

RATING REPORT

Pakistan Telecommunication Company Limited (PTCL)

REPORT DATE:

June 24, 2024

RATING ANALYSTS:

Muhammad Subhan

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Rating Category	Preliminary Sukuk Rating
Short-term Sukuk V	A-1+
Rating Date	June 24, 2024
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: Capt. (Retd.) Muhammad Mahmood Board of Directors: <ul style="list-style-type: none">- Mr. Abdulrahim A. Al Nooryani- Mr. Ahad Khan Cheema- Mr. Khaled Hegazy- Mr. Imad Ullah Bosal- Dr. Mohamed Karim Bennis- Ms. Brooke Marie Lindsay- Mr. Khalid Murshed- Mr. Jawad Paul Khawaja

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

RATING RATIONALE

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.

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 in 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 as well. PTCL also has wholly owned subsidiaries, including Pak Telecom Mobile Limited (UFONE), a mobile service provider, and a Microfinance Bank, U-Microfinance Bank Limited.

Issued Short-Term Sukuk-5 ('STS-5'):

- PTCL plans to issue a rated, unsecured, privately placed Sukuk (STS-5), for up to PKR 2.5 bln to finance the working capital requirements.
- The Sukuk employs a Musharakah structure, relying on Shirkat-ul-Aqd for participation in PTCL's service and trade activities.
- Tenor of the instrument is up to six (06) months from the date of drawdown.
- The Sukuk is callable after three months from the issue date.
- Profit rate on the instrument is set at 6M KIBOR + 15 bps per annum.
- Profit is payable at the time of the maturity of the Sukuk along with the principal payment.

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 63,000km 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				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	3MFY24M
Property, plant and equipment	121,507.89	131,489.64	144,017.78	149,202.35
Stock-in-trade	0.00	0.00	0.00	0.00
Trade debts	27,936.72	39,293.48	52,587.36	55,623.11
Cash & Bank Balances	2,556.15	5,684.96	10,029.32	8,903.66
Other Assets	93,734.54	126,275.12	180,967.32	187,093.55
Total Assets	245,735.30	305,159.86	387,601.78	400,822.67
Creditors	13,495.30	17,961.12	16,719.18	15,278.11
Long-term Debt (incl. current portion)	1,728.82	24,067.46	52,703.44	52,757.93
Short-Term Borrowings	0.00	92.58	24,214.70	34,300.93
Total Debt	1,728.82	24,160.04	76,918.14	87,058.86
Other Liabilities	130,858.06	154,984.66	176,596.33	180,686.27
Total Liabilities	146,082.18	197,105.82	270,233.65	283,023.24
Paid up Capital	51,000.00	51,000.00	51,000.00	51,000.00
Equity (excl. Revaluation Surplus)	99,653.15	108,054.03	117,368.18	117,799.42
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	3MFY24M
Net Sales	76,753.08	83,444.00	96,266.71	25,923.85
Gross Profit	16,432.74	18,232.68	20,164.97	6,728.93
Operating Profit	9,921.02	15,684.24	24,274.54	6,143.37
Finance Costs	339.34	2,171.73	10,368.60	5,535.98
Profit Before Tax	9,581.68	13,512.51	13,905.94	607.39
Profit After Tax	6,774.00	9,053.38	9,390.55	431.25
Ratio Analysis	FY21A	FY22A	FY23A	3MFY24M
Gross Margin (%)	21.41%	21.85%	20.95%	25.96%
Operating Margin (%)	12.93%	18.80%	25.22%	23.70%
Net Margin (%)	8.83%	10.85%	9.75%	1.66%
Funds from Operation (FFO) (PKR Millions)	25,469.66	27,885.57	23,819.90	4,364.74
FFO to Total Debt* (%)	1473.24%	115.42%	30.97%	20.05%
FFO to Long Term Debt* (%)	1473.24%	115.86%	45.20%	33.09%
Gearing (x)	0.02	0.22	0.66	0.74
Leverage (x)	1.47	1.82	2.30	2.40
Debt Servicing Coverage Ratio* (x)	33.46	11.13	3.01	1.25
Current Ratio (x)	0.76	0.83	0.80	0.76
(Stock in trade + trade debts) / STD (x)	79.46	97.06	2.50	1.86
Return on Average Assets* (%)	2.97%	3.29%	2.71%	0.55%
Return on Average Equity* (%)	7.23%	8.72%	8.33%	1.63%
Cash Conversion Cycle (days)	53.24	93.19	127.96	99.21
<i>*Annualized, if required</i>				
A - Actual Accounts				
P - Projected Accounts				
M - Management Accounts				

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 V Rating		
Rating History	Rating Date	Ratings	Rating Action
	Short Term Sukuk V		
	06/24/2024	A-1+	Preliminary
Instrument Structure	Pakistan Telecommunication Company Limited (“PTCL” or the “Company”) intends to issue a Rated, Unlisted, Unsecured, Callable after three months from issue date and Privately Placed Short Term Sukuk (STS-5) of PKR 2.5 bln, based on Shariah compliant Structure. The funds 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 bps per annum.		
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		