



Results Review

Etisalat

Rating: Outperform

Etisalat Q3 2010 Results

- Etisalat reported Q3 2010 results with net income of AED 1,739mn (-7.1% qoq, -22.8% yoy), 20.2% below our expectations and 13.8% below BBG consensus, with EPS of AED 0.22 and a net income margin of 23.8%.
- Revenues fell qoq to AED 7,315mn (-9.3% qoq, -8.5% yoy) and whilst Q3 normally is a slow quarter, (due to the summer holidays and Ramadan) revenues were nonetheless 9.6% below our expectations and 7.7% below BBG consensus. With a majority of Etisalat's revenues still coming from the UAE, we believe this points to intensifying competition in the domestic market.
- Opex has decreased by 14.5% qoq resulting in EBITDA of AED 3,943mn (-4.3% qoq, -20.8% yoy) and pushed quarterly EBITDA margins up to 53.9% from 51.1%. The decrease in opex was helped by foreign exchange gain of AED 196mn compared to a foreign exchange loss of AED 267mn in Q2 2010. This resulted in operating profits to AED 3,200mn (-6.1% qoq, -25.8% yoy) and EBIT margins of 43.7%.
- Capex for Q3 2010 came to AED 1,243mn, (17% of sales), bringing total capex for the year to date to AED 3,436mn (14.7% of sales) as Etisalat continues with its national FTTH deployment.
- UAE mobile subscribers grew by 10,000 in Q3 2010 to 7.81mn, lower than our projected net adds of 30,000. We believe that the UAE mobile voice market is nearing full penetration and in the absence of special promotional offers, both operators will find it difficult to add mobile subscribers in the numbers they historically have done. Both operators will need to start stimulating usage rather than headline subscriber growth.
- UAE fixed line subscribers declined by 30,000 to 1.25mn (-2.3% qoq, -4.6% yoy), as fixed mobile substitution continues apace, whilst UAE internet subscribers decreased by 40,000 to 1.39mn (-2.9% qoq, +6.3% yoy). It is unclear what has caused the fall in internet subscribers, but we believe it could be a function of a reduction of dialup subscribers (we estimate Etisalat had c. 630,000 dialup subscribers as of H2 2010) as well as residents taking advantage of lower rents in Dubai and moving to properties where du is the service provider
- Based on our projections, Etisalat is trading on a 2011 EV/EBITDA of 4.3x, a discount of 31% respectively relative to its peer group. We maintain our *Outperform* rating on the company, with a target price of AED 14.66, giving 26% upside to the current price.

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Etisalat	Q3 2010A	Q3 2010E	Q3 2009A	Q2 2010A	YOY	QOQ	AMC	YOYE	QOQE
Revenue, AED mn	7,315	8,092	7,996	8,065	-8.5%	-9.3%	-9.6%	1.2%	0.3%
EBITDA, AED mn	3,943	4,612	4,980	4,119	-20.8%	-4.3%	-14.5%	-7.4%	12.0%
EBITDA Margin	53.9%	57.0%	62.3%	51.1%					
EBIT, mn	3,200	3,803	4,314	3,408	-25.8%	-6.1%	-16%	-11.8%	11.6%
EBIT Margin	43.7%	47.0%	54.0%	42.3%					
Earning, AED mn	1,739	2,179	2,254	1,872	-22.8%	-7.1%	-20.2%	-3.3%	16.4%
Net Income Margin	23.8%	26.9%	28.2%	23.2%					
EPS, AED	0.22	0.28	0.29	0.24	-22.8%	-7.1%	-20.2%	-3.3%	16.4%
UAE Mobile Subscribers, mn	7.810	7.83	7.44	7.800	5.0%	0.1%	-0.3%	5.2%	0.4%
UAE Mobile Net Adds, 000s	10	30	180	90					
UAE Fixed Line, mn	1.250	1.26	1.31	1.280	-4.6%	-2.3%	-0.8%	-3.8%	-1.6%
UAE Fixed Line Net Adds, 000s	(30)	(20)	(20)	(20)					
UAE Internet, mn	1.350	1.412	1.27	1.390	6.3%	-2.9%	-4.4%	11.2%	1.6%
UAE Internet Net Adds, 000s	(40)	22	40	10					

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