

MOBILY

RESULT ANALYSIS



Q2 2023

Revenue growth continues

Mobily reported an in-line set of Q2 23 results with a net income of SAR497mn (+38.1% yoy, +6.9% qoq). This is the highest quarterly net income since Q3 2014. This compares to the SNB Capital and consensus estimates of SAR482mn and SAR486mn, respectively. Revenues increased by 9.0% yoy (+4.9% qoq) to SAR4.25bn and came in line with our estimates of SAR4.17bn, mainly driven by growth across all divisions led by the business segment along with healthy growth in the subscriber base. Gross margins contracted by 252bps yoy to 57.3% and came in line with our estimate of 57.5%. We believe the contraction in margins is due to higher direct costs.

- Revenues increased 9.0% yoy (+4.9% qoq) to SAR4.25bn and came in line with our estimates of SAR4.17bn. The company attributed the yoy increase in revenue to the growth across all divisions led by the business segment with healthy growth in the overall subscriber base.
- Gross profit came in at SAR2.44bn, up 4.4% yoy (+5.6% qoq), and was in line with our estimates. Gross margin contracted by 252bps yoy to 57.3%, in line with our estimate of 57.5%. We believe the higher contribution of the lower margin business segment revenues resulted in the margin contraction.
- EBITDA came in at SAR1.59bn in Q2 23, up 7.5% yoy (-0.3% qoq) and was in line with our estimates of SAR1.62bn. EBITDA margin stood at 37.3% vs 37.9% in Q2 22 and our estimates of 38.8%. SG&A came in at SAR849mn (20.0% of sales) compared to SAR857mn (22.0% of sales) in Q2 22 and our estimates of SAR780mn (18.7% of sales). Depreciation, impairment, and other income stood at SAR930mn, lower than SAR963mn in Q2 22, and our estimates of SAR960mn offsets the negative impact of lower gross margins on earnings.
- Finance charges increased by 23.1% yoy (+2.1% qoq) to SAR176mn and came in line with our estimates of SAR180mn. Zakat expenses stood at SAR33mn (+26.9% yoy), lower than our estimate of SAR42mn.
- Total capex in Q2 23 increased by 9.7% yoy (+56.3% qoq) to SAR350mn, which reflects a capex-to-sales ratio of 8.2% vs 8.2% in Q2 22 and 5.5% in Q1 23.

Outlook

Based on our latest update published in April 2023, we are Overweight on Mobily with a PT of SAR50.0. We believe the ongoing digitization initiatives, margin expansion, deleveraging, and higher dividends are expected to drive the stock going forward. The stock is currently trading at 2023f PE and EV/EBITDA of 20.3x and 6.7x vs the peer group average of 13.9x and 6.5x, respectively.

Q2 23 Results Summary (SAR mn)

| | Q2 23 | Q2 22 | %yoy | Q2 23f | %Var [^] | Q1 23 | % qoq |
|-------------------|-------|-------|--------|--------|-------------------|-------|--------|
| Revenue | 4,248 | 3,899 | 9.0% | 4,172 | 1.8% | 4,051 | 4.9% |
| Gross income | 2,435 | 2,333 | 4.4% | 2,399 | 1.5% | 2,306 | 5.6% |
| Gross margin (%) | 57.3% | 59.8% | (2.5)% | 57.5% | (0.2)% | 56.9% | 0.4% |
| EBITDA | 1,586 | 1,476 | 7.5% | 1,619 | (2.0)% | 1,591 | (0.3)% |
| EBITDA margin (%) | 37.3% | 37.9% | (0.5)% | 38.8% | (1.5)% | 39.3% | (1.9)% |
| EBIT | 656 | 513 | 27.9% | 659 | (0.5)% | 627 | 4.6% |
| EBIT margin (%) | 15.4% | 13.2% | 2.3% | 15.8% | (0.4)% | 15.5% | (0.0)% |
| Net income | 497 | 360 | 38.2% | 482 | 3.1% | 465 | 6.9% |
| Net margin (%) | 11.7% | 9.2% | 2.5% | 11.6% | 0.1% | 11.5% | 0.2% |
| EPS (SAR) | 0.65 | 0.47 | 38.2% | 0.63 | 3.1% | 0.60 | 6.9% |

Source: Company, SNB Capital Research, [^] % Var indicates variance from SNB Capital forecasts

Talha Nazr +966 11 874 9774
Talha.Ulhaque@alahlicapital.com

SNB Capital Investment Ratings

| | |
|---------------|---|
| OVERWEIGHT: | Target price represents an increase in the share price in excess of 15% in the next 12 months |
| NEUTRAL: | Target price represents a change in the share price between -10% and +15% in the next 12 months |
| UNDERWEIGHT: | Target price represents a fall in share price exceeding 10% in the next 12 months |
| PRICE TARGET: | Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon |

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