Etihad Etisalat Company

Telecom – Industrial
EEC AB: Saudi Arabia
29 April 2014

الراجحي المالية
Al Rajhi Capital

US$19.68bn	61%	US$22.75mn
Market cap	Free float	Avg. daily volume

Target price	99.00	4.2% over current
Consensus price	101.90	7.3% over current
Current price	95.00	as at 28/4/2014

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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

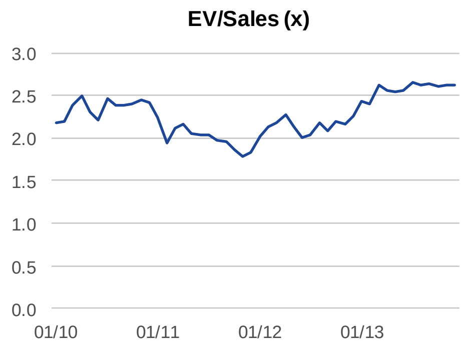
Source: Bloomberg

Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	23,585	25,191	26,282	28,134
Revenue Growth	17.6%	6.8%	4.3%	7.0%
EBITDA (mn)	8,534	9,190	10,044	10,916
EBITDA Growth	14.5%	7.7%	9.3%	8.7%
EPS	7.82	8.67	9.08	9.88
EPS Growth	18.4%	10.9%	4.7%	8.9%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Mobily
Q1 in line with forecast

Mobily's Q1 2014 results came in line with our as well as consensus estimates. The company's top-line grew 11.5% y-o-y, while its operating profit rose 13.8% y-o-y. However, the net profit growth was limited to 4.5% y-o-y due to a drop in other income as well as doubling of zakat expense. It is highly commendable that Mobily has reported a double-digit top-line growth whereas its competitors are struggling to maintain revenues. The company remains our top pick in the Kingdom's telecom sector. We have changed our rating on Mobily to Neutral since the stock has gained about 11% YTD to SAR94.75, leaving a potential upside of less than 5% to our target price of SAR99 per share. We will review our estimates and come up with a detailed note after a discussion with the management.

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

- **Revenue grow in line with forecasts:** Mobily's revenue grew 11.5% y-o-y to SAR6,237mn, in line with our SAR6,067mn estimate (consensus estimate: SAR6,131mn). The company's top-line was driven by growth in revenues from the business sector and data services. In addition, the post-paid revenues and equipment sales also rose during the quarter. Further, Mobily stated that it has witnessed an increase in post-paid subscribers.

- **Gross and operating profits rise as margins improve:** The company's gross profits grew 16.3% y-o-y to SAR3,134mn, slightly higher than our SAR2,961mn estimate. Gross profit margin improved by approximately 210bps y-o-y to 50.2%, on the back of a better sales mix and improved efficiencies. Operating profit stood at SAR1,510mn (+13.8% y-o-y), matching our (SAR1,518mn) as well as consensus estimates (SAR1,583mn). Operating profit growth was restricted by a 31.4% y-o-y jump in depreciation charge, as "Property and Equipment" assets increased by 20.5% y-o-y.

Figure 1 Mobily: Summary of Q1 2014 results

(SAR mn)	Q1 2013	Q4 2013	Q1 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	5,593	7,204	6,237	11.5%	-13.4%	6,067
Gross profit	2,694	3,932	3,134	16.3%	-20.3%	2,960.9
Gross profit margin (%)	48.2%	54.6%	50.2%			48.8%
Operating profit	1,327	1,992	1,510	13.8%	-24.2%	1,518
Net profit	1,340	2,039	1,400	4.5%	-31.3%	1,445

Source: Company data, Al Rajhi Capital

Net profit margin falls on higher zakat: Net profit rose 4.5% y-o-y to SAR1,400mn, which was largely in line with our SAR1,445mn estimate (consensus: SAR1,472). The company's net profit margin contracted by about 150bps y-o-y to 22.4%, while we were expecting it to remain stable. The margin contraction was due to a sharp drop in other income (-86.7% y-o-y) to SAR12.8mn and a near 100% jump in zakat expense to SAR64.4mn.

Conclusion: Mobily's Q1 2014 results were in line with our as well as consensus estimates. The company continues to post double-digit top-line growth, while its competitors are reporting declining revenues. Mobily remains our top pick in the telecom sector. For now, we have changed our rating on Mobily to Neutral, as the current stock price provides a potential upside of less than 5% to our target price of SAR99 per share. We will come out with a detailed note after a discussion with the management.

Major Developments

Signs two contracts to acquire vendor financing

Mobily signed two ECA financing (export credit agencies) agreements with the Swedish Export Credits Guarantee Board and Export Credit Agency of Finland (Finnvera) for a total of SAR2.1bn (SAR1.05bn each), without any guarantee. The funds will be used to source telecommunications equipment from Ericsson, & Nokia Siemens Networks to expand and modernize Mobily's LTE-4G, 3G and 2G networks. The tenor of both facilities is 10 years. Both the loans will be repaid in 17 semi-annual equal instalments, and have been priced at a fixed rate of 2.4% per annum.

Extends "Long Stop Date" for EATC acquisition by 90 days

Mobily has extended the Long Stop Date for acquisition of Etihad Atheeb Telecom Company by 90 days to April 30, 2014. The acquisition is subject to certain conditions being satisfied prior to this date (Long Stop Date), such as obtaining necessary regulatory clearances, including from the CITC, completing commercial, financial, technical and legal due diligences. The company announced that its subsidiary, Bayanat, is facing challenges in structuring the proposed transaction, aimed at identifying the optimal operating system while ensuring compatibility with the existing infrastructure.

Other operational updates

Mobily announced its decision to design a new operational model aimed at achieving its target of becoming a leading Information and Communications Technology (ICT) player. The company has formed the mega projects unit, which will be responsible for accomplishing and following up long-term mega deals, targeting governmental, private and real estate sectors. The company is working to complete the new operational model for the consumer unit by mid-2014. In addition, Mobily announced that it has linked more than 700,000 residential units to its fiber-optic network, up from 530,000 units by the end of 2013. The company has set a target of connecting 1.2mn houses by 2014-end.

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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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