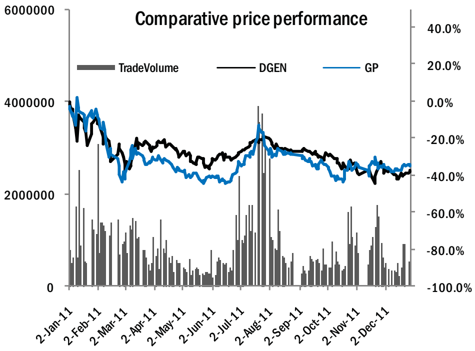
LankaBangla SECURITIES

Brokerage is more than commission

"Current low mobile penetration compared to neighboring countries and rising income levels of people indicate scope for further mobile penetration in Bangladesh. The main growth of subscribers is expected to come from rural areas. We expect number of mobile subscribers to reach 95.6 million by 2012, which is currently 79.68 million. Broadest network coverage, best quality network and strong distribution channel will ensure Grameenphones's pie to remain the largest. Market leadership ensures sustained superior profitability for Grameenphone. Increased internet use and probable introduction of 3G services root the drivers of future growth. Healthy balance sheet indicates scope for further attractive dividend. Healthy Free cash flow ensures value for the capital providers."

COMPANY SNAPSHOT	
Paid-up Capital (BDT mn.)	BDT 13503 Mn
Total No. of Securities (mn.)	1350.3 Mn
Free Float (estimated)	10%
Market Capitalization (mn.)	BDT 221719.2 mn
52 Week Price Range	135.8-242
Average Daily Turnover (BDT mn)	BDT 177.15 Mn
Face Value	Tk. 10
Market Lot	200



PRICE PERFORMANCE			
Price Performance (%)	3 M	6 M	12 M
GP	-8.63%	11.17%	-30.04%
DGEN	-15.19%	-5.98%	-38.76%

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Investment Rationale

- Healthy ROAE and ROAA are expected to improve in coming years,
- Currently well poised to benefit from the data service-driven revenue growth,
- Well positioned for rural penetration, and
- According to latest target set by the Telenor board additional capital expenditure by Grameen Phone is going to go down significantly resulting significant cash flow from 2012. CAPEX target is set at 9 percent of revenue.
- GP is the only operator that is having a healthy bottom line consistently. We are probably seeing the bottoming of call rate as other operators must raise call rate to sustain profitability.
- GP has lowest churning rate among the operators. Its client base is less price sensitive among other operators.
- Low capital expenditure and increased target debt to equity ratio signals high dividend payout for GP. We expect that the dividend payout ratio will remain close to 100% during next two years.
- Average ARPU (Average revenue per user) for GP is 20% higher than the nearest competitor. We expect that average ARPU for GP will find the bottom by 2013 to BDT 204.03.
- As a large cap and market leader, GP is expected to get a favorable term loan. As GP has very high effective tax rate (49%), extra leverage will give tax advantage.

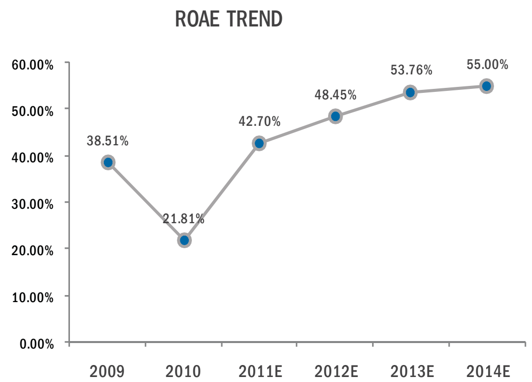
Year	Operating Income (BDT .mn)	PAT (BDT mn.)	EPS (BDT)	NAV per Share	ROE	P/E
2008	15349.97	2983.87	2.46	20.43	0.00%	65.85
2009	20518.21	14968.17	12.08	37.14	38.51%	13.41
2010	20207.23	10705.35	7.93	35.57	21.81%	20.43

Risk Factors

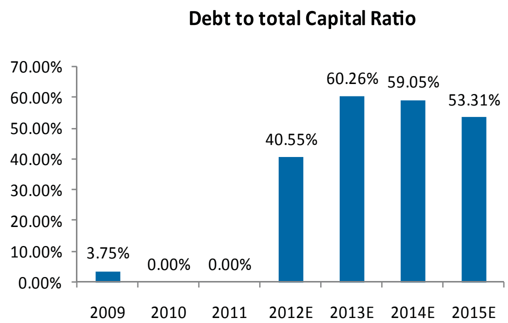
Regulatory risk: Being the largest player in the market regulator may perceive GP as a monopolist and there is significant chance that the regulator may impose excessive regulatory burden on GP.

Devaluation of BDT against Dollar creates two fold risks. Capital expenditure might rise in BDT terms even though the dollar cost of procuring equipment decline. Weak BDT will erode the purchasing power of rural population in terms of inflation.

Excessive devaluation of BDT will hurt overseas borrowing and escalate overall borrowing cost.



Source: Grameenphone Annual Report & LBSL Research



Source: Grameenphone Annual Report & LBSL Research

Company profile

Grameenphone Ltd s a public limited company incorporated in Bangladesh in 1996 under the Companies Act 1994. GP was initially registered as a private limited company and subsequently converted into a public limited company on 25 June 2007. During November 2009, GP listed its shares with both Dhaka and Chittagong Stock Exchanges. In 2010, Grameenphone formed a wholly owned subsidiary namely, Grameenphone IT Ltd to provide IT services to itself and to external customers. GPIT launched its commercial operation from 1 April 2010.

The group is primarily involved in providing mobile telecommunication services (voice, data and other related services) and IT related services in Bangladesh. Grameenphone obtained its radio system operating license from the Ministry of Posts and Telecommunications (MoPT), Government of Bangladesh, commencing from 11 November 1996 and launched commercial operation on 26 March 1997. Telecommunication network of the company covers all divisional towns and districts of the country. The company also provides international roaming services through international roaming agreements with various operators of different countries across the world.

Attractive dividend yield:

Considering current price of 164.2, we expect dividend yield of 7.91% for 2012E and 9.13% for 2013E. Healthy FCFF (Free cash flow to firm), GP's dividend policy and GP's plan to change in capital structure by Grameenphone management support the dividend expectation.

High cash dividend is in-line with the new capital structure planning and dividend policy by Grameenphone. As part of that restructuring, they will payout healthy cash dividends to their shareholders. Grameenphone's dividend policy is to payout minimum 50% of net profit. We expect the payout ratio to remain higher than that minimum level for next few years.

Healthy ROAE:

ROAE of Grameenphone is high and is expected to remain high. This high ROAE allows Grameenphone room for growth without raising capital. ROAE in 2010 was 21.81%, which indicates good return for equity provided by the shareholders. ROAE is expected to increase in coming years as GP is going to add leverage to its balance sheet. The expected ROAE for 2012 is 48.45%.

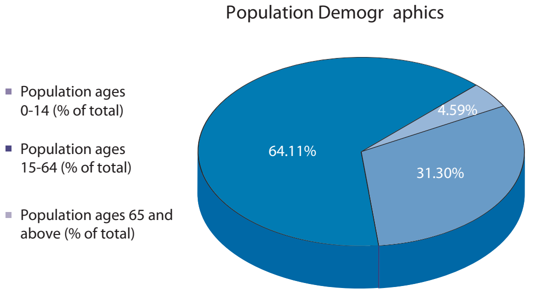
Addition of debt to its Balance Sheet is going to Increase ROAE:

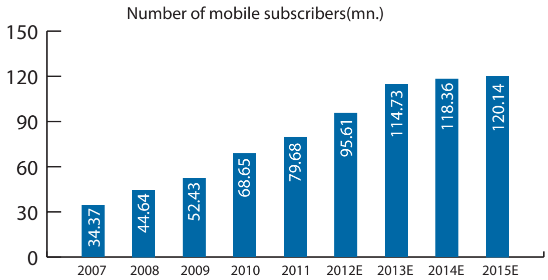
For a mammoth organization like GP, doing business fully on equity is not obviously the optimum capital structure. Grameenphone wants to restructure its capital and add on loan to its balance sheet. According to management of GP, they want to maintain a debt to EBITDA ratio of 1.2 in the long run. We assume that GP will take 27758 million debts in 2012. Adding on debt will increase ROAE of GP. We expect ROAE to be 48.63% in 2012 in comparison to 21.81% in 2010.

Reduction of SIM tax by BDT 200 will save:

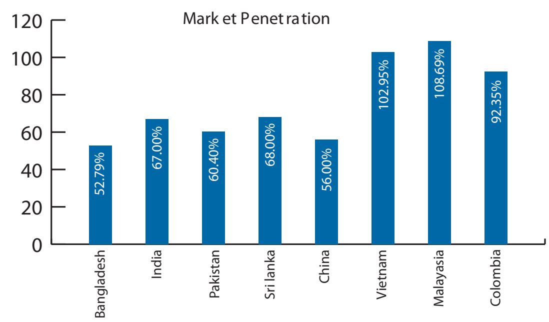
In 2011-12 budgets, SIM tax was reduced from BDT 800 to BDT 600. This will reduce selling and distribution expense by around 21.5%.

GP's corporate tax is 35%. However, SIM tax subsidy is not tax deductible. So effective tax rate is high, which is around 49%. Due to this reduction of tax on SIM, effective tax rate is expected to improve. We expect effective tax rate to reduce by 3% to 4%.





Source: BTRC



Source: ITU

Higher penetration expected; Macro-economic support and favorable demographics:

Bangladesh market has scope for penetration. Penetration rate is 52.79%, which is low if we see countries like India, Pakistan and Sri Lanka who have around 60 percent penetration and that figure is growing every year. On the other hand, countries like Vietnam, Malaysia and Colombia have around 100% penetration. So it can be fairly assumed that mobile penetration rate of Bangladesh will reach around 70% - 80%.

This penetration level of 52.7% is not actual penetration because many people have more than one SIM. The actual penetration would be around 30% to 35%. Given the current demographic condition and poverty level, this penetration will go up to 60%-65% that means 80%-85% including the multi SIM users.

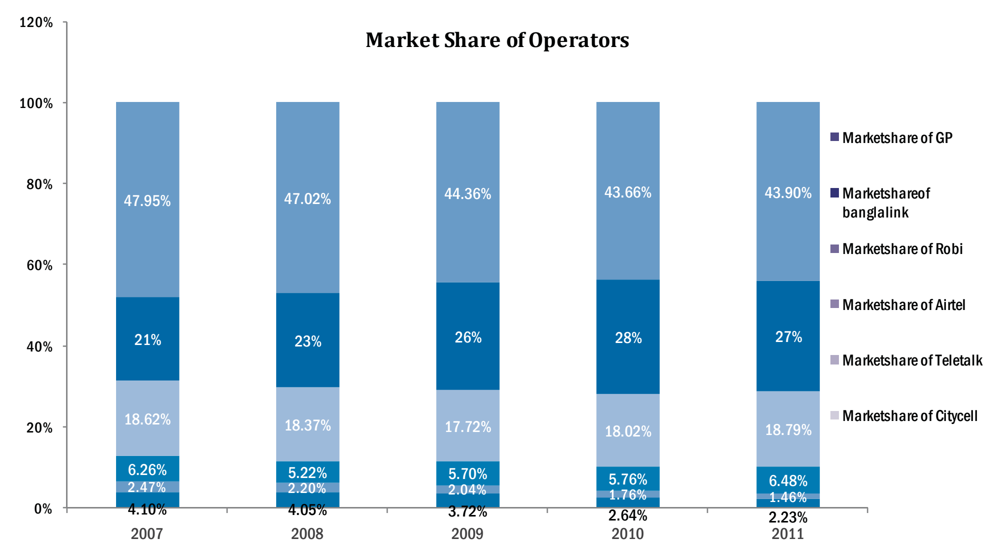
We believe Bangladesh's telecom sector is poised to benefit from Bangladesh's favorable demographic profile and macroeconomic environment with increasing export, remittance inflow, government spending and initiatives to increase employment in the country.

A healthy GDP growth is supportive of growth of telecom sector and Bangladesh has been growing at around 6% and this growth is expected to continue. With a real GDP growth of around 6% and population growth of 1.5% will likely lead to increased household wealth and higher disposable income. This is also supportive of growth of Bangladeshi telecom sector.

Bangladesh has favorable demographics with 1.5% population growth and 31% of the population below the age of 14. Bangladesh's young and fast growing population is beneficial for the telecom sector as all are potential customers. Also a young and fast growing population will continue to support Bangladesh's labor force and this, in turn, will support healthy GDP growth. This, in our view, is supportive of the top line growth of the telecom sector.

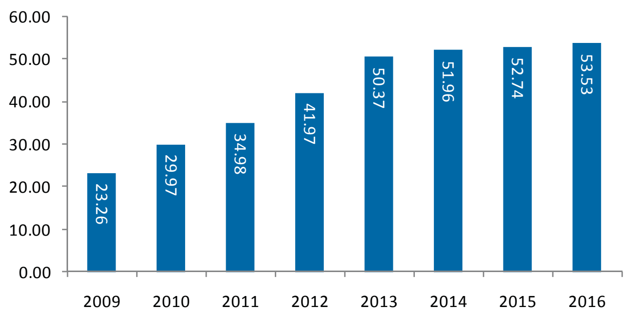
GP will be able hold its market share:

Over last few years, GP has been maintaining a market share of around 44%. This market share is expected to remain stable around 40%-44% range in coming years. In spite of new operators like Airtel, GP is expected to retain the market share and going to be the leader in subscriber addition due to its strong rural reach. As of August 2011, number of GP subscribers was 34.98 million. We expect number of GP subscribers to reach around 53.5 million by 2016.



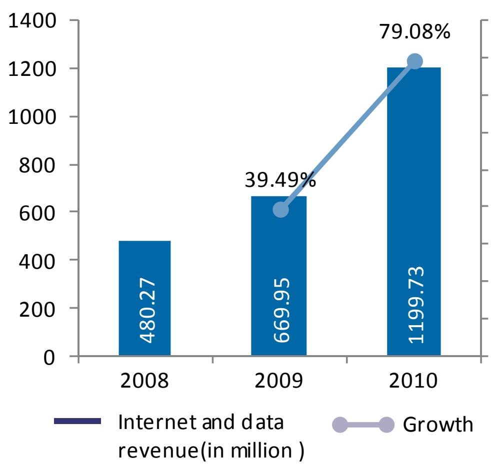
Source: BTRC

Number of Gp subscribers (in million)



Source: Grameenphone

Internet and Data Service Revenue



Source: Grameenphone

Addition of rural subscribers will push down ARPU:

ARPU has been continuously falling. This is due to adding rural customers. They are low ARPU subscribers. These subscribers offer around BDT 140 to 150. We expect ARPU to come down to BDT 212 in 2012. We expect ARPU slide to stop when data revenue boost up.

Half of the 2G renewal fee paid in 2011, rest in 2012. 3G license is expected in 2012:

In the fourth quarter of 2011, GP paid BDT 15.88 billion as spectrum charge and renewal fees for 15 years. This is 49% of the total payment. Rest will be paid in 2012.

It is expected that government will go for 3G auction in 2012. There is confusion regarding the price. Many are expecting that government will set the floor price at a very high level. BTRC Chairman recently said that they expect to receive BDT 80 billion in 2012 from 3G license selling.

Grameenphone network is 3G enabled. It will take six months to launch 3G services with a USD 50 million investment in infrastructure. Initially 3G services will be availed by high end users as service price is expected to remain high. It is estimated that top 9% of mobile subscribers approximately 29% of revenue. They are the target segment for 3G. We expect as the time passes, when smart phones become cheaper and internet usage increase as a whole in the country 3G services are expected boost data revenue.

Rural Penetration is the next phase:

One can fairly assume that main growth in subscriber will come from rural areas. 72% of Bangladesh population resides in rural areas where mobile penetration is still low. We can see these days all major players have targeted the rural areas. The availability of cheap handsets and low SIM price is conducive to this purpose.

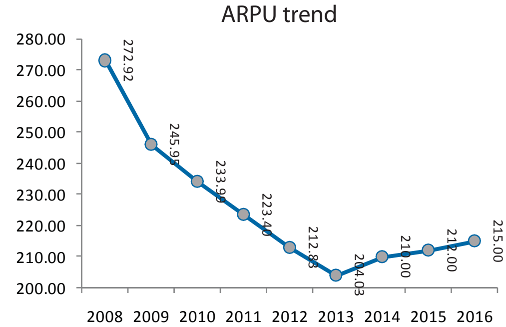
Grameenphone has the strongest position in this regard. Grameenphone has the widest network coverage with around 13000 BTS (Base Station)while the second largest operator Banglalink is operating with around 7000 BTS. This clearly puts GP into advantageous position when it comes to adding customers in rural areas.

Along with that, GP has the strongest distribution channel with around 300000 points of sales. GP's association with various NGOs like Proshika and Grameen Bank also helps it sell its product in rural areas.

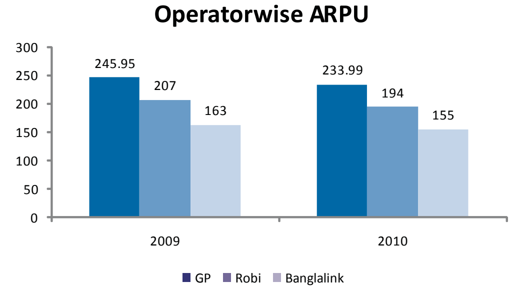
Internet and data revenue will drive revenue growth but it will take time as e-environment is needed:

We believe the underpenetrated internet and data service market will mainly drive top-line growth of the Bangladesh telecom sector. Though data revenue in 2010 was only 1.61% of total revenue, in future it is expected to contribute more. Only 7.7 million people use internet in Bangladesh and among them 7 million people use internet in mobile phone. This penetration rate is expected to go up. But it will take time. For extensive mobile internet there are certain factors that affect. For big screen use broad band is the way. For increased mobile use technology orientation, purchase power of young, Smartphone hand set price, 3G license, and overall development of an e-ennvironment etc is needed. We believe increased internet penetration and higher utility of internet will bring huge boost in data revenue. This may take some time but going three to four years forward data revenue will become a significant portion of total revenue and then on will be the main driver of revenue growth.

ARPU trend



Operatorwise ARPU

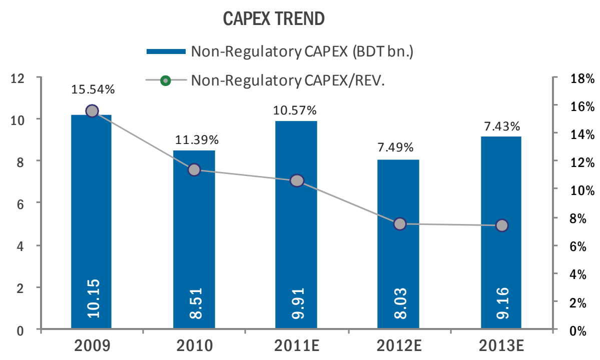


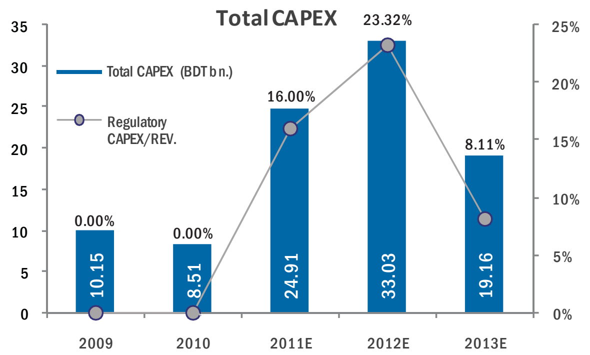
Source: Grameenphone Annual Report & LBSL Research

Capital expenditure to go down:

GP has completed its network expansion project. It now has 13000 BTS around the country covering 89% of the land area. It is the largest network in the country with the second largest operator having only around 7000 BTS. 2012 will also need some huge investments like paying rest of the 2G renewal fees and paying for 3G license fees. After that, we expect capital expenditure to go down from 2013 and onward.

Telenor's guideline to Grameenphone for capital expenditure is to keep non-regulatory capital expenditure as percentage of revenue around 10%





Margins	2008	2009	2010
Gross profit margin	46.72%	49.34%	51.82%
Operating profit margin	25.02%	31.42%	27.04%
Net profit margin	4.86%	22.92%	14.32%
EBIT Margin	25.02%	31.42%	27.04%
EBITDA Margin	49.70%	57.04%	49.51%
Net profit margin	5%	23%	14%
Growth Ratios	2008	2009	2010
Revenue		6%	14%
Gross Profit		12%	20%
EBITDA		22.1%	-0.7%
Net Profit		401.6%	-28.5%
Total Assets		0.9%	0.3%
Equity		82%	-4%
Fixed Assets		-7%	-10%
Profitability	2008	2009	2010
ROAE		38.51%	21.81%
ROAA		13.77%	9.79%
Dividend Yield(2011 interim) at 164 price			6.70%
Leverage Ratio	2008	2009	2010
Debt to Total Capital Ratio		3.75%	0.00%
Non regulatory Capex as % of Sales		15.54%	11.39%
Non regulatory Capex as % of EBITDA		27.24%	23.00%
Capex/ Depreciation Charged in Yr		61.45%	51.42%
Working Capital Efficiency	2008	2009	2010
Accounts Receivable Turnover		14.77	15.03
Receivable Collection Period		24.72	24.29
Days of Inventory		78.94	56.91
Inventory processing period		4.62	6.41
Days of Accounts Payable		4.75	3.60
payable payment period		76.76	101.37
cash Conversion Cycle		-47.42	-70.67
Per Share Data	2008	2009	2010
Book value Per Share	20.43	37.14	35.57
Revenue Per Share	45.44	48.36	55.35

Company-specific Investment Risks

- Grameen Phone has intended to finance its future capital expenditure and dividend payout through leveraging the capital structure. If they fail to collect loan from the overseas market valution outlook will deteriorate significantly.
- As market leader (more than 52% revenue market share), regulator perceive Grameen Phone as a monopolist and impose excessive regulatory burden. It will hamper profitability of Grameen Phone.

Investment Risks

We highlight the main industry-wide investment risks for telecoms as well as the key company-specific investment risks for Grameen Phone Ltd.

Industry-wide Investment Risks

Telecommunication is a heavily regulated industry. For example, key areas of regulation are licensing, termination fees and access to infrastructure.

- A general risk of telecoms is making investments in innovative, but often still unproven, technologies and services. This can lead to low visibility of new revenue streams.
- We expect Bangladesh to see a healthy economic environment and a slower or weaker economic environment is likely to impact our financial forecasts.
- Depending on the stability of the country of operation, telecommunication companies can be exposed to political risk.
- Depending on the degree of foreign exchange risk, fluctuations of foreign currencies can have a meaningful impact on earnings.
- Major M&A activity could require capital raising and put our shareholder remuneration forecasts at risk.

Income Statement				Common Size Statement (as % of Total Revenue)		
	2008	2009	2010	2008	2009	2010
Sales	61358.98	65299.57	74733.08	100.00%	100.00%	100.00%
Cost of network operations:	32692.21	33077.89	36003.07	53.28%	50.66%	48.18%
Direct cost of network revenue	14858.52	13256.15	15065.44	24.22%	20.30%	20.16%
Network operation and maintenance expenses	4501.457	4773.426	5605.682	7.34%	7.31%	7.50%
Depreciation and amortization	13332.23	15048.32	15331.95	21.73%	23.05%	20.52%
Gross profit	28666.77	32221.67	38730.01	46.72%	49.34%	51.82%
Other income, net	52.58263	43.25842	60.41619	0.09%	0.07%	0.08%
Operating expenses	13369.38	11746.72	18583.19	21.79%	17.99%	24.87%
General and administrative expenses	5682.108	6593.088	8634.334	9.26%	10.10%	11.55%
Selling and distribution expenses	5875.352	3474.969	8487.234	9.58%	5.32%	11.36%
Depreciation and amortization	1811.925	1678.665	1461.626	2.95%	2.57%	1.96%
Operating profit	15349.97	20518.21	20207.23	25.02%	31.42%	27.04%
Finance income/(expense) net	-1805.25	-1687.19	593.47	-2.94%	-2.58%	.79%
Foreign exchange gain/(loss)	34.12	-233.24	99.96	0.06%	-.36%	.13%
Gain on sale of investment in X-net Ltd.	0	7.96	0		.01%	
Gain/(loss) on disposal of property, plant and equipment	0	-9.76	12.09		-.01%	.02%
Compensation to BTRC	-2000			-3.26%		
Profit before tax	11578.84	18595.96	20912.76	18.87%	28.48%	27.98%
Income tax expense	8594.977	3627.798	10207.4	14.01%	5.56%	13.66%
Profit for the year	2983.867	14968.17	10705.35	4.86%	22.92%	14.32%
Other comprehensive income						
Total comprehensive income for the year	2983.86	14968.17	10705.35	4.86%	22.92%	14.32%

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Balance Sheet				Common Size Statement (as % of Total Asset)		
	2008	2009	2010	2008	2009	2010
Assets						
Non current assets	93764.62	86980.76	78700.1	86.66%	79.68%	71.87%
Property plant and equipment	85553.85	79287.99	71696.09	79.07%	72.63%	65.47%
intangible assets	8193.646	7681.127	6991.416	7.57%	7.04%	6.38%
investment in subsidiary	4.467968	0	0	0.00%		
Long term deposits	12.65869	11.63568	12.59495	0.01%	0.01%	0.01%
Current Assets:	14429.83	22181.74	30802.03	13.34%	20.32%	28.13%
Inventories	407.1847	430.8702	834.3553	0.38%	0.39%	0.76%
Deferred cost of connection revenue	360.7121	483.5501	484.8425	0.33%	0.44%	0.44%
accounts receivable net	4146.483	4697.066	5247.946	3.83%	4.30%	4.79%
Other receivables	0	762.3233	928.0203		0.70%	0.85%
Adavance deposit and prepayments	2494.778	1206.614	1621.638	2.31%	1.11%	1.48%
Short term investment	0	500	2753.729		0.46%	2.51%
Cash and cash equivalent	7020.671	14101.31	18931.5	6.49%	12.92%	17.29%
Total Assets	108194.5	109162.5	109502.1	100.00%	100.00%	100.00%
Equity and liabilities						
Sahreholder's equity:	27588.16	50154.33	48031.83	25.50%	45.94%	43.86%
Share capital	12151.75	13503	13503	11.23%	12.37%	12.33%
Share premium	13.74399	7840.226	7840.226	0.01%	7.18%	7.16%
capital reserve	14.44645	14.44645	14.44645	0.01%	0.01%	0.01%
deposit from shareholders	1.882996	1.880178	1.880178	0.00%	0.00%	0.00%
General reserve	2139.729	2139.729	2139.729	1.98%	1.96%	1.95%
Retained earning	13266.61	26655.04	24532.55	12.26%	24.42%	22.40%
Non controlling interest	0	0	0.000268			0.00%
Non-current liabilities	30375.33	20056.08	16828.41	28.07%	18.37%	15.37%
Loans and borrowings, net of current portion	1907.356	917.9241	0	1.76%	0.84%	
Bond obligation	4216.405	0	0	3.90%		
Deapoist from agents and subscribers	482.6539	440.9482	444.6399	0.45%	0.40%	0.41%
Finance lease obligation	5046.936	5019.806	5019.806	4.66%	4.60%	4.58%
Deferred tax liabilities	18535.23	13505.91	11201.08	17.13%	12.37%	10.23%
Long term provisions	186.756	171.4875	162.8764	0.17%	0.16%	0.15%
Current Liabilities:	50230.96	38952.09	44641.9	46.43%	35.68%	40.77%
Accounts payable	4098.582	9814.726	10183.88	3.79%	8.99%	9.30%
payable to government and autonomous bodies	11174.42	4182.753	4814.49	10.33%	3.83%	4.40%
Uearned revenue	1260.211	1679.152	2248.978	1.16%	1.54%	2.05%
Loans and borrowings-current portion	1406.261	1036.943	0	1.30%	0.95%	
VAT payable	2226.76	2234.779	2451.87	2.06%	2.05%	2.24%
Income tax provision	10077.57	12228.78	15738.4	9.31%	11.20%	14.37%
Accured interest	153.9975	66.35604	155.6991	0.14%	0.06%	0.14%
Other liabilities	0	88.51767	38.26362		0.08%	0.03%
Deferred connection revenue	474.1422	541.7319	581.9044	0.44%	0.50%	0.53%
provision for expenses	9069.347	7078.35	8428.416	8.38%	6.48%	7.70%
Advance aginst IPO	4136.642			3.82%		
Local interest bearing short term borrowing	4992.323			4.61%		
Finance lease obligation	1160.71			1.07%		
Total equity and liabilities	108194.5	109162.5	109502.1	100.00%	100.00%	100.00%

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