

April 25, 2010

QATAR TELECOM (QTEL.QA)

12-Month Fair Value: QAR 205

Last Close (25 April, 2010): QAR 166

Recommendation: Buy - Risk Level: 4

- Qtel's posted a 14% increase in total revenue in 1Q2010 to QAR 6.4 billion, 6% higher than our forecast. Qtel was able to achieve healthy results in Iraq, Algeria and Tunisia. As for its operation in Indonesia, it continued on the same growth path that we saw in 4Q2009. Consolidated Adj. EBITDA increased by 15% during 1Q2010 (4% higher than our forecast) which translates into a steady EBITDA margin of 47%. It is important to note that EBITDA in Qatar and Kuwait declined by 20% and 4%, respectively due to increased competition. During 1Q2010, net profit attributable to shareholders increased by 104% YoY and reached QAR 1.2 billion. This was mainly due to the reduction of royalty fee retroactively. The impact of this reduction on group net profit is around QAR 554 million. If we were to remove the effect of such a one-off item; net profit would have increased by only 11% YoY.
- The group CAPEX reached QAR 1.26 billion in 1Q2010 representing 20% of total revenues versus 37% in 1Q2009.
- Qtel was able to refinance its existing loans amounting to USD 2 billion (originally due in 2011) to USD 1.25 billion due in 2013 and USD 750 million due in 2015.
- Qtel gave guidance for FY2010 during its analyst conference call that was held on the 23rd of April 2010. The management is expecting a growth in revenue and EBITDA of 5% to 10%. As for CAPEX, guidance is for QAR 8.6 billion to QAR 9 billion.
- At the end of March 2010, total consolidated subscribers under Qtel group reached 67.7 million, a growth of 12% compared to December 2009. The Indonesian operation contributed to around 59% of total subscribers, followed by Algeria and Iraq which contributed to 12% and 11%, respectively.
- In Qatar, mobile revenue witnessed a drop of 11% YoY due to the competition from Vodafone Qatar. Revenue from the Qatari operation contributed to 21% of total revenue for 1Q2010 versus 26% in 1Q2009. As for EBITDA contribution, it dropped from 34% in 1Q2009 to 23% in 1Q2010.
- In Indonesia, the appointment of the new management team started to pay off in 4Q2009 and continued in 1Q2010 as the company saw, for the second consecutive quarter, subscriber growth. Indosat added around 6 million mobile subscribers during 1Q2010, despite the seasonality effect. The financial performance of Indosat in QAR was impacted positively by the strengthening of the Rupiah. Indosat's revenue during 1Q2010 in IDR increased by only 4% YoY compared to an increase of 30% YoY in QAR. As for Indosat contribution to the group revenue, it increased from 26% in 1Q2009 to 29% in 1Q2010.
- The operation in Iraq still represents a growth story for Qtel; the company is focusing on network growth and expanding services. Asiacell also started educating its subscribers ahead of the second quarter changes in billing to the Iraqi dinar and per second tariffs. Total revenue grew by 34% YoY and contributed to 18% of total revenue in 1Q2010. As for EBITDA contribution to the total, it increased from 18% in 1Q2009 to 23% in 1Q2010.
- We view this set of results as positive. We maintain our "Buy" recommendation with a 12-month target value of QAR 205 per share. Our fair value target is 24% above Qtel's latest market price of QAR 166.

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Related Research

- QTel Update - 31 March 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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