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Pakistan Market

PTCL: Company Update / 'Buy' maintained

MORNING BRIEFING



KSE100 Index: Closing 8938.99 ↑ (+66.59)

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PTCL recently released its 1QFY10 results, reporting earnings of Rs2.57bn (EPS Rs0.50) compared to profits of Rs3.18bn (EPS Rs0.62) in the corresponding period last year, down 19%YoY. The result came in line with our expectation, and we continue to like the scrip, which currently trades at an FY10E PE and EV/EBITDA of 8.8x and 2.54x.

at Rs1.7bn, 24% lower YoY. Tighter control and lower provision for doubtful debts helped reduce the expenses in the period. Moreover, the financing costs of the company came in at Rs130mn, down 68%YoY, which is down due to lower exchange losses compared to the corresponding period last year. That said, a 15% hike in marketing expenses was witnessed on account of aggressive marketing strategy, relating to the 'double up' bundle package.

13% YoY revenue decline hurts profitability

Revenue of the company stood at Rs14.5bn, 13% lower on a YoY basis. This was on the back of declining fixed line revenues, on account of depleting fixed subscriber base. Intense price competition in the industry coupled with the substitution effect continues to hurt the top line. International revenue also displayed YoY decline as a lower Access Promotion Contribution (APC) rate in the current period failed to spur growth in volume. APC in the period under review stood at 5.5cents, compared to 7.5cents in the last quarter of the fiscal year. However, we maintain our view that a lower APC/ASR rate being beneficial for the sector in the long term as grey traffic would reduce giving way for normal traffic to grow. Gross margins as a result were lower by 7%YoY and 1% from FY09 at 35%.

Broadband revenue grows triple fold

In contrast to declining fixed line revenues, triple digit growth was witnessed in the broadband segment. The 1QFY10 broadband revenue stood at Rs830mn or 5.7% of the total revenue, up 219%YoY. We continue to remain bullish on this segment, and with progress on USF projects underway, revenue will continue to increase, in our view. Further, the 100% cellular subsidiary reported earnings of Rs506mn, up ~225%YoY. This is after the company posted earnings of Rs1.7bn in FY09. With strong earnings in the current quarter, and persisting strong performance – a good dividend payout remains on the cards.

Tighter control on expenses, 24% down YoY

Administrative expenses in the current period were reported

Outlook: 'Buy' maintained

Going forward we expect the company to show QoQ improvement in 2QFY10 on account of the seasonal effect and continued marketing efforts. Bundling fixed line with broadband and IPTV will help boost sales going forward. Further, the management has turned its focus on the corporate sector, which would serve to stabilize the revenue stream. Our full year unconsolidated earnings estimate for the company remains at Rs2.05 per share. Trading at an FY10E PE and EV/EBITDA of 8.8x and 2.4x, we reiterate our liking for the scrip. Further, the scrip offers an attractive dividend yield of 9.7%.

Table: Financial Highlights

(Rs mn)	1QFY10	1QFY09	Δ%
Revenue	14,472	16,611	-13%
Operating Cost	(9,380)	(9,453)	-1%
Gross Profit	5,092	7,157	-29%
Gross Margin	35%	43%	
Administrative and general Expenses	(1,679)	(2,219)	-24%
Selling and Marketing expenses	(440)	(384)	15%
Operating profit	2,973	4,555	-35%
Operating Margin	21%	27%	
Other operating income	1,109	739	50%
Financial Cost	(130)	(403)	-68%
Profit/(Loss) Before Taxation	3,952	4,890	-19%
Taxation	(1,383)	(1,711)	-19%
Profit/(Loss) After Taxation	2,569	3,178	-19%
Basic Earning per share	0.50	0.62	-19%

Source: Company accounts

Also in focus**Four cement companies suspend operations**

As per news reports, around four cement companies have suspended operations due to unsustainable cement prices in the country. Cement dispatches, historically, have witnessed a decline in the winter season due to slow down in construction activity in the north and Afghanistan. Hence, we are of the view that these companies are located in the north. Our view was reiterated after discussions with industry experts, who believe, Dandot and Flying cement are the two companies which have stalled their production while Kohat and Gharibwal cement are also operating below their usual capacities. We are currently 'Market-weight' on the cement sector.

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