July 27, 2017

Etihad Etisalat Company (Mobily) Q2 2017

Recommendation	Neutral
Fair Value (SAR)	**19.80**
Price as of July 27, 2017	18.18
Expected Return	8.9%

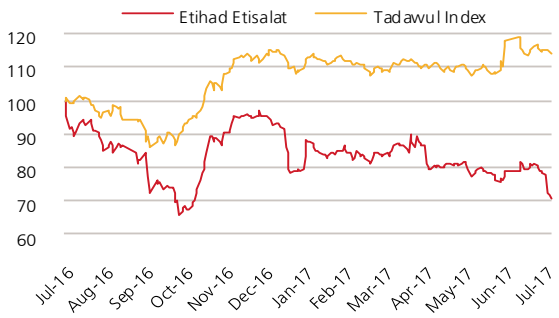
Company Data

Tadawul Symbol	7020.SE
52 Week High (SAR)	24.10
52 Week Low (SAR)	16.40
YTD Change	-24.6%
3-Month Average Volume (Thousand Shares)	592
Market Cap. (SAR Million)	13,999
Market Cap. (USD Million)	3,733
Outstanding Shares (Million Shares)	770

Major Shareholders (> 5%)

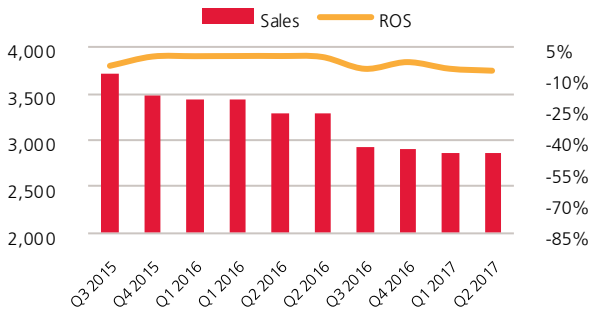
Emirates Telecommunication Corp. (Etisalat)	27.99%
General Organization for Social Insurance	11.85%

52-week Stock Price Movement



Source: Tadawul

Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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Etihad Etisalat Company (Mobily) posted net losses of SAR 190 million in Q2 2017 compared to net profit of SAR 3.2 million in Q2 2016. The net losses also widened from SAR 163 million in Q1 2017, therefore Mobily booked net losses of SAR 353 million in H1 2017, compared to net profit of SAR 23 million in H1 2016.

The staggering losses in Q2 2017 were mainly fueled by lower revenues, increase in cost of services and mounting financing expenses. Sales shrank by 13% to SAR 2,854 million. The company attributed this to a decrease in customer base in 2016. Nevertheless, the cost of services edged up 1.6%, thus the ratio of the services cost to top line inflated from 36.5% in Q2 2016 to 42.8% in Q2 2017. Total SG&A expenses (excluding doubtful debts provisions) slumped 21% YoY during the quarter as Q2 2016 coincided with whopping expenses of fingerprint registration. The EBITDA margin shrank from 34.8% to 31.5% in the second quarter. On the other hand, interest expenses climbed from SAR 143 million to SAR 163 million in Q2 2017 as the cellular operator concluded an agreement with a number of banks in the first quarter to refinance loans worth SAR 8 billion at a higher interest rate.

Compared to Q1 2017, sales fell 0.4%, while gross profit slid 1.9% driven by lower revenues and higher cost of roaming. On the other hand, the financing expenses slumped from SAR 195 million in Q1 2017 to SAR 163 million in Q2 2017 as the first quarter coincided with a non-recurring expense of SAR 42 million related to the debt refinancing agreement. Zakat expenses skyrocketed from SAR 7 million to SAR 24 million triggered by non-recurring expenses in the second quarter impacted by changes in the calculation of Zakat related to depreciation.

In the first half, consolidated revenues fell by 15% to SAR 5,719 million on the back of low customer base as well as the use of lower interconnection rates in April 2016. This was not accompanied by a similar decrease in the cost of services, thus resulting in a 90% dip in operating profit. Financing expenses expanded by SAR 89 million.

The company's losses exceeded our estimate by 6.2% and the average forecast of analysts by 25%. Overall, the company's results displayed poor performance on the operational level. Factoring in the intense competition in the market and overall macro slowdown, the profitability will depend more on optimizing operating expenses. Factoring in the results of the second quarter and adjusting our expectations for the second half to reflect continued losses beyond our previous expectations, we cut our valuation for the share from 21.2 to SAR 19.8 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	11.98	9.15	6.71	7.36
EV/Sales	1.92	1.87	2.14	2.34
P/E	N/A	N/A	N/A	-21.63
Dividend Yield	13.8%	0.0%	0.0%	0.0%
P/BV	0.84	0.90	0.91	0.95
P/Revenue	1.00	0.97	1.11	1.22
Current Ratio	0.42	0.41	0.38	0.53
Revenue Growth	-22.6%	3.0%	-12.9%	-8.5%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Total Revenues	**18,103**	**14,004**	**14,424**	**12,569**	**11,501**
Cost of services	6,896	7,225	6,466	5,144	4,825
% of revenue	38.1%	51.6%	44.8%	40.9%	42.0%
SG&A	3,407	3,842	3,865	2,864	2,704
% of revenue	18.8%	27.4%	26.8%	22.8%	23.5%
Provisions	335	690	1,152	552	364
Other Income	-	-	-	-	50
EBITDA	**7,464.6**	**2,246.2**	**2,941.4**	**4,009.4**	**3,657.1**
EBITDA Margin	41.2%	16.0%	20.4%	31.9%	31.8%
Depreciation and Amortization	2,760	3,533	3,625	3,775	3,591
EBIT	**4,705**	**(1,287)**	**(684)**	**235**	**66**
Net Interest Income	(191)	(269)	(361)	(556)	(650)
Others (Net)	257	21	121	75	-
Pre-Tax Income	**4,771**	**(1,535)**	**(924)**	**(246)**	**(583)**
Tax and Zakat	79	41	169	(43)	64
Net Income	**4,692**	**(1,576)**	**(1,093)**	**(203)**	**(647)**
ROS	25.9%	-11.3%	-7.6%	-1.6%	-5.6%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	1,570	3,064	1,748	1,216	1,204
Accounts Receivables	7,472	4,473	3,424	3,701	3,740
Inventory	915	818	486	200	183
Others	4,764	4,147	1,759	1,769	1,618
Total ST Assets	**14,720**	**12,502**	**7,416**	**6,886**	**6,745**
Net Fixed Assets	19,817	23,091	23,654	23,569	22,744
Projects Under Implementation	503	982	812	838	628
Intangible assets	10,443	10,045	9,493	8,987	8,667
Others	6	24	1,001	913	7
Total LT Assets	**30,768**	**34,142**	**34,960**	**34,307**	**32,047**
Total Assets	**45,488**	**46,644**	**42,376**	**41,193**	**38,792**
Short Term Debt and CPLTD	3,080	16,993	5,766	7,608	3,083
Accounts Payable	5,043	7,806	6,536	4,520	3,764
Accrued Expenses	5,366	4,832	5,476	5,631	4,502
Others	209	159	289	193	1,371
Total ST Liabilities	**13,697**	**29,790**	**18,067**	**17,952**	**12,720**
Total Long Term Debt	10,517	0	8,509	7,601	11,037
Other Noncurrent Liabilities	158	201	241	283	326
Equity	**21,116**	**16,652**	**15,559**	**15,356**	**14,709**
Total Liabilities and Equity	**45,488**	**46,644**	**42,376**	**41,193**	**38,792**

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Operating Cash Flow	5,591	6,171	4,958	4,017	3,058
Financing Cash Flow	(5,802)	(6,019)	(2,730)	1,055	(1,740)
Investing Cash Flow	479	241	(3,695)	(4,704)	(981)
Change in Cash	268	394	(1,467)	369	337

Source: Company Filings, Albilad Capital Research Estimates

* Historical financial statements were prepared in accordance with Saudi reporting standards. Some items in 2017 are reclassified according to IFRS.

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

Albilad Capital Rating Methodology

Al-Bilad Capital 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: waiting for more analysis, waiting for detailed financials , waiting for more data to be updated, major change in company`s performance, change in market conditions or any other reason from Albilad Capital Research.

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CMA Authorization Number 08100-37