

RATING REPORT

Dolmen City REIT

REPORT DATE:

September 22, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
REIT Rating	AAA	AAA
Rating Action	Reaffirm	Reaffirm
Rating Date	September 22, 2021	September 4 th , 2020

COMPANY INFORMATION

REIT Name: Dolmen City REIT	Shariah Advisor: Alhamd Shariah Advisory Services (Private) Limited
RMC: Arif Habib Dolmen REIT Management Limited	Scheme: Perpetual, listed closed-end Rental REIT
Chairman of the Board: Mr. Nasim Beg	Listing: Pakistan Stock Exchange (PSX)
Chief Executive Officer: Mr. Muhammad Ejaz	Valuer: Tristar International Consultant (Pvt.) Limited
Property Manager: Dolmen Real Estate Management (Pvt.) Limited	Auditor: Yousuf Adil Chartered Accountants
Trustee: Central Depository Company of Pakistan Limited (CDC)	

APPLICABLE METHODOLOGY(IES)

Real Estate Investment Trusts (October 2019)

[https://docs.vis.com.pk/docs/RentalREITs\)-201910.pdf](https://docs.vis.com.pk/docs/RentalREITs)-201910.pdf)

Dolmen City REIT

Appendix I

OVERVIEW OF
THE REIT FUND

RATING RATIONALE

Dolmen City REIT (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 (which have been recently updated as on June'21). The fund received the approval of the scheme on 29th May 2015 and was subsequently listed on the stock exchange.

The assigned rating takes into account diversified income sources from the shopping mall (Dolmen Mall) and office space combination (Harbour Front) of the property. Comfort is drawn from occupancy levels remaining above 90% even amidst subdued economic activity. Rating also reflects diversified tenant profile and recovery in footfall metrics with ease in mall operational hours 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 witness an increase on an aggregate level in FY21 vis-à-vis preceding year

Given lower economic activity due to COVID-19, occupancy levels witnessed a decline in FY20 to 93% (FY19: 98%). However, with gradual opening of malls and office spaces, occupancy levels increased to 95% at end-FY21. Maintaining high occupancy levels is considered an important rating driver, going forward. Going forward, the overall economic situation in the country and greater competition in terms of availability of comparable facilities may affect occupancy rates over the long term.

As a result of economic slowdown, management offered rental waivers and deferred rental escalation in order to support tenants. The management revised waiver policy from time to time depending on the footfall analysis. Rental discounts and waivers have continued for the food segment in the ongoing year given closure of indoor dining and limited dining space in the outdoor. Need of revision in the same is reviewed periodically by the management.

The Dolmen Mall features a strong mix of local and international brands that have a track record of timely rental payments. Multinational companies and high profile corporate tenants predominantly occupy the Harbour Front building. Chevron, Phillip Morris, Mitsubishi Corp, Procter & Gamble, Citibank and Engro Corporation, are few of the top clients occupying the building. The fund's project manager is in negotiations with banks to lease vacancies at the harbor front. New tenants added in FY20 in Dolmen Mall Clifton include Sino Sindh Resources, Bonanza, Shaffer, Mango Man, Dune London, Bay Lingerie Studio, Ginsoy Live and Vanellis. The tenancy mix suggests financially sound corporations. Around 46% of the occupancy in retail category is contributed by apparel followed by a 14% contribution from the food category. At end-June'20, Weighted Average Lease Expiry based on the leasable area is 3.32 years and 3.44 years for Dolmen City Mall and Harbour Front, respectively.

Rental concessions along with deferment in rental escalations offered to the tenants contributed to a lower rental income and cash flows in FY20; however, gradual resumption of economic activities increasing footfall and reduction in monthly rent waivers led to improvement in rental income during FY21.

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 both FY20 and FY21 to provide relief to the tenants and to maintain

long term relationship with them. Consequently, rental income of the fund decreased to Rs. 2.8b (FY19: Rs. 3.34b) during FY20.

Due to recovery in economic activities in the ongoing year, rental income emanating from both Dolmen Mall and Harbour Front witnessed an increase during 9MFY21 to Rs. 2.2b given reduction in the monthly percentage of rent waiver granted to the tenants on a case to case basis. As per management, footfall per day is gradually restoring (16k/day) to pre-COVID levels (20-30k/day). 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. Bottom line and cash flows are considered sufficient with operating profit before fair value adjustment being reported at Rs. 2b during 9MFY21. Going forward, future rental income is dependent on pace of economic recovery and escalation in rental rates. As per management, tenant wise escalations are in place and will come into effect by November 2021. Timely materialization of the same is considered important.

Unleveraged capital structure and sound sponsor profile provide support to the Rating.

Total equity of DCR has grown on a timeline basis due to higher fair value of investment property. Dividend payout ratio (based on distributable income) has been at a minimum of 90% on a timeline basis. All of the distributable income is proposed to be distributed, in view of which cash build-up in the fund has remained limited. Moreover, Withholding Tax on dividend income from REITs has reduced to 15% from 25% resulting in tax benefit for the investors. 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 sufficient prior experience in the real estate sector.

Dolmen City REIT
Appendix I

Dolmen City REIT(Financial Summary)		(PKR m)		
<u>BALANCE SHEET</u>	FY18	FY19	FY20	9MFY21
Non-Current Assets- Investment Property	41,119	44,954	50,413	52,541
Bank Balances	1,480	320	347	1,164
Total Assets	42,998	47,022	52,034	54,387
Non-Current Liabilities	214	200	204	256
Accrued Expenses and other liabilities	317	360	326	269
Total Current Liabilities	552	589	548	458
Total Liabilities	766	789	752	714
Paid up Capital	22,237	22,237	22,237	22,237
Net Equity (Total Unit Holder's Fund)	42,232	46,233	51,282	53,673
Net Asset Value per unit	18.99	20.79	23.06	24.14
<u>INCOME STATEMENT</u>	FY18	FY19	FY20	9MFY21
Rental Income	3,047	3,344	2,814	2,197
Total Income (including other income)	3,370	3,667	3,157	2,408
Net Operating Profit	2,773	3,014	2,568	1,973
Profit before change in fair value of investment	2,776	3,034	2,659	1,997
Profit Before Tax	5,055	6,870	8,118	4,125
Profit After Tax	5,055	6,870	8,118	4,125
<u>RATIO ANALYSIS</u>	FY18	FY19	FY20	9MFY21
Operating Profit Margin	91.0%	90.1%	91.3%	89.8%
FFO	2657	2,896	2,478	1,958
Gearing (x)	-	-	-	-
Current Ratio (x)	3.41	3.51	2.96	4.03

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix 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.

REGULATORY DISCLOSURE		Appendix III	
Name of Rated Entity	Dolmen City REIT		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	REIT Rating		
Rating History	Rating Date	REIT Rating	Rating Action
	22-Sep-21	AAA (rr)	Reaffirmed
	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
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 management 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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Due Diligence Meetings Conducted	S.No	Name	Designation
	1	Mr. Hamza Naeem	Manager
	2	Mr. Razi Haider	CFO
	Date		
		03-09-2021	
		03-09-2021	