Etihad Etisalat Co. (Mobily)

Investment Update

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Mobily's revenue mix, profitability improving; recommend "Overweight" rating.

Mobily has consistently posted net profit in the past seven quarters. The growth in the business segment helped it in offsetting the impact of COVID-19 on the consumer segment. Moreover, the consumer segment is also ready to get back on track after the recent easing of restrictions. As a result, we expect mid-single-digit revenue growth, supported by strong operating and financial efficiency, to boost the company's profits. Accordingly, we recommend an "Overweight" rating on the stock with a TP of SAR 35.0/share.

Q3-21 result beats estimates: Mobily reported net profit of SAR 281mn in Q3-21, beating AJC and consensus estimates of SAR 254mn and SAR 257mn, respectively, primarily driven by higher gross margins. The company's top line remained strong with continued growth in the business segment and expansion of FTTH subscribers' base.

Traction in the business segment bodes well for revenue diversification: Mobily's business segment has shown strong performance with revenue jumping 23.2% Y/Y in 9M-21 vs. 4.0% growth in total revenue. The expansion of the client base drove growth in the business segment. We believe that the company's expanding presence in B2B would help diversify revenue and tap new opportunities in the modern technology domain. Moreover, after the recent signing of a fiber optic open access agreement for businesses, Mobily would grab more opportunities in the business segment by deepening its fiber optic penetration.

Resumption of Umrah and international travel to positively impact top-line: Resumption of Umrah, easing of travel restrictions, and operation of flights at full capacity are likely to impact Mobily's revenue positively. In addition, the increase in the number of foreign visitors would bolster revenue derived from roaming services and visitor packages. This, in turn, is expected to drive growth in the consumer segment, which accounted for 73.2% of 9M-21 revenue.

Operational solid cash flows are driven by healthier EBITDA levels expected to continue: Mobily's operating cash flow increased 45.8% Y/Y to reach SAR 3.2bn driven by healthy EBITDA levels. The company recorded healthy EBITDA margins consistently in the range of 36–40%, indicating high efficiency in operations. Although the lower contribution from low-margin Umrah and Hajj business helped margins, those are expected to remain strong due to rising contribution from the business segment and better ARPUs, backed by improvement in the customer base mix and type of services provided.

Financial efficiency supports enhancement in return on equity: Deleveraging balance sheet, restructuring of debt, and lower interest rates have helped Mobily reduce the financial charges significantly (FY20: -40%, 9M-21: -14%). This is reflected in higher net profits and return on equity (9M-21 annualized RoE 6.8% vs. 5.4% in FY20 and 0.2% in FY19). In addition, the company's cost of funds is expected to remain low, supported by a healthy credit rating and optimum leverage level. As a result, we expect RoE to improve further to 7.7% in FY22, driven by operating and financial efficiency.

AJC view and valuation: We believe that Mobily has successfully grabbed opportunities driven by increased demand from the business segment during the pandemic. The company is expected to benefit from client base expansion in the future. Furthermore, after six years, the resumption of dividend payments indicates the management's confidence and sustainability of strong performance. However, the company's long-term prospects would largely depend on its ability to cope with intense competition from peers in the 5G and ICT segments. We value Mobily at FY22E EV/EBITDA multiple of 6.6x to arrive at a TP of SAR 35/share with an "Overweight" rating on the stock.

Overweight

Target Price (SAR)	35.0
Upside / (Downside)*	16.1%

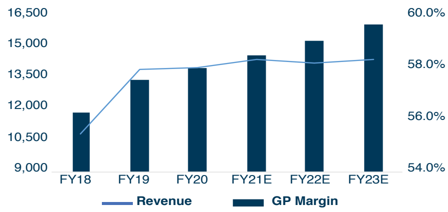
Source: Tadawul *prices as of 25th of October 2021

Key Financials

SARmn (unless specified)	FY20	FY21E	FY22E
Revenue	14,046	14,653	15,349
Growth %	4.4%	4.3%	4.8%
Gross Profit	8,152	8,555	8,938
Net Profit	783	1,012	1,230
Growth %	NM	29.2%	21.6%
EPS	1.02	1.31	1.60
Dividend Yield	1.7%	1.7%	1.7%

Source: Company reports, Aljazira Capital

Revenue and GP Margin



Source: AlJazira Capital, Company reports

Key Ratios

	FY20	FY21E	FY22E
GP Margin	58.0%	58.4%	58.2%
Net Margin	5.6%	6.9%	8.0%
P/E (x)	28.2	22.9	18.9
P/B (x)	1.5	1.5	1.5
EV/EBITDA (x)	6.6	6.2	5.8

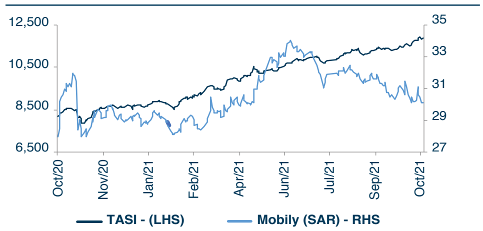
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(SAR bn)	23.2
YTD%	5.2%
52 week (High)/(Low)	34.3/27.7
Share Outstanding (mn)	770

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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Key Financial Data

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20	FY21E	FY22E	FY23E
Income statement						
Revenue	11,865	13,450	14,046	14,653	15,349	16,154
Y/Y	**4.5%**	**13.4%**	**4.4%**	**4.3%**	**4.8%**	**5.2%**
Cost of Revenue	(5,283)	(5,650)	(5,894)	(6,099)	(6,411)	(6,725)
Gross Profit	**6,582**	**7,800**	**8,152**	**8,555**	**8,938**	**9,429**
Selling & marketing	(1,286)	(1,277)	(1,391)	(1,385)	(1,460)	(1,569)
General & administrative	(747)	(1,509)	(1,407)	(1,403)	(1,481)	(1,554)
Operating Income	509	967	1,367	1,577	1,816	1,915
Y/Y	**NM**	**90.0%**	**41.3%**	**15.4%**	**15.1%**	**5.5%**
Financing costs	(799)	(929)	(561)	(497)	(508)	(518)
Other Revenues	130	43	21	10	10	11
Income before Zakat	(160)	81	826	1,090	1,318	1,408
Zakat	38	(49)	(43)	(78)	(88)	(87)
Net income	**(123)**	**31**	**783**	**1,012**	**1,230**	**1,321**
Y/Y	**NM**	**NM**	**NM**	**29.2%**	**21.6%**	**7.3%**
EPS	(0.16)	0.04	1.02	1.31	1.60	1.71
Balance sheet						
Assets						
Cash and cash equivalents	2,499	1,252	929	2,152	4,106	5,954
Other current assets	6,071	5,260	5,554	5,769	5,921	6,104
Total Current Assets	8,570	6,512	6,483	7,922	10,027	12,059
Property & Equipment	22,184	21,651	21,321	21,303	21,225	21,142
Other non-current assets	9,277	11,053	10,612	10,357	10,131	9,951
Total Assets	**40,031**	**39,216**	**38,416**	**39,582**	**41,383**	**43,153**
LIABILITIES						
Total current liabilities	13,022	11,367	10,992	10,808	11,102	11,215
Total non-current liabilities	13,139	14,098	12,978	13,701	14,364	15,084
Paid -up capital	7,700	7,700	7,700	7,700	7,700	7,700
Statutory reserves	2,649	2,649	2,649	2,649	2,649	2,649
Retained earnings	3,543	3,469	4,206	4,833	5,678	6,614
Total Shareholder's Equity	13,869	13,751	14,445	15,072	15,918	16,853
Total Liabilities & Equity	**40,031**	**39,216**	**38,416**	**39,582**	**41,383**	**43,153**
Cashflow statement						
Operating activities	3,754	4,426	3,108	4,376	4,919	5,205
Change in cash	1,307	(1,247)	(322)	1,223	1,953	1,849
Ending cash balance	2,499	1,252	929	2,152	4,106	5,954

Key fundamental ratios						
Liquidity ratios						
Current ratio (x)	0.7	0.6	0.6	0.7	0.9	1.1
Quick ratio (x)	0.6	0.6	0.6	0.7	0.9	1.1
Profitability ratios						
GP Margin	55.5%	58.0%	58.0%	58.4%	58.2%	58.4%
Operating Margins	4.3%	7.2%	9.7%	10.8%	11.8%	11.9%
EBITDA Margin	38.3%	37.3%	38.1%	39.4%	39.1%	39.0%
Net Margins	-1.0%	0.2%	5.6%	6.9%	8.0%	8.2%
Return on assets	-0.3%	0.1%	2.0%	2.6%	3.0%	3.1%
Return on equity	-0.9%	0.2%	5.4%	6.7%	7.7%	7.8%
Leverage ratio						
Debt / equity (x)	1.1	1.0	0.9	0.8	0.8	0.8
Market/valuation ratios						
EV/EBITDA (x)	5.4	6.6	6.6	6.2	5.8	5.3
EPS (SAR)	(0.16)	0.04	1.02	1.31	1.60	1.71
BVPS (SAR)	18.0	17.9	18.8	19.6	20.7	21.9
Market price (SAR)*	16.6	25.0	28.7	30.2	30.2	30.2
Market-Cap (SAR mn)	12,767	19,250	22,061	23,216	23,216	23,216
P/E ratio (x)	Neg	617.3	28.2	22.9	18.9	17.6
P/BV ratio (x)	0.9	1.4	1.5	1.5	1.5	1.4

Source: Company financials, AlJazira research

الجزيرة كابيتال
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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

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