

April 28, 2010

MOBINIL (EMOB.CA)

12-Month Fair Value: EGP 200

Last Close (27 April, 2010): EGP 203

Recommendation: Hold - Risk Level: 4

- Mobinil reported operating revenues of EGP 2,546 million for 1Q2010, up 2% YoY, but down 9% QoQ. This was in line with our forecast of EGP 2,573 million (-1% difference).
- EBITDA came in at EGP 1,021 million for 1Q2010 declining 12% YoY and 23% QoQ. This was 17% below our EBITDA forecast. 1Q2010 EBITDA margin stood at 40% versus 46% in 1Q2009 and 47% in 4Q2009. Mobinil accredits the decline in EBITDA margin to the intensified competition in the mobile markets. According to management, Mobinil's strategy is to remain a market leader in the mobile market even if it is at the expense of margins. During the last quarter, Mobinil was very aggressive on promotion and tariffs plan.
- Net profit for 1Q2010 came in at EGP 357 million, declining 2% YoY and 39% QoQ.
- Mobinil is facing some pressures on the regulatory front which are expected to continue in the near future: a- Until a new national numbering plan is implemented by all operators, Mobinil is more likely to continue facing dials shortage. According to management, under the current numbering plan Mobinil's dials capacity stands at 30 million with a current subscriber base of 26 million. b- New regulations on uncertified handsets, subscribers' activation and registration process will lead to increased disconnections and will halt sales of pre-activated SIM cards (May 2, 2010 – date of regulation's implementation), Mobinil estimates 3% of its subscriber base at risk.
- Subscriber net additions during 1Q2010 came in at 0.767 million, down 28% YoY from 1.064 million in 1Q2009. Given Mobinil's strategy to maintain a leadership position in the market, we find the current regulatory environment unfavorable for the company. Hence, we view the implementation of the national numbering plan as crucial to Mobinil's growth. Mobinil made its first request for new dials to the regulator in May 2009 and received the approval in March 2010; however, the operator believes the implementation of a national numbering plan will be delayed.
- We view the regulatory pressure and the expected on going price war as negative for Mobinil's growth. Our fair value per share for Mobinil (EGP200) is now 1.5% below the closing price of 27 April 2010 (EGP 203); hence, we reiterate our "Hold" recommendation. We will issue an update report on Mobinil after the release of the full financial statements.

Diala Hoteit

T. +971 4365 2855

E. diala.hoteit@nbkcapital.com

Alok Nawani

T. +971 4365 2856

E. alok.nawani@nbkcapital.com

Related Research

- Mobinil Analyst Comment - 11 February 2010
- Mobinil Initiation of Coverage - 24 November 2009

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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NBK CAPITAL**Kuwait****Head Office**

38th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research

35th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage

37th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506
Dubai, UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

NATIONAL BANK OF KUWAIT**Kuwait****National Bank of Kuwait SAK**

Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
T. +965 2242 2011
F. +965 2243 1888
Telex: 22043-22451 NATBANK

Jordan**National Bank of Kuwait SAK**

Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O.Box 941297,
Amman -11194, Jordan
T. +962 6 580 0400
F. +962 6 580 0441

United States of America**National Bank of Kuwait SAK**

New York Branch
299 Park Avenue, 17th Floor
New York, NY 10171, USA
T. +1 212 303 9800
F. +1 212 319 8269

United Kingdom**National Bank of Kuwait (Intl.) Plc**

Head Office
13 George Street,
London W1U 3QJ, UK
T. +44 20 7224 2277
F. +44 20 7224 2101

NBK Investment Management Limited

13 George Street
London W1U 3QJ, UK
T. +44 20 7224 2288
F. +44 20 7224 2102

France**National Bank of Kuwait (Intl.) Plc**

Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
T. +33 1 5659 8600
F. +33 1 5659 8623

Singapore**National Bank of Kuwait SAK**

Singapore Branch
9 Raffles Place #51-01/02
Republic Plaza, Singapore 048619
T. +65 6222 5348
F. +65 6224 5438

Vietnam**National Bank of Kuwait SAK**

Vietnam Representative Office
Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City, Vietnam
T. +84 8 3827 8008
F. +84 8 3827 8009

China**National Bank of Kuwait SAK**

Shanghai Representative Office
Suite 1003, 10th Floor,
Azia Center, 1233 Lujiazui Ring Rd.
Shanghai 200120, China
T. +86 21 6888 1092
F. +86 21 5047 1011

ASSOCIATES**Qatar****International Bank of Qatar (QSC)**

Suhaim bin Hamad Street
P.O.Box 2001
Doha, Qatar
T. +974 447 3700
F. +974 447 3710

Turkey**Turkish Bank**

Head Office
Valikonagl Avenue No. 1
P.O.Box 34371 Nisantasi,
Istanbul, Turkey
T. +90 212 373 6373
F. +90 212 225 0353

INTERNATIONAL NETWORK**Bahrain****National Bank of Kuwait SAK**

Bahrain Branch
Seef Tower, Al-Seef District
P.O. Box 5290, Manama, Bahrain
T. +973 17 583 333
F. +973 17 587 111

Saudi Arabia**National Bank of Kuwait SAK**

Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
T. +966 2 653 8600
F. +966 2 653 8653

United Arab Emirates**National Bank of Kuwait SAK**

Dubai Branch
Sheikh Rashed Road, Port Saeed
Area, ACICO Business Park
P.O. Box 88867, Dubai
United Arab Emirates
T. +971 4 2929 222
F. +971 4 2943 337

Lebanon**National Bank of Kuwait**

(Lebanon) SAL
Sanayeh Head Office
BAC Building, Justinian Street
P.O. Box 11-5727, Riyad El Solh
1107 2200 Beirut, Lebanon
T. +961 1 759 700
F. +961 1 747 866

Iraq**Credit Bank of Iraq**

Street 9, Building 187
Sadoon Street, District 102
P.O.Box 3420, Baghdad, Iraq
T. +964 1 7182198/7191944
+964 1 7188406/7171673
F. +964 1 7170156

Egypt**Al Watany Bank of Egypt**

13 Al Themar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
T. +202 333 888 16/17
F. +202 333 79302