

Qatar Telecom (Qtel)

Company Note

27 May 2010



Still Going Strong

- **Qatar 48% of our valuation is showing signs of recovery evidenced by stable subscriber base and rebound in EBITDA margin in 1Q10 in light of competition with Vodafone Qatar**
- **Refinancing of the USD2 billion FSF was 83% oversubscribed, showing creditors' confidence in Qtel; refinancing is expected to lower financing costs and push maturities beyond 2011**
- **Increase TP by 3.4% and maintain Buy recommendation to factor in higher subscriber numbers in Indonesia, Algeria, and Kuwait**

Qtel reported mostly good 1Q10 results due to strong subscriber growth and a higher EBITDA margin backed by good performance in Qatar and Iraq. Subscribers in 1Q10 grew by 12% QoQ, exceeding our estimate for 2010 and suggesting healthy revenue growth going forward. Sales dropped slightly QoQ but grew 14% YoY. Indonesia and to a lesser extent Oman were behind the slight QoQ drop in sales due to lower ARPUs despite healthy subscriber growth. EBITDA margin increased by 220bps QoQ. We positively perceive the performance of Qatar, which witnessed an improvement in the EBITDA margin and maintained a stable subscriber base in light of competition with Vodafone Qatar. Wataniya reported mixed 1Q10 results. Qtel's 1Q10 net income was inflated by QAR554 million due to the retroactive application of the new royalty rate. Excluding these items suggests a bottom line growth of 53% QoQ. Net income was also helped by the increase in EBITDA margin (offsetting the slight drop in sales) and lower royalty rates.

The successful refinancing of the USD2 billion FSF at a cheaper rate to reflect positively on Qtel's EPS growth (CAGR of 8.9% from 2010e-2012f). The refinancing is expected to lower Qtel's borrowing cost and push the maturity of its debts beyond 2011 as the company is now not expected to repay any debts in 2010 or 2011. We expect net debt/EBITDA to drop to 1.9x by 2010 and 1.5x by 2011 from 2.1x in 1Q10 as a result of growing operations and deleveraging. The refinancing will consist of a USD1.25 billion, three-year revolving credit line believed to be paying a margin of 125bps over LIBOR and a USD750 million, five-year tranche believed to be paying a margin of 155bps over LIBOR, down from 250bps over LIBOR on the original USD2 billion FSF. Indosat is also believed to be preparing to refinance existing loans through launching bonds worth USD500 million with a three-year maturity. Indosat accounts for 28% of Qtel's total debt and the refinancing is expected to represent 18% of Indosat's total debt. If it takes place, the refinancing will have a positive impact on Qtel's interest payments.

We increase our TP by 3.4% to QAR203/share and maintain our Buy recommendation. The increase in our target price reflects (i) the attractive subscriber growth in Indonesia and Kuwait and (ii) the window of opportunity created in Algeria after Nedejma's competitor Djezzy faced operational difficulties after the football match between Egypt and Algeria. The possible inclusion of Qtel in the DSM20 index is expected to further improve the stock's liquidity.

KPIs (QAR bn)	New		Old		Consensus	
	2010e	2011e	2010e	2011e	2010c	2011c
Revenue	26,176	28,774	25,835	29,117	26,785	28,987
EBITDA Margin	48.7%	47.2%	46.0%	44.7%	46.0%	45.3%
EPS (QAR)	21.6	20.2	18.6	21.8	17.9	20.3
Net Debt/EBITDA	1.9x	1.5x	1.9x	1.4x	1.9x	1.5x
PER (x)	7.4	8.0	8.6	7.3	8.7	7.7
EV/EBITDA (x)*	6.1	5.4	6.7	5.8	4.9	4.6
Dividend Yield	5.4%	5.0%	5.8%	6.9%	5.8%	5.5%
FCF Yield	3.4%	18.3%	11.2%	17.9%	NA	NA

* EV/EBITDA multiple adjusted to minorities

Buy

Target Price (QAR)	202.6
Market Price (QAR)	160.8*
Upside	26.0%

Listed on	DSM, ADSM, LSE
Bloomberg Code	QTEL QD
Reuters Code	QTEL.QA

Ent. Val. (QAR bn)	73.7
Net Debt (QAR bn)	23.2
Minorities (QAR bn)	26.9
Mark. Cap (QAR bn)	23.6

Market Cap (USD bn)	6.5
Num. of Shares (mn)	147

Daily Turn. (QAR mn)	8.4
Daily Turn. (USD mn)	2.3

Shareholders Structure

Free Float	21.0%
State of Qatar	55.0%
Sovereign stakes	13.0%
ADIA	10.0%
ETC	1.0%

Price Performance Chart



* Price as of 18 May 2010

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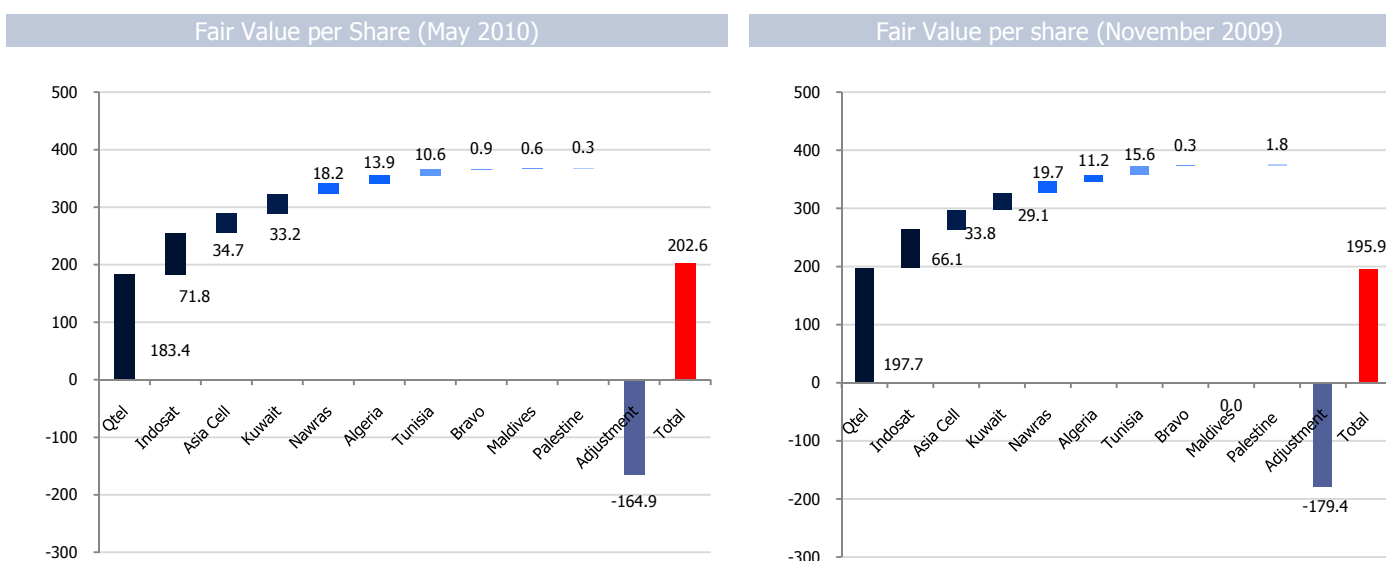
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* Disclaimer: See page 7

Table 1: 1Q10 Results show impressive subscriber growth, pickup in EBITDA margin, and good net income growth

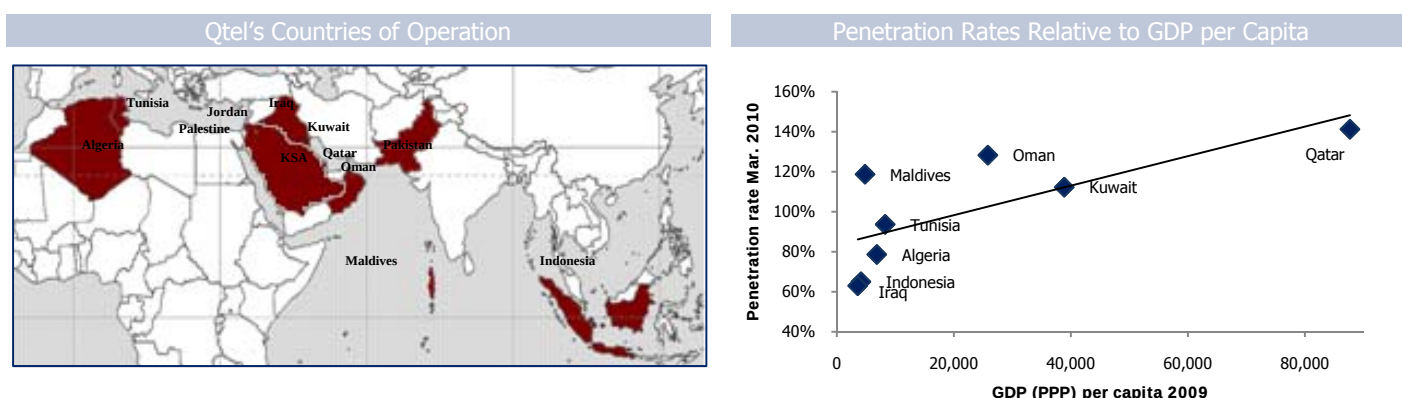
QAR Million	1Q10a	4Q09a	Δ QoQ	1Q10c	Δ Dev.	1Q09a	Δ YoY
Subscribers (000)	67,677	60,527	11.8%	N/A	N/A	56,096	20.6%
Net adds (000)	7,150	7,164	-0.2%	N/A	N/A	-1,423	-602.6%
Blended Mob. ARPU (USD)	8.0	9.1	-12.8%	N/A	N/A	7.8	2.2%
Revenue	6,417	6,541	-1.9%	6,356	1.0%	5,617	14.2%
EBITDA	3,034	2,965	2.3%	2,877	5.5%	2,653	14.4%
EBITDA Margin	47.3%	45.3%		45.3%		47.2%	
Net income	1,212	420	188.3%	752	61.2%	534	127.0%
NPM	18.9%	6.4%		11.8%		9.5%	
CAPEX	1,264	2,101	-39.8%	NA	NA	2,065	-38.8%
CAPEX/Sales	19.7%	32.1%		NA		36.8%	

Source: Qtel, Bloomberg

Chart 1: Fair Value per share Comparison Between November 2009 and May 2010

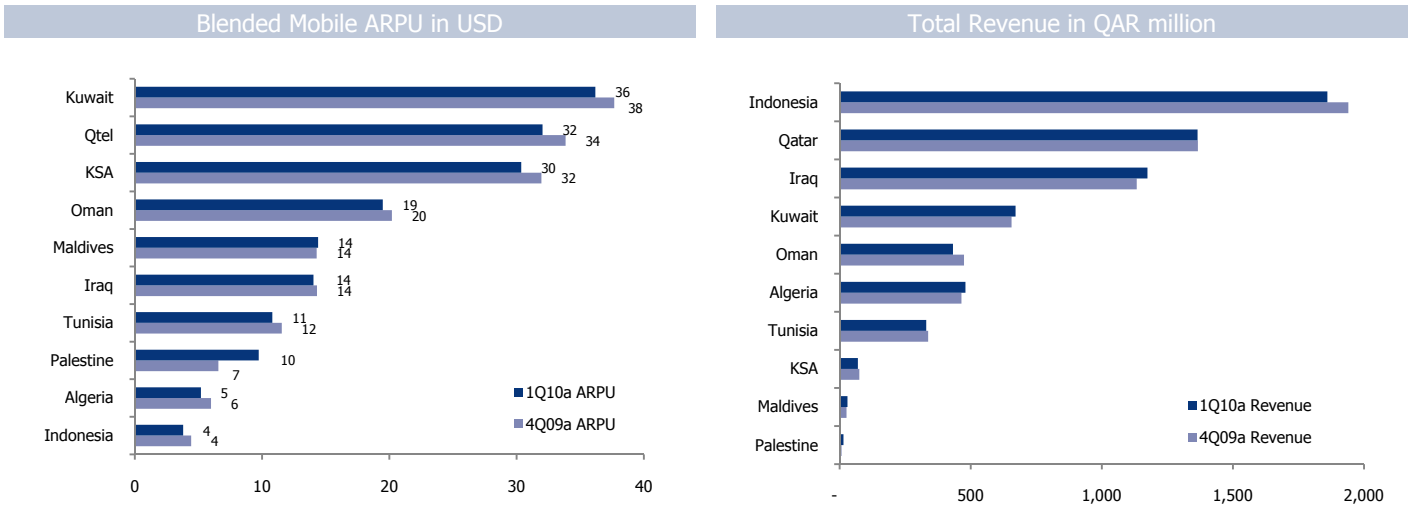
Adjustment is the addition of book value of some investments, the subtraction of debt, the addition of cash, and the addition of a discounted difference between reported and calculated EBITDA

Source: HC Research

Chart 2: Qtel has a diversified portfolio of value and growth countries

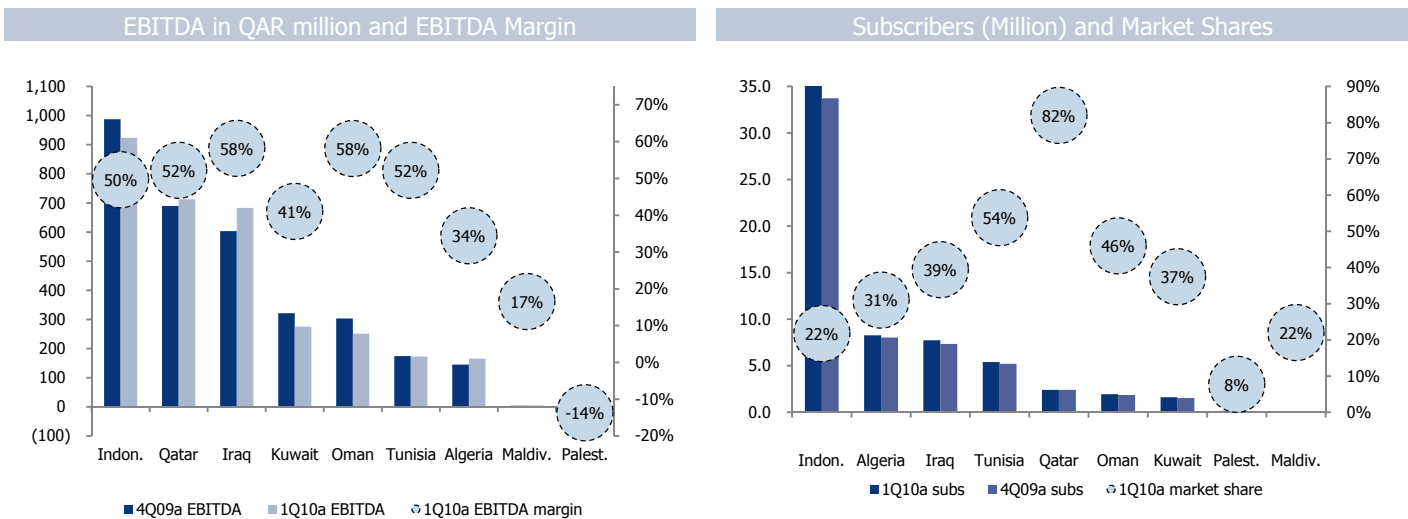
Source: HC Research, IMF

Chart 3: While Qatar has the highest ARPU, it is the second largest in terms of revenue



Source: Qtel, HC Research

Chart 4: Indonesia is the highest contributor to revenue and EBITDA due to its large subscriber base (59% of total subscribers)



Source: Qtel, HC Research

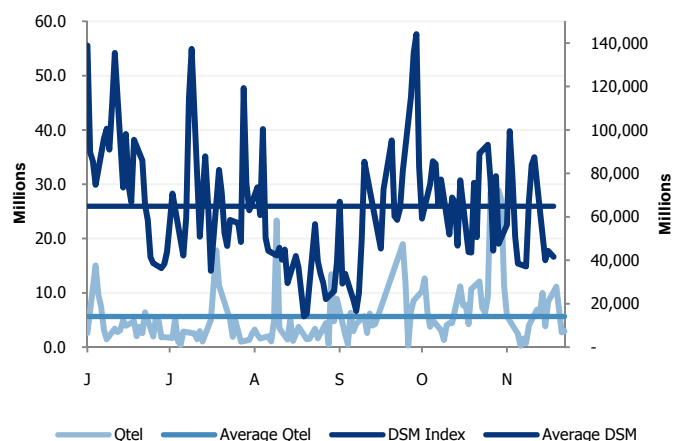
Table 2: Updated 2010e and 2011f estimates

QAR billion	New		Old	
	2010e	2011f	2010e	2011f
Qatar Revenue	5,432	5,169	6,457	7,055
Qatar EBITDA Margin	52.3%	50.0%	56.0%	53.0%
Indonesia Revenue	7,650	8,920	6,520	7,830
Indonesia EBITDA Margin	48.6%	47.6%	47.0%	47.0%
Oman Revenue	1,816	1,941	1,810	2,104
Oman EBITDA Margin	52.7%	51.7%	47.0%	46.0%
Iraq Revenue	4,965	5,846	4,549	5,019
Iraq EBITDA Margin	53.9%	52.0%	51.0%	51.0%
Kuwait Revenue	2,696	2,883	2,648	2,804
Kuwait EBITDA Margin	42.8%	39.8%	43.8%	41.8%
Tunisia Revenue (Proportionate)	1,248	1,225	1,424	1,450
Tunisia EBITDA Margin	47.4%	44.4%	52.0%	50.0%
Algeria Revenue	1,874	1,928	2,012	2,171
Algeria EBITDA Margin	33.7%	33.6%	31.4%	32.5%
KSA Revenue	290	324	305	373
KSA EBITDA Margin	1.6%	9.5%	-4.8%	3.2%
Maldives Revenue	113	128	101	110
Maldives EBITDA Margin	16.8%	20.8%	7.6%	12.6%
Watnaniya Palestine Revenue	103	410	49	239
Wataniya Palestine EBITDA Margin	-46.7%	3.3%	-10.0%	-5.0%
Consolidated Revenue	26,176	28,774	25,835	29,117
Consolidated EBITDA Margin	45.9 %	44.3 %	46.0 %	44.7 %
Consolidated Net Income	3,174	2,966	2,729	3,201

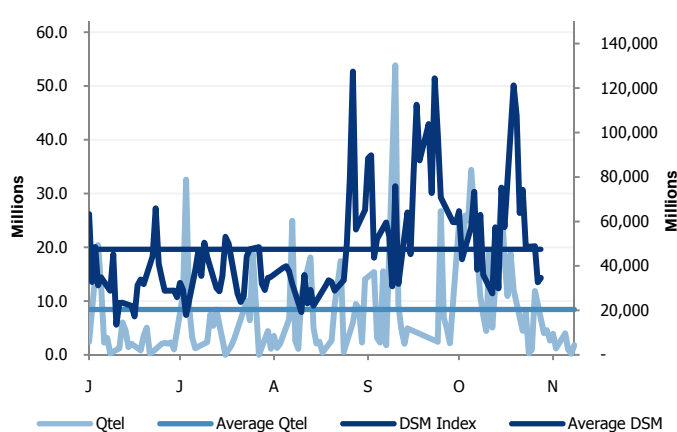
Source: Qtel and HC Research

Chart 5: While the Qatari market's liquidity deteriorated, Qtel's liquidity improved

Qtel vs. DSM Index Turnover June–November 2009



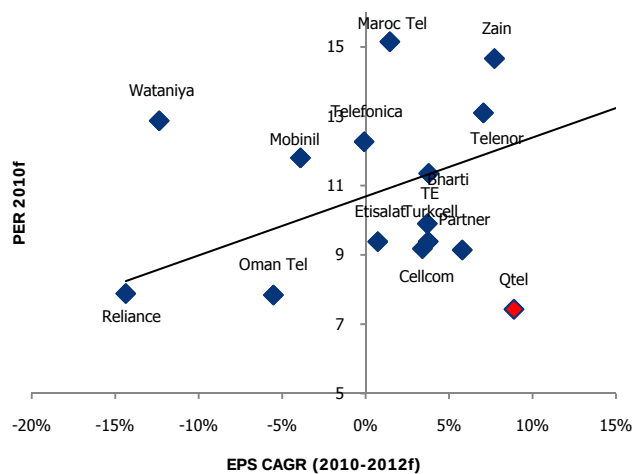
Qtel vs. DSM Index Turnover December 2009–May 2010



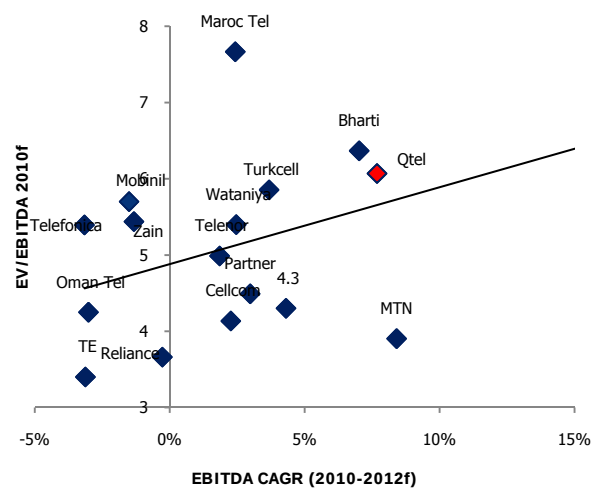
Source: Qtel, Bloomberg, Reuters Knowledge, HC Research

Chart 6: Qtel trades at a large discount to peers on 2010e PER and at a premium to peers on 2010e EV/EBITDA

2010 PER vs. EPS CAGR (2010f–2012f)



2010f EV/EBITDA vs. EBITDA CAGR (2010–2012f)



Source: Qtel, Bloomberg, Reuters Knowledge, HC Research

Financial Statements

QAR Million	2009a	2010f	2011f	2012f	2013f	2014f
Income Statement						
Qatar	5,686	5,432	5,169	5,274	5,555	5,844
Indonesia	6,579	7,650	8,920	9,648	10,110	10,512
Oman	1,625	1,816	1,941	2,075	2,260	2,454
Iraq	3,998	4,965	5,846	6,630	7,324	7,898
Kuwait	2,548	2,696	2,883	3,135	3,445	3,771
Tunisia	1,299	1,248	1,225	1,231	1,233	1,235
Algeria	1,795	1,874	1,928	1,961	2,001	2,071
Maldives	97	113	128	142	153	163
KSA	255	290	324	351	375	398
Palestine	8	103	410	676	955	1,215
Others	10	0	0	0	0	0
Total Group Revenue	24,025	26,176	28,774	31,124	33,411	35,561
<i>Growth In Revenue (%)</i>	<i>18.2%</i>	<i>9.0%</i>	<i>9.9%</i>	<i>8.2%</i>	<i>7.3%</i>	<i>6.4%</i>
Calculated EBITDA	10,926	12,072	12,788	13,642	14,728	15,842
<i>Calc. EBITDA Margin</i>	<i>45.5%</i>	<i>46.1%</i>	<i>44.4%</i>	<i>43.8%</i>	<i>44.1%</i>	<i>44.5%</i>
Reported EBITDA	11,309	12,028	12,739	13,589	14,671	15,782
<i>Rep. EBITDA Margin</i>	<i>47.1%</i>	<i>45.9%</i>	<i>44.3%</i>	<i>43.7%</i>	<i>43.9%</i>	<i>44.4%</i>
Depreciation & Amortization	(5,490)	(6,314)	(6,655)	(6,670)	(6,402)	(6,224)
Operating Profit	5,436	5,758	6,133	6,972	8,326	9,618
<i>Operating Margin</i>	<i>22.6%</i>	<i>22.0%</i>	<i>21.3%</i>	<i>22.4%</i>	<i>24.9%</i>	<i>27.0%</i>
Other Non-Oper. Income	1,400	1,109	589	757	508	647
Net Interest Expense	(1,945)	(1,607)	(1,553)	(1,553)	(1,006)	(1,013)
PBT	4,891	5,259	5,169	6,176	7,827	9,252
Taxes	(617)	(610)	(673)	(804)	(1,019)	(1,204)
Royalties	(393)	(400)	(376)	(387)	(413)	(490)
Minorities	(1,101)	(1,075)	(1,153)	(1,396)	(1,791)	(2,116)
Net Profit	2,780	3,174	2,966	3,589	4,605	5,441
<i>Net Margin (%)</i>	<i>11.6%</i>	<i>12.1%</i>	<i>10.3%</i>	<i>11.5%</i>	<i>13.8%</i>	<i>15.3%</i>
EPS	18.95	21.64	20.22	24.47	31.40	37.10
<i>Growth In EPS (%)</i>	<i>7.2%</i>	<i>14.2%</i>	<i>-6.5%</i>	<i>21.0%</i>	<i>28.3%</i>	<i>18.2%</i>
Dividends Per Share	7.0	8.7	8.1	9.8	12.6	14.8
<i>Dividends Pay-Out (%)</i>	<i>36.9%</i>	<i>40.0%</i>	<i>40.0%</i>	<i>40.0%</i>	<i>40.0%</i>	<i>40.0%</i>
Balance Sheet						
Intangible Assets	34,104	32,572	30,880	29,305	27,958	26,623
Tangible Assets	29,598	34,227	35,138	34,866	33,716	32,016
Investments & Other Assets	5,271	5,230	5,418	5,775	5,882	6,129
Total Fixed Assets	68,973	72,029	71,436	69,945	67,557	64,768
Total Current Assets	15,966	17,237	21,460	16,573	20,101	26,097
Total Current Liabilities	16,051	15,534	15,673	16,074	16,573	16,994
Total Lt Liabilities	39,455	39,810	40,368	30,040	26,127	23,533
Minority Interest	13,827	14,947	16,100	17,496	19,287	21,403
Shareholder Equity	15,606	18,975	20,755	22,908	25,671	28,936
Cash Flow Statement						
C/F From Ops.	12,285	11,584	12,621	13,486	14,545	15,648
Dividends Received	475	524	400	400	400	400
Interest and Minority Divs.	-1,818	-1,607	-1,553	-1,553	-1,006	-1,013
Taxes	-783	-610	-673	-804	-1,019	-1,204
CAPEX and Investment	-9,509	-8,648	-5,874	-4,822	-3,906	-3,189
Acquisitions and Disposals	-3,031	0	0	0	0	0
Dividends Paid	-660	0	-1,269	-1,186	-1,436	-1,842
Net C/F Pre Financing	-3,040	1,242	3,651	5,520	7,578	8,800
Liquid Resources	74	0	0	0	0	0
Financing	7,517	0	0	-10,925	-4,553	-3,277
Change In Cash	4,551	1,242	3,651	-5,405	3,025	5,523
Key Ratios						
Net Debt/EBITDA (X)	2.2	1.9	1.5	1.0	0.4	-0.2
<i>CAPEX To Sales</i>	<i>34.9%</i>	<i>33.0%</i>	<i>20.4%</i>	<i>15.5%</i>	<i>11.7%</i>	<i>9.0%</i>

**Rating Scale**

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

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