



EFG - Hermes

Qatar Telecom 2Q2006- Robust Wireless Growth

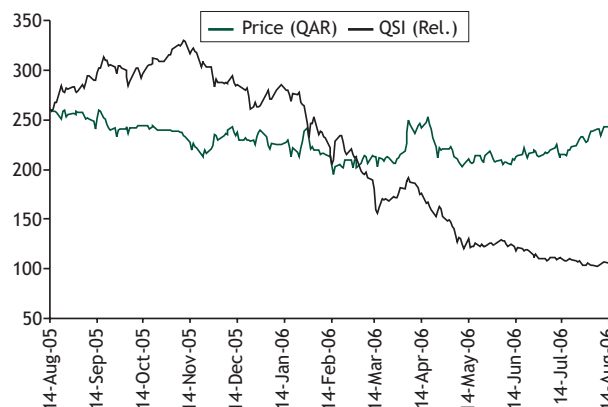
15 August 2006

Qatar | Telecom

ST Rec. : Buy
LT Rec. : Accumulate

Current Price*: QAR 246.5 / AED 248.5
LT Fair Value : QAR 297.8 / AED 300.3

- Qtel continued to generate impressive revenue, EBITDA and net profit growth rates in 2Q2006, with Y-o-Y rises of 54%, 59% and 49%, respectively.
- Wireless revenues rose 65% Y-o-Y primarily driven by growth in local and Omani mobile subscribers. Qatari mobile subscribers rose by 45% Y-o-Y to 811,000, implying a penetration rate of 94%, while Nawras subscribers in Oman rose fivefold to 394,100 over one year. Nawras revenues accounted for 14% of wireless revenues in 2Q2006.
- Consolidated EBITDA rose 59% Y-o-Y to QAR669 million in 2Q2006, implying an EBITDA margin of 62%, 2% higher than the 2Q2005 margin but unchanged from 1Q2006. Consolidated net profit, after royalty payment, rose a substantial 57% Y-o-Y to QAR424 million.
- Despite the Qatari mobile market approaching saturation by the end of 2006, Qtel is still adding subscribers vigorously. We believe that Qtel will meet our year end subscriber forecasts, which we estimate at 0.9 million subscribers in its home market and 0.5 million for Nawras in Oman.
- Given the better-than-expected performance in 1H2006, we believe Qtel will exceed our full year revenue and EBITDA estimates and will significantly beat our FY2006 net profit estimate. This is partially driven by growth in the wireless operations in both Qatar and Oman. Nawras EBITDA has improved in 2Q2006 with the likelihood that Nawras will break even by the end of 2006.
- We maintain our ST Buy / LT Accumulate recommendation and estimated fair value of QAR297.8 (AED300.3), implying 21% upside potential. We re-iterate our LT Accumulate recommendation despite strong 2Q2006 results that suggest that our 2006 forecasts are approximately 20% below the likely outcome and the implication that underlying 2007 and 2008 forecasts may also be low. Our hesitation is due to uncertainty as to whether there will be a decline in the royalty paid by Qtel if the telecom market liberalizes in 2007. We currently forecast that the royalty payment will decline from 25% of net profit in 2006 to 7% in 2007.



	2005a	2006e	2007e
EPS*	11.90	14.60	20.68
PER(x)	20.7	16.9	11.9
DPS	8.50	10.29	11.31
Div. Yield	3.4%	4.2%	4.6%
CFPS	11.5	16.6	23.9
PCF(x)	21.5	14.9	10.3
BVPS	42.9	39.3	48.7
PBV(x)	5.7	6.3	5.1

*Attributable

Stock Data:

Last Ex-Div Date	QAR4.25 on 30 July 06
Mkt. Value (Local mn)	QAR24,650
Shares (mn)	100
Av. Mthly Liqd. (mn)	QAR26,571
52-Week High/Low	QAR263.8 / 190.0
Bloomberg/Reuters	QATA BI / QTEL.QA
Est. Free Float	45.0%

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*As at 14 August 2006

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A. Overview of 2Q2006 Performance

Consolidated Revenues and Subscribers

Once again Qtel delivered high top-line growth, with consolidated revenues soaring 54% Y-o-Y in 2Q2006 to QAR1.1 billion. Wireless revenue grew a substantial 65% Y-o-Y to QAR739 million, with Nawras revenue accounting for 14% of wireless revenue in 2Q2006 versus 4% during the same period last year. Growth in Qtel's mobile subscriber base in both Qatar and Oman was the reason behind rising wireless revenue. Subscribers rose 12% Q-o-Q and almost doubled Y-o-Y to 1.2 million.

Qtel continued to grow subscribers strongly in Qatar, adding 54,000 subscribers over the quarter ending June 2006, reaching 811,000 and implying a penetration rate of 94%. Entering its second year of operation, Qtel's Omani subsidiary Nawras also continued to vigorously gain subscriber additions, growing almost fivefold Y-o-Y to 394,100 in 2Q2006, and capturing 25% market share. In 2Q2006, mobile penetration in Oman reached an estimated 56%.

Wireline revenue, including internet revenue, which accounted for 17% of wireline revenue, rose by 38% Y-o-Y to QAR331 million. As is to be expected, fixed lines growth was slower than that of mobile, rising 11% to 217,440 in 2Q2006 versus 195,062 in 2Q2005, implying a fixed line penetration rate of 25%. Qtel reported 9% growth in internet lines to 61,062 in 2Q2006, compared to 55,990 in 1Q2006 and 55,000 at the end of 2005.

Table 1: Qtel Quarterly Subscribers in Qatar and Oman

(000)	1Q05	2Q05	1Q06	2Q06	Q-o-Q	Y-o-Y
Qatar						
Qtel Fixed line	N/A	195	207	217	5%	11%
Additions		N/A	2	10		
Mobile	490	559	757	811	7%	45%
Additions	42	68	41	54		
Internet	N/A	N/A	51	58	13%	N/A
Additions				6		
Oman						
Nawras Mobile Subs.	17	83	320	394	23%	377%
Additions	17	66	76	74		
Total Mobile Subs.	507	641	1,078	1,205	12%	88%

Source: Qtel

Consolidated EBITDA and Net Profit

Consolidated EBITDA rose 59% Y-o-Y to QAR669 million, implying an EBITDA margin of 62%, two percentage points higher than in 2Q2005 but unchanged from 1Q2006. The increase in the EBITDA margin is mostly attributable to the improvement in Nawras EBITDA, turning positive this quarter, ahead of our expectation of break even by late 2006/early 2007. Consolidated net profit, after royalty payment, rose a healthy 49% to QAR439 million in 2Q2006, up from QAR294 million in 2Q2005.

The board of directors approved the distribution of a semi-annual dividend of QAR4.25 per share for 1H2006, 16% higher than the dividend per share distributed in 1H2005 and implying an annualized dividend yield of 3%.

Table 2: Qtel's Quarterly Financial Highlights

(QAR mn)	Qatar	2Q2005 Oman	Cons.	Qatar	2Q2006 Oman	Cons.	Y-o-Y	2006e Cons.
Revenues	685	19.9	705	977	105	1,082	54%	3,840
EBITDA	458	-36.6	421	667	1.2	669	59%	2,204
EBITDA Margin	66.9%	-	59.8%	68.3%	1.2%	61.8%		57.4%
Net Profit before Royalty	414	-46.1	368	605	(28.2)	576	57%	1,901
Royalty Payment	-98	-1.1	(99)	-146	(6.3)	(153)		(566)
Profit before Minority Int.	316	-47.2	269	458	(34.6)	424	57%	1,335
Minority Interest			25			16		130
Net Profit			294			439	49%	1,465

Source: Qtel

B. Impact

We believe that Qtel will continue to generate strong subscriber growth in both the Qatari and Omani markets in 2H2006 and will meet our full year expectations of 0.9 million in Qatar and 0.5 million in Oman.

We believe that Qtel will continue to deliver high growth top-line figure in 2H2006 driven primarily by growth in its wireless operations. Qtel has recently launched its first "3G Video Calling" service delivered over a third generation (3G) network. The launching of other 3G services will follow later in the year as per Qtel management, and this will be coinciding with the 15th Asian Games that will be hosted in Qatar in December 2006. We expect that Qtel would experience a surge in its wireless revenues in 2H2006 as a result of the influx of tourists expected to attend or participate in the Games. If Qtel continues to deliver strong growth in its local operations despite the mobile market approaching saturation, we believe that the company's revenues will come ahead of our full year expectations of QAR3.8 billion. This would also be supported by the anticipated rise in Qtel's roaming revenues as mentioned above. As for the EBITDA margin, we continue to expect that it will slightly exceed our full year estimate of 57%, due to the significant improvement in Nawras EBITDA in 2Q2006. In light of better-than-expected performance at Nawras, we believe that the Nawras operation could turn profitable at the net profit level in late 2007. However, if mobile number portability were to be implemented in 2H2006, which we believe would be in favor of Nawras, we might see the operation breaking even in late 2006. Finally, on current form we believe that Qtel will likely come significantly ahead of our current full year 2006 net profit estimate.

Table 3: Qtel's 1H05-06 Financial Highlights and Estimates

(QAR mn)	1H2005	1H2006	Y-o-Y	2006e
Revenues	1,353	2,033	50%	3,840
EBITDA	800	1,259	57%	2,204
EBITDA Margin	59%	62%		57%
Net Profit before Royalty	717	1,124	57%	1,901
Royalty Payment	(195)	(298)		(566)
Profit before Minority Int.	522	826	58%	1,335
Minority Interest	57	32		130
Net Profit	580	858	48%	1,465

Sources: Qtel and EFG-Hermes Estimates

We maintain our estimated fair value for Qtel at QAR297.8 (AED300.3), which implies 21% upside potential over the current price. We also re-iterate our ST Buy / LT Accumulate recommendation on the stock. We prefer to maintain our LT Accumulate recommendation, despite strong 2Q2006 results that suggest that our 2006 forecasts are approximately 20% below the likely outcome and the implication that underlying 2007 and 2008 forecasts may also be low. Our hesitation is due to uncertainty as to whether there will be a decline in the royalty paid by Qtel if the telecom market liberalizes in 2007. We currently forecast that the royalty payment will decline from 25% of net profit in 2006 to 7% in 2007.

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