

RATING REPORT

Pak Telecom Mobile Limited (PTML)

REPORT DATE:

January 27, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A1	AA-	A1
<i>Rating Outlook/ Watch</i>	<i>Stable</i>		<i>Stable</i>	
<i>Rating Date</i>	<i>January 27, 2025</i>		<i>November 22, 2023</i>	
<i>Rating Action</i>	<i>Reaffirm</i>		<i>Reaffirm</i>	

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):	Board of Directors:
Pakistan Telecommunication Company Limited – 100%	<ol style="list-style-type: none"> Mr. Abdulrahim A. Al Nooryani (Chairman) Ms. Brooke Marie Lindsay (Director) Dr. Mohamed Karim Bennis Mr. Khalid Murshed Mr. Khaled Hegazy Mrs. Anusha Rehman Khan Mr. Sikandar Naqi Mr. Sheikh Salahuddin

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates

<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

Company Profile

Pak Telecom Mobile Limited (PTML or 'the Company') was incorporated in Pakistan on July 18th, 1998, as a public limited company under the Companies Ordinance, 1984 (now the Companies Act, 2017), to provide cellular mobile telephony services in Pakistan. The company began its operations in January 2001 under the brand name Ufone.

PTML is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) (VIS rating: AAA/A1+ Outlook: Stable). Following PTCL's privatization in 2006, 26% of its shares, along with management control, were acquired by Emirates Telecommunication Group Company PJSC (e&), based in the UAE. e& holds an "AA-" rating from S&P Global and "Aa3" from Moody's, both with stable outlooks. The remaining shares of PTCL are owned by the Government of Pakistan (62.18%) and the general public (11.82%).

The registered office and head office of the Company is situated at Ufone Tower, Plot No. 55-C, Jinnah Avenue, Blue Area, Islamabad. Meanwhile, regional marketing, sales offices, operational sites and service points are located all over the country.

Acquisition & Merger of Telenor

Pursuant to the terms of a Share Purchaser Agreement dated 14 December 2023, PTCL, PTML's parent company, is in the process of acquiring Telenor Pakistan Pvt Ltd and Orion Towers Pvt Ltd, a move that will drive both vertical and horizontal market expansions. Based on an Enterprise Value of PKR 108 billion on a cash-free and debt-free basis, the acquisition is being financed by an IFC-led consortium. The transaction includes Telenor's mobile & broadband services and the infrastructure assets. Following the acquisition, Telenor is expected to merge with PTML, forming a single entity, with PTML being the anticipated surviving entity. Currently the matter is pending approval with the Competition Commission of Pakistan (CCP) and Pakistan Telecommunication Authority (PTA) while related approval from the State Bank of Pakistan has already been granted.

The management anticipates to generate major synergies and operational savings as a result of this acquisition.

Operational Update

In 2023, the Company achieved a 7.00% YoY growth in its customer base, reaching 25.2 million subscribers. Resultantly, Ufone saw an increase in its market share, recording at 12.8% (up from 12% in CY22), while market share in terms of revenue grew to 16.8% (CY22: 15.6%). The Company has been consistently expanding its 4G customer base, which now represents 57.5% of its total, with expectations for the 3G network to be phased out by early 2026.

In CY23, the Company invested PKR 25.7 billion to acquire approximately 1,350 new telecom sites. Similarly, by the first half of 2024, further 236 telecom sites were added, representing a PKR 11.4 billion in capex during the period.

Sector Update

According to the latest data from the Pakistan Telecommunication Authority (PTA), mobile tele-density reached 79.4% as of September 2024. Broadband penetration has also shown steady growth, rising from 53.68% in FY23 to 58.4% in Nov'2024, continuing a consistent upward trend. The telecom sector generated approximately PKR 850 billion in 2023, reflecting a 17% YoY increase despite the challenging inflationary environment. Additionally, the Average Revenue per User (ARPU) has risen by 13.2% YoY, reaching PKR 249. This increase underscores that Pakistan continues to offer some of the world's lowest telecom prices, highlighting the significant growth potential within the sector, driven by competitive pricing alone. PTA's report further emphasizes the sector's investment potential, with local industry investments totaling \$5.7 billion and Foreign Direct Investment (FDI) of \$1.4 billion over the past five years, from 2018-19 to 2022-23.

Telecom Sector Stats

	FY19	FY20	FY21	FY22	FY23
Telecom Revenue (Rs. Bn)	604	592	644.1	694	850
Cellular Subscribers (mil)	161	168.6	184.3	194.6	190.9
Tele-density (%)	75.07%	76.33%	81.73%	84.60%	81.40%
3G/4G Subscribers (mil)	68.9	81.7	99.8	115.7	124.4
Broadband Penetration (%)	32.55%	37.39%	44.93%	50.96%	53.68%
Mobile Data Usage (Petabytes)	2,493	4,510	6,855	8,970	10,850
ARPU/Subscriber (Rs.)	238	214	215	220	249

As of FY23, Pakistan's total cellular subscriber base stands at 190.9 million, with approximately 124.4 million subscribers on 3G/4G networks. The telecom sector is currently dominated by four main players in an oligopolistic structure, with Jazz leading the market, followed by Telenor, Zong and Ufone. In the ongoing year, PTCL, which owns Ufone, has initiated the acquisition of Telenor Pakistan Pvt Ltd, as previously mentioned. This acquisition is set to significantly reshape the telecom landscape. Upon completion, PTCL's Ufone, with its 12.8% market share, will merge with Telenor's 24.6%, forming a combined entity with a 37.4% market share. This will position the new entity as a strong competitor to Jazz, the current market leader.

Sector Market Share

	2020		2021		2022		2023	
	Subscribers	Share	Subscribers	Share	Subscribers	Share	Subscribers	Share
Jazz	62.8	37.3%	69.8	37.9%	75.5	38.8%	71.3	37.4%
Ufone	22.3	13.2%	23.1	12.5%	23.3	12.0%	24.5	12.8%
Zong	36.7	21.8%	40.5	22.0%	44.2	22.7%	46.5	24.4%
Telenor	45.4	26.9%	49.3	26.7%	50.0	25.7%	46.9	24.6%
SCO	1.3	0.8%	1.6	0.8%	1.7	0.9%	1.7	0.9%
Total	168.6	100%	184.2	100%	194.6	100%	190.9	100%

The telecom sector has faced rising power and fuel costs, prompting a shift to solar energy, as seen with Ufone transitioning 5% of its towers to solar power in 2023. Additionally, the Telecom Infrastructure Sharing framework has reduced cost pressures by allowing operators to rent infrastructure, though high inflation continues to challenge the industry.

Although growth in the customer base is likely to slow in the near term due to high telecom penetration and the industry's shift toward increasing ARPU, demand for telecommunication services is expected to remain strong. This resilience will be fueled by the rising use of data, online communication, digital banking, and remote work, with an additional boost anticipated from the rollout of the 5G spectrum in 2025, unlocking new growth opportunities for the sector.

Key Rating Drivers

Strong Sponsorship profile and Parent Company Support

The Company benefits from strong sponsorship in form of equity injections from the parent company and subordinated debt. This financial support has enabled the Company to grow in terms of revenue despite challenging macro-economic environment. Additionally, PTCL has also provided support to PTML by offering corporate guarantees to banks and vendors.

Equity Injection in PTML

Year	Amount-PKR
CY20	7,000,000,000
CY21	13,000,000,000
CY22	13,000,000,000
CY23	25,500,000,000

Improving gross margins however, bottom line remained constrained due to rising finance cost amidst high interest rates environment which is expected to be substantially eased down owing the downward trends of interest rates

During CY23, Company booked a revenue of PKR 75.4 Bn (CY22: PKR 60 Bn), a 26% YoY increase, on the back of increasing demand for data services, which contributed 40.3% (CY22: 37.3%) in total revenue followed by voice services contributing 37.3% (CY22: 42.6%).

Revenue Mix

Rs. Million	CY21	%	CY22	%	CY23	%	HY24	%
Data Services	15,588	27.80%	22,452	37.37%	30,458	40.38%	20,528	45.90%
Voice Services	29,574	52.70%	25,602	42.62%	28,133	37.30%	15,024	33.60%
Corporate Revenue	2,456	4.40%	2,598	4.33%	5,498	7.29%	3,767	8.42%
Wholesale Services	1,782	3.20%	3,012	5.01%	4,235	5.61%	1,581	3.54%
Other Telco. Services	1,958	3.50%	1,900	3.16%	2,266	3.00%	1,156	2.59%
International	1,305	2.30%	1,583	2.64%	1,966	2.61%	979	2.19%
Digital Services	2,261	4.00%	2,036	3.39%	1,907	2.53%	1,135	2.54%
Messaging Services	1,054	1.90%	687	1.14%	574	0.76%	229	0.51%
Equipment	99	0.20%	201	0.34%	386	0.51%	320	0.71%
Total Revenue	56,078	100%	60,072	100%	75,423	100%	44,719	100%

Gross margins improved in the year, rising to 16% (CY22: 14%), and increased further to 22% for HY24 (HY23: 11%), recovering to CY21 levels. This improvement reflects the

positive impact of the Company's pricing increase, cost optimization initiatives and successful vendor negotiations to reduce expenses.

Despite the improvement in gross margins, the Company experienced a 30% YoY increase in bottom-line losses during CY23, primarily due to a 32% YoY rise in finance costs, driven by its highly leveraged capital structure. However, for HY24, the Company's bottom line, albeit in negative, showed a significant improvement, with losses reducing by 62% compared to the same period last year (Net loss HY24: PKR -6.04 billion vs. HY23: PKR -15.95 billion). As interest rates continue to decline, Company's margins are likely to improve further during the rating horizon.

Liquidity & Coverage

Company's FFO clocked at PKR 2.1 Bn in CY22 but declined to a negative PKR 5.4 Bn in CY23 due to a 93% increase in finance cost paid, however, the liquidity position was sustained by parent company's equity injection worth PKR 25.5 Bn during the year. On the other hand, the current ratio improved slightly to 0.62x in CY23 (CY22: 0.57x), although falling back at 0.50x in HY24. The improvement noted in CY23 is owed to an increase of 197% in receivable from parent company under group taxation (CY23: PKR 23.6 Bn), which fell back to prior levels in HY24 (PKR 10.16 Bn).

Amid increased finance cost and negative FFO, company's Debt Service Coverage Ratio (DSCR) inched down from 0.37x in CY22 to 0.32x in CY23. In context of HY24 however, finance cost recorded slightly lower on the back of falling interest rates improving FFO to positive PKR 12.2 Mn and DSCR to 0.48x. Liquidity and coverage metrics remain underpinned on continued sponsor support.

Capital Structure

Company's gearing and leverage ratios have deteriorated over the years due to consistent losses resulting in equity erosion despite frequent funds injected by the parent company. As at end-CY23 however, gearing decreased slightly to 10.95x from 11.44x as of CY22, meanwhile leverage remained intact at around 31.4x for CY23 and 31.7x for CY22. With continuous losses, HY24 gearing and leverage ratios increased notably to 68.6x and 206.2x, respectively. However, moving forward we expect these ratios to sustain at prior levels due to expected financial support from parent company.

Pak Telecom Mobile Limited
Annexure I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	CY20	CY21	CY22	CY23	HY24
Property and Equipment	77,538	81,907	96,397	109,419	114,120
Intangibles	22,069	67,334	61,449	57,003	54,046
Non-Current Assets	116,278	163,267	177,472	188,886	196,147
Trade Debts	2,663	2,833	2,129	3,790	3,846
Cash & Bank Balances	2,009	1,755	2,086	3,056	3,286
Total Assets	137,971	192,052	211,208	234,087	244,236
Trade and Other Payables	13,815	16,024	20,907	27,941	31,565
Short-Term Borrowings	5,194	1,727	5,707	7,020	6,695
LT Borrowings + Subordinated Debt	32,942	48,761	62,030	65,814	67,912
Total Liabilities	133,231	179,685	204,756	226,864	243,058
Share Capital	11,000	26,500	39,500	65,000	65,000
Tier-1 Equity	4,740	12,367	6,452	7,223	1,179
<u>INCOME STATEMENT</u>	CY20	CY21	CY22	CY23	HY24
Net Sales	53,753	56,078	60,074	75,423	44,719
Gross Profit	13,869	13,078	8,348	11,936	9,707
Loss Before Tax	(5,040)	(7,656)	(28,186)	(34,668)	(8,523)
Loss After Tax	(3,579)	(5,436)	(18,884)	(24,614)	(6,044)
Funds from Operations (FFO)	18,054	17,636	2,104	(5,407)	12
<u>RATIO ANALYSIS</u>	CY20	CY21	CY22	CY23	HY24
Gross Margin (%)	25.8%	23.3%	13.9%	15.8%	21.7%
Net Margin	-6.7%	-9.7%	-31.4%	-32.6%	-13.5%
Current Ratio	0.51	0.58	0.57	0.62	0.50
Net Working Capital	(20,634)	(20,725)	(25,302)	(27,452)	(47,959)
FFO to Total Debt (x) *	0.40	0.30	0.03	-0.07	0.0003
FFO to Long Term Debt (x) *	0.46	0.30	0.03	-0.08	0.0003
Leverage ratio	28.11	14.53	31.74	31.41	206.21
Gearing ratio	9.42	4.83	11.44	10.95	68.60
Debt Servicing Coverage Ratio (x) *	1.77	1.84	0.61	0.52	0.74
ROAA (%) *	(0.03)	(0.03)	(0.09)	(0.11)	(0.10)
ROAE (%) *	(0.75)	(0.63)	(2.01)	(3.60)	(2.88)

*Annualized figures

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	27-01-2025	AA-	A1	Stable	Reaffirm
	22-11-2023	AA-	A1	Stable	Reaffirm
	14-07-2022	AA-	A1	Stable	Initial
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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Muhammad Ahmed Hanif	Group Director – Corporate Finance	Nov' 22 nd 2024		
	Abdul Salam	SM Financial Planning & Analysis			
	Syed Hasnain Raza	SM Finance Business Partner Wireless			
	Minal Shahid	Manager Corporate Finance			