

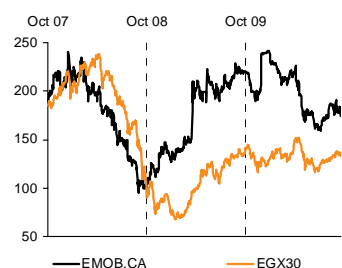
28 October 2010

## Change of recommendation

**Hold** (from Buy)Target price  
E£191.39 (from E£243.41)Price  
E£174.74Short term (0-60 days)  
n/aSector view  
No Weighting

## Price performance

	(1M)	(3M)	(12M)
Price (E£)	179.1	162.7	217.6
Absolute (%)	-2.5	7.4	-19.7
Rel market (%)	-2.6	-0.6	-13.6
Rel sector (%)	8.8	14.9	n/a

Market capitalisation  
E£17.47bn (€2.20bn)Average (12M) daily turnover  
E£16.54m (€2.29m)Sector: EGX30 Telecoms  
RIC: EMOB.CA, EMOB.EY  
Priced E£179.04 at close 26 Oct 2010.  
Source: Bloomberg

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## Mobinil

## Mobinil 9M10 results update

**Mobinil has released its consolidated 9M10 results. Subscriber net additions were strong this quarter, however improvement came at the expense of a lower EBITDA margin.**

## Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (E£m)	10,003	10,807	10,435	10,892	11,275
EBITDA (E£m)	4,887	5,260	4,277 ▼	4,193 ▼	4,285 ▼
Reported net profit (E£m)	1,970	2,038	1,373 ▼	1,285 ▼	1,415 ▼
Normalised net profit (E£m)	2,519	2,609	1,766 ▲	1,655 ▼	1,820 ▼
Normalised EPS (E£)	25.20	26.10	17.70 ▲	16.60 ▼	18.20 ▼
Dividend per share (E£)	3.06	7.50	6.87 ▼	7.71 ▼	10.60 ▼
Dividend yield (%)	1.75	4.29	3.93	4.41	6.07
Normalised PE (x)	6.94	6.70	9.90	10.60	9.60
EV/EBITDA (x)	4.58	4.11	5.61	5.57	5.20
EV/invested capital (x)	3.13	2.76	2.16	2.12	2.16
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: Local GAAP  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

## Closing subscribers reach 28.401m at the end of 9M10

Mobile subscriber additions year-to-date reached 3.047m, compared with net additions of 0.767m in 1Q10, 0.026m in 2Q10, and 2.254m in 3Q10. Consolidated revenues in the mobile business touched E£2,707m in 3Q10, 7% growth over 2Q10 and a 3% decline over 3Q09. Meanwhile, ytd consolidated net revenues from the mobile business reached E£7,783m, a decline of 2.8% yoy.

## FX losses drag bottom line

EBITDA margin in the mobile business worsened in 3Q10 to 40.1%, compared with 45.1% in 3Q09, which was mainly due to seasonality issues and higher retention and marketing costs. Moreover, Mobinil's bottom line was eroded further by higher non-operating expenses than our expectation, resulting from an FX loss of about E£60m due to the appreciation of the euro against the Egyptian pound.

## Target price cut to E£191.39; downgraded to Hold

In our Mobinil note, *Disappointing 2Q results*, dated 28 July 2010, we wrote about cutting our forecasts for 2010, given the disappointing 2Q10 results. Despite the uplift in revenue this quarter, EBITDA margin continues to buckle under the strain. Given our expectation of a continued volatile environment, we expect the EBITDA margin to remain under pressure. We thus downgrade our estimates for 2010 and reduce our target price to E£191.39 per share (from E£243.41), which yields a Hold recommendation (from Buy).

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

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# Key takeaways

**Mobinil intends to aggressively pursue the broadband services market and invest heavily in its recent acquisition of LINKdotNET in order to enlarge its broadband subscriber platform and exploit potential synergies between LINKdotNET and Mobinil.**

According to Mobinil's management, EBITDA margin continued to face pressure in 3Q10 due to the following factors:

- Strong seasonality impact due to Ramadan, which came during the peak summer this year;
- Increased competition; and,
- Inflationary pressures.

Moreover, with the acquisition of LINKdotNET completed on 2 September 2010, Mobinil consolidated one month of the former's results in its 3Q10 financials.

On its long-term strategy pertaining to the acquisition of LINKdotNET, Mobinil's management in its 3Q10 conference call stated that it intends to position itself as a fully-integrated telecom operator, offering both fixed and mobile broadband services. This would enable Mobinil to compete effectively with competitors whom have preceded its entry in that market. Without disclosing details, Mobinil's management stated that it intends to capitalise on all the potential synergies between Mobinil and LINKdotNET on both the revenue and cost fronts. So far, the impact of LINKdotNET's acquisition has been minimal, in our view, as only one month of financials has been consolidated this quarter. Management intends to consolidate three months of financials in 4Q10 and we believe that will have a greater impact by end 2011.

Going forward, we expect the EBITDA margin to remain squeezed in the low 40s bandwidth, as a result of the continued aggressive pricing environment and due to Mobinil's continued investment in LINKdotNET, particularly since fixed broadband services typically have a lower EBITDA margin than mobile broadband. Additionally, if the volatile pricing environment continues, we expect the EBITDA margin to witness further erosion, given Mobinil's primary goal of maintaining its subscriber market share, which we believe will unquestionably come at the expense of its EBITDA margin.

According to Bloomberg, Mobinil has approached several banks for a loan of E£1bn-E£2bn to finance its network expansion. Mobinil's management said it is still in discussions with an assortment of banks and is yet to reach a decision. If a loan is secured, it will be used to finance the company's capital expenditure needs, which encompass growth, replacement and maintenance requirements.

Management also added that it has perpetually been seeking long-term financing and indicated the company's net debt/EBITDA at approximately 1.3x as at 30 September 2010. In terms of leverage, it does not intend to exceed about 2.0x net debt/EBITDA, even though its debt covenants permit the company to leverage up to 3.0x.

## **Valuation and target price**

To arrive at our target price, we have used an equal weighting of peer PE multiples and DCF valuation.

## **Discounted cash flow**

Mobinil's DCF valuation yields a 12-month fair value of E£214 per share. The assumptions underlying our DCF valuations are a 14.00% cost of equity, based on a risk-free rate of 9.0% and an equity-risk premium of 5.00%. We also use a 3% terminal growth, a WACC of 13%, a 12.0% cost of debt and a beta of 1x.

**Table 1 : DCF valuation**

(EGPm)	Free cash flow	PV of FCF
2010	-1,409	-1,427
2011	1,837	1,617
2012	2,409	1,881
2013	3,195	2,200
2014	3,174	1,903
2015	3,413	1,791
Terminal value	33,579	17,626
Enterprise value		25,591
Minus: net debt		4,166
Equity value		21,425
Number of shares		100
<b>12-month fair value per share</b>		<b>214</b>

Source: Company data, Rasmala estimates

### Peer valuation

Our peer group valuation, which comprises average PE multiples for FY10F of 13.2x and FY11F of 12.0x based on consensus data, gives us a fair value of E£168 per share.

**Table 2 : Estimated PE 2010 and 2011 for telecom peers**

Peers	PE 2010F	PE 2011F
Telefonos de Mexico	9.12	9.35
Reliance Industries	16.43	13.65
Telekom Malaysia	21.00	19.00
Globe Telecom Inc	10.99	10.75
Advanced Info Service	14.26	13.68
MTN Group	12.90	10.71
Excelcomindo Pratama	17.00	13.00
Turkcell Iletisim Hizmet	8.85	9.31
Vodacom Group	10.54	9.93
Bharti Airtel	16.92	14.29
America Movil SAB de C	13	11.7
China Telecom Corp	18.59	15.68
Jordan Telecom	12.33	12
Telecom Egypt	9.95	10.31
Mobily	10.72	9.73
Saudi Telecom	9.55	9.62
Average	13.2	12.0

Priced at COB 27 October 2010

Source: Bloomberg consensus data, Rasmala

**Table 3 : Key performance indicators**

	3Q10	3Q09	9M10	9M09	Annual growth	3Q10vs 3Q09	2Q10
<b>Mobile Business</b>							
Closing Subs (000)	28,401	24,625	28,401	24,625	15.3%	15.3%	26,148
Postpaid	779	694	779	694	12.2%	12.2%	756
Prepaid	27,623	23,931	27,623	23,931	15.4%	15.4%	25,391
Blended ARPU (E£)	32	38	32	39	-17.9%	-15.8%	32
Postpaid ARPU	192	230	196	221	-11.3%	-16.5%	192
Prepaid ARPU	26	31	26	32	-18.8%	-16.1%	25
Operating revenue (E£000)	2,707	2,793	7,783	8,008	-2.8%	-3.1%	2,530
EBITDA (E£000)	1,086	1,231	3,206	3,735	-14.2%	-11.8%	1,099
EBITDA margin (%)	40.1%	44.1%	41.2%	46.6%			43.4%
Net profit/loss (E£000)	289	491	1,026	1,392	-26.3%	-41.1%	490
<b>Internet Business</b>							
DSL Active Subs (000)	206,256	175,460	206,256	175,460	17.6%	17.6%	205,080
Operating revenue (E£000)	93,453	83,824	275,535	243,389	13.2%	11.5%	91,681
EBITDA (E£000)	15,297	9,681	28,363	27,531	3.0%	58.0%	3,569
EBITDA margin (%)	16.4%	11.5%	10.3%	11.3%			3.9%
Net profit/loss (E£000)	-11,309	-8,204	-35,137	-27,213	29.1%	37.8%	-15,512

Source: Mobinil, Rasmala

## Income statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	10003	10807	10435	10892	11275
Cost of sales	-2057	-2039	-2265	-2636	-2785
Operating costs	-3058	-3508	-3892	-4063	-4206
<b>EBITDA</b>	<b>4887</b>	<b>5260</b>	<b>4277</b>	<b>4193</b>	<b>4285</b>
DDA & Impairment (ex gw)	-1710	-1942	-1962	-2026	-2086
<b>EBITA</b>	<b>3177</b>	<b>3318</b>	<b>2316</b>	<b>2167</b>	<b>2199</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>3177</b>	<b>3318</b>	<b>2316</b>	<b>2167</b>	<b>2199</b>
Net interest	-546.2	-688.0	-501.1	-435.9	-299.4
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-162.8	-56.7	-80.2	-108.9	-112.8
<b>Reported PTP</b>	<b>2468</b>	<b>2573</b>	<b>1734</b>	<b>1623</b>	<b>1787</b>
Taxation	-499.0	-535.6	-361.0	-337.7	-371.9
Minority interests	1.17	0.43	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>1970</b>	<b>2038</b>	<b>1373</b>	<b>1285</b>	<b>1415</b>
Tot normalised items	-549.3	-570.8	-392.3	-370.4	-405.7
Normalised EBITDA	4887	5260	4277	4193	4285
Normalised PTP	2518	2608	1766	1655	1820
<b>Normalised net profit</b>	<b>2519</b>	<b>2609</b>	<b>1766</b>	<b>1655</b>	<b>1820</b>

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	640.0	614.8	903.8
Other current assets	937.1	1055	1180	1262	1370
Tangible fixed assets	8871	9800	10166	9806	8882
Intang assets (incl gw)	3187	2956	4806	5556	5556
Oth non-curr assets	13.0	13.5	20.5	27.5	34.5
<b>Total assets</b>	<b>13658</b>	<b>14640</b>	<b>16812</b>	<b>17267</b>	<b>16747</b>
Short term debt (2)	374.8	559.4	0.00	0.00	0.00
Trade & oth current liab	5054	5441	4732	5322	5661
Long term debt (3)	4848	4013	6503	5860	4593
Oth non-current liab	1139	947.5	969.3	939.4	963.1
<b>Total liabilities</b>	<b>11416</b>	<b>10961</b>	<b>12204</b>	<b>12121</b>	<b>11217</b>
Total equity (incl min)	2242	3679	4608	5146	5530
<b>Total liab &amp; sh equity</b>	<b>13658</b>	<b>14640</b>	<b>16812</b>	<b>17267</b>	<b>16747</b>
Net debt	4900	4166	6505	5888	4792

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

E£m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	4887	5260	4277	4193	4285
Change in working capital	-278.0	-1575	-1068	507.2	-229.4
Net interest (pd) / rec	-490.8	688.0	-501.1	-435.9	-299.4
Taxes paid	-562.3	-330.9	-361.0	-337.7	-371.9
Other oper cash items	0.00	0.00	0.00	0.00	0.00
<b>Cash flow from ops (1)</b>	<b>3556</b>	<b>4042</b>	<b>2347</b>	<b>3927</b>	<b>3384</b>
Capex (2)	-2671	-2241	-4146	-2384	-1128
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
<b>Cash flow from invest (3)</b>	<b>-3532</b>	<b>-2365</b>	<b>-4153</b>	<b>-2391</b>	<b>-1135</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	-1197	-931.8	-686.7	-770.9	-1061
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	1403	-767.2	2187	-672.7	-782.8
<b>Cash flow from fin (5)</b>	<b>206.2</b>	<b>-1699</b>	<b>1501</b>	<b>-1444</b>	<b>-1844</b>
Forex & disc ops (6)	5.34	184.6	131.1	-117.6	-116.6
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>235.6</b>	<b>163.4</b>	<b>-173.9</b>	<b>-25.2</b>	<b>289.0</b>
Equity FCF (1+2+4)	885.2	1801	-1799	1543	2256

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

**Mobinil (RIC: EMOB.CA, Rec: Hold, CP: E£174.74, TP: E£191.39):** To arrive at our target price, we have used an equal weighting of peer PE multiples and DCF valuation. The main upside risk is that EBITDA is better than expected on the back of a benign pricing environment. The downside risk is that pricing and competition are fiercer than expected.

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