Company

24 August 2009 | 17 pages

Bharti Airtel (BRTI.BO)

Equity

Buy: Talks Extended Again – What's On Bharti's Mind?

- **EPS dilution, really?** — Although the headline reported FY11E EPS suggests estimated dilution of 10%, there is a lack of clarity on accounting for profit consolidation from mutual cross-holding i.e. Bharti holding 49% in MTN which in turn would hold 25% of Bharti. Excluding the resultant quasi-treasury stock of 12.3%, the present deal structure could result in an EPS accretion of ~2%. The deal stays EPS neutral until a bid of ZAR167 (cash of ZAR100 + 1:1 stock) i.e. a 10% premium to the present offer and a 40% premium to MTN's pre-announcement price (ZAR119). Under all cash scenarios, there is no EPS dilution unless the bid exceeds ZAR190.
- **Singtel's involvement could be a positive surprise** — A higher bid with support from Singtel, either through an offer for the post-deal Bharti GDRs or a preferential issue at a premium, is emerging as a likely event. Although there are issues involved i.e. open offer exemption, FDI cap etc., any such structure would be a relief to Bharti's stock, which does not appear to be factoring in any positive surprise on this front.
- **Our view on Bharti-MTN outcomes and probability** — (1) Bharti walks away: 10% probability; (2) Deal announced with small changes to current terms: 30%; (3) Materially higher (all-cash?) offer with significant help from SingTel: 50%; (4) Bharti goes alone with significantly higher cash offer: 10%.
- **Buy on weakness** — The deadline extension to 30 September and the ensuing shareholder vote prolongs the period of uncertainty. However, Bharti going alone with a substantially higher bid is less likely than with Singtel's support. Moreover, the dilution in "economic" EPS is manageable even at higher bids. Management should provide clarity on synergies if terms are firmed up.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2007A	42,571	11.23	88.4	35.5	11.1	37.4	0.0
2008A	67,007	17.65	57.2	22.5	6.8	37.4	0.0
2009E	80,497	21.21	20.1	18.8	5.0	30.6	0.0
2010E	94,872	24.99	17.9	15.9	3.8	27.1	0.0
2011E	114,472	30.16	20.7	13.2	3.0	25.4	0.6

Source: Powered by dataCentral

Buy/Low Risk	**1L**
Price (21 Aug 09)	Rs398.00
Target price	Rs465.00
Expected share price return	16.8%
Expected dividend yield	0.0%
Expected total return	**16.8%**
Market Cap	Rs1,511,105M
	US$31,202M

Price Performance (RIC: BRTI.BO, BB: BHARTI IN)

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

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	35.5	22.5	18.8	15.9	13.2
EV/EBITDA adjusted (x)	20.9	13.7	10.3	8.7	7.1
P/BV (x)	11.1	6.8	5.0	3.8	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.6
Per Share Data (Rs)					
EPS adjusted	11.23	17.65	21.21	24.99	30.16
EPS reported	11.23	17.65	21.21	24.99	30.16
BVPS	35.75	58.64	79.85	104.84	132.45
DPS	0.00	0.00	0.00	0.00	2.55
Profit & Loss (RsM)					
Net sales	185,196	270,250	377,871	437,510	512,092
Operating expenses	-135,896	-193,796	-274,488	-319,040	-367,365
EBIT	**49,300**	**76,454**	**103,383**	**118,470**	**144,727**
Net interest expense	-1,438	-2,341	-15,512	-4,921	-1,501
Non-operating/exceptionals	999	2,422	0	0	0
Pre-tax profit	**48,861**	**76,535**	**87,871**	**113,549**	**143,226**
Tax	-5,822	-8,378	-6,941	-17,759	-26,892
Extraord./Min.Int./Pref.div.	-468	-1,150	-433	-919	-1,862
Reported net income	**42,571**	**67,007**	**80,497**	**94,872**	**114,472**
Adjusted earnings	42,571	67,007	80,497	94,872	114,472
Adjusted EBITDA	74,125	113,225	153,105	182,452	220,104
Growth Rates (%)					
Sales	59.4	45.9	39.8	15.8	17.0
EBIT adjusted	78.6	55.1	35.2	14.6	22.2
EBITDA adjusted	72.5	52.7	35.2	19.2	20.6
EPS adjusted	88.4	57.2	20.1	17.9	20.7
Cash Flow (RsM)					
Operating cash flow	**70,548**	**129,071**	**158,752**	**159,647**	**189,459**
Depreciation/amortization	24,825	36,771	49,722	63,981	75,377
Net working capital	-672	17,127	12,588	-5,045	-3,753
Investing cash flow	**-72,846**	**-139,737**	**-177,673**	**-156,325**	**-124,857**
Capital expenditure	-74,798	-138,470	-170,747	-155,484	-124,857
Acquisitions/disposals	1,952	-2,578	0	0	0
Financing cash flow	**7,054**	**61,295**	**2,488**	**-14,921**	**-21,180**
Borrowings	7,428	44,602	18,000	-10,000	-10,000
Dividends paid	0	0	0	0	-9,679
Change in cash	**4,756**	**50,630**	**-16,433**	**-11,599**	**43,422**
Balance Sheet (RsM)					
Total assets	**296,690**	**469,872**	**620,024**	**706,347**	**804,817**
Cash & cash equivalent	7,464	54,863	34,661	23,063	66,485
Accounts receivable	17,982	28,062	33,743	34,089	33,941
Net fixed assets	248,403	353,654	437,799	531,670	583,379
Total liabilities	**159,336**	**244,274**	**313,495**	**304,028**	**295,843**
Accounts payable	0	0	0	0	0
Total Debt	52,461	97,063	115,063	105,063	95,063
Shareholders' funds	**137,354**	**225,598**	**306,528**	**402,318**	**508,973**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	40.0	41.9	40.5	41.7	43.0
ROE adjusted	37.4	37.4	30.6	27.1	25.4
ROIC adjusted	27.0	28.9	28.1	22.1	22.2
Net debt to equity	32.8	18.7	26.2	20.4	5.6
Total debt to capital	27.6	30.1	27.3	20.7	15.7

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EPS dilution – Are we looking at it the right way?

Headline EPS dilution for Bharti based on MTN's consensus estimates is at 8%-10% in FY10-11E, however we need to adjust the consolidated EPS for treasury stock arising out of the cross holding structure of the deal (Bharti holds 49% of MTN while MTN in turn holds 25% of Bharti). This results in 12.25% of Bharti's expanded equity capital as treasury stock. Removing the treasury stock from total post-deal o/s shares (5960m post-split) turns the present deal into a potential EPS accretion of 2%-4% for FY10-11E. This point of view could therefore provide some cushion in case Bharti ups the bid. Although we see the above calculation as justified from an economic interest point of view, the accounting aspect still remains unclear and the post-deal reported EPS could turn out to be different.

Figure 1. Headline EPS dilution

US$/share	2010E	2011E
New EPS	0.47	0.55
Current EPS	0.51	0.62
EPS Dilution	*-8.5%*	*-10.2%*

Source: CIRA Estimates

Figure 2. EPS accretion adj. for treasury stock

US$/share	2010E	2011E
New EPS	0.53	0.63
Current EPS	0.51	0.62
EPS Dilution	*4.3%*	*2.4%*

Source: CIRA Estimates

The other way to calculate EPS dilution is to adjust the numerator rather than the denominator i.e. by using Bharti's post-deal net profit after factoring in the circularity effect created by the cross-holding in arriving at consolidated PAT and then dividing it by the post-transaction expanded share capital (incl. the treasury shares). This is done using a simultaneous equation as shown in the table below. The potential EPS accretion, based on this method, for FY11E also comes to 2.4%, the same as when we adjust treasury stock from the denominator.

Figure 3. FY11E EPS calculation factoring in the circularity impact of cross holding (US$M)

Bharti's post deal Net profit ==>	Bharti's pre-deal Net profit	+	49% of MTN's post deal net-profit
MTN post deal Net profit ==>	MTN's pre-deal Net profit	+	25% of Bharti's post deal net profit
Bharti's post deal Net profit ==>	2,064	+	49% of MTN's post deal net-profit
MTN post deal Net profit ==>	2,514	+	25% of Bharti's deal net profit
Bharti's post deal net profit (after solving above equation)	**3,295**		
No. of shares (m)	5960 (incl. treasury)		
New EPS (US$)	0.63		
Current EPS (US$)	0.62		
EPS accretion	*2.4%*		

Source: Citi Investment Research and Analysis Estimates

Note: Pre-deal net profit is calculated after factoring in post-tax impact of funding cost for MTN (US$3bn) and Bharti (US$4bn) at an interest rate of 8%

Provides cushion against higher bids

We think that if Bharti wants to make the deal more acceptable, it can only be done by bettering the cash portion given concerns on the GDR holding. In Figure 4 we evaluate various scenarios under the following two broad categories:

- The cash portion of the offer increases from ZAR86 to ZAR105-140, translating into a substantial 44%-74% premium to MTN's pre-deal announcement price of ZAR119.
- The offer is converted to an all-cash one with a range of ZAR170-200 i.e. 43%-68% premium to MTN's pre-25 May price of ZAR119.

Excluding the cross-holding treasury shares from the EPS computation, the deal is EPS neutral until the cash portion is raised to ZAR100 i.e. a total offer of ZAR167. Even under a higher cash bid portion (ZAR125-140), the EPS dilution stays manageable in our view.

The all-cash option works better in fact, with the deal being EPS neutral at an all-cash offer of ZAR190. The consolidated Net Debt/EBITDA (assuming Bharti has control over MTN's cash flows) remains reasonable and does not exceed 1.5x even in an all-cash offer of ZAR200. Even after adding US$1.5bn for 3G outgo, the Net Debt/EBITDA increases by only 0.15x.

Figure 4. EPS accretion/(dilution) under various scenarios

		Stock + Increased Cash Portion			All Cash		
	Current Terms	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Cash (ZAR)	86	105	125	140	170	190	200
Stock offer	1:1	1:1	1:1	1:1	na	na	na
New Bharti shares issues (m)	674	674	674	674	0	0	0
Implied share price of MTN (ZAR)	**153**	**172**	**192**	**207**	**170**	**190**	**200**
MTN's pre-deal price (ZAR) - May 25	119	119	119	119	119	119	119
Premium (%)	*28%*	*44%*	*61%*	*74%*	*43%*	*60%*	*68%*
Post-deal share count (m)	5960	5960	5960	5960	5061	5061	5061
Treasury shares (m)	730	730	730	730	620	620	620
Adj no. of shares (m)	5230	5230	5230	5230	4441	4441	4441
Bharti's FY11E net profit (US$m)	2337	2337	2337	2337	2337	2337	2337
Additional Debt (net of $2.9bn)- US$bn	4.3	5.9	7.5	8.8	11.3	12.9	13.8
Post-tax funding cost ($m)	273	375	481	561	721	828	881
Bharti's adj. FY11E PAT (US$m)	2064	1962	1856	1776	1616	1509	1456
MTN's FY11E profit post $2.9bn funding cost (US$m)	2514	2514	2514	2514	2514	2514	2514
Bharti adj PAT + 49% of MTN's PAT	3295	3194	3087	3007	2847	2741	2687
Post-deal FY11E EPS (US$)	0.63	0.61	0.59	0.57	0.64	0.62	0.61
Pre-deal FY11E EPS (US$)	0.62	0.62	0.62	0.62	0.62	0.62	0.62
EPS accretion/(dilution)	***2.3%***	***-0.8%***	***-4.1%***	***-6.6%***	***4.1%***	***0.2%***	***-1.7%***
Consolidated Net debt (US$ m)*	7,489	9,073	10,740	11,990	14,487	16,154	16,987
*Consolidated Net debt/EBITDA (x)**	*0.66*	*0.80*	*0.95*	*1.06*	*1.28*	*1.43*	*1.51*

Source: Company, Citi Investment Research and Analysis Estimates, * Refers to Bharti+ MTN combined

Outcomes and Probabilities Given Extended Deadline of 30 September

As the deal window has been further extended to 30 September for "exclusive negotiations", in this note we seek to explore potential outcomes, assessing the probability in each case, and the implications thereof to the stock prices.

I. Bharti walks away (low 10% probability, in our view)

We assess that there is a 10% probability that Bharti walks away, otherwise the 31 August deadline would likely not have got extended. With the India business running more or less on auto-pilot and other Bharti group businesses (retail, financial services) being constrained by economic cycles, we think Bharti is keen on developing additional growth engines, and MTN fits well into that strategy. Bharti would likely walk away rather than significantly overpay in our view, but we also get a feeling that a middle ground to a transaction could be achievable this time. Given that the feedback from MTN shareholders regarding inadequacy of the price offer has been known for some time, Bharti could have walked out any time it wanted to in the last couple of months.

However, if Bharti withdraws, there could be a relief rally given that the stock has underperformed the broad market by 7% since the deal was announced (end-May), and Bharti's PER at 16.0x FY10E is currently at a 5% discount to Sensex. Although it is exposed to the possible slowdown in rural consumption post poor monsoons, one of the macro risks weighing on the markets, we believe the impact may be less than for other sectors.

II. Deal announced with small changes to current terms (30% probability)

It is possible the deal that goes through with small changes to current terms, but then the chances of the deal getting approval (from the MTN shareholders) still appears a bit thin to us based on feedback received from MTN shareholders. Consider:

- Bharti proposes acquiring 36% of existing MTN shares through a scheme of arrangement. MTN shareholders will receive ZAR86 in cash and 1.0 Bharti share for every MTN share they own. Bharti also aims to achieve a GDR listing in JSE for this purpose. The GDR, likely an "inward" listing on the JSE, brings regulatory and technical restrictions and net/net we view this is a GDR not many MTN shareholders can or want to own.

- At current Bharti stock levels and the relative exchange rates, the cash plus stock offer implies ZAR153/share, a 20% premium to MTN's current stock price. However, based on the stock prices one day prior to the deal announcement, the offer was worth ZAR161 i.e. a meaningful 35% premium to MTN's then stock price. Yet, our feedback suggests this price is not seen as good enough by MTN shareholders especially for ceding control to Bharti, and because the Bharti GDR is expected to trade at a discount on the JSE. The MTN shareholder reaction is not unexpected – why not bluff for more even if you are happy with the offer?

- A scheme of arrangement (through which Bharti is acquiring 36% of existing MTN shares) would need to be approved by at least 75% of all MTN shareholders (not minorities) and creditors. This would involve dispatch of a scheme of arrangement circular and will need to be sanctioned by shareholders and the relevant High Court of SA. The entire process could take ~3 months and the outcome of the vote is by no means certain even after a revised offer announced by the 30 September deadline.

Would Bharti/MTN want to go to all this effort with transaction success as unclear as it is now under the currently proposed terms, or do they call the MTN shareholders' bluff (if it is indeed a bluff)? Net/net, we struggle to see this as a definitive outcome. If this were indeed to be the outcome, we would see this as longer-term positive as: (1) Deal acceptance would mean Bharti has got a great asset at a reasonable price, driving a re-rating of the stock in the medium term; (2) Deal rejection would bring us back to #1 above, at least for some time, likely sparking a relief rally. In the short term, the stock is likely to trade sideways as investors await the MTN scheme of arrangement approval – a process that could take 3-4 months.

III. SingTel gets involved in a higher, all-cash offer (50% probability)

We see two ways in which SingTel could get directly involved in the transaction, both essentially aimed at: (i) crystallising all-cash (instead of part-stock) offers to MTN shareholders, and (ii) potentially raising the bid price to facilitate acceptance.

1. SingTel commits as a buyer of the 'orphan' Bharti GDR that is to be listed on the JSE at a fixed price to those not interested in holding the GDR.

   – The GDR size is not insignificant, an 11% stake (of post transaction enlarged capital for Bharti) will arise as the GDR resulting from issuance of new Bharti shares (674m) as part-consideration for the 36% of MTN shares.

   – The deal would have diluted SingTel down from a 31% effective stake to 19.4% (see Figure 6). Buying all of the outstanding GDRs (theoretically) would help SingTel maintain its stake in the combined entity.

If achieved, we think this would enhance the appeal of the Bharti offer to MTN shareholders as this would effectively become an all-cash offer. Even at the currently proposed terms (ZAR86+1 Bharti share – post split), the bid would be ZAR153/MTN share, a 20% premium and all realizable in cash. Any higher cash element (if Bharti raises the offer) would only make the terms more attractive to MTN shareholders to accept the bid. However, this would need various regulatory approvals and also waivers of any general offer triggers (for MTN as well as Bharti).

2. Bharti makes a preferential allotment of shares to SingTel first for cash and consequently improves the offer to MTN shareholders to all-cash. Essentially, this means SingTel raises its stake significantly first before being diluted down to nearer its original stake as part of the currently announced terms. However, this might trigger requirement of SEBI approval for exemption of an open offer, in addition to the exemption which Bharti is seeking for the 25% preferential issue to MTN. Besides, this could also test the FDI limit as the post-deal foreign stake is expected to be 63.7% (calculated as per Press Note 2 amendments).

Figure 5. Bharti's ownership structure – pre/post MTN transaction

	Current		Post MTN	
	%	O/S Shares	%	O/S Shares
Bharti Telecom	45.3	1,720	28.9	1,720
Singtel	15.6	591	9.9	591
Indian Continent	6.3	238	4.0	238
FIIs	21.2	806	13.5	806
Others	11.6	441	7.4	441
MTN			11.3	674
MTN shareholders			25.0	1,490
Total	**100.0**	**3,796**	**100.0**	**5,960**
Direct foreign stake	**43.1**	**1,635**	**63.7**	**3,799**

Source: Company, Citi Investment Research and Analysis

What does this mean for the stocks?

- This gets close to being a win-win-win for all the parties concerned. Bharti gets the deal done at a reasonable price, MTN shareholders get a higher all-cash offer, and SingTel has visibility to maintain, or at least minimize, dilution of its Bharti stake.

- Meaningful sweetening of the deal with help from SingTel would be a relief for the Bharti stock. SingTel's support, through the offer for Bharti GDRs, would be preferred by Bharti's shareholders as it would obviate further dilution. While the market is aware of SingTel's potential support capability, we believe that Bharti's stock price is not factoring in any positive surprise from the extent or nature of SingTel's support to the deal.

- If Bharti were to make the preferential allotment to SingTel first, what price would it be at? The higher the price, the more positive it will be for Bharti as it helps share the burden of the premium paid to MTN shareholders. However, the higher the premium, there will be a negative impact on the immediate "value for price" perception for the SingTel stock. That said, we expect this gets partially offset by the fact that SingTel would be able to lock in to the quality longer term growth prospects of a combined Bharti-MTN entity – a global emerging market wireless powerhouse.

- Would SingTel need to raise equity? Back of the envelope calculations indicate that an equity raising might be necessary, the crucial assumption being the level of investment into the transaction. Our thought process runs as follows:

  - We see net debt to EBITDA at 0.7x as of March 2010E. SingTel has no official gearing targets, and we view a 1.5-2.0x net debt/ EBITDA range would be comfortable. With NBN commitments in Australia potentially looming ahead, and consolidation opportunities in Pakistan, SingTel might not want to go all the way. The mid-point of the range, 1.75x net debt to EBITDA as of March 2010E, implies **S$3.1bn** of borrowing capacity.

  - The "stock" portion of the proposed Bharti-MTN transaction (674m Bharti shares on the basis of 1 Bharti share for every MTN share, in addition to ZAR86 in cash) is US$5.7bn (S$8.2bn) at current Bharti stock price levels. Thus, depending on how much SingTel gets involved in the deal, SingTel's raising equity becomes a real possibility to think about.

IV. Bharti raises the bid significantly but goes alone (10% probability)

Given the newsflow on fund raising, we believe SingTel is now firmly in the picture with Bharti letting them in gradually since the stance of MTN shareholders has not softened. We therefore believe that if the deal goes through with a substantial bid revision, it is unlikely to be without SingTel involvement.

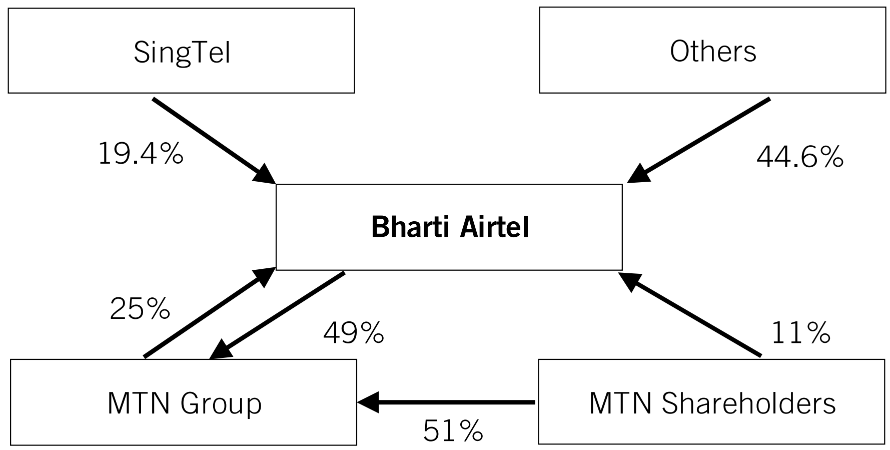
Deal as it stands today – Who gets what?

Bharti

The proposed transaction structure envisages Bharti ending up with a 49% stake in MTN in two tranches.

- A 29% stake (of post transaction enlarged capital) from acquiring 36% of MTN's outstanding shares from all MTN shareholders in a scheme of arrangement for ZAR86/share and 1 Bharti share per MTN share. On pre-announcement prices, the implied ZAR161/share was at a 35% premium to MTN's last close. The transaction involves a cash outlay of US$6.9bn and issuance of 674m new shares for Bharti.
- A 20% stake (of post transaction enlarged capital) with MTN issuing new shares (equivalent to 25% of its existing share capital) to Bharti. MTN will also be paying Bharti US$2.9bn.

Figure 6. Bharti – New Shareholder Structure



Source: Company, Citi Investment Research and Analysis

MTN

MTN lands up with a 25% economic interest in Bharti, while current MTN shareholders land up with a further 11% stake (36% in total) as follows:

- 11% stake (of post transaction enlarged capital) from issuance of new Bharti shares (674m) as part-consideration for the 36% of MTN shares.
- Fresh issue of shares by Bharti (745m shares translating to a 25% stake in post-transaction equity capital) to MTN. We note again that MTN will be paying Bharti US$2.5bn for the deal.

Net/net Bharti's required cash outflow will be US$4.0bn (US$6.9bn outflow for acquiring MTN shares less US$2.9bn payment from MTN).

Bharti Airtel (BRTI.BO; Rs411.50; 1L)

Company description

Bharti Airtel, through its group companies, provides cellular-phone services in all of India's 23 telecom circles. The group also provides fixed-line phone services, broadband, long-distance and enterprise services. It is listed on The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE). Major shareholders are Bharti Telecom, SingTel and Vodafone.

Investment strategy

We rate Bharti shares Buy/Low Risk (1L). We believe continued robust wireless market expansion in India and Bharti's ability to capture this growth profitably will be a recurring theme. We estimate FY09-11E earnings CAGR of 19%, far ahead of the broader market. We believe that competitive pressures, though intense, will remain rational as low revenue yields and moderate EBITDA margins leave little room for disruptive pricing. Additionally, most regulatory concerns are behind us with 3G bidding and MNP being the last remaining events. The company has yet to fully realize benefits of economies of scale, though competitive intensity would prevent any margin gains. We also expect the towerco hive-off (Bharti Infratel) to be value accretive though returns will be back-ended. Steady revenue stream of towerco will help counter unexpected high competitive intensity/adverse regulation in core business. Any sign-up of external tenants will also help raise visibility of towerco value.

Valuation

Our target price of Rs930 is based on Sep-09E core DCF of consolidated cash flows incl. the proportionate stake in towerco. The DCF is based on a WACC of 11.3% to reflect the current interest rate environment, reduced country risk premium but offset slightly by MTN specific risk, a terminal growth rate of 4%, and beta of 0.9. We prefer DCF as our primary valuation methodology because the wireless market will likely continue to see robust growth requiring upfront capex but should generate significant free cash beyond FY10E. Our target price represents a FY10E P/E of 18.5x (slight premium to broader market), P/CEPS of 11.1x and EV/EBITDA of 10.1x.

Risks

Our quantitative risk-rating system, which tracks 260-day share price volatility, rates Bharti shares as Low Risk. We are comfortable with this for the following reasons: 1) Bharti has a track record of profitability and execution; 2) strong balance sheet with low leverage levels (FY10 net debt/EBITDA at 0.45x); and 3) likely to turn FCF positive in FY10E with major capex behind. Industry risks that could prevent the stock from reaching our target price include competition-led tariff pressures, excessive bidding for 3G and any adverse regulation. Company-specific risks include any modification in the MTN deal structure leading to change in pricing and funding requirement.

SingTel
(STEL.SI; S$3.11; 1L)

Valuation

Given SingTel's geographically diverse operations, we use a sum-of-the-parts analysis to value the stock. This leads to a fair value estimate of S$3.22/share, which we round up to S$3.30 as our target price. Our sum-of-parts estimate includes 6.0x EV/EBITDA attribution for the Singapore business (as we believe NBN progression renders less clarity to longer-term cash flows for now) and a DCF-based calculation for Australia (perpetual growth rate of 2.0% implying 5.7x TY EBITDA multiple, WACC of 9.5%). We factor in an S$/A$ rate of 1.16 while translating our A$-based DCF fair value estimate for Optus into S$ in our sum-of-parts based fair value estimate. We value the listed associate companies at our target prices and at nil for Warid Telecom and PBTL given unclear profitability visibility in both cases. We use our DCF-based equity value for Telkomsel to value SingTel's 35% stake in Telkomsel. Our DCF-based equity value for Telkomsel is Rp171trn as of Dec-10 (WACC of 13.1%, terminal growth rate of 2.0%). Our analysis does not ascribe any value to SingTel's stakes in Southern Cross. Our target price equates to a P/E of 14.0x and 12.6x (calendarized for 2009E and 2010E). This compares with the MSCI Singapore Index trading at 15.2x and 13.4x respectively for the two years.

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, suggests a Low Risk rating. Risks to our view that may prevent the shares from reaching our target price include: 1) Overpayment in M&A transactions - The potential Bharti/MTN transaction progression may present a near-term overhang if Bharti raises its bid; (2) FY10 being another difficult year for the telecoms sector in Singapore and Australia and hence posing earnings risks; 3) Regulation - The government (through Temasek Holdings) holds a stake of c.57% in SingTel and has committed to reducing its stake to nil over time as part of its FTA agreement with the US. We see a recurring stock overhang threat, but are comforted by our view of Temasek not being a value-destroyer by looking to sell indiscriminately at any value, but instead looking to structure a gradual stake reduction in SingTel over the longer term.

MTN Group Limited
(MTNJ.J; R127.90; 1H)

Valuation

Mobile telecommunication companies are generally strong operational cash generators. In our valuation approach, we use discounted cash flow analysis to arrive at the valuation of MTN. In the forecast of cash flows, provision is made for ongoing or maintenance capital expenditure, which we believe is a necessary cost of ongoing operations. While in its growth phase, depreciation is seldom as high as the maintenance capex charge when the network is fully rolled out. This is true in MTN's case, as South African operations will require significant maintenance capex even when the network reaches its capacity. Our target price of R150 is based on the sum-of-the-parts valuation of each of MTN's geographic operations on a DCF basis, with a cross-check using ROIC:WACC and peer group comparisons.

Risks

We rate MTN High Risk based on our assessment of industry- and stock-specific risk factors. We would highlight in particular the market risk associated with extensive investment in operations outside of South Africa, and the high forecast risk of operations in markets with little third-party knowledge on which to base our assumptions. If the impact of these risks is greater than we currently anticipate, then the share price might not reach our target price. On the other hand, we believe that MTN might continue to post strong earnings growth, but post 2008, and that the market continues to value the stock as a momentum play, rather than on its free cash flow and risk fundamentals. This could cause the share price to rise above our target price. Furthermore, the high risk that we anticipate may manifest itself in a one-off event, either positive or negative.

Appendix A-1

Analyst Certification

Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

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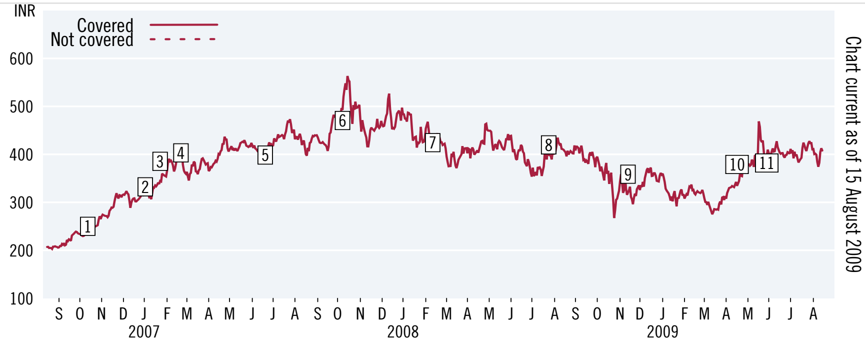
Ratings and Target Price History
Fundamental Research

Analyst: Rahul Singh



	Date	Rating	Target Price	Closing Price
1	12-Oct-06	*1L	*300.00	237.83
2	2-Jan-07	1L	*375.00	316.50
3	23-Jan-07	1L	*400.00	344.58
4	21-Feb-07	1L	*480.00	403.15
5	20-Jun-07	1L	*525.00	412.33
6	8-Oct-07	1L	*600.00	492.40
7	12-Feb-08	1L	*575.00	427.90
8	24-Jul-08	1L	*535.00	398.98
9	13-Nov-08	1L	*450.00	315.63
10	16-Apr-09	1L	*420.00	334.38
11	28-May-09	1L	*465.00	397.60

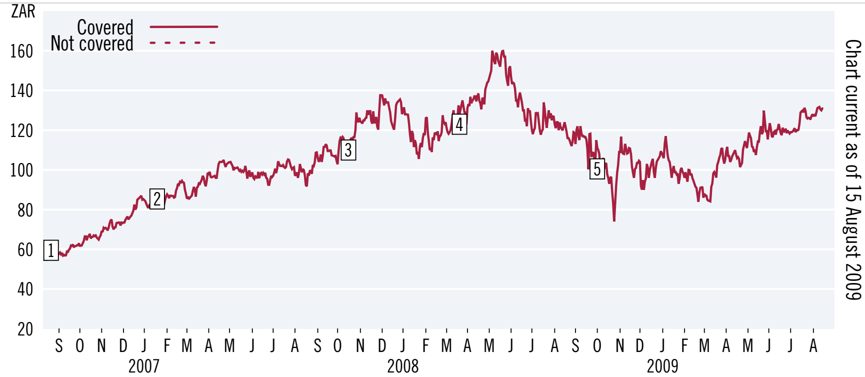
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MTN Group Limited (MTNJ.J)

Ratings and Target Price History
Fundamental Research

Analyst: Rhys D Summerton



	Date	Rating	Target Price	Closing Price
1	22-Aug-06	*2H	*63.00	55.10
2	18-Jan-07	*3H	*80.00	85.29
3	16-Oct-07	*2H	*130.00	113.00
4	20-Mar-08	2H	*150.00	128.00
5	1-Oct-08	*1H	150.00	111.00

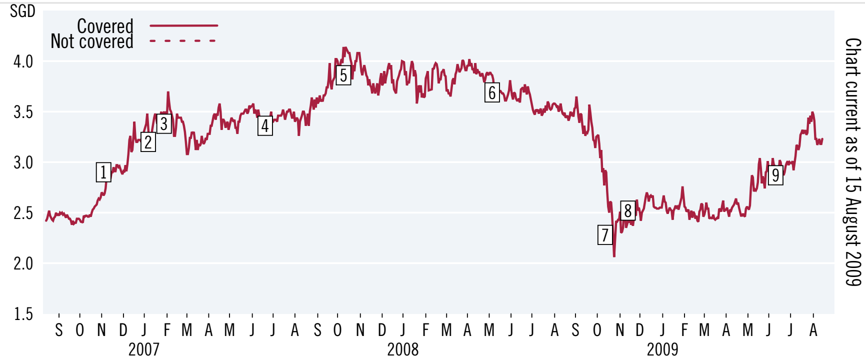
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SingTel (STEL.SI)

Ratings and Target Price History
Fundamental Research

Analyst: Anand Ramachandran, CFA



	Date	Rating	Target Price	Closing Price
1	3-Nov-06	1L	*3.10	2.67
2	5-Jan-07	1L	*3.70	3.34
3	29-Jan-07	1L	*3.80	3.50
4	20-Jun-07	1L	*3.90	3.42
5	9-Oct-07	1L	*4.40	4.14
6	6-May-08	*2L	*4.00	3.86
7	13-Oct-08	2L	*3.20	2.92
8	13-Nov-08	*2M	*2.70	2.42
9	10-Jun-09	*1L	*3.30	2.95

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Rahul Singh, Analyst, holds a long position in the securities of Bharti Airtel.

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Citi Investment Research Global Fundamental Coverage	41%	38%	21%
% of companies in each rating category that are investment banking clients	46%	45%	39%

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