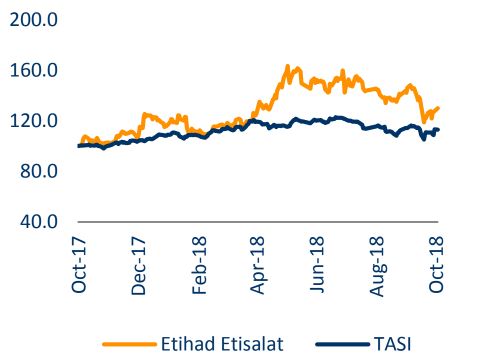
3Q 2018 Results Update **October 29, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	16.9
Target Price (SAR)	17.8
Upside/Downside (%)	5.5%

As of October 28th, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	13.0
52 Wk High (SAR)	21.58
52 Wk Low (SAR)	12.96
Total Outstanding shares (in mn)	770
Free Float (%)	55.0%

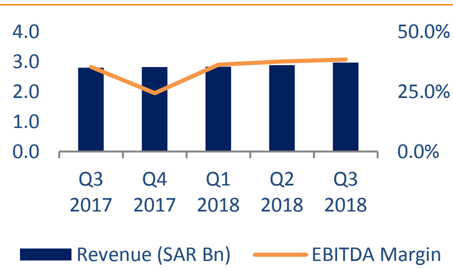
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(11.2%)	(9.9%)
6m	3.5%	8.9%
12m	29.9%	17.0%

Major Shareholders (%)	
Emirates Telecommunications Corp. (Etisalat)	27.99%
General Org. for Social Insurance	11.85%

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 28th October 2018

Mobility trims loss for 3Q18 on second consecutive year-on-year revenue growth

Etihad Etisalat Co. (Mobily) continued to witness robust revenue growth (+6.1% Y/Y, 2.8% Q/Q). Growth was mainly driven by improvement in consumer revenues, growth in FTTH sales and higher business unit revenues driven by sales to government sectors. This was in spite of market challenges like the reduction in mobile termination rates (MTR). Gross profit increased 5.2% Y/Y while EBITDA surged 15.5% Y/Y to SAR 1,758mn and SAR 1,146mn, respectively. EBITDA growth was mainly due to topline growth, improved operational efficiencies, lower general and administrative expenses and reclassification of a SAR 84mn provision from pre-EBITDA to post-EBITDA expense. Consequently, net loss trimmed to SAR 31mn in 3Q18, against a loss of SAR 174mn reported in 3Q17.

As price rationalization continues in the Saudi telecom market following the new regulatory environment, Mobily has showcased continued Q/Q improvement in its results. We expect prudent prices and attractive product offerings from Mobily to drive future revenues. Recent agreement with Arriyadh Development Authority (ADA) to provide complete digital solutions for the Riyadh buses project is also expected to benefit topline performance. Moreover, continued efforts to deleverage the company, supported by robust cash flows would help Mobily expand faster vis-à-vis peers. However, we continue to maintain a 'Neutral' outlook, given the intense competition from internet calling services and a likely voice market saturation.

- Revenues increased for the third consecutive quarter by 2.8% Q/Q and 6.1% Y/Y to SAR 2,976mn. Growth was mainly driven by improvement in consumer revenues, growth in FTTH sales and growth in business unit revenues driven by sales to government sectors. Without the impact of decline in mobile interconnection rates, sales would have expanded 8% Y/Y.
- Gross profit rose 5.2% Y/Y to SAR 1,758mn in 3Q18; however, it declined 0.9% Q/Q due to a faster growth in cost of sales. Consequently, gross margin declined 51bps Y/Y to 59.1%.
- EBITDA surged 15.5% Y/Y and 5.2% Q/Q to SAR 1,146mn, with an improved margin of 38.5% in 3Q18 (3Q17: 35.4%). EBITDA growth was ascribed to higher revenues, operational efficiencies, lower general and administrative expenses and re-classification of a SAR 84mn provision from pre-EBITDA expense to post-EBITDA expense.
- Operating income stood at SAR 108mn in 3Q18, as compared to an operating loss of SAR 4mn in 3Q17, mainly due to lower general and administrative expenses, partially offset by an increase in impairment charges.
- Mobily reduced its net loss by 82.3% Y/Y to SAR 31mn in 3Q18, driven by higher sales and lower costs. Despite Mobily's continued efforts to deleverage (SAR 692mn Y/Y debt reduction), financial charges increased 29.8% Y/Y to SAR 206mn in 3Q18, due to the increase in SIBOR and as Mobily ceased to capitalize some of its debt related expenses. This was partially offset by an increase in finance income, which helped narrow the bottom line.
- CITC recently ordered (which was later reversed) a suspension of Mobily's sales activities due to non-achievement of Saudization L1 mandates. However, the launch of 5G in Riyadh and improving operational efficiencies are likely to bode well for the stock.

Valuation: We revise our target price down slightly to SAR 17.8. Mobily may be pressurized to hire Saudi staff sooner than expected which is expected to increase their personnel expenses. However, cost optimization initiatives and deleveraging are expected to help the company improve profitability. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,976	2,806	6.1%	11,437	11,351	0.8%
Gross Profit (SAR mn)	1,758	1,672	5.2%	6,748	6,530	3.3%
Operating Profit (SAR mn)	108	(4)	NA	367	19	1,802%
Net Profit (SAR mn)	(31)	(174)	NA	(249)	(709)	NA
EPS basic (SAR)	(0.04)	(0.23)	NA	-0.32	-0.92	NA
Gross Margin (%)	59.1%	59.6%	-0.5%	59.0%	57.5%	1.5%
Operating Margin (%)	3.6%	-0.1%	3.8%	3.2%	0.2%	3.0%
Net Profit Margin (%)	-1.0%	-6.2%	5.2%	-2.2%	-6.3%	4.1%

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.

FALCOM Financial Services

Contact us on the below phone numbers:
Customer Services: **8004298888**
Brokerage Services: **920004711**

Fax or Email us at the below number:
Fax: +966 11 2032546
Email: addingvalue@falcom.com.sa

Mail us at the following address:
P.O. Box 884
Riyadh 11421
Kingdom of Saudi Arabia

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