



# Etisalat (ETEL.AD)

Still strong at home . . . and growing abroad

## Equity Research

## General Update

June 29th, 2008

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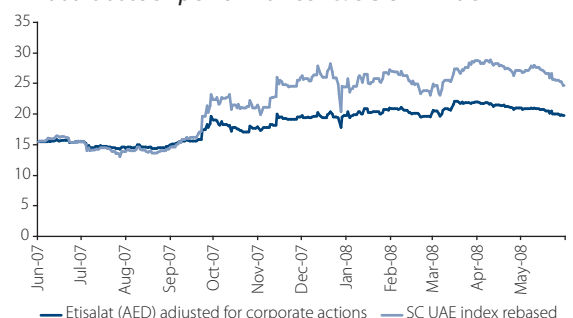
<b>Current Price:</b>	AED 19.50	<b>Country:</b>	United Arab Emirates
<b>Fair value Target:</b>	AED 26.20	<b>Sector:</b>	Telecom Services
<b>Recommendation:</b>	BUY	<b>Exchange:</b>	ADX

- We remain bullish on Etisalat as it is one of the few telcos with a positive outlook for both its home market and international operations. Etisalat is expanding internationally at a time when business is good in its home market. Etisalat is not playing defence with its international strategy, but rather offense.
- A little more than a year after the end of monopoly, Etisalat is the dominant operator in the UAE telecom market. Despite one of the world's highest mobile penetration rate and competition from du, we expect UAE operations to grow at a double digit rate in 2008, and at high single digit in 2009 on the back of continued strong economic and population growth. Broadband penetration remains low at 7% in 2007, and presents excellent growth potential for the next several years. In addition, we expect UAE mobile sector to remain a two player market for the foreseeable future.
- Etisalat, which embarked on an aggressive international growth strategy in 2004, currently has interests in 15 countries. Management has been vocal on their international expansion plans. Main risk here is overpaying for greenfield licenses or acquisitions, as has been the trend in the industry in the last two years. We believe this risk is already more than priced in the stock price, and year-to-date contraction in telecom sector valuations might create opportunities at more reasonable prices for cash rich Etisalat.
- We maintain our BUY recommendation on Etisalat increasing our target fair value price to AED 26.20, which represents a 34% upside to the stock's most recent closing price. The target value is primarily based on a sum-of-the-parts valuation. We believe that Etisalat shares are appealing at these levels as we value UAE operations on a stand-alone basis at AED 23.35. In other words, investors are getting for free an attractive international telecom portfolio, in addition to a debt free balance sheet with in excess of AED 1.00 net cash per share.

Year	Net Profit (AED mn)	EPS (AED)	EBITDA (AED mn)	BV (AED mn)	EV/EBITDA (X)	P/E (X)	P/BV (X)
Dec-10E	10,128	1.69	21,568	39,677	4.7	11.5	2.9
Dec-09E	9,217	1.54	19,771	34,560	5.1	12.7	3.4
Dec-08E	8,267	1.38	17,807	29,583	5.7	14.1	3.9
Dec-07	7,297	1.22	15,488	24,057	6.5	16.0	4.9

<b>52-Week range (AED)</b>	22.05-14.21
<b>Number of shares ('000)</b>	5,989,500
<b>Free Float (%)</b>	40%
<b>Market cap (AED mn)</b>	116,795
<b>Market cap (USD mn)</b>	31,802
<b>Div Yld. 2007 (%)</b>	2.6%

Etisalat stock performance vs. SC UAE Index



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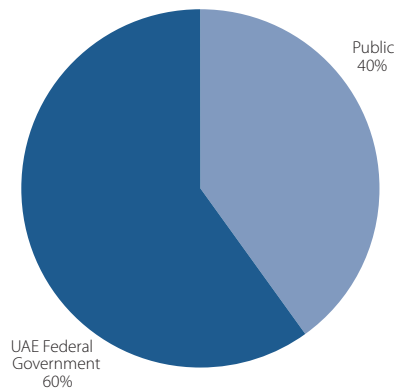
## Investment Highlights

- We remain bullish on Etisalat, as it is one of the few telcos with a positive outlook for both its home market and international operations. Etisalat is expanding internationally at a time when business is good in its home market. Unlike some other telcos, Etisalat is not playing defense with its international strategy, but rather offense.
- A little more than a year after the end of monopoly, Etisalat is the dominant operator in the UAE telecom market with 83% market share of active mobile subscribers; more than 96% in fixed line and 92% in broadband.
- Despite one of the world's highest mobile penetration rate, at 135% in 2007 (based on active subscribers), and competition from du, we expect UAE operations to grow at a double digit rate in 2008 and at high single digit in 2009 on the back of continued strong economic and population growth. Broadband penetration remains low at 7% in 2007, and presents excellent growth potential for the next several years. In addition, we expect UAE mobile sector to remain a two player market for the foreseeable future.
- Etisalat which embarked on an international growth strategy in 2004, currently has interests in 15 countries. Based on our calculations, Etisalat International has, on balance, been a source of value creation to shareholders. Management has been vocal on their international expansion plans. Main risk here is overpaying for greenfield licenses or acquisitions, as has been the trend in the industry in the last two years. We believe this risk is already more than priced in the stock price, and year-to-date contraction in telecom sector valuations might create opportunities at more reasonable prices for cash rich Etisalat.
- We maintain our BUY recommendation on Etisalat increasing our target fair value price to AED 26.20, which represents a 34% upside to the stock's most recent closing price. The target value is primarily based on a sum-of-the-parts valuation. We believe that Etisalat shares are appealing at these levels as we value UAE operations on a stand-alone basis at AED 23.35. In other words, investors are getting for free an attractive international telecom portfolio, in addition to a debt free balance sheet with in excess of AED 1.00 net cash per share.

## Company Recap

Etisalat was until February 2007 the sole telecommunication services provider in the UAE. As the incumbent operator, Etisalat UAE provides mobile, fixed-line, internet, data and cable TV services. Despite operating a monopoly for 30 years, Etisalat has built a modern telecom infrastructure, one of the most advanced in the region and has often been the first to market new services: GSM (1994), 3G (Dec. 2003), MMS (2003), 3.5G (Dec. 2005), Blackberry (2006), Mobile TV (2007), Mobile internet HSDPA USB modem (2007). The company's operations in the UAE today constitute one of three main operating divisions.

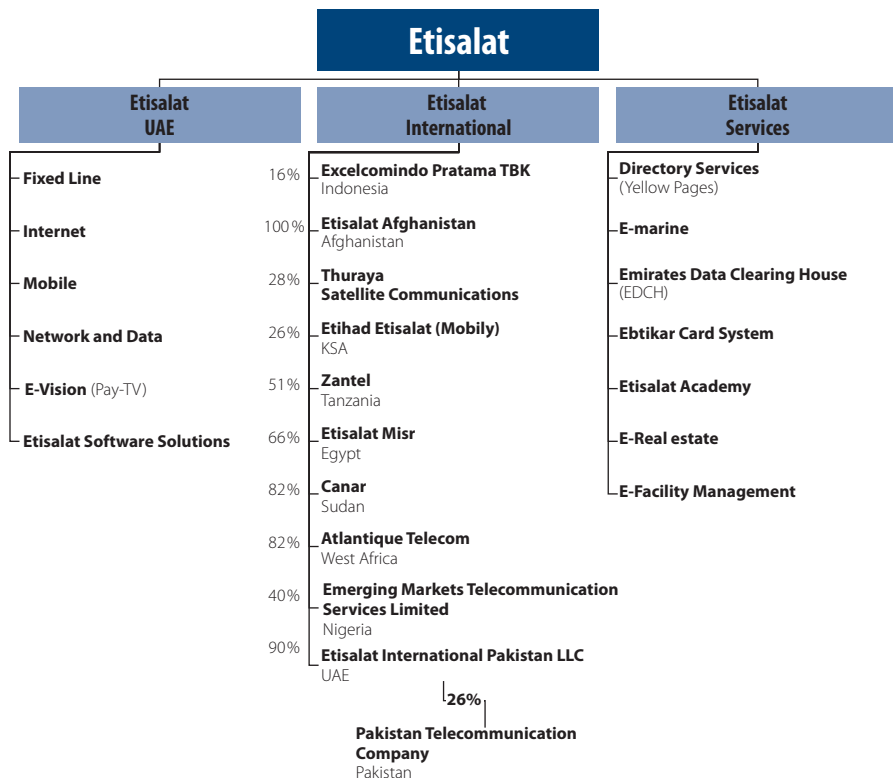
### Etisalat: Ownership structure



Source: Company reports

Zantel (Tanzania) was the company's first international investment in 1999. Since 2004, Etisalat has been actively expanding internationally in the GCC / MENA, West and Central Africa, and Asia. Today, in addition to its dominance in the domestic market, the company operates and holds interests in 15 other countries including Saudi Arabia and Egypt. These operations are grouped into Etisalat International.

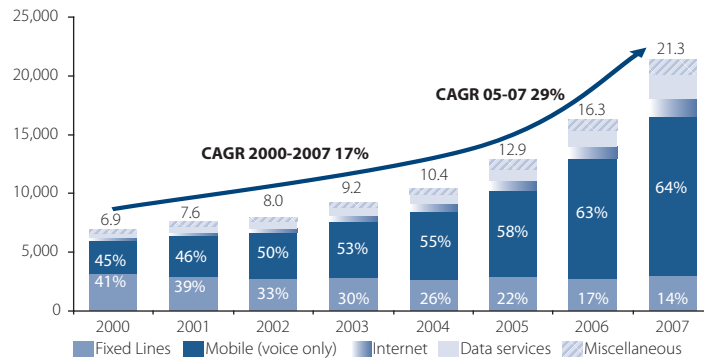
### Etisalat: Corporate structure



Source: Etisalat, SHUAA Capital

Etisalat Services is the company's third division. It regroups several business units that offer their services both internally and to third party clients, including: Etisalat Academy (corporate training), E-marine (submarine cable installation, maintenance and repair), EDCH (data and financial clearing services for international roaming), Ebtikar (manufacturer of prepaid scratch cards, smart memory chips, and SIM cards).

*Etisalat: Consolidated revenue breakdown 2000-2007 (in AED bn)*



Source: Company reports, SHUAA Capital

Etisalat's expressed goal is to become one of the top 10 global telecom companies by 2010. Based on market cap, Etisalat - currently ranked as the 15th largest telco - is already in the top 20 using that parameter.

**Already 15th largest telco**

**Top 30 global telecom companies by market cap (in USD mn)**

Rank	Company	Market Cap
1	China Mobile	276,342
2	AT&T	204,549
3	Verizon	100,855
4	America Movil	90,874
5	NTT	73,010
6	NTT DoCoMo	64,357
7	Telefonica	52,149
8	China Telecom	45,628
9	Singapore Telecom	43,280
10	TeliaSonera	39,518
11	Vodafone	38,892
12	Bharti Airtel	33,412
13	STC	33,336
14	Telenor	33,303
15	<b>Etisalat</b>	<b>32,698</b>
16	MTS	31,969
17	Vimpelcom	30,984
18	France Telecom	29,783
19	MTN	29,423
20	BCE	29,260
21	Deutsche Telekom	28,568
22	KDDI	27,568
23	Rogers	26,550
24	Zain	26,440
25	China Unicom	24,683
26	Chunghwa Telecom	23,486
27	Reliance Communications	23,296
28	Maroc Telecom	22,840
29	Sprint Nextel	22,551
30	Telmex	21,870

Source: Bloomberg, SHUAA Capital

## UAE: Still Very Favorable Conditions

### Strong Economic Backdrop

The UAE has become the second largest economy in the Arab world after Saudi Arabia. Average real GDP growth was in excess of 9.0% over 2002-2007. Last year, GDP growth was 7.5%, and income per capita reached USD 42,000 - the second highest in the GCC after Qatar. SHUAA Capital Economics team is forecasting another strong year in 2008 with 9.0% real GDP growth. This will, however, be accompanied by a high inflation rate estimated at 11.4%.

In past years, Dubai was at the forefront of economic reform, transforming itself into a vibrant, services oriented economy with phenomenal growth driven by the private sector. Inspired by the success of Dubai's diversification effort, Abu Dhabi and other emirates are also undergoing economic liberalization and have found new momentum. For the coming years, Abu Dhabi is gearing to be a key growth driver by supporting its structural economic reforms to allow the private sector to lead economic growth with a massive spending plan.

### Demographics: the UAE advantage

UAE has a very favorable demographic profile, particularly for the prospects of mobile and broadband markets. The country is among the fastest growing societies in the world. Average growth rate of the population through 2002-2007 has accelerated to more than 6.5% per year. Since 1980, UAE population has grown by a compound annual rate in excess of 6% with more than one-third of population less than 25 years old. Less than 1% of UAE population is 65 years old and over.

**UAE population growth  
> 6%/yr since 1980**

Mobile operators often identify the 10 to 70 years old segment of the population as their target addressable market. We estimate that this segment represented approximately 86% of UAE population in 2007. This number being significantly higher than the 70% level in Saudi Arabia, the GCC's largest country, holds positive implications for UAE mobile operators, and is one of the factors contributing to the record (active) mobile penetration rate in excess of 135% at the end of 2007.

#### UAE's Population by Age Group

Age Group	% Population
0-9	13%
10-14	6%
15-24	16%
25-49	58%
50-64	6%
65+	1%

**36% of UAE population < 25 years old**

Source: 2005 Census

Further, expatriates, mainly composed of male belonging to the 25-45 years age group, represent more than 80% of UAE's population – the highest percentage in the GCC region.

## UAE Demographics - Fast Facts

<b>(milions)</b>	
Population 2007E	5.2
Nationals	0.9
Expats	4.3
% Nationals	17%
% Expats	83%
% Urban	78%
% Rural	22%
<b>% of total population (2006)</b>	
Abu Dhabi	34%
Dubai	32%
Sharjah	19%
Ajman	5%
Umm al Qaiwan	1%
Ras al Khaimah	5%
Fujaira	3%
	100%

Source: Census 2005, Ministry of Economy, EIU, IMF, United Nations, SHUAA Capital

## UAE Telecom Market

### UAE Communications – Fast Facts

(million)	
Population (2007E)	5.2
Households (2007E)	1.0

Landline	
Residential lines	0.67
Business lines	0.72
Fixed lines - total (2007)	1.4

Fixed line % penetration of population	27%
Fixed line % penetration of households	65%

Mobile	
Mobile subscriptions - SIM cards (2007)	7.6
Headline % penetration	146%
Active mobile subscribers (2007E)	7.0
% penetration	135%

Data	
Dial-up Internet subscribers (2007)	0.52
Broadband subscribers (2007)	0.38
Broadband subscribers per 100 inhabitants	7.3

PC & Internet	
Total PCs (2007E)	1.5
PC % penetration of population	29%
Internet users (2007)	2.3
Internet users per 100 inhabitants	44
Internet users / subscription	2.5

Source: TRA, ITU, Census 2005, Ministry of Economy, EIU, Etisalat, du, SHUAA Capital

We estimate that UAE telecom sector generated revenues of AED 21 bn in 2007, up 32% from a year ago. This comes on the back of a 29% growth in 2006, when the market was still a monopoly controlled by Etisalat. Not surprisingly, the mobile segment has been the main driver of this growth. Despite a record active mobile penetration rate of 135% achieved in 2007, we believe that double digit growth for the overall telecom sector is sustainable for the next two years, albeit at a slower rate than 2007. Post 2009, we expect the UAE telecom industry to grow at healthy high single digits.

### UAE Telecom Revenues (Mobile, Fixed and Data) 2005-07

(USD, billion)	2005	2006	2007
Total telecom sector revenues	3.4	4.3	5.7
% growth		29%	32%

Source: Company reports, SHUAA Capital estimates



**Fixed-line sector: modest growth**

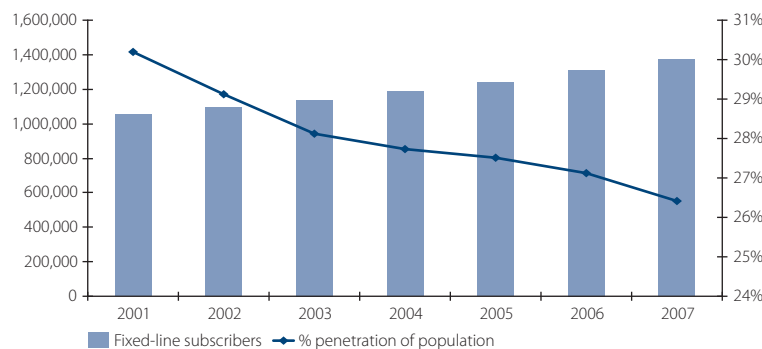
**UAE: Fixed line subscribers 2001-07**

('000)	2001	2002	2003	2004	2005	2006	2007
<b>Fixed-line subscribers</b>	1,053	1,094	1,136	1,188	1,237	1,310	1,371
<b>% penetration</b>	30.2%	29.1%	28.1%	27.7%	27.5%	27.1%	26.4%
<b>Net addition</b>		41	42	52	49	73	61
<b>Fixed-line subscribers - Etisalat</b>	1,053	1,094	1,136	1,188	1,237	1,285	1,325
<b>Net addition</b>		41	42	52	49	48	40
<b>% share of net additions</b>					100%	66%	66%
<b>Fixed-line subscribers – du</b>					N/A	25	46
<b>Net addition</b>							21
<b>% share of net additions</b>							34%
<b>Fixed-line market share</b>							
<b>Etisalat</b>						98%	96.6%
<b>du</b>						2%	3.4%

Source: Company reports, TRA, SHUAA Capital

UAE fixed-line growth has been steady around mid-single digit, albeit slightly below annual population growth. As a result, fixed line penetration slipped from 30% in 2001 to 26% in 2007. Recently, fixed-line growth in the business segment, in a strong economic growth scenario, has offset weakness in the residential segment which is subject to fixed to mobile substitution. We estimate that fixed-line penetration of households has declined from 72% in 2006 to 65% in 2007. For the same period, penetration of business fixed-lines increased from 13% to 14% of the population.

**UAE Fixed line subscribers & penetration 2001-07**



Source: TRA, ITU, Etisalat, du, SHUAA Capital

**Broadband UAE: low penetration implies good future growth**

The UAE has one of the highest broadband penetration rate in the GCC / MENA region, after Qatar and Bahrain. Broadband subscribers grew by close to 60% to reach 380,000 in 2007, from 241,000 a year ago. At the same time, broadband penetration increased from 5% to 7% of the population. However, this penetration rate is well below the average penetration rate of 20% for the OECD 30 member countries in 2007. Among them, Denmark and Netherlands had the highest penetration rate at 35%, while Mexico was at the lower end with 3% and Turkey at 6%.

## UAE: Broadband subscribers 2001-07

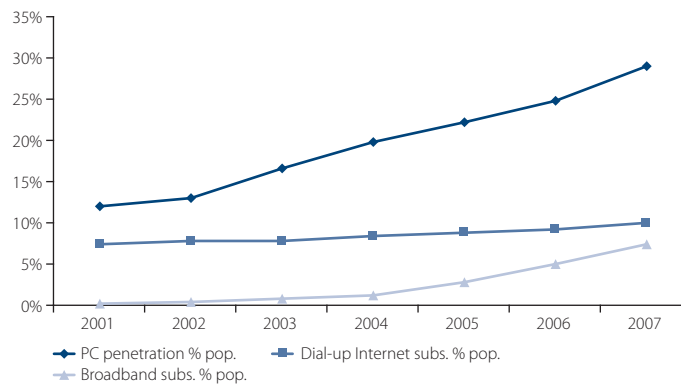
('000)	2001	2002	2003	2004	2005	2006	2007
Broadband subscribers (excluding HSDPA)	8	18	30	56	128	241	380
% penetration of population	0.2%	0.5%	0.7%	1.3%	2.9%	5.0%	7.3%
Net addition		10	11	26	73	113	139
% growth YoY		120%	61%	86%	131%	88%	58%
Fixed-Broadband subscribers – Etisalat	8	18	30	56	128	219	351
Net addition		10	11	26	73	91	132
% growth YoY		120%	61%	86%	131%	70%	60%
Broadband subscribers – du						22	29
Net addition							7
Fixed Broadband market share							
Etisalat						91%	92%
du						9%	8%

Source: Company reports, TRA, SHUAA Capital

At the end of 2007, UAE had 524,000 dial-up Internet subscribers. The dial-up service has been popular among low-income expatriate workers.

## PC, Broadband and Dial-up Internet penetration 2001-07

**Good potential  
with only 0.4 mn  
broadband subs.  
& 1.5 mn PCs**



Source: TRA, ITU, SHUAA Capital

UAE PC penetration is one of the highest in the region at 29% of the population in 2007. This compares favorably to our estimate of 21% penetration in Saudi Arabia.

## UAE: PC penetration and Internet users

('000)	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Personal Computers	420	490	673	850	1,000	1,200	1,500
PC Penetration (% of population)	12%	13%	17%	20%	22%	25%	29%
Internet Users	897	1,017	1,110	1,185	1,322	1,781	2,300
Internet Users penetration (% of population)	26%	27%	27%	28%	29%	37%	44%

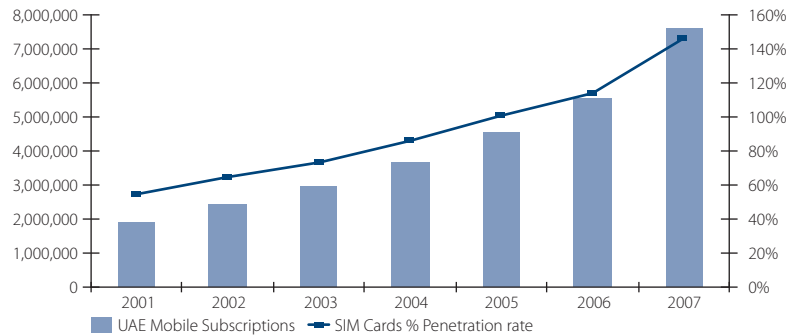
Source: TRA, ITU, SHUAA Capital

An estimated installed base of 1.5 mn personal computers in 2007, poised to grow at a double digit rate in the next several years, compared to only 380,000 broadband subscribers to date bodes well for future growth prospects of the segment.

### UAE Mobile market

UAE has one of the highest mobile penetration rates in the world with headline mobile penetration at the end of Q1 08 at 154%. We estimate that UAE active mobile subscribers reached 7.4 mn in Q1 08 for a penetration rate of 143%, up from 135% in December 2007. As of this year, UAE mobile operators will start reporting active subscribers at the request of the Telecommunications Regulatory Authority (TRA).

#### Mobile Subscriptions and penetration rate 2001-07



Source: TRA, ITU, Etisalat, du, SHUAA Capital

#### Reasons behind record mobile penetration rate

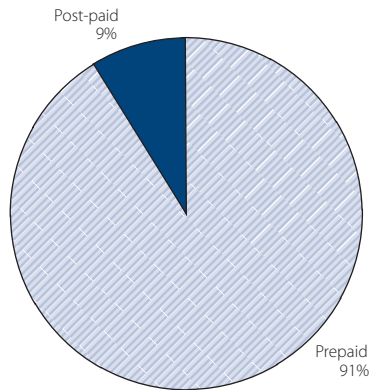
UAE mobile market has benefited from: 1) high population growth reflecting a continuous influx of expats; 2) economic boom; 3) high disposable income / high GDP per capita; 4) impressive concentration of business professionals. Between 2002 and 2007, mobile subscribers increased at a compound annual growth rate (CAGR) in excess of 25%. 2007, which marked the end of the monopoly of Etisalat and entry of du, saw mobile subscriber growth accelerating to 39%, from an average annual growth rate of 23% in prior years.

We have to bear in mind that ownership of multiple SIM cards is widely spread in the UAE as it is in the wider GCC. It is common for a person to have a separate personal and business mobile line. Moreover, with UAE, and Dubai in particular, acquiring the status of a regional hub, approximately 700,000 visitors are drawn to the UAE every month. We believe that a portion of those visitors retain a local SIM card. Also, the introduction of du's operations in 2007 meant significant marketing and promotion driven sales for existing mobile subscribers.

**UAE mobile market already transitioned to prepaid**

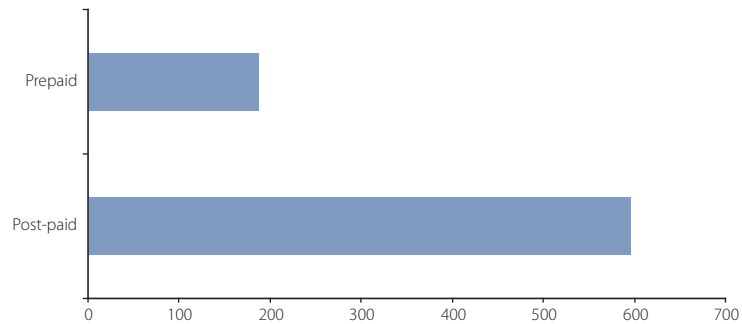
Even before the entry of du, UAE mobile market had shifted to a predominantly prepaid model. Etisalat launched the prepaid service at the end of 1997 and at the end of 2007 over 90% of the company's mobile subscribers were prepaid. Additionally, Etisalat's post-paid subscribers' minutes of use (MOU), approximately 600 minutes per month, is more than three times than that of an average prepaid subscriber.

*Etisalat Mobile Subscriber Mix (Dec. 2007E)*



Source: TRA, SHUAA Capital

*Etisalat: Minutes of Use (MOU) per month, Prepaid / Post-paid subscribers (2007)*



Source: company reports, SHUAA Capital

## Etisalat: A success story made in the UAE

### A non traditional incumbent telco

Etisalat is a unique example of public-private partnership - one of the first in the telecom world. The company, established in 1976 as a joint-venture with British Cable & Wireless, was subsequently nationalized by the government in 1983. This evolution nurtured a 'capitalist' / performance driven corporate culture evident in, for instance, Etisalat implementing budgeting and cost analysis systems from its early days. For 30 years that the company operated as a monopoly, it learned to compete with itself by setting KPIs with the objective of meeting or beating them every year. Several members of the senior management team grew up with the firm and have been in service for around 20 years.

### Areas of Strength

#### *Superior technical capabilities*

Etisalat is recognized for the superior technical skills of its engineers. The company has developed an expertise in building and running telecom networks. Initial phase rollout of the mobile network for Mobily in Saudi Arabia and Etisalat Misr in Egypt was completed in a record time of less than 90 days and six month respectively. In both cases, the build out was under the supervision of Etisalat UAE engineers that were sent on location. At the end of 2007, 143 Etisalat UAE-based engineers and managers were on assignments at the company's international operations.

#### *In-house training facilities*

Etisalat has its own training academy for its worldwide staff: The Etisalat Academy, which also offers training programs and seminars to other telecom operators. This is even more valuable in the GCC / MENA / Africa regions where telecom executives often complain about the scarcity of talent in the field of telecom.

#### *History of innovation*

Etisalat first introduced a mobile phone service in 1982, and has been operating GSM networks since 1994 making it one of the first in the Middle East. Etisalat was an early adopter of 3G technology with an initial, albeit limited deployment, in December 2003 followed by HSDPA in December 2005.

#### *Full service telco*

We note that on the international scene some of Etisalat's competitors are pure-play mobile operators. As an integrated operator, Etisalat boasts an expertise not only in mobile, but across the full spectrum of telecom services (voice, data, and video) catering to all segments (Consumer, Business, and Wholesale): Fixed-line networks, fiber-optic backbones, international gateways, submarine cables, Next Generation Networks (deployed in Sudan since 2006, and currently underway in UAE), broadband (DSL, fiber-to-the-home / FTTx, fixed-wireless), WiMAX (currently being deployed in Saudi Arabia), Wireless Local Loop (CDMA fixed-wireless) in Africa and Pakistan, and pay-TV services (E-vision cable TV in UAE). As opportunities arise for greenfield licenses or acquisitions, Etisalat will leverage its expertise to expand from a pure-play mobile operator in a given country into broadband, fixed-line services, etc. or vice-versa.

#### *Know-how transfer within the group*

Etisalat's international entities operate as independent units. However, they share know how with Etisalat UAE. UAE often serves as a laboratory or a showcase for a new service/ new technology, which can later be launched in an international market, and vice-versa. While the MobileCam was developed in the UAE, and later launched in Saudi Arabia and Egypt, the 3.5G wireless router was first launched in Saudi Arabia in November 2007 followed by UAE in April 2008. The list goes on for Blackberry service, 3.5G HSPA mobile Internet, Next Generation Networks, FTTx, WiMAX, etc.

**Low cost of capital and strong balance sheet**

Etisalat has one of the best balance sheets in the telco world. At the end of Q1 08, pro forma the partial sale of Mobily shares in early April, cash on the balance sheet stood at AED 12.7 bn, total consolidated debt at AED 5.7 bn, for a net cash position of AED 7.0 bn (USD 1.9 bn).

**Best balance sheet  
in telco sector**

Etisalat has access to debt funding at attractive rate, lowering its cost of capital. In July 2006, Etisalat obtained a two- year bank financing of USD 3 bn at an average rate of only Libor + 23 basis points. The company is in the process of being rated by the major debt rating agencies, and intends to refinance its debt. We believe that Etisalat has the credentials to secure debt financing at attractive rates. As part of its international growth strategy, management is comfortable leveraging the balance sheet up to 3.0x Debt-to-EBITDA. This translates into an additional debt capacity of more than AED 50 bn (USD 13.6 bn).

**UAE competitive landscape**

**UAE Telecom Players – Fast Facts**

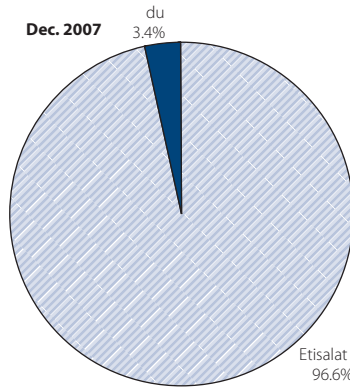
		
	<b>Etisalat UAE</b>	<b>du</b>
<b>Year Established</b>	1976	2006
<b>Major Shareholder</b>	Federal Gov. (60%)	Federal Gov. (60%)
<b>IPO</b>	June 2002	April 2006
<b>GSM service commercial launch</b>	1994	Feb. 2007
<b>GSM coverage: % of population</b>	99%	90%
<b>3G launch</b>	Dec. 2003	Feb. 2007
<b>3.5G (HSDPA) launch</b>	Dec. 2005	N/A
<b>3G coverage: % of population</b>	97%	> 85%
<b>3.5G coverage: % of population</b>	97%	Abu Dhabi + Dubai
<b>3G /3.5G active subscribers Dec. 07E</b>	500,000	N/A
<b>3G /3.5G 'occasional' users Dec. 07E</b>	900,000	280,000
<b>BlackBerry service launch</b>	May 2006	May 2008
<b>BlackBerry subscribers (Dec. 2007)</b>	45,000	
<b>Mobile TV launch</b>	24 Feb. 2007	2007
<b>Mobile TV subscribers (Dec. 2007E)</b>	250,000	N/A
<b>Mobile Subscriptions (SIM Cards) – 2007</b>	6.4 mn	1.5 mn
<b>Active Mobile Subscribers – 2007E</b>	5.8 mn	1.2 mn
<b>ARPU 2007E (average) – USD</b>	51	37
<b>Mobile customers billing method</b>	per ½ minute	per second
<b>Fixed-line subscribers – 2007</b>	1,325,000	46,000
<b>DSL / Fixed Broadband subscribers - 2007</b>	351,000	29,000
<b>Wireless Broadband subscribers – 2007E</b>	20,000	n/a
<b>Employees 31 Dec. 2007E</b>	10,000	1,800

Source: Company reports, TRA, GSM Association, WCIS, SHUAA Capital estimates

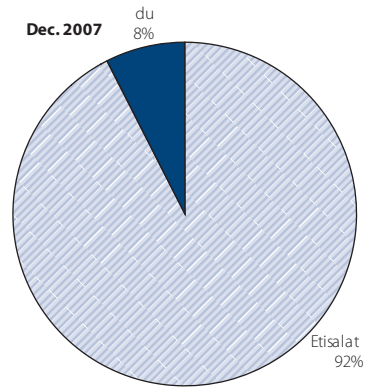
So far, each player has limited overlap in the fixed line and broadband segment with du focusing on deploying its network in the exclusive new areas of Dubai. As such, since 2007 the competition has been confined mainly in the mobile segment. This is about to change in the next two years. du and Etisalat are expected to compete for broadband and fixed line services in new real estate developments in the future (we discuss this later). Both players are considering the launch of WiMAX service, and, hence, would be able to offer broadband services in areas that are currently exclusive to one operator. However, this would not allow them to offer triple-play services (fixed-line, broadband Internet, Pay-TV), in contrast to a fibre-to-the-home deployment.

**Etisalat remains dominant operator in UAE**

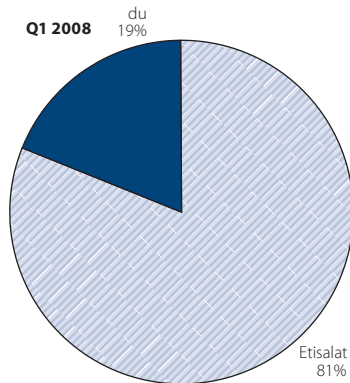
**UAE Fixed-line market share Year-end 2007**



**UAE Broadband market share Year-end 2007**



**UAE Mobile market share (active subs.)**

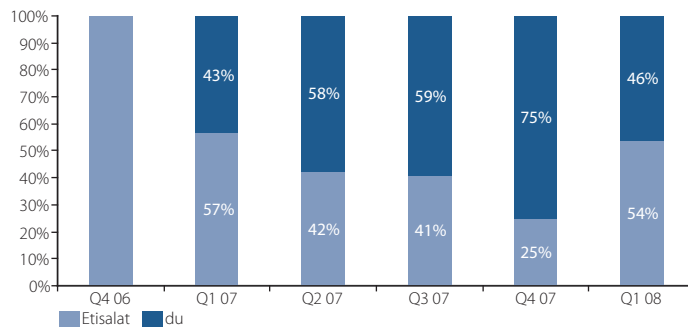


Source: TRA, Company report, SHUAA Capital

A little more than a year since the liberalization of the UAE mobile market, Etisalat remains the dominant player with an estimated market share of 81% of active mobile subscribers at the end of March 2008. This is down from 83% at the end of 2007.

**Etisalat and du: Quarterly share of mobile net additions (active subs.)**

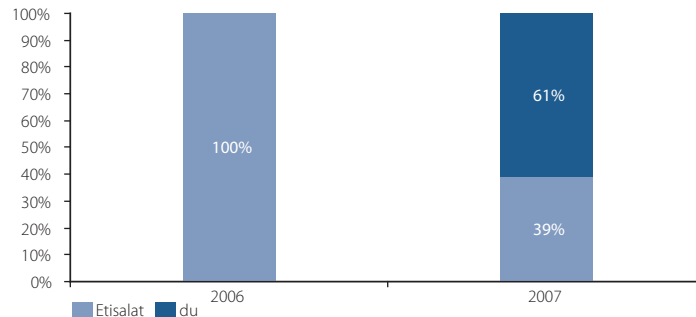
**...But facing intense competition from du in mobile sector**



Source: SHUAA Capital

du, the second integrated telecom operator, commercially launched its operations in February 2007. In its first year of operation, we calculate that du captured 61% of subscriber net additions and Etisalat 39%.

***Etisalat and du: Annual share of mobile net additions (active subs.)***



Source: SHUAA Capital

Competition from du has been intensifying. Thanks to astute advertising, branding, and marketing strategies, active promotions, and discount offers, du has gradually made inroads into the mobile segment by hitting 19% market share at the end of Q1 08. We forecast that du will approach the 30% market share by 2009-end, approximately three years after its commercial launch.

On the other hand, Etisalat has been defending its turf well. A few elements that have played in favor of the incumbent are:

***A start-up contender***

Unlike in other countries, du, the new entrant in the UAE, was an independent start-up company built from scratch without the backing and resources of an international operator. Anecdotal evidence points to network coverage and quality of service as issues faced by du during its first year of operation. Since then, du has put a lot of effort to improve the coverage, particularly in Abu Dhabi and Dubai.

***Focus on indoor coverage***

We believe that Etisalat continues to have a superior mobile network with unparalleled coverage across the UAE. A key issue with the coverage of the mobile network in the UAE has been investment in indoor coverage or coverage inside buildings. (With the proliferation of mobiles, subscribers use their mobile more often while they are located indoor, even when they happen to be next to a fixed-line). Etisalat has insured to have a good coverage both indoor and outdoor. Etisalat had 7,743 base stations in the UAE at the end of 2007, of which more than 4,000 were indoor.

***First to market and innovation***

Operational efficiency of Etisalat has set the bar high for du from day one. Even before the start of competition, Etisalat was perceived as a dynamic operator and continues to justify this perception by, for instance, being the first to market with new products and services: Blackberry service (first to launch in the GCC, and today, with the highest number of users in the region), MMS (first in GCC), 3G and 3.5G (first in GCC), Mobile TV (first in UAE), MobileCam (remote monitoring wireless camera), mobile banking, etc.



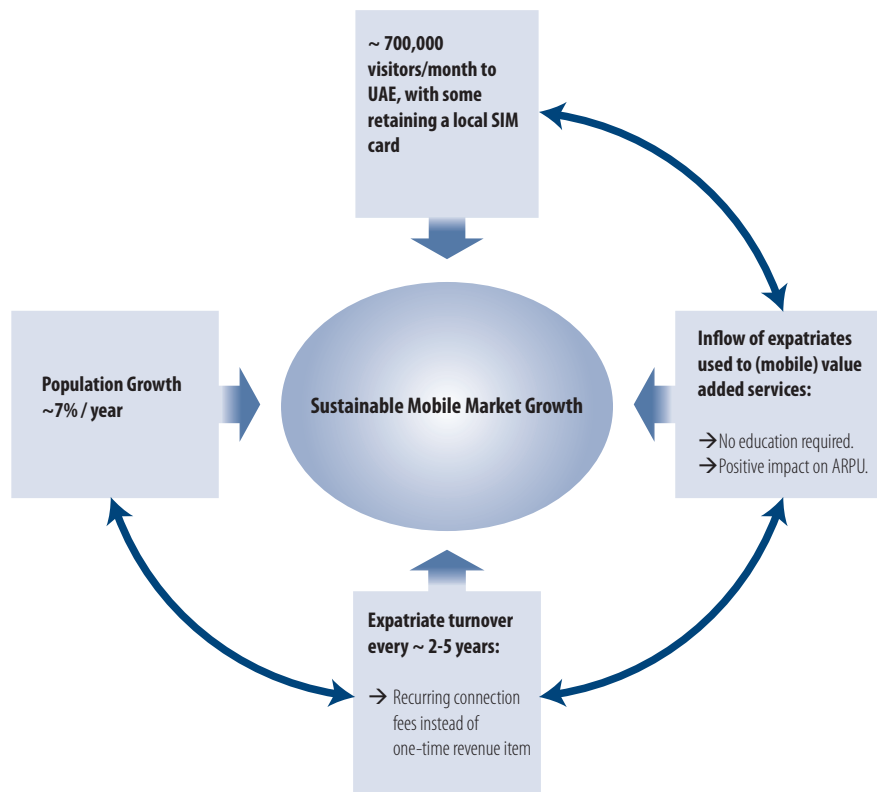
### UAE mobile market: near saturation?

We estimate that mobile penetration will peak at approximately 160% based on active subscribers at the end of 2008. This is equivalent to 1.7 mobile lines per addressable population, including regional visitors who frequently travel to the UAE and maintain a local SIM card.

However, several factors will contribute to a sustainable long term single digit growth in the UAE mobile market:

- Post-saturation, UAE mobile subscriber will continue to grow in line with population growth and visitor (requiring local SIM card) growth.
- On the revenue front, constant expatriate turnover allows UAE mobile operators to generate recurring revenues from initial fees attached to each new SIM card. In addition, recent trend of increasing mix of professionals among UAE expats has a positive impact on mobile ARPU. Professional expats, used to value-added service prior to moving to the UAE, help increase adoption of mobile data and other services.

### UAE mobile market dynamics



Source: SHUAA Capital

## UAE Mobile Market Forecast

(million)	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Population	5.2	5.6	6.0	6.4	6.8	7.2	7.6
% growth	7.5%	7.5%	7.0%	6.7%	6.5%	6.0%	5.0%
Mobile subscriptions (SIM cards) reported	7.9						
SIM cards % Penetration rate	152%						
Annual net additions	2.4						
% SIM cards growth	43%						
Total active mobile subscribers	7.0	8.8	9.4	10.1	10.7	11.4	12.0
% Penetration rate	135%	158%	158%	158%	158%	158%	158%
Annual net additions	2.0	1.8	0.6	0.6	0.7	0.6	0.6
% subscriber growth	39%	26%	7%	7%	7%	6%	5%
Y/E mobile market share (active subs.)							
Etisalat	83%	74%	71%	69%	66%	64%	62%
du	17%	26%	29%	31%			
du & 3rd operator (MVNO)					34%	36%	38%
	100%	100%	100%	100%	100%	100%	100%
Active Subscribers							
Etisalat	5.8	6.5	6.7	7.0	7.1	7.3	7.4
du	1.2	2.3	2.7	3.1			
du & 3rd operator (MVNO)					3.6	4.1	4.6
	7.0	8.8	9.4	10.1	10.7	11.4	12.0
Net additions							
Etisalat	0.8	0.7	0.2	0.2	0.2	0.1	0.1
du	1.2	1.1	0.4	0.4			
du & 3rd operator (MVNO)					0.5	0.5	0.5
	2.0	1.8	0.6	0.6	0.7	0.6	0.6
% Share of net additions							
Etisalat	39%	38%	38%	38%	25%	19%	21%
du	61%	62%	62%	62%			
du & 3rd operator (MVNO)					75%	81%	79%
	100%	100%	100%	100%	100%	100%	100%

*Assuming entry of  
MVNO in mid 2011*

Source: SHUAA Capital

## UAE Regulatory environment

### Room for a third mobile operator?

UAE has the intention to fully liberalize the telecom sector in 2015, to comply with World Trade Organization (WTO) requirements. While not on the agenda in the next two years, this leads us to believe that a third mobile license will most likely be issued prior to 2015. At recent public forums and interviews with the media, the TRA's director general, Mr. Mohamed Al Ghanim indicated that du, which launched its operations in February 2007, will have a 'grace period' to establish its market share and achieve sound financial metrics. We expect du's bottom line to turn profitable in 2009, and its mobile market share to approach 30% by the end of the same year. In our model, we factored the commercial

launch of a third mobile operator in mid-2011, or approximately four years after the start of du. However, with active mobile penetration already high, at 143% in Q1 08, we don't believe the TRA will award a third license to a facilities-based operator. In our view, the third entrant will be a MVNO (Mobile Virtual Network Operator).

**Fixed-line and broadband: choice to the consumer!**

While, as of February 2007, the mobile sector in the UAE is fully competitive, the situation is different in the fixed-line and broadband front. Since 2005, du and its predecessor companies have been providing fixed line, broadband data, and pay-TV services in Dubai Free Zones and Dubai New Areas on an exclusive basis.

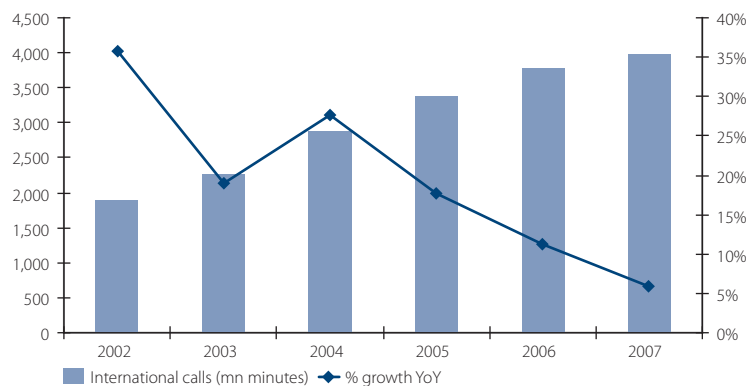
Consequently, Etisalat and du have so far not been competing for fixed line and broadband services in overlapping areas even when the boundaries have not been imposed by the regulator. We believe that one of TRA's priorities in next two years is to ensure that the consumer has the possibility to choose between the two telecom operators for fixed line and broadband services, more realistically, in new areas. Infrastructure sharing concept is being studied with a view to implement it for future real estate development projects in the UAE. Infrastructure sharing would allow capex savings and make it more economical for both operators to compete in overlapping areas. This will require Etisalat and du to agree on the terms and conditions of infrastructure sharing.

**International VoIP banned**

International long distance calls have been a major contributor to Etisalat's overall revenue in the UAE. This is understandable, with more than 80% of UAE's population composed of expats from 170 countries.

We estimate that international long distance voice revenues from both mobile and fixed-line segments represented more than 1/3 of total UAE revenues in 2007. However, the company's exposure to international long distance has been declining. We calculate that this ratio has declined from 43% of UAE total revenue in 2006 to 36% in 2007. Voice over IP telephony (VoIP) for international calls is banned by the TRA and Etisalat and, more recently, du blocked access to services such as Skype. Despite these efforts, some consumers will always find ways to work around the restriction, and as technology continues to evolve international long distance revenues will come under pressure. Given UAE's unique situation, we expect this decline to be gradual over the long term.

*Etisalat UAE: Outgoing international calls (mobile+fixed) – in million of minutes*



Source: Company reports, SHUAA Capital

***Foreign ownership: where there's a will there's a way***

With the gradual but steady move towards liberalization in the UAE, we believe foreign ownership restrictions will be eased on Etisalat shares in the next few years. This will have to go through a two step process. Etisalat is in discussion with UAE government and Capital Market Authorities (CMA) to transition to a corporation governed by commercial law. The company is currently governed by a special law. If Etisalat obtains approval to transition to a corporation licensed by commercial law, it would become eligible to foreign ownership. However, as the telecom sector is considered strategic by UAE government, it is possible that the foreign ownership limit would be set at less than the 49% allowed today in certain sectors. As the majority shareholder, UAE government is fully aware of Etisalat's goal to become a top 10 global telecom operator. Easing of foreign ownership restrictions would provide the company with the flexibility to offer shares in future merger and acquisition transactions. Timing is, however, difficult to predict. As such, we view this as long term positive 'surprise', not taken into account by our current investment recommendation.

***Government royalty cut: a bonus not factored in our model***

Government royalty has been another issue under discussion. Etisalat currently pays a 50% royalty fee on its annual profits which is an important contributor to UAE's federal government budget. However, with the end of the monopoly of Etisalat, and as du becomes profitable and starts paying royalty fees, it is likely that the royalty rate will be reduced from the current 50% level. While this could be a major positive catalyst for the stock, given the uncertainty about timing we view this as another surprise 'bonus' for investors, not currently factored in our model.

## Etisalat International

### Etisalat's footprint



Source: SHUAA Capital

### Mobily – Saudi Arabia: flagship International operation

#### ***Mobily: a greenfield success story***

Established in 2004 by a consortium led by Etisalat, Etihad Etisalat (Mobily) has proven to be one of the most successful greenfield mobile operations in the MENA region. In less than three years, Mobily has become a solid number two player in Saudi Arabia's mobile market, commanding a 37% market share with approximately 10 mn (gross) subscribers, revenues of USD 2.3 bn and a (pre-tax) EBITDA margin of 46.1% in 2007. For an in depth review, please refer to our detailed coverage on Mobily dated March 30, 2008.

Mobily is branching out from a pure-play mobile operator to an integrated telecom services provider in the kingdom. Broadband services will represent the next leg of growth. We estimate broadband penetration in Saudi Arabia at less than 3% of the population in 2007. Already, Mobily 'Connect' wireless broadband service, launched in mid-2007, has captured 100,000 subscribers.

In April 2008, Mobily completed the acquisition of Bayanat Al-Oula, a data communications service provider in Saudi Arabia. By the same token, Mobily increased its stake in the 12,000 km Saudi national fibre network from 33.3% to 66.6%, which is expected to become operational in Q4 08. Bayanat has already launched WiMAX broadband in four cities. Post the integration of Bayanat, Mobily will offer a complete array of broadband data services for both the consumer and business sector via: 1) HSDPA-based 3.5G mobile broadband with the Mobily Connect USB modem and router; 2) WiMAX-based wireless broadband service, and 3) fibre-optic based by extending the Saudi national fibre network.

This being said, the imminent entry of Zain KSA, the third licensed mobile player, followed by three new fixed line start-ups by 2009, will transform the Saudi Arabian telecom market into a highly competitive landscape. Our base case scenario factors in a reduction in mobile market share for Mobily from 37% to 34% in the next few years. In the broadband segment, we view Mobily as a new entrant with a time to market advantage and a well thought three pronged strategy (HSDPA, WiMAX, and fibre). Hence, in our model we assumed that by 2012, Mobily will capture approximately 10% of the broadband market.

	Dec. 07	April 08	post rights issue Dec. 08E
<b>Etisalat % interest</b>	35.00%	26.25%	26.25%
<b>Mobily shares held by Etisalat - mn</b>	175.0	131.3	183.8
<b>Mobily current share price (SAR)</b>	52.75	52.75	-
<b>Mobily current price adjusted for rights issue (SAR)</b>	-	-	40.54
<b>Market value of Mobily investment (SAR) - mn</b>	9,231	6,923	7,448
<b>Market value of Mobily investment (AED) - mn</b>	9,043	6,782	7,296
<b>Market cap Etisalat (AED) - mn (today's price)</b>	116,795	116,795	116,795
<b>Value of Mobily investment per Etisalat share (AED)</b>	1.51	1.13	1.22
<b>Mobily inv. as a % of Etisalat's equity value (today's price)</b>	7.7%	5.8%	6.2%

Source: company reports, SHUAA Capital

To comply with the Royal Decree that required increasing the public float to 40%, the founding shareholders, including Etisalat, sold down their interest in Mobily in March 2008. As a result, Etisalat disposed 43.75 mn Mobily shares at SAR 55.00 (net proceeds of AED 2.3 bn), bringing down its stake from 35.00% to 26.25%. The cost of the shares sold was SAR 10.00. Hence, in a little more than three years, Etisalat realized at 5.5x bigger on the partial sale of the Mobily investment.

We expect Etisalat to subscribe to Mobily's upcoming SAR 2.0 bn rights issue, to maintain its 26.25% interest. This will require Etisalat to inject SAR 525 mn in fresh funds. Post rights issue, Etisalat will own 183.75 mn shares of Mobily. (SAR 7.3 bn at today's price adjusted for rights issue).

Mobily is a strategic asset for Etisalat. Long term, Etisalat would probably like to increase its stake in Mobily to 51% as future opportunities arise. Besides this, Mobily has a management agreement with Etisalat whereby it pays annual fees of SAR 37.5 mn (USD 10 mn) per year. The agreement, signed in December 2004, is for seven years, and is renewable.

We have an outstanding BUY recommendation on Mobily with target fair value of SAR 78.00.

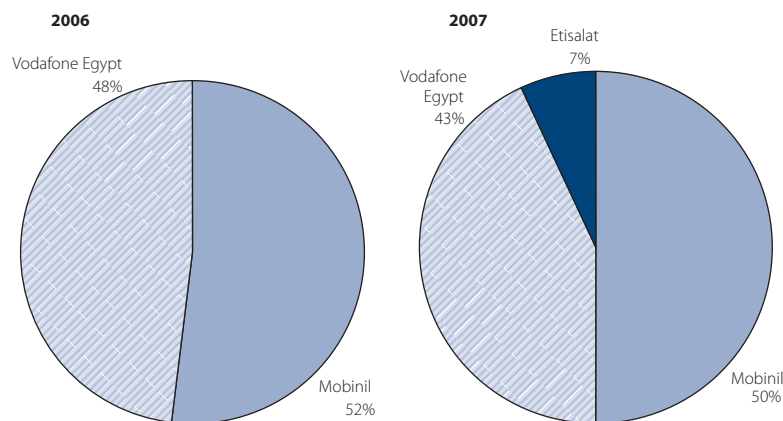
## Etisalat Misr - Egypt

### **Egypt mobile: different dynamics than KSA**

Etisalat would like to repeat the success story of Mobily in Saudi Arabia with Etisalat Misr. However, in Saudi Arabia, Etisalat entered the market as the second operator; in Egypt, Etisalat won the third license. Egypt already has two well established incumbent operators with little difference in market share - Mobinil and Vodafone Egypt- both backed by experienced international telecom operators. From the outright, this unique market structure, as opposed to having a strong number one operator and a distant number two carrier, sets the bar higher for Etisalat Misr.

When Etisalat won the license in 2006, mobile penetration in Egypt was less than 20%. A year later, at the time of the commercial launch, we estimate that penetration had surpassed 30%. This development alone trimmed the value of the third license. We believe that the two incumbents, anticipating the entry of the third operator, made a business decision to accelerate the short term adoption of mobile in Egypt through tariff cuts and active promotions. Combined with a favorable economic environment, Egypt became, in 2007, the second fastest growing mobile market in the MENA region after Iran, with close to 70% YoY subscriber growth and a record number of more than 12 mn net subscriber additions. The trade-off for Mobinil and Vodafone from this 'land grab' strategy was a significant drop in operating margins, more so, in the case of Mobinil than Vodafone. Mobinil's EBITDA margin declined from 50% in 2006 to less than 45% as of Q3 07.

### **Egypt: Year-end mobile market share**



Source: NTRA, Telecom Egypt, Mobinil, Etisalat, SHUAA Capital

Etisalat Misr simultaneously launched 2G (GSM) and 3G services in May 2007. Etisalat was the first to launch 3G services in Egypt, with the introduction of HSUPA-based (High Speed Uplink Packet Access) 3.75G technology.

Equipped with a state-of-the-art network, Etisalat Misr is attempting to differentiate itself from the competition by offering advanced services: mobile TV, video calling, mobile broadband (3.5G and 3.75G USB modem and router), etc. However, some issues with the network during the initial months post launch have played against Etisalat Misr. Shortly after Etisalat's launch of 3G services, Vodafone Egypt followed suit. On the other hand, Mobinil recently postponed the launch of 3G services until September 2008. Mobinil has been facing network congestion issues in certain areas. A Q1 08 survey by the National Telecom Regulatory Authority (NTRA) of Egypt put into evidence inferior voice quality on Mobinil's network across Cairo during peak hours. Mobinil will improve the quality of its service with the additional spectrum obtained with the 3G license.

However, given Egypt's relatively low GDP per capita, notably compared to GCC countries, adoption of 3G services has been slow. During Q1 08 conference call, Mobinil estimated that 12% to 15% of its subscribers had 3G handsets. If we extrapolate this ratio to Egypt's overall mobile market, this implies that approximately 4.5 mn mobile subscribers out of 33 mn at the end of Q1 08 had 3G enabled handsets.

The prospects for the mobile market in Egypt remain favorable. With a penetration rate currently in the low 40% range, we expect the Egyptian mobile market to continue to grow at a double digit rate over the next three years.

Etisalat Misr announced 3.1 mn mobile subscribers at the end of 2007, and revenues of AED 385 mn (USD 105 mn) for the eight-month period. With Etisalat targeting the prepaid mobile segment, we suspect it has a high rate of inactive users and a proportion of subscribers who purchased the SIM card as a second line used mainly during periods of promotions or for roaming purposes. This somewhat explains the wide difference with NTRA reported active subscribers of 1.64 mn for Etisalat Misr at the end of 2007. In our model, we assumed that 25% of Etisalat's subscribers are inactive.

#### Egypt: Mobile subscribers forecast

(million)	2007	2008E	2009E	2010E	2011E	2012E
Population	74.0	75.3	76.7	78.1	79.5	80.9
Total mobile subscribers	30.7	42.9	51.9	57.4	60.5	62.1
Mobile penetration	42%	57%	68%	73%	76%	77%
Etisalat Misr mobile subs. - reported	3.1					
Etisalat Misr mobile subs. - adjusted	2.3	5.7	9.0	11.2	12.4	13.1
% market share	7%	13%	17%	19%	21%	21%

Source: Company reports, SHUAA Capital

The acquisition of the third Egyptian mobile license was a bold move by Etisalat. According to our DCF analysis (discussed later), Etisalat clearly overpaid for the license. Etisalat was willing to pay a premium for the scarcity value attached to the license. Etisalat has a goal to be a pan-MENA operator and has established credentials as long-term builders. Egypt being a key market in MENA region, the acquisition allowed Etisalat to complete the 'triangle' representing three key neighbouring countries of the Arab world with a combined population of more than 100 mn: Egypt, Saudi Arabia, and UAE.

#### **Discreetly preparing a 'One Network'?**

We see two potential opportunities to create synergies, not factored in our model: Today, Etisalat is the only operator to cover the triangle connecting Egypt-Saudi Arabia-UAE when both Saudi Arabia and UAE have an important Egyptian expat community. In addition, significant roaming traffic occurs between these countries with Saudi Arabia ranking 6th on the list of countries for inbound tourism into Egypt, with about 400,000 annual visitors. Etisalat Misr acquired in Q4 07 an international gateway license.

Management intends to launch a 'special service proposition' to roaming customers in the 'triangle': i.e. offer preferential rates to its subscribers for roaming between Egypt and Saudi Arabia and UAE. However, we believe that the company will have to be prudent in designing its packages to avoid major retaliation from competitors in each of these countries...beyond a certain fine line. Mobinil generated EGP 500 mn (slightly less than USD 100 mn) in roaming revenue or 6% of total revenue in 2007. While not disclosed for 2007, Vodafone Egypt's roaming revenues have historically been higher than that of Mobinil.

Longer term, Etisalat has access to a platform with a critical mass of more than 100 mn Arab people that can be leveraged for 'common' product launches, e.g. mobile content, Web 2.0 applications, mobile banking, etc.



Based on our DCF, we obtain a total enterprise value of USD 1.34 bn (EGP 7.2 bn), compared to a license fee of USD 2.9 bn, or a NAV equal to slightly less than 50% of license fees. However, we emphasize that this is a standalone value that may not take into account any additional potential value generated for the group from active presence in Egypt.

In EGP mn	2007	2008E	2009E	2010E	2011E	2012E
Revenue	584	1,395	2,693	3,729	4,378	4,706
EBITDA	(752)	(419)	(269)	373	876	1,412
Margin %	-129%	-30%	-10%	10%	20%	30%
Taxes	-	-	-	-	-	-
Capex	(2,100)	(1,395)	(673)	(746)	(657)	(659)
FCF	(2,852)	(1,814)	(943)	(373)	219	753
Total Enterprise Value	7,156					
Net Debt	1,268					
Total Equity Value	5,888					
Etisalat's 66% interest (AED)	2,673					
Equity value / share (AED)	0.45					

Source: SHUAA Capital

**PTCL: Restructuring to broaden its horizon?****Pakistan - Fast Facts**

Population 2007 (mn)	158.2
Population Growth	1.9%
GDP/Capita 2007 USD	909
GDP Growth 2007	6.4%
GDP Growth 2008E	6.5%
Inflation 2007	7.8%
Mobile subscribers 2007 ('000)	78,853
Mobile penetration 2007	49.9%
Fixed line subscribers 2007 ('000)	4,940
Fixed line penetration 2007	3%
Etisalat's position (in mobile)	2/6
License type	Fixed+WLL+GSM
Etisalat's Interest	Effective ownership 23.4%

Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

Pakistan Telecommunications Company Ltd (PTCL) is part of the early international investments of Etisalat, and represents the only turnaround situation in the portfolio.

In Q1 08 the Pakistani telecommunication market counted six mobile operators, six Fixed Local Loop (FLL) operators and six Wireless Local Loop (WLL) operators. In Q1 08, PTCL, the incumbent integrated telecom operator in Pakistan, derived 68% of its revenues from the fixed-line business where it has a market share of 97% on the FLL segment, and 56% market share in the WLL segment. Although FLL subscribers have been declining for the past two years to the advantage of the WLL technology, the WLL segment is more competitive and places PTCL almost on equal footing with the rest of the operators as these networks are less costly and more quickly built.

Despite a flattening top line, PTCL still retains two growth components - its mobile division (Ufone) and its WLL segment. With broadband penetration standing at 0.08% in 2007, we believe high-speed Internet connectivity and mobility will be the main catalyst for telecom operators going forward.

***What Pakistan means to Etisalat***

PTCL is a restructuring play. Despite the competitive landscape and the challenges related to the fixed-line segment, we believe Pakistan remains a strategic asset to Etisalat in view of the affinities and proximity between the two countries. Etisalat can also benefit from synergies in traffic between Mobily in Saudi Arabia, Etisalat Afghanistan, and PTCL.

On another note, we believe that the democratization of money remittance in emerging countries presents yet untapped opportunities for mobile operators. With Orascom Telecom, owner of the largest mobile operator in Pakistan, applying for a banking license in the country, other operators are likely to follow suit.

Competitive environment aside, we believe that downside risks to PTCL would be on the macro level, related to high inflation and political turmoil. The weakening Pakistani Rupee versus the US Dollar will give a push to the top line from increased international revenue.

Under the terms of the shareholder agreement between Etisalat and the government of Pakistan, the UAE operator is entitled to an annual management fee of 3.5% of the gross revenue of PTCL in exchange of providing technical service and know-how. The agreement is valid for five years starting April 12th 2006 and is capped at USD 50mn per year.

**Forecast and estimates**

We have conducted a DCF valuation on PTCL to arrive at a fair price of PKR 44.90 per share, 15% higher than the current market price of PKR 39.03 per share. We are concerned that momentum in the Pakistani mobile market appears to be already priced in the stock and remain cautious with regard to the future of the fixed line segment.

Factored in our valuation is FLL to WLL/Mobile substitution, the competitive environment in the Pakistani telecommunication sector, already low ARPUs and deregulated pricing. We have also priced-in margin improvement and a major workforce restructuring.

An upside we haven't included in our model could come from regulation of pricing providing operators with a higher floor to falling ARPU. An extra source of revenue to PTCL could be the development of its land bank. A revaluation of land would also unlock intangible value, and if sold would present an upside to our valuation.

**PTCL/Ufone: Mobile & fixed subscriber forecast**

(Y/E June)	2006	2007	2008E	2009E	2010E	2011E	2012E
Population (mn)	155.4	158.2	161.1	164.1	167.2	170.4	173.6
Total mobile subscriptions (mn)	34.5	63.2	86.7	101.4	110.6	115.8	118.5
Total net additions per annum (mn)	21.7	28.7	23.5	14.7	9.2	5.2	2.7
YoY Growth	170%	83%	37%	17%	9%	5%	2%
SIM penetration rate	22%	41%	54%	62%	66%	68%	68%
Mobile Operators	Mobilink	Mobilink	Mobilink	Mobilink	Mobilink	Mobilink	Mobilink
	Ufone	Ufone	Ufone	Ufone	Ufone	Ufone	Ufone
	CMPak	CMPak	Zong	Zong	Zong	Zong	Zong
	Telenor	Telenor	Telenor	Telenor	Telenor	Telenor	Telenor
	Warid	Warid	Warid	Warid	Warid	Warid	Warid
U-Fone's mobile subscribers (mn)	7.5	14.0	18.2	21.3	23.2	24.3	24.8
YoY Growth	190%	87%	30%	17%	9%	5%	2%
Year end market share	22%	22%	21%	21%	21%	21%	21%
PTCL's fixed-line subscribers (FLL) (mn)	5.1	4.7	4.7	4.6	4.5	4.4	4.3
Year end market share	97%	97%	97%	97%	97%	97%	97%
PTCL's WLL subscribers (mn)	0.7	1.1	3.7	5.7	6.4	6.8	7.0
YoY Growth	-	71%	69%	55%	12%	6%	4%
Year end market share	64%	61%	55%	52%	51%	51%	50%

Source: IMF, ITU, PTCL, PTS, SHUAA Capital estimates

**PTCL: Summary DCF (in billion PKR)**

Y/E June	2008E	2009E	2010E	2011E	2012E
EBITDA	15.6	56.9	67.2	73.1	77.7
CAPEX	14.9	17.9	16.3	17.1	17.5
TAXES	0.2	8.1	9.5	10.1	10.6
FCF	1.0	31.6	42.1	46.7	50.3
EV in PK RP	229.1				
Equity Value	229.0				
Equity Value per share	44.90				

Source: SHUAA Capital

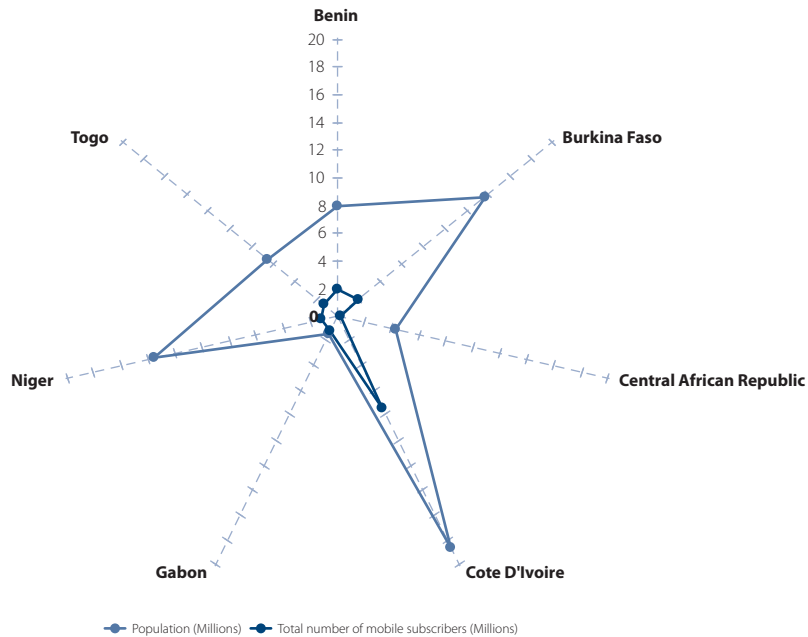
**Our DCF implies:**

Y/E June	2008E	2009E	2010E	2011E	2012E
Implied PE	n/m	9.6	8.2	7.7	7.3
Implied EV/EBITDA	14.7	4.0	3.4	3.1	2.9

It is worth mentioning that 2008 is an exceptional year for PTCL in terms of net profit as the Voluntary Separation Scheme (VSS), undertaken as part of its workforce restructuring, had a negative impact of PKR 23.2 bn on PTCL's net profit and EBITDA.

**Atlantique Telecom: Upside potential**

*Atlantique: Snapshot*



Source: ITU, IMF, SHUAA Capital Estimates

In April 2005 Etisalat acquired a 50% stake in Atlantique Telecom (AT), bundled with a 10-year management contract for AED 432.1mn (Euro 90mn), valuing the operation's equity at AED 864 mn. Etisalat has since been receiving an annual compensation of two million Euros for management services. In April 2007 Etisalat increased its stake in AT to 70% for AED 418.8 mn valuing the total equity at AED 2.1 bn implying a 2.4 (x) increase in the value. In May 2008, the UAE operator upped its stake yet again by 12% for a total holding stake of 82% of the equity, without disclosing the exact amount paid.

Atlantique Telecom which is based in Cote D'Ivoire, currently operates as MOOV in Cote D'Ivoire, Benin, Gabon and Togo, is expected to rebrand its Telecel operations in Burkina Faso, Niger and Central African Republic this year.

Covering 8% of the African population, Atlantique Telecom remains a small operation when compared to MTN or Zain. However, if we add Tanzania and Nigeria to AT, Etisalat's portfolio in Africa becomes comparable to that of Orange, whose operations in nine countries cover 34% of the African population.

	African population covered (%)	Population weighted inflation rate (%) 2008E	Population weighted GDP/ Capita (USD) 2008E
Etisalat's Total mobile operations in Africa	30	5.80	829
Atlantique Telecom	8	2.52	819
Zain	53	6.61	735
Orange	34	5.95	986
MTN	43	6.16	1,591

Source: IMF, SHUAA Capital

**Footprint in growth markets**

With an average mobile penetration of 23% as at Q1 08, we believe the main upside AT offers is its presence in growth markets. Given the scarcity of growth assets investors are currently paying high premiums for such access

**Potential for margin expansion added to low penetration rates**

We estimate that average mobile penetration rate will reach 39% by 2012 in the countries in which AT operates - representing a total market of 29 mn subscribers. Furthermore, AT has a footprint in countries that have Euro-pegged currencies and low inflation rates allowing for more room for margin improvement.

**Investment Risk**

With an average of four operators for 10 mn people per country, we believe the main downside risk for AT remains on the regulatory front. With convergence of technologies, the potential issuance of Unified Access Service (UAS) licenses to new players, as in some other African countries, would be negative to existing operators such as AT.

**Subscriber growth momentum****Atlantique: Summary Forecasts**

	2006	2007	2008E	2009E	2010E	2011E	2012E
Population (mn)	63.5	65.0	67.4	69.1	70.8	72.6	74.5
Mobile subscribers (mn)	8.2	14.0	18.6	22.7	25.7	27.6	28.9
Mobile Penetration rate	13%	22%	28%	33%	36%	38%	39%
AT's mobile subscribers (mn)	1.4	2.8	4.3	5.3	6.0	6.5	6.9
Net Additions (mn)	1.1	1.4	1.5	1.0	0.7	0.5	0.3
YoY Growth	380%	102%	55%	23%	14%	8%	5%
Revenues (AED millions)	539	1,173	1,851	2,197	2,510	2,726	2,846
YoY Growth	73%	118%	58%	19%	14%	9%	4%
EBITDA (AED millions)	-190	9	93	192	314	443	569
EBITDA Margin	-35%	1%	5%	9%	13%	16%	20%
YoY Growth	-726%	105%	928%	108%	63%	41%	28%

Source: IMF, ITU, Etisalat, SHUAA Capital estimates

In conclusion, AT doubled its subscribers in 2007 to 2.8 mn. We expect another strong year in 2008, projecting total subscribers to grow by more than 50% to 4.3 mn. After several years of losses, AT reached EBITDA break even in 2007. We expect continued progress on the profitability front in 2008. We view Etisalat's move in April 2007 to gain a 70% controlling stake in AT, followed by a recent increase to 82%, as an indicator of management's optimism in outlook.

**A prelude to further expansion in Far East**

**Excelcomindo - Indonesia**

In December 2007, Etisalat acquired a 15.97% stake in Indonesia's 3rd mobile operator from Bella Sapphire Ventures Ltd. for AED 1,610 mn (USD 438 mn). The deal gives Etisalat a seat on the board and values Excelcomindo at USD 2.74 bn versus Excelcomindo's market cap of USD 1.76 bn at the time of the acquisition. We believe that Etisalat was willing to pay a hefty premium to gain a foothold in a high growth market, which could pave the way for an increased presence in the region in the future.

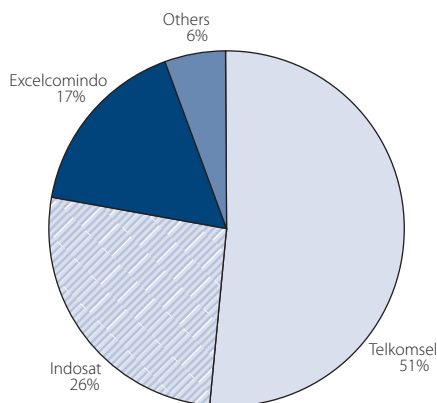
**Indonesia - Fast Facts**

Population 2007 (mn)	224.9
Population Growth	1.2%
GDP/Capita 2007 USD	1,824
GDP Growth 2007	6.2%
GDP Growth 2008E	6.1%
Inflation 2007	6.3%
Mobile subscribers 2007 ('000)	81,835
Mobile penetration 2007	36.4%
Fixed line subscribers 2007 ('000)	17,828
Fixed line penetration 2007	8%
Etisalat's position	3/8
License type	GSM
Etisalat's Interest	15.97%

Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

From an international expansion perspective, this investment ensures Etisalat an initial footprint in South East Asia giving access to a population of 225 mn and a subscriber base of 18.4mn as at Q1 08. Indonesia, adding 7.6 mn subscribers in Q4 07, was the fourth country in subscriber net additions behind India, China and Brazil. Based on ITU data, Indonesia was 8th worldwide in terms of total connections with 82 mn mobile subscribers at the end of 2007.

**Indonesia: Mobile market share Year-end 2007**

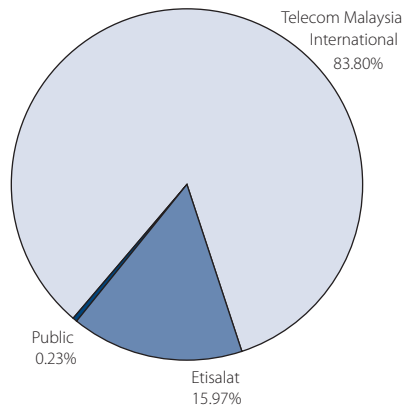


Source: ITU, Company reports, SHUAA Capital

While Excelcomindo's results have been ahead of analyst expectations, the main risks are the competitive and geographically challenging landscape of Indonesia featuring eight licensed GSM operators, an ARPU of USD 4.5 at Q1 08, and the recently deteriorating economic environment.

At the current price, Excelcomindo shares (EXCL IJ / EXCL JK) are trading at 13.8 times 2008E earnings and 5.7 times consensus enterprise value to EBITDA 08E.

*Excelcomindo: Shareholders*



Sources: Excelcomindo, SHUAA Capital

### Nigeria (EMTS)

In January 2007, Mubadala, the investment arm of the government of Abu Dhabi secured a 15-year renewable Unified Access Service (UAS) license for USD 400 mn. In February 2008, Etisalat acquired a 40% stake in the newly created Emerging Markets Telecommunication Services Limited (EMTS) for USD 660 mn, subject to final adjustments. Under the terms of the agreement Etisalat will be responsible for managing the new company enabling it to provide integrated telecommunication services in Nigeria. The new operator is expected to launch services by 2H 08.

#### Africa's largest telecom market

With this acquisition, Etisalat is attempting to gain a firm foothold in today's largest African telecommunication market. With three established operators already sharing the market, there are early signs that Etisalat's entry will change the landscape. Despite phenomenal growth in the Nigerian mobile market, existing operators were languid in upgrading and increasing the capacity of their networks which has resulted in poor service quality. However, ahead of Etisalat's awaited launch, established players accelerated investment program in their networks to protect their market shares.

#### Total mobile subscribers by country in '000 Y/E 2007

Rank	Country	Mobile Subs.
1	China	547,286
2	United States	255,400
3	<b>India</b>	<b>233,620</b>
4	Russia	170,000
5	Brazil	120,980
6	Japan	100,525
7	Germany	97,151
8	<b>Indonesia</b>	<b>81,835</b>
9	<b>Pakistan</b>	<b>78,853</b>
10	Italy	78,571
11	United Kingdom	71,993
12	Mexico	68,254
13	Turkey	61,976
14	France	55,358
15	Ukraine	55,240
16	Thailand	51,377
17	Spain	48,813
18	Korea (Rep.)	43,500
19	Philippines	42,869
20	South Africa	42,300
21	Poland	41,389
22	Argentina	40,402
23	<b>Nigeria</b>	<b>40,396</b>
24	Bangladesh	34,370
25	Colombia	33,941
26	<b>Egypt</b>	<b>30,047</b>
27	Iran (I.R.)	29,770
28	<b>Saudi Arabia</b>	<b>28,381</b>
29	Taiwan, China	24,302
30	Venezuela	23,820

Source: ITU, SHUAA Capital



**Nigeria - Fast Facts**

Population 2007 (mn)	153.6
Population Growth	2.4%
GDP/Capita 2007 USD	825
GDP Growth 2007	4.3%
GDP Growth 2008E	8.0%
Inflation 2007	5.3%
Mobile subscribers 2007 ('000)	40,396
Mobile penetration 2007	26.3%
Fixed line subscribers 2007 ('000)	6,578
Fixed line penetration 2007	4%
Etisalat's position	4/4
License type	GSM under UAS
Etisalat's Interest	40%

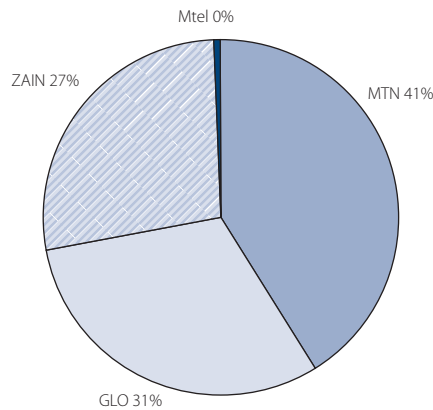
Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

**Nigeria: Summary Forecasts**

	2007	2008E	2009E	2010E	2011E	2012E
Population (mn)	154	157	161	165	169	173
Total mobile subscribers (mn)	40	56	71	80	85	89
Mobile penetration rate	26%	36%	44%	48%	50%	52%
Annual total net additions	13	16	15	9	5	4
YoY Growth	46%	39%	26%	13%	7%	5%
Operators	MTN	MTN	MTN	MTN	MTN	MTN
	GLO	GLO	GLO	GLO	GLO	GLO
	ZAIN	ZAIN	ZAIN	ZAIN	ZAIN	ZAIN
	-	Etisalat	Etisalat	Etisalat	Etisalat	Etisalat
Etisalat' mobile subscribers (mn)	-	0.6	5.0	7.7	9.1	10.1
Annual net additions	-	0.6	4.4	2.7	1.3	1.0
YoY Growth	-	-	693%	55%	17%	11%
Year end market share	-	1%	7%	10%	11%	11%
Revenues (AED mn)	-	35	1,203	2,631	3,353	3,686
YoY Growth	-	-	3360%	119%	27%	10%

Sources: SHUAA Capital

**Nigeria: Mobile market share Year-end 2007**



Source: ITU, MTN, SHUAA Capital

We have arrived at a value estimate for the Nigerian enterprise of AED 1,574 mn (USD 429 mn). Factored in our model is a mobile penetration cap of 52%. However, we believe the Nigerian market presents some downside risks including:

- The potential sale of MTEL, the mobile subsidiary of government backed NITEL, which would take the number of GSM players from four to five.
- Increasing competition from CDMA fixed-wireless operators which were granted UAS licenses in 2006. These providers weren't previously allowed to offer their customers wireless services outside their immediate areas.

***Late entrant, but room  
for differentiation***

In conclusion, Nigeria represents another high potential investment for Etisalat. The company is a late entrant in a mass market, representing Africa's most populated country, with a relatively low mobile penetration. While Etisalat will face intense competition from established players, it has a unique opportunity to capitalize on their past missteps resulting in poor quality of service and the impact this has had on their reputation and brand value. If Etisalat gets it right the first time, it has the opportunity to differentiate itself and gain market share in this high growth mobile market despite being the fourth entrant.

### Thuraya Satellite Telecommunications Company

Thuraya was established in Abu Dhabi in 1997 by a consortium of telecommunication operators and investment houses. It operates as an integrated satellite telecommunication provider with three geostationary satellites in orbit. Thuraya's services complement GSM networks, allowing subscribers to remain connected to their mobile networks, and to access Thuraya's system whenever these are out of reach. The services offered include voice, data, fax and high speed internet.

In 2006, Etisalat's initial 34.53% interest in Thuraya was reduced to 27.427% as the satellite operator underwent a private placement of USD 650 mn to fund the third satellite Thuraya-3, which was successfully launched in January 2008, and became operational in June. In Q1 08 the interest in Thuraya increased slightly to 28.042% as Etisalat's guarantee fees were converted to fully paid equity shares. Notably, Etisalat remains the largest single shareholder in Thuraya followed by the Abu Dhabi Investment Company (ADIC).

Thuraya is working to resume profitability. In the sum of the parts valuation of Etisalat, we valued Thuraya at its Q1 08 book value of AED 1.8 bn (total company value).

#### Thuraya: Summary historical financials

AED million	2003	2004	2005	2006	2007
Revenues	1,045	1,032	1,184	581	689
EBITDA	292	216	388	(25)	277
Net Profit	139.8	96.0	296.3	(98.0)	(9.0)
NPM	13%	9%	25%	-17%	-1%

Source: Company financials, Etisalat, SHUAA Capital

### Canar - Sudan

After winning the second fixed license in November 2004 in Sudan, Etisalat operates Africa's first Next Generation network (NGN) that covers the country's main cities, offering voice and data services under the banner Canar.

In 2007, Canar's fiber optic backbone has been extended 1,500 km nationally and 250 km locally in major cities to serve mobile operators, ISPs, and corporations. The operator has also launched 'Canar Go,' a 3G wireless broadband internet service (based on CDMA EVDO technology) with flat-rate packages and prepaid options.

#### **Successful wholesale business model**

Canar's strategy has been to focus on the corporate segment as well as build its wholesale business by acting as an alternative carrier and international gateway to the two mobile operators, Zain and MTN, that compete with the incumbent's mobile division (Sudatel/ Sudani). We expect growth to come from increasing usage and demand for broadband services. In 2007 broadband subscribers were negligible.

In Q4 07 Etisalat increased its stake in Canar from 37% to 82% for USD 159 mn, acquiring a majority stake and valuing the equity at USD 353 mn.

We have conducted a DCF exercise to arrive at an estimated EV of Canar of USD 267 mn, 21% higher than the average cost of acquisition for Etisalat.

**Sudan: Fast Facts**

Population 2007 (mn)	37.2
Population Growth	2.1%
GDP/Capita 2007 USD	1,257
GDP Growth 2007	11.2%
GDP Growth 2008E	10.7%
Inflation 2007	8.0%
Mobile subscribers 2007 ('000)	7,464
Mobile penetration 2007	20.1%
Fixed line subscribers 2007 ('000)	345
Fixed line penetration 2007	1%
Etisalat's position	2/2
License type	Fixed+WLL
Etisalat's Interest	82%

Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

**Canar: Summary Forecasts**

	2008E	2009E	2010E	2011E	2012E
Revenues (mn SDP)	161.4	191.2	223.8	261.1	301.3
YoY Growth	20%	18%	17%	17%	15%
EBITDA Margin	10%	14%	18%	23%	27%
CAPEX/Sales %	35%	30%	17%	16%	15%
NPM	0%	2%	4%	6%	8%
Country Tax rate	35%	35%	35%	35%	35%

Source: SHUAA Capital

**Afghanistan**

In August 2007, Etisalat was the fourth mobile operator to launch its services in Afghanistan. With a population of 28 mn and a penetration rate of 18% in Q1 08, the Afghani market offers sustainable growth prospects. We believe that Afghanistan, with its neighboring Pakistan in which Etisalat operates through PTCL, offers Etisalat a bigger strategic foothold in the region.

After years of war and lack of proper telecommunication services, new mobile services, starting in 2002 with Afghan Wireless Communication Company (AWCC), were met with a big appetite. In fact, mobile penetration went from less than 1% in 2003 to the current 18%.

To estimate the value of the Afghanistan operation we have conducted a DCF valuation to reach an enterprise value of USD 46.8 mn, 17% higher than the USD 40.1 mn paid by Etisalat for the license in 2006.

In our DCF we have capped mobile penetration at 40% for an ARPU of USD 5.8 in 2016. We believe Etisalat will reach EBITDA break-even in 2011 and net profit break-even in 2014.

**Afghanistan - Fast Facts**

Population 2007 (mn)	27.4
Population Growth	2.6%
GDP/Capita 2007 USD	362
GDP Growth 2007	13.0%
GDP Growth 2008E	8.4%
Inflation 2007	8.3%
Mobile subscribers 2007 ('000)	4,668
Mobile penetration 2007	17.0%
Fixed line subscribers 2007 ('000)	81
Fixed line penetration 2007	0%
Etisalat's position	4/4
License type	GSM
Etisalat's Interest	100%

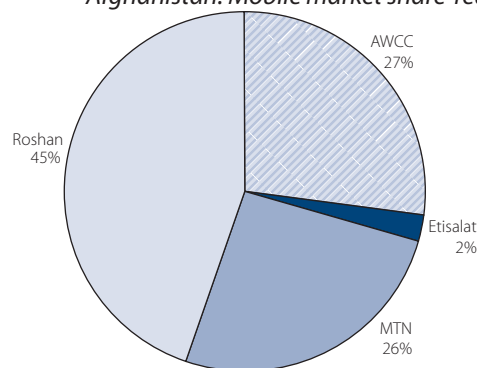
Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

**Afghanistan: Mobile subscribers forecast**

	2006	2007	2008E	2009E	2010E	2011E	2012E
Population (mn)	26.7	27.4	28.1	28.9	29.6	30.4	31.2
Total mobile subscribers (mn)	2.5	4.7	8.1	10.6	11.8	12.2	12.5
Total net additions per annum (mn)	1.3	2.1	3.5	2.5	1.2	0.5	0.3
YoY Growth		85%	74%	30%	11%	4%	2%
Mobile penetration rate	9%	17%	29%	37%	40%	40%	40%
Mobile Operators	AWCC	AWCC	AWCC	AWCC	AWCC	AWCC	AWCC
	Etisalat	Etisalat	Etisalat	Etisalat	Etisalat	Etisalat	Etisalat
	MTN	MTN	MTN	MTN	MTN	MTN	MTN
	Roshan	Roshan	Roshan	Roshan	Roshan	Roshan	Roshan
Etisalat' mobile subscribers ('000)		110	568	930	1,239	1,365	1,442
Total net additions per annum ('000)		110	458	361	309	127	76
YoY Growth			417%	64%	33%	10%	6%
Etisalat's Year end market share		4%	7%	11%	12%	12%	12%

Sources: IMF, ITU, Etisalat, SHUAA Capital

**Afghanistan: Mobile market share Year-end 2007**



Source: ITU, MTN, Etisalat, SHUAA Capital

**High potential long term investment**

In conclusion, with an upfront license cost of only USD 40 mn, albeit as the fourth operator, Etisalat gained access to a mass market of 28 mn population characterized with low mobile penetration. Despite the near term challenges of setting up operations in Afghanistan, from a portfolio approach we like the long term risk reward of this investment as part of a diversified international emerging markets mobile operations portfolio. With a 15-year license, Etisalat is making a long term bet on the prospects of Afghanistan, with a high potential for value creation. In our model, we preferred to be conservative with our assumptions by respectively capping mobile penetration at 40% and Etisalat's market share at 13% in 2016.

## Zantel - Tanzania: Key to Africa

### Tanzania - Fast Facts

Population 2007 (mn)	39.0
Population Growth	2.1%
GDP/Capita 2007 USD	362
GDP Growth 2007	7.1%
GDP Growth 2008E	7.5%
Inflation 2007	5.6%
Mobile subscribers 2007 ('000)	8,252
Mobile penetration 2007	21.2%
Fixed line subscribers 2007 ('000)	237
Fixed line penetration 2007	1%
Etisalat's position	4/4
License type	Fixed + Mobile
Etisalat's Interest	51%

Sources: IMF, ITU, GSM World, Etisalat, SHUAA Capital

Zantel, initially a partnership between Etisalat (34%), the government of Zanzibar (18%) and local investors, started offering fixed and mobile services in the island of Zanzibar in 1999. In 2005, as the Tanzanian telecommunication sector was open to full competition, Zantel was awarded a 25-year fixed and mobile concession to operate on mainland Tanzania.

In October 2007 Etisalat increased its stake in Zantel by 17% for AED 55.3mn, valuing the total equity at AED 325.3mn (USD 88.6mn). Etisalat's strategy to gain market share in Tanzania had been to offer lower and flat on-net, off-net and local call tariffs. It also leverages its international gateway, offering lower international tariffs and through which Internet Service Providers and other mobile operators route their international traffic.

Going forward Zantel's aim is to establish itself as a telecommunication hub for the East and Central African regions, as well as an integrated alternative service provider. Zantel is also one of the main operators backing the East African Submarine Cable System (EASSy), which aims to deploy a fiber optic link that will connect the African Eastern coastline to the rest of the world's backbone.

### **Core network entirely replaced in 2007**

In August 2007, Zantel started the initial phase of its network expansion in Tanzania aiming to triple capacity in six months by adding 200 sites. In fact, the existing core network was entirely scrapped and replaced by a new state-of-the art infrastructure. By Q2 08 Zantel will cover 75% of the Tanzanian population. Zantel doubled its mobile subscribers in 2007 to 0.7 mn.

We have conducted a DCF based on a mobile penetration cap of 50% and a market share of 14% for Zantel in 2016, to arrive at an equity value of AED 300 mn.

**Tanzania: Summary forecasts**

	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Population (mn)</b>	38.2	39.0	39.7	40.6	41.4	41.8	42.3
<b>Total mobile subscribers (mn)</b>	5.6	8.3	12.0	15.2	17.4	19.0	20.3
<b>YoY Growth</b>	65%	47%	46%	27%	14%	9%	7%
<b>Mobile penetration rate</b>	14.7%	21.2%	30.3%	37.5%	42.0%	45.4%	48.0%
<b>Mobile Operators</b>	Zain	Zain	Zain	Zain	Zain	Zain	Zain
	MIC (Tigo)	MIC (Tigo)	MIC (Tigo)	MIC (Tigo)	MIC (Tigo)	MIC (Tigo)	MIC (Tigo)
	Vodacom	Vodacom	Vodacom	Vodacom	Vodacom	Vodacom	Vodacom
	Zantel	Zantel	Zantel	Zantel	Zantel	Zantel	Zantel
			HiTS	HiTS	HiTS	HiTS	HiTS
<b>Zantel's mobile subscribers ('000)</b>	356	684	1,443	1,891	2,230	2,494	2,732
<b>Total net additions per annum ('000)</b>	260	328	759	448	339	264	238
<b>YoY Growth</b>	270%	92%	111%	31%	18%	12%	10%
<b>Year end market share</b>	6.3%	8.3%	12.0%	12.4%	12.8%	13.1%	13.5%
<b>Revenues (AED mn)</b>	127	183	299	454	554	626	675
<b>YoY Growth</b>	22%	44%	63%	52%	22%	13%	8%
<b>EBITDA (AED mn)</b>	23	25	45	79	109	139	165
<b>YoY Growth</b>	10%	9%	79%	76%	39%	27%	19%

Source: IMF, ITU, Etisalat, SHUAA Capital

## Financial Analysis and Forecasts

### UAE operations

#### *Revenue: double digit growth in 2008, then single digit*

UAE revenues (telecom + services segment) grew by 27% in 2006, and 25% in 2007. After several years of phenomenal growth, we expect UAE revenue growth to decelerate to 12% in 2008, followed by 9% growth in 2009, and low single digit growth thereafter.

Our forecast reflects the maturity of two principal segments of UAE operations: Mobile Voice (64% of 2007 UAE total revenue) and Fixed-Line (15% of revenue). While not on TRA's agenda at this time, we assumed in our model that a third mobile player (MVNO) will launch operations in mid-2011.

In the mobile segment, Etisalat's management focus is gradually shifting from subscriber growth to ARPU growth. Etisalat reports non-voice mobile revenues within Data Services (10% of revenue). This segment's revenue grew by 48% in 2006 and 30% in 2007. As previously discussed, given the favorable conditions in UAE for increased adoption of value-added mobile services, we project strong double digit data revenue growth for the next several years.

Along with Data services, Internet (7% of revenue) is another segment where we are forecasting double digit growth for the next three years. Recall that UAE broadband penetration is still very low at 7% penetration.

#### *EBITDA: impressive margins*

##### Etisalat UAE: Summary P&L

(billion, AED)	2006	2007
Revenue – UAE	16.1	20.1
% growth		25%
EBITDA – UAE	12.6	16.0
% margin	78.3%	79.4%
% growth		27%
Net income – UAE	5.8	7.7
% net margin	36.2%	38.3%
% growth		33%

Source: Company reports

UAE operations posted an impressive EBITDA growth of 27% in 2007. UAE EBITDA margin increased from 78.3% in 2006 to 79.4% in 2007.

We believe that UAE EBITDA margin has room for expansion from increased efficiencies in the next few years. Post-2011, we assumed a decline in margin to reflect the entry of a third mobile player.



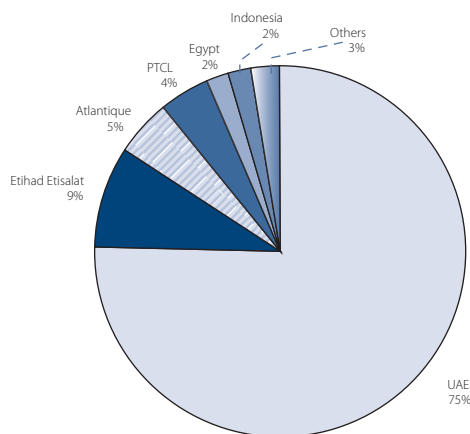
**International operations**

We expect international operations to contribute more than 13% of 2008 revenue. Fully consolidated international operations are: Atlantique Telecom, Egypt, Tanzania, Sudan, and Afghanistan.

We forecast international revenue to grow at CAGR of close to 35% between 2008 and 2010. We estimate that international ventures will post an EBITDA loss of AED 176 mn in 2008, before turning positive in 2009.

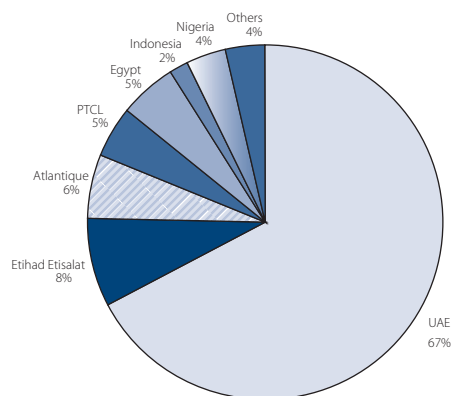
To get a better grasp of the increasing contribution of international operations / investments to Etisalat’s total economic value, we looked at revenue and EBITDA according to proportionate consolidation method. We expect international operations, as a group, to represent 33% of total revenue in 2012, up from 25% in 2008. At the same time, we expect EBITDA contribution, again based on a proportionate consolidation method, to increase from 6% to 15%, during the same period.

*Etisalat: revenue breakdown – proportionate consolidation 2008*



Source: SHUAA Capital

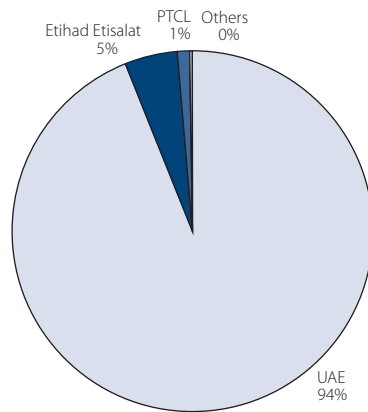
*Etisalat: revenue breakdown – proportionate consolidation 2012*



Source: SHUAA Capital

*Etisalat: EBITDA breakdown – proportionate consolidation 2008*

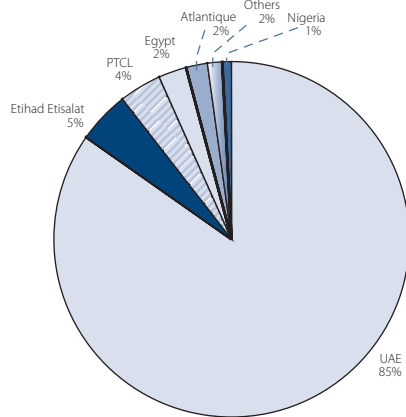
2008E



Source: SHUAA Capital

*Etisalat: EBITDA breakdown – proportionate consolidation 2012*

2012E



Source: SHUAA Capital

## Valuation

We maintain our BUY recommendation on Etisalat increasing our target fair value price to AED 26.20, which represents a 34% upside to the stock's most recent closing price. The target value is primarily based on a sum-of-the-parts valuation. We believe that Etisalat shares are appealing at these levels, as we value UAE operations on a stand-alone basis at AED 23.35. In other words, investors are getting for free an attractive international telecom portfolio, in addition to a debt free balance sheet with in excess of AED 1.00 net cash per share.

### UAE = Core value

UAE operations remain the core value of Etisalat. We conducted a stand-alone DCF of Etisalat's UAE operations.

We like the visibility of UAE operations. While one might be concerned with regulatory uncertainty and the risk of increased competition, looking at the track record to date, we believe that UAE has favored an orderly approach to telecom liberalization.

Our assumptions for the DCF are set below:

- Risk free rate of 4.7%
- Market risk premium of 5%, which we apply across the board on all MENA equity markets
- Cost of equity of 9.4%
- Cost of debt of 6.0%, with target gearing of 10%
- WACC (Weighted Average Cost of Capital) of 9.1%
- Terminal growth rate of 2.0% in 2016

### UAE operations: stand-alone DCF

(Billion, AED)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Revenue	22.5	24.5	25.8	26.7	27.3	27.9	28.6	29.4	30.1
EBITDA	18.0	19.7	20.8	21.5	21.9	22.3	22.8	23.2	23.7
% margin	79.8%	80.3%	80.7%	80.7%	80.2%	79.7%	79.6%	79.1%	78.7%
Government Royalty	(8.4)	(9.2)	(9.7)	(10.0)	(10.2)	(10.4)	(10.6)	(10.9)	(11.1)
% royalty	50%	50%	50%	50%	50%	50%	50%	50%	50%
Capex	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)
Unlevered FCF	8.3	9.2	9.8	10.2	10.4	10.6	10.9	11.1	11.4
Equity Value	139.9								
Shares o/s	5.99								
Equity value per share	23.35								

Source: SHUAA Capital

Our present fair value for UAE operations on a stand alone basis is approximately AED 140 bn or 23.35 per share.

**Sensitivities corresponding to various WACC and perpetuity growth rates**

Terminal Growth/ WACC	7.6%	8.1%	8.6%	9.1%	9.6%	10.1%	10.6%
0.5%	25.38	23.71	22.24	20.94	19.78	18.75	17.82
1.0%	26.55	24.68	23.06	21.64	20.39	19.27	18.28
1.5%	27.90	25.80	24.00	22.44	21.07	19.86	18.78
2.0%	29.49	27.11	25.09	23.35	21.84	20.52	19.35
2.5%	31.40	28.65	26.35	24.40	22.72	21.26	19.99
3.0%	33.71	30.49	27.84	25.62	23.73	22.11	20.71
3.5%	36.60	32.73	29.61	27.05	24.91	23.09	21.53

Reiterating, our model factors in a third mobile operator (MVNO) in mid 2011 when it is not on TRA's agenda at this time. Again, while no commitment has been made, UAE has earlier indicated its intention to fully liberalize the telecom market in 2015. Our model builds in a gradual decline in EBITDA margin from 80.7% in 2011 to 78.7% in 2016.

We also conducted a sensitivity analysis to test the downside to our base case scenario in the event of a more pronounced competitive threat post 2015. If we drop UAE EBITDA margin in 2016 from 78.7% to 75.7%, we see a minor impact on fair value per share from AED 23.35 to 22.80.

**Sensitivities corresponding to various EBITDA margin (terminal year)**

% EBITDA Margin - 2016	75.7%	76.7%	77.7%	78.7%	79.7%	80.7%	81.7%
Value per share	22.80	22.98	23.17	23.35	23.53	23.72	23.90

To push it further, if we use a terminal growth of 0% instead of 2%, combined with an EBITDA margin of 75.7% in 2016, UAE fair value per share falls to AED 19.89.

In conclusion, we see solid value in the UAE franchise. At the current price of AED 19.50, Etisalat shares are trading at 16% discount to our AED 23.35 fair value for UAE operations on a stand-alone basis, even before taking into account international operations and a net cash position in excess of AED 1.00 per share on the balance sheet.

**Sum-of-the-parts**

We used a sum-of-the-parts (SOTP) approach as our primary valuation method, as well as one based on peer group multiples.

**UAE operations = 85%  
of total value**

We have already discussed our valuation for UAE operations. UAE represents 85% of our sum-of-the-parts derived fair value. We used a combination of DCF method, mark-to market, and book value to value international operations and other investments.

We valued Mobily (7020: Saudi Stock Exchange) at its current market price, instead of using our target fair value of SAR 78.00. Mobily represents Etisalat's largest investment at 4.1% of total fair value.

We also valued PTCL (Pakistan), Excelcomindo (Indonesia), and positions held in Qtel and Sudatel, all publicly listed companies, at mark-to market. We discussed earlier our DCF of PTCL, which gave us a fair value of 15% higher than current price.

**Etisalat: Sum-of-the -parts**

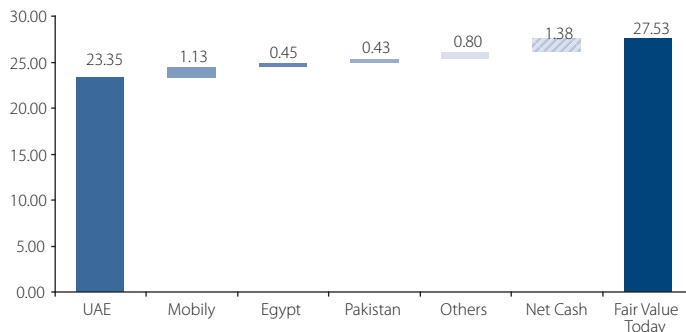
in AED millions	Valuation Method	Etisalat's Stake	Total EV	Net Debt	100% Equity	Equity to Etisalat
<b>UAE</b>	DCF	100%	139,857		139,857	139,857
<b>Etihad Etisalat</b>	Market Value	26%			25,835	6,782
<b>Egypt</b>	DCF	66%	4,923	854	4,069	2,685
<b>PTCL</b>	Market Value	23%			10,883	2,547
<b>Atlantique</b>	DCF	82%	1,246	279	967	793
<b>Indonesia</b>	Market Value	16%			6,134	980
<b>Nigeria</b>	DCF	40%	1,574		1,574	630
<b>Thuraya</b>	Book Value	28%	1,815		1,815	509
<b>Sudan</b>	DCF	82%	979		979	803
<b>Afghanistan</b>	DCF	100%	172		172	172
<b>Tanzania</b>	DCF	51%	403	103	300	153
<b>Qtel</b>	Market Value	1%			21,882	219
<b>Sudatel</b>	Market Value	4%			5,632	225
<b>Other Investments</b>	Book Value	100%	280		280	280
						156,634
						<b>Cash (Hold Co.)</b> 12,716
						<b>Debt (Hold Co.)</b> (4,455)
						<b>Equity</b> 164,895
						<b>Number of shares</b> 5,990
						<b>Value per Share</b> 27.53

Source: SHUAA Capital

Egypt represents the second largest international investment at 1.6% fair value, followed by PTCL at 1.5%.

All in all, UAE represents the lion share of our sum-of-the parts fair value, at close to 85%. International operations, as a group, and net cash compose respectively 10% and 5% of our fair value. Etisalat’s cash position is pro forma the partial sale of Mobily shares in April 2008.

*Etisalat: sum-of-the-parts fair value per share breakdown*



Source: SHUAA Capital

### Peer Valuation

We also looked at peer valuation multiples. We took in consideration only P/E multiples. We believe it's more difficult to make an apple-to-apple comparison with EV/EBITDA multiple for tax reasons. While Etisalat is taxed at 50% (cash tax rate) at the net profit level, some other regional operators are taxed above the EBITDA level, in addition to other adjustments required due to the various level of ownership of interests/operations in multiple countries and method of consolidation used.

Telecom sector multiples have contracted year-to-date. Average P/E multiple for our retained universe, mainly composed of integrated/mobile operators in GCC / Middle East / Africa emerging markets is 14.5 and 12.4 times 2008 and 2009 consensus earnings respectively. Etisalat is currently trading in line with the universe at 14.1 and 12.7 our earning estimates for 2008 and 2009 respectively.

Regional / Emerging markets peers	PE 2008E	PE 2009E
STC	9.7	9.7
Qtel	11.3	8.8
Telecom Egypt	9.8	8.4
Maroc Telecom	17.8	16.9
Omantel	14.0	13.1
Batelco	9.3	9.0
Zain	17.3	14.5
MTN	15.6	12.1
Millicom	19.2	15.5
Orascom Telecom	16.1	12.4
Wataniya	12.1	10.9
Comstar	22.1	17.1
Average	<b>14.5</b>	<b>12.4</b>

Comparables (short list)	PE 2008E	PE 2009E
Maroc Telecom	17.8	16.9
Zain	17.3	14.5
MTN	15.6	12.1
Millicom	19.2	15.5
Orascom Telecom	16.1	12.4
Comstar	22.1	17.1
Average	<b>18.0</b>	<b>14.7</b>
<b>Etisalat</b>	<b>14.1</b>	<b>12.7</b>

Source: Bloomberg, Reuters, SHUAA Capital estimates.

We believe that Etisalat warrants a higher multiple than industry average multiples, in order to reflect:

- Etisalat's relatively benign competitive environment in its home market (UAE is 85% of fair value) compared to other regional operators who are facing more intense competition and /or much higher future threat. The impact is accentuated by its exposure to the UAE, which continues to offers attractive organic growth opportunities, admittedly with a caveat for the already record high mobile penetration.
- Etisalat's track record for value creation and as a growth company since listing in 2002.
- Etisalat's Net income in 2008 and 2009 will reflect heavy losses from early stage / start-up international operations, notably Egypt, Nigeria and Afghanistan.
- Etisalat has the best balance sheet among its peers. As at April 2008, Etisalat had a net cash position of AED 7.0 bn (USD 1.9 bn) on its balance sheet, or approximately 6% of its market cap.

For these reasons, we believe an above average P/E is justified for Etisalat, in line with the comparable sub-group that trades at a premium to the sector. As such, we applied a P/E of 15 for Etisalat on our 2009 earnings estimate to obtain fair value of AED 23.08.

To reflect recent general contraction in telecom sector multiples, we derive our fair value by using a combination of SOTP valuation (70% weight) and peer multiple (30% weight). We derive a target fair value of AED 26.20.

Valuation method	Valuation	Weight	Value per share
SOTP	27.5	70%	19.3
PE	23.1	30%	6.9
<b>Total</b>		100%	<b>26.2</b>

## Financials

### Consolidated Balance Sheet (AED millions)

Year to December	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Assets</b>							
Property, plant and equipment	8,496	11,876	13,769	14,637	15,344	15,936	16,440
Intangibles	0	1,687	1,832	1,832	1,832	1,832	1,832
Licenses	11,230	12,199	11,569	10,938	10,307	9,676	9,045
Investments in associated undertakings	11,854	13,407	14,573	14,573	14,573	14,573	14,573
Other Investments	365	365	365	365	365	365	365
Loans to associated undertakings	410	0	0	0	0	0	0
Deferred tax assets	0	12	12	12	12	12	12
<b>Total Non-Current Assets</b>	<b>32,355</b>	<b>39,547</b>	<b>42,119</b>	<b>42,356</b>	<b>42,432</b>	<b>42,394</b>	<b>42,267</b>
Stores	66	175	175	175	175	175	175
Debtors and prepayments	2,812	2,047	3,021	3,317	3,639	3,978	4,329
Loans to associated undertakings	56	0	0	0	0	0	0
Amounts due from other telecom. admin.	315	1,035	1,035	1,035	1,035	1,035	1,035
Amounts due from Associated companies	0	210	363	363	363	363	363
Cash and bank balances	10,304	9,433	11,120	15,536	20,413	25,083	29,230
<b>Total Current Assets</b>	<b>13,553</b>	<b>12,901</b>	<b>15,715</b>	<b>20,428</b>	<b>25,627</b>	<b>30,635</b>	<b>35,133</b>
<b>Total Assets</b>	<b>45,908</b>	<b>52,448</b>	<b>57,834</b>	<b>62,784</b>	<b>68,059</b>	<b>73,030</b>	<b>77,400</b>
<b>Total Equity</b>	<b>19,187</b>	<b>24,057</b>	<b>29,583</b>	<b>34,560</b>	<b>39,677</b>	<b>44,337</b>	<b>48,233</b>
<b>Minority Interest</b>	<b>2,208</b>	<b>1,838</b>	<b>1,236</b>	<b>913</b>	<b>749</b>	<b>721</b>	<b>844</b>
<b>Liabilities</b>							
Bank borrowings	6,981	3,141	3,991	3,991	3,991	3,991	3,991
Loan from investment partners	0	1,643	1,700	1,700	1,700	1,700	1,700
Advance from Investment partners	551	609	609	609	609	609	609
Amounts payable on acquisition of an investment	2,937	2,058	1,568	1,568	1,568	1,568	1,568
Provision for staff terminal benefits	440	534	637	637	637	637	637
Deferred tax liabilities	0	147	170	170	170	170	170
Non-current portion of creditors	0	756	756	756	756	756	756
<b>Total Non-Current Liabilities</b>	<b>10,909</b>	<b>8,887</b>	<b>9,432</b>	<b>9,432</b>	<b>9,432</b>	<b>9,432</b>	<b>9,432</b>
Creditors and accruals	8,568	13,231	13,491	13,787	14,109	14,448	14,799
Amounts due to other telecom admin.	932	1,299	1,299	1,299	1,299	1,299	1,299
Amounts payable on acquisition of an investment	979	1,046	1,046	1,046	1,046	1,046	1,046
Short term loan from investment partners	1,537	0	0	0	0	0	0
Proposed dividends	1,588	1,747	1,747	1,747	1,747	1,747	1,747
Bank Borrowings	0	343	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>13,605</b>	<b>17,665</b>	<b>17,583</b>	<b>17,879</b>	<b>18,201</b>	<b>18,540</b>	<b>18,891</b>
<b>Total Liabilities</b>	<b>24,514</b>	<b>26,553</b>	<b>27,015</b>	<b>27,311</b>	<b>27,633</b>	<b>27,972</b>	<b>28,322</b>
<b>Total Equity and Liabilities</b>	<b>45,908</b>	<b>52,448</b>	<b>57,834</b>	<b>62,784</b>	<b>68,059</b>	<b>73,030</b>	<b>77,400</b>



## Consolidated Income Statement (AED millions)

Year to December	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Revenue</b>	<b>16,290</b>	<b>21,340</b>	<b>26,052</b>	<b>29,615</b>	<b>32,226</b>	<b>33,889</b>	<b>35,035</b>
<b>EBITDA</b>	<b>12,586</b>	<b>15,488</b>	<b>17,806</b>	<b>19,771</b>	<b>21,568</b>	<b>22,823</b>	<b>23,846</b>
Depreciation and Amortization	1,397	1,962	2,425	2,583	2,712	2,797	2,845
<b>EBIT</b>	<b>11,189</b>	<b>13,526</b>	<b>15,382</b>	<b>17,188</b>	<b>18,857</b>	<b>20,025</b>	<b>20,999</b>
Share of profit / (loss) in associates	267	380	566	546	644	835	1,093
Interest & Other Income	476	736	664	798	1,013	1,216	1,396
Finance Costs	262	503	400	421	421	421	421
Deferred taxes	0	-122	-29	0	0	0	0
Profit before Minority Interest & Royalty	11,670	14,017	16,183	18,111	20,093	21,654	23,067
Royalty	5,860	7,297	8,267	9,217	10,128	10,841	11,472
Profit before minority interest	5,810	6,720	7,916	8,894	9,965	10,813	11,595
Minority interest	-50	-576	-351	-324	-164	-29	123
<b>Net profit</b>	<b>5,860</b>	<b>7,297</b>	<b>8,267</b>	<b>9,217</b>	<b>10,128</b>	<b>10,841</b>	<b>11,472</b>

## Key ratios

Year to December	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Growth</b>							
Revenues	26.6%	31.0%	22.1%	13.7%	8.8%	5.2%	3.4%
EBITDA	27.7%	23.1%	15.0%	11.0%	9.1%	5.8%	4.5%
Net Profit	37.7%	24.5%	13.3%	11.5%	9.9%	7.0%	5.8%
Equity	22.0%	25.4%	23.0%	16.8%	14.9%	11.8%	8.8%
Total Assets	88.7%	14.2%	10.3%	8.6%	8.4%	7.3%	6%
<b>Leverage</b>							
Interest coverage (x)	48.1	30.8	44.5	46.9	51.2	54.2	56.6
Debt / Equity (x)	0.4	0.2	0.2	0.2	0.1	0.1	0.1
Debt / Market Cap (x)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Margins &amp; Profitability</b>							
EBITDA margin	77.3%	72.6%	68.4%	66.8%	66.9%	67.3%	68.1%
Net Profit margin	36.0%	34.2%	31.7%	31.1%	31.4%	32.0%	32.7%
RoAE	33.6%	33.7%	30.8%	28.7%	27.3%	25.8%	24.8%
RoAA	16.7%	14.8%	15.0%	15.3%	15.5%	15.4%	15.3%
<b>Valuation</b>							
Number of shares ('000)	4,537,500	4,991,250	5,989,500	5,989,500	5,989,500	5,989,500	5,989,500
EPS (AED)	0.98	1.22	1.38	1.54	1.69	1.81	1.92
DPS (AED)	0.60	0.60	0.60	0.72	0.86	1.04	1.24
BVPS (AED)	3.20	4.02	4.94	5.77	6.62	7.40	8.05
Share price	19.50	19.50	19.50	19.50	19.50	19.50	19.50
P/E (x)	19.9	16.0	14.1	12.7	11.5	10.8	10.2
P/BV (x)	6.1	4.9	3.9	3.4	2.9	2.6	2.4
EV / EBITDA (x)	8.0	6.5	5.7	5.1	4.7	4.4	4.2
Dividend yield	2.3%	2.6%	3.1%	3.7%	4.4%	5.3%	6.4%

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