

September 17, 2009

Pakistan Market**PTCL: Double Play to revitalize fixed line revenues**

KSE100 Index: Closing 9137.06 ↑ (+107.61)

MORNING BRIEFING

Pakistan Telecommunication Company Limited (PTCL) has enhanced its focus on advertising in a bid to revive its bread and butter fixed line business whose revenues have been dwindling over the last few years. After trying its hand at the free fixed line installation campaign recently, the company has now shifted focus towards 'Double Play Fixed Line & Broadband package'.

The scheme aims to revitalize fixed line using support from the fast growing broadband segment. We believe a successful launch of the new "Double Play Package" could help revive fixed line revenues and boost earnings going forward. Trading at FY10F PE of 10x and offering a dividend yield of 8.7%, we reiterate our 'Buy' call for the scrip at current levels.

New packages to boost topline

PTCL has recently started an aggressive nationwide advertisement campaign of its entire product portfolio to revive and increase its subscriber base, which we can expect to culminate into improving revenue figures from 2QFY10. The package aims to offer unlimited on-net local & nationwide calls along with broadband services for a fixed monthly charge (see table). This could bode well for the company as bundling the growing broadband service with fixed line is likely to prove attractive with the customers.

Fixed line connections which stood at ~5.2mn in 2005, have now fallen to ~3.38mn as of March 31, 2009. Although major reason for the depletion is consumer preference towards Wireless local loop and cellular services, we believe a successful campaign could help decelerate the depletion in fixed line connections. That said, backhaul issues and quality of service continue to remain major bottlenecks.

Moreover, the company continues to remain aggressive on the broadband front, with current broadband subscribers estimated at 280k as against only 56k in June 2008. We understand that PTA is in the process of starting to publish

monthly broadband statistics, hence, a clearer picture of market share and competition would emerge.

Table: Details of 'Double Play Package'

Package	Fixed Monthly Charge (Rs.)	Line Rent
Unlimited On-net Voice & 1Mbps broadband	1,999	Included in
Unlimited On-net Voice & 2Mbps broadband	2,999	fixed monthly
Unlimited On-net Voice & 4Mbps broadband	5,999	charge

*Source: PTCL***Outlook: EPS of Rs1.9 expected in FY09**

Further, PTCL is likely to announce its full year FY09 results in the next few weeks. We expect the company to post profits of Rs9.6bn (EPS Rs1.9) as against a loss of Rs2.82bn (loss per share Rs0.55) in the same period last year. Although revenues are expect to stay flat with operating margins shrinking to 21% (27% FY08), absence of one off Voluntary Separation Scheme cost of Rs23.2bn would turn earnings into the green in FY09. Trading at FY10E PE and EV/EBITDA of 10x and 2.5x, respectively, we reiterate our liking for the stock which currently offers 19% upside to our fair value of Rs24.

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Pakistan Telecom	
Market Price: Rs20.20	Kats Code: PTC
Market Cap: Rs76.2bn (US\$921mn)	Bloomberg Code: PTC PA
1-yrs Avg. Daily Volume: 5.6mn shares, Rs97mn (US\$1.2mn)	Reuters Code: PTCA.KA
1-year High/Low: Rs31.50/12.00	

Also in focus**Circular debt settlement & energy companies**

According to news reports, a formal agreement has been reached between banks and the government to issue Rs85bn worth of TFCs to eliminate the circular debt issue. Rs82bn would be financed by banks in form of debt swaps worth Rs44bn and Rs38bn of fresh cash injection while the remaining Rs3bn would be financed by the State Bank of Pakistan. The paper is likely to be issued at a rate of KIBOR + 2 % with five years maturity and can also be traded at KSE. This will improve liquidity of the energy companies and reduce their financial cost. We like PSO, POL, PPL, HUBCO, and NRL amongst energy stocks.

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