

Etihad Etisalat Company (Mobily)

Q4 2016

Recommendation **Neutral**

Fair Value (SAR) **24.2**

Price as of January 29, 2017 22.61

Expected Return 7.05%

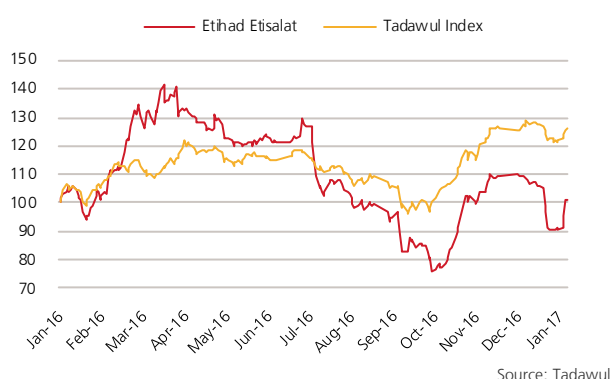
Company Data

Tadawul Symbol	7020.SE
52 Week High (SAR)	32.20
52 Week Low (SAR)	16.40
YTD Change	-5.9%
3-Month Average Volume (Thousand Shares)	1,248
Market Cap. (SAR Million)	17,464
Market Cap. (USD Million)	4,657
Outstanding Shares (Million Shares)	770

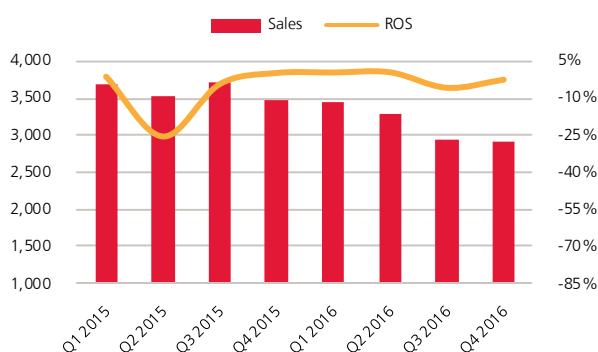
Major Shareholders (> 5%)

Emirates Telecommunication Corp. (Etisalat)	27.46%
General Organization for Social Insurance	11.85%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



Mobily swung to a net loss of SAR 71 million in Q4 2016 from net earnings of SAR 11 million in Q4 2015, however the net loss shrank from SAR 168 million in Q3 2016 which coincided with non-recurring zakat reversal of SAR 95 million. The full-year net loss squeezed to SAR 203 million compared to SAR 1,093 million in 2015, factoring in nonrecurring doubtful debts provisions of SAR 800 million in 2015.

The Q4 top line slumped by 16.6% YoY to SAR 2,908 million compared to SAR 3,488 million impacted by the following factors; (a) sales plummeted after the enforcement of fingerprinting documentation and suspension of unregistered customers lines, (b) lower interconnection revenues as a result of reduced interconnection rate ceiling to 10 halalas instead of 15 halalas in April 2016; the impact increases for operators with large market shares.

In addition to the contraction of sales in Q4 2016 by SAR 579 million YoY, the telecom operator incurred hefty interest expenses of SAR 162 million versus SAR 115 million in Q4 2015, while doubtful debt provisions surged from SAR 72 million to SAR 247 million. These changes wiped out the positive impact from the drop in the cost of sales by SAR 117 million, and in SG&A expenses (excluding debt provisions) by SAR 479 million. Furthermore, the depreciation and amortization charge contracted by SAR 112 million.

Compared with Q3 2016, the decrease of net loss was driven by; (a) the drop in SG&A expenses by 40% to SAR 471 million, (b) the decrease in depreciation and amortization charge by SAR 80 million mainly as a result of extending the company's license for additional 15 years, and (c) an increase in non-operating income by SAR 16 million. The lower losses occurred in spite of; (a) revenues contraction of 1%, (b) a 4% increase in the cost of services hitting SAR 1,237 million, (c) growth in doubtful debt provisions by 62% to SAR 247 million, (d) the escalation of finance charges from SAR 132 million to SAR 162 million, and (e) a zakat charge of SAR 18 million from zakat reversal of SAR 95 million.

Annual revenues amounted to SAR 12,569 million compared to SAR 14,424 million in 2015, sliding 12.9%, as sales were buffeted by the fingerprint requirements and the lower interconnection rates enforced in April 2016, as well as lower devices sales.

The company's bottom line missed our loss estimate of SAR 102 million, and the market consensus of SAR 105 million. We expect the top line to contract further in Q1 2017 factoring in the absence of any impact from the interconnection rates cuts and fingerprint documentation in the comparable quarter. However, we also forecast an improvement in cost cutting as well as lower depreciation and amortization. The DCF model assigned a fair value of SAR 24.2 per share.

FY - Ending December	2014A	2015A	2016A	2017F
EV/EBITDA	13.95	10.18	7.83	7.37
EV/Sales	2.24	2.08	2.50	2.50
P/E	N/A	N/A	N/A	118.15
Dividend Yield	11.1%	0.0%	0.0%	0.0%
P/BV	1.05	1.12	1.13	1.12
P/Revenue	1.24	1.21	1.39	1.45
Current Ratio	0.42	0.41	0.38	0.43
Revenue Growth	-22.6%	3.0%	-12.9%	-4.1%

Source: Company Filings, Albilad Capital Research Estimates

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EEC AB - 7020.SE

Income Statement (SAR mn)	2013A	2014A	2015A	2016A
Total Revenues	18,103	14,004	14,424	12,569
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
EBITDA	7,464.6	2,246.2	2,941.4	4,009.4
EBITDA Margin	41.2%	16.0%	20.4%	31.9%
Depreciation and Amortization	2,760	3,533	3,625	3,775
EBIT	4,705	(1,287)	(684)	235
Net Interest Income	(191)	(269)	(361)	(556)
Others (Net)	257	21	121	75
Pre-Tax Income	4,771	(1,535)	(924)	(246)
Tax and Zakat	79	41	169	(43)
Net Income	4,692	(1,576)	(1,093)	(203)
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
Total ST Assets	14,720	12,502	7,416	6,886
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
Total LT Assets	30,768	34,142	34,960	34,307
Total Assets	45,488	46,644	42,376	41,193
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
Total ST Liabilities	13,697	29,790	18,067	17,952
Total Long Term Debt	10,517	0	8,509	7,601
Other Noncurrent Liabilities	158	201	241	283
Equity	21,116	16,652	15,559	15,356
Total Liabilities and Equity	45,488	46,644	42,376	41,193

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.

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 $\geq 10\%$.

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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