RASMALA

19 October 2011

Etisalat

9MFY11 results on track

Buy

Target price
Dh12.89

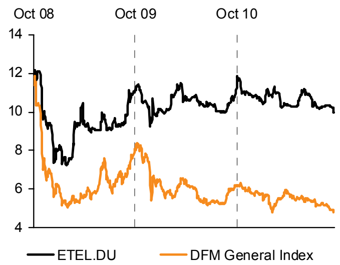
Price
Dh9.99

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	10.30	10.90	11.55
Absolute (%)	-3.0	-8.3	-13.5
Rel market (%)	4.9	3.5	10.8
Rel sector (%)	5.3	3.1	-5.8



Market capitalisation
Dh78.98bn (€15.65bn)

Average (12M) daily turnover
Dh15.04m (US$4.12m)

Sector: DFM Telecoms
RIC: ETEL.DU, ETISALAT UH
Priced Dh9.99 at close 18 Oct 2011.
Source: Bloomberg

Etisalat's 9MFY11 results (period end Sept-11) revealed an 8.4% yoy decline in net profit despite a 2.9% yoy increase in consolidated revenue, in line with our forecasts for the full year. No change to our estimates; maintain Buy and Dh12.89 target price on 29% upside and healthy 6% yield.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Dhm)	30,831	31,929	32,578	34,390	36,021
EBITDA (Dhm)	11,349	9,981	9,906	10,256	12,266
Reported net profit (Dhm)	8,836	7,631	6,983	7,344	9,329
Normalised net profit (Dhm)	8,836	7,631	6,983	7,344	9,329
Normalised EPS (Dh)	1.12	0.97	0.88	0.93	1.18
Dividend per share (Dh)	0.55	0.60	0.60	0.60	0.60
Dividend yield (%)	5.46	6.01	6.01	6.01	6.01
Normalised PE (x)	8.94	10.35	11.31	10.75	8.47
EV/EBITDA (x)	6.36	7.52	7.51	6.88	5.25
EV/invested capital (x)	2.15	1.94	1.86	1.82	1.74
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS — year to Dec, fully diluted
Source: Company data, Rasmala forecasts

9MFY11 consolidated revenue of Dh24bn is on track to achieve our full-year estimates

Revenue growth at the end of 9MFY11 came in at 2.9% yoy with Etisalat posting consolidated revenue of Dh24bn. The main reason for the relatively weak top-line growth was a decline in the performance of its UAE segment of operations, which constitutes the bulk of Etisalat's consolidated revenue base. Revenue from the UAE declined by 0.8% yoy to reach Dh17.9bn at the end of 9MFY11, contributing 75% of total revenues versus 78% at the end of 9MFY10. We attribute the UAE slowdown to mobile subscriber market share losses to competitor, Du. According to Du, which posts UAE mobile market share statistics, Etisalat's active mobile market share slid to 56.4% at the end of June 2011 from 59.8% at the end of December 2010.

Net profit declined 8.4% yoy to Dh5.1bn; we estimate full year dividend yield at 6%

As a result of both higher operating expenses and lower net finance income at the end of 9MFY11, net profit declined 8.4% yoy to reach Dh5.1bn compared to Dh5.6bn at the end of 9MFY10. We believe Etisalat is losing focus on its core market, the UAE, which is its cash cow. We factor this into our forecasts, but see upside potential if Etisalat should reduce its cost base in the UAE to make itself more competitive against Du. Separately, Etisalat also declared the first interim dividend for FY11 at Dh0.25 per share; we expect total dividend distribution of Dh0.60 per share for FY11, an estimated dividend yield of 6%.

Maintain estimates, Buy recommendation and target price of Dh12.89

In general, Etisalat's 9MFY11 financial results are consistent with our FY11 estimates. We currently estimate that revenue for FY11 will grow 2.0% yoy, while net profit declines 8.5% yoy. Thus, we are not changing our estimates for Etisalat and we maintain our target price of Dh12.89 with a Buy recommendation based on upside potential of c29% and a healthy cash dividend yield estimate of 6% for FY11.

Analyst

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Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	30831	31929	32578	34390	36021
Cost of sales	-3840	-3760	-4058	-4284	-4487
Operating costs	-15642	-18189	-18614	-19850	-19268
EBITDA	**11349**	**9981**	**9906**	**10256**	**12266**
DDA & Impairment (ex gw)	-2535	-2985	-3505	-3291	-3183
EBITA	**8815**	**6996**	**6401**	**6965**	**9083**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**8815**	**6996**	**6401**	**6965**	**9083**
Net interest	11.6	532.7	503.3	338.7	260.2
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**8827**	**7529**	**6904**	**7304**	**9344**
Taxation	-243.8	-100.4	-92.1	-97.4	-124.6
Minority interests	253.6	202.0	171.7	137.3	109.9
Other post-tax items	0.00	-0.00	0.00	0.00	-0.00
Reported net profit	**8836**	**7631**	**6983**	**7344**	**9329**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	11349	9981	9906	10256	12266
Normalised PTP	8827	7529	6904	7304	9344
Normalised net profit	**8836**	**7631**	**6983**	**7344**	**9329**

Source: Company data, Rasmala forecasts year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	11309	10277	8388	8958	14931
Other current assets	8253	9037	9437	9611	9831
Tangible fixed assets	17585	20675	22052	22165	21877
Intang assets (incl gw)	16778	15550	14573	13541	12461
Oth non-curr assets	17452	20068	19904	20483	21322
Total assets	**71379**	**75607**	**74353**	**74758**	**80421**
Short term debt (2)	1079	1195	0.00	0.00	0.00
Trade & oth current liab	22409	23283	25160	22941	24295
Long term debt (3)	3422	5205	574.8	337.7	100.5
Oth non-current liab	4079	3359	3985	4383	4454
Total liabilities	**30989**	**33042**	**29720**	**27662**	**28850**
Total equity (incl min)	40389	42565	44633	47096	51572
Total liab & sh equity	**71379**	**75607**	**74353**	**74758**	**80421**
Net debt	-6808	-3877	-4586	-8383	-14593

Source: Company data, Rasmala forecasts year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	11349	9981	9906	10256	12266
Change in working capital	-153.6	-2846	1186	617.2	1134
Net interest (pd) / rec	193.4	532.7	503.3	338.7	260.2
Taxes paid	-86.0	-100.4	-92.1	-97.4	-124.6
Other oper cash items	-985.1	202.0	171.7	137.3	109.9
Cash flow from ops (1)	**10318**	**7769**	**11675**	**11252**	**13646**
Capex (2)	-6798	-4853	-3904	-2372	-1814
Disposals/(acquisitions)	0.00	896.7	497.4	143.3	180.0
Other investing cash flow	-166.0	-473.5	164.0	-579.7	-838.7
Cash flow from invest (3)	**-6964**	**-4430**	**-3243**	**-2808**	**-2473**
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	485.9	-59.2	-5565	-3111	-453.4
Ordinary dividend paid	-3893	-4312	-4744	-4744	-4744
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	0.00	0.00	-11.8	-18.4	-2.99
Cash flow from fin (5)	**-3407**	**-4372**	**-10321**	**-7873**	**-5200**
Forex & disc ops (6)	67.7	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**14.3**	**-1032**	**-1889**	**570.3**	**5972**
Equity FCF (1+2+4)	3520	2916	7771	8880	11831

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: Dh9.99, TP: Dh12.89): To arrive at our target price, we use a DCF-based sum of the parts. The two main risks to our valuation are a prolonged pricing war with Du and overpaying for licences and acquisitions.

Disclaimer