

Investment Thesis Summary	Dialog Telekom Limited (DIAL)	Strongly Underweight
	Stick To Fundamentals.	25th April

<p>Strategic View Strongly Underweight</p> <p>Analyst Amal Sanderatne</p> <p>Share Price Rs27.00</p> <p>ASPI 2817.78</p> <p>MPI 3888.22</p> <p>Market Cap Rs 201,743,597,568</p>	<p>The Dialog stock price has risen sharply in the last few days and closed at Rs27.00 yesterday. We upgraded the recommendation on the counter from “Strongly Underweight” to “Underweight” when it had fallen to Rs24.50.</p> <p>Given that our view on the counter is due to the fundamental valuation on Dialog Telecom being well in excess of the market price, we are again downgrading our recommendation on the stock to “Strongly Underweight”.</p> <p>The recent out-performance of the counter has been attributed both to positive views on the implications of the capital raising by other analysts and varied market rumours. We stress again, that our view on Dialog Telecom is completely valuation driven and based on fundamentals, and as such with a higher share price we have again turned far more bearish than we were when the price was Rs24.50.</p> <p>In last report on 23rd April, we made it clear that “<i>the quantum of the capital raising supports our continued bearish perspective on Dialog Telecom’s valuation.</i>”</p> <p><i>The Rs.20.54 billion that Dialog hopes to raise is an indication of Dialog’s own projections of the extent to which the company will be free cash flow negative in the next two years. The suggested shortfall between internally generated funds and that needed for the Capex program of Dialog, as indicated through the quantum of the rights issue, in fact suggests that our own projections for the next two years maybe slightly more optimistic than Dialog’s own internal numbers.</i></p> <p><i>Though this is primarily equity capital raising, the cost of equity also rises with the cost of debt rising, as the cost of equity is always as at a premium to the cost of debt. Furthermore the recourse to equity capital raising through the rights issue would further skew Dialog’s debt to equity ratio in favour of equity and thus further have an unfavourable impact on the overall WACC.</i></p> <p><i>However the preference share issue announced is a positive, in terms of its capital structure, as given Dialog’s tax free position, the tax free dividends status would be a means of raising capital at very favourable rates, possibly lower than the general cost of debt for Dialog.</i></p>
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