2019

Jordan Telecommunication Company (Orange JO)
Certified Financial Consultant Project

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Table of Contents

List of Abbreviations

JTEL	: Jordan Telecommunication - Orange Jo
SWOT	: Strengths, Weaknesses, Opportunities & Threats
PESTLE	: Political, Economic, Social, Technological, Legal & Environmental
CAPM	: Capital Asset Pricing Model
WACC	: Weighted Average Cost of Capital
ASE	: Amman Stock Exchange
FACO	: First Acceptance Corporation

Jordan Telecom "Orange" Overview:

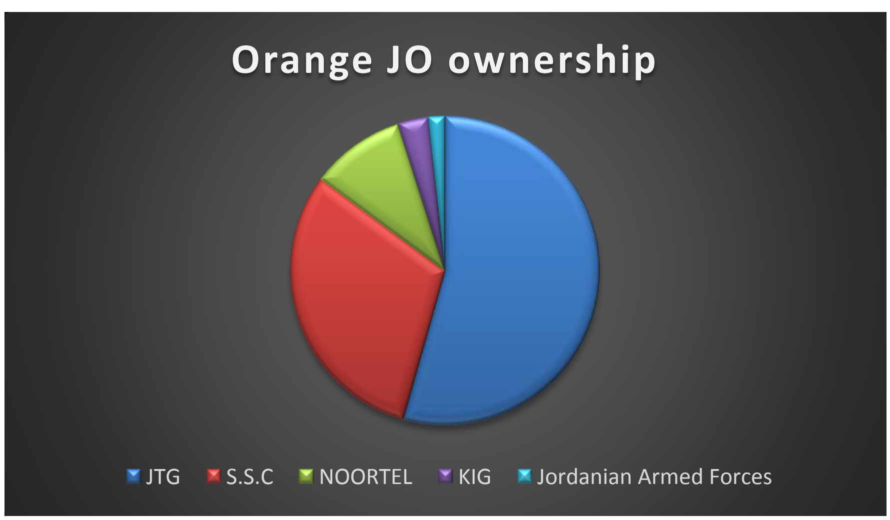
Jordan Telecom was registered as a public shareholding company on 8 October 1996, and the brand was adopted in 2007. On 10 December 2015, the General Assembly approved, at its extraordinary meeting, the reduction of authorized and paid up capital by 25%, to 187,500,000 shares valued at one Jordanian Dinar per share. The capital reduction has been approved by the Ministry of Industry Trade and supply on 6 April 2016 and it was approved by Amman Stock Exchange on 21 April 2016.

Orange Jordan is one of the 29 subsidiaries of Orange Group, a leading telecommunications operator in the world that ranks in the top ten among its competitors. Orange Jordan is an international brand with a local spirit, applying globally acquired experience to initiate and maintain a digital transformation of the country that will lead to greater opportunities at shared socioeconomic prosperity for its people. It has an expanding customer base of more than five million, a network of around 1,800 dedicated employees, and more than 55 branches.

Orange Jordan forms the backbone of the Kingdom's ICT sector, carrying the flag behind His Majesty King Abdullah II's vision of turning Jordan into a regional hub for ICT by delivering innovative and advanced IT and telecommunications solutions to meet the aspirations and essentials of individual and enterprise customers nationwide. As a result, the company currently ranks as the strongest provider of fast internet in the market and resolutely continues to move forward in its endeavors to invest in the future of the country and its people by introducing the most advanced technologies and enhancing the country's physical infrastructure to make these technologies a viable reality.

Ownership

Upon privatization, Jordan Telecom Group was 51% owned Joint Investment Telecommunications Co. (JTG). The remaining 28.88% of the group's shares were owned by Social Security Corporation, 9.30% owned by Noor Telecommunications Holding Company Limited K.S.C. (NOORTEL), 3% owned by Kingdom Investment Group and 1.6% owned by Jordanian Armed Forces Arab Army.



Market Analysis:

Economy of Jordan

Jordan is a small country with limited natural resources. The country is currently exploring ways to expand its limited water supply and use its existing water resources more efficiently, including through regional cooperation. Jordan depends on external sources for the majority of its energy requirements.

Jordan is classified by the World Bank as a "lower middle income country." The GDP per capita of $ 5,749.

The “upper-middle income” country of Jordan, as classified from the National Bank, boasts a GDP of $40 billion per year with growth rate of 2.6% per annum. However, Jordan Kingdom has a well-diversified economy from trade, finance, communications, transportation, mining, constructions, public utilities, and tourism. Jordan’s official currency is the Jordanian Dinar, which has almost fixed exchange rate towards other foreign currencies like US Dollar or Euro (1 Dinar = 1.43 USD).

Due to Jordan’s well-built infrastructure and value of its cultural heritage, tourism has become one of the most important elements and sources of the national income. The reason is that Tourism represents an important source of hard currency, which helps Jordan to enhance and grow the trade sector as well as to increase national production. It’s working effectively on usage of facilities and services, which leads directly into rate increasing of employment. Beside that it is also helps in use of tourist facilities that are managed, operated and developed by the private and governmental associations.

Telecommunication Market:

The mobile sector in Jordan is highly competitive and challenging for the three major operators as they all hold roughly the same market share. The launch of 4G LTE services in general, has led to a growth in data revenues for the mobile operators and expanding data offerings will be a key focus area moving forward. The industry is preparing itself for the next wave of developments relating to 5G and IoT/M2M.

The development of a national broadband network based on fiber is also well underway and Orange Jordan remains the largest fixed network operator in the kingdom. Fiber-based broadband is being rolled-out but ADSL retains the largest market share for the time being.

Jordan has long been recognized for having a highly taxed telecom sector and the major operators recently expressed their dismay when the government suggested introducing further taxes and applying a new levy.

Jordan is host to a growing number of ICT companies and has emerged as a technology start up hub for the Middle East, made possible due to a focus on ICT education and a regulatory environment, conducive to ICT investment. It has also made great progress in the digital financial services area with support from the Central Bank of Jordan.

Mobile telecommunications services in the form of "2G" services were first introduced into Jordan in 1995, with the operation of what is now Zain. The second mobile license was issued in 2000, to what is now Orange Mobile. There are currently four Public Mobile Wireless Service providers ("MNOs") licensed to provide mobile telecommunications services in Jordan. These are (in order of their respective dates of operation): • Zain • Orange Mobile • Xpress • Umniah As is reflected in below, two of the MNOs have been allocated GSM 900 spectrum (Zain and Orange), while Umniah operates in the GSM 1800 range, while Xpress has been allocated spectrum for its "Iden" service. The leading three MNOs have recently enhanced their networks with the deployment of General Packet Radio Service (GPRS) and EDGE (Enhanced Data rates for GSM Evolution) technology, which introduces packet data transmission. GPRS and EDGE technologies are commonly referred to as "2.5G" systems. On 10 September 2009, the TRC granted a 3G spectrum license to Orange Mobile in the 2.1 GHz frequency range, and the launch of services is expected during the course of 2010. Other mobile operators will be allowed to introduce the service after a one year operation period, provided that they meet the same conditions that were applied to Orange-Mobile. The original spectrum licenses held by each of the MNOs vary in terms of their expiration dates between 2014 until 2021. Among the four MNOs, three MNOs (Zain, Orange Mobile, and Umniah) have achieved high levels of population and territorial coverage in Jordan.

Mobile broadband is a key growth area for Jordan, with 4G services already on offer. By 2020 4G penetration could reach as much as 70%. Orange Jordan has seen recent growth in subscriber numbers due to the more competitive mobile broadband services it can offer as a result of 4G deployments.

The fixed broadband network is also growing and the government has been working for some time to deploy its national broadband network. Public facilities are being connected, with deployment to the Southern Governates expected to be completed by the end of 2017. Work has also begun on the Northern Governates.

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Jordan's thriving start up scene has underpinned Jordan's digital economy, which incorporates e-commerce, e-health, e-education and e-government. Most activity and attention is focused on the e-commerce sector given the commercial opportunities available. Tackling one of the largest impediments to e-commerce development in Jordan and the Middle East in general, the Central Bank of Jordan adopted a strategy for 2013 - 2017 to develop the legal framework for all e-payments systems in Jordan.

Jordan has placed a high priority on improving its government services and by January 2016 the Jordanian government was supplying 100 services electronically, with plans to launch a further 100 e-services during 2016/2017 and another 150 during 2018/2019.

The combination of a future national broadband network along with 4G LTE services and a highly competitive market will spur the overall telecoms sector on in Jordan and it is hoped that revenues for the sector will increase substantially.

Challenges of Telecommunication sector in Jordan:

The challenges faced by the telecommunications sector in Jordan include very high taxes and fees. Such taxes and fees, including the cost of spectrum which is one of the highest in the world, are considered barriers to investment, and limit operators' ability to enhance service availability and service quality and also generate a number of potential distortions to the economy and adversely impact economic and social growth.

Moreover, the telecom environment in Jordan is very challenging; Jordan has one of the highest data usages driven by the adoption of smart phones and has low data prices due to fierce competition mainly on data.

The continuous drop on the net income of the telecom operators would affect their sustainability in the future, and will be an obstacle for new investments, and jeopardizes the switch toward the digital economy, contribution to GDP and planned e-Government services.

Yet, we are working diligently to ensure that the adverse effects of these challenges have minimal impact on our operations and investments. We are also confident that, with time, the Ministry of ICT, TRC, and all other related entities will be able to find solutions to these issues and others such as Mobile Number Portability and enhance the telecommunications industry on a national level.

The telecommunications sector needs strong investment from operators, and is a great enabler for the country to attract foreign investment, and help the development of remote businesses all over the Kingdom.

Potential competition

Barriers to entry (and expansion) in this market are high, making it difficult for other (potential) competitors to build a position strong enough to compete with Orange. Such barriers arise from the significant (and sunk) fixed costs associated with building an access network. Orange Fixed has the benefit of economies of scale, scope and density and its network will not be easily replicated. For example, Orange Fixed ownership of a ubiquitous copper network means it already has poles on which new fiber infrastructure can be delivered, and this gives it a considerable advantage (in terms of both investment cost and time taken to roll out fiber) over potential competitors who would need to build a new access network. Despite the rising share of FBWA services, and the increased coverage, there are significant barriers to entry and expansion for this technology too. These barriers would include, for example, the availability and cost of spectrum. Other factors that are particularly relevant in this market include that fact that Orange Fixed is highly vertically integrated, and is active on all relevant markets across the value chain. The existence of different Orange affiliates, operating in different market segments, does not affect this conclusion, as these affiliates are all under common ownership and control, thus constituting a single economic entity for the -124- purposes of competition.71 The high degree of vertical integration means that Orange is the dominant operator in the provision of WLA products, and at the same time a major competitor in the associated retail markets. Orange Fixed provides retail access and call origination, as well as other services (such as retail broadband) using its access network. Orange's ubiquitous access network also contributes to its significant retail customer base.

Countervailing buying power: With the exception of wholesale access via FBWA, Orange is the only potential provider of wholesale local access, and no wholesale products are active in the market. Therefore, there is no potential for countervailing buyer power. Preliminary Conclusion on SMP Orange Fixed is the operator with SMP in the market for Wholesale Local Access.

The Orange group strategy:

Launched in 2015, the strategic plan, Essentials2020, focuses on Orange's ambition for 2020 to "provide its customers with an unmatched customer experience" by being ever- present to "connect every individual to what is essential to them". This involves providing exemplary basic services, quality and reliable access, customer connections at any time and from anywhere they want, as well as even more personalized options for services and offers. The implementation of its Essentials2020 strategy has enabled Orange to generate revenue and EBITDA growth again. Orange serves every kind of customer: those who focus above all else on price and those who have a particularly high-level of service expectation, whether private individuals, very small companies or multinationals. The Group can rely on a series of key strengths for the mission that it has set out. With its brand and its 151,000 employees at end- 2018, it is present in Europe, Africa and the Middle East on the residential market, and everywhere in the world on the Enterprise market. Orange's ambition breaks down into five main drivers:

1. Offering enriched connectivity

2. Reinventing the customer relationship

3. Building a company model that is both digital and caring

4. Supporting the transformation of business customers

5. Diversifying by capitalizing on its assets. Moreover, the strategic plan will be achieved within the framework of a company that is digital, efficient and responsible.

Jordan Telecom Group (Orange)

Current regulatory systems were developed for outdated technologies and markets; they can also actually do harm by slowing innovation and technological and market advances. Prescriptive, ex ante regulatory regimes—like those traditionally governing communications markets— are no longer effective in the face of rapid innovation and technology convergence. In many cases, as competition increases, the need for such regulation has disappeared altogether. In addition, legacy regulation is discriminatory, particularly the legacy regulation of communications services and service providers, which is far more intrusive and prescriptive than regulation of other elements of the digital ecosystem. Regulatory discrimination can harm competition and reduce consumer welfare. MoICT should stay focused on three priorities: Regulation should be designed to achieve its objective in the most efficient way, without regard to technologies, industry structures, or legacy regulatory regimes. Measurable, performance-based approaches should be favored over prescriptive regulations, promoting market dynamism and driving consumer welfare. Take a fresh look at legacy rules and discard those that are no longer relevant, applying a consistent set of criteria throughout the digital ecosystem. In many cases, intense competition in the ecosystem means that regulation is no longer needed, or can be significantly

Jordan Telecom provided a detailed review of conditions related to this paragraph that are affecting the sector, summarized by the following statement: "The telecoms sector has been suffering for years from the accumulation and multiple taxes imposed on it by users and operators, which contributed to the decline in revenues and profits of the sector."

Spectrum should be priced according to the level of market demand so as to increase the diffusion of services, which in turn works towards the growth of the national economy. It is a must to achieve a balance between the fees and taxes imposed on licensees and the frequency acquisition fees, it is not reasonable to impose very high acquisition fees without taking into account the annual fees that are paid by the licensees (revenue share, annual license fees, annual spectrum fees, different government taxes). The Statement of Government ICT Policy of 2012 required that the TRC to manage the spectrum taking into account to price spectrum according to the level of market demand using auctions and secondary trading, where appropriate. Orange strongly believes that expected immediate revenues from spectrum pricing should not be the main factor for the estimation of those prices. Annual Spectrum licensing fees should generally be limited to recovering the administrative costs of the frequency licensing process and associated regulatory costs. Therefore, Orange support any new spectrum pricing policy that would decrease the costs on the operators in the market. To this end, Orange stress on adopting more clear position on spectrum pricing taking into account the following principles:

a) The relative merits of upfront license versus annual charges should be considered with regard to the particular market circumstances (i.e. taxes, competition, regulatory fees, revenue share, etc.).

b) Recurring spectrum fees should be limited to recovering the cost of spectrum management. c) Where spectrum is to be re-assigned or assigned for the first time, TRC should determine the approach or combination of approaches to assigning licenses taking into account their particular objectives as well as the likely advantages and disadvantages of the different approaches in the particular market context drawing on both theory and practical experience (e.g. how administrative incentive pricing (AIP) it should be implemented in practice).

d) Setting prices at fair levels will generate maximum benefits for society, increase revenues for the state, directly through spectrum fees and, more importantly, indirectly through accelerated GDP growth. e) Extend mobile spectrum licenses to have a minimum of 25 year term to provide sufficient certainty to support substantial network investments.

f) Prior consultation on the detailed design any approach to be adopted whether an auctions/tenders or AIP.

5G is expected to support significantly faster mobile broadband speeds and increasingly extensive mobile data usage, while also enabling the full potential of the Internet of Things (IoT). From virtual reality and autonomous cars to the industrial internet and smart cities, 5G will be at the heart of the future of communications. 5G is also essential for preserving the future of today's most popular mobile applications — such as on-demand video — by ensuring that growing uptake and usage can be sustained. The success of the services will be heavily reliant on government and TRC. Most notably, the speed, reach and quality of 5G services will be dependent on government and TRC supporting timely access to the right amount and type of spectrum, and under the right conditions. Licensed spectrum should remain the core 5G spectrum management model. Government and TRC need to adopt national policy measures to encourage long-term heavy investments in 5G networks

Orange believes that telecom operators have already alternative international routes through neighboring countries to enhance reliability. However, increased international capacity is necessary given the increase demand for data services. We also believe that increased capacity would improve Jordan attractiveness for hosting and call centre service.

The TRC has assessed separately each of the wholesale markets and the retail FACO market in terms of existing competition, potential competition, and any countervailing buyer power. Its preliminary finding is that Orange Fixed has SMP on the markets for wholesale local access; wholesale broadband access; wholesale transit; and retail FACO. All operators that can terminate fixed voice calls on their own networks have SMP for fixed voice call termination. No operator has SMP on the market for wholesale fixed voice call origination.

In the retail FACO market, remedies include:

Non-discrimination: Orange Fixed may not discriminate, but must offer equivalent conditions, prices and quality in equivalent circumstances, and must demonstrate compliance by providing an annual Statement of Compliance to the TRC.

Transparency: Orange Fixed is required to publish its terms and conditions, to offer service level agreements (SLAs), and not bundle unreasonably. Accounting separation: Orange Fixed will be required to provide relevant accounting information as may be specified by the TRC from time to time.

Cost accounting and price control: Orange Fixed will be obliged to maintain a suitable forward-looking cost accounting system. Orange Fixed will be subject to a safeguard price cap, so that retail prices cannot increase in real terms.

Fixed narrowband markets:

Retail Market:

A retail market for fixed telephony access connections for residential and nonresidential users which includes PSTN, ISDNBRA, ISDN-PRA and telephony access achieved through broadband connections. A retail market for fixed domestic telephone calls, for prepaid/postpaid residential and nonresidential users, including local, national, fixed-to-mobile, and calls to service providers.

Wholesale Market:

A wholesale market for call origination over all fixed networks ("fixed call origination"), which includes the wholesale provision of fixed call origination through CS/CPS and NTTO services for all types of calls (including calls to end-users and calls to service providers) and the self-supply of fixed call origination for all types of calls (including calls to end-users and calls to service providers).

A wholesale market for transit services over all fixed networks (transit), which includes the wholesale provision of transit services for national calls and the national portion of international calls for all types of calls (including calls to end-users and calls to service providers)

Fixed broadband markets:

- A wholesale market for the provision of physical network infrastructure access
- A wholesale market for the provision of broadband access at a fixed location

The following companies are currently providing retail fixed internet services in Jordan:

- Orange Fixed (business and residential, ADSL and FTTH provided over its own network infrastructure).
- Orange Data – Jordan data communications (business and residential ADSL and VDSL access using Orange Fixed network).

Demand side substitution

In terms of functionality, retail FACO (including PSTN, ISDN, copper and fiber) supplied to a residential customer is the same as retail FACO supplied to a business customer. There is limited differentiation in terms of pricing and marketing between access targeted at residential and business customers in Jordan. For example, a residential offer of Orange fixed line with unlimited local and national calls with discounted rates for some international calls (but no broadband included in the bundle) is priced at 12.260 JD per month whilst similar small business fixed line packages (with no broadband in bundle, but including unlimited local and national calls plus discounted rates for international calls) are priced from 12.28 JD per month. Customers will generally choose the tariff that best meets their needs in terms of the traffic volumes for example, and there is likely to be a significant overlap between a residential customer buying retail FACO services and a small business user. In the last review, the TRC considered whether differing contractual terms would suggest that services to business and residential customers belong to separate markets. The TRC concluded that, although contracts for business and residential customers may contain different provisions, this would not act as a constraint on the supplier of either business or residential services. In the TRC‟s view, this remains the case.

The TRC has considered whether mobile retail broadband services are in the same product market as fixed retail broadband services, including xDSL, fiber and FBWA. Mobile data offered as part of a mobile subscription plan are considered in the parallel consultation on the mobile markets, and will not be discussed here. However, mobile broadband can also be purchased as a standalone retail solution. Such mobile broadband services are marketed as distinct services, separate from the cluster of mobile services, advertised as a standalone ‟broadband‟ connection for „personal‟ or „on-the-go‟ use, often accessed with the use of a dongle or "MiFi" device which allows for multiple devices to connect simultaneously. Considering functional characteristics, retail mobile broadband services are not typically advertised with a guaranteed or promised download speed in the same way as fixed retail broadband offers over xDSL and Fiber. All packages have strict data usage caps (with the exception of one Zain offer, the highest allowance is 300 GB per month), with users facing additional prices or slower speeds if they approach or exceed their download allowance. Given the generally lower speeds and strict data caps, a user would not be likely to use mobile broadband for data intensive applications (e.g. Netflix).

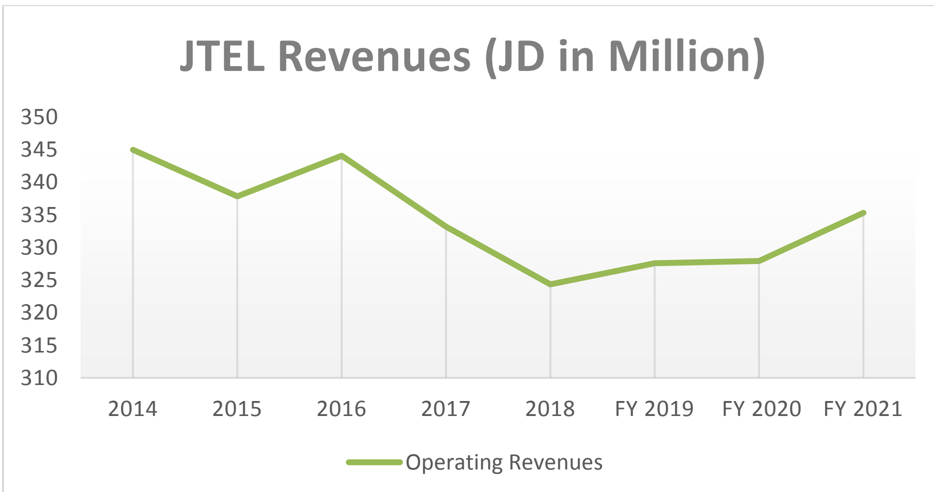
The TRC has compared data allowances and subscription prices between mobile broadband and FBWA (as FBWA is likely to be the most similar fixed broadband service to mobile). Exhibit VI.3 below shows that personal, standalone mobile broadband packages tend to have a much tighter data allowance, with prices being higher than FBWA equivalents with a similar download limit.51.

During 2014 JTEL accounts for Net Income after tax of 42.03 Million JOD compared to Net Loss recorded in 2018 of 21.3 Million JOD. Decreasing in Net Income, because of Governmental policies through increasing in tax and other decisions they have made in the same period. JTEL should do more efforts in reducing operating expense and managing its assets due to generate more revenue.

JTEL Sales:

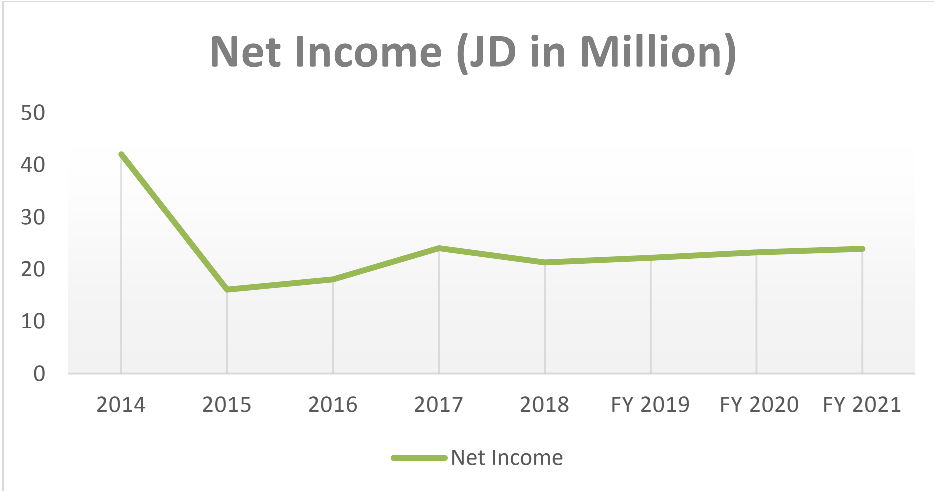
Total Sales “Operating Revenues” as chart below shows that Sales increased and decreased within 5 Years “fluctuation” declined from 2014 to 2015 by (2%) from 344.98 M in 2014 to 337.84M in 2015, then had been increased by (1.8%) from 337.84M in 2015 to 344.06M in 2016.

Then has been decreased by (5.7%) from 2016 to 2018 from 344.06 in 2016 to 324.35 in 2018.



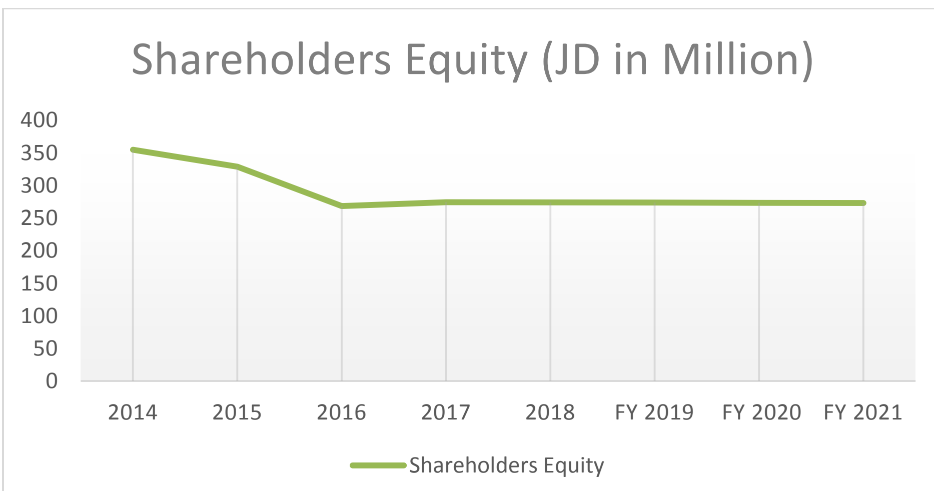
JTEL Net Income:

JTEL NI had decreased by (-49.4%) from 2014 to 2018. As chart below shows that JTEL is facing a problem regarding the decrease in sales revenues as well as increasing in operating cost.



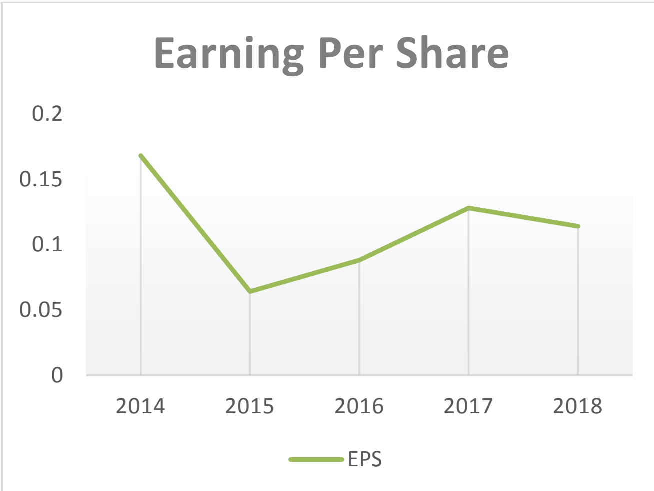
JTEL Net Equity:

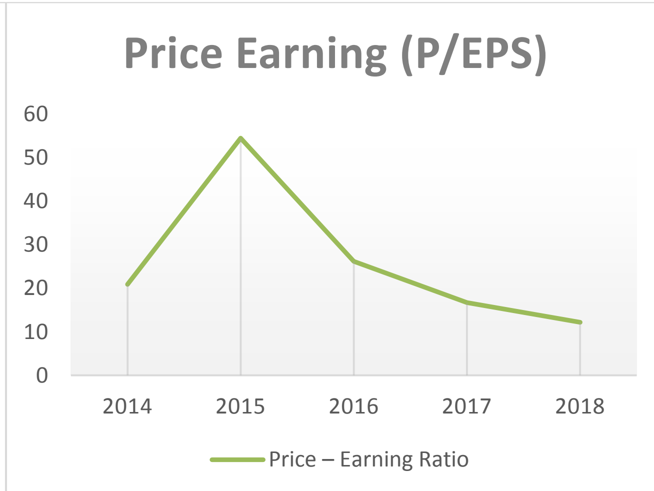
Total JTEL Net Equity has decreased by (22%) from 354,534,016 in 2014 took declining trend till reached 273,936,814 in 2018 due to the decline of total Net Income for the same period. On 10/12/2015, the company decided to reduce the paid-up capital from 250M to 187.5M by 25%, the reason, the company does not need the capital of the reducer and surplus its need as mentioned.

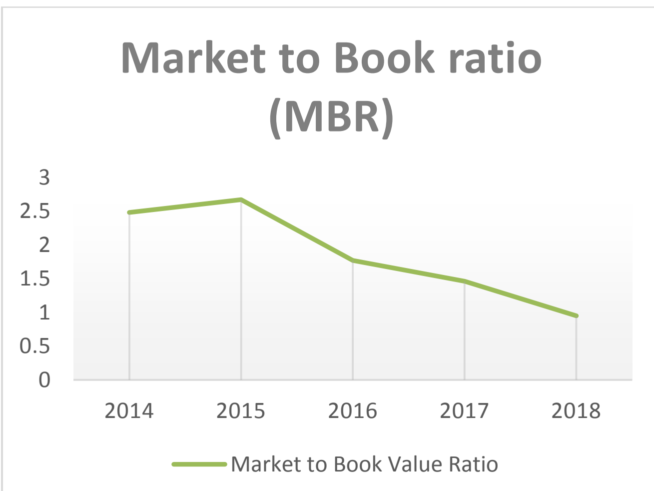


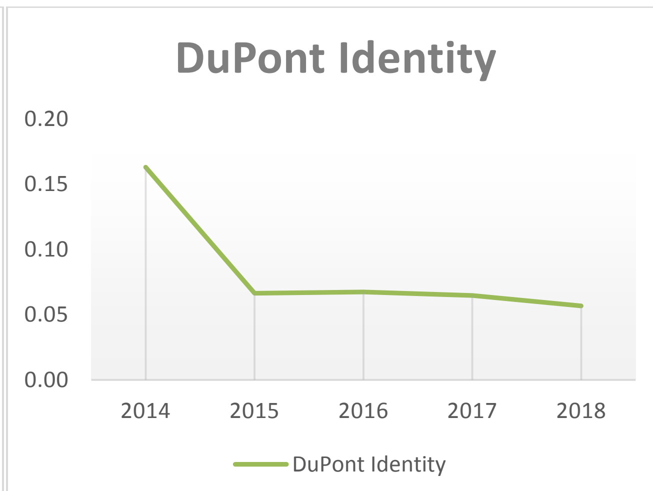
Market Ratios

Earnings per share also significantly decreased from (0.17) in 2014 to (0.09) in 2016 resulting a higher Price Earnings ratio which is considered a negative indicator of the company performance then the company started to improve their performance that's reflected to EPS which increased from (0.09) in 2016 to (0.114) in 2018, the company market value has decreased from (2.48) to (095) compared to the book value which also represent a declining on the company market value. by looking at the Dupont ratio it shows that the decreased percentage is due to decreased operating revenue and net income.









SWOT Analysis of JTEL:

SWOT Analysis is a vital strategic planning tool that is used to analyze a company's competitive positioning in its business environment. It is a useful technique to understand the present Strengths (S), Weakness (W), Opportunities (O) & Threats (T) Orange is facing in its current business environment.

SWOT is a useful tool that can be used to identify the strength & weakness point in order to improve the company performance. Also, to manage & eliminate the threats & weaknesses of JTEL & to build a strategy that helps to distinguish itself from other competitors in the Market. Simply it develops JTEL capacity to improve its operations & business.

Strength

- Strong Brand Portfolio
- High level of customer satisfaction
- Customer needs
- Diversified products portfolio suitable
- Successful track record of developing new products
- Highly successful at "Market strategies" for its products

Weaknesses

- Low Coverage
- Economics crisis & Jordan price
- Sensitive market
- High attrition rate in work force
- Organization structure is only compatible with present business model thus limiting expansion in adjacent product segments

Opportunities

- First mover opportunities in 5G Technology
- The new technology provides an opportunity to Orange to practices differentiated pricing strategy in the new market
- New trends in the consumer behavior can open up new market for the Orange

Threats

- Enterprise managed services
- Increasing Taxes and other Govenmental Decisions
- Intense competition
- Rising raw material can pose a threat to the Orange profitability

PESTLE Analysis of JTEL:

Political

- Adverse effect of political polices
- Taxation - tax rates and incentives
- Mandatory employee benefits

Economical

- Inflation & Interest rate
- Effeciency of financial market
- Economic growth rate
- Inflation

Social

- policies Social branding and promotion
- Class structure, hierarchy and power structure in the society
- Culture
- Promoting inclusivity to help rach out to more customers

Technological

- 5G technology on board
- Impact on value chain structure in Technology sector
- Digital services to boost revenues
- Emergence of alternative technology

Legal

- Telecom laws and regulation
- Data Protection
- Regulation due to national security concerns
- Consumer protection

Enviromental

- Focus on sustainability initiatives
- Energy and site optimization
- Attitudes toward and support for renewable energy

Financial Overview:

Financial Projections:

Financial projections are set for Jordan Telecom (Orange Jordan) due to prepare financial statement for the period 2019-2021 as shown below. These projections may use historical data as well as internal and external factors to determine future revenues or expenses and also set an assumption for the companies' operation and cash flow which depends on past performance to see how the company has grown and developed over time.

Ratio Analysis:

Ratio analysis is a useful management tool that will improve the understanding of financial results and trends over time, and provide key indicators of organizational performance. Managers will use ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed. Funders may use ratio analysis to measure the results due to make judgments concerning management effectiveness and mission impact. It is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. The process of reviewing and evaluating a company's financial statements (such as the balance sheet or profit and loss statement), thereby gaining an understanding of the financial health of the company and enabling more effective decision making. Financial statements record financial data, however, this information must be evaluated through financial statement analysis to become more useful to investors, shareholders, managers and other interested parties. Financial statement analysis is an evaluative method of determining the past, current and projected performance of a company.

Liquidity Ratio:

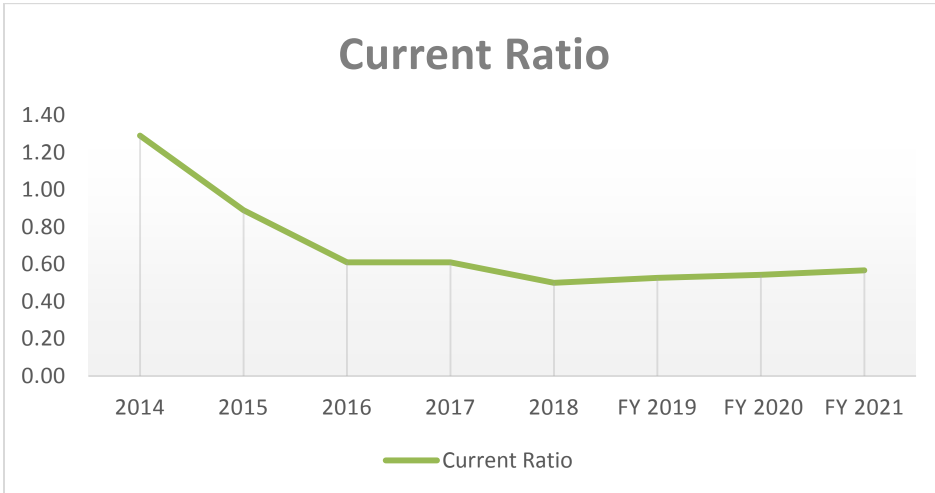
The following Current and Quick ratios are belonging to a class of financial metrics used to measures the adequacy of cash resources to meet its near-term cash obligations which include Current Ratio, Quick & Cash Ratio.

Current Ratio:

Current Ratio establishes the relationship between current Assets and current Liabilities. It empts to measure the ability of a firm to meet its current obligations. In order to compute this ratio, the following formula is used:

Current ratio = Current assets / Current liabilities

As shown below, the average Current Ratio for the period 2014-2018 was .78 times. In the same period the current ratio trend was declining 1.29 times in 2014 to 0.50 in 2018 which is significantly less than the ideal value of 2.0. We can notice a huge decrease in current assets available to cover the current liabilities. The reason of decline as shown in the chart below, We can conclude that a decrease in cash and an increase in commitments is the main factor. According to the list the income shown on page 23 that the operating expenses have increased due to the tax laws imposed by the government and the company took a loan from the bank which means Expenses have increased because they also pay bank payments with interest and this leads to erosion in profit and decrease in cash. Current Ratios for the period 2018-2021 It will be better than 2018 due to the expectation of revenue growth and the government is also expected to make a decision to reduce the sales tax which will be reflected on cash & other current assets.

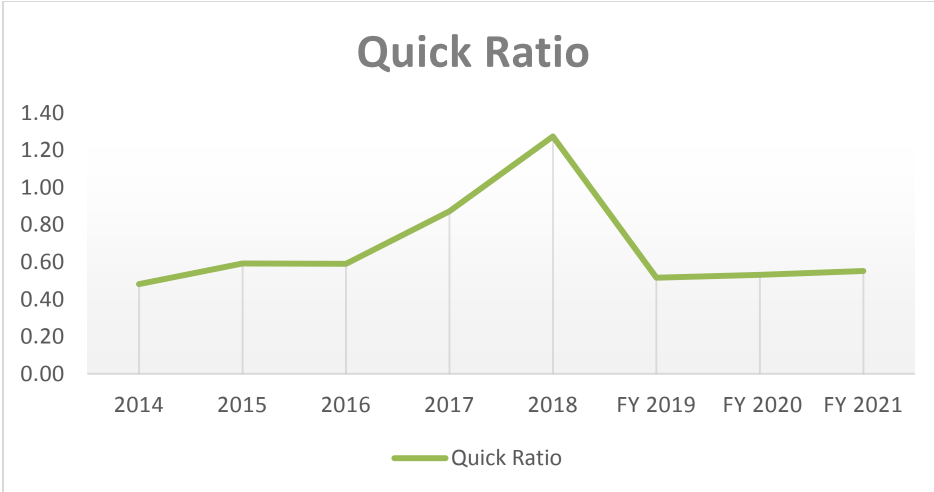


Quick Ratio:
The Quick ratio is a more severe and stringent test of ability to pay its short-term obligations and when they become due and it establishes the relationship between the quick assets that can be converted easily to cash and current liabilities. In order to compute this ratio, the below presented formula is used:

Quick Ratio = (Cash + Marketable Securities + Accounts Receivable) / Current liabilities

As shown below, the average Current Ratio for the period 2014-2018 was .76 times. In the same period the current ratio trend was declining 1.29 times in 2014 to 0.50 in 2018 which is significantly less than the ideal value of 2.0.

As shown in the chart below, the quick ratio decreased from (1.27) JD to (0.48) JD which is absolutely less than ideal value of (1.0) which is less significant for a well-established business with long-term contract revenues, or for a business with very solid credit, so that it can easily access short-term financing if the need arises. Quick ration average was .76 times for the period 2014-2018 which indicates that Orange does not have the ability to cover its current liabilities without liquidating its inventory balance & after that may still have a liquidity problem (Higher Financial Risk).

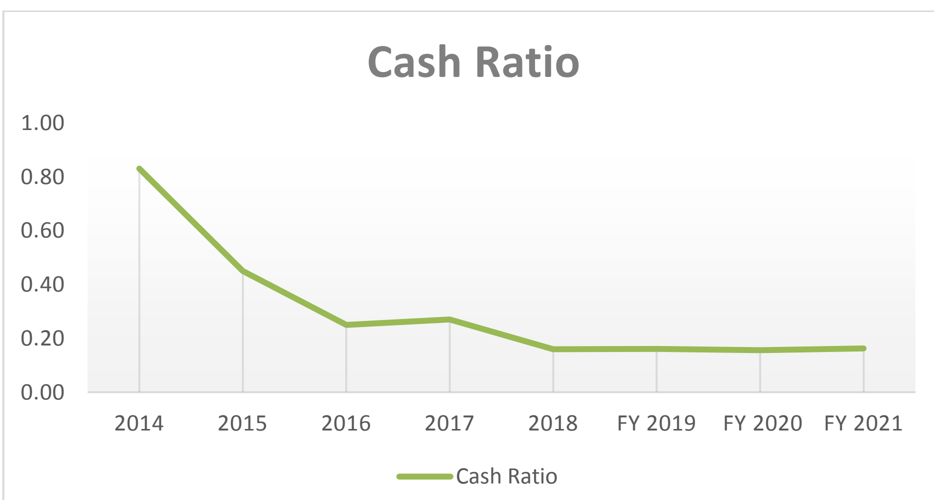


Cash Ratio:

It means more cash in the system than required for payment of short-term liabilities. A creditor of the company will be happy with such ratio as higher as possible because that will reduce the chances of any delay in paying his dues. But, on the other hand, the company would like to keep it low or optimized to suit its requirements because idle cash means unwanted loss of interest cost. In order to compute this ratio, the below presented formula is used:

Cash Ratio = (Cash + Marketable Securities) / Current liabilities

The cash ratio was (0.83) in 2014 and decreased to (0.16) in 2018 which indicates to an increasing problem in shortage of cash and other current assets. The net working capital decreased from 66,048,893 JD in 2014 to (142,310,929) in 2018 which means that the company is using more debit in its operations. It means cash in the system is insufficient to pay for short-term liabilities. A creditor of the company will assume more risk while extending credit to the company.



Profitability Ratios

Profitability Ratios are used to measure and evaluate the ability of a company to generate income (profit) relative to revenue, balance sheet assets, operating costs, and shareholders' equity during a specific period of time. The results will give us an indication how a company utilizes its assets to produce profit and value to shareholders in the same period. In order to assess, we have to calculate the below:

- Profit Margin
- Return on Assets
- Return on Equity

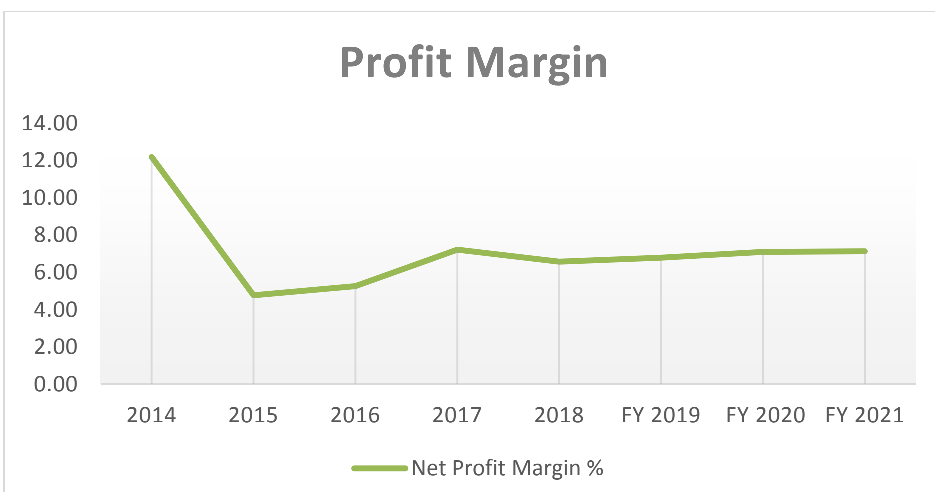
Profit Margin

Different profit margins are used to measure a company's profitability at various cost levels, including gross margin, operating margin and net profit margin. The margins shrink as layers of additional costs are taken into consideration, such as the cost of goods sold (COGS), operating and nonoperating expenses, and taxes paid.

Net profit margin concerns a company ability to generate earnings after taxes, in order to compute this ratio, the below presented formula is used:

Profit Margin Ratio= (Net Income / Net Sales) * 100%

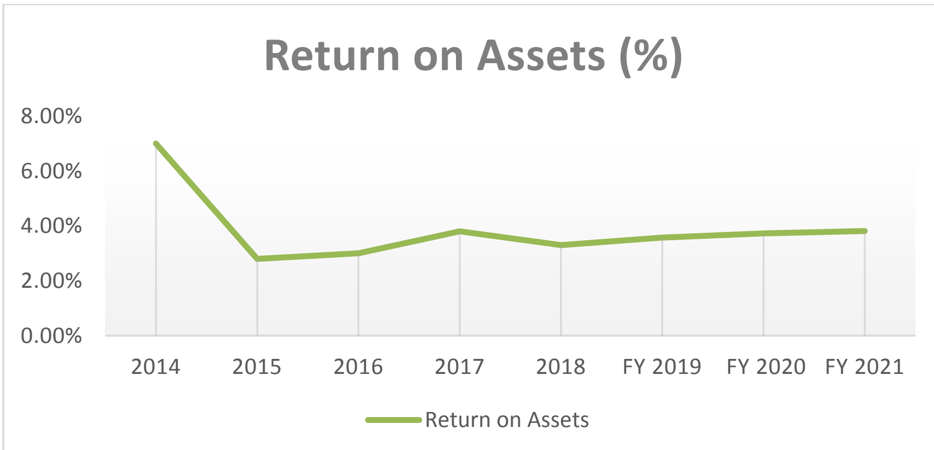
Profitability ratios have significantly decreased in 2015 compared to 2014 this may be due to high competition and decreased sales prices or to an increasing operating cost and the ratio increased from 4.77% in 2015 to 6.57 in 2018. The company concentrated on increasing those ratios as profits are the most important thing for the company to continue operating.



Return on Assets
Return on Assets, often called the return on total assets. It measures the efficiency of managing its assets to produce profit during a period. The formula is presented as below:

Return on Assets = Net Income / Total Assets

Return on assets have significantly decreased from 7% in 2014 to 2.8% 2015 this may be due to high competition and decreased sales prices or to an increasing operating cost which means JTEL lost control of managing its assets. The ratio is almost constant for the period between 2015 and 2018.

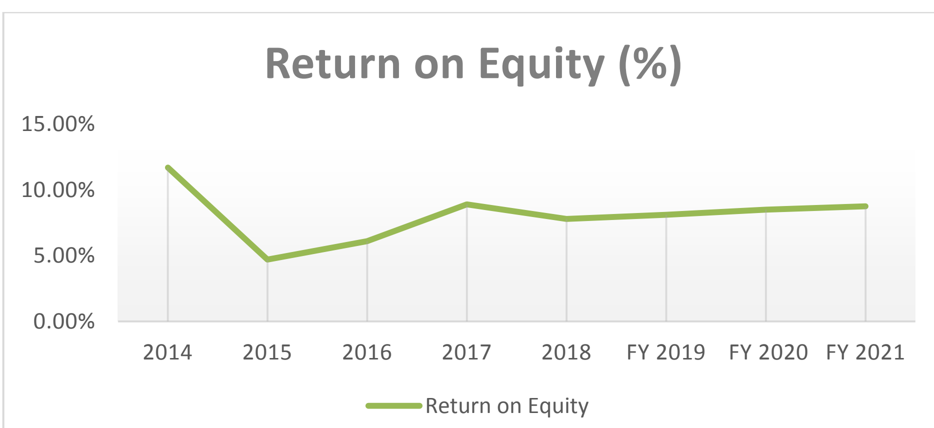


Return on Equity

Return on equity compares the annual net income to its shareholders equity. The measure is used to determine the general level of return that an organization is generating in proportion to the investment they have made in it. A business that can generate a high return on equity is considered to be a good investment, which drives up its share price.

Return on Equity Ratio Formula = Net Income / Shareholders Equity

Return on Equity has significantly decreased from 11.7% in 2014 to 4.7% 2015 this may be due to decrease in profit margin. The ratio is almost constant for the period 2015 and 2018.



Asset Management Ratios

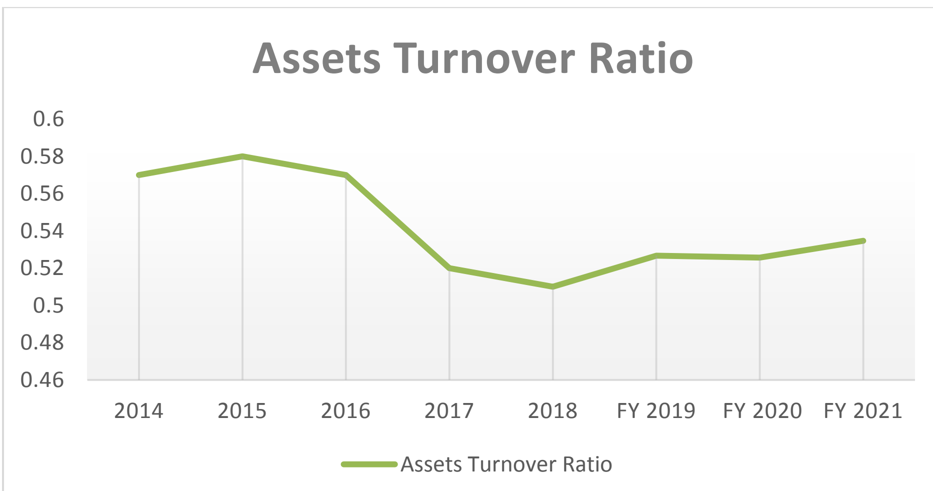
The metrics in this financial analysis category attempt to determine the effectiveness of a company to utilize its assets to generate revenue.

Asset Turnover Ratio

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue, and is calculated as follows:

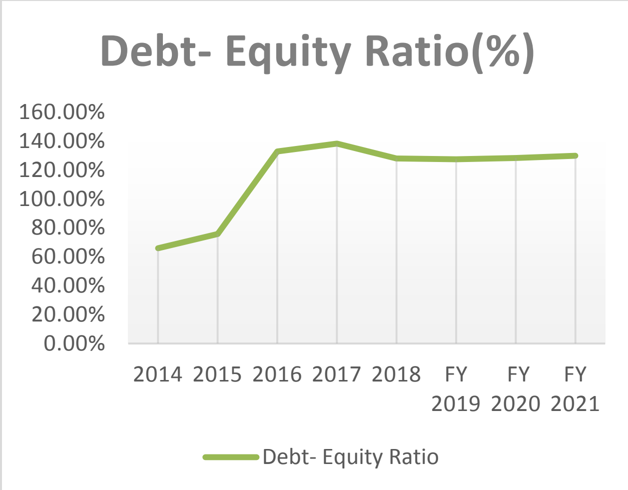
Assets Turnover Ratio = Total Sales / Total Assets

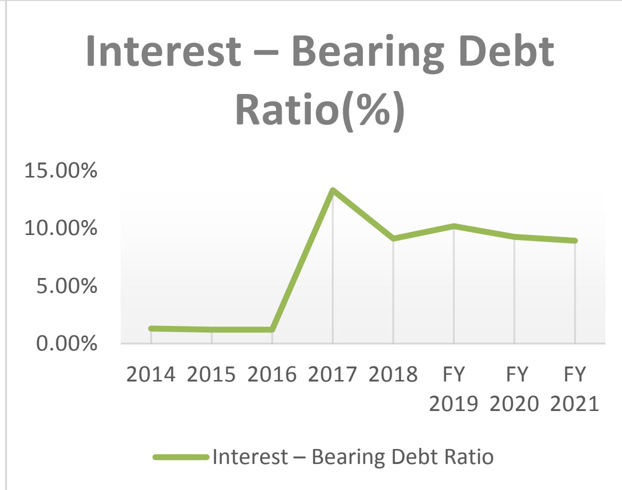
The ratio is almost constant for the period 2014 and 2016 then decreased from 0.57 in 2016 to 0.51 in 2018 which means that the declining in Asset turnover ratio is a bad sign for the period 2016 and 2018 and efficient management of assets on hand. So, they have to focus on increasing in revenue and liquidate for unused assets.

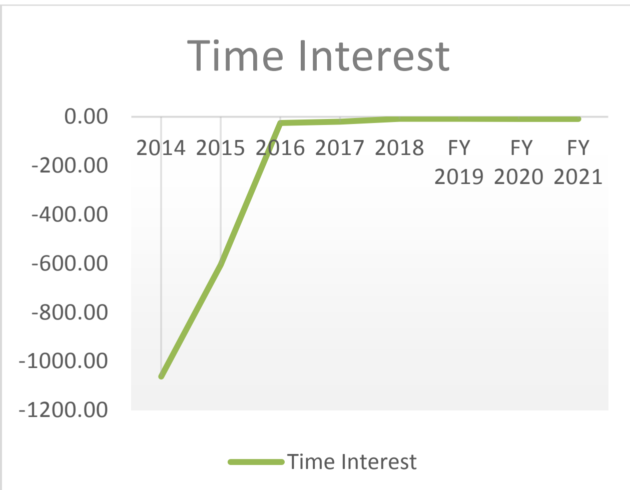


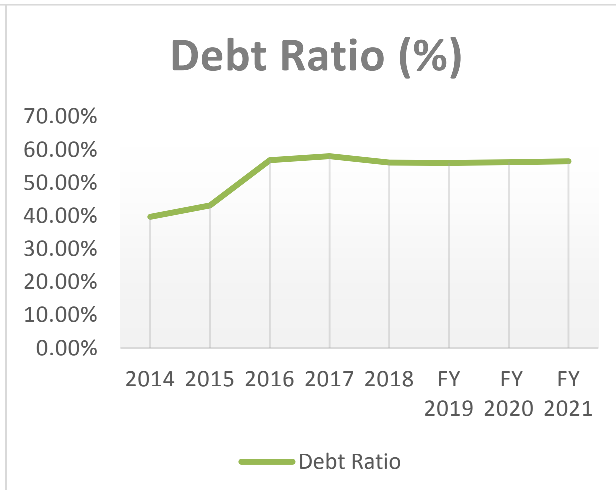
Leverage Ratios

As for the total debit ratio there is high increase in the debit in 2018 (56.10%) compared to (39.70%) in 2014, also for debit to equity ratio it represent an increasing liabilities compared to equity; it increased from (65.90%) in 2014 to (127.9%) in 2018, the equity multiplier also increased from (1.66) in 2014 to (2.28) in 2018 the company is using more debit to finance its assets, the Times interest (Coverage Ratio) has significantly decreased from (1062) times in 2014 to (8) in 2018 which means that the company is using high amount of debit. the overall conclusion is that the company is using more debit to finance its assets and operations and if it keeps using the same methods it will face a huge financial problem in the near future.


Debt- Equity Ratio(%)
160.00%
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
2014 2015 2016 2017 2018 FY 2019 FY 2020 FY 2021
Debt- Equity Ratio


Interest – Bearing Debt Ratio(%)
15.00%
10.00%
5.00%
0.00%
2014 2015 2016 2017 2018 FY 2019 FY 2020 FY 2021
Interest – Bearing Debt Ratio


Time Interest
0.00
-200.00
-400.00
-600.00
-800.00
-1000.00
-1200.00
2014 2015 2016 2017 2018 FY 2019 FY 2020 FY 2021
Time Interest


Debt Ratio (%)
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
2014 2015 2016 2017 2018 FY 2019 FY 2020 FY 2021
Debt Ratio

Tabulated Select Ratios:

The table below shows some common ratios calculated for historical as well as forecast data:

	2014	2015	2016	2017	2018	FY 2019	FY 2020	FY 2021
Liquidity Ratios								
Current Ratio	1.29	0.89	0.61	0.61	0.50	0.53	0.54	0.57
Cash Ratio	0.83	0.45	0.25	0.27	0.16	0.16	0.16	0.16
Quick Ratio	0.48	0.59	0.59	0.87	1.27	0.52	0.53	0.55
Profitability Ratios								
Return on Total Assets	7.00%	2.80%	3.00%	3.80%	3.30%	2.49%	2.49%	2.66%
Return on Total Equity	11.70%	4.70%	6.10%	8.90%	7.80%	5.65%	5.68%	6.11%
Assets Management Ratio								
Assets Turnover Ratio	0.57	0.58	0.57	0.52	0.51	0.51	0.49	0.50
Fixed Assets Turnover Ratio	1.82	1.75	1.70	1.56	1.43	1.51	1.54	1.50
Capital Turnover Ratio	0.96	0.99	1.15	1.23	1.18	1.18	1.15	1.12
Leverage Ratios								
Debt- Equity Ratio	65.90%	75.70%	132.70%	138.10%	127.90%	127.30%	128.23%	129.69%
Interest Bearing Debt Ratio	1.30%	1.20%	1.20%	13.30%	9.10%	10.18%	9.25%	8.92%
Debt Ratio	39.70%	43.10%	56.80%	58.00%	56.10%	56.01%	56.19%	56.46%
Assets Coverage Ratio	1.1	0.7	0.39	0.45	0.37	0.35	0.40	0.47

Conclusion: Beyond the Numbers

It is clear from the financial results of the Company that they are facing a problem regarding the decrease in sales revenues well as an increase in operating costs further more; a high outstanding debit with a decrease in current assets available to settle those short-term obligations which need a serious corrective actions as those negative performance results reflect on the company market value.

Ratios will improve in 2018-2021 based on the expected profitability. JTEL must identify weaknesses in its operation due to develop its Liquidity to improve the capacity to meet short term obligations & effectively & efficiently manage its Working Capital. The period of collection should not be exceeded more than 90 days. JTEL Inventory Turnover Ratio has a good trend but Assets Turnover Ratio need to be enhanced by developing its Asset Management policy & generate more Operating Revenues. Debt Ratio & Long-Term Debt to Equity Ratio almost stable but to amendments when is required.

Company Valuation:

Discounted Cash Flow valuation method

Discounted cash flow (DCF) is a valuation method used to estimate the value of an investment based on its future cash flows. DCF analysis attempts to figure out the value of a company today, based on projections of how much money it will generate in the future.

DCF analysis finds the present value of expected future cash flows using a discount rate. A present value estimate is then used to evaluate a potential investment. If the value calculated through DCF is higher than the current cost of the investment, the opportunity should be considered.

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Growth Rate		**5%**	**4%**	**5%**	**5%**	**5%**	**5%**	**5%**	**5%**	**5%**	
Income Before Interest & Tax - Cash Flow	34,360,655	36,066,924	37,422,423	39,293,545	41,258,222	43,321,133	45,487,189	47,761,549	50,149,626	52,657,108	**427,778,374**
Accumulated discount rate	1.0000	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	
Discount Rate (WACC) is **7%**											
Net Present Value - NBV	34,360,655	33,707,406	32,686,194	32,075,237	31,475,700	30,887,369	30,310,035	29,743,492	29,187,539	28,641,978	**313,075,604**
										Firm Value	**313,075,604**

WACC Approach (constant capital structure)

Cost of equity			
Risk-free interest rate			
Risk-free return (10 years)	**4.00%**		
General market risk			
Forecast Beta (levered Beta)	0.79		
* Market risk premium	7.00%	=	**9.53%**
= Individual market risk premium	**5.53%**		
Equity ratio			**59.5%**

Cost of debt			
Cost of debt			
Risk-free return (10 years)	4.00%		
+ Risk premium	1.50%		
= Cost of debt before taxes	5.50%	=	**3.37%**
- Corporate taxes	2.13%		
= Cost of debt after taxes	**3.37%**		
Debt ratio			**40.5%**

Weighted Average Cost of Capital (WACC) = 7.1775%

- Net Present Value is the current equivalent value of the company of amounts to be paid at different future times. Based on the above, the present value of the company is around JOD 313 million, assuming a discount rate of 7% at the prevailing interest rate in Jordan.

Free Cash Flow Forecast (FCFF)

Year	2014	2015	2016	2017	2018	FY 2019	FY 2020	FY 2021
Operating Revenues	344,980	337,849	344,061	333,192	324,352	327,596	327,923	335,301
Operating Expenses	(161,409)	(158,802)	(167,284)	(158,242)	(152,159)	(153,681)	(153,834)	(157,296)
Gross Profit	**183,572**	**179,047**	**176,777**	**174,950**	**172,193**	**173,915**	**174,089**	**178,006**
SG&A	(65,059)	(67,136)	(68,601)	(64,172)	(60,989)	(56,712)	(53,896)	(54,974)
Other expenses	(15,686)	(30,557)	(12,975)	(18,101)	(15,141)	(18,122)	(17,668)	(17,827)
Depreciation	(54,106)	(60,760)	(76,738)	(67,000)	(68,231)	(69,596)	(70,875)	(72,177)
EBIT	**48,721**	**20,594**	**18,464**	**25,677**	**27,832**	**29,485**	**31,649**	**33,027**
Less: Income taxes	(16,553)	(9,174)	(6,942)	(7,284)	(7,805)	(8,190)	(8,776)	(9,404)
Interst	(55)	(42)	(1,016)	(1,619)	(3,805)	(3,957)	(4,037)	(4,117)
NOPAT	83,903	36,174	37,188	47,047	47,025	49,087	51,524	53,461
Add:Depreciation	(54,106)	(60,760)	(76,738)	(67,000)	(68,231)	(69,596)	(70,875)	(72,177)
Working capital changes	89,196	99,633	88,780	80,099	76,869	102,243	105,085	104,548
Less:CAPEX	(88,585)	(136,803)	(84,158)	(93,741)	(59,593)	(74,938)	(74,938)	(74,938)
FCFF	**30,408**	**(61,755)**	**(34,927)**	**(33,595)**	**(3,931)**	**6,796**	**10,796**	**10,894**

Valuation of JTEL

Based on forecast projection and the above assumptions, the value of JTEL as of 2014 to be 1.759 JOD/ Share.

Value of Operation at the end 2014	**249,605,678**
Add: Value if non-Operation Assets	-
Total Company Value	**249,605,678**
Less Value of Interest-bearing Debt	(190,264,069)
Net Intrinsic Value of the firm's equity	**439,869,747**
Number of share outstanding	**250,000,000**
Intrinsic value per share	**1.759**

Projected Financial Position Statement – Balance Sheet

Year	2014	2015	2016	2017	2018	FY 2019	FY 2020	FY 2021
Assets (JD)								
Inventories	3,371,546	4,697,474	4,466,836	4,765,440	5,108,760	5,389,742	5,686,178	5,799,901
Trade receivables and other current assets	77,890,264	79,085,715	75,056,862	78,220,762	81,689,130	85,311,288	89,094,055	90,875,936
Balances due from telecom operators	23,248,681	24,149,776	14,854,601	6,521,009	8,773,272	11,803,434	14,754,293	16,598,580
Contract assets	-	-	-	-	2,305,949	2,305,949	2,305,949	1,537,299
Cash and short-term deposits	190,264,069	110,665,422	65,696,230	70,638,445	44,184,568	45,068,259	44,166,894	45,491,901
Total Current Assets	294,774,560	218,598,387	160,074,529	160,145,656	142,061,679	147,572,724	153,701,420	158,766,318
Property and equipment	189,614,408	197,487,728	206,821,776	220,144,900	233,861,850	248,433,486	263,913,062	280,357,150
Intangible assets	102,076,326	157,839,589	249,144,857	267,590,051	244,407,166	223,232,749	203,892,796	186,228,375
Contract assets	-	-	-	-	1,031,956	1,031,956	1,031,956	1,031,956
Deferred tax assets	1,757,428	3,617,292	5,340,872	5,065,839	2,937,110	1,706,360	1,301,987	754,876
Total Fixed Assets	293,448,162	358,944,609	461,307,505	492,800,790	482,238,082	474,404,551	470,139,801	468,372,357
Total Assets	588,222,722	577,542,996	621,382,034	652,946,446	624,299,761	621,977,275	623,841,221	627,138,676
Liabilities & Owners Equity								
Liabilities (JD)								
Trade payables and other current liabilities	158,154,006	176,161,011	184,066,479	187,754,771	172,300,086	174,023,087	175,589,295	174,008,991
Balances due to telecom operators	69,972,397	68,587,806	49,016,554	28,239,219	27,744,575	27,258,595	30,337,791	30,019,244
Telecommunications license payable	-	-	-	-	51,440,123	47,067,713	46,526,434	45,991,380
Current portion of interest-bearing loans	474,197	426,922	406,807	4,102,896	4,448,285	4,537,251	4,491,878	4,446,959
Murabaha financing	-	-	-	12,500,000	-	0	0	0
Due to banks	-	-	29,786,964	29,669,195	28,398,026	27,181,320	26,016,743	25,466,229
Employees' end of service benefits	125,067	-	56,938	76,199	41,513	22,616	12,321	6,713
Total Current Liabilities	228,725,667	245,175,739	263,333,742	262,342,280	284,372,608	280,090,581	282,974,462	279,939,516
Telecommunications license payable and other	4,289,253	3,434,712	86,595,425	90,324,287	42,613,026	47,259,792	48,677,586	56,091,156
Interest bearing loans	-	-	2,866,076	25,648,322	23,064,471	20,740,921	18,651,449	17,905,391
Employees' end of service benefits	673,786	292,691	372,850	387,336	312,842	252,675	204,080	164,830
Total Long-Term Liabilities	4,963,039	3,727,403	89,834,351	116,359,945	65,990,339	68,253,388	67,533,115	74,161,377

Shareholders' Equity								
Paid-in Capital	250,000,000	250,000,000	187,500,000	187,500,000	187,500,000	187,500,000	187,500,000	187,500,000
Statutory reserve	62,500,000	62,500,000	62,500,000	62,500,000	62,500,000	62,500,000	62,500,000	62,500,000
Retained Earnings	42,034,016	16,139,854	18,213,941	24,244,221	23,936,814	23,633,305	23,333,644	23,037,783
Total Shareholders' Equity	354,534,016	328,639,854	268,213,941	274,244,221	273,936,814	273,633,305	273,333,644	273,037,783
Non-controlling interest	-	-	-	-	-	-	-	-
Total Liabilities &Shareholders' Equity	588,222,722	577,542,996	621,382,034	652,946,446	624,299,761	621,977,275	623,841,221	627,138,676

Projected Income Statement

Year	2014	2015	2016	2017	2018	FY 2019	FY 2020	FY 2021
Operating Revenues	344,980,180	337,849,034	344,060,958	333,191,730	324,351,983	327,595,503	327,923,098	335,301,368
Operating Expenses	-161,408,557	-158,802,068	-167,283,516	-158,241,868	-152,159,217	-153,680,809	-153,834,490	-157,295,766
Gross Profit	183,571,623	179,046,966	176,777,442	174,949,862	172,192,766	173,914,694	174,088,608	178,005,602
General and Administrative Expenses	-22,072,607	-21,951,118	-25,446,236	-22,777,006	-21,702,356	-19,425,847	-18,509,309	-18,879,496
Selling and Distribution Expenses	-42,986,814	-45,185,213	-43,155,165	-41,394,854	-39,286,625	-37,285,768	-35,386,813	-36,094,550
Depreciation (period)	-54,106,066	-60,759,532	-76,737,698	-67,000,210	-68,231,354	-69,595,981	-70,874,823	-72,177,164
Other Operating Expenses	-15,685,534	-30,556,709	-12,974,522	-18,100,565	-15,140,547	-18,122,355	-17,668,178	-17,827,192
Net Operating Income	48,720,602	20,594,394	18,463,848	25,677,227	27,831,884	29,484,743	31,649,485	33,027,202
Other Revenues	10,011,199	4,727,550	7,567,564	7,255,770	5,085,439	4,875,912	4,417,439	4,395,222
Income Before Interest & Tax	58,731,801	25,321,944	26,031,412	32,932,997	32,917,323	34,360,655	36,066,924	37,422,423
Interest Expenses	-55,287	-41,851	-1,015,590	-1,618,867	-3,805,154	-3,957,360	-4,036,507	-4,117,238
Net Income before Tax	58,676,514	25,280,093	25,015,822	31,314,130	29,112,169	30,403,295	32,030,417	33,305,186
Income Tax (Period)	-16,552,646	-9,174,255	-6,941,735	-7,283,850	-7,805,106	-8,189,771	-8,775,858	-9,403,887
Net Income	42,123,868	16,105,838	18,074,087	24,030,280	21,307,063	22,213,524	23,254,559	23,901,299
Minority Interest	-90799	-	-	-	-	-	-	-
Net Income Pertains to Shareholders	42,033,069	16,105,838	18,074,087	24,030,280	21,307,063	22,213,524	23,254,559	23,901,299

Company Information

Code:	**131206**
Symbol:	JTEL
Address:	Amman - Abdali- The Boulevard- Black iris st. central 1&2
Telephone:	06 4606666
P.O. Box	(1689) Amman 11118
Email	info@orange.jo
Fax:	06 4606111
Established Date	08-10-1996
Listing Date	04-11-2002
Main Objectives	Operating, Managing, Expanding and Improving communication networks
No. of Branches	Local 0 - Abroad 0
General Manager	Thierry Marigny

No. of Employees

	Male	Female	Total
Jordanian	1327	445	1772
Non-Jordanian	9	2	11
Total	**1336**	**447**	**1783**

Reference:

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