

RATING REPORT

Pakistan Telecommunication Company Limited (PTCL)

REPORT DATE:

December 18, 2023

RATING ANALYSTS:

Maham Qasim

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Arooba Ashfaq

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| Rating Category | Preliminary Sukuk Rating |
|-----------------|--------------------------|
| Sukuk | A-1+ |
| Rating Date | Dec 18, 2023 |
| Rating Outlook | Stable |
| Rating Action | Preliminary |

COMPANY INFORMATION

| | |
|---|---|
| Incorporated in 1995 | External auditors: KPMG Taseer & Hadi Co., Chartered Accountants. |
| Public Listed Company | |
| Key Shareholders (with stake 5% or more): The Government of Pakistan (62%) Etisalat International Pakistan (26%) | President & CEO: Mr. Hatem Mohamed Bamatraf Chairman: Hassan Nisar Jamy Board of Directors: <ul style="list-style-type: none">- Abdulrahim A. Al Nooryani- Khalid Murshed- Ms. Brooke Lindsay- Dr. Mohamed Karim Bennis- Mr. Imad Ullah Bosal- Ahad Khan Cheema- Mikhail Gerchuk |

APPLICABLE METHODOLOGY(IES)**Industrial Corporates**<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>**Rating the Issue**<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023>**VIS Issue/Issuer Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.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 a reach expanding across the country.

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

RATING RATIONALE

The assigned ratings reflect Pakistan Telecommunication Company Limited (PTCL's) strategic market position as the country's leading Integrated Information Communication Technology Company, having the largest fixed-line network and 71% market share. The ratings incorporate the issuer's strong sponsor profile, given that the GoP holds significant shareholding (62%) while Etisalat Group holds a 26% equity stake and management control. Having 46 years of operating experience, Etisalat is present in 16 countries and is one of the largest telecom operators in the world. The ratings also consider the financial soundness and management acumen of Etisalat Group; the Group is rated AA- and Aa3 by S&P and Moody's, respectively. The ratings are also underpinned by low business risk profile of the telecom sector owing to the non-cyclical nature of the industry, dependence of other operators on the infrastructure offered by the Company and low sensitivity to inflationary pressures on operations conducted. Moreover, business risk also factors in capital-intensive and highly regulated nature of the sector serving as natural high barrier to entry for new entrants. PTCL has wholly owned subsidiaries, including Pak Telecom Mobile Limited (UFONE), a mobile service provider, and a Microfinance Bank, U-Microfinance Bank Limited.

Issue Details

PTCL plans to issue a Short-Term, Rated, Privately Placed and Unlisted Sukuk to eligible investors amounting to Rs. 5.0b. The Sukuk issue is based on Shirkat-ul-Aqd for participation in services/trade-based activity of PTCL.

Purpose: The issue amount will be utilized by PTCL for working capital requirements.

Tenor & Repayments: The instrument will have a tenor of six months starting from the issue date.

Profit Rate: The instrument carries profit of base rate plus 20- bps per annum, where the base rate is defined as six-month Karachi Interbank Offered Rate ("KIBOR") prevailing on the base rate date. The Base Rate will be set one Business Day Prior to the drawdown rate. Profit will be calculated on the basis of applicable profit rate by taking actual number of days in 365/ 366 days in case of a leap year on the outstanding balance of the issue. Expected profit payment will be made upon maturity.

Security Structure: The Sukuk is unsecured in nature hence, elevating the riskiness of the issued Sukuk

Call Option: The instrument will have a call option in place, giving the Issuer the right to redeem in full or part of the outstanding face value of the Sukuk. The call option can be exercised by the Issuer at any time or after three months from the issue date by giving to the Certificate holders and Musharaka Agent at least fifteen days' prior notice in writing. The amount paid by Issuer upon exercising of this option will be equal to the outstanding issue price allocated to then outstanding Sukuk Certificates along with any declared Profit Payment Amount.

Entity Rating Requirement: The Issuer needs to get rated by either of the two rating agencies operating in the country. The rating must be renewed annually.

Rating Drivers

Strong Sponsors & Management Profile

The assigned rating incorporates strong sponsor profile, given that major shareholding (62.2%) is held by the Government of Pakistan (GoP) while Etisalat Group holds equity stake of 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 the financial soundness and management acumen of Etisalat Group. The Group is rated AA- and Aa3 by S&P and Moody's, respectively.

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

The Company's products and services include voice services, broadband internet, Fiber to the Home (FTTH) services, Charji wireless internet, Smart TV (IPTV) service, Smart Link App and Touch App, digital-content streaming through Starzplay, and enterprise-grade platforms like Smart Cloud, Tier-3 Certified Data Centers, Managed and Satellite Services. Ratings draw support from PTCL's leading market position in Fixed-line Voice and Wireline Broadband & IPTV. Given PTCL has embarked on a journey to migrate their existing customers to the premium Fiber to the Home (FTTH) services; the Company has successfully expanded its fiber footprint to 60,000km becoming country's second largest FTTH operator. The segment resulted in a revenue growth of 102.7% and constituted 56% share of the industry's net adds. In addition, the broadband & IPTV subscribers base, the largest revenue generator, increased slightly on a timeline to 1.88m (CY22 1.86m; CY21: 1.78m) by end-CY23. The number of retail subscribers remained unchanged at 4.23m (CY22: 4.24m; CY21: 4.23m) during the rating review period at end-1HCY23. The Company is focusing on the wholesale and corporate business segment to fuel growth in the future.

Asset monetization plan is in place to improve cash inflow

PTCL is working on an asset monetization strategy whereby 12 commercial properties are planned to be sold and expected to bring sizable cash inflow over the next three years. Moreover, few other properties are also being considered for monetization in the long-term.

Sound Corporate Governance Framework

- In accordance with the provisions of Share Purchase Agreement between Government of Pakistan (GOP) and Etisalat Group as well as under the Articles of Associations of PTCL, the GOP has four nominees while strategic investor, Etisalat Group, has five nominees on the Board. All members are non-executive directors.
- A formal and effective mechanism is put in place for an annual evaluation of the Board's own performance and of its committees.
- Management team comprises qualified personnel and is supported by a well-designed organizational structure which has been made significantly leaner through 3 Voluntary Separation Schemes 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.

Pakistan Telecommunication Company Limited
Annexure I

| FINANCIAL SUMMARY (Unconsolidated) | | <i>(amounts in PKR millions)</i> | | | |
|---|----------------|----------------------------------|----------------|----------------|--|
| <u>BALANCE SHEET</u> | 2020 | 2021 | 2022 | 1H23 | |
| Property, plant and equipment | 114,666 | 121,508 | 131,490 | 133,509 | |
| Trade Debts | 23,150 | 27,937 | 39,293 | 48,611 | |
| Long Term Investments | 17,736 | 30,736 | 44,736 | 60,236 | |
| Income Tax Recoverable | 18,373 | 18,548 | 21,138 | 17,475 | |
| Cash & Bank Balances | 5,764 | 2,556 | 5,685 | 7,589 | |
| Total Assets | 223,600 | 245,735 | 305,160 | 340,379 | |
| Trade and Other Payables | 88,457 | 103,320 | 124,933 | 124,924 | |
| Long Term Debt (Inc. Lease Liabilities) | 1,409 | 1,729 | 24,067 | 41,876 | |
| Short Term Debt | - | - | 93 | 8,926 | |
| Total Debt | 1,409 | 1,729 | 24,160 | 50,802 | |
| Total Liabilities | 129,590 | 146,082 | 197,106 | 225,343 | |
| Paid up Capital | 51,000 | 51,000 | 51,000 | 51,000 | |
| Tier I Equity | 94,010 | 99,653 | 108,054 | 115,036 | |
| <u>INCOME STATEMENT</u> | | | | | |
| Revenue | 71,804 | 76,853 | 83,444 | 46,920 | |
| Gross Profit | 14,997 | 16,533 | 18,233 | 10,318 | |
| Operating Profit | 3,447 | 4,168 | 4,881 | 2,969 | |
| Profit Before tax | 8,493 | 9,682 | 13,513 | 11,165 | |
| Profit After Tax | 6,030 | 6,874 | 9,053 | 6,982 | |
| FFO | 23,109 | 25,560 | 26,683 | 14,816 | |
| <u>RATIO ANALYSIS</u> | | | | | |
| Gross Margin (%) | 20.9% | 21.5% | 21.9% | 22.0% | |
| Net Margin | 8.4% | 8.9% | 10.8% | 14.9% | |
| Trade debts/Sales | 32.2% | 36.4% | 47.1% | 51.8% | |
| FFO to Total Debt (%) | 16.40 | 14.78 | 1.10 | 0.58 | |
| FFO to Long Term Debt (%) | 16.40 | 14.78 | 1.11 | 0.71 | |
| Current Ratio (x) | 0.86 | 0.76 | 0.85 | 0.90 | |
| Debt Servicing Coverage Ratio (x) | 71.58 | 57.80 | 45.63 | 10.15 | |
| Gearing (x) | 0.01 | 0.02 | 0.22 | 0.44 | |
| Leverage (x) | 1.38 | 1.47 | 1.82 | 1.96 | |
| ROAA (%) | 2.78% | 2.93% | 3.29% | 4.33% | |
| ROAE (%) | 6.64% | 7.10% | 8.72% | 12.52% | |

* Ratios Annualized

| REGULATORY DISCLOSURES | | Appendix III | | | | | | | | | | | | | | | |
|---|---|--------------|----------------|---------------|------------|----------------|-----------------------|--------------------------------|----------------|----------------------------------|--|------------|---------------------------|------|--|--------|-------------|
| Name of Rated Entity | Pakistan Telecommunication Company Limited | | | | | | | | | | | | | | | | |
| Sector | Telecommunication Industry | | | | | | | | | | | | | | | | |
| Type of Relationship | Solicited | | | | | | | | | | | | | | | | |
| Purpose of Rating | Sukuk Rating | | | | | | | | | | | | | | | | |
| Rating History | <p style="text-align: center;">Medium to</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Rating Date</th> <th style="text-align: center;">Long Term</th> <th style="text-align: center;">Short Term</th> <th style="text-align: center;">Rating Outlook</th> <th style="text-align: center;">Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;">RATING TYPE: INSTRUMENT</td> </tr> <tr> <td style="text-align: center;">Dec 18, 2023</td> <td style="text-align: center;">A-1+</td> <td></td> <td style="text-align: center;">Stable</td> <td style="text-align: center;">Preliminary</td> </tr> </tbody> </table> | | Rating Date | Long Term | Short Term | Rating Outlook | Rating Action | RATING TYPE: INSTRUMENT | | | | | Dec 18, 2023 | A-1+ | | Stable | Preliminary |
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| 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. | | | | | | | | | | | | | | | | |
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| Due Diligence Meetings Conducted | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Name</th> <th style="text-align: center;">Designation</th> <th style="text-align: center;">Date</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Asif Imtiaz</td> <td style="text-align: center;">Head External Funding</td> <td></td> </tr> <tr> <td style="text-align: center;">Shahid Mehmood</td> <td style="text-align: center;">Senior Manager Corporate Finance</td> <td></td> </tr> <tr> <td style="text-align: center;">Iram Sayed</td> <td style="text-align: center;">Manager Corporate Finance</td> <td></td> </tr> </tbody> </table> | | Name | Designation | Date | Asif Imtiaz | Head External Funding | | Shahid Mehmood | Senior Manager Corporate Finance | | Iram Sayed | Manager Corporate Finance | | | | |
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