

Rating **Neutral**
12- Month Target Price **SAR 26.00**

MOBILY
1Q2017 First Look

Expected Total Return

Price as on April-23, 2017	SAR 22.43
Upside to Target Price	15.9%
Expected Dividend Yield	0.0%
Expected Total Return	15.9%

Market Data

52 Week H/L	30.40/16.40
Market Capitalization	SAR 17,271 mln
Shares Outstanding	770 mln
Free Float	55.43%
12-Month ADTV	1,174,121
Bloomberg code	EEC AB

1-Year Price Performance



Source: Bloomberg



1Q2017E (SAR mln)	Actual	RC Forecast
Revenue	2,865	2,879
Gross Profit	1,665	1,641
Net Income	(163)	(48)
EPS (SAR)	(0.21)	(0.06)

Unclear Top-line Strategy

Mobily reported a net loss of SAR (163) million in 1Q compared to a profit of SAR 20 million last year and SAR (70) million loss in 4Q16. Results came-in worse than our expectations of SAR (48) million as well as the street's SAR (64) million forecast. Loss for the current quarter is affected by one-off expense amounting to SAR 42 million related to debt refinancing transaction of SAR 7.9 billion. It is important to note that Mobily's 4Q16 was also impacted by a one-off discount on expenses, which led to an improvement in operating income. A major concern with regards to Mobily's financial performance is the inability to increase revenues as growth has remained negative Q/Q since 1Q15. We intend to revise our forward estimates after full financials are available, until then we maintain our Neutral stance with a target price of SAR 26.00.

Revenue growth remains negative

Mobily posted revenues of SAR 2.9 billion (flat Q/Q, -17% Y/Y) matching our estimates. The Company announcement attributes the decline in revenues to seasonality while we attribute it to a loss in market share and the failure to capitalize on the high margin revenue segment. According to our analysis, we estimate Zain's average package prices to be marginally lower than Mobily's. We expect ARPU for the quarter at SAR 56 compared to Zain at SAR 63. Improvement in revenue and margins for data segment is critical for gross profit.

Margins remain flat Q/Q

Gross profit of SAR 1.7 billion was flat Q/Q but down -14% Y/Y. Gross margins of 58% are in line with our 57% estimate but this was not enough to prevent operating profit from declining Q/Q. Cost of service remain in control at 42% of revenues. Total operating expenses are higher than last quarter and our expectations by +3% and +5% respectively on the back of increase in depreciation and amortization expenses. EBITDA of SAR 932 million is down -16% Y/Y and -2% Q/Q. This illustrates that management's focus remains inward rather than focusing on competition. Operating margin of 1% compares unfavorably to 4% last year and 3% last quarter. Operating profit is down to SAR 35 million versus SAR 139 million last year and SAR 87 million in 4Q16.

Net loss worsens

Weak top line, flat gross profit with rising operating expenses combined with a one-off finance charge and higher cost of debt have all combined to deflate bottom line. We attribute deviation between our net loss estimates and actual to 5% higher operating expenses and unexpected one-off finance charges amounting to SAR 80 million. Mobily recorded a net loss of SAR (163) million versus a profit of SAR 17 million last year and a loss SAR (71) million last quarter. Our Neutral recommendation stands with a target price of SAR 26.00. We intend to revise our forward estimates once we review full financials and obtain management clarification on its strategy, which may affect our recommendation as well.

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Revenue	14,425	12,569	12,444
EBITDA	2,941	4,009	4,085
Net Profit	(1,093)	(203)	(25)
EPS	(1.42)	(0.26)	(0.03)
DPS	-	-	-

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
BVPS	20.2	19.9	19.9
ROAE	NA	NA	NA
ROAA	NA	NA	NA
EV/EBITDA	10.5x	7.9x	6.5x
P/B	1.1x	1.1x	1.1x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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