



Research Note

Etisalat

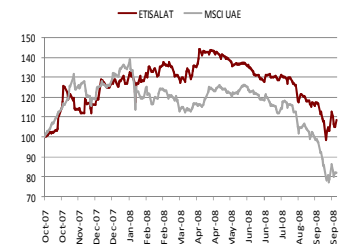
Rating: Outperform

Etisalat 3rd Quarter Preview

- We expect Etisalat to earn net profits of AED 2.25bn (AED 0.38 per share), compared to AED 2.99bn qoq (AED 0.50 per share) and AED 1.80bn (AED 0.30 per share) yoy.
- At first glance net earnings have declined 24.8% qoq, however this is due to Q2 2008 results including a profit of AED 1.8bn, from Etisalat's stake reduction in Mobily. Excluding this profit, underlying earnings for Q2 2008 were AED 2.02bn (AED 0.34 per share), resulting in underlying earnings growth for Q3 2008 of 11.4%
- Revenue is expected to grow to AED 7.1bn, up 33.4% yoy and 11.4% qoq, driven by increases in mobile, fixed and internet subscribers in the domestic market as well as growth in mobile from overseas markets.
- In line with its strategy to continue with its overseas expansion Etisalat purchased a 45% stake in Indian telecoms operator Swan Telecom, for US\$ 900mn. India is a highly attractive market, given rapid economic growth, large population (1.1bn) and low penetration (20.8%, YE2007). With a slew on recently issued pan-Indian licenses the market should become increasingly competitive. Etisalat will be competing indirectly with STC, which has a stake in Aircell, via its investment in Maxis.
- EBITDA margins are expected to remain flat for the quarter at 68.6%, resulting in EBITDA of AED 4.86bn, from AED 3.90bn, yoy (+24%) and AED 4.38bn, qoq (+11.4%). EBIT is projected at AED 4.15bn compared to AED 2.89bn yoy and AED 3.69bn qoq.
- With the growth prospects of the company, its ability to generate cash and the defensive nature of the sector we maintain our Outperform rating on Etisalat, with a target price of AED 26.34, giving 63.1% upside to the current price.

Equity Data

Current Price (AED)	16.15
Target Price (AED)	26.34
Upside/downside	63.1%
12 Mo. Performance	-5.3%
12 Month High (AED)	22.20
12 Month Low (AED)	14.65
Market Cap. (AED bn)	96.7
Div Yield	3.1%
Enterprise Value (AED bn)	97.1
RIC	ETEL:AD
Bloomberg	ETISALAT UH



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Estimates	2007A	2008E	2009E	2010E	2011E
Revenues (AEDmn)	21,339	27,337	29,206	31,285	32,778
EBITDA (AED mn)	14,722	18,587	19,565	20,646	21,303
EBITDA Margin	69.0%	68.0%	67.0%	66.0%	65.0%
Net Income (AED mn)	7,202	9,675	9,123	9,527	9,892
Net Income Margin	33.8%	35.4%	31.2%	30.5%	30.2%
EPS (AED)	1.20	1.62	1.52	1.59	1.65
Net Debt/Equity	-0.8%	-9.6%	-6.6%	-4.7%	-6.1%
Interest Cover	25.4	23.1	22.7	19.4	16.8
Div/Share (AED)	0.50	0.58	0.66	0.83	1.03
Div Yield	3.1%	3.6%	4.1%	5.1%	6.4%
Estimates	2007A	2008E	2009E	2010E	2011E
Valuation Multiples					
PE	13.4	10.0	10.6	10.2	9.8
EV/EBITDA	6.6	5.2	5.0	4.7	4.6
P/BV	3.7	3.1	2.6	2.2	2.0
BV/Share	4.32	5.20	6.26	7.26	8.20

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