

Mobinil Results & Conference Call Highlights

Flash Note

Sunday February 14, 2010

Egyptian Company for Mobile Services (Mobinil) (EMOB.CA) announced its FY 09 results, which came in line with consensus estimates.

Profitability

- The company reported a FY 09 net profit of EGP 2.0 billion, an annual increase of 3.4% compared to FY 08. Mobinil reported a net profit of EGP 581 million in Q4 09 an increase of 16.9% compared to Q3 09 and an increase of 5.4% compared to Q4 08. Net profit for the fourth quarter came in line with consensus estimates, which was in the range of EGP 553 million.
- EBITDA for Q4 09 reached EGP 1.32 billion representing an EBITDA margin of 47.2% compared to an EBITDA of EGP 1.34 billion (and a margin of 50.8%) in Q4 08. The company reported a FY 09 EBITDA of EGP 5.1 billion representing an EBITDA margin of 47.4% compared to an EBITDA of EGP 4.7 billion (and a margin of 9.4%) in FY 08. The EBITDA margin for FY 2008 was 46.7%.
- Mobinil's revenues reached EGP 2.8 billion in Q4 09, an increase of 5.8% compared to Q4 08. FY 09 revenues reached EGP 10.8 billion, an annual increase of 7.9% compared to FY 08.

Solid Operational Performance

- Overall the company witnessed a solid operational performance in FY 09, as reflected in the gross profit and EBITDA margins. Gross profit margin increased to 81.1% in FY 09 compared to 79.3% in FY 08, as a result of a 7.9% increase in revenues and a 1.5% decrease in cost of sales in FY 09 compared to FY 08. Despite the economic turmoil and aggressive competition, the EBITDA margin improved in FY 09 reaching 47.4% versus 46.7% in FY 08 mainly due to the capitalization of the on-net (calls made between the same operator) strategy and implemented cost optimization initiatives. The net profit margin decreased in FY 09 to 18.9% from 24.6% in FY 08, mainly due to non operating expenses of EGP 46.8 million in FY 09 compared to a non operating income of EGP 71.6 million in FY 08.

Subscribers & ARPU

- Mobinil's subscribers reached 25.4 million in FY 09, an increase of 26% (5.2 million subscribers) since FY 08.
- FY 09 blended ARPU reached EGP 39.0 an annual decline of 16% compared to FY 08. Q4 09 blended ARPU reached EGP 37.0 a decrease of 15% compared to Q4 08 and a decrease of 2.6% compared to Q3 09. The fall in blended ARPU was mainly due to the aggressive competition from Etisalat and Vodafone.

CAPEX

- Capital expenditure (CAPEX) for Q4 09 reached EGP 974 million, pushing the total FY 09 CAPEX to EGP 2.6 billion compared to EGP 3.1 billion in FY 08, again a reflection of the cost optimization initiatives implemented by Mobinil.

Free Cash Flow Optimization and Cost Efficiency

- It is noteworthy that Mobinil has significantly enhanced its free cash flow in FY 09, increasing to EGP 1.7 billion compared to EGP 24.0 million in FY 08, evidence of the company's improved cash position. This improvement was mainly due to a decrease in cash outflow from investment activities (down from EGP 3.5 billion in FY 08 to EGP 2.4 billion in FY 09), which was a result of CAPEX cuts from EGP 3.1 billion in FY 08 to EGP 2.6 billion in FY 09. Cash flow from operations also improved, as it reached EGP 4.0 billion in FY 09 (a 13.7% increase) compared to EGP 3.6 billion in FY 08, as can be seen in the EBITDA margin improvement from 46.7% in FY 08 to 47.4% in FY 09.



Recommendation

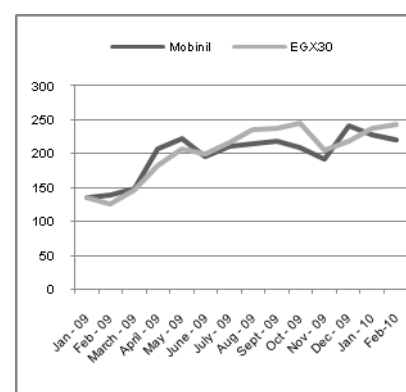
Not rated

Stock Data

Price (as of Feb 11 2010) (EGP)	221.1
Target Price (EGP)	N/A
Upside / Downside	N/A
Market Cap (EGP mn)	22,100.0
Market Cap (USD mn)	4,027.0
Number of Shares (mn)	100.0
52 Wk Av. value traded (USD mn)	4.6
Reuters / Bloomberg	EMOB.CA / EMOB EY
Exchange Rate (EGP/ USD)	5.5

Source: Reuters, Rasmala Research

Performance graph



Source: Reuters, Rasmala Research

12m High / Low (EGP)	133.5 / 242.5
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	1M	3M	12M
Mobinil	-7.9%	10.9%	61.7%
EGX 30 Index	7.3%	1.0%	95.5%

Source: Reuters, Rasmala Research

Major Shareholders

	(%)
Mobinil Telecom	51.03
Orascom Telecom Holding	20.00
Free Float	28.97

Source: Company data

Conference Call Highlights

Results

- Commenting on the results Mobinil's CFO said that he was pleased with Mobinil's strong performance and that the company remained the leader of the Egyptian mobile telecommunication market in terms of subscribers.
- He stated that although revenue growth declined to single-digit, as witnessed in FY 09, revenues increased by 7.9% year on year, compared to FY 08 growth of 21.0% year on year, but that this was in line with management's expectations. The deterioration in growth was mainly due to the aggressive competition experienced during FY 09.
- The CFO stated that the company successfully minimized costs wherever possible, but that the company was also aware of the risks of continuing to cut costs, which could potentially damage the quality of services.

Competition

- Following the recent NTRA regulations that mobile operators are free to set tariffs for voice calls since January 1st, 2010, but must refrain from anti-competitive practices, the CFO commented that this will increase the aggressiveness of the competition as Vodafone and Etisalat have already started to offer very cheap packages, for example Etisalat's 90 minutes free offer, where any new subscriber of Ahlan tariff plan (a pre-paid service) will receive 90 free voice call minutes when recharging.
- The CFO added that the price competition from Vodafone and Etisalat, is expected to continue in 2010 and that it will evolve and be even fiercer. He added that even though prices could continue to decline, the company will be ready to compete even if it means impacting profitability in the short-term.

Licence Payments

- Mobinil already paid the third 3G instalment of EGP 750.0 million in January 2010 and there is a final payment of EGP 1.9 billion due in December 2010. The other EGP 750 million instalment that has not been paid yet, is concerning the 2G frequencies, which the company has not received yet. This instalment will be payable once Mobinil receives the remaining 2G frequencies. The CFO commented that this date is yet to be confirmed.

Potential Revenue Drivers

- When asked about the percentage of data revenues to total revenues, the CFO advised that it still constitutes less than 3%, but that management believes data revenues have a strong growth capacity over the coming years.
- The CFO confirmed that the company is still in talks with the Central Bank of Egypt to start providing money transfer services. Management consider the service to have great potential, but are also conscious that it will face challenges. He explained that the success of the money transfer service is dependant on consumer and retailer attitudes. For example a retailer would receive electronic money from customers in exchange for real money and the retailer would then go to the nearest Mobinil center to exchange the electronic money for real monetary value. The potential challenge is the level of retailer's trust in the electronic money he receives from the customers.

Management Guidance for 2010

- Management anticipate that subscribers will reach 28 million by the end of 2010, an increase of 10%-11% compared to an increase of 26% in FY 09.
- Revenue growth is expected to continue declining to 5% in FY 10 compared to a growth of 7.9% in FY 09, implying an approximate total revenue for FY 10 of EGP 11.3 billion compared to EGP 10.8 billion in FY 09.
- According to management, the EBITDA margin should be negatively affected by the decline in revenue growth and could be in the low to mid 40%'s in FY 10.
- Management stated that tangible CAPEX (excluding licence fees) should be between EGP 2.5-3 billion in FY 10 compared to EGP 2.6 billion in FY 09.

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