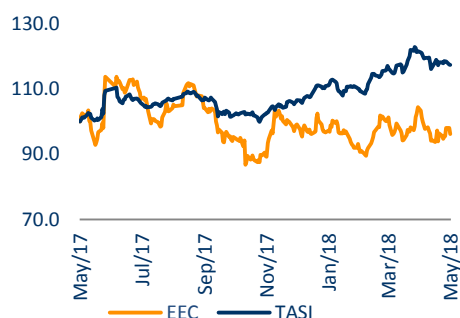


1Q 2018 Results Update
May 29, 2018

| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 13.3 |
| Target Price (SAR) | 12.6 |
| Upside/Downside (%) | (5.5%) |

As of May 28th 2018
Key Data (Source: Bloomberg)

| | |
|----------------------------------|--------|
| Market Cap (SAR bn) | 11.31 |
| 52 Wk High (SAR) | 16.38 |
| 52 Wk Low (SAR) | 11.74 |
| Total Outstanding shares (in mn) | 850.0 |
| Free Float (%) | 36.94% |

EMAAR EC vs. TASI (Rebased)


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (7.9%) | (4.4%) |
| 6m | 2.9% | (11.3%) |
| 12m | (3.8%) | (21.1%) |

Major Shareholders (%)

| | |
|----------------------------------|-------|
| Dayim Modern Real Estate Company | 17.6% |
| 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 28th May 2018

Weak sales and higher costs led to margin pressure in 1Q18

Emaar The Economic City reported a net income of SAR 3.6mn in Q1 2018, against a loss of SAR 17.5mn in Q1 2017, mainly due to the absence of an impairment provision of SAR 45.3n against capital work in progress this quarter. Higher other income was partially offset by increase in depreciation charge in Q1 2018. Net income declined 98.3% QoQ on higher costs realisations in residential and industrial projects. Revenue fell 11.8% YoY to SAR 281mn in the current quarter, reflecting generally weak demand across segments. Selling general and administrative expenses increased 20.0% YoY to SAR 70.1mn putting further pressures on the operating margins.

We expect Emaar EC's revenue and net income to improve on the back of ambitious social and economic reforms implemented by the government. Opening up of the entertainment sector, government's incentives to stimulate real estate activity and increase in global oil prices are expected to boost the real estate sector in general and Emaar EC in particular. However, high operational costs and stressed balance sheet may hurt the profitability.

- EEC's revenue declined 11.8% YoY to SAR 281mn in Q1 2018 mainly due to a decline in residential, hospitality and industrial segments.
- Revenue from residential business segment fell 17.3% YoY to SAR 156mn after witnessing strong sales in Q4 2017. However, segment's operating margins improved to 17.9% in Q1 2018 from 16.9% reported in the same quarter last year.
- Industrial development segment posted weak top-line growth. Revenue fell to SAR 93mn in Q1 2018 as compared to SAR 96mn in Q1 2017. However, operating margins expanded 3.6% YoY to 69.9% in Q1 2018.
- Gross profits fell 16.5% YoY to SAR 97mn in Q1 2018 owing to lower sales and higher cost realisations. Consequently, gross margins contracted to 34.4% in Q1 2018 from 36.4% in Q1 2017.
- The Company reported an operating loss of SAR 22mn in the current quarter mainly due to weak sales and higher SG&A expenses. Moreover, increase in depreciation charges of SAR 12mn further dragged down profits.
- Despite the operating losses, Emaar reported a net income of SAR 3.6mn in Q1 2018, owing to a lack of impairment provision against capital work in progress in this quarter and higher other income. Earnings per share increased to SAR 0.003 in Q1 2018 from a loss per share of SAR (0.02) in the same quarter last year.

Valuation: We continue to maintain our target price of SAR 12.6, with neutral rating in the absence of any trigger in the Q1 2018 results. We expect operating performance to improve on back of positive macroeconomic sentiments and government initiatives, which is already factored in the current market price.

| | 1Q'18 | 1Q'17 | % YoY | FY18E | FY17 | % YoY |
|-----------------------|-------|-------|--------|---------|---------|-------|
| Revenues (SAR mn) | 280.8 | 318.2 | -11.8% | 1,537.8 | 1,438.0 | 6.9% |
| Gross Profit (SAR mn) | 96.7 | 115.7 | -16.5% | 876.6 | 822.4 | 6.6% |
| EBITDA (SAR mn) | 62.3 | 12.0 | 419.9% | 620.1 | 538.3 | 15.2% |
| Net Profit (SAR mn) | 3.6 | -17.5 | NM | 408.1 | 240.9 | 69.4% |
| EPS basic (SAR) | 0.003 | -0.02 | NM | 0.48 | 0.28 | 69.4% |
| Gross Margin (%) | 34.4% | 36.4% | -1.9% | 57.0% | 57.2% | -0.2% |
| EBITDA Margin (%) | 22.2% | 3.8% | 18.4% | 40.3% | 37.4% | 2.9% |
| Net Profit Margin (%) | 1.3% | -5.5% | NM | 26.5% | 16.8% | 9.8% |

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.