

4 April 2011

Telecommunications

Politics vs fundamentals

Recent geopolitical tension in the Mena region leads us to examine the general outlook of the Mena telecoms sector in light of unfolding events. We review our outlook for the sector and recommendations, and touch lightly on the current and future political situation.

Key recommendations & forecasts

Company	Reuters	Year end	Reco	Current price	Target price	Upside/downside	Current EV	Current EV (US\$m)
Mobily	7020.SE	Dec 2011	Buy	SR49.70	SR76.16	53%	41,100	10,960
Etisalat	ETEL.DU	Dec 2011	Buy	Dh10.95	Dh12.89	18%	83,549	22,747
MobiNil	EMOB.CA	Dec 2011	Buy	E£155.72	E£172.02	10%	21,955	3,842
Q-Tel	QTEL.QA	Dec 2011	Buy	QR139.20	QR187.58	35%	41,102	11,289
Du	DU.DU	Dec 2011	Hold	Dh3.14	Dh2.86	-9%	15,627	4,255
Jordan Telecom	JTEL.AM	Dec 2010	Sell	JO5.70	JO5.09	-11%	1,158	1,634
Wataniya	NMTC.KW	Dec 2011	Buy	KD1.76	KD2.10	18%	1,149	4,073
Telecom Egypt	ETEL.CA	Dec 2011	Buy	E£17.23	E£20.15	17%	25,312	4,430
Vodafone Qatar	VFQS.QA	Mar 2011	Buy	QR7.67	QR8.86	16%	6,519	1,791
Oman Telecoms	OTEL.MSM	Dec 2011	Hold	RO1.20	RO1.21	1%	916	2,378
Nawras	NWRS.MSM	Dec 2011	Buy	RO0.71	RO0.83	15%	484	1,257

Priced at closed 29 Mar 2011.

Source: Company data, Rasmala forecasts

Ongoing events should not affect broadband progress in the region

Despite current negative sentiment, we maintain that broadband demand will continue to drive the region's telecommunications sector growth. This is because most of the countries that we expect to witness the 'sweet spot' in broadband penetration are essentially oil-driven economies that have either low or moderate exposure to the political rebellion in the area.

Current outlook should not overshadow the bigger picture

Taking into account mixed views on the longer-term outlook in the region and varying appetites for risk, we assess the repercussions of the political situation and the telecom sector's longer-term strategy separately. We believe the current political situation should not overshadow the bigger picture.

Mobily remains our top pick, while Jordan Telecom is our least favoured stock

We review our recommendations and forecasts for telecoms companies under coverage in light of current events and FY10 results, with Mobily emerging as our top pick and Jordan Telecom our least preferred stock. Additionally, we change our recommendations for Mobinil (Buy from Hold), Vodafone Qatar (Buy from Hold), Du (Hold from Sell), Omantel (Hold from Buy) and Nawras (Buy from Hold).

Change of valuation methodology

It is worth noting that we move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector. However, we do use FY11F and FY12F earnings multiples as a common-sense check against peers, using our Mena peer average PE forecasts of 12x and 11x for FY11 and FY12. The impact of the new methodology is limited, resulting in only one change in the recommendation, namely Du, which moves from a Sell to a Hold.

Important disclosures can be found in the Disclosures Appendix.

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Contents

Investment summary	3
Geopolitical unrest in the Mena region has sent investors on a selling spree of fear of contagion. We expect volatility in the medium term, but see several bargains and believe the investment case for broadband growth in the Mena region remains intact.	
Our recommendations: top/bottom picks	5
We review our recommendations and forecasts for the telecoms companies we cover in light of current events. Mobily has emerged as our top pick and Jordan Telecom our least preferred stock. We change our ratings for Mobinil, VFQ, Nawras and Omantel.	
Country snapshot: a closer look from home	8
Market observers' views are mixed on the longer-term outlook in the region and varying appetites for risk. We assess separately them possible repercussions of the political situation and the telecom sector's longer-term strategy.	
Tougher times ahead	10
As mobile penetration rates continue to increase in the region, competition has also intensified. As a result, mobile operators are struggling to maintain market share, customer loyalty and revenue growth.	
Mobile traffic overflow	13
Gartner expects worldwide mobile voice and data revenue to exceed US\$1trn a year by 2014, supported by the soaring sale of media support handset devices and increasing 3G/LTE network coverage.	
3G and beyond: network spending continues	16
Sales of handset devices and design sophistication are key drivers of demand. Various supply side factors influence the market for mobile data services, such as deployed network technologies and speed.	
Company profiles	
Du	17
Etisalat	21
Jordan Telecom	26
Mobily	30
Mobinil	34
Nawras Telecom	38
Oman Telecoms	42
Q-Tel	46
Telecom Egypt	50
Vodafone Qatar	54
Wataniya	58

Investment summary

Geopolitical unrest in the Mena region has sent investors on a selling spree of fear of contagion. We expect volatility in the medium term, but see several bargains and believe the investment case for broadband growth in the Mena region remains intact.

A volatile market in the short to medium term

Geopolitical unrest has damaged the Mena stock markets given investors fear of contagion. Uncertainty over when the revolutions will end and what the economic implications could be for the region will most likely result in a volatile market in the short to medium term.

We could be simplifying a complicated situation, but we expect good buying opportunities to arise despite current political turbulence, particularly for those investors who believe in the longer-term recovery of the region.

In the short term, we believe the environment favours defensive sectors, particularly telecoms. We also believe the telecommunications sector in the Mena region provides one of the safest havens in light of current and ongoing events, owing to the mass population's increasing awareness of the Internet's power as a tool for communication (Facebook was the underlying application behind the rise of the revolutions; there were 632,120 new Facebook users in Egypt between January and February 2011, and 1.32m Egypt-related Tweets between 24 and 30 January, according to *Gulf News*) and the inherent, defensive nature of the industry.

However, we also see potential risk to the telecommunications industry in general during these times. This includes damage to physical property, such as base stations and network sites, and/or a communications blackout. Such was the case in Egypt when the revolution started – both the internet and mobile voice communications were shut down for a limited time.

Beyond the geopolitical unrest: is there a silver lining?

For the oil-rich, namely the Gulf Cooperation Council (GCC) countries, current economic tensions have resulted in a higher oil price, benefiting oil economies, which in turn should boost spending patterns. Moreover, in an effort to stem political uprisings in their respective countries, many of the GCC countries have distributed generous fiscal incentives to their citizens.

'Connect-Me' era

As mobile penetration rates continue to increase in the region, competition has also intensified. As a result, mobile operators are struggling to maintain market share, customer loyalty and revenue growth. In this environment, operators are seeking alternative revenue streams. Recent data releases indicate that the data market has grown driven by the fast-growing global handset and media device market. Broadband and broadband mobility remain the area of focus for telecom operators in the forthcoming years. In this report, we analyse this trend and how data demand has shaped the industry's outlook and spending patterns.

In our report '*Broadband explosion*', dated 12 May 2010, we concluded that we expect broadband penetration in the Mena region to hit the 'sweet spot' sometime between 2011 and 2012. We do not believe current events have a negative effect on broadband penetration, since most of the countries that should reach the sweet spot in broadband penetration are essentially oil-driven economies that have low to moderate exposure to the political rebellion in the region. For instance, countries such as the United Arab Emirates (UAE) and Qatar have not experienced and seem unlikely to experience any major revolts in the future. Other countries, such as Saudi Arabia and Kuwait, have somewhat subdued potential revolts by swiftly granting economic and political concessions to the masses.

Statistics continue to confirm our belief in the broadband trend and its growing significance in the Mena region. In this report, we examine what we will refer to now as the Connect-Me era and the drivers behind it in a more comprehensive and in-depth strategic analysis.

At the end of 2010 and the beginning of 2011, we reviewed the performance of all the telecoms companies under our coverage and updated our financial estimates accordingly, as well as our top and bottom picks for 2011. We also took into account the strategies employed by the mobile network operators going forward.

Our top pick remains Mobily; Jordan Telecom is our least preferred stock

Given our growth expectations for data demand in the region, we believe Mobily is in a strong position to benefit from the overall telecoms growth in Saudi Arabia. Furthermore, we consider it ahead of the curve in terms of its broadband ambitions relative to its peers. Our least preferred stock is Jordan Telecom, which we believe remains expensive, trading at a c37% premium to its peers on our FY11 forecasts. Additionally, we change our recommendations for Mobinil (Buy from Hold), Vodafone Qatar (Buy from Hold), Du (Hold from Sell), Omantel (Hold from Buy) and Nawras (Buy from Hold).

Robust M&A activity in the telecom sector

Despite the ongoing turbulent political environment, M&A activity in the region's telecom sector seem largely unaffected. Recently, Batelco and Kingdom Holding have agreed to buy a 25% stake in Zain Saudi operations, subject to due diligence. The joint bid comes after three separate bids were rejected by Zain Group, which owns the 25% stake in Zain Saudi. On a related note, Wataniya's acquisition of 50% of Tunisian-based Tunisiana, also for US\$1.2bn, is expected to complete 1H11. Saudi Telecom has increased its holding in the Indonesian group PT Natrindo Telepon Selular (NTS) from 51.0% to 80.1%. The move comes as part of the company's objective to further diversify its revenue stream to counter a declining local market.

On another note, Etisalat has terminated discussions regarding the purchase of a 46% stake in Zain Group from AlKhair National for Stock and Real Estate Company, which is owned by Al Khurafi Group. The deal would have been for a significant US\$12bn. Etisalat cited non-unanimous agreement of Zain shareholders and the new capital markets offer rules in Kuwait, which mandate that if an offer of more than 30% of the company is made, the acquirer must extend its offer to all of the shareholders, as the reasons behind the cancellation of the bid. Nonetheless, despite its withdrawal from the offer, Etisalat remains keen on expanding its operations through inorganic growth by either buying stakes in existing companies or through buying new licenses.

Following a long-winded series of negotiations, Russian-based VimpelCom and Orascom Telecom finally reached an agreement, whereby VimpelCom's shareholders voted in support of a US\$6bn deal earlier this month to acquire the telecom assets of Naguib Sawiris, a majority stakeholder in OT. The deal with Sawiris's Wind Telecom SpA secures a more than 50% stake in Orascom Telecom and Italy's Wind Telecomunicazioni SpA. Under the acquisition's terms, VimpelCom will pay Wind Telecom US\$1.495bn in cash, while Wind will also get 325.6m new VimpelCom common shares and 305m new convertible preferred shares, which have voting rights. Wind will not get board seats unless a new shareholder agreement is signed at a later date. A key condition of the deal includes the approval by at least 75% of Orascom Telecom shareholders for the spin-off of certain assets to its current owners. These assets include Orascom Telecom's 35% stake in Egypt-based mobile carrier Mobinil and its 95% stake in North Korea's Koryolink.

Our recommendations: top/bottom picks

We review our recommendations and forecasts for the telecoms companies we cover in light of current events. Mobily has emerged as our top pick and Jordan Telecom our least preferred stock. We change our ratings for Mobinil, VFQ, Nawras and Omantel.

Mobily remains our top pick

It is worth noting that we move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector. However, we do use FY11F and FY12F earnings multiples as a common-sense check against companies' peer group, using our Mena peer average PE forecasts of 12x and 11x for FY11 and FY12. The impact of the new methodology is limited, resulting in only one change in the recommendation, namely Du, which moves from a Sell to a Hold.

We have revisited our forecasts for all the stocks under our coverage to: 1) reflect the current competitive environment in the sector across the different countries; and 2) to incorporate reported FY10 results. Additionally, for Vodafone Qatar we have adjusted our forecasts on the back of new management guidance, which has led to larger forecast changes than for the other stocks: for the former, management revised EBITDA targets and in the case of the latter; the new management adopted new revenue and profitability targets earlier this year when past targets were not met.

Table 1 : Forecast changes summary

	Revenue		EBITDA		Net Income	
	FY11	FY12	FY11	FY12	FY11	FY12
Mobily	11%	13%	8%	9%	9%	9%
Etisalat	-2%	-2%	-19%	-19%	-23%	-26%
Mobinil	-3%	-3%	-4%	-3%	-19%	-20%
Q-tel	4%	3%	-7%	-9%	-21%	-21%
Du	3%	3%	-4%	1%	-12%	-2%
Jordan Telecom	0%	0%	0%	0%	0%	0%
Wataniya	15%	17%	13%	16%	-2%	-8%
Telecom Egypt	10%	4%	11%	3%	-2%	-9%
Vodafone Qatar	-18%	-8%	n/m	n/m	n/m	n/m
Oman Telecoms	-3%	-3%	-3%	-3%	-3%	-3%
Nawras	0%	0%	0%	0%	0%	0%

Source: Rasmala forecasts

Our top pick remains Mobily – the company still looks well positioned to capitalise on the burgeoning growth of the data market in Saudi Arabia. We forecast a c.11% EPS CAGR for 2011-15 and, based on our forecasts, we estimate upside potential of about 53% for Mobily. Furthermore, the stock is trading favourably compared to its peers, at a discount of about c40% on our 2011F PE. Our least preferred stock is Jordan Telecom – it still looks expensive, trading at a c37% FY11F PE premium relative to its peers.

Table 2 : Key recommendations, target prices

Company	Recommendation		Target price		Upside/ downside
	New	Old	New	Old	
Mobily	Buy	Buy	76.16	75.36	53%
Etisalat	Buy	Buy	12.89	13.60	18%
Mobinil	Buy	Hold	172.02	191.39	10%
Q-tel	Buy	Buy	187.58	216.72	35%
Du	Hold	Sell	2.86	2.15	-9%
Jordan Telecom	Sell	Sell	5.09	4.43	-11%
Wataniya	Buy	Buy	2.10	2.15	18%
Telecom Egypt	Buy	Buy	20.15	20.05	17%
Vodafone Qatar	Buy	Hold	8.86	9.54	16%
Oman Telecoms	Hold	Buy	1.21	1.33	1%
Nawras	Buy	Hold	0.83	0.77	17%

Source: Rasmala

Table 3 : Key recommendations summary

Company	Mobily	Etisalat	Mobinil	Q-tel	Du	Jordan Telecom	Wataniya	Telecom Egypt	Vfone Qatar	Omantel	Nawras
Recommendation	Buy	Buy	Buy	Buy	Hold	Sell	Buy	Buy	Buy	Hold	Buy
Current price	49.7	11.0	155.7	139.2	3.1	5.7	1.8	17.2	7.7	1.20	0.71
Target price	76.2	12.9	172.0	187.6	2.9	5.1	2.1	20.2	8.9	1.21	0.83
Potential upside/downside (target)	53%	18%	10%	35%	-9%	-11%	18%	17%	16%	1%	17%
EV/subscriber in US\$											
2012F	452.9	408.2	102.6	124.5	512.0	457.3	247.8	150.6	1,589.0	751.4	503.9
201F	484.3	449.3	117.1	136.8	576.4	482.1	266.9	164.0	2,245.7	800.2	544.1
2010F	514.5	503.1	135.3	152.0	724.4	510.4	291.2	182.2	3,851.1	867.1	605.7
EV/EBITDA multiple											
2012F	5.5x	4.3x	5.2x	2.8x	4.9x	6.7x	4.6x	5.5x	20.2x	4.7x	4.2x
2011F	6.0x	4.6x	5.5x	3.0x	6.6x	6.9x	5.1x	5.2x	-697.4x	4.8x	4.5x
2010F	6.7x	4.7x	4.8x	3.3x	7.7x	6.7x	5.7x	5.0x	-28.9x	4.6x	5.0x
PE multiple											
2012F	6.5x	11.8x	13.2x	7.3x	13.4x	16.5x	12.3x	10.1x	na	9.4x	7.5x
2011F	7.4x	12.4x	15.0x	8.8x	20.3x	16.2x	11.1x	9.8x	na	9.1x	8.4x
2010F	8.3x	11.3x	11.4x	8.1x	11.0x	15.0x	11.5x	8.9x	na	8.1x	9.7x

Source: Company data, Rasmala forecasts

Table 4 : Key recommendations summary

Company	Rec	New target	Potential upside/downside	Investment case/comments	Potential risks to thesis
Mobily	Buy	76.16	53%	Mobily remains our top pick because we believe it is ahead of the curve in its terms of broadband ambitions and because it operates in a country that we believe is on the cusp of a mobile broadband boom.	If broadband uptake is slower than we project, or there is irrational pricing, there could be a risk to our numbers.
Mobinil	Buy	172.02	10%	Despite current political events, the stock is trading favourably in terms of PE and has a relatively high dividend yield.	Potential risks are if current political events worsen and there is another communications blackout (however, we find this unlikely), or if the company decides to cut back on dividends.
Wataniya	Buy	2.10	18%	Wataniya's geographical footprint across the region, which alternates between high-political-risk-profile countries and more moderate ones, may mitigate the effects of the geopolitical contagion.	Other than geopolitical contagion, our main concern is increased competition in all markets under operation, particularly Kuwait, which accounts for most of Wataniya's revenue stream.
Vodafone Qatar	Buy	8.86	16%	Vodafone Qatar is well on its way to achieving its customer number targets and has already managed to reach a positive EBITDA in less than two years of operation. We expect FCF to turn positive by FY12.	Our main concern is increased competition through the instigation of irrational pricing patterns, particularly given Qtel's second main revenue generator is Qatar, contributing about 20% of consolidated revenues at year-end 2010 compared to 25% at year-end 2009.
Telecom Egypt	Buy	20.15	17%	Despite current political events, the stock is trading favourably in terms of PE and has the highest projected dividend yield for both FY11 and FY12.	Potential risks are if current political events worsen and there is another communications blackout (however, we find this unlikely), or if the company decides to cut back on dividends.
Etisalat	Buy	12.89	18%	Decrease in Federal royalty from 50% could act as a catalyst for the stock in addition to additional acquisitions.	Etisalat has been losing heavily to Du, the second telecoms operator in the UAE, in terms of mobile market share. Already the UAE market, which contributed c78% of consolidated revenues at year-end 2010, has been experiencing an annual decline in overall revenues.
Nawras	Buy	0.83	17%	With limited growth opportunities in the Omani telecommunications market due to a saturated mobile market, the greatest potential remains in the nascent broadband market.	Intensifying competition, or a price war, that would lead to even more pressure on ARPU and in turn hurt EBITDA margins, and a slower-than-expected rollout of Nawras's network infrastructure
Oman Telecoms Hold		1.21	1%	With limited growth opportunities in the Omani telecommunications market due to a saturated mobile market, the greatest potential remains in the nascent broadband market.	Intensifying competition, or a price war, that would lead to even more pressure on ARPU and in turn hurt EBITDA margins, and/or further investment or capital injection in the Pakistani subsidiary WorldCall.
Q-tel	Buy	187.58	35%	Qtel's geographical footprint across the region, which alternates between high-political-risk-profile countries and more moderate ones, may mitigate the effects of the geopolitical contagion.	FX volatility could also pose risks as a large portion of the group's revenue and EBITDA is generated through its international operations and increased competition across markets also poses a risk to both EBITDA and revenue.
Du	Hold	2.86	-9%	Du is focusing in 2011 on pursuing value to drive customers, so we expect to see the post-paid customer base increase to 8% by the end of 2011. This should mitigate any diluting effects that could arise from an increasing customer base.	Despite the company's excellent performance in the market so far, it remains expensive in terms of PE multiples, trading at a c.70% premium to its peers for FY11F and at a 26% premium for FY12F.
Jordan Telecom	Sell	5.09	-11%	The stock is trading at a premium of c37% to the average of our 2011 estimate for its Mena peers, but looks attractive to us on a dividend yield basis (7.37% for 2010F and 2011F). We believe JTG remains a solid dividend play, and as long as it maintains its maximum dividend payout policy and refrains from major capital expenditures, should be bought on market dips based on its strong cash position	We expect the company to face a tough competitive environment in the coming year. Against this backdrop, we forecast FY10 and FY11 revenue of JOD396m (down 1% yoy) and JOD392m (down 1.2% yoy), respectively. Jordan Telecom is our least preferred stock and consider it the second most expensive stock in our coverage universes in terms of PE and EV/EBITDA multiples

Source: Company data, Rasmala forecasts

Country snapshot: a closer look from home

Market observers' views are mixed on the longer-term outlook in the region and varying appetites for risk. We assess separately them possible repercussions of the political situation and the telecom sector's longer-term strategy.

Revolution domino effect

Led by Tunisia in late December 2010, an unprecedented wave of revolutionary demonstrations started to spill over in the Mena region, like a domino effect, with one country finishing its revolution and another simultaneously beginning. To date, Tunisia, Egypt and Libya have seen revolutions of historical consequence; Algeria, Bahrain, Djibouti, Iran, Iraq, Jordan, Oman and Yemen have all seen major protests; and minor incidents have occurred in Kuwait, Lebanon, Mauritania, Morocco, Saudi Arabia and Sudan.

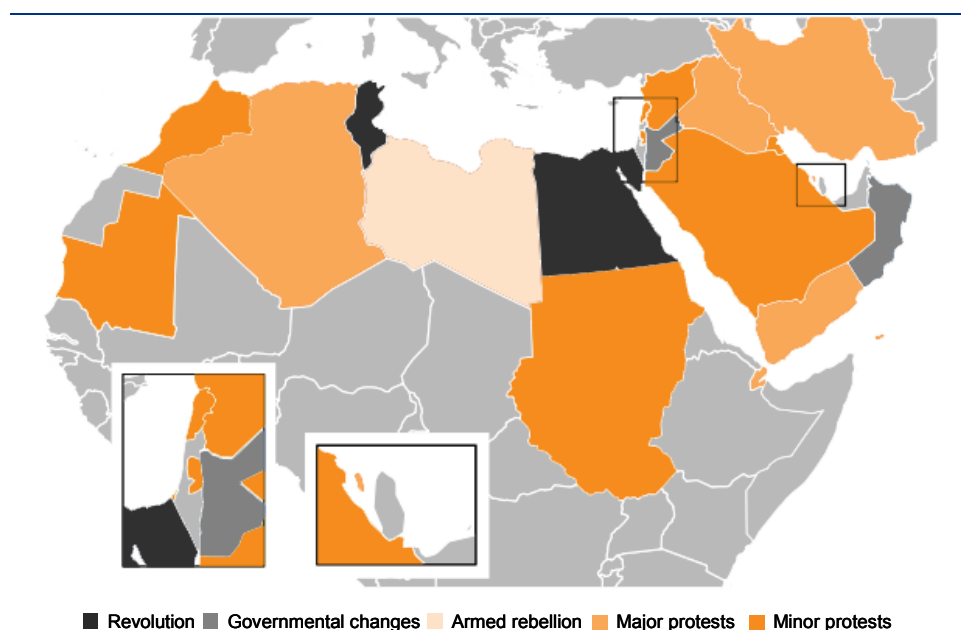
As illustrated later in this report, the domestic Mena markets are the main bread and butter for the telecoms stocks under our coverage. In an effort to add more colour to their current operating environments, we include some of the most recent events in some of the region's countries and assess the political risk from a general perspective.

Table 5 : Risk profile of domestic countries for telecoms operators under our coverage

Country	Risk assessment	Comment
UAE	Low	Given the absence of any demonstrations so far, we expect no major turbulence in the future. On the contrary, the oil-driven country should benefit from rising oil price per barrel.
Qatar	Low	Given the absence of any demonstrations so far, we expect no major turbulence in the future. On the contrary, the oil-driven country should benefit from rising oil price per barrel.
Jordan	Moderate	We believe the rapid response of the monarch has stifled any major future revolts.
Kuwait	Moderate	An increasing oil price per barrel, in addition to monetary compensation, may have subdued any major revolts for the foreseeable future.
Saudi Arabia	Moderate	An increasing oil price per barrel, in addition to monetary compensation, may have subdued any major revolts for the foreseeable future.
Oman	Moderate	An increasing oil price per barrel, in addition to economic concessions granted by the sultan, may have restrained any major protests
Egypt	High	Given the president's recent step down from power and the absence of a current president at least until the September 2011 elections, volatility remains high.

Source: Rasmala

Figure 1 : Summary of protests by country



Source: Wikipedia and Rasmala

Egypt: volatility likely to continue until presidential elections

Given the recent unprecedented events in Egypt, we expect its market to remain volatile at least until the presidential elections – expected in September 2011. (For a more in-depth analysis of the impact of the revolution on the Egyptian economy, see our notes ‘*Egypt – Implications of the turmoil*’, dated 1 February 2011, and ‘*Egypt – The challenge*’ dated 21 February 2011.) However, despite the expected current negative sentiment, we believe investors who remain confident in the market’s rebound in the longer term, ie, beyond FY11, will find bargains in the telecoms sphere, owing to the following: 1) the population’s increasing awareness of the Internet’s power as a tool for communication (Facebook was the underlying application behind the rise of the Egyptian revolution); 2) none of the major shareholders of the existing Egyptian telecoms companies have been implicated to have had ties with the former regime; 3) the inherent, defensive nature of the industry; and 4) the average dividend yield for both Telecom Egypt and Mobinil of about 7.5% on their respective last closing prices looks attractive and would become more attractive if share prices were to fall further.

UAE: likely to benefit from the turmoil

We find fears of contagion in the UAE unfounded. On the contrary, according to the *Financial Times*, as markets across the region are suffering, some sectors of the UAE’s economy are actually beginning to benefit from the regional turmoil. The city’s financial centre believes it could receive a boost in the number of entrants to its tax-free, independently regulated centre. And tourism that would have once gone to Egypt, Tunisia or Bahrain is diverting to the emirate’s beach resorts and city hotels, according to the *Financial Times*.

Saudi Arabia: no fears of profound political impact

With rising oil prices, the Saudi government has given monetary incentives to stem potential unrest. We believe the prospect of a political crisis in Saudi Arabia is low.

Oman: swift response calms the masses

So far, the Omani protesters do not seem to have challenged the rule of Sultan Qaboos, who has been in power since 1970, but are merely calling for jobs and reform. We believe the rapid response and the economic concessions granted to the masses should prevent any significant revolts.

Jordan: rapid response quells protests

We expect no significant political crisis in Jordan given the monarch’s peaceful and swift response to the country’s demands to dissolve the ministerial cabinet.

Qatar: another safe haven

To date, Qatar has been unaffected by the region’s political crisis and we believe the status quo will be maintained.

Kuwait: pacified

As in Saudi Arabia, in an attempt to stave off potential economic issues as a cause for unrest, the Emir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, granted his citizens free food rations and US\$4,000 per person. Given these concessions and rising oil prices, we expect the country to remain stable.

Tougher times ahead

As mobile penetration rates continue to increase in the region, competition has also intensified. As a result, mobile operators are struggling to maintain market share, customer loyalty and revenue growth.

Mena region reaching maturity in voice

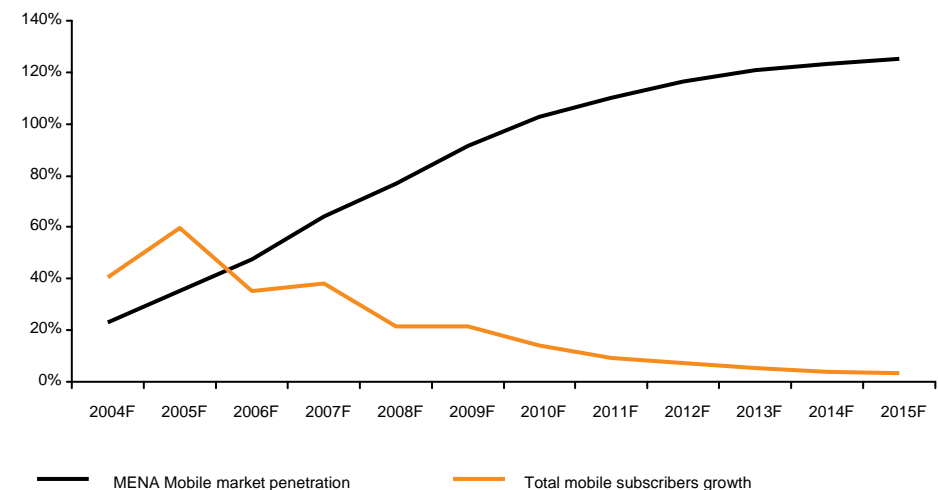
With overall mobile penetration in the Mena region reaching the maturity part of the life cycle, an estimated 103% at the end of 2010, according to ITU, we project mobile subscriber growth in the forthcoming years will be much more constrained. We estimate a CAGR of 6% over 2010-15, compared to a historical CAGR of 28% over 2005-10.

Table 6 : Mobile subscriber growth CAGR

Country	CAGR 2005-10	CAGR 2010-15F
Bahrain		4%
Egypt	39%	7%
Saudi Arabia	28%	4%
Oman	32%	8%
UAE	20%	7%
Kuwait	12%	6%
Jordan	23%	5%
Qatar	36%	15%
Tunisia	21%	6%
Morocco	20%	6%
Algeria	18%	6%
Total Mena	28%	6%

Source: ITU, Company data, Rasmala estimates

Chart 1 : Mena mobile penetration vs Mena mobile subscriber growth



Source: ITU, Company data, Rasmala estimates

Table 7 : Mena mobile penetration rates

Country	2009	2010F	2011F
Bahrain	171%	179%	188%
Egypt	65%	76%	83%
Saudi Arabia	175%	193%	203%
Oman	138%	159%	174%
UAE	215%	223%	229%
Kuwait	128%	143%	151%
Jordan	98%	107%	111%
Qatar	145%	161%	174%
Tunisia	95%	105%	114%
Morocco	80%	92%	102%
Algeria	71%	76%	80%
Total Mena	92%	103%	110%

Source: ITU, Company data, Rasmala estimates

Domestic markets are the key markets for revenue generation for stock under coverage

Domestic operations remain the bread and butter

As shown in Table 7, domestic operations for the most part remain the prime revenue generator for our Mena operators. With mobile penetration rates reaching saturation in the region and competition intensifying, mobile operators are struggling to maintain market share, customer loyalty and revenue growth.

A recent survey by Oracle (*The Future of Mobile Communications*, 22 September 2010), revealed that in the Middle East, 69% of users would consider switching service providers for better pricing. This could be detrimental to operators in some Middle Eastern countries where new licenses are set to be granted in the future. The survey also revealed that 62% of mobile phone customers said they use two or more mobile phones and Middle East "customers are increasingly using their phone for much more aside from voice. That is an area where the Middle East is leading, in terms of the multi-use of handsets."

Table 8 : Domestic market contribution to revenues, FY10

Operator	Domestic market	Domestic market contribution to revenue
Mobily	Saudi Arabia	100%
Etisalat	UAE	85%
Mobinil	Egypt	100%
Zain Saudi	Saudi Arabia	100%
Q-tel	Qatar	80%
Du	UAE	100%
Jordan Telecom	Jordan	100%
Wataniya	Kuwait	65%
Telecom Egypt	Egypt	100%
Vodafone Qatar	Qatar	100%
Oman Telecoms	Oman	97%
Nawras	Oman	100%

Source: Company data

Table 9 : Key indicators by operator

Operator	Revenue growth		Subscriber growth*		ARPU change**	
	2009-10	2010-11F	2009-10	2010-11F	2009-10	2010-11F
Mobily	23%	12%	17%	6%	-6%	-3%
Etisalat	4%	2%	9%	12%	-10%	-8%
Mobinil	-2%	0%	18%	16%	-19%	-12%
Zain Saudi	98%	na	41%	na	15%	na
Q-tel	13%	10%	31%	11%	8%	-5%
Du	33%	20%	28%	17%	-1%	-1%
Jordan Telecom	1%	-3%	16%	6%	-11%	-12%
Wataniya	15%	17%	38%	9%	-14%	-6%
Telecom Egypt	4%	4%	15%	2%	-11%	-9%
Vodafone Qatar	n/m	159%	#DIV/0!	71%	n/m	-29%
Oman Telecoms	1%	-1%	11%	8%	-14%	-9%
Nawras	10%	10%	11%	11%	-6%	-1%

*Subscribers include mobile, Internet and fixed lines. ** Rasmala calculation of ARPU
Source: Company data, Zawya, Rasmala

As shown in Table 8, expected revenue growth for FY10 and FY11 is insubstantial for most mature operators. This is because certain parts of the sector, such as fixed voice, leased lines, and mobile voice and messaging, have reached a mature point in their life cycle and face either a decline or slower growth in revenues.

Broadband is the next logical step for growth

In this environment, operators are seeking alternative revenue streams. Recent data releases indicate the data market has grown, driven by the fast-growing global handset and media device market. We are already witnessing the impact of growing demand for data, with both governments and privately owned mobile operators spending to upgrade network capacity requirements. We will examine this more closely later in this report.

Mobile traffic overflow

Gartner expects worldwide mobile voice and data revenue to exceed US\$1trn a year by 2014, supported by the soaring sale of media support handset devices and increasing 3G/LTE network coverage.

Mobility a US\$1trn business

Worldwide mobile voice and data revenue to exceed US\$1 trn supported by smart handset sales and increasing LTE coverage

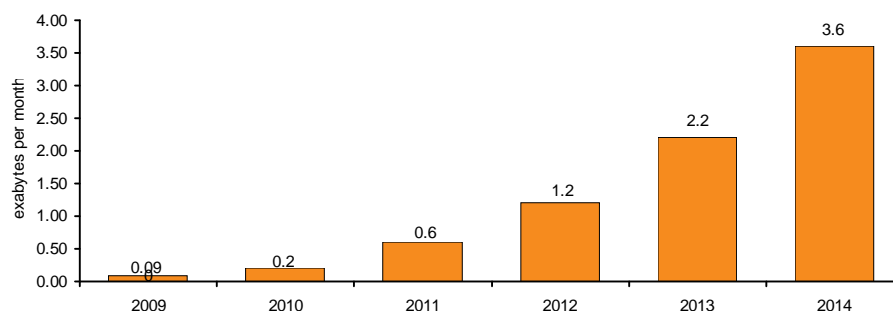
Worldwide mobile voice and data revenue will exceed US\$1trn a year by 2014, according to Gartner, Inc. Mobile will generate revenue from a wide range of additional services, such as context, advertising, application and service sales. Each of these will be a significant business worth several tens of billions of US dollars per year. According to Gartner, there are three major 'eras' of mobility:

- **The device era:** This was characterised by iconic devices such as the Motorola RAZR and was dominated by device manufacturers. It was followed by the application era.
- **The application era:** This arrived with the iPhone, popularising application and media stores.
- **The service and social era:** The service and social era will be characterised by cloud services and streaming media. Cloud computing is Internet-based computing, whereby shared resources, software and information are provided to computers and other devices on-demand. Applications will survive, but often as a component of a more complex end-to-end experience involving the cloud.

Global mobile data traffic has increased 160% over the past year

According to the Cisco Visual Networking Index (VNI) Global Mobile Data Forecast for 2009-2014, global mobile data traffic has increased 160% over the past year and is now at 90 petabytes per month, or the equivalent of 23m DVDs. By 2014, the VNI forecasts it will have reached 3.6 exabytes per month, a 39-fold increase.

Chart 2 : Global mobile data traffic growth

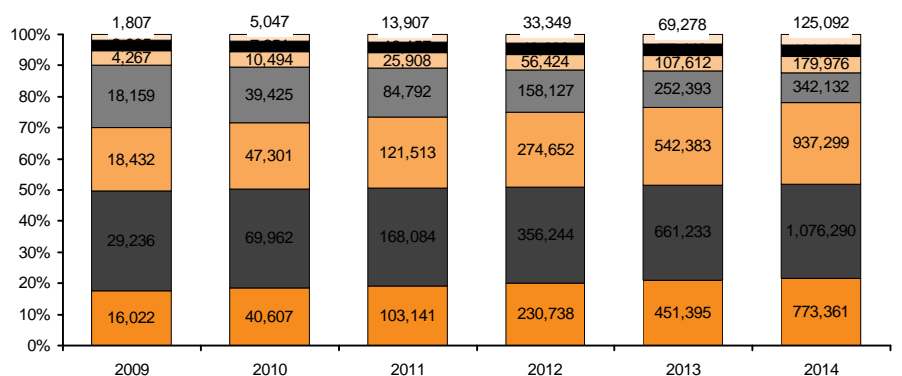


Source: Cisco, Rasmala

In simpler terms, to better assess this increase in traffic, we must look at the average mobile broadband connection and how much data traffic it uses. Right now, the average connection uses 1.3 gigabytes per month – the equivalent of 650 MP3 music files. By 2014, the average connection will use 7 gigabytes per month, or the equivalent of 3,500 MP3s, according to Cisco.

Middle East and Africa region should enjoy the highest data traffic growth

By region, according to Cisco (see Table 9), the Middle East and Africa will experience the highest 2009-14 CAGR, at 133%, followed by Asia-Pacific (119% CAGR) and North America (117% CAGR). By country, it estimates that India will have the highest CAGR, at 222%, followed by China (172% CAGR), and South Africa (156% CAGR).

Chart 3 : Global mobile data traffic forecast by region

■ North America ■ Western Europe ■ Asia Pacific ■ Japan ■ Latin America ■ Central Eastern Europe ■ Middle East and Africa

Source: Cisco

Table 10 : Global mobile data traffic CAGR, 2009-14

	CAGR, 2009-14
North America	117%
Western Europe	106%
Asia-Pacific	119%
Japan	80%
Latin America	111%
Central Eastern Europe	114%
Middle East and Africa	133%

Source: Cisco, Rasmala

Handset devices and media tablets should drive data uptake demand

Device sophistication and technology development will play a key role for data demand

Going forward, technology developments and device sophistication will play a crucial role in the demand for data. One of the key reasons behind uptake in data demand will be handset compatibility and network coverage, as we explain later in this report.

According to Gartner, worldwide media tablet sales to end users reached 19.5m units in 2010, driven by sales of the iPad. Furthermore, Gartner said media tablets are poised for strong growth, with worldwide end-user sales projected to total 54.8m units in 2011, up 181% from 2010 (see Table 10), and to surpass 208m units in 2014.

We believe technology development has played a larger role in the Middle Eastern telecommunications market than in any other emerging market because of the unique culture, high youth population and strong purchasing power of the Mena population. More than 60% of the Mena population is under the age of 30, and their strong purchasing power means they tend to purchase more expensive data and multimedia services, yielding higher value for domestic operators, as we explain later in this report.

Table 11 : Worldwide media tablet sales to end users

('000s)	2010	2011	2012	2013
Media tablets	19,490	54,781	103,425	154,150

Source: Gartner (October 2010)

Mobile broadband could trump fixed broadband

Recent data suggests the number of people accessing mobile Internet is growing rapidly and, within five years, is expected to overtake personal computers as the most popular way to access the Web. Significantly, the mobile phone penetration rate outnumbers the fixed-line penetration rate and we believe this trend will continue for Internet access too.

In February 2010, the International Telecommunications Union (ITU) said it expected mobile Web access – via laptops and smart mobile devices – to overtake desktop web access in the next five years. In March 2010, Strategy Analytics estimated that at the end of 2009, almost 530m users browsed the mobile Web on their handset and it forecasts this will rise to more than 1bn by 2015.

Table 12 : Average smartphone mobile speed by region

Region	Kbps
North America	418
Western Europe	691
Asia-Pacific	280
Japan	690
Latin America	321
Central Europe	263
Middle East and Africa	106

Source: Cisco GiST, January 2010

According to Cisco, smartphones and portables will account for 91% of all mobile traffic data by 2014. This is primarily due to the much higher usage profile of laptops and the suitability of mobile broadband handsets for high-speed, high-quality video. It is also worth noting that the average smartphone user generates 10 times the amount of traffic generated by the average non-smartphone user, according to Cisco.

Table 13 : Total phone shipments pa

('000s)	2006	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
North America	160,000	170,000	178,000	172,000	179,470	183,122	185,519	187,343	188,256
Latin America	111,000	126,500	133,700	107,750	116,980	124,524	129,677	133,528	135,923
Caribbean	7,000	4,900	5,300	7,250	7,900	8,455	8,811	9,166	9,464
Western Europe	77,000	102,000	98,400	72,300	74,070	75,482	76,676	77,572	78,287
Eastern Europe	199,000	183,000	187,600	179,700	189,840	198,787	206,223	212,053	216,453
Asia	318,000	428,000	462,000	463,000	571,530	690,920	815,277	943,122	1,074,309
Middle East	32,000	38,900	46,200	45,200	51,390	56,878	61,723	65,757	68,623
Africa	74,000	84,100	103,800	91,800	106,220	120,415	132,912	143,800	151,254
Total	978,000	1,137,400	1,215,000	1,139,000	1,297,400	1,458,581	1,616,819	1,772,341	1,922,569

Source: BMI forecasts

Table 14 : Top regions for penetration of 3G handsets, according to Ovum

Region	2009	2014
Western Europe	39%	92%
North America	38%	74%
Eastern Europe	9%	40%
AsiaPac (excluding Japan)	7%	37%
Japan	91%	100%
Middle East & Africa	7%	35%
South & Central America	4%	17%
Global	15%	43%

Source: Morgan Stanley (December 2009), Ovum

Table 15 : Key global telecom indicators for the world telecommunication service sector in 2010 (estimates)

(mn)	Global	Developed nations	Developing nations	Africa	Arab states	Asia & Pacific	CIS	Europe	The Americas
Mobile cellular subscriptions	5,282	1,436	3,846	333	282	2,649	364	741	880
Per 100 people	76.20%	116.10%	67.60%	41.40%	79.40%	67.80%	131.50%	120.00%	94.10%
Fixed telephone lines	1,197	506	691	13	33	549	74	249	262
Per 100 people	17.30%	40.90%	12.10%	1.60%	9.40%	14.00%	26.60%	40.30%	28.10%
Mobile broadband subscriptions	940	631	309	29	34	278	72	286	226
Per 100 people	13.60%	51.10%	5.40%	3.60%	9.70%	7.10%	25.90%	46.30%	24.20%
Fixed broadband subscriptions	555	304	251	1	8	223	24	148	145
Per 100 people	8.00%	24.60%	4.40%	0.20%	2.30%	5.70%	8.70%	23.90%	15.50%

Source: International Telecommunication Union (October 2010)

3G and beyond: network spending continues

Sales of handset devices and design sophistication are key drivers of demand. Various supply side factors influence the market for mobile data services, such as deployed network technologies and speed.

Table 16 : Pre-commitment LTE trials

Country	Operator
Egypt	Vodafone
Egypt	Mobinil
Egypt	Etisalat Misr
Oman	Oman Telecoms
Qatar	Vodafone Qatar
UAE	Du

Source: Global Mobile Suppliers Association

Table 17 : LTE network commitments

Country	Operator	Expected launch
UAE	Etisalat	2011
Jordan	Zain Jordan	2011
Saudi Arabia	Etihad Etisalat (Mobily)	2011
Bahrain	Zain Bahrain	To be confirmed
Kuwait	Zain Kuwait	To be confirmed
Libya	Al Madar	To be confirmed
Qatar	Qatar Telecom	To be confirmed
Saudi Arabia	STC	To be confirmed
Saudi Arabia	Zain Saudi	To be confirmed

Source: Global Mobile Suppliers Association

Ramp-up of mobile network spending

Third-generation (3G) networks have been in the market for almost a decade, but operators in the Middle East have started to upgrade their network systems to 3G networks only over the past two to three years. This was largely due to licensing and spectrum issues in respective countries. Demand for mobile broadband services in the Middle East has become significant only recently. Operators in the Middle East experienced a dramatic ramp-up of their existing second-generation (2G) mobile networks in anticipation of the burgeoning demand for mobile broadband services, with a number of operators currently running trials for long-term evolution (LTE) networks, also commercially known as 4G.

Middle Eastern countries could surpass European countries in adopting LTE

According to a study conducted by Pyramid Research (*Early Lessons From the Gulf Pioneers*, 3 May 2010), Middle Eastern countries such as Saudi Arabia, Bahrain and the UAE are predicted to pioneer LTE adoption and surpass European LTE deployment. According to the study, LTE adoption in the region should reach 6.1% of all mobile subscriptions by 2014, due to strong growth in demand for data services. Among the region's LTE pioneers – specifically Saudi Arabia, the UAE and Bahrain – LTE adoption is projected to reach 11.1% of all subscriptions by 2014, surpassing Pyramid's forecast of 7.7% LTE adoption rate in Western Europe.

Mena operators already moving to LTE

In August 2009, Zain Bahrain confirmed plans to deploy LTE, the first such announcement in the region. The company showcased the region's first LTE call in March 2010, claiming a download speed of 70Mbps. Regulator TRA is consulting on allocation of 2.6GHz spectrum for LTE commercial deployments. In Egypt, Vodafone Egypt is trialling LTE technology and has achieved 100Mbps D/L and 47Mbps U/L speeds. Mobinil and Etisalat Misr are also trialling LTE.

Zain Jordan is planning a commercial LTE launch in 2011. Regulator TRC is inviting comments from incumbents on proposals for 2.6GHz LTE licences. In Oman, Omantel showcased LTE to visitors at the Salalah Tourism Festival in July 2010. In Qatar, Vodafone Qatar introduced LTE during a live demonstration on 7 December 2010 using 800MHz spectrum. Qatar Telecom's 3G/HSPA network is evolving to prepare the way for the introduction of HSPA+ and LTE. In Saudi Arabia, the government only permits trials of LTE since the 2.6GHz band is not yet cleared for commercial use. STC is trialling LTE, Zain Saudi began deployment in 2Q10, and Mobily completed LTE testing in March 2010 and plans commercial launch by mid-2011 in 33 cities, subject to the availability of spectrum. Following trials, Etisalat of the UAE plans to commercially launch an LTE service. The company showcased LTE at Gitex Technology Week in 2010 in Dubai. Du is trialling with four vendors to evaluate the performance of LTE FDD. The preferred spectrum is 2.6GHz. Regulator TRA has indicated to operators that 2.6GHz spectrum is available for LTE if required.

4 April 2011

Change of recommendation

Hold (from Sell)

Target price

Dh2.86 (from Dh2.15)

Price

Dh3.14

Short term (0-60 days)

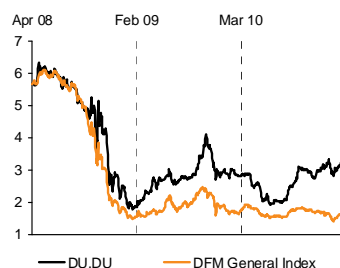
n/a

Market view

No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	2.88	2.86	2.90
Absolute (%)	9.0	9.8	8.3
Rel market (%)	-0.3	16.0	28.6
Rel sector (%)	-2.5	-2.5	-7.2



Market capitalisation

Dh14.35bn (€2.77bn)

Average (12M) daily turnover

Dh9.28m (US\$2.59m)

Sector: DFM Telecoms

RIC: DU.DU, DU UH

Priced Dh3.14 at close 29 Mar 2011.

Source: Bloomberg

Analyst

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Du

Shiny, but expensive

Du's strong performance continued throughout 2010, enabling the No 2 operator in terms of subscribers to increase market share to an impressive 40% in less than four years of operation. We move to Hold from Sell with a new Dh2.86 target price (from Dh2.15).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Dhm)	5,339	7,074	8,499	9,543	10,521
EBITDA (Dhm)	1,108	2,018	2,360	3,192	3,682
Reported net profit (Dhm)	264.1	1,310	705.6 ▼	1,073	1,310
Normalised net profit (Dhm)	264.1	1,310	705.6 ▼	1,073	1,310
Normalised EPS (Dh)	0.06	0.29	0.15	0.23	0.29
Dividend per share (Dh)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	54.30	11.00	20.30	13.40	11.00
EV/EBITDA (x)	14.90	7.74	6.46	4.74	3.95
EV/invested capital (x)	3.35	2.45	2.28	1.98	1.74
ROIC - WACC (%)	-4.73	2.64	0.55	5.65	6.76

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: IAS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Revenue growth continues to be driven by strong mobile performance

Du's revenue grew 32% to Dh7.074bn in FY10 from Dh5.339bn in FY09, beating Zawya market consensus of Dh6.547bn, due to stronger-than-expected growth in mobile market share. By acquiring 856,000 net active subscribers during the course of 2010, to reach a total of 4.3m active mobile subscribers at the end of FY10, Du has increased its market share of total active mobile subscribers in the UAE to 40.2% vs 31.0% at the end of FY09.

Write-back of Dh268m in terms of royalty provisions

Net profit before royalty was Dh1,266bn at the end of FY10 vs Dh528 m in FY09, a 132% annual increase. Net profit after royalty was Dh1,310bn, equivalent to EPS of Dh0.29, following the announcement by the UAE federal government that the royalty rate for Du in 2010 is 15%. Accordingly, a write-back of Dh268m related to royalty provisions prior to 1 January 2010 was credited to the net profit. As a result of both stronger-than-expected top-line growth and royalty reversal in provisions, Du also beat consensus expectations for FY10 EPS of Dh0.13 for FY10.

Target price increased to Dh2.86, yielding a Hold recommendation (from Sell)

We tweak our year-end 2011 EBITDA forecast slightly to reflect the operational costs associated with Du's continued plans to enhance coverage and the quality of its services. Additionally, we reduce our capex forecast for 2011 to Dh1.9bn instead of Dh2.2bn previously, in line with company guidance. Accordingly, we raise our target price to Dh2.86 per share (from Dh2.15), yielding a Hold recommendation. However, despite our increase in target price and recommendation, Du remains expensive relative to its peers, in our view. Currently Du trades at market earnings of 20x for 2011F, a 72% premium to its peers, which are trading at average 12x for 2011F on our forecasts.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	0.15	0.19	-19%
2012F	0.23	0.24	-2%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/downside
Mobily	Buy	53%
Etisalat	Buy	18%
Mobinil	Buy	10%
Wataniya	Buy	18%
Qtel	Buy	35%
Jordan Telecom	Sell	-11%

*by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
May 2011	Quarterly results
Aug 2011	Quarterly results
Nov 2011	Quarterly results

Source: Rasmala

Catalysts for share price performance

Du's continued strategy and investment focus to attract and retain high-end mobile users resulted in an 89% increase in the number of post-paid subscribers being added during 2010. This brought the total number of subscribers to 260,000, equal to 6% of the mobile subscriber base.

Additionally, the company is conducting commercial testing for services offered through infrastructure sharing. We believe that if these services launch before the end of 2011, this could act as an additional catalyst for the share price. It is worth noting that the UAE federal government has not announced a final rate for the annual federal royalties. Depending on the final rate, our target price could change significantly.

Earnings momentum

Du is focusing in 2011 on pursuing value to drive customers, so we expect to see the post-paid customer base increase to 8% by the end of 2011. This should mitigate any diluting effects that could arise from an increasing customer base. We forecast revenue will grow 20% to reach Dh8.5bn by the end of FY11. We also look for EBITDA margin to reach c28% at the end of 2011 vs 29% at the end of 2010, in response to higher operational expenses associated with Du's continued launch of additional services in the market to attract a wider customer mix. As mentioned previously, we reduce our capex estimates for 2011 to cDh2bn compared to our previous forecast of Dh2.2bn, in line with company guidance.

Despite the implied future reduction of the 50% annual federal royalty rate, we maintain the 50% royalty rate for 2011 and beyond until further notice is given by the UAE federal government.

We expect EPS of Dh0.15 per share by the end of 2011, an estimated decrease of 47% compared to reported EPS of Dh0.29 per share for FY10. If we normalise FY10 EPS by excluding the Dh268m write-back and calculating the federal royalty at 50%, FY10 EPS would come to Dh0.13 and our estimated FY11 EPS of Dh0.15 would imply an annual increase of 14%.

Valuation and target price

Despite Du's better-than-expected performance in the UAE market as it recorded the highest revenue growth for year-end 2010 of 33% compared to telecom operators under our coverage (excluding Vodafone Qatar and Zain Saudi Arabia), Du remains one of the most expensive stocks that we cover, trading at a 2011 PE of 20.3x, a premium of 72% to peers, and at an EV/EBITDA of 6.46x for 2011, also a premium of 27% to its peers. We calculate our new Dh2.86 target price for Du on the basis of discounted cash flow valuation, maintaining a 50% royalty rate for 2011 and beyond until further notice is given by the UAE federal government. We calculate our target price only on the basis of a DCF valuation as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology in which we equally weighted DCF and peers' PE multiples.

How we differ from consensus

Our EPS forecast for FY11 is below Bloomberg consensus because we anticipate higher operational costs associated with the launch of new products in the market, as well as more competition in the UAE market in general.

Risks to central scenario

- The main downside risk to our target price is Du's inability to pursue its re-emphasised strategy to capture a bigger slice of the high-value customer market.
- Another downside risk to our central scenario, although unlikely, is Dubai being affected by the geopolitical tension of the region.
- The main upside risks are: Du attaining a better-than-expected share of the broadband market and post-paid subscriber base; and
- a reduction in the federal royalty rate positively impacting our valuation, as we have maintained a 50% federal royalty rate throughout our forecast period, until further details are provided by the federal government.

Key assumptions and sensitivities

We increase our target price for Du to Dh2.86 from Dh2.15. We calculate our target price based only on a DCF valuation. Previously, we used a blended methodology, with equally weighted DCF and peer PE multiples.

Valuation and target price

Table 1 : Forecast assumption changes

	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	8,499	8,288	3%	9,543	9,253	3%
EBITDA	2,360	2,469	-4%	3,192	3,146	1%
EBITDA margin	28%	30%		33%	34%	
Net income	706	794	-11%	1,073	1,098	-2%

Source: Rasmala forecasts

In our valuation for Du, our base-case scenario assumptions include a cost of equity of 9.24%, based on a risk-free rate of 4.5% and a premium of 6.0%, cost of debt of 6.5%, a beta of 0.79x and a terminal growth rate of 2%.

Du's DCF valuation yields a 12-month fair value of Dh2.86 per share, which is 9% lower than the current trading price of Dh3.14 per share.

Table 2 : DCF approach

(Dhm)	Free cash flow	PV of FCF
2011F	370	353
2012F	152	135
2013F	588	487
2014F	-68	-89
2015F	923	664
Terminal value	17,760	12,776
Enterprise value		14,325
Minus: net debt		1,273
Equity value		13,052
Number of shares		4,571
12-month fair value per share		2.86

Source: Rasmala estimates

We also employ a sensitivity analysis, with different rates for both the cost of equity and terminal growth rate, to illustrate how sensitive our DCF valuation is to changes in these assumptions.

Table 3 : DCF sensitivity analysis (value per share, Dh)

Dh/share		Cost of equity				
Terminal growth rate		8.5%	9.5%	10.5%	11.5%	12.5%
	1.0%	2.75	2.56	2.39	2.23	2.09
	1.5%	3.03	2.80	2.60	2.42	2.26
	2.0%	3.37	3.09	2.86	2.65	2.46
	2.5%	3.79	3.45	3.16	2.91	2.69
	3.0%	4.32	3.90	3.54	3.23	2.97

Source: Rasmala estimates

We include another sensitivity analysis table to show the impact on our base-case DCF target price given a range of federal royalty rates.

Table 4 : DCF sensitivity analysis to federal royalty rate (value per share, Dh)

Federal royalty rate	10%	20%	30%	40%	50%
Dh/share	6.53	5.70	4.82	3.88	2.86

Source: Rasmala estimates

Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	5339	7074	8499	9543	10521
Cost of sales	-1831	-2474	-2975	-3292	-3630
Operating costs	-2399	-2582	-3165	-3059	-3209
EBITDA	1108	2018	2360	3192	3682
DDA & Impairment (ex gw)	-645.4	-724.2	-952.1	-1028	-1045
EBITA	462.9	1294	1408	2164	2637
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	462.9	1294	1408	2164	2637
Net interest	-6.72	-51.3	3.51	-18.5	-17.7
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	72.1	-16.3	0.00	0.00	0.00
Reported PTP	528.2	1226	1411	2146	2619
Taxation	-264.1	84.3	-705.6	-1073	-1310
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	264.1	1310	705.6	1073	1310
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	1108	2018	2360	3192	3682
Normalised PTP	528.2	1226	1411	2146	2619
Normalised net profit	264.1	1310	705.6	1073	1310

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	869.3	2785	2785	400.0	400.0
Other current assets	1356	1886	1461	1702	1789
Tangible fixed assets	6107	6689	7952	9081	9956
Intang assets (incl gw)	1200	1159	1159	1159	1159
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
Total assets	9532	12520	13357	12342	13304
Short term debt (2)	0.00	0.00	3252	841.1	379.3
Trade & oth current liab	3677	6441	3902	4332	4554
Long term debt (3)	3000	904.7	325.1	216.9	108.7
Oth non-current liab	63.5	77.7	77.7	77.7	77.7
Total liabilities	6740	7424	7556	5468	5120
Total equity (incl min)	2792	5096	5801	6874	8184
Total liab & sh equity	9532	12520	13357	12342	13304
Net debt	2131	1273	899.3	766.1	196.2

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	1108	2018	2360	3192	3682
Change in working capital	-135.5	-919.6	930.6	189.6	135.2
Net interest (pd) / rec	-6.72	-51.3	3.51	-18.5	-17.7
Taxes paid	0.00	84.3	-705.6	-1073	-1310
Other oper cash items	-4.90	250.8	-297.8	-340.6	-340.5
Cash flow from ops (1)	961.2	1382	2290	1949	2150
Capex (2)	-1624	-1575	-1917	-1816	-1580
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-111.6	-41.2	0.00	0.00	0.00
Cash flow from invest (3)	-1735	-1616	-1917	-1816	-1580
Incr / (decr) in equity	0.00	1078	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	367.9	1073	-373.5	-2519	-570.0
Cash flow from fin (5)	367.9	2150	-373.5	-2519	-570.0
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-406.3	1916	0.00	-2385	0.00
Equity FCF (1+2+4)	-662.6	-193.0	373.5	133.2	570.0

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Buy

Target price
Dh12.89 (from Dh13.60)

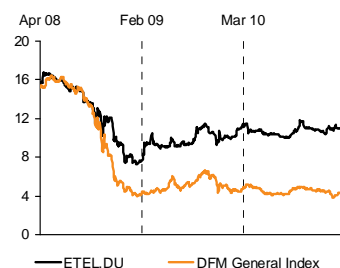
Price
Dh10.95

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	10.90	10.80	11.45
Absolute (%)	0.5	1.4	-4.4
Rel market (%)	-8.2	7.1	13.6
Rel sector (%)	-10.1	-9.9	-18.0



Market capitalisation
Dh86.57bn (€16.73bn)

Average (12M) daily turnover
Dh12.93m (US\$3.52m)

Sector: DFM Telecoms
RIC: ETET.DU, ETISALAT.UH
Priced Dh10.95 at close 29 Mar 2011.
Source: Bloomberg

Analyst

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Etisalat

Expand and conquer

Perhaps the highlight of the year for Etisalat was its offer to buy a 46% stake in Kuwait's Mobile Telecommunications Company (Zain Group) and its subsequent backtrack. We maintain our royalty fee assumptions but see greater competition from Du. Buy with a SOTP-based target price of Dh12.89 (from Dh13.60).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Dhm)	30,831	31,929	32,578	34,390	36,021
EBITDA (Dhm)	11,349	9,981	9,906 ▼	10,256 ▼	12,266
Reported net profit (Dhm)	8,836	7,631	6,983 ▼	7,344 ▼	9,329
Normalised net profit (Dhm)	8,836	7,631	6,983 ▼	7,344 ▼	9,329
Normalised EPS (Dh)	1.12	0.97	0.88 ▼	0.93 ▼	1.18
Dividend per share (Dh)	0.55	0.60	0.60	0.60	0.60
Dividend yield (%)	4.98	5.48	5.48	5.48	5.48
Normalised PE (x)	9.80	11.30	12.40	11.80	9.28
EV/EBITDA (x)	7.03	8.29	8.28	7.62	5.87
EV/invested capital (x)	2.38	2.14	2.05	2.02	1.95
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Etisalat scraps its plan to buy a stake in Zain

Etisalat announced that it was pulling out of the deal, blaming political unrest in the region and disagreement among Zain Group shareholders. In September 2010, it launched a bid for a 46% stake worth about US\$12bn. It missed a self-imposed due-diligence deadline of 15 January due to what it said at the time was a "lack of information", according to the Dow Jones Newswire. As recently as early March 2011, the UAE-based company said that it was still keen on the transaction, a day after a key advocate of the acquisition (Al Khair National Co for Stocks and Real Estate), a key investor in Zain Group, said it was no longer committed to helping broker an accord, as per Dow Jones. (Al Khair National Co for Stocks and Real Estate is controlled by Kuwait's Kharafi Group, which has a 12.67% stake in Zain Group.

New capital markets law in Kuwait

Another reason for Etisalat to pull out of the deal could have been a new Kuwaiti takeovers-related capital markets law, effective March 2011, that requires anyone buying more than a 30% stake in a listed Kuwaiti firm to bid for the remaining outstanding shares within 30 days. However, at the time of the deal, Reuters quoted a Kuwaiti Capital Markets Authority official as saying that the provision does not apply to deals already agreed and as such would have no effect on the proposed Etisalat deal.

Buy maintained; target price reduced to Dh12.89 (from Dh13.60)

We have reduced our target price to Dh12.89 per share, as we expect greater competition in the UAE. While we see risks surrounding the integration of potential acquisitions, we believe this is more than priced into the stock. We maintain our Buy recommendation with 18% upside to our target price.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	0.88	1.03	-14%
2012F	0.93	1.05	-12%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Qtel	Buy	35%
Mobily	Buy	53%
Etisalat	Buy	18%
Du	Hold	-9%
Wataniya	Buy	18%
Telecom Egypt	Buy	17%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim results announced
July 2011	Interim results announced
Oct 2011	Interim results announced
Feb 2012	Annual results announced

Source: Rasmala

Catalysts for share price performance

Etisalat may have walked out of the cUS\$12bn deal for the acquisition of a 46% stake in Zain Group, but we still strongly believe that the company will pursue its aggressive expansion plans elsewhere in the region and beyond. In our view, other opportunities for inorganic growth remain open to Etisalat (albeit at a significantly smaller scale than the Zain stake), eg, Iraq's fourth mobile licence, and any acquisition could be a share-price catalyst.

Currently, foreign investors can only gain exposure to the stock through a local broker as the nominee. We expect the UAE federal government to lift this foreign ownership restriction at some point in the near future, and this would unlock value.

It is worth noting that on 14 February the government announced a reduction in the royalty fee payable by Du, the second national telecom operator, for year-end 2010. Royalty for subsequent years will be advised in due course, implying that a similar reduction for Etisalat is possible. Accordingly, our valuation and target price could change significantly once the government announces a final rate for the annual federal royalties for both the operators. Please see Table 1 for DCF sensitivity as per changes in the federal royalty rate.

Earnings momentum

Despite the likely reduction in the 50% annual federal royalty, we are keeping our assumption unchanged for 2011 and beyond until the federal government gives further notice.

We expect EPS to reach Dh0.88 by end-2011, ie, a decline of 8% vs reported EPS of Dh0.97 in FY10.

Valuation and target price

Note that we now arrive at our target price using only a sum-of-the-parts valuation as we believe it better reflects the geographical diversity of the sector. Previously we had used a blended methodology with an equal weighting between DCF and peer PEs.

In our base-case scenario, which assumes a steady 50% federal royalty, our SOTP valuation yields a fair value of Dh12.89 per share, which is 18% higher than the current trading price of Dh10.95 per share. We value the major operations of the company using a DCF analysis and include DB India at its acquisition value, given scanty management guidance.

How we differ from consensus

We are below Bloomberg consensus on 2011F and 2012F EPS, on the back of both lower revenue estimates and higher operating expenses as we assume intensifying competition in the UAE.

Risks to central scenario

- Our main concern is that if Etisalat continues to lose mobile market share more aggressively to Du than we currently expect, our forecasts will change materially.
- A significant increase in expatriates leaving Dubai could negatively impact the total subscribers number and international call volumes. Also, with mobile penetration exceeding 200%, it is difficult to see penetration growing as aggressively as in the past. It is critical for the company to retain subscribers, in our view.
- Our prime worry regarding Etisalat's aggressive acquisition strategy is that it will overpay for licences.

Key assumptions and sensitivities

We move to a pure DCF valuation, away from our previous blended methodology, although we do use FY11 and FY12 earnings multiples as a common-sense check vs the peer group, and our valuation and recommendation has not substantially changed.

Table 1 : Changes in our forecast assumptions

(all figures stated in Dh m unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	32,578	33,399	-2%	34,390	35,050	-2%
EBITDA	9,906	12,206	-19%	10,256	12,695	-19%
EBITDA margin (%)	30%	37%		30%	36%	
Net Income	6,983	9,055	-23%	7,344	9,875	-26%

Source: Rasmala forecasts

We decrease our forecasts for both FY11 and FY12 revenues and EBITDA because we expect more pressure on margins as a result of higher competition in the UAE at the forefront, as well as other markets. As of FY10, the UAE contributed c77% and 89% to total consolidated revenue and EBITDA, respectively, compared to 86% and 94% in FY09. At the end of FY10, the UAE's EBITDA margin fell to c59.6% vs 69% at the end of FY09, due to higher operational expenses related to the cost of equipment and others.

In our base-case scenario, which assumes a steady 50% federal royalty, our SOTP valuation yields a fair value of Dh12.89 per share, which is 18% higher than the current trading price of Dh10.95 per share. We value the major operations of the company using a DCF analysis and include DB India at its acquisition value, given scanty management guidance. We have also included a sensitivity analysis to show how sensitive our DCF is towards changes in the federal royalty rate.

Table 2 : DCF sensitivity analysis to Federal royalty (value per share, Dh)

Federal royalty rate	10%	20%	30%	40%	50%
Dh/share	21.0	18.9	16.9	14.9	12.9

Source: Rasmala forecasts

Valuation and target price

Our sum-of-the-parts valuation yields a 12-month fair value of Dh12.89 per share, which is 18% lower than the current trading price of Dh10.95. From a trading perspective, Etisalat trades at a 12.4x our FY11F PE , a c7% premium relative to its Mena peers under our coverage at 12x. This could be justified in light of an expected decrease in the 50% federal royalty rate.

Table 3 : DCF assumptions

Operation	WACC	Long-term growth rate
UAE	10.2%	2.0%
Egypt	13.8%	3.0%
Nigeria	12.2%	3.5%
AT	12.2%	3.5%
Tanzania	12.2%	3.5%
Saudi	10.3%	2.0%
Afghanistan	12.3%	4.0%
Sudan	12.2%	2.5%
Indonesia	12.2%	3.5%
India	Valued at acquisition value	
Pakistan	15.0%	2.5%
Sri Lanka	12.2%	3.5%

Source: Company data, Rasmala forecasts

Table 4 : SOTP (base-case scenario: Etisalat pays federal royalty of 50%)

Operation (Dhm, unless stated otherwise)	Enterprise value	Stake	Proportionate EV
UAE	64,732	100%	64,733
Egypt	9,586	66%	6,327
Nigeria	500	40%	200
AT	7,906	100%	7,906
Tanzania	848	65%	551
Saudi	52,727	27%	14,236
Afghanistan	1,114	100%	1,114
Sudan	630	82%	516
Indonesia	14,379	13%	1,884
India	179	45%	80
Pakistan	3,708	26%	964
Sri Lanka	334	100%	334
Total enterprise value	156,644		98,845
Net cash			-3,024
Total equity value			101,869
Total outstanding shares (m)			7,906
Total SOTP (Dh per share)			12.89

Source: Rasmala forecasts

Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	30831	31929	32578	34390	36021
Cost of sales	-3840	-3760	-4058	-4284	-4487
Operating costs	-15642	-18189	-18614	-19850	-19268
EBITDA	11349	9981	9906	10256	12266
DDA & Impairment (ex gw)	-2535	-2985	-3505	-3291	-3183
EBITA	8815	6996	6401	6965	9083
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	8815	6996	6401	6965	9083
Net interest	11.6	532.7	503.3	338.7	260.2
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	8827	7529	6904	7304	9344
Taxation	-243.8	-100.4	-92.1	-97.4	-124.6
Minority interests	253.6	202.0	171.7	137.3	109.9
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	8836	7631	6983	7344	9329
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	11349	9981	9906	10256	12266
Normalised PTP	8827	7529	6904	7304	9344
Normalised net profit	8836	7631	6983	7344	9329

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	11309	10277	8388	8958	14931
Other current assets	8253	9037	9437	9611	9831
Tangible fixed assets	17585	20675	22052	22165	21877
Intang assets (incl gw)	16778	15550	14573	13541	12461
Oth non-curr assets	17452	20068	19904	20483	21322
Total assets	71379	75607	74353	74758	80421
Short term debt (2)	1079	1195	0.00	0.00	0.00
Trade & oth current liab	22409	23283	25160	22941	24295
Long term debt (3)	3422	5205	574.8	337.7	100.5
Oth non-current liab	4079	3359	3985	4383	4454
Total liabilities	30989	33042	29720	27662	28850
Total equity (incl min)	40389	42565	44633	47096	51572
Total liab & sh equity	71379	75607	74353	74758	80421
Net debt	-6808	-3877	-4586	-8383	-14593

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	11349	9981	9906	10256	12266
Change in working capital	-153.6	-2846	1186	617.2	1134
Net interest (pd) / rec	193.4	532.7	503.3	338.7	260.2
Taxes paid	-86.0	-100.4	-92.1	-97.4	-124.6
Other oper cash items	-985.1	202.0	171.7	137.3	109.9
Cash flow from ops (1)	10318	7769	11675	11252	13646
Capex (2)	-6798	-4853	-3904	-2372	-1814
Disposals/(acquisitions)	0.00	896.7	497.4	143.3	180.0
Other investing cash flow	-166.0	-473.5	164.0	-579.7	-838.7
Cash flow from invest (3)	-6964	-4430	-3243	-2808	-2473
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	485.9	-59.2	-5565	-3111	-453.4
Ordinary dividend paid	-3893	-4312	-4744	-4744	-4744
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	-11.8	-18.4	-2.99
Cash flow from fin (5)	-3407	-4372	-10321	-7873	-5200
Forex & disc ops (6)	67.7	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	14.3	-1032	-1889	570.3	5972
Equity FCF (1+2+4)	3520	2916	7771	8880	11831

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Sell

Target price
JOD5.09 (from JOD4.43)

Price
JOD5.70

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (JOD)	5.70	5.38	5.46
Absolute (%)	0.0	5.9	4.4
Rel market (%)	3.7	15.8	20.6
Rel sector (%)	0.2	0.2	3.9



Market capitalisation
JOD1.42bn (€1.43bn)

Average (12M) daily turnover
JOD0.10m (€0.08m)

Sector: Amman Tech & Comm Index
RIC: JTEL.AM, JTEL.JR
Priced JOD5.70 at close 29 Mar 2011.
Source: Bloomberg

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Jordan Telecom

Head above water

Jordan Telecom announced its key performance indicators for year-end 2010, which slightly exceeded our forecasts for FY10 due to a better-than-expected performance during the last quarter of 2010. We maintain our Sell recommendation with a new JOD5.09 target price (from JOD4.43).

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (JODm)	401.4	400.1	402.1	391.7	391.1
EBITDA (JODm)	178.5	179.8	173.3	167.5	165.3
Reported net profit (JODm)	100.3	108.3	95.10	88.10	86.50
Normalised net profit (JODm)	100.3	108.3	95.10	88.10	86.50
Normalised EPS (JOD)	0.40	0.43	0.38	0.35	0.35
Dividend per share (JOD)	0.40	0.42	0.42	0.42	0.44
Dividend yield (%)	7.02	7.37	7.37	7.37	7.72
Normalised PE (x)	14.20	13.20	15.00	16.20	16.50
EV/EBITDA (x)	6.26	6.30	6.79	7.10	7.33
EV/invested capital (x)	10.40	8.90	7.43	7.58	7.85
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Jordan Telecom announced key performance indicators for FY10

Jordan Telecom's (JTG) consolidated revenue increased 0.5% yoy to JOD402.1m in FY10 from JOD400.1m in FY09, exceeding our forecast of JOD396.4m. Despite a weakening performance during 1Q-3Q10 (0.6% yoy decline), the company posted a rebound in 4Q, showing a healthy growth spurt of 3.6% yoy.

Net profit declined 8.6% yoy to JOD95.1m at end-FY10

JTG posted after-tax net profit of JOD95.1m for FY10, declining 8.6% yoy mainly as EBITDA fell 4.1% yoy to JOD173.3m and interest income declined due to lower bank deposit interest rates. On a separate note, the group's board of directors proposed a cash dividend of JOD0.39ps for 2010, subject to the approval of the shareholders' meeting.

We consider the shares expensive, but see support from the dividend yield

We maintain our forecasts for JTG, reiterate our Sell rating and raise our 12-month target price to JOD5.09 (from JOD4.43). We have changed our method to derive our target price, relying only on discounted cash flow valuation as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology, in which we equally weighted DCF and peers' PE multiples to arrive at our target price. Accordingly, our new target price for JTG is JOD5.09 per share (up from JOD4.43). The stock is trading at a premium of c37% to the average of our 2011 estimate for its Mena peers, but looks attractive to us on a dividend yield basis (7.37% for 2010F and 2011F). Despite our Sell recommendation, we believe JTG remains a solid dividend play, and, as long as it maintains its maximum dividend payout policy and refrains from major capital expenditures, should be bought on market dips based on its strong cash position.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	0.35	0.37	-5%
2012F	0.35	0.35	-1%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/ downside
Mobily	Buy	53%
Etisalat	Buy	18%
Mobinil	Buy	10%
Qtel	Buy	35%
Du	Hold	-9%

*by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim result
July 2011	Interim result
Oct 2011	Interim result

Source: Rasmala

Catalysts for share price performance

We believe that JTG's growth will be driven by the Internet and data markets. Internet penetration in Jordan was about 4% at end-2009, while the mobile telecom market was saturated at 96%. We expect constrained revenue growth over the next few years and believe that operating-level cost efficiency will be the main driver of bottom-line growth.

Earnings momentum

We expect the company to face a tough competitive environment in the coming year. Against this backdrop, we forecast FY10 and FY11 revenue of JOD396m (down 1% yoy) and JOD392m (down 1.2% yoy), respectively. Concurrently, we expect FY10-11 EPS of JOD0.37 (down 15% yoy) and JOD0.35 (down 4% yoy), respectively.

Valuation and target price

We calculate our new JOD5.09 target price for JTG on the basis of a discounted cash flow (DCF) valuation. We have changed our valuation methodology, relying on DCF only as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology in which we equally weighted peers' PE multiples and DCF valuation.

Our DCF valuation yields a 12-month fair value of JOD5.09 per share. We assume a cost of equity of 10% based on a risk-free rate of 4.75% and a premium of 9%, a cost of debt of 7%, a terminal growth rate of 2% and beta of 0.6x.

Jordan Telecom is our least preferred stock. We believe it is trading above its fair value by approximately 10% (based on the 29 March closing price of JOD5.70) and consider it the second most expensive stock in our coverage universes in terms of PE and EV/EBITDA multiples, trading at an estimated earnings multiple of 16x for FY11 and at an estimated FY11 EV/EBITDA of 7x.

How we differ from consensus

In terms of revenue, we are 1% below Bloomberg consensus for 2011 and in line for 2012. We are 5% and 1% below consensus for 2011-12F EPS, respectively, partly due to our lower revenue forecasts and partly because we anticipate increased competition, particularly in the mobile segment.

Risks to central scenario

- We believe that better-than-expected operating-level cost management would be positive for JTG given that we expect future bottom-line growth to be driven primarily by cost efficiencies at the operating margin level rather than by increased revenue growth.
- In our view, a less aggressive competitive environment would relieve pressure on ARPU. Despite significant market share growth since the start of 2010, growth in mobile revenue, which constitutes around 40% of JTG's total revenue, has remained lacklustre.
- Taxes are a big hurdle to growth, accounting for 45-50% of total revenue. Accordingly, reduced taxation would be very positive for revenue.

Key assumptions and sensitivities

Our assumptions include a 10% cost of equity based on a risk-free rate of 4.75% and a premium of 9%, a cost of debt of 7%, a terminal growth rate of 2% and beta of 0.6x.

We also employ a sensitivity analysis, with different cost of equity and terminal growth rates, to illustrate how changes in these assumptions affect our DCF valuation.

Table 1 : DCF sensitivity

Terminal growth rate		Cost of equity				
		8%	9%	10%	11%	12%
0.5%		5.81	5.21	4.75	4.39	4.09
1.5%		6.10	5.42	4.91	4.51	4.18
2.0%		6.43	5.66	5.09	4.65	4.29
2.5%		6.83	5.94	5.29	4.80	4.41
3.0%		7.31	6.27	5.53	4.97	4.54

Source: Rasmala forecast

Valuation and target price

We calculate our target price only on the basis of a DCF valuation as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology in which we equally weighted DCF and peers' PE multiples.

Table 2 : DCF approach

(JODm)	Free cash flow	PV of FCF
2011F	86	79
2012F	83	69
2013F	77	59
2014F	82	57
2015F	84	53
Terminal value	1,093	690
Enterprise value		1,006
Minus: net debt		-267
Equity value		1,273
Number of shares (000)		250
12-month fair value per share		5.09

Source: Rasmala forecasts

Income statement

JODm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	401.4	400.1	402.1	391.7	391.1
Cost of sales	-136.7	-133.7	-140.7	-139.0	-140.8
Operating costs	-86.2	-86.5	-88.1	-85.1	-85.0
EBITDA	178.5	179.8	173.3	167.5	165.3
DDA & Impairment (ex gw)	-54.0	-52.0	-56.3	-55.2	-55.1
EBITA	124.5	127.8	117.0	112.3	110.2
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	124.5	127.8	117.0	112.3	110.2
Net interest	16.5	12.6	6.47	6.26	6.26
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-3.70	0.39	0.89	0.00	0.00
Reported PTP	137.3	140.8	124.4	118.6	116.5
Taxation	-37.9	-33.1	-29.6	-30.8	-30.3
Minority interests	0.96	0.60	0.36	0.35	0.35
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	100.3	108.3	95.1	88.1	86.5
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	178.5	179.8	173.3	167.5	165.3
Normalised PTP	137.3	140.8	124.4	118.6	116.5
Normalised net profit	100.3	108.3	95.1	88.1	86.5

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

JODm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	341.9	301.5	255.8	241.3	219.8
Other current assets	81.3	90.2	97.0	102.2	110.1
Tangible fixed assets	236.3	228.6	224.5	222.2	221.8
Intang assets (incl gw)	14.4	66.9	62.9	59.0	55.0
Oth non-curr assets	2.29	5.05	5.05	5.05	5.05
Total assets	676.1	692.2	645.3	629.7	611.8
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	210.4	248.8	216.2	216.2	222.7
Long term debt (3)	33.2	8.59	6.64	6.11	5.58
Oth non-current liab	16.7	15.6	15.6	15.6	15.6
Total liabilities	260.3	272.9	238.4	237.9	243.8
Total equity (incl min)	415.9	419.3	406.9	391.8	368.0
Total liab & sh equity	676.1	692.2	645.3	629.7	611.8
Net debt	-308.2	-292.0	-248.6	-234.7	-213.7

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

JODm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	178.5	179.8	173.3	167.5	165.3
Change in working capital	6.16	1.37	-14.0	-5.09	-1.50
Net interest (pd) / rec	16.5	12.6	6.47	6.26	6.26
Taxes paid	-37.9	-33.1	-32.5	-30.8	-30.3
Other oper cash items	-3.25	-3.70	0.39	0.90	0.00
Cash flow from ops (1)	160.0	156.9	133.6	138.8	139.8
Capex (2)	-48.5	-13.8	-48.3	-49.0	-50.8
Disposals/(acquisitions)	0.00	-87.0	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-48.5	-100.8	-48.3	-49.0	-50.8
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-0.77	0.77	-27.4	-0.53	-0.53
Ordinary dividend paid	-100.0	-105.0	-105.0	-105.0	-110.0
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	0.59	-0.20	-0.03
Cash flow from fin (5)	-100.8	-104.2	-131.8	-105.7	-110.6
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	10.7	-48.1	-46.4	-15.9	-21.6
Equity FCF (1+2+4)	111.5	143.1	85.4	89.8	89.0

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Buy

Target price
SR76.16 (from SR75.36)

Price
SR49.70

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (SR)	46.30	55.25	49.40
Absolute (%)	7.3	-10.0	0.6
Rel market (%)	-2.8	-9.3	4.5
Rel sector (%)	-0.9	-1.3	12.9



Market capitalisation
SR34.79bn (€6.58bn)

Average (12M) daily turnover
SR60.66m (€12.22m)

Sector: Tadawul Telecoms Index
RIC: 7020.SE, EEC AB
Priced SR49.70 at close 29 Mar 2011.
Source: Bloomberg

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Mobily

Unstoppable momentum

Etiihad Etisalat (Mobily) reported its FY10 results, with net profit reaching SR4.2bn, growing 40% yoy, continuing to exceed analysts' expectations.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (SRm)	13,058	16,013	17,930	19,802	21,205
EBITDA (SRm)	4,837	6,165	6,813 ▲	7,525 ▲	8,164
Reported net profit (SRm)	3,014	4,211	4,726 ▲	5,344 ▲	5,926
Normalised net profit (SRm)	3,014	4,211	4,726 ▲	5,344 ▲	5,926
Normalised EPS (SR)	4.31	6.02	6.75 ▲	7.63 ▲	8.47
Dividend per share (SR)	1.25	2.00	2.36 ▲	3.05 ▲	3.81
Dividend yield (%)	2.52	4.02	4.75	6.14	7.67
Normalised PE (x)	11.50	8.26	7.36	6.51	5.87
EV/EBITDA (x)	8.78	6.67	5.38	4.73	4.24
EV/invested capital (x)	2.13	1.88	1.76	1.52	1.32
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: GAAP
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Mobily continues to display strength in the Saudi market

Etiihad Etisalat Company (Mobily) announced its FY10 financial results for the year ending 31 December 2010, reflecting the company's underlying strength in the Saudi broadband market.

Net profit grew 40% yoy, beating analysts' expectations

Mobily's 2010 net profit of SR4.2bn exceeded our estimates of SR3.64bn and Zawya consensus estimates for FY10 net profit of SR3.63bn. Considering the upbeat FY10 financial results, the company's board of directors, at its 16 January 2011 meeting, recommended a cash dividend distribution of SR1.4bn, equivalent to SR2.00 per share for the year ended 31 December 2010, a 60% increase over 2009.

Increased data traffic driving revenue growth

Total revenue grew 23% to SR16.0bn at year-end 2010, compared to SR13.1bn in FY09. According to management, revenue grew primarily due to higher usage rates in terms of minutes of traffic and data transmission – data transmitted over its network registered 85 terabytes per day in 2010 on average compared to 50 terabytes in 2009. Furthermore, data revenue rose significantly to make up 18% of Mobily's total consolidated revenues year-end 2010, vs 14% in 2009.

We increase our year-end forecasts and target price to SR76.16 per share

In light of Mobily's continued strong performance, we increase our revenue forecasts for FY11 and FY12, by c11% and 13%, respectively. We move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector. However, we do use FY11F and FY12F earnings multiples as a common-sense check against the company's peer group, using our Mena peer average PE forecasts of 12x and 11x for FY11 and FY12, respectively, and our valuation has not substantially changed. Accordingly, we raise our target price 1% to SR76.16 per share.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	6.75	6.29	7%
2012F	7.63	6.72	14%

Source: Zawya, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/downside
Mobinil	Buy	10%
Etisalat	Buy	18%
Qtel	Buy	35%
Du	Hold	-9%
Wataniya	Buy	18%
Vodafone Qatar	Buy	16%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim results announced
July 2011	Interim results announced
Oct 2011	Interim results announced
Jan 2012	Annual results announced

Source: Rasmala

Catalysts for share price performance

Data remains Mobily's future growth driver; according to Mobily's Chairman, the company's smart phone users have twice the ARPU of feature phones users. Mobily already has 4G (LTE) testing underway, additionally prior tests were conducted to double the speed of the Evolved High-Speed Packet Access (HSPA+) to 42 Mbit/second in the major areas of Saudi Arabia – the first phase of an expanded launch in the country.

Earnings momentum

We expect data revenues to continue to rise, contributing about 22% of total consolidated revenue by year-end 2011. We expect 2011 revenue to continue growing 12% yoy, and at a revenue CAGR of 8% between 2011 and 2015. We forecast EPS to reach SR7.00 per share by the end of 2011, a 16% increase compared to an EPS of SR6.02 per share for FY10.

Valuation and target price

Based on our forecasts, Mobily is currently trading at a PE of 7.3x for FY11 and a PE of 6.5x for FY12, making Mobily the least expensive stock in our telecom universe, trading at an average discount of c38% to its regional peers, on our forecasts.

Our DCF valuation of Mobily yields a 12-month fair value of SR76.16 per share, 53% higher than the current price of SR49.70 per share. Accordingly we are maintaining our Buy recommendation on the stock.

How we differ from consensus

We are above Zawya's consensus estimates for 2011 and 2012 on revenues, EBITDA and EPS. We forecast EPS of SR6.75 for 2011 and SR7.63 for 2012, while it is SR6.29 and SR6.72, respectively, for consensus. Our base case assumes more data subscribers, higher ARPU and a better Hajj season this year compared with the last.

Risks to central scenario

- Broadband uptake that lags our projections could risk our numbers. While we have factored in and are confident about higher subscriber acquisition costs (SAC) in the near term, any shortfall in higher-spending subscribers could put our margin assumption at risk.
- Irrational pricing by Zain and/or STC could put downward pressure on Mobily's ARPU. While churn is not high in Saudi Arabia, aggressive promotions could trigger an acceleration.
- Regulatory changes to the types of services permitted throughout Saudi Arabia could slow the adoption of next-gen, value-added services. This could delay subscriber growth in the mobile broadband segment.
- The outbreak of another epidemic, like swine flu in 2008, could significantly affect our forecasts because Mobily's peak season is usually during Ramadan and Hajj.

Key assumptions and sensitivities

Our DCF valuation of Mobily yields a 12-month fair value of SR76.16 per share, a 53% upside potential. Based on our forecasts, Mobily is currently trading at a PE of 7.3x for FY11, making Mobily the least expensive stock in our telecom universe.

Table 1 : Changes in our forecast assumptions

(all figures stated in SR m unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	17,930	16,192	11%	19,802	17,462	13%
EBITDA	6,813	6,315	8%	7,525	6,898	9%
EBITDA margin (%)	38%	39%		38%	40%	
Net Income	4,726	4,346	9%	5,344	4,882	9%

Source: Rasmala forecasts

Discounted cash flow

Our DCF valuation of Mobily yields a 12-month fair value of SR76.16 per share, 53% higher than the current price of SR49.7 per share. We use the following assumptions to derive our DCF valuation: a 9.4% cost of equity, based on a risk-free rate of 4.5% and a premium of 6.0%; a 2.0% terminal growth rate (previously 2.5%); a WACC of 9.4%, a cost of debt of 9.5% and a beta of 0.81x.

We move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector. However, we do use FY11F and FY12F earnings multiples as a common-sense check against the company's peer group, using our Mena peer average PE forecasts of 12x and 11x for FY11 and FY12, respectively, and our valuation has not substantially changed. Accordingly, we raise our target price by 1% to SR76.16 per share.

Our sensitivity analysis employs different rates for the cost of equity and the terminal growth rate to illustrate our DCF valuation's sensitivity to changes in these assumptions.

Table 2 : DCF valuation

(SRm)	Free cash flow	PV of FCF
2011F	3,738	3,517
2012F	3,315	2,852
2013F	3,669	2,886
2014F	4,664	3,355
2015F	4,811	3,164
Terminal value	66,669	43,846
Enterprise value		59,619
Less: net debt		6,310
Equity value		53,309
Number of shares ('000)		700
12-month fair value per share		76.16

Source: Rasmala estimates

Table 3 : DCF sensitivity analysis

(SR per share)	Cost of equity				
Terminal growth rate	7.4%	8.4%	9.4%	10.4%	11.4%
1.0%	92.9	78.8	68.1	59.7	53.0
1.5%	100.0	83.9	71.9	62.6	55.2
2.0%	108.4	89.7	76.2	65.8	57.7
2.5%	118.6	96.6	81.1	69.5	60.5
3.5%	131.1	104.7	86.7	73.6	63.6

Source: Rasmala estimates

Income statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	13058	16013	17930	19802	21205
Cost of sales	-5512	-7230	-7648	-8546	-9045
Operating costs	-2710	-2619	-3468	-3732	-3996
EBITDA	4837	6165	6813	7525	8164
DDA & Impairment (ex gw)	-1629	-1810	-1960	-2110	-2222
EBITA	3208	4355	4853	5415	5942
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	3208	4355	4853	5415	5942
Net interest	-204.3	-146.5	-130.9	-72.5	-14.1
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	41.0	70.5	78.9	87.1	93.3
Reported PTP	3045	4279	4801	5430	6021
Taxation	-30.8	-67.3	-75.5	-85.4	-94.7
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	3014	4211	4726	5344	5926
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4837	6165	6813	7525	8164
Normalised PTP	3045	4279	4801	5430	6021
Normalised net profit	3014	4211	4726	5344	5926

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	933.4	1661	3157	2662	536.1
Other current assets	7644	7754	8480	9777	11006
Tangible fixed assets	10370	12457	14429	16409	18530
Intang assets (incl gw)	11980	11558	8822	8822	8822
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
Total assets	30926	33430	34888	37671	38894
Short term debt (2)	370.5	599.3	0.00	0.00	0.00
Trade & oth current liab	11818	11657	12425	13076	12444
Long term debt (3)	6448	5529	3492	1933	0.00
Oth non-current liab	46.5	65.6	65.6	65.6	65.6
Total liabilities	18683	17851	15983	15075	12510
Total equity (incl min)	12243	15580	18905	22595	26384
Total liab & sh equity	30926	33430	34888	37671	38894
Net debt	7662	6310	1893	830.1	-161.1

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

SRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4837	6165	6813	7525	8164
Change in working capital	154.2	-338.2	327.9	-647.0	-677.0
Net interest (pd) / rec	-204.3	-146.5	-130.9	-72.5	-14.1
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	-339.7	-356.5	-17.6	-21.9	-21.9
Cash flow from ops (1)	4447	5324	6993	6783	7451
Capex (2)	-3357	-3371	-3407	-3564	-3817
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-2.43	144.9	0.00	-525.7	-525.7
Cash flow from invest (3)	-3359	-3227	-3407	-4090	-4343
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-525.0	-875.0	-1400	-1654	-2138
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-893.4	-426.8	-613.2	-1558	-3117
Cash flow from fin (5)	-1418	-1302	-2013	-3212	-5254
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-330.6	795.2	1573	-519.0	-2146
Equity FCF (1+2+4)	1090	1952	3586	3219	3634

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Change of recommendation

Buy (from Hold)

Target price

E£172.02 (from E£191.39)

Price

E£155.72

Short term (0-60 days)

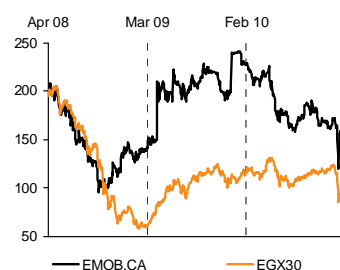
n/a

Sector view

No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	133.2	163.0	216.4
Absolute (%)	16.9	-4.4	-28.1
Rel market (%)	20.8	24.9	-10.4
Rel sector (%)	0.5	-2.7	-11.6



Market capitalisation

E£15.57bn (€1.85bn)

Average (12M) daily turnover

E£13.20m (€1.74m)

Sector: EGX30 Telecoms
 RIC: EMOB.CA, EMOB.EY
 Priced E£155.72 at close 29 Mar 2011.
 Source: Bloomberg

Mobinil

A challenging environment

Against the current political backdrop, Mobinil has lost its leading position in the Egyptian market for the first time since it began operating and has dropped to the No 2 position in terms of subscriber numbers. We move to a Buy from a Hold recommendation, reducing our target price to E£172.02 (from E£191.39).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	10,807	10,576	10,575	10,908	11,220
EBITDA (E£m)	5,260	4,554	4,018	4,200	4,320
Reported net profit (E£m)	2,038	1,365	1,035 ▼	1,178 ▼	1,377
Normalised net profit (E£m)	2,038	1,365	1,035 ▼	1,178 ▼	1,377
Normalised EPS (E£)	20.40	13.70	10.30 ▼	11.80 ▼	13.80
Dividend per share (E£)	7.50	9.19	8.28 ▲	10.00 ▼	13.10
Dividend yield (%)	4.82	5.90	5.32	6.43	8.40
Normalised PE (x)	7.64	11.40	15.00	13.20	11.30
EV/EBITDA (x)	3.75	4.82	5.41	4.92	4.47
EV/invested capital (x)	2.52	2.09	2.13	2.18	2.27
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: Local GAAP

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Mobinil in the background due to current ongoing events

We acknowledge the negative effect that current and unfolding political events Egypt might have on the future trading patterns of Egyptian equity stocks. We expect the market to remain volatile at least until the presidential elections are finalised – expected in September 2011 – after which we expect investor confidence to return. We believe the telecom sector and Mobinil present a safe haven for investors in Egypt because: 1) the population is growing more aware of the Internet's power as a tool for communication (Facebook was the underlying application behind the rise of the Egyptian revolution); 2) none of the major shareholders of Mobinil has been implicated as having had ties with the former regime; 3) the industry is inherently defensive; and 4) the average dividend yield for Mobinil was around 6% on its last closing price.

Revival in dividends

Mobinil announced interim dividends amounting to E£9.19 per share for 9M10, equivalent to a payout ratio of 67% for 2010. We believe this relatively generous dividend distribution, compared to a 37% payout ratio for year-end 2009, indicates revival of the company's relatively high payout ratio. This is positive for shareholders given our expectations for a lack of significant top-line growth in the foreseeable future.

We reduce our target price to E£172.02, yielding a Buy recommendation

We revise our target price down to E£172.02 from E£191.39 because we believe that investors have oversold Mobinil beyond the fundamental valuation of the company in light of current political turbulence. We keep both our revenue growth and EBITDA margin estimates for 2011 muted, taking current events into consideration.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	10.3	13.3	-22%
2012F	11.8	15.4	-23%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/downside
Mobily	Buy	53%
Etisalat	Buy	18%
Qtel	Buy	35%
Du	Hold	-9%
Jordan Telecom	Sell	-11%
Wataniya	Buy	18%

*by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim results
May 2011	Interim results
July 2011	Interim results
Aug 2011	Interim results

Source: Company

Catalysts for share price performance

We believe that any early signs of a more stable political environment will directly affect Mobinil's share price in a positive way. As with Telecom Egypt, we believe that, if political instability continues, management may decide to suspend or postpone any expansion-related capital spending plans. This could boost free cash flow to compensate for any loss of potential revenue in the short to medium term.

With the loss of Mobinil's leading market position in terms of subscribers in the third quarter of 2010, management adjusted its strategy, seeking margin improvement as opposed to subscriber growth. We believe that Mobinil's success on that front would solidify its recent dividend distribution policy, which indicates a revival in the company's relatively high payout policy. This is positive for shareholders, despite the end of double-digit growth.

Earnings momentum

The year 2010 was strenuous for Mobinil. The company lost its leading market share position in the Egyptian mobile market to Vodafone Egypt during the third quarter of 2010. Reasons attributed to this fall in market share include tough market conditions and regulatory pressures.

Given our expectations of a continued volatile environment, we believe our forecasts remain conservative for both revenue and operating margins during 2011. Our anticipation of pressured revenue and EBITDA margins stem primarily from the current political environment and its impact on both consumer earnings and spending habits in the medium term. To date, Mobinil has reported that damages caused by recent political events in the country are valued between E£80m and E£100m.

To remain conservative, we maintain an EBITDA margin of about 38% throughout our forecast period. Additionally, we expect revenues from data to remain insignificant for at least the next couple of years given the nascent broadband market in Egypt. We expect revenue growth for 2011 to remain somewhat muted, while we expect revenue to reach E£10.6bn for year-end 2011, similar to 2010. We forecast overall revenue growth at a CAGR of 2.4% between 2011 and 2015. We expect EPS to reach E£10.3 per share by the end of 2011, an estimated decline of 24% compared to FY10 EPS of E£13.7.

Valuation and target price

We revise our target price downwards to E£172.02 from E£191.39, but raise our recommendation to Buy from Hold. We calculate our new target price only on the basis of a DCF valuation as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology in which we equally weighted DCF and peers' PE multiples.

How we differ from consensus

Both our revenue and EPS forecasts are lower than Bloomberg's consensus estimates. We believe we have been conservative in all our estimates, given the underlying political environment in Egypt. Our EPS forecast is lower than consensus by 22% for FY11 and 23% for FY12.

Risks to central scenario

- The main risk to our basic scenario is continuing political instability. This would have a long-term impact on the economic health of Egypt because GDP per capita would be negatively affected. Furthermore, regardless of the fundamental potential upside, if investor confidence does not resume, Mobinil would not attain its fair price in the market.
- The other risk for our central scenario is for Mobinil's EBITDA margins to fall below our already conservative average estimate of 38% throughout our forecast period.

Key assumptions and sensitivities

We have lowered our target price to E£172.02, yielding a Buy recommendation. Based on our forecasts, Mobinil is currently trading at a PE of 15x for FY11F, a premium of c26% to our average MENA peer multiple for 2011 of 12x.

Table 1 : Changes in our forecast assumptions

(all figures stated in E£ m unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	10,575	10,892	-3%	10,908	11,275	-3%
EBITDA	4,018	4,193	-4%	4,200	4,285	-2%
EBITDA margin	38.0%	38.0%		38.5%	38.0%	
Net Income	1,035	1,285	-19%	1,178	1,415	-17%

Source: Rasmala forecasts

In our valuation for Mobinil, our base-case scenario assumptions include a cost of equity of 15.1% based on a risk-free rate of 10.5% and a premium of 5%, cost of debt of 13%, a terminal growth rate of 3% and beta of 0.91x.

Valuation and target price

Mobinil's DCF valuation yields a 12-month fair value of E£172.02 per share, 10% higher than the current trading price of E£155.72 per share.

Table 2 : DCF approach

(E£m)	Free cash flow	PV of FCF
2011	2,119	1,950
2012	2,520	2,041
2013	2,824	1,999
2014	2,915	1,797
2015	2,974	1,582
Terminal value	26,731	14,216
Enterprise value		23,584
Minus: net debt		6,383
Equity value		17,202
Number of shares		100
12-month fair value per share (E£)		172.02

Source: Rasmala estimates

We also employ a sensitivity analysis, with different rates for both the cost of equity and terminal growth rate, to illustrate how sensitive our DCF valuation is to changes in these assumptions.

Table 3 : DCF sensitivity analysis (value per share, E£)

E£ per share		Terminal growth rate				
Cost of equity	17.1%	2.0%	2.5%	3.0%	3.5%	4.0%
	16.1%	132.5	136.9	141.6	146.7	152.2
	15.1%	145.0	150.2	155.7	161.8	168.3
	14.1%	159.3	165.4	172.0	179.2	187.1
	13.1%	175.8	183.1	191.0	199.7	209.4
		195.0	203.8	213.4	224.1	236.1

Source: Rasmala estimates

Income statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	10807	10576	10575	10908	11220
Cost of sales	-2039	-2395	-2784	-2932	-3025
Operating costs	-3508	-3627	-3772	-3777	-3875
EBITDA	5260	4554	4018	4200	4320
DDA & Impairment (ex gw)	-1942	-2047	-1967	-2018	-2064
EBITA	3318	2506	2051	2182	2255
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	3318	2506	2051	2182	2255
Net interest	-688.0	-589.2	-613.3	-555.4	-369.9
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-56.7	-159.1	-105.7	-109.1	-112.2
Reported PTP	2573	1758	1332	1517	1773
Taxation	-535.6	-392.7	-297.6	-338.9	-396.1
Minority interests	0.43	-0.07	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2038	1365	1035	1178	1377
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	5260	4554	4018	4200	4320
Normalised PTP	2573	1758	1332	1517	1773
Normalised net profit	2038	1365	1035	1178	1377

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	813.9	610.5	600.0	540.0	486.0
Other current assets	1055	1504	1339	1300	1326
Tangible fixed assets	9800	10270	9815	9139	8454
Intang assets (incl gw)	2956	4328	5078	5078	5078
Oth non-curr assets	13.5	18.1	18.1	18.1	18.1
Total assets	14640	16731	16850	16075	15362
Short term debt (2)	559.4	205.8	750.9	828.4	890.5
Trade & oth current liab	5441	5329	6009	6441	6762
Long term debt (3)	4013	5968	5111	3556	2165
Oth non-current liab	947.5	1084	950.6	870.6	790.6
Total liabilities	10961	12587	12821	11696	10608
Total equity (incl min)	3679	4144	4029	4379	4755
Total liab & sh equity	14640	16731	16850	16075	15362
Net debt	4166	6383	6160	5103	3730

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	5260	4554	4018	4200	4320
Change in working capital	-1575	-605.0	766.4	110.4	392.5
Net interest (pd) / rec	688.0	-589.2	-613.3	-555.4	-369.9
Taxes paid	-330.9	-392.7	-297.6	-338.9	-396.1
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	4042	2967	3874	3416	3946
Capex (2)	-2241	-1840	-2230	-1309	-1346
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-123.6	-2405	-342.1	112.5	271.9
Cash flow from invest (3)	-2365	-4245	-2573	-1196	-1074
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-931.8	-889.1	-827.8	-1002	-1308
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-767.2	1833	-366.3	-1197	-1506
Cash flow from fin (5)	-1699	943.5	-1194	-2199	-2814
Forex & disc ops (6)	184.6	131.1	-117.6	-116.6	-116.6
Inc/(decr) cash (1+3+5+6)	163.4	-203.4	-10.5	-96.0	-59.4
Equity FCF (1+2+4)	1801	1127	1643	2107	2600

Source: Company data, Rasmala forecasts

year to Dec

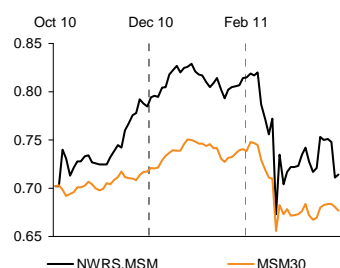
4 April 2011

Change of recommendation

Buy (from Hold)Target price
RO0.83 (from RO0.77)Price
RO0.71Short term (0-60 days)
n/aMarket view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (RO)	0.67	0.80	n/a
Absolute (%)	6.1	-10.3	n/a
Rel market (%)	2.8	-4.5	n/a
Rel sector (%)	3.6	-10.6	n/a

Market capitalisation
RO464.77m (€856.89m)Average (12M) daily turnover
RO0.79m (€1.54m)Sector: MSM30 Serv & Ins
RIC: NWRS.MSM, NWRS OM
Priced RO0.71 at close 29 Mar 2011.
Source: Bloomberg

Nawras Telecom

After the IPO

Nawras has released its first full-year results since becoming a fully integrated telecom operator. It reported a 9.9% revenue increase for FY10, while posting net profit of RO50m. We move to Buy from Hold, with a new target price of RO0.83 (from RO0.77).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (ROm)	171.6	188.9	208.6	221.3	234.9
EBITDA (ROm)	82.40	96.60	107.8	114.8	122.2
Reported net profit (ROm)	41.50	50.00	57.90	64.70	70.90
Normalised net profit (ROm)	41.50	50.00	57.90	64.70	70.90
Normalised EPS (RO)	0.06	0.08	0.09	0.10	0.11
Dividend per share (RO)	0.00	0.00	0.01	0.02	0.03
Dividend yield (%)	0.00	0.00	1.25	2.78	4.58
Normalised PE (x)	11.20	9.30	8.03	7.18	6.55
EV/EBITDA (x)	6.12	5.04	4.61	4.32	3.66
EV/invested capital (x)	3.85	2.95	2.18	1.78	1.59
ROIC - WACC (%)	51.90	38.10	34.30	24.30	0.00

Accounting standard: local
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Nawras reported a 9.9% increase in consolidated revenue

Nawras has reported consolidated year-end 2010 financial results, posting revenues of RO189m, up 9.9% yoy, in line with our forecast of RO195.9m.

Net profit rose 20% yoy to RO50m

Net profit of RO50m for FY10 was 20% higher than consolidated net profit of RO41.5m in FY09 and was in line with our estimate of RO50.3m for year-end 2010. This has enabled the board to recommend a maiden dividend of 38 baiza per share, representing 50% of Nawras's net profit.

We revise our target price slightly to RO0.83, yielding a Buy recommendation

We maintain our forecasts, which were in line with the reported results. However, we calculate our new target price only on the basis of an absolute DCF valuation as we believe it better reflects the geographical diversity of the sector. Previously, we used a blended methodology in which we equally weighted DCF and peers' PE multiples, although we do use FY11F and FY12F earnings multiples as a common-sense check vs the peer group, using our Mena peer average PE forecasts of 12x and 11x for FY11 and FY12, and our valuation has not substantially changed. Accordingly, our target price for Nawras is RO0.83 per share from RO0.77, yielding a Buy recommendation, up from our previous Hold recommendation.

Analyst

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Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	0.089	0.089	0%
2012F	0.099	0.094	6%

Source: Bloomberg, Rasmala forecasts

Forced ranking

Company	Rec	Upside/downside
Oman Telecom	Hold	1%
Mobinil	Buy	10%
Etisalat	Buy	18%
Du	Hold	-9%
Qtel	Buy	35%
Mobily	Buy	53%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
Oct 2011	Interim results announced
Jan 2012	Annual results announced

Source: Rasmala

Catalysts for share price performance

With the recent operational launch of Nawras's fixed network, we expect to see the fixed-line segment contribute more to overall revenues. We also expect to see more growth coming from the mobile segment of the business, albeit at a much slower pace than witnessed in previous years. The main growth opportunity for Nawras remains in the high-speed data market. If Nawras can capture market share on that front, we believe it could surpass Omantel, its main rival, in terms of revenue growth and profitability per subscriber. This is because, in general, data ARPUs are much higher than voice ARPUs. We believe Nawras and Omantel have equal chances of leading the data market, but it is yet to be seen which will be more aggressive in market differentiation, branding and pricing.

Earnings momentum

We expect the main source of revenue growth for Nawras to be data services, applications in security, IP telephony, Internet voice, music downloads and video-over-broadband.

Furthermore, the implementation of Nawras's international gateway should contribute towards increased margins. And access to the new submarine cable should also help reduce the cost of international traffic and create new sources of revenue.

We expect Nawras to continue increasing its revenue, albeit on a more reduced scale given an almost saturated wireless market and declining ARPUs. We expect revenue to reach RO209m by year-end 2011 (annual growth of c10.5%) and RO221m by year-end 2012 (c6% annual growth).

Valuation and target price

We revised our target price slightly to RO0.83 compared to the previous RO0.77, yielding a Buy recommendation instead of our previous Hold recommendation. We calculate our new target price only on the basis of a DCF valuation. Previously, we used a blended methodology in which we equally weighted DCF and peers' PE multiples, although we do use FY11F and FY12F earnings multiples as a common-sense check vs the peer group, and our valuation has not substantially changed.

In terms of PE, Nawras is trading at c8x and c7x for FY11F and FY12F, respectively, a favourable 30% discount to its Mena peers under our coverage based on estimated 12x and 11x price earnings multiples for FY11 and FY12, respectively.

How we differ from consensus

We have almost no variance with Bloomberg consensus on 2011 revenue and EPS forecasts. We are 2% lower than Bloomberg's revenue consensus forecasts for year-end 2012 and 6% higher in terms of 2012 EPS forecasts, due to our slightly higher expectation for EBITDA margins.

Risks to our central scenario

Key risks to our target price include the following:

- A sharper ARPU decline due to increased competition from MVNOs and Omantel.
- Changes in Oman's Telecommunications Regulatory Authority (TRA) regulations, such as roaming, tariff regulations and changes to billing services, or even the TRA granting additional licences and spectrum to other existing or new operators.
- A slower-than-expected rollout of Nawras's network infrastructure.

Key assumptions and sensitivities

Nawras's DCF valuation yields a 12-month fair value of RO0.83 per share, 17% higher than the current trading price of RO0.71 per share.

Discounted cash flow

Our assumptions include a cost of equity of 11%, based on a risk-free rate of 2.5% and a market-risk premium of 8.5%, a cost of debt of 5%, a terminal growth rate of 2.0% and a beta of 1x.

Table 1 : DCF approach

(ROm)	Free cash flow	PV of FCF
2011F	-2	-2
2012F	15	13
2013F	69	52
2014F	63	43
2015F	60	37
Terminal value	684	419
Enterprise value		562
Minus: net debt		22
Equity value		540
No of shares (000)		651
12-month fair value per share		0.83

Source: Rasmala estimates

We also employ a sensitivity analysis, using different rates for both the cost of equity and terminal growth rate to illustrate how sensitive our DCF valuation is to changes in these assumptions.

Table 2 : DCF sensitivity analysis (value per share, RO)

Terminal growth rate RO/share	Cost of equity				
	9%	10%	11%	12%	13%
0.0%	0.89	0.79	0.70	0.63	0.57
1.0%	0.98	0.86	0.76	0.68	0.61
2.0%	1.10	0.95	0.83	0.74	0.66
3.0%	1.26	1.07	0.92	0.80	0.71
4.0%	1.49	1.22	1.03	0.89	0.78

Source: Rasmala estimates

Income statement

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	171.6	188.9	208.6	221.3	234.9
Cost of sales	-37.6	-27.8	-31.3	-33.2	-35.2
Operating costs	-51.7	-64.5	-69.5	-73.2	-77.5
EBITDA	82.4	96.6	107.8	114.8	122.2
DDA & Impairment (ex gw)	-20.5	-24.2	-23.9	-24.5	-25.1
EBITA	61.8	72.3	83.9	90.3	97.0
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	61.8	72.3	83.9	90.3	97.0
Net interest	-5.10	-3.98	-3.55	-1.32	0.00
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-9.80	-11.4	-14.6	-15.5	-16.4
Reported PTP	46.9	56.9	65.8	73.5	80.6
Taxation	-5.40	-6.92	-7.89	-8.82	-9.67
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	41.5	50.0	57.9	64.7	70.9
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	82.4	96.6	107.8	114.8	122.2
Normalised PTP	46.9	56.9	65.8	73.5	80.6
Normalised net profit	41.5	50.0	57.9	64.7	70.9

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	20.5	49.3	22.9	24.2	25.7
Other current assets	25.0	30.0	33.0	34.6	36.4
Tangible fixed assets	112.2	165.6	235.1	276.0	288.4
Intang assets (incl gw)	49.9	46.1	46.1	46.1	46.1
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
Total assets	207.6	291.1	337.0	381.0	396.7
Short term debt (2)	0.00	0.00	21.8	42.6	8.20
Trade & oth current liab	63.2	86.8	101.1	84.4	84.0
Long term debt (3)	48.6	55.0	12.6	0.00	0.00
Oth non-current liab	4.07	5.95	5.80	5.80	5.80
Total liabilities	115.9	147.8	141.3	132.8	98.0
Total equity (incl min)	91.7	143.3	195.7	248.1	298.7
Total liab & sh equity	207.6	291.1	337.0	381.0	396.7
Net debt	39.3	21.6	32.7	31.3	-17.5

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	82.4	96.6	107.8	114.8	122.2
Change in working capital	-13.3	13.9	6.08	-10.2	10.8
Net interest (pd) / rec	5.10	3.98	3.55	1.32	0.00
Taxes paid	-5.40	-6.92	-7.89	-8.82	-9.67
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	68.8	107.5	109.6	97.2	123.3
Capex (2)	-13.4	-73.4	-93.4	-65.4	-37.6
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-55.8	0.00	5.23	-5.51	-9.10
Cash flow from invest (3)	-69.2	-73.4	-88.1	-70.9	-46.7
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.56	-5.29	-42.4	-12.6	-54.7
Ordinary dividend paid	0.00	0.00	-5.49	-12.3	-20.3
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from fin (5)	0.56	-5.29	-47.9	-24.9	-75.1
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	0.13	28.8	-26.5	1.39	1.50
Equity FCF (1+2+4)	55.4	34.1	16.2	31.8	85.7

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Change of recommendation

Hold (from Buy)Target price
RO1.21 (from RO1.33)Price
RO1.20Short term (0-60 days)
n/aMarket view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (RO)	1.16	1.28	1.41
Absolute (%)	3.8	-6.0	-14.7
Rel market (%)	3.4	3.0	-7.3
Rel sector (%)	4.8	-2.5	-13.2

Market capitalisation
RO900.00m (€1.66bn)Average (12M) daily turnover
RO0.23m (€0.45m)Sector: MSM30 Serv & Ins
RIC: OTEL.MSM, OTEL OM
Priced RO1.20 at close 29 Mar 2011.
Source: Bloomberg

Analyst

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Oman Telecoms

Flat outlook

Omantel has released its FY10 results, reporting a marginal increase in consolidated revenue and a decline in net profit. We downgrade from Buy to Hold, and reduce our target price to RO1.21 from RO1.33.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (ROm)	412.3	416.6	414.1	419.6	424.6
EBITDA (ROm)	212.6	198.1	192.7	193.6	194.3
Reported net profit (ROm)	125.2	112.0	99.30	95.60	95.20
Normalised net profit (ROm)	125.2	112.0	99.30	95.60	95.20
Normalised EPS (RO)	0.17	0.15	0.13	0.13	0.13
Dividend per share (RO)	0.10	0.10	0.09	0.10	0.09
Dividend yield (%)	8.33	8.46	7.72	7.97	7.72
Normalised PE (x)	7.19	8.04	9.07	9.41	9.46
EV/EBITDA (x)	4.50	4.61	4.52	4.21	3.95
EV/invested capital (x)	1.93	1.87	1.84	1.85	1.87
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Marginal yoy increase in FY10 consolidated revenue

Omantel reported consolidated FY10 financial results, with revenues up 1% yoy to RO416.6m, in line with our estimate of RO418.5m.

Net profit down 11% yoy to RO112m

Reported net profit fell 11% from RO125.2m in FY09 to RO112m, in line with our estimate of RO110.3m. Separately, Omantel's board of directors has recommended a 100% cash dividend on the company's paid-up capital of RO75m, equivalent to a dividend yield of 8% at the current market price of RO1.20.

Flat growth outlook

With the mobile penetration rate reaching saturation levels in Oman at about 160% penetration rate at the end of 2010, and increasing competition from both MVNOs and Nawras, we believe Omantel will undergo almost flat revenue growth in 2011. Additionally, given heightened competition, we expect its EBITDA margin to weaken slightly to 47% at end-FY11 compared to 48% at year-end 2010.

We nudge our target price down to RO1.21 and downgrade our rating to Hold

Given that reported results were in line with our expectations, we maintain our FY11-12 forecasts. However, we note that we have changed the valuation method we use to derive our target price, now relying only on discounted cash flow instead of using a blended methodology as we believe it better reflects the geographical diversity of the sector (in the past we used an equal weighting between DCF and peer comparables). Accordingly, our new target price for Omantel is RO1.21 per share (down from RO1.33). With upside potential now just below 10%, we downgrade our recommendation to Hold from Buy.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	0.132	0.137	-7%
2012F	0.127	0.143	-7%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Mobily	Buy	53%
Etisalat	Buy	18%
Wataniya	Buy	18%
Mobinil	Buy	10%
Qtel	Buy	35%
Du	Hold	-9%

* By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
May 2011	Interim result
Aug 2011	Interim result
Nov 2011	Interim result

Source: Rasmala

Catalysts for share price performance

We see revenue stability for Omantel at the consolidated level, forecasting a 2011-15 revenue CAGR of 0.9%. We expect this to be chiefly driven by growth in demand for data services as the domestic telecoms market continues to develop, with greater emphasis on wireless data demand than fixed data demand. However, we believe the growth in data services is likely to be offset in part by a moderate decline in demand for voice services as mobile ARPU and fixed-line ARPL continue to decline given the saturated mobile and fixed-line markets.

Despite our projection of company earnings deteriorating, we believe Omantel's has an attractive dividend yield of 8% that could act as an incentive for investors to buy the stock, particularly if the share price falls below current levels.

Earnings momentum

With competition intensifying in the domestic market, and given the recent consolidation of Pakistani subsidiary, WorldCall Telecom, into Omantel's financials, EBITDA margins have turned south, a trend that we do not expect to reverse in the short to medium term.

We expect revenue to dip around 0.6% in FY11 to RO414m and we forecast a revenue CAGR of 0.9% between 2011 and 2015. We expect EPS to reach RO0.13 per share in FY11, ie, down 11% compared to RO0.15 for FY10.

Valuation and target price

We calculate our RO1.21 target price for Omantel based on a sum-of-the-parts and discounted cash flow. Omantel trades at one of the least expensive earnings multiples of its Mena peers, at an FY11 PE of 9.7x on our forecasts, or a 23% discount to our average estimate for Omantel's Mena peers, but it has the second-highest dividend yield for 2011F, at 7.7%.

How we differ from consensus

We have almost no variance with Bloomberg consensus on 2011 and 2012 revenue forecasts. We are 7% lower than Bloomberg estimates on EPS for both 2011 and 2012. We believe this is partly due to our lower EBITDA forecast as we anticipate increased competition, which would have a negative effect on our forecast EBITDA margins, particularly in the mobile segment.

Risks to central scenario

Upside risks to our target price include:

- Omantel's ability to capture a higher-than-expected share of the broadband subscriber market, leading to a higher EBITDA margin; and
- better-than-expected revenue generation from WorldCall.

Downside risks include:

- higher-than-expected capex spending that could be a factor of inflationary pressure;
- intensifying competition, or a price war, that would lead to even greater pressure on ARPU and, in turn, hurt EBITDA margins;
- a loss of market share to competitors in terms of mobile subscribers and mobile broadband subscribers;
- changes in Omani Telecommunications Regulatory Authority (TRA) regulation, such as roaming, tariff regulations and changes to billing services, or even the TRA granting additional licences and spectrum to other existing or new operators; and
- further investment or capital injection in WorldCall.

Key assumptions and sensitivities

Sum of the parts and discounted cash flow

Omantel's SOTP/DCF valuation yields a 12-month fair value of RO1.21 per share, 1% higher than the current price of RO1.20 per share. To value Omantel's 56.8% stake in WorldCall Telecom, we use the latter's market capitalisation as it is listed on the Pakistan Stock Exchange and there is limited information on its operations.

Table 1 : DCF valuation

Operation	Assumptions
Oman Telecom	DCF (risk-free rate: 3%, market-risk premium: 9%, cost of debt: 5%, beta: 0.95x, WACC: 10%, LTG: 2%, cost of equity: 11%)
WorldCall Telecom	Market value

Source: Rasmala estimates

Table 2 : SOTP valuation

Operation (figures in ROm, unless stated otherwise)	Enterprise value	Stake	Proportionate EV
Oman Telecom	862	100%	862
WorldCall Telecom* (mkt cap)	10	56.80%	6
Total enterprise value			868
Add: non-core assets			54
Minus: net debt			13
Total equity value			908
Total outstanding shares (m)			750
Total SOTP (RO per share)			1.21

Priced as of 29 March 2011.

Source: Rasmala estimates, Bloomberg market data

Sensitivity analysis

We employ a sensitivity analysis, with different rates for cost of equity and terminal growth, to illustrate how sensitive our DCF valuation is to changes in these assumptions.

Table 3 : DCF sensitivity analysis (value per share, RO)

Terminal growth rate RO/share	Cost of equity				
	8.2%	9.2%	10.2%	11.2%	12.2%
1.0%	1.46	1.27	1.13	1.02	0.93
1.5%	1.53	1.33	1.17	1.05	0.95
2.0%	1.61	1.38	1.21	1.08	0.97
2.5%	1.71	1.45	1.26	1.11	1.00
3.0%	1.83	1.53	1.31	1.15	1.03

Source: Rasmala estimates

Income statement

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	412.3	416.6	414.1	419.6	424.6
Cost of sales	-35.4	-38.9	-39.8	-41.1	-42.5
Operating costs	-164.4	-179.5	-181.6	-184.8	-187.9
EBITDA	212.6	198.1	192.7	193.6	194.3
DDA & Impairment (ex gw)	-68.6	-78.7	-81.4	-86.5	-87.5
EBITA	144.0	119.5	111.4	107.1	106.8
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	144.0	119.5	111.4	107.1	106.8
Net interest	1.85	-1.32	-0.28	0.00	0.00
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-3.22	4.11	0.00	0.00	0.00
Reported PTP	142.6	122.3	111.1	107.1	106.8
Taxation	-17.4	-11.9	-13.3	-12.9	-12.8
Minority interests	-0.08	1.67	1.50	1.35	1.21
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	125.2	112.0	99.3	95.6	95.2
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	212.6	198.1	192.7	193.6	194.3
Normalised PTP	142.6	122.3	111.1	107.1	106.8
Normalised net profit	125.2	112.0	99.3	95.6	95.2

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	32.0	28.0	39.4	84.7	132.2
Other current assets	153.6	148.1	141.7	142.5	142.4
Tangible fixed assets	379.4	394.8	387.6	363.6	339.3
Intang assets (incl gw)	55.7	61.7	57.9	54.1	50.4
Oth non-curr assets	72.8	53.8	53.8	53.8	53.8
Total assets	693.6	686.4	680.4	698.6	718.1
Short term debt (2)	53.4	31.5	0.00	0.00	0.00
Trade & oth current liab	152.5	161.6	168.6	164.3	165.9
Long term debt (3)	35.0	9.87	0.00	0.00	0.00
Oth non-current liab	13.9	8.49	8.49	8.49	8.49
Total liabilities	254.9	211.4	177.1	172.8	174.4
Total equity (incl min)	438.8	475.0	503.3	525.8	543.7
Total liab & sh equity	693.6	686.4	680.4	698.6	718.1
Net debt	56.4	13.3	-29.4	-84.7	-132.2

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

ROm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	212.6	198.1	192.7	193.6	194.3
Change in working capital	2.96	-22.7	-3.54	-4.86	-1.69
Net interest (pd) / rec	-1.85	1.32	0.28	0.00	0.00
Taxes paid	-17.4	-11.9	-13.3	-12.9	-12.8
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	196.3	164.9	176.2	175.9	179.8
Capex (2)	-96.2	-15.3	-70.4	-58.7	-59.4
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-57.1	-52.4	-24.9	-0.38	0.00
Cash flow from invest (3)	-153.3	-67.7	-95.3	-59.1	-59.4
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-17.8	-25.1	0.00	0.19	3.37
Ordinary dividend paid	-75.0	-76.1	-69.5	-71.7	-76.1
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from fin (5)	-92.8	-101.2	-69.5	-71.5	-72.8
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-49.8	-4.03	11.4	45.3	47.6
Equity FCF (1+2+4)	100.1	149.6	105.8	117.2	120.3

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Buy

Target price
QR187.58 (from QR216.72)

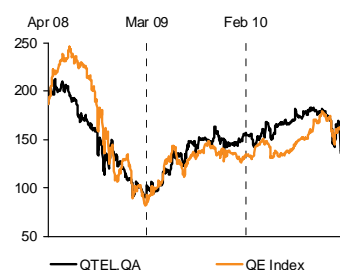
Price
QR139.20

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	146.0	177.5	150.1
Absolute (%)	-4.7	-21.6	-7.3
Rel market (%)	-9.8	-18.8	-17.5
Rel sector (%)	-10.6	-20.3	-19.2



Market capitalisation
QR20.42bn (€3.98bn)

Average (12M) daily turnover
QR7.11m (€2.62m)

Sector: QE Industries Index
RIC: QTEL.QA, QTEL.QD
Priced QR139.20 at close 29 Mar 2011.
Source: Bloomberg

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Q-Tel

Growth intact

Q-Tel released its consolidated FY10 results. Its performance remains solid across the board, in our view, driven by 13% yoy revenue growth and steady EBITDA margins.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (QRm)	24,025	27,179	29,917	31,910	33,592
EBITDA (QRm)	12,365	13,252	13,585 ▼	14,502 ▼	15,199
Reported net profit (QRm)	2,825	2,888	2,334 ▼	2,806 ▼	3,223
Normalised net profit (QRm)	3,203	2,510	2,334 ▼	2,806 ▼	3,223
Normalised EPS (QR)	21.80	17.10	15.90 ▼	19.10 ▼	22.00
Dividend per share (QR)	7.00	5.00	5.73 ▼	6.89 ▼	8.79
Dividend yield (%)	5.03	3.59	4.12	4.95	6.31
Normalised PE (x)	6.37	8.13	8.75	7.28	6.33
EV/EBITDA (x)	3.61	3.10	2.73	2.15	1.55
EV/invested capital (x)	0.83	0.75	0.69	0.61	0.50
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Total consolidated revenue grew 13.1% yoy

Q-Tel's consolidated revenues rose 13.1% yoy to reach QR27.2bn in FY10, vs QR24.0bn for FY09, which is in line with our previous FY10 consolidated revenue estimate of QR26.7bn. Meanwhile, its customer base reached 74.1m at the end of FY10 (FY09: 60.5m).

FY10 net income reaches QR2.9bn

Reported net profit attributable to Q-Tel shareholders stood at QR2.89bn for FY10, a 2% increase yoy over FY09 at QR2.86bn. This was also in line with our previous FY10 net profit forecast of QR2.86bn.

Successful completion of Wataniya Palestine IPO and Nawras during the year

Q-Tel successfully completed the initial listing of Wataniya Palestine and Nawras in 2010. It booked QR556.8m of profits from the Nawras IPO that was directly booked to retained earnings. Also, Q-Tel's board of directors recommended a cash dividend of 50% of the nominal share value (QR5.0 per share) and bonus shares worth 20% of the total outstanding capital.

We have revised our target price to QR187.58, yielding a Buy rating

We have revised our target price to QR187.58, from QR216.72, after adjusting Q-Tel's stake in Tunisiana to 75% (from 26.3% previously), following Wataniya's acquisition of Orascom Telecom's 50% stake in Tunisiana. We move to a pure DCF valuation, away from our previous blended methodology, as we believe it better reflects the geographical diversity of the sector, although we use 2011F and 2012F earnings multiples as a common-sense check vs the peer group.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	15.9	20.1	-21%
2012F	19.1	22.3	-14%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Etisalat	Buy	18%
Mobily	Buy	53%
Du	Hold	-9%
Telecom Egypt	Buy	17%
Vodafone Qatar	Buy	16%
Wataniya	Buy	18%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim results announced
Aug 2011	Interim results announced
Oct 2011	Interim results announced
Mar 2012	Annual results announced

Source: Rasmala

Catalysts for share price performance

The upcoming IPO of Wataniya Algeria (as mentioned on Bloomberg) should reduce the likelihood of problems repatriating funds, which occurred in a recent standoff between Orascom Telecom and the Algerian government. It should also act as a catalyst for the stock price. When we contacted Qatar Telecom's management, it did not confirm a forthcoming IPO for Wataniya Algeria.

Given management's stated intention of pursuing both inorganic and organic growth we believe further minority buy-outs are possible, eg, in Asia Cell (49%-owned) and Wataniya (52.5%-owned). Any such buy-outs could act as a catalyst for the stock's price. Another long-term growth driver may be, in our view, a potential stake increase in Asia Mobile Holding (AMH). AMH is a holding company in which Qatar Telecom has a 25% stake. AMH has operations in Laos, Cambodia, Singapore and the Philippines.

Earnings momentum

We believe Q-Tel's reach across the region strikes a balance between high political risk profile countries, such as Algeria and Tunisia, and more moderate ones, such as Qatar, Kuwait and Saudi Arabia. This should mitigate the effects of geopolitical contagion on financial estimates.

Despite voice revenues remaining the main contributor of overall revenue, Q-Tel has started to capitalise on providing value-added services such as broadband. This is to mitigate ARPU decline, increase customer loyalty and tackle price-based competition increasing in a number of its markets. Also, Q-Tel has started to disclose, for the first time, broadband subscriber numbers and broadband-related ARPU, because management is starting to aggressively pursue broadband services to take advantage of significant opportunities available in markets under operation.

We expect 2011 revenue growth to remain strong and reach a total consolidated revenue of QR29.9bn, annual growth of 10%, and to grow at a revenue CAGR of 6% between 2011F and 2015F. We expect EPS to reach QR15.9 per share (based on total outstanding shares of 146.7m prior to the 20% bonus share distribution) by 2011 end, an estimated 19% decline.

Valuation and target price

We have lowered our target price for Q-Tel to QR187.58, from QR216.72, maintaining our Buy recommendation. We move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector, though we use 2011F and 2012F earnings multiples as a common-sense check vs the peer group. Qatar Telecom continues to trade favourably versus its peers, at a forecast PE of 8.75 for FY11 and 7.28x for FY12, compared to consensus earnings multiples of 11.5x for FY11 and 10.4x for FY12.

How we differ from consensus

Our EPS forecasts are lower than Bloomberg consensus estimates – by 21% for 2011 and 14% for 2012. This is mainly because we are more conservative on EBITDA margins, considering the pressurised margins due to high competition in markets of operation; and expectations of higher interest expense payments as the full effect of their recently issued notes, dated 5 October 2010 with a face value of QR10bn (US\$2.75bn) take effect on the income statement.

Risks to central scenario

- The primary risk remains heightened political instability in all countries of operation.
- The risk of increased price competition in all of Q-Tel's markets.
- FX volatility could also pose risks as a large portion of the group's revenue and EBITDA is generated through its international operations.

Key assumptions and sensitivities

We have lowered our target price for Q-Tel to QR187.58, from QR216.72, maintaining our Buy recommendation.

Table 1 : Changes in our forecast assumptions

(QR m unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	29,917	28,808	4%	31,910	31,013	3%
EBITDA	13,585	14,674	-7%	14,502	15,994	-9%
EBITDA margin (%)	45%	51%		45%	52%	
Net Income	2,334	2,958	-21%	2,806	3,559	-21%

Source: Rasmala forecasts

We have lowered our target price for Q-Tel to QR187.58, from QR216.72, maintaining our Buy recommendation. We move to a pure DCF valuation, away from our previous blended methodology as we believe it better reflects the geographical diversity of the sector, though we use 2011F and 2012F earnings multiples as a common-sense check vs the peer group, using consensus earnings multiples of 12x for FY11, and 11x for FY12, and our valuation does not change substantially.

We have also assumed full consolidation of the Tunisian operational arm of Wataniya in our forecasts from 2011, and changed the effective ownership of Q-Tel's stake to 75%, instead of 26.3% previously. We also assume Q-Tel will absorb about 50% of the US\$1,200m total deal value paid for the additional 50% stake acquisition in Tunisiana, acquired through Wataniya, until there is more news on the details of the deal financing.

Table 2 : DCF assumptions

Operations	WACC	Long-term growth rate
Qatar	10.0%	2.0%
Iraq	12.6%	4.5%
Oman	10.0%	2.5%
Indonesia	11.6%	3.5%
Wataniya companies		
Kuwait	10.2%	2.0%
Tunisia	10.2%	2.5%
Algeria	10.7%	2.5%
Saudi Arabia	10.2%	0.5%
Maldives	10.0%	2.0%
Palestine	10.0%	4.0%

Source: Rasmala estimates

Table 3 : SOTP valuation

Operations (QRm)	Enterprise value	Stake	Proportionate EV
Qatar	19,274	100%	19,274
Iraq	20,535	30%	6,161
Oman	5,422	55%	2,982
Indonesia	18,387	65%	11,951
Wataniya total	18,726	53%	10,001
Total enterprise value	82,344		50,369
Minus: net debt *			-22,858
Total equity value			27,511
Total outstanding shares (m)			147
Total SOTP (QR per share)			187.58

Source: Rasmala estimates * included e USD600m for Tunisiana deal

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	24025	27179	29917	31910	33592
Cost of sales	-7328	-8537	-9872	-10211	-10749
Operating costs	-4332	-5390	-6459	-7197	-7643
EBITDA	12365	13252	13585	14502	15199
DDA & Impairment (ex gw)	-5484	-6317	-7056	-7705	-8032
EBITA	6881	6935	6529	6796	7167
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	6881	6935	6529	6796	7167
Net interest	-1498	-1804	-2473	-2143	-1875
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-377.4	378.1	0.00	0.00	0.00
Reported PTP	5005	5508	4056	4653	5292
Taxation	-1077	-1420	-751.8	-681.1	-729.8
Minority interests	-1103	-1200	-970.0	-1166	-1339
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2825	2888	2334	2806	3223
Tot normalised items	-377.4	378.1	0.00	0.00	0.00
Normalised EBITDA	12365	13252	13585	14502	15199
Normalised PTP	5383	5130	4056	4653	5292
Normalised net profit	3203	2510	2334	2806	3223

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	11512	25576	27045	32936	29705
Other current assets	4454	5057	5216	5562	5911
Tangible fixed assets	29598	32173	32888	31910	29494
Intang assets (incl gw)	34104	33279	31756	30136	28534
Oth non-curr assets	5271	5314	5421	5532	5649
Total assets	84939	101399	102326	106076	99292
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	16051	17698	15398	26867	20993
Long term debt (3)	33798	43743	43743	32793	28230
Oth non-current liab	5657	5730	5830	5930	6030
Total liabilities	55506	67172	64971	65590	55254
Total equity (incl min)	29432	34227	37355	40486	44038
Total liab & sh equity	84939	101399	102326	106076	99292
Net debt	24171	20686	16698	10807	3088

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	12365	13252	13585	14502	15199
Change in working capital	439.0	410.4	58.5	173.1	165.4
Net interest (pd) / rec	-1481	-1804	-2473	-2143	-1875
Taxes paid	-836.0	-866.4	-751.8	-681.1	-729.8
Other oper cash items	-519.0	-596.3	-970.0	-1166	-1339
Cash flow from ops (1)	9968	10395	9448	10684	11421
Capex (2)	-8393	-4452	-6247	-5107	-4014
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-3672	-1408	129.3	-38.5	4.85
Cash flow from invest (3)	-12065	-5860	-6118	-5146	-4009
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-865.7	-1027	-733.3	-840.3	-1010
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	7344	10555	-1964	-7.20	-10963
Cash flow from fin (5)	6478	9529	-2697	-847.5	-11973
Forex & disc ops (6)	-715.5	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	3666	14064	633.1	4691	-4561
Equity FCF (1+2+4)	1575	5943	3201	5577	7406

Source: Company data, Rasmala forecasts

year to Dec

4 April 2011

Buy

Target price
E£20.15 (from E£20.05)

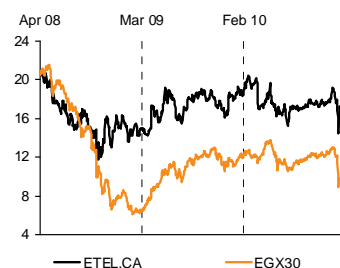
Price
E£17.23

Short term (0-60 days)
n/a

Sector view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (E£)	16.03	18.01	17.45
Absolute (%)	7.5	-4.3	-1.3
Rel market (%)	11.1	25.1	23.0
Rel sector (%)	-7.6	-2.6	21.4



Market capitalisation
E£29.41bn (€3.50bn)

Average (12M) daily turnover
E£21.12m (€2.75m)

Sector: EGX30 Telecoms
RIC: ETEL.CA, ETEL EY
Priced E£17.23 at close 29 Mar 2011.
Source: Bloomberg

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Telecom Egypt

Volatile environment

The political scene in Egypt has experienced an unpredicted turn of events. Even so, we believe Telecom Egypt remains oversold, and we maintain our Buy recommendation at a new target price of E£20.15 (from E£20.05).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (E£m)	9,960	10,318	10,692	10,377	10,599
EBITDA (E£m)	4,526	5,107	4,863 ▲	4,637 ▼	4,712
Reported net profit (E£m)	2,912	3,309	3,015	2,910 ▼	2,968
Normalised net profit (E£m)	2,912	3,309	3,015	2,910 ▼	2,968
Normalised EPS (E£)	1.71	1.94	1.77	1.70 ▼	1.74
Dividend per share (E£)	0.75	1.30	1.50	1.53 ▼	1.56
Dividend yield (%)	4.35	7.54	8.71	8.90	9.08
Normalised PE (x)	10.10	8.89	9.76	10.10	9.91
EV/EBITDA (x)	6.20	4.96	5.03	5.06	4.90
EV/invested capital (x)	1.12	1.06	1.03	1.01	1.00
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

FY10 results announced

Net profit after tax was E£3.31bn at the end of 2010, an annual increase of 8.5% compared to E£3.05bn at year-end 2009. Total consolidated revenues at the end of FY10 slightly exceeded our estimate of E£10.03bn, reaching E£10.32bn, implying yoy growth of 3.6%. In light of these results, management has proposed a dividend distribution of E£1.30 per share subject to general assembly approval, implying a 67% payout ratio and a dividend yield of around 9%. Note, all FY10 results are according to Egyptian accounting standards as IFRS statements are released later.

Broadband arm remains solid

TE Data continued to perform solidly throughout 2010, expanding its broadband market share to 63% from 60.9% at end-2009. Growth in demand for broadband Internet access has in turn resulted in an annual increase of 24.8% at the end of 2010 from revenues in retail internet and data services. This accounts for 8% of TE's total consolidated revenues at year-end 2010 vs 6.5% at year-end 2009.

Strong balance sheet should withstand potential turbulence in 2011

TE remains in a healthy financial position, in our view, with a net cash position of E£4.1bn. This will be important as the company navigates through what is likely to be a turbulent market environment in 2011. We maintain our Buy rating and raise our target price slightly to E£20.15 (from E£20.05) as a result of increasing our revenue forecasts for FY11 by 7%, given faster-than-expected revenue proceeds from TE North as per Telecom Egypt's management guidance from its FY10 conference call. We calculate our target price based on our new valuation methodology, moving to a pure sum-of-the-parts DCF valuation, away from our previous blended methodology, as we believe it better reflects the geographical diversity of the sector. However, we do use FY11F and FY12F earnings multiples as a common-sense check against the company's peer group, and our valuation has not substantially changed.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	1.77	1.73	2%
2012F	1.70	1.74	-2%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/ downside
Mobily	Buy	53%
Etisalat	Buy	18%
Du	Hold	-9%
Nawras	Buy	17%
Mobinil	Buy	10%
Vodafone Qatar	Buy	16%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
May 2011	Interim results announced
Aug 2011	Interim results announced
Nov 2011	Interim results announced
Mar 2012	Annual results announced

Source: Rasmala

Catalysts for share price performance

We strongly believe that any early signs of a more stable political environment would be positive for Telecom Egypt's share price. As with Mobinil, we believe if political instability continues, management may decide to suspend or postpone any expansion-related capital spending plans.

Earnings momentum

Given our expectations of a continued volatile environment, from both a political and operational perspective, we believe the ongoing price war between mobile operators and fixed line operators is unlikely to abate in the short term. As a result, we maintain our conservative EBITDA margin estimates throughout our forecast period.

On a separate note, we do not believe that revenues from TE North – Telecom Egypt expects to book E£700m-800m at the year-end – will be affected by the ongoing political events. This should help buoy Telecom Egypt's top line during 2011.

A full audit of its assets is still under way, but TE says the cost of damages from the revolution is currently E£17.57m. This equates to 0.12% of TE's total net fixed assets, which were E£14.1bn according to standalone figures as of 30 September 2010.

We expect revenue of E£10.7bn for 2011 and for EPS to reach E£1.77 by the end of 2011, implying an earnings multiple of 9.76x for 2011.

Valuation and target price

We increase our target price slightly to E£20.15 from E£20.05, as a result of increasing our revenue forecasts for FY11 by 7%, given faster-than-expected revenue proceeds from TE North as per Telecom Egypt's management guidance from its FY10 conference call. We calculate our target price based on our new valuation methodology, moving to a pure sum-of-the-parts DCF valuation, away from our previous blended methodology. However, we do use FY11F and FY12F earnings multiples as a common-sense check against the company's peer group, using our Mena peer average PE forecast of 12x and 11x for FY11 and FY12, and our valuation has not substantially changed.

How we differ from consensus

Both our revenue and EPS forecasts are slightly higher than Bloomberg's consensus estimates – we believe revenues from TE North should not be affected by current political events. Our revenue forecasts are higher than Bloomberg's consensus estimates by 7% and 6% for FY11 and FY12, respectively.

Risks to central scenario

- Continued political instability will have a long-term effect on the economic health of Egypt, with GDP per capita being negatively affected. Furthermore, regardless of the fundamental potential upside, if investor confidence does not return, Telecom Egypt will not attain a fair price in the market.
- An accelerated mobile to fixed substitution trend is a downside risk. This is due to the ongoing price war between mobile operators and incumbent fixed telecom operators, which could in turn inhibit FCF expansion.
- Increased competition could undermine mobile broadband prices, which would undermine TE's fixed broadband potential.
- TE pursuing Egypt's fourth mobile licence if it is offered by the NTRA. We believe this could damage the relationship between Vodafone Egypt and Telecom Egypt.

Key assumptions and sensitivities

We slightly increase our target price to E£20.15, maintaining our Buy recommendation. Based on our forecasts, Telecom Egypt is trading at a PE of 9.76x for 2011, 18% below our average Mena peers multiple for 2011F of 12x.

In our valuation for Telecom Egypt, our base-case scenario assumptions include a cost of equity of 14.8%, based on a risk-free rate of 10.5% and a premium of 5%, cost of debt of 13%, a terminal growth rate of 1.5% and a beta of 0.85x.

Table 1 : Changes in our forecast assumptions

(all figures in E£m, unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	10,692	9,722	10%	10,377	9,937	4%
EBITDA	4,863	4,365	11%	4,637	4,507	3%
EBITDA margin	45%	45%		45%	45%	
Net Income	3,015	3,081	-2%	2,910	3,186	-9%

Source: Rasmala forecasts

Valuation and target price

Sum of the parts and discounted cash flow

TE's sum-of-the-parts/DCF valuation yields a 12-month fair value of E£20.15 which is 17% higher than the current price of E£17.23.

Table 2 : DCF valuation

Operation	Assumptions
Telecom Egypt	DCF (risk-free rate: 10.5%, risk premium: 5%, cost of debt: 13%, beta : 0.85x, WACC:14.7%, LTG: 1.5%, cost of equity: 14.75%)
Vodafone Egypt	DCF (risk free rate: 10.5%, risk premium: 5%, cost of debt: 13%, beta : 0.91x WACC:15.0%, LTG: 3.0%, cost of equity: 15%)

Source: Rasmala

Table 3 : SOTP valuation

Operation (all figures in E£m, unless stated otherwise)	Enterprise value	Stake	Proportionate EV
Telecom Egypt	21,903	100%	21,903
Vodafone Egypt	18,553	44.95%	8,340
Total enterprise value			30,242
Add: net cash			4,101
Total equity value			34,343
Total outstanding shares (m)			1,707
Total SOTP (EGP per share)			20.15

Source: Rasmala

Income statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	9960	10318	10692	10377	10599
Cost of sales	-3252	-3358	-3769	-3684	-3789
Operating costs	-2182	-1853	-2060	-2056	-2098
EBITDA	4526	5107	4863	4637	4712
DDA & Impairment (ex gw)	-2475	-2487	-2327	-2207	-2201
EBITA	2051	2620	2536	2431	2511
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	2051	2620	2536	2431	2511
Net interest	10.5	-160.1	-192.5	-186.8	-190.8
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	1309	1344	1254	1228	1220
Reported PTP	3370	3804	3597	3471	3541
Taxation	-453.4	-491.7	-575.5	-555.4	-566.5
Minority interests	-5.35	-2.45	-6.48	-6.21	-6.42
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2912	3309	3015	2910	2968
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4526	5107	4863	4637	4712
Normalised PTP	3370	3804	3597	3471	3541
Normalised net profit	2912	3309	3015	2910	2968

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2453	4976	5512	6073	6339
Other current assets	4769	4149	4692	4549	4355
Tangible fixed assets	17036	16312	15362	14562	14362
Intang assets (incl gw)	128.2	109.9	100.9	93.9	87.9
Oth non-curr assets	7644	7657	8178	8681	9189
Total assets	32030	33204	33845	33959	34333
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	4271	4345	4449	4669	4687
Long term debt (3)	872.5	725.2	459.1	0.00	0.00
Oth non-current liab	372.1	146.2	146.2	146.2	146.2
Total liabilities	5516	5216	5054	4815	4834
Total equity (incl min)	26514	27988	28790	29144	29499
Total liab & sh equity	32030	33204	33845	33959	34333
Net debt	-1373	-4101	-4946	-5941	-6339

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

E£m	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4526	5107	4863	4637	4712
Change in working capital	197.6	859.3	-394.9	338.2	344.3
Net interest (pd) / rec	-208.7	-160.1	-192.5	-186.8	-190.8
Taxes paid	-1250	-491.7	-575.5	-555.4	-566.5
Other oper cash items	1008	2074	1254	1228	1220
Cash flow from ops (1)	4272	7388	4954	5461	5519
Capex (2)	-980.8	734.5	-1368	-1400	-1995
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	1046	-12.8	-521.6	-503.3	-507.7
Cash flow from invest (3)	65.2	721.7	-1890	-1903	-2503
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-2367	-2219	-2219	-2563	-2619
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-2049	-3258	-309.6	-434.1	-131.9
Cash flow from fin (5)	-4415	-5477	-2529	-2997	-2751
Forex & disc ops (6)	-290.0	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-367.8	2632	535.2	561.1	266.3
Equity FCF (1+2+4)	3292	8122	3586	4061	3525

Source: Company data, Rasmala forecasts

year to Dec

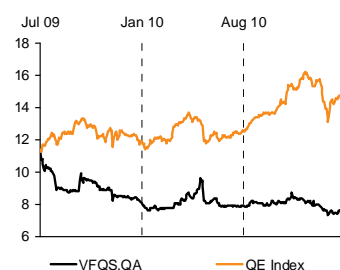
4 April 2011

Change of recommendation

Buy (from Hold)Target price
QR8.86 (from QR9.54)Price
QR7.67Short term (0-60 days)
n/aMarket view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	7.64	8.30	8.00
Absolute (%)	0.4	-7.6	-4.1
Rel market (%)	-5.0	-4.3	-14.7
Rel sector (%)	-5.9	-6.0	-16.5

Market capitalisation
QR6.48bn (€1.26bn)Average (12M) daily turnover
QR6.55m (€0.53m)Sector: QE Industries Index
RIC: VFQS.QA, VFQS QD
Priced QR7.67 at close 29 Mar 2011.
Source: Bloomberg

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Vodafone Qatar

Break-even

Vodafone Qatar (VFQ), the second mobile entrant in the Qatari market, has managed to capture a 26% share and has succeeded in breaking even in terms of EBITDA at the end of 3Q11, all within two years of launching operations.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (QRm)	0.03	361.5	934.8	1,342	1,621
EBITDA (QRm)	-124	-225	-9.35 ▼	322.0 ▼	486.4
Reported net profit (QRm)	-132	-673	-567 ▲	-274	-94.7
Normalised net profit (QRm)	-132	-673	-567 ▲	-274	-94.7
Normalised EPS (QR)	-0.16	-0.80	-0.67	-0.32	-0.11
Dividend per share (QR)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	n/m	n/m	n/m	n/m	n/m
EV/EBITDA (x)	n/m	n/m	n/m	20.30	12.20
EV/invested capital (x)	0.81	0.85	0.92	0.95	0.96
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IAS
Source: Company data, Rasmala forecasts

year to Mar, fully diluted

VFQ manages to break even at EBITDA level

VFQ, which launched operations in March 2009, has continued its successful run in the Qatari telecom market, achieving a total mobile customer base of 711,000 at the end of December 2010, with a market share of 26% according to reported subscriber numbers of Vodafone Qatar. Furthermore, it managed to achieve positive EBITDA during 3Q11 for the first time since its launch.

3Q11 revenue increases 49.7% yoy

VFQ reported revenue of QR267m for 3Q11, a qoq increase of 27% and a yoy increase of 49.7%. On a cumulative basis, EBITDA loss contracted to QR31m at the end of 9M11 from QR197m in 9M10. Management predicts that accumulated EBITDA would turn positive in mid-FY12, which we believe is achievable. Management also anticipates cash flows (excluding Qatar National Broadband Network [QNBNI]) to turn positive on a cumulative basis by FY13.

Impressive performance

We remain positive on the stock given the improvement in overall ARPU on a qoq basis. The trend implies VFQ is targeting a higher value customer base. That said, we lower our revenue forecasts for FY11 by 18.5% and by 8% for FY12, in anticipation of stiffer competition in the market. We also reduced our terminal growth rate to 2% instead of 2.5% and arrived at a new DCF-based target price of QR8.86, down from QR9.54. We upgrade our recommendation to Buy from Hold.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours	Cons	% diff
2011F	-0.67	-0.58	
2012F	-0.32	-0.42	

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Mobily	Buy	53%
Etisalat	Buy	18%
Du	Hold	-9%
Jordan Telecom	Sell	-11%
Qtel	Buy	35%
Mobinil	Buy	10%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
May 2011	Annual results announced
July 2011	Interim results announced
Nov 2011	Interim results announced
Jan 2012	Interim results announced

Source: Rasmala

Catalysts for share price performance

Based on our investment case, which stresses the importance of high-speed data services, we see substantial potential for VFQ to capitalise on this segment.

Earnings momentum

The company expects to increase its market share above 30% by March 2012 and 40% by March 2018. We believe VFQ may achieve these targets given its current performance. However, usage stimulation remains the key for the numbers to make an impact.

We expect total revenue of QR935m for FY11, an annual increase of 159%, and QR1,342m for FY12, an annual growth of 44%. We expect a per-share loss of QR0.67 by FY11, which could contract to QR0.32 per share by FY12.

Valuation and target price

We decrease our revenue forecast in anticipation of stiffer competition in the market, and our EBITDA forecasts in line with new company guidance. We decrease our terminal growth rate to 2% instead of 2.5% and arrive at a 12-month target price of QR8.86, compared to our previous target price of QR9.54. We continue to use a three-stage DCF model to arrive at our target price because the company is still in its start-up phase and we do not believe peer comparison is relevant. We upgrade our recommendation to Buy from Hold.

How we differ from consensus

We are generally in line with Bloomberg consensus estimates. Our estimates are 7% higher than consensus for 2011 and 3% higher for 2012.

Risks to central scenario

- VFQ launched its Qatari operations with aggressive price plans, particularly in international calls. We believe Qatar Telecom will not stand idle, as the Qatari market is the second-largest revenue contributor among its subsidiary operations.
- The company still needs to make efforts to stimulate customer usage despite its strong start in the Qatari market. In other words, if usage is not stimulated, its market share would not mean much.
- VFQ's strong relationship with its parent, the Vodafone Group, is a key positive. VFQ not being able to capitalise potential synergies with its parent is a key risk.

Key assumptions and sensitivities

Our DCF valuation for Vodafone Qatar implies a 12-month fair value of QR8.86 per share, leading us to upgrade our recommendation from a Hold to a Buy, as upside potential exceeds 10%.

Table 1 : Changes in our forecast assumptions

(All figures in QRm, unless stated otherwise)	FY11F (new)	FY11F (old)	Variance	FY12F (new)	FY12F (old)	Variance
Revenue	935	1,147	-18%	1,342	1,455	-8%
EBITDA	-9	172	-105%	322	437	-26%
EBITDA margin	-1%	15%		24%	30%	
Net income	-568	-604	-6%	-275	-273	1%

Source: Rasmala forecasts

We have also supplied a sensitivity analysis, employing different rates for both the cost of equity and terminal growth rate, to illustrate how sensitive our DCF target price is to changes in these assumptions.

Table 2 : DCF sensitivity analysis

QR per share	Cost of equity				
Terminal growth rate	9.5%	10.5%	11.5%	12.5%	13.5%
0.5%	10.64	9.41	8.42	7.61	6.93
1.0%	11.00	9.68	8.63	7.77	7.05
2.0%	11.42	9.98	8.86	7.94	7.18
2.5%	11.90	10.32	9.10	8.13	7.33
3.0%	12.45	10.71	9.38	8.34	7.49

Source: Rasmala estimates

Discounted cash flow

Our DCF valuation for Vodafone Qatar implies a 12-month fair value of QR8.86 per share. The assumptions underlying our valuation are an 11.50% cost of equity, based on a risk-free rate of 5.50% and an equity-risk premium of 6.00%. We also use 2.0% terminal growth, a WACC of 11.5%, a 10.0% cost of debt and beta of 1x.

Table 3 : Three-stage DCF valuation

(QRm)	Free cash flow	PV of FCF
2012	395	357
2013	552	448
2014	648	471
2015	729	476
2016-21 (WACC: 11.5%. Five-year growth: 4.0%)		2,290
Terminal value		3,477
Enterprise value		7,518
Minus: net debt		35
Equity value		7,483
Number of shares (m)		845
12-month fair value per share (QR)		8.86

Source: Company data, Rasmala forecasts

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	0.03	361.5	934.8	1342	1621
Cost of sales	-0.03	-247.6	-439.4	-550.0	-567.5
Operating costs	-124.7	-339.3	-504.8	-469.5	-567.5
EBITDA	-124.7	-225.3	-9.35	322.0	486.4
DDA & Impairment (ex gw)	0.00	-449.3	-552.3	-604.0	-629.7
EBITA	-124.7	-674.6	-561.7	-282.0	-143.3
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	-124.7	-674.6	-561.7	-282.0	-143.3
Net interest	-8.23	1.18	-5.84	7.34	48.6
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	-132.9	-673.4	-567.5	-274.7	-94.7
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	-132.9	-673.4	-567.5	-274.7	-94.7
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	-124.7	-225.3	-9.35	322.0	486.4
Normalised PTP	-132.9	-673.4	-567.5	-274.7	-94.7
Normalised net profit	-132.9	-673.4	-567.5	-274.7	-94.7

Source: Company data, Rasmala forecasts

year to Mar

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	0.55	85.4	176.9	444.2	909.6
Other current assets	35.8	139.9	179.3	202.1	222.1
Tangible fixed assets	388.5	832.3	974.7	907.6	810.4
Intang assets (incl gw)	7716	7351	6948	6546	6143
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
Total assets	8141	8409	8279	8100	8085
Short term debt (2)	35.0	0.00	0.00	0.00	0.00
Trade & oth current liab	79.4	363.7	679.4	909.4	1124
Long term debt (3)	0.00	379.1	506.4	371.4	236.4
Oth non-current liab	0.64	6.82	1.97	1.97	1.97
Total liabilities	115.0	749.6	1188	1283	1363
Total equity (incl min)	8026	7659	7092	6817	6722
Total liab & sh equity	8141	8409	8279	8100	8085
Net debt	34.4	293.7	464.4	62.1	-538.2

Source: Company data, Rasmala forecasts

year ended Mar

Cash flow statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	-124.7	-225.3	-9.35	322.0	486.4
Change in working capital	43.6	180.2	141.3	207.1	195.1
Net interest (pd) / rec	-8.23	1.18	-5.84	7.34	48.6
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	-89.4	-43.9	126.1	536.4	730.1
Capex (2)	-388.5	-578.4	-292.0	-134.2	-129.7
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	4.43	0.00	0.00	0.00
Cash flow from invest (3)	-388.5	-574.0	-292.0	-134.2	-129.7
Incr / (decr) in equity	-8159	352.4	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	35.6	350.3	257.4	-135.0	-135.0
Cash flow from fin (5)	-8123	702.7	257.4	-135.0	-135.0
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-8601	84.8	91.6	267.3	465.4
Equity FCF (1+2+4)	-477.9	-622.3	-165.9	402.3	600.4

Source: Company data, Rasmala forecasts

year to Mar

4 April 2011

Buy

Target price
KD2.10 (from KD2.15)

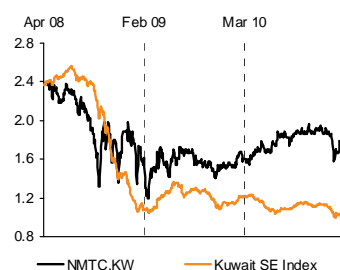
Price
KD1.76

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (KD)	1.76	1.90	1.58
Absolute (%)	0.0	-7.4	11.4
Rel market (%)	2.9	2.3	33.3
Rel sector (%)	1.4	0.2	29.7



Market capitalisation
KD887.10m (€2.25bn)

Average (12M) daily turnover
KD0.17m (US\$0.57m)

Sector: Kuwait Service Index
RIC: NMTC.KW, NMTC KK
Priced KD1.76 at close 31 Mar 2011.
Source: Bloomberg

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Wataniya

Consistency maintained

Wataniya's geographical footprint across the region may mitigate the effects of geopolitical contagion on numbers, alternating as it does between countries with high political risk and those with more moderate political risk. Buy with a new KD2.10 target price (from KD2.15).

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (KDm)	480.3	550.2	641.9	689.2	727.0
EBITDA (KDm)	227.7	202.5	225.6 ▲	223.5	236.0
Reported net profit (KDm)	108.3	78.00	80.90	72.70 ▼	87.30
Normalised net profit (KDm)	108.3	78.00	80.90	72.70 ▼	87.30
Normalised EPS (KD)	0.21	0.15	0.16	0.14	0.17
Dividend per share (KD)	0.05	0.05	0.06	0.06	0.07
Dividend yield (%)	2.82	2.84	3.27	3.42	4.01
Normalised PE (x)	8.19	11.40	11.00	12.20	10.20
EV/EBITDA (x)	3.94	3.99	2.46	2.15	1.61
EV/invested capital (x)	1.81	1.75	2.18	2.11	1.99
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Full acquisition of Tunisiana scheduled to be completed early 2011

A highlight for Wataniya Telecom this year has been the acquisition of Orascom Telecom's 50% stake in Tunisiana in a consortium led by Princesse Holding of Tunisia for a total deal value of US\$1,200m. Wataniya had an existing 50% shareholding in Tunisiana; with the finalisation of this transaction, anticipated early in 2011, Wataniya will control the board and management of Tunisiana, allowing it to fully consolidate the business. We adjust our forecasts for 2011 and onwards to reflect the full consolidation of Tunisiana's operations.

Deal should not pressure the company's leverage

Wataniya expects to finance its portion of the US\$1,200m transaction with a mixture of existing cash and debt. So far, no news has been released as to Wataniya's portion of this transaction or the mix between cash and debt. By the end of December 2010, Wataniya had a net cash position of KD80m, equivalent to an estimated net cash/EBITDA ratio of 0.4x for year-end 2010. We assume the entire US\$1,200m will be paid by Wataniya on a 75% debt-to-cash ratio in our net debt estimations, resulting in a comfortable estimated net debt/EBITDA ratio of 1.1x for year-end 2011.

Maintain Buy with a new KD2.10 target price (from KD2.15)

We maintain our Buy recommendation and reduce our target price to KD2.10 (from KD2.15) because we have reduced our terminal growth rates by 50bp for all countries, with the exception of Palestine. Our target price also changes in anticipation of an increase in debt to finance the US\$1,200m deal for the Tunisiana stake. Finally, we move to a pure DCF valuation, away from our previous blended methodology. However, we do use FY11F and FY12F earnings multiples as a common-sense check against the company's the peer group, using our MENA peer average PE forecasts of 12x and 11x for FY11 and FY12. Our valuation has not changed substantially, dropping only 2% from KD2.15 to KD2.10.

Important disclosures can be found in the Disclosures Appendix.

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The basics

Versus consensus

EPS	Ours*	Cons	% diff
2012F	0.17	0.21	-11%
2011F	0.16	0.20	-5%

*Our EPS forecasts include minority interest.

Source: Zawya, Rasmala forecasts

Catalysts for share price performance

According to the Tunisian GSM licence, Wataniya is required to issue an IPO for Tunisiana. We believe this will be beneficial [to Wataniya because it will allow for additional funding sources and could act as a positive trigger for the share price. According to Zawya, an Internet-based news source, the IPO was expected to take place in the first half of 2011, with around 20% of the company expected to be offered. However, given recent political events, we believe there is a strong possibility that the IPO could be postponed until towards the end of FY11, in the event of a more stable outlook. On the other hand, Bloomberg reported in early March 2011 that Wataniya may sell shares on the Algerian stock exchange.

Earnings momentum

We believe that Wataniya's geographical footprint across the region strikes a balance between countries such as Algeria and Tunisia, with high political risk profiles, and countries such as Kuwait and Saudi Arabia, which have more moderate political risk. We expect this to mitigate the effects of geopolitical contagion on financial estimates.

Valuation and target price

We reduce our target price for Wataniya to KD2.10 from KD2.15, maintaining our Buy recommendation, because we have reduced our terminal growth rates by 50bp for all countries, with the exception of Palestine. We also assume full consolidation of the Tunisian operational arm of Wataniya in our forecasts starting in 2011. Additionally, we assume Wataniya will bear the total US\$1,200m deal value, until further news is disclosed on the details of the deal financing. We base our target price on only a DCF-based sum-of-the-parts valuation as we believe it better reflects the geographical diversity of the sector compared to our previous blended methodology, which used an equal weighting between DCF and peers' PEs.

How we differ from consensus

We are in line with Zawya consensus estimates for revenues in 2011 and 2012. However, we are below consensus estimates for both 2011F and 2012F EPS, primarily because we are more conservative on EBITDA margins. We take into consideration pressurised margins due to high competition in markets of operation, in addition to further interest expense arising from debt taken to finance the US\$1,200m deal for the acquisition of Wataniya's additional 50% stake in Tunisiana.

Risks to central scenario

- Heightened political instability in all countries under operation remains the primary risk – it could result in decreased spending on mobile, increased security costs and delayed network rollout, all of which could put pressure on EBITDA margins.
- Another concern is increased competition in all markets under operation, particularly Kuwait, which accounts for the bulk of Wataniya's revenue stream (Kuwait accounted for approximately 41% of overall revenue in year-end 2010).

Forced ranking*

Company	Rec	Upside/downside
Qtel	Buy	35%
Vodafone Qatar	Buy	16%
Jtel	Sell	-11%
Du	Hold	-9%
Mobily	Buy	53%
Telecom Egypt	Buy	17%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: Rasmala forecasts

Key events

Date	Event
April 2011	Interim results announced
Aug 2011	Interim results announced
Oct 2011	Interim results announced
Feb 2012	Annual results announced

Source: Rasmala

Key assumptions and sensitivities

We assume full consolidation of the Tunisian operational arm of Wataniya in our forecasts starting in 2011. We also assume that Wataniya will bear the total US\$1,200m deal value, until further news is disclosed on the details of the deal financing.

Table 1 : Changes in our forecast assumptions

(KD m unless stated otherwise)	FY11 (new)	FY11 (old)	Variance	FY12 (new)	FY12 (old)	Variance
Revenue	642	558	15%	689	591	17%
EBITDA	226	200	13%	248	214	16%
EBITDA margin (%)	35%	36%		36%	36%	
Net Income (after minority interest)	81	83	-2%	85	92	-8%

Source: Rasmala forecasts

Table 2 : DCF assumptions

Operation	WACC	Long-term growth rate
Kuwait	10.2%	2.0%
Tunisia	10.2%	2.5%
Algeria	10.7%	2.5%
Saudi Arabia	10.2%	0.5%
Maldives	10.0%	2.0%
Palestine	10.0%	4.0%

Source: Rasmala

Valuation and target price

Our sum-of-the-parts valuation yields a fair value of KD2.10 per share, 18% higher than the current trading price of KD1.78 per share.

Table 3 : SOTP valuation

Operation (all figures in KDm, unless stated otherwise)	Enterprise value	Stake	Proportionate EV
Kuwait	656	100%	656
Tunisia	304	100%	304
Algeria	402	71%	286
Saudi Arabia	10	56%	6
Maldives	6	100%	6
Palestine	96	57%	55
Total enterprise value	1,476		1,313
Minus: net debt*			257
Total equity value			1,056
Total outstanding shares (m)			504
Total SOTP (KD per share)			2.10

*Included US\$1,200m, equivalent to total Tunisiana deal.

Source: Rasmala forecasts

Income statement

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	480.3	550.2	641.9	689.2	727.0
Cost of sales	-141.9	-179.1	-217.3	-240.0	-253.6
Operating costs	-110.7	-168.6	-199.0	-225.7	-237.4
EBITDA	227.7	202.5	225.6	223.5	236.0
DDA & Impairment (ex gw)	-83.2	-99.5	-106.6	-110.7	-109.9
EBITA	144.5	102.9	119.0	112.8	126.1
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	144.5	102.9	119.0	112.8	126.1
Net interest	-10.1	-7.09	-13.1	-11.0	-6.92
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-13.9	-4.79	0.13	0.14	0.15
Reported PTP	120.5	91.1	106.0	101.9	119.3
Taxation	-23.3	-23.4	-34.4	-36.7	-38.0
Minority interests	11.0	10.4	9.33	7.47	5.97
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	108.3	78.0	80.9	72.7	87.3
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	227.7	202.5	225.6	223.5	236.0
Normalised PTP	120.5	91.1	106.0	101.9	119.3
Normalised net profit	108.3	78.0	80.9	72.7	87.3

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	135.3	242.4	402.5	447.4	520.3
Other current assets	93.9	127.3	118.3	126.4	132.4
Tangible fixed assets	413.1	419.8	454.5	476.4	481.4
Intang assets (incl gw)	205.4	183.1	49.8	27.2	4.63
Oth non-curr assets	40.7	32.6	32.6	32.6	32.6
Total assets	888.4	1005	1058	1110	1171
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	258.6	301.1	409.4	440.3	449.2
Long term debt (3)	128.9	139.6	40.2	13.5	2.89
Oth non-current liab	15.9	24.3	21.5	21.5	21.5
Total liabilities	403.3	465.0	471.0	475.2	473.6
Total equity (incl min)	485.1	540.2	586.6	634.8	697.7
Total liab & sh equity	888.4	1005	1058	1110	1171
Net debt	10.4	-79.9	-331.0	-407.3	-506.8

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

KDm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	227.7	202.5	225.6	223.5	236.0
Change in working capital	-59.8	3.00	108.9	27.4	19.1
Net interest (pd) / rec	-10.1	-7.09	-13.1	-11.0	-6.92
Taxes paid	-17.6	0.00	0.00	0.00	0.00
Other oper cash items	30.9	30.4	35.2	0.00	0.00
Cash flow from ops (1)	171.1	228.7	356.6	240.0	248.2
Capex (2)	-105.4	15.7	-118.7	-110.1	-92.4
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	18.9	8.10	0.00	0.00	0.00
Cash flow from invest (3)	-86.5	23.8	-118.7	-110.1	-92.4
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-24.4	-25.2	-29.0	-30.4	-35.6
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-34.7	-110.7	-47.3	-40.1	-40.1
Cash flow from fin (5)	-59.1	-135.9	-76.3	-70.5	-75.7
Forex & disc ops (6)	-3.59	-2.58	1.22	-11.7	-12.3
Inc/(decr) cash (1+3+5+6)	21.9	114.0	162.8	47.8	67.9
Equity FCF (1+2+4)	65.7	244.4	237.9	129.9	155.8

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at <http://research.rbsm.com>

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