

October 01, 2009

Pakistan Market**PTCL: Result review, all is not gloomy****MORNING BRIEFING**

KSE100 Index: Closing 9349.68 ↓ (-125.80)

PTCL announced its full year FY09 results recently, reporting earnings of Rs9.15bn (EPS Rs1.79) slightly below our estimates. In the corresponding period last year the company reported a loss of Rs2.8bn (loss per share of Rs0.55) on account of a one off voluntary separation charge of Rs23.9bn. Thus, on a recurring basis the company's full year earning declined by 28%.

In fourth quarter alone the company reported earnings of Rs1.93bn (EPS Rs0.38) as against a profit of Rs3.8bn (EPS of Rs0.73) in 4Q08, a sharp fall of 49%YoY. Depleting fixed line revenues was the main reason for the earnings decline. As expected, the company did not declare any payouts with the results.

Lower revenues stalled earnings in FY09

PTCL reported revenues of Rs59.2bn, down 11%YoY. Lower fixed lines subscribers in the outgoing year were the key reason behind the fall in revenues. Fixed local loop subscribers which stood at 4.3mn in Jun 08, declined to 3.4mn by March 09. We estimate the base to have dropped to ~3.2mn in June 2009. All is not gloom though, as handsome growth in the Wireless Local Loop, broadband, and services portfolio helped to temper to an extent the impact of the fixed line weakness.

Interestingly, the company has made a change in the presentation of its revenue, with a retrospective adjustment reflected in its prior year figures. This mainly relates to reporting of interconnect charges on a gross basis (previously PTCL reported net interconnect charges). There is however no impact on the overall profitability for prior year. Amid pressure from depleting revenues, PTCL's gross profit fell 26% to Rs21.5bn; while operating profits came in at Rs10.7bn, down 34%YoY.

SHC petition unlikely to impact PTCL

In a further update, Sindh High Court (SHC) on Wednesday issued a stay order against the privatisation of the company

on a constitutional petition filed by the labour union of the company. The plaintiff has also accused the management of trying to sell assets to pay outstanding dues. However, we do not believe this to be a serious concern as the management does not plan to sell the property once the remaining title's are transferred on the company's name. That said, in accordance with the Share Purchase Agreement these properties could be used for redevelopment which would boost non operating cashflows. A final decision on the matter will be taken by the court on October 27th.

Recommendation: 'Buy' maintained

The management has been aggressively trying to tackle the problems faced on the fixed line front as reflected by the recent launch of the 'Double up bundle' package. We believe, bundling fixed line with the booming broadband segment to prove attractive with the customers. Trading at an FY10 P/E of 9.9x and EV/EBITDA of 2.6x, we maintain our 'Buy' rating on the scrip.

Table: Financial Highlights

(Rs mn)	FY09	FY08	%Δ
Revenue	59,239	66,336	-11%
Cost of services	37,732	37,347	1%
Gross Profit	21,507	28,989	-26%
Admin. Selling & Mkt expenses	10,752	12,624	-15%
Operating Profit	10,754	16,366	-34%
Voluntary separation scheme	92	23,938	-100%
Other Operating Income	4,267	3,958	8%
Finance Cost	909	848	7%
Profit/(Loss) before Tax	14,021	(4,463)	NM
Taxation	4,870	(1,638)	NM
Profit/(Loss) after Tax	9,151	(2,825)	NM
Earnings/(Loss) per share	1.79	(0.55)	NM

Source: Company announcement

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Pakistan Telecom	
Market Price: Rs19.99	Kats Code: PTC
Market Cap: Rs75.4bn (US\$907mn)	Bloomberg Code: PTC PA
1-yr Avg. Daily Volume: 6.0mn shares, Rs106mn (US\$1.3mn)	Reuters Code: PTCA.KA
1-year High/Low: Rs31.50/12.00	

Also in focus**Re-composition of KSE 100 Index**

In a notice issued at the Karachi Stock Exchange (KSE) yesterday, re-composition of its benchmark KSE-100 Index was announced effective from October 01, 2009. Nine companies which will be included in the KSE-100 Index are First Habib Modaraba, Sigma Leasing Corporation Limited, Habib Sugar Mills Limited, Agriauto Industries Limited, East West Insurance Limited, Millat Tractors Limited, Gharibwal Cement Limited, Media Times Limited and Attock Cement Pakistan Limited. The companies to be removed from the Index will be Allied Rental Modaraba, Askari Leasing Limited, Colony Sugar Mills Limited, Baluchistan Wheels Limited, Hinopak Motors Limited, First Capital Securities Corporation Limited, Samba Bank Limited, Arif Habib Bank Limited and Altern Energy Limited. The recomposed Index will now capture 91.6% of the total market capitalization based on Aug 31, 2009 as compared to 90.7% of the current Index.

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