

July 22, 2010

BATELCO (BTEL.BH)

12-Month Fair Value: BHD 0.700

Last Close (21 July, 2010): BHD 0.570

Recommendation: Buy - Risk Level: 4

- Batelco Group reported gross revenue of BHD 84.80 million for 2Q2010, a decline of 2% YoY, and below our forecast by just 1%. Batelco is facing increased competition in Bahrain with the entry of the third mobile operator Viva (owned by STC of Saudi). According to management, the entry of Viva negatively affected the company's market share in the mobile and broadband segments.
- At the end of June 2010, Batelco Group's mobile subscribers reached 6.88 million, a 47% growth compared to the same period last year. Fixed-line in Bahrain declined by 5% to 192 thousand lines. While broadband services grew by 54% to 230.6 thousand subscribers.
- On the EBITDA front, Batelco Group realized an adjusted EBITDA of around BHD 36.2 million, 7% below 2Q2009, and in line with our forecast. The EBITDA margin declined from 45% in 2Q2009 to 43% in 2Q210.
- Batelco Group reported a net profit of BHD 22.4 million in 2Q2010, 20% below 1Q2009 due to increased competition in Bahrain and the funding of the start-up operations in Saudi Arabia and India.
- Batelco's board of directors approved an interim cash dividend of BHD 0.020 per share representing a payout ratio of 62% of 1H2010 earnings and a dividend yield of 3.5%. The stock trades ex-dividend on 25 July 2010.
- During 1H2010, Batelco entered into contracts worth BHD 14.5 million to enhance the wireless network's quality and coverage, and ensuring readiness for 4G.
- Batelco's results were in line with our forecast; our fair value per share for Batelco (BHD 0.700) is now 23% over the closing price of 21 July 2010 (BHD 0.570), hence, our current recommendation on the stock is "Buy".

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Related Research

- Batelco Analyst Comment - 21 April 2010
- Batelco Analyst Comment - 01 February 2010
- Batelco Analyst Comment - 29 October 2009
- Batelco Update - 09 September 2009

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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