RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
July 03, 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 29, '20*		*June 26, '19*	

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	RATING RATIONALE

PBIC was incorporated as a Development Finance Institution (DFI)in 2006and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency.

Profile of Chairman

Mr. Sofian serves as the Acting MD in BIA and oversees asset allocation strategy. He has been associated with BIA for over two decades in the capacity of investment officer and as director of Internal Fund Management Department.

Profile of Managing Director

Ms. Ayesha Aziz (MD) spearheads the management team at PBIC. She is a seasoned professional with over 26 years of experience in project finance, asset management, corporate finance advisory and treasury activities. Ms. Aziz is an MBA from the Institute of Business Administration (IBA) and a qualified Chartered Financial Analyst (CFA).

Pak Brunei Investment Company Limited (PBIC) is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. The company operates via its head office in Karachi and with a branch office in Lahore. PBIC also operates two wholly-owned subsidiaries namely Awwal Modaraba Management Limited (AMML) and Primus Leasing Limited (PLL). Both companies are profitable and contributed to PBIC's profitability in 2019 in the form of dividend income.

Key Rating Drivers

Strong sponsor profile with two major sovereign owners.
Assigned ratings continue to derive strength from sovereign sponsor profile. PBIC is a joint venture agreement between Government of Pakistan (GoP) and Government of Brunei (GoB); each having an equal ownership. While interest of GoP is represented by Ministry of Finance (MoF), interest of GoB is represented by Brunei Investment Agency (BIA).

PBIC pursued a conservative lending strategy in 2019 given the challenging macroeconomic environment. Asset quality indicators have largely been maintained. Exposure of the financial sector to credit risk is elevated due to significant impact of Covid-19 on already weak macroeconomic indicators.
Gross financing portfolio decreased by ~7% to Rs. 19.2b (2018: Rs. 20.6b) on account of PBIC's conservative lending strategy pursued amidst economic slowdown and rising interest rate. Around four-fifth of the financing portfolio comprises lending to corporates. Remaining portfolio comprises revival financing and SME lending. In terms of sectoral exposures, lending to textiles, power, chemicals & pharmaceutical, food & beverages and electronics & appliances segment represent the key sectoral exposures. While business risk profile of the food & beverages and chemical & pharmaceutical segment has remained relatively less impacted due to Covid-19, lending to the textile (due to decline in purchasing power & lockdown in local and international markets) and power sector (due to sizeable & increasing quantum of circular debt although comfort is drawn from sovereign guarantee on payments) are relatively higher risk.

While gross infection has increased to 3.6% (2019: 3.1%; 2018: 2.9%) at end-1Q20 owing to higher NPLs and reduction in loan book, net infection (1Q20: 1.3%; 2019: 1.1%; 2018: 1.4%) and provisioning coverage (1Q20: 63.6%; 2019: 66.2%; 2018: 52.3%) improved on a timeline basis. Regulatory relief measures undertaken by SBP to promote financial stability, ensure continued credit supply to the economy and maintain confidence in the financial system have been received positively and are expected to delay the impact of prevailing headwinds on portfolio asset quality indicators. However, exposure of financial sector to credit risk is elevated due to significant impact of Covid-19 on already weak macroeconomic indicators. Our credit impairment expectations are conservative, albeit there is a probability of deviation from expectations; downside risk is elevated, amidst an uncertain economic environment. With heightened credit risk, risk management has enhanced monitoring of exposures with regular client meetings, particularly for client where credit risk is on the higher side, and increase in reporting frequency to the board and senior management. Given the ongoing challenging operating environment, general provision for select risky exposures are under consideration. Going forward, the management plans to pursue a consolidation strategy given the challenging operating environment. Resultantly, advances portfolio is expected to witness limited growth in

2020.

Exposure to credit risk emanating from investment portfolio remains limited. Duration of sovereign exposures has been timely aligned with changing macroeconomic environment.
Exposure to credit risk emanating from investment portfolio remains limited due to sizeable holding of government securities and highly rated TFCs (primarily issued by Commercial Banks). Duration of sovereign exposures has been timely aligned with changing macroeconomic environment in order to manage market risk while at the same time capitalizing on opportunities in the market to maximize returns on the portfolio. Average duration on PIB portfolio has increased substantially from 0.13 years at end-Dec'19 to 4.47 years at end-Mar'20. Duration on PIBs has increased further post Mar'20 with the PIB portfolio entirely comprising of fixed rate bonds. Given the sharp decline in interest rates, PBIC has realized sizeable capital gains on the fixed income portfolio in the ongoing year. Unrealized capital gains are also expected to increase given expectation of further reduction in interest rates.

With sharp decline in benchmark Indices, PBIC has incurred losses on equity (listed) portfolio. Major exposure is in power, cement, food and textile sector. Management has pursued a strategy to reduce equity portfolio due to weak macroeconomic outlook where noticeable reduction has already been noted in the ongoing year.

Sound liquidity profile and sound capitalization indicators.
Liquidity profile of the company is considered sound in view of the adequate liquid assets in relation to deposits and borrowings. PBIC also has access to sizeable unutilized funding lines which can be drawn upon in case of need. Average Liquidity Coverage Ratio (LCR) and net Stable Funding Ratio (NSFR) were reported at 64% (2018: 66%) and 115% (2018: 93%), respectively. NSFR was above the regulatory requirement of 100% while LCR is a function of higher advances in asset mix. Maintaining LCR on the lower side in the outgoing year has also benefited PBIC as investing large amount in securities in a rising interest rate environment would have resulted in capital losses and negative interest income. LCR has depicted a significant increase to 123.2% at end-March 2020. Overall capitalization indicators remain sound with healthy buffers as reflected by Capital Adequacy Ratio improved of 27.3% (2018: 24.5%) at end-2019. Moreover, PBIC's net NPLs to Tier-1 equity remains on the lower side 2.6% (2018: 3.3%; 2017: 6.5%) at end-2019

Leveraged part of PBIC's balance sheet is almost entierly funded by borrowings with major proportion contributed by bank borrowings. During the outgoing year, proceeds from higher bank borrowings were parked in government securities portfolio. Funding profile also includes unsecured exposures, borrowing from SBP under the LTFF scheme and repo borrowings. Overall liquidity profile of PBIC is considered sound.

Despite sizeable loss on equity portfolio, overall profitability profile has largely been maintained. Profitability to improve in 2020 due to higher capital gains.
Markup income witnessed a two-fold increase in 2019 which is primarily attributable to higher benchmark rates and volumetric growth in earning assets. Moreover, net interest income was higher due to improvement in spreads. Conversely, non-markup income decreased considerably due to sizeable loss on equity portfolio while dividend and fees & commission based income continued to support overall profitability. Going forward, profitability is expected to improve in 2020 due to higher capital gains. Quantum of improvement will depend on general provisions that will be undertaken against advances portfolio.

Pak Brunei Investment Company Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**31-Mar-20**	**31-Dec-19**	**31-Dec-18**	**31-Dec-17**
Total Investments	22,335.1	31,817.0	26,116.9	7,678.6
Net Advances	17,092.6	18,771.4	20,329.7	18,767.8
Total Assets	46,444.1	57,773.5	48,793.1	29,869.3
Borrowings	34,182.7	45,152.0	36,890.4	13,976.1
Deposits & other accounts	500.0	620.0	725.4	4,751.2
Paid-Up Capital	6,000	6,000	6,000	6,000
Tier-1 Equity	7,811.3	7,805.9	7,316.2	9,041.1
Net Worth	10,512.2	10,549.4	9,960.5	10,456.2
INCOME STATEMENT				
Net Mark-up Income	197.7	734.3	719.3	553.4
Net Provisioning / (Reversal)	66.0	(13.2)	96.4	141.0
Non-Markup Income	124.9	42.7	221.9	588.5
Administrative Expenses	89.5	325.5	330.4	278.6
Profit (Loss) Before Tax	163.7	458.2	503.5	670.9
Profit (Loss) After Tax	116.2	365.6	275.9	470.5
RATIO ANALYSIS				
Gross Infection (%)	3.6%	3.1%	2.9%	5.0%
Provisioning Coverage (%)	63.6%	66.2%	52.3%	30.3%
Net Infection (%)	1.3%	1.1%	1.4%	3.5%
Net NPLs to Tier-1 Capital (%)	2.9%	2.6%	3.3%	6.5%
Capital Adequacy Ratio (C.A.R (%))	29.6%	27.3%	24.5%	30.6%
Efficiency (%)	39.8%	32.5%	33.2%	37.4%
ROAA (%)	0.7%	0.7%	0.7%	1.5%
ROAE (%)	3.3%	3.6%	2.7%	4.5%

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 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				
	29-Jun-20	AA+	A-1+	Stable	Reaffirmed
	26-Jun-19	AA+	A-1+	Stable	Reaffirmed
	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	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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