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Israel

European Telecom Services

Partner (PTNR.TA - ILS 76.29) 3-Underweight

Operating Results

Q2 Results Below our Estimates

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Investment Conclusion

□ We maintain our 3-UW rating. Revs of ILS 1,544m and EBITDA of ILS 541m were in line with cons and below our ILS 1,650m and ILS 553m. Net income of ILS 247m was below our ILS 275m and the ILS 200m div (80% of net income) fell ILS 20m short of our forecast. Free cash flow of ILS 601m was +vely impacted by a ILS 194m 1x selling of accts receivables. Mngmt stated that its ST plan does not include expansion through M&A and prefers to grow organically by expanding core mobile services and entering the ISP market. Our DCF based valuation leaves 5% potential upside to the current share price. We reduce our PT slightly to ILS 80 from ILS 82.

Summary

- Partner's added 33k subs of which 27k were post-paid. It increased its 3G subs to 39% of total post paid from 36% in Q1. ARPU was up to ILS 158 (\$47) from ILS 157 in Q2 07 in the face of LNP and a reduced in interconnect fees.
- PTNR is focused on offering a wider range of mobile applications and entering the ISP and VOIP market.
- We see PTNR's growth strategy as slow and steady but lacking short-term catalysts that would lead to outperformance of the stock.

Stock Rating

Target Price

New: 3-Underweight	New: ILS 80.00
Old: 3-Underweight	Old: ILS 82.00

Sector View: 3-Negative

FY Dec	2007A	2008E		2009E		2010E	
		Actual	Old	New	Old	New	Old
Revenues (Cons.)	6022	6559	6307	6787	6401	6983	6587
EBITDA (Cons.)	2015	2198	2146	2274	2176	2339	2239
Free Cash Flow	924	1088	1105	1108	1177	1171	1089
Net Income (m)	940	1065	1003	1155	1076	1240	1150
EPS (Adj.)	5.95	6.75	6.36	7.31	6.83	7.85	7.30
Net Debt (m)	2117	1835	2129	1650	1812	1472	1643
EV/EBITDA	7.0	N/A	6.6	N/A	6.4	N/A	6.1
P/E	12.5	14.6	12.3	12.4	11.6	N/A	11.0

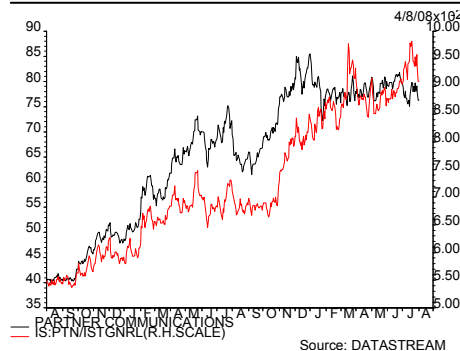
Market Data

Market Cap (m)	11972
Units Outstanding (m)	156.9
Float (%)	50
Net Distribution Yield (%)	4.73
Convertible	No
Shares per ADR	N/A

Financial Summary

5-Year EPS CAGR (%)	8.0
3-year EBITDA CAGR (%)	4.0
Net Debt/EBITDA FY07	1.1
Dividend Yield (%)	6.24

Stock Overview



Reuters: PTNR.TA
Bloomberg: PTNR IT
ADR: PTNR.O

Performance	1M	3M	12M
Absolute %	-4	-5	6
Rel. Market %	0	0	23
Rel. Sector %	-2	-2	0

52 Week Range 85.48 - 61.54

Partner's Q2 results were lower than our estimates with revenues impacted by lower than expected net adds and revenues from data. EBITDA margin 35% was ahead of our 33.5% and net income of ILS 247m was below our ILS 275m. See the table for a comparison of results vs. estimates.

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Figure 1: Key Group Financials and Metrics

ILS m	Q1 07	Q2 07	Q3 07	Q4 07A	2007	Q1 08A	Q2 08A	Q2 08E	2008E/new	2008E/old
Net Revenue	1,418	1,467	1,509	1,627	6,022	1,588	1,544	1,650	6,307	6,559
% Growth										
Underlying EBITDA	455	495	539	502	1,991	533	541	553	2,146	2,198
% Growth										
% Margin	32.1%	33.7%	35.7%	30.8%	33.1%	33.5%	35.0%	33.5%	34.0%	33.5%
Underlying EBIT	304	345	390	348	1,388	349	377	406	1,487	1,611
Net Income	196	228	214	302	940	243	247	275	1,003	1,065
Capex	141	109	137	145	532	116	118	149	520	564
Capex / Revenue	9.9%	7.4%	9.1%	8.9%	8.8%	7.3%	7.6%	9.0%	8.2%	8.6%
Underlying EBITDA	314	386	402	356	1,459	416	423	404	1,625	1,634
- Capex										
% Change	-79.2%	22.9%	4.3%	-11.4%	309.3%	-71.5%	1.6%	-2.9%	11.4%	12.0%

Source: Company reports; Lehman Brothers estimates

Looking ahead we have slightly reduced our estimates for FY 2008, 2009 and 2010 and have lowered our DCF based PT to ILS 80 from 82.

Analyst Certification:

We, David Kaplan and Graeme Pearson, hereby certify (1) that the views expressed in this research Company Note accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Company Description:

Partner received its licence in 1998 and began operations as the first GSM mobile telephone network in January 1999. In 2005, it was the first company to launch 3G services and currently has 488,000 subscribers. Aside from strong branding, the company benefits from a solid sales and marketing and customer support effort. Partner had 2.8m subs as of the end of 3Q 2007 or a 32% market share. Partner is majority owned by Hong Kong-based Hutchison International to whom it is now the largest contributor of group EBITDA following the recent sale of its stake in Indian wireless operator Hutchison Essar to Vodafone.

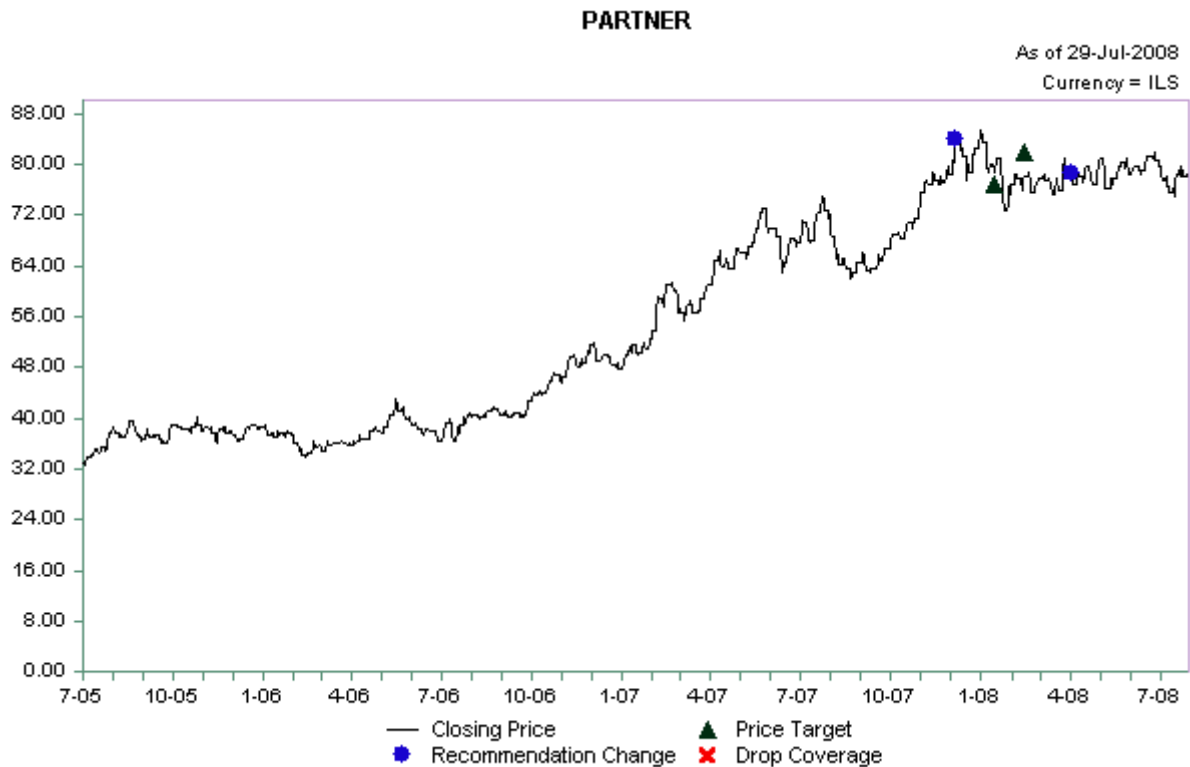
Important Disclosures:

Partner (PTNR.TA)

ILS 76.29 (31-Jul-2008)

3-Underweight / 3-Negative

Rating and Price Target Chart:



Currency=ILS

Date	Closing Price	Rating	Price Target
02-Apr-08	78.50	3 -Underweight	
14-Feb-08	78.29		82.00

Date	Closing Price	Rating	Price Target
14-Jan-08	79.12		77.00
06-Dec-07	83.94	2 -Equal weight	

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Valuation Methodology: Our price target is derived from our sum-of-the-parts DCF-based valuation. Our assumptions include a 9.5% cost of capital. We use terminal growth rates of 1.5%. Our price target implies a 6.6x 2008E EV/EBITDA and 13.4x 2008E EV/FCF.

Risks Which May Impede the Achievement of the Price Target: Upcoming regulatory decisions provide the greatest risks for the telecom industry. The relatively small fibre optic network makes it difficult for Partner to compete without leasing infrastructure from its competitors. Any regulatory decisions that would provide exclusivity to infrastructure would be a risk for Partner.

Important Disclosures Continued:

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Partner	PTNR.TA	ILS 76.29	31-Jul-2008	3-Underweight / 3-Negative

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Mobistar (MSTAR.BR)	MTS (MBT.N)
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