

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

MOBILY
4Q2018 First Look

Expected Total Return

Price as on Feb-24, 2019	SAR 18.14
Upside to Target Price	(0.8%)
Expected Dividend Yield	-
Expected Total Return	(0.8%)

Market Data

52 Week H/L	SAR 21.58/14.08
Market Capitalization	SAR 13,968 mln
Shares Outstanding	770 mln
Free Float	55%
12-Month ADTV	2,758,125
Bloomberg code	EEC AB

1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Revenue	3,162	2,797
Gross Profit	1,386	1,471
Net Income	80	(97)
EPS (SAR)	0.10	(0.13)

First Net Profit in 9 Quarters

Mobyly positively surprised investors with a SAR 80 million net profit for 4Q2018, which ran counter to market and our expectations of a loss of SAR (107) million and SAR (97) million respectively. The Company managed to grow its revenues to SAR 3.2 billion, up +12% Y/Y and +6% Q/Q, as subscriber base increased combined with inroads into the government sector. Gross profit came in at SAR 1.4 billion, down -11% on a yearly basis. Although EBITDA margin widened to 42% compared to 32% last year, gross margins contracted to 44% as the Company did not account for the provision reversal at the cost of sales level (similar to some of its peers). The estimated reversal is likely to have been between SAR 500-600 million. We maintain our Neutral stance with a target price of SAR 18.00.

Revenues grew by +12% Y/Y

Mobyly continued to improve its revenues for the fifth consecutive quarter, topline for the quarter has reached SAR 3.2 billion, up +12% Y/Y and +6% Q/Q and significantly above our SAR 2.8 billion estimate. This growth is mainly attributed to an increase in the subscriber base as well as the rise in revenues from data, business unit and FTTH segments. Inroads in the government sector has helped. Despite the market, regulatory and economic challenges that the sector as a whole faced, particularly with reduction in the number of expatriates and VAT imposition from this year, Mobily has done well to grow revenues. Gross margin was recorded at 44%, lower than 59% in the previous quarter and 55% last year. Gross profit came in at SAR 1.4 billion, decreasing by -11% Y/Y and -21% Q/Q.

EBITDA increases +47% Y/Y

Operating profit for 4Q was SAR 267 million, against SAR 108 million in 3Q18 and SAR (7) million last year. This improvement is mainly due to better EBITDA, which amounted to SAR 1.3 billion, up by +47% compared to last year. EBITDA margin reached 42% for 4Q2018 versus 32% last year, largely due to the reversal in royalty fees. Mobily has reported better operating performance driven by increased efficiency. As expected, financing charges have continue to increase in 4Q2018 reaching SAR 214 million, on the back of rising SAIBOR and stopping capitalization of some financial expenses.

Net profit surprises

Mobyly finally recorded a positive bottomline for the first time since 2Q2016 and beat market expectations of a SAR (107) million loss as well as our forecast of a net loss of SAR (97) million driven mainly by growth in revenue and aided by reversal in regulatory fees. Reversing Zakat provisions has also helped, to the tune of SAR 25-30 million. Capex for the year 2018 amounted to SAR 2.8 billion compared to SAR 2.3 billion for the previous year as the Company continued its network development projects. Cash flow generation has been strong for 2018 with operating cash flows reaching SAR 1.7 billion and free cash flows of SAR 2.1 billion. We maintain our Neutral stance on the stock with a target price of SAR 18.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018A	2019E
Revenue	11,351	11,865	12,861
EBITDA	3,646	4,531	4,397
Net Profit	(709)	(123)	(657)
EPS (SAR)	(0.92)	(0.16)	(0.94)
DPS (SAR)	-	-	-

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
BVPS (SAR)	18.51	18.36	17.51
ROAE	(5.0%)	(0.9%)	(4.9%)
ROAA	(9.5%)	(1.7%)	(8.2%)
EV/EBITDA	7.0x	5.1x	5.0x
P/B	1.0x	1.0x	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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