

RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:

June 30, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	June 30, '20		June 24, '19	

COMPANY INFORMATION

Incorporated in 2001	External auditors: EY Ford Rhodes Chartered Accountants
Unlisted Public Company	Chairman of the Board: H.E. Yahya Bin Said Bin Abdullah Al- Jabri
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Bahauddin Khan
Ministry of Finance, Pakistan – 49.99%	
Ministry of Finance, Oman – 49.99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Meth-GSEs201606.pdf>

OVERVIEW OF THE INSTITUTION

POIC was incorporated as a private limited company in July, 2001. Subsequently, it was converted into a public limited company in March, 2004. The company is a joint venture between the Government of Pakistan (GoP) and the Sultanate of Oman (SO).

Profile of Chairman

His Excellency Yahya Bin Said Bin Abdullah Al-Jabri has vast experience of global corporate & investment banking with academic qualifications from prestigious business schools. Currently he is the Chairman of the Special Economic Zone at Duqm. He also holds senior positions in Oman's leading business & financial sectors such as being a member of the Board of Governance at the Central Bank of Oman, a Board member of the Oman Investment Fund and Chairman of the Capital Market Authority.

Profile of CEO

Mr. Bahauddin Khan has 36 years of Banking experience in both Multinational and local banks. Prior to joining POIC he served as Chief Operating Officer of Bank Alfalah Ltd and associated with prestigious banks such as Standard Chartered Bank, Deutsche Bank, Union Bank and UBL in senior positions.

RATING RATIONALE

POIC is primarily engaged in provision of corporate and investment banking services with a focus on supporting economic growth and development in Pakistan and Oman. The company operates through its head office in Karachi and a branch in Lahore. It also has liaison offices in Islamabad Gwadar and Muscat.

Rating Drivers

Sound sponsor profile with two major sovereign owners

The assigned ratings incorporate POIC's joint venture shareholding structure, with shares equally held by the Government of Pakistan and the Sultanate of Oman through their respective finance ministries. Sovereign ratings of Sultanate of Oman are currently outstanding 'BB-/B' as per an international rating agency. Sponsors of the company have demonstrated financial support towards POIC in the past and VIS anticipates this support to prevail in future in case a need arises.

In line with deliberate consolidation strategy, financing portfolio slightly declined; focus on consolidation to continue going forward

Gross advances of POIC slightly reduced to Rs. 20.6b (2018: 21.1b) at end-2019. Overall portfolio of the company is considered diversified across various sectors. Client wise concentration in portfolio remained at around half of portfolio with respect to top 10 funded exposures. Going forward, the management has adopted a consolidation approach with focus on maintaining portfolio quality rather than growth.

Despite weakening economic environment, asset quality indicators were maintained at manageable levels

Gross Non-Performing Loans (NPLs) of POIC decreased to Rs. 678.3m (2018: Rs. 711.2m; 2017: Rs. 964.4m) at end-2019 on account of reversals due to recoveries. Reduction in NPLs coupled with consolidation of advances allowed the company to maintain sound asset quality indicators.

POIC's investment portfolio increased to Rs. 59.4b (2018: Rs. 28.4b) at end-2019. Credit risk emanating from investment portfolio is manageable, as 91.5% of the investment portfolio was deployed in GoP securities. Increase in the investment portfolio in 2019 was observed primarily on account of higher investment in T-Bills and PIBs. PIBs have average duration of 5-7 years.

Going forward, pressure may be witnessed on asset quality indicators in view of economic slowdown emanating from COVID-19 outbreak. However, the management has enhanced monitoring of its exposures, and continues to maintain sound underwriting practices and pursue strong recovery drives to mitigate any adverse impact on portfolio quality.

Operating profitability improved on account of higher mark-up income

Higher markup income contributed positively to the top line. Non-markup income increased on account of higher gain on securities and dividend income while fee income decreased. Management's effort on recoveries yielded reversals albeit these were lower than last year, which resulted in lower net profitability in 2019. Going forward, spreads of POIC are expected to be impacted by lower interest rates. Growth in overall profitability is projected during ongoing year.

Manageable liquidity profile and sound capitalization indicators

Overall liquidity profile is considered manageable in view of adequate liquid assets in relation to deposits and borrowings, and regulatory compliant Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Primary funding sources include financial institutions and SBP's pass through financing schemes. Apart from borrowing, Certificate of Investments (COIs) is also the major source of mobilizing deposits. Concentration in deposit base improved during the outgoing year on account of higher mobilization from retail customers; however, the same still depicts room for further improvement. Due to limited outreach of the institution and competition from commercial banks, the institution faces challenges in mobilizing cheaper depositors from retail customers.

Growth in equity base was recorded in 2019 on account of profit generation. CAR ratio declined on account of higher risk weighted assets but remained compliant with regulatory requirement.

Pak Oman Investment Company Limited (POIC)
Appendix I
FINANCIAL SUMMARY (amounts in PKR millions)

BALANCE SHEET	2017	2018	2019
Total Investments	40,240.6	28,443.4	59,375.9
Net Advances	18,788.5	20,480.7	20,024.1
Total Assets	64,669.4	58,110.5	92,082.8
Borrowings	44,607.7	39,961.6	73,681.0
Deposits & other accounts	10,501.1	9,010.5	8,576.4
Subordinated Loans	-	-	-
Equity (excluding surplus)	8,059.8	8,103.5	8,191.7
Net Worth	8,123.4	8,142.9	8,353.5
INCOME STATEMENT			
Net Mark-up Income	856.0	839.7	1,020.9
Net (Provisioning) / Reversal	168.3	332.1	34.1
Non-Markup Income	340.4	161.6	236.3
Operating Expenses	573.3	552.2	577.4
Profit (Loss) Before Tax	744.5	749.3	681.8
Profit (Loss) After Tax	436.7	464.4	504.3
RATIO ANALYSIS			
Gross Infection (%)	4.9	3.4	3.3
Provisioning Coverage (%)	90.8	81.6	81.4
Net Infection (%)	0.5	0.6	0.7
Cost of funds (%)	5.9	6.9	11.96
Net NPLs to Tier-1 Capital (%)	1.4	2.3	2.1
Capital Adequacy Ratio (C.A.R (%))	21.5	17.3	15.57
Markup Spreads (%)	1.4	1.0	0.68
Efficiency (%)	59.4	60.0	52.7
ROAA (%)	0.8	0.8	0.7
ROAE (%)	5.3	5.7	6.2
Adjusted Liquid Assets to Deposits & Borrowings (%)	75.5	67.6	84.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Pak Oman Investment Company Limited					
Sector	Development Finance Institution (DFI)					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	30-Jun-20	AA+	A-1+	Stable	Reaffirmed	
	24-Jun-19	AA+	A-1+	Stable	Reaffirmed	
	27-Jun-18	AA+	A-1+	Stable	Reaffirmed	
	2-Jun-17	AA+	A-1+	Stable	Reaffirmed	
	29-Jun-16	AA+	A-1+	Stable	Reaffirmed	
	30-Jun-15	AA+	A-1+	Stable	Reaffirmed	
	30-Jun-14	AA+	A-1+	Stable	Reaffirmed	
	12-Jun-13	AA+	A-1+	Stable	Reaffirmed	
	29-Jun-12	AA+	A-1+	Stable	Reaffirmed	
Instrument Structure	N/A					
Statement by the Rating Team	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	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.					
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