

Etihad Etisalat (Mobily)

Tax reversal one-off significantly increased profitability

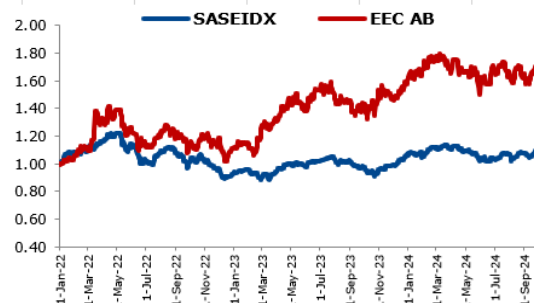
Current Price
SAR 52.00

Target Price
SAR 65.00

Upside/Downside (%)
+25%

Rating
BUY

- Revenue grew 9.2% YOY in 3Q24 to SAR 4,499 Mn and is further expected to increase by mid to high-single-digit in 2024.
- Mobile subscriber base increased 1.7% YOY, while FTTH subscriber grew 0.4% YOY in 3Q24.
- Mobily reduced its debt burden from SAR 11.8 Bn in 3Q23 to SAR 9.7 Bn in 3Q24 and is further expected to reduce debt owing to healthy cash generation.
- Mobily signed an agreement with Red Bull Mobile to host MVNOS leveraging its existing network infrastructure.
- Mobily recorded one-time withholding tax reversal of SAR 140 Mn in 3Q24.



3Q24 Net Profit higher than our estimate

Etihad Etisalat (Mobily/the Company) recorded a significant growth in net profit of 58.2% YOY to SAR 829 Mn in 3Q24, higher than our estimate of SAR 648 Mn. The growth in net profit is mainly attributed to tax reversal one-off worth SAR 140 Mn coupled with an increase in revenue, decline in G&A expenses, D&A expenses, and zakat expenses partially offset by a rise in cost of services and selling & marketing expenses.

P&L Highlights

Mobily's service revenue grew 9.2% YOY to SAR 4,499 Mn in 3Q24 attributable to strong expansion across all the revenue segments. Revenue from the Consumer segment increased 5.7% YOY to SAR 2,829 Mn in 3Q24 due to a rise in mobile subscribers and the launch of new products, while the Business segment revenue increased substantially 18.1% YOY to SAR 1,085 Mn owing to the expansion of the product portfolio and offering a broad range of digital solutions. Similarly, the Wholesale segment revenue increased 9.9% YOY to SAR 479 Mn in 3Q24 attributable to the expansion of service offerings and growing market share. Outsourcing segment income grew significantly 22.6% YOY to SAR 105 Mn in 3Q24. The Company's cost of services increased 7.4% YOY to SAR 1,933 Mn in 3Q24. Additionally, Mobily recorded one-time withholding tax reversal of SAR 140 Mn in 3Q24. Thus, the Company's gross profit rose 10.6% YOY to SAR 2,566 Mn in 3Q24. Consequently, operating expenses grew marginally 0.6% YOY to SAR 672 Mn in 3Q24 owing to a 5.3% YOY growth in selling & marketing expenses to SAR 320 Mn partially offset by 3.3% YOY reduction in G&A expenses to SAR 352 Mn. On the other hand, D&A expenses decreased 2.3% YOY to SAR 886 Mn in 3Q24, while impairment loss on accounts receivable declined 7.7% YOY to SAR 48

Stock Information

Market Cap (SAR, Mn)	40,040.00
Paid Up Capital (Mn)	7,700.00
52 Week High	57.00
52 Week Low	45.20
3M Avg. daily value(SAR)	55,365,780

3Q24 Result Review (SAR, Mn)

Total Assets	37,833
Total Liabilities	19,942
Total Equity	17,891
EBITDA	1,846
Net Profit	829

Financial Ratios

Dividend Yield (12m)	3.46
Dividend Pay-out (%)	50.02
Price-Earnings Ratio(x)	13.92
Price-to-Book Ratio (x)	2.24
Book Value (SAR)	23.24
Return-on Equity (%)	16.51

Stock Performance

5 Days	-1.33%
1 Months	1.56%
3 Months	4.21%
6 Months	1.17%
1 Year	9.70%
Month to Date (MTD%)	0.39%
Quarter to Date (QTD%)	1.17%
Year to Date (YTD%)	6.01%

Mn. Hence, Mobily's operating profit increased 38.7% YOY to SAR 960 Mn in 3Q24. Furthermore, the Company's EBITDA grew 15.4% YOY to SAR 1,846 Mn in 3Q24 due to an increase in the subscriber base and expansion of services. Mobily's other income grew from SAR 4 Mn in 3Q23 to SAR 9 Mn in 3Q24. Finance expenses rose 2.9% YOY to SAR 167 Mn in 3Q24 due to the impact of hedge contracts optimization arising from financial agreements signed in 1Q24. Similarly, finance income increased 9.5% YOY to SAR 38 Mn in 3Q24. Mobily's zakat expenses decreased 38.3% YOY to SAR 29 Mn in 3Q24.

Balance Sheet Highlights

The Company continued to enhance its digital offerings and expand its IoT infrastructure, FTTH, and 5G presence resulting in a 25.6% YOY growth in capex to SAR 471 Mn in 3Q24. Mobily's free cash flow grew 12.2% YOY to SAR 1.4 Bn in 3Q24 owing to a healthy growth in EBITDA. The Company's borrowings declined from SAR 11.8 Bn in 3Q23 to SAR 9.7 Bn in 3Q24 mainly due to the repayment of debt. Net debt declined from SAR 8.8 Bn in 3Q23 to SAR 6.9 Bn in 3Q24 in line with the Company's deleveraging plan. As a result, the net debt to EBITDA ratio fell from 1.35x in 9M23 to 0.98x in 9M24. Mobily's total equity increased 5.8% YOY to SAR 17.9 Bn 3Q24.

Target Price and Rating

We maintain our BUY rating on Mobily with a revised target price of SAR 65.00. Mobily's revenue grew 9.2% YOY to SAR 4.5 Bn in 3Q24 owing to a healthy growth across all segments. The Company further expects its revenue to grow by mid to high-single digit in 2024. Mobily's mobile subscribers expanded 1.7% YOY to SAR 11.7 Mn in 3Q24, whereas FTTH subscribers increased 0.4% YOY to 283 thousand in 3Q24. The Company is enhancing its internal capabilities, and expanding its product portfolio to deliver a comprehensive end-to-end ICT ecosystem. It launched Postpaid X-Stream package that offers free content streaming on selected OTT platforms. Furthermore, Mobily signed an agreement with Red Bull Mobile to host MVNOs leveraging its existing network infrastructure and also enhanced its service offerings in the Wholesale segment. Besides, it expanded its footprint by winning connectivity services deals from domestic and international clients. Mobily incurred a capex of SAR 1.1 Bn in 9M24 to enhance connectivity. Moreover, Mobily generated 12.2% YOY growth in free cash flow to SAR 1.4 Bn in 3Q24. Additionally, the Company's gross debt declined 18.4% YOY to SAR 9.7 Bn in 3Q24 along with a 21.9% YOY reduction in net debt to SAR 6.9 Bn in 3Q24. Moreover, the Company's efforts to strengthen its market position through investments in technology and digitization will positively contribute towards its topline growth. Thus, based on our analysis, we assign a BUY rating on the stock.

Mobily - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	50.9	37.2	24.1	17.9	14.5
PB	2.9	2.8	2.6	2.4	2.3	2.1
EV/EBITDA	10.4	9.4	8.7	7.6	6.7	6.4
Dividend yield	NA	1.0%	1.6%	2.2%	2.8%	3.5%

FABS Estimates & Co Data

Mobily – P&L

SAR Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Services revenues	4,118	4,465	4,499	4,412	2.0%	9.2%	0.7%	16,763	18,082	7.9%
Cost of services	-1,799	-2,087	-1,933	-2,007	-3.7%	7.4%	-7.4%	-7,311	-8,227	12.5%
Gross profit	2,319	2,378	2,566	2,404	6.7%	10.6%	7.9%	9,452	9,854	4.3%
Selling & marketing exp	-303	-352	-320	-353	-9.5%	5.3%	-9.2%	-1,467	-1,428	-2.6%
G&A expenses	-364	-329	-352	-331	6.4%	-3.3%	6.9%	-1,175	-1,419	20.8%
Operating expenses	-668	-681	-672	-684	-1.8%	0.6%	-1.4%	-2,642	-2,848	7.8%
Depreciation & amortization	-907	-891	-886	-905	-2.1%	-2.3%	-0.5%	-3,647	-3,569	-2.1%
Impairment on receivable	-52	-46	-48	-44	8.7%	-7.7%	3.3%	-186	-181	-2.6%
Operating profit	692	759	960	772	24.5%	38.7%	26.5%	2,977	3,257	9.4%
EBITDA	1,600	1,650	1,846	1,677	10.1%	15.4%	11.9%	6,625	6,826	3.0%
Other income	4	4	9	22	-59.5%	NM	NM	-32	54	NM
Share in loss of associate	3	10	17	5	NM	NM	71.9%	30	50	66.4%
Finance expenses	-162	-130	-167	-139	20.3%	2.9%	28.7%	-690	-620	-10.2%
Finance income	35	46	38	37	2.7%	9.5%	-17.1%	164	168	2.8%
Profit before zakat	571	690	858	697	23.0%	50.1%	24.4%	2,449	2,910	18.8%
Zakat	-48	-29	-29	-49	-39.8%	-38.3%	2.8%	-217	-151	-30.3%
Profit attributable	524	661	829	648	27.8%	58.2%	25.3%	2,232	2,758	23.6%

FABS estimate & Co Data

Mobily - Margins

	3Q23	2Q24	3Q24	YOY	QOQ Ch	2023	2024F	Change
Gross Profit	56.3%	53.3%	57.0%	72	379	56.4%	54.5%	-189
EBITDA	38.8%	37.0%	41.0%	220	409	39.5%	37.8%	-177
Operating Profit	16.8%	17.0%	21.3%	453	434	17.8%	18.0%	25
Net Profit	12.7%	14.8%	18.4%	570	361	13.3%	15.3%	194

FABS estimate & Co Data

Valuation:

We use Discounted Cash Flow (DCF), and Relative Valuation (RV) method to value Mobily. We have assigned 70% weight to DCF, and the remaining 30% to the RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	70.99	70.0%	49.69
Relative Valuation (RV)	51.02	30.0%	15.31
Weighted Average Valuation (SAR)			65.00
Current market price (SAR)			52.00
Upside/Downside (%)			+25%

1) DCF Method:

Mobily is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 9.0%. It has arrived after using cost of equity of 9.5% and after-tax cost of debt of 5.8% with debt-to-equity ratio of 15.8%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 1.0 and equity risk premium of 4.6%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. The cost of debt is calculated using the cost of 6.0% after adjusting a tax rate arriving at after-tax cost of debt of 5.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	16,607
Terminal value (SAR, Mn)	44,803
FV to Comon shareholders (SAR, Mn)	54,662
No. of share (Mn)	770
Current Market Price (SAR)	52.00
Fair Value per share (SAR)	70.99

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	3,160	3,303	3,554	3,833	4,071
D&A	2,978	3,359	3,456	3,454	3,471
Working Capital	513	-19	-63	-36	173
(-) Capex	-2,839	-2,900	-3,033	-3,154	-3,283
Free Cash Flow to Firm (FCFF)	3,812	3,743	3,914	4,098	4,431
Discounting Factor	0.99	0.90	0.83	0.76	0.70
Discounted FCFF	3,761	3,387	3,248	3,118	3,093

Source: FAB Securities

2) Relative Valuation:

We have used regional and international peers to value Mobily, and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 6.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Telecom	56,161	7.8	7.6	14.8	14.9
Verizon Communication	172,847	7.17	6.95	8.92	8.68
Deutsche Telekom AG	149,432	6.32	6.08	15.34	13.99
Telstra Group Limited	29,465	7.4	7.1	19.9	18.3
Emirates Integrated Telecommunication Company	9,230	5.2	5.2	13.6	14.2
Safaricom Plc	5,173	5.0	4.6	9.5	8.3
Average		6.5x	6.3x	13.7x	13.1x
Median		6.7x	6.5x	14.2x	14.1x
Max		7.3x	7.0x	15.2x	14.7x
Min		5.5x	5.5x	10.5x	10.0x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
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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