



SHUAACAPITAL_{PSC}

Qatar Telecom (Qtel) (QTEL.QA)

Equity Research

Q3 2007 Results Note

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Sector Coverage Team

Walid Shihabi

+9714 3199 750

wshihabi@shuaacapital.com

Jessica Estefane

+9714 3199 834

jestefane@shuaacapital.com

• **Subscriber base boosted by inorganic growth:** For Q3 07, Qtel's gross wireless subscriber base reached 14.2 million, increasing by 52% QoQ and 967% YoY. This figure includes Asiacell's 3.9mn subscribers added this quarter and Wataniya's total subscribers added early in 2007. Adjusting for Asiacell's contribution, however, will bring the gross subscriber base to 10.24mn, a 10% increase QoQ and 670% YoY. Wataniya's subscribers represent 87% of net additions in Q3 07, with Qatar contributing 1% and Oman's Nawras 12%.

• **Sustained Revenues:** Qtel's revenues reached QAR 2,888mn in Q3 07 increasing by 13% QoQ and 175% YoY, beating our QAR 2,715mn forecast for the period by 6%. Revenues for 9M 07 reached QAR 6,902mn recording a 124% increase over the same period last year. It is important to note that Asiacell's financials have been fully consolidated in Qtel's Q3 07, despite an ownership of 29.89%, and will continue to be so as Qtel has management control over the operations. In Q3 07 Asiacell's revenues represented 7% of Qtel's total revenues. Nawras, Qtel's subsidiary in Oman, has witnessed the highest quarterly growth in revenues in Q3 07 at 18%, even though subscribers increased only by 14%. We believe the 3% QoQ increase in ARPU helped boost quarterly growth. Nawras represented 8.3% of total revenues in Q3 07, up from 7.9% in Q2 07. Revenues derived from Qatar stood at QAR 1,097mn representing 38.0% of total revenues in Q3 07, down from the 42.7% share in Q2 07. Revenues in Qatar grew by 0.4% QoQ and 19% YoY. Revenues from the wireline segment increased by 2% QoQ and 15% YoY representing 30% of the Qatari revenues and 11% of the group's total turnover. The wireline's contribution to the group's top line has however decreased by 9% QoQ and 58% YoY. Wataniya represented 47% of Qtel's consolidated revenues in Q3 07 down from the 49% share in Q2 07.

• **Converging EBITDA:** In Q3 07 EBITDA reached QAR 1,372mn increasing by 8% QoQ and 111% YoY. EBITDA for 9M 07 reached QAR 3,486mn increasing by 83% over 9M 06. The group's average EBITDA margin in Q3 07 was 48% decreasing from 50% in Q2 07 and from 62% in Q3 06. It is important to note that EBITDA margins of over 60% achieved by Qtel for 2006 is unlikely to be sustainable in competitive markets while a significant drop in margins of the operator was inevitable with the acquisition of Wataniya. Among Qtel's operations, Qatar retains the highest EBITDA margin at 64% in Q3 07.

For Q3 07 Nawras witnessed a significant improvement in its EBITDA margin taking it to 26%, while Wataniya witnessed a drop in its EBITDA margin from 40% last quarter to 38% this quarter. For some perspective, the average 2006 EBITDA margin for mobile operators globally was around 40%, with developing Asia and Eastern Europe at around 45%, whereas in Europe and in North America the margins ranged from the mid to low 30%¹.

• **Flat Net Profits:** Qtel's net profit reached QAR 412.2mn in Q3 07, relatively flat compared to the preceding quarter and dropping by 5.6% YoY. Earnings for 9M 07 reached QAR 1,307mn, marginally higher than the corresponding period of 2006. Net profits came 27.8% below our estimate for the quarter, as we had expected a larger contribution coming in from the Iraqi operation and lower operating expenses. Qtel started consolidating Asiacell on the 15th of August 2007; the earnings relative to this period were QAR 71.7mn. The Iraqi results included additional costs related to the management changing hands. We believe that further clarity concerning the Iraqi subsidiary's profitability will be provided by the operator's Q4 07 results. Significantly, Qatar and Kuwait contributed more than 86% of Qtel's Q3 07 net profits.

• **Outlook:** In 2008 Qtel will be facing new competition in two of its most profitable markets, Qatar and Kuwait. We believe that Qtel will, however, remain the sole integrated operator in Qatar, even though the government has offered both fixed and mobile licenses. Qtel is very well positioned to face competition in Qatar and, as the new mobile operator is introduced, the royalty fee paid to the government of Qatar will decrease from 25% to 14% of Qtel's net profits in Qatar. Since Qatar represents 60% of group net profits, an 11% increase in the Qatari profits would mean a 6.6% increase in the groups net profits assuming the same net profit breakdown by country going forward.

¹ Informa Mobile Industry Outlook 2007

Current Stock Price (QAR)	230
52 week range	203-262
Number of Shares (000)	100,000
Free Float	35%
Market Cap (000'QAR)	23,000,000
Market Cap (000'USD)	6,327,199
Div. Yld 2007E	3.37%

QAR'000	Q3 2006	Q2 2007	Q32007	9M 2006	9M 2007
Revenues	1,049,230	2,562,046	2,888,418	3,082,712	6,902,898
EBITDA	651,034	1,268,200	1,372,135	1,909,773	3,485,508
Finance costs	3,205	278,657	310,069	8,945	661,564
Royalties	153,793	152,851	155,829	452,283	490,877
Profit for the Period	436,488	412,118	412,199	1,251,903	1,543,342
Minority Interest	(10,529)	73,662	128,412	(42,828)	235,552

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