

October 19, 2010

WATANIYA TELECOM (NMTC.KW)

12-Month Fair Value: KD 2.240

Last Close (18 October, 2010): KD 1.920

Recommendation: Accumulate - Risk Level: 4

- Wataniya Telecom's revenues grew by 18% YoY to KD 140.2 million in 3Q2010. Revenues came in-line with our forecast of KD 139.5 million. Operations in Algeria and Kuwait have been the major revenue drivers during the quarter, with revenues from Tunisia facing a marginal decline.
- Consolidated EBITDA increased by 12% YoY to KD 55.1 million, 2% below our forecast of KD 56 million. EBITDA margin for 3Q2010 declined to 39% from 41% in 3Q2009.
- Net profit for the quarter declined by 3% YoY to KD 17.9 million. Detailed financial statements remain to be disclosed and the management hasn't furnished any explanation (specific to 3Q2010) for the decline in net profit while EBITDA exhibited growth.
- In Kuwait, Wataniya Telecom added 49 thousand new subscribers (versus 45 thousand in 2Q2010), growing its mobile subscriber base by 3% QoQ. Overall, the operator's revenues grew by 16% YoY while EBITDA grew by 14% YoY. The Kuwaiti operation continues to be the largest EBITDA contributor for Wataniya group, generating 45% of total EBITDA during 3Q2010.
- In Algeria, Wataniya Telecom added 60 thousand new subscribers (versus a decline of 260 thousand subscribers in 2Q2010), growing its mobile subscriber base by 1% QoQ. The Algerian operation continues to be the main growth driver for Wataniya group. Revenues in Algeria grew by 28% YoY, while EBITDA grew by 29% YoY. The Algerian operation contributed to 31% of group EBITDA during 3Q2010.
- In Tunisia, while the operator's added 235 thousand new subscribers during 3Q2010 (versus 162 thousand in 2Q2010), the operating performance was under-pressure. Revenues from the Tunisian operation declined by 2% YoY, while EBITDA declined by 6% YoY. However, the Tunisian operation still remains a vital component of Wataniya group, generating 27% of group EBITDA during 3Q2010.
- Overall, we view this set of results as positive and thereby maintain our "Accumulate" recommendation with a 12-month target value of KD 2.240 per share. Our fair value target is 17% above Wataniya Telecom's latest market price of KD 1.920.

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Related Research

- Wataniya Analyst Comment - 18 August 2010
- Wataniya Analyst Comment - 25 April 2010
- Wataniya Update - 31 March 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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