RASMALA

28 July 2010

Mobinil

Disappointing 2Q results

Buy

Target price
E£243.41

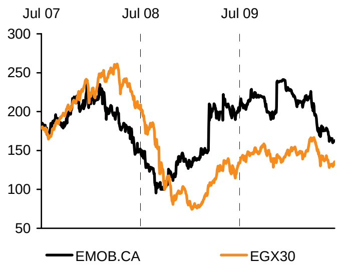
Price
E£162.67

Short term (0-60 days)
n/a

Sector view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	174.8	207.0	202.1
Absolute (%)	-7.0	-21.4	-19.5
Rel market (%)	-5.2	-3.5	-20.3
Rel sector (%)	-4.4	5.6	n/a



Market capitalisation
E£16.27bn (€2.20bn)

Average (12M) daily turnover
E£17.57m (€2.48m)

Sector: EGX30 Telecoms
RIC: EMOB.CA, EMOB EY
Priced E£170.20 at close 19 May 2010.
Source: Bloomberg

Egyptian Company for Mobile Services (Mobinil) released net profit of E£381m for 2Q10, lagging behind Reuter's consensus estimate of E£418m for 2Q10. Management stated that the reason for the stagnant performance was intense regulatory and competitive pressures.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (E£m)	10,003	10,807	11,266	11,667	12,084
EBITDA (E£m)	4,887	5,260	4,835	5,007	5,186
Reported net profit (E£m)	1,970	2,038	1,621	1,807	2,031
Normalised net profit (E£m)	2,021	2,073	1,621	1,807	2,031
Normalised EPS (E£)	20.20	20.70	16.20	18.10	20.30
Dividend per share (E£)	3.06	7.50	8.11	10.80	15.20
Dividend yield (%)	1.88	4.61	4.98	6.66	9.36
Normalised PE (x)	8.05	7.85	10.00	9.00	8.01
EV/EBITDA (x)	4.33	3.88	4.72	4.50	4.13
EV/invested capital (x)	2.96	2.60	2.02	1.92	1.92
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

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

1H10 net profit falls 18% compared to 1H09

Mobinil posted a decline of 18% in its 1H10 net profit of E£737m compared to E£902m in 1H09. On a quarterly basis, 2Q10 net profit declined 29% to E£381m compared to E£536m recorded in 2Q09.

Weak net subscriber additions in the second quarter

Mobinil, which leads the Egyptian market in terms of subscriber base, added 26,000 new subscriptions in the quarter, making a total of 26.148m closing subscribers at the end of June 2010. Its main rival, Vodafone Egypt, added 1.2m subscribers to reach a subscriber base of 25.79m. According to Reuters, analysts had on average forecast Mobinil's subscriber numbers to be at 26.9m at the end of June 2010.

Revenue growth also slows down

The reported 1H10 net revenues reached E£5,076m, a fall of 2.7% on the same period last year. 2Q10 revenues reached E£2,530m, reflecting a 0.6% decline compared to 1Q10 and a 7% decline over 2Q09 reported revenues.

Analysts

Shrouk Diab
United Arab Emirates
+971 552 248 033
shrouk.diab@rasmala.com

Sameh Hassan
+971 4 363 5600
sameh.hassan@rasmala.com

Dubai International Financial Centre,
The Gate Village, Building 10, Level 1,
P.O. Box 31145, Dubai, United Arab Emirates

www.rasmala.com

Key takeaways

Mobinil's 1H10 result was below consensus estimates, and management expects the current adverse conditions to remain for the foreseeable future. On the back of margin erosion, we are reviewing our estimates.

According to management, Mobinil faced a major intensification of the regulatory and competitive pressures in 1H10, which played a dominant role in affecting the company's growth. According to the CEO, Hassan Kabbani, Mobinil was limited to relying almost entirely on recycling of old numbers in order to provide its services to the market.

"We still expect those adverse conditions to continue in the foreseeable future, and as we have the largest base, we will be the most impacted. We will continue our efforts to solve the issue with the regulator who is limiting the availability of dials thus affecting the healthy competition. In the second half we will work intensely to increase our share of net adds and maintain our market share leadership. We will also continue our focus on cost efficiency, which has yielded an improvement in our EBITDA margin over last quarter," stated Hassan Kabbani.

Income statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	10003	10807	11266	11667	12084
Cost of sales	-2057	-2039	-2253	-2333	-2417
Operating costs	-3058	-3508	-4178	-4327	-4482
EBITDA	**4887**	**5260**	**4835**	**5007**	**5186**
DDA & Impairment (ex gw)	-1710	-1942	-1932	-1942	-1994
EBITA	**3177**	**3318**	**2903**	**3064**	**3192**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**3177**	**3318**	**2903**	**3064**	**3192**
Net interest	-546.2	-688.0	-747.7	-671.4	-511.8
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-162.8	-56.7	-108.0	-111.8	-115.8
Reported PTP	**2468**	**2573**	**2047**	**2281**	**2564**
Taxation	-499.0	-535.6	-426.1	-474.8	-533.7
Minority interests	1.17	0.43	0.29	0.31	0.32
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**1970**	**2038**	**1621**	**1807**	**2031**
Tot normalised items	-50.3	-35.1	0.00	0.00	0.00
Normalised EBITDA	4887	5260	4835	5007	5186
Normalised PTP	2518	2608	2047	2281	2564
Normalised net profit	**2021**	**2073**	**1621**	**1807**	**2031**

Source: Company data, Rasmala forecasts — year to Dec

Balance sheet

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	650.5	813.9	506.3	28.7	159.7
Other current assets	937.1	1055	1180	1262	1370
Tangible fixed assets	8871	9800	10347	10155	9369
Intang assets (incl gw)	3187	2956	4806	5556	5556
Oth non-curr assets	13.0	13.5	20.5	27.5	34.5
Total assets	**13658**	**14640**	**16860**	**17030**	**16491**
Short term debt (2)	374.8	559.4	0.00	0.00	0.00
Trade & oth current liab	5054	5441	4423	4718	5050
Long term debt (3)	4848	4013	6738	5940	4518
Oth non-current liab	1139	947.5	967.0	893.5	907.0
Total liabilities	**11416**	**10961**	**12128**	**11552**	**10475**
Total equity (incl min)	2242	3679	4732	5478	6015
Total liab & sh equity	**13658**	**14640**	**16860**	**17030**	**16491**
Net debt	4900	4166	6559	6238	5145

Source: Company data, Rasmala forecasts — year ended Dec

Cash flow statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	4887	5260	4835	5007	5186
Change in working capital	-278.0	-1575	-1062	212.8	-236.3
Net interest (pd) / rec	-490.8	688.0	-747.7	-671.4	-511.8
Taxes paid	-562.3	-330.9	-426.1	-474.8	-533.7
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	**3556**	**4042**	**2599**	**4073**	**3904**
Capex (2)	-2671	-2241	-4329	-2500	-1208
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-861.2	-123.6	-7.00	-7.00	-7.00
Cash flow from invest (3)	**-3532**	**-2365**	**-4336**	**-2507**	**-1215**
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	-1197	-931.8	-810.7	-1084	-1523
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	1403	-767.2	2105	-871.9	-948.5
Cash flow from fin (5)	**206.2**	**-1699**	**1294**	**-1956**	**-2472**
Forex & disc ops (6)	5.34	184.6	134.6	-87.8	-85.8
Inc/(decr) cash (1+3+5+6)	**235.6**	**163.4**	**-307.6**	**-477.6**	**131.1**
Equity FCF (1+2+4)	885.2	1801	-1730	1573	2695

Source: Company data, Rasmala forecasts — year to Dec

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

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

Mobinil (RIC: EMOB.CA, Rec: Buy, CP: E£162.67, TP: E£243.41): To arrive at our target price, we have used an equal weighting of peer PE multiples and DCF valuation. The two main downside risks are a prolonged pricing war with Vodafone Egypt and Etisalat Egypt and overpaying for licences and acquisitions.

Disclaimer