

Pakistan Telecommunication Company Ltd (PTC)

Ringling in returns

20-Dec-2024



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Tahir Abbas

D: +92 21 32462742

UAN: +92 21 111 245 111, Ext: 322

E: tahir.abbas@arifhabibltd.com



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Pakistan Telecommunication Company Ltd

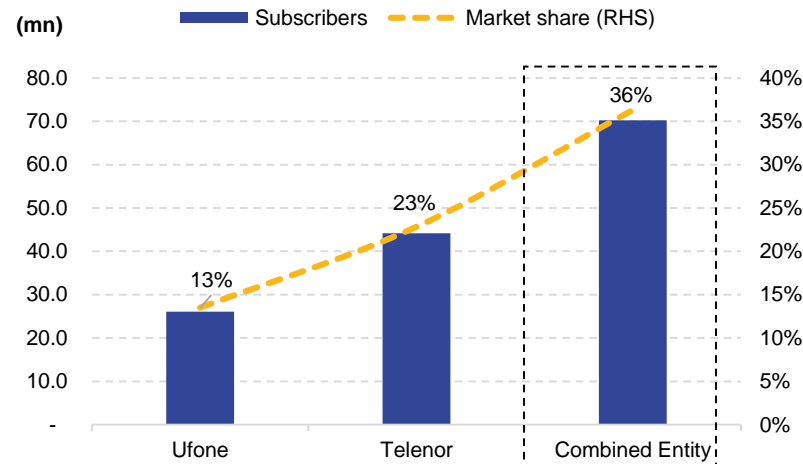
Expanding market reach

- Pakistan Telecommunication Company Ltd (PTC) is one of the alpha stocks covered in our strategy report 2025.
- Our liking for the stock mainly stems from the 1) acquisition of Telenor Pakistan, 2) reduction in finance cost supported by a declining interest rate environment. and 3) potential bargaining purchase gain with the acquisition of Telenor Pakistan.
- To recall, PTC has signed a share purchase agreement with Telenor Pakistan B.V. to acquire a 100% stake in Telenor Pakistan for an enterprise value of PKR 108bn, structured on a cash-free, debt free basis. The acquisition will be financed through external debt of USD 400mn.
- The acquisition will enable PTC to leverage synergies, expand its customer base, and enhance network coverage, positioning itself as a market leader.
- Telenor Pakistan currently serves 44mn subscribers with a 23% market share, while PTC's subsidiary, Ufone, accounts for 26mn subscribers and a 13% market share. Post-acquisition, the combined entity will cater ~70mn subscribers, representing a 36% market share, effectively matching Jazz's dominant 37% market share.
- In addition, PTC will strengthen its infrastructure footprint, with the combined entity controlling 68% of wholesale IP bandwidth and 43% of domestic leased lines post merger. Also, the company would have expanded tower portfolio, increasing from 14,500 towers (PTC + Ufone) to 22,000 towers, including Telenor's 7,500 towers.

Significant profitability contribution expected through acquisition

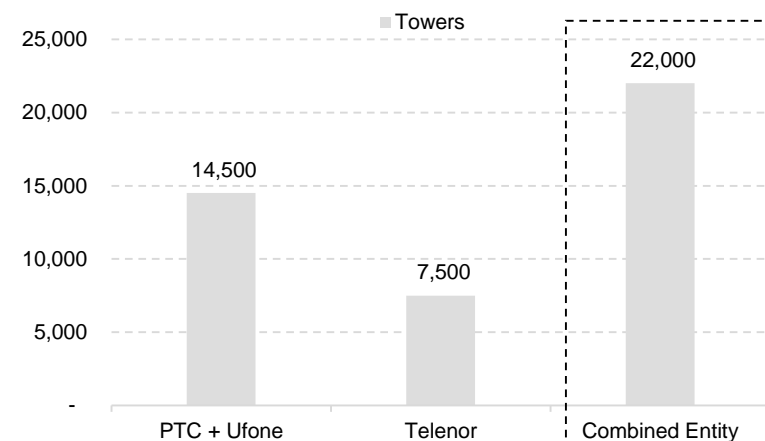
- Telenor's 9MCY24A EBITDA is PKR 33.9bn with expectation for CY24 is ~PKR 45.2bn. Assuming similar profitability in the future, with PKR 10bn annual depreciation and PKR 5.4bn financial charges on USD 400mn loan, annual after tax contribution is expected at PKR 18.1bn (EPS: PKR 3.6/share) for PTC.
- It is important to note that the aforementioned contribution does not account for potential synergies and operational efficiencies, which we believe could be significant and provide additional upside to profitability.

Exhibit: Combined subscriber base and market share post acquisition



Source (s): PTA, AHL Research

Exhibit: Towers of Ufone and Telenor Pakistan



Source (s): AHL Research

Pakistan Telecommunication Company Ltd

Reduced burden, rising rewards

The decline in interest rates will have substantial impact on PTC's profitability

- The company has a long-term debt of PKR 134.7bn and short-term borrowings of PKR 46.6bn based on consolidated Sep'24 financials. The interest expense for 9MCY24 is reported at PKR 38.7bn.
- Interest rates have decreased by 900bps, dropping to 13% from their peak of 22%. Similarly, the 6M KIBOR has fallen to 12.24% from 21.49% in Dec'23, reflecting a decline of 925bps.
- The cumulative decline of 900bps translates into after-tax savings of PKR 16.3bn (PKR 1.95/share impact) on an annualized basis.

Potential bargain purchase gain for PTC

- Under IFRS 3: Business Combinations, a bargain purchase gain arises when the net fair value of the identifiable assets, liabilities, and contingent liabilities acquired exceeds the consideration transferred.
- PTC has acquired Telenor Pakistan at an enterprise value of PKR 108bn on cash free, debt free basis.
- In a related market transaction, Engro Corporation is in the process of acquiring 10,500 towers from Deodar Pvt Ltd, a subsidiary of Pakistan Mobile Communications Limited, for an enterprise value of USD 563mn. This translates to a valuation of approximately USD 53,590/tower.
- By applying this reference valuation, Orion Tower, Telenor's tower infrastructure company that owns ~7,500 towers, could be valued at approximately USD 402mn. This suggests significant upside potential in terms of the underlying total asset valuation within the transaction.
- We believe the company has a strong likelihood of booking a bargain purchase gain upon the completion of this acquisition. Based on our estimates, this gain could fall in the range of PKR 5.6 – 16.5/share. For workings and assumptions, please refer to the table provided on the right.

Exhibit: Impact of decline in interest rate on PTC

as of Sep'24	PKR bn
Total Debt*	181.4
Interest rate decline	900bps
Expected decline in finance cost	16.3
Shares (mn)	5,100
EPS impact (PKR) – after tax	1.95
Source (s): Company Financials, AHL Research, *Consolidated	

Exhibit: Bargain purchase gain on PTC

Deodar Transaction			
Deodar Transaction	USD mn	563	
No. of towers	No.	10,500	
Cost per tower	USD	53,590	
Orion Tower Valuation			
No. of towers	No.	7,500	
Cost per tower	USD	53,590	
Valuation	USD mn	402	
Sensitivity of bargain purchase gain			
	Telenor Valuation	Bargain purchase gain	
	USD mn	PKR bn	PKR/share
Case-1	100	28.3	5.56
Case-2	200	56.1	11.01
Case-3	300	83.9	16.46
Source (s): AHL Research			

Pakistan Telecommunication Company Ltd

Financial Highlights

Exhibit: Key Financial Highlights*

PKR mn	CY20	CY21	CY22	CY23	9MCY24
Income Statement					
Net Sales	129,422	137,625	151,577	190,610	160,606
Gross Profit	33,110	34,530	31,443	38,637	37,674
Operating Profit/(Loss)	5,639	5,083	(2,455)	488	1,582
Finance Cost	9,335	12,543	29,728	51,721	38,664
PAT/(LAT)	3,273	2,575	(10,488)	(14,147)	(15,324)
Balance Sheet					
Shareholder's Equity	86,993	88,105	73,938	58,180	42,956
Total Liabilities	304,374	392,738	566,684	585,418	601,463
Current Assets	149,414	177,557	306,665	259,736	243,910
Non-Current Assets	241,954	303,286	333,956	383,862	400,509
Total Assets	391,368	480,843	640,621	643,598	644,419
Source (s): Company Financial, AHL Research, *Consolidated					

Exhibit: Key Ratios

		CY20	CY21	CY22	CY23	9MCY24
Earnings per share	PKR	0.64	0.50	(2.06)	(2.77)	(3.00)
Book value per share	PKR	17.06	17.28	14.50	11.41	8.42
Price to Earning*	x	14.18	17.23	nm	nm	nm
Price to Book*	x	0.53	0.50	0.42	1.07	1.34
Source (s): Company Financials, AHL Research, *calculated at period end price						

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Dec 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than 0% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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