

19 July 2010

Etisalat

2Q10, 1H10 results below consensus

Buy

Target price
Dh13.60

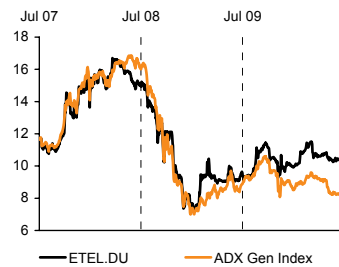
Price
Dh10.35

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	10.35	10.75	9.36
Absolute (%)	0.0	-3.7	10.6
Rel market (%)	-0.5	9.0	15.5
Rel sector (%)	4.0	31.3	39.8



Market capitalisation
Dh81.83bn (€17.23bn)

Average (12M) daily turnover
Dh10.95m (US\$2.94m)

Sector: DFM Telecoms
RIC: ETEL.DU, ETISALAT.UH
Priced at close of business 15 Jul 2010.
Source: Bloomberg

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (Dhm)	29,360	30,831	32,017	33,399	35,050
EBITDA (Dhm)	9,036	11,349	11,660	12,206	12,695
Reported net profit (Dhm)	8,511	8,836	8,361	9,055	9,875
Normalised net profit (Dhm)	8,511	8,836	8,361	9,055	9,875
Normalised EPS (Dh)	1.08	1.12	1.06	1.15	1.25
Dividend per share (Dh)	0.45	0.55	0.6	0.6	0.6
Dividend yield (%)	4.39	5.27	5.8	5.8	5.8
Normalised PE (x)	9.61	9.26	9.79	9.04	8.29
EV/EBITDA (x)	8.18	6.61	5.99	5.54	4.77
EV/invested capital (x)	2.67	2.23	2.17	1.96	1.85
ROIC - WACC (%)	0	0	0	0	0

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Net profit weaker than expected

Consolidated net profit for 1H10 was Dh3.9bn, equivalent to earnings per share of Dh0.49, declining 15% from Dh4.6bn recorded during the same period in 2009. Consolidated net profit for 2Q10 was Dh1.9bn compared to Dh2.4bn in the same period last year. According to Bloomberg, Etisalat's reported net profit is below consensus estimate of Dh2.025bn.

Revenue grew by a modest 2%

Consolidated 1H10 revenue grew by 2% yoy to Dh16bn, from Dh15.7bn during the same period in 2009. During the second quarter, revenue reached Dh8.1bn, remaining stable vs the 2Q09 figure.

Subscriber growth comes to a screeching halt

At the end of June 2010, Etisalat had 7.8m mobile subscribers in the UAE compared to 7.7m at the end of March 2010. Meanwhile, fixed-line subscribers declined to 1.28m at the end of June 2010 compared to 1.30m at the end of March 2010. Total internet subscribers reached 1.39m at the end of June 2010, compared to 1.38m at the end of March 2010.

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Important disclosures can be found in the Disclosures Appendix.

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Key takeaways

Etisalat's results were broadly in line with our overall forecasts, but we await the full financial results before commenting. Until then, we maintain our year-end forecasts and target price of Dh13.60 per share.

Commenting on the results, Mohammad Omran, Chairman of Etisalat, said, "Etisalat has followed a powerful strategy to offset the potential impact of today's global economic conditions which continue to affect the results of companies around the world. We have seized opportunities to stand strong and have faced all the challenges and continue to achieve exceptional results."

"The international markets have seen a great deal of fluctuation, but in spite of this we have been able to deal with this situation through a practical strategy which is based on maximizing positives and reducing the negative impact as much as possible. Despite the unique circumstances that the global economy finds itself, we have received strong contributions from our international subsidiaries well in advance of the business plan. This encourages us to continue our international expansion worldwide."

Nasser Bin Obood Al Falasi, Acting CEO for Etisalat, said: "Since 2005 Etisalat has followed a strategy that looks to diversify its income in the UAE. We have done this by launching new services to increase revenue and reducing our reliance on mobile. Most recently we have introduced the latest broadband services which are supported by our fiber-to-the-home network."

"Etisalat has followed a strategy which is appropriate to the economic circumstances that we have faced. This involved achieving vertical growth in the minutes and activating the packages and offers which increase usage of broadband services. Additionally we launched new bundles and services based on the FTTH network such as the 50 fils international calls offer, increasing the availability and capacities of Internet and TV services while providing added value and innovation to our customer service channels."

Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	29360	30831	32017	33399	35050
Cost of sales	-3319	-3840	-3988	-4160	-4366
Operating costs	-17004	-15642	-16370	-17033	-17989
EBITDA	9036	11349	11660	12206	12695
DDA & Impairment (ex gw)	-2484	-2535	-3353	-3245	-2987
EBITA	6552	8815	8307	8961	9708
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	6552	8815	8307	8961	9708
Net interest	-148.4	11.6	388.2	453.9	519.1
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	1784	0.00	0.00	0.00	0.00
Reported PTP	8187	8827	8695	9415	10228
Taxation	-187.0	-243.8	-173.9	-141.2	-102.3
Minority interests	510.6	253.6	-159.8	-218.6	-249.9
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	8511	8836	8361	9055	9875
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	9036	11349	11660	12206	12695
Normalised PTP	8187	8827	8695	9415	10228
Normalised net profit	8511	8836	8361	9055	9875

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	11295	11309	16927	18034	21847
Other current assets	6128	8253	8095	8161	8194
Tangible fixed assets	13101	17585	19245	20903	21359
Intang assets (incl gw)	16204	16778	15818	14816	13764
Oth non-curr assets	16190	17452	17061	16873	16831
Total assets	62918	71379	77145	78787	81995
Short term debt (2)	722.3	1079	0.00	0.00	0.00
Trade & oth current liab	20694	22409	25427	25575	23261
Long term debt (3)	2644	3422	3802	574.8	337.7
Oth non-current liab	3237	4079	3750	3940	4318
Total liabilities	27298	30989	32978	30090	27917
Total equity (incl min)	35620	40389	44167	48697	54078
Total liab & sh equity	62918	71379	77145	78787	81995
Net debt	-7928	-6808	-12010	-14232	-21272

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	9036	11349	11660	12206	12695
Change in working capital	1319	-153.6	2061	852.7	642.7
Net interest (pd) / rec	12.2	193.4	388.2	453.9	519.1
Taxes paid	-87.9	-86.0	-173.9	-141.2	-102.3
Other oper cash items	329.0	-985.1	-159.8	-218.6	-249.9
Cash flow from ops (1)	10609	10318	13776	13153	13505
Capex (2)	-3908	-6798	-4052	-3902	-2391
Disposals/(acquisitions)	3869	0.00	0.00	0.00	0.00
Other investing cash flow	-2875	-166.0	391.0	188.8	42.0
Cash flow from invest (3)	-2914	-6964	-3661	-3713	-2349
Incr / (decr) in equity	0.00	0.00	117.6	811.4	1632
Incr / (decr) in debt	-2397	485.9	225.1	-4030	-3112
Ordinary dividend paid	-3244	-3893	-4744	-4744	-4744
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	-96.3	-370.3	-1119
Cash flow from fin (5)	-5642	-3407	-4497	-8332	-7343
Forex & disc ops (6)	-190.2	67.7	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	1862	14.3	5618	1108	3813
Equity FCF (1+2+4)	6701	3520	9724	9251	11114

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Etisalat (RIC: ETEL.DU, Rec: Buy, CP: Dh10.35, TP: Dh13.60): To arrive at our target price, we use an equal weighting of valuations based on multiples, sum of the parts and DCF. The company's two main risks are a prolonged pricing war with Du and overpaying for licences and acquisitions.

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