

2Q19 Results Update
July 29, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.4
Target Price (SAR)	23.0
Upside/Downside (%)	(6.0%)

As of 28th July, 2019
Key Data (Source: Bloomberg)

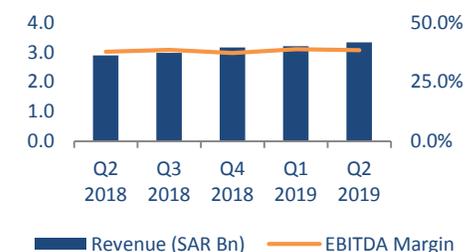
Market Cap (SAR bn)	18.8
52 Wk High (SAR)	26.95
52 Wk Low (SAR)	14.82
Total Outstanding shares (in mn)	770
Free Float (%)	60.2%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	9.2%	2.1%
6m	42.0%	23.7%
12m	46.1%	33.4%

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 28th July 2019

Mobily records third consecutive quarter of net profit on account of positive revenue growth

Etihad Etisalat Co. (Mobily)'s revenue continued to rise for the seventh consecutive quarter (+15.1% YoY, 4.1% QoQ) to SAR 3,331mn in 2Q19, aided by continued expansion in the subscriber and FTTH active base, coupled with higher revenue from business and wholesale units. Gross profit was up 10.2% YoY and 6.4% QoQ to SAR 1,956mn, largely supported by a stronger top line, which offset the impact of the new government royalties program that was announced previously and the implementation of IFRS16. Furthermore, improvement in operational efficiencies led to healthy growth in Mobily's EBITDA and EBIT on an annual basis. The aforementioned factors overshadowed growth in financial expenses as the company recorded its third consecutive quarter of net profit after reporting nine quarters of loss.

Mobily's revenue growth in the first half of this year was primarily driven by improvement in the subscriber base and mix, growth in FTTH sales and higher data and business unit revenues. We expect Mobily to remain profitable in the coming quarters as it continues to focus on boosting its operational efficiency. The company aims to acquire infrastructure projects to focus on improving its services and capture demand for additional services from corporate customers. Mobily operates in a fiercely competitive environment and continues to face market, regulatory, and economic challenges, making it difficult for the company to record a sharp rebound. Thus, in light of the previous factors, we maintain a "Neutral" outlook on the stock.

- Revenues increased 15.1% YoY to SAR 3,331mn, supported by a better subscriber mix, growth in the FTTH active base, and an increase in business unit and wholesale revenues.
- Gross profit rose 10.2% YoY to SAR 1,956mn in 2Q19, but the gross profit margin declined to 58.7% from 61.3% recorded a year ago as an increase in the cost of sales outweighed revenue growth.
- EBITDA surged 17.1% YoY to SAR 1,276mn, with the margin improving to 38.3% in 2Q19 (2Q18: 37.6%). EBITDA growth was ascribed to higher revenues, improved operational efficiencies, and the implementation of IFRS16.
- Operating income increased to SAR 261mn in 2Q19 from SAR 127mn in 2Q18, primarily owing to lower general and administrative expenses.
- Profit attributable to equity holders stood at SAR 38mn in 2Q19, compared with loss of SAR 79mn witnessed in 2Q18. On a quarterly basis, net profit trimmed 43.8% due to higher selling and marketing expenses on account of seasonality factors. Financial charges for the period stood at SAR 217mn, weighed by the impact of the IFRS16 implementation. Without this implementation, the charges would have been SAR 186mn.
- During the quarter, the company appointed Khaled Abanami as CFO in place of Kais Ben Hamida.
- The company's shareholders approved a merger with Bayanat Telecom Co. at the extraordinary general assembly meeting held on May 14, 2019.

Valuation: We revise our target price upwards to SAR 23.0, considering the company maintained its profit position for 1H19. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,331	2,895	15.1%	13,060	11,865	10.1%
Gross Profit (SAR mn)	1,956	1,775	10.2%	7,507	6,582	14.0%
Operating Profit (SAR)	261	127	105.9%	1,014	603	68.2%
Net Profit (SAR mn)	38	(79)	NM	176	(123)	NM
EPS basic (SAR)	0.05	(0.10)	NM	0.23	(0.16)	NM
Gross Margin (%)	58.7%	61.3%	(2.6%)	57.5%	55.5%	2.0%
Operating Margin (%)	7.9%	4.4%	3.5%	7.8%	5.1%	2.7%
Net Profit Margin (%)	1.1%	(2.7%)	NM	1.4%	(1.0%)	NM

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 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

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.