

RATINGS (JUNE 2011)
PAKISTAN MOBILE COMMUNICATIONS LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A+	A+
Short Term	A1	A1
TFCs		
<i>Secured, listed</i>		
PKR 3,261mln	A+	A+
<i>Unsecured, listed</i>		
PKR 6,000mln	A+	A+
OUTLOOK	Positive	-

FINANCIAL DATA

PKR (million)

	1Q11	2010	2009
Total Assets	150,399	150,230	168,301
Total Debt	66,366	68,319	84,086
Equity	27,025	27,805	31,695
Turnover	21,690	86,664	80,481
Net Income	(800)	(3,948)	(3,527)
ROE (%)	-11.85	-13.91	-12.08
EBITDA	7,077	28,578	30,301
EBITDA Adjusted for Management Fees	8,532	34,317	30,301
EBITDA / Gross Interest (x)	3.27	3.30	3.08
FCF / Gross Int.+ CMLTD+Uncovered ST Borrowings (x)	0.77	0.73	1.07
Total Debt / Debt+Equity (%)	71.06	71.07	72.62

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PROFILE

- Pakistan Mobile Communications Limited (PMCL) is the largest cellular telecommunication service provider engaged in installation, operation and maintenance of a countrywide GSM cellular network under the brand name of **Mobilink**, PMCL, an unlisted public limited company, was incorporated in Pakistan in December 1990, and commenced its operations in August 1994.
- PMCL is a wholly owned subsidiary of Orascom Telecom Holding (OTH). OTH, incorporated in Egypt in 1992, is listed on the Cairo and Alexandria Stock Exchanges in Egypt, and the London Stock Exchange.
- Lately OTH, by virtue of amalgamation of its parent – Wind Telecom – has been merged with a Russian telecom group – VimpelCom Limited. VimpelCom, subsequent to this transaction has become the sixth largest telecom operator in the world. The consolidation of results of the merging entity would start in Apr11.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect PMCL's strong business profile emanating from its leading market position, largest operational network, improving gross margins, and rising subscriber base. The company has largely achieved desired network coverage, limiting historically high CAPEX levels to up-gradation activities. This has benefited PMCL's financial profile by directing free cashflows to reduce debt obligations. The company's cashflow needs may go up significantly if it acquires 3G license. The company maintains strong cash flows. However, relatively thin short-term coverages, though adequately managed through its extended working capital cycle, remain a concern. The ratings factor in change in ownership structure subsequent to merger of Orascom Telecom with VimpelCom – an emerging European telecom – internationally rated at BB.
- The ratings are assigned a positive outlook considering the company's ability to sustain its capital structure while meeting upcoming debt maturities majorly from internal generation. This incorporates change in ownership in favor of a strong group which is expected to bring synergetic benefits to PMCL. However, any significant CAPEX requirement, thereby putting pressure on free cash flows of the company besides adding substantial debt may impact the ratings.

ASSESSMENT

- In recent years cellular segment in Pakistan witnessed subdued growth. The industry, gradually reaching its maturity phase, observed further rise in teledensity to ~64% at end-Mar11 (end-Jun10: ~60%). This has led to a strategy shift as the industry players started focusing on cost rationalization measures besides striving to enhance their subscriber base. During the last year, though the volumes – both voice and non-voice – are improving in line with various low-cost offerings by the service providers, average revenues per user (ARPU), with marginal variation, largely sustained at ~US\$2.5/month. Meanwhile, the regulator has been planning to issue 3G licenses. However, the timeline is uncertain.
- PMCL maintained its leadership position with 30.7% market share in terms of subscribers at end-Mar11. During 2010, the company, operating with the largest network in the country (~8,000 cell sites), registered a slight increase in revenues, driven by a rise in subscriber base as ARPUs, in PKR terms, remained at last year's level. However, gross margins improved mainly owing to cost rationalization efforts of the management in general, and a decline in subscriber acquisition charges in particular. Although lower exchange losses and reduced interest charges on YoY basis provided respite, the company's accounting bottom-line remained in red. During 1Q11, the company witnessed modest improvement in top-line. Although margins further improved, the company posted net loss during the quarter.
- The company is currently in the process of rejuvenating its operational infrastructure by gradual replacement of its existing 2G base transmission systems (BTS) with cost-efficient and 3G compliant BTSs. The company is expected to continue with its plan to keep its CAPEX in check. However, the company, in an effort to sustain its market position while providing better services with latest product offerings, is expected to bid for upcoming 3G license auction. Going forward, given the continuing competition among the industry players, ARPUs are expected to remain under pressure, thereby limiting the revenue growth.
- The company has met its debt obligations from internal generation, in turn, reducing its overall debt level (end-Mar11: PKR66.4bln, Dec10: 68.3bln, Dec09: 84.1bln) before adjusting fair value of cross currency swaps. Nevertheless, the company's capital structure largely remained at last year's level mainly owing to sizeable accounting loss incurred by the company during 2010. However, the company has no current major borrowing needs.
- The company's debt payback coverages are under stress due to sizeable upcoming maturities. Sizeable net current liabilities raise concerns. PMCL is ably managing this through extended payment terms with its creditors, an outcome of strong relationship with its vendors. Further cashflow support is garnished due to parent's discretion as to dividend/management fee repatriation (end Mar-11: PKR7,331mln).

TFCs Issues

- PMCL issued its first listed secured TFCs of PKR 3,261mln in May 2006. The issue has a tenor of seven years. The TFCs carry a coupon rate of 6 months KIBOR *plus* 285bps payable semi-annually in arrears. The principal repayment, to be made in 6 equal semi-annual installments, started in November 2010. The issue is secured by way of first pari passu charge on two pools of assets with 25% margin. The first pool comprises present and future receivables and collections, and the second comprises present and future movable fixed assets of the company.
- The company issued its second listed unsecured TFCs of PKR 6,000mln for a tenor of 5 years in October 2008. The mark up is payable semi-annually at six month KIBOR *plus* 165bps. The principal would be paid in a bullet payment (October 2013).