

Rating **Under-Review**  
 12- Month Target Price -

**MOBILY**  
 3Q2017 First Look

## Withdrawing Target Price; Under-Review

Mobily reported a net loss of SAR (175) million in 3Q better than our estimate of SAR (190) million, its fifth straight quarter of losses. The result compares unfavorably to a loss of SAR (167) million last year but favorably to a loss of SAR (190) million in 2Q. Revenue is the major concern as it declined by -2% Q/Q and -4% Y/Y as regulatory changes have likely led to a loss in market share. Strategy to resume revenue growth or even revenue preservation is unclear to us at this point. During the quarter the Company managed to reduce cost of service leading to an increase in gross margins by 100bps Y/Y. Operational efficiency started to pay off as EBITDA margin witnessed significant increase from 28% last year to 32% this quarter. We are re-evaluating our assumptions for Mobily including its business prospects and company strategy, temporarily placing the stock Under-Review and withdrawing our target price.

### Gross margins up 100bps Y/Y

Mobily posted revenues of SAR 2.8 billion (-2% Q/Q, -4% Y/Y) inline with our estimates. Company announcement attributes the decline in revenues to erosion in customer base as well as pricing pressures. Cost of service decreased by -5% Y/Y and -7% Q/Q making up 40% of revenue versus 41% last year and 43% last quarter. The fresh round of MTR reduction from SAR 0.10 to SAR 0.055 announced by CITC is expected to negatively affect revenues and increase cost of service from 1Q2017. Gross profit declined by -4% Y/Y but increased +2% Q/Q as gross margins widened by 100 bps Y/Y and 300bps Q/Q.

### Cost optimization under way

S&M expenses witnessed significant savings on the back of the cost optimization drive where contracts were re-negotiated and costs reduced. Higher gross margins and conservative spending on expenses side led EBITDA to SAR 903 million, a growth of +11% Y/Y and +1% Q/Q. EBITDA margins of 32% seem sustainable for the current year but are at risk once MTR rate reduction is activated. An operational loss of SAR (4) million is flat Q/Q, exemplifies the importance of revenue growth as the ability to increase data revenue in the revenue mix appears challenging.

### Net loss improvement appears unsustainable

Weak top line, marginally higher margins with increased finance charges have combined to deliver a net loss of SAR (175) million versus a loss of SAR (167) million last year and a loss SAR (190) million last quarter. Bottom line improvement Q/Q is likely to be unsustainable. Most financial heads were in-line with our estimates, except S&M expenses, which we expected to be higher due to the Hajj season. We find the risk of disengagement between company strategy and market expectations increasing. We are re-evaluating our assumptions for Mobily including its business prospects and company strategy, temporarily placing the stock Under-Review and withdrawing our target price.

#### Expected Total Return

Price as on Oct-30, 2017	SAR 13.22
Upside to Target Price	-
Expected Dividend Yield	-
Expected Total Return	-

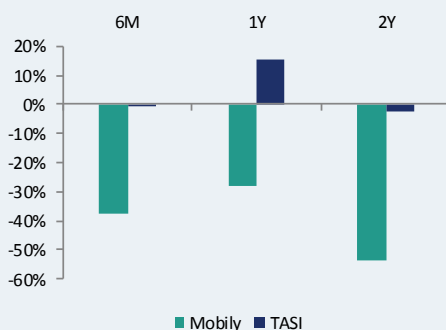
#### Market Data

52 Week H/L (SAR)	25.50/12.94
Market Capitalization	SAR 10,179 mln
Shares Outstanding	770 mln
Free Float	55.01%
12-Month ADTV	918,135
Bloomberg code	EEC AB

#### 1-Year Price Performance



Source: Bloomberg



3Q2017 (SAR mln)	Actual	RC Forecast
Revenue	2,806	2,797
Gross Profit	1,672	1,608
Net Income	(175)	(190)
EPS (SAR)	(0.23)	(0.25)

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	12,569	-	-
EBITDA	4,009	-	-
Net Profit	(203)	-	-
EPS(SAR)	(0.26)	-	-
DPS	-	-	-

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS	20.2	-	-
ROAE	-	-	-
ROAA	-	-	-
EV/EBITDA	7.2x	-	-
P/B	1.0x	-	-

## 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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