

23 November 2010

Wataniya

Acquisition of Tunisiana stake

Buy

Target price
 KD2.15

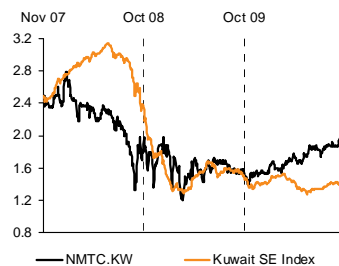
Price
 KD1.96

Short term (0-60 days)
 n/a

Market view
 No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (KD)	1.86	1.82	1.46
Absolute (%)	5.4	7.7	34.2
Rel market (%)	5.1	3.3	30.2
Rel sector (%)	5.5	5.9	27.6


Market capitalisation
 KD987.90m (€2.58bn)

Average (12M) daily turnover
 KD0.19m (US\$0.66m)

 Sector: Kuwait Service Index
 RIC: NMTC.KW, NMTC.KK
 Priced KD1.96 at close 22 Nov 2010.
 Source: Bloomberg

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (KDm)	481.8	480.3	524.9	558.1	591.2
EBITDA (KDm)	175.3	227.7	190.3	199.6	213.9
Reported net profit (KDm)	82.40	108.3	85.10	82.90	92.30
Normalised net profit (KDm)	82.40	108.3	85.10	82.90	92.30
Normalised EPS (KD)	0.16	0.21	0.17	0.16	0.18
Dividend per share (KD)	0.05	0.05	0.04	0.04	0.04
Dividend yield (%)	2.54	2.54	2.07	2.01	2.24
Normalised PE (x)	12.00	9.12	11.60	11.90	10.70
EV/EBITDA (x)	5.88	4.38	4.70	4.09	3.42
EV/invested capital (x)	2.25	2.01	2.06	1.97	1.83
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

 Accounting standard: IFRS
 Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Deal worth US\$1,200m

Qatar Telecom announced on Monday that it has signed, via its 52.5% owned subsidiary, Wataniya Telecom, an agreement with a consortium led by Princesse Holding of Tunisia to jointly acquire from Orascom Telecom Holding its 50% shareholding in Orascom Telecom Tunisie, operating under the brand name of 'Tunisiana'. Wataniya has an existing 50% shareholding in Tunisiana. Under the terms of the agreement, Wataniya and the Princesse Holding consortium will acquire the stock for US\$1,200m.

Transaction anticipated to be finalised by early 2011

Wataniya is to finance its portion of the transaction with a mixture of existing cash and debt, and will control the board and management of Tunisiana, allowing it to fully consolidate the business. The deal partners will work with the Tunisian authorities to finalise the transaction and anticipate closing with Orascom Telecom in early January 2011.

Deal is fairly priced in our opinion, with an implied 2011 EV/EBITDA multiple of 5.9x

In our initiation of coverage on Wataniya Telecom (*Middle East and N Africa Telecommunications – Broadband explosion*, 12 May 2010), we valued Wataniya's 50% stake in Tunisiana at US\$1,130m (KD316m), which is 6% lower than the announced transaction price of US\$1,200m. The total transaction implies an EV/EBITDA multiple of 5.9x based on our 2011 EBITDA estimates forecasts for Tunisiana.

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.

Key takeaways

We believe that this acquisition is in line with Wataniya's expansion strategy and that is fairly priced, despite the relatively high implied EV/EBITDA multiple on which it is to be executed.

Acquisition in line with Wataniya's expansion strategy

This acquisition is in line with both Wataniya's and the Qtel Group's expansion strategy. We believe Wataniya's country portfolio, which includes, Kuwait, Saudi Arabia, Palestine, Tunisia, Algeria and the Maldives, provides it with exposure to very attractive demographics, which include high population growth rates, with a high youth segment, and high ARPUs. Despite our general opinion that a local play is usually better managed than a widely diversified range of operations, we believe Wataniya is one of the few operators that has not grown too fast, while maintaining control over its operations and deriving the benefits of economies of scale.

EV/EBITDA premium is justified, in our view

Despite the high 5.9x EV/EBITDA premium (our average estimated 2011 EV/EBITDA multiples for Middle East and North African (MENA) telecom operators is c.4.7x), on which the deal is to be executed, we believe that a premium is justified for Tunisiana, given the untapped potential of data services offerings in Tunisia. Internet penetration was around 4.0% at year-end 2009, while broadband penetration stood at 3.6% at year-end 2009, according to ITU statistics.

That mentioned, in our initiation of coverage on Wataniya Telecom we had valued Wataniya's 50% stake in Tunisiana at US\$1,130m (KD316m), which is 6% lower than the announced transaction price of US\$1,200m.

Gearing levels are low at Wataniya

Gearing levels have remained low at Wataniya for the past couple of years, as it has enjoyed growing positive free cash flow since 2005, in addition to the absence of major acquisitions. As of September 2010, Wataniya had a net cash position of KD40m, implying an estimated net cash/EBITDA position of 0.2x for year-end 2010 (we had estimated a total consolidated EBITDA of KD190.3m by year-end 2010).

According to Wataniya's announcement, it will finance its portion of the transaction with a mixture of existing cash and debt, however the exact share between Wataniya and Princesse Holding has not been announced. If we assume that Wataniya will be financing the entire US\$1,200m transaction, its net debt/EBITDA would reach an estimated 1.5x based on our 2011 EBITDA forecasts, which is still relatively modest in terms of comparable telecom operators' capital structure.

IPO in 1H11

According to the Tunisian GSM licence, Wataniya is required to issue an IPO, which we believe would be beneficial, since it will allow for additional funding sources. According to Zawya, an internet based news source, the IPO is expected to take place by the first half of 2011 with around 20% of the company expected to be offered.

About Princesse Holding

Princesse Holding Group is a Tunisian diversified holding company with strategic investments in a variety of growth sectors benefiting from the ongoing development of the Tunisian economy. The Group's existing asset base includes investments in car distribution, cruise tourism, real estate, press, media, financial services, and agriculture. The group aims to develop and consolidate its existing domestic asset base while developing its international presence through industrial investments, principally focused on exportation and the establishment of strategic partnerships with international groups through co-investment in existing or new opportunities. The company was founded in 2004 by Tunisian businessman, Mohamed Sakher El Materi and is based in Tunis, Tunisia.

Income statement

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	481.8	480.3	524.9	558.1	591.2
Cost of sales	-174.8	-141.9	-184.9	-199.4	-208.8
Operating costs	-131.8	-110.7	-149.6	-159.0	-168.5
EBITDA	175.3	227.7	190.3	199.6	213.9
DDA & Impairment (ex gw)	-78.2	-83.2	-94.4	-95.0	-94.2
EBITA	97.1	144.5	96.0	104.6	119.7
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	97.1	144.5	96.0	104.6	119.7
Net interest	-9.80	-10.1	-8.16	-3.31	1.61
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	-3.41	-13.9	0.00	0.00	0.00
Reported PTP	83.8	120.5	87.8	101.2	121.3
Taxation	-12.2	-23.3	-23.9	-24.8	-27.6
Minority interests	10.8	11.0	21.2	6.41	-1.47
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	82.4	108.3	85.1	82.9	92.3
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	175.3	227.7	190.3	199.6	213.9
Normalised PTP	83.8	120.5	87.8	101.2	121.3
Normalised net profit	82.4	108.3	85.1	82.9	92.3

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	113.4	135.3	198.7	242.7	296.9
Other current assets	98.7	93.9	97.9	103.4	108.6
Tangible fixed assets	380.8	413.1	445.5	468.5	483.5
Intang assets (incl gw)	256.6	205.4	184.1	162.7	141.4
Oth non-curr assets	51.7	40.7	40.7	40.7	40.7
Total assets	901.1	888.4	966.8	1018	1071
Short term debt (2)	1.12	0.00	0.00	0.00	0.00
Trade & oth current liab	300.1	258.6	352.3	378.4	386.4
Long term debt (3)	138.1	128.9	71.6	40.2	13.5
Oth non-current liab	46.8	15.9	14.3	14.3	14.3
Total liabilities	486.1	403.3	438.2	438.9	414.2
Total equity (incl min)	415.0	485.1	528.6	585.2	656.8
Total liab & sh equity	901.1	888.4	966.8	1018	1071
Net debt	43.0	10.4	-94.1	-171.2	-256.7

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

KDm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	175.3	227.7	190.3	199.6	213.9
Change in working capital	69.4	-59.8	73.5	22.2	7.56
Net interest (pd) / rec	-9.80	-10.1	-8.16	-3.31	1.61
Taxes paid	-7.94	-17.6	-23.9	-24.8	-27.6
Other oper cash items	13.8	30.9	0.00	0.00	0.00
Cash flow from ops (1)	240.7	171.1	231.8	193.7	195.5
Capex (2)	-112.5	-105.4	-105.3	-96.7	-87.8
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	18.9	0.00	0.00	0.00
Cash flow from invest (3)	-112.5	-86.5	-105.3	-96.7	-87.8
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-22.8	-24.4	-20.4	-19.9	-22.1
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-71.5	-34.7	-40.0	-34.3	-27.1
Cash flow from fin (5)	-94.2	-59.1	-60.4	-54.2	-49.2
Forex & disc ops (6)	0.00	-3.59	-2.58	1.22	-4.34
Inc/(decr) cash (1+3+5+6)	33.9	21.9	63.5	44.0	54.1
Equity FCF (1+2+4)	128.1	65.7	126.5	96.9	107.7

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Wataniya (RIC: NMTC.KW, Rec: Buy, CP: KD1.96, TP: KD2.15): The key downside risks to our blended valuation (equal-weighting of peer multiples and DCF-based SOTP) are a prolonged pricing war with Zain and Viva and potentially overpaying for licences and acquisitions.

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.