



SHUAACAPITAL_{PSC}

Etisalat (ETEL.AD)

Equity Research

Notes of Analyst Meeting

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Etisalat organized last week an analyst meeting to provide an update on FY 2008 results. Below are the salient points:

Anticipated slowdown in UAE defied by first two months performance: UAE operations proved to be resilient in the first two months of 2009 based on management disclosure of top line growth of 14% YoY. This means no dramatic slowdown so far compared to Q4 08 and FY 2008 run-rate of 17% YoY growth. The company has budgeted for 5% UAE revenue growth in FY 2009. This could turn out conservative, albeit recognizing it's still early to judge if the performance of the first two months will be a good indicator for the full year.

2009 a year of consolidation: Last year, Etisalat expanded in several major markets: Nigeria, India, and Iran (transaction not yet finalized). The company hinted that the priority in 2009 will be to focus on managing its current international portfolio. This being said, with a debt free balance sheet, the company will continue to selectively examine acquisition opportunities. Etisalat is still reviewing an investment in Iraq, and is interested to increase its stake in its existing international operations at the 'right price'.

More details on the general provision: Management confirmed the Q4 08 provision of AED 1,332mn was forward looking and in anticipation of deterioration in the economic environment. The provision is mainly related to UAE operations, with the exception of some receivables from international subsidiaries. The provision was made against doubtful debt, and inventories of telecom equipment. We remain of the opinion that Etisalat is being conservative with regards to the amount of the provision.

2008 revenue and EBITDA breakdown confirmed: UAE contributed to 91% of the group's consolidated revenue for 2008, in line with our estimate. Consolidated pre-provision EBITDA margin was 71% in 2008. International operations generated an EBITDA margin of 7% for the year. Etisalat intends to start reporting IFRS financial statements in H1 09.

Positive outlook: Overall, the tone of the meeting was positive. We reiterate our forecast for mid-single digit earnings growth in 2009 off the clean 2008 net income – taking into account start-up losses from greenfield operations in Nigeria, India, and Iran. The stock is currently offering a 4.8% 2008 dividend yield. The shares are trading at 8.4x our 2009 earnings estimate. Excluding net cash per share of AED 1.43 at the end of 2008, the adjusted forward P/E is 7.4x. We believe the stock remains attractively valued at the current level.

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