Analyst Comment

NBK CAPITAL

August 17, 2010

OMANTEL (OTL.OM)

12-Month Fair Value: OMR 1.800
Last Close (16 August, 2010): OMR 1.155
Recommendation: Buy - Risk Level: 4

- Omantel reported total revenue of OMR 107.7 million, up 8%YoY but declining 3% QoQ. These results were in line with our forecast (1% higher). The company attributed the yearly growth to the increase in number of postpaid subscribers in Oman.
- Domestic revenues remained flat YoY at OMR 99.5 million, while international revenues, relating to Worldcall (WTL), came in at OMR 8.3 million versus nil in 2Q2009.
- Revenue growth was mainly driven by mobile revenue growing by 8% YoY and by 5% QoQ to OMR 60.6 million. This growth is driven by the operator's successful focus on post-paid subscribers. Omantel was able to add 102 thousand new subscribers during 2Q2010 versus 105 thousand in 1Q2010. The net additional post-paid subscribers represented 15% of additional subscribers during 2Q2010 versus only 1% during 1Q2010.
- Wholesale revenues grew by 12% YoY, but declined by 9% QoQ to OMR 22.7 million in 2Q2010. The quarterly decline in this segment relates to the migration of Nawras's international traffic from Omantel's networks to the operator's own international gateway, starting May 2010.
- Fixed-line revenues grew by 4% YoY, but declined by 14% QoQ to OMR 24.3 million. The quarterly revenues were depressed due to a one-off sale of dark fiber, worth OMR 1.2 million, made by WTL during 1Q2010 and an OMR 2.1 million deferral of income during 2Q2010.
- Adjusted EBITDA declined by 6% YoY and by 3% QoQ to OMR 58.74 million. The adjusted EBITDA comes in line with our forecast of OMR 58.95 million. The adjusted EBITDA margin stood at 55% in 2Q2010 remaining flat QoQ and dropping from the 62% achieved in 2Q2009. The decline in EBITDA relates to increases in operating and maintenance expenses incurred on the back of 3.5G network expansion. Furthermore, WTL's operations have also pressured the group's EBITDA margins as WTL's margins are fairly low relative to Omantel's domestic operation. This also led to a decline of net profit by 19% YoY to OMR 28.6 million.
- CAPEX during 1H2010 represented 18% of sales versus 34% in 1H2009. Management accredits the decline in CAPEX to the fact that a majority of the 3G network expansion has already taken place and the remainder of the CAPEX during the year will be dedicated to the expansion of the network into a few strategic cities and highways within Oman. The management maintains its FY2010 guidance for CAPEX at 15% to 17% of sales.
- Overall, we see the resilience of Omantel's mobile segment in Oman in facing the intense competition from Nawras and the existing MVNO, as positive. We maintain our fair value for the stock at OMR 1.800 per share, which is 56% higher than last close. Hence, our recommendation is "Buy."

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Related Research

- Omanatel Analyst Comment - 13 May 2010
- 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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