

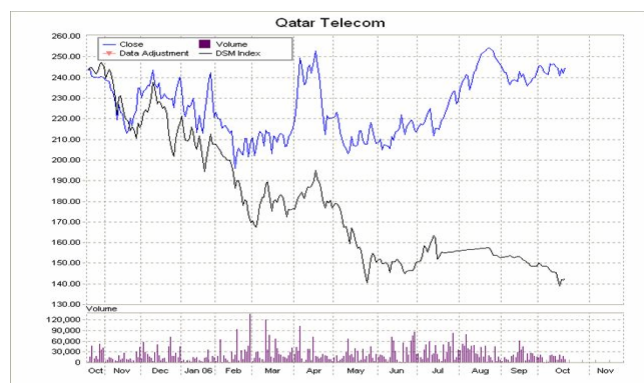
Qatar Telecom (QTEL.QA)

October 26, 2006

Key Data

Listing	Doha Securities Market
CMP (QAR)	243.80
YTD Change	1.63%
52-week High/Low (QAR)	254.20/195.50
Mkt. Capitalization (QAR)	24380 MN
Annualized EPS (QAR)	17.44
BV (QAR)	45.55
P/E	13.98
P/BV	5.35
Div. Yield	3.49

Price History



Financial Summary

(QAR Million)	3Q'06	3Q'05	% chg
Sales	1049.23	783.42	33.9
Other Income	26.11	21.16	23.4
General Expenses	337.92	238.65	41.6
Royalties	155.79	119.69	30.2
Net Profit	425.96	330.54	28.9
Share Capital	1000.00	1000.00	0.0
Retained Earnings	2411.23	1935.92	24.6
Legal Reserves	847.77	684.86	23.8
Shareholders' Equity	4554.84	4064.56	12.1
Total Assets	6968.32	5826.54	19.6
EPS*	17.44	14.04	24.2
ROE (%)*	37.41	32.53	-
ROA (%)*	24.45	22.69	-
NPM (%)	40.60	42.19	-

* Annualized quarterly figures.

For the third quarter ended September 30, 2006, Qatar Telecom (QTEL) posted a net profit of QAR 425.96 million, up 28.9% compared to QAR 330.54 million in the same period of 2005. For the quarter, revenues increased 33.9% to QAR 1049.23 million from QAR 783.42 million. Concurrently, net profit margin went down by 159 basis points as general expenses soared 41.6% on a quarter-to-quarter basis. Total assets grew 19.6% to QAR 6968.32 million as against QAR 5826.54 million during 3Q'05; shareholders' equity jumped 12.1%. Return on equity improved to 37.4% from 32.5%, alongside return on assets which increased to 24.5% from 22.7%. Earnings per share (EPS) for 3Q'06 stood at QAR 4.36 from QAR 3.51 in the year ago period.

Earlier for the year 2005, QTEL had recorded net profit of QAR 1093.47 million as against QAR 1457.16 million, reflecting a decline of 25%. This disappointing performance can mainly be attributed to a 62.1% jump in general & administrative expenses. EPS had dropped to QAR 11.9 from QAR 14.8.

Company Profile

QTEL was born out of the Qatar Public Telecommunications Corporation (June 1987), which was privatized and renamed in 1998. The company is the sole telecommunications player in the country with a vast array of offerings including local and international telephone, mobile, internet, data and cable television. The Govt. of Qatar has a 55% stake in the company, while the public holds 44% and 1% is owned by the Emirates Telecommunications Company. QTEL itself has a wholly-owned subsidiary and majority stakes in two other companies. Defending itself against the blitz of liberalization, the telco is upgrading its infrastructure to meet the increasing demand for multimedia applications and data communication. In addition, it is rolling out innovative products to attract prospective customers. QTEL also operates in Oman's telecom sector through its subsidiary – Nawras Telecom, in which it has a 55% stake.

Industry Overview

Qatar is witnessing rapid economic activity amid soaring oil prices and a growing population. Consequently, QTEL, as the only operator in the country, is scrambling to ramp up its infrastructure, technology and services to meet the increasing demand and satisfy an ever discerning customer base. Further, the company is looking to drive its growth by entering into regional markets. Notably, Nawras, QTEL's Omani subsidiary, has already captured 25% of Oman's mobile market since it launched operations in March, 2005. However, since the company holds a monopoly, telecommunication services in Qatar is more expensive in comparison to the other regional markets.

Recent Developments

In October 2006, QTEL and Consolidated Gulf Co (CGC), the biggest retailer of Nokia mobile phones, announced a festival discount offer of Nokia 1110i and Hala Sim Cards worth QAR 400 at QAR 249. This offer is available across all the retail and dealer outlets of CGC-Nokia

on selected Nokia mobile phones. QTEL also plans to launch special offers in the light of the upcoming Asian Games to increase its subscriber base.

With competition knocking on its doors, QTEL reshuffled its top management team in order to realign the company, equipping it to face the competition amid high regional growth. In line with its corporate strategy, the company has also set up a new business unit to address the needs of its corporate clientele.

In October 2006, QTEL won the 'Geographical Information System' (GIS) award for the second time in the last three years in San Diego, USA. GIS technology enables the telecommunication industry to determine the location of a customer's residence vis a vis the nearest pay phone, cable network, best location to set up a new centre, among others. Notably, QTEL won this award from among 100,000 GIS users worldwide, reflecting its effective use of GIS in managing advanced telecommunications network.

Outlook

Apart from upgrading its technical capabilities with 3G services, QTEL is concentrating on value added product offerings with innovative features. The company is well placed to register robust growth in wireless, data and internet services. Moreover, Nawras Telecom will boost QTEL's revenues in the coming years as it is expected to achieve net profits in 2007. Finally, QTEL is looking for acquisitions and attempting to enter new markets to drive its top-line growth. However, once the Qatari telecommunications industry is opened up, QTEL's profit margins may see some downward pressure as new entrants wrest its market share.

The QTEL stock has gained 1.63% year-to-date, compared to a fall of 34.63% in the Doha Securities Market index (DSM) during the same period. This makes the stock less vulnerable to a downfall in the DSM. We believe that while QTEL's top-line growth momentum will continue. While we expect some downward pressure on profit margins in the coming years, margins will remain close to industry standards. Therefore, we are cautiously optimistic regarding QTEL and are of the opinion that it is a good BUY on the dips.

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