

Kuwait Telecommunications Co. (Viva)

Research Update

Sector – Telecom

Investment Thesis

Q3-17 revenue growth backed by higher ARPU and stable subscriber base:

Q3-17 revenues reached the highest level over the past seven quarters to KWD 71.2 Mn, a marginal improvement from a year-on-year quarter but a solid sequential increase of 7.5%. Consequently, Viva's revenue market share got a boost that increased from 31% in Q2-17 to 34% in Q3-17. The increase came also due to a relative decline in Zain's revenue share along with a decline in its subscriber base. We believe Viva's focus on rationalizing user base by adopting number recycling since last year (as the first company in Kuwait) and take the first hit on user base has started reflecting on its financials. According to our forecast, EBITDA margin would slightly decline in 2017e to 46% on lower revenue and marginal increase in costs, but is expected to regain historical average of 47% in the following years, despite an initial drop in revenue, backed by a relative decline in costs.

ARPU volatility to stabilize with a more realistic subscriber base:

Q3-17 earnings indicated one of the strongest surge in quarterly ARPU, breaching the KWD 10/subscriber mark for the first time since Q4-15 at KWD 10.8/subscriber (USD 35.7/subscriber). The increase came primarily on the back of higher revenues further supported by stable subscriber base. User base remained flat q-o-q at 2.2 million but declined from a year ago. We believe that the current level of subscriber base in the industry, at around 7 million with a population penetration rate of 180%-190%, is the standard going forward.

A play on managing costs going forward:

We believe that Viva's valuation would be driven by cost control and a focus on cash generation, as is the case with all the telcos in Kuwait all of which are aggressively implementing cost optimization measures. Viva's specific focus on a debt-free model is a step in the right direction supported by stable cash balance coupled with an expectation that capex intensity would decline in the near term.

Valuation – Price target of KWD 0.927 with an 'Outperform' Rating:

We have valued Viva Kuwait using Discounted Cash Flow (DCF) and relative valuation based on peer EV/EBITDA multiple. We have assigned 80% weight to the DCF-based valuation and 20% weight to the relative valuation in order to calculate our fair value estimate. Shares of Viva has remained volatile since the start of the year and has seen a sharp decline over the past two months. We believe that the recent decline reflects a broader decline in the telecom sector in the GCC that recorded a YTD-17 decline of 10.2% (S&P GCC Telecom Index).

	2015	2016	2017e	2018e	2019e	2020e	2021e
Subscribers (Mn)	2.5	2.4	2.2	2.2	2.3	2.4	2.5
Revenue (KWD Mn)	276.9	279.1	268.8	258.2	262.7	270.1	278.4
EBITDA (KWD Mn)	131.1	132.0	123.6	121.4	123.5	126.9	130.9
Net Profit (KWD Mn)	43.0	39.8	34.5	32.0	33.5	32.7	32.2
EBITDA Margin (%)	47.3%	47.3%	46.0%	47.0%	47.0%	47.0%	47.0%
P/E (x)	11.5	11.7	10.2	11.0	10.5	10.8	10.9
Div. Yield (%)	0.0%	0.0%	1.2%	1.5%	1.8%	2.4%	2.8%
FCF Yield(%)	7.6%	4.8%	6.6%	6.7%	7.9%	6.9%	10.3%

Sources: KAMCO Research, Company Financials

Kuwait Telecommunications Co. (Viva Kuwait) - Research Update

Outperform

CMP 22-Nov-2017 KWD 0.705

Target Price KWD 0.927

Upside/Downside +31.6%



Price Perf.	1M	3M	12M
Absolute	-10.9%	-12.1%	-19.0%
Relative	-2.4%	-4.1%	-25.5%

Stock Data

Bloomberg Ticker	VIVA KK
Reuters Ticker	VIVA.KW
Last Price (KWD)	0.705
MCap (KWD Mn)	352.1
MCap (USD Mn)	1,165
EV (KWD Mn)	327.7
Stock Performance - YTD (%)	-24.2%
PE - 2017e (x)	10.2
EV/EBITDA - 2017e (x)	2.7
Dividend yield - 2017e (%)	1.2%
52-Week Range (KWD)	0.940 / 0.671
52-Week Avg. Trades (KWD Mn)	0.054

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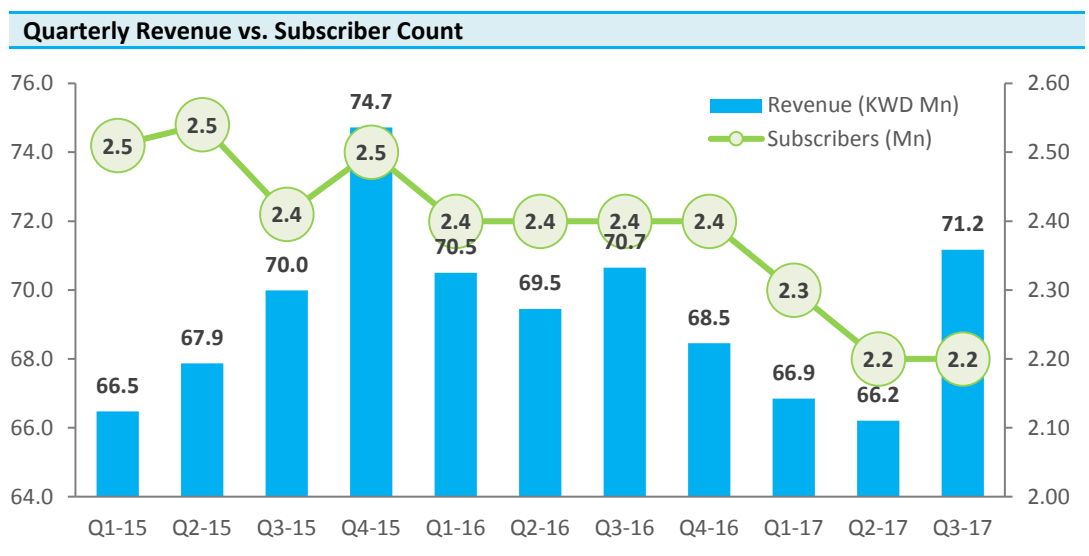
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Q3-17 Highlights

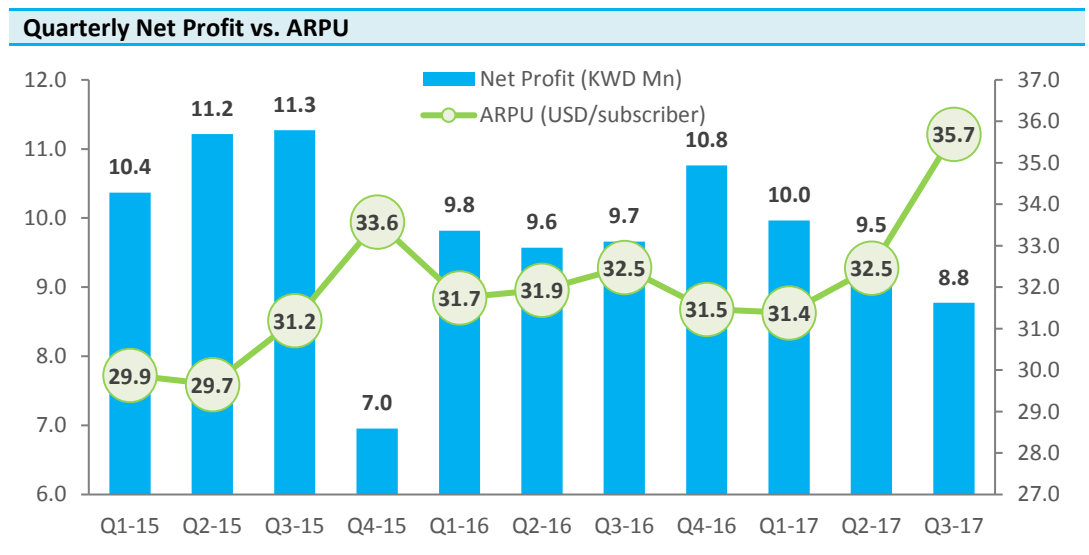
Viva's first mover advantage in rationalizing user base has started reflecting in topline. Key takeaways from the results announcement includes:

- Q3-17 revenues reached the highest level over the past seven quarters to KWD 71.2 Mn, a marginal improvement from a year-on-year quarter but a solid sequential increase of 7.5%. Viva was the first company in Kuwait to undertake user base rationalization by adopting number recycling since 2016 and took the first hit on user base which has started reflecting on its key metrics. The company's user base, along with the other two players Zain and Ooredoo, is much more realistic, can be built upon for future planning and saves per subscriber number cost paid to the regulator each year of around KWD 6/line.
- Viva's revenue market share got a boost that increased from 31% in Q2-17 to 34% in Q3-17. The increase came primarily due to a relative decline in Zain's user base.



Source: KAMCO Research, Company Financials

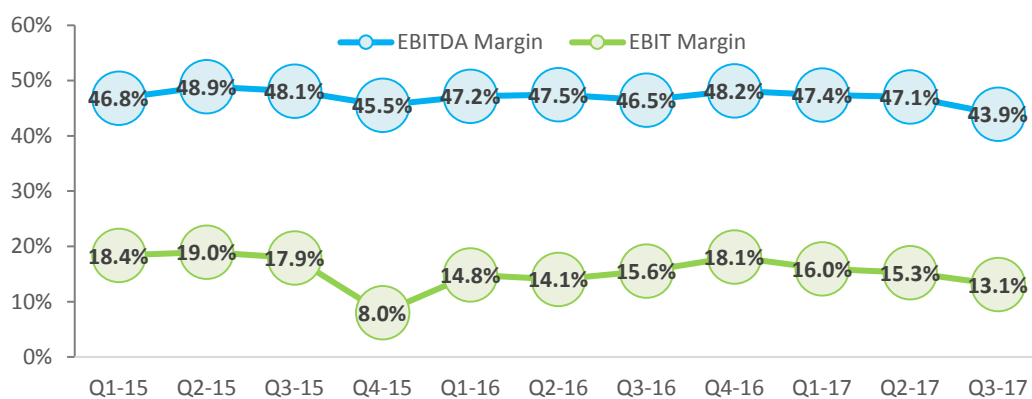
- User base remained flat q-o-q at 2.2 million but declined over a year ago. We believe that the current level of subscriber base in the industry, at around 7 million with a population penetration rate of 188%, is the standard going forward.



Source: KAMCO Research, Company Financials

- Q3-17 earnings also indicated a steep surge in quarterly ARPU, breaching the KWD 10/subscriber mark for the first time since Q4-15 at KWD 10.8/subscriber (USD 35.7/subscriber). The increase came primarily on the back of a strong improvement in revenues further supported by stable subscriber base.
- Despite strengthening topline, net profit declined to KWD 8.8 Mn during Q3-17 on the back of higher operating expenses that increased by more than KWD 2 Mn as compared to Q3-16. We believe that the increase was primarily due to higher selling and promotional expenses due to excess competition.
- Viva's strategy of lower data pricing to garner subscribers since its inception has clearly proved ineffective in the recent quarters as competitors have implemented a similar strategy. Product differentiation in the market is minimal with homogenous offerings from all the three telecom players in Kuwait. The prepaid/postpaid split amongst the players has also started disappearing and the premium once offered by attracting postpaid subscribers is seen declining. The market continues to move towards a data-focused approach with unlimited voice calls being offered for almost all of the mobile subscription packages.
- The decline in finance cost as Viva moves towards a debt-free model helped the company save on finance cost adding almost 3% to the bottom-line.

EBITDA Margin vs. EBIT Margin



Source: KAMCO Research, Company Financials

- Higher operating expenses during the quarter resulted in a sequential decline of 310 bps in EBITDA margin that reached 43.9%, the lowest quarterly level since 2015.

Outlook and guidance

Revenue and EBITDA: Based on our discussion with the company, revenue would most likely plateau and EBITDA is expected to remain flat. The company aims to focus on cost optimization going forward in order to reduce costs and improve profitability and margins.

Competition: The cut throat competition in the telecom space is expected to continue in the near term. Nevertheless, the telecom penetration rate is expected to be around 180%-190% going forward for the sector.

Subscriber count: The number recycling initiated last year is almost complete and the company expects subscriber count to have bottomed.

Capex: Long term capital intensity is expected to be in the range of 10%-14%.

Implementation of IFRS15: Telecom operators globally would be implementing IFRS15 standard starting from 2018. This new standard is expected to affect some of the key telecom metrics

including pricing, revenue recognition, marketing and handset subsidies. Perhaps the latter would be the most impacted as the new standard separates handset revenue and service cost and would require changes to accounting methods.

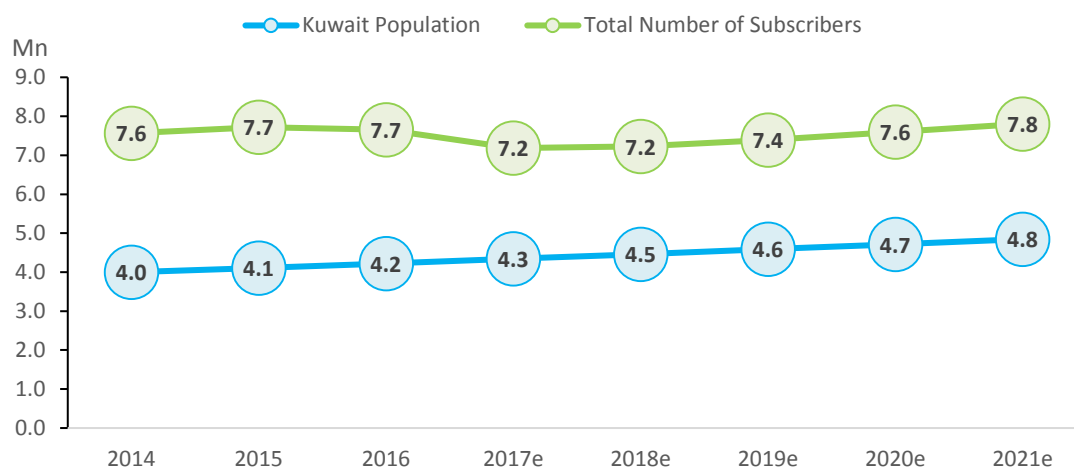
Industry Overview

The telecom industry in Kuwait has seen a structural change over the past one year that resulted in a decline in overall penetration rates. Key observations are mentioned below.

A more realistic telecom penetration rate

Although at almost 188%, Kuwait’s telecom penetration rate continues to remain one of the highest in the world, despite declining from almost 220% in 2014. This decline comes along with an absolute population growth of almost 0.22 million. The numbers for telecom penetration rates in Kuwait had been inflated due to multiple devices per user as the industry gradually shifted from a voice model to a data centric revenue model. However, as bundled offers are increasingly being offered by operators, the overall subscriber count has declined significantly.

Market expansion to stabilize going forward



Source: KAMCO Research, Company Financials

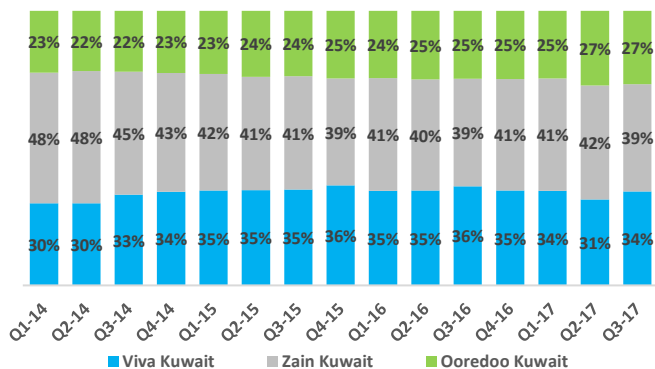
Subscriber growth has bottomed

In our last report, we expected moderating subscriber growth. We believe that industry subscriber growth has bottomed and going forward it is expected to grow in line with the growth in population. Our projections factor in a market penetration rate of 188% for 2017% that would gradually decline to around 183% over the forecast period. The number of products at various price points is expected to have reduced significantly in Kuwait and with homogenous offering the phenomenon of multiple service providers is gradually converging to one provider for the full family as part of a shared plan.

Competition stabilizing with an almost equal subscriber market share...

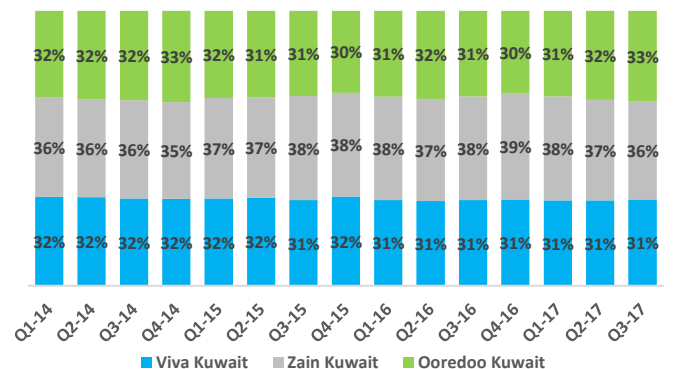
With homogenous product offerings, subscriber market share for Kuwaiti telecom players continues to converge to an almost equal share. The premium of owning postpaid subscriber base, especially in the case of Zain, is gradually waning although the company continues to account for a revenue market share of 39% (300 bps decline q-o-q) with a subscriber market share of 36% as of Q3-17.

Revenue Market Share



Sources: KAMCO Research and Respective Company Financials

Subscriber Market Share



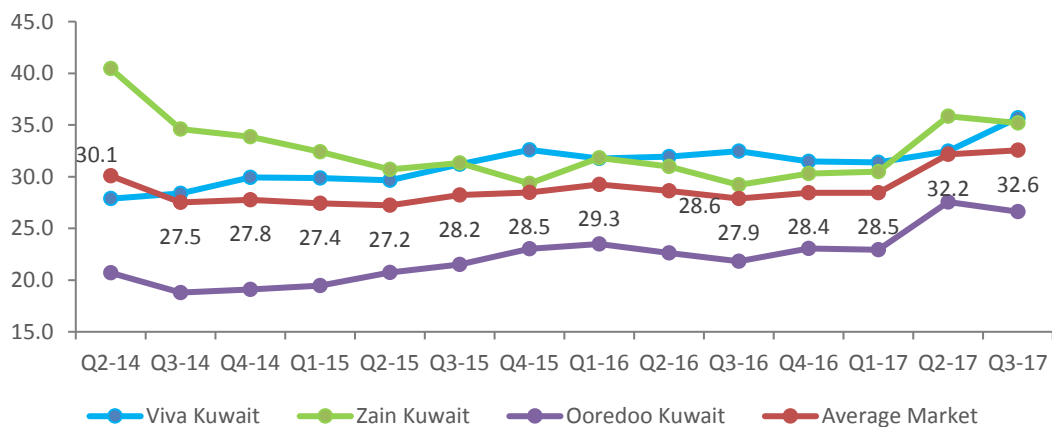
Sources: KAMCO Research and Respective Company Financials

In addition, the aggressiveness of marketing campaigns from the three players has reached almost equal levels with Zain now in foray to protect its turf by offering competitive packages.

Declining penetration rates pushes ARPU up...

ARPU's are up across the board due to the subscriber rationalization by all the players. Our discussion with Viva showed that they are almost done with the process that was initiated last year and has helped them allocate costs more effectively to productive campaigns. For the rest of the players, we believe, the numbers would remain soft in the near term and stabilize at those levels from next year.

Quarterly ARPU



Source: KAMCO Research, Company Financials

As a result of the subscriber base rationalization, Viva's ARPU for Q3-17 stood at USD 35.7/subscriber, the highest in the market, after seeing a steep q-o-q increase of almost 10%. Zain's USD 35.2/subscriber came in close after declining 60 cents as compared to the previous quarter.

Capex intensity should decline in future

Our discussion with Viva shows a gradual shift in the industry with shortening capex cycle as compared to traditional levels as well as smaller investments. The next level of technology in the industry would be more of an upgrade from the previous one and the increase in capex is expected to be minimal as compared to the last cycle.

Valuation & Recommendation

“Outperform” rating with a Price Target of KWD 0.927 representing an upside of 31.6%

We have valued Viva Kuwait using Discounted Cash Flow (DCF) and relative valuation based on peer EV/EBITDA multiple. We have assigned 80% weight to the DCF-based valuation and 20% weight to the relative valuation in order to calculate our fair value estimate. Shares of Viva has remained volatile since the start of the year ranging between KWD 0.940 and KWD 0.680 as a result of a broader volatility in the market. The decline has been particularly steep over the past two months where the share price has declined from KWD 0.830 to reach KWD 0.680, which we believe reflects a broader decline in telecom sector in the GCC that recorded a YTD-17 decline of 10.2% (S&P GCC Telecom Index).

We believe that with cash generation expected to strengthen in future, coupled with a debt-free model, equity investors are set to benefit from a stable earnings profile and competitive market share. In terms of dividends, we expect dividend payout to gradually increase from the current 10% to around 30% by 2021.

Weighted Average Fair Value			
Valuation Method	Value (KWD)	Weight (%)	Weighted Value (KWD)
Discounted Cash Flow (DCF)	0.795	80%	0.636
EV/EBITDA	1.457	20%	0.291
Weighted Average Fair Value			0.927
Current Market Price			0.705
Upside / Downside			31.6%

Sources: KAMCO Research and Bloomberg

DCF Model

Our DCF method values the stock at KWD 0.795 per share. The valuation methodology is based on explicit forecast of free cash flows for the next five years (2017e-2021e) and terminal value thereafter. We have assumed terminal growth rate of 2%, which we believe adequately represents a sustainable long term growth rate for the company.

DCF Valuation		
	Fair Value of Equity (KWD Mn)	Fair Value per Share (KWD)
Present Value of FCF (2017e - 2021e)	107.037	0.214
Present Value of Terminal Value	269.113	0.539
Present Value of Cash Flows	376.150	0.753
Investments (Q3-17)	0.000	0.000
Cash (Q3-17)	53.802	0.108
Debt & Indemnity (Q3-17)	-32.969	-0.066
Equity Fair Value	396.983	0.795

Sources: KAMCO Research and Viva Financials

We have highlighted five primary drivers for our DCF valuation:

Subscriber Growth: After having peaked in the last year, subscriber growth rate has declined to 2.2 million on the back of a strategy to reduce costs related to non-active subscribers. We believe that the telecom penetration rate of around 188% would gradually reduce to around 183% by next year and then stabilize at those levels as seen in other mature telecom markets across global markets.

DCF Valuation – Primary Drivers								
	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Subscribers	2,400,000	2,500,000	2,400,000	2,226,855	2,240,212	2,327,382	2,392,314	2,497,795
Growth	11.6%	4.2%	-4.0%	-7.2%	0.6%	3.9%	2.8%	4.4%
ARPU	30.7	31.2	31.4	32.0	31.9	31.7	31.6	31.4
Growth	8.5%	1.8%	0.6%	2.0%	-0.5%	-0.5%	-0.5%	-0.5%
Revenue	238,974,000	276,888,000	279,059,000	268,773,261	258,193,734	262,684,100	270,074,378	278,426,737
Growth	31.0%	15.9%	0.8%	-3.7%	-3.9%	1.7%	2.8%	3.1%
Capex	68,090,000	108,973,000	98,162,000	86,007,444	86,494,901	87,999,174	90,474,917	93,272,957
Debt	85,524,000	72,371,000	47,133,000	19,323,000	4,996,000	4,996,000	-	-

Sources: KAMCO Research and Viva Financials

ARPU: The growth in Viva's ARPU over the past two quarters came as a result of the aforementioned decline in subscriber base. We believe that the ARPU would gradually decline over the next four years as the telecom market stabilizes with minimal product differentiation. We have forecasted an average decline in ARPU of 0.5% for the next four years.

Revenue: Revenue is expected to decline marginally over 2017e and 2018e and then grow at a marginal rate of 2.5% for the next three years. This growth would be derived from the increase in subscriber base albeit marginally.

Capex: We have considered a fixed capex intensity of 9.5% over the forecast period based on most recent trends.

Debt/dividends: The company is expected to have significant cash balance by the end of the forecast period. Consequently, we expect the company to be debt free by mid-2018e as well as use the excess cash to gradually increase dividend payments to investors.

Sensitivity Analysis

The sensitivity analysis for the change in fair value share price to the changes in WACC and the terminal growth rate is mentioned in the below table:

Terminal Growth Rate	Cost of Equity				
	9.0%	10.0%	10.9%	12.0%	13.0%
1.50%	0.951	0.843	0.764	0.689	0.632
1.75%	0.977	0.862	0.779	0.700	0.641
2.00%	1.004	0.882	0.795	0.713	0.651
2.25%	1.033	0.904	0.812	0.726	0.662
2.50%	1.065	0.927	0.830	0.739	0.673

Relative Valuation

We have compared Viva with 13 other telecom companies in the GCC. For computing our fair value under the relative valuation method we have used the forward EV/EBITDA multiple. Applying forward EV/EBITDA multiple we have arrived at a fair value of KWD 1.457 per share thus implying a significant upside potential of 67%. We have calculated enterprise value for Viva based on average EV/EBITDA multiple of 5.7x.

Peer Comparison

	Country	M-Cap (USD Mn)	EV (USD Mn)	Revenue (USD Mn)	EBITDA (USD Mn)	EBITDA Margin	EBIT (USD Mn)	EBIT Margin	Net Profit (USD Mn)	Net Margin	PE	P/BV	Dividend (USD Mn)	Div. Yield	FCF (USD Mn)	FCF Yield	
GCC	STC	Saudi Arabia	37,276	34,104	13,564	6,482	47.5%	2,693	19.0%	2,578	19.0%	14.5	2.3	2,142	5.7%	1,780	4.8%
	Etisalat	UAE	40,138	44,321	13,921	5,744	41.2%	3,758	17.4%	2,418	17.4%	16.6	3.5	2,305	4.7%	-506	-1.3%
	Ooredoo	Qatar	6,949	14,623	8,939	3,628	40.4%	1,314	5.9%	524	5.9%	13.9	1.1	308	4.3%	1,247	17.3%
	Du	UAE	6,560	6,198	3,536	1,420	40.2%	1,015	12.8%	451	12.8%	14.4	3.2	421	6.5%	166	2.5%
	Zain	Kuwait	6,558	9,200	3,389	1,450	42.5%	790	15.0%	510	15.0%	11.7	1.4	449	7.8%	231	3.6%
	Mobily	Saudi Arabia	2,776	6,169	3,049	984	32.3%	30	-5.2%	-159	-5.2%	0.0	0.7	0	0.0%	93	3.3%
	Omantel	Oman	2,504	3,246	1,385	545	39.5%	245	16.7%	231	16.7%	10.9	1.7	176	7.4%	99	4.2%
	Ooredoo Kuwait	Kuwait	1,816	2,293	2,294	791	34.2%	308	7.1%	162	7.1%	11.1	0.9	139	7.7%	290	15.8%
	VOD Qatar	Qatar	1,354	1,518	548	147	26.5%	-63	-13.4%	-71	-13.4%	0.0	1.1	1	0.0%	0	0.0%
	Viva Kuwait	Kuwait	1,165	1,084	898	422	46.7%	140	14.3%	129	14.3%	9.0	2.3	0	1.4%	309	26.5%
	Zain KSA	Saudi Arabia	943	3,634	1,971	645	32.7%	220	-1.1%	-21	-1.1%	0.0	1.0	0	0.0%	-65	-6.9%
	Batelco	Bahrain	899	1,231	987	317	32.2%	143	8.2%	81	8.2%	11.2	0.7	146	12.4%	-35	-3.9%
	Ooredoo (Nawras)	Oman	896	926	708	278	39.2%	102	11.7%	83	11.7%	10.8	1.5	71	8.1%	2	0.2%
Zain Bahrain	Bahrain	94	100	187	61	32.9%	11	5.8%	11	5.8%	0.0	0.5	5	5.2%	47	50.4%	
GCC-Peers		109,928	128,646	55,377	22,912	41.4%	10,706	19.3%	6,925	12.5%	15.9	2.1	6,161	5.6%	3,658	3.3%	
Non-GCC	Vodacom	South Africa	17,667	18,908	5,993	2,321	38.3%	1,631	16.5%	990	16.5%	16.6	9.0	869	5.6%	-71	-0.4%
	MTN	South Africa	16,297	20,572	9,946	3,751	36.9%	1,882	6.1%	608	6.1%	28.1	2.2	0	5.6%	-69	-0.4%
	Maroc Telecom	Morocco	13,153	15,294	3,517	1,722	47.8%	1,023	15.7%	551	15.7%	22.9	9.7	586	4.5%	-20	-0.2%
	Safaricom	Kenya	9,668	9,267	2,184	1,039	47.5%	735	22.5%	492	22.5%	19.9	10.4	560	4.0%	796	8.4%
	Econet Wireless	Zimbabwe	2,970	2,860	622	217	34.9%	89	5.9%	37	5.9%	108.1	4.8	11	0.5%	120	4.0%
	Telkom SA	South Africa	1,733	1,939	3,029	794	26.0%	383	9.3%	269	9.3%	6.5	0.9	0	8.7%	65	3.8%
	Telecom Egypt	Egypt	1,311	1,584	989	237	26.1%	143	15.1%	173	15.1%	9.8	0.8	24	7.4%	-671	-51.2%
Non-GCC Peers		62,800	70,424	26,281	10,081	38.4%	5,887	22.4%	3,121	11.9%	20.1	3.9	2,049	3.3%	150	0.2%	
Total MENA		172,728	199,070	81,657	32,993	40.4%	16,593	20.3%	10,046	12.3%	36.0	2.5	8,210	4.8%	3,808	2.2%	

Company	Total Asset (USD Mn)	Total Debt (USD Mn)	Net Debt (USD Mn)	Total Capex (USD Mn)	Capex Intensity	Equity	Debt/ Equity	Asset Turnover	Fwd EV/ EBITDA	Fwd P/E	Div Yield 2018e	
STC	28,000	1,344	-3,424	2,502	18.4%	16,445	0.1	0.5	6.3	13.7	5.8%	
Etisalat	33,690	6,877	537	2,902	20.8%	11,535	0.6	0.4	6.5	15.6	5.2%	
Ooredoo	24,303	11,013	6,190	1,424	15.9%	6,251	1.8	0.4	4.1	9.9	5.1%	
Du	4,617	986	-362	528	14.9%	2,070	0.5	0.7	4.7	13.6	6.5%	
Zain	10,344	3,070	2,126	483	14.3%	4,815	0.6	0.3	5.9	12.1	8.0%	
Mobily	10,725	3,911	3,393	701	23.0%	3,849	1.0	0.3	6.8	N/A	0.7%	
Omantel	2,958	914	745	390	28.2%	1,503	0.6	0.5	N/A	10.3	9.0%	
Ooredoo Kuwait	4,495	544	77	295	12.8%	2,024	0.3	0.5	3.2	10.0	8.7%	
VOD Qatar	1,695	223	172	68	12.5%	1,236	0.2	0.3	9.2	N/A	3.2%	
Viva Kuwait	973	98	-81	99	11.0%	517	0.2	1.0	2.6	7.8	5.1%	
Zain KSA	7,246	3,197	2,691	469	23.8%	963	3.3	0.3	7.8	19.3	0.0%	
Batelco	2,535	633	232	167	16.9%	1,286	0.5	0.4	N/A	N/A	0.0%	
Ooredoo (Nawras)	1,000	78	29	185	26.2%	602	0.1	0.7	3.3	N/A	7.2%	
Zain Bahrain	277	13	6	9	4.7%	176	0.1	0.6	N/A	N/A	0.0%	
GCC-Peers	132,858	32,901	12,331	10,222	18.5%	53,273	0.6	0.4	5.7	13.6	5.6%	
Non-GCC	Vodacom	6,046	2,338	1,417	871	14.5%	1,793	1.3	1.1	7.8	14.4	6.3%
	MTN	19,619	6,503	4,713	2,563	25.8%	7,730	0.8	0.5	6.1	18.4	4.7%
	Maroc Telecom	6,433	2,003	1,744	731	20.8%	1,329	1.5	0.6	8.1	21.8	4.7%
	Safaricom	1,805	63	-209	0	0.0%	920	0.1	1.3	8.7	17.1	5.1%
	Econet Wireless	1,225	128	-113	33	5.3%	694	0.2	0.5	7.6	68.0	0.5%
	Telkom SA	3,580	508	210	632	20.9%	2,054	0.2	0.9	3.1	8.3	7.7%
	Telecom Egypt	2,734	358	318	-55	-5.6%	1,757	0.2	0.4	4.0	8.8	6.4%
Non-GCC Peers	41,443	11,901	8,080	4,775	18.2%	16,277	0.7	0.7	7.0	17.1	5.1%	
Total MENA	174,301	44,803	20,411	14,998	18.4%	69,549	0.6	0.5	6.1	14.7	5.4%	

Sources: Bloomberg, KAMCO Research, Company Financials

Financial Indicators

Financial Indicators								
Balance Sheet (KWD '000)	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Assets								
Cash and Cash Equivalents	32,260	51,810	47,203	37,618	41,389	57,666	73,327	99,760
Trade & Other Receivables	21,168	22,912	25,661	24,434	23,472	23,880	24,552	25,312
Property & equipment	113,078	125,353	137,668	136,681	133,963	131,294	127,303	122,022
Intangible Assets	36,291	50,552	47,495	48,063	49,975	52,683	54,807	56,454
Other Assets	11,165	12,472	9,365	9,276	8,911	9,066	9,321	9,609
Total assets	213,962	263,099	267,392	256,072	257,709	274,589	289,311	313,157
Liabilities								
Islamic Financing Facilities	85,524	72,371	47,133	19,323	4,996	-	-	-
Trade and other payables	75,913	95,007	84,382	70,598	59,946	54,645	45,012	46,404
Other Liabilities	2,579	2,816	3,164	3,075	2,900	2,950	3,033	3,127
Total liabilities	164,016	170,194	134,679	92,997	67,842	57,595	48,046	49,531
Shareholders' Equity								
Share capital	49,940	49,940	49,940	49,940	49,940	49,940	49,940	49,940
Retained Earnings	5	33,922	65,350	88,464	108,542	128,630	146,045	161,654
Other Reserves	1	9,043	17,423	24,671	31,385	38,424	45,280	52,032
Total Shareholders Equity	49,946	92,905	132,713	163,075	189,868	216,994	241,265	263,625
Total liabilities and equity	213,962	263,099	267,392	256,072	257,709	274,589	289,311	313,157
Income Statement (KWD '000)								
Revenue	238,974	276,888	279,059	268,773	258,194	262,684	270,074	278,427
Operating Expenses	(126,261)	(145,786)	(147,025)	(145,138)	(136,843)	(139,223)	(143,139)	(147,566)
EBITDA	112,713	131,102	132,034	123,636	121,351	123,462	126,935	130,861
Depreciation & Amortization	(67,620)	(82,224)	(88,424)	(86,426)	(87,302)	(87,959)	(92,342)	(96,907)
EBIT	45,093	48,878	43,610	37,209	34,049	35,502	34,593	33,953
Finance cost	(2,211)	(2,622)	(1,591)	(774)	(283)	(116)	(116)	-
Other Expenses	(1,992)	(1,198)	(271)	(271)	(271)	(271)	(271)	(271)
Taxes	(526)	(2,099)	(1,940)	(1,665)	(1,528)	(1,595)	(1,554)	(1,527)
Net Profit / (Loss)	40,364	42,959	39,808	34,499	31,967	33,520	32,651	32,156
EPS (KWD)	0.081	0.086	0.080	0.069	0.064	0.067	0.065	0.064
Cash Flow (KWD '000)								
Net Cash From Operating Activities	87,024	146,679	120,476	109,143	110,051	115,781	114,633	129,501
Net Cash (used in) from Investing Activities	(67,915)	(115,043)	(92,092)	(86,007)	(86,495)	(87,999)	(90,475)	(93,273)
Net Cash (used in) from Financing Activities	6,446	(18,156)	(26,921)	(32,721)	(19,785)	(11,506)	(8,496)	(9,795)
Net Change in Cash and Equivalents	25,555	13,480	1,463	(9,585)	3,771	16,277	15,662	26,433
Net Cash at end of the year	32,260	45,740	47,203	37,618	41,389	57,666	73,327	99,760

Source : KAMCO Research and Viva Kuwait Financials

Key Operating Metrics and Financial Ratios

Key Operational Indicators	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Total Subscribers	2,400,000	2,500,000	2,400,000	2,226,855	2,240,212	2,327,382	2,392,314	2,497,795
ARPU (KWD)	8.75	9.42	9.49	9.68	9.63	9.59	9.54	9.49
Market Share	31.7%	32.4%	31.4%	31.0%	31.0%	31.5%	31.5%	32.0%
Kuwait Population	3,999,000	4,110,000	4,225,000	4,342,000	4,463,000	4,588,000	4,716,000	4,847,000
Telecom Penetration Rate (Kuwait)	221.0%	215.0%	200.0%	188.0%	184.0%	183.0%	183.0%	183.0%
CAPEX to Sales	7.2%	14.1%	13.5%	9.0%	9.5%	9.5%	9.5%	9.5%
Receivables Turnover	11.3	12.1	10.9	11.0	11.0	11.0	11.0	11.0
Days in Receivables	32	30	33	33	33	33	33	33
Inventories Turnover	41.4	38.9	63.6	60.0	60.0	60.0	60.0	60.0
Days in Inventory	9	9	6	6	6	6	6	6
Payables Turnover	3.1	2.9	3.3	3.8	4.3	4.8	6.0	6.0
Days in Payables	114	124	109	95	84	75	60	60
Current Assets Turnover	8.9	9.2	9.3	9.3	9.3	9.3	9.3	9.3
Current Liabilities Turnover	3.1	2.9	3.3	3.8	4.3	4.8	6.0	6.0
Key Ratios	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Profitability Ratios								
Return on Average Assets	20.5%	18.0%	15.0%	13.3%	12.4%	12.6%	11.6%	10.7%
Return on Average Equity	135.6%	62.1%	37.5%	28.9%	19.7%	18.0%	15.7%	14.1%
EBITDA Margin	47.2%	47.3%	47.3%	46.0%	47.0%	47.0%	47.0%	47.0%
Net Profit Margin	16.9%	15.5%	14.3%	12.8%	12.4%	12.8%	12.1%	11.5%
Growth Rates								
Revenue Growth	31.0%	15.9%	0.8%	-2.9%	-3.9%	1.7%	2.8%	3.1%
EBITDA Growth	71.8%	16.3%	0.7%	-5.7%	-1.8%	1.7%	2.8%	3.1%
Net Income Growth	66.4%	6.4%	-7.3%	-19.7%	-7.3%	4.9%	-2.6%	-1.5%
Total Assets Growth	19.5%	23.0%	1.6%	-2.7%	0.6%	6.5%	5.4%	8.2%
Liquidity Indicators								
Current Ratio (x)	0.6	0.6	0.7	0.8	1.1	1.7	2.4	2.9
Quick Ratio (x)	0.5	0.5	0.6	0.7	1.0	1.5	2.2	2.7
Working Capital (KWD Mn)	-46.0	-48.8	-37.7	-18.6	8.8	36.0	62.2	88.3
Free Cash Flow (KWD Mn)	18.9	37.7	22.3	23.1	23.6	27.8	24.2	36.2
Leverage Ratios								
Interest Coverage Ratio (x)	20.4	18.6	27.4	48.1	120.3	305.2	-	-
Debt-to-EBITDA (x)	0.8	0.6	0.4	0.2	0.0	0.0	-	-
Debt-to-Equity (x)	1.7	0.8	0.4	0.1	0.0	0.0	-	-
Market Data and Valuation Ratios								
Closing Share Price (KWD)	0.650	0.990	0.930	0.705	0.705	0.705	0.705	0.705
Total Issued Shares (Mn)	499.4	499.4	499.4	499.4	499.4	499.4	499.4	499.4
Market Capitalization (KWD Mn)	324.6	494.4	464.4	352.1	352.1	352.1	352.1	352.1
EPS (KWD)	0.081	0.086	0.080	0.069	0.064	0.067	0.065	0.064
Book Value Per Share (KWD)	0.100	0.100	0.100	0.302	0.349	0.396	0.438	0.476
Dividend Per Share (KWD)	0.000	0.000	0.000	0.008	0.010	0.013	0.017	0.020
Price to Earnings Multiple (X)	8.04	11.51	11.67	10.21	11.01	10.50	10.78	10.95
Price to Book Value Multiple (X)	6.50	5.59	3.75	2.34	2.02	1.78	1.61	1.48
Dividend Yield (%)	0.0%	0.0%	0.0%	1.2%	1.5%	1.8%	2.4%	2.8%

Source : KAMCO Research and Company Financials

Note : Forward Valuation ratios are based on current market prices

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