

Q2 2009 results – Above expectations

Etisalat achieved strong operating results during Q2 2009. Both revenue and margins for the quarter outperformed our expectations as the Company continued to grow its international operations and sustained revenue from the UAE markets despite the demographic headwinds relating in the outflow of expatriates and probable loss of subscribers to Du. Revenues grew 7.1% q-o-q and 7.0% y-o-y to AED 7.63bn, beating our expectation of AED 7.01bn. Moreover, Etisalat expanded its operating margins by effectively managing its costs. Meanwhile, the Company has indicated that it will continue to expand the Fiber-to-the-Home (FTTH) network across the UAE in the coming quarters. On the international front, the Company has withdrawn its proposed investment plans in Iran but remains committed to its operations in other geographies, expecting to increase its total subscribers from 89 million to 100 million in 2010.

Result Highlights

Revenue: Etisalat reported better-than-expected revenue growth for Q2 2009. Its revenue grew at 7.1% q-o-q and 7.0% y-o-y, compared to our negative growth estimates of 1.5% q-o-q and 1.6% y-o-y. International business contributed significantly to this performance—revenue from the International segment increased 66.8% y-o-y for Q2 2009 as the Company continued to expand its subscriber base internationally. The company was able to grow its UAE operations by 2.3% y-o-y despite of the decrease in the number of mobile and fixed line subscribers.

Subscribers: Etisalat lost both mobile and fixed-line subscribers in the UAE during the quarter due to the drop in expatriate population and du's aggressive tariff strategy, probably leading to churn of the Company's low-end subscribers. As a result, Etisalat's mobile and fixed-line subscribers decreased by 81,000 and 19,000, respectively. However, Internet subscribers increased to 1.23 million from 1.20 million in Q1 2009.

Operating profit: Etisalat's operating profit and margin increased by 14.5% y-o-y and 2.1% pts y-o-y to AED 2.41bn and 31.6%, respectively. This was attributable to the various cost management initiatives coupled with the scaling up of the international operations.

Net profit: Net profit margin fell 9.7% pts y-o-y mainly because of a significant gain of AED 891.8mn (after royalty) from the stake sale in Mobily during Q2 2008. However, the net profit margin adjusted for this exceptional item improved by 2.8% pts.

Quarterly Performance (AED mn)	Q2 2008 ⁽¹⁾	Q1 2009	Q2 2009 (A)	q-o-q (%)	y-o-y (%)	Q2 2009 (E)	Variance (A-E)/E (%)
Net Revenue	7,128	7,119	7,625	7.1%	7.0%	7,013	8.7%
EBIT ⁽²⁾	2,102	1,949	2,407	23.5%	14.5%	2,003	20.2%
EBIT Margins	29.5%	27.4%	31.6%			28.6%	
PAT	2,949	2,178	2,415	10.9%	(18.1%)	2,102	14.9%
PAT Margins	41.4%	30.6%	31.7%			30.0%	
Per Share Data (AED)							
EPS	0.41	0.30	0.34	10.9%	(18.1%)	0.29	14.9%
Subscribers (In mn)							
Fixedline	1.35	1.35	1.33	(1.4%)	(1.5%)	1.35	(1.5%)
Mobile	6.83	7.34	7.26	(1.1%)	6.3%	7.31	(0.7%)
Internet	1.02	1.20	1.23	2.3%	20.6%	1.22	0.8%

Source: Company data, ADCB research

⁽¹⁾ We have taken numbers for Q2 2008 from the filing of Q2 2009.

⁽²⁾ Royalty payment on stake sale in Mobily is adjusted in other income for Q2 2008.

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Investment Ratings:

Buy: More than 15% potential return. We recommend that investors buy the stock based on the annualised return to the shareholders over 6-24 months time horizon (percentage change from current price to the projected target price).

Sell: Negative potential return. We recommend that investors sell the stock based on the annualised return to the shareholders over the 6-24 months time horizon.

Hold: Between 0 and 15% potential return. We take a neutral view on the stock over the 6-24 months period.

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