FALCOM

Etihad Etisalat Co. “Mobily”

Telecommunication Services | Etihad Etisalat | 7020

INTELLIGENT INVESTMENT IDEAS

FY18 Results Update

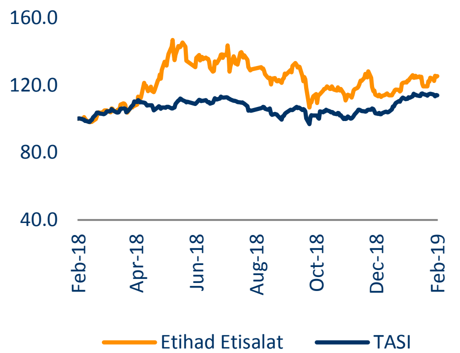
February 26, 2019

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	17.9
Target Price (SAR)	17.7
Upside/Downside (%)	(1.4%)

As of February 25th Feb, 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	13.8
52 Wk High (SAR)	21.58
52 Wk Low (SAR)	14.08
Total Outstanding shares (in mn)	770
Free Float (%)	55.0%

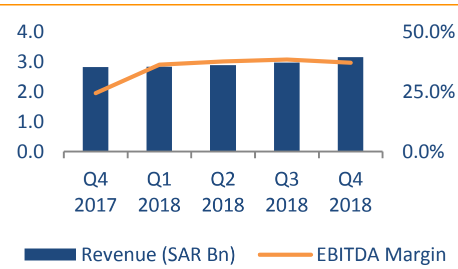
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	3.1%	1.3
6m	(3.1%)	(11.7%)
12m	25.3%	11.4%

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 25th February 2019

Mobily swings to profit in 4Q18 after nine quarters of losses

Revenues for Etihad Etisalat Co. (Mobily) continued to rise (+11.9% Y/Y, 6.2% Q/Q) in 4Q18 whereas the revenues for the year were up 4.5%Y/Y to SAR 11.9bn. Growth was primarily driven by improvement in the subscriber base and mix, growth in FTTH sales and higher data and business unit revenues as the company overcame challenges such as reduction in mobile termination rates (MTR). Gross profit and EBITDA returned to positive territory in FY18, after contracting in FY17, led by improvements in top line and operational efficiencies. Consequently, net loss narrowed to SAR 123mn in FY18, against a loss of SAR 709mn reported in FY17. Net profit for 4Q18 stood at SAR80mn following previous quarter losses.

Mobily posted continued improvements in the revenue despite market, regulatory and economic challenges. We expect the improvement in the subscriber mix, and growth in data revenues to drive future revenues for the company. Mobily continues to reinvent and provide attractive product offerings to win customers. Mobily managed to reduce its debt in FY18 while continuing investments in technology improvements. However, we continue to maintain a ‘Neutral’ outlook, given the intense industry competition from internet calling services and a likely voice market saturation.

- Revenues increased 4.5% Y/Y to SAR 11.9bn on improvement in consumer revenues, growth in FTTH sales and business unit revenues. Without the impact of decline in mobile termination rates, sales would have expanded 6.5% Y/Y.
- Gross profit rose 0.8%Y/Y to SAR 6.6bn in FY18 after declining 12.1% Y/Y in FY17. The rise came in despite the adverse impact from change in the government fee calculation.
- EBITDA surged by 22.8% Y/Y SAR 4.4bn, with an improved margin of 37.4% in FY18 (FY17: 31.8%). EBITDA growth was ascribed to higher revenues, operational efficiencies, lower G&A expenses, the implementation of IFRS 15 and 9 and the reversal of provisions related to government fees.
- Operating income increased to SAR 603mn in FY18 from SAR 19mn in FY17, mainly due to lower G&A expenses, partially offset by an increase in impairment charges.
- Mobily reduced its net loss by 82.7% Y/Y to SAR 123mn in FY18, with higher sales and lower costs. The company reduced its long term debt to SAR 12bn in FY18 vs SAR 13.5bn in FY17. The financial expenses however increased 17.8% Y/Y to SAR 799mn in FY18 due to increase in SAIBOR. Also, Mobily ceased to capitalize some of its debt related expenses in FY18.
- The company entered into an agreement with the Ministry of Finance to devise a new methodology to calculate government fees and define a new investment framework covering a period of 3 years, including 2018. The move is expected to develop the country’s telecommunication infrastructure by improving the quality of existing technologies and deploying newer technologies.
- Mobily also signed a financing agreement with Export Credit Agencies (ECA), (Swedish ECA and Finnvera ECA), for the Modernization Project to upgrade Mobily network.
- Further Mobily announced that its CEO ‘Eng. Ahmed Abou Doma’, will step down to make way for Eng. Salman Abdulaziz R. AlBadran as its new CEO as a part of promoting experienced Saudi nationals. The leadership change will be effective as of 1st April 2019.

Valuation: We revise our target price down slightly to SAR 17.7 as the company is expected to hire Saudi personnel which may impact the cost optimization initiatives. We maintain our ‘Neutral’ rating.

	4Q’18	4Q’17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,162	2,827	11.9%	12,323	11,865	3.9%
Gross Profit (SAR mn)	1,386	1,560	-11.2%	6,960	6,582	5.7%
Operating Profit (SAR mn)	267	-7	NA	478	603	-20.7%
Net Profit (SAR mn)	80	-182	NM	-242	-123	97.5%
EPS basic (SAR)	0.10	-0.24	NM	-0.31	-0.16	97.5%
Gross Margin (%)	43.8%	55.2%	-11.4%	56.5%	55.5%	1.0%
Operating Margin (%)	8.5%	-0.2%	8.7%	3.9%	5.1%	-1.2%
Net Profit Margin (%)	2.5%	-6.4%	9.0%	-1.9%	-1.0%	-0.9%

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.

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