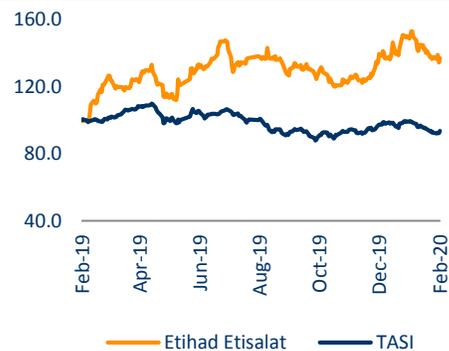


FY19 Results Update
February 24, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.7
Target Price (SAR)	23.0
Upside/Downside (%)	(7.0%)

As of 23rd February, 2020
Key Data (Source: Bloomberg)

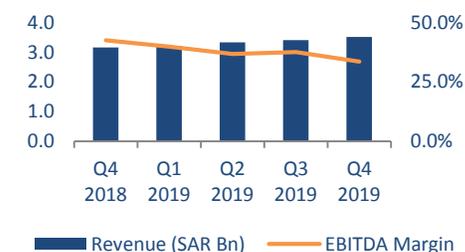
Market Cap (SAR bn)	19.0
52-Wk High (SAR)	28.25
52-Wk Low (SAR)	18.08
Total Outstanding shares (in mn)	770
Free Float (%)	65.1%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(7.7%)	(2.0%)
6m	(0.5%)	6.5%
12m	37.2%	43.7%

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 23rd February 2020

Mobily swings to profit on better operational performance and revenue growth

Etihad Etisalat Co. (Mobily)'s net income stood at SAR 31.2mn in FY19 compared to a loss of SAR 122.7mn in FY18, supported by improvement in the subscriber base, growth in data revenues, and higher business and wholesale unit revenues. Gross profit for the period was up 18.5% YoY to SAR 7.8bn in the wake of increased revenues and implementation of IFRS16. Operating profit rose 60.4% YoY to SAR 967.0mn, reflecting the improvement in EBITDA, which rose despite higher selling, marketing, and administrative expense. Even though the company managed to pare its net debt during the year, its financial charges increased to SAR 929.5mn from SAR 799.2mn a year ago owing to unamortized transaction costs related to the refinancing agreements of Alinma and the syndicated loan.

Mobily recorded an overall profit for FY19 for the first time in five years on account of improved operational performance, coupled with consistent growth in data and business revenues and a better subscriber mix. The company continues to generate positive cashflows and managed to pare its debt. The net debt/EBITDA fell to 2.3x from 2.6x in 2018. Mobily also signed a new financing agreement to reduce its financing costs over the next three years. In addition, the company continues to deploy network modernization and acquire additional spectrum which may require higher capex going forward. Therefore, despite these progressive developments on the operational front, Mobily still faces challenges from the external environment in terms of market competition, regulation, and economy. Thus, considering the countervailing factors, we maintain a "Neutral" outlook on the stock.

- Revenues increased 13.4% YoY to SAR 13.5bn, led by an improved subscriber mix, higher data revenues, and enhanced business unit revenues.
- Gross profit surged 18.5% YoY to SAR 7.8bn in FY19, primarily as a result of improvement in revenues and the implementation of IFRS16. The gross profit margin expanded to 58.0% from 55.5% recorded a year ago, as the average cost of sales declined over a comparable period.
- EBITDA increased 9.2% YoY to SAR 4.9bn on higher revenues, better operational efficiencies, and IFRS16 implementation. The EBITDA margin, however, declined to 36.8% in FY19 from 38.2% in FY18.
- Operating income grew 60.4% YoY to SAR 967.0mn in FY19 from SAR 602.9mn. General and administrative expense rose, but impairment losses dropped to SAR 63.0mn as against SAR 118.3mn a year ago.
- Profit attributable to equity holders was SAR 31.2mn in FY19 compared to the loss of SAR 122.7mn in FY18. The company incurred losses worth SAR 125mn in 4Q19 to trim gains in the previous three quarters. Financial charges for FY19 stood at SAR 929mn, despite lower debt. Without the IFRS implementation and refinancing agreement, financial charges would have reduced 12% YoY to SAR 702mn.
- Capex in FY19 fell to SAR 2.76bn from SAR 2.81bn in FY18. Net debt over the comparable period declined to SAR10.6bn as against SAR 11.2bn previously.

Valuation: We revise our target price to SAR 23.0 and maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	3,514	3,162	11.2%	13,928	13,450	3.6%
Gross Profit (SAR mn)	1,990	1,386	43.5%	7,939	7,800	1.8%
Operating Profit (SAR mn)	166	267	(37.7%)	1,264	967	30.7%
Net Profit (SAR mn)	(125)	80	NM	403	31	1193.5%
EPS Basic (SAR)	(0.16)	0.10	NM	0.52	0.04	1193.5%
Gross Margin (%)	56.6%	43.8%	12.8%	57.0%	58.0%	(1.0%)
Operating Margin (%)	4.7%	8.4%	(3.7%)	9.1%	7.2%	1.9%
Net Profit Margin (%)	(3.6%)	2.5%	NM	2.9%	0.2%	2.7%

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

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