

Kuwait Telecommunications Co. (Viva)

Research Update

Sector – Telecom

Investment Thesis

Industry undergoing a structural change:

Once characterized as the leader in terms of ARPU, the telecom industry in Kuwait is now undergoing a structural change with an almost equal redistribution of subscribers amid declining ARPUs and reinvigorated competition. The average industry blended ARPU declined for the first time in six quarters during Q2-16 to USD 28.6 per subscriber. Moreover, the growth of data and 4G devices has made voice revenues irrelevant and operators are now increasingly focusing on enticing users by offering higher data plans, a process often referred to as data commoditization that results in accelerated decline in cost per GB metric. We believe that these offers will reach a tipping point when users realize an appropriate requirement and would no more get enticed by higher capacity and low cost per GB plans that would further accelerate the decline in ARPU.

Moderating subscriber growth:

As expected in our previous report, we continue to expect a moderating subscriber growth for Viva and in fact a fall in subscriber numbers in the near term towards a more realistic and paying customer base. During Q2-16, Viva continued to report lower y-o-y subscriber count reported at 2.4 Mn down from 2.5 Mn a year ago. In addition to competition, we believe that subscriber recycling in order to save cost could also be one of the reasons, as highlighted by the management of Viva, for the marginal decline in subscribers during the past two quarters.

Management continues to focus on bottom-line:

Our meeting with the management of Viva Kuwait highlighted the company's focus on revenue market share (~35%) and bottom-line/cash flow by focusing on data revenues and continuing to project the company as the leader in data service provider. We were convinced with the idea that voice revenues have little relevance going forward and the future of all the telecom service providers would be determined by the quality of data services provided by the operators.

Valuation – Price target of KWD 0.971 with a 'Neutral' Rating:

After reaching our previous expectations, we believe that it is time to lower the price target in order to reflect the new market scenario of an upgraded competition, mature market and homogenous product offerings. We believe that a focus on cost and cash generation would be the norm going forward. We also believe that dividend would be the key for Viva shareholders and expect the company to pay a 40% dividend for 2016.

	2014	2015	2016e	2017e	2018e	2019e	2020e
Subscribers (Mn)	2.4	2.5	2.5	2.6	2.7	2.7	2.8
Revenue (KWD Mn)	239.0	276.9	276.1	275.0	279.8	284.7	289.7
EBITDA (KWD Mn)	112.7	131.1	129.8	128.7	132.1	134.7	137.3
Net Profit (KWD Mn)	40.4	43.0	38.6	37.7	40.5	44.6	48.0
EBITDA Margin (%)	47.2%	47.3%	47.0%	46.8%	47.2%	47.3%	47.4%
P/E (x)	8.0	7.6	12.2	12.5	11.6	10.5	9.8
Div. Yield (%)	0.0%	0.0%	0.0%	3.3%	3.2%	3.4%	3.8%
FCF Yield(%)	5.8%	11.6%	5.5%	6.5%	7.5%	5.2%	9.0%

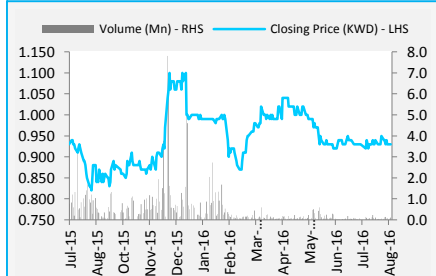
Sources: KAMCO Research, Company Financials

Neutral

CMP 9-Aug-2016 KWD 0.940

Target Price KWD 0.971

Upside/Downside +3.3%



Price Perf.	1M	3M	12M
Absolute	1.1%	-5.1%	3.3%
Relative	0.3%	-2.6%	18.9%

Stock Data

Bloomberg Ticker	VIVA KK
Reuters Ticker	VIVA.KW
Last Price (KWD)	0.940
MCap (KWD Mn)	469.4
MCap (USD Mn)	1,554
EV (KWD Mn)	486.0
Stock Performance - YTD (%)	-5.1%
PE - 2016e (x)	12.2
EV/EBITDA - 2016e (x)	3.7
Dividend yield - 2016e (%)	0.0%
52-Week Range (KWD)	1.120/0.800
52-Week ADVT (KWD Mn)	0.5

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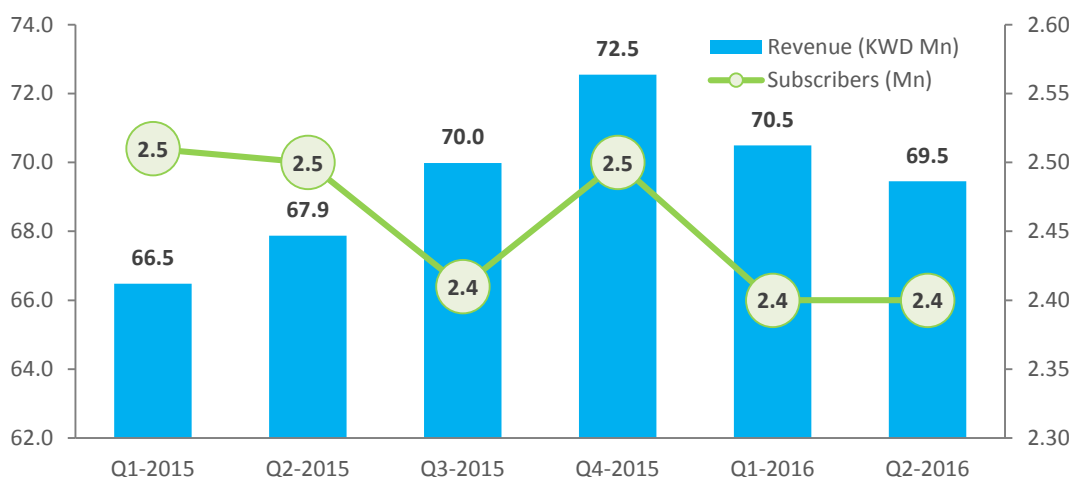
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Q2-16 Highlights

Results for Q2-16 primarily reflected higher competition but an even higher data revenue that resulted in topline growth. Key takeaways from the results announcement includes:

- Q2-16 revenues increased by 2.3% to reach KWD 69.5 Mn on the back of higher data revenues. According to our calculations, monthly ARPU continues to remain at elevated levels of close to KWD 9.6 per subscriber (USD 31.9), overtaking the ARPU of market leader Zain.

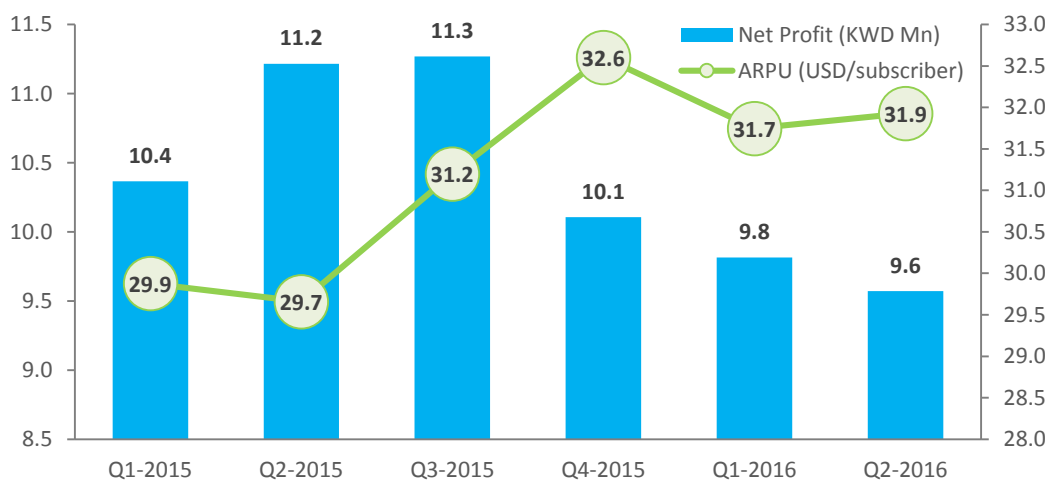
Quarterly Revenue vs. Subscriber Count



Source: KAMCO Research, Company Financials

- Subscriber count remained flat sequentially but declined from 2.5 Mn at the end of Q2-15 to 2.4 Mn at the end of Q2-16. According to the management, the decline was primarily due to number recycling and similar strategies used by the company to save cost and did not raise any red flags on this key metrics. We believe that the Kuwaiti telecom market has reached a maturity stage with a telecom penetration rate of close to 217% leaving little room for the three operators to add additional new subscribers.

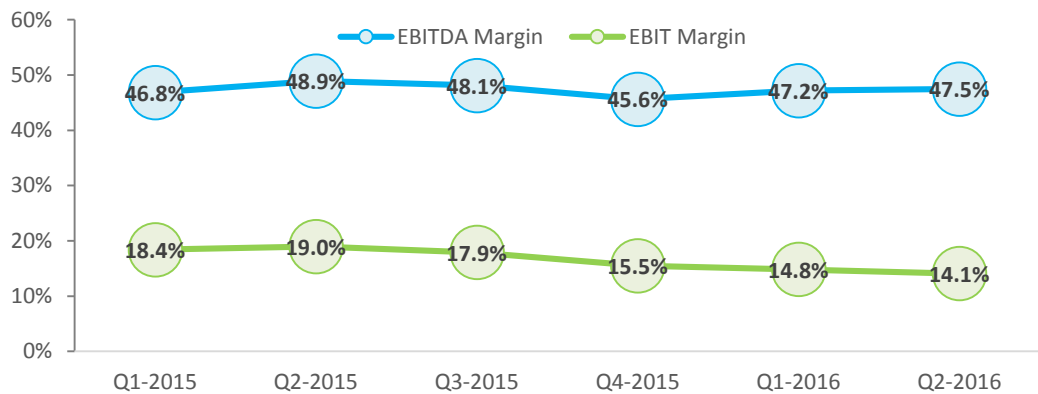
Quarterly Net Profit vs. ARPU



Source: KAMCO Research, Company Financials

- Operating expenses increased by 5.2% despite a decline in subscriber base. We believe that the increase was primarily related to sales and marketing expenses that has seen a spike for almost all the operators.

EBITDA Margin vs. EBIT Margin



Source: KAMCO Research, Company Financials

- EBITDA margin continues to remain at healthy levels although it declined by 140 bps year-on-year to 47.5% in Q2-16 as compared to 48.9% in Q1-16. On a sequential basis, there was marginal improvement in EBITDA margins.
- Non-cash expenses saw a steep increase of 14.1% during the quarter that resulted in a 14.7% decline in net profit. This was primarily due to increase in intangible assets (telecom spectrum) that led to higher amortization.
- We asked the company about their dividend policy to which they said that the matter is still with the board. We believe that dividend would be the key specifically in the case of Viva and expect the company to pay a 40% dividend for 2016 and any delay in payment would be counter to investor expectations.

Industry Overview

As highlighted in our previous report on the telecom industry in Kuwait, we expected an even higher competition in the industry resulting in declining prices that would lead to an inevitable commoditization of data offerings.

Industry undergoing a structural change

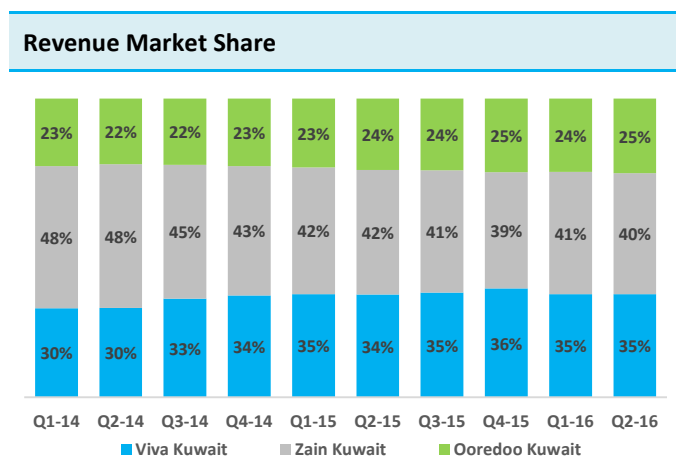
Once characterized as the leader in terms of ARPU, the telecom industry in Kuwait is now undergoing a structural change with an almost equal redistribution of subscribers amid declining ARPUs and a reinvigorated competition. The growth of data and 4G devices has made voice revenues irrelevant and operators are now increasingly focusing on enticing users by offering higher data plans and a declining cost per GB metric. We believe that these offers will reach a tipping point when users realize an appropriate requirement and would no more get enticed by higher capacity and low cost per GB plans that would further accelerate the decline in ARPU.

Moderating subscriber growth

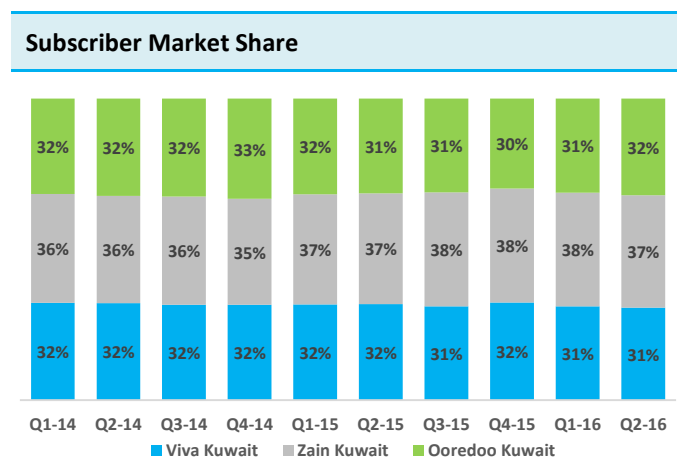
As expected in our previous report, we continue to expect a moderating subscriber growth and in fact a fall in subscriber number towards a more realistic and paying customer base. The slew of changes in the industry with the introduction of 4G services and the availability of a plethora of devices at various price points forced users to use multiple devices. This phenomenon now seems to be normalizing when users narrow down on a single service provider for both their data and voice needs and a maximum of two connections per subscriber. Moreover, subscriber recycling could also be one of the reasons, as highlighted by the management as one of the reason for the marginal decline in subscribers.

Competition continues to stifle players

The latest quarterly results highlights the additional competitive pressure deployed by Ooredoo by introducing new data plans thereby resulting in a marginal growth in their subscriber base apparently at the cost of Viva. However, our takeaway from the meeting with the officials at Viva was that the marginal decline in subscriber base was due to several reasons and not just competition. The company highlighted recycling of numbers as one of the major factors that also helped the company to save on costs that it pays to the telecom regulator. Meanwhile, Zain reported flat q-o-q subscriber count with a market leading base of 2.9 Mn subscribers.



Sources: KAMCO Research and Respective Company Financials



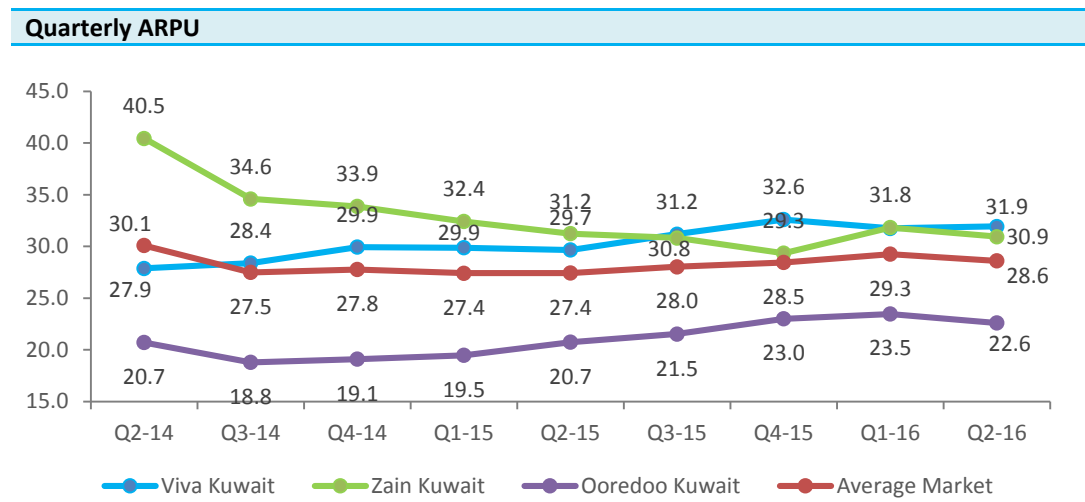
Sources: KAMCO Research and Respective Company Financials

We believe that given the commoditization of data revenues and the mature market with a penetration rate of almost 217%, revenue market share would be a more appropriate metric to judge operator performance as well as sustainability of their respective strategies. The above charts clearly show that Zain and Viva continue to report higher revenue market share as compared to their respective subscriber market shares primarily at the cost of Ooredoo, which, according to our calculations, accounted for a revenue market share of 25% as compared to a subscriber market share of 32% during Q2-15.

In addition, we see Zain as a relatively dormant player in terms of aggressiveness in marketing and introducing new data plans. The company continues to encash its existing base of postpaid subscribers by offering long term innovative plans that allow retaining subscribers by replacing their devices. Operationally, all of the subscribers now have almost equal number of presence by way of telecom towers and full coverage of the country under 4G spectrum. We believe that any change in Zain’s current strategy would result in additional pressure on Viva and more so on Ooredoo.

Industry ARPU seems to have peaked

The latest quarterly results highlighted a decline in average telecom industry ARPU in Kuwait for the first time over the past six quarters. Industry blended ARPU declined from USD 29.3 during Q1-16 to USD 28.6 during Q2-16. We believe that the growth in ARPU over the previous five quarters was fueled by aggressive marketing campaigns that primarily focused on new devices and data offerings.



Source: KAMCO Research, Company Financials

Viva continued to maintain its lead in terms of ARPU overtaking Zain since the past four quarters. In fact, Viva was the only operator that reported a growth in ARPU during Q2-16, which we believe was primarily due to the decline in subscriber base.

Capex intensity should decline in future

Based on the recent calls we had with the management of Zain and Viva, the telecom industry in general would see a relative decline in capex as compared to previous levels. The investments in new technology is minimal as 5G would only be an upgrade to the existing infrastructure and would not require setting up of a new infrastructure. Moreover, a majority of the operators in the telecom space globally are now focusing on providing customer service, whereas the infrastructure related activity are outsourced to telecom equipment providers. As a result, the focus going forward would be on cash generation and retaining the subscriber base.

Valuation & Recommendation

“Neutral” rating with a Price Target of KWD 0.971 representing an upside of 3.3%

We have valued Viva Kuwait using Discounted Cash Flow (DCF) and relative valuation based on peer EV/EBITDA multiple. We have assigned 80% weight to the DCF-based valuation and 20% weight to the relative valuation in order to calculate our fair value estimate. After Viva share prices reached our previous expectations, we believe that it is time to lower our price target in order to reflect the new market scenario which includes a renewed competition, a mature market and homogenous product offerings. We believe that a focus on cost and cash generation would be strict going forward. We also believe that dividend would be the key for shareholders of Viva and expect the company to pay a 40% dividend for 2016.

Weighted Average Fair Value			
Valuation Method	Value (KWD)	Weight (%)	Weighted Value (KWD)
Discounted Cash Flow (DCF)	0.843	80%	0.674
EV/EBITDA	1.484	20%	0.297
Weighted Average Fair Value			0.971
Current Market Price			0.940
Upside / Downside			3.3%

Sources: KAMCO Research and Bloomberg

DCF Model

Our DCF method values the stock at KWD 0.843 per share. The valuation methodology is based on explicit forecast of free cash flows for the next five years (2016e-2020e) and terminal value thereafter. We have assumed terminal growth rate of 3%, which we believe adequately represents a sustainable long term growth rate for the company.

DCF Valuation		
	Fair Value of Equity (KWD Mn)	Fair Value per Share (KWD)
Present Value of FCF (2016e - 2020e)	121.981	0.244
Present Value of Terminal Value	318.220	0.637
Present Value of Cash Flows	440.201	0.881
Investments (Q2-16)	0.000	0.000
Cash (Q2-16)	45.530	0.091
Debt & Indemnity (Q2-16)	-64.834	-0.130
Enterprise Value	459.505	0.920
Equity Fair Value	420.897	0.843

Sources: KAMCO Research and Viva Financials

The Kuwaiti telecom market is undergoing a structural change with a penetration rate that seems to have peaked at above the 200% mark, one of the highest in the world, coupled with minimal population/expatriate growth. In addition, the players have homogenous product offerings and all of these offerings are focused on commoditizing data revenues. In our previous report we had highlighted the aggressive marketing strategy adopted by Viva to reach close to a third of market share in the country in terms of subscribers and an even higher revenue market share. However, over the past one year, the market has seen other competitors, especially Ooredoo, becoming increasingly aggressive in its marketing strategy. We believe that growth beyond this point would be difficult for all the operators as each one of them have similar products, and almost identical pricing strategies. For a sustainable future growth, Viva needs a strategy to save cost and generate cash along with retaining its revenue market share.

We have highlighted five primary drivers for our DCF valuation:

Subscriber Growth: We believe that the mobile penetration rate in Kuwait has peaked and henceforth we see flat/marginal growth in subscriber. We see Viva maintaining/defending its market share at close to 32% for the projected period.

DCF Valuation – Primary Drivers									
	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Subscribers	1,623,000	2,150,000	2,400,000	2,500,000	2,511,475	2,581,024	2,652,950	2,727,254	2,803,341
Growth	55.0%	32.5%	11.6%	4.2%	0.5%	2.8%	2.8%	2.8%	2.8%
ARPU	30.6	28.3	30.7	31.2	30.5	29.9	29.6	29.3	29.0
Growth	1.7%	-7.4%	8.5%	1.8%	-2.5%	-2.0%	-1.0%	-1.0%	-1.0%
Revenue	137,466,000	182,422,000	238,974,000	276,888,000	276,107,533	274,960,110	279,772,795	284,713,382	289,745,175
Growth	46.9%	32.7%	31.0%	15.9%	-0.3%	-0.4%	1.8%	1.8%	1.8%
Capex	15,141,000	90,047,000	68,090,000	108,973,000	87,408,914	84,536,457	86,016,116	90,382,233	91,979,575
Debt	35,000,000	65,734,000	85,524,000	41,591,000	14,323,000	4,996,000	-	-	-

Sources: KAMCO Research and Viva Financials

ARPU: As competition intensifies, we see a marginal decline in ARPU going forward. Nevertheless, we see Viva maintaining its lead on this front due to the first mover advantage it has in terms of data offerings in Kuwait. We have forecasted an average decline in ARPU of 1.5% for the next five years.

Revenue: Revenue is expected to decline marginally over the next two years and then grow at a marginal rate of 1.8% for the next three years. This growth would be derived from the increase in subscriber base albeit marginally.

Capex: We have considered a fixed capex intensity of close to 17% over the forecast period which we believe is in line with industry standards.

Debt/dividends: The Company is expected to have significant cash balance by the end of the forecast period. Consequently, we expect the company to be debt free by 2018e as well as use the excess cash for dividend payments starting 2016e (paid in 2017e).

Sensitivity Analysis

The sensitivity analysis for the change in fair value share price to the changes in WACC and the terminal growth rate is mentioned in the below table:

Terminal Growth Rate	Cost of Equity				
	9.4%	10.4%	11.4%	12.4%	13.4%
2.00%	0.998	0.870	0.769	0.688	0.622
2.50%	1.059	0.915	0.804	0.716	0.644
3.00%	1.129	0.966	0.843	0.746	0.668
3.50%	1.211	1.025	0.886	0.779	0.694
4.00%	1.308	1.093	0.936	0.817	0.723

Relative Valuation

We have compared Viva with 13 other telecom companies in the GCC. For computing our fair value under the relative valuation method we have used the forward EV / EBITDA multiple. Applying forward EV / EBITDA multiple we have arrived at a fair value of KWD 1.484 per share thus implying a significant upside potential of 60%. We have calculated enterprise value for Viva based on average EV/EBITDA multiple of 5.9x.

Peer Comparison

Company	Country	M-Cap (USD Mn)	EV (USD Mn)	Revenue (USD Mn)	EBITDA (USD Mn)	EBITDA Margin	EBIT (USD Mn)	EBIT Margin	Net Profit (USD Mn)	Net Margin	PE	Dividend (USD Mn)	Div. Yield	Fwd EV/ EBITDA	FCF (USD Mn)	FCF Yield
STC	Saudi Arabia	34,395	30,480	13,503	4,983	36.9%	3,053	22.6%	2,468	18.3%	14.1	2,133	6.2%	5.9	3,014	8.8%
Etisalat	UAE	44,749	48,403	14,086	5,144	36.5%	3,171	22.5%	2,250	16.0%	19.8	1,894	4.2%	6.9	3,048	6.8%
Ooredoo	Qatar	7,846	16,695	8,833	3,464	39.2%	1,277	14.5%	582	6.6%	11.5	264	3.4%	4.5	479	6.1%
Mobily	Saudi Arabia	5,687	8,946	3,845	833	21.7%	-182	-4.7%	-291	-7.6%	N/A	0	0.0%	7.6	385	6.8%
Zain	Kuwait	4,871	7,312	3,780	1,639	43.4%	922	24.4%	513	13.6%	8.8	431	8.9%	4.7	684	14.0%
Du	UAE	7,990	7,481	3,359	1,475	43.9%	1,052	31.3%	529	15.7%	15.1	535	6.7%	4.9	656	8.2%
VOD Qatar	Qatar	2,496	2,460	583	110	18.9%	-123	-21.1%	-128	-22.0%	N/A	49	2.0%	16.6	89	3.6%
Omantel	Oman	3,273	3,015	1,336	572	42.8%	317	23.7%	126	9.4%	25.9	224	6.8%	4.7	242	7.4%
Ooredoo Kuwait	Kuwait	1,902	2,496	2,387	730	30.6%	256	10.7%	89	3.7%	16.5	167	8.8%	3.3	126	6.6%
Zain KSA	Saudi Arabia	1,292	3,837	1,797	460	25.6%	-38	-2.1%	-259	-14.4%	N/A	0	0.0%	9.0	88	6.8%
Batelco	Bahrain	1,348	1,486	988	355	35.9%	176	17.9%	131	13.3%	11.3	110	8.2%	N/A	78	5.8%
Viva Kuwait	Kuwait	1,554	1,608	916	434	47.3%	162	17.7%	142	15.5%	11.1	0	0.0%	3.7	348	22.4%
Ooredoo (Nawras)	Oman	1,265	1,407	655	346	52.9%	189	28.8%	108	16.5%	11.1	68	5.3%	3.7	77	6.1%
Zain Bahrain	Bahrain	115	139	189	73	38.5%	15	8.1%	14	7.2%	8.6	5	4.2%	N/A	56	48.4%
GCC-Peers		118,783	135,765	56,255	20,619	36.7%	10,247	18.2%	6,272	11.1%	18.9	5,879	4.9%	5.9	9,370	7.9%
Excl. Outliers		117,491	131,928	54,458	20,159	37.0%	10,284	18.9%	6,531	12.0%	18.0	5,879	5.0%	5.9	9,282	7.9%
Total MENA		176,345	197,661	85,117	31,315	36.8%	17,014	20.0%	10,687	12.6%	16.5	10,014	5.7%	5.9	12,685	7.2%

Company	Country	M-Cap (USD Mn)	EV (USD Mn)	Revenue (USD Mn)	EBITDA (USD Mn)	EBITDA Margin	EBIT (USD Mn)	EBIT Margin	Net Profit (USD Mn)	Net Margin	PE	Dividend (USD Mn)	Div. Yield	Fwd EV/ EBITDA	FCF (USD Mn)	FCF Yield
MTN	South Africa	17,812	19,616	11,587	4,619	39.9%	2,784	24.0%	1,592	13.7%	18.6	1,893	10.6%	4.9	1,638	9.2%
Vodacom	South Africa	17,546	18,634	6,745	2,180	32.3%	1,763	26.1%	1,147	17.0%	19.1	1,084	6.2%	8.4	761	4.3%
Maroc Telecom	Morocco	10,935	12,629	3,503	1,759	50.2%	1,061	30.3%	574	16.4%	19.2	575	5.3%	7.0	592	5.4%
Safaricom	Kenya	6,882	6,822	1,831	825	45.0%	542	29.6%	357	19.5%	18.3	287	4.2%	7.3	304	4.4%
Telkom SA	South Africa	2,408	2,513	2,868	591	20.6%	263	9.2%	285	9.9%	19.8	113	4.7%	3.5	121	5.0%
Telecom Egypt	Egypt	1,635	1,325	1,582	483	30.5%	200	12.6%	389	24.6%	4.0	166	10.2%	3.7	-123	-7.5%
Econet Wireless	Zimbabwe	344	357	746	238	32.0%	154	20.6%	70	9.4%	8.3	15	4.4%	2.0	21	6.2%
Non-GCC Peers		57,562	61,895	28,861	10,696	37.1%	6,767	23.4%	4,415	15.3%	13.0	4,134	7.2%	6.0	3,315	5.8%
Total MENA		176,345	197,661	85,117	31,315	36.8%	17,014	20.0%	10,687	12.6%	16.5	10,014	5.7%	5.9	12,685	7.2%

Company	Total Asset (USD Mn)	Total Debt (USD Mn)	FA Capex (USD Mn)	FA Capex to sales	Intan. Add. (USD Mn)	Intan. Add. to Sales	Total Capex (USD Mn)	Capex Intensity	Equity	Debt/Equity	Asset Turnover	P/BV
STC	25,754	2,038	2,466	18.3%	293	2.2%	2,466	18.3%	16,509	0.12	0.52	2.08
Etisalat	34,924	6,017	2,390	17.0%	416	3.0%	2,390	17.0%	16,167	0.37	0.40	2.77
Ooredoo	25,857	11,746	2,345	26.5%	493	5.6%	2,345	26.5%	7,792	1.51	0.34	1.01
Mobily	11,290	3,803	937	24.4%	15	0.4%	937	24.4%	4,146	0.92	0.34	1.37
Zain	11,516	3,179	721	19.1%	492	13.0%	721	19.1%	5,694	0.56	0.33	0.86
Du	4,885	1,223	444	13.2%	38	1.1%	444	13.2%	2,129	0.57	0.69	3.75
VOD Qatar	1,923	281	79	13.6%	25	4.3%	86	14.8%	1,529	0.18	0.30	1.63
Omantel	2,060	98	335	25.1%	21	1.6%	335	25.1%	1,313	0.07	0.65	2.49
Ooredoo Kuwait	4,638	638	449	18.8%	29	1.2%	449	18.8%	2,603	0.25	0.51	0.73
Zain KSA	6,940	3,036	330	18.4%	92	5.1%	330	18.4%	1,213	2.50	0.26	1.07
Batelco	2,665	599	249	25.2%	N/A	N/A	249	25.2%	1,520	0.39	0.37	0.89
Viva Kuwait	871	238	130	14.1%	232	25.3%	130	14.2%	306	0.78	1.05	5.08
Ooredoo (Nawras)	1,065	137	165	25.1%	26	3.9%	165	25.1%	559	0.24	0.61	2.26
Zain Bahrain	311	46	28	14.7%	26	13.9%	28	14.7%	167	0.28	0.61	0.69
GCC-Peers	134,699	33,080	11,067	19.7%	2,199	3.9%	11,074	19.7%	61,645	0.54	0.42	1.93
Excl. Outliers	127,759	30,044	10,737	19.7%	2,107	3.9%	10,744	19.7%	60,432	0.50	0.43	1.94
Total MENA	177,764	42,486	14,710	17.3%	3,343	3.9%	16,905	19.9%	82,860	0.51	0.48	2.13

Sources: Bloomberg, KAMCO Research, Company Financials

Financial Indicators

Financial Indicators									
Balance Sheet (KWD '000)	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Assets									
Cash and Cash Equivalents	9,047	6,705	32,260	51,810	45,792	33,349	44,149	47,331	71,520
Trade & Other Receivables	9,889	12,777	21,168	22,912	25,101	24,996	25,434	25,883	26,340
Property & equipment	98,862	118,961	113,078	125,353	140,409	149,628	156,538	162,194	165,859
Intangible Assets	131	30,576	36,291	50,552	35,710	23,394	14,250	12,246	14,744
Other Assets	8,660	9,971	11,165	12,472	10,003	10,031	10,266	10,514	10,772
Total assets	126,589	178,990	213,962	263,099	257,016	241,398	250,638	258,168	289,234
Liabilities									
Islamic Financing Facilities	35,000	65,734	85,524	72,371	41,591	14,323	4,996	-	-
Trade and other payables	93,691	93,567	75,913	95,007	80,866	70,243	63,377	47,452	48,291
Other Liabilities	12,568	10,107	2,579	2,816	3,101	3,100	3,130	3,179	3,229
Total liabilities	141,259	169,408	164,016	170,194	125,558	87,666	71,504	50,632	51,520
Shareholders' Equity									
Share capital	49,940	49,940	49,940	49,940	49,940	49,940	49,940	49,940	49,940
Retained Earnings	(64,610)	(40,358)	5	33,922	64,370	78,723	95,622	114,661	134,759
Other Reserves	-	-	1	4,522	8,567	12,520	16,764	21,438	26,470
Total Shareholders Equity	(14,670)	9,582	49,946	88,384	122,877	141,183	162,326	186,039	211,169
Total liabilities and equity	126,589	178,990	213,962	263,099	257,016	241,398	250,638	258,168	289,234
Income Statement (KWD '000)									
Revenue	137,466	182,422	238,974	276,888	276,108	274,960	279,773	284,713	289,745
Operating Expenses	(114,631)	(116,827)	(126,261)	(145,786)	(146,337)	(146,279)	(147,720)	(150,044)	(152,406)
EBITDA	22,835	65,595	112,713	131,102	129,771	128,681	132,053	134,669	137,339
Depreciation & Amortization	(17,969)	(39,503)	(67,620)	(82,224)	(87,195)	(87,634)	(88,250)	(86,730)	(85,818)
EBIT	4,866	26,092	45,093	48,878	42,576	41,047	43,803	47,940	51,521
Finance cost	(783)	(1,406)	(2,211)	(2,622)	(929)	(321)	(166)	-	-
Other Expenses	(155)	(156)	(1,992)	(1,198)	(1,198)	(1,198)	(1,198)	(1,198)	(1,198)
Taxes	(62)	(278)	(526)	(2,099)	(1,896)	(1,833)	(1,959)	(2,147)	(2,308)
Net Profit / (Loss)	3,866	24,252	40,364	42,959	38,553	37,695	40,480	44,595	48,015
EPS (KWD)	0.008	0.049	0.081	0.086	0.077	0.075	0.081	0.089	0.096
Cash Flow (KWD '000)									
Net Cash From Operating Activities	32,891	83,486	87,024	146,679	113,100	115,103	121,387	114,752	134,006
Net Cash (used in) from Investing Activities	(15,125)	(90,047)	(67,915)	(115,043)	(81,339)	(84,536)	(86,016)	(90,382)	(91,980)
Net Cash (used in) from Financing Activities	(19,623)	4,219	6,446	(18,156)	(31,709)	(43,010)	(24,571)	(21,188)	(17,838)
Net Change in Cash and Equivalents	(1,858)	(2,342)	25,555	13,480	52	(12,443)	10,800	3,182	24,189
Net Cash at end of the year	9,047	6,705	32,260	45,740	45,792	33,349	44,149	47,331	71,520

Source : KAMCO Research and Viva Kuwait Financials

Key Operating Metrics and Financial Ratios

Key Operational Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Total Subscribers	1,623,000	2,150,000	2,400,000	2,500,000	2,511,475	2,581,024	2,652,950	2,727,254	2,803,341
ARPU (KWD)	8.58	8.06	8.75	9.42	9.18	9.00	8.91	8.82	8.73
Market Share	27.5%	32.4%	31.7%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Kuwait Population	3,785,000	3,890,000	3,999,000	4,110,000	4,225,000	4,342,000	4,463,000	4,588,000	4,716,000
Telecom Penetration Rate (Kuwait)	183.0%	198.0%	218.0%	217.0%	216.0%	216.0%	216.0%	216.0%	216.0%
CAPEX to Sales	10.9%	22.7%	7.2%	14.1%	16.9%	16.0%	16.0%	17.0%	17.0%
Receivables Turnover	13.9	14.3	11.3	12.1	11.0	11.0	11.0	11.0	11.0
Days in Receivables	26	25	32	30	33	33	33	33	33
Inventories Turnover	62.5	36.9	41.4	38.9	60.0	60.0	60.0	60.0	60.0
Days in Inventory	6	10	9	9	6	6	6	6	6
Payables Turnover	1.7	2.0	3.1	2.9	3.4	3.9	4.4	6.0	6.0
Days in Payables	210	180	114	124	105	92	82	60	60
Current Assets Turnover	11.4	10.3	8.9	9.2	9.3	9.3	9.3	9.3	9.3
Current Liabilities Turnover	1.7	2.0	3.1	2.9	3.4	3.9	4.4	6.0	6.0
Key Ratios	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Profitability Ratios									
Return on Average Assets	3.1%	15.9%	20.5%	18.0%	14.8%	15.1%	16.5%	17.5%	17.5%
Return on Average Equity	NM	NM	135.6%	62.1%	36.5%	28.6%	26.7%	25.6%	24.2%
EBITDA Margin	16.6%	36.0%	47.2%	47.3%	47.0%	46.8%	47.2%	47.3%	47.4%
Net Profit Margin	2.8%	13.3%	16.9%	15.5%	14.0%	13.7%	14.5%	15.7%	16.6%
Growth Rates									
Revenue Growth	46.9%	32.7%	31.0%	15.9%	-0.3%	-0.4%	1.8%	1.8%	1.8%
EBITDA Growth	NM	187.3%	71.8%	16.3%	-1.0%	-0.8%	2.6%	2.0%	2.0%
Net Income Growth	NM	527.3%	66.4%	6.4%	-10.3%	-2.2%	7.4%	10.2%	7.7%
Total Assets Growth	0.4%	41.4%	19.5%	23.0%	-2.3%	-6.1%	3.8%	3.0%	12.0%
Liquidity Indicators									
Current Ratio (x)	0.2	0.2	0.6	0.6	0.7	0.9	1.2	1.7	2.2
Quick Ratio (x)	0.2	0.2	0.5	0.5	0.7	0.7	1.0	1.5	2.0
Working Capital (KWD Mn)	-89.8	-96.0	-46.0	-49.4	-27.9	-11.9	10.7	35.4	59.4
Free Cash Flow (KWD Mn)	17.7	-6.6	18.9	37.7	25.7	30.6	35.4	24.4	42.0
Leverage Ratios									
Interest Coverage Ratio (x)	6.2	18.6	20.4	18.6	45.9	127.9	264.0	-	-
Debt-to-EBITDA (x)	1.5	1.0	0.8	0.6	0.3	0.1	0.0	-	-
Debt-to-Equity (x)	NM	6.9	1.7	0.8	0.3	0.1	0.0	-	-
Market Data and Valuation Ratios									
Closing Share Price (KWD)	NA	NA	0.650	0.650	0.940	0.940	0.940	0.940	0.940
Total Issued Shares (Mn)	499.4	499.4	499.4	499.4	499.4	499.4	499.4	499.4	499.4
Market Capitalization (KWD Mn)	NA	NA	324.6	324.6	469.4	469.4	469.4	469.4	469.4
EPS (KWD)	0.008	0.049	0.081	0.086	0.077	0.075	0.081	0.089	0.096
Book Value Per Share (KWD)	(0.029)	0.002	0.100	0.100	0.246	0.283	0.325	0.373	0.423
Dividend Per Share (KWD)	NA	NA	0.000	0.000	0.000	0.031	0.030	0.032	0.036
Price to Earnings Multiple (X)	NA	NA	8.04	7.56	12.18	12.45	11.60	10.53	9.78
Price to Book Value Multiple (X)	NA	NA	6.50	3.67	3.82	3.33	2.89	2.52	2.22
Dividend Yield (%)	NA	NA	0.0%	0.0%	0.0%	3.3%	3.2%	3.4%	3.8%

Source : KAMCO Research and Company Financials

Note : Forward Valuation ratios are based on current market prices

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