Mobily Company
Telecom - Industrial
EEC AB: Saudi Arabia
25 January 2024

الراجحي المالية
alrajhi capital

US$10.6bn	71.97%	US$14.1mn
Market Cap.	Free Float	Avg. Daily Value traded

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Etihad Etisalat - Mobily

TP revised to SAR60/sh; maintain Overweight.

Overweight

Price Target (SAR): 60.0

Current: 51.4
Upside/Downside: 17% above current

Valuation Multiples	23E	24E	25E
P/E (x)	18.9	16.3	13.8
P/B (x)	2.3	2.2	2.0
EV/EBITDA (x)	7.0	6.4	5.9

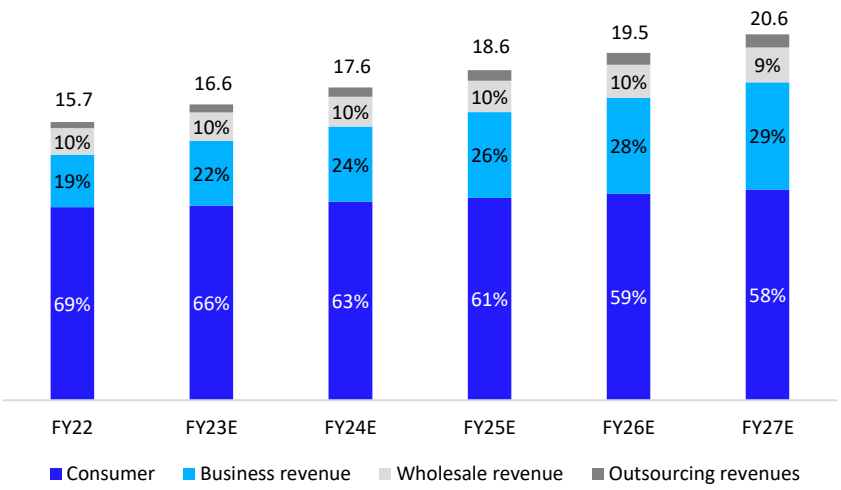
Major Shareholders	% Ownership
Etisalat	27.99%

Price Performance	1M	3M	YTD
Absolute	5.3%	15.2%	1.6%
Relative to TASI	2.4%	-0.5%	3.2%

We reiterate our "Overweight" rating on Mobily with an upgraded TP of SAR60/sh. The stock has rallied by 41% in FY23 and 15% since our last report (29 Oct 2023); however, we believe that there is more upside left. The company posted 7.5% growth in its topline in 9M23. The growth was led by their business segment, which jumped by 14/32% YoY in FY22/9M23, respectively. We believe the growth in the ICT sector will allow Mobily to further its business segment in FY24/25e; hence, we revise up our revenue forecasts for FY24/25e by 1/3%. Moreover, we have kept our average EBITDA margins for FY24-26e at 39.1%, as against our previous assumption of 38.3%. Consequently, we upgraded our FY24/25e profitability by 8/13%. We believe the company has plenty of room to grow in both the consumer and business segments in the medium term. Mobily currently does not have a fixed payout policy, but with continued growth in business and a focus on deleveraging strategy, we remain confident in the company's ability to increase its payout gradually. Hence, we remain Overweight on the stock, providing an upside of 17% to the last close.

Our assumptions for the next 3 years: We anticipate a compound annual growth rate (CAGR) of 5.5% for the group's total revenue over the next three years. The primary driver of this growth is expected to be the business segment, which stands as the second-largest contributor to the group's revenues. The business segment's share is projected to rise from 22% in FY23e to 28% by FY26e. In contrast, the consumer segment, which constitutes the largest share of the group's revenue, is expected to grow modestly. We remain positive that improving operational efficiency and continued deleveraging will benefit the company in the coming years. This optimization is likely to uplift the net profit margin to 17% by FY26e, a notable increase from the nearly 13% expected in FY23e.

Figure 1 **Revenue mix evolution (SAR bn)**



Source: Company Data, Al Rajhi Capital estimates

Earnings

(SAR mn)	2023E	2024E	2025E
Revenue	16,644	17,605	18,581
YoY %	*6.2%*	*5.8%*	*5.5%*
Gross Profit	9,612	10,185	10,732
GM Margin %	*57.7%*	*57.9%*	*57.8%*
YoY %	*2.7%*	*6.0%*	*5.4%*
EBITDA	6,460	6,894	7,301
EBITDA Margin	*38.8%*	*39.2%*	*39.3%*
Net Income	2,094	2,425	2,876
Net Income Margin %	*12.6%*	*13.8%*	*15.5%*
YoY %	*26.4%*	*15.8%*	*18.6%*
EPS	2.7	3.1	3.7
DPS	1.6	1.9	2.2
P/E	18.9	16.3	13.8
EV/EBITDA	7.0	6.4	5.9
ROE	12%	13%	15%

Source: Company data, Al Rajhi Capital

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Valuations: We employ a dual-approach valuation for Mobily, utilizing Discounted Cash Flow (DCF) analysis alongside relative valuation through EV/EBITDA. By assigning equal weightage to both methodologies, we arrive at a target price of SAR60/sh, indicating an upside of 17% from the last closing price. Our EV/EBITDA valuation is established by applying a multiple of 7.8x to the estimated FY24e EBITDA. Additionally, the current dividend yield of 3% contributes positively to our overall upside assessment.

Key Risks: The key risks for the company are as follows: 1) Pricing risk which may occur from government regulations, 2) Increased competition from local players as well as entry of global players, 3) Failure to adapt to newer technologies like 5G may hamper group's growth, and 4) High debt levels in an increased interest rate environment pose financial risk for the company

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Key Financials

Figure 2 **Income Statement**

SAR mn	2023E	2024E	2025E
Revenue	**16,644**	**17,605**	**18,581**
y-o-y growth	*6.2%*	*5.8%*	*5.5%*
Cost of Sales	(7,033)	(7,420)	(7,850)
Gross Profit	**9,612**	**10,185**	**10,732**
y-o-y growth	*2.7%*	*6.0%*	*5.4%*
margins	*57.7%*	*57.9%*	*57.8%*
Operating Expenses	(3,044)	(3,185)	(3,324)
D&A	(3,672)	(3,729)	(3,804)
Others	(107)	(107)	(107)
Operating Profit	**2,789**	**3,164**	**3,496**
y-o-y growth	*20.6%*	*13.5%*	*10.5%*
margins	*16.8%*	*18.0%*	*18.8%*
Interest income	145	60	40
Interest expenses	(685)	(635)	(461)
Other	20	18	16
Pre-Tax Income	**2,270**	**2,608**	**3,092**
Zakat	(175)	(183)	(216)
Net Income	**2,094**	**2,425**	**2,876**
y-o-y growth	*26.4%*	*15.8%*	*18.6%*
margins	*12.6%*	*13.8%*	*15.5%*
EPS	2.7	3.1	3.7

Source: Al Rajhi Capital estimates

Figure 3 **Cash Flow Statement**

SAR mn	2023E	2024E	2025E
Cash flow from Operations	5,292	5,244	5,744
Cash flow from Investing	(2,713)	(2,870)	(3,029)
Cash flow from Financing	(1,920)	(2,206)	(2,460)
Change in cash	658	168	255

Source: Al Rajhi Capital estimates

Figure 4 **Key Ratios**

	2023E	2024E	2025E
ROA (%)	5.2%	5.9%	6.9%
ROE (%)	12.2%	13.3%	14.9%
D/E (x)	0.5x	0.4x	0.4x
Debt/EBITDA (x)	1.4x	1.2x	1.0x
Receiveable days	117	119	120
Inventory days	6	5	5
Payable days	262	253	245

Source: Al Rajhi Capital estimates

Figure 5 **Balance sheet**

SAR mn	2023E	2024E	2025E
Cash	1,486	1,654	1,909
Short-term investment	2,014	2,014	2,014
Contract Assets	830	830	830
Accounts Receivables	5,326	5,722	6,132
Due from related parties	170	170	170
Inventories, net	109	109	109
Prepaid expenses and others	918	971	1,025
Derivative financial instruments	0	0	0
TOTAL CURRENT ASSETS	**10,853**	**11,470**	**12,189**
Property & Equipment	19,440	19,535	19,773
License acquisition fees	5,824	5,509	5,196
Long Term Accounts Receivables	0	0	0
Goodwill	1,467	1,467	1,467
Contract Assets	109	109	109
Financials and others	125	125	125
Right of use assets	2,757	2,822	2,865
TOTAL NON-CURRENT ASSETS	**29,722**	**29,567**	**29,535**
TOTAL ASSETS	**40,576**	**41,037**	**41,724**
Current portion of Long term loans	1,313	1,313	1,313
Lease liabilities	1,010	1,010	1,010
Contract liabilities	695	695	695
Accounts payable	5,054	5,147	5,263
Due to related parties	161	161	161
Accrued expenses and others	2,873	2,873	2,873
Zakat Provision	246	330	443
Provision	827	827	827
Financial liabilities and others	92	92	92
CURRENT LIABILITIES	**12,271**	**12,449**	**12,677**
Long term loans	7,560	6,810	6,060
Lease liabilities	2,327	2,391	2,450
Employee termination benfits	502	502	502
Others	731	731	731
NON-CURRENT LIABILITIES	**11,121**	**10,435**	**9,743**
SHAREHOLDERS EQUITY	**17,221**	**18,191**	**19,341**
TOTAL LIABILITIES	**40,576**	**41,037**	**41,724**

Source: Al Rajhi Capital estimates

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