

Reliance Communication

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Focus on scale

Reliance is one of the latest entrants to the Indian mobile scene and has rapidly scaled up to become India's second-largest mobile operator. While the company has relied on CDMA technology to power growth until now, it has signalled intentions to switch to a GSM network. We believe that this should result in higher capex and could lead to lower margins compared to Bharti in the longer term. We initiate coverage of Reliance with a NEUTRAL rating and target price of Rs400.

- GSM could be the way forward.** Reliance's management has signalled its intention to switch to a GSM network, provided that it can get the spectrum from the government. We believe that this should result in: 1) 5% higher capex/subscriber for Reliance over Bharti in FY3/08-3/11 and 2) a 1.5-2.5% lower EBITDA margin compared to Bharti over the longer run. We do not build in any impact on market share due to this shift.
- Strong positioning in the mobile business.** Reliance is the second-largest mobile operator in India, with its focus on providing affordable mobile services to Indian consumers. Reliance's RPM is 20% lower than Bharti's, due to a combination of handset subsidy (by way of free minutes), a high proportion of public call offices and leveraging off the efficiency of the CDMA network. Despite this, Reliance's EBITDA margins are only 60-100 bp lower than Bharti's.
- Other investments.** Reliance has a strong position in the long-distance and data markets in India. It also has a well-formed IPTV plan. Indeed, these plans could be an ace up the company's sleeve when regulations for IPTV become better formed in the country. However, that could at least be a couple of years away and would also need the resolution of issues such as customer access.
- Valuations are not cheap.** Reliance shares have appreciated by 30% since its listing in March 2006. The shares are currently trading at an EV/EBITDA of 10x FY3/08E and are not inexpensive, in our opinion. We rate Reliance as NEUTRAL with a target price of Rs400 (based on our DCF model).

Reliance Communications Ltd offers integrated telephone services. The company offers fixed-line and wireless voice, data and video transmission services and Internet access.

Research team

Bhuvnesh Singh

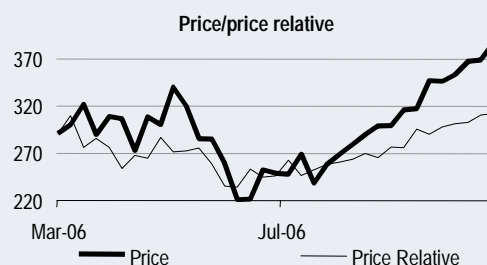
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Rating	NEUTRAL* [V]
Price (2 Nov 06)	391.60 (Rs)
Target price (12 months)	400.00 (Rs)
Market cap (Rs mn)	800,671.23 (US\$ 17,861.57)
Enterprise value (Rs mn)	886,904.07
52-week price range	393.55-194.70
Region/Country	Asia Pacific/India
Sector	Telecoms
Date	3 November 2006

* Stock ratings are relative to the relevant country index.
[V] = Stock considered volatile (see Disclosure Appendix).



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index
On 02/11/06 the BOMBAY SE 30 SHARE SENSITIVE index closed at 13091.12
On 11/02/06 the spot exchange rate was Rs44.83/US\$1

Performance over	1M	3M	12M
Absolute (%)	12.9	46.9	—
Relative (%)	7.4	22.1	—

Year	3/06A	3/07E	3/08E	3/09E
Revenue (Rs mn)	107,663.4	157,303.4	233,570.8	297,301.6
EBITDA (Rs mn)	24,732.1	60,255.3	90,408.1	119,189.6
Operating profit (Rs mn)	7,784.3	34,214.3	57,018.9	78,761.8
Net income (Rs mn)	4,813.3	27,946.3	44,846.8	62,753.6
EPS (CS adj., Rs)	2.17	13.67	21.93	30.69
ROIC (%)	—	11.37	14.94	16.45
P/E (x)	180.4	28.7	17.9	12.8
P/E rel (%)	898.4	—	—	—
EV/EBITDA (x)	35.0	14.7	10.0	7.8

Dividend (3/07E, Rs)	—	Book value/share (3/06A, Rs)	57.4
Dividend yield (3/07E, %)	—	Free float (%)	—
IC (3/07E, Rs mn)	283,809.09	Number of shares (mn)	2,044.62
Net debt (3/07E, Rs mn)	86,232.8	EV/IC (3/07E, x)	3.1
Net debt/equity (3/07E, %)	—	Current WACC (%)	11.58

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

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Focus charts

Figure 1: Impact of the shift to GSM

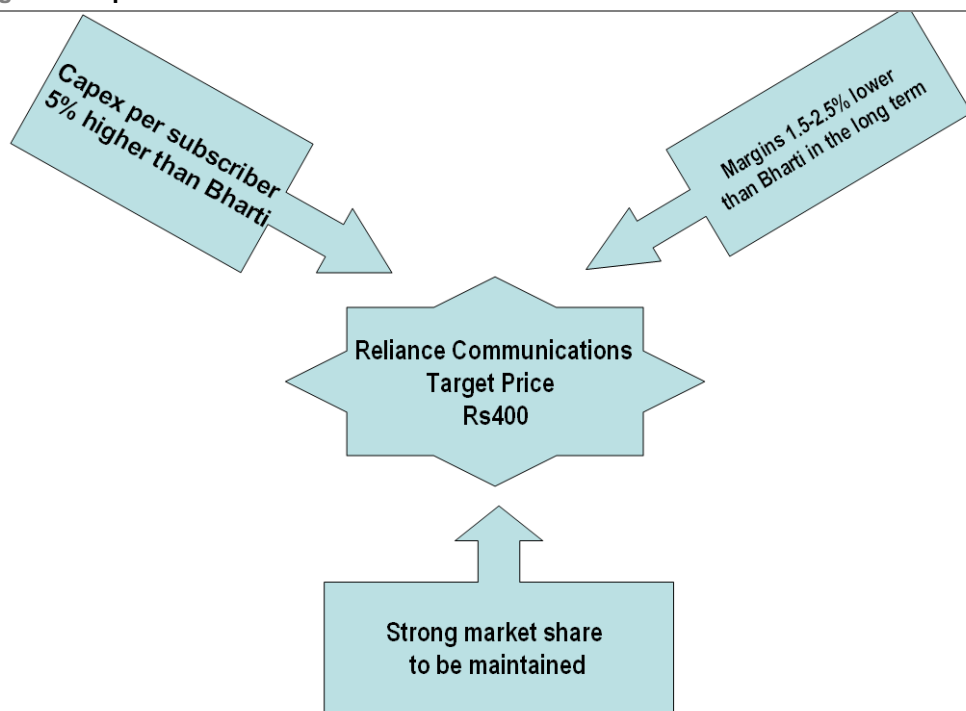


Figure 2: DCF assumptions

	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	FY3/11-3/25	Terminal
Revenue growth (%)		46.1	48.5	27.3	20.5	8.4	3.0
EBIT margin (%)	7.2	21.8	24.4	26.5	26.5	28.9	30.0
NOPAT margin (%)	2.5	15.9	16.9	19.1	18.9	20.5	21.0
Invested capital turns	0.63	0.70	0.79	0.77	0.78	1.01	1.19
ROIC (%)	1.6	12.6	15.1	16.6	16.0	22.5	25.4

Source: Company data, Credit Suisse estimates

Figure 3: DCF value distribution

	Current	% of value	12M fwd	% of value
PV of FCF until FY3/11	- 75,225	-10.9	-53,450	-6.8
PV of FCF for FY3/12-3/25	326,138	47.3	363,911	46.3
Terminal	503,943	73.1	562,310	71.5
Current net cash	- 65,337	-9.5	-86,121	-10.9
Equity value	689,520	100.0	786,651	100.0
Per-share value	337		385	

Source: Company data, Credit Suisse estimates

Summary financials

Figure 4: Reliance Communications summary financials

Year-end 31 Mar (Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Income statement				
Revenue	107,663	157,303	233,571	297,302
Total access and interconnect costs	40,404	43,848	64,869	68,151
EBITDA	24,732	60,255	90,408	119,190
EBIT	7,784	34,214	57,019	78,762
Profit before tax	5,151	29,889	49,013	69,726
Profit after tax	4,813	27,946	44,847	62,754
Net income	4,439	27,946	44,847	62,754
Balance sheet				
Cash and short-term investments	37,995	52,210	57,620	59,531
Receivables and other current assets	45,316	55,843	73,575	81,758
Total current assets	83,311	108,053	131,195	141,289
Gross fixed assets	261,836	336,527	445,976	562,642
Net fixed assets	214,263	262,913	338,973	415,211
Total assets	319,737	393,129	492,331	578,663
Total current liabilities	98,874	109,320	138,675	142,254
Total long term liabilities	103,348	138,348	163,348	183,348
Total equity	117,420	145,366	190,213	252,966
Minority interests	96	96	96	96
Total liabilities	319,737	393,129	492,331	578,663
Cash flow statement				
Net income		27,946	44,847	62,754
Depreciation		26,041	33,389	40,428
Interest expenses		4,325	8,006	9,036
Change in working capital		- 81	11,623	-4,605
Cash flow from operation		58,232	97,865	107,612
Change in fixed asset		-74,691	-109,449	-116,666
Cash flow from investing		-74,691	-109,449	-116,666
Change in debt and liabilities		35,000	25,000	20,000
Interest expenses		-4,325	-8,006	-9,036
Cash flow from financing		30,675	16,994	10,964
Change in cash		14,216	5,410	1,911

Note: FY3/06 data is pro forma, unaudited and consolidated figures

Source: Company data, Credit Suisse estimates

GSM could be the way forward

As successful shift from CDMA to GSM ...

... could result in higher capex, lower margins and a dip in market share in short term

Management's stated intention – CDMA to GSM ...

... hinges on their being able to get GSM spectrum

We build in the assumption of 5% higher capex per sub than Bharti, due to ...

Globally, there is no precedence of a successful network switch by an operator. However, this could be due to there being a lack of many case studies. Our model assumes that Reliance's management should be able to execute its strategy of running dual networks – its new subscriber additions should come primarily to the GSM network, while the company retains its current CDMA network and subscribers.

Despite a successful execution of this strategy, we believe that this switch would introduce three inefficiencies in the company's mobile operations: 1) capex could be higher in the medium term, 2) margins could be lower, due to increased network and sales costs and 3) market share could suffer in the short term, as the company tries to market its dual network story.

We build in US\$76.5 capex per subscriber for Reliance over the four-year period FY3/08-3/11 compared to US\$73/subscriber for Bharti, due to the higher capex associated with a dual-network strategy. For margins, we estimate that Reliance's EBITDA margin could be 100-250 bp lower than Bharti's over the longer term. We do not build in any impact on Reliance's market share due to this switch.

Background

Reliance management has indicated that it wants to shift to a GSM network from the current CDMA network. This adds to the execution risk in the near term, but could turn out to be a sound strategy.

Management indicated that it plans to retain the existing network and subscribers, and that only incremental growth would come from the GSM network. Key to this argument is the company's ability to get the GSM spectrum from the government. While there are no legal issues against the award of the spectrum, this is not a clear-cut case – i.e. no precedence exists in India. We build our model for Reliance under the assumption that the company gets its GSM spectrum in CY07 and thereafter starts an aggressive roll-out of the GSM network.

Expect increased capex in the near term

We believe that Reliance will need to maintain its CDMA network while rolling out a new GSM network. Furthermore, while a CDMA network is low cost in terms of initial roll-out, the GSM network could be more expensive. Finally, we expect Reliance to get frequency in the 1800 MHz band, which should lead to more capex during the initial roll-out period.

We expect the roll-out of Reliance's GSM network to occur at the end of FY3/08. We are building in a US\$76.5/subscriber cost for Reliance from FY3/08 to FY3/11 (a four-year period), compared to US\$73/subscriber for Bharti. Our numbers build in a significant impact of sharing of passive infrastructure thereby reducing cost per subscriber. For reasons explained in the next section, we are not becoming more aggressive in our capex estimates.

CDMA capex

While Reliance's management would like to have all incremental subscribers on GSM technology, it will still need to incur a capital expenditure on CDMA: 1) to include new CDMA subscribers and 2) for maintenance capex.

... 1) capex on GSM rollout in addition to maintenance of the CDMA network

We believe that the company's capital expenditure could increase significantly for a couple of years when it rolls out its GSM network. In this period, Reliance will spend a significant amount to roll out the GSM network and also to maintain capital spending in its CDMA network.

Spectrum availability

2) Reliance may get only the more expensive 1800MHz band due to late GSM entry

We assume that Reliance will be able to gain spectrum for its GSM network. Our numbers are based on the case that the company is able to gain this spectrum in 1800 MHz band. Generally speaking, 900 MHz base stations can cover anywhere from 2x to 4x of 1800 MHz coverage. Thus, the initial expenditure could be lower by half to three-quarters. However, as network usage increases, spending for both bands converges towards each other. We, thus, do not believe that the frequency band should significantly affect Reliance's capex over the longer term.

GSM versus CDMA capex

3) Higher capex requirement for GSM than CDMA for same capacity

Reliance's management indicated that CDMA capex is significantly lower compared to GSM capex. We believe that this will at least be the case for the initial roll-out. Going forward, as network utilisation increases, the capex difference between the two technologies could be a low single-digit percentage. Furthermore, with improvement of technology, this differential has come down significantly.

Figure 5: Reliance presentation on CDMA versus GSM costs

	Unit cost of capacity	
	CDMA	GSM
Cost of BTS (US\$)	45,000	12,500
Capacity at 70% loading (erlangs)	210	43
US\$/erlang	684	1,860

Source: Reliance investor presentation, March 2006

Number of avenues to limit capital spending

While Reliance's capital spending would increase in the initial period, we believe there are number of methods that it could employ to reduce its capex.

Increased negotiating power

Operating in the largest unpenetrated wireless market in the world should give bargaining power

An advantage of being late in the game is the proven potential of the Indian market. Reliance's GSM network could be one of the last large-scale new GSM roll-outs. Given the potential of the Indian market to reach 417 mn subscribers by FY3/10, Reliance should be able to extract significant concessions from the equipment vendors. Reliance's network should also be cheaper and state-of-the-art, due to annual reduction in price and the introduction of new features by telecom vendors.

We note that BSNL's recent tender for GSM expansion saw bids as low as US\$107 per line from Ericsson (ERICb.ST, SKr27.60, OUTPERFORM, TP SKr33.00, OW). We further assume that capex per line will decline every year and hence build lower numbers for Reliance and Bharti.

Passive infrastructure in CDMA network could be used for GSM

Sharing passive infrastructure with CDMA network

Reliance has nearly 10,000 BTS in its CDMA network. Its GSM network should be able to share the passive infrastructure (Tower, power lines etc) with the same network.

We estimate that passive infrastructure accounts for nearly half of network capex. This should lead to significant savings for the company.

However, savings should not be exactly half, as incremental subscriber additions are significantly driven by increased coverage. Thus, Reliance would not necessarily get subscribers in the busy urban areas, but would need to expand to rural areas (where even its CDMA network might not be present) in a strong way.

Already in talks with other operators for infra sharing

Infrastructure sharing with other operators

Reliance recently announced that it was close to signing infrastructure sharing arrangements with Bharti, Spice and Aircel. This is in addition to a similar agreement signed with Hutch and Idea earlier. We note that Bharti already shares nearly 25% of its infrastructure. As management pointed out, this move could help in reducing capex and maintenance expenses considerably, especially in areas where new cell sites will come up in future.

Margin implication

Reliance should be able to share a number of common areas across its GSM and CDMA network. This should help the company to maintain its margins in mobile business. Based on our analysis, we estimate that Reliance's mobile business is more efficient in terms of various overheads, such as 1) sales costs due to lower churn rate and 2) G&A costs. However, the company has higher interconnection costs, due to its higher MOU per subscriber.

Higher MOU leads to greater interconnection costs

Figure 6: ADC, interconnect, license and spectrum charges

FY3/06 (% of revenues)	Bharti	Reliance
Access deficit + interconnect charges	19.8	29.0
License fee + spectrum charges	11.0	9.5
Total	30.8	38.5

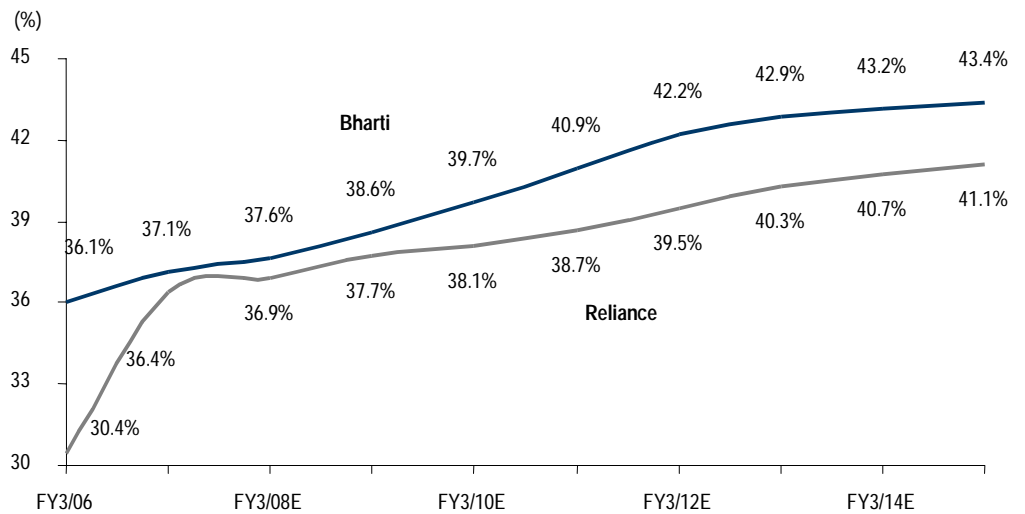
Source: Company data, Credit Suisse estimates

Margin pressure due to – higher churn of GSM subs, maintaining dual networks, and the need to lure customers with better rates

Going forward we believe that: 1) sales costs should increase on the back of a higher churn rate of GSM subscribers, 2) network costs should increase due to the complexity of maintaining a dual network. However, we believe that Reliance would need to attract customers by offering them better rates than the competition in the initial phase. This could limit any reduction in interconnection costs.

Furthermore, while Reliance's management could be focusing on rolling out a new network and maintaining margins over the next couple of years, Bharti could continue consolidating its existing network and expand margins. Over the longer term, we believe that Bharti would have around a 150-250 bp margin advantage over Reliance, due to these reasons.

Figure 7: Reliance EBITDA margins should remain 150-250 bps below Bharti



Source: Company data, Credit Suisse estimates

Other revenue streams should help

However, we believe that Reliance’s CDMA network cannot take advantage of a number of other revenue streams, such as international roaming, which is available to GSM operators. This should kick in, as the company rolls its GSM network and should help margins.

Market share implications

Reliance’s entry to GSM should definitely spur fierce competition for new subscribers. However, we believe that this competition will not be irrational, as Reliance could face higher attrition of its current CDMA subscribers.

Could it be relegated to low paying subs?

It is possible that Reliance could primarily get lower ARPU customers in the beginning. There could be a strong resistance from higher ARPU customers to: 1) change their mobile number (in the absence of number portability) and 2) change their provider, unless the new provider offers them significantly higher benefits. Furthermore, any better scheme that Reliance would offer to mobile subscribers could be quickly copied by other operators too.

We do not think that this is necessarily bad, as lower-paying subscribers could have higher revenue per minute (RPM). However, looking at only RPM gives only half the picture. We believe that mobile operators offer carefully tailored packages to various subscribers to optimise the impact of RPM and churn rates on their margins.

We believe that it could be possible that Reliance’s GSM operations will have: 1) a higher proportion of prepaid customers and 2) lower ARPU per customer compared to other GSM providers. However, there should be a limited differential on margins between Reliance and other GSM providers.

Higher ARPU customers may resist switching to a new operator in the absence of number portability

We build strong market share, despite risk of loss due to dual technology strategy

Require high capex earlier

Other GSM operators, such as Bharti, currently cover 50% of the country's population. Reliance would need to aggressively roll out its network and offer coverage to a large portion of the country in order to compete effectively.

Building strong market share

We forecast that Reliance will be able to maintain its industry-leading market share in terms of number of subscribers going forward. Given the complexity of the switch from CDMA to GSM, and increased execution risk as a result, there is a possibility that Reliance could see its market share slip. Our assumption could thus be optimistic.

Strong positioning in the mobile sector

Should be able to maintain 21%-plus market share

Reliance is the second-largest mobile operator in India, with its focus on providing affordable mobile services to Indian consumers. We believe that Reliance will be able to maintain its leadership in the Indian mobile sector. However, Reliance's RPM is 20% lower than Bharti's, due to a combination of handset subsidy (by way of free minutes), a high proportion of public call offices and lower roaming revenue. However, Reliance is able to leverage off its CDMA network to return EBITDA margins of 36.4% for mobile business (FY3/07), only 70 bp lower than Bharti's.

High market share

Reliance is one of the leaders of the Indian mobile sector, with the second-highest number of mobile subscribers. We expect Reliance to maintain and also further increase its market share.

Figure 8: Subscriber market share forecasts

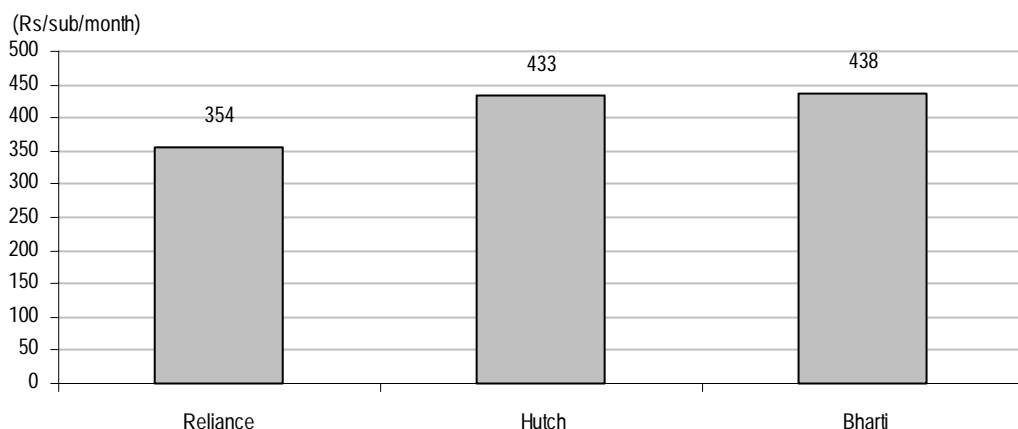
Market share forecasts (%)	FY3/03	FY3/04	FY3/05	FY3/06	FY3/07E	FY3/08E	FY3/09E	FY3/10E	FY3/11E	FY3/12E
Bharti	24.5	21.7	21.9	20.4	21.4	21.7	22.0	22.2	22.5	22.6
Reliance	4.8	14.5	13.5	21.0	20.5	21.0	21.2	21.3	21.5	21.6
Hutch	26.3	22.5	20.6	17.4	16.4	15.9	15.7	15.7	15.7	16.1
BSNL/MTNL	19.3	17.9	20.5	19.9	18.3	18.3	19.0	19.5	19.7	19.9
Tata Tele	2.4	4.0	6.5	8.8	10.3	10.3	9.9	9.4	9.1	9.0
Idea	14.1	11.9	10.1	7.7	8.5	8.6	8.5	8.5	8.4	8.3
Others	8.6	7.5	6.8	5.0	4.7	4.2	3.8	3.4	3.1	2.5

Source: TRAI, COAI, AUSPI, Credit Suisse estimates

ARPUs lower compared to competition

Reliance's ARPUs are lower than those of Bharti and Hutchison. We believe that this is due to: 1) the large number of free minutes bundled with the service and 2) lower roaming revenue.

Figure 9: ARPU comparison



Note: Quarter ending September 2006 for Reliance, Bharti; June 2006 for Hutchison
Source: Company data, Credit Suisse estimates

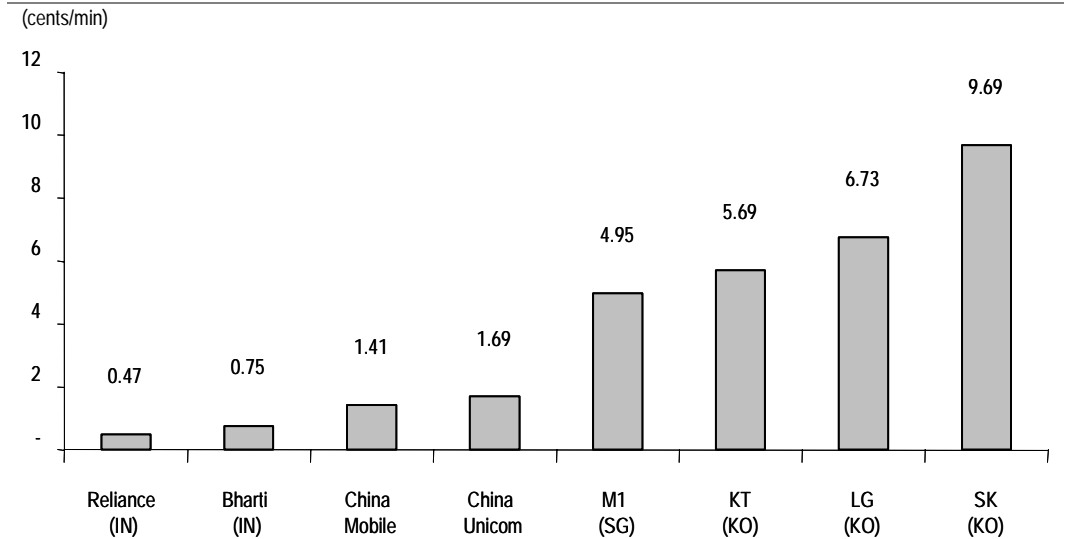
Lower ARPU due to bundling of free minutes and lower roaming revenues

Highly efficient

Reliance is one of the most cost-efficient mobile companies. Excluding interconnection costs, licence fees and spectrum charges, Reliance's operating expenditure is only 0.5 cents per minute, one of the lowest in Asia.

At 50 cents/min, Reliance's opex is rock bottom

Figure 10: Asian telecoms' operating expenses



Note: IN= India, SG = Singapore, KO = Korea
 Source: Company data, Credit Suisse estimates

Different model due to CDMA focus

We discussed Reliance's strategy to shift to the GSM network in an earlier section. We note that Reliance's focus on CDMA has led to different performance indicators for mobile business compared to other GSM operators.

Lack of international roaming revenues

Reliance's network and handsets are not compatible with the GSM networks employed by the majority of other networks. Thus, Reliance is missing out on this highly profitable income stream. We understand that international roaming revenue could account for 3-7% of GSM operators RPM and have 50%-plus margins.

Higher MOU

The higher capability of the CDMA network allows Reliance to offer high MOU to its subscribers. This leads to lower RPM for the company. However, as we discussed in the preceding section, its margins are similar to those of other GSM operators, due to its lower opex. Reliance also has higher MOU, as it operates nearly 1 mn public call centres. These centres could have ARPU's of around Rs2,000 per month and primarily have outgoing usage. The third reason for Reliance's higher MOU could be its award of free minutes to new subscribers. These minutes are primarily low-cost On-Net minutes and hence do not cost the company much.

International roaming is very lucrative at 50%-plus margins

Higher MOU due to: a more efficient CDMA network, a large number of public booths and bundling free minutes for new subs

Lower revenue per minute

We believe that this is due to: 1) lower roaming revenue, 2) a high proportion of free minutes and 3) a large number of PCOs.

Over the past few quarters, Reliance has aggressively tackled this issue by limiting the award of free minutes.

Figure 11: Revenue per minute quarterly comparison

Rs/min.	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Bharti	1.28	1.23	1.15	1.03	1.00	0.97
Reliance	0.78	0.72	0.77	0.71	0.77	0.77

Source: Company data, Credit Suisse estimates

Figure 12: Revenue per minute estimates

RPM	FY3/06	FY3/07	FY3/08	FY3/09	FY3/10
Reliance CDMA excl. PCO	0.69	0.64	0.56	0.49	0.46
Reliance GSM	0.92	0.90	0.75	0.66	0.61
Bharti GSM	1.17	0.95	0.83	0.73	0.68

Source: Credit Suisse estimates

Other investments

While long-distance investments may not make high returns, wireline business may benefit from IPTV, etc.

Reliance has made significant investments in long-distance and wireline access. We believe that the long-distance market should remain highly competitive and players should not be able to make returns significantly higher than the cost of capital. However, Reliance's investment in wireline access could turn out to be a wild card, due to value-added services such as IPTV. However, this should be at least couple of years away.

Company has the might to get content and sell at good prices

IPTV could be a wild card

Reliance's management has talked about convergence and IPTV for the past three to four years. We believe that the company has the heft to: 1) get content from the content providers and 2) sell it at a reasonable price to the consumers. However, the legal framework for IPTV is not clear yet in India. Thus, it could take some time before Reliance is able to see returns from this investment.

Decent growth but not high returns

Investment in broadband

Reliance's broadband business primarily services enterprise customers and home users to meet their bandwidth needs. We believe that though this business provides decent growth, competition remains high and company would not be able to earn high returns.

Figure 13: Key financials – broadband and wireline access business

(Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Revenue	5,122	10,557	17,282	24,056
YoY growth (%)		106.1	63.7	39.2
EBITDA	744	4,645	7,777	10,825
YoY growth (%)		524.4	67.4	39.2
Capex		10,927	8,938	8,545
EBITDA margin (%)	14.5	44.0	45.0	45.0
Capex/sales (%)		103.5	51.7	35.5

Source: Company data, Credit Suisse estimates

Long distance player

We believe that this segment will remain highly competitive and that the possibility of making returns significantly above the cost of capital remains low. Bharti's returns remain high, due to the company's focus on internal traffic and voice business.

Returns in long distance should remain lower than Bharti

Figure 14: Long distance business return on fixed assets

Return on fixed assets (%)	FY3/04	FY3/05	FY3/06	FY3/07E	FY3/08E
Bharti	17.0	24.4	28.8	36.8	37.3
Reliance			13.7	17.3	17.8
VSNL	12	16	3		

Source: Company data, Credit Suisse estimates

However, a lack of regulatory framework to allow customers to choose their long-distance provider could allow companies to cross-sell their long-distance services along with their access capability. This does allow them to capture any leakage in value. Telecom Regulatory Authority of India (TRAI) in its discussion paper on long-distance competition, had set a target date of December 2003 for implementing carrier pre-selection, but citing technical and other reasons, Indian operators have not implemented this to date.

Data player

We believe that the long-distance data services being provided by Reliance and other telecom players are primarily a bandwidth game and lack any branding opportunity. While a lack of adequate bandwidth in the short term could allow the players to earn good returns, over the longer term we believe that returns will be limited to the cost of capital.

Commoditisation of bandwidth in long term could result in lower returns

Figure 15: Reliance long distance and data business – key financials

(Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Revenue	58,260	60,481	77,142	79,010
YoY growth (%)		3.8	27.5	2.4
EBITDA	5,743	15,236	19,655	22,628
YoY growth (%)		165.3	29.0	15.1
Capex		363	11,070	9,956
EBITDA margin (%)	9.9	25.2	25.5	28.6
Capex/sales (%)		0.6	14.4	12.6

Source: Company data, Credit Suisse estimates

Valuations

Initiating coverage with a target price of Rs400 and a NEUTRAL rating

We derive a target price of Rs400 for Reliance, broadly in line with its current price, based on our DCF model. We initiate coverage of Reliance with a NEUTRAL rating.

Our DCF model builds in four years of negative free cash flows, post that strong cash flow growth (58% CAGR) until FY3/15, a medium-term cash flow of 6% CAGR and terminal growth of 3%. We estimate that Reliance terminal ROIC should get restricted to 25%, due to strong competition in the Indian telecom market.

On multiple-based valuations, Reliance emerges as one of the most expensive stocks in the region, with an EV/EBITDA of 10x FY3/08. We adjust this for strong growth expectations by using a FY3/15 EV/EBITDA of 6-6.5x and explicit forecasts from FY3/07-3/15. Based on this, we find Reliance's fair value to be in the range of Rs383-414.

Discounted cash flow analysis

Short term multiples fail to capture growth potential – hence DCF more appropriate

Given the strong expected growth in the Indian telecom market, we believe that it is difficult to determine a value for Reliance with reference to short-term multiples. We thus use our discounted cash flow model to establish a fair price for Reliance shares at Rs400, broadly in line with the current share price. Therefore, we rate Reliance as NEUTRAL.

DCF assumptions

Assuming strong growth, and quick improvement in EBIT and ROIC from current levels

We assume medium-term revenue growth of 8.4% YoY and terminal growth of 3% YoY for Reliance. We estimate that its EBIT margins will improve from 7.2% in FY3/06 to a 30% terminal rate. We also build in an improvement in Reliance's ROIC from 1.6% in FY3/06 to a 25.4% terminal rate.

Our model assumes that Reliance will become cash flow positive only from FY3/11, and this could be conservative. After that, we build in strong cash flow growth for five years, with medium-term (FY3/15-3/30) growth of 6% and terminal growth of 3%.

Valuation for growth is tied to the economic growth of country and leads to greater volatility

Figure 16: DCF assumptions

	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	FY3/11-3/25	Terminal
Revenue growth (%)		46.1	48.5	27.3	20.5	8.4	3.0
EBIT margins (%)	7.2	21.8	24.4	26.5	26.5	28.9	30.0
NOPAT margins (%)	2.5	15.9	16.9	19.1	18.9	20.5	21.0
Invested capital turns	0.63	0.70	0.79	0.77	0.78	1.01	1.19
ROIC (%)	1.6	12.6	15.1	16.6	16.0	22.5	25.4

Source: Company data, Credit Suisse estimates

We use a WACC of 11.6% for Indian telecom operators. Our assumptions for WACC are given below. Investors could argue that the beta for telecom stocks should be lower at 0.9-1.0x, similar to the one used for regional telecom stocks. We note that the historical beta for Indian telecom companies has been within a range of 1.2-1.4x. Furthermore, we believe that Indian telecom stocks are currently valued for their growth prospects compared to cash flow generation prospects for more mature telecom names. This increases the leverage of the company to the broader economic parameters of the country and leads to higher share price volatility.

Figure 17: WACC assumption

Cost of debt (%)	9.0
Risk free rate (%)	8.0
Risk premium %()	5.0
Beta	1.20
Cost of equity (%)	14.0
Target debt/equity (%)	30.0
Tax rate (%)	34.0
WACC (%)	11.6

Source: Company data, Credit Suisse estimates

DCF value distribution

Based on our DCF model, we calculate that nearly 72% of the target price comes from the terminal value of the company. Furthermore, 46% of DCF value comes from cash flow in the period FY3/12-3/25. Rest of the value is utilised in paying current debts and financing the cash outflow over the next three years.

Figure 18: DCF value distribution

	Current	% of value	12M fwd	% of value
PV of FCF until FY3/11	75,225	-10.9	53,450	-6.8
PV of FCF for FY3/12 - FY3/25	326,138	47.3	363,911	46.3
Terminal	503,943	73.1	562,310	71.5
Current net cash	65,337	-9.5	86,121	-10.9
Equity value	689,520	100.0	786,651	100.0
Per-share value	337		385	

Source: Company data, Credit Suisse estimates

DCF sensitivity

Our cost of capital and terminal growth assumptions are key to our valuation of Reliance. We thus test our target price for sensitivity to these two assumptions. We note that our target price can fall by as much as 18% or increase by as much as 30% by a +/- 100 bp change in our WACC and terminal growth assumptions.

Figure 19: DCF value – sensitivity to WACC and terminal growth

WACC/terminal growth	2.0%	2.5%	3.0%	3.5%	4.0%
10.0%	520	529	540	552	565
10.5%	468	475	483	492	502
11.0%	422	428	434	441	449
11.5%	382	386	391	397	403
12.0%	347	350	354	358	363
12.5%	315	318	321	324	328

Source: Company data, Credit Suisse estimates

Multiple-based valuations**Highly expensive**

At an FY3/08 EV/EBITDA of 10x and a 12M fwd EV/sub. of US\$347, Reliance is one of the most expensive regional telecoms stocks.

+/- 100bps change in
WACC and terminal
growth assumptions gives
+30% or -18% impact on
TP

Figure 20: Asia mobile operators' valuations

Ticker	Currency	Close price	Rating	Target price	Mkt cap (US\$ bn)	P/E (x)		EV/EBITDA (x)		P/B (x)		
						06E	07E	06E	07E	06E	07E	
Indian operators												
Bharti Airtel	BHARTI IN	Rs	530	N	600	22.3	25.4	16.6	14.5	9.9	7.7	5.3
Reliance	RCOM IN	Rs	379	N	400	17.2	27.7	17.4	13.9	9.3	5.3	4.1
Asian operators												
AIS	ADVANC TB	Bt	90.00	N	98.00	7.2	14.7	12.1	6.0	5.4	3.7	3.7
China Mobile	941 HK	HK\$	63.20	N	50.00	159.9	19.6	16.8	7.3	6.4	4.2	3.8
China Unicom	762 HK	HK\$	8.65	N	7.80	14.0	19.5	18.1	4.2	3.8	1.4	1.3
DiGi	DIGI MK	RM	11.90	N	12.60	2.5	12.5	11.0	5.5	5.6	7.0	20.2
Excelcom	EXCL IJ	Rp	2,050	U	1,200	1.6	22.0	26.6	8.1	6.8	3.4	3.0
FarEasTone	4904 TT	NT\$	38.00	N	43.00	4.4	10.6	10.7	4.8	4.6	2.0	1.9
Indosat	ISAT IJ	Rp	5,200	U	4,450	3.1	19.6	18.9	5.7	5.5	1.8	1.7
KTF	032390 KS	W	28,900	N	31,500	6.1	10.3	9.7	3.7	3.6	1.2	1.0
LGT	032640 KS	W	10,900	N	12,000	3.2	13.6	8.0	4.6	4.0	2.1	1.7
Maxis	MAXIS MK	RM	8.95	N	9.20	6.1	12.4	12.5	5.2	5.2	3.3	3.2
MobileOne	M1 SP	S\$	1.98	N	2.02	1.2	12.1	11.3	6.2	5.9	4.0	3.7
NTT DoCoMo	9437 JP	¥	179,000	N	200,000	67.8	15.8	14.9	4.8	4.4	1.8	1.7
PT Telkom	TLKM IJ	Rp	8,400	U	7,050	17.7	14.0	12.8	5.6	5.0	5.3	4.4
SKT	017670 KS	W	204,500	O	240,000	17.8	8.9	7.9	4.5	4.2	1.8	1.5
SmarTone	315 HK	HK\$	7.45	N	8.00	0.6	62.0	751.0	2.8	2.7	1.3	1.3
StarHub	STH SP	S\$	2.23	O	2.38	3.1	16.6	15.5	8.3	7.7	4.4	4.1
SUNDAY	866 HK	HK\$	0.64	O	1.10	0.2	n.m.	n.m.	-17.0	87.7	-8.3	-2.9
TAC	TAC SP	US\$	4.00	O	6.20	1.9	14.1	7.0	6.2	4.4	1.7	1.4
Taiwan Mobile	3045 TT	NT\$	33.20	O	41.00	5.0	10.8	10.6	5.7	5.8	1.8	1.7
Asia average - mobile							17.0	15.1	6.1	5.5	3.3	2.8

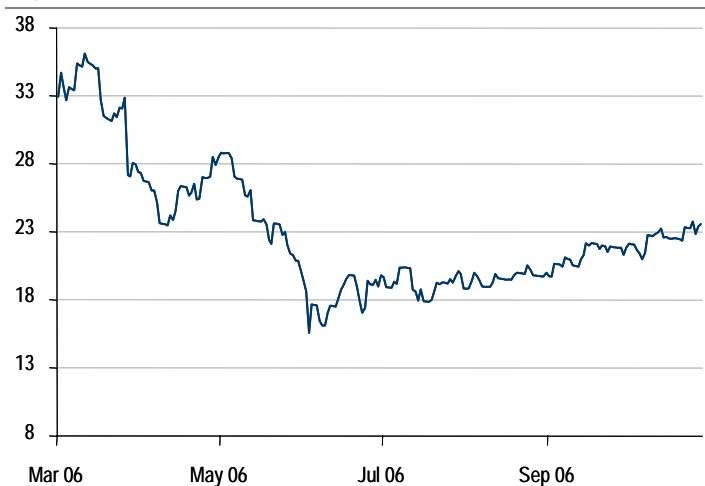
Notes: 1) O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM, 2) averages are based on market capitalisation, 3) FY06 represents FY3/07 for Bharti, Reliance, NTT DoCoMo and SingTel

Source: Company data, Credit Suisse estimates

Historical multiples

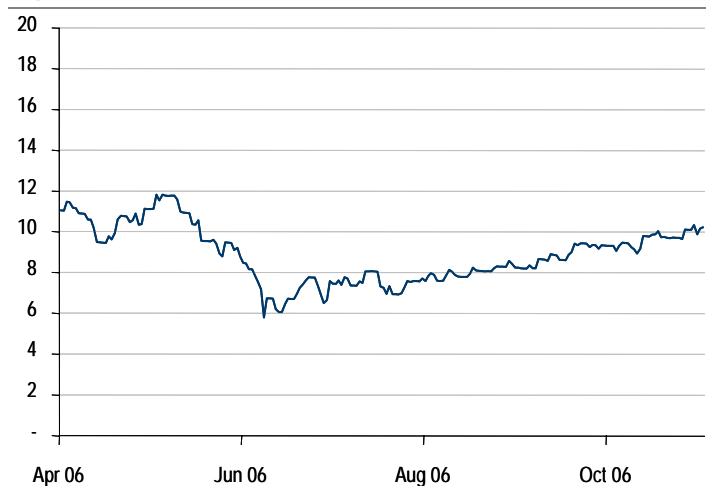
Reliance has a rather short trading history of eight months. In this period, Reliance has traded at around a 10% discount to Bharti's EV/EBITDA and EV/sub. multiples.

Figure 21: 12M forward P/E based on consensus estimates



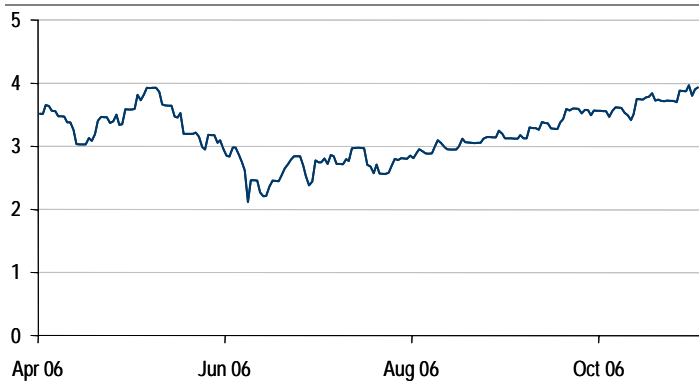
Source: Datastream, Bloomberg, Credit Suisse estimates

Figure 22: 12M fwd EV/EBITDA based on consensus est.



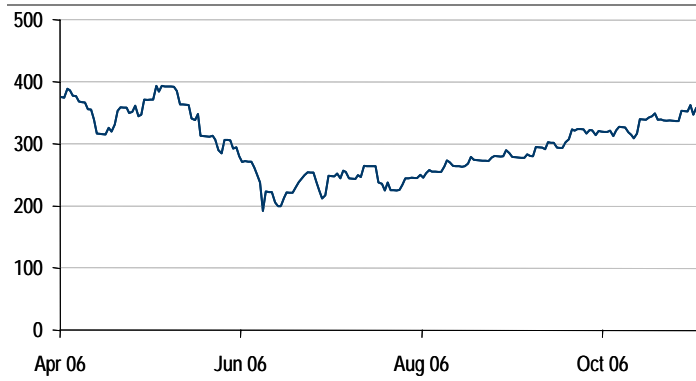
Source: Datastream, Bloomberg, Company data, Credit Suisse estimates

Figure 23: 12M fwd EV/sales based on consensus estimates



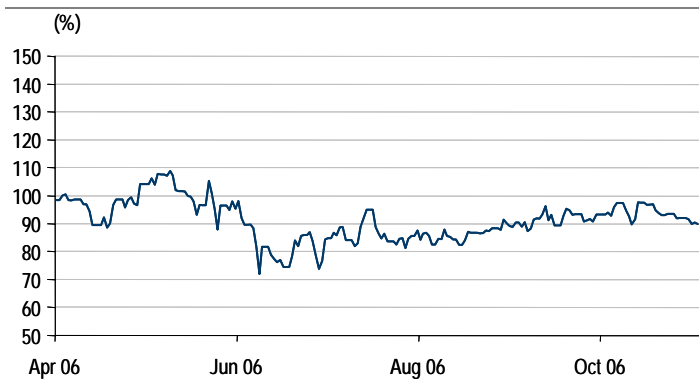
Source: Datastream, Bloomberg, Credit Suisse estimates

Figure 24: 12M fwd EV/subscribers based on CS estimates



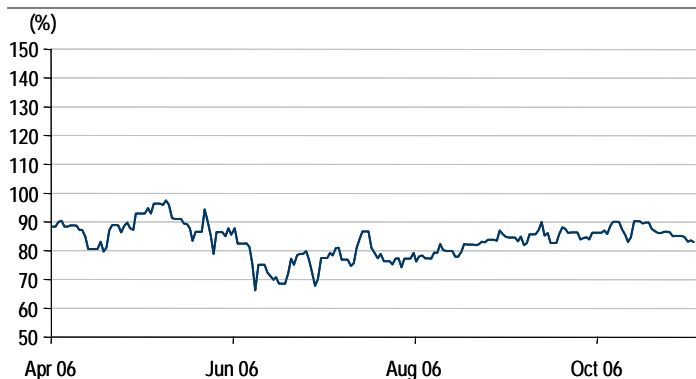
Source: Bloomberg, Company data, Credit Suisse estimates

Figure 25: Reliance 12M fwd EV/EBITDA vs Bharti based on consensus estimates



Source: Datastream, Bloomberg, Credit Suisse estimates

Figure 26: Reliance 12M fwd EV/subs vs Bharti based on Credit Suisse estimates



Source: Bloomberg, Company data, Credit Suisse estimates

Terminal EV/EBITDA of 6.0-6.5x gives Price range of Rs383-414

Valuations remain stretched, even when adjusted for growth

We use a mixed-multiple-based and DCF-based model for the company to adjust for its strong growth. We note that the company is expected to post a strong turnaround in cash flows in FY3/06-3/15. After that, we use an exit EV/EBITDA multiple of 6.0-6.5x, based on the average multiple range for Asian wireless operators currently. This gives us a value of Rs383-414 per share for the company.

Investment risks

The key risks to our target price of Rs400 on Reliance include:

- *Execution risk:* Reliance is trying to shift from a CDMA network to a GSM network. We believe that this is not easy and could impact margins and cash flows,
- *Market risk:* This would include the possibility of irrational competition from some players trying to gain market share like BSNL which could negatively impact margins and returns,
- *Economic risk:* A slowdown in the Indian economy could potentially slow down the rate of subscriber additions,
- *Valuation risk:* A sharp correction in Indian market could lead to a significant correction in shares of Reliance.

Appendix: Financials

Figure 27: Consolidated income statement

Year-end 31 Mar (Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Revenue	107,663	157,303	233,571	297,302
Total access, interconnect, license costs	40,404	43,848	64,869	68,151
Other costs	42,527	53,200	78,294	109,961
EBITDA	24,732	60,255	90,408	119,190
Depreciation	16,948	26,041	33,389	40,428
EBIT	7,784	34,214	57,019	78,762
Finance expenses (net)	2,595	4,325	8,006	9,036
Other income (net)	39	-	-	-
Profit before tax	5,151	29,889	49,013	69,726
Provision for tax	337	1,943	4,166	6,973
Profit after tax	4,813	27,946	44,847	62,754
Exceptional Items	374	-	-	-
Net income	4,439	27,946	44,847	62,754

Source: Company data, Credit Suisse estimates

Figure 28: Consolidated balance sheet

Year-end 31 Mar (Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Total current assets	83,311	108,053	131,195	141,289
Cash and short-term investments	37,995	52,210	57,620	59,531
Receivables and other current assets	45,316	55,843	73,575	81,758
Net fixed assets	214,263	262,913	338,973	415,211
Gross fixed assets	261,836	336,527	445,976	562,642
Less : depreciation	47,573	73,614	107,003	147,431
Other assets	22,163	22,163	22,163	22,163
Total assets	319,737	393,129	492,331	578,663
Total current liabilities	98,874	109,320	138,675	142,254
Total long term liabilities	103,348	138,348	163,348	183,348
Total equity	117,420	145,366	190,213	252,966
Minority interest	96	96	96	96
Total liabilities	319,737	393,129	492,331	578,663

Source: Company data, Credit Suisse estimates

Figure 29: Consolidated cash flow statement

Year-end 31 Mar (Rs mn)	FY3/07E	FY3/08E	FY3/09E
Net income	27,946	44,847	62,754
Adjusted for:			
Depreciation	26,041	33,389	40,428
Interest expenses	4,325	8,006	9,036
Change in working capital	- 81	11,623	-4,605
Cash flow from operation	58,232	97,865	107,612
Change in fixed asset	-74,691	-109,449	-116,666
Cash flow from investing	-74,691	-109,449	-116,666
Change in debt and liabilities	35,000	25,000	20,000
Interest expenses	-4,325	-8,006	-9,036
Cash flow from financing	30,675	16,994	10,964
Change in cash	14,216	5,410	1,911
Cash at the beginning of year	37,995	52,210	57,620
Cash at the end of year	52,210	57,620	59,531
Change in cash	14,216	5,410	1,911

Source: Company data, Credit Suisse estimates

Figure 30: Key ratios

	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Margins (%)				
EBITDA margins	23.0	38.9	39.2	40.2
EBIT margins	7.2	26.3	27.6	28.0
Net profit margins	4.1	20.9	21.9	22.2
YoY growth (%)				
Revenue growth		60.3	45.8	24.9
EBITDA growth		66.9	47.0	28.1
EBIT growth		77.5	52.6	27.0
Net profit growth		73.0	52.9	26.6
Return ratios (%)				
ROE	3.2	35.1	37.1	33.1
ROIC	1.6	19.7	21.7	20.8
Turns ratios (x)				
Fixed asset turns	0.50	0.84	0.87	0.85
Other ratios				
Net debt/equity (%)	55.7	51.9	45.1	32.8
Interest cover	3.0	10.0	11.7	13.1

Source: Company data, Credit Suisse estimates

Figure 31: ROIC calculations

(Rs mn)	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Net working capital	-42,792	-37,747	-41,743	-30,766
Net fixed assets	214,263	262,913	338,973	415,211
Total invested capital	171,471	225,166	297,230	384,445
NOPAT	2,688	25,070	39,523	56,745
NOPAT margins (%)	2.5	15.9	16.9	19.1
ROIC (%)	1.6	12.6	15.1	16.6

Source: Company data, Credit Suisse estimates

Figure 32: Dupont analysis

(Rs mn)	FY3/07E	FY3/08E	FY3/09E
Net margin (net profit/revenue) (%)	17.8	19.2	21.1
Total asset turnover (revenue/assets) (x)	0.4	0.5	0.6
Leverage multiplier (assets/equity) (x)	2.7	2.6	2.4
ROE (%)	21.3	26.7	28.3

Source: Company data, Credit Suisse estimates

Figure 33: Valuation summary

	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Current share price	379			
Market cap (Rs mn)	710,197	710,197	710,197	710,197
Enterprise value (EV)	775,550	796,334	815,924	834,013
No. of shares	2,044.6	2,044.6	2,044.6	2,044.6
EV/EBITDA	31.4	13.2	9.0	7.0
EV/EBIT	99.6	23.3	14.3	10.6
P/E	160.0	25.4	15.8	11.3
P/B	6.0	4.9	3.7	2.8
EV/IC	4.5	3.5	2.7	2.2

Source: Company data, Credit Suisse estimates

Figure 34: Segment wise summary financials

Rs mn	FY3/06A	FY3/07E	FY3/08E	FY3/09E
Mobile (personal)				
Revenue	73,238	113,525	170,662	225,815
YoY growth (%)		55.0	50.3	32.3
EBITDA	22,272	41,291	63,038	85,128
YoY growth (%)		85.4	52.7	35.0
Capex		61,519	87,234	96,772
EBITDA margin (%)	30.4	36.4	36.9	37.7
Capex / sales (%)		54.2	51.1	42.9
Broadband				
Revenue	5,122	10,557	17,282	24,056
YoY growth (%)		106.1	63.7	39.2
EBITDA	744	4,645	7,777	10,825
YoY growth (%)		524.4	67.4	39.2
Capex		10,927	8,938	8,545
EBITDA margin (%)	14.5	44.0	45.0	45.0
Capex/sales (%)		103.5	51.7	35.5
Global				
Revenue	58,260	60,481	77,142	79,010
YoY growth (%)		3.8	27.5	2.4
EBITDA	5,743	15,236	19,655	22,628
YoY growth (%)		165.3	29.0	15.1
Capex		363	11,070	9,956
EBITDA margin (%)	9.9	25.2	25.5	28.6
Capex/sales (%)		0.6	14.4	12.6

Source: Company data, Credit Suisse estimates

Figure 35: Key assumptions for mobile segment

	FY3/06A	FY3/07E	FY3/08E	FY3/09E
ARPU (Rs/sub./month)	383	351	330	306
Subscribers (mn)	20.2	33.8	52.3	70.6
CDMA subs/total subs (%)	90.8	90.0	80.0	65.0
Market share (%)	21.0	20.5	21.0	21.2
Revenue per minute (Rs/min.)	0.72	0.70	0.66	0.61

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 02 Nov 06)

Advanced Info Service PCL (ADVA.BK, Bt91.00, NEUTRAL, TP Bt98.00)
 Bharti Airtel Ltd (BRTI.BO, Rs541.20, NEUTRAL, TP Rs600.00)
 China Mobile Limited (0941.HK, HK\$63.55, NEUTRAL, TP HK\$50.00)
 China Unicom (0762.HK, HK\$8.67, NEUTRAL, TP HK\$7.80)
 DiGi.Com (DSOM.KL, RM11.90, NEUTRAL, TP RM12.60)
 Ericsson (ERICb.ST, SKr27.60, OUTPERFORM, TP SKr33.00, OVERWEIGHT)
 Excelcomindo Pratama PT (EXCL.JK, Rp2075.00, UNDERPERFORM, TP Rp1200.00)
 Far EasTone Telecom (4904.TW, NT\$38.05, NEUTRAL, TP NT\$43.00)
 Hutchison Telecommunications International Ltd (2332.HK, HK\$15.04, UNDERPERFORM, TP HK\$14.50)
 International Business Machines (IBM, \$92.33, OUTPERFORM, TP \$100.00, MARKET WEIGHT)
 KT Freetel (032390.KS, W28,850, NEUTRAL, TP W31,500)
 LG Telecom (032640.KQ, W10,900, NEUTRAL [V], TP W12,000)
 Maxis Communications (MXSC.KL, RM8.90, NEUTRAL, TP RM9.20)
 MobileOne Ltd (MONE.SI, S\$2.01, NEUTRAL, TP S\$2.02)
 Nokia (NOK1V.HE, Eu15.48, OUTPERFORM, TP Eu22.00, OVERWEIGHT)
 NTT DoCoMo (9437, ¥179,000, NEUTRAL, TP ¥200,000, MARKET WEIGHT)
 PT Indosat Tbk (ISAT.JK, Rp5350.00, UNDERPERFORM, TP Rp4450.00)
 PT Telkom (Telekomunikasi Indo.) (TLKM.JK, Rp8500.00, UNDERPERFORM, TP Rp7050.00)
 Reliance Communication Ltd (RLCM.BO, Rs388.65, NEUTRAL, TP Rs400.00)
 SK Telecom (017670.KS, W213,500, OUTPERFORM, TP W240,000)
 SmarTone Telecom (0315.HK, HK\$7.31, NEUTRAL, TP HK\$8.00)
 StarHub Ltd (STAR.SI, S\$2.19, OUTPERFORM, TP S\$2.38)
 Sunday Communications (0866.HK, HK\$.63, OUTPERFORM, TP HK\$1.10)
 Taiwan Mobile Co. Ltd. (3045.TW, NT\$32.90, OUTPERFORM, TP NT\$41.00)
 Total Access Communications (TACC.SI, \$4.00, OUTPERFORM, TP \$6.20)

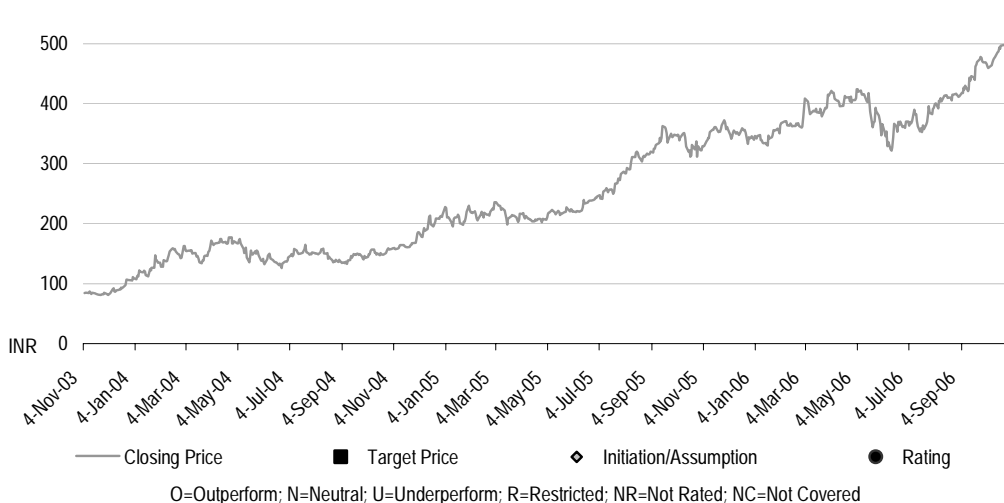
Disclosure Appendix

Important Global Disclosures

I, Bhuvnesh Singh, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

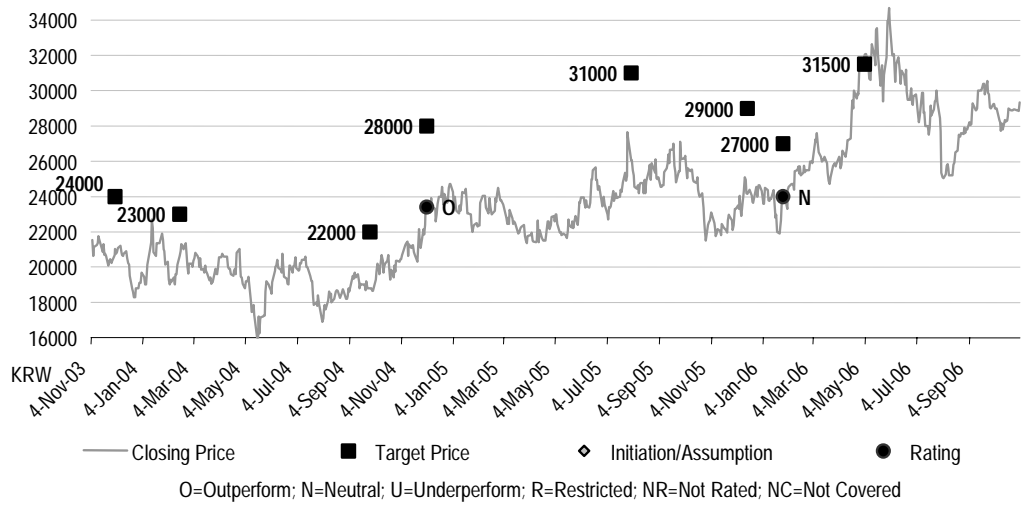
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



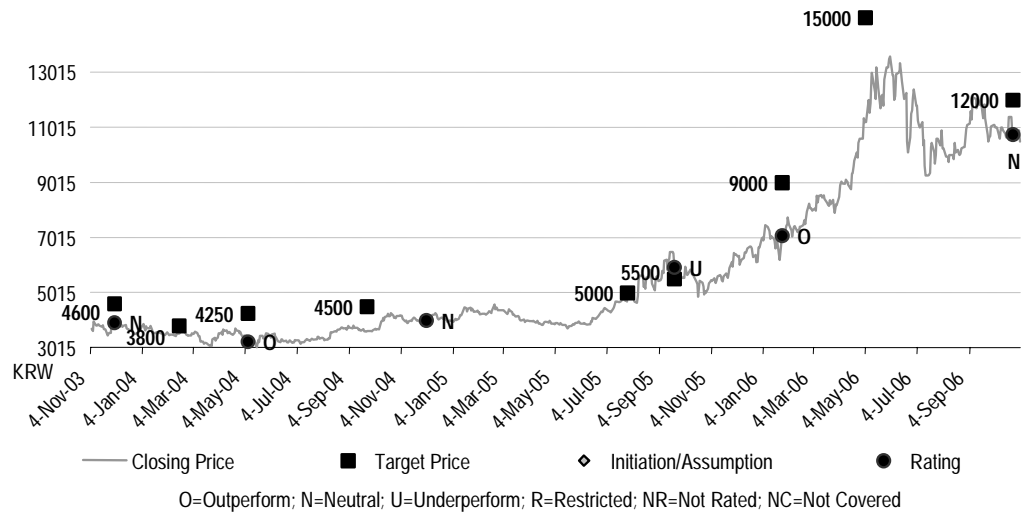
BRTI.BO	Closing Price	Target Price	Initiation/
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3-Year Price, Target Price and Rating Change History Chart for 032390.KS



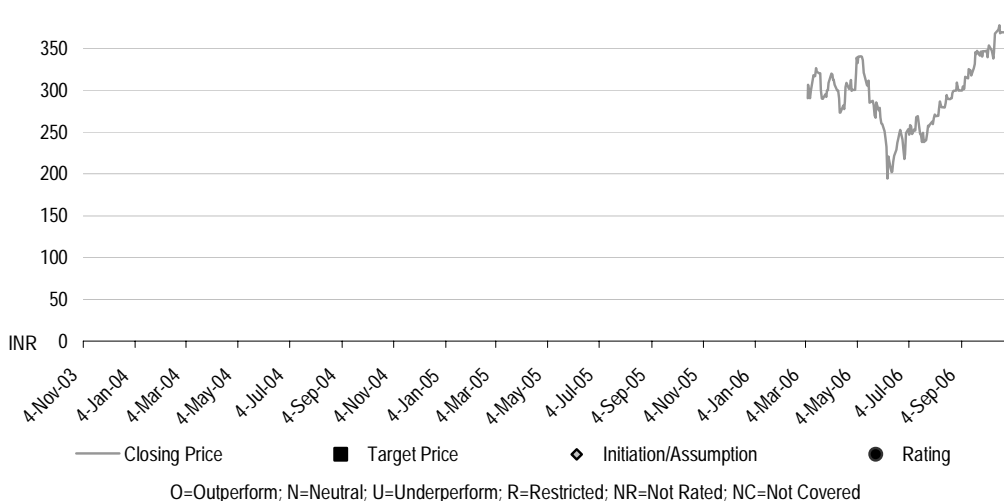
032390.KS Date	Closing Price Price (KRW)	Target Price Price (KRW)	Rating	Initiation/Assumption
02-Dec-03	21050	24000		
16-Feb-04	20650	23000		
27-Sep-04	18800	22000		
03-Dec-04	23400	28000	OUTPERFORM	
01-Aug-05	26050	31000		
16-Dec-05	24150	29000		
27-Jan-06	24000	27000	NEUTRAL	
03-May-06	32000	31500		

3-Year Price, Target Price and Rating Change History Chart for 032640.KQ



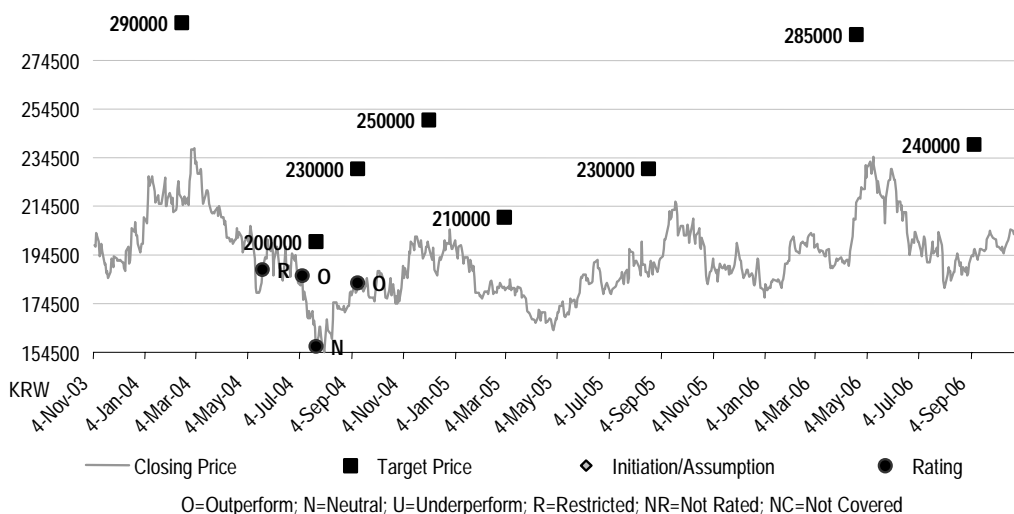
032640.KQ Date	Closing Price Price (KRW)	Target Price Price (KRW)	Rating	Initiation/ Assumption
02-Dec-03	3910	4600	NEUTRAL	
16-Feb-04	3510	3800		
07-May-04	3225	4250	OUTPERFORM	
24-Sep-04	3610	4500		
03-Dec-04	4005		NEUTRAL	
28-Jul-05	5150	5000		
21-Sep-05	5930	5500	UNDERPERFORM	
26-Jan-06	7080	9000	OUTPERFORM	
04-May-06	11200	15000		
25-Oct-06	10750	12000	NEUTRAL	

3-Year Price, Target Price and Rating Change History Chart for RLCM.BO



RLCM.BO	Closing Price	Target Price	Initiation/
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3-Year Price, Target Price and Rating Change History Chart for 017670.KS



017670.KS Date	Closing Price Price (KRW)	Target Price Price (KRW)	Rating	Initiation/ Assumption
16-Feb-04	217500	290000		
21-May-04	188500		RESTRICTED	
07-Jul-04	186000		OUTPERFORM	
23-Jul-04	157000	200000	NEUTRAL	
10-Sep-04	183000	230000	OUTPERFORM	
03-Dec-04	198000	250000		
02-Mar-05	181500	210000		
19-Aug-05	185500	230000		
21-Apr-06	216000	285000		
07-Sep-06	196500	240000		

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Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

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Restricted	3%	

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Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs600 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6.

Risks: Risks to our 12-month target price of Rs600 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

Price Target: (12 months) for (032390.KS)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 8.0% cost of capital and a -0.4% terminal growth rate, supports our W31,500 target price for KT Freetel. At W31,500, KT Freetel would trade at 13 times our 2007 earnings per share estimate, or at an enterprise value to earnings before interest, taxes, depreciation and amortization multiple of 3.8.

Risks: The following risks could impede achievement of our W31,500 target price for KT Freetel: 1) Assuming free CID service would start from 2006, KTF's net profit would be negatively impacted. 2) Due to KT's voluntary restriction on resell market share at 6.6%, PCS resell subscriber growth will be under pressure for the next 24 month period.

Price Target: (12 months) for (032640.KQ)

Method: Our target price of W12,000 is based on 07E target PE multiple of 9x that is 18% discount to SKT's, the largest mobile operator in Korea, 07E target PE multiple of 11x. Our discounted cash flow (DCF) analysis, based on an estimated 9.7% cost of capital and a -2.5% terminal growth rate, supports our W12,000 target price for LG Telecom.

Risks: Potential risks to our W12,000 target price for LG Telecom include: 1) the lack of a strong data service, 2) launch of 3G HSDPA service by SKT and KTF, and 3) government's decision to further stay away from its asymmetric regulation policy.

Price Target: (12 months) for (RLCM.BO)

Method: Our 12-month target price of Rs400 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6 and beta of 1.2. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 3% terminal growth

Risks: Key risk to our target price of Rs400 for Reliance includes 1) execution risk of the shift to GSM network from CDMA network, 2) stronger than expected margin performance and 3) continuous uptrend in overall market

Price Target: (12 months) for (017670.KS)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 8.7% cost of capital and a 5.0% terminal growth rate, supports our W240,000 target price for SK Telecom. At W240,000, SK Telecom would trade at 11.0 times our 2007 earnings per share estimate, or at an enterprise value to earnings before interest, taxes, depreciation and amortization multiple of 5.2.

Risks: The following risks could impede achievement of our W240,000 target price for SK Telecom: 1) Though the company has downplayed possibility of marketing war or steep rise in marketing cost in 2006 due to regulatory changes on handset subsidy rule, there may be some risk. 2) Though marginal impact on its earnings, SKT's EBITDA and net profit are expected to drop slightly due to free CID service starting in 2006 3) Slower-than-expected wireless data growth

See the Companies Mentioned section for full company names.

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