

RATING REPORT

Pakistan Telecommunication Company Limited
(PTCL)**REPORT DATE:**

March 18, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Preliminary Sukuk Rating
Short-term Sukuk III	A-1+
Rating Date	18 th March, 2024
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 (62.18%)

Etisalat International Pakistan (26%)

President & CEO: Mr. Hatem Mohamed Bamatraf**Chairman:** Hassan Nasir Jamy**Board of Directors:**

- Mr. Abdulrahim A. Al Nooryani
- Mr. Ahad Khan Cheema
- Mr. Mikhail Gerchuk
- Mr. Imad Ullah Bosal
- Dr. Mohamed Karim Bennis
- Dr. Ahmed Mujtaba Memon
- Ms. Brooke Marie Lindsay
- Mr. Khalid Murshed

APPLICABLE METHODOLOGY(IES)

Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

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), originally a state owned corporation (PTC) 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

Corporate Profile:

Pakistan Telecommunication Company Limited ("PTCL", or "the Company"), originally a state owned corporation (PTC), was incorporated in Pakistan on December 31, 1995 and commenced business on January 01, 1996. The Company is listed on the Pakistan Stock Exchange Limited (PSX), and was established to undertake the telecommunication business formerly carried on by the Pakistan Telecommunication Corporation (PTC). The registered office of the Company is situated at PTCL Head Office Room No. 17, Ground Floor (Margalla Side), Ufone Tower, Plot No 55-C, Main Jinnah Avenue, Blue Area, Sector F-7/1 Islamabad.

The Company provides telecommunication services in Pakistan. It owns and operates telecommunication facilities and provide domestic and international telephone services and other communication facilities throughout Pakistan. The Company has also been licensed to provide such services in territories of Azad Jammu and Kashmir and Gilgit Baltistan.

Proposed Short-Term Sukuk-3 ('STS-3'):

- PTCL plans to raise a rated, unsecured, privately placed STS-3, up to PKR 5 bln to finance working capital requirements.
- The Sukuk has a Musharakah structure and is based on Shirkat-ul-Aqd for participation in services/trade- based activity of PTCL.
- Tenor of the instrument is up to six (06) months from the date of drawdown.
- PTCL will have an option to redeem in full or part the outstanding face value of the Sukuk. The call option may be exercised by PTCL at any time or on after three (03) months from the issue date by giving to the Certificate Holders and the Musharaka Agent at least fifteen (15) days' prior. In case of the exercise of the call option, PTCL will pay the outstanding Issue Price allocated to then outstanding Sukuk Certificates along with any declared Profit Payment Amount.
- In case of partial Call Option, the Sukuk Certificates shall be redeemed from each Certificate Holder on a pro-rata basis. If the pro-rata calculated number of Sukuk Certificates so redeemable from a Sukuk Holder is not a whole number, it shall be rounded up to the next whole number. Any notice of Call Option or Partial Call Option, once issued shall be irrevocable.
- Profit rate on the instrument would be 6M KIBOR + 15 bps per annum.
- Profit will be payable at the time of the maturity of the Sukuk.
- The structure of ST Sukuk was developed under the advisory of Al- Hilal Shariah Advisors.

Key Rating Drivers:**Strong Sponsors & Management Profile**

The assigned rating incorporates strong sponsor profile, given that the Government of Pakistan (GoP) holds major shareholding (62.2%) 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 Company is focusing on the wholesale and corporate business segment to fuel growth in the future.

Medium business risk profile characterized by low cyclicality, highly capital intensive nature, and high barriers to entry

The ratings are also underpinned by medium 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.

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 three (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.
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Pakistan Telecommunication Company Limited
Annexure I

FINANCIAL SUMMARY(Standalone) <i>(amounts in PKR millions)</i>						
<u>BALANCE SHEET</u>	2018	2019	2020	2021	2022	2023
Fixed Assets	106,151	116,720	114,666	121,508	131,490	144,018
Trade Debts	16,658	20,259	23,150	27,937	39,293	52,587
Income Tax Recoverable	16,478	17,756	18,373	18,548	21,138	22,599
Short Term Investments	4,930	7	6,212	-	-	-
Cash & Bank Balances	4,661	4,168	5,764	-	5,685	10,029
Total Assets	196,523	209,994	223,600	245,735	305,160	387,602
Trade and Other Payables	67,675	78,262	88,457	103,320	125,101	141,424
Long Term Debt (Inc. Lease Liab.)	-	1,105	1,409	1,729	24,067	52,703
Short Term Debt	-	-	-	-	93	24,215
Total Debt	-	1,105	1,409	1,729	24,160	76,918
Paid up Capital	51,000	51,000	51,000	51,000	51,000	51,000
Total Equity	83,571	87,751	94,010	99,653	108,054	117,368
<u>INCOME STATEMENT</u>						
Revenue	71,273	71,548	71,804	76,853	83,444	96,267
Gross Profit	17,742	16,979	14,997	16,533	18,233	20,165
Operating Profit	6,514	4,939	3,447	4,168	4,881	4,865
Profit Before Tax	10,757	9,331	8,493	9,682	13,513	13,906
Profit After Tax	7,773	6,347	6,030	6,874	9,053	9,391
<u>RATIO ANALYSIS</u>						
Gross Margin (%)	25%	24%	21%	22%	22%	21%
Net Margin	11%	9%	8%	9%	11%	10%
Trade debts/Sales	23%	28%	32%	36%	47%	55%
FFO	24,071	23,237	23,109	25,560	27,868	30,925
FFO to Total Debt (%)	-	21.0	16.4	14.8	1.15	0.40
FFO to Long Term Debt (%)	-	21.0	16.4	14.8	1.16	0.59
Current Ratio (x)	1.00	0.87	0.86	0.76	0.83	0.80
Debt Servicing Coverage Ratio (x)	-	194.77	71.59	57.76	47.64	60.91
Gearing (x)	-	0.01	0.01	0.02	0.22	0.66
Leverage (x)	1.35	1.39	1.38	1.47	1.82	2.30
ROAA (%)	4%	3%	3%	3%	3%	3%
ROAE (%)	9%	7%	7%	7%	9%	8%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity		Pakistan Telecommunication Company Limited			
Sector		Telecommunication Industry			
Type of Relationship		Solicited			
Purpose of Rating		Short-term Sukuk III Rating			
Rating History	Rating Date	Ratings	Rating Outlook	Rating Action	
	Short Term Sukuk - III				
	03/18/2024	A-1+	Stable	Preliminary	
Instrument Structure		Pakistan Telecommunication Company Limited (“PTCL” or the “Company”) intends to issue a Rated, Unsecured, and Privately Placed Short Term Sukuk -III (STS-3), structured based on Musharakah (Shirkat-ul-Aqd) (“Musharaka Structure”). The funds will be will be utilized for fulfilling the working capital requirements of the Company. The issue has a tenor of six (06) months from the Drawdown Date. Profit will be payable at the maturity with a base rate of 6-Month KIBOR plus a spread of 15% per annum. The STS-3 is Unsecured on best effort basis.			
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		N/A			