

## Etihad Atheeb Telecommunication Co. (ATHEEB TELECOM)

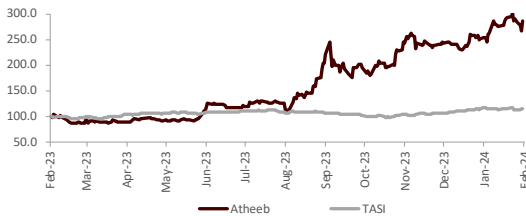
Target Price: SAR 73.6/share

Upside: 17.1%

**Recommendation****Buy**

Current Market Price (SAR)	62.8
52wk High / Low (SAR)	62.8/16.9
Mkt. Cap. (USD/SAR Mn)	502/1,885
Shares Outstanding (mn)	34.0
Free Float (%)	68.4%
3m Average Vol. (000)	2,889
3m Avg Daily Turnover (SAR'000)	148,370
Dividend Yield '24e (%)	0.0%
P/E'24e (x)	12.0
EV/EBITDA'24e (x)	0.9

Source: Bloomberg

**Relative Price Performance****Key Indicators**

SAR (mn)	FY2022	FY2023	FY2024e	FY2025e
Revenue	379	630	948	1,043
Gross profit	92	183	309	340
GPM (%)	24%	29%	33%	33%
EBIT	(15)	58	176	196
EBIT margin (%)	-4%	9%	19%	19%
EBITDA	59	115	232	253
EBITDA margin (%)	16%	18%	25%	24%
Net Income	(37)	42	179	198
Net margin (%)	-10%	7%	19%	19%
EPS (SAR)	-4.2	4.7	5.3	5.8
RoE (%)	-40%	45%	87%	50%

Source: Company Reports, Yaqeen Capital

**Major Shareholders (%)**

Bahrain Telecommunications Company (Batelco).	15.00%
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Source: Bloomberg, Yaqeen Capital

**Earnings surged on account of higher revenue**

- Atheeb Telecom witnessed a YoY net income surge of 622.3% (-9.0% QoQ), totaling SAR 48mn in 2Q FY24. This increase resulted from higher revenue, elevated other income, reduced selling and marketing expenses, and a decrease in the allowance for impairment in trade receivables. Despite rising costs in services, general & administrative expenses, and financial charges, the net income margin rose by 15.7ppts YoY (-5.4ppts QoQ) to 20.1%.
- 2Q FY24 exhibited a 60.7% YoY revenue increase (+15.3% QoQ) reaching SAR 238mn while for 6M FY24, revenue saw a 54.0% rise, reaching SAR 444mn.
- Gross profit in 2Q FY24 surged by 79.7% YoY (+9.7% QoQ) to SAR 77mn due to higher growth in revenue as compared to cost of revenue on a YoY basis. The gross margin improved by 3.4ppts YoY (-1.7ppts QoQ) to 32.6%.
- Operating profit in 2Q FY24 surged by 380.6% YoY (+47.4% QoQ) to SAR 53mn, primarily driven by increased revenue and reduced SG&A expenses. This led to a corresponding margin increase to 22.2% (+14.8ppts YoY, +4.8ppts QoQ).
- In 6M FY24, Atheeb Telecom's net income soared by 1,922.1% YoY, reaching SAR 100mn primarily due to higher revenue and lower selling and marketing expenses, the net income margin improved to 22.6%, up from 1.7% in the same period in 2022.
- Total shareholders' equity, excluding minority interest, surged by 174.3% to SAR 217mn as of 6M FY24.
- Atheeb Telecom announced an agreement with Tawal Company to settle all balances and dues, totaling SAR 48 million by October 31, 2023, excluding taxes.

**Outlook & Valuation:**

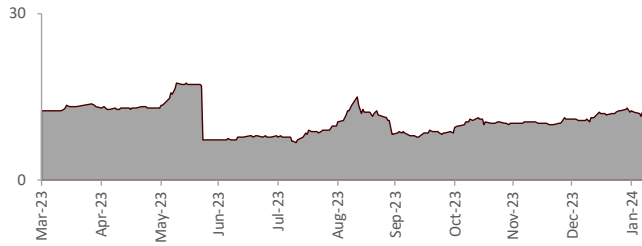
The growing and youthful populace of KSA, with increasing income levels, are eager to embrace the convenience and efficiency that data services offer. The widespread adoption of smartphones and digitalization by businesses further amplifies the demand for telecom solutions. As one of the leading market player in KSA, Atheeb Telecom is well positioned to take advantage of this opportunity. The company is making various efforts to modernize its offerings and upgrade its network infrastructure. For example, Atheeb has recently increased capital via a SAR 250mn right issue to improve the capital structure and develop and modernize its business systems. Overall, our outlook on Atheeb Telecom remains optimistic, with a positive trajectory for growth and success in the future. Based on comparable valuations, we arrive at a fair value of SAR 73.6/share, strong upside potential of 17.1% from the current market price. Hence, we recommend a Buy rating on the stock.

**Financial Summary**

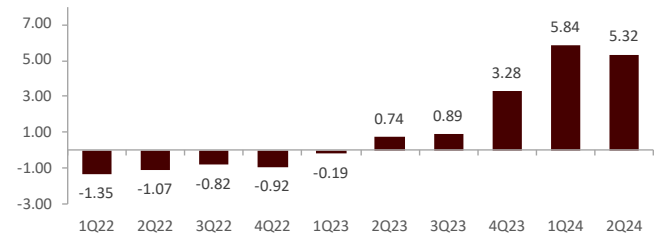
SAR (mn)	2Q FY24	2Q FY23	YoY	1Q FY24	QoQ
Revenue	238	148	61%	206	15%
Gross profit	78	43	80%	71	10%
GPM (%)	33%	29%		34%	
EBIT	53	11	381%	36	47%
EBIT margin (%)	22%	7%		17%	
EBITDA	87	48	83%	52	66%
EBITDA margin (%)	37%	32%		25%	
Net Income	48	7	622%	53	-9%
Net margin (%)	20%	4%		25%	
EPS (SAR)	5.3	0.7	622%	5.8	-9%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



## Rating Methodology

**Buy:** The Target share price exceeds the current share price by  $\geq 10\%$

**Hold:** The Target share price is either more or less than the current share price by  $10\%$

**Sell:** The Target share price is less than the current share price by  $\geq 10\%$

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