

18th September 2008

Dialog Telekom plc

Upgrade to a Trading Equal Weight Position from Underweight.

Recommendation Equal Weight (Trading)

Ticker
DIAL

Share Price*
Rs.9.25

Market Cap*
Rs. 75,329,953,792

ASPI*
2223.64

MPI*
2484.30

*CSE DATA as at 1.23 pm
on 18th
September 2008

- We are upgrading our view on Dialog to a Trading Equal Weight recommendation from the Underweight position we had previously.
- As of now Dialog amounts to 10.3% of the market cap of the Colombo Stock exchange and is the second largest listed stock in terms of market cap on the CSE.
- With the sharp fall in Dialog's share price, the market appears to be pricing a view that the currently very intense level 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 number of telecom markets in which irrational competition created a period in which pricing, profit margins and returns to capital fell very low levels.
- In some markets these competitive structure proved unsustainable over the longer term, resulting in a reversion of a less intense competitive situation which led to improved returns to the operators later on.
- At this point we are NOT making such an optimistic call that this will eventually happen in Sri Lanka, but we believe it would be too risky to continue to underweight Dialog on a basis that the pessimistic view will also be the reality even in the long term.
- Our weight age recommendation is labeled trading, to account for the fact with the large FII presence, the movement on Dialog could continue to be highly influenced by movements on overseas markets and as such could rise or fall sharply from current levels mirroring movement in markets elsewhere.
- Given this volatility the stock price movement could continue to be negative, while a sharp rebound from this price might also offer near term opportunities for investors to take profit.
- As such the allocation we recommend to Dialog should at this point be seen from a Trading perspective with significant externally driven risk.



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