Rating Action

Lahore : 22-Mar-2016

Analyst

Abdul Sami
(+92-42-35869504)
abdul.sami@pacra.com
www.pacra.com

PACRA AFFIRMS RATINGS OF PAKISTAN MOBILE COMMUNICATIONS LIMITED ON RATING WATCH

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Pakistan Mobile Communications Limited (PMCL) at **AA-** (Double A minus) and **A1** (A one), respectively. The rating of the secured and listed TFC of PKR 2,000mln is maintained at **AA-**, while the rating of the secured and listed sukuk of PKR 6,900mln is maintained at **AA**. These ratings denote a very strong capacity of timely payment of financial commitments.

PMCL is the largest cellular operator with 28% local market share at end-Dec15. The company has managed to sustain its market leadership position, which is likely to fortify with planned acquisition. Vimpelcom and Abu Dhabi Group have signed an agreement on November 26, 2015 to merge their telecom subsidiaries in Pakistan - PMCL and Warid respectively. The transaction is in the process of relevant approvals from the regulators. As per terms of agreement, PMCL will acquire 100% shares of Warid whereas Abu Dhabi Group will get 15% shares in the PMCL, thereby keeping the transaction non-cash. PACRA considers the merged entity better positioned to withstand competitive pressures; thus stronger business profile as the company would be enabled to, i) increase its market share and ii) establish its footprint in fast emerging 4G/LTE services. Although leveraging of merged entity would be higher, cost efficiencies are expected to support EBITDA, in turn coverages.

Technological infrastructure optimization coupled with expansion in network coverage has benefited PMCL's business profile, as data and voice ARPUs witnessed growth. 3G related debt funded CAPEX plan may result in higher leveraging, existing and new cashflows are expected to keep coverages adequate. Meanwhile, discretion of the sponsor in receiving management fee and availability of supplier credit add comfort. The ratings would remain under **"Rating Watch"** till the conclusion of ongoing transaction.

About the Company: PMCL - brand name "Mobilink", commenced its operations in August 1994. PMCL is a wholly owned subsidiary of Global Telecom Holding (GTH), which in turn majority is owned by world's seventh largest telecom group - VimpelCom Limited which is rated Ba3 by Moody's (Apr-15).

The TFC: PMCL issued its third listed, secured TFC of PKR 2,000mln for a tenor of 4 years in April 2012. The mark up is payable quarterly at three month KIBOR plus 200bps. The principal redemption has started from 3rd month (Jul12) of issue(outstanding principal: PKR 400mln as at end-Dec15).

Sukuk: The company issued a Sukuk of PKR 6,900mln (including a green shoe option of PKR 2,100mln). The profit is payable quarterly at three month KIBOR plus 88bps. The principal is payable in twelve equal quarterly installments after a grace period of 27 months. The Sukuk has been provided a Partial Credit Guarantee of PKR 966mln by GuarantCo, rated AAA by PACRA (Jan-16).

Applicable Criteria and Related Research

- Telecom Industry - Viewpoint | Jan-16
- Corporate Rating Methodology