

Etihad Etisalat Co. (Mobily) posted net profit of SAR 246mn in Q4-20, against net loss of SAR 125mn in Q4-19; surpassing our and consensus estimates of SAR 220mn and SAR 182mn, respectively. The deviation in net income from our estimate was primarily ascribed to higher-than-expected revenue and operating margin, along with lower zakat expenses. Revenue inched up by 0.5% Y/Y to SAR 3.5bn, as the negative impact of COVID-19 may have been offset by strong performance from Business and Wholesale segments and increase in subscriber base. We maintain our TP of **SAR 32.0/share** on the stock with “**Overweight**” rating.

- Mobily recorded net profit of SAR 246mn in Q4-20 versus net loss of SAR 125mn in Q4-19. Net profit was above our and consensus estimates of SAR 220mn and SAR 182mn, respectively. Net profit exceeded our estimate due to higher-than-expected revenue and operating margin, along with lower zakat expenses.
- Revenue rose 0.5% Y/Y to SAR 3,533mn, broadly in line with our estimate of SAR 3,443mn. The company’s top line growth was driven by strong data and wholesale revenue, coupled with solid performance from its Business segment. An increase in the number of subscribers and improvement in subscriber base mix also helped the top line. However, certain segments may have experienced pressure from COVID-19 related restrictions, thus offsetting the revenue growth from other segments.
- Gross profit (GP) declined 1.1% Y/Y to SAR 1,969mn, in line with our estimate of SAR 1,985mn, despite a slight increase in revenue, as cost of revenue grew 2.6% Y/Y to SAR 1,564mn. Subsequently, GP margin narrowed by ~90bps Y/Y to 55.7%.
- Operating profit more than doubled to SAR 380mn (+128.5% Y/Y), as OPEX declined 12.9% Y/Y, despite contraction in GP margin. Operating profit was negatively impacted by expenses related to the payment of management fees to Emirates Telecommunications Company. Operating margin expanded to 10.8% in Q4-20 from 4.7% in Q4-19.

**AJC view:** Mobily’s Q4-20 results exceeded our expectations. The top-line increased despite the recurring pressure on few segments due to the COVID-19 pandemic. We expect pressure on revenue to continue in Q1-20 owing to the delay in the relaxation of restrictions on international travels and recent tightening of rules for visitors from specific countries. However, expanding subscriber base and robust growth in data and wholesale revenue are likely to maintain the company’s revenue growth. Notable improvement in margins during the past two quarters is a positive for the company and would help in boosting net income. Additionally, lower finance costs would continue to support the bottom line in FY21, owing to low interest rates and refinancing of a major part of the company’s debt. Mobily’s stock is currently trading at TTM PE of 28.2x compared to a forward PE of 26.6x based on our forecasted FY21 earnings. We maintain our TP of **SAR 32.0/share** on the stock with “**Overweight**” rating.

## Results Summary

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,514	3,355	3,533	0.5%	5.3%	2.6%
Gross Profit	1,990	2,056	1,969	-1.1%	-4.2%	-0.8%
Gross Margin	56.6%	61.3%	55.7%	-	-	-
EBIT	166	356	380	128.5%	6.8%	8.5%
Net Profit	-125	222	246	NM	10.7%	11.9%
EPS	-0.16	0.29	0.32	-	-	-

Source: Company Reports, AlJazira Capital \*NM: Not meaningful

## Overweight

**Target Price (SAR)** **32.0**

**Upside / (Downside)\*** **9.0%**

Source: Tadawul \*prices as of 21<sup>st</sup> of February 2021

### Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenue	13,450	14,046	14,703
Growth %	13.4%	4.4%	4.7%
Net Profit	31	783	849
Growth %	NM	NM	8.4%
EPS	0.04	1.02	1.10

Source: Company reports, Aljazira Capital

### Key Ratios

	FY19	FY20	FY21E
Gross Margin	58.0%	58.0%	58.6%
Net Margin	0.2%	5.6%	5.8%
P/E (x)	High	28.2	26.6
P/B (x)	1.4	1.5	1.5
EV/EBITDA (x)	1.5	2.0	2.3

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap(mn)	22.6
YTD%	1.6%
52 week (High)/(Low)	32.30/18.50
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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