RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 26, '19*		*June 27, '18*	

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
Brunei Investment Agency – 50.0%	
Ministry of Finance, Pakistan – 49.9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Government Supported Entities
http://vis.com.pk/kc-meth.aspx

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION

PBIC was incorporated as a Development Finance Institution (DFI)in 2006and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency. During 2018, PBIC divested its existing stake of 30% in AWT Investments Limited (AWTIL) by exercising the put option stated in the share purchase agreement. The settlement amount agreed between two companies was Rs. 108.3m at an exercise price of Rs. 14.4; a 6.53% discounted price from stated exercise price of Rs. 15.5.

Rating Rationale

The ratings also take into account PBIC's sound capitalization levels and liquidity profile. Comfort is also drawn from the strong asset quality maintained by the company, which is reflective of the sound risk and control infrastructure in place. In addition to conventional lending, business model of PBIC advocates revival financing for mid-sized corporate entities that may be undergoing financial stress.

Key Rating Drivers

Sovereign parentage continues to imply strong support

The assigned ratings of PBIC continue to derive strength from sovereign sponsor profile. The company is a joint venture between the Government of Pakistan (GoP) and Brunei Investment Agency (BIA) with equal ownership vested with the two government institutions. BIA is governed by Ministry of Finance, Brunei and manages Government of Brunei's general reserve fund and external assets. Shareholding of GoP is represented through Ministry of Finance (MoF).

Growth in advances & investments have positively impacted the profitability

Gross advances amounted to Rs.20.6b (2017: Rs. 19.1b), posting a growth of 8%, at end-2018. This increase was largely on account of volumetric growth in its loan portfolio including SME & distressed financing book. On the other hand, investments were reported at Rs. 26.1b (2017: Rs. 7.7b) at end-2018; this significant growth largely emanated by fresh exposure in floating PIBs during the outgoing year. In the backdrop of an increasing interest rate scenario, addition of floating PIBs has largely mitigated the inherent price risk on the investment. This strategy is expected to increase spreads, going forward. Financing portfolio of PBIC remains diversified in terms of sector exposures with highest amounts placed with textile related clients representing 21% of total advances. During 2018, sector wise exposure has remained stagnant with majority exposure in textile, power, chemical &pharmaceutical sectors. However, the company has increased its exposure towards steel, packaging, construction and food segments. On the loan book front, management targets to book advances in the shorter tenure financing to mitigate the maturity mismatch on the book along with credit risk given the current interest rate scenario. Going forward, management plans to direct higher exposure towards non-cyclical sectors such as food & packaging.

Asset Quality has improved on the back of concerted efforts towards restructuring and recoveries

During the period under review, extensive efforts were directed towards recoveries of non-performing loans; this resulted in a lower infected portfolio of Rs. 593m at end-2018 vis-à-vis Rs. 954m at end-2017. Recoveries were largely received from poultry and sugar exposures. Infection levels of PBIC also improved to 3.0% (CY17: 5.0%) and 1.4% (CY17: 3.5%) on a gross and net basis, respectively at end-2018. During the ongoing year, management anticipates asset quality indicators to improve further in tandem with ongoing recovery efforts. Nonetheless, minimal amount of non-performing loans were classified during the year which may need to be monitored for impact on future portfolio performance.

Bottom-line was largely dampened by reduction in non-markup income along with increased administrative expenses

During the outgoing year, profitability levels of the company were impacted primarily by the increasing interest rate scenario. Having the largest credit portfolio amongst its peers, higher leverage levels imply increased cost of financing as interest rates move upwards This trend applied a downward pressure on margins on its loan portfolio along with valuation of its fixed income portfolio. As with other DFIs, PBIC operates on thin spreads which declined to 0.62% (CY17: 2.14%) during CY18.Non-markup income posted an overall drag on profitability levels of PBIC given a realized loss on its equity portfolio. However, dividend income from subsidiaries increased and was largely contributed by Awwal Modaraba representing 66% share in total dividend income. Administrative expenses amounted to Rs. 330.4 m (CY17: Rs. 278.6 m) largely emanating from employee related costs. As a result, efficiency levels of PBIC improved to 33.2% (CY17: 37.4%) in 2018.Going forward, management plans to improve its profitability levels driven by higher interest income from floating PIBs and moderate growth in income from advances portfolio.

Liquidity profile is considered manageable in view of higher liquid assets in relation to the funding portfolio

Primary funding sources include financial institutions and SBP's pass through financing schemes while secondary source of funding include Certificate of Investments (COIs). For PBIC, choice of COIs or borrowing from banks (including term loans) are a function of cost, efficiency and stability on the basis of which it regularly switches between primary and secondary funding sources. Cost of funding also increased with a rise in advances and further investment in floating rate PIBs. While the total cost of borrowing has risen, percentage increase in cost has been significantly lower than the corresponding rise in interest rates. In view of interest rate increases, the company also extended the tenor of its borrowing by accessing longer term funds from various banks. Liquidity profile improved significantly 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 93.0% and 65.7% respectively at end-2018. Capital Adequacy Ratio (CAR) reduced to 24.5% (2017: 30.6%) at end-2018 due to reduction in equity base; CAR declined on account of treatment of Term Finance Certificates of banks held in the investment portfolio. However, going forward, PBIC will need to maintain Net Stable Funding Ratio (NSFR) in line with the regulatory requirement. NSFR was 103% as at March 2019. Overall capitalization indicators remain sound in view sizeable cushion in Capital Adequacy Ratio (CAR) vis-à-vis the regulatory requirement.

Pak Brunei Investment Company Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	31-Mar-19	31-Dec-18	31-Dec-17
Total Investments	26,797.0	26,116.9	7,678.6
Net Advances	18,996.2	20,329.7	18,767.8
Total Assets	47,599.4	48,793.1	29,869.3
Borrowings	35,547.0	36,890.4	13,976.1
Deposits & other accounts	750.0	725.4	4,751.2
Tier-1 Equity	7,292.3	7,316.2	9,041.1
Net Worth	10,214.9	9,960.5	10,456.2

INCOME STATEMENT	31-Mar-19	31-Dec-18	31-Dec-17
Net Mark-up Income	190.0	719.3	553.4
Net Provisioning / (Reversal)	43.5	96.4	178.2
Non-Markup Income	1.6	221.9	588.5
Administrative Expenses	75.0	330.4	278.6
Profit (Loss) Before Tax	71.6	503.5	670.9
Profit (Loss) After Tax	49.2	275.9	470.5

RATIO ANALYSIS	31-Mar-19	31-Dec-18	31-Dec-17
Gross Infection (%)	3.1%	3.0%	5.0%
Provisioning Coverage (%)	56.5%	52.3%	30.3%
Net Infection (%)	1.3%	1.4%	3.5%
Cost of funds (%)	10.2%	7.8%	6.3%
Net NPLs to Tier-1 Capital (%)	2.5%	2.9%	6.3%
Capital Adequacy Ratio (C.A.R (%))	24.8%	24.5%	30.6%
Markup Spreads (%)	-0.71%	0.25%	1.85%
Efficiency (%)	35.6%	33.2%	37.4%
ROAA (%)	0.1%	0.7%	1.5%
ROAE (%)	0.5%	2.7%	4.5%
Liquid Assets to Deposits & Borrowings (%)	74.0%	70.3%	27.7%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 Brunei Investment Company (PBIC)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
26-Jun-19	AA+	A-1+	Stable	Reaffirmed
27-Jun-18	AA+	A-1+	Stable	Reaffirmed
2-Jun-17	AA+	A-1+	Stable	Initial