

### 2Q20 Results Update

August 10, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	27.3
Target Price (SAR)	25.0
Upside/Downside (%)	(8.4%)

As of 6<sup>th</sup> August 2020

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.0
52-Wk High (SAR)	29.3
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	2.4%	0.2%
6m	6.6%	15.3%
12m	11.9%	27.7%

#### 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 6<sup>th</sup> August 2020

#### Net profit rise in 2Q20 on sustained growth in revenues and lower financial charges

Etihad Etisalat Co. (Mobily) witnessed 6.8% YoY increase in its revenue to SAR 3.6bn in 2Q20, primarily due to growth in wholesale and business segment revenues and rise in demand for data services. Revenue growth was also supported by a steady rise in Mobily's FTTH subscriber base and a healthy overall subscriber mix. Operating profit increased 27.8% YoY and 12.8% QoQ on account of higher revenues and operational efficiency. Reported EBITDA was also up 9.3% YoY and 3.9% QoQ to SAR 1.3bn, with EBITDA margin improving by 180 bps QoQ and 90 bps YoY to 37.5%. Mobily's financial charges reduced by 36.2% YoY to SAR 139.0mn in 2Q20, as the company refinanced a major portion of its debt in 4Q19. These factors led to a surge in its net profit to SAR 185.0mn.

A consistent increase in revenue from business and wholesale segments, supported by higher data consumption and rise in FTTH subscriber base, led to the improvement in EBITDA and higher operating cash flow. Moreover, Mobily signed an MoU with Zain KSA, and it is seeking offers for its tower business to improve efficiency. Going forward, we expect the company to report stable revenue due to continued rise in data consumption and reopening of the economy for pilgrimage purposes. Although the COVID-19 pandemic appears to have limited impact on the telecom sector with the data consumption rising 34% QoQ in 2Q20, the company continued to face several risks in terms of increased competition in the sector and heightened regulations. Taking these factors into consideration, we maintain our "Neutral" rating on the stock.

- Revenue increased by 6.8% YoY to SAR 3.6bn in 2Q20, supported by rising demand for data services and higher sales in business and wholesale segments. Moreover, continued rise in its FTTH active consumer base offset the decline in roaming and visitor services impacted by the COVID-19 pandemic.
- Gross profit increased at slower pace compared with revenue in 2Q20 due to higher cost of sales. Gross profit rose by 5.4% YoY to SAR 2.1bn, with gross margin declining 80 bps to 57.9%.
- EBITDA increased 9.3% YoY and 3.9% QoQ to SAR 1.3bn, owing to higher revenue and operational efficiency. EBITDA margin increased 90 bps YoY to 37.5% in 2Q20 (up 180 bps QoQ).
- Operating income rose 27.8% YoY to SAR 334.0mn in 2Q20, in line with the increase in EBITDA.
- Refinancing of a major portion of the company's debt in 4Q19 resulted in lower financial charges in 2Q20, declining by 36.2% YoY to SAR 139.0mn. This led to a 390.2% YoY increase in profit attributable to equity holders to SAR 185.0mn.
- Capex in 2Q20 increased by 66.9% YoY and 30.2% QoQ to SAR 575.0mn, as the company continued pursuing investments in infrastructure projects and increased its focus on 5G deployment projects during the quarter.

**Valuation:** We revise our target price to SAR 25.0 and retain our "Neutral" rating on the stock.

	2Q'20	2Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,559	3,331	6.8%	14,224	13,450	5.8%
Gross Profit (SAR mn)	2,062	1,956	5.4%	8,107	7,800	3.9%
Operating Profit (SAR mn)	334	261	27.8%	1,231	967	27.3%
Net Profit (SAR mn)	185	38	390.2%	424	31	1,258.8%
EPS Basic (SAR)	0.24	0.05	390.2%	0.55	0.04	1,258.8%
Gross Margin (%)	57.9%	58.7%	(0.8%)	57.0%	58.0%	(1.0%)
Operating Margin (%)	9.4%	7.8%	1.5%	8.7%	7.2%	1.5%
Net Profit Margin (%)	5.2%	1.1%	4.1%	3.0%	0.2%	2.7%

Source: Company Financials, FALCOM Research

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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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