

## RATING REPORT

### Dolmen City REIT

**REPORT DATE:**

September 4, 2020

**RATING ANALYSTS:**

Narendar Shankar Lal

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
REIT Rating	AAA	AAA
Rating Action	Reaffirm	Harmonized
Rating Date	September 4, 2020	October 18, 2019

#### 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> Tristar International Consultant (Pvt.) 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)

[https://s3-us-west-2.amazonaws.com/backupsqvis/docs/RentalREITs\)-201910.pdf](https://s3-us-west-2.amazonaws.com/backupsqvis/docs/RentalREITs)-201910.pdf)

## 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 assigned rating takes into account diversified income sources from the shopping mall (Dolmen Mall) and office space combination (Harbour Front) of the property. With decrease in economic activity due to COVID-19, occupancy levels witnessed decrease vis-à-vis the preceding year; however, the overall occupancy level is still on the higher side. Rating also reflects diversified tenant profile and recovery in footfall metrics with ease in lockdown and improvement in COVID-19 situation in the country. 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.

**Occupancy levels remain sound despite witnessing decline vis-à-vis preceding year**

Aggregate occupancy level witnessed a decrease and was reported at 92.8% (FY19: 98.0%) at end-FY20. As impact of economic slowdown was more prominent on the retail sector, occupancy level at Dolmen Mall observed a larger year on year decrease in comparison to the year on year decrease observed in occupancy level at Harbour Front. The Dolmen Mall features a strong mix of local and international brands that have a track record of timely rental payments. 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 3.31 years for Dolmen City Mall and 4.0 years for Harbour Front, which partly mitigates the risk of any further decrease in occupancy level. Going forward, overall economic situation in the country and greater competition in terms of availability of comparable facilities may affect occupancy rates over the long term. Maintaining high occupancy levels is considered an important rating driver.

**Rental concessions to tenants contributed to lower rental income and cash flows; however, reduction in monthly rent waivers indicates a sign of recovery**

With imposition of lockdown and adoption of social distancing practices due to COVID-19, the revenue streams of tenants were affected. Resultantly, the management provided rental waivers of varying percentages in the months extending from April to August to provide relief to the tenants. Consequently, rental income emanating from both Dolmen Mall and Harbour Front witnessed a decrease during FY20. 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. Decline in revenues contributed to lower bottom-line and cash flows on year-on-year basis. Going forward, future rental income is dependent on pace of economic recovery and improvement in footfall in the mall. Reduction has been noted in the monthly percentage of rent waiver granted to the tenants with ease in lockdown measures and improving COVID-19 situation in the country.

**Unleveraged capital structure and sound sponsor profile provide support to the rating**

Total equity of DCR has grown on a timeline basis due to profit retention. All of the distributable income is proposed to be distributed, in view of which cash build-up in the fund will be limited. Dividend payout ratio (based on distributable income) for FY20 amounted to 104.5% (FY19: 97%). The company has no debt on its books, which provides comfort to the rating. 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**

FINANCIAL SUMMARY		Amounts in Rs. millions		
BALANCE SHEET	FY18	FY19	9M'FY20	
Non-Current Assets-Investment property	41,119	44,954	47,372	
Bank Balances	1,480	1,619	1,639	
<b>Total Assets</b>	<b>42,998</b>	<b>47,022</b>	<b>49,554</b>	
Non-Current Liabilities	214	200	209	
Accrued Expenses and other liabilities	317	360	318	
<b>Total Current Liabilities</b>	<b>552</b>	<b>589</b>	<b>542</b>	
<b>Total Liabilities</b>	<b>766</b>	<b>789</b>	<b>750</b>	
Paid up capital	22,237	22,237	22,237	
<b>Net Equity (Total Unit holder's Fund)</b>	<b>42,232</b>	<b>46,233</b>	<b>48,803</b>	
Net Asset Value per unit	18.99	20.79	22	
<b>INCOME STATEMENT</b>				
Rental Income	3,047	3,344	2,557	
<b>Total Income</b>	<b>3,160</b>	<b>3,667</b>	<b>2,704</b>	
<b>Net Operating Income</b>	<b>2,773</b>	<b>3,014</b>	<b>2,372</b>	
Profit before change in fair value of investment property	2,776	3,034	2,443	
Profit before tax	5,055	6,870	4,860	
<b>Profit after Tax</b>	<b>5,055</b>	<b>6,870</b>	<b>4,860</b>	
<b>RATIOS</b>				
Operating Profit Margin	91.0%	90.1%	92.8%	
FFO	2,657	2,896	2,276	
Gearing (x)	-	-	-	
Current Ratio	3.41	3.51	4.03	

**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

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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>	
	04-Sep-20	AAA(rr)	Reaffirmed	
	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.			
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>
	1	Mr. Zohaib Yaqoob	CFO & Company Secretary – Arif Habib REIT Management Company	August 18, 2020