

## RATING REPORT

### Dolmen City REIT

**REPORT DATE:**

November 1, 2019

**RATING ANALYSTS:**

Ibad Desmukh

[ibad.desbmukh@vis.com.pk](mailto:ibad.desbmukh@vis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
<b>REIT Rating</b>	AAA	RR1
<b>Rating Action</b>	Harmonized	Reaffirm
<b>Rating Date</b>	October 18, 2019	September 17, 2018

#### COMPANY INFORMATION

<b>REIT Name:</b> Dolmen City REIT	<b>Shariah Advisor:</b> Alhamd Shariah Advisory Services (Private) Limited
<b>RMC:</b> Arif Habib Dolmen REIT Management Limited	<b>Scheme:</b> Perpetual, listed closed-end Rental REIT
<b>Chairman of the Board:</b> Mr. Nasim Beg	<b>Listing:</b> Pakistan Stock Exchange (PSX)
<b>Chief Executive Officer:</b> Mr. Muhammad Ejaz	<b>Valuer:</b> MYK Associates (Private) Limited
<b>Property Manager:</b> Dolmen Real Estate Management (Pvt.) Limited	
<b>Trustee:</b> Central Depository Company of Pakistan Limited (CDC)	

#### APPLICABLE METHODOLOGY(IES)

Real Estate Investment Trusts (October 2019)

<http://vis.com.pk/kc-meth.aspx>

## Dolmen City REIT

### OVERVIEW OF THE FUND

DCR is a perpetual, listed, close-end rental REIT and was established on 20th January 2015 under Trust deed between Arif Habib Dolmen REIT Management Limited, as the REIT Management Company and Central Depository Company of Pakistan Limited as the Trustee of the fund. DCR is governed under the REIT Regulations 2015. The fund received the approval of the scheme on 29th May 2015 and was subsequently listed on the stock exchange.

### RATING RATIONALE

The rating favorably takes into account the continued high occupancy level and stable average lease rental for both, Harbor Front and Dolmen Mall segments. The assigned rating to Dolmen City REIT (DCR) takes into account the shopping mall plus office space combination of the property. Rating also reflects continuous increase in footfall, high occupancy levels and diversified tenant profile. The competitiveness of the property based on the established quality of services, provision of amenities and maintenance of the office and mall space in addition to its geographic location are other important rating drivers.

Aggregate occupancy level of DCR posted an increase and reported at 97.96% at end-June 2019; 97.19% occupancy was noted at Harbour Front while occupancy at Dolmen City Mall was 98.32%. The Dolmen Mall features a strong mix of local and international brands that have a track record of timely rental payments. New tenants added during FY19 feature reputed names. The Harbour Front building is predominantly occupied by multinational companies and high profile corporate tenants. Chevron, Phillip Morris, Mitsubishi Corp, Procter & Gamble, Citibank and Engro Corporation, are few of the top clients occupying the building. The tenancy mix suggests financially sound corporations with extensive track records. Tenancy agreements are in place with a weighted average lease expiry of 4.15 years for Dolmen City Mall and 2.08 years for Harbour Front. Greater competition in terms of availability of comparable facilities may affect occupancy rates and return for investors over the long term, particularly if economic growth faces slowdown. However, assurance of returns over the foreseeable horizon is considered high.

Rental income generated by Dolmen City REIT has depicted growth on a quarter on quarter basis during FY19 on account of increase in occupancy rates and renewal of existing rental agreements at higher rates. Rental income generated during FY19 has exceeded projections. On average around 70% of the rental income is generated from Dolmen Mall with the remaining being generated through The Harbour Front. While client concentration in terms of rental income is high, comfort is drawn from the volume of tenants, lengthy tenancy agreements in place with most clients and provision of state of the art facilities and services management by the Property Manager. Dividend yield on par in FY19 was 13.2% (annualized) (FY18: 12.0%).

Net equity of DCR stood at Rs. 46.23b at end-FY19. All of the distributable income is proposed to be distributed, in view of which cash build-up in the fund will be limited. The assigned rating also takes into account the profile of Dolmen and Arif Habib Groups, which feature as shareholders in International Complex Projects Limited and the REIT Management Company. Both these groups are financially sound and have prior experience in the real estate sector.

**Dolmen City REIT**
**Appendix I**

<b>FINANCIAL SUMMARY</b>	<b>FY19</b>	<b>FY18</b>
<b>BALANCE SHEET (Rs. In Millions)</b>		
Non-current Assets-Investment property	44,954	41,119
Paid up capital	22,237	22,237
Net Equity (Total Unit holder's Fund)	46,233	42,232
Net Asset Value per unit	20.79	18.99
<b>INCOME STATEMENT</b>		
Rental Income	3,344	3,047
Total Income	3,667	3,160
Net Operating Income	3,014	2,773
Profit before change in fair value of investment property	3,034	2,776
Profit before Tax	6,869	5,055
Profit after Tax	6,869	5,055
<b>RATIOS</b>		
FFO	2,896	2,657
Gearing (x)	0	0
Current Ratio	3.51	3.41

**RATING SCALE AND DEFINITION**

**Annexure II**

**RATING SCALE & DEFINITIONS: REIT RATING SCALE**

**AAA**

Highest degree of stability in NAV. Risk is negligible with very low sensitivity to changing economic conditions

**AA+, AA, AA-**

High degree of stability in NAV. Risk is modest but may vary slightly from time to time because of changing economics conditions

**A+, A, A-**

Moderate degree of stability in NAV. Risk factors may vary with possible changes in the economy

**BBB+, BBB, BBB-**

Adequate degree of stability in NAV. Risk factors are considered variable if changes occur in the economy

**BB+, BB, BB-**

Low degree of stability in NAV. Risk factors are sensitive to changes in the economy

**B**

Very low degree of stability in NAV. Risk factors are capable of fluctuating widely if changes occur in the economy

The REIT rating scale of 'AAA' to 'B' is appended by the letter (rr) to denote Rental REIT ratings and (dr) to denote Developmental REIT ratings, and to differentiate it from the nomenclature used for issue and issuer ratings.

<b>REGULATORY DISCLOSURE</b>		<b>Appendix III</b>	
<b>Name of Rated Entity</b>	Dolmen City REIT		
<b>Sector</b>	Miscellaneous		
<b>Type of Relationship</b>	Solicited		
<b>Purpose of Rating</b>	REIT Rating		
<b>Rating History</b>	<b>Rating Date</b>	<b>REIT Rating</b>	<b>Rating Action</b>
	18-Oct-19	AAA(rr)	Harmonized
	17-Sept-18	RR1	Reaffirmed
	24-July-17	RR1	Reaffirmed
	25-July-16	RR1	Reaffirmed
	26-May-15	RR1	Initial
<b>Instrument Structure</b>	N/A		
<b>Statement by the Rating Team</b>	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 fund stability only and is not a recommendation to buy or sell any securities.		
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