

Reliance Communications (RLCM.BO)

Short-Term Buy (1B): CMP-456

- **Chart pattern** — Reliance Communications has seen a “Bullish” breakout from Head-and-Shoulder Pattern. The construction of “H&S” is – Left Shoulder @ 386 (Low of 5 March 2007), Head @ 371 (low of 16 March 2007), Right Shoulder @ 389 (Low of 2 April 2007). Breakout at Neckline was at 425.
- **Price objective** — The minimum price objective has been calculated using the “Maximum Depth” technique. “Maximum depth” is the distance between the Neckline (437) and Head (371); i.e., $437-371=66$. Adding 66 to the breakout point at the neckline at 425 gives us the minimum price objective of 491 [$425+66=491$].
- **Moving averages** — Price are trading above the 10dma (427), 20dma (420), 50dma (426). The moving average crossover looks bullish. The 10dma has cut the 20dma & 50dma from below.
- **Target Price - Stop Loss Price** — Target price 491, Stop loss 427 (10dma).
- **Recommendation – Short-Term Buy (1B)** with Target Price of 491 and Stoploss Price of 427
- Recommendation expires on 23 July 2007.
- CIR Fundamental Research has a Buy /Medium Risk (1M) rating on Reliance Communication shares with target price of Rs510.

Hitesh Chotalia¹

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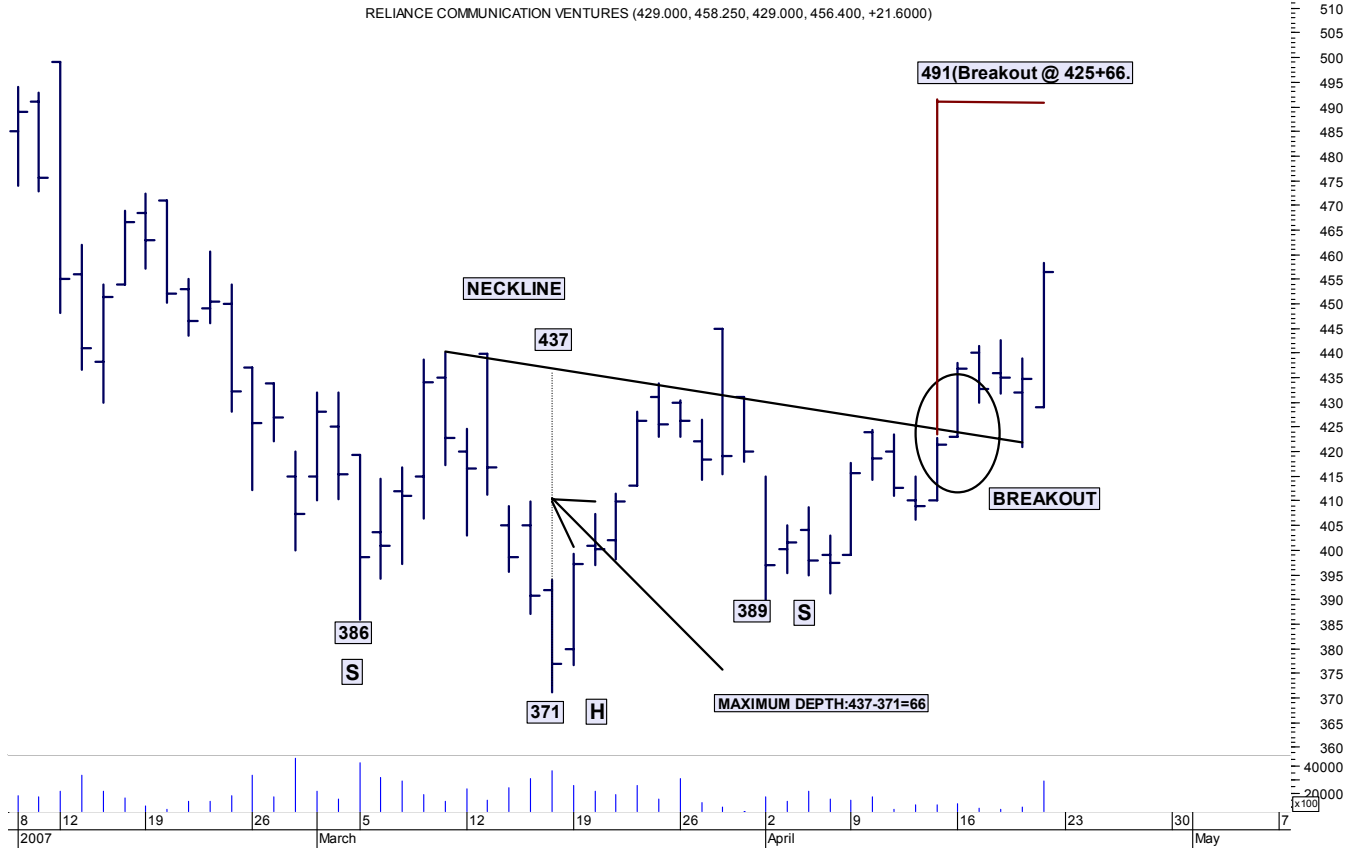
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See Appendix A-1 for Analyst Certification and important disclosures.

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¹Citigroup Global Market India Private Limited

Figure 1. India Technical Research: Reliance Communications: Daily Chart



Source: Reuters Metastock, Citigroup Investment Research

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Reliance Communications (RLCM.BO - Rs456.40; 1M)

Fundamental Valuation

We value Indian wireless plays on DCF given the back-ended nature of profits and cash flow. For RCOM, however, we use EV/EBITDA in the absence of a detailed balance sheet. Our 12-month target price of Rs510 is based on 9.7x FY09E EV/EBITDA, a 15% discount to Bharti's target multiple (ex- towerco) to reflect the uncertainty on the timing of the GSM rollout and the associated challenges. We expect RCOM's valuation multiples to be determined by Bharti's due to the liquidity overflow from the latter, notwithstanding the risk of technology transition. A potential IPO of FLAG would also act as a likely trigger to the stock over the next 3-6 months. Meanwhile, higher-than-average earnings growth (CAGR of 39.0% over FY07-09E) and low sensitivity of wireless demand to interest rates should continue to support premium valuations for the sector.

Fundamental Risks

Our risk-rating system, which tracks 260-day share price volatility, assigns a High Risk rating to RCOM, but we believe Medium Risk is more appropriate. RCOM has been de-merged from Reliance Industries, and its shareholding at the time of listing mirrored the holding of RIL. The stock is therefore unlikely to have risks that are typical of newly listed companies. Besides, growth in the telecoms sector gives visibility to RCOM's prospects. But we believe its evolving financial history and risks pertaining to GSM overlay warrant a risk rating higher than the Low Risk assigned to Bharti. Downside risks to our target price include smaller-than-expected market share, lower-than-anticipated operating leverage (especially in FY07), cost-overruns in GSM overlay, regulatory and competition risks, un-remunerative capex, delays in the ongoing re-organization and more telecom-related paper.

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Appendix A-1

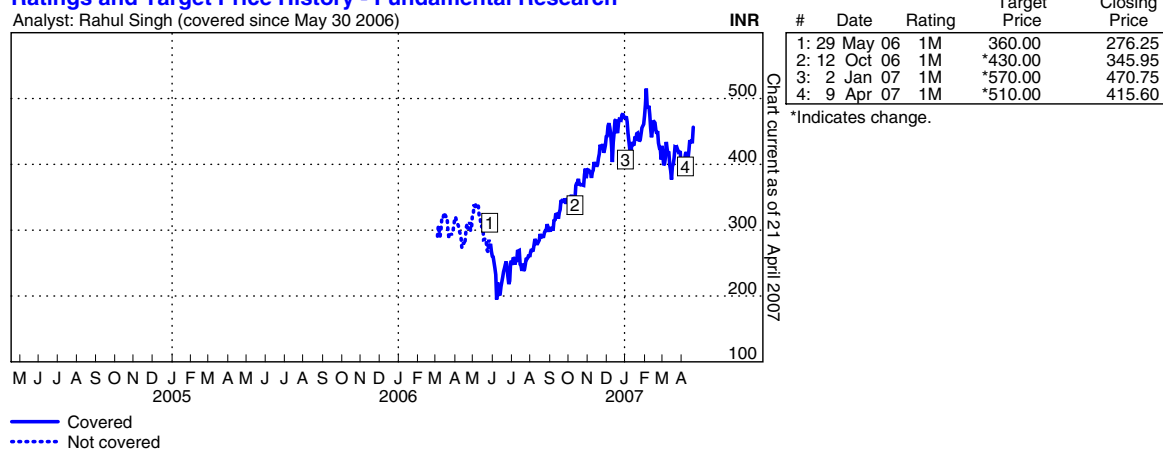
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IMPORTANT DISCLOSURES

Reliance Communications (RLCM.BO) Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since May 30 2006)



A member of Ratnesh Kumar's household holds a long position in the shares of Reliance Communications.

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Data current as of 31 March 2007

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% of companies in each rating category that are investment banking clients	45%	42%	32%
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% of companies in each rating category that are investment banking clients	42%	50%	42%
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