The Pakistan Credit Rating Agency Limited

PRESS RELEASE

Date
14-Nov-2017

Analysts
Jhangeer Hanif
Jhangeer@pacra.com

Sanna Khan
sanna.khan@pacra.com

+92-42-35869504
www.pacra.com

Applicable Criteria

- Methodology | Corporate Rating Methodology (Jul17)
- Methodology | Sukuk Rating (Jun 17)
- Methodology | Preference Shares Rating Methodology (Jun 17)
- Methodology | Correlation between long-term and short-Term Scale (Jun17)

Related Research

- Sector Study | Communication (Mar 17)

Disclaimer

PACRA MAINTAINS RATINGS OF PAKISTAN MOBILE COMMUNICATIONS LIMITED

Rating Type	Entity		Debt Instrument	
	Current (14-Nov-2017)	Previous (22-Mar-2017)	Current (14-Nov-2017)	Previous (22-Mar-2017)
Action	Maintain	Maintain	Maintain	Maintain
Long Term	AA-	AA-	AA	AA
Short Term	A1	A1		
Outlook	Positive	Positive	Positive	Positive
Rating Watch	NO	NO	NO	NO

Pakistan Mobile Communications Limited (PMCL) – majority owned by Veon (VimpelCom) is the largest cellular operator in Pakistan. After acquiring Warid Telecom (an Abu Dhabi Group company with ~11mln subscribers at end FY16) in July16, PMCL now commands 38% market share (~53mln subscribers at end-Sep17). The said merger while giving significant volumes, brought operational and technical network related synergies that are reflected in significantly better EBITDA and profitability of merged entity. PMCL commissioned marketing, technical, distribution and human resource integration in an efficient manner. A significant progress has been achieved. Post-merger, PMCL has consolidated all its products and services under single brand ‘Jazz’.

PMCL enjoy s strong volumes and profitability; which gives it a strong business profile. Erstwhile Warid had relatively squeezed margins - an opportunity for PMCL. PMCL improved EBITDA margins above 40% in 1HCY17. The merger brought sizeable debt. However, the overall debt profile stays robust (EBITDA total debt payback = less than 3 years). Going forward, PMCL, while eying volume growth, is focusing on achieving better penetration in to existing base. Data services and mobile financial services are its key focus. The company marked a step in asset light operating model; sale of Deodar wholly owned subsidiary with tower business to EdotCo (Malaysian based Company). This while freeing up financial sources, would enable focus towards core and differentiating services. Company also acquired 4G spectrum during the year to facilitate its customers with better quality and coverage. PMCL, using the platform of Mobilink Microfinance Bank, an associate entity, intends to establish a strong digital banking platform. All these should enable PMCL to uphold its position in the competitive landscape. Launch of VEON app; is another step to capitalise data market industry of Pakistan.

The Positive Outlook is maintained which recognize i) strengthening market positioning, ii) likely synergy gains in EBITDA and profitability margins; iii) adequate debt profile; iv) synergizing technological and distributional channels and v) potential of Jazz cash. Meanwhile, diversifying revenue channels while maintaining performance matrix would be improved.

About the Entity

PMCL – brand name ‘Jazz’ commenced its operations in August 1994. Global Telecom Holding – which in turn is majority owned by one of the world’s leading telecom group – VEON (VimpelCom Limited) - owns ~85% shareholding of the company. Rest ~15% lies with Abu Dhabi Group through share swap transaction of PMCL-Warid merger. VEON is among the largest telecom operators in the world in terms of subscribers. It offers a wide range of wireless, fixed and broadband services to approximately 235mln customers in 12 countries.

PMCL’s seven-member Board of Directors (BoD) is mainly composed of representatives from VEON. His Highness Sheikh Nahayan Mabarak Al Nahayan chairs the board. He also chairs the board of the Abu Dhabi Group, Union National Bank, Bank Alfalah and United Bank Limited. Mr. Aamir Ibrahim, the CEO, has over two decades experience in local and international market. He is assisted by a qualified and experienced senior management team.

About the sukuk:

The company has issued a Sukuk of PKR 6,900mln in two parts; PKR 3,000mln on Dec 22, 2014 and PKR 3,900mln on Sep 3, 2015. The profit is payable quarterly at three month KIBOR plus 88bps. The first principal payment is made on Mar 22, 2017. Total outstanding amount of PKR 4,600 will be paid in eight equal quarterly instalments. The Sukuk has been provided a partial credit guarantee of PKR 966mln by GuarantCo, rated AAA by PACRA.