1Q21 Results Update

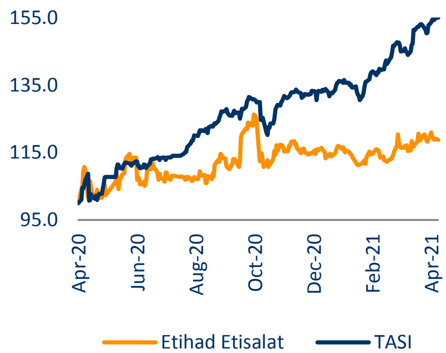
April 26, 2021

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	30.1
Target Price (SAR)	29.8
Upside/Downside (%)	(0.8%)

As of April 25, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	23.1
52-Wk High (SAR)	32.3
52-Wk Low (SAR)	24.9
Total Outstanding shares (in mn)	770
Free Float (%)	65.1%

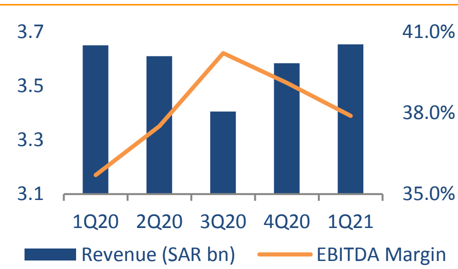
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	2.9%	(4.8%)
6m	5.6%	(13.6%)
12m	18.8%	(36.3%)

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 April 25, 2021

Increasing subscriber base, higher Business unit revenue boost top line in 1Q21

Etihad Etisalat Co. (Mobily)'s revenue grew 0.1% YoY to SAR 3.6bn in 1Q21, aided by higher Business unit revenue and increasing FTTH customer base. Gross profit inched up 0.3% YoY to SAR 2.1bn, while gross margin expanded 12.2 bps to 57.5% in 1Q21. Reported EBITDA increased 6.2% YoY to SAR 1.4bn due to the company's operational efficiency, resulting in a 219.0 bps expansion in EBITDA margin to 37.9% in the quarter. Reduced financing expense drove net profit up 73.4% YoY to SAR 225.9mn, which resulted in a 265.0 bps widening in net margin to 6.3% during the quarter.

Mobily recorded its highest quarterly revenue in five years despite the challenges posed by the COVID-19 pandemic. The Business (+22.1% YoY to SAR 577.5mn) and Outsourcing segments (+4.3% YoY to SAR 53.9mn) contributed the most to growth in revenue in 1Q21. Growth in the top line was also supported by a rise in the company's FTTH subscriber base during the quarter. Higher top line and reduced operating and financing costs aided the company to record YoY growth in profits during 1Q21; this, in turn, led to an improvement in margins. The company also managed to pare its debt and bring down net-debt-to-EBITDA to 2.30x from 2.67x in 1Q20 and from 2.45x in 4Q20. Mobily recently received the nod from regulator Communications and Information Technology Commission (CITC) to form a consortium alongside Zain KSA, Raidah Investment Co. (AlRaidah), and IHS KSA Ltd. (IHS) and merge its tower business into a new entity Towers Company. The proceeds from the transaction could aid Mobily to lower its leverage or capture growth opportunities. However, the company faces several headwinds in the form of increased competition in the telecom sector and stringent regulations. Furthermore, reduction in mobile termination rates (MTR) and lower revenue from international roaming services due to restrictions on entry of travelers from certain nations amid a resurgence in global cases may put pressure on its bottom line. As a result, we maintain "Neutral" rating on the stock.

- Revenue inched up 0.1% YoY and 2.0% QoQ to SAR 3.6bn in 1Q21 owing to a steady growth in Business unit revenue and FTTH customer base. However, growth was limited by lower revenue from international roaming services and a reduction in MTR.
- Gross profit rose 0.3% YoY to SAR 2.1bn due to the 0.2% YoY decline in cost of sales to SAR 1.5bn, alongside a higher top line. Subsequently, gross margin widened to 57.5% from 57.4% in 1Q20.
- Reported EBITDA increased 6.2% YoY to SAR 1.4bn due to Mobily's operating efficiency. As a result, EBITDA margin expanded to 37.9% in 1Q21 from 35.7% in 1Q20.
- Operating income surged 24.6% YoY to SAR 369.0mn in 1Q21 due to lower total SG&A expenses. Consequently, operating margin soared to 10.2% from 8.2% in 1Q20.
- Lower finance charge offset higher zakat expense, which resulted in a 73.4% YoY increase in net profit to SAR 225.9mn in 1Q21. As a result, net margin zoomed to 6.3% from 3.6% in 1Q20.
- Net debt dipped 5.7% YoY and 4.6% QoQ to SAR 12.5bn in 1Q21, with net-debt-to-EBITDA contracting to 2.30x. Capex dropped 65.0% YoY and 84.9% QoQ to SAR 155.0mn in 1Q21.
- On March 24, Mobily announced that CITC approved the application from Mobily, Zain KSA, AlRaidah, and IHS to acquire towers owned by Mobily and Zain KSA, and merge them into a new entity, Towers Company. The new company will provide infrastructure wholesale services (category A towers and masts) and will be majorly owned by Mobily, Zain KSA, and AlRaidah; IHS will hold a minority stake.

Valuation: We revise our target price upward to a fair value of SAR 29.8 and retain "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	3,603	3,600	0.1%	14,854	14,046	5.8%
Gross Profit (SAR mn)	2,072	2,065	0.3%	8,690	8,152	6.6%
Operating Profit (SAR mn)	369	296	24.6%	1,563	1,367	14.4%
Net Profit (SAR mn)	226	130	73.4%	1,000	783	27.7%
EPS Basic (SAR)	0.29	0.17	73.4%	1.30	1.02	27.7%
Gross Margin (%)	57.5%	57.4%	0.1%	58.5%	58.0%	0.5%
Operating Margin (%)	10.2%	8.2%	2.0%	10.5%	9.7%	0.8%
Net Profit Margin (%)	6.3%	3.6%	2.7%	6.7%	5.6%	1.2%

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 ≥ 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 FALCOM Financial Services.

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