Oman Telecom Sector

Investment Update
GBCM Research

Challenging environment amid unfavourable macro, regulatory and operating dynamics, while valuation & dividend attractiveness seen…

Oman Telecom Sector continues to face headwinds

A combination of factors including weak macro environment, high penetration levels, intense competition, and regulatory changes have had a significant impact on the Oman telecom sector over the past few years. The situation may not change for the better anytime soon as the imminent entry of a third mobile operator in 2020 could further intensity competition. **However, significant erosion in value of the two listed players over past four years seems overdone.** Additionally, both Omantel (OTEL) and Ooredoo (ORDS) are making accelerated efforts to drive growth from key areas like fixed broadband, wholesale, and ICT.

Falling MoU amid slowing subscriber additions weighing on voice revenues

Falling minutes of usage (MoU) due to rapid proliferation of OTT apps amid slowing subscriber additions due to high penetration continue to weigh on voice telephony revenues, which have declined at a CAGR of 5% since 2011.

Data revenue to offset voice revenue decline

Strong growth in data, particularly fixed broadband, has been offsetting continued decline in voice telephony revenues over the past few years. We believe this trend is expected to continue through 2023, driving a ~2% growth in the overall telecom market, with data revenues (fixed+mobile) increasing their contribution to three-fourth of the overall telecom market, from 54% levels in 2018.

New liberalization regulation negative for incumbent

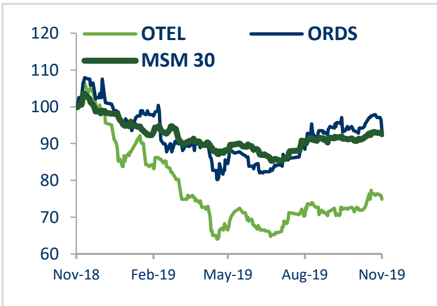
The approval of sector liberalization rules by the TRA makes the pricing for sharing an operator's physical infrastructure substantially cheaper by implementing a cost-plus basis from the prior commercial basis, could be a negative for OTEL as it holds a dominant position in the fixed line infrastructure across Oman.

Valuations look attractive for both companies

Shares of both Omantel and Ooredoo have fallen significantly over the past four years, making valuations attractive for long term investors. We prefer ORDS for steady dividends owing to its strong balance sheet and market share gains in fixed broadband. We believe the expensive Zain acquisition remains a major overhang for OTEL in the medium term, with significant finance costs and debt principal repayments. **We recommend Buy (Long term) rating in both OTEL and ORDS**. The estimated dividend yield of >8% in both the stocks to remain supportive.

Omantel (OTEL)	
Closing	**RO 0.616**
Rating	**Buy**
Fair value (12M)	**RO 0.743**
Ooredoo Oman (ORDS)	
Closing	**RO 0.512**
Rating	**Buy**
Fair value (12M)	**RO 0.622**

OTEL vs ORDS vs MSM30 (base: 100)



Financial Metrics: Omantel- Group

(RO '000) *	2019E	2020E	2021E	2022E	2023E
Revenue	2,602,508	2,610,248	2,644,460	2,715,316	2,805,899
Net Profit	71,517	74,540	77,997	85,878	90,611
EPS (RO)	0.095	0.099	0.104	0.115	0.121
BVPS (RO)	0.775	0.825	0.879	0.938	0.999
DPS (RO)	0.050	0.050	0.050	0.055	0.060
P/E (x)	6.4	6.1	5.8	5.3	5.0
EV/EBITDA	4.9	4.0	3.2	2.4	1.5
ND/EBITDA	2.1	1.7	1.3	0.9	0.4
Div. Yield	8.22%	8.22%	8.22%	9.05%	9.87%

Ooredoo

(RO '000) *	2019E	2020E	2021E	2022E	2023E
Revenue	280,455	278,680	284,769	288,334	296,956
Net Profit	37,190	34,634	40,206	38,619	42,273
EPS (RO)	0.057	0.053	0.062	0.059	0.065
BVPS (RO)	0.410	0.421	0.438	0.453	0.470
DPS (RO)	0.042	0.042	0.045	0.045	0.048
P/E (x)	9.1	9.8	8.4	8.8	8.0
EV/EBITDA	2.5	2.6	2.6	2.4	2.1
ND/EBITDA	-0.4	-0.3	-0.2	-0.4	-0.5
Div. Yield	8.1%	8.1%	8.7%	8.7%	9.2%

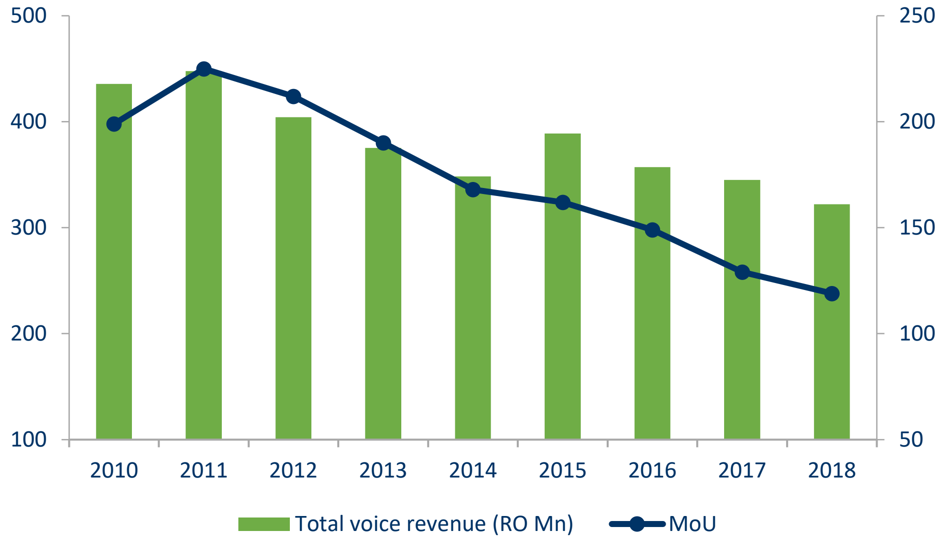
Source: Company Reports, GBCM Research Estimates, *Closing as at end of Nov 2019

Voice revenue continues to decline on falling voice usage amid slow subscriber additions

Voice telephony revenues have declined ~5% since 2011

Over the past seven years, voice revenue has declined at a CAGR of 5% on continued erosion in voice usage amid slowdown in subscriber additions and lower prices. Monthly average domestic usage per subscription has fallen 9% annually to ~120 minutes in 2018 from ~225 minutes in 2011. Primary reason for the continued lower minutes of usage is the rapid proliferation of over-the-top (OTT) Voice over IP (VOIP)/messaging apps such as WhatsApp, Skype and other OTT providers.

Voice telephony revenue and Minutes of Usage (MoU)

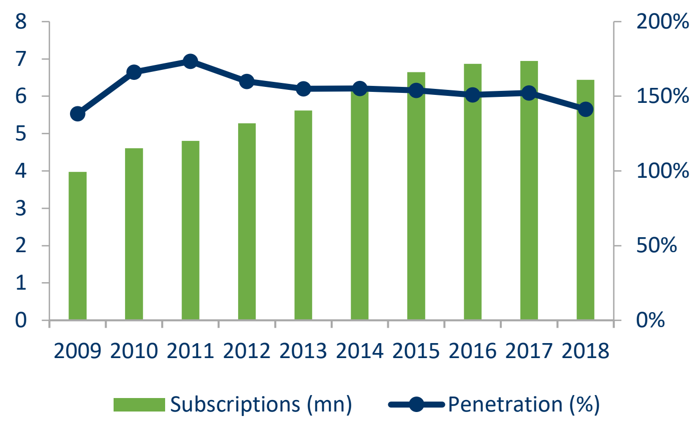


Source: TRA, GBCM Research

Mobile subscriber growth has slowed down considerably in recent years, to 4% over 2011-2018 from double digit rates over 2005-2011. High mobile penetration levels of ~140% amid slowing population growth (2% over the past two years vs 4% earlier) and lower GDP per capita continues to limit subscriber growth. Fixed line subscriber growth continues to be stable at ~10%, driven primarily by increasing demand for high-speed internet services and VOIP. **Penetration rate of fixed line compared to mobile is relatively modest, at 89% per house hold** (Source: TRA), leaving room for further improvement.

Consequently, although mobile subscriber forms the major chunk at 89% currently, fixed line will continue to increase its share in the overall subscriber count. That said, both mobile and fixed telephony revenues continue to decline on falling minutes of usage. As per our estimates, Mobile telephony (voice) revenue fell 18% YoY to RO 46.8 million in 2Q19 from RO 57.45 million in 2Q18 while fixed telephony revenue fell 21% YoY to RO 4.96 million from RO 6.3 million, as per data from 2Q19 TRA report.

Mobile Subscriptions and Penetration



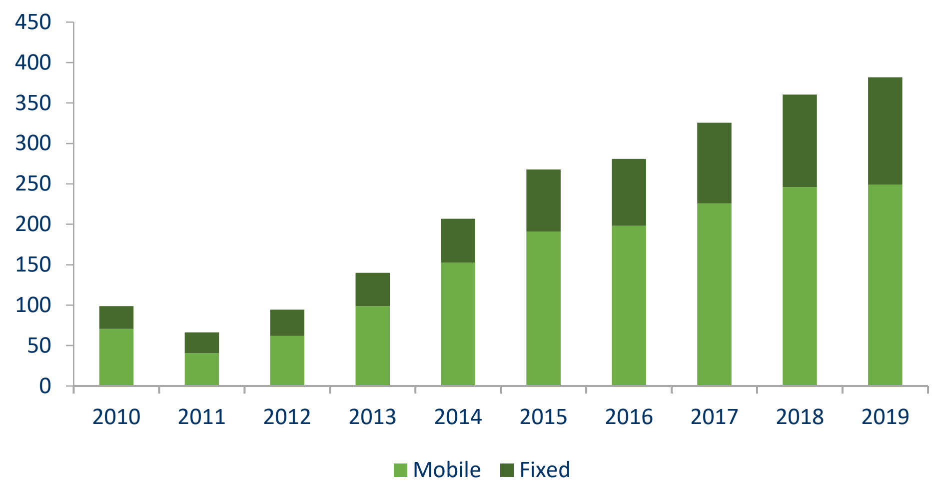
Fixed Line Subscriptions and Penetration

Source: TRA, GBCM Research

Data revenue growth to offset voice decline, fixed broadband remains primary driver

Strong growth in data, particularly fixed broadband, has been offsetting continued decline in voice telephony revenues over the past few years. We believe this trend is expected to continue through 2023, driving a ~2% growth in the overall telecom market, with data revenues (both fixed and mobile) increasing their contribution to nearly three-fourths of the overall telecom market, from 54% in 2018. **Omantel has launched commercial 5G network starting with 5G Home services with speeds up to 1 Gbps, this would be one of the key growth areas.**

Data revenue by Fixed and Mobile (RO Mn)

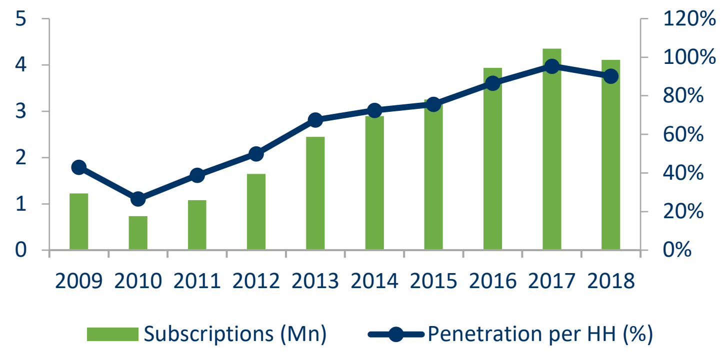


Fixed broadband subscriptions have trebled since 2014 and expected to grow at double digit rates through 2023

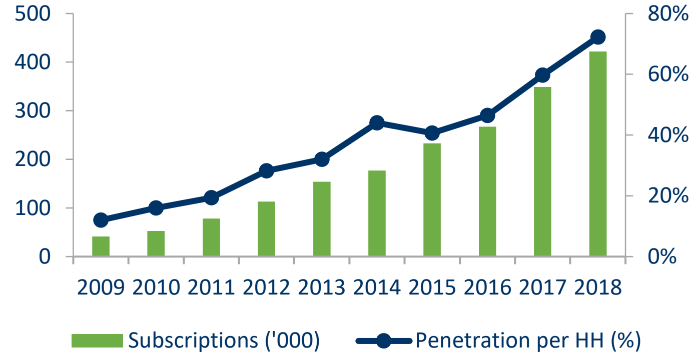
Source: TRA, GBCM Research

Over the past four and a half years, fixed broadband subscriptions have almost trebled, reaching 420k in 2018 (penetration ~73%) from ~150K in 2014 (penetration 44%). We believe, fixed broadband subscriptions has further room to grow as internet penetration in Oman currently stands at 80% as per Internet World Stats, below the GCC average of 95%, and will be driven by increased data usage needs for new-age internet apps such as streaming TV services (Netflix and IPTV), VOIP, and Internet of things (IoT). Despite higher penetration, ARPU has remained at a decent RO 28 per subscription over the past year, as broadband usage has increased.

Mobile Broadband Subscriptions and Penetration



Fixed Broadband and Penetration



Source: TRA, GBCM Research

Similar to fixed broadband, mobile broadband subscribers have grown at a robust pace over the past five years, although the growth has slowed down in recent quarters. From about 2.5 million subscribers at 2013 end, the subscribers almost doubled to 4.5 million by the first quarter of 2017, and have since been fluctuating in the range of 4.0-4.5 million. As of 2Q19 ending June 2019, mobile subscribers stand at 4.0 million, translating into an 89% penetration per inhabitant, and down from 4.2 million in the prior year quarter or 92.4% penetration. However, total revenue from mobile broadband has increased over 6% over the past four quarters as ARPU has increased 9.4% (from RO 4.7 in 2Q18 to RO 5.2 in 2Q19). As per our view, post the expected rolled out of 5G during 2020, mobile broadband subscribers and penetration could resume its uptrend.

New Access & Interconnection Tariff regime negative for telecom players, particularly OTEL

New RAIOs to impact OTEL's as other operators will have access to vast infrastructure at cheaper rates

In November 2018, Oman's Telecommunications Regulatory Authority (TRA) approved Reference Access and Interconnection Offers (RAIOs) of Omantel and Ooredoo that were submitted in accordance with amendments issued by the regulator as part of the comprehensive Access and Interconnection Tariff regulation in 2016. The approval makes the pricing for sharing an operator's physical infrastructure by any third party substantially cheaper by implementing a cost-plus basis from the prior commercial basis. As per the new rule, mobile call termination rates will decline from RO 0.15/minute to RO 0.04 per minute in a phased manner over four years while mobile call origination rates have been reduced from RO 0.17 to RO 0.11.

While this milestone event makes phone calls and other telephony services cheaper for consumers, it is a negative for telecom players, particularly incumbent Omantel that holds a dominant position in the fixed line telecom infrastructure across Oman. As of 2018 end, Omantel held a market share of 73% share in the fixed line telephony. Following the approval, the company has to share its infrastructure at a much lower costs with any requesting party (wholesale customers, new operators) as well as the other dominant player Ooredoo, which of late has been gaining market share in the fixed line segment from Omantel. It could also be negative for Ooredoo once the third operator comes in, taking mobile market share from all operators including Ooredoo.

Entry of third mobile operator will further intensify competition

Since 2016, the regulator has been trying to introduce a third operator in Oman and initially invited bids for the same in 2016 but cancelled them in late 2017 as the Government wanted a consortium of local companies and a global partner. Following the May 2019 MoU between a local company and Vodafone (strategic partner to complete procedures for obtaining license), Vodafone signed a 15-year partnership agreement with Oman Future Telecommunication, a part of Oman 70 Holding, paving the way for **Vodafone to begin operations as Vodafone Oman by mid of 2020.** We believe the next key timelines towards the commencement of third mobile operations include issue of third mobile license (through Royal Decree) and the steps taken towards the creation of commercial terms with the existing operators towards infrastructure sharing (Omantel, Ooredoo and others) to start the operations.

The entry of third mobile operator will further intensify competition given the mature nature of the Oman telecom with high penetration in mobile segment. We believe that the financial and operating performance of the two-existing player (OTEL being incumbent and ORDS being the second player) will be significantly impacted, as the new operator tries to capture market shares through aggressive pricing. Of the two, we believe OTEL may be impacted more with the new interconnection rules as it has a dominant position in mobile with pan-Oman infrastructure comprising ~3,000 towers. Since ARPU is already on a declining trend in mobile voice services, the new player could initially focus on capturing share in the mobile broadband through aggressive pricing.

For analyzing potential market share gains of the new operator post entry, we looked at other GCC countries with three players. **In Saudi Arabia, Zain KSA entered as a third operator in 2007 and captured a market share of ~15% four years post launch**. **VIVA entered as a third operator in Kuwait (2008) and Bahrain (2010), and gained market shares of 15% in Kuwait (3 years post launch) and 30% in Bahrain (4 years post launch).** Based on these analyses and penetration across mobile segment in Oman, **we estimate the new operator will capture a market share of ~15% three years post launch or by 2023 assuming the launch in 2020**. As per our forecasts, market share of both OTEL and ORDS is exptected to decline nearly equally at ~8.0% each through 2023. Including MVNOs, the decline in OTEL is expected at 13.6% points, attributable to the shifting of Friendi to ORDS in mid-2019.

However, the impact on overall revenues (mobile + fixed) of both incumbents may be limited through 2023 as the fall in mobile revenues will be offset by growth in fixed broadband, which lies outside the purview of the third mobile operator.

Impact on market shares of incumbents from third operator

Parameter	2018A	2019E	2020E	2021E	2022E	2023E
OTEL						
Market share incl MVNOs	56.0%	53.5%	49.3%	46.5%	44.0%	43.0%
OTEL mobile Revenue	274,012	258,680	243,607	226,655	224,668	223,856
OTEL total Revenue	516,207	508,622	504,735	498,969	505,170	511,727
ORDS						
Market share incl MVNOs	44.0%	46.5%	46.0%	45.4%	42.8%	41.8%
ORDS mobile Revenue	229,679	222,341	220,445	220,827	215,527	217,902
ORDS total Revenue	283,616	280,175	278,401	284,485	288,046	296,659
Third operator						
Market share			4.7%	8.1%	13.2%	15.2%

Source: Company Reports, GBCM Research Estimates, *To properly reflect impact on total revenues of OTEL and ORDS, we have apportioned Friendi share equally across both operators as it moved to ORDS in mid-2019

Establishment of OTC to reduce capex requirements for operators

As part of the government initiatives to build standardized telecommunications infrastructure that can be used by all licensed operators in Oman, a new entity named **Oman Towers Company (OTC)** was established in February 2018, as a joint venture between Oman 70 Holding Company (56% stake), Activ Co (34%), and the Government of Oman (10%), represented by Oman Broadband Company.

OTC's plan of building and leasing towers comprises of two phases – 1) to invest RO15 million for building ~600 new towers in five years and 2) to reach partnership agreement with current operators for the management/ownership of their towers after duly valuing them. First stage has already begun with the OTC awarding RO21 million worth of contracts for the supply and installation of telecom towers to three suppliers in September 2019. The second stage seems to have also started with OTC signing tower sharing master leasing agreement with both Omantel and Ooredoo in June 2019.

While this is a definite positive for the third operator that can use the OTC towers without any investment of its own, there are both advantages and disadvantage for the two incumbents. For OTEL particularly, which owns the largest number of towers, and ORDS to an extent, this could take away their competitive infrastructure advantage, providing access to all future licensed operators.

OTEL could raise circa RO 100 to 140 million through tower monetization

At the same time, this could be a positive and create opportunties on Sale and Lease back model of Tower business as seen in international telecom markets, especially for OTEL to sell its towers to repay its huge debt acquired post Zain acquisition. As per our estimates, OTEL is the market leader in mobile infrastructure with ~3,000 towers, commanding a ~60% share of the total ~5,000 towers in Oman. Based on global comparison, average realizaation per tower would be in the range of USD80k to USD125k, translating into expected potential value of USD240 mn to USD375 mn (RO 92 mn to RO 144 mn). **We believe this value unlocking if materialized could help OTEL to deleverage the balance sheet, by ~12% implying a leverage reduction of 0.4-0.5x.**

Potential value unlocking of OTEL mobile towers business

Particulars	Towers	Avg. Realization/Tower	Potential Value Unlocking (In Mn)
Total Mobile Towers In Oman	5,000		USD 400 (RO 154) to USD 625 (RO 240)
Omantel	3,000 +	USD 80,000 to USD 125,000	USD 240 (RO 92) to USD 375 (RO 144)
Ooredoo Oman	2,000		USD 160 (RO 62) to USD 250 (RO 96)

Source: Company Reports, GBCM Research Estimates

5G provides significant growth opportunities for both Mobile and Fixed broadband

Oman Telecom industry has been preparing for 5G network with various trials in progress, with first rollout in 2020 and full rollout in 2021-2024. TRA has granted 100 Mhz frequency under 3.5 Ghz spectrum for 5G to Omantel and Ooredoo, providing both the operators endless opportunities for upgrading their services such as speed and latency, as well as developing a new stream of advanced smart digital services and IoT (Internet of Things) solutions. **As per our view, with 5G mobile ecosystem is not being ready till next year, the progression in 5G would be relatively delayed.** According to TRA, both operators will construct and install 4,400 stations in the next five years. TRA has exempted companies from annual frequency usage fees for one year to encourage investments in the sector.

The introduction of 5G would benefit both mobile and fixed broadband revenue on the back of growing data demand, adding new revenue stream for companies in the sector. At the same time, initially, telecom players have to deploy good amount of capital for this set up, increasing their capex to revenue by 8-10%, assuming each company has to invest ~RO 12-15 million starting 2021. However, in long-term, this investment would support minimizing expenses for fixed-line data offering by using ready 5G network.

Deployment of 5G will be a challenge for operators as huge investments/funding need to build required infrastructure should increase the leverage in medium term. We expect 5G to take around 7-10% share in total mobile subscription by 2023.

Recently in October, Zain KSA launched 5G commercial services (currently the largest 5G network in the Middle East, Europe and Africa), initially covering 20 cities in the Kingdom through a network of 2,000 towers, later expanding to 27 cities with over 2,600 towers deployed. Zain Bahrain also conducted its first 5G call and announced a deployment agreement with Ericsson and expects commercial launch of 5G by the end of 2019, its third 5G network after Kuwait and KSA. With ongoing 5G rollout in Kuwait, KSA and other countries, Zain expects its capex will be increased to ~11% to 12% of revenues from 10% currently.

According to our view, Omantel and Ooredoo could leverage upon their respective group synergies to optimizing the budgeting for 5G expansion.

Omantel (OTEL)

Investment Update
GBCM Research

Zain acquisition to impact leverage and cash flows; Post sharp correction, the stock offers entry point for long term investors

Rating	**Buy**
Fair value	**RO 0.743**
Closing Price	**RO 0.616**

Expensive Zain acquisition negative in medium term but beneficial in long term

Although the expensive Zain acquisition continues to be a major overhang for OTEL over the medium-term impacting leverage and dividend pay-out growth, near term path seems manageable aided by principal repayment relief and decent dividend pay-out from Zain. The acquisition could prove beneficial in the long term by way of geographic diversification and scale benefits, comprising growth opportunities in wholesale and ICT business as well as significant procurement and cost synergies of up to RO 30 million annually.

Market leader in Fixed Line; Mobile segment under pressure

OTEL is the market leader in fixed line segment in Oman, holding a whopping 71% (subscriber) and 80% (revenue) as at end Q3 2019. Despite losing market share to ORDS in recent years, we expect OTEL fixed line subscribers will continue to grow at a CAGR of 6% through 2018-23, while we see fixed line revenue to rise at a CAGR of 4%, owing to declining ARPU. Omantel's mobile market share (including resellers) in terms of both subscribers and revenues continues to decline. OTEL's mobile subscribers share fell to 56.7% in 2018 from 59.1% in 2015. In our view, this trend in mobile segment would continue going forward amid saturated market environment as well as the entry of third operator in 2020.

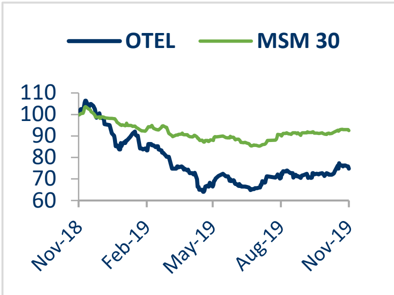
Revenues to decline marginally but margins will improve over forecast period

We expect Omantel's total revenue to decline marginallhy (0.2%) thorugh 2023, due mainly to a 18% decline in mobile revenue, offset partially by fixed line (+24%) and wholesale (+5%). However margins are expected to improve starting 2020 on Zain synergies and cost optimization.

Valuation looks attractive at current levels

We believe the significant erosion in the Omantel stock over the past few years offers an attractive entry point for long term investors. Although the expensive Zain acquisition is expected to weigh on overall cash flows, diversification benefits, cost synergies, and dividend from Zain will partially offset the pressure on cash outflows. **Our blended valuation comprising DCF and peer group multiples yields a fair value of target price of RO 0.743 per share, representing an upside of 21% from the current price.**

OTEL vs MSM30 Index (base: 100)



Stock Data

52-Week H/L	RO 0.88 / 0.52
Market Cap.	RO 456 million
Shares Outstanding	750 Million

Price Performance	
1-Month	3.1%
3-Months	6.3%
12-Months	-25.1%

Key Financial Metrics- Omantel Group

(In RO Millions) *	2017	2018	2019E	2020E	2021E	2022E	2023E
Total Revenue	751,725	2,186,014	2,602,508	2,610,248	2,644,460	2,715,316	2,805,899
Net Profit	78,280	64,798	71,517	74,540	77,997	85,878	90,611
EPS (RO)	0.104	0.086	0.095	0.099	0.104	0.115	0.121
BVPS (RO)	0.762	0.730	0.775	0.825	0.879	0.938	0.999
DPS (RO)	0.090	0.050	0.050	0.050	0.050	0.055	0.060
RoAE	13.6%	11.6%	12.7%	12.4%	12.2%	12.6%	12.5%
RoAA	2.5%	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%
P/E (x)	5.8	7.0	6.4	6.1	5.8	5.3	5.0
P/BV (x)	0.8	0.8	0.8	0.7	0.7	0.6	0.6
EV/EBITDA	12.9	5.9	4.9	4.0	3.2	2.4	1.5
Net Debt/EBITDA#	5.5	2.5	2.1	1.7	1.3	0.9	0.4
Dividend Yield	14.8%	8.2%	8.2%	8.2%	8.2%	9.0%	9.9%

Source: Company Reports, GBCM Research Estimates, *Except for Per Share Data, and Ratios, *Closing as at end of Nov 2019

Expensive Zain acquisition to affect medium-term cash flows and dividend pay-out growth; short term impact minimal on waiver of principal payments and Zain dividend

While the expensive Zain Group acquisition will certainly impact medium term cash flows, we believe the impact on cash flows will be minimal, aided by dividend from Zain and relief in principal payments for the term loan in 2019 and 2020. We believe in 2023 Omantel may go for refinancing when one of the bonds is due for payment

In November 2017, OTEL completed the acquisition of a 21.9% controlling stake in Zain Group for RO 845 million (~KWD 661 million) by purchasing a total of 947.6 million shares at average KWD 0.70/share, a 45% premium to the three-month average price of KWD 0.47 and about 20% premium from latest closing price of KWD 0.581. The first tranche of 9.84% held as treasury shares (Aug 2017) was purchased at KWD 0.600 per share and the second tranche of 12% was bought at higher premium of KWD 0.780 per share from Al Khair Group during Nov 2017.

While, with 21.9% stake, Omantel got the complete control of board and hence classifying this investment as subsidiary and consolidating the accounts of Zain group in their balance sheet. We believe the high premium seems unwarranted except for the control premium, given the expected long-term synergies along with Zain's mixed financial performance amid exposure in various geographies. The acquisition was entirely funded through debt at an average cost of ~5.6%. Following the acquisition, OTEL's leverage increased significantly compared to near zero historically. On a standalone basis, debt to equity increased to ~150% in 2017 and 140% in 2018 while debt to EBITDA rose to 4.2x and 4.0x respectively.

Debt acquired for Zain Acquisition

Particulars	$ ('000)	RO ('000)	Term-Years (Maturity)	Interest rate	Annual Finance cost
Bond 1	600,000	222,000	5.5 (2023)	6.05%	13,431
Bond 2	900,000	333,000	10 (2028)	7.09%	23,610
Term loan*	800,000	296,000	7 (2024)	2.55%	7,548
Total	**2,300,000**	**851,000**			**44,589**

Source: Company Filings, Press releases.

*Originally, annual amortisation of 15% for 5 years and the rest 25% at maturity, $120 mn (~RO 44 mn) was paid in 2018, with $680 mn (~RO 252 mn) remaining. As per an amendment made in Oct 2019, a relief on instalments will be given for 2019 and 2020, and from 2021 $170 mn (RO 63 mn) will be paid in four equal instalments towards principal through 2024.

While the leverage increased significantly, it remains comparable to telecom peers in the GCC as well as globally and manageable in the near term mostly with internal cash flows, dividends from Zain and tower monetization. With OTEL obtaining relief in principal repayments for 2019 and 2020 as part of a recent (Oct 2019) loan amendment, it needs to pay only the interest payments of ~RO 44 million, which could be paid out completely from dividends from Zain of ~RO 45 million, as per our estimates. Hence, we believe the leverage (net debt-EBITDA) will remain stable at 3.9x in 2019 and 2020. The leverage would reduce to 3.7x as it pays out its second instalment RO 63 million for the term loan without any debt issuance.

Additionally, the potential monetization of its tower business could generate ~ RO 100 million, providing further flexibility in lowering the leverage to ~3.5x through 2021. The impact on leverage will be felt in 2023 when the USD600 million (~RO 222 mn) bond will mature, prompting the debt issuance of at least RO 200 million to meet this requirement as well the RO 63 million instalment of the term loan. We believe Omantel could raise another bond/ debt to payback the bond. Post 2023, OTEL does not have any major debt repayment until 2028, when the USD 900 million (RO 333 mn) bond will mature.

Debt acquired for Zain Acquisition – Impact on leverage

Particulars	2018A	2019E	2020E	2021E	2022E	2023E
Debt to EBITDA and Cash balance of Parent standalone						
Debt	132,221	138,660	135,102	101,736	71,922	42,109
EBITDA	205,580	186,834	188,849	199,613	202,248	209,129
Debt to EBITDA	0.6x	0.7x	0.7x	0.5x	0.4x	0.2x
Cash balance (Parent)	113,351	107,234	96,174	106,708	125,369	156,033
Debt to EBITDA and Cash balance of Parent after considering full debt related to Zain Acquisition						
Cash outflow						
Finance costs	44,589	43,457	43,457	43,457	41,853	40,249
Principal Repayments	44,400	-	-	62,900	62,900	284,900
Total cash outflow	**88,989**	**43,457**	**43,457**	**106,357**	**104,753**	**325,149**
Sources of funds:						
Debt issuance	-	-	-	-	-	200,000
Dividend from Zain	-	45,000	45,000	45,000	45,000	45,000
Tower monetization	-	-	70,000	70,000	-	-
Adjusted cash and bank balance and debt to EBITDA						
Cash and bank balance	24,362	108,778	97,118	44,743	65,000	75,259
Total debt *	824,099	830,538	826,980	793,614	763,801	711,987
Total debt to EBITDA*	4.0x	4.4x	4.4x	4.0x	3.8x	3.4x
Net debt to EBITDA (Inc Tower monetization)*	3.9x	3.9x	3.5x	3.4x	3.5x	3.0x
Net debt to EBITDA	**3.9x**	**3.9x**	3.9x	3.8x	3.5x	3.0x

Source: Company Filings, GBCM estimates, * Including Oztel debt and Bonds

Since there is no shortfall in interest and/or debt repayments, we believe the impact on dividend pay-outs will be minimal. **We expect the company to maintain the dividend pay-out 0.050 through 2021. Additionally, higher dividends from Zain coupled with increased synergies would lead to higher dividend pay-outs post 2021.**

But longer term, Zain acquisition to provide significant benefits

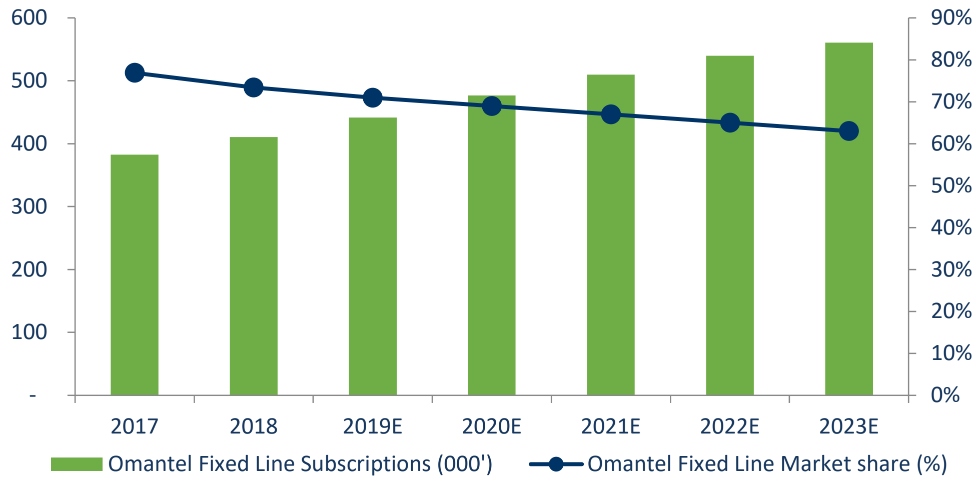
While the overpaid Zain acquisition is expected to strain OTEL's cash flows and dividend pay-out growth in the medium term, it would provide several long-term benefits related to diversification and scale. With the acquisition, OTEL has become the third largest telecom operator in the MENA region, expanding the geographic footprint to 10 countries. This large footprint would provide significant growth opportunities for OTEL's wholesale and ICT business. Additionally, the acquisition is expected to provide significant cost and procurement synergies of up to RO 30 million annually, mostly from lower cost of sourcing. We believe the large footprint will also result in reduced capex for OTEL.

Other key benefit would be increasing dividend payments from Zain**. With Zain reporting a turnaround in its financial performance with recovery in Saudi, Iraq and Sudan, OTEL could receive increased dividend payments during the coming years.**

Market leader in Fixed Line

On the back of strong infrastructure, OTEL has been the market leader in fixed line segment in Oman. In 2018, OTEL held a market share of 73.4% (vs. 76.9% in 2017). Omantel's fixed line subscribers (including post-paid, prepaid, payphone and ISDN primary) grew 7.3% YoY to 411 thousand in 2018. According to our forecast, fixed line subscribers will continue to grow at a CAGR of 6.4% through 2018-23, while we see fixed line revenue to rise at a CAGR of 4.4% in the same forecast period, due to declining market share and ARPU.

Omantel's fixed line subscriptions and market share



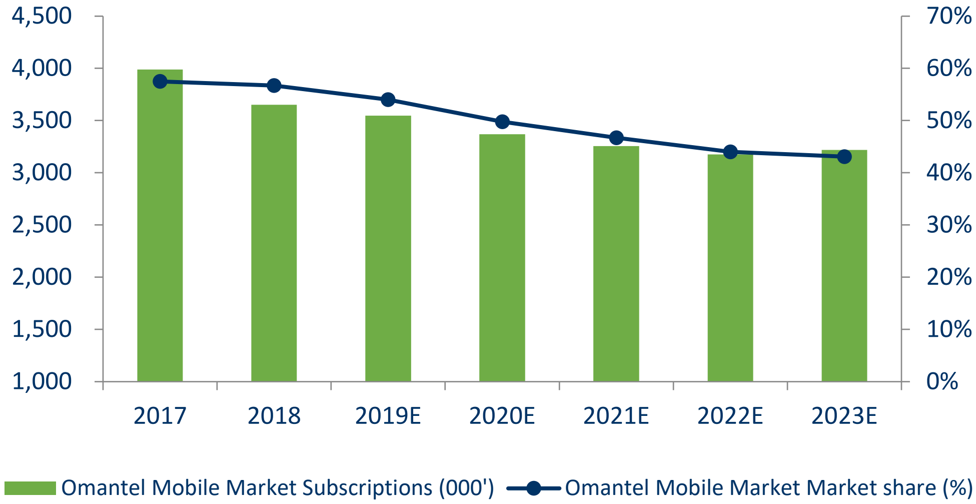
Source: TRA, GBCM Research

As of Q3 2019, Oman's fixed line penetration per household reached 89.08% with subscriber base of 589 thousand, with fixed broadband penetration per household reaching 70.12%, which is expected to grow by high single digits over the next few years, to catch up with the global average of 80% by 2023, underpinned by growing population (2% pa), increase in spending per HH and continued demand for data. Moreover, deployment of 5G would support fixed line data on its network with minimal investment, further driving the fixed broadband growth. **High speed internet offered through 5G should primarily drive fixed broadband customers going forward,** as subscribers who prefer speed higher than 10 Mbps have drastically increased in recent years (2.2% in 2011 vs. 21% in 2018). Although Omantel's market share continues to decline, its overall subscribers and revenues will continue to grow owing to its wider fixed-line network.

Continued pressure in Mobile segment revenues

Omantel's mobile subscriber market share (excluding resellers) in terms of both subscribers and revenues continues to decline. In 2018, Omantel's mobile subscribers (including resellers) fell 8.5% YoY to ~3.7 million, while ARPU declined by 1.4% to RO 6.0, driven by fierce competition in mature mobile market, which drove down revenue 5.7% YoY to RO 274 million. **In our view, this trend in mobile segment would continue going forward amid saturated market environment as well as the entry of third operator in 2020.**

Omantel's mobile market subscriptions and market share



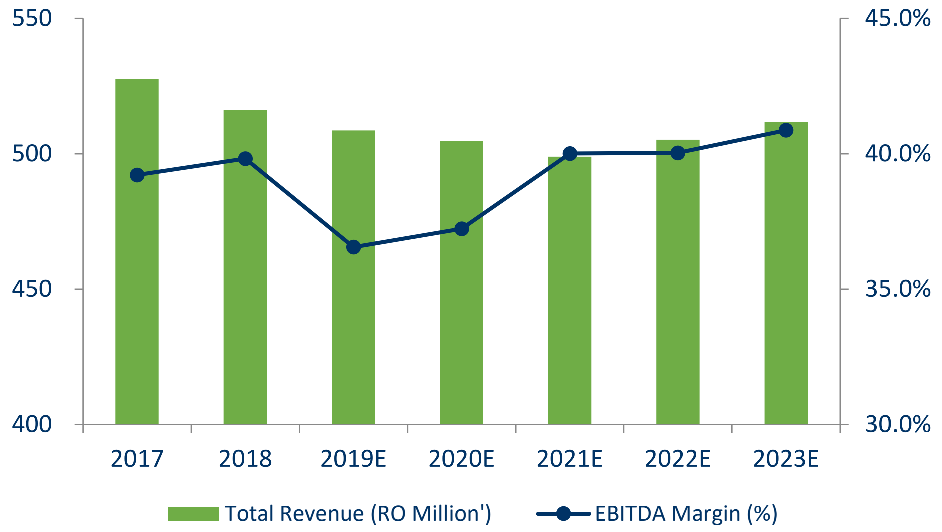
Source: TRA, GBCM Research

Revenues and margins to decline over the forecast period

We expect Omantel's total revenue to marginally decline 0.2% through 2018-2023, due mainly to an 18.0% decline in mobile revenue, offset partially by fixed line revenue (+24%). The decline in mobile revenue would come on the back of migration of Friendi to ORDS network, lower spending behaviour and potential entry of a third operator in 2020. However, increase in fixed line revenue on expected growth in fixed broadband amid higher demand for data and more scope for penetration should offset the overall impact.

Additionally, Omantel has relatively higher and stable wholesale revenue than ORDS supported by huge infrastructure across Oman, strong positioning in international gateway and will be further driven by Zain acquisition synergies by establishing interconnect links in Bahrain, Saudi Arabia and Jordan. This would help the company to drive the overall revenue growth starting 2022, offsetting the impact of Friendi's migration. We expect EBITDA margin would decline initially from 39.8% in 2018 to 36.6% in 2019 on higher operating expenses to withstand impending competition, but continued cost optimization efforts aided primarily by Zain synergies (up to RO 30 mn annually starting 2020) could improve EBITDA margin to above 40% by 2023.

Omantel's Revenue & Margin



Source: TRA, GBCM Research

Q3 2019 Performance (Consolidated)

For Q3 2019 (ended Sep), group revenue increased slightly by 0.3% YoY to RO 634 million. Gross profit was up by 3.1% to RO 461 million, implying margin expansion of 195 bps to 72.7%. This was mainly due to lower cost of sales in the period which declined 6.4% to RO 173 million. Operating expenses came in at RO 339 million, an increase of 1.9% compared to the same period last year, driven by increased expenses regarding depreciation & amortization and expected credit loss on financial assets, offset partially by decline in operating and administrative expenses. Consequently, operating income came in at RO 123 million (+6.5% YoY), mainly driven by lower cost of sales. Profit attributable to shareholders of the Parent company was RO 19.5 million (+82.8%) or RO 0.026 per share, largely attributable to recorded other income in Q3 2019 as against recorded huge other expenses in Q3 2018.

For 9M 2019, group revenue increased 22.4% RO 1.9 billion, of which Zain Group contributed ~79% or RO 1.5 billion. Omantel (Domestic performance) revenues declined 4.5% to RO 396.3 million, driven by decline in Mobile revenues, partially offset by increase in Fixed line revenues by 5.3% in Q3. Revenue from voice calls continued downward trend (-13%), impacted by Over the Top (OTT) services. Group gross profit grew 29.6% to RO 1.4 billion with margin at 72.6% (+401 bps). Operating expenses increased 26.9% to RO 1.0 billion, while operating income grew 38.0% to RO 355 million. **9M 2019 Profit attributable to shareholders of the Parent company came in at RO 52.7 million or RO 0.07 per share.**

Subscribers and Market share: As of September 2019, total domestic subscriber (including mobile and fixed businesses) grew by ~4,000 subscribers (+0.1%) to 3.458 million (excluding Mobile Resellers) compared to the corresponding period of the previous year. Including mobile resellers, total subscriber reached 4.050 million. Omantel's Mobile network market share (including Mobile Resellers) is 52.1% with a revenue share of 57.3% while, the Fixed Telephone (post & pre-paid) market share is 71.4% with a revenue market share of 79.9%.

Valuation and Recommendation

We believe the significant erosion in the Omantel stock over the past few years (~60% since 2017 alone and currently trading near all-time low) offers an attractive entry point for long term investors. Although the expensive Zain acquisition is expected to weigh on overall cash flows in the medium term, cost synergies and dividend from Zain will partially offset the pressure on cash outflows.

We utilize blended valuation comprising DCF and peer group multiples to value Omantel on a consolidated basis. We conduct DCF on the parent (Omantel standalone) adding the Zain acquisition debt separately after calculating enterprise value to reflect the burden on cash flow. Finally, we add Omantel's stake in Zain at book value, to arrive at the fair value.

Our base case valuation expects OTEL revenues to decline over the forecast period, but operating profit and free cash flows are expected to grow through 2023, picking up pace starting 2021 when capex related to mobile license and technology infrastructure will subside, and remain stable post the forecast period. We discount cash flows at a weighted average cost of capital of 11.6% (cost of equity at 13.1%, cost of debt-after tax at 4.4%) and assume a terminal growth rate of 2% at the end of 2023E to arrive at an enterprise value of RO 917 million.

Adjusting for the cash balance of RO 107 million, Zain debt of RO 831 million (2019E) and Omantel's stake in Zain (on book value), we arrive at a DCF fair value of RO 0.730 per share. If we value Omantel’s stake in Zain (at current market value), our fair value would increase by about 20%, which we haven’t considered in our model.

For relative valuation, we used 3.3x EV/EBITDA and 8.5x PE (both ~30% discount to peers) on 2020, yielding fair values of RO 0.774 and RO 0.730 respectively. The discount to peer average is due to the mature nature of Omani telecom market and weak macros.

On a blended basis, we assign a weight of 40% to DCF and 30% each to EV/EBITDA and P/E to arrive at a base case target price of RO 0.743 per share, representing an upside of 21% from the current price level.

DCF Valuation of OTEL

DCF Method (RO '000) *	2019E	2020E	2021E	2022E	2023E
Operating profit Before Interest and Tax	81,101	76,910	82,961	84,118	85,339
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%
Post-tax operating profit (NOPAT)	**68,936**	**65,373**	**70,517**	**71,501**	**72,538**
Add: Depreciation & amortization	104,813	111,021	116,652	118,130	123,790
Less: Change in working capital	1,986	2,782	1,091	-988	2,330
Less: Capex	-149,397	-148,542	-107,278	-101,034	-97,228
Free Cash Flow to Firm	26,337	30,635	80,981	87,609	101,430
PV of Free Cash Flows	**1,312**	**27,313**	**64,724**	**62,771**	**65,149**
Sum of present values of FCFs	**221,269**				
Free cash flow (t+1)	103,459				
Terminal value	1,083,324				
Present value of terminal value	695,825				
Enterprise Value	917,094				
Less Debt	830,538				
Add Cash	106,930				
Equity value of Omantel	**193,485**				
Omantel's stake in Zain (on book value)	353,696				
Total equity value including ownership in Zain	**547,182**				
Shares outstanding	750,000				
Fair value per share (RO)	**0.730**				
Current Price (12 Dec 2019)	0.616				
Upside/Downside	**18.4%**				

Source: GBCM Research Estimates, *Unless Stated Otherwise

Relative Valuation of OTEL

Comparable Companies	Country	Ticker	EV/EBITDA FY19E	EV/EBITDA FY20E	EV/EBITDA FY21E	P/E FY19E	P/E FY20E	P/E FY21E
Omantel	Oman	OTEL	4.0	3.2	2.4	6.1	5.9	5.6
Ooredoo Oman	Oman	ORDS	2.3	2.3	2.4	8.0	8.3	9.0
Zain Kuwait	Kuwait	ZAIN	5.6	5.5	5.7	13.1	12.3	11.1
Viva	Kuwait	VIVA	3.7	3.6	3.5	8.0	8.0	8.0
Ooredoo Kuwait	Kuwait	OOREDOO	2.7	2.6	2.6	12.5	10.5	9.3
Saudi Telecom	Saudi Arabia	STC	9.1	8.9	8.8	17.2	16.4	16.1
Etisalat	UAE	ETISALAT	5.9	5.8	5.7	16.2	15.9	15.5
Zain KSA	Saudi Arabia	ZAINKSA	4.6	4.4	4.6	13.2	13.5	14.0
Vodafone Qatar	Qatar	VFQS	7.9	7.5	7.0	27.1	20.3	17.4
Average Market Multiples			**5.1x**	**4.9x**	**4.8x**	**13.5x**	**12.4x**	**11.8x**
Median Market Multiples			**4.6x**	**4.4x**	**4.6x**	**13.1x**	**12.3x**	**11.1x**

Relative Valuation - OTEL	
EBITDA 2020e (RO)	187,931
EPS 2020e (RO)	0.086
Target EV/EBITDA Multiple for 2020E (x)	3.30x
Target P/E multiple for 2020E (x)	8.50x
Fair value per share (RO) - EV/EBITDA Multiple	**0.774**
Fair value per share (RO) - P/E Multiple	**0.730**

Source: GBCM Research Estimates, *Unless Stated Otherwise, *Closing as at end of Nov 2019

Weighted Average Fair Value - OTEL

Valuation Method	Fair Value per share (RO)	Weightage	Weighted value per share (RO)	Upside/downside
DCF Valuation	0.730	40.0%	0.292	18.4%
Relative Valuation - EV/EBITDA	0.774	30.0%	0.232	25.7%
Relative Valuation - P/E	0.730	30.0%	0.219	18.6%
Target Price (RO)			**0.743**	
CMP (RO)			0.616	
Upside/(Downside)			**20.6%**	

Source: GBCM Research Estimates

Key upside risks- Lower than expected market share gains coupled with less aggressive pricing from the third operator remain key upside risks for OTEL. Better than expected synergies and dividend from Zain could result in improved margins and higher cash flows, enabling higher dividend payouts.

Key downside risks- Weak macro environment, regulatory changes and opening of the Omani market to competition to impact overall growth. In addition, we could see accounting related one-off losses (IFRS related, Purchase Price Allocation effect) which could reflect in lower net profits and impact the share price.

Omantel Group- Consolidated - Key Ratios and Multiples

Ratio Analysis	2017	2018	2019E	2020E	2021E	2022E	2023E
Growth Metrics							
Total Revenue	44.7%	190.8%	19.1%	0.3%	1.3%	2.7%	3.3%
Total Assets	571.3%	31.9%	0.4%	0.2%	-1.2%	-0.6%	-0.1%
Net Worth	377.7%	0.1%	8.3%	8.1%	7.9%	8.0%	7.8%
Net Income	-32.9%	-17.2%	10.4%	4.2%	4.6%	10.1%	5.5%
Margins (%)							
EBITDA Margin	38.7%	39.1%	37.7%	38.4%	38.9%	39.4%	39.0%
EBIT Margin	17.6%	18.8%	18.2%	17.8%	17.4%	17.4%	16.7%
PAT Margin	10.4%	3.0%	2.7%	2.9%	2.9%	3.2%	3.2%
Return Ratios							
RoE	13.7%	11.8%	12.3%	12.1%	11.8%	12.2%	12.1%
RoAE	13.6%	11.6%	12.7%	12.4%	12.2%	12.6%	12.5%
RoA	1.4%	0.9%	1.0%	1.0%	1.1%	1.2%	1.3%
RoAA	2.5%	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%
Leverage ratios							
Total Debt to Equity (x)*	0.8	1.0	0.8	0.7	0.5	0.4	0.3
Net Debt to EBITDA (x)*	5.5	2.5	2.1	1.7	1.3	0.9	0.4
Per Share Ratio							
EPS	0.104	0.086	0.095	0.099	0.104	0.115	0.121
Book value	0.762	0.730	0.775	0.825	0.879	0.938	0.999
DPS	0.090	0.050	0.050	0.050	0.050	0.055	0.060
Market Multiples at CMP							
P/E (x)	5.8	7.0	6.4	6.1	5.8	5.3	5.0
P/BV (x)	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Dividend Yield	14.8%	8.2%	8.2%	8.2%	8.2%	9.0%	9.9%
EV	2,041,359	2,590,253	2,485,101	2,174,412	1,825,045	1,410,031	926,578
EV/Sales	2.7	1.2	1.0	0.8	0.7	0.5	0.3
EV/EBITDA	12.9	5.9	4.9	4.0	3.2	2.4	1.5

Source: Company Reports, GBCM Research Estimates

Omantel Group- Consolidated - Financial Highlights

RO Millions	2017	2018	2019E	2020E	2021E	2022E	2023E
INCOME STATEMENT							
Revenue	751,725	2,186,014	2,602,508	2,610,248	2,644,460	2,715,316	2,805,899
Cost of Sales	230,125	637,395	780,753	770,023	772,182	787,442	819,322
Gross profit	521,600	1,548,619	1,821,756	1,840,225	1,872,278	1,927,874	1,986,576
EBITDA	**290,854**	**854,599**	**981,146**	**1,002,335**	**1,028,695**	**1,069,834**	**1,094,300**
Depreciation and amortisation	158,266	442,732	508,162	537,632	567,488	596,379	624,410
Operating income	132,588	411,867	472,983	464,703	461,207	473,455	469,890
Interest income	11,250	25,103	14,105	17,625	17,492	19,985	25,216
Finance cost	20,050	143,623	127,423	110,111	92,124	74,137	56,149
Profit before tax	109,084	249,169	296,999	309,550	323,908	356,637	376,290
Taxes	8,985	40,329	41,580	43,337	45,347	49,929	52,681
Profit for the year	99,752	208,840	255,419	266,213	278,561	306,708	323,609
Profit Attributable to Parent	**78,280**	**64,798**	**71,517**	**74,540**	**77,997**	**85,878**	**90,611**
BALANCE SHEET							
Cash & equivalents	380,996	503,423	352,634	440,631	437,306	499,630	630,391
Trade and other receivables	693,620	824,668	1,069,524	1,072,705	1,086,765	1,115,883	1,153,109
Inventories	52,400	68,506	85,562	84,386	84,623	86,295	89,789
Other current assets	33,746	134,131	134,131	134,131	134,131	134,131	134,131
Current assets	**1,160,762**	**1,530,728**	**1,641,851**	**1,731,853**	**1,742,825**	**1,835,939**	**2,007,419**
Net fixed assets	1,468,231	2,019,986	2,088,386	2,155,283	2,198,776	2,198,921	2,158,143
Intangible assets	1,582,127	3,579,664	3,427,311	3,287,405	3,147,139	3,006,787	2,866,487
Other non-current assets	1,334,767	184,042	184,042	184,042	184,042	184,042	184,042
Non-current assets	**4,385,125**	**5,783,692**	**5,699,738**	**5,626,730**	**5,529,956**	**5,389,750**	**5,208,672**
Total assets	**5,545,887**	**7,314,420**	**7,341,590**	**7,358,584**	**7,272,781**	**7,225,689**	**7,216,092**
Short term debt	854,934	555,941	322,692	402,691	402,691	402,691	521,729
Trade and other payables	768,367	1,393,387	1,458,579	1,469,551	1,495,379	1,535,521	1,600,006
Other current liabilities	86,395	169,855	169,855	169,855	169,855	169,855	169,855
Current liabilities	**1,709,696**	**2,119,183**	**1,951,126**	**2,042,098**	**2,067,925**	**2,108,067**	**2,291,590**
Non-current liabilities	1,224,363	2,581,691	2,558,999	2,256,308	1,903,616	1,550,925	1,079,196
Total liabilities	**2,934,059**	**4,700,874**	**4,510,125**	**4,298,405**	**3,971,542**	**3,658,992**	**3,370,786**
Shareholder equity	**571,584**	**547,507**	**581,524**	**618,564**	**659,061**	**703,689**	**749,300**
Non-controlling interests	2,040,244	2,066,039	2,249,941	2,441,614	2,642,178	2,863,008	3,096,006
Total liabilities & equity	**5,545,887**	**7,314,420**	**7,341,590**	**7,358,584**	**7,272,781**	**7,225,689**	**7,216,092**

Source: Company Reports, GBCM Research Estimates

Ooredoo Oman (ORDS)

Investment Update
GBCM Research

Unleveraged balance sheet and market share gains in fixed line are key positives, recommend Buy at current levels…

Rating	Buy
Fair value	RO 0.622
Price	RO 0.512

Standalone operating entity focused on Oman

Unlike Omantel which entered into Middle East telecom markets through the Zain acquisition, Ooredoo Oman, the subsidiary of Qatari-based Ooredoo Group, is a standalone operating entity focused on operations in Oman. This exclusive focus on Oman coupled with significant cost savings from the parent's procurement strategies has been aiding ORDS to deliver stable operating performance along with strong free cash flow generation.

Addition of Friendi and rapidly gaining market share in fixed line to offset weakness in mobile segment

In line with the overall industry trend, ORDS revenues in the mobile segment continues to be under pressure over the past three years on high penetration (140%) and continued pressure on ARPU. However, addition of Friendi to ORDS network in July 2019 could partially offset the decline, adding incremental revenues to mobile business annually. Additionally, rapidly gaining market share in fixed line (fixed subs surged at high double digit rates over 2003-18 vs industry's 8%) would also offset the mobile segment decline.

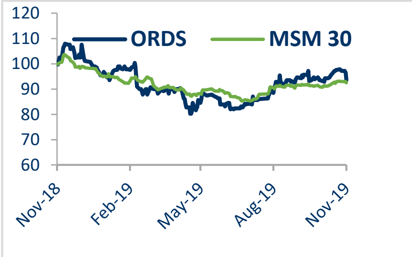
Stable dividend pay-out ratio and low leverage

Ooredoo has been consistently maintaining a stable dividend pay-out ratio above 65% over the last eight years and ~70% in 2018. With strong liquidity position (9M19: RO ~39 million), lower leverage (debt/EBITDA: 0.12x) and healthy cash flow generation, ORDS will continue its good pay-out as compared to the highly-leveraged Omantel.

Valuation

We utilize discounted cash flow (DCF) analysis and peer group multiples to value ORDS. **Our blended valuation, which combines these two methodologies, yields a fair value of RO 0.622 per share. Relative to the current price of RO 0.512, this represents upside potential of 22%.**

ORDS vs MSM30 Index (base:100)



Stock Data

52-Week H/L	RO 0.60 / 0.378
Market Cap.	RO 338.5 million
Shares Outstanding	651 million

Price Performance	
1-Month	0.4%
3-Months	5.7%
12-Months	-6.5%

Key Financial Metrics

(In RO '000) *	2017	2018	2019E	2020E	2021E	2022E	2023E
Total Revenue	273,712	283,758	280,455	278,680	284,769	288,334	296,956
Net Profit	30,983	41,882	37,190	34,634	40,206	38,619	42,273
EPS (RO)	0.048	0.064	0.057	0.053	0.062	0.059	0.065
BVPS (RO)	0.368	0.395	0.410	0.421	0.438	0.453	0.470
DPS (RO)	0.042	0.045	0.042	0.042	0.045	0.045	0.048
RoAE	13.0%	16.9%	14.2%	12.8%	14.4%	13.3%	14.1%
RoAA	7.8%	10.3%	9.0%	8.2%	9.3%	8.7%	9.4%
P/E (x)	10.9	8.1	9.1	9.8	8.4	8.8	8.0
P/BV (x)	1.4	1.3	1.3	1.2	1.2	1.1	1.1
EV/EBITDA	3.1	2.7	2.5	2.6	2.6	2.4	2.1
Net Debt/EBITDA	-0.09	-0.30	-0.41	-0.30	-0.22	-0.37	-0.49
Dividend Yield	8.1%	8.7%	8.1%	8.1%	8.7%	8.7%	9.2%

Source: Company Reports, GBCM Research Estimates, *Closing as at end of Nov 2019

Standalone operating entity focused on Oman

Unlike Omantel which entered into Middle East telecom markets through the Zain acquisition, bringing with it the associated regional risks in addition to huge debt burden, Ooredoo Oman, the subsidiary of Qatari-based Ooredoo Group, is a standalone operating entity focused on a single market, Oman. **This exclusive focus on Oman coupled with significant cost savings from the parent's procurement strategies has been aiding ORDS to deliver stable operating performance along with strong free cash flow generation**. Despite the mature nature of Omani telecom market, ORDS will be able to sustain its performance by making rapid inroads into the fixed line segment and other product offerings, aided by the new interconnection regulations. The entry of Friendi into its network from OTEL should also boost the company's performance. However, the imminent entry of a third operator in 2020 remains a key headwind for ORDS, but we believe the impact on the company could be mitigated by proper client acquisition strategy ahead of the competition.

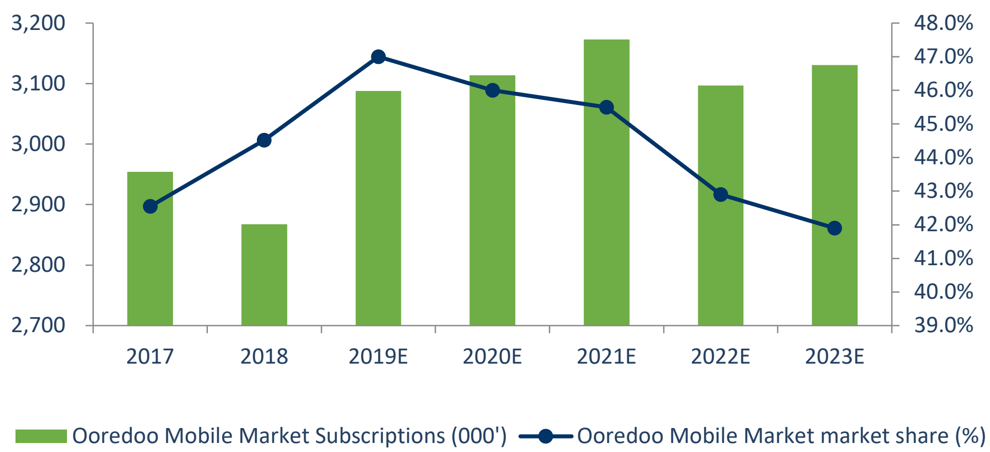
Continued focus on digitalization

As part of its efforts to provide efficient services to customers and reduce operating costs, **ORDS continues to focus on digitalization**. At the core of its digital offerings is the Ooredoo app, which allows customers to subscribe and customize mobile plans, access account details, pay bills, and subscribe to rewards programs. To increase its usage, ORDS offers some schemes such as Shababiah flexible plans for prepaid exclusively through the app. In 2018, ORDS launched a Chatbot named "Saeed", which serves customers both through the app and on the Ooredoo website. Powered by artificial intelligence, Saeed handles over 3,500 calls daily or over 50% of total calls handled by the contact center. The company expanded digitalization services to B2B users through the launch of an app that allows business customers to control, administer and monitor their company accounts.

Mobile segment growth slowing and entry of third operator in 2020 to put further pressure; addition of Friendi to partially offset bleak mobile growth outlook

In line with the overall industry trend, ORDS revenues in the mobile segment continues to be under pressure over the past three years on high penetration (140%) and continued pressure on ARPU. Mobile subscribers growth has slowed to ~2% over the period 2016-18 (and down 2.9% in 2018 to 2.9 million) compared to high growth rates of ~6% over 2010-15. However post-paid, the smaller segment within mobile, continues to show strong growth (5%) over the past three years. Mobile revenue has also witnessed similar trend, with growth rates falling to ~1% over 2016-18 compared to ~6% over 2010-15. Mobile broadband subscribers also continue to grow, offsetting declines in mobile voice.

Ooredoo's mobile market subscriptions and market share

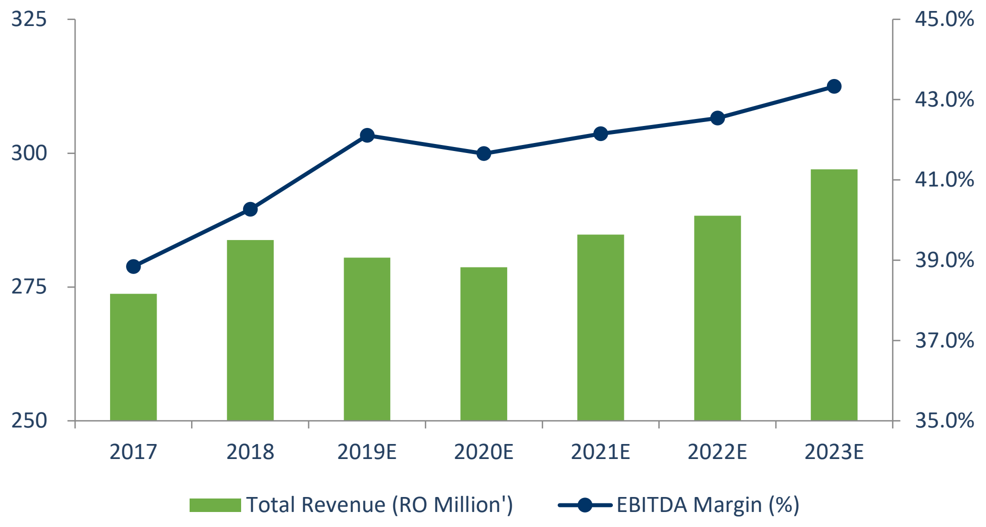


Source: TRA, GBCM Research

We expect growth in mobile subscribers for ORDS to be flat to positive in 2019 on addition of Friendi but could drop meaningfully over 2020-2023 once the third operator enters the Oman market in 2020. We believe the new MNO would impact both voice and broadband mobile segment as customers can switch instantly on lower pricing.

Despite weak growth outlook for mobile subscribers, overall mobile revenues of ORDS may not witness significant declines as the addition of Friendi to ORDS network in July 2019 could partially offset the decline as it could add incremental revenues growth annually.

Ooredoo's Revenue & Margin



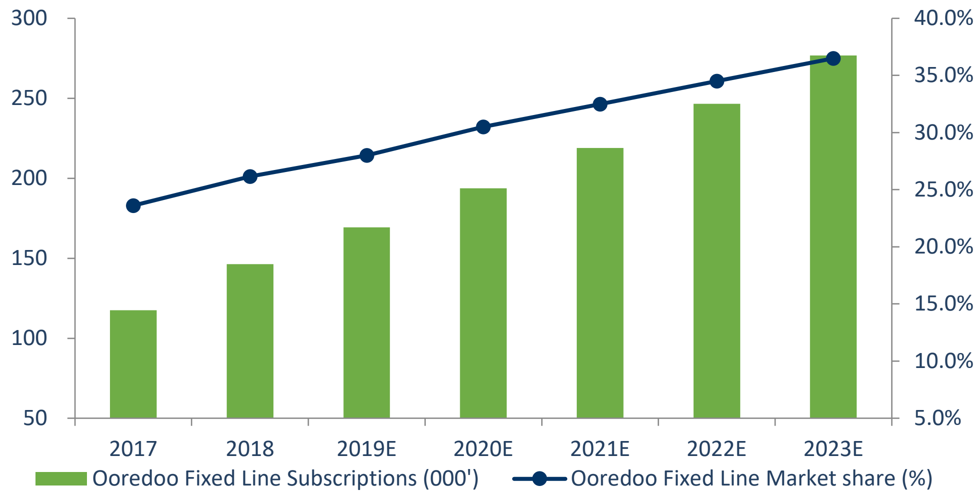
Source: TRA, GBCM Research

Rapidly gaining market share in fixed line segment to offset weakness in mobile segment

Over the past six years, ORDS has been rapidly gaining market share from the market leader OTEL, which holds the majority of fixed infrastructure in Oman. ORDS fixed subscriber count has increased at high double digit rates over the period 2003-2018 (compared to the industry's 8% growth), reaching ~146k subscribers by 2018 for a 26% market share of the total 560k subscribers. Lower base coupled with continued investments in network expansion and the introduction of fast, innovative, and low-cost fixed broadband packages have been the key factors driving this rapid growth rate.

Although the growth could slow as penetration has reached near saturation levels (93% for fixed line and 72% for fixed broadband), the implementation of new interconnection regulations in November 2018, could further help ORDS to gain market share by expanding its coverage of fixed line services using shared network at relatively low cost. Based on the above factors, we expect ORDS to continue its double-digit growth in fixed line subscribers through 2023. Additionally, mobile broadband should also be supported by introduction of 5G network in the country.

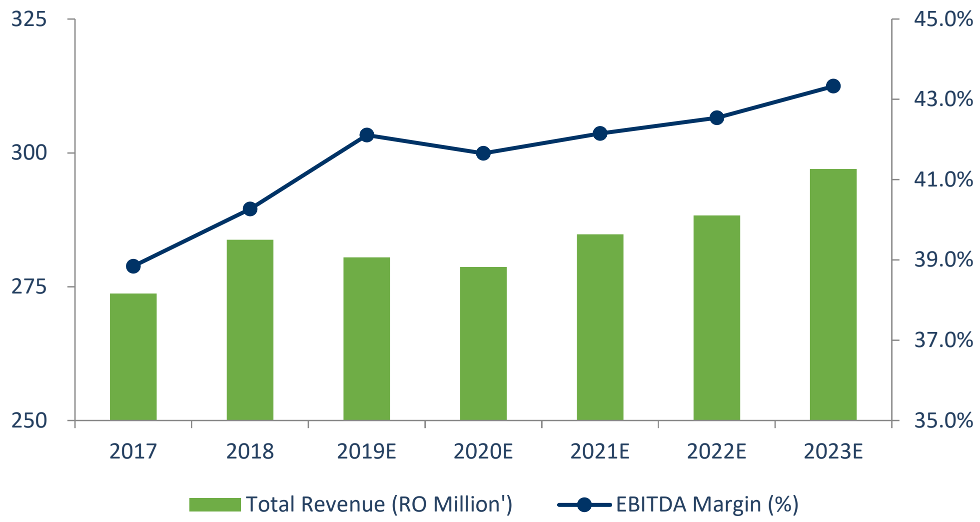
Ooredoo's fixed line subscriptions and market share



Source: TRA, GBCM Research

Overall, we expect fixed segment revenues to grow at a CAGR of 7% through 2023, offsetting the decline in mobile segment revenues. As per our forecast, total revenue is expected to grow at a CAGR of 1% over 2019-23 to RO 297 million. Ooredoo has a robust EBITDA margin (40.3% in 2018) and has been consistently high, above 39%. Going forward, strong top-line growth, addition of Friendi and lower MTR rate should help the company to maintain margins to an extent even after the entry of third operator in 2020.

Ooredoo's Revenue & Margin



Source: TRA, GBCM Research

Stable dividend payout ratio to continue on strong cash position

Ooredoo has been consistently maintaining a stable dividend pay-out ratio with average pay-out of above 65% over the last eight years and ~70% in 2018. With strong liquidity position (9M 2019 cash balance: RO ~39 million), lower leverage and ability to generate healthy cash flow on the back of robust top-line growth and cost optimization efforts, the company is expected to continue good pay-out to its shareholders compared to the highly-leveraged Omantel. Additionally, even after accounting for near term obligations such as licence renewal and 5G deployment, **we expect Ooredoo would be able to maintain dividend pay-out of above 70% levels, implying a robust yield of above 8% through 2023.**

Lower leverage and reducing capex to help withstand challenging market environment

Ooredoo has a healthy balance sheet with low leverage (2018 debt/EBITDA: 0.12x) and strong liquidity position (2018 cash balance: RO 48 mn) and is expected to continue on robust growth outlook. Moreover, the entry of third operator may not impact Ooredoo in terms of employee turnover and pricing competition as the company is well positioned to face such adverse environment with its strong balance sheet.

In terms of capital spending, ORDS has reduced its capex to revenue ratio to reasonable levels of 16% in 2018 from high historical levels of above 30%, driven by completion of major capex along with Group's procurement strategy which helped it to achieve scale. This lower capital spending should further support cash flow generation.

Quarterly performance

For Q3 2019 (ended Sep), revenues declined 1.1% YoY to RO 72.1 million due mainly to slump in mobile revenue by 5.8%, partially offset by fixed revenue which increased 13.2% in the period. Whereas, reported EBITDA increased 2.8% to RO 41.0 million, implying margin at 56.9% (+213 bps). Net profit came in at RO 9.2 million (RO 0.014 per share), representing a decline of 1.1% on higher finance cost compared to same period last year.

For 9M 2019, revenues slightly declined by 0.4% YoY to RO 211.1 million due to lower mobile revenue in the period. Reported EBITDA increased 2.9% to RO 118.4 million, leading to margin expansion of 177 bps to 56.1**%. Net profit was RO 27.0 million or RO 0.042 in 9M 2019 as compared to RO 26.8 million in 9M 2018.**

At the end of 9M 2019, total number of customers increased 2.1% YoY to 2,981 thousand, driven by increase in both mobile and fixed customers. Fixed line customers increased 16.3% to 163 thousand, while mobile customers up by 1.4% to 2,818 thousand. In mobile, post-paid customers base grew by 14.4% to 266 thousand, while pre-paid customers base increased marginally by 0.2% to 2,552 thousand. On QoQ basis, total number of customers declined 4% due mainly to fall in mobile customers by 4.5%, attributable to 5.4% decline of pre-paid customers, offset partially by increase in post-paid customers by 5.5%.

Quarterly Highlights

RO Millions	9M19	9M18	Change
Revenue	211.1	211.9	-0.4%
EBITDA	118.4	115.1	2.9%
EBITDA Margin	56.1%	54.3%	177 bps
Net profit	27.0	26.8	0.7%
Mobile and fixed customers ('000)	2,981	2,920	2.1%

Source: Company Reports

Valuation and Recommendation

We utilize discounted cash flow (DCF) analysis and peer group multiples to value ORDS. Our blended valuation, which combines these two methodologies, yields a fair value of RO 0.65 per share. Relative to the current price of RO 0.512, this represents upside potential of 22%.

We expect comparatively decent revenue growth of 1.0% for ORDS over the next five years, aided by addition of Friendi and continued market share gains in fixed line segment. Our DCF projects free cash flow to move from RO 41 million in 2019E to RO 51 million in 2023E. We discount cash flows at a weighted average cost of capital of 13.2% and assume a terminal growth rate of 2% at the end of 2023E to arrive at an enterprise value of RO 407 million. Adjusting for the cash balance of RO 61 million and debt of RO 12 million as of December 31, 2019, we arrive at a fair value of RO 0.700 per share.

Our relative valuation comprising 2020E EV/EBITDA (2.9x) and 2020E PE (10.8x) multiples yileds fair values of RO 0.569 and RO 0.572 respectively.

On a blended basis, we assign a weight of 40% to DCF and 30% each to EV/EBITDA and P/E to arrive at a base case target price of RO 0.622 per share, representing an upside of 22% from the current price level.

DCF Valuation of ORDS

DCF Method (RO '000) *	2019E	2020E	2021E	2022E	2023E
Net Operating Cashflow	104,459	107,776	117,499	114,857	118,045
Capex	63,500	95,500	95,000	67,500	67,500
Free Cash Flow (Incl of Opex)	40,959	12,276	22,499	47,357	50,545
PV of Free Cash Flows	40,720	10,785	17,467	32,489	30,644
Sum of present values of FCFs	**132,105**				
Free cash flow (t+1)	31,256				
Terminal value	452,848				
Present value of terminal value	**274,544**				
Enterprise Value	**406,649**				
Less Debt	11,834				
Add Cash	60,654				
Equity value of Ooredoo	**455,470**				
Shares outstanding	650,940				
Fair value per share (RO)	**0.700**				
Current Price (12 Dec 2019)	0.512				
Upside/Downside	**36.7%**				

Source: GBCM Research Estimates, *Unless Stated Otherwise

Relative Valuation of ORDS

Comparable Companies	Country	Ticker	EV/EBITDA FY19E	EV/EBITDA FY20E	EV/EBITDA FY21E	P/E FY19E	P/E FY20E	P/E FY21E
Omantel	Oman	OTEL	4.0	3.2	2.4	6.1	5.9	5.6
Ooredoo Oman	Oman	ORDS	2.3	2.3	2.4	8.0	8.3	9.0
Zain Kuwait	Kuwait	ZAIN	5.6	5.5	5.7	13.1	12.3	11.1
Viva	Kuwait	VIVA	3.7	3.6	3.5	8.0	8.0	8.0
Ooredoo Kuwait	Kuwait	OOREDOO	2.7	2.6	2.6	12.5	10.5	9.3
Saudi Telecom	Saudi Arabia	STC	9.1	8.9	8.8	17.2	16.4	16.1
Etisalat	UAE	ETISALAT	5.9	5.8	5.7	16.2	15.9	15.5
Zain KSA	Saudi Arabia	ZAINKSA	4.6	4.4	4.6	13.2	13.5	14.0
Vodafone Qatar	Qatar	VFQS	7.9	7.5	7.0	27.1	20.3	17.4
Average Market Multiples			**5.1x**	**4.9x**	**4.8x**	**13.5x**	**12.4x**	**11.8x**
Median Market Multiples			**4.6x**	**4.4x**	**4.6x**	**13.1x**	**12.3x**	**11.1x**

Relative Valuation - ORDS	
EBITDA 2020e (RO)	115,958
EPS 2020e (RO)	0.053
Target EV/EBITDA Multiple for 2020E (x)	2.9x
Target P/E multiple for 2020E (x)	10.8x
Fair value per share (RO) - EV/EBITDA Multiple	**0.569**
Fair value per share (RO) - P/E Multiple	**0.572**

Source: GBCM Research Estimates,*Closing as at end of Nov 2019

Weighted Average Fair Value - ORDS

Valuation Method	Fair Value per share (RO)	Weightage	Weighted value per share (RO)	Upside/downside
DCF Valuation	0.700	40.0%	0.280	36.7%
Relative Valuation - EV/EBITDA	0.569	30.0%	0.171	11.2%
Relative Valuation - P/E	0.572	30.0%	0.172	11.7%
Target Price (RO)			**0.622**	
CMP (RO)			0.512	
Upside/(Downside)			**21.5%**	

Source: GBCM Research Estimates

Key upside risks: Lower than expected market share gains from the third mobile operator and stable ARPU are key upside risks for ORDS.

Downside risks: Challenging macro environment, Lower than expected market share gains in fixed line segment as well as the entry of third mobile operator could drag the top line.

Ooredoo - Key Ratios and Multiples

Ratio Analysis	2017	2018	2019E	2020E	2021E	2022E	2023E
Growth Metrics							
Total Revenue	1.3%	3.7%	-11.4%	0.6%	2.0%	0.2%	3.6%
Total Assets	-0.2%	3.7%	1.1%	1.5%	3.1%	2.4%	2.2%
Net Worth	1.6%	7.5%	3.8%	2.7%	4.0%	3.3%	3.7%
Net Income	-33.0%	35.2%	-11.2%	-6.9%	16.1%	-3.9%	9.5%
Margins (%)							
EBITDA Margin	38.8%	40.3%	42.1%	41.7%	42.2%	42.5%	43.3%
EBIT Margin	14.1%	18.0%	16.1%	15.1%	17.1%	16.2%	17.2%
PAT Margin	11.3%	14.8%	13.3%	12.4%	14.1%	13.4%	14.2%
Return Ratio (%)							
RoE	12.9%	16.3%	13.9%	12.6%	14.1%	13.1%	13.8%
RoAE	13.0%	16.9%	14.2%	12.8%	14.4%	13.3%	14.1%
RoA	7.8%	10.1%	8.9%	8.2%	9.2%	8.6%	9.3%
RoAA	7.8%	10.3%	9.0%	8.2%	9.3%	8.7%	9.4%
Leverage Ratios							
Total Debt to Equity (x)	0.10	0.05	0.04	0.04	0.04	0.04	0.04
Net Debt to EBITDA (x)	-0.09	-0.30	-0.41	-0.30	-0.22	-0.37	-0.49
Per Share Ratio							
EPS	0.048	0.064	0.057	0.053	0.062	0.059	0.065
Book value	0.368	0.395	0.410	0.421	0.438	0.453	0.470
DPS	0.042	0.045	0.042	0.042	0.045	0.045	0.048
Market Multiples at CMP							
P/E (x)	11.3	8.3	9.4	10.1	8.7	9.0	8.3
P/BV (x)	1.5	1.4	1.3	1.3	1.2	1.2	1.1
Dividend Yield	7.8%	8.4%	7.8%	7.8%	8.4%	8.4%	9.0%
EV	338,911	314,429	300,083	314,695	322,472	304,127	285,472
EV/Sales (x)	1.2	1.1	1.1	1.1	1.1	1.1	1.0
EV/EBITDA (x)	3.2	2.8	2.5	2.7	2.7	2.5	2.2

Source: Company Reports, GBCM Research Estimates

Ooredoo - Financial Highlights

RO Millions	2017	2018	2019E	2020E	2021E	2022E	2023E
INCOME STATEMENT							
Revenue	273,712	283,758	280,455	278,680	284,769	288,334	296,956
EBITDA	**106,282**	**114,213**	**117,980**	**115,958**	**119,919**	**122,543**	**128,532**
Depreciation and amortisation	67,740	63,150	72,910	73,909	71,330	75,835	77,540
EBIT	38,542	51,063	45,070	42,049	48,589	46,708	50,992
Finance cost	2,083	1,285	1,317	1,303	1,288	1,274	1,259
Profit before tax	36,459	49,778	43,753	40,746	47,301	45,434	49,733
Taxes	5,476	7,896	6,563	6,112	7,095	6,815	7,460
Profit for the year	**30,983**	**41,882**	**37,190**	**34,634**	**40,206**	**38,619**	**42,273**
BALANCE SHEET							
Cash & equivalents	33,476	47,746	60,654	45,842	37,866	56,011	74,466
Trade receivables	41,735	48,841	49,894	49,578	46,765	47,350	48,766
Inventories	1,994	3,992	3,838	3,814	3,897	3,946	4,064
Other current assets	0	2,229	2,229	2,229	2,229	2,229	2,229
Current assets	**77,205**	**102,808**	**116,616**	**101,463**	**90,757**	**109,535**	**129,525**
Net fixed assets	278,928	273,211	269,410	260,675	257,319	259,758	260,792
Intangible assets	39,498	33,650	28,041	58,367	85,393	74,620	63,546
Other non-current assets	2,188	3,045	3,045	3,045	3,045	3,045	3,045
Non-current assets	**320,614**	**309,906**	**300,496**	**322,087**	**345,757**	**337,422**	**327,383**
Total assets	**397,819**	**412,714**	**417,112**	**423,550**	**436,514**	**446,958**	**456,907**
Short term debt	10,783	6,237	5,000	5,000	5,000	5,000	5,000
Trade payables	102,613	107,035	103,626	102,970	105,220	106,538	105,660
Other current liabilities	24,587	25,841	25,773	25,773	25,773	25,773	25,773
Current liabilities	**137,983**	**139,113**	**134,399**	**133,743**	**135,993**	**137,311**	**136,433**
Non-current liabilities	**20,327**	**15,837**	**15,637**	**15,437**	**15,237**	**15,037**	**14,837**
Total liabilities	**158,310**	**154,950**	**150,036**	**149,180**	**151,230**	**152,348**	**151,270**
Shareholder equity	**239,374**	**257,249**	**267,075**	**274,370**	**285,284**	**294,610**	**305,638**
Non-controlling interests	135	515	515	515	515	515	515
Total liabilities & equity	**397,819**	**412,714**	**417,112**	**423,550**	**436,514**	**446,958**	**456,907**

Source: Company Reports, GBCM Research Estimates

GBCM Stock Rating Methodology:

- ***Buy*** *- Upside more than 20%*
- ***Accumulate*** *- Upside between 10% and 20%*
- ***Neutral*** *- Upside or downside less than 10%*
- ***Reduce*** *- Downside between 10% and 20%*
- ***Sell****- Downside more than 20%*
- ***Not Rated*** *- Stocks not in regular research coverage*

Time Horizon

- ***LT –*** *Long Term rating with a 12 to 18-month horizon*
- ***ST –*** *Short Term rating with a 3 to 6-month horizon*

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