Etihad Etisalat Company

Telecom – Industrial
EEC AB: Saudi Arabia
24 April 2017

الراجحي المالية
Al Rajhi Capital

US$4.605bn	61%	US$6.35mn
Market cap	Free float	Avg. daily volume

Target price	**18.00**	-19.6% over current
Current price	**22.40**	as at 23/4/2017

Existing rating

Underweight | **Neutral** | **Overweight**

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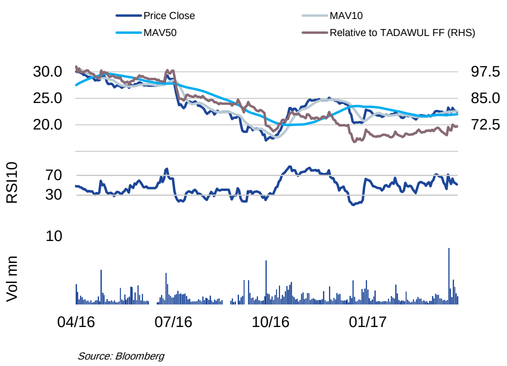
Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/14A	12/15A	12/16A	12/17E
Revenue (mn)	14,004	14,424	12,569	11,800
Revenue Growth	-27.0%	3.0%	-12.9%	-6.1%
EBITDA (mn)	2,246	2,941	4,009	3,949
EBITDA Growth	-73.4%	30.9%	36.3%	-1.5%
EPS	(2.05)	(1.42)	(0.26)	(0.25)
EPS Growth		-30.6%	-81.4%	-4.5%

Source: Company data, Al Rajhi Capital.

Mobily

Q1 - Miss on all fronts

Mobily reported a net loss of SAR163mn in Q1 2017 missing our and consensus estimates by a wide margin. Revenue declined 17% y-o-y to SAR2.86bn compared to our estimate of SAR2.96bn. The sequential top-line decline of 1.5% for Mobily as compared to 7% q-o-q growth for Zain KSA highlights that Zain KSA continues to gain strength while Mobily remains in a weakened position. More importantly, EBITDA declined by 18% y-o-y (4.6% q-o-q) to SAR932mn. As a result of this and also because of higher interest charges post increase in debt and refinancing charges, net loss came at SAR163mn, below our estimate of SAR14mn profit. As we had written in our last note, the company seems to face constrained cash flows that is likely to lower its ability to spend on capex and accordingly Q1 capex was lower at SAR354mn as compared to SAR962mn in the last quarter. We now value the company at SAR18 per share, towards the lower end of the fair value range of SAR17-20 that we had estimated in our previous report. Accordingly we remain Underweight on the company.

- **Return to profitability seems to be protracted:** One of the key areas of interest for investors in the company is the return to profitability through cost savings. However, we believe that potential cost saving for Mobily may be not material and will be hard to come by, as affirmed in Q1 results. The company faces the added burden of increased competitive pressure and higher interest costs. The company is also facing constrained cash flows which is likely to lower capex spend as it looks to gradually repay its liabilities. While the reported debt is SAR15.2bn (2016 end), there is a significant chunk of liabilities on the reported balance sheet such as accrued expenses and liabilities (SAR5.6bn), and accounts payable(SAR4.5bn), most of which do not classify as typical working capital for a telecom firm in our view. In the case of Mobily, these liabilities relate to accrued expenses of selling, marketing and even capex payables which will have to be paid back and is not sustainable at the current run rate.

- **Valuation:** Post the weak set of results, we are less convinced about any meaningful cost savings and revenue growth that can possibly revive the stock. We value the company at SAR18, towards the lower end of the fair value range of SAR17-20 that we had estimated in our previous report. We use a discount rate of 9.2% based on a cost of equity of 12.55% for our calculations. We believe the key upside risk could be related to sale of towers – which however depends on the price received for its towers.

Figure 1 Summary of results

(SAR '000)	1Q16	4Q16	1Q17 Actuals	y-o-y	q-o-q	ARC est.
Revenue	3,440,275	2,908,399	2,865,000	-17%	-1.5%	2,966,000
Gross Profit	1,925,223	1,671,453	1,665,000	-14%	0%	1,765,000
Operating income	152,000	108,000	35,000	-77%	-68%	140,000
EBITDA	1,130,000	977,000	932,000	-18%	-5%	990,000
Net profit	16,605	-70,684	-163,000	NA	NA	-14,000

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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