1Q19 Results Update May 29, 2019

Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	9.4
Target Price (SAR)	9.3
Upside/Downside (%)	-1.1%

As of May 28th 2019

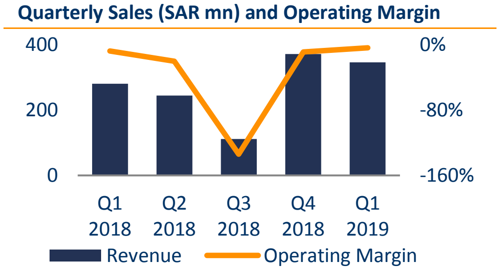
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	7.9
52 Wk High (SAR)	14.08
52 Wk Low (SAR)	7.75
Total Outstanding shares (in mn)	850.0
Free Float (%)	38.9%

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 Company	5.9%
MI Partners Company	5.4%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 28th May 2019

Better order intake for residential projects lifts Emaar's financial results for 1Q19

Emaar The Economic City (EEC) reported net profit of SAR 13mn in 1Q19, significantly up from SAR 3mn in 1Q18, largely ascribed to the higher order intake of residential projects. The other factors that contributed to the rise in profit comprised change in infrastructure cost estimates of residential projects, lower losses in operating assets, and gain on the disposal of investment properties. The impact of these factors was contained by higher SG&A expenses, financial charges, and impairments. The company also recorded a decline in profit share from its investee, Ports Development Authority. Revenues improved 23.1% YoY but declined 7.0% QoQ to SAR 346mn. The company's operating loss margin reduced compared with 1Q18 and 4Q18 owing to improved cost management.

EEC started FY19 on a positive note, recording improved order intake for the quarter on an annual basis. Higher demand for the residential projects was driven by the promising opportunities for business growth and employment at King Abdullah Economic City (KAEC). The most recent development includes the relocation of the Al Salem Johnson Controls (York)'s new factory in the KAEC's Industrial Valley that houses over 116 national, regional, and international companies operating in the industrial and logistics sectors. However, despite these developments, we remain cautious about EEC's performance in the near future as projects of such value and scale require substantial long-term capital expenditures, and barring the residential segment, the performances of all the other segments was not significant. EEC and third parties have invested in excess of SAR 30bn in the KAEC since its inception. Given that till date, the uptake of the projects has been slower than expected, we would like to wait and watch and assign a Neutral rating to the stock.

- EEC's revenue improved 23.1% YoY and declined 7.0% QoQ to SAR 346mn in 1Q19, primarily attributed to the rise in the Residential (up 50.8% YoY to SAR 236mn) and Hospitality and Leisure (up 70.1% YoY to SAR 24mn) segments, which offset the decline in the Industrial Development segment (down 26.6% YoY to SAR 68mn). The company's outperformance was ascribed to a higher order intake of residential projects during the quarter compared with the previous year.
- EEC's gross profit increased 49.3% YoY to SAR 138mn in 1Q19 from SAR 93mn in 1Q18, lifted by better growth in revenues and a controlled rise in the cost of sales. Thus, gross margins expanded to 40.0% in 1Q19 compared with 33.0% in 1Q18.
- The operating income remained in the negative terrain for the fifth straight quarter at SAR 13mn in 1Q19 compared with the operating losses of SAR 22mn and SAR 34mn in 1Q18 and 4Q18, respectively. However, owing to better cost control, the company managed to reduce operating loss margins to 3.8% in 1Q19 against 7.8% in 1Q18 and 9.1% in 4Q18.
- Higher financial charges and lower profit share from the equity accounted investees further reduced the bottom-line results. However, higher contribution from the Other Income over the comparable period lifted net profit for the quarter to SAR 13mn compared with SAR 3mn in 1Q18.
- Operating cash flow (OCF) remained negative and declined further to SAR 216mn in 1Q19 compared with the negative OCF of SAR 64mn in 1Q19.

Valuation: We revise our target price to a fair value of SAR 9.3 and upgrade our rating on the stock to Neutral as the company is trading in the range of our target price.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	345.7	280.8	23.1%	1,172.4	1,008.2	16.3%
Gross Profit (SAR mn)	138.4	92.7	49.3%	463.9	338.4	37.1%
EBITDA (SAR mn)	66.5	62.5	6.5%	280.6	48.5	478.4%
Net Profit (SAR mn)	13.3	3.1	327.0%	138.6	(135.1)	NM
EPS basic (SAR)	0.016	0.003	327.0%	0.2	(0.2)	NM
Gross Margin (%)	40.0%	33.0%	7.0%	39.6%	33.6%	6.0%
EBITDA Margin (%)	19.2%	22.3%	(3.0%)	23.9%	4.8%	19.1%
Net Profit Margin (%)	3.9%	1.1%	2.7%	11.8%	(13.4%)	25.2%

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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