

Palestine Telecommunications (PALTEL)

Financial Performance in H1 2013

Growth of 9.54% in bottom line figure on lower investment losses amid constancy in operating income

- Palestine Telecommunications PALTEL reported a net bottom line figure of JD45.34 million in H1 2013 compared to JD41.39 million in the corresponding period of 2012; up by 9.54% following an eye catching reduction in investment losses parallel to a relative stability in top line figures. Net margin recorded 24.78% in H1 2013; up by 9.40% and earnings per share amounted to JD0.34.
- Operating revenues increased slightly by 0.13% in H1 2013 compared to H1 2012; standing at JD182.96 million amid the growth in its total subscribers' base. Subscribers' base aggregated at 3.23 million; up by 2.06% compared to the end of 2012 with 81.25% contribution from wireless users. Despite the growth in the Wireless-mobile subscribers that was supported by several acquisition campaigns and new products and services that targeted existing and prospective customers, the average revenues per user ARPU for the wireless service subscribers per month reached JD8.70 in H1 2013 compared to JD9.20 in 2012; down by 5.44% following the larger customer base, low ARPU of new customers in addition to offering larger discounts to the customers and exchange rate differentiations. Fixed line ARPU hit JD13.57 in H1 2013 compared to JD13.61 in 2012; down by 0.29%. On the other hand, Data services sector reported a higher ARPU by 3.09% to settle at JD10 in H1 2013 compared to JD9.70 in 2012.
- In aggregate, the approximate slight increase in revenues came as a result of a decline in the largest contributor to operating revenues - wireless sector by 71.61% - of 4.47% opposed to increases in; fixed lines revenues by 15.61% , data services revenues by 21.23%.
- Cost of revenues which represents: telecommunications services costs, license fees and other costs decreased by 8.76% to settle at JD37.91 million in H1 2012 and record a gross profit of JD145.04 compared JD141.16 million in H1 2012; noting a higher gross margin to 79.28%.
- General & administrative expenses amounted to JD86.62 million in H1 2013; up by 4.82% compared to H1 2012. In consequence, operating income settled at JD58.42 million in H1 2013, insignificantly down by 0.17% with an operating margin of 31.93%.
- PALTEL's investment losses were reduced remarkably to JD0.57 million in H1 2013 compared to losses of JD3.52 in H1 2012; a reduction of 83.91%. This eye catching drop came as a result of a reduction in the company's stake of unquoted associates' losses of operations in addition to a growth in the collected dividends. PALTEL owns a stake of 25.3% in VTEL and a stake of 50% in Jericho Gate Real Estate Investment Company. On aggregate, EBIT amounted JD57.21 million in H1 2013; up by 10.58% compared to H1 2012.
- Tax expenses increased to JD12.89 million in H1 2013 compared to JD11.13 million in H1 2012; up by 15.77%, recording an effective tax rate of 22.13%. This came in conjunction with the new adopted income tax law in addition to PALTEL's board of directors' decision to postpone benefiting from the tax exemption.

Quotes

PSE: PALTEL

Bloomberg: PALTEL:PS

ISIN: PS5002111951

Sector: Services

Trading Currency: JOD

Key Market Data

Date: 22/08/2013

Closing: JD5.10

YTD: -0.97%

Forward PE: 7.40x

P/BV: 1.53x

Earnings Yield: 6.75%

Forward P/Sales: 1.83x

52 High/ Low: 5.30/4.40

Free Float at 51.34%

M. Cap: \$946,808,728

O. Shares: 131,625,000

Drop in cash on a 45% cash dividends for FY2012 and the book value records JD3.34

- PALTEL's total assets decreased by 4.48% in H1 2013 compared to 2012 to aggregate at JD588.89 million compared to JD616.52 million at the end of 2012. This came as a result of a decrease by 13.76% in current assets in addition to relative stability in the major contributor to total assets by 73.30%- noncurrent assets.
- Noncurrent assets stood at JD431.67 million in H1 2013 compared to JD434.22 at the end of 2012, following a balanced converse changes in several items. investment in associates declined by 11.26% to settle at JD33.98 million in H1 2013 following losses incurred in associates companies. On the other hand, available for sale investments that contribute about 20.52% from noncurrent assets and represent PALTEL's investments in quoted and unquoted equities increased by 4.55% to stand at JD88.57 million in H1 2013.
- Current assets decreased to JD157.22 million in H1 2013 compared to JD182.30 million at the end of 2012; down by 13.67% following a reduction in cash and cash equivalents by 38.53% settling at JD28.41 million in H1 2013 as a result of the company's decision of distributing 45% cash dividends for FY2012 in its general assembly meeting that was held in April 4, 2013. Accounts receivables also decreased by 18.52% to stand at JD72.92 million in H1 2013. Financial assets held for trading slightly decreased by 2.94% to stand at 7.19 million in H1 2012, while other current assets item increased by 37.68% to stand at JD41.71 million in H1 2013.
- Total liabilities decreased by 5.32% to aggregate at JD149.46 million in H1 2013 compared to JD157.84 compared to the end of 2012. This was attributable to a decrease of 6.55% in current liabilities- the major contributor to total liabilities by 76.04%- to stand at JD113.64 million in H1 2013 compared to JD121.61 million at the end of 2012 in addition to a decrease of 1.18% in noncurrent liabilities – the contributor to total liabilities by 23.96%-to hit JD35.81 million in H1 2013 compared to JD36.24 million at the end of 2012. Among liabilities; JD22.58 million are loans with 70.21% dues in 2013.
- The decrease in current liabilities also came as a result of a decrease of 19.97% in accounts payables to amount for JD33.54 million in H1 2013. PALTEL paid off around JD7.00 million from the outstanding payables during H1 2013. On the other hand, other current liabilities increased by 7.28% contributing 56.86% from current liabilities to stand at JD64.61 million in H1 2012 due to the increase in advances dividends' payables.
- PALTEL's shareholders' equity decreased by 4.17% to aggregate at JD439.44 million in H1 2013 compared to JD458.57 million at the end of 2012 as a result of the decrease of 4.96% in retained earnings to amount for JD266.09 million in H1 2013 following the cash dividends decision for FY2012. Also, available for sale financial assets impairment increased significantly in H1 2013 to record a balance of JD5.84 million compared to JD0.60 million at the end of 2012.
- On the other hand, total reserves amounted to JD41.72 million in H1 2013; accounting for 31.17% of the paid up capital.

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Subscribers base hit 3.23 million in H1 2013; growth rate of 2.06% compared to 2012's end

Sector	2012	H1 2013	Δ	Contribution
Wireless	2,580,000	2,621,000	1.59%	81.25%
Fixed Lines	396,000	402,000	1.52%	12.46%
Data Services	185,000	203,000	9.73%	6.29%
Total	3,161,000	3,226,000	2.06%	100.00%

Key financial ratios

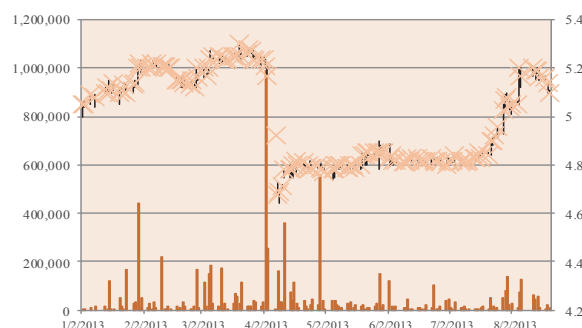
Item—Semi Annual Data	H1 2012	H1 2012	Δ
Current Ratio	1.66	1.38	-16.57%
Quick Ratio	1.13	0.96	-15.34%
Cash Ratio	0.39	0.31	-18.89%
Net Working Capital	0.13	0.07	-43.33%
Debt to Equity Ratio	39.47%	34.01%	-13.82%
Equity Ratio	71.70%	74.62%	4.07%
Loans to equity	8.41%	5.14%	-38.87%
Loans to assets	6.03%	3.83%	-36.38%
Fixed Assets to Equity	48.57%	44.89%	-7.58%
Interest Coverage	65.57	56.09	14.46%
Total Assets Turnover Ratio	31.65%	31.07%	-1.84%
Fixed Assets Turnover Ratio	90.88%	92.75%	2.06%
Working Capital Turnover	242.35%	419.79%	73.21%
Gross Margin	77.26%	79.28%	2.62%
Operating Margin	32.03%	31.93%	-0.30%
Net Margin	22.65%	24.78%	9.40%
ROA	7.17%	7.70%	7.39%
ROE	10.00%	10.32%	3.19%

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Key market ratios

Item	H1 2012	H1 2013	Δ
EPS	0.314	0.344	9.54%
BV	3.14	3.34	6.16%
P/BV	1.55	1.44	-7.34%
Q Ratio	1.11	1.07	-3.57%
Cash to Market Cap	6.89%	5.64%	-18.18%

Price Performance



Key Financial Highlights

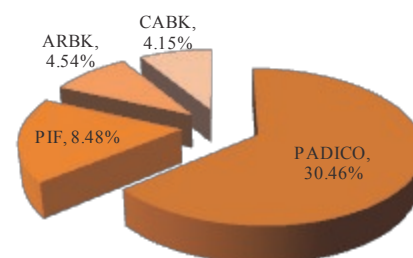
Item (JD)	H1 2012	H1 2013	Δ
Revenues	182,716,000	182,956,000	0.13%
Gross Profit	141,161,000	145,043,000	2.75%
Operating Profit	58,522,000	58,423,000	-0.17%
EBIT	51,735,000	57,209,000	10.58%
Net Income	41,392,000	45,341,000	9.54%

Item (JD)	2012	H1 2013	Δ
Property, Plant and equipment	198,651,000	197,260,000	-0.70%
Available-for-sale investments	84,718,000	88,570,000	4.55%
Cash and cash equivalents	46,213,000	28,407,000	-38.53%
Total assets	616,521,000	588,895,000	-4.48%
Loans	22,288,000	22,580,000	1.31%
Total Liabilities	157,848,000	149,457,000	-5.32%
Paid in capital	131,625,000	131,625,000	0.00%
Retained earnings	279,979,000	266,089,000	-4.96%
Shareholders' equity	458,573,000	439,438,000	-4.17%

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Major Shareholders

Shareholder Name	Holdings as of June 30, 2013
PADICO	30.46%
Palestine Investment Fund—PIF	8.48%
Arab Bank Investments— ARBK	4.54%
Cairo Amman Bank— CABK	4.15%
Rasmala	2.44%



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