



US\$10.36bn Market cap **55.3%** Free float **US\$13.89mn** Avg. daily volume

Target price **75.40** 35.9% over current
 Consensus price **67.80** 22.2% over current
 Current price **55.50** as at 16/1/2011

Existing rating

Underweight

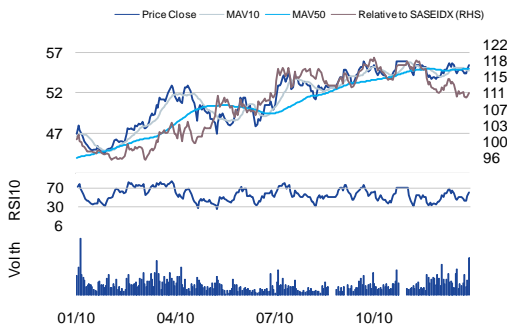
Neutral

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

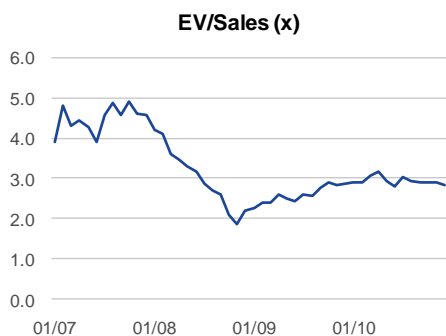


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	13,058	15,646	18,086	20,115
Revenue Growth	21.0%	19.8%	15.6%	11.2%
EBITDA (mn)	4,837	5,944	6,754	7,442
EBITDA Growth	27.5%	22.9%	13.6%	10.2%
EPS	4.31	5.64	6.38	6.97
EPS Growth	16.8%	31.1%	13.0%	9.3%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Mobily
Brimming with positive surprises

Mobily's remarkable Q4 results featured growth in sales of 26% and in net profit of 39%. Mobily has sharply raised its dividend and now has the strongest balance sheet in the Saudi telecoms sector. We expect to raise our profit forecasts and fair value. After 8% underperformance against the TASI over the past three months, we strongly recommend investors to buy Mobily's shares.

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

- Sales rise 26%:** Q4 revenues of SAR4,471mn rose by 26% year-on-year, and exceeded our forecast by 9%. We attribute this remarkable outcome to a strong Hajj season in 2010, continuing surging demand for broadband data service, and a recovery in handset sales after weakness in Q3. Regarding data, Mobily claims to have achieved 2.3mn broadband data users by the end of Q4, compared to our estimate of 1.55mn at the end of Q3. We further note that data appears to have reached at least 18% of sales by Q4.
- Operating profitability surges:** Gross profit rose by 22% year-on-year in Q4; this was far above our estimate of 15%. We infer from the preliminary results that Mobily's great recent success in controlling SG&A costs has continued; this helps explain why EBITDA grew by 28% in comparison to a strong Q4 2009. Contrary to our expectation, we calculate that the EBITDA margin rose slightly to 43.6%. We think the margin was boosted by the expansion in broadband data service, which clearly carries higher margins than voice. Operating profit rose by 35% and was 17% above our estimate.
- Stronger balance sheet helps net profit and dividend:** Net profit rose by 39% year-on-year, to SAR1,459mn; we had predicted growth of 14%. Apart from the robust operating result, net profit was boosted by "other income" of SAR29mn and by what we infer was a sharp drop in net financial costs to about SAR22mn. This in turn reflects further strengthening of Mobily's balance sheet. While reported net debt of SAR5.86bn was 3% above our forecast, the net debt/EBITDA ratio has fallen to under 1.0x. On this measure Mobily is now financially stronger than STC, with a ratio of 1.2x. With very strong finances, Mobily can continue to invest for growth. It can also feel comfortable in paying a higher dividend: hence the announcement of a full-year dividend of SAR2.0 per share, versus our estimate of SAR1.4.
- Conclusion:** After the excellent Q4 results, we expect to raise our profit forecasts and fair value per share. With the broadband market still surging, we think Mobily offers at least another 12-18 months of robust growth. Mobily trades on a PE of under 9x and now yields 3.6%. Its share price has underperformed the stock market for three months. We remain Overweight.

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Corporate summary	Share information	Valuation
Etiihad 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.	<p>Market cap (SAR/US\$) 38.85bn / 10.36bn</p> <p>52-week range 44.40 - 56.00</p> <p>Daily avg volume (US\$) 13.89mn</p> <p>Shares outstanding 700.0mn</p> <p>Free float (est) 55.3%</p> <p>Performance: 1M 3M 12M</p> <p>Absolute 3.3% 0.9% 18.1%</p> <p>Relative to index -1.2% -8.1% 10.8%</p> <p>Major Shareholder:</p> <p>Emirates Telecoms Corp. 27.5%</p> <p>Gen. Organisation for Social Insc. 11.2%</p> <p>Source: Bloomberg, Al Rajhi Capital</p>	<p>Period End 12/09A 12/10E 12/11E 12/12E</p> <p>Revenue (SARmn) 13,058 15,646 18,086 20,115</p> <p>EBITDA (SARmn) 4,837 5,944 6,754 7,442</p> <p>Net Profit (SARmn) 3,014 3,951 4,466 4,880</p> <p>EPS (SAR) 4.31 5.64 6.38 6.97</p> <p>DPS (SAR) 1.25 1.40 1.68 2.18</p> <p>EPS Growth 16.8% 31.1% 13.0% 9.3%</p> <p>EV/EBITDA (x) 9.5 7.5 6.2 5.3</p> <p>P/E (x) 12.9 9.8 8.7 8.0</p> <p>P/B (x) 3.2 2.5 2.1 1.7</p> <p>Dividend Yield 2.3% 2.5% 3.0% 3.9%</p> <p>Source: Company data, Al Rajhi Capital</p>

Figure 1. Mobily: summary of Q4 2010 results

(SAR mn)	Q4 2009 actual	Q3 2010 actual	Q4 2010 actual	% chg. y-y	Q2 2010 ARC est.	Comment
Revenues	3,537	3,989	4,471	26.4%	4,104	A remarkable outcome: likely to have been boosted by the Hajj season, strong data revenues and a recovery in handset sales after weakness in Q3
Gross profit	2,105	2,310	2,573	22.2%	2,421	Far above our estimate of growth of 15%
Gross margin	59.5%	57.9%	57.5%	-2.0pp	59.0%	Q4 is normally the most profitable quarter due to the Hajj season
SG&A costs	-585	-661	-624	6.7%	-694	Mobily has been very successful in controlling SG&A costs and this success continues
EBITDA	1,520	1,648	1,949	28.2%	1,727	We have calculated Q4 EBITDA from Mobily's results statement. This is quite remarkable growth compared to a strong quarter in Q4 2009
EBITDA margin (%)	43.0%	41.3%	43.6%	0.6pp	42.1%	Slightly up year-on-year, contrary to our expectation. Likely to have been boosted by the strong growth in broadband data service, which clearly carries higher margins than voice
Deprn. & amortisation	-435	-462	-484	11.2%	-475	Slightly higher than we had expected
Operating profit	1,085	1,187	1,465	35.0%	1,252	Impressive: 17% above our forecast
Financial costs	-40	-41	-22	-45.6%	-30	Net financial costs appear to have almost halved as Mobily's balance sheet has strengthened. We will have to confirm this after seeing the final results
Other	6	4	29	394.4%	0	We are not yet sure what this item is, but Mobily's results periodically benefit from substantial "other income"
Net income before tax	1,050	1,150	1,472	40.2%	1,222	Very impressive
Tax and zakat	1	-12	-13	n/a	-24	Only about one-half of our forecast
Net profit	1,051	1,138	1,459	38.8%	1,198	Impressive growth compared to a strong Q4 last year. We had predicted growth of just 14%
Capex	902	858	1,000	10.9%	985	Marginally above our forecast; we think strong growth in data usage is continuing to drive capex
Capex/sales (%)	25.5%	21.5%	22.4%	-3.1pp	24.0%	As above
Net debt	7,062	6,530	5,860	-17.0%	5,705	Slightly above our forecast, but Mobily's debt level continues to decline
Net debt/annualised EBITDA (x)	1.2	1.0	0.8	n/a	0.8	On this measure Mobily is now financially stronger than STC. With a strong balance sheet, it can continue to invest for growth

Source: Company data, Al Rajhi Capital



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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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