

1Q20 Results Update
April 27, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	26.4
Target Price (SAR)	24.0
Upside/Downside (%)	(8.9%)

As of 26th April, 2020
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.3
52-Wk High (SAR)	28.3
52-Wk Low (SAR)	18.5
Total Outstanding shares (in mn)	770
Free Float (%)	65.1%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	25.6%	15.4%
6m	8.1%	24.4%
12m	8.6%	37.0%

Major Shareholders (%)

Emirates Telecommunications Corp. (Etisalat)	27.99%
General Org. for Social Insurance	6.90%

Revenue (SAR bn) and EBITDA Margin (%)


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th April 2020

Net profit rise in 1Q20 on sustained growth in revenues and lower financial charges

Etihad Etisalat Co. (Mobily) recorded the 10th consecutive quarter of rising revenues in 1Q20, which grew 12.5% YoY and 2.4% QoQ to SAR 3.6bn, aided by higher data and business revenues, growth in the FTTH subscriber base, and improvement in the subscriber mix. Operating profit increased 7.1% YoY and 78% QoQ owing to higher revenues that offset the rise in SG&A expenses. EBITDA was also up 1.0% YoY and 9.2% QoQ to SAR 1.3bn. Mobily's financing charges reduced 23.7% YoY to SAR 162mn in 1Q20 as the company reduced its net debt by SAR 413mn over the last 12 months. These factors led to a 93.7% YoY surge in the net profit to SAR 130mn.

Mobily continued to record consistent growth in data and business revenues, supported by a continued rise in the FTTH subscriber base and the improved subscriber mix. This helped improve EBITDA, which was reflected in the higher operating cash flow. Mobily reduced its net debt by SAR 413mn in the last 12 months which reduced its net debt to equity ratio to 0.8x compared to 0.9x a year ago. Though leverage continues to be on the higher side, lower interest rates are likely to help reduce the financing expenses. Despite the improvements in business performance, Mobily continues to face challenges from the external environment in terms of market competition, regulation, and economy. Even though the telecom sector is expected to suffer minimal impact from the COVID-19 pandemic, suspension of pilgrimage and tourism may impact the company's revenues in the coming quarter. The company recorded a spike in data consumption in 1Q20, with a 30% MoM rise in March 2020 as more people are forced to stay indoor following the lockdown and rely on mobile networks to connect to the outside world. Telecom companies have a vital role to play during this time in providing a reliable and resilient network and in view of this, the CITC has awarded additional spectrum licenses for mobile service providers, for select bands. Taking these factors into consideration, we maintain our "Neutral" rating on the stock.

- Revenues increased 12.5% YoY to SAR 3.6bn owing to continued improvement in the subscriber mix, higher revenues from the wholesale and business units, and growth in the FTTH subscriber base. The company also benefitted from the expansion of projects executed for the government sector.
- Gross profit rose 12.3% YoY to SAR 2.1bn in 1Q20, following healthy growth in the top line. The gross profit margin was stable at 57.4% in 1Q20 compared to 1Q19. The gross margin in 4Q19 was 56.6%.
- EBITDA increased 1.0% YoY and 9.2% QoQ to SAR 1,285mn, led by higher revenues and better operational performance. The EBITDA margin was 35.7% in 1Q20 compared to 33.5% in 4Q19 and 39.7% in 1Q20.
- Operating income grew 7.1% YoY to SAR 296mn in 1Q20, reflecting the improvement in EBITDA.
- Financial charges in 1Q20 were down 23.7% to SAR 162mn. Therefore, the profit attributable to equity holders jumped 93.7% YoY to SAR 130mn in 1Q20, and recovered from quarterly losses in 4Q19 due to transaction costs related to refinancing agreements.
- Capex in 1Q20 fell 44% YoY and 66% QoQ to SAR 442mn as the company concluded RISE projects by the end of 2019 and rolled out 5G in the previous quarter.

Valuation: We revise our target price to SAR 24.0 and retain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,600	3,201	12.5%	14,224	13,450	5.8%
Gross Profit (SAR mn)	2,065	1,839	12.3%	8,107	7,800	3.9%
Operating Profit (SAR mn)	296	277	7.1%	1,231	967	27.3%
Net Profit (SAR mn)	130	67	93.7%	424	31	1,258.8%
EPS Basic (SAR)	0.17	0.09	93.7%	0.55	0.04	1,258.8%
Gross Margin (%)	57.4%	57.4%	(0.1%)	57.0%	58.0%	(1.0%)
Operating Margin (%)	8.2%	8.6%	(0.4%)	8.7%	7.2%	1.5%
Net Profit Margin (%)	3.6%	2.1%	1.5%	3.0%	0.2%	2.7%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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