



AFRICAN Telecoms Note March 2009

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SUB SAHARA AFRICA (SSA) Telecoms remain attractive despite global economic down turn and increase in risk aversion from equities; arrival of submarine cables on the east and west coast will catalyse growth opportunities in broadband internet and data

African telecoms offer an attractive investment opportunity despite global economic downturn:

With continent wide penetration at 30.9%, opportunities for growth in voice revenues are plentiful.

However, ARPUs have come under pressure as a result of increased competition. This is increasingly so in markets such as Kenya, Malawi and Zambia where the product mix is significantly dominated by mobile voice telephony.

Capex to Sales ratio declines with time and this shows the sector's ability to generate free cash flow which mitigates refinancing risks

Establishment of submarine fiber optic cables present growth opportunities in internet and data:

Internet and data provision on the other hand, remains an untapped opportunity with internet subscriber penetration as low as 1.21% and broadband subscriber as low as 0.21%

Data costs in Africa are decreasing but remain significantly expensive relative to elsewhere. The arrival of SEACOM, EASSy, TEAMS and Glo-One is expected to drastically lower data cost, catalyzing a surge in demand for broadband internet usage.

Higher revenue contribution from internet and data will improve blended ARPUs for operators

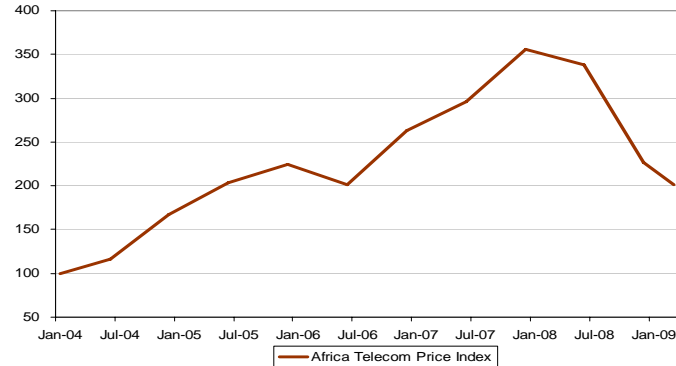
Superior profit margins from internet and data provision will improve EBITDA margins and increase profitability

Sample of Listed Telecoms Operators

Country	Company
MOROCCO	Maroc Telecom
ZAMBIA	CELTEL
KENYA	Safaricom
South Africa	MTN Group
EGYPT	Mobinil
BRVM	Sonatel
SUDAN	Sudatel
EGYPT	Telecom Egypt
South Africa	Telkom SA
MALAWI	TNM
EGYPT	Orascom Telecom

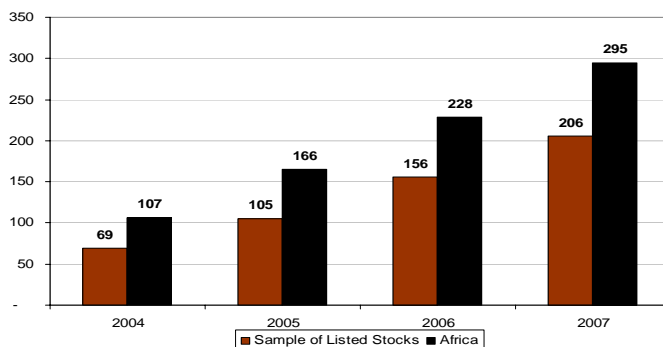
PERFORMANCE HIGHLIGHTS

Africa Telecom Price Index (USD)



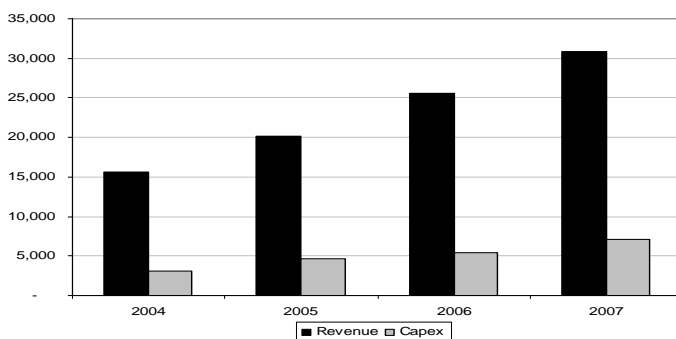
Our sample of listed stocks grew in aggregated market capitalization from USD 15.7 billion at the beginning of 2004, reached a high just over USD 90 billion in 2008 and declined to a present figure of USD 53.9 billion. This performance translated to a compounded average return (CAR) of 14.4% on our Telecom Africa Price Index to date.

Total Telephone Subscribers (millions)



Total market size grew from 107 million in 2004 to 295 million subscribers in 2007, representing 31 subscribers per 100 inhabitants on the continent. In 2007, our sample of listed African operators reported aggregate coverage of 206 million, 65% of the continent's total subscribers.

Aggregate Revenue & Capex of Sample (USD millions)



Aggregated revenue from our sample of now listed operators grew from USD 15.6 billion in 2004 to US\$ 30.8 billion in 2007. Capital expenditure increased from US\$ 3.1 billion to USD 7.1 billion, fluctuating within a capex / sales ratio range of 19.1% to 23% over the period.

Investment Thesis

- African telecoms sector presents a defensive investment opportunity as it offers resilient cash flows through capex reduction opportunities combined with a strong balance sheet with low refinancing risk.
- Despite fears of declining profitability from voice, growth in internet and data operations are expected to preserve overall profitability

Key Drivers

- Access to low acquisition costs of internet and data services
- Low mobile telephony penetration
- Low internet and data penetration
- Growing GDP per capita

Potential Catalysts

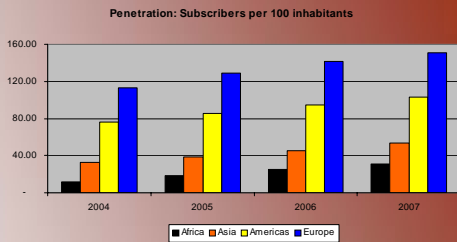
- Arrival of submarine fiber optic cables; SEACOM, TEAMS, EASSy, Glo-One
- Acceleration in GDP growth will increase the propensity to spend on voice and data
- Sustainable increase in urbanization will increase MOU and data usage
- Easing inflation
- Firming domestic currencies will widen EBITDA and EBIT margins

Investment Concerns

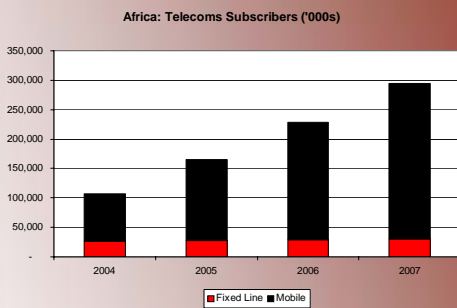
- Increased competition within domestic markets will erode ARPUs faster
- Increased competition from VoIP service providers will also erode ARPUs
- Delay in completion of submarine fiber optic cables will delay internet and data incomes
- Weakening domestic currency will inflate capex requirements
- Rising inflation may threaten mobile telephone related expenditure as a share of disposable income per capita

General Analysis

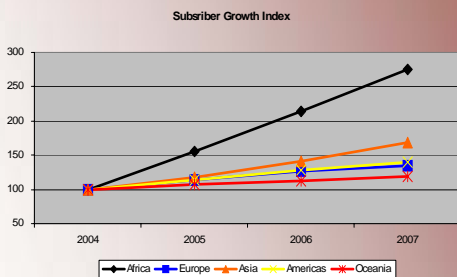
Market Growth Opportunities in Africa



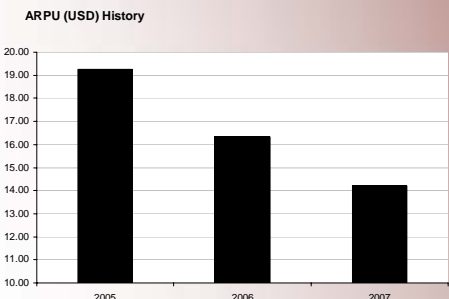
In 2007, Africa had continent wide penetration of 30.9%



Subscribers per 100 inhabitants grew from 12 in 2004 to 31 at a CAGR of 40.2% in 2007



Africa is the fastest growing mobile market in the world



ARPU declined at a CAGR of 14.1% in 2007 and we expect it to decline further

Voice revenue growth opportunities in Africa are still plenty

The emergence of China and India led to a surge in resources and commodity consumption which accelerated economic growth on the lesser developed continent, Africa.

In 2004, Africa had 106.8 million total telephony subscribers out of a continent of about 886 million, making it the least penetrated continent (with a penetration rate of 12.1%). The growth in industries, employment and incomes facilitated the growth in the telecommunications industry. Overall, total subscribers (mobile and fixed) achieved a CAGR of 40.2% to become the continent with the fastest growing telecommunications market in the world. Mobile telephony drove this growth, increasing at a CAGR of 48.6% whilst fixed voice telephony achieved a compounded average growth rate (CAGR) of 5.1%. As a share of total subscribers, mobile telephony rose from 75.3% in 2004 to 89.6% in 2007.

Penetration: Subscribers per 100 Inhabitants				
	2004	2005	2006	2007
Africa	12.1	18.3	24.8	30.9
Asia	33.1	38.6	45.6	53.2
Americas	76.0	85.8	94.6	103.0
Oceania	100.3	106.2	109.9	114.0
Europe	113.4	129.2	141.7	150.7

Source: International Telecommunications Union

Africa wide penetration in 2007 was 30.9% and growth opportunities are plentiful. To put it into perspective, Africa today is less penetrated than Asia was in 2004. Asia was able to accelerate growth in subscribers from 18.2% growth in 2005, to a CAGR of 18.9% in 2007. However, the catalyst for this acceleration was the boom in the economies of China and India. Africa faces a global recession and the IMF forecasts have downgraded Africa's GDP growth from 6% to 3.5%. Growth in African subscribers is expected to decelerate significantly from the achieved CAGR of 40.2% in 2007 but despite this, we expect it to outstrip growth on other continents.

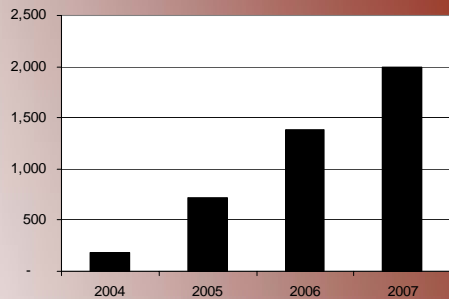
Subscribers Growth %				CAGR %
	2005	2006	2007	'04-'07
Africa	55.1	37.9	28.9	40.2
Asia	18.2	19.3	19.1	18.9
Americas	14.2	11.6	9.7	11.9
Oceania	7.2	4.7	5.9	5.9
Europe	14.0	11.3	6.6	10.6

Source: Securities Africa Ltd Research

Commoditisation of Voice Telephony: Declining ARPUs

The high growth prospects attracted investment (direct and indirect) from foreign and local operators to the extent that telecom operator stocks became one of the larger and more liquid investment opportunities in Africa. Market capitalisation of the operators discussed in this report swelled from US\$ 15 billion at the beginning of 2004, peaked at over US\$ 90 billion in June 2008 and then declined to US\$ 53 billion to date. As the number of operators and mobile telephony penetration increased, ARPUs declined as competition increased for the provision of mobile voice telephony. Given the current number of operators, outlook on income per capita, we expect ARPUs to decline further as telecom operators apply the common tool in order to win market share, which is reduction in tariffs.

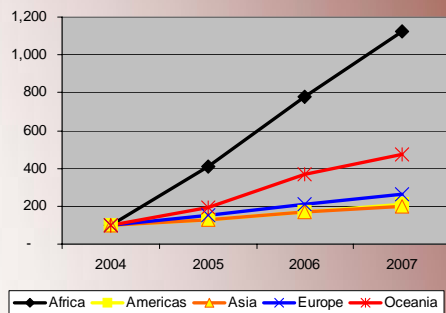
Africa: Broadband Subscribers ('000s)*



*256kb/s and above

Africa has the lowest broadband internet penetration

Broadband Growth Index



Africa hosts some of the fastest growing markets for broadband internet

Data and Internet to offer revenue growth opportunities

The penetration rate for internet has been even lower than for voice telephony with only 1.25% of the population using the internet whilst 0.21% of the population have broadband internet subscriptions (256kb/s and above). This extremely low level is due mainly to the high cost of satellite bandwidth, currently at about US\$ 3,000 per MB/s and almost five times that in the more developed markets.

Penetration: Broadband Subscribers per 100 Inhabitants

	2004	2005	2006	2007
Africa	0.07	0.08	0.15	0.21
Americas	0.02	7.13	9.08	11.20
Asia	5.56	2.17	2.76	3.33
Europe	1.69	8.34	11.32	14.24
Oceania	5.46	7.20	13.38	17.15

Sources: International Telecommunications Union

Despite the above mentioned limitation, demand for broadband internet in Africa remains high. As bandwidth costs declined from US\$ 7,300 in 2004 to current levels whilst GDP per capita grew at a CAGR of 11% from 2004 to 2007, one of the most expensive markets for broadband access grew subscribers at a CAGR of 124%, outstripping growth on other continents significantly.

+256kb/s Broadband Subscribers ('000s)

	2004	2005	2006	2007	CAGR% '04 - '07
Africa	177	724	1,384	1,993	124.1
Americas	48,930	63,510	81,854	101,688	27.6
Asia	64,385	83,635	107,442	127,768	25.7
Europe	43,212	66,072	90,970	114,849	38.5
Oceania	1,218	2,374	4,462	5,743	67.7

Sources: International Telecommunications Union

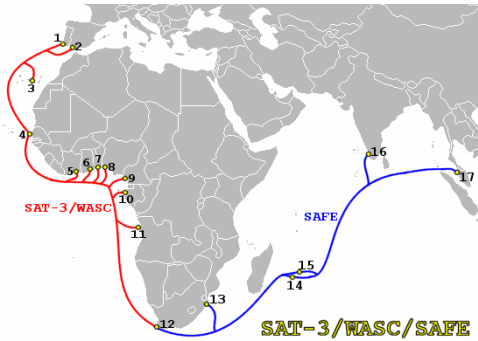
Opportunities in internet and data provision remain abundant for telecommunications operators. The rest of the world ranges around 4.5 to 3.1 users per broadband subscription whilst in Africa, that number is 26.4 users per broadband subscription meaning that excluding income per capita limitations and levels of economic activity, there is opportunity to increase broadband services in Africa by almost six fold.

Internet User per Broadband Subscriber

	2004	2005	2006	2007
Africa	120.5	45.9	33.0	26.4
Americas	6.0	5.0	4.4	3.9
Asia	5.1	4.5	4.3	4.5
Europe	6.4	4.6	3.6	3.1
Oceania	12.6	6.7	3.8	3.1

Sources: International Telecommunications Union, Securities Africa Ltd Research

Satellite bandwidth supply is expected to increase to 2012 and after. There will be at least 13 new satellites giving coverage over Africa by the end of 2010. However, much of this is replacement capacity as many of the current satellites were launched in the 1990s and are fast approaching the end of their life. 24 countries still get all of their international bandwidth entirely from satellite but with the arrival of significantly cheaper bandwidth from the new fiber cables on the east and west coasts of Africa in mid 2009, this number will decrease to 13. Total Internet bandwidth supplied by satellite has dropped from 24.1% in 1998 to 7.7% in 2008, down from 11.5% in 2006.



Source: ITU

Current international fiber optic links to Sub Saharan Africa

EASSy, TEAMS and SEACOM will dramatically increase bandwidth supply on the Eastern and Southern Coasts

Glo-One will increase high bandwidth supply to the West Coast

The Arrival of international Fiber optic cables in Africa

Africa today only has three fiber-optic links, SAT-3/WASC, SEA-ME-WE and SAFE that connect to Europe, the Middle East and Asia respectively. Sub Sahara Africa only has connections to Europe and Asia via SAT-3/SAFE. More connections to Europe and the Middle East will be achieved through multiple fiber-optic submarine cables coming online in 2009 and 2010 (Glo-One, SEACOM, TEAMS and EASSy).

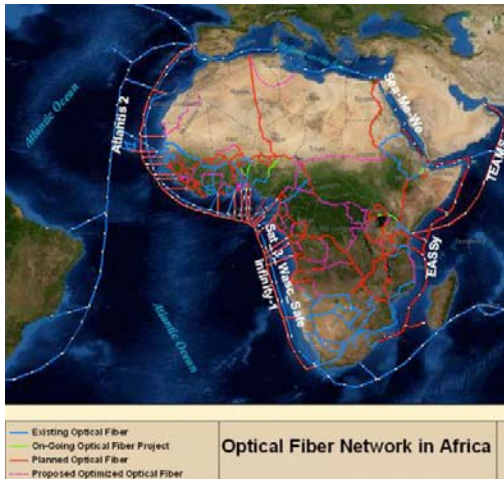
SAT-3/WASC/SAFE: the Southern Atlantic 3/West Africa Submarine Cable links (Sesimbra) Portugal and (Chiponia) Spain to **Melkbosstrand in South Africa** with connections to several West African countries along the route. Landing points in Africa are: **Dakar in Senegal; Abidjan in Cote d'Ivoire; Accra in Ghana; Cotonou in Benin; Lagos in Nigeria; Doula in Cameroon and Cacuaco in Angola.** SAT-3/WASC forms part of SAT-3/WASC/SAFE cable system whereby the SAFE (South Africa Far East) cable connects South Africa to Asia. SAT-3 currently provides the only fiber optic link between West Africa and the rest of the world. SAT-3 has a capacity of 120 Gbit/s and SAFE has a capacity of 130 Gbit/s. Because of the monopoly that stakeholders had on SAT-3, prices for bandwidth in African countries were high, ranging from US\$ 4,500 – US\$ 12,000 per Mbit/s per month (over 50 times U.S prices). However, the monopolies expired in June 2007 and license agreements were renegotiated. The entry of Neotel into the market resulted in Telkom dropping its rates by a further 25%. Overall, Telkom dropped rates by 60% over a period of 3 years. Neotel has already partnered with SEACOM to land a new east coast cable system in South Africa and this is expected to lower bandwidth rates further.

EASSy: the East African Submarine System is planned to run from **Mtunzini in South Africa to Port Sudan in Sudan** with landing points in six countries, and connected to at least five landlocked countries that will no longer have to rely on expensive satellite systems to carry voice and data services. These are **Maputo (Mozambique), Dar es Salaam (Tanzania), Mombasa (Kenya), Mogadishu (Somalia) and Djibouti (Republic of Djibouti).** The project was initiated in January 2003 and was funded by the World Bank and the Development Bank of South Africa (DBSA). Telkom SA is a major stakeholder but may withdraw from the project as it may be forced to charge reduced fees if it charges its competitors that use its bandwidth on SAT-3. Other stakeholders are Sudatel, MTN Group, Neotel, Telkom Kenya, Djibouti Telecom, Tanzania Telecommunications Company, Telma (Madagascar) and Telecommunication de Mozambique. EASSy is schedule for completion next year.

TEAMS: The East Africa Marine System is a project led by the Government of Kenya and is in partnership with the Emirates Telecommunications Establishment (Etisalat). TEAMS is a 4,500 km long cable with design capacity of 40 Gbit/s and is upgradeable to 640 Gbit/s. This cable will link Kenya to the rest of the world via landing points in **Mombasa, Kenya and Fujairah, UAE.** TEAMS was initiated in November 2006 as an alternative to EASSy. The Kenyan government had been frustrated by the ownership structure of EASSy which favoured South Africa and with the time it was taking to roll out the cable.

SEACOM: the Southeast Asia Telecommunication cable is a 1.28Tbit/s optic fiber which will link South Africa, Madagascar, Mozambique, Tanzania, Kenya, India and Europe is currently under construction and is expected to be completed in June 2009. Cable landing points are **Marseille (France), Sidi Kerir and Ras Sidr in Egypt, Djibouti (Republic of Djibouti), Mombasa (Kenya), Dar es Salaam (Tanzania), Maputo (Mozambique), Mtunzini (South Africa), Toliary (Madagascar) and Mumbai (India).**

Glo-One: is a Globacom project which is set to go online in March 2009. Glo-One is a 8,300 km long submarine cable with a capacity of 640 Gbit/s that will link Lagos to Bude in the UK. The cable will also have landing points in **Bonny (Nigeria), Portugal, Ghana and Senegal.**



Future layout of Africa's international fiber optic links

By 2010, fiber optic cables will increase international links to Africa's western, southern and eastern coasts. These cables will increase the proliferation of internet and data by further increasing coverage at significantly lower costs. This is expected to benefit telecom operators greatly by increasing usage and by lowering the input costs of data. Ultimately, operators will be able to increase quantity and quality at lower costs. Fiber optic will reduce outward payments to foreign telecommunications (satellite) facility providers by as much as 90%. If operators pass on these savings to their customers, then the individual user market will grow rapidly.

International bandwidth from Sub-Saharan Africa has increased from 11.3 Gbit/s in 2006 to 17.5 Gbit/s in 2007 to 26.1 Gbit/s. Overall international African bandwidth (including North Africa) was 96.3 Gbit/s in 2008. The use of international fiber increased as an increasing number of regional inter-connections came online. The biggest driver of bandwidth growth is broadband connectivity. Although voice demand is growing as prices fall, most of the new demand has been compressed, therefore using more or less the same capacity.

According to ITU, Kenya, Djibouti and South Africa will each have three intercontinental fiber optic links. Egypt, Mozambique, Senegal, Tanzania and Nigeria will have two links.

Country	No. of Fiber optic Landings	SAT-3 /						
		WASC	EASSy	TEAMS	SEACOM	SEAMEWE	Glo-1	
Angola	1	1						
Benin	1	1						
Cameroon	1	1						
Cote d'Ivoire	1	1						
Djibouti	3		1		1	1		
Egypt	2				1	1		
Ghana	1						1	
Kenya	3		1	1	1			
Madagascar	1				1			
Morocco	1					1		
Mozambique	2		1		1			
Nigeria	2	1					1	
Senegal	2	1					1	
Somalia	1		1					
South Africa	3	1	1		1			
Sudan	1		1					
Tanzania	2		1		1			

Source: ITU, Securities Africa Ltd Research

These countries are most likely going to experience a surge in demand for internet and broadband as a result of decrease prices in bandwidth costs.

Kenya is the host of three landing points and this will allow it connect to the rest of the world at significantly cheaper rates compared to that of satellite connectivity. SEACOM and TEAMS are expected in June while EASSy is scheduled for completion next year. Internet business and access in the country has predominantly been a corporate preserve with 80 per cent of the three million users being in Nairobi. The entry of the cables is expected to increase the number of Internet users to over 10 million in the next five years, setting a CAGR of 27.2% in potential subscribers. The fiber cables are expected to stimulate a number of social and commercial activities in the country mainly due to the expected drop of the current cost of connecting to the Internet by over 90% of current costs. One megabyte in Kenya now costs Sh519,168 (USD 6,500) per month but with the submarine fiber optic connectivity, this is expected to fall to Sh33,000 (US\$ 500) per Mb/s per month. Other than the reduced costs to the operators, the cables will link villages and remote centers to other cities in the world through fiber arteries such as the National Optic Fiber Backbone (NOFB) and the metro fiber projects that have already been laid by players like Kenya Data Networks and Telkom Kenya.

Switching from VSAT to fiber optic can reduce data input costs by as much as 90%.

Lower fiber optic internet costs are expected to grow internet subscribers at a CAGR of 27% per year

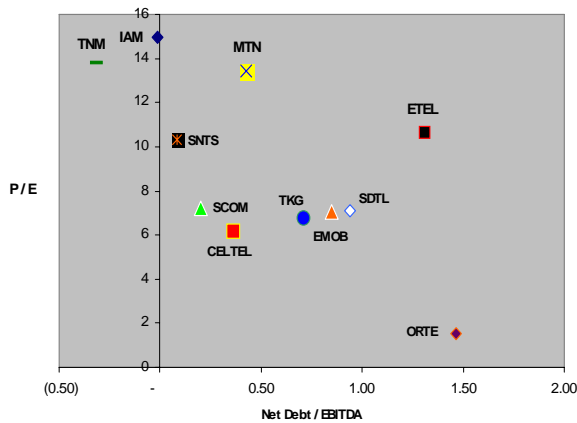
Company Analysis

The table below shows the current pricing of most of Africa's listed telecoms which began operations as pure voice plays. The listed operators in this report cover over 206 million subscribers (65% of Africa's total subscribers), representing coverage of about 20% of the continent's population. We look at the pricing of 11 out of Africa's 14 listed telecoms operators and these are MTN Group (MTN), Maroc Telecom (IAM), Telkom SA (TKG), Telecom Egypt (ETEL), Orascom Telecom (ORTE), Sonatel (SNTS), Mobinil (EMOB), Safaricom (SCOM), Zain Zambia (CELTEL), Telekom Network Malawi (TNM) and Sudatel (SDTL). We focus further on prominent cases in Sub-Saharan Africa that we believe have great potential to benefit from our outlined drivers and catalyst i.e. low subscriber penetration and the arrival of fiber optic cable.

African Telecoms		05/03/2009								
Short Name	Country	USD Mkt Cap	Price	P / E	P / Book	EV / EBITDA	EV / Subscriber	Net Debt / EBITDA	Div Yield	
EMOB	EGYPT	2,458,131,122	139.29	7.1	6.2	3.8	160	0.85	7.7%	
ETEL	EGYPT	4,431,487,380	14.71	10.7	1.1	11.2	451	1.31	4.8%	
ORTE	EGYPT	3,068,112,160	19.33	1.5	1.0	2.9	98	1.46	6.3%	
IAM	MOROCCO	16,161,307,885	162.00	15.0	7.6	8.0	882	(0.01)	6.7%	
SDTL	SUDAN	1,564,351,950	4.05	7.1	1.0	5.0	490	0.94	0.0%	
CELTEL	ZAMBIA	285,928,427	314.00	6.2	2.2	3.1	153	0.36	0.0%	
MTN	South Africa	14,927,410,329	91.50	13.4	2.4	5.2	238	0.42	1.5%	
TKG	South Africa	5,557,797,684	106.00	6.8	1.7	3.5	312	0.71	1.9%	
SCOM	KENYA	1,255,693,709	2.55	7.2	2.2	3.6	134	0.20	2.0%	
SNTS	BRVM	2,309,801,130	122,000	10.3	3.2	4.5	455	0.08	8.1%	
TNM	MALAWI	139,767,112	2.00	13.8	6.4	7.3	401	(0.32)	0.0%	
Average				9.0	3.2	5.3	343	0.55	3.5%	
Mkt Cap. Weighted Average				11.4	3.9	6.1	466	0.47	4.2%	

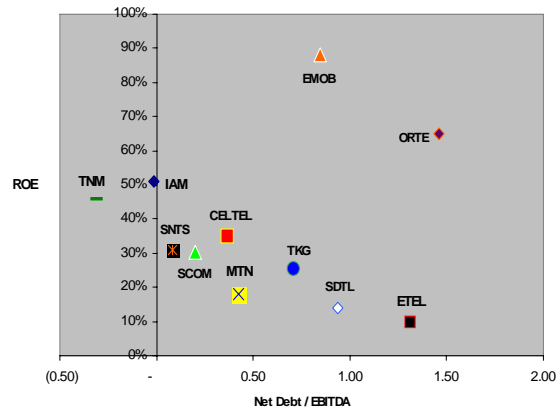
Source: Securities Africa Ltd Research

In comparing the pricing of the 11 operators, we focus our discussion around investors' present concerns which regard pricing in the face of earnings and refinancing risks.



From an earnings risk perspective, ORTE has the lowest PE at 1.5x and IAM has the highest at 15.0x. The comparative has a market cap weighted average of 11.4x with operators CELTEL (6.2x), EMOB (7.1x), SDTL (7.1x), TKG (7.0x), SCOM (7.2 x), ETEL (10.7x) and SNTS (10.3x) pricing below the average. ORTE's underperformance depicts the high risks that relate to its poor earnings prospects in Algeria and Pakistan and to the nature and level of debt on its balance sheet.

From a refinancing risk point of view, the table above shows that the Egyptian based operators are the riskiest with ORTE being the worst with a Net Debt / EBITDA ratio of 1.46x. TNM has the lowest risk at -0.32x (Net Cash / EBITDA of 0.32x). The comparatives average at 0.47x with IAM (-0.01x), SNTS (0.08x), SCOM (0.20x), CELTEL (0.36x) and MTN (0.42x) falling on the lower end.



SSA stocks SNTS, CELTEL and SCOM rate well on both criteria.

OVERALL RANKING BASED ON PRICING AND FUNDAMENTALS

Short Rank	Name	P / E	P / Book	EV / EBITDA	EV / Subscriber	Net Debt / EBITDA	Tele density	GDP / Capita	GDP Growth
1	CELTEL	2	5	2	3	5	3	8	1
2	SDTL	5	1	7	10	9	2	7	2
3	MTN	9	7	8	5	6	6	2	6
4	TNM	10	10	9	7	1	1	11	11
5	ORTE	1	2	1	1	11	7	4	5
6	SCOM	6	6	4	2	4	5	10	8
6	SNTS	7	8	6	9	3	4	9	9
8	EMOB	4	9	5	4	8	8	5	3
9	TKG	3	4	3	6	7	11	1	7
10	IAM	11	11	10	11	2	10	3	10
11	ETEL	8	3	11	8	10	8	5	3

The table above ranks each stock according to the respective multiples. Four ratios address the pricing criteria whilst the remaining four address fundamental prospects. In this report, we take a closer look at Zain Zambia (**CELTEL**), Safaricom (**SCOM**) and Sonatel (**SNTS**). In reviewing the telecoms market in Africa, we choose companies that best demonstrate the current events and developments:

Limited growth opportunities but still an attractive investment

We consider **Zain Zambia** (CELTEL) because our table of criteria rates it as a top pick displaying a low level of refinancing and earnings risk. However, whilst we are aware that CELTEL will not benefit directly from the arrival of SEACOM, EASSy, TEAMS and Glo-One because of its geographic position, in a landlocked country and within highly regulated market, we believe that CELTEL at the current price of ZMK 314 per share still offers value to investors. We investigate to what extent that value can be unlocked.

Commoditisation of voice telephony but opportunities remain in internet and data services

We consider **Safaricom** because it has majority market share in an economy where mobile voice telephony is fast becoming a commodity but where the impact of the arrival of SEACOM, TEAMS and EASSy will be most notable. Safaricom's market share peaked at 84% in Q12008 but Zain expanded its network coverage and initiated a price war. Zain reduced tariffs by 60% and launched a flat rate of KES 8.00 per min (USD 0.10) for both inter and intra-network calls. This appealed to the core market of Kenya's mobile telephony customer base, 99% prepaid subscribers of which the majority use low denomination recharge cards. Zain Kenya was able to increase its subscriber base by some 30% to 2.8 million. Orange Kenya entered the market in September 2008 with intra-network tariffs as low as KES 6.00 per min. It then proceeded to launch a 3 month promotion in which it offered tariffs of KES 1.00 per min to attract new subscribers. Orange managed to capture 500,000 subscribers within a couple of weeks and Safaricom's market share declined 300bps to 81%. Another mobile operator, Econet owned by India's Essar, launched recently and we expect this to add further pressure on voice revenues. Overall, decline in mobile voice ARPU in Kenya is more aggressive than in most African states and we expect Safaricom's voice revenue growth to decelerate significantly. We in turn, would like to investigate the impact that the arrival of SEACOM, EASSy and TEAMS cables will have on Safaricom's pricing.

We consider **Sonatel** for reasons similar to that of Safaricom's. However, unlike Safaricom, Sonatel is not locked in an aggressive war for market share and so we expect reasonable growth in voice revenues. We also expect Sonatel to maximise on its dominant position in Francophone Africa by aggressively pursuing various opportunities that range from television, Internet and corporate communications to its customers in its home and foreign markets.

Financial Forecasts

CELTEL	2008	2009e	2010e	2011e
Subscribers	2,669,000	3,057,977	3,466,033	3,841,685
ARPU (USD)	11.47	7.79	7.21	6.70
ZMK millions				
Revenue	1,217,170	1,445,474	1,523,673	1,587,482
EBITDA	605,900	600,172	658,227	691,140
NPAT	263,732	251,764	279,517	287,767
Capex (USD mn)	112	78	72	68
Net Debt (Cash)	220,731	341,820	305,960	220,336
PE	6.19	6.49	5.84	5.68
P / Book	2.17	1.63	1.27	1.04
EV / EBITDA	3.06	3.29	2.95	2.68
Net Debt / EBITDA	0.36	0.57	0.46	0.32

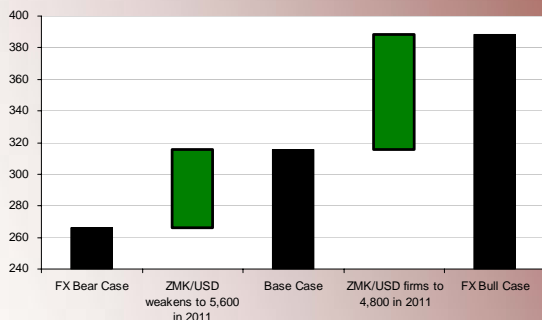
Source: Securities Africa Ltd Research

FX impact on 2009 earnings forecast

ZMK/USD	EPS 2009e (ZMK)
4,800	56.07
5,000	53.05
5,400	47.02
5,600	44.01
5,800	40.99

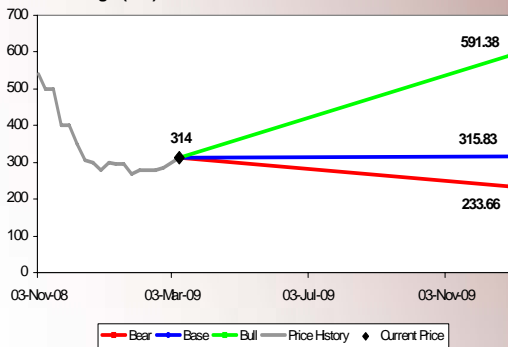
Zain Zambia is sensitive to FX swings – 4% increase in our ZMK/USD outlook results in a 6.4% decline in EPS

FX Effect on DCF Pricing



A bullish outlook of ZMK/USD of 4,800 in 2011 adds 23% to ZMK 388 whilst a bearish outlook limited to ZMK 5,600/USD in 2011 prices it 15.7% lower at ZMK 266

Price Target (ZMK)


CELTEL – Zain Zambia

CELTEL emerges as the best ranked stock in terms of relative pricing. However, its low pricing is due to the quality of its growth prospects. Out of the telecoms presented in the comparative, CELTEL has the third least penetrated core market which until recently, enjoyed one of the fastest growing GDP per capita. CELTEL held market share of 78% within this market but growing competition from MTN Zambia saw this share drop to 73%.

Despite the loss of market share, CELTEL managed to grow FY2008 revenues by 32% to ZMK 1,217 billion. This was achieved by a 35.8% growth in subscribers to 2,669,000 subscribers and a 14% decrease in ARPU to ZMK 43,768 per month, demonstrating a rather high elasticity of 2.5x, which makes market players susceptible to first mover tariff cuts from a competitor. The decline in ARPU was largely driven by low cost handsets sales targeted at the lower income market that brought on 420,000 new subscribers. With about 40% of operational costs exposed to ZMK/USD movement, the weakening Kwacha stifled EBITDA growth at 24.1% to ZMK 605 billion. The impact on foreign borrowings saw the company lose ZMK 13.052 billion as opposed to a gain of ZMK 7.91 billion in the previous year and rising interest rates grew net interest expenses by 25% to ZMK 48.83 billion. CELTEL's vulnerability to Zambia's woes resulted in a PBT growth of 13% to ZMK 386 billion and a 650 base point decrease in the effective tax rate to 31.75 improved NPAT by 24.6% to ZMK 263.73 billion.

Sources of limitations

With mobile penetration currently at 25% and aggressive competition coming from MTN alone, we believe that CELTEL still has room to grow its revenues. However, its reliance on mobile voice and minimal mobile data contribution means that CELTEL lacks growth opportunities.

CELTEL is the only holder of a 3G license and are currently the only provider of Blackberry services in the market.

Zamtel currently has monopoly on the international gateway which currently demands an annual fee of USD 19 million. Whilst this deters new entrants into the industry, it limits CELTEL's ability to lower costs and artificially prevents it from pursuing lower income segments.

Outlook

Our current concern is focused on the weakening Kwacha which increases CELTEL's funding requirements especially regarding capital expenditure and operational expense. In the FX base case scenario, CELTEL prices at ZMK 316 per share. In the FX bull case scenario where the Kwacha gradually firms against the USD to ZMK 4,800/USD in 2011, CELTEL gains in value to ZMK 388 per share. However, in all scenarios we assumed that CELTEL repays the USD loan over the duration and instead, takes on local debt. We expect CELTEL's revenue to achieve a CAGR of 9% to 2011. ARPU declines at a CAGR of 8% and subscribers increases at a CAGR of 13% over the same period as the company attempts sales of 500,000 low cost handsets per year. NPAT achieves a CAGR of 3%.

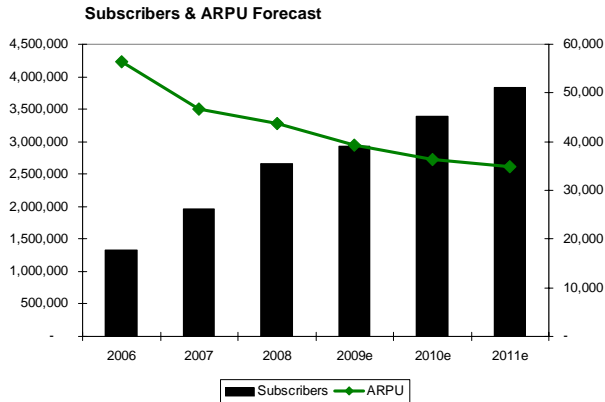
Base Case (ZMK 316): we estimate that CELTEL will grow its subscriber base to 3.8 million as penetration reaches 46% in 2011 and CELTEL retains market share of 70% to 2011. The exchange rate is set at ZMK 5,400/USD.

Bear Case (ZMK 234): ZMK weakens to ZMK 5,600 in 2011; competition tightens up from MTN Zambia and Cell-Z and CELTEL loses market share which declines at 2% from 2009 forecast of 70%.

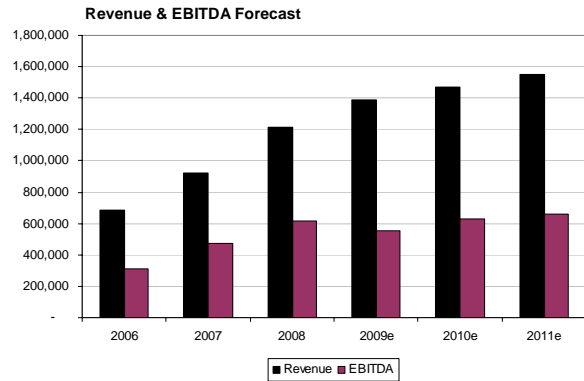
Bull Case (ZMK 591): the Kwacha firms to ZMK 4,800 to 2011 on the back of improving global fundamentals, ARPU declines at a slower rate as incomes improve



CELTEL BASE CASE FORECASTS



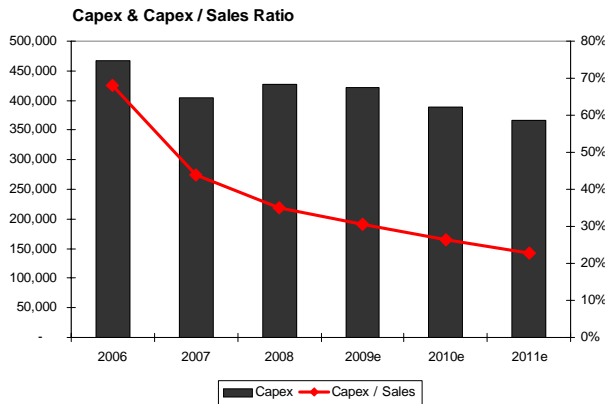
Source: SAL Research



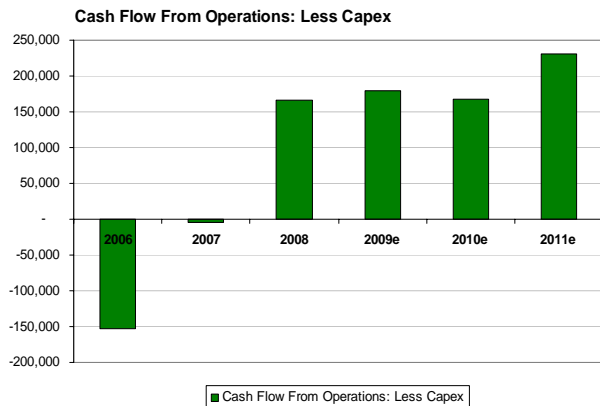
Source: SAL Research

We expect Zain Zambia subscribers to grow at a CAGR of 13% to 2011. Increase in mobile penetration to 51% by 2011 and competition from MTN Zambia and Zamtel will restrict Zain Zambia's subscriber growth to achieving a CAGR of 13% to 3.8 million subscribers in 2011. ARPU will decline at a CAGR of 8% over the period.

EBITDA is expected to grow to ZMK 711 billion by 2011. We expect to see EBITDA margins decline considerably from 50.9% in 2008 to 40% in 2009, driven largely by the impact of the weakening Kwacha on operational expenses. However, we expect margins to improve onwards to 44% in 2011.



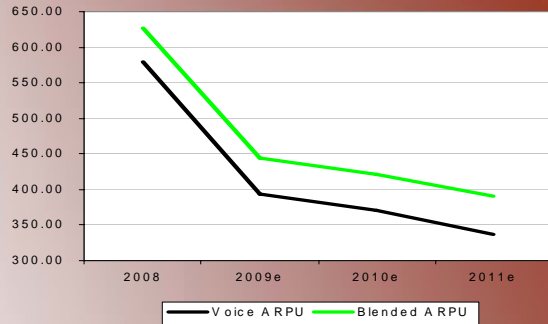
Source: Securities Africa Ltd Research



Source: Securities Africa Ltd Research

Capex as a share of revenue is to remain around 30%. Owing to our outlook on the Kwacha, capex is expected to decline by 1% to ZMK 422 billion (USD 78 million) which represents a 30% reduction in USD terms.

Free Cash flow generation expected to be suppressed in the near term. As illustrated in the chart above, Zain Zambia was improving its free cash flow dramatically to 2008 as revenue growth outpaced capex growth. However, with revenue growth decelerating against near flat capex, we see the growth in free cash flow easing off in the near term.

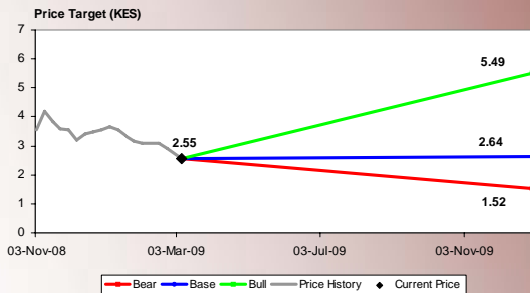
SCOM ARPU (KES) Outlook


Source: Securities Africa Ltd Research

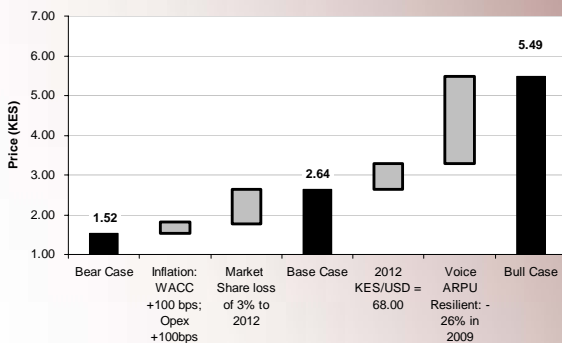
Financial forecasts

SCOM	2008	2009e	2010e	2011e
Subscribers	10,231,000	12,881,740	13,994,156	16,139,971
ARPU (USD)	9.26	5.72	5.44	5.04
KES millions				
Revenue	61,369	61,830	68,372	71,143
EBITDA	28,153	27,125	29,430	29,792
NPAT	13,654	12,754	13,256	12,794
Capex (USD mn)	340	305	290	267
Net Debt (Cash)	3,664	17,520	12,368	14,483
PE	7.36	8.00	7.69	7.97
P / Book	2.39	2.03	1.61	1.34
EV / EBITDA	3.75	4.41	3.89	3.91
Net Debt / EBITDA	0.13	0.65	0.42	0.49

Source: Securities Africa Ltd Research



Source: Securities Africa Ltd Research

DCF Scenarios

SCOM – Safaricom

Zain Kenya extended coverage outside of Mombasa and Nairobi and Orange Kenya and Econet entered the market recently on aggressive terms which forced Safaricom's tariffs to decline by 70%. Safaricom lost market share from a peak of 84% to 81%.

However, Kenya's current outlook still favours Safaricom.

- Mobile voice penetration (at 39%) is still relatively low in Kenya and given Safaricom's market share and extent of coverage, we believe that Safaricom requires relatively minimal capital expenditure in order to preserve its market share.
- Orange only has coverage of Nairobi and Mombasa and requires funding of +USD 100 million per year to expand its network to the rest of Kenya.
- The low tariffs charged by Orange and Zain are unsustainable. With excise duties at 26% and interconnection costs at KES 5.21, we believe that Zain and more so, Orange, are operating at losses that cannot be sustained into the long term.

Furthermore, Safaricom stands to benefit from a potentially booming internet and data industry in Kenya. With the arrival of TEAMS, SEACOM and EASSY, the demand for broadband internet and data is expected to increase dramatically and given its share of the telecommunications market, Safaricom is well placed to market and extend internet services to the individual consumer. Whilst its voice competitors face the constraints of growing their voice business within an already competitive market, Safaricom has already acquired 20% of TEAMS for USD 21 million, established a 3G network and bought 51% of One Communication Ltd for USD 2.6 million. One Communication Ltd is a WiMAX network operator.

Safaricom will leverage off its stake in TEAMS to provide internet and data at lower costs. This will Although data only contributed to 11% of total revenue at H12009, this represented a 78% increase, we expect to see this contribution increase further as Safaricom rolls out its ISP services.

Base Case (KES 2.64): Subscribers increase at 14.5%, revenue achieves a CAGR of 5.4% as ARPU declines at 16% y-o-y. However, market share declines to 60% in 2012 and beyond. We assume that internet and data grows to contribute to 15% of total revenue by 2012 and 20% by 2017; we assume that the USD flattens out at KES 74.00

Bear Case (KES 1.62): we assume that high inflation persists into the long term and erodes ARPU and EBITDA margins decline; and we assume that the Kenya shilling weakens further against the USD towards KES 78/USD; voice revenue declines on the back of falling market share at a rate of 8 percentage points to 2012.

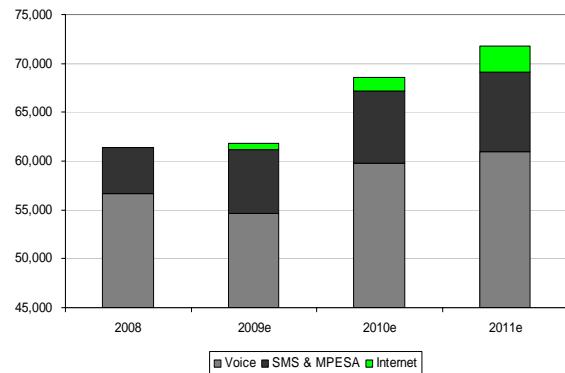
Bull Case (KES 5.49): In this scenario, we see internet and data contributing to 18% of revenue in 2012 and 27% by 2017; we assume that Kenya's economy picks up on the back of improving global fundamentals and the currency firms to KES 68/USD in 2012. we assume that the TEAMS investment returns benefits that justify the expenditure of USD 21 million made in H12009. This return is realised as savings on operational expenses and profit margins improve.



Internet Subscribers



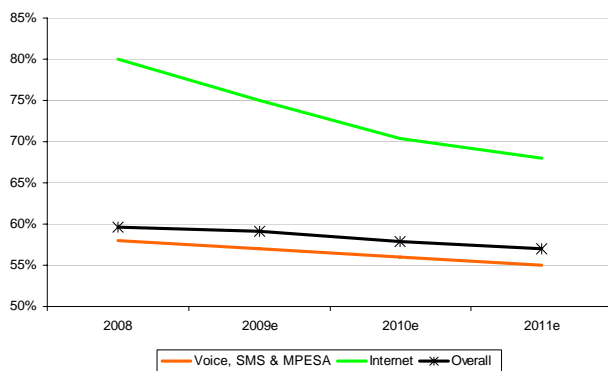
Safaricom Revenue (KES mn)



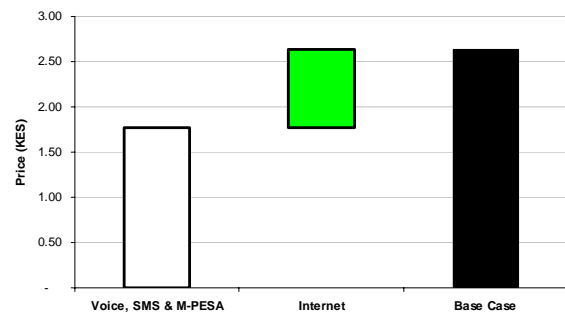
Safaricom's subscribers are expected to grow at a CAGR of 37% to 2014. The increase in affordability of internet and data services will see internet users grow from 3 million to 10 million by 2014. We estimate that internet subscribers as a percentage of internet users will grow from 6.23% to 10.5% and that Safaricom will leverage off its brand and resources to push its market share from 18% to 23% in 2011.

Safaricom's revenue is expected to achieve a CAGR of 5.4% to KES 72 billion in 2011. Despite growth in internet, SMS and MPESA revenues achieving a CAGR of 33% to an expected KES 10.8 billion, a decline of 42% in ARPU over the period contributes to a CAGR of 2.4% in mobile voice revenues to 2011 to an expected KES 60.95 billion.

Gross Profit Margins



Operations: Value Contribution



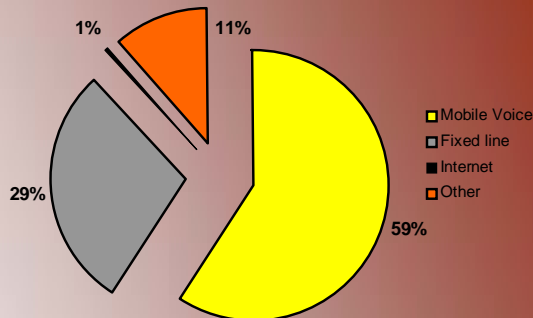
Source: Securities Africa Ltd Research

Source: Securities Africa Ltd Research

Incorporation of ISP operations will improve gross profit margins by over 100 basis points. ISP operations inherently have high profit margins which easily increase with economies of scale. Access Kenya (not discussed in report) expects to leverage of its 10% stake in TEAMS to achieve gross profit margins of 90% from its residential operations and 63% in corporate operations in 2011.

We expect prospects from internet and data provisions to add KES 0.87 to Safaricom's share price. However, based on our DCF base case scenario, Safaricom prices at KES 2.64. This implies that opportunities from internet and data operations will increase Safaricom's market value by 49%.

Revenue Break-down: H2008



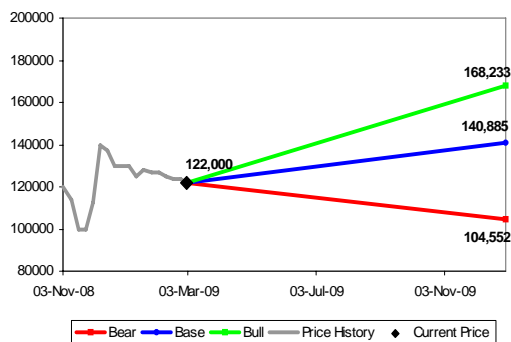
Despite high grow prospects in internet revenue, revenue contribution remains low at 3.1% in 2011

Financial forecasts

SIITS	2007	2008e	2009e	2010e	2011e
Subscribers	5,074,875	6,888,128	8,749,371	9,996,326	10,835,473
ARPU (USD)	19.82	18.14	15.43	14.99	14.76
XOF millions					
Revenue	504,668	595,135	714,528	842,925	922,433
EBITDA	276,855	317,263	307,916	359,233	407,408
NPAT	140,967	138,723	164,585	203,728	233,669
Capex (USD mn)	338	363	182	266	298
Net Debt (Cash)	(91,633)	(108,876)	(188,919)	(337,226)	(477,386)
PE	8.7	8.8	7.4	6.0	5.2
P / Book	2.8	2.1	1.6	1.3	1.0
EV / EBITDA	4.1	3.5	3.3	2.5	1.8
Net Debt / EBITDA	(0.3)	(0.3)	(0.6)	(0.9)	(1.2)

Source: Securities Africa Ltd Research

Price Target (XOF)



Revenue growth prospects remain high...

SNTS – Sonatel

Sonatel offers a combination of fair pricing, dominant market share in Francophone Africa (Senegal and Mali at 70% and 80% respectively for mobile telephony). Other markets include Guinea and Guinea Bissau in which Sonatel aims to be the second largest operator after MTN. Since 1997, Sonatel has been in a strategic partnership with France Telecom, which has resulted in the company adopting the Orange branding for its products. Sonatel established its 3G network and recently expanded into rural Senegal by rolling out CDMA coverage on its fixed line network. Despite losing its fixed-line customer base to its mobiles services, the fixed line operations remain a cash flow generator.

H12008 results showed a marginal decline in market share from 73% to 68% in Senegal. Sonatel attributed this to disruptions within the supply chain. However group revenue achieved a moderate growth rate of 13% to CFA 259billion, buoyed by the phenomenal progress made in Mali which contributed to 25% of the group's total growth, pushing the subscriber base above the targeted 6 million mark. New operations in Guinea Bissau and Conakry contributed 3% of turnover with Senegal continuing to contribute the bulk of Sonatel's turnover of over 70%. However, other revenue, in this case in the form of provision reversals (regulator lowered taxes), declined by 77% and this resulted in total revenue growing by a meager 4.6% to CFA 264 billion. Trading environment showed promise as gross profit margins improved by 30bp to 63.2%. However, acceleration in the depreciation policy and the implementation of a new network saw depreciation & amortization charges surge by 43% to CFA 54 billion. The operating margin declined 700bp to 32.6% and EBIT declined 14% to CFA 86 billion. A CFA 7.8 billion in exceptional expenses due to 'equipment swap' relating to network work improvements further stifled earnings growth. The interim resulted in a net profit after tax of CFA 52.12 billion, 30% lower than that of the corresponding period.

Outlook

Sonatel has since regained its market share in Senegal, pushing to above 75%. Given that Mali's mobile market grows at a rate of around 30% in 2008, we expect that Sonatel would have reached 6.8 million subscribers by year end. Sonatel will look forward to France Telecom's 'Orange Zone' which will foster regional integration, access to more markets and improve roaming income through the matching of regional termination rates. Management also stated that the Senegalese market would reach mobile penetration of 60% by 2010. Whilst the depreciation and amortization in H12008 had a strong negative effect on operating margins, Sonatel confirmed that the depreciation rate was applied as a 'catching up' on the new policy and that this would be diluted in the full year result. Overall, depreciation will increase relative to full year 2007 but not at the rate achieved in the interim. Capex in 2008 was expected to be around CFA 175 billion and this would decline to CFA 90 billion in 2009. We see subscriber growth cooling off as penetration increases. We see a slowdown in ARPU decline as Sonatel offers more ARPU preserving services (the expansion of MPAYMENT, Blackberry and other data services). Sonatel's internet clients are predominantly broadband users and mostly none individuals. Overall internet subscriber is low at 0.32% in 2007. We expect Sonatel to grow its subscriber base significantly as they roll out their CDMA network into rural Senegal and enter into corporate outsourcing ventures. We expect Sonatel to extend these services into Mali as well.

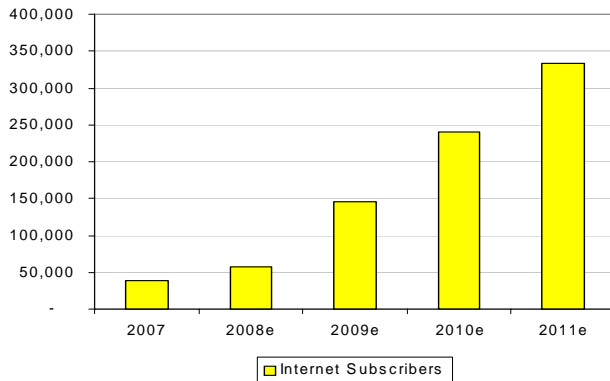
Base Case (XOF 140,885): Sonatel's market share declines marginally at 2% to 2011; internet revenue grows to contribute to 3.1% of total revenue in 2011.

Bear Case (XOF 104,552): increased competition from Tigo and Sudatel see Sonatel lose market share in Senegal from 73% in 2008 to 63% in 2011.

Bull Case (XOF 168,233): revenue contribution grows to 5% in 2011 as Sonatel's internet subscribers achieve a higher CAGR of 96% to 2011.

SONATEL BASE CASE FORECASTS

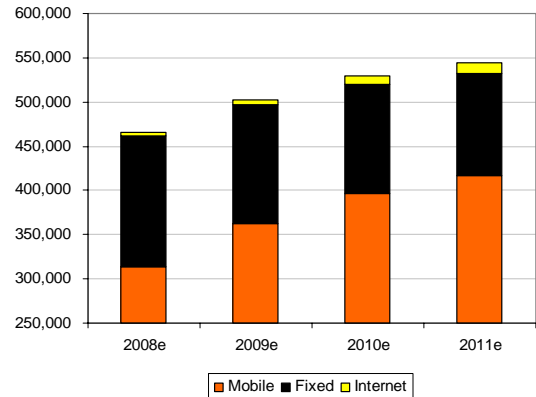
Sonatel Internet Subscribers



Source: Securities Africa Ltd Research

We expect Sonatel's internet subscribers to cross 300,000 by 2011. We expect Sonatel's targeted activities within internet and data provision to increase internet subscribers from 48,000 in mid 2008 by a CAGR of 71% to 2011.

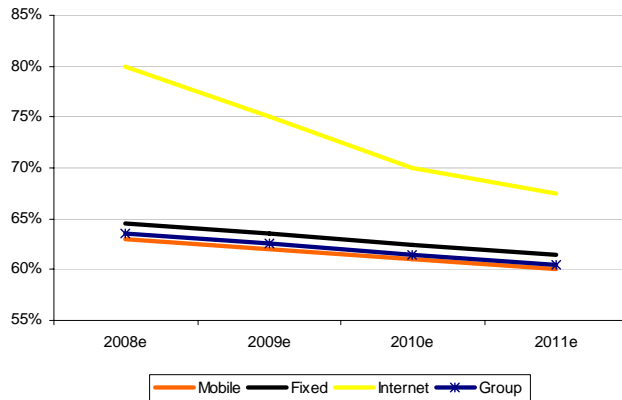
Core Revenue Composition



Source: Securities Africa Ltd Research

Internet revenues will grow to contribute from 0.62% in H2008 to 3.1% in 2011. The growth in internet revenues are expected to grow to from CFA 1.7 billion in mid 2008 to CFA 14.7 billion in 2011.

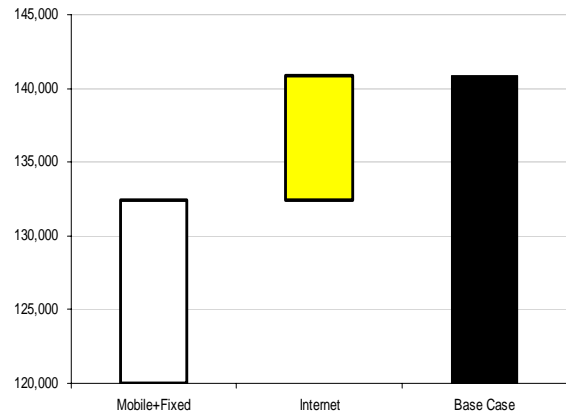
Gross Profit Margins



Source: Securities Africa Ltd Research

Increase in revenues from internet and data operations will improve gross profit margins by a marginal 18 basis points in 2011. Despite the high growth in revenues from internet and data revenues, the contribution remains small at 3.1% in 2011.

Operations: Value Contribution



Source: Securities Africa Ltd Research

We expect prospects from internet and data provisions to add XOF 8,430 to Sonatel's share price. This implies that by capturing potential revenues which constitute 3.1% of total revenue by 2011, Sonatel is able to increase its value by 6.4%.

Conclusion

Forecast & Valuation Summary

	Currency	Share Price	Price Target	Upside / Downside (%)	Mkt Cap (US\$ mn)	EPS				EV / EBITDA			EBITDA			Net Debt (Cash) / EBITDA		
						P / E	CAGR (%)	09e	10e	11e	08 - 11e	09e	10e	11e	08 - 11e	09e	10e	11e
Safaricom	KES	2.55	2.64	3.5	1,256	7.8	7.6	7.9	(2.4)	4.3	3.9	3.9	2.0	0.6	0.4	0.5		
Sonatel	XOF	122,000	140,885	15.5	2,310	5.1	4.8	4.2	29.4	2.6	2.2	1.6	16.3	(0.4)	(0.7)	(0.9)		
Celtel	ZMK	314.00	315.83	0.6	286	6.5	5.8	5.7	2.9	3.3	2.9	2.7	4.5	0.6	0.5	0.3		
Average				10.5		6.1	5.8	5.5	17.1	3.2	2.8	2.4	10.7	0.0	(0.2)	(0.4)		

Source: Securities Africa Ltd Research

- Safaricom stands to benefit significantly from the establishment of fiber optic networks, spurred by the arrival of the submarine cables. The recent underperformance in the share price depicts the concerns that investors have in Safaricom's ability to maintain profitability under current local and global conditions. As highlighted above, we expect internet earnings to buoy EBITDA which almost flattens, achieving a CAGR of 2% to 2011. Profit margins will deteriorate marginally and NPAT will achieve a decline of 2.4% CAGR to 2011. Not many catalysts remain that Kenyan operators can use to preserve voice ARPUs. Operators such as Safaricom will have to venture further into internet and data provision. Already we have seen telecom heavyweights scramble for smaller ISPs in Kenya and Safaricom acquired One Communications Ltd in the process. Our conservative valuation on Safaricom prices it below its current price and we find that by capturing the boom in internet and data usage, Safaricom's value appreciates by 49%. Given that current global economic woes continue and suppress investment, we believe that even in this setting, Safaricom offers some upside, currently 3.5% to KES 2.64. However, should fundamentals improve i.e inflation eases as food shortages are resolved and the shilling firms as tourism and agricultural exports recover, we expect Safaricom to achieve a price target of KES 5.41. Overall, uncertainties are plenty and we recommend a hold on Safaricom.
- We conclude a forecast price for Sonatel of CFA 140,885. As can be expected, given its revenue mix, the value was largely driven by its mobile voice operations whilst fixed line cash flows declined and internet income remained miniscule. Sonatel is simply a prominent operator in its region which is benefiting from minimal competition within its region. Revenue growth catalysts are reasonably available for Sonatel. Its second largest market, Mali is experiencing high growth and Sonatel will soon replicate several services it offers in Senegal in Mali. Its dominance and association with France Telecom in Francophone Africa will see Sonatel earn substantially from roaming revenues, especially from European business travellers.
- Zain Zambia is one of the better priced stocks but volatility in the Kwacha will be a factor to look out for. The other issue to look out for will be the deregulation of the Zambian telecommunications market. This could possibly unlock value significantly for Zain Zambia. Given current market and global conditions, we target a price of ZMK 316 for Zain Zambia.

Commentary on sample companies – Price Target base on comparative analysis

IAM	2006	2007	2008
Subscribers	13,231,000	17,315,000	19,232,000
ARPU (USD)	17.95	18.19	17.25
<u>MAD millions</u>			
Revenue	22,615	27,532	29,521
EBITDA	13,406	16,272	17,675
NPAT	6,739	8,033	10,010
Capex (USD mn)	447	662	769
Net Debt (Cash)	(2,686)	(1,333)	(227)

Source: Company reports

- **Good mix of revenues, 40% from fixed line and internet**
- **Low capex / sales ratio boosts cash flow generation**
- **Consistent dividend policy**
- **Breaking into markets of low penetration**
- **However, stock is quite pricy**

MTN	2005	2006	2007
Subscribers	18,000,000	27,805,000	44,112,000
ARPU (USD)	22.21	27.66	23.98
<u>ZAR millions</u>			
Revenue	27,212	51,595	73,145
EBITDA	11,231	22,413	31,845
NPAT	5,866	10,610	10,608
Capex (USD mn)	1,055	1,443	2,171
Net Debt (Cash)	1,045	22,888	16,050

Source: Company reports

- **MTN boasts the largest subscriber base, currently at 80.7 million**
- **65% of MTN customer base will have fiber optic access by 2010**
- **MTN Group operates in markets with aggregate penetration of 50% (SA at 96%)**
- **EV / subscriber, EV / EBITDA and P / Book ratios imply that MTN at a PE of 13.4x is still under priced**

IAM - Maroc Telecom – Itissalat Al Maghrib

Price Target: MAD 105.25 (-35%)

With a PE of 15x Fy2008 EPS, IAM is the priciest ticker and comparative analysis with its peers implies a price target of MAD 105.25, 35% below its current price of MAD 162.00. We believe that this is due to IAM's ability to grow earnings:

- despite the group's market wide penetration of 69%, IAM's NPAT growth has been high, achieving a CAGR of 49% over the recent two years and
- dividend payout has been consistent and generous, with high payout ratios, recently 100%, yielding 7% on the dividend.

Owing to its dominant position in Morocco, IAM has achieved a CAGR over the recent three years of 23% in subscriber growth with minimal deterioration in ARPU of -7%. This resulted in high EBITDA margins which improved 80 basis points to a high 59.9% from '07 and '08. Because of its mix in operations i.e 40% of revenue coming from fixed line operations which require less capital expenditure and maintenance, IAM maintained a low capex / sales ratio of 20%. This has allowed IAM to build up a strong cash position. Whilst its exposure to high growth opportunities remains moderate, its relatively strong net cash position implies that IAM is more able to fund acquisition of high growth markets or towards ramping up its internet and data businesses which currently contributes about 3.5% of total subscribers and 1.8% to revenue.

Competition will be coming from Wana, the telecoms arm of Morocco's biggest conglomerate ONA, which won the contract for the country's third wireless phone network earlier this month. We expect voice ARPU to decline at a CAGR steeper than -7% to 2012. However, we expect internet revenue to support

MTN – MTN Group

Price Target: ZAR 134.96 (+47.5%)

Though its price multiples are at the higher end, comparative analysis prices MTN at ZAR 134.96, 47.5% above its current price of MTN's track record and operational profile more than justifies the premium.

Through its pursuit of growth markets, MTN has managed to achieve a CAGR of 57% in its subscriber base from 2005 to 44 million in 2007. Its total subscribers are currently at 80.7 million in Q32008. Data and mobile telephony fundamentals remain robust in South Africa. About 42% of MTN's market is in West and Central Africa in which penetration averages around 27.7%. Whilst this leaves a lot of room for growth, the current weakness exhibited by African currencies, especially in that region, will have a significant impact on MTN's revenues (ARPU translation) and bottom line.

MTN's footprint in Africa, lands it within six markets that will soon benefit from the arrival of the submarine fiber optic cables. These markets represent 62% of the group's total subscribers and given MTN's competitiveness in the provision of internet services in South Africa, we believe that the group will do well to capture internet and data revenues within these markets of high growth.

TKG	2006	2007	2008
Subscribers	28,228,000	34,792,000	38,526,000
ARPU (USD)	25.53	19.35	17.91
ZAR millions			
Revenue	47,625	51,619	56,285
EBITDA	20,553	19,785	20,612
NPAT	9,328	8,849	8,172
Capex (USD mn)	983	1,226	1,415
Net Debt (Cash)	6,828	10,026	16,617

- **TKG to exit cash generating Vodacom**
- **Revenue, EBITDA and NPAT to decline by more than 50% after March 2009**
- **Cash flows expected to tighten for TKG**

TNM	2005	2006	2007
Subscribers	142,200	244,338	333,978
ARPU (USD)	17.63	13.21	11.61
MWK '000s			
Revenue	2,835,123	4,275,229	5,771,254
EBITDA	1,370,815	2,226,939	2,619,463
NPAT	494,320	1,269,682	1,452,509
Capex (USD '000s)	4,139	5,775	9,872
Net Debt (Cash)	(33,453)	(24,267)	(832,138)

Source: Company report

- **Low penetration rates of 21% present TNM with substantial market base growth potential**
- **low GDP per capita and growth is driven by low cost handset sales**
- **Malawi Kwacha expected to weaken to MWK 200/USD post election**

ORTE	2005	2006	2007
Subscribers	30,383,000	51,688,000	70,089,000
ARPU (USD)	11.97	7.93	6.50
USD millions			
Revenue	3,226	3,906	4,747
EBITDA	1,363	1,704	2,043
NPAT	660	719	2,021
Capex (USD mn)	1,479	1,349	1,660
Net Debt (Cash)	2,957	3,433	3,883

Source: Company report

- **Revenues are declining as a result of falling ARPUs in Algeria and Pakistan**
- **Debt levels are the highest at 1.5x EBITDA and incurs high interest expenses**
- **USD denominated debt expected to eat into earnings as EGP weakens**

TKG – Telkom SA

Pre-Vodacom Sale Price Target: ZAR 202.91 (+91.4%)

**Post-Vodacom Sale Price Target range: ZAR 134.64 (+27.8%)
ZAR 97.68 (-7.8%)**

The comparative prices TKG at ZAR 202.91, 91% above its current pricing. However, we believe that the current price of ZAR 106.00 factors in the imminent exit of TKG from Vodacom. TKG on May 5 will sell 35% of Vodacom to shareholders and a further 15% to Vodafone there after. Vodacom was a joint venture between Telkom SA and Vodafone and contributed 61% of revenue, 60% to EBITDA and about 58% to NPAT and 33% of Net Debt. Vodacom operated at low capex / sales ratio of 14.4% in 2008 whilst the rest of the group operated at 21%. The exit from Vodacom will mean tighter free cash flows for TKG. However, TKG will be cash rich after the sale.

TNM – Telekom Networks Malawi

Price Target: MWK 1.72 (-13.8%)

TNM listed in October 2008 at PEx FY2007 EPS of 13.8x. the only multiple that suggests an upside, is the EV / Subscriber ratio, which indicates a price of MWK 2.39. However, Malawi is a low GDP per capita economy and we believe that quality earnings will be difficult to unlock from the subscriber base.

Growth potential seems high as Malawi has penetration of 21%. Over the past 4 years, TNM achieved revenue CAGR of 32% per annum, growing revenues from MWK 1.44 billion in 2003 to MWK 5.77 billion. This was on the back of a customer base that grew from 62,000 to 333,978 subscribers over the period. Its most recent results (FY2007) exhibited economies of scale as average total costs per subscriber declined from MWK 1,162 to MWK 908 per month in 2007. The overall impact saw EBITDA margins improve by an impressive 500 base points to 45.4% over the period. The bottom line impact saw NPAT margins improve significantly from 18.5% to 25.2% as NPAT achieved a CAGR of 53%, growing from MWK 267 million in 2003 to MWK 1.45 billion in 2007. However, this result was achieved as the company lost market share over the period, owing to depressed investment in the company.

Revenue growth opportunities are limited for TNM. With low GDP per capita at USD 149.2 per capita, Malawi remains a poor nation which relies on tobacco exports. TNM currently relies on low cost handset sales to grow subscribers and given the global outlook on export demand and a Kwacha which is expected to touch MWK 200/USD post the elections; TNM's near future prospects remain questionable.

ORTE – Orascom Telecom

Price Target: EGP 120.40 (+523%)

ORTE's attractive pricing speaks to its high debt levels and poor fundamentals in Algeria and Pakistan. Comparative analysis suggests a price of EGP 120.40, which is a price level last achieved in . this underperformance in the share price to a PE of 1.5x suggests that ORTE's last reported earnings are not sustainable and expected to decline significantly on the back of declining revenues, high interest expenses and losses on currency translations related to USD denominated debt. ORTE is cash strapped and the operator recently announced its intention to sell LINKdotNet and Link Egypt to Mobinil, Egypt's largest mobile operator by subscribers, in which it owns an approximately 35% stake. It is reported that the sale would allow Orascom, whose shares have lost more than a third of their value this year, to raise cash the necessary cash levels.



Notes

- **Zain Zambia:** Zain Zambia House, Nyerere Road, Lusaka, Zambia – P.O Box 32001, Woodlands, Lusaka, Zambia, www.zain.zain.com
- **Itissalat Al' Maghrib (Maroc Telecom):** Avenue Annakhil, Hay Riad, Rabat Morocco
- **Mobile Telecommunications Network Group (MTN Group):** Innovation Centre, 216 14th Avenue, Fairlands, JHB, South Africa, www.mtn.com
- **Telkom SA:** Telkom Towers North, 152 proes Street, Pretoria 0001, South Africa, www.telkom.co.za
- **Safaricom:** P.O Box 46350, 00100 Nairobi, Kenya, www.safaricom.co.ke
- **Egyptian Company for Mobile Services (Mobinil):** 2005C, Cornishe El-Nil, Ramlet Boulaq, Cairo, Egypt Post Code 11221, www.mobinil.com
- **Sonatel:** 34 Boulevard de la Republique BP 2352, Dakar, Senegal P.O Box 69, www.sonatel.sn
- **Sudatel:** www.sudatel.sd
- **Telekom Networks Malawi (TNM):** www.telekom.co.mw
- **Orascom Telecom:** 2005A Nile City Towers – South Tower, Cornishe El Nile Ramlet, Balouq, Cairo 11221, Egypt, www.orascomtelecom.com
- **Telecom Egypt:** www.telecomegypt.com.eg



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