



Flash Note

Etisalat

Rating: Market Outperform

Etisalat Management Meeting

- We met with Etisalat management, who provided further details on the company's 2008 results. Etisalat 2008 revenues grew to AED 26.11bn (+22% YOY), EBITDA to AED 17.30bn (+12% YOY), resulting in net profits of AED 8.66bn (+19%YOY).
- Group revenues growth were driven by data and internet revenues, with the following breakdown:

Etisalat Group Revenue Breakdown

	2008	2007
Mobile	61%	63%
Fixed	12%	14%
Data	11%	10%
Internet	7%	7%
Other	9%	6%
Total	100%	100%

- International revenues grew to 9% of total revenues in 2008, up from 4% in the previous year. Consolidated revenue from international subsidiaries increased by 147% and consolidated EBITDA improved by 134%. Etisalat Misr (Egypt) and Atlantique Telecom contributed the majority of international revenue (43% and 38% respectively). The contribution from international operations is expected to increase further over the next 2 years.

Etisalat International Subsidiary Performance

AED, mn	2008 Revenue	2008 EBITDA	Growth Revenue	2007 Revenue
Etisalat Misr	997	-4	169%	371
Atlantique Telecom	883	257	102%	437
Zantel	161	-9	79%	90
Canar	186	29	520%	30
Afghanistan	83	-105	1283%	6
Total	2,310	168		934

- According to Etisalat, its subsidiary Etisalat Misr is forecast to become EBITDA positive in 2009 and EBIT positive in 2010. Atlantique Telecom remained EBITDA positive and is expected to become EBIT positive in 2009. Zantel's EBITDA showed a loss of AED 9mn from a profit of AED 11mn in 2007, as the company started to roll out its network into the mainland. Etisalat Afghanistan increased its EBITDA losses to AED 105mn, as it started to expand its networks from the main cities and towns, with planned capex of US\$ 100mn for 2009. Management expects Etisalat Afghanistan to become EBITDA positive in 2009 and EBIT positive in 2010.

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- Despite an increasing revenue contribution from overseas operations, the company does not hedge its foreign exchange exposure. Etisalat views hedging as a double edged sword, but will keep the matter under review.
- UAE revenues for 2008 grew 17% YOY, to AED 23.76bn, again driven by data and internet revenues, with the following breakdown:

Etisalat UAE Revenue Breakdown

	2008	2007
Mobile	60%	64%
Fixed	13%	15%
Data	13%	10%
Internet	9%	7%
Other	5%	4%
Total	100%	100%

- Q4 2008 results were below consensus, as a result of a provision of AED 1.3bn related to receivables from subsidiaries, doubtful debts and inventory. The provisions have been taken as a result of Etisalat's intention to move to reporting IFRS results from Q1 2009 onwards. Having carried out an impairment review, the company has not taken any provisions relating to its investments in subsidiaries and associates.
- Management has decided the main focus of 2009 will be on consolidating existing operations, however the company has provided limited guidance for 2009.
- Etisalat believes that 2009 will be a challenging year for UAE operations, however it forecasts revenue growth, driven mainly by data and internet revenues, despite the impact of the credit crunch. Etisalat estimated that there are 2mn smart phones in the UAE and it currently has 70,000 mobile broadband subscribers. The company has been pleasantly surprised by results for the first 2 months of 2009, with revenues up 14% compared to the same period last year. Of UAE revenues, 36% are international outgoing calls and 7% are roaming revenues. It has noticed a drop in roaming revenues, as people travel less due to the credit crisis.
- In terms of overseas expansion, the company will continue to keep reviewing opportunities and increase its stakes where appropriate. Discussions are ongoing regarding obtaining a license in Iraq, and the completion of this transaction has been delayed due to the company renegotiating the purchase price in light of the credit crisis and its impact on asset values. Excelcomindo has announced a rights issue which should provide an opportunity for Etisalat to increase its stake from its current 16%.

- The launch of the iPhone in the UAE and KSA should provide a boost to data revenues in 2009. Data revenues stood at 11% of group revenues and 13% of UAE revenues in 2008. There is no revenue sharing with Apple on iPhone revenues and Etisalat does not subsidise the handset. The current batch of iPhones are not locked to Etisalat, although this will change with the next shipment. The company did not provide details of UAE iPhone subscriber numbers.
- Etisalat's balance sheet remains strong with AED 11.29bn of cash and cash equivalents for YE2008 and a net cash position of AED 8.5bn. Etisalat believes that it is one of the few telecom operators that is net cash positive globally. This cash position should give the company sufficient cash to finance operations and strategic expansion. Total debt was reduced from AED 5.12bn to AED 2.758bn in 2008.
- Capex for 2008 was AED 3.66bn (14% of sales), with over 50% of capex spend in the UAE. Etisalat has 8,734 cell sites in the UAE, 22% of which are 3G/3.5G. 2009 capex will be slightly more than 2008, although the company did not disclose an amount. The company is in the process of rolling out FTTH and expects to cover all of Abu Dhabi by mid 2009 and the entire country by the end of 2011. The move to FTTH should allow Etisalat to offer triple play services. In 2009 Etisalat will evaluate LTE/4G technology, both from a technical and commercial perspective before deciding how to implement the technology.
- Etisalat intends to maintain its dividend and does not see any need to reduce the level of dividends.
- We maintain our Outperform recommendation on Etisalat with a price target of AED 19.15, giving a 53% upside to the current price of AED 12.45.

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