

January 24, 2012

## BATELCO (BTEL.BH)

12-Month Fair Value: BHD 0.560

Recommendation: Buy – Risk Level: 4

Last Close (23 January, 2012): BHD 0.394

- **Batelco's 4Q2011 revenues slightly below forecast; however EBITDA is in line.** Revenues declined by 3% year-over-year (YoY) to BHD 82 million (5% below our forecast and 3% below consensus estimates). EBITDA declined by 7% YoY to BHD 33 million (2% above our forecast and 6% above consensus estimates), representing an EBITDA margin of 40%, down from 42% in 4Q2010. Net profit grew by 13% YoY to BHD 24 million.
- **Full-year performance.** Full-year revenues declined by 4% to BHD 327 million, while EBITDA declined by 14% to BHD 126 million, representing an EBITDA margin of 39%, down from 43% in FY2010. Net profit declined by 8% YoY to BHD 80 million.
- **Local operations remained under pressure.** Revenues from Bahrain declined by an estimated 1% YoY during 4Q2011 and represented around 66% of total revenues. The decline in revenues is attributable to the tough competitive environment which led to a 4% YoY decline in the mobile subscriber base. Fixed-line subscriber base declined 8% YoY due to the continuing mobile-to-fixed substitution. We note that fixed number portability was introduced in Bahrain during October 2011, which is likely to intensify competition in the fixed-line segment; however, the operator also intends to roll-out its fixed-line fiber network during 2012. Wireless broadband emerged as the silver lining registering 50% YoY subscriber growth, while broadband subscribers grew by only 1% YoY.
- **International revenues under pressure in 4Q2011.** Batelco's international revenues declined by an estimated 7% YoY in 4Q2011 and represent 34% of total revenues. Given that the detailed financial statements are currently not available, we are uncertain about the exact source of this weakness and look to gain further clarity at the forthcoming meeting with management. However, we note that Umniah (Jordan) has been able to grow its mobile subscriber base by 8% YoY and is planning to launch its 3G network in the coming six months (Umniah is the third operator in Jordan to enter the 3G segment and has acquired the 3G license for JOD 50 million), which we view as a positive. In addition, Qualitynet (Batelco's Kuwaiti ISP) grew its subscriber base by 4% YoY.
- **Other JVs continue to deliver subscriber base growth.** Atheeb's (Saudi Arabia) subscriber base grew by 10% YoY, and management expects the operation to further strengthen as the operator is currently in the process of completing a SAR 1.2 billion capital increase and aims to target the corporate segment. Stel (India) registered 53% YoY growth in its mobile subscriber base while Sabafon (Yemen) registered 12% YoY mobile subscriber base growth.
- **Dividend payment reduced, yet dividend yield remains attractive.** Batelco's Board of Directors (BoD) has recommended a final dividend per share (DPS) of BHD 0.020, thereby taking the full-year 2011 DPS to BHD 0.040 (lower than the FY2010 DPS and our FY2011 forecast of BHD 0.045), which represents a payout ratio of 72% (versus 75% in FY2010) and a dividend yield of 10%. While we still view this as an attractive dividend (Batelco continues to offer the highest dividend yield in our covered telecoms universe), we are surprised by the reduction in the recommended DPS given the company's high cash balance of BHD 108 million and debt-free balance sheet.

- **Valuation maintained, dividend yield should motivate trading interest.** Given that the operator's performance was broadly in line with our expectations we maintain our fair value for the stock at BHD 0.560 per share (42% upside) and "Buy" recommendation. We believe the dividend yield should generate the needed trading interest in the stock given that the stock price has remained relatively flat since August 2011. The stock trades at an EV/2012EBITDA of 3.7x (versus our covered universe average of 4.7x) and a FY2012 P/E of 6.7x (versus our covered universe average of 11.9x).

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**Related Research**

- Analyst Comment - 27 October 2011
- Telecom Strategy Report - 02 October 2011

**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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