

**Company Overview**

Grameenphone Ltd. (GP) was incorporated in November 1996 and launched its service in March 1997. The Company is primarily involved in providing mobile telecommunication services (voice, data and other related services) in Bangladesh. Grameenphone has the country's highest subscriber base with 74.53 million subscribers. Although there is stiff competition in the industry, subscriber base of GP is increasing every year.

	2016	2017	2018	2019	2020 (Jun)
Subscriber (mn)	58.0	65.3	72.7	76.5	74.5
Growth	2.2%	12.7%	11.3%	5.1%	8.3%*
Market share	45.85%	45.02%	46.33%	46.18%	46.21%

Source: BTRC; \*Growth over December 2019

**GP has acquired 4G service of 5 megahertz (MHz) spectrum on 1800 band at BDT 12,860 million per MHz** at the spectrum auction in February 2018. It acquired 3G license for 15 years of 10 MHz spectrum at the cost of BDT 17,248 mn in September 2013. It also renewed its 2G license up to year 2027 with BDT 29,880 mn. The Company has received approval for technology neutrality across its entire 2G spectrum in earlier 2018.

The Company's 99.8% revenue are generated from mobile communication (voice and non-voice tariff, subscription and connection fee and interconnection revenue) and remaining is secured from customer equipment (sale of mobile handsets and data cards) and other mobile services (telecom facility sharing and commission income). 5-year CAGR (compound annual growth rate) of the revenue of mobile communication was 7.5%.

**Revenue of Mobile Communication and Growth:**
**Break down of Mobile Communication Revenue**

	2016	2017	2018	2019	5-yr CAGR
<b>Composition:</b>					
Voice Traffic	71%	68%	69%	69%	--
Interconnection	8%	7%	6%	5%	--
Data	13%	17%	20%	21%	--
VAS & Others	8%	8%	6%	5%	--
<b>Growth:</b>					
Voice Traffic	5%	9%	7%	9%	5.04%
Interconnection	-13%	-6%	-11%	-6%	-7.45%
Data	-6%	46%	21%	17%	21.62%
VAS & Others*	--	7%	-22%	-9%	-8.82%

\*CAGR of VAS & others has been calculated for three years.

**Shareholding Structure:**

The Firm enlisted in the DSE and CSE in November 2009. Historical Shareholding Structure:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Sep-18	90.0%	0.0%	4.2%	3.4%	2.4%
31-Dec-19	90.0%	0.0%	4.0%	3.9%	2.1%
31-Dec-18	90.0%	0.0%	4.2%	3.6%	2.1%
31-Dec-17	90.0%	0.0%	4.6%	3.4%	2.0%

**Company Fundamentals**

Market Cap (BDT mn)	463,422.9
Market Weight   Sector Weight	14.4%   95.7%
No. of Share Outstanding (in mn)	1,350.3
Free-float (Public + Inst. + Foreign)	10.0%
Paid-up Capital (BDT mn)	13,503.0
3-month Average Turnover (BDT mn)	105.2
3-month Return (Dividend & Free-float Adjusted)	42.2%
Current Price (BDT)	343.3
52-week price range (BDT)	211.0 - 364.9
Sector's Forward P/E	13.2

	2017	2018	2019	2020 (6M Ann.)
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**Financial Information (BDT mn):**

Sales	128,436	132,832	143,656	138,475
Operating Profit	49,954	56,777	66,652	62,253
Net Profit	27,423	33,363	34,517	35,911
Cash & Cash Equi	12,415	5,932	13,761	8,362
Assets	130,220	138,713	148,734	154,677
CAPEX	13,087	30,379	14,458	5,174
Long Term Debt	13,469	7,603	13,484	11,131
Short Term Debt	5,680	5,759	10,284	12,370
Equity	35,121	36,836	38,347	50,900
Retained Earning	13,762	15,477	16,988	29,542

**Margin:**

Operating Profit	38.9%	42.7%	46.4%	45.0%
Pretax Profit	36.8%	41.3%	44.5%	43.6%
Net Profit	21.4%	25.1%	24.0%	25.9%

**Growth:**

Sales	11.8%	3.4%	8.1%	-3.6%
Operating Profit	20.2%	13.7%	17.4%	-6.6%
Pretax Profit	23.9%	15.9%	16.5%	-5.5%
Net Profit	21.7%	21.7%	3.5%	4.0%

**Performance Parameters**

ARPU(BDT)*	167	157	156	146
AMPU(Minutes)**	256	234	213	201
AMBPU (MBs)***	807	1,002	1,912	2,603

**Profitability:**

ROA	21.0%	24.8%	24.0%	23.7%
ROE	79.8%	92.7%	91.8%	80.5%

**Leverage:**

Debt Ratio	14.7%	9.6%	16.0%	15.2%
Debt-Equity	54.5%	36.3%	62.0%	46.2%
Int. Coverage	30.5	40.1	34.6	28.9

**Dividend History:**

Dividend (C/B)%	205/-	280/-	130/-	130/~
Dividend Yield	4.4%	4.2%	4.6%	4.9%
Dividend Payout	100.9	113.3%	50.9%	48.9%

**Valuation:**

Price/Earnings	16.9	13.9	13.4	12.9
Price/BV	13.2	11.6	12.1	9.1
EPS (BDT)	20.3	24.7	25.6	26.6
NAVPS (BDT)	26.0	29.7	28.4	37.7

\*ARPU= Average Revenue per User; \*\*AMPU= Average Minutes per User; \*\*\*AMBPU = Monthly average megabyte per user; ~Dividend of 2020 for six month interim dividend.

## Industry Overview

Bangladesh was the first South Asian country to adopt cellular technology back in 1993 by introducing Advanced Mobile Phone System (AMPS). In 1996, the government awarded three GSM licenses aimed to make the cellular technology affordable to the general masses (Source: BTRC). The telecom industry is flourishing rapidly in Bangladesh. By 2020, the mobile industry is expected to generate \$17 billion of economic value. Employment opportunities are also set to expand to 850,000 jobs in 2020.

Over the last 5 years, country's total **mobile subscriber base grew at a CAGR (Compound Annual Growth Rate) of 6.59%**. In 1997, only 0.4 mn people availed mobile communication service and tele-density was less than 0.4%, whereas as of June 2019 **tele-density was 97.46% and internet penetration rate is around 57.44%** according to BTRC's data.

The mobile market value is expected to continue to grow in 2020. Voice continues to be a major player in the market revenue growth, however, current trends indicate that the over the top (OTT) usage will also be growing significantly in the coming months and years. Judging by the steady growth of data usage, the mobile industry will play a pivotal role in transforming the lifestyle of the citizens of Bangladesh. Rapid expansion of mobile broadband and growing smartphone penetration has already facilitated the development of relevant digital content locally. The emergence of new digital services, convergence of technologies/IoT, increased financial inclusion, and falling smartphones prices have resulted in a huge appetite for high speed data.

Telecom and ICT is a highly focused area for the current Government. **By 2021, the Government aims to achieve 100% tele-density, 65% internet penetration**, fixed-broadband access to at least 50% of the people, and set up 4,553 unions with optical fibre connectivity. Under the Digital Bangladesh vision, the Government plans to create a knowledge-based economy where the production of goods and services are based on knowledge-intensive activities. All initiatives are focusing on e-governance, connecting citizens, developing IT-based human resources and promoting the ICT industry.

### Historical industry market share

	No. of Subscribers (mn)				5-yr CAGR	Market share
	Dec-17	Dec-18	Dec-19	Jun-20		
<b>GP</b>	<b>65.3</b>	<b>72.7</b>	<b>76.5</b>	<b>74.5</b>		<b>46.2%</b>
<i>Growth</i>	12.7%	11.3%	5.1%	-2.5%	<b>8.22%</b>	
<b>Robi*</b>	<b>42.9</b>	<b>46.9</b>	<b>49.0</b>	<b>48.0</b>		<b>29.7%</b>
<i>Growth</i>	65.6%	9.3%	4.5%	-2.1%	<b>7.96%</b>	
<b>Banglalink</b>	<b>32.4</b>	<b>33.5</b>	<b>35.2</b>	<b>34.0</b>		<b>21.1%</b>
<i>Growth</i>	4.6%	3.5%	5.1%	-3.4%	<b>2.66%</b>	
<b>Teletalk</b>	<b>4.5</b>	<b>3.9</b>	<b>4.9</b>	<b>4.8</b>		<b>2.9%</b>
<i>Growth</i>	23.7%	-14.2%	26.3%	-2.3%	<b>4.75%</b>	
<b>Total</b>	<b>145.1</b>	<b>157.0</b>	<b>165.6</b>	<b>161.3</b>		
<i>Growth</i>	14.8%	8.2%	5.5%	-2.6%	<b>6.59%</b>	

Source: BTRC; \*Robi and Airtel merged in 2016; Growth for Jun 2020 is calculated over December 2019

Currently four mobile operators (including 1 government owned) are operating in the country, covering more than 97% territory and 99.5% population. For intensifying the competition, in 2013, before a 3G spectrum auction, the BTRC

had created ground for a new player to enter the market but received no positive response yet.

### Growth of internet subscriber (in mn)

	Dec-16	Dec-17	Dec-18	Dec-19	Jun-20
<b>Mobile Internet</b>	<b>62.7</b>	<b>75.1</b>	<b>85.6</b>	<b>93.7</b>	<b>94.9</b>
<i>Growth</i>	21.9%	19.7%	14.0%	9.5%	1.3%
<b>ISP + PSTN</b>	<b>3.8</b>	<b>5.3</b>	<b>5.7</b>	<b>5.7</b>	<b>8.6</b>
<i>Growth</i>	51.7%	39.9%	7.3%	0.1%	49.3%
<b>WiMAX</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	
<i>Growth</i>	-37.2%	-4.3%	-31.5%	-91.8%	
<b>Total</b>	<b>66.6</b>	<b>80.5</b>	<b>91.3</b>	<b>99.4</b>	<b>103.5</b>
<i>Growth</i>	21.9%	24.0%	23.1%	20.8%	12.4%

Source: BTRC; \* Growth for June 2020 is calculated over December 2019

The Government has already established 5,275 digital centres across country to provide 200 types of service to 120 million citizens, starting from birth registration to an online grievance redress system. **The Government also aims to boost income from the ICT outsourcing industry up to USD 5 billion by 2020** and has undertaken large scale projects for IT infrastructure, including the establishment several ICT/Hi-tech parks and a tier-IV data centres.

### Investment Positives

- Grameenphone is the **market leader** in telecommunication sector. As of June 2020, the Company has **74.53 million subscriber base grew by 8.3% over December 2019 and 5-year CAGR (compound annual growth rate) was 8.22%**. It secured **46.21% of total subscribers' base** as of June 2020. Data subscriber base stood at 40.9 mn as of June 2020. The **BTRC declared Grameenphone as the country's first SMP operator** in February 2019, seeing that its revenue share is more than 50% and customer share about 47%. Grameenphone continued its growth momentum and maintained its superior positioning as data and digital service provider despite facing significant challenges from increase in supplementary duty, doubling of SIM tax and imposing of NOC restrictions by regulatory bodies.
- **Revenue from voice service posted a growth of 8.5% in 2019** over last year due to the 5.1% growth in subscriber base along with no dilution in voice ARPU (average revenue per user). **5-year CAGR of voice revenue was 5.04%**. Implementation of unified floor tariff for mobile phone operators in August 2018 and monthly minute pack also contributed to the growth of voice revenue. As per floor tariff plan, the maximum and minimum tariffs are BDT 2.0 and BDT 0.45 per minute respectively in any-net. GP has benefited by the revising pricing policy as GP has the largest subscribers' base.
- The Company's data revenue is increasing significantly over the years. **5-year CAGR of data revenue was 21.62% amid increased internet dependency and rising data usage**. Data subscriber growth has been encouraging, and a growing number of subscribers upgraded their handsets to 4G-enabled devices due to ready access to new digital services and applications over high-speed 4G/LTE data network. By the end of 2019 Grameenphone's entire network has been data enabled with 3G, 4G, or both technologies. During the first half of 2020, GP secured **revenue of BDT 16.9 billion from data which was 19.9% higher** than that of the same time period of the preceding year **driven by 4.23% increase in data user**.

**Contribution of Data Revenue to total Revenue**

Particulars	2016	2017	2018	2019	2020 (6M)
Data Revenue (BDT mn)	14,370	21,032	25,504	29,866	16,900
<b>% of Revenue</b>	<b>13%</b>	<b>17%</b>	<b>19%</b>	<b>21%</b>	<b>24%</b>
Growth	-6%	46%	21%	17%	20%*
Data User (mn)	24.5	31.2	37.1	40.6	40.9
Growth	56.1%	27.3%	18.8%	9.5%	2.8%*

\*Growth has been calculated over the same period of the preceding year.

- **The 4G data service has rolled out from earlier 2018.** The service has boosted AMBPU (Average MB Per User) and ultimately resulting into higher data revenue. Data user penetration reached 54.8% as of June 2020, which was achieved through rolling-out more than 10,000 4G sites, focused investment for network capacity & coverage expansion as well as bringing competitive product & market offers. **Growth in AMBPU was mainly driven by 4G conversion of the SIM from 3G network.**

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
AMBPU	1,418	1,576	1,763	1,912	2,225	2,603
Growth	14.9%	11.1%	11.9%	8.5%	16.4%	17.0%

AMBPU = Monthly average megabyte per user, growth rate has been calculated based on the immediate previous quarter.

- The Company has been paying consistent cash dividend over the years. The last five years' average dividend yield and payout ratio of the Company were 5.0% & 93.2% respectively.

**Investment Negatives**

- Grameenphone is going to face a major crisis if **BTRC does not allow the company to sell any new SIM cards or resell the numbers** that have been blocked for 15 months over an audit claim payment dispute as GP had exhausted all the numbers which were in its hands. **This will affect both the subscribers' base and data user growth.** Meanwhile, GP has already sent a letter to Bangladesh Telecommunication Regulatory Commission seeking permission to sell new SIMs and resell the old ones. Meanwhile, the Company received BTRC approval to recycle numbers available for sale on March 12, 2020 (Source: The Business Standard, 13 May 2020). GP had 3.00 million unused connections as of February 2020.
- **The telecom regulator has imposed two restrictions** on Grameenphone after 16 months it declared the GP a significant market power (SMP) **in June 2020,**
  - Grameenphone will **have to secure prior approval from the BTRC before rolling out any packages or offers.** The operator will also have to have all of its existing packages and offers validated by August 31. The carrier would not be able to change or amend any of the conditions of approved packages or offers without consent from the commission.
  - The regulator has also made it **easier for subscribers to leave Grameenphone under the mobile number portability (MNP) facility.** Currently, if a user wants to switch to another network, they will have to stay with the new carrier for at least 90 days. But subscribers can now abandon Grameenphone after just 60 days.
- **The Company has deposited BDT 20.00 billion to BTRC out of total BDT 125.80 billion as audit claim.**

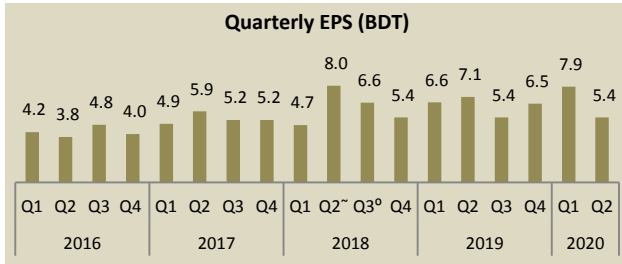
**Provisioning of the said amount might have negative impact on the profitability of the Company.** After completing an audit of Grameenphone, the BTRC in 2016 claimed that the joint venture between Norway's Telenor Group and Grameen Telecom Corporation owed them the said amount in taxes, revenue share, spectrum charge and late fees accumulated over years.

- In 2019, **AMPU (average minute per user) was 217 minutes which was 234 minutes in 2018 with decrease of 7.1%,** mainly owing to usage adjustment by subscribers from the two major events: unified tariff implementation (introduced in August 2018) and 5% additional supplementary duty (introduced in June 2019). Meanwhile, **increase in supplementary duty from 10% to 15% in June 2020** which makes availing mobile telecommunications services more expensive for customers **may reduce overall voice calls of the Company.**

**Latest Quarter Update – June 2020**

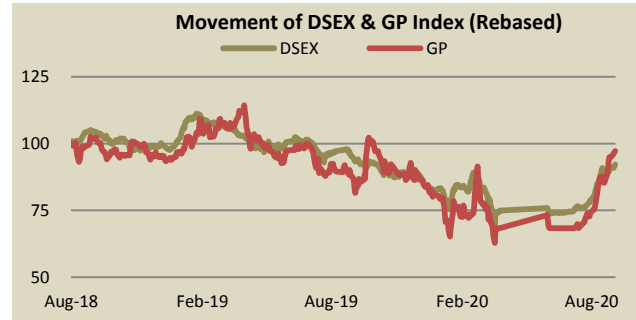
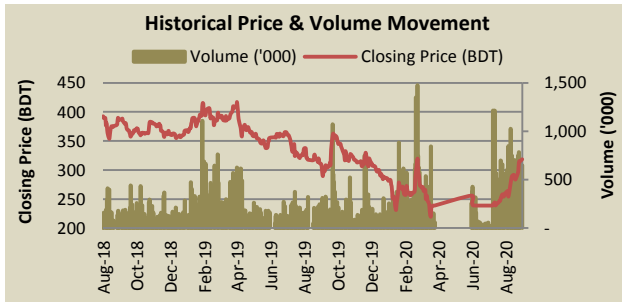
Particulars (BDT mn)	Jan-Jun 2020	Jan-Jun 2019	Apr-Jun 2020	Apr-Jun 2019
<b>Revenue</b>	<b>69,238</b>	<b>70,901</b>	<b>33,069</b>	<b>36,038</b>
Growth	-2.3%	--	-8.2%	--
<b>Operating Profit</b>	<b>31,127</b>	<b>32,596</b>	<b>14,088</b>	<b>17,054</b>
Margin	44.9%	45.9%	42.6%	47.3%
Growth	-4.5%	--	-17.4%	--
<b>Net Profit</b>	<b>17,955</b>	<b>18,049</b>	<b>7,266</b>	<b>9,553</b>
Margin	25.9%	25.5%	21.9%	26.5%
Growth	-0.5%	--	-23.9%	--
<b>EPS (BDT)</b>	<b>13.30</b>	<b>13.37</b>	<b>5.38</b>	<b>7.07</b>

- Revenue of the Company has **slightly decreased** during the reported period over the same period of last year **due to de-growth in subscription and traffic revenue** in the second quarter (Apr-Jun) of 2020 for the general holidays owing to the covid-19 situation.
- The operator ended the quarter with 74.5 million subscribers registering a **decrease of 2.61% customers** over December 2019.
- **Service ARPU declined to BDT 146** as of June 2020 which was BDT 156 in December 2019 due to **de-growth in voice in combination of lower APPM (average price per minute) and AMPU (average minutes per user).** This was driven by the general holidays declared to prevent the spread of covid-19 and increase of supplementary duty to 15%.
- **Data subscribers increased by 0.3 million during the first half of 2020** over December 2019. During Apr-Jun of 2020, data subscribers grew by 2.8% yoy to 40.9 million. Data revenue grew by 16.7% yoy driven by growth in data ARPU and increase in data users over the same period of last year.
- **Net profit was negatively impacted by 23.9% in the second quarter of 2020** in combination of lower revenues, lower EBITDA, modernization costs and higher finance costs.



~ The Company had a one-off tax adjustment in the 2<sup>nd</sup> quarter of 2018 for 2.8 billion which pushed the net profit margin.

° The Company has changed its accounting policies for one-off items.



### Concluding Remark

Grameenphone Ltd. is considered as the country's leading mobile operator. GP has the largest customer base and widest network coverage in the country. With the 4G data service, the Company's data revenue is expected to increase further and the data revenue growth is the key revenue driver for the Company.

Source: Annual Reports, DSE website, Grameenphone's website, BTRC, newspaper news and ILSL Research

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