

Etihad Etisalat (Mobily)

Lower finance costs and solid growth in operating profit boosts profitability

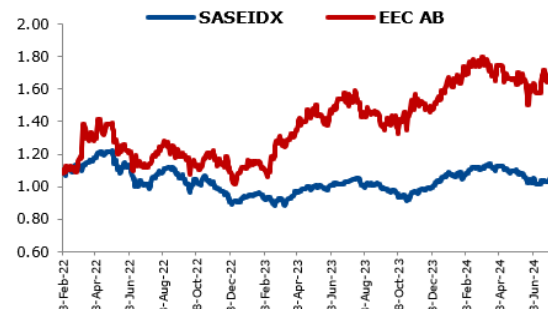
Current Price
SAR 50.60

Target Price
SAR 58.36

Upside/Downside (%)
+15.3%

Rating
BUY

- Revenue rose 4.6% YOY to SAR 4.5 Bn in 2Q24 and is further projected to increase by mid to high-single-digit in FY2024.
- Mobily reduced its debt burden from SAR 9.8 Bn in 2Q23 to SAR 6.8 Bn in 2Q24 and is further expected to reduce debt owing to healthy cash generation.
- Mobily's mobile subscribers base increased to 12.2 Mn in 2Q24 from 11.9 Mn in 2Q23, while FTTH subscribers increased to 0.298 Mn in 2Q24 from 0.276 Mn in 2Q23.
- Capex grew 10.3% YOY to SAR 386 Mn in 2Q24, while the Company is further expected to invest 14-16% of total revenue in FY2024.



Stock Information

Market Cap (SAR, Bn)	38,962.00
Paid Up Capital (Bn)	7,700.00
52 Week High	57.00
52 Week Low	40.30
3M Avg. daily value (SAR)	54,427,350

2Q24 Net Profit in line with our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 33.0% YOY to SAR 661 Mn in 2Q24, in line with our estimate of SAR 659 Mn. The rise in the net profit is primarily attributable to growth in revenue and a decline in finance cost partially offset by an increase in the cost of sales.

P&L Highlights

Mobily's revenue grew 4.6% YOY to SAR 4,465 Mn in 2Q24 due to healthy growth across all revenue segments. The revenue from the business segment is mainly driven by enhanced digitization offering and solid digital solutions for SMEs and Public sector. However, the Company's revenue declined 1.8% QOQ in 2Q24 because of a decline in consumer revenue. Mobily's mobile subscriber base stood at 12.2 Mn in 2Q24 compared to 12.3 Mn in 1Q24. Cost of revenue grew 11.6% YOY to SAR 2,087 Mn in 2Q24. Thus, gross profit declined marginally 0.9% YOY to SAR 2,378 Mn in 2Q24. Mobily's gross profit margin declined 294 bps YOY to 53.3% in 2Q24. Moreover, the operating profit rose from 14.0% YOY to SAR 759 Mn in 2Q24, whereas the operating profit margin improved 140 bps YOY to 17.0% in 2Q24. EBITDA stood at SAR 1,650 Mn in 2Q24 recording a marginal growth of 3.4% YOY. On the other hand, the EBITDA margin fell by 43 bps YOY to 37.0% in 2Q24. Finance expenses declined 26.0% YOY to SAR 130 Mn in 2Q24 mainly due to a decline in debt portfolio. Additionally, zakat expenses declined 11.1% YOY to SAR 29 Mn in 2Q24.

2Q24 Result Review (SAR, Mn)

Total Assets	NA
Total Liabilities	NA
Total Equity	17,765
EBITDA	1,650
Net Profit	661

Financial Ratios

Dividend Yield (12m)	2.87
Dividend Pay-out (%)	50.02
Price-Earnings Ratio(x)	15.15
Price-to-Book Ratio (x)	2.19
Book Value (SAR)	23.07
Return-on Equity (%)	15.03

Stock Performance

5 Days	-6.12%
1 Months	-5.24%
3 Months	-2.32%
6 Months	-2.32%
1 Year	7.20%
Month to Date (MTD%)	-2.13%
Quarter to Date (QTD%)	-2.13%
Year to Date (YTD%)	3.16%

Balance Sheet Highlights

The Company continued to enhance its digital offerings and expand its FTTH and 5G presence resulting in a 10.3% YOY growth in capex to SAR 386 Mn in 2Q24. The Company's free cash flow grew 1.4% YOY to SAR 1.3 Bn in 2Q24 owing to a healthy growth in EBITDA. The Company's borrowings declined from SAR 12.3 Bn in 2Q23 to SAR 9.9 Bn in 2Q24 mainly due to the repayment of debt. Net debt declined from SAR 9.8 Bn in 2Q23 to SAR 6.8 Bn in 2Q24 in line with the Company's deleveraging plan. As a result, the net debt to EBITDA ratio fell 1.01x in 2Q24 from 1.54x in 2Q23.

Target Price and Rating

We revise our rating on Mobily from HOLD to BUY with an unchanged target price of SAR 58.36. Mobily's revenue grew 4.6% YOY to SAR 4,465 Mn in 2Q24 owing to growth in revenue across all the segments. It further expects its revenue to grow by mid to high-single digit in FY2024. The company is focused on enhancing digital offerings and expanding its FTTH and 5G presence. Mobily prioritizes customer satisfaction with implementation of its robust customer care strategy and focuses on expanding IoT investments and developing data centers with the help of strategic partnerships. The Company is deleveraging and reducing its debt burden. It has repaid SAR 2.4 Bn of debt in the last twelve months and is further expected to reduce debt owing to healthy cash generation. Furthermore, the Company continues to generate healthy free cash flow which rose 1.4% YOY to SAR 1,264 Mn in 2Q24. Mobily incurred a total capex of SAR 386 Mn in 2Q24 investing it in digitization, IoT, expansion of data centres, FTTH, and 5G network. In addition, the Company is further expected to invest 14-16% of revenue during FY2024. 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 to the stock.

Mobily - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	NA	51.8	37.9	24.5	18.2	16.0
PB (x)	3.0	2.8	2.7	2.5	2.3	2.1
EV/EBITDA	10.5	9.5	8.8	7.7	6.8	6.6
Dividend yield	NA	1.0%	1.7%	2.3%	2.9%	3.2%

FABS Estimates & Co Data

Mobily - P&L

SAR Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Services revenues	4,269	4,545	4,465	4,610	-3.1%	4.6%	-1.8%	16,763	17,935	7.0%
Cost of services	-1,870	-2,101	-2,087	-2,075	0.6%	11.6%	-0.6%	-7,311	-8,107	10.9%
Gross profit	2,399	2,445	2,378	2,536	-6.2%	-0.9%	-2.7%	9,452	9,829	4.0%
Operating Profit	666	753	759	795	-4.5%	14.0%	0.8%	2,977	3,018	1.4%
EBITDA	1,596	1,651	1,650	1,715	-3.8%	3.4%	-0.1%	6,625	6,699	1.1%
Finance expenses	-176	-167	-130	-150	-13.5%	-26.0%	-22.1%	-690	-597	-13.5%
Profit before zakat	540	672	690	709	-2.7%	27.8%	2.6%	2,449	2,700	10.2%
Zakat	-33	-35	-29	-50	-41.6%	-11.1%	-16.2%	-217	-159	-27.0%
Profit attributable	497	638	661	659	0.3%	33.0%	3.6%	2,232	2,541	13.8%

FABS estimate & Co Data

Mobily - Margins

	2Q23	1Q24	2Q24	YOY	QOQ Ch	2023	2024F	Change
Gross Profit	56.2%	53.8%	53.3%	-294	-53	56.4%	54.8%	-159
EBITDA	37.4%	36.3%	37.0%	-43	62	39.5%	37.4%	-217
Operating Profit	15.6%	16.6%	17.0%	140	43	17.8%	16.8%	-94
Net Profit	11.6%	14.0%	14.8%	316	77	13.3%	14.2%	85

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	63.27	70.0%	44.29
Relative Valuation (RV)	46.90	30.0%	14.07
Weighted Average Valuation (SAR)			58.36
Current market price (SAR)			50.60
Upside/Downside (%)			+15.3%

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 9.4%. It has arrived after using cost of equity of 10.0% and after-tax cost of debt of 5.8% with a debt-to-equity ratio of 16.2%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.0 and equity risk premium of 4.8%. 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)	15,617
Terminal value (SAR, Mn)	39,890
FV to Comon shareholders (SAR, Mn)	55,508
No. of share (Mn)	770
Current Market Price (SAR)	50.60
Fair Value per share (SAR)	63.27

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
EBIT	2,976	3,182	3,432	3,709	3,945
D&A	3,079	3,339	3,435	3,433	3,450
Working Capital	438	29	-61	-33	175
(-) Capex	-2,816	-2,878	-3,011	-3,133	-3,264
Free Cash Flow to Firm (FCFF)	3,676	3,672	3,795	3,976	4,306
Discounting Factor	0.96	0.88	0.80	0.74	0.67
Discounted FCFF	3,533	3,226	3,048	2,919	2,890

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	51,870	7.4	6.9	14.9	14.1
Verizon Communication	164,540	6.90	6.77	8.57	8.38
Deutsche Telekom AG	130,513	5.91	5.67	13.39	11.88
Telstra Group Limited	29,500	7.1	6.8	21.9	20.6
Emirates Integrated Telecommunication Company	7,390	4.4	4.3	13.6	13.1
Safaricom Plc	4,920	4.9	4.5	8.8	7.9
Average		6.1x	5.8x	13.5x	12.7x
Median		6.4x	6.2x	13.5x	12.5x
Max		7.0x	6.8x	14.6x	13.9x
Min		5.1x	4.8x	10.0x	9.3x

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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