

**October 29th, 2007****Sector Coverage Team****Walid Shihabi**

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- **Subscribers' growth in Saudi Arabia remains healthy:** In Q3 07 Mobily's subscriber base was just above 8 million, increasing by 32% YTD. We estimate Mobily's market share to be of around 35% for the quarter implying an 85% penetration rate in Saudi Arabia. According to our estimates the blended Average Revenue Per User (ARPU) has dropped by 8% YTD to reach USD 25 in Q3 07.
- **Slowdown in revenues' growth:** Mobily's revenues reached SAR 2,125mn in Q3 07 recording a 5% increase QoQ and a 25% increase YoY. The average quarterly growth rate in revenues reached 4% for the 9M 07 period, compared to 18% for the same period last year. Our revenues' forecast for Q3 07 was of SAR 2,299mn, 8% above the realized figure, as we were bullish on "Mobily connect" revenues; a service Mobily offers which provides high speed internet connectivity in the areas covered by 3.5G network.
- **Improving EBITDA margin:** EBITDA for Q3 07 was of SAR 715mn increasing by 6% QoQ and 28% YoY. The EBITDA margin went from 33.1% in Q2 07 to 33.6% this quarter, improving by 1.5% QoQ and 3% YoY.
- **Flat operating margin:** The operating margin for Q3 07 remained flat QoQ at 21% and improved by 6% YoY. Finance costs have increased by 13% QoQ and 12% YoY - they had remained flat in average over the last 4 quarters.
- **Tightening of net profits:** Net profit in Q3 07 came at SAR 311mn recording a 2% increase QoQ and 43% increase YoY. The average quarterly growth rate in net profits for the 9M 07 period was -0.19%, compared with 140% for the same period last year. The earnings for Q3 07 came 24% below estimate as we had expected higher revenues and an improving operating margin.
- **Growth drivers yet to be confirmed:** We believe that, going forward, growth drivers in the Saudi market will be 3.5G services along with high-speed internet. It is important to note that in Q3 07 Mobily has acquired 99.9% of Bayanat Al Oula, a data service provider that has won one of two licenses to build and operate a national optical, data, and wireless network in Saudi Arabia. Mobily expects to consolidate Bayanat El Oula in its statements in Q1 08. With this acquisition Mobily will be competing with STC on all segments except for wireline services. We expect competition on the mobile segment to heat up even further, with the entry in Q2 08 of Zain, the third mobile operator. Even though Zain and Mobily have both affirmed there wouldn't be a price war, a degree of price competition is inevitable with the presence of three operators in one market.

Current Stock Price (SAR)	76.00
52 week range	38.00-76.75
Number of Shares (000)	500,000
Free Float	20%
Market Cap (000'SAR)	38,000,000
Market Cap (000'USD)	10,167,224
Div. Yld 2007E	0.00%

SAR'000	Q3 2006	Q2 2007	Q3 2007	9M 2006	9M 2007
Revenues	1,705,375	2,028,880	2,124,575	4,281,979	6,030,170
Gross Margin	956,764	1,111,539	1,176,126	2,368,110	3,274,953
Depreciation and amortization	215,890	242,889	264,253	630,202	749,204
Operating Income	342,456	429,042	450,370	710,337	1,250,332
Finance costs	133,278	132,480	149,385	350,227	410,649
Profit for the period	216,863	303,845	310,624	370,477	865,079

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