

18 August 2010

Buy

Target price

QR216.72

Price

QR166.10

Short term (0-60 days)

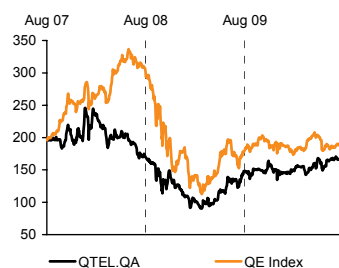
n/a

Market view

No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	168.3	161.2	148.0
Absolute (%)	-1.3	3.0	12.2
Rel market (%)	-2.4	7.5	11.7
Rel sector (%)	-2.9	12.5	24.0



Market capitalisation

QR24.36bn (USD6.69bn)

Average (12M) daily turnover

QR6.78m

Sector: QE Industries Index

RIC: QTEL.QA, QTEL.QD

Priced QR166.10 at close 16 Aug 2010.

Source: Bloomberg

Q-Tel

1H10 results

Qtel Telecom has released its consolidated 1H10 results. Performance continues to be solid across the board, driven by annual 14% revenue growth and steady EBITDA margins.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (QRm)	20,319	24,025	26,687	28,808	31,013
EBITDA (QRm)	10,164	12,124	13,583	14,674	15,994
Reported net profit (QRm)	2,306	2,780	2,860	2,958	3,559
Normalised net profit (QRm)	2,306	2,780	2,860	2,958	3,559
Normalised EPS (QR)	15.70	19.00	19.50	20.20	24.30
Dividend per share (QR)	10.00	7.00	8.60	7.45	8.96
Dividend yield (%)	6.02	4.21	5.18	4.48	5.40
Normalised PE (x)	10.60	8.76	8.52	8.24	6.84
EV/EBITDA (x)	4.38	4.00	3.43	2.82	2.10
EV/invested capital (x)	0.95	0.91	0.85	0.78	0.68

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Total consolidated revenue grows by 13.7% yoy

Qtel's consolidated revenues increased by an annual 13.7% to reach QR13.1bn for 1H10 relative to QR11.5bn at the end of 1H09. Its customer base totalled 66.6m at the end of 1H10, compared to 51.4m at the end of 1H09.

Net income for 1H10 reaches QR1.8bn

Net profit attributable to Qtel shareholders stood at QR1.8 bn for 1H10, an annual increase of 8.9% compared to QR1.6bn at the end of 1H09.

EBITDA remains strong for 1H10

Qtel's consolidated EBITDA increased by an annual 14.6% to reach QR6.3bn, equivalent to an EBITDA margin of 48% for 1H10, improving approximately 100bp from 1H09 EBITDA margin levels of 47%.

Capex

Qtel's management expects capex of QR8.6bn-9.0bn for year-end 2010.

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Important disclosures can be found in the Disclosures Appendix.

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Key takeaways

Despite increased competition across the board, Qtel group's performance remains solid across most of its operations, particularly in Kuwait, Indonesia, Iraq, Algeria and Oman, while 1H10 financial results remain in line with our expectations.

Qatar

Qtel managed to grow its customer base in its domestic market, acquiring 2.4m customers by 1H10, compared to 2.2m customers at the end of 1H09. On the other hand, revenue declined slightly to reach QR2.8bn at the end of 1H10 compared to QR2.9bn at the end of 1H09, while EBITDA also dipped quite strongly to QR1.5bn relative to QR1.8bn at the end of 1H09.

According to management, Vodafone Qatar has continued its aggressive marketing campaigns with significant promotional offers; however, in Qtel's opinion, changes made by price-sensitive customers have levelled off. In turn, this implies that Vodafone Qatar's current aggressive strategy is less likely to continue capturing more market share.

Furthermore, a number of key initiatives were taken to lay the groundwork for Qtel's future growth and development. In March 2010, Qtel announced the first phase of a national programme for "Fibre to the Home" (FTTH), aiming to link homes across Qatar with fibre connections over the next three years.

Indosat – Indonesia

By the end of 1H10, Indosat's customer base grew by 34% to 38.5m customers relative to 28.7m customers at the end of 1H09, which drove revenues to increase by 28.7% yoy to reach QR3.8bn, relative to QAR3.0bn at the end of 1H09. Operational efficiencies and a relatively stable foreign exchange environment also had a positive impact on EBITDA performance, which also increased during the period, improving 31.1% to QR1.9bn for 1H10, compared to QR1.5bn at the end of 1H09.

Wataniya

According to management, the result of its ongoing efforts to address enhanced competition in countries under management – namely, Kuwait, Algeria, Tunisia, Saudi Arabia, Maldives and Palestine – has been positive.

In Kuwait, according to Qtel management, strong growth in yoy subscriber numbers has helped to preserve Wataniya Telecom's Kuwaiti market share. Similarly, in Algeria, market share was maintained, while revenue and EBITDA both grew robustly over the same period in 2009.

At a consolidated level, Wataniya Telecom's customer base increased yoy by 33%, ending 1H10 at 15.8m subscribers, compared to 11.9m at the end of 1H09. Revenue also grew on an annual basis by 12% to QR3.3bn. Meanwhile, positive EBITDA momentum also continued, increasing 10.2% to QR1.3bn

Oman

During 1H10, Qtel launched its fixed line services, operating as Oman's second fixed-line license operator. According to management, coverage has already been extended to reach more than 50% of the population. An international fixed-line gateway is also now in place.

As the competitive landscape of the Omani mobile market continues to evolve, Qtel has successfully maintained its strong market position, according to Qtel's management. At the end of 1H10, its customer base grew to 2.0m, compared to 1.7m at the end of 1H09. Revenue also increased 14.9% yoy to QR864m at the end of 1H10, while EBITDA also improved significantly, increasing 43.3% yoy to QR487m at the end of 1H10.

Iraq

Iraq's performance remained healthy, with its customer base growing by an annual 13% to 7.9m customers at the end of 1H10, given the positive response subscribers displayed as a result of the billing changes introduced during the quarter. Revenue improved significantly by 31.4% yoy to reach QR2.4bn, while EBITDA also rose, increasing by 38.1% to reach QR1.4bn at the end of 1H10.

Income statement

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	20319	24025	26687	28808	31013
Cost of sales	-5429	-5949	-6096	-6713	-7030
Operating costs	-4726	-5952	-7008	-7421	-7989
EBITDA	10164	12124	13583	14674	15994
DDA & Impairment (ex gw)	-3982	-5490	-6575	-7277	-7794
EBITA	6182	6634	7007	7396	8200
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	6182	6634	7007	7396	8200
Net interest	-1596	-1945	-2031	-1698	-1376
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-443.5	563.3	0.00	0.00	0.00
Reported PTP	4143	5252	4976	5698	6823
Taxation	-1026	-1010	-1041	-1208	-1387
Minority interests	-621.8	-1101	-1064	-1532	-1877
Other post-tax items	-188.1	-361.0	-11.0	0.00	0.00
Reported net profit	2306	2780	2860	2958	3559
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	10164	12124	13583	14674	15994
Normalised PTP	4143	5252	4976	5698	6823
Normalised net profit	2306	2780	2860	2958	3559

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	7845	11512	13191	18435	17237
Other current assets	4135	4454	4754	5154	5500
Tangible fixed assets	23352	29598	33098	33671	32603
Intang assets (incl gw)	32671	34104	32110	29893	27507
Oth non-curr assets	5147	5271	5368	5470	5578
Total assets	73150	84939	88520	92624	88425
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	20774	16051	14703	24249	28422
Long term debt (3)	20155	33798	35412	26472	13879
Oth non-current liab	5282	5657	5757	5857	5957
Total liabilities	46212	55506	55871	56578	48257
Total equity (incl min)	26938	29432	32649	36046	40167
Total liab & sh equity	73150	84939	88520	92624	88425
Net debt	20130	24171	22221	16977	9235

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

QRm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	10164	12124	13583	14674	15994
Change in working capital	-1571	439.0	236.0	206.8	173.1
Net interest (pd) / rec	-1459	-1481	-2031	-1698	-1376
Taxes paid	-50.4	-836.0	-487.4	-1208	-1387
Other oper cash items	-1486	-277.5	-11.0	0.00	0.00
Cash flow from ops (1)	5598	9968	11289	11974	13403
Capex (2)	-5663	-8393	-8081	-5634	-4340
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-3435	-3672	0.00	0.00	0.00
Cash flow from invest (3)	-9098	-12065	-8081	-5634	-4340
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	-347.0	-865.7	-1261	-1092	-1314
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	8807	7344	-268.5	-2.36	-8947
Cash flow from fin (5)	8460	6478	-1529	-1095	-10262
Forex & disc ops (6)	-364.5	-715.5	0.00	0.00	0.00
Incl/(decr) cash (1+3+5+6)	4595	3666	1679	5245	-1199
Equity FCF (1+2+4)	-65.5	1575	3208	6339	9063

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

Q-Tel (RIC: QTEL.QA, Rec: Buy, CP: QR166.10, TP: QR216.72): We use a blended methodology combining a sum-of-the-parts-based DCF and peer comparables, weighted equally, to value Q-Tel. The main downside risks are Q-Tel engaging in a pricing war with Vodafone Qatar and overpaying for licences and acquisitions. Additionally the company may see significant FX volatility as its international operations are skewed towards Indonesia.

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