

BY

NEPAL DOORSANCHAR COMPANY

GARIMA CAPITAL LIMITED

(NTC)

Sector: Others LTP: Rs. 865 (27th Sep) Fair Price: Rs. - Valuation: Fair Recommendation: -

** This Report is published for learning purpose only. Accordingly, we don't state a Buy/Sell/Hold recommendation.*

** Disclosure is made at the end.*

Projected Snippet	77/78A	78/79A	79/80A	80/81E	81/82E
Revenues (mn)	35,691.4	37,919.8	36,803.9	36,419.3	36,378.2
EBITDA Margin	51.04%	54.92%	54.66%	5 Yr. Avg. 55.9%	
Op. Profit Margin	32.94%	36.48%	34.17%	5 Yr. Avg. 37.94%	
Net Profit Margin	19.04%	22.34%	21.21%	5 Yr. Avg. 23.21%	
EPS	45.29	47.06	43.26	5 Yr. CAGR: -17.94%	
BVPS	599.09	529.27	521.27	5 Yr. CAGR: -4.74%	

Note: Team Own Estimate. Projection constraints by data limitation.

- Valuation / Pricing:** We determine the scrip of NTC to be trading at its fair price at current level. Since the stock is grouped under 'Other' category and has no peer company listed in NEPSE, we take in account of the fair price practice considered in general. Accordingly, the stock is trading below the PE ratio of 25x, below the PB ratio of 3x while P/S ratio shows the stock trading 4x its key Revenue from contracts with customers. Graham No. and 120 days average price also highlight the stock being fairly priced. [DCF valuation is not carried].
- Stagnant profitability with initial stage of 5G trial:** Since 2018/19, companies earning has been constant to approx. Rs. 43 bn where approx. Rs.36.4 bn is contributed by its sale of services along. Average net profit is recorded to be Rs.8.5 bn. On a more longer time frame, these profitability's has drawdown, particularly due to sharing of market share with other competitor as well.
- Bearish trend of the stock:** NTC traded at the highest of Rs.1800 (precisely 1799.9) on 22 Feb. 2022. Since then, the stock has trended down, losing 40% its value (adjusted price). Current technical chart shows the stock forming the falling wedge pattern which indicate the possible bullish pattern given the current price level sustain.

Stock's Profile

O/s Shares	180,000,000 units
Market Cap. (Rs.)	Rs. 155.7 bn
52 Weeks H – L	Rs. 952 – 758
180D Avg. Price	Rs. 844.5
180D Avg. Vol.	42,221
Beta (Nepse)	0.95
Correlation (Nepse)	0.67

Note: Data taken from 1.1.2020.

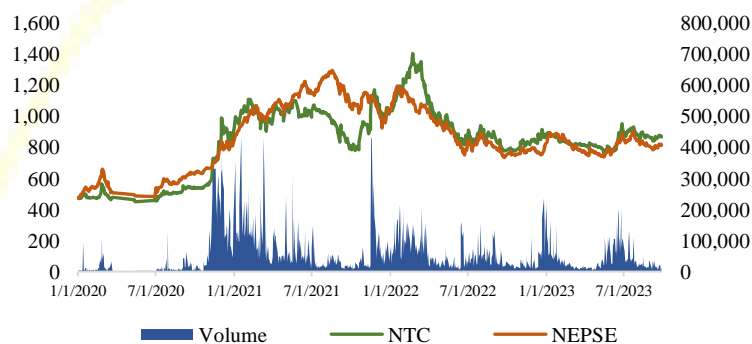
Note: Valuation is not carried due to data limitation.

Fair Pricing

P/E	19.95 x
P/B	1.63 x
P/S	4.23 x
Graham No.	713.11
120 Days Avg.	845
Fair Price (Rs.)	-

Price Performance	1M	3M	12M
Absolute	-0.57%	-5.46%	-11.42%
Relative to NEPSE	-0.87%	1.36%	2.34%

Relative Price Performance



Note: Rebased to NTC in Jan 2020

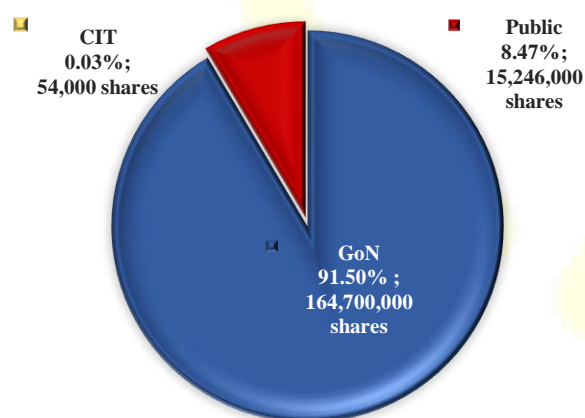
Company Profile

Established in 2032 BS as fully state-owned government corporation - Nepal Telecommunications Corporation was renamed to Nepal Doorsanchar Company Limited (NDCL) on Baisakh 1, 2061. The company aka. "Nepal Telecom" provides voice, data, messaging and value-added services. Its central office is located in Bhadrakali Plaza, Kathmandu and has branches & offices in 184 locations in the country. It has one subsidiary - Nepal Digital Payments Company Limited (NDPC) and 3 associates - Trishuli Jal Vidhyut Company Limited (TVCL), Upper Tamakoshi Hydropower Limited (UPPER) and Nagarik Stock Dealer Company Limited (NSDCL).

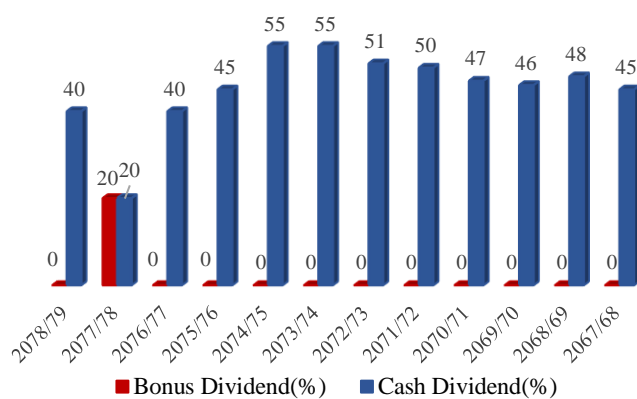
Chairman Mr. Baikuntha Aryal

Managing Director Mr. Sunil Poudel

SHAREHOLDING STRUCTURE



Dividend History



Financial Highlights (Fig. in '000)

Particulars	Q4 79/80	Q3 79/80	Q4 78/79
Paid Up Capital	18,000,000	18,000,000	18,000,000
Retained Earnings	75,828,193	75,474,758	77,268,042
Total Assets	160,035,084	157,288,077	158,664,273
Non-Current Liabilities	26,830,241	22,746,356	23,286,315
Revenue	36,803,931	27,346,648	37,919,789
Operating Profits	12,576,612	9,237,909	13,834,565
Net Interest Income	7,290,117	5,454,366	51,36,463
Net Profits	7,804,527	5,411,974	8,470,734

Fundamental Synopsis

Paid-up Capital: NTC went public by launching its IPO in FY 2064-65; with issuance of 150 mn units shares which amounts to paid-up capital of Rs. 15 bn. In FY 2078-79, the company's paid-up capital increased to Rs. 18 bn after it issued the bonus shares of 20% for FY 2077-78. No right shares have been issued by the company till date.

Revenue Source: The company generates revenue by providing voice, data, SMS and FTTH (Fiber to the Home) services. It has expanded 2G/3G and advanced 4G/VoLTE services in all 77 districts in the country covering 85% of the population. With the extensive growth of 4G, the use of GSM, voice, SMS and data services have increased. CDMA customers have been transformed to GSM users. There is a positive inclination towards FTTH service. However, due to the Interconnection Guidelines 2076, there is a decline in international interconnection fees and increase in OTT (Over the Top) service usage which has caused NTC's revenue to fall. The company is in process to bring 5G service in the country for which it has taken approval from telecommunication authority and has started 5G trial.

Dividend History: Company is consistent in distribution of cash dividend. In last 12 years, it has declared on average 45% cash dividend; 40% in FY 2078-79. It has issued bonus dividend only once i.e. 20% bonus share in FY 2077-78. It's reasonable to expect at least 40% cash dividend by the company for FY 2079-80.

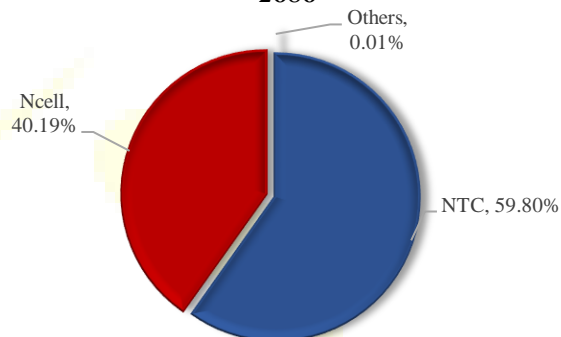
GSM License renewal fees: NTC was obligated to pay Rs. 20 bn (less already paid amount of Rs. 189 mn) to Government of Nepal (GoN) as the second renewal for its GSM license valid for 5 years in 2076 BS. GoN rescheduled the payment to be made in 5 installments which ended in 2080 BS. Beginning from FY 2080-81, the company will be required to renew GSM license for the third time and pay minimum of Rs. 4 bn similar to second renewal, marking no change in net profit.

5G trial: 5G or fifth generation of wireless technology is a monumental leap in internet connectivity compared to its predecessor 4G. It offers 10 times faster internet speed and supports 10 times more devices per square km. NTC began its 5G trial on 22 Magh 2079 BS on its 19th anniversary starting at the Babarmahal and Sundhara sites. The company has been running internal tests in its offices at 4 sites in 3 cities i.e., Kathmandu, Pokhara and Birgunj (3, Gandaki, and 2 Provinces respectively) by installing necessary infrastructure in the towers of these cities. The telco plans to test the network in the remaining four provinces. 5G network is not available for public yet due to lack of compatible devices. While Ncell is also ready to start its own 5G network which sent letter for approval to NTA in 2079 BS, still waiting for the response.

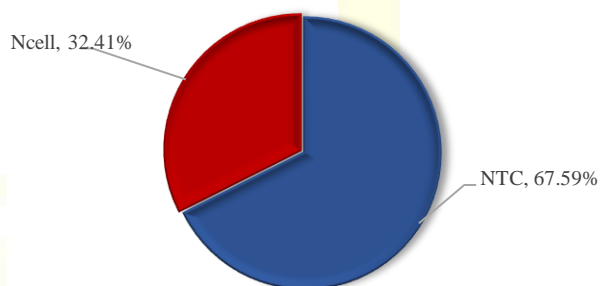
About the competitors: NTC enjoyed monopoly since its incorporation until UTL (United Telecom) started providing basic telephony service in 2003 and Ncell entered the market in 2004. This led to competition in the telecom sector and made voice call, internet and other services much cheaper. There were six telecommunication operators among which two were major players: NTC and Ncell. Others four were UTL, STM, NSTL (Nepal Satellite Telecom- Hello Nepal), and STPL (Smart Telecom Private Limited- Smart Cell). The government revoked STPL and NSTL license after it failed to pay its longstanding dues. UTL has been inactive since years and has received license cancellation warning from Nepal Telecommunication Authority (NTA) if it doesn't pay the dues. As of Baisakh 2080, NTC has 59.80% market share in voice while Ncell market share is 40.19% and Others (mainly STM) is 0.01%.

NTC impact on NEPSE: NTC has second highest market capitalization among all the companies listed in NEPSE, first being NABIL. As on preparing this report, the company's market cap. is Rs. 155.7 bn at LTP Rs. 865. 10% change in market price of NTC will influence NEPSE index by 0.52% i.e., approximately 10 points index value change in the same direction.

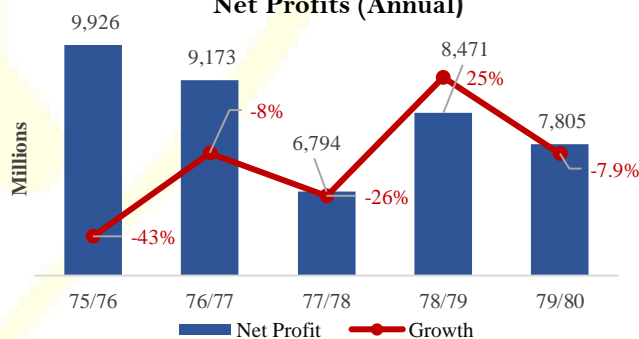
Telephone Operators Market Share of Voice Service (Sim Subscription)- Baisakh 2080



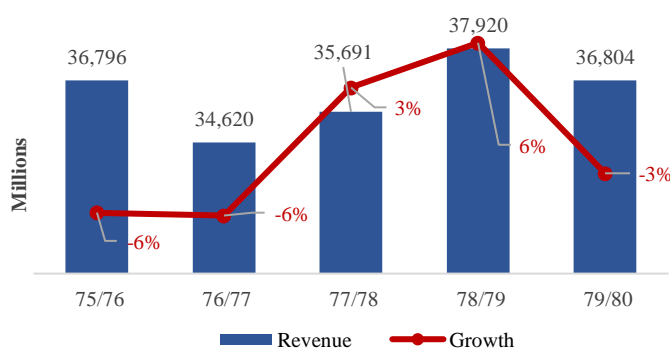
Telephone Operators Market Share of Broadband Service (Sim Subscription)- Baisakh 2080



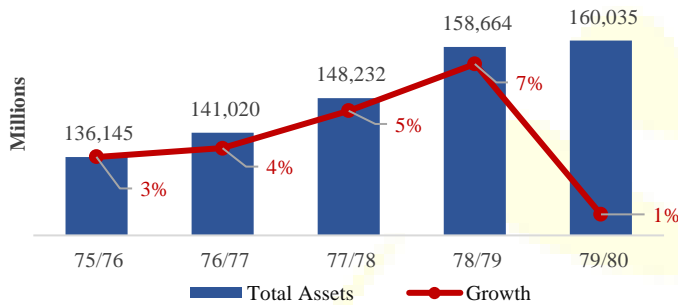
Net Profits (Annual)



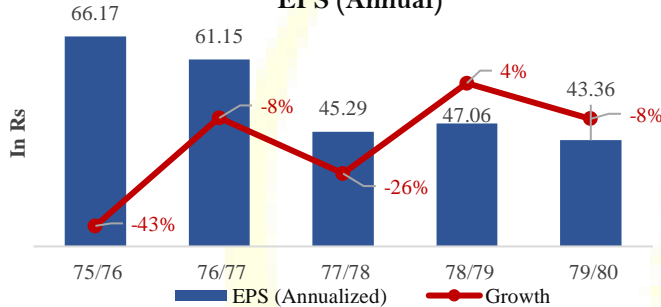
Revenue (Annual)



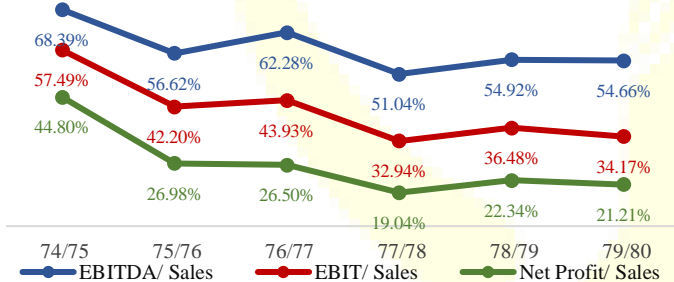
Total Assets (Annual)



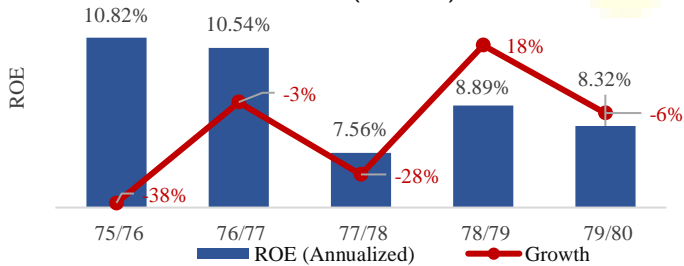
EPS (Annual)



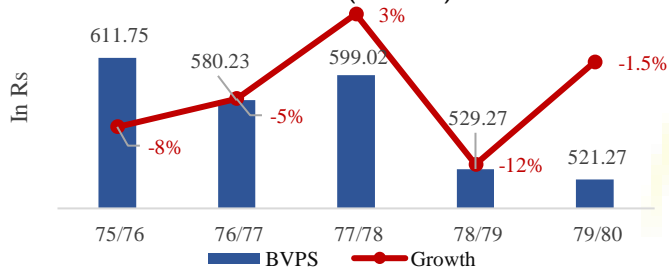
Results/ Sales



ROE (Annual)



BVPS (Annual)



Balance Sheet scrutiny: As of Q4 2079-80, NTC total balance sheet size stands at Rs. 160 bn, meagre 0.86% rise on Y-O-Y. Equity is Rs. 93.8 bn which is 60% of the balance sheet, i.e. approx. Rs.75.8 bn is R&S, while 15% of the balance sheet is post-employment benefit liabilities. It has no long-term borrowings. Of the total assets, 32% is fixed assets, 46% is under term deposits, loans, investments in debentures while only 1.2% is as investments in subsidiary and associates.

Income statement scrutiny: NTC’s revenue has been consistent over the years, generating approx. Rs. 9 bn each quarter, totaling to Rs. 36.8 bn by year end 2079/80. Other income, which mainly includes finance income approx. Rs. 7 bn a year producing the total income to approx. Rs. 43 bn in the same period. EBITDA margin stands at approx. 55% signifying operating expenses of nearly 45% of revenue. Major contributors of operating expenses are service operation & maintenance cost, employee benefit expenses and regulatory fees, charges & renewals. Operating profit (EBIT) margin is at 38% while net profit margin is 23%, which amounted to Rs. 7.8 bn in FY 2079/80.

Key financial metrics: As on Q4 2079-80, the company’s EPS, BVPS, ROE, and ROA is Rs. 43.36, Rs. 521.27, 8.32% and 4.88% respectively. 5 years scrutiny of the key ratios shows that the EPS, BVPS, ROE and ROA have decreased over the period whose 5-year CAGR is -18%, -5%, -14% and -18% respectively. Similarly, current ratio has reduced from 4.11 to 1.6 in the 5 years duration. Company has no long-term debt, so total debt to equity ratio and total debt to assets ratio stand at 0.15 and 0.09 as of 2079-80 Q4.

Q1 80/81 anticipation: As mentioned above, the company has been consistent in generating Rs.9 billion revenues in a quarter and we expect it to persist in Q1 2090/81 as well. The net profitability is unlikely to be dragged down by the requirement to pay the 3rd GSM license renewal fees since the company in past had been paying the similar sum on annual installment basis, unless the condition of payment changes otherwise.

Associate Companies:

Subsidiary Company:

Nepal Digital Payments Company Limited (NDPC):

Established in collaboration with Rastriya Banijya Bank, NDPC was incorporated on Shrawan 13, 2077 as a public limited company and licensed by NRB on Chaitra 3, 2077 to provide digital payment service across the country. It operates in the name of “Namaste Pay” and Offer services such as fund transfer, utility bill payments, ticket booking, top-up and many more. The shareholding structure comprise of promoter public ratio of 90:10. The company’s paid-up capital is Rs. 400 mn and NTC has invested Rs. 248.9 mn, holding 62.22% of promoter shares. Once NDPC issues IPO, public share will increase to 20% which will reduce NTC holdings. In FY 2078-89, NDPC reported loss of Rs. 33 mn, EPS Rs. -8.31 and BVPS Rs. 91.63.

Equity Investments:

Vidhyut Utpadan Company Ltd (VUCL)- Promoted by different ministries of Government of Nepal and public sector undertakings, VUCL is a public company incorporated on Kartik 2073. It presently has 5 projects under study. The company’s paid-up capital is Rs. 4.1 bn and it reported loss of Rs. 8.6 mn in FY 2078-79. Based on paid-up share capital, NTC has 3.21% holding corresponding to Rs. 130 mn investment. Later, when VUCL raises capital to reach to authorized capital, then NTC holdings will rise to 10%.

Nagarik Stock Dealer Company Limited (NSDCL):

Incorporated on Magh 2076 BS, NSDCL is a stock dealer and brokerage firm. It has a paid- up capital of Rs. 3.5 bn. As per current paid- up capital, NTC has 12.86% holding in the company in exchange of Rs. 450 mn investments. The holding will fall to 9% when NSDCL raise further capital from other sources. The company made a profit of Rs. 240.8 mn in FY 2077-78 and reported EPS of Rs. 6.88 in the same period.

Trishuli Jal Vidhyut Company Limited (TJVCL):

Established in 11 May 2011, TJVCL is a joint venture of NEA and NTC. The company is developing Upper Trishuli 3B Hydropower Project (UT3BHEP) with installed capacity of 37 MW and average annual energy generation of 292.59 GWh located in Nuwakot and Rasuwa District. It is a cascade project of Upper Trishuli 3A HEP (60 MW) which lies in the Trishuli River. NTC has invested Rs. 741 mn owning 48.78% of the company’s current paid-up capital. After TJVCL fully raise IPO amount from general public and issue shares to locals and others, NTC holding will reduce to 30%. The company current paid- up capital is Rs. 1.5 bn and it reported a loss of Rs. 32.7 mn in 2078-79.

Upper Tamakoshi Hydropower Limited (UPPER):

The company is developing largest hydro project of Nepal, Upper Tamakoshi Hydroelectric Project (UTKHEP) with installed capacity of 456 MW and annual energy generation capacity of 2,280 GWh. Established on March 2007 by NEA, it has a paid-up capital of Rs. 10.6 bn. NTC holds 6% shares which correspond to Rs. 635.4 mn investments. UPPER produced a loss of Rs. 3.8bn in Q4 2079-80 with EPS of Rs. -35.49.

Appendices

Broadband Service (Baisakh 2080)

Service Operator	Fixed Broadband (Wired)	Fixed Broadband (Wireless)	Mobile Broadband	Total
NTC	1,261,242	0	18,746,810	20,008,052
Ncell	0	0	8,924,513	8,885,495
ISPs	10,307,803	62,080	0	10,369,883
Total	11,569,045	62,080	27,671,323	39,302,448

Source- Nepal Telecommunications Authority

Subscription of Voice Telephony Service (Baisakh 2080)

Service Operator	Fixed	Mobile	Others	Total
NTC	547,737	20,364,717	0	20,912,454
Ncell	0	13,472,796	0	13,472,796
Others	0	0	2,986	2,986
Total	547,737	33,837,513	2,986	34,388,236

Source- Nepal Telecommunications Authority

Technical Outlook



TradingView

Technical Indicator (27/08/2023)

RSI	49.14	Exponential Moving Average (12 Day)	865.25
MACD line	-1.19	Exponential Moving Average (26 Day)	866.44
Signal line	-3.57	Exponential Moving Average (50 Day)	867.32
Bollinger Upper Band	882.36	Exponential Moving Average (200 Day)	872.30
Bollinger Middle Band	861.37	Volumes	11.334 K
Bollinger Lower Band	840.37	On Balance Volumes	-405.855 K
ADX	17.57	Super trend	906.61

For more than 300 trading days, NTC has been trading in the 760 to 980 zone in the longer time frame. Between these levels, the stock appears to be accumulating well for long-term investment.

According to the Dow theory, NTC is currently trading in bearish momentum, consistently making lower new lows in every fall. Similarly, MA 50D has been acting as immediate resistance while from a Fibonacci Retrenchment perspective, the level of 0.618 forms as strong support at this time. During the most recent short-term surge, NTC was unable to maintain above the 0.5 level, trending back to 0.618 zone.

Further, the scrip is forming falling wedge pattern in daily time frame, the breakout in the pattern, will change the trend and catches bullish rally which targets above 950 level.

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