

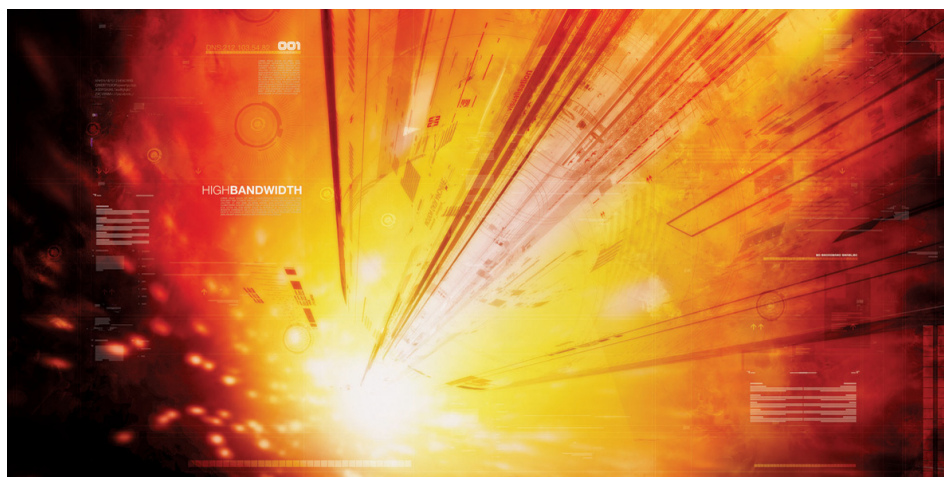
12 May 2010



Telecommunications

Broadband explosion

Liberalisation and increased competition have changed the landscape for MENA telco operators, resulting in the incumbents' search for acquisition targets abroad. In their home markets, operators stand at the crossroads between saturated voice businesses and a rapidly growing broadband segment.



Liberalisation has led to saturation of the wireless business

We are at the tail end of the mobile cycle and expect to see ARPU declines stabilise. Penetration rates are well above 100% in most cases, and we believe value creation will come from customer loyalty rather than subscriber growth. Well-capitalised incumbent operators have gone on an acquisition spree abroad to help offset a decreasing revenue and margin pool in their domestic markets, following the liberalisation of their domestic markets, which brought about increased competition.

MENA telco operators cater to markets that have unique demographics

Not only does the MENA region have a high population growth rate, but the distribution of ages within the population is also key, as the MENA region has one of the youngest populations in the world. More than 60% of the population is under the age of 30, further supporting the region's attractive demographics.

Mobile broadband to trigger a new product cycle for operators

The International Telecommunication Union (ITU) reports that 2008 broadband penetration in the Arab states was 3.3% for mobile and 1.3% for fixed. Local operators are rapidly introducing new services and products to capture this growing market. While we expect voice ARPU to continue to decline, high ARPU broadband services should ultimately drive cash flows and value creation. MENA countries have attractive demographics for the broadband segment with 60% of the population below the age of 30.

The market has ignored the broadband product cycle

The market seems to have ignored the potential positives of an increase in broadband penetration. MENA operators trade at an average of 10.2x and 5.5x 2009 earnings and EBITDA. We are at a critical point in the broadband cycle and expect major penetration growth over the next three years to result in significant cash flows and higher stock prices.

Important disclosures can be found in the Disclosures Appendix.

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Executive summary

MENA telecommunications operators appear on the brink of exponential growth in broadband and, more specifically, mobile broadband. We estimate mobile broadband penetration will reach 57% by 2015, from 3.3% in 2008.

Reshaping of the Industry	The dynamics of the telecommunication industry have changed in the aftermath of the global credit crunch. The key trend being industry consolidation, either as a means to rationalise costs for struggling operators or as an opportunity for inorganic growth for those who are cash-rich.
It all comes back to cash	As is the case with most industry players, the main focus has been to raise cash, primarily through internal means, given the tight availability of external funds to sustain and maintain operational growth of the industry.
The hunt for value-added services	With expansion plans temporarily on hold, telecom operators have shifted focus to deriving more value from their existing customer base, offering value-added services to its high net-worth customer base in efforts to sustain ARPU levels and reduce churn rates.
	Consolidation of telecom industry suggests higher valuations
	Going forward, one of the main trends we expect to observe is consolidation of the global telecoms industry, either as a means for cost rationalisation for struggling operators or as an opportunity for inorganic growth for those who are cash-rich
MENA telecom players on an acquisition spree	MENA telecom operators, particularly GCC operators, are characterised by strong balance sheets and solid cash positions.
Why MENA Telecoms?	The Middle East has one of the fastest-growing economies. Not only does it have a high population growth rate, but it also has one of the youngest populations. More than 60% of the population is below 30 years of age.
The mobile cycle and saturation	Despite the fact that headline mobile penetration rates in the region have surpassed 100%, we see room for industry growth coming from broadband.
	Stocks have not priced in the incremental cash flows from the broadband cycle
	During the mobile cycle, stocks rallied ahead of penetration. We are at a point in the broadband cycle where stocks have not priced in the incremental cash flows that we believe broadband will contribute. We estimate mobile broadband penetration will reach 57.6% by 2015, up from 3.3% in 2008.

Table 1 : Recommendation summary

Company	Mobily	Etisalat	Mobinil	Zain Saudi	Q-Tel	Du	Wataniya	Telecom Egypt	Vodafone Qatar
Recommendation	Buy	Buy	Buy	Sell	Buy	Hold	Buy	Buy	Hold
Current price (local currency)	50.3	10.8	191.2	9.0	159.3	2.6	1.7	17.5	9.5
Target price (local currency)	75.4	13.6	243.4	7.7	216.7	2.4	2.2	20.1	9.5
Upside/downside (target)	50%	27%	27%	-14%	36%	-10%	25%	15%	0%
EV/Subscriber in US\$									
2009	616.3	509.9	164.5	956.5	414.7	813.8	299.6	248.7	6,336.7
2010F	548.7	461.5	140.4	692.6	356.5	675.5	270.1	230.9	4,784.2
2011F	512.1	412.9	127.6	586.9	315.8	634.9	249.5	217.4	2,478.1
EV/EBITDA multiple									
2009	8.9x	6.9x	4.4x	n/m	3.9x	11.3x	3.8x	6.2x	n/m
2010F	7.4x	6.7x	5.3x	n/m	3.4x	8.4x	4.0x	6.2x	n/m
2011F	6.3x	5.8x	5.1x	80.6x	2.8x	5.7x	3.4x	6.0x	52.7x
PE multiple									
2009	11.7x	9.6x	9.2x	n/m	8.4x	39.4x	7.9x	9.8x	n/m
2010F	9.7x	10.2x	11.8x	n/m	8.2x	22.2x	10.1x	9.7x	n/m
2011F	8.1x	9.4x	10.6x	n/m	7.9x	12.6x	10.3x	9.7x	n/m

Source: Bloomberg, Rasmala Research forecasts

Reshaping of the industry

The dynamics of the telecom industry have changed in the aftermath of the global credit crunch, the key trend being consolidation, either as a means for cost rationalisation for struggling operators or as an opportunity for inorganic growth for those who are cash-rich.

After more than a year of stagnant global economic growth, and despite experts' conflicting opinions on the strength and speed of the global economic rebound, there is still no real consensus that the worst is over. Bearing that in mind, liquidity remains tight across the board and external financing is also relatively limited.

The telecommunications industry has been able to weather the storm of the global liquidity crunch better, for the most part, than other industry players, with consumer spending on telecoms remaining fairly stable, a result of what we believe is consumer perception towards their telecom services as something essential. On the other hand, the industry's ability to access external financing for investment or acquisition has been significantly undermined by the state of the financial sector. We believe all of these factors have led to a reshaping of the telecommunications industry.

The telecom industry requires considerable capital expenditure for the purposes of either network upgrades or for the maintenance of ongoing operations (annual maintenance capex alone could range between 8% and 15% of total revenues, as is the industry norm in our coverage universe). Furthermore, with increased level of competition across the board in markets of operation, and limited access to funds, we believe that the industry reshaping may see the "survival of the fittest".

It all comes back to cash

As is the case with most industry players, the main focus has been to raise cash, primarily through internal means, given the limited access to external funds to sustain and maintain operational growth of the industry.

Given the intensive capex nature of the telecom industry, the first means to source monies in the current global downturn has been free cash flows through internal cost control and prudent capital expenditures. Many operators have already cut expansion capital expenditure plans and have considered network sharing arrangements. The advantages of such an arrangement are obvious, provided the operators are able to set the terms without alarming the regulators about possible anti-competitive market practices.

In 2009, Orascom Telecom Holding (OTH) announced a US\$1bn free cash flow optimisation programme to counteract the effects of the economic slowdown. In that light, it has reduced capital investments in Pakistan and Bangladesh by a combined 70%, according to management's figures. Additionally, OTH's subsidiary Mobilink is negotiating a network sharing agreement with Norway's Telenor, in Pakistan.

In the UAE, Du is discussing a network sharing arrangement with local rival, Etisalat. The trade-off for Du might be the need to relinquish exclusivity on designated areas of Dubai. This strategic negotiation shows the value of such a relationship. Exclusivity is one of the concessions that were made to Du when it launched in order to have a fair chance against long-time incumbent Etisalat.

On another level, given the more limited access to bank funding, companies have explored other venues to raise cash, either by issuing bonds or increasing capital, to secure adequate levels of funds. MENA operators maintain low levels of debt to EBITDA. The companies have increasingly paid out higher dividends and we expect share buy-backs to be a secondary use of excess cash.

In 2009, OTH announced its intention to raise US\$800m in a rights issue to further strengthen its balance sheet and to ensure liquidity for financing needs and for general corporate purposes.

In April 2010, Du announced that it intends to raise AED1bn through a rights issue. According to management, the capital raised will be directed towards infrastructure to fund the company's growth strategy and, in essence, to obtain a better leverage structure, with management indicating that it will further explore bank funding as additional financing means in the future.

Early 2010, Mobinil issued a five-year EGP1.5bn bond, with a fixed annual yield of 12.25%, which the company will use to finance the expansion of its network.

Qatar Telecom (Q-Tel) through its Qatar Telecom International Finance Limited (QIFL), a special purpose entity created for raising funds, established a Global Medium-Term Note (GMTN) programme worth US\$5bn in May 2009, which is listed on the London Stock Exchange. However, the company has only raised US\$1.5bn (30% of the total facility) so far in two series. The loan proceeds were used within the group mainly to refinance its existing debt, of which the bulk was accrued initially for the acquisition of 51% of Wataniya Telecom.

The hunt for value-added services

With expansion plans temporarily put on hold, telecom operators have shifted focus to offering value-added services to its higher-spending customer base in efforts to sustain ARPU levels and reduce churn rates.

The adoption of mobile banking is considered an innovative value-added service, with its applications ranging from rendering simple banking solutions, such as money remittances and e-wallet, to full-fledged services for both the un-banked and banked segments of subscribers. OTH and Zain have already announced intentions and plans to provide mobile banking services for their subscribers. Although mobile banking is still in a nascent stage, particularly in the MENA region and Africa, potential returns are significantly attractive. There is keen interest in m-payment and m-banking among mobile operators in developing countries such as Kenya, the Philippines and India. The often quoted pioneer success story is M-Pesa in Kenya. While M-Pesa is not yet profitable, it is growing very fast and already makes up around 4% of the operator's total revenues (up from only 0.6% in 2008).*(Global Digital Economy – October 2009).

Another untapped venue, particularly in the MENA market, is the offering of high speed data services, namely broadband, both mobile and fixed. Technology development has played a larger role in the Middle Eastern telecommunications market than in any other emerging market, in our view, because of the unique culture, high youth population, and strong purchasing power of the MENA population. More than 60% of the MENA population is under the age of 30, and their strong purchasing power allows the telecom subscribers in the MENA region to spend more on the rather expensive data and multimedia services, yielding higher value for domestic operators, as explained later.

Consolidation of telecom industry suggests higher valuations

Going forward, one of the main trends we expect to observe is consolidation of the global telecoms industry, either as a means for cost rationalization for struggling operators or as an opportunity for inorganic growth for those who are cash-rich.

With greenfield opportunities becoming almost non-existent, acquisition prices have increased significantly. To elaborate, we estimate the average EV/EBITDA multiple for the most recently announced telecoms M&A transactions, completed or still pending, to be 9x.

Table 2 : EV/EBITDA for the most recently announced telecoms M&A transactions, completed or pending

Acquirer	Target	Percentage Sought	Percentage owned	Announced Date	Status	Value (US\$m)	Implied EV/EBITDA
Telecomunicacoes de Sao Paulo	GVT Holding (Brazil)	100%	0%	Oct-09	Pending	3.9	12.86x
Singapore Telecommunications	Bharti Airtel	2%	30%	30-Oct	Completed	640.6	12.51x
Etisalat	Tigo (Sri Lanka)	100%	0%	Oct-09	Completed	207.0	7.40x
Royal Group	Tigo (Cambodia)	58%	0%	Aug-09	Signed	605.0	7.10x
Vimpelcom	Tigo (Laos)	74%	0%	Sep-09	Signed	102.0	7.50x
France Telecom	Sonatel (Senegal)	10%	0%	Apr-09	Pending	278.0	4.00x
Maroc Telecom	Sotelma (Mali)	51%	0%	Jul-09	Completed	383.0	N/A
Bharti Airtel*	Zain African arm	46%	0%	Feb-10	Completed	10,700.0	11.65x
Average							9.00x

* Estimated

Source: Rasmala, Bloomberg, corporate press releases

MENA telecom players on acquisition spree

MENA telecom operators, particularly GCC operators, are characterised by strong balance sheets and solid cash positions.

Despite the ongoing credit crunch, MENA telecom operators have continued to expand out of their regions, acquiring an extensive geographical footprint as their main source for inorganic growth. Many of the acquisitions made have been in Africa and southeast Asia.

With the relatively late liberalisation of the telecommunication sector in the MENA region - Qatar marked as the last broken monopoly through the entrance of Vodafone in 2009 – many of the MENA incumbents found themselves faced with aggressive competition in their domestic markets.

To offset the declining domestic revenue pool, MENA operators, namely GCC incumbents, searched beyond their borders to capture growth.

According to a study by Booz Allen, before 2004, all GCC incumbents combined were operating in only six markets outside their home countries. Presently, the total number of markets under operation stands at 78. That noted, the disclosed value of GCC incumbents' cross-border M&A activity alone exceeded US\$33bn between 2004 and 2009. Major MENA telecom operators that have expanded their operations overseas, helped by their strong cash resources, are Etisalat of the UAE, Kuwait-based Zain Group (prior to the sale of its African arm), Qatar Telecom (Q-Tel) and Saudi Telecom Company (STC).

Deals like Q-Tel's 41% stake purchase in Indonesia's Indosat in 2008 and Bahrain Telecommunication's US\$225m deal for a 49% share in Indian mobile carrier S-Tel in January 2008 indicate the appetite that GCC telecom operators have to diversify.

Table 3: Net debt/EBITDA of selected MENA telecom players as of 2009

Saudi Telecom Company	1.1x
Etisalat *	-0.6x
Zain Group**	2.0x
Qatar Telecom	1.99x

*EBITDA calculated before royalties; **net debt used as of 9MFY09, prior to the completion of the African arm's sale to Bharti
Source: Company filings, Rasmala

Etisalat is an example of a cash-rich MENA telecom player seeking opportunities for inorganic growth. The company's operations stretch across 18 countries. Etisalat is focused on entering under-penetrated markets like Africa, Asia and the Middle East, as the company is looking to increase its subscriber base from 100m now to 200m by 2012 and to enlarge its international revenue contribution from around 11% currently to 30% in 2011. Etisalat began its international expansion when it won Saudi Arabia's second GSM licence for AED12.67bn (US\$3.45bn) in 2004.

In Africa, Etisalat acquired 50% of Atlantique Telecom (AT) in April 2005, and in 2007 it increased its stake to 70% and again in May 2008, to 82%. Finally, Etisalat completed the 100% buyout of AT in early 2010. AT is based in Ivory Coast and owns mobile operators in Benin, Burkina Faso, Togo, Niger, Central Africa Republic and Gabon. Etisalat also has operations in Tanzania, Egypt, Afghanistan, Sri Lanka, India and is Nigeria's fifth GSM operator. Etisalat has a 26% stake of Pakistan Telecommunication Company (PTCL) and a 16% stake in Indonesia's PT Excelcomindo Pratama. Etisalat is continuing its search in various markets across the region, for example Iraq, as talks between Etisalat and Korek Telecom are ongoing. Another market Etisalat was interested in was Iran, although its licence was cancelled in May 2009. In October 2009, Etisalat announced its plan to offer LYD1bn (US\$825m) to bid for Libya's third mobile operator licence.

As a result of Saudi Telecom's local mobile monopoly being broken, the company started targeting expansions beyond the Saudi kingdom. It completed its first acquisition of 25% of Malaysia-based Maxis Group in September 2007 for SAR11.4bn (US\$3.04bn). The Maxis stake gives the company access to 1.4bn people in Asia and enables it to provide roaming services to at least 1.5m Indians working in Saudi Arabia. Maxis Group manages mobile GSM in Malaysia and India. The deal also included a 51% stake in Maxis's Indonesian subsidiary PT Natrindo Telepon Seluler, which has a licence to operate a 3G mobile network. STC acquired 26% of Kuwait's third mobile licence for SAR3.42bn (US\$924.6m) in December 2007 and 35% of UAE-based Oger

Telecom in January 2008 for SAR10.71bn (US\$2.85bn), gaining access to customers in Turkey and South Africa. The company also won the third licence to operate in Bahrain for US\$230m.

Q-Tel presently operates in 17 countries. Its main operational subsidiaries include Nawras, Wataniya, Asiacell, Indosat, Liberty and Wi-Tribe, and it has strategic holdings in Asia Mobile and NavLink (associates). Q-Tel holds a 49% stake in Asiacell, it also has a 65% stake in Indosat of Indonesia, which was acquired in two stages, first about 40% and then about 25%. Q-Tel has also acquired a 52.5% stake in Wataniya (the Kuwait-based National Mobile Telecommunications Company) with an investment of US\$3.8bn. This acquisition paved the way for it to move into the markets of Kuwait, the Maldives, Algeria, Saudi Arabia, Tunisia and Palestine. In 2004, Q-Tel secured the second GSM licence in the Sultanate of Oman and launched its own 56%-controlled subsidiary, Nawras.

India's Bharti Airtel agreed last month to buy all of the African assets (with the exception of Sudan and Morocco) of Kuwait-based Zain Group (formerly known as MTC) for US\$10.7bn, leaving Zain Group with substantial cash to refocus on its "highly cash generative operations" in the Middle East and/or seize other potential acquisition opportunities.

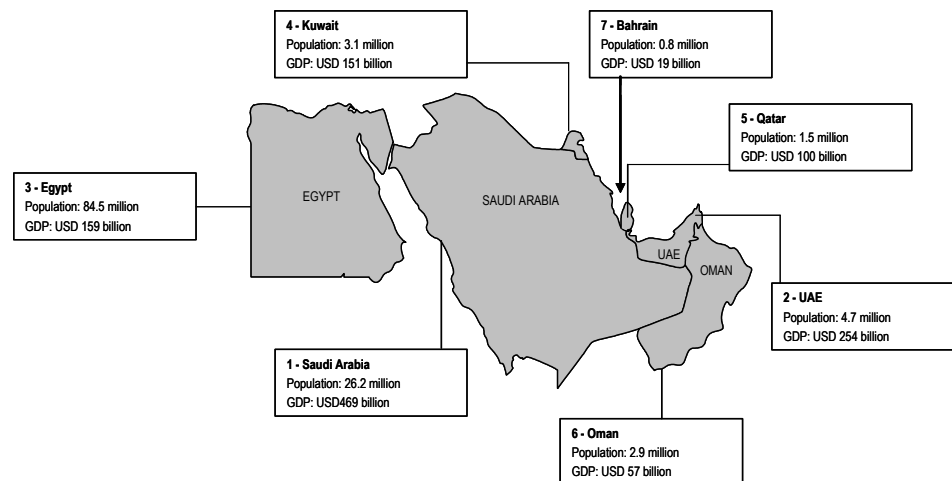
Why MENA telecoms

The Middle East has one of the fastest-growing economies. Not only does it have a high population growth rate, but it also has one of the youngest populations. More than 60% of the region's population is below 30 years, further supporting its attractive demographics.

Overview of MENA demographics

The Middle East region has one of the strongest economies, with average GDP growth of 4.7% projected for 2010, according to the IMF 2010 World Outlook, placing it at the higher end among the emerging markets.

Figure 1 : Middle East demographics



Source: Rasmala, IMF World Outlook, EIU data for 2008

With a population of 315m, the MENA region is the third-largest in the world: twice as large as Japan and more than four times larger the size of the UK.

While population growth rates are on a decline nearly everywhere, the MENA region's population is among the fastest growing in the world.

Not only does the MENA region has a high population growth rate, but the distribution of ages within the population is also key, as the region has one of the youngest populations in the world. More than 60% of its population is under the age of 30, further supporting the region's attractive demographics.

As is the case in the rest of the world, the youth have been the primary driver behind technology uptake. Most in the youth segment are accustomed to using the internet as part of their daily life, whether it be for social applications such as Facebook, Twitter, YouTube and peer-to-peer file sharing, or for educational purposes through the use of Google, Wikipedia, Yahoo or any number of other search engines for research, or for entertainment to play games, download music and watch videos online.

Anecdotal evidence suggests that, given the high internet usage of this segment of the population, the youth will be the main driver of increased demand for digital content and, in turn, increased demand for bandwidth and speed. Furthermore, with increasing regional wealth, affordability as a barrier to entry should also start to decrease.

Telecom liberalisation in the MENA region

The deregulation of the MENA telecommunications market and the introduction of competition, particularly in the mobile market, has led to lower overall costs and higher penetration as services became more affordable.

Market liberalisation in the MENA region has been late compared to the rest of the world, as it started with the launch of second mobile licences in the late 1990s and early 2000. Jordan and Morocco were the first countries in the region to issue second mobile licences, while the more developed GCC countries were rather late in opening up competition in the fast-growing mobile sector. Countries like the UAE and Saudi Arabia had incumbent monopoly operators that did not see any competition until 2005.

Table 4 : Award of second mobile licences in the MENA, 1999-2008

1999	2002	2003	2004	2005	2006	2008
Jordan	Tunisia	Bahrain	Saudi Arabia	Oman	UAE licence	Qatar
Morocco						Kuwait
Egypt						

Source: ITU, Rasmala

Some of the reasons for the late liberalisation of the MENA telecommunications market were the governments' interest in protecting their investments in national incumbents and unwillingness to allow foreign ownership in state-owned entities. An important factor that aided liberalisation in the region was the fact that most Arab states had to comply with their commitments to the World Trade Organization (WTO).

The deregulation of the market and the introduction of competition, particularly as could be seen in the mobile market, has led to lower overall costs and higher penetration, as services became more affordable.

In essence, it can be inferred that increased deregulation in the Internet and broadband market could lead to the same penetration rate increase as witnessed in the mobile sector, as increased competition should lead to decreased overall costs, making services more affordable.

Is mobile saturation a concern?

Despite the fact that headline mobile penetration rates in the region have surpassed 100%, we see room for industry growth in terms of internet and broadband.

Table 5 : MENA key telecom statistics as of 2008

Country	GNI/Capita (US\$)	Mobile penetration (%)	Fixed line penetration (%)	Internet penetration (%)	Mobile 5 year CAGR (%)
UAE	23,950	208.7	33.63	65.2	21.5
Bahrain	19,350	180.5	28.42	52.0	23.9
Saudi Arabia	15,440	142.9	16.27	30.8	34.7
Oman	11,120	115.6	9.84	20.0	37.5
Kuwait	31,640	99.6	18.53	34.3	12.2
Algeria	3,620	92.7	9.64	11.9	82.8
Tunisia	3,200	84.6	12.18	27.5	33.8
Jordan	2,850	86.6	8.46	26.0	27.9
Morocco	2,250	72.2	9.46	33.0	23.9
Egypt	1,580	50.6	14.64	16.7	45.4
Lebanon	3,620	34.0	17.88	22.5	11.1
Syria	1,760	33.2	17.12	16.8	38.2

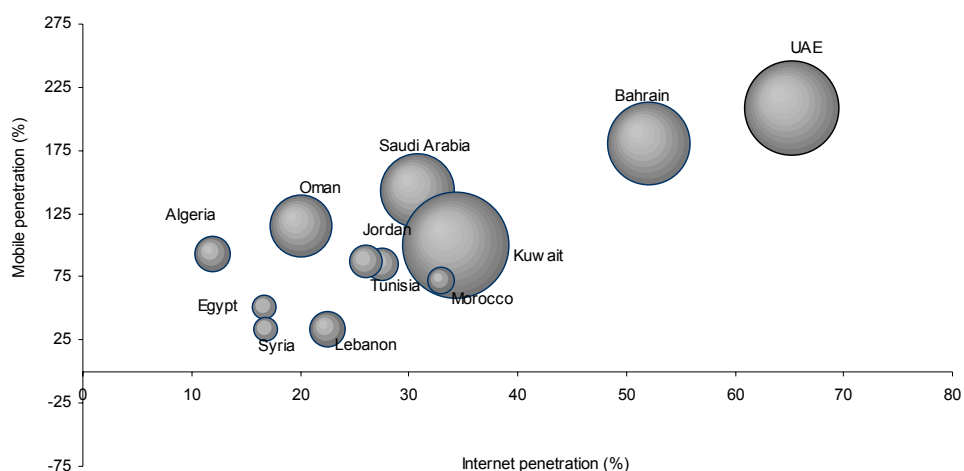
Source: ITU, Rasmala

According to ITU, the MENA countries with very high mobile penetration rates, essentially the GCC countries, are experiencing the so-called "double-SIM" effect.

According to ITU, different parameters that affect this trend are the high number of foreigners (professionals/ tourists) entering the country (for varying periods of time), individual countries' market structures (eg a high share of prepaid customers), the relatively late introduction of mobile number portability (eg 2006 in Saudi Arabia) and/or no portability at all (eg in the case of Bahrain, UAE).

Despite the fact that headline mobile penetration rates in the region have surpassed 100%, we see room for growth in the MENA telecommunications industry particularly in terms of high-speed data provision. As we can see from Chart 1, as mobile penetration rates in the MENA markets surpassed 100%, there was a notable parallel increase in internet penetration rates, which could be explained by the high spending power (signified by the size of the bubble in the chart, which corresponds to GNI/capita) that MENA subscribers enjoy and the increased sophistication of end-users.

Chart 1 : MENA Mobile & Internet penetration rates vs GNI/Capita (US\$) as at Dec 2008



Source: ITU, Rasmala

Capitalizing on the burgeoning growth of multimedia and high-speed data demand, the MENA region's telecom operators have been spending rather extensively on new network technologies, such as 3G and fibre optics infrastructure, to facilitate the provision of these value-added services. Broadband infrastructure has also become widely available in most of the MENA countries and subscribers are continuing to increase significantly.

According to a study by Delta Partners, 'Mobile Broadband in MEA: Promises opportunity but not a smooth ride', almost 70% of the broadband subscribers in the MEA (Middle East and Africa) will in fact be delivered over wireless networks by 2011, up from about 38% today. This will translate into a significant growth potential for mobile broadband in MEA, with subscribers expected to grow from 2.5m today to about 40m in 2011, which represents a market worth around US\$6bn in 2011 vs US\$1bn today.

The mobile cycle

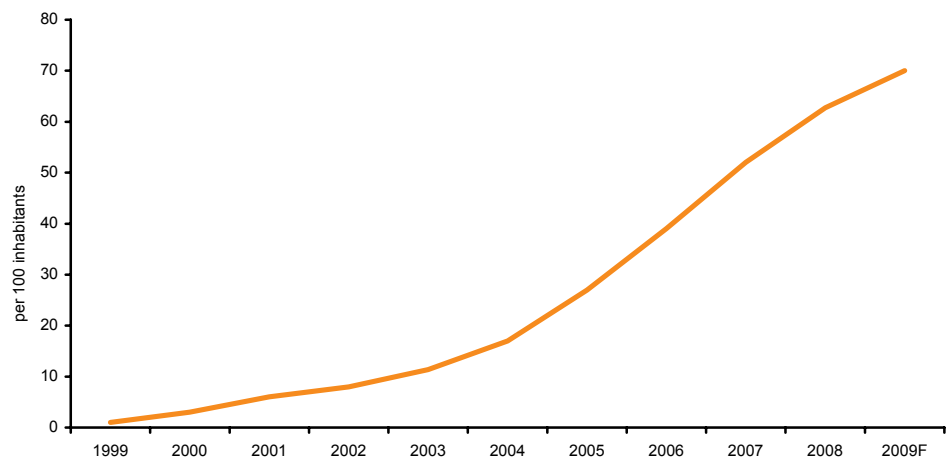
MENA mobile penetration accelerated in 2003-2006. We look at three key issues: 1) what mobile penetration can tell us about broadband penetration, 2) how value drivers change during the cycle, and, 3) how broadband will change the business models.

How the broadband product cycle impacts stock prices

MENA mobile penetration has come a very long way in just a few short years. According to ITU, mobile penetration tripled from 11.3% in 2003 to 39% in 2006. We see several reasons for this:

- Firstly, market liberalisation increased competition. Countries like the UAE and Saudi Arabia had incumbent monopoly operators that did not see any competition until 2005. The introduction of competition lowered overall costs and drove penetration higher as services became more affordable.
- Secondly, cheaper handsets and growing used-handset sales added increased the affordability of services. It is only recently that operators have started subsidising handset costs to customers. Today, a few operators subsidise handsets and a fairly sophisticated second hand market exists for devices.
- Thirdly, broader coverage areas allowed operators to sell services into a wider base of the population. As operators have expanded their coverage area, so the addressable market has expanded, resulting in higher penetration.

Chart 2 : MENA - growth in mobile subscriptions, Arab states penetration 2009



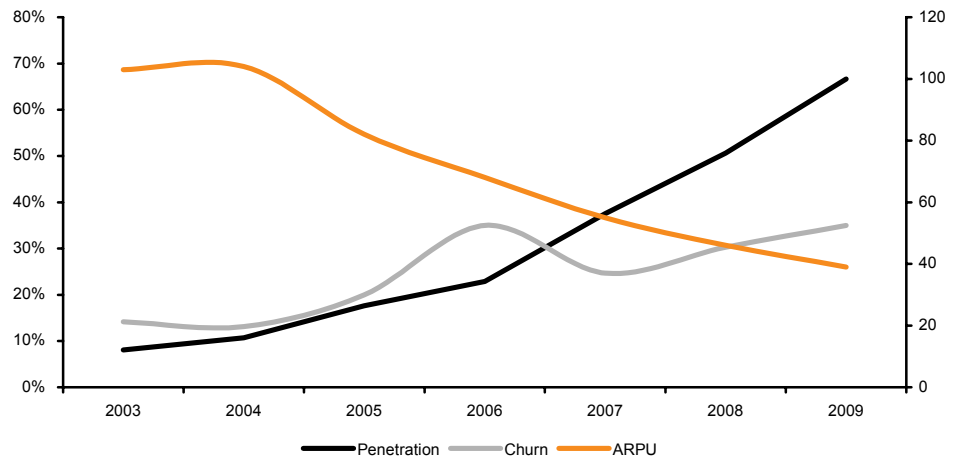
Source: ITU data, Arab States Report, 2009 Rasmala forecast

The impact of mobile penetration on value drivers

The chart below shows the impact that increased penetration has on ARPU and churn. We chose Mobinil for this illustration since it is one of the few companies in MENA that discloses churn.

In 2004, penetration in Egypt was around 11% and Mobinil's ARPU was US\$19 and churn was 13%. By 2009, penetration had reached 67% with Mobinil's ARPU down to US\$7 and churn up to 35%. Despite the drop in ARPU and rise in churn, the company's EBITDA margins fell only slightly to 48.7% from 49.3%. At the same time, the company's subscriber base grew to 25m from 4m.

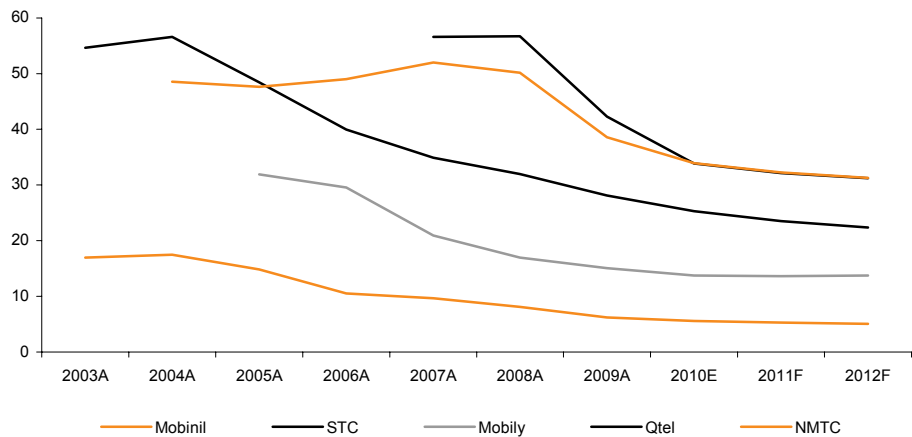
Chart 3 : Mobinil's ARPU and churn vs Egypt penetration



Source: Mobinil, ITU, Rasmala,

While penetration and ARPU figures vary across MENA countries, the trend has been the same. At this point in the cycle, we believe the incremental subscriber is price sensitive and less likely to contribute meaningfully to profitability. Operators will be faced with a decision whether the additional subscriber is NPV positive after taking into account subscriber acquisition costs.

Chart 4 : Local market ARPU (US\$) trends



Source: Company filings, Rasmala

Low penetration typically equates to high ARPU, as early adopters of new technology are less price sensitive. High penetration equates to lower ARPU and higher churn, driven by increased competition for lower ARPU and more price-sensitive subscribers.

We believe the mobile business is now at a point where churn will decrease and ARPU will begin to stabilise. We believe value-added services will entrench customers and make the decision to move provider more difficult. We expect to see a similar cycle as broadband services, both mobile and fixed, are rolled-out across the region.

We expect operators will become more disciplined with pricing and break the undercutting, tit-for-tat strategies that have been pervasive throughout the MENA region post-market liberalisation. After all, most MENA markets here have just two or three operators and, once one operator changes strategy, we would expect the other(s) to respond in kind.

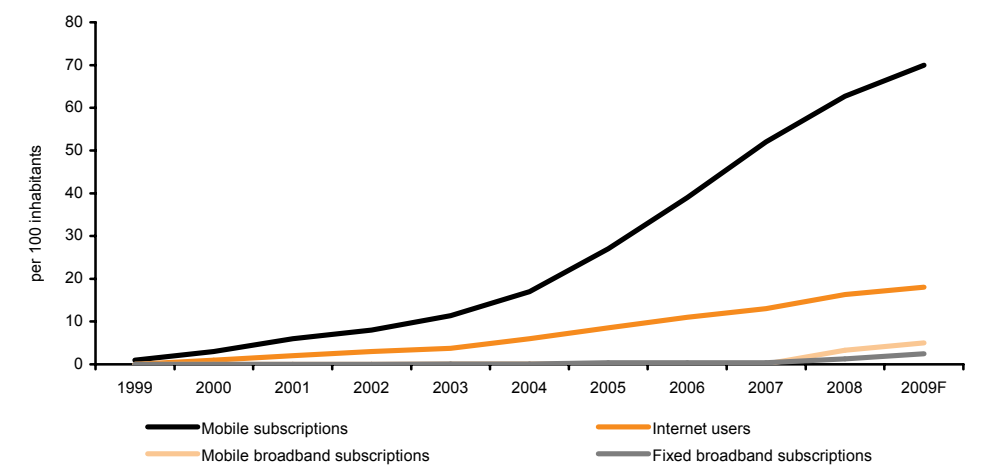
Broadband and its potential

MENA operators are uniquely positioned to take advantage of low broadband penetration. Given the lack of social and leisure networks in certain countries, broadband applications could fill this void for the younger generations in these countries.

MENA and broadband

We fully expect broadband to become a meaningful contributor to revenues, profitability and cash flows. With mobile penetration rates across most MENA countries above 100%, the question is where the next growth driver will come from. The short answer is, we believe, broadband.

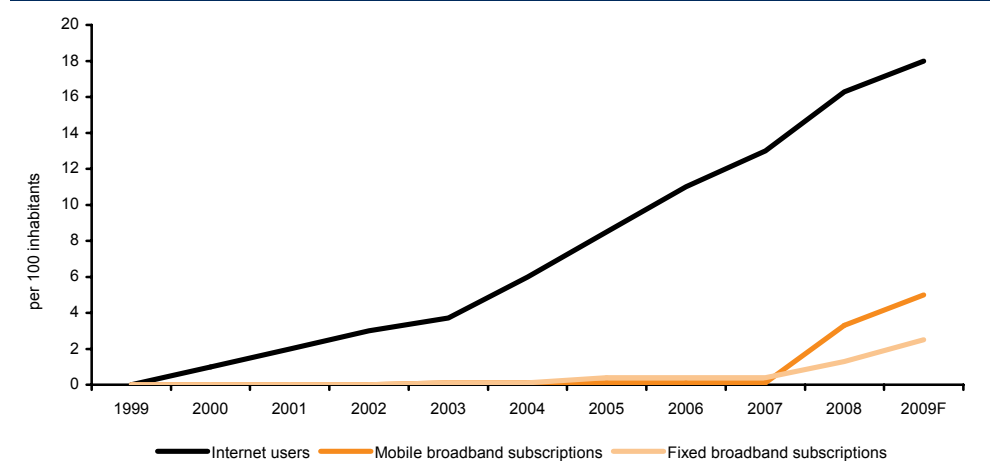
Chart 5 : MENA mobile internet, and mobile and fixed broadband penetration



Source: ITU data, Rasmala forecasts

According to ITU, mobile and fixed broadband penetration across Arab states ended 2008 at 3.3% and 1.3% respectively. While we are biased towards mobile broadband, it is too early to determine which technology will be the market leader. We believe the uptake of smart phones and the attractive proposition of mobile broadband will ultimately prove too compelling for fixed broadband to compete with.

Chart 6 : MENA internet, and mobile and fixed broadband penetration



Source: ITU Arab States Report, Rasmala forecasts

Mobile vs fixed broadband

The subtle differences between mobile and fixed broadband have significant implications on both the potential number of users and cash flows to the operators. Fixed broadband has much higher upfront costs and intangible frictional costs that make it less attractive to the operator and end-user. Routers installed in the home and service technician visits are some examples of the tangible and intangible frictional costs associated with the service.

One fixed line can support a family or household of users. The packages are typically priced at throughput rather than usage. Operators are unable to effectively monetise heavy users.

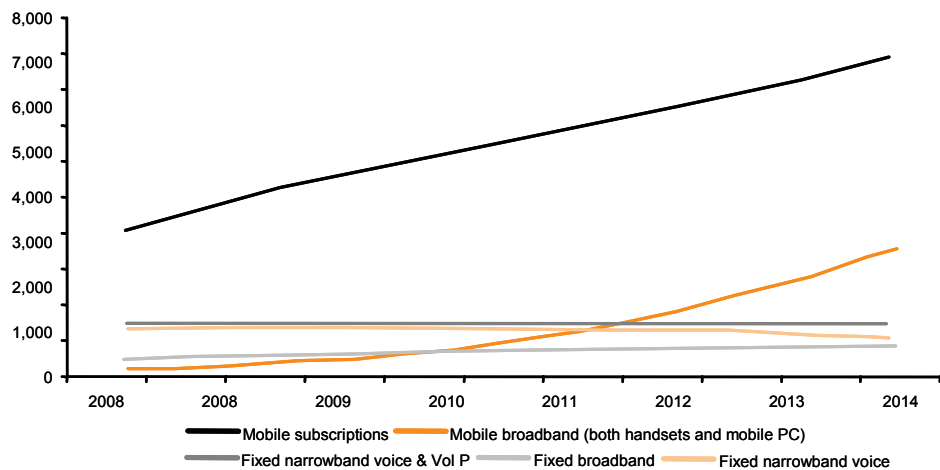
Mobile broadband does not require the tearing of roads or technician visits, and is generally charged on a usage basis. Each user can have own service arrangement compared to an entire family using one subscription, which would result in more subscribers.

Thus far, the data points we have support our view from a global and local perspective, that mobile broadband will ultimately become the delivery method of choice.

In June 2009, Nokia Siemens expected data traffic to exceed voice by 2011: "While Nokia Siemens Networks estimates that the number of bytes of mobile voice traffic will continue to grow steadily, the growing popularity of mobile broadband services and even machine-to-machine applications will create an exponential rise in the number of bytes of data traffic carried by mobile packet core networks worldwide. This will result in a yearly doubling of data traffic from almost 400 petabytes (400m gigabytes) a year in 2009 to almost 2,000 petabytes (2bn gigabytes) a year by 2011, bypassing the estimated volume of voice traffic (1,200 petabytes)" (source: <http://www.nokiasiemensnetworks.com/press/press-releases/mobile-data-outstrip-voice-traffic-2011>).

Nokia's June 2009 prediction was eclipsed six months later. On 23 March 2010, Ericsson reported that mobile data traffic had surpassed voice for the first time during December 2009. "This is a significant milestone with some 400m mobile broadband subscriptions now generating more data traffic than the voice traffic from the total 4.6bn mobile subscriptions around the world" (source: <http://www.ericsson.com/thecompany/press/releases/2010/03/1396928>).

Chart 7 : Ericsson presentation



Source: Ericsson

AT&T reports iPhone subscribers consume 273 MB of data every month, vs 54 MB for Blackberry and 150 MB for other smart phone devices. Apple recently reported that iPhone sales for the quarter ending 27 March 2010 reached 8.75m. With the introduction of the iPad and the future of machine-to-machine connectivity, we expect to see continued demand for mobile broadband subscriptions. This should create an opportunity for operators to capitalise on and capture.

We expect to see mobile services extend beyond handsets and smart phones to multiple devices including cars, washing machines, coffee makers, etc. This trend could have far reaching implications for the industry. Estimates for machine-to-machine connectivity range from 20bn-50bn devices (source: <http://www.nytimes.com/external/gigaom/2010/04/14/14gigaom-ericsson-sees-the-internet-of-things-by-2020-16209.html>).

MENA broadband penetration estimates

We have analysed broadband penetration from a number of angles. We gathered data on PC penetration and smart phone penetration to serve as guides. We also used an equation developed by Professor Frank Bass known as the Bass diffusion model (BDM).

In January 2010, Intel's general manager for the Middle East predicted PC sales would grow as a result of increasing connectivity and expected broadband penetration in the Middle East to triple over the following five years. He went on to point out that PC penetration rates in the region remained low, at around 20%, compared to the rest of the world. PC sales in the Middle East tripled during the past five years despite low broadband penetration. As broadband penetration increases, the PC market may well triple again over the next few years.

According to Gartner, consumer demand for smart phone technology across the Middle East is growing at over 50% annually and will result in around 18m mobile devices by 2010.

There are country specific initiatives that will help boost demand:

- Egypt, for example, introduced a 'PC for every home' initiative which targets low income families providing discounts of up to 50% on the price of hardware and which includes a monthly instalment plan.
- In the UAE, Etisalat plans to connect every home to its fibre network and, on 18 April 2010, announced the completion of its network upgrade to HSPA+, enabling mobile broadband speeds of up to 21 mbps for downloads and 11mbps for uploads. Khalifa Al Shamsi, SVP of marketing, said, "With the exponential growth of smart phones, application stores, mobile internet modems and 3G compatible devices, UAE residents are embracing wireless data and services like never before."
- Saudi Arabia has already released additional spectrum to support WiMAX. This move was done while simultaneously allowing for more competition with the issuance of additional licences in the country.

Bass diffusion model and quantifying our estimates

We have used the Bass diffusion model, developed by Frank Bass in 1969, to help develop a framework to forecast broadband penetration. Our work and discussions with practitioners suggest that the model is most useful when sales have peaked. Clearly, sales of broadband have not peaked so we have made an assumption that broadband will peak at least as fast as mobile. We believe this is a safe assumption since the industry is far more competitive at a much earlier point in the cycle.

The basic idea behind the Bass model is that technology adoption starts off slowly and rapidly accelerates as more users accept the technology. Adoption is shown to increase at an increasing rate for a period and then to level off as market saturation occurs, generating an s-shaped curve that represents cumulative adoption.

Since its introduction, the Bass formula has undergone a few modifications. The basis of the formula simplified is as follows:

$$Q_t = \left[p + q \left(\frac{A}{M} \right) \right] (M - A)$$

Where:

Q_t = number of adopters or unit sales at time t

p = coefficient of innovation, or a function of the attractiveness of the innovation to innovators

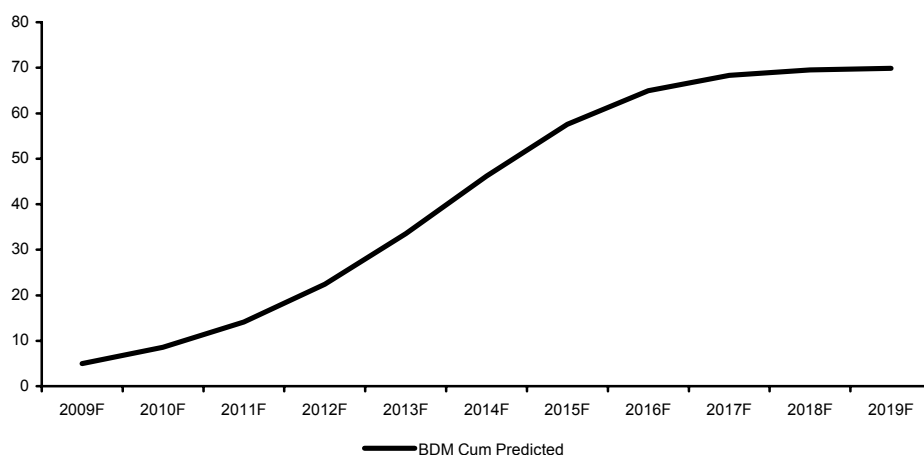
q = coefficient of imitation, ie, it expresses how quickly imitators will adopt based on the number of other people who have already adopted

M = market size, or ultimate number of adopters or unit sales, or maximum market penetration

A = cumulative number of adopters or unit sales to date

The main assumption we used was that the p and q coefficients were at least in line with the mobile industry. The conclusion of our work suggests that we are approaching an inflection point in terms of broadband penetration for the region. Using the BDM we formula we forecast penetration will reach 22.4% by 2012 and 57.6% by 2015.

Chart 8 : BDM cumulative MENA mobile broadband penetration



Source: Rasmala forecasts

Table 6 : Mobile broadband penetration

Year	Cumulative	Yearly change
2008	3.3	2.9
2009F	5.0	1.7
2010F	8.6	3.6
2011F	14.2	5.6
2012F	22.4	8.3
2013F	33.6	11.1
2014F	46.2	12.7
2015F	57.6	11.4
2016F	65.0	7.4
2017F	68.3	3.4
2018F	69.5	1.2

Source: Rasmala, BDM forecast (ITU for Arab states historical data)

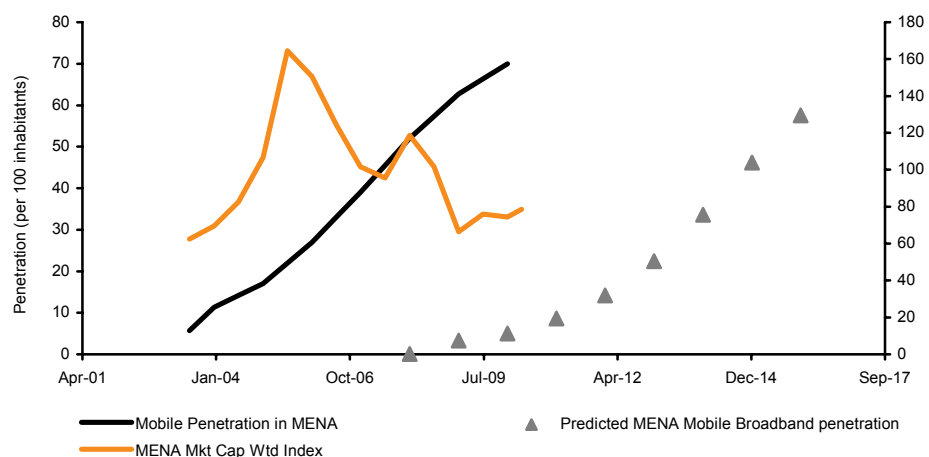
At some point between 2011 and 2012 , we expect the broadband cycle to hit the sweet spot. Until then we believe early adopters will contribute both higher revenues and profits to operators. We expect the market to begin discounting It was exactly six months after that point that the MENA telecommunications index peaked. Two years earlier was the best time to accumulate those stocks and we believe the cycle will repeat itself with the new mobile broadband cycle.

Stocks have not priced in mobile broadband

Most MENA telco operator stocks do not appear to have the growth of mobile broadband priced in. We expect this to change quite quickly given the cash flow potential and with penetration looking set to increase at a much faster rate. We predict that, given a US\$50 ARPU for broadband and mobile broadband services, companies could capture 3-6x the EBITDA that mobile subscribers are currently contributing as we are still in the early adopter phase of penetration.

Using Bloomberg estimates, we created a market cap-weighted index comprised of STC, Q-Tel, Zain Kuwait, Mobinil and Etisalat to illustrate how stocks traded during the voice cycle and overlaid our expected mobile broadband penetration rate. Our Buy-rated stocks are valued at 5.3x 2009 EBITDA, implying investors are getting a free call option on broadband.

Chart 9 : Our MENA telco index vs mobile and mobile broadband penetration



Source: Bloomberg, Rasmala forecasts

We prefer stocks which have less downside mobile ARPU potential and which look best positioned to reap the benefits of mobile broadband growth.

Conclusion

In conclusion, we expect to see increased consolidation in the industry at higher acquisition prices going forward, given the scarcity of M&A opportunities in the telecommunications industry. Moreover, we believe that cash-rich MENA telecom operators will be playing a larger role in reshaping the industry.

Furthermore, particularly in the MENA region, we believe data will become the growth driver for the overall telecom industry and data revenue will start constituting a larger bulk of overall incremental revenues and profits.

Most MENA telco operator stocks do not appear to have priced in the potential for mobile broadband growth; we expect this to change. We prefer stocks that have less potential downside in mobile ARPU and that look best positioned to reap the benefits of mobile broadband growth.

Egypt telecom market overview

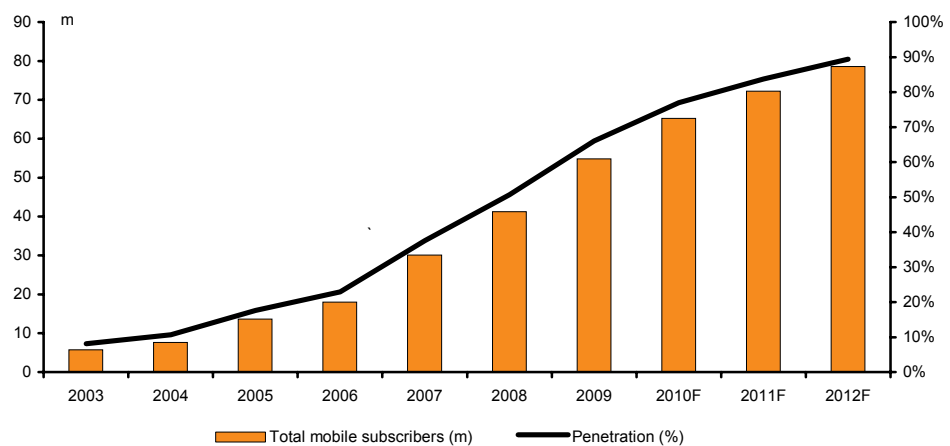
Competition remains intense in the Egyptian mobile market, and there is a prevalent fixed-to-mobile substitution trend.

Mobile market

Having paid US\$2.9bn for a mobile licence in 2007, UAE-based Etisalat became the third mobile operator in the Egyptian mobile market, ending the Mobinil and Vodafone duopoly. Etisalat's mobile licence included a 3G spectrum and a monopoly-breaking international voice gateway.

The company's entrance into the Egyptian mobile market was a catalyst for subscriber growth, with annual net additions rising to about 12m pa vs a historical average of 4m.

Chart 10 : Egypt mobile subscriber and penetration



Source: Company filings, Ministry of Communications, ITU, Rasmala forecasts

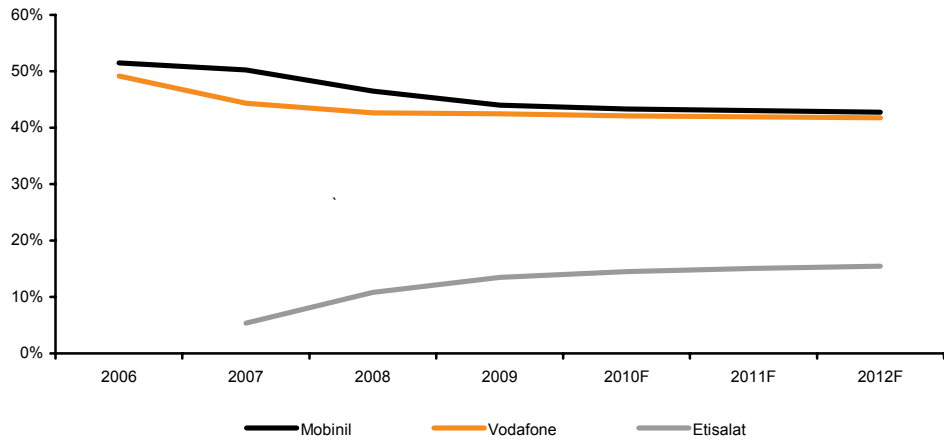
Competition within the Egyptian market has been quite fierce, with the three operators aggressively marketing to capture share. All three players in the market – Mobinil, a subsidiary of Orascom Telecom Holding and France Telecom; Vodafone Egypt, a subsidiary of Vodafone Global and Telecom Egypt; and Etisalat Egypt, a subsidiary of UAE-based Etisalat – have rolled out several marketing campaigns to attract new customers and to defend their existing market share.

We believe the operators' market positions will determine the type of users each attracts. Mobinil is established as the brand for the masses. Vodafone markets itself as the global quality brand. Etisalat Egypt is attempting to position itself as the leading technology provider within the Egyptian mobile market by upgrading its network infrastructure from 3G to 3.75G.

Possibility of a fourth mobile licence

The NTRA stated in January 2010 that it may licence a fourth mobile operator if the current three mobile firms do not comply with pricing regulations, but it has released no further details.

Chart 11 : Mobile market share of operators (based on active subscriber base)



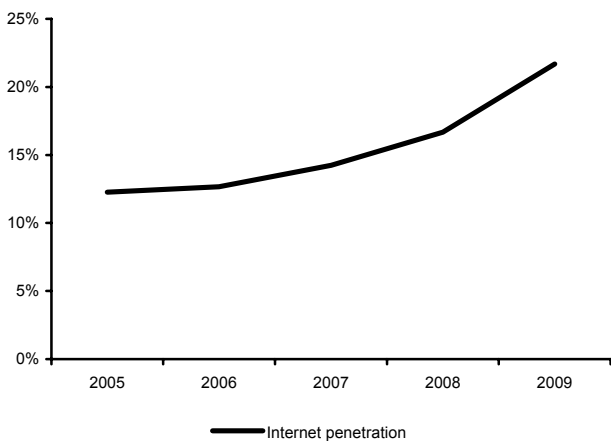
Source: Company filings, Rasmala forecasts

Internet market and broadband

Given the continued rollout of competitive marketing plans ranging from cross-net promotions and favourable on-net tariff schemes to fixing monthly post-paid fees for unlimited minutes usage, we still see anecdotal evidence of significant growth opportunities within the Egyptian market, particularly with mobile broadband becoming more popular for business end-users and young people.

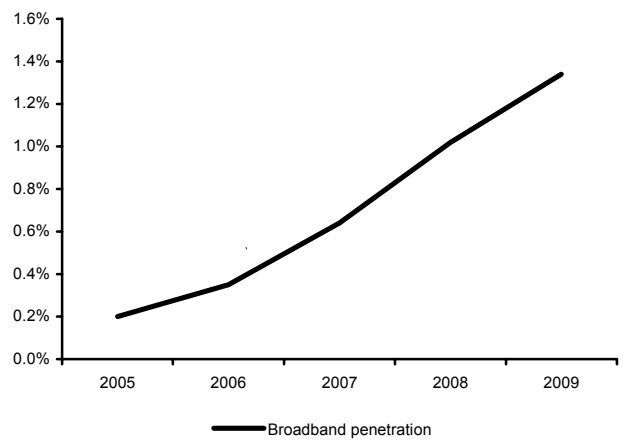
We still believe the broadband story in Egypt is largely underrated by the market, mainly because the contribution of the broadband business to overall revenue has remained very low so far. However, we strongly believe declining prices of personal computers will drive the uptake of broadband services in the same manner as declining prices of mobile handsets drove the increase in mobile penetration. The Egyptian Minister of Communication and IT recently announced a plan to increase broadband penetration fourfold within the next four years to 4m households, with total investment expected to reach US\$1bn over that period.

Chart 12 : Egypt Internet penetration



Source: NTRA, Rasmala

Chart 13 : Egypt fixed broadband penetration



Source: NTRA, Rasmala

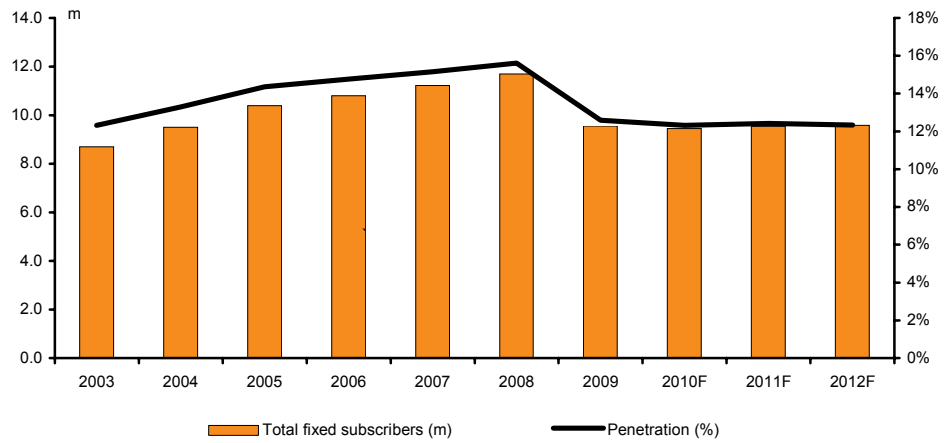
Fixed market

Since its inception, Telecom Egypt has held a fixed-line monopoly in the Egyptian telecoms market. Technically, the fixed-line business and international gateway service have been open to competition since 1Q08 and the end of 2005, respectively; however, no other players have entered the market, allowing Telecom Egypt to maintain its monopoly. The Egyptian NTRA had planned to offer a second fixed-line licence in 2008, but the subsequent global economic crisis and a lack of interest delayed the move.

However, after the second fixed-line licence offer was postponed, the NTRA offered several other licences, which included the right to own an international gateway (currently only Etisalat and Telecom Egypt own one) and two new triple-play services licences for new housing compounds.

Given the NTRA's recent rollout of new telecom licences, we believe the possibility of offering a 'traditional' second fixed-line licence has diminished significantly. Accordingly, we believe Telecom Egypt will maintain its monopoly for the foreseeable future.

Chart 14 : Egypt fixed subscriber and penetration



Source: TE, Rasmala forecasts

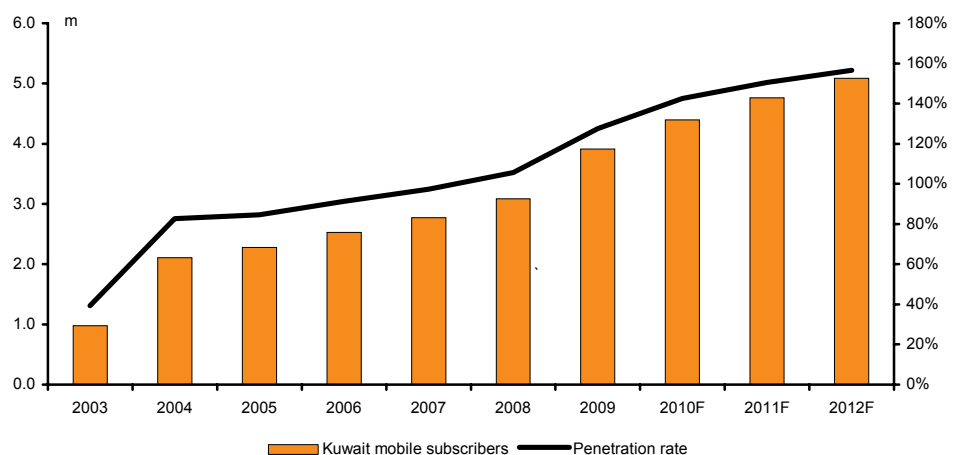
Kuwait telecom market overview

GSM services began in Kuwait in 1994, and it was one of the first countries in the GCC region to offer these services. The market was originally dominated by the state incumbent, Zain, which held a monopoly until 1999 when Wataniya Telecom was formed.

Mobile market

In September 2008, a third mobile operator, Viva, commenced operations and broke the existing duopoly. Viva is a subsidiary of the Saudi Telecom Company. Prior to Viva's entrance, Wataniya Telecom's market share was around 42.6% with Zain the remaining 57.4%. Wataniya and Zain benefited from the duopoly as both incumbents leveraged their market positions and expanded regionally. Zain is the leading player in Kuwait, while Wataniya remains the second. However, Viva's entry is likely to increase churn as subscribers cross over to the new entrant. Price-based and promotions-based competition has already increased pressure on margins as Zain reported an annual decline in revenues in the third quarter of 2009 (Zain's latest financials) while Wataniya also posted an annual revenue decline in the last quarter of 2009 (Wataniya's latest financials). Furthermore, Zain reported falling net profit margins although Wataniya improved its performance on this front. As of 3Q09, Zain's leading market share had been diluted to 49% from 57% a year earlier, with Wataniya and Viva commanding a market share of 38% and 13%, respectively.

Chart 15 : Kuwait total mobile subscribers and penetration rate



Source: Company data, ITU, Rasmala forecasts

Fixed-line market

Although they were the first movers in the mobile market, fixed-line service operations remain the responsibility of Kuwait's Ministry of Communication.

According to the ITU, Kuwait had about 541,000 fixed telephone lines or 18.5 fixed lines per 100 inhabitants in 2008. Fixed lines have not matched the growth in the mobile segment, with a five-year (2003-08) CAGR of just 2.1% vs mobile with a 15.4% CAGR.

Broadband market

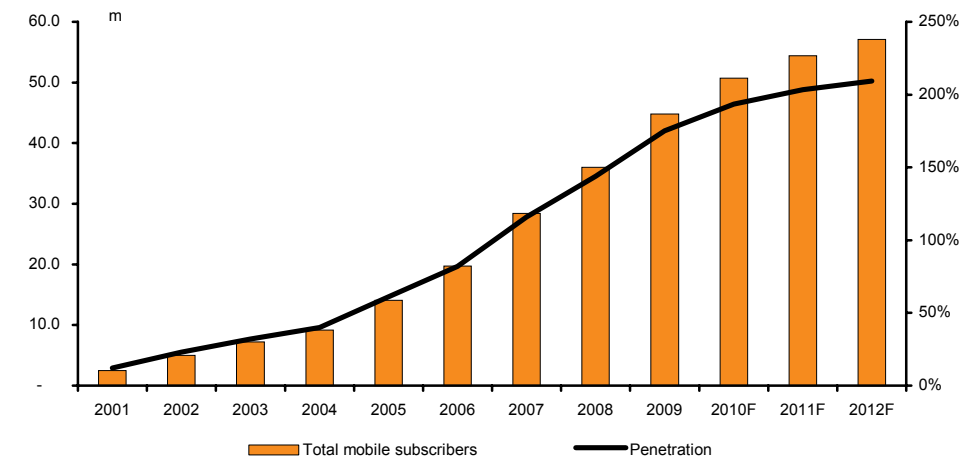
Kuwait's internet market comprises around 283,200 subscribers, while broadband subscribers stood at approximately 40,000 in 2008, according to the ITU. The respective penetration levels are 10.5% and 1.4%. The increased competition – from Wataniya in 1999 and Viva in 2008 – has helped boost this segment, with data services identified as a growth segment while the mobile segment reaches maturity. Innovations that have helped broadband penetration include improvements in the network. One such instance was in 2005 when Wataniya, with Nokia's help, began upgrading its network to support HSPA (High Speed Packet Access), which would open up broadband internet access at speeds of over 2Mbps. In 2006, Wataniya launched HSDPA (High Speed Downlink Packet Access), an upgraded version of HSPA. Such innovations compelled other operators to step up and open the market to a wide variety of new high-bandwidth services.

Saudi telecom market overview

According to the Saudi Communications and Information Technology Commission (CITC), there were about 45m active mobile subscribers in the country as at end-2009, translating into a 175% market penetration rate, up from 36m at end-2008.

Mobile market

Chart 16 : Saudi Arabia – mobile subscribers and penetration

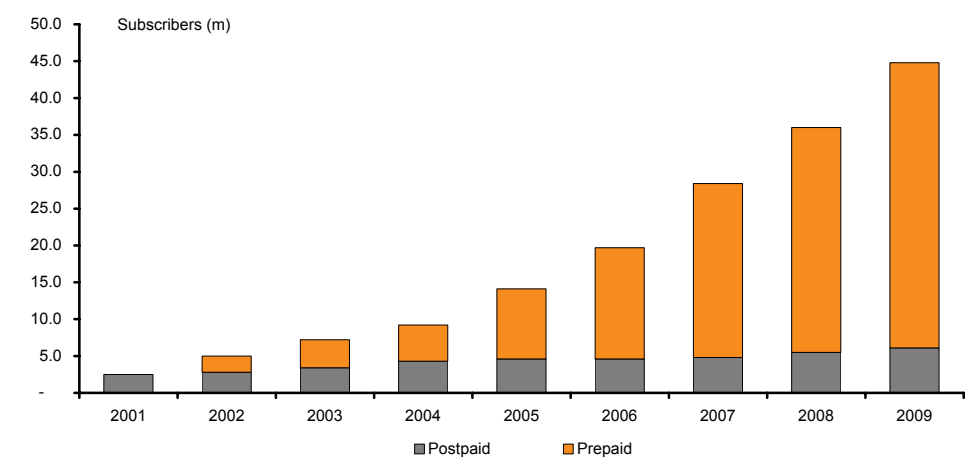


Source: Company data, CITC, ITU, Rasmala forecasts

As in other MENA markets, pre-paid mobile subscribers account for the majority of users and totalled 39m at end-2009, with post-paid customers accounting for the remaining 6m.

As in the UAE, Saudi Arabia defines an 'active' subscriber as one that has made or received a call or text message or completed any other mobile-related activity in a 90-day period.

Chart 17 : CITC – post- and pre-paid subscribers

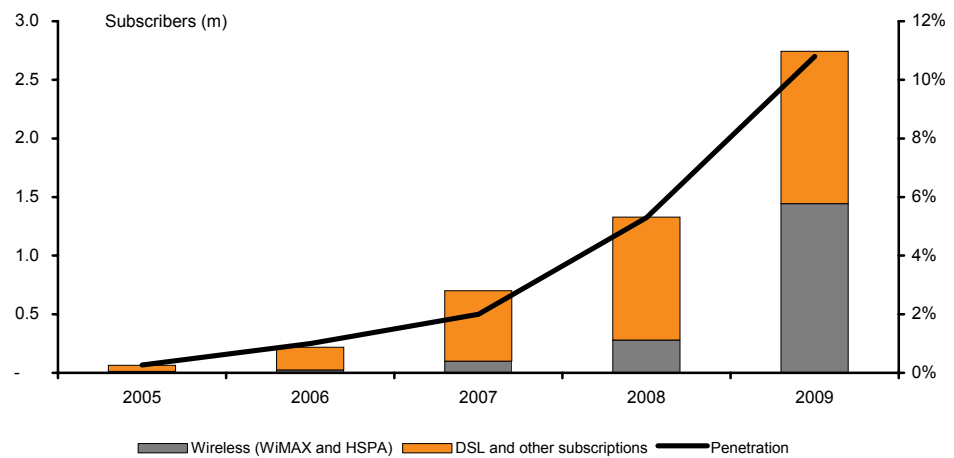


Source: CITC, Rasmala

The telecom landscape in Saudi Arabia underwent a major change within a short period of time. STC, Saudi's incumbent operator, had a 100% market share until 2006, when Etihad Etisalat (Mobily) entered the market. A third mobile licence was awarded to Zain Saudi, a subsidiary of Zain Group (formerly MTC), which launched its operations in August 2008. Competition in the market remains fierce, with Zain making every effort to capture subscribers. Currently, Zain and Mobily's pricing and rates are the same. We believe the real differentiator will be the quality of service.

Although the headline mobile penetration rate reached 175% at the end of 2009, we still see room for growth in the Saudi telecom industry, particularly in terms of high-speed data provision. We believe the market is on the cusp of a broadband boom, despite the ongoing sector liberalisation.

Chart 18 : CITC – broadband penetration



Source: CITC

According to the CITC, the number of broadband subscribers grew from 64,000 in 2005 to over 2.75m at the end of 2009, equivalent to a population penetration rate of 10.7% and a household penetration rate of around 32%.

Of the competing technologies, HSPA and Wimax grew from 300,000 users at end-2008 to 1.4m at end-2009, while the number of DSL subscribers grew to 1.3m from 1.1m over the same period. Overall, mobile broadband now makes up 53% of this market and its share is growing fast.

Table 7 : Saudi Arabia – products and pricing

Broadband (SR/mth)	1GB	5GB	Unlimited	
Mobily	100	200	350	
Zain	100	200	350	
STC	100	200	350	

Postpaid (SR)	SR/min voice within network	SR/min voice outside network	SR/min video within network	Monthly fee
Mobily (Kathy)	0.45	0.45	na	20.00
Zain (10/10 package)	0.45	0.45	0.80	20.00
STC (Al Jawal 25)	0.45	0.50	0.80	25.00

Source: Company data

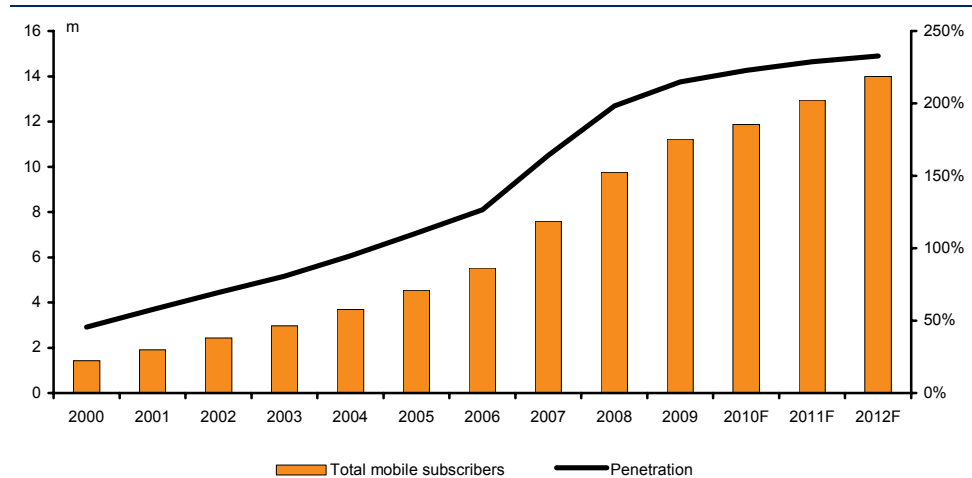
UAE telecom market overview

The UAE has one of the most developed telecom markets and technologically advanced telecom infrastructures in the Gulf, with fixed, mobile and internet penetration rates of 29.9%, 215%, and 26.9%, respectively, as of December 2009.

Mobile market

Etisalat, the UAE's first major telecoms player, began operations in 1976 and has a 69% market share. Its monopoly was broken when Du was granted a licence at end-2005. In March 2010, the Telecommunications Regulatory Authority (TRA) awarded Al Yah Satellite Communications Co (Yahsat) a 10-year satellite services licence for the installation, operation and management of a public telecommunications network and provision of satellite telecommunications services in the UAE. Yahsat is a wholly owned subsidiary of the Mubadala Development Company.

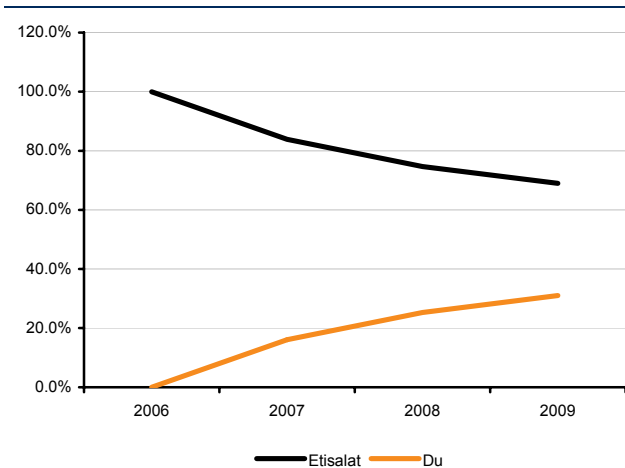
Chart 19 : UAE mobile subscriber and penetration



Source: Company filings, TRA, ITU, EIU, Rasmala forecasts

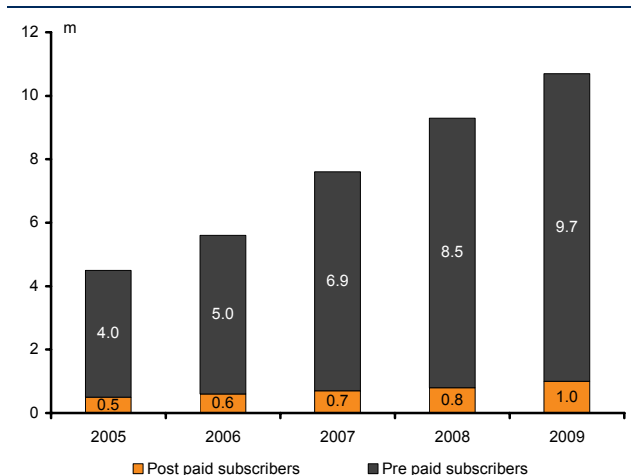
Etisalat's UAE mobile telecom monopoly faced competition for the first time in 2007, when Du became operational. Since then, Du has enjoyed the majority of net subscriber additions, acquiring almost 70% of total net mobile additions in the UAE market at the end of 2009. We expect this trend to continue, with Du maintaining the upper hand in net subscriber additions given its medium- to long-term focus on building its postpaid subscriber segment and retaining its existing subscriber base. By year-end 2009, Du had a 31% market share. With the introduction of mobile number portability, we believe that Du may see additional subscribers.

Chart 20 : Etisalat and Du market share



Source: Company filings, Rasmala

Chart 21 : Post-paid and pre-paid subscriber



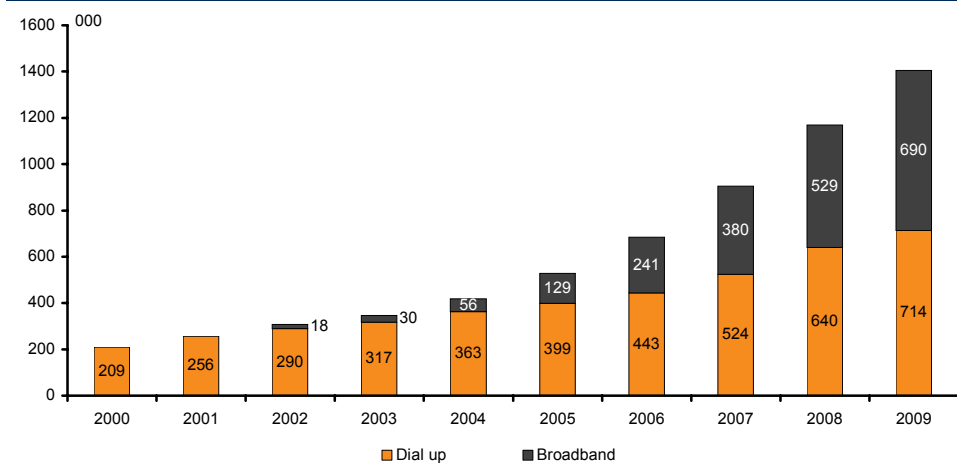
Source: Company filings, TRA, Rasmala

We believe the UAE telecom operators have benefited from the country's status as a regional business hub. Both Dubai and Abu Dhabi international airports handled nearly 50m passengers in 2009. While many of these passengers may not be residents, some have businesses in the area and are subscribers. This would explain why so many users are pre-paid rather than post-paid, as the latter requires a resident visa. Active subscribers in the UAE are defined as any subscriber that has made or received any call, text or SMS in the preceding 90 days. Theoretically, someone could fly over Dubai, receive a welcome text and be back in the subscriber pool.

Given the reduction in net additions to the total subscriber base, we believe the market is becoming saturated. Both Etisalat and Du stated in their latest financial reports that they plan to enhance their platforms and add value for current customers by providing triple-play and quad-play services.

At present, operators offer bundled services through their fixed-line services, ie broadband, IPTV, and fixed telephony to make their services more cost effective for consumers.

Chart 22 : Dial-up and broadband

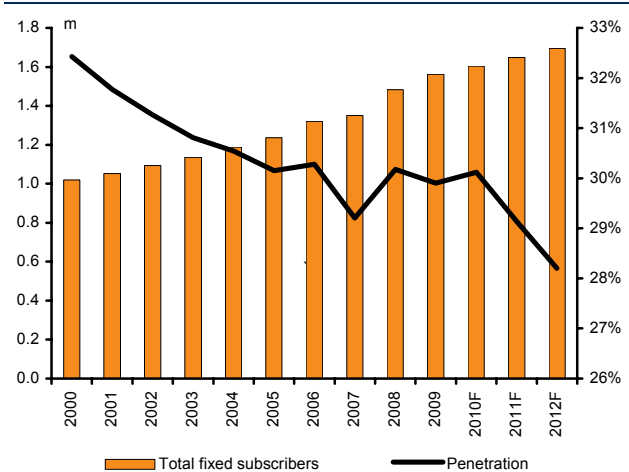


Source: Company filings, TRA, Rasmala

The UAE internet market had a CAGR of 27.7% over 2005-09 and currently has a penetration level of c27%. The UAE still has a higher percentage of dial-up users in terms of its total internet users than neighbouring regions, accounting for 51% of the total number of internet subscribers. We believe this trend will change to being largely broadband activations in the longer term. We believe there is an opportunity for operators to exploit VoIP once the UAE Telecommunications Regulatory Authority's (TRA) revised VoIP regulatory policy takes effect.

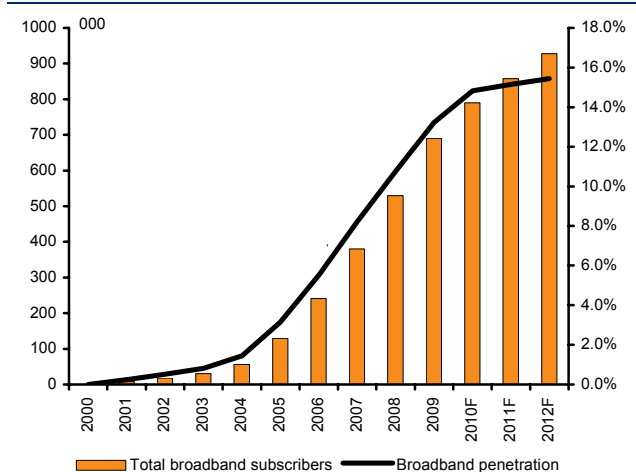
Until now, both UAE's fixed-line and internet markets have been restricted to specific operating zones. Hence, Etisalat was not allowed to extend its fixed-line services, including IPTV, internet or broadband services, to some parts of Dubai, while Du could operating in these areas only.

Chart 23 : UAE fixed subscriber and penetration



Source: Company filings, TRA, Rasmala

Chart 24 : UAE broadband and penetration



Source: Company filings, TRA, Rasmala

However, the UAE's Telecommunications Regulatory Authority (TRA) decided to lift these restrictions and allow nationwide access to both operators. To that end, an ongoing infrastructure-sharing agreement is in the final stages of negotiations that will allow both operators access to zones from which they were previously restricted. Management guidance from both operators has indicated that nationwide coverage could be possible by 2011.

Qatar telecom market overview

Qatar has a population of 1.55m, and in 2009 reported the highest per capita income in the MENA region of US\$73,083.

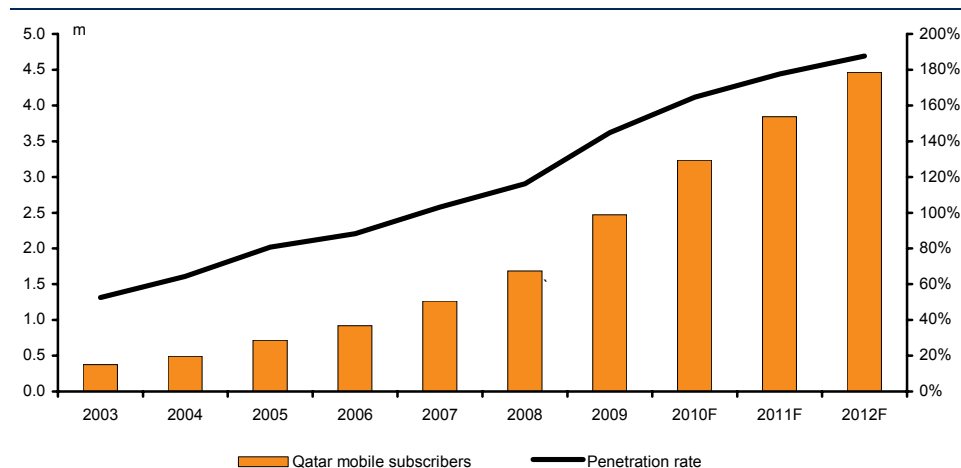
Mobile market

The Supreme Council of Information & Communication Technology (ictQATAR) is the telecommunications regulator in Qatar. In 1998, the government provided Qatar Telecom legislative concessions to be the exclusive provider of domestic and international telecoms services, in return for which Qatar Telecom was required to pay an annual fee equivalent to 25% of its total net income attributable to shareholders. However, the monopoly structure of the sector ended in 2009 with the entry of Vodafone, at which point the fee was reduced by half to 12.5% of total net income attributable to shareholders.

The award of the second mobile licence in 2008 and the consecutive award of the second fixed-line licence to Vodafone Qatar ended Q-Tel's monopoly in telecommunication services and simultaneously marked the liberalisation of the last monopolised mobile market in the GCC.

With the entry of Vodafone, Qatar Telecom's subscriber market share fell to 86% in 4Q09 from 100% in 4Q08. Vodafone currently offers mobile GSM 3G services along with mobile broadband services. Vodafone has paid QR7.7bn for a 20-year licence to the government of Qatar. Accordingly, within the first three years of the licensing agreement, Vodafone is required to offer 100% of the population 2G (GSM) and 2.5G (GPRS/EDGE) coverage and 90% of the population 3G (UMTS) and 3.5G (HSPA) coverage.

Chart 25 : Qatar total mobile subscribers and penetration rate



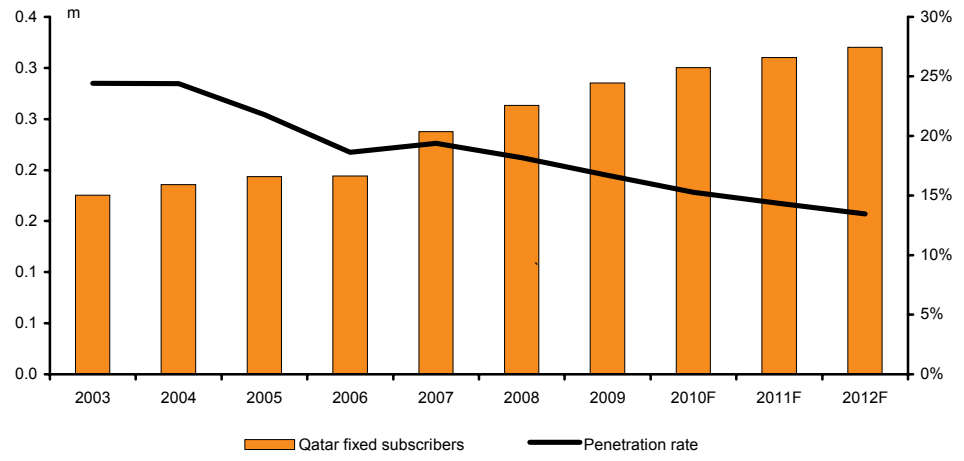
Source: Company data, ictQatar, ITU, Rasmala forecasts

The agreement also requires that Vodafone and Qatar Telecom implement mobile number portability, enabling users to change the service provider without changing their phone numbers. Vodafone and Qatar Telecom have also agreed to share Qatar Telecom's external radio base stations and associated costs. Nevertheless, Vodafone has permission to operate its own international gateway.

Fixed-line market

Fixed-line penetration in Qatar reached 17% as of end-2009. At present, Qatar Telecom is the sole player in the fixed telephony market. However, after Vodafone was awarded a fixed-line licence from ictQatar in September 2008, it has expressed plans to enter the fixed-line market at the end of 2010.

Chart 26 : Qatar total fixed-line subscribers and penetration rate



Source: Company data, ictQatar, ITU, Rasmala forecasts

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

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

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at <http://research.rbsm.com>

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