

Rating **Neutral**
12- Month Target Price **SAR 18.00**

MOBILY
2Q2018 First Look

Expected Total Return

Price as on July-24, 2018	SAR 20.06
Upside to Target Price	(10.3%)
Expected Dividend Yield	-
Expected Total Return	(10.3%)

Market Data

52 Week H/L (SAR)	21.58/12.94
Market Capitalization	SAR 15,446 mln
Shares Outstanding	770 mln
Free Float	55%
12-Month ADTV	2,585,891
Bloomberg code	EEC AB

1-Year Price Performance



Source: Bloomberg



2Q2018 (SAR mln)	Actual	RC Forecast
Revenue	2,895	2,860
Gross Profit	1,775	1,688
Net Income	(79)	(90)
EPS (SAR)	(0.10)	(0.12)

Reduction in Losses

For the second quarter in a row, Mobily was able to reduce its losses. Net loss for 2Q2018 was SAR (79) million, which was better than our forecast and market expectations of SAR (90) million and SAR (114) million respectively. LPS improved by 59% Y/Y and 16% Q/Q due to improved revenues and reduced sales costs. We attribute this improvement to the stability of the subscriber base. Revenue grew by +2.2% Q/Q and +1.4% Y/Y despite the economic impact of the sector. Gross profit reached SAR 1.8 billion, up +7% on a quarterly basis and by +9% Y/Y. EBITDA margin widened to 37% compared to 31% last year. We maintain our Neutral stance with a target price of SAR 18.00.

Expanding gross margins

Mobily posted an annual revenue growth of +1.4% in 2Q for the first time in five years to reach SAR 2.9 billion on the back of stability and improvement in subscriber base quality. Growth in FTTH sales, business unit sales and increased data consumption has also positively impacted top line. Despite the market challenges and regulatory changes that the company faced particularly with regards to interconnection rates, the Company has grown revenues. On a quarterly basis, revenues went up by +2.2% while sales costs fell by -4% Q/Q leading to expanding gross margins. Gross margin increased to 61% as compared to 59% for the previous quarter while gross profit increased by +7% Q/Q and +9% Y/Y to SAR 1,775 million.

Operating profit grows +26% Q/Q

Operating profit reached SAR 127 million, an increase of +26% over the previous quarter of SAR 101 million. For the fourth quarter in a row, the Company continued to increase its EBITDA to SAR 1.1 billion, an increase of +4% Q/Q and +19% Y/Y. EBITDA margin also improved to 37% compared to 36% for the previous quarter and 31% for last year. This improvement stems from an increase in depreciation and amortization, due to continued capex (SAR 544 million in 2Q2018) as network modernization projects move forward.

Net loss narrows

Although Mobily has posted losses for many quarters now, it has managed to reduce losses for the second consecutive quarter of 2018 to SAR (79) million from the previous quarter's SAR (93) million, mainly due to improvement in gross profit driven by revenue growth and lower sales costs. Decline in losses has occurred despite higher financing expenses of SAR 192 million compared to SAR 188 million for the previous quarter due to a rise in SAIBOR. The Company continues to execute its RISE strategy, which appears to be paying off in terms of improvement in financials. We maintain our Neutral stance with a target price of SAR 18.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	11,351	11,365	12,384
EBITDA	3,612	4,310	4,710
Net Profit	(709)	(444)	(112)
EPS(SAR)	(0.92)	(0.63)	(0.16)
DPS	-	-	-

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
BVPS	18.5	17.9	17.8
ROAE	(5.0%)	(3.2%)	(0.8%)
ROAA	(9.5%)	(7.5%)	(1.4%)
EV/EBITDA	7.4x	5.8x	4.9x
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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