

3Q2010: Weaker-than-Expected; Recent Rally Limits Upside Potential, Downgrade to Neutral

RESULTS REVIEW AND RATING CHANGE

TELECOMMUNICATIONS | UAE

Adjust Forecasts Post-3Q2010 Results; Fair Value Remains Unchanged

We tweak our forecasts after the lower-than-expected 3Q2010 results. Our Fair Value (FV) remains unchanged at AED12.54/share, but we reduce our estimated equity value for the UAE operation by 6% and increase the value of international operations by 27% (Egypt up 16% and Mobily in Saudi Arabia up 5%). We downgrade our rating to Neutral since the stock rallied 17% since the announcement of Zain deal in September 2010.

No News on Zain Deal

Etisalat mentioned in its 3Q2010 results release that "no final agreement has been reached" on the Zain deal "as the offer depends on the fulfilment of specific requirements and conditions that must be met to finalise the deal". A main issue would be the sale of Zain Saudi Arabia, in our view. We reiterate our view that the proposed deal will not be immediately value accretive for Etisalat at these rich multiples; nevertheless, it is strategic for Etisalat given the possible synergies.

3Q2010 Results Miss Forecasts, Likely on UAE Weakness

Results for 3Q2010 missed our forecasts at all levels: revenue missed by 12%, EBITDA by 15% and earnings by 13%. The weaker-than-expected results are likely attributable to the UAE operation as it remains the biggest contributor to Etisalat's consolidated numbers (74% of revenue), in our view. Etisalat added only 10,000 mobile subscribers in the UAE in 3Q2010 (-89% Q-o-Q), versus our 85,000 estimate. This resulted in a 14% Q-o-Q drop in UAE revenue. Management has confirmed that the UAE operation was impacted by seasonality (3Q is usually the weakest), Ramadan and tough competition, especially at the international calls level.

International Operations: Mobily Up, PTCL Likely Down

Income from associates also surprised negatively, dropping 15% Q-o-Q, despite Mobily earnings growing 26% Q-o-Q and beating our estimates by 17%. The two other listed operators, PTCL (Pakistan) and XL (Indonesia) have not yet reported their results, but it looks like the Q-o-Q earnings decline would come from PTCL since consensus confirms our view of a Q-o-Q earnings growth at the level of XL.

KEY FINANCIAL HIGHLIGHTS

December Year End (AED mn)	2009a	2010e	2011e	2012e
Revenue	30,831	30,690	32,149	33,234
EBITDA	19,503	16,252	17,287	18,114
EBITDA Margin	63.3%	53.0%	53.8%	54.5%
Net Profit	8,836	7,286	7,605	8,056
EPS (AED)	1.12	0.92	0.96	1.02
DPS (AED)	0.49	0.37	0.37	0.39
Net Debt (Cash)	(9,354)	(8,291)	(7,251)	(6,396)
P/E* (Attrib.) (x)	10.5	12.7	12.2	11.5
EV/EBITDA* (x)	3.9	5.0	4.7	4.4
Div. Yield (%)	4.2%	3.1%	3.1%	3.3%

*Price as at 21 October 2010

Source: Etisalat, EFG Hermes estimates



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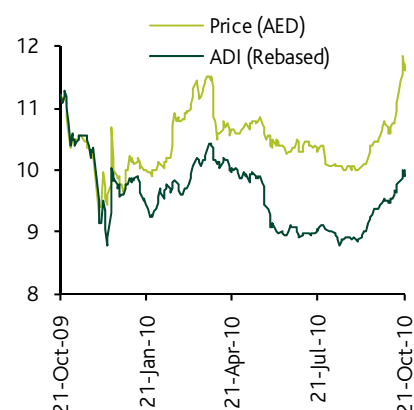
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STOCK DATA

Price	AED11.7*
Fair Value	AED12.5
Last Div. / Ex Date	AED0.35 on 01 Apr 2010
Mkt. Cap / Shares (mn)	AED92,502 / 7,906
Av. Mthly Liqdt (mn)	AED247.5
52-Week High / Low	AED11.85 / AED9.27
Bloomberg / Reuters	ETISALAT UH / ETELAD
Est. Free Float	40%

SHARE PRICE PERFORMANCE RELATIVE TO ADI REBASED



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I. VALUATION

FIGURE 1: ETISALAT SOTP DCF VALUATION

In AED million, unless otherwise stated

Country	Consolidation Method	Valuation Method	Equity Value	Etisalat Stake	Attributable Equity	% of Valuation
UAE	Full	DCF	75,506	100%	75,506	76.1%
Saudi Arabia (Mobily)	Equity	DCF	48,514	27%	13,497	13.6%
Egypt	Full	DCF	5,234	66%	3,454	3.5%
Indonesia (XL)	Equity	DCF	20,982	13%	2,791	2.8%
Pakistan (PTCL)	Equity	DCF	6,175	26%	1,739	1.8%
Africa (Atlantique Tel)	Full	DCF	1,623	100%	1,623	1.6%
Afghanistan	Full	DCF	355	100%	355	0.4%
Nigeria	Equity	DCF	254	40%	102	0.1%
India (Swan Telecom)	Equity	DCF	(230)	45%	(104)	-0.1%
Others		Book Value			195	0.2%
Total					99,157	
Value per share					12.54	

Source: EFG Hermes estimates



II. 3Q2010 RESULTS

FIGURE 2: ETISALAT QUARTERLY KPIS & INCOME STATEMENT

In AED million, unless otherwise stated

KPIs (000's)	3Q09a	1Q10a	2Q10a	3Q10a	Q-o-Q	Y-o-Y	3Q10e	Var.
Mobile Subscribers (UAE)	7,440	7,710	7,800	7,810	0%	5%	7,885	-1.0%
Mobile Additions	180	(30)	90	10			85	
Fixed Line Subscribers (UAE)	1,310	1,300	1,280	1,250	-2%	-5%	1,270	-1.6%
Fixed Line Additions	(20)	(10)	(20)	(30)			(10)	
Income Statement								
UAE Revenue	6,582	6,319	6,336	5,423	-14.4%	-18%	6,428	-15.6%
International Revenue	1,414	1,625	1,729	1,892	9.4%	34%	1,814	4.3%
Total Revenue	7,996	7,945	8,065	7,315	-9.3%	-9%	8,242	-11.2%
Total Costs	(3,126)	(3,567)	(3,679)	(3,568)			(3,849)	
EBITDA	4,870	4,378	4,386	3,747	-14.6%	-23%	4,393	-14.7%
<i>EBITDA Margin</i>	<i>60.9%</i>	<i>55.1%</i>	<i>54.4%</i>	<i>51.2%</i>			<i>53.3%</i>	
Depreciation & Amortisation	(665)	(702)	(711)	(743)			(719)	
EBIT	4,204	3,676	3,676	3,004	-18.3%	-29%	3,674	-18.2%
<i>Margin</i>	<i>52.6%</i>	<i>46.3%</i>	<i>45.6%</i>	<i>41.1%</i>			<i>44.6%</i>	
Net Interest Income (Expense)	46	272	24	114			36	
Other Income (Expense)	110	(62)	(268)	196				
Income from Associates	165	98	219	187	-14.8%	13%	228	-18.2%
Earnings before Minority Interest	4,525	3,984	3,651	3,500	-4.1%	-23%	3,938	-11.1%
Minority Interest	49	24	66	13			60	
Earnings before Taxes & Royalty Fees	4,574	4,008	3,717	3,513	-5.5%	-23%	3,998	-12.1%
Deferred Taxes	(66)	(19)	27	(34)			(20)	
Earnings before Royalty Fees	4,508	3,989	3,744	3,478	-7.1%	-23%	3,978	-12.6%
Royalty Fees	(2,254)	(1,994)	(1,872)	(1,739)			(1,989)	
Net Profit	2,254	1,994	1,872	1,739	-7.1%	-23%	1,989	-12.6%

Source: Etisalat, EFG Hermes estimates



III. FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In AED million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Net Revenue					
UAE	26,617	24,462	24,732	25,042	25,103
Egypt	2,628	4,237	5,152	5,708	6,106
Afghanistan	218	329	365	381	405
AT & Others	1,368	1,663	1,900	2,103	2,237
Total Net Revenue	30,831	30,690	32,149	33,234	33,852
EBITDA					
UAE	18,449	14,017	14,419	14,850	14,886
Egypt	772	1,296	1,764	2,031	2,234
Afghanistan	(12)	21	64	86	111
AT & Others	761	918	1,040	1,147	1,208
Total EBITDA	19,503	16,252	17,287	18,114	18,440
<i>EBITDA Margin</i>	63%	53%	54%	55%	54%
Depreciation and Amortisation	(2,534)	(2,797)	(3,075)	(3,358)	(3,605)
Net Operating Profit	16,969	13,455	14,211	14,756	14,834
<i>NOP (EBIT) Margin</i>	55%	44%	44%	44%	44%
Net Interest Income (Expense)	12	493	270	291	336
Other Income (Expense)	-	(130)	(48)	(49)	(49)
Income from Associates	682	715	883	1,298	1,412
Earnings before Minority Interest	17,663	14,534	15,317	16,296	16,534
Minority Interest	253	106	(67)	(115)	(98)
Earnings before Taxes & Royalty Fees	17,915	14,640	15,251	16,181	16,435
Taxes	(244)	(67)	(41)	(70)	(87)
Earnings before Royalty Fees	17,671	14,573	15,210	16,111	16,348
Royalty Fees	(8,836)	(7,286)	(7,605)	(8,056)	(8,174)
Net Attributable Income	8,836	7,286	7,605	8,056	8,174

Source: Etisalat, EFG Hermes estimates

**BALANCE SHEET (DECEMBER YEAR END)**

In AED million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash & Liquid Assets	11,309	12,013	11,461	11,278	10,608
Receivable & Prepayment	5,796	5,449	5,208	5,401	5,516
Due from Telecom Administrations	2,185	1,801	1,826	1,850	1,855
Inventory	272	301	304	304	305
Total Current Assets	19,562	19,564	18,799	18,833	18,284
Net Plant	17,585	20,168	22,225	23,919	25,311
Investments	16,378	18,746	19,776	21,074	22,486
Licences + Other Intangibles	16,778	13,868	13,419	12,969	12,520
Others	1,073	2,511	136	136	136
Total Assets	71,377	74,857	74,355	76,932	78,737
Accounts Payable	9,129	9,220	9,312	9,406	9,500
CPLTD	1,079	1,422	2,122	50	50
Due to Other Telecom Administrators	1,485	3,425	3,376	3,331	3,339
Accrued Expenses	9,068	2,975	59	60	61
Other Current Liabilities	11,841	7,286	7,605	8,056	8,174
Total Current Liabilities	32,602	24,328	22,474	20,902	21,123
LTD	2,896	4,053	4,103	7,149	6,989
Shareholder Loan	525	525	525	-	-
Others	4,079	4,682	4,728	4,777	4,828
Minority Interest	3,998	4,606	5,246	5,931	6,656
Total Liabilities & Minority Interest	44,101	38,194	37,077	38,759	39,597
Net Worth	36,392	36,663	37,278	38,173	39,140

Source: Etisalat, EFG Hermes estimates

CASH FLOW STATEMENT (DECEMBER YEAR END)

In AED million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash Operating Profit after Taxes	10,424	8,898	9,641	9,988	10,178
Change Working Investment	(1,223)	1,185	576	282	100
Cashflow Post Change in Working Investment	9,200	10,084	10,217	10,270	10,278
Capex & Investments	(5,079)	(4,631)	(4,384)	(4,302)	(4,248)
Free Cash Flow	4,122	5,453	5,834	5,969	6,030
Non-operating Cash Flow	(1,051)	517	141	202	990
Net Financing	(3,057)	(5,278)	(6,623)	(6,557)	(7,702)
Change in Cash	14	692	(648)	(385)	(682)

Source: Etisalat, EFG Hermes estimates

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Neutral	(10%) and 15%
Sell	Below (10%)

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