Company report

Telecoms, Media & Technology
Wireless Telecoms
Equity – India

HSBC Global Research

Bharti Airtel (BHARTI)

Evaluating synergies on potential Bharti-MTN deal

- **Potential Bharti-MTN synergies include lowering procurement costs and replicating low-cost/high-usage model at MTN**
- **Deal uncertainties and probability of sweetening the offer for MTN shareholders raise short-term concerns**
- **Retain OW(V). Raise TP to INR977 (from INR876) as we roll over our multiples to FY11e. 3G factor supports our argument**

The objective of this report is to identify potential synergies not yet reflected in our forecasts (we include a sensitivity analysis), particularly on capex per base station, and to explore potential benefits of a shift to the low-cost, high-volume 'minute factory' model. We also discuss the legal and regulatory issues around the deal.

While the potential **deal is marginally EPS accretive** (4% for FY11e), we believe most of the **synergies are medium to longer term**. Uncertainty over pricing, execution, and dilution are likely to be a drag in the near term while clarity on synergies, shareholder structure and longer-term use of FCF could be positive.

Procurement synergies and low cost high usage model. Our analysis suggests that MTN's cost per unit of capex (base transceiver station, or BTS) is c3x times higher than Bharti's, suggesting potential procurement synergies in a post deal scenario. We note that certain local market level factors may limit upside (c5-14% to DCF). Further, we see scope for MTN to replicate the Bharti-style 'minute factory' model, creating significant cost-competitive advantages. This implies a fundamental shift in the business model, and the possibility of competitors replicating the same cannot be ruled out.

We maintain our Overweight (V) and raise our target price to INR977. As we roll over our valuations to FY11e, our estimates remain conservative (8% below consensus on FY11e earnings). The possibility of 3G auctions makes FY11e relevant and, unlike consensus, we are factoring in the potential 3G impact. Possible INR appreciation offers potential earnings upside. Risks for Bharti include poor monsoons and higher spectrum charges.

We believe move to pursue MTN reflects Bharti's view that marginal opportunities in Africa are better than in India. Some GEM investors may prefer a pure geography play to improve control over their portfolios. In our view, there is a broad-based scepticism on the likely synergies and formal guidance from Bharti management will be critical.

Index^	BOMBAY SE IDX
Index level	14,266
RIC	BRTI.BO
Bloomberg	BHARTI IN

Source: HSBC

Free float (%)	
Market cap (USDm)	31,698
Market cap (INRm)	1,527,867

Source: HSBC

Overweight (V)

Target price (INR)	977.00
Share price (INR)	804.85
Potential total return (%)	21.4

Mar	2008a	2009e	2010e
HSBC EPS	35.37	44.67	50.24
HSBC PE	22.8	18.0	16.0

Performance	1M	3M	12M
Absolute (%)	-19.8	41.3	-0.9
Relative^ (%)	-19.7	-11.1	7.2

Note: (V) = volatile (please see disclosure appendix)

19 June 2009

Rajiv Sharma*
Analyst
HSBC Securities and Capital Markets (India) Private Limited
+9122 22681239
rajivsharma@hsbc.co.in

Herve Drouet*
Analyst
HSBC Bank plc
+44 20 7991 6827
herve.drouet@hsbcib.com

Tucker Grinnan*
Analyst
The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4686
tuckergrinnan@hsbc.com.hk

HSBC

Financials & valuation: Bharti Airtel

Overweight (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	270,250	369,615	433,916	521,797
EBITDA	113,715	151,678	167,074	189,426
Depreciation & amortisation	-37,260	-47,581	-56,160	-66,983
Operating profit/EBIT	76,455	104,097	110,914	122,443
Net interest	-2,341	-11,613	-7,060	-6,028
PBT	76,536	93,073	106,931	123,214
HSBC PBT	76,536	93,073	106,931	123,214
Taxation	-8,378	-6,615	-10,067	-16,700
Net profit	67,008	84,699	95,263	104,656
HSBC net profit	67,008	84,699	95,263	104,656
Cash flow summary (INRm)				
Cash flow from operations	122,082	125,402	153,749	215,917
Capex	-138,467	-140,171	-142,805	-176,315
Cash flow from investment	-138,467	-140,171	-142,805	-176,315
Dividends	0	-3,792	-11,470	-18,588
Change in net debt	-744	27,531	18,728	-13,730
FCF equity	-20,001	-25,221	4,344	29,161
Balance sheet summary (INRm)				
Intangible fixed assets	40,247	40,364	39,587	38,888
Tangible fixed assets	313,407	409,136	531,931	641,962
Current assets	113,782	144,079	166,264	205,598
Cash & others	54,948	49,154	65,425	98,795
Total assets	472,643	603,947	750,227	899,660
Operating liabilities	149,982	170,498	173,515	218,606
Gross debt	97,063	118,801	153,799	173,438
Net debt	42,115	69,646	88,374	74,644
Shareholders funds	222,585	303,945	412,209	496,888
Invested capital	262,506	373,926	498,842	569,048

Ratio, growth and per share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	45.9	36.8	17.4	20.3
EBITDA	52.6	33.4	10.2	13.4
Operating profit	55.1	36.2	6.5	10.4
PBT	56.6	21.6	14.9	15.2
HSBC EPS	57.4	26.3	12.5	9.9
Ratios (%)				
Revenue/IC (x)	1.2	1.2	1.0	1.0
ROIC	29.6	27.3	21.0	18.7
ROE	37.4	32.2	26.6	23.0
ROA	18.9	18.6	16.0	14.3
EBITDA margin	42.1	41.0	38.5	36.3
Operating profit margin	28.3	28.2	25.6	23.5
EBITDA/net interest (x)	48.6	13.1	23.7	31.4
Net debt/equity	18.7	22.1	20.9	14.7
Net debt/EBITDA (x)	0.4	0.5	0.5	0.4
CF from operations/net debt	289.9	180.1	174.0	289.3
Per share data (INR)				
EPS Rep (fully diluted)	35.37	44.67	50.24	55.20
HSBC EPS (fully diluted)	35.37	44.67	50.24	55.20
DPS	0.00	2.00	6.05	9.80
Book value	117.47	160.31	217.41	262.07

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	5.8	4.3	3.7	3.1
EV/EBITDA	13.8	10.5	9.7	8.4
EV/IC	6.0	4.3	3.2	2.8
PE*	22.8	18.0	16.0	14.6
P/Book value	6.9	5.0	3.7	3.1
FCF yield (%)	-1.3	-1.7	0.3	1.9
Dividend yield (%)	0.0	0.2	0.8	1.2

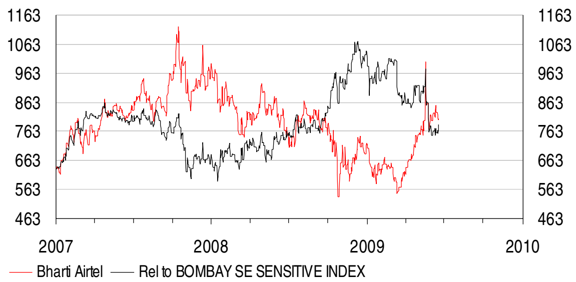
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	804.85	Target price (INR)	977.00	Potent'l tot rtn (%)	21.4

Reuters (Equity)	BRTI.BO	Bloomberg (Equity)	BHARTI IN
Market cap (USDm)	31,698	Market cap (INRm)	1,527,867
Free float (%)		Enterprise value (INRm)	1594815
Country	India	Sector	Wireless Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 18 Jun 2009

HSBC

Financials & valuation: MTN

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Profit & loss summary (ZARm)				
Revenue	102,526	125,863	152,211	171,036
EBITDA	43,166	51,500	63,661	72,575
Depreciation & amortisation	-12,759	-17,183	-21,092	-23,819
Operating profit/EBIT	30,407	34,317	42,568	48,756
Net interest	-1,851	-2,803	-2,720	-1,880
PBT	28,490	31,514	39,849	46,876
HSBC PBT	31,376	34,334	42,669	49,696
Taxation	-11,355	-10,987	-13,284	-15,443
Net profit	15,315	17,427	22,590	26,918
HSBC net profit	20,493	20,247	25,410	29,738
Cash flow summary (ZARm)				
Cash flow from operations	36,772	37,919	48,717	56,483
Capex	-26,896	-35,164	-32,619	-31,884
Cash flow from investment	-27,177	-35,164	-32,619	-31,884
Dividends	-2,536	-3,376	-5,604	-9,340
Change in net debt	-2,160	621	-10,493	-15,259
FCF equity	2,697	2,755	13,801	22,440
Balance sheet summary (ZARm)				
Intangible fixed assets	45,786	42,966	40,146	37,326
Tangible fixed assets	64,193	84,994	99,341	110,226
Current assets	54,787	50,183	64,629	82,712
Cash & others	26,961	22,240	32,733	47,992
Total assets	170,106	183,484	209,456	235,604
Operating liabilities	42,101	44,656	53,403	61,577
Gross debt	41,590	37,490	37,490	37,490
Net debt	14,629	15,250	4,757	-10,502
Shareholders funds	76,386	88,209	101,459	114,918
Invested capital	95,704	111,248	117,980	120,695

Ratio, growth and per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Y-o-y % change				
Revenue	40.2	22.8	20.9	12.4
EBITDA	35.6	19.3	23.6	14.0
Operating profit	32.9	12.9	24.0	14.5
PBT	44.6	10.6	26.4	17.6
HSBC EPS	35.2	-1.3	25.5	17.0
Ratios (%)				
Revenue/IC (x)	1.2	1.2	1.3	1.4
ROIC	28.4	24.4	27.3	29.8
ROE	33.1	24.6	26.8	27.5
ROA	14.1	13.4	15.1	15.5
EBITDA margin	42.1	40.9	41.8	42.4
Operating profit margin	29.7	27.3	28.0	28.5
EBITDA/net interest (x)	23.3	18.4	23.4	38.6
Net debt/equity	18.2	16.0	4.2	-8.0
Net debt/EBITDA (x)	0.3	0.3	0.1	-0.1
CF from operations/net debt	251.4	248.6	1024.2	
Per share data (ZAR)				
EPS Rep (fully diluted)	8.21	9.33	12.09	14.41
HSBC EPS (fully diluted)	10.99	10.84	13.60	15.92
DPS	1.81	3.00	5.00	7.21
Book value	40.95	47.22	54.31	61.52

Key forecast drivers

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Nigeria EBITDA (ZARm)	18,248	21,278	27,067	31,328
South Africa EBITDA (ZARm)	10,654	11,361	12,334	13,258
Ghana EBITDA (ZARm)	2,786	3,331	4,151	4,731
Iran EBITDA (ZARm)	1,492	2,874	3,823	4,165

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
EV/sales	2.5	2.0	1.6	1.3
EV/EBITDA	5.8	4.9	3.8	3.1
EV/IC	2.6	2.3	2.0	1.9
PE*	10.7	10.8	8.6	7.4
P/Book value	2.9	2.5	2.2	1.9
FCF yield (%)	1.1	1.2	5.9	9.6
Dividend yield (%)	1.5	2.6	4.3	6.1

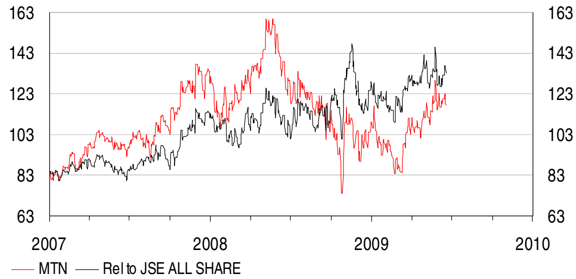
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (ZAR)	117.51	Target price (ZAR)	148.00	Potent'l tot rtn (%)	25.9

Reuters (Equity)	MTNJ.J	Bloomberg (Equity)	MTN SJ
Market cap (USDm)	26,534	Market cap (ZARm)	216,203
Free float (%)	75	Enterprise value (ZARm)	252070
Country	South Africa	Sector	Wireless Telecoms
Analyst	Herve Drouet	Contact	44 20 7991 6827

Price relative



Source: HSBC

Note: price at close of 18 Jun 2009

HSBC

Contents

Exploring synergies 5
MTN and Bharti have two different business models 5
Procurement synergies 5
Sensitivity analysis of capex savings scenarios 6
MTN to benefit from Bharti's expertise and India experience 7
Replication of low-cost, low-tariff, high-usage model 8
Tower sharing and monetisation 9
Opex savings and others 10
Proposed deal structure 12

Legal and regulatory issues 12
Key approvals required 12
FDI and Bharti shareholding 13
Various possible structures 13

India 15
India update 15
What does the MTN move suggest? 16

Valuation 17
Rolling over estimates to FY11e from FY10e 17
Valuation and risks for MTN 19

Disclosure appendix 23

Disclaimer 27

We would like to acknowledge the contribution of Garima Kapoor and Rajat Narula to this report.

HSBC

Exploring synergies

- MTN's average cost per BTS is c3x higher than Bharti's, pointing to possible procurement synergies
- Bharti is likely to replicate the 'minute factory' model, will allow MTN to extract value from marginal subscribers
- In a post deal scenario expect MTN to benefit from tower sharing and monetisation

MTN and Bharti have two different business models

Bharti and MTN – cost per BTS

Items	Bharti	MTN
Gross Block (USDm)	10,811	12,291
No. of BTS	93,368	29,508
Gross block per BTS (USD'000)	116	417

Source: HSBC, Company data

Bharti and MTN – different business models

Items (US cents)	Bharti	MTN
Revenue per min	1.5	9.6
Operating costs per min	0.9	5.6
EBITDA per min	0.6	4.1

Source: Company data, HSBC

We disagree with the general perception that Bharti and MTN's impressive return ratios imply both companies are equally efficient in their equipment purchasing. In our view, the impressive returns are not due to efficient purchases but are an outcome of their using two different business models.

Although cost per unit of capex (BTS) is higher in MTN's case, the fact that it enjoys twice the ARPU of Bharti means it can sustain healthy return ratios.

However, competitive intensity is one of the key challenges for MTN, and we believe the deal will allow it to replicate Bharti's low-cost business model and create cost advantages. We lay out in detail some of the synergies possible in a post-deal scenario.

Procurement synergies

Our analysis highlights that MTN's cost per BTS is c3x higher than Bharti's, suggesting possible procurement synergies. We estimate the resulting longer-term capex savings at cUSD0.5-5bn over the next five years.

Much as in India, the absence of a vendor base in Africa should make it easy for Bharti-MTN in a post-deal scenario to enter into single contracts with vendors and benefit from cheaper rates in both markets. We view this as fairly easy for electronic components (3G for Indian operations and both 2G and 3G for MTN operations).

Despite this, a number of factors make us cautious in estimating the possible savings:

- Bharti and MTN may encounter resistance to modifying existing contracts with vendors, and this makes it hard for us to accurately estimate

Synergies for MTN at different capex savings levels

Cases	Estimated synergies (USDbn)
Case 1 – Capex savings per BTS – USD 25,000	0.97
Case 2 – Capex savings per BTS – USD 50,000	1.94
Case 3 – Capex savings per BTS – USD 100,000	3.91
Case 4 – Capex savings per BTS – USD 150,000	5.86
Case 5 – Capex savings per BTS – USD 200,000	7.94

Source: HSBC estimates

the total possible savings. Modification of existing contracts may bring some penalties

- The civil construction component associated with tower deployment needs to be executed at the local level, limiting upside for capex savings on MTN's side
- Overseas transportation costs, customs duty and local transportation costs may limit the procurement synergies
- Execution is an important criterion, as the synergies will need to be replicated in 21 markets in multiple geographies. We believe five markets will hold the key

Several local factors also contribute to our caution:

- The population density in Africa is lower than in India and may limit economies of scale
- Lack of infrastructure in Africa increases costs substantially for MTN. Most towers need to be powered by independent electricity generators, increasing the average cost of an African BTS.

Assumptions used in our calculations

While estimating the gross block per BTS numbers for Bharti, we have included the investments in laying optic fibre for both Bharti and MTN.

Sensitivity analysis of capex savings scenarios

Given the early stage of the potential transaction, we have performed a sensitivity analysis to understand the various implications for MTN's fair value. In an attempt to be conservative, and given the competitive rates available to Bharti, we are not including savings on the Bharti side for the purpose of our analysis.

HSBC

MTN's capex per BTS in different countries

Countries	Dec-08	Dec-07	Dec-06
South Africa			
Capex (ZARm)	4,868	2,843	2,391
Capex (USDm)	521	419	339
BTS roll out	902	737	263
Capex/BTS (USD'000)	577	569	1,289
Nigeria			
Capex (ZARm)	9,610	4,789	3,674
Capex (USDm)	1,028	706	521
BTS roll out	1,560	785	398
Capex/BTS (USD'000)	659	900	1,308
Ghana			
Capex (ZARm)	1,854	1,239	801
Capex (USDm)	198	183	114
BTS roll out	704	718	302
Capex/BTS (USD'000)	282	255	376
Iran			
Capex (ZARm)	2,743	1,559	773
Capex (USDm)	293	230	110
BTS roll out	1,529	1,642	361
Capex/BTS (USD'000)	192	140	304
Sudan			
Capex (ZARm)	943	964	624
Capex (USDm)	101	142	88
BTS roll out	424	575	256
Capex/BTS (USD'000)	238	247	345
Syria			
Capex (ZARm)	1,039	418	338
Capex (USDm)	111	62	48
BTS roll out	596	317	191
Capex/BTS (USD'000)	186	194	251

Source: Company data, HSBC, including investments in optic fibre

MTN to benefit from Bharti's expertise and India experience

Possibility of MTN replicating Bharti-style managed services

We believe that there are opportunities for MTN to replicate Bharti model and further optimise its African network investments. Its main competitor, Zain, has just outsourced its Nigerian network operations to Ericsson for five years. The move, which is part of the 'Drive 2011' cost-control programme, is expected to reduce operating costs for around 4,000 sites across Nigeria and optimise Zain's African network investments.

Zain will transfer 450 employees to Ericcson and is expected to reduce its global workforce by 13% through 2011 by cutting 2,000 positions out of 15,500 employees worldwide. Our EMEA analyst views the deal as a positive step for Zain given that this is the first time an African operator is undertaking an outsourcing deal, which could end

Capex-to-sales ratio under different capex savings scenarios

Items	FY09e	FY10e	FY11e	FY12e	FY13e	FY14e	FY15e
BTS required as per our estimates	36,905	45,036	52,664	60,439	68,416	76,651	85,194
Base-case capex-to-sales ratio	27.9%	21.4%	18.6%	16.7%	15.3%	14.4%	13.8%
Case 1 – Capex savings of USD25,000	27.9%	20.4%	17.7%	15.8%	14.5%	13.6%	12.9%
Case 2 – Capex savings of USD50,000	27.9%	19.3%	16.8%	15.0%	13.6%	12.7%	12.1%
Case 3 – Capex savings of USD100,000	27.9%	17.1%	15.0%	13.3%	11.9%	11.0%	10.5%
Case 4 – Capex savings of USD150,000	27.9%	15.0%	13.2%	11.5%	10.2%	9.3%	8.8%
Case 5 – Capex savings of USD200,000	27.9%	12.8%	11.4%	9.8%	8.5%	7.6%	7.2%

Source: HSBC

up as a beacon for other operators to follow. Indian telcos such as Bharti and Idea have already seen a positive impact on their operating margins through network deals with NSN and Ericsson.

Given the rising competitive intensity, particularly in Nigeria, it will not surprise us if MTN attempts to replicate these structures, not only in Nigeria but in other regions as well.

However, the key differentiator for MTN would be to benefit from Bharti's experience, as Bharti was among the first globally to outsource its network to vendors. So, while competitors may make similar moves, we believe Bharti's expertise is likely to be especially positive for MTN.

Vendors are responsible for time deployment, network optimisation, adhering to network maintenance (downtime, service levels), and Bharti benefits from vendor financing (linking payment to the network utilisation level).

It is difficult for us to quantify MTN's advantage, but we view the potential synergies as an upside risk for MTN's valuation in a post-deal scenario. Key savings stem from employee overhead rather than employee salary costs. One intangible benefit is the ability of the company to focus more on marketing, giving it the bandwidth to maximise efforts to improve market share.

Replication of low-cost, low-tariff, high-usage model

A comparison of Bharti's and Africa's MOUs reveals a significant variance, and an examination of MTN's costs on a per minute basis highlights that pure EBITDA margins fail to reflect true business efficiencies.

One might say that this as an extension of the simple point that, although MTN's average ARPU is cUSD14 and Bharti's is USD7, both operate at an EBITDA margin of c40%. Our conclusion is that Bharti runs a low-cost business and enjoys similar EBITDA margins despite operating at half the ARPU of MTN.

As mobile penetration increases in Africa, the incremental ARPU of new subscribers should decrease. We already estimate that the average incremental ARPU of new subscribers is cUSD8, which would dilute existing ARPU. As the mobile market gradually develops in Africa, we anticipate that it will evolve from an high-tariff, low-traffic to lower-tariff/high-traffic market. The experience and cost optimisation of Bharti would help in making that transition and would help to control margin dilution as the market develops.

Bharti and MTN – Revenue, opex and capex per minute

Items (US cents)	Bharti	MTN
Revenue per minute	**1.5**	**9.6**
Operating cost per minute	**0.9**	**5.6**
Cost breakdown:		
Direct network operating costs	0.2	1.3
Cost of handsets and other accessories	0.0	0.6
Interconnect and roaming	0.2	1.2
Employee benefits	0.1	0.4
Selling, distribution and marketing expenses	0.2	1.2
Other expenses/license fees	0.2	0.7
Capex per minute	**0.5**	**2.7**

Source: Company data, HSBC

HSBC

Sensitivity of Synergies (USDbn) to EBITDA margin and market share improvement

		Market share improvement			
	Margins improvement vs market share improvement	1%	2%	3%	4%
EBITDA margin improvement	1%	1.4	2.0	2.6	3.2
	2%	1.9	2.5	3.1	3.7
	3%	2.1	2.7	3.3	3.9
	4%	2.3	2.9	3.5	4.1

Note: Markets include South Africa, Cameroon, Nigeria, and Ghana
Source: HSBC estimates

What is the 'minute factory' model?

This 'minute factory' model treats airtime as a perishable commodity and attempts to maximise network utilisation (capacity utilisation). The best way to understand the 'minute factory' model is to imagine telecom networks as factories generating minutes: they try to maximise the throughput by maximising the consumption of minutes. This can be accomplished in two ways: (1) by maximising the subscribers per BTS and (2) by maximising the minutes per subscriber. Consumption of minutes is a function of tariffs and, to achieve high network utilisation, service providers tend to gradually reduce tariffs to benefit from usage buoyancy. This not only drives usage buoyancy but also has a positive read-across for subscriber growth, as it reduces the total cost of owning mobile services for the subscribers.

While Bharti has mastered this model, pricing usage structures tend to be driven by industry dynamics rather than operator-specific strategies. Initially, we believe it is unlikely that MTN will replicate the model completely, opting instead for gradual adoption. Lower-tariff, high-usage models often come with big increases in capex. We note that both Indonesia and China have moved to the low-cost minute model over the past two years, with major spikes in capex to support massive increases in traffic volume.

Implications of the 'minute factory' model for MTN

Positive implications for MTN, if it replicates the 'minute factory' model, would be an increase in market share and margins. This assumes that lowering tariffs would drive affordability and opex efficiencies. We provide more colour on the possible opex savings in the next section.

Tower sharing and monetisation

With no greenfield opportunities available in Africa, competition between large players should intensify in existing markets. However, large-cap players also face threats from smaller players, and the possibility of tower sharing cannot be ruled out.

The three big players in India – Bharti, Vodafone and Idea Cellular – entered in a tower sharing agreement to form a tower joint venture, Indus, allowing them to not only save on capex but to accelerate their coverage as well. Sharing towers has enabled Bharti not only to increase coverage but has also given it superior network coverage, which is the biggest challenge for new players.

In a post-deal scenario, we expect MTN to benefit from Bharti's tower sharing practices. Moreover, we believe MTN may look ahead to monetise its tower assets. We view this as an upside catalyst in a post-transaction scenario.

Opex savings and others

Costs saving with sharing of towers

While it may not be possible to save on energy costs associated with the running of towers, tower sharing brings in costs savings in areas such as tower site rental, security guards' salaries, and network maintenance.

We believe the upside in case of African operators when it comes to tower sharing will be relatively high, as tower sharing does not yet exist in Africa. In India, before tower companies came into the picture, the likes of Bharti and Idea were sharing towers on a bilateral basis, which enabled them to realise opex savings even before tower companies – hence, incremental opex savings were not much.

Power savings – fuel costs

Poor power supply constraints are common concerns for Bharti and MTN. However, Indian operators have made progress in implementing energy-efficient solutions and bought down the cost of running BTSs (particularly in rural areas). We believe MTN will benefit in a post-deal scenario; however, we cannot quantify the benefits given limited disclosures.

Other cost-saving areas

We believe Bharti may shift some of the back-office operations (financial/accounting/revenue assurance/customer service/data-centric work) from MTN to its service centres in India. India has been an attractive destination for back-office work, and we expect Bharti to exploit the possibilities. However, this may require some political support and consensus.

Enterprise market

With its investments in fibre in markets such as Nigeria, MTN has made forays into the enterprise segment and claims a market share of c15%. We believe MTN's operations stand to benefit further, given that Bharti is an active player in the enterprise segment in India. We believe Bharti's experience may enable MTN to increase its product offerings and market share. The positives for enterprise business could boost Bharti's enterprise service offerings in India as well.

MTN benefits from lower cost of capital

We believe that MTN may benefit at the holding company level from a lower cost of debt (Bharti's costs of financing at c7-8%). We note that large parts of MTN's existing debt are at the subsidiary level in local currency. MTN may gain access to cheaper debt in the other currency, but only at the cost of higher currency risk.

Is there any earnings dilution for Bharti-minority shareholders?

With the present proposed structure, our calculations suggest that the deal will be EPS accretive by 4% in FY11e and 8% in FY12e.

For the purpose of our calculations, we consider the pre-tax cost of debt on USD4bn (which Bharti needs to pay to MTN shareholders) at c9%. Moreover we are assuming equity dilution by 717m new shares to compute the economic impact of the EPS. We note that consideration of cross-holdings may result in different results. To be consistent, we are also not considering MTN's share of Bharti's earnings.

Sensitivity analysis -Impact of synergies on DCF in a post deal scenario

Cases	Synergies on low cost high usage model	Procurement Synergies	Possible upsides to Bharti DCF
Case 1	Market share and EBITDA margin improves by 3% and 2%, respectively	Savings per BTS – USD 25,000	3%
Case 2	Market share and EBITDA margin improves by 4% and 2%, respectively	Savings per BTS – USD 50,000	6%
Case 3	Market share and EBITDA margin improves by 3% and 3%, respectively	Savings per BTS – USD 100,000	9%
Case 4	Market share and EBITDA margin improves by 4% and 3%, respectively	Savings per BTS – USD 150,000	14%
Case 5	Market share and EBITDA margin improves by 3% and 4%, respectively	Savings per BTS – USD 200,000	17%
Case 6	Market share and EBITDA margin improves by 4% and 4%, respectively	Savings per BTS – USD 200,000	18%

Source: HSBC Analysis

Bharti-MTN –EPS impact

Items	FY11e	FY12e
Bharti – Net Profit HSBC estimates (INRm)	104,656	119,139
Present share count	1,898	1,898
EPS – HSBC estimates (INR)	55.14	62.77
Add		
MTN 49% estimates-HSBC estimates (USD m)	1,253	1,520
MTN 49% estimates-HSBC estimates (INR m)	60,139	72,949
Deductions		
Interest expense USD4 bn of net cash paid (INR m)	14,688	14,688
Net Impact (INR m)	150,108	177,400
New shares issued (MTN + MTN shareholders)	1,082	1,082
Deductions		
Bharti cross holding cancellation of shares	365	365
Net shares issued	717	717
New share count for EPS calculation post MTN transaction	2,615	2,615
Revised EPS	57.40	67.84
EPS accretion	**4%**	**8%**

Source: HSBC estimates and analysis

Legal and regulatory issues

- Approval by 75% of the MTN shareholders is the key
- Ambiguity prevails over methodology of calculating foreign shareholding and final shareholding structure
- We lay out alternative ways in which MTN will acquire its 25% economic interest in Bharti Airtel

Proposed deal structure

Before turning to a discussion of the regulatory issues, we provide some detail on the various stages of the transaction as follows:

- MTN acquires 25% post economic interest in Bharti for a cash payout for USD2.9bn and a fresh equity issuance equal to 25% of current equity base of MTN. This would take the post-deal share count of MTN to 2.34bn shares
- As part of this share swap, Bharti will also issue 745m fresh shares to MTN, which will result in a c25% economic interest in Bharti in a post-deal scenario. We believe there are a number of ways shares can be issued to MTN, which we explain later
- Bharti would acquire 36% of the existing 1.87bn MTN shares from MTN shareholders, or 673.2m shares (effectively around 29% of the capital base post issuance of shares to Bharti Airtel). MTN shareholders would receive ZAR86 and 0.5 GDRs per MTN share. This implies a cash payout of USD6.9 for Bharti and issuance of a fresh 336.6m Bharti shares in the form of GDRs

In summary, Bharti is paying net cash of USD4bn and issuing fresh equity of 1.08bn shares to acquire a 49% stake in MTN.

We note that, on MTN's holding of a 25% stake in Bharti, Bharti also assumes a 12.25% stake in itself, similar to treasury shares. So the effective increase in the share count is 717m new shares in a post-deal scenario.

Key approvals required

From MTN's point of view, the scheme through which Bharti is acquiring 36% of the MTN shares needs to be approved by at least 75% of MTN shareholders.

Moreover, MTN would also require approvals from the South African telecom regulator (ICASA), the central bank, and the stock exchange. We believe that the process is largely politically driven and will revolve around Bharti and MTN's ability to achieve political consensus.

From Bharti's point of view regulatory approval will be required from the Foreign Investment Promotion Board (FIPB) given that the transaction involves a share swap and the issuance of GDRs. There is a possibility that FIPB may refer the transaction to the Reserve Bank of India.

Bharti may require additional approval from the Department of Telecom (DoT) regarding the issue of foreign direct investment (FDI), which we discuss later in the report in detail.

Above all, Bharti will have to comply with the relevant corporate laws, in particular Section 42 of the Companies Act, which states that a subsidiary does not have voting rights (the reason behind MTN's having an economic interest sans voting rights).

Approval from SingTel

We understand that Bharti must have gone ahead with an approval from SingTel; however, final approval from them will be equally important.

The equity dilution for SingTel is obvious in a post-deal scenario, but we believe how much of their representation on board is impacted will be an equally important consideration.

FDI and Bharti shareholding

The FDI framework in the telecom sector is governed by Press Notes 2, 3, and 5. As per Press Note 2 of 2009, if an Indian company which is "owned" or "controlled" by "non-resident entities", then the entire investment by the investing company into the subject downstream Indian investee company is considered as indirect foreign investment. Prior to Press Note 2, the shareholding of SingTel and Vodafone in Bharti Telecom was considered for the purpose of foreign shareholding. However, post Press Note 2, an indirect shareholding in Bharti Telecom will not be considered for the purpose of foreign shareholding, which gives Bharti the option to issue GDRs to MTN and MTN shareholders.

While Press Note 2 is positive for Bharti, the norm may not apply to sectors governed under certain statutes. This suggests the possibility that Bharti may not be able to take the advantage of Press Note 2 till the time DoT provides clarity in this regard. Even approvals from RBI may be required in this regard.

Various possible structures

One of the key elements of the Bharti press release is the use of term *economic interest* for MTN's 25% shareholding. In general, an economic interest means the right to receive dividends and other financials benefits from the company without voting rights.

So we are clear about the fact that MTN shareholders will be issued GDRs, but there are a number of ways MTN may acquire a 25% economic interest in Bharti Airtel. We explore a few of the likely scenarios and their implications.

Scenario 1 – Both MTN and MTN shareholders are issued GDRs by Bharti

The advantage of such an arrangement would be that it would be transparent and that GDRs would be tradable on the Johannesburg Stock Exchange. However, Bharti Airtel will reach its FDI cap, leaving little room for flexibility in the future. GDRs have no lock-in requirements.

Scenario 2 – Bharti Airtel makes a preferential issue to MTN

Similar to the aforesaid structure, the scope available to Bharti for bringing in incremental foreign investments will be limited. However, Bharti and MTN would have to meet the Preferential Issue Guidelines and lock-in requirements.

HSBC

Bharti – Existing and proposed shareholdings

Bharti existing shareholding		Bharti new shareholding	
Bharti Telecom Ltd	45.3%	Bharti Telecom Ltd	28.9%
India Continent Investment Ltd	6.3%	India Continent Investment Ltd	4.0%
Singtel (Direct)	15.6%	Singtel (Direct)	9.9%
FIIs	20.7%	FIIs	13.2%
MF+FIs+Banks	7.4%	MF+FIs+Banks	4.7%
Public & Others	4.7%	Public & Others	3.0%
		MTN	25.0%
		MTN share holders	11.3%
Promoter and promoter group		**Promoter and promoter group**	
Mittal family	26.0%	Mittal family	16.6%
Singtel (indirect)	14.8%	Singtel (indirect)	9.4%
Vodafone(indirect)	4.4%	Vodafone(indirect)	2.8%

Source: Company data, HSBC

Scenario 3 – Preferential issue is made to MTN not at the Bharti Airtel level but at the Bharti Telecom level

Under this scenario, Bharti would have considerable scope to bring in fresh capital, as MTN's shareholding would be at the Bharti telecom level and not at the Bharti Airtel level and as per Press Note 2 would not be counted as a foreign shareholding. However, this would dilute the shareholding of existing partners such as SingTel.

Given that Bharti has suggested a full merger, we believe it is fair to conclude that Bharti prefers to keep its FDI limits flexible. As far as SingTel is concerned, press reports have suggested that it will look to increase its stake by buying shares from MTN shareholders in the form of GDRs.

India

- Usage growth is under pressure, subscriber net additions are higher than estimated
- Government is reconsidering 3G spectrum auctions. Possibility of auction of 2G spectrum is positive – we await details
- Bharti's international expansion suggests incremental opportunities in Africa are better than in India despite higher execution/regulatory risk

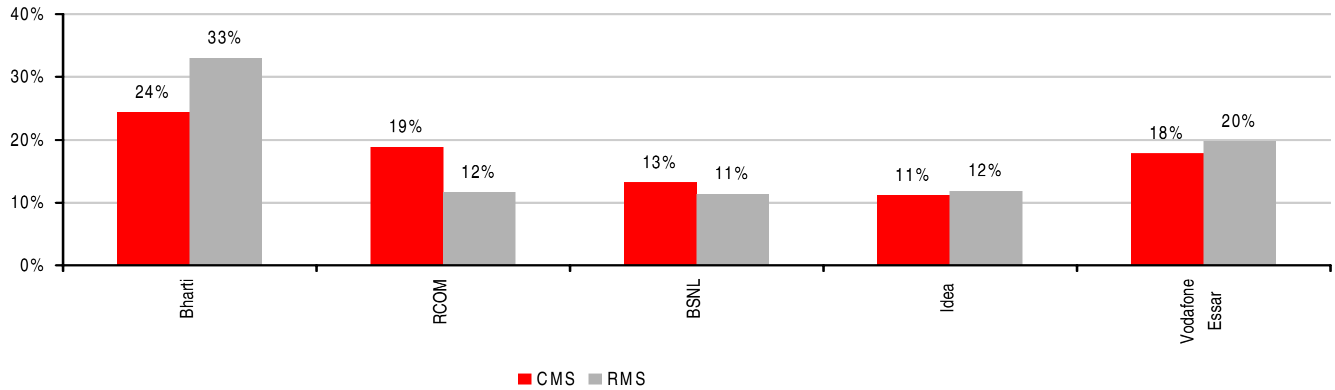
India update

We remain fundamentally positive on Bharti given its superior scale and balance sheet. We believe Bharti is the best positioned wireless operator in India, given its advantage of 900 MHz spectrum in 13 service areas. We view an early 3G spectrum auction and industry consolidation as key catalysts for the stock.

Bharti's monthly rate of net additions at 2.8m is ahead of our forecast of c2.5m subscribers for FY10e and points to the possibility of an earnings surprise. We believe our FY10e numbers remain conservative at 4% below consensus.

Bharti and Alcatel-Lucent have formed a JV to manage Bharti's pan-India broadband network and help Bharti to transition to next-generation networks. A new legal entity is being formed, to be operated by Alcatel-Lucent, and some of the present employees of the telemedia division may be transferred to the JV. While we believe the deal would be value accretive for Bharti, we await details and have not factored it into our valuations.

Revenue and subscriber market share – pan-India, by operator (March 2009)



Notes: CMS = Subscriber market share; RMS = Revenue market share
Source: TRAI, HSBC

What does the MTN move suggest?

Although we are fundamentally positive on Bharti, we remain cautious on Indian telecoms given the uncertain regulatory regime and rising competitive intensity. Bharti's move raises questions about growth in Indian telecoms. However, with mobile penetration (annual growth c35%) forecast at 51% by FY12e, we do not think growth in the sector is an immediate concern.

The fact that Bharti tried to obtain a controlling stake in MTN 12 months ago, despite registering 26% earnings growth in FY09, signals that its plan to expand overseas is primarily strategic and reflects no major concerns about domestic growth.

However, we admit that this is largely driven by the present regulatory regime, which prevents domestic consolidation but allows Indian telcos to invest globally. As owners of spectrum have been able to bring in strategic foreign partners, the natural process of consolidation is restricted by the regulatory environment. We are sceptical about the new entrant business model, but possibilities of near-term disruption cannot be ruled out.

While Bharti has designed its business model to take advantage of its good-quality spectrum in rural India, the longer-term potential in rural areas is questionable (it is a function of the government's longer-term structural reforms) and may not allow Bharti to deliver superior earnings growth. This may have caused Bharti to rethink its longer-term business model.

We believe the key is issue is reinvestment and pursuing MTN suggests that Bharti management believes marginal opportunities in Africa are better than in India despite higher execution and regulatory risk.

Bharti has been talking about exporting its low-cost business model as the key strategy behind its international expansion. As far as MTN is concerned, we believe that yes, there is scope for Bharti to replicate its model and await more colour from management on the same.

HSBC

Valuation

- We are not reflecting possible synergies in our estimates, but we roll over our multiples from FY10e to FY11e
- Given the likelihood of 3G auctions, we believe investors are better placed to focus on FY11e. Our FY11e numbers factor in the 3G case
- Retain OW(V). Raise TP to INR 977 on our shift to FY11e

Rolling over estimates to FY11e from FY10e

We believe FY11e is a better way to value the Indian telecoms. With the government reconsidering 3G auctions by the end of this year, we believe investors are better placed to focus on FY11e. Our FY11e numbers consider the possible impact of 3G auctions.

PE approach

For our PE methodology, we use a multiple of c15x our FY11 EPS estimate to arrive at a fair value of INR816 per share for the core business (earlier INR740).

Our multiple of c15x is the latest-six-month average of the one-year forward multiple. Our multiple implies a c13% discount to the current Sensex multiple, compared with the c25% premium at which it has traded over the past six months.

While we continue to hold that Bharti should command a premium to the Sensex on superior corporate governance and disclosure, a strong balance sheet, and exceptional execution, the potential transaction with MTN raises some near-term concerns.

The potential transaction with MTN introduces uncertainties regarding price, shareholding structure, and SingTel approvals. The possibility of sweetening the deal raises short-term concerns and may hurt near-term share price performance.

DCF Approach

We note that the consensus ignores the 3G business case despite valuing Indian telecom stocks on DCF. We believe it is necessary to factor in 3G in DCF, as it will mark another cycle of capex and have a bearing on funding requirements and free cash flow.

Calculation of fair value for the core business

Core business	Assumptions	Value (INR)
PE methodology	We assume a 12-month forward PE of 15xon FY11e	816
DCF methodology	WACC of 11%, terminal growth rate c1.25%, terminal component driving 45% of value	844
Fair value of core business	Providing equal weightage to both PE and DCF	830

Source: HSBC estimates

For this reason, we have included a 3G business case for Bharti from FY11e onwards. For our DCF, we assume a cost of equity of 11% (as provided by HSBC's strategy team), a cost of debt of c13%, and a target debt-to-equity ratio of 25%. Our assessment of weighted average cost of capital (WACC) is 11% and our terminal growth rate assumption is c1%. We are moving our first discounting period from FY10e toFY11e.

Our DCF analysis values Bharti's core business at INR844 per share (earlier INR748). For our DCF, we model the longer-term wireless margin at 26% (was 31.5%), FY15e MOU at 492, FY15e ARPU at INR245, and FY15e capex to sales at c10%.

Value of tower business

We value Bharti Infratel (including Indus Tower JV) at cINR147 using DCF (assuming a sliding WACC of 11%, terminal growth of 4%); implying FY11e EV/tower at cINR5m, which is a c30% discount to recent transaction multiples.

We have not factored in upside on tenancies from higher sharing in a post-3G scenario.

Target price and rating

Using our blended approach, we arrive at a fair value of INR977 per share. Under our research model, for stocks with a volatility indicator, the Neutral band is 10% percentage points above and below our hurdle rate for Indian stocks of 11%, or 1-21% around the current share price. Our new 12-month target price of INR977 and estimated dividend per share of INR6.05 per share represent a total upside potential of 22.4%, which is above the Neutral (V) band. We therefore retain our Overweight (V) rating on Bharti stock.

Risks

Downside risks include an early implementation of MNP, rollout of flat-rate plans, higher decline in usage and wireless margins on incremental rural penetration, and higher spectrum charges than we estimate. Easing of funding/credit availability may be negative for Bharti and for other telecom incumbents, as this will allow the new entrants to expand aggressively. Poor monsoons may impair the rural growth story. We retain our cautious view on the sector on increased competitive intensity concerns and declining usage patterns.

Risks that come with the MTN transaction

- Some investors may be unhappy with Bharti's international expansion and prefer single-geography operators. Our view is based on the fact that owning single-country operators allows them greater control over portfolio construction
- A large part of the upside in a post-deal scenario will be a function of synergies, particularly the successful transition of MTN to a low-cost, high-usage model and procurement synergies. We believe some guidance and clarity from the management will be critical for the minority shareholder point of view
- Venturing into MTN raises currency and regulatory risks for the investors
- Ability to deliver potential synergies will depend largely on political and execution factors

Target price calculation

(INR/share)	Assumptions	Value
Core business	Providing equal weight age to both PE and DCF	830
Tower business	DCF	147
Target price		977

Source: HSBC

Valuation and risks for MTN

We have a target price of ZAR148 per share for MTN. We value MTN on SOTP basis, using country-specific costs of capital ranging from 14.5% to 20.5%. Our target price indicates a potential total return of c26%. MTN has a strong balance sheet and, with c23% revenue growth and c19% EBITDA growth expected in FY09 (on a stand-alone basis, vs c2% and c1% respectively for CEEMEA telecoms average), it should remain one of the fastest-growing telcos in the CEEMEA region.

Risks

M&A activity is a significant risk to MTN's valuation, in our opinion. Other key potential risks include political and economic instability in MTN's areas of operation, particularly Iran, Syria and Sudan, and operational and regulatory risks across its operations such as Benin. A recession in global commodity prices could weaken demand from the economies where it operates, most of which are commodity-driven.

Entry of new operators in many markets of its operations, can potentially threaten its ARPU and margins in these markets, which can significantly affect its valuation. Fluctuations in ZAR and local currencies against USD and relative movements against each other could have a significant impact on the valuation

MTN – Sum-of-the-parts (SOTP) summary

Country/ operations	Total EV	MTN holding	Subsidiary (S)/ joint venture (J)	MTN proportionate share	Proportion of total EV	Method	Implied EV/sales 2009e	Implied EV/EBITDA 2009e
Nigeria	136948	76%	S	136948	46.1%	DCF	3.5	6.4
South Africa	52052	100%	S	52052	17.5%	DCF	1.5	4.6
Ghana	18272	98%	S	18272	6.2%	DCF	2.5	5.5
Cameroon	11720	70%	S	11720	3.9%	DCF	2.8	6.3
Cote d' ivoire	10442	65%	S	10442	3.5%	DCF	2.8	7.4
Uganda	9658	95%	S	9658	3.3%	DCF	2.6	5.9
Syria	9314	75%	S	9314	3.1%	DCF	1.2	5.0
Yemen	9295	83%	S	9295	3.1%	DCF	4.5	10.2
Iran	14968	49%	J	7334	2.5%	DCF	0.8	2.6
Afghanistan	7290	100%	S	7290	2.5%	DCF	3.4	11.1
Rwanda	5877	55%	S	5877	2.0%	DCF	4.3	7.8
Sudan	4471	85%	S	4471	1.5%	DCF	2.6	17.9
G. Conakry	2827	75%	S	2827	1.0%	DCF	3.1	7.5
Congo B	2613	100%	S	2613	0.9%	DCF	1.6	4.5
Benin	2592	75%	S	2592	0.9%	DCF	1.7	3.6
Cyprus	1532	50%	S	1532	0.5%	DCF	1.6	6.6
Botswana	2760	53%	J	1463	0.5%	DCF	2.4	4.2
Zambia	1209	100%	S	1209	0.4%	DCF	1.3	9.4
Liberia	809	60%	S	809	0.3%	DCF	1.3	3.4
G. Bissau	772	100%	S	772	0.3%	DCF	1.9	3.1
Swaziland	1351	30%	J	405	0.1%	DCF	1.8	3.3
Total group	**306773**			**296897**			**2.36**	**5.77**
Group net debt				15250				
Minorities				25957				
Non Core assets				5340				
Equity value				**261030**				
# of shares (m)				1868				
Fair value per share (on Dec 31, 2009) (ZAR)				140				
12-month target price per share (ZAR)				**148**				

Source: HSBC estimates, Company

HSBC

Bharti – HSBC vs IBES consensus

INRm	FY10e	FY11e
Sales		
HSBC	433,916	521,797
Mean	436,823	500,090
High	472,008	555,800
Low	414,714	458,097
Variance	-1%	4%
EBITDA		
HSBC	167,074	189,426
Mean	175,342	199,761
High	186,572	215,968
Low	159,450	184,370
Variance	-5%	-5%
Net Income		
HSBC	95,263	104,656
Mean	98,752	113,220
High	111,765	129,224
Low	87,540	101,214
Variance	-4%	-8%

Source: IBES, HSBC

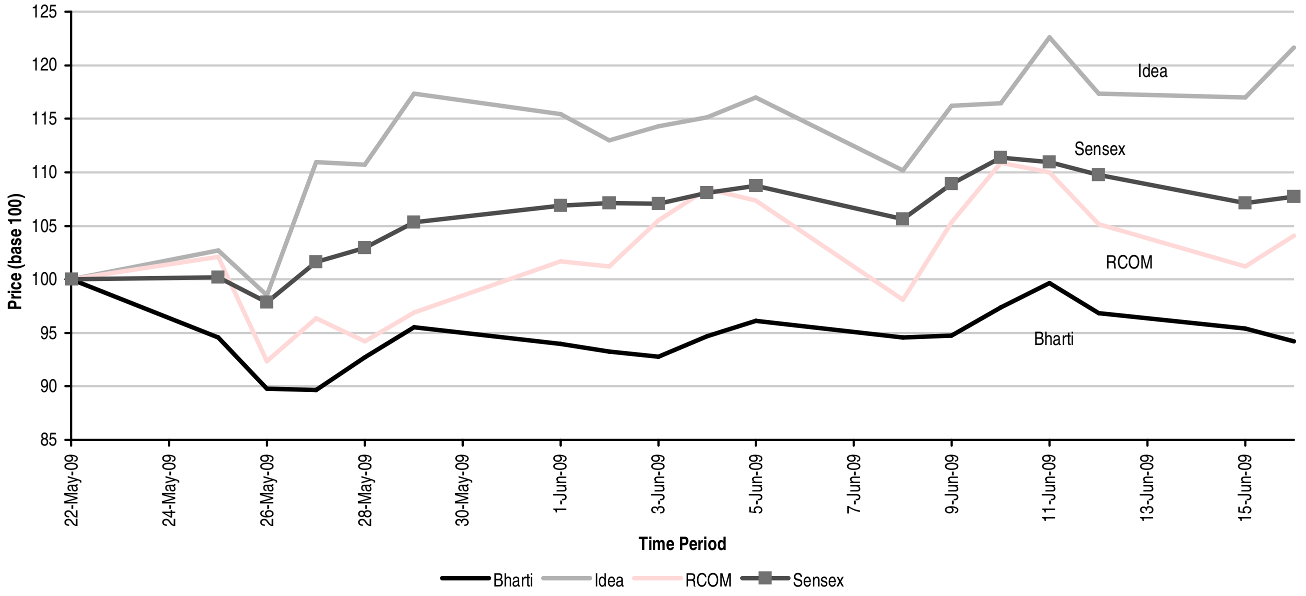
MTN – HSBC vs consensus

	FY09e			FY10e			FY11e		
	HSBC	Consensus	Diff	HSBC	Consensus	Diff	HSBC	Consensus	Diff
Revenue	125,863	121,887	3.3%	152,211	135,179	12.6%	171,036	148,228	15.4%
EBITDA	51,500	50,824	1.3%	63,661	56,531	12.6%	72,575	62,137	16.8%
Net profit	17,427	19,673	-11.4%	22,590	23,011	-1.8%	26,918	26,249	2.5%

Source: IBES, HSBC

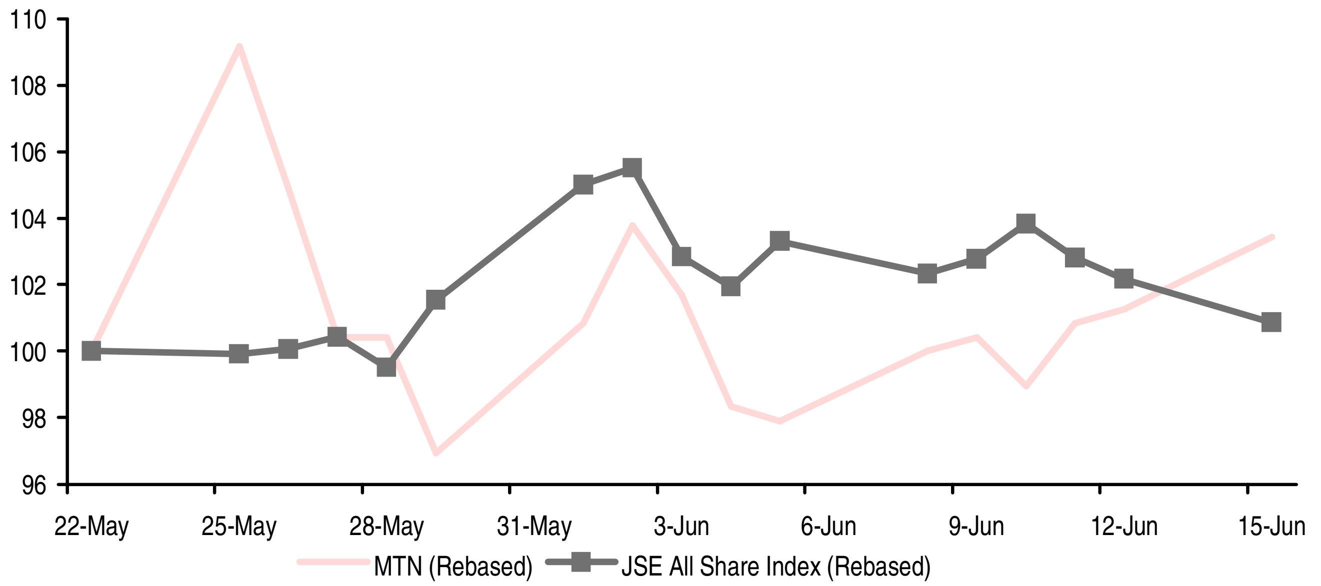
HSBC

Bharti – Relative performance, 22 May 2009 to date



Source: Company data, HSBC

MTN – Relative performance, 22 May 2009 to date



Source: Company data, HSBC

HSBC Global Research website

To maximise your access to HSBC Global Research please visit our website at www.research.hsbc.com where you can:

- View the latest research and access archived reports
- Visit the dedicated product pages, including Emerging Markets and Climate Change
- Filter estimates for more than 1,000 companies under equity coverage
- Set up personal filters to put your research interests at your fingertips
- Look up HSBC research analyst contact details

E-mail subscriptions

You can receive research directly via e-mail as soon as it is published. To set up subscriptions to research reports, contact your Relationship Manager.

If you are having problems or need assistance with the website service, please contact your HSBC Relationship Manager or e-mail: ecare@hsbcib.com.

http://www.research.hsbc.com

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Rajiv Sharma, Herve Drouet and Tucker Grinnan

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

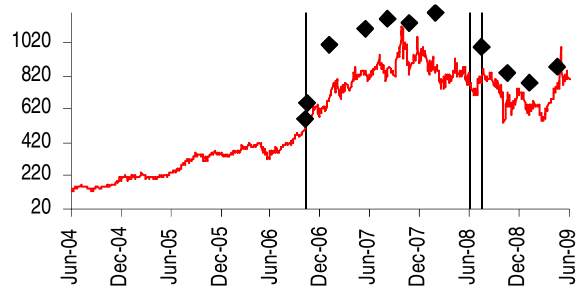
Rating distribution for long-term investment opportunities

As of 19 June 2009, the distribution of all ratings published is as follows:

Overweight (Buy)	34%	(33% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(31% of these provided with Investment Banking Services)
Underweight (Sell)	27%	(28% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Bharti Airtel (BRTI.BO) Share Price performance INR Vs HSBC rating history



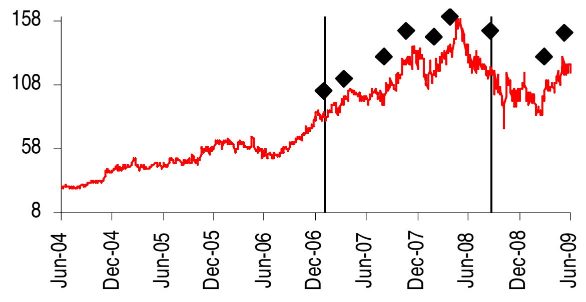
Source: HSBC

Recommendation & price target history

From	To	Date
Neutral	Overweight	23 October 2006
Overweight	Overweight	20 June 2008
Overweight	Overweight (V)	30 July 2008
Target Price	**Value**	**Date**
Price 1	560.00	23 October 2006
Price 2	660.00	02 November 2006
Price 3	1011.00	24 January 2007
Price 4	1110.00	04 June 2007
Price 5	1170.00	21 August 2007
Price 6	1140.00	07 November 2007
Price 7	1206.00	17 February 2008
Price 8	1003.00	30 July 2008
Price 9	1002.00	04 August 2008
Price 10	843.00	03 November 2008
Price 11	786.00	21 January 2009
Price 12	876.00	04 May 2009

Source: HSBC

MTN (MTNJ.J) Share Price performance ZAR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	17 January 2007
Overweight	Overweight (V)	02 September 2008
Target Price	**Value**	**Date**
Price 1	102.50	17 January 2007
Price 2	112.00	30 March 2007
Price 3	129.00	21 August 2007
Price 4	150.00	05 November 2007
Price 5	146.00	19 February 2008
Price 6	161.00	11 April 2008
Price 7	150.00	02 September 2008
Price 8	129.00	16 March 2009
Price 9	148.00	26 May 2009

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BHARTI AIRTEL	BRTI.NS	804.85	18-Jun-2009	6, 7
MTN GROUP	MTNJ.J	117.51	18-Jun-2009	2, 5, 6

Source: HSBC

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 31 May 2009 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 30 April 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 30 April 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
7 As of 30 April 2009, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 19 June 2009.

2 All market data included in this report are dated as at close 18 June 2009, unless otherwise indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 22 October 2008*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. – Banco Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
HSBC Securities and Capital Markets (India) Private Limited
Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited.

Global Telecoms, Media & Technology Research Team

Global

Stephen Howard
Analyst, Global Sector Head
+44 20 7991 6820 stephen.howard@hsbcib.com

Europe

Dominik Klarmann
Analyst
+49 211 910 3720 dominik.klarmann@hsbc.de

Nicolas Cote-Colisson
Analyst
+44 20 7991 6826 nicolas.cote-colisson@hsbcib.com

Luigi Minerva
Analyst
+44 20 7991 6928 luigi.minerva@hsbcib.com

Thorsten Zimmermann
Analyst
+49 211 910 2852 thorsten.zimmermann@ hsbctrinkaus.de

Manish Beria, CFA
Analyst
+91 80 3001 3796 manishberia@hsbc.co.in

Amit Sachdeva
Analyst
+91 80 3001 3795 amit1sachdeva@hsbc.co.in

Dhiraj Saraf, CFA
Analyst
+91 80 3001 3773 dhirajsaraf@hsbc.co.in

Sunil Rajgopal
Analyst
+91 80 3001 3794 sunilrajgopal@hsbc.co.in

Americas

Richard Dineen
Analyst
+1 212 525 6707 richard.dineen@us.hsbc.com

Gabriel E. Gonzalez
Media
+52 55 5721 2580 gabriel.e.gonzalez@hsbc.com.mx

Europe & North America Credit Research

Madeleine King, CFA
Analyst
+44 20 7991 6789 madeleine.king@hsbcib.com

Specialist Sales

Timothy Maunder-Taylor
+44 20 7991 5006 tim.maunder-taylor@hsbcib.com

Annabelle O'Connor
+44 20 7991 5040 annabelle.oconnor@hsbcib.com

Thomas Koenen
+49 211 910 4402 thomas.koenen@trinkaus.de

Myles McMahon
+852 2822 4676 mylesmacmahon@hsbc.com.hk

Asia

Steven C Pelayo
Analyst
+852 2822 4391 stevenpelayo@hsbc.com.hk

Tse-yong Yao
Analyst
+852 2822 4397 tse-yongyao@hsbc.com.hk

Nam Park
Analyst
+852 2996 6591 nampark@hsbc.com.hk

Carolyn Poon
Analyst
+852 2996 6586 carolynpoon@hsbc.com.hk

Tucker Grinnan
Analyst
+852 2822 4686 tuckergrinnan@hsbc.com.hk

Walden Shing
Analyst
+852 2996 6751 waldenshing@hsbc.com.hk

Neale Anderson
Analyst
+813 5203 3826 neale.anderson@hsbc.co.jp

Henry Lee
Associate
+813 5203 4412 henry.lee@hsbc.co.jp

Wanli Wang
Analyst
+8862 8725 6020 wanliwang@hsbc.com.tw

Christine Wang
Analyst
+8862 8725 6024 christineccwang@hsbc.com.tw

Leo Tsai
Associate
+8862 8725 6022 leocytsai@hsbc.com.tw

Percy Panthaki
Analyst
+91 22 2268 1240 percypanthaki@hsbc.co.in

Rajiv Sharma
Analyst
+91 22 2268 1239 rajivsharma@hsbc.co.in

Yogesh Aggarwal
Analyst
+91 22 2268 1246 yogeshaggarwal@hsbc.co.in

Suran Seong
Analyst
+822 3706 8753 suranseong@kr.hsbc.com

Global Emerging Markets (GEMs)

Hervé Drouet
Analyst
+44 20 7991 6827 herve.drouet@hsbcib.com

Emerging Europe, Middle East & Africa (EMEA)

Kunal Bajaj
Analyst
+971 4507 7200 kunalbajaj@hsbc.com

Vangelis Karanikas
Analyst
+30 210 696 5211 vangelis.karanikas@hsbc.com

Avshalom Shimei
Analyst
+972 3 710 1197 avshalomshimei@hsbc.com

Bülent Yurdagül
Analyst
+90 212 376 46 12 bulentyurdagul@hsbc.com.tr

Sergey Fedoseev
Analyst
+44 20 7991 6831 sergey.fedoseev@hsbcib.com