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• **Subscriber growth backed-up by strength in North Africa:** Wataniya's subscribers reached 8,236 million in Q3 07 increasing by 11% QoQ and 31% YoY, with Algeria and Tunisia representing a combined 84% of the total base this quarter. Algeria represented 58% of the net additions and Tunisia 35%. With respective penetration rates of 76% and 55% we believe that Tunisia and Algeria will be the most important markets in terms of subscriber growth going forward.

• **Upheld revenues\*:** Revenues for Q3 07 reached KWD104.5mn increasing by 4% QoQ and 20% YoY; in-line with our forecast of KWD 104.8mn for the period. Revenues for the 9M 07 period reached KWD 296.7mn recording a 27% increase over 9M 06. Kuwait represented 51% of total revenues, with attributable revenues increasing by 2% QoQ and 17% YoY. Tunisia represented 20% of total revenues in Q3 07, as revenues grew by 10% QoQ and 11% YoY. Algeria on the other hand contributed to 25% of total revenues with a quarterly growth of 4% and a yearly growth of 24%. Kuwait's ARPU is 120% higher than Wataniya's average blended ARPU; we believe that despite the Kuwaiti market's saturation and the introduction of new competition Kuwait will remain the largest contributor to the group's top line. It is important to note that ARPU has remained unchanged YoY in Kuwait whereas it has dropped by 15% YoY on average for the group.

• **EBITDA\* weakened by Saudi Arabia and the Maldives:** In Q3 07 Wataniya's EBITDA reached KWD 39.8mn dropping by 1% QoQ and increasing by 16% YoY. For the 9M 07 EBITDA was of KWD 117.2mn increasing by 33% over 9M 06. The Saudi Arabian and Maldives operations are still EBITDA negative. It is worth mentioning that in the Maldives there has been no operational improvement since last year. Kuwait contributed to 65% of the operator's total EBITDA, with Tunisia and Algeria contributing by 25% and 16% respectively. The average EBITDA margin for the quarter weakened to 38%, dropping from 40% in Q2 07 and 39% in Q3 06. The EBITDA margin in Kuwait reached 48% dropping by 400bps QoQ but improving by 300bps YoY. In Saudi Arabia despite remaining in the red the EBITDA margin has edged closer to positive territory.

• **Net Profit\*:** Earnings for Q3 07 reached KWD 15.6mn recording a 13% drop QoQ and 5% drop YoY. The figure came in 17% below our KWD 18.8mn estimate for the quarter. Earnings for the 9M 07 period reached KWD 59.3mn recording a 65% increase over the same period in 2006. The main reason behind weaker than anticipated profitability is the weakening profitability in Kuwait, which remains significantly the main profitability driver for the operator. Kuwait's profits have dropped by 19% QoQ and increased by 1% YoY. The net profit margin in Kuwait for Q3 07 was 32% dropping from 40% in Q2 07 and from 37% in Q3 06, on the back of a spike in operating expenses. It is important to note that the Kuwaiti and Tunisian subsidiaries are the only net profit generating entities in the group and that the group's average net profit margin for Q3 07 was of 15%.

• **Outlook:** Given limited external expansion in the horizon, the way Wataniya will be handling new competition in Kuwait in 2008 will be crucial. The current profitability breakdown means that a 100bps drop in Kuwait's net profit margin results in a 300bps drop in the net profit margin of the group, which makes the group overly sensitive to the performance in Kuwait. While we expect other operations' profitability to improve, we remain skeptical however on the group's capacity to offset any softening in Kuwait's performance with any other operation. Further uncertainty remains around Tunisiana, which is the second most lucrative operation for Wataniya, in which a dispute with joint venture partner Orascom Telecom remains without resolution. The status quo in the arbitration is maintained. In light of these developments, we will be revising downwards our FY 2007 as well as our long-term financial forecasts for the operator.

\* For comparison purposes we have used figures adjusted for Asiacell which hasn't been consolidated in Wataniya's accounts sine Q1 07.

Current Stock Price (KWD)	2.8
52 week range	2.08-3.16
Number of Shares (000)	458,212
Free Float	26%
Market Cap (000'KWD)	1,282,992
Market Cap (000'USD)	4,653,582
Div. Yld 2007E	3.93%

KWD'000	Q3 2006	Q2 2007	Q32007	9M 2006	9M 2007
Revenues	1,049,230	2,562,046	2,888,418	3,082,712	6,902,898
EBITDA	651,034	1,268,200	1,372,135	1,909,773	3,485,508
Finance costs	3,205	278,657	310,069	8,945	661,564
Royalties	153,793	152,851	155,829	452,283	490,877
Profit for the Period	436,488	412,118	412,199	1,251,903	1,543,342
Minority Interest	(10,529)	73,662	128,412	(42,828)	235,552

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