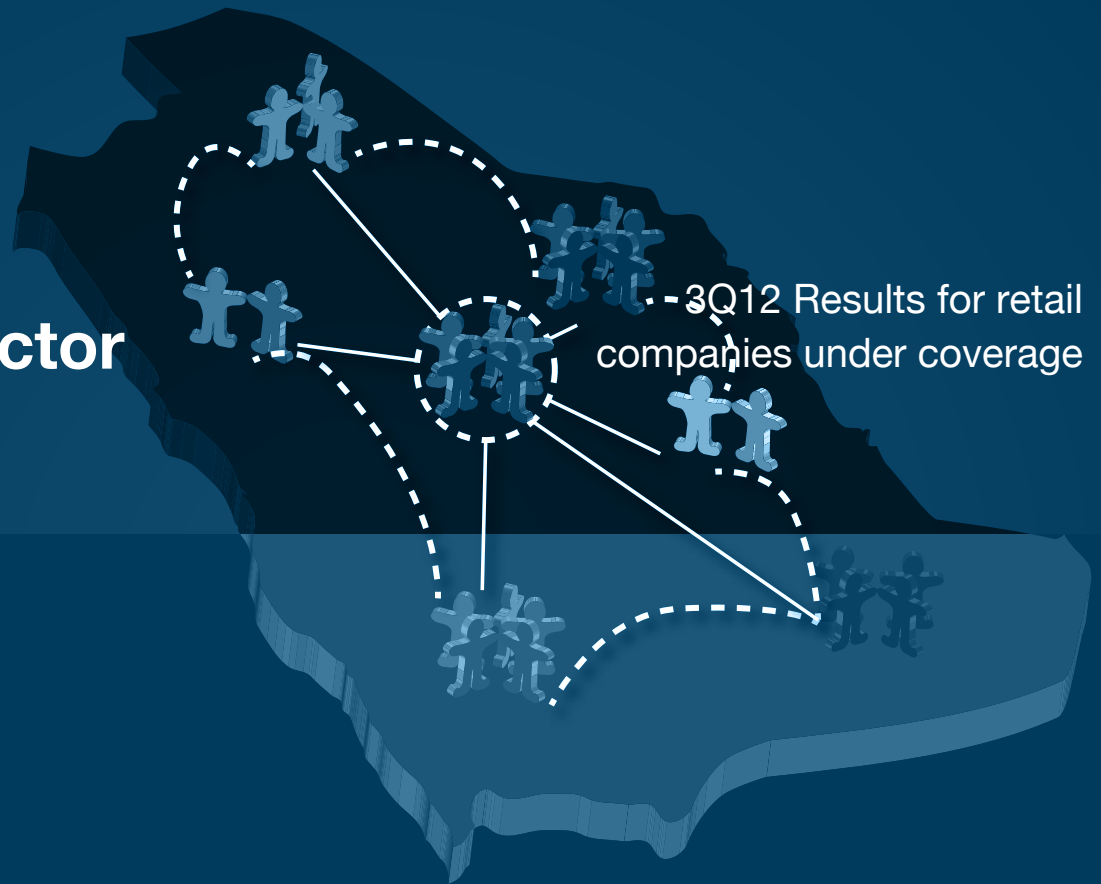


NOVEMBER
2012

Saudi Telecom Sector



3Q12 Results for retail
companies under coverage

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KSA Telecommunication Sector: Sector Update

- The Saudi Telecommunication sector has outperformed TASI by 700%. The sector has YTD moved up by 25%. The Saudi Telecom sector consists of 5 operator, namely Saudi Telecom Co (STC), Etihad Etisalat (Mobily), and Mobile Telecommunication Co.(Zain KSA). The sector is dominated by the two major player STC and Mobily, which control more than 90% of the total market in wireless communication. STC has a strong hold in the Fixed line segment, given that it is the only land line provider in the Kingdom. Zain KSA has been finding it difficult to penetrate the already saturated market of wireless telecommunication, given the strong hold of the two major players. The only redeeming opportunity for Zain can be the under penetrated data market. However given the strong consumer base of STC and Mobily, data services can be provided as an extension to its already available portfolio of services.
- Saudi Arabian Telecommunication sector has been seeing strong growth on the back of high penetration, and a bloom in data services demand. With penetration levels approaching 200% mark, growth in telephony is expected to remain subdued. However strong growth is expected from Data services, in any form, whether it be wireless or wire line. Heavy investment towards expanding and improving the infrastructure to support the future technological advancement like 3G, 4G/LTE, Fiber Optics (FTTH & FTTX) and IPTC IPTV, are driving the revenue for the telecom operators in the local market.
- With the Hajj season, falling in the 4th quarter, we expect the company's to show strong performance, as they had already enhanced their networks in the holy cities to cater the communication demands of the pilgrims.

Saudi Telecom Co. (STC)-“ Overweight” Stance maintained

- The company's 3Q-2012 actual revenue of SAR 15.15bn was 3% above our estimated sales of 14.65bn. However net income of SAR 1.95bn was 25.5% below our estimate of SAR 2.45bn. This was due to lower gross margins as a result of the higher cost, and higher than expected provisions for doubtful receivables. Share of minority interest were also higher than expected.
- Given that the 3Q-2012 earnings were significantly below our expectations, we adjust our full year revenue and net income forecast, we cut our price target from SAR 54.6 to SAR 53.9. We maintain our “**Overweight**” stance on the company

Key financial updates 2012

All figures in SAR mn, unless otherwise stated	Earlier estimates 2012	New estimates 2012	"Upward/ (Downward) revision"
Sales Revenue	58,529	60,015	2.5%
COGS	(24,699)	(25,682)	4.0%
Gross Profit	33,830	34,333	1.5%
Gross Margin	57.8%	57.2%	
Operating Profit	12,884	12,659	-1.7%
Operating Margin	22.0%	21.1%	
Net Profit	9,713	9,387	-3.4%
Net Margin	16.6%	15.6%	
EPS (SAR)	4.86	4.69	-3.4%

Source: Aljazira Capital*

Etihad Etisalat (Mobily) - Price Target Upgraded

- Mobily's 3Q-2012, result of SAR 1.57bn was broadly in line with our expectation of SAR 1.45bn, depicting a deviation of 3.8%. Revenues and Cost of services were 3.9% and 13.7% above our expectation. However, gross profits showed little deviation of 0.3%. Higher net income was a result of lower than expected other expenses.
- Given the higher than expected revenue and net earnings, for the quarter we revise our price target upward to SAR 89/share, we maintain our "Overweight" stance.
- While writing this report, Mobily announced the issuance of 10% bonus shares. The ex-date for the shares have not been announced. Therefore we maintain our price Target. Once the date is announced we will revert back with adjusted financials and price target.

Key financial updates 2012

All figures in SAR mn, unless otherwise stated	Earlier estimates 2012	New estimates 2012	"Upward/ (Downward) revision"
Sales Revenue	22,365	23,466	4.9%
COGS	(10,717)	(11,558)	7.8%
Gross Profit	11,648	11,908	2.2%
Gross Margin	52.1%	50.7%	
Operating Profit	5,734	6,087	6.2%
Operating Margin	25.6%	25.9%	
Net Profit	5,548	5,897	6.3%
Net Margin	24.8%	25.1%	
EPS (SAR)	7.93	8.42	

Source: Aljazira Capital*

COMPANY PROFILE

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated “Overweight” will typically provide an upside potential of over 10% from the current price levels over next twelve months.

Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated “Underweight” would typically decline by over 10% from the current price levels over next twelve months.

Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated “Neutral” is expected to stagnate within +/- 10% range from the current price levels over next twelve months.

Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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