RATING REPORT

Pak Telecom Mobile Limited

REPORT DATE:
July 14, 2022

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	July 14, 2022	

COMPANY INFORMATION	
Incorporated in 1998	**External auditors:** M/S. KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Abdulrahim A. Al Nooryani **President/Group CEO:** Mr. Hatem Bamatraf
Key Shareholders (with stake 5% or more):	
Pakistan Telecommunication Company Limited – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

Pak Telecom Mobile Limited

RATING RATIONALE

Pak Telecom Mobile Limited (PTML) was incorporated on July 18, 1998, as a public limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) to provide cellular mobile telephony services in Pakistan. PTML commenced its commercial operations in January 2001, under the brand name 'Ufone'. The company is a wholly-owned subsidiary of Pakistan Telecommunication Company Limited (PTCL). As a result of privatization of PTCL during 2006, 26% of PTCL shares along with the management control were acquired by UAE-based Emirates Telecommunications Group PJSC (e& etisalat and) while Government of Pakistan (GoP) retained 62.2% stake in PTCL. PTCL has been assigned “AAA/A-1+” rating by VIS Credit Rating Company Limited (VIS) and Etisalat has been assigned “AA-” and “Aa3” ratings by S&P Global and Moody’s, respectively. Head office of PTML is situated at Ufone Tower, Jinnah Avenue, Blue Area, Islamabad.

PTML provides cellular mobile telephony and wireless broadband internet services in Pakistan. The company has network coverage in ~10,000 locations and across all major highways and provides 3G/4G services all across Pakistan. The company also serves over 250,000 corporate customers and caters for International Roaming to more than 312 live operators in more than 145 countries. The company is also increasingly focusing on value-added services with the regular introduction of innovative services.

BOARD CHAIRMAN & CEO

Profile of Chairman
Mr. Abdulrahim A. Al Nooryani serves as the Chairman of the board of directors. He has over 40 years of experience in the telecom industry. He is Chairman of Etisalat International Pakistan LLC and Chairman of the Board of Directors of Pak Telecom Mobile Limited.

Profile of Group CEO
Mr. Hatem Bamatraf has recently joined PTCL Group as President & Group CEO. Over the span of his career, Mr. Hatem has held variety of roles from CTIO to multiple board appointments as a director and chairman within Etisalat, GSMA and other renowned associations. He holds bachelor’s degree in Electrical and Electronic Engineering from Khalifa University and Executive Development program from INSEAD.

KEY RATING DRIVERS

Sector Overview

Total telecom sector revenues have increased to a highest ever level of Rs. 644b (FY20: Rs. 592b) during FY21. The latest data from the Pakistan Telecommunication Authority (PTA) shows that total cellular subscribers have reached 191 million with the tele density of 86%. Mobile broadband subscribers have reached 113 million, penetration rate of 59%. Meanwhile, basic telephony subscriber base has contracted further to 2.0m with tele-density of just 1.14%. The market is dominated by 4 cellular mobile operators (CMOs), accounting for nearly 72% of total telecom revenues. The remaining 28% revenue is generated through Local Loop, Long Distance International (LDI), Wireless Local Loop (WLL) and Value-Added Services (VAS).

The telecommunication sector has seen growth in data services whereas voice services remained subdued throughout the year mainly as a result of changes in consumer behavior triggered from the onset of Covid. 4G subscribers have significantly increased within the industry, growing at a CAGR of 40% in last 2 years. This has led to increase in mobile data usage, which has increased from 6,855 petabytes (FY20: 4,510 petabytes), reflecting a growth rate of 52% during FY21. Revenue growth for CMOs will continue to emanate from growing mobile data usage, spurred by increasing smartphone adoption underpinned by local manufacturing of the same and continued penetration of 3G/4G and upcoming 5G technology.

Figure: Key historical statistics of telecom sector

	FY17	FY18	FY19	FY20	FY21
Telecom Revenue (Rs. Mil)	528.7	539.8	604.3	591.7	644.1
Cellular Subscribers (mil)	140.5	151.5	162.3	168.6	184.3
Tele-density (%)	72.4%	73.6%	77.8%	78.6%	85.3%
3G/4G Subscribers (mil)	42.1	56.5	69.4	81.7	99.9
Broadband Penetration (%)	21.4%	27.0%	32.8%	37.5%	45.6%
Mobile Data Usage (Petabytes)	690	1,262	2,493	4,510	6,855
ARPU/Subscriber (Rs.)	204	219	238	214	215

However, amidst strong competition for higher market share, the CMOs may continue to face pricing challenge, as reflected by stagnant monthly ARPU of Rs. 215 per subscriber (FY20: Rs. 214 per subscriber) which is well below the regional and global averages. Going forward, VIS expects competition to remain intense and capital investment to remain elevated as CMOs expand and upgrade their network to service the exponential increase in high-speed wireless data consumption.

With only 5% household subscribers, wireline broadband penetration in Pakistan is much lower than the global standards. High price elasticity and expanding demand for data means wireline broadband subscriber base can witness significant growth, going forward. However, strengthening network infrastructure by removing impediments, particularly right of way permissions, is considered important.

Figure: Revenue mix of PTML

Rs. Million	FY19	%	FY20	%	FY21	%
Voice Services	33,945	58.30%	30,513	56.80%	29,574	52.70%
Data Services	13,358	22.90%	12,413	23.10%	15,588	27.80%
Corporate Revenue	2,267	3.90%	2,381	4.40%	2,456	4.40%
Wholesale, International & Other Services	3,925	6.70%	4,509	8.40%	5,045	9.00%
Digital Services, Messaging Services & Equipment	4,761	8.20%	3,938	7.30%	3,414	6.10%
TOTAL REVENUE	**58,256**	**100%**	**53,754**	**100%**	**56,077**	**100%**

Spectrum and network structure investments are driving growth in asset base. Total assets of PTML augmented to Rs. 192.1b (FY20: Rs. 138.0b) by end-FY21. Intangible assets increased significantly to Rs. 67.3b (FY20: Rs. 22.1b) due to acquisition of Next Generation Mobile service (NGMS) license and renewal of mobile cellular license during the year. NGMS license include I) acquisition of 4G license throughout Pakistan (excluding Azad Jammu & Kashmir (AJK) and Gilgit Baltistan (GB) in September 2021 at a fee of USD 279m (for a period of 15 years, and II) acquisition of 4G license for operations in AJK and GB in October 2021 at a fee of USD 1.03m for a period of 15 years. The company also renewed its 2G license for operations in AJK and GB in June 2021 at a fee of USD 13.5m for a period of 15 years. PTML acquired 4G spectrum license as a result of competitive bidding held on September 10, 2021, which has significantly increased the company's spectrum holdings from 6 MHz to 15 MHz in 1800 MHz band, enabling it to enhance quality and increase coverage for data services across Pakistan.

With the acquisition of additional spectrum, Ufone carried out aggressive network modernization activity throughout Pakistan. 7,800 network rollout activities were performed on 5,100 existing and new sites. Significant uptake in 4G data customers and data traffic was experienced subsequently. After acquiring spectrum, Ufone has revamped the entire data portfolio by launching new products and modifying the existing ones to meet the growing needs of data customers at competitive prices. These initiatives resulted in significant increase in 4G base, data customers, data revenue, and traffic.

PTCL Support

PTML has increased its paid-up capital to Rs. 26.5b (FY20: Rs. 11.0b) by end-FY21, mainly on account of new equity injection of Rs. 15.5b from PTCL to partially fund the acquisition of additional 9 MHz 4G spectrum in the 1800 MHz band in NGMS spectrum auction held in September 2021. Another equity injection of Rs. 13.0b is expected from the parent company in the coming months in order to achieve its targeted 4G rollout target by end-June 2022. Equity base of the company stood at Rs. 12.4b (FY20: Rs. 4.7b) at end-FY21.

Pak Telecom Mobile Limited **Annexure I**

FINANCIAL SUMMARY (*amounts in PKR millions*)				
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**
Non-Current Assets	98,014	113,980	116,278	163,267
Current Assets	16,805	17,232	21,693	28,785
Total Assets	**114,819**	**131,212**	**137,971**	**192,052**
Trade and Other Liabilities	76,452	76,793	73,664	106,379
Short-Term and Long-Term Debt	32,800	53,138	62,067	73,306
Equity	**5,567**	**1,281**	**4,740**	**12,367**
INCOME STATEMENT	**2018**	**2019**	**2020**	**2021**
Revenue	57,801	58,257	53,753	56,078
EBITDA	19,607	20,474	18,396	18,373
RATIO ANALYSIS	**2018**	**2019**	**2020**	**2021**
Gross Margin (%)	24.9	25.7	25.8	23.3
EBITDA Margin (%)	33.9	35.1	34.2	32.8
Debt Servicing Coverage Ratio (x)	3.41	1.31	1.64	1.35

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure 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 — Annexure III

Name of Rated Entity	Pak Telecom Mobile Limited
Sector	Communication
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below
Instrument Structure	N/A
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
14-07-2022	AA-	A-1	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1.	Mr. Mohammad Nadeem Khan	Group CFO	Feb 28, 2022
2.	Mr. Amir Siddiqi	EVP Group Financial Planning & Treasury	Feb 28, 2022
3.	Mr. Muhammad Ehtesham Khan	Group Head Financial Planning & ERM	Feb 28, 2022
4.	Mr. Asif Imtiaz	Group Head Treasury	Feb 28, 2022
5.	Mr. Muhammad Ahmed Hanif	Group Manager Fund Management & Investment	Feb 28, 2022
6.	Mr. Zafar Ali Khan	Group Manager ERM	Feb 28, 2022