

# EtiHAD Etisalat Company (Mobily)

Q3 2017

## Recommendation Neutral

Fair Value (SAR) 14.7

Price as of October 24, 2017 14.02

Expected Return 4.9%

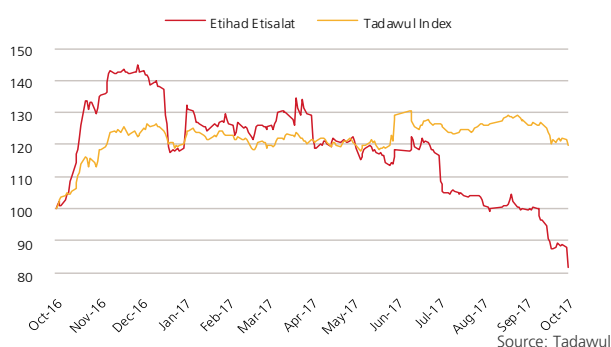
### Company Data

Tadawul Symbol	7020.SE
52 Week High (SAR)	25.50
52 Week Low (SAR)	14.00
YTD Change	-42%
3-Month Average Volume (Thousand Shares)	712
Market Cap. (SAR Million)	10,795
Market Cap. (USD Million)	2,879
Outstanding Shares (Million Shares)	770

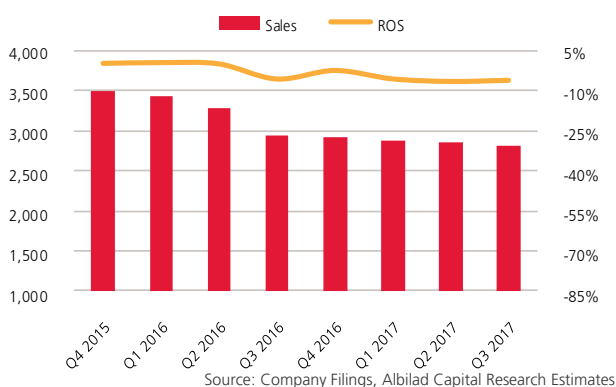
### Major Shareholders (> 5%)

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

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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EtiHAD Etisalat (Mobily) posted a staggering net loss of SAR 175 million in Q3 2017, edging up 5% YoY from SAR 166 million in Q3 2016, however the net loss slid from SAR 190 million in Q2 2017, therefore the nine-month loss ballooned to SAR 527 million, compared to a net loss of SAR 143 million in 9M 2016, an increase of 268%.

The company's loss in the third quarter was shy of the SAR 181 million we anticipated, as well as the analysts' consensus of SAR 185 million.

Third quarter revenues plummeted by 4.3% hitting SAR 2,806 million sliding from SAR 2,932 million in Q3 2016. In contrast, EBITDA edged up 10.6% to SAR 903 million, displaying an EBITDA margin of 32% up from 28% in Q3 2016 underpinned by scaling back some expenses, and savings from the renegotiation of some contracts according to the company's statement. On the other hand, financing expenses amounted to SAR 159 million compared to SAR 134 million in the corresponding quarter. It is worth noting that corresponding quarter included a reversal in zakat provisions on a non-recurring item of SAR 116 million.

Compared to Q2 2017, top line shrank 1.7% on lackluster demand for telecom services with the performance crimped by the lengthy summer vacation and the spike in travel outside the kingdom in spite of a robust contribution during the pilgrimage season.

On the nine-month basis, Mobily's revenues nosedived by 12% to SAR 8,525 million. Mobily blamed the slump in the customer base after the introduction of the fingerprint documentation last year, fierce market competition and reduction of interconnection rates in April 2016. The interest expenses amounted to SAR 516 million soaring from SAR 402 million; Mobily cited higher interest rates and non-recurring expenses of SAR 42 million related to a debt refinancing of SAR 7.9 billion in February 2017.

In general, Mobily sustained its timid performance at the operational level in the third quarter, however the KPIs underlined notable savings in some expenses in the third quarter as well as the improvement in the net operating cash flow in 9M 2017 from SAR 859 million to SAR 1,506 million. In our opinion, revenues growth drivers are strained in the short term, especially following the removal of restrictions on many mobile applications. Factoring in the intense competition in the market and overall macro slowdown, the profitability will depend more on keeping a tight leash on operating expenses. Our valuation is revised downward to SAR 14.7 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	10.47	8.00	5.87	6.45
EV/Sales	1.68	1.63	1.87	2.07
P/E	NA	NA	NA	NA
Dividend Yield	17.8%	0.0%	0.0%	0.0%
P/BV	0.65	0.69	0.70	0.74
P/Revenue	0.77	0.75	0.86	0.95
Current Ratio	0.42	0.41	0.38	0.55
Revenue Growth	-22.6%	3.0%	-12.9%	-9.5%

Source: Company Filings, Albilad Capital Research Estimates

EEC AB - 7020.SE

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
<b>Total Revenues</b>	<b>18,103</b>	<b>14,004</b>	<b>14,424</b>	<b>12,569</b>	<b>11,375</b>
Cost of services	6,896	7,225	6,466	5,144	4,731
% of revenue	38.1%	51.6%	44.8%	40.9%	41.6%
SG&A	3,407	3,842	3,865	2,864	2,708
% of revenue	18.8%	27.4%	26.8%	22.8%	23.8%
Provisions	335	690	1,152	552	335
Other Income	-	-	-	-	45
<b>EBITDA</b>	<b>7,464.6</b>	<b>2,246.2</b>	<b>2,941.4</b>	<b>4,009.4</b>	<b>3,647.3</b>
EBITDA Margin	41.2%	16.0%	20.4%	31.9%	32.1%
Depreciation and Amortization	2,760	3,533	3,625	3,775	3,614
<b>EBIT</b>	<b>4,705</b>	<b>(1,287)</b>	<b>(684)</b>	<b>235</b>	<b>34</b>
Net Interest Income	(191)	(269)	(361)	(556)	(671)
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>	<b>(637)</b>
Tax and Zakat	79	41	169	(43)	60
<b>Net Income</b>	<b>4,692</b>	<b>(1,576)</b>	<b>(1,093)</b>	<b>(203)</b>	<b>(697)</b>
ROS	25.9%	-11.3%	-7.6%	-1.6%	-6.1%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Cash and Marketable securities	1,570	3,064	1,748	1,216	1,389
Accounts Receivables	7,472	4,473	3,424	3,701	3,866
Inventory	915	818	486	200	181
Others	4,764	4,147	1,759	1,769	1,631
<b>Total ST Assets</b>	<b>14,720</b>	<b>12,502</b>	<b>7,416</b>	<b>6,886</b>	<b>7,068</b>
Net Fixed Assets	19,817	23,091	23,654	23,569	22,808
Projects Under Implementation	503	982	812	838	628
Intangible assets	10,443	10,045	9,493	8,987	9,089
Others	6	24	1,001	913	7
<b>Total LT Assets</b>	<b>30,768</b>	<b>34,142</b>	<b>34,960</b>	<b>34,307</b>	<b>32,533</b>
<b>Total Assets</b>	<b>45,488</b>	<b>46,644</b>	<b>42,376</b>	<b>41,193</b>	<b>39,601</b>
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	3,722
Accrued Expenses	5,366	4,832	5,476	5,631	4,550
Others	209	159	289	193	1,473
<b>Total ST Liabilities</b>	<b>13,697</b>	<b>29,790</b>	<b>18,067</b>	<b>17,952</b>	<b>12,829</b>
Total Long Term Debt	10,517	0	8,509	7,601	11,037
Other Noncurrent Liabilities	158	201	241	283	1,077
<b>Equity</b>	<b>21,116</b>	<b>16,652</b>	<b>15,559</b>	<b>15,356</b>	<b>14,659</b>
<b>Total Liabilities and Equity</b>	<b>45,488</b>	<b>46,644</b>	<b>42,376</b>	<b>41,193</b>	<b>39,601</b>

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	(1,045)
Investing Cash Flow	479	241	(3,695)	(4,704)	(1,490)
Change in Cash	268	394	(1,467)	369	523

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.

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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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