Etihad Etisalat Co. (Mobily)

Results Flash Note Q3-24

Q3-24 Net profit bolstered by one-off tax reversals in addition to healthy operating performance

Etihad Etisalat Co.'s (Mobily) net profit jumped 58.2% Y/Y SAR 829mn in Q3-24, exceeding AJC's and market estimates of SAR 632mn and SAR 653mn, respectively. A withholding tax reversal worth SAR 140mn supported the earnings. Excluding the one-off impact, normalized net income of SAR 689mn was above our estimate primarily due to higher normalized GP margin, lower depreciation and amortization and lower zakat and income tax. The revenue grew 9.3% Y/Y to SAR 4.5bn, in line with our estimate of SAR 4.4bn. The B2B segment continues to be the key contributor to revenue growth. Gross margin expanded by ~70bps Y/Y to 57.0%, while normalized gross margin stood at 53.9%, a 240 bps Y/Y contraction but above our expectations of 53.6%. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 62.6/share.

- Mobily's net profit surged 58.2% Y/Y to SAR 829mn in Q3-24, above our consensus estimates of SAR 632mn and SAR 653mn, respectively, supported by withholding tax reversal worth SAR 140mn. Excluding the one-off impact, normalized net income of SAR 689mn was above our estimate due to higher normalized GP margin, lower depreciation and amortization and lower zakat and income tax. Slightly higher-than-expected revenue also helped with expansion of the earnings. On the other hand, finance expenses were higher compared to our expectations and increased 28.7% compared to the previous quarter.
- Revenue increased 9.3% Y/Y to SAR 4,499mn, in line with our estimate of SAR 4,428mn. The company witnessed revenue growth from all of its revenue segments in Q3-24 led by the B2B segment. The mobile subscriber base expanded by 1.5% Y/Y to 11.7mn but fell Q/Q from 12.2mn in Q2-24. Prepaid subscribers decreased to 9.8mn in Q3-24 from 10.2mn in the previous quarter, while postpaid subscribers were steady at 1.9mn. FTTH connections reached 0.283mn (+0.2% Y/Y), but down from 0.298mn in Q2-24.
- Gross profit rose 10.7% Y/Y to SAR 2,566mn, beating our estimate of SAR 2,373mn, as the gross profit was helped by SAR 140mn positive impact from withholding tax reversal. The normalized gross profit of SAR 2,426mn was in line with our estimate of SAR 2,373mn. The reported GP margin rose ~70bps Y/Y 57.0%, while normalized GP margin contracted 240bps to 53.9% (AJC estimate: 53.6%).
- Operating profit was up 38.7% Y/Y to SAR 960mn, above our estimate of SAR 751mn. Normalized operating profit was SAR 820mn, due to higher gross profit and lower depreciation and amortization (-2.4% Y/Y). The normalized operating margin of 18.2% was higher than our estimate of 17.0% and 16.8% in Q2-24.

AJC view and valuation: Mobily's Q3-24 earnings were boosted by non-recurring withholding tax reversal worth SAR 140mn. However, excluding the one-off impact, the company posted a healthy set of results which was mainly driven by strong top line growth and operating efficiency. The B2B segment remains key revenue growth driver, while the pressure on Consumer business continues with number subscriber declining sequentially as there is stiff competition in the sector. On the other hand, Mobily signed a hosting placed hosting agreement with Red Bull Mobile as a Mobile Virtual Network Operator (MVNO) and the company is increasing its presence in the submarine cable business. These developments bode well for the company's Wholesale segment growth. Additionally, consistent healthy operating performance will continue to support Mobily's profitability and offset pressure on GP margins. The stock currently trades at EV/EBITDA of 6.5x, P/E of 13.7x and a dividend yield of 4.3% 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	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,118	4,465	4,499	9.3%	0.8%	1.6%
Gross Profit	2,319	2,378	2,566	10.7%	7.9%	8.1%
Gross Margin	*56.3%*	*53.3%*	*57.0%*	-	-	-
EBITDA	1,600	1,650	1,846	15.4%	11.9%	11.3%
EBIT	692	759	960	38.7%	26.5%	27.7%
Net Profit	**524**	**661**	**829**	58.2%	25.4%	31.2%
EPS	0.68	0.86	1.08	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	**Overweight**
Target Price (SAR)	**62.6**
Upside / (Downside)*	**22.7%**

Source: Tadawul *prices as of 24th of October 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	15,717	16,763	18,159	18,913
Growth %	6.0%	6.7%	8.3%	4.1%
Net Income	1,657	2,232	2,779	2,871
Growth %	54.6%	34.7%	24.5%	3.3%
EPS	2.15	2.90	3.61	3.73
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%	54.6%	53.8%
EBITDA Margin	39.3%	39.5%	37.8%	37.1%
Net Margin	10.5%	13.3%	15.3%	15.2%
ROE	10.1%	12.7%	14.4%	13.8%
ROA	4.3%	5.7%	7.0%	7.1%
P/E (x)	16.1	16.9	14.1	13.7
P/B (x)	1.6	2.1	2.0	1.9
EV/EBITDA (x)	6.3	7.2	6.9	6.5
Dividend Yield	3.3%	3.0%	3.5%	4.3%

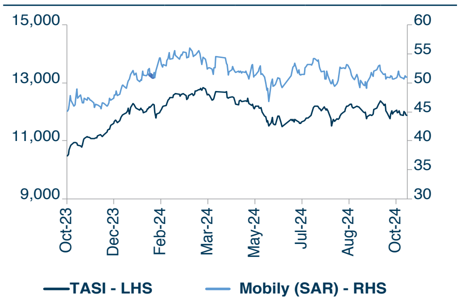
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	39.3
YTD%	4.0%
52 week (High)/(Low)	57.00/44.30
Share Outstanding (mn)	770

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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