

# Telecommunications

## Chasing mobile broadband share

We believe Oman's two telecom operators – Omantel and Nawras – are poised to capitalise on the mobile broadband surge that we anticipate, given a favourable demographical profile and the current IT duopoly.

### Key recommendations

Company	Omantel	Nawras
<b>Recommendation</b>	<b>Buy</b>	<b>Hold</b>
Current price (RO)	1.20	0.73
Target price (RO)	1.33	0.77
Potential upside/downside (to target)	11%	6%
<b>EV/subscriber in US\$</b>		
2011F	813.5	574.9
2010F	879.6	640.0
2009	1,005.9	713.5
<b>EV/EBITDA multiple</b>		
2011F	4.3x	5.2x
2010F	4.5x	5.4x
2009	4.5x	6.2x
<b>PE multiple</b>		
2011F	8.8x	8.1x
2010F	8.2x	9.4x
2009	7.2x	11.4x

Source: Bloomberg, Rasmala forecasts

### Favourable demographics likely to drive broadband uptake in Oman

A favourable demographic profile (almost 40% of Oman's population is under the age of 14), a relatively high PPP/capita of US\$23,470 (Source: *World Bank stats, 2009*) and Oman's low Internet penetration rate (about 4% at end-2009) are all reasons to expect strong high-speed data uptake in the Omani market.

### We believe the two operators have an equal chance of grasping broadband share

The wireless penetration rate exceeded 140% at end-2009 and the mobile market shares of both operators have reached stable levels, so we believe the next battleground will be the nascent broadband market. We expect mobile broadband to trump fixed broadband service offerings despite quality concerns about mobile vs fixed in the short to medium term. We believe Omantel and Nawras have an equal chance of taking broadband market share, but it depends upon who will be more aggressive in infrastructure rollout, pricing and branding.

### Omantel: Buy, with a 12-month target price of RO1.33 per share

We initiate coverage of Omantel with a Buy rating and 12-month target price of RO1.33 per share. We forecast earnings will deteriorate going forward, so the main reason for our Buy rating is the cap management has put on capex, which we believe will lead to higher free cash flow and, in turn, stronger dividend yield.

### Nawras: Hold, with a 12-month target price of RO0.77 per share

We initiate coverage on the recently listed Nawras with a Hold rating and a 12-month target price of RO0.77/share. We believe it offers no significant premium relative to peers in terms of PEs, and with no significant dividends distribution likely in the next couple of years, due to capex for infrastructure rollout, we rate it a Hold.

**Important disclosures can be found in the Disclosures Appendix.**

**Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.**

### Analyst

**Shrouk Diab**  
 United Arab Emirates  
 +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](http://www.rasmala.com)

# Contents

---

<b>Executive summary</b>	<b>3</b>
<hr/>	
<b>Oman telecom industry overview</b>	<b>4</b>
The entry of new players into the Omani telecoms industry has increased competition. Mobile, the largest telecoms segment, saw in late 2009 the arrival of resellers, who we believe are set to challenge the dominant positions of Omantel and Nawras.	
<hr/>	
<b>Company profiles</b>	<b>9</b>
Oman Telecoms	9
Nawras	21

---

# Executive summary

**Omantel and Nawras are aggressively pursuing broadband services to capitalise on the broadband surge that we anticipate given a shrinking domestic wireless revenue pool. We initiate coverage of Omantel with a Buy and of Nawras with a Hold.**

## **Demographics play a key role in industry growth**

As we have seen in the Gulf Cooperation Council (GCC) region in particular, with mobile penetration rates exceeding 100%, high-speed data has been key for operators' growth. At end-2009, Oman had a mobile penetration rate of almost 140%, while Internet penetration was only about 4%.

**Despite high mobile penetration rates, demographics boost growth in other areas**

All around the world, young people have been the primary driver of technology uptake. Oman has a favourable demographic profile in which almost 40% of its population is under the age of 14. Additionally, it has a relatively high PPP/capita of US\$23,470 (Source: *World Bank stats, 2009*), which we also see as a reason to expect strong high-speed data uptake.

## **Domestic competition intensifying with the entry of MVNOS**

The entry of new players into the Omani telecoms industry has increased competition. Mobile, the largest telecoms segment, has seen the arrival of mobile virtual network operators (MVNOS), otherwise known as resellers, who are set to challenge the duopoly of Omantel and Nawras. The competitive landscape in the fixed-line and Internet services space, once a monopoly of Omantel, will also change following the entry of Nawras.

## **We expect mobile broadband to trump fixed broadband services**

We believe the next battleground for both operators will be the nascent broadband market. Moreover, we expect mobile broadband to trump fixed broadband service offerings because we firmly believe the fixed-to-mobile substitution trend will have an impact in broadband similar to the one we saw in mobile and fixed voice services. The main hurdle we see in the short to medium term is mobile quality.

**Mobile broadband most exciting area for growth for Omantel and Nawras**

## **Both operators have an equal chance of grasping the broadband market**

We believe Omantel and Nawras have an equal chance of grabbing share of the broadband market, as both are building network infrastructure to accommodate the expected substantial demand for broadband services. However, we have still to see which will be more aggressive in infrastructure rollout, pricing and branding.

## **Omantel: Buy, with a 12-month target price of RO1.33 per share**

We initiate coverage of Omantel with a Buy rating and a 12-month target price of RO1.33 per share. We note that Omantel's total mobile broadband subscriber base had reached 156,000 at end-September, less than a year after the company launched its services, vs 43,000 fixed-line broadband subscribers. This trend is as we would expect. We forecast earnings will deteriorate going forward, so the main reason for our Buy rating is the cap management has put on capex, which we believe will lead to higher free cash flow and, in turn, stronger dividend yield.

## **Nawras: Hold, with a 12-month target price of RO0.77 per share**

We initiate coverage on the recently listed Nawras with a Hold rating and a 12-month target price of RO0.77 per share. We believe it offers no significant premium relative to peers in terms of PEs, and with no significant dividends distribution likely in the next couple of years, due to capex for infrastructure rollout, we rate it a Hold.

# Oman telecom industry overview

The entry of new players into the Omani telecoms industry has increased competition. Mobile, the largest telecoms segment, saw in late 2009 the arrival of resellers, who we believe are set to challenge the dominant positions of Omantel and Nawras.

## Oman regulatory framework

Oman's Telecommunications Regulatory Authority (TRA) offers three classes of licence depending on the range of services offered:

- **Class 1** allows the licence-holder to set up or operate public telecom networks, set up or operate international telecom infrastructure or offer public telecom services or international access services that require the use of national resources (eg, frequency);
- **Class 2** allows the licence-holder to provide public telecom services that depend on using the network of a Class I licensee; and
- **Class 3** allows the licence-holder to set up or operate private telecom networks or services not connected to the public network. These licences are issued to private network owners/service providers who meet qualifying criteria set by the TRA for a duration not exceeding five years.

Operators who hold a Class I licence must pay an annual royalty fee of 7% of revenues (previously 12%) and must comply with network coverage obligations in addition to meeting Omani employment obligations.

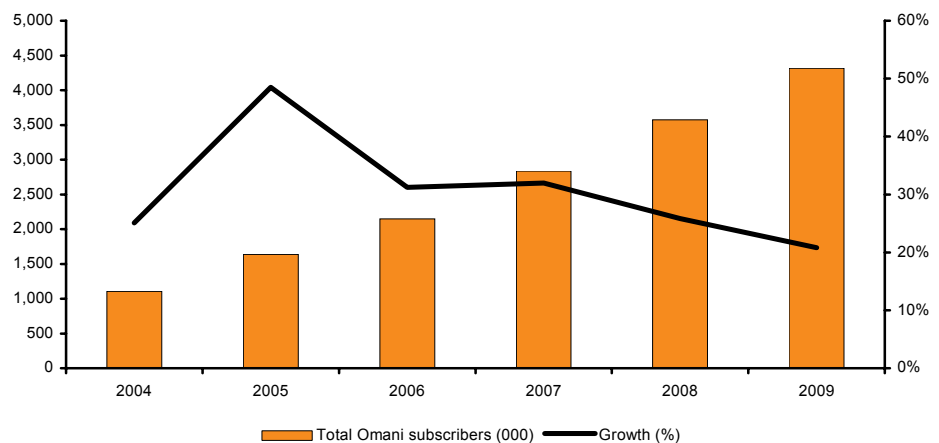
## Oman telecom market snapshot

The Omani telecoms industry (mobile, fixed-line and Internet) has grown considerably since 2004. The total number of Omani telecom subscribers has nearly quadrupled in five years, growing at a 32% CAGR in 2004-09.

Mobile market has started to reach saturation levels

That said, 2010 has brought a noticeable decline in the subscriber growth rate, mainly due to saturation of the mobile market (138% penetration in 2009), reduced demand for fixed-line services (despite low penetration rates) and very low penetration for Internet services.

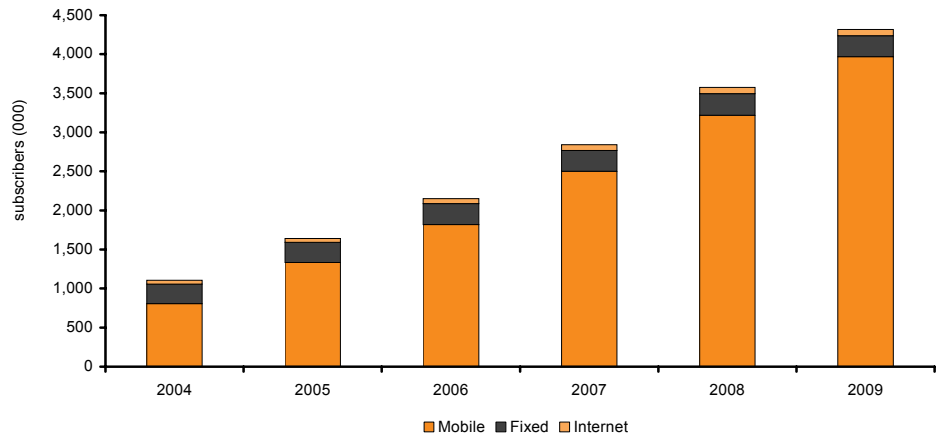
Chart 1 : Omani total telecoms subscribers, 2004-09



Source: Oman TRA and Rasmala

As illustrated in the next chart, an increasing portion of the subscriber base is composed of mobile customers, with the shares of both Internet and fixed-line services decreasing. However, this basic structure is likely to vary in the short term given the potential saturation of the mobile market and increased activity in the Internet segment.

**Chart 2 : Omani total telecoms subscriber breakdown, 2004-09**



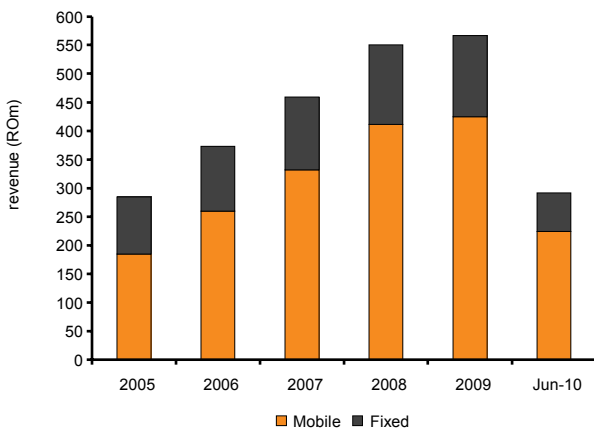
Source: Oman TRA and Rasmala

Chart 3 shows a breakdown of overall revenue for mobile and fixed-line telecommunications services in Oman for the years indicated.

**Revenue growth will be driven by data demand**

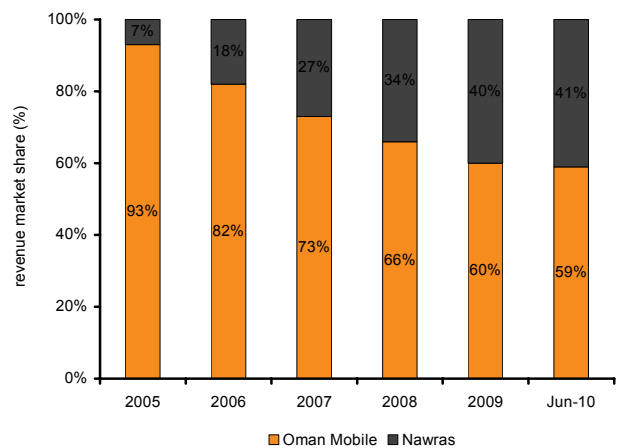
We believe revenue growth in the Oman telecom market will be primarily driven by growth in demand for data services. We expect this data services growth to be offset in part by a moderate decline in demand for voice services as that market reaches higher levels of saturation.

**Chart 3 : Omani total telecoms revenue breakdown**



Source: Omantel, Nawras and Rasmala (excluding resellers)

**Chart 4 : Omani total telecoms revenue market share**



Source: Omantel, Nawras and Rasmala (excluding resellers)

## Mobile market overview

Until 2005, Omantel held the only class 1 fixed and mobile licence in Oman, making it the exclusive provider of both services.

In 2005, the TRA opened up the Omani telecoms market by granting a second class 1 mobile licence to the Omani Qatari Telecommunications Company (Nawras). In addition, Nawras was granted a second class I fixed licence (which includes Internet services) in 2009, allowing it to offer the full spectrum of telecom services (including wireless broadband Internet), thereby increasing competition.

**2005 marked the entry of competition in the Omani market**

A class 2 licence grants a company the ability to provide telecommunications services within the country; however, the company cannot develop its own network and so must work through the network of the class 1 licence holders. The resellers acquire air time from the network operators at bulk rates and then offer their own services. In 2008, the TRA granted five class 2 licences for an initial period of five years.

So far, the class 2 licencees' operations are in the early stages of development. Of the six class 2 licencees, four – Mazoon, Injaz, Renna and FRIENDi – are currently providing services. Mazoon and Injaz are reselling Nawras's mobile services, and Renna and FRIENDi are reselling Oman Mobile's mobile services. Nawras has also entered into an agreement with Samatel, but Samatel has yet to start providing services.

**Table 1 : Oman's telecom service providers**

Company	Service	Licence class	Network provider
Omantel	Mobile	Class I	-
Omantel	Fixed	Class I	-
Nawras	Mobile	Class I	-
Nawras	Fixed	Class I	-
Majan Telecom	Mobile	Class II	Omantel
FRIENDi mobile	Mobile	Class II	Omantel
Samatel	Mobile	Class II	Omantel
Injaz International	Mobile	Class II	Nawras
Mazoon Mobile	Mobile	Class II	Nawras
Kalam Telecommunications	Mobile	Class II	NA

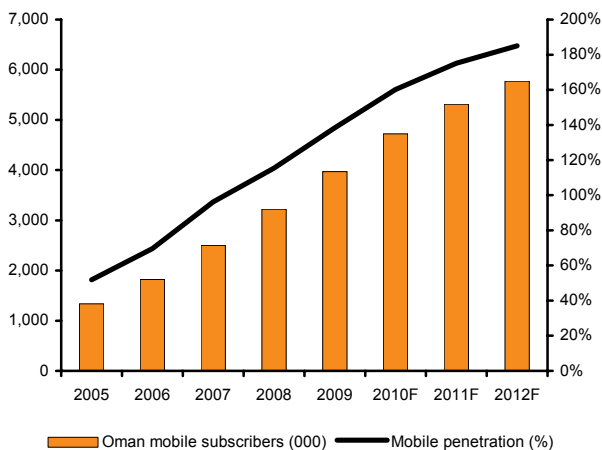
Source: Majan Telecom, Ameinfo, Ametw and Rasmala

Chart 5 shows the evolution of this competitive environment. Omantel, once the market leader, has had to cede subscribers to Nawras since the latter's arrival in 2005. Omantel's market share gradually eroded to 53% in 2008 from 82% in 2005. The three mobile resellers that began operations in 2009 further changed the face of the mobile market. By 2009, they had achieved 6% market share, further reducing Omantel's share to 47% and putting pressure on Nawras as well.

**Omantel lost significant market share to competition**

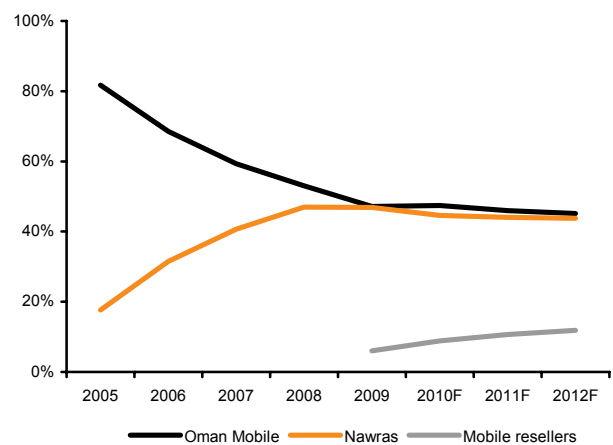
Mobile penetration stood at 138% at end-2009, having grown exponentially from 33% in 2004. In the intervening years, Nawras was able to rapidly expand and eat into Omantel's share of the market even as Omantel increased its customer base. As existing mobile resellers expand their operations and two more join the market later this year, competition is set to increase and could have a negative impact on the subscriber bases of the top two players. To date, the resellers in the market have focused on cost-conscious market segments, including, in particular, the Indian sub-continent and Asian international calling markets.

**Chart 5 : Oman mobile subscribers vs penetration rate**



Source: Operators, ITU, TRA, Rasmala

**Chart 6 : Oman mobile market share**



Source: Operators, ITU, TRA, Rasmala

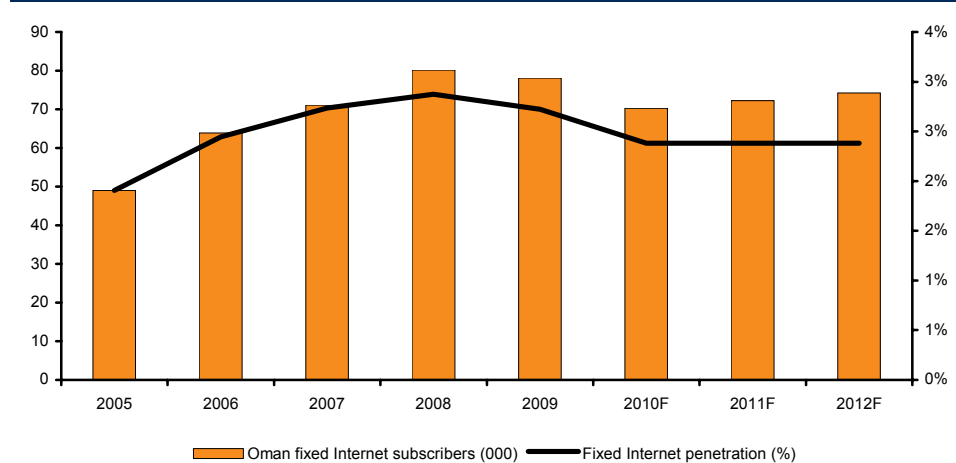
## Fixed-line and Internet market overview

Omantel continues to dominate the fixed-line segment, as Nawras was only allowed entry into this segment in 2009.

### Declining trend in fixed-line market

Not only is fixed-line penetration extremely low compared with the mobile market, the trend is negative, as penetration has decreased since 2004. There seems to be relatively low demand for fixed-line services, and despite potential benefits to consumers following the entry of another player in the market, it is unlikely that the declining trend in penetration will revert.

Chart 7 : Oman fixed subscribers vs penetration rate



Source: Operators, ITU, TRA, Rasmala

As was the case with fixed-line telecom services, Internet services were exclusively provided by Omantel until 2009, when Nawras was awarded its fixed-line (including Internet) licence. While Omantel currently leads the market in this segment as well, we believe market share could well change rapidly.

### Omantel lost its exclusivity in both fixed line and Internet by end of 2009

Although Internet penetration is very low, the outlook for the segment is very different from that of fixed line. Penetration has increased slowly, to 2.7% in 2009 from 2.0% in 2004, yet there seems to be greater potential for the Internet than for fixed line (although both services are bundled under the same fixed-line services licence).

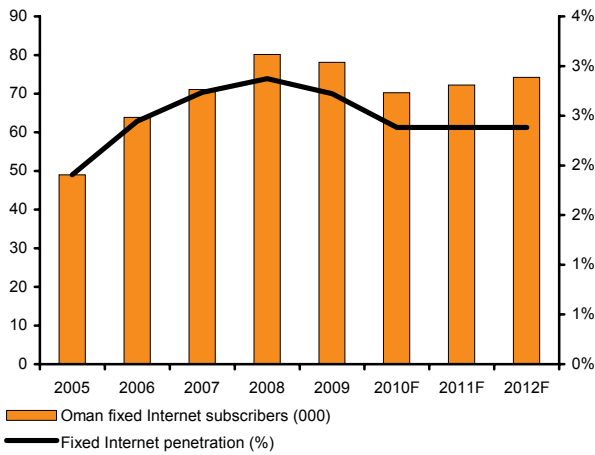
In the case of Internet, penetration has increased and the trend is set to continue, in our view. Internet penetration in Oman is relatively low compared with other countries in the region, especially high-GDP-per-capita countries that can afford higher-cost Internet services.

Additionally, dial-up subscribers still represent the majority of Internet subscribers, accounting for 52% of the total in 2009, compared with 47% ADSL customers. However, ADSL has clearly increased in importance in recent years and we believe it will continue to do so given the significant benefits of this type of connection.

Nawras intends to develop its next-generation network. While Omantel focuses on offering an ADSL Internet connection (data is transmitted over copper telephone lines), Nawras is seeking to develop a WiMAX network capable of delivering wireless Internet to customers. As of March 2010, it had installed about 30% of the fibre-optic cable needed to deploy its network in 2H10, and it is currently installing WiMAX base stations (54% population coverage at launch, 81% by mid-2011).

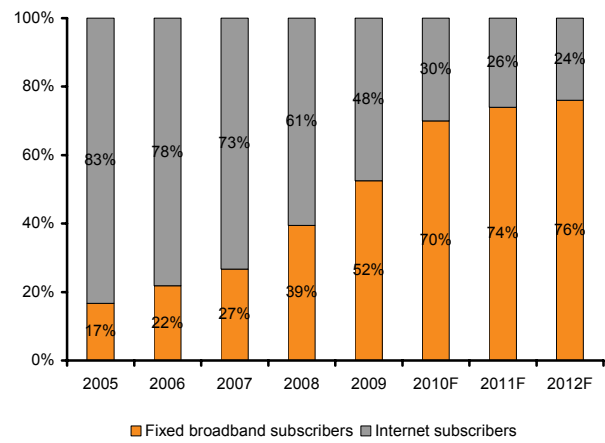
This should have an impact on market share as well as potential revenues that could be derived from offering different types of Internet connections.

**Chart 8 : Oman fixed Internet subscribers vs penetration rate**



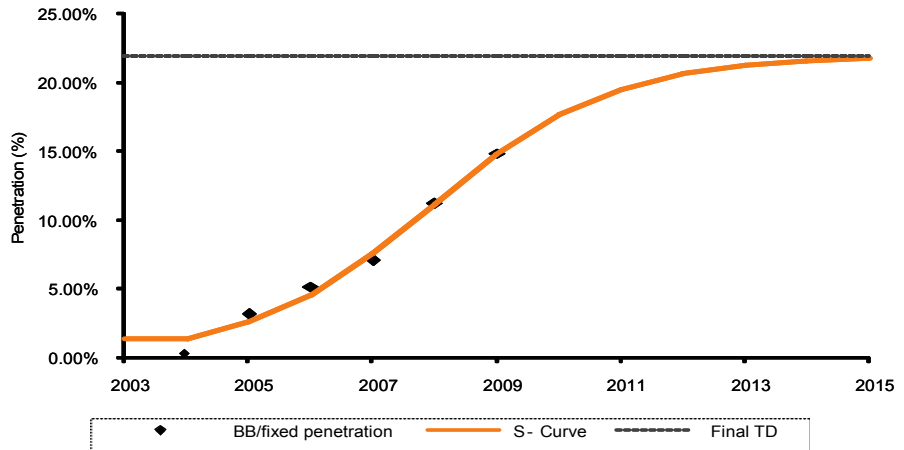
Source: Operators, ITU, TRA, Rasmala (excludes mobile broadband)

**Chart 9 : Breakdown of Internet usage**



Source: Operators, ITU, TRA, Rasmala (excludes mobile broadband)

**Chart 10 : Broadband penetration projection**



Source: Operators, TRA, Rasmala (excludes mobile broadband)

**Fixed broadband could reach a 22% penetration**

We have used available historical numbers for fixed broadband to estimate a target penetration rate for fixed broadband subscribers in terms of total fixed-line subscribers. That said, we believe fixed broadband subscribers could reach maturity at 22% of the total fixed-line subscriber base in Oman by 2015 given that we expect the fixed-line market to be remain relatively stagnant.

25 November 2010

Initiation of coverage

**Buy**

Target price  
RO1.33

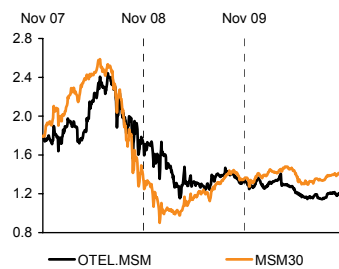
Price  
RO1.20

Short term (0-60 days)  
n/a

Market view  
No Weighting

**Price performance**

	(1M)	(3M)	(12M)
Price (RO)	1.21	1.15	1.32
Absolute (%)	-0.5	4.3	-8.9
Rel market (%)	-0.7	0.4	-11.1
Rel sector (%)	-1.3	-6.4	-3.8



Market capitalisation  
RO900.75m (€1.75bn)

Average (12M) daily turnover  
RO0.26m (€0.33m)

Sector: MSM30 Serv & Ins  
RIC: OTEL.MSM, OTEL.OM  
Priced RO1.20 at close 23 Nov 2010.  
Source: Bloomberg

# Oman Telecoms

## Better FCF despite earnings pressure

We initiate coverage of Omantel with a Buy rating and a target price of RO1.33, despite anticipating pressure on earnings. We expect free cash flow to improve with stable EBITDA margins and moderate capex.

**Key forecasts**

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (ROm)	411.5	412.3	418.5	429.0	433.9
EBITDA (ROm)	212.7	212.6	201.7	199.7	200.2
Reported net profit (ROm)	118.6	125.2	110.3	102.2	98.30
Normalised net profit (ROm)	118.6	125.2	110.3	102.2	98.30
Normalised EPS (RO)	0.16	0.17	0.15	0.14	0.13
Dividend per share (RO)	0.10	0.10	0.10	0.10	0.10
Dividend yield (%)	8.33	8.33	8.32	7.94	8.19
Normalised PE (x)	7.59	7.20	8.17	8.81	9.16
EV/EBITDA (x)	4.22	4.50	4.45	4.27	3.97
EV/invested capital (x)	2.42	1.93	1.90	1.87	1.88

Accounting standard: IFRS  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

**More aggressive measures to combat increasing competition**

Given a shrinking domestic revenue pool and increased competition, Omantel is undertaking a series of initiatives to help it face upcoming challenges – most importantly, in Internet and broadband services. Given Oman’s low Internet penetration of about 3% and its strong appetite for high-speed data services, Omantel plans to aggressively pursue the fixed and mobile broadband business by reviewing its pricing and service quality.

**Expected capex curtailment should lead to better value return to investors**

Despite the negative effect that increased competition is likely to have on the company’s earnings, we believe suppressing capital expenditure will lead to stronger free cash flows and will enhance the company’s ability to distribute dividends, returning more value to shareholders.

**We initiate coverage of Oman Telecommunications (Omantel) with a Buy rating**

We initiate coverage of Omantel with a Buy rating and a 12-month target price of RO1.33 per share. We use a blended methodology combining a sum-of-the-parts-based DCF and peer comparables, weighted equally, to value Omantel.

**Analyst**

**Shrouk Diab**  
United Arab Emirates  
+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

Important disclosures can be found in the Disclosures Appendix.

Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

# Investment view

**We initiate coverage of Oman Telecommunications with a Buy recommendation and a 12-month target price of RO1.33 per share. Based on our forecasts, Omantel is trading on an FY11F PE of 8.8x, putting it at an 11% discount to its regional peers.**

## Earnings momentum

As we saw in the Gulf Cooperation Council (GCC) region in particular, with mobile penetration rates exceeding 100%, high-speed data is critical for operators' growth. Furthermore, a favourable demographic profile (almost 40% of Oman's population is under 14) acts as an additional catalyst for high-speed data uptake.

With competition intensifying in the domestic market and given the recent consolidation of WorldCall Telecom into Oman Telecommunication's financials, EBITDA margins have turned south, a trend that we do not believe is likely to revert in the short to medium term.

We expect consolidated revenue growth, or rather revenue stability, for Omantel (we forecast a revenue CAGR of 1.4% throughout our forecast period of 2010-15) will be mainly driven by growth in demand for data services as the telecommunications market continues to develop, with greater emphasis on wireless data demand vis-à-vis fixed data demand. Nonetheless, we expect the growth in data services to be offset in part by a moderate decline in demand for voice services as mobile ARPU and fixed-line ARPL continue to decline given the saturated mobile and fixed-line markets.

Despite our projection of company earnings deteriorating, the main factor underpinning our Buy recommendation is suppressed capital expenditure, which we believe will lead to higher free cash flow and, in turn, to a stronger dividend yield.

## Valuation and target price

We initiate coverage of Oman Telecommunications (Omantel) with a Buy rating and a 12-month target price of RO1.33 per share. To arrive at our target price, we use an equal weighting of valuations based on multiples, sum of the parts and discounted cash flow.

## Sum of the parts and discounted cash flow

Omantel's SOTP/DCF valuation yields a 12-month fair value of RO1.27 per share, 6% higher than the current price of RO1.20 per share. To value Omantel's 56.8% stake in WorldCall Telecom, we used the company's market capitalisation, given that the company is listed on the Pakistan Stock Exchange and there is limited information pertaining to the company's operations.

**Table 1 : DCF valuation**

Operation	Assumptions
Oman Telecom	DCF (risk-free rate: 3%, risk premium: 9%, cost of debt: 5%, beta : 1x, WACC:10%, LTG: 2%)
WorldCall Telecom	Market value

Source: Rasmala

**Table 2 : SOTP valuation**

Operation (figures in ROm, unless stated otherwise)	Enterprise value	Stake	Proportionate EV
Oman Telecom	931	100%	931
WorldCall Telecom* (mkt cap)	10	56.8%	6
Total enterprise value			936
Add: non-core assets			73
Minus: net debt			56
Total equity value			953
Total outstanding shares (m)			750
Total SOTP (RO per share)			1.27

Priced as of 24 November 2010.

Source: Rasmala estimates, Bloomberg market data

### Sensitivity analysis

We employ a sensitivity analysis, with different rates for cost of equity and terminal growth, to illustrate how sensitive our DCF valuation is to changes in these assumptions.

**Table 3 : DCF sensitivity analysis (value per share, RO)**

Terminal growth rate RO/share	Cost of equity				
	8.2%	9.2%	10.2%	11.2%	12.2%
1.0%	1.53	1.34	1.19	1.08	0.99
1.5%	1.60	1.39	1.23	1.11	1.01
2.0%	1.68	1.44	1.27	1.14	1.03
2.5%	1.77	1.51	1.32	1.17	1.06
3.0%	1.89	1.58	1.37	1.21	1.09

Source: Rasmala

### Peer valuation

We also use MENA peer group average PE multiples of 9.5x for FY10F and 9.8x for FY11F, based on Bloomberg estimates, to arrive at a valuation of RO1.38 per share.

**Table 4 : Estimated 2010 and 2011 PEs for telecom peers**

Peers	2010F	2011F
ORTE EY Equity	3.1	5.4
ZAIN KK Equity	7.8	14.4
BATELCO BI Equity	7.5	7.1
JTEL JR Equity	12.5	NA
EMOB EY Equity	11.2	12.0
ETEL EY Equity	9.9	10.2
NMTC KK Equity	10.3	9.7
STC AB Equity	9.2	9.2
IAM MC Equity	13.9	13.3
EEC AB Equity	10.5	9.5
ETISALAT UH Equity	9.7	10.1
OTEL OM Equity	7.9	7.8
QTEL QD Equity	9.3	8.7
Average	9.5	9.8

Priced as of 24 November 2010  
Source: Bloomberg

### How we differ from consensus

We have almost no variance with Bloomberg consensus on 2010 and 2011 revenue forecasts. We are 4% and 11% lower than Bloomberg estimates in terms of 2010F and 2011F EPS, respectively, partly due to our lower revenue forecast and partly due to the fact that we anticipate greater competition, which would have a negative effect on our forecast EBITDA margins, particularly in the mobile segment.

### Risks to our target price

Downside risks include:

- higher-than-expected capex spending that could be a factor of inflationary pressure;
- intensifying competition, or a price war, that would lead to even more pressure on ARPU and, in turn, hurt EBITDA margins;
- loss of market share to competitors in terms of mobile subscribers and mobile broadband subscribers;
- changes in Omani TRA regulation, such as roaming, tariff regulations and changes to billing services, or even the TRA granting additional licences and spectrum to other existing or new operators; and
- further investment or capital injection in the Pakistani subsidiary WorldCall.

# Company dynamics

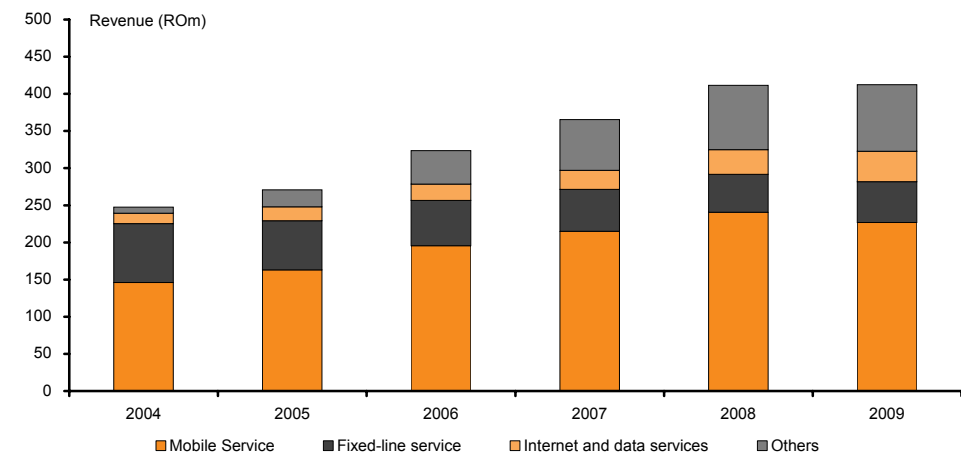
One of the main challenges Omantel is likely to face in the foreseeable future is the commencement of operations by the second fixed-line and Internet operator in addition to the mobile resellers' entry into the mobile market.

## Consolidated revenue and corporate strategy

Most of Omantel's revenue stems from mobile services

Most of Omantel's revenue comes from mobile services. In 2009, mobile services accounted for 55% of its revenue, followed by fixed-line services and Internet and data services. Other services (which include revenue from interconnection services to Nawras, mobile resellers and the sale of network capacity to international operators) contributed 22% to total revenue.

Chart 1 : Omantel revenue breakdown, 2004-09



Source: Company data, Rasmala

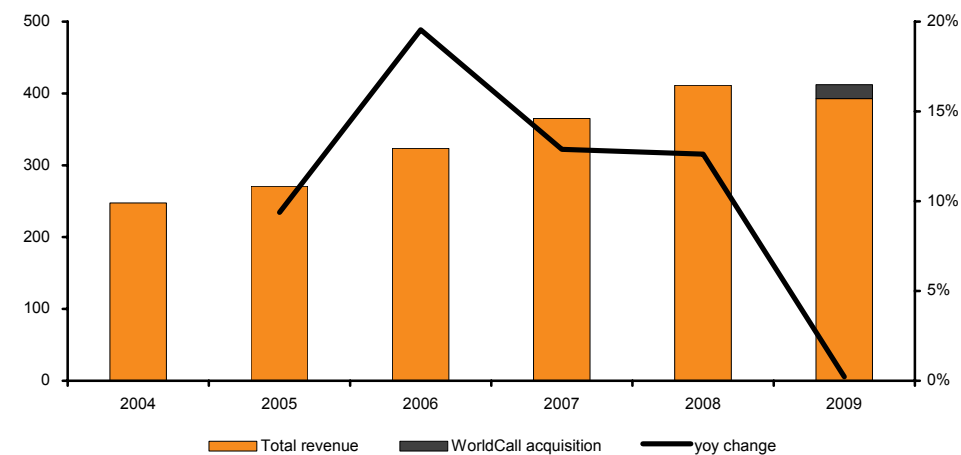
With increased competition, Omantel faces a shrinking domestic revenue pool

Omantel's revenue grew steadily until 2008; however, this growth rate reflects a declining trend, as competition has increased in the mobile market. The entry of Nawras, the second mobile operator in Oman, in 2005 sparked competition in the mobile sector and has limited Omantel's ability to increase its revenues.

WorldCall boosted revenue in 2009

This was more noticeable in 2009, when Omantel's overall revenue increased only to RO412.3m, translating into a 0.2% yoy increase, the lowest since the opening of the telecoms market in Oman. Additionally, in 2009, WorldCall Telecom Limited boosted revenue for the year by RO19.5m.

Chart 2 : Omantel historical revenue, 2004-09 (ROm)

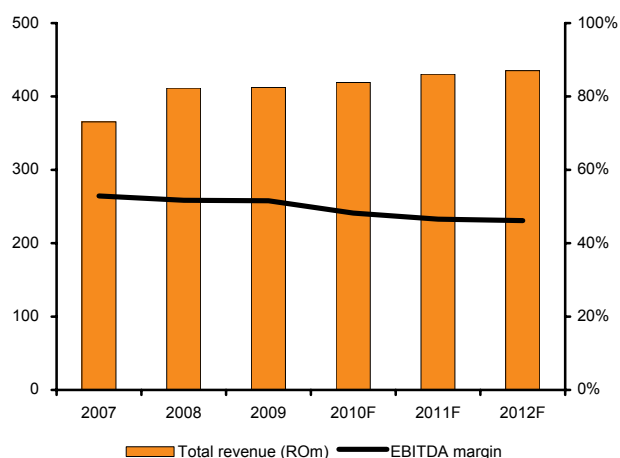


Source: Company data, Rasmala

**Omantel to lose on wholesale and interconnection revenue following award of fixed-line licence to Nawras**

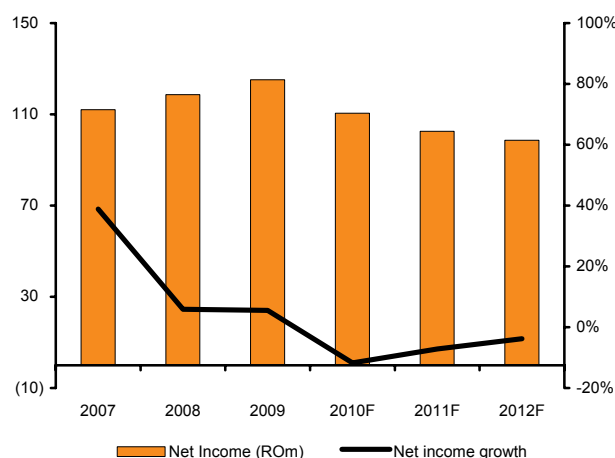
Omantel's local business remains under pressure, given an almost saturated wireless market, in addition to ongoing pricing competition stemming from the recent entry of mobile virtual network operators (MVNOs) into the Omani market. Furthermore, given Nawras's recent acquisition of a fixed-line licence, revenue from interconnection and the wholesale segment will be negatively affected, since it will use its own international gateway as opposed to Omantel's.

**Chart 3 : Consolidated revenue and EBITDA margin**



Source: Company data, Rasmala

**Chart 4 : Net income and growth**



Source: Company data, Rasmala

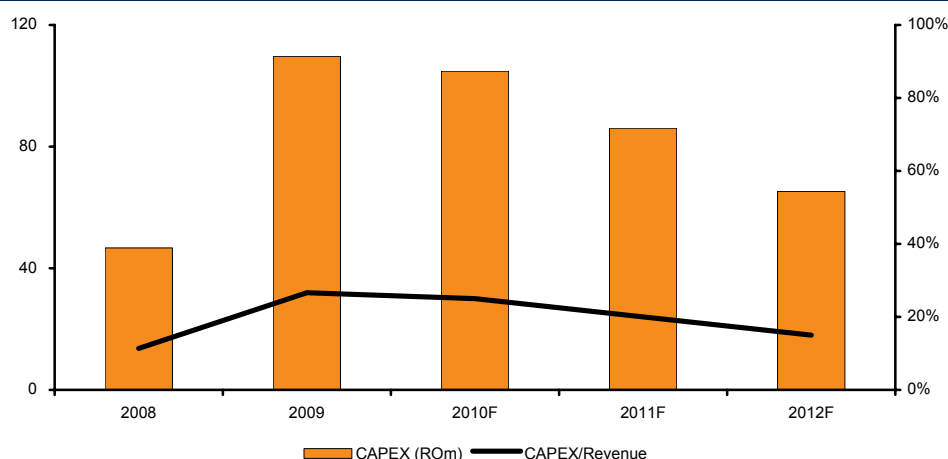
**Omantel plans to become more aggressive to face new challenges in the market**

Given a shrinking domestic revenue pool as a result of greater saturation in the mobile market, Omantel decided to launch a series of initiatives to face the upcoming challenges – most importantly in the Internet and broadband services sphere. Given the country's low Internet penetration of about 4% and its strong appetite for high-speed-data services, Omantel plans to aggressively pursue the fixed and mobile broadband businesses by reviewing its pricing and service quality.

**We expect net income to be negatively affected by falling EBITDA margins**

Given Nawras's recent fixed-line licence award, interconnection revenue has taken a nosedive, since Nawras is now using its own backbone infrastructure. Moreover, given our expectation that Omantel will reduce its prices on its currently offered services to compete more effectively in the market, we believe EBITDA margins will be hurt, which would have a direct impact on net income growth patterns. That said, we expect Omantel's net income to come under pressure due to falling EBITDA margins.

**Chart 5 : Capex to revenue**



Source: Company data, Rasmala

**Widest 3.5G coverage**

Omantel's 3.5G network currently has the widest 3.5G coverage in the country. The company completed the installation of 747 base stations to the end of August 2010, reaching 59% coverage of populated areas. Oman Telecom is continuing its expansion plans to extend its coverage, with management expecting to reach 898 stations by year-end.

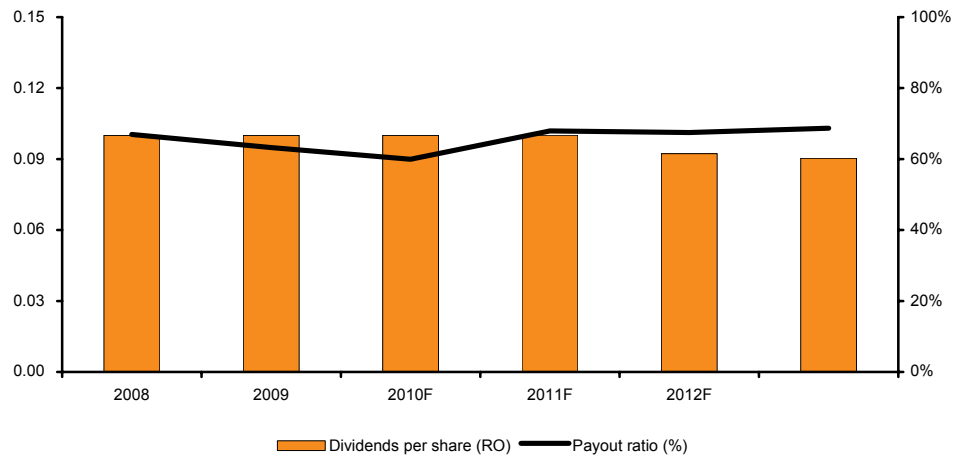
**Capex guidance curbed for 2010**

With most of Omantel's 3.5G network rolled out and with the fibre expansion for the fixed-line network postponed due to stagnant demand for ADSL services, Omantel management curbed its capex guidance for 2010 to 15-18% of revenues at year-end, compared with its original 25-30%.

**Suppressed capex and stable EBITDA margins should strengthen potential dividend distribution**

In our view, despite the expected decline in earnings on account of increased competition, we believe the curtailment of capital expenditures and a relatively stable EBITDA margin should enable Omantel to harness higher free cash flows, thus ultimately strengthening its ability to distribute dividends to shareholders.

**Chart 6 : Dividends per share and payout ratio**



Source: Company data, Rasmala

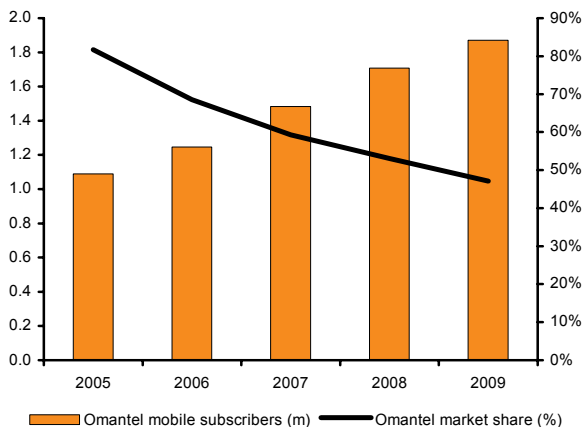
**The mobile segment**

Although revenues from mobile services have risen steadily since 2004 (with the exception of 2009), Omantel has faced increasing pressure in its domestic mobile market since 2005, when the market opened for new entrants. Nawras, the second-largest mobile operator in Oman, has managed to acquire considerable market share from Omantel since its commercial launch in March 2005, eroding Omantel's market share to 53% at the end of 2009, compared with 82% in 2005.

**With liberalisation of the sector, Omantel has lost significant market share**

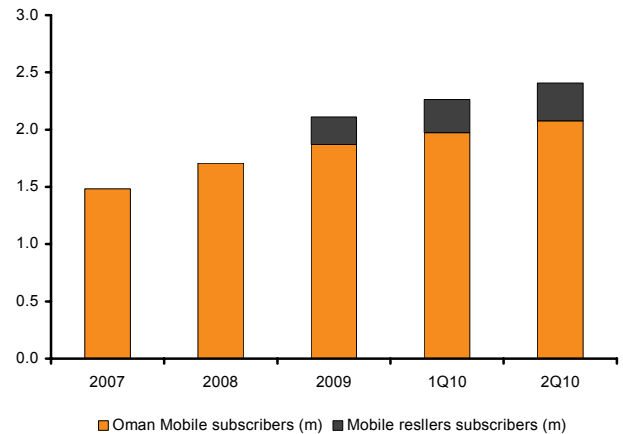
Despite its increase in mobile subscribers (a 21% CAGR since 2004), Omantel has struggled to maintain its growth rate. This has already led to a major loss in the company's market share and, with further liberalisation of the mobile sector, we believe adding new customers is likely to be increasingly difficult.

**Chart 7 : Omantel mobile subscribers and market share**



Source: Company data, Rasmala

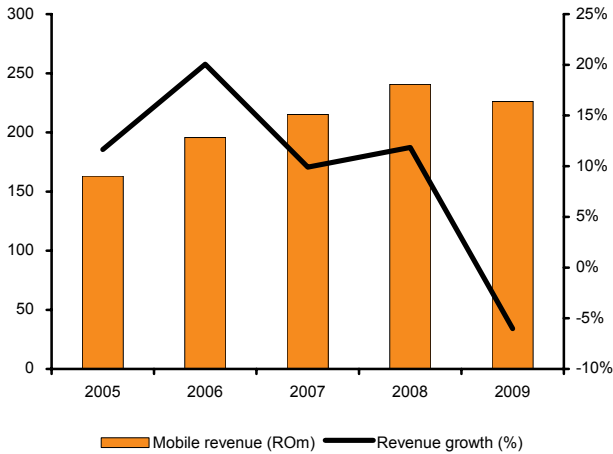
**Chart 8 : Breakdown of Omantel and reseller subscribers**



Source: Company data, Rasmala

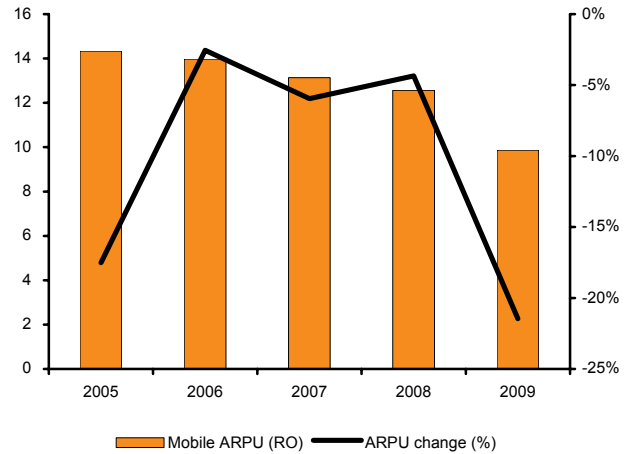
As a result of the economic slowdown and greater competition in the mobile market, aggravated by the launch of mobile resellers late in 2009, revenue growth from the mobile segment of operations came under significant pressure, declining 6% pa at the end of 2009. Omantel's monthly ARPUs have also fallen steadily since the entry of Nawras in 2005. Additionally, as the mobile market begins to show signs of saturation (penetration is already among the highest in the region), Omantel may be compelled to turn to innovation in technology, services, etc, and to reduce prices to capture new subscribers, leading to further erosion of ARPUs.

**Chart 9 : Omantel mobile revenue, 2005-09**



Source: Company data, Rasmala

**Chart 10 : Omantel ARPU, 2005-09**



Source: Company data, Rasmala

**Omantel has an agreement with two resellers**

Mobile resellers, otherwise known as MVNOs, are Class II licensed operators. Of the six mobile resellers in the market, Omantel has an agreement with Renna and FRIENDi to resell Oman Mobile's mobile services.

**An increasing proportion of indirect subscribers reduces Omantel's potential revenue per subscriber**

Chart 8 shows the proportion of direct mobile customers and the proportion of mobile customers indirectly using Omantel's network through mobile resellers. As reflected in the chart, this proportion of indirect 'subscribers' is rising, which could have a negative effect on Omantel's revenue as the company sells mobile airtime to resellers at wholesale prices (less profitable than selling the mobile service directly to the customer), which reduces Omantel's potential revenue per 'subscriber'.

Omantel launched its 3.5G network on March 2009, and it had successfully acquired about 156,000 mobile broadband subscribers as of September 2010, compared with its fixed broadband subscriber base of about 43,000, according to Omantel's management statements. Despite the encouraging kick-off to the mobile broadband, we do not expect revenue streams to be significantly affected. Rather, we expect ARPU erosion to be mitigated in the coming years.

**The fixed-line segment**

**Fixed-to-mobile substitution trend hurts fixed-line business**

Fixed-line services (including fixed-line voice, prepaid cards and payphones) have been hurt by the ongoing fixed-to-mobile substitution trend. Despite being the only licensed provider of fixed-line services until 2009, Omantel has seen revenue from the fixed-line segment decline significantly since 2004 (-7% CAGR for 2004-09).

The amount of domestic subscribers has basically remained constant since 2007 (excluding WorldCall subscribers, which amounted to about 800,000 at year-end 2009). This has led to a lack of revenue growth. We remain concerned because Omantel, which was the only provider of fixed-line services in Oman, must now compete with Nawras for a subscriber base that does not seem to be growing.

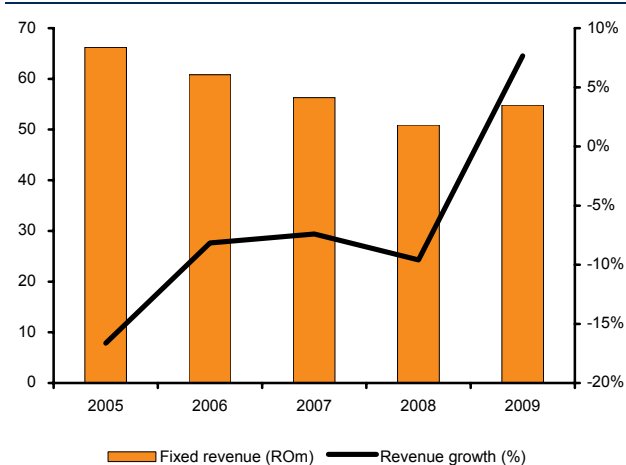
**Omantel bought a 56.8% stake in WorldCall Telecom for US\$193m in May 2008**

With competition intensifying in the domestic market, Omantel began to search for other opportunities abroad. It gained access to the Pakistani telecoms market through the purchase in May 2008 of a 56.8% stake in WorldCall Telecom for US\$193m. WorldCall is engaged in the provision of wireless local loop (WLL), long-distance international services (LDI), payphones and cable television services.

According to the Pakistan Telecommunication Authority, WorldCall Telecom's market share for 2008-09 was 21% of the WLL market, the third-highest in Pakistan. Nevertheless, WLL represented only 2% of total basic services revenue in Pakistan for 2008-09. Additionally, WorldCall Telecom holds a 70.65% stake in WorldCall Telecommunications Lanka, which also gives Omantel access to the Sri Lankan telecoms market (operation and maintenance of its payphone network). However, the Sri Lankan investment is being considered for divestment by management, according to WorldCall's 1H10 financial statements.

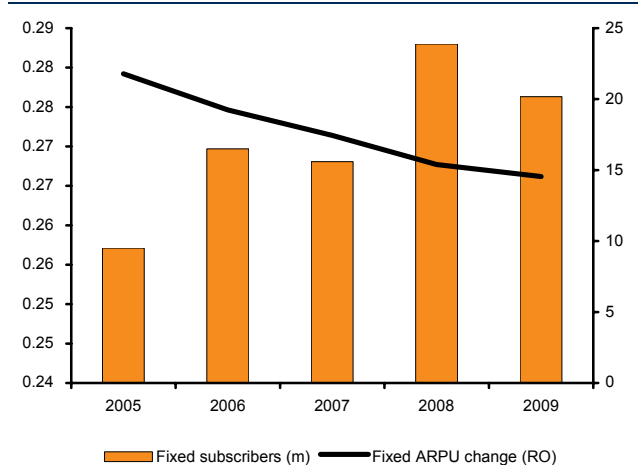
The acquisition of WorldCall Telecom in 2008 and the subsequent consolidation of operations in 2009 resulted in a reasonable annual revenue increase of 8%. However, not taking into account this consolidation, fixed-line revenue would have fallen to RO48.8m, which reflects a 4% annual decrease to year-end 2009 in Omantel's domestic operations.

**Chart 11 : Omantel fixed revenue, 2005-09**



Source: Company data, Rasmala

**Chart 12 : Omantel fixed subscribers, 2005-09**



Source: Company data, Rasmala

The consistent decrease in revenue seems to be mainly driven by declining ARPUs. Falling rates have not spurred demand for fixed services. Moreover, even though the decline in rates seems to be moderating, the participation of Nawras in the fixed-line market is likely to drive rates further down.

## The Internet segment

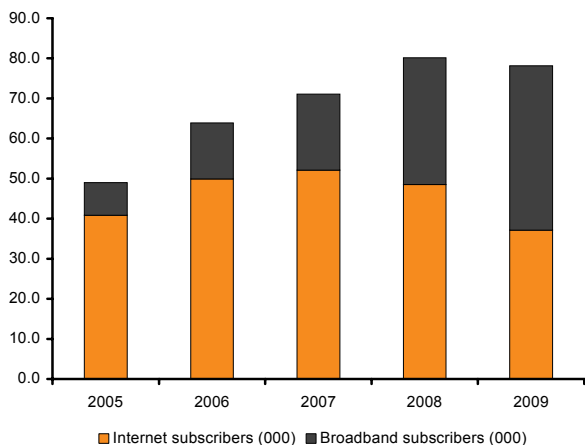
**Although still a minor contributor to overall revenue, the Internet segment looks promising for Omantel**

**We believe slow subscriber growth can be attributed to high service prices**

Although the Internet segment accounts for only a small portion of overall revenue, it is a bright spot in Omantel's operations. There is considerable opportunity in the relatively underpenetrated Omani Internet market, where penetration was less than 3% at year-end 2009.

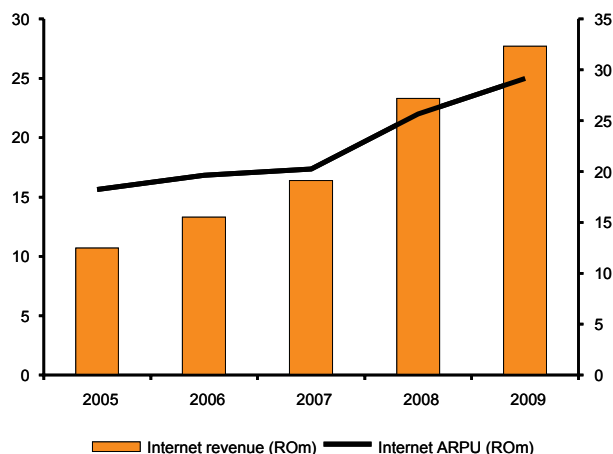
Revenue for this segment has risen significantly since 2004 (24% CAGR), as Omantel was the only provider of these services in the Sultanate of Oman until 2009. Even though subscribers growth has been declining and turned negative in 2009, Omantel has sustained revenue growth in this segment. Internet services are a relatively expensive telecom service, and we believe this is the main reason behind sluggish subscriber growth.

**Chart 13 : Omantel Internet subscribers, 2005-09**



Source: Company data, Rasmala

**Chart 14 : Omantel Internet revenue and ARPU, 2005-09**



Source: Company data, Rasmala

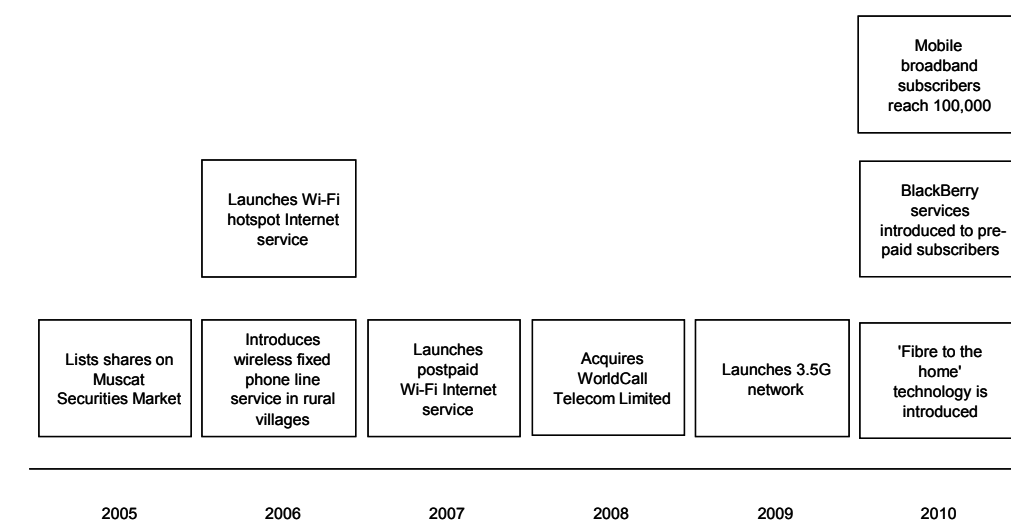
This sluggish subscriber growth may change if ARPUs decline due to greater competition. Omantel's Internet ARPUs have increased mainly as a result of its monopolistic position in the market and the switch from dial-up Internet service to a higher-quality ADSL connection. The trend towards ADSL should continue, but we believe Omantel's approach will have to change depending upon how effectively Nawras can deploy its own network and attract subscribers, either through pricing or/and through increased aggressive marketing of its own mobile broadband services.

Omantel's ADSL connection transmits data over copper telephone lines that require a vast fixed telecoms network to reach the consumer. After years of developing Oman's fixed network, we believe offering ADSL connections makes sense for Omantel; however, increasing coverage may require a considerable investment in infrastructure.

In the case of Nawras, the network looking to be deployed is a next-generation WiMAX network. This type of Internet connection will offer consumers a fast and wireless Internet connection (about 40 Mbit/s for WiMAX cf. up to 24 Mbit/s for ADSL); however, in general, service quality remains an issue, particularly in the initial phases of network rollout. Nawras plans to reach 54% of Oman's population at the moment of launch (slated for 2H10), with coverage increasing to 81% by mid-2011.

# Major events/milestones (past five years)

Chart 15 : Major events by year



Source: Company data, Ameinfo

- Lists shares on Muscat Securities Market:** Omantel was publicly listed on 28 July 2005; 70% of the shares were held by the Government of Oman, while the remaining 30% were made available to private investors.
- Introduces wireless fixed phone line services in rural villages:** In March 2006, Omantel announced the introduction of wireless fixed phone line services in 25 rural villages in the region of Dhofar. The new initiative would also include services such as Internet and fax.
- Launches Wi-Fi hotspot Internet service:** The service was launched in March 2006 under the brand name 'Ibhar'. It is available in more than 12 locations, including major shopping malls, coffee shops and hotels.
- Launches postpaid Wi-Fi Internet service:** In May 2007, Omantel launched wireless Internet service for postpaid Internet (Postpaid Wi-Fi).
- Acquires WorldCall Telecom:** Omantel acquired 56.8% of the share capital of WorldCall Telecom (WTL), a Pakistan-based company, on 2 May 2008. With this acquisition, Omantel gained exposure to the Sri Lankan market as WorldCall Telecom holds a 70.65% stake in WorldCall Telecommunications Lanka.
- Launches 3.5G network:** In January 2009, Omantel introduced the new network, which will have extensive 3.5G coverage in the Muscat Governorate. Implementation teams are already working to offer coverage in other areas of Oman.
- 'Fibre to the home' technology is introduced:** This technology was introduced in March 2010, and will be supplied by Huawei (Omantel's technology partner). The broadband technology will reach a speed of 80 MB/s and will support high-definition video, video on demand, e-Education, etc.
- BlackBerry services introduced to prepaid Hayyak subscribers:** This service was made available to prepaid customers in April 2010, although the service was already available for Omantel's postpaid customers.
- Mobile broadband subscribers reach 100,000:** In May 2010, 14 months after the launch of Omantel's 3.5G network, the company announced that it had more than 100,000 monthly mobile broadband subscribers.

## M&A history of the company

Acquisition of WorldCall Telecom: in May 2008 Omantel acquired a 56.8% share in WorldCall Telecom for US\$193m. The company is a Pakistani telecoms provider that focuses on the provision of wireless local loop (WLL), long-distance international services (LDI), payphones and cable television services. With this purchase, Omantel expanded its operations to both Pakistan and Sri Lanka, as WorldCall Telecom holds a 70.65% stake in WorldCall Telecommunications Lanka, a company focused on operation and maintenance of the payphone network. This is the first and only successful acquisition Omantel has made; however, it was not the first time the company sought to expand its presence internationally. Omantel had previously requested to obtain a mobile licence in Qatar. In 2007, a consortium that included Omantel failed to qualify to bid for the second mobile phone provider's licence in Qatar. In 2008, Omantel bid for the third mobile licence in Iran, but, again, the initiative was unsuccessful.

## Company overview

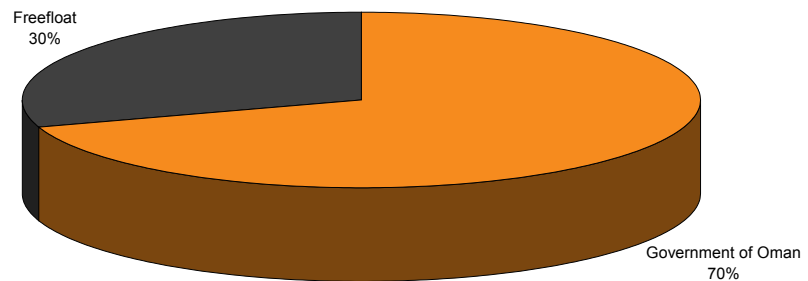
Omantel is 70%-owned by the Government of Oman, with the remaining 30% available for private investors. This has been the case since 2005, when the company went public. In July 2008, Omantel planned to sell a 25% stake to strategic partners; however, in December of the same year, Oman's Ministry of Finance announced that this plan had been cancelled due to "the conditions in the global capital markets," leaving the ownership structure unchanged.

**Table 5 : Top shareholders**

Holders	Ownership
Government of Oman	70%
Freefloat	30%

Source: Reuters Knowledge

**Chart 16 : Government of Oman holds 70% of Omantel shares**



Source: Reuters Knowledge

## Income statement

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	411.5	412.3	418.5	429.0	433.9
Cost of sales	-30.9	-35.4	-39.3	-41.2	-42.5
Operating costs	-167.8	-164.4	-177.5	-188.1	-191.1
<b>EBITDA</b>	<b>212.7</b>	<b>212.6</b>	<b>201.7</b>	<b>199.7</b>	<b>200.2</b>
DDA & Impairment (ex gw)	-54.8	-68.6	-77.2	-83.3	-88.5
<b>EBITA</b>	<b>158.0</b>	<b>144.0</b>	<b>124.5</b>	<b>116.4</b>	<b>111.7</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>158.0</b>	<b>144.0</b>	<b>124.5</b>	<b>116.4</b>	<b>111.7</b>
Net interest	-2.77	1.85	-0.57	-0.28	0.00
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-15.5	-3.22	1.39	0.00	0.00
<b>Reported PTP</b>	<b>139.7</b>	<b>142.6</b>	<b>125.4</b>	<b>116.1</b>	<b>111.7</b>
Taxation	-20.5	-17.4	-15.0	-13.9	-13.4
Minority interests	-0.63	-0.08	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported net profit</b>	<b>118.6</b>	<b>125.2</b>	<b>110.3</b>	<b>102.2</b>	<b>98.3</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	212.7	212.6	201.7	199.7	200.2
Normalised PTP	139.7	142.6	125.4	116.1	111.7
<b>Normalised net profit</b>	<b>118.6</b>	<b>125.2</b>	<b>110.3</b>	<b>102.2</b>	<b>98.3</b>

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	81.8	32.0	22.1	58.0	105.3
Other current assets	127.2	153.6	134.6	135.8	136.5
Tangible fixed assets	287.7	379.4	380.6	373.3	348.6
Intang assets (incl gw)	31.2	55.7	52.7	49.7	46.7
Oth non-curr assets	62.7	72.8	72.8	72.8	72.8
<b>Total assets</b>	<b>590.7</b>	<b>693.6</b>	<b>662.8</b>	<b>689.5</b>	<b>709.8</b>
Short term debt (2)	20.0	53.4	0.00	0.00	0.00
Trade & oth current liab	133.9	152.5	164.9	170.8	166.5
Long term debt (3)	58.9	35.0	9.82	0.00	0.00
Oth non-current liab	3.94	13.9	13.9	13.9	13.9
<b>Total liabilities</b>	<b>216.8</b>	<b>254.9</b>	<b>188.7</b>	<b>184.8</b>	<b>180.4</b>
Total equity (incl min)	373.9	438.8	474.1	504.8	529.4
<b>Total liab &amp; sh equity</b>	<b>590.7</b>	<b>693.6</b>	<b>662.8</b>	<b>689.5</b>	<b>709.8</b>
Net debt	-2.91	56.4	-2.34	-48.0	-105.3

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	212.7	212.6	201.7	199.7	200.2
Change in working capital	1.81	2.96	-21.5	-4.70	-4.93
Net interest (pd) / rec	2.77	-1.85	0.57	0.28	0.00
Taxes paid	-20.5	-17.4	-15.0	-13.9	-13.4
Other oper cash items	0.00	0.00	0.00	0.00	0.00
<b>Cash flow from ops (1)</b>	<b>196.8</b>	<b>196.3</b>	<b>165.7</b>	<b>181.3</b>	<b>181.9</b>
Capex (2)	-64.6	-96.2	-75.3	-72.9	-60.7
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-70.0	-57.1	0.00	0.00	0.00
<b>Cash flow from invest (3)</b>	<b>-134.6</b>	<b>-153.3</b>	<b>-75.3</b>	<b>-72.9</b>	<b>-60.7</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-11.8	-17.8	-25.2	0.00	0.00
Ordinary dividend paid	-75.0	-75.0	-75.0	-71.5	-73.7
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	-0.23	-0.98	-0.04
<b>Cash flow from fin (5)</b>	<b>-86.8</b>	<b>-92.8</b>	<b>-100.4</b>	<b>-72.5</b>	<b>-73.8</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Incr/(decr) cash (1+3+5+6)</b>	<b>-24.6</b>	<b>-49.8</b>	<b>-9.96</b>	<b>35.9</b>	<b>47.3</b>
Equity FCF (1+2+4)	132.2	100.1	90.4	108.4	121.1

Source: Company data, Rasmala forecasts

year to Dec

25 November 2010

Initiation of coverage

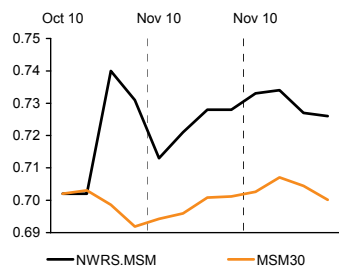
**Hold**

Target price  
RO0.77

Price  
RO0.73

Short term (0-60 days)  
n/a

Market view  
No Weighting



Market capitalisation  
RO472.59m (€916.38m)

Average (12M) daily turnover  
RO1.52m (€3.78m)

Sector: MSM30 Serv & Ins  
RIC: NWRS.MSM, NWRS OM  
Priced RO0.73 at close 24 Nov 2010.  
Source: Bloomberg

# Nawras Telecom

## Future potential, but work to do

**Nawras, Oman's second-largest telecom operator by market share, recently listed 40% of its shares on the Muscat Stock Market to comply with its licence obligations. We initiate coverage of Nawras with a target price of RO0.77 per share, leading us to rate the stock a Hold.**

### Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (ROm)	139.2	171.6	195.9	209.8	222.6
EBITDA (ROm)	49.60	82.40	99.90	108.5	115.5
Reported net profit (ROm)	19.60	41.50	50.30	58.30	65.10
Normalised net profit (ROm)	19.60	41.50	50.30	58.30	65.10
Normalised EPS (RO)	0.03	0.06	0.08	0.09	0.10
Dividend per share (RO)	0.00	0.00	0.00	0.01	0.02
Dividend yield (%)	0.00	0.00	0.00	1.23	2.75
Normalised PE (x)	24.10	11.40	9.39	8.11	7.26
EV/EBITDA (x)	10.30	6.21	5.42	5.16	4.72
EV/invested capital (x)	5.85	3.91	2.57	1.99	1.70
ROIC - WACC (%)	-10.5	51.90	41.00	24.70	17.90

Accounting standard: local  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

### Nawras listed at RO0.702 per share

The IPO of Omani Qatari Telecommunications Company (Nawras Telecom) raised a total of RO182m (more than US\$472m), based on the listing price of RO0.702 per share; the stock had its first day of trading on 1 November 2010. Shares closed trading on the first day at RO0.740 per share, with 8,413,003 shares traded, increasing the company's market capitalisation to RO480.6m (more than US\$1.2bn). The IPO was also the first offer in Oman to be completed using the book-build method, which determines the share price of the offering on the basis of actual demand from institutional investors.

### Mobile broadband provides the best growth opportunity

We believe the main opportunity for growth is in the high-speed data market; however, Nawras still has to roll out its network infrastructure to compete effectively in this market. If Nawras can capture the leading market share on that front, we believe it could surpass Omantel, its main rival, in terms of revenue growth and profitability per subscriber.

### We initiate coverage with a Hold rating

We initiate coverage of Nawras with a Hold rating and a 12-month target price of RO0.77 per share. We value Nawras using a blended methodology, combining DCF valuation and peer comparables, weighted equally.

### Analyst

**Shrouk Diab**  
United Arab Emirates  
+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

Important disclosures can be found in the Disclosures Appendix.

Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

# Investment view

We initiate coverage of Nawras, Oman's second-largest telecom operator by market share, with a Hold rating and a 12-month target price of RO0.77 per share. We value Nawras using a blended methodology, combining DCF and peer comparables.

## Earnings momentum

We believe Oman's mobile market is saturated. Nawras's revenue growth is therefore likely to come under pressure in the coming years as a result of price-based competition from both mobile virtual network operators (MVNOs) and market leader, Oman Telecommunications (Omantel), particularly on the mobile broadband front.

Main opportunity for growth lies in broadband services

We see the main growth opportunity for Nawras in the high-speed data market. If Nawras can capture the leading market share on that front, we believe it could surpass Omantel, its main rival, in terms of revenue growth and profitability per subscriber, because in general, data ARPUs are much higher than voice ARPUs. We believe Nawras and Omantel have an equal chance of leading the data market, but it is yet to be seen which will be more aggressive in market differentiation, branding and pricing.

No significant dividend distribution expected in the next couple of years

In our view, Nawras does not currently deserve to trade at a significant premium to its peers in terms of PE. We expect no significant dividend distribution in the next couple of years due to cash-draining capex requirements for its infrastructure rollout, and thus rate the stock a Hold.

## Valuation and target price

### Discounted cash flow

Nawras's DCF valuation yields a 12-month fair value of RO0.76 per share, 4% higher than the current trading price of RO0.73 per share. Our assumptions include a cost of equity of 11%, based on a risk-free rate of 2.5% and a premium of 8.5%, cost of debt of 5%, a terminal growth rate of 2.0% and a beta of 1x.

Table 1 : DCF approach

(ROm)	Free cash flow	PV of FCF
2010F	-23	-24
2011F	-9	-10
2012F	27	23
2013F	61	46
2014F	61	41
2015F	62	37
Terminal value	706	418
Enterprise value		531
Minus: net debt		39
Equity value		492
No of shares (000)		651
12-month fair value per share		<b>0.76</b>

Source: Rasmala estimates

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 2 : DCF sensitivity analysis (value per share, RO)

Terminal growth rate RO/share	Cost of equity				
	9%	10%	11%	12%	13%
0.0%	0.82	0.71	0.63	0.56	0.50
1.0%	0.91	0.79	0.69	0.60	0.54
2.0%	1.03	0.88	<b>0.76</b>	0.66	0.58
3.0%	1.19	0.99	0.84	0.73	0.63
4.0%	1.42	1.15	0.95	0.81	0.70

Source: Rasmala estimates

## Peer valuation

We also use MENA peer group average PE multiples of 9.5x for FY10F and 9.8x for FY11F, based on Bloomberg estimates, to arrive at a valuation of RO0.77 per share.

**Table 3 : Estimated 2010 and 2011 PEs for telecom peers**

Peers	2010F	2011F
ORTE EY Equity	3.1	5.4
ZAIN KK Equity	7.8	14.4
BATELCO BI Equity	7.5	7.1
JTEL JR Equity	12.5	NA
EMOB EY Equity	11.2	12.0
ETEL EY Equity	9.9	10.2
NMTC KK Equity	10.3	9.7
STC AB Equity	9.2	9.2
IAM MC Equity	13.9	13.3
EEC AB Equity	10.5	9.5
ETISALAT UH Equity	9.7	10.1
OTEL OM Equity	7.9	7.8
QTEL QD Equity	9.3	8.7
Average	<b>9.5</b>	<b>9.8</b>

Source: Bloomberg, prices as of 24 November 2010

## How we differ from consensus

We are 3% lower than Bloomberg consensus with our 2010 revenue forecast, but do not differ on our 2011 revenue forecast. We are 8% and 5% lower than Bloomberg estimates in terms of 2010F and 2011F EPS, respectively. This discrepancy could be partly due to our more conservative forecasts for EBITDA margins, which we expect to result from increased marketing and selling expenses in the coming years, due to higher competition from Omantel and MVNOs.

## Risks to our target price

Upside risks include:

- a higher-than-expected mobile market share;
- faster rollout of network infrastructure, which should tackle any current network quality issues;
- higher cost efficiency stemming from higher-than-expected cost savings, which would lead to higher EBITDA margins; and
- lower-than-expected ARPU decline.

Downside risks include:

- a sharper ARPU decline due to increased competition from MVNOs and Omantel;
- changes in Oman's Telecommunications Regulatory Authority (TRA) regulations, such as roaming, tariff regulations and changes to billing services, or even the TRA granting additional licences and spectrum to other existing or new operators; and
- a slower-than-expected rollout of Nawras's network infrastructure.

# Company dynamics

**The next test of Nawras's strength will be the rapid deployment of its network infrastructure to compete effectively and efficiently with Omantel's established network, particularly in the mobile broadband services market.**

## Consolidated revenue and corporate strategy

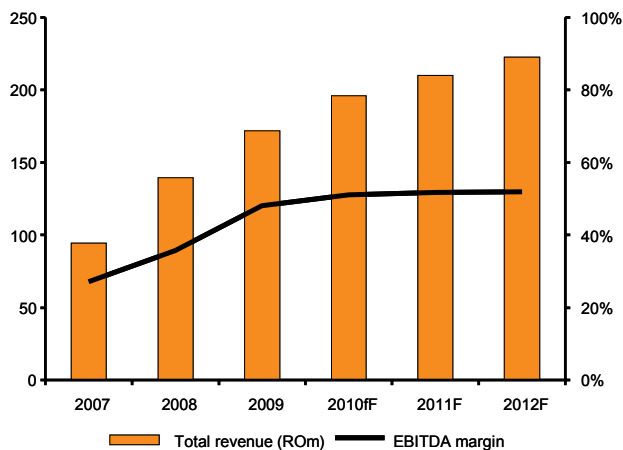
Nawras's management aims to capitalise on the growth opportunities available in the telecommunications market. The company plans to develop new revenue streams through a combination of entering the fixed and wholesale markets and increasing its share of the business market. Some of management's key strategies are:

- maintaining a high share of net subscriber additions by rolling out attractive and innovative promotional activities;
- exploiting the underpenetrated and broadband market by increasing its share of the business market by developing innovative, reliable and integrated business products and services tailored to specific needs of individual businesses, while delivering high-quality customer service;
- attracting customers from the competition through mobile number portability (MNP), by continuing to provide excellent customer service quality;
- retaining the existing subscriber base through incentive programmes, and acquiring and maintaining high-net-worth customers by utilising marketing segmentation and tailoring services;
- stimulating use of value-added services through various means, including offering bundled packages, mobile broadband and tailored products and services;
- capturing some of the fixed market share by offering broadband coverage to business and residential customers, and using expanded product and service offerings to cross-sell products to the current mobile base, particularly high-value customers; and
- leveraging on its strategic relationship with Qtel group to obtain improved vendor arrangements.

**We expect Nawras to reduce its operational costs through its recently acquired fixed-line licence**

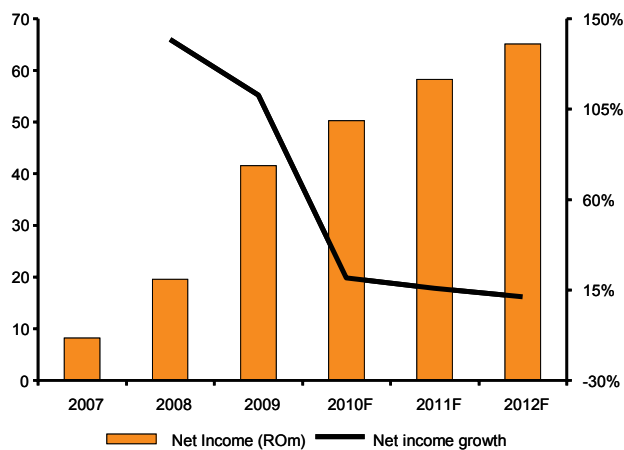
We expect Nawras to continue to increase revenue, albeit on a more reduced scale given an almost saturated wireless market and declining ARPUs. We do not expect Nawras to tackle the fixed-line market by offering fixed-line services per se. Rather, we expect the company to use its recently acquired fixed-line licence to reduce its operational expenses via its own international gateway and by having a platform from which to offer broadband services. That noted, we expect revenue to reach RO196m by year-end 2010 (annual growth of c14%), and reach RO210m by year-end 2011 (c7% annual growth).

**Chart 1 : Total revenue and EBITDA margin**



Source: Company data, Rasmala forecasts

**Chart 2 : Net income and growth**



Source: Company data, Rasmala forecasts

**Ability to capitalise on synergies between mobile and fixed-line; should improve efficiency**

Efficiency appears set to improve, given that Nawras intends to capitalise on the potential synergies available between the mobile and fixed-line businesses. Management plans to leverage its established distribution network to serve fixed-line customers and improve efficiency of the sales channels by increasing electronic and other automated processes. Additionally, costs could be reduced for international traffic through the launch of Nawras's international transmission facilities, which management expects to be operational by 2011.

In May 2010, Nawras began to provide international services directly through its own international gateway, resulting in lower international interconnection costs and higher revenues for incoming international traffic. That said, we expect Nawras's EBITDA margin to improve slightly, stabilising within the 51-52% range throughout our forecast period.

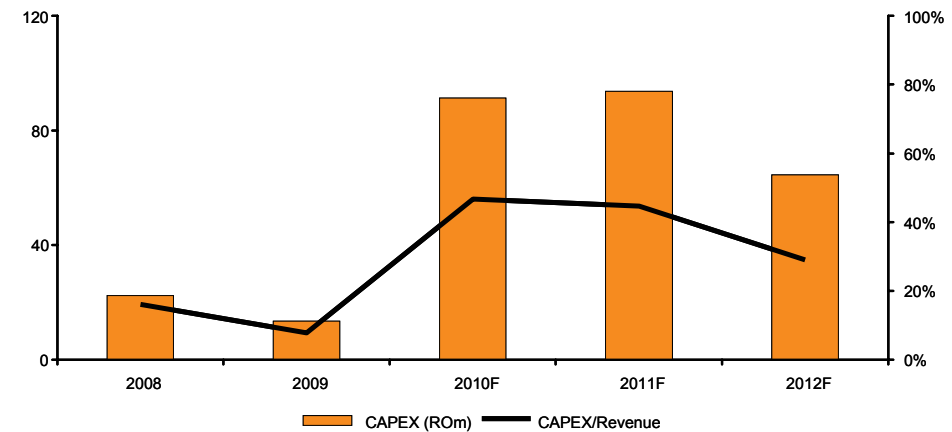
**Network infrastructure and capex**

Nawras has built a mobile network that utilises a combination of EDGE-enabled 2.75G and high-speed packet access (HSPA)-enabled 3.5G mobile access technologies. According to management, the network is supported by an all-IP/multiprotocol label switching (MPLS) transmission and is capable of supporting the rollout of emerging technologies, such as worldwide interoperability for microwave access (WiMAX) services, as well as future technologies such as long-term evolution (LTE). As of 30 June 2010, Nawras's network footprint covered approximately 96% of the population in Oman.

In connection with the rollout of Nawras's fixed-line services, management intends to implement a backbone and WiMAX wireless access networks to deliver voice and data telecommunications and Internet access across Oman. However, WiMAX technology may not be accepted by customers, or may be surpassed by other technologies, including LTE. The introduction of voice over IP services may also change the way in which customers use traditional fixed-line services and may negatively affect demand for Nawras's fixed-line services offerings.

As mentioned previously, we believe broadband/data service offerings will be the key for future growth in the Omani telecommunications market. We highlight here the difference between Omantel's main network infrastructure and Nawras's. Omantel's asymmetric digital subscriber line (ADSL) connection transmits data over copper telephone lines that require a vast fixed telecoms network to reach consumers. After years of developing Oman's fixed network, offering an ADSL connection does appear to make sense for Omantel; however, increasing coverage may require a considerable investment in infrastructure. In the case of Nawras, the network looking to be deployed is a next-generation WiMAX network. This would offer consumers a fast and wireless Internet connection (c40 Mbit/s for WiMAX, compared with up to 24 Mbit/s for ADSL); however, in general, service quality remains an issue, particularly in the initial phases of network rollout.

**Chart 3 : Nawras – capex**



Source: Company data, Rasmala forecasts

**Nawras still needs to spend heavily on rolling out its network**

Nawras would need significant capital expenditure, particularly to develop its fixed-line network, to offer wireless broadband access and roll out a backbone network. In addition, its mobile network will continue to be developed and require additional capital expenditure, such as for LTE. In 2007, 2008 and 2009, Nawras spent RO29.6m, RO35.8m and RO30.7m, respectively, to continue to roll out its mobile and fixed-line network. More recently, management used capex to develop the company's national backbone, broadband services and international gateway.

By the end of June 2010, Nawras's capital expenditure reached RO43.6m, related to the rollout of its fixed-line products and services. Furthermore, Nawras expects to use additional capex of approximately RO110m during the second half of 2010 and in 2011, bringing the total expected capex for the rollout of its fixed network infrastructure to RO150m. Management then expects capex to decline to historical levels.

### Dividends

**No significant dividend distribution expected in the next couple of years, due to ongoing rollout of network infrastructure**

According to Nawras's debt covenants, the company has agreed with its lenders that it will not declare any dividends until after the commitment period expires in October 2010. Management is considering declaring dividends from year-end 2010 onward, with the first dividend payment therefore occurring in 2011 at the earliest. That said, in the absence of additional future debt to fund Nawras's considerable capex requirements during 2010 and 2011, we expect investment financing to be entirely internally funded. Accordingly, we expect dividend distribution to be quite insignificant during 2010 and 2011. With the bulk of Nawras's network infrastructure scheduled to be completed after 2012, we expect the dividend payout to rise after that, comparable with the level of Oman Telecommunications. We estimate 10% and 20% payout ratios by 2011 and 2012, respectively.

### Mobile segment

Nawras was granted the second mobile licence in Oman in February 2005, to provide mobile telecommunications services within Oman for an initial period of 15 years. At the time, the licence awarded did not grant Nawras the right to provide international gateway services. Instead it required Nawras to provide international services from other operators licensed to provide those services, namely Omantel. However, Nawras's recently acquired fixed-line licence should enable the company to compete more efficiently on this front.

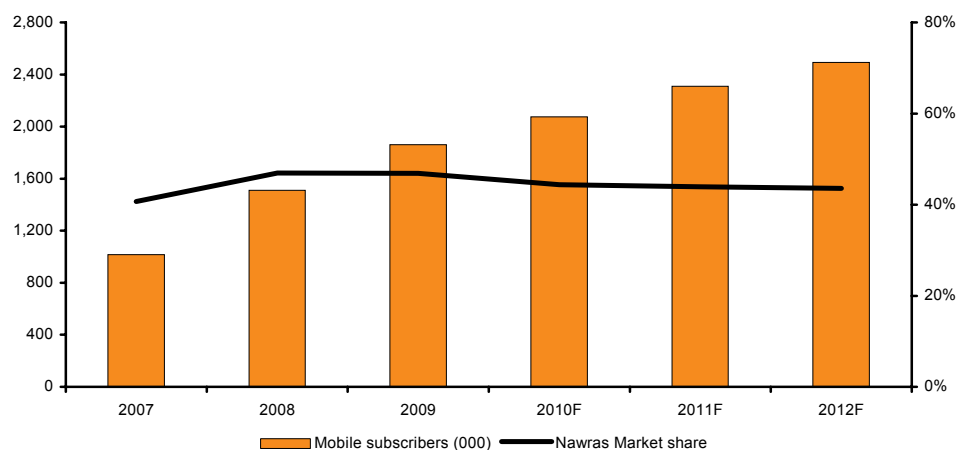
**Formed arrangements with three MVNOs to continue to develop wholesale activities**

Given the entry of resellers, or MVNOs, into the mobile market, Nawras has formed arrangements to provide mobile wholesale services to three resellers: Mazoon, which launched its service in November 2009; Injaz, which launched its service in April 2010; and Samatel. These service providers resell Nawras's mobile services under a different name pursuant to their individual agreements with Nawras. Nawras intends to continue to develop these wholesale activities.

**Captured 86% of MNP market since 2006**

Since its commercial launch in March 2005, Nawras has grown rapidly, acquiring more than 1.97m customers by the end of June 2010. According to the TRA, this is equivalent to a market share of 45% based on total Omani subscriber numbers. Nawras has captured more than 86% of the mobile number portability (MNP) market since 2006, according to the company and TRA. We expect Nawras's mobile market share to remain stable at 43-44% throughout our forecast period, given that market's maturity.

**Chart 4 : Nawras's mobile subscribers and market share**



Source: Company data, Rasmala forecasts

## Fixed segment

Historically speaking, Omantel has dominated and continues to dominate the fixed-line segment of Oman's telecom market – Nawras was allowed entry into this segment only in June 2009. Nawras was awarded the second fixed-line licence for a term of 25 years to provide fixed-line, data and international telecommunication services in Oman (with the exception of broadband spectrum rights, which are granted for 15 years from June 2009) at no additional cost.

### International gateway launched in May 2010

With the successful launch of both its fixed business and the international gateway in 2Q10, Nawras became a full-service provider of both fixed and mobile services. In May 2010, Nawras began to provide international services directly through its own international gateway, which reduced international interconnection costs and increased revenues for incoming international traffic.

The fixed licence also granted Nawras additional spectrum, which should be used to operate a wireless access network to provide for voice and data services, including broadband. Currently these services are provided through WiMAX technology, another first in Oman. This can later be upgraded to future technologies such as LTE, provided the LTE is used exclusively for fixed-line telecommunications products and services.

Nawras uses this new licence to provide a range of fixed services intended to complement and enhance existing mobile and Internet products and services and to focus on lucrative corporate and broadband markets. Under the conditions of its fixed licence, Nawras has certain coverage obligations, including providing fixed coverage for 54% of the population of Oman in mid-2010 and 81% by mid-2011. Nawras is also obliged to install 2,027 km of fibre-optic cable in 2010 and 5,035 km by 2011. Nawras has already met its obligations for 2010.

Other significant obligations in the fixed licence include obligations to:

- pay a royalty of 7% of revenues to the government of Oman;
- meet certain coverage obligations related to regions and key government institutions;
- meet certain quality-of-service requirements;
- interconnect and resell in certain circumstances; and
- meet Omani employment rules and other related employment obligations.

Nawras now offers residential and business voice and data services. The residential services are provided using WiMAX, while business services are provided through a combination of WiMAX and fibre-optic technologies, where this is economically viable.

The TRA has not published fixed-line market statistics since prior to the launch of Nawras's fixed-line products and services to corporate clients in May 2010 and to residential clients in June 2010. Accordingly, the TRA's most recent fixed-line market statistics reflect the 100% market share Omantel enjoyed at that time.

# The IPO

**Nawras undertook its IPO to comply with its licence obligations, which mandated that it make 40% (260.4m) of its total outstanding shares available to the public. The offer, which closed 21 October, was oversubscribed.**

**First IPO in Oman to be completed using the book-build method**

The first day of trading, on 1 November, followed the successful completion of the Nawras IPO, which raised a total of RO182m (more than US\$472m). Based on the listing price of RO0.702, the initial market capitalisation was RO456m (US\$1.18bn), positioning Nawras as a top five Omani company by market capitalisation. At the end of the first day of trading, the stock closed at RO0.740 per share, with 8,413,003 shares traded, increasing the company's market capitalisation to RO480.6m (more than US\$1.2bn). The IPO was also the first offer in Oman to be completed using the book-build method, which determined the share price of the offering on the basis of actual demand from institutional investors.

## Shareholder structure

**Table 4 : Details of the company on incorporation**

Selling shareholder's name	Number of shares held of nominal value RO1 each	% of total	Aggregate nominal value of shares held (RO)
TDC-Qtel Mena Investcom BSC	24,027,633	70%	24,027,633
Nawras Development LLC	4,805,527	14%	4,805,527
Diwan of the Royal Court Pension Fund	1,029,756	3%	1,029,756
Ministry of Defence Pension Fund	1,716,260	5%	1,716,260
Royal Office Pension Fund	1,716,260	5%	1,716,260
Internal Security Service Pension Fund	686,504	2%	686,504
Sultan's Special Force Pension Fund	343,252	1%	343,252
	34,325,192	100%	34,325,192

Source: Nawras prospectus and Rasmala

On 25 February 2006, the selling shareholders increased their equity contribution by RO20m by way of a rights issue on a *pari passu* basis.

On 18 December 2006, the board approved an increase of the issued share capital of the company of RO10,769,231 by way of a rights issue on a *pari passu* basis (transaction was completed in 2007).

**Table 5 : Details of the company before the offer**

Selling shareholder's name	Number of shares held of nominal value Bzs 100 each (1 RO = Bzs 1,000)	% of total	Aggregate nominal value of shares held (RO)
TDC-Qtel Mena Investcom BSC	455,660,940	70%	45,566,094
Nawras Development LLC	91,132,190	14%	9,113,219
Diwan of the Royal Court Pension Fund	19,528,330	3%	1,952,833
Ministry of Defence Pension Fund	32,547,220	5%	3,254,722
Royal Office Pension Fund	32,547,220	5%	3,254,722
Internal Security Service Pension Fund	13,018,890	2%	1,301,889
Sultan's Special Force Pension Fund	6,509,440	1%	650,944
	650,944,230	100%	65,094,423

Source: Nawras prospectus and Rasmala

**Table 6 : Post offer equity structure**

Selling shareholders' name	Number of shares held of nominal value Bzs 100 each (1 RO = Bzs 1,000)	% of total	Aggregate nominal value of shares held (RO)
TDC-Qtel Mena Investcom BSC	358,019,310	55%	35,801,931
Diwan of the Royal Court Pension Fund	6,102,610	1%	610,261
Ministry of Defence Pension Fund	10,171,010	1.5%	1,017,101
Royal Office Pension Fund	10,171,010	1.5%	1,017,101
Internal Security Service Pension Fund	4,068,400	0.7%	406,840
Sultan's Special Force Pension Fund	2,034,200	0.3%	203,420
Public	260,377,690	40%	26,037,769
	650,944,230	100%	65,094,423

Source: Nawras prospectus and Rasmala

## Company overview

Nawras is the second-largest mobile and fixed operator in Oman by market share. The company provides a complete range of mobile telecommunications products and services, including prepaid, postpaid, data, SMS and value-added services. As of 30 June 2010, Nawras had 1.97m customers and a 45% market share of mobile customers in the Oman mobile telecommunications market, according to the TRA. Nawras has built a mobile network that utilises a combination of EDGE-enabled 2.75G and HSPA-enabled 3.5G mobile access technologies. Nawras's network is supported by an all-IP/MPLS transmission capable of supporting the rollout of emerging technologies, such as WiMAX services, as well as future technologies such as LTE. As of 30 June 2010, Nawras's network footprint covered approximately 96% of the population in Oman's geographical landscape.

## Income statement

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	139.2	171.6	195.9	209.8	222.6
Cost of sales	-48.2	-37.6	-30.4	-31.5	-33.4
Operating costs	-41.3	-51.7	-65.6	-69.9	-73.7
<b>EBITDA</b>	<b>49.6</b>	<b>82.4</b>	<b>99.9</b>	<b>108.5</b>	<b>115.5</b>
DDA & Impairment (ex gw)	-16.2	-20.5	-23.3	-24.0	-24.6
<b>EBITA</b>	<b>33.5</b>	<b>61.8</b>	<b>76.6</b>	<b>84.4</b>	<b>90.9</b>
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
<b>EBIT</b>	<b>33.5</b>	<b>61.8</b>	<b>76.6</b>	<b>84.4</b>	<b>90.9</b>
Net interest	-4.31	-5.10	-5.77	-3.55	-1.32
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-6.03	-9.80	-13.7	-14.7	-15.6
<b>Reported PTP</b>	<b>23.1</b>	<b>46.9</b>	<b>57.2</b>	<b>66.2</b>	<b>74.0</b>
Taxation	-3.52	-5.40	-6.86	-7.94	-8.88
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
<b>Reported net profit</b>	<b>19.6</b>	<b>41.5</b>	<b>50.3</b>	<b>58.3</b>	<b>65.1</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	49.6	82.4	99.9	108.5	115.5
Normalised PTP	23.1	46.9	57.2	66.2	74.0
<b>Normalised net profit</b>	<b>19.6</b>	<b>41.5</b>	<b>50.3</b>	<b>58.3</b>	<b>65.1</b>

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	20.4	20.5	21.5	23.0	24.4
Other current assets	22.3	25.0	29.6	31.3	32.9
Tangible fixed assets	98.8	112.2	180.3	249.8	289.6
Intang assets (incl gw)	32.7	49.9	50.1	50.1	50.1
Oth non-curr assets	0.00	0.00	0.00	0.00	0.00
<b>Total assets</b>	<b>174.2</b>	<b>207.6</b>	<b>281.4</b>	<b>354.2</b>	<b>397.0</b>
Short term debt (2)	0.00	0.00	35.2	75.8	84.5
Trade & oth current liab	73.0	63.2	66.3	67.0	61.0
Long term debt (3)	48.0	48.6	33.8	12.6	0.00
Oth non-current liab	3.92	4.07	4.07	4.07	4.07
<b>Total liabilities</b>	<b>124.9</b>	<b>115.9</b>	<b>139.4</b>	<b>159.5</b>	<b>149.5</b>
Total equity (incl min)	49.3	91.7	142.0	194.8	247.5
<b>Total liab &amp; sh equity</b>	<b>174.2</b>	<b>207.6</b>	<b>281.4</b>	<b>354.2</b>	<b>397.0</b>
Net debt	38.0	39.3	68.8	86.6	73.1

Source: Company data, Rasmala forecasts

year ended Dec

## Cash flow statement

ROm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	49.6	82.4	99.9	108.5	115.5
Change in working capital	7.39	-13.3	-11.4	-1.06	0.62
Net interest (pd) / rec	4.31	5.10	5.77	3.55	1.32
Taxes paid	-3.52	-5.40	-6.86	-7.94	-8.88
Other oper cash items	0.00	0.00	0.00	0.00	0.00
<b>Cash flow from ops (1)</b>	<b>57.8</b>	<b>68.8</b>	<b>87.4</b>	<b>103.0</b>	<b>108.6</b>
Capex (2)	-19.6	-13.4	-91.3	-93.6	-64.5
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-28.7	-55.8	19.7	18.8	-17.7
<b>Cash flow from invest (3)</b>	<b>-48.2</b>	<b>-69.2</b>	<b>-71.7</b>	<b>-74.8</b>	<b>-82.2</b>
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-10.2	0.56	-14.8	-21.2	-12.6
Ordinary dividend paid	0.00	0.00	0.00	-5.52	-12.3
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
<b>Cash flow from fin (5)</b>	<b>-10.2</b>	<b>0.56</b>	<b>-14.8</b>	<b>-26.7</b>	<b>-25.0</b>
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
<b>Inc/(decr) cash (1+3+5+6)</b>	<b>-0.58</b>	<b>0.13</b>	<b>0.94</b>	<b>1.53</b>	<b>1.40</b>
Equity FCF (1+2+4)	38.2	55.4	-3.97	9.45	44.1

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

**Oman Telecoms (RIC: OTEL.MSM, Rec: Buy, CP: RO1.20, TP: RO1.33):** We use a blended methodology combining an SOTP-based DCF and peer comparables, weighted equally. Risks are higher-than-expected capex that could be a factor of inflationary pressure; intensifying competition, or a price war, that would lead to even more pressure on ARPU levels and hurt EBITDA margins; loss of market share to competitors in terms of mobile subscribers and mobile broadband subscribers; changes in the Omani TRA regulation; and further investment or capital injection in WorldCall.

**Nawras Telecom (RIC: NWRS.MSM, Rec: Hold, CP: RO0.73, TP: RO0.77):** We value Nawras using a blended methodology, combining DCF valuation and peer comparables, weighted equally. Upside risks: higher-than-expected mobile market share; faster rollout of network infrastructure; higher cost efficiency stemming from higher-than-expected cost savings/EBITDA margins; and lower-than-expected ARPU decline. Downside risks: sharper ARPU decline due to increased competition from MVNOS and Omantel; changes in Oman's TRA regs and slower-than-expected rollout of network infrastructure.

## Disclaimer

This report is prepared by Rasmala Investment Bank Limited ("RIB"). RIB is regulated by the Dubai Financial Services Authority ("DFSA"). RIB products or services are only made available to customers who RIB is satisfied meet the regulatory criteria to be a "Professional Client", as defined under the Rules and Regulations of the Dubai International Financial Centre ("DIFC").

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimates on a fundamental analysis of a company's future prospects, after having taken perceived risks into consideration. We have conducted reasonable research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that RIB believes to be reliable, we have not independently verified such information thus it may not be accurate or complete. RIB does not represent or warrant, either expressly or impliedly, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by RIB or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any securities referred to in the report. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

RIB is not registered with the U.S. Securities and Exchange Commission, or any U.S. state authority, as a broker-dealer or investment advisor. This report has not been approved, disapproved or recommended by the U.S. Securities and Exchange Commission, any state securities commission in the United States, the securities commission of any non-U.S. jurisdiction or any other U.S. or non-U.S. regulatory authority. None of these authorities has passed on or endorsed the merits or the accuracy or adequacy of this report.

RIB and its group entities (together and separately, "Rasmala") does and may seek to do business with companies covered in its reports. As a result, users should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Rasmala and its respective employees, directors and officers shall not be responsible or liable for any liabilities, damages, losses, claims, causes of action, or proceedings (including without limitation indirect, consequential, special, incidental, or punitive damages) arising out of or in connection with the use of this report or any errors or omissions in its content.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.