

19 October 2010

Buy

Target price
KD2.15

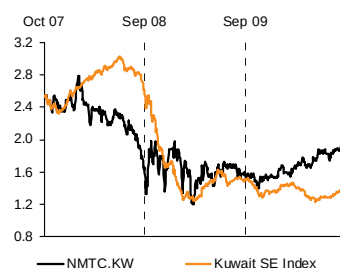
Price
KD1.92

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (KD)	1.86	1.86	1.52
Absolute (%)	3.2	3.2	26.3
Rel market (%)	0.2	-4.6	38.2
Rel sector (%)	0.9	-2.5	30.6



Market capitalisation
KD967.74m (€2.46bn)

Average (12M) daily turnover
KD0.26m (US\$0.90m)

Sector: Kuwait Service Index
RIC: NMTC.KW, NMTC.KK
Priced at close of business 18 Oct 2010.
Source: Bloomberg

Wataniya

Wataniya 9M10 results update

Wataniya has released its consolidated 9M10 results. Performance continues to be solid across the board, driven by annual 14% revenue growth and somewhat steady EBITDA margins.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (KDm)	481.8	480.3	524.9	558.1	591.2
EBITDA (KDm)	175.3	227.7	190.3	199.6	213.9
Reported net profit (KDm)	82.40	108.3	85.10	82.90	92.30
Normalised net profit (KDm)	82.40	108.3	85.10	82.90	92.30
Normalised EPS (KD)	0.16	0.21	0.17	0.16	0.18
Dividend per share (KD)	0.05	0.05	0.04	0.04	0.04
Dividend yield (%)	2.59	2.59	2.11	2.06	2.29
Normalised PE (x)	11.70	8.94	11.40	11.70	10.50
EV/EBITDA (x)	5.77	4.30	4.59	3.99	3.32
EV/invested capital (x)	2.21	1.97	2.01	1.92	1.78
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

One-off gain during 9M09 distorts net profit growth

Wataniya posted consolidated net profit of KD53.7m for 9M10, compared to KD97.3m in the same period of 2009. However, by excluding a one-off gain in 2009 for a reversal of provision of KD52.1m (a result of the positive outcome of the MOC licence fee legal case), adjusted net profit for 9M09 would reach KD45.2m, which would equate to modest annual growth of 3%.

Revenue growth remains solid

Revenues at the end of 9M10 amounted to KD400.7m compared to KD351.7m at the end of 9M09, annual growth of 13.9%. EBITDA at the end of 9M10 reached KD155.7m compared to previous EBITDA of KD140.0m at the end of 9M09, annual growth of 11.2%.

We maintain our target price of KD2.15 per share

Given Wataniya's better-than-expected performance in Palestine, in terms of net profit, we believe that our consolidated net profit forecast for 2010 of KD85.1m, would be high because we are accounting for a higher-than-expected positive minority interest. However, given that EBITDA performance remains broadly in line with our expectations, we maintain our target price of KD2.15 per share.

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Important disclosures can be found in the Disclosures Appendix.

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Key takeaways

We believe that Algeria remains a strong growth opportunity for Wataniya, on the back of the Algerian government's continued dispute with Orascom Telecom's Djezzy, which remains the premium player in the Algerian market in terms of subscriber market share.

Wataniya's total customer base increased to 16.2m at the end of 9M10 vs 12.5m at the end of 9M09, annual growth of 29.7%. In light of continuing competitive pressure in markets of operation, consolidated EBITDA margins dipped slightly to 38.9% at the end of 9M10 compared to 39.8% at the end of 9M09.

Wataniya's domestic market, Kuwait, which remains the largest revenue contributor to the group (41% revenue share as at the end of 9M10), had its customer base increase 18% yoy to 1.72m at the end of 9M10. Revenues for 9M10 reached KD163.5m, an annual increase of 8.5% compared to 9M09 revenues of KD150.8m.

Kuwait's EBITDA margins eroded slightly during the period due to ongoing competitive pressure in the market as Wataniya competes against Kuwait's Zain, and Bahrain's recent entrant to the market, Viva. That mentioned, EBITDA reached KD71.8m at the end of 9M10, equivalent to EBITDA margin of 44% compared to EBITDA of KD68.9m at the end of 9M09, equivalent to an EBITDA margin of 47%. Net profit reached KD49.4m at the end of 9M10, compared to a previous net profit of KD97.0m in 9M09. It is worth mentioning that in 2Q09, Wataniya Kuwait was successful in a ruling involving the Ministry of Communications regarding network license fees. This enabled the company to reverse previously recorded accruals of KD52.1m (net of related expenses), resulting in an increase in net profits. Excluding this one-off gain in 9M09, net profit increased 10% annually.

Wataniya's customer base in Algeria reached 8.08m subscribers at the end of 9M10, an annual increase of 36.0% vs 9M09's customer base of 5.94m. Algeria posted annual 20.8% revenue growth, with revenues reaching KD127.0m at the end of 9M10 compared to KD105.1m at the end of 9M09. EBITDA at the end of 9M10 reached KD47.0m, equivalent to an annual increase of 33.8%. In turn, EBITDA margins grew strongly to 37% at the end of 9M10 vs 33% at the end of 9M09, a result that we believe can be attributed to the ongoing struggle between the Algerian government and its main rival, Orascom Telecom's Djezzy unit. The total net profit for 9M10 was KD0.2m compared to the total net loss of KD6.4m for 9M09. The net attributable profit to Wataniya in 9M10 was KD0.1m compared to a net attributable loss of KD4.5m for 9M09.

Wataniya's Palestinian unit, which is the most recent market of operations, launched in the last quarter of 2009, saw its total customer's base reach 0.30m at the end of 9M10. Total revenues reached KD7.1m at the end of 9M10 to contribute approximately 2% of Wataniya's total consolidated revenues. Meanwhile, total net loss at the end of 9M10 reached KD12.5m, translating into a net attributable loss for Wataniya of KD7.1m for the same period.

Income statement

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	481.8	480.3	524.9	558.1	591.2
Cost of sales	-174.8	-141.9	-184.9	-199.4	-208.8
Operating costs	-131.8	-110.7	-149.6	-159.0	-168.5
EBITDA	175.3	227.7	190.3	199.6	213.9
DDA & Impairment (ex gw)	-78.2	-83.2	-94.4	-95.0	-94.2
EBITA	97.1	144.5	96.0	104.6	119.7
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	97.1	144.5	96.0	104.6	119.7
Net interest	-9.80	-10.1	-8.16	-3.31	1.61
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-3.41	-13.9	0.00	0.00	0.00
Reported PTP	83.8	120.5	87.8	101.2	121.3
Taxation	-12.2	-23.3	-23.9	-24.8	-27.6
Minority interests	10.8	11.0	21.2	6.41	-1.47
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	82.4	108.3	85.1	82.9	92.3
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	175.3	227.7	190.3	199.6	213.9
Normalised PTP	83.8	120.5	87.8	101.2	121.3
Normalised net profit	82.4	108.3	85.1	82.9	92.3

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	113.4	135.3	198.7	242.7	296.9
Other current assets	98.7	93.9	97.9	103.4	108.6
Tangible fixed assets	380.8	413.1	445.5	468.5	483.5
Intang assets (incl gw)	256.6	205.4	184.1	162.7	141.4
Oth non-curr assets	51.7	40.7	40.7	40.7	40.7
Total assets	901.1	888.4	966.8	1018	1071
Short term debt (2)	1.12	0.00	0.00	0.00	0.00
Trade & oth current liab	300.1	258.6	352.3	378.4	386.4
Long term debt (3)	138.1	128.9	71.6	40.2	13.5
Oth non-current liab	46.8	15.9	14.3	14.3	14.3
Total liabilities	486.1	403.3	438.2	432.9	414.2
Total equity (incl min)	415.0	485.1	528.6	585.2	656.8
Total liab & sh equity	901.1	888.4	966.8	1018	1071
Net debt	43.0	10.4	-94.1	-171.2	-256.7

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	175.3	227.7	190.3	199.6	213.9
Change in working capital	69.4	-59.8	73.5	22.2	7.56
Net interest (pd) / rec	-9.80	-10.1	-8.16	-3.31	1.61
Taxes paid	-7.94	-17.6	-23.9	-24.8	-27.6
Other oper cash items	13.8	30.9	0.00	0.00	0.00
Cash flow from ops (1)	240.7	171.1	231.8	193.7	195.5
Capex (2)	-112.5	-105.4	-105.3	-96.7	-87.8
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	18.9	0.00	0.00	0.00
Cash flow from invest (3)	-112.5	-86.5	-105.3	-96.7	-87.8
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	-22.8	-24.4	-20.4	-19.9	-22.1
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-71.5	-34.7	-40.0	-34.3	-27.1
Cash flow from fin (5)	-94.2	-59.1	-60.4	-54.2	-49.2
Forex & disc ops (6)	0.00	-3.59	-2.58	1.22	-4.34
Incl/(decr) cash (1+3+5+6)	33.9	21.9	63.5	44.0	54.1
Equity FCF (1+2+4)	128.1	65.7	126.5	96.9	107.7

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

Wataniya (RIC: NMTC.KW, Rec: Buy, CP: KD1.92, TP: KD2.15): The key downside risks to our blended valuation (equal-weighting of peer multiples and DCF-based SOTP) are a prolonged pricing war with Zain and Viva and potentially overpaying for licences and acquisitions.

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