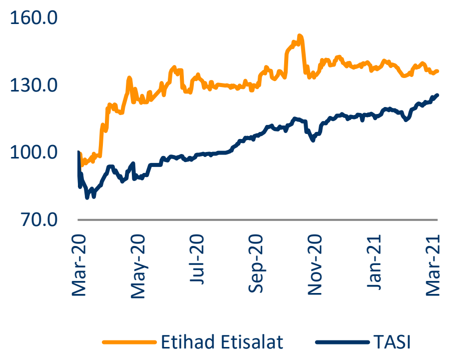
**FY20 Results Update** **March 08, 2021**

| Recommendation | Neutral |
|---|---|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 28.6 |
| Target Price (SAR) | 29.0 |
| Upside/Downside (%) | 1.4% |

*As of March 08, 2021*

| Key Data (Source: Bloomberg) | |
|---|---|
| Market Cap (SAR bn) | 22.0 |
| 52-Wk High (SAR) | 32.3 |
| 52-Wk Low (SAR) | 18.5 |
| Total Outstanding shares (in mn) | 770 |
| Free Float (%) | 65.1% |

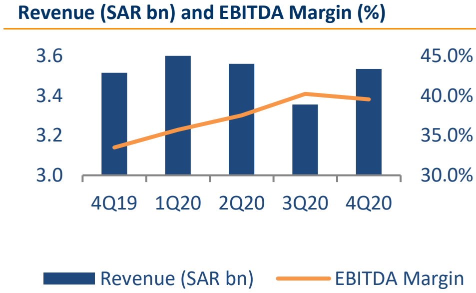
**ETIHAD ETISALAT vs. TASI (Rebased)**




| Price Performance (%) | Absolute | Relative |
|---|---|---|
| 1m | 0.5% | (7.4%) |
| 6m | 4.0% | (12.8%) |
| 12m | 36.2% | 10.7% |

| 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 March 08, 2021*

**Higher data revenue, improving subscriber mix boost top line in FY20; margins expand**

Etihad Etisalat Co. (Mobily)'s revenue grew 4.4% YoY to SAR 14.0bn in FY20, aided by growth in data revenue and customer base. Gross profit inched up 4.5% YoY to SAR 8.2bn, while gross margin expanded 4.8 bps to 58.0% in FY20. Reported EBITDA was up 8.2% YoY to SAR 5.4bn due to operational efficiency and improvement in revenue mix, resulting in a 131.2 bps expansion in EBITDA margin to 38.1% in FY20. Decrease in finance and zakat expenses drove net profit up to SAR 783.3mn from SAR 31.2mn in FY19, leading to a 534.4 bps expansion in net margin to 5.6% during the year.

Mobily recorded its highest revenue in five years owing to steady growth across all segments. The Business and Wholesale segments contributed the most to growth in revenue in FY20; revenue from the segments rose 25.8% YoY to SAR 2.0bn and 10.6% YoY to SAR 1.2bn, respectively. Growth in top line in FY20 was also supported by rise in data consumption and addition to the company's FTTH subscriber base amid challenging conditions created by the pandemic. The company reported its highest EBITDA in seven years owing to operational efficiency and improvement in revenue mix. This aided the company to report a sharp rise in bottom line and steady improvement in profit margins. The company also managed to pare its debt and bring down net-debt-to-EBITDA to 2.26x from 2.46x in FY19. Mobily is actively seeking the sale of its tower business; the deal could provide it with the necessary capital to expedite the deployment of 5G network, which, as of FY20, it operates across 53 cities in the Kingdom. However, the company faces several headwinds in the form of increased competition in the telecom sector due to the government's plans to award two MVNO licenses to foreign operators and stringent regulations. Furthermore, additional restrictions on international travel for visitors from certain countries due to new mutations of the COVID-19 virus may hurt the company's roaming revenue and put pressure on its bottom line. As a result of the countervailing factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue inched up 4.4% YoY to SAR 14.0bn in FY20 owing to steady growth in data revenue and customer base, alongside improvement in subscriber mix. Increase in revenue from the Business, Wholesale and Outsourcing segments also boosted the top line during the year.
- Gross profit rose 4.5% YoY to SAR 8.2bn as the growth in top line offset the 4.3% YoY rise in cost of sales to SAR 5.9bn. Subsequently, gross margin widened 4.8 bps to 58.0% in FY20.
- EBITDA increased 8.2% YoY to SAR 5.4bn due to operational efficiency and improved revenue mix. As a result, EBITDA margin expanded to 38.1% in FY20 from 36.8% in FY19.
- Operating income surged 41.3% YoY to SAR 1.4bn in FY20 on lower G&A expense and impairment loss. Consequently, operating margin widened to 9.7% in FY20 from 7.2% in FY19.
- Lower finance and zakat costs, coupled with higher margins, pushed net profit up to SAR 783.3mn in FY20 from SAR 31.2mn in FY19. Subsequently, net margin expanded to 5.6% from 0.2% in FY19.
- Net debt dipped 0.2% YoY to SAR 10.6bn in FY20, with net-debt-to-EBITDA contracting to 2.26x from 2.46x in FY19. Capex inched up 1.2% YoY to SAR 2.8bn in FY20, as the company remained focused on its infrastructure investment plans.
- On December 17, Mobily's Board recommended a cash dividend of SAR 0.5 per share for FY20, equivalent to SAR 385mn or 5% of the company's share capital.

**Valuation:** We revise our target price upward to a fair value of SAR 29.0 and retain our "Neutral" rating on the stock.

| | 4Q20 | 4Q19 | % YoY | FY21E | FY20 | % YoY |
|---|---|---|---|---|---|---|
| Revenues (SAR mn) | 3533 | 3514 | 0.5% | 14854 | 14046 | 5.8% |
| Gross Profit (SAR mn) | 1969 | 1990 | (1.0%) | 8690 | 8152 | 6.6% |
| Operating Profit (SAR mn) | 380 | 166 | 128.2% | 1563 | 1367 | 14.4% |
| Net Profit (SAR mn) | 246 | (125) | NM | 1000 | 783 | 27.7% |
| EPS Basic (SAR) | 0.32 | (0.16) | NM | 1.30 | 1.02 | 27.7% |
| Gross Margin (%) | 55.7% | 56.6% | (0.9%) | 58.5% | 58.0% | 0.5% |
| Operating Margin (%) | 10.8% | 4.7% | 6.0% | 10.5% | 9.7% | 0.8% |
| Net Profit Margin (%) | 7.0% | (3.6%) | NM | 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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