



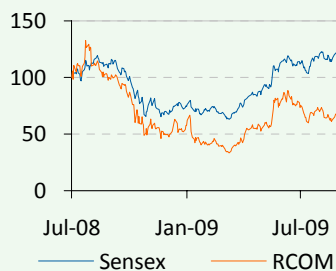
Reliance Communications

Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 2,064 mn
 Market cap : 570 bn
 52 week high/low : Rs 415/ Rs 131
 Avg. daily vol. (6mth) : 12.4 mn shares
 Bloomberg code : RCOM IB
 Reuters code : RLCM.BO

Shareholding (%) Jun-09 QoQ chg

Promoters	: 67.3	(0.1)
FIs	: 9.4	2.0
MFs / UTI	: 1.9	(0.4)
Banks / FIs	: 7.3	0.1
Others	: 14.2	(1.6)

Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2008	188,274	41,184	-	20.0	32	-	15.1	11.0	-
2009	229,411	59,153	-	28.7	44	9.6	17.1	8.3	8.7
2010E	264,829	55,218	23.1	26.8	(7)	10.3	13.7	9.1	6.9
2011E	300,210	56,856	25.2	27.5	3	10.0	12.5	10.1	6.2

Source: *Consensus broker estimates, Company, ENAM estimates. FY08 financials are exclusive of the extra-ordinary income realised through the 5% equity stake sale in RITL. Prices as of 2 Sep 2009

TOWER CO: A PROMISING ROADMAP

The key highlights of RCOM's analyst meet include: (1) external tenant signings (2) likely increase in tenancy ratio to 3.0x from 1.6x and (3) integrated offerings with the parent co that would provide Reliance Infratel (RITL) an edge v/s other tower cos. RITL, a 95% subsidiary of RCOM (89.71% proportionate ownership interest) has in the recent past announced three external tenants for the passive infrastructure, backhaul and other B2B services.

Following were the key takeaways from the meet:

- ❑ **Towers and tenancy:** RITL is targeting 56,000 towers by FY12E v/s 48,000 currently. These towers have the capacity to accommodate 4x tenants. Thus, RITL is targeting a higher market share at 25% by way of tenancy (v/s 18% on number of towers).
- ❑ **Revenue and Margins:** FY09 revenues were Rs 49 bn with 69% EBITDA margin. RITL is targeting steady revenue stream of Rs 100 bn and 55-60% EBITDA margin. Higher pass-throughs are a key reason for margin decline.
- ❑ **External tenants:** In future RITL's tenancy ratio would increase to 3x with these external tenant signings. Etisalat would improve the tenancy ratio to 2.2x, whereas others like Stel, Aircel, Tata Indicom, Vodafone, Loop etc would improve tenancy to 3x. The pace of external tenant signings is a positive. (Refer pg 2 for key deal signings)
- ❑ **Debt:** RITL has a debt of Rs 150 bn (Rs 70 bn from OFC segment transfer). Refer pg. 2 for comparative valuations of American tower companies

Valuation: For RCOM, the parent company of RITL, we have a target price of Rs 344 and a sector **Neutral** rating on the stock.

External deals:

- **Etisalat deal:** The deal involves sharing of 30,000 towers in 15 circles. It is an end-to-end deal and includes connectivity and transmission. The deal will generate revenue of ~Rs 100 bn over 10 years (includes only towers and connectivity). Additional revenues would trickle in through other services.
- **STel deal:** The deal involves sharing of 10,000 towers in 6 category C circles where wireless penetration is lower than the country average. The deal also includes backbone connectivity, transmission, carriage and roaming services. The minimum revenue commitment would be ~Rs 10- 11 bn over 10 years (for 2,500 sites).
- **Aircel deal:** The deal involves sharing of towers in 8 circles – Delhi, Mumbai, Maharashtra, Andhra Pradesh, Karnataka, Kerala, U.P. (E) and U.P. (W). The deal includes passive infrastructure sharing, voice carriage and bulk bandwidth. There is no minimum revenue commitment.

Comparative Valuation

(USD mn)	American Towers	Crown Castle	SBA
Year end			
Current Price (USD)	31	26	23
Market Cap (in USD)	12,226	7,606	2,733
Enterprise Value	16,341	13,859	4,946
P/BV (x)			
CY07 / FY08	4.1	2.3	7.5
CY08 / FY09	4.1	2.8	5.6
CY09E / FY10E	3.8	2.5	3.8
CY10E / FY11E	3.4	2.4	3.8
EV/Sales (x)			
CY07 / FY08	14.6	13.0	13.3
CY08 / FY09	9.9	7.4	9.3
CY09E / FY10E	9.6	8.4	9.0
CY10E / FY11E	8.9	7.8	8.2
EV/EBITDA (x)			
CY07 / FY08	23.2	25.5	26.2
CY08 / FY09	15.3	13.6	16.3
CY09E / FY10E	13.9	14.0	14.8
CY10E / FY11E	12.7	12.8	13.2
P/E (x)			
CY07 / FY08	221.3	NA	NA
CY08 / FY09	35.2	NA	NA
CY09E / FY10E	49.6	NA	NA
CY10E / FY11E	36.1	199.5	NA

Source: Bloomberg, Consensus estimates and Conversion rates as on 3-Sep-2009

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