

Capital Market

UBS, Psagot downgrade Israeli mobile operators' stocks

Their targets are still double those of Citi from three weeks ago

By Eran Azran

The shares of local wireless titans Cellcom and Partner Communications lost 50% of their value in the last 12 months, yet equity analysts at UBS and Psagot Investment House suspect that neither has bottomed out. Ilanit Sheref of Psagot and Ziv Tal of UBS both lowered price targets for the two companies by about 20% this week.

Banking giant Citi had preceded them by three weeks, slashing targets for the two companies by 50% to 60%. This week's barrage was started by UBS. The Swiss bank lowered its 12-month price target for Partner by 20%, to NIS 40 per share. UBS cut its target for Cellcom by 23% to \$15 (NIS 55.65). (Cellcom is dual-listed on the Tel Aviv Stock Exchange and on Nasdaq.)

Even so, UBS analyst Tal reiterated a Buy rating for Partner, which operates in Israel as Orange, because its price on the market when he wrote the report was NIS 32. Cellcom, on the other hand, received a Market Perform rating. That is a neutral position, meaning Tal expects Cellcom to behave roughly like the benchmark TA-25 index over the next 12 months. While his target is NIS 55.65, the share is trading at NIS 57.

Psagot is less sanguine about the companies' prospects than UBS. Analyst Ilanit Sheref cut her target for Partner by 20%, from NIS 36 to NIS 29. Her target for Cellcom is NIS 52, down 21% from her previous target of NIS 66.

"Despite the steep drop in Cellcom and Partner shares, their prices still do not incorporate all the anticipated difficulty to come," writes Sheref. Not only is competition raising its head but so is the regulator, she explains. Both companies delivered poor reports for the third quarter of 2011 and aren't expected to have done any better in the fourth quarter.

Israel's mobile market is notoriously saturated, exceeding 100% (meaning that



This being Israel, she could have another phone on the other ear.

many people have more than one cellphone.) But the playing field had been the home turf of just three companies: Cellcom, Partner and Pelephone, a subsidiary of the Bezeq phone company. They were not exactly fierce competitors, and generally toed a common line on pricing.

And then their business environment changed, thanks to the regulator. They're still making money, only a little more slowly.

Declining profits

Take Partner. For the third quarter of 2009 it posted revenues of \$419 million and profit of \$70 million. For the third quarter of 2010 these figures were \$450 million and \$84 million, respectively. But in the same quarter of 2011, while revenues were reported at \$472 million profit had shrunk 44% against the previous year, to \$47 million.

Cellcom did not have greater joy. For the third quarter of 2009 the company reported revenues of NIS 1.7 billion

and net profit of NIS 289 million. In 2010 revenue for the quarter was again NIS 1.7 billion and profit climbed to NIS 332 million. In the third quarter of 2011, revenues held steady at NIS 1.7 billion, but net profit had dropped to NIS 199 million.

Part of the companies' problem is that the regulator allowed the entry of mobile virtual network operators, such as Rami Levi Communications, with others poised to start operating. As their name suggests, MVNOs are mobile phone operators that do not have their own network infrastructure and instead lease these assets from companies that do. Rami Levi, for example, uses those of Pelephone.

Then there are the upcoming rivals Golan Telecom and MIRS, both of them regular mobile operators with their own infrastructure. Both will pose serious problems for Partner and Cellcom investors, particularly Golan: It is expected to offer cheaper service, as much as 40% below the prices of the estab-

lished wireless carriers. Golan Telecom is the "baby" of French immigrant Michael Golan, the man behind the French mobile revolution in France, together with French businessman Xavier Niel. Golan, formerly known as Michael Boukoba, had been the CEO of Free Telecom. He vows to bring transparency and simplicity to Israel's mobile market. "The bundles we will offer will be fair and simple to understand, without 'footnotes', 'fine print' and 'asterisks'," the company writes on its website.

UBS predicts that Golan will offer calling plans that include high-speed Internet and 800 to 1,000 minutes of talk-time a month for as little as NIS 100 to NIS 140.

The bottom line is that UBS thinks Golan and the other new rivals will reduce the average revenue per user for the "big three" wireless carriers by 12% this year and an additional 4% in 2013. Doesn't sound so bad? UBS foresees that as translating into a 34% drop in net profit this year for Partner and 28% for Cellcom.

Psagot writes that increasing competition in the field will have customers rethinking their current calling plans.

Consumers seem to want alternatives. Israel's first MVNO, Rami Levi, signed up 15,000 customers in under two months, writes Sheref.

Partner and Cellcom will be further constrained in their growth by the super-saturation of the local market.

If the future of the cellu-

lar stocks looks so grim, with most other analysts urging investors to sell, why did UBS give Partner a Buy rating? UBS cites several factors in the stock's favor. Ziv Tal likes Partner more than Cellcom because Partner has greater potential for streamlining, to start. Second, Partner owner Ilan Ben-Dov is trying to sell a piece of the company in order to gain liquidity. UBS thinks he may bring in private equity funds or strategic investors, which could support the value of Partner's shares on the market.

Beyond the features specific to Partner, the UBS analyst likes the dividend flow from the mobile herd. Ben-Dov bought Partner through his holding company Sailex, which borrowed heavily to effect the takeover. Now Sailex need dividends from Partner to repay bondholders.

Then there's Cellcom, which is owned by Nochi Dankner's IDB group. The dividends from Cellcom will climb the IDB pyramid to meet the top companies' own bond repayment needs.

UBS predicts a dividend yield of 8.9% for Cellcom and 9.1% for Partner in 2012.

Back to Citi, which three weeks ago advised Israeli investors to get out of local cellular stocks. Citi cuts its target for Partner to NIS 21.50. (Remember, Psagot's target is NIS 29 and UBS' is NIS 40.) It cut its target for Cellcom to NIS 32.50. (Psagot's target is NIS 52 and UBS' is NIS 55.65.) You choose whose analysis to buy.



Ilan Ben-Dov



Michael Golan

Financial Markets

Markets in Brief

RedHill starts tests of anti-nausea drug

Mere days after receiving the U.S. Food and Drug Administration's approval for the outline of its plans, Israeli firm RedHill Biopharma has begun the advanced trial of its drug to prevent nausea and vomiting in cancer patients. RedHill said it had already enrolled patients for the trial in Canada, which is expected to last several months. If positive results are obtained from its RHB-102 drug and FDA requirements are met, the clinical trial may be considered a Phase III trial to be used by the company in submitting a new drug application to the FDA, it said. RHB-102 is a once-daily controlled release tablet formulation of the active ingredient Ondansetron, a serotonin 5-HT3 receptor antagonist used mainly to prevent nausea and vomiting. The drug market for serotonin receptor inhibitors is estimated at about \$1 billion, RedHill said. In contrast, GlaxoSmithKline's drug Zofran is administered several times a day. "The clinical results previously demonstrated by RHB-102 were encouraging," said Gilead Raday, a vice president at RedHill in the statement. "Should RHB-102 be approved for marketing in the future, it may become an important therapy in support of cancer patients suffering from nausea and vomiting." (Reuters)

Euro shrinks as Greek debt deal falters

The euro fell to a more than one-week low against the dollar in world markets yesterday. It also fell back against the yen after rising to a two-month peak on Wednesday, and fell by a steep 0.4% against the shekel to NIS 4.911. The reason for the fall is that euro zone officials are thinking of delaying the second bailout package for Greece, though they're wondering how to do it while still avoiding a chaotic debt default. European Union sources said the delay could last until after Greece holds elections in April, though there are options being considered that would still let Greece meet a 14.5 billion euro bond redemption payment due on March 20. (Reuters and TheMarker)

CPI unchanged in January despite flying chicken price

The consumer price index didn't move in January, for the second month in a row, which puts inflation over the last 12 months at 2% - smack in the middle of the government's price stability target range. In 2011 inflation ran at 2.2%. The main price increases in January were of fresh fruit and vegetables (1.5%), public transportation (0.6%), food (0.5%) and tenant-owned housing maintenance (0.5%). Dairy products stood out with a 4.5% leap, and chicken increased by 3.7%. In the category of fresh produce, tomatoes stood out with a 37% drop compared with the month before. Now, food prices had been declining since the uproar in summer, when Israelis took to the streets by the hundreds of thousands to protest the cost of living. The protests and decline in prices are both over, it would seem: Bread for instance rose by 2.2% in January and dairy prices increased by 1.5%. (Ram Ozeri)

Prolor: Good drug test on hemophilic mice

Prolor Biotech reported on Tuesday positive results from a comparative study of its bio-better longer-acting version of the hemophilia drug Factor VIIa in hemophilic mice. The study was designed to measure the potential increase in survival rates, thrombin levels and in vivo recovery of Factor VIIa-CTP when compared with commercially available recombinant Factor VIIa. "With these positive results, we now have what we believe could be a highly competitive coagulation factor that could potentially become a leader in the hemophilia market," said Shai Novik, Prolor's CEO. In vivo recovery is a pharmacokinetic parameter used by researchers that compares actual clotting activity post-dosing to anticipated clotting activity. (Vadim Sviderski)

Protest movement aghast at increase in food prices

Why did dairy prices resume their climb? For one thing the suppliers and supermarkets stopped selling dairy products at bargain prices, suggests the Dear Israel movement, vowing that the protests would continue, since they seem to have

done no good. The movement points out that housing prices also continued to increase in January. Yaniv Pagot, chief strategist of the Ayalon insurance group, tends to agree with Dear Israel that the 0.5% increase in the food index shows the protesters' achievements have evaporated. "It seems the retail chains have overcome the waves of protest and are compensating themselves for having lowered prices during the protest months," Pagot said yesterday. He predicts that the Bank of Israel will not be lowering its benchmark interest rate for March. (Ram Ozeri)

Banks supervisor: Lending concentrates too much on real estate sector

About 40% of all loans by Israeli banks are for construction, real estate investment or mortgage loans to homebuyers, said the supervisor of banks - and that's a lot compared with banks in other countries. Put otherwise, the banks' loans portfolio are highly concentrated, and overexposed to the real estate sector, banks supervisor David Zaken explained at a conference. "We found that only one bank had exceeded the limit we set on lending to the real estate sector," Zaken said, immediately qualifying that in fact banks can lend more than the ceiling, but then they have to increase their provision for doubtful debt. That said, he's worried, Zaken professed: If there's anything to be learned from the great global economic meltdown of 2008, it's that concentration is a systemic risk. (Eran Azran)

Leumi raises NIS 2 billion in notes issue

Bank Leumi raised NIS 2 billion shekels in an offering of deferred capital notes, mainly from institutional investors, Israel's largest bank said on Sunday. The bank said it received bids from institutions totaling NIS 3.4 billion. Two series of notes were issued. The first, totaling NIS 1.08 billion, matures in 2017 and pays annual interest of 2.6% indexed to the consumer price index. The second, totaling NIS 860 million, matures in 2020 and pays annual interest of 3.4% indexed to the CPI. (Reuters)

Tel Aviv 100 Shares										
Name	Close	Net Change	Volume (shares)	PE	% Change		High 12m	Low 12m	This month	This Year
					12m	YTD				
Africa	1147	-0.86	4952	0.0	1484	1105	-5.83	2.87		
Africa Properties	1515	-0.28	130625	1.9	2896	1031	10.02	25.87		
Alon	6619	-0.97	7318	5.1	13450	7014	-1.62	3.32		
Alon Energy	3619	0.00	38754	0.0	1782	1411	0.50	0.25		
Alon Hertz	1765	0.34	327220	3.5	1798	1292	0.86	4.56		
Alon	8487	-0.97	7318	5.1	13450	7014	-1.62	3.32		
Alon v	6713	0.74	27915	4.7	1798	1292	0.86	4.56		
Amot	965	-0.41	90415	5.7	1028	836	2.25	4.25		
Amot T	6019	0.10	30714	0.0	7122	3574	-1.40	0.32		
Amot	284	-0.63	98095	9.5	300	255	-0.60	-0.46		
Amot L	261	-1.28	5143592	41.6	275	148	-2.39	8.65		
Aznell	8960	-1.54	94374	6.0	10197	7968	-2.18	-0.44		
Bayside Land 1	73720	-0.54	7731	6.4	78280	59069	-0.29	5.70		
Beq	623	-1.49	8156265	7.9	982	623	-3.99	-10.76		
Bigz	878	-0.22	1733	4.4	10000	7644	-0.67	-0.90		
Blue Square Israel	1504	0.74	157135	8.6	3441	1476	0.53	-3.28		
British Israel	1376	-0.51	107134	5.1	1395	1026	-1.01	4.56		
Cellcom	5527	-1.76	89957	4.5	11071	5380	1.58	-10.60		
Ceragon	3242	-1.25	22463	—	4950	2766	—	—		
Clal Biotech	1600	0.82	99636	2.8	2346	1329	-10.91	-12.90		
Clal Industries	1673	0.18	812131	3.2	2737	1204	-8.38	-4.94		
Clal Insurance	5880	0.69	96431	50.8	10050	4952	3.27	6.46		
DISAP	1549	-0.77	59019	6.3	2141	1433	-6.12	-1.59		
Delek Automotive	2650	-0.67	62559	13.0	4688	2264	8.43	14.87		
Delek Drilling	1506	0.79	221593	37.5	1580	840	-1.63	7.19		
Delek Group	76890	1.17	15443	4.4	88673	48920	-3.79	7.21		
Discount	528	-0.75	3195928	6.0	765	493	-2.04	3.53		
Discount Int	1456	0.85	37967	—	—	—	—	—		
Elbit Systems	14560	0.55	71195	10.6	11916	12681	-6.67	-6.96		
Elbit Holdings	2526	0.60	19208	—	5438	1823	6.63	36.61		
Electra	34090	2.28	34372	28350	840	—	—	—		
Electra Zifra	3243	-0.06	2036	10.9	4760	2874	-2.52	-0.96		
FMS	5380	1.59	3025	10.6	10268	5271	-0.31	-4.25		
Fibit 1	2390	0.00	0	0	0	0	0.00	0.00		
Fintum	6116	0.63	29544	3.6	7093	4394	4.65	5.92		
Fintum	3644	0.62	110009	13.6	3795	2968	8.55	7.69		
Gazit	7376	-1.78	5089	1.1	9535	5747	-4.42	9.96		
Gazit Globe	3886	-1.55	289634	3.7	4052	3069	3.68	7.35		
Gilat	1330	0.39	41345	—	2643	1192	1.46	2.48		
Gilat Imaging	7297	0.63	52550	62.7	7788	5171	5.60	12.09		
Givot 6	6	1.72	5822100	100.0	10	5	7.27	15.69		
Golf	1370	1.03	77396	8.8	2196	1348	-4.40	-0.29		
Granite	494	0.94	216317	10.0	792	440	3.46	6.26		
Halal	6312	-2.41	18982	29.1	7149	4150	-7.29	2.70		
Halal Insurance 1	13950	-0.57	67248	9.5	2136	13310	-0.43	0.22		
Hot	4187	0.34	83096	12.3	5839	3888	0.95	-1.82		
ICL	3960	0.25	1064821	9.9	5670	3423	1.02	0.25		
Indus Building	564	-1.52	194880	18.4	748	524	-5.94	-4.60		

Maof shares are shown in bold. Tel-Tech 15 shares are marked with *

Tel-Tech Shares										
Name	Close	Net Change	Volume (shares)	PE	% Change		High 12m	Low 12m	This month	This Year
					12m	YTD				
Alvaton*	414	-5.89	262595	—	728	310	-17.13	21.94		
Audiocodes*	1363	-5.35	110785	13.2	2650	889	-13.18	-5.81		
BICELL	2639	-0.30	12730	—	1952	1847	19.47	21.17		
Bluhophenik	808	-1.92	9015	—	1250	203	-14.68	-21.47		
Ceragon	3242	-1.25	22463	—	4950	2766	—	—		
Contiogen	2191	-2.36	64476	—	2270	1210	11.44	14.29		
Cellcom*	14560	0.55	71195	10.6	11916	12681	-6.67	-6.96		
Elron*	16159	0.54	114394	—	2072	138	6.65	6.65		
Fintum*	6116	0.63	29544	3.6	7093	4394	4.65	5.92		
Gilat	1330	0.39	41345	—	2643	1192	1.46	2.48		
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Currency

CURRENCY	CASH				CHECKS				Representative Rate			
	BUY	SELL	BUY	SELL	BUY	SELL	BUY	SELL	Rate	Daily	Month	Year
Leumi	3.82	3.87	3.68	3.68	3.64	3.62	3.692	3.769	3.740	3.707	3.705	3.740
Hapoalim	3.82											