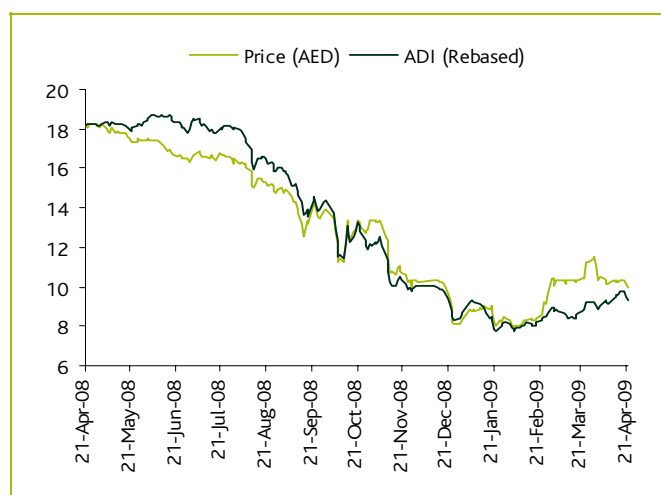


Short-Term Rec.: Accumulate
Long-Term Rec.: Buy

Current Price*: AED 9.98
LT Fair Value : AED 16.7

- **Signs of Stability From UAE:** 1Q2009 consolidated net revenue, excluding in-payments but including out-payments and discounts, came in at AED7,119 million (+1.0% Q-o-Q, +17.5% Y-o-Y), 3.8% below our estimate. The company for the first time provided a geographical breakdown of revenue showing UAE vs. international revenue. Revenue generated from the UAE was AED6,423 million, representing 87% of the quarter's total revenue, which was right in line with our estimate (1Q2009e: AED6,459 million). This means that despite mobile and fixed-line quarterly subscriber additions in the UAE coming in significantly below our estimates, usage was better than expected.
- **But International Operations under Pressure:** International revenue, which constituted 13% of the quarter's total revenue, includes the Egyptian (66% owned) and Afghani (100% owned) operations and Atlantique Telecom's (82% owned) African operations. Total international revenue were 26.0% below our expectation at AED697 million.
- **EBITDA Margin Misses Due to Start-Ups:** Consolidated EBITDA margin for 1Q2009 was 64.6%, lower than our estimated 65.8% which we believe is mainly due to higher operational costs at the start-up operations' (Egypt and Afghanistan) level. We calculate consolidated EBITDA in 1Q2009 at AED4,601 million, 5.5% below our estimate, due to both the lower-than-expected EBITDA margin and revenue.
- **Income From Associates below Expectations, But Not Worrying:** Income from equity-consolidated associates came in at AED12 million (-66% Q-o-Q, -90% Y-o-Y), well below our estimate of AED80 million. These associates include mainly: Pakistan Telecommunication Company Limited (26% owned), Etihad Etisalat (Mobily) in Saudi Arabia (27.4% owned), Etisalat Nigeria (40% owned) and Excelcomindo in Indonesia (15.97% owned). We believe higher-than-expected start-up losses at the Nigerian operation and weak performance at the Pakistani operation were the main reasons for this negative surprise.
- **Depreciation and Amortisation Saved the Day:** Depreciation and amortisation at AED486 million were however significantly lower than our estimated AED707 million and lower than 4Q08a of AED755 million. We believe this could be partly due to the effect of currencies devaluations during 4Q2008. Consolidated earnings for 1Q2009 were AED2,178 million, right in line with our AED2,157 million estimate.
- **Our Take on the Results:** 1Q2009 results were, in our view, a mixed bag. The UAE operation, which constitutes 85.5% of our estimated equity value for Etisalat, was in line with our estimates giving us a breather. Results of international operations showed however more than expected weakness. That said with Mobily, the second-biggest contributor to our valuation of Etisalat at 9.7%, delivering 4% better-than-expected earnings, we are overall comfortable with the results. Etisalat currently trades at 8.3x 2009e earnings, a 9.8% discount to the average MENA 2009e P/E. The stock is not significantly off its 52-week low of AED7.75. While we do not believe the results are likely to spur any rallies (or any concerns), we feel the defensive nature of telecoms, a relatively cheap valuation and dividend yield of 5-6% will continue to generate interest in the stock.

FLASH NOTE



	2009e	2010e	2011e
EPS*	1.20	1.23	1.27
PER (x)	8.3	8.1	7.9
DPS	0.48	0.47	0.49
Div. Yield	4.8%	4.7%	4.9%
CFPS	1.34	1.57	1.61
PCF (x)	7.4	6.4	6.2
BVPS	4.03	4.27	4.52
PBV (x)	2.5	2.3	2.2

* Attributable

Stock Data

Last Ex-Div Date	AED0.35 on 1 Apr 2009
Mkt. Val. / Shares (mn)	AED74,030 / 7,187
Av. Monthly Liqd. (mn)	AED435
52-Week High / Low	AED18.33 / 7.75
Bloomberg / Reuters	ETISALAT UH / ETEL.AD
Est. Free Float	40%

Figure 1: Etisalat's Historical and Forecast Income Statement

KPIs (000's)	1Q08	4Q08	1Q09a	Y-o-Y	Q-o-Q	1Q09e	Var.
Mobile Subs (UAE)	6,630	7,285	7,341	18.6%	0.8%	7,485	-1.9%
Mobile Additions	258	235	56			200	
FL Subs (UAE)	1,330	1,364	1,349	2.2%	-1.1%	1,369	-1.5%
FL Additions	137	4	(15)			5	
Income Statement (AED mn)							
Net Revenue	6,060	7,050	7,119	17.5%	1.0%	7,400	-3.8%
Total Costs	(1,547)	(3,546)	(2,519)			(2,533)	
EBITDA	4,513	3,504	4,601	1.9%	31.3%	4,866	-5.5%
<i>EBITDA Margin</i>	74.5%	49.7%	64.6%			65.8%	
Depreciation & Amortisation	(590)	(755)	(486)			(707)	
EBIT	3,923	2,748	4,115	4.9%	49.7%	4,159	-1.1%
<i>Margin</i>	64.7%	39.0%	57.8%			56.2%	
Net Interest Income (Expenses)	(38)	83	122			63	
Other Income (Expenses)	11	(55)	-			-	
Associates	118	34	12			80	
Earnings before Minority Interest	4,099	2,810	4,249	3.6%	51.2%	4,303	-1.2%
Minority Interest	174	65	159			59	
Earnings before Taxes and Royalty Fees	4,274	2,876	4,408	3.1%	53.3%	4,361	1.1%
Deferred Taxes	(29)	(51)	(52)			(47)	
Earnings before Royalty Fees	4,244	2,825	4,356	2.6%	54.2%	4,314	1.0%
Royalty Fees	(2,122)	(1,413)	(2,178)			(2,157)	
Net Profit	2,122	1,413	2,178	2.6%	54.2%	2,157	1.0%

Source: Etisalat, EFG-Hermes estimates

EGYPT SALES TEAM

Local call center 16900
 Int'l call center +20 2 33 33 94 00
 cc-hsb@efg-hermes.com

Head of Western Institutional Sales

Mohamed Ebeid
 +20 2 33 32 1054
 mebeid@efg-hermes.com

Local Institutional Sales

Amr El Khamissy
 +20 2 33 32 1045
 amrk@efg-hermes.com

GCC Business Development

Ahmed Salem
 +20 2 33 32 1078
 asalem@efg-hermes.com

DUBAI SALES TEAM

call center +971 4 306 9333
 uaerequests@efg-hermes.com

Head of UAE Brokerage

Seif Fikry
 +971 4 363 4085
 seif@efg-hermes.com

Head of GCC Institutional Sales

Amro Diab
 +971 4 363 4086
 adiab@efg-hermes.com

UAE Retail Sales

Reham Tawfik
 +971 4 306 9418
 rtawfik@efg-hermes.com

KSA SALES TEAM

call center +800 123 4566
 ksa-callcenter@efg-hermes.com

Head of KSA Brokerage

Hesham Khalil
 +9661 211 3040
 hkhalil@efg-hermes.com

Head of KSA Sales

Mohsen Mansour
 +9661 211 3008
 mohsenm@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 33 38 8864
 UAE General + 971 4 363 4000
 efgresearch@efg-hermes.com

Head of Research

Eiji Aono
 +971 4 363 4006
 eaono@efg-hermes.com

Head of Egypt Research

Wael Ziada
 +20 2 33 32 1154
 wziada@efg-hermes.com

Head of Publ. and Distribution

Rasha Samir
 +20 2 33 32 1142
 rsamir@efg-hermes.com

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Accumulate	10 to 25%
Neutral	(10%) to 10%
Reduce	(10%) to (25%)
Sell	(25%) or more downside

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CONTACTS AND STATEMENTS

Background research prepared by EFG-Hermes Holding. Report prepared by EFG-Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

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