

# Etihad Etisalat Company (Mobily)

Q4 2017

## Recommendation Neutral

Fair Value (SAR) 14.7

Price as of February 19, 2018 14.86

Expected Return -1.1%

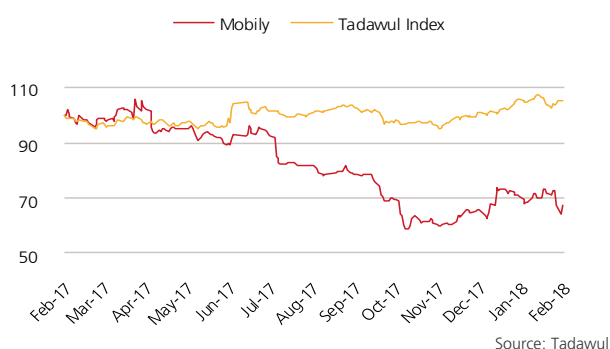
### Company Data

Tadawul Symbol	7020.SE
52 Week High (SAR)	23.60
52 Week Low (SAR)	12.94
YTD Change	7.70%
3-Month Average Volume (Thousand Shares)	3,433
Market Cap. (SAR Million)	11,442
Market Cap. (USD Million)	3,051
Outstanding Shares (Million Shares)	770

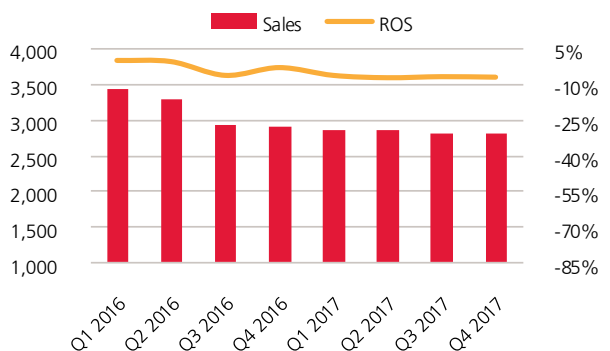
### Major Shareholders (> 5%)

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

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



Etihad Etisalat (Mobily) unveiled a net loss of SAR 182 million in Q4 2017, the sixth loss in a row. The net loss soared 160% YoY from SAR 70 million in Q3 2016 and 4% QoQ from SAR 175 million in Q3 2017, therefore the cellular operator incurred a hefty loss of SAR 709 million surging from SAR 214 million in 2016. The quarter loss exceeded our estimate of SAR 166 million and the analysts' mean forecast of SAR 167 million.

The cellular operator stated that its revenues for the last quarter slid 3% YoY to SAR 2,826 million compared to SAR 2,908 million in Q4 2016, while the cost of services nudged up 2%. Moreover, EBITDA plummeted by 7% to SAR 911 million compared to SAR 977 million in Q4 2017, thus the EBITDA margin narrowed from 33.6% to 32.2%.

Compared to the third quarter, the top line edged up by 1%, as we believe that the performance of the third quarter was adversely impacted by a lengthy summer vacation and increased travel rates outside the kingdom.

Mobily's revenues tumbled 9.7% in 2017 to SAR 11,351 million battered by a lower customer base after the implementation of the fingerprint system in 2016, as well as the reduction of the interconnection rates in April 2016. Moreover, Mobily also reported a decrease in EBITDA by 10.4%, almost the same decrease in revenues, in spite of exceptional expenses in 2016 pertaining to fingerprint documentation. Net financing expenses increased from SAR 544 million to SAR 667 million despite the repayment of debts worth SAR 1,305 million in 2017. The P&L statement also included a non-recurrent expense of SAR 42 million related to the refinancing of loans amounting to SAR 7.9 billion in February 2017.

The fourth quarter did not coincide with religious seasons that underpin demand for telecommunications services. However, as the market size has eroded, the competition among operators has intensified; concurrently Mobily incurred bloated financing and depreciation expenses. We believe the improvement in the P&L statement going forward will count largely on tightening the grip on operating expenses and trimming debt levels, while the depreciation charges are partly related to network and quality requirements. On the other hand, revenues are crippled by fierce competition in the market, sliding voice revenues, diminishing consumer purchasing power and repercussions of reforms in the labor market. The regulator also enforced a reduction in interconnection rates, the third since the onset of 2015, from 10 to 5.5 halalas. Although this decision had no material bearing in Q4 2017 as it entered into force at the end of December, the decision will deepen competition levels in the coming period. In light of the aforementioned factors, Mobily is not forecasted to recover from losses in 2018, however the situation is may improve next year especially in the second half. As we cling to our previous outlook for Mobily, our valuation is maintained at SAR 14.7 per share.

FY - Ending December	2015A	2016A	2017A	2018F
EV/EBITDA	8.00	5.78	6.45	6.35
EV/Sales	1.63	1.87	2.07	2.08
P/E	NA	NA	NA	NA
Dividend Yield	0.0%	0.0%	0.0%	0.0%
P/BV	0.70	0.73	0.77	0.79
P/Revenue	0.76	0.87	0.96	0.97
Current Ratio	0.41	0.38	0.63	0.59
Revenue Growth	3.0%	-12.9%	-9.7%	-0.5%

Source: Company Filings, Albilad Capital Research Estimates

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EEC AB - 7020.SE

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F
<b>Total Revenues</b>	<b>14,004</b>	<b>14,424</b>	<b>12,569</b>	<b>11,351</b>	<b>11,295</b>
Cost of services	7,225	6,466	5,144	4,821	4,749
% of revenue	51.6%	44.8%	40.9%	42.5%	42.0%
SG&A	3,842	3,865	2,856	2,684	2,644
% of revenue	27.4%	26.8%	22.7%	23.6%	23.4%
Provisions	690	1,152	552	234	228
Other Income	-	-	51	33	33
<b>EBITDA</b>	<b>2,246.2</b>	<b>2,941.4</b>	<b>4,068.5</b>	<b>3,645.6</b>	<b>3,706.9</b>
EBITDA Margin	16.0%	20.4%	32.4%	32.1%	32.8%
Depreciation and Amortization	3,533	3,625	3,782	3,626	3,533
<b>EBIT</b>	<b>(1,287)</b>	<b>(684)</b>	<b>287</b>	<b>19</b>	<b>174</b>
Net Interest Income	(269)	(361)	(544)	(667)	(616)
Others (Net)	21	121	-	-	-
<b>Pre-Tax Income</b>	<b>(1,535)</b>	<b>(924)</b>	<b>(257)</b>	<b>(648)</b>	<b>(442)</b>
Tax and Zakat	41	169	(43)	61	42
<b>Net Income</b>	<b>(1,576)</b>	<b>(1,093)</b>	<b>(214)</b>	<b>(709)</b>	<b>(484)</b>
ROS	-11.3%	-7.6%	-1.7%	-6.2%	-4.3%

Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018F
Cash and Marketable securities	3,064	1,748	1,216	2,192	1,186
Accounts Receivables	4,473	3,424	3,701	3,631	4,223
Inventory	818	486	200	141	140
Others	4,147	1,759	1,768	1,511	1,514
<b>Total ST Assets</b>	<b>12,502</b>	<b>7,416</b>	<b>6,886</b>	<b>7,475</b>	<b>7,063</b>
Net Fixed Assets and Capital Advances	24,073	25,448	25,391	24,296	23,391
Intangible assets	10,045	9,493	8,988	8,691	8,450
Others	24	19	7	7	7
<b>Total LT Assets</b>	<b>34,142</b>	<b>34,960</b>	<b>34,386</b>	<b>32,993</b>	<b>31,848</b>
<b>Total Assets</b>	<b>46,644</b>	<b>42,376</b>	<b>41,271</b>	<b>40,468</b>	<b>38,911</b>
Short Term Debt and CPLTD	16,993	5,766	7,608	1,411	1,648
Accounts Payable	7,806	6,536	4,521	4,808	4,689
Accrued Expenses	4,832	5,476	5,551	4,340	4,276
Others	159	289	212	1,358	1,369
<b>Total ST Liabilities</b>	<b>29,790</b>	<b>18,067</b>	<b>17,893</b>	<b>11,917</b>	<b>11,981</b>
Total Long Term Debt	0	8,509	7,601	13,469	12,012
Other Noncurrent Liabilities	201	241	823	829	1,147
<b>Equity</b>	<b>16,652</b>	<b>15,559</b>	<b>14,955</b>	<b>14,254</b>	<b>13,770</b>
<b>Total Liabilities and Equity</b>	<b>46,644</b>	<b>42,376</b>	<b>41,271</b>	<b>40,468</b>	<b>38,911</b>

Cash Flow (SAR mn)	2014A	2015A	2016A	2017A	2018F
Operating Cash Flow	6,171	4,958	3,919	3,594	2,964
Financing Cash Flow	(6,019)	(2,730)	1,055	(291)	(1,583)
Investing Cash Flow	241	(3,695)	(4,605)	(2,978)	(1,387)
Change in Cash	394	(1,467)	369	326	(6)

Source: Company Filings, Albilad Capital Research Estimates

The financial statements for the period 2016 - 2018 were prepared in accordance with 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  $\geq 10\%$ .

**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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