

PALTEL

Telecoms / Palestine

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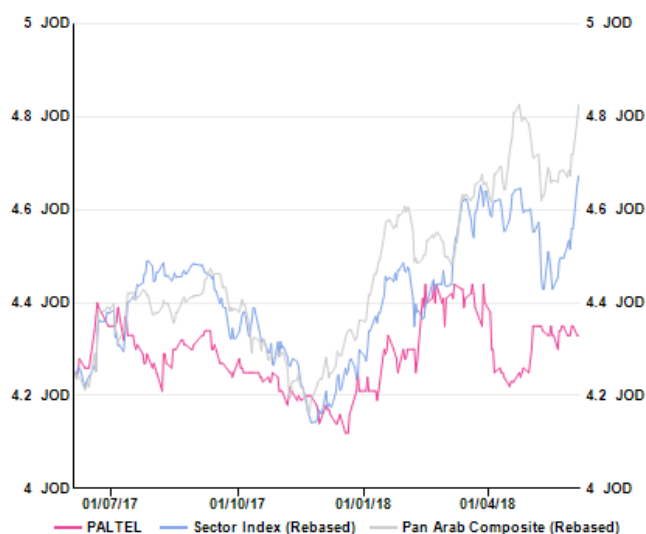


Strong...but under harsh landscape

Buy

Upside potential : 57.7%

Target Price (6 months)	6.83
Share Price	JOD 4.33
Market Capitalisation JODM	570
Price Momentum	STRONG
Extremes 12Months	4.12 ► 4.44
Bloomberg ticker	PALTEL PS



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KEY DATA	12/16A	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	7.01	7.52	7.42	7.22	7.02
Dividend yield (%)	9.28	9.42	9.24	9.24	9.24
EV/EBITDA(R) (x)	1.92	2.80	3.08	3.05	3.01
Adjusted EPS (JOD)	0.61	0.57	0.58	0.60	0.62
Growth in EPS (%)	-3.99	-8.04	3.22	2.89	2.73
Dividend (JOD)	0.40	0.40	0.40	0.40	0.40
Sales (JODM)	332	335	338	342	347
Pretax Results margin (%)	27.4	22.5	26.7	27.1	27.4
Attributable net profit (JODM)	80.1	70.5	76.8	79.0	81.1
ROE (after tax) (%)	14.6	12.6	13.3	13.1	12.9
Gearing (%)	-12.4	-4.39	10.7	11.6	9.06

Last forecasts updated on the 06/06/2018

Benchmarks	Values (JOD)	Upside	Weight
DCF	7.83	81%	35%
NAV/SOTP per share	6.28	45%	20%
EV/Ebitda	Peers	37%	20%
P/E	Peers	48%	10%
Dividend Yield	Peers	38%	10%
P/Book	Peers	90%	5%
TARGET PRICE	6.83	58%	100%

Conflicts of interest

Corporate broking	NO
Trading in corporate shares	NO
Analyst ownership	NO
Advising of corporate (strategy, marketing, debt, etc)	NO
Research paid for by corporate	NO
Provision of corporate access paid for by corporate	NO
Link between AlphaMena and a banking entity	NO
Brokerage activity at AlphaMena	NO
Client of AlphaValue Research	NO

Contents

Recent Updates.....	3
Body of research.....	6
Target Price & Opinion.....	7
Businesses & Trends.....	8
Money Making.....	11
Debt.....	15
Valuation.....	16
DCF.....	17
NAV/SOTP.....	18
Worth Knowing.....	19
Financials.....	20
Pension Risks.....	26
Governance & Management.....	29
Graphics.....	31
Methodology.....	34

Recent Updates

► Updates

06/06/2018 Upgrading outlook

Change in EPS

2018 : JOD 0.58 vs 0.51	+13.4%
2019 : JOD 0.60 vs 0.53	+13.1%

Paltel's ongoing efforts to strengthen its revenues and improve its operational efficiency are clearly visible. We have updated our model based on FY 2017 and Q1 2018 figures. Therefore, we have revised our FY 2018 and FY 2019 EPS upwards (+13.7% to JOD0.58, and +13.2% to JOD0.60, respectively). The increase of our 2018-2020 net profits is mainly attributable to the upward revision of our EBITDA margin forecasts (an EBITDA margin of 42.3% on average over the 2018-2020 period vs. 39.1% initially estimated).

24/05/2018 A difficult year

Earnings/sales releases

Paltel recorded poor FY 2017 figures with modest revenue growth (+0.7% at JOD335m) and a drop across all other earning levels. Paltel's FY2017 EBITDA decreased by 2.4% to JOD139m, with an EBITDA margin of 41.6%, down by 130 bps. The group's EBIT and net profit crashed by 22.8% and 11.9%, respectively, with an EBIT margin of 20.3% (-610 bps). On a like-for-like basis, Paltel's FY2017 net profit would have decreased by 8% at JOD74.4m. The group maintained a dividend of JOD0.4/share for 2017, which equals 2016 dividend.

Fact

Paltel recorded a slight increase by 0.7%, yoy, in its 2017 revenues at JOD335m with a healthy rise in Data revenues offsetting the drop in Mobile services revenues and the flat growth in Fixed revenues. Indeed, in the face of a mature Palestinian market with a mobile penetration rate of 97%, and increased pressure from Wataniya Mobile, which started operating in the Gaza Strip in October 2017, Paltel's Mobile revenues decreased by 2.9% in 2017, to JOD213m (contributing by 63.7% to the group's FY2017 revenues vs. 66.1% in 2016). Note that Paltel's Mobile customer base increased by only 1.6% to 2.9 million subscribers by the end of 2017, with a lower market share of 68% vs. 73% in 2016. The Fixed line segment remains flat at JOD29.7m with a stable contribution compared to 2016 (8.9%). By contrast, the Data segment performed well during this period, with a revenue growth rate of +10.6% at JOD91.6m, contributing 27.4% to the group's FY2017 revenues (vs. 24.9% in 2016). Paltel's FY 2017 customer base was up by 3.3%, yoy, to 3.8 million subscribers, with an increase across all business segments. The Mobile segment remains the first contributor to the group's customer base with 78.3% in 2017, followed by the Fixed Line and Data segments contributing by 12.4% and 9.4%, respectively.

Analysis

The group suffered significant losses

Paltel's FY 2017 global trend was clearly foreseeable by our model with a modest positive revenue growth and a decrease across all other earning levels. Indeed, the slight revenue growth was expected by our model assuming an increase by 0.67% vs. 0.71% actually achieved. Paltel's FY2017 EBITDA decreased by 2.4% to JOD139m, with an EBITDA margin of 41.6%, down by 130 bps, affected by additional provisions related to employees' indemnity (slightly better than our estimates projecting a decrease by 8.8% and an EBITDA margin of 38.9%). The group's EBIT and net profit crashed by 22.8% and 11.9%, respectively, with an EBIT margin of 20.3% (-610 bps), vs. -17.7% and -17.8%, respectively, expected by our model. Indeed, Paltel's results were affected by the increase in amortisation expenses following the renewal of Jawwal and Paltel licenses at the end of 2016, coupled to higher finance costs, additional provisions related to employees' indemnity and early retirement, in addition to the cancellation of Jawwal's 50% income tax exemption and the expiry of Paltel's 50% tax exemption starting from the year 2017. Note that, on a like-for-like basis, Paltel's

► Updates

FY2017 net profit would have decreased by 8% at JOD74.4m.

Cash Flow's resilience

Despite lower profits, Paltel maintained a dividend of JOD0.4/share for 2017, which is equal to 2016 dividend (in line with our projections). This was made possible thanks to the group's sustained cash flow to support dividend payment. Note that despite a declining operating cash flow in 2017, Paltel was able to maintain a good cash generation capacity with a conversion ratio of its EBITDA to an FFO of 70.6%, which proves the group's sound financials, as well as its ability to meet its obligations and enhance its shareholders' wealth. FCF for 2017 was affected by the group's higher investments following the renewal of Jawwal and Paltel licenses at the end of 2016 (with a Capex/Sales ratio of 51.9% vs. 10.6% in 2016 and 7.8% in 2015). However, for the coming years, we expect that Paltel will gradually resume its pre-licenses FCF levels. We project the FFO/EBITDA ratio to be at an average of 97% for the 2018-2020 period.

Still solid

Paltel's ongoing efforts to strengthen its revenues and improve its operational efficiency are clearly visible. Given the serious challenges that faced the group, we expect a rather flat revenues CAGR of 1.2% and an EBITDA margin of 42.3% on average over the 2018-2020 period. We also assumed a net profit CAGR of 2.9% over the same period. However, the group's industry-leading position, its solid fundamentals and solid cash generation capacity offer a great growth potential in the coming years. We share the view that Paltel should further lure investors' interest.

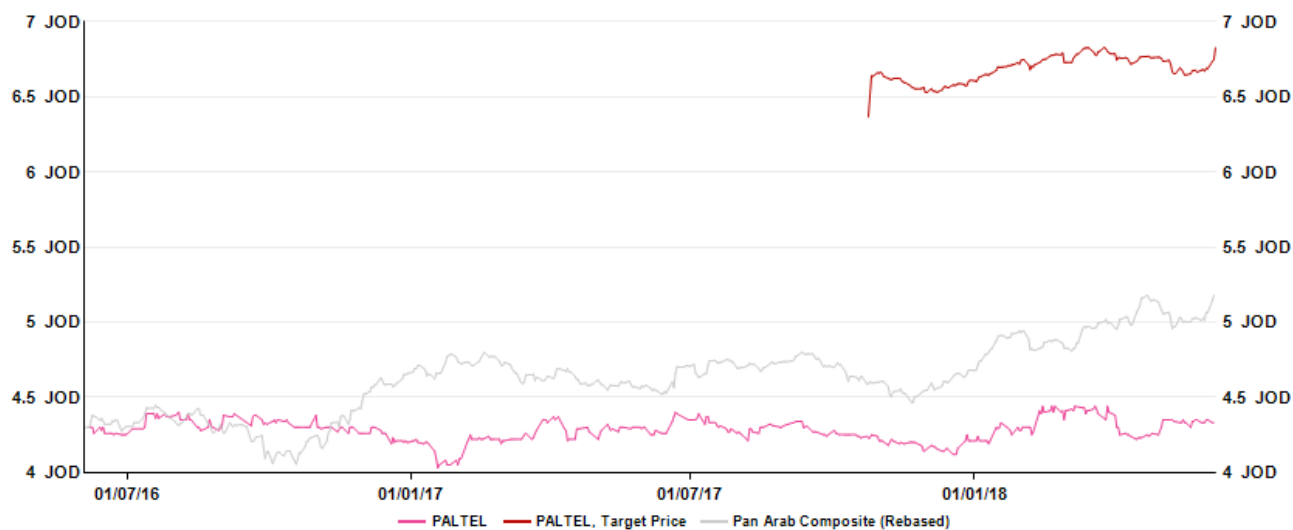
Impact

Our model was updated based on FY 2017 figures.

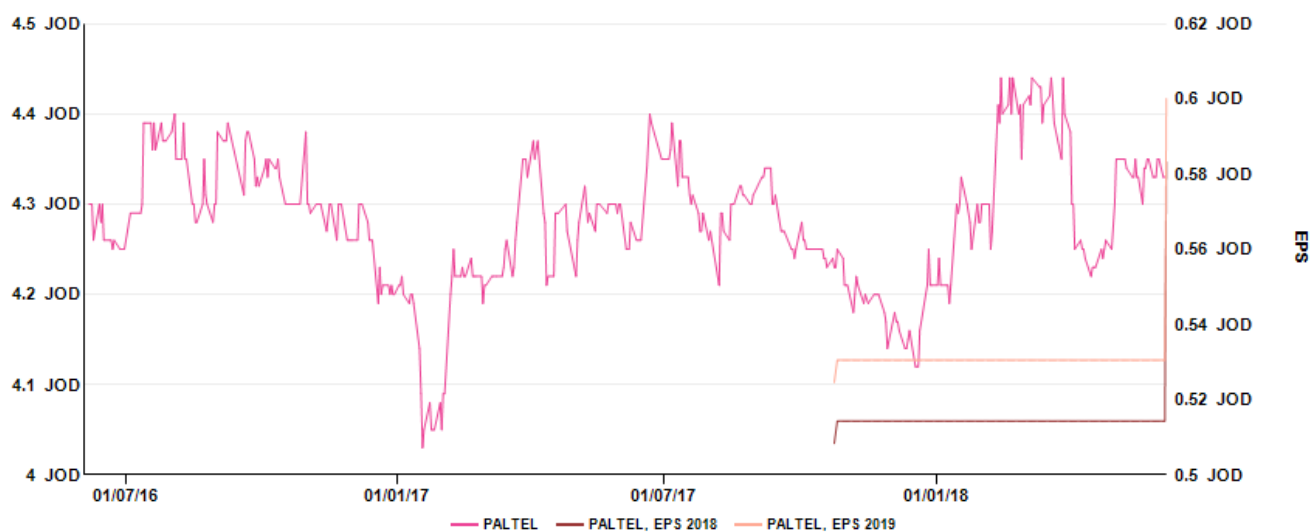
Body of research

Target Price & Opinion

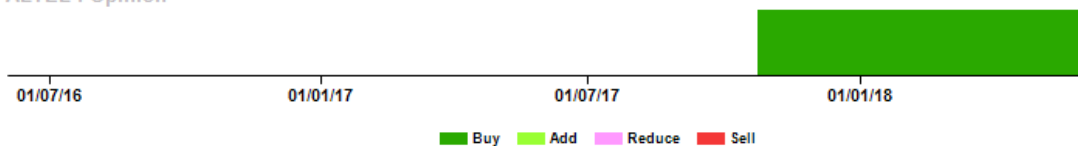
Stock Price and Target Price



Earnings Per Share & Opinion



PALTEL : Opinion



► Businesses & Trends

Businesses & Trends

Paltel Group started its operations in Palestine in 1997 with Paltel, the public shareholding company. The group provides a variety of services including: local and international fixed telephony services, internet, data communications, mobile services, next-generation services and investment activities. The group also used to operate in the IT segment, but in 2010, it decided to limit the operations of this segment and turn it into a cost centre, which provides services only to the group's companies.

Areas of activity

The group operates through four segments:

- Wireline: providing wire-line communication services via Paltel.
- Wireless: providing wireless communication services via Jawwal.
- Data: providing internet services, leased lines and ADSL services in Palestine via both HADARA and Paltel.

Regarding the investment activity, the group's portfolio consists of available for sale investments, held for trading investments and investment in associates such as: The National Bank (TNB), Jericho Gate (which is engaged in investing in real estate and tourism projects) and Vtel Company (which is specialised in investing in telecom and IT sectors).

Paltel, the Palestinian telecom's leader

Despite unauthorised competition and overall weak governance and regulation, the telecom infrastructure in the Palestinian territories is growing at a very rapid pace and continually being updated and expanded. For a total population of around 4.9 million people in 2017, Paltel Group, along with its subsidiaries, is the Palestinian telecom market leader. Indeed, Paltel is dominating the fixed line market in the West Bank and Gaza. Regarding the mobile activity, Jawwal lost its West Bank's dominant market position in 2009 as Wataniya Mobile (a subsidiary of Ooredoo Group) entered the market as the second mobile operator.

The Fixed market: an obstacle-free path

Despite the Israeli siege of the sector, unfair competition from Israeli operators, and the restriction on infrastructure development in Area C (that today constitutes more than 60% of the West Bank area), Paltel has been maintaining almost a stable subscriber base of around 0.400 million PSTN customers since 2012. In 2016, the group was able to increase its fixed line customer base by 6.3% to 0.432 million in the West Bank and Gaza. This increase is attributed to the intensive offered price campaigns which aim to increase the service's usage through providing several motives and advantages to subscribers. A positive trend which was maintained in 2017 with a surge of 9.3% to 0.472 million customer. However, the decrease in ARPU sets back revenues' growth experiencing a slight decrease by 0.1% compared to 2016, retaining the same contribution to the Group's revenues (8.9%) as 2016.

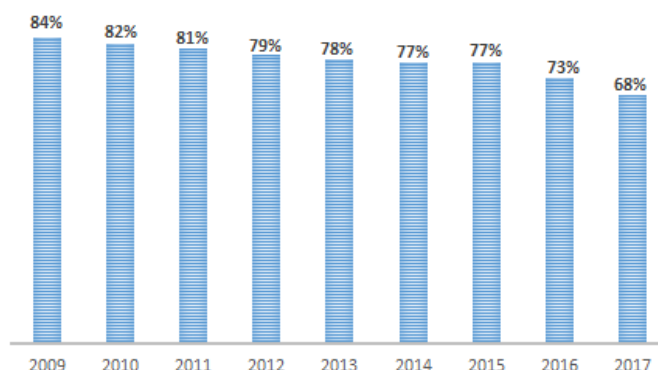
For fixed-broadband, the data segment achieved 11.4% growth in the number of ADSL lines to stand at 0.357 million lines by the end of 2017 compared with 0.321 million in 2016. As a result, the penetration rate of the ADSL lines (per fixed line) grew from 74.2% in 2016 to 75.6% at the end of 2017. Note that the penetration rate of the ADSL lines (per fixed line) is rising continuously over the years with 25% in 2009, 40.5% in 2011, 52.9% in 2013, 67.5% in 2015 to reach 75.6% by the end of 2017, a sign of the increase in customers' preferences for the ADSL services.

The Mobile market: only two operators...really???

The Palestinian telecommunications market used to be dominated by Paltel for more than ten years, until Wataniya Mobile's services were launched in The West Bank by the end of 2009. Competition in the Palestinian Telecom market is not limited to the aforementioned two licensed operators, simply due to the illegal competition by the Israeli mobile operators utilising coverage in the Israeli settlements constructed in the West Bank. Thus, Jawwal remains the market leader with a market share of 68%, in 2017, covering almost 99% of the Palestinian territories. Note in this sense that, on October 2017, Wataniya Mobile started operating in Gaza Strip.

► Businesses & Trends

JAWWAL'S MARKET SHARE



According to Paltel Group's annual reports

It is clear that the group's mobile segment has been losing some ground in the recent years. This was directly attributable to an almost mature market with a mobile penetration rate of 97%, and Wataniya Mobile's noticeable progress in increasing its market share. Note that Wataniya Mobile's customer base reached 1.016 million as of 31 Dec 2017, compared to 0.773 million at the end of 2016, an improvement of 31.4% due to launching Gaza operations, and whose network currently covers 96.5% of the Palestinian population in the West Bank and Gaza Strip. Thus, Jawwal's market share loss coupled to the continued drop in ARPU has braked the Mobile revenues growth from 2012, contributing by 63.7% to the group's FY2017 revenues vs. 74.1% in 2011.

It's worth noting that both mobile providers are facing the same challenges resulting from the Israeli occupation. These challenges concern mainly the difficulties of obtaining additional frequencies that should help extend services and maintain quality. Another problem to mention for the mobile operators in Palestine is the unfair competition. In fact, the Israeli illegal competition continued to ban the entry of telecom equipment to Palestine, especially to the Gaza Strip. In addition, these illegal competitors provide the latest technological services at cheaper prices in order to attract Palestinian customers.

Recall that for the mobile internet services, Jawwal operates over all these years with strong spectrum constraints as it can only operate a 2G system in the Palestinian territories (mobile internet is provided thanks to the EDGE technology which the download speed is similar to fixed narrowband internet access). This further increases the Palestinians customers' preference to subscribe to Israeli telecom operators which provide 3G and 4G services to the Palestinian market while Paltel Group and Wataniya Mobile were restricted by Israel to the use of only 2G coverage. Note in this sense that on January 2018, Palestinian cellular providers launched high-speed data services in the occupied West Bank, narrowing a technological gap with Israel after a lengthy and costly Israeli ban on the operation of local 3G networks. However, the Gaza Strip is still deprived of it.

Global customer base further expanded

During all these years, Paltel has benefited from a continued healthy growth in its customer base with an increase across all business segments. Thus, 78.3% of the customer base in 2017 is made up of mobile customers, with a total of 2.980 million users. The Fixed line segment is the second contributor with 12.4%. Despite its tiny contribution to the total number of customers (only 9.4% in 2017), the broadband base is also keeping a steady pace as the number of users has been increasing from one year to another (a contribution of 4.1% in 2009, 5.9% in 2012 and 7.8% in 2015), ignoring the real threat of the migration to the 3G mobile services. In fact, the Palestinian internet users prefer having an ADSL line at home rather than mobile internet services, which are not known for their good quality (according to Paltel). We note, also, that Paltel Group is the main telecom provider of almost all public institutions.

Data to drive future revenues

Despite a drop in its revenues since 2012, the Mobile segment remains the group's main contributor to total 2017 revenues (c.63.7% vs. 66.1% in 2016), which should decrease to c.54.2% by 2020, due to almost saturated Palestinian market with a

Businesses & Trends

mobile penetration rate of 97% in 2017, increasing competition and the heightened pressure on ARPU. The Fixed line segment ranks last with a stable contribution as of 2016 (8.9% in 2017). The Data segment is the second revenues contributor with 27.4% (vs. 24.9% in 2016), which is expected to reach 37.1% by 2020. The growth will be mainly driven by the data segment through both mobile and fixed lines. Our assumption is a result of a number of indicators such as additional 3G subscribers, young Palestinian society, spending on technology devices, and change in technology habits. However, It should be mentioned that, even with the introduction of 3G services, the Palestinian operators would still at a competitive disadvantage, as Israeli operators have 3G and 4G capabilities and are able to attract higher value customers.

Outlook: worries about a slowdown

For the coming years, the group's main challenge is to avoid the slowdown of its activity pace. Thus, we expect a rather flat sales CAGR of 1.2% over the 2018-2020 period given the serious constraints faced by the group. A mature Palestinian telecom market with many macroeconomic and political difficulties such as: the growing insecurity and instability due to war risks, the Israeli occupation's continuous restrictions on the installation of telecom equipments, and the illegal competition from the Israeli companies which force their way into the group's territory. Regarding the 3G mobile services, Israeli approval of a 3G Palestinian network in the West Bank came only after Israeli cellular providers upgraded to 4G in 2014, which kept them a step ahead of the competition.

Divisional Breakdown Of Revenues

	Sector	12/17A	12/18E	12/19E	12/20E	Change 18E/17		Change 19E/18E	
						JODM	of % total	JODM	of % total
Wireline	Telephone-Integrated	29.7	29.8	30.0	30.1	0	3%	0	5%
Wireless	Telephone-Integrated	213	205	197	188	-8	-267%	-8	-200%
Data	Telephone-Integrated	91.7	103	115	129	11	377%	12	300%
Media	Contents & Rights	0.00	0.00	0.00	0.00	0	0%	0	0%
IT	Telephone-Integrated	0.00	0.00	0.00	0.00	0	0%	0	0%
Investing	Telephone-Integrated	0.00	0.00	0.00	0.00	0	0%	0	0%
Other		0.00	0.00	0.00	0.00	0	0%	0	0%
Total sales		335	338	342	347	3	100%	4	100%

Key Exposures

	Revenues	Costs	Equity
Dollar	0.0%	0.0%	0.0%
Emerging currencies	100.0%	100.0%	100.0%
Long-term global warming	0.0%	0.0%	0.0%

Sales By Geography

Palestine	100.0%
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We address exposures (eg. how much of the turnover is exposed to the \$) rather than sensitivities (say, how much a 5% move in the \$ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.

Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in \$ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling. In addition, subjects are frequently intertwined. A \$ exposure may encompass all revenues in \$ pegged currencies and an emerging currency exposure is likely to include \$ pegged currencies as well.

Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

► Money Making

Money Making

Summer 2014, let's hope these days will never come back!

During the summer 2014, the group went through exceptionally hard times following the aggression on the Gaza Strip. The network and the staff were directly under the Israeli military aggression, and suffered heavy losses in the various sectors of the service, and in other parts of the network in Gaza. In addition, several important operational elements stopped working as a result of the destruction, or disruption, of electricity and fuel reserves. The group has also faced difficulties in the Gaza Strip. Indeed, it had trouble providing the fuel needed to operate the stations (which resulted in constant power outages), and funding their own generators in order to continue the network's operations. The group's stations ultimately ran out of fuel, which led to the suspension of 240 stations, i.e. 85% of the mobile network, for 48-72 hours, as well as the destruction of 14 stations that were targeted directly by the Israeli army. The total direct and indirect losses incurred following the aggression on Gaza amounted to a total of JOD23.09m (according to Paltel's 2014 annual report). The impact of all these unfavourable conditions was reflected through Paltel 2014 disappointing results with a drop across all earning levels. Recall that the group closed the year 2014 on an aggressive drop by 7.4% in its net profit on the back of crashed revenue growth (-5.2%) and squeezed EBITDA (-7.3%, yoy, with an EBITDA margin of 43.4%, down by 100 bps).

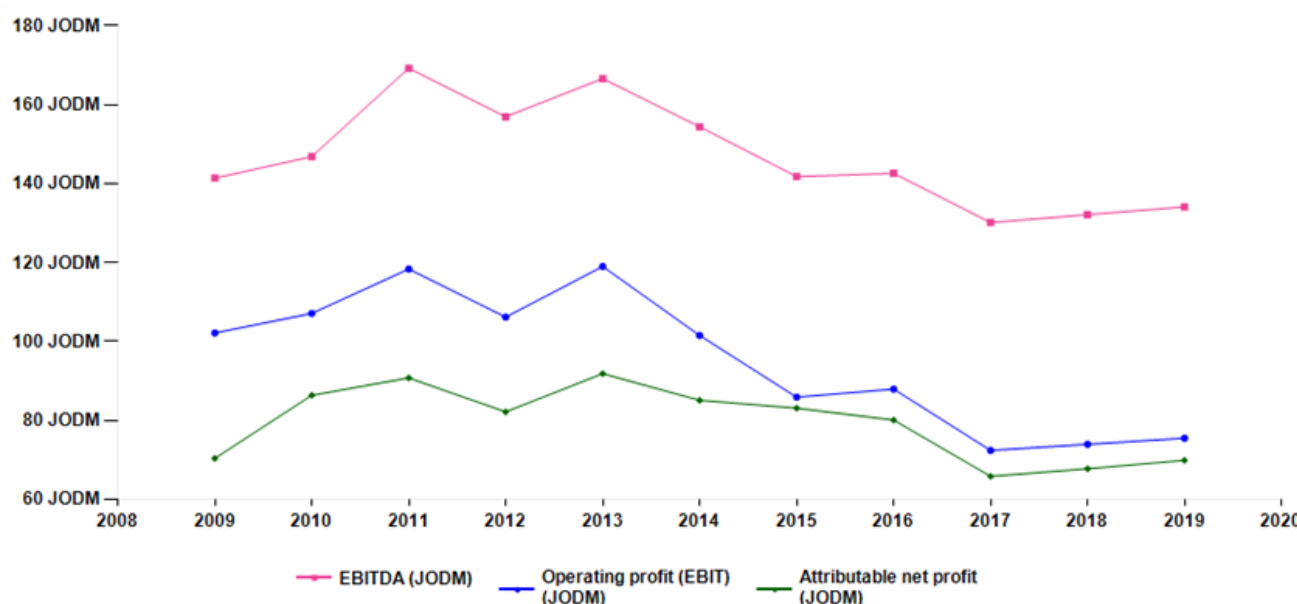
2014-2017: Shrinking margins... but solid!

2014-2017 was a really difficult period for Paltel which witnessed squeezed margins and crushed bottom lines. Thus despite the modest positive revenues growth (+0.7%, yoy), FY2017 Paltel's net profit accused its fourth consecutive decrease (-11.9%). Indeed, FY2017 Paltel's EBITDA decreased by 2.4% with an EBITDA margin of 41.6%, down by 130 bps. FY2017 EBIT and net profit were crushed by 22.8% and 11.9%, respectively, with an EBIT margin of 20.3% (-610 bps). Paltel's results were affected by the increase in amortisation expenses following the renewal of Jawwal and Paltel licenses at the end of 2016, coupled to higher finance costs, additional provisions related to employees' indemnity and early retirement, in addition to the cancelation of jawwal 50% income tax exemption and the expiry of Paltel's 50% tax exemption stating the year 2017. Note that, on a like for like basis, Paltel's FY2017 net profit would decreased by 8% at JOD74.4m.

Thus, the group's EBITDA was cut by 4.4% between 2013-2017, with a FY2017 EBITDA margin of 41.6% (-280 bps compared to 2013). The EBIT lost 13.1% with a FY2017 EBIT margin of 20.3% vs. 31.7% in 2013 (-1140 bps). Consequently, the group's net profit was affected recording a 6.4% decrease over 2013-2017 period. It should be mentioned that despite being under pressure since 2014, the group has always maintained high levels of EBIT and net profit margins well above the sector's average (an EBIT margin of 25.3% and a net profit margin of 23.5% over 2014-2017 period vs. an average of 21.6% and 15.7%, respectively, for its peers).

For the coming years, we expect the slight recovery of the group's margins (EBIT and net profit margins at an average rate of 24.3% and 23.1%, respectively, over the 2018-2020 period). We believe that the Palestinian market would remain under intense Israeli pressure, and even with the introduction of 3G services, the Palestinian operators would still at a competitive disadvantage, as Israeli operators have 3G and 4G capabilities and are able to attract higher value customers. Furthermore, the competitiveness within the sector is expected to get tougher following the entry of Wataniya Mobile into Gaza in 2017.

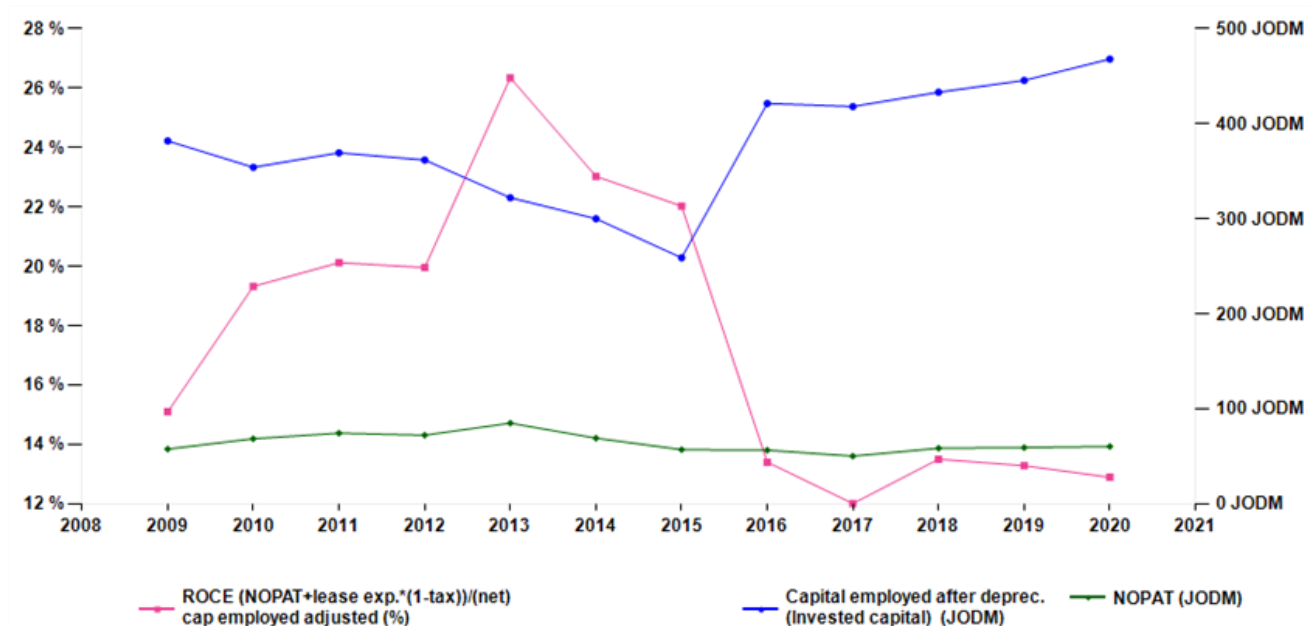
► Money Making



Satisfactory performance

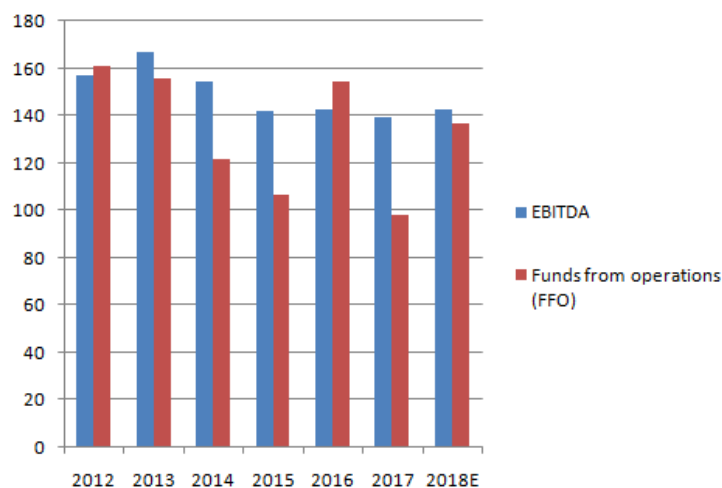
Historically and except for 2016 and 2017, Paltel was able to generate, and keep, a satisfactory ROCE levels clearly higher than the sector (19.7% over the 2009-2015 period vs. 13.8% for the sector over the same period). This was mainly attributable to, both, a solid EBIT margin and a good capital employed discipline. Note in this sense that Paltel has maintained a conservative investment pace during this period with significantly lower Capex/Sales ratios than those of the sector (14.7% on average for Paltel over the 2009-2015 period vs. 20.5% for the sector over the same period), which has bolstered the ROCE. However, for 2016 and 2017, the ROCE has fallen to 13.4% and 12%, respectively, slightly below the sector (14.4% and 14% in 2016 and 2017, respectively), affected by the group's higher investments following the renewal of Jawwal and Paltel licenses at the end of 2016. Recall that in 2017, the group recorded a 394% increase in Capex with a Capex/Sales ratio of 51.9% (vs. 10.6% in 2016 and 7.8% in 2015). Thus, despite being down, Paltel has generated a sound ROCE, which it managed to maintain above the cost of capital (2017 ROCE of 12% vs. WACC of 7.32%). With an expected EBIT margin of 24.3% on average over the 2018-2020 period and the anticipated investment following the license renewal and the group's continued focus on upgrading its operating network and updating its services throughout the Palestinian territories (a Capex/Sales of 15% over 2019-2020), we expect the ROCE to be at an average of 13.2% for the 2018-2020 period (in line with the sector).

► Money Making



Despite a declining operating cash flow in 2017, Paltel was able to maintain a good cash generation capacity with a conversion ratio of its EBITDA to an FFO of 70.6%, which proves the group's sound financials, its ability to meet its obligations and enhance its shareholders' wealth.

Cash Generation Capacity



Wireless is the current profitability driver, Data is strengthening!

Despite the fact that its contribution has been losing ground from one year to another, the Mobile remains the company's first growth driver, contributing by 56.6% to Paltel's FY2017 pretax profit. However, for the coming years we expect that the Mobile contribution will continue to drop (49.4% by 2020) given a saturated market and the increasing competition, particularly after the entry of Wataniya Mobile into Gaza. Data is second, with a contribution of 29.1% to Paltel's FY2017 pretax profit which will probably rise to 31.9% by 2020 thanks to the promising avenue of the data segment and the launching of 3G services. As a reminder, in June 2017, the penetration rate of the internet was 59.7% with 3 million internet users in Palestine (Source: Internet World Stats), leaving great room for growth by gaining new subscribers. The Wireline segment ranks last with a marginal contribution of only 1.1% which should stabilise at around 0.9% over 2018-2020 period. However, the Investment activity which has been very volatile over the years, regains speed in 2017 contributing by 13.3% to the group's pretax profit, thanks to the increase of, both, the company's share of associates' profits and the amount of cash

► Money Making

dividends received from the group's investment portfolio.

Divisional PRETAX RESULTS

	12/17A	12/18E	12/19E	12/20E	Change 18E/17		Change 19E/18E	
					JODM	of % total	JODM	of % total
Wireline	0.80	0.80	0.80	0.81	0	0%	0	0%
Wireless	42.6	54.3	50.7	46.9	12	79%	-4	-150%
Data	21.9	23.2	26.6	30.4	1	9%	3	142%
Media	0.00	0.00	0.00	0.00	0	0%	0	0%
IT	0.00	0.00	0.00	0.00	0	0%	0	0%
Investing	10.0	12.1	14.5	16.9	2	14%	2	100%
Other/cancellations	0.00	0.00	0.00	0.00	0	0%	0	0%
Total	75.4	90.3	92.7	95.0	15	100%	2	100%

Divisional PRETAX RESULTS margin

	12/17A	12/18E	12/19E	12/20E
Wireline	2.68%	2.68%	2.68%	2.68%
Wireless	20.0%	26.4%	25.8%	25.0%
Data	23.9%	22.6%	23.2%	23.6%
Media				
IT				
Investing				
Total	22.5%	26.7%	27.1%	27.4%

► Debt

Debt

Paltel has a sound financial position with a relatively strong balance sheet structure and good cash generation capacity. As of 31/12/2017, Paltel's gross debt amounted to JOD97m (vs. JOD91.2m in 2016), of which 47.5% long-term debts at JOD46m. Recall that during 2016, the group signed a LT loan agreement worth JOD70.9m to be used in part for a license renewal payment. We remind also that the group renewed in 2016 the licenses of both Paltel and Jawwal for a period of 20 years. The total amount of these licenses is JOD205.6m of which JOD184.34m are related to Jawwal's license renewal (including 2G and 3G frequency licenses). Besides, 2017 short-term loans were up by 64.5% to JOD51m vs. JOD31m, a year earlier, due to the significant increase in Bank overdraft. Note that during the year, the group signed a new overdraft agreement for a line of credit of up to JOD14.2m. Thus, Paltel's net debt, at the end of 2017, was at JOD48.8m, corresponding to 0.35x EBITDA and a gearing of -4.4% well below its MENA region peers (a gearing of 20.3% and a Net debt/EBITDA ratio of 0.58x in 2017). Paltel was able to maintain a high cash conversion rate of 70.6% by the end of 2017, which proves the comfortable financial health of the group, its ability to meet its obligations and enhance its shareholders' wealth. The group is still enjoying a healthy liquidity position which is anticipated to be utilised to fuel its future investment.

Funding - Liquidity

		12/17A	12/18E	12/19E	12/20E
EBITDA	JODM	139	143	145	147
Funds from operations (FFO)	JODM	98.3	137	140	143
Ordinary shareholders' equity	JODM	566	590	616	645
Gross debt	JODM	97.0	105	97.9	86.8
o/w Less than 1 year - Gross debt	JODM	50.9	57.4	53.1	46.8
o/w 1 to 5 year - Gross debt	JODM	46.1	47.9	44.9	40.1
+ Gross Cash	JODM	48.2	27.5	32.5	35.5
= Net debt / (cash)	JODM	48.8	77.7	65.5	51.4
Bank borrowings	JODM	97.0	90.2	83.9	73.8
Other financing	JODM	0.00	15.0	14.0	13.0
Gearing (at book value)	%	-4.39	10.7	11.6	9.06
Adj. Net debt/EBITDA(R)	x	0.35	0.54	0.45	0.35
Adjusted Gross Debt/EBITDA(R)	x	1.11	1.24	1.27	1.27
Adj. gross debt/(Adj. gross debt+Equity)	%	21.5	23.1	23.0	22.5
Ebit cover	x	-10.5	-11.6	-9.73	-9.12
FFO/Gross Debt	%	63.4	77.3	76.0	76.3
FFO/Net debt	%	201	176	214	278
FCF/Adj. gross debt (%)	%	-51.8	13.4	35.3	35.7
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-0.63	0.89	1.84	2.19
"Cash" FCF/ST debt	x	-1.59	0.41	1.22	1.42

► Valuation

Valuation

Our valuation takes into consideration the context of the political and economic instability in Palestine. Our DCF is based on a long-term growth rate of 1% for both sales and EBITDA. In fact, despite maintaining the leading position in the Palestinian telecom market, we believe that the group is already into a maturity stage. On the other hand, we opt for a 2.5% growth rate for the capex as the group is aiming to invest in its network in order to further deploy fixed, mobile and internet services. Note that our DCF is based on a sectorial approach (rather than a comparison by country) in order to be able to compare companies within the same sector regardless of their operating countries. Indeed, our WACC is based on a sectorial approach using the same risk free rate (3.5%), the same Equity risk premium (5%) and 0.72x as telecom sector beta.

Our peer group valuation consists mainly of 9 telecom operators covered by AlphaMena. We believe that Palestinian companies are facing difficult macroeconomic context which weighs on their long-term perspectives. Thus, for Paltel Group, we applied an average discount of 30% to its peers to factor this particular operating environment. Concerning our NAV, we valued the group's business units based on the PE multiple. We chose to value the Wireline activity at 7x, the Wireless at 8x, while a multiple of 9x was assigned to the Data services. Paltel Group's main investments are in the Palestine Development and Investment Company (PADICO), the Arab Bank and the National Bank. Both of PADICO and the National Bank are listed on the Palestinian Stock Exchange. Arab Bank (covered by AlphaMena) is listed on the Jordanian Stock Exchange. These three companies are included in our valuation at their respective market value.

Valuation Summary

Benchmarks		Values (JOD)	Upside	Weight
DCF		7.83	81%	35%
NAV/SOTP per share		6.28	45%	20%
EV/Ebitda	Peers	5.91	37%	20%
P/E	Peers	6.40	48%	10%
Dividend Yield	Peers	5.98	38%	10%
P/Book	Peers	8.21	90%	5%
Target Price		6.83	58%	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	15.4	6.45	2.56	5.15
PALTEL's ratios	7.32	3.06	0.94	9.24
Premium	-30.0%	-30.0%	-30.0%	-30.0%
Default comparison based valuation (JOD)	6.40	5.91	8.21	5.98
Saudi Telecom	20.0	8.62	2.89	4.35
Etisalat	12.9	7.53	3.15	5.64
Maroc Telecom	21.2	8.81	7.82	4.62
Ooredoo	9.77	3.53	0.98	5.01
du	11.9	3.78	2.63	7.48
Zain	8.98	5.22	1.02	10.00
Vodafone Qatar	-38.6	10.00	1.78	1.96
Telecom Egypt	12.0	4.44	0.67	6.87
Global Telecom Holding	12.3	3.66	8.58	0.00

DCF

DCF Valuation Per Share

WACC	%	7.34	Avg net debt (cash) at book value	JODM	71.6
PV of cashflow FY1-FY11	JODM	396	Provisions	JODM	72.2
FY11CF	JODM	54.0	Unrecognised actuarial losses (gains)	JODM	0.00
Normalised long-term growth "g"	%	2.00	Financial assets at market price	JODM	280
Terminal value	JODM	1,011	Minorities interests (fair value)	JODM	0.00
PV terminal value	JODM	498	Equity value	JODM	1,031
<i>PV terminal value in % of total value</i>	%	55.7	Number of shares	Mio	132
Total PV	JODM	894	Implied equity value per share	JOD	7.83

Assessing The Cost Of Capital

Synthetic default risk free rate	%	3.50	Company debt spread	bp	700
Target equity risk premium	%	5.00	Marginal Company cost of debt	%	10.5
Tax advantage of debt finance (normalised)	%	30.0	Company beta (leveraged)	x	0.77
Average debt maturity	Year	5	Company gearing at market value	%	13.6
Sector asset beta	x	0.72	Company market gearing	%	12.0
Debt beta	x	1.40	Required return on geared equity	%	7.34
Market capitalisation	JODM	570	Cost of debt	%	7.35
Net debt (cash) at book value	JODM	77.7	Cost of ungeared equity	%	7.10
Net debt (cash) at market value	JODM	53.1	WACC	%	7.34

DCF Calculation

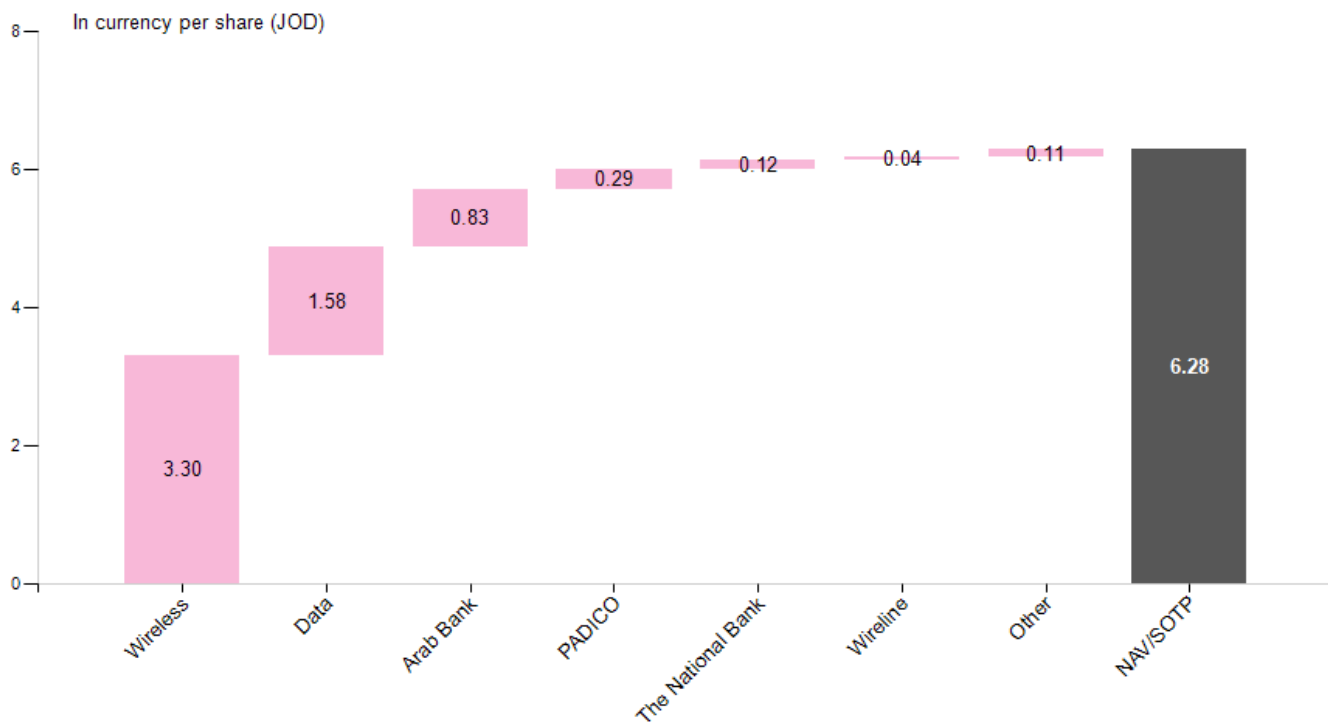
		12/17A	12/18E	12/19E	12/20E	Growth	12/21E	12/28E
Sales	JODM	335	338	342	347	1.00%	350	376
EBITDA	JODM	139	143	145	147	1.00%	148	159
<i>EBITDA Margin</i>	%	41.6	42.3	42.3	42.3		42.3	42.3
Change in WCR	JODM	-4.94	-26.1	-23.7	-23.9	2.50%	-24.5	-29.2
Total operating cash flows (pre tax)	JODM	91.5	117	121	123		124	130
Corporate tax	JODM	-4.83	-13.5	-13.7	-13.9	2.50%	-14.2	-16.9
Net tax shield	JODM	2.00	2.14	2.57	2.79	2.50%	2.86	3.40
Capital expenditure	JODM	-174	-87.1	-51.3	-52.0	2.50%	-53.3	-63.4
<i>Capex/Sales</i>	%	-51.9	-25.8	-15.0	-15.0		-15.2	-16.9
Pre financing costs FCF (for DCF purposes)	JODM	-85.1	18.8	58.9	60.2		59.1	52.9
Various add backs (incl. R&D, etc.) for DCF purposes	JODM							
Free cash flow adjusted	JODM	-85.1	18.8	58.9	60.2		59.1	52.9
Discounted free cash flows	JODM	-85.1	18.8	54.9	52.3		47.8	26.1
Invested capital	JOD	418	433	446	468		480	570

► NAV/SOTP (edit)

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (JODM)	Stake valuation (JODM)	In currency per share (JOD)	% of gross assets
Wireless	100%	PE	8	434	434	3.30	52.5%
Data	100%	PE	9	209	209	1.58	25.2%
Arab Bank	2.40%	- Listed -		4,550	109	0.83	13.2%
PADICO	16.8%	- Listed -		231	38.7	0.29	4.69%
The National Bank	16.7%	- Listed -		92.6	15.5	0.12	1.87%
Wireline	100%	PE	7	5.59	5.59	0.04	0.68%
Other					15.0 ⁽¹⁾	0.11	1.81%
Total gross assets					827	6.28	100%
Net cash/(debt) by year end							
Commitments to pay							
Commitments received							
NAV/SOTP					827	6.28	100%
Number of shares net of treasury shares - year end (Mio)					132		
NAV/SOTP per share (JOD)					6.28		
Current discount to NAV/SOTP (%)					31.0		

1. Including:-Financial fixed assets at fair value (excluding The National Bank)-Quoted available-for-sale investments (excluding PADICO and The Arab Bank)-Unquoted available-for-sale investments-Investment properties valued at 10% discount to its fair value-Tax expense



► Worth Knowing

Worth Knowing

PALTEL Group is the pioneer in the telecommunications sector in Palestine. The group was established in 1995 to provide services which include fixed line, mobile, and internet services. It has been listed on Palestine Exchange since May 1997. 30.6% of the group's shares are held by the Palestine Development and Investment Company Ltd (PADICO), and 8.02% are in the hands of the Palestine Investment Fund.

Concerning its off-shore investments, the group holds 26.3% of Vtel Holdings (which is an Emirati holding company specialised in the management of telecom companies) and Vtel MEA (a holding company established during 2011 in the UAE).

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
PADICO	30.6%	30.6%	0.00%
Palestine Investment Fund and related parties	8.02%	8.02%	0.00%
Apparent free float			61.4%

Key shareholders of shareholders

Shareholders	Shareholders of shareholders
PADICO	PALTEL
PADICO	Sabih Masri and affiliate parties
PADICO	Siraj for Investment Funds Group and affiliate parties
PADICO	Massar International Group for Investment and affiliate parties parties
PADICO	Munib Masri and affiliate parties
PADICO	Nidal Sukhtian and affiliate parties
PADICO	Sideeq Omar Hashim Abu Sido

Financials

Valuation Key Data

		12/17A	12/18E	12/19E	12/20E
Adjusted P/E	x	7.52	7.42	7.22	7.02
Reported P/E	x	7.93	7.42	7.22	7.02
EV/EBITDA(R)	x	2.80	3.08	3.05	3.01
P/Book	x	0.99	0.97	0.92	0.88
Dividend yield	%	9.42	9.24	9.24	9.24
Free cash flow yield	%	-14.4	4.17	11.4	11.7
Average stock price	JOD	4.25	4.33	4.33	4.33

Consolidated P&L

		12/17A	12/18E	12/19E	12/20E
Sales	JODM	335	338	342	347
Sales growth	%	0.71	0.89	1.20	1.49
Sales per employee	JODTh	121	122	123	125
Organic change in sales	%				
Mobile ARPU	In €/year	86.5	79.9	75.1	70.3
Access Total Number (mio)	In Mio	0.47	0.50	0.53	0.55
Broadband Access	In Mio	0.36	0.39	0.43	0.48
Mobile Customers	In Mio	2.98	3.13	3.29	3.45
Purchases and external costs (incl. IT)	JODM	-120	-123	-125	-127
Staff costs	JODM	-76.0	-71.3	-72.2	-73.1
Operating lease payments	JODM				
Cost of sales/COGS (indicative)	JODM	-196	-195	-197	-200
EBITDA	JODM	139	143	145	147
EBITDA(R)	JODM	139	143	145	147
EBITDA(R) margin	%	41.6	42.3	42.3	42.3
EBITDA(R) per employee	JODTh	50.2	51.5	52.1	52.9
Depreciation	JODM	-39.7	-40.5	-41.1	-41.8
Depreciations/Sales	%	11.9	12.0	12.0	12.0
Amortisation	JODM	-12.4	-13.3	-13.4	-13.6
Additions to provisions	JODM	-17.1 ⁽¹⁾	-7.00	-7.00	-7.00
Underlying operating profit	JODM	69.9	82.1	83.0	84.5
Underlying operating margin	%	20.9	24.3	24.3	24.4
Other income/expense (cash)	JODM	0.00	0.00	0.00	0.00
Other inc./ exp. (non cash; incl. assets revaluation)	JODM	0.42	0.00	0.00	0.00
Earnings from joint venture(s)	JODM				
Impairment charges/goodwill amortisation	JODM	-2.53	0.00	0.00	0.00
Operating profit (EBIT)	JODM	67.8	82.1	83.0	84.5
Interest expenses	JODM	-4.04	-3.79	-3.52	-3.03
of which effectively paid cash interest expenses	JODM	6.68			
Financial income	JODM	5.80	5.92	6.09	6.34
Other financial income (expense)	JODM	4.92	5.00	6.00	6.00
Net financial expenses	JODM	6.68	7.13	8.57	9.31
of which related to pensions	JODM		0.00	0.00	0.00
Pre-tax profit before exceptional items	JODM	74.5	89.3	91.5	93.8
Exceptional items and other (before taxes)	JODM	-0.12	0.00	0.00	0.00
of which cash (cost) from exceptionals	JODM				
Current tax	JODM	-4.83 ⁽²⁾	-13.5	-13.7	-13.9
Impact of tax loss carry forward	JODM				
Deferred tax	JODM				
Corporate tax	JODM	-4.83	-13.5	-13.7	-13.9
Tax rate	%	6.27	15.1	14.9	14.8
Net margin	%	20.8	22.4	22.8	23.0
Equity associates	JODM	0.97	1.02	1.12	1.23
Actual dividends received from equity holdings	JODM	0.45	0.45	0.45	0.45
Minority interests	JODM				
Actual dividends paid out to minorities	JODM				

1. Of which JOD10.300m related to early retirement provision.

2. Of which recovery of partial exemption of JOD13.609m.

Financials

Income from discontinued operations	JODM				
Attributable net profit	JODM	70.5	76.8	79.0	81.1
Impairment charges/goodwill amortisation	JODM	2.53	0.00	0.00	0.00
Other adjustments	JODM	1.31			
Adjusted attributable net profit	JODM	74.4	76.8	79.0	81.1
Interest expense savings	JODM				
Fully diluted adjusted attr. net profit	JODM	74.4	76.8	79.0	81.1
NOPAT	JODM	50.2	58.5	59.2	60.4

Cashflow Statement

		12/17A	12/18E	12/19E	12/20E
EBITDA	JODM	139	143	145	147
Change in WCR	JODM	-4.94	-26.1	-23.7	-23.9
<i>of which (increases)/decr. in receivables</i>	JODM	-29.3	-28.2	-25.6	-25.8
<i>of which (increases)/decr. in inventories</i>	JODM	1.01	-0.08	-0.08	-0.09
<i>of which increases/(decr.) in payables</i>	JODM	1.95	0.86	0.88	1.00
<i>of which increases/(decr.) in other curr. liab.</i>	JODM	21.3	1.27	1.09	1.00
Actual dividends received from equity holdings	JODM	0.45	0.45	0.45	0.45
Paid taxes	JODM	-4.83	-13.5	-13.7	-13.9
Exceptional items	JODM	-0.12	0.00	0.00	0.00
Other operating cash flows	JODM	-43.1			
Total operating cash flows	JODM	86.7	104	108	109
Capital expenditure	JODM	-174	-87.1	-51.3	-52.0
<i>Capex as a % of depreciation & amort.</i>	%	333	162	93.9	94.0
Net investments in shares	JODM	-15.8	0.00	0.00	0.00
Other investment flows	JODM	-0.42	0.00	0.00	0.00
Total investment flows	JODM	-190	-87.1	-51.3	-52.0
Net interest expense	JODM	6.68	7.13	8.57	9.31
<i>of which cash interest expense</i>	JODM	6.68	7.13	8.57	9.31
Dividends (parent company)	JODM	-52.8	-52.7	-52.7	-52.7
Dividends to minorities interests	JODM	0.00	0.00	0.00	0.00
New shareholders' equity	JODM				
<i>of which (acquisition) release of treasury shares</i>	JODM				
(Increase)/decrease in net debt position	JODM	5.79	8.21	-7.32	-11.1
Other financial flows	JODM	-10.7	0.00	0.00	0.00
Total financial flows	JODM	-51.1	-37.3	-51.4	-54.4
Change in cash position	JODM	-154	-20.7	4.96	3.01
Change in net debt position	JODM	-160	-28.9	12.3	14.1
Free cash flow (pre div.)	JODM	-80.4	23.8	64.9	66.7
Operating cash flow (clean)	JODM	86.8	104	108	109
<i>Reinvestment rate (capex/tangible fixed assets)</i>	%	-56.3	-26.4	-14.5	-14.0

Financials

Balance Sheet

		12/17A	12/18E	12/19E	12/20E
Goodwill	JODM	17.3	17.3	17.3	17.3
Contracts & Rights (incl. concession) intangible assets	JODM	207	194	181	173
Total intangible	JODM	224	211	199	191
Tangible fixed assets	JODM	150	151	153	159
Financial fixed assets (part of group strategy)	JODM	38.0	38.0	38.0	38.0
Other financial assets (investment purpose mainly)	JODM	331	331	331	331
<i>of which available for sale</i>	<i>JODM</i>	<i>161</i>	<i>161</i>	<i>161</i>	<i>161</i>
WCR	JODM	6.70	32.8	56.5	80.5
<i>of which trade & receivables (+)</i>	<i>JODM</i>	<i>120</i>	<i>148</i>	<i>173</i>	<i>199</i>
<i>of which inventories (+)</i>	<i>JODM</i>	<i>2.64</i>	<i>2.72</i>	<i>2.80</i>	<i>2.89</i>
<i>of which payables (+)</i>	<i>JODM</i>	<i>32.9</i>	<i>33.8</i>	<i>34.7</i>	<i>35.6</i>
<i>of which other current liabilities (+)</i>	<i>JODM</i>	<i>82.7</i>	<i>83.9</i>	<i>85.0</i>	<i>86.0</i>
Other current assets	JODM	2.04	5.00	5.00	5.00
<i>of which tax assets (+)</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Total assets (net of short term liabilities)	JODM	751	769	781	804
Ordinary shareholders' equity (group share)	JODM	566	590	616	645
Minority interests	JODM				
Provisions for pensions	JODM	47.5	54.5	61.5	68.5
Other provisions for risks and liabilities	JODM	10.6	17.6	24.6	31.6
Deferred tax liabilities	JODM	0.00	0.00	0.00	0.00
Other liabilities	JODM	78.1 ⁽³⁾	29.1	13.4	7.51
Net debt / (cash)	JODM	48.8	77.7	65.5	51.4
Total liabilities and shareholders' equity	JODM	751	769	781	804
Average net debt / (cash)	JODM	-24.8	63.3	71.6	58.4

3. Of which JOD66.469m related to license payments.

EV Calculations

		12/17A	12/18E	12/19E	12/20E
EV/EBITDA(R)	x	2.80	3.08	3.05	3.01
EV/EBIT (underlying profit)	x	5.57	5.35	5.32	5.22
EV/Sales	x	1.16	1.30	1.29	1.27
EV/Invested capital	x	0.93	1.01	0.99	0.94
Market cap	JODM	559	570	570	570
+ Provisions (including pensions)	JODM	58.2	72.2	86.2	100
+ Unrecognised actuarial losses/(gains)	JODM	0.00	0.00	0.00	0.00
+ Net debt at year end	JODM	48.8	77.7	65.5	51.4
+ Leases debt equivalent	JODM	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	JODM	277 ⁽⁴⁾	280 ⁽⁴⁾	280 ⁽⁴⁾	280 ⁽⁴⁾
+ Minority interests (fair value)	JODM	0.00	0.00	0.00	0.00
= Enterprise Value	JODM	389	440	441	441

4. Including:-The National Bank, PADICO and The Arab Bank valued at their market value.- Financial fixed assets at fair value (excluding The National Bank)-Quoted available-for-sale investments (excluding PADICO and The Arab Bank)-Unquoted available-for-sale investments-Investment properties valued at 10% discount to its fair value.

Financials

Per Share Data

		12/17A	12/18E	12/19E	12/20E
Adjusted EPS (bfr gwill amort. & dil.)	JOD	0.57	0.58	0.60	0.62
Growth in EPS	%	-8.04	3.22	2.89	2.73
Reported EPS	JOD	0.54	0.58	0.60	0.62
Net dividend per share	JOD	0.40	0.40	0.40	0.40
Free cash flow per share	JOD	-0.61	0.18	0.49	0.51
Operating cash flow per share	JOD	0.66	0.79	0.82	0.83
Book value per share	JOD	4.30	4.48	4.68	4.90

Number of ordinary shares	Mio	132	132	132	132
Number of equivalent ordinary shares (year end)	Mio	132	132	132	132
Number of shares market cap.	Mio	132	132	132	132
Treasury stock (year end)	Mio				
Number of shares net of treasury stock (year end)	Mio	132	132	132	132
Number of common shares (average)	Mio	132	132	132	132
Conversion of debt instruments into equity	Mio				
Settlement of cashable stock options	Mio				
Probable settlement of non mature stock options	Mio				
Other commitments to issue new shares	Mio				
Increase in shares outstanding (average)	Mio	0.00	0.00	0.00	0.00
Number of diluted shares (average)	Mio	132	132	132	132
Goodwill per share (diluted)	JOD	0.02	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	JOD	0.55	0.58	0.60	0.62
EPS before goodwill amortisation (non-diluted)	JOD	0.54	0.58	0.60	0.62
Actual payment	JOD				
Payout ratio	%	74.7	68.6	66.7	64.9
Capital payout ratio (div +share buy back/net income)	%	70.8	68.6	66.7	

Funding - Liquidity

		12/17A	12/18E	12/19E	12/20E
EBITDA	JODM	139	143	145	147
Funds from operations (FFO)	JODM	98.3	137	140	143
Ordinary shareholders' equity	JODM	566	590	616	645
Gross debt	JODM	97.0	105	97.9	86.8
o/w Less than 1 year - Gross debt	JODM	50.9	57.4	53.1	46.8
o/w 1 to 5 year - Gross debt	JODM	46.1	47.9	44.9	40.1
+ Gross Cash	JODM	48.2	27.5	32.5	35.5
= Net debt / (cash)	JODM	48.8	77.7	65.5	51.4
Bank borrowings	JODM	97.0	90.2	83.9	73.8
Other financing	JODM	0.00	15.0	14.0	13.0
Gearing (at book value)	%	-4.39	10.7	11.6	9.06
Adj. Net debt/EBITDA(R)	x	0.35	0.54	0.45	0.35
Adjusted Gross Debt/EBITDA(R)	x	1.11	1.24	1.27	1.27
Adj. gross debt/(Adj. gross debt+Equity)	%	21.5	23.1	23.0	22.5
Ebit cover	x	-10.5	-11.6	-9.73	-9.12
FFO/Gross Debt	%	63.4	77.3	76.0	76.3
FFO/Net debt	%	201	176	214	278
FCF/Adj. gross debt (%)	%	-51.8	13.4	35.3	35.7
(Gross cash+ "cash" FCF+undrawn)/ST debt	x	-0.63	0.89	1.84	2.19
"Cash" FCF/ST debt	x	-1.59	0.41	1.22	1.42

Financials

ROE Analysis (Dupont's Breakdown)

		12/17A	12/18E	12/19E	12/20E
Tax burden (Net income/pretax pre expc income)	x	0.95	0.86	0.86	0.87
EBIT margin (EBIT/sales)	%	20.3	24.3	24.3	24.4
Assets rotation (Sales/Avg assets)	%	45.6	44.4	44.1	43.8
Financial leverage (Avg assets /Avg equity)	x	1.31	1.32	1.29	1.26
ROE	%	12.6	13.3	13.1	12.9
ROA	%	17.8	20.8	20.4	19.6

Shareholder's Equity Review (Group Share)

		12/17A	12/18E	12/19E	12/20E
Y-1 shareholders' equity	JODM	555	566	590	616
+ Net profit of year	JODM	70.5	76.8	79.0	81.1
- Dividends (parent cy)	JODM	-52.8	-52.7	-52.7	-52.7
+ Additions to equity	JODM	0.00	0.00	0.00	0.00
<i>o/w reduction (addition) to treasury shares</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
- Unrecognised actuarial gains/(losses)	JODM	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	JODM	-6.48	0.00	0.00	0.00
= Year end shareholders' equity	JODM	566	590	616	645

Staffing Analytics

		12/17A	12/18E	12/19E	12/20E
Sales per staff	JODTh	121	122	123	125
Staff costs per employee	JODTh	-27.4	-25.7	-26.0	-26.3
<i>Change in staff costs</i>	<i>%</i>	<i>9.20</i>	<i>-6.12</i>	<i>1.20</i>	<i>1.20</i>
<i>Change in unit cost of staff</i>	<i>%</i>	<i>8.25</i>	<i>-6.12</i>	<i>1.20</i>	<i>1.20</i>
<i>Staff costs/(EBITDA+Staff costs)</i>	<i>%</i>	<i>35.3</i>	<i>33.3</i>	<i>33.3</i>	<i>33.2</i>

Average workforce	unit	2,774	2,774	2,774	2,774
Europe	unit	0.00	0.00	0.00	0.00
North America	unit	0.00	0.00	0.00	0.00
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	2,774	2,774	2,774	2,774
Other key countries	unit	0.00	0.00	0.00	0.00
Total staff costs	JODM	-76.0	-71.3	-72.2	-73.1
Wages and salaries	JODM	-76.0	-71.3	-72.2	-73.1
<i>of which social security contributions</i>	<i>JODM</i>				
Equity linked payments	JODM				
Pension related costs	JODM		0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/17A	12/18E	12/19E	12/20E
Wireline	JODM	29.7	29.8	30.0	30.1
Wireless	JODM	213	205	197	188
Data	JODM	91.7	103	115	129
Media	JODM	0.00	0.00	0.00	0.00
IT	JODM	0.00	0.00	0.00	0.00
Investing	JODM	0.00	0.00	0.00	0.00
Other	JODM	0.00	0.00	0.00	0.00
Total sales	JODM	335	338	342	347

Financials

Divisional Breakdown Of Earnings

		12/17A	12/18E	12/19E	12/20E
PRETAX RESULTS Analysis					
Wireline	JODM	0.80	0.80	0.80	0.81
Wireless	JODM	42.6	54.3	50.7	46.9
Data	JODM	21.9	23.2	26.6	30.4
Media	JODM	0.00	0.00	0.00	0.00
IT	JODM	0.00	0.00	0.00	0.00
Investing	JODM	10.0	12.1	14.5	16.9
Other/cancellations	JODM	0.00	0.00	0.00	0.00
Total	JODM	75.4	90.3	92.7	95.0
PRETAX RESULTS margin	%	22.5	26.7	27.1	27.4

Revenue Breakdown By Country

		12/17A	12/18E	12/19E	12/20E
Palestine	%	100	100		
Other	%	0.00	0.00		

ROCE/CFROIC/Capital Invested

		12/17A	12/18E	12/19E	12/20E
ROCE (NOPAT+lease exp. *(1-tax))/(net) cap employed adjusted	%	12.0	13.5	13.3	12.9
CFROIC	%	-19.2	5.48	14.6	14.3
Goodwill	JODM	17.3	17.3	17.3	17.3
Accumulated goodwill amortisation	JODM	0.00	0.00	0.00	0.00
All intangible assets	JODM	207	194	181	173
Accumulated intangible amortisation	JODM	-24.0	-34.2	-44.3	-54.5
Financial hedges (LT derivatives)	JODM	0.00	0.00	0.00	0.00
Capitalised R&D	JODM	0.00	0.00	0.00	0.00
PV of non-capitalised lease obligations	JODM	0.00	0.00	0.00	0.00
Other fixed assets	JODM	150	151	153	159
Accumulated depreciation	JODM	-458	-481	-505	-531
WCR	JODM	6.70	32.8	56.5	80.5
Other assets	JODM	38.0	38.0	38.0	38.0
Unrecognised actuarial losses/(gains)	JODM	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	JODM	418	433	446	468
Capital employed before depreciation	JODM	-64.1	-82.0	-104	-117

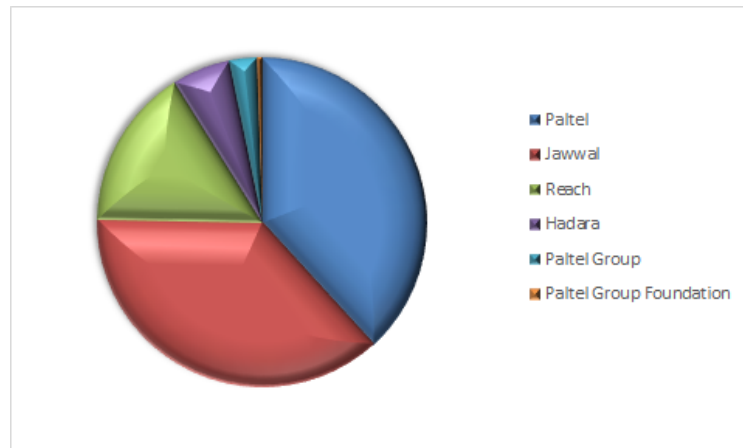
Divisional Breakdown Of Capital

		12/17A	12/18E	12/19E	12/20E
Wireline	JODM	184	181	175	169
Wireless	JODM	404	384	373	359
Data	JODM	338	361	351	338
Media	JODM	0.00	0.00	0.00	0.00
IT	JODM	0.00	0.00	0.00	0.00
Investing	JODM	249	262	254	245
Other	JODM	-757	-755	-707	-644
Total capital employed	JODM	418	433	446	468

► Pension Risks

Pension matters

In 2017, 2,774 people were operating in Paltel Group vs. 2,750 employees in 2016. The consolidated headcount of 2,750 persons is composed by 662 women (23.9%) and 2,112 men (76.1%). By academic degree, 4.8% of the employees are post graduate, 71.4% hold bachelor degrees, 15.4% hold a diploma, while 8.3% of them do not hold any diplomas. In 2017, 38.2% of the group's total employees were working at Paltel, 37.1% in Jawwal, 15.8% in Reach and the remaining part was divided among Hadara (5.7%), Paltel Group (2.7%), and Paltel Group Foundation (0.5%).



Regarding the employees' incentives provided by Paltel Group, these include various advantages such as a savings fund, a social solidarity fund, a health insurance for employees and their families, a medical care fund, a social welfare fund, university and college grants for employees' children, graduate studies policy, and annual bonuses.

During the year 2017, the number of employees involved in the training courses has significantly increased. Indeed, 3,173 employees benefited in 2017 from training courses related to the nature of their work vs. 2,024 in 2016. Besides, 1,002 persons benefited from training courses related to behavioural competencies vs. 802 in 2016.

In 2017, the staff costs reached JOD76m, a 9.2% increase, yoy, bringing the staff costs/sales ratio to 22.7% vs. 20.9% in 2016, affected by additional provisions related to employees' indemnity. Thus, the wages bill still weigh heavily on the group's profitability, with staff costs/sales levels clearly higher than the MENA region peers covered by AlphaMena (10.9% for 2017 and 10.8% for 2016). For the coming years, we expect a 21% average ratio over the 2018-2020 period.

Summary Of Pension Risks

		12/17A	12/18E	12/19E	12/20E
Pension ratio	%	7.75	8.46	9.08	9.61
Ordinary shareholders' equity	JODM	566	590	616	645
Total benefits provisions	JODM	47.5	54.5	61.5	68.5
<i>of which funded pensions</i>	<i>JODM</i>	<i>47.5</i>	<i>54.5</i>	<i>61.5</i>	<i>68.5</i>
<i>of which unfunded pensions</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>of which benefits / health care</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Unrecognised actuarial (gains)/losses	JODM	0.00	0.00	0.00	0.00
<i>Company discount rate</i>	<i>%</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Normalised recomputed discount rate	%		2.50		
<i>Company future salary increase</i>	<i>%</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Normalised recomputed future salary increase	%		2.00		
<i>Company expected rate of return on plan assets</i>	<i>%</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Normalised recomputed expd rate of return on plan assets	%		0.00		
Funded : Impact of actuarial assumptions	JODM		0.00		
Unfunded : Impact of actuarial assumptions	JODM		0.00		

► Pension Risks

Geographic Breakdown Of Pension Liabilities

		12/17A	12/18E	12/19E	12/20E
US exposure	%	0.00	0.00	0.00	0.00
UK exposure	%	0.00	0.00	0.00	0.00
Euro exposure	%	0.00	0.00	0.00	0.00
Nordic countries	%	0.00	0.00	0.00	0.00
Switzerland	%	0.00	0.00	0.00	0.00
Other	%	100	100	100	100
Total	%	100	100	100	100

Balance Sheet Implications

		12/17A	12/18E	12/19E	12/20E
Funded status surplus / (deficit)	JODM	0.00	0.00	0.00	0.00
Unfunded status surplus / (deficit)	JODM	0.00	0.00	0.00	0.00
Total surplus / (deficit)	JODM	0.00	0.00	0.00	0.00
Total unrecognised actuarial (gains)/losses	JODM	0.00	0.00	0.00	0.00
Provision (B/S) on funded pension	JODM	47.5	54.5	61.5	68.5
Provision (B/S) on unfunded pension	JODM	0.00	0.00	0.00	0.00
Other benefits (health care) provision	JODM	0.00	0.00	0.00	0.00
Total benefit provisions	JODM	47.5	54.5	61.5	68.5

P&L Implications

		12/17A	12/18E	12/19E	12/20E
Funded obligations periodic costs	JODM	0.00	0.00	0.00	0.00
Unfunded obligations periodic costs	JODM	0.00	0.00	0.00	0.00
Total periodic costs	JODM	0.00	0.00	0.00	0.00
<i>of which incl. in labour costs</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>of which incl. in interest expenses</i>	<i>JODM</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>

Funded Obligations

		12/17A	12/18E	12/19E	12/20E
Balance beginning of period	JODM	0.00	0.00	0.00	0.00
Current service cost	JODM	0.00	0.00	0.00	0.00
Interest expense	JODM	0.00	0.00	0.00	0.00
Employees' contributions	JODM				
Impact of change in actuarial assumptions	JODM	0.00	0.00	0.00	0.00
<i>of which impact of change in discount rate</i>	<i>JODM</i>		<i>0.00</i>		
<i>of which impact of change in salary increase</i>	<i>JODM</i>		<i>0.00</i>		
Changes to scope of consolidation	JODM				
Currency translation effects	JODM				
Pension payments	JODM				
Other	JODM				
Year end obligation	JODM	0.00	0.00	0.00	0.00

Plan Assets

		12/17A	12/18E	12/19E	12/20E
Value at beginning	JODM	0.00	0.00	0.00	0.00
Company expected return on plan assets	JODM	0.00	0.00	0.00	0.00
Actuarial gain /(loss)	JODM		0.00	0.00	0.00
Employer's contribution	JODM	0.00	0.00	0.00	0.00
Employees' contributions	JODM	0.00	0.00	0.00	0.00
Changes to scope of consolidation	JODM				
Currency translation effects	JODM				
Pension payments	JODM	0.00	0.00	0.00	0.00
Other	JODM				
Value end of period	JODM	0.00	0.00	0.00	0.00
Actual and normalised future return on plan assets	JODM	0.00	0.00	0.00	0.00

► Pension Risks

Unfunded Obligations

		12/17A	12/18E	12/19E	12/20E
Balance beginning of period	JODM	0.00	0.00	0.00	0.00
Current service cost	JODM	0.00	0.00	0.00	0.00
Interest expense	JODM	0.00	0.00	0.00	0.00
Employees' contributions	JODM				
Impact of change in actuarial assumptions	JODM	0.00	0.00	0.00	0.00
<i>of which Impact of change in discount rate</i>	<i>JODM</i>		0.00		
<i>of which Impact of change in salary increase</i>	<i>JODM</i>		0.00		
Changes to scope of consolidation	JODM				
Currency translation effects	JODM				
Pension payments	JODM				
Other	JODM				
Year end obligation	JODM	0.00	0.00	0.00	0.00

Governance & Management

Governance & Management











Paltel Group's Board consists of 11 members. All of the Board directors are Palestinian nationals, but most of them also hold other foreign nationalities.

According to the internal regulations of the group, board members have to have a minimum of 30,000 shares to be eligible for membership. However, the company does not disclose any details about the number of shares or the fees amount of each director.








Concerning the management level, Mr. Ammar AKER is the group's CEO. No female presence has been reported in the management or in the board of directors of Paltel's group. Nevertheless, several senior management positions are held by female employees at the subsidiaries' level.

Paltel's board committees are: Audit committee and Investment committee (the latter is not included in our list).










Governance parameters

	Yes  / No 	Weighting
One share, one vote		20%
Chairman vs. Executive split		10%
Chairman not ex executive		10%
Independent directors equals or above 50% of total directors		10%
Full disclosure on mgt pay (performance related bonuses, pensions and non financial benefits)		10%
Disclosure of performance anchor for bonus trigger		10%
Compensation committee reporting to board of directors		10%
Straightforward, clean by-laws		20%
Governance score	60	100%























Existing committees

	Audit / Governance Committee
	Compensation committee
	Financial Statements Committee
	Litigation Committee
	Nomination Committee
	Safety committee
	SRI / Environment

Management

Name		Function	Birth date	Date in	Date out	Compensation, in kJOD (year)	
						Cash	Equity linked
Ammar AKER	M	 Chief Executive (not Chairman)	1966	2001			
Salameh KHALIL	M	 CFO	1978	2013			
Kamal RATROUT	M	 CTO	1974	2001			
Basel AMER	M	 Senior Executive	1982	2017			
Waleed FTIEHA	M	 Senior Executive	1973	2001			
AbdulMajeed MELHEM	M	 Executive Officer	1977	2001			
Maen MELHEM	M	 Executive Officer	1977	2001			
Rami QUTTEINEH	M	 Executive Officer	1976	2007			
Hisham ZAID	M	 Executive Officer	1980	2012			

Board of Directors

Name		Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in kJOD (year)	Value of holding, in kJOD (year)
Sabih TAHER AL-MASRI	M		 President/Chairman of th...			1999			
Ammar AKER	M		 Member		1966	2012			
Ghiath SUKHTIAN	M		 Member			1997			
Leith MASRI	M		 Member			2001			
Talal NASIRUDDIN	M		 Member			2004			
Sharhabil AL-ZAIM	M		 Member			2004			
Samir HULILEH	M		 Member		1957	2008			
Basil ABDEL-NABI	M		 Member			2008			
Basem ABDEL HALIM	M		 Member			2012			
Zahi KHOURI	M		 Member			2016			
Yazeed MUFTI	M		 Member			2018			

Governance & Management

Human Resources

Accidents at work

25% Of H.R. Score


Human resources development

35% Of H.R. Score


Pay

20% Of H.R. Score


Job satisfaction





















10% Of H.R. Score


Internal communication

10% Of H.R. Score





HR Breakdown

		Yes  / No 	Rating
Accidents at work	25%		25/100
Set targets for work safety on all group sites?	40%		10/100
Are accidents at work declining?	60%		15/100
Human resources development	35%		35/100
Are competences required to meet medium term targets identified?	10%		4/100
Is there a medium term (2 to 5 years) recruitment plan?	10%		4/100
Is there a training strategy tuned to the company objectives?	10%		4/100
Are employees trained for tomorrow's objectives?	10%		4/100
Can all employees have access to training?	10%		4/100
Has the corporate avoided large restructuring lay-offs over the last year to date?	10%		4/100
Have key competences stayed?	10%		4/100
Are managers given managerial objectives?	10%		4/100
If yes, are managerial results a deciding factor when assessing compensation level?	10%		4/100
Is mobility encouraged between operating units of the group?	10%		4/100
Pay	20%		20/100
Is there a compensation committee?	30%		6/100
Is employees' performance combining group performance AND individual performance?	70%		14/100
Job satisfaction	10%		10/100
Is there a measure of job satisfaction?	33%		3/100
Can anyone participate ?	34%		3/100
Are there action plans to prop up employees' morale?	33%		3/100
Internal communication	10%		10/100
Are strategy and objectives made available to every employee?	100%		10/100
Human Ressources score:			100/100

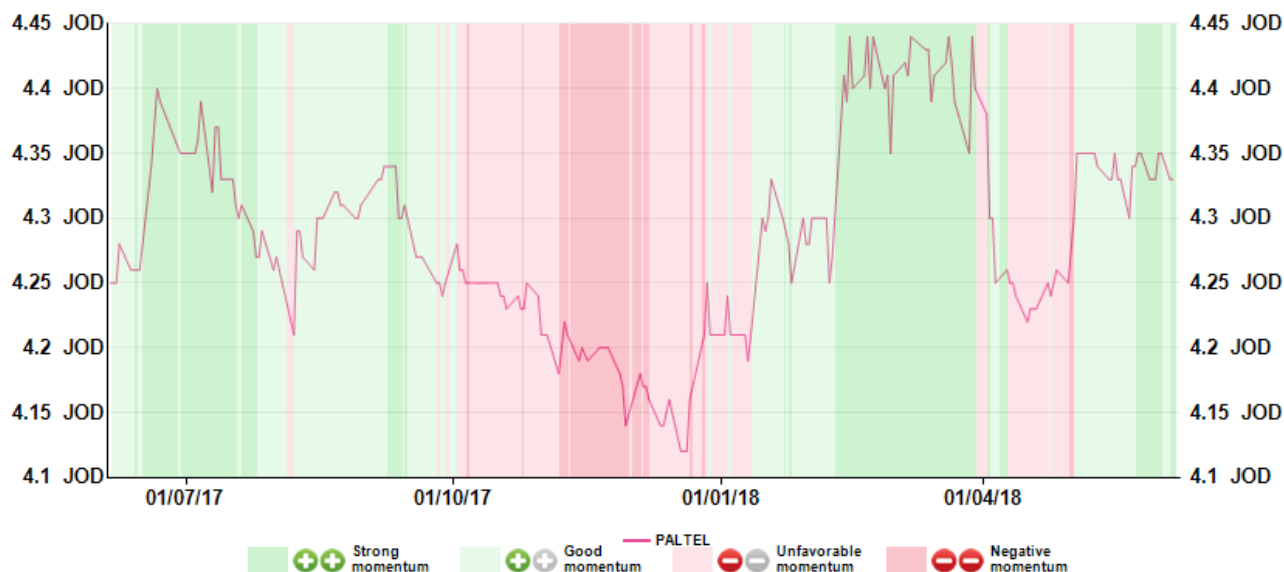
HR Score


H.R. Score : 10.0/10



 Telecoms
 PALTEL


► Graphics


Momentum



 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

 : Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

 : Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

 : Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.

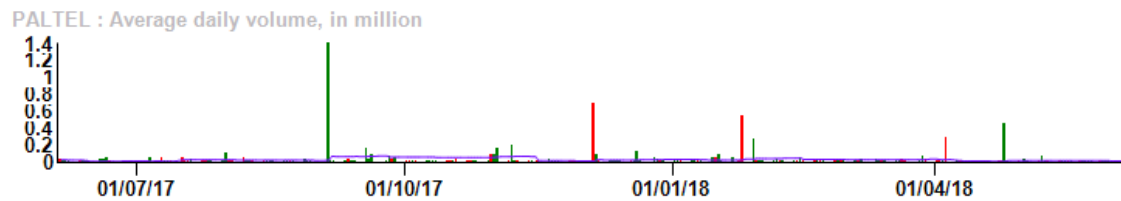
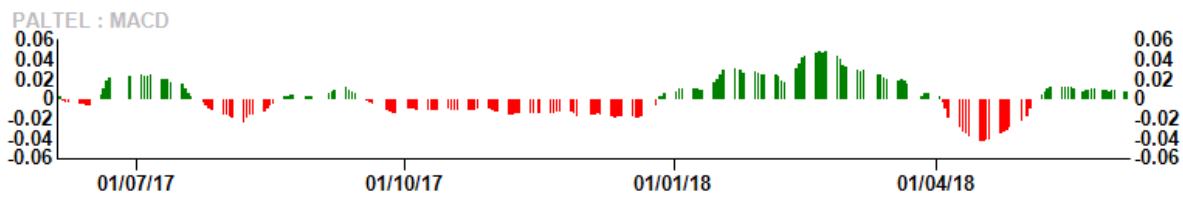
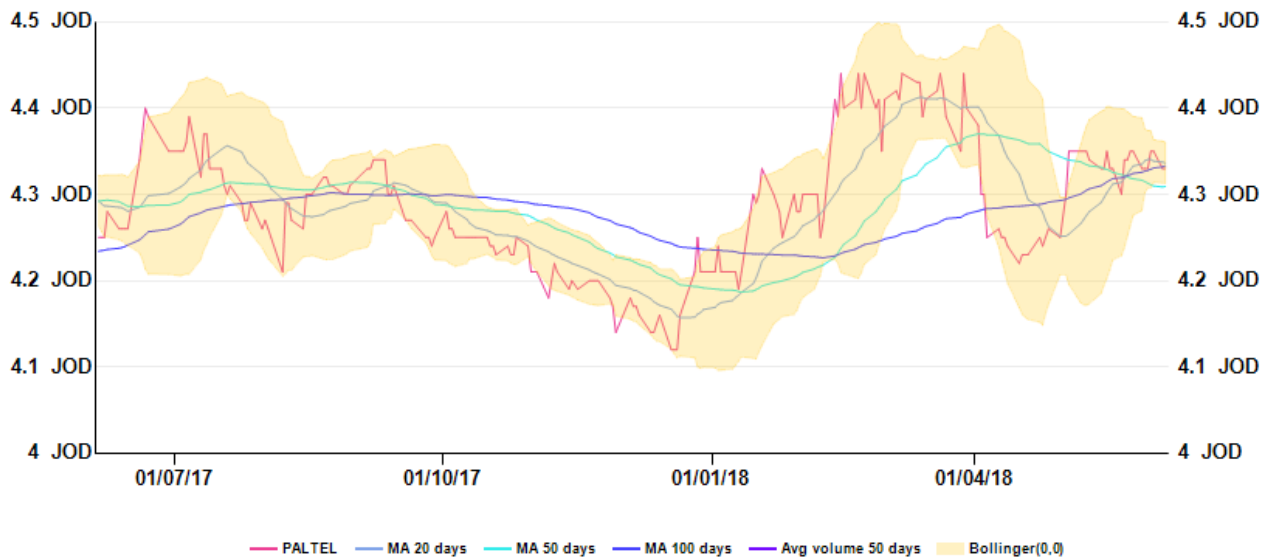
The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.

For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.

The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

► Graphics

Moving Average MACD & Volume



► Graphics

Sector Telecoms

Methodology

► Methodology

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

Recommendations are geared to a “value” approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency**, all underlying figures are accessible, and **consistency**, same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility	Normal Volatility	High Volatility
	10 < VIX index < 30	15 < VIX index < 35	35 < VIX index
Buy ●	More than 15% upside	More than 20% upside	More than 30% upside
Add ■	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce ■	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell ●	Below -10%	Below -10%	Below -10%

There is deliberately no “neutral” recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).

Although recommendations are automated (a function of the target price whenever a new equity research report is released), the management of AlphaMena intends to maintain global consistency within its universe coverage and may, from time to time, decide to change global parameters which may affect the level of recommendation definitions and /or the distribution of recommendations within the four levels above. For instance, lowering the risk premium in a gloomy context may increase the proportion of positive recommendations.

► Methodology

Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	25%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	15%	15%
P/Book	5%	5%	5%	5%	15%	10%
Banks' intrinsic method	0%	0%	0%	0%	25%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%