

## Telecom

**HOLD: 12M TP @ 1.177**

*Upside +7.9%*

### Valuation Summary (TTM)

Price (RO)	1.090
PER TTM (x)	25.0
P/Book (x)	1.3
P/Sales (x)	0.3
EV/Sales (x)	1.8
EV/EBITDA (x)	2.8
Dividend Yield (%)	5.2
Free Float (%)	36%
Shares O/S (mn)	750
YTD Return (%)	3%
Beta	0.8

(mn)	OMR	USD	
Market Cap	818	2,123	
Enterprise Value	5,282	13,719	
Price performance (%)	1M	3M	12M
Taageer Finance	1%	3%	0%
MSX 30 Index	5%	5%	-2%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO)	129	247	441
Avg Daily Volume (,000)	133	229	419
52 week	High	Low	CTL*
Price (RO)	1.130	0.948	15.0

\* CTL is % change in CMP to 52wk low

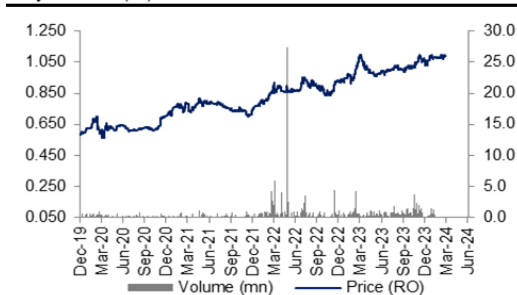
### Major shareholders

United int telecom	51.0%
PASI	7.4%
OIA	6.0%
Others	35.6%

### Other details

Exchange	MSX
Sector	Telecommunications
Index weight (%)	9.69%

Key ratios	2021	2022	2023
EPS (RO)	0.089	0.121	0.100
BVPS (RO)	0.772	0.182	0.862
DPS (RO)	0.055	0.060	0.055
Payout ratio (%)	62%	50%	55%

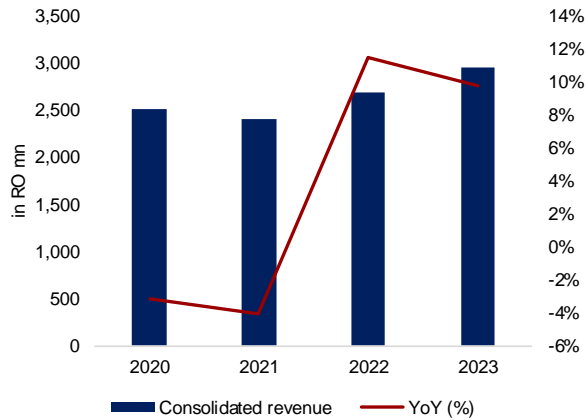


## Omantel – Holding steady

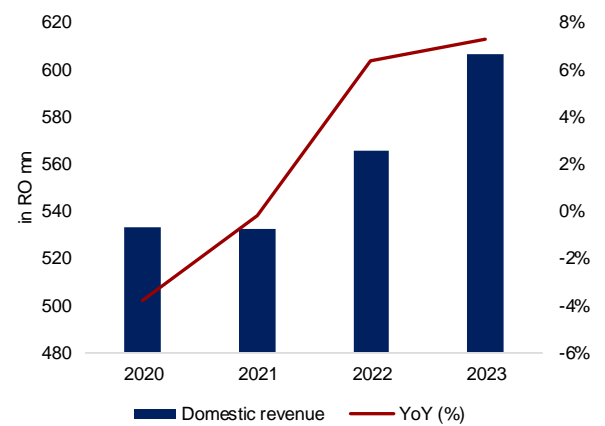
Omantel reported full year consolidated revenue for 2023 at RO 2.94bn which was bang in line with our estimates. The revenue was 9.7% higher on a YoY basis. Domestic revenue for the year grew by 7.2% YoY to reach RO 606.5mn for the year 2023. This was contributed by a 5% growth in core domestic voice and data revenue and 35.4% YoY in the low margin device and wholesale segment. Overall mobile revenue witnessed a growth of 1.1% YoY, this was despite a 12.9% decline in prepaid subscribers. Management re-iterated that the decline in prepaid was not completely a function of increasing competition but also due to the migration of its own prepaid subscribers to postpaid. During the year 2023 about 103k subscribers shifted from prepaid to postpaid. However, we believe the double digit growth in postpaid is plateauing as evidenced in the 2023 subscriber numbers (+2.7% YoY). ARPU levels appear to have stabilized after an intense price war that was witnessed in the last couple of years. As expected fixed line revenue had a flattish growth of 0.7% YoY and contributed to 24% of the total domestic topline. Other segments such as wholesale (+12% YoY), ICT (+18.2% YoY) and device (+42.5% YoY) saw significant growth and contributed to 44.4% of the domestic revenue. We expect these segments to be the growth driver in the near future, albeit at the cost of margins. Domestic EBITDA declined by 6.8% YoY due to the higher contribution from lower margins segments. Operating costs have also increased by 6.6% during the year due to the higher external admin expenses related to hubbing activity. Capex remained as per guidance at 16.2% of the revenue mostly related to the 5G roll out and upgrade of 4G network. The deleveraging exercise and exit of non-core assets has reflected on the finance cost this year. The domestic interest cost witnessed a decline of 11.5% YoY from RO 48.6mn to RO 43mn. We believe the interest cost would decline further considering the recent sukuk issuance at 5.375% p. a and topping out of the interest rate cycle globally. Net profit of the domestic operations increased by 9.6% (adjusting for the gain of RO 28mn from tower sale in 2022) to RO 63.26mn. On a consolidated basis net profit grew by 28.2% YoY to RO 357mn. Based on the announced results we retain our estimates and target price of RO 1.177. Omantel announced a dividend of 55bz for the year, which provides a dividend yield of 5% at the current price. Considering the potential upside of 7.9% on the stock from current levels we provide a HOLD rating to Omantel.

**Valuation and outlook:** While on one side Omantel is holding its market share despite significant competition from both Ooredoo and Vodafone which is commendable, we are also witnessing visible transformation of Omantel from a telecom company to a tech player. This is reflected in the recent venture into cloud, collaborations with AWS, Google cloud, building of super App, a digital market place and investment in data centers. This is part of the company's "Shift Gear" strategy which will make Omantel future ready. The company has also proactively deleveraged its balance sheet and will witness growth in operating cash that will be utilized in these new ventures that are currently at a nascent stage. At current price the stock trades at 10x 2024e PE and dividend yield of 5%.

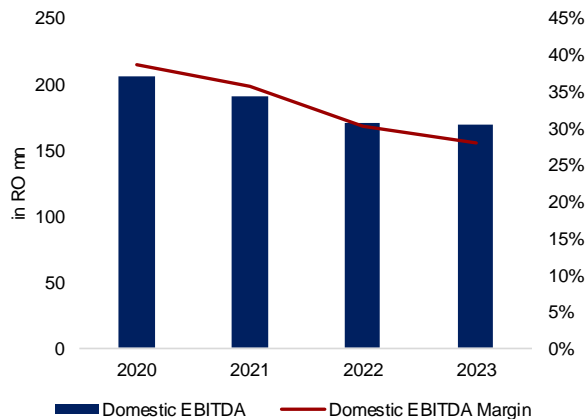
#### Consolidated revenue grew by 9.7% in 2023



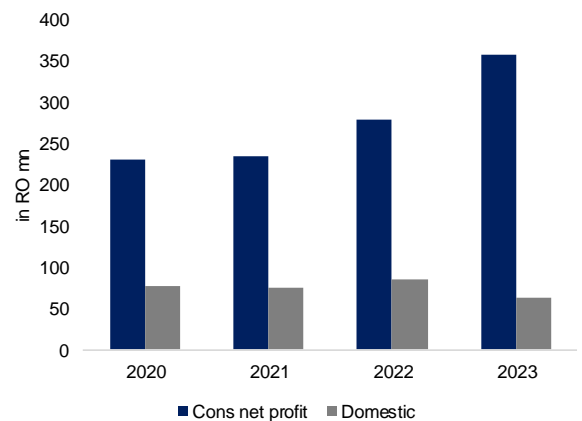
#### Domestic business grew on the back of non core revenue



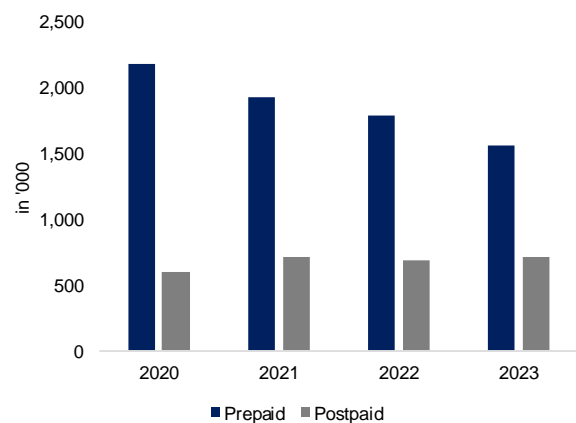
#### EBITDA declines on higher opex and low margin segment



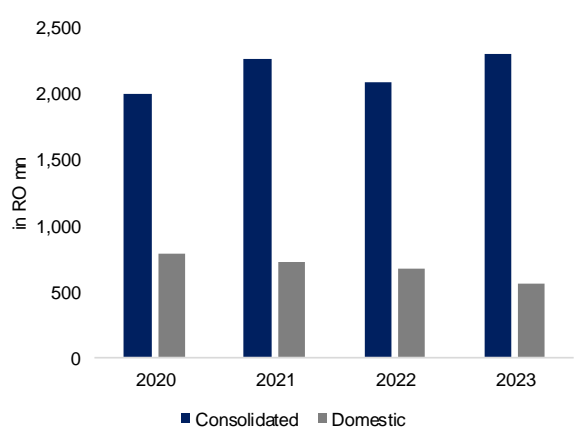
#### Net profit in 2022 skewed due to tower sale income



#### Post paid growth likely to taper going forward



#### Domestic net debt reducing post restructuring



Income Statement (RO Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	2,511	2,408	2,683	2,943	3,037	3,143	3,253	3,367
Operating expenses	-1,424	-1,432	-1,638	-1,856	-1,928	-1,996	-2,082	-2,155
<b>EBIDTA</b>	<b>1,087</b>	<b>976</b>	<b>1,045</b>	<b>1,087</b>	<b>1,108</b>	<b>1,147</b>	<b>1,171</b>	<b>1,212</b>
Depreciation	-612	-593	-552	-566	-574	-606	-616	-636
<b>Operating profit</b>	<b>476</b>	<b>384</b>	<b>494</b>	<b>521</b>	<b>535</b>	<b>541</b>	<b>555</b>	<b>576</b>
Finance costs	-161	-139	-157	-200	-161	-157	-150	-143
Other income/(expense)	-48	6	-65	29	7	17	17	17
Profit before tax	267	251	272	350	381	402	423	451
Tax	-38	-34	-21	-35	-36	-38	-40	-43
<b>Net income</b>	<b>229</b>	<b>234</b>	<b>279</b>	<b>358</b>	<b>345</b>	<b>364</b>	<b>383</b>	<b>408</b>

Profit attributable to:

<b>Shareholders</b>	<b>67</b>	<b>67</b>	<b>91</b>	<b>75</b>	<b>82</b>	<b>86</b>	<b>91</b>	<b>97</b>
Non controlling interest	162	167	188	241	263	278	292	311
<b>Net Profit</b>	<b>229</b>	<b>234</b>	<b>279</b>	<b>315</b>	<b>345</b>	<b>364</b>	<b>383</b>	<b>408</b>

Balance Sheet (RO Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Inventories	68	80	70	81	87	88	91	94
Trade receivables	839	972	1,122	1,276	1,215	1,257	1,301	1,347
Cash and cash equivalents	583	390	451	429	461	477	494	500
Others	115	166	484	197	191	191	191	191
<b>Total current Assets</b>	<b>1,605</b>	<b>1,608</b>	<b>2,127</b>	<b>1,983</b>	<b>1,954</b>	<b>2,013</b>	<b>2,077</b>	<b>2,132</b>
Property and equipment	2,137	1,983	1,762	1,828	1,938	2,038	2,145	2,262
Right-of-use assets	229	226	207	258	429	580	737	911
Licences	-	2,391	2,351	2,227	2,112	1,996	1,880	1,764
Other intangible assets	3,506	1,060	1,039	1,005	971	938	904	871
Other non-current assets	260	300	351	455	425	425	425	425
Total non current Assets	6,131	5,959	5,709	5,773	5,875	5,977	6,092	6,234
<b>Total Assets</b>	<b>7,736</b>	<b>7,567</b>	<b>7,835</b>	<b>7,756</b>	<b>7,829</b>	<b>7,990</b>	<b>8,169</b>	<b>8,366</b>
Payables and accruals	1,391	1,354	1,466	1,566	1,640	1,650	1,708	1,768
Current borrowings	295	580	548	487	487	487	487	487
Lease liabilities	50	46	33	46	37	38	39	41
Other liabilities	193	188	271	154	70	74	78	82
<b>Total Current Liabilities</b>	<b>1,929</b>	<b>2,168</b>	<b>2,318</b>	<b>2,253</b>	<b>2,233</b>	<b>2,249</b>	<b>2,312</b>	<b>2,377</b>
Non-Current borrowings	2,035	1,823	1,740	1,880	1,653	1,600	1,507	1,413
Lease liabilities	194	202	211	310	329	341	353	365
Other non-current liabilities	682	607	680	406	412	413	416	418
<b>Total Non-current Liabilities</b>	<b>2,911</b>	<b>2,632</b>	<b>2,631</b>	<b>2,596</b>	<b>2,394</b>	<b>2,353</b>	<b>2,275</b>	<b>2,196</b>
Equity	576	579	635	646	711	752	795	842
Non-controlling interests	2,320	2,188	2,252	2,261	2,491	2,635	2,787	2,951
<b>Total Equity</b>	<b>2,896</b>	<b>2,767</b>	<b>2,887</b>	<b>2,907</b>	<b>3,202</b>	<b>3,387</b>	<b>3,582</b>	<b>3,793</b>
<b>Total Equity and Liabilities</b>	<b>7,736</b>	<b>7,567</b>	<b>7,835</b>	<b>7,756</b>	<b>7,829</b>	<b>7,990</b>	<b>8,169</b>	<b>8,366</b>

Cash flow (RO Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash from operations	926	712	762	871	1,280	1,170	1,239	1,283
Investing cash flow	-472	-477	-259	-127	-516	-534	-553	-572
Financing cash flow	-354	-345	-451	-705	-583	-422	-467	-472
<b>Change in cash</b>	<b>98</b>	<b>-193</b>	<b>61</b>	<b>-23</b>	<b>33</b>	<b>16</b>	<b>17</b>	<b>6</b>
Beginning cash	485	583	390	451	429	461	477	494
<b>Ending cash</b>	<b>583</b>	<b>390</b>	<b>451</b>	<b>429</b>	<b>461</b>	<b>477</b>	<b>494</b>	<b>500</b>

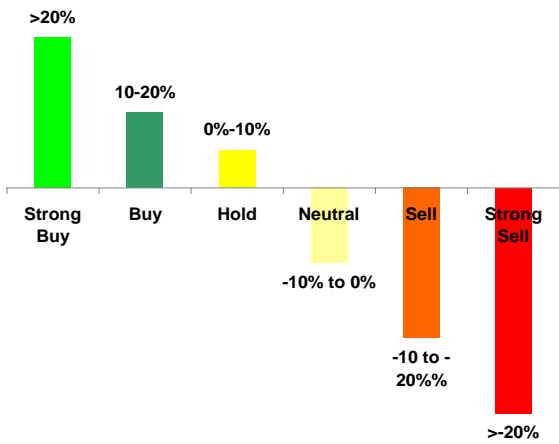
Key Ratios	2020	2021	2022	2023	2024e	2025e	2026e	2027e
<b>Per Share</b>								
EPS (RO)	0.089	0.089	0.122	0.100	0.109	0.115	0.121	0.129
BVPS (RO)	0.768	0.772	0.847	0.862	0.948	1.003	1.060	1.123
DPS (RO)	0.055	0.055	0.060	0.055	0.060	0.063	0.066	0.071
FCF per share (RO)	0.604	0.313	0.670	0.992	1.018	0.847	0.915	0.947
<b>Valuation</b>								
Market cap (RO Mn)	537	561	825	795	818	818	818	818
EV (RO Mn)	2,528	2,822	2,905	3,089	2,862	2,806	2,709	2,623
EBIDTA (RO Mn)	1,087	976	1,045	1,087	1,108	1,147	1,171	1,212
P/E (x)	8.0	8.4	9.0	10.6	10.0	9.5	9.0	8.5
EV/EBITDA (x)	2.3	2.9	2.8	2.8	2.6	2.4	2.3	2.2
Price/Book (x)	0.9	1.0	1.3	1.2	1.2	1.1	1.0	1.0
Dividend Yield (%)	7.7%	7.4%	5.5%	5.2%	5.5%	5.8%	6.1%	6.5%
<b>Returns Ratio</b>								
ROA (%)	3.0%	3.1%	3.6%	4.6%	4.4%	4.6%	4.7%	4.9%
ROE (%)	7.9%	8.4%	9.7%	12.3%	10.8%	10.7%	10.7%	10.8%
ROCE (%)	3.9%	4.3%	5.1%	6.5%	6.2%	6.3%	6.5%	6.8%
<b>Cash Cycle</b>								
Inventory days	35	38	27	29	29	29	29	29
Payable Days	708	648	575	563	548	548	548	548
Receivables days	122	147	153	158	146	146	146	146
<b>Profitability Ratio</b>								
Net Margins (%)	9.1%	9.7%	10.4%	12.2%	11.4%	11.6%	11.8%	12.1%
EBITDA Margins (%)	43.3%	40.5%	39.0%	36.9%	36.5%	36.5%	36.0%	36.0%
EBIT Margins (%)	18.9%	15.9%	18.4%	17.7%	17.6%	17.2%	17.1%	17.1%
<b>Leverage</b>								
Total Debt (RO Mn)	2,574	2,652	2,532	2,722	2,506	2,466	2,385	2,306
Net Debt (RO Mn)	1,991	2,261	2,080	2,294	2,045	1,988	1,891	1,805
Debt/Equity (x)	0.9	1.0	0.9	0.9	0.8	0.7	0.7	0.6

## Key contacts

### Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

## Rating Criteria and Definitions

Rating	Rating Definitions
	<p><b>Strong Buy</b> This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%</p> <p><b>Buy</b> This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%</p> <p><b>Hold</b> This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%</p> <p><b>Neutral</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%</p> <p><b>Sell</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%</p> <p><b>Strong Sell</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%</p> <p><b>Not rated</b> This recommendation used for stocks which does not form part of Coverage Universe</p>

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