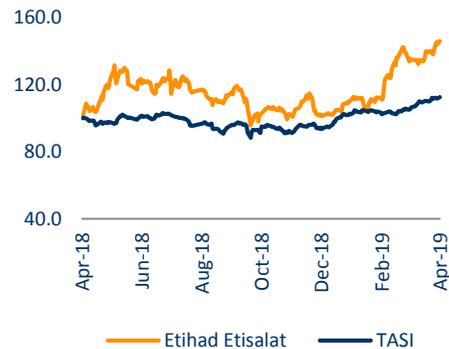


**1Q19 Results Update**
**April 30, 2019**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	23.5
Target Price (SAR)	21.5
Upside/Downside (%)	(8.6%)

*As of 29<sup>th</sup> April, 2019*
**Key Data (Source: Bloomberg)**

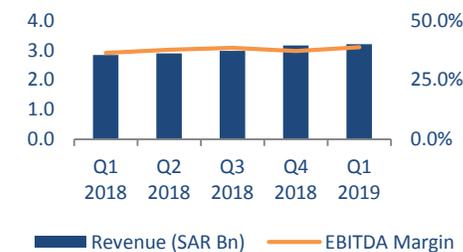
Market Cap (SAR bn)	18.1
52 Wk High (SAR)	23.92
52 Wk Low (SAR)	14.82
Total Outstanding shares (in mn)	770
Free Float (%)	55.0%

**ETIHAD ETISALAT vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	9.2%	2.1%
6m	42.0%	23.7%
12m	46.1%	33.4%

**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 29<sup>th</sup> April 2019

**Mobily swings to profit in 1Q19 on higher revenue and efficient cost management**

Etihad Etisalat Co. (Mobily)'s revenue continued to rise for the sixth consecutive quarter (+13.0% Y/Y, 1.2% Q/Q) to SAR 3,201mn in 1Q19, primarily driven by continued growth in the subscriber base and a better subscriber mix, an increase in FTTH sales, and higher data and business unit revenue. Gross profit was up 10.6% Y/Y and 32.6% Q/Q to SAR 1,839mn, largely supported by a stronger top line, which offset the impact from the new government royalties program and the implementation of IFRS. Mobily's EBITDA and EBIT continued to grow on an annual and quarterly basis. In 1Q19, Mobily posted a second consecutive quarter of net profit after reporting nine quarters of loss. Net profit for the quarter, however, contracted 16.2% Q/Q to SAR 67mn due to the absence of reversal of zakat expense of SAR 14mn recorded in 4Q18.

Mobily's revenue continued to improve in spite of market, regulatory, and economic challenges. We expect an improvement in the subscriber mix and growth in data revenues to drive revenue in future. Mobily continues to reinvent and provide attractive product offerings to win customers. However, the company faces intense competition from Internet calling services and potential voice market saturation. The company was recently fined SAR 17mn by the Saudi telecom regulator for market irregularities, including customer complaints and selling an undisclosed number of prepaid cards. Thus, in light of these regulatory and market challenges, we maintain a "Neutral" outlook on the stock.

- Revenues increased 13.0% Y/Y to SAR 3,201mn, supported by a better subscriber mix, growth in the FTTH active base and business unit, and an increase in wholesale revenues.
- Gross profit rose 10.6% Y/Y to SAR 1,839mn in 1Q19, but the gross profit margin declined to 57.4% from 58.7% posted a year ago as rise in cost of sales outpaced the growth in revenues.
- EBITDA surged 20.4% Y/Y to SAR 1,239mn, with the margin improving to 38.7% in 1Q19 (1Q18: 36.3%). EBITDA growth was ascribed to higher revenues, improved operational efficiencies, and the implementation of IFRS16.
- Operating income increased to SAR 277mn in 1Q19 from SAR 101mn in 1Q18, primarily owing to lower selling and marketing expenses.
- Profit attributable to equity holders stood at SAR 67mn in 1Q19, compared with loss of SAR 93mn witnessed in 1Q18. On a quarterly basis, net profit trimmed by 16.2% due to the difference in zakat expense. Financial charges for the period stood at SAR 212mn, weighed by the impact of the IFRS16 implementation. Without this implementation, the charges would have been SAR 178mn, reflecting the company's efforts to reduce its debt.
- Eng. Salman Abdulaziz R. AlBadran was appointed CEO of Mobily, effective from April 1, 2019.
- The company's shareholders are set to vote on the merger with Bayanat Telecom Co. at the extraordinary general assembly meeting scheduled to be held on May 14, 2019. This transaction would take place after Mobily's acquisition of all the shares of the National Co. for Business Solutions in Bayanat, which constitutes 1,500 shares of 150,000.

**Valuation:** We revise our target price upwards to SAR 21.5 factoring in the strong 1Q19 performance. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,201	2,833	13.0%	12,418	11,865	4.7%
Gross Profit (SAR mn)	1,839	1,663	10.6%	7,013	6,582	6.5%
Operating Profit (SAR mn)	277	101	174.6%	793	603	31.47%
Net Profit (SAR mn)	67	(93)	NA	(20)	(123)	(83.8%)
EPS basic (SAR)	0.09	(0.12)	NA	(0.03)	(0.16)	(83.8%)
Gross Margin (%)	57.4%	58.7%	(1.3%)	56.5%	55.5%	1.0%
Operating Margin (%)	8.6%	3.6%	5.1%	6.4%	5.1%	1.3%
Net Profit Margin (%)	2.1%	(3.3%)	NA	-0.2%	-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  $\geq 10\%$ .

**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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