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Industry Research

Kuwait Telecom Industry

Report Contents

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Overview of the GCC Telecom Industry

The GCC remains one of the fastest developing markets for the import of telecommunication related services. This is due to the good economic conditions, increasing budget surpluses, and well-structured infrastructure and development activities through government plans and actual spending.

In recent times, the GCC countries have raised their spending requirements in service related fields such as banking and other financial services, telecom, healthcare, education and tourism; a) for implied support to the local industries which require these services and b) for the economic focus of diversifying from hydrocarbon revenue sources which remains the primary contributor to the budget surpluses in most countries in the region. This shift is expected to boost the local economy and also create a wider base of job opportunities thus reducing unemployment rates in the region.

Several foreign telecommunications and software development companies have been successful at marketing their services to the region. They have also collaborated with the local governments and companies in developing the current structure and networks of the overall telecom industry. Fields, in which there has been an increased collaboration through joint-ventures, include software development and SAP services, state of the art modern technology in government & health infrastructure and processes, and most importantly in wireless connectivity services such as fiber optics and 3G/ 4G services rampant since end of last quarter of 2012.

Due to the high economic growth in the region, development activity in several service related fields has gained momentum. The GCC region currently has over 200 telecom companies operating within various sub sectors of this industry. Saudi Arabia, being the regional heavyweight and the leader in infrastructure development, has the most significant share of ongoing development in telecom services, followed closely by UAE with the remainder split evenly between the rest of the GCC countries.

Classification of Telecom Companies

Telecom companies in the GCC can be typically broken down into the following types based on their business & operational focus:

- Internet & Online Services – Providers & Resellers
- Fixed-Line Voice Services – Operators & Resellers
- Wireless Communication Services

The following report aims to provide an overview of the telecom sector and discuss the leading telecom companies in the GCC region specifically in Kuwait.

Major Telecom Players in the GCC

Exhibit 1: GCC Telecom Major Players & Ownership Levels as of 3Q2012

S/N	Telecom Company	Market Tickers	Country	Government Ownership
1	Bahrain Telecommunications Co.	BATELCO	Bahrain	Government of Bahrain = 57%
2	Mobile Telecommunications Co.	ZAIN	Kuwait	Government of Kuwait = 25%; Corp. = 16%
3	National Mobile Telecommunications Co.	WATANIYA	Kuwait	Government of Kuwait = 24%
4	Oman Telecommunications Co.	OMANTEL	Oman	Government of Oman = 70%
5	Omani Qatari Telecommunications Co.	NAWRAS	Oman	Government of Oman = 5%; Corp. = 55%
6	Qatar Telecom	QTEL	Qatar	Government of Qatar; UAE = 78%; 10%
7	Vodafone Qatar	VODAFONE QATAR	Qatar	Government of Qatar = 10%
8	Etihad Etisalat Co.	MOBILY	Saudi Arabia	Government of Saudi Arabia = 11%
9	Mobile Telecommunications Co. - Saudi	ZAIN-Saudi	Saudi Arabia	Government of Saudi Arabia = 0%
10	Saudi Telecom Co.	STC	Saudi Arabia	Government of Saudi Arabia = 84%
11	Emirates Integrated Telecommunications Co.	DU	UAE	Government of UAE = 59%
12	Emirates Telecommunications Corp.	ETISALAT	UAE	Government of UAE = 60%

Source: Zawya & CSR Industry Research

Ownership Restrictions

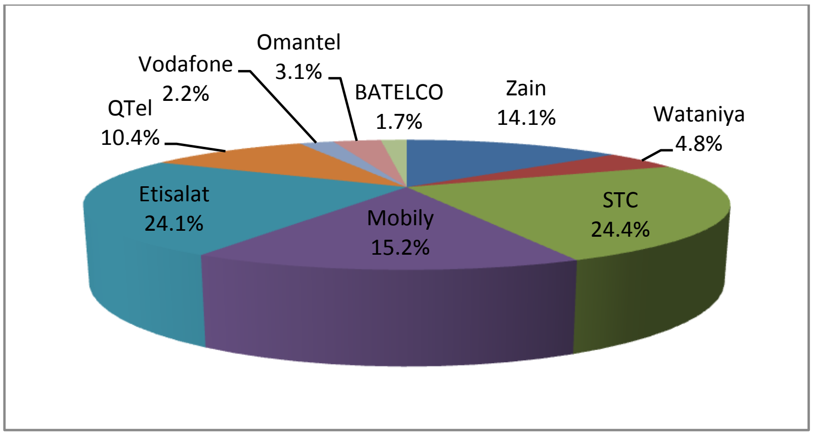
The telecommunications industry is a capital intensive industry, requiring substantial Capital Expenditure (CapEx) and extensively complex licenses for establishment and operation. Hence, several GCC countries still maintain government stakes with excessive influence in the functions and operations of the local telecom operators. Typically, telecom industry in GCC countries witnessed a monopoly until privatization laws were passed in the UAE, KSA and Kuwait in the 1990's. After privatization, the GCC governments set up regulatory authorities for safeguarding the industry risks and to work towards bolstering consumer protection through implementation of numerous sector specific standards. These standards will allow the regulatory authorities to efficiently monitor the provision of telecom services by operators at lower costs. Kuwait is the only GCC country which has an absence of a regulatory authority, and hence has one of the highest tariffs for accessing the international dialing gateway.

The GCC countries have different levels of ownership restrictions for the various types of investors, depending on either local or GCC citizens or including foreign ownership. Generally, Bahrain & Kuwait are open to individual foreign ownership, whereas telecom companies in Oman and Saudi Arabia are relatively open to allowing GCC citizen ownership, but maintain limits on foreign ownership. Telecom companies in Qatar and UAE are considered more restricted where local ownership is mandatory.

Market Capitalization

Most GCC Telecom players witnessed a strengthening of market capitalization from FY2011 levels and total market capitalization stood at USD 88.7 bn as of 3Q2012.

Exhibit 2: GCC Market Capitalization as of 3Q2012



Source: Zawya & CSR Industry Research

Kuwait's Zain and Wataniya together comprise 98.2% of the overall market capitalization of Kuwait's Telecom industry, and 18.9% of the leading GCC telecom brands. Saudi Telecom and Etisalat UAE continue to be the leading regional corporations based on regional market capitalization, with USD 21.6 bn (24.4%), and USD 21.4 bn (24.1%) respectively. Etihad Etisalat Co. of Saudi Arabia, also known as Mobily remained, the 3rd largest with a total market capitalization of USD 13.4 bn (15.2%), just one position over Zain-Kuwait. Relatively recent telecom entries of the smaller GCC economies are Qatar's Vodafone, Bahrain's BATELCO and Nawras of Oman which represent a very small share of the overall regional market capitalization, as a result of small domestic markets and lack of regional diversification.

Regional Performances & Developments

Bahrain remains a fiercely saturated market with extremely high mobile penetration rates of over 200%. There are 3 operators in Bahrain, 1 local and 2 foreign, namely BATELCO, Zain Bahrain & VIVA (STC). **BATELCO** currently has the largest market share of 40.7% and a market capitalization of USD 1.50 bn. However, the company has witnessed a significant decline in market share over the past 2 years after facing intense competition from Zain Bahrain & VIVA (STC). BATELCO recently acquired Cable & Wireless Communications, Monaco & Island, in order to reduce the geographic concentration risks and increase future revenue contributions from this merger. The company's subscriber base shrunk, with fierce competition from 2010's new entrant **VIVA (STC)**. The latter saw a rise in market share of almost 27.2%, which is substantial considering its recent entry into the Bahrain market. Zain Bahrain has the 2nd leading position in Bahrain. The company witnessed a growth in market share which increased from 28.6% in FY2011 to 32.2% in 3Q2012.

Oman yet reflects a steady growth in overall customer base for both local operators, Nawras & Omantel. The country maintained a high mobile penetration rate of 177.6% as of 1Q2012. As of 1H2012, this grew to 180%, with a total of 4.9 mn mobile subscribers. Subscriptions for **Omantel** grew at a steady pace, facilitated by the company's existing telecom networks. On the other hand, **Nawras** (a subsidiary of QTel), lost roughly 2.0% market share in the past 1 year due to the aggressive entry of local re-sellers. Both operators swiftly took opportunity in offering LTE/ 4G services in the local operating environment, strengthening customer loyalty through provision of enhanced value added services. Recently, Omantel signed a Memorandum of Understanding (MoU) with Bank Muscat in order to allow its customers to electronically recharge their accounts using the bank's electronic platforms. OmanTel as of FY2011 maintained a market share of 58.6%, with an increase of 1.9% as of 3Q2012. Nawras on the other hand had a 41.4% market share of the mobile segment in FY2011 which reduced to 39.5% by 3Q2012.

Consequently, Oman Telecommunication Regulatory Authority (TRA) recently announced new initiatives to review the existing licensing framework, including removal of barriers for new entrants into the local industry. The focus will clearly remain on benefitting the end consumer by enhancing competition with the prime objective of improving services and benefits to Oman's subscriber base.

Qatar's recent strong economic activity has positively impacted the subscriber base for both local operators, Qatar Telecom (QTel) and Vodafone Qatar. Although Qatar has high mobile penetration rates, similar to Bahrain & Kuwait, growth is further expected due to the high inflows of both skilled and unskilled expatriate population.

QTel remains the market leader in terms of both market capitalization (USD 9.2 bn) and market share of over 70.0% as of FY2012, with consolidated customer base growing to reach 83.7 mn users as of mid 2012. QTel's regional subsidiaries include Wataniya (Kuwait), Indosat (Indonesia), Asiacell (Iraq), Nawras (Oman), Nedjma (Algeria), and Tunisiana (Tunis). QTel reflected the strongest revenue growth in 2007 and 2008 of 135.2% and 96.7%, respectively, prior to the entry of Vodafone Qatar. Effectively, revenue growth decelerated in 2011-12 to 16.03% and 6.14%, respectively.

In recent developments, QTel completed 2 M&A's in its regional subsidiaries in order to stem growing domestic competition from Vodafone Qatar and take advantage of regional buy-outs, and has announced plans to complete another deal in 2013. The company received approval from the Tunisian government to raise its stake by 15.0% in its 75.0% owned indirect subsidiary, Tunisiana through Wataniya (Kuwait), at a value of USD 360.0 mn. It also increased stake in its Kuwaiti subsidiary, Wataniya, from 52.5% to 92.1% in December 2012, for a total consideration of KWD 519.1 mn (USD 1.8 bn). Additionally, QTel announced its plans to double its 30.0% stake in its Iraqi subsidiary, Asiacell Communications PJSC, whereby it would invest USD 1.5 bn. Upon execution, this is expected to be the largest IPO completed until date in the MENA region.

Subscriber base also relatively grew for **Vodafone Qatar,** which is currently in its 3rd year of operations. Licensed in mid 2008, Vodafone Qatar started operations in 1Q2009, and revenues are still low compared to several GCC telecom counterparts due to its recent establishment. The company reported QAR 387.9 mn in gross profits for FY2012, a 19.5% decrease compared to FY2011. Net income increased to QAR 13.2 mn compared to a net loss of QAR 0.4 mn for the same period last year. In January 2013, the company signed a MoU with Doha Bank in order to allow its customers to pay their outstanding subscription charges using Doha Bank's ATM & online banking portals.

Saudi Arabia is the GCC heavy weight in terms of economy, diversification, population and infrastructure development. Consolidated customer subscriptions, however, followed a volatile course in terms of growth deceleration as penetration rates reached moderately strong levels close to penetration rates of Bahrain.

In November 2012, Saudi Arabia's regulator, Communication & Information Technology Commission (CITC), has suspended **Mobily**, a 28% owned affiliate of UAE's Etisalat, from selling pre-paid SIM cards until it meets all the requirements for pre-paid service provisions. The new registration requirements are mandated as a security measure in order to allow CITC to be aware of all telecom operators' customer bases. Financial impact is deemed as less significant since Mobily's revenue contribution is majorly derived from corporate business lines and post-paid billing rather than from pre-paid SIM sales. Established in August 2004, Mobily has a market capitalization of USD 13.4 bn (15.2%) and held roughly 40.0% of the Saudi market share. FY2011 revenues rose to SAR 20.1 bn (USD 5.4 bn) reflecting a 25.22% growth from FY2010. Net profits also grew to SAR 5.1 bn (USD 1.4 bn) from SAR 4.2 bn (USD 1.1 bn) in FY2010.

Market share for **Zain KSA** in FY2012 declined to less than 15.0% compared to 16.0% in FY2011, mainly due to fierce competition with Mobily & STC. As reported by the company, the customer base reached 6.5 mn customers in 1H2012, compared to 8.1 mn customers at the end of 2011. In recent developments, the company has launched 4G services by primarily offering 4G hardware devices in Saudi Arabia. Revenues rose by 12.89% to SAR 6.7 bn (SAR 1.8 bn) in FY2011, compared to SAR 5.9 bn (USD 1.6 bn) in the previous year. 3Q2012 results however showed a contraction of 6.02% amounting to SAR 4.7 bn (USD 1.3 bn). In September 2011, the divestment in Zain KSA was scrapped when a consortium led by Bahrain's BATELCO and Saudi Arabia's Kingdom Holding withdrew from the SAR 3.6 bn (USD 1.0 bn) deal, after failure of agreements over the company's stressed liabilities. Zain Kuwait eventually raised its shareholding in Zain KSA from 25% to 37% as part of the Saudi associate's capital restructuring efforts.

Saudi Arabia's first telecom operator, **Saudi Telecom (STC)**, established in 1998, retains the strongest local market position with roughly 47% market share at end of FY2012. Its customer base dropped to 24.3 mn users due to stiff competition in the value added services segment from rivals, Mobily & Zain KSA. STC is 84% government owned, and has a market capitalization of SAR 21.6 bn (24.4%) of the regional telecom sector. STC gross revenues grew by 7.5% in FY2011 to SAR 55.7 bn (USD 14.8 bn). However, net profits decreased by 18.1% to SAR 7.7 bn (USD 2.1 bn) due to higher finance costs and non-recurring losses on foreign currency exchange fluctuations.

Bravo Telecom is specialized in wireless group communications for government and corporate sectors in Saudi Arabia. Bravo Telecom represented a negligible market share of just 0.3% in 3Q2012 due to its specialized industry focus, and operates under a BOT agreement with Saudi Telecom (STC).

UAE represents the second GCC leader in terms of development and population growth. Due to its extensive demand for the development of several service related industries through the 1990's and early 2000's, with a focus on developing the best international standards for technology services. UAE has also been one of the first regional countries to establish a regulatory authority for safeguarding consumers from telecom monopolies and other illegal business practices. Established in 2003, the UAE Telecommunications Regulatory Authority (TRA) actively monitors every aspect of the country's telecom industry. Its focus remains to uphold the use of the best industry standards by local telecom operators in order to ensure the protection of customers. Telecom operators are hence mandated to provide improved services at affordable costs. UAE's mobile penetration rates remained the highest in the region at 230% as of 1H2012, and are forecasted to have reached ~242% by the end of 2012.

New mobile line subscriptions and existing customer base fell drastically as UAE suffered from severe financial distress in 2007-8. As the economy recovers, expatriate population is expected to rise back to pre-crisis levels and strengthen the customer base for both Etisalat & DU. Both local operators, witnessed an increase in new subscriptions, with total customers reaching 12.9 mn at end of 2012. In January 2013, the TRA stated that number of total cellular users reached 13.3 mn, with 7.1 mn subscribers for Etisalat, and remaining 6.2 mn users belonging to DU. Both Etisalat and DU maintain significant market shares, with Etisalat controlling roughly 55% of the market share due to its earlier sole presence in the UAE, and DU maintaining a strong 45% share.

Etisalat with market capitalization of USD 21.4 bn, equaling 24.1% of the regional market, has presence in over 18 countries in Asia & the MENA region with total global customer base spanning over 140 mn users. The company had the largest annual revenues regionally of AED 32.2 bn (USD 8.8 bn) in FY2011, and maintains strong credit ratings from international credit rating agencies. Net profits shrunk to AED 5.8 bn (USD 1.6 bn) in FY2011 compared to AED 7.6 bn (USD 2.1) in FY2010. In recent news, the company has announced plans to improve its business services and market coverage by expanding 4G services to the entire UAE region by end of 2015.

DU was established in 2006 in order to break the monopoly of Etisalat. The company reported losses in the first 3 years of operations, but has improved profitability levels since FY2009. Revenues grew by 25.17% to AED 8.9 bn (USD 2.4 bn) in FY2011, and 9M2012 also reflected a comparable period growth of over 15.1% amounting to AED 7.4 bn (USD 2.0 bn).

Net profits, on the other hand, dropped by 16.26% in FY2011 to AED 1.1 bn (USD 0.3 bn), compared to AED 1.0 bn (USD 0.3 bn) in 9M2012 period. In January 2013, DU signed a USD 100.0 mn financing agreement with Standard Chartered Bank in order to boost liquidity and manage its working capital requirements. The company has existing facilities of USD 500.0 mn from NBAD and USD 100.0 mn from DBS Bank-Dubai for funding equipment acquisition for its value added service enhancements.

Overview of the Kuwait Telecom Industry

Historically, Kuwait's oil-driven economy has generated strong revenues resulting in high budget surpluses for 11 consecutive years. This has allowed the country to take the path of providing quality services in most fields such as healthcare, education, housing and food rationing. Generally, the high standard of living is also backed by strong government spending on public services, wages and salaries. Telecom services were previously controlled by the state with a government monopoly on tariffs and services. However, to improve services for the end consumer, the state liberalized the mobile telecom sector by privatizing Zain (previously called MTC) in 1999, and subsequently eased the barriers to entry for new startups and entrants. Wataniya Telecom started operations in the same year which enhanced the quality of cellular and internet services provided by the local telecom sector. This brought forth a healthy competition within the market, especially for Wataniya to gain market share over Zain.

Kuwait's mobile penetration rates are relatively low, at 150% as of 3Q2012. Kuwait remains the only GCC country which lacks a telecom regulator, although it has been the first to identify the reasons for its liberalization. This was done by; breaking the cellular service monopoly and ensuring that healthy price competition would eventually benefit customers and allow enhancements in the services provided.

The Ministry of Communications (MoC) currently serves as the quasi regulator and also the provider for fixed-line services. It also serves as the main operating point, regulating access to the international gateway. Hence, any improvement in international dialing services or the trailing, high, calling rates can only be stipulated by the MoC. There have been stalled discussions on plans of privatizing the fixed-lines sector which is also aimed at improvement of the value added services to consumers and the actual delivery. As per data analyzed from the International Telecommunication Union (ITU), growth in the fixed line services demand was outpaced by the mobile services growth rates. Over a 2-year period of FY2010-12, only 0.2 mn fixed-line subscriptions were registered, compared to 0.9 mn new cellular subscriptions. This indicates that telecom service users are shifting towards mobile subscriptions rather than fixed-lines, although cheap and fixed annual tariffs apply for the latter.

Exhibit 3: Kuwait Telecoms & Key Figures in 3Q2012

As of 30th September 2012	Zain	Wataniya	VIVA
Market Share (%)	41.0%	36.0%	23.0%
Total Subscribers (mn)	2.19	2.01	1.08
No. of Countries with Operations	8	6	1
Years of Existence	29	13	4

Source: Zawya, Annual Reports & CSR Industry Research

Business & Financial Performance – Kuwait Telecoms

Kuwait Telecommunications Co. (VIVA)

The 9-year duopoly between Zain and Wataniya was eliminated with the 2008 entry of Kuwait Telecommunications Co. (VIVA). Kuwait's government maintained a 24% stake in the company, with 50% offered in IPO to the public, and remaining 26% auctioned to Saudi Telecom (STC) which represented an established telecom operator in the region. This entry led to further competition for services and rates, and also on the newly tailored value added services and internet packages. Through 2011, VIVA managed to climb up its market share to roughly 20% from Zain and Wataniya, backed by its enhanced promotions and rigorous sales campaigns.

VIVA's subscribers grew to a strong 1.05 mn in 2011 from 0.83 mn in 2010, representing 37.26% of the country's population. The company's CapEx reduced considerably since it completed its 5th year in operation in a currently technology-driven market that is capital intensive. Revenues grew from KWD 60.7 mn (USD 214.7 mn) in FY2010, to KWD 93.6 mn (UD 335.6 mn) in FY2011, however the company is yet to realize net profitability. Net losses were at KWD 14.4 mn (USD 51.7 mn) in FY2011, a drop from KWD 20.49 mn (USD 72.46 mn) in FY2010. Profitability is impacted mainly by VIVA's high depreciation & amortization expenses and aggressive marketing budgets which increased its operating expenses by 21.73% to KWD 61.7 mn (USD 221.2 mn) in FY2011. VIVA's current market share in 3Q2012 stood at 23.0%.

Exhibit 4: Kuwait Telecoms & Capital Structure in FY2011

As of 30th September 2012		Zain	Wataniya	VIVA*	GCC Telecom Industry Average
Short-Term Debt	(USD mn)	948.62	91.08	53.79	635.80
Short-Term Debt/ Total Debt	(%)	41.11%	26.02%	44.74%	28.12%
Total Debt	(USD mn)	2,307.49	350.08	120.22	2,231.78
Current Ratio	(%)	0.88	0.71	0.26	0.84
Net Debt/ EBITDA	(%)	0.51	(0.12)	44.83	3.43
Total Debt/ Total Assets	(%)	21.64%	6.84%	26.84%	19.15%
Total Debt/ Total Equity	(%)	38.82%	12.31%	(182.58%)	27.16%

** VIVA's numbers are as of last financials dated FY2011*

Source: Zawya, Capital IQ, Annual Reports & CSR Industry Research

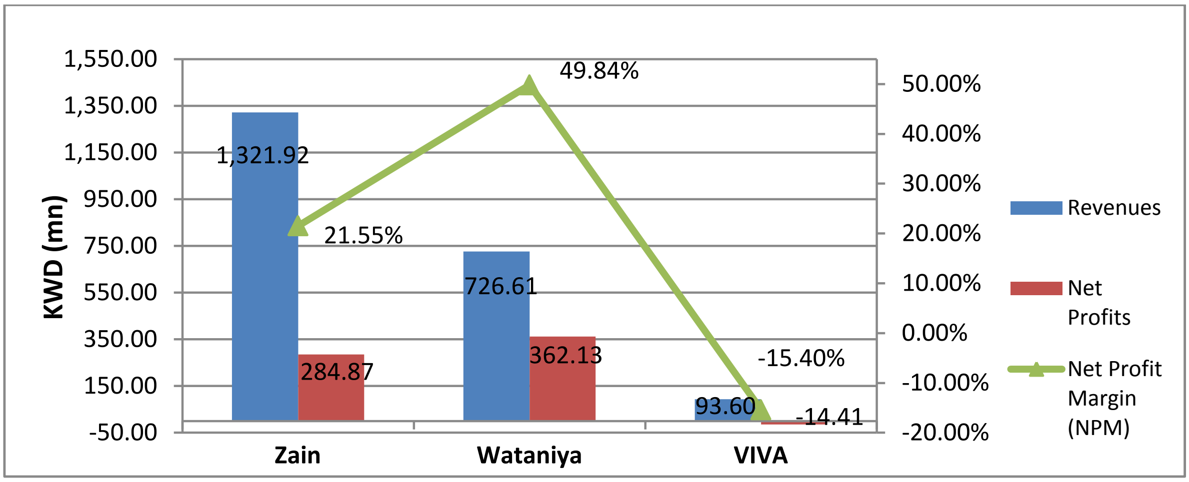
National Telecommunications Co. (WATANIYA)

Wataniya was able to offset Zain's monopoly in 1999 upon its entry as the 2nd telecom operator in Kuwait. KIPCO was part of the IPO, and held a majority stake of 52.5% in Wataniya. In 2007, KIPCO's stake in the telecom operator was acquired by QTel. Recently, QTel raised its stake in Wataniya to 92.1% at a value of KWD 519.1 mn (USD 1.8 bn), in order to have direct total control over the subsidiary's business strategy and operational direction. Wataniya is a brand leader in the regional telecom sector and has presence through the following entities; Nedjma (Algeria), Bravo (Saudi Arabia), Tunisiana (Tunisia), Wataniya Mobile (Palestine), and Wataniya (Maldives). Wataniya's Kuwait subscribers grew from 1.8 mn users in 2010 to 2.0 mn in 2011 whereas, it's consolidated subscribers grew from 16.6 mn in 2010 to 17.8 mn in 2011. Wataniya saw its market share drop to roughly 37.2% at end of 1H2012, compared to 39.3% in the beginning of the year. Its position in terms of market share as of 3Q2012 stood at 36.0%.

Wataniya's revenues registered a growth of 34.7%, amounting to KWD 0.7 bn (USD 2.6 bn) in FY2011. 9M2012 recorded a slightly less rapid growth of 3.51% reaching KWD 0.6 bn (USD 2.0 bn). EBITDA also grew by a staggering 45.06% to KWD 0.3 bn (USD 1.1 bn) in FY2011. Net profits grew by 364.14% due to a one-off consolidation transaction in Tunisiana (24.1% without), whereby Wataniya increased its stake from 50% to 75%, and as a result, performed a revaluation on the new stake. Nevertheless, FY2011 net profits amounted to KWD 0.1 bn (USD 0.3 bn) without the consolidation effect and earnings in 9M2012 also reached KWD 0.1 bn (USD 0.3 bn).

In Kuwait, the company has announced plans to broaden its existing communications services to the corporate market. It aims to tap into the growing demand for collaborated and data center services and help in the development and enhancement of new business data services.

Exhibit 5: Kuwait Telecoms & Profitability as of FY2011



Source: Zawya, Annual Reports & CSR Industry Research

Zain Telecommunications (ZAIN)

Zain is the first telecom operator in Kuwait. It was established in 1983 and was officially privatized in 1999, with eventual government stake reduction from 49% to 25% in 2001. The company was re-branded to "Zain" in 2007. Zain became one of the leading global telecom brands, by spanning operations through its subsidiaries and associates in 24 MENA & Asian countries and to over 70 mn subscribers. It sold 16 of its MENA operation licenses to India's Bharti Airtel for USD 10.7 bn in 2010 to intensify its focus in the GCC. Global customer base strengthened to over 40.2 mn users as of FY2011, and 3Q2012 reflected a slight increase to 41.3 mn users. The company operates in 8 countries with direct presence in Bahrain, Iraq, Jordan, Kuwait, Saudi Arabia, and both North & South Sudan. It also maintains indirect presence through ventures with the government and affiliates in Lebanon and Morocco.

Zain's largest shareholder is Kuwait Investment Authority (KIA) at 24.61%, followed by Al-Khair National for Stocks Co. at 16.43% and rest is widely held by the public. In 2011, Etisalat-UAE backed out from a controlling stake acquisition in Zain Kuwait, due to several delays and disagreements. The deal value was reported at KWD 3.3 bn (USD 12.0 bn) and would have transformed Etisalat into the market leader in terms of regional market capitalization and operational presence.

Zain currently has the highest market share in the Kuwaiti mobile segment of 41.0%. Both Zain and Wataniya faced stiff competition from the new entrant VIVA in terms of promotions, reduced tariffs and customized internet and data packages. The competition between the 3 is expected to further intensify after the MoC mandated all operating telecom firms to introduce MNP (Mobile Number Portability) in September 2012. This would allow users to switch between different operators, without changing their subscribed mobile numbers.

Zain reported revenues of KWD 1.3 bn (USD 4.8 bn) in FY2011, which was a moderate growth of 1.53% from the previous period. It's 9M2012 revenues stood at KWD 1.0 bn (USD 3.5 bn) reflecting a slight decline from 9M2011. Consolidated EBITDA's grew by 1.16% to KWD 0.4 bn (USD 2.2 bn) for FY2011. On the same lines, the company's net profits grew by 1.08% in FY2011 to reach KWD 0.3 bn (USD 1.0 bn), and 9M2012 figures were reported to stand at KWD 0.2 bn (USD 0.7 bn) which were down by 4.1% compared to 9M2011 period. Financial indicators showed a decrease in growth compared to previous periods due to the high CapEx expense incurred in 1H2012 as the company stepped up the enhancements over its operations networks and technology provisions. Zain introduced the LTE and 4G technology services in primary markets of Kuwait and Saudi Arabia, and was mandated to implement MNP as per the MoC decree in September 2012. The LTE structure and framework were developed by Middle East Telecommunications Company (METCO), which is a leading integrator of telecom & IT technology in the MENA region. This effort ensured it to be in line with regional peers over its technology-driven value added services.

Zain raised its stake in associate Zain KSA from 25% to 37% as part of the Saudi associate's capital restructuring efforts. In December 2012, it furthered its commitment to the associate by settling liabilities valued at SAR 0.9 bn (USD 0.2 bn) on behalf of Zain KSA. The liabilities represented accounts payables for services provided by Motorola Inc. to Zain KSA in 2009 which were deferred to a future settlement.

Conclusion

Regional and local demand for telecommunication services and offered solutions continues to be strong. Revenue growth for GCC operators slowed down due to the saturation of domestic environments and dependence on basic and inexpensive broadband services. This can be assessed due to the high penetration rates as witnessed for most GCC countries. Existing players have been aggressively competing in the past few months, in terms of both pricing and value added services, which has negatively impacted operating margins. As a move to counter declining domestic market share and stiff local regulatory requirements, few telecom operators have sprung into fostering a regional presence in the likes of Zain. QTel & STC which are the latest entrants into regional consolidation have increased their market capitalizations, subscription base and revenues by acquiring key stakes in neighboring telecom operators. Although 2 key M&A deals associated with regional heavyweight Zain did not materialize in 2011, further aggressive consolidations are expected in the near future.

The uncertain regulatory environment, intense competition and pricing pressures are expected to stem margins, and the trend of mergers and consolidations is likely to continue for positive, medium-term impact on profitability margins. Consumers however are seen to benefit from the increased competition, as this would ensure delivery of better services, enhanced features through value added services and eventually reduce subscription prices.

Kuwait, backed by its large oil reserves and oil-driven budget surpluses has long reflected favorable economic indicators. Kuwait's GDP is expected to be between 5.5-6.0% in 2012, with an expected growth of over 4.0% next year and a 10.0% forecasted growth in private sector activity. Population growth has been fairly moderate, at a 2.8% growth rate since the past 5 years. The country yet remains as the only GCC country without a telecommunications regulatory authority hence allowing operators to command higher Average Revenue per User (ARPU)'s compared to other operating countries. Economic factors yet make it the ideal market for telecom operators to exist, as the local population; both young and old, have a relatively higher purchasing power for new brands, features and technologies. By end of 1H2012, the Kuwaiti telecommunications cellular sector grew by 8.54% reaching 5.21 mn subscribers compared to 1H2011.

In regards to regulatory issues, Kuwait's MoC announced plans of introducing "per-second" billing in the mobile market segment in September 2010. Additionally, the plan to introduce Mobile Number Portability (MNP) across the country was legislatively passed in September 2012. MNP implementation once in effect is foreseen to make the mobile market between the 3 players more competitive, as consumers would now be able to freely switch between operators. However, operational delays have hindered the materialization of these plans, and there has been no progress on its actual implementation. On the other hand, operating profitability of Kuwaiti telecom operators has also been negatively impacted by additional fixed costs as witnessed in post 2011 margins. This was primarily due to new regulatory fees introduced by Kuwait's MoC whereby the telecom operators will be charged fixed fees for all issued lines, including pre-paid and post-paid lines, and both active and inactive registrations.

CSR Related Research:

- GCC Telecom Firms - Annual Reports FY2010-11 and Quarterly Financials 3Q2012
- Global and Regional Industry Reports
- Capital IQ, ITU and Zawya Research

Appendix

a) Key Financial Figures & Ratios of Major GCC Telecom Corporations

Revenue & Profitability Indicators										
As of 30th September 2012	Market Cap (as of 20th January 2013)	Total Revenues	Revenue Growth	EBITDA	EBITDA Margin	Net Profit	Net Margin	ROAA	ROAE	Dividend Payout
	(USD mn)	(USD mn)	(%)	(USD mn)	(%)	(USD mn)	(%)	(%)	(%)	(%)
BATELCO	1,542.72	603.59	(3.90)	164.63	20.46	212.24	21.44	10.02	13.47	32.68
EITC (DU)	4,392.97	2,019.94	25.17	692.00	25.69	298.82	14.50	11.91	23.17	48.10
Etisalat	19,736.29	6,661.35	0.98	2,428.00	27.34	1,589.67	20.16	8.80	16.68	29.99
Zain (KW)	12,105.55	3,468.41	(2.20)	2,105.00	45.52	1,022.12	21.11	8.83	15.05	91.34
Wataniya	4,189.83	1,989.70	34.70	1,047.00	39.46	1,299.34	13.56	6.91	12.54	24.79
VIVA	N/A	332.49	54.16	1.81	1.93	(51.19)	(15.40)	(12.72)	127.18	-
Zain (KSA)	2,376.03	1,248.14	12.89	240.14	14.43	(513.34)	(27.64)	(6.45)	(25.90)	-
STC	24,584.70	11,834.43	7.48	6,123.00	38.80	2,060.81	15.61	7.98	18.92	43.39
Etihad Etisalat Co. (Mobily)	14,885.48	4,498.74	25.22	2,151.00	35.86	1,355.48	25.75	16.52	32.06	11.99
OmanTel	2,907.57	890.63	8.64	547.30	46.09	289.90	25.78	17.72	25.30	25.17
Nawras	802.26	369.16	4.24	189.39	38.48	123.41	20.06	14.34	23.77	64.02
QTel	9,714.40	6,869.87	16.88	4,163.00	45.45	715.42	9.10	3.02	12.72	17.46
Vodafone Qatar	1,973.99	191.08	30.68	56.25	14.72	(133.46)	(36.82)	(6.03)	(7.43)	-
GCC Industry Average	**8,267.65**	**3,152.12**	**16.53**	**1,531.42**	**30.33**	**636.09**	**8.25**	**6.22**	**22.12**	**35.36**

b) Key Financial Figures & Ratios of Major GCC Telecom Corporations

Financial Strength Indicators							
As of 30th September 2012	Short-Term Debt	Short-Term Debt/ Total Debt	Total Debt	Current Ratio	Net Debt/ EBITDA	Total Debt/ Total Assets	Total Debt/ Total Equity
	(USD mn)	%	(USD mn)	%	%	%	%
BATELCO	30.99	40.49	76.53	1.38	(1.04)	4.22	5.79
EITC (DU)	85.82	17.15	500.38	0.96	(6.51)	14.55	28.14
Etisalat	217.82	14.66	1,485.73	0.92	(0.58)	7.40	13.54
Zain (KW)	950.31	41.11	2,311.60	0.88	0.51	21.64	38.82
Wataniya	91.08	25.97	350.70	0.71	(0.12)	6.84	12.31
VIVA	53.79	44.74	120.22	0.26	44.83	26.84	(182.58)
Zain (KSA)	3,329.85	85.11	3,912.59	0.28	0.16	51.83	164.86
STC	1,396.22	16.67	8,376.80	1.15	0.84	26.26	60.73
Etihad Etisalat Co. (Mobily)	187.36	8.41	2,228.11	0.97	0.76	22.69	42.35
OmanTel	34.01	28.00	121.47	1.26	(0.35)	6.80	9.80
Nawras	17.35	22.83	76.01	0.63	0.18	11.14	17.24
QTel	1,870.76	20.41	9,165.02	1.15	1.12	35.59	125.50
Vodafone Qatar	-	-	288.00	0.44	4.76	13.11	16.55
GCC Industry Average	**635.80**	**28.12**	**2,231.78**	**0.84**	**3.43**	**19.15**	**27.16**

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