

Etisalat to increase stake in PTCL?

According to an interview to an international newspaper over the weekend, Etsialat's chief has stated that the company 'wishes' to acquire another 26% stake in Pakistan's biggest telecom company, PTCL. The news flow further stated that he is satisfied with the direction of the talks over the property dispute, which has delayed the release of the pending US\$800mn payment to the government of Pakistan, against the 2005 acquisition.

To recall, Etisalat acquired a 26% strategic stake in PTCL in 2005 for US\$2.6bn with the terms of the transaction including increased voting rights (4 vs 1) with management control. Although it is still early to analyse, we believe an increased stake could be a possibility, as Etisalat already holds the first right of offer if the Government of Pakistan sells any of its 62% stake in the company. This would support our long term M&A theme for the sector. As far as the transaction price is concerned, it would be dependent on the GoP and is likely to be above the prevalent current market price. We expect further clarification from the concerned on the same, soon.

PTCL announced its 9MFY10 results last week, registering unconsolidated earnings of Rs7.9bn (EPS Rs1.54), up 9%YoY. The company also surprised investors with an earlier than expected announcement of a 17.5% cash dividend. We reiterate our "Buy" stance on the scrip, which trades at a 2010E EV/EBITDA and PE of 3.3x and 10.8x.

Mustafa Bilwani
mustufa.bilwani@js.com
92 (21) 111-574-111(Ext. 3100)