

Foundation Alert

PTC: Analyst Briefing Takeaways

Event

- Pakistan Telecommunication Company Ltd (PTC) held its analyst briefing today to discuss its CY21 financial results. Following are the key takeaways of the briefing.

Impact

- PTC reported (consolidated) profitability of Rs 2.6bn (down 21.3%) in CY21, compared to profit of Rs3.3bn in CY20. Ufone/Ubank profitability down/up by 52/23% YoY in CY21.
- PTC reported (unconsolidated) profitability of Rs1.2bn (EPS of Rs0.24/sh) in 4QCY21 compared to profit of Rs2.0bn (EPS of Rs0.38/sh) in 4QCY20 (down 38% YoY). Moreover, cumulated profits for CY21 clocked in at Rs6.9bn (up 14% YoY) as compared to profit of Rs6.0bn in CY20.
- PTC revenue clocked in at Rs76.9bn, up by 7% YoY in CY21.
- PTC gross margins inclined by 0.62ppt to 21.5% YoY in CY21. However, gross margins/net margins declined by 1/4.5ppt YoY in 4QCY21. Management attributed this decline to escalating fuel and power costs during the quarter.
- On sequential basis, gross/net margins declined by 1.5/3.9ppt in 4QCY21.
- Management disclosed that revenue base increased across all the segments with 12/10/10/4% YoY increase in revenue contribution from wireline data/wireless data/corporate/international segment.
- PTC management also discussed Ufone 4% YoY growth in revenue in CY21 and disclosed that 60% of Ufone sites had been upgraded to 4G in CY21. To highlight, Ufone profitability declined by 52% YoY in CY21.
- Company's management also talked over the performance of Ubank and revealed that bank revenue increased by 8% YoY in CY21, supported by incline in deposit base (up Rs9bn) & loan portfolio (up Rs5bn). Furthermore, Ubank profitability increased by 23% YoY in CY21 due to income from advances portfolios and treasury investments.
- Furthermore, Ubank processed 33% of its fresh loans through Digital Loan acquisition app, taking total disbursed loan to Rs33.3bn in CY21. As per management, 52% of loan portfolio is backed by gold.
- Admin and Selling Expenses increased by 10% and 13% YoY in CY21, respectively.
- Other income increased by 6.0% YoY to Rs5.8bn in CY21 resulting from exchange gain.
- Finance cost for the company inclined by 51% QoQ to Rs107mn in 4QCY22 due to higher borrowings & hike in policy rate.
- Effective tax rate for the company clocked in at 29% (up 4.5ppt YoY) in 4QCY21.
- Management also shared the company has growth stance looking forward with (1) Huawei-PTCL partnership and (2) legacy networking to modern networking.

Outlook

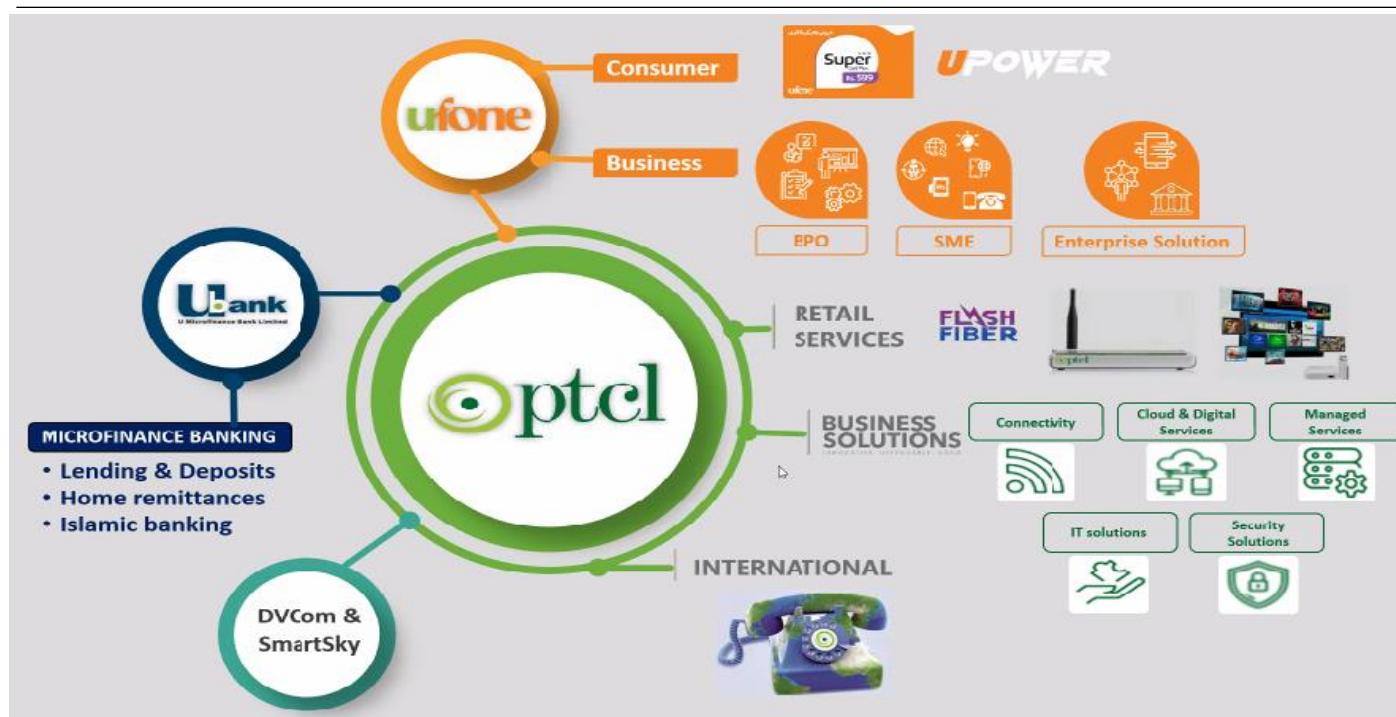
- The company is not under our formal coverage. However, we expect PTC to benefit from (1) increasing penetration of Ubank, (2) growth in wireless/wireline data, (3) favorable regulatory changes, and (4) growth in ufone & ubank profitability.

Table 1: PTC 4QCY21 Un-consolidated Financial highlights (Rs mn)

Income Statement (Rs mn)	4QCY21	4QCY20	YoY	3QCY21	QoQ	CY21	CY20	YoY
Net Sales	19,566	18,429	6%	19,099	2%	76,853	71,804	7%
COGS	15,747	14,658	7%	15,079	4%	60,320	56,807	6%
Gross Profit	3,819	3,771	1%	4,021	-5%	16,533	14,997	10%
Administrative expenses	1,998	1,847	8%	1,857	8%	7,383	6,687	10%
Sales expenses	961	801	20%	943	2%	3,512	3,121	13%
Other Income	1,305	1,910	-32%	1,921	-32%	5,853	5,506	6%
Other expenses	356	215	65%	361	-2%	1,470	1,742	-16%
EBIT	1,810	2,818	-36%	2,780	-35%	10,021	8,953	12%
Finance Cost	107	221	-51%	68	57%	339	460	-26%
PBT	1,702	2,597	-34%	2,712	-37%	9,682	8,493	14%
Tax	494	635	-22%	786	-37%	2,808	2,463	14%
Net Profit	1,209	1,962	-38%	1,925	-37%	6,874	6,030	14%
EPS	0.24	0.38		0.38		1.35	1.18	
Gross Margins	19.5%	20.5%		21.1%		21.5%	20.9%	
Net Margins	6.2%	10.6%		10.1%		8.9%	8.4%	
ETR	29.0%	24.5%		29.0%		29.0%	29.0%	

Source: Company Accounts, Foundation Research, February 2022

Fig 1: Business structure of PTC



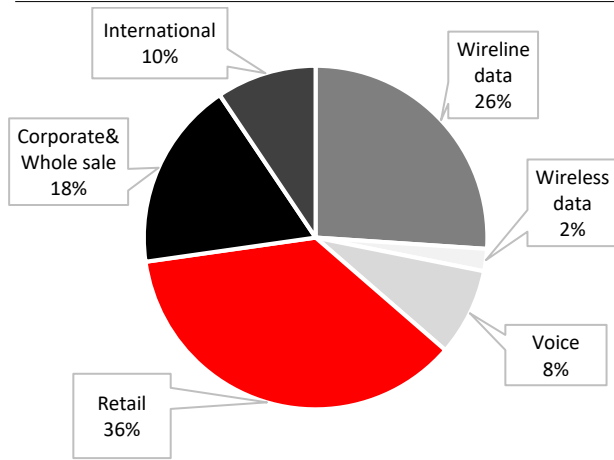
Source: Company acc, FSL Research, Feb 2022

Table 2: Historical Trends (Rs)

Key Indicators		2015	2016	2017	2018	2019	2020	2021
Revenue	mn	75,752	71,420	69,620	71,273	71,548	71,804	76,853
EBITDA	mn	23,234	23,673	22,693	21,193	19,986	19,592	13,168
Profit before tax	mn	13,272	10,201	12,874	10,757	9,331	8,493	9,682
Profit after tax	mn	8,760	6,835	8,368	7,422	6,347	6,030	6,874
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	51,000
Reserves	mn	35,218	32,013	34,102	32,571	36,751	43,010	48,653
Shareholders' equity	mn	86,218	83,013	85,102	83,571	87,751	94,010	99,653
Working capital	mn	25,778	16,213	8,936	139	-10,400	-12,812	-24,662
Current assets	mn	72,592	75,356	71,250	68,658	68,835	76,744	79,881
Non-current liabilities	mn	107,786	107,281	116,098	127,865	141,159	146,856	165,854
Total assets	mn	180,378	182,637	187,348	196,523	209,994	223,600	245,735
Total Liabilities	mn	94,160	99,624	102,246	112,952	122,243	129,590	146,082
Current liabilities	mn	46,815	59,143	62,313	68,519	79,235	89,555	104,543
Non-current liabilities	mn	47,345	40,481	39,933	44,433	43,008	40,035	41,539
Operating								
Operating profit margin	%	17.52	14.28	18.49	15.09	13.04	11.83	12.59
Net profit margin	%	11.56	9.57	12.02	10.41	8.87	8.40	8.94
Performance								
Fixed assets turnover	Times	0.70	0.67	0.60	0.56	0.51	0.49	0.46
Debtors' turnover	Times	5.04	5.01	4.60	4.36	3.88	3.31	2.75
Return on equity	%	10.16	8.23	9.83	8.88	7.23	6.41	6.90
Return on capital employed	%	6.66	7.51	6.13	5.45	4.02	2.72	2.10
Earnings retention	%	-16.44	25.38	39.05	31.29	19.65	100	100
Leverage								
Debt: Equity	Ratio	32:68	28:72	28:72	31:69	30:70	27:73	31:69
Debt ratio	%	49.01	50.57	50.76	53.92	55.39	55.45	54.92
Liquidity								
Current	Times	1.55	1.27	1.14	1.00	0.87	0.86	0.76
Quick	Times	1.49	1.23	1.09	0.91	0.80	0.82	0.71
Valuation								
Earnings per share	Rs	1.72	1.34	1.64	1.46	1.24	1.18	1.35
Breakup value per share	Rs	22.84	22.00	22.55	22.14	23.25	24.91	26.41
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	6.22
Market price to breakup value	Times	0.72	0.78	0.58	0.43	0.40	0.37	0.32
Dividend per share	Rs	2.0	1.0	1.0	1.0	1.0	-	-
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	8.40

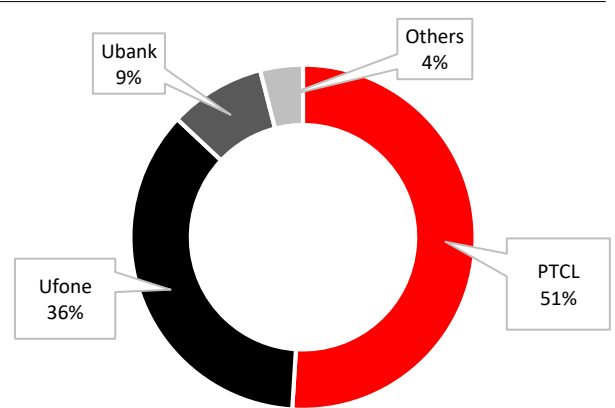
Source: Company Accounts, PSX, Foundation Research, February 2022

Fig 2: PTCL Revenue Distribution 2021



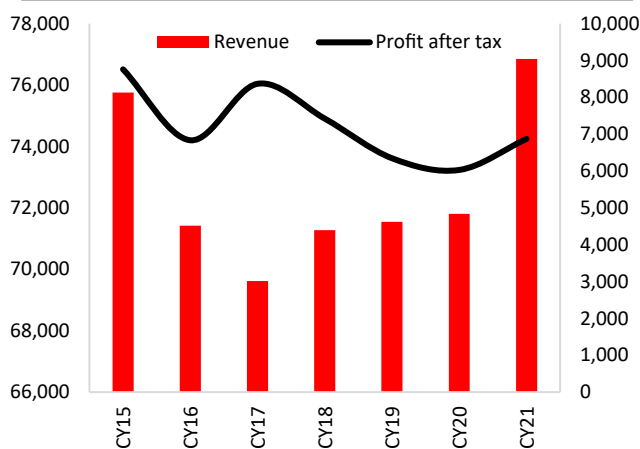
Source: Company acc, FSL Research, Feb 2022

Fig 3: PTC Group Revenue Contribution 2021



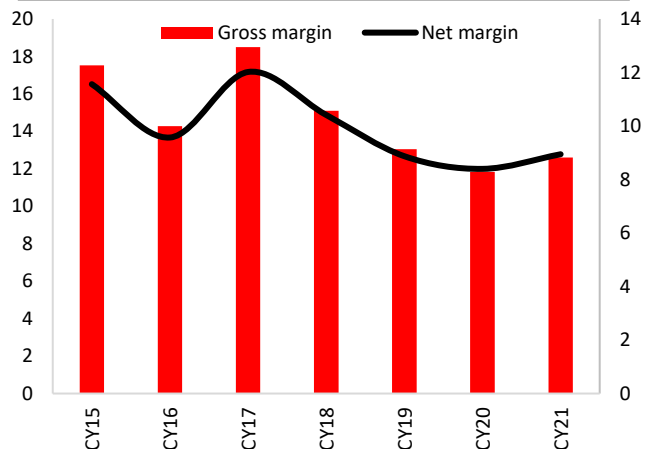
Source: Company acc, FSL Research, Feb 2022

Fig 4: Revenue on an upward trend



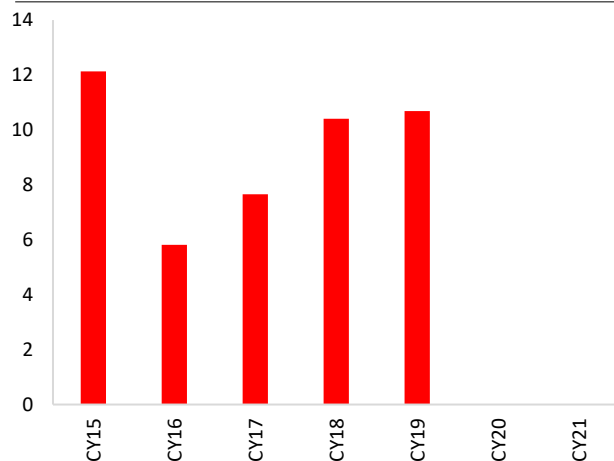
Source: Company acc, FSL Research, Feb 2022

Fig 5: Margins are still below historical highs



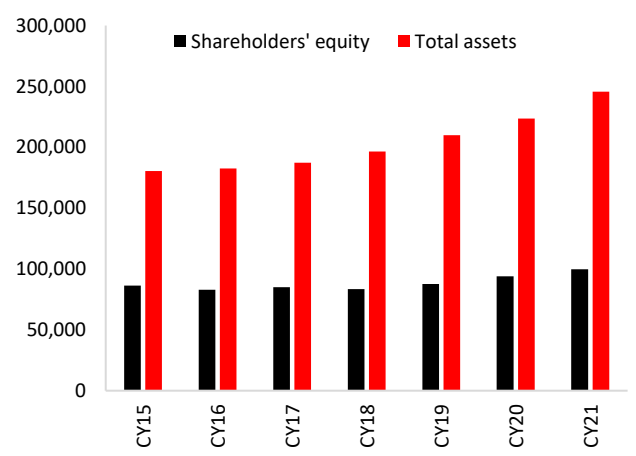
Source: Company acc, FSL Research, Feb 2022

Fig 6: Dividend yield not likely to recover (%)



Source: Company acc, FSL Research, Feb 2022

Fig 7: Total assets and equity increasing gradually



Source: Company acc, FSL Research, Feb 2022

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, and Smart TV (IPTV) service, over-the-top (OTT) applications like Smart Link App, Smart TV App and Touch App, and excellent 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 the 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	Dr. Muhammad Sohail Khan Rajput	Chairman
	Abdulrahim A. Al Nooryani	Director
	Kamran Ali Afzal	Director
	Hatem Dowidar	Director
	Hassan Nasir Jamy	Director
	Dr. Karim Bennis	Director
	Mr. Burak Sevilengul	Director
	Khalifa Al Shamsi	Director
	Hamed Yaqoob Sheikh	Director
Management	Mr. Hatem Mohamed Bamatraf	Chief Executive Officer
	Nadeem Khan	Chief Financial Officer

Source; Company Accounts, Foundation research, February 2022

Categories of Shareholders	Shares Held	Percentage
President of Pakistan	3,171,067,993	62.18
ETISALAT International Pakistan (LLC) 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, February 2022

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Important disclosures:

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Recommendations definitions

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