22 June 2008

Recommendation
Buy**

Upside
28%

Fair Value
SAR70.74

Current Price
SAR55.25

EPS FY08e
SAR3.54

Reuters Code
7020.SE

Bloomberg Code
EEC AB

Market Cap
SAR27.63 billion
US$7.53 billion

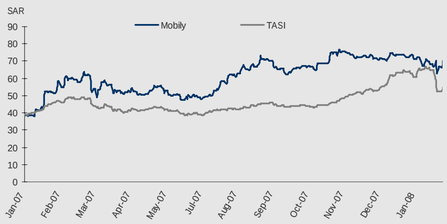
Enterprise Value
SAR35.84 billion
US$9.76 billion

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



* Closing of 17th June, 2008
** Refer to back cover for investment ratings.

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BMG FINANCIAL ADVISORS

Etihad Etisalat (Mobily)

Telecom Services Sector | Saudi Arabia

"First quarter 2008 financial results update: Competition is imminent"

Subscribers:

- Mobily have not released subscriber numbers, as of yet, since year end 2007

Revenues and ARPU:

- Revenues reached SAR2,308 million (US$629 m) at the end of March 2008, an annual increase of 23%.

Operational Efficiency:

- EBITDA reached SAR726 million at the end of March 2008, a y-o-y increase of 18.5%.
- The EBITDA margin stood at 31.5% at the end of March 2008, whereas, the EBITDA margin for the March 2007 stood at 32.7%
- Income, before zakat, reached SAR328 million (US$89 m), reflecting an annual 31% growth compared to the previous year
- Net income reached SAR326 million (US$89 m), a year-on-year growth of 30%, equivalent to an EPS of SAR0.65 per share

Outlook

We still remain positive on the Saudi telecommunications market, with its strong macroeconomic factors, including high GDP per capita, rising income levels and its relatively young, fast-growing population, all of which should maintain healthy net subscriber additions and relatively high ARPU levels. We believe that with the entrance of Zain as the third telecom operator, competition will be stimulated in the Saudi market, resulting in an overall increase in net subscriber additions. We expect that Saudi Telecom (STC) is likely to experience a higher customer churn rate, compared with Mobily. At the end of our forecast period we expect Mobily's market share to stabilise at 40%.

We calculated an arithmetic average using the fair values derived by both our DCF valuation and our comparative valuation method and arrived to a target value per share of SAR70.74, implying an upside potential of 28% compared to the current market price of SAR55.25 per share and therefore a **Buy** recommendation. Our DCF valuation yielded a fair value of SAR91.82 per share, while our comparative valuation, derived a value of SAR49.65 per share. Our overall target price decreased from a prior SAR88.73 per share *(refer to our Mobily report dated January 29, 2008)* to SAR70.74 per share, because we have not utlised the PEG ratio analysis as part of comparative valuation analysis, since Mobily has now surpassed the pioneer growth cycle in its operational life and earnings have started to stabilize.

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)	39.4	20.0	15.6	14.3	12.1	10.7	9.9
P/BV (x)	6.1	4.7	4.3	3.8	3.5	3.2	2.9
EV/EBITDA (x)	17.9	12.2	9.9	9.6	8.9	8.5	7.9
DPS (SAR)	0.0	0.5	1.8	1.9	2.8	3.1	3.3
Dividend yield (%)	0.0	0.9	3.2	3.5	5.0	5.6	6.1

Source: Mobily, Beltone Financial estimates * Mobily have restated 2006 financial results

Competition in the second half of 2008

Zain, the third mobile entrant in the Saudi market, has announced the launch of its 'One Network' that will allow mobile customers to make phone calls and SMS at local rates and receive incoming calls free-of-charge across Bahrain, Iraq, Jordan and Sudan. Zain's Saudi Arabian operation will join the One Network on commencement of commercial services in the second half of 2008, while other Zain operations in the region will join the service, subject to governmental and regulatory approvals. The launch of the “One Network” scheme will undoubtedly attract a significant number of subscribers in the GCC markets in which Zain runs its operations, since roaming costs, which are quite expensive, could be made and received at the local charge rate. The initiation of this scheme will give Zain’s Saudi operations a good head start in the Saudi market by the time it launches its operations. In order to offset the negative impact that this scheme will have on both STC’s and Mobily’s subscribers, we believe that both operators will try to rollout a number of promotional packages to try and retain their existing subscriber base which, in turn, would will drive ARPU’s down. We believe that ARPUs could start to follow a modest declining pattern in a best case scenario, or fall sharply if Zain inaugurates its entrance into the Saudi market by resorting to an additional price war. We believe that the Saudi Arabia’s penetration rates should cross 100% before the end of 2008 and could reach saturation levels thereafter. By the end of our forecast period, we believe that Mobily’s market share could stabilise at 40%.

Technology rollout

Mobily began the first phase of its second 3.5G network expansion, in order to keep abreast of the latest available 3.5G technologies, and expand its network coverage to reach new cities in the Kingdom. Mobily had already allocated almost SAR1 billion for this expansion, which commenced recently. Since mid-2006, Mobily has established its 3G network, attracting more than 2 million subscribers in different 3G services. In addition, Mobily is also expanding its national fibre-optic network, regionally and globally, as part of a consortium that includes Etisalat of the United Arab Emirates and Etisalat Misr in Egypt. The cable itself is expected to cost US$150 million and will run from Fujairah in the United Arab Emirates, across Saudi Arabia, passing through Jeddah, and through the Suez Canal and Alexandria in Egypt, to Italy in the Mediterranean, and entering Europe through France. The cable itself will allow more internet and voice traffic to originate and terminate in the region, translating into faster web browsing speeds and more cost effective international and regional calling rates in the long term. Additionally, Mobily also announced that its acquisition of 99% of Bayanat Al Oula's shares has been approved by the Communications and Information Technology Commission. The SAR1.5 billion acquisition increased Mobily's share from 33% to 66% in the SAR1 billion 12,000 kilometer national fiber optic backbone.

Founding shareholders reduce stake in Mobily

In late March 2008, Mobily’s founding shareholders, including Etisalat, sold 100 million shares, which is equivalent to 20% of the company’s total outstanding shares, in a secondary offering to a group of strategic Saudi investors. In compliance with the Royal decree, Mobily was obligated to increase its public float to 40% during the third year of its operational lifetime. As a result of this sale, Etisalat’s stake decreased from 35.5% to 26.25%. The shares were sold at SAR55 per share, based on an average trading price, resulting in a total transaction value of SAR2.41 billion (AED2.37 billion).

We believe that, in the absence of legal obstacles, Etisalat will try to increase its stake in Mobily by buying through the open market, since we believe that the selling price undervalued the potential of Mobily, as it was significantly lower than our fair target value for Mobily of SAR88.73 per share. (*Refer to our Mobily report dated January 29, 2008)*

Mobily plans a capital increase

Mobily announced its plans for a capital increase by 40% to SAR7 billion, through the issuance of 200 million new shares. The capital increase will take place with a ratio of 4 new shares for every 10 shares owned by a shareholder of Etihad Etisalat. The timing of the capital increase will depend on the procedures with the Saudi Capital Market Authority, as well as the occurrence of an extraordinary general assembly to approve of the capital increase.

Valuation

We calculated an arithmetic average using the fair values derived by both our DCF valuation and our comparative valuation method and arrived to a target value per share of SAR70.74, implying an upside potential of 28% compared to the current market price of SAR55.25 per share and therefore a **Buy** recommendation.

1Q 2008 Financial Results

Mobily released its first quarter financial results ending March 2008, where total revenues reached SAR2,308 million, a 23% annual increase. As yet, Mobily has not released subscriber numbers for the period to March 2008, however, we believe that revenue growth was probably driven by stronger subscriber growth, as Mobily demonstrated its strength in net subscriber acquisition in the last quarter of 2007. Mobily managed to capture a 76% market share, of total net subscriber additions in the Saudi market reaching a total subscriber base of 11 million at the end of December 2007, equivalent to a 41% market share.

EBITDA reached SAR726 million at the end of March 2008, an 18.5% annual increase. EBITDA margin dipped slightly to 31.5% at the end of March 2008, compared to 32.7% in March 2007, as a result of increased general and administrative costs, mainly.

Net income before zakat increased by 31% to reach SAR328 million, while net income increased to SAR326 million, a 30% annual increase, equivalent to an eps of SAR0.65 per share.

Table 1 | Income Statement

All Figures in SAR 000's (unless stated otherwise)	1Q 2008	1Q 2007	Change %
Total operating revenues	2,307,788	1,876,554	22.98%
Cost of providing services	(1,084,186)	(891,146)	
Gross Profit	**1,223,602**	**985,408**	24.17%
Gross Profit Margin	53.0%	52.5%	
Selling & marketing expenses	(112,073)	(128,497)	
General & administrative expenses	(385,223)	(243,929)	
EBITDA	**726,306**	**612,982**	18.49%
EBITDA margin	31.5%	32.7%	
Depreciation and Amortization	(292,395)	(242,062)	
EBIT	**433,911**	**370,920**	16.98%
EBIT margin	18.8%	19.8%	
Financing costs	(119,757)	(128,784)	
Other income	14,031	8,474	
Net Income before zakat	**328,185**	**250,610**	30.95%
Zakat Provision	(2,171)	0	
Net Income	**326,014**	**250,610**	30.09%
EPS (SAR/share)	**0.65**	**0.50**	

Source: Mobily

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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