Jordan Telecom

Different Dynamics

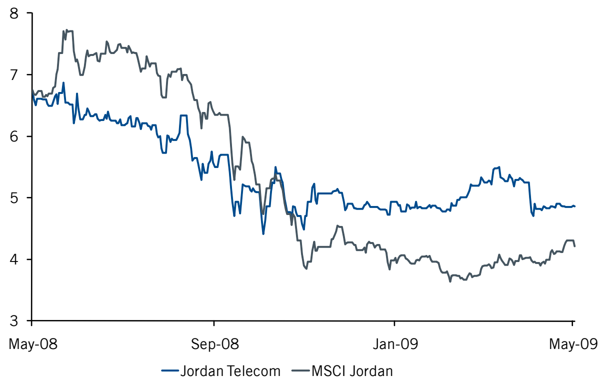
May 27, 2009

Key Data

Closing Price*	Avg. Value Traded per Day
JOD 4.86	JOD 384,594
52-Week High	**Market Cap**
JOD 6.87	JOD 1.22 bln
52-Week Low	**Current Number of Shares**
JOD 4.41	JOD 250 mln
Reuters	**Bloomberg**
JTEL.AM	JTEL JR
Ownership Structure	
France Telecom: 51% Govt: 3% Public:7% Others: 39%	

** Price as of close on May 26, 2009. Sources: Reuters, Zawya, and NBK Capital*

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

Key Ratios

	2008 a	2009 f	2010 f	2011 f	2012 f
P/E	12.1	11.9	11.7	11.6	11.5
EPS Growth	6%	2%	2%	1%	1%
EV/ EBITDA	5.1	5.0	4.9	4.8	4.7
EBITDA Margin	44%	45%	45%	44%	44%
EBITDA Growth	5%	2%	2%	2%	2%
Dividend Yield	7.8%	8.2%	8.4%	8.5%	8.6%
ROAE	24%	24%	24%	24%	25%

1Q2009 EBITDA a	2Q2009 EBITDA f
JOD 43,124	JOD 45,774
1Q2009 EBITDA f	**3Q2009 EBITDA f**
JOD 45,953	JOD 47,815

a=actual, f=forecast. Sources: Reuters, and NBK Capital

Highlights

12-Month Fair Value: JOD 4.57

Recommendation: Reduce-Risk Level: 4**

Reason for Report: 1Q2009 Update

- JTG has reported total revenue of JOD 94.7 million for 1Q2009, a 2% decline from 1Q2008 results. This is slightly (4%) below our forecast of JOD 98.9 million. The mobile business declined by 6% YoY following a negative growth in mobile subscribers (-3%) and a drop in the ARPU level because of reduced prices. The fixed-line business also experienced a 2.7% decline in revenue during the same period. However, Internet business, which now represents 7% of total revenues, increased by 58%.
- On the operating level, EBITDA decreased by 2% to JOD 43.1 million. This is 6% below our forecast of JOD 45.9 million. The EBITDA margin edged down from 45.7% in 1Q2008 to 45.5% in 1Q2009, versus our forecast of 46.5%. Net profit reached JOD 25.3 million, a 0.4% increase compared to the same period last year, and 3% below our forecast of JOD 26 million.
- As for full year 2008, the results were in line with our expectations. The company achieved revenue of JOD 401 million, just 2% below our forecast of JOD 410 million. EBITDA grew by 5% to JOD 178 million and the EBTIDA margin increased from 42.8% in 2007 to 44.5% in 2008. This increase is the result of improved operational efficiency as S&G expenses declined by 10% during 2008. Net income was also close to our expectations, just 2% below our forecast of JOD 102 million.
- In 2008, the mobile market experienced stellar growth, surpassing our expectations. We estimate that the active penetration rate leaped from 75% in 2007 to 86% in 1Q2009, with the number of active mobile subscribers reaching 5.4 million.
- We have reduced our fair value estimate for the share price from JOD 4.70 to JOD 4.57, 6% below the May 26, 2009 close, hence our "Reduce" recommendation. However, we highlight the 8% expected dividend yield that is quiet attractive in current market conditions.

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*** Please refer to page 7 for recommendations and risk ratings.*

VALUATION

During the past two quarters, Jordan's mobile market grew substantially in terms of the number of mobile subscribers, which pushed the penetration rate based on active subscribers to 86% at the end of March 2009. JTG mobile’s market share fell to 27%. The company reported total revenue of JOD 94.7 million for 1Q2009, a 2% decline YoY. This was slightly below (4%) our forecast of JOD 98.9 million. At the operating level, EBITDA decreased by 2% to JOD 43.1 million (6% below our forecast). Net profit was 3% below our forecast and reached JOD 25.3 million, a 0.4% increase YoY.

Our new 12-month fair value estimate for JTG’s share price has decreased by 3% to JOD 4.57. This change is due primarily to the 2% decrease in the fair value derived from our DCF valuation since we revised our forecasts. Also, the fair value estimate based on peer comparisons was affected by a decrease in peer multiples. Given that the fair value estimate is 6% below JTG’s latest market price, our new recommendation is “Reduce.”

Our new 12-month fair value for JTG is JOD 4.57

Figure 1 Fair Value per Share

Valuation Method	Old		New		Change
	Weight	Value	Weight	Value	
Discounted Cash Flow	80%	JOD 5.18	80%	JOD 5.08	-2%
Peer Comparison	20%	JOD 2.77	20%	JOD 2.52	-9%
Weighted Average Fair Value	**100%**	**JOD 4.70**	**100%**	**JOD 4.57**	**-3%**

Source: NBK Capital

Telecom Market Performance

Mobile Market

- Since Batelco acquired Umniah in June 2006, the mobile sector in Jordan has experienced fierce competition between the three telecom operators: Zain-Jordan, JTG and Umniah. Substantial growth in the number of mobile subscribers propelled a rise in the active penetration rate from 66% in 2006 to 86% at end of March 2009. Jordan's mobile market has been growing faster than we expected; the total number of active mobile subscribers outpaced our projection by 10% to reach an estimated 5.4 million by the end of 2008. As for 1Q2009, mobile subscribers grew further by 1%.

- What is remarkable is the behavior of the Jordanian telecom market's three mobile operators. Between 2006-2007, Zain-Jordan was so passive that the company was not only losing market share, its subscriber base also dropped by 5%. Umniah during that time was proactive and increased its market share from 16% in 2006 to 25% in 2007. As for JTG, the company followed a strategy of defending its turf and protecting its 32% market share. However, we have been witnessing a new trend since 2007. Zain-Jordan appears to have awakened and started to become more active than before by offering its mobile subscribers attractive packages and exposing them to the “One Network”; thus, we estimate that Zain-Jordan’s market share increased to 45% at the end of March 2009, up from 40% in 2007. Umniah increased its market share by only 1.5% during 2007 and 1Q2009. As we mentioned in our Special Update of November 20, 2008, we expected JTG to lose market share starting in 2009 because the company was conservative in its recent packages. JTG’s numbers confirm our expectations; the company appears to be facing a rough time protecting its market share, which fell from 32% in 2007 to 27% in 1Q2009. We believe that going forward; JTG needs to be proactive and innovative with its offerings especially after Zain’s takeover of Paltel in Palestine.

The Palestinian operation is expected to join Zain's "One Network", which will encourage Palestinians living in Jordan to be part of Zain group and enjoy the low tariffs.

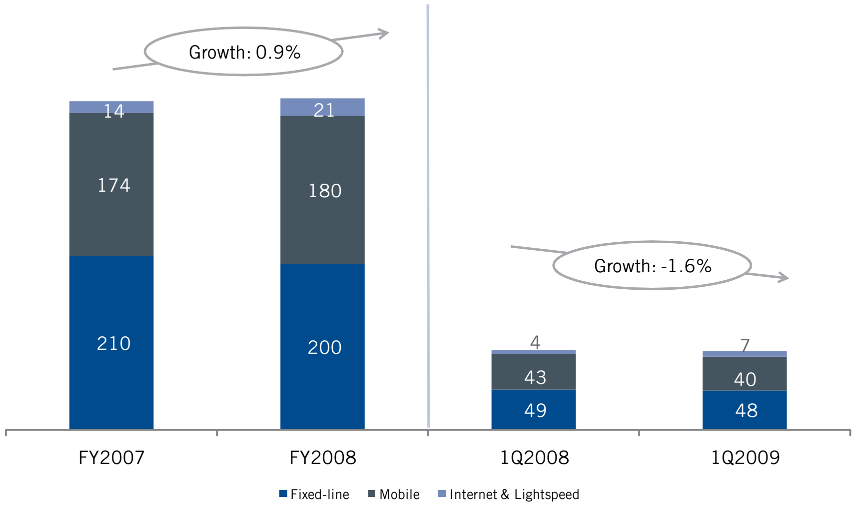
Fixed-Line and Internet Markets

- JTG's fixed-line service is still preserving its lead position in the fixed-line market, with the number of subscribers increasing by just 1% in 1Q2009 compared to the end of 2008, reaching 668,000 lines. We estimate the fixed-line penetration rate to be around 10.8% in 1Q2009.
- According to JTG's management, the company's Internet service had a market share of around 50% in 1Q2009, with a penetration rate of 13%.

FY 2008 & 1Q2009 Financial Performance

- JTG reported total revenue of JOD 401 million for 2008, a 0.9% increase over FY2007 results. During 1Q2009, total revenue declined by 1.6% YoY, to JOD 94.7 million.
    a. Fixed-line revenue (which is the largest contributor to total revenue) decreased by 5% in 2008 compared to 2007, falling to JOD 200 million. And during 1Q2009, it decreased by 2.7% compared to the same period last year. Fixed-line contributions to total revenues decreased from 51% at the end of 1Q2008 to 50% at the end of 1Q2009.
    b. Mobile revenues grew by only 3.5% in 2008 compared to 2007, and their contribution to total revenues increased to 44.5% during 2008. During 1Q2009 the mobile segment saw a 6% decline in revenue, to JOD 40.6 million.
    c. Internet revenue grew by 49% during 2008 and its contribution to total revenue increased to 5%, up from 3% at the end of 2007. Internet revenue grew by 58.5% YoY to reach JOD 6.5 million at the end of 1Q2008, compared to JOD 4.1 million in 1Q2007.
- During 2008, EBITDA increased by 5% compared to FY2007 results as a result of improved operational efficiency, as S&G expenses declined by 10% during 2008, and reached JOD 178 million. However, because of the reduction in revenues during 1Q2009, EBITDA decreased by 2% YoY to JOD 43.1 million. Thus, the EBITDA margin edged down from 45.7% in 1Q2008 to 45.5% in 1Q2009.

Figure 2 JTG's Revenue



Sources: JTG's financial statements and NBK Capital

- Net income reached JOD 100.3 million in 2008, a 6% increase compared to 2007. During 1Q2009, net profit grew by only 0.4% YoY (Figure 3).

Figure 3 FY2008 and 1Q2009 Performance

Income Statement (JOD Thousands)	Full Year Results			First Quarter Results		
	2007	2008	Change	1Q2008	1Q2009	Change
Total Revenue	**397.9**	**401.4**	**0.9%**	**96.2**	**94.7**	**-1.6%**
Cost of Revenue	135.0	136.8	1.3%	31.9	32.9	3.1%
Gross Profit	**262.8**	**264.6**	**0.7%**	**64.3**	**61.9**	**-3.9%**
Selling/General/Administrative Expense	72.3	64.9	-10.3%	16.4	15.6	-5.0%
Other expenses	20.2	21.2	5.2%	4.0	3.1	-21.4%
EBITDA	**170.3**	**178.5**	**4.8%**	**43.9**	**43.1**	**-1.9%**
EBITDA margin	***42.8%***	***44.5%***	***3.9%***	***45.7%***	***45.5%***	***-0.3%***
Depreciation/amortization	53.8	54.0	0.4%	13.3	13.3	0.3%
Operating Income	**116.5**	**124.4**	**6.8%**	**30.7**	**29.8**	**-2.8%**
Interest Income(Exp), Net Non-Operating	14.6	16.5	13.2%	5.1	4.3	-16.5%
Other, Net	(3.3)	(3.7)	13.8%	-1.5	-0.1	-93.5%
Net Income Before Taxes	**127.8**	**137.2**	**7.4%**	**34.3**	**34.0**	**-0.9%**
Provision for Income Taxes & Minority Interest	33.3	36.9	10.9%	9.1	8.7	-4.3%
Net Income	**94.5**	**100.3**	**6.1%**	**25.2**	**25.3**	**0.4%**

Source: JTG's financial statements

Outlook

The telecom market in Jordan is suffering from stiff competition among mobile operators. The mobile market's growth surpassed our expectations, with the total number of active mobile subscribers reaching 5.4 million, 10% ahead of our forecast of 4.9 million. On the other hand, JTG's market share dropped at a faster pace than we expected. Thus, we have revised our forecast to incorporate the latest changes.

- With the latest market improvement, we believe that the penetration rate based on active subscribers will reach 90% in 2013, with the total number of active mobile subscribers growing at a CAGR of 6% between 2007 and 2013, compared to our original forecast of 5%.

- We believe that it will be hard for JTG to chanllenge Zain-Jordan and Umniah with its current strategy. We think that JTG should be more aggressive than it has been recently; in order to enhance its position in the market it should move out of its defensive posture. We forecast JTG's mobile market share to reach 28.5% by 2013, compared to our original forecast of 32%.

Figure 4 Jordan's Mobile Market

(000's)	2008a	2009f	2010f	2011f	2012f	2013f
Penetration Rate*	85%	88%	89%	89%	90%	90%
Peers' Penetration Rate	79%	85%	90%	94%	96%	98%
Market Share:						
JTG	28%	27%	28%	28%	28%	29%
Others	72%	73%	73%	72%	72%	72%
JTG's ARPU (USD)						
*Total Blended***	14.0	13.7	13.4	13.1	12.9	12.7

** Based on estimated active subscribers. ** Total blended ARPU. Sources: Informa database and NBK Capital*

- As expected, the continuously strong competition and the economic slowdown were behind the decline in total revenue in 1Q2009. Going forward, we believe that JTG will face the uncomfortable prospect of losing a significant chunk of its mobile revenue to its competitors; thus, we now forecast JTG's mobile revenue to grow at a CAGR of only 2% between 2007 and 2013, compared to our previous forecast of 4%. We believe that JTG's ARPU will be diluted from around USD 14 in 2008 to USD 12.7 by 2013. Figure 5 highlights the major differences between our latest 2009 forecasts and our previous forecasts, and shows the same comparison over the actual 2008 figures.

- As a result of falling revenues, we believe that EBITDA will grow at a CAGR of 2.4% between 2007 and 2013, compared to our original forecast of 3.5%.

- We believe that net profit will grow at a CAGR of 2% between 2007 and 2013 to reach JOD 107 million by 2013.

Figure 5 New 2009 Forecasts Compared to Previous Forecasts

Figures in JOD million	2008 Actual	2009 F		2009 New Forecast Versus	
		Old	New	2008 Actual	Old 2009 F
Revenue	401.4	417.8	408.9	1.86%	-2.13%
Gross Revenue	264.6	275.7	269.9	1.99%	-2.13%
EBITDA	178.5	185.9	181.9	1.95%	-2.13%
EBITDA margin	44.5%	44.5%	44.5%		
Net Profit	100.3	102.5	102.1	1.79%	-0.44%

Source: NBK Capital

FINANCIAL STATEMENTS

Balance Sheet (JOD Thousands)	Historical		Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
ASSETS								
Cash and Short-Term Investments	323,369	341,918	345,054	354,989	368,535	384,195	376,736	394,550
Total Receivables, Net	60,077	55,200	49,064	49,845	51,630	53,462	55,092	56,178
Total Inventory	4,575	8,485	5,561	5,649	5,851	6,059	6,244	6,367
Other Current Assets, Total	18,608	17,586	17,674	17,762	17,851	17,940	18,030	18,120
Total Current Assets	**406,629**	**423,190**	**417,352**	**428,246**	**443,868**	**461,656**	**456,101**	**475,215**
Property/Plant/Equipment, Total - Net	239,668	236,252	236,485	233,430	228,529	221,697	212,576	200,454
Goodwill, Net	3,543	1,421	3,543	3,543	3,543	3,543	3,543	3,543
Intangibles, Net	8,055	12,993	11,880	10,767	9,653	8,540	7,427	6,314
Other-Long Term Assets	6,748	2,290	2,404	2,525	2,651	2,783	2,923	3,069
TOTAL ASSETS	**664,643**	**676,146**	**671,664**	**678,510**	**688,244**	**698,219**	**682,570**	**688,595**
LIABILITIES & EQUITY								
Accounts Payable	101,906	115,586	111,211	112,982	117,028	121,179	124,875	127,337
Accrued Expenses	64,079	49,229	61,330	62,306	64,538	66,827	68,865	70,222
Current Port. of LT Debt/Capital Leases	545	532	541	556	556	556	556	556
Other Current Liabilities	39,544	45,030	24,532	24,922	25,815	26,731	27,546	28,089
Total Current Liabilities	**206,075**	**210,376**	**197,614**	**200,767**	**207,938**	**215,293**	**221,841**	**226,204**
Long-Term Debt	33,986	33,228	33,370	32,814	32,257	31,701	6,145	5,588
Minority Interest	332	(630)	332	332	332	332	332	332
Other Liabilities, Total	13,046	16,669	16,752	16,836	16,920	17,005	17,090	17,175
Total Liabilities	**253,438**	**259,643**	**248,068**	**250,749**	**257,447**	**264,331**	**245,408**	**249,300**
Total Equity	**411,204**	**416,502**	**423,596**	**427,761**	**430,797**	**433,888**	**437,162**	**439,295**
TOTAL LIABILITIES AND EQUITY	**664,643**	**676,146**	**671,664**	**678,510**	**688,244**	**698,219**	**682,570**	**688,595**

Income Statement (JOD Thousands)	Historical		Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
Total Revenue	397,868	401,411	408,865	415,375	430,251	445,513	459,098	468,149
Cost of Revenue	135,033	136,821	139,014	141,227	146,285	151,474	156,093	159,171
Gross Profit	**262,835**	**264,590**	**269,851**	**274,147**	**283,966**	**294,038**	**303,005**	**308,978**
Selling/General/Admin. Expenses	72,341	64,873	63,374	64,383	68,840	73,510	78,047	79,585
Depreciation/Amortization	53,820	54,033	58,167	61,947	65,862	69,916	74,094	78,354
Other Operating Expenses	20,191	21,248	24,532	24,922	25,815	26,731	27,546	28,089
Operating Income	**116,483**	**124,437**	**123,778**	**122,895**	**123,448**	**123,882**	**123,318**	**122,950**
Interest Income (Exp), Net Non-Operating	14,591	16,512	14,721	18,369	19,060	19,914	21,952	22,248
Other, Net	(3,254)	(3,703)	(3,695)	(3,668)	(3,685)	(3,698)	(3,681)	(3,670)
Net Income before Taxes	**127,820**	**137,246**	**134,804**	**137,596**	**138,823**	**140,098**	**141,589**	**141,528**
Provision for Income Taxes	34,075	37,909	33,701	34,399	34,706	35,025	35,397	35,382
Net Income after Taxes	**93,745**	**99,337**	**101,103**	**103,197**	**104,117**	**105,074**	**106,192**	**106,146**
Minority Interest	755	962	990	1,020	1,051	1,082	1,115	1,148
Net Income	**94,500**	**100,298**	**102,093**	**104,217**	**105,168**	**106,156**	**107,307**	**107,294**

Cash Flow (JOD Thousands)	Historical		Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
Cash from Operating Activities	167,768	152,013	148,085	157,475	164,773	169,352	172,685	175,112
Cash from Investing Activities	(46,936)	(37,567)	(50,783)	(46,700)	(48,326)	(49,893)	(51,629)	(52,691)
Cash from Financing Activities	(86,891)	(95,896)	(94,167)	(100,839)	(102,901)	(103,798)	(128,516)	(104,606)
Net Change in Cash	**33,941**	**18,550**	**3,135**	**9,936**	**13,546**	**15,660**	**(7,459)**	**17,815**

Sources: Company's financial statements and NBK Capital

RISK AND RECOMMENDATION GUIDE

Recommendation	Upside (Downside) Potential
Buy	more than 20%
Accumulate	between 10% and 20%
Hold	between -5% and 10%
Reduce	between -10% and -5%
Sell	less then -10%

RISK LEVEL				
Low Risk				High Risk
1	2	3	4	5

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