

Short-Term Rec.: Buy
Long-Term Rec.: Buy

Current Price*: AED 21.9
LT Fair Value : AED 31.3

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• **Solid Performance in 9M/3Q2007:** Etisalat's 3Q2007 results came in strong and unexpectedly so driven by strong results for the UAE operation with both usage and subscriber growth surprising positively despite the entrance of competition and the local market reaching saturation. We estimate consolidated gross revenue (Etisalat reports net revenue only) grew Y-o-Y by 32%, EBITDA by 17% and net profit by 15%.

• **We Upgraded our Forecasts:** We upgrade our consolidated revenue forecast driven mostly by an upgrade of our forecasts for the UAE operation, which delivered a better-than-expected performance in 9M2007. We upgrade our forecast for Etisalat Egypt and integrate new markets, such as Nigeria and Afghanistan, into our forecasts, which have contributed, albeit to a lesser extent, to the increase in our revenue forecasts. We forecast Etisalat consolidated gross revenue to grow at a 2007-10e CAGR of 10.4%, EBITDA at 7.2% and net profit at 10.6%.

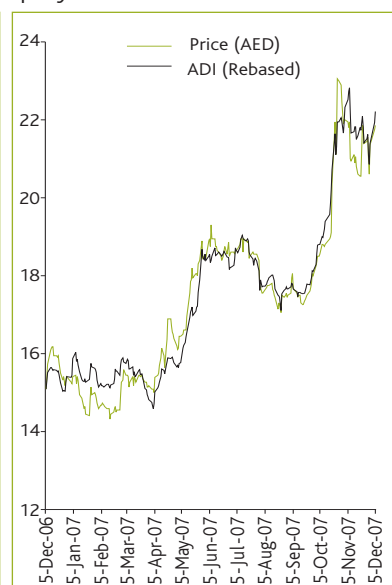
• **Raising Our Fair Value Estimate to AED31.3:** Our new FV is 30.9% higher than our previous fair value as a result of: i) better-than-expected 9M2007 performance and the reduction of our discount rate, ii) an upgrade of our estimated equity value for both the Egyptian and Pakistani operations, and iii) an integration of both the Afghani and Nigerian operations into our forecasts. We use a DCF-based sum-of-the-parts valuation approach to separately value the different operations.

• **One of the Best Telecom Exposures in the Region:** Over the past three years, Etisalat has been one of the most aggressive operators in terms of expansion in the region spending in excess of USD6.5 billion in expansions outside the UAE. This strategy is starting to pay-off with Etisalat now having a well balanced portfolio of operations that offer both value and growth, where most of the value comes from the local mature operations (84% of the company's valuation) while subscriber growth is generated from the fast-growing regional operations in Egypt, Pakistan, Saudi Arabia, Nigeria and other African markets. We estimate Etisalat's controlled subscriber base in its 15 markets exceeded 40 million (proportionate: 19 million) at the end of September 2007, up from around 5 million at the end of 2004. New acquisitions may include an additional stake in PTCL, or acquiring the government's stake in Omantel.

• **Attractive Valuation, We Remain Buyers:** The stock currently trades at attractive multiples compared to its MENA peers with an EV/EBITDA and a PE of 5.5x and 12.9x for 2008e, respectively, versus regional averages of 7.3x and 13.7x respectively. We believe an important driver for strong share price performance would be allowing non-UAE nationals to own the shares in the company.

December year end	2006a	2007e	2008e	2009e
Operating Income (mn)	11,143	13,370	14,753	14,986
Net Attrib. Income (mn)	5,860	7,386	8,488	9,150
ROE	30.5%	33.4%	34.6%	33.8%
EPS	1.17	1.48	1.70	1.83
Earnings Growth	37.7%	26.1%	14.9%	7.8%
P/E (Attrib.)	18.6	14.8	12.9	11.9
DPS	0.55	0.70	0.83	0.92
Dividend Yield	2.5%	3.2%	3.8%	4.2%
BVPS	3.84	4.43	4.92	5.42
P/BV	5.7	4.9	4.4	4.0
CFPS (Operating CF)	1.85	1.82	1.78	2.09
P/CF	11.8	12.0	12.3	10.5
EBITDA	12,534	15,457	17,452	17,964
EBITDA Margin	67.0%	63.7%	61.1%	58.5%
EV/EBITDA**	7.6	6.1	5.5	5.3
EV/Sub**	9,165	6,119	4,701	3,969
Net Debt (Cash) (mn)	(3,323)	(2,542)	(1,966)	(2,001)
Net Debt (Cash)/ BV	-17.3%	-11.5%	-8.0%	-7.4%
Net Debt (Cash)/ Mkt cap	-3.0%	-2.3%	-1.8%	-1.8%

**Proportionate
Fig in AED unless otherwise stated



Estimate Changes		2006a		2007e		2008e	
(EGP mn)		Old	New	Old	New	Old	New
Revenue	18,714	20,677	24,283	22,078	28,546		
EBITDA	12,534	12,286	15,457	12,402	17,452		
EBITDA Margin	67.0%	59.4%	63.7%	56.2%	61.1%		
Net Attrib. Income	5,860	6,540	7,386	7,123	8,488		

Stock Data	
Last Ex-Div Date	AED0.25 on 18 July 2007
Mkt. Val. (mn)	AED109,059
Shares (mn)	4,991
Av. Mthly Liqd. (mn)	AED463.9
52-Week High / Low	AED23.8/14.1
Bloomberg / Reuters	ETISALAT UH/ETEL.AD
Est. Free Float	40.0%

Marise Ananian
+20 2 33 32 1152
mananian@efg-hermes.com

Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

I. VALUATION

REVISITING THE EQUITY STORY

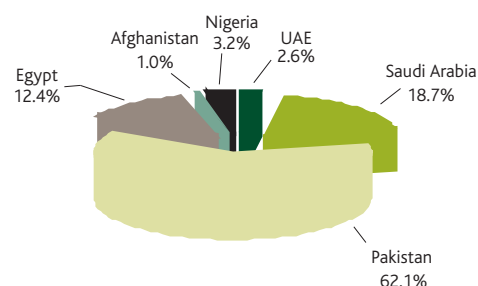
A balanced portfolio of value and growth

Etisalat is a well-balanced portfolio of value and growth: the value lies in the relatively mature UAE operation which we currently estimate accounts for c85% of the company's valuation. On the other hand, subscriber growth is generated from the fast-growing regional operations in Egypt, Pakistan, Saudi, Nigeria and other African markets which altogether account for the remaining c15%.

Even some growth is expected from the UAE operation

That said, and despite the high mobile and fixed-line penetration rate in the UAE and competition from du, the forecast strong population growth in the UAE, which is estimated to exceed 6.0% over the next five years, will allow Etisalat to maintain a revenue growth between 3-9% over the next three years. Furthermore, a positive growth surprise, which has broadly been the story of MENA telecoms over the past 5 years, is not at all ruled out.

Fig 1.1: Breakdown of Etisalat Subscribers by Country*- 2008

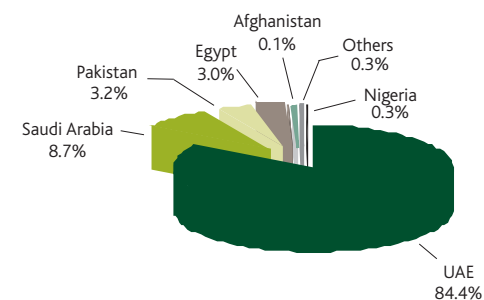


*Non-proportionate

**Equity Value Accruing to Etisalat, i.e. ex-minority interests

Source: EFG-Hermes estimates

Fig 1.2: Breakdown of Estimated Equity Value by Country**



Source: EFG-Hermes estimates

Valuation today is surely attractive

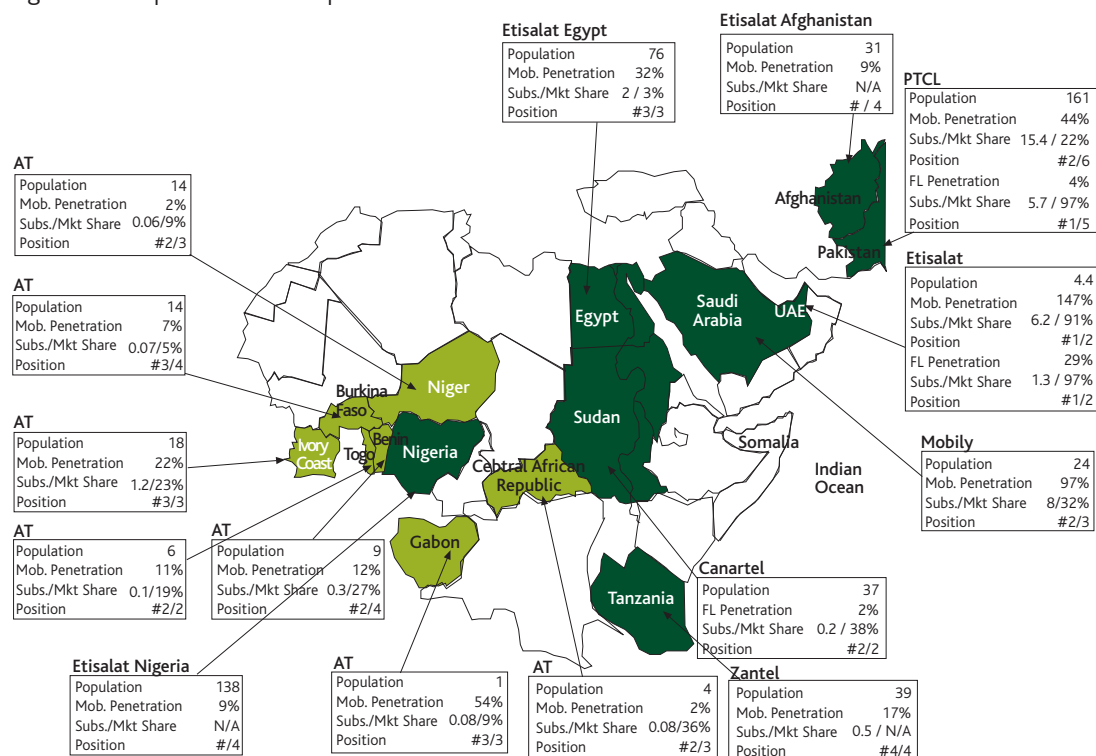
We believe that Etisalat's attractive valuation and the mix of value and growth make the company one of the most attractive telecom exposures in the region. With the bulk of its value generated from the relatively mature UAE operation, the downside risk to valuation from the highly competitive and fast growing regional operations is, in our view, relatively limited.

Presence in 15 countries in the region, and up to USD5.0 billion to be invested in expansions

Etisalat's footprint currently includes fifteen countries with a total population of 537 million under license and an average mobile penetration rate of 26%. The company "...can spend between USD3 billion and USD5 billion for investing in Africa when the opportunities arise," said Etisalat's chairman in an interview on 20 November 2007.

Over the past three years, Etisalat has been one of the most aggressive telecom operators in terms of expansion in the region. The company has spent in excess of USD6.5 on expansions outside the UAE to date.

Figure 1.3: Map of Etisalat Footprint



*Population and subscriber figures are in million

Source: EFG-Hermes

DCF VALUATION

We upgrade our long-term fair value estimate for Etisalat by 30.9% to AED31.3 per share using a DCF-based sum-of-the-parts valuation approach to separately value the different operations. The increase in our fair value estimate for Etisalat is predominantly driven by:

- Upgrading our equity value estimate for the local operation due to both the better-than-expected performance delivered in first nine months of 2007 and the reduction of the discount rate used on the back of a 50bps cut in our risk free rate assumption.
- Upgrading our estimated equity value for both the Egyptian and Pakistani operations due to stronger-than-expected overall market growth.
- Integrating both the Afghanistan and Nigerian operations into our forecasts. The Afghan operations started in August 2007, while the Nigerian operations will start in early 2008.

Table 1.4: Etisalat SOTP Valuation Breakdown

Country	Consolidation Method	Valuation Method	Equity Value (AED mn)	Implied 2008 PE*	2008-10 EPS CAGR	Etisalat Stake	Attrib. Equity
UAE	Full	DCF	132,003	15.9	8.2%	100%	132,003
Saudi	Equity	DCF	38,494	28.6	31.2%	35%	13,673
Pakistan	Equity	DCF	17,310	16.1	16.5%	26%	4,993
Egypt	Full	DCF	7,007	N/M	N/M	66%	4,625
Nigeria	Proportionate	DCF	1,249	N/M	N/M	40%	500
Afghanistan	Full	DCF	207	N/M	N/M	100%	207
Atlantique & Others**	Full/Equity	Acquisition Price	433	N/M	N/M	N/A	433
Total				21.2	11.3%		156,434
Value per Share							31.3

*Egyptian, Afghan and Nigerian operations are still start-up and are therefore not making profits

**Atlantique Telecom owns operators in Ivory Coast, Benin, Niger, Burkina Faso, Central African Republic and Gabon. Other operators include Canar (Sudan), Zantel (Zanzibar) and Qtel (Qatar)

Source: EFG-Hermes estimates

Our fair value estimate for Etisalat of AED31.3 implies a 2007 PE 21.2x which, in our view is justified by:

- i) A 2-year EPS CAGR of 11.3%: Both the Saudi and the Pakistani operations are expected to achieve strong growth of 31.2% and 16.5% respectively. The moderate forecast earnings growth of the UAE operation is partially driven by our assumption of a gradual decline in Royalty payment from 50% to 40% of consolidated earnings over 3 years.
- ii) A low discount rate: The bulk of the valuation, 84%, is being generated from the UAE operation, to which we are assigning a relatively low discount rate. We estimate a cost of equity for the UAE operation of 9.65% based on a Risk Free Rate of 4.15% (yield on the 10-year US T-Bond) and an Equity Risk Premium of 5.5% which comes at the low end of our equity risk premium range for the MENA telecoms of 5%-7%.

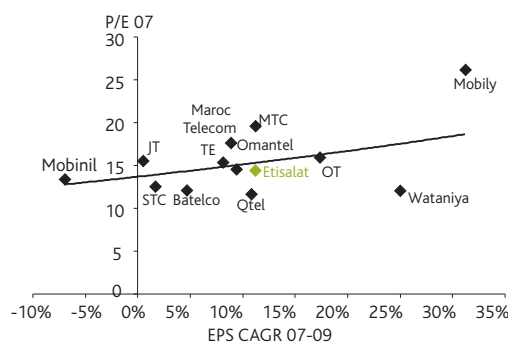
It is important to note that we deducted from our estimated Enterprise Value (EV) of the local operation the debt that Etisalat raised to fund its regional expansions activities in order to arrive at an equity value estimate for the local operation. The net impact of including these debts on our DCF valuation for the local operation was slightly positive as it reduced the Weighted Average Cost of Capital (WACC).

COMPARABLE VALUATION

Etisalat's valuation is attractive relative to its MENA peers, given its moderate growth profile. Etisalat is trading on a 2007 EV/EBITDA and a 2007 PE of 6.1x and 14.8x versus the regional average of 8.2x and 15.5x respectively.

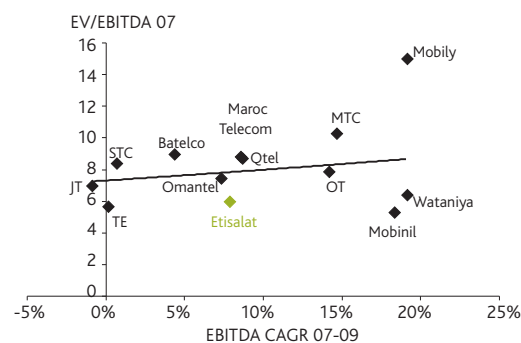
It is important to note that we included in our EBITDA estimate Etisalat's share of the EBITDA in both the Saudi and Pakistani operations which, for financial reporting purposes, are accounted for below the EBITDA line using the equity method.

Fig. 1.5: P/E 2007 vs EPS CAGR 2007-09 for MENA Telecoms



Source: RKIM, EFG-Hermes estimates

Fig 1.6: EV/EBITDA 2007 vs EBITDA CAGR 2007-09 for MENA Telecoms



Source: RKIM, EFG-Hermes estimates

Opening the stock to foreign ownership will be catalyst for strong share price performance

We re-iterate our ST / LT Buy recommendation on Etisalat which currently offers 43.4% upside potential over and above the current market price. We believe an important driver for strong share price performance would be allowing non-UAE nationals to own the shares in the company, which is banned under the current legislation. The company has held talks with the government of the UAE, which owns about 60% of the company, to allow foreign ownership in the stock. The company's chairman Mohammed Omran said in July that a change would take place in six to twelve months.

II. OPERATIONAL OVERVIEW

A. UAE - ETISALAT: NEVER SAY ENOUGH

Service	Mobile and Fixed-Line	Drivers
Population (2006)	4.5 mn	- Strong expatriates-driven population growth (5-year CAGR: 7%)
Penetration (Sep-07)	Mobile: 147%	- Strong forecast economic growth positively impacting demand for telecommunication services
	Fixed-Line: 29%	- Allowing foreign ownership
Mkt Share (Sep-07)	Mobile: 90.7%	
	Fixed-Line: 96.9%	Challenges
Etisalat Stake	100%	- Mature market (Sep 07: 147% mobile penetration rate)
		- Competition from du and MNP introduction in 2008

Table 2.1: UAE Telecom Market Indicators

	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population (mn)	4.5	4.7	5.2	5.7	6.0	6.4	6.7	6.9
Mobile Market Indicators								
Mobile Addressable Mkt. (mn)	6.1	6.5	7.2	8.0	8.5	9.0	9.4	9.7
Additions (000's)	986	1,627	732	439	316	334	351	359
Subscribers (000's)	5,520	7,147	7,879	8,318	8,635	8,969	9,320	9,679
Penetration to Addressable	91%	109%	109%	105%	101%	100%	99%	100%
Penetration Rate	123%	151%	153%	147%	143%	140%	139%	141%
Etisalat								
Etisalat Subscribers (000's)	5,520	6,339	6,375	6,234	6,027	5,962	6,027	6,198
Etisalat Market Share	100%	89%	81%	75%	70%	66%	65%	64%
du								
du Subscribers-Active (000's)		808	1,504	2,084	2,607	3,007	3,293	3,482
du Market Share-Active		11%	19%	25%	30%	34%	35%	36%
du Subscribers-Reported (000's)		1,100	1,580	2,147	2,633	3,007	3,293	3,482
du Market Share-Reported		15%	20%	26%	30%	34%	35%	36%
Fixed Line Market Indicators								
Fixed Line Addressable Mkt. (mn)	2.0	2.1	2.3	2.5	2.7	2.8	3.0	3.0
Additions (000's)	73.7	77.4	100.7	120.8	132.9	140.8	145.1	148.0
Subscribers (000's)	1,311	1,388	1,489	1,610	1,743	1,883	2,028	2,176
Penetration to Addressable	66%	67%	66%	65%	65%	67%	69%	72%
Penetration Rate	29%	29%	29%	28%	29%	29%	30%	32%
Etisalat								
Etisalat Subscribers (000's)	1,285	1,331	1,376	1,427	1,487	1,547	1,614	1,685
Etisalat Market Share	98%	96%	92%	89%	85%	82%	80%	77%
du								
du Subscribers (000's)	26	57	113	182	256	336	414	491
du Market Share	2%	4%	8%	11%	15%	18%	20%	23%

Source: Etisalat, du and EFG-Hermes estimates

MOBILE SUBSCRIBERS AND MARKET SHARE

Growing population drives strong subscriber growth in this high-penetration market

Etisalat's local operation has positively surprised on subscriber growth in the first nine months of 2007 despite the entrance of the second integrated operator, du, in February 2007. We believe the overall better-than-expected subscriber growth can be partially attributed to the higher-than-expected growth in population, which continues to increase at a fast pace driven by the influx of expatriates.

We estimate the mobile penetration rate in the UAE reached 147% in September 2007 based on the number of active subscribers for both Etisalat and du. As we expected, the entrance of du has driven the penetration rate to exceed our estimate of the size of the addressable market, which we estimate at around 140% of population¹.

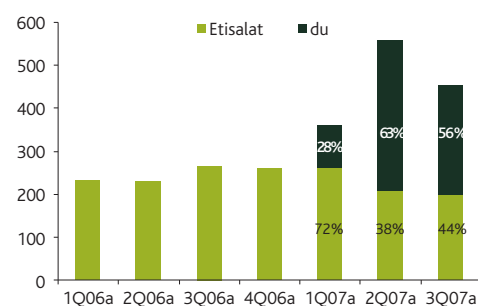
Etisalat added 670,000 mobile subscribers during the first nine months of 2007, versus 726,000 million during the same period in 2006, to reach 6.19 million subscribers (+ 18% Y-o-Y growth). This gives Etisalat a market share of active subscribers of 90%. Our estimates of market shares are based on our estimate of du's active subscribers, which we believe represent around 80% of the reported figure of 882,000 in September 2007. Etisalat, on the other hand, reports only active subscriber figures.

Competition in mobile strays away from price wars

We were correct in our view that competition in the mobile market would not be centered around price cuts. du's launching tariffs were not aggressive since the company focused more on market segmentation and promotional offers to gain market share rather than slashing headline tariffs.

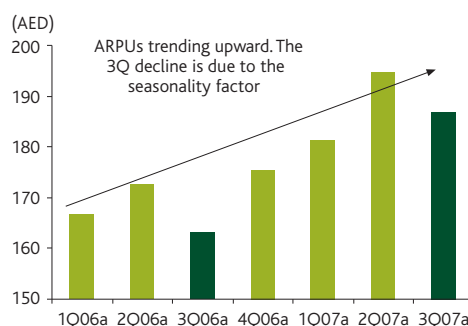
Since the entrance of du, Etisalat's quarterly additions have declined gradually (1Q07: 260,000 - 2Q07: 210,000 - 3Q07: 200,000) and its share of net active additions have also declined to 44% in 3Q from 72% in 1Q. As we expected, this did not affect Etisalat quarterly ARPUs, which continued to grow Q-o-Q driven by rising usage and relatively stable prices.

Fig 2.2: Quarterly Subscriber Additions for du and Etisalat (active)



Source: Etisalat, du and EFG-Hermes estimates

Fig 2.3: Etisalat's Quarterly ARPU



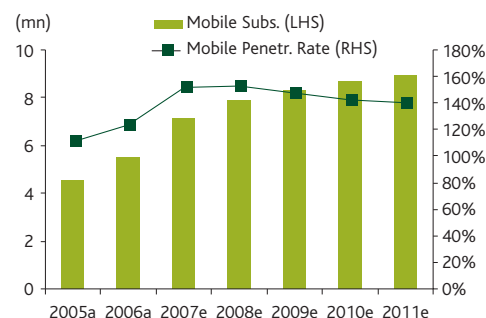
Source: EFG-Hermes estimates

We project mobile subscriber growth in the UAE to start slowing down with the growth being mostly driven by population increase. In 2008 we expect subscribers to grow by 10.2%, down from an estimated 29.5% in 2007. We expect penetration will continue to exceed our estimate of the size of the addressable market over the next two years before receding to be equal to the size of our estimated addressable market (please refer to Table 2.1).

Etisalat subscribers to grow despite a declining market share

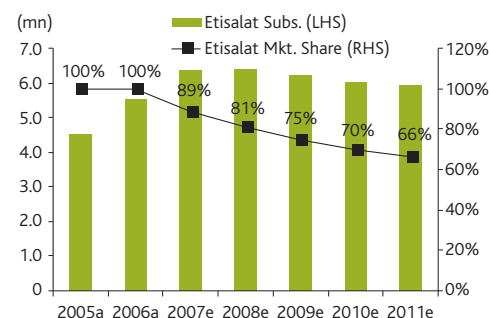
We expect Etisalat's market share to decline gradually and expect du to continue capturing the higher share of net additions in 2008 and 2009. Later, we expect the share of new additions to stabilize at 50:50 between the two operators. In the long term we expect Etisalat's market share to stabilize at 64%.

Fig 2.4: Historical & Forecast Mobile Subscribers and Penetration Rate in the UAE



Source: Etisalat, EFG-Hermes estimates

Fig 2.5: Etisalat Historical and Forecast Mobile Subscribers and Market Share in the UAE



Source: Etisalat, du and EFG-Hermes estimates

ARPU

We expect ARPUs to remain resilient over the next 3 years

Etisalat does not report ARPU figures, however we estimate 3Q2007 blended monthly ARPU reached AED187 (USD51), a 14.6% increase Y-o-Y, but representing a 4.0% decline Q-o-Q due mostly to the seasonality factor. For FY2007 we expect ARPU to come in at AED191 (USD52), an increase of 13.6% over the FY2006 ARPU of AED168 (USD46). Etisalat ARPUs have been increasing for the past three years, which we believe has been mostly due to the rise in usage driven by strong economic growth. Over our forecast horizon, we forecast ARPUs to increase slightly Y-o-Y as we are forecasting higher usage since we expect the price of international calls, a significant component of revenue, to decline slightly.

FIXED-LINE SUBSCRIBERS AND MARKET SHARE

We estimate the fixed-line penetration rate reached 29% in September 2007, down from 30% in December 2006 due to faster population growth relative to fixed lines since fixed lines have grown by 5.9% during the first nine months of the year. Etisalat's fixed-line market share reached 97% at the end of September, with 1.32 million lines, implying a Y-o-Y growth of 3.1%.

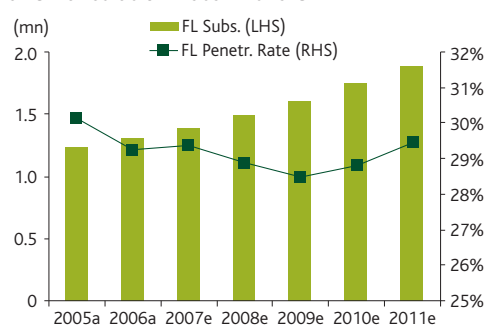
Declining ARPL trend due to fixed-to-mobile substitution

Etisalat's average revenue per line (ARPL), excluding data and internet revenue, has been declining over the past three years at a compounded average rate of 4.3% to AED181 (USD49.4) in 2006 from AED207 (USD56) in 2003 as fixed-line usage declined driven by the fixed-line to mobile substitution effect. In the first nine month of 2007, ARPL remained in line with the 2006 level at AED183 (USD50).

Triple-play offers may push fixed-line penetration rate

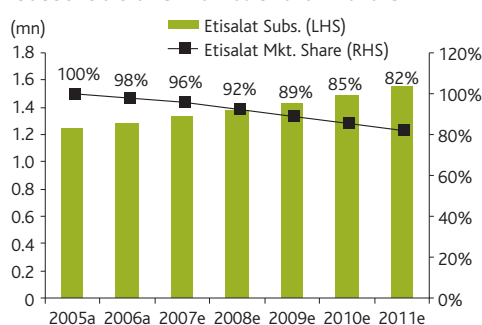
We expect fixed-line penetration rate to start increasing over the next five years after being stable since 2002 at the 30% level. We believe the introduction of triple-play services, which we expect will be launched in late 2008/early 2009 will push fixed-line penetration especially if it results, as we expect, in a reduction in broadband prices. We project fixed-line penetration rate will reach 34% in 2015 and to stabilize thereafter. Throughout our forecast horizon, we expect Etisalat's market share to decline gradually and stabilize at 75%.

Fig 2.6: Historical & Forecast Fixed-Line Subscribers and Penetration Rate in the UAE



Source: Etisalat, EFG-Hermes estimates

2.7: Etisalat Historical & Forecast Fixed-Line Subscribers and Market Share in the UAE



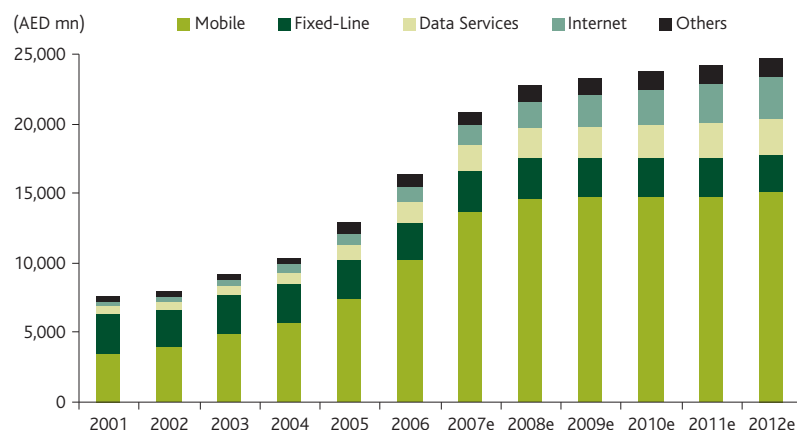
Source: Etisalat, du and EFG-Hermes estimates

REVENUE AND EBITDA GROWTH

Mobile revenue accounts for more than 60% of revenue

Etisalat's consolidated net revenue has grown at a five-year CAGR of 17%, with mobile revenue constituting more than 60% of revenue. We estimate 9M2007 UAE gross revenue came in at AED17,443 million, a 29% Y-o-Y growth. In 2007 we expect UAE net revenue to grow by 28.4% to AED20,912 million with mobile revenue alone accounting for 65% of revenue at AED13,675 million, a 34% Y-o-Y growth. We expect fixed-line, internet and data revenue will altogether register a lower growth of 32.7% coming in at AED7,238 million with all growth being generated from the internet business.

Figure 2.8: Historical and Forecast Revenue Breakdown for Etisalat UAE Operations



Source: Etisalat, EFG-Hermes estimates

We expect a 5-year revenue CAGR of 3.6%

We forecast that mobile revenue will remain the main contributor to revenue, accounting for more than 60% of UAE revenue and growing at a five-year CAGR (2007-2012) of 2.0%. We forecast a five-year fixed-line and data revenue CAGR (2007-12) of 5.9%, driven mainly by growth in internet and other data revenue. Our forecasts for the different business segments imply a five-year CAGR of 3.6% for Etisalat's gross revenue.

One of the highest EBITDA margins in the region

We estimate that the EBITDA margin came in very strong in 9M2007 at 71.9% compared to 69.3% in 9M2006 (Etisalat does not report EBITDA for the UAE operations separately). We forecast EBITDA from the UAE operations will reach AED16,730 million by the end of 2007, implying an EBITDA margin of 70.0%.

Rise in employees' compensation to impact margins

We forecast EBITDA to grow at a five-year CAGR of 2.3%, the EBITDA margin to decline slightly over the coming years as a result of both competition and rise in costs and that it will stabilize at around 65%. Etisalat raised employee salaries by 10% starting November and the average total increase in employee salaries and benefit packages would reach 25%, it announced in October. In our forecasts, we assume the increase to take place at the beginning of 2008, which we estimate will result in 1.5%-2% percentage points decline in the EBITDA margin in 2008 from the 2007 level.

The estimated fair value for the UAE operation alone is AED26.4 per share

Our estimated equity value for Etisalat local operations is AED132,003 million based on a DCF valuation. We use a WACC of 9.5% and a terminal growth rate of 2.0%. The net cash that we use for the UAE valuation is the one used as of 9M2007, equal to AED5,660 million. We forecast Etisalat to continue paying royalty fees equal to 50% of consolidated net profit by the end of the year. In the nine months ending September 2007, the company paid 50% of its consolidated net profit as royalty.

VALUATION

The Telecom Regulatory Authority (TRA) announced at the beginning of the year that with the entrance of du, royalty payment will decrease gradually to 40% of net profit over the next three to four years. We assume a gradual decrease in royalty payment of 3-4 percentage points every year through 2010.

Table 2.9: KPIs and DCF Valuation for Etisalat's Operations in the UAE

(AED mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Subscribers	7.67	7.75	7.66	7.51	7.51	7.64	7.88	8.14	8.39
ARPU (USD)	52.1	52.2	53.0	54.6	56.1	57.1	57.1	57.1	57.1
ARPL (USD)	50.0	49.1	44.7	42.6	40.6	39.1	37.7	36.3	35.0
Total Revenue (Gross)	23,903	26,074	26,764	27,391	27,988	28,518	29,079	29,760	30,472
EBITDA	16,730	17,928	18,015	18,286	18,527	18,749	18,987	19,428	19,888
EBITDA Margin	70.0%	68.8%	67.3%	66.8%	66.2%	65.7%	65.3%	65.3%	65.3%
CAPEX & Change in WC	(1,500)	(1,480)	(1,430)	(1,330)	(1,350)	(1,360)	(1,365)	(1,375)	(1,390)
Royalty	(7,386)	(7,527)	(6,903)	(6,662)	(6,936)	(7,147)	(7,435)	(7,782)	(8,137)
FCF	7,844	8,921	9,683	10,294	10,241	10,243	10,187	10,271	10,361
Cost of Equity	9.7%								
Cost of Debt	6.5%								
Weight of Debt	3.6%								
Weight of Equity	96.4%								
WACC	9.5%								
Terminal Growth	2.0%								
EV	126,343								
Net Debt (Cash)	(5,660)								
Equity Value	132,003								
Value per share	26.4								

Source: EFG-Hermes estimates

B. SAUDI ARABIA - MOBILY: THE FASTEST GROWING OPERATOR IN THE REGION

Service	Mobile: 2G/3G/3.5G
Population (2006)	24 million
Penetration (Sep 07)	97%
Market Share (Sep 07)	33.0%
Etisalat Stake	35%

Drivers

- GCC biggest economy and among the fastest growing
- Young and fast growing population
- Strong and rising demand for telecommunication services

Challenges

- Competition from third mobile operator in 2008

Table 2.10: Saudi Arabia Mobile Market Indicators

(mn)	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population	23.9	24.5	25.2	25.8	26.4	27.1	27.8	28.5
Mobile Market Indicators								
Mobile Addressable Mkt.	28.0	29.2	30.4	31.3	32.4	33.8	35.1	36.0
Additions	5.4	4.9	3.9	2.6	1.5	1.2	1.2	1.1
Subscribers	19.6	24.5	28.5	31.0	32.6	33.8	35.0	36.0
Penetration to Addressable	70%	84%	94%	99%	100%	100%	100%	100%
Penetration Rate	82%	100%	113%	120%	123%	125%	126%	126%
Mobily (Etihad Etisalat)								
Mobily Subscribers	6.1	9.0	10.7	11.4	11.7	11.8	12.0	12.4
Mobily Market Share	31%	37%	38%	37%	36%	35%	34%	34%
STC								
STC Subscribers	13.5	15.5	16.9	17.4	17.6	17.7	17.9	18.2
STC Market Share	69%	63%	59%	56%	54%	52%	51%	50%
Zain								
Zain Subscribers	-	-	0.8	2.2	3.3	4.3	5.1	5.5
Zain Market Share	0%	0%	3%	7%	10%	13%	14%	15%

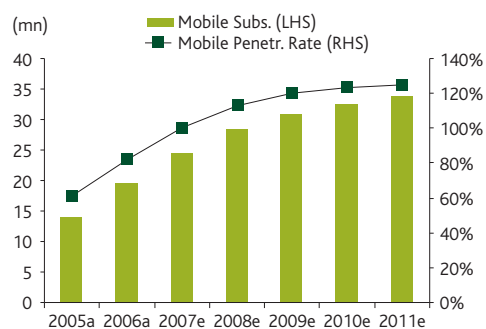
Source: STC, Mobily and EFG-Hermes estimates

SUBSCRIBERS AND MARKET SHARE

The fastest growing operator in the region

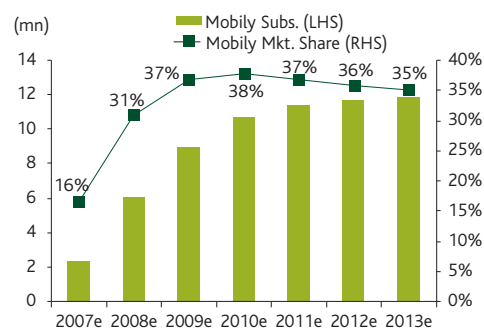
Etihad Etisalat (Mobily) continues to benefit from the growing mobile market in Saudi Arabia. As of September 2007, we estimate the operator exceeded the 8.0 million mark, giving it a market share of around 33%. Since its launch in mid-2005, Mobily has maintained the highest share of net subscriber additions in the market. We estimate the mobile penetration rate in the Kingdom exceeded 97% by September 2007 and we expect it to reach 100% by the end of the year. We forecast Mobily's market share to reach 37% by the end of the year with 9.0 million subscribers.

Fig 2.11: Historical & Forecast Mobile Subscribers and Penetration Rate in Saudi Arabia



Source: Mobily, STC, CITC and EFG-Hermes estimates

Fig 2.12: Historical & Forecast Mobily Subscribers and Market Share



Source: Mobily, STC, CITC and EFG-Hermes estimates

ACQUISITION OF BAYANAT AL-OULA

*Investing heavily in Saudi's
high growth data market*

Mobily, plans to spend at least USD1.0 billion in the next four years to tap into an anticipated boom in wireless broadband networking, according to the company's CEO, Khaled Al Kaf. As we have indicated in our initiation of coverage report on Mobily², the data and broadband market in Saudi is a significantly under-penetrated market with very strong growth potential given the huge size of pent-up demand.

In September, Mobily signed a memorandum of understanding (MOU) to buy Riyadh-based data services provider Bayanat Al-Oula for Network Services, commercially known as Bayanat, for SAR1.5 billion. The acquisition of Bayanat is expected to be approved at the beginning of 2008, according to Mobily, this acquisition is a strategic move for Mobily as it will enable it to expand into broadband and other data provision services.

This acquisition will raise Mobily's stake in the 12,000 kilometer fiber optic network, which is currently under construction, and will be equally owned by Mobily, Bayanat Al Oula and Integrated Telecom Company. Bayanat is also building a project in the Kingdom and has a strategic arrangement with Samsung to build the region's biggest mobile WiMAX network.

We have previously indicated that we are positive on Mobily's aggressive investment in data services and especially its investment in the fiber optic network, which was highly complemented by the acquisition of Bayanat. We expect this aggressive investment to: i) boost the EBITDA margin by 400-500bps as it substitutes almost the entire leased line capacity currently rented from STC, ii) enable Mobily to capture strong growth in the currently booming broadband market in Saudi Arabia, and iii) generate revenue over the medium-term by selling capacity to third parties.

Mobily has agreed to share its network with Zain, the third mobile operator that is expected to launch in mid-2008, Mobily recently indicated. Details on the revenue that Mobily is expected to generate from this agreement are not yet available.

ARPU

We estimate ARPUs in the Saudi market in 3Q2007 were at an average of SAR114 (USD30). STC still has the highest ARPU, estimated at SAR125 (USD33), while Mobily has a lower estimated ARPU of SAR91 (USD24).

We believe the entrance of the third mobile operator in mid-2008 will put some pressure on Mobily's ARPUs. We forecast Mobily's ARPU to decline over the coming years and to reach SAR77 (USD21) in 2010. We believe that the network-sharing arrangement between Mobily and Zain will reduce the scope of price-based competition and will provide another source of revenue for Mobily.

FINANCIAL PERFORMANCE

In its 9M2007 results, Mobily reported Y-o-Y growth in revenue of 40.9% to SAR6,030 million, EBITDA growth of 49.2% to SAR2,000 million and net profit growth of 133.7% to SAR865 million. We forecast FY2007 revenue of SAR8.8 billion, a 42.2% Y-o-Y growth. We forecast FY2007 EBITDA will grow 48% to SAR2.96 billion, implying an EBITDA margin of 33.6%, up from 32.4% in FY2006.

*Etisalat receives annual
management fees of USD10
million from Mobily*

Mobily has a management agreement with Etisalat whereby Mobily pays Etisalat an annual management fee of AED36.7 million (USD10 million). The agreement is for a period of seven years and can be renewed for another five years. In our valuation, we assume the management agreement will be renewed on the same terms.

VALUATION

We value Mobily at SAR39,264 million (USD10,470 million), contributing the second highest share to Etisalat's total estimated equity value. We use a cost of equity of 10.5% and a cost of debt of 5.8% to reach a WACC of 9.46% for Mobily's valuation. We added SAR204 million (USD54 million) to Etisalat's stake in Mobily, representing the NPV of the management fees.

Table 2.13: KPIs and DCF Valuation for Mobily

(SAR mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Subscribers	9.02	10.75	11.43	11.67	11.83	12.03	12.36	12.67	12.98
ARPU (USD)	25.83	22.63	21.02	20.70	20.75	20.88	20.85	20.93	21.06
Revenue	8,806	10,083	10,502	10,765	10,976	11,213	11,450	11,788	12,156
EBITDA	2,960	3,884	4,197	4,321	4,435	4,544	4,667	4,828	5,042
EBITDA Margin	33.6%	38.5%	40.0%	40.1%	40.4%	40.5%	40.8%	41.0%	41.5%
CAPEX & Change in WC	(1,285)	(1,582)	(1,552)	(1,505)	(1,425)	(1,362)	(1,331)	(1,284)	(1,272)
Zakat	-	(54)	(61)	(64)	(67)	(69)	(71)	(75)	(79)
FCF	1,674	2,248	2,584	2,752	2,943	3,114	3,264	3,470	3,692
Cost of Equity	10.5%								
Cost of Debt	5.8%								
Weight of Debt	22.4%								
Weight of Equity	77.6%								
WACC	9.4%								
Terminal Growth	3.5%								
EV	48,156								
Net Debt (Cash)	8,892								
Equity Value	39,264								
Etisalat Stake (AED mn)*	13,673								
Value per share (AED)	2.74								

*Including NPV of management fees

Source: EFG-Hermes estimates

C. EGYPT - ETISALAT EGYPT: UP TO THE PROMISE?

Service	Mobile: 2G/3G/3.75G	Drivers
Population (2006)	76 million	- GDP growth expected to exceed 7% in the next three years
Penetration (Sep 07)	37%	- Large population and relatively low penetration rate
Market Share (Sep 07)	7%	- Cross-market synergies to be extracted given a high Egyptian expatriate population in both Saudi and the UAE
Etisalat Stake	66%	Challenges
		- Aggressive competition from the two well-entrenched operators Mobinil and Vodafone
		- Initial high license fees will delay earnings breakeven

Table 2.14: Egypt Mobile Market Indicators

(mn)	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population	76.0	77.0	78.6	80.2	81.9	83.6	85.4	87.2
Mobile Market Indicators								
Mobile Addressable Mkt.	62.3	63.1	64.6	66.1	67.7	69.3	70.9	72.5
Additions	5.2	13.9	10.8	8.7	6.9	5.6	4.4	3.5
Subscribers	18.0	31.9	42.7	51.4	58.3	63.9	68.3	71.8
Penetration to Addressable	29%	51%	66%	78%	86%	92%	96%	99%
Penetration Rate	24%	41%	54%	64%	71%	76%	80%	82%
Etisalat Egypt								
Etisalat Subscribers	-	3.3	7.1	10.1	12.5	14.3	15.8	16.9
Etisalat Market Share	0%	10%	17%	20%	21%	22%	23%	24%
Mobinil								
Mobinil Subscribers	9.3	15.0	18.7	21.6	23.9	25.7	27.2	28.3
Mobinil Market Share	52%	47%	44%	42%	41%	40%	40%	39%
Vodafone Egypt (VFE)								
VFE Subscribers	8.7	13.6	17.0	19.7	22.0	23.9	25.4	26.5
VFE Market Share	48%	43%	40%	38%	38%	37%	37%	37%

Source: Mobinil, VFE, Etisalat and EFG-Hermes estimates

ETISALAT EGYPT LAUNCHED IN MID-2007

Etisalat Egypt commenced operations in May 2007 offering tariffs that were 15% below those of both Mobinil and Vodafone Egypt (VFE). In order to avoid a price war, both Mobinil and VFE matched Etisalat's prices three to four months after Etisalat's launch.

Etisalat Egypt was the first to offer 3G/3.5G services in Egypt, followed by VFE, which introduced its 3G/3.5G services shortly after.

Etisalat Egypt acquired an international gateway license in October after agreeing to pay the National Telecommunication Regulatory Authority (NTRA) EGP100 per subscriber with a minimum of EGP100 million, in addition to EGP20 for each additional subscriber and 6% of the revenues from the services.

SUBSCRIBERS AND MARKET SHARE

In June 2007, after operating for less than two months, Etisalat had 604,000 mobile subscribers, giving it a market share of 2.6% as reported by the NTRA as Etisalat does not report subscriber figures for its subsidiaries. The company's subscriber base exceeded 2 million and is on track to reach the target 3.0 million subscribers by the end of 2007, announced Etisalat Egypt's CEO in September. We forecast 3.3 million subscribers for Etisalat Egypt by the end of 2007, which implies a market share of 10.4%. We expect Etisalat's market share to reach 21% by the end of 2010, with a subscriber base of 12.5 million. We also expect Etisalat's market share to stabilize at 24% over the longer term.

2.6% market share in less than
2 months

ARPU

We forecast an ARPU of USD11 for the first year of operation

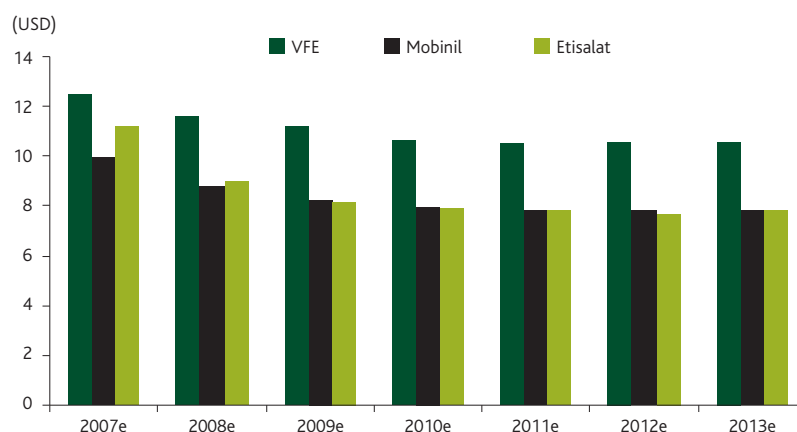
The company enjoys an ARPU of around USD12.0, said Etisalat Egypt's CEO, Saleh El Abdooli, in an interview with the Daily Star (name has changed) on 9 September. This is in line with management assumption following the acquisition of the license in Egypt³.

This implies that Etisalat Egypt after only 4 months of operation achieved an ARPU that is only 8.4% lower than that of VFE's of USD13.1 (EGP71.6) for the quarter ending September 2007 and 20% higher than that of Mobinil's of USD10 (EGP55) for the same period.

We assume an ARPU of USD9.0 for Etisalat Egypt in 2008, the company's first full operational year, down from the USD11.2 we assume for 2007. We assume this steep drop in ARPU because we believe the ARPU figure of USD12.0 that was provided by the CEO could be overstated by the free minutes offered to customers upon activation. That would leave Etisalat with an ARPU that is higher than what we are forecasting for Mobinil in 2008.

We assume that Etisalat Egypt's ARPU will decline at a compounded annual rate of only 4% to reach USD7.7 from 2008-2012. The company's CEO expects that its acquisition of an international gateway license will strengthen its ARPU, which is partly why we do not forecast a steep decline in ARPU from 2008 onwards.

Figure 2.15: ARPU Forecasts for VFE, Mobinil and Etisalat



fiSource: EFG-Hermes estimates

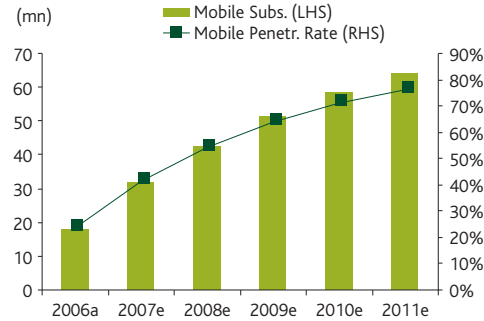
FINANCIAL FORECASTS

EBITDA to breakeven in 2009

We forecast that Etisalat will generate revenue of USD100 million (EGP550 million) in 2007 and expect revenue to climb to USD563 million in 2008. We expect revenue CAGR of 25% from 2008 to 2012. We expect Etisalat Egypt to achieve breakeven at an EBITDA level in 2009. However, we believe that both the high license amortization and interest expenses will make it difficult for the company to achieve a breakeven at the net profit level before 2014.

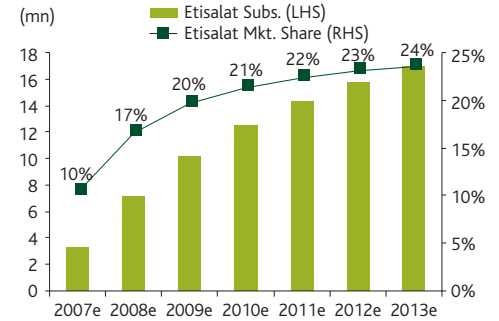
We estimate that the sum of both the amortization and interest expenses would reach around USD450 million (EGP2.5 billion) in 2009, which corresponds to the peak debt level for Etisalat Egypt that we estimate at USD2.8 billion.

Fig 2.16: Historical and Forecast Mobile Subscribers and Penetration Rate in Egypt



Source: NTRA, EFG-Hermes estimates

Fig 2.17: Historical & Forecast Etisalat Subscribers and Market Share in Egypt



Source: EFG-Hermes estimates

VALUATION

We arrived at an estimated equity value for Etisalat Egypt of USD1,909 million. For our DCF model we used a cost of equity of 16.5%, a cost of debt of 10% and a terminal growth rate of 6.0%. We assumed a gross debt of USD1.9 billion at the end of 2007, which we forecast will rise to USD2.8 billion in 2009.

Table 2.18: KPIs and DCF Valuation for Etisalat Egypt

(USD mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Subscribers	3.31	7.11	10.10	12.46	14.30	15.78	16.93	17.79	18.44
ARPU (USD)	11.20	9.01	8.16	7.91	7.81	7.71	7.81	8.14	8.44
Revenue	100	563	843	1,071	1,253	1,391	1,532	1,696	1,835
EBITDA	(345)	(97)	36	229	322	393	472	569	658
EBITDA Margin	-345%	-17.2%	4.3%	21.4%	25.7%	28.2%	30.8%	33.5%	35.9%
CAPEX & Change in WC	(109)	(175)	(241)	(404)	(188)	(95)	(126)	(187)	(161)
Taxes	-	-	-	-	-	-	-	-	(17)
FCF	(454)	(272)	(204)	(175)	134	298	346	382	480
WACC	12.3%								
Terminal Growth	6.0%								
EV	3,797								
Net Debt	1,888								
Equity Value	1,909								
Etisalat Stake (AED mn)	4,625								
Value per share (AED)	0.93								

Source: EFG-Hermes estimates

D. PAKISTAN - PAKISTAN TELECOMMUNICATION COMPANY LIMITED (PTCL): POSITIVE ON A WELL ESTABLISHED OPERATOR

Services	2G Mobile and Fixed-Line	Drivers
Population (2006)	161 million	- Large population with strong growth potential in both fixed-line and mobile markets
Penetration (Sep 07)	Mobile: 43.6%	- The only mixed operator in Pakistan
	Fixed-line: 4.3%	- Potential acquisition of an additional stake in PTCL
Market Share (Sept-07)	Mobile: 22%	
	Fixed line: 97.1%	
Etisalat Stake	26%	Challenges
		- Recent deterioration of socio-political environment
		- Aggressive competition in both mobile and fixed-line businesses
		- Overstaffed legacy operation with a significant government ownership

Table 2.19: Pakistan Telecom Market Indicators

(mn)	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population	161.1	164.3	167.6	170.9	174.4	177.8	181.4	185.0
Mobile Market Indicators								
Mobile Addressable Mkt.	107.0	109.6	112.3	115.0	117.9	120.8	123.7	126.7
Additions	26.8	27.8	17.5	10.5	8.9	7.6	6.5	3.9
Subscribers	48.4	76.2	93.8	104.3	113.3	120.9	127.3	131.2
Penetration to Addressable	45%	70%	84%	91%	96%	100%	103%	104%
Penetration Rate	30%	46%	56%	61%	65%	68%	70%	71%
Ufone (PTCL)								
Ufone Subscribers	10.0	16.3	20.3	22.7	24.8	26.5	28.0	28.9
Ufone Market Share	21%	21%	22%	22%	22%	22%	22%	22%
Mobilink								
Mobilink Subscribers	22.5	30.3	35.6	38.9	41.7	44.2	46.2	47.5
Mobilink Market Share	46%	40%	38%	37%	37%	37%	36%	36%
Paktel & Instaphone								
Paktel & Instaphone Subscribers	1.7	1.1	1.6	2.3	2.8	3.3	3.6	3.9
Paktel & Instaphone Market Share	3%	1%	2%	2%	2%	3%	3%	3%
Telenor								
Telenor Subscribers	6.6	14.8	19.2	21.6	23.6	25.3	26.7	27.6
Telenor Market Share	14%	19%	20%	21%	21%	21%	21%	21%
Warid								
Warid Subscribers	7.6	13.7	17.0	18.8	20.3	21.6	22.7	23.4
Warid Market Share	16%	18%	18%	18%	18%	18%	18%	18%
Fixed-Line Market Indicators								
Fixed-Line Addressable Mkt.	26.4	28.5	29.1	31.4	32.0	32.7	33.3	34.0
Fixed-Line Subscribers	5.2	4.9	4.8	4.7	4.7	4.6	4.6	4.5
Fixed-Wireless Line Subscribers	1.6	3.0	4.7	6.7	9.0	11.8	14.8	17.5
Total Subscribers	6.8	7.9	9.5	11.4	13.7	16.4	19.4	22.0
Penetration to Addressable	26%	28%	32%	36%	43%	50%	58%	65%
Penetration Rate	4%	5%	6%	7%	8%	9%	11%	12%
PTCL								
PTCL Fixed-Line Subscribers	5.1	4.7	4.6	4.5	4.4	4.4	4.3	4.3
PTCL Fixed-Line Market Share	98%	96%	95%	95%	95%	95%	95%	95%
PTCL Fixed-Wireless Subscribers	0.9	1.7	2.6	3.3	4.5	5.9	7.4	8.8
PTCL Fixed-Wireless Market Share	58%	58%	55%	50%	50%	50%	50%	50%
Others (NTC, Brain, WorldCall, Union)								
Others Fixed-Line Subscribers	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Others Fixed-Line Market Share	2%	4%	4%	5%	5%	5%	5%	5%

Source: PTA, EFG-Hermes estimates

THE COMPANY

PTCL: Pakistan's incumbent operator

Pakistan Telecommunications Company Limited (PTCL) is the incumbent operator of Pakistan, providing both fixed-line and mobile services. The company offers mobile services through its 100% owned subsidiary Ufone, the second biggest operator by subscriber market share. Etisalat acquired a 26% stake in PTCL from the Government of Pakistan for USD2.6 billion with management control in March 2006. At the time of the deal, Etisalat paid the government USD1.4 billion and agreed to pay the balance over nine semi-annual installments. Etisalat recently expressed interest in doubling its stake in PTCL, but no details were announced.

PTCL FIXED-LINE SUBSCRIBERS AND MARKET SHARE

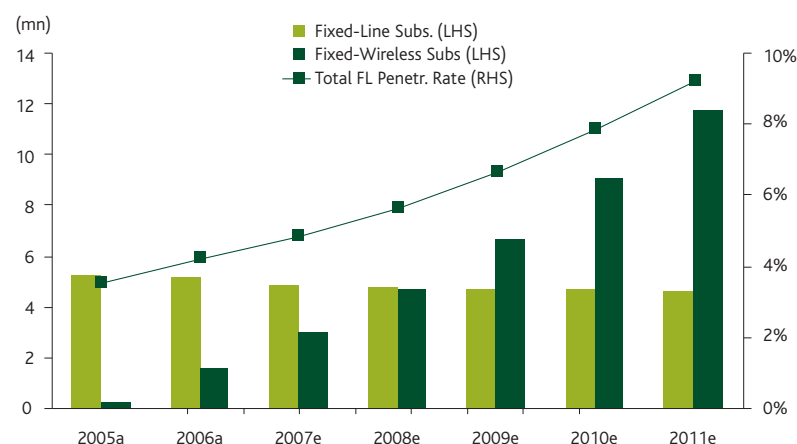
Fixed-wireless subscribers leapt 598% over two years

The number of PTCL traditional fixed-line subscribers has been declining since the end of 2005, coming down to 4.6 million at the end of September 2007 from 5.3 million in December 2005. The company's fixed-wireless subscribers (based on CDMA technology) are growing at rapid rates and reached 1.2 million compared to 0.7 million at the end of 2006 and a market share of 59%.

We believe the company will be able to maintain its market shares in both segments of the fixed-line markets. It is competing with three operators in the fixed-wireless market and five operators in the fixed-line market. PTCL was able to expand its CDMA network to complete coverage of over 10,000 rural areas in Pakistan over the past year. The company plans to cover more rural areas where there is no fixed-line coverage through its CDMA network.

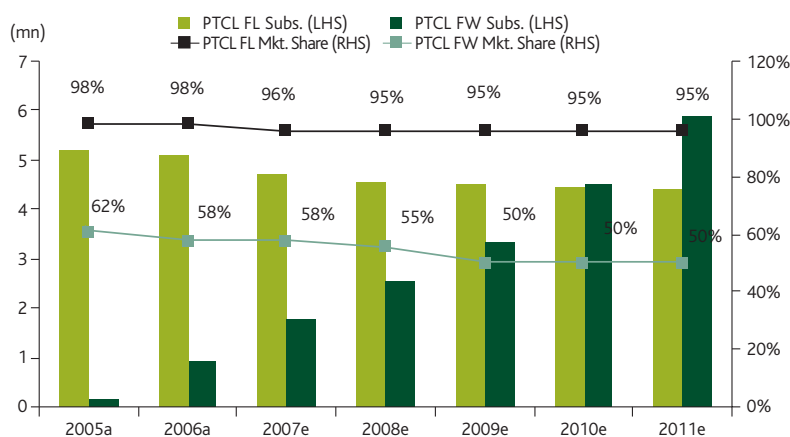
At the end of September 2007 fixed-line penetration, including fixed-wireless subscribers, reached 4.3% up from 4.1% at the end of 2006. We expect fixed-wireless subscriber growth to continue driving the fixed-line penetration rate, which we expect to reach 8% by 2010 or total fixed-line subscribers of 13.7 million.

Figure 2.20: Historical & Forecast Fixed-Line and Fixed-Wireless Subscribers and Penetration Rate in Pakistan



Source: Pakistan Telecom Authority (PTA), EFG-Hermes estimates

Figure 2.21: Historical and Forecast PTCL Fixed-Line and Fixed-Wireless Subscribers and Market Share



Source: PTA, EFG-Hermes estimates

MOBILE MARKET

A fast growing market, but highly competitive

The mobile penetration rate in Pakistan reached 43.6% in September 2007 with a total of 70.0 million subscribers, up from 48.4 million at the end of December 2006. Based on our estimate of the size of the Pakistani mobile market, we expect penetration to continue growing, but expect lower net additions compared to 2006 and 2007e. We forecast that starting 2012 the mobile penetration rate will stabilize at the 68-70% level, implying a 100% penetration rate to our estimated addressable market.

UFONE SUBSCRIBERS AND MARKET SHARE

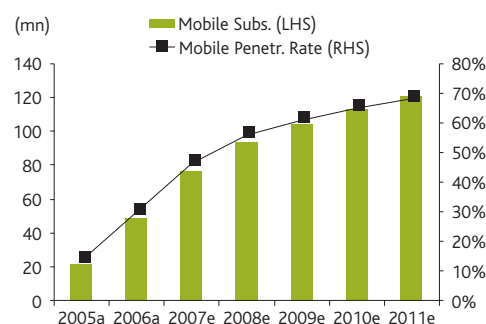
Second operator by market share in an aggressively competitive market

Ufone increased its market share during 9M2007 to 22.0% from 20.7% in December 2006 in this highly competitive 6-player market. Ufone's share of net additions reached 21% of 3Q2007 total additions, the third highest after Mobilink, Orascom Telecom's (OT) subsidiary, and Telenor.

UFONE ARPUS

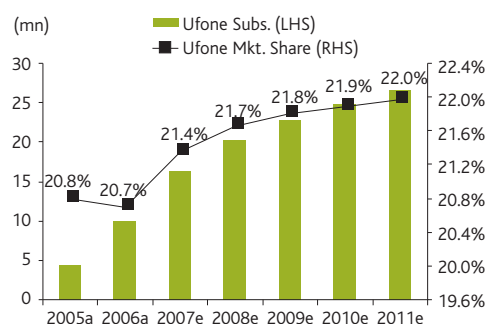
We estimate Ufone will achieve average monthly ARPUs in 2007 of USD3.7 down from USD4.5 in 2006. OT's Mobilink has a similar ARPU level. We expect ARPU to decline to USD3.0 in 2011, its lowest point.

Fig 2.22: Historical and Forecast Mobile Subscribers and Penetration Rate in Pakistan



Source: PTA, EFG-Hermes estimates

Fig 2.23: Historical and Forecast Ufone Subscribers and Market Share



Source: PTA, EFG-Hermes estimates

MANAGEMENT FEES

When Etisalat acquired the 26% stake of PTCL from the Pakistani Government, they signed an agreement where Etisalat manages the operator and provides know-how, against an annual service fee of 3.5% of PTCL's gross revenue limited to USD50 million per year with effect from 10 October 2006.

The agreement will last five years. Etisalat received AED42.0 million (USD11.4 million) in management fees in 2006 and we estimate it will receive AED176 million (USD48 million) in 2007. PTCL's fiscal year ends in June. The estimates that we are providing are adjusted to match Etisalat's fiscal year, which ends in December.

VALUATION

LTFV for PTCL: PKR56.0 per share

We arrived at an estimated equity value of PKR285,609 million (USD4,760 million) for PTCL for both the fixed-line and mobile business. This implies a fair value per PTCL share, which is listed on the Karachi stock exchange (PTCA.KA), of PKR56.0, 25.1% higher than PTCL's market price. Our valuation implies P/E multiples of 12.9x for 2007 and 11.0x for 2008 and EV/EBITDA multiples of 5.6x in 2007 and 4.8x in 2008. PTCL accounts for only 3.2% of Etisalat's total estimated value as Etisalat only owns a 26% stake in PTCL. We added PKR8,131 million (USD136 million) to Etisalat's stake in PTCL, representing the NPV of the management fees.

Table 2.24: KPIs and DCF Valuation for PTCL

(PKR mn)	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
Total Subscribers	36.73	42.72	46.68	50.69	54.44	57.97	60.53	63.01	65.43
ARPU (USD)	3.65	3.35	3.10	3.00	3.00	3.00	3.10	3.17	3.25
ARPL (USD)	13.95	12.69	11.80	11.10	10.21	9.60	9.12	8.66	8.23
Total Revenue	83,149	92,924	106,825	118,394	126,190	135,045	144,945	152,299	158,980
EBITDA	39,482	44,901	51,638	57,338	62,449	66,881	71,747	75,356	78,557
<i>EBITDA Margin</i>	<i>47.5%</i>	<i>48.3%</i>	<i>48.3%</i>	<i>48.4%</i>	<i>49.5%</i>	<i>49.5%</i>	<i>49.5%</i>	<i>49.5%</i>	<i>49.4%</i>
CAPEX & Change in WC	(24,681)	(21,343)	(22,758)	(20,105)	(19,535)	(17,989)	(16,886)	(16,214)	(15,180)
Taxes	(9,619)	(11,170)	(12,961)	(14,577)	(16,278)	(17,750)	(19,814)	(21,027)	(22,002)
FCF	5,182	12,387	15,920	22,656	26,636	31,142	35,048	38,115	41,374
Cost of Equity	15.5%								
Cost of Debt	8.9%								
Weight of Debt	6.1%								
Weight of Equity	93.9%								
WACC	14.9%								
Terminal Growth	5.5%								
EV	280,155								
Net Debt (Cash)	(5,453)								
Equity Value	285,609								
Etisalat Stake (AED mn)*	4,993								
Value per share (AED)	1.00								

*Including NPV of Management Fees

Source: EFG-Hermes estimates

E. AFGHANISTAN - ETISALAT AFGHANISTAN: HIGH RISK, GOOD POTENTIAL

Services Population (2006) Penetration (June 07) Market Share (June-07) Etisalat Stake	Mobile: 2G/3G 31 million Mobile: 9% Mobile: N/A 100%	Drivers - Low mobile and fixed-line penetration rates - War-damaged fixed line infrastructure - Increasing foreign aid is helping the economy
		Challenges - High socio-political risk - Low GDP/Capita of less than USD320 - Intense competition with 4 mobile operators

Table 2.25: Afghanistan Mobile Market Indicators

(mn)	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population	31.1	31.9	32.7	33.6	34.4	35.3	36.3	37.2
Mobile Market Indicators								
Mobile Addressable Mkt.	17.9	18.5	19.1	19.8	20.5	21.2	21.9	22.7
Additions	0.6	2.3	2.6	2.7	2.8	2.4	1.8	1.8
Subscribers	1.6	3.9	6.5	9.3	12.0	14.4	16.2	18.1
Penetration to Addressable	9%	21%	34%	47%	59%	68%	74%	80%
Penetration Rate	5%	12%	20%	28%	35%	41%	45%	49%
Etisalat Afghanistan								
Etisalat Subscribers	-	0.2	0.6	1.0	1.6	2.0	2.4	2.8
Etisalat Market Share	0%	4%	8%	11%	13%	14%	15%	16%
Roshan								
Roshan Subscribers	0.8	1.7	2.7	3.7	4.8	5.7	6.4	7.0
Roshan Market Share	50%	43%	41%	40%	40%	39%	39%	39%
AWCC								
AWCC Subscribers	0.6	1.0	1.5	1.9	2.4	2.8	3.2	3.5
AWCC Market Share	36%	25%	22%	21%	20%	20%	19%	19%
Areeba								
Areeba Subscribers	0.2	1.1	1.8	2.6	3.3	3.8	4.3	4.7
Areeba Market Share	14%	27%	28%	28%	27%	27%	26%	26%

Source: MTN, Teliasonera and EFG-Hermes estimates

MOBILE PENETRATION RATE

Mobile penetration rate currently stands at 9%

Etisalat started operations in Afghanistan on 29 August 2007 in five Afghan cities, becoming the fourth mobile operator in the country. Etisalat acquired a fifteen-year license in May 2006 for USD40.1 million. The mobile penetration rate in Afghanistan stood at around 9% at the end of June 2007, with the country's population numbering approximately 31 million. The country's economy has been growing relatively fast, benefiting from the significant amount of foreign aid flowing into the country since the fall of the Taliban regime in 2001. GDP per capita remains below USD400.

COMPETITION

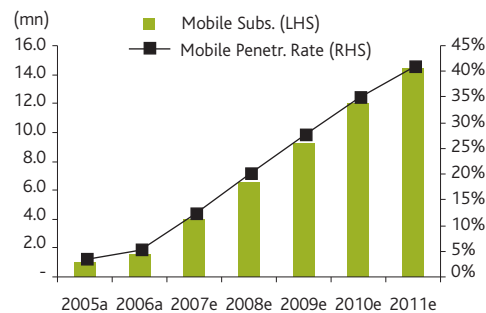
Other mobile operators in Afghanistan include: i) Roshan; 12% owned by the Swedish operator Teliasonera with around 50% market share at the end of December 2006, ii) Afghan Wireless Communications Company (AWCC): 20% owned by the Afghani Ministry of Communications, with around 36% market share and iii) Areeba (100% owned by MTN) with a market share of around 14%.

ARPU AND MARKET SHARE

We forecast Etisalat Afghanistan to breakeven at the net profit level in 2015

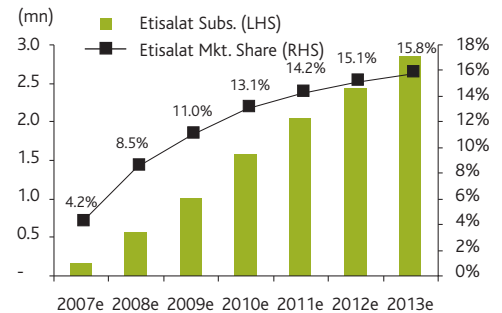
We expect Etisalat Afghanistan's market share to reach 4.2% by the end of 2007 and 14% by the end of 2011. We forecast the mobile penetration rate in the country to exceed 12% by the end of 2007. We estimate the ARPU level for Etisalat at USD8.0. Areeba, the third largest operator, had an ARPU of USD11.0 in 3Q2007. We expect the ARPU to decline rapidly over the coming years, with strong growth in subscribers, and to stabilize at around USD5.0. We estimate the operator will breakeven at the net profit level in 2015.

Fig 2.26: Historical and Forecast Mobile Subscribers and Penetration Rate in Afghanistan



Source: MTN, Teliasonera and EFG-Hermes estimates

Fig 2.27: Historical and Forecast Etisalat Subscribers and Market Share in Afghanistan



Source: Regulatory Authority, EFG-Hermes estimates

VALUATION

We value the Afghan operation based on a DCF valuation using a relatively high WACC of 18% to account for both the high start-up risk as well as the country's high political risk. For valuation purposes, we assume a FCF CAGR of 7.7% from 2015, the end of our explicit forecast period, to 2022 and a terminal growth rate of 5.0%. Our estimated equity value for the operation is USD56 million, implying a low AED0.04 per Etisalat's share.

Table 2.28: KPIs and DCF Valuation for Etisalat Operation in Afghanistan

(USD mn)	2008	2009	2010	2011	2012	2013	2014	2015
Total Subscribers	0.55	1.02	1.57	2.05	2.45	2.85	3.25	3.61
ARPU (USD)	7.11	6.37	6.06	5.68	5.28	5.08	5.04	4.99
Revenue	26	53	88	122	152	178	207	232
EBITDA	(10)	(17)	(7)	9	27	45	58	71
EBITDA Margin	-29.5%	-27.5%	-7.5%	7.5%	18.5%	27.5%	31.0%	34.0%
CAPEX & Change in WC	(96)	(68)	(76)	(59)	(54)	(39)	(30)	(24)
Taxes	-	-	-	-	-	-	-	-
FCF	(106)	(85)	(84)	(50)	(27)	6	28	46
WACC	15.0%							
Terminal Growth	5.0%							
EV	56							
Net Debt (Cash)	(0)							
Equity Value	56							
Etisalat Stake (AED mn)	207							
Value per Share (AED)	0.04							

Source: EFG-Hermes estimates

F. NIGERIA - ETISALAT NIGERIA: COMPETING FOR A FOOTHOLD

Services Population (2006) Penetration (Dec 06) Market Share (June-07) Etisalat Stake	Mobile: 2G/3G 138 million Mobile: 24% Mobile: N/A 40%	Drivers - Large and fast growing population - Rise in oil prices helping the economy - Relatively low mobile and fixed line penetration rates Challenges - High socio-political risk - Poor utility infrastructure with inadequate capacity (electrical power shortages) - Intense competition with five mobile operators
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Table 2.29: Nigeria Mobile Market Indicators

(mn)	2006a	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Population	137.7	141.8	146.1	150.5	155.0	159.6	164.4	169.4
Mobile Market Indicators								
Mobile Addressable Mkt.	91.6	94.8	98.0	101.4	104.9	108.6	112.3	116.2
Additions	13.7	16.8	18.6	16.2	13.8	9.6	6.7	4.7
Subscribers	32.3	49.1	67.7	83.9	97.6	107.2	114.0	118.7
Penetration to Addressable	35%	52%	69%	83%	93%	99%	101%	102%
Penetration Rate	23%	35%	46%	56%	63%	67%	69%	70%
Etisalat Nigeria								
Etisalat Subscribers	-	-	1.9	4.3	7.0	9.1	10.5	11.7
Etisalat Market Share	0%	0%	3%	5%	7%	8%	9%	10%
MTN								
MTN Subscribers	12.3	18.1	23.6	28.2	32.0	34.7	36.6	37.9
MTN Market Share	38%	37%	35%	34%	33%	32%	32%	32%
Globacom								
Globacom Subscribers	10.4	13.1	16.2	19.0	21.3	23.0	24.1	24.9
Globacom Market Share	32%	27%	24%	23%	22%	21%	21%	21%
Celtel								
Celtel Subscribers	6.4	11.5	17.2	21.9	25.9	28.7	30.6	32.0
Celtel Market Share	20%	23%	25%	26%	26%	27%	27%	27%
Mtel								
Mtel Subscribers	3.3	6.4	8.8	10.5	11.4	11.9	12.1	12.2
Mtel Market Share	10%	13%	13%	13%	12%	11%	11%	10%

Source: NCC, MTN, Zain and EFG-Hermes estimates

ETISALAT ENTERS NIGERIA

The UAE-based Mubadala Development Company, 100% owned by the Government of Abu Dhabi, was awarded Nigeria's fifth mobile license for USD400 million in January 2007. Etisalat agreed to buy 40% of the license in September to become the operating partner. Etisalat plans to start operation in Nigeria in early 2008.

MOBILE MARKET

Over the past three years, Nigeria has been one of the fastest growing mobile markets in the world, with a subscriber CAGR of 117% between 2003 to 2006. The country had 43.5 million subscribers at the end of September 2007, implying a penetration rate of 30.9%. There are currently four mobile operators in Nigeria: i) MTN Nigeria, ii) Globacom, iii) Celtel, a subsidiary of Kuwait's Zain, and iv) Mtel, the mobile arm of Nitel. The country has a very poor fixed-line infrastructure, a static fixed-line penetration rate, which stands at around 2%, and has given way to fast growth and high usage of mobiles.

Nigeria is one of the fastest growing mobile markets in the world

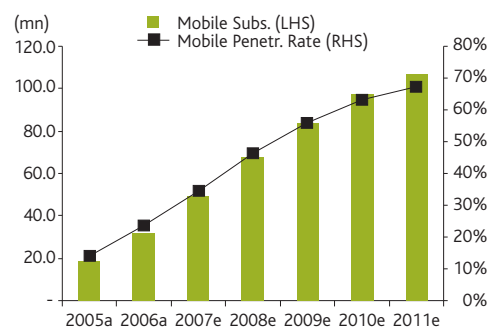
Poor mobile service quality has always been an issue in Nigeria

Poor mobile service quality has always been an issue in Nigeria and the regulator has been urging mobile operators to improve their network quality through imposing fines and other, more severe, measures. Mobile operators are currently spending high capex to expand their networks and improve their quality.

MARKET SHARE AND ARPUS

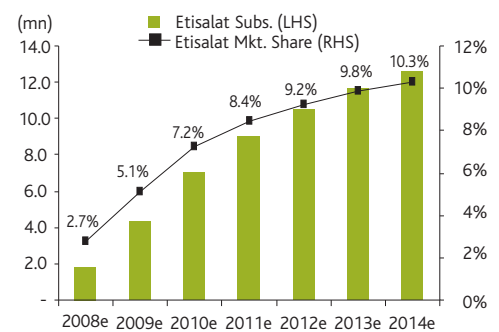
We expect mobile penetration rate to be around 46% by the time Etisalat launches its operation in Nigeria, which is expected in March 2008. We expect Etisalat to gain a market share of 2.7% at the end of 2008. Given the intense competition among the well-entrenched operators, we expect Etisalat's market share will rise to only 9% by the end of 2012.

Fig 2.30: Historical and Forecast Mobile Subscribers and Penetration Rate in Nigeria



Source: NCC, EFG-Hermes estimates

Fig 2.31: Historical and Forecast Etisalat Subscribers and Market Share in Nigeria



Source: NCC, EFG-Hermes estimates

VALUATION

We use the Nigerian 182-day Treasury bill yield of 6% as a proxy to our risk free rate and an equity risk premium of 13% to reflect the high political risk associated with Nigeria, as well as the business risk related to the start-up nature of the operator. We use a cost of debt of 7.0% and reach a WACC of 14.1%. Our estimated terminal growth rate is 6.0%. We arrive at a total equity value of USD340 million. This implies a per share value for Etisalat of only AED0.1.

Table 2.32: DCF Valuation for Etisalat Operation in Nigeria

(USD mn)	2008	2009	2010	2011	2012	2013	2014	2015
Total Subscribers	1.86	4.29	7.04	9.06	10.54	11.68	12.62	13.56
ARPU (USD)	9.00	7.99	7.61	7.35	7.12	6.90	6.69	6.49
Revenue	193	416	654	811	911	976	1,022	1,067
EBITDA	(58)	(83)	(33)	65	128	244	286	320
EBITDA Margin	-30.0%	-20.0%	-5.0%	8.0%	14.0%	25.0%	28.0%	30.0%
CAPEX & Change in WC	(552)	(126)	(130)	(85)	(196)	(190)	(113)	(114)
Taxes	-	-	-	-	-	(6)	(17)	(25)
FCF	(610)	(209)	(163)	(20)	(69)	48	157	181
Cost of Equity	19.0%							
Cost of Debt	7.0%							
Weight of Debt	50.7%							
Weight of Equity	49.3%							
WACC	14.1%							
Terminal Growth	6.0%							
EV	690							
Net Debt (Cash)	349							
Equity Value	340							
Etisalat Stake (AED mn)	500							
Value per Share (AED)	0.10							

Source: EFG-Hermes estimates

G. OTHER OPERATIONS

ATLANTIQUE TELECOM (AT)

Etisalat acquired 50% of AT, which operates in seven African countries (Ivory Coast, Benin, Burkina Faso, Togo, Niger, Gabon and the Central African Republic) in April 2005. Etisalat acquired an additional 20% in AT two years later, increasing its stake to a controlling 70%. The majority of AT's operations are still loss making, being the second or third operator by subscriber market share in each country. AT's population under license exceeded 67 million as of June 2007, with a mobile penetration rate of 10.4% and total mobile subscribers of 2.0 million. We did not include AT in Etisalat consolidated numbers due to the unavailability of data on the operator's main performance indicators. It also operates in markets where data is generally difficult to obtain. We value Etisalat's 70% stake in AT at its acquisition value of AED268.9 million.

Table 2.33: KPIs for Atlantique Telecom Operations in African Countries

	Benin	Burkina Faso	Central African Republic	Gabon	Niger	Ivory Coast	Togo	Total
Population (mn)	8.7	13.6	4.1	1.4	14.4	18.5	6.3	67.0
GDP per Capita (USD)	682	454	388	5,691	276	897	433	
Mob. Penetration Rate (2006)	12.1%	7.5%	2.5%	54.4%	2.3%	22.0%	11.2%	10.4%
AT Mobile Subs. 000's (2Q07)	340.0	66.9	76.7	83.1	56.1	1,286.0	121.0	2,030
AT Mkt. Share (2Q07)	27.0%	5.4%	36.5%	8.8%	9.3%	23.2%	19.0%	
AT Position	#2/4	#3/3	# 2/3	# 3/3	#2/3	#3/3	#2/2	

Source: ITU, IMF and AMETW

CANAR TELECOM (CANAR)

Canar captured 38% market share after only one year of operations

Etisalat also owns 37% in Canar Telecommunications (Canar), the second fixed-line operator in Sudan, which started offering fixed-line services through its full-fledged NGN network in January 2006. Sudan had a fixed-line penetration rate below 2% in December 2006 with a total of 636,900 fixed-line subscribers. Canar captured 38% of the fixed-line market and 44% of the internet segment in Sudan after one year of operation. Canar was the first to launch 3G wireless broadband internet services in December 2006.

Etisalat entered a management agreement with Canar where Etisalat would receive annual fees equal to 3% of Canar's gross revenue or 5% of its net profit excluding local taxes, whichever is higher. Etisalat received its first annual fees of AED4.5 million in 2006. We value Etisalat's stake in Canar at its book value of AED8.6 million, similar to AT.

ZANZIBAR TELECOM (ZANTEL)

Etisalat acquired 34% of Zanzibar Telecom (Zantel) for AED8.8 million (USD2.4 million) in 1999. Etisalat increased its stake by 17%, for a total consideration of AED55.3 million (USD15.1 million) in July 2007, reaching a controlling 51% ownership in Zantel. Zantel offers fixed-line, mobile and internet services in Tanzania. It first started operations in Zanzibar in 1999 and expanded its coverage to the rest of the country in 2005. Etisalat received management fees of AED2.4 million in 2006 and AED2.2 million in 2005 as per its management agreement with Zantel. We do not expect it will continue to receive an annual management fee from Zantel, since Etisalat now owns a controlling stake in Zantel.

We did not include Zantel in Etisalat's consolidated accounts due to the lack of financial indicators. We value Etisalat's stake in Zantel at the acquisition price of AED19.9 million.

Table 2.34: KPIs for Sudan and Canar

Sudan	
Population (mn)	37.0
GDP per Capita (USD)	803
Fixed-Line Penetration Rate (2006)	1.7%
Canartel Subs. 000's (2006)	242.0
Canartel Mkt. Share (2006)	38.0%
Canartel Position	#2/2

Source: IMF, AMETW

Table 2.35: KPIs for Tanzania and Zantel

Tanzania	
Population (mn) (2Q07)	39.4
GDP per Capita (USD)	353
Mobile Penetration Rate (2Q07)	17.1%
Zantel Mobile Subs. (000's) (2Q07)	0.48
Zantel Position	#4/4

Source: Etisalat, ITU and IMF

III. NEW FORECASTS

REVENUE

We upgrade our consolidated revenue forecast driven mostly by upgrading our forecasts for the UAE operation, which delivered a better-than-expected performance in the first nine months of 2007. We upgrade our Etisalat Egypt forecast and integrate new markets, such as Nigeria (proportionally consolidated) and Afghanistan (fully consolidated), into our forecasts, which have contributed, albeit to a lesser extent, to the increase in our revenue forecasts.

Our new revenue forecast implies a CAGR of 10.4% for 2007-2010. Consolidated net revenue for 9M2007 came in at AED15.4 billion, 29.8% higher than last year. We estimate gross revenue came in at AED17.6, implying a Y-o-Y growth of 30.2%.

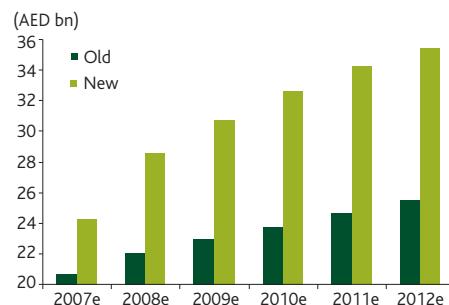
We forecast FY2007 gross revenue of AED24.3 billion, or a 29.8% Y-o-Y growth. We believe 4Q2007 revenue growth will mostly be driven by the UAE operation, in addition to an increase in the contribution from the Egyptian operation, which we estimate will contribute 3.2% of the quarter's revenue.

The Saudi operation, Mobily, is consolidated based on the equity method and so does not show up in the revenue line. Only Etisalat's 35% share in Mobily's net profit is reported as Income from Associates.

UAE operations will continue to generate more than 75% of consolidated revenue

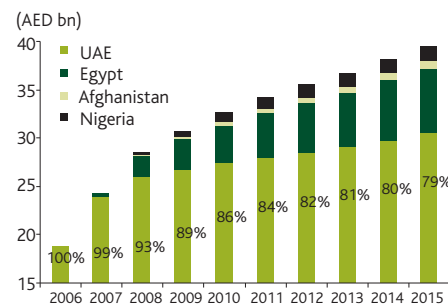
By the end of 2008, Nigeria, which will be proportionally consolidated, will also start contributing to the company's total revenue. We forecast that the UAE operations will remain the main revenue generator, with more than 75% of Etisalat's consolidated gross revenue in 2015 and after.

Fig 3.1: Old versus New Consolidated Revenue Forecasts



Source: EFG-Hermes estimates

Fig 3.2: Breakdown of Historical and Forecast Consolidated Revenue by Country



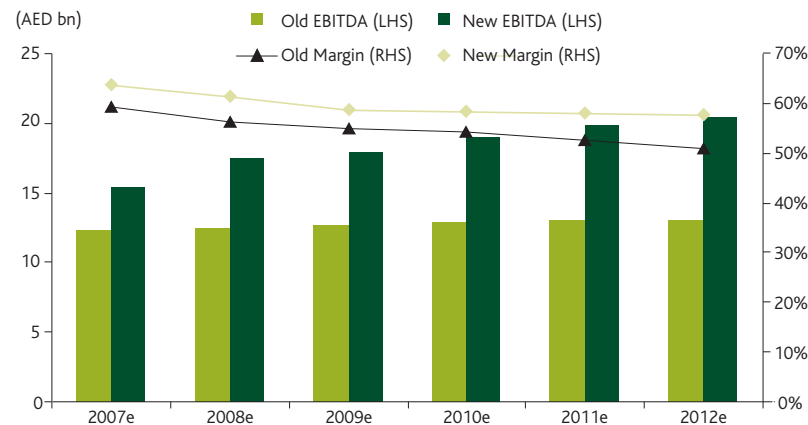
Source: Etisalat, EFG-Hermes estimates

EBITDA

We upgrade our consolidated EBITDA forecasts, driven by both the upgrade in revenues, as well as the EBITDA margin. Consolidated EBITDA grew 24.6% Y-o-Y to AED11,692 million for 9M2007. This implies an EBITDA margin of 66.5%, down from 69.3% in 9M2006. Etisalat does not report its EBITDA figures.

The EBITDA margin has been declining Q-o-Q since the beginning of 2007, according to our calculations. We believe this decline is due to Etisalat Egypt, which started operations during 2Q2007. We forecast Etisalat's consolidated EBITDA will come at AED15,457 million at the end of 2007, implying Y-o-Y growth of 23.3% and an EBITDA margin of 63.7% versus 67.0% in FY2006.

Figure 3.3: Old versus New Consolidated EBITDA and EBITDA Margin Forecasts



Source: EFG-Hermes estimates

One of the highest EBITDA margin in the region despite start-ups put pressure

The start-up nature of the Egyptian, Afghan and Nigerian operators that are to be consolidated in 2007 and 2008, which are expected to be generating losses at the EBITDA level, has a dilutive impact on Etisalat's consolidated EBITDA. We forecast consolidated EBITDA will achieve a CAGR of 7.2% between 2007 and 2010, lower than the of 10.4% revenue CAGR for the same period. We forecast the EBITDA margin will decline to 61.1% in 2008 and 58.5% in 2009 from 63.7% in 2007. The EBITDA margin that Etisalat generates remains among the region's highest.

Figure 3.4: Historical and Forecast Consolidated EBITDA Breakdown by Country

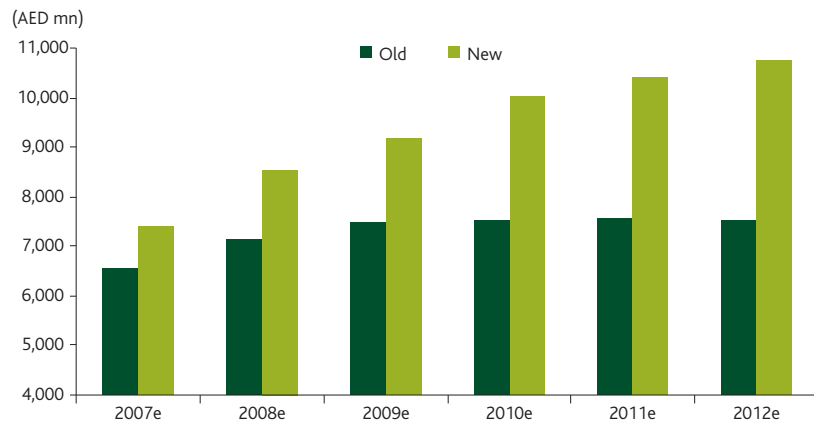


Source: Etisalat, EFG-Hermes estimates

EARNINGS

We forecast consolidated earnings will grow at a 5-year CAGR of 7.8%, higher than the EBITDA growth rate for the same period. This is mostly due to the contribution of the Saudi and Pakistani operations, both consolidated under the equity method. Our assumption of a decline in the Royalty payment is another reason for the relatively stronger earnings growth. We forecast FY2007 consolidated net profit to grow 26.1% Y-o-Y to AED7,386 million from 9M2007 net profit of AED5,533 million.

Figure 3.5: Old versus New Consolidated Earnings Forecast

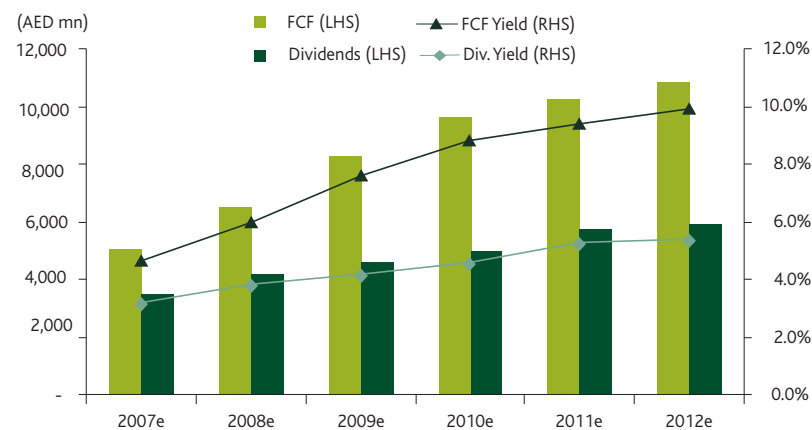


Source: EFG-Hermes estimates

FREE CASH FLOW

We estimate Etisalat free cash flow (FCF) yield to reach 4.6% by the end of 2007 with a dividend payout ratio of 47%. We expect the FCF yield to increase to 10% by 2012, one of the highest in the region, with a higher dividend payout ratio of 55%.

Figure 3.6: Etisalat Historical and Forecast FCF and Dividend



Source: Etisalat, EFG-Hermes estimates

COMPANY NOTE

Financial Statements (December Year end)

(EGP mn)	9M06a	2006a	9M07a	2007e	2008e	2009e	2010e	2011e
Balance Sheet								
Cash & Liquid Assets	7,664	10,304	10,187	9,401	11,174	13,595	13,571	16,112
Receivable & Prepayment	2,291	2,812	3,541	3,366	4,867	5,534	6,234	6,543
Due from Telecom Administrations	143	315	468	359	391	401	411	420
Inventory	82	66	153	179	286	396	463	503
Other Current Assets	51	56	-	82	82	82	82	82
Total Current Assets	10,232	13,553	14,348	13,387	16,801	20,008	20,760	23,659
Net Plant	8,500	8,495	10,662	10,380	12,086	13,187	13,410	13,317
Investments	12,321	12,219	12,330	12,875	13,873	15,056	16,348	17,737
Intangibles	7,203	11,230	12,739	11,487	10,418	9,646	8,874	8,102
Others	393	410	-	328	246	164	82	-
Total Assets	38,649	45,908	50,080	48,457	53,423	58,061	59,474	62,815
Accounts Payable	-	875	-	960	1,326	1,975	2,438	2,605
Due to Other Telecom Admin.	900	932	943	1,014	1,069	1,155	1,205	1,255
Dividends Payable	-	1,588	-	1,736	2,079	2,288	2,498	2,861
Accrued Expenses & Payables	7,672	2,813	10,281	2,850	2,887	2,925	1,985	1,946
Other Current Liabilities	-	7,397	5,534	7,386	7,527	6,903	6,662	6,936
Total Current Liabilities	8,572	13,605	16,757	13,946	14,888	15,246	14,789	15,603
LTD	6,981	6,981	2,941	6,859	9,208	11,594	10,493	10,676
Employees' End of Service Benefits	449	440	456	454	467	481	496	510
Others	3,488	3,488	4,097	2,509	1,530	551	551	551
Minority Interest	19	2,208	1,883	2,587	2,770	3,113	3,337	3,475
Total Liabilities & Minority Interest	19,508	26,722	26,134	26,355	28,863	30,984	29,665	30,815
Net Worth	19,141	19,187	23,945	22,102	24,560	27,077	29,809	32,000
Income Statement								
Gross Revenue								
UAE		18,714		23,903	26,074	26,764	27,391	27,988
Egypt		-		367	2,067	3,093	3,931	4,600
Afghanistan		-		13	121	230	358	463
Nigeria		-		-	284	611	961	1,190
Total	13,537	18,714	17,571	24,283	28,546	30,699	32,641	34,242
EBITDA								
UAE		12,534		16,730	17,928	18,015	18,286	18,527
Egypt		-		(1,268)	(355)	134	840	1,181
Afghanistan		-		(6)	(36)	(63)	(27)	35
Nigeria		-		-	(85)	(122)	(48)	95
Total	9,385	12,534	11,692	15,457	17,452	17,964	19,051	19,837
<i>EBITDA Margin</i>	69%	67%	67%	64%	61%	59%	58%	58%
Depreciation & Amortization	(957)	(1,391)	(1,412)	(2,086)	(2,698)	(2,977)	(3,224)	(3,347)
Net Operating Profit	8,428	11,143	10,280	13,370	14,753	14,986	15,828	16,490
<i>NOP (EBIT) Margin</i>	62%	60%	59%	55%	52%	49%	48%	48%
Net Interest Income (Expenses)	254	214	(103)	(208)	(618)	(937)	(872)	(833)
Other Income (Expenses)	-	46	31	158	160	158	(26)	(28)
Income from Associates	109	267	360	656	998	1,183	1,292	1,389
Earnings before Minority Interest	8,791	11,670	10,568	13,976	15,293	15,391	16,221	17,019
Minority Interest	(19)	50	499	797	721	662	433	320
Earnings before Royalty Fees	8,772	11,719	11,067	14,773	16,014	16,053	16,654	17,339
Royalty Fees	(4,386)	(5,860)	(5,534)	(7,386)	(7,527)	(6,903)	(6,662)	(6,936)
Net Attributable Income	4,386	5,860	5,533	7,386	8,488	9,150	9,992	10,404
Cash Flow Statement								
Cash Operating Profit after Tax	4,999	6,675	6,158	8,070	9,925	11,061	12,390	12,902
Change Working Investment	1,329	2,555	4,876	994	(1,042)	(637)	(465)	93
Cash Flow Post Chg in WI	6,328	9,229	11,034	9,064	8,883	10,424	11,925	12,994
Capital Expenditure	(977)	(1,407)	(2,280)	(3,546)	(3,632)	(3,307)	(2,675)	(2,482)
Free Cash Flow	5,351	7,823	8,754	5,518	5,251	7,117	9,250	10,513
Non-operating Cash Flow	(12,404)	(12,201)	(1,857)	(1,084)	876	576	75	884
Cash Flow before Financing	(7,053)	(4,378)	6,897	4,434	6,127	7,693	9,325	11,397
Net Financing	5,058	5,024	(7,015)	(5,337)	(4,354)	(5,273)	(9,349)	(8,856)
Change in Cash	(1,994)	645	(117)	(903)	1,773	2,420	(24)	2,541

Source: Etisalat, EFG-Hermes estimates

EGYPT SALES TEAM

Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales

Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

Local Institutional Sales

Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

Head of Marketing & Business Dev.

Ahmed Salem
+20 2 33 32 1078
asalem@efg-hermes.com

DUBAI SALES TEAM

call center +971 4 306 9333
uaerequests@efg-hermes.com

Head of UAE Brokerage

Seif Fikry
+971 4 363 4085
seif@efg-hermes.com

Head of GCC Institutional Sales

Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

UAE Retail Sales

Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM

call center +800 123 4566
ksa-callcenter@efg-hermes.com

Head of KSA Brokerage

Hesham Khalil
+9661 211 3040
hkhalil@efg-hermes.com

Head of KSA Sales

Mohsen Mansour
+9661 211 3008
mohsenm@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research

Philip Khoury
+971 4 363 4002
pkhoury@efg-hermes.com

Head of Egypt Research

Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

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EFG-HERMES (DUBAI), LEVEL 6, THE GATE, WEST WING, DIFC DUBAI - UAE

TEL +971 4 363 4000 | FAX +971 4 362 1170

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