FALCOM فالكم

Etihad Etisalat Co.

Telecommunication Services | ETIHAD ETISALAT | 7020.SE

INTELLIGENT INVESTMENT IDEAS

1Q 2018 Results Update

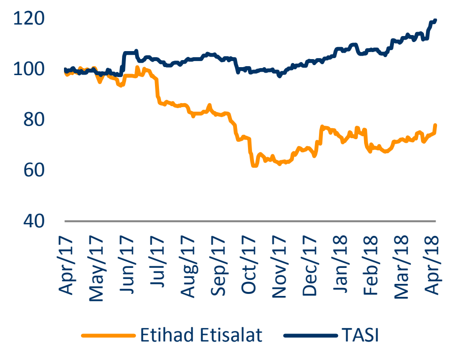
April 24, 2018

Recommendation	**Neutral**
Previous Recommendation	Underweight
Current Price (SAR)	16.4
Target Price (SAR)	15.4
Upside/Downside (%)	(5.9%)

As of April 23rd, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	12.6
52 Wk High (SAR)	21.5
52 Wk Low (SAR)	12.9
Total Outstanding shares (in mn)	770.0
Free Float (%)	55.0%

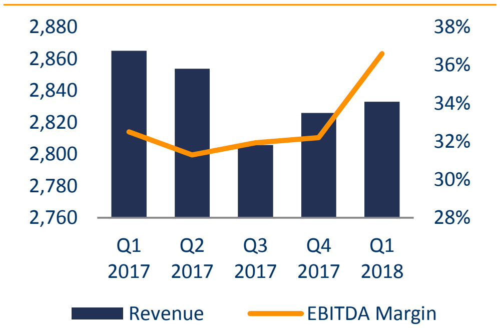
ETIHAD ETISALAT vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	7.8%	1.4%
6m	17.1%	(3.3%)
12m	(22.2%)	(34.7%)

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 23rd April 2018

Mobily cuts back Q1 2018 losses on higher revenue and strong EBITDA performance

Etihad Etisalat Co. (Mobily) marked a second consecutive quarter of revenue growth (+0.2% QoQ,-1.1% YoY) to SAR 2,833mn, despite a full quarter impact of cut in mobile termination rate (MTR) and effect of VAT implementation in January 2018. A more robust growth in EBITDA to SAR 1,036 (+14% QoQ, 11% YoY) reflecting 37% margins can be ascribed to improved operating efficiency with the change of mix of revenue, reversal of certain provisions and the application of IFRS9 and IFRS15. Consequently, much to the surprise of street, the net losses trimmed down to SAR93mn in 1Q18 (Consensus: SAR186.6mn) versus SAR163mn reported last year.

Despite the changing macro and regulatory environment, Mobily was able to show improved performance on all accounts. We expect the rationalization of data prices, attractive post-paid packages on lower interconnection rates, testing of 5G networks, infrastructure sharing and inclusion of Mobily in FTSE and MSCI EM indices to be the key investment themes in 2018. However, we maintain an outlook of low single digit revenue growth, given intense competition and dynamic macro environment.

- Mobily's revenues fell 1.1% YoY to SAR2,833mn, due to implementation of VAT and a 45% reduction in interconnection rates from SAR 0.10 to SAR 0.055 effective 23rd Dec 2017.Despite, the pressure felt from VAT, the company witnessed strong usage in data consumption, and has come back to normality relatively quickly.
- Gross profit declined slightly to SAR1,663mn in 1Q18 (1Q17: SAR1, 665mn), while gross margin improved to 58.7% in 1Q18 (1Q17: 58.1%), driven by higher data contribution, lower MTR costs and lower income from sale of low margin phones.
- Operating income rose sharply to SAR101mn in 1Q18 from SAR35mn in 1Q17, while the company maintained a healthy operating cash flow of SAR531mn (excluding capitalization of spectrum fees), closer to SAR578mn in 1Q17.
- EBITDA increased 11.2% YoY to SAR1,036mn, with an improved EBITDA margin of 36.6% in 1Q18 (1Q17: 32.5%) driven by operational efficiencies and one-off charges. The management refrained from sharing any guidance of recurring EBITDA margins for 2018, but expects improved performance from previous quarters (32%-33% range).
- Mobily's net loss narrowed by 42.9% yoy to SAR93mn in 1Q18 driven by stabilization of sales, lower costs, reversal of provisions and impact of IFRS9 and IFRS 15 implementation. As the company continues to deleverage (SAR1.4bn debt reduction YoY), the financial charges declined 3.1% YoY in 1Q18 to SAR188mn, supporting the bottom line, while net debt/EBITDA improved to 3.29x from 3.50x respectively.
- Mobily's capex increased significantly to SAR814mn in 1Q18 (1Q17: SAR354mn) due to network modernization and spectrum capitalization (totaling SAR309mn). Tangible capex to sales (excluding spectrum) stood at 18%.
- The outlook for the telecom sector remains muted in the light of Communications and Information Technology Commission's (CITC) new regulations such as unblocking of Voice-over-IP (VOIP) call and messaging applications. Besides, CITC is considering awarding another mobile license in 2018, bringing the total number of players to four, which will intensify the competition in the industry.

Valuation: We have revised our target price upwards with a fair value of SAR15.4 per share, in the light of improved performance and recent stock price movement. We have upgraded our rating to 'Neutral'.

	1Q'18	**1Q'17**	**% YoY**	**FY18E**	**FY17**	**% YoY**
Revenues (SAR mn)	2,833.0	2,865.1	(1.1%)	11,535.1	11,351.0	1.6%
Gross Profit (SAR mn)	1,633.0	1,664.8	(1.9%)	6,748.0	6,530.0	3.3%
EBITDA (SAR mn)	1,036.0	932.0	11.2%	3,843.1	3,612.4	6.4%
Net Profit (SAR mn)	(93.0)	(163.1)	(43.0%)	(405.2)	(708.9)	(42.8%)
EPS (SAR)	(0.12)	(0.21)	(43.0%)	(0.53)	(0.92)	(42.8%)
Gross Margin (%)	57.6%	58.1%	(0.5%)	58.5%	57.5%	1.0%
EBITDA Margin (%)	36.6%	32.5%	4.0%	33.3%	31.9%	1.4%
Net Profit Margin (%)	(3.3%)	(5.7%)	2.4%	(3.5%)	(6.2%)	2.7%

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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Disclaimer and Risks Warning:

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.