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Jordan Telecom Group (JTEL) _ 2008 Annual Update Report

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Jordinvest
Jordan Investment Trust P.L.C

Jordan Telecom Group
Orange

2008 UPDATE
April, 2009

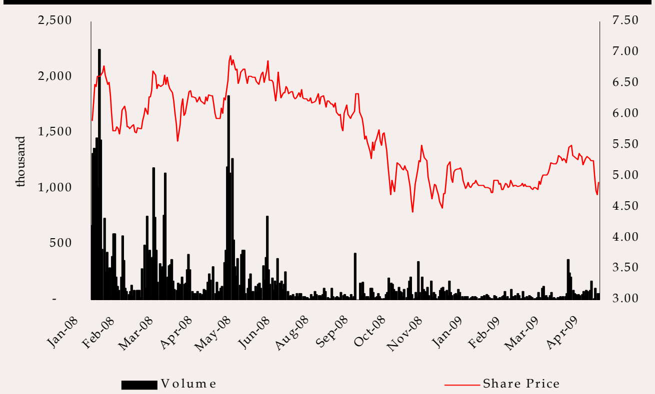
Ticker Symbol: JTEL.ASE
Listed: ASE-First Market

Estimated Fair Value: JOD4.43
Recommendation: **Hold**

Key Information	
Share Price	4.90[1]
52-Week High	6.95
52-Week Low	4.41
Daily Avg. Trading Value	623,548
Daily Avg. Trading Volume	102,555
Market Cap. (JOD million)	1,225
EPS (JOD)	0.40
Trailing P/E (x)	12.21
Book Value	1.66
P/BV (x)	2.95

[1] *Price as of April 29th*

Share Performance



Highlights

- JTEL recorded a 6.13% Y-o-Y growth in net profit in 2008, with net income reaching JOD100.3 million, compared to JOD94.5 million in 2007. The main catalyst was the JOD4.6 million decline in operating expenditures.
- The Group's subscriber base widened to 2.5 million in 2008, against 2.4 million at 2007 year-end. All three segments that make up the Group expanded in 2008. The 3.5% rise was largely driven by the 44.3 thousand new mobile subscribers to reach 1.8 million. In addition, 37 thousand new data subscribers and 3.3 thousand fixed line users were added to the Company's customer base.
- Consolidated revenues in 2008 went up from JOD397.9 million in 2007 to reach JOD401.4 million; up a marginal 1%. A JOD6.6 million (49.3%) rise in Orange data revenues was the main contributor to this increase, which in turn was boosted by the wider subscriber base. In addition, the mobile segment registered a JOD6.1 million (3.5%) rise in revenues. The performance of these two sectors, however, was weighed down by the fixed line segment, which saw revenues drop by JOD9.9 million (4.7%).
- Consolidated EBITDA reached JOD178.5 million in 2008, versus JOD170.3 million a year earlier; up 4.80%. As a result, the EBITDA margin climbed from 42.8% to 44.5%.
- EBITDA for the fixed line segment reached JOD112.1 million, up from JOD104.5 million registered a year earlier. The 7.3% rise followed a significant drop in operating expenses, which declined to JOD130.7 million from JOD139.0 million in 2007.
- Conversely, the mobile segment's EBITDA declined in 2008 to JOD67.6 million compared to JOD68.2 million achieved in 2007. The 0.9% drop in EBITDA was mainly due to a rise in cost of services and 'selling, distribution and administrative expenses', up by JOD6.3 million (8.6%) and JOD4.5 million (24.1%) respectively.

- EBITDA for the internet sector more than doubled to settle at JOD4.9 million in 2008, up from JOD2.0 million in 2007. Operating expenses for this sector rose 31.6% to JOD15 million, however, total revenues rose at an even higher rate of 48.5% to JOD19.9 million.
- The Group's cost of services and selling & distribution expenses combined made up 78.06% of total operational costs. Cost of services inched up 1.32% Y-o-Y to JOD136.8 million, whereas the latter contracted 5.5% to JOD37.2 million.
- JTEL continued the adoption of cost-saving techniques throughout 2008, lowering inter-connection costs and adopting cost reduction programs. Based on this, the Group succeeded in lowering administrative expenses by 16.1% and selling & distribution expenses by 5.5% to JOD27.7 million and JOD37.2 million respectively. Operating expenses declined 2.03% to JOD222.9 million in 2008, versus JOD227.6 million a year earlier.
- The Company maintained its highly liquid position. The cash balance reached JOD341.9 million, up 5.7% from JOD323.4 million at 2007 year-end. The excess cash allows JTEL to maintain a debt to equity ratio at a low 8.12%, compared to 8.39% in 2007.
- Total assets amounted to JOD676.1 million at 2008 year-end, representing a 1.73% rise from 2007. Cash and short term deposits constituted just over half of total assets, followed by fixed assets, which amounted to JOD236.3 million and made up 34.9% of total assets.
- Net cash inflows contracted from JOD33.9 million in 2007 to JOD18.5 million in 2008. This was largely driven by increased settlement of both trade payables as well as payables to other telecom operators in addition to higher income tax payments and cash dividends in 2008. The Company paid JOD95.3 million in cash dividends in 2008 versus JOD85.0 million a year earlier.
- In terms of share price, JTEL's stock displayed more resistance to the adverse stock market conditions relative to other economic sectors. The stock reached a low of JOD4.41 at the end of October of 2008 and closed the year at JOD4.82, recording a 14% drop YTD. This compares to a 24.9% contraction in the ASE index in 2008. Since the start of 2009, JTEL showed sings of recovery and has been steadily creeping upwards. Prior to the current week, JTEL had managed to recover a significant portion of its 2008 loss. Nonetheless, the current week provided JTEL's stock with a setback pushing its YTD gain back down to 2%. This compares to a contraction in the ASE index of 0.2% YTD.
- The Company currently trades at 12.21 times earnings and 2.95 times book value, significantly higher than companies we have considered to constitute its peer group which trade at an average PE of 7.66x and PBV of 1.99x.
- We have used a Discounted Cash Flow (DCF) valuation method, alongside a relative valuation based on a PE multiple and dividend yield. Based on this, we arrived at an estimated fair value of **JOD4.43**, lending an overall downside potential of 9.5%. Accordingly we reiterate our previous **"HOLD"** recommendation on the stock**.**

1.0 Financial Highlights

Jordan Telecom Group	2004	2005	2006	2007	2008
Key Financial Statement Captions					
Gross Profit	229,150,026	236,600,587	239,597,884	262,835,278	264,590,046
EBITDA	153,418,539	170,111,819	169,106,133	170,302,601	178,469,982
Net Profit	46,145,972	86,361,691	86,986,351	94,500,428	100,298,024
Total Revenues	342,505,742	352,181,852	362,856,757	397,868,139	401,410,823
Total Operating Expenses	(189,087,203)	(182,070,033)	(193,750,624)	(227,565,538)	(222,940,841)
Total Assets	484,808,317	539,842,044	596,665,015	664,642,715	676,145,635
Total Liabilities	124,287,810	140,132,791	194,961,034	253,106,637	260,273,067
Interest Bearing Debt	35,538,815	33,488,662	34,137,709	34,531,657	33,759,693
Capital	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000
Shareholder's Equity	360,520,507	399,709,253	401,703,981	411,536,078	415,872,568
Share Information					
Share price (JOD)	3.64	5.50	4.12	5.62	4.90[2]
Market Cap (JOD million)	910	1,375	1,030	1,405	1,225
EPS (JOD)	0.19	0.35	0.35	0.38	0.40
Book Value	1.44	1.60	1.61	1.65	1.66
P/E (x)	19.72	15.92	11.84	14.87	12.21
P/BV (x)	2.52	3.44	2.56	3.41	2.95
Dividend Per Share	0.18	0.34	0.34	0.38	0.40
Dividend Payout Ratio	97.52%	98.42%	97.72%	100.53%	99.70%
Dividend Yield	4.95%	6.18%	8.25%	6.76%	8.16%
Profitability Ratios					
Gross Profit Margin	66.90%	67.18%	66.03%	66.06%	65.92%
EBITDA Margin	44.79%	48.30%	46.60%	42.80%	44.46%
ROaA	8.80%	16.86%	15.31%	14.98%	14.96%
ROaE	12.82%	22.72%	21.71%	23.24%	24.24%
ROCE	17.30%	22.39%	25.28%	25.40%	26.72%
Financing Ratios					
Interest Bearing Debt to Assets	7.33%	6.20%	5.72%	5.20%	4.99%
Total Liabilities to Assets	25.64%	25.96%	32.68%	38.08%	38.49%
Total Debt to Equity	9.86%	8.38%	8.50%	8.39%	8.12%
Equity Multiplier	1.34	1.35	1.49	1.62	1.63
Liquidity Ratios					
Current Ratio	2.27	2.83	2.35	1.97	2.01
Acid-Test	2.20	2.79	2.32	1.95	1.97
Efficiency Ratios					
Asset Turnover	0.65	0.69	0.64	0.63	0.60
Equity Turnover	0.95	0.93	0.91	0.98	0.97
A/R Turnover	6.86	7.87	7.71	7.10	6.88
Inventory Turnover	18.34	24.03	28.99	29.92	20.95
A/P Turnover	1.59	1.43	1.13	0.92	0.83
Cashflows					
Cashflow from Operating Activity	141,218,413	175,048,643	184,647,208	169,958,573	154,190,900
Cashflow from Investing Activity	(22,977,952)	(26,381,636)	(28,265,650)	(46,936,328)	(37,567,301)
Cashflow from Financing Activity	(122,236,918)	(44,792,125)	(84,455,333)	(89,081,192)	(98,073,951)
Net Change in Cash	(3,996,457)	103,874,882	71,926,225	33,941,053	18,549,648
Subscriber Base					
Fixed Line	651,200	664,000	677,100	660,100	663,400
Orange Mobile	455,300	750,800	1,405,500	1,711,200	1,755,500
Orange Data	19,200	27,600	38,600	65,700	102,200

[2] *Price as of April 29th 2009*

2.0 Share Performance

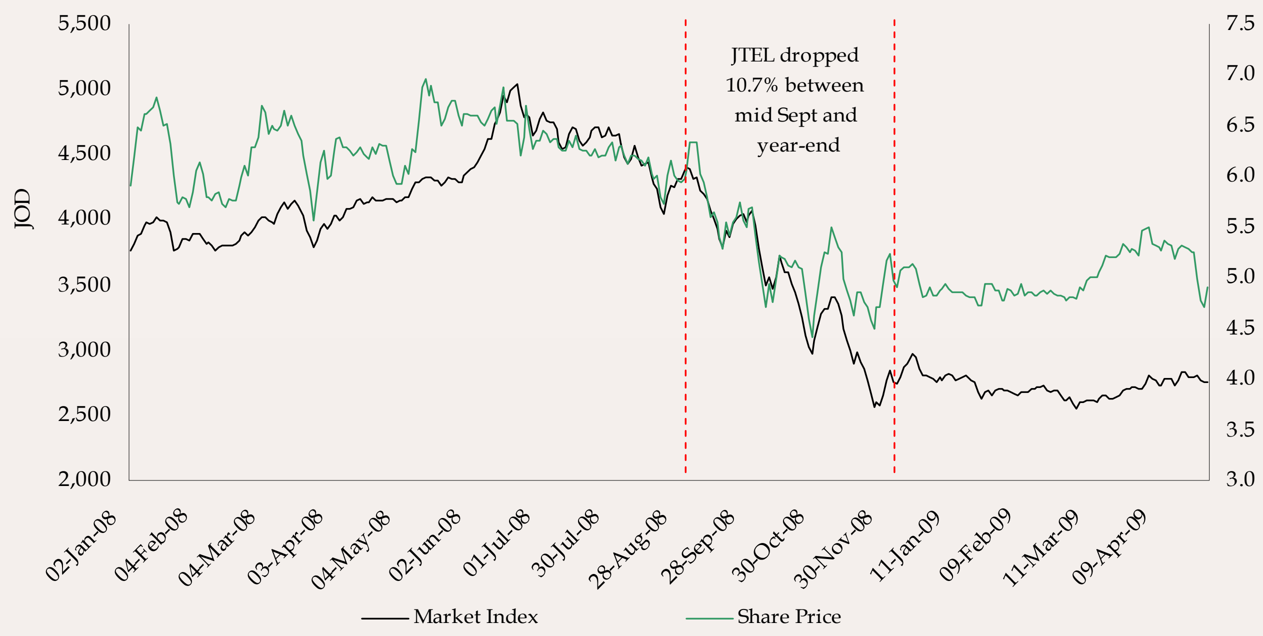
Share Information				
	2006	2007	2008	2009[3]
Closing Price	4.12	5.62	4.82	4.90
High Price	6.30	5.87	6.95	5.50
Low Price	3.96	4.13	4.41	4.70
Change in Share Price	-25%	36%	-14%	2%
Daily Average Trading Volume	72,539	91,709	205,071	45,198
Daily Average Trading Value	393,888	455,989	1,292,441	231,782

[3] *Price as of April 29th*

For much of the first half of 2008, JTEL's share price yo-yoed between JOD6-JOD7, reaching a peak of JOD6.95 on May 12th. At the end of H1, the share price had recorded a gain of 13%. However, going into the second half of the year, the share price had already commenced on its downward journey ahead of the global market turmoil that erupted mid-September. By September 15th, the share price was down 3.9% YTD. The losses began to accelerate thereafter and by the end of the year JTEL's share price had shed 14.2% of its value to close the year at JOD4.82. Nonetheless, the contraction was not as significant as that seen in other economic sectors which drove the ASE index down 24.9% in 2008. Since the start of 2009 things appear to have turned around for JTEL which has been steadily creeping upwards. Prior to the current week, JTEL had managed to recover a significant portion of its 2008 loss. Nonetheless, the current week provided JTEL's stock with a setback pushing its YTD gain back down to 2%. This compares to a contraction in the ASE index of 0.2% YTD.

Average daily volume and value traded appear to have significantly increased in 2008 to reach 205 thousand shares, valued at JOD1.3 million versus 91.7 thousand shares and JOD456 thousand in 2007. The onset of the global market mayhem saw many investors take to the sidelines, significantly impacting trading activity. Prior to September 15th, average daily value and volume were at JOD1.6 million and 253 thousand shares. This plunged to JOD365 thousand and 72 thousand shares from September 15th till the end of the year.

Price Performance Relative to Market



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3.0 Peer Comparison

The table below compares some of the key share performance indicators for JTEL relative to other telecom companies. We have also included in this comparison a number of other financial indicators.

Peers					
	Qatar Telecom. Company (USD)	Bahrain Telecom. Company (USD)	Emirates Telecom. Company (USD)	Oman Telecom (USD)	Jordan Telecom (USD)
Price as of April 29th 2009	28.45	1.46	2.72	3.33	6.92
YTD Change	-5.48%	-12.14%	0.50%	-19.27%	1.66%
Y-o-Y Change	-48.69%	-34.68%	-54.11%	-34.05%	-17.37%
Trailing P/E	6.67	7.60	8.28	8.11	12.21
P/BV	1.14	1.75	2.47	2.58	2.95
P/Sales	0.75	2.48	2.54	2.34	3.06
P/Cashflows	2.70	5.43	6.61	4.89	7.97
EPS	4.27	0.19	0.33	0.41	0.57
BVPS	24.87	0.83	1.10	1.29	2.35
Outstanding Shares (million)	147	1,440	7,187	750	250
Dividend Yield	9.66%	9.09%	5.01%	7.80%	8.16%
ROA	3.06%	14.58%	13.96%	20.08%	14.96%[4]
ROE	17.14%	23.04%	29.83%	31.82%	24.24%[4]

[4] *Based on average assets and average shareholders' equity*
Source: Zawya

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4.0 Valuation

We have used the Discounted Cash Flow (DCF) valuation method based on our five-year forecast of JTEL's consolidated financial performance, alongside a relative valuation based on a price to earnings multiple and dividend yield, to arrive at our estimated fair value. We gave a 70% weighting to the DCF method and 15% to each of the multiples. Both the DCF valuation and the PE method reflected a downside potential on the share price. On the other hand, JTEL's generous dividend policy relative to its peers translated into upside potential for the stock based on a dividend yield multiple. Accordingly, we arrived at an estimated fair value of **JOD4.43,** lending an overall downside potential of 9.5%.

Estimated Fair Value		
Method	**Weighting**	**Target Value**
DCF Valuation	70%	JOD4.56
Price to Earnings	15%	JOD3.19
Dividend Yield	15%	JOD5.07
Weighted Average Estimated Fair Value		**JOD4.43**

Discounted Cash Flow Valuation

Our discounted cash flow valuation was based on a free cash flow forecast for a five-year period ending 2013.

Discounted Cashflow					
	2009E	**2010E**	**2011E**	**2012E**	**2013E**
EBIT	132,200,116	137,371,894	144,389,328	153,077,822	163,083,634
Taxes	(35,954,262)	(37,498,456)	(39,504,065)	(41,677,438)	(44,180,142)
EBI	**96,245,854**	**99,873,438**	**104,885,263**	**111,400,384**	**118,903,493**
Depreciation & Amortization	53,176,520	51,684,807	49,607,658	46,988,002	43,863,483
Change in Working Capital	(2,903,682)	(5,267,260)	(6,854,720)	(8,284,012)	(9,313,840)
Capital Expenditure	(44,803,751)	(41,725,222)	(38,717,548)	(35,666,916)	(32,439,568)
Free Cash Flow	**101,714,941**	**104,565,762**	**108,920,653**	**114,437,457**	**121,013,568**

Inputs for DCF Analysis	
Cost of Debt	We used a cost of debt of 6.45%, representing the weighted average interest rate on outstanding debt
Risk-Free Rate	We used a risk-free rate of 2.96% based on a 10-year US treasury bond
Equity Market Risk Premium	We used an equity market risk premium of 8.90%
Cost of Equity	We applied a cost of equity of 12.43%
WACC	Based on an 7.5% debt and 92.5% equity structure respectively, we arrive at a WACC of 11.86%
Growth Rate	We used a cash flow growth rate of 3.0%

Estimated Fair Value	
Net Present Value for Five Years	394,506,550
Net Present Value of Terminal Value	779,877,279
Outstanding Debt	33,759,693
Equity Value	**1,140,624,137**
Outstanding Number of Shares	**250,000,000**
Estimated Fair Value (JOD)	**4.56**

Guide to Analyst Recommendation

- **Buy**
  Reflects potential estimated total return of +10% within the next 12 months for a stock.

- **Hold**
  Reflects potential estimated total return of +/-10% within the next 12 months for a stock.

- **Sell**
  Reflects potential estimated total return of -10% or more within the next 12 months for a stock.

D I S C L A I M E R

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