# Etihad Etisalat Co. (Mobily)

## Results Flash Note Q2-24



## Weaker GP margin offset by lower OPEX and finance expenses

**Etihad Etisalat Co.'s (Mobily) net profit increased 33.0% Y/Y SAR 661mn in Q2-24, in line with AJC's and market estimates of SAR 653mn and SAR 648mn, respectively. The revenue grew 4.6% Y/Y to SAR 4.5bn, in line with our estimate of SAR 4.6bn. The topline growth was broad based across the segments, led by B2B segment. Gross margin contracted ~290bps Y/Y to 53.3%, which was below our expectation of 55.4%. Revenue mix shift towards B2B segment and lower margin sub-segments of wholesale and consumer businesses is likely to have weighed in gross margin. However, lower than expected OPEX and finance expenses offset the impact of the reduction in GP margin. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 62.6/share.**

- Mobily's net profit jumped 33.0% Y/Y to SAR 661mn in Q2-24, in line with our and consensus estimates of SAR 653mn and SAR 648mn, respectively. The lower than expected gross margin was offset by the decline in OPEX and finance expenses. The OPEX declined 9.3% Y/Y, while finance expenses were down 26.2% Y/Y to SAR 130mn. Moreover, the decrease in zakat expenses to SAR 29mn in Q2-24 from SAR 33mn in Q2-23 also helped the bottom line.
- Revenue increased 4.6% Y/Y to SAR 4,465mn, in line with our estimate of SAR 4,588mn. The company witnessed revenue growth from all of its revenue segments in Q2-24 with the B2B segment leading the pack. The mobile subscriber base expanded Y/Y but dipped slightly Q/Q. Total mobile subscribers stood at 12.2mn in Q2-24 vs. 12.3mn in Q1-24, mainly due to a decrease in prepaid subscribers to 10.2mn from 10.4mn in the previous quarter. FTTH connections reached 0.298mn, steady compared to Q1-24.
- Gross profit inched down 0.9% Y/Y to SAR 2,378mn, missing our estimate of SAR 2,543mn, as the GP margin was lower than our expectation. GP margin fell ~290 bps Y/Y to 53.3% (AJC estimate: 55.4%). We believe revenue mix shift towards B2B segment and lower margin sub-segments of Wholesale and Consumer businesses is likely to have weighed in gross margin.
- Operating profit was up 14.0% Y/Y to SAR 759mn, lower than our estimate of SAR 805mn. The operating margin expanded ~140 bps to 17.0% in Q2-24, despite GP margin contraction. The operating margin expansion was driven by a 9.3% Y/Y decline in OPEX, further supported by a decline in depreciation and amortization (-4.2% Y/Y).

**AJC view and valuation**: Mobily's heathy Q2-24 earnings growth was mainly driven by improved operating efficiency, lower finance expenses and decent top line growth. However, for the third consecutive quarter, the company posted a weak gross margin. There seems to be a change in the revenue mix of the company due to the growing B2B segment's contribution to total revenue. Additionally, certain lower margin subsegments of Wholesale and Consumer business amid intense competition are also likely to have exerted some pressure at gross margin level. However, we believe Mobily placed well compared to peers to continue to register strong topline growth in the Business segment. Additionally, continuous improvement in operating efficiency and significant decline in finance expenses due to ongoing deleveraging and restructuring of debt would continue to support the earnings of the company. The stock currently trades at EV/EBITDA of 6.5x, P/E of 13.1x and dividend yield of 4.2% based on our FY25E estimates. We maintain our "**Overweight**" recommendation on the stock and keep the TP unchanged at **SAR 62.6/share.**

### Results Summary

| SAR mn | Q2-23 | Q1-24 | Q2-24 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---|---|---|---|---|---|---|
| Revenue | 4,269 | 4,545 | 4,465 | 4.6% | -1.8% | -2.7% |
| Gross Profit | 2,399 | 2,445 | 2,378 | -0.9% | -2.7% | -6.5% |
| *Gross Margin* | *56.2%* | *53.8%* | *53.3%* | - | - | - |
| EBITDA | 1,596 | 1,651 | 1,650 | 3.4% | -0.1% | -3.5% |
| EBIT | 666 | 753 | 759 | 14.0% | 0.8% | -5.8% |
| Net Profit | **497** | **638** | **661** | 33.0% | 3.6% | 1.2% |
| EPS | 0.65 | 0.83 | 0.86 | - | - | - |

Source: Company Reports, AlJazira Capital

| Recommendation | Overweight |
|---|---|
| Target Price (SAR) | 62.6 |
| Upside / (Downside)* | 18.8% |

Source: Tadawul *prices as of 23rd of July 2024

### Key Financials

| SARmn (unless specified) | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenues | 15,717 | 16,763 | 18,088 | 18,855 |
| Growth % | 6.0% | 6.7% | 7.9% | 4.2% |
| Net Income | 1,657 | 2,232 | 2,529 | 3,092 |
| Growth % | 54.6% | 34.7% | 13.3% | 22.2% |
| EPS | 2.15 | 2.90 | 3.28 | 4.01 |
| DPS | 1.15 | 1.45 | 1.80 | 2.20 |

Source: Company reports, Aljazira Capital

### Key Ratios

| | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Gross Margin | 59.7% | 56.4% | 53.9% | 56.3% |
| EBITDA Margin | 39.3% | 39.5% | 36.6% | 38.2% |
| Net Margin | 10.5% | 13.3% | 14.0% | 16.4% |
| ROE | 10.1% | 12.7% | 13.3% | 14.9% |
| ROA | 4.3% | 5.7% | 6.4% | 7.7% |
| P/E (x) | 16.1 | 16.9 | 16.0 | 13.1 |
| P/B (x) | 1.6 | 2.1 | 2.1 | 2.0 |
| EV/EBITDA (x) | 6.3 | 7.2 | 7.4 | 6.5 |
| Dividend Yield | 3.3% | 3.0% | 3.4% | 4.2% |

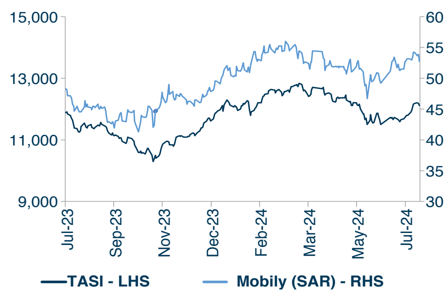
Source: Company reports, Aljazira Capital

### Key Market Data

| | |
|---|---|
| Market Cap(bn) | 40.6 |
| YTD% | 7.4% |
| 52 week (High)/(Low) | 57.00/40.30 |
| Share Outstanding (mn) | 770 |

Source: Company reports, Aljazira Capital

### Price Performance




Source: Tadawul, Aljazira Capital

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

## Disclaimer