

3Q19 Results Update

November 26, 2019

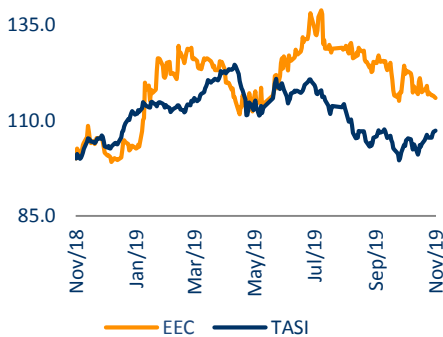
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	9.1
Target Price (SAR)	9.3
Upside/Downside (%)	1.9%

As of November 26th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.7
52 Wk High (SAR)	11.0
52 Wk Low (SAR)	7.8
Total Outstanding shares (in mn)	850.0
Free Float (%)	41.6%

EMAAR EC vs. TASI (Rebased)

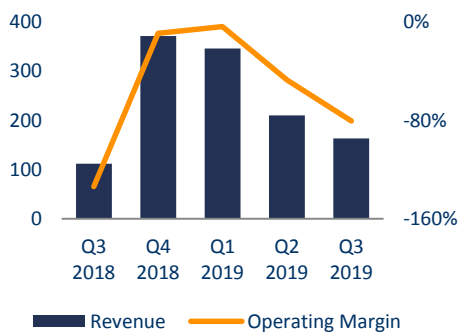


Price Performance (%)	Absolute	Relative
1m	(5.2%)	(9.0%)
6m	(0.4%)	5.9%
12m	15.9%	8.6%

Major Shareholders (%)

Dayim Modern Real Estate Company	17.3%
MI Royal Capital Company	9.4%
Emaar Middle East Company	5.9%
MI Holding Company	5.9%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th November 2019

Emaar's losses widen on increased financial charges in 3Q19

Emaar, The Economic City (EEC)'s losses widened to SAR 201.9mn in 3Q19 compared with SAR149.1mn in 3Q18, on increased financial charges as a result of higher loan balances and lower capitalization of borrowing costs due to a slowdown in development activities. The company's bottom line was also impacted by the decrease in investee's (Ports Development Company-PDC) share of results in the Group mainly due to losses on the revaluation of interest rate swap arrangements made by PDC. The company's revenues, however, increased 46.0% YoY to SAR 163.3mn owing to higher order uptake in industrial projects. Gross profits surged to SAR 11.9mn in 3Q19 compared with a gross loss of SAR 17.8mn in 3Q18, as the gross profit on projects increased to SAR 43.8mn in 3Q19 from SAR 17.5mn in 3Q18; gross loss on operations reduced to SAR 31.9mn in 3Q19 from SAR 35.3mn in 3Q18.

EEC's revenues continued to slide in 3Q19 on a quarterly basis, as opposed to the significant improvements from the same quarter in the previous year. Slower developmental activities led to higher loan balances and consequently higher financial charges. We expect these costs to be absorbed by new development activities that will eventually improve the financial performance. The company has invested approximately SAR 18bn since inception, and we expect the outflow to continue, as city developments that host a large array of projects require significant infrastructure spend. On the other hand, the project has attracted large international companies and the world's leading pharmaceutical giants, which bodes well for future prospects. Thus, in view of the countervailing factors, we maintain a "Neutral" rating on the stock.

- EEC's revenue increased 46.0% YoY to SAR 163.3mn in 3Q19, primarily due to a higher order uptake in the industrial development segment (SAR 60.0mn in 3Q19 vs. SAR 30.1mn in 3Q18) and residential segment (up 44.2% to SAR 67.2mn). The hospitality and leisure segment also improved 63.3% YoY to SAR 20.9mn.
- EEC swung to a gross profit of SAR 11.9mn in 3Q19 from a gross loss of SAR 17.8mn. The gross profit, however, shrank 83.8% QoQ from SAR 71.3mn in 2Q19. Thus, gross margins stood at 7.3% in 3Q19 compared with 34.0% in 2Q19.
- Operating losses narrowed to SAR 131.5mn from a loss of SAR 149.7mn in 3Q18. The losses increased 32.8% on a quarterly basis. The operating loss margin widened to 80.5% in 3Q19 from 47.2% in 2Q19.
- Higher financial charges and a lower profit share from equity accounted investees led to further shrinking of bottom-line results. The company also suffered from an increase in impairment loss on outstanding trade receivables. Other income also declined substantially during the quarter. Net loss for the period stood at SAR 201.9mn compared with SAR 114.7mn in 2Q19 and SAR 149.1mn net loss in 3Q18.

Valuation: We maintain our target price at a fair value of SAR 9.3 and retain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	163.3	111.9	46.0%	1,077.2	1,008.2	6.8%
Gross Profit (SAR mn)	11.9	(17.8)	(167.0%)	374.9	338.4	10.8%
EBITDA (SAR mn)	(46.9)	(32.2)	45.6%	105.3	48.5	117.1%
Net Profit (Loss) (SAR mn)	(201.9)	(149.1)	35.4%	(276.8)	(135.1)	104.9%
EPS basic (SAR)	(0.2)	(0.2)	35.4%	(0.3)	(0.2)	104.9%
Gross Margin (%)	7.3%	(15.9%)	23.2%	34.8%	33.6%	1.2%
EBITDA Margin (%)	(28.7%)	(28.8%)	0.1%	9.8%	4.8%	5.0%
Net Profit Margin (%)	(123.6%)	(133.3%)	9.7%	(25.7%)	(13.4%)	(12.3%)

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.

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