

morning shout

Pakistan Daily Notes

3 July 2009
KASB Research
research@kasb.com
(9221) 111-222-000

PTCL: Good news continues to flow

- We raise our SOTP-based PO for PTCL to PRs22.2/sh (from PRs20.0/sh), FY10E EPS estimates to PRs2.54/sh (up 2.5%) and reiterate Buy.
- We believe the awarding of three subsidized projects (2 broadband and 1 fiber optic) should help PTCL fast forward its penetration process. After adjusting for this, we expect PTCL broadband subs to reach 1mn mark by FY12E.
- Following scrapping of proposed PRs0.20/ SMS tax, impact of budget (lower FED and SIM activation tax) is +3% on FY10E EPS in our view.
- We believe developments on real estate and sector M&A could help sustain the renewed interest in PTCL stock (+15% since mid-June) going forward.

Raising PO and estimates after further subsidy and budget

We believe the awarding of three subsidized projects (2 broadband and 1 fiber optic) should help Pak Telecom (PTCL) fast forward its penetration process. In addition, we remain upbeat on supportive measures announced in FY10 Budget, (1) reduction in FED to 19.5% from 21% and (2) savings from halving SIM activation tax to PRs250. After adjusting for these, we have increased our SOTP-based PO for PTCL from PRs20.0/sh to PRs22.2/sh. Our revised PO includes PRs14.4/sh for PTCL (by using DDM) and PRs7.8/sh for Ufone (by using DCF). PTCL is currently trading at FY10E P/E of 6.9x and EV/EBITDA of 2.7x. The stock remains one of the cheapest full-service telecom stock in BAS-ML Asia Pac universe and offers 23% upside to our PO of PRs22.2/sh.

Table: Financial snapshot

Year-to-June	2007A	2008A	2009E	2010E	2011E
EPS - rep (PRs)	3.29	(0.40)	2.12	2.56	2.39
Dividend /sh (PRs)	2.00	-	1.50	2.00	2.00
P/E (x)	5.36	6.69	8.31	6.88	7.40
D/Y (%)	11.3%	0.0%	8.5%	11.3%	11.3%
EV/EBITDA (x)	2.68	2.81	2.75	2.71	2.69

Source: KASB estimates

Three more projects worth PRs2.9bn

PTCL has won two more subsidized broadband penetration projects for Multan Telecom Region (MTR) and Southern Telecom Region – I (STR-I). The projects – worth PRs1.7bn – aim to provide broadband services to 86,500 subscribers. We believe the projects should help in fast-forwarding the broadband penetration process by lowering customer acquisition costs and targeting youth through subsidized broadband education centers. After adjusting for the two projects, we expect PTCL to reach 1million subscriber mark by FY12, from previous estimates of 850k. Also, the fiber-optic project worth PRs1.2bn for Southern Balochistan should help in increasing its footprint in the under-served region.

Interim payout & benign Budget helping unlock value

Coming off a lull in price performance, 1) the surprise interim PRs1.5/sh payout and 2) benign budget are helping unlock imbedded value of PTCL, where the stock is up 15% since 13th June. Post scrapping of proposed PRs0.20/ SMS tax, impact of budget is +3% (to PRs2.56/sh) on FY10E EPS in our view. We believe developments on real estate and sector M&A could help sustain the renewed interest and momentum going forward.

Downside risks to our call

(1) Continuing pace of FTM substitution, (2) fierce price-based competition across all segments, (3) growing strain in backhaul, (4) volatile FX and (5) cut in interconnect and ASR (Approved Settlement Rate) are key downside risks to our call.

Muhammad Saqib Sajjad
Saqib.sajjad@kasb.com
Ph. No. (9221) 263 5501

Current Price PRs17.65
Price Objective PRs22.20

KATS PTC
Reuters PTCA.KA
Bloomberg PTC PA

Shares Outstanding
5,100mn

Market Cap
PRs 91,137mn (US\$1,125mn)

3m average daily volume
5,254,052 shares

12-month High/Low
38.85 / 12.00

Stock Performance

	1M	3M	12M
Absolute%	8.3	-1.7	-52.8
Rel Index%	3.1	-6.0	-14.7
Abs. (PRs)	1.4	-0.3	-20.0

Table: Change in PO and EPS.

PRs/sh	Old	New	% chng
PO	20	22.2	11%
- Fixed Line	13.8	14.8	7%
- Ufone	6.2	7.8	26%
EPS - FY10E	2.48	2.56	3%

Source: KASB estimates

Morning News

- ▶ **Banking spread down 7bp to 7.47% in May-09 (DAWN)**
Banking sector spreads have declined by 7bp to 7.47% in May-09. Rates on outstanding loans declined by 5bp whereas returns on deposits increased by 2bp. However, average spread for 5M2009 is still higher by 47bp YoY. Looking ahead, we expect banking spread to continue its downward direction - inline with trend in KIBOR. We have assumed roughly 20bp lower margins for our bank cluster in 2009.
- ▶ **Tax collection falls short by PRs26bn in FY09 (DAWN)**
The tax authorities raised PRs1,153bn tax revenue during FY09, PRs26bn lower than revised target of PRs1,179bn. Direct taxes collection amounted to PRs443bn whereas GST contributed PRs448bn. As a result, tax-to-GDP ratio has declined to from 10.4% in FY08 to ~8.8% in FY09.

Technical View

Aiyaz M. Hassan
aiyaz.hassan@kasb.com

Buy Between 7,345 Points- 7,456 Points; First Resistance 7,555 Points, Second Resistance 7,634 Points

The index opened with a positive gap and maintained a steady uptrend to close well into the green. Volume showed an impressive improvement of 87.30% and stood at 195.95 mln, which was more in line with a bullish move. The index has given a breakout above its consolidation channel's resistance trendline as well as its 200-DMA. Moreover as stated above, this breakout came in with a substantial increase in volume thus adding credence to the breakout. Additionally the index's angle of rise has changed and taken to a slightly sharper angle.

The Stochastic Oscillator continues to rise, maintaining its buy signal. It is worth mentioning that although the Stochastic Oscillator is overbought it is likely to remain so as the index is in a breakout swing. Also the MACD maintains its buy signal. Additionally, the 30-DMA has finally started to show some improvement and in the near-term could cut the 50-DMA from below.

It is suggested to buy between 7,345 - 7,456 points. The first resistance is at 7,555 points and the second resistance is at 7,634 points.

Gold Spot

Strategy: Buy

Gold continued to consolidate around its 50-DMA. The momentum indicators as well as cyclical indicators suggest consolidation. The overall trend remains bullish. It is suggested to buy between \$926.45 - \$930.30 with stops below \$922.60. The first resistance is at \$938.91 and the second resistance is at \$943.67.

West Texas Intermediate (WTI) Spot

Strategy: Sell on Strength

After opening above its resistance trendline (blue line), WTI failed to sustain itself and closed in the red. The Stochastic Oscillator has now generated a sell signal after touching the overbought region. Other momentum indicators have also taken to a downtrend. It is suggested to sell between \$70.21 – \$71.27 with stops above \$72.13. The first support is at \$68.28 and the second support is at \$66.88.

KSE-100 Intra-day Movement



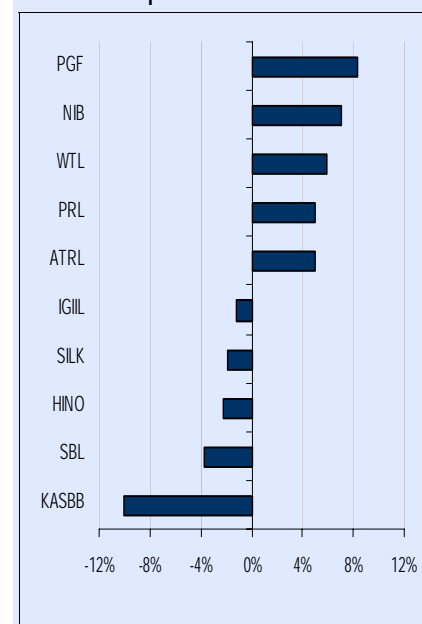
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	8,000.53	3.74%	116.69
KSE100	7,498.34	3.13%	123.42
KSE All Share	5,345.92	2.92%	124.89
OGDC	83.81	4.40%	14.06
POL	156.35	4.95%	11.20
MCB	161.71	3.56%	10.25
ENGRO	136.75	4.77%	9.99
PPL	197.10	2.95%	9.82

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

KASB Securities Limited, 5th Floor, Trade Centre, I.I. Chundrigar Road, Karachi

This report has been prepared by KASB Securities Ltd. and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time KASB Securities Ltd. and any of its officers or directors may, to the extent permitted by law, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and the company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment. This report may not be reproduced, distributed or published by any recipient for any purpose. The views expressed in this document are those of the KASB Securities & Economic Research Department and do not necessarily reflect those of KASB or its directors. KASB, as a full-service firm, has or may have business relationships, including investment-banking relationships, with the companies in this report.