



EFG - Hermes

Etisalat

A Growing Appetite for Expansion

10 January 2007

UAE | Telecom

CONTENTS

I. Valuation	02
II. Financial Analysis and Forecasts	09
III. Consolidated Financials	15
IV. Latest / Potential Acquisitions	16

ST Rec. : Buy
LT Rec. : Buy

Current Price* : AED 16.85
Fair Value : AED 26.34

• **UAE:** We revisit our UAE forecasts for Etisalat Group as a result of the impressive performance over 9M2006 and the competition in the UAE market expected to begin in 1Q2007. We estimate Etisalat closed 2006 with 5.5 million mobile subscribers and to have achieved a strong set of results for full year 2006.

• **Egypt:** We incorporate Etisalat's stake in its most recent acquisition, the 3rd Egyptian mobile license. Given the intensifying level of competition in the Egyptian market and the high price paid for the license, we believe it will be a challenge for Etisalat to create value from this acquisition, at least in the short-medium term.

• **Saudi:** We have also revise our Saudi market estimates to reflect the substantial growth witnessed in the telecom market by the existing operators in addition to the implementation of MNP in 2H2006. We estimate Mobily closed the year with 5.6 million mobile subscribers and a 29% market share. We also estimate that Mobily generated a net profit in 2006 versus our previous estimate of a net loss.

• **Valuation:** The result of the aforementioned revision in forecasts and incorporation of the acquisition of the Egyptian license is a 14% decline in our estimate of Etisalat Group's fair value to AED26.3/share, down from AED30.7. This is partially the result of an assumption of a higher level of competition in the UAE market and the small decline in the expected royalty fee payable to 40%, higher than the 30% by 2009 we had assumed in earlier forecasts. Lastly, the impact of the incorporation of Etisalat's stake in the Egyptian operation leads to a decline of AED1.31/share in Etisalat's estimated fair value.

• **Recommendation:** Etisalat looks relatively attractive on a P/E basis versus its peers in EMEA. We re-iterate our ST/LT Buy recommendation, with our estimated FV offering 56% upside to the current share price.

(AED mn)	2005a	2006e	2007e	2008e
Operating Income (mn)	8,435	10,869	9,876	9,834
Net Attrib. Income (mn)	4,256	5,844	6,540	7,123
ROE	27.1%	29.9%	27.5%	25.3%
EPS	0.94	1.29	1.44	1.57
EPS Growth	24.5%	37.3%	11.9%	8.9%
P/E* (Attrib.)	18.0	13.1	11.7	10.7
DPS	0.40	0.44	0.51	0.61
Dividend Yield	2.4%	2.6%	3.0%	3.6%
BVPS	3.5	4.3	5.2	6.2
P/BV*	4.9	3.9	3.2	2.7
CFPS(Operating CF)	1.14	1.47	1.87	1.88
P/CF	14.8	11.5	9.0	8.9
EBITDA (mn)	9,808	12,345	12,286	12,402
EBITDA Margin	63.0%	68.1%	59.4%	56.2%
EV/EBITDA	6.90	6.64	6.54	6.16
EV/Sub (Blended)	9,602	8,287	5,833	4,526
Net Debt (Cash)** (mn)	(8,751)	5,470	3,847	(118)
Net Debt (Cash)/ BV**	-56%	28%	16%	0%
Net Debt (Cash)/ Mkt cap**	-11.4%	7.2%	5.0%	-0.2%

**Excluding Dividends

Figures are in AED unless otherwise stated

Estimate Changes

(AED mn)	2005a	Old 2006e	New 2006e	Old 2007e	New 2007e
Revenues	15,568	17,769	18,134	19,328	20,677
EBITDA	9,808	10,643	12,345	10,795	12,286
EBITDA Margin	63.0%	59.9%	68.1%	55.9%	59.4%
Net Attrib. Inc. (mn)	4,256	5,055	5,844	5,859	6,540



Stock Data:

Last Ex-Div Date	AED0.25 on 19 July 06
Mkt. Val. (mn)	AED76,457
Shares (mn)	4,538
Av. Mthly Liqd. (mn)	AED363 mn
52-Week High / Low	AED24.5 / 14.3
Bloomberg / Reuters	ETISALAT UH/ETEL.AD
Est. Free Float	40.0%

Daniyah Darwish
+20 2 332 1158
ddarwish@efg-hermes.com

*As at 10 January 2007

KINDLY REFER TO THE IMPORTANT DISCLOSURES AND DISCLAIMER ON PAGE 18.

I. VALUATION

A. Discounted Cash Flow (DCF) Valuation

Summary

We present a revised set of forecasts for Etisalat Group after revisiting our estimates for Etisalat's operations in both the UAE and Saudi markets, in addition to incorporating Etisalat stake in its latest acquisition in the Egyptian market, the third mobile license. Overall, we lower our FV for Etisalat by 14% mostly due three reasons: First, the decline in the valuation of the UAE operations as a result of forecasting more aggressive competition in the telecom market, which is expected to start in early 2007. Second, we change our assumptions regarding the royalty expected to be paid by Etisalat. We now estimate that Etisalat will pay 50% of earnings in royalty in 2006 versus our previous estimate of 45% decline that same year. We also forecast that the royalty payment will decline gradually starting in 2007 to stabilize at 40% in 2009 and thereafter, versus our previous estimate of 30%, as per the recent announcement of the TRA in the UAE. Third, the impact of incorporating Etisalat's stake in its recent acquisition in Egypt, which results in an estimated fair value loss of AED1.31 per share (discussed in detail later). The three aforementioned reasons result in a 20% decline in Etisalat's estimated fair value, excluding the Saudi operation.

However, the above decline is partially offset by the upward revision in Mobily estimates, Etisalat's Saudi subsidiary, resulting in a rise in the estimated fair value for the equity in Mobily of 35% over and above our last estimated fair value and contributing around 17% to Etisalat's Group equity value.

Etisalat is trading below our EMEA sector average on forward P/E multiples. Etisalat is trading on 11.7x 07e and 10.7x 08e versus an EMEA sector average of 13.5x and 12.4x, respectively. We re-iterate our ST/LT Buy recommendation, with our fair value currently offering 56% upside to Etisalat's share price of AED16.85 as at 10 January 2007.

i) Valuation of UAE and Egyptian Operations

a) Etisalat UAE

Etisalat recorded the highest mobile subscriber additions figure of the last four financial reporting periods in 3Q2006, reaching 5.3 million subscribers by the end of September 2006, exceeding our previous full year estimate of 5.0 million. The company also reported strong 9M2006 results, with consolidated net revenues, EBITDA and net profits rising Y-o-Y by 26%, 29% and 36%, respectively. The EBITDA margin improved significantly, rising 5 pp to 71% in 9M06 versus 9M05. We revisit our Etisalat UAE estimates to reflect the following:

i) Etisalat's continued aggressive uptake of subscribers over 9M2006 despite the mobile penetration rate exceeding 100%. We therefore estimate that the UAE market closed 2006 with 5.5 million mobile subscribers, 10% above our last subscriber estimate and implying a penetration rate of 126%.

ii) The expected implementation of Mobile Number Portability (MNP) in the UAE in 2007 and the aggressive approach that du is adopting has led us to become more bullish on our market share loss forecasts for Etisalat. We raise Etisalat's mobile market share loss to du to 38% in 2012, up from our previous estimate of 20% for the same year. Furthermore, we increase the fixed line market share loss of Etisalat to du to 20% in 2012, up from our previous forecast of 12%.

iii) We raise our FY2006 net revenue and EBITDA estimates for Etisalat by 12% and 16%, respectively, to reflect the improvement in performance over the nine months ending September 2006, especially the stellar rise in the EBITDA margin. We estimate that the 2006 EBITDA margin rose to 68%, 5 percentage points over 2005 and 8pp above our previous estimate.

Head of Research

Philip Khoury
+971 4 363 4002
+20 2 332 1150
pkhoury@efg-hermes.com

Head of UAE Brokerage

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

UAE Institutional Sales

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

UAE Retail Sales

Reham Tawfik
+971 4 363 4418
rtawfik@efg-hermes.com

US/UK Sales

Mohamed Ebeid
+20 2 332 1054
mebeid@efg-hermes.com

Gulf Sales

Mohsen Mansour
+20 2 332 1077
mohsenm@efg-hermes.com

iv) We had previously been forecasting a gradual decline in the royalty paid by Etisalat of 5% per annum starting 2006 from 50% of earnings to 30% in 2009. However, we change our assumptions after the recent announcement by the TRA in the UAE, in November 2006, of a gradual decline in the royalty paid by Etisalat to 40% of net profit over the coming 3-4 years. Thus we shift the beginning of the decline from 2006 to 2007 and gradually reduce the payment to 40% in 2009. It is worth highlighting that we calculate the royalty payment going forward on Etisalat's total group earnings, rather than based just on Etisalat's domestic earnings, as per Etisalat management guidance. We believe that there could be room for positive surprise if the TRA decided to reduce the royalty below the 40% after the 3-4 year transition period, or if Etisalat / the TRA decided to base its royalty on UAE generated earnings only.

b) Etisalat Egypt

In July 2006, Etisalat was the lead in a consortium that won the bid for the third Egyptian mobile license for a total consideration of USD2.9 billion (AED10.6 billion). Etisalat expects to offer its services in the Egyptian market in early 2007. Since Etisalat owns 66% in the consortium that won the third mobile license, we fully consolidate the Egyptian operations into Etisalat's financials. In order to determine the impact of incorporating Etisalat's stake in the Egyptian operations on Etisalat's valuation, we run the following two scenarios:

1. Bullish Scenario: we base this scenario on the limited information provided by the management of Etisalat in public statements and the terms of the license, along with our own assumptions that are purposefully bullish in an attempt to match both Etisalat's assumptions and the high price paid for the license.

- The penetration rate in Egypt would exceed 60% by 2010 (in our most recent forecasts we had it at 49%).
- The market share of Etisalat Egypt would reach 30% by the end of 2010 (we had it at 15% in our most recent forecast).
- We assume a first year ARPU of USD10.5 to decline at a conservative 6% CAGR to USD7.7 by the end of 2012 (in line with our assumption for both the existing operators, MobiNil and VFE, which we believe to be quite bullish if we assume that the two existing operators will maintain their high spending subscriber base)
- We assume that the EBITDA margin would turn positive by the third year of operations and reach 40% by 2012. Given a 6% revenue-share with the government, one would not expect the third operator to generate an EBITDA margin of more than 40% especially that MobiNil, which operates in a duopoly environment, is currently operating at an EBITDA margin of 50% (excluding revenue-share payment).
- We assume a terminal Capex/Sales ratio of 10% (2012).
- Our assumptions yield a positive free cash flow (FCF) in the fourth year of operation.
- For valuation purposes we use a terminal growth rate of 6% which is in line with the terminal growth rate we use for both MobiNil and VFE. We also apply a weighted average cost of capital (WACC) of 13.0% , which we believe to be the minimum WACC that can be applied for the third operator. (The average WACC that we use for both MobiNil and VFE is around 14.5%)

Valuation: the above assumptions result in an estimated decline in value worth USD0.4 billion for the operation of the third operator in Egypt.

2. Base Case Scenario: we use our more conservative forecasts for the third Egyptian mobile operator. Our rationale for choosing this scenario is also explained below:

- Mobile penetration rate to reach 55% by the end of 2010. Penetration rate at the end of September 2006 reached 22% in Egypt, we believe that a three- player market can drive the penetration rate to the 55% level comfortably over the coming 4-5 years.

- Market share to reach 23% in 2012. We adopt a more conservative market share target than in the bullish scenario, as we believe that its highly unlikely that a third entrant would gain close to equal market shares with two incumbent mobile operators who have been operating in a duopoly market for the past 8 years.

- ARPU to reach USD7.1 in 2012. We believe that as the market will grow and competition intensifies, the quality of subscribers will decline, as mobile operators starts adding subscribers from lower market strata. Accordingly, we do not expect that the third entrant will start at the same level of ARPU as the existing operators, especially with the recent rapid rise in mobile penetration in Egypt.

- EBITDA margin to reach 36% in 2012. With the anticipated rise in the level of competition in the coming period, we are forecasting that the EBITDA margin for the third operator will be lower than that of the existing operators, taking in consideration the following: the payment of 6% revenue-share to the government, the heavy spending on advertising and promotion to establish brand awareness and loyalty and the high administrative expenses required in the start-up phase of the operation.

- We assume a terminal Capex/Sales ratio of 10% (2012). In line with Etisalat management guidance, we assume that Etisalat will raise the capex and opex funds through vendor and bridge financing, respectively, to be later converted to long term debt. We also assume an additional USD0.8-1.0 billion to be raised in debt so as to finance operations over the coming five years. In April 2006 Etisalat was able to secure a USD3.3 billion credit facility from Barclays Bank. Etisalat did not specify the purpose of the loan, rather it indicated that it will be a multi-purpose loan that could be used for company expansions and other operational expenses. We believe that this facility could be used to finance part of the capex and opex needed for the Egyptian operation, in addition to financing Etisalat's forthcoming expansions.

- Our assumptions yield a positive free cash flow (FCF) in the fourth year of operation.

- For valuation purposes we use a terminal growth rate of 6%, and a WACC of 14.5%, in line with the terminal growth rate and WACC we use for both MobiNil and Vodafone.

Valuation: the above assumptions result in an estimated decline in value worth USD2.5 billion for the operation of the third operator in Egypt.

Conclusion

Table 1.1 presents two scenarios, the bullish scenario using a WACC of 13.0%, which we believe to be the minimum WACC that can be applied for the third mobile operator under a bullish stance. The second scenario is our base case scenario, where we apply a WACC of 14.5%. We believe that the start-up nature of the operation and the uncertainty regarding the performance of the third operator in the Egyptian market gives this operation a high risk profile. Accordingly, we choose the discount rate we use for the two existing mobile operators, which is still slightly bullish than it should be, since both operators were/are operating in a less threatening environment. Both scenarios generate negative returns, destroying rather than creating value in at least the short-medium term. However, from a financial and valuation perspective, the effect of this value destruction is only limited to Etisalat's share in the consortium (66%).

Impact on Etisalat valuation is negative at least for the coming 4-5 years...

Therefore, the downside to our LT fair value ranges from only AED0.23 per share under the bullish scenario to AED1.31 per share under the base case scenario. It is worth highlighting that should the third operator trigger a price war in order to gain its ambitious target of 30% market share, we would see ARPU's falling below the USD7.0, resulting in a further decline in value. However, this would be immaterial relative to our estimated fair value for Etisalat Group.

Table 1.1: Estimated Equity Values for the 3rd Mobile Operator under different scenarios and their impact on Etisalat Valuation

(USD mn)	2007	2008	2009	2010	2011	2012
Bullish Scenario						
Subscribers (mn)	2.1	6.2	10.5	14.6	14.9	15.2
Market Share	7%	16%	24%	30%	30%	30%
ARPU (USD)	10.5	9.5	8.8	8.3	7.9	7.7
Revenue	135	478	884	1,251	1,399	1,391
EBITDA	(238)	(166)	146	375	510	561
EBITDA Margin	-176%	-35%	17%	30%	36%	40%
Capex	(400)	(320)	(300)	(185)	(180)	(145)
FCF	(638)	(486)	(154)	190	330	416
TGR	6.0%					
Terminal Value	6,300					
WACC	13.0%					
NPV	2,470					
License Value	2,900					
Value Created (Destroyed) by 3rd Operator	(430)					
Etisalat's Stake in Value Created (Destroyed) USD	(284)					
Etisalat's Stake in Value Created (Destroyed) AED	(1,042)					
Etisalat's Stake in Value Destroyed / Share AED	(0.23)					
Base Case Scenario						
Subscribers (mn)	2.1	5.6	7.2	8.9	10.0	10.7
Market Share	7%	16%	18%	20%	22%	23%
ARPU (USD)	10.0	8.5	8.0	7.5	7.2	7.1
Revenues	129	396	614	724	819	882
EBITDA	(223)	(122)	77	214	277	319
EBITDA Margin	-173%	-31%	13%	30%	34%	36%
Capex	(400)	(320)	(300)	(180)	(120)	(90)
FCF	(623)	(442)	(223)	34	157	229
TGR	6.0%					
Terminal Value	2,859					
WACC	14.5%					
NPV	441					
License Value	2,900					
Value Created (Destroyed) by 3rd Operator	(2,459)					
Etisalat's Stake in Value Created (Destroyed) USD	(1,623)					
Etisalat's Stake in Value Created (Destroyed) AED	(5,955)					
Etisalat's Stake in Value Destroyed / Share AED	(1.31)					

Source: EFG-Hermes estimates

It is worth highlighting that our valuation is subject to a large margin of error given the startup nature of the business and the limited information available at this early stage.

The revision of UAE forecasts and the incorporation of the Egypt stake leads to a 20% decline in our estimated FV

Etisalat UAE and Egypt Valuation (a)+(b)

We believe that both the high level competition anticipated in the UAE market, the change in our assumption regarding the size of the royalty relative to earnings and the application of the royalty to Group-wide rather than just UAE-sourced earnings, coupled with the incorporation of the value of Etisalat's stake in the Egyptian operation, leads to a 20% decline over our previous estimated FV for Etisalat, which did not include Egypt.

Our cost of equity of 11.0% is based on an estimated risk-free rate of 4.63%, which is the yield on the 10-year US Treasury bond as at 27 December 2006. We add a 1.5% premium over above our 5.0% equity risk premium for the local operations to reflect the higher risk inherent in the Egyptian market after breaking the 8-year duopoly there. We raise our terminal growth rate by 50 basis points to 4.0% to reflect the continued strong GDP growth in the UAE to sustained high oil prices in the region.

ii) Valuation of Saudi Operation (Mobily)

We revise our estimated fair value for Etihad Etisalat (Mobily) upwards to SAR4.6 per share, 35% above our previous fair value. It is worth highlighting that the market value of Etihad Etisalat is currently AED25.4 billion (as at January 8 2007), a 58% discount to our estimated fair value of AED59.4 billion. The upward revision has come as a result of the following:

i) The substantial growth in the Saudi mobile market during 2005 and 2006, with STC and Mobily adding 4.1 million subscribers in 2005 versus almost 1.7 million in 2004. In addition, there was a continued aggressive uptake of subscribers in 9M2006, with Mobily adding 2.5 million subscribers, raising its market share to 27% up from 25% in 2Q2006. We estimate that Mobily subscriber additions have risen to 3.3 million for the full year of 2006, with total subscribers reaching 5.6 million at the end of the year.

ii) Incorporating the impact of the implementation of MNP in the Saudi market starting 2H2006. We believe that the MNP will favor the third operator, assumed to enter in 1H2008, and to a lesser extent in the favor of Mobily at least the early stages of its implementation. We forecast that Mobily will achieve a market share in the early-to-mid thirties over the coming five years.

iii) The impressive improvement in Mobily's operations since it began operating. In 2005, revenues came in 35% ahead of our expectations of SAR1.2 billion, mostly due to a higher-than-expected ARPU level in the first seven months of operation. Mobily broke even at the EBITDA level in the fourth quarter of 2005 and turned a net profit of AED36 million in 1Q2006, rising to AED362 million for 9M2006. We estimate that Mobily achieved a net profit of AED711 million for the full year 2006.

The sum of the estimated equity values for both the UAE operations (incl. Egypt) at AED21.8 per share and the Saudi operation at AED4.6 per share imply an estimated long-term fair value for Etisalat of AED26.3 per share, 14% below our previous estimate and 56% over and above the current market price.

iii) Valuation of Pakistani Operation (PTCL)

In 1Q2006, the Etisalat consortium finalized the deal with the Privatization commission of the Pakistani government to buy 26% stake in Pakistan Telecom (PTCL) for USD2.6 billion valuing the whole company at USD10.0 billion. PTCL has 5.1 million fixed line subscribers representing a market share of 98% and 8.9 mobile subscribers representing a market share of 21%. It is worth mentioning that we estimate the equity value of Orascom Telecom (OT) Pakistani mobile subsidiary, Mobilink, which has a 54% market share and 20 million subscribers at USD4.8 billion. PTCL's 100%-owned mobile subsidiary, Ufone, comes second in terms of market share among five other mobile players.

Etisalat's share of the net profit of PTCL is consolidated based on the equity method. Etisalat's 26% share in the Pakistani operation's net profit represents 3% of our estimate of Etisalat's consolidated bottom line in 2007 while it accounts for 2% of our estimated fair value for Etisalat which is partially due to forecasting a relatively higher growth and profitability for the

Saudi operation. At the current market price, Etisalat's stake in PTCL is valued at AED3.9 billion representing around 5% of Etisalat's market capitalization. Excluding the estimated equity value of the Egyptian, Pakistani and Saudi operations our estimated equity value for the UAE operation, and after adjusting downward our cost of equity to account for the lower UAE risk, would be equal to AED94.5 billion.

Table 1.2: Etisalat's Sum-of-The-Parts DCF Valuation

(AED mn)	2006e	2007e	2008e	2009e	2010e	2011e	2012e
Etisalat*							
COPAT	6,824	8,245	8,711	9,093	9,136	9,108	9,079
Capex & Chg. In WI	(1,623)	(2,016)	(2,396)	(1,838)	(1,745)	(1,247)	(1,353)
FCF	5,201	6,229	6,315	7,255	7,390	7,861	7,726
WACC	10.5%						
Terminal Growth	4.0%						
EV	100,677						
Net Debt (Cash)	1,947						
Equity Value	98,730						
Equity Value per share	21.8						
Etihad Etisalat							
COPAT	1,978	4,063	5,179	5,719	5,933	5,937	5,994
Capex & Chg. In WI	(2,209)	(1,686)	(1,103)	(514)	(268)	(1,112)	(433)
FCF	(230)	2,146	3,745	4,824	5,260	4,409	5,142
WACC	10.3%						
Terminal Growth	4.0%						
EV	67,127						
Net Debt (Cash)	7,738						
Equity Value	59,390						
Etisalat Equity Stake (35%)	20,786						
Equity Value per share	4.6						
Long Term Fair Value	26.3						

*includes the fully consolidated Egyptian operations and equity investment in the Pakistani Operation

Source: EFG-Hermes

Upside/Downside Risks to Our Valuation

The role of the Regulatory Authorities is key as competition grows

The market share that Etisalat is expected to lose, whether in its home market or in Saudi Arabia, is highly dependent on the degree of market deregulation in both markets. Should the telecom authority in the UAE pursue asymmetrical regulation, allowing du to pursue aggressive strategies to gain subscribers, Etisalat would lose more market share than we anticipate. Furthermore, if the CITC in Saudi allows the third operator to pay a much lower license fee for the third mobile license and to lower its tariffs aggressively compared to the other two mobile operators, this would give the third entrant an edge over the incumbents, eroding their market shares faster than we anticipate.

MNP could be a double-edged sword

We incorporate the impact of MNP starting the second half of 2006 in the Saudi market. However, since MNP is a novel service with Saudi Arabia and Oman among the first GCC countries to implement it, it is very difficult to forecast a pattern for subscriber transfer. MNP churn to Mobily could be higher than we anticipate in the first year and a half, while churn lost to the third operator from 2008 could also be higher, depending on its strategy for gaining market share, thus negatively affecting Mobily market share.

Etisalat Egypt might have room for positive surprise

Given the dynamic nature of the telecom market in Egypt and the limited information we have regarding Etisalat Egypt operations and strategy, we do not exclude the possibility of a positive surprise once the third entrant starts delivering services. For now, we remain conservative and await the commencement of operations in early 2007.

Acquisition talks underway...

Etisalat is currently involved in negotiations with several telecom operators, including Sri Lanka Telecom, the country's incumbent fixed line operator and Yemeni mobile operator, Sabafon. This is in addition to talks with operators in India, Europe and Africa to buy stakes. There has been no indication as to the success of any of these negotiations. Therefore, we did not incorporate the impact of these potential deals due to the high level of uncertainty and lack of information surrounding them.

Will the overbidding continue...?

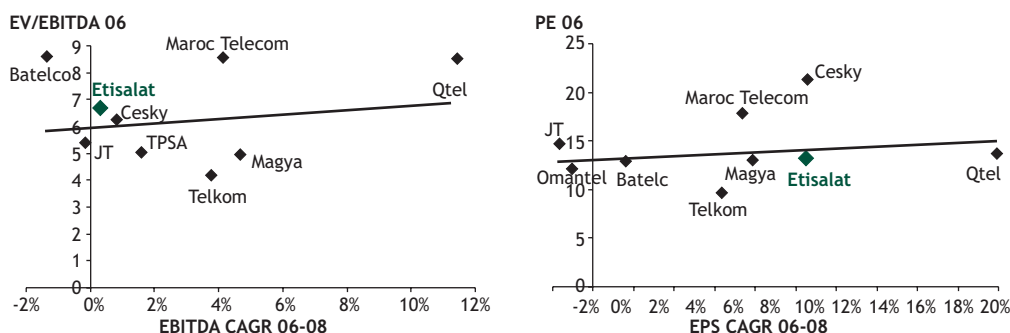
Concerns Regarding Etisalat Acquisitions

We believe that the high price paid for the third mobile license in Egypt will set a higher benchmark for regulators and governments in the region aiming to sell new licenses or existing telecom assets. Given Etisalat's track record in bidding high for licenses, we are concerned that this pattern will continue. Even though Etisalat is currently not highly leveraged, with an EBITDA/Net Debt ratio of 2.3x, we believe that to continue to acquire new licenses/telecom assets if they are not value accretive will eventually affect both the company's growth profile and fair value estimate in the long term.

B. Comparable Valuation

Etisalat is slightly expensive/fairly valued on forward EV/EBITDA multiples while it is trading at a discount on forward P/E multiples compared to the EMEA sector average. The consolidation of the Egyptian operation and its start-up nature lead to downward pressure on EBITDA in 2007e and 2008e, with Etisalat trading on EV/EBITDA multiples of 6.5x and 6.2x, respectively. However, we expect that Mobily earnings in Saudi Arabia will start to have a material impact going forward, accounting for 13% of pre-royalty earnings in 2010, thus partially offsetting the negative impact of competition in the UAE and the start-up metrics of the Egyptian operation. In Etisalat is trading at 5.6x 2009e EV/EBITDA and 10.2x 2009e P/E multiples, respectively.

Figures 1.3 and 1.4: Etisalat Multiples Compared to EMEA Peers



Source: Reuters and EFG-Hermes estimates

Etisalat's dividend yield, at 2.6% (2006e), is relatively low compared to peers in the EMEA region (trading on an average of 5.9% yield). We forecast 10% growth in dividends paid in 2006 over 2005, representing a 34% payout ratio. We believe that as opportunities in the telecom industry narrow, Etisalat will be encouraged to return cash to its shareholders, especially with a free cash flow yield forecast to double from 5.5% in 2006 to 9.7% in 2009.

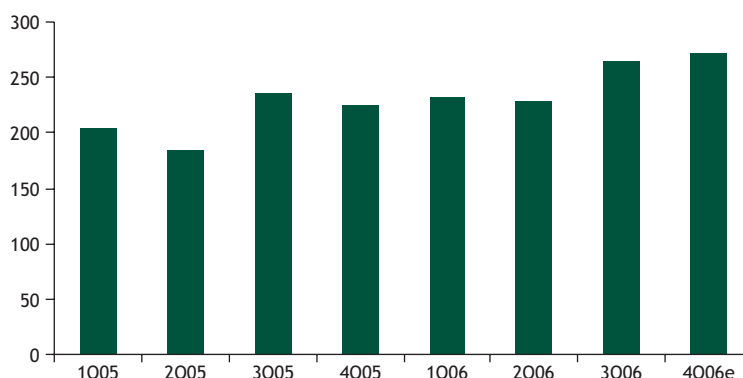
II. FINANCIAL ANALYSIS AND FORECASTS

A. UAE (Local Operation)

Mobile subscriber growth continues despite penetration exceeding 100%

Despite the mobile market exceeding 100% penetration, Etisalat continued to add mobile subscribers vigorously in 9M2006. The company added approximately 460,000 subscribers in 1H2006, which is equal to our previous forecast for the full year. 3Q2006 was the best quarter in terms of subscriber additions with 264,000 new subscribers in the three months ending September, thus raising the number of mobile subscribers to 5.3 million, 22% Y-o-Y growth. The number of fixed and internet lines also rose 4% and 34% Y-o-Y to 1.3 million and 0.6 million lines, respectively, in 3Q2006.

Figure 2.1: Etisalat Quarterly Mobile Subscriber Additions in 2005-06



Sources: Etisalat and EFG-Hermes estimates

Revenue, EBITDA and net profit continue to grow strongly

Etisalat reported a 26% Y-o-Y rise in local net revenues to AED11.8 billion in 9M2006, mostly due to the significant rise in mobile subscribers and, to a lesser extent, to the growth in fixed and internet lines. We estimate from 9M2006 financials that EBITDA rose 29% Y-o-Y to AED9.6 billion, implying an EBITDA margin of 71% versus 66% in 9M2005. The improvement in the EBITDA margin is partially attributable to the decline in both out-payments to telecom operators, the result of negotiating lower settlement rates, and discounts to dealers during 9M2006 versus the same period last year. After the payment of 50% of pre-royalty profit in royalties, Etisalat recorded a 36% rise in its bottom line to AED4.4 billion in 9M2006, up from AED3.2 billion in 9M2005.

We revise our UAE market forecasts and our forecast for Etisalat's local operations to reflect the following: i) The aggressive uptake of mobile subscribers by Etisalat in preparation for the imminent competition in its home market. ii) We believe that the market share loss of Etisalat following the entry of the second mobile operator, du, will be higher than suggested by our old estimates, especially with the introduction of Mobile Number Portability (MNP), expected in 2007. iii) The higher-than-expected EBITDA margin in 9M2006. The EBITDA margin reached 71% in 9M2006 while our expectation for the year was for 60%. iv) The TRA's recent statement announcing the gradual lowering of the royalty paid by Etisalat to 40% over the coming 3-4 years. We had previously forecast a gradual 5% decline in the royalty paid by Etisalat starting in 2006, stabilizing at 30% of pre-royalty earnings in 2009.

Du expected to gain 20% fixed line market share by 2012...

Penetration and Subscribers

du, the second telecom operator in the UAE, is expected to launch mobile services in early 2007 while advanced fixed line and convergence services will be launched subsequently in phases. du currently offers fixed line, internet and Pay-TV services after purchasing the telecom assets of TECOM investments at the beginning of 2006. We believe that churn from Etisalat will be central for du's success. Furthermore, we forecast higher churn with the forthcoming implementation of MNP. Accordingly, we have become more bullish on du's prospective market share in both the fixed and mobile. We revise our market share estimates, forecasting that du will gain 15% market share in fixed line in 2010, rising further to 20% in 2012 versus our previous projections of 10% and 12%, respectively, in the same years.

Table 2.2: UAE Fixed line Market Indicators

	2004	2005	2006e	2007e	2008e	2009e	2010e	2011e	2012e
Population (mn)	3.9	4.1	4.4	4.7	5.0	5.3	5.5	5.8	6.1
Teledensity	30.7%	30.1%	29.8%	30.0%	31.0%	32.4%	33.8%	35.0%	35.8%
Fixed Line Subscriber Additions (mn)	0.05	0.05	0.05	0.07	0.09	0.11	0.10	0.09	0.08
Total Fixed Line Subscribers (mn)	1.2	1.2	1.3	1.4	1.5	1.7	1.9	2.0	2.2
Etisalat Share of Net Additions	100%	100%	67%	75%	70%	65%	60%	55%	55%
Etisalat Fixed line Subscribers (mn)	1.19	1.24	1.29	1.34	1.42	1.52	1.60	1.67	1.75
Market Share of Etisalat	100%	100%	98%	96%	92%	89%	85%	82%	80%
du Share of Net Additions	0%	0%	33%	25%	30%	35%	40%	45%	45%
du Fixed Line Subscribers (mn)	-	-	0.02	0.06	0.12	0.19	0.28	0.36	0.44
Market Share of du		0%	2%	4%	8%	11%	15%	18%	20%

Sources: Ministry of Planning in UAE, Etisalat and EFG-Hermes estimates

...and 38% mobile market share over the same period

We estimate the mobile market grew by 22% to end 2006 at 5.5 million subscribers versus our old estimate of 5.0 million, with the penetration rate exceeding 125%. With the expected implementation of MNP, we expect higher churn from Etisalat to du and for the latter to secure a market share of 28% within three years, rising further to 38% after five years of operation versus our old estimates of 10% and 20% respectively. Please refer to our initiation of coverage on du "Finding Growth in a Mature Market" - 9 January 2007 for further details regarding our assumption on du's and its strategy.

Table 2.3: UAE Mobile Market Indicators

	2004	2005	2006e	2007e	2008e	2009e	2010e	2011e	2012e
Population (mn)	3.9	4.1	4.4	4.7	5.0	5.3	5.5	5.8	6.1
Addressable Mobile Market (est) (%)	134%	136%	138%	139%	141%	141%	141%	141%	141%
Addressable Mobile Market (mn)	5.2	5.6	6.0	6.5	7.0	7.4	7.8	8.2	8.6
Total Mobile Subscribers (mn)	3.7	4.5	5.5	6.2	6.6	7.1	7.6	8.1	8.5
Growth in Mobile Subscribers	24%	23%	22%	13%	7%	7%	7%	6%	5%
Mobile Subscriber Additions (mn)	0.7	0.9	1.0	0.7	0.4	0.5	0.5	0.5	0.4
Penetration Rate (pop)	95%	110%	126%	133%	134%	135%	137%	138%	139%
Penetration to Addressable	71%	81%	92%	96%	95%	96%	97%	98%	99%
Etisalat Mobile Subscribers (mn)	3.7	4.5	5.5	5.7	5.3	5.2	5.1	5.1	5.2
Etisalat Share of Net Additions	100%	100%	100%	64%	61%	55%	50%	50%	50%
Market Share of Etisalat	100%	100%	100%	91%	80%	72%	67%	64%	62%
du Mobile Subscribers (mn)	-	-	-	0.57	1.33	1.96	2.50	2.93	3.24
du Share of Net Additions	0%	0%	0%	36%	39%	45%	50%	50%	50%
Market Share of du	0%	0%	0%	9%	20%	28%	33%	37%	38%

Sources: Ministry of Planning in UAE, Etisalat and EFG-Hermes estimates

Revenue and EBITDA

Given the better-than-expected 9M2006 results, we have revised our estimates for net revenue and EBITDA upwards by 12% and 16% respectively for 2006 and 17% and 15% for 2007. We also revise our EBITDA margin estimates upwards, given the higher-than-expected rise in margin over the nine months of 2006. We estimate Etisalat will close the year with an EBITDA margin of 68% versus our previous expectations of 60%. Furthermore, we believe that Etisalat EBITDA margin will decline to the mid 50s over the projection period as a result of the anticipated competition. Of course the steepness of decline of the EBITDA margin is highly dependent on the intensity of the competition between Etisalat and du. Should du prove to be a tough opponent, we believe the EBITDA margin could fall lower than our forecasts.

Table 2.4: Etisalat Financial Highlights for its Local Operations
(New versus Old Estimates - 2006 and 2007)

(AED mn)	2006			2007		
	Old	New	Chg.	Old	New	Chg.
Gross Revenue	17,769	18,134	2%	19,328	20,205	5%
Net Revenue	14,191	15,826	12%	14,993	17,471	17%
EBITDA	10,643	12,345	16%	10,795	13,103	21%
EBITDA Margin	60%	68%		56%	65%	

Source: EFG-Hermes estimates

B. Saudi (Mobily)

Mobily's better-than-expected performance over the nine months...

As expected, Mobily continued to surprise positively in 9M2006, adding 2.5 million mobile subscribers to reach 4.8 million subscribers at the end of September 2006 versus our previous full year forecast of 4.9 million in 2006. The EBITDA margin turned positive in late 4Q2005, almost six months ahead of our expectations. Furthermore, Mobily's generated a net profit of AED362 million (SAR370 million) in 9M2006 as opposed to our full year forecast of a bottom line loss of AED1.0 billion. Therefore, we revise our forecasts for Mobily to reflect the significant improvement in its performance since it began operations in May 2005.

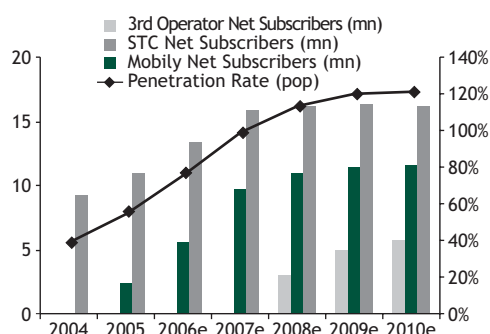
...coupled with mobile market out-performance leads to an upward revision in our forecasts

We revise our Saudi market forecasts upward to reflect the following:

i) The higher-than-expected growth in subscriber additions in 9M2006 by both STC and Mobily. We estimate that the total Saudi mobile market grew by 43% y-o-y to 19.0 million subscribers in 2006 versus our old growth forecasts of 35% and subscribers estimate of 17.0 million. This implies a new mobile penetration estimate of 75% at the end of 2006 (versus our old estimates of 69%), with penetration exceeding the 100% mark in 2007-2008, two years earlier than previously forecast.

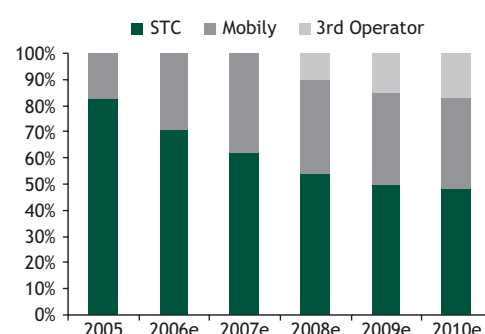
ii) We become more aggressive on the churn lost from the existing mobile operators to the new entrant (which we estimate to start operation by 1H2008 rather than our previous estimate of a mid 2007 start) due to the implementation of Mobile Number Portability (MNP) in 2H2006. Still, we forecast STC will remain the market leader, with a 48% market share in 2010 while we project Mobily to retain a market share in the early-to-mid 30s over the coming five years. Since by the time the third operator enters the market, the penetration rate would have exceeded the 100% mark, we believe that competition by that time will mostly be priced-based and that the third mobile operator will mostly gain subscribers through churn bolstered by MNP.

Fig. 2.5: Mobile Subscribers and Penetration Rate in KSA



Sources: Companies and EFG-Hermes estimates

Fig. 2.6: Market Share of Mobile Operators in KSA



We estimate Mobily subscribers reached 5.6 million by end 2006

We estimate Mobily added an average of 275 thousand subscribers per month to close the year at 5.6 million, more than half a million higher than our previous estimates. This implies a market share of 29% at the end of 2006. We also increase the churn lost from STC to Mobily in 2006 and 2007 to reflect the expected loss of subscribers in the aftermath of the implementation of MNP that was recently announced by the CITC, the telecom regulator in Saudi. We assume an ARPU dilution of 9% annually over the coming 4-5 years.

However, a cash rich third mobile operator with deep pockets could make competition tougher by initiating a price war, and this, we believe, would push ARPU dilution much faster and steeper than we currently anticipate.

Mobile Operators launched 3G/3.5G services in June 2006

Mobily launched its 3rd Generation mobile service (3.5G) in the Saudi market two weeks following STC's launch of 3G services in early June. Services offered include video conferencing, video streaming, and high speed internet. We do not expect Mobily's revenue from 3G services to be high, at least in the early stages of introduction, since its still an expensive service that require special handsets.

2006 Revenues, EBITDA and net profit estimates for Mobily revised upwards

Given the start-up nature of Mobily, which is difficult to forecast in the early stages of operation and the substantial improvement in its operation in 9M2006, we revise our revenue, EBITDA and net profit estimates upwards. We estimate Mobily will end the year at SAR6.3 billion (AED6.2 billion) in revenues, SAR2.0 billion (AED1.9 billion) in EBITDA and SAR711 million (AED696 million) in net profit versus our old estimates of SAR4.9 billion, SAR0.2 billion and a loss of SAR1.0 billion, respectively.

Table 2.7: Etihad Etisalat (Mobily) Financial Indicators

Figures in AED unless otherwise stated	2005	2006e	2007e	2008e	2009e	2010e
Mobily Subscribers (mn)	2.33	5.58	9.73	10.92	11.45	11.61
ARPU (AED)	189	127	110	94	88	86
ARPU (USD)	52	35	30	26	24	23
Gross Revenues (mn)	1,646	6,162	10,280	11,661	11,850	11,842
EBITDA (mn)	12	1,978	4,063	5,178	5,718	5,932
EBITDA Margin (%)	1%	32%	40%	44%	48%	50%

Source: EFG-Hermes estimates

Etisalat Snatches entry Into one of the remaining growth markets in the region

C. Egypt

i) Etisalat Awarded Egyptian Mobile License

On the 4th of July 2006, the consortium led by Etisalat won the bid for the third Egyptian mobile license, offering 2G and 3G services, for a total consideration of USD2.9 billion (AED10.6 billion/ EGP16.7 billion). The Etisalat consortium was the highest bidder in the three rounds of the auction, starting at USD1.9 billion (AED6.94 billion) and ending at a knock out USD2.9 billion (AED10.64) billion, eliminating the MTC consortium in the final round.

Table 2.8: Bidders in the Three Bidding Rounds for the Third Egyptian Mobile License

First Round		Second Round		Third Round	
Bidders	USD bn	Bidders	USD bn	Bidders	USD bn
Etisalat	1.9	Etisalat	2.4	Etisalat	2.9
TE	1.3	MTC	2.1	MTC	2.5
MTC	1.3	Qtel	2.1	Qtel	2.1
Qtel	1.2	TE	1.9		
MTN	1.1				
Turkcell	1.0				
Wataniya	0.9				
Telenor	0.9				
MTS	0.9				

Source: Local Egyptian Newspapers

The winning consortium comprises of Etisalat, holding a 66% stake, the Egyptian National Postal Authority holding 20%, the National Bank of Egypt holding 10% and Commercial International Bank holding the remaining 4%. The Etisalat consortium announced that it plans to sell 20% of the mobile operator on the stock market, after commencing operations, which is expected in February 2007. The third operator is obliged to pay the Egyptian Government 6% of its revenues as annual royalty.

In August 2006, the consortium paid the USD2.9 billion license fees in cash on a pro-rata basis and declared the legal name of the company to be "Etisalat Egypt". Etisalat paid USD1.4 billion for its stake in cash and the remaining USD0.5 billion was obtained from Etisalat shareholders as a shareholder loan to be later converted into a long term loan. Etisalat initially plans to spend USD1.0 billion over the next 3 years in opex and capex and is targeting a market share of 30%.

ii) Egyptian Mobile Market

Currently, there are 14.6 million mobile subscribers in Egypt, implying a penetration rate of around 22%, with the incumbent operators MobiNil and Vodafone Egypt (VFE) having 50.5% and 49.5% market shares, respectively. MobiNil, one of the two leading operators, is 36%-owned by France-based Orange holding, 31%-owned by Orascom Telecom, with the remaining 33% divided between minorities and free float. Vodafone Egypt's shareholding structure is comprised of Vodafone Group owning 54.9% and Telecom Egypt owning 44.7%. Telecom Egypt (TE) is the sole fixed line operator in the market. The fixed line penetration rate currently stands at 14.9%. TE is expected to lose its monopoly over the international voice market in 2007. According to local media sources, both MobiNil and Vodafone are expected to reach an agreement with the NTRA regarding the international gateway and 3G license by end of January.

According to the NTRA, both MobiNil and VFE will each have to pay 20% of the price paid for the third license or EGP3.34 billion (USD580 million) in order to acquire a 3G license. Furthermore, in the event of their acquiring 3G licenses, both operators will pay an annual fee to the government equivalent to 6% of only 40% of their annual revenues which is equivalent to 2.4% of their annual revenues. The costs and benefits for both local operators of investing in 3G is explained in depth in our note "Raising Risk Levels" published on 15 July 2006.

iii) Our View From a Financial Perspective

The USD2.9 billion offered for the third mobile license exceeded even the most bullish expectations in the market. The price paid for Egypt's third mobile license implies a price/pop of USD40.4. This is the highest price/pop offered for a "third mobile license" in the region, while in absolute terms it is the second highest price for any mobile license in the region. It is worth noting that the highest price paid for a mobile license was also paid by Etisalat for Saudi's second mobile license. The price paid for the second Saudi license was USD3.2 billion, implying a price/pop of USD140. Prior to the announcement of the license award the combined market capitalization of both Mobinil and Vodafone Egypt (VFE) was USD5.7 billion, while their combined enterprise value was USD6.0 billion.

Table 2.9: Mobile Licenses Prices in the MENA Region

Country	Date	Operator	License	License Price (USD mn)	Revenue Share	Price/Pop (USD)	Population at License Acquis. (mn)	Penet. at License Acquis.	GDP per Capita 2005 (USD)
Saudi Arabia	2004	Etisalat	2nd	3,250	15%	139.5	23.3	22.0%	10,211
Tunisia	2002	Orascom Telecom	2nd	454	N/A	47.1	9.6	1.7%	3,154
Egypt	2006	Etisalat	3rd	2,909	6%	40.4	72.0	20.0%	1,297
Oman	2004	Q-Tel	2nd	104	12%	40.0	2.6	25.0%	10,316
Turkey	2000	IS TIM	3rd	2,525	15%	37.0	68.2	12.6%	4,744
Morocco	1999	Medi Telecom	2nd	902	1%	31.9	28.2	0.7%	1,758
Algeria	2001	Orascom Telecom	2nd	737	N/A	23.9	30.9	0.5%	2,971
Algeria	2003	Wataniya	3rd	421	N/A	13.1	32.2	4.5%	2,971
Egypt	1998	Mobinil Consortium	1st	516	N/A	7.8	66.0	0.1%	1,297
Egypt	1998	Vodafone	2nd	516	N/A	7.8	66.0	0.1%	1,297
Turkey	1998	Turkcell	1st	500	15%	7.6	66.0	5.5%	4,744
Iran	2005	MTN	2nd	360	28%	5.4	66.5	4.2%	2,810

Sources: Operators, Regulators, IMF and EFG-Hermes research

Our Opinion

The value of a mobile license is a function of the bidder's: i) operational forecasts/business model (penetration, market share, ARPUs, operating margins...etc) and; ii) the required internal rate of return (IRR) or the discount rate used. We believe that even applying a bullish set of assumptions (discussed in the valuation section) and a 13.0% discount rate, which we believe to be the minimum discount rate that can be applied for the third operator, creating value on this huge investment will be a very challenging job for Etisalat at least in the short to medium term.

III. CONSOLIDATED FINANCIALS

We estimate 2006 results are strong

We estimate 2006 was good for Etisalat. We forecast that consolidated gross revenue and EBITDA grew 12% and 16% to AED18.1 billion and AED15.8 billion, respectively, versus our old estimates of AED14.2 billion and AED10.6 billion. The EBITDA margin is also estimated to have risen from our old estimate of 60% to 68% in 2006. The revision of our forecasts is mostly due to Etisalat's impressive 9M2006 results and the promising 4Q2006 results.

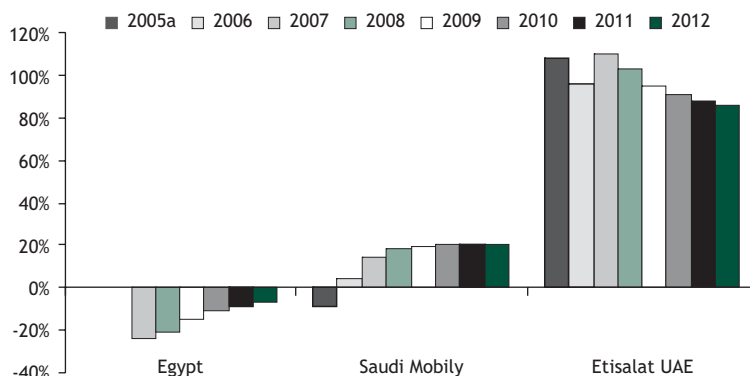
A dilution in margins starting 2007 due to the start-up nature of Etisalat Egypt

We expect to see the impact of consolidating Etisalat Egypt into Etisalat's financials starting 2007 as it is expected that Etisalat Egypt will start operations by 1H1007. Since we forecast the new operations will not turn EBITDA positive before the third year of operations, we forecast a dilution in Etisalat margins as a result of the startup nature of the Egyptian subsidiary in addition to the impact of domestic competition Etisalat will face from du. As a result, we forecast the consolidated EBITDA margin will fall steeply to 59% in 2007. We forecast that the EBITDA margin at the Group level will settle in the early 50s by 2012.

Mobily accounts for a larger portion of earnings going forwards

We estimate 37% y-o-y growth in FY2006 earnings to AED5.8 billion versus our old estimate of AED5.1 billion. We believe that the slowdown in earnings from the local operations (UAE) as a result of competition starting in early 2007 will be offset by the growing portion in earning from the Saudi operation (Mobily) (to reach 13% of pre-royalty earnings in 2010) and the relatively stable earnings from the Pakistani operation (5% of pre-royalty earnings in 2010). Given the current growth prospects of Etisalat, we believe that the company will grow earnings at a CAGR of 4% over our projection period (ending 2012).

Figure 3.1: Mix of Earnings at Etisalat from Different Operations



Source: EFG-Hermes estimates

IV. LATEST / POTENTIAL ACQUISITIONS

Nigeria

Etisalat extending its reach to Nigeria

In July 2006, an international consortium including Etisalat, the Nigerian Transitional Corporation and British Telecom won the bid for a 75% stake in NITEL, Nigeria's state-owned telecom operator, for USD750 million. NITEL has 86% market share in the fixed line market. MTEL, NITEL's wholly-owned mobile arm, has a 7% market share in the mobile market. This auction was the Nigerian government's third attempt to sell NITEL, which has approximately USD1 billion in debt and has underperformed over the past three years. In 2001, International Investors of London Company, consisting of a group of Nigerian business, offered USD1.2 billion for 51% stake in NITEL, but the deal collapsed as the company failed to come up with the cash within the time specified. In December 2005, Orascom Telecom offered USD257 million for the same stake, but the offer was rejected as it fell below the reserve price set by the government.

Even though Nigeria has four mobile operators, the mobile penetration rate is still 15% (June 2006), fixed line penetration is still less than 1% with two fixed line operators in the country. In November 2006, the deal was finalized and the Bureau of Public Enterprises (BPE) formally transferred the management of the company to the new owners. Etisalat has not yet indicated either its stake in the consortium and the means of financing its share in the license.

A possible presence Sri Lanka and Yemen

In October 2006, Etisalat announced that it is bidding to acquire both a controlling stake in Sri Lanka Telecom, the country's fixed line operator and TIM Hellas, Greece's third largest mobile operator. Sri Lanka Telecom, the country's incumbent has 78% market share in the fixed line market and 9% in the mobile market (2005) through its mobile arm, Mobitel. Nippon Telegraph and Telephone Corporation of Japan owns a 35 % stake in Sri Lanka Telecom. Fixed line and mobile penetration rates in Sri Lanka reached 6% and 16% (2005), respectively, with seven players in the mobile market.

In December 2006, Etisalat decided to withdraw from the race for TIM Hellas on the grounds that it is not worth the investment required, especially that mobile penetration in Greece currently exceeds 110% with four players in the market including TIM Hellas. TIM Hellas has 2.3 million (2005) mobile subscribers, representing 19% market share of the Greek mobile market.

Etisalat also announced that it has reached an advanced stage in negotiations with the shareholders of privately owned Yemeni mobile operator Sabafon. Fixed and mobile penetration rates in Yemen are 4% and 10% respectively (June 2006).

Afghanistan

Etisalat announced in April 2006 that it has reached an agreement with the government of Afghanistan to provide mobile telephony services in the country and is currently holding talks to provide fixed line services. Details concerning any license fees, if any, or capital expenditure have not yet been disclosed.

Other Possible Footprints

Etisalat is currently negotiating to acquire stakes in telecom operators in India. Etisalat is also eyeing markets in Europe and Africa.

Consolidated Financial Statements (December year end)

(AED mn)	9M2005	2005	9M2006	2006e	2007e	2008e	2009e	2010e
Balance Sheet								
Cash & Liquid Assets	7,656	9,659	7,664	6,718	8,051	14,300	19,673	23,982
Accounts Receivable & Prepayment	2,091	2,853	2,342	3,708	4,995	6,376	6,701	7,390
Due from Telecom Administrations	208	351	143	417	488	548	606	646
Net Accounts Receivable	2,299	3,204	2,485	4,125	5,483	6,924	7,307	8,036
Inventory	75	105	82	110	161	252	297	331
Total Current Assets	10,030	12,967	10,232	10,953	13,695	21,476	27,277	32,349
Net Plant	8,526	8,480	8,500	9,684	9,083	9,449	9,522	8,964
Investments	3,472	2,608	12,714	12,169	12,870	13,370	13,704	13,941
Intangibles			7,203	6,907	9,756	9,047	8,337	7,627
Total Assets	22,028	24,055	38,650	39,713	45,403	53,341	58,840	62,881
Bank Overdrafts		-		0	0	(0)	0	0
CPLTD		-		440	881	881	881	1,342
Accounts Payable*	4,871	5,127	7,672	5,641	7,043	7,942	8,338	8,833
Due to Other telecom Admin.	1,135	1,049	900	1,100	1,184	1,198	1,252	1,287
Total Payables	6,005	6,176	8,573	6,741	8,227	9,140	9,590	10,120
Dividends Payable		908		998	1,148	1,378	1,791	2,328
Accrued Expenses and Payables*		829	3,488	782	814	772	741	707
Total Current Liabilities	6,005	7,912	12,060	8,961	11,070	12,170	13,003	14,498
LTD		-	6,981	10,749	9,869	11,924	12,144	11,169
Employees' end of Service Benefits	414	417	449	429	442	455	469	483
Minority Interest			19	-	205	607	1,157	1,819
Total Liabilities & Provisions	6,419	8,329	19,508	20,140	21,586	25,156	26,774	27,969
Net Worth	15,609	15,726	19,141	19,573	23,817	28,185	32,067	34,911
Income Statement								
Gross Revenue**	11,338	15,568	13,537	18,134	20,677	22,078	23,012	23,717
Net Revenue	9,362	12,866	11,815	15,826	17,471	17,600	17,582	17,679
Cost of Services	(3,887)	(4,845)	(3,942)	(5,077)	(6,067)	(6,730)	(7,292)	(7,793)
SG and A		(915)		(712)	(2,324)	(2,947)	(3,042)	(3,026)
Govt. Rev. share and Magmt. Fees								
EBITDA	7,451	9,808	9,595	12,345	12,286	12,402	12,679	12,897
EBITDA Margin	66%	63%	71%	68%	59%	56%	55%	54%
Depreciation and Amortization	(914)	(1,373)	(957)	(1,475)	(2,411)	(2,567)	(2,788)	(2,978)
Net Operating Profit	6,537	8,435	8,638	10,869	9,876	9,834	9,890	9,919
<i>NOP (EBIT) Margin</i>	<i>58%</i>	<i>54%</i>	<i>64%</i>	<i>60%</i>	<i>48%</i>	<i>45%</i>	<i>43%</i>	<i>42%</i>
Net Interest Income (Expense)	(75)	281	152	195	(272)	(374)	(395)	(311)
Investment Income		(251)		16	19	24	32	41
Sundry Income		48.1		40.5	98.4	105.4	110.1	113.6
Consolidated Income (UAE+Egypt)	6,462	8,512	8,791	11,121	9,721	9,590	9,637	9,763
Income from Etihad Etisalat				243	860	1,223	1,411	1,500
Income from PTCL		-		323	342	410	485	558
Income before Royalty Fees	6,462	8,512	8,791	11,687	10,923	11,223	11,533	11,820
Royalty fees	(3,231)	(4,256)	(4,405)	(5,844)	(5,134)	(4,826)	(4,613)	(4,728)
Income after Royalty Fees		4,256		5,844	5,789	6,397	6,920	7,092
Minority Interest		-		-	751	726	543	409
NPAUI	3,231	4,256	4,386	5,844	6,540	7,123	7,463	7,501
Cash Flow Statement								
Cash Operating Profit after Tax		5,552		7,067	8,354	9,209	9,961	10,227
<i>Change Working Investment</i>		(371)		(409)	111	(662)	(9)	(266)
Cash Flow Post Chg in WI		5,181		6,658	8,465	8,547	9,952	9,961
Capital Expenditure		(1,247)		(2,679)	(1,100)	(2,224)	(2,151)	(1,711)
Free Cash Flow		3,934		3,979	7,365	6,323	7,801	8,250
Non-operating Cash Flow		(358)		(16,217)	(2,952)	1,115	1,294	1,468
Cash Flow before financing		3,575		(12,238)	4,413	7,438	9,096	9,718
Net Financing		(1,719)		9,297	(3,080)	(1,189)	(3,723)	(5,409)
Change in Cash		1,857		(2,941)	1,333	6,249	5,373	4,309

*9M2006 include amounts payable on acquisition of the stake in the Egyptian license

**Revenue is calculated before deducting net outpayments to other telecom administrations and discounts and rebates and is EFG-Hermes estimate

Sources: Etisalat and EFG-Hermes estimates

DISCLOSURES

I, Daniyah Darwish, hereby certify that the views expressed in this document accurately reflect my personal views about the securities and companies that are the subject of this report. I also certify that neither I nor my spouse or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this report.

EFG-Hermes Holding hereby certifies that neither it nor any of its subsidiaries owns any of the securities that are the subject of this report. Funds managed by EFG-Hermes Holding and its subsidiaries for third parties may own the securities that are the subject of this report. EFG-Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion.

The Investment Banking division of EFG-Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

DISCLAIMER

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG-Hermes believes to be reliable, we do not guarantee its accuracy, and such information may be condensed or incomplete. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs. No part of this document may be reproduced without the written permission of EFG-Hermes.