

May 13, 2010

OMANTEL (OTL.OM)

12-Month Fair Value: OMR 1.800

Last Close (13 May, 2010): OMR 1.242

Recommendation: Buy - Risk Level: 4

- Omantel reported total revenue of OMR 110.6 million for 1Q2010, up 12% YoY and 2% QoQ. These results are 6% higher than our forecast. Omantel's domestic revenues grew by 2% YoY to OMR 101 million. 1Q2010 revenue also included OMR 10 million in revenues from Worldcall Telecom Limited (WTL), which was consolidated into Omantel's financials starting July 2009, thereby driving a large part of the revenue growth.
- From a segmental view, the growth was primarily driven by fixed-line revenues (including both fixed-line and broadband services) growing by 33% YoY to OMR 28 million and wholesale revenues growing by 18% YoY to OMR 25 million. Mobile revenues grew by only 2% YoY as a result of intensified competition in Oman's mobile market.
- Omantel's domestic mobile subscribers increased by 6% QoQ to approximately 2 million subscribers. We estimate that Omantel's market share remained relatively stable compared to last quarter, at 49.4%. However, we note that Omantel was able to capture around 52% of the net additions over the quarter; we find this to be fairly impressive given the increased competition in the domestic market.
- Omantel's fixed-line subscribers declined by 6.5% QoQ to 258 thousand by the end of 1Q2010, on account of subscribers not renewing their annual pre-paid subscriptions coming due by quarter's end. The management however, has indicated that Omantel has now implemented a monthly subscription policy and does not expect to see such strong declines in the future. Omantel's broadband subscribers increased by 2.4% QoQ to 42 thousand by the end of 1Q2010. WTL subscribers stood at 817 thousand at the end of 1Q2010 (representing 26% of Omantel's total subscribers).
- On the fixed-line front, Omantel is set to face additional competition with the launch of Nawras's fixed-line services next week.
- 1Q2010 EBITDA saw flat YoY growth while increasing by 6% QoQ to OMR 53.8 million and was 3% above our forecast. We note that domestic EBITDA declined by 4% YoY to OMR 52 million (96% of group EBITDA), while WTL contributed OMR 2 million to group EBITDA. EBITDA margin for the group came in at 49% compared to 55% in 1Q2009 and 47% in 4Q2009. The YoY decline in EBITDA margin is attributable to increased competition in home market and low EBITDA margin contribution from WTL.
- 1Q2010 net profit declined by 15% YoY. This decline can be explained by the inclusion of a one-off insurance claim settlement of OMR 3.6 million in 1Q2009 net profits, excluding this 1Q2010 net profit would have declined by only 6%.
- Overall we see these results as positive. We maintain our fair value on the stock at OMR 1.800 per share, which is 45% higher than the stock's last close. Hence, our recommendation on the stock is a "Buy".

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Related Research

- Omantel Update - 17 April 2010

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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