

February 06, 2012

EITC (DU) (DU.DU)

12-Month Fair Value: AED 4.16

Recommendation: Buy - Risk Level: 3

Last Close (5 February, 2012): AED 3.07

- **du's FY2011 royalty decided by UAE federal government.** The UAE federal government has set du's FY2011 royalty at 15% of the company's net profit before any distributions plus an amount equal to 5% of the company's revenues. This compares to FY2010 royalty of 15% of the company's net profit before any distributions. The royalty for the subsequent years will be announced in due course.
- **du's 9M2011 performance and provisioning.** During 9M2011, du has earned AED 6.4 billion in revenues and AED 1.3 billion in profits before royalty. The company has so far provisioned for royalty at 50% net profits before any distributions amounting to AED 657 million.
- **Comparing with our expectations.** Our model incorporated the royalty assumption at 50% of the company's net profit before any distributions for FY2011 and beyond (similar to the company's royalty provisioning practice). However, based on the current royalty decision, we estimate the FY2011 royalty to be around AED 717 million (21% lower than our initial expectations for royalty), which represents 39% of our forecasted net profits before any distributions.
- **Our royalty assumption for FY2012 and beyond remains unchanged.** We remain conservative on our royalty assumption and therefore we continue to provision for royalties at 50% of the company's net profit before any distributions, for FY2012 and beyond.
- **Minimal impact on valuation.** As expected royalty has increased this year as du's operating performance has improved. Adding on a 5% revenue share to the royalty base has resulted in the effective royalty rate increasing from 15% in FY2010 to an estimated 39% in FY2011. However, this has increased our DCF valuation by 1% due to our initial conservative provisioning for royalty. Hence, for now we maintain our fair value on the stock at AED 4.16 per share (36% upside) and our "Buy" recommendation.

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Related Research

- du Update - 16 November 2011

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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