

Subject : Emirates Telecommunication Corporation (Etisalat)/UAE/ /GCC
Telecom Report

Prepared by : Global Investment House “Global”

Date : August 2008

- Global values Etisalat stock at AED27 and recommends a BUY on the stock
-

Global Investment house – Kuwait - Emirates Telecommunications Corporation (Etisalat) was founded in 1976, and is one of the oldest telecom players in the region. Etisalat is 60% owned by the government of UAE, while the remaining 40% are publicly traded. Etisalat was the sole provider of telecommunication in the UAE until its monopoly was broken when Emirates Integrated Telecommunications Company (EITC) known as "DU" won the second license for fixed line, mobile, and internet services in 2005, and launched its services in Feb. 2007.

Recently, Etisalat has turned its focus towards international expansions with a current focus on Asia and Africa. Etisalat began its international expansion when it won Saudi Arabia's second GSM license for AED12.67bn (US\$3.45bn) in 2004. It won the license to become Afghanistan's fourth GSM operator in May 2006 for AED147.3mn (US\$40.1mn). At the end of 2006, Etisalat acquired a stake in Pakistan Telecommunication Company (PTCL) for AED9.6bn (US\$2.6bn).

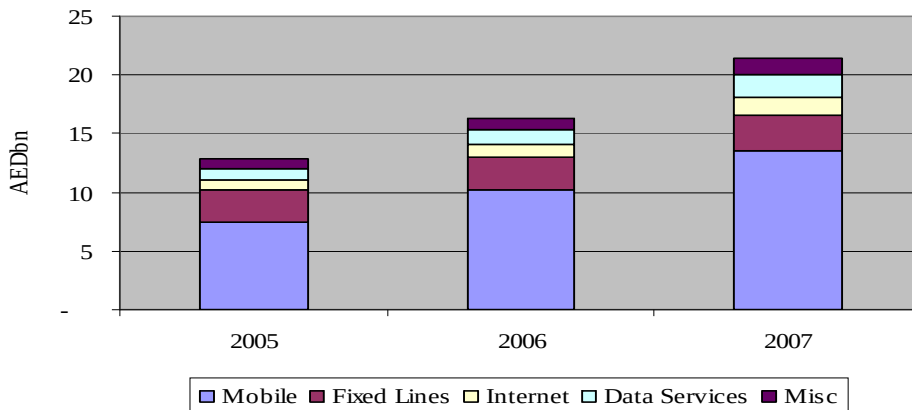
In Africa, Etisalat acquired stakes in Atlantique Telecom, Emerging Markets Telecommunications Services (EMTS) in Nigeria, Zantel in Tanzania, and led the consortium who won the license to manage the third GSM operator in Egypt, for EGP16.7bn (US\$2.9bn) in July 2006. Also in Sudan, Etisalat is one of 10 founders of Canar Telecom, a fixed-line operator. In Sept. 2007, Etisalat increased its shares in Canar, from 37% to 82% for AED584.17mn (US\$159mn). Etisalat's first acquisition in the Far East was in Dec. 2007 with a 15.97% stake in the Indonesia-based PT Excelcomindo Pratama, for AED1.6bn (US\$438mn).

Etisalat's core expansion strategy is to target populated markets with low penetration rates, and growing economies. Etisalat have been seeking growth opportunities in MENA and Asia regions. The group is present in 15 countries in Africa and Asia with majority stakes in Etisalat Afghanistan, PTCL (Pakistan), Atlantique Telecom (West Africa), Canar (Sudan), Etisalat Misr (Egypt), and Zantel (Tanzania). In addition, it has equity stakes in Mobily (Saudi), and Etisalat Nigeria. Most of the Etisalat's subsidiaries, and associates offer mobile services except for PTCL which offers both mobile and fixed services, and Canar which offers fixed lines, voice and data services.

Performance Analysis

Despite the entrance of a second operator in Etisalat's home market in 2007, Etisalat reported consolidated revenues of AED21.3bn in 2007, growing by 31% on y-o-y basis. The mobile segment revenues still dominates the group's consolidated revenues, forming 64% of the group's consolidated revenues in 2007 compared to a share of 63% in 2006. The fixed lines segment on the other hand witnessed a declining share in consolidated revenues, forming 14% of revenues compared to a share of 17% in 2006, while the data services segment share increased from 8% in 2006 to 10% in 2007, and also witnessed the highest growth rate, growing by 50% on a y-o-y basis.

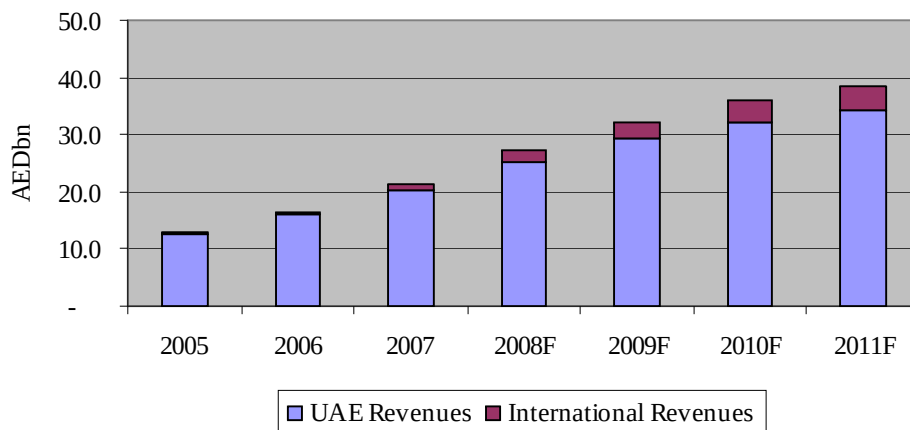
Chart : Revenues break-up by segment



Source: Etisalat

Revenues from the UAE operations grew by 25%, and formed around 94% of the group's consolidated revenues in 2007. Going forward we expect the contribution of revenues from international operations to witness an increasing trend as most of Etisalat's overseas operations in Africa and Asia are in expansion phase. In addition, the Africa and Asia regions are still in their growth phase while the UAE market is approaching maturity.

Chart : Revenues break-up by geography



Source: Etisalat, Global Research

In 2007, Etisalat's net profit after the payment of royalty grew by 25% to reach AED7.3bn compared to AED5.8bn in 2006. Etisalat posted strong results for H1 2008, net profit stood at AED5.1bn compared to AED4bn reported in the same period in 2007.

Outlook & Valuation

- With the UAE mobile market approaching saturation, we believe that the two mobile operators must rely on high quality value added services in order to grow. Etisalat has been adding extra value and diverse services to its subscribers. The migration to NGN (Next Generation Network) in UAE will enable Etisalat to further introduce more value added services. Going forward, we believe that mobile, and data services segments would still be the main revenue drivers for Etisalat UAE. However, the highest growth rates would be witnessed in data and internet services revenues.
- The group has also expanded its portfolio of regional and international investments in order to offset the impact of its shrinking market share in its home market. We expect the share of international operations of the group's top line results to increase from 6% in 2007 to 11% in 2011. We also expect to revenues from international operations to grow by a CAGR of 25% during our forecast period (2008-2011), while a CAGR of 11% is expected for revenues from the UAE operations during the same period. We are particularly bullish on the group's operations in West Africa, and Egypt, and we believe that they will be the main contributors to the group's international revenues, and will also witness the highest growth rates in subscribers and revenues. In terms of associates, Mobily would still be the main contributor to revenue from associates.
- At the current market price (Aug.31 2008), Etisalat trades at 10.8x and 10.8x its earnings and 3.4x and 2.9x its book value for 2008F and 2009F respectively. We have used Sum-Of-The Parts (SOTP) valuation method for the company's operations in different countries. Based on the consolidation of the individual company operations, our SOTP valuation estimates the fair value of Etisalat's stock at AED27, which is 50% higher than the current market price of the stock. We therefore initiate our coverage for Etisalat with a "Buy" recommendation.