

July 26, 2010

QATAR TELECOM (QTEL.QA)

12-Month Fair Value: QAR 205

Last Close (25 July 2010): QAR 167.20

Recommendation: Buy - Risk Level: 4

VODAFONE QATAR (VFQS.QA)

12-Month Fair Value: QAR 9.60

Last Close (25 July 2010): QAR 7.95

Recommendation: Buy - Risk Level: 4

- On 22 July 2010, the Supreme Council for Information and Communications Technology (“ictQATAR”) in Qatar, issued its decision on the investigation and dispute in relation to “Virgin Mobile.” Virgin Mobile represents a brand of Qatar Telecom’s (“Qtel”) pre-paid mobile services which was launched on 13 May 2010, and branded as “Virgin Mobile Qatar.”
- ictQATAR has concluded that between 13 May 2010 and 18 May 2010, the Virgin Mobile services were represented by Qtel in a manner which mislead or deceived consumers about who was providing the services. Qtel’s branding strategies for Virgin Mobile were deemed to be misleading, anti-competitive, and to have presented Virgin Mobile as a third operator or an MVNO.
- Subsequently on 17 May 2010 (followed by further instructions on 20 May 2010 and 15 July 2010), ictQATAR has ordered Qtel to discontinue its potentially misleading marketing and branding activities which represent Virgin Mobile as an independent provider of retail telecommunication services. All references to “Virgin Mobile Qatar” are to be changed to “Qtel’s Virgin Mobile Service.” All marketing and customer materials, retail outlets, products, and SIM cards are to prominently display the Qtel logo. Furthermore, Qtel was ordered to provide refunds sought from the consumers for any products and services represented as being provided by Virgin Mobile Qatar. Qtel has confirmed that it has already implemented some of the changes ordered by ictQATAR and will comply with the remainder in the near future.
- On 7 June 2010, Vodafone Qatar (“VQ”) filed a complaint with ictQATAR alleging that Qtel’s launch of Virgin Mobile violated the telecommunications law because Virgin Mobile had been established as a third mobile telecommunications provider in Qatar without a license. Thereafter, ictQATAR has determined that Virgin Mobile is a branded service of Qtel, not an unlicensed third-operator and as such Virgin Mobile’s services are provided under Qtel’s mobile telecommunications and services license. Furthermore, Qtel has also confirmed that its Virgin Mobile service will continue to be offered in Qatar.
- ictQATAR has determined that Qtel should be subject to penalties for its actions during the 13 May 2010 to 18 May 2010 period and has referred the matter to the Office of the Attorney General for assessment of an appropriate penalty.
- Overall, we consider these developments to be a positive for the Qatari mobile market as they reinforce the clarity of the market’s competitive structure, as a duopoly. We maintain our prior recommendations on both Qtel and VQ. Our fair value for Qtel (QAR 205) is currently 23% above the last close (QAR 167.20), hence, our current recommendation on the stock is “Buy.” Our fair value for VQ (QAR 9.60) is currently 21% above the last close (QAR 7.95), hence, our current recommendation on the stock is “Buy.”

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Related Research

- Qtel Analyst Comment - 25 April 2010
- Qtel Update - 31 March 2010
- Vodafone Qatar - 21 July 2010
- Vodafone Qatar Initiation of Coverage - 08 July 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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