The Pakistan Credit Rating Agency Limited

PAKISTAN MOBILE COMMUNICATIONS LIMITED

	NEW [MAR-17]	PREVIOUS [MAR-16]
Sukuk	AA	AA
Outlook	Positive	Stable
Rating Watch	-	Yes

REPORT CONTENTS

MARCH 2017

Profile &Ownership

- Pakistan Mobile Communications Limited (PMCL) is the largest cellular telecommunication service provider in Pakistan. As at end-Jan17, its market share in terms of cellular subscriptions is of 38%.
- In November, 2015 Vimpelcom and Abu Dhabi Group have signed an agreement to merge their telecom subsidiaries in Pakistan. Resultantly, Mobilink and Warid effectively merged in July-16.
- PMCL under the new brand name Jazz is providing all its cellular services including 3G and LTE.
- The ultimate sponsors of the company are Vimpelcom with ~85% indirect holding in PMCL via 51% holding in Global Telecom Holdings.

Governance

- The seven-member Board of Directors (BoD) is mainly composed of representatives from Vimpelcom.
- The Board is chaired by His Highness Sheikh Nahayan Mabarak Al Nahayan. He heads the United Arab Emirates Ministry of Culture, Youth, and Social Development. He also chairs the board of the Abu Dhabi Group, Union National Bank, Bank Alfalah and United Bank Limited.
- The board comprises of three executive directors comprising CEO, CFO and the company secretary.
- The board comprises highly qualified and experienced professionals holding senior positions in group companies.

Management

- PMCL has an experienced top management team with requisite background and qualification. They are equipped with both local and foreign experience.
- Mr. Aamir Ibrahim – Ex CCO of Mobilink has been appointed as CEO of merged entity in July 16. He has over two decades experience of blue chip companies across various countries and industries but majorly of telecom sector.

Business Risk

- With the regain of subscriber base in CY16, PMCL's top-line on standalone basis exhibited an increasing trend (Sep16: PKR 79,630mln; Sep15: PKR 69,775mln) attributable to growth in data ARPUs.
- Merged entity topline stays at PKR 92,209mln giving an increase of 32% on YoY basis.
- Post-merger there was an addition of PKR 11bln, PKR 7bln and PKR 1.2bln from voice, data and MFS revenue.
- Post-merger administrative expenses increased by 41% (Sep16: PKR 25,105mln; Sep15: PKR 17,833mln), however, financial expenses remained intact (Sep16: PKR 3,388mln; Sep15: PKR 3,507 mln).
- On standalone basis, increased gross margins helped absorbing increased admin and tax expenses generating profit of PKR 5,106mln (Sep15: PKR 1,724mln). Merged entity made a profit amounting PKR 6,625mln.
- The said merger expected to bring synergies of NPV $500mln, out of which PKR 8.2bln have already been achieved till Dec16.
- Going forward, the company is eyeing to keep its market share intact while grabbing the diversified business opportunities.

Financial Risk

- The company maintains reasonably good cash conversion ratio; increased considerably YoY (FCFO adjusted for WC/sales Post-mergerSep16: 39%; Sep16: 38%; Sep15: 24%) due to efficient working capital management.
- FCFO of the company witnessed decent improvement (Post-merger Sep16: PKR 34,515mln; Sep16: PKR 30,509mln; Sep15: PKR 27,385mln) owing to higher EBITDA; resultantly improvement in coverages was observed YoY (FCFO/Gross Interest Post-merger Sep16: 10x; Sep16: 9.7x; Sep15: 7.8x).
- The company net cash cycle days exhibited decreasing trend (Post-merger Sep16: -4days; Sep16: -15days, Sep15: -73 days) owing to increased creditor days.
- Post-merger PMCL's capital structure remained moderately leveraged (Debt/Debt+Equity: Post- merger Sep16: 49%; Sep15: 56%).
- The company has issued a sukuk of PKR 6,900mln completely disbursed in Sep-15 and expected to mature in Dec-19.

RATING RATIONALE

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 eying 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.

INDUSTRY

- Competitive landscape of the industry with four cellular players.
- Revitalization towards data communication and mobile banking
- Low pricing creating pressure on industry EBITDA margins.
- On the brink of technology future growth of industry will increase revenues and efficiencies to the whole economy.

Pakistan Mobile Communications Limited PKR mln

BALANCE SHEET	30-Sep-16	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
	9MCY16 (Cons.)	9MCY16	CY15	CY14	CY13
Non-Current Assets	**212,910**	**113,609**	**124,898**	**137,047**	**98,781**
Investments (Others)	**1,783**	**47,001**	**5,565**	**5,301**	**6,292**
Current Assets	**29,134**	**20,086**	**8,773**	**11,553**	**17,074**
Inventory (Finished Goods)	337	260	433	222	250
Trade Receivables	6,400	3,472	2,204	1,980	1,960
Other Current Assets	7,020	5,174	4,056	3,821	3,943
Cash & Bank Balances	15,377	11,179	2,081	5,530	10,921
Total Assets	**243,826**	**180,697**	**139,236**	**153,901**	**122,147**
Debt	**77,101**	**45,041**	**44,627**	**40,875**	**20,519**
Short-term	-	-	-	-	23
Long-term (Inlc. Current Maturity of long-term debt)	**77,101**	**45,041**	**44,627**	**40,875**	**20,496**
Trade Payables	2,188	3,192	6,029	20,672	13,839
Due to Associates	-	-	609	136	18,940
Provision for Taxation	5,153	4,889	4,486	4,943	60
Other Liabilities	77,726	57,250	51,801	52,331	48,396
Shareholder's Equity	**81,659**	**70,324**	**31,684**	**34,944**	**20,393**
Total Liabilities & Equity	**243,826**	**180,697**	**139,236**	**153,901**	**122,147**
INCOME STATEMENT					
Turnover	**92,209**	**79,630**	**94,300**	**92,379**	**99,394**
Gross Profit	36,610	32,050	22,525	28,029	25,158
Operating Profit	11,506	8,834	(1,481)	7,193	(3,711)
Other Income	3,466	3,176	3,489	3,138	2,809
Financial Charges	(3,308)	(3,142)	(4,562)	(4,473)	(8,109)
Taxation	(4,995)	(3,681)	784	(8,957)	2,114
Net Income	**6,625**	**5,106**	**(2,703)**	**(1,438)**	**(5,947)**
Cashflow Statement					
Free Cashflow from Operations (FCFO)	34,515	30,509	36,896	32,760	33,984
Net Cash changes in Working Capital	1,766	(426)	(14,983)	10,758	19,511
Net Cash from Operating Activities	34,183	28,091	17,849	40,269	49,053
Net Cash from InvestingActivities	(12,870)	(19,021)	(23,854)	(67,840)	(12,534)
Net Cash from Financing Activities	(10,253)	(762)	3,336	20,681	(30,647)
Net Cash generated during the period	11,060	8,319	(2,669)	(6,891)	5,872
Closing Balance of Cash & Equivalents	15,377	11,179	2,860	5,530	12,421
Ratio Analysis					
Performance					
Turnover Growth	24.3%	14.1%	2.1%	-7.1%	-2.4%
Gross Margin	39.7%	40.2%	23.9%	30.3%	25.3%
EBITDA Margin	40.2%	40.4%	41.3%	40.1%	35.4%
Net Margin	7.2%	6.4%	-2.9%	-1.6%	-6.0%
ROE	8.8%	9.1%	-6.4%	-3.2%	-24.4%
Coverages					
Debt Service Coverage					
1. (FCFO/Gross Interest+CMLTD) (X)	2.1	2.4	2.3	2.5	2.1
2. (FCFO/Gross Interest+CMLTD+Uncovered STB) (X)	0.7	0.8	1.2	2.5	2.1
Interest Coverage					
1. (FCFO/Gross Interest) (X)	10.0	9.7	8.1	7.3	4.2
2. (EBITDA/Gross Interest) (X)	10.8	10.2	8.5	8.3	4.3
Liquidity and Cashflows					
Current ratio excluding CMLTD (X)	0.4	0.4	0.2	0.2	0.3
Net Cash Cycle (Inventory Days + Receivable Days - Payabl	-4.0	-14.8	-51.3	-133.7	-71.7
Capital Structure (Total Debt/Total Debt+Equity)	48.6%	39.0%	58.5%	53.9%	50.2%

Regulatory and Supplementary Disclosure

Repayment Schedule Sukuk — Annexure B

SUKUK Amount (PKR mln)	6,900
Period (years)	5
Repayment	Quarterly
Pricing	3 K + 0.88%

Pakistan Mobile Communications Limited | Sukuk | Redemption Schedule

Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate	3M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
22-Dec-14	3,000							3,000
22-Mar-15			22-Mar-15	3 Month Kibor +0.88%	8.18%	78	78	3,000
22-Jun-15			22-Jun-15	3 Month Kibor +0.88%	6.88%	69	69	3,000
22-Sep-15	3,900		22-Sep-15	3 Month Kibor +0.88%	6.56%	74	74	6,900
22-Dec-15			22-Dec-15	3 Month Kibor +0.88%	6.49%	128	128	6,900
22-Mar-16			22-Mar-16	3 Month Kibor +0.88%	6.35%	126	126	6,900
22-Jun-16			22-Jun-16	3 Month Kibor +0.88%	6.09%	125	125	6,900
22-Sep-16			22-Sep-16	3 Month Kibor +0.88%	6.04%	120	120	6,900
22-Dec-16			22-Dec-16	3 Month Kibor +0.88%	6.11%	118	118	6,900
22-Mar-17		575	22-Mar-17	3 Month Kibor +0.88%	6.08%	118	693	6,325
22-Jun-17		575	22-Jun-17	3 Month Kibor +0.88%	6.08%	87	662	5,750
22-Sep-17		575	22-Sep-17	3 Month Kibor +0.88%	6.08%	79	654	5,175
22-Dec-17		575	22-Dec-17	3 Month Kibor +0.88%	6.08%	70	645	4,600
22-Mar-18		575	22-Mar-18	3 Month Kibor +0.88%	6.08%	61	636	4,025
22-Jun-18		575	22-Jun-18	3 Month Kibor +0.88%	6.08%	52	627	3,450
22-Sep-18		575	22-Sep-18	3 Month Kibor +0.88%	6.08%	44	619	2,875
22-Dec-18		575	22-Dec-18	3 Month Kibor +0.88%	6.08%	35	610	2,300
22-Mar-19		575	22-Mar-19	3 Month Kibor +0.88%	6.08%	26	601	1,725
22-Jun-19		575	22-Jun-19	3 Month Kibor +0.88%	6.08%	17	592	1,150
22-Sep-19		575	22-Sep-19	3 Month Kibor +0.88%	6.08%	9	584	575
22-Dec-19		575	22-Dec-19	3 Month Kibor +0.88%	6.08%	12	587	-
		6,900				**1,448**	**8,348**	

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Name of Issuer	Pakistan Mobile Communications Limited (PMCL)
Name of Issue	PMCL | Listed Sukuk
Sector	Communication
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Ammortization Schedule	See Annexure B

Rating History

Dissemination Date	Long Term	Outlook	Action
22-Mar-16	AA	Rating Watch	Maintain
30-Apr-15	AA	Stable	Maintain
19-Dec-14	AA	Stable	Initial
19-May-14	AA	Stable	Preliminary
07-Jan-14	AA	Stable	Preliminary

Instrument Details

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security Trustee	Security Details			Book Value of Assets (PKR mln)
				Nature of Security	Quantum (PKR mln)	Nature of Assets	
Sukuk	6,900	5	Faysal Bank	1. 1st pari passu floating charge on all present and future assets.	25% over and above total value	Moveable Fixed Assets	150,000
				2. 1st pari passu floating charge on future and present collections of the Company	25% over and above total value	Receivables of the Company from Debtors	150,000
				3. Partial Credit Guarantee by Guarant Co.	966	3rd Party Guarantee	-

Related Criteria and Research
Telecom Industry - Viewpoint | Jan-16

Rating Methodology
Corporate Rating Methodology

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
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PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity
PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)
PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch.
Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past