

Foundation Alert

PTC: Analyst Briefing Takeaways

Event

- Pakistan Telecommunication Company Ltd (PTC) held its analyst briefing today to discuss its 2QCY21 financial results. Following are the key takeaways of the briefing.

Impact

- PTC reported profitability of Rs2.0bn (EPS of Rs0.39/sh) for 2CY21 compared to profit of Rs1.5bn (EPS of Rs0.29/sh) in 2QCY20 (↑35% YoY). As a result, cumulated profits for 1HCY21 clocked in at Rs3.7bn (up 38% YoY) as compared to profit of Rs2.7bn in 1HCY20.
- PTC revenue clocked in at Rs19.3bn, up by 9% YoY in 2QCY21.
- Management disclosed that revenue base increase was experienced across all the segments with 15/13/11/3% YoY increase in revenue contribution from wireline data/wireless data/corporate/international segment.
- PTC gross margins declined by 0.13ppt to 21.95%. Management attributes decline in margins to higher human resource related cost, energy cost and other operating expenses. This was reflected in EBITDA margins declining by 2ppt YoY.
- Furthermore, during the period PTC increased their portfolio by (1) launching flash fiber, (2) acquiring UBL data center, and (3) upgradation of IT infrastructure.
- PTC management also discussed 104% YoY growth in new sales of Ufone in 2QCY21 and disclosed that Ufone 4G subscribers increased by 8% YoY in 2QCY21. To highlight, Ufone overall revenue increased by 9% YoY in 2QCY21.
- Furthermore, Ufone also observed capacity upgradation to drive revenue and Ubank credit rating to improve to A+.
- Company's management also discussed performance of Ubank and disclosed that bank profitability increased by 203% YoY in 2QCY21 to Rs202mn. Furthermore, Ubank revenue increased by 8% YoY in 2QCY21 as its deposit base increase by Rs19bn and its loan portfolio increased by Rs9.6bn in 2QCY21.
- Furthermore, Ubank processed 24% of its fresh loans through Digital Loan acquisition app.
- Other income increased by 58% YoY to Rs1.7bn in 2QCY21 resulting from exchange gain.
- Finance cost for the company increased by 119% YoY to Rs112mn in 2QCY21 due to higher borrowings.
- Net margins for this period increased by 2ppt to 10.45% compared to 8.46% in 2QCY20.
- Management also shared the company has growth stance looking forward with (1) Huawei-PTCL partnership and (2) legacy networking to modern networking.

Outlook

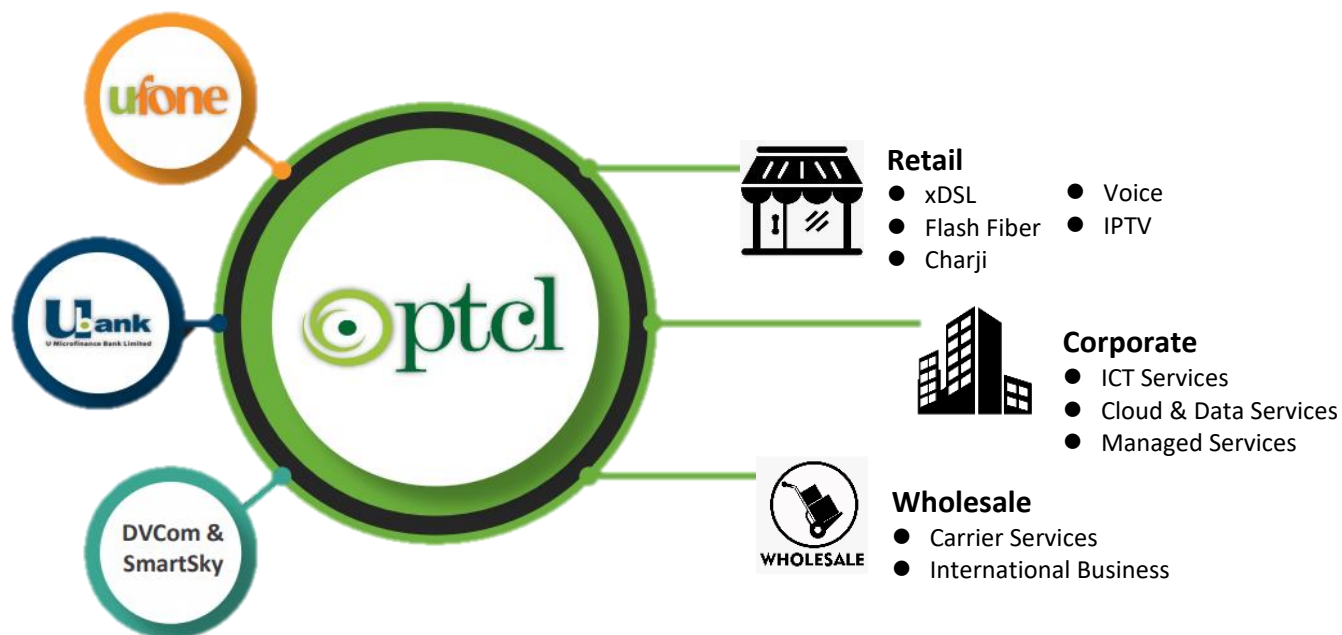
- The company is not under our formal coverage. However, we expect PTC to benefit from (1) increasing penetration of Ubank, (2) growth in wireless/wireline data, (3) favorable regulatory changes, (3) decline in interest rate, and (4) growth in ufone profitability.

Table 1: PTC 2QCY21 Un-consolidated Financial highlights (Rs mn)

Income Statement (Rs mn)	2QCY21	2QCY20	YoY	1QCY21	QoQ	1HCY21	1HCY20	YoY
Net Sales	19,255	17,642	9%	18,932	9%	38,187	35,333	8%
COGS	15,029	13,746	9%	14,466	9%	29,495	28,014	5%
Gross Profit	4,227	3,895	9%	4,466	9%	8,693	7,319	19%
Administrative expenses	1,786	1,503	19%	1,742	19%	3,528	3,159	12%
Other Income	1,695	1,073	58%	1,246	58%	2,627	2,621	0%
other expense	1,189	1,252	-5%	1,171	-5%	2,360	2,729	-13%
EBIT	2,947	2,213	33%	2,799	33%	5,431	4,053	34%
Finance Cost	112	51	119%	366	119%	163.5	135.5	21%
PBT	2,835	2,162	31%	2,433	31%	5,268	3,917	34%
Tax	822	670	23%	366	23%	1,528	1,214	26%
Net Profit	2,013	1,492	35%	2,799	35%	3,740	2,703	38%
EPS	0.39	0.29		0.34		0.73	0.53	
Gross Margins	21.95%	22.08%		23.59%		22.76%	20.72%	
Net Margins	10.45%	8.46%		14.78%		9.79%	7.65%	
ETR	29.0%	31.0%		15.0%		29.0%	31.0%	

Source: Company Accounts, Foundation Research, July 2021

Fig 1: Business structure of PTC



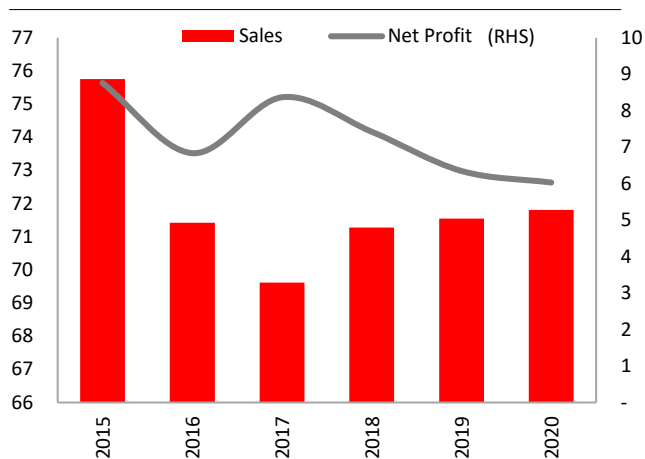
Source: Company acc, FSL Research, July 2021

Table 2: Historical Trends (Rs)

Key Indicators		2015	2016	2017	2018	2019	2020
Revenue	mn	75,752	71,420	69,620	71,273	71,548	71,804
Profit before tax	mn	13,272	10,201	12,874	10,757	9,331	8,493
Profit after tax	mn	8,760	6,835	8,368	7,422	6,347	6,030
Dividend	mn	10,200	5,100	5,100	5,100	5,100	-
Financial Position							
Share capital	mn	51,000	51,000	51,000	51,000	51,000	51,000
Reserves	mn	35,218	32,013	34,102	32,571	36,751	43,010
Shareholders' equity	mn	86,218	83,013	85,102	83,571	87,751	94,010
EBITDA	mn	23,234	23,673	22,693	21,193	19,986	19,592
Working capital	mn	25,778	16,213	8,936	139	(10,400)	(12,812)
Current assets	mn	72,592	75,356	71,250	68,658	68,835	76,744
Total assets	mn	180,378	182,637	187,348	196,523	209,994	223,600
Non-current liabilities	mn	47,345	40,481	39,933	44,433	43,008	40,035
Operating							
Operating profit margin	%	11.45	12.83	10.31	9.14	6.90	4.80
Net profit margin	%	11.56	9.57	12.02	10.41	8.87	8.40
Performance							
Fixed assets turnover	Times	0.87	0.82	0.79	0.78	0.73	0.69
Debtors' turnover	Times	5.04	5.01	4.60	4.36	3.88	3.31
Return on equity	%	9.82	8.08	9.96	8.80	7.41	6.64
Return on capital employed	%	6.66	7.51	6.13	5.45	4.02	2.72
Earnings retention	%	(16.44)	25.38	39.05	31.29	19.65	100.00
Leverage							
Debt:Equity	Ratio	32:68	28:72	28:72	31:69	30:70	27:73
Debt ratio	%	49.01	50.57	50.76	53.92	55.39	55.45
Liquidity							
Current	Times	1.55	1.27	1.14	1.00	0.87	0.86
Quick	Times	1.49	1.23	1.09	0.91	0.80	0.82
Valuation							
Earnings per share	Rs	1.72	1.34	1.64	1.46	1.24	1.18
Breakup value per share	Rs	16.91	16.28	16.69	16.39	17.21	18.43
Dividend payout ratio	%	116.44	74.62	60.95	68.71	80.35	-
Price earnings ratio	Times	9.60	12.82	7.95	6.60	7.52	7.70
Market price to breakup value	Times	0.98	1.06	0.78	0.59	0.54	0.49
Dividend per share	Rs	2.00	1.00	1.00	1.00	1.00	-
Dividend yield	%	12.13	5.82	7.66	10.41	10.68	-
Dividend cover ratio	Times	0.86	1.34	1.64	1.46	1.24	-
Market value per share	Rs	16.49	17.18	13.05	9.61	9.36	9.10

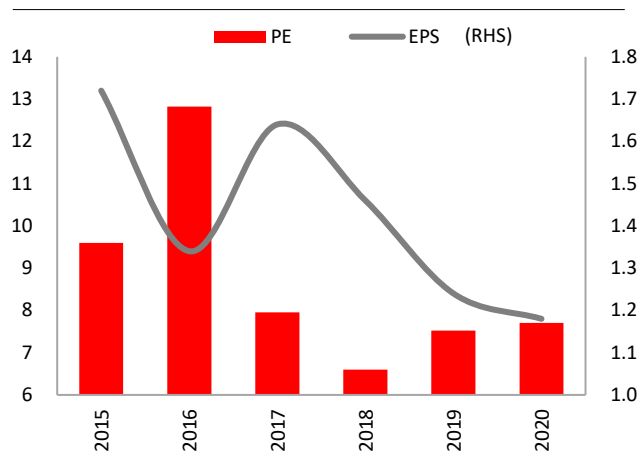
Source: Company Accounts, PSX, Foundation Research, July 2021

Fig 2: Sales ↑ despite stiff competition (Rs bn)



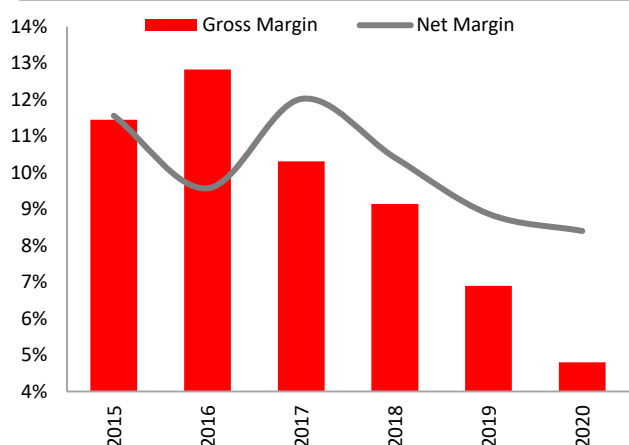
Source: Company acc, FSL Research, July 2021

Fig 3: Trading at attractive market multiple



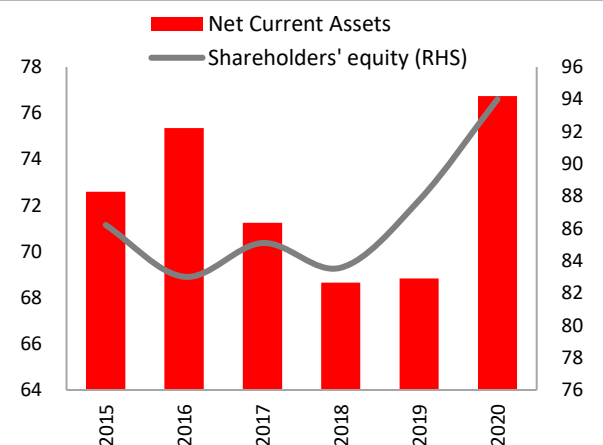
Source: Company acc, FSL Research, July 2021

Fig 4: Margins erosion owing to high competition



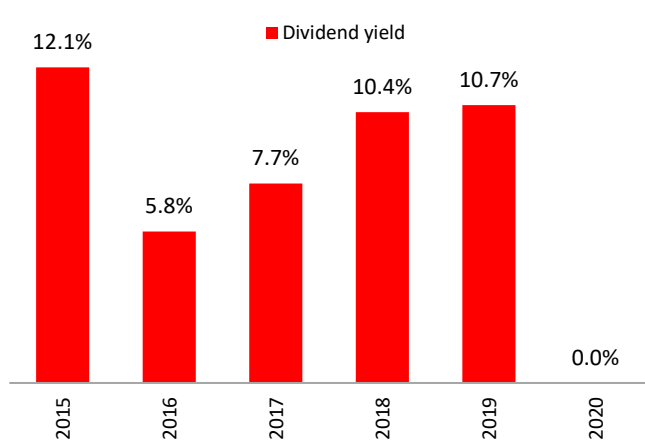
Source: Company acc, FSL Research, July 2021

Fig 5: Shareholders' equity substantially increased



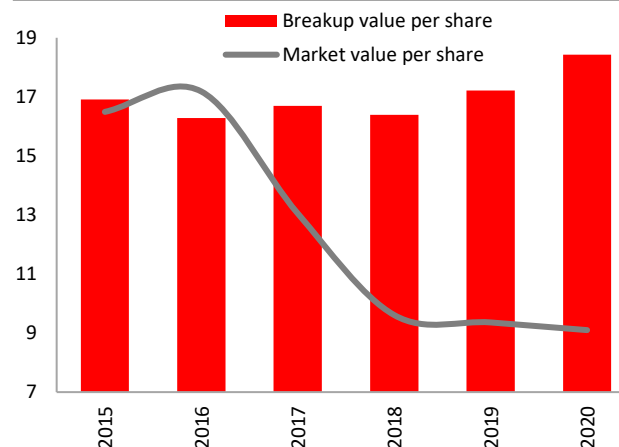
Source: Company acc, FSL Research, July 2021

Fig 6: Dividend yield is likely to recover



Source: Company acc, FSL Research, July 2021

Fig 7: Improving fundamentals despite ↓ share price



Source: Company acc, FSL Research, July 2021

About the company

Pakistan Telecommunication Company Limited (PTCL) is the largest integrated Information Communication Technology (ICT) company of Pakistan. With a humble start from a telephone and telegraph department in 1947, it has evolved to offer latest digital and telecommunication technologies today. With the largest fixed line network of the country, PTCL offers products and services like high-speed Broadband internet, CharJi wireless internet, Smart TV (IPTV) service, over-the-top (OTT) applications like Smart Link App, Smart TV App and Touch App, and world class digital content like Netflix, iflix and icflix. PTCL's enterprise grade platforms like Smart Cloud, Tier-3 Certified Data Centers, Managed Services and Satellite Services are meeting the connectivity needs of organizations and enabling businesses to operate more efficiently. It is largest fiber cable network that spans from Khyber to Karachi and submarine cables connecting Pakistan to the world.

Auditors: KPMG Taseer Hadi & Co Chartered Accountants

Table 3: PTC key personnel

Key Personnel	Name	Designation
Board of Directors	Sohaib Ahmad Siddiqui	Chairman
	Abdulrahim A. Al Nooryani	Director
	Kamran Ali Afzal	Director
	Hatem Dowidar	Director
	Hassan Nasir Jamy	Director
	Hesham Al Qassim	Director
	Syed Shabahat Ali Shah	Director
	Khalifa Al Shamsi	Director
	Dr. Mohamed Karim Bennis	Director
Management	Sohaib Ahmad Siddiqui	Chairman
	Nadeem Khan	Chief Financial Officer

Source; Company Accounts, Foundation research, July 2021

Categories of Shareholders	Shares Held	Percentage
President of Pakistan	3,171,067,993	62.18
Associated Companies, Undertakings and related Parties	1,326,000,000	26.00
Banks, DFIs, NBFCs	89,625,587	1.76
Insurance Companies	69,916,936	1.37
Modarabas and Mutual Funds	42,277,243	0.83
Individuals local	244,111,061	4.79
Others	157,001,180	3.08
Total	5,100,000,000	100.00

Source: Company Accounts, Foundation Research, July 2021

Analyst

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Important disclosures:

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.