

MOBILY

الأهلي كابيتال
NCB Capital



EVENT FLASH

Fourth consecutive quarterly net losses

Mobily reported a net loss of SR189.7mn in 2Q17, the 4th consecutive quarterly loss on record. This compares to the NCBC estimate of a net loss of SR150mn. We believe lower than expected gross margin and higher zakat expenses were the key reasons behind the deviation.

- Mobily reported a net loss of SR190mn in 2Q17, the 4th consecutive quarterly loss. This compares to the NCBC and consensus estimate of a net loss of SR150mn and SR164mn, respectively. This is the highest quarterly net loss since 2Q15 and compares to a net profit of SR3.2mn in 2Q16 and a net loss of SR163mn in 1Q17. We believe lower than expected gross margin and higher zakat were the key reasons behind the deviation.
- Revenues declined -13.2% YoY but remained flat QoQ at SR2.85bn. We believe the YoY decline in revenue is due to 1) the finger print initiative, 2) increasing competition and 3) lower interconnection rates. Based on CITC, mobile subscribers stood at 44.5mn in 1Q17, representing a penetration rate of 140%. This is lower than 151% in 2016 and 168% in 2015.
- Gross profit was SR1.6bn in 2Q17, 4.1% lower than our estimate. This is due to higher roaming and interconnection charges. Gross margin was 57.2%, lower than our estimate of 59.5% and 58.1% in 1Q17. EBITDA declined 21.5% YoY and 3.4% QoQ to SR900mn in 2Q17. It was lower than our estimates of SR950mn mainly due to lower gross margin. This reflects an EBITDA margin of 31.5% in 2Q17, lower than our estimate of 33.2% and compared to 32.5% in 1Q17 and 34.8% in 2Q16.
- Mobily reported an operating loss of SR5.5mn in 2Q17, against a profit of SR35.3mn in 1Q17 and a profit of SR158.4mn in 2Q16. Based on our calculations, SG&A expenses came in at SR744mn in 2Q17, slightly lower than our estimate of SR764mn, while depreciation charges stood at SR905mn in 2Q17, in-line with our estimates.
- The deviation increased at the net level due to higher than expected zakat expenses which stood at SR24mn in 2Q17, higher than 1Q17 of SR7mn. However, financial charges were SR163mn in 2Q17, lower than SR195mn in 1Q17. This is mainly due to a one-off refinancing charge of SR42mn in 1Q17.
- We remain Neutral on Mobily with a PT of 22.8. Weak sales, increasing competition and ongoing losses remain the key concerns. Mobily's ability to control its declining sales will be the key catalyst going forward.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var [^]	% QoQ
Revenues	2,854	3,289	(13.2)	2,861	(0.3)	(0.4)
Gross income	1,633	2,088	(21.8)	1,702	(4.1)	(1.9)
Gross margin (%)	57.2%	63.5%	(6.27)	59.5%	(2.3)	(0.9)
EBITDA	900	1,146	(21.5)	950	(5.3)	(3.4)
EBITDA margin (%)	31.5%	34.8%	(3.34)	33.2%	(1.7)	(1.0)
Net income	(190)	3.2	NM	(150)	NM	NM
EPS (SR)	(0.25)	0.00	NM	(0.20)	NM	NM

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR)	22.8
Current price (SR)	20.2
Upside/(Downside)	12.9%

STOCK DETAILS

M52-week range H/L (SR)	29/16
Market cap (\$mn)	4,151
Shares outstanding (mn)	770
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.4)	(0.1)	(29.5)
Rel. to market	0.8	(4.3)	(40.8)

Avg daily turnover (mn)	SR	US\$
3M	12.6	3.4
12M	20.8	5.6

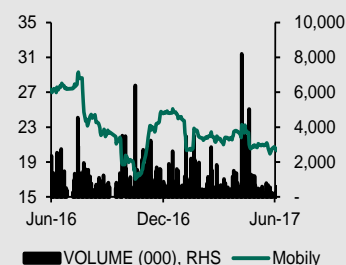
Reuters code	7020.SE
Bloomberg code	EEC AB
	www.mobily.com.sa

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	NM	NM
P/B (x)	1.0	1.1	1.1
EV/EBITDA (x)	5.1	6.9	6.1
Div. Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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