

Mobily continued to post a positive set of results, beating our estimates by 32% for Q2-18. Revenue and EBITDA expectation remained in-line, deviation from our estimates came mainly from non-core other income which was 4 times higher than expected. We upgrade our price target of SAR 13.6 while maintaining our **"Underweight"** recommendation.

- Mobily in Q2-18 posted losses of SAR 78.6mn against SAR 189.6mn in Q2-17, depicting a jump of 58.5%Y/Y. Result was 32.3% better than our expectation of a loss of 116.1mn.
- Revenues at SAR 2.89bn (1.4% Y/Y and 2.2% Q/Q), were 1.9% above our expectation of SAR 2.84bn, whereas gross profits at SAR 1.77bn were 5.9% above our expectation, improving gross margins to 61%. The company attributed the higher margins to better customer mix (a greater number of postpaid customers) and lower MTR (Mobile Termination Rate).
- Operating profits at SAR 127mn were 36.1% above our expectation, however major deviation in operating profits came from other income which stood at SAR 42mn a jump of 500%Y/Y consequently higher than our expectation of SAR 10mn. Adjusting for other income, operating profits showed a deviation of 1.5% from our estimates. The company does not disclose the nature of other income.
- Total comprehensive loss for the company stood at SAR 103.77mn in Q1-18, against a loss of SAR190.01mn in Q2-17, drop of 45.4%Y/Y. The jump in net losses to total comprehensive losses is primarily due to the extraordinary booking of actuarial losses on re-measurement of employees end of service benefits of SAR 23.17mn in Q2-18 as compared to SAR 570k in Q2-17.

Valuation: Although Mobily did show an improvement in its overall performance as it shrunk its losses to SAR 78.6mn in Q2-18, however recovery in the last two quarters have come from non-core areas like provision reversal in Q1-18 and higher than expected other income in Q2-18. Revenue growth has remained muted in the last couple of quarters on the back of Lower MTR and stagnant subscriber growth. The company was able to improve its margins which it attributed to a higher number of postpaid customers. The trend is in-line with the sector trend where in Q1-18 the postpaid customers accounted for 27% of the total subscribers. We revise our estimates to a loss of SAR 362mn, upgrading our TP to SAR 13.6/share while maintaining our **"Underweight"** recommendation.

Results Summary

SARmn (unless specified)	Q2-2017	Q1-2018	Q2-2018	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	2,854	2,833	2,895	1.43%	2.20%	1.94%
Gross Profit	1,633	1,663	1,775	8.67%	6.74%	5.94%
Gross Margin	57%	58.7%	55%	-	-	-
EBIT	(5)	101	127	NM*	26.07%	36.15%
Net Profit	(190)	(93)	(79)	58.5%	-15.82%	32.27%
EPS	(0.2)	(0.1)	(0.1)	-	-	-

Source: Company reports, Aljazira Capital, *Not Meaningful

Underweight

Target Price (SAR) 13.6

Upside / (Downside)* -26.2%

Source: Tadawul *prices as of 25th of July 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	12,569	11,351	11,265
Growth%	0%	0%	0%
NetIncome	(213.64)	(708.94)	(362.05)
Growth%	NM*	232%	-49%
EPS	(0.28)	(0.92)	(0.47)

Source: Company reports, Aljazira Capital, *Not Meaningful

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
GrossMargin	59.1%	57.5%	60.6%
NetMargin	-1.7%	-6.2%	-3.2%
P/E	NM*	NM*	NM*
P/B	1.27	0.80	1.02
EV/EBITDA	1.16	(0.63)	0.29
ROE	-1.4%	-5.0%	-2.6%
ROA	-0.5%	-1.8%	-0.9%
DividendYield	-	-	-

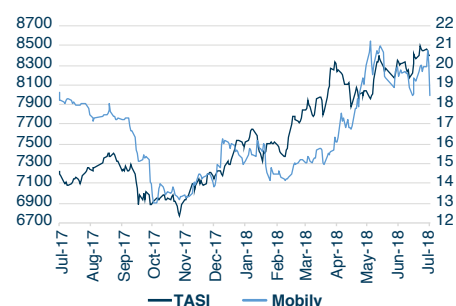
Source: Company reports, Aljazira Capital, * Not Meaningful

Key Market Data

Market Cap(mn)	3683.1
YTD%	14.9%
Shares Outstanding(mn)	583.73
52 Week High/Low	21.58/12.94

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Sultan Al Kadi, CAIA
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers
Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068