

Omani Qatari Telecom Company SAOG (Nawras)

May 30, 2011
 CMP: RO 0.700
 Target price (Dec '11): RO 0.820

- Increased competition within Data business from incumbent may lead to pressure on revenue growth.
- Increased costs on account of recent unrest and higher maintenance expense leads to stalling of margin improvement trend.
- Revisiting our estimates on account of increased challenge on revenue growth and cost pressures. Maintain buy rating and reduce target price to cRO 0.820 per share.

Recommendation

Buy

Overview: Revenue for the first three months in FY 11 stood at cRO 48 million exhibiting a flattish growth trend in the current quarter (-c4% QoQ; +c5% YoY). Lower traffic has impacted the growth in the current quarter. Increased costs on account of network maintenance and salary increases have impacted the margins.

March 2011 results: Revenues for the quarter ended March 2011 remain flat (-c4% QoQ, +c5% YoY) at cRO 48.1 million. EBITDA for the period ended March 2011 stood at cRO 21 million (+c0% QoQ, -c8% YoY). The EBITDA margins for the company stood at c44% (+c172 bps QoQ, -c656 bps YoY). Loss of momentum in revenue growth, higher SG&A expenses (+c30%; YoY) has resulted in muted margin growth trend during Q1 2011. Operating margins for the company remained stable at c30% (+c130 bps QoQ, -c695 bps YoY) and profits at cRO 12 million (+c1% QoQ, -c14% YoY).

Key positives: 1) Continues to invest in infrastructure (fixed+data) with objective to increase its revenue contribution from Fixed & Mobile broadband business. 2) Network has been upgrade to resolve the issues of outages. 3) Recently connected to TATA sea cable and looks to benefit from increased cost savings and reduce loss of traffic. 4) Social benefits on account of recent unrest could lead to higher spending over medium term and benefit telecom players.

Key negatives: 1) Competition in Oman intensifies with competitive launches by Omantel within data segment. 2) Decline in Mobile revenue (-c3% QoQ; +c1% YoY). 3) Increased cost pressures on account of recent unrest. Will be adding c150-200 employees in the current year. We expect the additions will lead to increased salary costs of cRO 1.0-1.5 million on annual basis 4) Higher expenditure (cRO 1.6 million) for repairs and maintenance of network during Q1 2011 has impacted the margins. 5) Earlier than anticipated grant of "TYPE II" license to Samatel will lead to increased competition. 6) We believe cost savings from International gateway is nearing its optimum levels.

Valuation & Outlook: We are revisiting our estimates on account of increased cost pressures and anticipation of increased competition in Oman. Revenue performance in Q1 2011 has been flat and below our expectations. Data business segment remains the key to the overall performance growth as company continues to invest in infrastructure (fixed+data) with objective to increase its revenue contribution from Fixed & Data business. On the other hand, increased costs on account of network maintenance and addition of c150-200 employees in the current year will lead to pressure on the margins.

We expect the revenue for the current year (December 2011) to reach cRO 207 million (+c10%, compared to FY 2010) and expect EPS to reach RO 0.830 per share for the full year. EBITDA margins to remain in range of c45%-47% through 2012. The stock is currently trading 2011e PE of 8.4x and EV/EBITDA of 5.1x. Based on DCF methodology we reduce our target price to cRO 0.820 per share and maintain buy rating on the stock.

Stock Details

Exchange / Code	MSM/NWRS
Bloomberg Code	NWRS
Equity Capital	RO 65.1
Face Value	100 bz
Market Cap	RO 455 mn

Shantanu Sarkari
 971-4222267 (Ext: 206)
 Shantanu@bankmuscat.com

Quarterly Snapshot (Q1 2011)

Figures in RO (000')	Q1 2011	Q4 2010	Q1 2010	% QoQ	% YoY	2009	2010	% YoY
Revenue	48,137	49,883	45,644	-4%	5%	171,623	188,856	10%
Operating Expense	7,114	6,832	7,014	4%	1%	37,551	27,828	-26%
SG & A Expense	16,895	18,839	13,027	-10%	30%	51,901	64,458	24%
Royalty expense	3,043	3,200	2,617	-5%	16%	10,173	11,719	15%
EBITDA	21,085	20,992	22,986	0%	-8%	71,998	84,851	18%
% EBITDA margins	44%	42%	50%	172.0	(655.7)	42%	45%	29%
Depreciation expense	6,460	6,487	5,947	0%	9%	20,549	24,247	18%
EBIT	14,625	14,505	17,039	1%	-14%	51,449	60,604	18%
% EBIT margin	30%	29%	37%	130.4	(694.8)	30%	32%	21%
Finance cost	948	879	1,120	8%	-15%	4,894	3,977	-19%
Other Income	211	23	7	817%	2914%	375	276	-26%
PBT	13,888	13,649	15,926	2%	-13%	46,930	56,903	21%
Tax	1,793	1,713	1,936	5%	-7%	5,399	6,923	28%
Net Profit	12,095	11,936	13,990	1%	-14%	41,531	49,980	20%
% Margin	25%	24%	31%	119.8	(552.4)	24%	26%	22%

Financials

Figures in RO Million	2009	2010	2011E	2012E	Figures in RO Million	2009	2010	2011E	2012E
Total revenue	172	189	207	228	Net Income	42	50	54	60
Cost of sale	38	28	30	32	Depreciation and amortisation	21	24	31	34
Gross Profit	134	161	177	195	Changes in Working Capital	-17	12	2	14
					Others	6	5	0	0
Depreciation and amortization	21	24	31	34	Cash from Operating Activities	50	91	87	108
EBIDTA	72	85	95	107	Capital Expenditures	-52	-73	-75	-40
EBIT	51	61	64	73	Sale of Fixed Assets	0	0	0	0
Other income and expense	(5)	(4)	(3)	(4)	Purchase/Sale of Investments	0	0	0	0
PBT	47	57	61	68	Other Investing Activities, Net	0	0	1	0
Tax	(5)	(7)	(7)	(8)	Cash from Investing Activities	-51	-73	-74	-40
PAT	42	50	54	60					
EPS	0.064	0.077	0.083	0.092	Repayment of Finance lease	0	0	0	0
					Sale/Repurchase of Stock, Net	0	0	0	0
Figures in RO Million	2009	2010	2011E	2012E	Issuance/Reduction of Debt, Net	1	11	29	7
Licenses	50	46	43	39	Other Financing Activities, Net	0	0	-25	-32
PPE	112	166	213	222	Cash from Financing Activities	1	11	4	-25
Current Assets	46	79	99	142	Net Change in Cash	0	29	17	43
Accounts Receivables	24	30	31	31	Net Cash - Beginning Balance	20	21	49	66
Inventories (Stores)	1	0	1	1	Net Cash - Ending Balance	21	49	66	110
Bank Balances & Cash	21	49	66	110					
Total Assets	208	291	354	404	Ratios	2009	2010	2011E	2012E
Shareholder's equity	92	143	172	200	Gross Margin	78%	85%	86%	86%
Long term debt	49	55	84	92	EBITDA Margin	42%	45%	46%	47%
Minority Interest	2	3	3	3	EBIT Margin	30%	32%	31%	32%
Other non-current liabilities	1	0	1	1	Net Income Margin	24%	26%	26%	26%
Current liabilities					ROE	59%	43%	34%	32%
Accounts Payable & Accruals	44	63	71	78	ROCE	44%	35%	30%	31%
Deferred Equipment Rental Income	6	6	7	7	PE	11.1	9.2	8.6	7.6
Short term bank borrowings	11	16	13	18	EV/EBITDA	6.9	5.7	5.1	4.3
Other current liabilities	2	2	2	2	P/Book	5.0	3.2	2.7	2.3
Total Liabilities and shareholders equity	208	291	354	404					

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