Etihad Etisalat Co.(Mobily)

Results Flash Note Q3-2023

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Healthy revenue growth and lower OPEX further supported by decrease in depreciation and amortization; GP margin contracts

Etihad Etisalat Co.'s (Mobily) net profit surged 40.5% Y/Y SAR 524mn in Q3-23, above AJC's and consensus estimates of SAR 492mn and SAR 514mn, respectively. The deviation from our estimate is mainly due to lower-than-expected OPEX, depreciation and amortization, and finance expenses. The revenue grew 7.1% Y/Y to SAR 4.1bn, in line with our estimate, with the Business segment being the major contributor to the growth. Gross margin at 57.6% came below our expectation of 58.0% and 60.1% in Q3-22, while operating margin expanded to 16.8% from 13.7% in Q3-22 and higher than our estimate of 15.8%. We maintain our "Overweight" recommendation on the stock and keep the TP unchanged at SAR 50.0/share.

- Mobily's net profit jumped 40.5% Y/Y to SAR 524mn in Q3-23, beating our and consensus estimates of SAR 492mn and SAR 514mn, respectively. The variance from our estimate was attributable to lower-than-expected OPEX, depreciation and amortization, and finance expenses. The Y/Y growth in the bottom line was led by healthy revenue growth and operating margin expansion, partially offset by a reduction in gross margin.
- Revenue increased 7.1% Y/Y to SAR 4,100mn, in line with our estimate of SAR 4,076mn. The business segment revenue growth (+34.7% Y/Y) coupled with overall subscriber base expansion led to the topline growth. Wholesale revenue was up 10.6% Y/Y. Revenue declined 3.5% Q/Q due to seasonal weakness in the consumer segment.
- Gross profit rose 2.7% Y/Y to SAR 2,362mn, in line with our estimate of SAR 2,364mn, as revenue growth was partially outweighed by a reduction in GP margin. GP margin fell ~250 bps Y/Y to 57.6% (AJC estimate: 58.0%). We believe, higher contribution from Business segment dragged the GP margin.
- Operating profit was up 31.2% Y/Y to SAR 689mn vs. our estimate of SAR 644mn. Operating margin expanded ~310 bps to 16.8% in Q3-23, despite GP margin contraction. The OPEX to sales ratio (excluding D&A) declined to 18.7% from 21.5%. Depreciation and amortization also recorded a decline of 4.8% Y/Y.

AJC view and valuation: Mobily posted another healthy growth in the top line as well as bottom line in Q3-23. The company maintained revenue momentum that has been built over the past few quarters with consistent mid-to-high single digit growth. Additionally, improved operating efficiency supported the earnings. It is noteworthy that the company has been able to contain its OPEX despite growth in revenue in recent quarters. On the other hand, GP margin contracted, possibly impacted by rising exposure to business segment. We expected GP margins to remain around the current range, as we expect the business segment to continue to lead to the growth. The growing subscriber base of the and robust growth from the Business segment are key positives for the company. The stock currently trades at EV/EBITDA of 6.5x and P/E of 15.1x based on our FY24E estimates. We maintain our "**Overweight**" recommendation on the stock and keep the TP unchanged at **SAR 50.0/share**.

Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,828	4,248	4,100	7.1%	-3.5%	0.6%
Gross Profit	2,300	2,435	2,362	2.7%	-3.0%	-0.1%
Gross Margin	60.1%	57.3%	57.6%	-	-	-
EBIT	525	656	689	31.2%	5.0%	7.0%
Net Profit	**373**	**497**	**524**	40.5%	5.4%	6.6%
EPS	**0.48**	**0.65**	**0.68**	-	-	-

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

Recommendation	Overweight
Target Price (SAR)	50.0
Upside / (Downside)*	19.0%

Source: Tadawul *prices as of 23rd of October 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenue	14,834	15,669	16,737	17,305
Growth %	5.6%	5.6%	6.8%	3.4%
Net Profit	1,072	1,657	2,050	2,291
Growth %	36.8%	54.6%	23.7%	11.8%
EPS	1.39	2.15	2.66	2.98

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	58.5%	59.8%	57.4%	57.8%
Net Margin	7.2%	10.6%	12.2%	13.2%
P/E (x)	22.4	16.1	16.8	15.1
P/B (x)	1.6	1.6	2.0	1.8
EV/EBITDA (x)	6.6	6.3	7.0	6.5
Dividend Yield	2.7%	3.3%	2.9%	2.9%

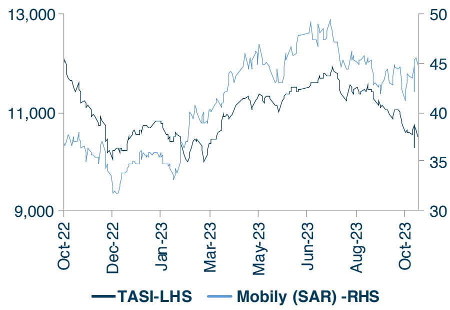
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	32.3
YTD%	30.9%
52-week (High)/(Low)	50.00/31.45
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