

RATING REPORT

Cyan Limited

REPORT DATE:

January 8, 2019

RATING ANALYSTS:

Muniba Khan

muniba.khan@vis.com.pk
RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	Jan 2, '19		Dec 27, '17	

COMPANY INFORMATION

Incorporated in 1960	External auditors: M/s A.F. Ferguson & Co., Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Hasan Reza-ur Rahim
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Sulaiman S. Mehdi
Dawood Corporation (Pvt.) Limited – 62.0%	
General Public – 20.7%	
Mr. Hussain Dawood – 8.0%	

APPLICABLE METHODOLOGY(IES)

Corporates (May 2016)

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Asset Management Companies (March 2016)

<http://www.jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

Cyan Limited

OVERVIEW OF THE INSTITUTION

CL is public listed company incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) in 1960. Prior to being restructured as an investment company in 2011, CL operated as an insurance company by the name of Central Insurance Company Limited (CICL). The company is listed on the Pakistan Stock Exchange.

Profile of Chairman:

Mr. Rahim possesses over 30 years of domestic and international experience in the Banking and Financial Services industry. Most recently he served as the Executive Director, in-charge of the Chairman's Office of the Dawood Hercules Group, one of the largest entrepreneurial groups in Pakistan. He currently serves on the Boards of Dawood Hercules Corporation Limited (flagship investment holding company) and Dawood Lawrencepur Limited (renewable energy investment holding company).

Profile of CEO:

Mr. Sulaiman S. Mehdi is the Chief Executive of Cyan Limited (Cyan). He holds more than one-and-a-half-decade experience of working with leading Financial Services Groups at the senior positions in the areas of investments, operations, marketing, legal and corporate affairs. He is also the Chairman at the Pakistan Stock Exchange Limited (PSX) and the Pebbles (Pvt.) Limited, the real estate arm of Dawood Hercules (DH) Group and is leading all real estate initiatives of the Group.

RATING RATIONALE

Assigned ratings of Cyan Limited (CL) continue to be underpinned by its sponsor profile of Dawood Hercules Group, a prominent industrial conglomerate having presence across diversified sectors. Current ratings also reflect CL's sound liquidity profile, adequate capitalization indicators and experienced management team.

Key Rating Drivers:**Investment Portfolio:**

CL is primarily focused towards investing in high growth potential companies. On its investments front, portfolio amounted to Rs. 2.42b (FY17: Rs. 2.44b; FY16: Rs. 3.6b; FY15: 2.8b) at end-9M18. A large chunk of the portfolio is invested in listed equities while the remaining exposure comprises mutual funds and Treasury Bills placed with the State Bank of Pakistan as statutory deposit. During 2018, the company offloaded its exposure in The Hub Power Company Limited, amounting Rs. 1.05b, reducing significant concentration in its investment portfolio. Proceeds were parked in stocks belonging to diversified sectors such as commercial banks, engineering, food and technology.

Revenue Diversification:

Given subdued operations in the private equity market, the company has re-strategized itself by focusing towards advisory services in 2017. CL has started providing strategic advisory services to its related parties. The company entered into the advisory contract with Inbox Technology Limited with total advisory income of Rs. 15.8m booked in 2017 and Rs. 7m booked for Pebbles Private Limited in 9M18. Going forward, the company anticipates entering into investment advisory services where it will focus on providing advisory to group entities to manage their excess liquidity. The company intends to apply for a license in the coming period. Developments in this regard will need to be monitored over time. Additionally, CL also intends to offer consultancy services to corporates with regard to improvisation of their governance structure.

Profitability:

Given the downward trajectory of the stock market, core income of the company declined to Rs. 149.6m in FY17 (FY16: Rs. 201.8m); management anticipates income to recoup in the coming years. Lower revenue base coupled with a significant unrealized loss on its investments, CL reported a negative bottom line in 2017. However, the same was recouped to Rs. 121.6m in the period ended September 30, 2018. The company is also expecting to build support from other revenue generating avenues.

Management Team and Governance Framework:

Management team is spearheaded by Mr. Sulaiman S. Mehdi. Senior management team comprises qualified professionals. During the outgoing year, the company hired new analysts to broaden the capacity of the research function.

Cyan Limited

Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
BALANCE SHEET	Sept 30, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Cash and Bank Balances	26.1	5.3	0.9	159.9
Total Investments	2,419.8	2,440.9	3,612.5	2,825.3
Total Assets	2,519.7	2,546.2	3,659.0	3,032.4
Tier-1 Equity	1,716.8	1,741.7	2,425.7	2,094.7
Net Worth	2,187.5	2,270.1	3,172.6	2,515.1
INCOME STATEMENT				
	Sept 30, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Revenue from Operations	334.2	235.1	460.5	483.9
Operating Expenses	82.2	96.4	113.0	218.1
Profit Before Tax	165.2	(535.9)	734.3	495.9
Profit After Tax	121.6	(537.9)	711.2	335.0
RATIO ANALYSIS				
	Sept 30, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Average Return on Equity Portfolio	7.2%	-22.8%	40.0%	25.7%
Dividend Payout	120.8%	-	41.0%	70.0%
Efficiency (%)	24.6%	41.0%	24.5%	45.1%
Gearing	-	-	0.06	-
Leverage	0.15	0.12	0.15	0.21
Current Ratio	7.80	9.34	7.86	6.47
ROAA (%)	4.8%	-17.3%	21.3%	8.5%
ROAE (%)	5.5%	-19.8%	25.01%	9.4%
Liquid Assets to Total Liabilities (x)	7.36	8.86	7.43	5.77

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Cyan Limited				
Sector	Non-Bank Financial Companies				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	1/2/2019	A	Stable	A-1	Reaffirmed
	12/27/2017	A	Stable	A-1	Reaffirmed
	12/13/2016	A	Stable	A-1	Reaffirmed
	10/6/2015	A	Stable	A-1	Downgrade
	5/16/2014	A+	Stable	A-1	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				