

Vodafone Investor Event - Key highlights

Vodafone's India outlook - mixed bag

Vodafone's global management team & top mgt. from India held discussions with global investors in Mumbai. Based on our impressions, the good news for telecom investors in India is that there is still room for penetration-led growth & regulatory risks (spectrum re-farming & roaming abolition) seem unlikely to materialize over next 6-12 mths. The bad news is that competitive intensity of the market remains high (including among top 3); we think consensus optimism about continued voice-tariff hikes may be overly optimistic. Maintain Neutral on Idea (Rs97.95, C-2-9) and Bharti (Rs386.1, C-2-7).

India strategy - prima facie different from Bharti

In our view, key differences between Vodafone & Bharti include 1) higher reliance by Vodafone on in-sourcing of customer management & technology needs; 2) lower subscriber churn likely supported by deep distribution controls, and 3) prima facie reluctance by Vodafone to adopt TD-LTE for wireless-broadband delivery. Overall, we sense that Vodafone is highly focused on 1) high-value customers, 2) network performance, & 3) process-controls for competitive advantage.

Regulatory issues likely to linger-on

Vodafone sees the policy making process in India as elaborate, multi-level and hence complex. The company foresees litigation and execution challenges around policy proposals for spectrum re-farming and roaming abolition; it does not expect quick resolution of the policy overhang. Although the draft NTP 2011 proposals support M&A, lack of clarity on spectrum-related issues are likely to be a hindrance to industry consolidation in the near-term.

Data uptake to be led by 2G; m-Paisa pilot commenced

Vodafone expects the initial phase of data experience in India to be led by 2G (EDGE) with subsequent migration to 3G once customer experience matures. Vodafone expects the current steep pricing gap between 2G and 3G data to narrow over next few quarters. Meanwhile, as part of its non-voice strategy, Vodafone has launched mobile banking (m-paisa) services in Rajasthan.

Business model for TD-LTE appears challenging

Vodafone said there is no visible progress yet towards any major TD-LTE rollout by new or existing operators in India. The company believes that TD-LTE services may initially focus on the niche segment of dongles/data-cards.

Indus Towers - robust outlook

Indus Towers' (Vodafone's 42% joint-venture for tower-sharing) expects to grow its tenancy factor from ~1.9x currently to ~2.5x in 4 years and is consequently aiming for strong margin expansion. Legal process for merger of tower assets is expected to complete in 9-12 months.

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Table 1: 2Q FY12 KPI for India

2Q FY12 (July-Sep'11)	Vodafone	Bharti
Subscriber Base (mn)	145.0	172.8
Net adds share (%)	15.8%	16.4%
Mobile ARPU (Rs/month)	168	183
Monthly subscriber Churn (%)	63.2%	86.5%
Data as % of service revenue	8.4%	5.0%
Wireless EBITDA margin (%)	25.3%**	33.7%

* 1H FY12; Source: Company data, BofAMLE

Table 2: Wireless revenue market share trend

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Year to Mar	FY10	FY10	FY10	FY10	FY11	FY11	FY11	FY11	FY12	FY12
Bharti	33.9%	33.5%	32.3%	31.5%	32.5%	31.6%	31.2%	30.1%	30.8%	30.0%
Vodafone	20.8%	20.5%	20.8%	21.0%	21.4%	21.2%	21.2%	21.4%	21.7%	22.0%
Idea Cellular	12.2%	11.7%	12.7%	12.6%	13.0%	12.8%	13.3%	13.6%	13.9%	14.0%
Reliance Comm.	11.6%	12.1%	12.1%	11.5%	11.2%	11.2%	10.4%	9.8%	9.1%	9.0%
Tata DoCoMo	7.1%	7.5%	7.4%	8.6%	8.1%	8.3%	8.4%	8.6%	8.6%	8.4%
BSNL (inc MTNL)	10.2%	10.3%	9.6%	9.1%	7.9%	8.3%	8.0%	8.5%	7.5%	7.7%
Aircel (Maxis)	3.4%	3.6%	4.0%	4.4%	4.6%	4.8%	4.7%	4.6%	4.6%	4.7%
Uninor	0.0%	0.0%	0.0%	0.2%	0.2%	0.5%	1.0%	1.3%	1.6%	1.9%
Others	0.9%	0.9%	1.1%	1.1%	1.1%	1.3%	1.8%	2.1%	2.2%	2.2%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: TRAI, BofA Merrill Lynch Global Research estimates

Table 3: Comparison of GEM wireless majors

Co Name	BofAML Tickers	Market Cap US\$ mn	Sh Price (LC)	P/E (x)		EPS CAGR		EV/EBITDA (x)		EBITDA CAGR (10-12)	ROE (%) CY11	Dividend Yield (%) CY11	FCF Yield (%) CY11	Net debt/EBITDA (x) CY11E	Capex/Sales CY11E
				CY11E	CY12E	(10-12)	CY11E	CY12E							
Bharti	BHTIF	27278	374	23.9	19.3	4.9%	8.6	7.3	19.5%	12.0	0.85	4.8	2.5	21.4%	
Idea	IDEAF	6050	95.2	42.4	32.2	3.6%	8.9	7.3	25.3%	5.9	0.00	0.8	2.3	21.7%	
RCom	RLCMF	2892	73	17.3	18.4	-37.3%	6.4	6.4	-9.9%	2.5	0.69	7.3	4.1	9.8%	
China Mobile	CHLKF	191368	74	9.7	9.6	2.9%	3.8	3.7	3.5%	20.6	5.14	8.0	-1.2	25.3%	
China unicom	CHUFF	48625	16	67.2	24.4	86.5%	5.9	4.8	14.9%	2.2	0.77	2.8	1.0	34.7%	
China Telecom	CHJHF	47774	5	17.2	15.0	15.3%	4.5	3.8	9.2%	7.5	1.86	7.8	0.4	20.4%	
Singtel	SNGNF	37793	3	12.4	11.7	4.4%	7.6	7.3	2.8%	16.5	6.42	7.4	0.7	11.9%	
Axiata	XLMTF	13574	5	15.0	13.4	11.0%	6.8	6.4	5.3%	14.7	2.99	5.5	0.4	24.0%	
Maxis	MAXSF	12970	6	17.0	16.8	3.6%	10.2	10.1	3.4%	29.0	7.27	6.1	1.0	13.2%	
Digi.com	DIGBF	8605	4	23.3	22.9	0.7%	10.0	9.4	10.1%	123.0	4.63	6.4	-0.1	9.4%	
PLDT	ZHPLF	11798	2400	11.7	11.9	-4.7%	6.6	6.6	-1.6%	41.2	8.62	7.6	0.7	23.9%	
GLOBE	GTMEF	2861	943	11.6	10.2	16.4%	4.7	4.4	7.6%	22.4	6.57	8.6	1.2	32.7%	
AIS	XVDIF	13263	140	15.5	12.9	20.3%	7.4	7.0	8.1%	65.1	5.38	7.0	0.3	8.9%	
DTAC	TACPF	6077	80	15.8	15.5	9.4%	6.4	6.6	3.0%	17.1	10.74	8.7	-0.4	8.3%	
TRUE	TCPJF	1475	3	185.9	NM	-29.2%	5.7	6.1	-1.5%	1.2	0.00	-0.3	2.6	18.3%	
PT Telkom	TLKMF	16185	7350	12.4	11.5	4.5%	4.4	4.3	0.2%	25.6	4.43	10.2	0.2	21.0%	
Indosat	PTITF	3175	5350	32.2	18.9	54.1%	5.2	4.9	3.1%	5.0	1.86	3.9	2.2	27.8%	
XL Axiata	XAESF	4327	4650	11.9	9.9	17.5%	4.8	4.6	6.2%	25.8	3.37	7.1	0.8	33.4%	
INDIA Average				26.5	21.4	1.3%	8.5	7.2	18.1%	10.3	0.69	4.3	2.6	20.5%	
ASIA -(EMERGING)															
AVERAGE				20.0	13.8	14.3%	5.4	5.0	6.5%	19.9	4.17	6.9	0.0	22.8%	
Cellcom	XLECF	1655	63	6.4	6.1	-6.8%	4.3	4.2	-4.9%	338.5	15.76	17.5	1.4	10.2%	
ECMS Mobinil	EGYMF	1601	96	25.4	14.6	-28.8%	3.4	3.3	-0.4%	9.8	4.16	10.0	1.8	19.1%	
Mobily	XEHTE	9332	50	7.2	6.9	10.1%	5.8	5.4	12.8%	28.1	6.40	8.4	0.6	20.0%	
Zain	XOMBF	14143	1	12.3	11.3	-45.6%	10.3	9.8	2.5%	12.0	7.14	6.2	-0.1	9.6%	
MTN Group	MTNOF	31515	140	12.7	10.5	21.1%	6.0	5.4	15.5%	26.7	5.37	7.6	-0.3	17.8%	
MTS	MBT	16810	16	11.4	8.1	17.9%	4.3	4.0	6.0%	32.1	5.45	3.9	1.2	19.6%	
Orascom Telecom	XORSF	2603	3	6.5	4.2		3.0	2.9	6.3%	12.0	0.00	16.0	1.4	13.7%	
Partner	PTNRF	1434	35	6.4	6.2	-16.1%	4.1	4.0	-15.0%	126.5	12.59	17.4	2.4	11.4%	
Turkcell	TKCZF	10674	9	15.7	10.7	-7.7%	4.7	4.2	1.1%	10.7	3.24	3.6	-0.8	11.5%	
VimpelCom	VIP	18414	11	7.3	6.7	14.5%	4.9	4.1	44.8%	17.5	6.90	4.3	2.7	19.5%	
Vodacom	XVDFE	15876	89	12.6	11.2	13.7%	6.8	6.3	8.8%	64.6	6.75	7.5	0.4	11.4%	
Wataniya	XNMF	3455	2	8.6	9.1	19.3%	3.8	3.6	22.9%	20.4	3.50	12.6	0.3	16.4%	
America Movil	AMX	90086	23	13.1	11.0	11.3%	5.6	5.6	11.4%	27.5	1.39	8.0	1.2	15.2%	
GEM AVERAGE (Including Asia)				17.4	12.6	12.4%	5.5	5.2	8.6%	23.3	4.13	7.0	0.3	20.5%	

Source: BofA Merrill Lynch Global Research estimates

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Media & Telecom

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