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Partner Communications

Telecom Service Providers

Neutral

Quarterly Preview: 1Q09

19 MAY 2009

Stock Data

	PTNR
TASE	PTNR
Bloomberg	PTNR.IT
Reuters	PTNR.TA
Price (NIS)	68.8
Shares O/S (m)	153.6
Market Cap (NIS, m)	10,565
Free Float (%)	48.6%
12 Mo. Range (NIS)	55.9 78.9
12 Mo. Average Volume (NIS m)	31.3

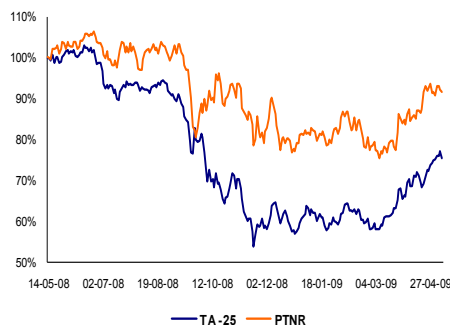
Risk Increasing

- PTNR is scheduled to release its 1Q09 results on Thursday morning, May 21st. Later that day the company will hold an investors' conference call at 5:00 pm local time.

NIS m	1Q09E	4Q08A	1Q08A
Revenues	1,519	1,562	1,588
EBIT	389	409	349
EBITDA	539	559	532
Net Income	266	265	243
New Subscribers added (k)	10	16	24
ARPU (NIS)	150	157	155

- We expect 1Q09 revenues to decline 4.3% y/y, compared with a 12% y/y increase posted in 4Q07. The drivers behind the expected decline are:
 - A deceleration in the growth rates of data-related revenues to 10% y/y from 38% y/y growth rate experienced in 1Q08 and 26% y/y in 2008.
 - A decline in ARPU to NIS 150 from 159 in 2008.
- PTNR is switching to IFRS in the quarter, which will surely increase EBITDA margins. The company will hold an analyst meeting on May 24th to discuss the impact of the switch.
- PTNR's exposure to the hi-tech and SMB sectors is rendering it less recession-proof than Pelephone (BEZQ; Buy). CEL (Buy) has also indicated it is seeing less of the recession than PTNR – although we are more skeptical about CEL's ability to escape unscathed. At any rate, 1Q09 is of particular importance as it could indicate the impact of a recessionary quarter on the cellular market.

PTNR versus TA25 Relative Strength



Summary Earning Estimates

Year-end Dec (NIS m)	2006	2007	2008	2009E	2010E
Sales	5,607	6,114	6,330	6,286	6,284
EBIT	1,218	1,405	1,605	1,678	1,699
EBITDA	1,841	2,008	2,257	2,278	2,299
Net income	682	940	1,051	1,153	1,185
EPS	4.41	5.96	6.72	7.42	7.63

Key Valuation Ratios

Year-end Dec	2006	2007	2008	2009E	2010E
P/E (x)	15.6	11.5	10.2	9.3	9.0
EV/EBITDA (x)	6.9	6.3	5.6	5.6	5.5
FCF Yield (%)	8.3%	8.7%	12.4%	10.8%	12.1%
Dividend Yield	3.9%	7.1%	8.0%	8.7%	9.0%

NIS, '000 US-GAAP	1Q08A	2Q08A	3Q08A	4Q08A	1Q09E	2Q09E	3Q09E	4Q09E	FY08A	FY09E	FY10E
Services	1,342,485	1,375,938	1,458,137	1,396,684	1,356,594	1,389,943	1,463,051	1,402,604	5,573,244	5,612,191	5,611,044
Equipment	245,295	168,200	177,880	164,931	162,791	166,793	175,566	168,312	756,306	673,463	673,325
Total Revenue	1,587,780	1,544,138	1,636,017	1,561,615	1,519,385	1,556,736	1,638,617	1,570,916	6,329,550	6,285,654	6,284,369
y-o-y	12.0%	5.2%	2.2%	-4.0%	-4.3%	0.8%	0.2%	0.6%	3.5%	-0.7%	0.0%
Services	801,576	807,844	817,335	809,042	773,259	778,368	819,308	785,458	3,235,797	3,156,393	3,142,185
Equipment	279,732	192,724	190,526	180,345	203,489	200,152	210,679	201,975	843,327	816,295	807,990
Cost of sales	1,081,308	1,000,568	1,007,861	989,387	976,748	978,520	1,029,988	987,433	4,079,124	3,972,688	3,950,175
Gross profit	506,472	543,570	628,156	572,228	542,638	578,216	608,629	583,483	2,250,426	2,312,966	2,334,194
<i>Services Gross %</i>	59.7%	58.7%	56.1%	57.9%	57.0%	56.0%	56.0%	56.0%	58.1%	56.2%	56.0%
<i>Equipment Gross %</i>	114.0%	114.6%	107.1%	109.3%	125.0%	120.0%	120.0%	120.0%	111.5%	121.2%	120.0%
<i>Gross Margin %</i>	31.9%	35.2%	38.4%	36.6%	35.7%	37.1%	37.1%	37.1%	35.6%	36.8%	37.1%
Net s&m expenses	104,000	100,919	96,830	87,540	92,683	96,518	101,594	97,397	389,289	388,191	389,631
G&A expenses	53,703	64,793	61,915	75,528	60,775	60,713	63,906	61,266	255,939	246,660	245,090
Operating profit	348,769	377,858	469,411	409,160	389,180	420,986	443,129	424,821	1,605,198	1,678,115	1,699,473
<i>Net selling & marketing %</i>	6.6%	6.5%	5.9%	5.6%	6.1%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
<i>General & administrative %</i>	3.4%	4.2%	3.8%	4.8%	4.0%	3.9%	3.9%	3.9%	4.0%	3.9%	3.9%
<i>Operating margin</i>	22.0%	24.5%	28.7%	26.2%	25.6%	27.0%	27.0%	27.0%	25.4%	26.7%	27.0%
Financial expenses	15,605	32,383	63,732	46,216	30,000	30,000	30,000	30,000	157,936	120,000	120,000
Income before taxes	333,164	345,475	405,679	362,944	359,180	390,986	413,129	394,821	1,447,262	1,558,115	1,579,473
Income tax rate	27.0%	28.4%	27.0%	27.1%	26.0%	26.0%	26.0%	26.0%	27.3%	26.0%	25.0%
Income tax	89,894	98,140	109,477	98,269	93,387	101,656	107,413	102,653	395,780	405,110	394,868
Net income	243,270	247,335	296,202	264,675	265,793	289,330	305,715	292,167	1,051,482	1,153,005	1,184,605
Net margin	15.3%	16.0%	18.1%	16.9%	17.5%	18.6%	18.7%	18.6%	16.6%	18.3%	18.9%
Diluted EPS, NIS	1.541	1.571	1.907	1.704	1.711	1.862	1.968	1.881	6.722	7.422	7.625
EBITDA	532,299	541,360	624,096	558,867	539,180	570,986	593,129	574,821	2,256,622	2,278,115	2,299,473
EBITDA %	33.5%	35.1%	38.1%	35.8%	35.5%	36.7%	36.2%	36.6%	35.7%	36.2%	36.6%
YoY	17.0%	4.7%	15.9%	12.3%	1.3%	5.5%	-5.0%	2.9%	12.4%	1.0%	0.9%

Ratings Key

1. **Buy:** Expected to outperform the relevant broader market index over the next 12-18 months.
2. **Neutral:** Expected to perform in-line with the relevant broader market index over the next 6-12 months.
3. **Sell:** Expected to underperform the relevant broader market index over the next 6-12 months.

Disclaimer and Disclosures

▪ Analyst Information

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B.A Economics (1995), Magna Cum Laude, Tel Aviv University
 Master in International Business Administration (1998), The Norwegian School for Economics and Business Administration

Experience

Gilad Alper is an analyst of 10 years and served at a number of international investment banks including Commerzbank Securities (London) and Merrill Lynch (NY).

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Conflict of interest - Analyst

At date of preparation of this report, the analyst is not aware of any conflict of interest with respect to the company that is covered in this report.

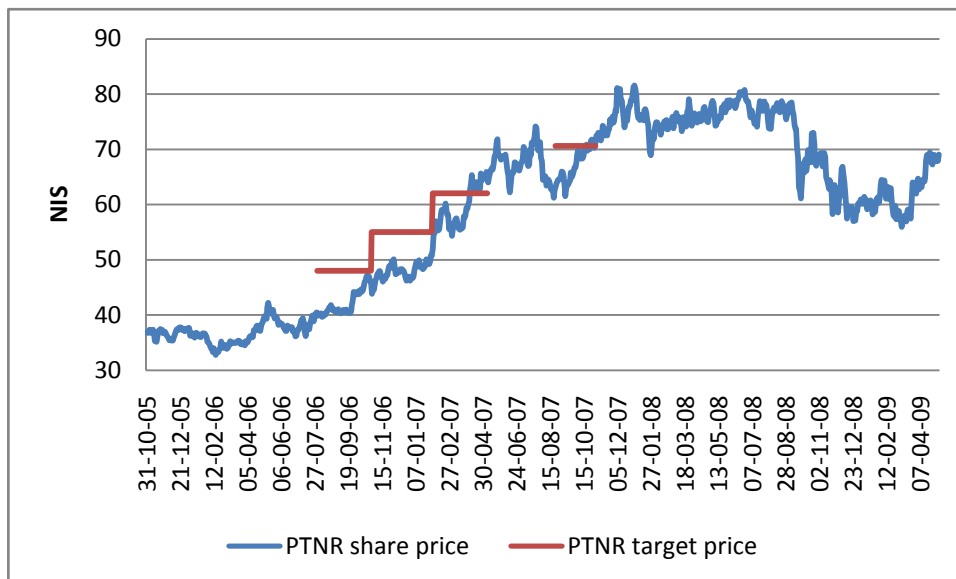
▪ Information regarding analysis

Valuation methodology

Using our earnings forecasts and historical data as a base, we have used DCF models, peer group comparison and multiple analysis.

Risks

1. Continued regulatory intervention could decrease revenues and profitability through an introduction of an MVNO or by other means.
2. A significant economic slowdown in the Israeli economy could result in reduced spending by businesses customers and private consumers.
3. The introduction of a UMTS network by Pelephone could destabilize the market.



Recommendation date	Rating	Target Price
4.11.07	Neutral	-
23.8.07	Buy	70.6
31.7.07	Neutral	-
8.5.07	Neutral	-
1.2.07	Buy	62
31.10.06	Buy	55
1.8.06	Buy	48
25.5.06	Neutral	-
6.2.06	Neutral	-
9.11.05	Neutral	-
31.7.05	Neutral	-
25.4.05	Neutral	-

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▪ **Disclosure – Excellence Nessuah Brokerage Services Ltd (the 'Company')**

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2. At the time of publishing this report, or in the 30 days previous to this report, the company or companies associated with it, held in its Nostro or managed accounts, significant holdings in the shares of the company analysed, or companies associated with it.

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