RATING REPORT

Pak Telecom Mobile Limited (PTML)

REPORT DATE:
November 22, 2023

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Date	*November 22, 2023*		*July 14th, 2022*	
Rating Action	*Reaffirm*		*Initial*	

COMPANY INFORMATION

Incorporated in 1998	**External auditors:** M/S. KPMG Taseer Hadi & Co. Chartered Accountants
Private Limited Company	**Chairman:** Abdulrahim A. Al Nooryani **President/Group CEO:** Mr. Hatem Bamatraf
Key Shareholders (with stake 5% or more):	
Pakistan Telecommunication Company Limited – 100%	**Board of Directors:** 1. Abdulrahim A. Al Nooryani (Chairman) 2. Hatem Dowidar (Director) 3. Aisha Humera 4. Muhammad Jahanzeb Rahim 5. Dr. Muhammad Karim Bennis 6. Burak Sevilengul 7. Mikhail Gerchuk 8. Sikandar Naqi 9. Sheikh Salahuddin

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2023):
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pak Telecom Mobile Limited (PTML)

OVERVIEW OF THE INSTITUTION

Pak Telecom Mobile Limited (PTML) is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL). PTML commenced its cellular mobile telephony operations in January 2001 under the brand name 'Ufone'.

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 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.

RATING RATIONALE

The ratings assigned to Pak Telecom Mobile Network (PTML or "the Company") derive strength from its strong sponsor profile with the Company being wholly owned by Pakistan Telecommunication Company Limited (PTCL); major shareholding of 62.2% of PTCL is held by Government of Pakistan while Etisalat Group holds equity stake of 26% with management control. PTCL is assigned "AAA/A-1+" ratings by VIS, and Etisalat is given "AA-" and "Aa3" ratings by S&P Global and Moody's respectively. Further, the ratings drive comfort from the low business risk profile of the sector owing to the non-cyclical nature of the industry and high barriers to entry.

Post 4G Spectrum acquisition in September 2021, the Company's topline and ARPU levels have improved; however, financial risk profile remains weak marked by dip in margins, persistent incurrence of losses, inadequate cash coverages and highly leveraged capital structure. In order to address the issue, the management has introduced cost-cutting strategies including technological optimization & vendor negotiation coupled with revenue diversification and increase in prices. The aforementioned initiatives are projected to enhance gross margins while maintaining service quality and financial stability. As per the management, to support the financial risk profile any financial assistance in the foreseeable future will be in form of equity injection as no additional long-term debt from commercial banks is planned to be obtained further. The ratings are underpinned by strong sponsors support by way of equity injection and will remain dependent on restoration of profitability position coupled with improvement in liquidity and gearing indicators in the medium term.

Company Profile

PTML is a Mobile Network Operator (MNO) which provides SMS, data and value-added offerings in Pakistan. PTML commenced its commercial operations in January 2001 under the brand name 'Ufone.' It is a wholly-owned subsidiary of PTCL, which Etisalat Group UAE subsequently manages due to the privatization of PTCL in 2006. PTCL is assigned "AAA/A-1+" ratings by VIS Credit Rating Company Limited (VIS), and Etisalat is given "AA-" and "Aa3" ratings by S&P Global and Moody's.

Operational Update

PTML provides cellular mobile telephony and wireless broadband internet with network coverage in 10,000 locations and across all major highways. It provides 3G/4G services as per the coverages attached. The Company also serves over 315,000 corporate customers and caters for International Roaming to more than 312 live operators in more than 145 countries. PTML currently has 13.28% (Jan'22: 11.97%) of the Mobile broadband market share. Additionally, annual mobile subscribers and Annual Broadband Subscribers (3G/4G) of PTML rose to 23.6m (CY21: 23.1 m) and 14.35m (CY21: 10.5m) respectively during 2022. Current subscriber base is 25m.

The Company incurred capex worth Rs. 8.2b (CY22: Rs. 8.8b) during HCY23 to add 292 new sites to achieve the sustainable growth targets despite the LC restrictions faced. The restrictions impacted the plan for addition of 830 new sites for CY23; the same were executed by 70 % for 1HCY23.

Sector Update

Amid increasing fuel costs and as an aftereffect of the pandemic, digital communication popularity is on the rise. Offices are increasingly incorporating digitization to boost productivity and curtail operating expenses. With a CAGR of 3.28% expected for 2023-2028, the global market size is projected to increase from USD 4.38 billion in 2023 to USD 5.15 billion in 2028. Moreover, as per data findings, mobile tele density in Pakistan stood at 84.6% (191 million) during 2022 as opposed to 81.73% in the previous year; the data encapsulates the 1.11% acquired by the fixed local loop (FLL) and wireless local loop (WLL). Annual broadband (BB) penetration (Mobile and Fixed) demonstrated a notable boost from 44.93% (Rs. 102.7 mil) in 2021 to 50.96% (Rs. 118.76 mil) in the year 2022. Amongst these numbers, mobile BB holds the most significant proportion of subscribers. Furthermore, average monthly revenue per user (ARPU) and total revenue per year also increased to Rs. 220 (FY21: Rs. 215) and Rs. 694b (FY21: Rs. 651.1b) respectively in CY22. Whereas, Annual Broadband Subscribers (3G/4G) rose to 115m (CY21: 99.9m) in 2022 with a growth rate of 15.9%, which establishes the inelasticity of demand and lack of cyclicality.

Twofold competition is present in this sector. Firstly, operators are competing to provide home-based broadband services, in which PTCL is the leader. Secondly, given few players in the market, the cellular service market falls under the oligopolistic competition domain with almost zero product/service differentiation. Subsequently, brand loyalty and customer satisfaction are the most desirable parameters for the suppliers to maintain their growth trajectory. The risk of obsolescence is also on the lower side due to the slow-paced development of the telecom industry in Pakistan.

PTML had a capital intensity ratio of 3.51x during CY22, implying a significant investment in assets to generate revenue; the same is imperative to keep in line with the competition and ensure customer retention. Furthermore, investment in intangible assets is also essential to keep abreast with the changing technology, such as purchasing 4G Spectrum. Therefore, the significant capex requirements make entry of new participants difficult, resulting in high barriers to entry. On the regulatory front, telecom is a heavily taxed sector, including a 34.5% tax for internet usage (15% withholding tax & 19.5% GST) on the consumer side, coupled with 29% corporate income tax and 4% super tax imposed last year. The aforementioned tax regime notably reduces the net income generated, thus making entry unattractive for new entrants.

Key Rating Drivers

The Bottom line remained under pressure due to inflationary pressures including rise in interest rate and currency devaluation

Topline of PTML registered a growth of 7.1% during the outgoing year; the main revenue driver continued to be the retail business segment accounting for 87.9% (CY21: 89.9%) of the total sales mix. Moreover, business and international segments contributed 9.7% (CY21: 7.7%) and 2.6% (CY21: 2.3%) respectively to the overall revenue during the outgoing year. The general uptick in revenue was attributable to a 43% growth in sales of data services segment recorded at Rs. 23.2b (CY21: Rs. 16.2b) in line with increasing inclination of customers towards data services as compared to voice services. However, the gross margins deteriorated on account of a combined outcome of multiple factors including increase in power tariffs and impact of PKR devaluation on the forex-based costs. On the other hand, despite inflationary pressures experienced, the operating expenses (administration & distribution) largely remained unchanged during the outgoing year owing to the Company's cost optimization initiatives. However, finance cost was recorded exponentially higher in line with benchmark rates being at high end of the spectrum, increased utilization of borrowings and sizable exchange loss booked during CY22 due to devaluation of PKR against USD and other currencies.

1HCY23:

PTML recorded a growth of 22% during 1HCY23 as compared to corresponding period of last year (CPLY) due to higher ARPUs (Average Revenue Per User) and an increase of 1 million subscribers; the key growth driver was the revenue from data services, which accounted for 41% (IHCY22: 36%) of the total revenue. The addition of new customers to the Company's customer base has resulted in a 1.2% increase in its recharge share in the industry. However, the gross margins further took a hit due to hike in power tariffs and currency devaluation during the ongoing year. Moreover, elevated policy rate and incremental debt procurement has amplified the finance costs borne by the Company, resulting in an increase in the loss reported during the ongoing year. However, the management is optimistic about the continuity of the double-digit revenue growth during the ongoing year with reversal of operating losses by 3QFY24.

The management has introduced cost-cutting strategies such as technology optimization, vendor negotiations, innovative pricing, and revenue diversification to improve the Company's profitability indicators. These initiatives are projected to enhance gross margins while maintaining service quality and financial stability. Furthermore, clustered-based analyses are being conducted to optimize the network costs and ensure a higher resource allocation to profitable sites as opposed to their low profit-generating counterparts. Lastly, renewable power sources are being explored and implemented to cut the power costs of PTML. Going forward, the successful implementation of the aforementioned initiatives will remain imperative for the ratings assigned.

Asset Monetization Plan to Improve Cash Flow

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.

Liquidity

During the rating review period, the liquidity profile of the Company remained stressed as the Funds from Operations (FFO) continued to decline on a timeline during 1HCY23; FFO is in sync with the trend of profitability indicators. Subsequently, the already thin FFO coverages further weakened by end-HCY23. However, significant equity injection from the parent has assisted the Company in meeting its financial obligations. Going forward, decline in interest rates is also expected to support the liquidity position given a sizable portion of the same is utilized to service the debt payments.

On the other hand, PTML's current ratio improved during the rating review period to 0.69x (CY22: 0.58x; CY21: 0.57x) by end-1HCY23 in line with an increase in receivables from the parent company under group taxation coupled with reduction in the current portion of vendor liability to Rs. 9.0b (CY22: Rs. 15.9b) at end-HCY'23. The vendor liability pertains to payable to a vendor in respect of procurement of network and allied assets. Given that liquidity metrics will continue to broadly reflect profitability indicators, any noticeable improvement in coverages as per the Company's business plan is only expected post-CY26 as PTML is expected to post green bottom line after the aforementioned time frame. Nevertheless, effective working capital management will remain imperative for the sustenance of ratings going forward.

Capital Structure

PTCL injected equity of Rs. 13.0b in CY22 and BoD approved equity injection of Rs. 18.5b for CY23, out of which Rs.13b has been injected during the ongoing year. PTCL BoD has further approved equity injection of Rs. 7b in addition to remaining Rs. 5.5b for the ongoing year. Deteriorating macroeconomic indicators involving surge in inflation, currency depreciation and increase in interest rate has resulted in higher losses incurred by PTML; the same has impacted net equity of the Company.

PTML's procured new long term debt amounting to Rs. 10b during the rating review period however, Rs. 6.0b was paid off. On the other hand, PTML has also prepaid major portion of its long term license liability during CY22 and CY23; the same will reduce future payment burden, lower the exchange loss, and relieve pressure on the bottom line. Increase in PTML's debt is attributable to acquisition and prepayment of 4G spectrum and heavy capex incurred to expand the network. PTML has acquired no further debt during 1HCY23. Consequently, gearing and leverage indicators trended upwards and were recorded high at end-HCY'23. In order to address the upward trend in gearing and leverage indicators the management plans to fulfill any financial requirement in the foreseeable future in the form of equity injection as no additional long-term debt from commercial banks is planned to be obtained further.

Pak Telecom Mobile Limited — Annexure I

FINANCIAL SUMMARY (Unconsolidated)		(amounts in PKR millions)		
BALANCE SHEET	**2020**	**2021**	**2022**	**HCY 23**
Property, plant and equipment	77,538	81,907	96,397	97,405
Intangible Assets	22,069	67,334	61,449	58,548
Trade Debts & contract assets	2,663	2,833	2,129	3,084
Receivable from parent	5,957	9,651	15,617	15,617
Income Tax Receivable	7,034	9,081	7,948	9,234
Cash & Bank Balances	2,009	1,755	2,086	2,398
Total Assets	137,971	192,052	211,208	219,072
Trade and Other Payables	13,815	16,024	20,907	22,489
Long Term Debt (Inc. Lease Liab.)	56,873	73,329	82,319	84,628
Short Term Debt	5,194	1,727	5,707	5,480
Total Debt	62,067	75,056	88,026	90,109
Total Liabilities	133,231	179,685	204,756	213,071
Tier I Equity	4,740	12,367	6,452	6,001
INCOME STATEMENT				
Revenue	53,753	56,078	60,074	34,918
Gross Profit	13,869	13,078	8,348	4,030
Finance Costs	(8,737)	(10,526)	(24,714)	(20,707)
RATIO ANALYSIS				
Gross Margin (%)	25.80%	23.32%	13.90%	11.54%
Trade debts/Sales	4.95%	5.05%	3.54%	4.42%
Current Ratio (x)	0.51	0.58	0.57	0.69

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	
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				
11/22/23	AA-	A-1	Stable	Reaffirm
07-14-2022	AA-	A-1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Muhammad Ahmad Hanif	Group Director Corporate Finance	27th September 2023
Bisma Batool	Assistant Manager	