Etihad Etisalat Company

Telecom – Industrial
EEC AB: Saudi Arabia
28 August 2022

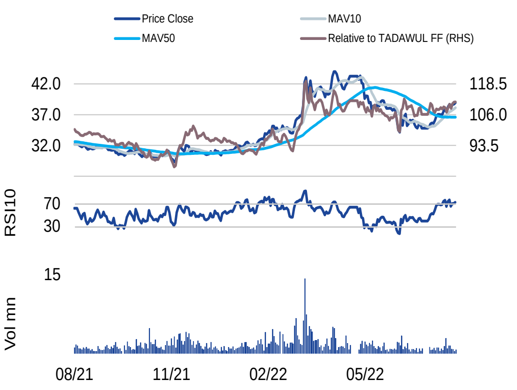
US$8.04bn	61%	US$10.61mn
Market cap	Free float	Avg. daily volume

Target price	45.00	+16% over current
Current price	38.8	as of 28/8/2022

Existing rating

Underweight | Neutral | **Overweight**

Performance



Source: Bloomberg

Earnings

(SARmn)	2021	2022E	2023E
Revenue	14,834	15,545	16,216
Y-o-Y	5.6%	4.8%	4.3%
Gross profit	8,672	9,187	9,543
Gross margin	58.5%	59.1%	58.8%
EBITDA	5,594	6,043	6,265
EBITDA margin	37.7%	38.9%	38.6%
Net profit	1,072	1,440	1,680
EPS (SAR)	1.4	1.9	2.2
DPS (SAR)	0.9	1	1.5
EV/ EBITDA	7.8	7.2	7.0
P/E	28.0	20.9	17.9

Source: Company data, Al Rajhi Capital

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Mobily

Profits continue improving; raise TP to SAR45/share

Over the past five years, Mobily were able to consistently improve their performance driven by a growth in overall subscriber base, FTTH services, 5G coverage, and other services. Meantime, Mobily continued its deleveraging plan, reducing debt from SAR14.1bn a 3.1 Net Debt/Ebitda (excluding leases) at end of the 2Q18 to SAR10.3bn a 1.5 Net Debt/Ebitda at the end of the 2Q22. In 2020, and after 5 years of no dividend, the board approved a dividend of SAR385mn for the year 2020 (49% payout) and distributed SAR655mn for the year 2021 (61% payout) signalling the management belief the company is able to continue to pay and increase dividend despite the deleveraging and capex plans. The deleveraging plan reflected positively in the bottom line which improved the sentiment. Healthy and consistent growth in operating profit resulted in trailing EBITDA to improve form SAR3.85bn in 2Q18 to SAR5.8bn in 2Q22 (51% growth) while trailing y-o-y increased by 6.9%. In the same period net income grew from SAR-528mn to SAR1.28bn while y-o-y was SAR937mn (37% y-o-y). Overall, the company managed to improve its performance, translating to a consistent growth in gross profit which we think will continue during the forecast horizon. Capex will remain between 14% to 16% which will be invested across many areas such as Data base, 5G infrastructure, Mobily pay, and other fields. As a result, we revise our target price from SAR36/sh neutral to SAR45/sh and an overweight rating. That leads to a 16% upside potential from the CMP of SAR38.8/sh.

2Q Results

Mobily 2Q22 results fell slightly below our expectations as we were expecting lower operating costs. Mobily gross margin hit 59.8% up from 57.6%. As a result of the strong operational performance, EBITDA registered a 10.3% growth and reached SAR2.9bn with a 38% margin up from SAR2.7bn and a 36.1% margin. Similarly, net income came at SAR360mn a 9.2% net margin compared to SAR244mn (2Q21) a 6.5% 006Eet margin.

Figure 1 Mobily Q2 2022 results

(SAR mn)	2Q 2022	2Q 2021	Y-o-Y	1Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	3,899	3,728	4.6%	3,811	2.3%	3,959	-1.5%
Gross profit	2,333	2,147	8.7%	2,238	4.3%	2,332	0.0%
Gross margin	59.8%	57.6%		58.7%		58.9%	
Operating profit	519	383.5	35.3%	468	11.0%	531	-2.3%
Operating margin	13.3%	10.3%		12.3%		13.4%	
Net profit	360	244	47.7%	319	12.9%	376	-4.4%
Net margin	9.2%	6.5%		8.4%		9.5%	

Source: Company data, Al Rajhi Capital

Valuation and risks: We arrived at our 12m forward-looking target price for the company using an equal mix of DCF and EV/EBITDA. The DCF target price is based on a 2.0% terminal growth and a WACC of 8.3% reach to SAR48/share. The EV/EBITDA is based on 7.5x translates to a SAR41/share. Overall, we change our target price to SAR45/share. Based on our TP, we have an overweight rating. Upside risks to our valuation are, increase in data prices, lower than expected capex spends, better than expected improvement in margins, lower cost of goods sold. Downside risks are impairment of receivables, higher than expected capex, increase in competition in consumer and business segments and rise.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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