

## National Mobile Telecommunications Co.

### CSR Assigns A<sub>(pi)</sub> Rating to National Mobile Telecommunications, Outlook Negative

Capital Standards Rating (CSR) assigned National Mobile Telecommunications Co. (“Wataniya”) a Long-term rating of A<sub>(pi)</sub> on the international scale and a rating of AA<sub>-kw(pi)</sub> on the national scale. The rating outlook is negative.

According to CSR, the rating of A<sub>(pi)</sub> on the international scale reflects the company’s creditworthiness relative to global players, while the rating of AA<sub>-kw(pi)</sub> reflects the standing of the company’s credit worthiness relative to its domestic peers. The <sub>(pi)</sub> modifier indicates that the rating is unsolicited, and is solely based on public information.

#### Rating Rationale

Wataniya’s rating reflects its well-established position in Kuwait (with a market share of 38% as of 30 September 2009), strong brand recognition in the region, and a strong financial profile. The rating is also supported by the strong track record of key management, and operational benefits derived from its strong dominant parent, Qatar Telecom (“Qtel”). Qtel’s strategic interest and commitment to Wataniya’s growth are also considered positively.

The rating is constrained due to a relatively weak regulatory & economic environment in Wataniya’s key markets and the intensifying competitive environment, especially in Kuwait and Tunisia. The rating is also constrained by Wataniya’s high dependence on the performance of its Kuwaiti operations, even though the company has its geographic footprint in 6 countries in the MENA region and Asia.

#### Qualitative Considerations

With a market share of 38% in Kuwait and 53% in Tunisia (as of 30th September 2009), Wataniya has a strong position in two of its 3 key markets. While the company has expanded its geographic footprint in 6 countries, Wataniya is mainly dependent on its operations from Kuwait, Tunisia and Algeria, with the revenue generation concentrated in Kuwait. Even though competition has intensified in both Kuwait and Tunisia, the company is likely to maintain its pre-eminent positions (although some erosion in the market share is expected). The regulatory and economic environment, especially in markets like Kuwait, Algeria and Palestine, continues to be a hindrance to Wataniya’s performance.

With a strong “likelihood of unexpected parent company support”, Wataniya is expected to derive synergetic values, and leverage the experience & expertise for future expansionary efforts. In addition, the management’s conservative strategy, which is reflected in the company’s moderate dividend policy and low levels of debt, provides Wataniya with a greater financial flexibility. These are strong support factors for Wataniya to combat the intensifying competition.

#### Quantitative Considerations

With an EBITDA margin of 40.0% (as of 2009), Wataniya’s profitability is relatively better when compared to peers. However, the EBITDA margins declined from a high of 42.3% in 2008, mainly driven by slowdown in the Kuwaiti operations. Wataniya’s profitability is expected to remain under pressure given the challenging operating environment.

Wataniya's Cash flow position remained strong and exceeded its operational & capex needs, which allows for meeting debt obligations and reinvestments in core business. Wataniya also has a good track record of maintaining sufficient cash balances, which provides a safety cushion to the company. In addition, the debt profile of the company reflects low leverage which significantly strengthens the key credit metrics. As of FY2009, FCF to adjusted debt was 24.4%, while adjusted debt to EBITDA was 0.9x reflecting Wataniya's strong financial profile.<sup>1</sup>

### Outlook

The negative outlook reflects our belief that Wataniya's profitability and credit metrics will remain constrained, even though they will continue to be in the range of investment grade telecom companies. The short to medium term performance of the company is likely to remain pressurized by the elevated competition in the industry. However, it is to be noted that the negative outlook also reflects lack of information on Wataniya's future strategy regarding its operations in Kuwait, future expansion plans and the management's outlook on the capital structure.

The public rating that is assigned by CSR to Wataniya was largely dependent on the quality and quantity of the public information available. The analysis can be further enhanced once substantial non-public information is available to CSR.

A detailed Credit Opinion Report, explaining the key rating considerations along with an in-depth financial analysis is available for CSR's subscribers. Kindly contact Capital Standards to know about this service. In addition, CSR's rating definitions, rating methodologies and relevant policies and procedures are available on the company website [www.capstandards.com](http://www.capstandards.com).

### Related Reports

- CSR's Credit Opinion Report on Wataniya, April 2010
- CSR's Kuwait Telecom Industry, March 2010
- CSR's Telecommunications Rating Methodology

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<sup>1</sup> Wataniya's total debt was adjusted by CSR for its operating leases

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