

## Etihad Etisalat (Mobily)

Strong revenue growth and operational efficiency boosted profitability

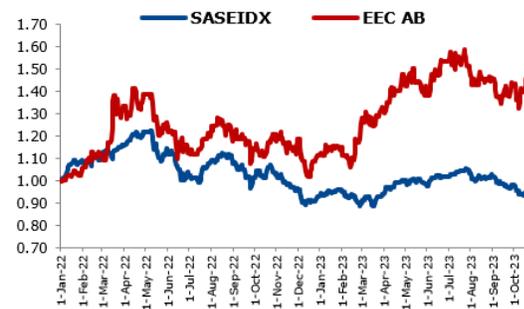
**Current Price**  
SAR 45.10

**Target Price**  
SAR 50.00

**Upside/Downside (%)**  
+11%

**Rating**  
**ACCUMULATE**

- Mobily recorded the highest third-quarter revenue and net income in the last ten years
- The Company's revenue was driven by healthy growth across all the segments primarily due to an increase in the overall subscriber base coupled with substantial growth in the Business segment
- It recorded an 8.1% YOY growth in EBITDA to SAR 1,596 Mn owing to the strong operational efficiency and robust top-line growth
- Mobily's net debt reduced significantly from SAR 9.8 Bn in 2Q23 to SAR 8.8 Bn in 3Q23 owing to its ongoing deleveraging plans
- Mobily generates free cash flow of c. SAR 3.8 Bn in 9M23 as compared to SAR 3.5 Bn in 9M22



### 3Q23 Net Profit higher than our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 43.9% YOY to SAR 524 Mn in 3Q23, higher than our estimate of SAR 477 Mn. The growth in net profit is primarily attributable to growth in revenue driven by growth across all revenue segments especially the Business segment along with a healthy growth in subscriber base, and lower operating expenses partially offset by a higher cost of revenue and higher impairments.

### P&L Highlights

The Company recorded the highest third-quarter revenue and net income in the last ten years. Mobily's revenue rose 7.1% YOY to SAR 4,100 Mn in 3Q23 driven by healthy growth across all revenue streams primarily due to an increase in the overall subscriber base coupled with a substantial growth in the Business segment. Business segment grew 34.7% YOY to SAR 904 Mn in 3Q23. The Company reported consistent growth in its Wholesale segment. Wholesale segment rose 10.6% YOY to SAR 436 Mn in 3Q23. While Consumer segment remained stable at SAR 2,674 Mn in 3Q23 mainly due to seasonal nature of revenue. The Outsourcing segment declined 2.5% YOY to SAR 86 Mn in 3Q23. Cost of revenue rose 13.8% YOY to SAR 1,738 Mn in 3Q23. Thus, gross profit grew 2.7% YOY to SAR 2,362 Mn in 3Q23 primarily due to a rise in revenue. However, the gross profit margin contracted from 60.1% in 3Q22 to 57.6% in 3Q23. Further, selling and marketing expenses declined 8.6% YOY to SAR 357 Mn in 3Q23. G&A expenses also declined 14.3% YOY to SAR 357 Mn in 3Q23 due to disciplined cost management. Thus, total operating expenses declined 11.5% YOY to SAR 713 Mn in 3Q23 owing to operational efficiency. Other income declined 25.0% YOY to SAR 7 Mn in 3Q23. Depreciation charges declined 4.8% YOY to SAR 907 Mn in 3Q23.

### Stock Information

Market Cap (SAR, mm)	35,420.00
Paid Up Capital (mm)	7,700.00
52 Week High	50.00
52 Week Low	31.45
3M Avg. daily value (SAR)	39,125,350

### 3Q23 Result Review (SAR, mm)

Total Assets	39,906
Total Liabilities	22,993
Total Equity	16,913
EBITDA	1,596
Net Profit	524

### Financial Ratios

Dividend Yield (12m)	2.50
Dividend Pay-out (%)	53.44
Price-Earnings Ratio(x)	16.93
Price-to-Book Ratio (x)	2.09
Book Value (SAR)	21.96
Return-on Equity (%)	12.83

### Stock Performance

5 Days	9.52%
1 Months	3.25%
3 Months	-2.54%
6 Months	3.14%
1 Year	23.66%
Month to Date (MTD%)	3.14%
Quarter to Date (QTD%)	3.14%
Year to Date (YTD%)	32.23%

As a result, operating profit rose 32.6% YOY to SAR 696 Mn in 3Q23 whereas operating profit margin inclined 326 bps to 17.0% in 3Q23. Mobily's EBITDA grew 8.1% YOY to SAR 1,596 Mn in 3Q23 driven by a growth in revenue and further supported by the company's efficiency in managing its operations. EBITDA margins also rose 34 bps YOY at 38.9% in 3Q23. Finance expenses grew 8.1% YOY to SAR 162 Mn in 3Q23 owing to higher benchmark rates. In addition, finance income rose from SAR 9 Mn in 3Q22 to SAR 35 Mn in 3Q23. Additionally, zakat expenses rose from SAR 21 Mn in 3Q22 to SAR 48 Mn in 3Q23 in line with growth in profitability.

### Balance Sheet Highlights

The company possesses enough liquidity with cash and cash equivalents of SAR 547 Mn and short-term Murabaha of SAR 2,479 Mn in 3Q23. Mobily's free cash flow grew to SAR 3,787 Mn in 9M23 compared to SAR 3,457 Mn in 9M22 mainly driven by a growth in EBITDA. Mobily's capex increased to SAR 949 Mn in 9M23 against SAR 935 Mn in 9M22 mainly due to investment made by the Company in network expansion. The Company's net debt reduced from SAR 9.8 Bn in 2Q23 to SAR 8.8 Bn in 3Q23 while the net debt to EBITDA ratio also declined from 1.54x in 2Q23 to 1.36x in 3Q23.

### Target Price and Rating

We maintain our ACCUMULATE rating on Mobily with a revised target price of SAR 50.00. Healthy growth in the subscriber base and strong operational efficiency improved the Company's profitability in 3Q23. Mobily recorded the highest third-quarter revenue and net income in the last ten years. It witnessed consistent growth across all its revenue streams along with a rise in the overall subscriber base in 3Q23. Additionally, Mobily's EBITDA also rose 8.1% YOY to SAR 1,596 Mn in 3Q23 mainly due to the resilient top-line performance and lower operating expenses. The Company is actively making efforts to enhance its market presence in Saudi Arabia. Mobily signed multiple deals to expand its network coverage to boost its digital infrastructure for businesses within the Business Segment. In the Wholesale and Carrier services, Mobily expanded its network coverage and introduced specialized services for its national and international customers. In addition, the Company incurred a total capex of SAR 375 Mn which will be spent on accelerating the 5G services and invest in emerging technologies. Mobily further aims to make investments that will enable digital transformation and provide innovation in its range of products and services. Moreover, the Company reduced its debt significantly from SAR 9,809 Mn in 2Q23 to SAR 8,813 Mn in 3Q23 owing to its ongoing deleveraging plans. Additionally, the Company also generated robust free cash flow which rose 12.8% YOY to SAR 1,221 Mn in 3Q23 which will further reduce leverage. Thus, based on our analysis we maintain our ACCUMULATE rating on the stock.

### Mobily - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	NA	NA	44.0	32.2	20.8	17.1
PB (x)	2.5	2.5	2.4	2.3	2.2	2.1
EV/EBITDA	10.5	9.2	8.4	7.7	6.7	6.4
Dividend yield	NA	NA	1.1%	1.9%	2.6%	3.0%

FABS Estimates & Co Data

**Mobily – P&L**

SAR mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Services revenues	3,828	4,248	4,100	4,152	-1.2%	7.1%	-3.5%	15,669	16,695	6.5%
Cost of services	-1,527	-1,812	-1,738	-1,769	-1.7%	13.8%	-4.1%	-6,306	-7,129	13.1%
<b>Gross profit</b>	<b>2,300</b>	<b>2,435</b>	<b>2,362</b>	<b>2,383</b>	<b>-0.9%</b>	<b>2.7%</b>	<b>-3.0%</b>	<b>9,363</b>	<b>9,566</b>	<b>2.2%</b>
Selling and Marketing exp.	-390	-391	-357	-386	-7.6%	-8.6%	-8.8%	-1,463	-1,503	2.7%
G&A expenses	-416	-385	-357	-378	-5.6%	-14.3%	-7.3%	-1,628	-1,486	-8.7%
<b>Operating expenses</b>	<b>-806</b>	<b>-776</b>	<b>-713</b>	<b>-764</b>	<b>-6.6%</b>	<b>-11.5%</b>	<b>-8.0%</b>	<b>-3,091</b>	<b>-2,988</b>	<b>-3.3%</b>
Other income	10	13	7	16	-54.7%	-25.0%	-46.1%	1	50	NM
D&A expenses	-953	-930	-907	-942	-3.7%	-4.8%	-2.4%	-3,851	-3,720	-3.4%
Imp loss on acc receivable	-17	-74	-52	-40	29.9%	NM	-29.7%	-112	-184	64.5%
<b>Operating Profit</b>	<b>525</b>	<b>669</b>	<b>696</b>	<b>653</b>	<b>6.6%</b>	<b>32.6%</b>	<b>4.0%</b>	<b>2,312</b>	<b>2,724</b>	<b>17.8%</b>
<b>EBITDA</b>	<b>1,477</b>	<b>1,586</b>	<b>1,596</b>	<b>1,579</b>	<b>1.1%</b>	<b>8.1%</b>	<b>0.6%</b>	<b>6,161</b>	<b>6,394</b>	<b>3.8%</b>
Finance expenses	-150	-176	-162	-176	-7.7%	8.1%	-7.6%	-607	-699	15.2%
Finance income	9	39	35	36	-2.8%	NM	-9.9%	46	145	NM
<b>Profit before zakat</b>	<b>385</b>	<b>530</b>	<b>571</b>	<b>513</b>	<b>11.3%</b>	<b>48.5%</b>	<b>7.8%</b>	<b>1,779</b>	<b>2,174</b>	<b>22.2%</b>
Zakat	-21	-33	-48	-36	32.5%	NM	45.8%	-122	-158	29.7%
<b>Profit attributable</b>	<b>364</b>	<b>497</b>	<b>524</b>	<b>477</b>	<b>9.8%</b>	<b>43.9%</b>	<b>5.3%</b>	<b>1,657</b>	<b>2,016</b>	<b>21.7%</b>

FABS estimate & Co Data

**Mobily - Margins**

	3Q22	2Q23	3Q23	YOY	QOQ Ch	2022	2023F	Change
Gross Profit	60.1%	57.3%	57.6%	-250	26	59.8%	57.2%	-256
EBITDA	38.6%	37.3%	38.9%	34	160	39.3%	37.8%	-152
Operating Profit	13.7%	15.8%	17.0%	326	121	14.8%	15.7%	94
Net Profit	9.5%	11.7%	12.8%	327	107	10.6%	11.5%	89

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 remaining 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	53.08	70.0%	37.15
Relative Valuation (RV)	42.82	30.0%	12.85
<b>Weighted Average Valuation (SAR)</b>			<b>50.00</b>
Current market price (SAR)			45.1
Upside/Downside (%)			+11%

### 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 8.6%. It is arrived after using cost of equity of 9.4% and after-tax cost of debt of 5.7% with debt-to-equity ratio of 24.3%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 1.0, and an equity risk premium of 4.9%. 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 5.8% after adjusting a tax rate arrived at after-tax cost of debt of 5.7%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	11,597
Terminal value (SAR, Mn)	37,919
<b>FV to Common shareholders (SAR, Mn)</b>	<b>40,869</b>
No. of share (Mn)	770
Current Market Price (SAR)	45.10
<b>Fair Value per share (SAR)</b>	<b>53.08</b>

### DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT	2,566	2,766	2,814	2,852	3,046
D&A	3,720	3,792	3,809	3,841	3,778
Change in working capital	-499	-316	-64	-194	-234
(-) Capex	-2,787	-2,971	-2,994	-3,046	-3,097
<b>Free Cash Flow to Firm (FCFF)</b>	<b>542</b>	<b>3,271</b>	<b>3,565</b>	<b>3,453</b>	<b>3,493</b>
Discounting Factor	0.99	0.91	0.83	0.77	0.71
<b>Discounted FCFF</b>	<b>534</b>	<b>2,966</b>	<b>2,975</b>	<b>2,652</b>	<b>2,470</b>

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 6.5x in line with peers at premium to its 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)	
		2023F	2024F	2023F	2024F
Saudi Telecom	47,920	6.8	6.2	14.2	13.5
Verizon Communication	145,000	6.1	5.9	7.7	7.5
SAFARICOM PLC	3,319	4.3	3.9	8.5	7.3
Deutsche Telekom AG	107,000	5.2	4.9	6.4	11.8
Telstra Group Limited	27,910	6.9	6.6	20.3	18.8
Emirates Integrated Telecommunication Company	6,418	4.3	4.1	16.9	16.3
<b>Average</b>		<b>5.6x</b>	<b>5.3x</b>	<b>12.3x</b>	<b>12.5x</b>
<b>Median</b>		<b>5.7x</b>	<b>5.4x</b>	<b>11.3x</b>	<b>12.7x</b>
<b>Max</b>		<b>6.6x</b>	<b>6.1x</b>	<b>16.2x</b>	<b>15.6x</b>
<b>Min</b>		<b>4.6x</b>	<b>4.3x</b>	<b>7.9x</b>	<b>8.6x</b>

Source: FAB Securities

