

ST Rec. : Buy
LT Rec. : Buy

Current Price*: AED 24.0
LT Fair Value : AED 31.3

• **4Q2007 Results Overall in Line, but Earnings Miss Slightly:** Etisalat released preliminary FY2007 results that came overall in line with our estimates for the year. Net revenue for 4Q2007 (excluding in-payments and including both out-payments and discounts) grew 33.1% Y-o-Y and 11.8% Q-o-Q to AED5,954 million, in line with our estimate of AED5,907 million. Based on our estimates, 4Q2007 revenue should include revenues of the two start-up operations Etisalat Egypt (launched in mid-May) and Etisalat Afghanistan (launched at end-August). We are still hoping for the company to break down revenue by country to give us a clearer view on the operational performance of each. Based on our estimates, revenue generated from the UAE should contribute around 98% of the quarter's total revenue. Etisalat's 4Q2007 net profit grew 19.7% Y-o-Y but declined 2.1% Q-o-Q to AED1,764 million, 4.8% lower than our estimate of AED1,853 million. Given the absence of detailed financials, we are not yet able to provide insight into the earnings figure but believe the Q-o-Q decline to be attributable to underperformance at the start-ups operations, given that UAE subscriber growth was in line with our estimates.

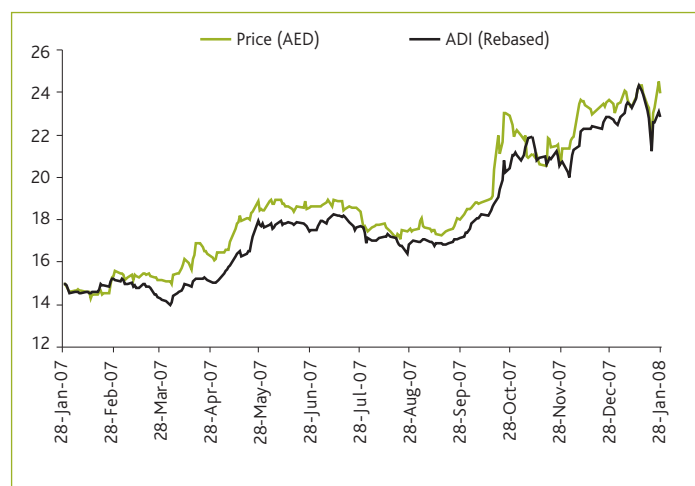
• **UAE Mobile Subscriber Growth as Strong as Expected:** Etisalat's mobile subscribers in the UAE rose 15.9% Y-o-Y and 3.4% Q-o-Q to 6.4 million at end-December 2007, in line with our estimate of 6.3 million. du announced in mid-November it had reached the one million mobile subscriber mark, leading us to estimate that it had 1.1 million subscribers by end-December, of which 808,000 were active. This implies an estimated market share for Etisalat of 89% at end-2007. Etisalat fixed-line subscribers, which rose 3.0% Y-o-Y and 0.3% Q-o-Q to 1.32 million, also were in line with our estimates. We estimate that Etisalat's share of the fixed-line market was 96% at end-December.

• **Pakistan Subscribers Meet our Estimates:** Based on data from the Pakistani Telecom Authority (PTA), Ufone had 16.2 million subscribers at the end of 4Q2007, in line with the 16.3 million we forecast. Ufone is the mobile arm of Pakistan Telecommunication Company Limited (PTCL), which is 26% owned by Etisalat. The subscriber number implies a market share for Ufone at end-December of 21.0% versus our forecast of 21.4%. PTCL is consolidated under the equity method and is therefore reflected in one line in Etisalat financials as income from associates.

• **New Acquisitions in Brief:** i) In December, Etisalat announced it will buy Rajawali Group's 15.9% stake in Indonesian-based mobile operator PT Excelcomindo Pratama, the third mobile operator by subscribers in a seven-player market, for USD438 million. The remainder is owned 67% by Telekom Malaysia and 17% by Khazanah Nasional Berhad, the investment arm of the Malaysian Government. Excelcomindo, with around 13 million mobile subscribers, has a 14% market share. This acquisition allows Etisalat to enter one of the world's most populated countries, with around 230 million people, and a market that has the potential to grow: Indonesia's mobile penetration rate is now only in the mid-40s. ii) In January, Etisalat increased its stake in its Sudanese fixed-line operation Canar Telecom by 45% to 82%. Etisalat has not disclosed the value of the transaction.

• **Our Opinion:** The preliminary results were overall in line with our estimates, but we still need to verify the numbers once the detailed financials are released. We maintain our bullish view on the company, which remains one of our top telecom picks in the region, as it has a well balanced portfolio of operations that offer both value and growth. We reiterate our ST/LT Buy recommendation on the stock with a LT Fair Value estimate of AED31.3 per share, implying upside potential of 31%. Etisalat currently trades on a 2008e EV/EBITDA of 6.7x and a P/E of 14.1x.

FLASH NOTE



	2007e**	2008e	2009e
EPS*	1.46	1.70	1.83
PER(x)	16.4	14.1	13.1
DPS	0.70	0.83	0.92
Div. Yield	2.9%	3.5%	3.8%
CFPS	1.82	1.78	2.09
PCF(x)	13.2	13.5	11.5
BVPS	4.43	4.92	5.42
PBV(x)	0.2	0.2	0.2

* Attributable
**EPS is Actual

Stock Data	
Last Ex-Div Date	AED0.25 on 18 July 07
Mkt. Val. (Local mn)	AED119,540
Shares (mn)	4,991
Av. Mthly Liqd. (mn)	AED655 mn
52-Week High / Low	AED24.9 / 14.1
Bloomberg / Reuters	ETISALAT UH/ETEL.AD
Est. Free Float	40.0%

Table 1: Etisalat Actual and Forecast KPIs and Income Statement

KPIs (000's)	4Q06	3Q07	4Q07a	4Q07e	Y-o-Y	Q-o-Q	Diff.	FY06a	FY07a	FY07e	Y-o-Y	Diff.
Mobile Subs (UAE)	5,520	6,190	6,400	6,339	15.9%	3.4%	1.0%	5,520	6,400	6,339	15.9%	1.0%
Mobile Additions	260	200	210	149	-19.2%	5.0%	41.3%	986	880	819	-10.8%	7.5%
FL Subs (UAE)	1,285	1,320	1,324	1,331	3.0%	0.3%	-0.6%	1,285	1,324	1,331	3.0%	-0.6%
FL Additions	5	10	4	11	-20.0%	-60.0%	-65.1%	48	39	46	-18.8%	-16.1%
Inc. Statement (AED mn)												
Net Revenue	4,475	5,327	5,954	5,907	33.1%	11.8%	0.8%	16,290	21,340	21,293	31.0%	0.2%
Gross Revenue*	5,177	6,123		6,712				18,714		24,283		
Total Costs	(2,028)	(2,239)		(2,947)				(6,180)		(8,826)		
EBITDA	3,149	3,884		3,765				12,534		15,457		
EBITDA Margin	60.8%	63.4%		56.1%				67.0%		63.7%		
Depreciation & Amortization	(435)	(587)		(250)				(1,391)		(1,662)		
EBIT	2,715	3,297		2,715				11,143		13,370		
Margin	52.4%	53.8%		40.4%				59.5%		55.1%		
Interest Expense	(186)	(295)		(278)				(262)		(906)		
Interest Income	146	175		173				476		698		
Other Income (Expenses)	46	-		127				46		158		
Associates	158	163		295				267		656		
Earnings before Minority Interest	2,879	3,340		3,408				11,670		13,976		
Minority Interest	69	263		298				50		797		
Earnings before Royalty Fees	2,947	3,603		3,706				11,719		14,773		
Royalty Fees	(1,474)	(1,801)		(1,853)				(5,860)		(7,386)		
Net Profit	1,474	1,801	1,764	1,853	19.7%	-2.1%	-4.8%	5,860	7,297	7,386	24.5%	-1.2%

* Etisalat did not report Gross Revenue for 3Q07. Gross Revenue for this quarter is based on EFG-Hermes estimates. Gross Revenue includes in-payments and excludes both out-payments and discounts

Source: Etisalat, EFG-Hermes estimates

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