

# Pakistan Telecommunication Co. (PTC)

**4Q2017 LPS Rs0.2 vs. LPS of Rs0.5 in 4Q2016; 2017 EPS Rs0.9, +168% YoY**  
**Below expectations**

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## Higher financial charges drag down earnings

PTC: Financial Highlights (Consolidated)							
Rsmn	4Q2017	4Q2016	YoY	QoQ	2017	2016	YoY
Sales	29,159	28,417	3%	-2%	117,027	117,202	0%
Cost of sales	24,259	22,202	9%	10%	90,114	87,026	4%
Gross profit	4,900	6,215	-21%	-37%	26,913	30,176	-11%
Distribution cost	1,964	1,853	6%	28%	6,505	7,111	-9%
Administrative expenses	4,121	4,219	-2%	-8%	17,363	16,954	2%
Other income	3,039	1,666	82%	186%	9,835	6,388	54%
Profit from operations	1,854	1,810	2%	-36%	12,880	12,499	3%
Voluntary Separation Scheme	-	4,601				4,601	
Finance cost	3,745	881	325%	296%	6,458	3,629	78%
Profit before tax	(1,891)	(3,673)	-49%	NM	6,422	4,269	50%
Taxation	(812)	(1,326)	-39%	NM	2,080	2,646	-21%
Profit after tax	(1,079)	(2,347)	-54%	NM	4,342	1,623	168%
<b>EPS</b>	<b>(0.2)</b>	<b>(0.5)</b>			<b>0.9</b>	<b>0.3</b>	

Source: Topline Research

- PTC posted loss of Rs0.2 in 4Q2017, below expectations, mainly owing to substantial increase in financial charges.
- Although, consolidated revenues were up 3% YoY in the outgoing quarter, PTC's core segment witnessed marginal decline in revenues. To point out, Evolution Data Optimized (EvDO) subscribers as of Dec 2017 stood at 0.5mn, down 29% since Jun 2017.

## Higher financial charges drag down earnings

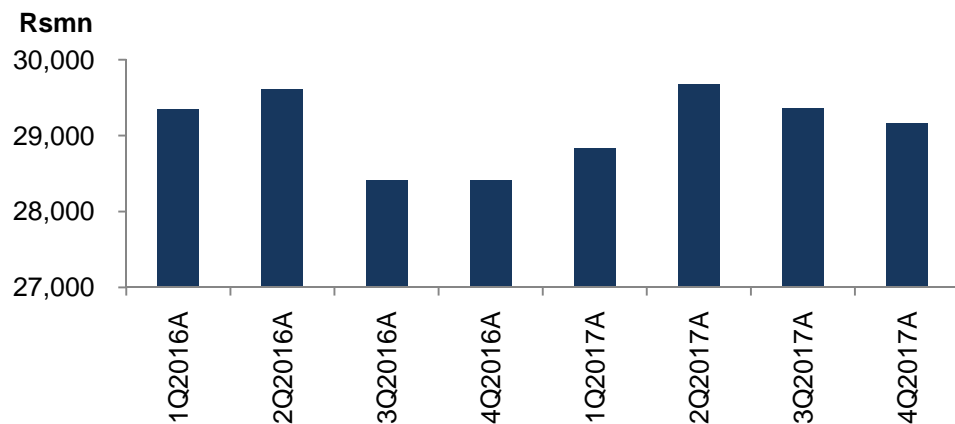
- However, Digital Subscriber Line (DSL) during the same period grew by 3% to 1.6mn subscribers.
- Growth in consolidated revenues in 4Q2017 was supported by increase in PTC's subsidiary (Ufone) revenue; Ufone revenues were up 8% to Rs12.2bn. Ufone's NGMS subscribers clocked-in at 5.7mn as of Dec 2017, up 15% since Jun 2017 while market share in the same segment remained flat at 12%.
- While operating profits on consolidated basis were up 2% in 4Q2017, significant increase in Ufone's financial charges (+4.3x YoY to Rs3.6bn) eroded PTC's profitability and led to loss of Rs0.2/share. We await management clarity in this regard.
- In 2017, PTC reported earnings of Rs0.9/share, up 2.7x YoY, mainly due to low base effect. To recall, the company booked one-time expense under 'Voluntary Separation Scheme' of Rs4.6bn in 2016.
- We flag 1) competition in mobile subscribers impacting Ufone's subscriber base, 2) decline in EvDO & DSL subscribers not offset by increase in Ufone's 3G subscriber share, and 3) stagnancy in company's legacy business, that is fixed line, as key risks associated with PTC.

### PTC: Key Numbers

	2013A	2014A	2015A	2016A	2017A
EPS	3.1	0.8	0.4	0.3	0.9
Earnings Growth	37%	-75%	39%	39%	168%
PE at Rs13.3	4.3	17.1	15.6	15.6	15.6
Dividend Yield	15%	19%	15%	8%	11%
ROE	12%	3%	2%	1%	4%
PBV	0.5	0.6	0.6	0.6	0.6

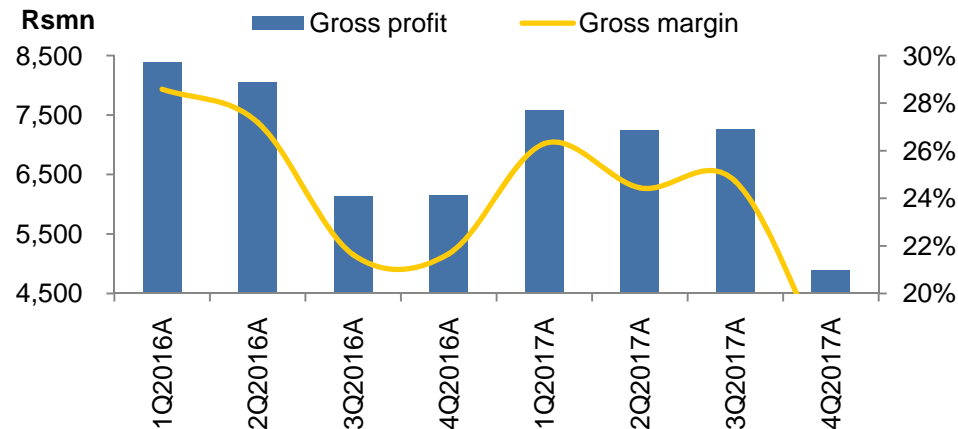
Source: Company Accounts, Topline Research

### PTC: Quarterly Sales



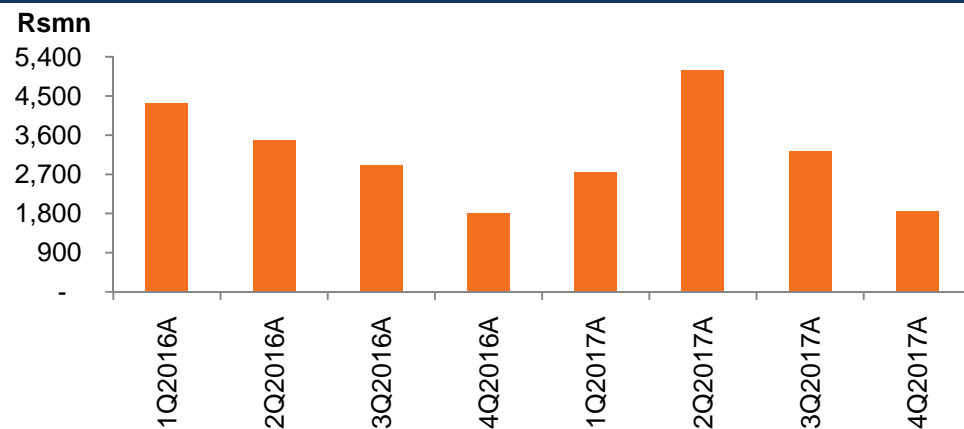
Source: Company Accounts, Topline Research

### PTC: Quarterly Gross Profit & Gross Margins



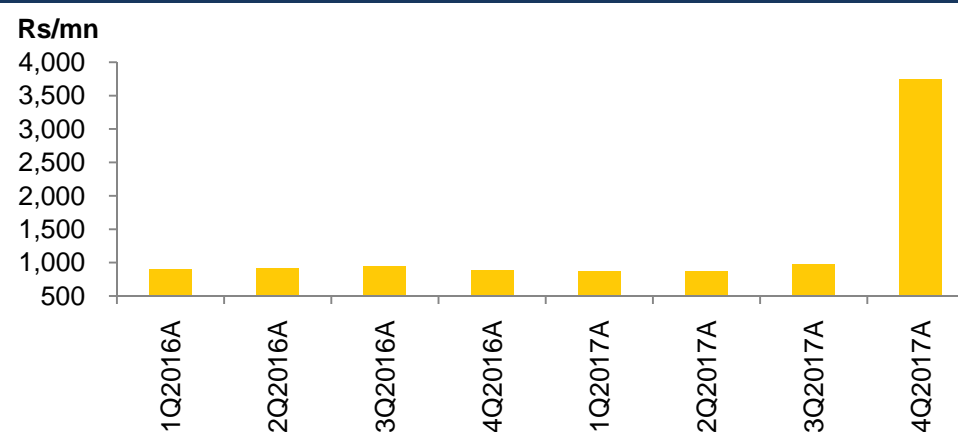
Source: Company Accounts, Topline Research

### PTC: Quarterly Earnings Before Interest & Tax



Source: Company Accounts, Topline Research

### PTC: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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