

26 September 2011

## Buy

**Target price**  
SR79.78 (from SR76.16)

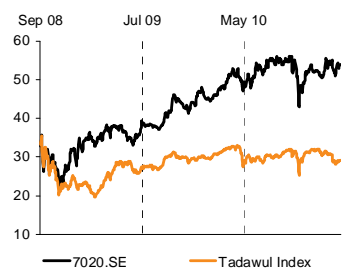
**Price**  
SR53.75

**Short term (0-60 days)**  
n/a

**Market view**  
No Weighting

### Price performance

	(1M)	(3M)	(12M)
Price (SR)	52.00	50.50	55.00
Absolute (%)	3.4	6.4	-2.3
Rel market (%)	2.5	12.0	2.4
Rel sector (%)	0.9	5.7	7.0



**Market capitalisation**  
SR37.63bn (€7.45bn)

**Average (12M) daily turnover**  
SR66.27m (€12.87m)

Sector: Tadawul Telecoms Index  
RIC: 7020.SE, EEC AB  
Priced SR53.75 at close 21 Sep 2011.  
Source: Bloomberg

### Analyst

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# Mobily

## 3Q11 pre-earnings review

**In light of upbeat 1H11 performance, we have revised our estimates for Mobily and upgraded our target price by 5% to SR79.8 per share. We maintain our Buy recommendation on the stock.**

### Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (SRm)	13,058	16,013	20,163	23,246	24,939
EBITDA (SRm)	4,837	6,165	7,360 ▲	8,485 ▲	9,103 ▲
Reported net profit (SRm)	3,014	4,211	4,870	5,594	6,001
Normalised net profit (SRm)	3,014	4,211	4,870	5,594	6,001
Normalised EPS (SR)	4.31	6.02	6.96	7.99	8.57
Dividend per share (SR)	1.25	2.00	3.00 ▲	3.50 ▲	3.75
Dividend yield (%)	2.33	3.72	5.58	6.51	6.97
Normalised PE (x)	12.48	8.93	7.73	6.73	6.27
EV/EBITDA (x)	9.36	7.13	5.48	4.72	4.34
EV/invested capital (x)	2.28	2.01	1.85	1.60	1.41
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.  
Accounting standard: GAAP  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

### Strong 1H11 performance leads us to raise our forecasts

We expect the strong performance of 1H11 (27% annual revenue growth) to continue into 3Q11. Hence, we raise our revenue estimates by 12% for FY11, 17% for FY12 and 18% for FY13. We increase our estimates due to continued growth in data revenue and equipment sales. We estimate equipment sales will contribute over 10% of consolidated revenues vs less than 5% in FY10. Our FY11 revenue estimates are 6.3% higher than Bloomberg consensus, as we do not expect negative growth in the next two quarters, though we expect growth to decline.

### Lowering our EBITDA margin estimates

Despite Mobily's EBITDA margin of 41% in 3Q10 and 44% in 4Q10, we remain cautious in our 2011 forecasts as we expect competitive pricing pressure from Saudi Telecom Company (STC), particularly in mobile broadband services where it has become aggressive recently. We have reduced our EBITDA margin estimates for FY11, FY12 and FY13 to 36.5% vs our previous estimates of 38% for FY11 and FY12 and 39% for FY13.

### Board recommends dividend payout of at least 40% for FY11

Mobily's board of directors have approved the distribution of an interim dividend of SR1.25 per share for 1H11. The board also approved proposing a dividend payout ratio of at least 40% for 2011 to the General Assembly. Thus, we have raised our previous payout ratio forecast of 35% to 43% for FY11, equivalent to an estimated dividend per share of SR3.00.

### We raise our target price to SR79.78

Our higher revenue forecasts have led us to raise our EBITDA forecasts by 8% for FY11, 13% for FY12 and 11% for FY13, and net profit forecasts by 3% in FY11, 5% in FY12 and 1% in FY13. We raise our target price 5% to SR79.78 from SR76.16, maintaining our Buy recommendation on the stock.

### Important disclosures can be found in the Disclosures Appendix.

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**Table 1 : Updated Mobily forecasts**

SR m unless stated otherwise	(Old forecasts)			(New Forecasts)			Change		
	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Revenue	17,930	19,802	21,205	20,163	23,246	24,939	12%	17%	18%
EBITDA	6,813	7,525	8,164	7,360	8,485	9,103	8%	13%	11%
EBITDA margin (%)	38%	38%	39%	37%	37%	37%	-1%	-2%	-2%
Net profit	4,726	5,344	5,926	4,870	5,594	6,001	3%	5%	1%
EPS (SR per share)	6.75	7.63	8.47	6.96	7.99	8.57	3%	5%	1%

Source: Rasmala estimates

**Table 2 : Mobily 1HFY11 performance and 3QFY11 forecast**

SR m unless stated otherwise	1HFY11	1HFY10	growth	2QFY11	3QFY11F	9MFY11F	9MFY10	growth
Revenue	9,611	7,544	27%	5,127	5,148	14,759	11,542	28%
EBITDA	3,337	2,568	30%	1,760	1,905	5,242	4,216	24%
EBITDA margin (%)	35%	34%		34%	37%	36%	37%	
Net profit	2,162	1,615	34%	1,164	1,287	3,449	2,753	25%
EPS (SR per share)	3.09	2.31	34%	1.66	1.84	4.9	3.9	25%

Source: Mobily and Rasmala estimates

**Table 3 : Rasmala estimates vs consensus**

SR m unless stated otherwise	Ours 3QFY11F	Consensus	Variance 3QFY11F	Ours FY11F	Consensus FY11F	Variance
Revenue	5,148	4,767	8.0%	20,163	18,966	6.3%
EBITDA	1,905	1,835	3.8%	7,360	7,263	1.3%
EBITDA margin (%)	37%	38%		37%	38%	
Net profit	1,287	1,288	-0.1%	4,870	4,835	0.7%
EPS (SR per share)	1.84	1.84	-0.1%	7.0	6.9	0.7%

Source: Bloomberg and Rasmala estimates

## Income statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	13058	16013	20163	23246	24939
Cost of sales	-5512	-7230	-8903	-10381	-11137
Operating costs	-2710	-2619	-3900	-4380	-4700
<b>EBITDA</b>	<b>4837</b>	<b>6165</b>	<b>7360</b>	<b>8485</b>	<b>9103</b>
DDA & Impairment (ex gw)	-1629	-1810	-2240	-2618	-2895
<b>EBITA</b>	<b>3208</b>	<b>4355</b>	<b>5120</b>	<b>5867</b>	<b>6208</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>3208</b>	<b>4355</b>	<b>5120</b>	<b>5867</b>	<b>6208</b>
Net interest	-204.3	-146.5	-150.9	-158.5	-84.1
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	41.0	70.5	0.00	0.00	0.00
<b>Reported PTP</b>	<b>3045</b>	<b>4279</b>	<b>4969</b>	<b>5708</b>	<b>6124</b>
Taxation	-30.8	-67.3	-99.4	-114.2	-122.5
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>3014</b>	<b>4211</b>	<b>4870</b>	<b>5594</b>	<b>6001</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4837	6165	7360	8485	9103
Normalised PTP	3045	4279	4969	5708	6124
<b>Normalised net profit</b>	<b>3014</b>	<b>4211</b>	<b>4870</b>	<b>5594</b>	<b>6001</b>

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	933.4	1661	2360	1033	0.00
Other current assets	7644	7754	9275	11098	12540
Tangible fixed assets	10370	12457	14574	16666	18786
Intang assets (incl gw)	11980	11558	8822	8822	8822
Oth non-curr assets	0.00	-0.00	-0.00	0.00	-0.00
<b>Total assets</b>	<b>30926</b>	<b>33430</b>	<b>35032</b>	<b>37620</b>	<b>40149</b>
Short term debt (2)	370.5	599.3	0.00	0.00	1543
Trade & oth current liab	11818	11657	12425	13076	12444
Long term debt (3)	6448	5529	3492	1933	0.00
Oth non-current liab	46.5	65.6	65.6	65.6	65.6
<b>Total liabilities</b>	<b>18683</b>	<b>17851</b>	<b>15983</b>	<b>15075</b>	<b>14053</b>
Total equity (incl min)	12243	15580	19049	22545	26096
<b>Total liab &amp; sh equity</b>	<b>30926</b>	<b>33430</b>	<b>35032</b>	<b>37620</b>	<b>40149</b>
Net debt	7662	6310	2690	2459	1918

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4837	6165	7360	8485	9103
Change in working capital	154.2	-338.2	-467.8	-1172	-890.6
Net interest (pd) / rec	-204.3	-146.5	-150.9	-158.5	-84.1
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	-339.7	-356.5	-17.6	-21.9	-21.9
<b>Cash flow from ops (1)</b>	<b>4447</b>	<b>5324</b>	<b>6723</b>	<b>7132</b>	<b>8106</b>
Capex (2)	-3357	-3371	-3831	-4184	-4489
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-2.43	144.9	-20.0	-611.7	-595.7
<b>Cash flow from invest (3)</b>	<b>-3359</b>	<b>-3227</b>	<b>-3851</b>	<b>-4796</b>	<b>-5085</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-525.0	-875.0	-1400	-2099	-2450
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-893.4	-426.8	-613.2	-1558	-1574
<b>Cash flow from fin (5)</b>	<b>-1418</b>	<b>-1302</b>	<b>-2013</b>	<b>-3657</b>	<b>-4024</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>-330.6</b>	<b>795.2</b>	<b>859.1</b>	<b>-1321</b>	<b>-1003</b>
Equity FCF (1+2+4)	1090	1952	2892	2948	3617

Source: Company data, Rasmala forecasts

year to Dec

<b>Standard ratios</b>	<b>Mobily</b>					<b>Mobinil</b>			<b>Nawras Telecom</b>		
	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
<b>Performance</b>											
Sales growth (%)	21.0	22.6	25.9	15.3	7.28	-0.01	3.15	2.85	10.5	6.07	6.18
EBITDA growth (%)	27.5	27.5	19.4	15.3	7.28	-16.7	6.42	4.24	11.7	6.48	6.38
EBIT growth (%)	28.5	35.8	17.6	14.6	5.81	-33.1	10.5	11.9	16.0	7.63	7.44
Normalised EPS growth (%)	44.1	39.7	15.6	14.9	7.28	-74.8	149.5	33.9	15.8	11.8	9.65
EBITDA margin (%)	37.0	38.5	36.5	36.5	36.5	35.9	37.0	37.5	51.7	51.9	52.0
EBIT margin (%)	24.6	27.2	25.4	25.2	24.9	15.9	17.0	18.5	40.2	40.8	41.3
Net profit margin (%)	23.1	26.3	24.2	24.1	24.1	3.25	7.85	10.2	27.7	29.2	30.2
Return on avg assets (%)	10.9	13.3	14.7	15.8	15.6	5.52	7.73	8.48	23.5	22.1	22.0
Return on avg equity (%)	27.4	30.3	28.1	26.9	24.7	9.18	22.7	25.4	34.1	29.2	25.9
ROIC (%)	17.1	21.3	22.8	26.3	24.2	12.7	15.5	16.2	44.8	34.8	30.6
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	34.3	24.3	0.00
				year to Dec			year to Dec			year to Dec	
<b>Valuation</b>											
EV/sales (x)	3.47	2.74	2.00	1.72	1.59	1.50	1.44	1.31	2.22	2.09	1.76
EV/EBITDA (x)	9.36	7.13	5.48	4.72	4.34	4.18	3.89	3.49	4.30	4.03	3.38
EV/EBITDA @ tgt price (x)	13.1	10.1	7.95	6.87	6.35	4.91	4.58	4.15	5.32	4.98	4.29
EV/EBIT (x)	14.1	10.1	7.87	6.83	6.37	9.45	8.47	7.08	5.52	5.12	4.26
EV/invested capital (x)	2.28	2.01	1.85	1.60	1.41	1.66	1.53	1.48	2.03	1.65	1.47
Price/book value (x)	3.07	2.42	1.98	1.67	1.44	2.88	2.29	1.99	2.20	1.74	1.44
Equity FCF yield (%)	2.90	5.19	7.69	7.83	9.61	16.1	3.56	17.8	3.76	7.37	19.9
Normalised PE (x)	12.48	8.93	7.73	6.73	6.27	28.03	11.23	8.39	7.45	6.66	6.08
Norm PE @ tgt price (x)	18.5	13.3	11.5	9.98	9.31	36.1	14.5	10.8	9.35	8.36	7.63
Dividend yield (%)	2.33	3.72	5.58	6.51	6.97	0.00	5.34	9.54	1.34	3.00	4.94
				year to Dec			year to Dec			year to Dec	
<b>Per share data</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>	<b>Solvency</b>	<b>FY09A</b>	<b>FY10A</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Tot adj dil sh, ave (m)	700.0	700.0	700.0	700.0	700.0	Net debt to equity (%)	62.6	40.5	14.1	10.9	7.35
Reported EPS (SAR)	4.31	6.02	6.96	7.99	8.57	Net debt to tot ass (%)	24.8	18.9	7.68	6.54	4.78
Normalised EPS (SAR)	4.31	6.02	6.96	7.99	8.57	Net debt to EBITDA	1.58	1.02	0.37	0.29	0.21
Dividend per share (SAR)	1.25	2.00	3.00	3.50	3.75	Current ratio (x)	0.70	0.77	0.94	0.93	0.90
Equity FCF per share (SAR)	1.56	2.79	4.13	4.21	5.17	Operating CF int cov (x)	22.8	37.3	45.5	46.0	97.4
Book value per sh (SAR)	17.5	22.3	27.2	32.2	37.3	Dividend cover (x)	3.44	3.01	2.32	2.28	2.29
				year to Dec						year to Dec	

Priced as follows: 7020.SE - SR53.75; EMOB.CA - Eú96.24; NWRS.MSM - RO0.66  
Source: Company data, Rasmala forecasts

### Valuation methodology - DCF (SR m unless stated otherwise)

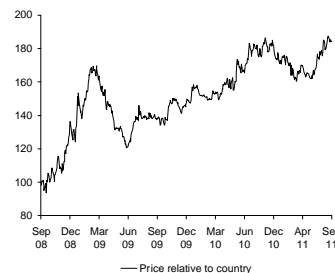
<b>Year</b>	<b>Free cash flow</b>	<b>PV of FCF</b>
2011	2,961	2,911
2012	3,014	2,708
2013	3,601	2,959
2014	4,675	3,513
2015	4,903	3,368
Terminal value	67,952	46,682
Enterprise value		62,141
Minus: net debt		6,310
Equity value		55,831
Number of shares ('000)		700
12-month fair value per share (SR)		<b>79.8</b>

Source: Rasmala estimates

**Company description**

**Buy** Price relative to country

Etihad Etisalat, operating under the brand name of Mobily, is the second mobile service provider in Saudi Arabia. The award of a 25-year telecommunication mobile licence was complemented by the subsequent purchase of a 3G licence. Mobily is the first Saudi communications company to get an operation licence for 3rd generation services and beyond.



**Strategic analysis**

**Average SWOT company score: 4**

**Shareholder structure**

**Strengths 4**

Mobily first adopted a solid expansion strategy based on direct and indirect sales channels, allowing it to quickly expand and establish its brand throughout Saudi Arabia. Its focus on brand recognition and market segmentation supports its strong subscriber acquisition ability in the Saudi market.

**Weaknesses 3**

The main concern is a price war with STC and Zain, which puts margins and ARPU levels under pressure.

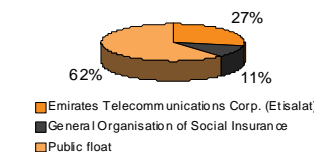
**Opportunities 4**

Mobily has ambitious expansion plans for its own network of flagships. Also, a new franchise retail concept (Mini-FBO) will complement existing Mobily retail and channel partner outlets, cover more than 60 cities/towns and help achieve its targets on sales and customer experience.

**Threats 4**

Competition in the market remains fierce, with Zain making every effort to capture subscribers. Currently, Zain and Mobily's pricing and rates are the same. We believe the real differentiator will be the quality of service.

Scoring range is 1-5 (high score is good)



Source: Company data

**Market data**

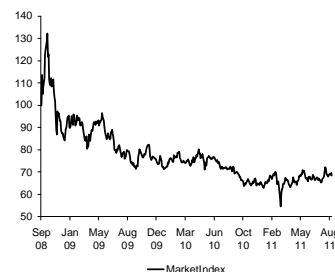
**Headquarters**  
Kingdom Tower, 26th Floor, King Fahad Road Olaya District, Riyadh 11423 Saudi Arabia  
**Website**  
www.mobily.com.sa  
**Shares in issue**  
700.0m  
**Freefloat**  
61%  
**Majority shareholders**  
Emirates Telecommunications Corp. (Etisalat) (27%), General Organisation of Social Insurance (11%)

**Country view: Saudi Arabia**

**Country rel to M East & Africa**

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



**Competitive position**

**Average competitive score: 3+**

**Broker recommendations**

**Supplier power 4+**

Mobily is not overly reliant on any one key supplier.

**Barriers to entry 4+**

With high barriers to entry in the telecom industry, we do not foresee a significant number of licences being offered to entrants to this market.

**Customer power 3+**

Customers in Saudi Arabia also have alternative operators in STC and now Zain.

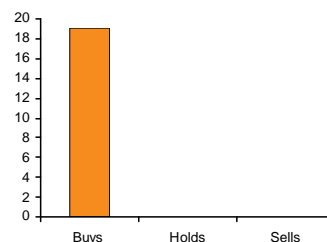
**Substitute products 4+**

There are very few substitute products for mobile voice and broadband.

**Rivalry 2-**

The company's main competitor is STC while Zain is in the early stages of its business plan.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

## Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Valuation and risks to target price

**Mobily (RIC: 7020.SE, Rec: Buy, CP: SR53.75, TP: SR79.78):** To arrive at our target price, we use DCF valuation. Key risks include: slower broadband uptake that we project; irrational pricing by Zain and/or STC pressuring ARPU; regulatory changes and the outbreak of another epidemic like swine flu in 2008.

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