

# Pakistan Telecom Sector

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**REP-057**

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**KSE 100 Index**  
33,766.49 (41.93)

**Telecom Sector Capitalization**  
Rs64.6bn (US\$0.6bn)

## Regulator steps in to address woes of telecom industry

- Pakistan Telecommunication Authority (PTA) has issued a consultation paper highlighting the discrepancy in on-net and off-net tariffs offered by Cellular Mobile Operators (CMO) which is leading to unhealthy competition and price wars, thus impacting the overall industry. Authority has given one month to CMOs to provide feedback on the same.
- The paper highlights that although CMOs have positive gross margins, some are sustaining losses. Moreover, consolidation in the industry (merger of Mobilink and Warid) is taking place to deal with such low tariffs, we believe. It is important to note that PTA, through Pakistan Telecommunication Re-organization Act, has the power to regulate the tariffs of telecom services.

## Main issues facing local telecom sector

- Discrimination between on-net and off-net tariffs which favors on-net calls create a cult behavior whereby related subscribers club into a particular network to take advantage of lower on-net call price.
- Moreover, low tariffs are exploited through increase in grey traffic. This is attributed to the fact that Pakistan has one of the lowest call charges in the world.
- This is also impacting fixed line operators as consumers favor their mobiles rather than fixed-line telephones to make calls.
- CMOs compete on prices and offer low tariff to attract subscribers. Low tariffs are coupled with a myriad of call packages - 17 is the least number of packages being offered by Warid Telecom while around 153 packages are being offered by China Mobile Pakistan (Zong) – some of which are offered across the country while others are specific to a region. Paper states that these create confusion among mobile subscribers as they are overcharged for off-net calls.

### Call charges of CMOs

	Mobilink	Telenor	Ufone	Zong	Warid
Pulse Duration	30 sec	30 sec	30 sec	20 sec	30 sec
On-net Rs. /min	1.69	1.50	1.70	1.65	1.70
Off-net Rs. /min	1.69	1.50	1.70	1.65	1.70
SMS (on-net off-net)	1.01	1.50	1.75	1.30	1.50

Source: Pakistan Telecommunication Authority



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## Idea of price floor

- PTA has been given the suggestion of setting a price floor which would essentially curtail the volume of promotional offers being offered by CMOs. The authority has given one month to CMOs to give their feedback on the same.
- We believe setting of price floor will not be practical as cost varies among operators (higher for small operators). Also, this might lead to issues with Competition Commission of Pakistan (CCP) as it would hinder competition among players.
- However, it might be possible for operators to decide on a certain price level among themselves. A similar case was observed in case of International Clearing House (ICH) where call rates were increased to 8.8cents/min from 2cents/min.
- In our view, if such an arrangement comes to pass, small players will be the prime beneficiaries, including Pakistan Telecommunication's (PTC) fixed-line segment through increase in subscribers, and through Pakistan Mobile Telecommunication (Ufone), a wholly owned subsidiary of PTC. It is too early to calculate the monetary impact on the company due to non-availability of tariff and their cost structure.

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