

19 Jul 2007 - 04:18:12 PM IST

COMPANY ALERT
Reliance Communication
Tower co valued at \$6.75bn, 5% stake placed
Company Announcement
Buy

Reuters:RLCM.BO Exchange:BSE Ticker:RLCM

Price (INR)	567.20
Price target (INR)	640.00
52-week range (INR)	574.05 - 238.30
Market cap (USDm)	28,702
Shares outstanding (m)	2,044.6
Net debt/equity (%)	8.8
Book value/share (INR)	100.83
Price/book (x)	4.2

FYE 3/31	2006A	2007E	2008E
Sales (INRm)	112,884	144,683	211,538
Net Profit (INRm)	4,449.0	31,639.0	48,163.1
DB EPS (INR)	2.36	15.28	22.32
PER (x)	129.1	37.1	25.4
Yield (net) (%)	0.0	0.0	0.0

News

RCOM has valued its towerco at an equity value of \$6.75bn and placed a 5% stake with external investors. The company claims that the enterprise value of the tower co is \$9bn.

Analysis

At the end of FY07, RCOM has gross debt of around \$3.7bn and net debt of \$400mn. It appears that RCOM has transferred around \$2.25bn of gross debt to the towerco subsidiary.

We estimate the current book value of the tower co at \$1-1.2bn which was the value at which RCOM (parent) had transferred the tower assets into a subsidiary. We understand that RCOM currently has around 13,000-14,000 towers.

In our recent report we had noted that it would be a challenge for RCOM to increase external tenancy on its towers on account of the operator alignments in the Indian wireless industry. External tenancy is the key driver of incremental value for the towerco.

We had not put an independent value on RCOM's tower business due to the above and maintain our target price of Rs 640 on the company.

We believe Bharti is better placed on tower sharing and have valued its tower co at \$5bn (Rs 104/share). However, note that this is part of our target price on the stock (Rs 1000) and not additive. Bharti owns around 35,000 towers.

Conclusion

We recently changed our from RCOM to Bharti (BRTI.BO, INR863.30, Buy, price target RNI1,000.0) as our preferred pick in the sector on account of negligible valuation differential between the two. We maintain that stance.

At current prices, RCOM trades at 18x FY09 EPS of Rs 32 and Bharti trades at 19x FY09E EPS of Rs 47.4

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All prices are those at the end of the previous trading session unless otherwise indicated.

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