# RATING REPORT

# Pakistan Telecommunication Company Limited


**REPORT DATE:**
October 20, 2022

**RATING ANALYSTS:**
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## RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| **Entity** | AAA | A-1+ | AAA | A-1+ |
| **Rating Date** | *October 20, 2022* | | *October 14, 2021* | |
| **Rating Outlook** | Stable | | Stable | |
| **Rating Action** | Reaffirm | | Reaffirm | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 1995** | **External auditors:** KPMG Taseer & Hadi Co., Chartered Accountants. |
| **Public Listed Company** | |
| | **President & CEO:** Mr. Hatem Mohamed Bamatraf<br>**Board of Directors:**<br>- Mohsin Mushtaq Chandana (Chairman)<br>- Abdulrahim A. Al Nooryani<br>- Hatem Dowidar<br>- Hesham Al Qassim<br>- Dr. Mohamed Karim Bennis<br>- Burak Sevilengul<br>- Mikhail Gerchuk |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)**
***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

# Pakistan Telecommunication Company Limited

## OVERVIEW OF THE INSTITUTION

Pakistan Telecommunication Company Limited (PTCL) was incorporated in 1995 and provides telecommunication services in Pakistan through ownership of required facilities and infrastructure with reach expanding across the country.

PTCL was privatized in 2006 through sale of Class B shares. Etisalat International Pakistan (EIP), 90% owned subsidiary of Etisalat group, being the highest bidder acquired 26% stake in PTCL with the management control. Each Class B share has four voting rights for the purpose of election of directors. Majority shareholding remains with Government of Pakistan (GoP) which holds 62% of PTCL shares.

## RATING RATIONALE

Pakistan Telecommunication Company Limited ('PTCL' or 'the Company') is the leading Integrated Information Communication Technology (ICT) Company in Pakistan, having the largest fixed-line network in the country. The company's products and services include voice services, high-speed broadband internet, Fiber to the Home (FTTH) services, CharJi wireless internet, Smart TV (IPTV) service, , Smart TV App and Touch App, digital-content streaming services like Netflix, and icflix, and enterprise-grade platforms like Smart Cloud, Tier-3 Certified Data Centers, Managed and Satellite Services.

**Sector Dynamics**

- Pakistan's teledensity continued to improve to stand at 88.21% as at August 2022 compared to 86.8% in August 2021. In terms of teledensity, Pakistan metrics are in line with regional counterparts. Fixed Local Loop (FLL) and Wireless Local Loop (WLL) teledensity stands at 1.19% as at August 2022 (August 2021: 2.14%)

- The lastest available data (August 2022) shows that total cellular, 3G/4G, and broadband subscribers have reached 195m, 120m and 123m (August 2021: 186m, 103m and 106m)

- After the contraction in total revenue base in FY20, total revenue of FY21 has rebounded to Rs. 644b out of which 71% is earned by Cellular Mobile Operators (CMOs). With the increase in revenue base, Average Revenue Per User (ARPU) per month for operators inched up in FY21.

- The telecom sector is dominated by 4 CMOs accounting for 99.15% of the total telecom revenues as at August 2022. The remaining revenue is generated through Local Loop, Long Distance International (LDI), Wireless Local Loop (WLL) and Value-Added Services (VAS).

- Net Foreign Direct Investment (FDI) witnessed a notable decline in FY21 to USD34.8m compared to USD622.5m in FY20.

**Rating Drivers**

**Strong Sponsors & Management Profile**

The assigned ratings incorporates strong sponsor profile, given that major shareholding (62.2%) is held by the Government of Pakistan (GoP) while Etisalat Group is also a minority shareholder with 26% in the Company. Having 46 years of operating experience, Etisalat is present in 16 countries, and is one of the largest telecom operators in the world. In addition to being a minority shareholder, Etisalat Group also holds management control of PTCL. The assigned ratings incorporate financial soundness and management acumen of Etisalat Group. The Group is rated AA- and Aa3 by S&P and Moody's, respectively.

**Rating incorporates leading market positioning of PTCL in Fixed-Line Voice and Wireline Broadband & IPTV and Revenue Base Diversification**

Ratings draws support from PTCL's leading market position in Fixed-line Voice and Wireline Broadband & IPTV. Under Wireline Broadband, PTCL is focusing Fiber to the Home (FTTH) wherein the Company continued to migrate its existing broadband subscribers to FTTH. PTCL holds the second position in FTTH segment, in terms of market share. Broadband & IPTV revenue share has increased on a timeline. A segment-wise breakup of PTCL's revenue base in Table 1 below:

- **Broadband and IPTV:** This is the largest segment of PTCL's revenue and is continued to grow on timeline basis. Amid growing competition in Fiber wire broadband service in cities, PTCL also accelerated its FTTH rollout. The demand outlook for the fiber segment remains positive with the rising need of fast speed internet in urban areas.
- **Voice:** Over the last few years, the traditional fixed line segment has witnessed customer erosion due

to product substitution from CMOs and VoIP technologies, a trend VIS expects to continue.

- **Wireless:** This segment of PTCL represents the smallest portion of PTCL's total revenue. PTCL offers 'Charji' device in this segment. Customers tend to use mobile sim cards data service and hot spot connectivity due to ease & convenience. VIS expect a decrease in wireless segment revenue during the rating horizon.
- **Corporate:** Corporate segment continued to grow in revenue terms during the last 5 years where PTCL's diversified product offerings in the ICT segment (Amongst others these include Tier 3 Certified Data Centers hosting, Managed Services, Satellite Services, Smart Cloud, IT system integration projects, Managed Wifi solutions, Security and IP Surveillance Business) in addition to core connectivity business should continue to remain a growth driver. Growth has been particularly robust in revenues from cloud and data center services.
- **Wholesale & Carrier:** Continued on a growth trajectory in absolute terms while the revenue share of the segment remained intact. Growing demand for data is expected to bode well for revenues from the segment

***Table 1: Revenue Breakup (% wise)***

| Segment | 2019 | 2020 | 2021 | 1H'22 |
|---|---|---|---|---|
| Broadband & IPTV | 39% | 39% | 41% | 43% |
| Voice services | 18% | 15% | 13% | 11% |
| Wireless Data | 3% | 3% | 3% | 3% |
| Corporate | 10% | 11% | 12% | 13% |
| Carrier & Wholesale | 15% | 16% | 16% | 17% |
| International | 15% | 15% | 15% | 13% |
| **Total (Rs. in M)** | **71,548** | **71,804** | **76,853** | **39,990** |

**Rating incorporates stability in profitability margins**

- Revenue of the Company grew by 7% and 5% in 2021 and 1H22 when compared to SPLY. Previously, PTCL's revenue base posted flat growth trend in the 2-year period (2019-20). This growth in topline was driven by Broadband & IPTV segments, which posted revenue growth of 12% and 11%, for 2021 and 1H22 respectively. (Broadband & IPTV contributed 66% and 91% in revenue growth during 2021 and 1H22)

- Going forward, management expects the topline to post double digit growth in 2022 mainly on the back of FTTH segment under broadband.

- Gross and operating margins remained at similar level (see table 2 below).

- Despite adding debt on the balance sheet, finance cost of PTCL stands at Rs. 178m in 1H22 (1H21: Rs. 164m). The core reason being the exchange gain which is netting off the impact of high interest rates.

- Net margins have improved in 1H22 on the back of increased other income. Net margins are expected to stay rationalized in a range of 8-10% during the rating horizon.

***Table 2: P&L (Extract)***

| Rs. in M. | 2019 | 2020 | 2021 | 1H21 | 1H22 |
|---|---|---|---|---|---|
| Sales | 71,548 | 71,804 | 76,853 | 38,187 | 39,990 |
| Gross Profit | 16,979 | 14,997 | 16,533 | 8,693 | 8,464 |
| ***Gross Margin*** | ***24%*** | ***21%*** | ***22%*** | ***23%*** | ***21%*** |
| Operating Profit | 4,939 | 3,447 | 4,168 | 2,804 | 1,891 |
| ***Operating Margin*** | ***7%*** | ***5%*** | ***5%*** | ***7%*** | ***5%*** |
| Other Income | 4,710 | 5,506 | 5,853 | 2,627 | 6,032 |
| Finance Cost | 318 | 460 | 339 | 164 | 178 |
| Net Profit | 6,347 | 6,030 | 6,874 | 3,740 | 5,189 |
| ***Net Margin*** | ***9%*** | ***8%*** | ***9%*** | ***10%*** | ***13%*** |

**Ratings draws support from healthy cash flow coverage indicators and sound financial profile**

- PTCL's total assets grew by 18% in the last 1.5 years to Rs. 263.9 as at Jun'22 from Rs. 223.6b as at Dec'20.
- The increase in total assets was attributed by both internal cash generation and external financing. The Company mobilized a long term debt of Rs. 5b during 1H22, while short term debt standing at Rs. 1.1b as at Jun'22.
- The gearing of the Company is very low at 0.07x, as at Jun'22, which is projected to remain on the lower side through the rating horizon. Leverage was reported at 1.52x as at Jun'22.
- On the other hand, long term investment increased notably to Rs. 30.7b as at Dec'21 and further grew to Rs. 38.7b as at Jun'22. (Dec'20: 17.7b)
- The significant jump in long term investment is because of continuous equity injection in the subsidiary company namely (Pak Telecom Mobile Limited – Ufone) which now stands at Rs. 34.5b as at Jun'22 (89% of Total LT Investment).
- As planned, PTCL added debt for the first time on its balance sheet in order to inject further equity in Ufone. Management is of the view that no further material funding is required in Ufone through the rating horizon.
- From the ratings perspective, the holding in Ufone implies profitability risk for PTCL, given that Ufone has been a loss making OMO, which will require ongoing funding support from PTCL.
- Cashflow coverage indicators remained strong as illustrated in table below.

***Table 3: Balance Sheet (Extract)***

| Rs. in M. | 2019 | 2020 | 2021 | 1H22 |
|---|---|---|---|---|
| Long Term Investments | 8,936 | 17,736 | 30,736 | 38,736 |
| Total Assets | 209,994 | 223,600 | 245,735 | 263,858 |
| Long Term Debt (Inc. lease liab.) | 1,105 | 1,409 | 1,729 | 6,628 |
| Short Term Debt | - | - | - | 1,092 |
| Total Liabilities | 122,243 | 129,590 | 146,082 | 159,015 |
| Total Equity | 87,751 | 94,010 | 99,653 | 104,842 |
| Funds From Operations (FFO) | 23,237 | 23,109 | 25,560 | 15,855 |
| ***Gearing (x)*** | ***0.01*** | ***0.01*** | ***0.02*** | ***0.07*** |
| ***Leverage (x)*** | ***1.39*** | ***1.38*** | ***1.47*** | ***1.52*** |
| ***Debt Service Coverage Ratio (x)*** | ***194.77*** | ***71.59*** | ***57.76*** | ***47.34*** |

**Sound Corporate Governance Framework**

- In accordance with the provisions of Share Purchase Agreement between GoP and Etisalat Group as well as under the Articles of Associations of PTCL, the GoP has four nominees while Etisalat Group has five nominees on the board.
- Management team comprises qualified personnel and is supported by a well-designed organization structure which has been made significantly leaner through 3 VSSs undertaken during the decade.
- PTCL has implemented a SAP based Enterprise Resource Planning system. Detailed and timely annual report disclosures bode well from a transparency perspective and provide important information to stakeholders.

| FINANCIAL SUMMARY (Unconsolidated) | | *(amounts in PKR millions)* | | | |
|---|---|---|---|---|---|
| **BALANCE SHEET** | **Dec'18** | **Dec'19** | **Dec'20** | **Dec'21** | **Jun'22** |
| **Fixed Assets** | 106,151 | 116,720 | 114,666 | 121,508 | 122,671 |
| **Trade Debts** | 16,658 | 20,259 | 23,150 | 27,937 | 33,368 |
| **Income Tax Recoverable** | 16,478 | 17,756 | 18,373 | 18,548 | 16,143 |
| **Short Term Investments** | 4,930 | 7 | 6,212 | - | - |
| **Cash & Bank Balances** | 4,661 | 4,168 | 5,764 | - | 3,884 |
| **Total Assets** | 196,523 | 209,994 | 223,600 | 245,735 | 263,858 |
| **Trade and Other Payables** | 67,675 | 78,262 | 88,457 | 103,320 | 105,526 |
| **Long Term Debt (Inc. Lease Liab.)** | - | 1,105 | 1,409 | 1,729 | 6,628 |
| **Short Term Debt** | - | - | - | - | 1,092 |
| **Total Debt** | - | 1,105 | 1,409 | 1,729 | 7,719 |
| **Paid up Capital** | 51,000 | 51,000 | 51,000 | 51,000 | 51,000 |
| **Total Equity** | 83,571 | 87,751 | 94,010 | 99,653 | 104,842 |
| **INCOME STATEMENT** | **2018** | **2019** | **2020** | **2021** | **1H22** |
| **Revenue** | 71,273 | 71,548 | 71,804 | 76,853 | 39,990 |
| **Gross Profit** | 17,742 | 16,979 | 14,997 | 16,533 | 8,464 |
| **Operating Profit** | 6,514 | 4,939 | 3,447 | 4,168 | 1,891 |
| **Adjusted EBITDA** | 22,560 | 21,943 | 21,443 | 22,217 | 10,955 |
| **Profit Before Tax** | 10,757 | 9,331 | 8,493 | 9,682 | 7,745 |
| **Profit After Tax** | 7,422 | 6,347 | 6,030 | 6,874 | 5,189 |
| **RATIO ANALYSIS** | **2018** | **2019** | **2020** | **2021** | **1H22** |
| **Gross Margin (%)** | 25% | 24% | 21% | 22% | 21% |
| **Adjusted EBITDA Margin (%)** | 32% | 31% | 30% | 29% | 27% |
| **Net Margin** | 10% | 9% | 8% | 9% | 13% |
| **Trade debts/Sales** | 23% | 28% | 32% | 36% | 42% |
| **FFO** | 24,071 | 23,237 | 23,109 | 25,560 | 15,855 |
| **FFO to Total Debt (%)*** | - | 2103% | 1640% | 1478% | 411% |
| **FFO to Long Term Debt (%)*** | - | 2103% | 1640% | 1478% | 478% |
| **Current Ratio (x)** | 1.00 | 0.87 | 0.86 | 0.76 | 0.84 |
| **Debt Servicing Coverage Ratio (x)*** | - | 194.77 | 71.59 | 57.76 | 47.34 |
| **Gearing (x)** | - | 0.01 | 0.01 | 0.02 | 0.07 |
| **Leverage (x)** | 1.35 | 1.39 | 1.38 | 1.47 | 1.52 |
| **ROAA (%)*** | 4% | 3% | 3% | 3% | 4% |
| **ROAE (%)*** | 9% | 7% | 7% | 7% | 10% |

**Ratios Annualized*

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

**VIS Credit Rating Company Limited**

### RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

**Medium to Long-Term**

**AAA**
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**
A high default risk

**C**
A very high default risk

**D**
Defaulted obligations

**Short-Term**

**A-1+**
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**
Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## REGULATORY DISCLOSURES — Appendix III

| | |
|---|---|
| **Name of Rated Entity** | Pakistan Telecommunication Company Limited |
| **Sector** | Telecommunication Industry |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| | **RATING TYPE: ENTITY** | | | |
| October 20, 2022 | AAA | A-1+ | Stable | Reaffirmed |
| October 14, 2021 | AAA | A-1+ | Stable | Reaffirmed |
| October 5, 2020 | AAA | A-1+ | Stable | Reaffirmed |
| October 11, 2019 | AAA | A-1+ | Stable | Reaffirmed |
| October 11, 2018 | AAA | A-1+ | Stable | Initial |

**Statement by the Rating Team**: VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.

**Probability of Default**: VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.

**Disclaimer**: Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. . For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. 

**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Amir Siddiqui | EVP- Group FP&T | 20-Sept-2022 |
| Mr. Asif Imtiaz | Group Head Treasury | 20-Sept-2022 |