



**RATINGS (JUNE 2010)**

**PAKISTAN MOBILE COMMUNICATIONS LIMITED**

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	A+	AA-
Short Term	A1	A1
<b>TFCs</b>		
<i>Secured, listed</i>		
PKR 3,261mln	A+	AA-
<i>Unsecured, listed</i>		
PKR 6,000mln	A+	AA-

**FINANCIAL DATA**

PKR (million)

	31-Mar-10	31-Dec-09	31-Dec-08
Total Assets	160,684	168,301	192,755
Equity	30,450	31,695	29,924
Turnover	21,199	80,481	81,154
Net Income	(1,255)	(3,527)	(5,885)
ROE (%)	-16.16	-12.08	-23.85
EBITDA	5,433	23,605	15,826
EBITDA / Net Interest (x)	2.65	2.60	2.37
Net Debt / EBITDA (x)	3.00	3.02	4.48
Net Debt / Equity (%)	214.1	224.7	236.9

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**PROFILE**

- Pakistan Mobile Communications Limited (PMCL) is the largest cellular telecommunication service provider engaged in installation, operation and maintenance of a countrywide GSM cellular network under the brand name of Mobilink. PMCL, an unlisted public limited company, was incorporated in Pakistan in December 1990, and commenced its operations in August 1994.
- PMCL is a wholly owned subsidiary of Orascom Telecom Holding (OTH). OTH, incorporated in Egypt in 1992, is listed on the Cairo and Alexandria Stock Exchanges in Egypt, and the London Stock Exchange. OTH has a consolidated asset base of more than US\$ 10bln, with a subscriber base of 93mln at end-Dec09. It achieved revenues of US\$ 5.1bln during 2009 PMCL's revenue (US\$ 1.1bln) accounted for 22% of OTH's total revenue in this period.
- The sponsor of OTH has recently announced a possible sell off of few of its subsidiaries to Africa's largest mobile phone operator, MTN group. However, the deal is yet to be finalized.

**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect PMCL's leading market position in a competitive telecom industry, a result of its extensive network, expanding product range, and increasing subscriber base. The company's financial risk is high owing to relatively high leveraging and constrained coverages. Significant upcoming debt maturities highlight the intensity. Although the company is expected to generate enough cash flows to meet its financial obligations, there could be a pressure on meeting its capital expenditure plans in the absence of financial support from the parent – Orascom Telecom. Nevertheless, given the strategic importance of the company in the group, PACRA considers support from the parent is forthcoming, in case the need arises.
- The ratings are dependent on the company's ability to prevent business losses, thereby averting its equity from further erosion. Meanwhile, any material increase in leveraging and/or a decline in the company's debt servicing ability would negatively impact the ratings.

**ASSESSMENT**

- PMCL has been facing a decline in its market share during past few years, according to Pakistan Telecommunication Authority (PTA) figures, (end-Dec09: 31.6%, Jun09: 30.9%, Jun08: 36.4%, Jun07: 41.9%). However, it still holds the leadership position with the largest operational network as well as subscriber base. As a result of implementation of policies, adopted by the company and directed by the regulator, dormant subscribers have been eliminated from total subscriber base, which in turn reduced the overall subscriber base in the country. However, incentive packages offered to revive dormant connections helped the company to largely sustain its subscriber base.
- During 2009, PMCL has sustained its top-line, though falling call rates, in turn lower average revenue per user (ARPU), kept the revenues in check. The company is in losses since 2008. Declining gross margins, high foreign exchange losses and increasing financial charges were the main contributors to these losses. However, in 2009, the company's EBITDA registered an improvement mainly on account of lower exchange losses on YoY basis, and one-time gain of PKR 2.3bln on partial buy-back of foreign currency denominated senior unsecured notes.
- Going forward, the company is targeting to maintain its market positioning through better service standards in addition to offering new value added services. During the year, the company has curtailed its capital expenditure (CAPEX) by 71% in line the group's policy to reduce both operational and CAPEX. However, the company is expected to revise its CAPEX plans to bring in more efficiency in its operations, though it would be largely dependent on the parent's support. Given the continuing competition among the industry players, ARPUs would remain under pressure, thereby impacting the revenue growth. This would keep the company's bottom-line stressed. Meanwhile, the decision of the ultimate parent of OTH to sell few of its telecom subsidiaries to a potential buyer if materialized, may improve the parent's focus to strengthen its continuing operations, including Pakistan.
- PMCL's capital structure, though eased out slightly, remained highly leveraged [debt (net of fair value of swaps) equity at end-Mar10: 70:30]. During 2009, the company bought back US\$ 138mln of its outstanding US\$ 250mln senior notes for US\$ 100mln. This was mainly funded through proceeds of the equity injection. However, the positive impact on capital structure was largely mitigated by the losses. The company has significant upcoming debt maturities. It would be challenging for the company to meet its obligations from internal generation.
- The company's debt payback coverages deteriorated due to lower business volumes that led to suppressed operational cash flows. Although EBITDA net interest cover improved slightly, the interest coverages are expected to remain under stress mainly due to lower profitability. Going forward, the parent's discretion as to dividend/management fee repatriation would provide comfort for managing cash flow position of the company.

**TFCs Issues**

- PMCL issued its first listed secured TFCs of PKR 3,261mln in May 2006. The issue has a tenor of seven years and principal is payable after a grace period of 4 years (first payment due in November 2010) in 6 equal semi-annual installments. The issue is secured by way of first pari passu charge on two pools of assets with 25% margin. The first pool comprises present and future receivables and collections, and the second comprises present and future movable fixed assets of the company. The TFCs carry a coupon rate of 6 months KIBOR plus 285bps, with no floor or ceiling, being payable on a semi-annual basis in arrears.
- The company issued its second listed unsecured TFCs of PKR 6,000mln for a tenor of 5 years in October 2008. The mark up is payable semi-annually at six month KIBOR plus 165bps with no floor or cap. The principal would be paid at the end of the term in a bullet payment (October 2013).