

Reliance Communications

RCOM IN

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India
Telecommunications

New Information
30 September 2008

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↑

- We believe poor first quarter earnings and balance sheet concerns have been priced in.
- We value RCOM by DCF and EV/EBITDA as earnings are overstated due to capitalisation of interest, high CWIP, tax gains and low depreciation.

Net Profit 09 INR62.6b
..... (Unchanged)

Diff from Consensus.... 2.5%
Consensus (mean) INR60.0b
Consensus (momentum) ↓

Target Price INR500.00
..... (Unchanged)

Diff from Consensus . (5.4%)
Consensus (median) INR528.64
Consensus (momentum)..... ↓

Current Price INR326.40
Upside/(Downside).....53.1%

BUY
(Unchanged)

Recs in the Market

Positive **19**
Neutral **7**
Negative **5**
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- RCOM test launched its GSM network confirming our channel checks that GSM roll-out on track.
- RCOM will gain market share as it has a higher market share in CDMA + GSM circles compared to CDMA only.
- Reiterate Buy with a TP of INR500; we believe negative news on earnings and balance sheet priced in.

GSM launch on track; reiterate BUY

Soft launch of GSM service confirms roll out on track. Based on media reports and our discussions with the company, RCOM has soft launched its GSM services in six cities, including Mumbai and Delhi. The company has guided for a GSM launch by end of 2008 and a pan-India roll-out by mid-2009. Our checks reveal that the company is on track to launch services in line with the guidance. As highlighted in our report "Reiterate Buy on impending GSM launch despite weak quarterly results" dated 5 September 2008 our checks with equipment vendors had indicated that the company is aggressively laying infrastructure to roll out its GSM services.

Launch of GSM services will be a positive catalyst. We expect RCOM to gain market share with its upcoming GSM launch. It has 28% market share in its CDMA + GSM circles, which is significantly higher than its 16% market share in CDMA-only circles. It will become the first pan-India dual technology operator as it launches GSM services in rest of India. GSM launch will provide RCOM access to GSM subscribers, which account for 75% of the wireless market, and also benefit from monthly churn of ~4% of 225mn GSM subscribers.

Time-to-market advantage critical. RCOM is favorably placed compared to the new entrants as it has an advantage of early spectrum allotment, familiarity with GSM by virtue of its existing operations in 8 circles, existing CDMA infrastructure in the soon to be launched GSM circles, brand recall, human resources and distribution network. This will provide the company critical time to market advantage over new entrants in launching its GSM operations.

Nearing a GSM launch – reiterate BUY. We value RCOM at INR500 (FY09 EV/EBITDA of 11.7x) using DCF valuation, comprising core business valuation at INR409 and tower company at INR91 (USD110,000 per tower). RCOM is trading at FY09 EV/ EBITDA of 8.80x compared to 9.81x for Bharti and 8.68x for Idea. We prefer EV/EBITDA over PE as RCOM is not comparable with peers on PE as it capitalizes all interest expenditure and has low depreciation and tax expenditure compared with peers.

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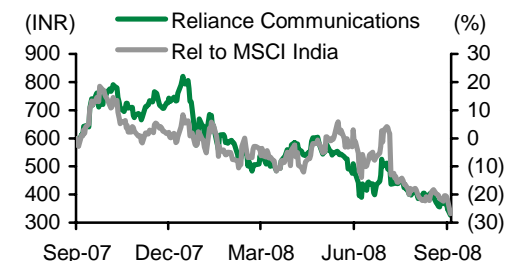
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Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	190,678	238,498	299,652	357,617
Reported net profit	54,011	62,017	73,623	91,063
Recurring net profit	53,853	62,656	73,623	91,063
Previous rec net profit	53,853	62,656	73,623	91,063
Chg from previous (%)	—	—	—	—
Recurring EPS (INR)	24.90	28.97	34.04	42.10
Prev rec EPS (INR)	24.90	28.97	34.04	42.10
Rec EPS growth (%)	59.6	16.3	17.5	23.7
Recurring P/E (x)	13.1	11.3	9.6	7.8
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	8.9	8.2	6.7	5.3
Price/book (x)	2.6	2.2	1.7	1.4
ROE (%)	23.4	22.1	21.2	21.2
Net debt/equity (%)	34.5	52.2	39.4	16.8

Sources: Reliance Communications; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	October 2008
Market cap (USD m)	15,299
12m avg daily turnover (USD m)	114.9
Free float (%)	34
Major shareholder	AAA Communication Pvt Ltd (63%)
12m high/low (INR)	821.55/346.85
GDR (USD)	7.66
Avg daily turnover (USD m)	0.1
Discount/premium (%)	(3)
Disc/premium vs 52-wk avg (%)	(44)

Source: Datastream

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All share prices are as at market close on 29 September 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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