RASMALA

18 October 2010

Mobily

Mobily reports 3Q10 results

Etihad Etisalat (Mobily) reported its 3Q10 results, with net profit reaching SR1.1bn, an annual 41% increase, beating analysts' expectations.

Buy

Target price
SR75.36

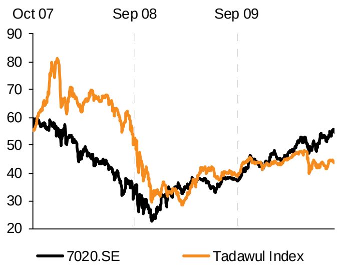
Price
SR54.75

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (SR)	52.75	50.50	41.50
Absolute (%)	3.8	8.4	31.9
Rel market (%)	3.9	6.9	33.0
Rel sector (%)	2.9	3.7	33.2



Market capitalisation
SR38.33bn (€7.31bn)

Average (12M) daily turnover
SR48.54m (€7.16m)

Sector: Tadawul Telecoms Index
RIC: 7020.SE, EEC AB
Priced at close of business 13 Oct 2010.
Source: Bloomberg

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (SRm)	10,795	13,058	14,957	16,192	17,462
EBITDA (SRm)	3,794	4,837	5,684	6,315	6,898
Reported net profit (SRm)	2,092	3,014	3,637	4,346	4,882
Normalised net profit (SRm)	2,092	3,014	3,637	4,346	4,882
Normalised EPS (SR)	2.99	4.31	5.20	6.21	6.97
Dividend per share (SR)	0.75	1.25	1.52	1.60	2.00
Dividend yield (%)	1.37	2.28	2.78	2.92	3.65
Normalised PE (x)	18.30	12.70	10.50	8.82	7.85
EV/EBITDA (x)	12.30	9.51	7.92	6.76	5.70
EV/invested capital (x)	2.56	2.31	2.09	1.90	1.75
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: GAAP
Source: Company data, Rasmala forecasts
year to Dec, fully diluted

Reported net profit beats analysts' expectations

Mobily announced its interim consolidated financial results for the 3Q10 period ending 30 September 2010, in which net profit for the period reached SR1,138m, ahead of Bloomberg's analysts' expectations of SR912.4m. The 3Q10 net profit is equivalent to 41% yoy and 26% qoq growth, compared to SR807m reported at the end of 3Q09, and relative to a net profit of SR901m for 2Q10. All in all, Mobily's net profit reached SR2,753m at the end of 9M10 versus SR1,962m at the end of 9M09, 40% annual growth.

Revenues grow by 21% yoy

Revenues for 9M10 amounted to SR11,542m compared to SR9,521m for the same period last year, annual growth of 21%. Revenues for 3Q10 reached SR3,989m compared to SR3,511m for the same period last year, and compared to SR3,972m recorded in 2Q10, which is equivalent to 13.6% yoy growth and a flat qoq performance.

We are maintaining our year-end forecasts and target price of SR75.36 per share.

Our forecast for 2010 net profits is SR3,637m, which could be exceeded in light of Mobily's continued strong performance in the market, particularly with the Hajj season falling in the last quarter of the year. That noted, to remain on the conservative side, we are maintaining our net profit forecasts for 2010 and our target price of SR75.36 per share, in the strong likelihood of pricing competition taking place in the market during the last quarter due to Hajj.

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Key takeaways

A growing contribution from higher margin broadband revenues, lower international interconnection costs as a result of promotional activities and lower direct costs associates with other services revenues were mainly behind the growth in net profit.

According to Mobily's press release, a growing contribution from the higher margin broadband revenues, in addition to lower international interconnection costs due to a number of designed promotional activities and lower direct costs associates with other services revenues were mainly behind the growth in 3Q10's net profit.

Mobily's chairman Eng Abdulaziz Alsaghyir said: "With a strong balance sheet, Mobily can afford to continue to invest in the expansion of its mobile and fixed broadband networks, thereby meeting the needs of increasing capacities and continuing to grow. We expect data's contribution to Mobily's revenues to continue to grow and surpass 20% in 2011. Mobily covers more than 92% of all populated areas with broadband reaching 587 cities, towns, areas and highways, among them major tourist destinations in the Kingdom." Furthermore, according to Mobily's CFO, it plans to spend more than SR2bn in 2011 mainly on expanding its broadband service infrastructure. Meanwhile, data revenues contributed 18% of the total for this year, while 28% of revenue came from post-paid subscribers.

The chairman added that Mobily won a contract from the Communication and Information Technology Commission (CITC) under the umbrella of the Universal Service Fund to provide voice and broadband services to residents of the governorates of Khulais and Al Kamel in the Makkah Region, and governorate of Mahd Al Dahab in the Madina Region. The chairman continued: "Mobily is preparing for the Hajj season and our accumulated experience in this field will allow us to provide distinguished performance. Last year, Mobily had a large share of the Hajj pilgrim market." In another statement, Mobily's CFO announced that, if need be, the company was willing to draw on external funding from banks if additional financing is needed, according to Bloomberg.

Mobily also launched the iPhone 4 with different bundles to meet the needs of current customers and to attract new ones, and the demand exceeded expectations. Among other products the company plans on launching is the Digital Kiosk, the first of its kind in the Kingdom and the Middle East region. The Digital Kiosk has a large library of digital content, which can be downloaded to a variety of devices and smart phones, and which allows customers to view segments of content before deciding to buy it.

Income statement

SRm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	10795	13058	14957	16192	17462
Cost of sales	-4773	-5512	-6058	-6396	-6898
Operating costs	-2227	-2710	-3216	-3481	-3667
EBITDA	**3794**	**4837**	**5684**	**6315**	**6898**
DDA & Impairment (ex gw)	-1298	-1629	-1721	-1820	-1921
EBITA	**2496**	**3208**	**3963**	**4495**	**4976**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**2496**	**3208**	**3963**	**4495**	**4976**
Net interest	-438.2	-204.3	-315.7	-131.4	-72.5
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	41.2	41.0	44.9	48.6	52.4
Reported PTP	**2099**	**3045**	**3692**	**4413**	**4956**
Taxation	-7.19	-30.8	-55.4	-66.2	-74.3
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
Reported net profit	**2092**	**3014**	**3637**	**4346**	**4882**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	3794	4837	5684	6315	6898
Normalised PTP	2099	3045	3692	4413	4956
Normalised net profit	**2092**	**3014**	**3637**	**4346**	**4882**

Source: Company data, Rasmala forecasts — year to Dec

Balance sheet

SRm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	1264	933.4	804.8	685.2	2505
Other current assets	5357	7644	9094	11398	13485
Tangible fixed assets	8117	10370	12090	13223	13572
Intang assets (incl gw)	12453	11980	12504	12504	12504
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
Total assets	**27192**	**30926**	**34492**	**37810**	**42067**
Short term debt (2)	1862	370.5	1274	8.21	0.00
Trade & oth current liab	8887	11818	13306	16222	18563
Long term debt (3)	6642	6448	5050	3492	1933
Oth non-current liab	46.3	46.5	46.5	46.5	46.5
Total liabilities	**17437**	**18683**	**19677**	**19768**	**20543**
Total equity (incl min)	9754	12243	14815	18042	21523
Total liab & sh equity	**27192**	**30926**	**34492**	**37810**	**42067**
Net debt	8526	7662	6702	4373	986.4

Source: Company data, Rasmala forecasts — year ended Dec

Cash flow statement

SRm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	3794	4837	5684	6315	6898
Change in working capital	-365.0	154.2	631.7	236.4	254.1
Net interest (pd) / rec	-438.2	-204.3	-315.7	-131.4	-72.5
Taxes paid	-7.19	-30.8	-55.4	-66.2	-74.3
Other oper cash items	34.1	10.3	-11.2	-17.6	-21.9
Cash flow from ops (1)	**3018**	**4766**	**5933**	**6336**	**6983**
Capex (2)	-3418	-3357	-2917	-2429	-1746
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-1618	-2.43	-1450	-524.3	-524.3
Cash flow from invest (3)	**-5036**	**-3359**	**-4366**	**-2953**	**-2270**
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	-1065	-1120	-1400
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	3104	-862.7	-631.3	-2383	-1492
Cash flow from fin (5)	**2579**	**-1738**	**-1696**	**-3503**	**-2892**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**560.8**	**-330.6**	**-129.3**	**-119.6**	**1820**
Equity FCF (1+2+4)	-400.2	1410	3016	3907	5237

Source: Company data, Rasmala forecasts — year to Dec

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: SR54.75, TP: SR75.36): To arrive at our target price, we use an equal weighting of peer PE multiples and a DCF valuation. Key risks include: slower broadband uptake that we project; irrational pricing by Zain and/or STC pressuring ARPUs; regulatory changes and the outbreak of another epidemic like swine flu in 2008.

Disclaimer