

Etisalat in talks to buy 25% in India's Reliance Communications

As per media reports Etisalat is in talks to buy a 25% stake in India's Reliance Communications Ltd. (RCom) for about US\$3.8bn.

- RCom operates both GSM and CDMA networks and provides mobile services to over 100mn customers in India. At present, 67.58% equity in RCom is owned by the company's promoter Anil Ambani and the rest by public and institutional investors. If the proposed deal is completed, the company's paid-up capital will increase by 25%, which will bring down Anil Ambani's stake to around 55%.
- If the deal takes place, Etisalat will also make an open offer to existing shareholders to buy an additional 20% stake in the Indian telecom operator. This is required as per India's capital market regulations. This will entail further investments of about US\$3.2bn for 20% stake.
- Etisalat already has a telecom presence in India, holding 45% of Etisalat DB Telecom Pvt. Ltd., a joint venture with India-based Dynamix Balwas Group. This joint venture has a licence to operate telecom services in 15 circles of India.
- If Etisalat wants to buy into RCom, it will have to sell its stake in the joint venture because India's telecom regulations don't permit any company to hold more than 10% of two telecom companies operating in the same service areas. Etisalat had made a total investment of around US\$900mn to buy the stake in Etisalat DB.
- RCom had paid US\$1.8bn to the Government of India for 3G spectrum that was auctioned recently. The sale of stake will help RCom raise funds for its 3G roll-out plan.
- Etisalat has a strong balance sheet and is a net cash positive company, which will enable it to continue pursuing its expansion strategy and eye strategic acquisitions.
- In our opinion the deal valuation looks expensive on couple of parameters:
 - a) The deal values 25% stake in RCom at US\$3.8bn thus valuing it at US\$15bn as compared to its current market cap. of about US\$6.7bn.
 - b) This implies a more than 100% premium to RCom's current market price.
 - c) Transaction multiple looks expensive. The deal values RCom at 2011E earnings multiple of 25x and 2011E EV/EBITDA of 12.0x (based on Bloomberg consensus estimates).

Etisalat – Event Update

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