

July 06, 2010

**Pakistan Market****PTCL: USF broadband projects on track****MORNING BRIEFING**

KSE100 Index: Closing 9637.97 ↓ (-59.68)

Progress on government sponsored USF broadband projects appears to be broadly on track, with work on four of these projects currently underway. PTCL has come out as a major beneficiary of this scheme as it has managed to jointly win all of the six contracts awarded so far. However, results of two additional contracts which are expected to be announced in the next few months could see PTCL bow out of the bidding process on account of the subsidy ceiling being reached. Of the present four work-in-progress contracts, PTCL is expected to gain a total of ~167k subscribers post project completion. Further, we estimate PTCL's broadband subscribers to grow at a 3 year (FY11-13) CAGR of 47%. We reiterate our 'Buy' call on the stock.

**Development on track, ~43k subs added so far**

According to our discussion with the management, development on the USF broadband projects is broadly in line with the specified time frame. PTCL has so far gained ~43k subscribers as last reported by USF, and are anticipated to jump to a total of ~159k subscribers, at least by the end of 2010. Of the projects currently near completion, the Faisalabad telecom region is expected to add 73k subscribers to the fore-mentioned cumulative. The management is also in the final stages of launching a major campaign to promote broadband use in this area, which in our opinion would help in meeting the defined quarterly target.

Work on the two recently awarded projects, namely Gujranwala Telecom Region & Central Telecom Region, has also begun, with combined expected additions to be close to 89k post their completion. Moreover, bidding on two other projects is currently in progress, however, it remains to be seen whether PTCL will win a share in any of these contracts as it has already crossed the said subsidy ceiling (50% of total USF Subsidy for services - broadband, fibre optic etc) under the USF policy. Notably, subsidy contracted to PTCL for the broadband projects has crossed the Rs4bn mark.

**USF broadband projects - Snapshot**

	Date of Award	No. of Operators	Target Subs	Subs acquired
<b>Pilot Region</b>				
Faislabad Telecom Region	Apr-09	2	72,500	15,453
<b>Phase 1</b>				
Hazara Telecom region	Nov-09	3	7,500	4,687
Souther Telecom Region - 1	Jun-09	2	23,500	6,188
Multan Telecom Region	Jun-09	3	63,000	16,812
<b>Phase 2</b>				
Southern Telecom Region - V	Jul-10	-	-	-
Central Telecom Region	Apr-10	2	48,000	-
Gujranwala Telecom Region	Mar-10	3	41,000	-
<b>Phase 3</b>				
Norther Telecom Region 1-A	Aug-10	-	-	-

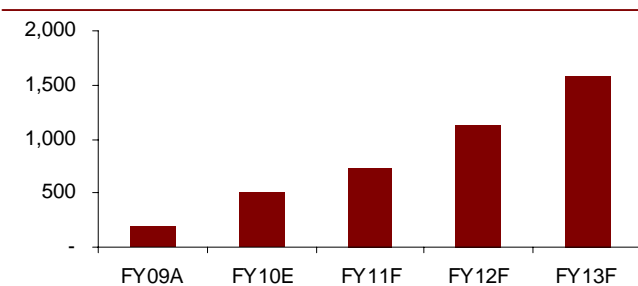
Source: USF

\*STR V &amp; NTR 1-A are yet to be awarded

\*Subs include only PTCL share

**Total broadband subs to reach 1.6mn by FY13**

We currently estimate PTCL's broadband subscribers to grow at a 3 year (FY11-13) CAGR of 47%, and enhance its share in total revenue from the current 6% to 13% by FY13. Total subscribers of PTCL currently stand near 500k, 450k under its flagship DSL product and 50k under its EVDO platform, giving PTCL a significant market share of ~61%.

**PTCL: Broadband subscribers (000's)**

Source: PTC, JS Research

We expect this aggressive growth on the back of the present population make up (32% between the age of 10-25), changing lifestyles and demand creation by operators. Moreover, ARPUs too are expected to hold firm, at least in the short term, making it a more attractive proposition than the intensely competitive cellular market.

**Outlook: 'Buy' maintained**

We reiterate our long term liking for the stock based on the aggressive management strategy in growth areas coupled with a cautious but effective approach in mature business areas. One of the company's key tactics has been the bundling of broadband with fixed line. We estimate earnings to grow by 11% in FY10 and then 7% and 13% in FY11 and FY12, respectively. Trading at an FY11F EV/EBITDA and PE of 3.1x and 8.3x respectively, we maintain our 'Buy' call on the stock.

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**Also in focus****12 Banks to get further extension to meet MCR**

After allowing 3-6month extensions to enable various mid and small tier banks to meet the Rs6bn MCR requirement earlier in the year, according to news reports SBP has granted further extension of 3-6months to 12 commercial banks for the same. Out of the 13 banks allowed extension earlier, only SILK via a rights issue has currently managed to meet the regulatory requirement, while the others are still in process. To recall, MCR requirement will rise to Rs7bn by year end 2010, and continue to rise by Rs1bn each year to reach Rs10bn by 2013.

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