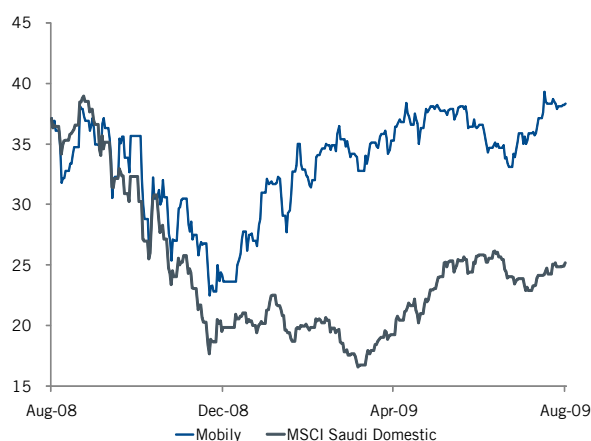


Key Data

Closing Price*	Avg. Value Traded per Day
SAR 38.30	SAR 42.43 mln
52-Week High	Market Cap
SAR 39.30	SAR 26,810 mln
52-Week Low	Current Number of Shares
SAR 22.50	700 mln
Reuters	Bloomberg
7020.SE	EEC AB
Ownership Structure	
Etisalat: 27.40% GOSI: 11.20% Public**: 61.40%	

* Price as of close on August 3, 2009. ** A large portion is held by strategic investors. Sources: Reuters, Zawya, and NBK Capital

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

Key Ratios

	2008 a	2009 f	2010 f	2011 f	2012 f
P/E	12.7	9.7	8.2	7.4	7.2
EPS Growth	45%	-2%	19%	11%	4%
EV/ EBITDA	9.2	7.5	6.6	6.0	5.8
EBITDA Margin	35%	36%	38%	40%	40%
EBITDA Growth	29%	22%	15%	9%	4%
Net Profit Growth	52%	31%	19%	11%	4%
Dividend Yield	2.6%	3.6%	5.5%	7.4%	9.8%
ROAE	27%	25%	25%	23%	22%

2Q2009 EBITDA a	3Q2009 EBITDA f
SAR 1,130 mln	SAR 1,158 mln
2Q2009 EBITDA f	4Q2009 EBITDA f
SAR 935 mln	SAR 1,436 mln

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

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Highlights

12-Month Fair Value: SAR 54

Recommendation: Buy – Risk level: 4**

Reason for the report: First Half 2009 Update

- Following strong growth in the number of mobile broadband customers, an increase in wholesale revenue, and the acquisition of new postpaid mobile subscribers, Etihad Etisalat (Mobyly) reported a 26% increase in total revenue to SAR 3.2 billion for 2Q2009. This was 7% above our forecast of SAR 2.97 billion.
- Mobyly EBITDA grew by 33% YoY to SAR 1.13 billion in 2Q2009, 17% ahead of our forecast. However, the EBITDA margin improved as expected from 33% in 2Q2008 to 35% in 2Q2009, mainly due to increased on-net services. Accordingly, net income increased YoY by 50.5% in 2Q2009 to SAR 675 million.
- Competition between the telecom operators is still increasing; the three operators are competing head to head on the majority of the population's segment. We estimate the mobile penetration rate based on active subscribers to be around 123% at the end of 1H2009; thus, we increased our forecast for 2009 to 128%, and we expect the mobile penetration rate to reach 134% in 2013. On the other hand, competition is expected to pick up in the data segment, especially with the rollout of the new fixed service providers.
- We have made some adjustments to our forecasts to reflect the positive results posted by Mobyly during the first half. However, we were conservative while reviewing Mobyly's revenues as the peak season for Saudi telecom operators, the upcoming Hajj and Umrah Pilgrimages, might be at risk from swine flu. Arab Health Ministers from across the Middle East have agreed that elderly, young, and chronically ill people should not travel to Saudi Arabia as a way to limit the spread of swine flu.
- Thus, we slightly increased total revenue growth from a CAGR of 6.9% to 7.3% between 2008-2013. Hence, we expect EBITDA to grow at a CAGR of 10% over our forecast horizon.
- Our fair value estimate for the share price increased from SAR 50 to SAR 54. 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. Given an upside potential of 40% at the last closing price, our new recommendation is "Buy."

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

VALUATION

We revised Mobily's fair value upwards after Mobily posted strong results for the second quarter in which the company was able to grow its revenue YoY by 26% to SAR 3.2 billion, coupled with an improved EBITDA margin of 35% that pushed EBITDA YoY by 33% to SAR 1.13 billion. We also took into consideration the recent telecom market performance. Accordingly, we reviewed our forecasts over our forecast horizon.

Our new 12-month fair value estimate for Mobily's share price has increased by 7% to SAR 54. This change was due primarily to an 18% increase in the fair value derived from our DCF valuation. In addition, the fair value estimate, based on peer comparisons, was affected by a decrease in the peers' multiples. Our new fair value is 40% higher than Mobily's latest price; hence, our new recommendation is "Buy."

Figure 1 Fair Value per Share

Valuation Method	Old		New		Change
	Weight	Value (SAR)	Weight	Value (SAR)	
Discounted Cash Flow	80%	45	80%	53	18%
Peer Comparison	20%	71	20%	57	-20%
Weighted Average Fair Value	100%	50	100%	54	7%

Our new 12-month fair value for Mobily is SAR 54

Source: NBK Capital

OVERVIEW OF SAUDI ARABIA TELECOM MARKET

The anticipated aggressive competition in the Saudi telecom market doesn't seem to have affected Mobily's performance strongly. During our last visit to Saudi Arabia, we felt the hype that had been associated with the commercial launch of Zain services has calmed down. In fact, the numbers corroborate our view; Mobily's market share has stabilized around the 40% mark (no official source provides market share data or the number of active subscribers), Zain managed to increase its market share to 10% at the end of 1H2009, compared to 8% at the end of 2008, at the expense of the incumbent, and active penetration further increased to 123% at the end of 1H2009, up from 117% at the end of 2008. During this period, telecom operators continued to flood the market with new offers and to decrease tariffs for some products. Mobily started to focus on higher ARPU generating customers and attracted new postpaid mobile subscribers.

On the data front, STC has continued to mainly focus on the DSL market while Mobily continues to push ahead with wireless broadband services. According to management, the number of active mobile broadband subscribers leaped by 126% from 260,000 at the end of December 2008 to 600,000 at the end of June 2009. Competition is expected to pick up in this segment, especially with the rollout of the new fixed service providers. Etihad Atheeb is targeting to begin the rollout of wireless broadband, data solutions, and voice services by the end of 4Q2009. We are also closely monitoring the recent slash of DSL prices by STC, which could jeopardize Mobily's optimism regarding this segment.

KEY EVENTS DURING 1H2009

- In March 2009, Mobily signed a contract with Motorola worth around SAR 435 million for the fifth major turnkey GSM network expansion that Mobily has undertaken with Motorola over the past four years. The turnkey expansion will enable Mobily to expand its network coverage and capacity in the northwest and southwest regions of Saudi Arabia.

- In June 2009, Mobily awarded Samsung Electronics with 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.

FINANCIAL PERFORMANCE DURING 2Q2009 AND 1H2009

- During 2Q2009, Mobily's total revenue increased by 26% YoY, to SAR 3.2 billion; this brings the 1H2009 total revenue up to SAR 6 billion, an increase of 24% compared to 1H2008. As per Mobily's management, the company witnessed a surge in mobile broadband revenue by 180% during 1H2009; this was on the back of an increase of around 126% in active mobile broadband. The increase in total revenue is also due to the increase in wholesale revenue (Mobily has an exclusive agreement with Zain on national roaming) and to the acquisition of new postpaid mobile subscribers.
- During 2Q2009, EBITDA surged by 33% YoY to reach SAR 1.13 billion mainly due to a) Mobily's efforts to attract higher ARPU generating subscribers and b) the increase in higher margin on-net calls due to the increasing number of Mobily's subscribers and wireless broadband users. During 1H2009, EBITDA increased by 29% compared to 1H2008, and the EBITDA margin improved from 32.5% in 1H2008 to 34% in 1H2009.
- Finance costs dropped by 42.5% during 2Q2009 and reached around SAR 49 million, due to lower LIBOR and SIBOR rates.
- On the back of strong operating results and a 42% drop in finance charges, net profit grew in 2Q2009 by 50.5% YoY. As for 1H2009, Mobily's net profit reached SAR 1.2 billion, a 49% increase compared to 1H2008.

Figure 2 2Q2009 and 1H2009 Income Statement

Income Statement (SAR Millions)	Second Quarter Results			First Half Results		
	2Q2008	2Q2009	Change	1H2008	1H2009	Change
Total Revenue	2,544	3,199	26%	4,851	6,010	24%
Cost of Sales	1,123	1,366	22%	2,201	2,560	16%
Gross Profit	1,420	1,833	29%	2,650	3,450	30%
Selling and Mkt exp.	197	248	26%	377	594	58%
G&A exp.	373	455	22%	697	817	17%
EBITDA	850	1,130	33%	1,576	2,038	29%
EBITDA Margin	33%	35%		32%	34%	
Depreciation/Amortization	320	403	26%	612	777	27%
Operating Income	530	728	37%	964	1,261	31%
Finance Costs	85	49	-42%	205	124	-39%
Other Income	5	11	112%	19	34	78%
Net Income before Taxes	451	690	53%	779	1,171	50%
Zakat	2	15	503%	5	16	247%
Net Income	448	675	51%	774	1,155	49%

EBITDA increased by 33%
in 2Q2009

Source: Mobily's financial statement

OUTLOOK

Below is a summary of the most important changes we have made to our forecasts:

- The competition among mobile operators is pushing the penetration rates higher. With the entry of Zain, the penetration rates based on active subscribers crossed the 100% level and reached 123% in 1H2009. Hence, we revised our forecast for total mobile subscribers to

grow at a CAGR of 6% between 2008-2013, thus pushing our estimate for penetration rate based on active subscribers to 134% in 2013. We realize we are pushing the penetration rates to levels that are higher than the ones achieved in peer countries; however, this is mainly due to the absence of accurate official data on active subscribers.

- In 1H2009, Mobily did not disclose the breakdown of total revenues. However, management attributed the growth in revenue to the 180% increase in the company's mobile broadband revenue during 1H2009, increase in wholesale revenue, and the acquisition of new postpaid mobile subscribers. We revised our forecast, taking into consideration the strong growth in broadband revenue. We increased our forecasted total revenue for 2009 by 4% compared to our previous update dated February 08, 2009. We believe that total revenue in 2009 will grow by 19% compared to the same period last year and that broadband revenue will contribute to around 13% of total revenue in 2009 and will grow at a CAGR of 25% between 2008-2013.

Figure 3 Mobile Market in Saudi Arabia

(000's)	2008a	2009f	2010f	2011f	2012f	2013f
Penetration Rate*	117%	128%	129%	131%	133%	134%
Peers' Penetration Rate	112%	117%	120%	123%	125%	126%
Market Share:						
<i>Mobily</i>	40%	40%	40%	39%	39%	38%
<i>Others</i>	60%	60%	61%	61%	62%	62%
Mobily's ARPU (USD)						
<i>Total Blended**</i>	16.3	15.9	15.8	15.6	15.5	15.3

* Based on the estimated number of active subscribers. ** Total Blended ARPU. Sources: Informa database, IMF, and NBK Capital

- We were conservative while reviewing Mobily's revenues as the peak season for Saudi telecom operators, the upcoming Hajj and Umrah Pilgrimages, might be at risk from swine flu. Arab Health Ministers from across the Middle East have agreed that elderly, young, and chronically ill people should not travel to Saudi Arabia as a way to limit the spread of swine flu.
- We kept our forecast EBITDA margin for 2009 unchanged at 36%, although the first half of 2009 EBITDA margin was lower, as we believe Mobily will benefit in 2H2009 from higher-margin business from increased inbound roaming and increased on-net voice and data.

Figure 4 New Forecasts versus Old Forecasts for FY 2009

Income Statement (SAR Millions)	2009 Forecast		
	Old	New	Change
Total Revenue	12,374	12,869	4%
Cost of Revenue	5,321	5,534	4%
Gross Profit	7,053	7,335	4%
Selling/General/Admin. Expenses	2,599	2,702	4%
EBITDA	4,455	4,633	4%
Depreciation/Amortization	1,436	1,507	5%
Operating Income	3,019	3,126	4%
Interest Income (Exp), Net Non-Operating	-305	-324	6%
Net Income before Taxes	2,714	2,802	3%
Provision for Income Taxes	68	70	3%
Net Income	2,646	2,732	3%

Source: NBK Capital

FINANCIAL STATEMENTS

Balance Sheet (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013
ASSETS							
Cash and Short-Term Investments	703,198	1,263,995	1,690,294	2,571,485	2,801,062	3,455,014	4,827,759
Total Receivables, Net	1,459,656	3,098,248	3,217,191	3,490,194	3,615,697	3,726,634	3,839,474
Total Inventory	69,190	107,563	110,671	120,063	118,595	121,339	124,399
Others	881,433	2,151,526	2,188,933	2,217,553	2,224,505	2,239,930	2,256,036
Total Current Assets	3,113,477	6,621,332	7,207,089	8,399,295	8,759,858	9,542,917	11,047,668
Property/Plant/Equipment, Total - Net	5,478,552	8,117,399	9,627,654	10,953,273	11,362,645	11,545,023	11,641,902
Goodwill, Net	-	1,529,886	1,529,886	1,529,886	1,529,886	1,529,886	1,529,886
Intangibles, Net	11,286,694	10,922,932	10,402,663	9,882,393	9,362,124	8,841,854	8,321,585
Long-Term Investments	1,836	-	-	-	-	-	-
TOTAL ASSETS	19,880,559	27,191,549	28,767,291	30,764,847	31,014,513	31,459,681	32,541,040
LIABILITIES & EQUITY							
Accounts Payable	3,142,017	4,365,130	4,426,855	4,802,506	4,743,794	4,853,568	4,975,958
Short-Term Debt	-	1,861,878	1,500,000	1,500,000	-	-	-
Accrued Expenses	1,211,642	2,567,107	2,573,753	2,792,155	2,892,557	2,981,307	3,071,579
Current Port. of LT Debt/Capital Leases	1,010,625	1,286,250	1,531,250	1,531,250	1,531,250	762,086	400,000
Other Current Liabilities	665,043	668,501	671,844	675,203	678,579	681,972	685,381
Total Current Liabilities	6,029,327	10,748,866	10,703,701	11,301,114	9,846,180	9,278,933	9,132,918
Long-Term Debt	7,912,356	6,642,086	6,055,836	5,174,586	4,743,336	4,012,086	4,050,000
Other Liabilities, Total	26,349	46,287	46,287	46,287	46,287	46,287	46,287
Total Liabilities	13,968,032	17,437,239	16,805,824	16,521,987	14,635,803	13,337,306	13,229,205
Total Equity	5,912,527	9,754,310	11,961,468	14,242,860	16,378,710	18,122,375	19,311,835
TOTAL LIABILITIES AND EQUITY	19,880,559	27,191,549	28,767,291	30,764,847	31,014,513	31,459,681	32,541,040

Income Statement (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013
Total Revenue	8,440,432	10,794,539	12,868,763	13,960,775	14,462,787	14,906,535	15,357,895
Cost of Revenue	3,778,838	4,773,485	5,533,568	6,003,133	5,929,743	6,066,960	6,219,947
Gross Profit	4,661,594	6,021,054	7,335,195	7,957,641	8,533,044	8,839,575	9,137,947
Selling/General/Admin. Expenses	1,714,327	2,226,875	2,702,440	2,652,547	2,747,929	2,832,242	2,918,000
Depreciation/Amortization	1,030,919	1,298,264	1,506,554	1,707,590	1,846,432	1,977,610	2,112,759
Operating Income	1,916,348	2,495,915	3,126,200	3,597,505	3,938,682	4,029,724	4,107,188
Interest Income (Exp), Net Non-Operating	(555,849)	(438,183)	(323,987)	(276,840)	(253,768)	(214,647)	(216,675)
Other, Net	43,251	41,238	-	-	-	-	-
Net Income before Taxes	1,403,750	2,098,970	2,802,213	3,320,664	3,684,914	3,815,077	3,890,513
Provision for Income Taxes	24,202	7,187	70,055	83,017	92,123	95,377	97,263
Net Income	1,379,548	2,091,783	2,732,158	3,237,648	3,592,791	3,719,700	3,793,250

Cash Flow (SAR Thousands)		Historical		Forecast			
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013
Cash from Operating Activities	2,320,220	3,546,016	4,466,647	5,501,378	5,600,564	5,979,263	6,201,195
Cash from Investing Activities	(2,045,195)	(5,571,093)	(2,496,540)	(2,512,939)	(1,735,534)	(1,639,719)	(1,689,368)
Cash from Financing Activities	(119,350)	2,585,874	(1,543,808)	(2,107,247)	(3,635,453)	(3,685,592)	(3,139,081)
Net Change in Cash	155,675	560,797	426,299	881,191	229,577	653,952	1,372,745

Sources: Company's financial statements and NBK Capital

RISK AND RECOMMENDATION GUIDE

Recommendation	Upside (Downside) Potential
Buy	more than 20%
Accumulate	between 10% and 20%
Hold	between -5% and 10%
Reduce	between -10% and -5%
Sell	less than -10%

RISK LEVEL				
Low Risk			High Risk	
1	2	3	4	5

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