

Etihad Etisalat (Mobily)

Strong EBITDA growth and robust operational efficiency drive profitability

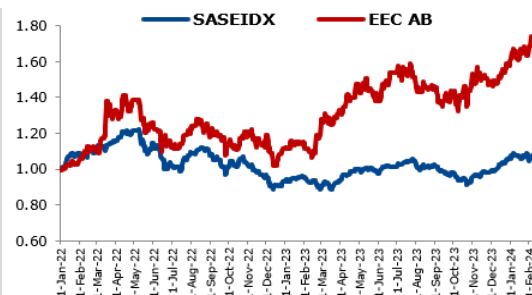
Current Price
SAR 55.00

Target Price
SAR 58.36

Upside/Downside (%)
+6%

Rating
HOLD

- Mobily net profit grew 23.1% YOY to SAR 746 Mn in 4Q23, primarily attributable to solid growth in subscriber base and FTTH footprints.
- The Company's mobile subscribers grew 4.4% YOY to 11.8 Mn backed by strong growth in postpaid and prepaid subscribers.
- Mobily recorded a 7.2% YOY growth in EBITDA to SAR 6,625 Mn owing to strong operational efficiency and robust top-line performance.
- The Company's net debt reduced significantly from SAR 8.8 Bn in 3Q23 to SAR 7.9 Bn in 4Q23 owing to its ongoing deleveraging plans.
- Mobily incurred a capex of SAR 2,318 Mn in 4Q23 on account of 5G deployment, expanding IoT investments, data center expansions, and ongoing FTTH footprints.



4Q23 Net Profit higher than our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 23.1% YOY to SAR 746 Mn in 4Q23, higher than our estimate of SAR 622 Mn. The rise in the net profit is primarily due to growth in the revenue across all business segments coupled with a strong rise in the subscriber base, higher finance income, and a decline in the G&A expense partially offset by higher cost of revenue and increase in zakat expenses.

P&L Highlights

Mobily's revenue grew 4.4% YOY to SAR 4,364 Mn in 4Q23 mainly due to robust growth in the Wholesale and Consumer segment coupled with solid growth in the overall subscriber base. The Company recorded the highest revenue growth in FY2023 in the past decade. Business segment revenue declined 1.2% YOY to SAR 974 Mn in 4Q23. The Company recorded strong growth in its Wholesale segment which grew 18.0% YOY to SAR 422 Mn in 4Q23 primarily due to connectivity service deals with national and international customers. The Consumer segment revenue rose 4.8% YOY to SAR 2,870 in 4Q23 driven by the addition of new core, digital, and value-added service products. The Outsourcing segment declined 0.6% YOY to SAR 98 Mn in 4Q23. Cost of revenue grew 20.6% YOY to SAR 2,015 Mn in 4Q23. Thus, gross profit declined 6.4% YOY to SAR 2,349 Mn in 4Q23 primarily due to an increase in the cost of revenue. However, the gross profit margin declined 622 bps to 53.8% in 4Q23. Moreover, the selling and marketing expenses rose 11.4% YOY to SAR 377 Mn in 4Q23. G&A expenses substantially declined from SAR 412 Mn in 4Q22 to SAR 61 Mn in 4Q23 attributed to cost management measures. Thus, the total operating expenses declined 41.6% YOY to SAR 438 Mn in 4Q23. Other expenses rose 65.0% YOY to SAR 66 Mn in 4Q23. D&A expenses declined 7.6% YOY to SAR 884 Mn in 4Q23.

Stock Information

Market Cap (SAR, mm)	42,350.00
Paid Up Capital (mm)	7,700.00
52 Week High	57.00
52 Week Low	38.70
3M Avg. daily value (SAR)	57,796,720

4Q23 Result Review (SAR, mm)

Total Assets	38,817
Total Liabilities	21,195
Total Equity	17,623
EBITDA	1,889
Net Profit	746

Financial Ratios

Dividend Yield (12m)	2.09
Dividend Pay-out (%)	50.02
Price-Earnings Ratio(x)	18.97
Price-to-Book Ratio (x)	2.40
Book Value (SAR)	22.89
Return-on Equity (%)	13.14

Stock Performance

5 Days	0.92%
1 Months	0.36%
3 Months	14.70%
6 Months	24.43%
1 Year	40.85%
Month to Date (MTD%)	-0.54%
Quarter to Date (QTD%)	12.13%
Year to Date (YTD%)	12.13%

As a result, operating profit rose 19.0% YOY to SAR 939 Mn in 4Q23, whereas operating profit margin inclined 264 bps to 21.5% in 4Q23. Mobily's EBITDA rose 5.8% YOY to SAR 1,889 Mn in 4Q23 primarily propelled by expansion in revenue further supported by operational efficiency measures undertaken by the Company. EBITDA margins also rose 56 bps YOY to 43.3% in 4Q23. Finance expenses declined 5.0% YOY to SAR 180 Mn in 4Q23. In addition, finance income more than doubled from SAR 25 in 4Q22 to SAR 56 Mn in 4Q23. Additionally, zakat expenses more than doubled from SAR 44 Mn in 4Q22 to SAR 95 Mn in 4Q23 owing to the growth in profitability.

Balance Sheet Highlights

The Company concentrated on accelerating 5Q coverage, expanding IoT investments, and continuing growth in data centre and FTTH expansion resulting in a Capex of SAR 2,318 Mn in 2023 amounting to a capital intensity of 13.8% in FY2023. Mobily possesses enough liquidity with cash and cash equivalents of SAR 1,654 Mn and short-term Murabaha of SAR 2,127 Mn in 2023. The Company's free cash flow grew from SAR 4,086 Mn in 2022 to SAR 4,307 Mn in 2023 driven by strong EBITDA growth. The Company's net debt declined from SAR 8.8 Bn in 3Q23 to SAR 7.9 Bn in 4Q23 with a net debt to EBITDA of 1.20x in 4Q23 compared to 1.36x in 3Q23.

Target Price and Rating

We maintain our HOLD rating on Mobily with a revised target price of SAR 58.36. We expect the company revenue to grow at a CAGR of 4.7% during FY2024-28 led by a growth in Consumer and Business Segment. It is also expected to achieve an average EBITDA margin of 39.0% during the forecasted period (FY2024-28). The Company is deleveraging and reducing its debt burden. It reduced its debt burden from SAR 13.0 Bn in FY2018 to SAR 8.3 Bn in FY2023 and is further expected to reduce debt owing to healthy cash generation. Mobily achieved strong performance primarily attributable to increased revenue, robust growth in subscriber base, healthy growth in EBITDA and margins, as well as sustained operational efficiency in FY2023. The Company recorded the highest level of revenue in the past decade and is recognized as the fastest-growing telecom brand in KSA. It witnessed robust growth among all revenue streams with an overall rise in the subscriber base in 4Q23. The Mobile subscribers grew 4.4% YOY to 11.8 Mn in 4Q23 among which the prepaid network grew substantially to 9.9 Mn subscribers while postpaid services reached 1.9 Mn subscribers. The FTTH subscribers also rose 5.4% YOY to 0.293 Mn subscribers. Mobily expanded its network coverage to boost its digital infrastructure for businesses within the Business segment and announced the construction of two additional data centres in 2023. Additionally, the Company also achieved 5G network coverage of more than 84% among the seven cities in KSA. The Company is effectively trying to improve its market presence in Saudi Arabia. In the Wholesale and Carrier services, Mobily laid two new international cables to connect with Europe and Asia, which are expected to be completed by 2025. Thus, the Company's topline performance among the segments substantially benefits the EBITDA and margins for the upcoming years. Mobily's EBITDA rose 7.2% YOY to SAR 6,625 Mn with strong EBITDA margins of 39.5% in 2023 driven by heightened operational efficiency. Mobily anticipates mid-to-high single-digit growth in topline alongside margins to range between 37% and 38% in FY2024. Furthermore, the Company continues to generate healthy free cash flow which rose 5.4% YOY to SAR 4,307 Mn in 2023. The Company incurred a total capex of SAR 2,318 Mn in 2023 to accelerate the 5G network and invest in IoT and FTTH footprints. Thus, Mobily seeks to make strategic investments that enable digital transformation and optimize innovative offerings to its customers. Moreover, the Company reduced its debt significantly from SAR 10,199 Mn in 4Q22 to SAR 7,918 Mn in 4Q23 owing to its ongoing deleveraging plans. In addition, the board recommended a cash dividend of SR 1.45 per share with a dividend yield of 2.64% for the year 2023. It has further room to improve its payout in the future. Thus, based on our analysis we maintain our HOLD rating on the stock.

Mobily - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	NA	53.7	39.2	25.4	18.8	18.5
PB (x)	3.1	2.9	2.8	2.7	2.6	2.5
EV/EBITDA	10.8	9.8	9.1	7.9	7.2	7.0
Dividend yield	NA	0.9%	1.6%	2.1%	2.6%	3.0%

FABS Estimates & Co Data

Mobily - P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Services revenues	4,180	4,100	4,364	4,363	0.0%	4.4%	6.4%	15,717	16,763	6.7%
Cost of services	-1,670	-1,738	-2,015	-1,861	8.2%	20.6%	15.9%	-6,336	-7,311	15.4%
Gross profit	2,510	2,362	2,349	2,502	-6.1%	-6.4%	-0.5%	9,381	9,452	0.8%
Selling and Marketing exp.	-338	-357	-377	-368	2.4%	11.4%	5.6%	-1,463	-1,467	0.3%
G&A expenses	-412	-357	-61	-379	-83.8%	-85.1%	-82.8%	-1,628	-1,175	-27.9%
Operating expenses	-750	-713	-438	-746	-41.3%	-41.6%	-38.6%	-3,091	-2,642	-14.5%
Other income	-40	7	-66	16	NM	65.0%	NM	-16	-32	NM
D&A expenses	-956	-907	-884	-936	-5.7%	-7.6%	-2.6%	-3,851	-3,647	-5.3%
Imp loss on acc receivable	25	-52	-22	-38	-41.1%	NM	-57.2%	-112	-186	66.3%
Operating Profit	789	696	939	797	17.8%	19.0%	35.0%	2,312	2,945	27.4%
EBITDA	1,786	1,596	1,889	1,718	10.0%	5.8%	18.3%	6,179	6,625	7.2%
Finance expenses	-189	-162	-180	-176	2.4%	-5.0%	10.9%	-607	-690	13.7%
Finance income	25	35	56	37	51.1%	126.8%	59.7%	46	164	NM
Profit before zakat	650	571	841	659	27.6%	29.4%	47.1%	1,779	2,449	37.7%
Zakat	-44	-48	-95	-37	157.7%	116.6%	98.9%	-122	-217	78.3%
Profit attributable	606	524	746	622	19.9%	23.1%	42.4%	1,657	2,232	34.7%

FABS estimate & Co Data

Mobily - Margins

	4Q22	3Q23	4Q23	YOY	QOQ Ch	2022	2023	Change
Gross Profit	60.1%	57.6%	53.8%	-622	-377	59.7%	56.4%	-330
EBITDA	42.7%	38.9%	43.3%	56	435	39.3%	39.5%	21
Operating Profit	18.9%	17.0%	21.5%	264	455	14.7%	17.6%	286
Net Profit	14.5%	12.8%	17.1%	260	432	10.5%	13.3%	277

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	64.09	70.0%	44.86
Relative Valuation (RV)	45.00	30.0%	13.50
Weighted Average Valuation (SAR)			58.36
Current market price (SAR)			55.00
Upside/Downside (%)			+6%

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 8.9%. It is arrived after using cost of equity of 9.6% and after-tax cost of debt of 5.8% with debt-to-equity ratio of 20.1%. The cost of equity is calculated using a 10-year government bond yield of 5.1%, a beta of 1.0, and an 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)	15,239
Terminal value (SAR, Mn)	42,980
FV to Common shareholders (SAR, Mn)	49,350
No. of share (Mn)	770
Current Market Price (SAR)	55.00
Fair Value per share (SAR)	64.09

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	2,812	3,097	3,363	3,695	4,028
D&A	3,213	3,289	3,365	3,346	3,348
Change in working capital	57	129	-71	-68	100
(-) Capex	-2,687	-2,709	-2,835	-2,950	-3,073
Free Cash Flow to Firm (FCFF)	3,394	3,806	3,822	4,023	4,403
Discounting Factor	0.93	0.86	0.79	0.72	0.66
Discounted FCFF	3,163	3,257	3,003	2,902	2,915

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. Consistent growth in top line and bottom line coupled with deleveraging of balance sheet will improve the valuation.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Telecom	53,700	7.5	7.0	15.6	14.4
Verizon Communication	169,012	6.4	6.1	8.9	8.6
Deutsche Telekom AG	118,735	4.9	4.7	12.8	11.3
Telstra Group Limited	28,556	7.0	6.7	21.3	19.7
Emirates Integrated Telecommunication Company	6,445	4.4	4.3	14.3	13.4
Average		6.0x	5.8x	14.6x	13.5x
Median		6.4x	6.1x	14.3x	13.4x
Max		7.0x	6.7x	15.6x	14.4x
Min		4.9x	4.7x	12.8x	11.3x

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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