

FY 2018 Results Update

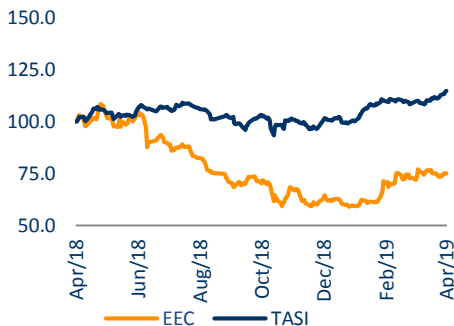
April 04, 2019

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	10.0
Target Price (SAR)	8.9
Upside/Downside (%)	(11.1%)
<i>As of April 3rd 2019</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.5
52 Wk High (SAR)	14.64
52 Wk Low (SAR)	7.75
Total Outstanding shares (in mn)	850.0
Free Float (%)	38.9%

EMAAR EC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	4.5%	(0.8%)
6m	4.7%	(7.5%)
12m	(25.3%)	(40.5%)

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%
MI Strategic Investments	5.9%
MI Partners	5.4%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 3rd April 2019

Emaar swings to loss in FY18 on lower order intake and higher operating expenses

Emaar The Economic City (EEC) reported net loss of SAR 138mn in FY18, compared with net profit of SAR 251mn in FY17, primarily due to a lower order intake in residential and industrial projects during the year. In FY18, EEC witnessed the launch of a number of new operating assets, which, coupled with higher associated operating expenses, resulted in the widening of loss during the year. Conversely, an increase in net income from the disposal of investment properties and a lower zakat for the year helped in containing net losses. In 4Q18, the company recovered from sequential pre-tax loss from the previous quarters and recorded profit of SAR 58mn owing to a surge in other income, largely ascribed to the disposal of investment properties.

We continue to remain cautious regarding EEC's performance, following its disappointing performance in all major business segments in FY18. Higher cost of sales and increased administrative, selling, and marketing expenses further pressurized margins. EEC and third parties have invested in excess of SAR 30bn in the King Abdullah Economic City (KAEC) since its inception. We expect EEC's capital expenditure to remain high in the medium term, as it is developing infrastructure for city expansion to draw more visitors to KAEC. We believe this would lead to free cash flow to remain in the negative territory in the upcoming quarters as well.

- EEC's revenue declined 29.9% YoY to SAR 1,008mn in FY18, attributed to a fall in sales in the Residential (-18.9% YoY), Industrial (-58.1% YoY), and Hospitality and Leisure (-21.1% YoY) segments. The company's underperformance was ascribed to a lower order intake of residential and industrial projects during the year, compared with the previous fiscal.
- EEC's gross profit decreased 58.5% YoY to SAR 338mn in FY18 from SAR 816mn in FY17, weighed by lower sales across segments and higher cost of sales. Consequently, gross margins contracted to 33.6% in FY18, compared with 56.7% in FY17. In 4Q18, the company recorded the highest revenues and gross profit of all the quarters in the year, but this failed to lift the overall annual results.
- EEC swung to operating loss of SAR 256mn in FY18, vis-à-vis operating profit of SAR 293mn recorded last year, weighed by the above factors, coupled with expenses related to the launch of certain new operating assets in 2018 and higher operating expenses. Consequently, the operating margins contracted to negative 25.4%, compared with an operating profit margin of 20.4% posted in FY17.
- Net loss for the year stood at SAR 135mn, against net profit of SAR 241.0 mn registered in FY17. Some of the above adverse impacts were offset by an increase in other income and net gains on the interest rate swap arrangement. This was in addition to a further reduction in zakat charge for the year, compared with that in the corresponding year.
- Operating cash flow (OCF) remained negative and moved further down to negative SAR 606mn in FY18 compared to a negative OCF of SAR 443mn in FY17 as the company swung to a net loss for the year.

Valuation: We revise our target price to a fair value of SAR 8.9 and maintain our "Underweight" rating on the stock as we do not foresee any significant upside from current levels.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	371.6	628.0	-40.8%	1,141.2	1,008.2	13.2%
Gross Profit (SAR mn)	151.0	457.0	-67.0%	451.5	338.4	33.4%
EBITDA (SAR mn)	122.2	422.8	-71.1%	275.9	48.5	468.7%
Net Profit Return to the shareholders (SAR mn)	58.5	195.4	-70.1%	130.0	-135.1	NM
EPS basic (SAR)	0.1	0.2	-70.1%	0.2	-0.2	NM
Gross Margin (%)	40.6%	72.8%	-32.1%	39.6%	33.6%	6.0%
EBITDA Margin (%)	32.9%	67.3%	-34.4%	24.2%	4.8%	19.4%
Net Profit Margin (%)	15.7%	31.1%	-15.4%	11.4%	-13.4%	24.8%

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.

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