

28 July 2011

Buy

Target price
RO0.83

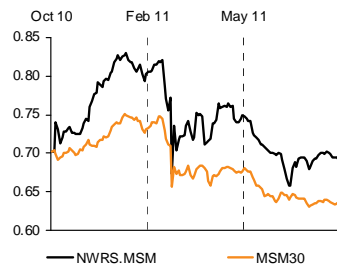
Price
RO0.69

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (RO)	0.69	0.74	n/a
Absolute (%)	0.1	-7.1	n/a
Rel market (%)	0.6	-0.9	n/a
Rel sector (%)	0.9	-0.2	n/a



Market capitalisation
RO449.80m (€813.02m)

Average (12M) daily turnover
RO0.58m (€1.13m)

Sector: MSM30 Serv & Ins
RIC: NWRS.MSM, NWRS OM
Priced RO0.69 at close 27 Jul 2011.
Source: Bloomberg

Analyst

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Nawras Telecom

Key 1H11 result indicators

Nawras posted a net profit of RO22.1m in 1H11, a yoy decline of 13.3%. We maintain our key FY11 forecasts until the release of full financial results. We reiterate our Buy rating and our RO0.83 target price.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (ROm)	171.6	188.9	208.6	221.3	234.9
EBITDA (ROm)	82.40	96.60	107.8	114.8	122.2
Reported net profit (ROm)	41.50	50.00	57.90	64.70	70.90
Normalised net profit (ROm)	41.50	50.00	57.90	64.70	70.90
Normalised EPS (RO)	0.06	0.08	0.09	0.10	0.11
Dividend per share (RO)	0.00	0.00	0.01	0.02	0.03
Dividend yield (%)	0.00	0.00	1.29	2.88	4.73
Normalised PE (x)	10.83	9.00	7.77	6.95	6.34
EV/EBITDA (x)	5.94	4.88	4.47	4.19	3.54
EV/invested capital (x)	3.73	2.86	2.11	1.72	1.54
ROIC - WACC (%)	51.90	38.10	34.30	24.30	0.00

Accounting standard: local
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Group subscriber base falls due to regulatory changes

Nawras' group subscriber base (which includes mobile and fixed customers) fell to 1.94m in 1H11 from 1.97m in 1H10 as a result of regulatory changes. These include lowering the termination window of inactive SIM cards from 12 to six months, limiting the number of SIM cards per customer to 10 and terminating SIM cards of expatriates who have left the country due to expiry or cancellation of visa. The total number of SIM cards terminated due to these regulatory changes in 1H11 slightly exceeded 180,000. Despite the decrease in subscriber base, total revenue grew more than 6% to RO96.9m in 1H11 from RO91.2m in 1H10 due to healthy growth in the mobile post-paid segment, along with sustained momentum in home and business broadband and international wholesale services.

Net profit falls due to higher operational and administrative expenses

EBITDA fell to RO49.2m in 1H11 from RO51.2m in 1H10, which equates to an EBITDA margin of 51% in 1H11 vs 56% in 1H10. EBITDA fell due to higher operational and administrative costs; the rise in administrative expenses included higher employment costs due to the addition of around 150 staff as part of a government initiative. Furthermore, EBITDA was negatively impacted by costs associated with the continued rollout of the fixed network for providing broadband and voice services. Consequently, net profit fell 13.3% yoy to RO22.1m in 1H11 due to higher depreciation on the fixed service business launched in mid-2010 and a lower EBITDA margin.

We maintain our forecasts and our RO0.83 target price

With the exception of net profits, trends of other key indicators reported for 1H11 support our overall forecast for FY11. We maintain our key forecasts for FY11 until the release of full financial results. Accordingly, we reiterate our target price of RO0.83 and our Buy recommendation.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

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

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

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

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

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

Source: Company data, Rasmala forecasts

year to Dec

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

Nawras Telecom (RIC: NWRS.MSM, Rec: Buy, CP: RO0.69, TP: RO0.83): We value Nawras using DCF valuation. Downside risks include a sharper ARPU decline due to increased competition from MVNOs and Omantel; changes in Oman's TRA regulations; and slower-than-expected rollout of network infrastructure.

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