February 2025

Etihad Etisalat Co. (Mobily)

Results Flash Note Q4-24

Bottomline growth aided by one-offs, strong topline growth continues; weaker normalized GP margins a concern

Etihad Etisalat Co.'s (Mobily) net profit surged 31.3% Y/Y to SAR 980mn in Q4-24, exceeding AJC's and market estimates of SAR 703mn and SAR 696mn, respectively. The company seems to have recognized a positive impact from withholding tax reversal (similar to Q3-24) estimated at SAR 144mn. Moreover, we believe there were certain non-recurring items in OPEX and zakat expenses that helped the bottom line. Based on our calculation, normalized net income should be around SAR 750mn, which was above our estimate primarily due to lower OPEX and finance expenses. The revenue grew 9.1% Y/Y to SAR 4.7 bn, in line with our estimate of SAR 4.7bn. Gross margin expanded by ~70bps Y/Y to 53.3%, while normalized gross margin (assuming withholding tax reversal of SAR 144mn recorded at gross profit level) stood at 50.3%, a 230 bps Y/Y contraction and below our expectations of 54.0%. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 62.6/share.

- Mobily's net profit jumped 31.3% Y/Y to SAR 980mn in Q4-24, above our, and consensus estimates of SAR 703mn and SAR 696mn, respectively, supported by withholding tax reversal, estimated at SAR 144mn. Additionally, a few more non-recurring items in OPEX and zakat expenses are likely to have supported the net profit. Based on our calculation, normalized net income should be around SAR 750mn, which was above our estimate primarily due to lower OPEX and finance expenses.
- Revenue increased 9.1% Y/Y to SAR 4,697mn, in line with our estimate of SAR 4,693mn. The company continues to see revenue growth across segments. The mobile subscriber base expanded by 3.9% Y/Y to 12.3mn and recovered back from a dip to 11.7mn in Q3-24. Prepaid subscribers increased to 10.3mn in Q4-24 from 9.8mn in Q3-24, while postpaid subscribers were up marginally to 2.0mn. FTTH connections declined to 0.285mn (-2.7% Y/Y) but were slightly higher than 0.283mn in Q3-24.
- Gross profit rose 10.6% Y/Y to SAR 2,505mn, in line with our estimate of SAR 2,534mn, as the gross profit was helped by SAR 144mn positive impact from withholding tax reversal. The normalized gross profit of SAR 2,361mn was below our estimate. The reported GP margin rose ~70bps Y/Y 53.3%, while normalized GP margin contracted 230bps to 50.3% (AJC estimate: 54.0%).
- Operating profit was up 7.6% Y/Y to SAR 1,057mn, above our estimate of SAR 866mn, mainly supported by higher gross profit on account of one-off tax reversals. However, we believe OPEX was lower than expected owing to certain one-offs but was partially offset higher than expected depreciation and amortization.

AJC view and valuation: Mobily's Q4-24 earnings were supported by non-recurring withholding tax reversal worth SAR 144mn with possibility of additional positive one-offs in OPEX and zakat expenses. Excluding the one-off tax reversals, the normalized GP margin was notably weaker. However, we believe it could be related to specific low-margin contracts in the B2B space. We do expect pressure on GP margin to remain in coming quarters due to the rising B2B contribution, but it should improve from Q4-24's normalized level. We remain positive about the company's strong topline with ongoing traction in the B2B segment, sequential recovery in number mobile subscribers and the Wholesale segment benefiting from MVNO agreement with Red Bull Mobile and increasing presence in the submarine cable business. Additionally, improved operating efficiency and lower finance expenses are attributable to deleveraging of balance sheet (gross debt reduced by SAR 2.0bn in FY24) and lower interest rates would support Mobily's earnings in FY25E. The stock currently trades at EV/EBITDA of 6.9x, P/E of 14.0x and a 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	Q4-23	Q3-24	Q4-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,306	4,499	4,697	9.1%	4.4%	0.1%
Gross Profit	2,265	2,566	2,505	10.6%	-2.4%	-1.1%
Gross Margin	*52.6%*	*57.0%*	*53.3%*	-	-	-
EBITDA	1,880	1,846	2,047	8.9%	10.9%	16.8%
EBIT	983	960	1,057	7.6%	10.1%	22.1%
Net Profit	**746**	**829**	**980**	31.3%	18.2%	39.4%
EPS	**0.97**	**1.08**	**1.27**	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**62.6**
Upside / (Downside)*	**4.7%**

Source: Tadawul *prices as of 19th of February 2025

Key Financials

SARmn (unless specified)	FY22	FY23	FY24	FY25E
Revenues	15,717	16,763	18,206	19,472
Growth %	6.0%	6.7%	8.6%	7.0%
Net Income	1,657	2,232	3,107	3,288
Growth %	54.6%	34.7%	39.2%	5.8%
EPS	2.15	2.90	4.04	4.27
DPS	1.15	1.45	2.20	2.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24	FY25E
Gross Margin	59.7%	55.2%	54.5%	54.1%
EBITDA Margin	39.3%	39.5%	39.5%	37.9%
Net Margin	10.5%	13.3%	17.1%	16.9%
ROE	10.1%	12.7%	15.8%	15.5%
ROA	4.3%	5.7%	7.8%	8.2%
P/E (x)	16.1	16.9	14.8	14.0
P/B (x)	1.6	2.1	2.3	2.2
EV/EBITDA (x)	6.3	7.2	7.4	6.9
Dividend Yield	3.3%	3.0%	4.1%	4.2%

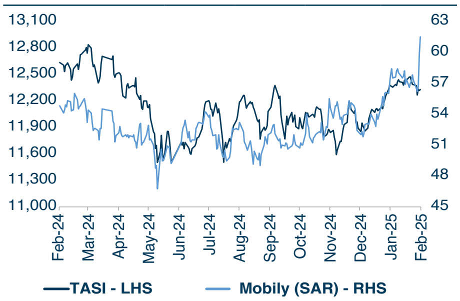
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	46.0
YTD%	12.0%
52 week (High)/(Low)	60.10/46.75
Share Outstanding (mn)	770

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadwaul, Aljazira Capital Research

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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