

Telecom: Settlement rates come under scrutiny

Approved Settlement Rates (ASR) on international telephone traffic along with its distribution mechanism is expected to come under scrutiny in the upcoming Telecom Policy, likely to be announced in the next couple of months. Various stakeholders, primarily led by cellular operators, have voiced criticism over their current revenue share from the ASR; and the matter is expected to be of top priority when the policy is finalised by the regulator.

Under the current regime, ASR stands at 10.5 cents/min; share of Long Distance International (LDI) 5cents/min and Access Promotion Contribution (APC) of 5.5cents/min. The LDI share is kept by the LDI licensee as a charge for carrying the call; while APC is used for infrastructure development. The APC charge for calls terminated on the LL operator's network is passed on to the LL operator, while APC on calls terminated on cellular operators is passed on to the Universal Service Fund (USF).

Recent revision in ASR and APC (US\$ cents)

	ASR	APC	LDI
May-08	10.0	5.0	5.0
Feb-09	12.5	7.5	5.0
Jul-09	10.5	5.5	5.0

Source:PTA

Key proposed changes to the regime are:

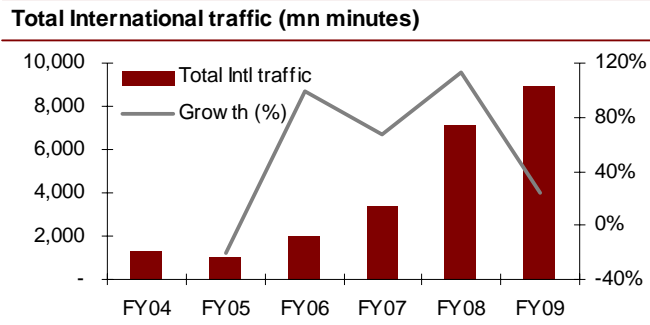
- A fair share in APC, which will be called APC-M, may be allocated to cellular service operators. This will be then utilized to help curb grey traffic, and also facilitate in monitoring the quality of service and implementation of the International Mobile Equipment Identity (IMEI).
- Local Loop (LL) operators shall provide 200k broadband connections each year using APC collections as per the guidelines of the regulator. Employing APC receipts exclusively therefore encourages infrastructure related investments. The broadband target will be divided between operators as a percentage of traffic terminated on their respective networks.
- PTA would establish an international traffic clearing house for all the incoming calls and use the 'one country, one rate' on international traffic, as well as help assimilation of traffic data.
- Establishment of a fund for revitalisation of local IT equipment may be created with the differential amount coming from APC- USF and APC- M.

Changes expected to be positive for the sector

We expect these changes, along with other developments in the telecom policy to bode well for the sector. A fairer distribution system, especially with contributions to mobile operators, will be a positive inflow for loss suffering operators. Moreover, further steps on controlling grey traffic will help increase

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overall volume of international traffic, and in turn raise the revenues generated. These steps will also be positive for PTCL, which has the largest share in both LL and LDI termination in Pakistan. Currently 14% of the company's revenue is generated from international incoming traffic. We maintain our 'Buy' call on the scrip, trading at a 2011F EV/EBITDA and PE of 3.1x and 9.8x.



Source: PTA

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