INVESTMENT RESEARCH | Oman

Sector Report

Oman Telecom Sector

Omantel

Recommendation	**BUY**
Target price (RO)	**1.177**
CMP (RO)	1.015
Potentil upside (%)	16%
Shares outstanding (mn)	750
Market Cap (RO mn)	761
P/E Ratio (FY23E)	9.3
EV/EBITDA (FY23E)	2.5
Price to Book (FY23E)	1.1
Dividend Yield (FY23E)	7.0%

Ooredoo Oman

Recommendation	**BUY**
Target price (RO)	**0.465**
CMP (RO)	0.38
Potentil upside (%)	22%
Shares outstanding (mn)	651
Market Cap (RO mn)	247
P/E Ratio (FY23E)	14.9
EV/EBITDA (FY23E)	3.0
Price to Book (FY23E)	0.9
Dividend Yield (FY23E)	5.3%

We reinitiate coverage on the telecom sector in Oman. Telecom in Oman has been defined by two players – Omantel and Ooredoo, and as recently as last year, Vodafone entered the scenario with their mobile license. While the former two companies have grown together over the last 17 years and faced similar challenges, they have managed the business dynamics quite differently. While Omantel has looked outside Oman for growth, Ooredoo being part of the Qatar Ooredoo group has been a domestic player. Both companies have invested heavily to build infrastructure, faced the negativities of covid, aggressively taken up new technology deployment and adapted to rapidly changing technologies, indulged in price wars and have come out better and more efficient to serve their customers.

The sector has evolved rapidly and currently we believe it is at an attractive inflexion point. Data dependency is increasing by the day and has become a systemically important part of work culture and education, making telecom operators an essential part of our daily life.

The declining trend in expat population between 2017-21 led to negative overall growth in subscribers. This scenario has changed from 2022 and we are witnessing tangible evidence of increasing subscriber base. Oil prices remain elevated and government treasury is returning to surplus. Public private partnership is gathering pace and there is urgency in implementing several mega projects. This has led to rise in number of jobs for both locals and expats. We expect the population trend to look upwards from hereon and benefit the telecom industry in terms of sustaining the growth in subscriber additions.

Changing trends in marketing strategy have led to proliferation of Post-paid subscribers. Post-paid has higher ARPU and provides a stable and sticky subscriber base. Post-paid subscription for both the players grew by 1.6x over the last two years. Currently both operators have about 25% of the entire subscriber base from this segment up from about 10-13% in 2018. We expect post-paid users to grow in double digits for at-least next couple of years while prepaid users' growth will be modest in mid-single digits.

Structural changes are taking place in the sector. Passive infrastructure is being phased out and telecom companies are becoming asset light, a scenario unimaginable until a few years ago. Sale of non-core assets will raise cash levels significantly. We expect capex and non-core overheads to reduce going forward. The progress towards an asset light structure will augur well for businesses of both companies resulting in improvement in Return on equity and higher profits which will be passed on to shareholders with higher dividend pay-out going forward.

Omantel had taken up leverage to acquire stake in Zain during 2018. The $1.5bn loan took the debt equity to 1x. We are witnessing the cash inflow from sale of tower assets being used for early repayment of the debt and to reduce the interest costs. This will lead to improvement in profitability for the company. Ooredoo on the other hand will raise its already high cash levels by sale of its tower assets and invest the same in core infrastructure besides paying out one-time special dividend. The aforesaid changes would be the catalyst for the investors going forward.

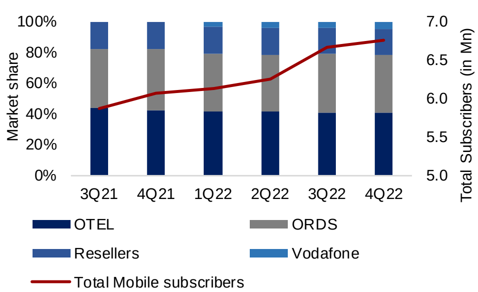
We have brought out these granular changes and provided our recommendation based on the shifts in market share, growth trends, improvements in the financials and future outlook of these two companies. We reinitiate our coverage on both Omantel and Ooredoo with BUY rating and target prices of RO 1.177 and RO 0.465 respectively.

Market share undergoing a shift

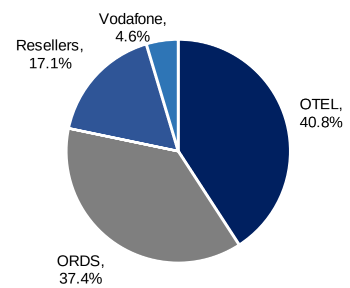
Incumbents rule, but others are playing tough as well…

As in most other countries Oman's telecom industry is also an oligopoly. The government owned Omantel is the market leader with 71% subscriber share in fixed line and 40% in the mobile segment as of 4Q22. The second important player, and only other company that provides all the telecommunication services (Fixed/Mobile/International connectivity) is the subsidiary of Qatar based Ooredoo (ORDS), which was granted license in 2005. Ooredoo has a subscriber market share of 28% in fixed and 37.4% in mobile segment as of 4Q22. There are others who have joined the fray over the last decade such as multi virtual network operator (MVNO) or resellers - Frendi and Renna. Vodafone is the latest entrant in the mobile telephony segment which received license 2021 and has captured about 4.6% market share in its first year of operation. However, these recent entrants do not have the license to provide the entire bouquet of services and hence they are focused only on certain segments such as broad band, mobile or operate as resellers. Awasr for example has 35% market share in Fiber to the home/building (FTTH/B) but does not operate in the mobile or fixed telephony segments.

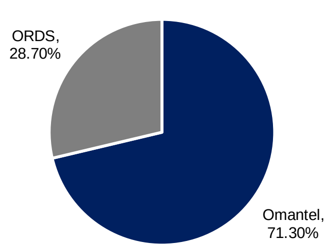
Trend in mobile subscriber marketshare



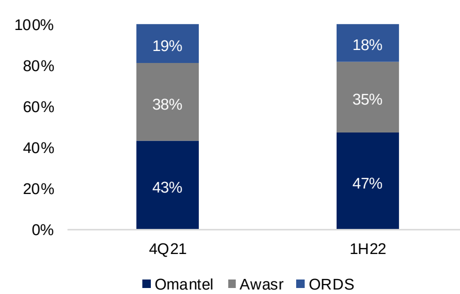
Mobile subscriber market share 4Q22



Omantel leader in Fixed telephony



Omantel leader in FTTH/B as well



Source: Telecom Regulatory Authority (TRA), Company Financials, US Research

Vodafone entry creates price war scatters market share…

… Home broadband (HBB), FTTH will be the growth drivers in this segment…

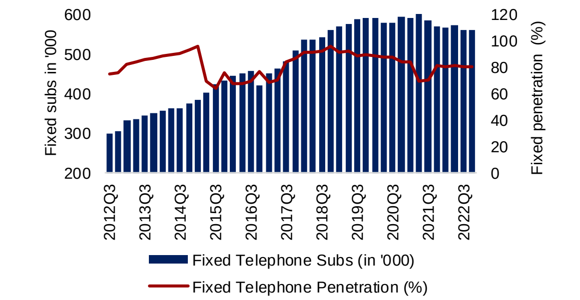
New player in the market

Vodafone Oman through its partnership with Oman Future Technologies (OFT) became the third operator in the country to offer mobile telephony in 2021. Vodafone group is one of the largest telecom operators in the world with presence in over 42 countries, this makes it a formidable competitor to the incumbents in Oman. Vodafone's entry triggered a pricing war to aggressively gather market share in the retail segment causing significant margin squeeze and ARPU declines across the industry. However, the Telecom Regulatory Authority (TRA) proactively stepped in January 2022 with a new regulation that was aimed at safeguarding against such predatory pricing schemes and other anti-competitive practices followed in the industry. We expect the price wars to settle and ARPUs to stabilize around the current levels. While the overall subscriber base has expanded, the market share of players has changed since the entry of Vodafone. Vodafone Oman has been able to make inroads in the telecom market, by taking away market share of Omantel over the last one year, while Ooredoo has managed to maintain its subscriber base. We foresee significant changes in the market share among the players as Vodafone gains ground.

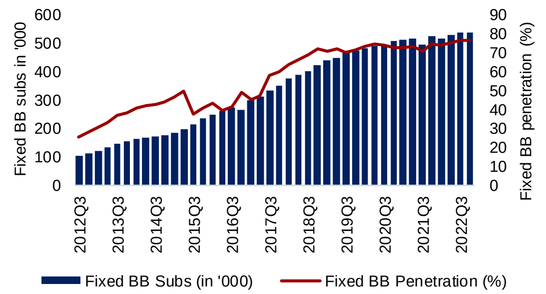
Fixed line reaching maturity, broadband to grow

Oman has 563k fixed line subscribers amongst whom 95% have a broadband connection. The fixed telephone penetration has reached 80%, and the broadband penetration has grown to 76% from 25% in over a decade. 95% of these connections are residential where the growth has been 5x in the last ten years. Fixed line subscribers in Oman have witnessed growth driven by increasing demand for home broadband (HBB) services which we believe was partly aided by the lockdown during 2020. Information and Communication Technology (ICT) infrastructure is currently being built through the National Broadband Strategy with an ambitious target of providing broadband services to 90% of urban areas by 2030. We believe this segment of the market is maturing and the fixed telephone penetration will plateau, while the fixed broadband has room for further growth. FTTH (Fiber to the Home) penetration is rising rapidly with its contribution now increased to 39.4% of the total fixed broadband subscribers in 1H22.

Fixedline has hit saturation



Fixed BB has room for growth



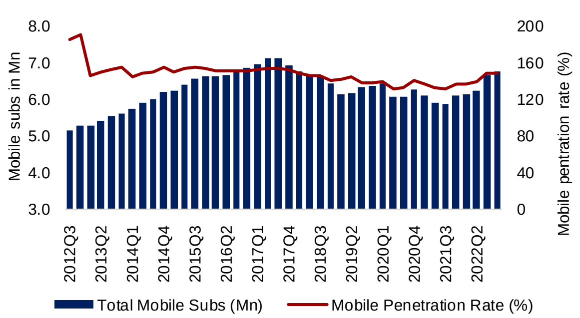
Source: TRA, US Research

… expansion of mobile subscriber base on account of expat influx and more jobs for Omanis...

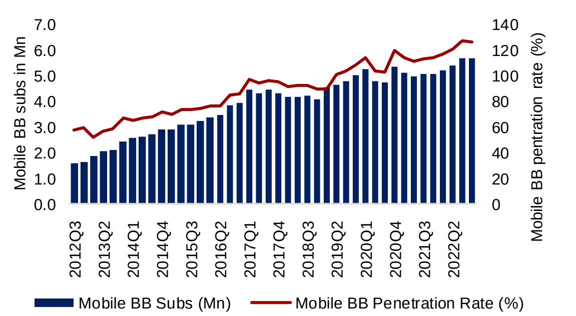
Mobile subscriber growth returning as economy reverts to normalcy

Mobile subscribers have grown at a gradual pace of 2.5% CAGR since 2012, in line with the population growth. However, it is pertinent to note that the mobile subscriber base has grown to 6.75 Mn in 4Q22 after hitting a low of 5.89 Mn in 3Q21, an increase of 14.6% indicating a sharp revival. Mobile broadband penetration has increased to 126% in 4Q22 from 89% in 2019. Mobile subscription penetration has also increased from 132% in 3Q21 to 149% as of 4Q22. We believe this spurt to be the beginning of a reversal in trend post a long hiatus in declining subscriber base witnessed over the previous years.

Mobile subs hit bottom in 2021



Mobile BB has increased multifold

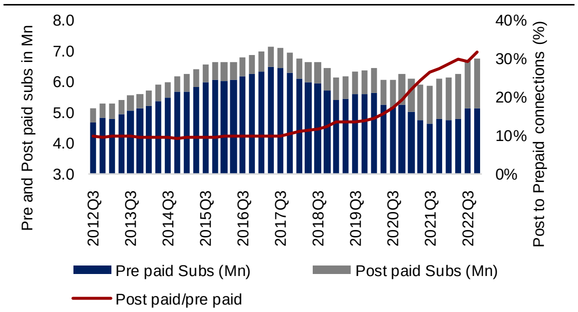


Source: TRA, US Research

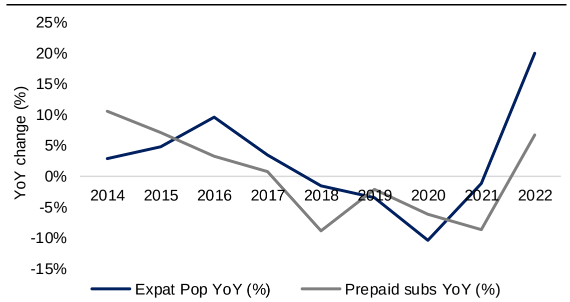
… Postpaid growing at faster pace than prepaid...

A decade ago, prepaid contributed to nearly 90% of the total mobile connections. Prepaid connections are generally short term and have lower ARPUs (Average Revenue Per User) and are preferred by the expat population compared to the post-paid which generates more stable revenues due to higher ARPUs. However, over the last two years there has been a migration from prepaid to post-paid connections in Oman. As of 2022, post-paid connections contribute 30% of the total mobile connections. This trend is a result of multiple factors – telecom companies have sought to combine handset sales at attractive discounts along with post-paid connections which has enticed customers in the last two years, the increasing rate of local population getting employed and improvement in business activity has translated into the long-term sticky nature of connections, change in work culture post covid and increasing dependencies on the internet also led to the rise in post-paid users.

Recent surge in Post paid connections



Prepaid is correlated to expat population growth



Source: TRA, US Research

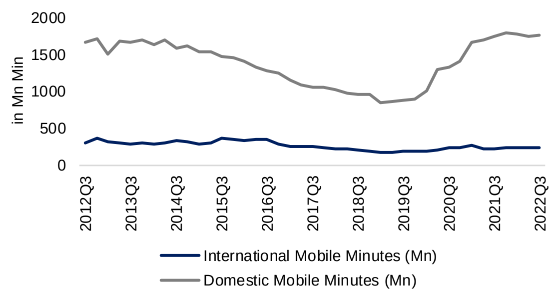
Improving data requirements driven by digital platforms and faster internet speeds will drive the growth for post-paid connections. The shift from pre-paid to post-paid will be further accentuated as demand for 5G increases. Rising share of young population, increase in disposable income, return of expats and higher economic activity will be the main trigger for increase in subscribers going forward. We expect this trend to continue and will lead to stability in revenues and more importantly lower subscriber churn.

… Rising economic activity results in higher traffic in voice and data...

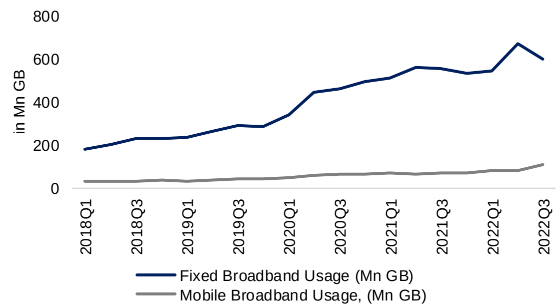
Traffic trends are turning positive

Telecom traffic for voice and data is a factor of economic activity, and it was clearly witnessed post the oil price crash of 2014 when the economy went into a lull. Local consumption of voice has re-bounded sharply to reach its peak levels currently. In the case of internet data usage, the constant migration to online mode of working and education has led to a steady rise in both fixed and mobile data consumption. To put things in perspective, there are 1195 government schools that have fixed broadband out of which 88% are connected by FTTH-5G. Also, 48% of the buildings are covered by FTTH/B across the country. The monthly average GB usage per FBB (Fixed Broad Band) subscriber rose by 24% to 424GB/subscription in 2Q22 compared to 4Q21, whereas the total data traffic increased to 670Mn GB in 2Q22 compared to 537Mn GB in 4Q21. As we move forward, data dependency is only going to increase, and this upward trend is most likely an irreversible one.

Domestic voice activity has increased



Post covid internet usage rises



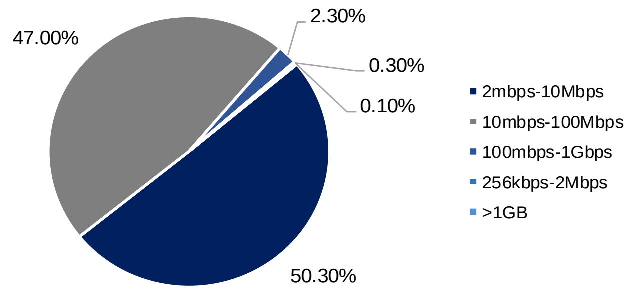
Source: TRA, US Research

Voice and Data contribute to 85% of the industry revenue and as the requirement for voice and data increases, there is a continuous requirement for upgrading the existing infrastructure. Oman has kept up with the latest developments in the telecom industry. While 3G and 4G networks cover the entire country, 5G networks now cover 86.5% of the population. During 2021, the country witnessed investments to the tune of RO 174mn for the establishment of new infrastructure and upgrading the existing facilities.

The table below clearly indicates the quick migration of customers to high quality and high-speed networks as and when they are available. 5G has been catching up rapidly across the country and telecom operators have covered nearly 60% of the population.

Technology type	FBB subscriptions	Speed
FTTH	39.40%	50mbps-1Gbps
5G fixed	21.30%	10mbps-1Gbps
ADSL	21.20%	4-10 mbps
LTE	17.80%	Upto 10 mbps
Satellite	0.10%	< 6mbps
Others	0.10%	
Internet leased line	0.10%	
Total	**100.00%**	

Speed range-subscription-wise



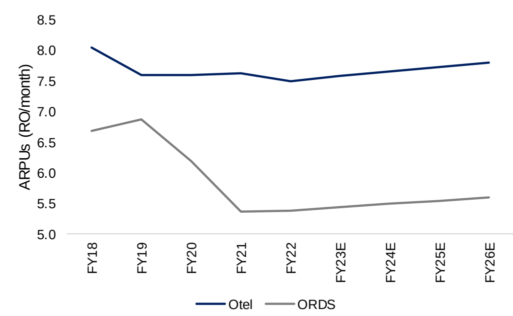
Source: TRA, US Research

ARPU trends stabilizing, will aid the revenue and profit growth

… Early signs of ARPUs stabilizing post a continuous decline...

Intense competition and improvements in the technology landscape have reduced the ARPUs across the mobile segment in the recent past. Omantel witnessed a decline in mobile ARPU from RO 8.04 /month to RO 7.5/ month between 2018-2022, while Ooredoo saw the same fall from RO 6.68/ month to RO 5.4/ month during the period. As a result, and since the majority of the revenue is contributed from the mobile segment, industry revenue had remained subdued during the period. However, since 2022 we are witnessing early signs of APRUs stabilizing and uptick in top line growth for the telecom operators. This is due to various factors such as moderation in price war, migration into post-paid and changes product mix.

ARPUs likely to stabilise going forward



Source: TRA, US Research

As the need and usage of broadband increases, especially with higher internet speeds, high priced data packages will be the main revenue driver for the telecom companies going forward. This will arrest the linear decline in ARPU trends witnessed in the past years. We also expect the price wars to moderate post the comments from the regulators and recent policies regarding predatory pricing. Migration towards post-paid across the industry will also increase ARPUs going forward. We believe starting 2023 the telecom operators will start reporting meaningful growth in revenue, this is already evident in the results published in 2022.

Demography to provide impetus to growth

Demography is the most important factor in the telecom industry and subscriber base oscillates depending on the trends in the population. 62% of Oman's demographic profile range between 15-54 years providing a huge target market of young population with increasing aspirations. IMF expects Oman's population to rise at an annual average rate of 3-3.5% for year 2022-2026e. The young population base coupled with increasing expat immigration will drive the need for telecom services.

… Young vibrant local population along with influx of expats will augur well for subscriber addition...

Overall mobile subscriber base grew by CAGR of 5.6% from 2012-2017 and peaked at 7.13Mn subscribers in 2Q17, however it declined thereafter by CAGR of -1.29% (2017-22) and currently stands at 6.75Mn in 4Q22. The primary reason for which was the declining economic situation during the period and exodus of expats. The recent surge in oil prices has significantly improved the prospects of oil dependent economies across the GCC including Oman. Easing fiscal situation and with the government budget moving into the surplus territory has led to higher government spending and economic buoyancy. Higher spending on infra projects and Public Private partnerships is driving job creation for both the local as well as the expat population. Telecom is an essential backbone for all these upcoming projects, and we expect demand in the sector to rise proportionately. Faster data speeds will also augur well for the customers and lead to higher usage requirements. As the situation reverts to normalcy, improvement in business opportunities will create jobs for both locals as well as expats.

Sale of passive infrastructure will create additional revenues lower debt levels

… Non-core assets phased out balance sheets to become asset light...

Globally, we have seen telecom operators selling tower assets and leasing them back, this process releases significant burden from the balance sheet and enables them to repay the debt taken while building the telecom infrastructure. The lower debt leads to lower interest cost and more free cash to invest in core assets. Saudi Telecom in 2019 demerged more than 15,000 towers into a new subsidiary called Tawal. Zain Kuwait sold 1,620 telecom towers to IHS Holding for $130 million in 2020 and has formed a company TASC that manages tower assets. Oman's telecom operators have picked up the cues from this global trend and both the incumbent players are actively pursuing this strategy. Helios Towers and Omantel recently concluded this deal with 2,519 towers being sold at a total value of $495 Mn, with the rest expected to follow. Ooredoo has also announced its intent to sell its towers and generate cash to grow its ICT product portfolio. While Omantel has almost concluded its tower sale process, we expect Ooredoo to complete the same in 2023.

Government initiatives to improve growth prospects

… Government action to provide fillip to the industry and benefit telecom operators…

The Government of Oman has formulated a National Broadband Strategy with the objective of providing broad band connectivity that will cover 90% of the urban areas and 75% of the entire population by 2030. Further in 2021, it launched the National Program for Digital Economy with the intention to modernize the entire government process and services. These are significant measures and indicators of the upcoming digital revolution. It offers opportunities for companies in the digital infrastructure space such as telecom service providers, data centers, network and cabling operators etc.

We believe the initial phase of digital era is over and from being an enabler in a business ecosystem the telecom sector has evolved to become a more important differentiator in a highly competitive environment. Digital infrastructure connects the physical and virtual worlds, it has become an inevitable part of daily life. The telecom industry is also transitioning, revenues are moving from voice to data and there is a constant need to upgrade the technology to keep up with the needs that are arising. We are positive about the industry based on the systemic importance that it entails and upcoming growth prospects.

Telecom Companies

Ooredoo Oman: Unabated cash flow trend

BUY: 12M TP @ 0.465

Valuation Summary (TTM)			
Price (RO)			0.380
PER TTM (x)			14.1
P/Book (x)			0.9
P/Sales (x)			1.0
EV/Sales (x)			1.3
EV/EBITDA (x)			3.3
Dividend Yield (%)			5.0
Free Float (%)			34%
Shares O/S (mn)			651
YTD Return (%)			-10%
Beta			1.0
(mn)		**OMR**	**USD**
Market Cap		259	673
Enterprise Value		303	787
Price performance (%)	**1M**	**3M**	**12M**
Ooredoo Oman	-5%	-10%	17%
MSX 30 Index	-2%	-1%	12%
Services Index	-1%	3%	1%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (RO ,000)	71	99	105
Avg Daily Volume (,000)	222	235	250
52 week	**High**	**Low**	**CTL***
Price (RO)	0.452	0.312	27.6
* CTL is % change in CMP to 52wk low			
Major shareholders			
Ooredoo Qatar			55.0%
PASI			6.0%
OIA			5.0%
Others			34.0%
Other details			
Exchange			MSX
Sector			Telecommunications
Index weight (%)			6.02%
Key ratios	**2020**	**2021**	**2022**
EPS (RO)	0.033	0.020	0.029
BVPS (RO)	0.395	0.390	0.453
DPS (RO)	0.025	0.018	0.020
Payout ratio (%)	76%	90%	69%

Ooredoo Oman (ORDS) has been a consistent performer in the telecom sector. Since its inception in 2005, the company has grown in tandem with the industry, provided the best of services and invested heavily in infrastructure. Despite being a capital-intensive sector ORDS has remained cash rich. The strong support from its parent in terms of capital and technology is the biggest advantage for ORDS. ORDS has managed to ride the recent changes in the telecom sector landscape and capitalize on the increasing need for data over voice. The rapid coverage of 5G is an indicator of the aggressive stance of the management. We are positive on the company based on the revival in subscriber addition, migration to postpaid, sale of non-core assets and high cash levels which raise expectation of special dividends. ORDS witnessed revenue uptick of 5.1% YoY in 2022 and improvement in operating margins of 100bps which translated into a +52%YoY growth in profit after tax. The savings from royalty charges and lower operating expenses led to the sharp increase in bottom line during the year. We expect revenue growth CAGR of 2.9% (2022-26e) and PAT growth of 11.3% CAGR (2022-26e). These improvements are expected on the back of subscriber growth of 3% during the period and stable ARPUs. At current prices the stock trades at 11.76x 2024 PE and 3.0x 2024 EV/EBIDTA. The current valuation does not reflect the potential upside from the improvement in economic activity, possibility of special dividend and change in balance sheet structure to an asset light model. Based on our DCF valuation approach we assign a target price of RO 0.465/ share which provides an upside of 22.3% from current price without including the possibility of a special dividend. We assign BUY rating on ORDS.

Revenue decline arrested: The economy reverting to normal, heightened business activity, creation of jobs for locals and influx of expats will lead to overall addition of subscriber base in Oman. Larger players like Ooredoo stand to benefit the most from this upcycle. The decline in revenue that began in 2019 has been reversed in 2022 with a 5% YoY growth in top line. Based on the international parentage, operational experience, wide local network and being the only other player in the country that offers the whole host of services, Ooredoo will witness stable increase in subscriber addition. We expect a revenue growth of 2.9% over 2022-26e.

Post-paid proliferation augurs well for ARPU increase: Ooredoo has been able to double its post-paid subscribers over the last two years between 2020-2022. It currently has over 751k post-paid subscribers which is 26% of its total subscriber base. This was 16% in 2020. Bundling of packages, combining handset sales with post-paid connection and several other lucrative offers have successfully enticed customers. Despite a competitive market share in the prepaid, the post-paid will offer adequate cushion going forward in terms of better ARPUs and higher revenue.

Ooredoo offers scope for high dividend pay-out: Like many other telecom players in Kuwait, UAE and KSA, Ooredoo has a comfortable balance sheet position with low debt and adequate cash in the books. With limited acquisition opportunities and moderate capex plans we expect cash to be returned to shareholders. Further the inflow from sale of tower assets will provide additional cash at its disposal enabling high dividend pay-out. We are optimistic that the sale of tower assets will happen in 2023 providing scope for RO 0.100 as special dividend over the next two years (along with the regular dividend) providing a potential yield of over 20% at current prices.

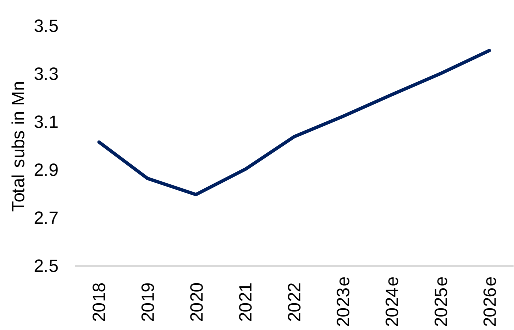
Valuation: The stock currently trades at a discount to its regional listed peers at 11.7x 2024E EPS. Our DCF target price is at RO 0.465/share offers an upside of 22.3% from current levels, hence we initiate our coverage with a BUY rating.

Revenue trends stabilizing, subscriber base to grow by low-single digits

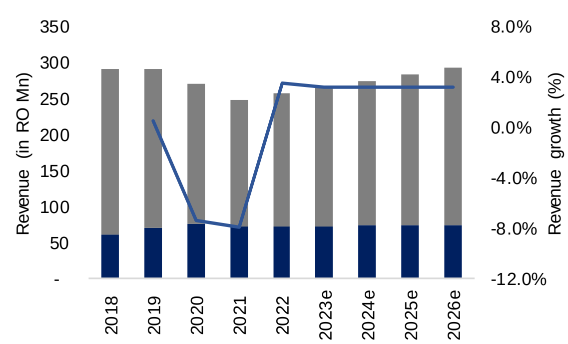
… Revenue increased by 5.1% and subscribers grew by 4.6% in 2022…

Ooredoo is the only other comprehensive player in Oman offering fixed line, mobile and international connectivity. The company had an overall mobile subscriber market share of 37.4% in 2022 and fixed line market share of 28%. Ooredoo also had 18% market share in FTTH/B in 1H22. As in the case with most telecom operators in the region, Ooredoo had also witnessed declining top line growth in 2020 and 2021. This was primarily on account of low economic activity, plateauing subscriber base, lower ARPUs and intense price wars. However, in 2022 we witnessed a revival in mobile subscriber addition and stability in ARPUs. Total mobile subscribers increased from 2.63mn in 2020 to 2.88mn in 2022, a growth of 9.6%, while mobile ARPUs held steady at RO 5.4/user/month. The increasing trend has led to a 5.1% rise in revenues during 2022. We believe these are early signs of an uptick in subscriber additions.

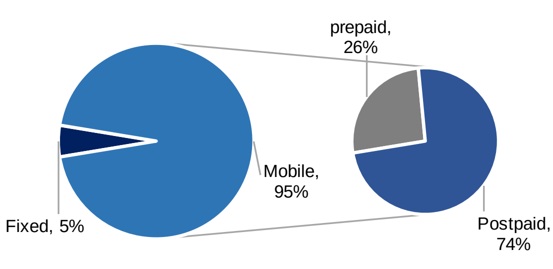
Subscriber base to grow despite competition



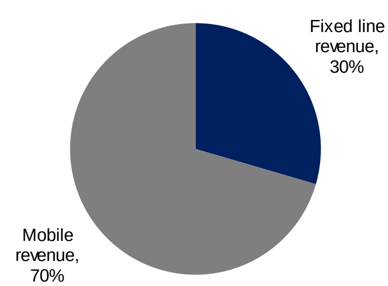
Revenue volatilily to subside going forward



Mobile contributes 95% of the total subscribers



…but Fixed line contribution to revenue is 30%



Source: Company reports, US research

Despite the entry of Vodafone, Ooredoo has been able to maintain its subscriber market share, unlike in the case of Omantel. This provides sufficient comfort and vindication of the management capability of Ooredoo.

… 70% of revenue from data, 5G to provide a boost to the segment…

Further, as with the majority of the telecom operators across the world, data has been the revenue driver for the company. Ooredoo data revenue contributes 70% of the overall revenue. In order to enhance the data revenue, the company has been aggressive in its 5G roll out. It has deployed 5G services across the country with over 963 sites by end of 4Q22 and over the last year Ooredoo has managed to cover 35% of the population. It has partnered with the several government departments, educational institutions and corporates to actively roll out its products. It has received 5G certifications from most major handset leaders such as Huawei, Apple, Samsung, Xiaomi etc.

… RAIO an additional source of revenue over next three years

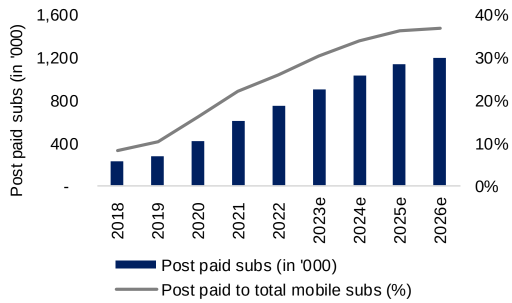
In December 2021, Vodafone signed an agreement with Ooredoo to utilize its infrastructure for national roaming services. The agreement is valid for three years and will benefit Ooredoo in terms of fixed fees for each mobile subscriber added by Vodafone. This we believe might only be a temporary arrangement till Vodafone gets its infrastructure in place. Till then Ooredoo will stand to gain revenue from this Reference Access and Interconnection Agreement (RAIO).

Larger players like Ooredoo with management bandwidth and international presence stand to benefit in the upcycle with multiple offerings, robust infrastructure and quality services. We forecast stability in revenues emerging and conservatively expect a 2.9% CAGR (2022-26e) growth in topline. This will be on the back of a similar increase of 3% CAGR (2022-26e) in overall subscriber base.

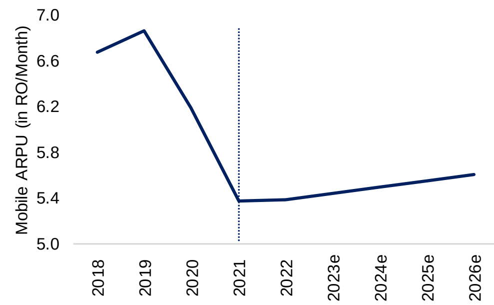
… ARPU pick up on the back of postpaid proliferation…

ARPU has been positive on account of growth in post-paid connections: The mobile ARPU hit a high of RO 6.1/user/month in 3Q22 from a low of RO 5.0/user/month witnessed during the same time the previous year. The increase in ARPU has been primarily triggered by the doubling of post-paid connections over the last two years. The post-paid "Shahry" plans have been pitched at attractive prices and combined with several value-added bundles that have enticed subscribers to shift from pre-paid to post-paid. Plans that combine handset and I-Phone sales have also been successful in shifting customer base to post-paid plans. Unlike prepaid, which is generally preferred by temporary users and having lower ARPU, post-paid plans bring a more stable revenue stream. Ooredoo currently has 26% of its subscribers i.e 751k as of 4Q22 linked to post-paid plans, this was 16% at the end of 2020. This is the highest ever post-paid connections that the company has had since operations began in 2005. Management commentary has been positive towards this trend and the intention is to aggressively capture this segment before further competition kicks in.

Post paid subscribers increasing rapidly



… leading to stable mobile ARPUs



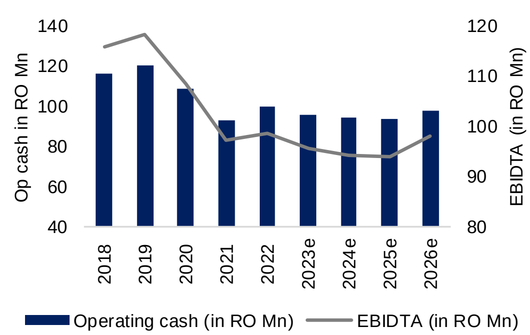
Source: Company reports, US research

High cash flow generation and dividend yield: Ooredoo has been historically seen as a high operating cash flow generating telecom operator with more than RO 100 million cash consistently between 2015-19. However, over the last couple of years this level has declined to RO 80 million due to lower revenue and higher operating expenses. In 2022, despite higher operating expenses, Ooredoo has regained its earlier run-rate and is on target to generate operating cash of more than RO 100 million.

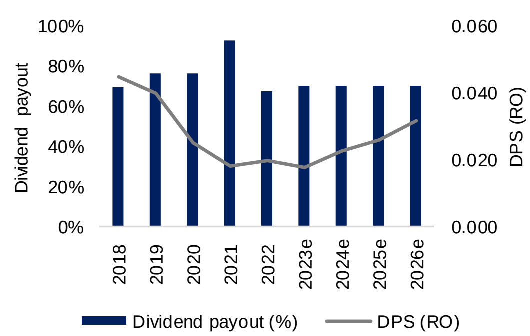
… end of license payment, lower capex, negligible debt, tower sales are some of the reasons that will lead to increase in cash …

Few indicators point to improvement in FCFE for Ooredoo. Firstly, the debt equity stands at 0.18x significantly lower than peers, hence the need to finance the borrowings is minimal. Secondly, the company is expected to make its final license payment of RO 12.5mn in FY23e taking the total license payments to RO 62.5 million. Post FY23e, in the absence of license payment obligation, there would be surplus cash in the books. Thirdly, from the management commentary we believe Ooredoo to have a moderate capex plan which will mainly consist of maintenance capex over the next three years and the roll out of 5G. Finally, in-line with the global trend in the industry, Ooredoo has planned to sell its passive tower assets and become asset light. We expect Ooredoo to strike a deal similar to Omantel with potential buyers in 2023. We understand negotiations are underway with suitable parties and soon Ooredoo will monetize about 2000-2500 towers. We expect the tower deal to take place much faster than it took for Omantel since regulatory issues have been already addressed.

Operating cash reverts to RO 100mn



Dividend payout has been steady



Source: Company reports, US research

… Scope for special dividend and regular dividend will take the yield to over 20% …

As per our estimate, the proceeds from the deal would be about RO 96mn. This would add to the already high operating cash flow levels of the company and provide an opportunity to reward shareholders with a special dividend. This is also the only way the promoter can receive a payback on their investments, hence a favorable case to offer the same.

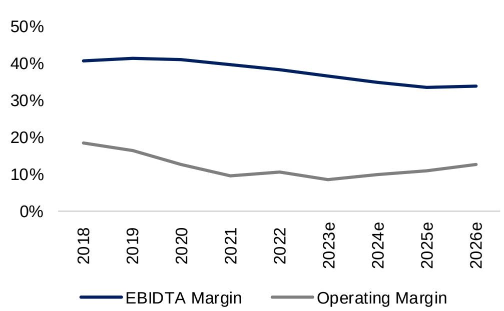
Ooredoo has maintained a regular dividend payout of 70%, despite a decline in revenue and lower margin in the past. This translated into a dividend per share of about RO 0.020-0.025 each year and a dividend yield of about 4-5%. Along with the expectation of a special dividend we expect RO 0.100 in payouts over the next couple of years, which translates into a high yield of over 20% at the current price.

Moderate topline growth, steady operating metrics, low debt will lead to significant profit growth

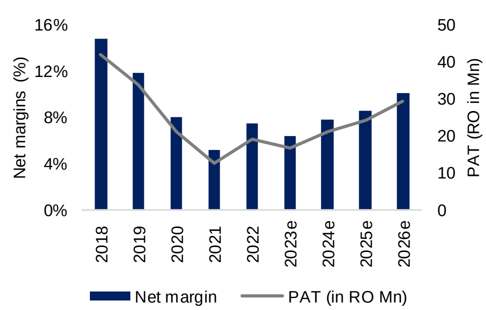
… margins to improve leading to increase bottom line growth …

The revival of subscriber growth and stability in ARPUs will lead to a modest growth in revenue from 2022 onwards. We do not forecast a significant increase in capex and hence depreciation will remain around the same levels. While other operating expenses will move in tandem with revenue, royalty fees are expected to be reduced resulting in higher operating margins going forward. Since the company is already in a cash surplus position, we do not expect a rise in the borrowings and hence finance cost will also remain low.

Ebidta to hold steady, OPM to improve



Net income to increase on margin improvement



Source: Company reports, US research

Revenue had declined by 7.3% in 2021 compared to the same period of the previous year which resulted in a 40% decline in profit after tax during the period. 2022 was the first year of normalization post covid and we witnessed a rise of 5% in top line and 52% in the bottom line. This was due to the lower operating expenses, lower royalty payments and hence better margins. Considering the positive change in the macro scenario and optimistic outlook on the performance of Ooredoo, we estimate revenue growth at CAGR (2022-26e) of 2.9% and PAT growth of 11.3% CAGR (2022-26e).

The low debt and cash rich status of the balance sheet is a major positive for the company and offers significant comfort to valuations. We estimate the ROE levels to reach the erstwhile peak of 15% by 2026e. At current price the stock trades at an 2024e EPS of 11.7x. This we believe is at the lower end of the valuations spectrum and warrants re-rating.

Our DCF valuation approach resulted in fair value per share of RO 0.505 for Ooredoo: We have valued Ooredoo using a DCF valuation model. For the DCF valuation, we have used cost of equity of 13.8% and WACC of 11.8%. We further assumed the company's FCFF to grow at 1.0% per annum for the terminal period. Based on these assumptions we have arrived at an enterprise value of RO 346mn for the company, which translates into an equity valuation of RO 302mn or RO 0.465/share. Our DCF valuation of Ooredoo implies upside potential of 22.3% from current levels. At the DCF target price the stock would be valued at 2023E EV/EBIDTA of 3.6x and PE of 18.2x.

We note that the Ooredoo has a good cash balance which will serve to pay back shareholders as dividends. The additional opportunity of generating cash from tower sale also stands, giving a potential yield of 20% over the next couple of years. We reinitiate our coverage of the company with a 12M target price of RO 0.465 and STRONG BUY rating, based on our expectations of a modest increase in topline, followed by improvement in margins and profitability going forward.

DCF Method (in RO '000)	FY23e	FY24e	FY25e	FY26e
Post-tax operating profit (NOPAT)	**18,570**	**22,999**	**26,010**	**31,313**
Add: Depreciation & amortization	73,575	67,167	63,245	61,050
Less: Change in working capital	-3,132	-16,439	3,209	946
Less: Capex	-52,216	-54,092	-55,928	-57,961
Free Cash Flow to Firm	**36,797**	**19,635**	**36,535**	**35,348**
FCF growth	*-24.8%*	*-46.6%*	*86.1%*	*-3.3%*
PV of Free Cash Flows	34,026	16,242	27,042	23,411
Sum of present values of FCFs				**100,721**
Free cash flow (t+1)				35,701
Terminal value				**370,915**
Present value of terminal value				**245,658**
EV				**346,380**
Less:				
Net debt				-43,867
Minorities				-102
Equity value				**302,411**
Fair value per share (RO)				**0.465**

Valuation Parameters	
Risk free rate (Rf)	5.0%
Adjusted Beta	1.10
Equity risk premium	8.0%
Cost of equity	13.8%
Terminal or perpetual growth	1.0%
After-tax Cost of Debt	2.8%
D/D+E	18.5%
WACC	11.8%

Key downside risks to our view:

(i) Slower than anticipated new subscriber additions.

(ii) Intensification of competition and resultant price wars leading to further decline in ARPUs

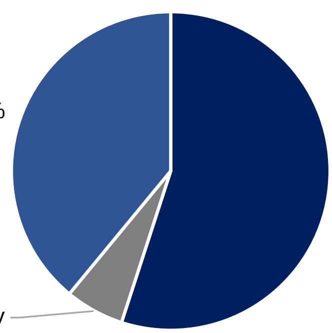
(iii) A slow and protracted economic recovery

(iv) Prolonged decline in oil price

About Ooredoo

Ooredoo was incorporated in the year 2004 as Oman Qatari Telecommunications Company SAOG. It received a license to operate in 2005 and started operations by March of that year. While the initial brand was named Nawras, the company later changed the same to Ooredoo in March 2014 as part of its international branding efforts. The company is jointly owned by Qatar Telecom and PASI. Ooredoo is the second and only other full-fledged telecom operator in the country offering both fixed and mobile services along with international connectivity. Currently the company has the second highest number of subscribers in the country with a mobile market share of 38% and serves about 3mn people. In terms of network coverage, Ooredoo has covered 99% of the population in Oman. The company introduced 5G services in 2021. The company has branded its prepaid as "Hala" and post-paid as "Shahry". It also offers cloud solutions with a new colocation service; the newly inaugurated data centre provides hosting and data processing facilities.

Shareholding pattern of Ooredoo



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Sayyed. Amjad Mohamed Al Busaidi	Chairman	Non-Independent
2	Sh. Mohammed bin Abdullah Al Thani	Vice Chairman	Non-Independent
3	Dr. Faisal Abdullah Al Farsi	Director	Independent
4	Mr Shabib Mohammed Al Darmaki	Director	Independent
5	Mr. Thani Ali Al Malki	Director	Non-Independent
6	Mr Eisa Mohammed AlMohannadi	Director	Non-Independent
7	Mr. Syed Bilal Kazmi	Director	Non-Independent
8	Saim Yaksan	Director	Non-Independent
9	Mr. Said Faraj Al Rabeea	Director	Independent

Source: MSX, US Research

Income Statement (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Revenue	284	286	265	246	258	261	270	280	290
Operating expenses	170	170	160	149	161	166	176	186	192
EBITDA	**116**	**118**	**108**	**97**	**99**	**95**	**94**	**94**	**98**
Depreciation and amortisatior	63	72	75	74	72	74	67	63	61
Operating profit	**53**	**47**	**33**	**23**	**27**	**22**	**27**	**31**	**37**
Finance costs	1	3	4	4	3	2	2	2	2
Other income/(expense)	0	0	0	-3	0	0	0	0	0
Profit before tax	**50**	**41**	**25**	**15**	**23**	**20**	**25**	**28**	**35**
Tax	8	7	4	3	4	3	4	4	5
Net income	**42**	**34**	**21**	**13**	**19**	**17**	**21**	**24**	**29**

Balance Sheet (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Inventories	4	5	5	6	4	6	7	7	7
Trade receivables, prepaymer	51	45	47	47	52	52	53	55	57
Cash and cash equivalents	48	43	12	2	2	12	18	38	54
Others	0	0	0	2	3	3	3	3	3
Total Current assets	**103**	**93**	**64**	**57**	**61**	**72**	**80**	**102**	**121**
Property and equipment	273	265	262	252	245	224	211	203	200
Right-of-use assets	0	44	42	42	39	39	32	27	24
Licences	21	22	89	83	93	106	106	106	106
Other intangible assets	13	12	14	19	0	0	0	0	0
Other non-current assets	3	7	6	8	3	3	3	3	3
Total Non-current assets	**310**	**349**	**413**	**404**	**381**	**372**	**352**	**340**	**333**
Total Assets	**413**	**442**	**477**	**461**	**442**	**444**	**432**	**442**	**454**
Payables and accruals	107	106	112	106	113	107	89	92	95
Current borrowings	6	0	13	17	2	2	2	2	2
Lease liabilities	0	6	7	10	11	13	13	13	13
Other liabilities	26	22	16	12	8	8	8	8	8
Total Current Liabilities	139	134	148	145	134	131	112	115	119
Non-Current borrowings	7	0	0	0	1	1	1	1	1
Lease liabilities	0	37	36	36	33	33	33	33	33
Other non-current liabilities	9	9	36	26	13	13	13	13	13
Total Non-current Liabilities	16	46	71	62	47	47	47	47	47
Equity	257	262	257	254	261	266	273	280	289
Non-controlling interests	1	0	0	0	0	0	0	0	0
Total Equity and liabilities	**413**	**442**	**477**	**461**	**442**	**444**	**432**	**442**	**454**

Cash flow (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Cash from Operations	**98**	**99**	**86**	**78**	**95**	**87**	**72**	**91**	**91**
Capex	-44	-55	-55	-54	-45	-52	-54	-56	-58
Purchase of License	0	0	-38	-13	-13	-13	0	0	0
Cash used in Investing	**-46**	**-56**	**-98**	**-72**	**-62**	**-65**	**-54**	**-56**	**-58**
Increase/decrease in debt	-10	-13	13	4	-15	0	0	0	0
Dividends paid	-27	-35	-32	-21	-18	-13	-12	-15	-17
Cash used in Financing	**-37**	**-48**	**-19**	**-16**	**-33**	**-13**	**-12**	**-15**	**-17**
Net inc/dec in cash	**14**	**-5**	**-31**	**-10**	**0**	**9**	**6**	**20**	**17**

Ratio Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Price as of Dec 31	0.568	0.524	0.392	0.380	0.44	0.380	0.380	0.380	0.380
Per Share									
EPS (RO)	0.064	0.052	0.033	0.019	0.029	0.026	0.032	0.037	0.045
BVPS (RO)	0.396	0.403	0.396	0.390	0.402	0.409	0.419	0.430	0.444
DPS (RO)	0.042	0.045	0.040	0.025	0.020	0.020	0.018	0.023	0.026
FCF per share (RO)	0.079	0.066	-0.018	0.009	0.051	0.034	0.027	0.053	0.051
Valuation									
Market Cap (RO ,000)	369,734	341,093	255,168	247,357	286,414	247,357	247,357	247,357	247,357
EV (RO,000)	335,259	341,721	298,191	308,964	330,281	284,885	278,823	258,962	242,397
P/E (x)	8.8	10.0	12.0	19.6	14.9	14.9	11.7	10.3	8.4
EV/EBITDA (x)	2.9	2.9	2.8	3.2	3.4	3.0	3.0	2.8	2.5
Price/Book (x)	1.4	1.3	1.0	1.0	1.1	0.9	0.9	0.9	0.9
Dividend Yield (%)	7.4%	8.6%	10.2%	6.6%	4.5%	5.3%	4.7%	6.0%	6.8%
Price to sales (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV to sales (x)	1.2	1.2	1.1	1.3	1.3	1.1	1.0	0.9	0.8
Liqiudity									
Cash Ratio (x)	0.3	0.3	0.1	0.0	0.0	0.1	0.2	0.3	0.5
Current Ratio (x)	0.7	0.7	0.4	0.4	0.5	0.6	0.7	0.9	1.0
Quick Ratio (x)	1.2	1.2	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Returns Ratio									
ROA (%)	10%	8%	4%	3%	4%	4%	5%	5%	6%
ROE (%)	16%	13%	8%	5%	7%	6%	8%	9%	10%
ROCE (%)	15%	11%	6%	4%	6%	5%	7%	7%	9%
Cash Cycle									
Inventory turnover (x)	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Accounts Payable turnover (x)	2.65	2.68	2.36	2.32	2.28	2.37	2.76	3.09	3.10
Receivables turnover (x)	1.18	1.19	1.08	0.60	0.66	0.68	0.72	0.76	0.74
Inventory days	5.1	6.5	6.8	8.5	6.3	9.0	9.0	9.0	9.0
Payable Days	137.7	135.2	154.6	157.3	160.1	150.0	120.0	120.0	120.0
Receivables days	65.7	57.1	64.2	70.6	73.5	72.0	72.0	72.0	72.0
Cash Cycle	-66.9	-71.5	-83.7	-78.2	-80.3	-69.0	-39.0	-39.0	-39.0
Profitability Ratio									
Net Margins (%)	15%	12%	8%	5%	7%	6%	8%	9%	10%
EBITDA Margins (%)	41%	41%	41%	40%	38%	37%	35%	34%	34%
PBT Margins (%)	18%	14%	10%	6%	9%	8%	9%	10%	12%
EBIT Margins (%)	19%	16%	12%	9%	10%	8%	10%	11%	13%
Effective Tax Rate (%)	16%	17%	17%	17%	16%	15%	15%	15%	15%
Leverage									
Total Debt (RO ,000)	13,271	43,597	55,352	63,754	46,255	49,277	49,277	49,277	49,277
Net Debt (RO ,000)	-34,475	628	43,023	61,607	43,867	37,528	31,466	11,605	-4,961
Debt/Capital (x)	0.20	0.67	0.85	0.98	0.71	0.76	0.76	0.76	0.76
Debt/Total Assets (x)	0.03	0.10	0.12	0.14	0.10	0.11	0.11	0.11	0.11
Debt/Equity (x)	0.05	0.17	0.21	0.25	0.18	0.18	0.18	0.18	0.17

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Telecom

Oman Telecom: Stronger by Deleraging

BUY: 12M TP @ 1.177

Valuation Summary (TTM)		
Price (RO)		1.015
PER TTM (x)		12.0
P/Book (x)		1.2
P/Sales (x)		0.3
EV/Sales (x)		1.8
EV/EBITDA (x)		5.1
Dividend Yield (%)		5.4
Free Float (%)		36%
Shares O/S (mn)		750
YTD Return (%)		10%
Beta		0.8
(mn)	**OMR**	**USD**
Market Cap	761	1,977
Enterprise Value	5,017	13,031

Price performance (%)	1M	3M	12M
Omantel	-3%	7%	13%
MSX 30 Index	-3%	-1%	12%
Services Index	-1%	3%	1%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (RO ,000)	165	392	325
Avg Daily Volume (,000)	363	397	348
52 week	**High**	**Low**	**CTL***
Price (RO)	1.130	0.832	22.0

* CTL is % change in CMP to 52wk low

Major shareholders	
OIA SPV	51.0%
PASI	7.4%
OIA	6.0%
Others	35.6%

Other details	
Exchange	MSX
Sector	Telecommunications
Index weight (%)	9.43%

Key ratios	2020	2021	2022
EPS (RO)	0.089	0.085	0.084
BVPS (RO)	0.768	0.772	0.453
DPS (RO)	0.055	0.055	0.060
Payout ratio (%)	62%	65%	71%

Oman Telecom (OTEL) is the oldest and largest telecom operator in the country. Despite significant competition over the past, the company has managed to maintain leadership position in all the segments it operates such as mobile, fixed line and FTTH/HBB etc. In the year 2018, OTEL sensing saturation in its home market, took a decision to invest in Zain Kuwait. Through Zain, OTEL got exposure to 8 geographies and over 50mn subscribers. We believe the synergies of this investment are falling in place, and OTEL will stand to benefit on its investment. OTEL has recently sold its non-core assets to raise cash and reduce the burden on the balance sheet. It has prepaid some of its loans and is on the path to becoming asset light. We believe this will help improve margins going forward. The revenue for the company witnessed an uptick in 2022 post a couple of years of degrowth. Consolidated revenue grew by 11.4% while profit increased by 19.4% in 2022. We do not forecast major capex ahead and other operating expenses are likely to remain steady. We expect net income attributable to the parent to increase by 2.9% CAGR (2022-26e) on account of lower finance cost and other operating margins. At current prices, the stock is trading at 2023e EV/EBITDA of 2.5x, P/E ratio of 9.3x. We find these valuations low considering the growth prospects of the company and the upcoming benefits of the change in growth trajectory. Our DCF valuation resulted in 12M target price of RO 1.177/share offering 16.0% return potential over the next 12 months. We rate the stock a BUY.

Market share at risk with entry of new player: Omantel's leadership status is getting increasingly under threat with aggressiveness amongst competitors. Ooredoo (ORDS) is giving a tough fight already while the latest entry of Vodafone has displaced some market share from Omantel. The prepaid segment has been the most volatile and we expect this trend to continue albeit at a slower pace as predatory pricing regulations fall in place and industry growth picks up. Fixed line market share is however unbeatable at 70%, high quality offerings in 5G and widest network provide the adequate barriers for new players. Fixed line contributes to 30% of the revenue and forms a cushion to the top line. Post-paid connections have doubled over the last few years and provides support to the ARPU.

International operations catching steam via Zain: Omantel's investment in Zain has been a game changer for the company providing exposure to 8 new geographies and engaging over 50 Mn customers. With 5 seats on the board of Zain, Omantel has significant influence in the decision making of the company. Hence it effectively controls one of the largest telecom operators in the region with an overall revenue of RO 2.6Bn. Amongst the markets, we expect KSA to be the growth region while Kuwait to remain the cash cow. Jordan and Bahrain are smaller and mature markets while Sudan might be sold off soon. We assign a premium to this international franchise as there are very few entities who have managed such a large subscriber based in the region.

Moving towards a deleveraged asset light model: Omantel has followed the global trend of selling and leasing back its passive infrastructure. In this process it has completed the sale of all its tower assets across most the geographies it operates. Even the head quarter building in Muscat has been booked into a REIT structure thereby raising the cash position and reducing the debt levels. Omantel has recently made pre-paid of several of its loans and is deleveraging its balance sheet aggressively. We expect lower interest costs to aid net margins growth to double digit going forward.

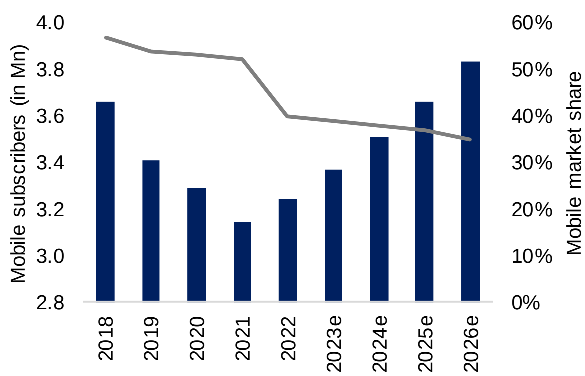
Valuation: The stock at current price trades 2.5x 2023e EV/EBIDTA and 9.3x PE. Based on the DCF valuation we arrive at a target price of 1.177 which offers 16% upside from the current price, hence we recommend the stock with a BUY rating.

Subscriber growth expected despite market share loses

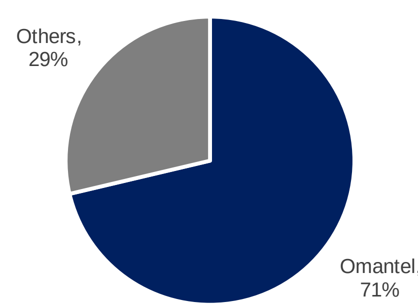
… Overall industry growth to benefit OTEL despite market share loss in mobile …

Omantel is the first and largest telecom operator in Oman. It was also the only telecom company offering services in the country up until 2005. From being a pure monopoly, the company has gradually lost market share with the entry of new players such as Ooredoo in 2005, resellers such as Frendi and Renna and finally Vodafone in 2021. The standalone mobile subscriber market share (without resellers) for the company was 50% in 2018, which has declined to 40% as of 4Q22. The loss of market share to new players was primarily in the prepaid segment. This was accentuated by an overall declining trend in subscriber base until recently. However, since 2022 onwards we are witnessing an increase in the overall base of subscribers in Oman with the influx of expats and revert to economic growth. We believe despite losing market share Omantel will benefit from growth in the industry and estimate mobile subscribers to grow at the rate of 4.0% CAGR (2022-26e) largely contributed by postpaid additions.

Mobile subscribers to trend higher



Fixed line leadership sustained



Source: TRA, Company reports, US research

… Fixed line has higher ARPU, broadband to offer growth …

Omantel has maintained its leadership in fixed line thanks to its head start and quality offerings. In 2022 the company had a subscriber market share of 70% and revenue market share of 80% in the fixed line segment. Fixed line business also offers high-quality, high-speed broadband connectivity, the standards of which have been maintained high with 5G Fibre to the home (FTTH) technology.

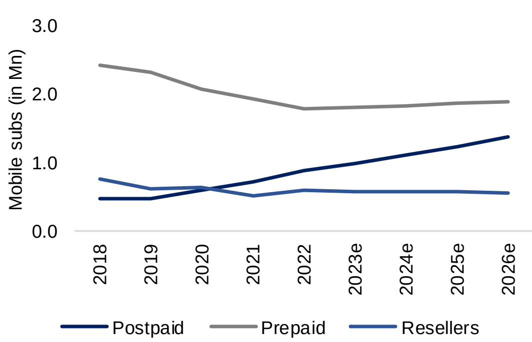
Omantel has been the pioneer in introducing the latest technologies and has the widest network in the country. The long-term relationships that it has garnered with government, educational and other business-related institutions provide a solid base for the fixed line business.

Fixed line subscribers are 16% of the total subscribers, however, owing to its higher ARPU, contributes to 30% of the domestic revenue. We expect the fixed broadband (BB) subscriber base to grow at a rate of 3% CAGR (2022-26e), as fixed telephony to have reached saturation.

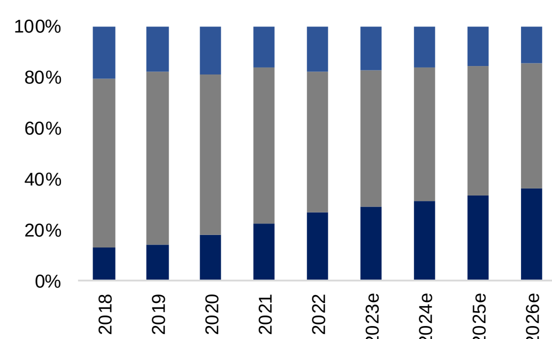
… Expat influx to benefit prepaid, postpaid will continue to grow …

Prepaid to face competition, while post-paid grows: The mobile segment which forms 84% of the overall subscriber base can be divided into Prepaid, Resellers and Post-paid. The pre-paid subscribers form most of the mobile subscriber base for Omantel with nearly 61% contribution. This large segment is most sensitive to competition and changes in population trends. The biggest impact for the prepaid segment comes from the movement of expats into and out of the country. The situation was accentuated in the past as the subscriber pie reduced by 14% due to the exodus of expats and weak economic situation between 2017-21. The pre-paid subscriber base of Omantel witnessed a significant decline from 2.42Mn in 2018 to 1.92 Mn in 2021. Further in 2022 the entry of Vodafone ate into the market share of the resellers and Omantel in particular leading to further decline in prepaid to 1.78Mn.

Post paid on a growth trajectory



…and currently contribute to 23% of subs



Source: TRA, Company reports, US research

… migration of OTELs postpaid subscribers is also a reason for decline in prepaid subscribers…

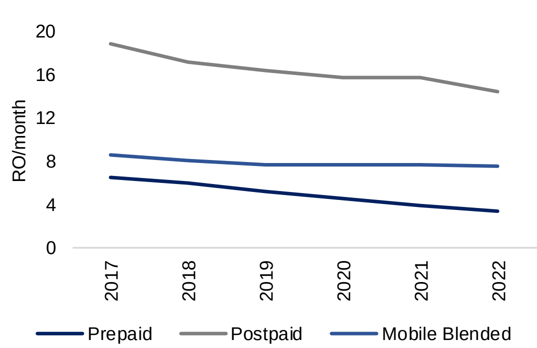
Prepaid market share erosion has also been due to the migration of OTELs own customers to postpaid. The post-paid segment has managed to nearly double its subscriber base from 430k in 2017 to 877k in 2022. We find similar trends with the competitors and believe the lucrative offers, value added services, price war and combination of handset sales to be the reasons for the change in mix in favour of post-paid subscribers.

Post-paid contribution to the subscriber base has increased from 10% in 2017 to 27% in 2022. The post-paid segment has higher ARPU, and movement in subscribers is less volatile compared to other segments. We expect stable revenue growth from this segment, our forecast for the subscriber growth in post-paid is 12% CAGR (2023-26e). Hence the erosion of market share in prepaid has been partially compensated with the significant increase in postpaid. We expect predatory pricing to be controlled and going forward the market share loss for OTEL in the prepaid segment to be reduced. Our expectation of growth in this segment is modest at a CAGR 1.0% (2022-26e).

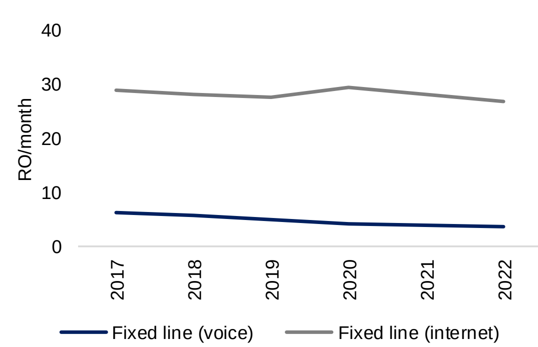
… higher postpaid numbers translate into better ARPUs …

The Increase in postpaid will have a positive impact on the ARPUs as well. ARPUs have been declining in a linear trend over the past several years. This declining trend is likely to bottom out in 2022 and we expect marginal increase going forward.

Mobile ARPUs on a declining trend



Fixed line ARPUs are higher



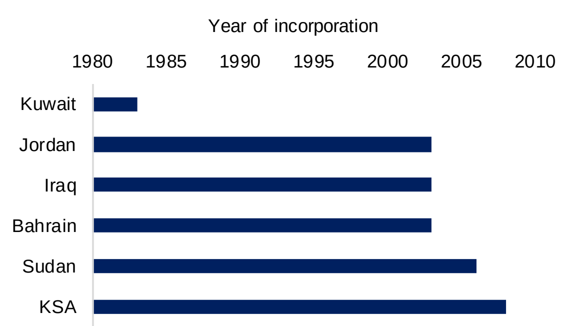
Source: Company reports, US research

Zain gaining ground, international diversification augurs well in an upcycle

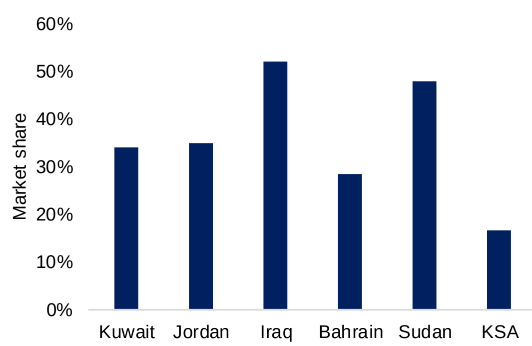
Omantel in 2017 acquired 21.9% stake in Zain Kuwait for a total consideration of $2.19bn (RO 845Mn) making it the second largest shareholder in the company. The deal was financed through a bridge loan and later refinanced by a dual tranche (5yr/10yr) USD denominated bond of total value $1.5bn. This deal has been a strategic turning point for Omantel. Zain Kuwait being the first mobile telecom service provider in the middle east brought along the much-needed latest technology, scale and diversification.

Through Zain, Omantel has access to 8 markets with a total population of over 195 Mn - Kuwait, KSA, Jordan, Sudan, South Sudan, Iraq, Bahrain and Morocco (15% stake in INWI). The consolidated entity became the third largest in the MENA region with over 50mn subscribers.

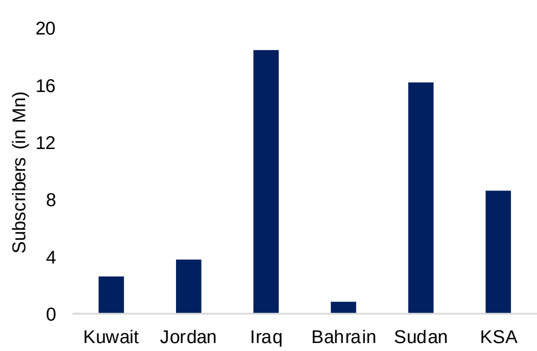
Zain Kuwait is the oldest operator



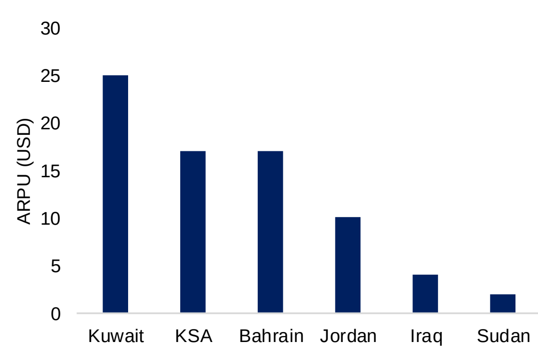
KSA is the growth market for Zain group



Overall Zain caters to over 50mn subs



ARPUs highest in Kuwait



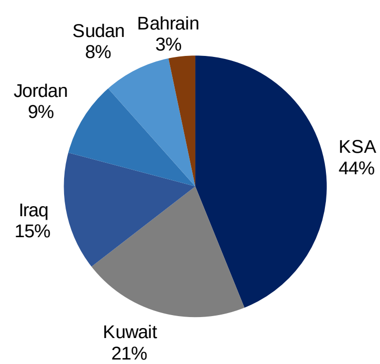
Source: Company reports, US research, as of 9M22

… KSA offers growth while Kuwait is the cash cow …

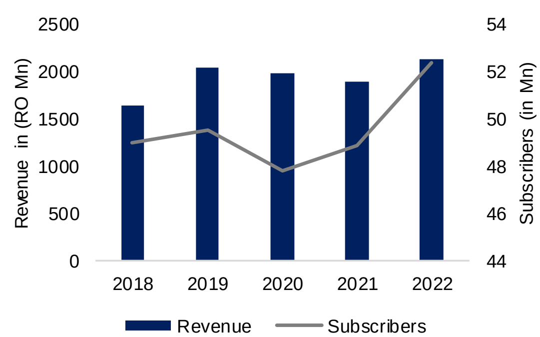
We find the international exposure exciting and there is significant scope for growth in top line. While all these geographies have their own advantages and challenges, we are extremely positive on the major contributors KSA and Kuwait. These two markets contribute 65% of Zain's consolidated revenue. Zain KSA provides access to the largest market in the region, with over 50Mn subscribers. Zain KSA has a total market share of 17%. This makes it the most lucrative market in the portfolio. On the other hand, Zain Kuwait is a mature market and has the highest ARPU in the region, it is the cash cow for the company. It has an EBIDTA margin of 38% and net margin of 23.7%.

Jordan and Bahrain are mature markets with very high market penetration and limited scope for subscriber additions. Zain had several other geographical areas under its operation which it has over the last few years exited. We expect Sudan to also be out of the list soon as we understand that the company is looking for suiters.

KSA and Kuwait are key for Zain



Zain consolidated revenue and subscribers rise



Source: Company reports, US research

The solid balance sheet of Zain Kuwait offers adequate cushion to valuations and supports regular dividend payout in excess of 70%. Omantel has received RO 198mn Mn in terms of dividend payouts from its investment in Zain since 2018. Considering the expected higher profits from Zain we expect Omantel to receive similar dividend payouts going forward.

… Sale of non-core assets will reduce the burden on the balance sheet …

Moving towards a deleveraged asset light model: Omantel has taken significant steps to become asset light and generate cash from the sale and lease back of its passive infrastructure such as its towers and buildings. The management commentary has been clear in its strategy of removing anything that is non-core to the business.

There has been an ongoing trend globally by Telecom service providers to sell their towers and lease them back. The rentals paid by the telecom operator serve as the annuity for the buyer. Most telecom operators in the region have followed the same strategy. Omantel completed its transaction of selling 2519 towers in Oman to UK based Helios Towers for a total cash consideration of $495Mn/RO 190 Mn.

… Omantel and Zain aggressively pursuing sale of towers …

This deal was initiated in May 2021 and completed in Dec 2022. It has further committed to sell another 226 towers for a total consideration of $53Mn (RO 20Mn). Zain on the other hand has completed its tower sale in 3 of the countries it operates – KSA, Kuwait and Jordan which included 12296 towers for a total consideration of over $1Bn. In Iraq 4968 towers have been sold and leased back recently at a value of $180 Mn. It is pursuing the same strategy in Bahrain as well. The completed deals have infused about $1.7bn cash into the balance sheet. We expect the cash so generated to be used for debt reduction at both the consolidated as well as the standalone level.

Country	No.of Towers	Consideration ($ Mn)	Buyer
Zain KSA	8069	807	PIF
Zain Jordan	2607	88	TASC Towers
Zain Kuwait	1620	130	IHS
Zain Iraq	4968	180	TASC Towers
Omantel	2519	495	Helios Towers
Total	**19783**	**1700**	

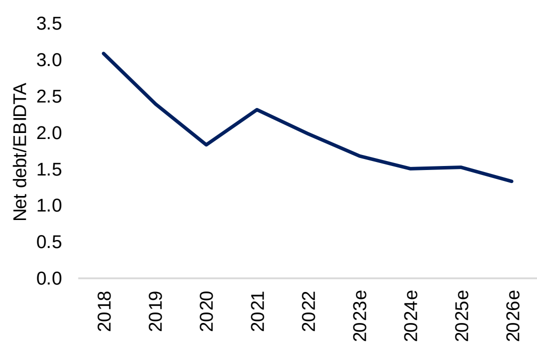
Source: Company reports, US research

… First of its kind REIF structure further reduces assets on the book …

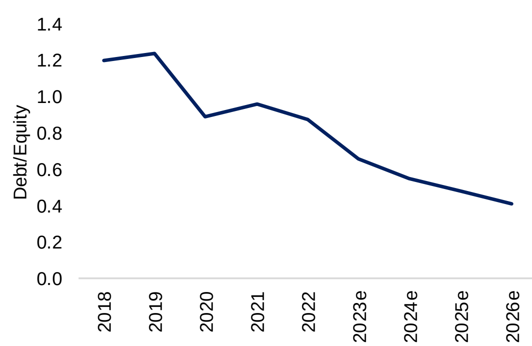
In another significant and innovative move, Omantel monetized its real estate asset which is the headquarters of the company at Madinat Al Irfan area in Muscat. Omantel in collaboration with Oman Investment Authority (OIA) established a Real estate Fund, the Pearl REIF. It transferred the headquarters building to the fund for a value of RO 55mn and in turn received units of the fund equivalent to RO 27.9 Mn representing 65.7% ownership of the fund and the remaining RO 27.1 Mn as cash. It also simultaneously entered into a lease agreement for the same asset with Pearl REIF. Further it sold half its stake during the IPO of Pearl REIF in Nov 2022, for a value of RO 15 Mn. The total proceeds from the transaction come to RO 42.1 Mn along with a continuing stake of 33.2% in the real estate fund of value RO 14.1Mn. We see this as a strategic move by the company to raise funds and reduce the burden on the balance sheet. We should witness significant shoring up of the cash and reduction in net debt in the balance sheet from 2023 based on the proceeds of these major events.

Majority of the outstanding debt to be phased off: Omantel was a debt free company until 2016, however the acquisition of Zain and the leverage that it entailed took the total debt to RO 2.6Bn on the consolidated balance sheet by 2018 and the debt /equity rose to 1x equity.

Net Debt/EBDITA to decline



…Debt to reduce on the back of cash inflow



Source: Company reports, US research

… prepayment of debt would be the first priority post the sale of tower assets …

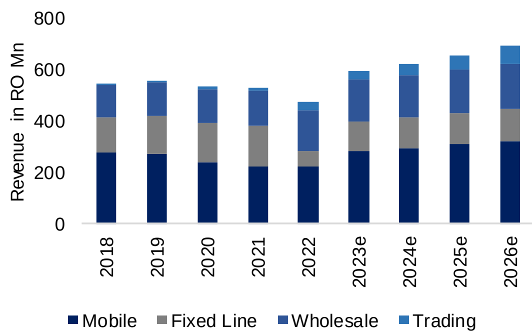
Omantel financed the $2.1 Bn acquisition by a mix of long-term loan and issuance of bonds denominated in USD. The term loan had a value of $800 million, part of which was transferred to the subsidiary Oztel ($435Mn) and remaining retained with itself. Further a bond was issued which had two tranches of maturity 5.5yrs and 10 yrs. and a total value of $1.5 Bn. The bond carried an interest rate of 5.63% ($600Mn) for the 5.5yrs and 6.63% ($900Mn) for the 10yr. In October 2022, Omantel launched a public tender to buy back bonds issued in 2017. Through the process it bought back $142.9 Mn of 2023 and $211 Mn worth of 2028 bonds. It also prepaid a term loan of $ 340 Mn in Jan 2023.

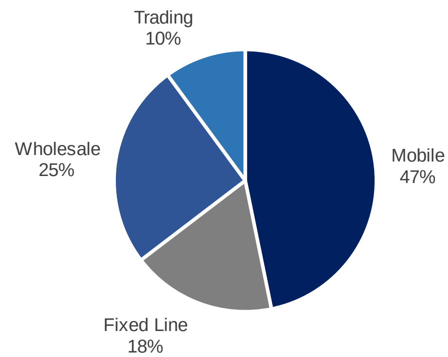
As of 2022 the net debt stood at RO 669 Mn at consolidated level and cash increased to RO 142 Mn from RO 104 Mn in the previous year. We expect further repayment of debt going forward as the cash proceeds from tower sales start kicking in, this deleveraging exercise is expected to continue for the next couple of years till majority of the parent company's debt is extinguished. A similar pattern will be followed in the Zain group entities and the tenure of most of the loans is likely to pre-closed by 2025-26.

… domestic revenue to grow at a CAGR 6.4% (2022-26e) …

Revenue will witness uptick from 2023, margins will stabilise: We are witnessing green shoots in the economy and business growth is evident. The addition of jobs for the local population and influx of expats will increase the overall subscriber addition in the telecom sector. We expect Omantel to be a beneficiary of this upcycle. As the price war within the industry stabilizes and subscription base in Mobile segment increases, we expect modest growth in revenue from 2023 onwards. Other than the voice and data segment, the wholesale business is also a significant contributor to the top line. Wholesale contributes 26% of the domestic revenue and includes services such as ultra-low-latency connectivity to regional and international telecom operators. The geographic location provides a comparative advantage to Oman as it is surrounded by high growth markets in Asia, Middle east and Africa. Omantel is amongst the top 3 regional wholesale providers in the region. It has a subsea portfolio of 20+ international cable systems that connect over 120 cities. This is a critical segment for the company and the country, and we expect it to grow at a modest rate of 2% CAGR 2022-26e.

Domestic revenue to rise on Mobile growth | **Mobile contributes 47% of domestic revenue**





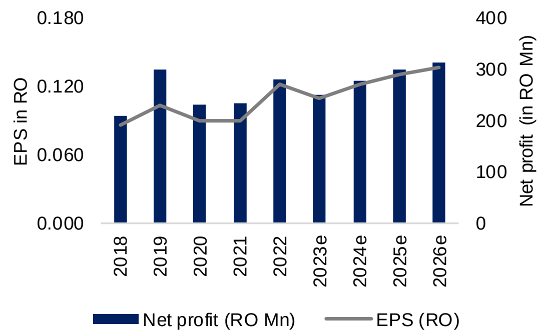
Source: Company reports, US research

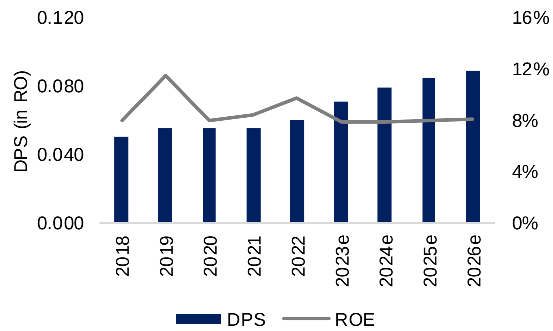
The value-added services, higher yielding 5G, increase in usage of data, larger contribution from post-paid segment will be the main drivers of growth in revenue for Omantel going forward. Based on our assumption on the subscriber additions and stable ARPUs, our estimate for the consolidated revenue growth for the period 2023-26e is at a CAGR of 4.0%.

Lower capex, reduction in debt and higher cash inflow

We do not expect the run rate in capex to be high going forward as markets are maturing across the region. Non-core assets are being shelved and asset light models are pursued, we expect depreciation to settle around current levels. Reduction in debt levels with the sale of non-core assets will lead to lower interest costs going forward. Both these factors augur well for the bottom line, and we expect net margins to remain around 10% and ROE to be 8% through (2022-26e). Though cash levels are expected to rise, the scope for improving the payout from the current 62% is unlikely to increase significantly. Most of the proceeds would be used for extinguishing the debt. Hence, we assume a payout of 65% over our forecast period till 2026.

Lower opex will lead to higher net profit | **DPS to increase as bottomline grows**





Source: Company reports, US research

Key downside risks to our view:

1. Slower than anticipated new subscriber additions.
2. Further erosion of prepaid market share
3. Intensification of competition and resultant price wars leading to further decline in ARPUs
4. A slow and protracted economic recover
5. Prolonged decline in oil price

Our DCF valuation resulted in fair value per share of RO 1.177:

We have employed DCF valuation for Omantel to arrive at the intrinsic value of the company. The cost of equity of 13.6% derived from risk free rate of 6.0%, equity risk premium of 8.0%, and equity beta of 0.950. Our base case valuation assumed that the company's cash flow would remain stable at 1% beyond the forecasted period. We have arrived at a DCF value of RO 1.177/Share of Omantel, which is 16% higher than the current price of RO 1.015/Share

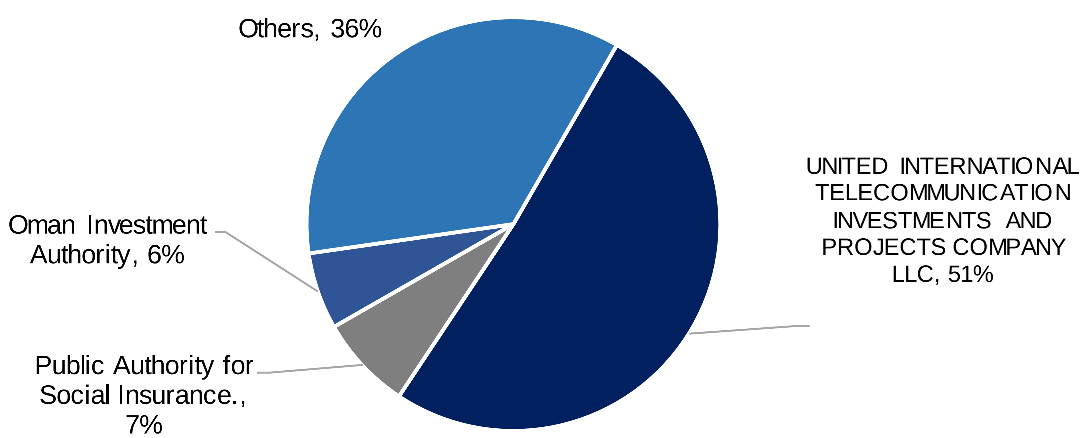
DCF Method (in RO '000)	FY23e	FY24e	FY25e	FY26e
Post-tax operating profit (NOPAT)	**364,436**	**374,419**	**374,945**	**370,141**
Add: Depreciation & amortization	544,876	545,050	540,114	531,193
Less: Change in working capital	-341,834	-431,343	-407,162	-165,731
Less: Capex	-150,000	-150,000	-150,000	-150,000
Free Cash Flow to Firm	**417,478**	**338,126**	**357,898**	**585,603**
PV of Free Cash Flows	385,187	278,181	262,636	383,304
Sum of present values of FCFs				**1,309,308**
Free cash flow (t+1)				591,459
Terminal value				**5,967,153**
Present value of terminal value				**3,905,774**
EV				**5,215,082**
Less:				
Net debt				2,080,319
Minorities				2,251,640
Equity value				**883,123**
Fair value per share (OMR)				**1.177**

Valuation Parameters	
Risk free rate (Rf)	6.00%
Adjusted Beta	0.95
Equity risk premium	8.00%
Cost of equity	13.60%
Terminal growth rate (g)	1.00%
Pre tax cost of debt	7.25%
Effective tax rate	15.00%
After tax cost of debt	6.16%
Target D/E	20.00%
WACC	**12.11%**

About Oman Telecom Company

Oman Telecom Company (OTEL) is the first and largest telecom player in Oman with a total domestic subscriber base of 3.8 Mn and a subscriber market share of 40% as of 4Q22. Post the acquisition of Zain, it increased its presence to 8 countries with leadership in 4 markets and 55 Mn subscribers. The company operates in both fixed and mobile segments, providing high speed broadband connectivity across the country, managing data parks, operating BPOs and providing IT services. It also holds a significant stake in a fibre optic manufacturing unit and invests in the Blockchain and Fintech space. Omantel has 40% stake in Renna which is a Class II reseller operating under the Renna and Red Bull Mobile brands. Omantel boasts of the highest 4G coverage of 95% and 3G coverage of 99.38% of the Omani population with over 3500 mobile sites, a cable network of over 9000kms. It was the first to launch 5G coverage in 2019 and its customers can get ultra-high-speed internet services in their home of up to 1Gbps. On the international stage it has over 100 direct interconnects with major operators, 700 roaming partners in 200 countries. In the wholesale segment, Omantel has 20+ undersea cables, 120 landing facilities and the only GCC carrier to land a submarine cable in Europe. This is a critical infrastructure that connects Oman to the world.

Shareholding pattern of Omantel



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Mr. Mulham bin Basheer Al-Jarf	Chairman	Independent
2	Shikh. Khalid Abdullah Al Khalili	Deputy Chairman	Independent
3	Khalid bin Talib Al Hasani	Director	Independent
4	Eng. Atif bin Said Al Siyabi	Director	Non-independent
5	Mr. Musallam bin Mohammed Al Barami	Director	Independent
6	Shikh.Aimen Ahmed AL-Hosni	Director	Independent
7	Al Sayyid Zaki bin Hilal Al Busaidi	Director	Non-independent
8	Mr. Ibrahim bin Said Al Eisri	Director	Independent
9	Ishaq Bin Zaid Al Maawali	Director	Independent

Source: MSX, US Research

Income Statement (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Revenue	2,186	2,592	2,511	2,408	2,683	2,802	2,907	3,019	3,138
Operating expenses	1,331	1,432	1,424	1,432	1,638	1,828	1,922	2,038	2,172
EBIDTA	**855**	**1,161**	**1,087**	**976**	**1,045**	**974**	**986**	**981**	**967**
Depreciation	443	617	612	593	552	545	545	540	531
Operating profit	**412**	**544**	**476**	**384**	**494**	**429**	**440**	**441**	**435**
Finance costs	144	192	161	139	157	144	125	105	85
Other income/(expense)	19	15	48	-6	65	-10	-11	-14	-18
Profit before tax	249	337	267	251	272	294	326	351	368
Tax	40	37	38	34	21	44	49	53	55
Net income	**209**	**300**	**229**	**234**	**279**	**250**	**278**	**298**	**313**
Profit attributable to:									
Shareholders	**65**	**78**	**67**	**67**	**91**	**82**	**91**	**97**	**102**
Non controlling interest	144	222	162	167	188	168	187	201	211
Net Profit	**209**	**300**	**229**	**234**	**279**	**250**	**278**	**298**	**313**

Balance Sheet (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Inventories	69	70	68	80	70	101	106	113	122
Trade receivables	825	824	839	972	1,122	1,177	1,454	1,811	1,977
Cash and cash equivalents	503	471	583	390	451	446	462	276	306
Others	134	139	115	166	484	210	210	210	210
Total current Assets	**1,531**	**1,503**	**1,605**	**1,608**	**2,127**	**1,933**	**2,231**	**2,410**	**2,615**
Property and equipment	2,020	2,055	2,137	1,983	1,762	1,587	1,437	1,312	1,212
Right-of-use assets	-	245	229	226	207	287	369	434	484
Licences	-	-	-	2,391	2,351	2,218	2,090	1,961	1,830
Other intangible assets	3,580	3,568	3,506	1,060	1,039	1,039	1,039	1,039	1,039
Other non-current assets	184	263	260	300	351	322	322	322	322
Total non current Assets	5,784	6,131	6,131	5,959	5,709	5,452	5,257	5,067	4,886
Total Assets	**7,314**	**7,634**	**7,736**	**7,567**	**7,835**	**7,385**	**7,488**	**7,477**	**7,501**
Payables and accruals	1,393	1,322	1,391	1,354	1,466	1,210	1,061	1,019	1,028
Current borrowings	556	229	295	580	548	448	398	348	298
Lease liabilities	-	58	50	46	33	86	111	130	145
Other liabilities	170	240	193	188	271	240	254	268	281
Total Current Liabilities	**2,119**	**1,849**	**1,929**	**2,168**	**2,318**	**1,984**	**1,824**	**1,765**	**1,752**
Non-Current borrowings	2,082	2,352	2,035	1,823	1,740	1,240	1,040	840	640
Lease liabilities	500	616	194	202	211	301	388	455	508
Other non-current liabilities	-	195	682	607	680	687	691	696	703
Total Non-current Liabilities	**2,582**	**3,163**	**2,911**	**2,632**	**2,631**	**2,229**	**2,119**	**1,992**	**1,851**
Equity	548	565	576	579	635	695	776	815	854
Non-controlling interests	2,066	2,057	2,320	2,188	2,252	2,477	2,769	2,906	3,045
Total Equity	**2,614**	**2,622**	**2,896**	**2,767**	**2,887**	**3,172**	**3,545**	**3,720**	**3,898**
Total Equity and Liabilities	**7,314**	**7,634**	**7,736**	**7,567**	**7,835**	**7,385**	**7,488**	**7,477**	**7,501**

Cash flow (RO Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Cash from operations	840	986	926	712	762	597	516	536	763
Investing cash flow	-207	-559	-472	-477	-259	-245	-245	-245	-245
Financing cash flow	-443	-496	-354	-345	-451	-806	-507	-538	-557
Change in cash	**173**	**-33**	**98**	**-193**	**61**	**-6**	**16**	**-186**	**30**
Beginning cash	330	503	485	583	390	451	446	462	276
Ending cash	**503**	**471**	**583**	**390**	**451**	**446**	**462**	**276**	**306**

Key Ratios	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Per Share									
EPS (RO)	0.086	0.104	0.089	0.089	0.122	0.109	0.121	0.130	0.136
BVPS (RO)	0.730	0.753	0.768	0.772	0.847	0.926	1.035	1.086	1.138
DPS (RO)	0.050	0.055	0.055	0.055	0.060	0.071	0.079	0.084	0.089
FCF per share (RO)	0.844	0.570	0.604	0.313	0.670	0.470	0.362	0.388	0.691
Valuation									
Market cap (RO Mn)	585	451	537	561	825	761	761	761	761
EV (RO Mn)	3,219	3,236	2,528	2,822	2,905	2,391	2,236	2,258	2,046
EBIDTA (RO Mn)	855	1,161	1,087	976	1,045	974	986	981	967
P/E (x)	9.03	5.80	8.03	8.37	9.03	9.31	8.39	7.81	7.44
EV/EBITDA (x)	3.77	2.79	2.33	2.89	2.78	2.46	2.27	2.30	2.12
Price/Book (x)	1.07	0.80	0.93	0.97	1.30	1.10	0.98	0.93	0.89
Dividend Yield (%)	6.4%	9.2%	7.7%	7.4%	5.5%	7.0%	7.7%	8.3%	8.7%
Price to sales (x)	0.27	0.17	0.21	0.23	0.31	0.27	0.26	0.25	0.24
EV to sales (x)	1.47	1.25	1.01	1.17	1.08	0.85	0.77	0.75	0.65
Liqiudity									
Cash Ratio (x)	0.24	0.25	0.30	0.18	0.19	0.22	0.25	0.16	0.17
Current Ratio (x)	0.72	0.81	0.83	0.74	0.92	0.97	1.22	1.37	1.49
Quick Ratio (x)	0.20	0.19	0.20	0.20	0.26	0.25	0.28	0.31	0.33
Returns Ratio									
ROA (%)	2.9%	3.9%	3.0%	3.1%	3.6%	3.4%	3.7%	4.0%	4.2%
ROE (%)	8.0%	11.4%	7.9%	8.4%	9.7%	7.9%	7.8%	8.0%	8.0%
ROCE (%)	4.0%	5.2%	3.9%	4.3%	5.1%	4.6%	4.9%	5.2%	5.4%
Cash Cycle									
Inventory turnover (x)	9.3	10.7	10.5	9.6	13.4	10.0	10.0	10.0	10.0
Accounts Payable turnover (x)	0.5	0.6	0.5	0.6	0.6	0.8	1.0	1.1	1.2
Receivables turnover (x)	2.7	3.1	3.0	2.5	2.4	2.4	2.0	1.7	1.6
Inventory days	39	34	35	38	27	37	37	37	37
Payable Days	798	648	708	648	575	438	365	329	307
Receivables days	138	116	122	147	153	153	183	219	230
Cash Cycle	-621	-498	-552	-462	-395	-248	-146	-73	-40
Profitability Ratio									
Net Margins (%)	9.6%	11.6%	9.1%	9.7%	10.4%	8.9%	9.5%	9.9%	10.0%
EBITDA Margins (%)	39.1%	44.8%	43.3%	40.5%	39.0%	34.8%	33.9%	32.5%	30.8%
PBT Margins (%)	11.4%	13.0%	10.6%	10.4%	10.1%	10.5%	11.2%	11.6%	11.7%
EBIT Margins (%)	18.8%	21.0%	18.9%	15.9%	18.4%	15.3%	15.2%	14.6%	13.9%
Effective Tax Rate (%)	16.2%	11.0%	14.3%	13.6%	7.6%	15.0%	15.0%	15.0%	15.0%
Leverage									
Total Debt (RO Mn)	3,138	3,256	2,574	2,652	2,532	2,075	1,936	1,773	1,591
Net Debt (RO Mn)	2,634	2,785	1,991	2,261	2,080	1,630	1,475	1,497	1,285
Debt/Capital (x)	5.73	5.76	4.47	4.58	3.98	2.99	2.49	2.18	1.86
Debt/Total Assets (x)	0.43	0.43	0.33	0.35	0.32	0.28	0.26	0.24	0.21
Debt/Equity (x)	1.20	1.24	0.89	0.96	0.88	0.65	0.55	0.48	0.41

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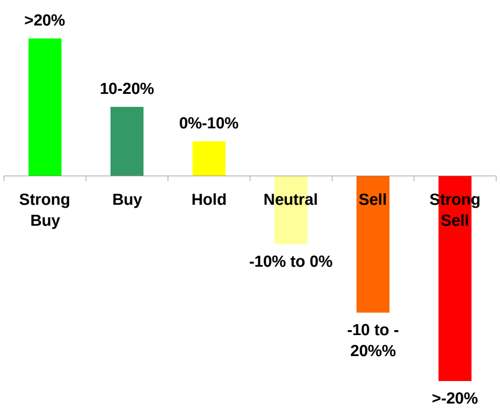
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	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%
Buy	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%
Hold	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%
Neutral	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%
Sell	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%
Strong Sell	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%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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