

August 18, 2010

## WATANIYA TELECOM (NMTC.KW)

**12-Month Fair Value: KD 2.240**

**Last Close (17 August, 2010): KD 1.820**

**Recommendation: Buy - Risk Level: 4**

- Wataniya Telecom's revenues grew by 11% YoY to KD 134.8 million in 2Q2010. Revenues came in 3% below our forecast of KD 139.5 million. We believe Algeria has been a major driver for Wataniya's revenue growth with Kuwait and Tunisia exhibiting modest growth.
- Consolidated EBITDA increased by 12% YoY to KD 54 million with EBITDA margin remaining steady at 40%. EBITDA comes in-line with our forecast.
- Net profit for the quarter declined by 69% YoY to KD 19.65 million. The decline in net profit is attributable to a KD 58.4 one-off reversal in provisions during 2Q2009.
- In Kuwait, the competitive environment has remained stable with Wataniya Telecom maintaining its market share of around 40%. The operator has invested in modernizing its brand and giving it a more youthful look, while continuing on a segmented marketing approach to target smart-phone users and the youth market. Overall the operator's revenues and EBITDA both grew by 3% YoY. The Kuwaiti operation contributed to 41% of group revenues while contributing to 47% of group EBITDA during 2Q2010.
- In Algeria, Wataniya Telecom continues to benefit from the surge in its subscriber base during 4Q2009, in the aftermath of the Algeria/Egypt football match. We believe Nedjma has undergone a consolidation phase whereby the company has concentrated on revenue growth (via usage stimulation), and also cost optimization. During 2Q2010, the result has been a 20% YoY growth in revenues and a 43% YoY growth in EBITDA. This led to an EBITDA margin expansion to 39% in 2Q2010 versus 33% in 2Q2009 and 34% in 1Q2010. The Algerian operation contributed to 32% of group revenues and to 31% of group EBITDA in 2Q2010.
- In Tunisia, Wataniya Telecom's revenues grew by 4% YoY, while EBITDA declined by 1% YoY, as the operator braced for new competition. May 2010, marked the entry of Orange (49% owned by France Telecom), as a third mobile operator in Tunisia. Orange launched the first 3G network in Tunisia (with a one year exclusivity period) and has announced mobile broadband and international call offers as its strategic focus. As a result we believe, Wataniya will face a higher level of competition in Tunisia which will pressure revenue and EBITDA growth.
- Overall, we view this set of results as positive and thereby maintain our "Buy" recommendation with a 12-month target value of KD 2.240 per share. Our fair value target is 23% above Wataniya Telecom's latest market price of KD 1.820.

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### Related Research

- 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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