Telecom Sector - April 2021

The telco's revenue in MENA is expected to grow in 2021, despite the negative impact of the COVID-19 pandemic

Sector Weighting:
NEUTRAL
Preview 1Q 2021

MENA Telecommunication

The COVID-19 pandemic, along with falling oil prices, had hit the GCC area hard last year. Demand has been weakened across different sectors, and supply chains have been disrupted as a result of the crisis. Oil prices have dropped to their lowest point in decades, worsening the effects in the GCC. However, people have been relying on the telecom sector to connect, access information, and conduct online transactions during the lockdown. Consumers who need more bandwidth, as well as businesses expanding their usage of virtual private networks and teleworking solutions, have fueled a surge in communication demand among GCC operators. This increase in demand reflects the sector's preparation and the authority's determination to leap forward in the future by using all available new technology to achieve greater success on a local, regional, and even global scale.

By the end of 2020, the UAE's telecom subscriptions, which include cell phones, landlines, and the internet, have risen to 21.929 million. Subscriptions to cell phones jumped to 16.820 million, accounting for 76.2% of all telecom subscriptions.

Simultaneously, UAE's telecommunications infrastructure was ranked first in the Gulf, Arab Region, and Western Asia in the UN's E-Government Survey 2020, and seventh globally in the Telecommunications Infrastructure, and eighth in the world, according to the Smart Services Index. The survey affirmed the UAE's commitment to using new and innovative technology to deliver services that address people's interests and ambitions. In the Internet Access Index and the Internet Use Index, the UAE ranked first in the Arab countries and at the regional scale. The switch to IPv6 aided Internet service providers in providing improved services and affected the implementation of 5G technology for cell phone networks and digital transformation considerably. All of those accomplishments are in line with wise leadership's guidelines to involve diverse divisions of society by delivering interactive and straightforward resources that improve society's happiness.

The UAE was ranked 16th globally in the Open Data Watch's ODIN survey, which included 187 nations, jumping 51 positions in a single year. Outperforming countries such as the United States, Korea, Switzerland, France, Spain, and Japan. The study categorized the countries for open data sites based on two key factors: transparency and comprehensive coverage.

UAE telecommunication sector wasn't the only one getting better last year; according to a government regulator, Saudi Arabia's communication-related industries grew in 2020 as a result of a broader national campaign to improve connectivity across the country. According to data from the Communications and Information Technology Commission (CITC), Saudi Arabia's telecommunications, information technology (IT), and postal sectors were estimated at SR246 billion (Around $65.6 billion) in 2020. the Kingdom's telecommunications sector was worth SR70 billion, the information technology market was worth SR64 billion, and the postal market was worth SR6.4 billion, accounting for 5.5% of the country's GDP. Saudi Arabia has been actively investing in its digital technology to diversify its revenue streams and move away from its reliance on crude.

Despite these promising trends, GCC operators have been facing major obstacles as a result of the economic shock. Due to shop closures, call center disruption, a fragmented supply chain for smartphones, regulator-imposed free data and calls, failing consumers and vendors, network congestion, and lower quality of service, there has been a substantial drop in revenue. Consequently, operators have taken urgent tactical action in response to the crisis. Saudi Telecom Company, for example, has implemented drastic discounts and incentives to boost demand and compensate for a revenue slump. It has also placed a greater emphasis on digital sales and delivery. Apart from these responses, GCC operators must look at the bigger picture, devising a coherent series of steps to reduce uncertainty in the short term while still developing the necessary skills to focus on growing digitization in the long run.

1) Zain KSA Leads the Fastest Indoor 5G Speed Test

During a promising trial of the 5G indoor solution known as "AirScale Radio System," Zain KSA reached a record speed of 1.9 Gbps (ASiR) The ASiR solution will accommodate a 4G and 5G hybrid network on the same infrastructure, providing ultra-fast speeds and wide coverage. According to a statement from Zain K SA, these efforts and others have helped the business become a key enabler in the Kingdom's digital transition, which is part of Saudi Vision 2030. It also received three awards for "Best 5G User Growth," "Best 5G Infrastructure Deployment," and "Best Cloud Provider" for the year 2020 at the Telecom Review Leaders' summit. The accomplishment is in line with Zain's long list of achievements.

2) Telecom Egypt, Sudatel Ink MOU to Enhance International Connectivity

A memorandum of understanding was signed between Telecom Egypt and Sudatel Telecom Group (STG) (MoU) The goal of the MoU is to make the most of the two countries' network. The change is part of Egyptian telecom provider Etisalat's regional communication policy. This follows the company's announcement that the Hybrid African Ring Path would be launched.

3) Telecom Egypt to Create Fibre Optic Cable Route Between Red Sea, Mediterranean

Mobily Saudi Arabia has expanded its managed services partnership with Ericsson for another span of five years. The deal covers fully managed end-to-end operations and optimization services with Ericsson Operations Engine in Saudi Arabia's Western region in addition to Ericsson Charging System, PS Core and Intelligent Network (IN).

4) Vodafone Egypt to Distribute FY 2019/20 Profit of $126.8mln

Vodafone Egypt has decided to dispense EGP 2 billion in earnings received during 2019/20 fiscal year. For its 45% stake in the multinational telecommunications company's Egypt activities, Telecom Egypt (TE) will earn EGP 900 million in dividends. TE's sales increased by almost EGP 32 billion in the same time span. Total combined sales increased by 24% year on year to EGP 31.9 billion, owing primarily to strong data service revenues.

5) COVID hits Du sales and profits in FY 2020

Du, the UAE's fixed and mobile operator, announced sales of AED11.08 billion (USD3.02 billion) for the fiscal year 2020, falling from AED12.59 billion in 2019, partly due to the COVID-19 impacts. The mobile segment saw a 3% decrease in revenue from AED7.05 billion in FY 2019 to AED5.94 billion in 2020, while the fixed segment saw a 3% increase from AED2.49 billion to AED2.57 billion. The annual profit fell from AED1.73 billion in 2019 to AED1.44 billion in 2020. As the company began to phase out 5G network technology, capital spending rose by 24% year on year to AED1.87 billion. Du had 6.66 million smartphone users at the end of 2020, down from 6.80 million a year ago, although its fixed user base increased 7.4% to 236,000.

6) Abu Dhabi, Singapore Explore Strategic Cooperation in Space, 5G and AI

Abu Dhabi and Singapore have shared an interest in working together on strategic issues such as technology, engineering, artificial intelligence (AI), space applications, and public-private collaborations. The two nations signed a letter of agreement to cooperate on space technology, space law and policy, and human resources growth. For more than 35 years, the two countries have had a fruitful and constructive bilateral partnership centered on active trade and investment.

7) Zain KSA Signs Exclusive Agreement During Construction Phase with The Red Sea Development Company for a Nationwide Digital Transformation

The Red Sea Development Company (TRSDC) and Zain KSA have announced an exclusive partnership to provide telecommunications and internet services on the Red Sea's worksites during the construction process. As a result, the development zone was the first in the Middle East to have 5G service. Since unveiling the flagship initiative, TRSDC has achieved major achievements and is on schedule to host the first visitors by the end of 2022. The scheme will be completed in 2023, which will feature 16 hotels spread across five islands and two inland resorts, as well as the destination's international airport. Zain K SA was called the "fastest fixed network" in the Kingdom by SpeedTest.

8) United Arab Emirates' Du Selects Ericsson 5G Ran
As part of a global network extension and upgrade, du from Emirates Integrated Telecommunications Company (EITC) has chosen Ericsson to launch the state-of-the-art 5G radio access network (RAN). Ericsson now has 127 commercial 5G partnerships and arrangements with different telecom service providers around the world, with 74 of them being officially revealed. According to Ericsson, 5G brings more data with better responsiveness and stability than ever before, thanks to its incredible speed and versatility. The 5G network would boost flexibility, performance, cost-effectiveness, and technological advancement in the future.

9) Covid Impact: Etisalat Witnesses 3% Drop in UAE Subscribers to 12.2mln
In 2020, the UAE's telecom subscribers fell drastically as COVID-19 weakened the economy. The number of mobile subscribers dropped 4% YOY to 10.4 million. Lockdown had an effect on Etisalat's operation last year, with sales of cell phones and uptake of prepaid and roaming mobile services dropped. The firm had a combined net profit of 9 billion dirhams (around $2.4 billion) at the end of 2020, increasing by 3.8% from the previous year. It proposed a one-time special dividend of AED0.4, ending the year cumulative dividends to AED1.2 per share. Despite a drop in subscribers in UAE in 2020, Etisalat announced that its total subscriber base reached 154 million, increasing 3.6% YOY. Mali, Burkina Faso, Chad, Saudi Arabia, Togo, and Benin all saw an increase benefiting from the "quick subscriber acquisition". Total revenue registered 13.1 billion dirhams as of 4Q20 as well as earnings increased by 0.4% to 6.3 billion dirhams. Despite the global effects of COVID-19, Etisalat Illustrated resilience and agility during 2020. Meanwhile, with opportunities in cloud, loT, and cybersecurity, 5G will continue to be deployed. The group is expected to remain in a good position compared to its global competitors. Despite that the situation started to ameliorate in the 3Q20, when restrictions were relaxed and commercial activities increased, overall results remained below what it was prior to COVID-19 and will likely continue till the 1H21.

10) UAE Telecom Giants Etisalat, Du Increase Foreign Ownership Limit to 49%
To entice foreign investment, Etisalat and Du have increased the foreign ownership quota to 49%, subject to approval by the company's GA and regulatory authorities meanwhile, telecommunications firms from around the world are not allowed to own a share in the business. Following the announcement, Etisalat's stock rose nearly 15%, the highest in nearly 6 years meanwhile, Du's stock jumped over 14%.

11) Du, Etisalat Announce Strategic Partnerships with Emaar Properties
Du and Etisalat have declared that their grand developer agreements with Emaar Properties have been finalized, whereby both operators will cover Emaar's major ventures through the Taawun infrastructure deployment programme, providing critical telecommunications infrastructure. Operators will build, operate, and oversee cutting-edge fixed telecom services and solutions under the MDA. The agreement would help the government achieve its long-term goals of building smart infrastructure and creating a strong telecom market for master developers. Moreover, the partnership is in line with UAE Vision 2021 and Dubai's smart city growth, which has assisted the country to become one of the world's most connected and sustainable nations.

12) STC bringing internet services IPO forward

STC is in the process of filing an application to the Saudi Stock Exchange to list and sell shares in Solutions through STC. STC announced the news in a filing, stating that a feasibility report has been completed and that Solutions by STC is in the process of sending an application to the Capital Market Authority for the registration and offering of its securities, as well as an application to the Saudi Stock Exchange (Tadawul) for the listing of its shares.

Bloomberg first posted on STC's internet services unit in September of 2020, with a delivery date of late 2021. STC shares rose 3.4 percent to US$2.7 on the first day of the IPO as a result of the news. The new changes have accelerated the project significantly, and it is possible that the IPO will take place before CEO Nasser Al Nasser steps down.

STC also opened the largest digital operations control center in the Middle East and North Africa (MENA). The center runs the region's largest international gateways, with a capability of more than 8.4 terabits per second. In the cities of Duba and Haql, two more stations are set to be built to provide intelligent communication services for all of the world's maritime cable networks. Via continental marine stations, these networks would improve communication between the East and the West.

Saudi Telecom Company –(STC) announces the latest developments regarding the possibility of an initial public offering for its subsidiary, Arabian Internet and Communications Services Company

The Saudi Telecom Company (STC) is in the process of sending an application to the Capital Market Authority for the listing and sale of its securities. It also intends to go public on the Saudi Stock Exchange (Tadawul). Percentage of fulfilled achievement, event's expected completion date, the costs associated with the event, and whether they have changed or not indicate the reasons are not clear yet.

MENA telecoms rating summary

	ETISALAT	DU	STC	MOBILY	ETEL
Rating	HOLD	ACCUMULATE	HOLD	HOLD	BUY
Local currency	AED	AED	SAR	SAR	EGP
Target price	21.00	7.50	120.00	29.85	18.70
CMP	21.36	6.66	125.4	30.15	11.73
Potential change (%)	-1.7%	12.6%	-4.3%	-1.0%	59.4%

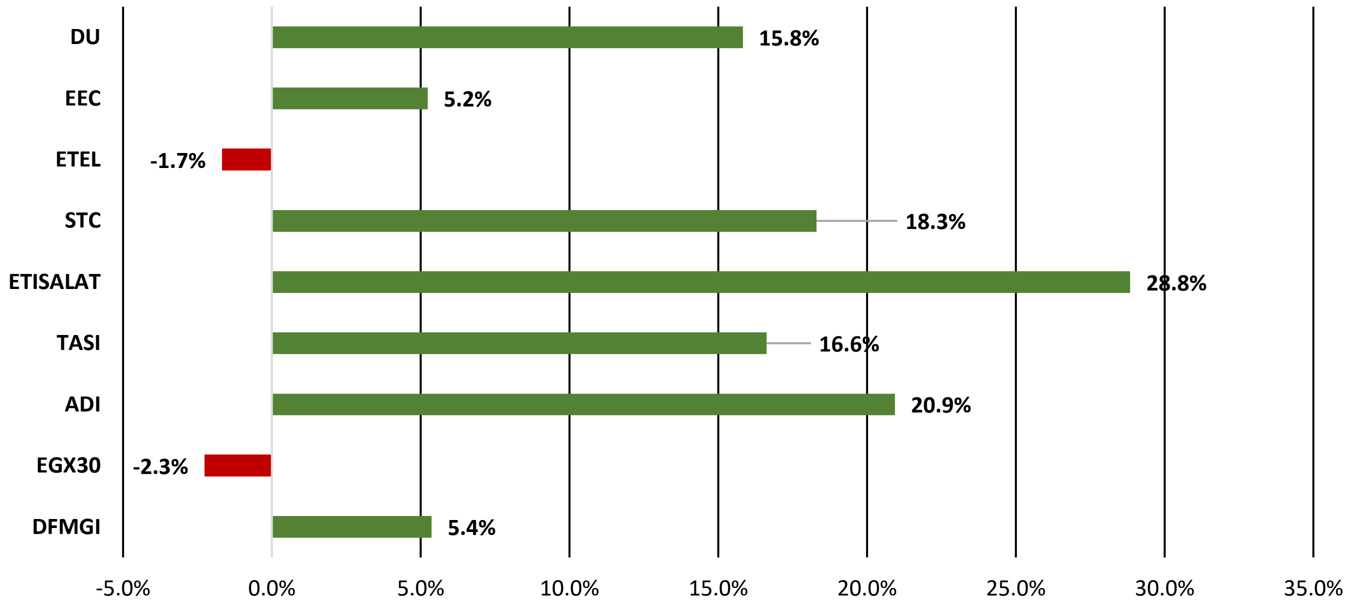
FABS Estimate

Contents

Telecom stock performance in the YTD

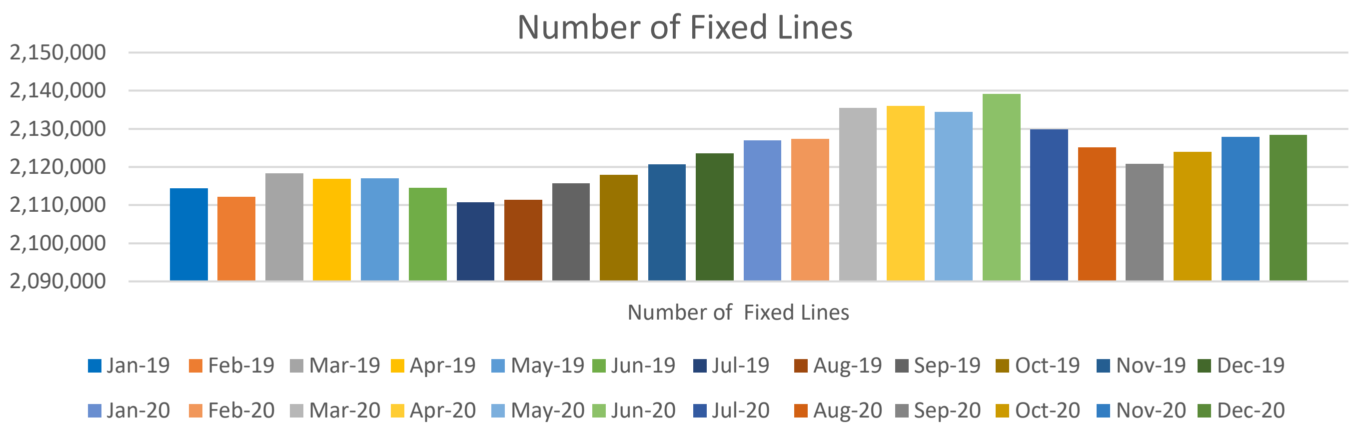
Etisalat stood at the top rank with 28.8%, while ETEL came in last with a decrease by 1.7%. Etisalat emerged as the top performer (#1) among the telecom stocks under our coverage as of April 2021 by rising by 28.8% even exceeded its benchmark DFMGI that stood at 5.4%. This was followed by STC at #2 (18.3%) and DU at #3 (15.8%).

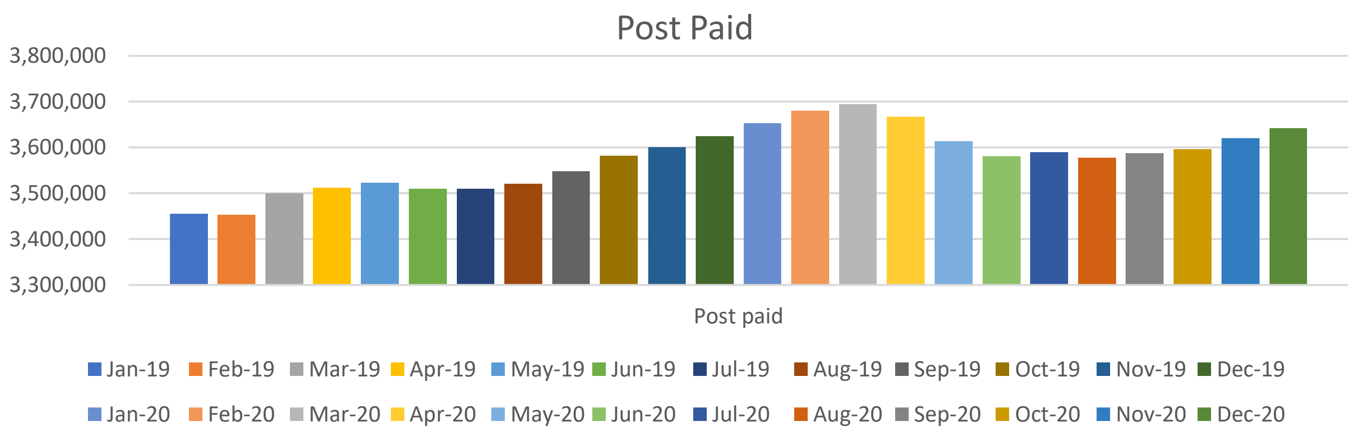
MENA telecom stock & market indices, January 2021 - April 2021, ranked

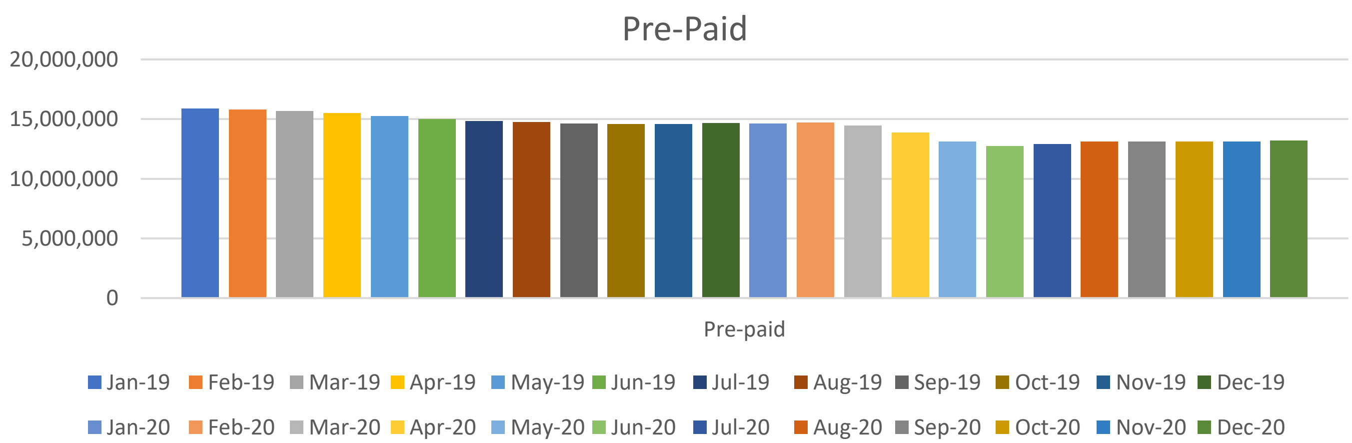


Statistical Data

The Number of fixed lines stood stable at 2,128,408 in December 2020 from 2,127,020 in January 2020. While the Fixed Lines per 100 Inhabitants fell slightly from 23.75 in January 2020 to 23.6 in December 2020. Post-paid plan decreased by 0.3% to 3,641,845 in December 2020 from 3,652,512 in January 2020. Pre-paid has been stable in the last quarter of 2020, reaching 13,178,835 in December 2020.







Source: TRA

Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 26.46x (EEC) and 4.98x (ETEL). The EV/EBITDA ranges from 9.68x (STC) and 4.98x (ETEL). DU's 2020 dividend yield is the highest at 5.6%, while Mobily didn't distribute cash dividend in 2020. ETEL has the lowest PB multiple of 0.52x. EEC and ETEL net debt/EBITDA stood at 2.27x and 1.65x, respectively, followed by DU at 0.02x.

Relative Valuation

	ETISALAT	DU	STC	EEC	ETEL
CMP (LCY)	21.36	6.66	125.4	30.15	11.73
Number of shares (mm)	8,697	4,533	1,997	770	1,707
Market cap (LCY mm)	185,763	30,189	250,800	23,216	20,024
Market cap (US$ mm)	50,575	8,219	66,875	6,190	1,275
Gross debt (LCY mm)	29,486	2,309	14,563	14,089	20,287
Cash (LCY mm)	32,420	2,261	19,619	1,229	2,003
Net debt/-cash (LCY mm)	-2,934	48	-5,056	12,859	18,284
Non-controlling interest	11,516	0	1,321	0	16
EV	194,345	30,237	247,066	35,502	38,324
EBITDA (2019)	20,552	2,995	21,490	5,336	11,063
BVPS (2019)	5.64	1.89	32.02	19.06	22.68
EPS (2019)	1.04	0.32	5.50	1.02	2.35
DPS (2019)	0.80	0.28	4.00	0.50	0.50
EV/EBITDA (x)	7.46	8.68	9.68	6.51	3.49
P/BV (x)	3.79	3.52	3.92	1.58	0.52
PER (x)	20.63	20.77	22.73	26.46	4.98
Dividend yield	5.6%	4.2%	3.2%	0.0%	6.4%
Payout ratio	115.6%	88.0%	90.9%	49.2%	21.2%
Net debt/EBITDA (x)	-0.14	0.02	-0.24	2.27	1.65

Source: FABS from Bloomberg

Market Weight

With 1 BUY, 1 and 3 HOLDs, we remain NEUTRAL on MENA telecoms.

MENA telecoms rating summary

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Potential change (%)	-1.7%	12.6%	-4.3%	-1.0%	59.4%

FABS Estimate

1Q21 preview: Etisalat Group

Revenue growth supports the bottom line

CMP(AED):21.36
Potential upside (%): -1.7%

12-m target price:	Stock rating:
AED 21.00	**HOLD**

1Q21 Estimate

Etisalat is expected to report a 4.9% YOY increase in Net profit to AED2,285 mm in 1Q21, compared to a Net profit of AED2,179 mm in 1Q20. This is mainly due to a rise in Revenue and Finance Income. Revenue is expected to increase by 1% YOY to AED13,244 mm in 1Q21 from AED13,113 mm in 1Q20. Operating expenses is expected to decline by 6% YOY to AED6,092 mm in 1Q21 from AED6,483 mm in 1Q20. Impairment charges are expected to rise by 8.5% YOY to AED384 mm from AED354 mm in 1Q20. As a result, the EBITDA is forecasted to rise by 7.8% YOY to AED6,768 mm in 1Q21 from AED6,277 mm in 1Q20 with EBITDA margin equal to 51.1% in 1Q21 compared to 47.9% in 1Q20. Operating profit is estimated to decline by 2.1% YOY to AED3,239 mm from AED3,307 mm in 1Q20, with OPM 24.5% from 25.2% in 1Q20. Finance income is expected to significantly increase to AED272 mm from AED91 mm and Finance cost is expected to increase also by 16.7% YOY to AED590 from AED505 mm in 1Q20.

2021 Forecast

Etisalat is expected to report a 1.3% YOY increase in Net profit to AED9,140 mm in 2021 from AED9,027 mm in 2020, with Net margin 17.3% compared to 17.5% in 2020. This increase in Net profit is due to an expected increase in Revenue which is expected to rise by 2.5% YOY to AED52,975 mm in 2021 from AED51,708 mm in 2020. Operating expenses is expected to increase by 1.8% YOY to AED24,369 mm from AED23,940 mm in 2020. Impairments are forecasted to rise by 5.5% to AED1,536 mm from AED1,456 mm in 2020. Thus, EBITDA is estimated to advance by 2.9% YOY to AED27,070 mm in 2021 compared to AED26,312 mm in 2020 with an EBITDA margin 51.1% from 50.9% in 2020. At the same time, the operating profit is expected to decline marginally by 0.4% YOY to AED12,957 mm from AED13,015 mm in 2020. As we anticipate the Finance income to decline by 2.2% YOY to AED1,088 mm in 2021, in addition, Taxes is expected to decline by 0.9% to AED1,437 mm in 2021 from AED1,451 mm in 2020.

4Q20 Outturn

Etisalat reported a Net Profit of AED2.05 bn in 4Q20, which is a 4.4% YOY increase from a Net Profit of AED1.96 in 4Q19. This was primarily due to a lower impairment charge, despite COVID-19 economic slowdown. Total Revenue decreased from AED13.3 bn to AED13.06 bn, a decrease by 2.1%. EBITDA increased by 19.1% in 4Q20 from AED5.1 bn in 4Q19 to AED6 bn in 4Q20. This is primarily due to a decrease in Operating Expense by 3.1%. Operating Profit increased by 32.9% from AED2.1 bn in 4Q19 to AED2.8 bn in 4Q20. Profit Before Tax increased by 45.8% in 4Q20 from AED1.9 bn in 4Q19 to AED2.7 bn in 4Q20, due to a YOY increase in Finance Income by 17.4%. The Net profit for the year 2020 is AED9 bn compared to AED8.7 bn in 2019, an increase by 3.8%. Total Assets increased by 3.7% YOY to AED133 bn in 2020 from AED128 bn in 2019. Total Equity increased by 4.8% YOY to AED60 bn in 2020 from AED57 bn in 2019. Total Liabilities increased by 2.79% from AED70 bn in 2019 to AED72bn in 2020.

Target price and recommendation

We assign a rating of HOLD with a revised target price of AED21.00. Etisalat is one of the leading telecommunication companies in the MENA region. As of 2020, Etisalat UAE has reached around 1.9 million mobile app users. Etisalat UAE has also launched 5G network and continues to expand across the region through its subsidiaries. It has achieved world's largest 5G download speed of 9.1GB per sec. To further expand its market share, the group has partnered with BMW Group Middle east for connected drive services in UAE. It has also launched its health care platform, First pass. Etisalat Misr sustained revenue that supported Etisalat's financials. Furthermore, operations in Pakistan have gained momentum that contributed to revenue. The revenue for the full year declined by 0.92%. Mobile services primarily drive the revenue for the group. However, it declined by 2%. This was primarily due to travel bans and lockdown that reduced mobile and fixed voice, outbound and visitor roaming. This was partially offset by growth in data, digital and TV services. UAE is the major source of revenue for Etisalat. Revenue growth in Pakistan is negatively affected by currency devaluation. The net profit margin for 2020 is 17.5% compared to 16.7% in 2019. Although revenue was lower, the profit for the year increased, driven by lower impairment charges for the year primarily associated with their subsidiary, PTCL. The company like many others have implemented cost control strategy to offset the impact of lower revenue. Hence the EBITDA Margin was stable at 51% in 2020. The Net profit margin is also 17.5% across the two years. The Capex to revenue ratio for 2020 decreased to 14% compared to 17% in 2019. However, Etisalat Misr increased CAPEX due to spectrum acquisition with 20MHz bandwidth. Capex spending in Pakistan has decreased as they are more focused on enhancing their existing mobile network. The group reduced the purchase of PPE this year. The proposed cash DPS with respect to 2020 performance is AED 1.2. The group has a rating of AA-, stable by S&P Global and Aa3 stable by Moody's. The ROA of the company is 6.79% 2020 compared to 6.78% in 2019. ROE of the company in 2020 is 18.41% 2020 compared to 18.65% in 2019. The current ratio for the group stands at 0.98 in 2020 compared to 1.06 in 2019. Although the ratio is lower, the company has increased its cash balances by increasing its bank borrowings. This is to maintain a better liquidity position with a net cash position. Etisalat in 2020 distributed 0.8 in dividends along with 0.40 special dividends (Total cash dividend is AED1.20 per share). Net debt to equity is 3.07 in 2020, compared to 3.03 in 2019. The PB multiple is 3.6x. Therefore, we assign a HOLD rating to Etisalat.

Etisalat - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	22.02	21.58	21.36	20.54	21.36
P/B (x)	4.2	4.1	4.0	3.8	3.6
Dividend yield	3.7%	3.7%	3.7%	3.7%	3.7%

FABS estimate and Co data

Etisalat P&L

(AED mm)	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Revenue	13,113	13,064	13,244	1.0%	1.4%	51,708	52,975	2.5%
Operating expenses	-6,483	-5,223	-6,092	-6.0%	16.6%	-23,940	-24,369	1.8%
Impairment	-354	-506	-384	8.5%	-24.0%	-1,456	-1,536	5.5%
EBITDA	**6,277**	**7,336**	**6,768**	**7.8%**	**-7.7%**	**26,312**	**27,070**	**2.9%**
Federal royalty	-1,455	-1,155	-1,433	-1.5%	24.0%	-5,594	-5,731	2.5%
Depreciation, Amortization	-1,545	-3,382	-2,136	38.2%	-36.8%	-7,900	-8,544	8.2%
Share of assoc. & JVs	31	59.9	40	31.8%	-32.4%	197	162	-18.0%
Operating profit	**3,307**	**2,859**	**3,239**	**-2.1%**	**13.3%**	**13,015**	**12,957**	**-0.4%**
Finance income	91	420	272	199.4%	-35.2%	1,112	1,088	-2.2%
Finance cost	-505	-529	-590	16.7%	11.4%	-2,361	-2,359	-0.1%
Profit before tax	**2,893**	**2,749**	**2,921**	**1.0%**	**6.3%**	**11,766**	**11,686**	**-0.7%**
Tax	-358	-445	-359	0.5%	-19.3%	-1,451	-1,437	-0.9%
Profit after tax	**2,535**	**2,304**	**2,562**	**1.1%**	**11.2%**	**10,316**	**10,248**	**-0.7%**
Non-controlling int.	-356	-256	-277	-22.2%	8.4%	-1,289	-1,109	-14.0%
Net profit	**2,179**	**2,048**	**2,285**	**4.9%**	**11.6%**	**9,027**	**9,140**	**1.3%**

FABS estimate & Co Data

Margins	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Gross Margin	50.6%	60.0%	54.0%	344	-602	53.7%	54.0%	30
EBITDA margin	47.9%	56.2%	51.1%	324	-505	50.9%	51.1%	21
Operating margin	25.2%	21.9%	24.5%	-76	258	25.2%	24.5%	-71
Net Profit margin	16.6%	15.7%	17.3%	64	158	17.5%	17.3%	-20

FABS estimate & Co Data

1Q21 preview: Emirates Integrated Telecommunications

Decline in Revenue to impact the profitability

12-m target price:	Stock rating:
AED7.50	**ACCUMULATE**

CMP(AED):6.66
Potential upside (%): +12.6%

1Q21 Estimate

We forecast 8.3% YOY decrease in Du's Net profit to AED326 mm in 1Q21 from AED355 mm in 1Q20, with a Net margin at 13.2% in 1Q21, the decrease in Net profit is mainly due to an expected decline in Revenue by 17.4% YOY to AED2,467 mm in 1Q21 (1Q20: AED2,988 mm). While Costs (excluding D&A, marketing expenses) are anticipated to decrease by 10.6% YOY to AED1,431 mm in 1Q21 (1Q20: AED1,601 mm), resulting in 25.3% YOY decline in EBITDA to AED1,001 mm from AED1,339 mm in 1Q120, the EBITDA margin expected to decrease by 424 bps to 40.6% YOY in 1Q21. Therefore, Operating profit would decline by 22.9% YOY to AED679 mm (1Q20: AED881 mm); and the Operating profit margin would drop by 195 bps to 27.5% in 1Q21 compared 29.5% in the corresponding period last year.

2021 Forecast

DU is estimated to advance by 7.5% YOY in Net profit to AED1,551 mm in 2021 from a Net profit of AED1,443 mm in 2020. This is mainly due to the anticipation of increase in Revenue and Operating profit. Revenue is expected to rise by 6% YOY to AED11,749 mm in 2021 (2020: AED11,084 mm), while Total Costs are estimated to slightly increase by 0.9% YOY to AED6,814 mm in 2021 compared to AED6,756 mm in 2020. As a result, EBITDA is forecasted to increase by 14.1% to AED4,765 mm in 2021 from AED4,177 mm in 2020, with EBITDA margin at 40.6% in 2021 (2020: 37.7%). Depreciation and Amortization expenses are projected to increase by 3.3% to AED1,532 mm in 2021 (2020: AED1,483 mm). Thus, Operating profit would come in 20% higher at AED3,233 mm from AED2,694 mm in 2020, with Operating Profit Margin (OPM) at 27.5% in 2021 from 24.3% in 2020. Federal royalty expenses would increase by 8.5% to AED1,641 mm in 2021 (2020: AED1,512 mm).

4Q20 Outturn

Emirates Integrated Telecommunications (DU) reported a significant decrease by 88.9% in Net profit to AED48 mm in 4Q20 compared to a Net profit of AED436 mm in 4Q19. That was mainly due to a decrease in Revenue and increase in Costs (ex D&A, marketing exp). Revenue dropped by 14.2% YOY to AED2,740 from AED3,192 in 4Q19, While Total Costs increased by 29.6% YOY to AED2,189 mm in 4Q20 from AED1,689 mm in 4Q19. As a result, EBITDA has significantly decreased by 64.9% YOY to AED512 mm in 4Q20 compared to AED1,458 mm in 4Q19, with EBITDA margin at 18.7% from 45.7% in 4Q19. Depreciation and Amortization significantly dropped by 84.3% YOY to AED80 mm in 4Q20 from AED510 mm in 4Q19. Therefore, Operating profit declined by 54.4% YOY to AED432 mm from AED948 mm in 4Q19, with OPM at 15.8% from 29.7% in 4Q19.

Target price and rating

We revised our rating on DU to ACCUMULATE with revised target price at AED7.50. EITC (du) has managed to limit the adverse impact of COVID-19 pandemic and reported a total Revenue of AED 11.08 bn and Net Income of AED 1.44 bn in 2020. The company's operating model allowed it to sustain and perform better than companies in other industries. Furthermore, the company's robust balance sheet allowed the capital intensity of 16.9%, the highest level in the past five years as the company continued the implementation of its ambitious deployment plans in future technologies. This is in line with company's efforts to boost the network and 5G roll out. In 2020, the Board allowed the non-UAE investors to invest in the company and hold around 49% of the company's share capital. As the economy improved after the second half of the year, the Fixed revenues increased by 3.0% YOY to AED 2.57 bn in 2020. This was mainly due to a 7.4% increase in fixed subscriber base and continued efforts to enhance the fixed revenue. However, the mobile Revenues were affected by the limitation of travel plans, restricted mobility, and changes in population demographics. The mobile subscriber base decreased by 12.8% YOY in 2020. The Average revenue per user (ARPU) increased by 3.4% in 2020 YOY facilitated by a change in Prepaid and Postpaid subscriber mix. During the year 2020, the company launched iPhone 12 with 5G facility via online and retail stores. The new operating model is likely to enhance the network and support the 5G deployment project. The EBIDTA had a declining trend in 2020 and reduced by 20.7% to AED4,507 mm during the year, mainly due to network expansion and subscriber mix changes. The bottom line decreased by 11.9% YOY to AED1443 mm in the year 2020 as compared to 2019. The company recorded a one-time goodwill write-off of AED 137 mn relating to the broadcasting business (acquired in 2005) in the fourth quarter of 2020. Similarly, the Net income was supported by the divestment of the company's stake in Khazna in the third quarter of the financial year. Despite a 27.5% erosion in Free cash flow due to the pandemic and CAPEX, the company has demonstrated healthy cash flow balance of AED1.16 bn in 2020. Based on the performance for the year, the Board of Directors approved 28 fils per share in 2020. The company paid AED13 fils per share as interim dividends in August 2020. Hence, we assign our ACCUMULATE rating on the stock.

DU – Relative Valuation

(at CMP)	**2017**	**2018**	**2019**	**2020**	**2021E**
P/E (x)	17.53	17.08	17.53	20.81	19.59
P/B (x)	3.76	3.55	3.49	3.52	3.42
Dividend yield	5.3%	5.3%	5.1%	4.2%	4.6%

FABS Estimates & Co data

DU - P&L

(AED mm)	**1Q20**	**4Q20**	**1Q21F**	**YOY ch**	**QOQ ch**	**2020**	**2021F**	**YOY ch**
Revenue	2,988	2,740	2,467	-17.4%	-10.0%	11,084	11,749	6.0%
Costs (ex D&A, marketing exp)	-1,601	-2,189	-1,431	-10.6%	-34.6%	-6,756	-6,814	0.9%
Marketing expense	-48	-39	-36	-26.1%	-8.6%	-151	-170	12.9%
EBITDA	**1,339**	**512**	**1,001**	**-25.3%**	**95.5%**	**4,177**	**4,765**	**14.1%**
Depreciation and Amortization	-458	-80	-322	-29.8%	302.6%	-1,483	-1,532	3.3%
Operating profit	**881**	**432**	**679**	**-22.9%**	**57.2%**	**2,694**	**3,233**	**20.0%**
Financing income/expense	-74	181	-13	-82.8%	-107.0%	-55	-61	10.0%
Other income/expense	3	6	2	-34.0%	-65.7%	14	10	-28.1%
Gain on disposal of investment	6.8	-230	2	-68.7%	-100.9%	302	10	-96.7%
Pre-royalty profit	**816**	**389**	**670**	**-17.9%**	**72.2%**	**2,955**	**3,192**	**8.0%**
Federal Royalty	-461	-341	-345	-26.1%	1.0%	-1,512	-1,641	8.5%
Net profit	**355**	**48**	**326**	**-8.3%**	**573.6%**	**1,443**	**1,551**	**7.5%**

FABS estimate & Co Data

DU - Margins

AED mm	**1Q20**	**4Q20**	**1Q21F**	**YOY ch**	**QOQ ch**	**2020**	**2021F**	**Change**
Gross Margin	46.4%	20.1%	42.0%	-441	2189	39.0%	42.0%	296
Operating margin	29.5%	15.8%	27.5%	-195	1175	24.3%	27.5%	321
Net Profit margin	11.9%	1.8%	13.2%	132	1144	13.0%	13.2%	19

FABS estimate & Co Data

1Q21 Preview & First look Note: Etihad Etisalat Co.

Increase in Gross profit to support earnings

CMP (SAR): 30.15
Potential upside (%): -1.0%

12-m target price:	Stock rating:
SAR29.85	**HOLD**

1Q21 First look Note

Etihad Etisalat (Mobily) recorded a significant increase in Net Profit to SAR226 mm in 1Q21 from a Net profit of SAR130 mm in 1Q20, beating our estimate of SAR185 mm. The increase in Net profit was mainly attributed to decrease in General & Administrative expenses and in Finance Expense, in addition to a stable Direct Cost. Sales increased by 0.1% YOY to SAR3,603 mm in 1Q21 from SAR3,600 mm in 1Q20. Direct costs decreased slightly by 0.2% YOY to SAR1,531 mm in 1Q21 from SAR1,534 mm in 1Q20. Resultantly, the Gross profit increased by 0.3% YOY to SAR2,072 mm in 1Q21 from SAR2,065 mm in 1Q20. EBITDA increased by 6.3% YOY to SAR1,412 mm in 1Q21 from SAR,328 mm in 1Q20, as a result of an improvement in the company's efficiency in managing its General and Admin expenses. The EBITDA margin rose to 39% for 1Q21 compared to 37% for 1Q20. Financial charges decreased by 21.9% YOY to SAR126 mm in 1Q21 from SAR162 mm in 1Q20, reflecting the company's efforts to lower funding costs by refinancing large portions of its debts, and the decline in interest rates. Total Impairment loss increased to SAR54 mm in 1Q21 from SAR47 mm in 1Q20. Zakat expenses increased by 29% YOY to SAR18 mm for 1Q21 from SAR14 mm in 1Q20. Total assets increased by 1% YOY to SAR38.8 bn in 1Q21 from SAR38.4 bn in 1Q20. Total liabilities increased by 0.7% YOY to SAR24.1 bn in 1Q21 from SAR23.96 bn in 1Q20. Cash and cash equivalents inclined by 38% YOY to SAR1.3 bn in 1Q21 from SAR929 mm in 1Q20.

1Q21 Estimate

Etihad Etisalat (Mobily) is estimated to report an advance by 40.9% YOY in Net profit to SAR184 mm in 1Q21, mainly due to a 5.6% YOY increase in Gross Profit to SAR2,182 mm in 1Q21 and an increase by 7.5% YOY in Operating Profit to SAR370 mm from SAR344 mm in 1Q20. Sales is expected to rise by 4.5% YOY to SAR3,762 mm in 1Q21 from SAR3,600 mm in 1Q20. EBITDA is expected to rise by 7.6% YOY to SAR1,429 mm in 1Q21 from SAR1,328 mm in 1Q20, mainly due to an anticipated increase in sales and improvement in operational performance. We estimate Mobily to expand their selling activities (such as advertising costs, salaries of employees, sales commissions etc) resulting in the projected rise of Selling and overhead expenses by 2% YOY to SAR752 mm in 1Q21 from SAR737 mm in 1Q20. Finance charges are expected to rise slightly by 0.8% YOY to SAR163 mm in 1Q21 from SAR162 mm in 1Q20. Zakat expenses are expected to increase by 5.8% YOY to SAR15 mm in 1Q21 compared to SAR14 mm in 1Q20.

2021 Forecast

Mobily's Net Profit is expected to increase to SAR1,018 mm in 2021 from a Net profit of SAR783 mm in 2020. This is mainly due to an expected increase in Gross profit and operating profit. Sales are expected to increase by 4% YOY to SAR14,608 mm in 2021 from SAR14,046 mm in 2020. Moreover, Direct costs are expected to rise by 4.1% YOY to SAR6,135 mm in 2021 from SAR5,894 mm in 2020. Subsequently, the Gross Profit is projected to increase by 3.9% YOY to SAR8,473 mm in 2021 from SAR8,152 mm in 2020 with a gross profit margin of 58% as of 2021. The Operating Profit is expected to rise by 17.4% YOY to SAR1,639 mm in 2021 from SAR1,396 mm in 2020. Zakat expenses are expected to rise by 25.2% to SAR54 mm in 2021 compared to SAR43 in 2020.

4Q20 Outturn

Etihad Etisalat (Mobily) recorded a significant increase in Net Profit to SAR246 mm in 4Q20 from a Net loss of SAR125 mm in 4Q19. This was mainly attributed to a decrease in Financial Charges and Selling & Overhead expense. Mobily's Sales decreased by 0.5% YOY to SAR3.53 bn in 4Q20 from SAR3.51 bn in 4Q19. Direct costs increased by 2.6% YOY to SAR1.564 bn in 4Q20 from SAR1.525 bn in 4Q19. Resultantly, the Gross profit decreased by 1% YOY to SAR1.969 bn in 4Q20 from SAR1.990 bn in 4Q19. EBITDA increased by 10.5% YOY to SAR1.3 bn in 4Q20 from SAR1.2 bn in 4Q19 because of an improvement in its efficiency in managing its Selling overhead expenses. Mobily's 2020 EBITDA rose by 6.8% in comparison to 2019 due to efficiency in managing operations and better revenue mix. The EBITDA margin rose to 37.2% for 4Q20 compared to 33.8% for 4Q19. Financial charges decreased by 56.9% YOY to SAR127 mm in 4Q20 from SAR294 mm in 4Q19, reflecting the company's efforts to lower funding costs by refinancing large portions of its debts, and the decline in interest rates. Total Impairment loss increased to SAR65 mm in 4Q20 from SAR22 mm in 4Q19. Zakat expenses decreased by 1.1% YOY to SAR8.9 mm for 4Q20 from SAR9 mm in 4Q19. The Total assets decreased by 2% YOY to SAR38.4 bn in 2020 from SAR39.2 bn in 2019. Total liabilities declined by 5.9% YOY to SAR23.9 bn in 2020 from SAR25.4 bn in 2019. Cash and cash equivalents declined by 25.7% YOY to SAR929 mm in 2020 from SAR1.25 bn in 2019.

Target price and recommendation

We maintain our HOLD rating on Mobily with a target price of SAR29.85. Mobily is ranked the 9th most valuable Saudi Arabian telecom company valued at more than SAR4 billion, increasing its value by more than 31%. Mobily acquired 5G spectrum in 2.6 GHz and 3.7 GHz and successfully extended the 5G service coverage reaching 53 cities in Saudi Arabia. Furthermore, Mobily successfully made the first 5G voice call (VoNR) in the ME, using 5G standalone (SA) network, as well as 5G (SA) network capability for data services, which provides independent 5G technology without any dependency on a 4G network. Mobily posted a more than 24x net profit returns of SAR783 mm for 2020 compared to SAR31 mm in 2019, mainly due to an improvement in topline performance, decline of financing charges and healthy EBITDA. We believe this is a major achievement for Mobily. The company also reduced its total debt by more than SAR1 billion, and therefore reported a healthy Net debt to EBITDA ratio of 2.26x in 2020. Mobily was able to attain healthy levels of net debt by decreasing financial charges for 2020 to reach SAR561 mm compared to SAR929 mm in 2019, displaying a decline of 39.6%. Mobily's Capex for 2020 rose by 1.2% to reach SAR2,792 million compared to SAR2,760 million in 2019 and the CAPEX intensity ratio (CAPEX to revenues) was at 20%. This displays Mobily's commitment to improve the quality of service and invest in the infrastructure. Mobily's operational cash flow rose by 17% to SAR2,558 mm compared to 2019 due to the improvement in topline growth and continuous efficiency in operational cost management. Mobily BOD proposed dividends of SAR0.5 per share for the fiscal year 2020, issuing SAR385 mm dividends in total. We believe all these achievements are vital in demonstrating Mobily's financial performance and future outcome. The stock is trading at a P/B multiple of 1.5x. Based on the above, we maintain our HOLD rating on the stock.

Mobily – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	-32.77	-188.44	753.75	29.56	22.84
P/B (x)	1.63	1.67	1.69	1.61	1.50
Dividend yield	0.0%	0.0%	0.0%	1.7%	2.0%

FABS Estimates & Co data

Mobily – P&L

SAR mm	1Q20	4Q20	1Q21A	1Q21F	Variance	YOY ch	QOQ ch	2020	2021F	YOY
Sales	3,600	3,533	3,603	3,762	-4.2%	0.1%	2.0%	14,046	14,608	4.0%
Direct costs	-1,534	-1,564	-1,531	-1,580	-3.1%	-0.2%	-2.1%	-5,894	-6,135	4.1%
Gross profit	**2,065**	**1,969**	**2,072**	**2,182**	**-5.0%**	**0.3%**	**5.2%**	**8,152**	**8,473**	**3.9%**
Selling & overhead exp	-737	-656	-660	-752	-12.3%	-10.5%	0.6%	-2,798	-2,910	4.0%
EBITDA	**1,328**	**1,313**	**1,412**	**1,429**	**-1.3%**	**6.3%**	**7.5%**	**5,355**	**5,563**	**3.9%**
D & A	-989	-1,001	-996	-1,065	-6.5%	0.7%	-0.5%	-3,970	-3,944	-0.6%
Other income	5	3	7	5	46.8%	61.7%	171.2%	11	20	88.7%
Operating profit	**344**	**315**	**423**	**370**	**14.6%**	**23.2%**	**34.6%**	**1,396**	**1,639**	**17.4%**
Investment & other income	10	2	1	8	-82.9%	-86.1%	-21.4%	21	27	29.8%
Impairment loss on accounts	-47	65	-54	-8	580.2%	14.8%	-183.3%	-15	-16	10.0%
Financial charges	-162	-127	-126	-163	-22.6%	-21.9%	-0.4%	-561	-562	0.2%
Profit before zakat	**144**	**255**	**244**	**199**	**23.0%**	**69.0%**	**-4.2%**	**826**	**1,072**	**29.7%**
Zakat	-14	-9	-18	-15	21.9%	29.0%	104.0%	-43	-54	25.2%
Profit attributable	**130**	**246**	**226**	**184**	**23.0%**	**73.4%**	**-8.2%**	**783**	**1,018**	**30.0%**

FABS estimate & Co Data

Margins

SAR mm	1Q20	4Q20	1Q21A	1Q21F		YOY ch	QOQ ch	2020	2021F	Change
GPM	57.4%	55.7%	57.5%	58.0%		62	226	58.0%	58.0%	-4
OPM	9.5%	8.9%	11.8%	9.8%		28	92	9.9%	11.2%	128
Net margin	3.6%	7.0%	6.3%	4.9%		126	-208	5.6%	7.0%	139

FABS estimate & Co Data

1Q21 Preview & First look Note: Saudi Telecom Company

Initiatives in technology to boost revenue and profitability

12-m target price:	Stock rating:
SAR120.00	**HOLD**

CMP (SAR): 125.4
Potential upside (%): -4.3%

1Q21 First look Note

Saudi Telecom Company (STC) reported a 1.34% YOY increase in Net profit of SAR2,952 mm in 1Q21 compared to a Net profit of SAR2,913 mm in 1Q20. This is mainly due to revenues rose by 12.63% to SAR15,695 mm in 1Q21 from SAR13,935 mm in 1Q20. Sales increase is mainly due to the rise in the Enterprise Business Unite sales as a result of increased demand for the company's services and goods, as well as the ability to respond quickly and competitively to consumer requests and demands. Direct costs increased by 24.3% YOY to SAR7,138 mm in 1Q21 from SAR5,739 mm in 1Q20. Gross profit increased by 4.4% YOY to SAR8,557 mm in 1Q21 from SAR8,196 mm in 1Q20. Operating costs decreased by SAR116 mm as a result of an SAR55 mm reduction in selling and promotion expenses and an SAR95 mm reduction in G&A expenses. Selling and marketing expenses decreased by SAR55 mm YOY compared to 1Q20. General & admin expenses decreased by SAR95 mm YOY compared to 1Q20. Operating profit increased by 15.9% YOY to SAR3,482 mm in 1Q21 from SAR3,004 mm in 1Q20. Zakat and Income tax increased by SAR125 mm YOY compared to 1Q20. Earnings before interest, taxes, zakat, depreciation, and amortization (EBITDA) increased by 9.59% YOY to SAR5,841 mm in 1Q21 from SAR5,330 mm in 1Q20. Saudi Telecom Company (STC) will be distributing SAR1 per share dividends on 31/05/2021 for a total amount of SAR2,000 mm.

1Q21 Estimate

STC is estimated to report a profit of SAR2,706 mm in 1Q21, which is a 7.1% YOY decrease making the Net margin decline by 373 bps to 17.2% in 1Q21 from 20.9% in 1Q20. We expect a rise by 5.7% YOY in Gross Profit to SAR8,665 mm in 1Q21 from SAR8,196 mm in 1Q20, led by an expected growth by 13.1% YOY in the Revenues to SAR15,755 mm in 1Q21.The expected increase in the Gross profit will lead to a decrease by 382 bps in the GPM margin to 55% in 1Q21 compared to 58.8% in 1Q20. STC is likely to register an increase of only 9.4% YOY in EBITDA to SAR5,829 in 1Q21 as compared to SAR5,330 in 1Q20 due to a decrease by 4.7% in Selling & overhead expense to SAR1,339 mm in 1Q21. Operating profit is estimated to increase by 10.1% to SAR3,309 mm in 1Q21 from SAR3,004 mm in 1Q20, and with an Operating profit margin (OPM) of 21% from 21.6% in 1Q20. Finance charges are likely to decrease by 11.5% YOY to SAR153 mm in 1Q21. Finance Income is expected to decrease by 19.8% YOY to SAR105 mm in 1Q21 from SAR131 mm in 1Q20. Provision for zakat is expected to increase by 72.6% YOY to SAR398 mm in 1Q21 from SAR230 mm in 1Q20, reducing the profitability.

2021 Forecast

STC's Net profit is expected to slightly increase by 1.2% YOY to SAR11,124 mm from SAR10,995 mm in 2020. Revenues are expected to increase by 3% YOY in 2021 to SAR60,722 mm from SAR58,953 mm in 2020, while Direct cost will also increase by 3.2% YOY reaching SAR25,807 mm in 2021 from SAR24,999 mm in 2020. Subsequently, the Gross Profit is expected to increase by 2.8% YOY to SAR34,915 mm in 2021 with a Gross profit margin of 57.5% in 2021 from 57.6% in 2020. Due to a slight increase of 0.7% YOY in Depreciation and amortisation expenses to SAR9,424 mm and an increase by 1.9% in General & administrator expense to SAR5,920 in 2021, the Operating Profit is likely to increase by 5.2% YOY to SAR13,396 mm in 2021 compared to SAR12,731 mm in 2020, leading to a rise by 47 bps in the OPM to 22.1% from 21.6% in 2020. Finance Income is likely to increase by 9.5% YOY to SAR453 mm in 2021, while Financial charges are likely to increase by 9.2% to SAR682 mm in 2021 from SAR624 in 2020.

4Q20 Outturn

Saudi Telecom Company (STC) reported a 15.6% YOY increase in Net profit of SAR2,683 mm in 4Q20 compared to a Net profit of 2,230 mm in 4Q19. This is mainly due to solid demand for STC's products and services, therefore driving their Sales and Operating profit. Sales increased by 14.7% YOY to SAR15,213 mm in 4Q20 from SAR13,265 mm in 4Q19. This is mainly due to the high demand for STC's diverse products & services, and the firm's ability to meet this demand efficiently, especially during COVID-19. Furthermore, this year, STC has achieved the highest annual revenue in the last 8 years. Direct costs increased by 37.1% YOY to SAR6,723 mm in 4Q20 from SAR4,905 mm in 4Q19 primarily due to the increase in government and access charges. As a result, the Gross profit increased by 1.5% YOY to SAR8,489 mm in 4Q20 from SAR8,360 mm in 4Q19. Selling and marketing expenses decreased by 29.8% YOY to SAR1,294 mm in 4Q20 from SAR1,842 mm in 4Q19. General & admin expenses decreased by 3.3% YOY to SAR1,480 mm in 4Q20 from SAR1,531 mm in 4Q19. The Depreciation and amortization decreased by 6.2% YOY to SAR2,426 mm in 4Q20 from SAR2,587 mm in 4Q19. Operating profit increased by 37.1% YOY to SAR3,290 mm in 4Q20 from SAR2,400 mm in 4Q19. Zakat and Income tax increased to SAR419 mm in 4Q20 from SAR93 mm in 4Q19 due to receiving an additional Zakat assessment. Total assets increased by 3.6% to SAR122.5 bn in 2020 from SAR118.3 bn in 2019. Total liabilities rose by 3.5% to SAR57.2 bn in 2020 from SAR55.2 in 2019. Total equity increased to SAR65.3 bn in 2020 from SAR63 bn in 2019.

Target price and recommendation

We assign a HOLD rating on Saudi Telecom Company, with a target price of SAR120. Saudi telecom is the number one mobile and fixed broadband subscriber as well as the 2nd most valuable brand in GCC. Its sales revenue for the year 2020 has increased by 8.4%. STC is the largest telecom in the MENA region. It holds a 74% of the market share in KSA. Majority of the company's revenues are generated within KSA through STC channels. The highest growth observed is in the other operating segments, with revenue increase of 24.6%. The net profit margin has been the was 19.6%, in the year 2019 and 18.8% in 2020. Furthermore, the EBITDA margin has decreased to 37.6% as compared to 39.1% in 2019. The Return on Assets (ROA) had decreased slightly in 2020 to 9.19% from 9.23% in 2019. However, as a percentage of revenue, CAPEX has decreased to 18.39% in 2020, compared to 20.91% in 2019. Furthermore, the CFO to Capex ratio has increased to 2.61x, compared to 0.8x. This is mainly due to their increase in cash flow from operating activities as CAPEX is stable in the years 2019 and 2020. Total leverage in the year 2020 accumulated to SAR402 mm from SAR351 mm in 2019. Their Debt/EBITDA ratio has increased in the year 2019 and has maintained it around 40.39% in 2020. In 2019 the total outstanding debt increased by 117%; hence the debt-to-equity ratio stands at 13.99% in 2020. Despite COVID-19, STC's liquidity position has been stable at 1.38x in 2020 and 1.37x in 2019. STC maintained its dividend distribution policy approved in 2018, of paying SAR1 per share per quarter which shows healthy cash flows and stable performance, despite the COVID-19 situation. Further, STC has treasury stock worth SAR300 mm. STC has been given a rating of A- by S&P and A1 by Moody's. STC acquired 55% of Vodafone Egypt with a value of SAR 8,970 mm. Due to COVID-19 logistical limitations delay in the completion of the procedure is expected. The stock is currently trading at a P/B multiple of 3.72x compared to its peers at 3.01x. Therefore, we assign a HOLD rating on the stock.

STC – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	4.26	3.96	4.01	3.88	3.84
P/B (x)	0.68	0.65	0.69	0.67	0.64
Dividend yield	3.2%	3.2%	3.2%	3.2%	3.2%

FABS Estimates & Co data

STC - P&L

SAR mm	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2,020	2021F	YOY ch
Sales	13,935	15,213	15,755	13.1%	3.6%	58,953	60,722	3.0%
Direct costs	-5,739	-6,723	-7,090	23.5%	5.4%	-24,999	-25,807	3.2%
Gross profit	**8,196**	**8,489**	**8,665**	**5.7%**	**2.1%**	**33,954**	**34,915**	**2.8%**
Selling & overhead expenses	-1,405	-1,294	-1,339	-4.7%	3.5%	-6,054	-6,175	2.0%
General & admin Exp.	-1,461	-1,480	-1,497	2.4%	1.1%	-5,811	-5,920	1.9%
EBITDA	**5,330**	**5,716**	**5,829**	**9.4%**	**2.0%**	**22,090**	**22,819**	**3.3%**
Depreciation & amortization	-2,326	-2,426	-2,521	8.4%	3.9%	-9,359	-9,424	0.7%
Operating profit (EBIT)	**3,004**	**3,290**	**3,309**	**10.1%**	**0.6%**	**12,731**	**13,396**	**5.2%**
Other income/(expenses)	219	-105	-108	-149.4%	3.0%	-165	-667	303.0%
Finance Income	131	92	105	-19.8%	15.0%	414	453	9.5%
Financial charges	-173	-147	-153	-11.5%	4.0%	-624	-682	9.2%
Profit before zakat	**3,182**	**3,130**	**3,153**	**-0.9%**	**0.7%**	**12,356**	**12,501**	**1.2%**
Zakat	-230	-419	-398	72.6%	-5.0%	-1,170	-1,184	1.1%
Profit before NCI	2,951	2,711	2,755	-6.6%	1.6%	11,185	11,317	1.2%
NCI	-38	-28	-49	28.3%	75.0%	-190	-192	1.1%
Profit attributable	**2,913**	**2,683**	**2,706**	**-7.1%**	**0.9%**	**10,995**	**11,124**	**1.2%**

FABS estimate & Co Data

STC - Margins

	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2,020	2021F	Change
Gross Margin	58.8%	55.8%	55.0%	-382	-80	57.6%	57.5%	-10
Operating margin	21.6%	21.6%	21.0%	-56	-63	21.6%	22.1%	47
Net Profit margin	20.9%	17.6%	17.2%	-373	-46	18.7%	18.3%	-33

FABS estimate & Co Data

1Q21 preview: Telecom Egypt

Strong results to support profitability

CMP (EGP): 11.73
Potential gain (%): +59.4%

12-m target price:	Stock rating:
EGP18.70	**BUY**

1Q21 Estimate

Telecom Egypt (ETEL) is estimated to report 6.2% YOY increase in profit to EGP1,394 mm in 1Q21, mainly due to a rise in Gross Profit to EGP3,765 mm from EGP2,726 mm in 1Q20 and strong financial and operating performance. Revenue is expected to grow by 41.5% YOY to EGP9,909 mm in 1Q21 primarily due to the growth of customer base and retail performance driven by high data Revenue. Selling and overhead expenses are projected to rise by 23.5% YOY to EGP1,932 mm in 1Q21 from EGP1,565 mm in 1Q20. However, in 4Q20 the Net Finance cost dropped to EGP420 mm. Therefore, in 1Q21 we expect the Net finance cost to slightly fall to a negative of EGP436 mm compared to EGP23 mm in 1Q20. Zakat expenses are expected to rise by 52.9% YOY to EGP615 mm in 1Q21 from EGP683 mm in 1Q20, and on a QOQ basis it is expected to drop by 10%.

2021 Forecast

Telecom Egypt's Net Profit is expected to increase by 12.4% YOY to EGP5,455 mm in 2021 from EGP4,851 mm in 2020 due to an expected increase by 2.6% YOY in the Gross profit to EGP12,568 mm in 2021, led by an expected rise by 3.1% YOY in Revenues to EGP32,902 mm in 2021 from EGP31,912 mm in 2020. Selling and distribution expenses are expected to rise by 5.9% YOY to EGP3,126 mm in 2021 from EGP2,951 mm in 2020. While General and Administrative expenses are expected to decline by 1.2% YOY to EGP3,290 mm in 2021 from EGP3,330 mm in 2020. Thus, Operating Profit is expected to grow by 8.6% YOY to EGP6,408 mm from EGP5,898 mm in 2020 with OPM equal to 19.5% from 18.5% in 2020. Zakat expenses are expected to decline at EGP1,702 mm in 2021 compared to EGP1,767 mm in 2020 to help the profitability advance.

4Q20 Outturn

Telecom Egypt recorded a rise in Net profit by 34.6% YOY to EGP1.319 bn in 4Q20 from EGP980 mm in 4Q19. This was mainly due to a higher Revenue. Telecom Egypt recorded an increase by 40.8% YOY in the Operating revenue to EGP9.565 bn in 4Q20 from EGP6.793 bn, while Operating costs increased by 33.4% YOY to EGP5.798 bn in 4Q20 from EGP4.35 bn. Gross profit increased by 54% YOY to EGP3.767 bn in 4Q20 from EGP2.445 bn in 4Q19. Moreover, Selling & overhead expenses increased to EGP1.858 bn in 4Q20 by 18% YOY from EGP1.575 bn in 4Q19. Operating profit increased by 78.8% YOY to EGP1.782 bn in 4Q20 from EGP996 mm in 4Q19. Furthermore, the Net finance income/cost increased by 44.9% YOY to EGP420 mm in 4Q20 from EPG290 mm in 4Q19. Income from Associates stood stable at EGP643 mm in 4Q20 from EGP645 mm in 4Q19. However, Zakat increased significantly to EGP683 mm in 4Q20 from EGP370 mm in 4Q19. While the Total assets increased from EGP73.25 bn in 2019 to EGP84.4 bn in 2020, an increase by 15.28%. Total Equity increased by 10% to EGP38.7 bn in 2020 compared to EGP35.2 bn in 2019. Total liabilities increased by 20.19% from AED38.03 bn in 2019 to EGP45.7 bn in 2020. Total debt increased to EGP 20.3 bn from EGP 16.45 in 2019.

Target price and recommendation

We assign a BUY rating on the stock with target price of EGP18.70. Telecom Egypt is a growing telecom company primarily based in Egypt with a strategy to build a digital ecosystem to optimize the use of technology. Despite COVID-19 distress situation, Telecom Egypt has increased its global network through agreements with large organizations like Google. Its revenue has grown by 23.7% in 2020 from 2019 mainly due to retail revenue increasing by 28% that is driven by data growth. The company's operating revenues are primarily driven by Home and personal communication, with year-on-year growth of 45%. However, due to several partnerships established by Egypt Telecom, its international cable and network revenue has increased by 52% in 2020. Its customer base in 2020 increased across the board with an EBITDA margin of 36%. The Gross Profit Margin for 2020 stands at 38.4% compared to 36.6% in 2019. The Net Profit Margin for the company stands at 15.2% in 2020 compared to 17.05% in 2019. Although the Net Profit is higher for 2020, the finance income reduced drastically due to lower interest rate environment, resulting in lower investment in short-term interest-bearing securities. The ROAA of the company in 2020 was 6.2% compared to 5.6% in 2019. The CAPEX to sales ratio in 2020 remains at 35% compared to 37% in 2019. Further, 65% of the total capital expenditure is to enhance access network. The company's net debt to EBITDA ratio reached 1.6x compared to 2.1x last year. The total debt increased by 23%; however, Net Interest grew only by 5% due to lower interest rates. Debt to equity ratio for the company is at 0.52 compared to 0.47 in 2019. The current ratio of the firm is 0.51 compared to 0.581 in 2019. This is primarily due to an increase in loans and facilities installments due within one year. Telecom Egypt is utilizing the lower interest rate environment to borrow and expand its operations to improve its global network. The Board of Directors proposed dividends of EGP0.75 per share for 2020, higher than EGP 0.25 in 2019. The stock is currently trading at a PB multiple of 0.5x. Therefore, we assign a BUY rating.

Telecom Egypt – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	8.50	7.82	5.59	4.99	3.68
P/B (x)	0.66	0.62	0.57	0.52	0.47
Dividend yield	2.1%	2.1%	2.1%	6.4%	6.4%

FABS Estimates & Co data

Telecom Egypt- P&L

EGP mm	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2020	2021F	YOY
Operating Revenue	7,004	9,565	9,909	41.5%	3.6%	31,912	32,902	3.1%
Operating costs	-4,278	-5,798	-6,143	43.6%	6.0%	-19,663	-20,333	3.4%
Gross profit	**2,726**	**3,767**	**3,765**	**38.1%**	**0.0%**	**12,249**	**12,568**	**2.6%**
Selling & overhead expenses	-1,565	-1,858	-1,932	23.5%	4.0%	-6,281	-6,416	2.1%
Net operating revenues (others)	62	-127	-93	-249.4%	-26.7%	-70	255	-465.4%
Operating profit	**1,224**	**1,782**	**1,740**	**42.2%**	**-2.3%**	**5,898**	**6,408**	**8.6%**
Income from Associates	469	643	707	50.9%	10.0%	2,206	2,272	3.0%
Net Finance income/(cost)	23	-420	-436	-2009%	4.0%	-1,480	-1,517	2.6%
Profit before zakat	**1,715**	**2,005**	**2,011**	**17.2%**	**0.3%**	**6,625**	**7,163**	**8.1%**
Zakat	-402	-683	-615	52.9%	-10.0%	-1,767	-1,702	-3.7%
Profit before N-C interests	**1,313**	**1,322**	**1,396**	**6.3%**	**5.6%**	**4,858**	**5,461**	**12.4%**
Non-controlling interests	-1	-3	-2	93.8%	-32.2%	-7	-7	0.0%
Profit attributable	**1,312**	**1,319**	**1,394**	**6.2%**	**5.7%**	**4,851**	**5,455**	**12.4%**

FABS estimate & Co Data

Telecom Egypt - Margins

	1Q20	4Q20	1Q21F	YOY ch	QOQ ch	2020	2021F	Change
Gross Margin	38.9%	39.4%	38.0%	-92	-138	38.4%	38.2%	-18
Operating margin	17.5%	18.6%	17.6%	9	-107	18.5%	19.5%	99
Net Profit margin	18.7%	13.8%	14.1%	-467	28	15.2%	16.6%	138

FABS estimate & Co Data

FAB Securities Contacts:

Research Analysts			
Ahmad Banihani	+971-2	-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2	-6161628	shiv.prakash@Bankfab.com
Sales & Execution			
Trading Desk Abu Dhabi Head Office	+971-2	-6161777	Online Trading Link
Trading Desk Dubai DFM Branch	+971-4	-5659593	
Institutional Desk	+971-4	-5658395	
Sales and Marketing	+971-2	-6161622	
Customer Service			
Abu Dhabi Office	+971-2	-6161600	

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in UAE 2016 & 2017
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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"