

Etihad Etisalat (Mobily)

Healthy growth in subscriber base and lower finance costs drive profitability

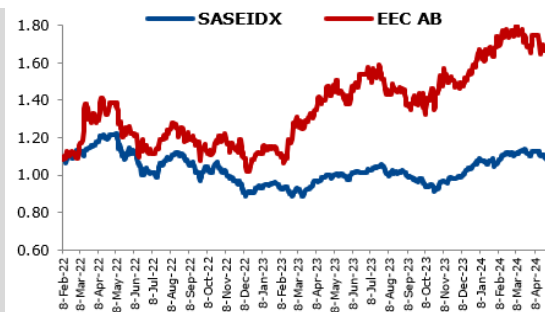
Current Price
SAR 50.00

Target Price
SAR 58.36

Upside/Downside (%)
+17%

Rating
BUY

- The Company recorded strong growth in the Wholesale segment which grew 22.4% YOY to SAR 449 Mn in 1Q24, primarily due to connectivity service deals with national and international customers as well as an increase in inbound roaming owing to Ramadan.
- Mobily reduced its debt burden from SAR 7.9 Bn in 4Q23 to SAR 6.8 Bn in 1Q24 and is further expected to reduce debt owing to healthy cash generation.
- The Mobile subscribers grew 4.2% QOQ to 12.3 Mn in 1Q24 among which the prepaid network grew substantially to 10.4 Mn subscribers while postpaid services reached 1.9 Mn subscribers.
- Mobily signed an interconnection agreement with China Mobile International Limited (CMI) to enhance carrier services and provide innovative solutions to customers.



Stock Information

Market Cap (SAR, mn)	38,500.00
Paid Up Capital (mn)	7,700.00
52 Week High	57.00
52 Week Low	40.30
3M Avg. daily value (SAR)	50,003,500

1Q24 Net Profit higher than our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 37.2% YOY to SAR 638 Mn in 1Q24, higher than our estimate of SAR 563 Mn. The rise in the net profit is primarily due to growth in the revenue across all business segments coupled with strong growth in the subscriber base, higher finance income, and other income partially offset by higher growth in expenses compared to revenue.

P&L Highlights

Mobily's revenue grew 11.7% YOY to SAR 4,545 Mn in 1Q24 mainly due to robust growth in the Business, Wholesale and Consumer segment coupled with solid growth in the overall subscriber base. The Business segment revenue increased 29.4% YOY to SAR 1,063 Mn in 1Q24 owing to the expansion of major connectivity and services projects in line with Vision 2030. The Wholesale segment grew 22.4% YOY to SAR 449 Mn in 1Q24 primarily due to connectivity service deals with national and international customers as well as an increase in inbound roaming growth owing to Ramadan. The Consumer segment revenue rose 5.8% YOY to SAR 2,932 Mn in 1Q24 driven by the addition of new subscribers as well as improvement in postpaid plans and expansion of market reach. The Outsourcing segment revenue declined 8.8% YOY to SAR 101 Mn in 1Q24. Cost of revenue grew 16.7% YOY to SAR 2,101 Mn in 1Q24 due to business mix changes. Thus, gross profit improved 7.7% YOY to SAR 2,445 Mn in 1Q24. However, the gross profit margin declined 199 bps YOY to 53.8% in 1Q24. Moreover, the selling and marketing expenses rose 20.5% YOY to SAR 353 Mn in 1Q24. G&A expenses marginally increased 2.3% YOY to SAR 386 Mn in 1Q24. Thus, the total operating expenses rose 10.3% YOY to SAR 739 Mn in 1Q24. Other income rose from SAR 5 Mn in 1Q23 to SAR 34 Mn in 1Q24. D&A expenses declined 3.1% YOY to SAR 898 Mn in 1Q24. As a result, operating profit rose 22.9% YOY

1Q24 Result Review (SAR, mn)

Total Assets	38,414
Total Liabilities	20,153
Total Equity	18,261
EBITDA	1,651
Net Profit	638

Financial Ratios

Dividend Yield (12m)	2.30
Dividend Pay-out (%)	50.02
Price-Earnings Ratio(x)	15.98
Price-to-Book Ratio (x)	2.11
Book Value (SAR)	23.72
Return-on Equity (%)	13.71

Stock Performance

5 Days	0.00%
1 Months	-3.66%
3 Months	-9.42%
6 Months	9.05%
1 Year	16.28%
Month to Date (MTD%)	6.95%
Quarter to Date (QTD%)	-4.58%
Year to Date (YTD%)	1.94%

to SAR 788 Mn in 1Q24 whereas the operating profit margin improved 158 bps YOY to 17.3% in 1Q24. Mobily's EBITDA rose 5.7% YOY to SAR 1,651 Mn in 1Q24. EBITDA margins fell 206 bps YOY to 36.3% in 1Q24. Finance expenses declined 3.1% YOY to SAR 167 Mn in 1Q24. In addition, finance income increased from SAR 33 Mn in 1Q23 to SAR 45 Mn in 1Q24. Additionally, zakat expenses declined from SAR 42 Mn in 1Q23 to SAR 35 Mn in 1Q24.

Balance Sheet Highlights

The Company concentrated on accelerating 5G coverage and expanding IoT investments and development of data centers resulting in a Capex of SAR 223 Mn in 1Q24. The capex intensity stood at 4.9% in 1Q24. Mobily possesses enough liquidity with cash and cash equivalents of SAR 1,612 Mn and short-term Murabaha of SAR 1,639 Mn in 1Q24. The Company's free cash flow grew from SAR 497 Mn in 4Q23 to SAR 1,428 Mn in 1Q24 driven by strong EBITDA growth. The Company's net debt declined from SAR 7.9 Bn in 4Q23 to SAR 6.8 Bn in 1Q24 in line with the company's deleveraging plan with a net debt to EBITDA of 1.01x in 1Q24 compared to 1.20x in 4Q23.

Target Price and Rating

We revise our rating from HOLD to BUY on Mobily with an unchanged target price of SAR 58.36. The Company stock price fell 13.9% since our previous rating. Mobily's revenue grew 11.7% YOY to SAR 4,545 Mn in 1Q24 owing to robust growth in revenue across all the segments. The revenue is further anticipated to witness a mid-to-high single-digit growth in FY2024. It is also expected to achieve an average EBITDA margin of 37.0-38.0% in FY2024. The Company is deleveraging and reducing its debt burden. It reduced its debt burden from SAR 11.7 Bn in 4Q23 to SAR 10.0 Bn in 1Q24 and is further expected to reduce debt owing to healthy cash generation. Mobily achieved strong performance, which is primarily attributable to increased revenue, robust growth in subscriber base, and healthy growth in EBITDA. The Mobile subscribers grew 6.4% YOY and 4.2% QOQ to 12.3 Mn subscribers in 1Q24 with prepaid subscribers of 10.4 Mn and postpaid subscribers of 1.9 Mn. The FTTH subscribers also rose 7.2% YOY and 1.8% QOQ to 0.298 Mn subscribers. Moreover, Mobily signed an agreement with China Mobile International Limited (CMI) to enhance carrier services and provide innovative solutions to customers. Mobily will benefit from the partnership by leveraging on the strengths of CMI which has a wide international transmission bandwidth and cable resources. Mobily collaborated with Ericsson to deploy an AI technology to analyze 5G Networks, diagnose issues and provide solutions. This will benefit Mobily by enhancing connectivity and improving customer satisfaction. Furthermore, the Company continues to generate healthy free cash flow, which rose by 6.7% YOY to SAR 1,428 Mn in 1Q24. The Company incurred a total capex of SAR 223 Mn in 1Q24 to accelerate the 5G network and invest in IoT and data center expansion. The capex intensity is expected to reach 14.0% to 16.0% in FY 2024. Thus, Mobily seeks to make strategic investments that enable digital transformation and optimize innovative offerings to its customers. 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 (x)	NA	46.0	33.6	21.7	16.1	15.0
PB (x)	2.6	2.5	2.4	2.3	2.2	2.1
EV/EBITDA	9.6	8.7	8.0	6.9	6.1	5.8
Dividend yield	NA	1.1%	1.8%	2.5%	3.1%	3.6%

FABS Estimates & Co Data

Mobily – P&L

SAR mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Services revenues	4,070	4,345	4,545	4,209	8.0%	11.7%	4.6%	16,763	17,935	7.0%
Cost of services	-1,800	-1,960	-2,101	-1,768	18.8%	16.7%	7.1%	-7,311	-8,017	9.7%
Gross profit	2,270	2,385	2,445	2,441	0.2%	7.7%	2.5%	9,452	9,918	4.9%
Selling and Marketing exp.	-292	-427	-353	-358	-1.5%	20.5%	-17.5%	-1,467	-1,542	5.1%
G&A expenses	-378	-55	-386	-337	14.8%	2.3%	NM	-1,175	-1,399	19.1%
Operating expenses	-670	-483	-739	-694	6.4%	10.3%	53.1%	-2,642	-2,941	11.3%
Other income	5	-57	34	4	717.2%	NM	NM	-32	108	NM
D&A expenses	-927	-884	-898	-954	-5.8%	-3.1%	1.7%	-3,647	-3,824	4.8%
Imp loss on acc receivable	-38	-22	-55	-53	3.1%	45.5%	NM	-186	-215	15.9%
Operating Profit	641	939	788	744	5.8%	22.9%	-16.2%	2,945	3,045	3.4%
EBITDA	1,562	1,880	1,651	1,694	-2.5%	5.7%	-12.2%	6,625	6,762	2.1%
Finance expenses	-172	-180	-167	-151	10.6%	-3.1%	-7.2%	-690	-603	-12.5%
Finance income	33	56	45	15	211.7%	35.2%	-19.4%	164	139	-14.9%
Profit before zakat	507	841	672	608	10.6%	32.6%	-20.0%	2,449	2,581	5.4%
Zakat	-42	-95	-35	-45	-22.9%	-18.2%	-63.5%	-217	-180	-17.2%
Profit attributable	465	746	638	563	13.3%	37.2%	-14.5%	2,232	2,401	7.6%

FABS estimate & Co Data

Mobily - Margins

	1Q23	4Q23	1Q24	YOY	QOQ Ch	2023	2024F	Change
Gross Profit	55.8%	54.9%	53.8%	-199	-110	56.4%	55.3%	-109
EBITDA	38.4%	43.3%	36.3%	-206	-694	39.5%	37.7%	-182
Operating Profit	15.7%	21.6%	17.3%	158	-429	17.6%	17.0%	-59
Net Profit	11.4%	17.2%	14.0%	261	-313	13.3%	13.4%	7

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	63.21	70.0%	44.25
Relative Valuation (RV)	47.03	30.0%	14.11
Weighted Average Valuation (SAR)			58.36
Current market price (SAR)			50.00
Upside/Downside (%)			+17%

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 9.2%. It is arrived after using cost of equity of 9.9% and after-tax cost of debt of 5.4% with debt-to-equity ratio of 18.3%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.0 and equity risk premium of 4.5%. 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 arrived at after-tax cost of debt of 5.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	15,331
Terminal value (SAR, Mn)	40,136
FV to Comon shareholders (SAR, Mn)	48,675
No. of share (Mn)	770
Current Market Price (SAR)	50.00
Fair Value per share (SAR)	63.21

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	2,865	3,145	3,393	3,671	3,950
D&A	3,222	3,319	3,418	3,420	3,440
Working Capital	362	113	-60	-32	140
(-) Capex	-2,816	-2,884	-3,018	-3,141	-3,274
Free Cash Flow to Firm (FCFF)	3,633	3,693	3,733	3,917	4,256
Discounting Factor	0.95	0.87	0.80	0.73	0.67
Discounted FCFF	3,451	3,211	2,972	2,855	2,841

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 6.4x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Telecom	48,800	7.0	6.5	13.9	13.0
Verizon Communication	171,000	6.4	6.1	8.9	8.5
Deutsche Telekom AG	121,000	4.9	4.7	13.2	11.8
Telstra Group Limited	27,100	6.6	6.4	20.0	19.0
Emirates Integrated Telecommunication Company	7,320	4.4	4.3	13.8	13.0
Average		5.9x	5.6x	14.0x	13.1x
Median		6.4x	6.1x	13.8x	13.0x
Max		6.6x	6.4x	13.9x	13.0x
Min		4.9x	4.7x	13.2x	11.8x

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 +971-2-6161777 Online Trading Link

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.