A question of timing

VODAFONE QATAR'S INITIAL PUBLIC OFFERING WAS DEVELOPED WHEN WORLD MARKETS WERE STILL HIGHLY VULNERABLE, SAYS **GRAHAM BUCK**.

It is barely two years since Vodafone extended its global reach and set up its stall in the Arab emirate of Qatar, whose vast oil and gas reserves have made it one of the world's wealthiest locations.

In December 2007, the telecommunications giant's Vodafone Qatar unit beat off competition from AT&T, Verizon Communications and Etisalat of the United Arab Emirates, to win Qatar's second mobile phones licence from telecoms regulator ictQatar.

At $2.1bn, the cost was relatively steep compared with the prices paid by rivals in other Gulf states. Qatar's population is only 1.66 million, although the figure fluctuates sharply from month to month as short-term workers either arrive in the country or depart.

In addition, Qatar was the very last Gulf Arab state to open up its telecoms market to competition and state-owned Qatar Telecom, or Qtel, was able to enjoy its monopoly and establish very high mobile penetration.

According to Qtel's chief executive, Nasser Marafih, "We already have 120% penetration – everyone in Qatar is our customer." He insists the group welcomed the arrival of a rival and has said it is good to have a second player in the market to share the burden of providing services.

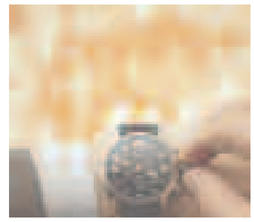
This has put the onus on Vodafone Qatar to be innovative and competitive if it is to win new customers. The company has begun strongly, improving its chances of success in the licence bidding round by forming a partnership with Qatar Foundation Consortium, a non-profit making body owned by the emirate's ruler Sheikh Hamad bin Khalifa Al-Thani. The licence term is for 20 years, with a right to apply to ictQATAR for renewal.

In September 2008, the company was awarded a licence by ictQATAR to run a fixed line service, enabling it to compete with Qtel for fixed line customers in addition to mobile customers. It is working to meet all the regulator's requirements and aims to launch the service by the end of this year.

The company's expansion continued during 2009. March saw the launch of its commercial mobile services, over a GSM network with capacity for one million users.

Vodafone Qatar has swiftly established a sizeable customer base, with 320,000 mobile subscribers in November against 250,000 the previous month. Future projections are for a continued steep rise over the coming years with a figure of 700,000 customers by 2012 – and 1.6 million by 2018 when Qatar's population is expected to exceed three million. The company also has longer-term ambitions to expand further in other Middle East and North Africa territories.

DELAYED BY MARKET VOLATILITY Following its licence win, Vodafone Qatar was scheduled to put 40% of the shares up for sale via an initial public offering (IPO) to be held not later than the end of November 2008. However, stock market conditions steadily deteriorated around the world during the year, with the rate accelerating in September after the demise of Lehman Brothers. Close liaison with the Qatar Financial Markets Authority enabled it to secure agreement that the IPO should be delayed until volatility subsided and conditions returned more to normal. This was complicated by the fact that the Qatar Exchange (formerly known as the Doha Securities Market) suffered its dip rather later than other world stock markets, as the government stepped in to prop it up for a while before eventually withdrawing support. As a recent report noted "the Qatar government is strongly supportive of its local market and intervened heavily to lessen the impact of the global financial crisis last autumn,



particularly on the local banks".

As a result, the Qatar Exchange did not reach its lowest point until last February. Despite recent concerns over the debt position in Dubai, the market has since bounced back strongly with its main index moving back above the psychologically important 7,000 level in late 2009.

Although Vodafone Qatar's offering eventually got under way last April there have been no other IPOs taking place on the Qatar Exchange since the near-meltdown in the financial system. The total of 338.16 million shares put up for sale by the company made it Qatar's biggest offering since 2006 and, during the early months of 2009, it was the largest in the world until being surpassed in May by aluminium producer China Zhongwang Holdings.

The IPO's go-ahead in April was also influenced by the fact that Qatar's publicly-listed companies make their dividend payments by the end of March, and this cash goes straight into the economy. The IPO process was assisted by the issue of a fatwa by the emirate's prominent Islamic scholar, Dr Sheikh Yusuf al-Qaradawi and six other reputable scholars, assuring Qatari investors that Vodafone's offering did not contravene Sharia'h law.

John Tombleson, Vodafone Qatar's chief financial officer, explains that ensuring that the prospectus was compliant could have proved complicated.

"We took it to a specialist at the outset, but there was always the potential for a Sharia'h scholar to dispute that the document complied as there is considerable scope for differing interpretations, he says.

"Senior financial and legal executives developed the company's business plan and prepared the prospectus, which had long and short versions in both English and Arabic. We co-ordinated our various advisers, which included the banks and legal firms, with senior partners carefully checking each sentence, and we were fortunate in that the process all went very smoothly."

The company also talked regularly to Qatar's finance minister on a number of amendments that were needed to the company's articles of association. One of these was an agreement that dividend payments could be based on the company's cash position. Although Vodafone Qatar is expected to break even by mid-2011, based on earnings before interest, taxes, depreciation and amortisation , amortisation of the licence means it will take several more years to achieve a bottom line profit.

In addition, the initial offering limited the potential pool of investors able to subscribe by restricting it to individuals holding Qatari nationality and/or institutions fully owned by them. This restriction was lifted once the issue had been subscribed to and the shares were listed on the Qatar Exchange, where they started trading in late July.

AGGRESSIVE STRATEGY PAYS OFF The offer period lasted from April 12 to 26. The company mounted an investor roadshow, which Tombleson describes as a "town hall event" that was reasonably well attended and at which the prospectus was launched. This document set out Vodafone Qatar's aim as becoming the 'Number One' brand within Qatar within three years. Its network "will follow an aggressive deployment strategy for both network rollout and service implementation to fully support and align with the business plan and the company's strategy to meet customers' needs".

At the outset, the founding members of the company owned a total of 507.24 million shares, divided as follows:

		million
Vodafone Group and Qatar Foundation consortium	45%	380.43
Qatar Foundation	5.0%	42.27
Military Staff Loans Fund	3.4%	28.743
Health and Education Endowment	3.3%	27.898
Military Pension Fund	3.3%	27.898

Of the 338.16 million shares – the remaining 40% – offered in the IPO, 82,000 Qatari nationals subscribed for 65% of the total and 273 institutional investors took the remaining 35%. Post-IPO Vodafone Qatar is 77% Qatari-owned with Vodafone itself retaining a stake of 23%.

The shares made an auspicious debut on the Qatar exchange in late July, rising sharply on the first day to close at 11.40 Qatari riyals (about $3.13) against an offer price of 10 Qatari riyals, but as much as 30% higher during the session. In late December they had eased back to around 8.80.

While the offer was fully subscribed, Tombleson says this was achieved by the Qatar pension fund taking an additional 4% that was still unsubscribed at the end of the initial offer period. Post-offering, the company's authorised share capital amounts to 845.5 million shares.

"There is never a 'right time' for an IPO, but bearing in mind the background we were pleased with the result, particularly as we carried out all of the preparatory work while markets were still very volatile," he adds. The proceeds were $952m, reduced to $928m once the costs of the offering were paid.

Further share offerings are unlikely in the near term, despite Vodafone Qatar's ambitious plans for expansion, adds Tombleson. Its capital to borrowings ratio is still high and the company deems it more prudent to borrow as and when an acquisition or business expansion opportunity arises. "The question is how we manage to best leverage what we have here in Qatar outside the emirate," he says.

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