

COMMENT

Bharti Airtel (BRTI.BO) Rs298.25

First Take: Bharti 4QFY10: Above expectations; mobile div. surprises

News

Bharti reported 4QFY10 results with revenues, EBITDA and net profit being 7%, 7% and 15% above our estimates. 4QFY10 net profit of Rs21.5 bn was 6% above Bloomberg consensus estimates. **Result highlights:** (i) Wireless revenues of Rs 81.9 bn (+3% qoq; +0% yoy) was 5% higher than our estimates as MOU/sub increased 5% qoq. (ii) Normalized EBITDA of Rs39.2 bn (flat qoq; -2% yoy) was 7% higher than our estimates mainly due to lower than estimated spectrum charge. Including acquisition costs of Rs976 mn, the reported EBITDA was Rs38.2 bn. (iii) Normalized net profit of Rs21.5 bn (-3% qoq; -4% yoy) was 15% higher than our estimates due to higher EBITDA and higher net interest income. Bharti also declared a dividend of Re1/share.

Analysis

Key positives (i) MOU/sub increased 5% qoq to 468 vs. our estimate of 433, implying traffic is returning back to incumbents; (ii) Capex declined 11% qoq to Rs15 bn (capex/sales: 15%) as the company tried to preserve its FCF by deferring capex not needed, in our view; **Key negatives:** (i) Share of profit in JVs decline from Rs58 mn in 3QFY10 to Rs2 mn in 4QFY10 implying a weak quarter for Indus; (ii) Enterprise/Telemedia revenues declined 4%/1% yoy.

Implications

The result affirms our view that the Indian business is executing well and the incumbents are gaining minutes back from new entrants. However, we maintain Neutral on Bharti as we believe it would take at least couple of quarters before the market gets any visibility on turnaround of Zain (data points such as MOU increase, cost decline). We believe potential irrational bidding in the ongoing 3G auctions may lead to Bharti considering taking incremental debt to the tune of US\$1-1.5 bn apart from US\$8.7 bn secured debt for the Zain acquisition. We put our estimates and 12-m target price under review pending details from the analyst call later today.

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Exhibit 1: Bharti 4QFY10 results highlights

BRTI – Quarterly Snapshot (Rs. Million)	4Q09A Mar-09	3Q10A Sep-09	4Q10E Mar-10	4Q10A Dec-09	% YoY	% QoQ	% vs. GS Est.
Total Revenue (Net)	98,245	97,723	94,121	100,557	2.4%	2.9%	6.8%
Wireless	82,216	79,618	78,260	81,975	-0.3%	3.0%	4.7%
Telemedia	8,585	8,550	8,728	8,510	-0.9%	-0.5%	-2.5%
Enterprise	21,628	20,546	20,841	20,738	-4.1%	0.9%	-0.5%
Passive infrastructure	7,241	9,267	9,661	9,552	31.9%	3.1%	-1.1%
Others and eliminations	(21,425)	(20,259)	(23,369)	(22,312)	4.1%	10.1%	-4.5%
Operating expenses	(58,231)	(58,610)	(57,445)	(61,360)	5.4%	4.7%	6.8%
Access charges	(14,149)	(11,166)	(10,534)	(11,571)	-18.2%	3.6%	9.8%
License fee & spectrum charge	(10,608)	(9,935)	(11,515)	(10,593)	-0.1%	6.6%	-8.0%
Network opex	(16,905)	(19,813)	(18,765)	(19,780)	17.0%	-0.2%	5.4%
Employee costs	(4,505)	(4,007)	(3,096)	(4,024)	-10.7%	0.4%	30.0%
Cost of equipment sales	(174)	(144)	(457)	(342)	96.6%	137.5%	-25.2%
S,G&A	(11,890)	(13,545)	(13,078)	(15,050)	26.6%	11.1%	15.1%
Normalized EBITDA	40,014	39,113	36,675	39,197	-2.0%	0.2%	6.9%
Reported EBITDA	40,014	39,113	36,675	38,221			
Depreciation & amortization	(13,285)	(15,403)	(14,667)	(15,929)	19.9%	3.4%	8.6%
EBIT	26,729	23,710	22,009	23,268	-12.9%	-1.9%	5.7%
Other non-operating inc./(exp.)	(1,823)	2,006	14	2,293			
PBT	24,906	25,716	22,023	25,561	2.6%	-0.6%	16.1%
Tax	(2,022)	(3,192)	(2,858)	(3,451)	70.7%	8.1%	20.7%
Minority interest	(491)	(426)	(362)	(583)	18.7%	36.9%	61.0%
Normalized net profit	22,393	22,098	18,802	21,527	-3.9%	-2.6%	14.5%
Net extraordinary items	-	-	-	(976)			
Reported net profit	22,393	22,098	18,802	20,551	-8.2%	-7.0%	9.3%
EBITDA margin	40.7%	40.0%	39.0%	39.0%			
Net margin	22.8%	22.6%	20.0%	20.4%			
Effective tax rate	8.1%	12.4%	13.0%	13.5%			
Wireless Operating Metrics							
Subscribers ('000s)	93,923	118,864	127,714	127,619	35.9%	7.4%	-0.1%
Net adds ('000s)	8,272	8,353	8,850	8,755	5.8%	4.8%	-1.1%
Monthly ARPU (Rs)	305	230	204	220	-27.9%	-4.3%	7.9%
MoU/Sub/month (mins)	485	446	433	468	-3.5%	4.9%	8.2%
ARPM (Rs/min)	0.63	0.52	0.47	0.47	-25.2%	-8.8%	-0.3%

Source: Company data, Goldman Sachs Research estimates.

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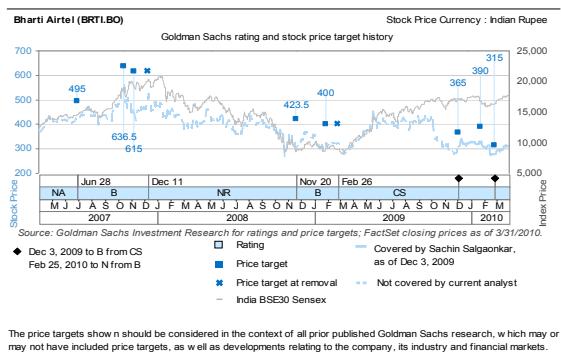
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