

**PAKISTAN RESEARCH**  
**Telecom Sector**
**BUY**

Fair Value: PKR 29

Current Price: PKR 19

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**Price and Volume Graph**

**PTCL: REAL OPTIONS GALORE**
**INVESTMENT SUMMARY**

- **Fit to survive - well diversified:** PTCL is a well-diversified telecom provider with its tentacles in numerous telecommunication services: fixed line, wireless, cellular and broadband. Given the decline in the traditional core businesses of PTCL, it now looks to its cellular and broadband segments for growth. The company is in a position to cope up with declining revenues on the fixed line front with mounting revenues in other segments.
- **Broadband structuring the momentum in revenues:** Fixed line revenue has continually been subject to a declining trend on account of the dwindling subscriber base. However, amidst falling core revenues, broadband has emerged as a saviour. In 1QFY10, the total broadband revenue for the period stood at PKR830mn, up 219% YoY. With new Universal Service Fund (USF) projects rolling out (all of which have been so far won by PTCL), huge potential remains inherent in the segment for PTCL. By FY14E, we expect PTCL broadband subscribers to grow to 913K with broadband revenues coming in to the tune of PKR9.0bn.
- **Cellular Still in green:** In FY09, PTML contributed 36% to group earnings with revenues clocking in at PKR34bn. PTML earnings stood at PKR1.7bn in FY09 and PKR506mn in 1QFY10, showing a triple digit growth YoY. We believe PTCL's cellular division, Pakistan Mobile Telecommunications Limited (PTML), will continue to contribute to growth for the group going forward. We project PTML's revenue to clock in at PKR41bn in FY10E and at PKR48bn by FY14E.
- **Handsome Upside:** At yesterday's closing price of PKR19.1/share, PTCL currently offers an upside potential of 52% to our DCF-based fair value of PKR29/share. Of this, PTCL's core business accounts for PKR20.5/share while Ufone accounts for PKR8.5/share. We recommend a BUY stance on the stock.

Real estate remains a possible trigger for the stock. Under the Share Purchase Agreement, a total of 3384 properties were to be transferred to PTCL of which 168 are still pending. The total estimated fair value of these properties is USD1.5-2.0bn. The development, sale or revaluation of these assets will positively boost our valuations. Owing to the lack of clarity on the issue, we have not included it in our valuations.

**Financials**

Bloomberg	PTC PA
Current Price	PKR 19.09/sh
Market Cap	PKR 97,359 mn
	USD 1,150.9 mn
Free Float	11%
Shares O/S mn	5,100
52 week High-Low	22.8/ 11.3

	FY09A	FY10E	FY11E
EPS(PKR)	1.8	2.1	2.3
Price to Earnings (x)	10.6x	9.2x	8.2x
Dividend Yield (%)	7.8%	10.5%	10.5%
EPS Growth (%)	NM	15.6%	12.1%
Return on Equity (%)	9.2%	10.6%	11.7%
Return on Assets (%)	5.9%	7.5%	8.3%

Source: BMA Research

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## INVESTMENT RATIONALE

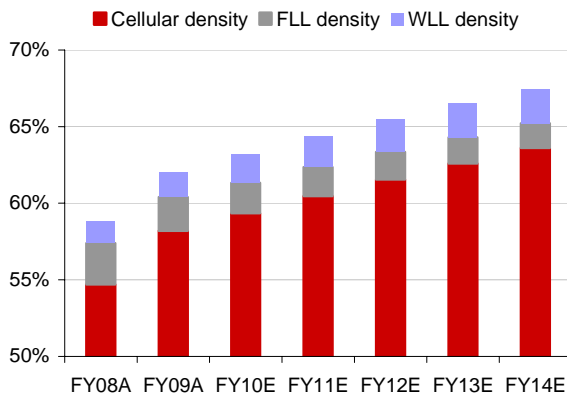
### FIT TO SURVIVE: WELL DIVERSIFIED

Fixed line is PTCL's core business however following the decline in subscribers on the fixed line front; PTCL now looks to its wireless, cellular and broadband segments for growth. Since PTCL is a well-diversified telecom resource, we expect PTCL to survive the fixed line attrition with growth in other segments of the company.

PTCL's fixed line subscribers are expected to continue to decline going forward, with PTCL fixed line subscribers aggregating to 2.8mn by FY14E against 3.4mn in FY09. However, we project the subscriber base of the company in cellular and wireless segments to grow to 22.9mn and 2.5mn by FY14E against 20mn and 1.3mn in FY09, bringing about a net increase of 3.5mn in the total PTCL subscriber base. PTCL Broadband subscribers which at present stand at ~300K are also expected to grow to 913K by FY14E.

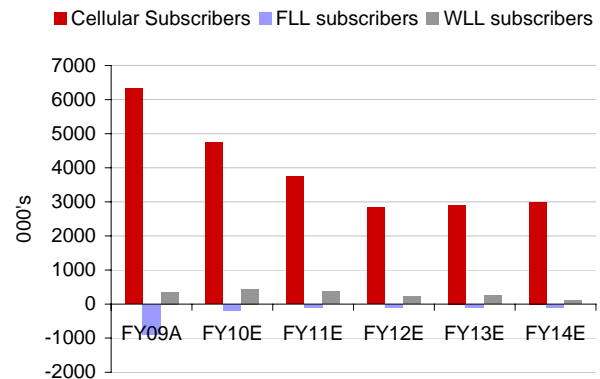
An examination of the chief telecommunication divisions reveals that the attrition in fixed line subscribers has been owing to the fixed to mobile substitution as well as the emergent preference for Wireless Local Loop (WLL). Fixed line subscribers have been following a declining trend since FY06, where we saw a negligible fall of 1.4% in the subscriber base. It was however only a beginning and what followed was a consecutive attrition in fixed line subscribers which as per the latest statistics released by PTA stood at 3.5mn as against the peak of 5.3mn in FY05. Concurrently, we saw a surge in the WLL and cellular subscribers. WLL, post its introduction in 2005, saw its subscribers shoot up from 265K in FY05 to 1mn in FY06. As at Nov 09, the total WLL subscribers stood at 2.72mn subscribers. Cellular subscriber growth and density, however, has far surpassed all other telecommunication segments. Cellular teledensity stood at 59.03% in Nov09, with a total subscriber base of 96.71mn.

Industry Tele-density Projections FY10E-FY14E



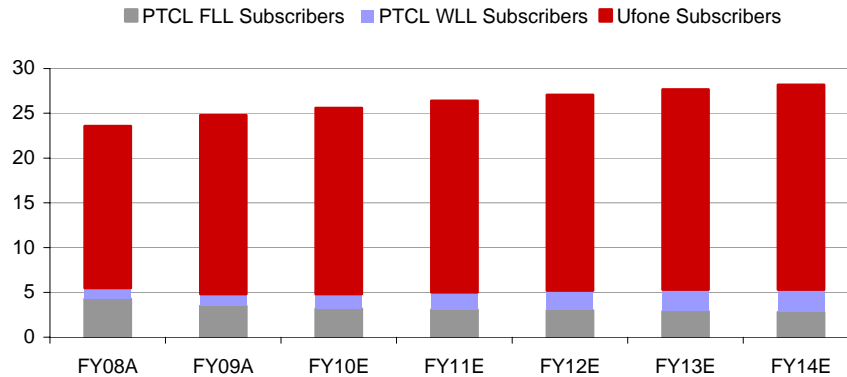
Source: PTA, BMA Research

Industry Additional Sub Projections FY10E-FY14E



Source: PTA, BMA Research

**PTCL Subscriber Projections**



Source: PTA, BMA Research

**BROADBAND: THE NEXT BIG THING**

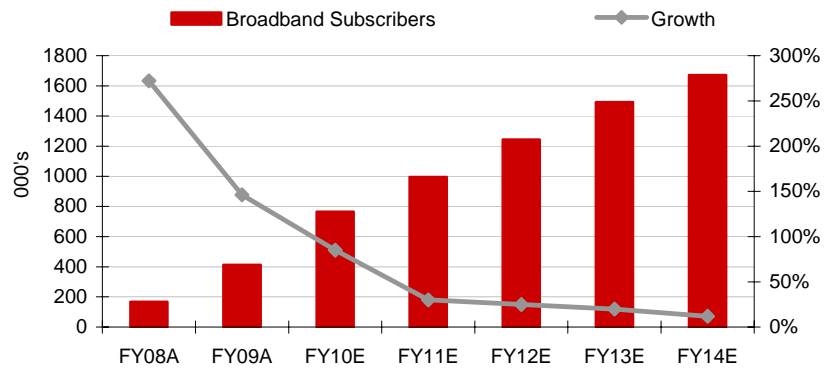
PTCL has the biggest broadband coverage area. We expect PTCL broadband subscribers to grow to 913K by FY14E from ~200K in FY09. Broadband revenue is expected to be the major top-line driver going forward with broadband revenue coming in to the tune of PKR9.0bn by FY14E against ~PKR2.0bn in FY09.

Broadband in Pakistan has been experiencing healthy growth with penetration equalling 0.26% in FY09. The subscribers have showed a tremendous surge, with the total subscriber base of 414K at end of FY09 against 168K in FY08.

To improve the telecom penetration in the country, the Government of Pakistan has established the Universal Service Fund (USF) which subsidizes various telecom projects. Up to date, four subsidized USF broadband projects have been awarded, of which PTCL has won all, with a target penetration of 186K subscribers within 1.5 years. USF subsidy is acting as a positive impetus for broadband proliferation in the country. Going forward, we expect PTCL to continue to be the major winner of the USF subsidized projects.

For PTCL, the declining subscriber base, coupled with falling tariffs, in all business segments has been translating into a YoY decline in revenues. Amidst falling core revenues, broadband has emerged as a saviour. The company has been successful in achieving a QoQ growth of 2% in revenues attributable primarily to the thriving broadband segment that has been triumphant in escalating its share of overall revenues to an enormous 5.7% in 1QFY10 compared to 2.3% during the same period last year. Such a massive soar in revenue contribution from the broadband segment was not expected to pull in so soon.

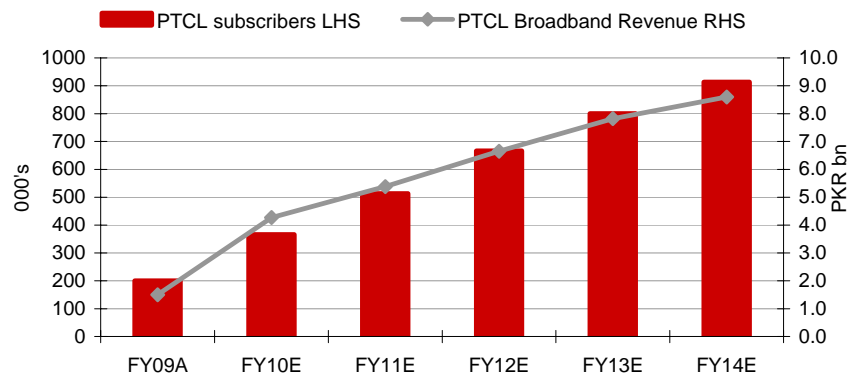
**Industry Broadband Subscribers**



Source: PTA, BMA Research

Since PTCL owns the biggest broadband coverage area and has four Universal Service Funds projects in hand and a couple in the pipeline, we expect PTCL broadband subscribers to grow to 913K by FY14E. Broadband revenue is expected to be the major top-line driver going forward with revenue from the head expected to clock in at PKR9.0bn, contributing 7% of consolidated revenues by FY14E as against 2% in FY09.

**PTCL Broadband Subscribers and Revenue Forecast**

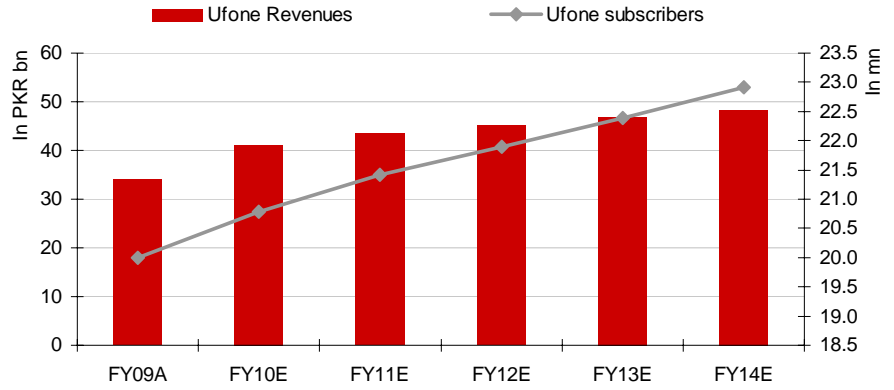


Source: Company Report, BMA Research

**CELLULAR: CUSHION-ING THE DECLINES**

PTCL's subsidiary, Pak Telecom Mobile Limited (PTML) operating with the brand name of Ufone, is the only cellular company in the country which reported profit for FY09; all the other cellular operators incurred losses for the same period. PTML reported earnings of PKR1.7bn in FY09 and showed a triple digit growth YoY in 1QFY10 with earnings clocking in at PKR506mn. In FY09, PTML contributed 36% to group earnings. We believe PTCL's cellular division will continue to contribute to growth for the group going forward. We expect the contribution of PTML to grow to 38% in FY10E and 39% by FY14E.

Ufone Revenue and subscribers



Source: PTCL Annual Report, PTA, BMA Research

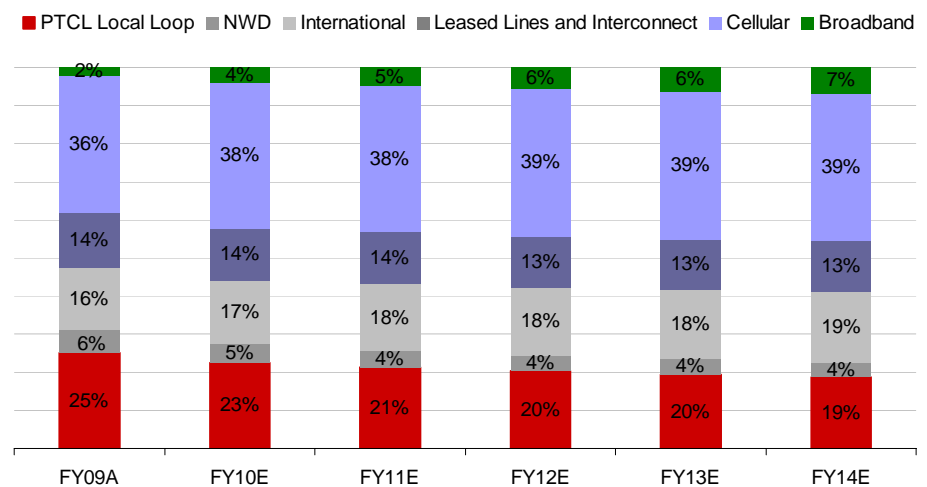
## PTCL REVENUE SEGMENTS & PROJECTIONS

PTCL derives revenue from multiple business segments and is the only well-diversified telecom operator in the country. The company's own revenues account for about 74% of the consolidated revenues whereas 36% of the revenues clock in from the cellular subsidiary-Ufone.

PTCL revenues are contributed by the following revenue sources:

- **Local loop: Fixed Local Loop (FLL) and Wireless Local Loop (WLL)**
- **Nation Wide Dialling (NWD)**
- **Leased lines and Interconnection revenue**
- **International segment**
- **Broadband**
- **Cellular subsidiary-Ufone**

### PTCL Revenue Mix



Source: Company Management, BMA Research

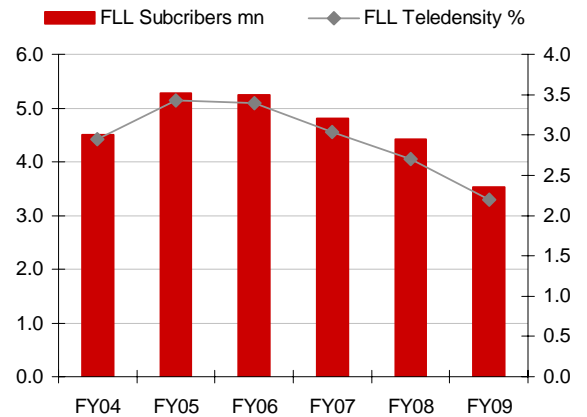
### LOCAL LOOP: FIXED OUT WIRELESS IN

PTCL local loop comprises of the Fixed Local loop (FLL) and the Wireless Local Loop (WLL).

#### a) Fixed Local loop (FLL)

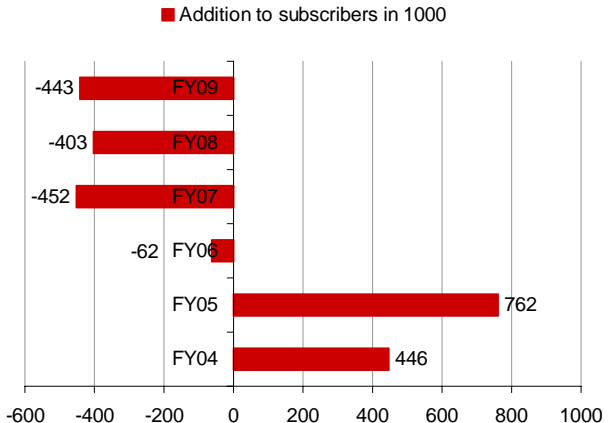
Fixed line services have been experiencing a declining trend across the globe owing to the introduction of novel services such as WLL and mobile phones that are more economical, cost effective, easy to deploy and boast an array of value added services attached to them. Fixed line teledensity stood at 2.20% at end FY09, with total subscribers accruing to 3.5mn, down from its peak teledensity of 3.43% in FY05 and a subscriber base of 5.3mn. Since PTCL is a near monopoly in the market, the declining fixed line subscribers coupled with lower line rent and traffic has hurt fixed line revenues fetched by the company.

**Industry FLL Subscribers and FLL Teledensity**



Source: PTA, BMA Research

**Addition to PTCL FLL Subscribers**

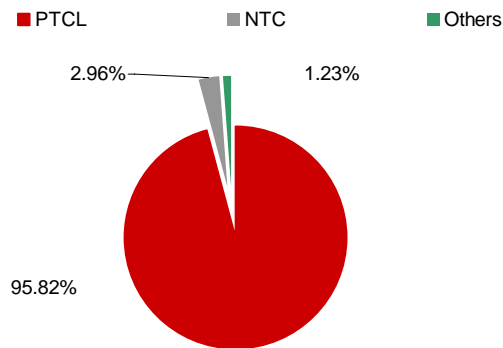


Source: PTA, BMA Research

There are six competitors in the FLL segment while it is dominated by PTCL followed by National Telecommunication Corporation (NTC). Others are relatively new and have not yet succeeded in creating a mark in the segment.

PTCL has the privilege of being the largest fixed line service provider; it enjoys a near monopoly with a market share of 96%. However, declining fixed line subscribers have hurt fixed line revenue fetched by PTCL on account of lower line rent and reduced minutes of usage.

**Fixed Line Market Share FY09**



Source: PTA

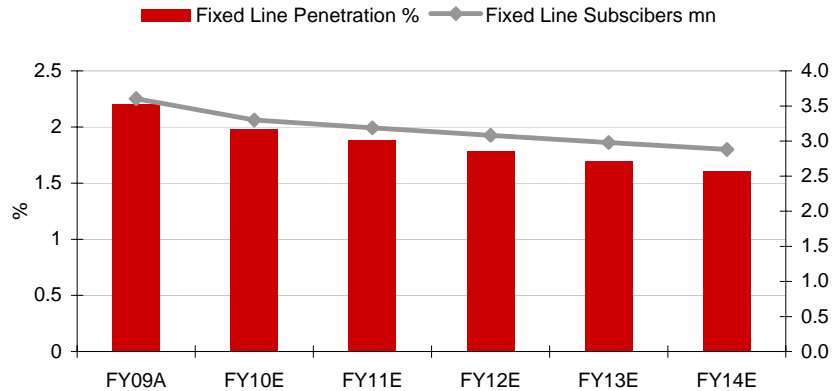
Going forward, the depletion in fixed line subscribers is expected to continue on account of fixed to mobile and WLL substitution. We anticipate FLL penetration to decline by 1.61% to a subscriber base of 2.88mn by FY14E

**Fixed Subscriber Market Projections FY10E-FY14E**

	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
Industry FLL Penetration	2.20%	1.98%	1.88%	1.79%	1.70%	1.61%
Industry FLL Subscribers mn	3.50	3.30	3.19	3.08	2.98	2.88
PTCL FLL Subscribers mn	3.40	3.20	3.09	2.99	2.89	2.79

Source: PTA, BMA Research

**Industry FLL Projections FY10E-FY14E**



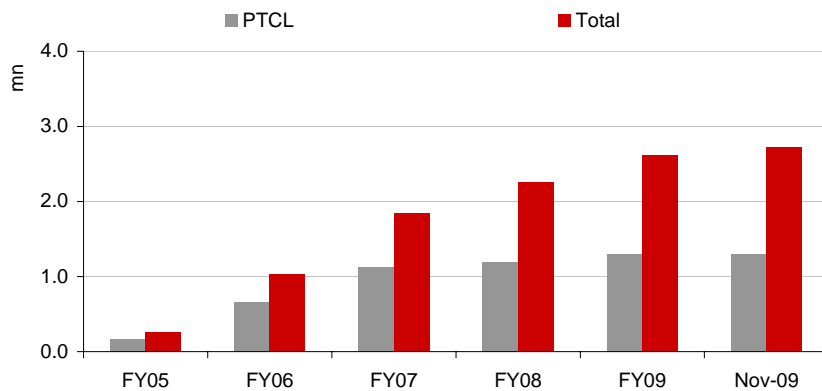
Source: PTA, BMA Research

With PTCL being the dominant player in the FLL segment (commanding a market share of 96%), its revenues from the segment have and are expected to continue to decline; bringing about a decrease in total revenues as well as change in the revenue mix of the company.

**b) Wireless Local Loop (WLL)**

Wireless Local Loop (WLL) is growing in popularity owing to its convenience of use and its reach in far off areas of the country (used as Public Call Office). The WLL requires less investment and higher returns as compared to fixed line. Popularity of WLL services can also be gauged from the dropping figures of fixed line subscribers especially in case of PTCL where a balancing effect of gain and drop in WLL and FLL is going on for more than a year. With the introduction of the wireless technology in 2005, the WLL penetration has increased from 0.17% in 2005 to 1.6% in 2009, with subscribers growing at a CAGR of 77%. During FY09 alone, a total of 377k subscribers have been added by WLL operators bringing the tally of WLL subscribers to 2.6mn against 2.2mn in FY08.

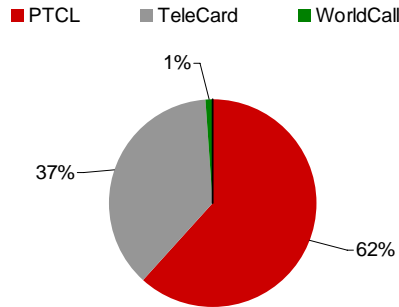
**WLL Subscribers**



Source: PTA, BMA Research

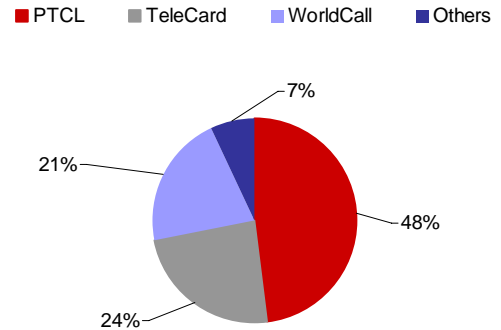
In the wireless segment, PTCL started with a share of 61% in 2005, however with new entrants into the market, its market share stood at 47%, down 14% by Nov09. Its main competitors include Telecard, WorldCall and Wateen.

**Market Share WLL FY05**



Source: PTA, BMA Research

**Market Share Nov09**



Source: PTA, BMA Research

Going forward, we expect additions to the WLL subscribers to continue, albeit at a slower pace. We expect the industry WLL subscriber base to surpass FLL subscribers by FY11E. WLL subscribers and penetration is expected to stand at 3.07mn and 1.84% respectively by FY10E and at 4.02mn and 2.25% by FY14E.

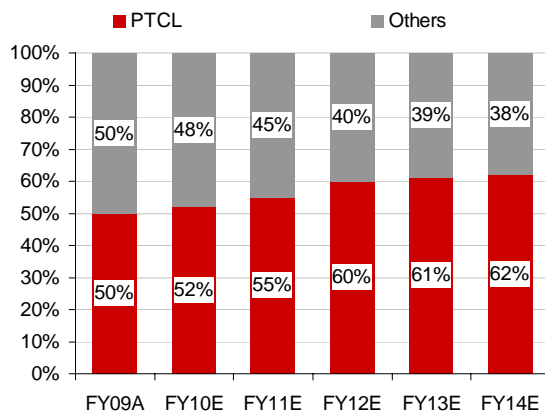
In addition, we expect PTCL to regain and surpass its lost market share owing to the low call tariff rates (no line rent package) and quality service as against the expensive Wateen and low service quality of other WLL providers. We anticipate PTCL's share in WLL to be 62% by FY14E with a subscriber base of 2.5mn.

**WLL Subscriber Projections FY10E-FY14E**

	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
WLL Penetration	1.60%	1.84%	2.02%	2.13%	2.23%	2.25%
WLL Subscribers mn	2.62	3.07	3.43	3.67	3.92	4.02
PTCL WLL subscribers mn	1.3	1.6	1.9	2.2	2.4	2.5
PTCL Market Share	50%	52%	55%	60%	61%	62%

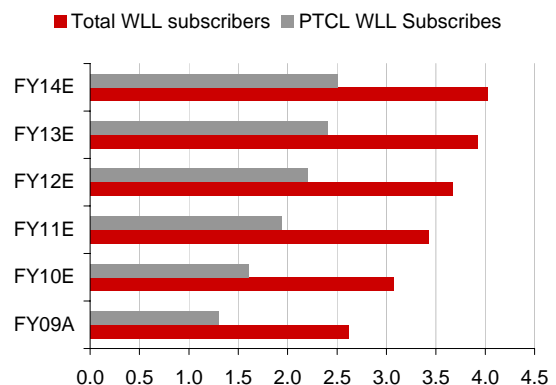
Source: BMA Research

**WLL Market Share**



Source: PTA, BMA Research

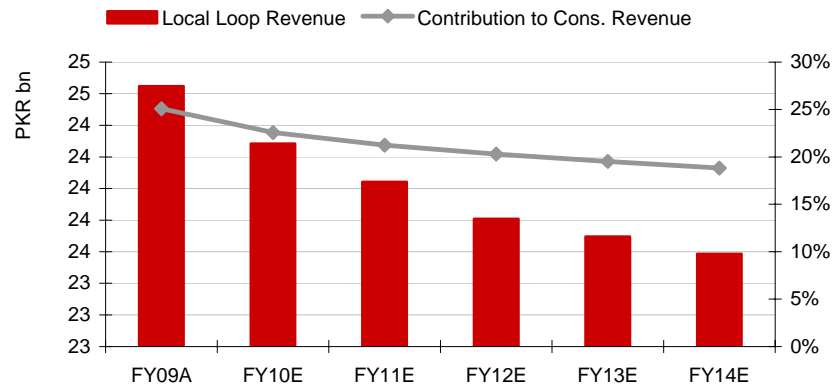
**Industry and PTCL WLL Subscribers mn**



Source: PTA, BMA Research

Local Loop which includes both fixed line and wireless, contributed ~25% to the consolidated group revenues for PTCL in FY09. Going forward, we expect its share in the consolidated top line to decline to 19% by FY14E.

**PTCL Local loop Revenue**



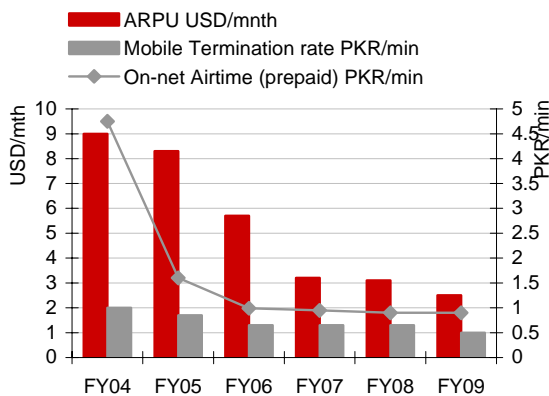
Source: BMA Research

**CELLULAR SUBSIDIARY: STILL IN THE GREEN**

Pakistan has experienced multiple years of exponential growth in the cellular segment. The strong growth was aided by inflow of foreign investment, growth in franchising services and aggressive marketing campaigns. Cellular subscribers grew by a 5-year CAGR of 80%, from 5mn in FY04 to 94mn in FY09; cellular teledensity grew from 3.3% in FY04 to 59.03% in Nov-09.

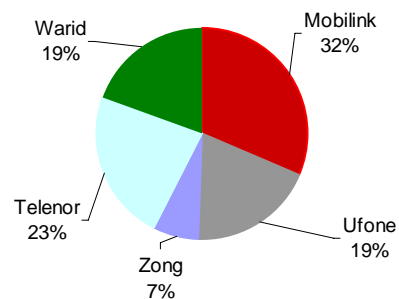
After years of immense growth, Pakistan’s cellular market could not maintain the strength in upward trend in FY09 mainly due to unstable and weak economy, decline in the pace of foreign investment, saturation in cellular consumer market and the impact of increased taxation. Resultantly, in FY09 total teledensity grew by a meagre 2.9% against 14.9% in FY08 with a net addition of 6mn subscribers in FY09 against 25mn in FY08.

**ARPU, MTR & On-net Airtime**

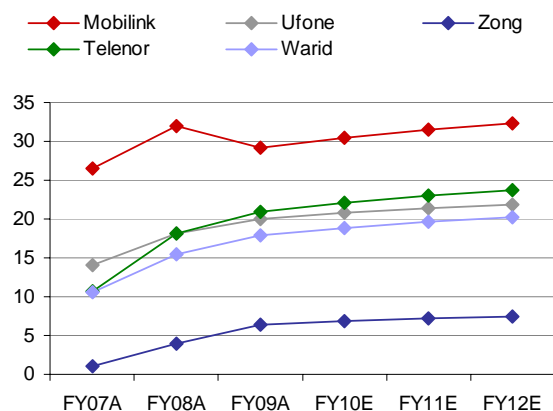


Source: PTA, BMA Research

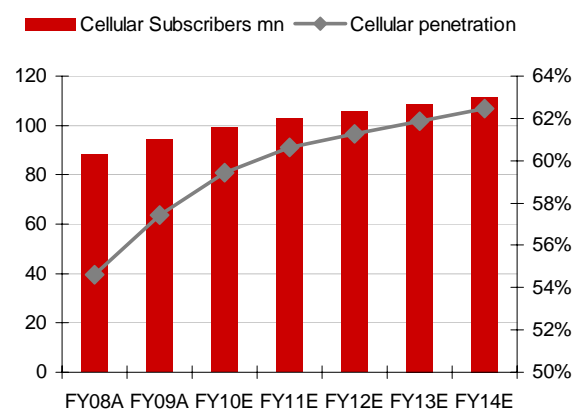
**Market Share Nov-09**



Source: PTA, BMA Research

**Cellular Subscribers Projections in mn**


Source: PTA, BMA Research

**Cellular Subscribers & Penetration Projections**


Source: PTA, BMA Research

Operating under the brand name of Mobilink, Pakistan Mobile Communications Ltd (PMCL) dominates the cellular segment with a market share of 32% in Nov09. Ufone (PTCL's cellular subsidiary) currently stands on fourth position with a market share of 21%, falling from the third position in FY09. Nonetheless, in terms of revenues, the company stands second after Mobilink and is the only cellular company which posted profits for FY09.

The cellular market now stands saturated. During FY10E and beyond, we expect cellular density to grow meagrely with a total cellular subscriber base projected at 99mn by FY10E and teledensity of 59.45%. Mobile termination rates and tariffs have declined to as low as PKR0.9/min and PKR0.9/min respectively and are now expected to remain stable. Average Revenue per User (ARPU) have fallen sharply in FY09 to USD2.48/month, down from USD3.1/month, registering a 20% YoY decline. Operators are now focusing on value added services to improve ARPUs.

Having attained a mature phase, we expect cellular density to stabilize at 62.5% with a subscriber base of 111.6mn by FY14E. The market share of Ufone is expected to remain within early twenty ranges, in-line with its historic trend.

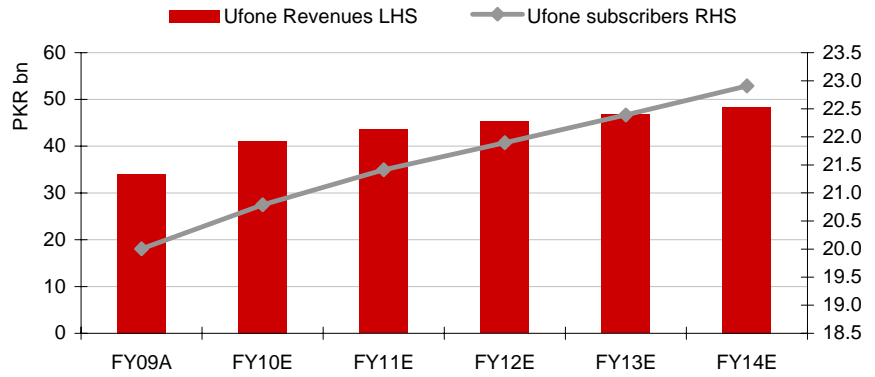
**Cellular Subscriber Projections FY10E-FY14E**

	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
Cellular Penetration	57.4%	59.45%	60.6%	61.3%	61.86%	62.5%
Total Active Cellular Subscribers	94.34	99.07	102.81	105.65	108.56	111.55
Ufone Market share	21.2%	21.0%	20.8%	20.7%	20.6%	20.5%
Ufone subscribers	20.0	20.8	21.4	21.9	22.4	22.9

Source: BMA Research

In FY09, PTML reported net revenue of PKR34bn, contributing 36% to group earnings. We expect the contribution of PTML to grow to 38% in FY10E and 39% by FY14E with revenues coming in to the tune of PKR41bn and PKR48bn for the respective periods.

**PTML (Ufone) Revenues and Subscribers Projections**

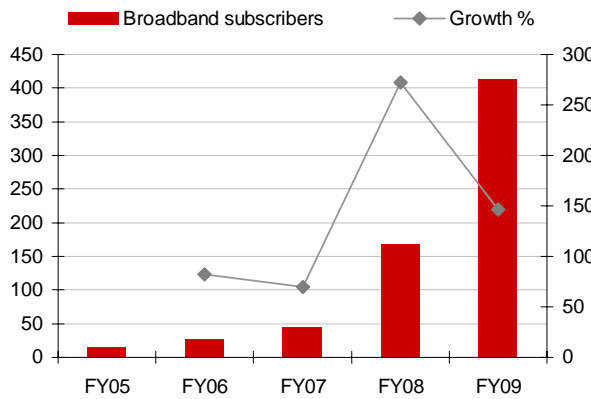


Source: Company Annual Report, BMA Research

**BROADBAND SEGMENT: GROWTH SEGMENT**

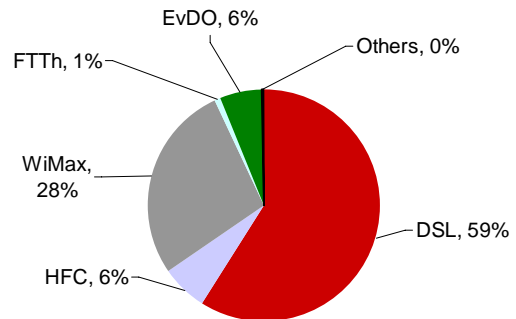
With the declining fixed line segment and the maturing cellular markets, we now look towards the broadband segment to structure growth in the telecom industry going forward. Pakistan is ranked fourth in terms of broadband internet growth in the world. At present the total broadband subscribers stand at 414K against 168K in FY08, depicting a growth of 146% in FY09. We expect the growth trajectory to continue with total broadband subscribers aggregating to 1.7mn by FY14E.

**Broadband subscribers and growth**



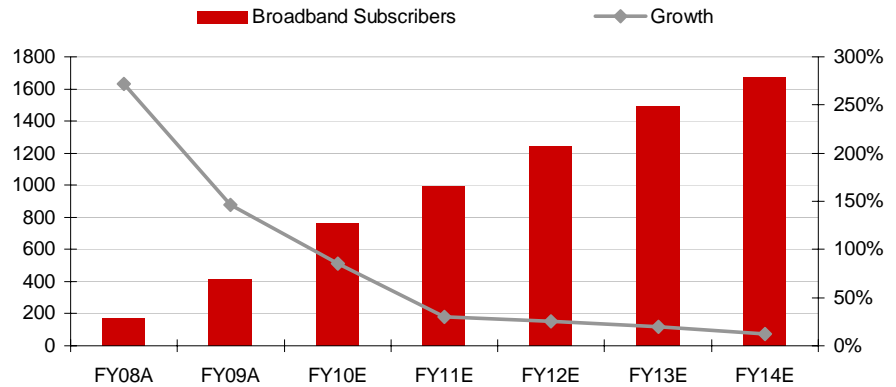
Source: PTA, BMA Research

**Broadband subscribers by technology**



Source: PTA, BMA Research

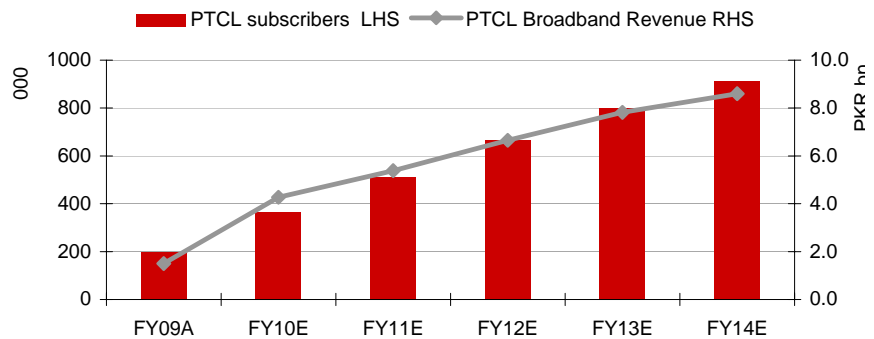
### Industry Broadband Subscribers Forecast FY10E-FY14E



Source: PTA, BMA Research

PTCL is the leader in broadband segment, with a subscriber base of ~200K in FY09. During FY09, broadband contributed 2% to revenues, however, in 1QFY10, we saw a surge in broadband revenues, which clocked in at PKR830mn, up 219% YoY. Since PTCL owns the biggest broadband coverage area and with four Universal Service Fund (USF) projects in hand and many on the way, we expect PTCL broadband subscribers to grow to 913K by FY14E. Broadband revenue contribution to consolidated revenues is projected to go up to 7% by FY14E.

### PTCL Broadband Subscribers & Revenue Projections



Source: PTA, BMA Research

## VALUATIONS: POTENTIAL UPSIDE OF 52%!

PTCL's own revenues account for about 74% of the consolidated revenues whereas 36% of the revenues clock in from the cellular subsidiary-Ufone. We have therefore used separate DCF valuation models to assess the value of PTCL-standalone and Ufone. Using a risk-free rate of 12% and equity risk premium of 6%, our fair value for PTCL stands at PKR29/share, of which Ufone accounts for PKR8.5/share.

The company currently trades at FY10E P/E multiple of 9.2x and offers an upside potential of 52% to our fair value of PKR29/share; which is one of the highest potential upside offered by BMA Universe companies. We recommend a BUY stance on the stock.

## REGIONAL COMPARISON: ATTRACTIVELY POSITIONED

PTCL currently trades at FY10E PER of 9.2x while the regional average FY10E PER is 13.9x. PTCL therefore trades at 34% discount to the region. Additionally, the stock is also trading at 42% discount to the regional EV/EBITDA average of 5.2x.

Company	Country	Market cap USD mn	P/E		EV/EBITDA		EPS CAGR	Revenue CAGR
			FY10E	FY11E	FY10E	FY11E	10-13E	10-13E
Pakistan Telecom	Pakistan	1,151	9.2	8.2	3.0	2.8	10.0%	4.0%
China Telecom	China	39,968	19.3	17.5	4.4	4.1	13.0%	6.0%
Tata Communications	India	2,271	10.0	7.7	7.6	6.4	N/A	N/A
MTNL	India	1,020	11.1	9.1	0.8	0.5	14.3%	5.0%
Singapore Telecom	Singapore	33,974	11.9	11.0	7.2	6.5	6.9%	1.7%
Telekom Malaysia	Malaysia	3,199	22.5	25.4	5.1	5.2	5.6%	70.0%
PT Telkom	Indonesia	19,246	14.3	12.3	5.1	4.5	11.0%	7.8%
PLDT	Philippines	10,375	10.9	10.3	5.6	5.2	6.2%	3.6%
Chunghwa	Taiwan	19,180	14.7	13.7	5.9	6.0	2.6%	0.0%
Telstra	Australia	38,592	10.3	10.1	5.3	4.9	2.9%	1.3%

Source: Morgan Stanley, BMA Research

## UPSIDE TO OUR VALUATIONS: TRANSFER OF THE REAL ESTATE ASSETS

Real estate remains a possible trigger for the stock. Under the Share Purchase Agreement between GoP and Etisilat, a total of 3,384 properties were to be transferred to PTCL of which 168 are still pending. The total estimated fair value of these properties is USD1.5-2.0bn. PTCL management intends to develop the assts presently on its balance sheet as well as those which still await transfer. The transfer of properties and their appropriate utilization will likely bring in additional revenue for the company and strengthen its balance sheet. Whether the company decides to sell off these assets or employ them for revenue generation, it will prove to be a handsome upside to our current valuation of PKR29/share and will boost our revenue and profitability estimates. Since the matter still remains in the air, we have not included it as part of our valuation estimates.

## **POTENTIAL RISK FACTORS**

### **Faster Than Anticipated Fixed Line Attrition**

Faster than anticipated decline in fixed line may negatively hurt our revenue projections and cause the fair value to be distorted.

### **Entry of Competitors**

Competition in the business segments of broadband, cellular, WLL and LDI may cause PTCL's market share to shrink hence distorting our revenues and profitability projections.

### **Ongoing Legal Issues: SHC Stay Order**

A division bench of the Sindh High Court has stayed the transfer of moveable and immoveable assets of the Pakistan Telecommunication Company Limited to Etisalat Telecom, which owns 26 per cent controlling shares of the telecom giant. The matter is yet pending and is unlikely to impact profitability. However, news on this aspect may create a negative sentiment on the stock in the market.

## FINANCIALS

### PTCL-STANDALONE

Income Statemnt PKR mn	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
<b>Gross Revenues</b>	<b>64,309</b>	<b>66,586</b>	<b>69,683</b>	<b>72,003</b>	<b>74,598</b>	<b>76,896</b>
Less Trade discounts	(4,682)	(4,848)	(5,073)	(5,242)	(5,431)	(5,598)
<b>Net Revenue</b>	<b>59,239</b>	<b>61,738</b>	<b>64,610</b>	<b>66,761</b>	<b>69,167</b>	<b>71,298</b>
Less Operating Costs	(32,517)	(29,213)	(29,995)	(30,319)	(31,405)	(32,115)
Less Bad Debt Provision	(3,066)	(2,996)	(3,136)	(3,240)	(3,357)	(3,460)
Other Provisions	(172)	(666)	(697)	(720)	(746)	(769)
<b>EBITDA</b>	<b>23,484</b>	<b>28,862</b>	<b>30,782</b>	<b>32,481</b>	<b>33,659</b>	<b>34,954</b>
VSS Writeoff	(92)	-	-	-	-	-
Depreciation	(12,503)	(15,050)	(15,452)	(15,846)	(16,188)	(15,867)
Amortisation	(226)	(486)	(486)	(486)	(486)	(486)
<b>PBIT</b>	<b>10,662</b>	<b>13,327</b>	<b>14,844</b>	<b>16,149</b>	<b>16,984</b>	<b>18,602</b>
Non operating Income	797	1,984	2,374	2,619	3,235	3,627
Interest Income	3,470	1,889	1,779	1,887	2,631	3,459
Interest Expense	(909)	(958)	(808)	(984)	(1,062)	(1,027)
<b>PBT</b>	<b>14,021</b>	<b>16,241</b>	<b>18,189</b>	<b>19,671</b>	<b>21,789</b>	<b>24,661</b>
Tax	(4,870)	(5,684)	(6,366)	(6,885)	(7,626)	(8,631)
<b>NPAT</b>	<b>9,151</b>	<b>10,557</b>	<b>11,823</b>	<b>12,786</b>	<b>14,163</b>	<b>16,030</b>

Ratios	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
EPS (PKR)	1.79	2.07	2.32	2.51	2.78	3.14
EPS Growth %	N/m	15%	12%	8%	11%	13%
ROE	9%	11%	12%	12%	13%	14%
ROA	6%	8%	8%	9%	10%	10%
PAT margin %	14%	16%	17%	18%	19%	21%
BVPS (PKR)	19.5	19.6	19.9	20.4	21.2	22.3

**PTML-STANDALONE**

Balance Sheet PKR mn	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
<b>Assets</b>						
Non Current Assets	99,828	89,331	83,981	78,114	72,304	67,149
Current Assets	54,220	50,849	57,967	66,255	76,394	87,778
<b>Total Assets</b>	<b>154,048</b>	<b>140,180</b>	<b>141,948</b>	<b>144,368</b>	<b>148,699</b>	<b>154,927</b>
<b>Equity and Liabilities</b>						
Current Liabilities	36,086	22,649	22,720	22,499	22,810	23,163
Non current liabilities	18,572	17,785	17,859	17,913	17,971	18,014
<b>Total liabilities</b>	<b>54,659</b>	<b>40,434</b>	<b>40,579</b>	<b>40,413</b>	<b>40,780</b>	<b>41,177</b>
Share Capital and Reserves	99,390	99,746	101,369	103,955	107,918	113,749
<b>Total Equity &amp; Liabilities</b>	<b>154,048</b>	<b>140,180</b>	<b>141,949</b>	<b>144,368</b>	<b>148,699</b>	<b>154,927</b>

Income Statemnt PKR mn	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
<b>Revenue</b>	33,481	41,055	43,553	45,247	46,782	48,380
Less operating Costs		29,560	31,358	32,578	33,683	34,833
<b>EBITDA</b>		<b>11,495</b>	<b>12,195</b>	<b>12,669</b>	<b>13,099</b>	<b>13,546</b>
Less:						
Depreciation		(7,678)	(7,232)	(6,735)	(6,195)	(5,713)
Amortisation		(62)	(56)	(50)	(45)	(41)
<b>EBIT</b>	<b>5,327</b>	<b>3,756</b>	<b>4,908</b>	<b>5,884</b>	<b>6,860</b>	<b>7,792</b>
Interest Expense		(1,340)	(1,790)	(2,029)	(1,066)	(1,066)
Interest Income		1,407	2,024	2,165	2,270	2,679
<b>EBT</b>		<b>3,823</b>	<b>5,142</b>	<b>6,020</b>	<b>8,063</b>	<b>9,405</b>
Taxes		(1,223)	(1,645)	(1,926)	(2,580)	(3,010)
<b>NPAT</b>	<b>1,771</b>	<b>2,600</b>	<b>3,497</b>	<b>4,094</b>	<b>5,483</b>	<b>6,396</b>

Ratios	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
EPS (PKR)	5.1	7.4	10.0	11.7	15.7	18.3
EPS Growth %	-	47%	34%	17%	34%	17%
ROE %	30%	37%	39%	36%	38%	36%
ROA %	3%	4%	5%	6%	8%	9%
PAT margin %	5%	6%	8%	9%	12%	13%
BVPS (PKR)	16.8	20.2	25.7	32.2	40.8	50.8

Balance Sheet PKR mn	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E
<b>Assets</b>						
Non Current Assets	49,685	44,896	40,609	36,824	33,584	30,830
Current Assets	11,406	23,778	30,592	28,035	34,658	41,313
<b>Total Assets</b>	<b>61,092</b>	<b>68,674</b>	<b>71,201</b>	<b>64,859</b>	<b>68,242</b>	<b>72,143</b>
<b>Equity and Liabilities</b>						
Current Liabilities	26,704	18,399	18,998	19,405	19,773	20,156
Non current liabilities	28,524	43,192	43,192	34,192	34,192	34,191
<b>Total liabilities</b>	<b>55,228</b>	<b>61,592</b>	<b>62,191</b>	<b>53,597</b>	<b>53,965</b>	<b>54,348</b>
Share Capital and Reserves	5,863	7,087	9,010	11,262	14,278	17,795
<b>Total Equity &amp; Liabilities</b>	<b>61,092</b>	<b>68,679</b>	<b>71,201</b>	<b>64,859</b>	<b>68,242</b>	<b>72,143</b>

## **PTCL - ABOUT THE COMPANY**

Pakistan Telecommunication Company Limited (PTCL) is the largest telecommunication company in the country. The company provides telephony services to the nation and holds the status of a backbone for the country's telecommunication infrastructure despite arrival of a dozen other telecommunication companies. The company consists of around 2,000 telephone exchanges across country providing largest fixed line network. In addition to wire line operations, PTCL also provides fixed line service through its countrywide CDMA based WLL (Wireless Local Loop) network, under the Vfone brand name. In the cellular segment, the second largest cellular provider in Pakistan, Ufone, is also a wholly owned subsidiary of PTCL. Internet is another resource of PTCL, all making it a gigantic organization.

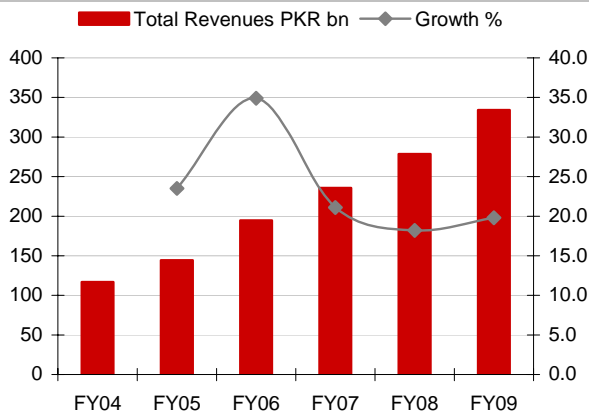
PTCL was privatized in 2005 whereby UAE based group Etisalat acquired 26% stake in the company at a price of USD2.6bn. Government of Pakistan now owns 62% of the company's shares whereas Etisalat owns 26%.

## INDUSTRY DYNAMICS

### TELECOM REVENUES, SUBSCRIPTION & TELEDENSITY GROWING

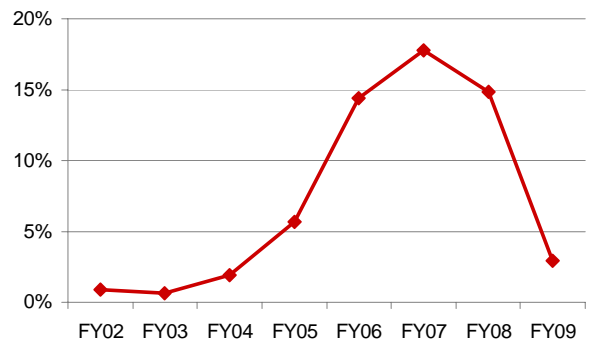
Despite slowdown in economy, telecom sector continued to grow in terms of revenues, subscriptions and teledensity. Revenue growth in the telecom sector remained robust during FY09. The telecom sector generated revenue to the tune of PKR333.9bn against PKR278.5bn in FY08, up 19.8% YoY. The cellular sector continued to be the major contributor to the telecom revenues, with contribution aggregating to 64% of total telecom revenues in FY09.

Telecom Revenue



Source: PTA, BMA Research

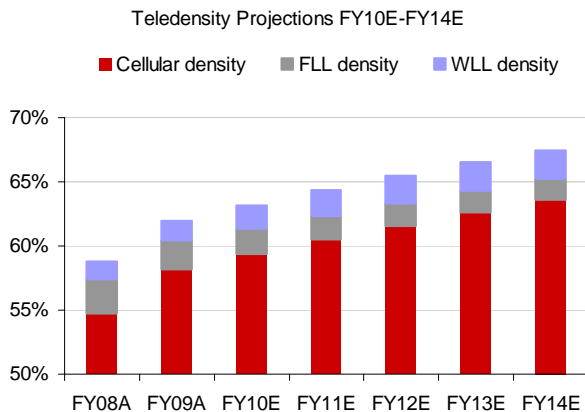
Growth in teledensity



Source: PTA, BMA Research

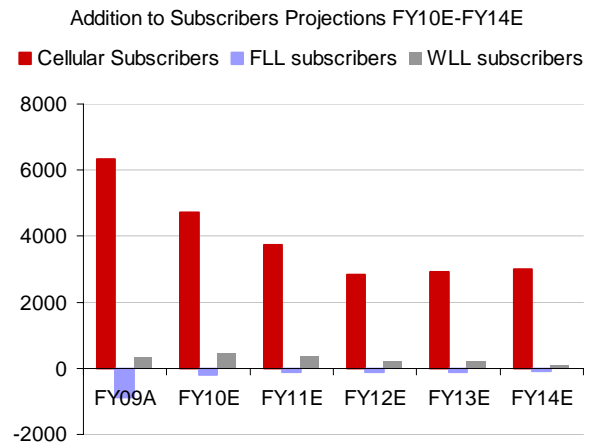
By the end of FY09, total teledensity reached 61.8%. Cellular segment leads the way with teledensity of 58.2% at end of FY09, which soared to 58.6% by 1QFY10. This is followed by FLL with a teledensity of 2.2% in FY09 and WLL with a teledensity of 1.6% in FY09.

Total Teledensity



Source: PTA, BMA Research

Total Subscribers

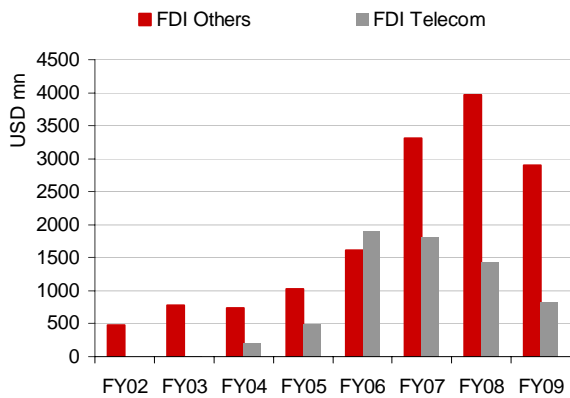


Source: PTA, BMA Research

## FOREIGN DIRECT INVESTMENT: POSITIVE IMPETUS FOR GROWTH

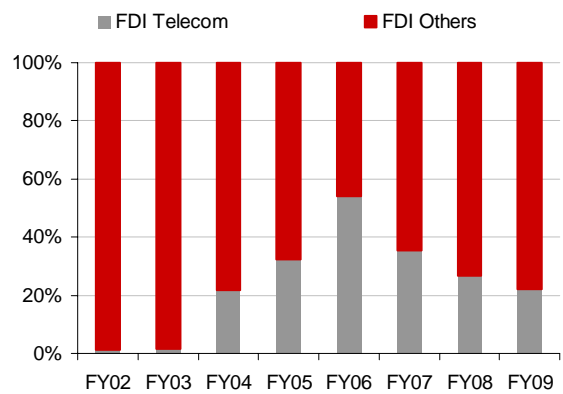
The liberalization of Pakistan's telecommunications industry began in 1997. Government of Pakistan awarded status of industry to the telecom sector in year 2003-04 and announced the Telecom Deregulation Policy. Post deregulation, the telecom sector attracted huge foreign investment inflows. In FY08 and FY09, despite a slowdown in the economy, the telecom sector continued to attract a major share of FDI in Pakistan. In FY08, the telecom sector alone received USD1.44bn in Foreign Direct Investment (FDI) – about 27% of the country's total foreign direct investment. This huge FDI inflow has worked largely in promoting the telecom industry. During FY09, telecom sector total FDI stood at USD815mn, down 43% YoY. The current wave of uncertainty in the global demand and economic activity in the country has had a major backlash on FDI inflows.

Foreign Direct Investment



Source: PTA, BMA Research

Foreign Direct Investment Proportion

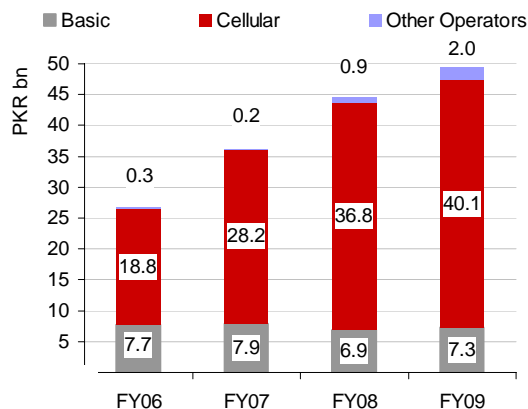


Source: PTA, BMA Research

## TAXES ON TELECOM SECTOR

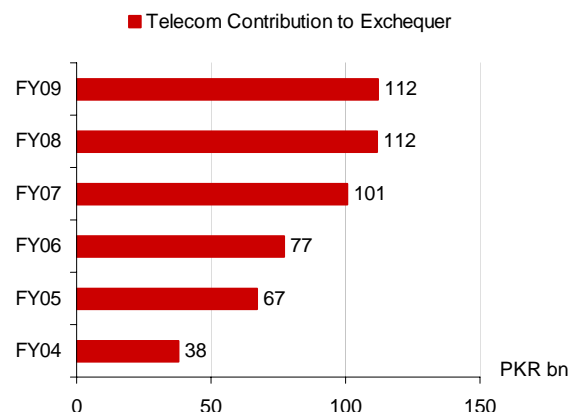
Telecom is an important sector contributing about 3% in the national GDP. During FY08, telecom contributed PKR111.63bn to national exchequer. In FY09, the government of Pakistan raised over 40% FED/GST rate on the telecom sector as compared to only 7% for the other sectors. Owing to this, the FBR revenue from GST has declined in the two quarters subsequent to the imposition. However, the total contribution of telecom to the national exchequer of PKR112bn in FY09 remains almost at par with the prior year.

GST/CED collection from Telecom Sector



Source: PTA, BMA Research

Telecom Contribution to Exchequer



Source: PTA, BMA Research

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## **ANALYST CERTIFICATION**

I, Saniya Rizwan, hereby certify that this report represents my personal opinions and analysis of information. All views are accurately expressed to the best of my knowledge. I certify that no part of my remuneration is linked either directly or indirectly to recommendations or analysis covered in this report.