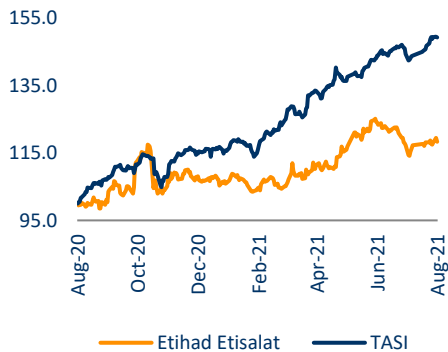


2Q21 Results Update
August 9, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	32.2
Target Price (SAR)	30.1
Upside/Downside (%)	(6.5%)

As of August 9, 2021
Key Data (Source: Bloomberg)

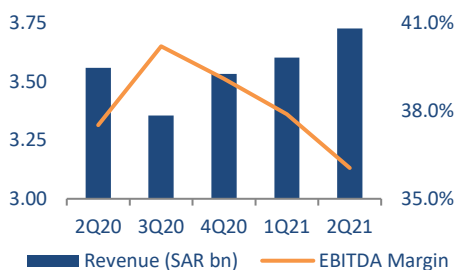
Market Cap (SAR bn)	24.8
52-Wk High (SAR)	34.3
52-Wk Low (SAR)	26.7
Total Outstanding shares (in mn)	770.0
Free Float (%)	65.1%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	0.9%	(2.5%)
6m	13.0%	(14.1%)
12m	18.4%	(30.9%)

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 August 9, 2021

Top line surges in 2Q21 but challenges increase as government awards two additional MVNO licenses

Etihad Etisalat Co. (Mobily)'s revenue grew 4.8% YoY to SAR 3.7bn in 2Q21, aided by higher Business and Consumer unit revenues and increasing FTTH customer base. Gross profit inched up 4.1% YoY to SAR 2.1bn, whereas gross margin contracted 34.6 bps YoY to 57.6% in 2Q21. Reported EBITDA scaled up 0.7% YoY to SAR 1.3bn, but EBITDA margin shrank 146.0 bps YoY to 36.1% in 2Q21. Reduced finance expense drove net profit up 31.7% YoY to SAR 243.8mn and resulted in a 133.7 bps expansion in net margin to 6.5% during the quarter.

Mobily recorded its highest quarterly revenue in the last five years in 2Q21 as the company overcame the challenges posed by the COVID-19 pandemic. The growth in top line in 2Q21 was driven by steady rise in revenue contribution from the Business (up 16.1% YoY to SAR 661.1mn) and Consumer (up 3.4% YoY to SAR 2.7bn) segments. Mobily also witnessed an increase in its FTTH consumer base, and coupled with improvement in subscriber mix, led to sturdy growth in the bottom line and profit margins in the quarter. The company also managed to pare its debt and bring down net-debt-to-EBITDA to 2.40x in 2Q21 from 2.56x in 2Q20. Moreover, easing of travel restrictions for Hajj pilgrimage may lead to higher revenue from international roaming services and boost profitability. Mobily recently announced that its plans to form a consortium alongside Zain KSA, Raidah Investment Co. (AIRaidah), and IHS KSA Ltd. (IHS) to merge its tower business hit a roadblock but is still considering other offers for the same. The deal would have provided the company with proceeds to lower leverage or capture growth opportunities. Additionally, the company faces several headwinds in the form of reduction in mobile termination rates, stringent regulations, and increased competition in the telecom sector with the government awarding licenses to four mobile virtual network operators (MVNO) and bringing the total count of telecom operators in the Kingdom to seven. Considering these factors, we maintain "Neutral" rating on the stock.

- Revenue increased 4.8% YoY and 3.5% QoQ to SAR 3.7bn in 2Q21, supported by revenue growth in the Business and Consumer segments as well as a steady rise in its FTTH subscriber base.
- Gross profit (up 4.1% YoY to SAR 2.1bn) grew at a slower pace than top line due to the 5.6% YoY rise in cost of sales to SAR 1.6bn. As a result, gross margin shrank to 57.6% from 57.9% in 2Q20.
- Reported EBITDA increased 0.7% YoY to SAR 1.3bn due to the company's operating efficiency. However, EBITDA margin tightened to 36.1% in 2Q21 from 37.5% in 2Q20.
- Operating income surged 14.8% YoY to SAR 384.0mn in 2Q21 due to lower total SG&A expenses. Consequently, operating margin widened to 10.3% from 9.4% in 2Q20.
- Lower finance charge offset higher zakat expense and resulted in a 31.7% YoY increase in net profit to SAR 243.8mn in 2Q21. As a result, net margin expanded to 6.5% from 5.2% in 2Q20.
- Reported net debt dipped 0.4% YoY and 4.2% QoQ to SAR 13.0bn in 2Q21, while net-debt-to-EBITDA contracted to 2.40x from 2.56x in 2Q20. Reported capex dropped 53.0% YoY to SAR 270.0mn in 2Q21 due to accelerated capex investments in the 5G space in the 2Q20.
- On May 23, Mobily's shareholders approved the Board's recommendation of a SAR 0.5 per share dividend for FY20, equivalent to SAR 385mn (5% of Mobily's share capital).
- On July 4, Mobily announced that plans of forming a consortium with Zain KSA, AIRaidah, and IHS to acquire towers owned by Mobily and Zain KSA, and merging into a new entity, Towers Company, are not in line with the company's strategy and objectives. However, Mobily stated that it will continue to evaluate alternate offers to maximize investor return.

Valuation: We retain our target price at a fair value of SAR 30.1 and maintain "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	3,727.8	3,558.8	4.8%	14,770	14,046	5.2%
Gross Profit (SAR mn)	2,147.1	2,062.0	4.1%	8,537	8,152	4.7%
Operating Profit (SAR mn)	383.5	334.2	14.8%	1,515	1,367	10.9%
Net Profit (SAR mn)	243.8	185.2	31.7%	953	783	21.7%
EPS Basic (SAR)	0.32	0.24	31.7%	1.24	1.02	21.7%
Gross Margin (%)	57.6%	57.9%	(0.3%)	57.8%	58.0%	(0.2%)
Operating Margin (%)	10.3%	9.4%	0.9%	10.3%	9.7%	0.5%
Net Profit Margin (%)	6.5%	5.2%	1.3%	6.5%	5.6%	0.9%

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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