



**US\$9.71bn** Market cap    **55.3%** Free float    **US\$16.99mn** Avg. daily volume

Target price **78.20** 50.38% over current  
Consensus price **70.00** 34.6% over current  
Current price **52.00** as at 29/1/2011

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**Underweight**    **Neutral**    **Overweight**

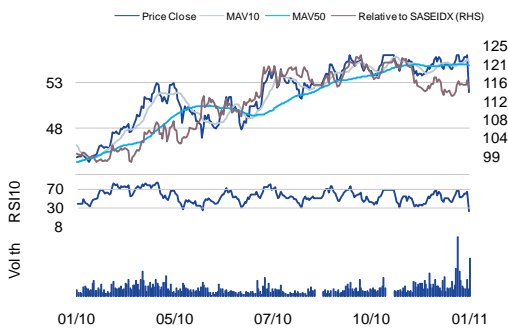
**Key themes**

We expect mobile to continue to outperform fixed-line telecoms in Saudi Arabia over the next few years. Mobily has taken a clear lead in 3.5G mobile data, which is the fastest-growing segment of the market. While Mobily's strong focus on mobile is a clear positive, it is also making selective investments in fixed-line service.

**Implications**

Our preferred stock in the Saudi telecoms sector is Mobily, which we rate as Overweight. Mobily is performing well operationally and offers strong growth in the near term at a reasonable valuation.

**Performance**

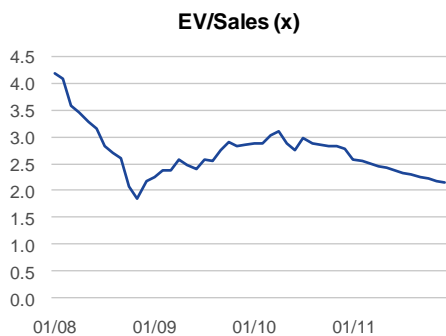


**Earnings**

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	16,013	18,866	21,516	23,741
Revenue Growth	22.6%	17.8%	14.0%	10.3%
EBITDA (mn)	6,165	7,252	8,176	9,022
EBITDA Growth	27.5%	17.6%	12.7%	10.3%
EPS	6.02	7.01	7.90	8.54
EPS Growth	39.7%	16.5%	12.8%	8.0%

Source: Company data, Al Rajhi Capital

**Valuation**



Source: Company data, Al Rajhi Capital

# Mobily

## Strong, safe and excellent value

*This note follows our Flash View of 17th January. Mobily's Q4 results featured growth in sales of 26% and in net profit of 39%. We have raised our forecasts and set a new target price of SAR78.2, implying 50% upside. After yesterday's market sell-off, Mobily's PE is 7.4x and it offers a 2011 yield of 5.1%, making it one of the best-value Saudi stocks. In the present uncertain environment in Middle Eastern markets, we see Mobily as very safe and remain Overweight.*

**Sales rise by 26%:** Q4 2010 sales of SAR4,471mn rose by 26% year-on-year, exceeding our forecast by 9%. We attribute this outcome to a strong Hajj season in 2010, surging demand for broadband data service, and higher handset sales after weakness in Q3. Regarding data, Mobily claims it had 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 19-20% of sales by Q4.

**Operating profitability surges:** Gross profit rose by 22% year-on-year in Q4 compared to our estimate of 15%. Mobily's full results show that its great recent success in controlling SG&A costs has continued, with SG&A costs falling from 16.9% of sales in Q4 2009 to 14.0% of sales in Q4 2010. This success helps explain why EBITDA grew by 28% in comparison to a strong Q4 2009. Against our expectation, the EBITDA margin rose from 43.0% to 43.6%; this reflected the expansion in broadband data service, which is clearly more profitable 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 a near-halving of net financial costs versus both Q4 2009 and Q3 2010 to 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; Mobily is now financially stronger than STC on this measure. With strong finances, Mobily can continue to invest for growth. It can also comfortably pay a higher dividend: hence the announcement of a full-year dividend of SAR2.0 per share, versus our estimate of SAR1.4.

**Sharply higher new forecasts:** Mobily's results were well above our forecasts and we have raised our estimates substantially. We now predict 17-18% growth in sales, EBITDA and net profit in 2011. We expect Mobily to raise its dividend sharply again in 2011, to SAR2.7 per share, and thus expect the historic (i.e. 2010) yield of 3.8% to rise to 5.1% for this year. Finally, we have raised our estimate of fair value per share on a discounted economic profit basis by 4%, from SAR75.4 to SAR78.2. We have set SAR78.2 as our new target price.

**Safe and good value in tough market:** Mobily has underperformed the TASI by 4% over six months despite sparkling results for both Q3 and Q4. We ascribe this poor performance to concern that Mobily's recent strong growth is set to slow sharply soon. We disagree with this view, since most evidence suggests to us that the Saudi mobile broadband market is still surging. Even if growth does start to slow, after the 6% market sell-off on 29th January Mobily trades on a PE of 7.4x with a 2011 yield of 5.1%, making it one of the best-value Saudi stocks. We note further that Mobily is 100% focused on Saudi Arabia, with no exposure to Egypt, Tunisia or other markets facing political turmoil. We stay Overweight.



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\$) 36.40bn / 9.71bn</p> <p>52-week range 44.40 - 56.00</p> <p>Daily avg volume (US\$) 16.99mn</p> <p>Shares outstanding 700.0mn</p> <p>Free float (est) 55.3%</p> <p>Performance: 1M 3M 12M</p> <p>Absolute -5.9% -4.2% 15.3%</p> <p>Relative to index -0.6% -3.5% 15.1%</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 12/10A 12/11E 12/12E 12/13E</p> <p>Revenue (SARmn) 16,013 18,866 21,516 23,741</p> <p>EBITDA (SARmn) 6,165 7,252 8,176 9,022</p> <p>Net Profit (SARmn) 4,211 4,907 5,532 5,975</p> <p>EPS (SAR) 6.02 7.01 7.90 8.54</p> <p>DPS (SAR) 2.00 2.66 3.46 4.50</p> <p>EPS Growth 39.7% 16.5% 12.8% 8.0%</p> <p>EV/EBITDA (x) 6.9 5.6 4.7 4.1</p> <p>P/E (x) 8.6 7.4 6.6 6.1</p> <p>P/B (x) 2.3 1.9 1.6 1.4</p> <p>Dividend Yield 3.8% 5.1% 6.7% 8.6%</p> <p>Source: Company data, Al Rajhi Capital</p>

## Mobily: summary of Q4 2010 results

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
<b>Revenues</b>	<b>3,537</b>	<b>3,989</b>	<b>4,471</b>	<b>26.4%</b>	<b>4,104</b>	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
<b>EBITDA</b>	<b>1,520</b>	<b>1,648</b>	<b>1,949</b>	<b>28.2%</b>	<b>1,727</b>	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
<b>Operating profit</b>	<b>1,085</b>	<b>1,187</b>	<b>1,465</b>	<b>35.0%</b>	<b>1,252</b>	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
<b>Net profit</b>	<b>1,051</b>	<b>1,138</b>	<b>1,459</b>	<b>38.8%</b>	<b>1,198</b>	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



## Mobily: summary of new forecasts

**Figure 2. Mobily: summary of our new forecasts**

(SAR mn)	2010 actual	2011 old est.	2011 new est	Upgrade to est		2012 old est.	2012 new est	Upgrade to est	
				(%)	% chg y-o-y			(%)	% chg y-o-y
Revenues	16,013	18,086	18,866	4.3%	17.8%	20,115	21,516	7.0%	14.0%
EBITDA	6,165	6,754	7,252	7.4%	17.6%	7,442	8,176	9.9%	12.7%
EBITDA margin (%)	38.5%	37.3%	38.4%	n/a	n/a	37.0%	38.0%	n/a	n/a
Operating profit	4,355	4,637	5,123	10.5%	17.6%	5,066	5,759	13.7%	12.4%
Net profit	4,211	4,466	4,907	9.9%	16.5%	4,880	5,532	13.4%	12.8%
Dividend per share (SAR)	2.0	1.7	2.7	56.5%	33.0%	2.2	3.5	58.6%	30.0%

Source: Company data, Al Rajhi Capital



We now expect 18% revenue growth in 2011

We expect Mobily's dividend to rise substantially over the next few years

We expect EBITDA growth of 18% in 2011, followed by 13% in 2012

We expect the EBITDA margin to stay at around 38% over the next few years

Mobily generates a ROIC well above WACC of under 10%

The 2011 PE is one of the lowest in the Saudi market. The 5.1% 2011 yield may be compared with 3.6% for SABIC

<b>Income Statement (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
<b>Revenue</b>	<b>13,058</b>	<b>16,013</b>	<b>18,866</b>	<b>21,516</b>	<b>23,741</b>
Cost of Goods Sold	(5,512)	(7,230)	(8,487)	(9,790)	(10,802)
<b>Gross Profit</b>	<b>7,547</b>	<b>8,783</b>	<b>10,379</b>	<b>11,726</b>	<b>12,939</b>
Government Charges					
S.G. & A. Costs	(2,710)	(2,619)	(3,127)	(3,550)	(3,917)
<b>Operating EBIT</b>	<b>3,208</b>	<b>4,355</b>	<b>5,123</b>	<b>5,759</b>	<b>6,187</b>
Cash Operating Costs	(8,222)	(9,849)	(11,614)	(13,340)	(14,720)
<b>EBITDA</b>	<b>4,837</b>	<b>6,165</b>	<b>7,252</b>	<b>8,176</b>	<b>9,022</b>
Depreciation and Amortisation	(1,629)	(1,810)	(2,129)	(2,417)	(2,835)
<b>Operating Profit</b>	<b>3,208</b>	<b>4,355</b>	<b>5,123</b>	<b>5,759</b>	<b>6,187</b>
Net financing income/(costs)	(204)	(146)	(104)	(84)	(59)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	41	70	-	-	-
Other Expenses	-	-	-	-	-
<b>Net Profit Before Taxes</b>	<b>3,045</b>	<b>4,279</b>	<b>5,019</b>	<b>5,674</b>	<b>6,128</b>
Taxes	(31)	(67)	(112)	(142)	(153)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>3,014</b>	<b>4,211</b>	<b>4,907</b>	<b>5,532</b>	<b>5,975</b>
Dividends	(875)	(1,400)	(1,862)	(2,421)	(3,147)
Transfer to Capital Reserve	-	-	-	-	-
	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Adjusted Shares Out (mn)	700.0	700.0	700.0	700.0	700.0
CFPS (SAR)	6.63	8.60	10.05	11.36	12.59
EPS (SAR)	4.31	6.02	7.01	7.90	8.54
DPS (SAR)	1.250	2.000	2.660	3.458	4.495
<b>Growth</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Revenue Growth	21.0%	22.6%	17.8%	14.0%	10.3%
Gross Profit Growth	25.2%	16.4%	18.2%	13.0%	10.3%
EBITDA Growth	27.5%	27.5%	17.6%	12.7%	10.3%
Operating Profit Growth	28.5%	35.8%	17.6%	12.4%	7.4%
Net Profit Growth	44.1%	39.7%	16.5%	12.8%	8.0%
EPS Growth	16.8%	39.7%	16.5%	12.8%	8.0%
<b>Margins</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Gross profit margin	57.8%	54.9%	55.0%	54.5%	54.5%
EBITDA margin	37.0%	38.5%	38.4%	38.0%	38.0%
Operating Margin	24.6%	27.2%	27.2%	26.8%	26.1%
Pretax profit margin	23.3%	26.7%	26.6%	26.4%	25.8%
Net profit margin	23.1%	26.3%	26.0%	25.7%	25.2%
<b>Other Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
ROCE	17.2%	20.6%	20.4%	20.0%	19.1%
ROIC	16.2%	20.6%	21.3%	20.4%	19.3%
ROE	27.4%	30.3%	28.3%	26.4%	24.4%
Effective Tax Rate	1.0%	1.6%	2.2%	2.5%	2.5%
Capex/Sales	25.2%	21.2%	21.6%	21.0%	20.0%
Dividend Payout Ratio	29.0%	33.2%	37.9%	43.8%	52.7%
<b>Valuation Measures</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
P/E (x)	12.1	8.6	7.4	6.6	6.1
P/CF (x)	7.8	6.0	5.2	4.6	4.1
P/B (x)	3.0	2.3	1.9	1.6	1.4
EV/Sales (x)	3.3	2.6	2.2	1.8	1.5
EV/EBITDA (x)	9.0	6.9	5.6	4.7	4.1
EV/EBIT (x)	13.5	9.7	7.9	6.7	5.9
EV/IC (x)	2.1	1.8	1.5	1.2	1.1
Dividend Yield	2.4%	3.8%	5.1%	6.7%	8.6%

Source: Company data, Al Rajhi Capital



We expect Mobily to have net cash by 2014

Annualised net debt/EBITDA was under 1.0x at the end of 2010. This gives Mobily ample resources to invest and raise its dividend

We expect capex to remain relatively high due to capacity requirements for data

<b>Balance Sheet (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Cash and Cash Equivalents	1,533	2,111	4,219	6,092	8,253
Current Receivables	5,481	5,736	7,342	7,853	8,547
Inventories	132	297	306	323	356
Other current assets	1,277	1,271	1,271	1,271	1,271
<b>Total Current Assets</b>	<b>8,577</b>	<b>9,415</b>	<b>13,138</b>	<b>15,540</b>	<b>18,427</b>
Fixed Assets	10,370	12,457	14,922	17,548	19,988
Investments	-	-	-	-	-
Goodwill	1,530	1,530	1,530	1,530	1,530
Other Intangible Assets	10,450	10,028	9,502	8,977	8,451
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>22,349</b>	<b>24,015</b>	<b>25,954</b>	<b>28,055</b>	<b>29,969</b>
<b>Total Assets</b>	<b>30,926</b>	<b>33,430</b>	<b>39,092</b>	<b>43,595</b>	<b>48,396</b>
Short Term Debt	2,147	2,442	2,442	2,442	2,442
Trade Payables	9,831	9,533	11,217	12,049	13,295
Dividends Payable	-	-	-	-	-
Other Current Liabilities	211	281	281	281	281
<b>Total Current Liabilities</b>	<b>12,189</b>	<b>12,256</b>	<b>13,940</b>	<b>14,772</b>	<b>16,019</b>
Long-Term Debt	6,448	5,529	6,000	6,000	6,000
Other LT Payables	-	-	-	-	-
Provisions	47	66	66	66	66
<b>Total Non-current Liabilities</b>	<b>6,495</b>	<b>5,595</b>	<b>6,066</b>	<b>6,066</b>	<b>6,066</b>
Minority interests	-	-	-	-	-
Paid-up share capital	7,000	7,000	7,000	7,000	7,000
Total Reserves	5,243	8,580	12,086	15,757	19,311
<b>Total Shareholders' Equity</b>	<b>12,243</b>	<b>15,580</b>	<b>19,086</b>	<b>22,757</b>	<b>26,311</b>
<b>Total Equity</b>	<b>12,243</b>	<b>15,580</b>	<b>19,086</b>	<b>22,757</b>	<b>26,311</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>30,926</b>	<b>33,430</b>	<b>39,092</b>	<b>43,595</b>	<b>48,396</b>

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Net Debt (SARmn)	7,062	5,860	4,223	2,350	190
Net Debt/EBITDA (x)	1.46	0.95	0.58	0.29	0.02
Net Debt to Equity	57.7%	37.6%	22.1%	10.3%	0.7%
EBITDA Interest Cover (x)	23.7	42.1	69.9	96.8	153.6
BVPS (SAR)	17.49	22.26	27.27	32.51	37.59

<b>Cashflow Statement (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Net Income before Tax & Minority Interest	3,045	4,279	5,019	5,674	6,128
Depreciation & Amortisation	1,629	1,810	2,129	2,417	2,835
Decrease in Working Capital	(388)	(774)	69	304	519
Other Operating Cashflow	(40)	156	(112)	(142)	(153)
<b>Cashflow from Operations</b>	<b>4,246</b>	<b>5,470</b>	<b>7,105</b>	<b>8,254</b>	<b>9,329</b>
Capital Expenditure	(3,288)	(3,392)	(4,068)	(4,518)	(4,748)
New Investments	-	-	-	-	-
Others	(51)	16	-	-	-
<b>Cashflow from investing activities</b>	<b>(3,339)</b>	<b>(3,376)</b>	<b>(4,068)</b>	<b>(4,518)</b>	<b>(4,748)</b>
<b>Net Operating Cashflow</b>	<b>907</b>	<b>2,094</b>	<b>3,037</b>	<b>3,735</b>	<b>4,581</b>
Dividends paid to ordinary shareholders	(525)	(875)	(1,400)	(1,862)	(2,421)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	-	-	-	-
<b>Cashflow from financing activities</b>	<b>(1,687)</b>	<b>(1,516)</b>	<b>(929)</b>	<b>(1,862)</b>	<b>(2,421)</b>
Total cash generated	(781)	578	2,108	1,873	2,160
Cash at beginning of period	2,314	1,533	2,111	4,219	6,092
<b>Implied cash at end of year</b>	<b>1,533</b>	<b>2,111</b>	<b>4,219</b>	<b>6,092</b>	<b>8,253</b>

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Capex/Sales	25.2%	21.2%	21.6%	21.0%	20.0%

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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