

# Etihad Etisalat Company (Mobily)

Q1 2017

## Recommendation **Neutral**

**Fair Value (SAR) 21.20**

Price as of April 26, 2017 20.55  
Expected Return 3.2%

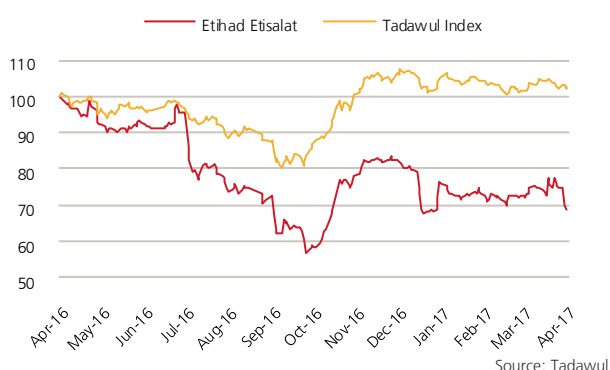
### Company Data

Tadawul Symbol 7020.SE  
52 Week High (SAR) 30.40  
52 Week Low (SAR) 16.40  
YTD Change -12.0%  
3-Month Average Volume (Thousand Shares) 1,039  
Market Cap. (SAR Million) 15,824  
Market Cap. (USD Million) 4,220  
Outstanding Shares (Million Shares) 770

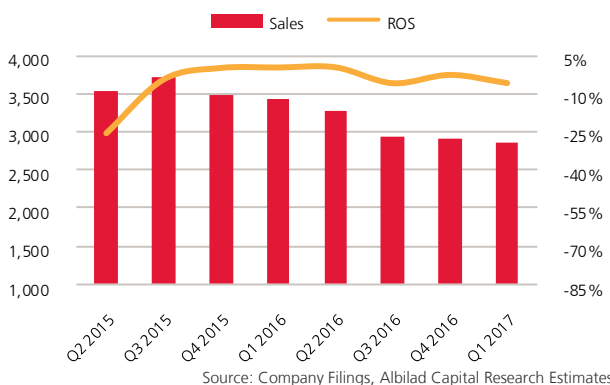
### Major Shareholders (> 5%)

Emirates Telecommunication Corp. (Etisalat) 27.56%  
General Organization for Social Insurance 11.85%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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Mobily reported a net loss of SAR 163 million in Q1 2017, swinging from a net profit of SAR 20 million in Q1 2016. Nevertheless, the net loss widened by 133% QoQ from SAR 70 million in Q4 2016.

Revenues for the first quarter of 2017 tumbled 16.7% to SAR 2,865 million compared to SAR 3,440 million in Q1 2016 fueled by the following reasons: (a) the pressure on sales and the discontinuation of non-registered lines due to the implementation of the fingerprint authentication system in 2016, (b) decreased interconnection revenues as the regulator enforced a reduction in wholesale cellular interconnection rate in April 2017 to 10 halalas instead of 15 halalas. It is worth mentioning that the increase in data revenues contributed to the improvement in the gross margin in Q1 2017.

Furthermore, interest expenses for the quarter escalated from SAR 124 million in Q1 2016 to SAR 194 million fueled by the shift in interbank lending higher net debt, in addition to non-recurring financing expense of SAR 42 million pertaining to refinancing debts worth SAR 7.9 billion in February 2017.

Compared with Q4 2016, the company's losses widened 133% or SAR 93 million driven by seasonal changes, and the increase of 18.3% in financing expenses, as well as posted nonrecurring items in Q4 2016.

Mobily reported a gross profit of SAR 1,665 million in Q1 2017 compared to SAR 1,925 million in Q1 2016, a decrease of 13.5%. However, the gross profit margin improved to 58.1% compared to 55.9% in Q1 2016. On the other hand, operating profit dipped 77% from SAR 152 million in Q1 2016 to SAR 35 million. The operating profit also slid 67.6% QoQ, thus the EBIT margin squeezed from 4% in Q1 2016 and 3% in Q4 2016 to 1.2% in Q1 2017.

The loss for Q1 2017 exceeded our estimate of SAR 138 million, as well as the market consensus of SAR 63.6 million. The second quarter is anticipated to coincide with improved operational performance for several reasons: (i) demand for telecommunications services to peak during the holy month of Ramadan, which will coincide with the second quarter of this year, (ii) the slump in inter-bank interest rates (SIBOR); (ii) non-recurring financing expenses of SAR 42 million in Q1 2017. Furthermore, we believe Mobily will embark on an OPEX reduction policy to mitigate the slowdown in the top line and the intense market competition. Our valuation for the share is trimmed from SAR 24 to SAR 21.2 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	12.90	9.85	7.23	7.52
EV/Sales	2.07	2.01	2.30	2.42
P/E	N/A	N/A	N/A	N/A
Dividend Yield	12.0%	0.0%	0.0%	0.0%
P/BV	0.96	1.03	1.04	1.06
P/Revenue	1.14	1.11	1.27	1.34
Current Ratio	0.42	0.41	0.38	0.44
Revenue Growth	-22.6%	3.0%	-12.9%	-4.9%

Source: Company Filings, Albilad Capital Research Estimates

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

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

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

Source: Company Filings, Albilad Capital Research Estimates

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

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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  $\geq 10\%$ .

**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: 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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