

Nawras - Gateway drives Earnings...

Closing Price: RO 0.726

Recommendation: Accumulate

Fair Value: RO 0.801

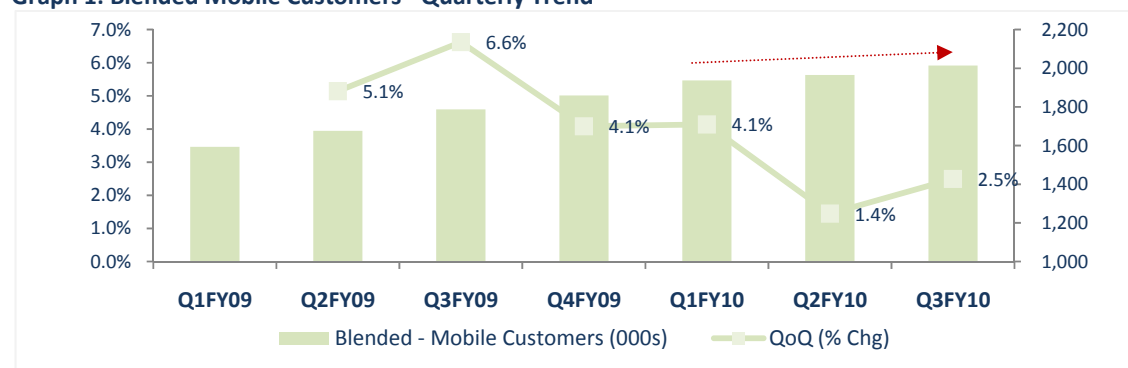
Upside: 10.3%

Overall View - In line with our estimates...

Mobile segment growth at low single digits: Overall Mobile subscribers' addition of Nawras during the quarter is about 49K, reporting a marginal increase of 2.5%. This is higher as compared to a meager addition of 28K subscribers during Q2FY10. The addition during the quarter came in mainly from the low usage prepaid segment which saw an addition of 45K subscribers. While the post paid mobile segment saw a marginal increase of 4K subscribers during Q3. As at end of Sep 10, the total subscriber base of Nawras in the mobile segment stood at 2.014 million representing a subscriber market share of about 45% levels.

November 23, 2010

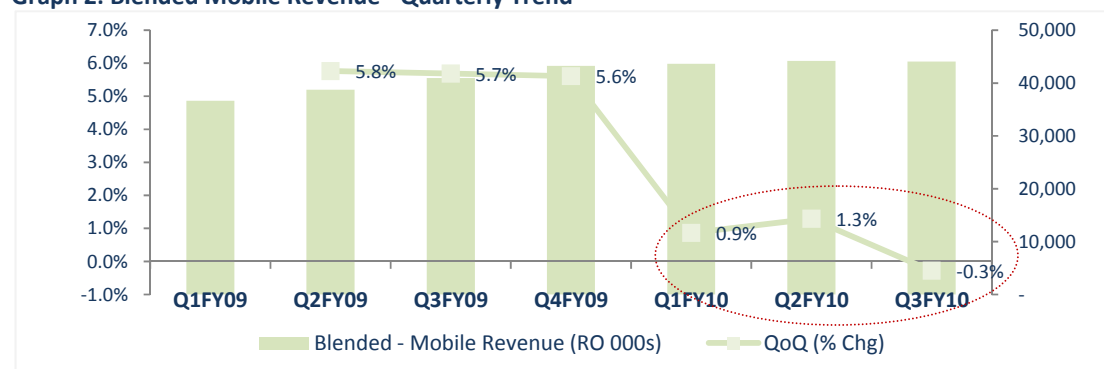
Graph 1: Blended Mobile Customers - Quarterly Trend



Source: Company Reports, GBCM Research

Mobile Revenue growth flattened - In line with our estimates: During Q3FY10, the total mobile revenue of the company stood at RO 44.077 million, reporting a marginal decline of 0.3% sequentially. ARPUs of both prepaid and postpaid mobile segment continued its downward trend which is on back of lowering international traffic on back of enhanced competition especially from the resellers. The blended ARPU of the company during Q3FY10 stood at RO 7.27 a decline of 1.2% on a QoQ basis. The decline in ARPU of the company is on the expected lines as mentioned in our IPO note (Refer: GBCM Research: IPO Note on Nawras Published on 27-Sep-10).

Graph 2: Blended Mobile Revenue - Quarterly Trend



Source: Company Reports, GBCM Research

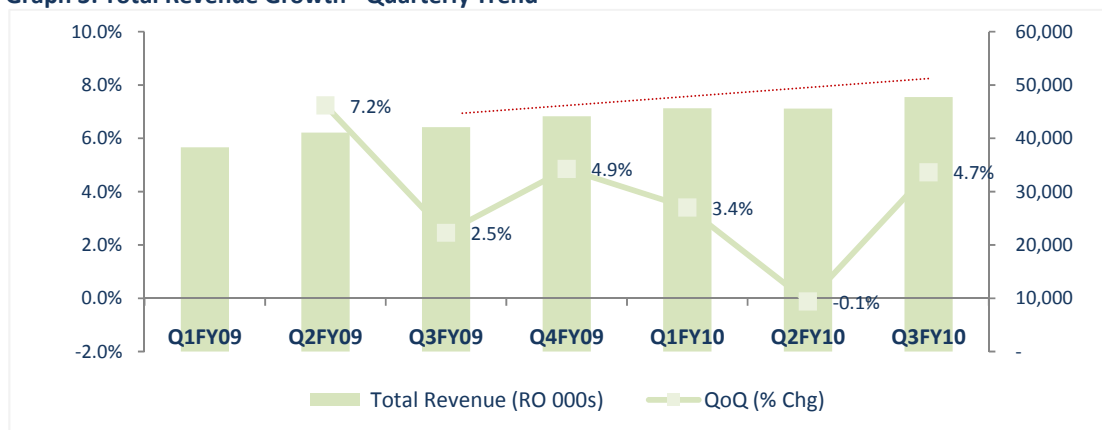
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International Gateway opens up revenue growth: Nawras has started providing international services with the completion of its own international gateway in May 2010. This in turn opened up a new segment of revenue growth. The company has also started the rollout of its fixed line products beginning May 2010. The fixed and International gateway revenue of the company for Q3 stood at RO 1.906 million, forming about 4% of the total revenues, which is a positive sign. The breakup of revenue from International Gateway is not disclosed by the company.

Fixed Line Roll out - Added 5K customers: With the starting up of fixed line operations, the company has added about 5,000 subscribers in this segment during its first quarter of full operations (Q3FY10). The company plans to install more than 5,000 kms of fiber optic cables before end of FY2011, which could support its growth strategy in the fixed line segment. As per the company release, the fixed line ARPU during Q3 stood at RO 35.8. However, we believe that the company is expected to report higher ARPU in fixed services during its initial months of launch.

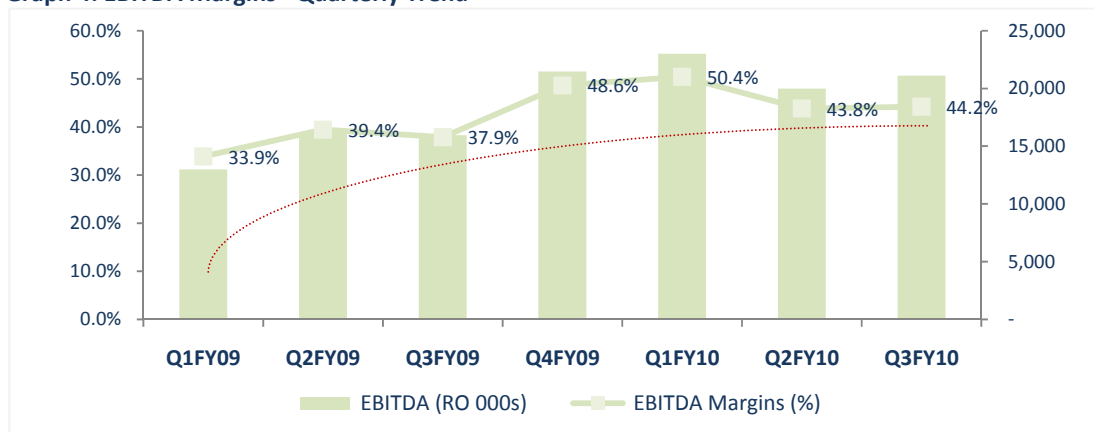
Graph 3: Total Revenue Growth - Quarterly Trend



Source: Company Reports, GBCM Research; ** Q4FY09 Revenue excludes exceptional roaming income of RO 5.98 million

Revenue growth aided by Wholesale services: During Q3FY10, Nawras has reported total revenue of RO 47.744 million, reporting an increase of 4.7% on a QoQ basis. Despite the flattening of Mobile revenue growth, the company has showed revenue growth during the quarter aided by the new avenue of income from International Gateway and fixed line services. With the inclusion of wholesale services to its product offerings, Nawras has become an integrated player in the Omani telecom market.

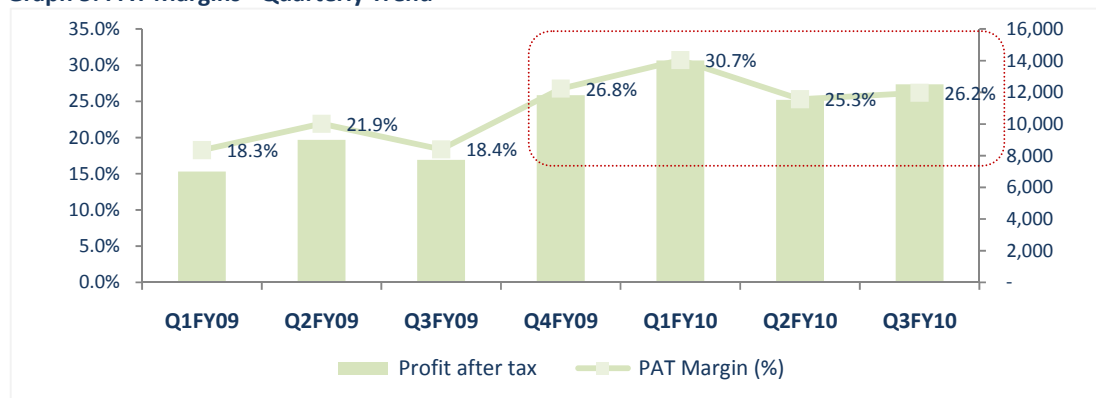
Graph 4: EBITDA Margins - Quarterly Trend



Source: Company Reports, GBCM Research; ** Q4FY09 EBITDA excludes exceptional roaming income of RO 5.98 million

EBITDA margins flattened: Nawras has reported flattening Q3FY10 EBITDA margin of 44.2% as compared to 43.8% levels seen in the previous quarter. On the expenses side, the total operating expenses declined by 2.7% sequentially to RO 6.887 million during Q3FY10. While the G&A expenses have increased by 7.9% on a QoQ basis. EBITDA margins for the quarter stood at 44.2% and continue to show improvement during the quarter, which is in line with our estimates. We expect the EBITDA margins to improve in the coming quarters on back of usage of its own international gateway for routing international traffic.

Graph 5: PAT Margins - Quarterly Trend



Source: Company Reports, GBCM Research, ** Q4FY09 PAT excludes exceptional roaming income of RO 5.98 million

PAT improved during the quarter: The Company has reported Q3 net profit after tax (PAT) of RO 12.502 million, showing an increase of 8.4% on a QoQ basis. This is in line with our estimates. The presence of lower operating expenses along with reduced financing costs has helped in improved earnings for the quarter.

Outlook: Margin improvement to aid Earnings...

GBCM Research expects the growth in data market is expected to offset the lower demand prospects seen in voice markets moving ahead. Going forward, the company also expects to leverage the fixed license and its own gateway to expand wholesale services market share for incoming international traffic. We would maintain our FY10E Profit after Tax (PAT) estimates at RO 54 million (FY10E EPS of RO 0.083), an increase of 30% YoY. The growth in PAT is on the back of lower interconnection costs which in turn improves EBITDA margins. We continue to maintain our Earnings CAGR of 16.2% over FY09-12E.

Maintaining our Fair value at RO 0.801...

Based on our Valuation methodologies (*DCF, DDM and Comparable Valuation*), GBCM Research arrived at a weighted fair value of RO 0.801 for Nawras (*Source: IPO Note on Nawras date 27-Sep-10*). With this report, Nawras would become a part of our regular research coverage post listing in MSM. At the current levels, the stock trades at PE of 8.7X of FY10E EPS and 8.0X of FY11E EPS. We initiate regular coverage on the stock with an 'Accumulate' rating and a **target price of 0.801**, an upside of 10.3% from the current levels.

At the current levels, the stock is trading lower as compared to MENA telecom sector of PE average of 10.4X and GCC Telecom sector PE average of 11X (*Source: Bloomberg*). We expect the dividend for this fiscal year to be about RO 0.040 (*in line with regional sector average*), providing dividend yield of 5.5% at current levels.

Post Q3FY10 results, the earnings estimates and fair value has been maintained - for Details Refer: GBCM Research: IPO Note on Nawras Published on 27-Sep-10. The company would be under our regular research coverage moving ahead.

Nawras - Q3 FY2010 Preliminary results

Total Customers (000s)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Post Paid	119	127	136	146	156	170	174
QoQ (% Chg)		6.7%	7.1%	7.4%	6.8%	9.0%	2.4%
YoY (% Chg)					31.1%	33.9%	27.9%
Pre paid	1,475	1,549	1,651	1,714	1,781	1,795	1,840
QoQ (% Chg)		5.0%	6.6%	3.8%	3.9%	0.8%	2.5%
YoY (% Chg)					20.7%	15.9%	11.4%
Blended - Mobile Customers	1,594	1,676	1,787	1,860	1,937	1,965	2,014
QoQ (% Chg)		5.1%	6.6%	4.1%	4.1%	1.4%	2.5%
YoY (% Chg)					21.5%	17.2%	12.7%
Fixed Line							5
Quarterly ARPU (RO)							
Post Paid – ARPU	26.88	28.15	26.84	26.49	26.70	26.14	25.11
QoQ (% Chg)		4.7%	-4.7%	-1.3%	0.8%	-2.1%	-3.9%
YoY (% Chg)					-0.7%	-7.1%	-6.4%
Pre paid – ARPU	6.18	6.08	6.14	6.16	5.80	5.65	5.57
QoQ (% Chg)		-1.6%	1.0%	0.3%	-5.8%	-2.6%	-1.4%
YoY (% Chg)					-6.1%	-7.1%	-9.3%
Blended – ARPU	7.70	7.73	7.71	7.73	7.46	7.36	7.27
QoQ (% Chg)		0.4%	-0.3%	0.3%	-3.5%	-1.3%	-1.2%
YoY (% Chg)					-3.1%	-4.8%	-5.7%
Fixed Line – ARPU						-	35.8
Revenue Breakdown (RO 000s)							
Post Paid	8,924	11,037	11,237	11,921	12,802	13,345	13,491
QoQ (% Chg)		23.7%	1.8%	6.1%	7.4%	4.2%	1.1%
YoY (% Chg)					43.5%	20.9%	20.1%
Pre paid	27,725	27,724	29,729	31,343	30,836	30,856	30,586
QoQ (% Chg)		0.0%	7.2%	5.4%	-1.6%	0.1%	-0.9%
YoY (% Chg)					11.2%	11.3%	2.9%
Blended - Mobile Revenue	36,649	38,761	40,966	43,264	43,638	44,201	44,077
QoQ (% Chg)		5.8%	5.7%	5.6%	0.9%	1.3%	-0.3%
YoY (% Chg)					19.1%	14.0%	7.6%
Fixed and Int. Gateway Revenue	-	-	-	-	-	363	1,906
Others	1,666	2,327	1,132	6,857	2,006	1,025	1,761
QoQ (% Chg)		39.7%	-51.4%	505.7%	-70.7%	-48.9%	71.8%
YoY (% Chg)					20.4%	-56.0%	55.6%
Total Revenue (RO 000s)	38,315	41,088	42,098	50,121	45,644	45,589	47,744
QoQ (% Chg)		7.2%	2.5%	19.1%	-8.9%	-0.1%	4.7%
YoY (% Chg)					19.1%	11.0%	13.4%

Moderation seen in Mobile subscriber's growth

ARPU continued its declining trend

New avenues of revenue from fixed line and International gateway

Source: MSM Announcement, Company Reports, GBCM Research, ** Q4FY09 Revenue includes exceptional roaming income of RO 5.98 million

Nawras - Q3 FY2010 Preliminary results

Profit and Loss Statement (In RO 000s)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue	38,316	41,088	42,098	50,121	45,644	45,589	47,744
Other income	144	34	105	92	32	(24)	245
Total Revenue	38,460	41,122	42,203	50,213	45,676	45,565	47,989
QoQ (% Chg)		6.9%	2.6%	19.0%	-9.0%	-0.2%	5.3%
YoY (% Chg)					18.8%	10.8%	13.7%
Operating expenses	(11,705)	(9,623)	(10,233)	(5,990)	(7,014)	(7,075)	(6,887)
QoQ (% Chg)		-17.8%	6.3%	-41.5%	17.1%	0.9%	-2.7%
YoY (% Chg)					-40.1%	-26.5%	-32.7%
General and administrative expenses	(11,766)	(12,923)	(13,558)	(13,444)	(13,029)	(15,678)	(16,912)
QoQ (% Chg)		9.8%	4.9%	-0.8%	-3.1%	20.3%	7.9%
YoY (% Chg)					10.7%	21.3%	24.7%
Royalty	(2,009)	(2,369)	(2,465)	(3,330)	(2,616)	(2,826)	(3,077)
QoQ (% Chg)		17.9%	4.1%	35.1%	-21.4%	8.0%	8.9%
YoY (% Chg)					30.2%	19.3%	24.8%
EBITDA (RO 000s)	12,980	16,207	15,947	27,449	23,017	19,986	21,113
QoQ (% Chg)		24.9%	-1.6%	72.1%	-16.1%	-13.2%	5.6%
YoY (% Chg)					77.3%	23.3%	32.4%
Depreciation and amortization	(4,550)	(4,856)	(5,464)	(5,679)	(5,947)	(5,882)	(5,931)
QoQ (% Chg)		6.7%	12.5%	3.9%	4.7%	-1.1%	0.8%
YoY (% Chg)					30.7%	21.1%	8.5%
EBIT	8,430	11,351	10,483	21,770	17,070	14,104	15,182
QoQ (% Chg)		34.7%	-7.6%	107.7%	-21.6%	-17.4%	7.6%
YoY (% Chg)					102.5%	24.3%	44.8%
Financing costs	(893)	(1,129)	(1,532)	(1,550)	(1,120)	(1,011)	(967)
QoQ (% Chg)		26.4%	35.7%	1.2%	-27.7%	-9.7%	-4.4%
YoY (% Chg)					25.4%	-10.5%	-36.9%
Profit Before Tax	7,537	10,222	8,951	20,220	15,950	13,093	14,215
QoQ (% Chg)		35.6%	-12.4%	125.9%	-21.1%	-17.9%	8.6%
YoY (% Chg)					111.6%	28.1%	58.8%
Income tax expense	(540)	(1,219)	(1,215)	(2,425)	(1,936)	(1,561)	(1,713)
QoQ (% Chg)		125.7%	-0.3%	99.6%	-20.2%	-19.4%	9.7%
YoY (% Chg)					258.5%	28.1%	41.0%
Profit after tax	6,997	9,003	7,736	17,795	14,014	11,532	12,502
QoQ (% Chg)		28.7%	-14.1%	130.0%	-21.2%	-17.7%	8.4%
YoY (% Chg)					100.3%	28.1%	61.6%

Source: MSM Announcement, Company Reports, GBCM Research; ** Q4FY09 Revenue includes exceptional roaming income of RO 5.98 million

Nawras – Financial Highlights

Profit and Loss Statement (In RO 000s)	2007	2008	2009	2010E	2011E	2012E
Revenue	94,372	139,222	171,623	196,405	210,706	227,139
Other income	647	1,034	375	491	527	568
Total Revenue	95,019	140,256	171,998	196,897	211,233	227,707
YoY (% Chg)		47.6%	22.6%	14.5%	7.3%	7.8%
Operating expenses	(40,686)	(48,234)	(37,551)	(27,437)	(22,124)	(22,955)
YoY (% Chg)		18.6%	-22.1%	-26.9%	-19.4%	3.8%
General and administrative expenses	(28,181)	(41,345)	(51,691)	(64,946)	(71,261)	(76,862)
YoY (% Chg)		46.7%	25.0%	25.6%	9.7%	7.9%
Royalty	(5,232)	(7,060)	(10,173)	(13,748)	(14,749)	(15,900)
YoY (% Chg)		34.9%	44.1%	35.1%	7.3%	7.8%
EBITDA	20,920	43,617	72,583	90,765	103,099	111,990
YoY (% Chg)		108.5%	66.4%	25.0%	13.6%	8.6%
Depreciation and amortization	(12,576)	(16,191)	(20,549)	(22,448)	(26,398)	(27,948)
YoY (% Chg)		28.7%	26.9%	9.2%	17.6%	5.9%
EBIT	8,344	27,426	52,034	68,316	76,700	84,042
YoY (% Chg)		228.7%	89.7%	31.3%	12.3%	9.6%
Financing costs	(4,370)	(4,310)	(5,104)	(6,849)	(9,432)	(10,006)
YoY (% Chg)		-1.4%	18.4%	34.2%	37.7%	6.1%
Profit Before Tax	3,974	23,116	46,930	61,467	67,268	74,036
YoY (% Chg)		481.7%	103.0%	31.0%	9.4%	10.1%
Income tax expense	4,202	(3,520)	(5,399)	(7,376)	(8,072)	(8,884)
YoY (% Chg)		-183.8%	53.4%	36.6%	9.4%	10.1%
Profit after tax	8,176	19,596	41,531	54,091	59,196	65,151
YoY (% Chg)		139.7%	111.9%	30.2%	9.4%	10.1%

Source: Prospectus, GBCM Research Estimates

Stock Rating Methodology:

Buy - Upside more than 20%

Accumulate - Upside between 10% and 20%

Neutral - Upside or downside less than 10%

Reduce - Downside between 10% and 20%

Sell - Downside more than 20%

Not Rated - Stocks not in regular research coverage

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