

Short-Term Rec.: Accumulate

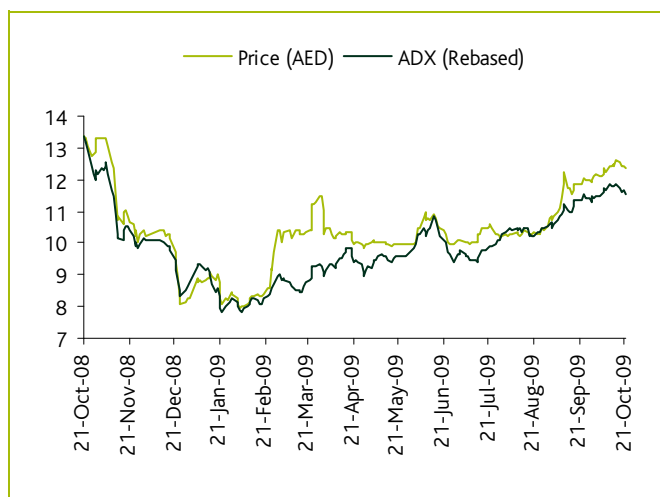
Current Price*: AED12.4

Long-Term Rec.: Buy

LT Fair Value : AED16.7

- 3Q2009 Results - Slightly Lower than Forecast:** Etisalat slightly missed our revenue, EBITDA and net profit estimates. While we are somewhat concerned about overall usage levels, we consider the net positive UAE mobile additions seen during 3Q2009 as generally positive. We maintain our LT Buy recommendation and believe that the stock offers good value with an upside potential of 35%.
- Revenue - Misses on UAE Usage Weakness:** 3Q2009a consolidated revenue came in at AED7,364 million, up 11.1% Y-o-Y but down 3.4% Q-o-Q and missing our estimate by 4.7%. We calculate UAE revenue was 6.8% below our estimate at AED6,414 million, primarily on lower usage. However, according to our calculations, international operations exceeded our estimates by 12%, at AED949 million. We are waiting for further clarity from management regarding the revenue breakdown.
- UAE Subscribers - Positive Additions Surprise:** Etisalat reported 7.44 million *total* mobile subscribers at end September, of which we assume 6.70 million (90%) are *active*. This is ahead of our 6.43 million estimate and implies 162,000 net additions for the quarter (vs our 100,000 negative net additions). The 3Q2009 is a good indication of the impact of the financial crisis on UAE mobile market, since the school year finishes early in this quarter allowing laid-off expats to leave with their families. Therefore, the net positive additions figure is an encouraging sign.
- EBITDA - Margin Under Pressure, but Still High:** We calculate an EBITDA margin for the quarter of 67.6%, down from 69.5% in 2Q2009a and lower than our estimated 68.9%. Although we do not yet have an EBITDA margin breakdown, we believe the Egyptian operation was largely responsible for the decline. During the quarter, we believe aggressive competition in the Egyptian mobile market put significant pressure on margins. Consolidated EBITDA for 3Q2009a, at AED4,980 million according to our calculations, was 6.4% below our estimates (down 6.0% Q-o-Q, up 8.8% Y-o-Y). Etisalat's attributable 3Q2009a net profit came in at AED2,254, up 5.6% Y-o-Y and down 6.7% Q-o-Q and missing our estimates by 6.8% on lower-than-expected revenue, margin and income from associates.
- Associates - Surprise Negatively Despite Stellar Mobily Results:** Contribution from associates (consolidated under the equity method) came in at AED165 million (2Q2009a: AED191 million, 3Q2009e: AED202 million). Etisalat has not provided a breakdown of this figure, so it is unclear where the hit came from. Mobily reported its own 3Q2009 earnings figure of SAR807 million, 16% above forecasts (Contribution to Etisalat: AED217 million).
- Recent M&A News:** Etisalat has signed an agreement to acquire Millicom's Sri Lankan operation, Tigo, for USD155 million in cash. This implies an EV of USD207 million, which Millicom says implies deal multiples of c7.4x 2009e EBITDA. The country has a population of 21 million and a mobile penetration rate of 52%. Etisalat is also awaiting the outcome of its bid for Libya's third integrated licence.

FLASH NOTE



*Price as at 21 October 2009

	2009e	2010e	2011e
EPS*	1.20	1.23	1.27
PER(x)	10.3	10.1	9.7
DPS	0.48	0.47	0.49
Div. Yield	3.9%	3.8%	4.0%
CFPS	1.34	1.57	1.61
PCF(x)	9.2	7.9	7.7
BVPS	4.03	4.27	4.52
PBV(x)	3.1	2.9	2.7
*Attributable			

Stock Data	
Last Div. Date	AED0.25 on 26 Jul 2009
Mkt. Val. / Shares (mn)	AED88,764 / 7,187
Av. Monthly Liqd. (mn)	AED245.0
52-Week High / Low	AED13.4 / 7.9
Bloomberg / Reuters	ETISALAT UH / ETEL.AD
Est. Free Float	40.0%

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Figure 1: Etisalat 3Q2009 KPIs and Income Statement Highlights

In AED million, unless otherwise stated

KPIs (000's)	3Q08	2Q09	3Q09a	Y-o-Y	Q-o-Q	3Q09e	Var.
Active Mobile Subs. (UAE)	6,345	6,534	6,696	5.5%	2.5%	6,434	4.1%
Mobile Additions	198	(73)	162			(100)	
FL Subs. (UAE)	1,360	1,330	1,310	-3.7%	-1.5%	1,305	0.4%
FL Additions	10	(19)	(20)			(25)	
Income Statement							
Net Revenue	6,626	7,625	7,364	11.1%	-3.4%	7,730	-4.7%
Total Costs	(2,050)	(2,162)	(2,384)			(2,407)	
EBITDA	4,576	5,299	4,980	8.8%	-6.0%	5,323	-6.4%
<i>EBITDA Margin</i>	<i>69.1%</i>	<i>69.5%</i>	<i>67.6%</i>			<i>68.9%</i>	
Depreciation & Amortization	(555)	(668)	(665)			(738)	
EBIT	4,021	4,631	4,314	7.3%	-6.8%	4,585	-5.9%
<i>EBIT Margin</i>	<i>60.7%</i>	<i>60.7%</i>	<i>58.6%</i>			<i>59.3%</i>	
Net Interest Income (Expenses)	5	(55)	46			37	
Other Income (Expenses)	22	-	-			-	
Associates	180	191	165	-8.4%	-13.6%	202	-18.1%
EBMI	4,228	4,767	4,525	7.0%	-5.1%	4,824	-6.2%
Minority Interest	106	90	49			44	
EBTR	4,334	4,857	4,574	5.5%	-5.8%	4,868	-6.0%
Deferred & Current Taxes	(65)	(27)	(66)			(30)	
EBR	4,270	4,830	4,508	5.6%	-6.7%	4,838	-6.8%
Royalty Fees	(2,135)	(2,415)	(2,254)			(2,419)	
Net Profit	2,135	2,415	2,254	5.6%	-6.7%	2,419	-6.8%

Source: Etisalat, EFG-Hermes estimates

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