

<b>Recommendation Change</b>	<b>Dialog Telekom Limited (DIAL)</b>	<b>Neutral</b>
<b>Summary</b>	<b>Upgrade to Neutral</b>	<b>23rd July</b>

<p><b>Strategic View</b> <b>Neutral</b></p> <p><b>Analyst</b> <b>Amal Sanderatne,</b> <b>CFA</b></p> <p><b>Share Price</b> <b>Rs21.00</b></p> <p><b>ASPI</b> <b>2384.05</b></p> <p><b>MPI</b> <b>3259.64</b></p>	<p>We are upgrading our recommendation on Dialog Telecom to a Neutral Position from the Strongly Underweight recommendation we had on the counter previously. The primary reason for our upgrade is the fall in the stock price of Dialog Telecom since our downgrade both in absolute and relative terms. Apart from the underperformance the counter has displayed against the ASPI, it is the particular sharp underperformance the counter has seen against comparable international Telco's that has prompted this upgrade in our recommendation on Dialog.</p> <p>This under performance of Dialog has led to a significant improvement in the relative valuations of Dialog on an international comparison since what relative valuations were at the time we downgraded Dialog. The widening of the discount at which Dialog is trading comparable companies internationally would make Dialog far more attractive from an FII perspective than it was earlier. This same argument could be made on behalf of most counters listed on the CSE, given that global markets have been performing so strongly at a time the CSE has been falling. However relative comparison based arguments to global and regional benchmarks are realistic only with the very largest of the Big Caps in Colombo such as Dialog in which there is sufficient liquidity for mainstream international funds to become dominant players in.</p> <p>Our Neutral recommendation is based on an assumption that global markets and comparable telecom companies continue to perform strongly. In such a scenario we are of the view that from now Dialog Telekom would perform at in line with overall equities in Colombo.</p>
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This is still however not a particular exciting reason to buy Dialog Telecom as our market outlook remains quite depressed. On a 12 month horizon we believe the ASPI will be at around today's level. As such in our opinion fixed income instruments still would offer investors a far superior return to that can be gained in equities on a 12 month horizon and as such the case for investing in equities is still very subdued.

We are also at present not upgrading Dialog beyond a Neutral position in a Sri Lanka portfolio as real interest rates remain very high, and this continues to be the key valuation negative for a growth company like Dialog in particular.

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