Etihad Etisalat Co.

Telecommunication Services | Etihad Etisalat | 7020

INTELLIGENT INVESTMENT IDEAS

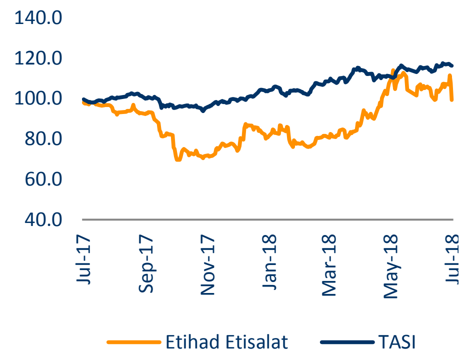
2Q 2018 Results Update **July 26, 2018**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	18.5
Target Price (SAR)	18.6
Upside/Downside (%)	0.6%

As of July 25, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	14.2
52 Wk High (SAR)	21.58
52 Wk Low (SAR)	12.94
Total Outstanding shares (in mn)	770
Free Float (%)	55.0%

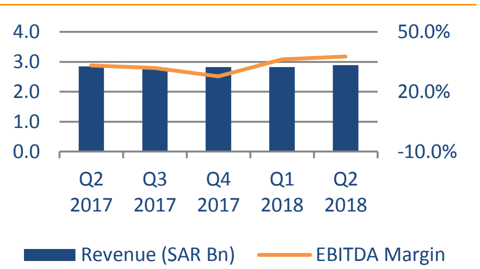
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(5.0%)	(5.7%)
6m	23.0%	10.7%
12m	(0.7%)	(16.9%)

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 July 2018

Mobily trims loss for 2Q18 on strongest year-on-year revenue growth

Etihad Etisalat Co. (Mobily) continued to witness robust revenue growth (+1.4% Y/Y, 2.2% Q/Q). This was in spite of market challenges, including a cut in mobile termination rates (MTR) and the continued impact of VoIP applications on international calling sales following reversal of the ban. The top line was supported by a solid subscriber base, better mix of subscribers, and rise in FTTH and business segment revenues in 2Q18. This, coupled with lower cost of sales as a result of reduction in MTR, aided a rise in gross profit by 8.7% Y/Y and 6.7% Q/Q. EBITDA surged to SAR 1,090mn, reflecting 37.6% margins on improved operating efficiency, in line with higher sales. Consequently, net loss trimmed to SAR 79mn in 2Q18, beating estimates, against loss of SAR 190mn reported last year.

In spite of changing macro and regulatory environments, Mobily continues to post an improved performance from the previous quarter. We expect prudent prices and attractive product offerings from Mobily to drive future revenues. Moreover, continued efforts to deleverage, supported by robust cash flow and steady investments in technology such as launching a 5G run in Riyadh would help the company expand faster vis-à-vis peers. However, we continue to maintain a 'Neutral' outlook, given the intense competition from internet calling services and a likely voice market saturation.

- Mobily's revenues advanced 1.4% Y/Y to SAR2,895mn (2Q17: SAR 2,854mn), driven by improvement in the subscriber mix, data growth, and a rise in the FTTH business. A strategy focused on boosting client base and improving monthly subscriptions resultantly, expanded sales for the third consecutive quarter. Removing the impact of decline in MTR, the sales would have expanded 3.4% YoY.
- Gross profit rose to SAR 1,775mn in 2Q18 (2Q17: SAR1, 633mn) and gross margins to 61.3% in 2Q18 (2Q17: 57.2%), driven by higher data contribution and lower MTR cost.
- EBITDA advanced 15.2% Y/Y to SAR1,090mn, with an improved EBITDA margin of 37.6% in 2Q18 (2Q17: 33.2%), driven by higher revenues, operational efficiencies (owing to company's continued investments), and accounting-related changes. Sequentially, EBITDA advanced 5.9%, led by higher gross profit, and margins edged up to 37.6% (1Q18: 36.3%).
- Operating income, including other income, came in at SAR 127mn in 2Q18, vis-à-vis operating loss of SAR 5.4mn in 2Q17, despite higher depreciation and amortization expenses.
- Mobily trimmed net loss by 58.5% Y/Y to SAR 79mn in 2Q18, driven by stabilization of sales and lower cost. Despite Mobily's continued efforts to deleverage (SAR 172.0mn debt reduction Y/Y), financial charges increased 16.2% Y/Y to SAR192mn in 2Q18, due to the conclusion of capitalization of debt-related expenses and a hike in SIBOR. However, this was partially offset by a rise in finance income, which helped narrow the bottom line.
- The outlook of the telecom sector remains muted as players continue to digest the impact of regulations imposed by the government. Moreover, intensifying competition from VoIP applications, supported by an expanding internet market, is likely to impact sales of voice services amidst the telecom players. However, the launch of 5G in Riyadh and improving operational efficiencies are likely to bode well for the stock.

Valuation: We revise our target price slightly upwards to SAR 18.6, driven by better than expected 2Q18 results. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,895	2,854	1.4%	11,130	11,351	-2.0%
Gross Profit (SAR mn)	1,775	1,633	8.7%	6,511	6,530	-0.3%
Operating Profit (SAR mn)	84.5	(12.5)	NA	11	(14)	NA
Net Profit (SAR mn)	(78.6)	(189.7)	-58.5%	(546)	(709)	23.1%
EPS basic (SAR)	(0.10)	(0.25)	-58.5%	(0.71)	(0.92)	23.1%
Gross Margin (%)	61.3%	57.2%	4.1%	58.5%	57.5%	1.0%
Operating Margin (%)	2.9%	-0.4%	NA	0.1%	-0.1%	NA
Net Profit Margin (%)	-2.7%	-6.6%	3.9%	-4.9%	-6.2%	1.3%

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 ≥ 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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