

**Date**

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www.pacra.com**Applicable Criteria**

- Rating Modifiers | Outlook and Rating Watch (Jun 16)
- Sukuk Rating (Jun 16)
- Preference Shares Rating Methodology (Jun 16)
- Corporate Rating (Jun 16)

Related Research

- Sector Study | Communication (Mar 17)

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PACRA MAINTAINS RATINGS OF PAKISTAN MOBILE COMMUNICATIONS LIMITED; POSITIVE OUTLOOK ASSIGNED

Rating Type	Entity		Debt Instrument	
	Current (22-Mar-2017)	Previous (22-Mar-2016)	Current (22-Mar-2017)	Previous (22-Mar-2016)
Action	Maintain	Maintain	Maintain	Maintain
Long Term	AA-	AA-	AA	AA
Short Term	A1	A1		
Outlook	Positive	Stable	Positive	Stable
Rating Watch	-	Rating Watch	-	Rating Watch

Pakistan Mobile Communications Limited (PMCL) – majority owned by VimpelCom is the largest cellular operator in Pakistan. After acquiring Warid Telecom (an Abu Dhabi Group company with ~11mln subscribers at end FY16) in July16, PMCL now commands 38% market share (51mln subscribers at end-Jan17). The said merger while giving significant volumes, is bringing operational and technical network related synergies that would be reflected in significantly better EBITDA and profitability of merged entity. PMCL commissioned marketing, technical, distribution and human resource integration in an efficient manner. A significant progress has been achieved. Post-merger, PMCL has consolidated all its products and services under single brand 'Jazz'.

PMCL enjoys strong volumes and profitability; which gives it a strong business profile. Erstwhile Warid had relatively squeezed margins - an opportunity for PMCL. The company has experienced significant improvements in its nominal EBITDA (supported by organic and inorganic growths). Although on consolidated basis EBITDA margin has witnessed a slight dip, it is on upward trajectory with gradual realization of post-merger synergies. PMCL is targeting to take its EBITDA margins above 40% over the medium term. The merger brought sizeable debt. However, the overall debt profile stays robust (EBITDA total debt payback = less than 2 years). Going forward, PMCL, while eyeing volume growth, is focusing on achieving better penetration in to existing base. Data services and mobile financial services are its key focus. The company intends to move to asset lite operating model. This while freeing up financial sources, would enable focus towards core and differentiating services. PMCL, using the platform of Mobilink Microfinance Bank, an associate entity, intends to establish a strong digital banking platform. All these should enable Jazz to uphold its position in the competitive landscape.

PACRA has assigned positive outlook to ratings. These recognize i) strengthening market positioning, ii) likely synergy gains in EBITDA and profitability margins; iii) adequate debt profile; iv) synergizing technological and distributional channels and v) potential of Jazz cash. Meanwhile, full integration while maintaining performance matrix would be critical.

About the Entity

PMCL – brand name 'Jazz' commenced its operations in August 1994. Global Telecom Holding – which in turn is majority owned by one of the world's leading telecom group –VimpelCom Limited - owns ~85% shareholding of the company. Rest ~15% lies with Abu Dhabi Group through share swap transaction of PMCL-Warid merger. VimpelCom is among the largest telecom operators in the world in terms of subscribers. It offers a wide range of wireless, fixed and broadband services to approximately 244mln customers in 13 countries.

PMCL's seven-member Board of Directors (BoD) is mainly composed of representatives from Vimpelcom. His Highness Sheikh Nahayan Mubarak Al Nahayan chairs the board. He also chairs the board of the Abu Dhabi Group, Union National Bank, Bank Alfalah and United Bank Limited. Mr. Aamir Ibrahim, the CEO, has over two decades experience in local and international market. He is assisted by a qualified and experienced senior management team.

About the sukuk:

The company has issued a Sukuk of PKR 6,900mln in two parts; PKR 3,000mln on Dec 22, 2014 and PKR 3,900mln on Sep 3, 2015. The profit is payable quarterly at three month KIBOR plus 88bps. The first principal payment is made on Mar 22, 2017. Total outstanding amount of PKR 6,325 will be paid in eleven equal quarterly instalments. The Sukuk has been provided a partial credit guarantee of PKR 966mln by GuarantCo, rated AAA by PACRA.