

March 02, 2010

KEY DATA

Closing Price*	Avg. Value Traded per Day
SAR 46.00	SAR 41.44 mln
52-Week High	Market Cap
SAR 48.00	SAR 32,200 mln
52-Week Low	Current Number of Shares
SAR 32.80	700 mln
Reuters	Bloomberg
7020.SE	EEC AB

Ownership Structure

Etisalat: 27.40% GOSI: 11.20% Public**: 61.40%

* Price as of close on March 1, 2010. ** A large portion is held by strategic investors. Sources: Reuters, Zawyia, and NBK Capital

REBASED PERFORMANCE



Sources: MSCI, Reuters, and NBK Capital

KEY RATIOS

	2009 a	2010 f	2011 f	2012 f	2013 f
P/E	10.7	9.2	8.3	8.0	7.9
EPS Growth	8%	16%	12%	4%	1%
EV/ EBITDA	8.2	7.1	6.4	6.2	5.9
EBITDA Margin	37%	38%	40%	40%	41%
EBITDA Growth	27%	16%	10%	4%	4%
Net Profit Growth	44%	16%	12%	4%	1%
Dividend Yield	2.7%	4.9%	6.6%	8.8%	10.2%
ROAE	27%	26%	24%	22%	21%

4Q2009 EBITDA a	1Q2010 EBITDA f
SAR 1,521 mln	SAR 1,060 mln
4Q2009 EBITDA f	2Q2010 EBITDA f
SAR 1,436 mln	SAR 1,283 mln

a = actual, f = forecast. Sources: Reuters, and NBK capital

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HIGHLIGHTS

12-Month Fair Value: SAR 58

Recommendation: Buy –Risk level: 4**

Reason for the report: Full Year 2009 Update

- Mobily's FY2009 results were in line with our forecasts; the company reported total revenue of SAR 13.1 billion in 2009, a 21% increase over FY2008 and 1.5% above our forecast of SAR 12.9 billion. The growth in revenue during 2009 is attributable to the increase in the company's mobile broadband revenue (data contribution to revenue reached 14%), the increase in wholesale revenue, and the acquisition of new postpaid mobile subscribers.
- Mobily realized an EBITDA of SAR 4.8 billion in 2009, 27% above 2008. This translates into an EBITDA margin of 37%, up from 35% in 2008. According to management, this improved margin is a result of the growing contribution from higher-margin data revenue, an increase in postpaid subscribers as well as improved efficiency.
- The aggressive competition between the three Saudi operators pushed our estimated number of total active subscribers from 30.8 million in 2008 to 39.5 million in 2009, a 28% increase. We believe that Mobily managed to hold on to a market share of around 39%. We increased our forecast for the number of total mobile subscribers to grow at a CAGR of 5% between 2009 and 2014. This pushes our estimate for the penetration rate to 158% in 2014.
- During October 2009, Mobily refinanced a SAR 1.5 billion Islamic loan; the short-term loan, utilized to finance the Bayanat al-Oula acquisition, was transferred to a medium-term loan over a period of four years. During the same month, Mobily secured a SAR 900 million loan from Saudi British Bank (SABB) to expand WiMax geographic coverage.
- We increased the 12-month fair value estimate for the share price from SAR 54 to SAR 58. To arrive at this fair value estimate, we used a combination of discounted cash flow (DCF) and peer comparisons based on forward price/earnings-to-growth (PEG) and EV/EBITDA multiples. With a new target price of SAR 58 per share, entailing an upside of 26% versus the current market price of SAR 46, our recommendation on the stock is "Buy."

** Please refer to page 6 for recommendations and risk ratings.

VALUATION

Our new 12-month fair value estimate for the share price of Mobily has increased by 8% to SAR 58. This change was due primarily to the 11% increase in the fair value derived from our DCF valuation as we have revised our forecasts. In our previous update dated August 4, 2009, we were more conservative on subscriber and data services growth. Mobily's strategy is to focus on the acquisition of more postpaid subscribers (known for higher ARPU) and on mobile broadband services (known for high margins). Hence, our new fair value estimate is 26% higher than Mobily's latest price; thus, our new recommendation is "Buy."

Figure 1 Fair Value per Share

Our new 12-month fair value for Mobily is SAR 58

Valuation Method	Old		New		Change
	Weight	Value (SAR)	Weight	Value (SAR)	
Discounted Cash Flow	80%	53	80%	59	11%
Peer Comparison	20%	57	20%	56	-3%
Weighted Average Fair Value	100%	54	100%	58	8%

Source: NBK Capital

Key events in 2H2009

- In June 2009, Mobily awarded Samsung Electronics a SAR 375 million deal to expand the WiMax network of Mobily's subsidiary Bayanat al-Oula as part of the company's efforts to widen its broadband subscriber base. This deal will expand coverage of Mobily's broadband services to 20 cities compared to the four under coverage.
- During October 2009, Mobily agreed with Ericsson to expand the coverage and capacity of the company's mobile network (including the high-speed packet access [HSPA] network) through a SAR 600 million contract.
- During late October 2009, Mobily refinanced a SAR 1.5 billion Islamic loan; the short-term loan, utilized to finance the Bayanat al-Oula acquisition, was transferred to a medium-term loan over a period of four years.
- During the same month, Mobily secured a SAR 900 million loan from Saudi British Bank (SABB) to expand WiMax geographic coverage to 20 cities. Mobily is focusing on its data segment, which is expected to boost the future profit growth of the company.

Full Year 2009 Financial Performance

- Mobily reported total revenue of SAR 13.1 billion in 2009, 21% above 2008. The company is starting to reap the benefits of focusing on data and mobile broadband services. According to management, the contribution of data to total revenue increased from 9% in 2008 to 14% in 2009. Mobile broadband revenue witnessed growth of 159%. As for the wholesale revenue, it grew by 470% in 2009; this is a result of the roaming agreement with Zain and the lease of infrastructure for data services to Etihad Atheeb. As for 4Q2009, total revenue increased by 14% over 4Q2008 and reached SAR 3.5 billion.
- In our last update (on August 4, 2009), we were conservative in our forecasts because we were unsure if the swine flu fears would dampen the peak season (the Hajj and Umrah Pilgrimages) for Saudi telecom operators. According to management, Mobily managed to capture 52% of the pilgrim market during the Hajj season.
- On the EBITDA front, Mobily realized an EBITDA of SAR 4.8 billion in 2009, 27% above 2008. This translates into an EBITDA margin of 37%, up from 35% in 2008. This improved

margin is a result of the growing contribution from higher-margin data revenue, an increase in postpaid subscribers as well as improved efficiency. As for 4Q2009, the EBITDA margin inched up from 40% in 4Q2008 to 43%.

- On the back of Mobily's continued strong operational results and a 53% drop in finance charges, net profit grew by 44% to SAR 3 billion in 2009. As for 4Q2009, Mobily's net profit reached SAR 1 billion, a 35% increase over 4Q2008.
- The company's board of directors has recommended a dividend of SAR 875 million, an increase of 66.7% over the dividend of SAR 525 million in 2008; this represents a dividend payout ratio of 29%.

Figure 2 FY2009 Income Statement

Income Statement (SAR Millions)	Fourth Quarter Results			Full Year Results		
	4Q2008	4Q2009	Change	FY2008	FY2009	Change
Total Revenue	3,110	3,537	14%	10,795	13,058	21%
Cost of Sales	1,306	1,423	9%	4,768	5,512	16%
Gross Profit	1,803	2,115	17%	6,026	7,547	25%
Selling and Mkt exp.	219	268	23%	815	1,093	34%
G&A exp.	341	326	-4%	1,417	1,617	14%
EBITDA	1,243	1,521	22%	3,794	4,837	27%
<i>EBITDA Margin</i>	<i>40%</i>	<i>43%</i>		<i>35%</i>	<i>37%</i>	
Depreciation/Amortization	363	435	20%	1,299	1,629	25%
Operating Income	880	1,085	23%	2,495	3,208	29%
Finance Costs	121	40	-67%	437	204	-53%
Other Income	19	6	-69%	41	41	0%
Net Income before Taxes	779	1,051	35%	2,099	3,045	45%
Zakat	1	(1)		7	31	328%
Net Income	778	1,052	35%	2,092	3,014	44%

Source: Mobily's financial statements

Outlook

As anticipated, the competitive environment in the Saudi Arabian telecom market continues to persist. Mobile and data offers are the "talk of the town": on the mobile front, the aggressive competition between the operators pushed our estimated number of total active subscribers from 30.8 million in 2008 to 39.5 million in 2009, a 28.6% increase. We believe that Zain-Saudi Arabia was able to increase its market share to 15% in 2009 from 6.5% in 2008. The majority of this gain was taken from STC's market share, which dropped from 52% in 2008 to 45% in 2009. Until now, the drop in STC's market share is explainable as we forecast that the dominant operator will be the most affected by the entrance of a third operator. As for Mobily, the company managed to hold on to its market share of around 39% during 2009. To offset the pressure on voice prices, Mobily's strategy was to focus on data services as a new revenue stream and to accommodate the increased customer demand for high-speed mobile data services. The company was able to position itself as the leader in the mobile broadband market by investing heavily in infrastructure. Mobily was the first operator in Saudi Arabia to introduce the iPhone 3G, which attracted high-ARPU customers and boosted data usage. At the end of 2009, Mobily had more than one million mobile broadband Internet subscribers on its HSPA network. We expect competition to increase in this segment among the three operators, especially since STC launched, in September 2009, the first Android™-powered phone in the region and Zain-Saudi Arabia has launched BlackBerry services. Despite having our forecasts in line with Mobily's results, we have revisited our numbers to tweak in the differences we have seen during the second half of 2009. Below are a few of the major changes we have made to our forecasts:

- Saudi Arabia is still witnessing intensified competition among the three mobile operators. We estimate that, at the end of 2009, the total number of active subscribers stood at 39.5 million, 13% above our previous forecast. Hence, we increased our forecast for total active mobile subscribers to grow at a CAGR of 5% instead of 4.3% between 2009 and 2014.
- The growth in revenue during 2009 is attributable to the increase in the company's mobile broadband revenue, the increase in wholesale revenue, and the acquisition of new postpaid mobile subscribers. We went over our forecast, taking into consideration the expected growth in broadband services and mobile subscribers. We increased our forecasted total revenue for 2010 by 6% compared to our previous update dated August 4, 2009. We believe that data will contribute to around 17% of total revenue in 2010 and will grow at a CAGR of 17% between 2009 and 2014.
- To be able to accommodate the increased number of mobile and broadband subscribers and to protect the company's position as a leader in the mobile broadband market, Mobily is still expanding its network. In 2009, CAPEX reached around 26% of total revenue; for 2010, we are expecting CAPEX to be around 21% of total revenue. As for the coming years, we believe that CAPEX will settle at around 11% as the network will be fully developed by then.

FINANCIAL STATEMENTS

Balance Sheet (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash and Short-Term Investments	1,263,995	933,407	1,933,139	3,471,635	3,534,725	5,996,787	8,035,003
Total Receivables, Net	3,098,248	5,481,035	5,699,817	5,894,730	5,937,725	6,021,501	6,095,264
Total Inventory	107,563	132,396	152,489	159,003	163,287	167,494	171,907
Others	2,151,526	2,030,528	2,063,969	2,085,792	2,103,201	2,120,497	2,138,250
Total Current Assets	6,621,332	8,577,366	9,849,414	11,611,160	11,738,938	14,306,278	16,440,424
Property/Plant/Equipment, Total - Net	8,117,399	10,369,515	12,106,788	12,807,096	13,107,350	13,155,965	13,103,116
Goodwill, Net	1,529,886	1,529,886	1,529,886	1,529,886	1,529,886	1,529,886	1,529,886
Intangibles, Net	10,922,932	10,449,714	9,927,425	9,405,136	8,882,848	8,360,559	7,838,270
TOTAL ASSETS	27,191,549	30,926,481	33,413,513	35,353,279	35,259,022	37,352,688	38,911,696
LIABILITIES & EQUITY							
Accounts Payable	4,367,232	6,167,343	6,709,499	6,996,114	7,184,647	7,369,721	7,563,900
Accrued Expenses	2,565,005	2,939,377	3,108,991	3,257,614	3,370,060	3,473,943	3,565,475
Current Port. of LT Debt/Capital Leases	3,148,128	2,147,120	1,694,886	1,694,886	189,461	163,636	330,303
Other Current Liabilities	668,501	934,873	939,547	944,245	948,966	953,711	958,480
Total Current Liabilities	10,748,866	12,188,713	12,452,924	12,892,860	11,693,135	11,961,012	12,418,157
Long-Term Debt	6,642,086	6,448,069	5,707,831	4,885,672	4,099,876	4,655,869	4,907,385
Other Liabilities, Total	46,287	46,517	46,517	46,517	46,517	46,517	46,517
Total Liabilities	17,437,239	18,683,299	18,207,272	17,825,048	15,839,528	16,663,398	17,372,059
Total Equity	9,754,310	12,243,182	15,206,241	17,528,230	19,419,494	20,689,290	21,539,637
TOTAL LIABILITIES AND EQUITY	27,191,549	30,926,481	33,413,513	35,353,279	35,259,022	37,352,688	38,911,696

Income Statement (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Total Revenue	10,794,566	13,058,256	14,804,720	15,512,448	16,047,905	16,542,584	16,978,450
Cost of Revenue	4,768,243	5,511,706	6,099,545	6,360,104	6,531,497	6,699,747	6,876,272
Gross Profit	6,026,323	7,546,550	8,705,176	9,152,344	9,516,408	9,842,838	10,102,178
Selling/General/Admin. Expenses	2,232,257	2,709,799	3,079,382	2,947,365	3,049,102	3,143,091	3,208,927
Depreciation/Amortization	1,298,859	1,628,867	1,819,984	1,993,723	2,147,783	2,293,358	2,442,768
Operating Income	2,495,207	3,207,884	3,805,810	4,211,256	4,319,523	4,406,389	4,450,483
Interest Income (Exp), Net Non-Operating	(437,448)	(204,305)	(228,313)	(219,855)	(184,494)	(209,514)	(220,832)
Other, Net	41,211	41,049	-	-	-	-	-
Net Income before Taxes	2,098,970	3,044,628	3,577,497	3,991,401	4,135,028	4,196,875	4,229,650
Provision for Income Taxes	7,187	30,756	89,437	99,785	103,376	104,922	105,741
Net Income	2,091,783	3,013,872	3,488,059	3,891,616	4,031,652	4,091,953	4,123,909

Cash Flow (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Cash from Operating Activities	3,546,611	4,245,597	5,974,631	6,316,243	6,600,211	6,777,877	6,976,396
Cash from Investing Activities	(5,571,688)	(2,888,954)	(3,034,968)	(2,171,743)	(1,925,749)	(1,819,684)	(1,867,630)
Cash from Financing Activities	2,585,874	(1,687,231)	(1,939,931)	(2,606,004)	(4,611,373)	(2,496,130)	(3,070,550)
Net Change in Cash	560,797	(330,588)	999,732	1,538,496	63,090	2,462,062	2,038,216

Sources: Company's financial statements, and NBK Capital

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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