KBC Securities

Emerging European Telecoms

11 December 2008

Reality rings

Recommendations

		Price* (local)	Mkt.cap (€ m)	EV/EBITDA (x) 2009F	EV/EBITDA (x) 2010F	Dividend Yld (%) 2009F	Dividend Yld (%) 2010F	Fair Value	Upside (%)
Mtelekom	Buy (upgraded)	560	2,539	3.2	3.3	13.90%	14.20%	720	28.5%
TPSA	Buy (maintained)	18.6	7,947	3.7	3.5	8.80%	9.70%	26.5	42.5%
Telefonica O2	Buy (maintained)	432	5,952	4.7	4.7	11.60%	11.60%	540	24.9%
Netia	Hold (maintained)	2.74	333	3.6	2.4	4.70%	4.70%	3.0	9.5%
Vimpelcom	Buy (maintained)	9.3	5,895	2.2	1.9	7.80%	10.50%	15.2	63.7%
MTS	Buy (maintained)	30.3	7,518	2.5	2.2	12.20%	12.20%	35.2	16.2%
Comstar	Hold (maintained)	2.7	705	2.2	1.9	0.20%	0.20%	3.0	9.3%
Turkcell	Hold (maintained)	8.5	10,388	4.0	3.9	6.10%	5.90%	9.0	5.6%

Source: KBC Securities, Bloomberg **priced at COB 08/12/2008*

We have reduced our earnings estimates for CEE telecoms by 10%-30% for 2009-2010 to factor-in the potential impact of a deeper economic contraction. Despite the 8.3% outperformance of MSCI EMEA Telecoms versus MSCI EMEA year-to-date, and the even larger outperformance of CEE operators, valuations remain attractive relative to Western European peers, and the market in general. Taking into account the sector's higher resilience to the economic downturn, relatively stable revenue streams, and high cash payout ratios, we expect it to continue to outperform in 1H09, albeit to a lesser extent than in 2008. Within our coverage universe, we continue to prefer TPSA for its growth and value.

Rating update

- **Macro shock resistant:** MSCI EMEA Telecoms have outperformed the broader EMEA index by 8.3% year-to-date, in-line with the outperformance of global telecoms versus MSCI World. The sharp decline of the Russian operators has overshadowed a stellar outperformance in the remainder of the region.
- **Stable revenue streams:** We expect telecom spending to remain stable at some 2.5%-3.0% of GDP per capita across CEE. Core revenue streams of operators are relatively resilient to the economic slowdown, following the shift to standard tariff packages in the last five years.
- **Margin pressure from new services:** The bulk of our earnings downgrades come from margin reductions, as broadband and 3G services are expected to prove more vulnerable. We now expect EBITDA to grow 4.7% in 2009 and 5.2% in 2010, versus our previous estimates of 12.6% in 2009 and 6.3% in 2010.
- **Integrated operators offer the best hedge:** Integrated operators offer the safest investments during volatile times, as the potential slowdown in broadband, and to a lesser extent mobile, is more easily weathered, due to the stability of cashflows from the core fixed-line business. CEE incumbents offer the highest shareholder payouts, given resilient cashflows and the potential to downsize capital expenditures.
- **Outlook for mobile operators in Russia is better than in Turkey:** Russian and Turkish operators are vulnerable to currency devaluation, given macroeconomic pressures. However, lower Russian mobile tariffs provide a comfortable buffer for price adjustments to offset currency volatility. Russian mobile operators generate an average of US$0.06 per minute, versus Turkcell's US$ 0.16, and the CEE average of US$ 0.13.
- **TPSA offers the most attractive growth and value prospects:** On a 2009F EV/EBITDA of 3.7x, versus CEE operators on an average of 3.9x, TPSA offers the best value. We expect a 2008-2011 CAGR of 9.3% in earnings, and 2009F cash and dividend yields of 15.5% and 8.8% respectively.

Pamela Antay +32 2 429 3701 pamela.antay@kbcsecurities.be
Nico Melsens, CFA +32 2 429 3716 nico.melsens@kbcsecurities.be

Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

This publication is made public immediately after its completion. This publication has been prepared for KBC Securities NV Branch in Poland clients; yet, it may be sent to other persons and the mass media. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities NV Branch in Poland.

Definition of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation

EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No. of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No. of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

List of recommendations concerning TPSA issued by KBC Securities NV Branch in Poland during the last 12 months

	Valuation	Market price	Recommendation	Date of issue
TPSA	24.1	20.5	Buy	22 January 2008
TPSA	26.9	22.6	Buy	07 February 2008
TPSA	26.9	21.8	Buy	01 May 2008
TPSA	27.2	24.1	Buy	11 August 2008
TPSA	26.5	18.6	Buy	11 December 208

List of recommendations concerning Netia issued by KBC Securities NV Branch in Poland during the last 12 months

	Valuation	Market price	Recommendation	Date of issue
Netia	4.0	3.8	Hold	14 March 2008
Netia	3.0	2.74	Hold	11 December 208

The recommendations published by KBC Securities NV Branch in Poland are valid for 12 months, unless it changed earlier. We predict a possibility of preparing a quarter actualization of the recommendation.

While preparing the publication and issuing the recommendation, KBC Securities NV Branch in Poland used the following valuation methods: Discounted Cash Flow (DCF) and peer group comparison. The advantage of DCF method is that future financial results are calculated; on the other hand, the disadvantage of the model is that prognoses for the future financial results are influenced by analyst judgment. Peer group comparison is more independent of analyst judgment but it is usually based on current financial results which may differ from the future performance

With the aim of assuring the highest standards of reliability and eliminating of the inaccuracies in its publications, KBC Securities NV Branch in Poland sends a publication to the issuer concerned in advance so as to enable the issuer to check the information included in the publication.

Interpretation of the recommendation:

BUY – total return is expected to appreciate 10% or more **HOLD** – total return is expected to be between 10% and –10% **SELL** – total return is expected to depreciate 10% or more

At the time of making the publication, KBC Securities NV Branch in Poland does not know about any connections with the issuer, and no other circumstances exist which could influence the objectivity of the recommendation (e.g. agreement with the issuer, capital and personal connections). At the time of preparing the recommendation, KBC Securities NV Branch in Poland will not consign the offer of services pointing at the issuer, within the upcoming three months.
During the last 12 months KBC Securities NV Branch in Poland did not provide services in the field of investment banking for the companies covered in its research reports over the last quarter.

During the last quarter KBC Securities NV Branch in Warsaw issued 41 recommendations:

27 BUY	66%
11 HOLD	27%
3 SELL	7%

The views expressed in this publication accurately reflect the personal view of the authors, in accordance with the state in time of the preparation.

This publication was prepared in accordance with the principles of methodological correctness and objectivity, based upon public information, including the information from the issuer, in particular, including information from the last 6 months, which KBC Securities NV Branch in Poland finds reliable.
KBC Securities NV Branch in Poland does not guarantee, however, either accuracy or complexity of the publication; in particular, in case when the base information proves to be inaccurate, incomplete, or does not fully reflect the actual state.

KBC Securities NV Branch in Poland is not responsible either for investment decisions taken on the basis of this publication, or damages caused by investment decisions taken on the basis of this publication.

KBC Securities

Analyst certification: The analysts identified in this report each certify, with respect to the companies or securities that the individual analyses that (i) the views expressed in this publication reflect his or her personal views about the subject companies and securities, and (ii) he or she receives compensation that is based upon various factors, including his or her employer's total revenues, a portion of which are generated by his or her employer's investment banking activities, but not in exchange for expressing the specific recommendation(s) in this report.