RATING REPORT

Pak Brunei Investment Company Limited (PBICL)

REPORT DATE:
June 27, 2023

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 Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*June 27, '23*		*June 28, '22*	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** M/s Yusuf Adil Chartered Accountants
Unlisted Public Company	**Chairperson of the Board**: Ms. Dk Noorul Hayati Pg Julaihi
Key Shareholders (with stake 5% or more):	**Managing Director**: Mr. S.M. Aamir Shamim
Brunei Investment Agency – 50.0%	
Ministry of Finance, Government of Pakistan – 49.999%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Government Supported Entities (July 2020)
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf
Rating Scales & Definitions:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION

PBICL was incorporated as a Development Finance Institution (DFI) in 2006 and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency (BIA). In 2022, EY Ford Rhodes 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

Ms. Noorul is a Portfolio Manager in the Absolute Return Strategy in BIA, the Sovereign Wealth Fund of the GoB. Ms. Noorul has been associated with BIA for 18 years. Her previous roles included Assistant Portfolio Manager and Analyst for Macro and Fixed Income Group. She has also managed the European Fixed Income Portfolio. Before moving onto current role, she was co-leading the private equity team. In her current role she is leading a team of professionals focused on hedge fund investments across the globe. She has also previously served as Director in Audley Insurance Company, wholly owned by BIA. She holds a degree with a major in Economics from Universiti Brunei Darussalam.

Profile of Managing Director: *Mr. S.M. Aamir Shamim has served as Group Head of Treasury and Financial Institutions at BankIslami Pakistan Limited (BIPL). He has also served as SEVP Finance & Treasury Group at the Islamic Bank of Thailand.*

RATING RATIONALE

Pak Brunei Investment Company Limited (PBICL) is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. PBICL is classified as DFI, is regulated by State Bank of Pakistan (SBP). The DFI operates via its head office in Karachi and with a branch office in Lahore. PBICL is a joint venture 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). In Mar'23, GoB appointed Ms. Dk Noorul Hayati binti Pg Julaihi as the Chairperson of the Board of Directors while in May'23, Federal Government of Pakistan appointed Mr. S.M. Aamir Shamim as the Managing Director of PBICL in place of Ms. Ayesha Aziz.

Advances: In the backdrop of socio-political and economic challenges faced by the country and global economic slowdown amid rising inflation, caused by the commodity super cycle and effects of the Ukraine war, PBICL followed a cautious strategy while making disbursements over the review period. In CY22, the gross advances portfolio of the Company exhibited a growth of ~19% driven by higher disbursements largely meeting the budgeted amount. Also, there were changes in YoY exposures across various sectors given disbursements were mainly directed towards relatively resilient sectors including power, sugar, food, chemicals & pharma, engineering, packaging agriculture and financial sectors. Meanwhile, the Company reduced its exposure in sectors more susceptible in economic downturn like consumer electronics, steel and engineering, textile and hospitality. In terms of segment-wise exposures, the corporate segment remained the mainstay of the DFI's lending operations, followed by Advisory and Strategic Investment Group (ASIG) and Small and Medium Enterprises (SME). Albeit, there is some improvement, the portfolio shows counterparty concentration given significant exposure in the corporate sector. It is pertinent to note that on account of relatively small size of the equity base, concentration in terms of tier-1 capital has remained on the higher side.

Asset Quality: In CY22, the asset quality indicators exhibited improvement as reflected by decline in gross and net infection ratios on account of reduction in NPLs and growth in advances portfolio. The decrease in NPLs was mainly on account of regularization of some accounts in electronics and electrical appliances along with power sector. Meanwhile, due to higher incidence of fresh infection and decrease in advances, there was an uptick in gross infection ratio by end-1Q'23. However, with higher provisioning charge against the advances portfolio (including performing, underperforming and non-performing) according to IFRS 9, the net infection ratio has dropped to 0.89% (CY22: 1.57%; CY21: 2.56%). In addition, provisioning coverage also exhibited notable improvement to 79.2% (CY22: 56.8%; CY21: 53.7%) as of Mar'23. PBICL's gross and net infection is indicative of moderate credit risk and compares favorably to peers.

Investments: As a result of participation in open market operations (OMO) conducted by SBP, Company's net investment portfolio has exhibited sizable growth as of Dec'22 and 1Q'23 while the increase was manifested in floating rate PIBs. Out of the total outstanding government securities exposure, fixed rate PIBs accounted for ~9% (Dec'22: 17.0%; Dec'21: 34.1%) while weighted modified duration of fixed rate is 3.63 years. The weighted average modified duration of overall PIBs portfolio and TFCs/sukuks remained manageable at 0.70 years and 0.19 years, respectively, as of Dec'22. As of Mar'23, total deficit on government securities portfolio increased notably mainly in line with mark to market losses on fixed rate PIBs. Meanwhile, as per management, after subsequent re-pricing of floating rate PIBs there was net surplus on Govt. securities portfolio; majority of the floating rate PIBs have fortnightly re-pricing. Going forward, the management intends to be rather less aggressive in building its investment portfolio. Given leverage ratio of 6.43% (Dec'22: 9.65%; Dec'21: 16.29%) as of Mar'23, against SBP requirement of 3%, the Company still have cushion to expand its investment portfolio. Moreover, the management intends to invest only in market T-bills, going forward. The equity portfolio majorly comprised exposure in dividend yielding stocks of cement and power companies. PBICL has shreded its equity portfolio in 1Q'23 owing to stumbling performance of stock market amid socio-political and economic slowdown. Therefore, overall market and credit risk arising from investment portfolio is expected to remain manageable.

Liquidity: The liquidity profile of DFI is underpinned by availability of funding lines, and adequate coverage of deposits and borrowings via liquid assets, which has improved notably to 55.2% (CY22: 26.4%; CY21: 24.5%) by end-Mar'23 as a result of growth in investment portfolio. Deposit base only comprised certificates of investments (COIs). However, it is to be noted that given the Company has funded relatively long-term Government securities with shorter tenure borrowings, there was liquidity shortfall reported in 1 month, 1 to 2 months, 2 to 3 months and 3 to 6 months buckets, as of Dec'22. However, given the fact that funding against these securities can be easily be arranged in money market, through OMO or SBP discounting, they pose limited threat to the organization's liquidity. Funding of the DFI is done through borrowings, which is the primary growth driver of the DFI. Funding sources include unsecured exposures, borrowing from SBP under the long-term financing facility (LTFF), temporary economic refinance facility (TERF) and various other subsidized financing schemes and repo borrowings, secured by government securities. Since SBP has allowed DFIs to participate in OMOs, it has given opportunity to the Company to leverage its book through investment in government securities, which has resulted in increased repo borrowing in 1QFY23.

Profitability: Overall PBICL's profitability profile is characterized by thin spreads, underpinned by conservative selection of counterparty credit risk and declining advances as proportion of assets. As per management, squeeze in markup spreads in CY22 was due to sharp increase in benchmark rates amidst quarterly repricing of the advances portfolio. In addition, the management remained focused on short-term advances, entailing lower spreads, owing to stressed economic conditions. The efficiency ratio of the DFI has improved on the back of sizeable recurring income in relation to operating expenses and remains comparable to peers. On account of contraction in markup spreads, profit before provisions was reported lower, however, the Company booked net reversals in provisioning vis-à-vis provisioning charge in the preceding year, which led to increase in profit before tax in the outgoing year. The markup spreads on advances came under further pressure due to hike in markup rates in 1Q'23. Meanwhile, the Company has subsequently adjusted the repricing of advances on monthly basis which has reduced the stress on spreads to a great extent. On the other hand, risk adjusted returns from treasury operations have supported the profitability profile of the Company. Given that the probability of further rate hikes can not be eliminated, the management intends to focus on earning risk adjusted returns from treasury while being conservative in core lending operations.

Capitalization: As of Dec'22, tier-1 capital of the Company declined, largely as a result of net deficit on investment portfolio. Meanwhile, in 1Q'23, the tier-1 capital further shrank mainly due to the combined impact of first time adoption of IFRS 9 and net deficit on investment portfolio. This, along with increase in risk weighted assets (RWAs) primarily in line with higher credit risk assets led to decrease in capital adequacy ratio (CAR) as of Dec'22 while CAR remained largely unchanged as of Mar'23 as a result of decrease in RWAs. Net NPLs to tier-1 capital decreased to 3.0% (Dec'22: 5.0%; Dec'21: 6.1%) as of Mar'23, reflecting manageable credit risk. Nonetheless, overall capitalization indicators remain sound with healthy buffers as reflected by CAR maintained well above the regulatory requirements. At present, PBICL's CAR falls in line with the peers and the benchmarks for the assigned ratings. Given the Company holds a sizable investment in floating rate Government securities portfolio, the impact of mark to market losses on CAR due to interest rate increase is expected to remain limited.

Pak Brunei Investment Company — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**2020**	**2021**	**2022**	**1Q'23**
Total Investments	17,482.9	26,246.6	44,805.4	77,852.0
Gross Advances	19,557.3	20,847.2	24,708.5	22,848.3
Advances – net	19,133.9	20,300.1	24,207.9	22,015.0
Total Assets	**40,253.4**	**51,449.8**	**79,937.6**	**111,284.1**
Borrowings	27,763.4	40,284.8	68,320.2	99,365.0
Deposits & other accounts	830.0	50.0	54.8	54.8
Paid Up Capital	6,000	6,000	6,000	6,000
Tier 1 Capital	**8,046.7**	**8,435.7**	**7,555.7**	**6,649.3**
Core Equity (Excluding Revaluation Surplus)	11,125.5	11,305.3	11,504.8	11,075.5
INCOME STATEMENT	**2020**	**2021**	**2022**	**1Q'23**
Net Mark-up Income	767.7	866.2	789.4	338.7
Net Provisioning / (Reversal)	34.0	70.7	(35.3)	16.9
Non-Markup Income	687.7	340.3	353.2	82.8
Operating Expenses	366.2	408.9	420.1	126.8
Profit (Loss) Before Tax	1,033.4	703.6	743.7	277.8
Profit (Loss) After Tax	718.4	481.3	502.9	183.8
RATIO ANALYSIS	**2020**	**2021**	**2022**	**1Q'23**
NPLs	983.9	1,018.9	881.6	941.2
Gross Infection (%)	5.03%	4.89%	3.57%	4.12%
Total Provisioning Coverage (%)	43.04%	53.69%	56.78%	79.16%
Net Infection (%)	2.93%	2.56%	1.57%	0.89%
Cost of Funds (%)	10.3%	7.57%	12.17%	N/A
Net NPLs to Tier-1 Capital (%)	6.96%	6.15%	5.04%	2.95%
Tier- 1 CAR (%)	26.64%	29.42%	23.02%	23.04%
Capital Adequacy Ratio (C.A.R (%))	26.64%	29.42%	23.02%	23.04%
Markup Spreads (%)	1.2%	1.53%	0.30%	N/A
Efficiency (%)	36.66%	37.92%	35.53%	29.82%
ROAA (%)	1.47%	1.05%	0.98%	0.92%*
ROAE (%)	6.58%	4.29%	4.41%	6.51%*
Adjusted Liquid Assets to Deposits & Borrowings (%) **	21.43%	24.46%	26.14%	55.19%
Liquid Assets to Deposits & Borrowings	46.86%	60.48%	69.13%	79.89%

**Annualized*

*** (Liquid Assets – Investments held as collateral)/(Deposits + Borrowings –Repo Borrowings)*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Pak Brunei Investment Company (PBICL)
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.
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Due Diligence Meetings	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-Jun-23	AA+	A-1+	Stable	Reaffirmed
28-Jun-22	AA+	A-1+	Stable	Reaffirmed
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
02-Jun-17	AA+	A-1+	Stable	Initial

Due Diligence Meetings

Name	Designation	Date
Mr. Fahad Fahim	Head of Enterprise Risk Management	May 31, 2023
Ms. Humaira Siddique	Chief Financial Officer	
Mr. Saiyid Najam Rizvi	Head of Credit Risk & Monitoring	
Mr. Adnan Naqvi	Head Corporate Banking	
Mr. Mustafa Ali Baig	Head of Treasury	
Mr. Abdul Jaleel Shaikh	Chief Risk Officer	June 6, 2023