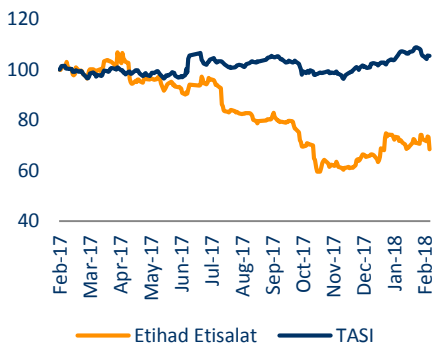


4Q 2017 Results Update
February 14, 2018

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	14.9
Target Price (SAR)	12.4
Upside/Downside (%)	(16.9%)

As of February 14, 2018
Key Data (Source: Bloomberg)

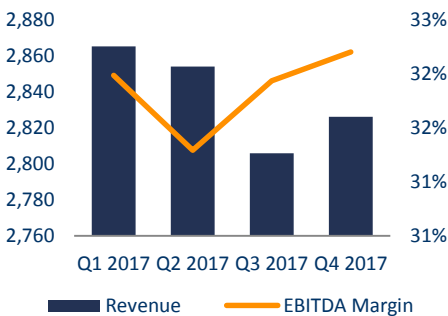
Market Cap (SAR bn)	11.4
52 Wk High (SAR)	23.6
52 Wk Low (SAR)	12.9
Total Outstanding shares (in mn)	770.0
Free Float (%)	56.1%

ETIHAD ETISALAT vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(6.5%)	(6.2%)
6m	(17.1%)	(21.2%)
12m	(31.6%)	(37.1%)

Major Shareholders (%)

Emirates Telecom Corporation	28.0%
General Org For Social Insurance	11.9%
MDO Management Co.	0.03%

Quarterly Sales (SAR mn) and EBITDA Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 14th February 2018

Economic and regulatory changes cause Mobily to post Q4 loss

Etihad Etisalat Co. (Mobily) reported a 158.8% YoY drop in 4Q17 earnings, recording a loss of SAR181.7mn, compared with loss of SAR70.2mn in 4Q16. This was roughly in line with the street's estimate: loss of SAR166.7mn (+9% versus consensus and -4.1% compared with 3Q17). The increase in losses was mainly due to drop in revenues, which were impacted by the overall weak economic outlook and regulatory changes in the telecom sector. Intensifying competition, erosion in customer base, reduction in interconnection rates and declining data prices pushed revenue lower. Unblocking of most VoIP applications as per the regulatory requirements aggravated the scenario.

- Revenues in Q417 were weak, declining 2.8% to SAR2,826.0mn from SAR2,908.0mn in Q416. Revenues were up marginally by 1% compared with SAR2,806.0mn in Q317. Despite the weak performance, trend in revenue for the fourth quarter posted an improvement for the first time since Q415.
- Gross profit stood at SAR1,560.0mn in 4Q17 compared with SAR1,671.0mn in 4Q16 and SAR1,672.0mn in 3Q17. Gross profit margin declined to 55.2% in 4Q17 from 57.5% in 4Q16 and 59.6% in 3Q17. The decline was mainly attributable to drop in revenue and increase in selling costs.
- Operational losses stood at SAR6.8mn in 4Q17 vis-à-vis operational profits of SAR108.3mn in 4Q16 and operational losses of SAR3.7mn in 3Q17 (+83.8%).
- EBITDA was SAR911.0mn in 4Q17 compared with SAR977.0mn in 4Q16 and SAR903.0mn in 3Q17. EBITDA margin decreased slightly to 32.2% in 4Q17 from 34.6% in 4Q16. It was at par with the 32.0% margin recorded in 3Q17. Compared to the higher drop in revenues, the decline in EBITDA margin was lower, indicating operational efficiency.
- Mobily's net loss widened by 158.8% to SAR181.7mn in 4Q17 from SAR70.2mn in 4Q16. The loss also increased 4.1% from SAR174.5mn in 3Q17.
- Due to decreasing debts, financial charges declined to SAR162.6mn in 4Q17 from SAR164.0mn in 4Q16. It was marginally higher than SAR159.0mn reported in 3Q17.
- Total comprehensive loss for the quarter increased 152.4% to SAR181.0mn from loss of SAR71.7mn for 4Q16. It was up by 4.0% from loss of SAR174.0mn reported in 3Q17.
- During the quarter, Mobily completed the acquisition of additional spectrum in the frequency bands 800 MHz and 1800 MHz. The company won 2x10MHz of spectrum in the 800MHz band for a total consideration of SAR100mn payable in 14 equal annual instalments, starting 1 January 2019, along with an annual usage fee of SAR54mn. This spectrum will be available for use from 2H18. It also won additional 2x5MHz of spectrum in the 1800MHz band for a total consideration of SAR30mn payable in 14 equal annual instalments from 1 January 2019, along with an annual usage fee of SAR19.2mn. This spectrum will be available for use from 1 March 2019.

Valuation: We had initiated Mobily with an 'Underweight' rating with a fair value of SAR12.4 per share. We maintain the rating at 'Underweight'.

	4Q'17	4Q'16	% YoY	FY17	FY16	% YoY
Revenues (SAR mn)	2,826.0	2,908.0	(2.8%)	11,351.0	12,569.0	(9.7%)
Gross Profit (SAR mn)	1,560.0	1,671.0	(6.6%)	6,530.0	7,425.0	(12.1%)
EBITDA (SAR mn)	911.0	977.0	(6.8%)	3,616.3	4,009.4	(9.8%)
Net Profit (SAR mn)	(181.7)	(70.2)	158.8%	(708.9)	(213.6)	231.9%
EPS (SAR)	(0.24)	(0.09)	158.8%	(0.92)	(0.28)	231.9%
Gross Margin (%)	55.2%	57.5%	(3.9%)	57.5%	59.1%	(2.6%)
EBITDA Margin (%)	32.2%	34.6%	(6.9%)	31.9%	31.9%	(0.1%)
Net Profit Margin (%)	(6.4%)	(2.4%)	166.3%	(6.2%)	(1.7%)	267.5%

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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