



Emirates Telecommunication Corporation - Etisalat

Telecom Sector

UAE

IH FY06 - Research Update

October 2, 2006

Expanding Regionally in Anticipation of Homeland "du"opoly

- Emirates cellular penetration has crossed the 100% level in 1H FY06 prior to the second telecom operator coming online at 2006 end. However, we expect growth in cellular subscribers to expand with penetration reaching 121% by 2008, since we estimate around 60% to 70% of the population are currently using cellular phones, while the higher penetration reflects customers with more than one cellular card and corporate packages.
- We projected that Emirates Integrates Telecommunication Company "du" would capture around 12.1% of the cellular market by 2008. Competition will focus on quality mainly since the Emirates government is a major shareholder in both Etisalat and du.
- Etisalat's 35% stake in Saudi's second mobile operator, Mobily, has started to provide a positive return as the operator recorded a net income of SAR154 million in 1H FY06 compared to a loss amounting to SAR800 million in 1H FY05. Mobily market share is estimated to have reached 26% with around 4.2 million subscribers.
- Etisalat controls 66% of the consortium that won Egypt's third mobile license in July 2006 at a price of LE16.7 billion or AED10.6 billion. Etisalat plans to capitalize on its existing operations' success and size of operation in over 14 countries to make a swift launch in Q1 2007 supported by advanced technologies already applied in Etisalat's other operations, while maintain a cost advantage utilizing economies of scale.
- Based on our assumptions it will take the Egyptian operation up to 2011 and 2014 to generate positive cash flows and net income, respectively.
- The company has plans for further expansions in at least 10 operations, while currently finalizing a Yemeni deal and eying another in Algeria.
- Etisalat reported a net income increase of 33% in 1H FY06 to reach AED2.8 billion compared to AED2.1 billion in 1H FY05 driven by strong subscriber up-take, robust revenues, and margins. In FY06 we expect Etisalat to report increases in revenues and net income of 23% and 47% including subsidiaries' income.
- We valued Etisalat at AED29.0/share, down 6.4% from our prior target of AED31/share, essentially as a result of Nile Telecom's value barely breaking even with respect to its investment cost which exerted pressure on Etisalat's stand-alone financials, in addition to the downgrading of the Pakistani operation which delivered weak 9M FY06 results.

STRONG BUY

Target Price	AED29.0
Recent Price	AED19.3
Upside Potential	50%
<i>Investment Grade</i>	<i>Value & Growth</i>
Previous Target Price	AED31.0

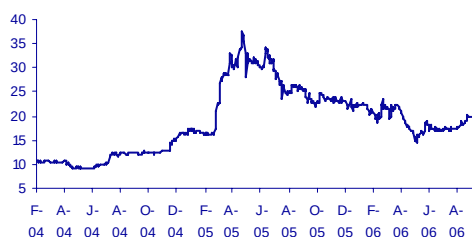
Share Data

Exchange Rate UAE	AED3.67/1US\$
Exchange Rate KSA	SR3.75/1US\$
Exchange Rate Pakistan	PKR60.55/1US\$
Exchange Rate Egypt	LE5.75/1US\$
Reuters Code	ETEL.AD
Most Recent Shares (mn)	4,538
Par Value/share (AED)	1
Financial Year Ending	December
Mkt. Cap (AED mn)	87,347
Free Float	40%
Av. Daily Volume	1,124,322
52 Wk. Low-High (AED)	15-25

Shareholders

Government of Abu Dhabi	60%
Free Float	40%

Stock Performance (AED)



FY Ending December	2003a	2004a	2005a	2006e	2007f	2008f
Revenues (AED mn)	9,226	10,434	12,866	15,777	17,312	18,551
Growth	15.3%	13.1%	23.3%	22.6%	9.7%	7.2%
EBITDA margin	76.6%	77.8%	76.5%	75.0%	74.4%	73.7%
Net Income (AED mn)	2,873	3,435	4,256	6,290	6,477	7,966
EPS (AED)	0.63	0.76	0.94	1.39	1.43	1.76
EPS Growth	16.9%	19.6%	23.9%	47.8%	3.0%	23.0%
DPS (AED)	0.33	0.36	0.40	0.58	0.61	0.71
BVPS (AED)	38.39	40.26	4.33	4.47	5.29	6.34
P/E x	30.80	25.76	20.79	14.07	13.66	11.11
Dividend Yield	1.70%	1.86%	2.05%	2.97%	3.11%	3.62%
P/BV x	7.68	6.66	5.63	4.36	3.68	3.07
EV/Sales x	8.73	7.73	6.13	5.39	4.68	4.08
EV/EBITDA x	11.26	9.95	8.01	7.19	6.30	5.54

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LATEST DEVELOPMENTS

Cellular penetration levels reach 100 %

UAE cellular penetration crosses 100%

Etisalat UAE cellular, fixed, and internet subscribers have increased 23%, 5%, and 36% year over year to 5.0 million, 1.3 million, and 0.6 million, respectively, in June 2006. The cellular subscriber base reflects an estimated penetration level of around 100%.

du preparing for a nationwide launch by year-end

du starts late this year

UAE's second telecom company, Emirates Integrated Telecommunication Company (EITC) "du", has spent over AED1.4 billion in 1H FY06 on the network infrastructure in preparation to its launch prior to 2006 end. The company has a paid-in capital of AED4 billion in which the UAE government owns a 40% stake and Mubadala Development Company and Emirates Communication and Technology LLC each hold a 20% stake. The remaining 20% or 800 million shares of the company were floated on the Dubai stock exchange in March 2006.

Mobily market share reaches 26 %

Mobily grows fast

Mobily was able to capture over 26% of the Saudi cellular market or 4.2 million subscribers with its 1H FY06 ending June 2006 net income turning positive at SAR153.6 million compared to a loss of SAR800 million in the same period ending June 2005. Mobily has succeeded in expanding its market share through the rollout of new added-value services such as 3.5G technology bundled with promotion.

Pakistani acquisition results continue to deteriorate

PTCL reports a 28% drop in 9M FY06 bottom line

Pakistan Telecommunication Company (PTCL) recorded another drop in net profits in 9M FY06 ending March 2006. Net profits fell 28.1% to PKR15.3 billion (US\$253 million) compared to PKR21.3 billion (US\$352 million) in 9M FY05 ending March 2005. The drop essentially stemmed from an 11% drop in revenues to PKR51.2 billion in 9M FY06 from PKR57.5 billion in the comparable period. Increased costs of operation has expanded the operational drop as operating profit experienced a 32% drop to PKR20.8 billion compared to PKR30.7 billion in the comparable period as a result of the mounting competition in both long distance and international telephony services in Pakistan following the end of PTCL monopoly in 2003. Etisalat owns a 23.4% stake in PTCL through its 90% ownership in Emirates International Pakistan (EIP). EIP holds 26% of PTCL which was acquired at US\$2.6 billion in June 2006.

Wins Egypt's third cellular license

Acquired EG mobile license for AED10.6 billion

In early July 2006, an Etisalat-led consortium won the bid for Egypt's third cellular license. Etisalat stake is currently at 66%, while the remaining balance is held by Egypt Post Authority, National Bank of Egypt, and a minor stake is owned by Commercial International Bank (CIB). The winning bid amounted to LE16.7 billion or AED10.6 billion, which was paid in Q3 2006. The license grants Etisalat the right to operate both second- and third-generation cellular technologies, while the current operators in Egypt have yet to pay LE3.3 billion each to be permitted to operate a 3G network.

Operation is expected to start in Q1 2007. Etisalat's initial plan is to capture around a 30% market share over the first five years of operation supported by a combination of new technology applications, better tariffs, and a raft of new services. Moreover, management believes that the penetration levels could grow from its current levels below 20% to over 50% in the same time frame.

Some telecom services will be rationalized

Etisalat revealed that the entry of the second operator, du, may initiate a bundle of service rationalizations in its UAE operation such as increasing the price of some services and removing subsidies on fixed telephone services, while it may reduce tariffs on international telephony.

Etisalat forms a new holding company

Etisalat has formed a holding company named Etisalat Services which consists of eight subsidiary units. These units are namely Emirates Data Clearing House, Etisalat Academy, Ebtikar Card System, e-marine, Facilities Management Unit, Facilitates Development unit, e-property, and Special Projects Unit. The goal of the new holding company is to free up Etisalat to focus on its local and regional expansion and technology upgrades.

Eying new expansions

Further expansions underway

Currently, Etisalat is in final stages of negotiations over the acquisition of Yemeni Telecommunication Company. Furthermore, Etisalat's CEO revealed that this step comes as a part of the company plans to enter into 10 new Asian and African markets, which include the Algerian incumbent operator, while it is in the process of establishing the first Afghani cellular operator.

Distributed AED0.25/Share Interim Dividends

Etisalat shareholders received an interim dividend of AED0.25/share on June 26, 2006.

FINANCIAL ASSESMENT

UAE operation

Etisalat homeland profits expand 33% on the back of robust revenues and improved margins

Supported by robust economic conditions, growth in population, cellular subscriber growth, and internet-based consumption, revenues grew at 25% to AED7.74 billion in 1H FY06 compared to AED6.20 billion in the same period of last year.

Although we do not have a semiannual revenue breakdown, apparently an improvement in blended ARPU along with a larger size of business has caused an improvement in EBITDA margins which grew from 71.7% in 1H FY05 to 75.1% in 1H FY06. As a result, EBITDA levels experienced a 30.6% growth to AED5.8 billion versus AED4.4 billion in the comparable period.

Net income grew 32.8% to AED2.8 billion in 1H FY06 compared to AED2.1 billion in the comparable period of last year, following the deduction of 50% of the NPBT balance as federal royalty fees in both years.

Income Statement (AED mn)	1H FY05	1H FY06	Growth
Revenues	6,201	7,743	24.9%
EBITDA	4,449	5,811	30.6%
EBITDA Margin	71.7%	75.1%	-
Depreciation	609	642	-
EBIT	3,840	5,169	34.6%
Interest Income	119	221	-
Investment Income	160	19	-
Other Income, Net	119	217	-
NPBT	4,238	5,626	32.8%
Federal Royalty	2,119	2,813	-
Net Income	2,119	2,813	32.8%

Source: Etisalat

Saudi operation

Mobily reports over SAR154 million profit in 1H 06

Ethiad Etisalat "Mobily" has expanded its net profit for the second quarter on the row. Net income tripled in Q2 FY06 to SAR116.1 million compared to SAR37.5 million in Q1 FY06. 1H FY06 net profit reached SAR153.6 million compared to SAR798.5 million net loss in 1H FY05.

Revenues in 1H FY06 reached SAR2.6 billion, that is, more than 50% of FY05 revenues and over 44.4x revenues recorded in 1H FY05. It is worth noting that the network started operation in May 2005, so it has operated for less than two months in 1H FY05.

EBITDA margins remain improving to reach 31% in Q2 FY06, up from 29% in Q1 FY06. EBITDA margins turned positive in Q3 FY05 reporting 17% and continued to improve as the operation size continued to grow.

Quarterly Financials (SAR mn)	Q1 FY05	Q2 FY05	1H FY05	Q3 FY05	Q4 FY05	FY05	Q1 FY06	Q2 FY06	1H FY06
Subscribers (000)	0	300	300	1,200	2,300	2,300	3,250e	4200e	4,200e
ARPU (SAR)	0.0	129.9	129.9	256.0	199.2	103.6	135.3	129.8	132.1
ARPU (US\$)	0.0	34.6	34.6	68.3	53.1	27.6	36.1	34.6	35.2
Revenues	0	58.5	58.5	576.0	1045.8	1,680.3	1,126.5	1,450.1	2,576.6
EBITDA	-194	-137	-331	97	246	13	331	451	782
EBITDA Margin	-	-235%	-566%	17%	24%	1%	29%	31%	30%
Depreciation	190	333	205	538	201	739	201	213	414
EBIT	-337	-327	-664	-107	45	-727	131	237	368
Net Profit	-412	-386	-799	-166	-76	-1,040	37	116	154

Source: Tadawul

Pakistan Telecommunication Company (PTCL)

PTCL remains under pressure of heavy competition

Continues competition in both international calling and nationwide dialing telephony services, related service prices were dropped again leading to a drop in PTCL revenues and a squeeze in margins.

Revenues dropped over 11% to US\$846 million in 9M FY06 ending March compared to US\$951 million in 9M FY05, while EBITDA figure fell 32% in the latest results. EBITDA margins fell to 40.7% in 9M FY06 down from 53.3% in the comparable results.

FY Ending June (US\$ mn)	9M FY05	9M FY06	Growth
Net Revenues	950.9	845.7	-11.1%
EBITDA	506.8	344.5	-32.0%
EBITDA Margin	53.3%	40.7%	-23.6%
Net Income	352.4	252.6	-28.3%

Source: PTCL

GROWTH DRIVERS

The UAE Operation

Etisalat will start to face competition starting Q4 FY06 as du will start operating at that time. We project a minor impact for the new operator in 2006, however, it is estimated that du would capture nearly 50% of new additional subscribers in 2007, given the concentration of potential subscribers in certain areas.

du to capture 12.1% market share by 2008 end

UAE Telecom Industry	2004a	2005a	2006e	2007f	2008f
Fixed Lines (000)	1,188	1,237	1,311	1,377	1,446
Penetration Rate-Fixed	27.5%	26.8%	27%	26%	26%
Etisalat Fixed Lines (000)	1,188	1,237	1,304	1,360	1,411
Market Share	100.0%	100.0%	99.4%	98.7%	97.6%
ARPU (AED)	193.8	196.3	199	196	193
Mobile Line Subs (000)	3,683	4,534	5,342	6,110	6,840
Additions (000)	711	851	808	768	730
Penetration Rate	85.3%	98.1%	108.0%	115.5%	120.8%
Etisalat Subs (000)	3,683	4,534	5,262	5,646	6,010
Market Share	100.0%	100.0%	98.5%	92.4%	87.9%
Net additions (000)	980	851	728	384	365
% of Total Net Additions	100%	100%	90%	50%	50%
ARPU (AED)	144.2	150.3	158	153	149

Source: Etisalat & Prime Projections

Concerning Etisalat revenues, we expect a continuation of the expansion of data-based revenues mainly at the expense of fixed-line revenues, while in the medium term cellular revenues will also be effected as a result of the high level of penetration and the emergence of competition.

Etisalat revenues to grow 23% in 2006

Revenue Breakdown	2004a	2005a	2006e	2007f	2008f
Fixed Line	25.9%	22.2%	19.3%	18.1%	17.3%
Mobile	55.2%	57.6%	58.8%	57.9%	56.0%
Data, Internet, & Others	18.90%	20.20%	21.95%	24.01%	26.69%
Revenues (AED bn)	10.4	12.9	15.8	17.3	18.6
Growth	13.09%	23.31%	22.6%	9.7%	7.2%

Source: Etisalat & Prime Projections

We expect revenues to grow 22.6% in FY06 to AED15.8 billion compared to AED12.9 billion in FY05, while growth would slowdown to a CAGR of 7.7% from FY07 to FY11.

EBITDA will demonstrate 20.2% growth in FY06 to AED11.8 billion compared to AED9.8 billion in FY05. The EBITDA margin would squeeze to 75.0% compared to 76.5% in FY05 as a result of lower tariffs set in anticipation of competition. Going further forward, we expect the margins to come down gradually to 71% by 2011.

Manages to seize a US\$3 billion credit facility

Etisalat revealed that it was awarded a revolving line of credit amounting to US\$3 billion from a consortium of international banks for a period of one year, with Etisalat having the option to extend it for one more year. We assumed that the company will utilize around two thirds of the credit facility in order to finance the Egyptian venture, the remaining third could be used to finance future expansions which are not factored in our model.

This credit facility would result in an interest expense amounting to AED108 million in 2006, which is expected to increase to AED351 million in FY07 as a result of having the loan since the beginning of the year.

We expect the federal royalty fees to fall gradually with the inauguration of the second operator. We have assumed that it will fall by 5% to 45% in FY06 and FY07, while it would drop to 40% starting 2008.

Net profit from the operation in Emirates, is expected to record AED5.84 billion in FY06 reflecting a 29% increase compared to FY05. However, we expect a slowdown in the growth rate of homeland profits before federal royalty fees in future years to reach a CAGR of 7.9% from the years FY07 to FY11. However, the expected drop in federal royalty to 40% in FY08 would create a higher level of growth in the emirates' profits.

GROWTH DRIVERS (Continued)

International Operations

Although booked at cost, international investments would create AED454 million in 2006

Income from major subsidiaries such as Saudi Mobily, Pakistani PTCL, and the Egyptian mobile are expected to generate profits of AED454 million in FY06. Starting FY07, we expect Mobily to generate strong investment income while the Egyptian mobile operation would suffer large losses which would expand in 2008 as the company needs to expand operations faster than its revenues' and profitability expansion..

(AED mn)	2006e	2007f	2008f	2009f	2010f	2011f
Mobily	181	963	1261	1482	1655	1811
PTCL	273	280	288	298	305	276
EG Mobile	0	-1023	-965	-884	-812	-612
Investment Income	454	220	585	896	1148	1474

Source: Etisalat & Prime Projections

Mobily—Saudi Arabia

Mobily is estimated to have captured around 1.9 million subscribers in 1H FY06. We estimate that it will capture around 60% of the new cellular subscribers in Saudi Arabia during 2006, whereas the new subscribers' growth rate will slow down in H2 2006 with early indicators showing that new subscribers per day have dropped 30% at the end of Q2 2006 compared to the beginning of the year.

The bidding for Saudi third cellular operator set to Q1 07

We expect a third entrant to emerge on the Saudi cellular playground by 2008, with the expected bidding process being planned for Q1 2007. We project that the new player will capture around 25% of the new subscribers in 2008 and continue at that percentage going forward.

	2004a	2005a	2006e	2007f	2008f
Saudi Mobile Subs (000)	9,200	13,450	18,338	22,736	26,695
Penetration Rate	36.8%	52.1%	68.7%	82.4%	93.6%
Mobily Subs (000)	n/a	2,316	5,249	7,448	8,933
Market Share	n/a	17.2%	28.6%	32.8%	33.5%
Net Additions	n/a	2,316	2,933	2,199	1,485
% of Total Net Additions	n/a	54.5%	60%	50%	38%
ARPU (SAR)	n/a	103.6	144.6	130.1	123.6

Source: STC, Mobily, & Prime Projections

We project that higher levels of

free minutes and other promotions will be released by the current incumbent operators in order to push penetration levels over the 80% range prior to the commencement of third operator's operations.

We expect Mobily revenues to reach SAR6.6 billion in FY06 reflecting a 391% increase compared to SAR1.7 billion reported in FY05. In the medium term, revenues are expected to grow at a CAGR of 21.2% from FY07 to FY11.

Our EBITDA margin expectations are 30% in FY06 compared to 0.7% in FY05. Going forward, we estimate that the normalized EBITDA level would be 45%.

Mobily to record strong growth levels in 06 & 07

Mobily is expected to record a net income of SAR528 million in FY06 compared to a loss of SAR1.04 billion in FY05. Net income is forecasted to generate another outstanding leap in FY07 as it would reach SAR2.8 billion reflecting a 432% growth over 2006. Starting 2008, the introduction of new competition and the relative maturity of the cellular industry will result in growth levels going down to 17% CAGR from FY08 to FY11.

Pakistan Telecommunication Co.—Pakistan

Pakistan Telecommunication Company—PTCL is expected to witness a slowdown in revenues this year following both competition and regulatory pressures that forced the company to reduce prices of both national and international telephony tariffs during the past period. We expect revenues to witness a drop of 8% to US\$1.3 billion in FY06 ending June compared to FY05, while EBITDA margins will drop to 50% in FY06 down from 57% in the previous year.

Net income is projected to fall around 24% to US\$316 million in FY06 compared to US\$416 million in the previous year. Starting 2007, our projections imply a net income CAGR of 3% between 2007 and 2011.

Downgrading PTCL target price by 19% to PKR68/share

The following changes have been incorporated in our model: the drop in revenues, EBITDA margins, and consequently net income levels. Our discounted cash flow model has shown a 19% drop in Pakistan Telecommunication Company value compared to our previous value yielding PKR68/share or US\$1.1/share compared to our previous value of PTCL which was PKR84/share or US\$1.4/share. Market price has responded also to the latest results with the price per share falling from PKR67/share, at the time of writing of the previous report, to PKR40 (US\$0.67/share), currently. The DCF valuation price and market price reflect a discount of 42% and 65% respectively to the Etisalat acquisition price which was at US\$1.89/share.

GROWTH DRIVERS (Continued)

Nile Telecom—Egypt

Etisalat Egypt to start early 2007

Etisalat Egyptian cellular network, Nile Telecom, is expected to start operation by early 2007. We expect penetration to have reached 22% by the time Etisalat starts. We project Etisalat will capture around 23% of the Egyptian mobile market by 2014. The Egyptian population is not normally distributed by age but rather is tilted toward the below 18-year-old range, which nearly represents over 40% of the population. Although for a country this is a huge obligation, it is a bliss for telecom companies since the addressable market is expected to expand on yearly basis at levels higher than those based on an expected population growth along with the expected improvement in economic conditions.

Ultimately, we project the penetration rate to cross the 50% level by 2013. Moreover, we expect GDP per capita to improve in Egypt and that the cellular market will start to stabilize to the extent that ARPU levels start to improve as of 2010.

Nile telecom to capture 23% market share by 2014

Mobile Industry	2006 ^e	2007 ^f	2008 ^f	2009 ^f	2010 ^f	2011 ^f	2012 ^f	2013 ^f	2014 ^f
Mobile Subs (000)	15,835	20,060	24,496	28,711	32,714	36,518	40,131	43,564	46,825
Additions	3,250	4,225	4,436	4,214	4,004	3,804	3,613	3,433	3,261
Penetration Rate	21.5 %	26.7 %	32.0 %	36.8 %	41.2 %	45.1 %	48.6 %	51.8 %	54.6 %
Etisalat Subscribers (000)	n/a	1,407	3,181	4,585	5,918	7,185	8,388	9,531	10,617
Etisalat Market Share	n/a	7.0%	13.0%	16.0%	18.1%	19.7%	20.9%	21.9%	22.7%
Net additions (000)	n/a	1,407	1,775	1,403	1,333	1,267	1,203	1,143	1,086
% of Total Net Additions	n/a	33.3%	40.0%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
ARPU (LE)	n/a	60.3	54.3	50.7	52.4	55.1	58.6	63.0	68.0

Source: Prime Projections

Etisalat Egyptian operation is expected to be profitable with respect to the EBITDA on the second year of operation. However, high levels of depreciation and amortization would result in EBIT losses up to 2011. High interest expense levels will result in higher losses in the bottom line which would continue to 2013.

On the cash flow level, the network will continue generating negative levels until 2010 and will generate positive cash flows starting 2011.

To report bottom-line profit by 2014

Etisalat EG (LE mn)	2006 ^e	2007 ^f	2008 ^f	2009 ^f	2010 ^f	2011 ^f	2012 ^f	2013 ^f	2014 ^f
Revenues	-	509	1,494	2,362	3,300	4,329	5,479	6,770	8,219
Growth	n/a	n/a	194%	58%	40%	31%	27%	24%	21%
EBITDA	-	(127)	224	591	883	1,446	2,191	2,708	3,616
EBIT	-	(1,349)	(1,102)	(791)	(550)	(42)	669	1,142	2,005
Net Income	(902)	(2,480)	(2,339)	(2,144)	(1,969)	(1,485)	(737)	(180)	947
Interest Bearing Debt	11,400	14,250	15,675	17,243	17,760	18,115	17,572	16,517	13,214
Capex	1,550	2,544	1,793	1,654	1,650	1,299	1,370	1,354	1,069
Free Cash Flow	(18,250)	(2,106)	(402)	(383)	(172)	722	1,407	1,982	4,065

Source: Prime Projections

Nile valued at par

The venture has been valued utilizing a paid-in capital amount of LE8 billion as announced by some of the company's shareholders. We have used the cost of equity usually utilized for Egyptian equities, 16.5%, including a risk-free rate of 8.5% and a beta of one. We conclude the value of the company to be around LE8.08 billion indicating the company value is close to its par.

VALUATION

Target price pulled down to AED29/share

We have downgraded Etisalat's target price to AED29.0/share down from our previous target price of AED31/share. Nevertheless, our recommendation remains a *Strong Buy* due to the high difference between the target price and the market price. The downgrade came essentially from the impact of the Egyptian license over Etisalat.

Egypt's venture exerts downward pressure

Etisalat investment in subsidiaries value have increased by an estimated AED3.3 billion as a result of the Egyptian venture, while the value of investment based on our DCF valuation model came at AED3.3 billion, thus indicating a lack of value added from the project. Moreover, the credit facility expenses that were incurred as a result of the investment will have a higher impact on the income statement compared to expected returns since we do not expect the Egyptian venture to generate any bottom-line profits prior to 2014.

Concerning Mobily, we have lowered the target price due to our assumption of a third entrant in the Saudi cellular market by 2008, in addition to Mobily ARPU recording levels lower than our previous expectations. The new target price is SAR105/share of Mobily stock (7020.se).

PTCL's poor performance in 9M FY06 and loss of market share have compelled us to lower our target value of the company by around 19%.

Sum Of the parts (AED mn)	DCF Value	Ownership	Etisalat Stake Value	Per Share	% of Total Value
Etisalat	102,943	100.0%	102,943	22.69	78.7%
Etihad	51,409	35.0%	17,993	3.97	13.7%
Egypt Mobile	5,048	66.0%	3,332	0.73	2.5%
PTCL	21,295	23.4%	4,983	1.10	3.8%
Other Investments	-	-	1,632	0.36	1.2%
÷ Etisalat Number of Shares	-	-	4,537,500	-	-
Sum of the Part Value	-	-	130,883	28.84	100.0%

Source: Prime Projections

FINANCIAL SUMMARY

FY Ending December
(AED mn)

Income Statement	2004a	2005a	2006e	2007f	2008f
Revenues	10,433.8	12,865.9	15,777.4	17,311.5	18,550.9
Growth	13.1%	23.3%	22.6%	9.7%	7.2%
Operating Expenses	2326.2	3023.0	3944.4	4436.1	4872.5
Other Provisions	-14.2	0.0	0.0	0.0	0.0
EBITDA	8,121.8	9,842.9	11,833.1	12,875.5	13,678.4
Growth	14.9%	21.2%	20.2%	8.8%	6.2%
EBITDA Margin	77.8%	76.5%	75.0%	74.4%	73.7%
Depreciation & Amortization	1236.1	1408.1	1485.9	1597.8	1706.8
Operating EBIT	6,885.7	8,434.7	10,347.1	11,277.7	11,971.6
Interest Income	119.8	280.5	300.2	371.0	509.3
Interest Expense	0.0	0.0	108.0	351.0	263.3
Non-Operating Revenues	38.9	59.0	72.4	79.4	85.1
Pre-Tax Income	7,044.4	8,774.3	10,611.7	11,377.1	12,302.8
Pre-Tax Income Growth	23%	25%	21%	7%	8%
Taxes-Federal Royalty	3417.6	4256.0	4775.3	5119.7	4921.1
Effective Tax Rate	49%	49%	45%	45%	40%
NPAT	3,626.8	4,518.2	5,836.5	6,257.4	7,381.7
Growth	26.3%	24.6%	29.2%	7.2%	18.0%
Extraordinary Items	(191.5)	(10.9)	-	-	-
Net Income from UAE	3,435.3	4,507.3	5,836.5	6,257.4	7,381.7
Income from Subsidiaries	0.0	-251.3	453.7	220.1	584.6
Net Attributable Income - NAI	3,435.3	4,256.0	6,290.1	6,477.5	7,966.2
Growth	19.6%	23.9%	47.8%	3.0%	23.0%
ROS	32.9%	33.1%	39.9%	37.4%	42.9%

Balance Sheet	2004a	2005a	2006e	2007f	2008f
Cash & Marketable Securities	7,801.8	9,658.5	10,639.5	12,818.0	16,815.0
Trade Receivables-Net	1,568.8	2,843.8	3,487.3	3,826.4	4,100.4
Inventory	86.4	104.5	128.2	140.7	150.7
Other Current Assets	141.5	359.8	441.2	484.1	518.8
Total Current Assets	9,598.4	12,966.6	14,696.2	17,269.2	21,584.9
Net Fixed Assets	8,605.5	8,480.3	8,414.3	8,201.5	7,886.0
Projects Under Implementation	0.0	0.0	0.0	0.0	0.0
Other Assets	2,179.7	2,608.4	14,433.2	14,433.2	14,433.2
Total Assets	20,383.7	24,055.3	37,543.7	39,903.9	43,904.1
Short-Term Bank Debt	0.0	0.0	0.0	0.0	0.0
CPLTD	0.0	0.0	0.0	0.0	0.0
Accounts Payable	4,095.6	5,221.9	5,763.2	6,007.4	6,115.6
Dividend Payable	825.0	907.5	2,631.7	2,755.3	3,205.4
Other Current Liabilities	1,775.2	1,782.9	1,656.6	1,726.8	1,757.9
Total Current Liabilities	6,695.8	7,912.2	10,051.5	10,489.6	11,078.9
Long-Term Debt	0.0	0.0	7,200.0	5,400.0	4,050.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other Long-Term Liabilities	402.6	416.8	0.0	0.0	0.0
Total Shareholders' Equity	13,285.3	15,726.3	20,292.3	24,014.4	28,775.2
Total Liabilities & Shareholders' Equity	20,383.7	24,055.3	37,543.7	39,903.9	43,904.1

Free Cash Flow Statement	2004a	2005a	2006e	2007f	2008f
NOPLAT	3,399.9	4,093.8	5,773.5	6,153.4	7,196.4
Non-Cash Items	1,221.9	1,408.1	1,485.9	1,597.8	1,706.8
Gross Cash Flow	4,621.7	5,501.9	7,259.4	7,751.2	8,903.2
Gross Investments	1,313.6	2,046.0	2,607.4	1,695.3	1,756.8
Non -Operating Cash Flow	-78.6	-104.6	289.3	203.9	456.0
Free Cash Flow	3,229.5	3,351.2	4,941.3	6,259.8	7,602.5
Financing Flow					
Interest Income After-Tax	-114.0	-266.9	-286.7	-359.1	-493.1
Investment Income After-Tax	0.0	0.0	0.0	0.0	0.0
Increase in Cash, M. Sec., & Subsidiaries	1,765.1	1,885.6	12,368.6	1,948.2	3,810.9
After-Tax Interest Expense	0.0	0.0	59.4	239.0	179.3
Decrease in Debt & Bonds	0.0	0.0	-7,200.0	1,800.0	1,350.0
Provisions Used	-14.2	0.0	0.0	0.0	0.0
Dividends Paid	1,575.0	1,732.5	907.5	2,631.7	2,755.3
Non-Appropriation Items	0.0	0.0	0.0	0.0	0.0
Shareholders' Equity	17.6	0.0	-907.5	0.0	0.0
Total Financing Flow	3,229.5	3,351.2	4,941.3	6,259.8	7,602.5

Source: Etisalat & Prime projections

Stock Recommendation Guidelines

Recommendation	Target-to-Market Price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < 5\%$
Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Company Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

HEAD OFFICE

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