

August 21, 2009

**Pakistan Market****Pakistan Telecom: Rebalancing its strategy****MORNING BRIEFING**

KSE100 Index: Closing 7973.45 ↑ (+20.75)

We reiterate our liking for Pakistan Telecommunications Company Limited (PTC) with a fair value of Rs24. The scrip is currently trading at a price of Rs18.97 and offers a potential upside of 27% to our fair value. Flourishing broadband segment and value added service portfolio of the company are expected to increase their shares in revenue and swathe the depleting income from the fixed line segment.

Due to the lack of major earning's growth triggers, the scrip has largely underperformed at the KSE with YTD adjusted return of 21% as against the KSE 100 index return of 36%. However, at current levels we believe market seems to largely ignore the value of its cellular subsidiary, Ufone. Despite increasing competition and slowdown in subscriber's growth, Ufone remains one of the most well managed and profitable cellular operators in the country.

**Valuation: A handsome upside of 27%**

Our sum of the part based fair value of Rs24 is based on separate valuation for fixed line & mobile phone businesses of PTCL (Ufone). Using the discounted cash flow methodology with a risk free rate of 11% and required return of 17%, we arrive at standalone value of Rs18 per share for PTCL. The intrinsic value of Ufone is estimated at Rs6 per share. Hence, at the current price, the market seems to largely ignore the value of its cellular arm, we believe. The scrip is currently trading at an attractive FY10F EV/EBITDA multiple of 2.2x, while it trades at an FY10 PE of 9.4x. Moreover, PTCL offers a decent dividend yield of 9.2%. Compared to regional peers, PTCL is trading at an attractive discount of 64% on EV/EBITDA and 39% on PE to the region.

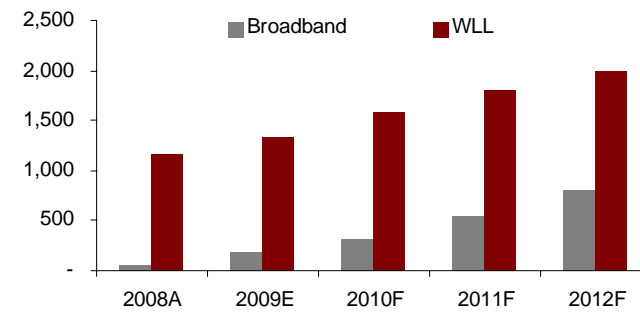
**Broadband – The way forward**

With depleting fixed line revenues and a maturing cellular market, we expect the broadband segment to provide much needed growth to the industry going forward. Amid low penetration levels and a countrywide subscriber base of ~300k, the broadband market holds great potential. PTCL has

moved swiftly to tap this opportunity, and has increased its subscriber base from 56k in Jun 08 to 156k in Mar 09. Moreover, the company has actively participated in four USF broadband projects, three of which are projected to add an additional ~159k subscribers by Dec 2010.

**WLL – Growth trajectory to continue**

WLL has emerged as a catalyst for growth in the local loop segment of Pakistan's telecommunication industry, as fixed line customer base has continued to shrink amid issues of line/service quality. While fixed local loop business shrunk by 16% in 1HFY09, Wireless Local Loop (WLL) has continued its growth momentum as subscribers grew by 15.7% (or 355k) in FY09.

**Graph: Broadband & WLL subscribers ('000)**

Source: PTA, JS Research

**Risks to our thesis**

- Faster and further than expected decline in fixed line subscribers.
- Increasing competition in broadband market
- Regulatory Changes

For further details please see our short report titled "Pakistan Telecom: Rebalancing its strategy" released earlier.

mustufa.bilwani@js.com

92 (21) 111-574-111 (ext. 3100)

**Also in focus****Textile exports decline by 12%YoY in July FY10**

According to latest data released by Federal Bureau of Statistics (FBS), Pakistan's textile exports were recorded at US\$800mn for the month of July compared to US\$908mn last year, down 12%. However, due to Rupee devaluation, Pakistan's exports in Rupee terms rose by 2% to stand at Rs66bn.

**FABL: EPS of Rs0.77 in 1H2009 down 37%YoY**

Faysal Bank Limited (FABL) announced its 1H2009 results today, posting earnings of Rs467mn (EPS Rs0.77) versus earnings of Rs746mn (EPS Rs1.23) a decline of 37%YoY. The decline in earnings was mainly led by a 37% increase in provision for non-performing loans to Rs683mn together with an increase in admin expenses, which rose by 38%YoY to stand at Rs2bn. However, this to some extent was offset by non-interest income which rose to Rs1.1bn in 1H2009 compared to Rs638mn last year. Moreover, the bank also recognized Rs66mn on account of diminution in value of investments during the year as against Rs5mn in the corresponding period last year.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800163

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21) 32799005

Fax: +92 (21) 22800163

azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS