

RATING REPORT

HBL Asset Management Limited

REPORT DATE:

February 19, 2018

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	MQR
MQ Rating	AM2+	AM2
Rating Outlook	Stable	Positive
Rating Date	December 29, '17	December 30, '16

COMPANY INFORMATION

Incorporated in 2006	External auditors: A. F. Fergusons
Unlisted Public Limited Company	Chairman of the Board: Mr. Taufiq Habib Chinoy
Key Shareholders:	Chief Executive Officer: Mr. Farid Ahmed Khan
Habib Bank Limited – 100%	

APPLICABLE METHODOLOGY(IES)

 Mutual Funds Rating (March 2016): <http://www.jcrvis.com.pk/docs/AMC-Methodology-201603.pdf>

HBL Asset Management Limited

OVERVIEW OF THE INSTITUTION

HBL AMC was incorporated in 2006 as an unlisted public limited company under Companies Ordinance, 1984. It is licensed to conduct asset management and investment advisory services.

Profile of Chairman

Mr. Tawfiq Habib Chinoy was associated with International Industries Ltd. (IIL) and International Steels Ltd. (ISL) since 1964. Mr. Chinoy is currently serving as non-executive Chairman of Jubilee General Insurance Company Ltd. and Packages Ltd.

Profile of CEO

Mr. Farid Ahmed Khan, CFA has been involved with capital markets for over 22 years. He has previously served in same capacity at other AMCs as well. Mr. Khan serves on the Board of various organizations.

RATING RATIONALE

Current rating derives strength from growth in Assets under Management (AUMs) attributable to acquisition of PICIC Asset Management Company (PICIC AMC), improvement in organizational structure, inductions in management team and improved control framework. In 2016, HBL AMC acquired 100% shareholding of PICIC Asset Management Company Limited (PICIC AMC) from NIB Bank with for a total consideration of Rs. 4.1b. Rating also draws comfort from the company's sponsor profile, HBL Bank being the largest private sector bank. Going forward, financial strength and support of the sponsor will remain one of the key rating drivers.

Key Rating Drivers:

Assets Under Management (AUMs): Prior to acquisition, PICIC AMC and HBL AMC's AUMs amounted to Rs. 23.0b and Rs. 20.9b respectively. As at June 2017, AUMs (net of FoFs) stood around Rs. 56.1b collectively increasing to Rs. 57.7b at end-October 2017. As a result, market share of the company increased to 9%. Growth of AUMs was largely a function of launch of two new funds during the year. Currently, the AMC manages a product suite of 19 funds; 2 close-ended, 2 voluntary pension schemes and 14 open ended funds including Shariah compliant and conventional schemes. As per management, the company is in the process of launching additional Financial Planning Funds which are expected to broaden the company's product suite; developments in this regard will be tracked by JCR-VIS.

Concentration in Funds: Over the period under review, concentration in AUM profile marginally changed with retail holdings representing 33% (FY16: 35%) of the total fund size. Moreover, associates contributed 13% (FY16: 24%) while unrelated corporates were higher at 54% (FY16: 41%); concentration in funds is considered on the higher side. Growth and granularity in AUMs are considered important from a rating perspective, going forward.

Fund Performance: On account of a lower interest rate scenario and the recent downturn in stock market, performance of the funds deteriorated during FY17. However, majority of the funds outperformed relative to their respective benchmarks despite transition phase of the team. As compared to peers during FY17, 4 out of 16 open ended funds were categorized in last quartile, 8 funds were in the third quartile while 5 resided in second quartile. Nonetheless, funds depicted an improvement in performance during 1HFY18. However, with the induction of experienced new team and restructuring, management anticipates performance to improve going forward.

AMC Financials: Profitability of the AMC is largely driven by management fee earned on its funds. Despite higher fee based revenue, the company reported a similar bottom line in comparison to the previous year. This was largely on account of financial charges on the long term loan obtained from HBL as well as additional taxes due to higher revised tax demand on prior year. Administrative expenses of the company also increased largely because of restructuring of the organization. However, profitability improved in during 1HCY17 on account of higher management fee. Conversion of two of its closed end funds to open end would result in a decline in overall fee based revenue, going forward. Nonetheless, efforts in revamping its sales force and distribution network may help in nullifying impact of the same; developments in this regard are yet to be seen.

Management: Post-merger, considerable changes in the senior management team were witnessed. Along with these changes, the AMC has undertaken structural modifications in order to improve transparency in reporting lines. Currently, there are no vacant positions in the senior management team. Stability of management team remains significant from rating's perspective.

Corporate Governance: In order to improve internal control framework, the management has segregated Compliance & Internal Audit departments which were earlier merged together. Post-merger, the company also revised several policies and Standard Operating Procedures (SOPs) for the overall organization.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

HBL Asset Management Limited

FINANCIAL SUMMARY		Appendix I		
HBL Money Market Fund		FY17	FY16	FY15
Fund Size (in Rs. millions)		3,942	3,523	5,079
Return (%)		6.5%	5.1%	8.8%
Benchmark (%)		7.2%	5.5%	7.9%
Retail Proportion (% of Net assets)		49%	23%	23%
Ranking Against Peers		13 out of 21	19 out of 22	9 out of 22
HBL Islamic Money Market Fund		FY17	FY16	FY15
Fund Size (in Rs. millions)		835	507	457
Return (%)		4.2%	4.3%	6.7%
Benchmark (%)		3.2%	5.4%	6.8%
Retail Proportion (% of Net assets)		27%	15%	16%
Ranking Against Peers		3 out of 3	3 out of 3	2 out of 3
HBL Cash Fund <i>(Formerly PICIC Cash Fund)</i>		FY17	FY16	FY15
Fund Size (in Rs. millions)		5,954	-	-
Return (%)		7.2%	-	-
Benchmark (%)		5.0%	-	-
Retail Proportion (% of Net assets)		11%	-	-
Ranking Against Peers		6 out of 21	-	-
HBL Income Fund		FY17	FY16	FY15
Fund Size (in Rs. millions)		4,490	6,726	3,376
Return (%)		4.6%	6.1%	12.4%
Benchmark (%)		6.1%	6.5%	9.0%
Retail Proportion (% of Net assets)		49%	64%	33%
Ranking Against Peers		26 out of 27	25 out of 28	15 out of 27
HBL Government Securities Fund <i>(Formerly: PICIC Income Fund)</i>		FY17	FY16	FY15
Fund Size (in Rs. millions)		1,370	-	-
Return (%)		5.5%	-	-
Benchmark (%)		5.9%	-	-
Retail Proportion (% of Net assets)		28%	-	-
Ranking Against Peers		18 out of 27	-	-
HBL Islamic Income Fund <i>(Formerly: PICIC Islamic Income Fund)</i>		FY17	FY16	FY15
Fund Size (in Rs. millions)		4,461	-	-
Return (%)		5.5%	-	-
Benchmark (%)		3.4%	-	-
Retail Proportion (% of Net assets)		4%	-	-
Ranking Against Peers		8 out of 17	-	-
HBL Stock Fund		FY17	FY16	FY15
Fund Size (in Rs. millions)		6,355	4,519	4,391
Return (%)		23.9%	2.4%	8.1%
Benchmark (%)		20.8%	9.8%	16.0%
Retail Proportion (% of Net assets)		5%	3%	2%
Ranking Against Peers		16 out of 20	17 out of 20	20 out of 20
HBL Energy Fund <i>(Formerly PICIC Energy Fund)</i>		FY17	FY16	FY15
Fund Size (in Rs. millions)		795	-	-
Return (%)		30.1%	-	-
Benchmark (%)		20.8%	-	-
Retail Proportion (% of Net assets)		54%	-	-

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Ranking Against Peers	9 out of 20	-	-
HBL Equity Fund <i>(Formerly PICIC Stock Fund)</i>	FY17	FY16	FY15
Fund Size (in Rs. millions)	469	-	-
Return (%)	27.7%	-	-
Benchmark (%)	23.2%	-	-
Retail Proportion (% of Net assets)	26%	-	-
Ranking Against Peers	13 out of 20	-	-
HBL Islamic Stock Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	1,044	785	784
Return (%)	24.5%	1.0%	11.6%
Benchmark (%)	18.8%	15.5%	20.1%
Retail Proportion (% of Net assets)	12%	11%	13%
Ranking Against Peers	11 out of 20	16 out of 16	11 out of 11
HBL Islamic Equity Fund <i>(Formerly PICIC Islamic Stock Fund)</i>	FY17	FY16	FY15
Fund Size (in Rs. millions)	790	-	-
Return (%)	-0.37%	-	-
Benchmark (%)	-3.19%	-	-
Retail Proportion (% of Net assets)	14%	-	-
Ranking Against Peers	12 out of 20	-	-
HBL Pension Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	482	482	422
Return (%) - Debt	4.4%	8.0%	11.0%
Return (%) – Money market	4.5%	9.0%	6.9%
Return (%) - Equity	27.3%	4.2%	31.6%
HBL Islamic Pension Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	382	315	285
Return (%) - Debt	3.5%	3.2%	5.0%
Return (%) – Money market	3.3%	5.6%	5.3%
Return (%) - Equity	-0.8%	2.8%	25.9%
HBL Multi Asset Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	967	766	767
Return (%)	18.4%	5.9%	4.9%
Benchmark (%)	16.2%	7.4%	11.2%
Retail Proportion (% of Net assets)	18%	12%	13%
HBL Islamic Asset Allocation Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	2,623	1,350	-
Return (%)	9.8%	3.34%	-
Benchmark (%)	7.6%	6.71%	-
Retail Proportion (% of Net assets)	58%	47%	-
HBL Financial Planning Fund	FY17	FY16	FY15
Fund Size (in Rs. millions)	N.A	N.A	N.A
Return (%) – Active Allocation Plan	N.A	N.A	N.A
Return (%) – Conservative Allocation Plan	N.A	N.A	N.A
Return (%) – Strategic Allocation Plan	N.A	N.A	N.A
HBL Islamic Financial Planning Fund			
Fund Size (in Rs. millions)	1,493	N.A	N.A
Return (%) – Active Allocation Plan	N.A	N.A	N.A
Return (%) – Conservative Allocation Plan	N.A	N.A	N.A
Return (%) – Strategic Allocation Plan	N.A	N.A	N.A

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

RATING SCALE - MANAGEMENT QUALITY RATINGS

AM1:

Asset manager exhibit Excellent management characteristics

AM2++, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

AM3++, AM3+, AM3:

Asset manager exhibit Good management characteristics

AM4++, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

AM5:

Asset manager exhibit Weak management characteristics

For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.

For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

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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

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REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	HBL Asset Management Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	12/29/2017	AM2+	Stable	Upgrade
	12/30/2016	AM2	Positive	Maintained
	5/4/2016	AM2	Stable	Harmonized
	1/14/2016	AM2-	Stable	Reaffirmed
	3/13/2015	AM2-	Stable	Reaffirmed
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 Management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	Not Applicable			
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