



GCC First Reaction Report

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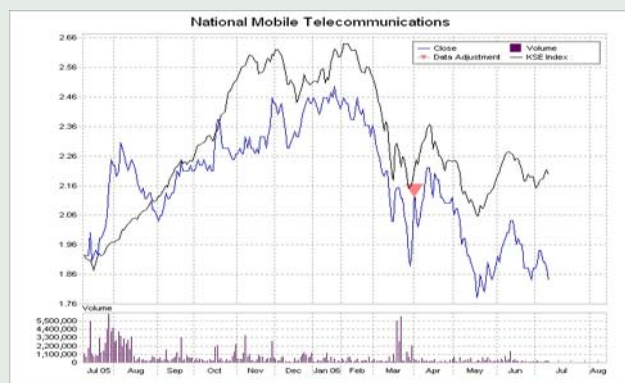
National Mobile Telecommunications Co. (NMTC.KW)

July 18, 2006

Key Data

Listing	Kuwait Stock Exchange
CMP (KWD)	1.860
YTD Change	-24.3%
52-week High/Low (KWD)	2.495 / 1.780
Mkt. Capitalization (KWD)	843.1 Mn
Annualized EPS (fils)	102
BV (fils)	542
P/E	18.1
P/BV	3.4
Div. Yield (%)	2.6

Price History



Financial Summary

(KWD '000)	1Q'06	1Q'05	% chg
Sales Revenue	105,816	73,411	44.1
Gross Operating Profit	56,855	32,886	72.9
Investments Income	3,437	4,664	-26.3
Net Profit	11,149	12,247	-9.0
Current Liabilities	308,251	214,970	43.4
Current Assets	169,319	138,742	22.0
Long Term Liabilities	169,069	150,826	12.1
Fixed Assets	350,602	201,795	73.7
Retained Earnings	104,813	63,375	65.4
Total Assets	790,164	622,657	26.9
Shareholders' Equity	236,447	188,906	25.2
EPS (fils)	24.71	27.15	-8.99
Return on Equity (%)	18.86	25.93	-27.3
Return on Assets (%)	5.64	7.87	-28.3

National Mobile Telecommunications Co. (Wataniya)

posted disappointing results for the quarter ended March 31, 2006, with net profits dipping 9% to KWD 11.15 million from KWD 12.25 million in 1Q'05. This lackluster show can be mainly attributed to the company's disappointing performance in Kuwait, where portfolio losses amounted to KWD 5.10 million.

For 1Q'06 Wataniya's revenues grew 44% compared to 1Q'05, while gross operating profit soared 73%. However, during the same period, investment income shrank 26.3%, putting downward pressure on the bottom-line growth. Shareholders' equity and retained income also shot up 25.2% and 65.4%, respectively. EPS for the quarter stood at 24.71 fils from 27.15 fils in the same period a year ago, showing a fall of 9%.

Earlier for the year 2005, Wataniya had recorded a 14% rise in net profit amounting to KWD 45.92 million as against KWD 38.67 million in the previous year. Operating income soared 49.1% to KWD 353.32 million from KWD 236.98 million in 2004. For the year 2005, total assets advanced 23.4% to KWD 780.24 million, while book value per share climbed to 529.17 fils, with a moderate increase of 12.6%.

Company Profile

Established in 1997, Wataniya, the telecom arm of Kuwait Projects Company (KIPCO), is the second telecommunications operator in Kuwait. Wataniya provides several services to a subscriber base of more than 7 million. The Kuwait Investment Authority owns 24% of the company's shares, while KIPCO is the largest shareholder with a 28% stake. Wataniya has subsidiaries in Saudi Arabia, Iraq, Tunisia, and Maldives.

Industry Overview

For the year 2005, the Kuwaiti telecommunications industry had more than 2.37 million subscribers. The two mobile operators in the country, Wataniya and Mobile Telecommunications Co. (MTC) enjoyed market shares of around 40% and 60%, respectively. Currently, both players are expanding their regional and international presence to sustain growth pace, given the highly matured situation of the Kuwaiti market (at 90% penetration level).

Among the regional countries, Bahrain tops the list with the highest levels of penetration at 105.8% and 26.8% in cellular phones and fixed line respectively. For the year 2005, the Middle East & North Africa (MENA) region had a total 86.11 million mobile subscribers with 39 service providers operating in the region. Interestingly, the low penetration level of this region (28%) reflects the huge growth potential it offers, in contrast to the highly penetrated Kuwaiti market.

Recent Developments

With opportunities for new licenses drying up, Wataniya's main strategy is brand building and innovation to create for itself a strong position in the media and technology segment. It has set itself a target of 12 million customers by 2006 – a major extension from the little over 7 million customers it had in 2005.

To tap the huge regional growth potential, Wataniya is actively increasing its presence with innovative products and services in the MENA region, as well as in Asia. In line with this strategy, the company plans to move up the value chain by integrating many services under tag line "One New World – In One". This includes amalgamation of several services such as entertainment, mobile internet, and digital TV.

To exploit the summer traveling season, Wataniya, in June, announced free roaming facilities (without deposit) across 130 countries in the world, in addition to offering GPRS services in 60 countries. Earlier in 2005, the company had facilitated postpaid subscribers to roam abroad without paying a deposit and on recharge credit.

Wataniya has recently entered into strategic tie-up with Cisco Systems for the deployment of communications network to enhance network capacity and improve management efficiency. Meanwhile, the company has also launched high-speed downlink packet access (HSDPA) with the assistance of Nokia, a world leader in mobile communications, to offer mobile services beyond 3G.

In April 2006, Wataniya's shareholders approved an increase of 5% in the share capital, taking the company's total capital to KWD 45.82 million. In a significant move, shareholders decided to limit each such capital increase to 5% over next ten years. According to the new bye-law passed, in case of any capital increase, shareholders will be eligible to buy shares proportionate to their holdings. Shareholders also approved the entry by non-Kuwaitis to buy the company's shares.

Peer Analysis

	MTC	ETISALAT	QTEL	NMTC
Net Profit Margin	32.08	33.84	37.82	10.54
Price/Earning*	19.21	16.92	17.94	18.01
Price/Book Value*	3	4.53	5.42	3.4
Dividend Yield (%)*	2.61	2.35	3.81	2.59
Return on Equity (%)	15.63	26.8	25.66	20.2
Return on Assets (%)	9.06	17.95	17.15	5.89
Debt/Equity (Leverage)	72.41	52.96	49.62	70.73

*As of July 10, 2006.

Outlook

The liberalized Kuwaiti telecommunications industry has opened up lucrative opportunities, thus fuelling competition. Due to stronger subscriber growth and permission of multi-license markets, the industry in the region has geared up for hyper-competition. In such an environment consolidation will hold the key to competitive advantages in the long-term. Diversifying geographical risk, Wataniya has successfully expanded into the MENA region and into Asia. Moreover, its past track record of successful acquisitions may help the company to sustain its top-line growth. Nevertheless, intensified competition could depress margins and can result in lower revenue per user. Based on peer analysis and the company's moderate operational performance, we perceive a NEUTRAL outlook for Wataniya's stock.

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