

RATING REPORT

Dolmen City REIT

REPORT DATE:

October 25, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
REIT Rating	AAA(rr)	AAA (rr)
Rating Action	Reaffirmed	Reaffirmed
Rating Date	October 25, 2022	September 22, 2021

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. Arif Habib	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: KPMG Taseer Hadi & Co. Chartered Accountants
Trustee: Central Depository Company of Pakistan Limited (CDC)	

APPLICABLE METHODOLOGY(IES)

Real Estate Investment Trust (REIT) Fund (July 2022)

[https://docs.vis.com.pk/docs/REITMethodology-Final-Dec2021\(Final\).pdf](https://docs.vis.com.pk/docs/REITMethodology-Final-Dec2021(Final).pdf)

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.

Key Rating Drivers**Rating incorporates diversified renter profiles**

- The assigned rating takes into account, diversified income sources from the shopping mall (Dolmen Mall) and office space combination (Harbour Front) of the property.
- Rating incorporates diversified tenant profile, featuring a strong mix of local and international brands that have an ongoing 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 tenancy mix suggests financially sound corporations. At end-June'22, Weighted Average Lease Expiry based on the leasable area is 2.39 years and 3.66 years for Dolmen City Mall and Harbour Front, respectively.

Rating incorporates steady and strong occupancy ratio

- Comfort is drawn from occupancy levels remaining above 90% even amidst subdued economic activity. 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.
- Given lower economic activity due to COVID-19, occupancy levels had witnessed a decline in FY20, falling to 93% for the year. However, as the pandemic related lockdowns subsided, the occupancy ratio for FY22 was reported at 98% (FY21: 95%). As per management, average footfall has recovered to pre-pandemic levels. Going forward, maintaining high occupancy levels is viewed as an important rating driver.

With rental concessions having weaned off, the financial performance of DCR has depicted notable improvement

- Given the improvement in footfall metrics, rental waivers were weaned off, as a result of which DCR's revenue base grew by 23% in FY22.
- As the operational overheads depicted a relatively controlled uptick, DCR's operational profit (profit before change in fair value of investment property) was up 21.8% YoY.
- Given the improved profitability, DCR announced a dividend of 15% for FY22 (FY21: 12.4%).

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

- Rating incorporates unleveraged capital structure of DCR, given no debt on its books.
- The assigned rating also takes into account the profile of Dolmen and Arif Habib Groups. Both these groups are financially sound and have sufficient prior experience in the real estate sector.

Dolmen City REIT(Financial Summary) (PKR' Millions)				
<u>BALANCE SHEET</u>	FY18	FY19	FY20	FY21
Non-Current Assets- Investment Property	41,119	44,954	50,413	56,334
Bank Balances	1,480	320	347	734
Total Assets	42,998	47,022	52,034	58,084
Non-Current Liabilities	214	200	204	-
Accrued Expenses and other liabilities	317	360	326	217
Total Current Liabilities	552	589	548	660
Total Liabilities	766	789	752	660
Paid up Capital	22,237	22,237	22,237	22,237
Net Equity (Total Unit Holder's Fund)	42,232	46,233	51,282	57,424
Net Asset Value per unit	18.99	20.79	23.06	25.82
<u>INCOME STATEMENT</u>	FY18	FY19	FY20	FY21
Rental Income	3,047	3,344	2,814	2,939
Total Income (including other income)	3,370	3,667	3,157	3,216
Net Operating Profit	2,773	3,014	2,568	2,664
Profit before change in fair value of investment	2,776	3,034	2,659	2,689
Profit Before Tax	5,055	6,870	8,118	8,610
Profit After Tax	5,055	6,870	8,118	8,610
<u>RATIO ANALYSIS</u>	FY18	FY19	FY20	FY21
Operating Profit Margin	91.0%	90.1%	91.3%	90.7%
FFO	2,657	2,896	2,478	2,621
Gearing (x)	-	-	-	-
Current Ratio (x)	3.41	3.51	2.96	2.65

Rental REIT Fund Rating - Appendix I**AAA (rr)**

Highest capacity to maintain stable rental income. Risk factors impacting value of REIT assets are negligible over the foreseeable future.

AA+, AA, AA- (rr)

High capacity to maintain stable rental income. Risk factors impacting value of REIT assets are modest over the foreseeable future.

A+, A, A- (rr)

Moderate capacity to maintain stable rental income. Risk factors impacting value of REIT assets may vary with possible changes in the economy over the foreseeable future.

BBB+, BBB, BBB- (rr)

Adequate capacity to maintain stable rental income. Risk factors impacting value of REIT assets are considered variable if changes occur in the economy over the foreseeable future.

BB+, BB, BB- (rr)

Low capacity to maintain stable rental income. Risk factors impacting value of REIT assets are sensitive to changes in the economy over the foreseeable future.

B (rr)

Very low capacity to maintain stable rental income. Risk factors impacting value of REIT assets 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 to differentiate it from the nomenclature used for issue and issuer ratings.

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. https://docs.vis.com.pk/docs/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. https://docs.vis.com.pk/docs/criteria_outlook.pdf

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
	25-Oct-22	AAA (rr)	Reaffirmed
	22-Sep-22	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	Syed Adnan Ali Rizvi	Head of Investments
	2	Mr. Razi Haider	CFO
		Date	
		15-09-2022	
		15-09-2022	