

Revenue growth remains robust, operating efficiency supports earnings despite GP margin contraction

Etihad Etisalat Co.'s (Mobily) net profit jumped 37.2% Y/Y SAR 638mn in Q1-24, above AJC's and market estimates of SAR 586mn and SAR 546mn, respectively. The deviation from our estimate is mainly due to higher-than-expected non-operating income and lower zakat expenses, while higher revenue was offset by a lower gross margin. The revenue grew 11.7% Y/Y to SAR 4.5bn, beating our estimate of SAR 4.3bn. The revenue growth was led by an increase across all the segments. The Business and Wholesale segments witnessed a rise in demand, while expansion of the subscriber base aided the Consumer segment. Gross margin contracted ~200bps Y/Y to 53.8%, which was below our expectation of 57.1%. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 62.6/share.

- Mobily's net profit increased 37.2% Y/Y to SAR 638mn in Q1-24, beating our and consensus estimates of SAR 586mn and SAR 546mn, respectively. The higher-than-expected non-operating income (possibly higher finance income/share in profit of JVs/ other income) and lower zakat expenses mainly caused the variance in net income from our estimate, while higher topline was offset by lower gross margin.
- Revenue increased 11.7% Y/Y to SAR 4,545mn, above our estimate of SAR 4,262mn. Mobily's all revenue streams saw an increase in Q1-24. The business segment revenue was aided by increase demand from B2B clients. Wholesale revenue derived support from an uptick in inbound roaming during Ramadan and growth in revenue from MVNOs. The consumer segment witnessed an expansion of subscriber base for both mobile (+6.4% Y/Y) as well as FTTH (+7.2% Y/Y) connections.
- Gross profit rose 7.7% Y/Y to SAR 2,445mn, in line with our estimate of SAR 2,434mn, as revenue growth was partially outweighed by a reduction in GP margin. GP margin fell ~200 bps Y/Y to 53.8% (AJC estimate: 57.1%).
- Operating profit was up 18.4% Y/Y to SAR 753mn, in line with our estimate of SAR 754mn. Operating margin expanded 94 bps to 16.6% in Q1-24, despite GP margin contraction. A broadly steady OPEX intensity and decline in depreciation and amortization (-3.0% Y/Y) fueled the operating profit growth.

AJC view and valuation: Mobily continued to post robust growth in revenue and net profit in Q1-24. However, the company seems to have carried over the significant pressure on gross margin similar to Q4-23. We believe increased share of the Business segment is weighing on the company's margin. Moreover, within the Business segment, rising competition among the players and optimization of costs by government enterprises may have put pricing under pressure. However, we expect the Business segment strong topline growth to continue for Mobily supporting overall revenue growth. Additionally, with healthy growth in subscriber base the Consumer segment is also expected to show some improvement. Nonetheless, improved operating efficiency is expected to keep supporting the earnings. Furthermore, the company's consistent efforts to deleverage the balance sheet (gross debt down SAR 2.3bn in last 12 months) are likely to keep finance expenses under control. The stock currently trades at EV/EBITDA of 7.1x, P/E of 15.6x and dividend yield of 3.6% based on our FY24E estimates. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 62.6/share.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,070	4,306	4,545	11.7%	5.6%	6.6%
Gross Profit	2,270	2,265	2,445	7.7%	7.9%	0.4%
<i>Gross Margin</i>	<i>55.8%</i>	<i>52.6%</i>	<i>53.8%</i>	-	-	-
EBIT	636	983	753	18.4%	-23.4%	-0.2%
Net Profit	465	746	638	37.2%	-14.5%	8.9%
EPS	0.60	0.97	0.83	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Recommendation **Overweight**

Target Price (SAR) **62.6**

Upside / (Downside)* **23.5%**

Source: Tadawul *prices as of 9th of May 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	15,717	16,763	17,898	18,575
Growth %	6.0%	6.7%	6.8%	3.8%
Net Income	1,657	2,232	2,502	2,969
Growth %	54.6%	34.7%	12.1%	18.7%
EPS	2.15	2.90	3.25	3.86
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%	55.3%	55.9%
Net Margin	10.5%	13.3%	14.0%	16.0%
ROE	10.1%	12.7%	13.2%	14.5%
ROA	4.3%	5.7%	6.4%	7.4%
P/E (x)	16.1	16.9	15.6	13.1
P/B (x)	1.6	2.1	2.1	1.9
EV/EBITDA (x)	6.3	7.2	7.1	6.4
Dividend Yield	3.3%	3.0%	3.6%	4.3%

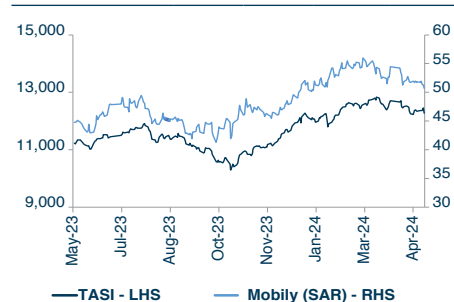
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	39.0
YTD%	3.4%
52 week (High)/(Low)	57.00/40.30
Share Outstanding (bn)	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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068