

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

MOBILY

4Q2017 First Look

Expected Total Return

Price as on Feb-19, 2018	SAR 14.77
Upside to Target Price	21.9%
Expected Dividend Yield	-
Expected Total Return	21.9%

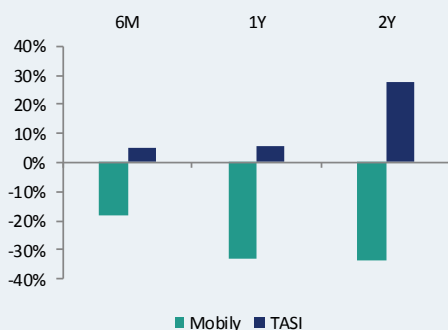
Market Data

52 Week H/L (SAR)	23.60/12.94
Market Capitalization	SAR 11,211 mln
Shares Outstanding	770 mln
Free Float	55.01%
12-Month ADTV	1,521,948
Bloomberg code	EEC AB

1-Year Price Performance



Source: Bloomberg



4Q2017 (SAR mln)	Actual	RC Forecast
Revenue	2,826	2,750
Gross Profit	1,560	1,595
Net Income	(182)	(161)
EPS (SAR)	(0.24)	(0.21)

Losses Mount

Mobily booked net loss in 4Q amounting to SAR (182) million, deviating from our estimate of SAR (161) million and market consensus of SAR (167) million. Net losses have risen by +159% Y/Y and +4% Q/Q. Revenues have declined by -2.8% Y/Y but increased slightly by +0.7% Q/Q to reach SAR 2.8 billion. We believe that the whole sector is facing pressure due to VoIP and economic slowdown which has resulted in market contraction. Cost of sales has increased by +12% Q/Q resulting in gross margins falling by 500 bps, mainly attributed to increase in selling costs. Mobily booked an operating loss of SAR (7) million, lower Y/Y but +84% higher Q/Q. The Company has maintained a flat EBITDA margin of 32% for three consecutive quarters as they have managed to ration its G&A and S&M expenses. From this we can conclude that the company operating margin is eaten mostly by depreciation expenses. Mobily is facing pressure as competition with peers is fierce, margins are lower and the market is contracting with declining subscriber base. We hope that the new deal of spectrum auction will improve the company's topline in addition to helping raise selling prices. We maintain our Neutral stance with a target price of SAR 18.00 and wait for the audited financial statements to firm up our forecasts going forward.

Gross margins fell by 500 bps Q/Q

Mobily has recorded a slight growth in revenues for the first time since 4Q2015 by +0.7% on a quarterly basis to reach SAR 2.8 billion, yet the company booked a cost of sales of SAR 1.3 billion, increasing by +12% Q/Q. This has resulted in a reduction in gross margins by 500 bps to reach 55% with a gross profit of SAR 1.6 billion, down -7% both on a Y/Y and Q/Q basis, primarily due to increase in selling costs.

Depreciation burden

The company booked an operating loss for the period amounting to SAR (7) million, declining from an operating profit of SAR 108 million last year. Operating losses were also higher by +84% Q/Q. The company registered an EBITDA margin of 32% which has remained flat for three consecutive quarters. This shows that most of the operating profit is eaten by depreciation expenses, which illustrates Mobily's effort to control their costs.

Net loss continues

The company added to its 2017 losses in the fourth quarter by booking a loss of SAR (182) million, increasing by +159% Y/Y and by +4% Q/Q. The loss is mainly attributed to an increase in selling expenses, higher financial charges from SAR 159 million to SAR 163 million and still a weak topline, despite posting a Q/Q increase. In our view, the company needs to boost gross margins beyond 64% in order to be able to post a positive bottom line at the current level of operating costs. We maintain our Neutral stance with a target price of SAR 18.00 and await the issuance of the audited financial statement to firm up our view for 2018 and beyond.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017*	2018E
Revenue	12,569	11,351	12,524
EBITDA	4,069	3,646	4,454
Net Profit	(203)	(708.9)	95
EPS(SAR)	(0.26)	(0.92)	0.12
DPS	-	-	-

*Preliminary financial data

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS	20.2	19.9	19.9
ROAE	-	-	0.6%
ROAA	-	-	0.3%
EV/EBITDA	7.2x	6.6x	5.4x
P/B	0.7x	0.7x	0.7x

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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