

National Mobile Telecom. Company (NMTC)

Company Note

10 November 2009



Kuwait drags performance in 3Q09

- **Algeria and Tunisia, Wataniya's growth markets, surprised us on the upside, while Kuwait's performance in 3Q09 came in lower than expected.**
- **We are bearish on Wataniya given that it is expected to report a negative net income CAGR of 11.1% from 2010f-2012f.**
- **We lower our target price (TP) by 6.9% to reflect stronger than expected competition in Kuwait, and maintain our "Hold" recommendation.**

3Q09 was a quiet quarter in Kuwait due to seasonality and increased competition post the entrance of STC's Viva in 2008. As a result, ARPU was down 5.3% from our estimate and EBITDA margin dropped from 49% in 2Q09 to 45% in 3Q09, lower than our estimate of 47%. Revenue came in lower than our estimate by 9.8%. The elimination of fees for incoming calls from the fixed line and international network in late 2008 continued to have a negative impact on results. Given that the focus in Kuwait is now on Value Added Services (VAS), we positively view the company's increased postpaid subscriber base to 15.8% in 3Q09, from 13.2% in 2Q09, helped by the launch of Blackberry in July 09. There are proposals to the government to establish a regulatory body which is expected to positively impact the market. We have slightly revised our EBITDA margin range downwards to 43.8%-41.3% from a range of 44.4%-41.9% over 2010f-2013f.

Tunisia increased its market share by 1% QoQ and we view this positively ahead of the entrance of the new third player in the market, Orange-Divona, in 2010. Operations came in mostly in line with our estimates; however, EBITDA margin came in higher than expected by 100bps at 55.6% and higher from 54.5% in 2Q09 as a result of the increase in the company's postpaid subscribers. Revenue increased 12% QoQ mainly as a result of strong inbound roaming revenue, growth in subscriber base and increase in ARPU. We expect Tunisia to continue being the market leader in Tunisia and to fiercely defend its market share. We have slightly increased our estimates for Tunisia's EBITDA margin to a range of 52.0%-47.5%, from a previous range of 51.5%-47.0% over 2010f-2013f.

Despite the fact that revenue from Algeria came in 7.3% lower than expected, mainly due to a 9.7% lower than expected ARPU, cost efficiencies have improved EBITDA margin considerably to 37% in 3Q09 from 33% in 2Q09, significantly higher than our estimate for the quarter. The company managed to realize these cost efficiencies through: 1) renegotiating network maintenance agreements, 2) lower advertisement cost, and 3) better inbound international traffic rates. These efficiencies were partly offset by the newly introduced 5% tax on prepaid cards' recharge revenue, which started in August 09, thus not affecting the whole quarter and higher commission costs. We see management's cost cutting measures as positive and thus increased our EBITDA margin to a range of 33.0%-31.4% from a previous range of 27.9%-29.2% over 2010f-2013f.

We are lowering our TP by 6.9% to KWD1.83/share mainly to reflect stronger than expected competition in Kuwait and an increase in the applied illiquidity discount to 20%, up from 15%. The contribution of Kuwait to our valuation dropped to 52% from 54%; we have also lowered our estimates for 2009e and 2010f.

KWD Million	New		Old		Consensus	
	09E	10E	09E	10E	09C	10C
Revenue	473	513	490	530	489	530
EBITDA	193	194	194	192	189	201
EBITDA Margin	40.8%	37.8%	39.6%	36.3%	38.6%	37.8%
Net income	117	80	127	92	80**	84**
EPS (KWD)	0.16**	0.16	0.18**	0.18	0.20**	0.17
EPS growth	-2.3%	-0.7%	12.4%	-1.0%	17.46%	-14.32%
Net debt/EBITDA (x)	0.11	-0.18	0.06x	-0.26x	0.13x	-0.07x
PER (x)	6.35	9.28	5.84	8.09	7.31	8.53
EV/EBITDA (x)*	6.54	6.24	6.00	5.71	4.32	4.07
Dividend Yield	4.7%	3.2%	5.1%	3.7%	5.09%	4.84%
Free cash flow yield	7.6%	11.1%	9.1%	12.6%	N/A	N/A

* EV/EBITDA multiple adjusted to minorities.

**Normalized.

Hold

Target Price	KWD1.83
Market Price	KWD1.48*
Upside	23.3%

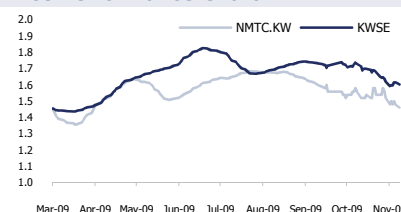
Listed on	KWSE
Bloomberg Code	NMTC KK
Reuters Code	NMTC.KW

Ent. Val. (KWD)	1,237 million
Net Debt (KWD)	37 million
Minorities (KWD)	458 million
Mark. Cap (KWD)	742 million
Market Cap (USD)	2,592 million
Num. of Shares	501 million

Shareholders Structure

Free Float	24.0%
Qtel	52.5%
Kuwait Inv. Auth.	23.5%

Price Performance Chart



* Price as of November 1st, 2009

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* Disclaimer: See Page 5

Lower than expected performance in Kuwait calls for a downward revision of 2009e and 2010f estimates...

- Markets surprising us on the upside were Algeria and Tunisia, while Kuwait's performance came in lower than expected .
- We lowered our 2009e and 2010f estimates to reflect lower than expected EBITDA margin in Kuwait.
- Wataniya trades at 5.3% and 10.7% premium to peers on 2010f PER and EV/EBITDA.

Wataniya posted a lower than expected net income of KWD18.5 million in 3Q09, 19.8% and 12.7% below our estimates and those of consensus, respectively. 3Q09 bottom line was down 27.5% YoY and 70.9% QoQ. It is important to note that 2Q09 results included a reversal of provisions that inflated 2Q09 net income, which explains the large QoQ drop. We chiefly attribute the drop in net income to lower sales from Kuwait despite a QoQ improvement in consolidated EBITDA margin. This brings 9M09 net income to KWD97.3 million, up 42.7% from KWD68.2 million. Again, the growth is mainly fueled by the one-off reversal of provisions. Total subscribers reached 12.5 million, up 5.2% QoQ and 16.9% YoY, a slight 0.6% lower than our estimate, while blended ARPU dropped 5% QoQ and 17.9% YoY, reflecting increasing competition in Wataniya's markets of operation, most importantly Kuwait. 3Q09 EBITDA margin came in as a positive surprise at 41.5%, higher from our estimate of 39.3% and from 2Q09 EBITDA margin of 40.7%. The improvement in the consolidated margin is mainly due to an upturn in Nedjma's (Algeria) EBITDA margin by 420bps QoQ to 37.0% and, to a lesser extent, the 100bps improvement in Tunisiana's (Tunisia) EBITDA margin to 55.6%. On the other hand, Kuwait's EBITDA margin dropped by 330bps QoQ to 45.5%, partially offsetting the improvement in margin.

As a result, we have revised sales and net income downwards, and consolidated EBITDA margin upwards, for 2009e and 2010f.

Table 1: Quarterly results KPIs

KWD Million	3Q09a	2Q09a	Δ QoQ	3Q08a	Δ YoY	3Q09e	Δ Dev.	9M09a	9M08a	Δ YoY
Subscribers (000)	12,492	11,870	5.2%	10,690	16.9%	12,564	-0.6%	12,492	10,690	16.9%
Net adds (000)	623	351	77.5%	317	96.5%	695	-10.4%	-	-	-
Blended mob. ARPU (USD)	3.25	3.42	-5.0%	3.96	-17.9%	3.45	-5.8%	3.33	3.89	-14.4%
Revenue	118.9	119.8	-0.8%	125.2	-5.0%	126.3	-5.9%	351.7	355.3	-1.0%
EBITDA	49.4	48.8	1.2%	52.5	-5.9%	49.7	-0.5%	141.9	149.5	-5.1%
EBITDA margin	41.5%	40.7%		41.9%		39.3%		40.5%	42.1%	
Net income	18.5	62.0	-70.2%	25.5	-27.5%	23.1	-19.9%	97.3	68.2	42.7%
NPM	15.6%	51.8%		20.4%		18.3%		27.3%	19.2%	
CAPEX	26	37	-29.7%	61	-57.4%	27	-3.7%	89	121	-26.4%
CAPEX/Sales	21.8%	31.0%		49.0%		21.2%		25.4%	34.1%	

Source: Qtel, HC Brokerage

Table 2: Wataniya Subsidiaries' Contribution as of September 2009

Country	Contribution (%)		
	Subscribers	Revenue	EBITDA
Kuwait	11.7%	40.7%	43.7%
Tunisia	38.5%	23.9%	31.3%
Algeria	47.5%	30.0%	26.2%
Maldives	0.8%	1.5%	-1.2%
KSA	1.5%	4.0%	0.0%

Source: Wataniya and HC Brokerage

Table 3: Updated Estimates

In KWD Million	New		Old	
	2009e	2010f	2009e	2010f
Kuwait Revenue	199	208	211	219
Kuwait EBITDA margin	46.8%	43.8%	47.4%	44.4%
Tunisia revenue (Proportionate)	106	112	103	106
Tunisia EBITDA margin	55.0%	52.0%	54.5%	51.5%
Algeria revenue	142	158	148	170
Algeria EBITDA margin	34.4%	31.4%	30.8%	27.9%
KSA revenue	19	24	20	23
KSA EBITDA margin	-14.8%	-4.8%	-13.9%	-3.9%
Maldives revenue	7	8	7	8
Maldives EBITDA margin	1.6%	7.6%	2.4%	8.4%
Wataniya Palestine Revenue	0	4	0	4
Wataniya Palestine EBITDA margin	-	-10.0%	-	-10.0%
Consolidated Revenue	473	513	490	530
Consolidated EBITDA Margin	40.8%	37.8%	39.6%	36.3%
Consolidated Net Income	117	80	127	92

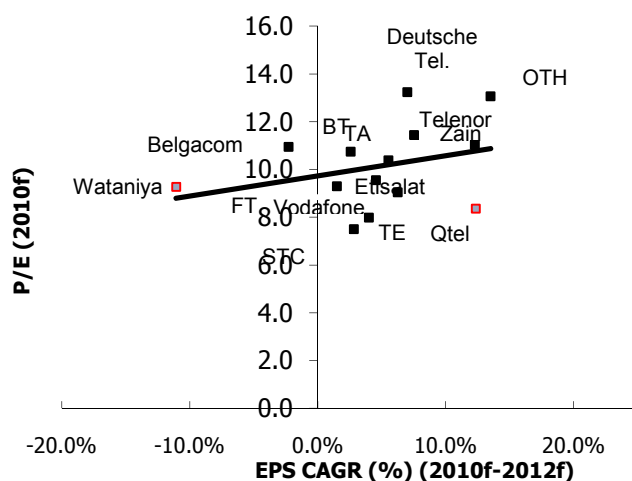
Source: Wataniya and HC Brokerage

Wataniya trading at a premium to its peers

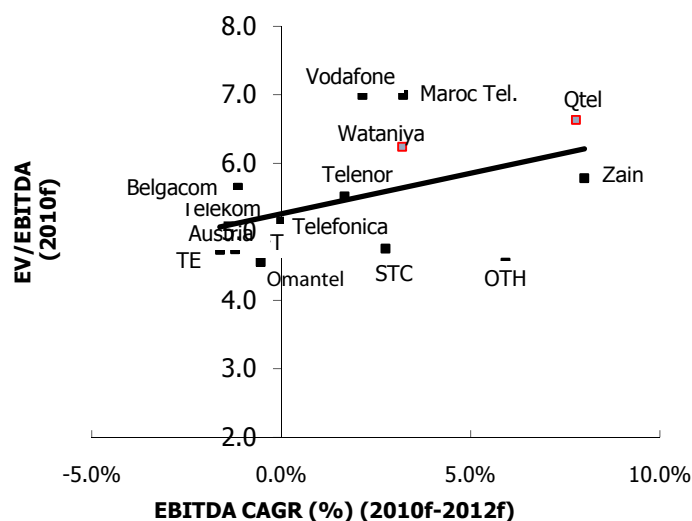
Wataniya trades at a 2010f PER of 9.28x and EV/EBITDA multiple of 6.24x, which represents a premium of 5.3% and 10.7% to peers, respectively. The EV/EBITDA multiple has been adjusted for minority interest.

Chart 1: Wataniya relative to peers

Wataniya on 2010f PER vs. EPS CAGR (2010f-2012f)



Wataniya on 2010f EV/EBITDA vs. EBITDA CAGR (2010f-2012f)



Source: Wataniya, Bloomberg, Reuters Knowledge and HC Brokerage

Financial Statements

All figures in KWD Million

	2008a	2009e	2010f	2011f	2012f	2013f
Income Statement						
Kuwait	227	199	208	220	238	255
Tunisia	99	106	112	114	116	118
Algeria	130	142	158	170	181	189
Maldives	6	7	8	9	9	10
KSA	14	19	24	29	34	39
Palestine	0	0	4	19	44	69
Total Group Revenue	476	473	513	561	623	681
<i>Growth in Revenue (%)</i>	<i>16.8%</i>	<i>-0.5%</i>	<i>8.4%</i>	<i>9.3%</i>	<i>10.9%</i>	<i>9.3%</i>
Calculated EBITDA	175	187	187	194	205	218
<i>Calc. EBITDA Margin</i>	<i>36.8%</i>	<i>39.5%</i>	<i>36.4%</i>	<i>34.5%</i>	<i>33.0%</i>	<i>32.0%</i>
Reported EBITDA	201	193	194	201	214	227
<i>Rep. EBITDA Margin</i>	<i>42.3%</i>	<i>40.8%</i>	<i>37.8%</i>	<i>35.9%</i>	<i>34.3%</i>	<i>33.4%</i>
Depreciation & Amortization	(78)	(84)	(91)	(98)	(106)	(113)
Operating Profit	97	103	96	96	99	105
<i>Operating Margin</i>	<i>20.4%</i>	<i>21.8%</i>	<i>18.6%</i>	<i>17.1%</i>	<i>15.9%</i>	<i>15.4%</i>
Other non-oper. income	(4)	36	0	0	0	0
Net Interest Expense	(10)	(13)	(2)	(0)	1	3
Taxes	(8)	(12)	(16)	(16)	(17)	(16)
Minorities	11	8	6	5	4	-3
Contribution to Zakat, KFAS, NLST	(4)	(6)	(4)	(4)	(4)	(5)
Directors' remuneration	(0)	(0)	(0)	(0)	(1)	(1)
Net Profit	82	117	80	79	82	84
<i>Net Margin (%)</i>	<i>17.3%</i>	<i>24.7%</i>	<i>15.6%</i>	<i>14.1%</i>	<i>13.2%</i>	<i>12.3%</i>
Earnings Per Share (EPS)	0.16	0.23	0.16	0.16	0.16	0.17
<i>Growth in EPS (%)</i>	<i>2.1%</i>	<i>41.6%</i>	<i>-31.3%</i>	<i>-1.1%</i>	<i>3.8%</i>	<i>1.7%</i>
Dividends Per Share	0.05	0.07	0.05	0.05	0.05	0.05
Dividends Pay-Out (%)	30.4%	30.0%	30.0%	30.0%	30.0%	30.0%
Balance Sheet						
Intangible Assets	257	203	181	181	158	173
Tangible Assets	381	414	433	441	433	415
Investments & Other Assets	52	44	40	36	32	28
Total Fixed Assets	689	661	653	658	624	617
Total Current Assets	212	224	255	285	370	457
Total Current Liabilities	301	247	241	245	252	258
Total LT Liabilities	185	139	119	99	89	102
Minority Interest	45	36	29	25	21	24
Shareholder's Equity	370	463	519	575	632	691
Cash flow Statement						
C/f from ops	241	157	175	180	190	203
Dividends received	6	2	4	4	4	4
Interest + minrtly divs	17	(14)	(2)	0	1	3
Capex + investment	(166)	(82)	(87)	(107)	(75)	(111)
Acqns + disposals	0	(2)	0	0	0	0
Dividends paid	(23)	(24)	(35)	(24)	(24)	(25)
Net c/f pre financing	74	37	55	53	95	75
Liquid resources	1	11	0	0	0	0
Financing	(50)	(14)	(33)	(33)	(24)	(1)
Change in cash	25	34	23	20	72	74
Key Ratios						
Net Debt/EBITDA	0.25x	0.11x	(0.18x)	(0.45x)	(0.89x)	(1.18x)
CAPEX to Sales	42.0%	22.0%	17.0%	15.0%	12.1%	10.8%

**Rating Scale**

Recommendation	Upside
Buy	Greater than 25%
Hold	0-25%
Sell	Less than 0%

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