

January 29, 2010

**Pakistan Market****PTC: 1HFY10 EPS expected at Rs1.03****MORNING BRIEFING**

KSE100 Index: Closing 9579.81 ↓ (-23.74)

Pakistan Telecom's board of directors is set to meet on Feb 3rd, 2010 to announce the results for 1HFY10. We expect the company to post unconsolidated earnings of Rs5.3bn (EPS Rs1.03) as against earnings of Rs5.3bn (EPS Rs1.04) in the corresponding period last year, a mere decline of 1%YoY. We anticipate the rise in traffic in the holiday season will push revenues up 4% on a QoQ basis. This is likely to trickle down to the bottom line with earnings to rise 4%QoQ to Rs2.7bn (EPS Rs0.53) in the second quarter. We do not expect any payout with the current results.

**Seasonal traffic to up QoQ revenues**

We expect revenues to rise by 4%QoQ to Rs15bn in the second quarter, and cumulatively to Rs29.5bn in the 1HFY10. QoQ increase in revenues can be tied to the seasonal jump in traffic during the Hajj season and the Eid holidays when both local and international traffic tend to be markedly higher. Moreover, a sharp increase in Broadband subscribers to ~350k (200k in Jun 09) would contribute towards higher QoQ revenues. That said, on a YoY basis, revenues are still expected to be 5% lower at Rs29.5bn on account of lower fixed line subscribers amid increased preference for wireless services.

**Other income to rise 12% in 1HFY10**

We expect Other Income to rise by 12% to Rs2.1bn in 1HFY10, driven by a combination of higher cash balances and loans worth Rs3bn lent to its cellular subsidiary Ufone.

Further, reduced exchange rate volatility and absence of short term borrowings will help finance cost to decline by 61%YoY to Rs250mn.

**Ufone's performance to remain intact**

After a strong performance in FY09 (PAT Rs1.7bn) and then again in 1QFY10 (PAT Rs570mn), we expect similar performance in the 2QFY10. However, we do not anticipate any dividend income from Ufone in the current quarter.

**Outlook: 'Buy' reiterated**

Going forward, we expect the cut in mobile interconnect charges to help reduce costs, in turn improving gross margins. Revenues from the broadband and the value added segments will continue to make up for the dwindling revenues from the fixed line. We reiterate our 'Buy' stance on the scrip, which currently trades at a FY10E PE and EV/EBITDA of 9.2x and 2.3x, respectively.

**Table: PTC 1HFY10 earnings estimates**

(Rs mn)	1HFY10E	1HFY09A	Δ%
Revenue	29,451	31,128	-5%
Operating Cost	(23,227)	(23,910)	-3%
Operating Profit	6,224	7,218	-14%
Operating Margin	21%	23%	-9%
Other operating income	2,107	1,881	12%
Financial Cost	(250)	(841)	-70%
Profit/(Loss) Before Taxation	8,082	8,257	-2%
Taxation	(2,829)	(2,943)	-4%
Profit/(Loss) After Taxation	5,253	5,315	-1%
Earnings per share	1.03	1.04	-1%

Source: JS Research &amp; Company accounts

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**Also in focus****Forex Reserve decline by US\$14mn to US\$15.1bn**

The foreign exchange reserves have declined by US\$14mn to US\$15.10bn in the week ending on Jan 23rd, 2010 from US\$15.24bn during the previous week. Reserves held by the State Bank of Pakistan fell to US\$11.33bn from (US\$11.44bn) and reserves held by the commercial banks also declined by US\$3mn to US\$3.77bn. The current reserves' portion does not take into account the \$600mn Sukuk payment and will be reflected in the next week's Forex reserve numbers.

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