

## **Etihad Etisalat (Mobily)**

Growth in revenue and operational efficiency supported profit

### **1Q23 Net Profit higher than our estimates**

Etihad Etisalat's (Mobily/the Company) net profit rose 48.9% YOY to SAR 465 Mn in 1Q23, exceeding our estimate of SAR 433 Mn. The rise in profit is primarily due to growth in revenue offset by a higher cost of revenue and a hike in financial expense.

### **P&L highlights**

Mobily's revenue rose 6.3% YOY to SAR 4,051 Mn in 1Q23 driven by growth in business and consumer segments further supported by a robust growth in the subscriber base. Cost of revenue rose 10.9% YOY to SAR 1,745 Mn in 1Q23. As a result, gross profit increased 3.1% YOY to SAR 2,306 Mn in 1Q23 primarily due to a rise in revenue. However, the gross profit margin declined to 56.9% in 1Q23 from 58.7% in 1Q22. Operating expense including depreciation charge fell 5.5% YOY to SAR 1,679 Mn in 1Q23 mainly due to a fall in depreciation charges which declined 5.2% YOY to SAR 927 Mn in 1Q23. EBITDA grew 8.0% YOY to SAR 1,554 Mn in 1Q23 driven by a growth in revenue in addition to operational efficiency. As a result, EBITDA margins improved 60 bps YOY in 1Q23 and stood at 38.4%. Operating profit rose 36.0% YOY to SAR 627 Mn in 1Q23 primarily due to a decline in depreciation and amortization charges, Operating profit margin by 338 bps YOY to 15.5% in 1Q23. Finance expenses increased 37.9% YOY to SAR 172 Mn in 1Q23 owing to a rise in the interest rates in the economy. However, the profit before zakat rose 44.8% YOY to SAR 507 Mn in 1Q23. While zakat expenses rose 37.7% YOY to SAR 42 Mn in 1Q23 almost in line with an increase in profitability.

### **Balance Sheet highlights**

The Company's free cash flow grew to SAR 1,329 Mn in 1Q23 as compared to SAR 1,219 Mn in 1Q22 driven by robust growth in EBITDA partially offset by a rise in capex. Mobily's capex increased to SAR 224 Mn in 1Q23 against SAR 220 Mn in 1Q22.

### **Target price and rating**

We maintain our HOLD rating on Mobily with a target price of SAR 46.00. Mobily's revenue consistently improved due to a growth in consumer segment as well as a growth in the overall subscriber base. Mobily's EBITDA increased 8% YOY to SAR 1,554 Mn in 1Q23 mainly due to a robust growth in the revenue in addition to operational efficiency with an EBITDA margin of 38.4%. Mobily continuously making efforts to reduce its debt obligations supported by strong financials and strategic expansion plans help in gaining market share in Saudi Arabia. The Company reduced its debt obligation from SAR 13.0 Bn in FY2018 to SAR 9.6 Bn at the end of FY2022. It will further reduce leverage going forward due to robust cash flow generation. During 1Q23, Mobily incurred a total capex of SAR 224 Mn which will aid in accelerating the 5G services across a number of strategic locations and also support Mobily's initiatives in the fintech space. In addition, the Company continue to generate robust free cash flow which rose 9.0% YOY to SAR 1,329 Mn in 1Q23. Further, we expect the Company to continue paying dividend in 2023 with a dividend yield of 3.0%. Due to these positive developments, the stock is trading at EV/EBITDA multiple of 6.2x based on FY2023 financials as compared to sector average of 5.7x renders its expensive. Thus, based on above mention factors we maintain a HOLD rating on the stock.

**Rating : HOLD**

### **First Look Note – 1Q23**

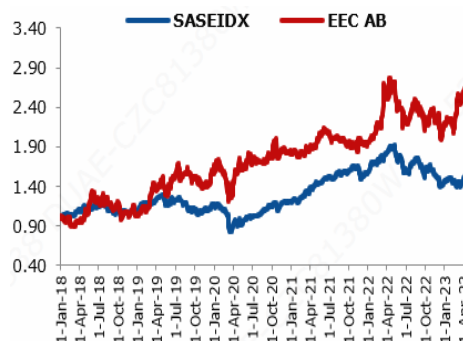
**Sector: Telecom**

#### **Recommendation**

Current Price (16-May-23)	45.35
Target Price (SAR)	46.00
Upside/Downside (%)	+1.4%

#### **Stock Information**

Market Cap (mm)	34,804.00
Paid Up Capital (mm)	7,700.00
52 Week High	47.15
52 Week Low	31.45
3M Avg. daily value (SAR)	48,311,070



#### **Financial Ratios**

Dividend Yield (12m)	1.88
Dividend Pay-out (%)	53.44
Price-Earnings Ratio (x)	19.34
Price-to-Book Ratio (x)	2.07
Book Value (SAR)	21.83
Return-on Equity (%)	11.12
Earning Per Share (SAR)	2.34
Beta	0.74

#### **Stock Performance**

5 Days	-1.95%
1 Months	5.12%
3 Months	33.14%
6 Months	25.21%
1 Year	13.00%
Month to Date (MTD)	1.46%
Quarter to Date (QTD)	9.70%
Year to Date (YTD)	30.22%

#### Mobily - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	NA	NA	43.60	31.87	20.61	19.92
P/B (x)	2.46	2.48	2.36	2.25	2.17	2.09
EV/EBITDA	10.23	9.10	8.32	7.67	6.64	6.18
Dividend Yield (%)	NA	Na	1.1%	1.9%	2.6%	3.0%

FABS Estimates & Co Data

#### Mobily - P&L

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Services revenues	3,811	4,132	4,051	4,003	1.2%	6.3%	-1.9%	15,669	16,461	5.1%
Cost of services	-1,573	-1,639	-1,745	-1,597	9.2%	10.9%	6.4%	-6,306	-6,667	5.7%
<b>Gross profit</b>	<b>2,238</b>	<b>2,492</b>	<b>2,306</b>	<b>2,406</b>	<b>-4.2%</b>	<b>3.1%</b>	<b>-7.5%</b>	<b>9,363</b>	<b>9,795</b>	<b>4.6%</b>
<b>Operating Profit</b>	<b>461</b>	<b>813</b>	<b>627</b>	<b>668</b>	<b>-6.1%</b>	<b>36.0%</b>	<b>-22.9%</b>	<b>2,312</b>	<b>2,610</b>	<b>12.9%</b>
<b>EBITDA</b>	<b>1,439</b>	<b>1,770</b>	<b>1,554</b>	<b>1,660</b>	<b>-6.4%</b>	<b>8.0%</b>	<b>-12.2%</b>	<b>6,162</b>	<b>6,451</b>	<b>4.7%</b>
Finance Expenses	-125	-189	-172	-201	-14.5%	37.9%	-9.2%	-607	-763	25.8%
<b>Profit before zakat</b>	<b>350</b>	<b>652</b>	<b>507</b>	<b>474</b>	<b>7.1%</b>	<b>44.8%</b>	<b>-22.2%</b>	<b>1,779</b>	<b>1,875</b>	<b>5.4%</b>
Zakat	-31	-46	-42	-40	4.3%	37.7%	-8.2%	-122	-161	32.0%
<b>Net Profit</b>	<b>319</b>	<b>606</b>	<b>465</b>	<b>433</b>	<b>7.3%</b>	<b>45.8%</b>	<b>-23.3%</b>	<b>1,657</b>	<b>1,714</b>	<b>3.4%</b>

#### Mobily - Margins

	1Q22	4Q22	1Q23	YOY	QOQ Ch	2022	2023F	Change
GPM	58.7%	60.3%	56.9%	-179	-340	59.8%	59.5%	-26
EBITDA Margin	37.8%	42.8%	38.4%	60	-448	39.3%	39.2%	-14
OPM	12.1%	19.7%	15.5%	338	-420	14.8%	15.9%	110
Net margin	8.4%	14.7%	11.5%	311	-319	10.6%	10.4%	-16

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	49.02	70.0%	34.31
Relative	38.95	30.0%	11.68
<b>Weighted Average Valuation (SAR)</b>			<b>46.00</b>
<b>Current market price (SAR)</b>			<b>45.35</b>
<b>Upside/Downside (%)</b>			<b>+1.4%</b>

### 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 8.7%. It is arrived after using cost of equity of 9.4% and after-tax cost of debt of 6.3% with debt to equity ratio of 28.2%. Cost of equity is calculated by using 10-year government bond yield of 4.2%, beta of 1.03 and equity risk premium of 5.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Cost of debt is calculated using cost of 6.5% after adjusting a tax rate of 2.5% arrive at after tax cost of debt of 6.3%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	12,943
Terminal value (SAR, Mn)	31,583
<b>FV to Common shareholders (SAR, Mn)</b>	<b>37,744</b>
No. of share (Mn)	770.0
Current Market Price (SAR)	44.35
<b>Fair Value per share (SAR)</b>	<b>49.02</b>

#### DCF method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	2,449	2,464	2,616	2,701	2,826
D&A	3,842	3,848	3,855	3,863	3,873
Working Capital	-918	73	-38	-242	-605
(-) Capex	-2,756	-2,865	-2,915	-2,960	-3,020
<b>Free Cash Flow to Firm (FCFF)</b>	<b>2,616</b>	<b>3,520</b>	<b>3,519</b>	<b>3,362</b>	<b>3,073</b>
Discounting Factor	0.95	0.87	0.80	0.74	0.68
<b>Discounted FCFF</b>	<b>2,482</b>	<b>3,071</b>	<b>2,824</b>	<b>2,481</b>	<b>2,086</b>

## 2) Relative Valuation:

We have used international peers to value Mobily and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 5.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Saudi Telecom	47,834	6.7	6.2	13.7	13.1
Maroc Telecom	8,666	5.3	4.9	14.7	14.1
Emirates integrated telecommunication company	6,973	4.5	4.4	19.5	18.2
Mobile telecommunication company	7,899	4.9	4.4	10.4	9.7
Verizon Communication	156,000	6.1	5.9	7.5	7.3
SAFARICOM PLC	8,101	7.1	6.5	14.3	13.2
Deutsche Telekom AG	99,376	5.0	4.7	13.2	10.8
Telstra Group limited	31,280	7.0	6.9	21.9	20.2
<b>Average</b>		5.8x	5.5x	14.4x	13.3x
<b>Median</b>		5.7x	5.4x	14.0x	13.2x
<b>Max</b>		6.8x	6.3x	15.9x	15.1x
<b>Min</b>		5.0x	4.6x	12.5x	10.5x

**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 Analysts**

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)  
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

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