

### Change in control; 25% divi yield ahead?

#### ■ What happened?

HTIL has agreed to sell its 51.3% control in Partner to Scaillex for \$17.50 / NIS67.025/share valuing the controlling stake (78.9m shares) at NIS5.29bn (\$1.4bn). The deal is expected to close in 3 months following regulatory approvals.

#### ■ Scaillex Corp is listed in Tel Aviv and US

Scaillex is a listed Israel-based company and is the sole importer of Samsung handsets into Israel; with a mkt cap of only \$320m. As such, we believe the deal is a highly leveraged deal. Whilst we expect the change in control not to impact PTNR's core business, we see no synergies from the deal and believe Scaillex would be best to make few changes (if any) to the senior management or strategy.

#### ■ Impact on other shareholders; large special dividends ahead?

For other shareholders, on the surface, it is business as usual. However, we could see: (1) Large special divi: Although our base case is a NIS800m special divi (=8% yield plus annual 8% divi), we believe it could be cNIS1.5bn (15% yield; plus 8% divi), based on incremental debt & shareholders equity at Cellcom, a v similar co. (We expect special divi to be paid c6mths after completion of deal (needs court approval) (2) Increasing the payout ratio from 80% to 100%. Bezeq typically pays 100% payout, Cellcom 95% and Partner could pay 95%-100%, taking the annual yield to c10%.

#### ■ Valuation: Reiterate Neutral, PT NIS73

PT based on DCF.

Highlights (NISm)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	6,113.60	6,323.27	5,563.24	5,731.70	5,795.30
EBIT (UBS)	1,404.40	1,671.52	1,502.44	1,431.43	1,517.45
Net Income (UBS)	939.70	1,095.90	978.47	972.96	1,037.48
EPS (UBS, NIS)	6.01	7.05	6.38	6.34	6.76
Net DPS (UBS, NIS)	4.77	5.43	5.08	5.05	5.38

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	20.3	26.4	27.0	25.0	26.2
ROIC (EBIT) %	27.2	46.7	42.8	40.7	42.9
EV/EBITDA (core) x	5.5	5.9	6.4	6.5	6.3
PE (UBS) x	10.8	10.6	10.5	10.6	9.9
Net dividend yield %	3.0	7.3	7.6	7.5	8.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of NIS67.00 on 11 Aug 2009 21:39 BST

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## Global Equity Research

Israel

Wireless Communications

12-month rating **Neutral \***  
**Unchanged**

12m price target **NIS73.00/US\$18.87**  
**Unchanged**

Price **NIS67.00/US\$17.17 (ADR)**

RIC: PTNR.TA BBG: PTNR IT

12 August 2009

#### Trading data (local/US\$)

52-wk range	NIS79.80-57.30/US\$22.52-13.46
Market cap.	NIS10.6bn/US\$2.71bn
Shares o/s	158m (ORD)/158m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	44%
Avg. daily volume ('000)	442/111
Avg. daily value (NISm)	30.3/1.9

#### Balance sheet data 12/09E

Shareholders' equity	NIS1.89bn
P/BV (UBS)	5.4x
Net Cash (debt)	(NIS1.60bn)

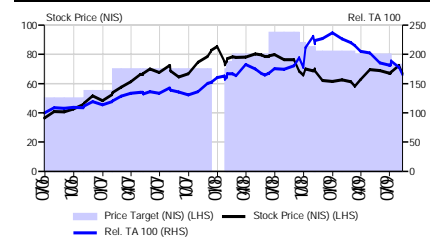
#### Forecast returns

Forecast price appreciation	+9.0%
Forecast dividend yield	7.4%
Forecast stock return	+16.4%
Market return assumption	9.9%
Forecast excess return	+6.5%

#### EPS (UBS, NIS)

	12/09E		12/08
	UBS	Cons.	Actual
Q1	1.93	1.93	1.83
Q2E	1.39	1.87	1.58
Q3E	1.62	1.91	1.92
Q4E	1.43	1.74	1.87
12/09E	6.38	7.02	
12/10E	6.34	7.37	

#### Performance (NIS)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5. \* Exception to core rating bands; See page 7

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# Partner Communications

Income statement (NISm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	5,140.80	5,122.90	5,606.70	6,113.60	6,323.27	5,563.24	-12.0	5,731.70	3.0	5,795.30	1.1
Operating expenses (ex dephn)	(3,605.60)	(3,600.97)	(3,849.56)	(4,118.34)	(3,998.28)	(3,595.80)	-10.1	(3,798.33)	5.6	(3,800.95)	0.1
EBITDA (UBS)	1,535.20	1,521.93	1,757.14	1,995.26	2,324.99	1,991.39	-14.3	1,933.37	-2.9	1,994.35	3.2
Depreciation	(515.70)	(619.13)	(538.84)	(590.86)	(653.48)	(488.96)	-25.2	(501.94)	2.7	(476.90)	-5.0
Operating income (EBIT, UBS)	1,019.50	902.80	1,218.30	1,404.40	1,671.52	1,502.44	-10.1	1,431.43	-4.7	1,517.45	6.0
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(260.50)	(345.40)	(166.40)	(126.30)	(162.12)	(172.77)	6.6	(134.15)	-22.4	(134.15)	0.0
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	759.00	557.40	1,051.90	1,278.10	1,509.40	1,329.66	-11.9	1,297.28	-2.4	1,383.30	6.6
Tax	(287.20)	(202.90)	(370.70)	(338.40)	(413.50)	(351.19)	-15.1	(324.32)	-7.7	(345.83)	6.6
Profit after tax	471.80	354.50	681.20	939.70	1,095.90	978.47	-10.7	972.96	-0.6	1,037.48	6.6
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	471.80	354.50	681.20	939.70	1,095.90	978.47	-10.7	972.96	-0.6	1,037.48	6.6
Net Income (UBS)	471.80	354.50	681.20	939.70	1,095.90	978.47	-10.7	972.96	-0.6	1,037.48	6.6
Tax rate (%)	37.84	36.40	35.24	26.48	27.39	26.41	-3.6	25.00	-5.3	25.00	0.0
Pre-abnormal tax rate (%)	37.84	36.40	35.24	26.48	27.39	26.41	-3.6	25.00	-5.3	25.00	0.0
Per share (NIS)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	2.58	2.19	4.43	6.01	7.05	6.38	-9.5	6.34	-0.6	6.76	6.6
EPS (UBS)	2.58	2.19	4.43	6.01	7.05	6.38	-9.6	6.34	-0.6	6.76	6.6
Net DPS	0.00	0.57	2.63	4.77	5.43	5.08	-6.5	5.05	-0.6	5.38	6.6
Cash EPS	5.39	6.02	7.94	9.79	11.26	9.56	-15.1	9.61	0.5	9.87	2.7
BVPS	13.78	5.65	8.12	10.49	9.12	12.35	35.4	13.61	10.3	14.97	9.9
Balance sheet (NISm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net tangible fixed assets	1,843.20	1,768.90	1,747.46	1,727.66	1,756.23	1,964.36	11.9	1,903.62	-3.1	1,861.46	-2.2
Net intangible fixed assets	1,325.60	1,321.17	1,247.08	1,153.93	1,060.50	1,273.48	20.1	1,331.29	4.5	1,389.10	4.3
Net working capital (incl. other assets)	1,312.80	515.77	543.95	770.14	696.44	276.23	-60.3	279.17	1.1	302.36	8.3
Other liabilities	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	4,481.60	3,605.83	3,538.49	3,651.73	3,513.17	3,514.07	0.0	3,514.08	0.0	3,552.92	1.1
Investments	0.00	0.00	0.00	0.00	0.36	31.08	8532.2	81.08	160.9	81.08	0.0
Total capital employed	4,481.60	3,605.83	3,538.49	3,651.73	3,513.53	3,545.15	0.9	3,595.15	1.4	3,633.99	1.1
Shareholders' equity	2,547.20	860.35	1,254.47	1,655.47	1,439.30	1,894.64	31.6	2,089.32	10.3	2,296.92	9.9
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	2,547.20	860.35	1,254.47	1,655.47	1,439.30	1,894.64	31.6	2,089.32	10.3	2,296.92	9.9
Net debt / (cash)	1,934.40	2,718.69	2,251.52	1,952.82	2,008.37	1,598.48	-20.4	1,453.81	-9.1	1,285.05	-11.6
Debt deemed provisions	0.00	102.24	113.38	131.96	147.72	52.02	-64.8	52.02	0.0	52.02	0.0
Total capital employed	4,481.60	3,605.83	3,538.49	3,651.73	3,513.53	3,545.15	0.9	3,595.15	1.4	3,633.99	1.1
Cash flow (NISm)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Operating income (EBIT, UBS)	1,019.50	902.80	1,218.30	1,404.40	1,671.52	1,502.44	-10.1	1,431.43	-4.7	1,517.45	6.0
Depreciation	515.70	619.13	538.84	590.86	653.48	488.96	-25.2	501.94	2.7	476.90	-5.0
Net change in working capital	0.00	0.00	(65.61)	(209.18)	39.39	(290.99)	-	(2.94)	-99.0	(23.19)	687.6
Other (operating)	(41.00)	(31.20)	(15.55)	134.90	50.33	382.92	660.8	(50.00)	-	0.00	-
Operating cash flow	1,494.20	1,490.73	1,675.98	1,920.98	2,414.71	2,083.32	-13.7	1,880.43	-9.7	1,971.16	4.8
Net interest received / (paid)	(260.50)	(345.40)	(166.40)	(126.30)	(162.12)	(172.77)	6.6	(134.15)	-22.4	(134.15)	0.0
Dividends paid	0.00	(41.77)	(352.44)	(624.02)	(929.99)	(626.06)	-32.7	(778.28)	24.3	(829.88)	6.6
Tax paid	0.00	(203.00)	(370.70)	(338.40)	(413.50)	(351.19)	-15.1	(324.32)	-7.7	(345.83)	6.6
Capital expenditure	(664.00)	(540.39)	(443.32)	(532.48)	(521.27)	(552.95)	6.1	(499.00)	-9.8	(492.55)	-1.3
Net (acquisitions) / disposals	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	(287.20)	(6.20)	(4.87)	(76.61)	(16.09)	25.95	-	0.00	-	0.00	-
Share issues	25.80	(1,054.69)	44.33	75.54	(334.36)	3.59	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	308.30	(700.72)	382.57	298.70	37.39	409.89	996.4	144.68	-64.7	168.75	16.6
FX / non cash items	326.90	(83.57)	84.59	0.00	(92.94)	0.00	-	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	635.20	(784.29)	467.16	298.70	(55.55)	409.89	-	144.68	-64.7	168.75	16.6
Core EBITDA	1,535.20	1,521.93	1,757.14	1,995.26	2,324.99	1,991.39	-14.3	1,933.37	-2.9	1,994.35	3.2
Maintenance capital expenditure	(664.00)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	0.0	(0.10)	0.0	(0.10)	0.0
Maintenance net working capital	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	871.20	1,521.83	1,757.04	1,995.16	2,324.89	1,991.29	-14.3	1,933.27	-2.9	1,994.25	3.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Company profile

Partner Communications is a GSM mobile operator in Israel. The company commenced commercial operations in January 1999 under the Orange brand name. It has an estimated 32% market share, behind Cellcom at 34% and ahead of Pelephone at 28%. Partner is majority owned by Hutchison Telecom International (HTIL), which hold a 50% stake.

Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	10.8	11.2	10.7	10.6	10.6	10.0
P/E (UBS)	10.8	11.1	10.6	10.5	10.6	9.9
P/CEPS	5.3	6.8	6.6	7.0	7.0	6.8
Net dividend yield (%)	3.0	7.2	7.3	7.6	7.5	8.0
P/BV	4.5	6.3	8.2	5.4	4.9	4.5
EV/revenue (core)	1.7	2.1	2.2	2.3	2.2	2.2
EV/EBITDA (core)	5.5	6.3	5.9	6.4	6.5	6.3
EV/EBIT (core)	8.4	9.0	8.2	8.4	8.8	8.3
EV/OpFCF (core)	6.4	6.3	5.9	6.4	6.5	6.3
EV/op. invested capital	2.3	3.5	3.8	3.6	3.6	3.6

Enterprise value (NISm)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	10,349.63	11,626.45	10,578.46	10,578.46	10,578.46
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	2,102.17	1,980.60	1,980.60	1,980.60	1,980.60
+ pension obligations and other	122.67	139.84	99.87	52.02	52.02
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	12,574.47	13,746.88	12,658.93	12,611.08	12,611.08

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	8.2	9.0	3.4	-12.0	3.0	1.1
EBITDA (UBS)	8.5	13.6	16.5	-14.3	-2.9	3.2
EBIT (UBS)	13.2	15.3	19.0	-10.1	-4.7	6.0
EPS (UBS)	-1.6	35.5	17.4	-9.6	-0.6	6.6
Cash EPS	0.4	23.2	15.1	-15.1	0.5	2.7
Net DPS	-	81.2	13.9	-6.5	-0.6	6.6
BVPS	1.4	29.2	-13.1	35.4	10.3	9.9

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	31.2	32.6	36.8	35.8	33.7	34.4
EBIT / revenue	20.3	23.0	26.4	27.0	25.0	26.2
Net profit (UBS) / revenue	13.9	15.4	17.3	17.6	17.0	17.9

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	27.2	39.1	46.7	42.8	40.7	42.9
ROIC post tax	-	28.7	33.9	31.5	30.6	32.2
Net ROE	52.9	64.6	70.8	58.7	48.8	47.3

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	5.5	11.1	10.3	8.7	10.7	11.3
Dividend cover (UBS EPS)	-	1.3	1.3	1.3	1.3	1.3
Div. payout ratio (% , UBS EPS)	-	79.3	77.0	79.6	79.6	79.6
Net debt / EBITDA	1.4	1.0	0.9	0.8	0.8	0.6

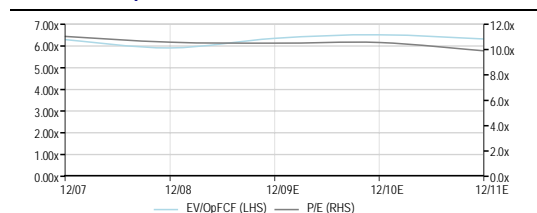
Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	1.3	1.7	1.8	1.6	1.6	1.6
Revenue / fixed assets	1.7	2.1	2.2	1.8	1.8	1.8
Revenue / net working capital	5.8	9.3	8.6	11.4	20.6	19.9

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	1.3	1.4	1.4	1.3	1.4	1.3
Capex / revenue (%)	10.0	8.7	8.2	9.9	8.7	8.5
Capex / depreciation	0.9	0.9	0.8	1.1	1.0	1.0

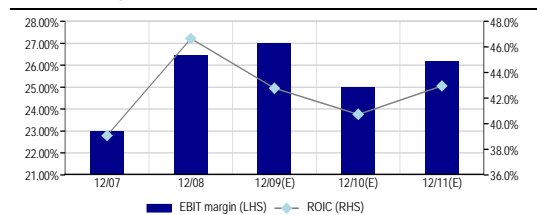
Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	84.4	69.6	55.9
Net debt / (net debt + equity)	58.5	54.1	58.3	45.8	41.0	35.9
Net debt (core) / EV	26.7	16.7	14.4	15.6	15.7	15.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of NIS67.00 on 11 Aug 2009 21:39 BST Market cap(E) may include forecast share issues/buybacks.

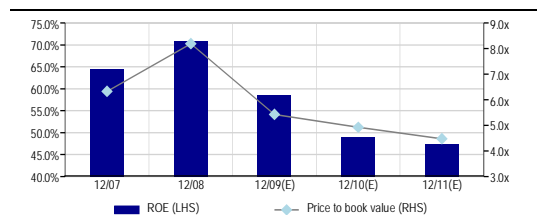
Value (EV/OpFCF & P/E)



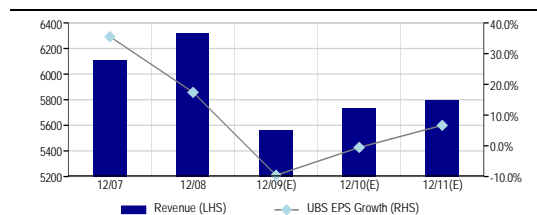
Profitability



ROE v Price to book value



Growth (UBS EPS)



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\* Exception to core rating bands; See page7

## ■ **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 has an estimated 32% market share, behind Cellcom at 34% and ahead of Pelephone at 28%. Partner is majority owned by Hutchison Telecom International (HTIL), which hold a 50% stake.

## ■ **Statement of Risk**

The key risks for Partner are number portability, which could lead to higher churn/lower EBITDA margins, the risk of mobile virtual network operators (MVNOs) entering, other adverse regulatory changes and high penetration rates.

## ■ **Analyst Certification**

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

1:Percentage of companies under coverage globally within the 12-month rating category.

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

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2009.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**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% (a proxy for, and not a forecast of, the equity risk premium).

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**UBS Securities Israel Limited:** Darren Shaw. **UBS Limited:** Alex Wright.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
<b>Partner Communications</b> <sup>5, 16, 20</sup>	PTNR.TA	Neutral (CBE)	N/A	NIS67.00	11 Aug 2009

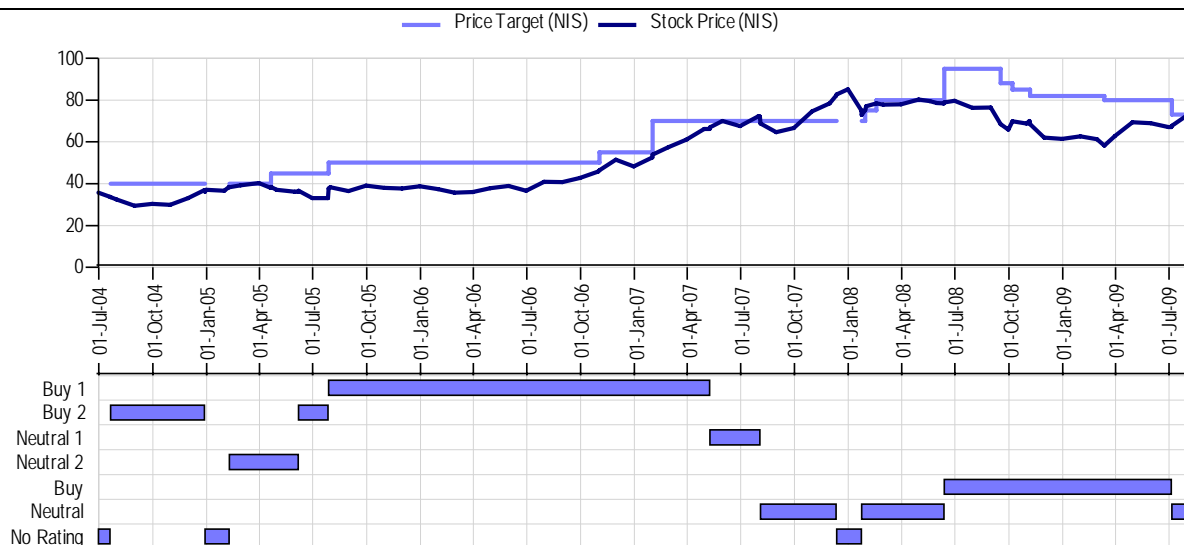
Source: UBS. All prices as of local market close.

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Partner Communications (NIS)



Source: UBS; as of 11 Aug 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. 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. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.



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