Etihad Etisalat Company

Telecoms – Mobile
EEC AB: Saudi Arabia
18 October 2010

الراجحي المالية
Al Rajhi Capital

US10.31$bn	55.3%	US$8.70mn
Market cap	Free float	Avg. daily volume

Target price	71.00	28.5% over current
Consensus price	67.80	22.7% over current
Current price	55.25	as at 17/10/2010

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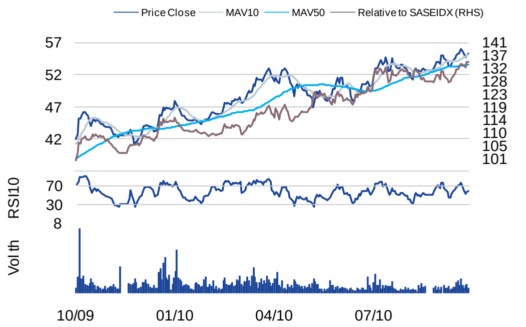
Existing rating

Underweight	Neutral	Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



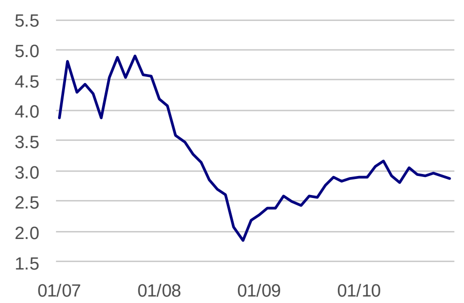
Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	13,058	15,739	18,234	20,273
Revenue Growth	21.0%	20.5%	15.9%	11.2%
EBITDA (SARmn)	4,837	5,742	6,641	7,359
EBITDA Growth	27.5%	18.7%	15.6%	10.8%
EPS	4.31	5.33	6.08	6.60
EPS Growth	16.8%	23.8%	14.1%	8.5%

Source: Company data, Al Rajhi Capital

Valuation

EV/Sales (x)



Source: Company data, Al Rajhi Capital

Mobily:
Moderating sales, surging profits

Mobily reported another set of robust results for Q3 2010. To our surprise, sales growth of 14% was slightly weaker than we had expected, but EBITDA growth of 29% and net profit growth of 41% were far stronger. The results support our view that Mobily remains leader in the mobile broadband market, and that this segment offers higher profit margins. While we would have liked to see slightly higher sales growth, we will probably need to raise our profit forecasts. Mobily remains our favourite stock in the Saudi telecoms sector.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long-term view	Stronger	Confirmed	Weaker

- **Revenues:** After rising by 27% year-on-year in Q1 and by 24% in Q2, revenues rose by 14% in Q3. Revenues of SAR3,989mn thus fell 2% below our estimate of SAR4,057mn. We see this outcome as mildly disappointing. We suspect that the slowdown in sales reflects either weakening accounts growth or greater price pressure in voice service than we had assumed.

- **Gross profit:** Mobily staged a major promotion on international calls in Q1 and a similar but less aggressive promotion in Q3. In Q1, the promotion boosted call volumes and thus revenues, but weighed heavily on gross profit. In Q3, by contrast, cost of sales was well below our estimate, so that Mobily achieved a gross margin of57.9%, compared to our estimate of 54.5%. While Mobily states that it carefully designed its promotions to minimise international interconnection costs, we assume that the key factor behind strong gross profitability was further expansion in mobile broadband service, which recent experience demonstrates carries higher margins than mobile voice. We believe that Mobily remains the clear leader in mobile broadband; see our report *Saudi Telecoms Sector: Mobily still our favourite* of 13th October for further details.

- **EBITDA:** Not only was cost of sales well below our estimate, but also total SG&A costs fell by about 6% year-on-year. In consequence, EBITDA surged by 29% to SAR1,649bn, or 16% above our estimate of SAR1,420mn, while the EBITDA margin expanded from 36.4% to 41.3%. This is far above our estimate of a margin of 35.0% and is a truly impressive outcome. The strong growth in EBITDA fed directly through to a 41% increase in net profit.

- **Conclusion:** While we would have liked to see higher sales, the surge in profits speaks for itself and we will probably have to raise our earnings forecasts. Mobily's leading position in mobile broadband assures the highest near-term earnings growth in the telecoms sector. We remain Overweight.

Corporate summary

Etihad Etisalat (Mobily) is the second-placed telecoms operator in Saudi Arabia, with a market value of US$10bn. Mobily has a market share of mobile accounts of about 40%, although its revenue share is lower at 31%. Mobily has at least 50% of mobile broadband subscriptions; this is the fastest-growing segment of the Saudi telecoms market. Mobily's presence in fixed-line service is very limited, but should expand due to selective acquisitions. Mobily is an affiliate of Emirates Telecoms Corp., which owns 27% of its shares.

Share information

Market cap (SAR/US$)	38.68bn / 10.31bn
52-week range	41.20 - 56.00
Daily avg volume (US$)	8.70mn
Shares outstanding	700.0mn
Free float (est)	55.3%

Performance:	1M	3M	12M
Absolute	3.3%	10%	31.5%
Relative to index	4.8%	7.9%	34.2%

Major Shareholder:	
Emirates Telecoms Corp.	27.5%
Gen. Organisation for Social Insce.	11.2%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	13,058	15,739	18,234	20,273
EBITDA (SARmn)	4,837	5,742	6,641	7,359
Net Profit (SARmn)	3,014	3,732	4,259	4,623
EPS (SAR)	4.31	5.33	6.08	6.60
DPS (SAR)	1.25	1.40	1.64	1.97
EPS Growth	16.8%	23.8%	14.1%	8.5%
EV/EBITDA (x)	9.5	7.9	6.5	5.5
P/E (x)	12.8	10.4	9.1	8.4
P/B (x)	3.2	2.6	2.1	1.8
Dividend Yield	2.3%	2.5%	3.0%	3.6%

Source: Company data, Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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