

Etihad Etisalat

Lower impairment cost supporting profit

3Q20 profit higher than our estimate

Etihad Etisalat (Mobily) recorded a significant increase in Net profit to SAR222 mm in 3Q20 from SAR51 mm in 3Q19. This was mainly attributed to a decrease in Cost of services, Impairment losses on accounts receivable and on property and equipment, and a rise in Other income and was driven by the high dependency on telecommunications services used during COVID-19.

P&L highlights

Sales decreased by 1.4% YOY to SAR3,355 mm in 3Q20 from SAR3,404 mm in 3Q19. Direct costs decreased by 6.4% YOY to SAR1,299 mm in 3Q20 from SAR1,389 mm in 3Q19. Resultantly, the Gross profit increased by 2% YOY to SAR2,056 mm in 3Q20 from SAR2,015 mm in 3Q19. EBITDA increased by 3.3% YOY to SAR1,354 mm in 3Q20 from SAR1,311 mm in 3Q19, as a result of an improvement in the company's efficiency in managing its Direct costs and Selling and overhead expenses. EBITDA margin rose to 40.4% for 3Q20 compared to 38.5% for 3Q19. Financial charges decreased by 35% YOY to SAR134 mm in 3Q20 from SAR206 mm in 3Q19, 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 decreased as well by 76% to SAR 14.5 mm in 3Q20 from SAR60.4 mm in 3Q19. Zakat expenses decreased by 82% YOY to SAR3 mm for 3Q20 from SAR16 mm in 3Q19.

Balance sheet highlights

Cash and cash equivalents decreased by 26% to SAR866 mm in 3Q20 from SAR1,169 mm in 3Q19. Mobily's net debt increased by 1.2% to SAR13,116 mm in 3Q20 from SAR12,961 mm in 3Q19. The company's net debt to equity ratio stood at 0.92x 3Q20 from 0.93x 2019 indicating that the debt is on the lower side and is decreasing.

Target price and rating

We maintain our HOLD rating on Mobily with a target price of SAR29.85, underpinned by its positive 3Q20 results. Mobily is Saudi Arabia's second-largest telecommunications company, and its main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks, manage, install and operate telephone networks, terminals and communication unit systems, in addition, to sell and maintain mobile phones and communication unit systems in the Kingdom. Mobily Net profit increased significantly and that is mainly due to a decrease in utilization cost of international networks. In 3Q20, Mobily has taken active measures in reducing its Financial charges and could stay at this level throughout 2020, given the low interest rates and refinancing of a large portion of the company's debt. We also foresee healthy levels of the EBITDA, mainly due to lower impairment expenses and enhancement in cost efficiency. The company has lowered its Cost of revenues which are related to secondary activities like broadband while also increasing broadband's

Rating : HOLD

First Look Note – 3Q20

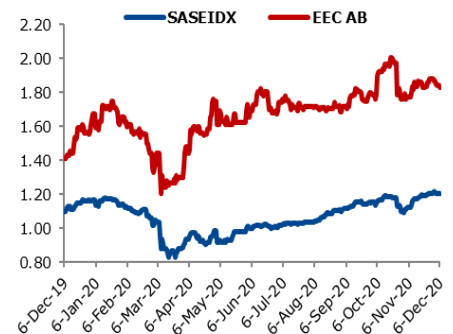
Sector: Telecom

Recommendation

Current Price (28 July)	29.00
Target Price	29.85
Upside/Downside (%)	2.9%

Stock Information

Market Cap (mm)	22,330.00
Paid Up Capital (mm)	7,700.00
52 Week High	32.30
52 Week Low	18.50
3M Avg. daily value (SAR)	112,934,200



Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	53.92
Price-to-Book Ratio (x)	1.57
Book Value (SAR)	18.52
Return-on Equity (%)	2.93
Earning Per Share (SAR)	0.54
Beta	1.04

Stock Performance

5 Days	-2.36%
1 Months	2.65%
3 Months	5.45%
6 Months	5.65%
1 Year	29.35%
Month to Date (MTD)	-2.36%
Quarter to Date (QTD)	1.58%
Year to Date (YTD)	16.00%

revenue which led to a gain in total revenues. Moreover, the deal on July 5th of 2020 where Mobily announced signing MoU with ZAIN KSA to sell, operate with a third party, or merge their towers could help Mobily lower its debt of SAR12.8bn and increase the chance of paying dividends. The company also benefits from its engagement with Emirates Telecommunications, which is Mobily's largest shareholder with 27.4% ownership, where it is granted cost-efficient access to networks owned fully or partially by a firm located in the UAE. Mobily is currently trading at a P/B ratio of 1.57x compared to average P/B peers of 2.3x. Therefore, we maintain our HOLD rating.

Mobily – Relative valuation

(at CMP)	2016	2017	2018	2019	2020F
P/B (x)	1.5	1.6	1.6	1.6	1.5

FABS Estimates & Co data

Mobily—P&L

SAR mm	3Q19	2Q20	3Q20	3Q20F	Variance	YOY ch	QOQ ch	2019	2020F	Change
Sales	3,404	3,559	3,355	3,601	-6.8%	-1.4%	-5.7%	13,450	13,968	3.9%
Direct costs	-1,388	-1,497	-1,299	-1,522	-14.6%	-6.4%	-13.2%	-5,650	-5,824	3.1%
Gross profit	2,015	2,062	2,056	2,079	-1.1%	2.0%	-0.3%	7,800	8,144	4.4%
Selling & overhead exp	-704	-702	-702	-744	-5.6%	-0.3%	0.0%	-2,959	-2,680	-9.4%
EBITDA	1,311	1,360	1,354	1,335	1.4%	3.3%	-0.4%	4,841	5,464	12.9%
D & A	-993	-987	-993	-978	1.5%	-0.1%	0.6%	-3,917	-3,999	2.1%
Other income	5	-6	10	-4	NM	84.8%	NM	43	17	-59.1%
Operating profit	323	367	371	353	4.8%	14.8%	1.1%	967	1,483	53.4%
Investment & other income	11	7	3	5	-51.4%	-77.5%	-61.4%	43	22	-50.0%
Financial charges	-206	-139	-134	-120	11.6%	-35.1%	-3.6%	-929	-563	-39.4%
Profit before zakat	67	202	225	211	6.7%	NM	11.3%	81	767	NM
Zakat	-16	-17	-3	-15	-80.8%	-82.0%	-82.8%	-49	-41	-16.1%
Net profit	51	185	222	196	13.4%	NM	19.8%	31	726	NM

FABS estimate & Co data

Mobily—Margins

	2Q19	3Q19	2Q20	3Q20	YOY Ch (bp)	QOQ Ch (bp)
GPM	58.7%	59.2%	57.9%	61.3%	207	334
OPM	7.8%	9.5%	10.3%	11.0%	156	74
Net margin	1.1%	1.5%	5.2%	6.6%	510	141

FABS estimate & Co data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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