

**Telecom Sector - October 2021**

Stable performance outlook for the sector

Sector Weighting:  
**NEUTRAL**  
**Preview 3Q 2021****MENA Telecommunication**

Etisalat and du are the market leaders in the UAE's mobile industry. The Government owns a majority of both companies. In early 2021, it was decided that foreigners' stakes in the two firms may be raised to attract more international investment. Etisalat and du have installed LTE networks with nationwide coverage, and the country's 5G penetration rate is second only to China. This has fuelled the expansion of the mobile broadband industry, allowing for rapid adoption of rich content and apps and m-commerce. The Government has authorized GSM networks to be closed and spectrum and other assets to be repurposed for 5G by the end of 2022 to boost the capacity of 5G networks in the future years and keep up with data demand. Fiber dominates the UAE's fixed-broadband network, with DSL being a modest and diminishing presence. The pandemic's breakout continues to have a substantial influence on worldwide manufacturing and supply networks. Mobile device manufacturing is anticipated to slow in the telecommunications industry to varying degrees, and network operators may find it difficult to manage workflows while upgrading current equipment. The financial impact of large-scale job losses and the resulting limitation on discretionary budgets is putting downward pressure on telecommunications services and gadgets spending. The importance of telecom services, both as a means of public communication and as a tool for working from home, would reduce such constraints.

Meanwhile, with a bit of futuristic thinking, Etisalat has confirmed that it has made significant progress toward the implementation of 6G by undertaking research and creating international standards that serve as the foundation for the 6G ecosystem. As the Internet of Things, which is currently a fundamental element of 5G, becomes an important driver in economic development, this technology may bring in transmission rates 100 times faster than 5G, with near-zero latency and connection densities as high as 10 million devices per square kilometer. Etisalat wants to be prepared; therefore, it's updating its R&D centre's tools and skills to help with 6G global standards through international fora and alliances. The operator is present in 16 locations, including Etisalat's home market, the UAE, which has made significant progress in 5G and fiber deployment, even though its geographical area is significantly less than that of many other nations, making extensive rollout much easier.

Saudi Arabia's telecom and ICT sectors continue to benefit from a variety of projects targeted at diversifying the economy and developing a larger digital transformation over the next decade. The expansion of 5G networks, which had covered around half of the population and most cities by mid-2021, has been a critical component of this. MNOs have prioritized upgrades to LTE infrastructure and the development of 5G. This is in part to increase income from mobile data services, as well as their commitment to the Vision 2030 initiative. The pandemic's breakout continues to have a major impact on production and supply networks across the world. During this time, the telecoms industry is likely to see a drop in mobile device and ICT equipment manufacturing to varying degrees. Demand for mobile and broadband services, on the other hand, is anticipated to increase as more individuals use the internet for work, leisure, education, telemedicine, and social purposes. During periods of limited travel due to the continuing epidemic, more individuals are working and learning from home. This has boosted mobile data traffic, while the Government has supported non-cash transactions, assisting in the expansion of the massive e-commerce industry. While fixed broadband penetration in Saudi Arabia is still low, the country has built one of the fastest services in the area because of a concentration of fibre infrastructure.

### Saudi Arabia's sovereign wealth fund will sell a portion of its interest in Saudi Telecom

Saudi Arabia's sovereign wealth fund (SWF) may sell a portion of its 70% interest in Saudi Telecom Co. (STC). More than half of the firm would be owned by the PIF. Based on STC's current market valuation, it can generate up to \$12.9 billion. International and local institutional investors, as well as regular investors, will be targeted in the anticipated deal. By broadening the company's investor base and raising its free float and weight in important international indexes, the sale will benefit all of STC's investors' mid and long-term value.

### Egypt and Africa to collaborate on the development of telecommunication infrastructure

Establishing the communications infrastructure and delivering Internet services at competitive costs, as well as developing the legal and regulatory framework, are some of the aspects that can help the African continent realize its objective. Egypt's participation in the development of communications infrastructure with African countries. This includes launching a project via Telecom Egypt, which delivers high-quality, high-speed Internet services to African countries, as well as several other Egyptian programs throughout Africa to help them achieve Internet and digital inclusion. With a growth rate of 16%, the communications and information technology industry is the country's fastest-growing sector, while a huge project is underway to deliver high-speed internet to one million people as part of the "Decent Life" initiative's first phase.

### For Aswaaq, du will deploy an SD-WAN solution

Aswaaq LLC, a known local brand that provides high-quality retail sector services, has announced a new cooperation with du to install a cutting-edge SD-WAN solution in their major locations. The cooperation between the two companies was finalized at GITEX Technology Week 2021 and will see du take over as the front-end service provider for a managed SD-WAN solution. The firm will benefit from centralized administration, software-defined branch management, and rapid and easy implementation. Reduced operational expenses, greater bandwidth availability, application-based prioritization, and secure connectivity would all benefit customers.

### Saudi Telecom's credit rating has been upgraded by Moody's

Despite the challenges, Moody's Investor Service has raised Saudi Telecom Company's (STC) baseline credit assessment from a2 to a1, highlighting the company's excellent financial indicators. The rating agency also confirmed the state-controlled company's long-term issuer rating, which is Saudi Arabia's largest telecom operator. STC has developed a robust financial position over the years and is well-positioned to take advantage of development possibilities in the kingdom's telecom and information and communications technology (ICT) markets. As of June 2021, the firm has 7.7 billion riyals (\$2.2 billion) in unrestricted cash and cash equivalents. It also holds 2.9 billion riyals in short-term Murabaha and 3.9 billion riyals in investments in a Sukuk issued by Saudi Arabia's Government, which it can liquidate.

### MENA telecoms rating summary

	ETISALAT	DU	STC	MOBILY	ETEL
Rating	<b>REDUCE</b>	<b>ACCUMULATE</b>	<b>HOLD</b>	<b>HOLD</b>	<b>BUY</b>
Local currency	AED	AED	SAR	SAR	EGP
Target price	23.00	7.50	120.00	29.85	18.70
CMP	25.12	6.56	117.6	30.25	13.6
Potential change (%)	-8.4%	14.3%	2.0%	-1.3%	37.5%

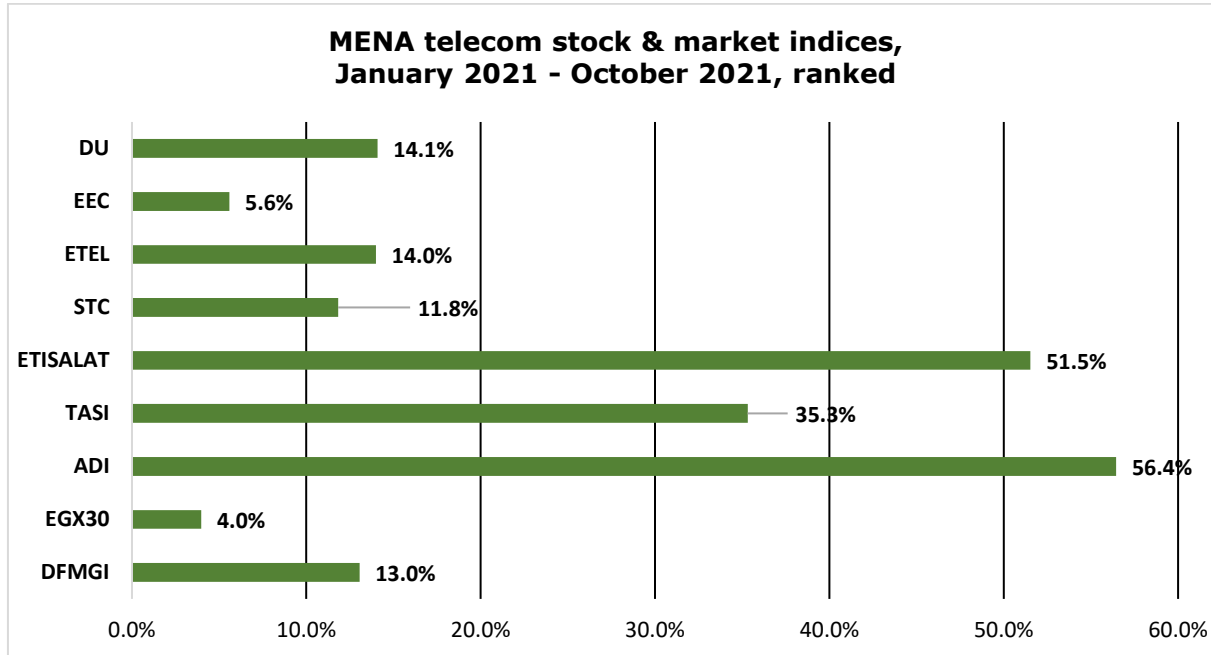
FABS Estimates & Co data

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**Telecom stock performance in the YTD**

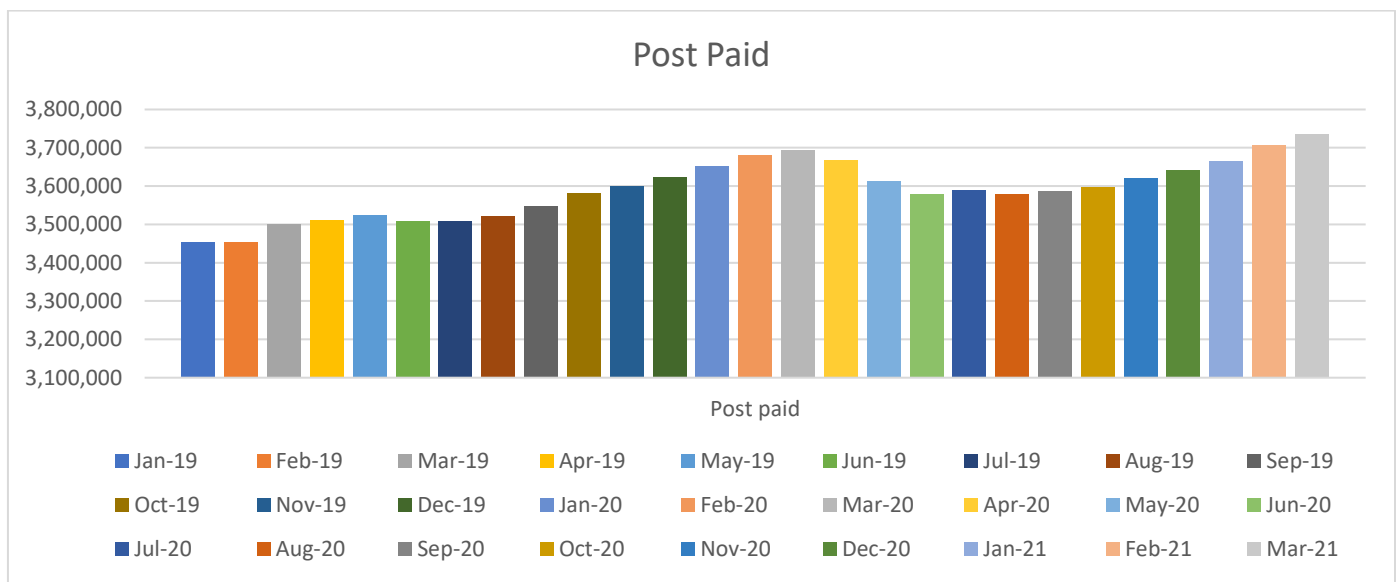
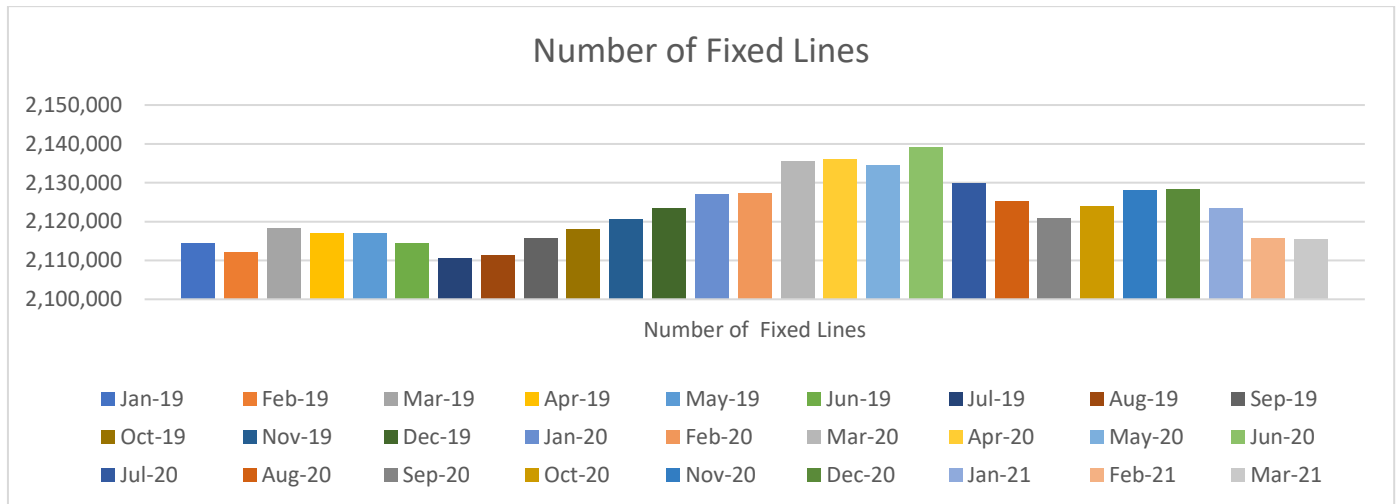
Etisalat stood at the top rank with 51.5%, while EEC came in last with an increase by 5.6%. Etisalat emerged as the top performer (#1) among the telecom stocks under our coverage as of 18 October 2021 by rising by 51.5%. Following Etisalat is DU at #2 (14.1%) and ETEL at #3 (14%).

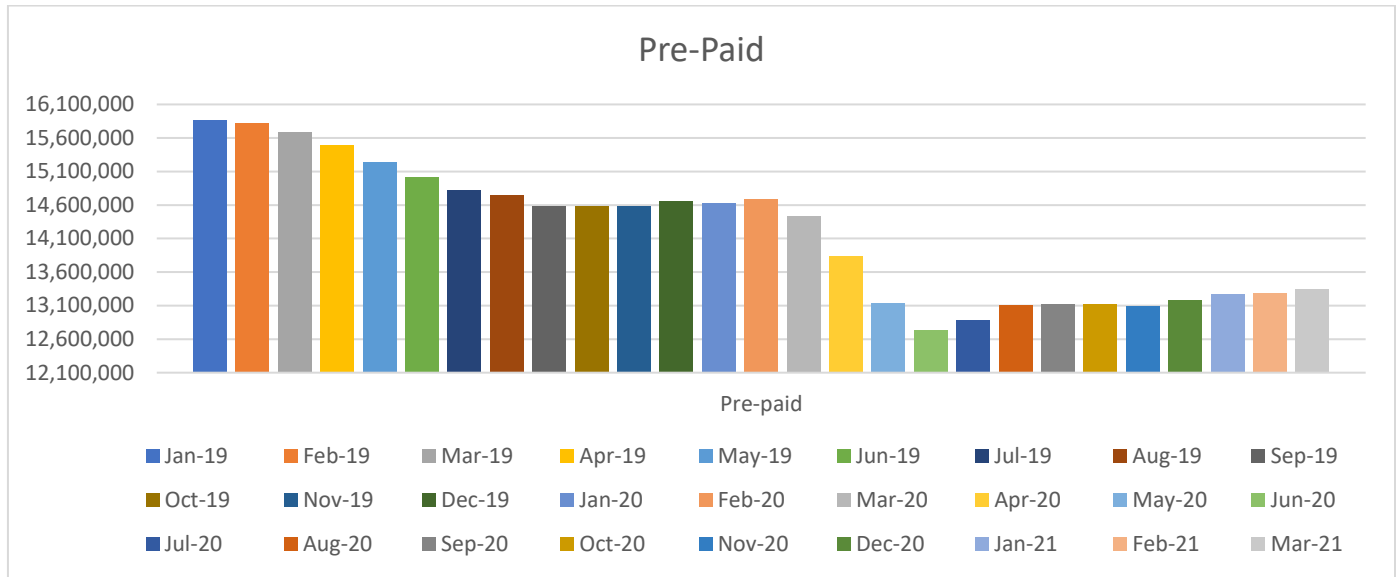


Source: Bloomberg

**Statistical Data**

The Number of fixed lines decreased by 0.94% to 2,115,353 in March 2021 from 2,135,473 in March 2020. Post-paid plan increased by 1.11% to 3,735,880 in March 2021 from 3,694,952 in March 2020. Pre-paid has decreased by 7.61% in March 2021 reaching 13,339,308 from 14,438,735 in March 2020.





Source: TRA

## Relative valuation and rating

Among the telecom stocks we cover, the PE falls between 23.58x (ETISALAT) and 3.99x (ETEL). The EV/EBITDA ranges from 9.68x (STC) and 3.49x (ETEL). ETEL's expected 2021 dividend yield is the highest at 5.5%, while we estimate Mobily to pay no dividend in 2021. ETEL has the lowest PB multiple of 0.58x. EEC and ETEL net debt/EBITDA stood at 2.36x and 1.67x.

### Relative Valuation

	ETISALAT	DU	STC	EEC	ETEL
CMP (LCY)	25.12	6.56	117.6	30.25	13.6
Number of shares (mm)	8697	4533	1997	770	1707
Market cap (LCY mm)	218462	29736	235200	23293	23216
Market cap (US\$ mm)	59478	8096	62705	6210	1478
Gross debt (LCY mm)	29486	2309	14563	14089	20287
Cash (LCY mm)	32420	2261	19619	1229	2003
Net debt/-cash (LCY mm)	-2934	48	-5056	12859	18284
Non-controlling interest	11516	0	1321	0	16
EV	232309	31148	236565	36105	44719
EBITDA (2020)	20552	2995	21490	5336	11063
BVPS (2020)	5.42	1.85	32.01	18.89	23.43
EPS (2020)	1.04	0.32	5.50	1.02	2.35
DPS (2020)	0.80	0.28	4.00	0.50	0.50
EV/EBITDA (x)	7.46	8.68	9.68	6.51	3.49
P/BV (x)	4.63	3.55	3.67	1.60	0.58
PER (x)	23.58	21.82	21.12	24.81	3.99
Dividend yield	3.2%	3.8%	3.4%	0.0%	5.5%
Payout ratio	115.6%	88.0%	90.9%	49.2%	21.2%
Net debt/EBITDA (x)	0.13	0.47	0.01	2.36	1.67

Source: FABS from Bloomberg

### Market Weight

With 1x BUY, 1x ACCUMULATE, 2x HOLDs, and 1x REDUCE we remain NEUTRAL on MENA telecoms.

### MENA telecoms rating summary

	ETISALAT	DU	STC	MOBILY	ETEL
Rating	<b>REDUCE</b>	<b>ACCUMULATE</b>	<b>HOLD</b>	<b>HOLD</b>	<b>BUY</b>
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Potential change (%)	<b>-8.4%</b>	<b>14.3%</b>	<b>2.0%</b>	<b>-1.3%</b>	<b>37.5%</b>

FABS Estimates & Co data

### 3Q21 preview: Etisalat Group

Growth in Revenue and a decline in Impairment supports

CMP(AED):25.12

Potential upside (%): -8.4%

12-m target price:

**AED 23.00**

Stock rating:

**REDUCE**

### 3Q21 Estimate

Etisalat is expected to increase its Net Profit by 9.2% YOY to AED2,634 Mn in 3Q21, up from AED2,412 in 3Q20. The Revenue is expected to increase by 6.4% YOY to AED13,877 Mn in 3Q21, up from AED13,039 Mn in 3Q20. The Operating Expenses are likely to increase by 7% YOY to AED6,661 Mn in 3Q21, up from AED6,226 Mn in 3Q20. The Impairment charges are likely to decline by 4% YOY to AED256 Mn in 3Q21, down from AED267 Mn in 3Q20. The EBITDA level is expected to increase by 6.3% YOY to AED6,959 Mn in 3Q21, up from AED6,546 Mn in 3Q20. The Federal Royalty is expected to increase by 3.5% YOY to AED1,526 Mn in 3Q21, up from AED1,475 Mn in 3Q20. The Depreciation charges are expected to increase by 27.2% YOY to AED1,943 Mn in 3Q21, up from AED1,527 Mn in 3Q20. The Share of associates and Joint Ventures is likely to increase by 22.3% YOY to AED71 Mn in 3Q21, up from AED57.7 Mn in 3Q20. The Operating Profit is expected to decline by 1.1% YOY to AED3,561 Mn in 3Q21, down from AED3,601 Mn in 3Q20. The Finance Income is expected to increase by 19.4% YOY to AED295 Mn in 3Q21, up from AED247 Mn in 3Q20. The Finance Cost is likely to decline strongly by 57.2% YOY to AED210 Mn in 3Q21, down from AED491 Mn in 3Q20. The Tax charges are expected to increase by 38% YOY to AED565 Mn in 3Q21, up from AED409 Mn in 3Q20. The NCI is expected to decline by 16.6% YOY to AED447 Mn in 3Q21, down from AED536 Mn in 3Q20. As a result, the Net Profit is expected to decline by 9.2% YOY to AED2,634 Mn in 3Q21, up from AED2,412 Mn in 3Q20.

### 2021 Forecast

Etisalat is expected to report a 12.4% YOY increase in Net Profit to AED10,145 Mn in 2021, up from AED9,027 Mn in 2020. The Revenue is expected to increase by 6.1% YOY to AED54,882 Mn in 2021, up from AED51,708 Mn in 2020. The Operating Expenses are expected to increase by 10.2% YOY to AED26,373 Mn in 2021, up from AED23,940 Mn in 2020. The Impairment charges are expected to decline by 34.6% YOY to AED952 Mn in 2021, down from AED1,456 Mn in 2020. The EBITDA is expected to increase by 4.7% YOY to AED27,557 Mn in 2021, up from AED26,312 Mn in 2020. The Federal Royalty is likely to increase by 6% YOY to AED5,932 Mn in 2021, up from AED5,594 Mn in 2020. The Depreciation charges are likely to increase by 0.9% YOY to AED7,969 Mn in 2021. The Operating Profit is expected to increase by 7% YOY to AED13,930 Mn in 2021, up from AED13,015 Mn in 2020. The Finance Income is expected to decline by 2.3% YOY to AED1,087 Mn in 2021, down from AED1,112 Mn in 2020. The Finance Cost is expected to decrease by 57.4% YOY to AED1,005 Mn in 2021, down from AED2,361 Mn in 2020. The Tax charges are expected to increase by 41.7% YOY to AED2,055 Mn in 2021, up from AED1,451 Mn in 2020. The NCI is expected to increase by 40.5% YOY to AED1,812 Mn in 2021, up from AED1,289 Mn in 2020. As a result, the Net Profit is expected to increase by 12.4% YOY to AED10,145 Mn in 2021, up from AED9,027 Mn in 2020.

### 2Q21 outturn

The Total Revenue increased by 5.8% YOY to AED13.21 Bn in 2Q21 as compared to AED12.49 Bn in 2Q20. The Operating Expenses increased as well by 6.1% YOY to AED6.37 bn in 2Q21 from AED6 Bn in 2Q20. The Impairment charges reduced significantly by 25.1% YOY to AED247 Mn in 2Q21 as compared to AED329 Mn in 2Q20. These changes have increased the EBITDA by 7.1% YOY to AED6.59 Bn in 2Q21 from AED6.15 Bn in 2Q20. The Operating Profit slightly increased by 0.6% YOY to AED3.269 Bn, despite the increase in Depreciation and Amortization Expenses by 36.7% from AED1.44 Bn in 2Q20 to AED1.97 Bn in 2Q21. The Profit before tax increased by 21% YOY to AED3.35 Bn in 2Q21 from AED2.76 Bn in 2Q20 despite the decrease in Finance Income by 19.9% to AED284Mn in 2Q21 from AED355 Mn in



2Q20, which was mitigated by a substantial decrease in Income Cost by 75.8% reaching AED202 Mn in 2Q21 from AED835 Mn in 2Q20. On the other hand, the Tax Expense increased drastically YOY to AED530 Mn in 2Q21 from AED239 Mn in 2Q20. Net Profit for the second quarter is AED2.395 Bn compared to AED2.388 Bn in 2Q20, an increase by 0.3% YOY. Total Assets increased by 2.7% YOY to AED125 Bn in 2Q21 from AED122 Bn in 2Q20. Total Equity increased by 5.44% YOY to AED58.35 Bn in 2Q21 from AED55.34 Bn in 2Q20. Total Liabilities increased by 0.49% from AED66.55 Bn in 2Q20 to AED66.87 Bn in 2Q21.

### Target price and recommendation

We revise our rating to REDUCE with a target price of AED23.00. Etisalat Group is one of the leading telecommunication companies in the MENA region with operations in different countries and a strategic expansion through subsidiaries. Etisalat raised its holding of Etisalat Investment North Africa to 100% by acquiring the 8.7% share in EINA held by the Abu Dhabi Fund for Development. Etisalat Group now owns 53% of Maroc Telecom Group, up from 48.4% before the purchase. Prior to the transaction's conclusion, the purchase cost of roughly \$505 million is susceptible to vary based on current market conditions such as foreign exchange rates. Because of the smaller minority interest in the group's consolidated performance, Etisalat Group's consolidated net earnings will improve, and future dividends from Maroc Telecom Group may grow. The Abu Dhabi-based firm serves more than 156 million consumers in 16 countries spanning the Middle East, Asia, and Africa, meanwhile, Maroc Telecom has a presence in 11 West African nations. As at end of 2Q21, the Group has witnessed subscriber growth in mobile post-paid and eLife segments. In 2Q21 the group has reported Revenues for AED 13.2 Bn from AED 12.49 Bn, an increase by 5.8% YOY, this increase is attributable to both domestic and international operations. UAE constitutes 56% of Total Revenues in 2Q21 followed by Maroc Telecom (MT) constituting 26% of the total. Higher Revenue and more cost efficiency drove EBITDA higher by 7.1% YOY to reach AED 6.6 Bn in 2Q21 from AED 6.15 Bn in 2Q20 with increase in EBITDA margin by 279 bps to 49.9% in 2Q21. The highest growth in Revenues was reported in Egypt by 27% YOY attributable to strong growth in mobile data and wholesale, followed by an increase by 16% of Revenues in Pakistan and 8% increase in Revenues reported by MT due to favourable exchange rate changes along the growth in international subsidiaries. Net Profit also increased by 0.3% in 2Q21 to AED 2.395 Bn from AED 2.388 Bn in 2Q20, mainly due to the increase in Revenues, better contribution from associates, lower Net Financing Costs and lower Impairment charges, while maintaining a Net Profit Margin of 18.1% with a marginal decrease of 1% YOY. On the other hand, Capital Expenditures (CAPEX) increased in 2Q21 by 6% as compared to 2Q20 reaching AED 1.6 Bn supporting the growth in traffic and network coverage mainly due to international operations while the UAE maintained a lower capital spending and was focused on network maintenance and capacity extension. It is worth noting that the CAPEX-to-Revenue ratio remained stable at 12% as compared to 2Q20. The Group has expanded its customer base by 7% and has maintained Revenue growth despite all the challenges throughout the year. Etisalat Group managed to maintain a strong balance sheet with low leverage despite the decrease in Total Assets from AED 133 Bn as at end of 2020 to AED 125 Bn in 2Q21 and a decrease in Total Debt from AED 26.7 Bn in December 2020 to AED 24.47 Bn in 2Q21 and a decrease as well in Total Equity from AED 60.55 Bn as at end of 2020 to AED 58.35 Bn in 2Q21. The proposed cash DPS with respect to 2Q21 performance is AED 0.4 with a total of AED 3.48 Bn to be paid. The group has a rating of AA-, stable by S&P Global and Aa3 stable by Moody's. We assign a REDUCE rating to Etisalat.

### Etisalat - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	22.02	21.58	21.36	20.54	18.41
P/B (x)	4.18	4.13	3.99	3.79	3.18
Dividend yield	3.7%	3.7%	3.7%	3.7%	3.7%

FABS estimate and Co Data

**Etisalat – P&L**

<b>(AED mm)</b>	<b>3Q20</b>	<b>2Q21</b>	<b>3Q21F</b>	<b>YOY ch</b>	<b>QOQ ch</b>	<b>2020</b>	<b>2021F</b>	<b>Change</b>
Revenue	13,039	13,216	13,877	6.4%	5.0%	51,708	54,882	6.1%
Operating expenses	-6,226	-6,377	-6,661	7.0%	4.5%	-23,940	-26,373	10.2%
Impairment	-267	-247	-256	-4.0%	4.0%	-1,456	-952	-34.6%
<b>EBITDA</b>	<b>6,546</b>	<b>6,592</b>	<b>6,959</b>	<b>6.3%</b>	<b>5.6%</b>	<b>26,312</b>	<b>27,557</b>	<b>4.7%</b>
Federal royalty	-1,475	-1,416	-1,526	3.5%	7.8%	-5,594	-5,932	6.0%
Depreciation, Amortization	-1,527	-1,976	-1,943	27.2%	-1.7%	-7,900	-7,969	0.9%
Share of assoc. & JVs	57.7	68	71	22.3%	3.0%	197	273	38.3%
<b>Operating profit</b>	<b>3,601</b>	<b>3,269</b>	<b>3,561</b>	<b>-1.1%</b>	<b>8.9%</b>	<b>13,015</b>	<b>13,930</b>	<b>7.0%</b>
Finance income	247	284	295	19.4%	4.0%	1,112	1,087	-2.3%
Finance cost	-491	-202	-210	-57.2%	4.0%	-2,361	-1,005	-57.4%
<b>Profit before tax</b>	<b>3,357</b>	<b>3,350</b>	<b>3,646</b>	<b>8.6%</b>	<b>8.8%</b>	<b>11,766</b>	<b>14,012</b>	<b>19.1%</b>
Tax	-409	-530	-565	38.0%	6.6%	-1,451	-2,055	41.7%
<b>Profit after tax</b>	<b>2,948</b>	<b>2,820</b>	<b>3,081</b>	<b>4.5%</b>	<b>9.2%</b>	<b>10,316</b>	<b>11,957</b>	<b>15.9%</b>
Non-controlling int.	-536	-425	-447	-16.6%	5.1%	-1,289	-1,812	40.5%
<b>Net profit</b>	<b>2,412</b>	<b>2,395</b>	<b>2,634</b>	<b>9.2%</b>	<b>10.0%</b>	<b>9,027</b>	<b>10,145</b>	<b>12.4%</b>

*FABS estimate & Co Data*

<b>Etisalat – Margins</b>	<b>3Q20</b>	<b>2Q21</b>	<b>3Q21F</b>	<b>YOY ch</b>	<b>QOQ ch</b>	<b>2020</b>	<b>2021F</b>	<b>Change</b>
Gross Margin	52.3%	51.7%	52.0%	-25	25	53.7%	51.9%	-175
Operating margin	50.2%	49.9%	50.2%	-5	27	50.9%	50.2%	-67
Net Profit margin	27.6%	24.7%	25.7%	-196	93	25.2%	25.4%	21

*FABS estimate & Co Data*

## 2Q21 preview: Etihad Etisalat Co.

Increase in Gross profit to support earnings

CMP (SAR): 30.25

Potential upside (%): -1.3%

12-m target price:

**SAR29.85**

Stock rating:

**HOLD**

## 3Q21 Estimate

Etihad Etisalat (Mobily) is estimated to report an increase by 18.7% YOY in Net Profit to SAR263 in 3Q21 from SAR222 Mn in 3Q20, mainly due to an 8.1% YOY increase in Gross Profit to SAR2.22 Bn in 3Q21 from SAR2.05 Bn in 3Q20 and a significant increase by 37.2% YOY in Operating Profit to SAR509 Mn from SAR371 Mn in 3Q20. Sales are expected to rise by 15.1% YOY to SAR3.86 Bn in 3Q21 from SAR3.35 Bn in 3Q20, whereas Direct Costs are also expected to increase by 26% YOY to SAR1.64 Bn in 3Q21 up from SAR2.3 Bn in 3Q20. EBITDA is expected to increase by 10.9% YOY to SAR1.5 Bn in 3Q21 from SAR1.35 Bn in 3Q20, mainly due to an anticipated increase in Sales and improvement in Operational performance. We forecast a slight rise of Selling and Overhead Expenses by 2.7% YOY to SAR721 Mn in 3Q21 from SAR702 Mn in 3Q20. Financial Charges are expected to fall by 4.4% YOY to SAR128 Mn in 3Q21 from SAR134 Mn in 3Q20. Zakat Expenses are expected to tremendously increase YOY to SAR22 Mn in 3Q21 compared to SAR3 Mn in 3Q20.

## 2021 Forecast

Mobily's Net Profit is expected to increase by 30.4% YOY to SAR1,021 Mn in 2021 from a Net Profit of SAR783 Mn in 2020. This is mainly due to an expected increase in Gross Profit and Operating Profit. Sales are expected to increase by 8.2% YOY to SAR15.20 Bn in 2021 from SAR14.05 Bn in 2020. Moreover, Direct Costs are expected to rise by 9.5% YOY to SAR6.45 Bn in 2021 from SAR5.89 Bn in 2020. Subsequently, the Gross Profit is projected to increase by 7.4% YOY to SAR8.75 Bn in 2021 from SAR8.15 Bn in 2020 with a Gross Profit margin of 57.6% as of 2021 almost the same as 2020 with an insignificant decrease by 47 bps. The Operating Profit is expected to rise significantly by 40% YOY to SAR1.95 Bn in 2021 from SAR1.39 Bn in 2020, with an increase by 291 bps in OPM to 12.8% compared to 9.9% in 2020. EBITDA is forecasted to increase by 10.8% YOY to SAR5.93 Bn in 2021 up from SAR5.35 Bn in 2020. Selling and Overhead Expenses are estimated to insignificantly increase by 0.9% YOY to reach SAR2.82 Bn in 2021 up from SAR2.79 Bn in 2020. Impairment Loss on account will tremendously increase YOY to SAR346 Mn in 2021 compared to SAR15 Mn in 2020. Finally, Zakat Expenses are expected to rise by 86.6% to SAR80 Mn in 2021 compared to SAR43 in 2020.

## 2Q21 Outturn

Sales increased by 4.8% YOY to SAR3.72 Bn in 2Q21 from SAR3.55 Bn in 2Q20. Direct Costs increased by 5.6% YOY to SAR1.58 Bn in 2Q21 from SAR1.49 Bn in 2Q20. Resultantly, the Gross Profit increased by 4.1% YOY to SAR2.14 Bn in 2Q21 from SAR2.06 Bn in 2Q20. EBITDA increased by 6.8% YOY to SAR1.45 Bn in 2Q21 from SAR1.36 Bn in 2Q20, as a result of improved efficiency in managing its Selling and Overhead Expenses witnessing a decrease by 1.1% to SAR694 Mn in 2Q21 compared to SAR702 Mn in 2Q20. Financial charges decreased by 12.5% YOY to SAR121 Mn in 2Q21 from SAR139 Mn in 2Q20, reflecting the company's efforts to lower funding cost. Total Impairment loss increased significantly to SAR113 Mn in 2Q21 from SAR18 Mn in 2Q20. Zakat Expenses increased by 16.6% YOY to SAR20 Mn in 2Q21 from SAR17 Mn in 2Q20. Total Assets decreased by 2.06% YOY to SAR38.16 Bn in 2Q21 from SAR38.96 Bn in 2Q20. Total Liabilities declined by 5.31% YOY to SAR23.61 Bn in 2Q21 from SAR24.94 Bn in 2Q20. On the other hand, Total Equity increased by 3.72% YOY to SAR14.52 Bn in 2Q21 compared to SAR14 Bn in 2Q20.

### Target price and recommendation

We assign a HOLD rating on Mobily with a target price of SAR29.85. Mobily has ranked first in 2Q21 when it comes to the regulatory compliance index of the communications and information technology commission (CITC), and it continued to record the lowest number of complaints over the past 2 years. Nevertheless, the 3M SAIBOR fell even more by reaching 2Q21 to 0.79%. Furthermore, Mobily has achieved the highest Revenues in 5 years, reaching SAR3.73 Bn in 2Q21, an increase by 4.8% YOY. This increase in Revenues is driven by the growth in business units and FTTH active base. EBITDA increased as well by 0.7% YOY to SAR1.34 Bn, which is mainly due to the performance development and maintaining good EBITDA margin. 1H21 reported an increase in EBITDA by 3.4% compared to 1H20 reaching SAR2.7 Bn compared to SAR2.62 Bn same period last year. CAPEX has decreased significantly YOY by 53% reaching SAR270 Mn in 2Q21 compared to SAR575 Mn in 2Q20 and CAPEX/Revenues decreased in 2Q21 to 7.2% from 16.2% in 2Q20. Worth noting that 1H21 Capex has decreased substantially by 58.2% as compared to 1H20. This huge fall in CAPEX is due to the aggressive CAPEX investments to implement the 5G services in the previous year. The company has strong operational cash flow generation, which is boosted by better EBITDA margins as well to reach an operational cash flow of SAR1 Bn in 2Q21 up from SAR760 Mn in 2Q21, a tremendous increase by 41.3% YOY. The company has reached a healthy net debt level reflected by the decrease in financial charges to SAR248 Mn in 1H21, a decrease by 17.6% compared to 1H20 with financial charges falling by 12.5% YOY to SAR121 Mn. All of this improvement was reflected on Mobily's bottom line which increased YOY by 31.7% reaching SAR244 Mn up from SAR185 Mn in 2Q20 given the consistent growth in Revenues, strong EBITDA and healthy EBITDA margins along with the efficient management of the operations on the company level. The annual general assembly has approved a cash dividend on 23 May 2021 for SAR385 Mn which was paid on 6 June 2021 to stakeholders. We believe all these achievements are vital in demonstrating Mobily's financial performance and future outcome. Therefore, we assign a HOLD rating on the stock.

### Mobily – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	-32.88	-189.06	756.25	29.66	20.75
P/B (x)	1.63	1.68	1.69	1.61	1.59
Dividend yield	0.0%	0.0%	0.0%	1.7%	2.0%

FABS Estimates & Co Data

### Mobily - P&L

SAR mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Sales	3,355	3,728	3,860	15.1%	3.5%	14,046	15,205	8.2%
Direct costs	-1,299	-1,581	-1,637	26.0%	3.5%	-5,894	-6,451	9.5%
<b>Gross profit</b>	<b>2,056</b>	<b>2,147</b>	<b>2,223</b>	<b>8.1%</b>	<b>3.5%</b>	<b>8,152</b>	<b>8,754</b>	<b>7.4%</b>
Selling & overhead exp	-702	-694	-721	2.7%	3.8%	-2,798	-2,823	0.9%
<b>EBITDA</b>	<b>1,354</b>	<b>1,453</b>	<b>1,502</b>	<b>10.9%</b>	<b>3.4%</b>	<b>5,355</b>	<b>5,931</b>	<b>10.8%</b>
D & A	-993	-961	-1,004	1.1%	4.5%	-3,970	-4,008	1.0%
Other income	10	5	10	4.8%	NM	11	30	NM
<b>Operating profit</b>	<b>371</b>	<b>497</b>	<b>509</b>	<b>37.2%</b>	<b>2.4%</b>	<b>1,396</b>	<b>1,953</b>	<b>40.0%</b>
Investment & other income	3	1	1	-60.3%	-19.9%	21	5	-77.6%
Impairment loss on accounts	-15	-113	-96	NM	-15.0%	-15	-346	NM
Impairment loss on property and equipment	0	0	0	NM	NM	-14	0	-100.0%
Financial charges	-134	-121	-128	-4.4%	5.4%	-561	-511	-9.0%
<b>Profit before zakat</b>	<b>225</b>	<b>263</b>	<b>285</b>	<b>26.9%</b>	<b>8.3%</b>	<b>826</b>	<b>1,101</b>	<b>33.3%</b>
Zakat	-3	-20	-22	NM	12.5%	-43	-80	86.6%
<b>Profit attributable</b>	<b>222</b>	<b>244</b>	<b>263</b>	<b>18.7%</b>	<b>8.0%</b>	<b>783</b>	<b>1,021</b>	<b>30.4%</b>

FABS estimate & Co Data

**Margins**

SAR mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Gross margin	61.3%	57.6%	57.6%	-368	0	58.0%	57.6%	-47
Operating margin	11.0%	13.3%	13.2%	213	-15	9.9%	12.8%	291
Net profit margin	6.6%	6.5%	6.8%	21	28	5.6%	6.7%	114

*FABS estimate & Co Data*

### 3Q21 preview: Saudi Telecom Company

Initiatives in technology to boost revenue and profitability

CMP (SAR): 117.6

Potential upside (%): -2.0%

12-m target price:

**SAR120.00**

Stock rating:

**HOLD**

#### 3Q21 Estimate

STC is estimated to report a profit of SAR2.91 Bn in 3Q21, an increase by 5.3% YOY from SAR2.76 Bn in 3Q20, leading the Net Profit Margin to decrease by 53 bps to 18.1% in 3Q21 from 18.6% in 3Q20. We forecast a decrease by 5.4% YOY in Gross Profit to SAR8.48 Bn in 3Q21 from SAR8.97 Bn in 3Q20, led by an expected growth by 8.4% YOY in the Revenues to SAR16.13 Bn in 3Q21 outweighed by an increase by 29.4% in Direct Costs to SAR7.64 Bn in 3Q21 from SAR5.91 Bn in 3Q20. The expected decrease in the Gross Profit will lead to a decrease by 768 bps in the GPM to 52.6% in 3Q21 compared to 60.3% in 2Q20. STC is likely to report a slight decrease of 1.1% YOY in EBITDA to SAR5.72 Bn in 3Q21 as compared to SAR5.78 Bn in 3Q20. Operating Profit Margin (OPM) is expected to fall to 20.7% in 3Q21 from 23.2% in 3Q20, a decrease by 258 Bps YOY. Other Expenses are likely to decrease by 65.8% to SAR95 Mn in 3Q20 down from SAR277 Mn in 3Q20, Financial Charges are likely to increase by 3.7% YOY to SAR152 Mn in 3Q21 from SAR147 Mn in 3Q20 and Finance Income is expected to increase by 16.1% YOY to SAR100 Mn in 3Q21 from SAR86 Mn in 3Q20. The previous changes will lead to Profit Before Zakat to increase by 2.1% to SAR3.18 Bn in 3Q21 up from SAR3.12 Bn in 3Q20. Zakat Expenses is expected to decrease by 22.5% YOY to SAR222 Mn in 3Q21 from SAR287 Mn in 3Q20.

#### 2021 Forecast

STC's Net Profit is expected to increase by 6% YOY to SAR11.65 Bn in 2021 from SAR10.99 Bn in 2020. Revenues are expected to increase by 8.6% YOY in 2021 to SAR64.04 Bn from SAR58.95 Bn in 2020, and Direct Costs will also increase by 20.1% YOY reaching SAR30.03 Bn in 2021 from SAR24.99 Bn in 2020. Subsequently, the Gross Profit is expected to insignificantly increase by 0.2% YOY to SAR34.01 Bn in 2021 from SAR 33.95 Bn in 2020 with a Gross Profit Margin of 53.1% in 2021 from 57.6% in 2020, a decrease by 449 Bps. Selling & Overhead Expenses and General & Administrative Expenses are both expected to decrease by 1.3% and 13.6% respectively to SAR5.97 Bn and SAR5.02 Bn in 2021 down from SAR6.05 Bn and SAR5.81 Bn in 2020 respectively, which will lead to EBITDA increasing by 4.2% YOY to SAR23.01 Bn in 2021 up from SAR22.09 Bn in 2020. Operating Profit will increase by 5.8% YOY to SAR13.47 Bn in 2021 from SAR12.73 Bn in 2020, leading to a decrease by 56 Bps in the OPM to 21% from 21.6% in 2020. Finance Income is likely to decrease by 4.4% YOY to SAR396 Mn in 2021 from SAR414 Mn in 2020, and Financial Charges are also likely to increase by 3.9% to SAR600 Mn in 2021 from SAR624 Mn in 2020. Zakat expenses are estimated to decrease by 12.6% in 2021 to SAR1.02 Bn down from SAR1.17 Bn in 2020.

#### 2Q21 Outturn

Sales increased by 6.6% YOY to SAR15,899 Mn in 2Q21 from SAR14,920 Mn in 2Q20. This is mainly due to the high demand for STC's diverse products & services, and the firm's ability to meet this demand efficiently. Furthermore, Direct Costs increased by 14.7% YOY to SAR7,547 Mn in 2Q21 from SAR6,579 Mn in 2Q20. As a result, the Gross Profit slightly increased by 0.1% YOY to SAR8,352 Mn in 2Q21 from SAR8,341 Mn in 2Q20. Selling and Marketing Expenses decreased by 4.6% YOY to SAR1,520 Mn in 2Q21 from SAR1,593 Mn in 2Q20. General & Admin Expenses decreased by 14.3% YOY to SAR1,206 Mn in 2Q21 from SAR1,406 Mn in 2Q20. The Depreciation and Amortization increased by 4.2% YOY to SAR2,376 Mn in 2Q21 from SAR2,279 Mn in 2Q20. Operating Profit increased by 6.1% YOY to SAR3,250 Mn in 2Q21 from SAR3,062 Mn in 2Q20. Zakat and Income tax decreased to SAR220 Mn in 2Q21 from SAR235 Mn in 2Q20, a decrease of 6.7% YOY. Total Assets decreased insignificantly by 0.2% to SAR119.27 Bn in 2Q21 from SAR119.5 bn in 2Q20. Total Liabilities rose by 2.28% to SAR54.1 Bn in 2Q21 from SAR55.36 Bn in 2Q20. Total equity increased to SAR65.16 Bn in 2Q21 from SAR64.13 Bn in

2Q20.

### Target price and recommendation

We maintain a HOLD rating on Saudi Telecom Company, with a target price of SAR120. STC's strategy since the beginning of 2021 was to digitalize its services and internal operations, given the global situation, through transforming the company into a technology company and encourage new ways of working while spreading a digital mindset. It has launched its STCPay application which has more than 6 Mn registered users benefiting from a full online banking service. STC has also been trying to maximize shareholder returns by minimizing its costs while expanding its market share by being a leader for sustainability and corporate governance, so it achieves its main goal of becoming an employer of choice. STC is providing multiple services all over KSA with its subscriber base increasing continuously, while supporting e-commerce and increasing the contribution in the non-oil GDP while developing and activating KSA's transactions based on a common infrastructure. In 2021, STC launched the Advanced Technology and Cybersecurity company with STC brand reaching USD9.2 Bn as it is ranked the most valuable brand amongst telecom companies in the region. In March 2021, STC launched its Digital Control Centre with the largest integrated operating centre in the region. STC is ranked as the top Telecom company in the MENA region and has the number one 5G coverage with more than 4000 towers in more than 47 cities. STC has reached its highest quarterly and semi-annual Revenues in its history by recording SAR15.9 Bn Revenues in 2Q21 from SAR 14.92 Bn in 2Q20 and the Revenues as at end of 1H21 reached 31.59 Bn as compared to SAR28.86 Bn in 1H20. Gross profit slightly increased by 0.13% in 2Q21 to SAR8.35 Bn from SAR8.34 Bn in 2Q20 while gross margin reached 52.52% in 2Q21 as compared to 55.9% same period last year remaining healthy. EBITDA in its turn increased from SAR5.34 Bn in 2Q20 to SAR5.63 Bn in 2Q21, an increase by 5.34% with good EBITDA margin despite the insignificant decrease from 35.8% in 2Q20 to 35.41% in 2Q21. Net Income also increased from SAR2.72 Bn in 2Q20 to SAR2.82 Bn in 2Q21 with a slight decrease in the Net Profit margin to 17.74% as at end of 2Q21 from 18.26% in 2Q20. Net Profit for 1H21 reached SAR5.77 Bn as compared to SAR5.64 Bn in 1H20, an increase of 2.41% YOY. The Return on Assets (ROA) reached 9.26% in 2Q21 as compared to 9.01% as at end of 2020 with Return on Equity (ROE) of 17.2% as compared to 16.8% as at end of 2020. STC maintained its dividend distribution policy approved in 4Q18, of paying SAR1 per share per quarter which shows healthy cash flows and stable performance, despite the COVID-19 situation in 2Q21 the company records a 3.04% Dividend Yield as compared to 4.04% in 2Q20. Further, the company is considering paying more Dividends which will be subject to Board approval after assessing the financial position of the company along its outlook and CAPEX requirements. Earnings Per Share (EPS) increased to 1.41 in 2Q21 as compared to 1.36 in 2Q20 but still below first quarter's EPS of 1.48. Therefore, we maintain a HOLD rating on the stock.

### STC – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	23.47	21.82	22.06	21.38	19.86
P/B (x)	0.27	0.28	0.26	0.27	0.26
Dividend yield	3.4%	3.4%	3.4%	3.4%	3.4%

FABS Estimates & Co data

**STC - P&L**

SAR mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2,020	2021F	Change
Sales	14,881	15,899	16,135	8.4%	1.5%	58,953	64,043	8.6%
Direct costs	-5,910	-7,547	-7,648	29.4%	1.3%	-24,999	-30,033	20.1%
<b>Gross profit</b>	<b>8,971</b>	<b>8,352</b>	<b>8,487</b>	<b>-5.4%</b>	<b>1.6%</b>	<b>33,954</b>	<b>34,010</b>	<b>0.2%</b>
Selling & overhead expenses	-1,749	-1,520	-1,545	-11.7%	1.7%	-6,054	-5,975	-1.3%
General & admin Exp.	-1,434	-1,206	-1,216	-15.2%	0.8%	-5,811	-5,023	-13.6%
<b>EBITDA</b>	<b>5,788</b>	<b>5,627</b>	<b>5,726</b>	<b>-1.1%</b>	<b>1.8%</b>	<b>22,090</b>	<b>23,012</b>	<b>4.2%</b>
Depreciation & amortization	-2,328	-2,376	-2,392	2.7%	0.7%	-9,359	-9,538	1.9%
<b>Operating profit (EBIT)</b>	<b>3,460</b>	<b>3,250</b>	<b>3,334</b>	<b>-3.6%</b>	<b>2.6%</b>	<b>12,731</b>	<b>13,475</b>	<b>5.8%</b>
Other income/(expenses)	-277	-101	-95	-65.8%	-6.1%	-165	-394	NM
Finance Income	86	91	100	16.1%	10.1%	414	396	-4.4%
Financial charges	-147	-148	-152	3.7%	2.7%	-624	-600	-3.9%
<b>Profit before zakat</b>	<b>3,122</b>	<b>3,092</b>	<b>3,187</b>	<b>2.1%</b>	<b>3.1%</b>	<b>12,356</b>	<b>12,876</b>	<b>4.2%</b>
Zakat	-287	-220	-222	-22.5%	1.3%	-1,170	-1,023	-12.6%
<b>Profit before NCI</b>	<b>2,834</b>	<b>2,872</b>	<b>2,965</b>	<b>4.6%</b>	<b>3.2%</b>	<b>11,185</b>	<b>11,854</b>	<b>6.0%</b>
NCI	-69	-51	-52	-24.8%	1.5%	-190	-204	7.1%
<b>Profit attributable</b>	<b>2,766</b>	<b>2,821</b>	<b>2,913</b>	<b>5.3%</b>	<b>3.2%</b>	<b>10,995</b>	<b>11,650</b>	<b>6.0%</b>

FABS estimate & Co Data

**Margins**

SAR mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2,020	2021F	Change
Gross margin	60.3%	52.5%	52.6%	-768	7	57.6%	53.1%	-449
Operating margin	23.2%	20.4%	20.7%	-258	22	21.6%	21.0%	-56
Net profit margin	18.6%	17.7%	18.1%	-53	31	18.7%	18.2%	-46

FABS estimate & Co Data



### 3Q21 preview: Telecom Egypt

Higher Net Operating Revenues support increase in Profit

CMP (EGP): 13.6  
Potential gain (%): +37.5%

12-m target price:

**EGP18.70**

Stock rating:

**BUY**

### 3Q21 Estimate

Telecom Egypt (ETEL) is estimated to report a 24.2% YOY increase in Net Profit to EGP1,830 Mn in 3Q21, up from EGP1,474 Mn in 3Q20. The Gross Profit is expected to increase by 42.2% YOY to EGP3,844 Mn in 3Q21, up from EGP2,703 Mn in 3Q20. The Operating Revenue is expected to increase by 23.7% YOY to EGP9,153 Mn in 3Q21, up from EGP7,402 Mn in 3Q20. The Operating Costs are likely to increase by 13% YOY to EGP5,309 Mn in 3Q21, up from EGP4,699 Mn in 3Q20. The Selling and Overhead expenses are likely to increase by 25.1% YOY to AEGP1,730 Mn in 3Q21, up from EGP1,383 Mn in 3Q20. The Net Operating Revenues are likely to increase by 7.4% YOY to EGP73 Mn in 3Q21, up from EGP68 Mn in 3Q20. As a result, the Operating Profit is expected to increase by 57.6% YOY to EGP2,188 Mn in 3Q21, up from EGP1,388 Mn in 3Q20. The Net Finance Income/Cost is likely to increase significantly to EGP357 Mn in 3Q21, up from EGP46 Mn in 3Q20. The Zakat charges are likely to increase by 47.9% YOY to EGP631 Mn in 3Q21, up from EGP426 Mn in 3Q20. As a result, the Net Profit is likely to increase by 24.2% YOY to EGP1,830 Mn in 3Q21, up from EGP1,474 Mn in 3Q20.

### 2021 Forecast

Telecom Egypt's Net Profit is expected to increase by 55.6% YOY to EGP7,548 Mn in 2021, up from EGP4,851 Mn in 2020. The Gross Profit is expected to increase by 21.8% YOY to EGP14,920 Mn in 2021, up from EGP12,249 Mn in 2020. The Operating Revenue is expected to increase by 12.3% YOY to EGP35,842 Mn in 2021, up from EGP31,912 Mn in 2020. The Operating Costs is likely to increase by 6.4% YOY to EGP20,922 Mn in 2021, up from EGP19,663 Mn in 2020. The Selling and Overhead expenses are expected to increase by 6.5% YOY to EGP6,689 Mn in 2021, up from EGP6,281 Mn in 2020. The Net Operating Revenues are likely to increase significantly to EGP508 Mn in 2021, up from negative EGP70 Mn in 2020. The Profit Before Zakat is expected to increase by 57.1% YOY to EGP10,408 Mn in 2021, up from EGP6,625 Mn in 2020. The Zakat charges is likely to increase by 61.4% YOY to EGP2,853 Mn in 2021, up from EGP1,767 Mn in 2020. The NCI is likely to increase by 1.9% YOY to EGP7 Mn in 2021. As a result, the Net Profit is expected to increase 55.6% YOY to EGP7,548 Mn in 2021, up from EGP4,851 Mn in 2020.

### 2Q21 Outturn

Operating Revenue increased by 13% YOY to EGP8,974 Mn in 2Q21, as compared to EGP7,941 Mn in 2Q20. Furthermore, Operating costs increased by 8.6% YOY to EGP5,245 Mn in 2Q21, up from EGP4,828 Mn in 2Q20. Thus, the Gross profit increased by 19.8% YOY to EGP3,729 Mn from EGP3,113 Mn in 2Q20, with a GPM of 41.6% compared to 39.2% in 2Q20. Moreover, the Selling & overhead expenses have increased by 10.5% YOY to EGP1,697 Mn in 2Q21, up from EGP1,536 Mn in 2Q20. While the Net Operating revenues significantly increased to EGP61 Mn, from a negative of EGP73 Mn in 2Q20. As a result, Operating profit increased by 39.2% YOY to EGP2,093 Mn in 2Q21, as compared to EGP1,504 Mn in 2Q20, with OPM of 23.3% in 2Q21. The Profit before Zakat significantly increased to EGP2,360 Mn in 2Q21, up from EGP1,004 Mn in 2Q20. This was mainly supported by the Operating Profit and an increase by 14.3% YOY in the Income from Associates to EGP613 Mn in 2Q21, up from EGP537 Mn in 2Q20. Zakat has significantly increased to EGP612 Mn from EGP255 Mn in 2Q20. Net profit for the second quarter of 2021 has significantly increased to EGP1,747 Mn, as compared to EGP746 Mn in 2Q20. Total assets increased by 12.9% YOY to EGP86.5 Bn in 2Q21 from EGP76.6 Bn in 2Q20. Total Equity increased by 11.3% YOY to EGP40 Bn in 2Q21 compared to EGP35.9 Bn in 2Q20. Total liabilities increased by 14.3% YOY to EGP46.5 Bn in 2Q21, up from EGP40.7 Bn in 2Q20.

### Target price and recommendation

We assign a BUY rating with a target price of EGP 18.70. Telecom Egypt is one of the largest telecom operators in the region with fixed, mobile and data services. The Consolidated Revenue increased by 16% YOY to EGP17.37 Bn in H1 2021, up from EGP14.94 Bn in H1 2020. The Company has mainly five business units that contribute to the top-line namely Home & Personal Communications, Enterprise, Domestic Wholesale, International carrier, and international cables & networks. The Home and Personal unit contributed to the top-line in H1 2021, followed by Domestic wholesale. The Revenue from the Home & Personal segment increased by 27.7% YOY mainly due to subscriber growth and increased mobile & internet services. It was also supported by an increase in ARPU. The Domestic segment grew by 5.2% YOY, supported by demand for transmission services related to MNOs and ISPs. The Enterprise segment increased by 21% YOY to EGP2.321 Bn in H1 2021 and contributed 13.3% to the Consolidated Revenue. It was mainly due to complimentary access services and recognition of infrastructure projects. The International Carriers affairs declined by 5.2% YOY to EGP2.149 Bn in H1 2021, down from EGP2.268 Bn in H1 2020, mainly due to decrease in traffic. While the International Customers & networks have shown growth by 9.7% YOY to EGP1.577 Bn in H1 2021. The fixed line customers – Voice and Data increased by 6% YOY and 18% YOY respectively. The Mobile customer base increased by 21% YOY. The EBITDA increased by 33% YOY to EGP6.7 Bn in H1 2021 supported by enhanced revenue mix and the cost containment initiatives. The Net Profit increased robustly by 88% YOY to EGP3.9 Bn in H1 2021, mainly driven by strong operating results, Vodafone Egypt's contribution via Investment Income, and the FX gain. The Net Profit excluding non-operational items grew by 54% YOY. The Cash from operating activities grew strongly to EGP8.3 Bn in H1 2021, almost 2x higher than last year. The Cash Capex stood at EGP8.482 Bn in H1 2021. The In-service capex/sales ratio stood at 14% in H1 2021. The Net Debt stood at EGP18.9 Bn in H1 2021, 1.4x of annualized EBITDA. The effective interest rates decreased to 5.7% in H1 2021, compared to 6.9% in H1 2020. In April 2021, the NTRA enforced new rules on the customer life cycle, limiting the line validity to 90 days active for prepaid customers and 180 days for postpaid customers. The impact of such should be visible in this quarter's results on the entire market. In June 2021, Telecom Egypt and Vodafone Group signed a modified shareholders' agreement. The agreement includes changes to Vodafone Egypt's ("VFE") dividend policy, whereby VFE will pay a one-time dividend of EGP10 billion to its shareholders during the 2021 calendar year, EGP 2bn of which was paid in March. The parties have also agreed on a minimum dividend payout ratio of 60% of free cash flow going forward. Therefore, we assign a BUY rating on this stock.

#### Telecom Egypt – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.86	9.07	6.48	5.79	4.25
P/B (x)	0.76	0.72	0.66	0.60	0.54
Dividend yield	1.8%	1.8%	1.8%	5.5%	5.5%

FABS Estimates & Co data

**Telecom Egypt-P&L**

EGP mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Operating Revenue	7,402	8,974	9,153	23.7%	2.0%	31,912	35,842	12.3%
Operating costs	-4,699	-5,245	-5,309	13.0%	1.2%	-19,663	-20,922	6.4%
<b>Gross profit</b>	<b>2,703</b>	<b>3,729</b>	<b>3,844</b>	<b>42.2%</b>	<b>3.1%</b>	<b>12,249</b>	<b>14,920</b>	<b>21.8%</b>
Selling & overhead expenses	-1,383	-1,697	-1,730	25.1%	2.0%	-6,281	-6,689	6.5%
Net operating (others)	68	61	73	7.4%	20.2%	-70	508	NM
<b>Operating profit</b>	<b>1,388</b>	<b>2,093</b>	<b>2,188</b>	<b>57.6%</b>	<b>4.5%</b>	<b>5,898</b>	<b>8,739</b>	<b>48.2%</b>
Income from Associates	558	613	632	13.2%	3.0%	2,206	2,835	28.5%
Net Finance income/(cost)	-46	-347	-357	678.9%	3.0%	-1,480	-1,166	-21.2%
<b>Profit before zakat</b>	<b>1,901</b>	<b>2,360</b>	<b>2,462</b>	<b>29.5%</b>	<b>4.3%</b>	<b>6,625</b>	<b>10,408</b>	<b>57.1%</b>
Zakat	-426	-612	-631	47.9%	3.0%	-1,767	-2,853	61.4%
<b>Profit before N-C interests</b>	<b>1,474</b>	<b>1,748</b>	<b>1,831</b>	<b>24.2%</b>	<b>4.8%</b>	<b>4,858</b>	<b>7,555</b>	<b>55.5%</b>
Non-controlling interests	-1	-1.7	-1.8	141.9%	4.8%	-7	-7	-1.9%
<b>Profit attributable</b>	<b>1,474</b>	<b>1,746</b>	<b>1,830</b>	<b>24.2%</b>	<b>4.8%</b>	<b>4,851</b>	<b>7,548</b>	<b>55.6%</b>

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**Telecom Egypt-Margins**

EGP mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	36.5%	41.6%	42.0%	548	44	38.4%	38.2%	-18
OPM	18.8%	23.3%	23.9%	514	57	18.5%	19.5%	99
Net margin	19.9%	19.5%	20.0%	8	53	15.2%	16.6%	138

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### 3Q21 preview: Emirates Integrated Telecommunications

Increase in Revenue to increase the profitability

CMP(AED):6.56  
Potential upside (%): +14.3%

12-m target price:  
**AED7.50**

Stock rating:  
**ACCUMULATE**

#### 3Q21 Estimate

Emirates Integrated Telecommunications (DU) Net Profit expected to decline strongly by 67.7% YOY to AED266 Mn in 3Q21, down from AED824 Mn in 3Q20. The EBITDA is expected to decline by 2.6% YOY to AED1,169 Mn in 3Q21, down from AED1,200 Mn in 3Q20. The Revenue is expected to increase by 8.8% YOY to AED2,923 Mn in 3Q21, up from AED2,688 Mn in 3Q20. The Costs are expected to increase by 16.2% YOY to AED1,696 Mn in 3Q21, up from AED1,459 Mn in 3Q20. The Marketing Expenses are expected to increase significantly to AED58 Mn in 3Q21, up from AED28 Mn in 3Q20. The Depreciation Expense is likely to increase by 5.4% YOY to AED512 Mn in 3Q21, up from AED486 Mn in 3Q20. As a result, the Operating Profit is expected to decline by 8% YOY to AED658 Mn in 3Q21, down from AED715 Mn in 3Q20. The Finance Income/Expense is expected to decline by 73.1% YOY to AED20 in 3Q21, down from AED73 Mn in 3Q20. The Other Income/Expense is expected to decline by 97.3% YOY to AED0, down from AED4 Mn in 3Q20. The Gain/Loss on disposal of Investment is expected to decline significantly to negative AED1, down from gain of AED525 Mn in 3Q20. As a result, the Pre-royalty profit is expected to decline by 45.6% YOY to AED637 Mn in 3Q21, down from AED1,170 Mn in 3Q20. The Federal Royalty is expected to increase by 7% YOY to AED371 Mn in 3Q21, up from AED346 Mn in 3Q20. Therefore, the Net Profit is expected to decrease by 67.7% YOY to AED266 Mn in 3Q21, down from AED824 Mn in 3Q20.

#### 2021 Forecast

DU is estimated to increase by 15.2% YOY to AED1,662 Mn in 2021, down from AED1,443 Mn in 2020. The Revenue is expected to increase by 5.3% YOY to AED11,672 Mn in 2021, up from AED11,084 Mn in 2020. The Costs are expected to increase by 1.2% YOY to AED6,840 Mn in 2021, up from AED6,756 Mn in 2020. The Marketing Expense is expected to increase by 42.9% YOY to AED215 Mn in 2021, up from AED151 Mn in 2020. The EBITDA is expected to increase by 10.5% YOY to AED4,618 Mn in 2021, up from AED4,177 Mn in 2020. The Depreciation and Amortization is expected to decrease by 6.1% YOY to AED1,392 Mn in 2021, down from AED1,483 Mn in 2020. The Operating Profit is likely to rise by 19.7% YOY to AED3,225 Mn in 2021, up from AED2,694 Mn in 2020. The Finance Income/Expense is likely to increase by 34.2% YOY to AED74 Mn in 2021, up from AED55 Mn in 2020. The Gain/Loss on disposal of Investment is expected to decline significantly to Loss of AED5 in 2021, down from Gain of AED302 Mn in 2020. As a result, the Pre-royalty Profit is expected to increase by 6.5% YOY to AED3,146 Mn in 2021, down from AED2,955 Mn in 2020. The Federal Royalty is expected to decline by 1.8% YOY to AED1,484 Mn in 2021, down from AED1,512 Mn in 2020. Therefore, the Net Profit is expected to increase by 15.2% YOY to AED1,662 Mn in 2021, down from AED1,443 Mn in 2020.

#### 2Q21 Outturn

Revenue increased by 7% YOY to AED2,855 Mn from AED2,668 Mn in 2Q20, While Total Costs increased by 10.7% YOY to AED1,668 Mn in 2Q21 from AED1,507 Mn in 2Q20. As a result, EBITDA has marginally increased by 0.3% YOY to AED1,130 Mn in 2Q21 compared to AED1,126 Mn in 2Q20, with EBITDA margin at 39.6% from 42.2% in 2Q20. Depreciation and Amortization rose by 9% YOY to AED501 Mn in 2Q21 from AED459 Mn in 2Q20. Therefore, Operating profit declined by 5.7% YOY to AED629 Mn from AED667 Mn in 2Q20, with OPM at 22% from 25% in 2Q20. Total Assets increased by 4.7% YOY to AED15.13 bn in 2Q21 from AED14.44 bn in 2Q20. Total Equity increased also by 1.4% YOY to AED8.38 bn in 2Q21 from AED8.26 bn in 2Q20. Total Liabilities increased by 9.1% YOY to AED6.74 bn in 2Q21 from AED6.17 bn in 2Q20.

### Target price and rating

We maintain our ACCUMULATE rating on DU with the target of AED 7.50. EITC (DU) has reported a strong performance in key aggregates in 2Q21 and has returned to growth compared to 2Q20. The Revenues are up by 7% YOY to AED2,885 Mn in 2Q21, up from AED2,668 Mn in 2Q20. The Company reports Revenue via four segments – Mobile services, Fixed Services, Wholesale Equipment Sales and Others. The Mobile services segment declined in 2Q21 by 0.8% YOY. The ARPU increased by 7.1% YOY to AED88 in 2Q21. It was mainly due to high voice traffic than the pre-pandemic levels. However, due to offload, the data usage remained stable. The no. of customers increased by 2.3% YOY in 2Q21. Most of the customer base use prepaid plans, however, the postpaid customer plan is improving. The prepaid customer base was impacted by the disconnection backlog related to COVID. However, the Gross-adds are maintained above the pandemic levels. The Fixed services grew by 6.5% YOY to AED687 Mn in 2Q21. The Consumer and Enterprise segments performed robustly and contributed to the segment's growth levels in 2Q21. The Consumer segment had attractive plans that materialized for the Company. The no. of customers grew significantly by 23.2% YOY to 279,000 in 2Q21. It was mainly driven by need for stronger network due to social distancing requirements by the Government. The increase is significant as compared to the previous quarter. The Other revenues segment increased robustly by 21.5% YOY to AED873 Mn in 2Q21 up from AED718 Mn in 2Q20. It was driven by the attractive financing plan and the 5G handset sales with robust demand. The handset sales increased robustly due a postpaid plan. Furthermore, the 5G technology with the handsets boosted the sales. The Wholesale revenues recovered in 2Q21 mainly due to higher voice traffic. The EBIDTA increased by 0.3% YOY to AED1,130 Mn in 2Q21 despite the 10.7% YOY increase in Direct costs mainly due to the handsets and Interconnect. However, the growth in EBITDA was supported by the decline in the Indirect costs by 8.8% due to the cost reduction initiatives by the Company. As a result, the Net Profit increased by 11.4% YOY to AED240 Mn in 2Q21, up from AED215 Mn in 2Q20. The Capex increased significantly by 27.5% to AED649 Mn in 2Q21 as compared to AED509 Mn in 2Q20. The Company plans to modernize the network, expand its existing capacity to generate more revenue and focus on the advancement of its 5G network services. The Operating Free Cash Flow reduced by 11.7% YOY to AED481 Mn in 2Q21, down from AED545 Mn in 2Q20. The decline is in line with the Company's high capital intensity program to fund its development. On 21<sup>st</sup> April 2021, the Company paid final cash dividend amounting to AED 0.15 per share for FY20. For the FY21, cash dividend of AED0.10 per share is proposed. Based on our analysis, we assign an ACCUMULATE rating.

#### DU – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	17.26	16.82	17.26	20.50	28.52
P/B (x)	3.70	3.49	3.44	3.47	3.36
Dividend yield	5.3%	5.3%	5.2%	4.3%	4.7%

FABS Estimates & Co data

**DU - P&L**

AED mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Revenue	2,688	2,855	2,923	8.8%	2.4%	11,084	11,672	5.3%
Costs (ex D&A, marketing exp)	-1,459	-1,668	-1,696	16.2%	1.7%	-6,756	-6,840	1.2%
Marketing expense	-28	-57	-58	NM	2.5%	-151	-215	42.9%
<b>EBITDA</b>	<b>1,200</b>	<b>1,130</b>	<b>1,169</b>	<b>-2.6%</b>	<b>3.5%</b>	<b>4,177</b>	<b>4,618</b>	<b>10.5%</b>
Depreciation and Amortization	-486	-501	-512	5.4%	2.2%	-1,483	-1,392	-6.1%
<b>Operating profit</b>	<b>715</b>	<b>629</b>	<b>658</b>	<b>-8.0%</b>	<b>4.6%</b>	<b>2,694</b>	<b>3,225</b>	<b>19.7%</b>
Financing income/expense	-73	-19	-20	-73.1%	3.0%	-55	-74	34.2%
Other income/expense	4	0	0	-97.3%	2.0%	14	0	-97.1%
Gain on disposal of investment	525	-1	-1	NM	3.0%	302	-5	NM
<b>Pre-royalty profit</b>	<b>1,170</b>	<b>609</b>	<b>637</b>	<b>-45.6%</b>	<b>4.6%</b>	<b>2,955</b>	<b>3,146</b>	<b>6.5%</b>
Federal Royalty	-346	-369	-371	7.0%	0.5%	-1,512	-1,484	-1.8%
<b>Net profit</b>	<b>824</b>	<b>240</b>	<b>266</b>	<b>-67.7%</b>	<b>10.9%</b>	<b>1,443</b>	<b>1,662</b>	<b>15.2%</b>

*FABS estimate & Co Data*
**DU - Margins**

AED mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Gross Margin	45.7%	41.6%	42.0%	-371	43	39.0%	41.4%	236
Operating margin	26.6%	22.0%	22.5%	-409	46	24.3%	27.6%	333
Net Profit margin	30.7%	8.4%	9.1%	-2156	70	13.0%	14.2%	122

*FABS Estimates & Co data*

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