

National Mobile Telecommunications Company (Wataniya Telecom)

Attractive Growth, Compelling Story

Reuters Code:

NMTC.KW

25th July 2006

Buy

Listing:

Kuwait Stock Exchange

CMP:

1,860 fils

Key Data

CMP (KD)	1.860
EPS (fils) *	153.1
BVPS (fils)	618.5
P/E (x) *	12.1
P/BV (x)	3.0
Average daily volume	0.74 mn
52 Week Hi - Lo (KD)	2.48/1.78

* 2006F

Source: **Global Research**

Highlights

- NMTC posted a consolidated net profit of KD52.8mn (earnings per share attributable to equity holders of parent of 123fils) for FY2005, an increase of 32% over the corresponding period last year.
- Revenues for NMTC and its subsidiaries grew to KD353.3mn for FY2005, an impressive 49% growth over the corresponding period last year.
- Revenues for the 1H2006 increased to KD191.9mn, an increase of 41% compared to revenues for the same period in 2005.
- Total active customers at the end of 1H2006 was at 7.93mn with Tunisia and Iraq operations contributing 32% and 29% to the total subscriber base of the group.
- NMTC performed in-line with our bottom line projections made earlier in the investment update in December 2004. Against our projected net profit of KD36.68mn and KD52.88mn for FY2004 and 2005, the company achieved net profits of KD40.02 and KD52.83mn, a variation of +9.1% and 0% respectively.
- We have revised upwards our earlier earnings forecasts for 2006F and 2007F based on expected superior growth of NMTC in the second half of 2006. We now project a net profit of KD70.2mn and KD94.2mn for FY06 and FY07, against our earlier KD68.0mn and KD85.9mn.

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- We expect 2007 to be a transition year for NMTC mainly for two reasons:
 1. We expect operations in Tunisia, Algeria and Iraq to be highly accretive to the bottom-line of NMTC from 2007 onwards contributing to the tune of KD15-18mn, KD8-9mn and KD30-35mn respectively for the year 2007. Subscriber growth is taking off and a majority of the assets are depreciated indicating the future profitability of these country operations. Also, the iDEN service in Saudi Arabia is turning out to be highly lucrative with average ARPU of US\$37. We also expect the Maldives operations to break-even by the end of 2007.
 2. We expect integration of NMTC assets with the existing footprint across the region from this year onwards. As the integration costs has already been discounted, we expect the synergistic effects to kick-in from 2007 onwards.
- Our current valuations are also driven by the encouraging performance of AsiaCell in Iraq which has shown positive bottom-line performance in the past 2 consecutive quarters. Despite strong competition from the state-owned incumbent, the Tunisian operations of NMTC also reported positive net profits in the last 8 quarters with an increasing trend in EBITDA margins. However, the Algerian operations are yet to come out of the red with the operations turning EBITDA positive in 1Q2006.
- Based on consolidation of the individual country operations, our sum-of-parts valuation estimates the fair value of NMTC's stock at KD2.375, which is higher by 27.7% vis-à-vis current market price of the stock.
- We believe that considering its superior performance due to positive growth catalysts in the near term, NMTC will continue to be a quality stock. **We reiterate our 'Buy' recommendation on the stock.**

Analysis of First Half Results - 2006

- Revenues for NMTC and its subsidiaries in 1H2006 increased to KD191.9mn, an increase of 41% compared to 1H2005. During this period, EBITDA was at KD81.5mn representing an EBITDA margin of 42.4%.
- Total active customers at the end of 1H2006 was at 7.93mn with Tunisia and Iraq operations contributing 32% and 29% to the total subscriber base of the group.
- Administrative expenses increased by 43% to reach KD27.46mn for the first half of 2006.
- Depreciation expenses, representing investments in network coverage and improvements, remained stable at KD18.8mn for 1H2006.
- The finance charges more than doubled to reach KD7.9mn for 1H2006 owing to a rise in LT debt.
- During the 1st quarter of 2006, NMTC took a hit of KD9.4mn in unrealized loss on portfolio investments, mainly in Kuwait Stock Exchange. This was somewhat offset by a

gain of KD2mn from the sale of investment securities. However, during the 2nd quarter, total hit on the bottom line from trading securities decreased to KD5.7mn.

- Net profit for NMTC in 1H2006 was at KD39.3mn, an increase of 60% over the corresponding period in 2005. Out of this, KD28.6mn was attributable to equity holders of the parent company while the balance KD10.6mn was the profit attributable to minority interests.

Analysis of Country Operations in 2005 and 1H2006

- **Kuwait:** Total active customer base for the Kuwait operations as of 1H2006 was at 988,203. For FY2005, Kuwait operations reported revenues of KD155.4mn, contributing 44% to total revenues of NMTC for the year. EBITDA was at KD70.6mn representing an EBITDA margin of 45.4%. During 1H2006, NMTC-Kuwait reported revenues of KD84.3mn and EBITDA of KD39.4mn, representing an EBITDA margin of 46.3% for Kuwait operations. The company witnessed a loss of KD5.1mn from its investments in portfolio securities due to the stock market crash in Kuwait in the 1st quarter 2006. This affected the profitability of the Kuwait operations in the first quarter. However, during the 2nd quarter, total hit on the bottom line from trading securities decreased to KD5.7mn, resulting in a net profit of KD29.1mn for the Kuwait operations of NMTC.
- **Tunisia:** As of 1H2006, total active customer base of Tunisia operations (operating under the brand name of Tunisiana) was at 2.54mn. Tunisiana holds a GSM market share of 44% as of 1H2006, where the market penetration reached 57%. For FY2005, Tunisiana reported revenues of KD93.6mn, contributing 26.5% to total revenues of NMTC for the year. EBITDA was at KD35.4mn representing an EBITDA margin of 37.8%. During 1H2006, Tunisiana reported revenues of KD30.1mn and EBITDA of KD12.9mn, representing an EBITDA margin of 42.8% for Tunisia operations. The net profit of Tunisiana for 1H2006 was at KD1.4mn.
- **Iraq:** Iraq operations, named Asia-Cell, started contributing to the topline in the first quarter of 2004. As of 1H2006, total active customer base of Iraq operations (operating under the brand name of Asia-Cell) was at 2.285mn which constituted almost entirely of pre-paid customers. For FY2005, Asia-Cell reported revenues of KD61.03mn, contributing 17% to total revenues of NMTC for the year. EBITDA was at KD28.1mn representing an EBITDA margin of a healthy 46% for Iraq operations. During 1H2006, Asia-Cell reported revenues of KD45.8mn and EBITDA of KD26.2mn, representing an EBITDA margin of 57.2% for Iraq operations. The net profit of Asia-Cell for the quarter was at KD23.1mn, out of which KD9.2mn was attributable to NMTC representing its 40% ownership in Asia-Cell.
- **Algeria:** NMTC provides telecoms services in Algeria under the brand name of “Nedjma”. As of 1H2006, total active customer base of Nedjma was at 2.026mn which constituted almost entirely (>99%) of pre-paid customers. For FY2005, Nedjma reported revenues of KD42.1mn, contributing 12% to total revenues of NMTC for the year. The company has been making losses since it started its operations in Algeria, reporting a net loss of KD19.8mn for FY2005. During 1H2006, Nedjma reported revenues of KD29.6mn and a net loss of KD11.4mn for 1H2006, out of which KD8.1mn was attributable to NMTC representing its 71% ownership in Nedjma.

- **Saudi Arabia:** Bravo, the first iDEN network in the GCC and in the Kingdom of Saudi Arabia, launched service in the western sector of the country in July 2005. Specialized in providing communications solutions for groups through its Push-To-Talk services, Bravo has expanded its service coverage to include Riyadh, Makkah, Medina, Jeddah, Dammam and Dhahran, including the Makkah-Jeddah highway. At the end of 1H06, Bravo has achieved an active customer base of 29,828 subscribers, with an average ARPU of US\$35.8. Since its launch in July 2005, the company has been making losses. The accumulated loss in 2005 was at KD4.1mn and loss during the 1H2006 was at KD2.3mn, out of which KD0.87mn was attributable to NMTC considering the 38% stake in the project.
- **Maldives:** Wataniya Telecom Maldives' (100% owned by NMTC) started operations utilizing its GPRS/EDGE network and soft switch technology in August 2005. The company already has a subscriber base of 58,411 as of 1H2006, 95% pre-paid, and provides coverage to more than 90% of the population in the Maldives. Since its launch, the company has been making losses. The accumulated loss in 2005 was at KD1.8mn and during 1H2006 its loss was at KD1.6mn.

Recent Developments in the Company:

- Shareholders of NMTC approved a 5% capital increase or by KD2.1mn to KD45.82mn and announced changes to the company's bylaws. The company's EGM discussed and approved to increase the company's paid-up capital through bonus share by KD2.1mn, distributed over 21 million shares for a par value of 100 fils per share, thus expanding the number of outstanding shares to 458.21 million. Shareholders also agreed on modifying article 6 of the company's bylaws allowing non-Kuwaitis to buy shares of the company. In addition to the company's bylaws, article 14 was introduced as measure that gives existing shareholders in any capital increase priority rights to buy new shares proportional to the shares they already own.

Long-term earnings forecast assumptions and outlook

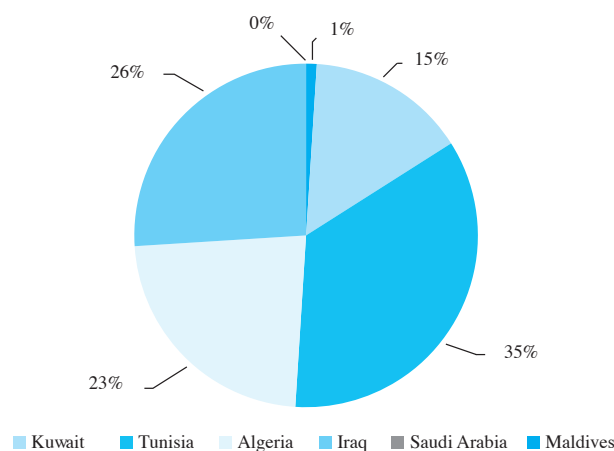
Our long-term operational and financial forecast assumptions for various country operations of NMTC is discussed as below.

Subscriber Growth

NMTC's total active customers grew by 23% y-o-y to reach 6.39mn by the end of FY2005 which further expanded to 7.93mn at the end of 1H2006. Tunisia, Iraq, Algeria and Kuwait operations constituted 32%, 29%, 25% and 12% of total customer base respectively at the end of 1H2006.

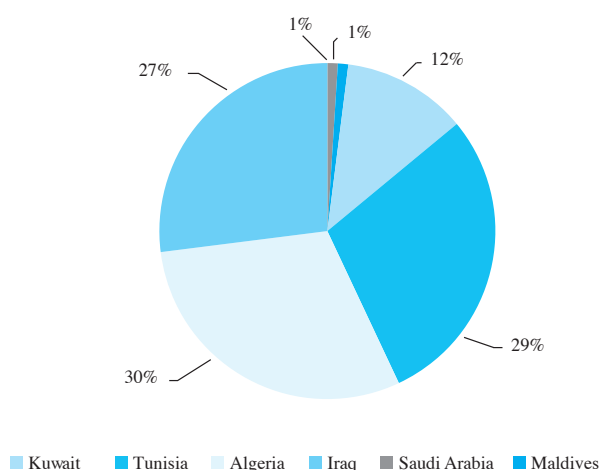
We expect strong growth in subscriber numbers in NMTC operations going forward. The growth is likely to come from Tunisia, Iraq and Algeria where the mobile penetration rates are in lower double-digits and present significant scope for improvement. We project the customer base to expand from the current 7.93mn(end of 1H2006) to a projected 11.2mn by 2009, thereby growing at a CAGR of 15% over the next 4 years.

**Figure: Subscriber growth assumptions in NMTC operations
2005-Actual**



Source: NMTC

2009-Projections



Source: Global Research

Revenue development, Margins and Profitability

For the various country operations, we have outlined our revised estimates and adjusted our forecasts for mobile penetration rate and subscriber growth CAGRs where we see continued growth. Our thesis remains that the revenue development in the country operations, especially in Iraq, Tunisia and Algeria is more likely to be driven by subscriber growth rather than from rising ARPU and other value-added services.

We expect the EBITDA margin at the group level to remain in the range of 35% to 38% during 2006-09. The EBITDA margins will be supported by improved operational efficiencies in NMTC group companies, economies of scale in the group operations and the realization of synergy effects going forward. Net profit margins are projected to observe a rising trend increasing from 19% in 2006 to 23% in 2009.

The projections for key financial parameter are as below.

Table 3: NMTC-Consolidated Key Financial Projections

<i>In KDmn</i>	2006F	2007F	2008F	2009F
Revenues	456.4	550.2	623.9	689.3
Revenue growth %	29.2%	20.5%	13.4%	10.5%
EBITDA	174.4	205.2	223.4	241.2
EBITDA growth%	19.6%	17.7%	8.8%	8.0%
EBITDA margin %	38%	37%	36%	35%
Net Profit	86.9	120.8	138.8	157.5
Net Profit for equity holders	70.1	94.2	108.6	124.2
Net Profit Growth%	32%	34%	15%	14%
Net Profit Margin %	19%	22%	22%	23%
Total net debt/EBITDA (x)	1.19	0.88	0.70	0.54

Source: **Global Research**

Investment Outlook

MENA telecom sector is witnessing consolidation since the last few years through large scale acquisitions. Continuing this trend, in May 2006, South Africa-based mobile operator MTN acquired Investcom in a transaction valued at US\$5.53bn. In another landmark transaction, Batelco of Bahrain agreed to purchase a 96 per cent stake in Umniah Mobile Communications (UMC) of Jordan for US\$415mn. Jordan telecom sector witnessed another milestone where France Telecom announced the acquisition of 10% plus one share in the capital of Jordan Telecom, for a total of approximately 145mn euros. This acquisition will be made through JITCO, a wholly-owned subsidiary of France Telecom, which has already held a 40% stake in Jordan Telecom since January 2000.

In keeping with the trend of the regional countries opening up their telecommunication sectors to private sector investments, Egypt awarded the 3rd GSM license to an Etisalat-led consortia in June 2006 which raised US\$2.87bn. We expect further opening up of the sector and awarding of new licenses in Iraq, Iran, Syria, Lebanon and Sudan in the next 1 year.

NMTC's aspires to grow organically and via new opportunities to enhance the group's strength and ultimately create value for the shareholders. We expect 2006 to be a turnaround year for NMTC in turning many of its operations profitable and value-accretive. Going forward, we expect strong growth in all major operating parameters for the company.

BALANCE SHEET

Amount in Kuwaiti Dinar		National Mobile Telecommunications Company					
	2003 (A)	2004 (A)	2005 (A)	2006 (F)	2007 (F)	2008 (F)	2009 (F)
Assets:							
Bank & cash equivalents	24,649,000	22,421,000	19,505,000	22,443,016	31,925,563	37,020,687	29,639,468
Deposits (< 3 months)	16,019,000	34,112,000	14,557,000	14,678,210	48,438,092	53,281,901	89,310,615
Deposits (> 3 months)	15,944,000	29,198,000	15,197,000	14,693,990	35,265,577	37,616,615	60,186,585
Investments held for trading	7,972,000	16,672,000	33,868,000	23,368,920	51,411,624	87,399,761	139,839,617
Trade & billing receivable	23,302,000	25,269,000	36,744,000	40,175,380	60,307,993	98,971,511	134,916,399
Income receivable	365,000	1,253,000	2,948,000	4,701,316	6,051,976	6,863,013	7,582,001
Other receivables	8,074,000	20,993,000	34,796,000	36,515,073	44,014,368	49,912,821	55,141,822
Inventories	1,456,000	2,775,000	4,688,000	6,094,400	7,313,280	8,775,936	10,531,123
Provision for doubtful debt	(3,159,000)	(3,877,000)	(4,839,000)	(6,026,307)	(9,046,199)	(14,845,727)	(20,237,460)
Total Current Assets	94,622,000	148,816,000	157,464,000	156,643,998	275,682,273	364,996,519	506,910,171
long-term investments	13,379,000	12,463,000	22,068,000	23,841,378	37,192,550	44,631,060	49,094,166
net fixed assets	94,260,000	197,870,000	345,948,000	462,000,257	414,410,465	388,541,397	339,427,510
Net Book Value-Intangible assets	137,440,000	265,177,000	225,819,000	205,441,162	184,905,142	163,978,778	142,632,043
Investment in Associates			5,324,000	5,324,000	5,324,000	5,324,000	5,324,000
Deferred Expenditure			9,341,000	9,341,000	9,341,000	9,341,000	9,341,000
Deferred Tax Asset relating to subsidiary	1,952,000	8,208,000	14,278,000	19,504,400	23,685,520	27,030,416	29,706,333
Total Assets	341,653,000	632,534,000	780,242,000	882,096,195	950,540,950	1,003,843,169	1,082,435,222
Liabilities:							
Trade payables & Accruals	45,784,000	75,178,000	127,698,000	175,791,764	225,846,450	237,037,722	245,218,672
Due to equipment suppliers & contractors	15,150,000	15,467,000	54,465,000	110,598,914	106,401,928	113,668,339	117,175,357
Other Payables	10,812,000	13,103,000	21,310,000	53,621,913	54,066,683	49,359,868	44,177,432
Due to Banks	1,105,000	45,604,000	27,079,000	23,707,000	22,207,000	21,207,000	20,207,000
Others	22,566,000	-	-	-	-	-	-
Current Portion long-term debt	90,679,000	39,404,000	44,313,000	36,813,000	29,313,000	24,313,000	19,313,000
Current Portion of finance lease		10,151,000	150,000	150,000	150,000	150,000	150,000
Total Current Liabilities	186,096,000	198,907,000	275,015,000	400,682,591	437,985,062	445,735,929	446,241,461
Other non-current liabilities	-						
Employee Indemnity Provision	745,000	947,000	1,518,000	1,821,600	2,185,920	2,623,104	3,147,725
Long term Liabilities (Finance Lease)	10,000,000	259,000	141,000	141,000	141,000	141,000	141,000
Long term Debt	6,128,000	159,765,000	209,463,000	146,045,500	128,505,500	110,965,500	90,885,500
Total non-current liabilities	16,873,000	160,971,000	211,122,000	148,008,100	130,832,420	113,729,604	94,174,225
Minorities Interest	45,402,000	70,860,000	66,763,000	50,005,874	23,416,042	-	-
Total Liabilities	287,371,000	430,738,000	552,800,000	600,136,565	592,223,524	569,465,533	540,415,686
Owner's Equity:							
paid-up equity capital	35,640,000	43,639,000	43,639,000	45,820,950	45,820,950	45,820,950	45,820,950
Share premium	-	66,634,000	66,634,000	66,634,000	66,634,000	66,634,000	66,634,000
statutory reserve	6,561,000	10,707,000	16,181,000	25,460,359	38,632,256	45,820,950	45,820,950
voluntary reserve	6,561,000	10,707,000	16,181,000	25,460,359	38,632,256	45,820,950	45,820,950
treasury shares	(901,000)	(10,026,000)	(9,796,000)	(9,796,000)	(9,796,000)	(9,796,000)	(9,796,000)
gain on sale of treasury shares	803,000	803,000	803,000	803,000	803,000	803,000	803,000
foreign currency translation reserve	69,000	5,640,000	(456,000)	(456,000)	(456,000)	(456,000)	(456,000)
Fair Value Reserve	355,000	432,000	492,000	492,000	492,000	492,000	492,000
Retained earnings	44,194,000	73,260,000	93,664,000	128,980,963	177,544,964	249,237,787	346,879,687
Total Shareholder's Equity	93,282,000	201,796,000	227,342,000	283,399,630	358,307,426	444,377,637	542,019,537
Total Liabilities	341,653,000	632,534,000	780,242,000	882,096,195	950,540,950	1,003,843,169	1,082,435,222

OPERATING STATEMENT

National Mobile Telecommunications Company							
Amount in Kuwaiti Dinar	2003 (A)	2004 (A)	2005 (A)	2006 (F)	2007 (F)	2008 (F)	2009 (F)
Sales Revenue	160,357,000	236,983,000	353,317,000	456,438,412	550,179,598	623,910,265	689,272,779
Total Cost of Sales	(71,883,000)	(101,735,000)	(137,052,000)	(214,487,653)	(257,460,394)	(290,352,164)	(315,553,089)
Gross Profit	88,474,000	135,248,000	216,265,000	241,950,759	292,719,204	333,558,102	373,719,690
EBITDA	59,277,000	87,197,000	137,392,000	174,359,473	205,216,990	223,359,875	241,245,473
Financial Charges	(5,014,000)	(10,037,000)	(12,485,000)	(13,738,948)	(12,284,230)	(10,962,082)	(9,845,842)
Depreciation	(11,197,000)	(26,596,000)	(63,303,000)	(69,637,869)	(71,448,718)	(71,284,133)	(71,032,748)
Amortisation	(10,627,000)	(16,438,000)	(20,307,000)	(20,172,597)	(20,536,020)	(20,926,364)	(21,346,735)
Deferred Tax relating to subsidiary	1,199,000	5,989,000	6,533,000	5,226,400	4,181,120	3,344,896	2,675,917
Profit Before Minority Interests, KFAS & Taxes	33,638,000	40,115,000	47,830,000	76,036,459	105,129,142	123,532,192	141,696,065
Minority Interest	714,000	1,350,000	6,910,000	16,757,126	26,589,832	30,265,042	33,251,186
Profit Before KFAS & Taxes	34,352,000	41,465,000	54,740,000	92,793,585	131,718,974	153,797,233	174,947,251
Income Tax		0	0	(2,472,750)	(6,122,714)	(9,429,859)	(11,180,898)
KFAS	(303,000)	(373,000)	(493,000)	(927,936)	(1,317,190)	(1,537,972)	(1,749,473)
NLST	(772,000)	(920,000)	(1,214,000)	(2,296,641)	(3,260,045)	(3,806,482)	(4,329,945)
Director's Fees	(150,000)	(150,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Net Profit for the year	33,127,000	40,022,000	52,833,000	86,896,258	120,819,026	138,822,920	157,486,936
Attributable to minority interests	(714,000)	(1,350,000)	(6,910,000)	(16,757,126)	(26,589,832)	(30,265,042)	(33,251,186)
Net profit attributable to equity holders	32,413,000	38,672,000	45,923,000	70,139,132	94,229,194	108,557,879	124,235,750
P&L Appropriation Account:							
Op Balance of Retained Earnings	20,643,000	44,194,000	73,260,000	93,664,000	128,980,963	177,544,964	249,237,787
Adjustments							
Net Profit for the year	33,127,000	40,022,000	52,833,000	86,896,258	120,819,026	138,822,920	157,486,936
Trfr to Statutory Reserve	(3,476,000)	(4,146,000)	(5,474,000)	(9,279,359)	(13,171,897)	(7,188,694)	-
Trfr to Voluntary Reserve	(3,476,000)	(4,146,000)	(5,474,000)	(9,279,359)	(13,171,897)	(7,188,694)	-
Proposed Dividend KD	-	-	(21,481,000)	(33,020,578)	(45,911,230)	(52,752,710)	(59,845,036)
Forex changes	16,000	(367,000)	-	-	-	-	-
Bonus Shares	(2,640,000)	(2,297,000)	-	-	-	-	-
Cl Balance of Retained Earnings	44,194,000	73,260,000	93,664,000	128,980,963	177,544,964	249,237,787	346,879,687

RATIOS

	National Mobile Telecommunications Company						
Ending Date:	2003 (A)	2004 (A)	2005 (A)	2006 (F)	2007 (F)	2008 (F)	2009 (F)

LIQUIDITY RATIOS

- Current Ratio	0.5	0.7	0.6	0.4	0.6	0.8	1.1
- Quick Ratio	0.5	0.7	0.6	0.4	0.6	0.8	1.1
- Cash Flow from Operations ratio	0.3	0.4	0.5	0.5	0.5	0.5	0.6

PROFITABILITY ANALYSIS

- Gross Profit Margin	55%	57%	61%	53%	53%	54%	54%
- EBITDA to Revenues	37%	37%	39%	38%	37%	36%	35%
- Net Profit Margin	21%	17%	15%	19%	22%	22%	23%
- Return on assets	20%	8%	19%	21%	13%	14%	15%
- Return on Equity	43%	27%	25%	34%	38%	35%	32%
- Return on Common Capital	97%	101%	121%	194%	264%	303%	344%

ACTIVITY RATIOS

- Inventory Turnover Ratio	49	37	29	35	35	33	30
- Debtor turnover Ratio	6.9	9.4	9.6	11.4	9.1	6.3	5.1
- Creditors Turnover Ratio	1.6	1.4	1.1	1.2	1.1	1.2	1.3

LEVERAGE RATIOS

- Current Liability/ Equity	2.0	1.0	1.2	1.4	1.2	1.0	0.8
- Interest Coverage	11.8	8.7	11.0	12.7	16.7	20.4	24.5
- Cash from Operations to Debt	0.5	0.4	0.5	0.9	1.2	1.6	2.0
- Long term Debt to equity ratio	0.2	0.8	0.9	0.5	0.4	0.3	0.2
- Current Liability / Assets	0.5	0.3	0.4	0.5	0.5	0.4	0.4
- Net debt to EBITDA	1.3	1.9	1.5	0.8	0.1	-0.2	-0.6

RATIOS USED FOR VALUATION

- EPS (fils)	92.9	87.3	115.3	153.1	205.6	236.9	271.1
- Book Value Per Share (fils)	261.7	440.4	496.2	618.5	782.0	969.8	1,182.9
- Price per share	2.880	1.840	2.440	1.860	1.860	1.860	1.860
- P/EPS	31.0	21.1	21.2	12.2	9.0	7.9	6.9
- P/B	11.0	4.2	4.9	3.0	2.4	1.9	1.6
- EBITDA (mn KD)	59.3	87.2	137.4	174.4	205.2	223.4	241.2
- Enterprise Value (mn KD)	1,046	933	1,241	960	828	749	615
- EV/EBITDA	17.7	10.7	9.0	5.5	4.0	3.4	2.5

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Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

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