RASMALA

4 January 2011

Jordan Telecom

Maturity reached

Initiation of coverage

Sell

Target price
JOD4.43

Price
JOD5.38

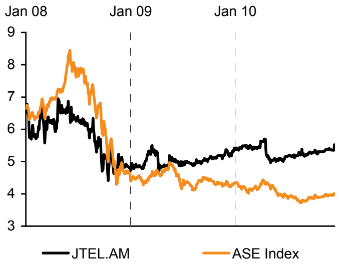
Short term (0-60 days)
n/a

Market view
No Weighting

We believe revenue growth at Jordan Telecom Group (JTG) has peaked, given the company operates in a country with a population of only 6.4m and a total of four operators in a saturated telecom market. We initiate coverage on JTG with a Sell recommendation and a target price of JOD4.43.

Price performance

	(1M)	(3M)	(12M)
Price (JOD)	5.40	5.30	5.17
Absolute (%)	-0.4	1.5	4.1
Rel market (%)	-1.9	-1.1	11.2
Rel sector (%)	-3.1	-2.3	3.6



Market capitalisation
JOD1.35bn (€710.59m)

Average (12M) daily turnover
JOD0.11m

Sector: Amman Tech & Comm Index
RIC: JTEL.AM, JTEL JR
Priced JOD5.38 at close 2 Jan 2011.
Source: Bloomberg

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (JODm)	401.4	400.1	396.4	391.7	391.1
EBITDA (JODm)	178.5	179.8	171.5	167.5	165.3
Reported net profit (JODm)	100.3	108.3	91.60	88.10	86.50
Normalised net profit (JODm)	100.3	108.3	91.60	88.10	86.50
Normalised EPS (JOD)	0.40	0.43	0.37	0.35	0.35
Dividend per share (JOD)	0.40	0.42	0.42	0.42	0.44
Dividend yield (%)	7.43	7.81	7.81	7.81	8.18
Normalised PE (x)	13.40	12.40	14.70	15.30	15.50
EV/EBITDA (x)	5.81	5.86	6.42	6.65	6.86
EV/invested capital (x)	9.63	8.27	6.84	7.09	7.35
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS — year to Dec, fully diluted
Source: Company data, Rasmala forecasts

A highly deregulated telecom market

Jordan was the first country in the Middle East and North Africa (MENA) region to begin liberalising its telecommunications market, and thus has the most deregulated telecom market in this region. Jordan Telecom Group, one of four telecom operators in the country, managed to increase its market share from 29% at the end of 2009 to 34% at the end of September 2010, at the expense of lower ARPUs.

Continued growth hinges on new services

With the wireless segment of the Jordanian market almost at saturation levels, we believe that future growth will be correlated with growth in the internet and data segment, and the continued introduction of new services and technologies. With its cash and know-how, Jordan Telecom Group seems in a good position to take advantage of opportunities that may arise, all of which should provide some stability to the company's revenues. However, even taking this into account, we forecast a revenue CAGR of only 1% for 2010-15.

Expensive, but support from dividend yield

We initiate coverage of Jordan Telecom Group with a Sell rating and a 12-month target price of JOD4.43. The company is trading at a 43% premium to the 2011 average we estimate for its MENA market peers, but looks attractive on a dividend yield basis (7.8% for 2010F and 2011F). We believe that Jordan Telecom Group remains a solid dividend play to be bought on market dips, given its strong cash position and as long as it continues its policy of maximum dividend payouts in the absence of major capital expenditure.

Analyst

Shrouk Diab
+971 552 248 033
shrouk.diab@rasmala.com

Dubai International Financial Centre,
The Gate Village, Building 10, Level 1,
P.O. Box 31145, Dubai, United Arab Emirates

www.rasmala.com

The basics

Versus consensus

EPS	Ours	Cons	% diff
2010F	0.37	0.38	-3%
2011F	0.35	0.39	-10%
2012F	0.35	0.39	-10%

Source: Zawya, Rasmala forecasts

Forced ranking*

Company	Rec	Upside/ Downside
Mobily	Buy	31%
Etisalat	Buy	21%
Mobinil	Hold	5%
Telecom Egypt	Hold	3%

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

Catalysts for share price performance

We believe that Jordan Telecom's growth potential lies in the internet and data market, as internet penetration stood at c4% at year-end 2009, while mobile penetration was a saturated 96%. In light of our expectations of constrained revenue growth over the next few years, we believe that cost efficiency at the operational level in particular will be the main driver of bottom-line growth.

Earnings momentum

In light of our expectations of tough competition, we expect total revenue of JOD396m for 2010, an annual decline of 1%, and JOD392m in 2011, an annual 1.2% decline. We expect EPS to reach JOD0.37 by 2010 and JOD0.35 by 2011, a 15% and 4% decline, respectively.

Valuation and target price

We calculate our JOD4.43 target price for JTG using an equal weighting of valuations based on P/E multiples and discounted cash flow.

Our DCF valuation for JTG yields a 12-month fair value of JOD5.02 per share, where we assume a cost of equity of 11% based on a risk-free rate of 3% and a premium of 9%, a cost of debt of 5%, a terminal growth rate of 2% and beta of 0.9x. We derive our P/E fair valuation of JOD3.84 per share based on the average FY10 and FY11 PEs for JTG's peer group, of 10.7x for both years, using Bloomberg consensus and our estimates.

How we differ from consensus

We are 1% lower than Zawya's consensus for 2010 and 6% lower for 2011 in terms of revenue estimates. Accordingly, we are 3% and 10% lower than consensus in terms of 2010F and 2011F EPS, respectively, partly due to our lower revenue forecasts and partly due to the fact that we anticipate increased competition, particularly in the mobile segment.

Risks to central scenario

Upside risks to our target price include the following:

- We believe that better-than-expected cost management at the operational level would be positive for JTG, since we believe that future bottom-line growth will be driven primarily by cost efficiencies at the operating margin level rather than by increased revenue growth.
- A less aggressive competitive environment should relieve the pressure on ARPU. Despite the significant increase in JTG's market share since the start of 2010, growth in its mobile revenue, which constitutes around 40% of the company's total revenue, has remained lacklustre.
- Taxes are a big hurdle to growth, as they make up between 45% and 50% of total revenue. Accordingly, a reduction in taxes would be very positive for JTG's revenue.

Key assumptions and sensitivities

Our assumptions include a cost of equity of 11% based on a risk-free rate of 3% and a premium of 9%, a cost of debt of 5%, a terminal growth rate of 2% and beta of 0.9x.

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 1 : DCF sensitivity

Terminal growth rate	Cost of equity				
	8.0%	9.0%	10.0%	11.0%	12.0%
0.0%	5.27	4.80	4.43	4.13	3.88
1.0%	5.71	5.14	4.69	4.34	4.04
2.0%	6.30	5.57	5.02	4.59	4.24
3.0%	7.14	6.14	5.43	4.90	4.48
4.0%	8.39	6.95	5.99	5.30	4.79

Source: Rasmala forecasts

Contents

Investment view

We initiate coverage of Jordan Telecom Group with a Sell recommendation and a 12-month target price of JOD4.43. We believe that revival of top-line growth will be challenging, given limited growth opportunities in the Jordanian market.

Potential catalysts

Revenue growth from new subscriber additions is limited, while potential remains to be found in the broadband segment

The 96% mobile penetration rate at end-2009 makes us believe that future growth in the highly liberated Jordanian telecommunications market will stem not from new subscriber additions but from potential growth in the internet and data markets. Broadband penetration remains low, accounting for less than a 5% population penetration rate at end-2009, leaving significant potential for growth. Jordan Telecom Group (JTG) has said that it sees IP-based dual- and triple-play services as the most effective way to reinvigorate its declining fixed-line business, which accounts for the bulk of its consolidated revenue (51% of JTG's FY09 revenue).

Market share increase not reflected in revenue performance

Since the beginning of 2010, JTG has managed to increase its market share mainly at the expense of Zain Jordan, the leading operator in terms of mobile subscribers. JTG's market share reached 34% at the end of September 2010, from 29% at end-2009. However, this increase in market share was not reflected in JTG's mobile revenue, which declined 2.3% yoy at the end of September 2010.

High taxes inhibit further growth

Taxation is largely a restriction on growth, since in terms of subscriber usage there is an approximate 30% tax on scratch cards, in addition to 10% revenue sharing with the government and a 24% income tax rate. All in all, this adds up to a total tax burden of between 45% and 50% of revenue.

Cost management should be the area of focus for JTG

In the light of our expectations of constrained revenue growth over the next few years, we believe that JTG's main area of focus should be cost management. We believe that cost efficiency at the operational level in particular will be the main driver of bottom-line growth over the next few years.

Expensive on multiples, but support from dividend yield as maximum dividend payout ratio is maintained

JTG looks more expensive than most emerging and MENA market peers, trading at a 43% premium to the average 2011 P/E we estimate for its MENA peers. However, we believe that JTG remains a solid dividend play (7.8% dividend yield for 2010F and 2011F) to be bought on market dips, as long as it continues its policy of maximum dividend payout ratio in the absence of major capital expenditure. According to management, capital expenditure has been and will continue to be maintained at an average of 11-13% of total revenue, of which around 9% would be dedicated to maintenance needs.

We initiate coverage of JTG with a Sell rating and a 12-month target price of JOD4.43. To arrive at our target price, we use an equal weighting of valuations based on P/E multiples and DCF.

Valuation and target price

Our DCF valuation for JTG yields a 12-month fair value of JOD5.02 per share, which is 6.7% lower than its current trading price of JOD5.38. Our assumptions included a cost of equity of 11% based on a risk-free rate of 3% and a premium of 9%, a cost of debt of 5%, a terminal growth rate of 2% and beta of 0.9x.

Table 2 : DCF approach

(JODm)	Free cash flow	PV of FCF
2011F	86	78
2012F	83	69
2013F	77	58
2014F	82	56
2015F	84	52
Terminal value	1,075	673
Enterprise value		987
Minus: net debt		-267
Equity value		1,254
Number of shares (000)		250
12-month fair value per share		5.02

Source: Rasmala forecasts

Peer valuation

The average FY10 and FY11 PEs of JTG's peer group are 10.7x for both years, respectively, based on Bloomberg consensus and our forecasts. We use these to arrive at our P/E valuation of JOD3.84 per share, which is 28.6% lower than the current trading share price of JOD5.38 per share.

Table 3 : 2010F and 2011F PEs for telecom peers

Peers	2010F	2011F
Mobily	10.7	8.9
Etisalat	10.1	9.4
Zain Group	14.7	14.7
Mobinil	12.0	12.8
Zain Saudi	na	na
Qtel	7.6	8.8
Du	22.7	17.2
Telecom Egypt	10.0	10.0
Omantel	8.7	9.4
Nawras	10.9	9.5
Orascom Telecom*	2.2	4.8
Zain Group*	8.4	14.0
Batelco*	7.4	7.2
STC*	9.9	10.1
Maroc Telecom*	14.1	13.5
Average	**10.7**	**10.7**

Source: *Bloomberg consensus, Rasmala forecasts

Jordan's telecom industry

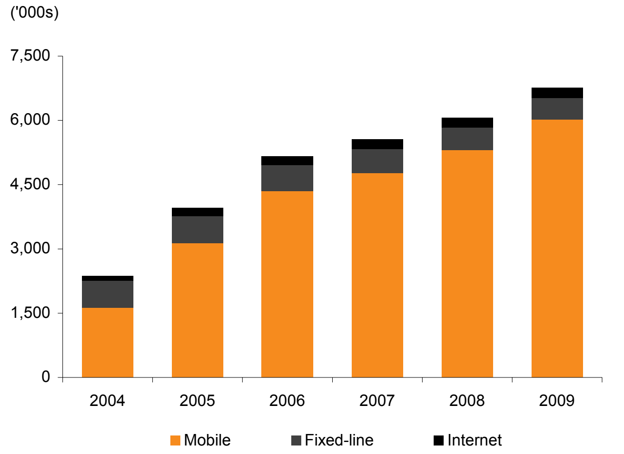
Jordan has the most deregulated telecommunications market in the MENA region, in our view. It began liberalising its telecom sector in 1995, when a new Telecommunications Law was passed creating the Telecommunications Regulatory Committee.

Competition provided stimulus in the market

Fastlink (now Zain) was the first mobile operator in Jordan and began operations in 1997. It had built a base of 0.09m subscribers (penetration rate of 1.9%) by end-1999, after three years of operation. MobileCom (now JTG's Orange Mobile) was the second mobile operator to enter the market in September 2000, offering both post- and pre-paid services. This provided a significant stimulus to the market and subscriber growth accelerated significantly with the number of Zain's subscribers jumping to 0.29m and Orange Mobile acquiring 0.07m subscribers by year-end 2000, thus raising the penetration rate significantly to 7.1%.

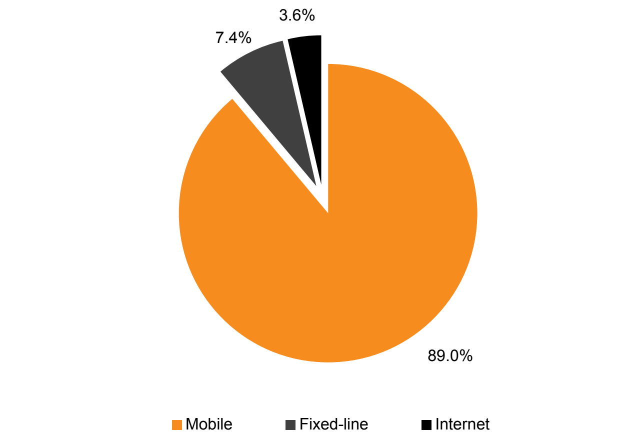
The overall number of subscribers in the Jordanian telecoms sector grew to around 6.8m in 2009, from 2.4m in 2004 (a 23.3% CAGR). This growth was driven by the increase in mobile subscribers (a 29.9% CAGR over 2004-09), which constituted around 89% of total subscribers in 2009 compared to 68% in 2004. The share of fixed-line subscribers in Jordan decreased to 7% in 2009, from 27% in 2004. The internet segment represented the remaining 4% of the total subscribers.

Chart 1 : Breakdown of Jordan's subscribers to telecoms services, 2004-09



Source: Jordan TRC, Rasmala

Chart 2 : Breakdown of Jordan's subscribers to telecoms services, 2009



Source: Jordan TRC, Rasmala

Mobile market

A fragmented mobile market with four mobile players

There are currently four players in the Jordanian market: Zain Jordan, Orange Jordan (JTG's mobile brand), Umniah (Batelco), and XPress Telecom; the last launched Jordan's first trunked communications network with its Push-to-Talk (PTT) technology.

Jordan's first mobile licence was awarded to Fastlink (now Zain) in 1994. MobileCom (now JTG's Orange Mobile) acquired the second licence in 2000 and XPress and Umniah were the last two players to receive a license in Jordan. Orange Mobile's licence should be the first to expire (in 2014); however, in August 2009, the company was awarded Jordan's first 3G licence for a 15-year period.

JTG launched its 3G+ network at end-March 2010 with coverage in selected areas of Amman, Irbid and Zarga. Once JTG's 3G network has been in operation for at least a year, other mobile operators will be granted licences to offer 3G services (having met the same conditions as JTG did).

Xpress Telecom's licence expires in 2015, while Umniah's and Zain's expire in 2019 and 2021, respectively. As such, it would seem reasonable to presume that these two operators will opt for a 3G licence when available in order to close the technological gap with JTG.

Table 4 : Spectrum award

Operator	Date of award	Valid through	Range of spectrum
Zain	30 Oct 1994	21 Feb 2021	2x17.5MHz in 900
Orange Mobile	23 Jan 2000	9 May 2014	2x12.5MHz in 900
Xpress	23 Oct 2003	5 April 2015	2x5MHz in 800
Umniah	9 Aug 2004	8 Aug 2019	2x15MHz in 1800

Source: Jordan TRC

Currently, Orange Mobile, Zain, and Umniah have implemented the General Packet Radio Service (GPRS, "2.5G") and the Enhanced Data rates for GSM Evolution (EDGE, "2.75G") technologies, which provide additional services and performance to those offered by the basic 2G technology. Additionally, Orange Mobile has already been awarded Jordan's first 3G licence for a period of 15 years. Orange Mobile will have exclusive use of this type of technology for one year after the network becomes operational. After this period, the other mobile operators will also be able to apply for a licence and eventually offer a 3G connection.

Currently, Zain and Umniah can offer 2.75G services including enhanced digital voice services, SMS and MMS, and web browsing, among others. Orange Mobile, through its 3G network, can provide additional multimedia features (full-motion video, streaming music, faster web browsing), which should differentiate it from the competition in the short term. On the other hand, XPress operates an Integrated Digital Enhanced Network (iDEN) that includes the PTT feature.

Table 5 : Mobile network generations

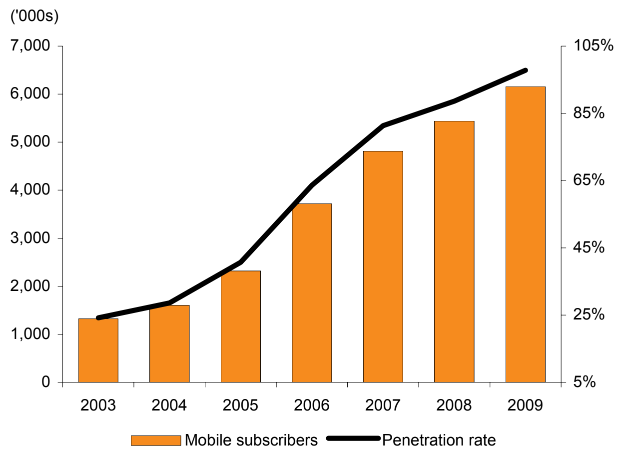
Generation	Features
1G analog network	• Voice service only (analog)
	• No data service
2G	• Digital voice service
	• Push-to-talk (PTT)
	• Short Message Service (SMS)
	• Conference calling
	• Caller ID
	• Voice Mail
2.5G	All 2G features plus:
	• Multimedia Message Service (MMS)
	• Web browsing
	• Real-time location-based services such as directions
	Basic multimedia, including support for short audio and video clips, games and images
2.75G	Better performance for all 2/2.5G services
3G (DSL speeds)	Support for all 2G and 2.5G features plus:
	• Full motion video
	• Streaming music
	• 3D gaming
	• Faster web browsing
3.5G (cable speeds)	Support for all 2/2.5/3G features plus:
	• On-demand video
	• Video conferencing
	• Faster web browsing (especially graphics intensive sites)
4G (wired networking equivalent)	Support for all prior 2G/3G features plus:
	• High quality streaming video
	• High quality videoconferencing
	• High quality voice-over-IP (VoIP)

Source: Jordan TRC, Rasmala

Introduction of new services has contributed to growth of the mobile market

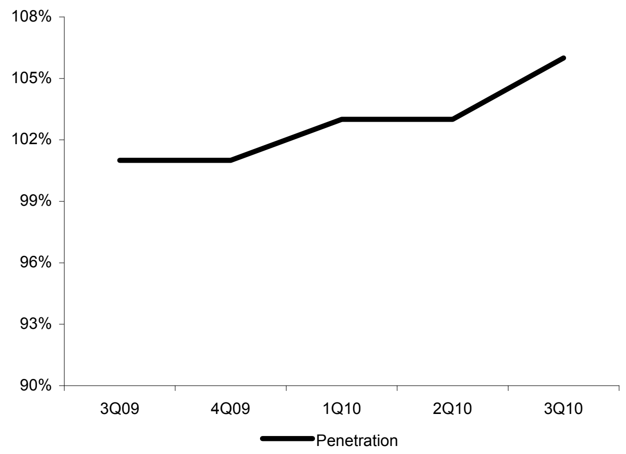
The introduction of new services has contributed to growth of the mobile market in Jordan. According to the Telecommunications Regulatory Committee (TRC), the Jordanian cellular subscriber base totalled around 6m at end-2009, compared with less than 1m in 2001 (ie, a CAGR of 27.4% over 2001-09). The penetration rate also increased rapidly, surpassing 100% in the past year.

Chart 3 : Jordan's mobile subscriber base, 2001-2009



Source: Jordan TRC

Chart 4 : Jordan's mobile penetration, 3Q09-3Q10



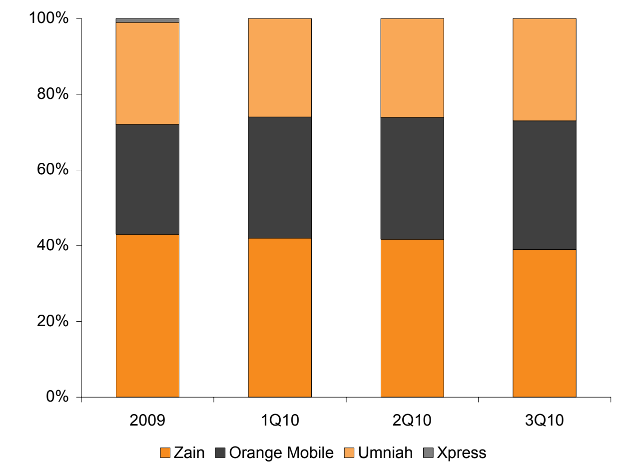
Source: Jordan TRC

As of 1Q10, mobile penetration in Jordan increased to 103%. While the considerable increase in penetration may not be sustainable in the long run, there may still be room for growth given the high penetration rates that prevail in other countries in the region.

Not much change in market structure

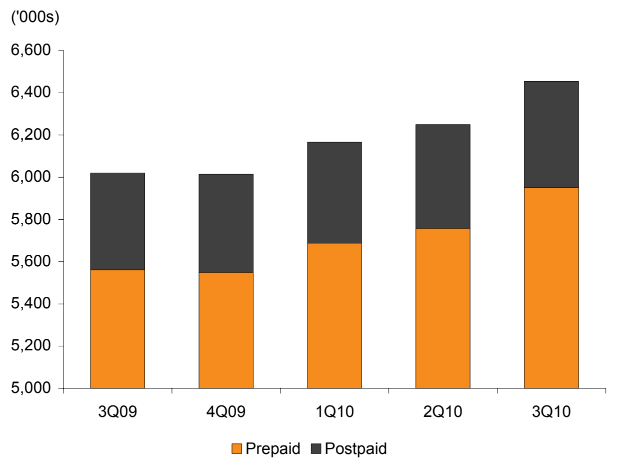
Zain Jordan is the dominant player in the mobile market; by year-end-2009, it had an approximate 43% market share, while Orange Jordan held around 29%, Umniah around 27%, and XPress around 1%. As reflected in Chart 5, there has not been a considerable change in the breakdown of market share since 2007. This could vary in the short term, depending on Orange Mobile's ability to take advantage of its current position as the only provider of 3G network in Jordan. As is the norm in most of the MENA telecommunication markets from our perspective, prepaid subscriptions have consistently represented over 90% of the total number of mobile subscribers in the market.

Chart 5 : Mobile market share, 2009-3Q10



Source: Jordan TRC

Chart 6 : Jordan's mobile subscriber base, 3Q09-3Q10



Source: Jordan TRC

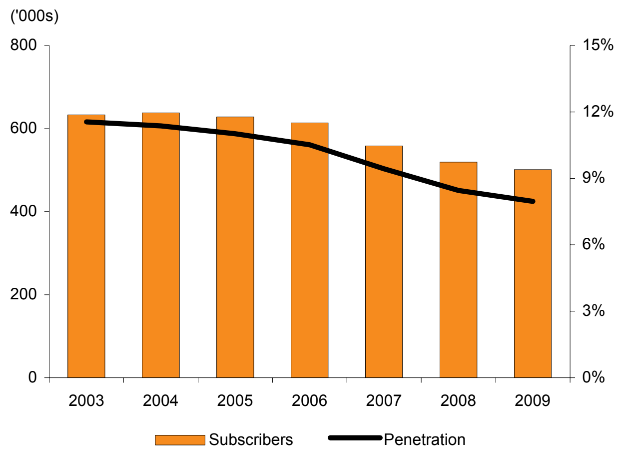
Fixed-line market

JTG remains the monopoly in fixed line market

As of 2009, JTG held all the fixed-line business in Jordan despite a second licence for fixed-line services being awarded to Batelco in 2005.

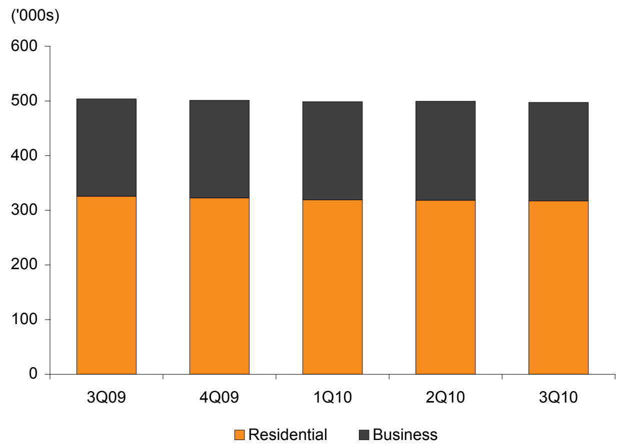
In 2009, fixed-line penetration in Jordan declined 50bp yoy to 8.4%, from 8.9% in 2008, in line with the negative trend in penetration since 2001. During this period, fixed-line subscribers declined to around 500,000 in 2009, from 660,000 in 2001, reflecting the lagging demand for this type of service.

Chart 7 : Jordan's fixed-line penetration, 2001-2009



Source: Jordan TRC, Rasmala

Chart 8 : Jordan's fixed-line subscriber base, 3Q09-3Q10

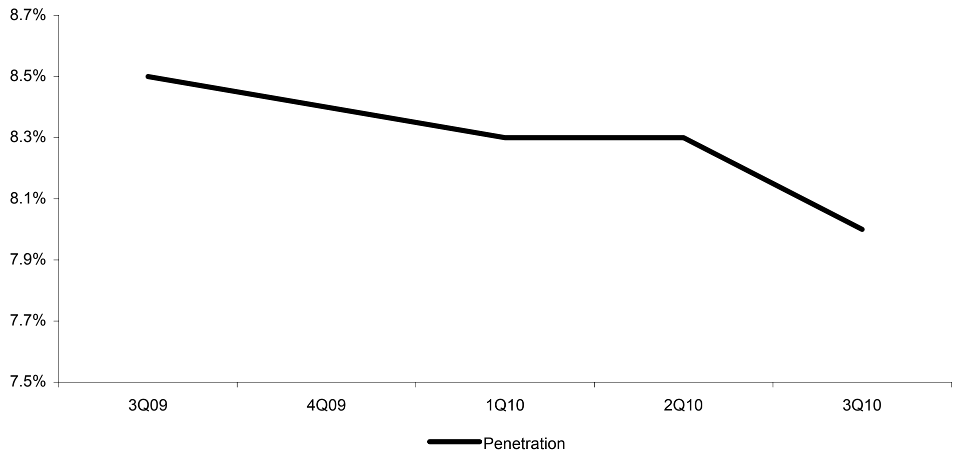


Source: Jordan TRC, Rasmala

Fixed line penetration has declined

Taking a closer look at the past five quarters, it is evident that penetration has continued to recede, with residential fixed-line subscribers consistently accounting for around 60% of total fixed-line subscribers.

Chart 9 : Jordan's fixed-line penetration, 3Q09-3Q10



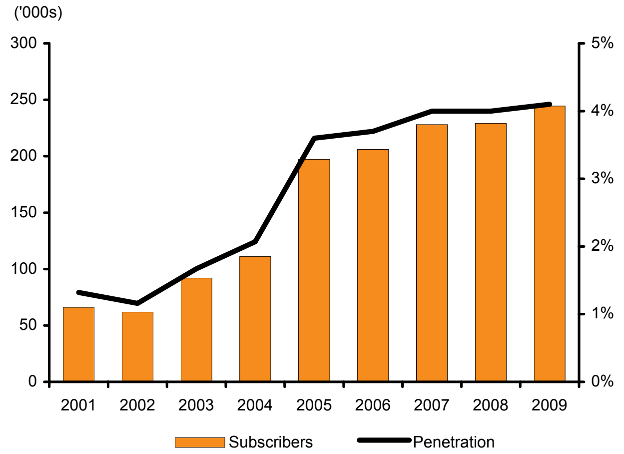
Source: Jordan TRC

Internet market

Internet penetration remains low, but competition could stimulate penetration rates

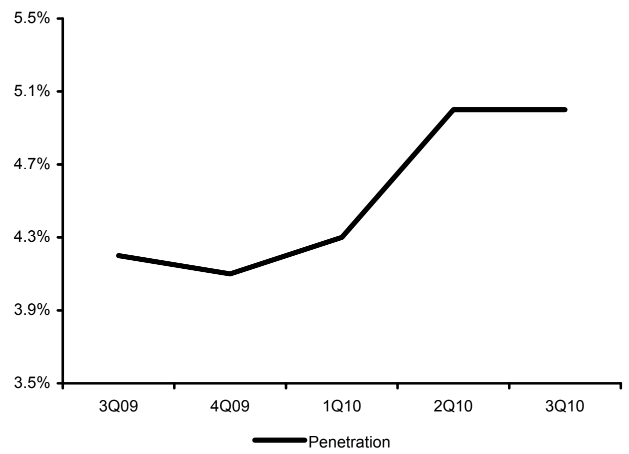
Internet subscribers in Jordan stood at around 245,000 as at end-2009, equivalent to a relatively low 4.1% penetration rate. Penetration has risen slowly during the past few years, but an increase in competition should help spark growth in this area.

Chart 10 : Jordan's Internet subscriber base and penetration, 2001-09



Source: Jordan TRC

Chart 11 : Jordan's Internet penetration, 3Q09-3Q10

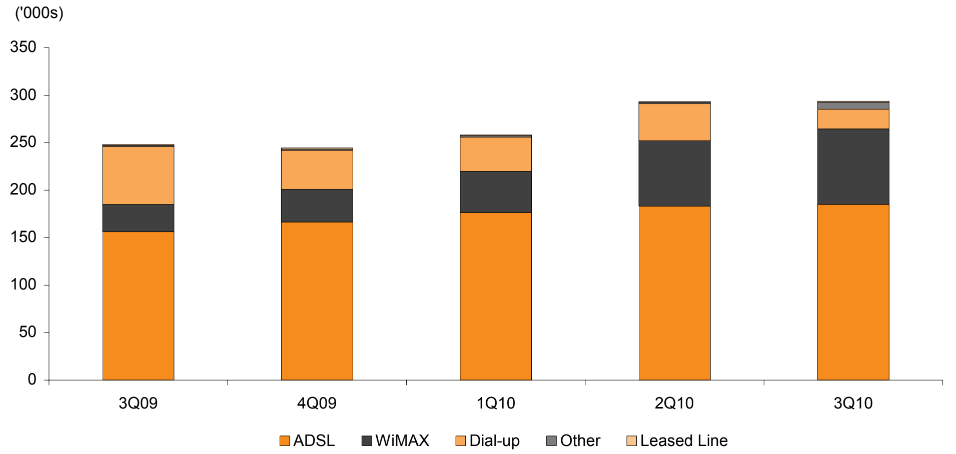


Source: Jordan TRC

A considerable shift to broadband connections instead of dial-up

Chart 12 reflects the rapidly changing landscape of the internet market. During the past five quarters there has been a considerable shift away from dial-up connections, with a majority of subscribers preferring broadband connections instead (ADSL and WiMax). The share of dial-up customers declined to 7% in 3Q10, from 25% in 3Q09, while the proportion of broadband connections represented around 90% in 3Q10 compared to around 74% in 3Q09.

Chart 12 : Jordan's internet subscriber base, 3Q09-3Q10



Source: Jordan TRC

While the number of broadband subscribers has been growing, there is plenty of room for penetration to continue expanding. Amman, which represents 38% of the Kingdom's population, accounts for 75% of the broadband connections; however, that translates into only a 4.9% penetration rate in the city. There should be plenty of room to grow within Amman, as the city has a large untapped population and already has the infrastructure in place to offer connections at a relatively low cost.

Additionally, other heavily populated areas, such as Zarqa and Irbed, have even lower penetration rates. The conditions might not be the same in these cities as they are in Amman, but there seems to be considerable potential for growth in Zarqa and Irbed as well.

Heavily populated cities will likely be areas of focus for ADSL connections, since the marginal cost of offering another connection should be relatively low

Largely populated cities, such as Amman, Zarqa, and Irbed, will likely be areas of focus for ADSL connections, since the marginal cost of offering another connection should be relatively low. Nevertheless, providing ADSL connections in rural areas could be relatively expensive and, therefore, the WiMax technology would be a viable alternative.

Table 6 : Broadband connections and penetration rate by Governorate, 2008

Governorate	Population	Number of broadband connections	Share of broadband connections (%)	Broadband penetration in terms of population (%)
Amman	2,265,100	109,950	75.4%	4.9%
Zarqa	871,600	9,369	6.4%	1.1%
Irbed	1,041,300	12,178	8.4%	1.2%
Rest of Jordan	1,672,000	14,323	9.8%	0.8%
Total	5,850,000	145,820	100.0%	2.5%

Source: Jordan TRC

ADSL broadband subscribers increased to around 175,000 in 1Q10, representing over 60% of the total internet connection types, and making up around 80% of the total broadband connections (around 90% in 1Q09).

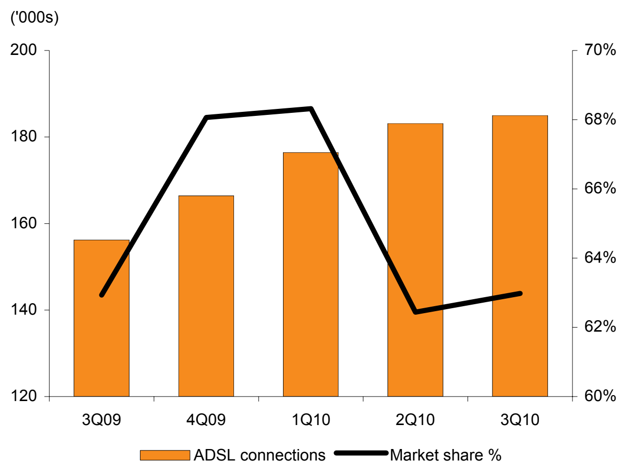
ADSL connections require a copper line in order to offer internet service to subscribers with download speeds of up to 8 Mbps (25 Mbps with ADSL2+ technology). Since JTG controls the fixed network in the Kingdom, the company is the sole operator in the ADSL market and, therefore, accounts for about 80% of all broadband connections. That said, JTG is not the only ADSL internet service provider. While the copper connection can only be obtained through JTG, the actual ADSL service can be offered to subscribers through various internet service providers (ISP) including Cyberia, TE Data, Sama, and Zain Data.

JTG offers its own internet services (through its Orange Internet brand); however, other ISPs can also offer ADSL internet access through JTG's copper network (at wholesale prices). The service is later offered to end subscribers at retail prices. In July 2009, the TRC ordered JTG to open up its fixed network to other operators, which included offering fully unbundled local loops and sub-loops. Previously, other ISPs could access JTG's network only through interconnection at a single point of presence at Hashem/Amman. At end-2008, JTG represented over 65% of all retail ADSL connections to final customers through the Orange Internet brand.

Fixed broadband wireless access (FBWA) is offered in Jordan using WiMax technology

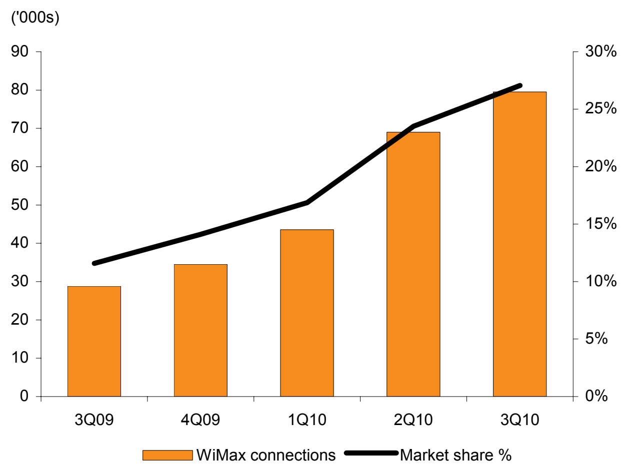
Fixed broadband wireless access (FBWA) is offered in Jordan using the WiMax technology, with speeds of up to 20 Mbps. Nevertheless, speeds offered are actually lower than the maximum and are usually about half that of ADSL speeds. Although the number of FBWA subscribers has grown substantially over the past year (about 45,000 in 1Q10 vs 10,000 in 1Q09), this type of connection represents almost around 17% of total Internet connections.

Chart 13 : Jordan's ADSL internet subscriber base and share of total internet connections



Source: Jordan TRC

Chart 14 : Jordan's WiMax internet subscriber base and share of total internet connections



Source: Jordan TRC

Five companies have licences to operate in the FBWA space: Umniah, Mada, Metrobeam, Wi-tribe and The Blue Zone East/Jordan (this last company has not yet started operations).

Once again, the four companies that are operational can either offer retail WiMax internet connections or offer wholesale services for other ISPs. Mada, for example, does not offer internet services at the retail level, but rather provides wholesale services to Zain Data. Moreover, Metrobeam only offers WiMax services through its Kulacom brand on a retail level.

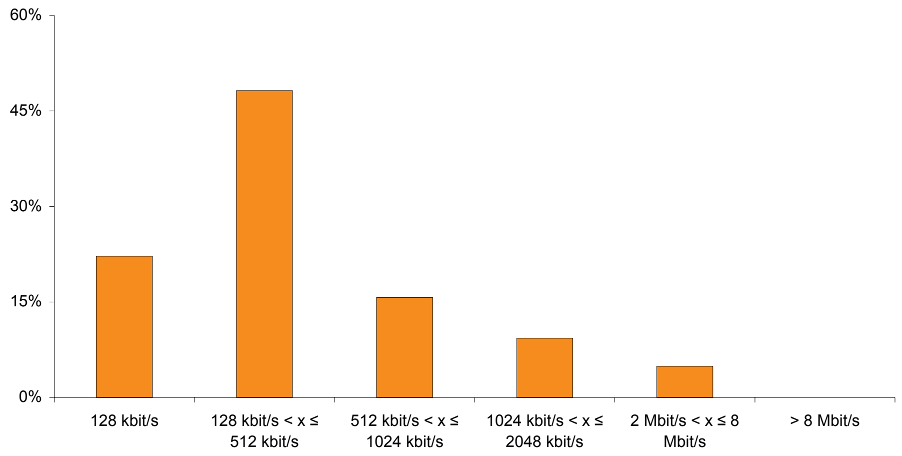
At the end of 2008, the TRC considered Batelco (Umniah) and Zain Data as the two most important competitors in the total broadband market, however, their share did not surpass 10%. These proportions have likely changed as the number of WiMax subscribers has increased significantly over the last year.

The third form of broadband internet access in Jordan is referred to as Fiber-to-the-Home (FTTH). It offers download speeds of up to 10 Mbps (although the theoretical potential is 1Gbps). Jordan TV Cable & Internet Services is the only company offering this type of connection, but its coverage is limited to a small area of Amman. Further, this form of broadband connection accounts for only around 1% of the total.

As the figure below reveals, there is still plenty of room to improve connection speeds and enhance the quality of services. Improving internet speeds could improve a company's competitive position, increase its subscriber base, or help by limiting erosion of ARPUs.

The three types of connections can offer significantly higher speeds than those that currently prevail, so there seems to be no clear advantage for any type of technology in the short term.

Chart 15 : Jordan's distribution of broadband subscriptions by speed, 2008



Source: Jordan TRC

Company dynamics

JTG has seen moderate revenue growth in the past years despite witnessing a significant increase in its overall subscriber base. Given stagnant top-line growth, JTG has started to undertake a number of new initiatives to revitalise its revenue growth.

Consolidated revenue and corporate strategy

Mobile subscribers account for the vast majority of JTG's total subscriber base

With increased mobile penetration in the Jordanian market, it comes as no surprise that mobile subscribers account for the vast majority of JTG's total subscriber base. In 2009, mobile subscribers accounted for 70% of the company's total subscribers, vs 52% in 2005. Although internet subscribers have grown considerably (at a 57.3% CAGR over 2005-09), they still represent only 6% of the total (vs 2% in 2005). Ultimately, the share gains from these two segments have come at the expense of the fixed-line segment, driven by the decrease in fixed-line penetration in the Kingdom of Jordan.

In 2009, revenue declined slightly (0.3% yoy) to JOD400.1m, driven by declines in ARPU that were not fully offset by a 9.2% yoy increase in the subscriber base.

JTG embarks on a number of initiatives to revitalise top-line growth

Given stagnant top-line growth, JTG has started to take on a number of new initiatives to revitalise revenue growth. The main growth opportunities that JTG is exploiting and pursuing are:

- High speed data provision, via fixed and mobile;
- Mobile banking;
- Monetising of assets;
- Terrestrial cables; and
- "Managed Service Provider model" (MSP).

Data provision

- Cognisant of the importance and potential of high speed data provision, JTG currently offers ADSL services through its fixed-line arm, where total ADSL subscribers grew from 2,000 to 100,000 from 2003 until 2007, and reached 180,000 at end-2009. Moreover, with its recently acquired 3G licence, JTG has the capability to promote mobile broadband to its subscribers.

Mobile banking

- Following more than a year of negotiations with Jordan's Central Bank and the relevant regulative authorities, in addition to software and security testing, JTG is set to offer simple banking services or M-payment to its subscribers on a national level at the initial stage.
- JTG's management is targeting international application of its M-payment service model to cater to the needs of its subscribers who live abroad.

Monetise assets

- As an incumbent operator, JTG has a number of idle assets, including 250,000 sq m of land, next to the Queen Alia airport. According to management, this plot of land would be dedicated towards building a new "TMT City", whereby JTG will be the sole provider for all of the technology, multimedia and telecommunications infrastructure requirements. The objective of this city is to create a high-tech hub for high-end corporate usage subscribers.

Terrestrial cables

- Given the immense demand for high-speed data, JTG has signed an agreement with Saudi Telecom Company, SyriaTel and Turkcell to build a terrestrial cable network. This new cable network, which passes between Jeddah, Amman, Damascus and Istanbul, and is thus named JADI, recently launched its operations in 2010. The establishment of this cable brings about a number of advantages, primarily cost control and higher bandwidth. The second phase of the JADI investment is to extend the cable to pass through Europe to gain direct access to one of the main data hubs, such as Germany or London. Management believes that once the cable is directly hooked to Europe, "broadband explosion" may materialise, given greater control over costs, since it would be able to offer much cheaper access to data.

- JTG is also in the final stages of signing another terrestrial cable agreement involving Saudi Arabia, Syria, Turkey and the UAE.

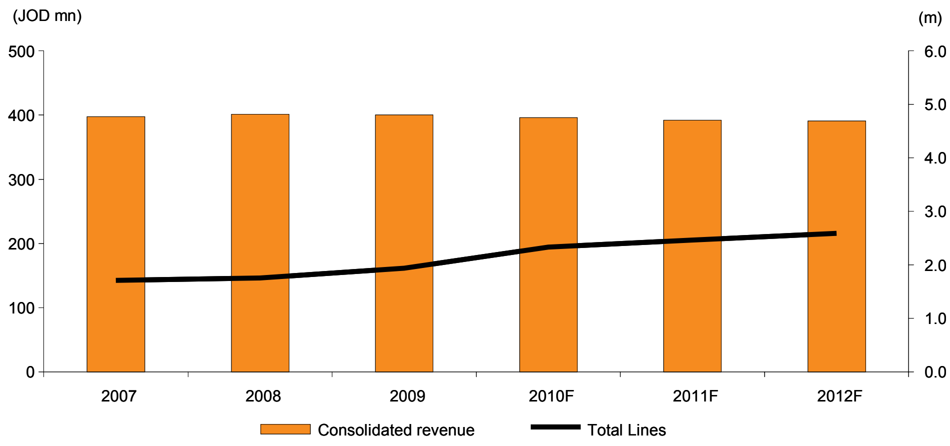
'Managed Service Provider' (MSP)

- In order to offset declining ARPUs and maintain subscriber loyalty, JTG is pursuing a Managed Service Provider model, where the company should start creating and increasing its range of value-added services.
- The company is targeting "new cities" such as King Abdel Aziz City, which has around 0.5m inhabitants, to exclusively provide all of its technology and multimedia needs through the offering of quad-play services.
- JTG has already signed an exclusivity contract with King Abdel Aziz City, and has said that it is expecting to finalise a contract with Abdally City soon.

A successful implementation of all these new projects could lead to a consolidated top line growth of about 2%

Following the successful implementation of all of these new projects, which we expect to be completed by 2013, we believe that JTG could achieve 2% top-line growth. That said, we expect total revenue of JOD396m for 2010, an annual decline of 1%, and JOD392m in 2011 an annual 1.2% decline**.**

Chart 16 : JTG revenue and total lines



Source: Company data, Rasmala forecasts

Mobile segment overview

JTG's mobile subscribers have increased substantially over the past five years to around 1.94m at end-2009, registering a 26.8% CAGR over 2005-09. However, due to increased competition, growth rates have accelerated recently, with subscribers increasing by an annual 10.4% at year-end 2009 compared to an annual increase of 2.6% at year-end 2008.

JTG has the only 3G licence in the market

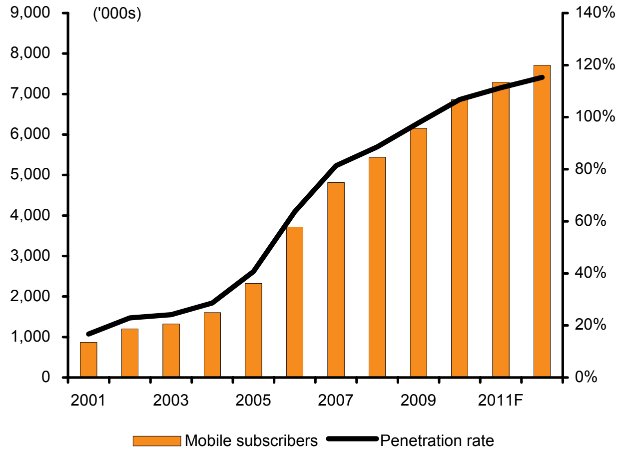
In Jordan's four-player mobile market, JTG is the only telecom operator that has a 3G licence. According to its agreement with the TRC, JTG has an exclusivity period to offer 3G services, until 14 February 2011. Recently, Zain Jordan paid a total of JOD50m to obtain a 3G licence, but JTG has filed a complaint citing its exclusivity clause with the TRC.

TRC is not offering any new licences for the next three years

In terms of new mobile licences being offered in the market, the TRC has committed to offer no new licences for a period of three years.

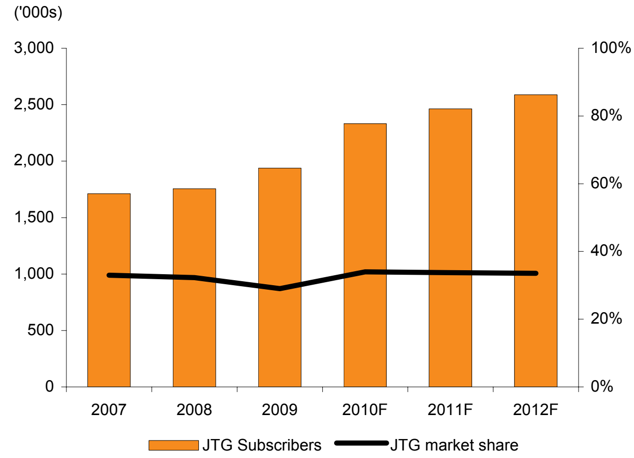
Strong competition from Zain and Umniah continues to be the main risk to JTG's mobile arm, but we believe that the effect could be mitigated with the introduction of 3G services and other value-added services.

Chart 17 : Jordan mobile subscribers and penetration rate



Source: Company data, Rasmala forecasts

Chart 18 : JTG mobile subscribers and market share



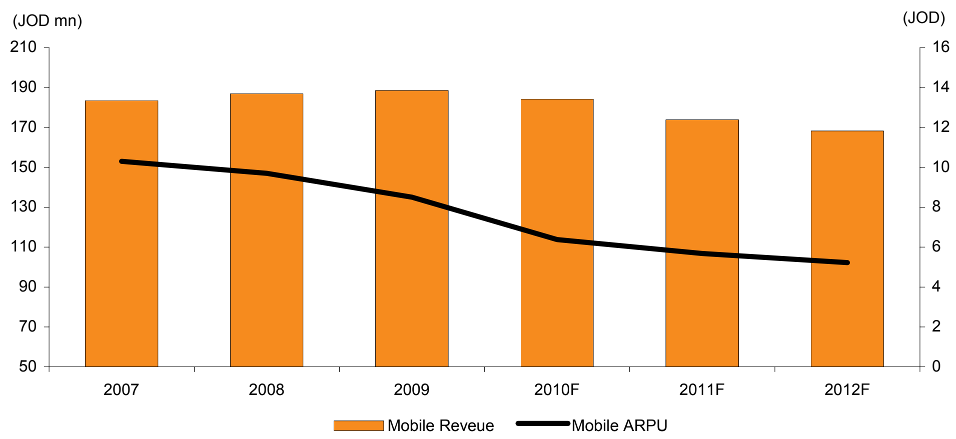
Source: Company data, Rasmala forecasts

Faced with higher competition, ARPU in JTG's mobile segment decreased 5.2% yoy in 2009. As seen from the chart below, ARPU has declined every year since 2007, partly offsetting the gains in subscriber addition during this period.

JTG filed a legal complaint against the operation of an MVNO

Competition among the four mobile players has become relatively stable, but the TRC has permitted the operation of a MVNO under the brand name *Friendly*, which leases its spectrum from Zain. However, JTG has filed a legal complaint to the TRC, citing the unconstitutionality of this MVNO. Management believes that if the case is won, then the MVNO's operations would be terminated.

Chart 19 : JTG's mobile revenue and mobile ARPU



Source: Company data, Rasmala forecasts

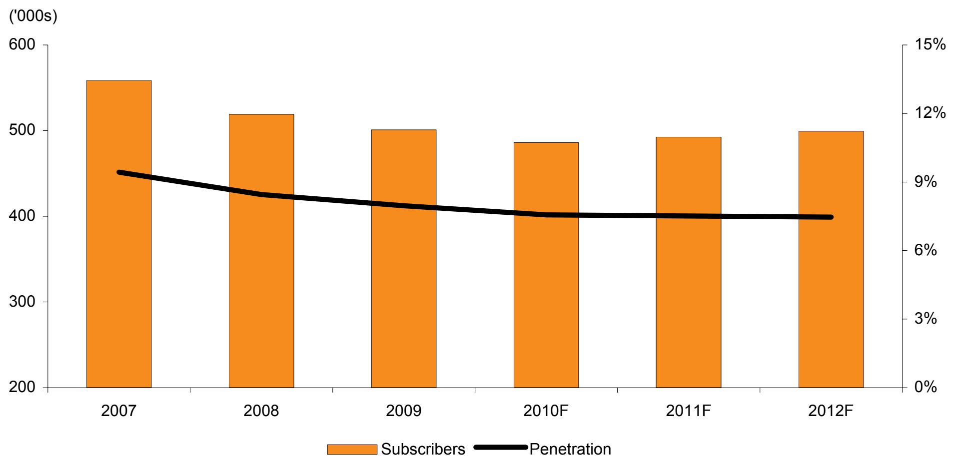
Fixed-line segment overview

Fixed-line subscriber growth has remained relatively flat (-0.8% CAGR over 2005-09), with the number of subscribers peaking in 2006 at around 675,000. In 2009, the number of fixed-line subscribers stood at around 645,000, representing 23% of the company's total subscriber base.

We are assuming a very lacklustre growth scenario for fixed line growth

We believe that either fixed-line subscribers will grow at a very slow rate assuming a best-case scenario, or that the number will shrink as new and younger households choose to live without this service.

Chart 20 : Jordan's fixed-line subscribers and penetration rate

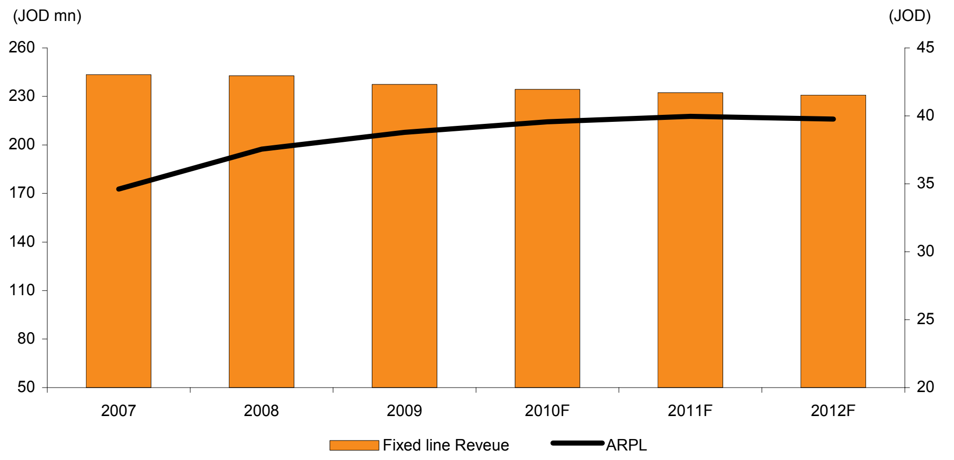


Source: Company data, Rasmala forecasts

Fixed line is the highest revenue generating segment for JTG

As was the case with the mobile segment, fixed-line ARPL has declined consistently since 2005. Nevertheless, this decline is not related to competitive pressure, unlike in the mobile market, as JTG is basically the only provider of fixed-line services in Jordan. In this instance, declining ARPL is more likely related to a shift in consumer preferences to mobile services from fixed-line communication. However, this is still JTG's highest-revenue-generating segment, accounting for 47% of the company's total revenue.

Chart 21 : JTG fixed line revenue and ARPL



Source: Company data, Rasmala forecasts

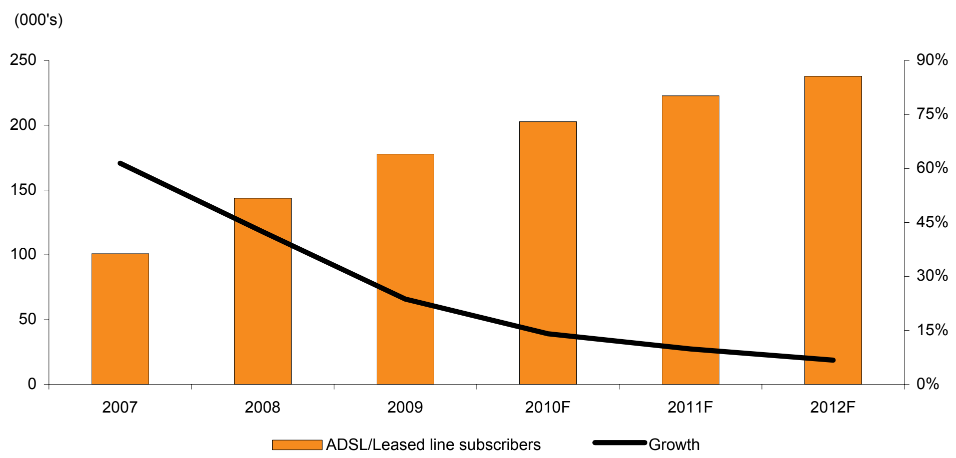
Internet and data segment overview

The internet segment is JTG's smallest segment in terms of both subscribers and revenue (6% and 8%, respectively, in 2009). That said, since 2005, internet subscribers have increased at a 57.3% CAGR, the highest rate among all three segments. Subscribers grew to around 178m in 2009, an annual increase of 65.4%.

In 2007, JTG entered into a partnership with Lightspeed to offer broadband services in Bahrain, and the partnership resulted in revenue of JOD1.2m in 2008 (6% of the total, vs 3% in 2007).

The internet segment's ARPU displays a similar declining trend as do the mobile and fixed-line segments. ARPU in 2009 stood at JOD20.3, vs JOD25.8 in 2005. That said, the effect of the decline in internet revenue due to negative growth in ARPU has been more than offset by growth in subscriber numbers as the service became increasingly accessible.

Chart 22 : JTG ADSL/leased line subscribers

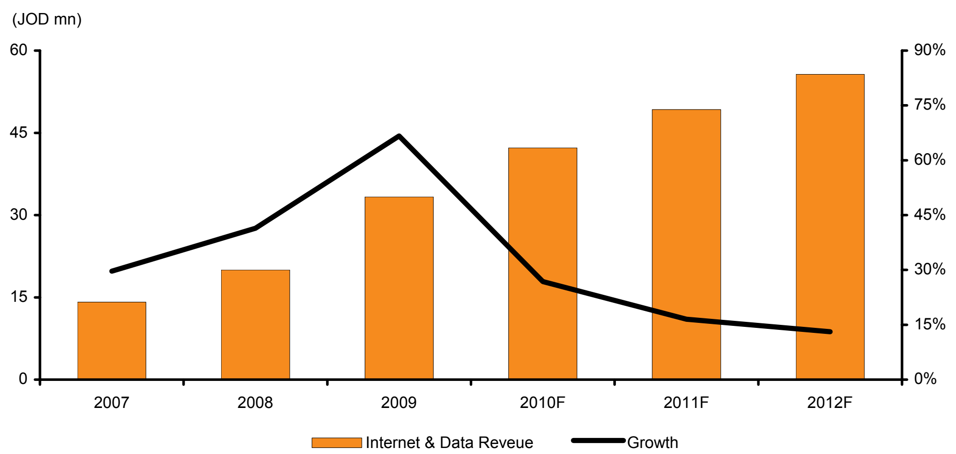


Source: Company data, Rasmala forecasts

The internet and data segment offer the biggest growth potential for JTG, in our view, and with its recently acquired 3G licence, JTG has the capability to promote mobile broadband to its subscribers

The internet and data segment provides the biggest growth potential for JTG, in our view, but competition remains high in this sector. JTG has an advantage over other providers in the fixed ADSL market, since it controls the fixed network in the Kingdom; nevertheless, wireless internet remains a real risk. On the other hand, with its recently acquired 3G licence, JTG has the capability to promote mobile broadband to its subscribers, which can be a source of new revenue streams.

Chart 23 : JTG internet and data revenue



Source: Company data, Rasmala forecasts

Expansion plans and capex

JTG did consider international expansion in the past. However, prices of assets soared, which deterred the company from making any such move and to focus instead on organic growth investment opportunities.

In terms of capex needs for its new projects, JTG is maintaining an average of 11-13% capex to revenue ratio, with approximately 9% of this dedicated to maintenance capex.

Debt and dividends

Currently debt levels are at a minimum, with the only new debt incurred pertaining to the acquisition of the 3G licence. Other than that, the company is in a net cash position.

In terms of dividend policy, the company continues to target a 100% dividend payout ratio, since operational cash flows are more than sufficient to cover its capex and operational needs.

Company background

JTG is a leading telecom player in Jordan that offers fixed, mobile, internet and wholesale services. It began operations in 2007 under the Orange brand of France Telecom, which holds 51% of its shares (only 7% of the total shares trade on the Amman Stock Exchange).

History

Established in 1971, JTG was privatised by the TCC under the name of JTC, and was listed in the market in 2002

JTG was established in 1971 with the founding of the Telecommunications Corporation (TCC) in the Kingdom of Jordan. The TCC was government controlled and initially offered and regulated all telephone, telegraph and telex activities within Jordan.

As part of a privatisation effort, the TCC was transformed into a government-owned company and renamed Jordan Telecommunications Company (JTC) in 1997. Three years later, 40% of JTC's shares were sold to a consortium formed by France Telecom and Arab Bank. An additional 8% of shares were sold to the Social Security Corporation, while 1% were sold among JTC employees.

In 2002, the government sold an additional 10.49% of its JTC shares via an IPO, and in 2006 it decided to sell all of its remaining shares. At this time, a large portion of the shares were sold to France Telecom as well as to local and regional entities; another fraction was listed on the Amman Stock Exchange. Nevertheless, the government could not sell all of its shares and was left with an 11.6% stake in JTC until 2008, when it was finally able to sell its remaining stake. As a result, France Telecom became the company's main stockholder with 51% shares; meanwhile, 7% of the shares were trading on the Amman Stock Exchange, and the remaining 42% were distributed among the Social Security Corporation, the Noor Financial Investment Company (a Kuwait-based, closed-shareholding company), the armed forces, and security agencies.

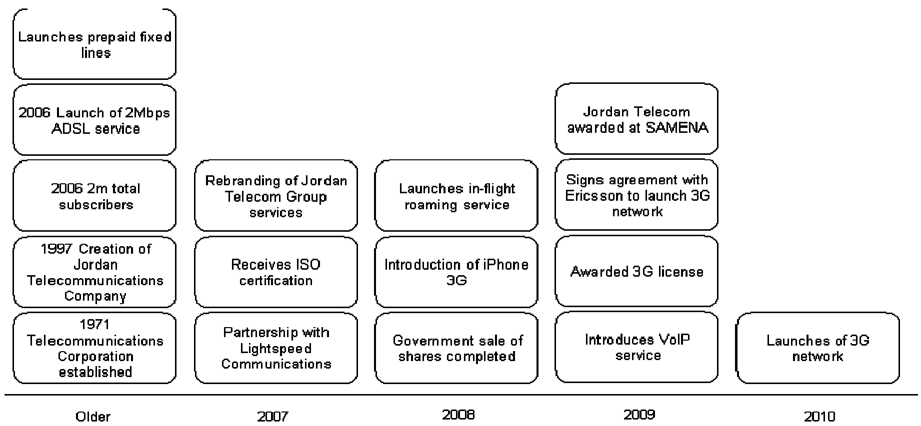
By 2006, JTC was the only integrated telecoms provider in the country following unification of its four companies. Shortly after (and as a result of France Telecom acquiring a stake in the company), JTC changed its name to Jordan Telecom Group (JTG)

In 2006, JTC became the only integrated telecommunications provider in the country following the unification of its four companies (Jordan Telecom, MobileCom, Wanadoo, and e-Dimension). Nevertheless, shortly after (and as a result of France Telecom acquiring a stake in the company), JTC changed its name to Jordan Telecom Group (JTG) and began to rebrand its companies under the Orange brand. The process began in June 2007 with the rebranding of Wanadoo (JTG's internet service provider). This was followed by the rebranding of JTG's fixed-line services in July and concluded with the rebranding of MobileCom (JTG's GSM operator).

In August 2009, JTG was granted a 15-year licence to operate a 3G network in Jordan

In August 2009, JTG was granted a 15-year licence to operate a 3G network in Jordan (the only 3G licence granted so far) at a cost of JOD50m. In October 2009, JTG signed an agreement with Ericsson to launch the 3G network in 1Q10 and successfully did so in late March, delivering services to select areas in Amman, Irbid, and Zarqa. Coverage is set to expand gradually over a six-month period.

Figure 1 : Major events by year



Source: Company data, Ameinfo

Older

- **Establishment of the Telecommunications Corporation:** This government institution was established in 1971 to provide and regulate various telecom services, including telephone, telegraph and telex, in Jordan.
- **Creation of JTG**: In 1997, the Telecommunications Corporation was renamed the Jordan Telecommunications Company and transformed into a government-owned entity that was later privatised.
- **Launch of prepaid fixed-line service:** JTG launched this service in August 2006, mainly targeting visitors and foreigners. It had an activation fee of JOD25, and could be used with various prepaid cards.
- **Subscriber base reached 2m:** As of November 2006, the subscriber base was divided into around 675,000 Jordan Telecom (fixed-line) subscribers, around 1.3m MobileCom subscribers (mobile), and around 35,000 Wanadoo subscribers (internet).
- **Launch of 2Mbps ADSL service:** JTG launched this service in December 2006 through its internet service provider Wanadoo.

2007

- **Partnership with Lightspeed Communications:** On 17 April 2007, JTG launched commercial activities in Bahrain through a partnership with Lightspeed Communications to offer broadband services for the residential, small and medium enterprises, and corporate sector.
- **ISO certification:** JTG's mobile business, internet and data business, network shared service, information system shared services, and the fixed-line and retail business units received the ISO 9001:2000 certification in May 2007.
- **Rebranding of JTG services:** In 2007, JTG adopted France Telecom's Orange brand; during the same year, it rebranded its mobile (MobileCom), fixed-line (Jordan Telecom), and internet (Wanadoo) service providers.

2008

- **Sale of government's shares:** In January 2008, the Jordanian government sold its remaining stake in JTG, leaving France Telecom with a 51% stake in the company. Another 7% of JTG's shares are traded on the Amman Stock Exchange, while the rest are distributed among the Social Security Corporation, the Noor Financial Investment Company, the armed forces, and security agencies.
- **Introduction of in-flight roaming service:** In June 2008, JTG launched the roaming service, which allows JTG customers to use their mobile services during flights on select airlines.
- **Introduction of iPhone 3G:** JTG became the first network provider to offer the iPhone in Jordan in December 2008 through various subscription plans.

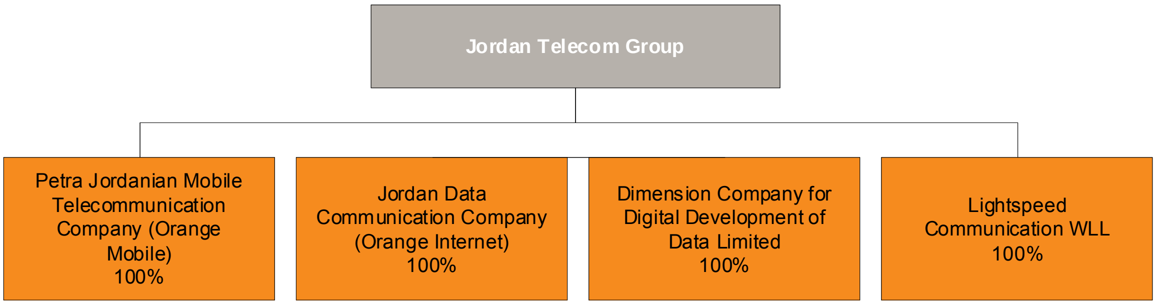
2009

- **Introduction of VoIP service:** Launched in July 2009, the service allows users to make phone calls using VoIP technology (using the Business LiveBox device) while using other internet services.
- **3G licence:** In August 2009, Orange Mobile Company was awarded a 15-year 3G licence at a cost of JOD50m, making JTG the only 3G provider in Jordan. Network implementation was scheduled to be concluded over a six-month period.
- **Agreement with Ericsson to launch 3G network:** The agreement was related to the launch of JTG's 3G network in 1Q10. The service was initially made available in select areas with coverage gradually increasing.
- **Jordan Telecom awarded at SAMENA:** Orange Jordan received awards for "Best Convergent Operator of the Year", "Best Fixed Operator of the Year", and "Best Architect of the Year" from the SAMENA Telecom Council in November 2009.

2010

- **Launch of 3G network:** In March 2010, JTG launched its 3G services, which were initially made available in Amman, Irbid, and Zarqa.

Figure 2 : Group structure



Source: Amman Stock Exchange

Petra Jordanian Mobile Telecommunication Company (Orange Mobile)

Orange Mobile, a 100%-owned subsidiary of JTG, is the second mobile service operator in Jordan. The company was first registered in September 2009 and was known as MobileCom before it was re-branded in 2007.

In July 2009, the telecoms regulator of Jordan awarded the company a 15-year licence to provide 3G services in the country. Orange Mobile also launched BlackBerry services in collaboration with RIM during 2009. In March 2010, the company launched a 3G+ network in the Kingdom and had covered 70% of all populated areas by the summer.

Orange Mobile had more than 1.75m subscribers by end-2009.

Jordan Data Communication Company (Orange Internet)

The company's Internet subsidiary Wanadoo was established in 1996 under the name Global One, which was later re-branded as Orange Internet. Once incorporated, it was the first ISP in the Kingdom. With more than a 50% market share, it also claims to be the leading ISP in Jordan.

Dimension Company for Digital Development of Data Limited

e-dimension was established in December 2000 as a fully owned subsidiary of JTG for the digital development of data and to introduce various e-solutions to the market. It offers a variety of services including web development, high-end payment service provider (PSP) services, internet content provider (ICP) services, and internet content delivery network (ICDN) technology to its customers.

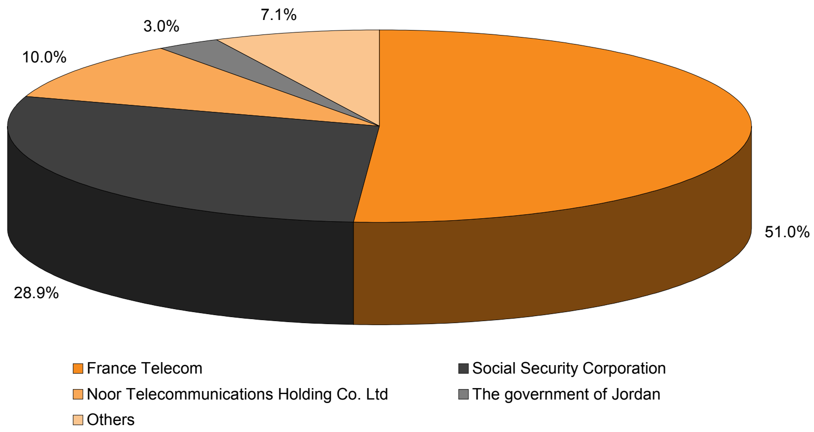
Lightspeed Communications WLL

Lightspeed Communications is a fixed-line telecoms operator in Bahrain. In 2007, it entered into a partnership with JTG to launch new and innovative services in the Bahraini market, including bundled broadband services targeting different markets.

Major shareholders

France Telecom is JTG's main shareholder with 51% of total shares (after co-owning 40% of the shares with Arab Bank in 2000). Jordanian institutions such as the Social Security Corporation, the armed forces, and security agencies hold 32%, while Noor Telecommunications Holding owns 10%, leaving a free float of 7%.

Chart 24 : Shareholders



Source: Amman Stcok Exchange

Income statement

JODm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	401.4	400.1	396.4	391.7	391.1
Cost of sales	-136.7	-133.7	-138.7	-139.0	-140.8
Operating costs	-86.2	-86.5	-86.1	-85.1	-85.0
EBITDA	**178.5**	**179.8**	**171.5**	**167.5**	**165.3**
DDA & Impairment (ex gw)	-54.0	-52.0	-55.5	-55.2	-55.1
EBITA	**124.5**	**127.8**	**116.0**	**112.3**	**110.2**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**124.5**	**127.8**	**116.0**	**112.3**	**110.2**
Net interest	16.5	12.6	6.35	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**	**123.3**	**118.6**	**116.5**
Taxation	-37.9	-33.1	-32.1	-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**	**91.6**	**88.1**	**86.5**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	178.5	179.8	171.5	167.5	165.3
Normalised PTP	137.3	140.8	123.3	118.6	116.5
Normalised net profit	**100.3**	**108.3**	**91.6**	**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	251.7	237.7	216.1
Other current assets	81.3	90.2	97.0	102.2	110.1
Tangible fixed assets	236.3	228.6	224.6	222.3	221.9
Intang assets (incl gw)	14.4	66.9	62.9	59.0	55.1
Oth non-curr assets	2.29	5.05	5.05	5.05	5.05
Total assets	**676.1**	**692.2**	**641.4**	**626.2**	**608.3**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	210.4	248.8	213.6	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**	**235.8**	**237.9**	**243.8**
Total equity (incl min)	415.9	419.3	405.5	388.3	364.5
Total liab & sh equity	**676.1**	**692.2**	**641.4**	**626.2**	**608.3**
Net debt	-308.2	-292.0	-244.6	-231.1	-210.0

Source: Company data, Rasmala forecasts — year ended Dec

Cash flow statement

JODm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	178.5	179.8	171.5	167.5	165.3
Change in working capital	6.16	1.37	-16.6	-2.52	-1.50
Net interest (pd) / rec	16.5	12.6	6.35	6.26	6.26
Taxes paid	-37.9	-33.1	-32.1	-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**	**129.6**	**141.4**	**139.8**
Capex (2)	-48.5	-13.8	-47.6	-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**	**-47.6**	**-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**	**-49.7**	**-13.3**	**-21.6**
Equity FCF (1+2+4)	111.5	143.1	82.1	92.4	89.0

Source: Company data, Rasmala forecasts — year to Dec

Standard ratios

Performance	Jordan Telecom FY08A	FY09A	FY10F	FY11F	FY12F	Mobily FY10F	FY11F	FY12F	Etisalat FY10F	FY11F	FY12F
Sales growth (%)	0.98	-0.34	-0.92	-1.18	-0.15	14.5	8.26	7.84	3.85	4.32	4.94
EBITDA growth (%)	5.04	0.73	-4.60	-2.32	-1.31	17.5	11.1	9.22	2.73	4.69	4.01
EBIT growth (%)	7.19	2.70	-9.22	-3.21	-1.89	23.5	13.4	10.7	-5.77	7.88	8.34
Normalised EPS growth (%)	7.44	7.94	-15.4	-3.81	-1.79	20.7	19.5	12.3	-5.38	8.30	9.06
EBITDA margin (%)	44.5	44.9	43.3	42.8	42.3	38.0	39.0	39.5	36.4	36.5	36.2
EBIT margin (%)	31.0	32.0	29.3	28.7	28.2	26.5	27.8	28.5	25.9	26.8	27.7
Net profit margin (%)	25.0	27.1	23.1	22.5	22.1	24.3	26.8	28.0	26.1	27.1	28.2
Return on avg assets (%)	13.5	14.3	13.0	13.1	13.2	11.9	12.2	12.3	11.2	11.6	12.3
Return on avg equity (%)	24.2	25.9	22.1	22.1	22.9	26.9	26.5	24.7	21.9	21.5	21.1
ROIC (%)	77.1	90.2	69.3	53.0	53.3	19.4	20.4	21.6	12.4	13.9	14.1
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
					year to Dec			year to Dec			year to Dec
Valuation											
EV/sales (x)	2.58	2.63	2.78	2.84	2.90	3.01	2.64	2.25	2.30	2.14	1.84
EV/EBITDA (x)	5.81	5.86	6.42	6.65	6.86	7.92	6.76	5.70	6.33	5.86	5.08
EV/EBITDA @ tgt price (x)	4.48	4.54	5.03	5.23	5.43	10.5	9.05	7.79	8.19	7.64	6.79
EV/EBIT (x)	8.33	8.24	9.48	9.92	10.3	11.4	9.50	7.90	8.88	7.98	6.64
EV/invested capital (x)	9.63	8.27	6.84	7.09	7.35	2.09	1.90	1.75	2.29	2.08	1.97
Price/book value (x)	3.23	3.20	3.30	3.45	3.67	2.59	2.12	1.78	2.14	1.94	1.73
Equity FCF yield (%)	8.29	10.6	6.10	6.87	6.62	7.87	10.2	13.7	11.3	10.8	13.0
Normalised PE (x)	13.4	12.4	14.7	15.3	15.5	10.5	8.82	7.85	10.3	9.47	8.69
Norm PE @ tgt price (x)	11.0	10.2	12.1	12.6	12.8	14.5	12.1	10.8	12.9	11.9	10.9
Dividend yield (%)	7.43	7.81	7.81	7.81	8.18	2.78	2.92	3.65	5.53	5.53	5.53
					year to Dec			year to Dec			year to Dec

Per share data	FY08A	FY09A	FY10F	FY11F	FY12F
Tot adj dil sh, ave (m)	250.0	250.0	250.0	250.0	250.0
Reported EPS (JOD)	0.40	0.43	0.37	0.35	0.35
Normalised EPS (JOD)	0.40	0.43	0.37	0.35	0.35
Dividend per share (JOD)	0.40	0.42	0.42	0.42	0.44
Equity FCF per share (JOD)	0.45	0.57	0.33	0.37	0.36
Book value per sh (JOD)	1.67	1.68	1.63	1.56	1.47
					year to Dec

Solvency	FY08A	FY09A	FY10F	FY11F	FY12F
Net debt to equity (%)	-74.1	-69.6	-60.3	-59.5	-57.6
Net debt to tot ass (%)	-45.6	-42.2	-38.1	-36.9	-34.5
Net debt to EBITDA	-1.73	-1.62	-1.43	-1.38	-1.27
Current ratio (x)	2.01	1.57	1.63	1.57	1.47
Operating CF int cov (x)	-11.0	-14.1	-24.5	-26.5	-26.2
Dividend cover (x)	1.00	1.03	0.87	0.84	0.79
					year to Dec

Priced as follows: JTEL.AM - JOD5.38; 7020.SE - SR54.75; ETEL.DU - Dh10.85
Source: Company data, Rasmala forecasts

Valuation methodology

(JODm)	Free cash flow	PV of FCF
2011	86	78
2012	83	69
2013	77	58
2014	82	56
2015	84	52
Terminal value	1,075	673
Enterprise value		987
Minus: net debt		-267
Equity value		1,254
Number of shares (000)		250
12-month fair value per share		5.02

Source: Rasmala estimates

Company description — Sell

Jordan Telecom Group (JTG) is a leading telecommunications provider in the Kingdom of Jordan and offers fixed-line, mobile, internet and wholesale services through its various divisions. JTG commenced operations in 2007 under the Orange brand of France Telecom, which holds 51% of JTG's shares (only 7% of total shares trade on the Amman Stock Exchange). As of end-2009, JTG's customer base had grown to around 2.75m subscribers. In March 2010, JTG launched Jordan's first 3G network after being awarded the licence in August 2009.

Price relative to country

Strategic analysis — Average SWOT company score: 3

Strengths — 4

JTG is a major player in the growing mobile market. Additionally, as the dominant fixed-line service provider, the company is well positioned to offer ADSL internet services in the emerging segment.

Weaknesses — 3

Until recently Jordan Telecom has relied completely on the domestic market in order to generate revenues. The Lightspeed partnership is the first step towards tackling this issue; however, JTG is still highly dependent on its ability to operate in a single competitive market.

Opportunities — 4

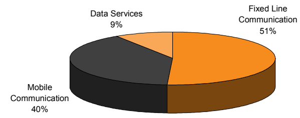
The internet segment has great potential as the low level of penetration indicates room to grow. That said, the extent of the opportunity will depend on the acceptance of ADSL versus WiMax or other forms of internet connection.

Threats — 2

There are several competitors in the mobile and internet market. Competition could continue to intensify, further eroding ARPUs and making it increasingly difficult to acquire new subscribers.

Scoring range is 1-5 (high score is good)

Revenue breakdown, FY10F



Source: Rasmala forecasts

Market data

Headquarters
City Center Building,Zahran Street,1st Circle,P.O. Box 1689,Amman 1118

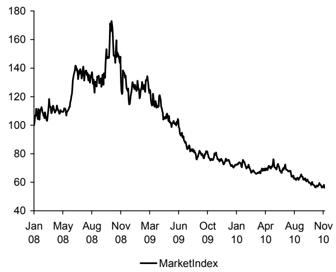
Website
www.jordantelecomgroup.jo

Shares in issue
250.0m

Freefloat
7%

Majority shareholders
France Telecom [via Joint Investment Telecommunications Company] (51%), Social Security Corporation (29%), 0 (0%)

Country rel to M East & Africa



Competitive position — Average competitive score: 3+

Supplier power — 4+

Low - JTG is well established in the Jordanian market. The company should not face significant hurdles in retaining or renewing its licences.

Barriers to entry — 4-

High -The greatest barriers are obtaining a licence to operate in Jordan and the high cost associated with developing a network. However, participating as a reseller could lower the barriers to entry.

Customer power — 2+

High - Customers in the Jordanian telecoms market have a significant number of suppliers to choose from, granting them greater leverage over specific players.

Substitute products — 4+

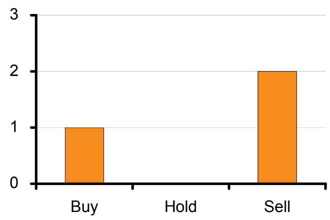
Low - The telecom industry encompasses mobile, fixed and internet communication solutions. There are few other efficient means of communication available to meet the needs of customers.

Rivalry — 2-

High - There are currently various participants in the telecoms market. The marginal benefit of acquiring a new subscriber is significant, which implies intense competition in the telecom industry.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg

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

Jordan Telecom (RIC: JTEL.AM, Rec: Sell, CP: JOD5.38, TP: JOD4.43): To arrive at our target price, we use an equal weighting of valuations based on P/E multiples and discounted cash flow. Upside risks to our valuation and target price include better than expected management of costs at the operational level, a less aggressive competitive environment and a reduction in taxes.

Disclaimer