

3Q20 Results Update
November 29, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	28.3
Target Price (SAR)	27.0
Upside/Downside (%)	(4.7%)

As of November 01, 2020
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.8
52-Wk High (SAR)	32.3
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	(0.4%)	4.8%
6m	1.6%	(9.0%)
12m	26.0%	24.4%

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 November 01, 2020

Operational efficiency, lower financial charges boost bottom line in 3Q20

Etihad Etisalat Co. (Mobily)'s revenue declined 1.4% YoY to SAR 3.4bn in 3Q20 due to precautionary measures announced by the government to contain the spread of the COVID-19 pandemic. Reported EBITDA was up 5.6% YoY to SAR 1.3bn in 3Q20 owing to operational efficiency and resulted in improvement in EBITDA margin to 40.2% from 37.5% in 3Q19. The 35.1% YoY drop in financial charges, coupled with reduction in operating expense, drove net profit up by 334.6% YoY to SAR 222.0mn. Consequently, net margin widened to 6.6% in 3Q20 against 1.5% in 3Q19 and 5.2% in 2Q20.

Though revenue fell slightly in 3Q20, it increased 5.8% YoY to SAR 10.5bn for 9M20 owing to growth across all its segments. Mobily's Consumer and Business segments contributed the most to 9M20 revenue growth, rising 1.8% YoY to SAR 7.9bn and 23.8% YoY to SAR 1.5bn, respectively. The rise in data consumption, in addition to expansion in the company's FTTH subscriber base, in 9M20 also boosted revenue growth. The company recorded margin expansion in the quarter on account of lower operating and financial charges. A consistent increase in data consumption and the easing of restrictions for pilgrimage are expected to drive revenue in the coming quarters. Mobily is actively looking to sell its tower business; this will improve efficiency and provide the proceeds to expedite the deployment of 5G network, which Mobily operates across 48 cities in the Kingdom. However, the company faces several headwinds in the form of heightened competition in the telecom sector and stringent regulations. As a result, we maintain our "Neutral" rating on the stock.

- Revenue dipped 1.4% YoY to SAR 3.4bn in 3Q20 due to COVID-19 precautionary measures. Moreover, weak device sales and lower mobile termination rates contributed to the marginal decline in the top line. Revenue fell 5.7% QoQ from SAR 3.6bn in 2Q20.
- Gross profit (up 2.0% YoY to SAR 2.1bn) grew at a faster pace compared with revenue in 3Q20 owing to the 6.4% YoY decline in cost of sales to SAR 1.3bn. Consequently, gross margin widened to 61.3% in the quarter as against 59.2% in 3Q19 and 57.9% in 2Q20.
- EBITDA increased 5.6% YoY to SAR 1.3bn due to operational efficiency. This led to a 269.1 bps expansion in EBITDA margin to 40.2% in 3Q20 from 37.5% in 3Q19.
- Operating income surged 35.7% YoY to SAR 356.1mn in 3Q20 on lower impairment loss and higher net other income. As a result, operating margin improved to 10.6% in 3Q20 from 7.7% in 3Q19.
- Mobily's financial expense decreased 35.1% YoY to SAR 133.9mn owing to debt refinancing carried out in 4Q19. This led to a 334.6% YoY surge in profit attributable to equity holders to SAR 222.0mn. Subsequently, net margin expanded to 6.6% in 3Q20 from 1.5% in 3Q19 and 5.2% in 2Q20.
- Net debt inched up 3.0% YoY to SAR 10.9bn in 3Q20. Capex rose 20.56% YoY to SAR 1,765mn, as the company remained focused on its infrastructure investment plans and strived to improve service quality.

Valuation: We revise our target price to SAR 27.0 and retain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,355	3,404	(1.4%)	14,245	13,450	5.9%
Gross Profit (SAR mn)	2,056	2,015	2.0%	8,248	7,800	5.7%
Operating Profit (SAR mn)	356	262	35.7%	1,233	967	27.5%
Net Profit (SAR mn)	222	51	334.6%	629	31	1916.6%
EPS Basic (SAR)	0.29	0.07	334.6%	0.82	0.04	1916.6%
Gross Margin (%)	61.3%	59.2%	2.1%	57.9%	58.0%	(0.1%)
Operating Margin (%)	10.6%	7.7%	2.9%	8.7%	7.2%	1.5%
Net Profit Margin (%)	6.6%	1.5%	5.1%	4.4%	0.2%	4.2%

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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