

5 May 2011

Buy

Target price
E£172.02

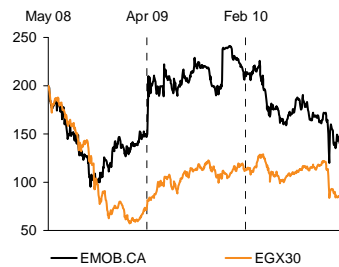
Price
E£140.71

Short term (0-60 days)
n/a

Sector view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	155.1	133.2	196.6
Absolute (%)	-9.2	5.6	-28.4
Rel market (%)	0.1	19.7	5.6
Rel sector (%)	-2.5	-2.6	5.3



Market capitalisation
E£14.07bn (€1.59bn)

Average (12M) daily turnover
E£9.23m (€1.21m)

Sector: EGX30 Telecoms
RIC: EMOB.CA, EMOB EY
Priced at close of business 4 May 2011.
Source: Bloomberg

Analyst

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Mobinil

1Q results

Against a background of unprecedented political events in Egypt, Mobinil released its 1Q11 results, which showed a decline in growth on all levels.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	10,807	10,576	10,575	10,908	11,220
EBITDA (E£m)	5,260	4,554	4,018	4,200	4,320
Reported net profit (E£m)	2,038	1,365	906.1 ▼	1,178	1,377
Normalised net profit (E£m)	2,038	1,365	906.1 ▼	1,178	1,377
Normalised EPS (E£)	20.40	13.70	9.06 ▼	11.80	13.80
Dividend per share (E£)	7.50	9.19	7.25 ▼	10.00	13.10
Dividend yield (%)	5.33	6.53	5.15	7.12	9.30
Normalised PE (x)	6.90	10.30	15.50	11.90	10.20
EV/EBITDA (x)	3.47	4.49	5.07	4.57	4.13
EV/invested capital (x)	2.32	1.94	2.00	2.02	2.10
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

Mobinil posts a 1Q11 net profit of E£23m, a 94% annual decline

Egypt experienced unprecedented political turmoil in the first quarter that had a strong impact on the economic environment, including telecommunications. Mobinil recorded consolidated revenues of E£2,430m at the end of 1Q11, reflecting a yoy decline of 4.5%, which we believe was reasonably limited given the magnitude of the events in Egypt. Consolidated EBITDA fell to E£846m (a yoy decline of 16.9%, equivalent to a 35% margin), as result of both additional unforeseen costs and lower revenues. Net profit in 1Q was E£23m, an annual decline of 94%.

Fall in growth was expected given extenuating circumstances

The fall in growth on all levels is understandable given the events in Egypt and we had already accounted for these in our forecasts in terms of revenue and EBITDA. Despite the setback that Mobinil experienced, we believe the telecommunications sector in Egypt will pick up in the current stable environment. Non-operating expenses (mainly FX losses and higher interest expenses) more than doubled in the first quarter.

We maintain our target price of E£172.02, awaiting better visibility

We believe that the second quarter of the year will be a better indicator of how the company is doing. However, we lower our year-end 2011 net profit forecasts by 12% to take into account the unforeseen additional costs incurred in 1Q to E£906m vs E£1,035m previously. We maintain our Buy recommendation at a target price of E£172.02 per share.

Important disclosures can be found in the Disclosures Appendix.

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Key takeaways

At this time we will not be reviewing our revenue or EBITDA forecasts. However, we lower our year-end 2011 net profit forecasts to take into account the unforeseen additional costs incurred in the 1Q11.

Table 1 : Forecast changes and 1Q11 result

E£m unless stated	FY11F (new)	FY11F (old)	Variance	1Q11	1Q10	Change
Revenue	10,575	10,575	0%	2,430	2,546	-5%
EBITDA	4,018	4,018	0%	846	1,018	-17%
EBITDA margin (%)	38%	38%		35%	40%	
Net Income	906	1,035	-12%	23	353	-94%

Source: Company data, Rasmala forecasts

We lower our year-end 2011 net profit forecasts by 12% to take into account the unforeseen additional costs incurred in 1Q11, which include FX losses and a higher interest expenses, in addition to the new E£2bn loan that Mobinil booked. Accordingly our adjusted net profit forecast is E£906m vs our previous E£1,035m. We show our forecasts for 2Q11 and 1H11 below.

Table 2 : 2Q11 forecasts

E£m unless stated	1Q11	2Q11F	1H11F	1H10	Change
Revenue	2,430	2,644	5,074	5,076	0.0%
EBITDA	846	1,005	1,851	2,200	-15.9%
EBITDA margin (%)	35%	38%	36%	43%	
Net Income	23	294	317	737	-57.0%

Source: Company data, Rasmala forecasts

Mobinil's performance was impacted by the political events and ensuing economic instability which led to slower subscriber growth, decreased revenues and pressured margins. However, we believe the long-term fundamentals remain mostly intact for the remainder of the year.

Mobinil's management highlighted the following reasons for slower subscriber growth and a contraction in both revenues and EBITDA:

Revolution of 25 January, effects on the business:

- Freeze on economic activity for approximately 13 days.
- Business closed between 28 January to 10 February.
- Banking system closed for more than 2 weeks.
- Stock Exchange closed between 27 January and 23 March.
- Curfew exceeded 12 hours for 3 weeks and was reduced to 3 hours only on 28 March.
- Forced interruption of certain telecom services and slowdown of sales activity:
- Forced shutdown of the mobile network on 28 January. Interruption of SMS services for 8 days and data services (fixed and mobile) for 5 days.
- Slow sales activity affected by low security environment.

Subscribers and revenue performance in 1Q11

According to Mobinil total subscribers reached 30.358m, an annual increase of 16.2%, and the ADSL subscriber base reached 227,000, an annual 14.1% increase. The end of the quarter showed signs of recovery.

Overall consolidated revenues displayed an annual decline of 4.5%, which we think is relatively limited considering the magnitude of the events.

Mobile revenues reached E£2,343m (yoy decline of 8%), while internet revenues reached E£89m (yoy decline of 3.9%). According to management, despite a good performance up to 27 January Mobinil registered a negative growth as a result of the following factors:

- Forced shutdown of the mobile network for a full day on 28 January.
- Disconnection of SMS for 8 days and data services for 5 days.
- Effect of the adverse security situation and economic slowdown after 28 January.
- Reduction in tourism and the lower usage by the corporate segment.
- Compensation for fixed and mobile customers for service unavailability and increased leniency on post-paid monthly collection.
- Roaming segment still hit by a low level of tourism activity and corporate business affected by adverse situation in several industrial sectors.

Consolidated EBITDA fell to E£846m, an annual 16.9% decline

- According to Mobinil management, the EBITDA decline was a result of additional unforeseen costs combined with the revenues decline. Mobinil is now adapting its cost structure to try and alleviate the impact of any continuing economic slowdown and/or high inflation. Furthermore, Mobinil and LDN are in final negotiations with the National Telecoms Regulatory Authority (NTRA) to obtain compensation for part of the damages they have suffered.

Weakened net profits and expected delay in capex

According to Mobinil management, net profit was impacted by the strong decline in EBITDA with around E£50m in FX losses and higher interest charges. Mobinil management also expects delays in capex deployment given the recent turmoil.

Securing long-term financing and continuous commitment to shareholders' return

Mobinil managed to secure an E£2bn, 7-year long term financing loan in 1Q that was signed on 12 April. Management also announced that, in an improving environment, its board recommended the distribution of E£316m to its shareholders on the basis of the 4Q10 results.

Income statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	10807	10576	10575	10908	11220
Cost of sales	-2039	-2395	-2784	-2932	-3025
Operating costs	-3508	-3627	-3772	-3777	-3875
EBITDA	5260	4554	4018	4200	4320
DDA & Impairment (ex gw)	-1942	-2047	-1967	-2018	-2064
EBITA	3318	2506	2051	2182	2255
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	3318	2506	2051	2182	2255
Net interest	-688.0	-589.2	-719.1	-555.4	-369.9
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-56.7	-159.1	-165.7	-109.1	-112.2
Reported PTP	2573	1758	1167	1517	1773
Taxation	-535.6	-392.7	-260.6	-338.9	-396.1
Minority interests	0.43	-0.07	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2038	1365	906.1	1178	1377
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	5260	4554	4018	4200	4320
Normalised PTP	2573	1758	1167	1517	1773
Normalised net profit	2038	1365	906.1	1178	1377

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	813.9	610.5	600.0	540.0	486.0
Other current assets	1055	1504	1339	1300	1326
Tangible fixed assets	9800	10270	9815	9139	8454
Intang assets (incl gw)	2956	4328	5078	5078	5078
Oth non-curr assets	13.5	18.1	18.1	18.1	18.1
Total assets	14640	16731	16850	16075	15362
Short term debt (2)	559.4	205.8	879.6	854.2	916.2
Trade & oth current liab	5441	5329	6009	6441	6762
Long term debt (3)	4013	5968	5111	3556	2165
Oth non-current liab	947.5	1084	950.6	870.6	790.6
Total liabilities	10961	12587	12950	11722	10633
Total equity (incl min)	3679	4144	3900	4354	4729
Total liab & sh equity	14640	16731	16850	16075	15362
Net debt	4166	6383	6289	5128	3756

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	5260	4554	4018	4200	4320
Change in working capital	-1575	-605.0	767.1	110.4	392.5
Net interest (pd) / rec	688.0	-589.2	-719.1	-555.4	-369.9
Taxes paid	-330.9	-392.7	-260.6	-338.9	-396.1
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	4042	2967	3806	3416	3946
Capex (2)	-2241	-1840	-2230	-1309	-1346
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-123.6	-2405	-342.1	251.5	277.3
Cash flow from invest (3)	-2365	-4245	-2573	-1058	-1069
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	-931.8	-889.1	-724.8	-1002	-1308
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-767.2	1833	-318.9	-1300	-1506
Cash flow from fin (5)	-1699	943.5	-1044	-2302	-2814
Forex & disc ops (6)	184.6	131.1	-200.0	-116.6	-116.6
Inc/(decr) cash (1+3+5+6)	163.4	-203.4	-10.5	-60.0	-54.0
Equity FCF (1+2+4)	1801	1127	1575	2107	2600

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: Buy, CP: E£140.71, TP: E£172.02): To calculate our target price, we have used DCF valuation. The main downside risks includes current political instability and that pricing and competition could be fiercer than expected, leading to downwards pressure on EBITDA margins.

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