

Financial Performance of Telecom Industry in Sultanate of Oman

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Abstract

The aim of the study was to analyse the financial performance of telecom companies in Oman. Annual reports of two telecom companies were collected for seven years (2010-2016) and the financial statement data was analysed using Z score model. The results of the analysis shows that the performance of Omantel was better than Ooredoo. The present study is a fundamental analysis of telecom companies in Sultanate of Oman. The study can provide an idea for the investors in which company they can make investments to earn more returns. The parameters selected for analysis proves to be useful to an investor for his basic analysis of selecting portfolio of investment.

Keywords: Z score, financial performance, working capital, retained earnings, EBIT, market value.

Introduction

Sultanate of Oman is one of the world's biggest oil producing countries. The oil and natural gas extraction account for around 51 percent of the country's GDP. Around 37% of the nation's GDP is gained from service sector. In the service sector the wholesale and retail trade account to 8% of the GDP. Public administration and defense account 7% of the GDP and around 6.8% from transport, storage and communication. The Manufacturing and mining sector contributes 6 percent for GDP, construction, electricity and water distribution account for 5% and agriculture contributes 1 % to the nation's GDP.

In recent years mobile telephone service has gained importance. Mobile devices play a significant role not just restricted to use as a communication device. Mobile devices transformed the communication system. This increased the demand in the business of the service providers. Subscribers for mobile and fixed broadband have grown at a quick stride with a CAGR of 78% and 40% respectively in the past four years. Telecom sector in Oman is regulated by Telecommunication Regulatory Authority (TRA). The two major telecom companies are Omantel and Ooredoo. Omantel a public sector telecom service provider is extending its service to its customers since 1980. Omantel contributes to around 70% of the total telecom revenue of the country. Ooredoo Company is the Oman's first private telecom company owned by Qtel group which was incorporated in the year 2004. Ooredoo's market share of mobile subscribers is 41% and broadband subscribers are 40%.

Research Significance

As there are only two prominent telecom service providers in Oman, the TRA announced to invite bids for mobile operator license. Even though Oman telecom market is believed to have room for growth in, the two major telecom companies i.e. Omantel and Ooredoo reported declining first-quarter profits due to higher royalties and tax rates. In this outline it was considered important to study the financial performance of two major telecommunication service providers. An attempt to compare financial performance of these companies in terms of working capital, retained earnings, market value of equity and sales was carried out. To study the financial performance, a model was needed and it was considered that the Z-Score model will be an apt tools to make a comparative analysis.

Statement of the Problem

The study is restricted to Oman telecom sector which has both public and private sectors companies. Omantel is a public sector company and Ooredoo a private sector company are selected for the present study. The study covers a period of 7 years from 2010 to 2016.

Oman Telecom Sector

The population of Oman was about 4.8 million by the end of March 2016. The mobile penetration rate was expected to be 151% by the end of 2016. Apart from the two major telecom service providers there exists Friendi and Renna. In the beginning of the year 2017 the ministry invited tender for the providing license for the third mobile network operator which was later cancelled in October 2017.

Omantel

Due to increasing need for telecommunication, Omantel – the first telecommunication company of Oman was incorporated in the year 1996. The government of Oman holds 51% shares in Omantel. Omantel provides mobile, fixed landline and broadband services to both its corporate and individual customers.

Ooredoo

In December 2004, the first private sector telecommunication company Ooredoo- a Omani Qatari Telecommunications Company SAOG was incorporated. Its official service launched in March 2005. Ooredoo provides mobile, fixed landline and broadband services to both its corporate and individual customers

The current study aims to find the company which is financially sound out of the two companies selected by using Z-score analysis as a major tool for analyzing the financial performance. The financial health of the selected companies are judged by calculating the Altman score. The financial health is studied using the Z-score Model. The ratios used are working capital, retained earnings, EBIT, market value of equity and sales revenue.

Research Objectives

The major objectives of the study are:

1. To examine the overall financial performance of OMANTEL and OOREDOO.
2. To study the financial health by calculating various ratios and by applying “Z-Score” model.
3. To compare financial health of the selected companies.

Limitations of the Study

The major limitations of the study are:

The data used are secondary data extracted from the annual reports of the companies. So, viability of data are not assured.

Due to time constraint the study covers a period of seven years only.

Treatment of Data

The financial health of the selected companies are derived through Altman score. To study the financial health, Z-score Model has been selected, which incorporates five weighted financial ratios for its formulation (Vijayalakshmi, 2013). The study has used secondary data extracted from the annual reports of the company. The annual reports were collected from the company website. The study covers a period of 7 years from 2010 to 2016.

Altman's Z- Score Model

The Altman Z-Score is an analytical representation created by Edward Altman in the 1960s which involves a combination of five distinctive financial ratios used for determining the odds of bankruptcy amongst companies. Most commonly, a lower score reflects higher odds of bankruptcy. (Halageri, 2014). The current study has used the Z-score estimates

on the financial reports of telecom companies for evaluating the financial health of companies over the study period of seven years from 2010 to 2016.

Structure of Z-Score Estimates for Service Sector

The below table shows the structure of ratios used in calculating Altman's Z score.

Component	Formula	Description
A	Working Capital / Total Assets	The ratio of working capital to total assets. When a company. A company which is repeatedly facing loss have to suffer a reduction of working capital
B	Retained Earnings / Total Assets	It indicates the efficiency of the management in all the segments. Measurement of reinvestment of company earnings can tend to create a positive response.
C	EBIT / Total Assets	It measures the productivity of assets Employed in a firm. Adjustment of company's earnings and leveraging.
D	Market value of equity / Book value	This shows an indication on how much a company's assets can decline before debts can exceed the assets.
E	Sales / Total Assets	It measures the ability of the company to generate sales through its assets.

(Halageri, 2014) (Vijayalakshmi, 2013)

Interpretation of Z-Score results

The Z scores formula used to evaluate the financial health of a company is as below:

$$Z = 1.2 A + 1.4 B + 3.3 C + 0.6 D + 0.99 E$$

The resulting Z-score puts a company in one of the three categories. The table below shows the rating based on the results of Z-score

Z Score	Results
less than 1.8	High probability for bankruptcy in the coming couple of years.
between 1.8 to 3	Considered within "gray area". i.e., financial viability of the companies is considered to be healthy.
above 3.0	Considered very healthy.

(Halageri, 2014) (Vijayalakshmi, 2013)

Literature Review

A non-systematic literature review has been undertaken to identify the financial ratios included in articles in peer-reviewed journals, industry publications, and articles in magazines and newspaper.

Financial Performance of Indian Telecom Industry: A Comparative Study of Bharat Sanchar Nigam Limited and Bharti Airtel (Raza, April 2015). In order to earn continued profitability it is a must for every businessman to have a better knowledge on the industry he/she is working in. soundness of an industry is studied based on its financial

or profitability performance. By conducting an analysis on financial performance, a company can bring up a strategy which will help for the growth of the business. In this research paper the author has analysed the financial performance of Indian Telecom Sector with a special focus on BSNL and Bharti Airtel. Telecom industry is one of the main contributor for the development of Indian economy. The result of the financial performance analysis of the selected companies revealed that the performance of Bharti Airtel was better than the BSNL.

Comparative Study of Major Telecom Providers in India (Ashutosh Mishra, May - Jun.2015). Increase

in the level of performance is the primary aim of a company. To represent the position of a company, indicators like net sales, profit %, total income, total expenditure, level of satisfaction of customers are to be analysed from time to time. In the study the researcher has made a comparative analysis on major telecom service providers. The companies selected were Bharti Airtel, Tata communications limited, Idea cellular limited, Vodafone and BSNL. The study has been conducted based on both primary and secondary data collected by distributing questionnaire and from the annual reports of the selected companies. To verify the significance of the factors a sensitivity analysis was made. The result analysis shows that Bharti Airtel tops the business matrices index.

Telecommunication sector of Saudi Arabia: Internal and External analysis. (Anis Ali, 2017). Telecommunication sector plays a vital role in the development of an economy. This study takes an approach to study the sales, financial performance, customer satisfaction and service quality. The Financial performance of service providers indicate STC as the best. In sales Zain is the leading company and the overall customers satisfaction is lower in the sector. Customer's perception about the quality of service is lower than the expectations in terms of all dimensions of SERVQUAL model. The results indicate both there is significant difference between satisfaction of customers and aspects of service quality of different service providers. Increasing quality of services would lead to increase in customer satisfaction and sales. (Anis Ali, 2017)

Profitability Analysis of the Telecommunications Industry in Ghana from 2002 to 2006 (Koi-Akrofi, 2013). The profitability of telecommunication industry of Ghana has been studied during the period 2002 to 2006. The researcher has used correlation as a tool to analyse the relationship between NP, EBIT and NPM, ROA. Trend analysis is also calculated and the impact of assets, liabilities and revenue on NP, EBIT were also accessed. The study results shows that the growth level of the industry has increased upto 5 times starting from the base year 2002 to 2006.

Financial Statements Analysis of Idea Cellular & Reliance Telecommunications: A Comparative Study. (Jan, 2016). Telecommunication is a fastest growing sector in India. Mobile network, internet facility and television broadcasting are the major telecommunication sectors in India. Modern elements like digital telephone exchanges, media gateways which are interconnected by fiber optics and microwave relay networks. Therefore it was found to be important to survey the different market players for their long term survival. For the same studying on the financial performance was very much apt for it. Two service providers namely Idea cellular and Reliance telecom was compared in the study. Liquidity, profitability, asset utilization ratios were calculated to understand the financial health of the selected telecom service providers.

Analysis and Discussion

Objective 1: To examine the overall financial performance of OMANTEL and OREDOO.

Working Capital

The working capital ratio (Current Assets/ Current Liabilities) indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative working capital. While over 2 means that the company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient. Also known as "net working capital". (Maheshwari, 2009)

Table Working Capital / Total assets Ratio

A Component	Omantel	Ooredoo
2010	0.2	0.3
2011	0.1	0.1
2012	0.1	0.2
2013	0.1	0.2
2014	0.2	0.2
2015	0.5	0.2
2016	-0.5	0.2



Chart 1 Working Capital / Total assets Ratio

From the above table it's clear that, Omantel and Ooredoo have enough short term assets in all the years of study except year 2016 where Omantel shows a negative working capital. The companies have not invested in excess assets during the study period.

Retained Earnings

The statement of retained earnings is affected by any transaction that affects net income and dividends. So, when total dividends paid out is increased or decreased, there is a definite effect on the statement of retained earnings. Anything that affects net income, also affects the statement of retained earnings. Some transactions that affect net income include those that increase or decrease in revenue, cost of goods sold and expenses. (Maheshwari, 2009)

Table Retained Earnings / Total assets Ratio

B Component	Omantel	Ooredoo
2010	0.4	0.2
2011	0.3	0.3
2012	0.4	0.3
2013	0.5	0.3
2014	0.5	0.3
2015	0.3	0.3
2016	0.5	0.4

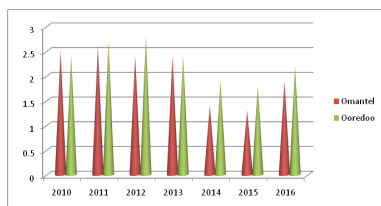


Chart 2: Retained Earnings / Total assets Ratio

As per the definition of retained earnings, when the company pays more dividend the retained

earnings are decreasing and vice versa. During the study period Omantel has an increase in retained earnings in the year 2013, 2014 and 2016 so the dividend payout by the company has gradually decreased during the years. In case of Ooredoo, there is an increase in retained earnings during the year 2016, so the dividend payout is comparatively lesser in the year.

EBIT

This indicator gives information on a company's earnings ability. Increase in EBIT is mainly due to growth of net revenue, good cost control and strong productivity. Decrease in EBIT margin largely results from reduction in revenue and higher operating costs. EBIT margin is most useful when compared against other companies in the same industry. The higher EBIT margin reflects the more efficient cost management or the more profitable business. If positive EBIT margin cannot be generated over a longer period, then the company should rethink about the business model. (Maheshwari, 2009)

Table EBIT / Total Assets Ratio

C Component	Omantel	Ooredoo
2010	0.2	0.2
2011	0.2	0.2
2012	0.2	0.1
2013	0.2	0.1
2014	0.2	0.1
2015	0.2	0.1
2016	0.2	0.1

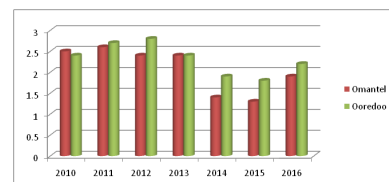


Chart 3 EBIT / Total assets Ratio

From the above table it is clear that the EBIT of Omantel from 2010 to 2016 has shown an increase whereas EBIT of Ooredoo from 2010 to 2011 has shown an increase and in Ooredoo from 2012 to 2016 EBIT decreased and sales also decreased in same percentages.

Book Value of Equity

The increase or decrease of a stock price indicates the investors to realize profit or loss in a company. The great thing about investing in stocks is the ability to gain profit when stock price rises or declines. Stock prices increase or decrease based on investors supply and demand within the market. To make wise investment decisions, it is important to understand the factors that most commonly impact stock prices. (Maheshwari, 2009)

Table Book Value of Equity

D Component	Omantel	Ooredoo
2010	2.5	2.4
2011	2.6	2.7
2012	2.4	2.8
2013	2.4	2.4
2014	1.4	1.9
2015	1.3	1.8
2016	1.9	2.2

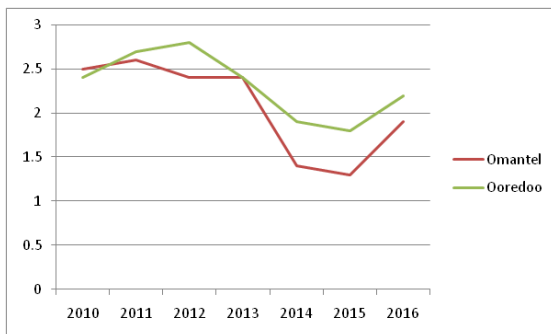


Chart 4 Book value of equity

As the result from the above table. The share value of Omantel was more than Ooredoo in 2011 and in 2012 the value of Omantel share decreased and value of Ooredoo increased. In 2013 Omantel increased and Ooredoo decreased in same percentage. In 2014 to 2016 Omantel decreased and Ooredoo increased in value of equity.

Sales

Ooredoo provides mobile, wireless services with market share in domestic and international telecommunication markets. It provides services to both business (corporations and individuals) and residential markets. It is one of the world’s largest mobile telecommunications companies, with over

114 million customers worldwide as of September 2015. Omantel is the first telecommunications company in Oman and is the primary provider of internet services in the country. Omantel Services Menu will make life easier. Easy access to all Omantel services is the secret behind the increased number of its customers. (Maheshwari 2009)

Table Sales / Total Assets Ratio

E Component	Omantel	Ooredoo
2010	0.61	0.65
2011	0.64	0.66
2012	0.63	0.63
2013	0.61	0.59
2014	0.22	0.59
2015	0.64	0.61
2016	0.63	0.68

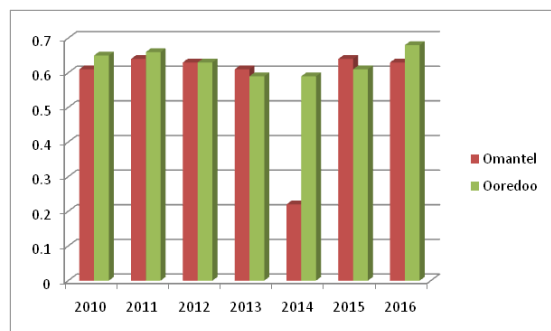


Chart 5 Sales / Total assets Ratio

From the above table, showing the results of the calculation it was found that the sales of Omantel in 2010 to 2011 decrease and Ooredoo increased. In 2102 Omantel and Ooredoo almost increase in same percentage. In 2013 Omantel increase and Ooredoo decreased. In 2014 the sales of Ooredoo increased and Omantel decreased. In 2015 the sales of Ooredoo decreased and Omantel increased. In 2016 the sales of Omantel increased and Ooredoo decreased.

Objective 2: To study the financial health by calculating various ratios and by applying “Z-Score” model.

Z-Score Analysis

The Altman Z-score is the output of a credit-strength test that gauges a publicly traded manufacturing company’s likelihood

of bankruptcy. The Altman Z- score is based on five financial ratios that can be calculated from data found on a company’s annual report.

The elements of Z- Score values and their trend of two telecom companies in Sultanate of Oman are presented in the following tables:

Table Z-Score of Omantel

Year	A	B	C	D	E	Z-Score
2010	0.24	0.56	0.66	1.5	0.61	3.57
2011	0.09	0.42	0.66	1.56	0.64	3.37
2012	0.08	0.56	0.66	1.44	0.63	3.37
2013	0.12	0.7	0.66	1.44	0.22	3.14
2014	0.24	0.7	0.66	0.84	0.22	2.66
2015	0.6	0.42	0.66	0.78	0.64	3.1
2016	-0.64	0.7	0.66	1.14	0.63	2.49

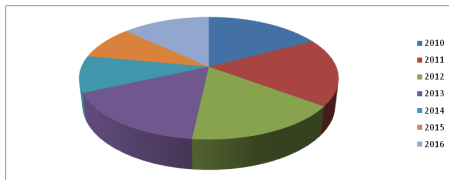


Chart 6 Z- Score of Omantel

From the above table it’s clear that, The Z-Scores are varying from a minimum of 2.49 in the year 2016 to a maximum of 3.57 in the year 2010. It is evident

that Z- Scores of all the years in the study period are above 1.8.

The Z-Score of Omantel from 2010 to 2013 and 2015 is above 3.0 which is considered very healthy.

In 2014 and 2016, the Z-Score is between 1.8 to 3 which is considered within “gray area”. i.e., financial viability of the companies is considered to be healthy.

Table Z - Score of Ooredoo

Year	A	B	C	D	E	Z-Score
2010	0.36	0.28	0.66	1.44	0.65	3.39
2011	0.12	0.42	0.66	1.62	0.66	3.48
2012	0.19	0.42	0.33	1.68	0.63	3.25
2013	0.24	0.42	0.33	1.44	0.59	3.02
2014	0.28	0.42	0.33	1.14	0.59	2.76
2015	0.27	0.42	0.33	1.08	0.61	2.71
2016	0.28	0.56	0.33	1.32	0.68	3.17

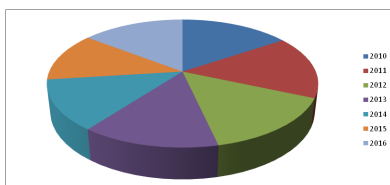


Chart 7 Z – Score of Ooredoo

From the above table it’s clear that, The Z-Scores are varying from a minimum of 2.71 in the year 2015 to a maximum of 3.48 in the year 2011. It is evident

that Z- Scores of all the years in the study period are above 1.8.

The Z – Score of Ooredoo from 2010 to 2013 and 2016 is above 3.0 which is considered very healthy.

In 2014 to 2015, the Z-Score value between 1.8 to 3 are considered within “gray area”. i.e., financial viability of the companies is considered to be healthy.

Objective 3: To compare financial health of the selected companies.

Comparative Study: A comparison of Z-Scores of Omantel and Ooredoo during the study period is given in the table below:

Table Comparative analysis of Z- Score of Omantel and Ooredoo

Year	Omantel	Change	Ooredoo	Change
2010	3.57	--	3.39	--
2011	3.37	-5.6%	3.48	2.7%
2012	3.37	--	3.25	-6.6%
2013	3.14	-6.8%	3.02	-7.1%
2014	2.66	-15.3%	2.76	-8.6%
2015	3.1	16.5	2.71	-1.8%
2016	2.49	-19.8	3.17	16.9%

It is evident from the above table that the financial position of Omantel is better than Ooredoo. Omantel shows a decrease in financial performance during the years 2014 and 2016. Ooredoo has a gradual decrease in performance starting from the year 2013 up to 2015 and an increase in 2016.

Findings

The major findings of the various ratio analysis done during the study on the financial data collected from the annual report of Omantel and Ooredoo for the year 2010 to 2016 are given below. In a nutshell, the following observations emerge in terms of comparative analysis of both the company.

Omantel and Ooredoo remain to be largest of telecom companies in Sultanate of Oman.

Omantel and Ooredoo have enough short term assets in all the years of study except year 2016 where Omantel shows a negative working capital. The companies have not invested in excess assets during the study period.

During the study period Omantel has an increase in retained earnings in the year 2013, 2014 and 2016 so the dividend payout by the company has gradually decreased during the years. In case of Ooredoo, there is an increase in retained earnings during the year 2016, so the dividend payout is comparatively less in the year.

EBIT of Omantel from 2010 to 2016 has shown an increase whereas EBIT of Ooredoo from 2010 to 2011 shows an increase and decrease from 2012 to 2016 EBIT and sales also decreased in same percentages.

The value of Omantel share was more than Ooredoo share value in 2011 and in 2012 the value of Omantel share decreased and value of Ooredoo increased. In 2013 Omantel increased and Ooredoo

decreased in same percentage. In 2014 to 2016 Omantel decreased and Ooredoo increased in value of equity.

The sales of Omantel products in 2010 to 2011 decrease and sale of Ooredoo products increased. In 2012 sales of both Omantel and Ooredoo almost increased in same percentage. In 2013 Omantel increase and Ooredoo decreased. In 2014 the sales of Ooredoo increased and Omantel decreased. In 2015 the sales of Ooredoo decreased and Omantel increased. In 2016 the sales of Omantel increased and Ooredoo decreased.

The Z-Score of Omantel from 2010 to 2013 and 2015 is above 3.0 which is considered very healthy. In 2014 and 2016, the Z-Score is between 1.8 to 3 which is considered within "gray area". i.e., financial viability of the companies is considered to be healthy.

The Z – Score of Ooredoo from 2010 to 2013 and 2016 is above 3.0 which is considered very healthy. In 2014 to 2015, the Z-Score value between 1.8 to 3 are considered within "gray area". i.e., financial viability of the companies is considered to be healthy.

Conclusion

The present study is a fundamental analysis of telecom companies in Sultanate of Oman. The study can provide an idea for the investors in which company they can make investments to earn more returns. The parameters selected for analysis proves to be useful to an investor for his basic analysis of selecting portfolio of investment. The results of the study shows that the financial health of both the companies are comparatively better except a decrease in few years. The companies must go ahead with innovative steps to attract customers and increase their profitability.

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