WORLDCALL TELECOM LIMITED (WTL)

RATINGS (DECEMBER 2007)
WORLDCALL TELECOM LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A+	A+
Short Term	A1	A1
TFCs		
Secured and Listed		
PKR 350mln	AA-	AA-
Proposed secured and listed		
PKR 4,000mln	AA-	–
OUTLOOK	–	Positive

FINANCIAL DATA
PKR (mln)

	30-Jun-07	30-Jun-06
Total Assets	17,382.8	15,923.9
Equity	11,856.6	11,229.9
Net Turnover	4,312.5	4,355.9
Net Income	623.5	947.6
EBITDA	1,779.8	2035.9
ROA %	3.74	8.66
ROE %	5.40	13.58
Net Debt / EBITDA (x)	1.04	0.42
EBITDA Net Interest Cover (x)	6.34	13.22
Net Debt/Equity %	15.68	7.60

ANALYSTS

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PROFILE

- WTL, a Worldcall / First Capital group company, is a fully integrated communication service provider offering telecom services nationwide while broadband services are operational in Karachi and Lahore. The company is listed on Karachi and Lahore Stock Exchanges. Recently, the major sponsors of the company have accepted the offer of OT to sell majority stake in the company. The process is expected to complete soon subject to certain regulatory and corporate approvals/formalities.
- OT is the sole licensed operator of fixed phone and internet services in the Sultanate of Oman. The company also offers mobile telecom services through its 99% owned subsidiary 'Oman Mobile'. The company has been listed on Muscat Securities Market subsequent to divestment of 30% of its holding in the company in July 2005 by the government.

ASSESSMENT

- The ratings reflect WTL's sound financial profile emanating from its low leveraged capital structure. However, the company is exposed to a relatively high level of business risk fuelled by increasing competition in its areas of operations. This, while making it difficult to achieve business expansion, has also put pressure on margins, in turn, affecting WTL's cash flows, which though currently are robust. However, the company is expected to be well placed to manage these risks subsequent to transfer of majority ownership to Oman Telecom (OT). OT, the largest communication service provider in the Sultanate of Oman and possessing robust financial health and technical capacity, is expected to design and implement a more market-oriented business strategy in due course. The ratings are, therefore, placed on RatingWatch pending the completion of the acquisition.
- During FY07, WTL could not achieve its targeted growth mainly on account of delayed commencement of certain expansion projects, particularly the roll out of wireless local loop (WLL) operations in Karachi. Moreover, increasing competition among telecom operators led to further cut in prices limiting the increase in the top line. Nevertheless, the company, with better operational efficiency, sustained its margins. However, core profitability was dampened by increasing finance cost, an outcome of debt accumulation to fund ongoing capital expenditure. Moreover, a significantly lower surplus on revaluation of investments compared to the previous year, despite a lower effective tax rate, resulted in sizeable YOY decline in net income.
- Expansion in WLL segment is the main focus of the management to achieve its growth targets. The company has expanded its WLL network to more than 40 cities while deployment in certain other cities of mainly Punjab and Sindh is under progress, which is expected to be completed during FY08. WLL services are further revolutionized with the launch of wireless EVDO – Evolution Data Optimized, a high speed data communication service for WLL subscribers – initially available in selected areas of WLL operations. The company plans to offer it to all customers by end-FY09. As a result of network expansion, the subscriber base has shown an impressive growth and reached to over 330,000 recently against 115,000 subscribers at end-Jun-06. This has also improved WTL's market share to 17% at end-Sep07 (Jun-06: 11%). The management, on the back of expanded geographical outreach, particularly Karachi, and addition of new related services, is targeting to double its subscriber base by end-FY08.
- Among other operations of the company, LDI segment is experiencing a sizeable growth in its volumes mainly because of increasing penetration of WLL. However, payphone, calling card and broadband operations of the company are under pressure. Among these segments, going forward, broadband is expected to grow at a higher rate subsequent to the completion of company's plans to lay WiMax network to offer high speed internet services to its customers. Moreover, the company has plans to expand its Hybrid Fiber Coaxial network to other cities to give a boost to its broadband multimedia operations – cable TV, internet over cable and other related services.
- WTL has maintained its largely equity financed capital structure, which though expected to dilute with planned TFC issue of PKR 4,000mln, would remain strong resulting in lower financial risk profile of the company. Although cash flows are under pressure, these are still robust, engendering strong coverages.

KEY RATING DRIVERS

- The ratings are dependent on the company's ability to mange the increasing business risk through timely implementation of its expansion strategy leading to business growth while protecting the margins. At the same time, any extended delays in acquisition by OT of majority stake in WTL would have negative implications for the ratings.

TFCs ISSUES

- WTL issued secured and listed TFCs of PKR 350mln in November 2006 for a tenor of 5 years. The instrument carries profit based on 6month KIBOR *plus* 275bps without any floor and cap. Principal redemption would be in six equal semi-annual instalments beginning from November 2008. The issuer has call option exercisable after 2 years of issuance. The instrument is secured by way of a first *pari passu* charge over specific present and future fixed assets of the payphone and prepaid calling card projects with a 25% margin.
- The company intends to raise PKR 4,000mln through another issue of secured and listed TFCs for a tenor of 5 years. The profit would be paid semi-annually on the basis of 6 month KIBOR *plus* 160bps with no floor and cap. Principal would be redeemed in seven equal semi-annul instalments starting from 24th month of the issue date. The issuer will have call option exercisable after 2 years of issue. The instrument would be secured by first *pari passu* charge on all present and future fixed assets (excluding land and buildings) of the company and all licenses with 25% margin.