



Results Review

Etisalat

Rating: Outperform

Etisalat Q1 2010

- Etisalat reported Q1 2009 results with net income of AED 1,944mn (+0.2% qoq, -8.4% yoy), 5.6% below our expectations, with a net income margin of 25.1%.
- Revenues grew yoy to reach AED 7,944mn (-4% qoq, +5% yoy) and 5.3% above our expectations, with revenue split of 74.9% from the UAE operations and 20.6% from international operations, with international revenue growing by 237% yoy to AED 1,634mn.
- Whilst revenues are above expectations, net income has been below expectations. Opex has increased by 22.3% yoy, pushing EBITDA margins down to 54.3% from 60.8% a year ago. We believe this could be a result of start up cost associated with overseas investments, especially India. As of YE 2009 Etisalat had invested over AED 1.6bn in capex in India with no revenues to offset the associated opex, depreciation and amortisation. Indian operations should start generating revenue from Q2 2010, as Etisalat has carried out a soft launch in 5 circles in India under the "Cheers" brand. However for 2010 we estimate Indian operations will only contribute 1.25% (AED 391.5mn) to Etisalat's top line.
- Etisalat continued with its investments in UAE FTTH and also abroad with capex of AED 1,540mn, giving capex/sales of 19.3% for Q1 2010. The result of ongoing capex has resulted in quarterly depreciation and amortisation increasing 44.5% yoy to AED 701.7mn from AED 485.7mn resulting in EBIT margins of 45.5%, down from 54.4% a year ago.
- UAE mobile subscribers fell by 30,000 in Q1 2010 to 7.71mn. This does not come as a surprise, after mobile subscribers having grown very strongly in Q4 2009 with 300,000 net adds and is actually below our estimated loss of 34,000 mobile subscribers. Etisalat's reported mobile subscribers are now 100% active as per the TRA's definition.
- UAE internet subscribers increased by 50,000 to 1.38mn (+3.8% qoq, +14.8% yoy) whilst UAE fixed line subscribers declined by 10,000 to 1.30mn (-0.8% qoq, -3.6% yoy).
- Based on our projections Etisalat is trading on a 2010PE of 8.9x and 2010 EV/EBITDA of 3.7x, a discount of 38% and 29% respectively relative to its peer group. We maintain our *Outperform* rating on the company, with a bonus share adjusted DCF derived target price of AED 14.66, giving 45.6% upside to the current price.

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Etisalat	Q1 2010A	Q1 2010E	Q1 2009A	Q4 2009A	YOY	QOQ	AMC
Revenue, AED mn	7,944	7,543	7,566	8,278	5.0%	-4.0%	5.3%
EBITDA, AED mn	4316	4,664	4,600	4624	-6.2%	-6.7%	-7.5%
EBITDA Margin	54.3%	61.8%	60.8%	55.9%			
EBIT, mn	3,641	3,973	4,115	3,909	-11.5%	-6.9%	-8%
EBIT Margin	45.8%	52.7%	54.4%	47.2%			
Earning, AED mn	1,994	2,113	2,178	1,990	-8.4%	0.2%	-5.6%
Net Income Margin	25.1%	28.0%	28.8%	24.0%			
EPS, AED	0.25	0.28	0.27	0.25	-8.4%	0.2%	-5.6%
UAE Mobile Subscribers, mn	7.710	7.706	7.341	7.740	5.0%	-0.4%	0.1%
UAE Mobile Net Adds, 000s	(30)	(34)					
UAE Fixed Line, mn	1.300	1.29	1.349	1.310	-3.6%	-0.8%	0.9%
UAE Fixed Line Net Adds, 000s	(10)	(21)					
UAE Internet, mn	1.380	1.395	1.202	1.330	14.8%	3.8%	-1.1%
UAE Internet Net Adds, 000s	50	65					

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