

August 18, 2009

WATANIYA TELECOM (NMTK.KW)

- Wataniya announced its detailed 1H2009 results, which came in line with our expectations.
- At the end of June 2009, total active subscribers reached 11.9 million, a growth of 14% compared to the same period last year. Both the Algerian and Tunisian operations were the main contributors to total subscribers; 49% and 37% respectively.
- Total revenue for 2Q2009 increased by just 1% YoY and reached KD 121 million; this was in line with our forecast of KD 121.8 million. The slow growth in revenue is due mainly to increased competition in Kuwait. As we mentioned in our Initiation of coverage “Competition heats up” published on July 02, 2009, the increased competition as well as the cancellation of the called party pays fee will have negative impact on the profitability of mobile operators in Kuwait. The 2Q2009 results were a good indicator of the effect of the cancellation; revenue from the Kuwaiti operation dropped by 11%, and contributed to 42.5% of total revenue versus 48% in the 2Q2008.
- Consolidated EBITDA declined by 5% in 2Q2009 to KD 48.8 million (6% lower than our forecast) which translates into an EBITDA margin of 40%. This decline is mainly due to the slowdown in the Kuwaiti operation. The EBITDA of Kuwait, which constitutes around 52% of the group EBITDA, dropped by 18% in 2Q2009 compared to the same period last year. This was despite the improvement of cost of revenue as a percentage of total revenue from 36% in 2Q2008 to 29% in 2Q2009 mainly due to the cancellation of the MOC license charges after Wataniya won a court ruling against the ministry in June 2009.
- Accordingly, the company also reversed the provision it has been charging its income statement with (for MOC license charges) that totaled KD 58.4 million in 2Q2009. Hence, Net profit increased to KD 63.5 million during 2Q2009 compared to KD 26.5 million in 2Q2008.
- Our estimate of Wataniya Telecom’s fair value per share stands at KD 2.060, 24% above the share’s closing price of KD 1.660 on August 17, 2009— hence, our “Buy” recommendation.

Diala Hoteit

T. +971 4 365 2855

E. diala.hoteit@nbkcapital.com

Lisa Fernandes

T. +971 4 365 2856

E. lisa.fernandes@nbkcapital.com

RELATED RESEARCH

- Wataniya Initiation of Coverage – 02 July 2008

NBK CAPITAL**Kuwait****Head Office**

38th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6905

MENA Research

35th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
Tel: +965 2224 6663
Fax: +965 2224 6905
E: menaresearch@nbkcapital.com.kw

Brokerage

37th Floor, Arraya II
Al Shuhada Street, Block 6, Sharq
P.O.Box 4950, Safat 13050, Kuwait
Tel: +965 2224 6964
Fax: +965 2224 6978
E: brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506, Dubai,
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
Tel: +90 212 276 5400
Fax: +90 212 276 5401

DISCLAIMER

This document and its contents are prepared for your personal information purposes only and do not constitute an offer, or the solicitation of an offer, to buy or sell a security or enter into any other agreement. Projections of potential risk or return are illustrative, and should not be taken as limitations of the maximum possible loss or gain. The information and any views expressed are given as of the date of writing and are subject to change. While the information has been obtained from sources believed to be reliable, we do not represent that it is accurate or complete and it should not be relied on as such. Watani Investment Company (NBK Capital), its affiliates and subsidiaries accept no liability for any direct, indirect or consequential loss arising from use of this document or its contents. At any time, the employees of NBK Capital and its affiliates and subsidiaries may, at their discretion, hold a position, subject to change, in any securities or instruments referred to, or provide services to the issuer of those securities or instruments.

© COPYRIGHT NOTICE

This is a publication of NBK Capital. No part of this publication may be reproduced or duplicated without the prior consent of NBK Capital.