RASMALA

Buy

TP QR187.58

Q-Tel

Qatar Telecom's capital day

Qatar Telecom held its capital day event on 26 January 2012. The company discussed its new 'DRIVE' strategy for the forthcoming future and addressed some of its key financial issues. Our DCF-based sum-of-the-parts valuation for Qatar Telecom is QR187.58 and we maintain our Buy recommendation.

RBS Refiner

Price (close 27 Jan)	QR145.50
3M high/low	QR154.00/140.00
Market cap	QR21.34bn
Av (12M) turnover	QR6.20m
Freefloat	3%
Reuters	QTEL.QA
Bloomberg	QTEL QD
Net debt FY10A	QR20686.01m
3yr EPS CAGR 11-13F	8.7%
Income (2012F div yield)	4.7%

Source: Bloomberg, RBS forecasts

RBS vs consensus

NPBT (QRm)	Ours	Cons	%
2011	4,056	6,379	-36%
2012	4,653	5,835	-20%
2013	5,292	6,257	-15%

Source: Bloomberg, RBS forecasts

Price performance

	(1M)	(3M)	(12M)
Price (QR)	143.0	148.0	175.0
Absolute (%)	1.7	-1.7	-16.9
Rel to mkt*(%)	6.2	-0.5	-11.5

*QE Index
Source: Bloomberg

Key events

Date	Event
Mar-12	Annual results announced
May-12	Interim results announced
Aug-12	Interim results announced

Source: Bloomberg

Event: Qatar Telecom held its analyst presentation day on 26 January 2012

In its capital day event, Qtel discussed its new ‘DRIVE’ strategy for the forthcoming future and addressed some of its key financial issues. Under its new ’DRIVE’ strategy, Qtel intends to focus on 1) differentiating its customer experience; 2) strengthening its foundations by increasing productivity and scaling profitable mobile data business opportunities; and 3) investing in and growing non-mobile revenue opportunities such as B2B and IT services, moving fibre into selected markets and exploring new opportunities such as TV, e-finance and m-health. Other financial objectives to be achieved by 2016, which are aligned with Qtel’s DRIVE strategy, include delivering above-average shareholder returns, increasing return on capital while sustaining EBITDA margins and continuing revenue growth. Qtel announced that it has updated its FX hedging policy to mitigate the negative effects of FX fluctuations, particularly in Indonesia and Algeria and to a lesser extent, Kuwait. With regards to liquidity, the company believes that the US$2.75bn bonds issued out of the GMTN program in 4Q10 provide ample liquidity headroom and pre-emptively address the refinancing of the US$3bn loan due in August 2012. Additionally, royalties and fees amounting to QR2.78bn, which were payable to the government of Qatar, have been repaid in Q411. With regards to operational efficiency, Qtel has launched operational cost improvement programs across operations to enhance cost optimisation and build on savings through group synergies. Qtel also stated that M&A activities will continue to support its growth, with emphasis on scale and transformative M&A opportunities. On a final note, Qtel stressed the importance of data/broadband as the next growth driver in the telecom industry, an opportunity that Qtel intends to capitalise on across its markets.

Forecasts: Qtel is scheduled to announce its FY11 results by 4 March 2012

Qatar Telecom is scheduled to release its FY11 results on 4 March 2012. In the light of upbeat performance at the end of 9M11 results, particularly on the Wataniya subsidiary level, we expect FY11 results to beat our current forecasts of revenue QR29.9bn and EBITDA QR13.6bn. Thus, we will be revising our FY11 forecasts ahead of the FY11 results release.

Valuation: Our TP for Qtel is QR187.58; we maintain Buy

Our DCF-based sum-of-the-parts valuation for Qatar Telecom is QR187.58 and we maintain our Buy recommendation. Our main concern remains the risk of increased pricing competition across Qtel’s key markets, in either voice or broadband services. Another risk is the impact of FX fluctuations on the part of Qtel’s foreign exchange exposure that is not covered under the company’s new hedging policy.

Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (QRm)	24,025	27,179	29,917	31,910	33,592
EBITDA (QRm)	12,365	13,252	13,585	14,502	15,199
Normalised PTP (QRm)	5,383	5,130	4,056	4,653	5,292
Norm fully diluted EPS (QR)	21.84	17.11	15.92	19.13	21.97
Normalised PE	6.66	8.50	9.14	7.61	6.62
Dividend per share (QR)	7.00	5.00	5.73	6.89	8.79
Dividend yield (%)	4.81	3.44	3.94	4.73	6.04

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

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RBS Equities Forecasts: Q-Tel

Income statement

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	24025	27179	29917	31910	33592
Cost of sales	-7328	-8537	-9872	-10211	-10749
Operating costs	-4332	-5390	-6459	-7197	-7643
EBITDA	**12365**	**13252**	**13585**	**14502**	**15199**
DDA & Impairment (ex gw)	-5484	-6317	-7056	-7705	-8032
EBITA	**6881**	**6935**	**6529**	**6796**	**7167**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**6881**	**6935**	**6529**	**6796**	**7167**
Net interest	-1498	-1804	-2473	-2143	-1875
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-377.4	378.1	0.00	0.00	0.00
Reported PTP	**5005**	**5508**	**4056**	**4653**	**5292**
Taxation	-1077	-1420	-751.8	-681.1	-729.8
Minority interests	-1103	-1200	-970.0	-1166	-1339
Other post-tax items	0.00	0.00	-0.00	0.00	-0.00
Reported net profit	**2825**	**2888**	**2334**	**2806**	**3223**
Tot normalised items	-377.4	378.1	0.00	0.00	0.00
Normalised EBITDA	12365	13252	13585	14502	15199
Normalised PTP	5383	5130	4056	4653	5292
Normalised net profit	**3203**	**2510**	**2334**	**2806**	**3223**

Balance sheet

QRm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	11512	25576	27045	32936	29705
Other current assets	4454	5057	5216	5562	5911
Tangible fixed assets	29598	32173	32888	31910	29494
Intang assets (incl gw)	34104	33279	31756	30136	28534
Oth non-curr assets	5271	5314	5421	5532	5649
Total assets	**84939**	**101399**	**102326**	**106076**	**99292**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	16051	17698	15398	26867	20993
Long term debt (3)	33798	43743	43743	32793	28230
Oth non-current liab	5657	5730	5830	5930	6030
Total liabilities	**55506**	**67172**	**64971**	**65590**	**55254**
Total equity (incl min)	29432	34227	37355	40486	44038
Total liab & sh equity	**84939**	**101399**	**102326**	**106076**	**99292**
Net debt	24171	20686	16698	10807	3088

Cash flow statement

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	12365	13252	13585	14502	15199
Change in working capital	439.0	410.4	58.5	173.1	165.4
Net interest (pd) / rec	-1481	-1804	-2473	-2143	-1875
Taxes paid	-836.0	-866.4	-751.8	-681.1	-729.8
Other oper cash items	-519.0	-596.3	-970.0	-1166	-1339
Cash flow from ops (1)	**9968**	**10395**	**9448**	**10684**	**11421**
Capex (2)	-8393	-4452	-6247	-5107	-4014
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-3672	-1408	129.3	-38.5	4.85
Cash flow from invest (3)	**-12065**	**-5860**	**-6118**	**-5146**	**-4009**
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	-865.7	-1027	-733.3	-840.3	-1010
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	7344	10555	-1964	-7.20	-10963
Cash flow from fin (5)	**6478**	**9529**	**-2697**	**-847.5**	**-11973**
Forex & disc ops (6)	-715.5	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**3666**	**14064**	**633.1**	**4691**	**-4561**
Equity FCF (1+2+4)	1575	5943	3201	5577	7406

Source: Company data, Rasmala forecasts

Disclosure Appendix

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.

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.

Relative views: Our strategy teams and analysts may provide strategy views on sectors and/or markets. An Overweight, Underweight or Neutral view implies outperformance, underpeformance or a neutral performance in an indicated relative context

Disclaimer