

Results Brief - 1<sup>st</sup> 9M 2012

## Palestine Telecommunications (PALTEL)

*Palestine Stock Exchange*

Ticker	Sector	Trading Currency	ISIN	Free Float	Close 28/11/2012	YTD	Forward PE	Market Capitalization \$	52 Week High	52 Week Low	Trading Turnover 1st 9M 2012
PALTEL	Services	JOD	PS5002111951	50.50%	JOD4.89	-7.56%	7.71x	907,822,486	5.58	4.40	8.13%

### Lower net income in the 1<sup>st</sup> 9M 2012 on exogenous factors

- Palestine Telecommunications PALTEL reported a net income of JD62.59 million in the 1<sup>st</sup> 9M 2012 compared to JD71.11 million in the same period of 2011; down by 11.98% affected mainly by the new adopted income tax law by the Palestinian National Authority to apply 20% rate on companies instead of 15%, in addition to starting to apply the board of directors' decision to postpone the 50% tax exemption for two years starting from the year 2012. This came in parallel to a general short term regression in the economic growth of Palestine due to political stalemate, reduced donor funding and a fiscal crisis in the public sector, to record a net margin of 22.73% and earnings per share JD0.476 in 1<sup>st</sup> 9M 2012 compared to 25.36% and JD0.54 in 1<sup>st</sup> 9M 2011.
- PALTEL recorded a decrease of 1.79% in its revenues to stand at JD275.44 million 1<sup>st</sup> 9M 2012 compared to JD280.47 million in the same period of 2011 despite the increase of 6.40% in its total subscribers' base to 3.15 million subscribers at the end of 1<sup>st</sup> 9M 2012 compared to 2.97 million subscribers at the end of 2011, whereby mobile subscribers increased by 7.0% to settle at 2.59 million, contributing about 82.22% from the total subscribers' base and supported by several acquisition campaigns and new products and services that targeted existing and prospective customers. In parallel, the average revenues per user ARPU for the mobile subscribers per month reached JD9.3 in 1<sup>st</sup> 9M 2012 compared to JD10.6 in the same period of 2011; down by 12.26% affected by larger customer base, low ARPU of new customers in addition to offering larger discounts to the customers and exchange rate differentiations.
- Moreover, fixed line subscribers increased by 1.5% to stand at 0.39 million at the end of 1<sup>st</sup> 9M 2012, following the new acquisition campaigns, where the fixed line ARPU hit JD13.9 in 1<sup>st</sup> 9M 2012 compared to JD14.9 in the same period of 2011; down by 6.71%. Data services subscribers increased by 8.6% to reach 0.17 million subscribers. This increase was accompanied by a decline of 24.9% in data services ARPU due to decreasing the access fees based on the Bit-Stream Access BSA. But, penetration rate of the ADSL lines (per landline) increased from 40.5% at the end of 2011 to 43.3% at the end of 1<sup>st</sup> 9M 2012.
- As an aggregate, the insignificant decrease in revenues came as a result of the change of the exchange rate of the PALTEL's official reporting currency - Jordanian Dinar- and the collection currency - Israeli Shekel-, where the average exchange rate during the first nine months of 2012 was 5.44 ILS/JOD compared to 4.99 ILS/JOD the same period of last year.
- Cost of revenues which represents: telecommunications services costs, license fees and other costs slightly decreased by 0.68% to hit \$63.48 million in 1<sup>st</sup> 9M 2012 to record a gross profit of JD211.95 million and gross margin of 76.95% in 1<sup>st</sup> 9M 2012.
- Administrative expense stood at JD124.32 million; up by 5.62% in 1<sup>st</sup> 9M 2012 affected by an increase in depreciation, advertising and promotion expenses and the generators' fuel bill in Gaza. Therefore operating income decreased by 11.34% to settle at JD87.63 million recording an operating margin of 31.81% in 1<sup>st</sup> 9M 2012.
- PALTEL's investment losses were lowered to JD5.37 million in 1<sup>st</sup> 9M 2012 compared to losses of JD15.27 in Q3 2011. This item reflects the company's stake of associates' results of operations. Finance costs also decreased by 19.0% to aggregate at JD1.13 million in 1<sup>st</sup> 9M 2012. EBT recorded JD 79.89 million in 1<sup>st</sup> 9M 2012 compared to JD 77.76 million in 1<sup>st</sup> 9M 2011.
- Tax expenses for PALTEL increased to JD17.29 million in 1<sup>st</sup> 9M 2012 compared to JD6.64 million in Q3 2011; significantly up by 160.26%. 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. Income tax rate is 20% for PALTEL in 1<sup>st</sup> 9M 2012 compared to 7.50% in the previous year
- PALTEL's total assets increased by 3.13% in 1<sup>st</sup> 9M 2012 to aggregate at JD592.86 million compared to JD574.84 million at the end of 2011. This came in parallel to an increase of 7.45% in the major contributor to total assets by 69.27%- noncurrent assets- despite a 5.42% decline in the other contributor to total assets by 30.73%- current assets.

- Noncurrent assets stood at JD410.70 million in 1<sup>st</sup> 9M 2012 compared to JD382.23 million at the end of 2011, as a result of an increase of 49.45% in projects in progress to settle at JD10.18 million in 1<sup>st</sup> 9M 2012 compared to JD6.81 million at the end of 2011 in addition to an increase of 32.45% in the available for sale investments to reach JD65.99 million contributing about 16.07% from noncurrent assets.
- Moreover, other assets significantly increased by 129.76% to settle at JD48.87 million in 1<sup>st</sup> 9M 2012 compared to JD21.27 million at the end of 2011, following PALTEL's investment increase in the Arab Bank to more than 1% of the bank's paid up capital. On the other hand, investment in associates which represents PALTEL's investments in quoted and unquoted equities decreased by 14.85% to settle at JD37.57 million in 1<sup>st</sup> 9M 2012.
- Current assets decreased to JD182.16 million in 1<sup>st</sup> 9M 2012 compared to JD192.61 million at the end of 2011 following a reduction in cash and cash equivalent by 14.38% to settle at JD54.10 million in 1<sup>st</sup> 9M 2012 due to PALTEL's expansion in addition to license fees financing. Decreases in inventories, other current assets and financial assets held for trading by 4.07%, 35.22% and 11.46% to aggregate at JD6.32 million, JD25.90 million and JD7.30 million respectively were witnessed opposed to an increase of 18.68% in accounts receivables to settle at JD88.54 million in the 1<sup>st</sup> 9M 2012.
- Total liabilities increased by 7.95% to aggregate at JD157.73 million in the 1<sup>st</sup> 9M 2012 compared to JD146.11 million at the end of 2011. This was attributable to an increase of 16.24% in current liabilities- the major contributor to total liabilities by 72.76%- to stand at JD114.76 million in the 1<sup>st</sup> 9M 2012 compared to JD98.73 million at the end of 2011 opposed to a decrease of 9.32% in noncurrent liabilities – the other contributor to total liabilities by 27.24%- to hit JD42.97 million in 1<sup>st</sup> 9M 2012.
- The increase in current liabilities came as a result of an increase of 16.88% in accounts payables to amount for JD37.89 million in 1<sup>st</sup> 9M 2012 due to the increment of the accrued license fees after completing the clearing process of the fees from the prepaid payment to the Palestinian National Authority PNA as installments. Moreover, other current liabilities increased by 22.41% to stand at JD60.19 million in 1<sup>st</sup> 9M 2012 and representing mainly the cash dividends due to shareholders for the fiscal year of 2011.
- Long term loans declined by 33.33% to reach JD14.18 million in 1<sup>st</sup> 9M 2012 while provisions for employees indemnity increased by 10.24% to stand at JD28.79 million in 1<sup>st</sup> 9M 2012 leading PALTEL's long term liabilities to decrease.
- PALTEL's shareholders equity increased by 1.49% to aggregate at JD435.13 million in 1<sup>st</sup> 9M 2012 compared to JD428.73 million at the end of 2011 supported by an increase of 3.97% in retained earnings to amount for JD260.44 million in 1<sup>st</sup> 9M 2012 despite cash dividends distribution. Available for sale reserve further recorded a negative balance of JD4.54 million at the end of 1<sup>st</sup> 9M 2012.

## Key Financial Ratios

Item	1st 9M 2011	1st 9M 2012	Δ
Current Ratio	1.77	1.59	-10.22%
Quick Ratio	1.31	1.31	-0.39%
Cash Ratio	0.60	0.53	-10.55%
Net Working Capital	0.14	0.11	-19.77%
Debt to Equity Ratio	38.43%	36.25%	-5.67%
Equity Ratio	72.24%	73.40%	1.60%
Loans to equity	8.65%	6.52%	-24.66%
Loans to assets	6.25%	4.78%	-23.45%
Fixed Assets to Equity	49.66%	45.61%	-8.16%
Interest Coverage	56.54	71.45	26.36%
Total Assets Turnover Ratio	50.15%	47.18%	-5.93%
Fixed Assets Turnover Ratio	142.49%	135.70%	-4.77%
Working Capital Turnover	348.94%	408.66%	17.12%
Gross Margin	77.21%	76.95%	-0.33%
Operating Margin	35.24%	31.81%	-9.72%
Net Margin	25.36%	22.73%	-10.37%
ROaA	12.72%	10.72%	-15.69%
ROaE	17.75%	14.49%	-18.37%

## Key Market Ratios

- PALTEL's share price decreased by 5.67% in the 1st 9M 2012 compared to its closing at the end of 2011, to record a market capitalization of JD656.81 million (\$926.39 million) at the end of the period.
- Trading volume of PALTEL reached 10.70 million shares in 1st 9M 2012; recording a turnover ratio of 8.13%.
- Market capitalization to total assets for PALTEL was estimated at 1.11x at the end of 1st 9M 2012, while the drop in cash and cash equivalents led this item to stand at 9.35% of PALTEL's market capitalization.

Item	1st 9M 2012
EPS	0.476
BV	3.31
Market / BV Ratio	1.51
Earnings Yield	9.53%
Price to Sales – Annualized	1.79
Q Ratio	1.11
Cash to Market Cap	9.35%

## Key Financial Highlights

### Income Statement

Item (JOD)	1st 9M 2012	1st 9M 2011	Δ
Revenues	280,468,000	275,439,000	-1.79%
Gross Profit	216,550,000	211,955,000	-2.12%
Operating Profit	98,839,000	87,630,000	-11.34%
EBIT	79,160,000	81,022,000	2.35%
Net Income	71,115,000	62,594,000	-11.98%

### Balance Sheet

Item (JOD)	2011	1st 9M 2012	Δ
Cash and cash equivalents	63,179,000	54,093,000	-14.38%
Total assets	574,842,000	592,862,000	3.13%
Loans	35,450,000	28,362,000	-19.99%
Total Liabilities	146,112,000	157,728,000	7.95%
Paid in capital	131,625,000	131,625,000	0.00%
Retained earnings	250,497,000	260,441,000	3.97%
Shareholders' equity	428,730,000	435,134,000	1.49%

## Major Shareholders

### Major Shareholders as of December 31, 2011

	%
Palestine Development & Investment PADICO	30.69
Palestine Investment Fund	8.36

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