%	5.5%	6.2%
ROE (%)	12.1%	12.4%	13.3%
D/E (x)	0.52	0.45	0.39
Net debt/EBITDA (x)	1.38	1.21	1.07
Current ratio	0.88	0.92	0.95
Asset turnover ratio	0.41	0.43	0.44
Receivables days	249	251	244
Inventory days	46	46	46
Payables days	112	115	118

Source: Company Data, Al Rajhi Capital

Figure 3 Balance sheet Statement

(SAR mn)	2023e	2024e	2025e
Cash	1,479	1,650	1,823
Short-term investment	2,014	2,014	2,014
Contract Assets	830	830	830
Accounts receivable	5,326	5,663	5,950
Due from related parties	170	170	170
Inventories, net	109	109	109
Prepaid expenses and others	918	962	995
Total Current Assets	10,846	11,397	11,890
Property & equipment	19,440	19,506	19,660
License acquisition fees	5,824	5,508	5,193
Goodwill	1,467	1,467	1,467
Contract assets & costs	109	109	109
Financials and others	125	125	125
Right of use assets	2,757	2,815	2,873
Total non-current assets	29,722	29,531	29,428
Total Assets	40,569	40,928	41,318
Current portion of Long term loans	1,313	1,313	1,313
Lease liabilities	1,010	1,010	1,010
Contract liabilities	695	695	695
Accounts payable	5,054	5,155	5,173
Due to related parties	161	161	161
Accrued expenses and others	2,873	2,873	2,873
Zakat Provision	246	319	413
Provision	827	827	827
Financial liabilities and others	92	92	92
Current liabilities	12,271	12,445	12,558
Long term loans	7,560	6,810	6,060
Lease liabilities (IFRS-16)	2,327	2,367	2,377
Employee termination benefits	502	502	502
Others	731	731	731
Non-current liabilities	11,121	10,410	9,670
Shareholders's Equity	17,214	18,110	19,127
Total Liabilities	40,606	40,965	41,356

Source: Company Data, Al Rajhi Capital

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