

UBS Investment Research

Partner Communications

Keep on running

■ Forecasts upgraded again after Q3

Very strong usage and ARPU trends in Q3 led to continued strong margins and cash flow. For 2003 we have revised our revenue forecasts up by 3%, EBITDA by 8% and OpFCF by 12%. We have also implemented some small increases in future years, mainly thanks to an expectation of continued strong revenue drivers.

■ Limited profitability gains expected in 2004

Following the unexpectedly strong Q2 and Q3 this year, the question arises of whether we will continue to see forecast upgrades in future quarters. Certainly, our EBITDA margin expectations of 31% do not seem over-optimistic in 2004 given this year's improvements. However, it should be remembered that SACs are already at all time lows, and further cost reductions are likely to be harder.

■ Share price strength has released overhang

Matav recently took advantage of the share price strength to sell shares in the market, meaning that the overhang of shares covered by the local partners' banking covenants no longer exists. This is clearly positive; on the other hand, earnings momentum in coming quarters is unlikely to approach recent levels.

■ Valuation: Price target increased to NIS39

We have raised our price target from NIS32 to NIS39 per share, equivalent to c. US\$8.70 per ADR. This is due to our increased forecasts and a fall in bond yields from 6% to 5.4%.

Highlights (NISm)	12/01	12/02	12/03E	12/04E	12/05E
Revenues	3,249	4,055	4,445	4,687	4,858
EBITDA	656	1,050	1,358	1,452	1,599
EBIT	103	533	839	850	989
Net income (UBS)	(303)	84	496	533	738
EPS (UBS, NIS)	(1.70)	0.46	2.73	2.93	4.06

Profitability & Valuation	5-yr hist. av.	12/02	12/03E	12/04E	12/05E
EBIT margin %	-	13.2	18.9	18.1	20.4
ROIC (EBIT) %	-	19.1	28.5	27.4	31.9
EV/revenues x	-	1.8	1.9	1.7	1.5
EV/EBITDA x	-	7.0	6.2	5.4	4.6
PE (UBS) x	-	47.9	11.4	10.6	7.6

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of NIS31.08 on 05 Nov 2003

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Global Equity Research

Israel

Wireless Communications

Rating Buy 2

Price target NIS39.00/US\$8.70

Price NIS31.08/US\$7.00 (ADR)

RIC: PTNR.TA/PTNR.O

6 November 2003

Forecast returns

Forecast price appreciation	+25.5%
Forecast dividend yield	0.0%
Forecast stock return	+25.5%
Market return assumption	10.4%
Forecast excess return	+15.1%
Net DPS (03E)	NIS0.00/US\$0.00
Trend EPS growth rate	+15%

Trading data (local/US\$)

52-wk. range	NIS32.81-12.45/US\$7.24-2.56
Market cap.	NIS5.64bn/US\$1.27bn
Shares o/s	181m (ORD)/181m (ADR)
ADR Ratio	1 ADR:1 ORD
Free float	31%
Average volume ('000)	362/49
Convertible	No
Volatility	High

Balance sheet data 12/03E

Shareholders' equity	NIS0.53bn
P/BV (UBS)	10.6x
Net cash (debt)	(NIS2.67bn)

EPS (UBS, NIS)

	12/02	12/03E	Prior	Cons.
Q1	-	-	-	-
Q2	-	-	-	-
Q3	-	-	-	-
Q4	-	-	-	-
FY	0.46	2.73	2.36	2.36

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Forecast changes

Table 1 shows the forecast changes that we have implemented following Q3 results.

Table 1: Forecast changes

NISm		2003E	2004E	2005E
Revenue	Old	4,332	4,461	4,621
	New	4,445	4,687	4,858
	Change	3%	5%	5%
EBITDA	Old	1,263	1,421	1,524
	New	1,358	1,452	1,599
	Change	8%	2%	5%
Net income	Old	428	487	653
	New	496	533	738
	Change	16%	9%	13%
Capex	Old	405	598	558
	New	378	611	572
	Change	-7%	2%	2%
OpFCF	Old	876	807	994
	New	981	841	1,027
	Change	12%	4%	3%
Net debt	Old	2,751	2,214	1,771
	New	2,666	2,106	1,614
	Change	-3%	-5%	-9%

Source: UBS estimates

Our upgrade to Buy 2 on 19th September, 'Showing us the money', was based on the expectation that the company could sustain margins into Q3 and beyond, and that further earnings upgrades were likely as a result. While we would not rule out further upgrades going forward, we believe that the scope for rapid earnings growth going forward is more limited. However, we believe that some valuation upside still exists and therefore maintain our Buy 2 rating with a new price target of NIS39, up from NIS32.

■ Partner Communications

Partner Communications is a GSM mobile operator in Israel. The company commenced commercial operations in January 1999 under the Orange brand name. It had a customer base of almost 2 million subscribers as of June 2003, and an estimated 29% market share. Partner Communications is in final negotiations with suppliers of 3G infrastructure, and expects to launch commercial services in 2004.

■ Statement of Risk

Partner remains exposed to macro sensitivities such as GDP growth and the NIS/US\$ exchange rate. In the short term, our cash flow forecasts could be significantly impacted by the timing of large capital expenditures, such as those planned on a 3g network.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	35%	44%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	56%	40%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	9%	37%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2003.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

Real Estate Investment Trusts (REITs), Master Limited Partnerships (MLPs), and other Tax Advantaged Entities (TAE) ratings are subject to a +/-5% return threshold ("band") around the MRA instead of a +/-10% band.

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

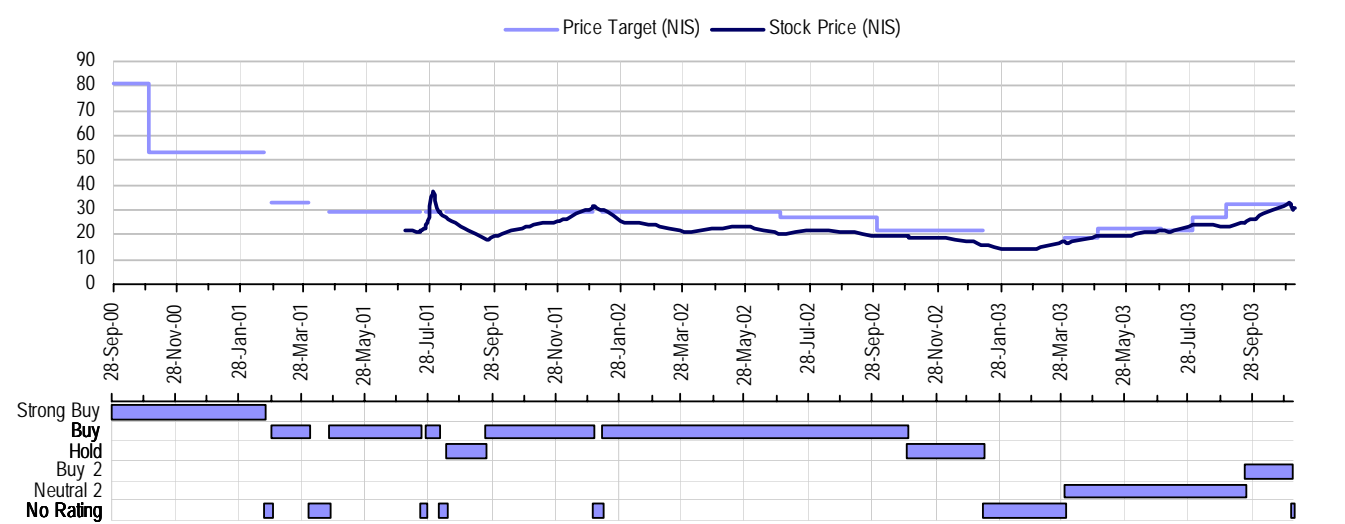
Company Name	Reuters	Rating	Price
Partner ^{1,3a,3b,10a,10b}	PTNR.TA	Buy 2	NIS31.08

Price(s) as of 05 November 2003. Source: UBS.

1. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
- 3a. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past five years.
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- 10b. Within the past three years, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Partner Communications (NIS)



Source: UBS; as of 05 November 2003.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'The UBS Equity Ratings System' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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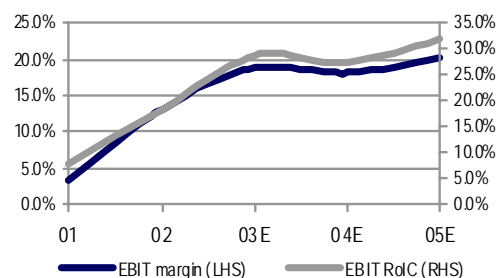


Partner Communications ADR

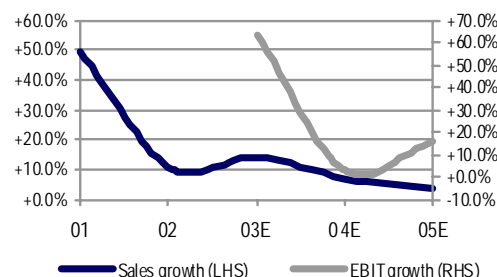
Per ADR (US\$)	12/01	12/02	12/03E	12/04E	12/05E
EPS	(0.40)	0.10	0.60	0.65	0.91
CEPS	0.33	0.69	1.23	1.39	1.65
Net DPS	0.00	0.00	0.00	0.00	0.04
BVPS	(0.22)	(0.48)	0.65	1.31	1.81
Profit & loss (US\$ m)					
Sales	772	856	977	1,045	1,083
EBITDA	156	222	299	324	356
EBIT	24	113	184	190	221
Pre-tax profit	(73)	18	109	119	165
Net income (UBS adj.)	(72)	18	109	119	165
Cash flow (US\$ m)					
EBIT	24	113	184	190	221
Depreciation & amortisation	131	109	114	134	136
Change in NWC	(4)	20	(12)	(19)	(11)
Other (operating)	23	24	4	4	4
Operational cash flow	175	266	291	309	350
Tax paid	0	0	0	0	0
Capital expenditure	(143)	(170)	(83)	(136)	(127)
Net interest	(95)	(94)	(75)	(71)	(56)
Dividends paid	0	0	0	0	(52)
Net (acquisitions) / disposals	0	1	0	0	0
Other items	3	(50)	7	23	(5)
Change in net debt	(59)	(48)	140	125	110
Operating free cash flow (OpFCF) (US\$ m)					
Core EBITDA	156	222	299	324	356
Less: Maintenance capex	(143)	(127)	(61)	(130)	(121)
Less: Maintenance NWC	22	7	(19)	(11)	(1)
OpFCF	35	88	219	183	235
Balance sheet (US\$ m)					
Net tangible fixed assets	342	368	416	384	404
Net intangible fixed assets	292	234	283	293	268
Net working capital	3	(17)	(6)	13	24
Total invested capital (IC)	637	586	693	689	696
Financial & other fixed assets	25	29	34	37	16
Net cash / (debt)	(696)	(694)	(594)	(470)	(360)
Provisions	(5)	(9)	(14)	(18)	(23)
Minority interests	0	0	0	0	0
Shareholders' funds	(39)	(88)	119	238	329
Profitability					
EBITDA margin	20.2%	25.9%	30.6%	31.0%	32.9%
EBIT margin	3.2%	13.2%	18.9%	18.1%	20.4%
EBIT RoIC	7.7%	18.4%	28.8%	27.4%	31.9%
Net RoE	19.7%	NM	71.63%	66.5%	58.0%
Interest cover (EBIT)	0.3x	1.2x	2.4x	2.7x	3.9x
Dividend cover (net)	NA	NA	NA	NA	21.8x
Productivity					
Labour % sales	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation % sales	17.0%	12.7%	11.7%	12.8%	12.5%
Capex % sales	18.5%	19.9%	8.5%	13.0%	11.8%
Invested capital turnover	2.4x	1.4x	1.5x	1.5x	1.6x
Tax rate	NM	NM	NM	NM	NM
Net debt / total equity	Neg. Ass.	Neg. Ass.	500.5%	197.2%	109.3%
Momentum					
Sales growth	+49.7%	+10.8%	+14.1%	+7.0%	+3.6%
EBIT growth	NM	>+200%	+63.6%	+2.9%	+16.3%
Net earnings growth	NM	NM	>+200%	+8.9%	+38.6%
Dividend growth	NM	NM	NM	NM	NM
Value*					
Market capitalisation (US\$ m)	NA	829	1,270	1,270	1,270
Plus: Core net debt / (cash)	730	696	586	470	360
Plus: Pension provisions	10	13	18	23	27
Plus: Buy out of minorities	-	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)		1,537	1,873	1,762	1,656
EV/Sales (core)		1.80x	1.92x	1.69x	1.53x
EV/EBITDA (core)		6.9x	6.3x	5.4x	4.6x
EV/EBIT (core)		13.6x	10.2x	9.3x	7.5x
EV/OpFCF		17.4x	8.5x	9.6x	7.1x
EV/Invested capital		2.5x	2.9x	2.6x	2.4x
P/CE	15.7x	6.7x	5.7x	5.0x	4.2x
P/E	NM	47.4x	11.7x	10.7x	7.7x
Dividend yield (net)	0.00%	0.00%	0.00%	0.00%	0.59%
P/BV (average)	NM	NM	10.7x	5.3x	3.9x

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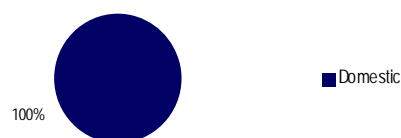
Profitability (EBIT margins & RoIC)



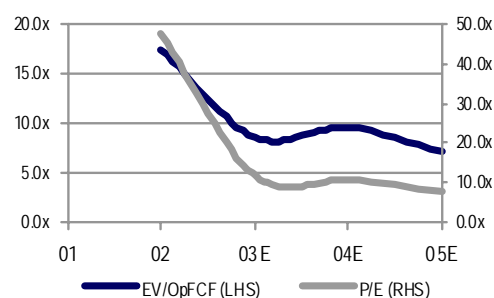
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



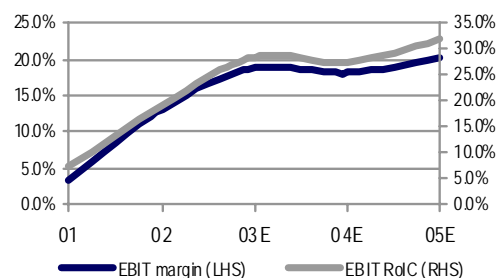
Source: UBS estimates. * Historical valuations are based on an average for the year share price. Current & future valuations are based on a share price of US\$7.00 on 05/11/2003

Partner Communications

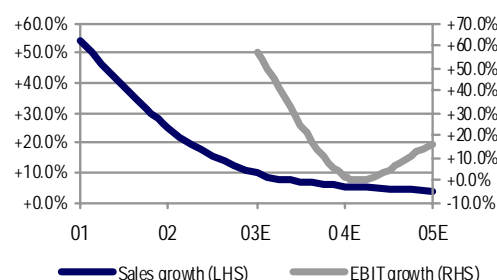
Per share (NIS)	12/01	12/02	12/03E	12/04E	12/05E
EPS	(1.70)	0.46	2.73	2.93	4.06
CEPS	1.40	3.28	5.60	6.25	7.42
Net DPS	0.00	0.00	0.00	0.00	0.19
BVPS	(0.9%)	(2.29)	2.93	5.88	8.13
Profit & loss (NIS m)					
Sales	3,249	4,055	4,445	4,687	4,858
EBITDA	656	1,050	1,358	1,452	1,599
EBIT	103	533	839	850	989
Pre-tax profit	(307)	84	496	533	738
Net income (UBS adj.)	(303)	84	496	533	738
Cash flow (NIS m)					
EBIT	103	533	839	850	989
Depreciation & amortisation	553	516	520	602	610
Change in NWC	(15)	96	(53)	(86)	(50)
Other (operating)	96	113	20	20	20
Operational cash flow	737	1,258	1,325	1,386	1,569
Tax paid	0	0	0	0	0
Capital expenditure	(601)	(807)	(378)	(611)	(572)
Net interest	(401)	(445)	(342)	(318)	(251)
Dividends paid	0	0	0	0	(233)
Net (acquisitions) / disposals	2	6	0	0	0
Other items	2	(237)	24	102	(20)
Change in net debt	(261)	(226)	629	560	493
Operating free cash flow (OpFCF) (NIS m)					
Core EBITDA	656	1,050	1,358	1,452	1,599
Less: Maintenance capex	(601)	(600)	(276)	(581)	(541)
Less: Maintenance NWC	92	(31)	(86)	(50)	(4)
OpFCF	147	419	997	821	1,053
Balance sheet (NIS m)					
Net tangible fixed assets	1,507	1,749	1,865	1,721	1,811
Net intangible fixed assets	1,290	1,113	1,269	1,312	1,201
Net working capital	15	(81)	(28)	58	108
Total invested capital (IC)	2,812	2,781	3,106	3,090	3,120
Financial & other fixed assets	109	137	154	165	72
Net cash / (debt)	(3,069)	(3,295)	(2,666)	(2,106)	(1,614)
Provisions	(24)	(42)	(61)	(81)	(101)
Minority interests	0	0	0	0	0
Shareholders' funds	(172)	(419)	533	1,068	1,477
Profitability					
EBITDA margin	20.2%	25.9%	30.6%	31.0%	32.9%
EBIT margin	3.2%	13.2%	18.9%	18.1%	20.4%
EBIT RoIC	7.3%	19.1%	28.5%	27.4%	31.9%
Net RoE	20.4%	NM	87.60%	66.5%	58.0%
Interest cover (EBIT)	0.3x	1.2x	2.4x	2.7x	3.9x
Dividend cover (net)	NA	NA	NA	NA	21.8x
Productivity					
Labour % sales	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation % sales	17.0%	12.7%	11.7%	12.8%	12.5%
Capex % sales	18.5%	19.9%	8.5%	13.0%	11.8%
Invested capital turnover	2.3x	1.4x	1.5x	1.5x	1.6x
Tax rate	NM	NM	NM	NM	NM
Net debt / total equity	Neg. Ass.	Neg. Ass.	500.5%	197.2%	109.3%
Momentum					
Sales growth	+54.4%	+24.8%	+9.6%	+5.4%	+3.6%
EBIT growth	NM	>+200%	+57.2%	+1.4%	+16.3%
Net earnings growth	NM	NM	>+200%	+7.4%	+38.6%
Dividend growth	NM	NM	NM	NM	NM
Value*					
Market capitalisation (NIS m)	4,361	3,957	5,637	5,637	5,637
Plus: Core net debt / (cash)	3,069	3,295	2,666	2,106	1,614
Plus: Pension provisions	42	61	81	101	121
Plus: Buy out of minorities	-	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	7,473	7,313	8,384	7,844	7,372
EV/Sales (core)	2.30x	1.80x	1.89x	1.67x	1.52x
EV/EBITDA (core)	11.4x	7.0x	6.2x	5.4x	4.6x
EV/EBIT (core)	72.6x	13.7x	10.0x	9.2x	7.5x
EV/OpFCF	50.7x	17.5x	8.4x	9.6x	7.0x
EV/Invested capital	5.3x	2.6x	2.8x	2.5x	2.4x
P/CE	17.5x	6.7x	5.6x	5.0x	4.2x
P/E	NM	47.9x	11.4x	10.6x	7.6x
Dividend yield (net)	0.00%	0.00%	0.00%	0.00%	0.60%
P/BV (average)	NM	NM	10.6x	5.3x	3.8x

Partner Communications is a GSM mobile operator in Israel. The company commenced commercial operations in January 1999 under the Orange brand name. It had a customer base of almost 2 million subscribers as of June 2003, and an estimated 29% market share. Partner Communications is in final negotiations with suppliers of 3G infrastructure, and expects to launch commercial services in 2004.

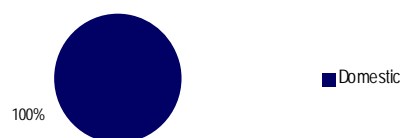
Profitability (EBIT margins & RoIC)



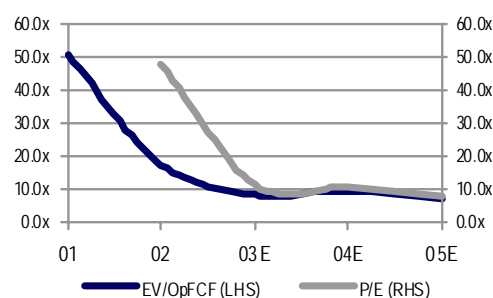
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates. * Historical valuations are based on an average for the year share price. Current & future valuations are based on a share price of NIS31.08 on 05/11/2003