RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
June 29, 2021

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, '21*		*June 29, '20*	

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 2006 and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency. In 2020, A.F. Ferguson & Co. Chartered Accountants conducted the external audit of financial statements. The audit firm is listed in the 'A' category of SBP's panel of auditors.

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. His other engagements include serving as a member of the Board for Employees' Trust Fund and Investment Committee of the Monetary Authority of Brunei Darussalam.

Profile of Managing Director

Pak Brunei Investment Company Limited (PBIC) is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. PBIC is classified as Development Finance Institution (DFI), and comes under the jurisdiction of State Bank of Pakistan (SBP). 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 2020 in the form of dividend income.

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 2020 given the challenging macroeconomic environment. Asset quality indicators have weakened in the outgoing year due to one single client; however comfort is drawn from FSV benefit of 100% against the non-performing client. Going forward, management envisages limited growth on the back of subdued revival transaction pipeline and fresh build-up expected to result in new exposures over the next 9-12 months given longer gestation periods.

Gross financing portfolio increased by a meager 2% in 2020 and declined by 8.6% at end-Mar'21 to Rs. 17.9b (2020: Rs. 19.6b, 2019: Rs. 19.2b) on account of PBIC's conservative lending strategy pursued amidst economic slowdown along with retirement of short term financings of the power sector. Around Rs. 2.5b of the total advances portfolio was deferred/re-scheduled at end-Dec'20 and end-Mar'21. Out of the same, around 18% (Rs. 445m) has been recovered by the company till end-May'21. Timely recovery of the same is considered important from ratings perspective. 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. Business risk profile of the food & beverages and chemical & pharmaceutical segment has remained relatively less impacted due to Covid-19. However, 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 recent MOUs signed between the GoP and IPPs to clear over dues) are relatively higher risk. Though Pak Brunei's exposure in textiles is concentrated in the larger corporates who have benefited by increased demands in the export markets due to the pandemic. Management envisages to maintain its portfolio in the same sectors with increasing focus on long term lending.

Gross and net infection of the company increased to 5.5% (2020: 5.0%, 2019: 3.1%) and 3.1% (2020: 2.9%, 2019: 1.1%) respectively at end-Mar'21 on account of a single large NPL client; however comfort is drawn from FSV benefit of 100% against the non-performing client. With heightened credit 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.

Ms. Ayesha Aziz (MD) spearheads the management team at PBIC. She is a seasoned professional with over 27 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). She is a director on the Board of Awwal Modaraba Management Limited, KSB Pumps Company Limited, Engro Polymer and Chemicals Limited and Glaxo SmithKline Consumer Healthcare besides chairing the Board of Primus Leasing Limited.

Going forward, the management expects decline in advances portfolio emanating from retirement of short term debt from the power sector clients and regular redemptions. By end-2021, PBIC plans to re-coup this shortfall and maintain advances portfolio at similar levels as in 2020 with limited projected growth. Limited projected growth is due to subdued revival transaction pipeline and fresh build-up expected to result in new exposures over the next 9-12 months given longer gestation periods.

Exposure to credit risk emanating from investment portfolio remains limited given sizeable contribution of federal government securities. 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 4.3 years at end-Dec'20. Duration on PIBs has now decreased to 2.55 years at end-Mar'21 with the PIB portfolio comprising floating rate short term maturity bonds. Given the sharp decline in interest rates, PBIC has realized sizeable capital gains on the fixed income portfolio in the ongoing year. Going forward, another decline expected in interest rates in Sept'21 is projected to yield higher unrealized gains on the fixed income portfolio. Given the sharp decline in benchmark Index, PBIC has incurred losses on equity (listed) portfolio during 2020 to the tune of Rs. 3.2m (2019: Rs. 108.1m). However, given improving performance of major scrips during 1Q21, PBIC incurred surplus of Rs. 18.8m at end-Mar'21. Major exposure is in power, cement, food and textile sector.

Going forward, management envisages investment portfolio to book gradual increase emanating from floating-coupon PIBs, investments in listed shares and mutual funds.

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 87.5% (2020: 116.6%, 2019: 63.6%) and 104.3% (2020: 112.4%, 2019: 115.3%), respectively at end-Mar'21. NSFR was above the regulatory requirement of 100%. Leveraged part of PBIC's balance sheet is almost entirely 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.

Overall capitalization indicators remain sound with healthy buffers as reflected by Capital Adequacy Ratio reported at 26.1% (2020: 26.6%; 2019: 27.3%) at end-Mar'21. Moreover, due to elevated infection levels due to a single non-performing client, PBIC's net NPLs to Tier-1 equity increased to 7% (2020: 7%, 2019: 3%) at end-Mar'21. Improvement in the same is considered important.

Overall profitability profile has witnessed significant improvement in 2020 due to higher capital gains on debt securities.

Markup income declined by 27% during 2020 to Rs. 3.7b (2019: 5.0b, 2018: Rs. 2.5b). The decrease is primarily attributable to lower interest rates amidst uncertain macroeconomic environment with yield on earning assets reducing to 11.5% (2019: 12.6%) in 2020. Rate of return on earning assets further declined to 8.2% in 1Q21. However, net interest income was higher due to improvement in spreads. Non-markup income increased considerably due to sizeable capital gains on GoP debt securities along with consistent support of dividend and fees & commission based income. In 2021, management projects profitability levels to be reported at similar levels in comparison to 2020 owing to mild expected recovery in 2021. Due to interest rates expected to remain flat in 2021 with one additional cut projected in Sept'21, gross markup income is expected to shrink in 2021, however this is expected to be off-set by higher spreads that are continuously being negotiated on existing and new exposures.

Pak Brunei Investment Company Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**2018**	**2019**	**2020**	**1Q21**
Total Investments	26,116.9	31,817.0	17,482.9	27,192.4
Net Advances	20,329.7	18,771.4	19,133.9	17,443.3
Total Assets	48,793.1	57,773.5	40,253.4	47,459.8
Borrowings	36,890.4	45,152.0	27,763.4	35,696.2
Deposits & other accounts	725.4	620.0	830.0	500.0
Paid-Up Capital	6,000.0	6,000.0	6,000.0	6,000.0
Tier-1 Equity	7,316.2	7,805.9	8,046.7	8,187.4
Net Worth	9,960.5	10,549.4	10,732.6	10,400.1
INCOME STATEMENT				
Net Mark-up Income	719.3	734.3	767.7	230.2
Net Provisioning / (Reversal)	96.4	(13.2)	34.0	2.5
Non-Markup Income	221.9	42.7	687.7	27.1
Administrative Expenses	330.4	325.5	366.2	102.9
Profit (Loss) Before Tax	503.5	458.2	1,033.4	151.9
Profit (Loss) After Tax	275.9	365.6	718.4	106.7
RATIO ANALYSIS				
Gross Infection (%)	2.87%	3.11%	5.03%	5.49%
Provisioning Coverage (%)	52.26%	66.17%	43.04%	44.04%
Net Infection (%)	1.39%	1.07%	2.93%	3.15%
Net NPLs to Tier-1 Capital (%)	3.87%	2.58%	6.96%	6.71%
Capital Adequacy Ratio (C.A.R (%))	24.50%	27.27%	26.64%	26.06%
Efficiency (%)	33.22%	32.49%	36.66%	41.75%
ROAA (%)	0.00%	0.69%	1.47%	0.97%
ROAE (%)	0.00%	3.56%	6.75%	4.04%

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	see 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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings	see below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
29-Jun-21	AA+	A-1+	Stable	Reaffirmed
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

Due Diligence Meetings

Name	Designation	Date
Mr. Abdul Jaleel Shaikh	Group Head CBG & SAM	June 04, 2021
Mr. Abdul Hafeez	CFO/Group Head, Finance & Operations	June 04, 2021
Mr. Ahmed Ateeq	Group Head – Treasury, Capital Markets & Wholesale Banking	June 04, 2021
Mr. Saiyid Najam Rizvi	Head Credit Risk & Monitoring Department	June 04, 2021
Mr. Haider Hussain	Head Project Monitoring & Credit Risk –SME	June 04, 2021
Mr. Fahad Fahim	Head Middle Office & Operational Risk	June 04, 2021