



## Rating Review

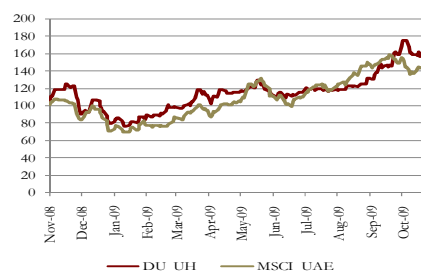
du

Rating: Outperform

### du – Revised TP AED 3.99

- We revise our target price for du to AED 3.99 from AED 3.00 and our rating to Outperform from Market Perform.
- We projected a slowdown in UAE mobile subscriber growth in 2009 and this has indeed been the case, with a total of 796,000 net mobile adds by 9mo 09 versus 1.46mn for 9mo 08. The rate of slowdown, however, has not been as large as we forecast – we projected net mobile adds of just 523,000 for FY 2009. We project 229,000 net mobile adds in Q4 2009 bringing our revised total active net mobile adds to 1.025mn for the year.
- du has been the major beneficiary of this on-going growth, capturing 80.5% of mobile net adds 2009 YTD and projected to capture 76% by year end.
- Mobile Number Portability (to be introduced in Q2 2010) should be a key catalyst for du. We project du to have 45.8% market share of active mobile subs by 2014, up from a projected 32.6% for YE 2009.
- Infrastructure sharing should allow du to roll out its 3G network at a faster rate, which will be key in boosting mobile data usage. du is aiming to cover 90% of the UAE population by the end of YE 2010. With access to the Etisalat-built national FTTH network, we believe capex for du beyond 2011 will be mainly maintenance capex until it chooses the technology and formulates a strategy for roll out of 4G/LTE.
- We expect UAE population growth to resume in 2010, up by 2% (albeit at a slower pace than in 2007 and 2008), with the impact of the global financial crisis on the UAE being less severe and of a shorter duration than anticipated. We project the UAE population to reach 6.3mn by the end of 2014.
- Local loop unbundling to have limited impact in the near term. In order for du to gain potential fixed line and broadband customers, du will need to gain access and install equipment in Etisalat's exchanges, and this we believe, from a practical perspective, will take some time.

Equity Data		du					
Current Price (AED)		3.22					
Target Price (AED)		3.99					
Upside/downside		23.9%					
12 Mo. Performance		1.5%					
12 Month High (AED)		4.45					
12 Month Low (AED)		1.76					
Market Cap. (AED bn)		12.9					
Div Yield		0.0%					
Enterprise Value (AED bn)		15.2					
RIC		DU.DU					
Bloomberg		DU UH					
Estimates		2008A	2009E	2010E	2011E	2012E	2013E
Revenues (AEDmn)		3,951	5,294	6,801	7,667	8,490	9,158
EBITDA (AED mn)		368	1,045	1,632	2,683	3,481	4,396
EBITDA Margin		9.3%	19.7%	24.0%	35.0%	41.0%	48.0%
Net Income (AED mn)		4	270	365	846	1,231	1,675
Net Income Margin		0.1%	5.1%	5.4%	11.0%	14.5%	18.3%
EPS (AED)		0.00	0.07	0.09	0.21	0.31	0.42
Net Debt/Equity		1.64	1.03	0.54	0.37	0.41	0.37
Interest Cover		-	3.2	5.5	15.0	21.1	27.3
Div/Share (AED)		-	-	-	-	-	-
Div Yield		0%	0%	0%	0.0%	0.0%	0.0%
Estimates		2008A	2009E	2010E	2011E	2012E	2013E
Valuation Multiples		2008A	2009E	2010E	2011E	2012E	2013E
PE		-	47.6	35.3	15.2	10.5	7.7
EV/EBITDA		39.2	13.8	8.8	5.4	4.1	3.3
P/BV		5.1	3.3	2.1	1.5	1.2	1.0
BV/Share		0.6	1.0	1.5	2.1	2.7	3.4



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### Du – Revised Target Price AED 3.99, Upgrade to Outperform

We revise our target price for du to AED 3.99 from AED 3.00 and change our recommendation to Outperform from Market Perform, based on

- i. growth in the overall UAE telecoms market
- ii. resumed population growth in 2010
- iii. du capturing a majority of net adds in the key mobile segment
- iv. mobile number portability helping to further boost mobile market share gains from 2010 onwards
- v. infrastructure sharing reducing future capex from 2011

Figure 1: du - Profit and Loss Summary

	2008A	2009E	2010E	2011E	2012E	2013E	2014E
<b>Revenue</b>							
New	3,950,936	5,293,847	6,800,782	7,666,532	8,489,779	9,157,657	9,575,445
Old	3,950,936	4,905,559	5,864,745	6,374,446	6,886,941	7,365,029	
Change	0%	8%	16%	20%	23%	24%	
<b>EBITDA</b>							
New	368,397	1,044,574	1,632,188	2,683,286	3,480,809	4,395,675	4,596,214
Margin, %	9%	20%	24%	35%	41%	48%	48%
Old	368,397	981,112	1,524,834	2,231,056	2,823,646	3,535,214	
Change	0%	6%	7%	20%	23%	24%	
<b>Net Income</b>							
New	4,124	264,772	365,279	845,655	1,230,560	1,674,508	1,878,661
Margin, %	0%	5%	5%	11%	14%	18%	20%
Old	4,124	183,047	362,892	708,204	1,011,293	1,390,214	
Change	0%	45%	1%	19%	22%	20%	
<b>EPS</b>							
New	0.001	0.07	0.09	0.21	0.31	0.42	0.47
Old	0.001	0.05	0.09	0.18	0.25	0.35	

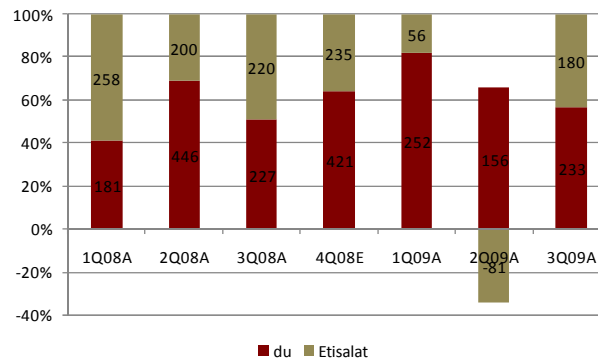
### UAE Telecoms Market – Still growing

We projected a slowdown in subscriber growth in 2009 and this has indeed been the case, with a total of 796,000 net mobile adds by 9mo 09 versus 1.464mn for 9mo 08. This has resulted in active mobile penetration of 182% YTD and a projected 187% (10.05mn subscribers) for FY2009. The rate of slowdown has not been as large as we forecast – we projected net mobile adds of just 523,000 for FY 2009. We do, however, remain cautious on Q4 2009, as net mobile adds will reflect the slower summer months (due to the 90 day active rule) and project 229,000 net mobile adds bringing the total active net mobile adds to 1.025mn for the year. Q4 2009 net mobile adds should be boosted for both operators by the launch of the Apple iPhone during the quarter.



du has been the major beneficiary of this on-going growth, capturing 80.5% of mobile net adds 2009 YTD and projected to capture 76% by year end, through targeting of the SME segment, which has higher ARPU subscribers than its traditional subscriber base.

Figure 2: du & Etisalat Net Mobile Adds



### Mobile Number Portability – Strong Catalyst

Mobile number portability is expected to be commercially launched in Q2 2010, with technical aspects completed by November 2009. We believe this will be a key catalyst for du, allowing it to continue to capture additional market share and boost ARPUs as some of the subscribers that take advantage of MNP should be higher ARPU postpaid subscribers. We project du to have 45.8% market share of active mobile subs by 2014, up from a projected 32.6% for YE 2009.

### Infrastructure Sharing – Capex Implications

Etisalat and du are already sharing some infrastructure in terms of mobile assets. This should allow du to roll out its 3G infrastructure at a faster rate, which will be key in boosting mobile data usage. du is aiming to cover 70% of the UAE population by the end of 2009 and 90% by YE 2010. With Etisalat building and rolling a national FTTH network, which du will have access to on commercial terms, we believe capex for du beyond 2011 will be mainly maintenance capex until it chooses the appropriate technology and formulates a strategy to roll out 4G/LTE.

### Local Loop Unbundling

The TRA is moving forward with plans to unbundle the local loop and expects agreement to be reached between du and Etisalat by year end. However we expect local loop unbundling to have limited impact in the near term. In order for du to gain potential fixed line and broadband customers from local loop unbundling, du will need to gain access and install equipment in Etisalat's exchanges and this we

believe will take some time from a practical perspective, and so fixed subscriber and market share gains will be limited in 2010.

**Population Growth to resume in 2010**

We expect UAE population growth to resume in 2010, up by 2% (albeit at a slower pace than in 2007 and 2008) and by 3% in 2011, with the impact of the global financial crisis on the UAE being less severe and of a shorter duration than anticipated. We project the UAE population to reach 6.3mn by the end of 2014.

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