RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
July 2, 2018

RATING ANALYSTS:
Talha Iqbal
talha.iqbal@jcrvis.com.pk

Muhammad Ibad Desmukh
ibad.deshmukh@jcrvis.com.pk

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 27, '18*		*June 2, '17*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** A.F. Ferguson & Co. Chartered Accountants.
Unlisted Public Company	**Chairman of the Board**: Mr. Sofian Mohammad Jani
Key Shareholders (with stake 5% or more):	**Managing Director**: Ms. Ayesha Aziz, CFA
Ministry of Finance, Pakistan – 49.99%	
Brunei Investment Agency – 50.00%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities ***http://jcrvis.com.pk/images/gse.pdf***

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION

PBIC was incorporated as a public limited company in 2006. PBIC is a joint venture between Government of Pakistan and Brunei Investment Agency.

Profile of Chairman

The Board is chaired by Mr. Sofian Mohammad Jani, a nominee of BIA; he also serves as an Assistant Managing Directors at BIA and is fulfilling two additional roles of Head of Investments and Assets Allocation Strategy.

Profile Of Managing Director

Ms. Ayesha Aziz has over 20 years of experience in project finance, asset management, corporate finance advisory and treasury activities. Prior to joining PBIC, she was involved in establishing and managing operations and subsidiaries of Pak Oman Investment Company Limited, including a microfinance bank and an asset management company, where she acted as a board member and CEO.

RATING RATIONALE

Pak Brunei Investment Company Limited (PBIC) is a Development Finance Institution (DFI) which provides financial support to industrial and agricultural projects. Operations of the company commenced in August 2007. The company operates through its head office in Karachi with a branch in Lahore.

In 2017, PBIC established a specialized leasing company called Primus Leasing Limited (PLL), targeted towards Small & Medium Enterprises (SMEs). Previously, the company setup Awwal Modaraba Management Limited (AMML) in 2014 to ensure presence in growing Islamic finance industry while, launch of its first modaraba – Awwal Modaraba was completed in 2016; the listed modaraba reported net profit of Rs. 142.7m (FY17: Rs. 154.4m) in 9MFY18. AMML also plans to launch an infrastructure modaraba in 2018. In the outgoing year, PBIC divested 70% holding in AWT Investments Limited (formerly known as Primus Investment Management Limited) (AWTIL) to Army Welfare Trust. The company formally exercised put option for sale of remaining 30% shares in AWTIL on October 24, 2017 to Army Welfare Trust; the transaction was approved by SECP on March 5, 2018 and is subject to completion of certain formalities after which the sale will be executed. In a bid to further diversify revenue stream, management envisages venturing into wealth management business (advisory only).

Rating Drivers

Sovereign parentage continues to imply strong support

The ratings assigned to PBIC incorporate sovereign ownership of the company, with Government of Pakistan and Brunei Investment Agency being equal shareholders.

Considering spreads are not sustainable on long term basis, significant growth witnessed in short term corporate financing, contribution of revival financing to increase in ongoing year; asset quality indicators have weakened due to fresh classifications

Revival financing is the forte of PBIC. The company is the only DFI in the country which has developed expertise in providing financial restructuring solutions to entities, which include companies having limited funding resources. Nevertheless, conventional corporate lending remains the mainstay of the company, on the back of which, gross advances increased by 33.9% to Rs. 19.1b (2016: Rs. 14.2b) in 2017. The loan book primarily comprises a mix of blue chip and mid-tier corporates. Risk profile of large performing exposures is considered sound. Considering spreads that could not be justified on long term basis, PBIC focused on short term lending in the outgoing year as reflected by shift in advances mix towards short-term financing representing 47.8% (2016: 29.7%) of portfolio. Exposure to textile sector comprises largest proportion of advances at 21.9% followed by electronics and electrical appliances (12.1%) and production & transmission of energy (11.3%) sectors. While top 10 exposures have slightly increased in absolute terms, in relation to gross portfolio, the same have witnessed decline. Looking forward, management plans to maintain a balance between Advisory & Strategic Investment Group (ASIG) and low risk corporate loans. Moreover, long-term advances growth at higher spreads is projected to replace existing lower yielding exposures. Proportion of ASIG is projected at around one-fifth of the financing portfolio.

With fresh incidence of Non-Performing Loans (NPLs), gross and net infection increased to 5.0% (2016: 3.2%) and 3.5% (2016: 1.5%) respectively at end-2017, and further to 5.2% and 3.7% by end-

1Q2018. This was on account of fresh classifications emanating from projects taken up under revival financing for turning them around. Conversely, provisioning coverage declined to 30.3% (2016: 52.3%) and stands on the lower side on account of Forced Sales Value (FSV) benefit availed amounting to Rs. 357.7m (2016: Rs. 140.6m). Over ongoing year, management anticipates asset quality indicators to improve in tandem with recovery efforts. While risk profile of ASIG is higher vis-à-vis conventional lending portfolio, comfort is drawn from past track record of successfully executing such transactions through sound underwriting and monitoring policies. In addition to this, to further mitigate Company's position against potential risks of ASIG portfolio, during 2018, focus has been increased towards an outright transfer of ownership title of underlying collateral.

Proactive market risk management resulted in timely divestment of PIBs
Reading the anticipated policy rate hike in 2018, PBIC timely divested sizeable chunk of Pakistan Investment Bond (PIB) portfolio during outgoing year thus reducing market risk, particularly in PIBs (2017: Rs. 39.3m; 2016: Rs. 2.9b) and interest rate risk on T-Bills (2017: Rs. 3.0b; 2016: Rs. 6.1b). Accounting for reduction in listed equities, the total investment portfolio reduced from Rs. 17.0b in 2016 to Rs. 8.3b by end of the outgoing year. In the backdrop of rising policy rates, the company plans to undertake exposure in instruments with short term maturities.

Profitability for 2017 marred by one-off higher provisioning charges and lower capital gains; improved earnings projected for 2018 on the back of reversals, advances growth in high yielding ASIG portfolio and increase in dividend income
Overall profitability depicted decline due to one-off higher provisioning charges and lower capital gains (Net Profit: 2017: 470.5m; 2016: Rs. 961.7m). Despite 5.2% reduction administrative expenses, operating profit of PBIC declined by 25.5% to Rs. 465.9m (2016: Rs. 625.5m) primarily because of lower fee based and dividend income. Accordingly, efficiency ratio weakened to 37.4% (2016: 32.0%) in 2017. Materialization of reversals in provisions, achieving projected growth in advances and targeted financing mix while restricting costs is considered important for realization of projected profitability targets. Dividend income is also expected to support earnings base.

Strong capitalization indicators while liquidity profile is considered manageable
Primary funding sources include financial institutions and SBP's pass through financing schemes. Apart from borrowing, Certificate of Investments (COIs) are also a major source of mobilizing funds, which witnessed notable growth in the outgoing year. While not being fully aligned with the level commensurate with the assigned ratings, liquidity risk is considered manageable in view of adequate liquid assets in relation to deposits and borrowings. Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) were reported at 101.42% and 48.43% respectively at end-2017. LCR of the company stands on the lower side vis-à-vis peers. Capital Adequacy Ratio (CAR) improved to 30.62% (2016: 25.59%) at end-2017 due to redemption of mutual funds. Going forward, accounting for the projected growth in advances portfolio, CAR is expected to remain comfortably above the regulatory requirements.

Pak Brunei Investment Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	1Q2018	31-Dec-17	31-Dec-16
Total Investments	12,433.8	7,678.6	16,657.7
Net Advances	18,130.2	18,767.8	13,995.9
Total Assets	31,731.9	29,869.3	34,390.6
Borrowings	18,703.7	13,976.1	20,492.9
Deposits & other accounts	1,720.0	4,751.2	2,913.5
Tier-1 Capital (CET1+Admissible AT1)	8,852.8	9,041.1	7,914.3
Total Equity (excluding deficit on revaluation of assets – net of deferred tax)	10,741.0	10,658.0	10,490.6
Net Worth	10,655.2	10,456.2	10,428.6
INCOME STATEMENT	**1Q2018**	**31-Dec-17**	**31-Dec-16**
Net Mark-up Income	170.5	553.4	507.1
Net Provisioning / (Reversal)	12.8	141.0	97.1
Non-Markup Income	35.6	588.5	1,236.7
Administrative Expenses	71.3	278.6	293.7
Profit (Loss) Before Tax	119.6	670.9	1,332.5
Profit (Loss) After Tax	83.1	470.5	961.7
RATIO ANALYSIS	**1Q2018**	**31-Dec-17**	**31-Dec-16**
Gross Infection (%)	5.2%	5.0%	3.2%
Provisioning Coverage (%)	30.2%	30.3%	52.3%
Net Infection (%)	3.7%	3.5%	1.5%
Cost of funds (%)	5.45%	5.46%	6.14%
Net NPLs to Tier-1 Capital (%)	7.6%	7.4%	2.7%
Capital Adequacy Ratio (C.A.R (%))	28.5%	30.6%	25.6%
Markup Spreads (%)	0.68%	2.29%	4.09%
Efficiency (%)	37.6%	37.4%	32.0%
ROAA (%)	1.1%	1.5%	3.0%
ROAE (%)	3.1%	4.4%	9.5%
Liquid Assets to Deposits & Borrowings (%)	48.3%	37.3%	60.1%

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	Pak Brunei Investment Company (PBIC)
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
RATING TYPE: ENTITY				
27-Jun-18	AA+	A-1+	Stable	Reaffirmed
2-Jun-17	AA+	A-1+	Stable	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.
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