



WEALTH MANAGEMENT

GCC EQUITIES

TELECOMMUNICATIONS

Q2 2012 Results Review

Recommendation

BUY

CMP (SAR) (15/7/12) : 64.50

TARGET PRICE (SAR): 72.00

EXPECTED RETURN (%): 11.6%

STOCK DATA

MCAP (SAR'million)	45,150
52 WEEK HIGH (SAR)	70.25
52 WEEK LOW (SAR)	49.90

QUARTERLY NET PROFIT

SAR'mn	2011	2012
Q1	998	1,207
Q2	1,164	1,421
Q3	1,224	1,389 (e)
Q4	1,697	1,563 (e)

ANALYST

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ETIHAD ETISALAT (SSE: 7020)

Growing revenues and higher margins drive a 22.0% YoY growth in net profit for Mobily during Q2 2012. Dividend yield attractive at 6.2%. We await full financials before updating our model and estimates.

KEY HIGHLIGHTS

- ✦ Etihad Etisalat (Mobily) reported Q2 2012 net profit of SAR 1.42 billion, growing 22.0% YoY and 17.7% QoQ. Profitability growth was driven by an 10.7% YoY revenue growth coupled with higher gross margins. Gross margin was 52.0% during Q2 2012 compared to 48.3% in Q2 2011, when margins were impacted by a higher proportion of low-margin smart phone sales.
- ✦ Data revenues continued to grow, recording an 18.3% QoQ growth in Q2 2012 and contributing 25% of total revenues (up from 23% in Q1 2012). Growth in business sector revenues of 63% YoY in H1 2012 (up from 47% during H1 2011) also supported top line growth.
- ✦ For FY 2012, we expect the company to see another year of double-digit revenue growth supported by a 20% YoY growth in data revenues, improving post-paid and business sector revenues as well as sustained demand for smartphones. We forecast total revenues to grow 12.2% YoY in FY 2012 to SAR 22,490 million, while operating profit is estimated at SAR 5,764 million and net profit is estimated to grow 9.8% YoY to SAR 5,580 million.
- ✦ We estimate EBITDA margin of 36.7% in FY 2012 compared to 37.2% in FY 2011, as we continue to expect increasing competition in the Saudi telecom market. However, we see limited risk from an outright price war as the company's management has previously indicated its intention to refrain from such a strategy.
- ✦ Mobily has started to pay quarterly dividends from 2012 onwards and management intends to maintain progressive dividend payouts not less than that of the previous year. The Board of Directors is expected to meet today (16 July) to announce the dividend for Q2 2012. In view of the company's healthy and growing free cash flow generation capability, we anticipate a cash dividend of SAR 1.0 per share for Q2 2012 and total dividend payout of SAR 4.0 per share in FY 2012 (E), which offers an attractive 6.2% dividend yield at its current price.
- ✦ The stock currently trades at 8.1x its FY 2012 (E) EPS of SAR 7.97. We estimate a fair value for the stock to be at SAR 72.00, assuming the stock should trade at a one year forward P/E multiple of 9.0x in view of its historical average P/E range of 6.0x to 10.0x. This offers a 12% upside from current levels. Downside risks include stronger than expected competition, unfavorable regulatory changes or slower than expected growth in the mobile broadband segment.

KEY FINANCIAL HIGHLIGHTS			
(SAR'million)	2010	2011	2012 (E)
Revenue	16,013	20,052	22,490
Operating Profit	4,355	5,305	5,764
Net Profit	4,211	5,083	5,580
EPS (SAR)	6.02	7.26	7.97
P/E (x)	-	8.9	8.1
BVPS (SAR)	22.26	26.27	30.99
P/BV (x)	-	2.5	2.1
DPS (SAR)	2.00	3.25	4.00
Dividend Yield (%)	-	5.0%	6.2%
ROE (%)	30.3%	29.9%	27.8%

Source: Company disclosure, FINCORP Investment Research

Q2 2012 RESULT HIGHLIGHTS					
(SAR'million)	Q2 2012	Q2 2011	Q1 2012	YoY (%)	QoQ (%)
Revenue	5,678	5,127	5,009	10.7%	13.3%
Operating Profit	1,468	1,223	1,254	20.0%	17.1%
Net Profit	1,421	1,164	1,207	22.0%	17.7%
EPS (SAR)	2.03	1.66	1.72	22.0%	17.7%

Source: Company disclosure, FINCORP Investment Research

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