

Results Brief - H1 2012

Palestine Telecommunications (PALTEL)

Palestine Stock Exchange

Ticker	Sector	Trading Currency	ISIN	Free Float	Close 06/08/2012	YTD	Forward PE	Market Capitalization \$	52 Week High	52 Week Low	Trading Turnover H1
PALTEL	Services	JOD	PS5002111951	51.48%	4.79	-9.45%	7.62	889,257,609	5.58	4.81	6.78%

Income tax, exchange rate and tax exemption postponement behind the 13% drop in PALTEL's profit

- Palestine Telecommunications PALTEL reported a 13.03% lower bottom line figure in H1 2012 to stand at JD41.39 million compared to JD47.59 million in H1 2011, affected 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. Therefore, net margin dropped to 22.65%; down by 13.27% in H1 2012.
- Total revenues slightly increased by 0.28% to settle at JD182.72 million in H1 2012 compared to JD182.21 million in H1 2011 driven by the increase in PALTEL's subscribers base to 3.17 million subscriber in H1 2012 compared to 2.97 million subscriber at the end of 2011; up by 6.95%, where the wireless-mobile-subscribers, which contributed by 82.38% of PALTEL's subscribers' base, increased by 7.75% to hit 2.61 million subscriber in H1 2012 instead of 2.42 million subscriber at the end of 2011. Likewise, the fixed line and data services subscribers increased to 0.56 million subscriber; up by 3.33% in H1 2012 altogether. While the slight increase in total revenues value was affected by the change of the exchange rate of the official reporting currency - Jordanian Dinar- and the collection currency - Israeli Shekel.
- Cost of revenues increased by 3.61% to stand at JD41.55 million in H1 2012 compared to JD40.11 million in H1 2011 due to an increased in the number of leased lines in order to increase the network's capacity in addition to an increase in the mobiles cost of sales. Cost of revenues represents: telecommunications services costs, license fees and other costs. Accordingly, gross income slightly decreased by 0.66% to settle at JD141.16 million in H1 2012, recording a gross margin of 77.26%.
- Administrative expenses witnessed an increase of 6.47% to amount for JD82.64 million in H1 2012. This increase came as a result of the growth in the depreciation, generators' fuel bill in Gaza in addition to the advertising expenses. Operating income in consequence hit JD58.52 million; down by 9.25%, recording an operating margin of 32.03%.
- Investment losses which reflect the company's stake of associates' results of operations were lowered to JD3.52 million in H1 2012 compared to a loss of JD10.35 million in H1 2011; down by 66.00%. Moreover, finance cost decreased by 17.73% to stand at JD0.79 million in H1 2012. Alternatively, other revenues that mainly consist of interest income grew to JD1.69 million; up by 90.00%.
- The new adopted income tax law has increased the tax expenses to JD11.31 million in H1 2012 compared to JD4.69 million in H1 2011; up by 137.10%. PALTEL's board of directors decision to postpone benefiting from the tax exemption has also contributed to incur higher taxes.
- Total assets aggregated at JD577.32million in H1 2012 increasing by 0.43% compared to JD574.84 million at the end of 2011, driven mainly by a growth in the major contributor – noncurrent assets– which contribute by 67.10% following an increase in the investment in financial assets available for sale by 27.89% when reached JD63.71 million in H1 2012. This can be partially attributed to PALTEL's subscription in \$5 million shares in Alrafah Microfinance bank. In addition, projects in progress also reported an increase of 63.24% when reached JD11.12 million in H1 2012.
- On the other hand, current assets decreased by 1.39% reaching JD189.93 million following the major reduction in cash & cash equivalents by 41.51% hitting JD36.95 million in H1 2012 accompanied with operations expansion and investments financing and cash dividends payments, opposed to a noticeable increase in other current assets item by 28.01% reaching JD51.82 million in H1 2012.

- Total liabilities stood at JD163.37 million in H1 2012; up by 11.81% compared to 2011, affected mainly by the increase in the current liabilities by 16.01% reaching JD114.53 million, which in turn were affected by the increase in the accounts payables by 34.57% reaching 43.62 million in H1 2012 compared to JD32.41 million at the end of 2011 in addition to an increase in the other current liabilities item by 15.38% when amounted to JD56.73 million in H1 2012. Payables increase came as a result of the increase in the cash dividends due to shareholders for the year of 2011, in addition to an increase in the license fees item after ending the clearing process, in which was cleared from the advanced payments to the Palestinian National Authority.
- On the other hand, long term loans item decreased by 3.07% reaching JD 20.62 million opposing to an increase in the provision for employees' indemnity by 8.08%, therefore noncurrent liabilities slightly increased by 3.08%.
- PALTEL's shareholders equity slightly decreased by 3.45% to aggregate at JD413.95million in H1 2012 compared to JD428.73 million in 2011. This decrease came due a decline of 4.49% in retained earnings that amounted to JD239.24 million after the cash dividends decision of 40%.

Key Financial Ratios

- Bottom line and operating profitability indicators were affected by several reasons in this period. Some are external such as what was imposed of higher corporate income tax in order to help reducing the Palestinian National Authority's budget deficit, and what was followed by PALTEL as an initiative to postpone their tax exemption, in addition to the significant change the currency exchange rates. On the other hand, internal factors such higher depreciation have also contributed in lower profitability indicators, despite an eye catching reduction in investment losses.
- PALTEL is maintaining a consistent strong equity position with controllable debts.
- Short term liquidity position is similar between H1 2012 and H1 2011, but significantly down compared to the end of 2011 due to the lower cash & cash equivalents in addition to ending the clearing process for the prepaid license fees and dividends dues.
- Book value increased by 7.15% in H1 2012 compared to H1 2011 to stand at JD3.14 , but down by 3.45% compared to the end of 2011.

Item/ Semiannual Data	H1 2011	H1 2012	Δ
Current Ratio	1.68	1.66	-1.12%
Quick Ratio	1.11	1.13	1.61%
Cash Ratio	0.37	0.39	4.27%
Net Working Capital	0.13	0.13	2.28%
Debt to Equity Ratio	39.90%	39.47%	-1.09%
Equity Ratio	71.48%	71.70%	0.31%
Loans to equity	9.18%	8.41%	-8.39%
Loans to assets	6.56%	6.03%	-8.10%
Fixed Assets to Equity	52.08%	48.57%	-6.75%
Interest Coverage	55.53	67.57	21.69%
Accounts Receivables Turnover	251.24%	229.01%	-8.85%
Total Assets Turnover Ratio	33.38%	31.72%	-4.98%
Fixed Assets Turnover Ratio	93.11%	89.44%	-3.94%
Working Capital Turnover	264.05%	242.35%	-8.22%
Gross Margin	77.99%	77.26%	-0.94%
Operating Margin	35.39%	32.03%	-9.50%
Net Margin	26.12%	22.65%	-13.27%
ROaA	8.72%	7.19%	-17.59%
ROaE	12.24%	9.82%	-19.74%

Key Market Ratios

- PALTEL's share price decreased by 7.75% in H1 2012 compared to its closing at the end of 2011, to record a market capitalization of JD642.33 million at the end of the period.
- Traded volume of PALTEL reached 8.92 million shares in H1 2012; recording a turnover ratio of 6.78%.
- Market capitalization to total assets for PALTEL was estimated at 1.11x for H1 2012, while the drop in cash and cash equivalents led this item to stand at 6.89% of PALTEL's market capitalization.

Item/Semiannual Data	H1 2012
EPS	0.314
BV	3.14
Market / BV Ratio	1.55
Earnings Yield	6.44%
Price to Sales – Annualized	1.76
Q Ratio	1.11
Cash to Market Cap	6.89%

Key Financial Highlights

Income Statement

Item (JOD)	H1 2011	H1 2012	Δ
Revenues	182,212,000	182,716,000	0.28%
Gross Profit	142,103,000	141,161,000	-0.66%
Operating Profit	64,487,000	58,522,000	-9.25%
EBIT	53,250,000	53,313,000	0.12%
Net Income	47,596,000	41,392,000	-13.03%

Balance Sheet

Item (JOD)	2011	H1 2012	Δ
Property, Plant and equipment	207,508,000	201,055,000	-3.11%
Available-for-sale investments	49,818,000	63,714,000	27.89%
Cash and cash equivalents	63,179,000	36,952,000	-41.51%
Total assets	574,842,000	577,323,000	0.43%
Loans	35,450,000	34,797,000	-1.84%
Total Liabilities	146,112,000	163,372,000	11.81%
Paid in capital	131,625,000	131,625,000	0.00%
Retained earnings	250,497,000	239,239,000	-4.49%
Shareholders' equity	428,730,000	413,951,000	-3.45%

Major Shareholders

Major Shareholders as of December 31, 2011	%
Palestine Development & Investment PADICO	30.69%
Palestine Investment Fund	8.36%

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