

# Mgt. highlights from SingTel day

## Clear winner on growth and execution

Of the companies that met investors at the SingTel Associates' Day, Bharti stood out as most confident about its growth outlook and competitive position. For itself, the Co does not foresee any major slowdown in subscriber additions or minutes of use. At a macro-level, Bharti believes telecom spend in India may be less affected by a macro-economic slowdown as communication will likely substitute travel. Bharti does not see downside risk to consensus expectations of ~500mn wireless subscribers in India by Dec 2010.

## New competition unlikely to hurt bigger players

Bharti believes that bigger/national brands are relative gainers from onset of new competition in already crowded markets. The Co highlighted that net adds share of the top 2 GSM players (Bharti & Vodafone) has expanded over last 12-mths (to ~46% in Oct '08 vs 44.5% a year ago) despite perceived stronger competition.

## 3G auctions likely in FY09; limited room to cut i/c charges

Bharti expects 3G auctions to happen soon; the govt's indicative timeline for the auction is ~9<sup>th</sup> Feb '09. The Co believes that a cost-based approach leaves little room to cut termination (interconnect) charges from the current level of ~30p/min. Bharti confirmed that the government has hiked spectrum charges by 100-200bps starting Jan '09 but expects the impact to be offset by concessions on USO-levy.

## Keen on M&A but no immediate opportunity

Bharti re-iterated that it is keen to pursue overseas growth but there is no deal on the table right now perhaps due to absence of sellers.

## Bharti remains our only Buy in the Indian telecom sector

Strong earnings growth, stable RoE & proven mgt. support our 12-mth outlook.

### Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	42,571	67,008	83,078	109,431	125,884
EPS	22.47	35.33	43.77	57.66	66.32
EPS Change (YoY)	88.6%	57.2%	23.9%	31.7%	15.0%
Dividend / Share	0	0	0	14.41	16.58
Free Cash Flow / Share	(0.010)	(9.13)	(6.10)	10.97	34.64

### Valuation (Mar)

	2007A	2008A	2009E	2010E	2011E
P/E	29.55x	18.80x	15.17x	11.52x	10.01x
Dividend Yield	0%	0%	0%	2.17%	2.50%
EV / EBITDA*	17.96x	11.77x	8.72x	7.03x	6.06x
Free Cash Flow Yield*	-0.002%	-1.37%	-0.918%	1.65%	5.22%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 5.

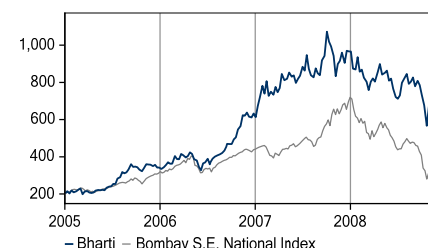
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### Stock Data

Price	Rs664.00
Price Objective	Rs900.00
Date Established	31-Oct-2008
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs483.00-Rs1,070
Mrkt Val / Shares Out (mn)	US\$25,203 / 1,898.0
Average Daily Volume	6,627,826
ML Symbol / Exchange	BHTIF / BSE
Bloomberg / Reuters	BHARTI IN / BRTI.BO
ROE (2009E)	31.9%
Net Dbt to Eqty (Mar-2008A)	18.7%
Est. 5-Yr EPS / DPS Growth	17.3% / NA
Free Float	33.0%



- Bharti - Bombay S.E. National Index

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Refer to important disclosures on page 6 to 7. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

# iQprofile<sup>SM</sup> Bharti Airtel

Key Income Statement Data (Mar)	2007A	2008A	2009E	2010E	2011E
<b>(Rs Millions)</b>					
Sales	185,196	270,250	379,163	478,786	558,035
Gross Profit	74,508	113,715	153,429	190,449	220,677
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	49,299	76,455	106,785	133,354	155,152
Net Interest & Other Income	(439)	82	(13,853)	(2,243)	(1,182)
Associates	0	0	0	0	0
Pretax Income	48,860	76,537	92,932	131,111	153,970
Tax (expense) / Benefit	(5,822)	(8,378)	(8,107)	(18,599)	(23,563)
Net Income (Adjusted)	42,571	67,008	83,078	109,431	125,884
Average Fully Diluted Shares Outstanding	1,895	1,897	1,898	1,898	1,898

## Key Cash Flow Statement Data

Net Income	42,571	67,008	83,078	109,431	125,884
Depreciation & Amortization	25,209	37,260	46,644	57,096	65,526
Change in Working Capital	22,254	15,519	12,280	5,505	(10,775)
Deferred Taxation Charge	0	(36)	(4,419)	(385)	(270)
Other Adjustments, Net	1,856	2,373	6,063	5,125	6,149
Cash Flow from Operations	91,890	122,124	143,645	176,772	186,513
Capital Expenditure	(91,909)	(139,436)	(155,215)	(155,948)	(120,769)
(Acquisition) / Disposal of Investments	8	74	0	0	0
Other Cash Inflow / (Outflow)	(368)	0	0	0	0
Cash Flow from Investing	(92,270)	(139,362)	(155,215)	(155,948)	(120,769)
Shares Issue / (Repurchase)	1,106	21,147	0	0	0
Cost of Dividends Paid	0	0	0	(27,358)	(31,471)
Cash Flow from Financing	4,660	62,633	11,569	(20,824)	(65,744)
Free Cash Flow	(19)	(17,312)	(11,569)	20,824	65,744
Net Debt	42,993	42,200	53,769	60,303	26,030
Change in Net Debt	786	(793)	11,569	6,534	(34,273)

## Key Balance Sheet Data

Property, Plant & Equipment	210,604	313,407	422,605	522,085	577,955
Other Non-Current Assets	42,441	45,454	41,330	40,710	40,090
Trade Receivables	13,093	15,986	22,428	28,502	33,345
Cash & Equivalents	9,468	54,863	54,863	54,863	54,863
Other Current Assets	22,282	42,933	59,642	75,313	87,778
Total Assets	297,888	472,643	600,869	721,473	794,032
Long-Term Debt	41,536	77,715	89,284	95,818	61,545
Other Non-Current Liabilities	12,349	15,195	19,511	21,555	23,181
Short-Term Debt	10,925	19,348	19,348	19,348	19,348
Other Current Liabilities	95,724	134,787	170,219	197,469	204,002
Total Liabilities	160,534	247,045	298,362	334,190	308,076
Total Equity	137,354	225,598	302,507	387,283	485,956
Total Equity & Liabilities	297,888	472,643	600,869	721,473	794,032

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	24.8%	25.5%	25.9%	24.7%	24.2%
Return On Equity	37.4%	37.4%	31.9%	32.3%	29.5%
Operating Margin	26.6%	28.3%	28.2%	27.9%	27.8%
EBITDA Margin	40.2%	42.1%	40.5%	39.8%	39.5%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	2.2x	1.8x	1.7x	1.6x	1.5x
Asset Replacement Ratio	3.6x	3.7x	3.3x	2.7x	1.8x
Tax Rate (Reported)	11.9%	10.9%	8.7%	14.2%	15.3%
Net Debt-to-Equity Ratio	31.3%	18.7%	17.8%	15.6%	5.4%
Interest Cover	25.0x	24.8x	5.8x	19.2x	26.4x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Description

Bharti Airtel (Formerly Bharti Televentures) is India's largest private sector provider of integrated telecom services, especially wireless. The wireless business accounts for nearly three-fourth of the company's revenues. The company is a market leader with pan-India presence.

## Investment Thesis

Forecast strong earnings growth, continued market leadership in wireless and demonstrated execution track record drive our Buy rating on Bharti. Stock valuations have declined sharply from peak levels reflecting concerns over competitive intensity & regulatory changes. We are worried about regulatory risks but think Bharti's cost leadership will allow them to overcome short-term hits. While competitive risks remain, the recent global credit crisis may delay the ability of competitors to scale up

## Stock Data

Price to Book Value 4.2x

## Price objective basis & risk

### Bharti (BHTIF)

We have a price objective of Rs900/sh for Bharti. Our PO is based on an EV/EBITDA of 9x FY10E and PE of 16x FY10E, and is supported by DCF using 11.5% WACC and 5% terminal growth. Our target PE & EV/EBITDA multiples broadly reflect the lower end of Bharti's long-term valuation bands. Bharti has traded in the range of 14-24x on a PE basis and 8-15x on EV/EBITDA. We believe valuations will remain at a premium to regional peers due to relatively strong (25-30%) underlying earnings potential. However, we think multiples are unlikely to revert to peak levels due to YoY slowdown in market growth and uncertain policy environment. Our PO does not factor any separate value for Bharti's tower business and stronger-than-anticipated tower-sharing would present upside. Possible dramatic regulatory changes viz sharp, asymmetrical increase in spectrum charges or sharp cut in mobile termination charges are key risks. Irrational 3G bidding would also pose risks.

## Analyst Certification

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**APR - Telecommunications Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Advanced Info	XVDIF	ADVANC TB	Thititthep Nophaket
	Bharti	BHTIF	BHARTI IN	Reena Verma Bhasin, CFA
	China Unicom	CHUFF	762 HK	Cynthia J.H. Meng
	China Unicom -A	CHU	CHU US	Cynthia J.H. Meng
	Chunghwa Telecom	CHT	CHT US	John Kim
	Chunghwa Telecom	CHWAF	2412 TT	John Kim
	DiGi.com Bhd	DIGBF	DIGI MK	Andrew Lee, CFA
	FarEasTone	FEOTF	4904 TT	John Kim
	LG Dacom Corp	DCMPF	015940 KS	John Kim
	LG TeleCom	LTCLF	032640 KS	John Kim
	SingTel	SNGNF	ST SP	Reena Verma Bhasin, CFA
	StarHub	XHSBF	STH SP	Reena Verma Bhasin, CFA
	Taiwan Mobile	TWMBF	3045 TT	John Kim
	Total Access	TACJF	DTAC SP	Thititthep Nophaket
	Total Access Communication	TACPF	DTAC TB	Thititthep Nophaket
<b>NEUTRAL</b>				
	China Mobile	CHLKF	941 HK	Cynthia J.H. Meng
	China Mobile - A	CHL	CHL US	Cynthia J.H. Meng
	Idea Cellular	IDEAF	IDEA IN	Reena Verma Bhasin, CFA
	KT	KTCNF	030200 KS	John Kim
	KT -A	KTC	KTC US	John Kim
	MobileOne	MBOFF	M1 SP	Reena Verma Bhasin, CFA
	RCVL	RLCMF	RCOM IN	Reena Verma Bhasin, CFA
	Telekom Malaysia	MYTEF	T MK	Andrew Lee, CFA
	Telkom	TLKMF	TLKM IJ	Bonny Setiawan, CFA
	Telkom - A	TLK	TLK US	Bonny Setiawan, CFA
<b>UNDERPERFORM</b>				
	China Telecom	CHA	CHA US	Cynthia J.H. Meng
	China Telecom-H	CHJHF	728 HK	Cynthia J.H. Meng
	Indosat	PIIAF	ISAT IJ	Bonny Setiawan, CFA
	Indosat - A	IIT	IIT US	Bonny Setiawan, CFA
	KTF	KTFTF	032390 KS	John Kim
	MTNL	MTE	MTE US	Reena Verma Bhasin, CFA
	MTNL	XMTNF	MTNL IN	Reena Verma Bhasin, CFA
	SK Broadband	HANTF	033630 KS	John Kim
	SK Telecom	SKMTF	017670 KS	John Kim
	SK Telecom- A	SKM	SKM US	John Kim
	Tata Communications Limited	TCL	TCL US	Reena Verma Bhasin, CFA
	Tata Communications Limited	VLSLF	TCOM IN	Reena Verma Bhasin, CFA
	TRUE Corp	TCPJF	TRUE TB	Thititthep Nophaket

04 December 2008

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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### BHTIF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of October 31, 2008 or such later date as indicated.

### Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	47.25%	Buy	17	24.64%
Neutral	51	28.02%	Neutral	14	35.00%
Sell	45	24.73%	Sell	6	15.38%

### Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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