

3Q 2018 Results Update

November 14, 2018

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	8.3
Target Price (SAR)	7.4
Upside/Downside (%)	(10.8%)

As of November 13th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.0
52 Wk High (SAR)	14.90
52 Wk Low (SAR)	7.75
Total Outstanding shares (in mn)	850.0
Free Float (%)	37.4%

EMAAR EC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(0.6%)	(6.3%)
6m	(37.8%)	(33.0%)
12m	(34.2%)	(44.3%)

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%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 13th November 2018

Emaar's losses widens in 3Q18 on weak revenues and higher operating costs

Emaar The Economic City (EEC) reported net losses of SAR 149.1mn in 3Q18 against a net profit of SAR 27.0mn in 3Q17, primarily owing to lower sales across residential, industrial, hospitality & leisure, and other segments. Higher operating expenses, an increase in net financial expenses and lower other income also contributed to the losses. On a sequential basis, higher depreciation and net financial expenses, coupled with a fall in profit share from a JV (77.3% QoQ) weighed down profits. Despite lower cost of sales on an annual and quarterly basis, EEC recorded gross losses as a result of loss on new operating assets during the quarter. Consequently, gross margins came in at negative 12.5% in 3Q18.

We continue to remain cautious about EEC's performance, following its disappointing performance this quarter. Share price retreated 14.4% since the last earnings report, hovering near 52-week lows. We reiterate our 'Underweight' stance on the stock as operating performance continues to deteriorate and earnings visibility is expected to be weak. King Abdullah Economic City attracted 370,000 visitors in 2017 for ticketed events and set an ambitious target of 1 million visitors this year amidst a slew of entertainment and leisure attractions. Furthermore, the company's CEO Fahad Al Rasheedare, stepped down after having served EEC for 11 years. As such, we would wait and watch the company's performance as it welcomes Ahmed Linjawy, deputy CEO who shall be taking over as CEO.

- EEC's revenue dropped 58.3% YoY to SAR 111.9mn in 3Q18. Revenues across residential business (-47.4% YoY), industrial development (-77.9% YoY), hospitality & leisure (-3.7% YoY), and others (-26.4% YoY) segments fell during the quarter. Revenue declined 54.2% QoQ, ascribed to the fall in sales from the residential (67.4% QoQ), industrial (53.3% QoQ), and other (-13.8% QoQ) segments.
- The company incurred gross losses of SAR 14.0mn in 3Q18, as lower sales across segments dragged profits despite 22.4% YoY and 9.6% QoQ decline in cost of sales. Consequently, gross margins contracted to negative 12.5% in 3Q18, compared with 39.6% in 3Q17 and 42.9% in 2Q18.
- EEC reported operating losses of SAR 149.9mn, ascribed to weak revenues and higher selling (+54.5% YoY), G&A (+33.5% YoY), and depreciation (+19.0% YoY) expenses. Operating losses tripled from the previous quarter as impairment losses widened amid weak sales. Consequently, the operating margin contracted to negative 134.0% in the current quarter compared with 2.5% in 3Q17 and negative 20.5% in 2Q18.
- Net losses came in at SAR 149.1mn vis-à-vis net profit of SAAR 27.0 mn in 3Q17 as higher net financial expenses, a lower share of result from equity accounted investees (-66.9% YoY), lower other income and higher zakat contributed to the decline. Sequentially, net losses widened 213.3% as a result of higher net financial charges (+12.4%) and a lower share of result from investees (-77.3%).

Valuation: We revised our target price downward with a fair value of SAR 7.4, after incorporating the dismal 3Q18 performance. We maintain our 'Underweight' rating on the stock as we do not foresee any upside potential in the short term.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	111.9	268.5	-58.3%	1,082.9	1,438.0	-24.7%
Gross Profit (SAR mn)	(14.0)	106.3	NM	324.9	822.4	-60.5%
EBITDA (SAR mn)	(106.2)	43.9	NM	106.4	538.3	-80.2%
Net Profit (SAR mn)	(149.1)	27.0	NM	-49.4	240.9	-120.5%
EPS basic (SAR)	(0.2)	0.0	NM	-0.1	0.3	-120.5%
Gross Margin (%)	-12.5%	39.6%	NM	30.0%	57.2%	-27.2%
EBITDA Margin (%)	-95.0%	16.4%	NM	9.8%	37.4%	-27.6%
Net Profit Margin (%)	-133.3%	10.0%	NM	-4.6%	16.8%	-21.3%

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 $\geq 10\%$.

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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