

COMMENT

Bharti Airtel (BRTI.BO) Rs322.15

Bharti to acquire 70% stake in Warid Telecom; no near-term impact

News

Bharti in a press release announced that it has agreed to acquire a 70% stake in Bangladeshi operator Warid Telecom. The shares to be acquired by Bharti will be partly existing Warid shares from Dhabi Group (for a nominal consideration) and partly issuance of new Warid shares (at par). Bharti will make an investment of US\$300 mn in the operations of Warid which will be used for network expansion as well as the launch of innovative products. We note that promoters till date have made an investment of US\$700 mn in Warid. The Dhabi group will continue as a strategic partner with a 30% holding in Warid. Management mentioned that the deal has not yet been signed and financial details of Warid are not available at this stage; we await further details from management.

Analysis

We consider Bharti's potential entry into the Bangladesh market as inline with its strategy to grow in low penetration high growth markets. We expect Bangladesh sub base to increase from 45 mn (31% penetration) in 2008 to 122 mn (76% penetration) by 2012 driven by increasing affordability, falling tariffs and handset prices.

Implications

Warid is the fourth largest GSM operator in Bangladesh with subs market share of 5.4% and ARPU of about Tk 170 (US\$ 2.4). It was the last entrant and launched services in 2007. At the end of Nov 09, it had a subs base of 2.92 mn. Its parent company is Abu Dhabi group Warid International. We believe contribution from Warid to Bharti's revenue and EBITDA may not be more than 1% at least for the next 2-3 years and hence do not consider it to be a material stock price driver in the near-term. Investment of US\$300 mn (likely to be made in next few years) is 1% of Bharti's market cap. This acquisition, in our view, should not affect its ability to fund its domestic capex. We rate Bharti as Buy; it is our top pick in the Indian telcom sector. Our target price is unchanged.

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Exhibit 1: Valuation of peer telcos
Not comparable with current BRTI deal

	Implied Value for 100% stake US\$ mn	Subs Nov '09 (mn)
Grameenphone current market cap	3,846	22.8
NTT DoCoMo paid US\$ 350 mn to buy a 30% stake in operator AKTEL in 2008	1,167	8.9
Singtel bought a 45% percent stake in PBTL for US\$ 118mn in May 05	262	2.0
Orascom purchased Banglalink for US\$ 60 mn in Sept 04	60	13.0

Bangladesh's telecom operators: Ownership structure

Operator	Service	Ownership
Grameenphone	GSM	Grameen Telecom (34%) Telenor (56%)
Aktel	GSM	Telekom Malaysia (70%) DoCoMo (30%)
Banglalink	GSM	Orascom (100%)
City Cell	CDMA	Singtel (45%) Pacific Group; FET (55%)
Teletalk	GSM	Bangladesh Telegraph & Telephone board (100%)
Warid Telecom	GSM	Warid Telecom International (100%)

Source: Goldman Sachs research.

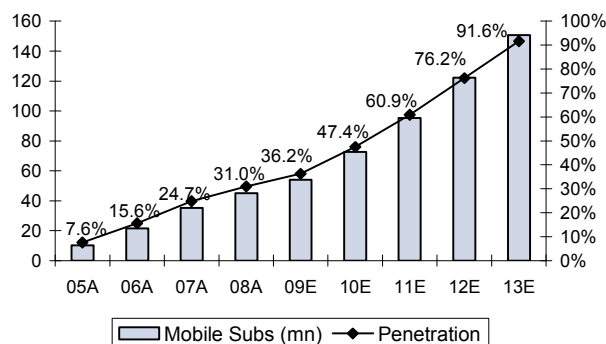
Exhibit 2: Bangladesh's operators: Subs market share

Subs in mn	Jul '09	Aug '09	Sep '09	Oct '09	Nov '09
Grameen Phone Ltd.	21.2	21.1	22.0	22.3	22.8
Aktel (Axiata)	9.9	10.2	10.6	11.0	8.9
Banglalink (Orascom)	11.3	11.9	12.1	12.3	13.0
Citycell (PBTL)	2.0	2.0	2.0	2.0	2.0
Teletalk	1.1	1.1	1.1	1.1	1.1
Warid Telecom	2.6	2.6	2.7	2.8	2.9
Total	48.0	48.9	50.4	51.4	50.6

Market share (%)

	Jul '09	Aug '09	Sep '09	Oct '09	Nov '09
Grameen Phone Ltd.	44.1%	43.2%	43.6%	43.4%	45.0%
Aktel (Axiata)	20.6%	20.9%	21.0%	21.4%	17.5%
Banglalink (Orascom)	23.5%	24.3%	24.1%	23.9%	25.7%
Citycell (PBTL)	4.1%	4.0%	3.9%	3.9%	3.9%
Teletalk	2.3%	2.2%	2.1%	2.1%	2.1%
Warid Telecom	5.4%	5.4%	5.3%	5.4%	5.8%

Bangladesh: Mobile subs and penetration



Source: BTRC, Goldman Sachs Research estimates.

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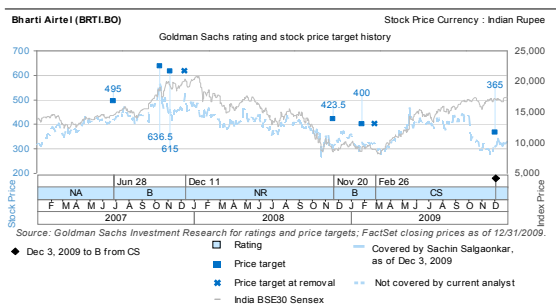
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