

August 13, 2008

Israel
European Telecom Services

Cellcom (CEL.TA - ILS 118.60) 2-Equal weight

Operating Results

Another Strong Result for Cellcom

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Investment Conclusion

- Cellcom reported a solid 2Q beating our estimates on each of the main operating lines. The dividend beat our estimate (ILS 2.76/share vs. 2.58) as the company paid out a portion of retained earnings. We continue to be impressed by CEL's management of costs and focus on the bottom line. We are following the development of the merger between CEL's sister company and the cable operator which we believe would be +ve for CEL.

Summary

- Cellcom beat our estimates on revs (ILS 1,600m vs. ILS 1,533m), EBIT (ILS 417m vs. ILS 397m), EBITDA margin (37.7% vs. 37%) and on EBITDA-capex (ILS 451m vs. ILS 422m). ARPU and MOU were in line with our estimates. Q2 was affected by two 1x acct changes of +ILS 15m above the line. We compare the pro-forma results to our estimate. We compare the pro-forma results to our estimate.
- Financing expenses were affected by a rising CPI which left adj. net inc ILS 38m short of our estimate. The dividend was ahead of our estimate despite the lower than expected net income.
- CEL trades on 6.4x 2009e EV/EBITDA; 8.9x 2009e EV/EBITDA-capex and 11.8% yield on 2009e FCF.

Stock Rating

 New: 2-Equal weight
 Old: 2-Equal weight

Target Price

 New: ILS 130.00
 Old: ILS 130.00

Sector View: 3-Negative

FY Dec Currency ILS	2007A	2008E		2009E		2010E	
	Actual	Old	New	Old	New	Old	New
Revenues (Cons.)	6050	6361	6468	6813	6838	7203	7025
EBITDA (Cons.)	2115	2230	2299	2351	2384	2500	2438
Free Cash Flow	1809	1079	1107	1369	1384	1479	1442
Net Income (m)	873	1026	1042	1166	1178	1353	1306
EPS (Adj.)	8.95	10.52	10.69	11.96	12.08	13.88	13.40
Net Debt (m)	2768	3171	3829	2910	3564	2716	3363
EV/EBITDA	6.8	N/A	6.8	N/A	6.4	N/A	6.2
P/E	13.9	13.1	10.9	10.9	9.8	N/A	9.0

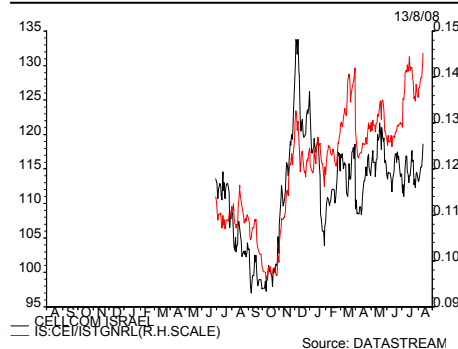
Market Data

Market Cap (m)	11564
Units Outstanding (m)	97.5
Float (%)	45
Net Distribution Yield (%)	6.64
Convertible	No
Shares per ADR	N/A

Financial Summary

5-Year EPS CAGR (%)	N/A
3-year EBITDA CAGR (%)	N/A
Net Debt/EBITDA FY07	N/A
Dividend Yield (%)	11.58

Stock Overview


 Reuters: CEL.TA
 Bloomberg: CEL IT
 ADR: CEL.N

Performance

	1M	3M	12M
Absolute %	3	2	14
Rel. Market %	1	11	30
Rel. Sector %	0	0	-7

52 Week Range 133.80 - 97.00

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Figure 1: Key Group Financials

ILS m	Q2 07	2007A	Q2 08A	Q2 08E	2008E	Absolute	Percentage
Net Revenue	1456	6050	1600	1533	6468	67	4.4%
% Growth		7.6%	9.9%	5.3%	6.9%		
Underlying EBITDA	539	2117.5	603	567	2285	36	6.3%
% Growth		13.6%	11.9%	5.2%	7.9%		
% Margin	37%	35%	38%	37%	35%		
Underlying EBIT	345	1343.5	417	397	1605	20	5.0%
Net Income	212	873	230	268	1042	-38	-14.2%
FCFE	314	1809	308	321	1107	-13	-4.1%

Source: Company reports, Lehman Brothers estimates

Figure 2: Old vs. New Estimates

	Old Estimates		New Estimates	
	FY 2008	FY 2009	FY 2008	FY 2009
Net Adds	108	110	107	110
Churn	19%	19%	19%	19%
Revenues	6,402	6,790	6,468	6,838
EBITDA	2,249	2,343	2,285	2,384
EBITDA margin	35%	35%	35%	35%

Source: Lehman Brothers estimates

Analyst Certification:

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

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Company Description:

Cellcom is the largest mobile telephone operator in Israel with a 34% market share. Cellcom also operates a fixed-line fibre optic network servicing most of the business market in Israel. Cellcom is controlled by the IDB group through Discount Investment Corp. which owns 56% of the shares. Other significant shareholders include Bank Leumi (5%) and Goldman Sachs (4%).

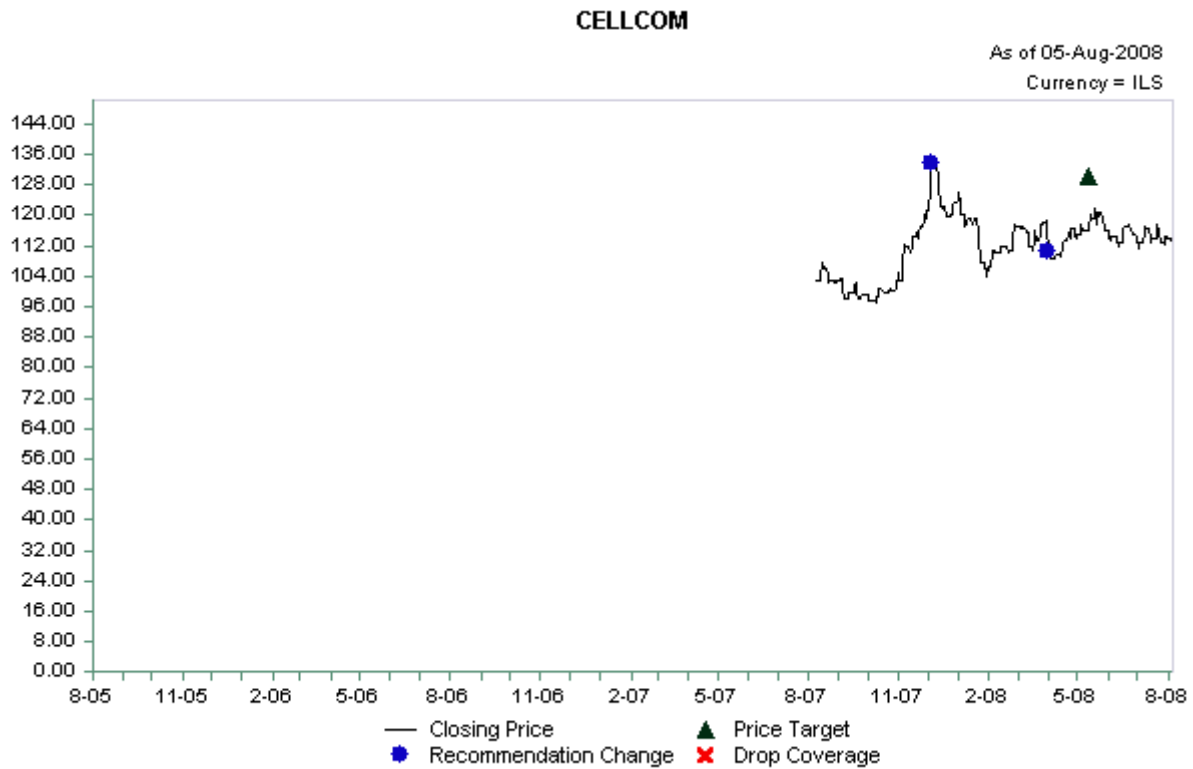
Important Disclosures:

Cellcom (CEL.TA)

ILS 118.60 (12-Aug-2008)

2-Equal weight / 3-Negative

Rating and Price Target Chart:



Currency=ILS

Date	Closing Price	Rating	Price Target
12-May-08	116.30		130.00
02-Apr-08	110.50	3 -Underweight	

Date	Closing Price	Rating	Price Target
06-Dec-07	133.40	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 9.9% cost of capital and a 1.5% terminal growth rate.

Risks Which May Impede the Achievement of the Price Target: Upcoming regulatory decisions provide the greatest risks for the telecom industry. Cellcom's ability to leverage its existing infrastructure and its parent company's (IDB Group) other holdings are key to Cellcom's growth, in our view. Any regulatory roadblocks or hold ups would slow the growth of the company.

Important Disclosures Continued:

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Cellcom	CEL.TA	ILS 118.60	12-Aug-2008	2-Equal weight / 3-Negative

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Cellcom (CEL.TA)	Comstar UTS (CMSTq.L)
Deutsche Telekom (DTEGn.DE)	Elisa (ELI1V.HE)
Eutelsat (ETL.PA)	France Telecom (FTE.PA)
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KPN (KPN.AS)	Magyar (MTEL.BU)
Mobistar (MSTAR.BR)	MTS (MBT.N)
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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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