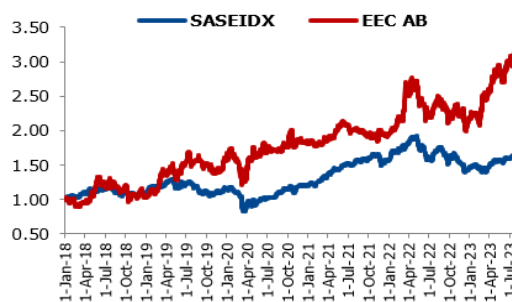


Etihad Etisalat (Mobily)

Special services for Hajj pilgrims with a growing subscriber base boosted profit

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 45.35	SAR 49.00	+8.0%	HOLD

- Mobily's 5G coverage areas grew by 86% YOY during the Hajj season, with a 133% YOY increase in 5G data traffic and 121% YOY growth in voice calls through 4G.
- Mobily also witnessed a 200% growth in international calls and a 68% growth in data consumption.
- Mobily signed multiple deals in the business segment to expand its network coverage to boost its digital infrastructure. Mobily expanded its network coverage and introduced specialized services for pilgrims through the Hajj season.
- Mobily also renewed a few international roaming agreements in the wholesale segment at competitive prices.
- Consumer segment witnessed a 600% QOQ increase in gamers subscribers.



2Q23 Net Profit higher than our estimate

Etihad Etisalat's (Mobily/the Company) net profit rose 38.6% YOY to SAR 497 Mn in 2Q23, slightly above our estimate of SAR 478 Mn. The rise in profit is primarily due to growth in revenue attributable to growth in subscriber base, disciplined cost management and higher finance income partially offset by a higher cost of revenue, increase in impairments, and a hike in financial expense.

P&L Highlights

Mobily's revenue rose 9.0% YOY to SAR 4,248 Mn in 2Q23 driven by healthy growth across all revenue streams primarily due to an increase in the overall subscriber base coupled with increased data consumption, data traffic, and voice calls due to the Hajj season. This is the second-highest revenue growth recorded by the Company in the last 10 years. Cost of revenue rose 15.8% YOY to SAR 1,812 Mn in 2Q23. Thus, gross profit increased 4.4% YOY to SAR 2,435 Mn in 2Q23 primarily due to a rise in revenue. However, the gross profit margin contracted from 59.8% in 2Q22 to 57.3% in 2Q23. Further, selling and marketing expenses grew 4.3% YOY to SAR 391 Mn in 2Q23 as the company aims to strengthen its market share while the G&A expenses declined 9.8% YOY to SAR 385 Mn in 2Q23 due to disciplined cost management. Thus, the operating expenses declined 3.2% YOY to SAR 776 Mn in 2Q23. The company's other income increased to SAR 13 Mn in 2Q23 from SAR 7 Mn in 2Q22. However, depreciation charges declined 3.5% YOY to SAR 930 Mn in 2Q23. As a result, operating profit rose 29.0% YOY to SAR 669 Mn in 2Q23 whereas operating profit margin inclined 245 bps YOY to 15.8% in 2Q23. Mobily's EBITDA grew 7.5% YOY to SAR 1,586 Mn in 2Q23 driven by a growth in revenue and reflecting the company's efficiency in managing its operation. However, EBITDA margins declined 51 bps YOY in 2Q23 and stood at 37.3%. Finance expenses increased 23.0% YOY to SAR 176 Mn in 2Q23 owing to higher benchmark rates.

Stock Information

Market Cap (SAR, mm)	34,919.50
Paid Up Capital (mm)	7,700.00
52 Week High	50.00
52 Week Low	31.45
3M Avg. daily value (SAR)	54,140,680

2Q23 Result Review (SAR, mm)

Total Assets	39,858
Total Liabilities	23,450
Total Equity	16,408
EBITDA	1,586
Net Profit	497

Financial Ratios

Dividend Yield (12m)	2.54
Dividend Pay-out (%)	53.44
Price-Earnings Ratio(x)	18.02
Price-to-Book Ratio (x)	2.13
Book Value (SAR)	21.31
Return-on Equity (%)	12.24

Stock Performance

5 Days	1.91%
1 Months	-4.12%
3 Months	0.55%
6 Months	33.58%
1 Year	16.88%
Month to Date (MTD%)	-3.20%
Quarter to Date (QTD%)	-5.32%
Year to Date (YTD%)	30.50%

In addition, finance income rose from SAR 8 Mn in 2Q22 to SAR 39 Mn in 2Q23. Additionally, zakat expenses rose 31.5% YOY to SAR 33 Mn in 2Q23 in line with growth in profitability.

Balance Sheet Highlights

The company possesses enough liquidity with cash and cash equivalents of SAR 817 Mn and short-term Murabaha of SAR 1,704 Mn in 2Q23. Mobily's free cash flow grew to SAR 1,236 Mn in 2Q23 compared to SAR 1,330 Mn in 1Q23 mainly driven by a rise in capex. Mobily's capex increased to SAR 350 Mn in 2Q23 against SAR 224 Mn in 1Q23. The Company's net debt stood at SAR 9,809 Mn in 2Q23 as compared to SAR 9,393 Mn in 1Q23 while net debt to EBITDA ratio stood at 1.54x in 2Q23 as against 1.50x in 1Q23.

Target Price and Rating

We maintain our HOLD rating on Mobily with an unchanged target price of SAR 49.00. Healthy growth in the subscriber base along with the Hajj season, positively contributed to the Company's bottom line. Saudi's data consumption reached 49 thousand TB with an average per capita consumption of 786 MB. The Company's 5G coverage areas grew by 86% YOY during the Hajj season with a 133% YOY increase in 5G data traffic and 121% YOY growth in voice calls through 4G. The company also witnessed a 200% growth in international calls and a 68% growth in data consumption. Mobily is actively making efforts to enhance its market presence in Saudi Arabia. The Company signed multiple deals in the business segment for expanding its network coverage to boost its digital infrastructure. Mobily expanded its network coverage and introduced specialized services for pilgrims through the Hajj season. Whereas, the Company also renewed a few international roaming agreements in the wholesale segment at competitive prices providing a boost to the top line. The Company's digital initiatives continue to benefit turnover and position the KSA as a digital hub. Mobily's EBITDA increased 7.5% YOY to SAR 1,586 Mn in 2Q23 mainly due to the resilient top-line performance however EBITDA margin fell 51 YOY and 104 QOQ to 37.3% in 2Q23. In addition, the Company continues to generate robust free cash flow which rose 6.9% YOY to SAR 1,236 Mn in 2Q23. It will further reduce leverage going forward due to robust cash flow generation During 2Q23, Mobily incurred a total capex of SAR 350 Mn which will be spent over accelerating the 5G services across a number of strategic locations, cloud, IoT, data centers, and digitization of operations. Thus, based on above mention factors we maintain a HOLD rating on the stock.

Mobily - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	NA	NA	44.58	32.59	21.07	17.88
PB (x)	2.52	2.54	2.42	2.30	2.22	2.13
EV/EBITDA	10.63	9.34	8.48	7.83	6.77	6.51
Dividend yield	NA	Na	1.1%	1.9%	2.5%	3.0%

FABS Estimates & Co Data

Mobily – P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Services revenues	3,899	4,051	4,248	4,129	2.9%	9.0%	4.9%	15,669	16,412	4.7%
Cost of services	-1,566	-1,746	-1,812	-1,776	2.1%	15.8%	3.8%	-6,306	-6,860	8.8%
Gross profit	2,333	2,306	2,435	2,354	3.5%	4.4%	5.6%	9,363	9,552	2.0%
Selling and Marketing exp.	-375	-343	-391	-349	12.0%	4.3%	14.0%	-1,463	-1,477	1.0%
G&A expenses	-427	-372	-385	-384	0.2%	-9.8%	3.6%	-1,628	-1,510	-7.3%
Operating expenses	-802	-714	-776	-733	5.8%	-3.2%	8.6%	-3,091	-2,987	-3.4%
Other income	7	14	13	14	-8.2%	98.1%	-3.0%	1	49	NM
D&A expenses	-963	-927	-930	-972	-4.3%	-3.5%	0.3%	-3,851	-3,738	-2.9%
Operating Profit	519	641	669	664	0.9%	29.0%	4.5%	2,312	2,662	15.2%
EBITDA	1,476	1,554	1,586	1,635	-3.0%	7.5%	2.1%	6,161	6,351	3.1%
Finance expenses	-143	-172	-176	-179	-2.1%	23.0%	1.9%	-607	-699	15.2%
Finance income	8	33	39	35	10.9%	NM	16.5%	46	145	NM
Profit before zakat	384	507	530	519	2.0%	38.1%	4.5%	1,779	2,110	18.6%
Zakat	-25	-42	-33	-42	-21.5%	31.5%	-22.9%	-122	-158	29.4%
Profit attributable	359	465	497	478	4.1%	38.6%	7.0%	1,657	1,953	17.8%

FABS estimate & Co Data

Mobily - Margins

	2Q22	1Q23	2Q23	YOY	QOQ Ch	2022	2023F	Change
Gross margin	59.8%	56.9%	57.3%	-251	42	59.8%	58.2%	-156
EBITDA margin	37.8%	38.3%	37.3%	-51	-101	39.3%	38.7%	-62
Operating margin	13.3%	15.8%	15.8%	245	-6	14.8%	16.2%	147
Net profit margin	9.2%	11.5%	11.7%	250	23	10.6%	11.9%	132

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	55.27	70.0%	38.69
Relative Valuation (RV)	34.37	30.0%	10.31
Weighted Average Valuation (SAR)			49.00
Current market price (SAR)			45.35
Upside/Downside (%)			+8.0%

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 8.5%. It is arrived after using cost of equity of 9.2% and after-tax cost of debt of 5.7% with debt-to-equity ratio of 25.5%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, 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. Cost of debt is calculated using cost of 5.8% after adjusting a tax rate of 2.4%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	13,808
Terminal value (SAR, Mn)	38,391
FV to Common shareholders (SAR, Mn)	42,557
No. of share (Mn)	770
Current Market Price (SAR)	45.35
Fair Value per share (SAR)	55.27

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT	2,505	2,719	2,848	2,869	3,070
D&A	3,738	3,783	3,800	3,834	3,773
Change in working capital	-698	-136	-37	-199	-232
(-) Capex	-2,750	-2,951	-3,003	-3,050	-3,104
Free Cash Flow to Firm (FCFF)	2,795	3,415	3,608	3,455	3,507
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Discounted FCFF	2,711	3,052	2,971	2,622	2,453

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 5.7x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Telecom	60,668	8.4	7.8	17.3	16.2
Verizon Communication	144,000	6.2	6.0	7.5	7.4
SAFARICOM PLC	4,739	5.2	5.7	11.7	11.2
Deutsche Telekom AG	109,000	5.0	4.7	7.2	12.3
Telstra Group Limited	33,199	7.7	7.4	25.9	22.9
Emirates Integrated Telecommunication Company	6,764	4.6	4.3	18.5	17.1
Average		6.2x	6.0x	14.7x	14.5x
Median		5.7x	5.9x	14.5x	14.3x
Max		7.3x	7.0x	18.2x	16.9x
Min		5.1x	5.0x	8.5x	11.5x

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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