

2Q19 Results Update

September 05, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	10.2
Target Price (SAR)	9.3
Upside/Downside (%)	(8.3%)

As of September 05th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.7
52 Wk High (SAR)	11.0
52 Wk Low (SAR)	7.8
Total Outstanding shares (in mn)	850.0
Free Float (%)	40.7%

EMAAR EC vs. TASI (Rebased)

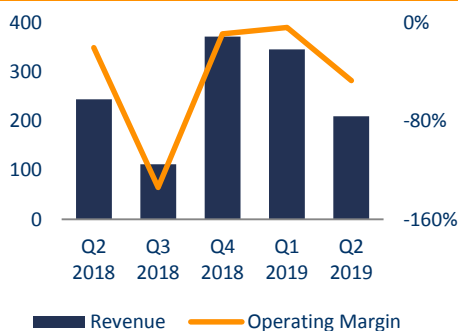


Price Performance (%)	Absolute	Relative
1m	(1.4%)	7.2%
6m	5.1%	12.3%
12m	7.2%	7.5%

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%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 5th September 2019

Higher financial charges and operating asset launches dent Emaar's earnings in 2Q19

Emaar, The Economic City (EEC) widened losses to SAR114.7mn in 2Q19, compared with SAR47.6mn in 2Q18 as the company launched new operating assets which had initial operating losses. Higher financial charges due to an increase in SIBOR and increased impairments to trade receivables also contributed to the losses. The company's revenues shrank on a lower uptake of residential and industrial projects. The rise in the cost of sales due to higher financing costs put pressure on the gross margins. The impact of these factors was exacerbated by higher selling and marketing expenses, along with impairment losses. The company's operating loss increased to SAR99.0mn for the period. The company also recorded decline in profit share from its investee Ports Development Company.

After a positive start to 2019, EEC's order intake for residential and industrial projects witnessed decline in the second quarter. In addition, prevailing market conditions forced the company to offer extended payment plan schemes to customers, which resulted in higher financing costs and lower gross profits. EEC and third parties have invested in excess of SAR 30bn in King Abdullah Economic City (KAEC) since its inception, and we expect the company's capital expenditure to remain high in the medium term as it is developing infrastructure for city expansion to draw more visitors to KAEC. To boost its prospects, EEC launched a summer festival, offering a range of exclusive activities and events that showcase the state-of-the-art infrastructure and also offered a residential scheme in August to attract customers. Thus, in view of the countervailing factors, we maintain a Neutral rating on the stock.

- EEC's revenue declined 14.1% YoY and 39.3% QoQ to SAR209.7mn in 2Q19, primarily due to a slide in the Industrial Development segment (down 37.2% YoY to SAR40.4mn) and Residential segment (down 2.1% to SAR140.2mn). The improvement in Hospitality and Leisure (up 38.4% YoY to SAR14.5mn) failed to lift overall revenues.
- EEC's gross profit slipped 29.4% YoY and 48.5% QoQ to SAR71.3mn in 2Q19 due to higher financing costs. Thus, gross margins shrank to 34.0% in 2Q19, compared with 40.0% in 1Q19 and 41.4% in 2Q18.
- Operating losses widened to SAR99.0mn from a loss of SAR13.3mn in 1Q19 and SAR49.8mn in 2Q18 due to the launch of new operating assets with initial operating losses. The operating loss margin increased to 47.2% in 2Q19 from 3.8% in 1Q19 and 20.4% in 2Q18.
- Higher financial charges and a lower profit share from equity accounted investees further reduced bottom-line results. The company also suffered from an increase in impairment loss on outstanding trade receivables. The Other income declined on a quarterly basis, mainly due to the disposal of Investment Properties in Q1 2019, but improved on an annual basis. Net loss for the period stood at SAR114.7mn, compared with SAR13.3mn in net profit in 1Q19 and SAR47.6mn in net loss in 2Q18.

Valuation: We maintain our target price at a fair value of SAR 9.3 and retain our 'Neutral' rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	209.7	244.1	(14.1%)	1,130.8	1,008.2	12.2%
Gross Profit (SAR mn)	71.3	101.0	(29.4%)	455.7	338.4	34.7%
EBITDA (SAR mn)	(9.1)	(29.7)	(69.4%)	189.5	48.5	290.6%
Net Profit (Loss) (SAR mn)	(114.7)	(47.6)	141.1%	33.9	(135.1)	NM
EPS basic (SAR)	(0.13)	(0.06)	141.1%	0.04	(0.16)	NM
Gross Margin (%)	34.0%	41.4%	(7.4%)	40.3%	33.6%	6.7%
EBITDA Margin (%)	(4.3%)	(12.2%)	7.8%	16.8%	4.8%	11.9%
Net Profit Margin (%)	(54.7%)	(19.5%)	(35.2%)	3.0%	(13.4%)	16.4%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@falcom.com.sa

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

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.