



Etihad Etisalat (Mobily) (7020.SE)

Revisiting the contender... still a growth story

Equity Research

General Update

March 30th, 2008

Current Price:	SAR 57.00*	Country:	Saudi Arabia
Fair value Target:	SAR 78.00	Sector:	Telecom Services
Recommendation:	BUY	Exchange:	Saudi Stock Exchange (Tadawul)

*as at 30th March 2008

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- Mobily has proved to be one of the most successful greenfield mobile operations in the MENA region. Driven by an entrepreneurial management team, Mobily has, in less than three years, become a solid number two player in Saudi Arabia's mobile market commanding a 37% market share with close to 10 million (mn) subscribers.
- In the next few years, Mobily has the opportunity to transition from a pure-play mobile operator to an integrated telecom services provider in the kingdom, which could prove to be a major boost for the company's growth prospects going forward. However, anticipated competition including the third licensed mobile player and three new fixed line operators expected to launch operations in Saudi Arabia between 2008 and 2009 will transform the Saudi Arabian telecom market into a highly competitive landscape with specific implications for Mobily's growth and profitability.
- Despite news-flow pressure on the stock, we view Mobily as an ongoing growth story, and recognize that it has become an established brand with critical mass in terms of customer base and a realistic opportunity to grow revenues and expand margins for the foreseeable future. With the stock down 22% year-to-date, we believe that all headline risks have been more than reflected in the share price, unlike the operator's achievements and opportunities for growth.
- We retain a Buy recommendation on Mobily, revising our target value on the stock to SAR 78.00, which represents a 37% upside to the stock's most recent closing price. The target value is based on a DCF valuation and is pro forma the upcoming rights issue and acquisition of Bayanat Al-Oula. The revised target also reflects enhanced competition in the operator's home market.

Year	Net Profit (SAR mn)	EPS (SAR)	EBITDA (SAR mn)	BV (SAR mn)	EV/EBITDA (X)	P/E (X)	P/BV (X)
Dec-10E	2,879	4.11	4,483	14,088	6.2	9.9	2.0
Dec-09E	2,457	3.51	4,203	11,558	6.6	11.6	2.5
Dec-08E	1,788	2.98	3,648	9,451	7.4	15.9	3.0
Dec-07	1,380	2.76	2,947	5,913	9.4	20.7	4.8

52-Week range (SAR)	47.50-76.75
Number of shares ('000)	500,000
Free Float (%)	20%
Market cap (SAR '000)	28,500,000
Market cap (USD '000)	7,598,379
Div Yld. 2007 (%)	0.88%

Mobily stock performance vs. SC KSA Index

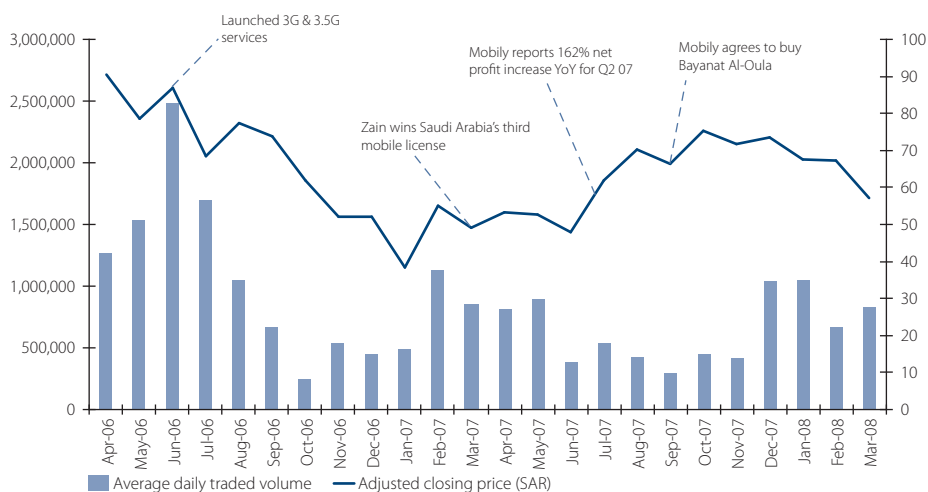


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Investment Highlights

- Mobily has proved to be one of the most successful greenfield mobile operations in the MENA region. Driven by an entrepreneurial management team, Mobily has, in less than three years, become a solid number two player in Saudi Arabia's mobile market commanding a 37% market share with close to 10 million (mn) subscribers, revenues of USD 2.3 bn, and a (pre-tax) EBITDA margin of 46.1% in 2007.
- In the next few years, Mobily has the opportunity to transition from a pure-play mobile operator to an integrated telecom services provider in the kingdom. With a penetration rate of only 3% and a strong pent-up demand, the broadband market is ripe to take-off. Already, Mobily's 'Connect' wireless broadband service, launched in mid-2007, has captured 100,000 subscribers. With the acquisition of Bayanat Al-Oula, Mobily will further expand its operations in the fixed broadband data segment. In addition, Mobily is a partner in the 'Saudi National Fiber Network' - a 12,000 km fiber backbone that will cover the country's main cities and is expected to become operational in Q4 08. All this may be too good to be true though, especially with...
- Zain SA, the third licensed mobile player is launching operations in mid-2008. Three new fixed line licenses were approved in February 2008, with commercial launches expected by early 2009. This transforms the Saudi Arabian telecom market into a highly competitive landscape, with specific implications for Mobily's growth and profitability going forward. We factored in our model the heightened competitive environment and assumed that by 2012 Mobily should be able to capture approximately 10% of the broadband market.
- We recognize that Mobily shares could be range bound in the next few months with the anticipated rights issue, the commercial launch of Zain SA, news flow from the three new licensed fixed players, all this in an uncertain global economic environment. However, we also view Mobily as an ongoing growth story, and recognize that it has become an established brand with critical mass in terms of customer base and a realistic opportunity to grow revenues and expand margins for the foreseeable future.
- With the stock down 22% year-to-date, we believe that all headline risks have been more than reflected in the share price, unlike the operator's achievements and opportunities for growth. As such, we believe that recent weakness presents an attractive entry point.
- We retain a Buy recommendation on Mobily, revising our target value on the stock to SAR 78.00, which represents a 37% upside to the stock's most recent closing price. The target value is based on a DCF valuation and is pro forma the upcoming rights issue and acquisition of Bayanat Al-Oula. The revised target also reflects the anticipated increase in competition in the operator's home market.



Company Overview

Established in 2004 by a consortium led by Etisalat, UAE-based telecom conglomerate, Etihad Etisalat (Mobily) is Saudi Arabia's second largest mobile operator. In August 2004, Mobily was awarded a 25-year mobile telecommunication license for SAR 12.2 bn (USD 3.25 bn). This was complemented by the subsequent purchase of a 3G license for SAR 754 mn (USD 201 mn). In December of the same year, the company listed on the Tadawul Stock Exchange raising SAR 1 bn in an IPO of 20% of its shares. The IPO was oversubscribed by more than 51 times. Adjusted for subsequent stock split, the IPO was priced at SAR 10. In a little more than three years, Mobily's initial shareholders who participated in the IPO have achieved a six bagger.

The company launched its operations in May 2005, starting first its services on a GSM and 3G network. As of June 2006, it began offering 3.5G services (HSDPA based). In December 2005, seven months after the commercial launch of its services, Mobily surpassed the two million subscribers mark and turned EBITDA positive in Q1 06. In less than two years, Mobily achieved a market share of 31% in December 2006.

At the end of 2007, two years and a half since commercial launch, we estimate that Mobily's subscriber base reached almost 10 mn (The company no longer discloses subscriber data) with a blended ARPU of USD 23.30. This equates to a market share of approximately 37% of mobile subscribers in the kingdom.

Mobily has been a true 'greenfield' success story. Under the leadership of CEO Khalid Al Kaf, and know how from Etisalat, Mobily has built itself from ground up as a solid number two player in Saudi Arabia's mobile market. Etisalat first entered the mobile market in 1982, and has been operating GSM networks since 1994. Mobily has a management agreement with Etisalat whereby it pays annual fees of SAR 37.5 mn (USD 10 mn) per year. The agreement, signed in December 2004, is for seven years, and is renewable.

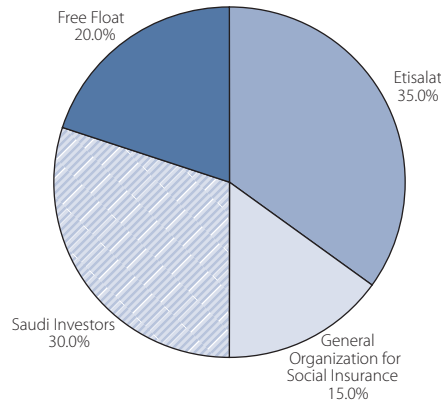
Ownership Structure

Mobily shares were listed on the Saudi Exchange (Tadawul) in December 2004, with a public float of 20%. Etisalat retained a 35% interest and six Saudi institutional investors, including the General Organisation for Social Insurance (GOSI), had an interest of 45%.

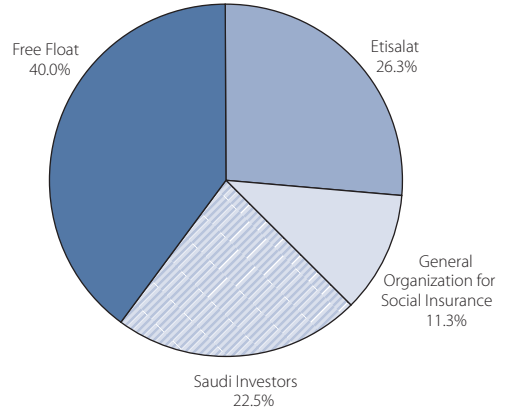
Free float to increase to 40%

To comply with a Royal Decree that by the third year of its listing as a public entity Mobily must increase its public float to 40%, the founding shareholders (Etisalat and the six Saudi investors) have recently proposed a secondary offering of 100 mn shares. We assume that all founding shareholders will sell the shares on a pro-rata basis. As a result, Etisalat's stake in Mobily will decrease from 35% to 26.3%.

Mobily : Initial ownership structure



Mobily : Ownership structure pro forma secondary offering



Source: SHUAA Capital

Saudi Arabia: Still Very Favorable Conditions

A robust economy

Saudi Arabia's economy has achieved average annual real GDP growth for the 2002-2007 in excess of 5%. GDP per capita is estimated at USD 15,000 in 2007. Shuaa Capital's Strategy and Economics team is bullish on the prospects of Saudi Arabia's economy for various reasons. In the past few years, the government adopted a prudent fiscal policy using current account surpluses from high oil prices to pay down the debt. Government total debt as a % of GDP declined from 97% in 2002 to 23% in 2007. Alongside, the government is pushing ahead with reforms and has recently embarked on a massive spending program, mainly infrastructure related, in an effort to diversify the economy away from oil. In a significant shift from earlier cycles, private sector investment has emerged as an important driving force in sustaining growth. Full membership status at the World Trade Organization (WTO), gained in December 2005, has facilitated inflow of foreign direct investments (FDI) into the country. During the year after gaining entry into WTO, the country attracted USD 18 bn in FDI, a year-over-year increase of 50%, surpassing the UAE in the GCC region.

Supportive demographics

Saudi Arabia has a very favorable demographic profile, particularly for the prospects of mobile and broadband markets. The kingdom is among the fastest growing young societies in the world. Growth rate of the population since 2000 has averaged 2.5% per year with approximately one-third of Saudi Arabia's population less than 15 years old. Less than 3% of Saudi population is 65 years old and over.

Saudi Arabia's Population by Age Group

Age Group	(in mid-2006)	
	Population	% population
15 <	7.8 mn	32.9%
15-24	4.3 mn	18.2%
25-49	9.3 mn	39.3%
50-64	1.6 mn	6.9%
65-80+	0.7 mn	2.8%
Total	23.7mn	100%

51% of Saudis < 25 years old

Source: Central Department of Statistics & Information (CDSI), Ministry of Economy & Planning

Further, expatriates, mainly composed of male belonging to the 25-45 years age group, represent 27% of Saudi Arabia's population – a ratio that has been stable since 1992.

Saudi Arabia Demographics - Fast Facts

(million)	
Population (2006)	23.9
Population (2007E)	25.0
Saudis	18.2
Expats	6.8
% Saudis	73%
% non-Saudis	27%
% Urban	81%
% Rural	19%
% of total population:	
Riyadh Region	24%
Makkah Region	26%
Al-Madinah Region	7%
Eastern Region	15%
Total - Top Four Regions	71%
Nine other Regions	29%

Source: CDSI, SAMA, United Nations, SHUAA Capital

***KSA demographics...
envy of developed world
telecom operators***

The statistics clearly indicate that in the next five years, approximately 2.5 mn children will enter their teens, and, thus be likely first time users of a mobile phone. This new generation will also grow up with the Internet. Additionally, the target youth demo of 15-24 age group is expected to grow in the high single digit for the next five years in Saudi Arabia. This demographic group is more susceptible to adopt 3G and 4G services, i.e. mobile browsing, mobile TV, Generation 2.0 services, etc. This group will also demand high-speed internet access.

From our channel checks and discussions with the management of Mobily, Saudis consider the mobile handset as an entertainment device. The country has relatively limited entertainment venues; as such the handset plays a more important role, particularly among the youth. Again, while we were not able to find hard data, the handset replacement cycle in Saudi Arabia is estimated to be only 6 to 9 months. Combined with the demographic factors discussed above, this bodes well for mobile operators for adoption of new services in the future.

The Saudi Telecom Market

Saudi Arabia Communications – Fast Facts

(million)	
Households (2007)	4.5
Avg number of persons / household	5.6
Landline	
Residential lines (2006)	3.0
Business lines (2006)	1.0
Fixed lines - total (2006)	4.0
Fixed lines (2007)	4.1
Fixed lines penetration of Households (2007E)	68%
Mobile	
Mobile subscriptions - SIM cards (2006)	19.7
Mobile subscriptions - SIM cards (2007E)	27.3
Headline % mobile penetration	109%
Data	
Dial-up Internet subscribers (2006)	1.6
High-Speed Internet subscribers (2006)	
DSL subscribers ('000)	194
Leased lines ('000)	24
Total ('000)	218
DSL subscribers (2007)	603
Broadband / 100 inhabitants (2007E)	3
PC & Internet	
Household PCs (2006)	3.6
Corporate/Public sector PCs (2006)	1.0
Total PCs	4.6
PC penetration 2006 (% population)	19%
Internet users (2006)	4.7
Internet penetration (% population)	20%
Internet users / subscription	2.6

Source: CITC, SAMA, SHUAA Capital estimates

The telecom sector in Saudi Arabia generated revenues of SAR 42 bn in 2007 (USD 11.2 bn), up 10% from a year ago. This represents a compound annual growth rate for the sector of 14% for 2001-07. More importantly, during this period the average annual growth of mobile segment has been 29%, offsetting the decline in fixed-line segment at an average rate of -4% per year. The introduction of competition in the wireless sector with the arrival of Mobily in 2005, has, undoubtedly, accelerated the growth in this segment. Between 2004 – 2007, the wireless sector has expanded from USD 5.6 bn to 8.7 bn – a growth of 57%.

Saudi Arabia Mobile and Fixed Segment Revenues 2001-07

(USD, billion)	2001	2002	2003	2004	2005	2006	Restated 2006	2007E	CAGR 2001-07
Wireless revenue									
STC	2.1	3.5	4.7	5.6	6.3	6.4	6.0	6.5	
YoY growth %		62%	37%	17.9%	12.4%	2.2%		7.4%	20.4%
Mobily					0.4	1.6	1.6	2.3	
YoY growth %						272%		44.5%	
Total wireless	2.1	3.5	4.7	5.6	6.7	8.1	7.6	8.7	
YoY growth %		62%	37%	17.9%	20.4%	20.0%		15.0%	28.7%
Wireline revenue									
STC	3.1	2.8	2.5	2.6	2.4	2.6	2.6	2.5	
YoY growth %		-10.0%	-10.0%	0.4%	-5.9%	8.2%		-4.8%	-3.9%
Total Industry revenue	5.3	6.3	7.3	8.1	9.1	10.7	10.2	11.2	
YoY growth %		19.0%	15.9%	11.7%	12.1%	16.9%		10.0%	14.3%
Telecom Industry Revenue Share									
% Wireless	40%	55%	65%	69%	74%	76%	74%	78%	
% Wireline	60%	45%	35%	31%	26%	24%	26%	22%	

Source: Company reports, SHUAA Capital estimates

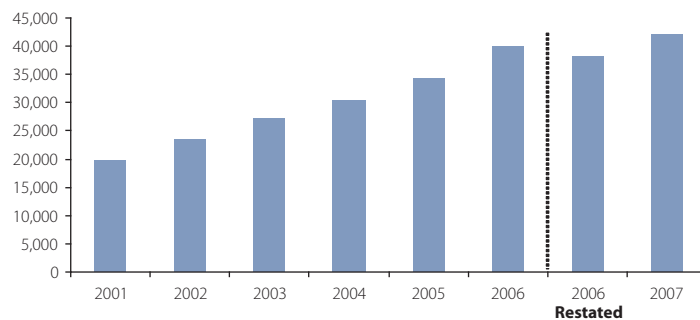
Saudi Arabia turning into a wireless society?

In 2007, the mobile sector growth was a healthy 15%, while the fixed-line sector shrunk by 5%. We have to conclude that fixed to mobile substitution phenomenon is more important than the growth in wireline broadband services (DSL). Wireless share of telecom industry revenues has increased from 40% in 2001 to 78% in 2007, at the expense of the wireline segment. Even before the introduction of competition in the mobile market, wireless subscribers and revenue in Saudi Arabia surpassed fixed line subscribers and revenue in 2002.

Saudi Arabia's Telecom sector in pictures:

Saudi telecom sector expected to grow at high single digit in next few years, after 14% CAGR in 2001-07...

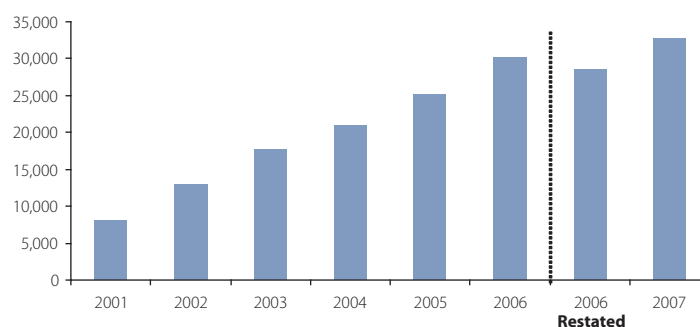
Total Telecom Sector Revenues in SAR mn



Source: CITC, Mobily, STC, SHUAA Capital

... Mobile has been the driver, and will continue to be so

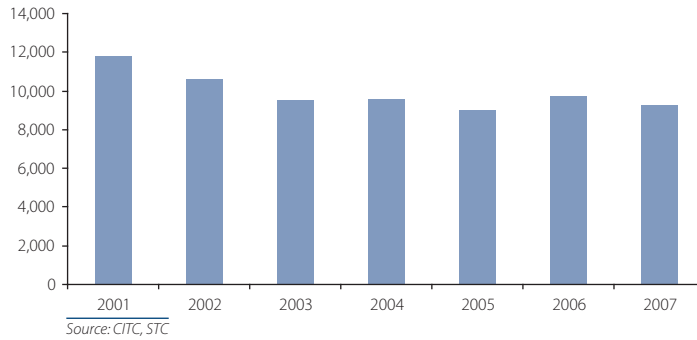
Total Wireless Sector Revenues in SAR mn



Source: CITC, Mobily, STC, SHUAA Capital

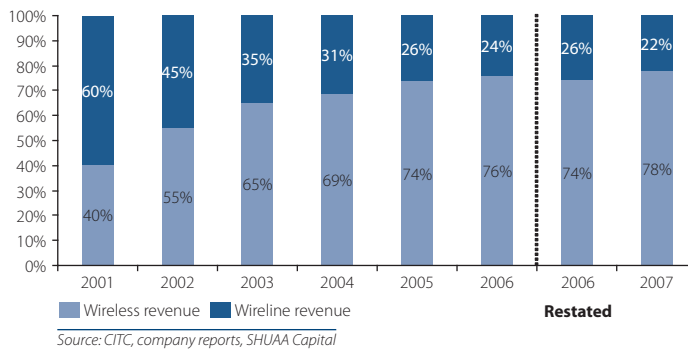
Declining fixed-line segment might get a boost from pick-up in broadband...

Total Wireline Sector Revenues in SAR mn



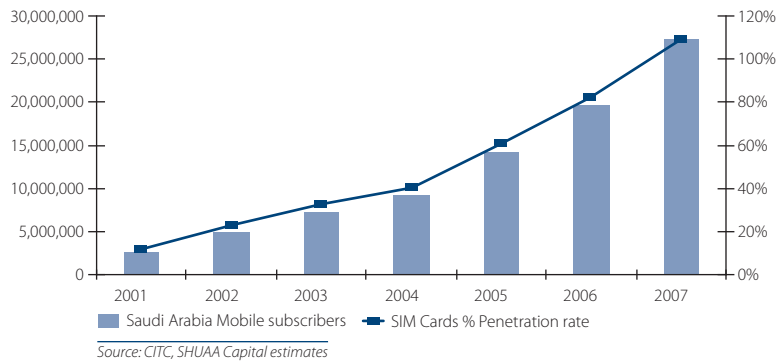
...Yet fixed-to-mobile substitution is a well established trend

Share of Wireless and Wireline of Total Telecom Revenues



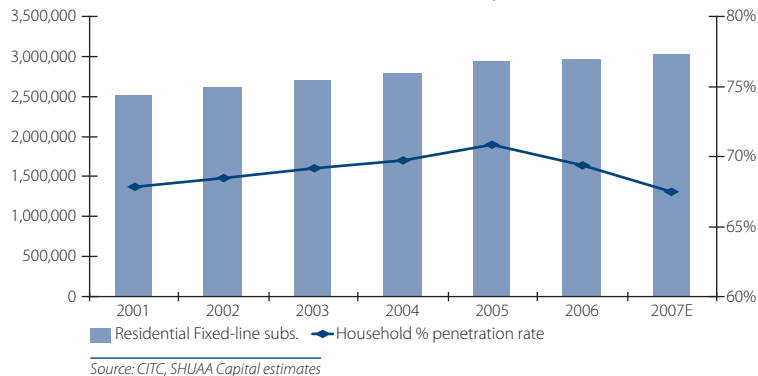
Mobile penetration accelerated since 2005 with the entry of Mobily...

Mobile Subscriptions and penetration rate



...Not a coincidence that household penetration of landlines peaked in 2005

Residential Fixed lines and Household penetration



Broadband in Saudi Arabia: GCC's largest market still untapped!

Broadband penetration up from 1% to 3% in 07

Extremely low broadband penetration

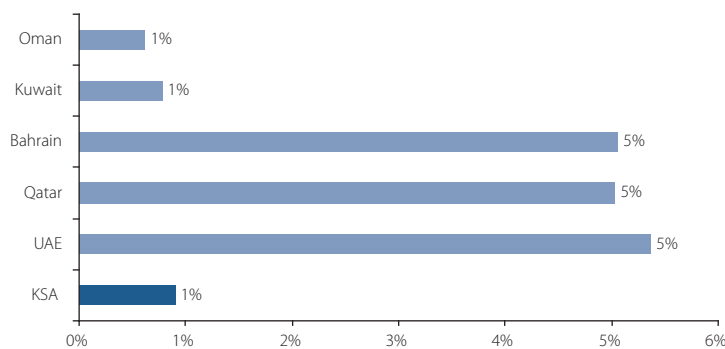
Saudi Arabia has a negligible number of high-speed data subscribers. At the end of 2006, there were 218,000 broadband data subscribers (DSL and leased lines) for a population of 24 mn, giving a penetration rate of less than 1%. This is about to change. Already, we estimate that this ratio increased to 3% at the end of 2007.

Saudi Arabia: Broadband Subscribers

('000)	2001	2002	2003	2004	2005	2006	2007E
Fixed Broadband subs. (DSL+Leased lines)	14	17	24	35	64	218	631
Wireless Broadband subscribers						0	167
Total Broadband subs. (Fixed+Wireless)	14	17	24	35	64	218	798
Total Broadband penetration (% of population)	0.1%	0.1%	0.1%	0.2%	0.3%	0.9%	3.2%

Source: CITC, SHUAA Capital

Broadband Penetration in GCC countries in 2006



Source: ITU

...Still well below that of developed world

Compared to other GCC countries, the kingdom's broadband penetration in 2006 was similar to that of Jordan, Kuwait, and Oman, but significantly lower to Bahrain's, Qatar's, and UAE's level in excess of 5%. The average rate for developed countries was 20% at the end of 2006. Among OECD member countries, Denmark and Netherland had the highest penetration rate at 32%, while Mexico was at the lower end with 3% and Greece and Turkey at 4%. However, we note that household size of 2-3 persons is much smaller in the developed world than 5.6 in Saudi Arabia. Hence, with 2.6 users per subscription (2006) the kingdom has far more internet users per subscription than OECD countries.

Longer term, PC penetration growth will be key

In the long-term, the growth in fixed broadband services in Saudi Arabia will be capped by the growth in personal computer (PC) unit sales and the pace at which household PC penetration will increase. At the end of 2006, there were 4.6 mn PCs in the Kingdom, of which 3.6 mn were household PCs, and the balance business PCs (corporate, government, educational institutions, etc.).

Saudi PC Penetration and Internet Users

(million)	2001	2002	2003	2004	2005	2006
Personal Computers	1.6	2.3	3.0	3.5	3.9	4.6
PC penetration (% of population)	8%	11%	13%	15%	17%	19%
Internet Users	0.9	1.4	1.8	2.4	3.0	4.6
Internet Users penetration (% of population)	4%	6%	8%	11%	13%	19%

Source: CITC, Pyramid Research

The government is keen on increasing PC penetration in the kingdom. Several initiatives have been announced, including an ambitious plan to equip 21,000 schools with PCs and related hardware and software over the next five years. Also, given major investment projects underway, and the flow of foreign direct investments in the country, corporate PC growth will be hand in hand with the boom in the business sector in the kingdom, which, in turn, will lead to increased demand for broadband data services.

Limitations of DSL technology

The key reason behind the low penetration of fixed-line broadband services in Saudi Arabia is supply related. Since its launch in 2001, and up until recently, high-speed data service in Saudi Arabia has been deployed by STC via ADSL technology (Asymmetric Digital Subscriber Line). The problem is that ADSL technology has its limitations in low density populated areas, which is the case of Saudi Arabia not only in rural but also in urban regions. According to CITC, in 2006, over 50% of ADSL subscription applications were rejected due to the applicant's premises being located more than 5 km from STC's central exchange offices (DSL suffers from signal attenuation beyond a distance of 5km). Low population density makes the deployment of wireline broadband infrastructure more costly.

Fixed-line services in Saudi Arabia: from Monopoly ... to a Highly Competitive Market

Three consortiums obtained conditional approval from the CITC in April 2007 to provide fixed-line telecommunication services in Saudi Arabia. The Council of Ministers licensed the three new players in February 2008. The new entrants are:

Meet the new fixed license players...

Optical Communications Company (OCC): A consortium including a group of Saudi investors, Verizon Communications (VZ: NYSE) of the US, and Millicom International Cellular SA (MICC: Nasdaq), an emerging markets mobile operator. OCC paid SAR 5 mn (USD 1.3 mn) for its wireline license and did not bid for wireless spectrum. As disclosed last year, the plan is to build, over seven years, a fiber optic network that links 21 cities to deliver voice, data and video services. Verizon is a pioneer in Fiber-to-the-Premise (FTTP) technology it started deploying in the US in July 2004 under the FiOS brand. At the end of 2007, Verizon had 1.5 mn FiOS high-speed data subscribers, and 0.9 mn FiOS video subscribers (Pay-TV) in the US.

Etihad Atheeb Telecommunication Company: Is led by Atheeb Trading Group, a Saudi-based diversified conglomerate, including Batelco, Bahrain's incumbent telecom operator, as a partner with 15% interest. Atheeb has disclosed its intention to roll out broadband data and voice services in the kingdom using WiMAX technology. The Chairman of Atheeb was quoted in the media: "In the beginning we'll focus on highly populated cities like Riyadh, Jeddah, Makkah, Madinah, Damman, Al Khobar and Yanbu." Atheeb also indicated that they are tabling for an IPO in 2H 08 and operations launch before the end of the year.

Al Mutakamilah is a consortium including Mawarid Group and PCCW, Hong Kong's incumbent telecom operator and a pioneer in IPTV services. PCCW launched IPTV services in September 2003, and had 0.6 mn subscribers at the end of 2007. Mawarid Group is a Saudi-based diversified conglomerate with interests in communications. Orbit, the satellite pay-TV operator, is the group's wholly-owned subsidiary. Mawarid is also a major shareholder of Integrated Telecommunications Company (ITC), a licensed data communication services provider and a partner with Mobily and Bayanat Al Oula in the national fiber backbone project. The fixed-line licenses of Atheeb and Al Mutakamilah are technology neutral, and both companies have obtained WiMAX licenses.

...All three to go public in 08

Prior to launching their operations, all three players are mandated by law to complete an IPO and offer 25% of capital shares for public subscription, 10% for the Public Pension Agency and the General Organization for Social Insurance (GOSI). All three players have initiated the process for an IPO in 2008.

Great opportunity...crowded market?

As much as Saudi Arabia offers a unique opportunity for broadband data services, considering the extremely low penetration rate and assuming that all three players launch their operations by 2009, the fixed-line market will become highly competitive. In the broadband data segment, the landscape will evolve from a two player market in 2007-2008, featuring STC and Mobily, to five players, and this not taking into account Zain (the third mobile operator yet to launch services). Although different players might focus on different segments of the data market, we consider the prime target niche markets as - the highly populated cities (Riyadh, Jeddah, etc.), the business sector, large corporations, SMEs / SOHOs, and the high-end residential areas (with high disposable income).

Saudi Broadband market prior to entry of new players

(million)	2006	2007E	2008E
Population	23.9	25.0	25.6
Households	4.3	4.5	4.7
Avg person / household	5.6	5.6	5.5
Total PCs	4.6	5.3	6.1
Fixed-line broadband subscribers	0.2	0.6	1.1
o/w STC DSL subs.	0.2	0.6	1.0
Wireless broadband subscribers	0.0	0.2	0.3
o/w Mobily "Connect" subs.	0.0	0.1	0.2
Total Broadband subs. (Fixed+Wireless)	0.2	0.8	1.5
Total Dial-up Internet subscribers	1.6		
Total Internet users (Dial-up+Broadband)	4.6		
Avg Internet users / subscription	2.6		
% Broadband penetration of PCs	5%	15%	24%
Broadband penetration (% pop.)	1%	3%	6%

Source: CDSI, CITC, Mobily, STC, SHUAA Capital estimates

New fixed-line licenses: No license to print money...

In conclusion, each fixed-line license had its merits on a stand-alone basis. However, with all three together the business case becomes more challenging for each of the new entrants. While broadband penetration is very low in Saudi Arabia so is PC penetration. Long term, the growth in the broadband segment will be capped by the growth in PC penetration.

While extremely attractive, we do not believe that the broadband opportunity in Saudi Arabia can justify a five or six players market. Hence, execution will be key with both winners and losers emerging at the end of the day.

Assuming all three new fixed-line licensed players proceed with their IPOs and launch their operations, down the road we see consolidation in the Saudi telecom sector as inevitable. The acquisition of Bayanat-Al-Oula by Mobily is a first step in this direction. Alternatively, strategic partnerships are also a possibility. We believe that Mobily, as a strong number two in the mobile segment and owning a strategic interest in a national fiber network, could be a partner of choice for the new entrants.

The Saudi Mobile Market

Saudi Mobile Market Forecast

**Zain's entry to cut
Mobily's market share
from 37% to 34%**

(million)	2006A	2007E	2008E	2009E	2010E	2011E	2012E
Population	23.9	25.0	25.6	26.3	26.9	27.6	28.2
% growth	2.3%	4.4%	2.6%	2.5%	2.5%	2.4%	2.3%
Mobile subscriptions (SIM cards)	19.7	27.3	31.8	34.3	35.8	36.8	37.7
SIM cards % Penetration rate	82%	109%	124%	131%	133%	134%	134%
Annual net additions	5.5	7.6	4.5	2.5	1.5	1.0	0.9
% SIM cards growth	39%	39%	16%	7.9%	4.4%	2.8%	2.3%
Y/E mobile market share							
Mobily	31%	37%	36%	35%	35%	35%	34%
STC	69%	63%					
STC & Zain SA			64%	65%	65%	65%	66%
	100%	100%	100%	100%	100%	100%	100%
Mobile subscriptions							
Mobily	6.1	10.0	11.5	12.0	12.5	12.7	13.0
% growth	162%	64%	16%	4%	3%	2%	1%
STC	13.6	17.3					
STC & Zain SA			20.3	22.3	23.4	24.1	24.7
	19.7	27.3	31.8	34.3	35.8	36.8	37.7
Net additions							
Mobily	3.8	3.9	1.6	0.5	0.4	0.3	0.3
STC	1.7	3.8					
STC & Zain SA			2.9	2.0	1.1	0.7	0.6
	5.5	7.6	4.5	2.5	1.5	1.0	0.9
% Share of net additions							
Mobily	68%	51%	35%	21%	27%	27%	30%
STC	32%	49%					
STC & Zain SA			65%	79%	73%	73%	70%
	100%	100%	100%	100%	100%	100%	100%

Source: SHUAA Capital

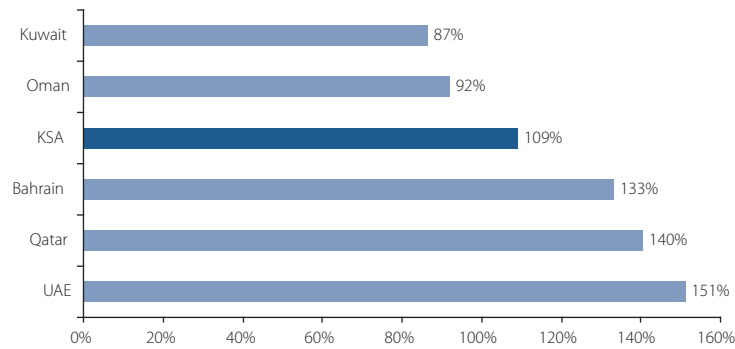
Since the liberalization of the mobile market, the number of mobile subscriptions (SIM cards) has tripled from 9.2 mn at the end of 2004 to 27.3 mn (Shuaa Capital estimate) in 2007. In fact, 2007 was the second subsequent year to record a 39% increase in mobile subscriptions.

During the same period, we estimate that mobile penetration rate jumped from 40% to 109%.

Saudi Arabia has no official definition for reported mobile subscribers. Historically, reported subscriber numbers by operators reflect SIM card subscriptions, and likely include inactive subscribers/SIM cards. No subscriber data has been published for 2007 by Mobily, while STC reported 17.3 mn mobile subscribers. We understand that discussions are currently underway with the Communications and Information Technology Commission (CITC) to impose an official definition of active subscribers.

Penetration rate exceeded 100% at the end of 2007 as a result of the ownership of multiple SIM cards by same individuals, and the inclusion of non-active SIM cards in headline subscribers.

Mobile Penetration in GCC Countries (Dec. 2007)



Source: SHUAA Capital

What is the actual mobile penetration rate?

A survey conducted by Arab Advisors Group in November 2006, revealed that 40% of mobile users in Saudi Arabia had more than one mobile line.

Before visiting Saudi Arabia, we were familiar about the extensive use of separate lines for business and personal use in GCC countries, which is considered the main reason for multiple SIM card ownership. We were surprised to learn from our retail store interviews the need to have a line for the family and another one for friends, notably among young Saudis. Our finding is not based on a large survey, yet it reinforces the phenomenon of multiple SIM cards ownership by same individuals.

The ratio of mobile lines per user was close to 1.5 in November 2006, based on the Arab Advisors Group survey discussed above. We are convinced that this ratio has continued to increase with the introduction of Blackberry service in late 2006/early 2007, the launch of wireless broadband Internet service by Mobily and STC in mid-2007, and the continued proliferation of prepaid lines (increases the likelihood of inactive SIM cards in the last 3 months that are counted in headline subscribers because the validity period has not expired). If we apply a ratio of 1.6 lines per unduplicated unique mobile user at the end of 2007, the actual mobile penetration rate falls dramatically to 68% compared to the headline penetration rate of 109%.

Saudi Arabia: Estimated Actual Mobile Penetration

Continued expansion of distribution network

(million)	2006A	2007E
Population	23.9	25.0
Headline mobile subscribers (SIM cards)	19.7	27.3
Headline % penetration rate	82%	109%
Estimated average lines per user	1.5	1.6
Estimated unduplicated unique mobile users	13.1	17.1
Actual % mobile penetration rate	55%	68%

Source: Arab Advisors Group, SHUAA Capital estimates

Mobile operators, including Mobily and STC, often identify the 10 to 70 years old segment of the population as their target addressable market. We estimate that this segment represented approximately 70% of the Saudi population in 2007. Based on our adjusted penetration rate of 68% in 2007, it appears that the Saudi mobile market is close to reaching saturation. This being said, recall from our demographic factors discussion that we expect this 10 to 70 target segment to expand in the next five years with approximately 2.5 mn Saudi children turning into teenagers. In our model, we assume that the headline penetration rate will increase from 109% in 2007 to 134% in 2012.

Saudi Mobile Players – Fast Facts

	Mobily	Al Jawal (STC)	Zain SA
Year Established	2004	1995	2007
Major Shareholder	Etisalat (26.3%)*	Saudi Gov. (80%)	Zain (25%)
IPO	Dec. 2004	Jan. 2003	Mar. 2008
Mobile services commercial launch	25 May 05	Jan. 96	June 08E
Geographic coverage: % of population			
31 May05	79.2%	97.0%	
31 Dec.06	90.2%	97.0%	
31 Dec.07	93.7%	97.0%	
Q2/08E	95.0%	97.0%	53%**
3G launch	June 06	June 06	
3.5G launch	27 June 06	July 06	
3G /3.5G active subscribers 31 Dec.06	500,000	n/a	
3G /3.5G services 'occasional' users 31 Dec.07E	2.0 mn	2.0 mn	
BlackBerry service launch	Sep. 06	Jan. 07E	
Wireless Broadband (HSDPA) services launch:			
High Speed PC Card 1.8Mbps	May 07	n/a	
USB modem 3.6Mbps	June 07	n/a	
USB modem 7.2Mbps	Sep.07	Sep.07	
Mobily "Connect" Router (up to 15 users)	10Nov.07	n/a	
Mobile Subscriptions (SIM Cards) – 2007E	10.0 mn	17.3 mn	
Wireless segment revenues (USD) - 2007	2.3 bn	6.5 bn***	
ARPU 2007E (average) - USD	23.3	34.9	
Data as a % of ARPU – 2006E	5.0%	n/a	
Data as a % of ARPU – 2007E	7.0%	n/a	
Fixed-line subscribers – 2007		4.1 mn	
Wireless Broadband subscribers – 2007	100,000	n/a	
DSL subscribers – 2007		603,000	
Employees 31 Dec.05	1,650		
Employees 31 Dec.06	2,400		
Employees 31 Dec.07	2,700	21,000****	

* Pro forma secondary offering

** Independent coverage

*** Excluding revenue from international operations

**** Total employees, including all divisions

Source: Company reports, SHUAA Capital estimates

Mobily: a success story from the ground up

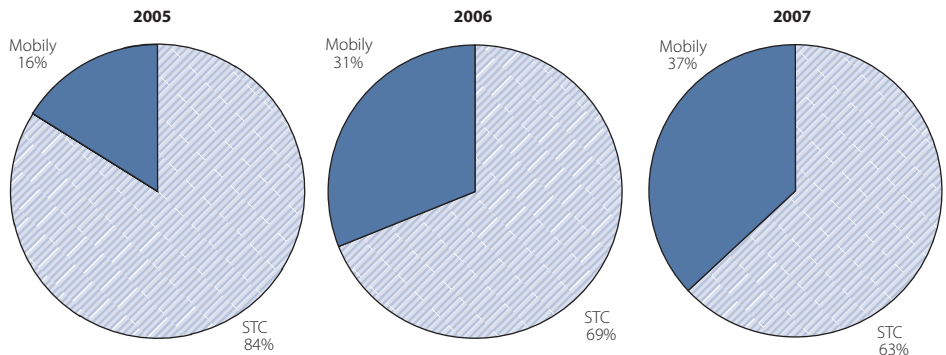
Saudi Arabia's mobile telecommunications was a monopoly until the arrival of Mobily in May 2005.

In December 2004, prior to opening the market for competition, Saudi Arabia's mobile penetration rate was 40% of the population, for a total of 9.2 mn subscribers. Three years later, in December 2007, we estimate that mobile penetration surpassed 100%. For 2007, no subscriber data has been provided by Mobily.

Key Milestones achieved by Mobily:

- Surpassed 2 mn SIM card subscriptions and achieved 16% market share seven months after commercial launch (Dec. 2005);
- Became EBITDA positive in Q1 06;
- Exceeded 30% market share in the second year, with more than 6 mn subscriptions in December 06;
- We estimate that market share reached 37% in 2007, with close to 10 mn subscriptions.

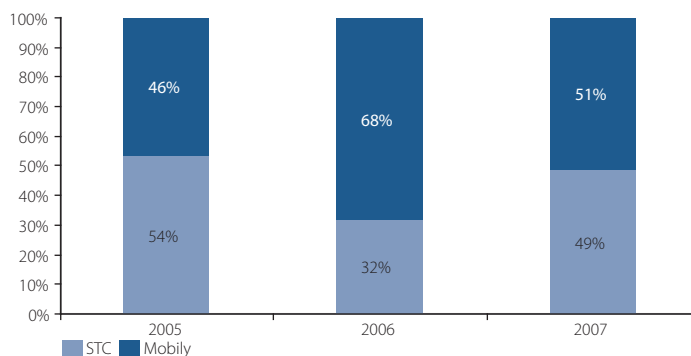
Mobily and STC's market share evolution



Source: SHUAA Capital

Since entering the market, Mobily has maintained the highest share of net subscriber additions every year. In 2006, its first full year of operation, we calculate that Mobily captured 69% of the net new subscribers. However, in the second half of 2007, the market reached a new equilibrium with Al Jawal, Saudi Telecom's mobile division, defending its market share. We estimate that for overall 2007, Mobily's share of net additions dropped to around 51%.

Mobily and STC: Share of net additions



Source: SHUAA Capital

What explains Mobily's success to-date?

In less than three years, Mobily has built a strong brand name in Saudi Arabia. One reason is the focus on advertising and marketing, as is evident by significant expenses from day one. In 2006, selling, advertising and marketing spending was SAR 365.2 mn or approximately 6.3% of annual revenues; in 2007, it increased to SAR 466.6 mn or 5.5% of revenues.

Mobily: Distribution Channel

	2006	2007
Flagship MegaStores (Corporate)	19	24
Fully Branded Stores (Franchises)		149
Co-Branded Stores (Franchises)		288
Distributor Outlets		3,500
Total distribution channel	3,629	3,961
YoY growth %		9%

Source: Company reports

From the beginning, Mobily has established a lead in innovation with the introduction of new services, such as the Blackberry service, 3G/3.5G services, MMS (Multimedia Message Services), international roaming for prepaid SIM cards. In 2006, Mobily was the first to open sales outlets dedicated to female customers. At the end of 2007, four of Mobily's 24 flagship megastores were dedicated to women.

From the outset, i.e. May 2005, all SIM cards sold by Mobily support both 2.5G and 3.5G. Consequently, when the company introduced 3.5G at the end of June 2006, all its subscribers at that time could use related services provided they had a 3G handset.

Mobily enjoys a good reputation for customer service. A particular attention is paid for the customer service function, which has allowed the company to earn a high level of subscriber satisfaction.

With a little help from the regulator

Mobily also benefited from CITC's policies that favor new entrants. Even after almost three years of the mobile sector liberalization, STC remains the dominant player with an estimated market share of 63% of subscribers and 74% of sector revenues in 2007. Because of this dominant position, STC is required to submit to the CITC a request to change its tariffs and planned new services prior to launch, a process that usually takes more than 30 days for getting approval. Mobily, as the new entrant, has more flexibility and is required to simply notify the CITC of a change in plan tariffs and new product launches, a process that normally takes five days. CITC closely monitors pricing and promotions of all players to prevent 'dumping' and anti-competitive behavior.

Mobily particularly successful with youth and expat segments

All in all, with astute marketing strategies, brand identity establishment, sustained innovation in introducing new mobile products and services, first to market, and customer service focus, Mobily has been highly successful in penetrating two segments of the mobile market in Saudi Arabia: youth and the expat segments. Mobily's push of prepaid packages have been particularly appealing to these two segments. At the end of 2007, based on discussions with management, we estimate that approximately 95% of Mobily's subscriber base was prepaid.

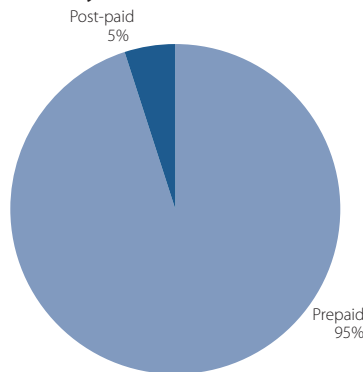
Mobily-AL Jawal: Post-Paid / Prepaid Subscriber Mix

Year-end Subscriber Mix	Mobily	AL Jawal
% Subs. Prepaid – 2003E		50% <
% Subs. Prepaid – 2004E		53%
% Subs. Prepaid – 2005E	95%	61%
% Subs. Prepaid – 2006E	95%	68%
% Subs. Prepaid – 2007E	95%	75%
% Subs. Post-paid – 2003E		> 50%
% Subs. Post-paid – 2004E		47%
% Subs. Post-paid – 2005E	5%	40%
% Subs. Post-paid – 2006E	5%	32%
% Subs. Post-paid – 2007E	5%	25%

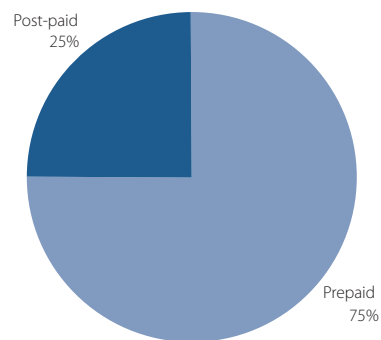
Source: Analysys Consulting, SHUAA Capital estimates

STC, on the other hand, has been successful in protecting its core base of post-paid subscribers. We estimate that STC had more than four million post-paid subscribers at the end of 2007 or 25% of its subscriber base. This major difference in customer mix explains why Mobily's average blended ARPU (USD 23.3) in 2007, was at 33% discount to STC's ARPU (USD 34.9).

Mobily Subscriber Mix Dec. 2007



STC Subscriber Mix Dec. 2007

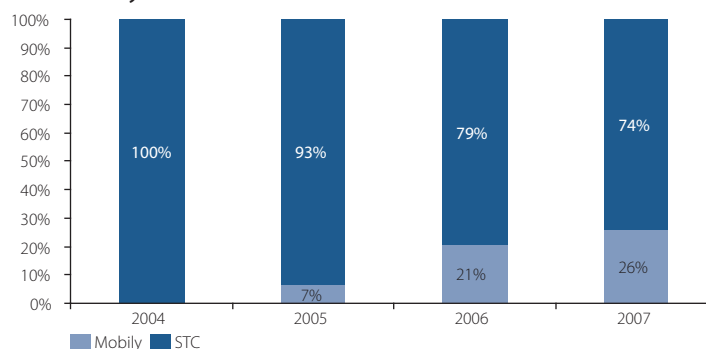


Source: SHUAA Capital

2008: Shifting gear, the battle enters Phase II

Now that the company commands a market share of 37% of the mobile market, a critical mass of subscribers has already been established taking the mobile battle to a new phase. Since Q4 07, our channel checks have indicated a shift in Mobily's strategy with aggressive promotions targeted towards STC's post-paid subscribers. Mobily lifted monthly fees on its post-paid packages: Khatty and Khatty Plus. The focus has shifted towards STC's high-end retail and business (SMEs and SOHOs) post-paid subscribers who, as indicated earlier, have largely remained loyal to the company. We believe that going forward Mobily's objective is to build market share in the higher ARPU segments, and migrate its core subscriber base to higher ARPUs through higher usage of value-added services. In other words, Mobily's objective is to grow its dollar share of the mobile market.

Mobily and STC: dollar share of mobile market



Source: Company reports

Adoption of value-added services slow but picking up

As indicated earlier, Mobily has been consistently introducing new services to the market, such as multimedia messaging (MMS), video calling, Mobile TV. However, based on our discussions with the company and excluding the success of the Mobily 'Connect' wireless broadband service, adoption of 3G and 3.5G services, starting from a small base, has been slow. This is changing with services showing signs of picking up. We estimate that in 2007, data revenue was approximately 7% of total ARPU, up from about 5% in 2006. Mobily's target for 2008 is to grow data revenue closer to 10% of ARPU. We believe that with favorable demographics, short handset replacement cycle (every 6 to 9 months), and high GDP per capita relative to MENA region, the conditions are in place for an increase in non-voice and SMS related ARPU.

Enters the 3rd player

Zain SA IPO in March 08

Zain Saudi Arabia intends to commercially launch its operations before the end of June 2008. Although Zain is an experienced operator and is not likely to initiate a price-war among mobile operators, we expect promotions being offered to build a critical mass of subscribers during an initial period of transition. As a result, our model factors in a reduction in voice ARPU for Mobily in 2008 and 2009.

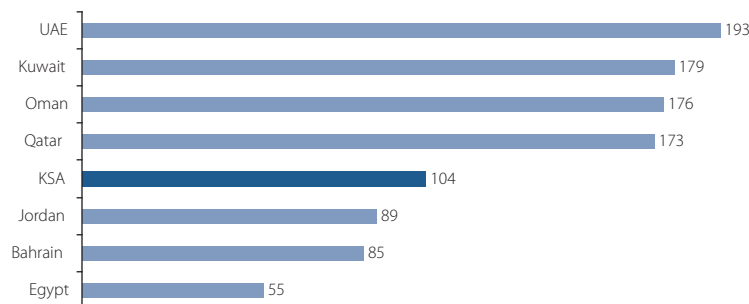
We believe it will be difficult for Zain to repeat Mobily's achievement in the first year of launch. We also believe that Mobily's first 10-15% market share was achieved by attracting dissatisfied customers of STC, who had no alternative prior to the competition introduced with the launch of Mobily. Zain will not benefit from this situation.

Enough Room for three players

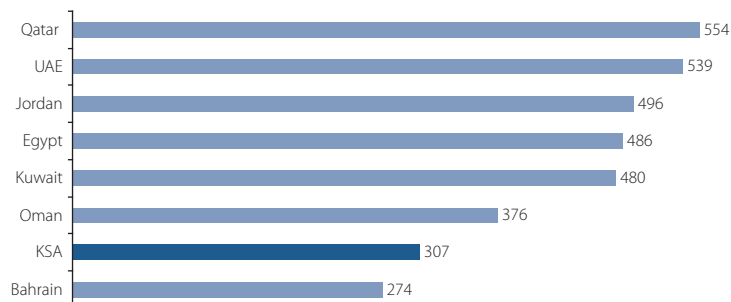
Despite the initial transition as described above, we believe that the Saudi mobile market can accommodate three players.

In 2007, the mobile market was still predominantly driven by voice services, which, we estimate, represented more than 90% of operators' revenues. The opportunity to capture the value-added services (such as 3G services) revenue stream is open to all players. 2007 marked the beginning of the pick up in the wireless broadband Internet service. Increased adoption of 3G/ 3.5G services will further fuel the growth of the overall mobile sector.

Average Minutes of Use (MOU) Prepaid Subs.



Average Minutes of Use (MOU) Post-paid Subs.



Source: Pyramid Research, ictQatar

According to industry data, minutes of use are relatively low in the kingdom compared to the region. Hence, the positive elasticity effect should help offset a decline in voice rates per minute with an increase in minutes of use.

Long term, the opportunity remains for Mobily and Zain to attract the new generation of young Saudis, who will be subscribing to a mobile service for the first time in their life, away from STC. More challenging will be the task of attracting STC's core subscriber base, which has been loyal and happy with the service for several years and sees no reason to switch. We note that so far, very few mobile subscribers have taken advantage of Mobile Number Portability (MNP) to switch from STC.

The Broadband opportunity: The next leg of growth for Mobily

With the launch of 3.5G services (HSDPA-based) by both Mobily and STC, and given the lack of availability/geographic coverage of the DSL service, mobile Internet has become an alternative to fixed broadband solutions for Saudis who are eager to connect to the web.

Mobily launched wireless broadband services in Q2 07, and has seen a strong response from customers. The company ended 2007 with more than 100,000 wireless high-speed data subscribers. As a reminder, this compares to a total of less than 200,000 DSL subscribers in the kingdom in December 2006. DSL was first introduced in Saudi Arabia in November 2001.

Mobily 'Connect': USB Modem and Router



Source: Mobily website

To satisfy Saudi's unmet demand for Internet access, Mobily introduced a high-speed data service with an innovative pricing and packaging, including Middle East's first unlimited data broadband package. The company introduced three plug and play Mobily "Connect" Broadband bundles: 1 Gigabyte, 5 Gigabyte, and the Unlimited Plan. Each bundle includes a free data SIM card, free e-mail, and one month free subscription. The initial set-up fee for the Unlimited Bundle is SAR 1,200 which includes the cost of the 3G USB modem 7.2 Mbps (SAR 950, stand-alone price) and one month free subscription (value of SAR 350).

Mobily – Al Jawal: Wireless Broadband Packages

	Mobily "Connect"		Al JawalNet		Al Jawal		Al JawalNet	
Wireless Broadband Plan ***	Monthly Subscription Fee (including Data SIM card)		Monthly Subscription Fee (SIM Not included)		Monthly Data SIM card Subscription Fee		Total monthly Subscription Fee	
	SAR	USD	SAR	USD	SAR	USD	SAR	USD
1GB	100	27	100	27	25	7	125	33
5GB	200	53	240	64	25	7	265	71
Unlimited	350	93	450	120	25	7	475	127

*** Excluding 7.2Mbps USB Modem
Source: Mobily, STC

Mobily 'Connect' priced competitively against STC's DSL

STC's broadband packages

Unlike Mobily's pure-play approach promoting a single line of product (Mobily "Connect" broadband service), STC has a two pronged Broadband data strategy, offering both fixed-line DSL and a wireless broadband package with 3G USB modem 7.2 Mbps, similar to Mobily's. Based on our channel checks, STC is not offering a discount on the USB modem, priced at SAR 990, on a stand-alone basis. Second, STC's Unlimited data package's monthly subscription is SAR 450, 29% higher than Mobily's SAR 350. Third, in STC's case, data SIM card is not included in the package. The customer must subscribe separately to a postpaid Al-Jawal plan for a monthly fee of SAR 25.

STC actively promoted the DSL product in 2007, possibly more than its wireless broadband package, and achieved good progress: DSL subscribers more than tripled from 194,000 to 603,000 at the end of 2007.

Mobily's "Connect" Unlimited plan is competitively priced against STC's DSL package (Afaq DSL Shamil) of a speed of 1Mbps, both priced at SAR 350 per month (USD 93).

STC: DSL Packages

Afaq DSL Shamil: Access+Internet Service		
Connection Speed	Monthly Fee (SAR)	Monthly Fee (USD)
256 Kbps	SR 180	48
512 Kbps	SR 270	72
1 Mbps	SR 350	93
2 Mbps	SR 590	157
4 Mbps	SR 790	211
8 Mbps	SR 890	237
10 Mbps	SR 960	256
Installation fee:	SAR 300	80

Source: STC

Successful launch of Wireless Broadband service not without hick-ups

Theoretically, Mobily's latest USB modem should achieve a throughput of up to 7.2 Mbps. However, the overwhelming success and popularity of the product put pressure on the available bandwidth leaving some subscribers with bad experiences in terms of actual speed level achieved and service downtime. As an indicator of Saudi's thirst for internet connectivity, we learned from management that Mobily's 100,000 subscribers were avid 'data consumers', with a monthly level of data consumption of several terabytes.

HSDPA: Major capex program in 2008

To remedy the issues faced by the wireless broadband service, Mobily has set a high priority to improve reliability of the service and customer experience for 2008 with the announcement of a major capex program for the HSDPA network.

Bayanat Al-Oula acquisition

Mobily recently obtained CITC approval for the acquisition of Bayanat Al Oula. Closing of the transaction is expected shortly. A memorandum of understanding was signed in September 2007 for SAR 1.5 bn (USD 400 mn). Bayanat is one of the two licensed public data communication services provider in Saudi Arabia and is not allowed to offer voice services. Bayanat obtained a 25-year license in 2005, and launched commercial services in 2007. We believe that the company generated marginal revenue in 2007. At this time, Bayanat has an operational fixed-WiMAX network in Riyadh, Jeddah, Damman, and Makkah. Bayanat is also one of the partners with Mobily in the national fiber optic network joint-venture.

In February 2006, Mobily announced a partnership with Bayanat Al-Oula and Integrated Telecom Company (ITC) to develop a 12,000 km fiber optic network that will cover the main cities in the kingdom at a total cost of SAR 1 bn (USD 267 mn). The network is composed of seven rings, with ring 1, 2, and 7 completed at the end of 2007. The other four rings will be completed by October 2008, with the network fully operational before 2008 end.

The acquisition will firstly allow Mobily to increase its stake to 66% in the Saudi National Fiber Network. Second, Bayanat will facilitate Mobily's expansion in the broadband data segment. Third, Bayanat will complement Mobily's HSPDA-based wireless broadband data offering. Mobily will be able to offer WiMAX based data services and fixed-line, fiber-optic based data services for both the business and residential segments.

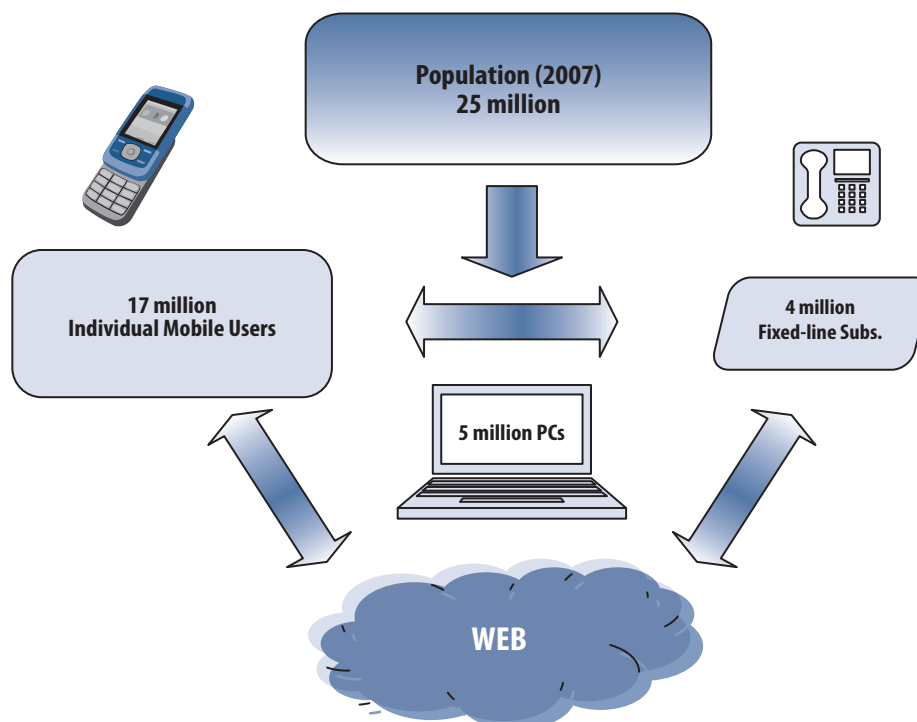
Mobily's advantage in the broadband segment

Is there room for Mobily to differentiate itself in the soon to be crowded broadband data sector in Saudi Arabia?

Time to market advantage. Mobily has little time on this front. However, when the three new players will enter the market, we estimate that 1) Mobily will have 200,000 wireless broadband subscribers; 2) Mobily's joint-venture national fiber network, expected to be completed in October 2008, and fully operational before the end of the year, will offer another head start to the new fixed-line competition, and 3) Mobily can leverage its strong brand name built over the last three years, and a good reputation for customer service and innovation. Despite the backing of reputable partners, each of the new fixed-line players will have to build their goodwill with Saudi customers.

3.5G upgrade program well advanced before the entry of new players. At the end of 2008, Mobily's HSDPA capex program will be in an advanced stage. The reliability of the wireless broadband service will have improved; better customer experience and higher actual Internet browsing speed achieved compared to the current theoretical 7.2 Mbps. This will improve the value proposition of the Mobily 'Connect' wireless broadband product versus fixed-line DSL service. This being said, a wireline broadband connection, particularly a fiber-to-the-home connection, will remain more reliable, offer competitive to superior speed, and have lower latency than a wireless broadband service in the near future.

Saudi Arabia: Mobiles, Landlines, PCs – The Big Picture



Source: Shuaa Capital

Mobily's 'Connect' product will always offer advantage of mobility versus fixed-line broadband service such as DSL, or a fiber to the premise (FTTP) service. We consider the mobility feature as a distinctive advantage in Saudi Arabia.

1. **Portable PCs are gaining market share** worldwide to the detriment of desktop PC. Laptops now represent almost 50% of PC unit sales.
2. **Mobile penetration versus fixed-line penetration.** We estimate that at the end of 2007, the kingdom had approximately 17.1 mn human mobile subscribers, compared to only about 4.1 mn fixed-lines. Since 2002, mobile has taken over fixed-line as the most popular method of communication in the country.
3. **Internet browsing via the PC or the mobile?** Again, we estimate that at the end of 2007, the kingdom had approximately 17 mn human mobile users compared to slightly more than 5 mn PCs. A mobile penetration rate that is significantly higher than PC penetration, coupled with the expected future proliferation of multimedia smart devices (Nokia N series, iPhone, BlackBerry, etc.), raises the question about Saudi's preferred method to access the web.
4. **Fixed-to-mobile substitution, first voice, then data!** Fixed to mobile substitution is a well established trend for voice service. What we are seeing since last year is a relatively new trend of fixed-to-mobile substitution for broadband services, notably in Europe. HSDPA-based wireless broadband is gaining market share at the expense of DSL in several European countries.

HSDPA mobile broadband gaining market share in Europe

Mobily's technology bet on HSDPA/HSPA. We like Mobily's technology bet on HSDPA/HSPA (High Speed Packet Access) in the wireless broadband segment. According to HSPA roadmap, a maximum throughput rate of up to 14.4 Mbps is expected to become available by the end of 2008. This compares well to Mobily's current 'theoretical' 7.2Mbps via USB modem. Looking at 2009 and beyond, HSPA+ (or HSPA Evolution), for which the commercial trials by mobile operators are to start this year, has the potential to offer throughput rates of up to 28.8 Mbps. Nevertheless, Mobily is making a hedged bet, since it will also be able to offer broadband data services via WiMAX and fiber optic technology with the acquisition of Bayanat Al-Oula.

International roaming. Presently, international roaming is not available for the Mobily 'Connect' wireless broadband service. The service is available in 16 cities in Saudi Arabia, and expanding across more cities with the ongoing capex program. We believe that international roaming for the wireless broadband service is a feature that Mobily management intends to make available in the future.

Lack of voice, a disadvantage. Bayanat Al-Oula's license does not allow offering fixed-line voice services, which may be a disadvantage compared to the three new fixed line players. However, with Saudi Arabia moving to a predominantly mobile communications society, landline voice service may be more of an interest for the business sector, particularly, large corporations (but not necessarily for SMEs/SOHOS). Mobily will have to wait for CITC regulation on VoIP (Voice over Internet Protocol) on this front.

Financial Analysis and Forecasts

Revenue: Double digit growth in 2008, then single digit

Mobily achieved year-over-year revenue growth of 44.5% in 2007. We expect 2008 to be another strong year for the company with revenue growth of 22.7%. For 2009, and beyond, our model assumes single digit revenue growth to reflect the maturity of mobile voice service, offset by increasing broadband data and value-added services contribution to top-line. We expect revenue growth of 8.3% and 5.4% respectively in 2009 and 2010.

Mobily: Summary P&L

(million SAR)	2005A	2006A	2007A
Revenue	1,662	5,841	8,440
% growth		251%	45%
EBITDA reported	(113)	2,001	2,947
% margin	-6.8%	34.3%	34.9%
% growth			47%
Adjusted EBITDA (pre-tax)	(67)	2,445	3,894
% margin	-4.0%	41.9%	46.1%
% growth			59%
Net Income	(1,167)	700	1,380
% margin		12.0%	16.3%
% growth			97%

Source: Company reports, SHUAA Capital

Margin expansion story

Mobily achieved an EBITDA margin of 34.9% in 2007. Government revenue share, a corporate taxes equivalent item, is reported pre-EBITDA line in the P&L. Pre-tax EBITDA margin, i.e. excluding government revenue share, was 46.1%, up from 41.9% in 2006. As per the license conditions, royalties as a percentage of revenue payable to the Government increased from 5% in first year of operation to 10% in the second year, and is expected to reach 15% in the third year and onwards.

We believe there is room for margin expansion in the next several years, and this despite the more competitive environment. However, we expect EBITDA margin improvement to take a pause in 2008, before resuming in 2009 and thereafter.

Factors that will constrain margin enhancement in 2008:

- **Increased Taxes:** 2008 will be the first full year of government revenue share fees payable at the maximum headline rate of 15%.
- **Key Employee retention program:** Implemented in December 2007, reflected Mobily's proactive approach prior to the entry of Zain in Saudi Arabia. Part of the salaries increase also compensate for rising inflation and cost of living. Based on our discussions with management, the employee retention plan has been successful with, practically, no turnover among key staff. Secondly, despite substantial salary increases, staff expenses should remain flat as a percentage of revenues in 2008, compared to 2007.
- **Higher sales and marketing expenses, and promotions:** Mobily management is guiding for flat sales and marketing expenses as a percentage of sales in 2008. However, with the upcoming launch of Zain Saudi Arabia in mid-2008, it's likely that Mobily will have to respond with higher sales and marketing expenses and/or increased promotions (which imply temporary price discounts). From our visit to Saudi Arabia, we noticed that Mobily is already active on the promotions front, even prior to Zain's commercial launch. It makes sense for Mobily to recruit as many new subscribers as it can before Zain's entry in the market.

Positive factors that will improve Mobily's margin in 2009 and after:

Completion of the national fiber optic network in Q4 08. Mobily will save on transmission costs and minimize leased line capacity rented from Saudi Telecom.

Completion of E-Cable, international gateway in Q2 09. Mobily will henceforth rely less on STC for international traffic. Mobily announced in January 2008, its participation in a consortium including Etisalat UAE and Etisalat Misr (Egypt) to expand regionally and globally the reach of its national fiber network. The E-Cable, at a total cost of USD 150 mn, will run from UAE across the kingdom, passing through Egypt, Italy, and entering Europe through France.

We note that both the national fiber backbone and the international gateway projects will not only have a positive impact on margins, but also provide the company the opportunity for revenue synergies, by delivering improved bandwidth for broadband data services, i.e. faster web browsing speeds.

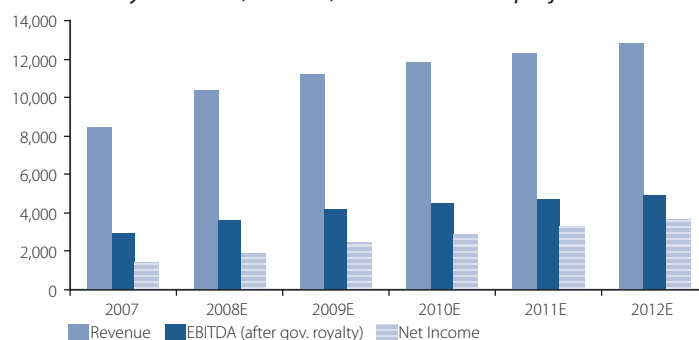
Improved internal efficiencies. Mobily being a three year old company, management believes that there is room to optimize costs and further increase productivity of the company.

The Zain national roaming and infrastructure sharing agreement. It will generate a new revenue stream for the next 2-3 years, as well as enhance Mobily's network utilization. Not factored in our model, at this time, is the potential to sell capacity to new entrants in the fixed-line market.

Growing contribution of wireless broadband data services to overall revenue. This is a higher ARPU generating service, offering an average ARPU of SAR 200 (USD 53) in 2007 versus overall average mobile ARPU of SAR 87 (USD 23). We believe that wireless broadband generates higher margins than consolidated EBITDA margin.

All in all, we expect Mobily to deliver double digit earnings growth in 2008-2012. For 2012, we forecast 11.8% earnings growth.

Mobily: Revenue, EBITDA, and Net Income projections



Source: SHUAA Capital

Capex

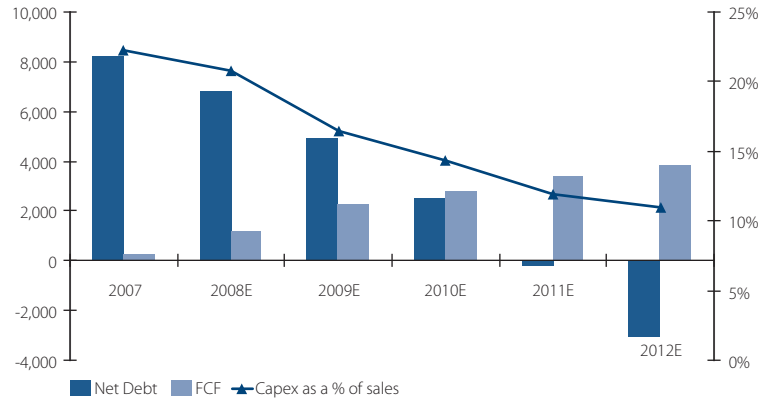
Capex in 2008, with an estimated spending of SAR 2.15 bn, will likely represent a peak in absolute levels. The spike mainly reflects the HSDPA related network upgrade program, and the completion of the national fiber network. Based on our revenue forecast, we modeled a gradual decline in capex spending as a percentage of sales, from 21% of revenue in 2008 to 11% in 2012.

Free Cash Flow

Based on our forecasts, Mobily should start generating meaningful free cash flow from operations in 2009 or 2010 at latest. We forecast free cash flow of SAR 2.3 bn and 2.8 bn in 2009 and 2010 respectively.

In the absence of future investment opportunities, we expect Mobily to turn into a high dividend yielding stock by the end of our forecast period.

Mobily: Net Debt, FCF, Capex / sales projections



Source: SHUAA Capital

Valuation

We retain a Buy recommendation on Mobily, while revising our target value on the stock to SAR 78.00 which represents a 37% upside to the stock's most recent closing price. The target value is based a DCF valuation and is pro forma the upcoming rights issue and acquisition of Bayanat Al-Oula. The revised target also reflects the impact of anticipated increase in competition in the operator's home market.

We recognize that Mobily shares could be range bound in the next few months with the anticipated rights issue, the commercial launch of Zain SA, news flow from the three new licensed fixed players, all this in an uncertain global economic environment. However, we also view Mobily as an ongoing growth story, and recognize that it has become an established brand with critical mass in terms of customer base and a realistic opportunity to grow revenues and expand margins for the foreseeable future. With the stock down 22% year-to-date, we believe that all headline risks have been more than reflected in the share price, while the operator's achievements and opportunities for growth have not been. As such, we believe that recent weakness presents an attractive entry point.

Our assumptions for the DCF are set below:

- We believe that 2012 is a good benchmark to derive a terminal value, with Mobily reaching maturity according to our model. We also believe that by 2012, four to five years post the entry of both new mobile and fixed-line players, the competitive landscape of Saudi Arabia's telecom market will have reached a point of equilibrium.
- Risk free rate of 4.3%
- Market risk premium of 5.0%, which we apply across the board on all MENA equity markets.
- Company beta of 1.2
- Based on the above assumptions, we obtain a cost of equity of 10.3%.
- Cost of debt is 6.2%, based on estimated interest rate paid by Mobily on its current debt.
- A debt to total capitalization of 20%
- Based on the above we calculated a WACC (Weighted Average Cost of Capital) of 9.4%
- A terminal growth rate of 2.5% based on our expectations post-2012.
- Our DCF is pro forma the SAR 1.5 bn acquisition of Bayanat Al-Oula; we assumed Q2 08 closing.
- Our DCF is pro forma the anticipated SAR 2.0 bn rights issue. The company has not set a date for the financing. We assumed the issue will close at June 30, 2008.

Based on our DCF, we obtain a fair value of SAR 78.00. This is equivalent to a pro forma rights issue fair value of SAR 58.50.

Sensitivities corresponding to various WACC and perpetuity growth rates:

Terminal growth / WACC	9.0%	9.2%	9.4%	9.8%	10.0%
2.0%	79	76	72	68	66
2.3%	82	79	76	71	68
2.5%	85	81	78	73	70
3.0%	92	88	84	78	75
3.5%	100	96	91	85	81

We cross checked the implied multiples on our DCF derived fair value of SAR 78.00. Our fair value implies a P/E of 16.7x on our 2009 EPS estimate, and an enterprise value to EBITDA multiple of 8.5x on our 2009 EBITDA forecast. We believe that these multiples are reasonable compared to 1) our future growth expectations for Mobily; 2) global peers valuation metrics, and 3) significantly below P/E and EV/EBITDA historical trading multiples of Mobily, albeit reflecting the decelerating growth of earnings.

Implied multiples of our DCF-based Target Fair Value

Target Fair Value (pre-rights issue)	78.00
Target Fair Value (pro forma rights issue)	58.50
EPS 2008E	2.98
EPS 2009E	3.51
EBITDA pre-tax 2008E (SAR mn)	4,943
EBITDA pre-tax 2009E (SAR mn)	5,605
FCF/share 2008E	2.03
FCF/share 2009E	3.22
Implied multiples at target fair value:	
Implied P/E 2008	19.6x
Implied P/E 2009	16.7x
Implied EV / EBITDA 08	9.7x
Implied EV / EBITDA 09	8.5x
Implied FCF % Yield 08	3.5%
Implied FCF % Yield 09	5.5%

Source: SHUAA Capital

Mobily: Historical trading multiples

Closing Price Dec.06 (Yr end)	52.00
Closing Price Dec.07 (Yr end)	73.50
Closing Price 30 Mar.08 (Today)	57.00
EPS 2006A	1.40
EPS 2007A	2.76
EBITDA pre-tax 2006A (SAR mn)	2,445
EBITDA pre-tax 2007A (SAR mn)	3,894
EV dec06 (SAR mn)	33,292
EV dec07 (SAR mn)	44,970
EV Mar08 (SAR mn)	36,720
P/E 06 trailing (Dec. 06 closing price)	37.1x
P/E 07 trailing (Dec. 07 closing price)	26.6x
P/E 07 today (Mar. 08 closing price)	20.7x
EV / EBITDA 06 trailing (Dec. 06 closing price)	13.6x
EV / EBITDA 07 trailing (Dec. 07 closing price)	11.5x
EV / EBITDA 07 trailing (Mar. 08 closing price)	9.4x

Source: Bloomberg, SHUAA Capital

Relative valuation

	P/E		EV/EBITDA	
	2008E	2009E	2008E	2009E
Cellcom	13.3x	12.4x	6.7x	6.5x
Millicom	20.7x	16.5x	8.4x	6.8x
Mobinil	12.1x	11.7x	5.7x	5.1x
MTN	17.1x	12.9x	7.6x	6.4x
MTS	11.8x	10.3x	6.3x	5.6x
Partner	13.1x	12.1x	7.0x	6.6x
Turkcell	10.3x	9.1x	5.1x	4.6x
Vimpelcom	14.8x	12.2x	7.5x	6.0x
Mobily	15.9x	12.4x	7.4x	6.6x

Source: Bloomberg, U.S. Broker estimates, SHUAA Capital

Rights Issue and Balance sheet

Mobily's net debt to EBITDA, after government royalties, was 2.8x at the end of 2007. However, if we adjust EBITDA on a pre-tax basis, the ratio falls to 2.1x.

***Building war chest
with rights issue***

Mobily has an option to finance the acquisition of Bayanat with debt. Hence, the February announcement related to raising SAR 2 bn (USD 533 mn) through a rights issue is an initiative to strengthen the balance sheet of the company. The financing is not strictly related to the acquisition of Bayanat but is expected to give the company the financial flexibility to pursue future opportunities as they arise: acquisitions, partnerships, strategic alliances, etc.

We expect Net debt to EBITDA, including government revenue share, to fall to 1.9x at the end of 2008, pro forma the acquisition of Bayanat Al-Oula (SAR 1.5 bn) and the rights issue (SAR 2.0 bn). Net debt to adjusted EBITDA (pre-tax) is expected to be less than 1.5x, again pro forma Bayanat and rights issue.

What's not reflected in our DCF?

Since inception, Mobily's management has proved that they are 'dealmakers':

1. April 2005: Interconnection, network sharing and other services agreement with Saudi Telecom. (National roaming agreement was amended in June 2006).
2. February 2006: Partnership with Bayanat Al-Oula and ITC to build national fiber network.
3. September 2007: Agreement to acquire Bayanat Al-Oula (closing expected shortly).
4. February 2008: National roaming and infrastructure sharing agreement with Zain SA.

The objective of the management is to continue to grow the company organically as well as through external initiatives such as acquisitions, joint-ventures, etc.

As discussed above, we have taken into account in our model and DCF valuation the anticipated SAR 2.0 bn rights issue, and the related dilution impact. Yet, we did not make any assumptions on the use of proceeds of the financing, i.e. for acquisitions, joint-ventures, etc. We simply added the cash proceeds from the issue on the balance sheet. We will value future transactions as they materialize.

Potential Catalyst: CITC reduces government revenue-sharing fees

Following the commercial launch of services by the third operator, Zain SA, we believe that the CITC will reduce its royalty fees for mobile operators from 15% to 10%. This would be a positive catalyst for Mobily, as well as for STC.

Recall that in 2005, with the launch of Mobily's services and the break-up of the monopoly CITC lowered the government revenue share fees payable by STC from 20% to 15% of annual revenue. Prior to the recent approval of the three new fixed licenses, royalty fees for fixed-line operations were reduced from 15% to 10%.

Globally also regulators have tried to reduce fees while promoting competition, some of them to a level designed to reasonably cover the cost of regulating the sector. In addition, the regulators expect that a portion of the cut in royalty fees is passed on by the operators to the consumer, resulting in increased penetration and usage of mobile services.

In Saudi Arabia, a revision of royalty fees must be proposed by the CITC and approved by the Government.

The rules of the game: Regulatory uncertainty is behind

We believe that with the award of the third mobile license and three fixed-line licenses, the telecom landscape in Saudi Arabia has largely been defined by the CITC. Going forward, we see less room for 'surprises', such as the simultaneous issuance of three fixed line licenses recently. In the mobile sector, we don't expect a fourth mobile license. The only possibility is the issuance of a MVNO (Mobile Virtual Network Operator) license. However, we believe that the CITC, before considering awarding such a license, will take its time to watch the evolving dynamics of the "new three players" market.

Appendix

Management Biography

Khalid Al Kaf, CEO

Mr. Al Kaf, 44, has been CEO of Mobily since its inception. He graduated with an honours degree in Computer Engineering from George Washington University, USA. Prior to joining Mobily, Mr. Al Kaf earned 17 years of experience in progressively senior positions in the telecom industry, working in France (Alcatel), Japan (Fujitsu), and the UAE, where he held the position of General Manager for network services, GSM and 3G networks at Etisalat.

Thamer Al Hosany, CFO

Mr. Hosany is the Chief Financial Officer (CFO) of Mobily. He has a Degree in Accounting (BSA) from UAE University, is a USA Certified Public Accountant (CPA), and a member of American Institute of Certified Public Accountant (AICPA). He spent 13 years with Etisalat UAE, handling key senior positions in finance and accounting, at both regional and head office levels.

Abul Aziz Al-Tamami, COO

Mr. Al-Tamami is the Chief Operations Officer (COO) of Mobily. He has a Master of Science (M.Sc.) in Electrical Engineering from George Washington University, USA, and a Bachelors Degree (Honours) in Electrical Engineering from Michigan State University, USA. He started his career in Saudi Telecom Company (STC) as Co- Director – Equipment & Transmission Division for three years, followed by seven years in Ministry of PTT as General Manager and Directorate positions. He joined Gulf Stars Technology Group as Senior Vice-President in 1997 and was appointed as company President after one year. As a result of the company merging with Al Faisaliah Group, Ebbtikar Technology was created, where he remained President for a year until 2004. He is also a co-founder of Integrated Networks Company (INet).

Financials

Consolidated Balance Sheet (SAR mn)

Year to December	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Assets								
Property and Equipment (Net)	2,757	3,848	5,479	8,409	9,492	10,456	11,194	11,858
License Acquisition Fees	12,314	11,800	11,287	10,773	10,260	9,746	9,233	8,719
Investment	0	0	2	2	2	2	2	2
Total Non-Current Assets	15,071	15,648	16,767	19,184	19,754	20,204	20,429	20,579
Inventories	32	38	69	69	69	69	69	69
Accounts receivable (Net)	167	734	1,460	1,618	1,748	1,757	1,750	1,727
Other current Assets	783	717	810	890	890	890	890	890
Cash and bank balances	185	548	703	974	1,869	3,326	3,747	2,997
Due From a related party	0	5	71	71	71	71	71	71
Total Current Assets	1,167	2,041	3,113	3,622	4,647	6,114	6,528	5,754
Total Assets	16,238	17,689	19,881	22,806	24,401	26,318	26,957	26,333
Capital and reserves								
Paid-up Capital	5,000	5,000	5,000	7,000	7,000	7,000	7,000	7,000
Retained earnings/ (Accumulated losses)	(1,167)	(467)	775	2,451	4,558	7,088	9,626	12,198
Total Equity	3,833	4,533	5,913	9,451	11,559	14,088	16,626	19,198
Liabilities								
LT Loan	0	0	7,912	6,902	5,891	3,594	0	0
Provisions for employees' end of service benefits	3	13	26	24	22	20	18	16
Founding shareholder's loan	1,600	1,600	0	0	0	0	0	0
Total Non-Current Liabilities	1,603	1,613	7,939	6,926	5,913	3,614	18	16
Creditors	909	2,526	3,076	3,576	4,076	4,476	4,876	5,276
Short-term loan	7,348	7,840	0	0	0	0	0	0
Due to related parties	193	179	111	111	111	111	111	111
Current portion of long-term loan	0	0	1,011	1,011	1,011	2,297	3,594	0
Accrued expenses	2,134	678	1,207	1,207	1,207	1,207	1,207	1,207
Other current Liabilities	218	320	624	524	524	524	524	524
Total Current Liabilities	10,802	11,543	6,029	6,429	6,929	8,616	10,313	7,119
Total Liabilities	12,405	13,156	13,968	13,355	12,843	12,230	10,331	7,135
Total Equity and Liabilities	16,238	17,689	19,881	22,806	24,401	26,318	26,957	26,333

Consolidated Income Statement (SAR mn)

Year to December	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Total Service Revenue	1,662	5,841	8,440	10,355	11,219	11,829	12,341	12,826
Cost of Providing Services	967	2,680	3,792	4,597	4,746	4,968	5,171	5,361
Gross Margin	694	3,160	4,648	5,758	6,473	6,861	7,170	7,465
Selling and marketing Expenses	274	365	467	598	644	674	691	705
General and administrative expenses	480	670	943	1,170	1,257	1,313	1,358	1,398
Provisions	53	124	292	342	370	390	407	423
EBITDA (after revenue share)	(113)	2,001	2,947	3,648	4,203	4,483	4,714	4,938
Depreciation & Amortization	739	845	1,031	1,240	1,280	1,250	1,250	1,250
EBIT	(852)	1,156	1,916	2,408	2,923	3,233	3,464	3,688
Other income	32	24	43	33	57	104	142	135
Financing Costs	348	479	555	607	459	384	285	108
Income before Zakat	(1,167)	700	1,404	1,834	2,520	2,953	3,321	3,715
Zakat	0	0	24	46	63	74	83	93
Net profit	(1,167)	700	1,380	1,788	2,457	2,879	3,238	3,622
EPS	(2.33)	1.40	2.76	2.98	3.51	4.11	4.63	5.17
Avg Shares O/S (000)	500,000	500,000	500,000	600,000	700,000	700,000	700,000	700,000

Key ratios

Year to December	2006	2007	2008E	2009E	2010E	2011E	2012E
Growth							
Revenues	251%	45%	23%	8.3%	5.4%	4.3%	3.9%
EBITDA	1874%	47%	24%	15.2%	6.7%	5.2%	4.7%
Net Profit	160%	97%	30%	37.4%	17.2%	12.5%	11.8%
Equity	18.3%	30%	60%	22.3%	21.9%	18.0%	15.5%
Total Assets	8.9%	12.4%	14.7%	7.0%	7.9%	2.4%	-2.3%
Leverage							
Net Interest coverage (x)	4.4	5.8	6.4	10.4	16.0	33.0	--
Debt / Equity (x)	1.7	1.5	0.8	0.6	0.4	0.2	--
Debt / Market Cap (x)	0.3	0.3	0.3	0.2	0.2	0.1	--
Net Debt / Market Cap (x)	0.3	0.3	0.2	0.2	0.1	--	--
Margins & Profitability							
Gross Margin	41.8%	55.1%	55.6%	57.7%	58.0%	58.1%	58.2%
Selling & Marketing Expenses/ Revenue	6.3%	5.5%	5.8%	5.7%	5.7%	5.6%	5.5%
G&A/Revenue	11.5%	11.2%	11.3%	11.2%	11.1%	11.0%	10.9%
EBITDA margin (after gov. royalty)	34.3%	34.9%	35.2%	37.5%	37.9%	38.2%	38.5%
Net Profit margin	12.0%	16.3%	17.3%	21.9%	24.3%	26.2%	28.2%
RoAE	16.7%	26.4%	23.3%	23.4%	22.5%	21.1%	20.2%
RoAA	4.1%	7.3%	8.4%	10.4%	11.4%	12.2%	13.6%
Valuation							
Y/E Number of shares ('000)	500,000	500,000	700,000	700,000	700,000	700,000	700,000
EPS (SAR)	1.40	2.76	2.98	3.51	4.11	4.63	5.17
DPS (SAR)	0	0.50	0.50	0.50	1.00	1.50	4.50
BVPS (SAR)	9.07	11.83	13.50	16.51	20.13	23.75	27.43
Share price***	57.00	57.00	43.57	43.57	43.57	43.57	43.57
P/E (x)	40.7	20.7	15.9	11.6	9.9	8.8	7.9
P/BV (x)	6.3	4.8	3.0	2.5	2.0	1.7	1.5
EV / EBITDA pre-tax (x)	18.4	9.4	7.4	6.6	6.2	5.9	5.6
Dividend yield	0.0%	0.9%	1.1%	1.1%	2.3%	3.4%	10.3%

*** Pro forma rights issue for 2008 - 2012

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