29 July 2008

Recommendation
Add*

Upside
19%

Fair Value
SAR59.18

Current Price
SAR49.75**

EPS FY08e
SAR3.54

Reuters Code
7020.SE

Bloomberg Code
EEC AB

Market Cap
SAR24.88 billion
US$6.78 billion

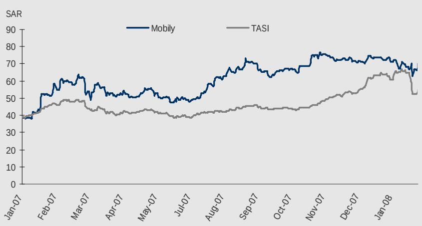
Enterprise Value
SAR33.09 billion
US$9.02 billion

Number of Shares Outstanding
500 million

Shareholders' Structure
26.3% | Etisalat
11.3% | General Organisation of Social Insurance
4.5% | Al Jomaih Holding
6.5% | Abdulaziz Al-Sughayer
4.5% | Rana Investment
4.5% | Riyad Cables
3.4% | Abdullah and Said M.O Binzager Company
40% | Free Float

Average Daily Turnover
SAR42.7 million

52-Week high/low
SAR76.75/47.50



* Please refer to the back cover for investment ratings
** Closing of 28th July, 2008

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BMG FINANCIAL ADVISORS

Etihad Etisalat (Mobily)

Telecom Services Sector | Saudi Arabia

"Second quarter 2008 financial results update: Results continue to impress"

Subscribers

- Mobily has not released subscriber numbers, since year-end 2007, where they last stood at 11 million subscribers, although our expectations are that the number of total subscribers would exceed 13 million by the end of 2008

Revenues and ARPU

- Revenues for the second quarter reached SAR2,543 million (US$692 m) at the end of June 2008, a q-o-q increase of 10% and an annual increase of 25%

Operational Efficiency

- Gross profit reached SAR1,413 million for the second quarter ending June 2008, a q-o-q increase of 15% and an annual increase of 27%
- The gross profit margin stood at 56% at the end of the second quarter, improving by 300 bps compared to the first quarter's gross profit margin of 53%
- Income, before zakat, reached SAR451 million (US$123 m), reflecting a q-o-q 37% growth compared to March 2008
- Net income reached SAR448 million (US$122 m), a q-o-q growth of 38%, equivalent to an EPS of SAR0.90

Outlook

Mobily's operational results have continued to demonstrate a significant improvement, which we believe is positive, particularly with the Muslim pilgrimage (*Hajj*) season in September; *Hajj* is the peak season for mobile operators in Saudi Arabia.

The results are in line with our expectations, with no major differences and we are maintaining all of our forecasts, and forecast a target price of SAR59.18 per share, implying an upside potential of 19% compared to the current market price of SAR49.75 per share and, therefore, we recommend an **Add** for Mobily.

Selected Indicators

Year End December	FY06a*	FY07a	FY08e	FY09e	FY10e	FY11e	FY12e
Revenues (SAR million)	5,847	8,440	10,082	10,706	11,075	11,487	12,178
EBITDA (SAR million)	2,001	2,947	3,608	3,733	4,037	4,240	4,558
EBITDA margin (%)	34.2	34.9	35.8	34.9	36.5	36.9	37.4
Net income (SAR million)	700	1,380	1,768	1,932	2,292	2,574	2,791
EPS (SAR)	1.40	2.76	3.54	3.86	4.58	5.15	5.58
P/E (x)	35.5	18.0	14.1	12.9	10.9	9.7	8.9
P/BV (x)	5.5	4.2	3.9	3.5	3.1	2.9	2.6
EV/EBITDA (x)	16.5	11.2	9.2	8.9	8.2	7.8	7.3
DPS (SAR)	0.0	0.5	1.8	1.9	2.8	3.1	3.3
Dividend yield (%)	0.0	1.0	3.6	3.9	5.5	6.2	6.7

Source: Mobily, BMG estimates * Mobily has restated 2006 financial results

Mobile Roaming Agreement

Mobily has launched a “Mobile Roaming Alliance” in conjunction with its mother company, the UAE's Etisalat and its sister company Etisalat Misr in Egypt. The scheme offers Mobily’s customers a saving of up to 53% when they travel to the UAE and Egypt and use the roaming facility on their mobile phones. Etisalat UAE and Etisalat Misr’s customers traveling to Saudi Arabia from the UAE and Egypt will also enjoy the same privileges and flat rates. We believe that this mobile roaming agreement comes as a strong response from Mobily to defend its market share against Zain’s “One Network” scheme, which is also a borderless roaming scheme, which was announced for its Arab countries earlier this year. Saudi Zain is expected to launch its operations in Saudi Arabia this month. Given the high level of inter-Arab tourism and cross-Arab working expatriates, borderless roaming is becoming a powerful marketing tool. Furthermore, Mobily’s management expects its market share to grow to 40% in 2008 from 39% at the end of 2007.

Mobily buys Zajil International Telecommunications

Mobily announced its intention to buy Zajil International Telecommunications Company, a Saudi internet and data communication provider for US$21.3 million to capitalise on the booming appetite for high-speed data transmission, enabling Mobily to generate more revenues from corporate clients. Mobily has gained the approval of the Capital Markets Authority to buy 96% of Zajil International Telecommunications Company’s capital. Zajil’s ISP has the biggest market share in the country, according to Mobily, and it ties in with Mobily’s overall push for data services strategy. Earlier in the year, Mobily had bought a local data provider, Bayanat Al Oula, for US$400 million, which is one of two companies in Saudi Arabia with a Wimax licence, giving Mobily a 66% share in the fibre-to-the-home market.

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Disclaimer

Inv. Rating

Upside

Buy
Significantly over-weight vs. the index

25%

Add
Over-weight vs. the index

5%

Neutral
Maintain index weight

-5%

Reduce
Under-weight vs. the index

-25%

Sell
Do not hold the stock

Downside