



SHUAA CAPITAL_{PSC}

Etisalat (ETEL.AD)

Equity Research

Analyst Comment

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Etisalat wins Iran's third mobile license at a reasonable price

Etisalat consortium officially won the third mobile license in the Islamic Republic of Iran, yesterday. Etisalat's share in the consortium is 49%, with the local partner, Taameen Telecom, at 51%. Taameen Telecom is owned by a government entity: the Iranian Social Security Organization (SSO).

Etisalat consortium will pay an upfront fee of Euro 300 mn (USD 395 mn) and an annual government revenue share of 23.6% throughout the term of the 15 year-license, which includes 2G and 3G. Under the terms of the license, Etisalat will have a two year exclusivity to offer 3G services.

We understand that the Euro 300 mn fee was pre-set for all bidders. Hence, the Communications Regulatory Authority (CRA), Iran's telecom regulator, awarded the license to Etisalat based on two main criteria: Etisalat proposing the highest revenue share anchored to a submitted business plan, and technical qualifications (network roll out plan, geographic coverage, etc.).

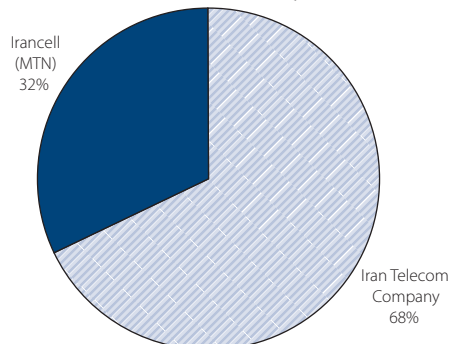
License terms:

	Etisalat	MTN
	3rd operator	2nd operator
Upfront fee	Euro 300 mn	Euro 300 mn
% Government revenue share	23.6%	28.1%
Date of license award	December 2008	July 2006
Penetration at the time the license was awarded	60%	15%
License	2G + 3G	2G
License term	15 years	15 years
	2 year 3G exclusivity	2 year protection from third entrant

Source: company reports, SHUAA capital

In 2007, Iran's mobile market was the fastest growing in the MENA region with 77% YoY subscriber growth or 12 mn net additions. In 2008, we expect subscribers to grow by approximately 60%.

Iran mobile market share Q3 08



Source: company reports, SHUAA capital

Bearing in mind the geographical proximity and population ties to the UAE, Iran, in our opinion, represents a coherent extension to Etisalat's footprint. Furthermore, with a population of 73 mn, a young demographic profile, a penetration rate of 56% as at Q3 08, and where MTN, the second operator, derives an ARPU of USD 9, we believe the country offers room for future growth.

Etisalat is targeting a launch date in September 09. The 2-year exclusivity for 3G services offers Etisalat an opportunity to differentiate itself with value-added services. Currently Irancell, MTN affiliate, is offering data services on a GPRS network.

Valuation...a fair price

We believe that the price paid for the license is 'fair'. We have valued the third mobile operator license in Iran using a discounted cash flow method to reach a value of USD 408 mn for 100% of the operations. Our model does not price-in any derived synergies from the combined UAE, Etisalat International and Iran operations, which we view as a potential upside to our valuation. Our estimates are in US Dollars, and assumptions to the DCF include:

- Country penetration cap of 100%
- Terminal market share for Etisalat of 18%
- Network roll-out CAPEX of one billion dollars spread over three to four years.
- WACC of 13%
- Perpetuity growth of 4%

Etisalat guidance vs. SHUAA Capital assumptions

	Company guidance	SHUAA estimates
EBITDA break-even	2011e	2011e
FCF break-even	2012e	2013e
CAPEX	USD 1 bn	USD 1 bn
Expected launch date	H2 09	Q1 10

Sensitivity analysis to WACC and perpetuity growth rates

	10%	11%	12%	13%	14%	15%
2.5%	798.3	592.4	434.3	310.3	211.1	130.7
3.0%	873.2	645.7	473.5	339.7	233.7	148.3
3.5%	959.6	706.1	517.2	372.2	258.4	167.4
4.0%	1,060.5	775.1	566.3	408.3	285.5	188.2
4.5%	1,179.6	854.8	622.1	448.6	315.5	211.1
5.0%	1,322.6	947.7	685.8	494.0	348.9	236.2
5.5%	1,497.4	1,057.6	759.2	545.5	386.2	263.9

Snapshot of Iran mobile market

(in millions)	2006	2007	Q1 2008	Q2 2008	Q3 2008
Population	70.5	71.7	72.0	72.3	72.6
Total mobile subscribers	15.5	27.6	33.5	37.7	40.9
Net additions	6.4	12.0	6.0	4.2	3.2
YoY growth		77%			
Mobile penetration rate	22%	38%	47%	52%	56%
Iran Telecom Company					
Number of subscribers	15.4	21.5	24.5	26.1	27.8
Net additions		6.2	3.0	1.6	1.6
Market share		78%	73%	69%	68%
% of net additions		51%	50%	39%	51%
Irancell (MTN)					
Number of subscribers	0.2	6.0	9.0	11.6	13.1
Net additions	0.0	5.9	3.0	2.6	1.5
Market share		22%	27%	31%	32%
% of net additions		49%	50%	61%	49%

Source: company reports, SHUAA capital

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