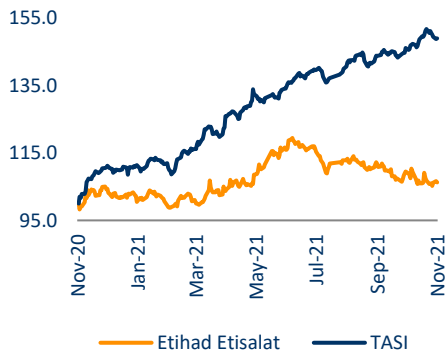


3Q21 Results Update
November 2, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	30.5
Target Price (SAR)	32.0
Upside/Downside (%)	5.5%

As of November 1, 2021
Key Data (Source: Bloomberg)

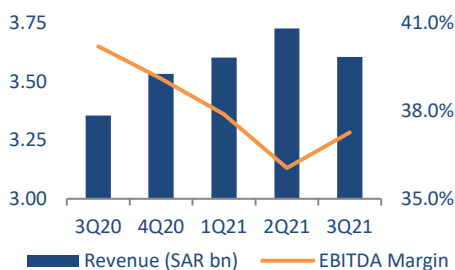
Market Cap (SAR bn)	23.3
52-Wk High (SAR)	34.3
52-Wk Low (SAR)	27.8
Total Outstanding shares (in mn)	770.0
Free Float (%)	62.4%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(2.9%)	(4.9%)
6m	(2.3%)	(15.4%)
12m	6.3%	(42.7%)

Major Shareholders (%)

Emirates Telecommunications Corp. (Etisalat)	27.99%
General Org. for Social Insurance	9.54%

Revenue (SAR bn) and EBITDA Margin (%)


Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 1, 2021

Improved efficiency levels drive company's bottom line to seven year high in 3Q21

Etihad Etisalat Co. (Mobily)'s revenue rose 7.5% YoY to SAR 3.6bn in 3Q21, driven by a 33% YoY increase in Business and 3% YoY increase in Consumer Unit, in addition to a growing FTTH customer base. Gross profit climbed 6.3% YoY to SAR 2.2bn. However, gross margin contracted 66 bps YoY to 60.6% in 3Q21 on higher cost of sales. Reported EBITDA improved 3.0% YoY to SAR 1.4bn, but EBITDA margin shrank 169bps YoY to 38.5% in 3Q21. Higher top line and lower finance expense resulted in net profit to rise 26.7% YoY to SAR 281.1mn and resulted in a 118bps expansion in net margin to 7.8% during the quarter.

Mobily overcame the challenges posed by COVID-19 and recorded strong performance in 3Q21, reporting its highest quarterly net income in the last seven years. The company's topline increased YoY, driven by consistent growth in business unit revenue, FTTH active base, and subscriber base. Driven by improved efficiency, the company achieved its highest EBITDA levels in the last seven years. Mobily also managed to reduce its net debt and improve net-debt-to-EBITDA to 2.26x in 3Q21 from 2.60x in 3Q20. Going forward, the company's growth will be majorly driven by its strategy to empower digital economy and improvement in subscriber base. In July 2021, Mobily announced its plans to form a consortium alongside Zain KSA, Raidah Investment Co. (AlRaidah), and IHS KSA Ltd. (IHS) to merge its tower business hit a roadblock but is still considering other options for the same. This roadblock implies major uncertainty of any deal being signed soon. Additionally, the company faces several headwinds in the form of reduction in mobile termination rates, stringent regulations, and increased competition in the telecom sector. Considering these factors, we maintain "Neutral" rating on the stock.

- Mobily's revenue rose 7.5% YoY SAR 3.6bn in 3Q21, driven by growth across business segments as well as steady rise in its FTTH subscriber base. On QoQ basis, revenue dipped 3.3% during the quarter.
- A 9.3% YoY rise in cost of sales resulted in gross profit (up 6.3% YoY to SAR 2.8bn) to grow at a slower pace than the top line in 3Q21. As a result, gross margin shrank to 60.6% from 61.3% in 3Q20.
- Reported EBITDA increased 3.0% YoY to SAR 1.4bn due to the company's operating efficiency. However, EBITDA margin tightened to 38.5% in 3Q21 from 40.2% in 3Q20.
- Operating income surged 18.8% YoY to SAR 423.2mn in 3Q21, ascribed to lower general and administration and depreciation expenses. Consequently, operating margin widened to 11.7% from 10.6% in 3Q20.
- Net profit increased 26.7% YoY to 281.1mn in 3Q21, ascribed to lower finance charge, slightly offset by higher Zakat expense. As a result, net margin expanded to 7.8% from 6.6% in 3Q20.
- The company reported net debt at SAR 12.7mn in 3Q21 as against SAR 13.4mn in 3Q20, while net-debt-to-EBITDA contracted to 2.26x from 2.60x in 3Q20.
- Reported capex declined 38.5% YoY to SAR 460.0mn in 3Q21 due to aggressive capex investments in the 5G space in 3Q20. On QoQ basis, CAPEX increased 70.5%.

Valuation: We revise our target price to a fair value of SAR 32.0 and maintain "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	3,606.1	3,355.0	7.5%	14,664	14,046	4.4%
Gross Profit (SAR mn)	2,186.1	2,055.9	6.3%	8,520	8,152	4.5%
Operating Profit (SAR mn)	423.2	356.1	18.8%	1572	1367	15.0%
Net Profit (SAR mn)	281.1	221.9	26.7%	1006	783	28.4%
EPS Basic (SAR)	0.37	0.29	26.7%	1.31	1.02	28.4%
Gross Margin (%)	60.6%	61.3%	(0.7%)	58.1%	58.0%	0.1%
Operating Margin (%)	11.7%	10.6%	1.1%	10.7%	9.7%	1.0%
Net Profit Margin (%)	7.8%	6.6%	1.2%	6.9%	5.6%	1.3%

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, FALCOM Research.

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