



US\$6.55bn Market cap **61%** Free float **US\$23.96mn** Avg. daily volume

Target price **29.00** -9.1% over current
Current price **31.90** as at 20/10/2020

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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2019	2020e	2021e
Revenue	13,450	14,284	14,998
Y-o-Y	13.4%	6.2%	5.0%
Gross profit	7,800	8,219	8,630
Gross margin	58.0%	57.5%	57.5%
EBITDA	4,884	5,297	5,511
EBITDA margin	36.3%	37.1%	36.7%
Net profit	31	742	1,001
EPS (SAR)	0.04	0.96	1.30
DPS (SAR)	0	0	0
EV/EBITDA	7.9	7.3	7.0
P/E	NM	NM	NM

Source: Company data, Al Rajhi Capital

Mobily

Q3 results in-line. Revise TP to SAR29/sh

While Q3 results were broadly in line with our estimates, this quarter witnessed a 1.4% y-o-y decline in topline after the company reported multiple quarters of solid top-line growth. This was because of seasonal factors such as limited Hajj/Umrah visitors, lower roaming revenues, MTR cuts, and VAT pre-buying. However, this did not impact margins much as the above-mentioned factors are generally low margin items. Below operating line item, lower Zakat (SAR3mn vs SAR17mn in the last quarter) also helped in the slight bottom-line beat as seen below. The stock has rallied significantly in anticipation of good results and the results are already factored in the stock price, in our view. Based on 6.6x EV/EBITDA, we arrive at a TP of SAR29/share on the stock and maintain a Neutral rating.

Figure 1 Mobily Q3 results

(SAR mn)	Q3 2019	Q2 2020	Q3 2020	Y-o-Y	Q-o-Q	ARC est
Revenue	3,404	3,559	3,355	-1.4%	-5.7%	3,506
Gross profit	2,015	2,062	2,056	2.0%	-0.3%	2,044
Gross margin	59.2%	57.9%	61.3%			58.3%
Operating profit	262	334	356	35.9%	6.6%	355
Operating margin	7.7%	9.4%	10.6%			10.1%
Net profit	51	185	222	335.3%	20.0%	216
Net margin	1.5%	5.2%	6.6%			6.2%

Source: Company data, Al Rajhi Capital

- **Positive fundamentals already factored in:** The stock has rallied by 27.6% YTD. For the last 12 quarters, the average top-line growth was excellent at ~7% y-o-y and mostly exceeded its peers. More importantly, we have seen growth across all lines (business/consumer, etc). However, we believe that all the positive fundamentals are already more than priced at the current level by the market.
- **Dividends potential:** There may be a plan to initiate dividends. However even if the dividends come back and one assumes a 90% payout ratio to EPS of ~SAR1 for 2020E, at a dividend yield of 4-5% (how STC is valued) the value would be much lower than the current price unless the market expects higher growth than STC.
- **Tower developments** may be positive for the company as Zain and Mobily are in talks since July 2020 to offer the RFP with options of buying the telecom towers owned by both these operators.

Valuation and risks. There is significant interest in Mobily by local retail investors who view the improving earnings of the company as a strong sign of its recovery. While the company is no doubt recovering, we believe that the stock price already more than factors these. Our 12m forward-looking target price for the company is arrived at SAR29.0/share (and previously SAR26.5/share) using only EV/EBITDA multiple of 6.6x, which is slightly higher than the last two years average multiple based on Bloomberg data. We use only multiples because DCF is very susceptible to changes in WACC and leverage ratios. Based on our TP, we have a Neutral rating. Upside risks to our valuation are increases in data prices, faster than expected top-line growth and lower capex spends. Downside risks are impairment of receivables, higher than expected capex, further decline in prices, write-down of goodwill, the unfavorable decision on pending litigations, and increase in SAIBOR.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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