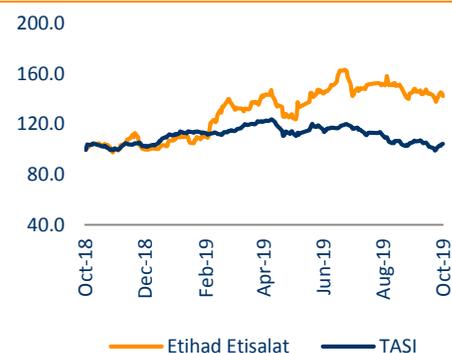


**3Q19 Results Update**
**October 29, 2019**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.3
Target Price (SAR)	22.0
Upside/Downside (%)	(1.3%)

*As of 29<sup>th</sup> October, 2019*
**Key Data (Source: Bloomberg)**

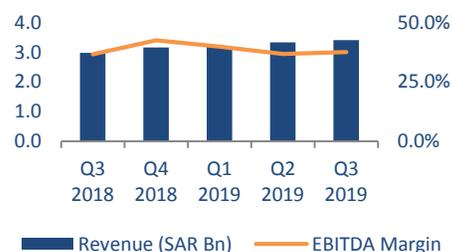
Market Cap (SAR bn)	17.1
52-Wk High (SAR)	26.95
52-Wk Low (SAR)	15.82
Total Outstanding shares (in mn)	770
Free Float (%)	60.5%

**ETIHAD ETISALAT vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	(1.8%)	(1.0%)
6m	0.4%	15.0%
12m	42.5%	38.0%

**Major Shareholders (%)**

Emirates Telecommunications Corp. (Etisalat)	27.99%
General Org. for Social Insurance	6.90%

**Revenue (SAR bn) and EBITDA Margin (%)**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29<sup>th</sup> October 2019

**Consistent growth in revenues lifts Mobily's net income yet misses street expectations**

Etihad Etisalat Co. (Mobily) recorded eight consecutive quarters of revenue growth (+14.4% YoY, 2.2% QoQ) to SAR 3,403.7mn in 3Q19. The rise was facilitated by continued growth in the subscriber base and expansion of the FTTH active base, along with improvement in revenues from the business and wholesale units. Gross profit was up 14.6% YoY and 3.0% QoQ to SAR 2,015.4mn, as the steady rise in revenues compensated for the impact of the new government royalty program that was announced previously and the implementation of IFRS16. The company reported a rise in operating profit and EBITDA despite higher selling, marketing, and administrative expenses. In spite of the IFRS implementation, financial charges remained in line with those last year. Though the company recorded the fourth straight quarter of net profit, it fell short of consensus estimates.

Mobily continued to perform well with consistent growth in revenues, improved operational performance and a strong and healthy EBITDA. In view of this, we expect Mobily to remain profitable in the coming quarters. The company continues to deploy network modernization and an additional spectrum, along with focusing on positive cash flow generation. Mobily's capex declined sharply against the previous year due to capitalization of the spectrum in 9M 2018, amounting to SAR 450mn. In addition, the company has managed to reduce its net debt by SAR768mn in the past 12 months and maintains a healthy net debt to EBITDA ratio at 2.34x, which continues to improve. However, despite the positive developments on the company front, the external environment raises challenges for Mobily in terms of the market competition, regulation, and economy. Thus, in light of the countervailing factors, we maintain a "Neutral" outlook on the stock.

- Revenues increased 14.4% YoY to SAR 3,403.7mn, supported by a better subscriber mix, growth in the FTTH active base, and an increase in business unit and wholesale revenues.
- Gross profit jumped 14.6% YoY to SAR 2,015.4mn in 3Q19, and the gross profit margin expanded to 59.2% from 59.1% recorded a year ago, even as the cost of sales grew in line with revenue increase.
- EBITDA surged 17.5% YoY to SAR 1,277mn, with the margin improving to 37.5% in 3Q19 (3Q18: 36.5%). EBITDA growth was ascribed to higher revenues, better operational efficiencies, and IFRS16 implementation.
- Operating income more than doubled to SAR 262.4mn in 3Q19 from SAR 108.1mn in 3Q18. The operating expense continues to rise, but impairment losses slid 62.6% YoY to SAR 60.4mn.
- Profit attributable to equity holders was SAR 51.1mn in 3Q19 compared with the loss of SAR 30.9mn witnessed in 3Q18. Financial charges for the period stood at SAR 206.3mn, weighed by the impact of the IFRS16 implementation. Without this implementation, the charges would have been SAR 171mn.
- The company reported strong improvement in the operational cash flow for the period, standing at SAR 1,029.1mn against SAR 918.9mn in 3Q18.

**Valuation:** We revise our target price to SAR 22.0 and maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	3,404	2,976	14.4%	13,060	11,865	10.1%
Gross Profit (SAR mn)	2,015	1,758	14.6%	7,507	6,582	14.0%
Operating Profit (SAR mn)	262	108	142.7%	1,010	603	67.6%
Net Profit (SAR mn)	51	(31)	NM	172	(123)	NM
EPS basic (SAR)	0.07	(0.04)	NM	0.23	(0.16)	NM
Gross Margin (%)	59.2%	59.1%	0.1%	57.5%	55.5%	2.0%
Operating Margin (%)	7.7%	3.6%	4.1%	7.8%	5.1%	2.7%
Net Profit Margin (%)	1.5%	(1.0%)	2.5%	1.4%	(1.0%)	2.4%

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.

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