3Q22 Results Update

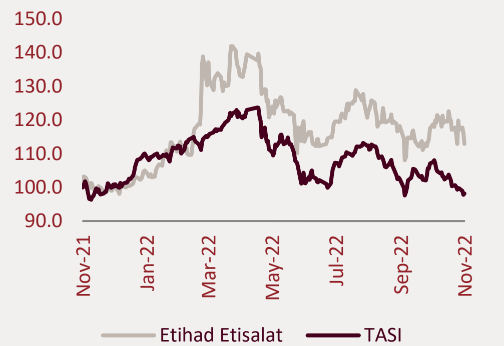
November 24, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	35.8
Target Price (SAR)	41.0
Upside/Downside (%)	14.7%

As of November 22, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	27.5
52-wk High (SAR)	44.7
52-wk Low (SAR)	30.0
Total Outstanding shares (in mn)	770.0
Free Float (%)	72.0%

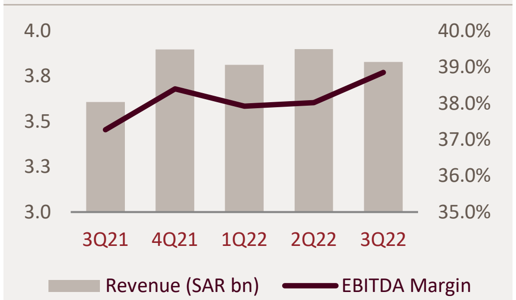
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.0%)	4.4%
6m	(9.0%)	2.1%
12m	12.9%	14.8%

Major Shareholders (%)	
Emirates Telecommunications Corp. (Etisalat)	27.99%

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of November 22, 2022

Improved revenues across business segments drive topline in 3Q22

Etihad Etisalat Co. (Mobily)'s revenue increased 6.1% YoY to SAR 3.8bn in 3Q22, driven by improved revenue contribution across business segments, with healthy growth in the FTTH active base and the overall subscriber base. Gross profit grew slower (up 5.2% YoY to SAR 2.3bn) than the topline as cost of sales rose 7.6% YoY to SAR 1.5bn during the quarter. Consequently, gross margin contracted 52 bps YoY to 60.1% in 3Q22. Reported EBITDA advanced 7.1% YoY to SAR 1.5bn in 3Q22, mainly due to improved topline and operational efficiency. Subsequently, EBITDA margin widened 33 bps YoY to 38.8% in 3Q22. Decline in impairment cost and high other income led to a 26.1% YoY surge in operating expenses to SAR 533.5mn. As a result, operating margin expanded 221 bps YoY to 13.9%. Despite an increase in finance and zakat expenses, net profit rose 32.5% YoY to SAR 372.5mn in 3Q22. Consequently, the net margin improved 194 bps YoY to 9.7%.

Mobily continues to report a robust performance in 3Q22, as the company reported a topline growth of 6.1% YoY, while bottom line advanced 32.5% YoY. The advancement in topline was attributable to resilient growth in wholesale unit and consistent performance in consumer and business units. Additionally, a rise in FTTH active and overall subscriber bases steered the topline growth. However, the topline slightly declined on quarterly basis due to the seasonal nature of devices in consumer unit. The company recorded a 7.1% YoY rise in EBIDTA, supported by improved topline performance and operational efficiency. In the last nine months, Mobily has reduced its debt by more than SAR 1bn, driven by Mobily's ongoing focus on its deleveraging strategy. Consequently, the net-debt-to-EBITDA ratio improved to 1.86x in 3Q22 from 2.26x in 3Q21. CAPEX rose 5.6% YoY in 9M22 and was in line with its strategy to enable digital transformation and support innovation in products and services. The company faces several headwinds in the form of stringent regulations and strong competition in the telecom sector. Despite lower debt levels, the increase in SAIBOR rates amid rate hikes by SAMA led to a YoY rise in finance cost. Finance charges are likely to increase during the year as more rate hikes are anticipated, which will put pressure on the bottom line. However, improvement in operational efficiency, revenue mix, and steady growth in overall subscriber base are likely to improve Mobily's earnings going forward. Considering these factors, we revise our rating to "Overweight" on the stock.

- Mobily's revenue advanced 6.1% YoY SAR 3.8bn in 3Q22, mainly driven by high revenue contribution from the consumer and wholesale segments. On a quarterly basis, revenue fell 1.8% from SAR 3.9bn in 2Q22 due to the seasonal nature of devices sales in the consumer segment.
- Gross profit surged 5.2% YoY to SAR 2.3bn during the quarter. However, gross margin narrowed to 60.1% from 60.6% in 3Q21 as cost of sales soared 7.6% YoY to SAR 1.5bn in 3Q22.
- Reported EBITDA increased 7.1% YoY to SAR 1.5bn, with EBITDA margin expanding to 38.8% in 3Q22 from 38.5% in 3Q21, attributable to operational efficiency measures taken by the company.
- Operating income climbed 26.1% YoY to SAR 533.6mn owing to fall in impairment loss and rise in other income. Consequently, operating margin improved to 13.9% in 3Q22 from 11.7% in 3Q21.
- The net profit advanced 32.5% YoY to SAR 372.5mn during the quarter as increase in finance cost and zakat expenses was offset by high topline. As a result, the net margin widened to 9.7% from 7.8% in 3Q21.
- Reported CAPEX declined 14.0% YoY but rose 24.1% QoQ to SAR 396mn in 3Q22.

Valuation: We revise our target price to a fair value of SAR 41.0 per share but revise our rating to "Overweight" on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	3,828	3,606	6.1%	15,496	14,834	4.5%
Gross Profit (SAR mn)	2,300	2,186	5.2%	9,074	8,672	4.6%
Operating Profit (SAR mn)	534	423	26.1%	1,975	1,668	18.4%
Net Profit (SAR mn)	373	281	32.5%	1,368	1,072	27.6%
EPS Basic (SAR)	0.48	0.37	32.5%	1.78	1.39	27.6%
Gross Margin (%)	60.1%	60.6%	(0.5%)	58.6%	58.5%	0.1%
Operating Margin (%)	13.9%	11.7%	2.2%	12.7%	11.2%	1.5%
Net Profit Margin (%)	9.7%	7.8%	1.9%	8.8%	7.2%	1.6%

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 ≥ 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 ≥ 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 Yaqeen Capital.

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