



Emirates Telecommunication Corporation, Etisalat

FY08 Preliminary Results Update

Target Price	Market Price	Recommendation	Upside Potential	Investment Grade
AED17.34	AED9.76	Strong Buy	78%	Growth

Share Data

Report Date	February 9, 2009
Company Abbreviation	Etisalat
Sector	Telecommunication
Traded Market	ADX
Report Reason	FY08 Preliminary Update
Valuation Methodology	DCF
Previous Report Date	August 2008
Previous Target	AED27.13
Exchange Rates	USD1/AED3.67 SAR1.0197/AED1 PKR18.938/AED1 EGP1.4443/AED1
Stock Currency	AED
Reuters Code	ETEL.AD
Outstanding Shares (mln)	5,987
Par Value/Share (AED)	AED1
Financial Year Ending	December
Mkt. Cap (AED mln)	58,252
Weight to (PEMI)	32.92%
Price Low – High (AED) (52Wk.)	9.47 — 22.15
Relative Performance (52Wk.)	2.7%

Shareholders

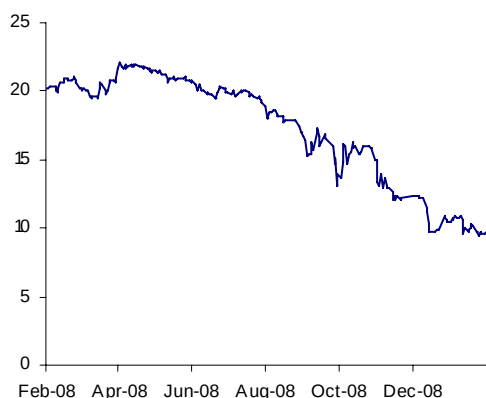
Ownership Stake

UAE Ministry of Finance	60%
Free Float—UAE Nationals	40%

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Stock Performance Chart (AED / Share)



Revenue for FY08 grew 22.4% y-o-y to reach AED26.12 billion (6% below estimates) and net profits for the year came in at AED8.67 billion (12% below estimates) showing 18.8% y-o-y growth. Net profit dropped 8% q-o-q from AED1.762 billion to AED1.413 billion in 4Q FY08 (a 34% drop from 3Q FY08). Total assets grew 18.3% in FY08 to AED62.07 billion and shareholder's equity rose 37.8% in parallel to reach AED35.7 billion.

Etisalat's FY08 subscriber numbers were all in line with our forecasts with 7.3 million mobile (14.6% y-o-y growth), 1.36 million fixed line (2.6% y-o-y growth) and 1.153 million internet subscribers (31.8% y-o-y growth).

Etisalat announced on February 3rd, 2009 that it has signed an agreement with Apple to bring the iPhone3G to the United Arab Emirates and to Saudi Arabia through Mobily during 1Q FY09.

Operations in Nigeria were launched on October 24th, 2008 and the company managed to sign up 200,000 subscribers in less than a month, targeting 550,000 subscribers by the end of FY08.

The company entered two new markets, the first being the Indian market where Etisalat signed an agreement to acquire 45% of Swan Telecom, a newly licensed mobile operator in India, for a cost of AED3.3 billion (USD900 million), and the second being the Iranian market where, in consortium with Tameem Telecom of Iran, it won the third mobile network license at a cost of EUR300 million (AED1.42 billion). Etisalat is also in an advanced stage of discussions with regards to an entry into Iraq.

Newly formed operations in Nigeria, India and Iran were excluded from the valuation due to lack of clarity about the achievable ARPU's in their respective countries.

We revised our revenue forecasts for Etisalat downward to account for an economic slowdown in the UAE, reducing our expected mobile subscriber additions in FY09 to 518,000 from 596,000 (a 13% cut), along with revenue growth of 7.2% versus 14.3% in FY08. Group revenue has also been revised down by 10.7% to AED28.71 billion, providing y-o-y growth of 9.9% in FY09 versus 22.4% in FY08.

Our revised sum-of-the-parts valuation for the group yields a long term fair value target of AED17.34/share, 36% lower than our previous target of AED27.13/share but still providing 78% upside potential over the current market price of AED9.76/share. Accordingly we reiterate our Strong Buy recommendation on Etisalat.

Fiscal Year	2007a	2008e	2009f	2010f	2011f
Revenues	21,340	26,119	28,708	31,479	34,121
Growth	31.0%	22.4%	9.9%	9.7%	8.4%
EBITDA Margin	71.9%	70.6%	70.5%	70.2%	69.6%
Net Income	7,297	8,665	10,389	10,503	11,187
EPS (AED)	1.22	1.45	1.74	1.75	1.87
EPS Growth	24.5%	18.8%	19.9%	1.1%	6.5%
DPS (AED)	0.50	0.63	0.79	0.89	1.06
Book Value / Share (AED)	4.02	5.88	6.82	7.69	8.50
P/E (x)	8.16	6.87	5.73	5.67	5.33
Dividend Yield	5.03%	6.30%	7.94%	8.90%	10.61%
P/BV (x)	2.48	1.69	1.46	1.29	1.17

Please refer to the disclaimer on the last page

Figures are in AED mln unless stated otherwise Source: Company Historical & Prime Estimates

Strong Revenue Growth for the Year; Net Profit Lower than Expected

Revenue for FY08 grew 22.4% y-o-y to reach AED26.119 billion and net profits for the year came in at AED8.665 billion showing 18.8% y-o-y growth

Revenue for FY08 grew 22.4% y-o-y to reach AED26.12 billion (6% below estimates) and net profits for the year came in at AED8.67 billion (12% below estimates) showing 18.8% y-o-y growth. Net profit dropped 8% q-o-q from AED1.762 billion to AED1.413 billion in 4Q FY08 (a 34% drop from 3Q FY08). The FY08 bottom line figure includes a AED1.784 billion gain on the forced sale of stake in Mobily that was recognized in 2Q FY08, reducing ownership in this subsidiary from 35% to 26.25%.

Solid Financial Position

Etisalat maintained its high liquidity position at the end of 9M FY08 with AED12 billion in cash versus only AED2.2 billion in long-term bank borrowings (net cash of AED9.07 billion). Total assets grew 18.3% in FY08 to AED62.07 billion and shareholder's equity rose 37.8% in parallel to reach AED35.7 billion. The company also recently received high credit ratings as follows: Moody's Aa2 (stable), Fitch AA- (stable), S&P A+ (stable), thus allowing it easier access to funding if needed.

UAE Operations Show Continued Growth

Etisalat's FY08 subscriber numbers were all in line with our forecasts

Etisalat's FY08 subscriber numbers were all in line with our forecasts with 7.3 million mobile (14.6% y-o-y growth), 1.36 million fixed line (2.6% y-o-y growth) and 1.153 million internet subscribers (31.8% y-o-y growth). Contribution from data & internet subscribers to the UAE's top-line is expected to increase from 21% in FY07 to 23% and that of fixed lines is forecast to drop from 15% to 14%, demonstrating the rising interest in wireless and internet services.

Introduction of the iPhone3G to the UAE and Saudi Arabia

Etisalat will bring the iPhone3G to the United Arab Emirates and to the Kingdom of Saudi Arabia through Mobily

Etisalat announced on February 3rd, 2009 that it has signed an agreement with Apple to bring the iPhone3G to the United Arab Emirates and to Saudi Arabia through Mobily during 1Q FY09. The iPhone3G has become very popular internationally and we believe that there is great demand for it in the region. Etisalat might offer the iPhone3G through easy payment plans similar to those offered in the US, whereby a user purchases the device for a relatively low price (around USD200 to USD300 in the US) in addition to a monthly payment plan for a 2-year contract period. Etisalat's management expect healthy penetration for the iPhone3G given the favorable demographics of the UAE and KSA.

New Operations Excluded from Valuation

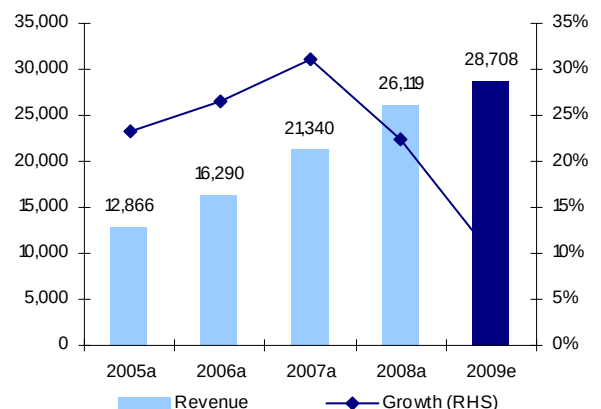
Newly formed operations in Nigeria, India and Iran were excluded from our sum-of-the-parts valuation due to lack of clarity about the achievable ARPU's in their respective countries. Subsidiaries in India and Iran will, however, play provide an contribution to the group's revenue in the long run while exerting downward pressure on the group's EBITDA margin (Nigeria is an associate).

Nigeria is Online

Operations in Nigeria were launched on October 24th, 2008 and the company managed to sign up 200,000 subscribers in less than a month, targeting 550,000 subscribers by the end of FY08

Operations in Nigeria were launched on October 24th, 2008 and the company managed to sign up 200,000 subscribers in less than a month, targeting 550,000 subscribers by the end of FY08 (actual subscriber figures have yet to be released). Etisalat's wireless network in Nigeria provides high-quality communication and remains free of congestion, which is not the case with its larger competitors, and the company continues to rollout base stations, targeting 1,000 stations by 1Q FY09 with USD500 million in associated CAPEX. Nigeria is the most populous country in Africa, sporting mobile penetration of c70%, and Etisalat is targeting positive EBITDA by 2010 and a positive bottom line by 2011.

Figure 1: Group Revenues (AED millions)



Better Late in India than Never

The license allows Swan to provide services in 13 "circles" covering a population of 900 million in India where mobile penetration remains as low as 20.2%

On September 23rd, 2008, Etisalat signed an agreement to acquire 45% of Swan Telecom, a newly licensed mobile operator in India, for a cost of AED3.3 billion (USD900 million). The license allows Swan to provide services in 13 "circles" covering a population of 900 million in India where mobile penetration remains as low as 20.2%. The country has approximately 233.6 million mobile subscribers (with associated ARPU of USD8 per month) and growing at an astonishing c8 million subscribers monthly, making it a lucrative market. Swan faces competition from 5 national, 2 regional and 4 newly licensed operators, but all operators actively share infrastructure (like towers) and Swan will be setting up its broadcasting devices on existing towers, most of which are owned by third parties for lease to operators. The amount paid by Etisalat will be in the form of a capital injection solely for the purpose of infrastructure setup and the company has gained management control of the operation, allowing it to capitalize on its expertise and form synergies. Operations are expected to launch by 2H FY09, but a delay until 4Q FY09 is possible due to the scale of the operation.

Another Greenfield Operation in Iran

The license is for 2G and 3G services (two year exclusivity for 3G) and there will be a revenue sharing scheme with the government throughout the 15-year duration

A consortium including Etisalat at Tameem Telecom of Iran won the third mobile network license in Iran (Etisalat's share is 49%) at a cost of EUR300 million (AED1.42 billion). The license is for 2G and 3G services (two year exclusivity for 3G) and, as part of the agreement, there will be a revenue sharing scheme with the government throughout the 15-year duration of the license whereby the government gets a 23.6% share. According to the Chairman of Etisalat, Mr. Mohammad Omran, the company's share of the total spend in Iran during FY09 will be USD1 billion, including CAPEX, OPEX and the license fee (total CAPEX in FY09 is expected to be USD451 million). Iran's population is estimated at 73 million, 72% of which are between 15-64 years of age with 50% below 24, and mobile penetration in the Republic is only 55%. We expect operations to be launched in 2H FY09 with positive EBITDA to be achieved by FY11.

Seeking an Entry into Iraq

According to management guidance, Etisalat is in an advanced stage of discussions with regards to an entry into Iraq but no further details are available yet. The mobile market in Iraq is dominated by Zain Iraq (part of Kuwait's Zain – 52% market share) and Asiacell (part of Qtel – 31% market share), who together controlled 83% of the market as of FY07. However, mobile penetration in Iraq remains low at 58% FY08e, which makes an entry into Iraq in line with Etisalat's overall strategy of expanding in markets with strong future growth potential.

Revised Forecasts

We revised our revenue forecasts for Etisalat downward to account for an economic slowdown in the UAE

We revised our revenue forecasts for Etisalat downward to account for an economic slowdown in the UAE where nominal GDP is expected to grow 8.7% in FY09 versus our previous forecast of 21.2%, which will result in a reduction of population growth from 7% to 4% during FY09. Therefore, we reduced our expected mobile subscriber additions for Etisalat in FY09 to 518,000 from 596,000 (a 13% cut), along with revenue growth, which is now expected to be 7.2% versus 14.3% in FY08.

Accordingly, group revenue has been revised down, since the UAE operation contributes c90% of the total, and our revenue forecasts for this year have been decreased by 10.7% to AED28.71 billion, providing y-o-y growth of 9.9% in FY09 versus 22.4% in FY08. We expect revenue to continue growing at CAGR 8.5% between FY09-13.

Table 1: Revised UAE Forecasts

	FY08e		FY09f		FY10f	
	Old	New	Old	New	Old	New
Nominal GDP Growth	25.1%	35.9 %	21.2%	8.7 %	16.4%	12.2 %
Population Growth	7.1%	7.2 %	7.0%	4.0 %	7.0%	7.2 %
Mobile Penetration	168%	173 %	179%	185 %	181%	189 %
Etisalat Mobile Additions ('000)	876	928	596	518	417	466
Etisalat UAE Revenue (AED mln)	24,823	23,005	28,476	24,656	31,393	26,533
Etisalat Group Revenue (AED mln)	27,795	26,119	32,165	28,707	35,867	31,478

Source: Etisalat, Prime estimates

Valuation

We revised our DCF fair value for Etisalat's UAE operations to AED14.71/share from, 40% below our previous value of AED24.53/share.

Our revised sum-of-the-parts valuation for the group, comprised of a combination of DCF, market value and book value techniques depending on necessary data availability, yields a long term fair value target of AED17.34/share, 36% lower than our previous target of AED27.13/share but still providing 78% upside potential over the current market price of AED9.76/share. Accordingly we reiterate our Strong Buy recommendation on Etisalat.

CONSOLIDATED FINANCIAL STATEMENTS

(Figures in AED millions)

Income Statement	2007a	2008f	2009f	2010f	2011f
Revenues	21,339.9	26,119.0	28,707.6	31,478.5	34,120.7
Growth	31.0%	22.4%	9.9%	9.7%	8.4%
COGS	5993.7	7675.0	8469.6	9378.2	10359.6
EBITDA	15,346.1	18,444.0	20,238.0	22,100.3	23,761.1
Growth	23.1%	20.2%	9.7%	9.2%	7.5%
EBITDA Margin	71.9%	70.6%	70.5%	70.2%	69.6%
Depreciation & Amortization	1961.9	3232.0	2673.3	2824.5	2951.7
Operating EBIT	13,384.2	15,212.0	17,564.7	19,275.8	20,809.4
Net Interest	119.6	0.0	437.2	429.9	456.1
Other Income Net	635.6	2118.0	3303.6	1832.6	2069.5
Pre Tax Income	14,139.4	17,330.0	21,305.6	21,538.3	23,335.0
Pre Tax Income Growth	21%	23%	23%	1%	8%
Income Tax	7418.9	8665.0	11291.9	11415.3	12367.6
NPAT	6,720.4	8,665.0	10,013.6	10,123.0	10,967.5
Growth	15.7%	28.9%	15.6%	1.1%	8.3%
Minority Interest	-576.2	0.0	-375.5	-379.6	-219.3
Net Income	7,296.6	8,665.0	10,389.1	10,502.6	11,186.8
Growth	24.5%	18.8%	19.9%	1.1%	6.5%
ROS	34.2%	33.2%	36.2%	33.4%	32.8%

Balance Sheet	2007a	2008f	2009f	2010f	2011f
Cash & Marketable Securities	9,432.6	11,707.9	15,356.1	17,219.7	21,266.8
Trade Receivables-Net	2,257.3	4,489.3	4,934.2	5,410.5	5,864.6
Inventory	175.2	264.1	290.3	318.3	345.0
Other Current Asset	1,035.5	1,451.4	1,549.8	1,655.1	1,755.5
Total Current Asset	12,900.6	17,912.7	22,130.3	24,603.6	29,231.9
Net Fixed Assets	11,876.0	13,509.9	15,892.8	17,830.6	19,799.6
Other Assets	27,671.1	30,645.2	30,645.2	30,645.2	30,645.2
Total Assets	52,447.7	62,067.8	68,668.3	73,079.3	79,676.7
Short Term Bank Debt	343.0	787.0	624.6	684.8	742.3
Accounts Payable	13,230.5	14,224.0	15,633.7	17,142.7	18,581.6
Dividend Payable	1,746.9	1,791.0	4,727.1	5,303.8	6,320.5
Other Current Liabilities	2,344.9	2,755.9	2,866.0	2,046.1	2,217.8
Total Current Liabilities	17,665.4	19,557.9	23,851.3	25,177.5	27,862.3
Long-Term Debt	4,783.9	3,472.0	1,992.6	1,258.2	523.9
Other Long Term Liabilities	5,941.4	3,846.9	1,971.4	591.8	372.4
Total Shareholders' Equity	24,057.0	35,191.0	40,853.0	46,051.8	50,918.1
Total Liabilities & Shareholders' Equity	52,447.7	62,067.8	68,668.3	73,079.3	79,676.7

Free Cash Flow Statement	2007a	2008f	2009f	2010f	2011f
NOPLAT	6,214.3	7,606.0	7,950.5	8,416.9	9,090.7
Non-Cash Items	1,961.9	3,232.0	2,673.3	2,824.5	2,951.7
Gross Cash Flow	8,176.3	10,838.0	10,623.9	11,241.4	12,042.4
Gross Investments	2,162.4	9,316.7	5,213.5	5,310.7	4,347.6
Non-Operating Cash Flow	302.1	1,059.0	1,552.7	1,248.0	1,409.4
Free Cash Flow	6,315.9	2,580.3	6,963.1	7,178.7	9,104.1
<i>Financing Cash Flow</i>					
Interest Income After-Tax	(590.0)	0.0	(605.2)	(557.5)	(528.8)
Investment Income After-Tax	0.0	0.0	0.0	0.0	0.0
Increase in Excess Cash, M. Sec. & Subs.	856.6	2,925.2	3,416.1	1,615.2	3,810.2
After-Tax Interest Expense	239.1	0.0	94.9	99.4	61.4
Decrease in Debt & Bonds	3,391.2	867.9	1,641.8	674.1	676.9
Provisions Used	727.7	1,300.3	1,000.0	1,000.0	0.0
Dividends Paid	2,259.7	3,705.9	1,415.5	4,347.4	5,084.5
Non-Appropriation Items	0.0	0.0	0.0	0.0	0.0
Shareholders Equity	(568.4)	(6,219.0)	0.0	0.0	0.0
Total Financing Flow	6,315.9	2,580.3	6,963.1	7,178.7	9,104.1

Source: Company Financials, Prime estimates

Stock Recommendation Guidelines

Recommendation	Target-to-Market Price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$-25\% < x < -15\%$
Strong Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Equity Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

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