

## Etihad Etisalat (Mobily)

Consistent top-line growth and operational efficiency supported profit

### 3Q22 Net Profit in line with our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 32.5% YOY to SAR 373 Mn in 3Q22, marginally exceeding our estimate of SAR 363 Mn. This increase is primarily due to expansion in the top line owing to a growth in the wholesale and consumer segment as well as healthy growth in the FTTH active and total subscriber base coupled with disciplined cost management partially offset by a decline in interest expense.

### P&L highlights

Revenue rose 6.1% YOY to SAR 3,828 Mn in 3Q22 driven by a strong growth in the Wholesale unit and steady performance of consumer and business unit. This is further supported by an increase in FTTH active and total subscriber base. Direct Cost grew recorded higher growth than top line from SAR 1,420 Mn in 3Q21 to SAR 1,527 Mn in 3Q22. As a result, gross profit increased 5.2% YOY to SAR 2,300 Mn. However, gross profit margin declined from 60.6% in 3Q21 to 60.1% in 3Q22. However, EBITDA rose 7.0% YOY to SAR 1,487 Mn in 3Q22 reflecting a resilient growth in revenues and efficiency in managing operations. As a result, the EBITDA margin improved to 38.8% in 3Q22 from 38.5% in 3Q21. Operating profit rose 26.1% YOY to SAR 534 Mn in 2Q22, owing to a rise in EBITDA. Impairment loss on accounts receivable significantly fell from SAR 80 Mn in 3Q21 to SAR 17 Mn in 3Q22. Finance expense rose 19.7% YOY to SAR 150 Mn in 2Q22 mainly due to an increase in interest rate. Zakat expenses stood at SAR 21 Mn in 3Q22 compared to SAR 18 Mn in 3Q21.

### Balance Sheet highlights

The company's net debt declined from SAR 12.0 Bn in 2Q22 to SAR 11.0 Bn in 3Q22 with a net debt-to-EBITDA ratio of 1.86x. Free cash flow to the firm decreased 6.3% QOQ to SAR 1,091 Mn in 3Q22 mainly due to an increase in CAPEX. CAPEX fell 14.0% YOY to SAR 396 Mn in 3Q22 due to continuous rationalization of capex to enable digital transformation and support innovation in product and services.

### Target price and rating

We maintain our BUY rating on Mobily with a target price of SAR 43.00. Mobily's revenue consistently improved due to strong growth in the wholesale supported by a consistent growth in consumer and business segment as well as a growth in the number of FTTH active and overall subscribers' base. EBITDA also increased 7.0% YOY to SAR 1,487 Mn in 3Q22 mainly due to the resilient top-line performance with an EBITDA margin of 38.8%. We further expect margins to improve owing to the expected rise in revenue. In addition, Mobily is also continuing with its effort to deleverage its balance sheet and reduced debt by SAR 970 Mn in 3Q22 with a net debt to EBITDA ratio of 1.86x in 3Q22. It further plans to deleverage the balance sheet using the cash generated from operations. Mobily also received a license from SAMA for mobile payment marking its entry into the fintech space. The KSA Central Bank aims to achieve a digital payment target of 70% by 2030. Mobily activated Mobily pay services for all users from August 2022. Mobily revenue is expected to benefit from this service offering. In addition, the Company declared a dividend in 2020 after

**Rating : BUY**

### First Look Note – 3Q22

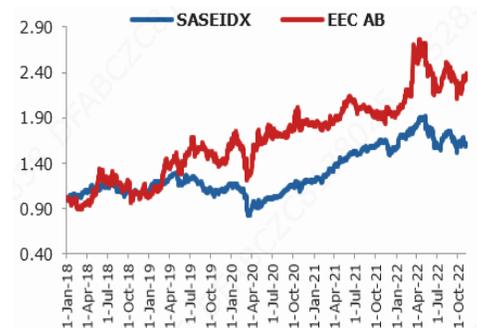
**Sector: Telecom**

#### Recommendation

Current Price (10-Nov-22)	37.15
Target Price (SAR)	43.00
Upside/Downside (%)	+15.7%

#### Stock Information

Market Cap (mm)	28,605.50
Paid Up Capital (mm)	7,700.00
52 Week High	44.70
52 Week Low	29.20
3M Avg. daily value (SAR)	32,860,600



#### Financial Ratios

Dividend Yield (12m)	2.29
Dividend Pay-out (%)	61.08
Price-Earnings Ratio (x)	20.91
Price-to-Book Ratio (x)	1.82
Book Value (SAR)	20.40
Return-on Equity (%)	8.99
Earning Per Share (SAR)	1.78
Beta	0.71

#### Stock Performance

5 Days	0.54%
1 Months	6.75%
3 Months	-7.01%
6 Months	-11.86%
1 Year	25.08%
Month to Date (MTD)	1.50%
Quarter to Date (QTD)	4.35%
Year to Date (YTD)	19.26%

five years and the dividend rose 70% to SAR 0.85 per share in 2021. It further aims to maintain dividends going forward and exhibits management confidence in the financial position. Considering these factors, we maintain our BUY rating on the stock.

**Mobily - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022
P/E (x)	NA	918.6	36.57	26.73	20.13
P/B (x)	2.07	2.08	1.98	1.88	1.79
EV/EBITDA	8.98	7.97	7.29	6.69	6.30
Dividend Yield (%)	NA	NA	1.3%	2.3%	2.7%

FABS Estimates & Co Data

**Mobily - P&L**

SAR mm	3Q21	2Q22	3Q22	3Q22F	VAR	YOY Ch	QOQ Ch	2021	2022	Change
Services revenues	3,606	3,899	3,828	3,950	-3.1%	6.1%	-1.8%	14,834	15,418	3.9%
Cost of services	-1,420	-1,566	-1,527	-1,620	-5.7%	7.6%	-2.5%	-6,163	-6,257	1.5%
<b>Gross profit</b>	<b>2,186</b>	<b>2,333</b>	<b>2,300</b>	<b>2,331</b>	-1.3%	<b>5.2%</b>	<b>-1.4%</b>	<b>8,672</b>	<b>9,161</b>	<b>5.6%</b>
<b>Operating Profit</b>	<b>423</b>	<b>519</b>	<b>534</b>	<b>534</b>	-0.2%	<b>26.1%</b>	<b>2.8%</b>	<b>1,668</b>	<b>2,059</b>	<b>23.4%</b>
EBITDA	<b>1,389</b>	<b>1,482</b>	<b>1,487</b>	<b>1,499</b>	-0.9%	<b>7.0%</b>	<b>0.3%</b>	<b>5,594</b>	<b>5,917</b>	<b>5.8%</b>
<b>Profit before zakat</b>	<b>299</b>	<b>384</b>	<b>393</b>	<b>395</b>	-0.5%	<b>31.5%</b>	<b>2.3%</b>	<b>1,149</b>	<b>1,531</b>	<b>33.2%</b>
Zakat	-18	-25	-21	-32	-34.3%	15.8%	-16.3%	-78	-108	<b>39.4%</b>
<b>Net Profit</b>	<b>281</b>	<b>360</b>	<b>373</b>	<b>363</b>	<b>2.5%</b>	<b>32.5%</b>	<b>3.6%</b>	<b>1,072</b>	<b>1,423</b>	<b>32.8%</b>

FABS Estimates & Co Data

**Mobily - Margins**

	3Q21	2Q22	3Q22	YOY	QOQ Ch	2021	2022	Change
GPM	60.6%	59.8%	60.1%	-52	26	58.5%	59.4%	96
EBITDA Margin	38.5%	38.0%	38.8%	31	82	37.7%	38.4%	66
OPM	11.7%	13.3%	13.9%	221	63	11.2%	13.4%	211
Net margin	7.8%	9.2%	9.7%	194	51	7.2%	9.2%	200

FABS estimate & Co Data

**Research Rating Methodology:**

<b>Rating</b>	<b>Upside/Downside potential</b>
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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