RATING REPORT

Trans World Associates (Pvt.) Limited

REPORT DATE:
October 6, 2015

RATING ANALYSTS:
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Rating Category	Latest Rating
	Long-term
Bank Loan Rating	A
Rating Date	*October 2 , 2015*

COMPANY INFORMATION

Incorporated in 1980	**External auditors:** Deloitte Yousuf Adil
Private Limited Company	**Chairman of the Board:** Mr. Javed Saifullah Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Iskander Naguib Shalaby
Orascom Telecom Media & Technology Holding S.A.E. –	
Orastar Limited **– 39%**	
Dr. Omar Bin Abdul Muniem Al-Zawawi **– 10%**	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria : ***Industrial Corporates (October 2003)***
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Bank Loan Ratings (December 2011)
http://www.jcrvis.com.pk/Images/BankLoanRatings.pdf

Trans World Associates (Private) Limited

OVERVIEW OF THE INSTITUTION

Trans World Associates was incorporated in October, 1980 under Companies Act 1913 (now Companies Ordinance 1984). Primary function of the company is to operate and maintain submarine cable system, along with provision of telecommunication services. Currently, TWA owns one submarine cable, which extends from Pakistan to Oman and UAE. It has acquired rights to act as a landing partner in case of another submarine cable routing from Europe to East Asia via Middle East.

RATING RATIONALE

The assigned bank loan rating is for bank loan facility of Rs. 4.1b obtained to fund the laying of an undersea fiber optic cable namely South East Asia-Middle East-Western Europe 5 cable (SEA-ME-WE5). Rating incorporates TWA's leading market position in the B2B IP Transit segment. Ratings also reflect stable financial risk profile of the company as evident from steady cash flows and adequate debt servicing coverage. Business risk profile of the company derives positive impetus from duopoly market in which the company operates and growing demand of bandwidth in the country. Risk factors include dependency on other operators for transporting bandwidth locally, regulatory actions that may reduce bandwidth growth or have an impact on pricing, threat of new entrants, technology and foreign exchange risk. The assigned rating also take into account financial profile and demonstrated support of sponsors in the form of loans to the company.

TWA is the only privately owned fiber optic cable operator in the country through its TW1 cable with Pakistan Telecommunications Company Limited (PTCL) being the landing telecom operator in Pakistan of the remaining three consortium led cables. PTCL caters to around two-third of the bandwidth demand on account of its large base of residential consumers while TWA dominates the B2B segment with majority share. While regulatory barriers for new entrants are moderate, the risk of new entrants is considered low given the high infrastructure costs associated with laying down the cable. In 2014, TWA became a part of a consortium-led SEA-ME-WE 5 which covers a distance of approx. 20,000km from France to Singapore. Both contractors (NEC Corporation of Japan & Alcatel Lucent Submarine networks of France) for SEA-ME-WE5 cable have a sound track record. TWA's proportionate share of laying down the cable is Rs. 5.1b, with around 80% being financed through debt. Once operational (target completion date is Nov'2016), SEA-ME-WE5 cable will improve the reach and redundancy with major proportion of bandwidth traffic planned to be channeled through the same.

Revenues of the company have depicted modest growth over the last four years. Client wise revenues of the company features concentration with major revenues being generated through leading telecom operators and internet & DSL providers. Going forward, management expects uptick in revenue growth with the issuance of 3G/4G licenses to telecom operators. This is already evident from increasing bandwidth sales which are expected to more than double in the ongoing year. Gross margins of the company have averaged 57% over the last four years (2011-2014) while net margins have averaged 18% during this period. Going forward, profitability and cash flows are expected to witness significant growth with the coming online of the SEA-ME-WE5 on account of reduction in international bandwidth and interconnect charges and elimination of restoration charges.

Capitalization indicators of the company have improved over time on account of internal capital generation. Debt profile of the company is long-term in nature with sizeable amount of total debt comprising loan from sponsors. Leverage and gearing have declined on a timeline basis but will increase significantly as the company completes drawdown (expected by June'2016) for financing of SEA-ME-WE 5 cable. Aggregate financing facility for SEA-ME-WE 5 cable is to the tune of Rs. 4.1b and has a tenor of 7 years with 30 months grace period. Security structure of the loan includes first pari passu charge over present and future current & fixed assets (excluding land and building) of the company with 25% margin over the facility amount, formation of a collection and debt service reserve account and assignment of insurances for fixed assets and cash security to cover undersea cables and allied equipment. Principal repayments commence in April'2018 with semi-annual payments. Given the significant cost savings that are expected to accrue from completion of the new cable, debt servicing is expected to remain adequate. Even after assuming only a 50% increase in projected gross margins, debt servicing coverage will remain over 1x. Timely completion of the new cable will be critical for adequate debt servicing coverage. Aging profile of receivables has room for improvement with around 27% of the receivables being due for over a year. However, the company has outstanding payables against a number of overdue clients which partially mitigate the risk.

TWA is a subsidiary of Orascom Telecom Media and Technology Holding SAE (51% holding) with other joint venture partners being Orastar Limited (39%) and Dr. Omar Bin Abdul Muniem Al-Zawawi (10%). Board of directors comprises 7 non-executive directors.. Management team of the company comprises experienced professionals with relevant industry experience.

Trans World Associates (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Non-current Assets	2981.1	2906.6	2512.2
Investments	38.1	138.1	224.2
Spare parts and other inventory	2.5	2.8	3.0
Trade Debts	379.7	411.1	633.8
Cash & Bank Balances	434.4	548.0	224.7
Total Assets	4315.4	4156.1	3723.1
Trade Payables	307.3	306.4	281.1
Long Term Debt *(*incl. current maturity)*	698.7	786.5	880.4
Short Term Debt	213.5	653.6	698.1
Total Equity	2006.8	1691.7	1336.4
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Sales	1956.0	2033.4	1728.1
Gross Profit	1114.7	1204.7	1034.4
Operating Profit	578.0	706.3	585.5
Profit After Tax	315.1	355.3	336.2
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Gross Margin (%)	57.0	59.2	59.9
Net Working Capital	191.8	(357.6)	(407.5)
FFO to Total Debt (x)	0.53	0.48	0.37
FFO to Adj.Total Debt (x) (excluding sponsor loan)	1.81	3.04	1.62
FFO to Long Term Debt (x)	1.10	1.20	1.12
Debt Servicing Coverage Ratio (x)	1.28	1.62	2.74
ROAA (%)	7.4	9.0	9.5
ROAE (%)	17.0	23.5	28.8

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 — Appendix III

Name of Rated Entity	Trans World Associates Private Limited
Sector	Telecommunications
Type of Relationship	Solicited
Purpose of Rating	Bank Loan Rating
Rating History	see table below
Facility Structure	Facility size is Rs. 4.1b and is for the purpose of financing the laying of an undersea cable. Of the total facility amount, Rs. 3.2b has been underwritten by NIB Bank Limited. Tenor of the facility is 7 years from April 2015 with grace period of 30 months. Mark-up on the facility is K+2.5% with repayments commencing in 2018 in 9 semi-annual installments. Security structure of the facility is as follows: • First pari passu charge over present and future current & fixed assets (excluding land and building) of the company with 25% margin over the facility amount • Assignment of insurances for fixed assets and cash security of $1 million to cover undersea cables and allied equipment • Sponsor loans will be sub-ordinated to the facility • Formation of debt Service reserve and collection account
Statement by the Rating Team	JCR-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	JCR-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: BANK LOAN RATING				
October 2, 2015	A	N/A	N/A	Initial