

April 08, 2010

Pakistan Market**Wateen Telecom going public: What's in store?****MORNING BRIEFING**

KSE100 Index: Closing 10523.01 ↑ (+103.19)

Wateen Telecom Limited is set to be the latest offering to the public, in what seems as a busy listing period, as the bourse has already seen seven listings in FY10 so far. Wateen plans to raise new capital worth Rs1.1bn via 110mn shares at Rs10 per share, with a green shoe option of another 90mn shares, which if exercised would raise total proceeds of Rs2bn. The IPO period is scheduled for 20th-21st April 2010. The proceeds from the offering are to be utilized to repay Rs1.49bn worth of LC's to financial institutions and to acquire the remaining 49% stake in its subsidiary; Wateen Solutions Pvt Ltd, for a consideration of Rs491mn.

Wateen- Company overview

Wateen Telecom is the Abu Dhabi group's second venture in the telecom industry of Pakistan, with the first being the cellular operator - Warid Telecom. Currently, the company has 418mn shares in issue, with Warid Telecom International (79.8%) and Bank Alfalah (20%) being the two key shareholders. This IPO is expected to dilute their stakes by 29-32% depending on whether the green shoe option is exercised or not. The company provides a range of services including LDI, Wimax broadband, hosted solutions, VAR (Value Added Reselling) and VSAT (satellite transmission) among others. The business is broadly divided into two segments; Wholesale (which includes corporate and cellular operators) and Retail (catering to the general public). The revenue stream is currently skewed towards the Wholesale segment (70%), which the management expects to balance to 50-50 in the longer term.

The company is currently the leader in Wimax segment (market share of ~65%) offering service in 22 cities to subscriber base of ~160K, with competition mainly coming in from Wi-tribe and Mobilink. Currently, Wimax technology accounts for a 21% share in the total broadband market, where as DSL is the leading technology with a share of 64%.

Financials: Historically strong, but in red this year

Wateen registered revenues of Rs16.2bn in FY09, an increase of 74% over last year. Gross margins declined by 12ppt to 32% due to higher capital expenditure and competitive pricing, while PAT declined marginally to Rs1bn from Rs1.1bn earlier. As far as the current financial year is concerned, the company expects revenue to dip to Rs10.7bn as it takes a hit from the downward revision in the APC (Access Promotion Contribution) rate to US\$10.5cents from US\$12.5cents in Jul09. The management expects a loss after tax of around Rs2bn in FY10 but going forward, it expects the financials to bounce back to being profitable, owing to an anticipated increase in sales from its various growing segments.

Key Financial Highlights

(Rs mn)	2005	2006	2007	2008	2009
Revenue	15	2,794	4,448	9,289	16,185
Cost of sales	46	1,712	2,727	5,235	10,947
Gross Profit	(32)	1,082	1,722	4,054	5,238
Gross margin	-218%	39%	39%	44%	32%
General & Admin	13	565	854	1,716	1,921
Marketing & Selling	-	14	82	341	300
Operating Profit	(45)	503	785	1,998	3,018
	-305%	18%	18%	22%	19%
Depreciation	13	122	67	435	960
Other income	-	6	26	200	191
Finance cost	-	15	166	205	568
PBT	(57)	371	578	1,559	1,681
	-390%	13%	13%	17%	10%
Provision for tax	(20)	144	193	475	532
Non controlling interest	-	-	-	-	130
PAT	(37)	227	385	1,084	1,019
EPS	(37.1)	3.4	1.9	5.2	4.9
EPS net Mgt fee	(37.1)	1.8	2.9	7.2	4.9

Source: Wateem IM

Outlook

We currently have an 'Over-weight' stance on the sector, and expect broadband and LDI segments to show strong growth, going forward. Increased usage of technology and growing demand for increased bandwidth further supports our view on the industry. However, as we do not cover the stock we can not offer a recommendation for the IPO.

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Also in focus**T-Bill yields reduced by 8-10bps**

In the T-Bill auction conducted yesterday, SBP has slashed the 6months yield by 9bps to 12.25%, while 3month and 6month yields were down 10bps and 8bps at 12.10% and 12.33%, respectively. The central bank was able to raise Rs65.37bn in the auction as against the targeted Rs65bn. It plans to raise a total of Rs460bn during the quarter, with the second and third auction scheduled for April and May, respectively.

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