

18th September 2008

## Dialog Telekom plc

## Change to a Long Term Equal Weight Position from the Trading Equal Weight Position we had earlier.

### Recommendation Long Term Equal Weight

Ticker  
DIAL

Share Price\*  
Rs.7.25

Market Cap\*  
Rs. 59,042,393,436

ASPI\*  
1,928.68

MPI\*  
2,168.89

\*CSE DATA on 5th  
November 2008

- We are amending our view on Dialog to a Long Term Equal Weight recommendation from the Trading Equal Weight recommendation we had on the counter earlier.
- With the continued fall in Dialog's share price, the market has further priced in a view that the current very intense levels of competition and low margins seen in the core mobile business will continue indefinitely.
- While the news flow from the company and the results released from the counter recently seem to support that view, there are a few telecom markets in which irrational competition created a period in which pricing, profit margins and returns to capital fell to very low levels.
- In some markets these competitive structures proved unsustainable over the longer term, resulting in a reversion back to a less intense competitive situation which led to improved returns to the operators later on.
- We now take a view that this will happen in Sri Lanka as well, though it may take a few years for this more rational pricing environment to appear.
- As such in the longer term Dialog's profitability will improve from the low point it has hit currently.
- As such we take a fundamental view that at the current price level or below, investors should accumulate a long term equal weight position in Dialog and not just a trading position.
- As happened following our last upgrade the falls in global markets could lead to Dialogs share price also falling sharply.
- Earnings from the company could also continue to decline in the coming quarters, and a loss making scenario is a possible scenario in the near term.
- If that were to happen it could cause the companies share price to fall further, but we would view a sharp fall as an opportunity to upgrade our recommendation to a Long Term Overweight.



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