

EQUITY REPORT

Palestine  
Telecommunications  
(PALTEL.PS)

### Economic & Sector Overview

- Despite the ongoing political instability in the Palestinian territories, the "transport, storage and communications", trade, real estate, and "hotels and restaurants" sectors managed to achieve higher-than-expected growth in the first nine months of 2006.
- Preliminary figures unveiled that real GDP growth in the Gaza Strip & remaining West Bank retracted by 3.6% during the first three quarters of 2006 against the same period in 2005 as a result of the western aid freeze. This compares with an expansion of 4.9% and a real per capita growth of 1.8% (to USD1,268) in 2005.
- Despite the economic retraction - in the first nine months of 2006, the "transport, storage, and communications" sector expanded by 2.8%.
- The sector's contribution to GDP rose to 11.3% in the first nine months of 2006 from 10.6% in the corresponding period in 2005.

Macro-Economic Indicators in Gaza Strip & Remaining West Bank*						In USD million	
	2001	2002	2003	2004	2005	2005 (3Qtrrs)	2006 (3Qtrrs)
Real GDP	3,917.8	3,556.4	3,995.0	4,247.7	4,456.4	3,270.10	3,152.70
Real GDP Growth	-8.1	-9.2	12.3	6.3	4.9	-	-3.6
Real Per Capita GDP in USD	1,301.0	1,191.3	1,184.8	1,246.2	1,268.0	934.7	870.0
Transport, Storage, & Communications (Value-Added)	317.3	349.6	392	444.4	461.5	346.4	356.1
Sector's Contribution to GDP	8.1	9.8	9.8	10.5	10.4	10.6	11.3
Sector's Growth	8.5	10.2	12.1	13.4	3.8	-	2.8

Source: Palestinian Central Bureau of Statistics, (\*) Remaining West Bank: Includes all the West Bank except for those parts of Jerusalem which were annexed after the 1967 occupation by Israel.

### Company Background

- PALTEL operates under the Telecommunications Law No. (3) of 1996 decreed by the Palestinian National Authority (PNA).
- PALTEL operates and provides various types of telecommunications services: fixed-lines, mobile, internet, and data communications services.
- PALTEL was established as a public shareholding company in 1995 with a paid-up capital of JOD45 million as the sole national telecommunications provider in Palestine. It is the largest company in terms of contribution to the national economy, aiming to develop an independent telecommunications infrastructure for the West Bank and the Gaza Strip.
- In 1999, the company raised its capital to JOD67.5 million. Another increase took place in December, 2005 by distributing 50% in stock dividends, bringing the capital up to JOD101.25 million. PALTEL had intended to increase its capital again to JOD170 million in 2006 through a 20% stock dividend and a 40% rights offering at a par value of JOD 1/share and an issuance premium of JOD3/share. The plan also envisioned allocating eight million shares as treasury stocks. However, deterred by the continued political unrest, the company unveiled on Sep 30<sup>th</sup>, 2006 a paid-up capital of JOD131.6 million. The company had on Dec. 31<sup>st</sup>, 2005 a total of 7,500 shareholders.
- PALTEL was granted a 20-year license by the PNA to develop and provide telecommunications services in the West Bank and the Gaza Strip. The agreement also granted it a 10-year exclusivity right to provide fixed-lines services in the PNA-governed areas as of November 1996. Under the terms of the agreement, PALTEL also enjoyed a five-year exclusive right to provide mobile services beginning 2000 or upon acquiring 120,000 subscribers, whichever comes first. In line with the arrangement, PALTEL has to pay 7% of its annual operating revenues in licensing fees. As both exclusivities ended in 2006, a Kuwaiti company won the bid for a second mobile operator license in a deal worth USD350 million. The new company is expected to utilize

PALTEL's infrastructure against a certain fee. Worth mentioning is that PALTEL faces many hurdles in obtaining the frequencies from the Israelis and getting the equipment released from Israeli ports.

- In 2000, PALTEL established JAWWAL, the Palestinian Cellular Telecommunications Co. (PALCELL), with an authorized capital of JOD10 million. In 2003, PALTEL, which initially held a 65% stake in JAWWAL, bought the remaining shares that were owned by the Palestinian Investment Fund. JAWWAL covers 97% of the PNA-ruled areas with a market share of 52% at the end of 2005. Currently JAWWAL's capital amounts to JOD 25 million.
- In 2005, PALTEL continued to enrich the package of services it provides; setting up HADARA, an internet service provider, and Palmedia Co., a multi-media company that is 75% owned by PALTEL and 25% by JAWWAL, and which operates in the West Bank and the Gaza Strip. HADARA clinched a share of around 55% of the internet market in the Palestinian territories.

### Current Situation

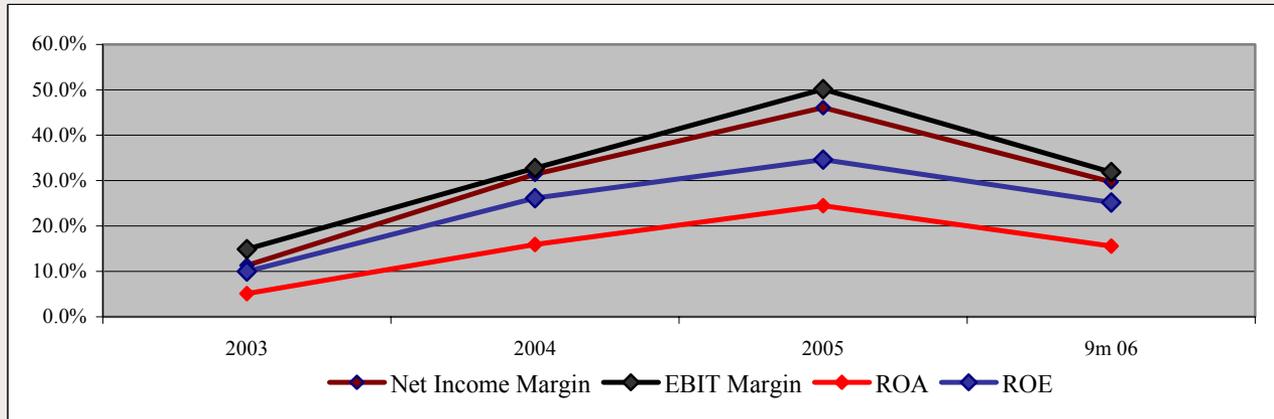
- PALTEL's appetite for expansion received a boost with the establishment of a holding company in the UAE under the name of VTEL Holdings, which will serve as PALTEL's regional investment arm in the ICT field in MENA. VTEL's authorized capital stands at USD1 billion, 25% of which is held by PALTEL and the remainder held by major investors from Saudi Arabia, UAE, the US, and Jordan. VTEL was awarded the second national telecommunications operator license in Kenya to launch mobile, fixed-telephony, and internet services. The company announced that it is planning to gain a foothold in two or three other African countries.
- PALTEL is also pursuing business interests in the UAE, Afghanistan, Saudi Arabia, Iraq, Jordan, Egypt, Morocco, and Kazakhstan. JAWWAL is expanding its services abroad with the launch of new projects and plans to operate and provide mobile phone services in Yemen and Afghanistan. It has also obtained a license to provide fixed-lines, mobile, and internet services in Kazakhstan. Furthermore, it has set up a new VOIP company in the UAE.
- PALTEL completed a dual listing on the Abu Dhabi Stock Market (ADSM) on Dec. 26<sup>th</sup>, 2005 at an opening share price of AED80. A total of 30% of the outstanding shares are traded on the ADSM, making it the first Palestinian company to be listed abroad.
- JAWWAL faces stiff competition from four Israeli operators. The company announced that its mobile subscribers reached 600,000, adding that it is targeting one million subscribers by January 2007.

### Financial Highlights

- Despite the difficult political situation, PALTEL's top line grew by 25.4% to JOD152.2 million in 2005 against 2004, while Earnings before Interest & Tax (EBIT) came to JOD76.351 million from JOD39.770 million in 2004. Thus, net income surged by 84% to JOD70 million year-on-year. In 2005, PALTEL reached a settlement with two Israeli telecommunications companies on the interconnection fees and earmarked a provision of JOD7.9 million for the arrangement. The deal contributed to boosting the company's bottom line.
- Income from investments in 2005 amounted to JOD14.679 and contributed considerably to the bottom line, making 20% of earnings before tax.
- Over the last period, PALTEL witnessed a high growth in the number of subscribers, which also improved the company's revenues, as illustrated in the table below:

	2005	9 M05	9 M06
Fixed-Lines	349,524	352,000	332,000
<b>Growth</b>			<b>-5.7%</b>
JAWWAL	570,000	570,000	761,000
<b>Growth</b>			<b>33.5%</b>
ADSL	0	0	22,000

- For the period ended September 2006, PALTEL's top line jumped to JOD134.548 million, up 18.4% over the same period in 2005, while EBIT amounted to JOD42.879 million versus JOD58.863 in the same period in 2005. Net income diminished by 26% to JOD40 million for the same period mainly due to the JOD9 million in unrealized losses from securities.
- PALTEL's EBIT margin climbed from 32.8% in 2004 to 50.2% in 2005 but it dropped to 31.9% at the end of the first nine months of 2006 against 51.8% in the corresponding period in 2005 due to the JOD8.9 million in securities loss.



- The company's total assets in 2005 swelled by 19.5% to JOD286 million, mainly due to the increase in its investment securities portfolio from JOD2.9 million in 2004 to JOD22.65 million in 2005.
- At the end of September 2006, total assets jumped by 25% against the same period a year earlier due to the company's new investment in VTEL Holdings.
- The company's management succeeded in reducing the financial risk over the past three years. The debt ratio decreased gradually from 48.8% in 2003 to 29.3% at the end of 2005. The ratio soared again to 38% at the end of September 2006 given that the company obtained a USD100 million short-term loan in July 2006 to be fully paid by December 2007.
- The company's ability to meet its short-term obligations using its short-term assets improved as indicated by a current ratio of 1.58x in 2005. The ratio came down to 0.96x at the end of September 2006 due to the sharp increase in current liabilities following its investment in VTEL and to the USD100-million loan which is classified as a short-term liability.
- Examining PALTEL's regional peers, particularly Jordan Telecom, Qatar Telecom, Oman Telecom, Batelco (Bahrain), we believe that the company's multiples are below average.

	Price *	Trailing P/Rev	Forward P/Rev	Trailing P/E	Forward P/E	P/BV 06
Jordan Telecom	4.0	2.85	2.80	11.72	10.96	2.61
Saudi Telecom	87.8	5.16	5.15	13.21	13.15	5.68
Qatar Telecom	203.0	6.71	63.53	18.41	249.81	4.46
BATELCO	0.92	0.50	0.49	1.17	1.15	0.32
OMANTEL	1.255	3.25	2.95	12.19	11.58	3.59
<b>Average</b>		<b>3.69</b>	<b>14.98</b>	<b>11.34</b>	<b>57.33</b>	<b>3.22</b>
<b>PALTEL</b>	<b>4.9</b>	<b>4.27</b>	<b>4.29</b>	<b>7.72</b>	<b>9.00</b>	<b>2.39</b>

Source: Jordinvest

\* prices of December 5<sup>th</sup> 2006 and at each country's currency

## Outlook

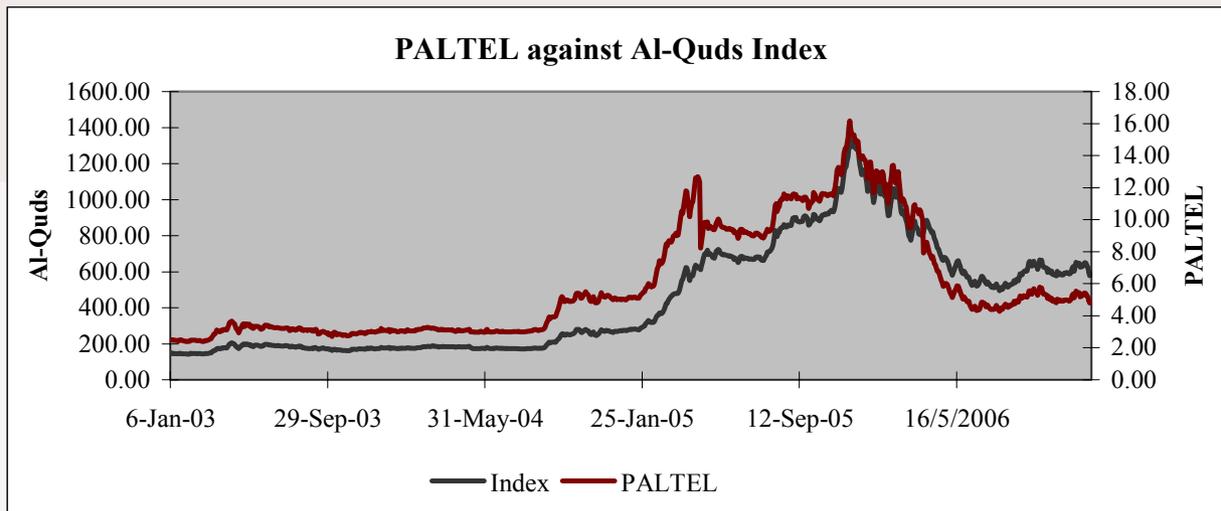
- Jordinvest expects PALTEL's 2006 operating revenues (top line) to reach at JOD174.9 million, while operating income and net income are projected at JOD73.463 million and JOD68.215 million respectively. Therefore, the company would maintain an operating profit margin and a net income margin of 42% and 39% successively.
- PALTEL will embark on new projects and programs to develop a full range of services. The company also plans to enhance the quality of services provided, while perusing efforts to attract additional customers and penetrate new markets.
- PALTEL's outlook heavily depends on two main factors: the competition in the fixed-lines field and the political situation, especially in light of the grave damages inflicted by the Israeli military on the company's infrastructure.
- The table below presents PALTEL's main financial figures for the past few years. In addition to our projections for the coming three years, taken into consideration the historical performance and the country's political situation.

Main Financial Figures and Ratios	2003	2004	2005	9M 06	2006	2007	2008
<i>All figures in JOD000</i>							
Cash at Banks	18,049	28,772	28,927	12,269	40,566	47,868	57,442
Current Assets	45,545	59,248	93,998	104,419	106,947	126,198	151,438
Total Assets	224,375	239,471	286,079	358,043	368,784	435,166	522,199
Current Liabilities	76,631	60,677	59,384	108,829	88,508	104,440	125,328
Total Liabilities	109,422	93,769	83,787	135,966	118,011	139,253	167,104
Shareholders' Equity	114,953	145,702	202,292	222,077	250,773	295,913	355,095
Outstanding Shares	66,584	67,464	101,250	131,625	131,625	131,625	131,625
Operating Revenues	101,699	121,376	152,196	134,548	174,912	213,393	260,339
Cost of Services	25,623	26,736	28,116	28,560	36,732	44,813	54,671
Investments Revenues	0	-0.208	14,688	-8,999	0	0	0
Operating Income	15,147	39,768	76,352	42,879	73,463	89,625	109,343
Net Income	11,499	38,083	70,064	40,035	68,216	83,223	101,532
ROA	5.1%	15.9%	24.5%	15.6%	18.5%	19.1%	19.4%
ROE	10.0%	26.1%	34.6%	25.2%	27.2%	28.1%	28.6%
EBIT Margin	14.9%	32.8%	50.2%	31.9%	42.0%	42.0%	42.0%
Net Profit Margin	11.3%	31.4%	46.0%	29.8%	39.0%	39.0%	39.0%
Current Ratio (x)	0.59	0.98	1.58	0.96	1.21	1.21	1.21
Debt Ratio	48.8%	39.2%	29.3%	37.8%	32%	32%	32%
Price End of Year (JD)	3.15	5.15	13.60	4.94*	N.A	N.A	N.A
P/E (x)	18.24	9.12	19.65	11.63*	9.53	7.81	6.40
P/BV (x)	1.82	2.38	6.81	2.936*	2.59	2.20	1.83
P/S (x)	2.06	2.86	9.05	3.76*	3.72	3.05	2.50
Div Yield	0.04	0.04	0.01	0.0	N.A	N.A	N.A
Market Capitalization	209,740	347,440	1,377,000	650,227*	N.A	N.A	N.A

Source: PALTEL's Annual Report, Jordinvest

\* Ratios were calculated using the price of December 5<sup>th</sup> and data for first nine months.

Stock's Key Data (From Jan 2003 to Nov 2006)	
Period Open (JOD)	2.5
Period Close (JOD)	5.24
Period High (JOD)	16.16
Period Low (JOD)	2.39
Period Percentage Change (%)	109.6
Period Change (JOD)	2.74
Total Volume	127,645,647
Total Value (JOD)	1,029,394,523
Average Close (JOD)	6.02
Average Volume	139,351
Average Value (JOD)	1,123,793
Source: Jordinvest	



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