

RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:

August 18, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
REIT Rating	AM2 (RMC)	AM2 (RMC)
Rating Outlook	<i>Stable</i>	<i>Stable</i>
Rating Date	August 18, '17	July 25, '16

COMPANY INFORMATION

Incorporated in April 2009	External auditors: Haroon Zakaria & Co.
Unquoted Public Company	Chairman of the Board: Mr. Nasim Beg
Key Shareholders:	Chief Executive Officer: Mr. Muhammad Ejaz
Arif Habib Group	
Dolmen Group	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Management Quality Rating Criteria

Management Quality Rating of RMC (July 2015)

<http://jcrvis.com.pk/docs/MQR-RMC-Mehtodology-2015.pdf>

Arif Habib Dolmen REIT Management Ltd.

OVERVIEW OF THE RMC	RATING RATIONALE
<p>AHDRML was incorporated in April 2009 as an unlisted public limited company. It is a joint venture between the Arif Habib Group and the Dolmen Group. The company is engaged in launch and management of Real Estate Investment Trust (REIT) Schemes.</p> <p><u>Profile of Chairman</u> Mr. Nasim Beg has extensive experience of over forty years in financial services, both locally and internationally. Mr. Beg is the founding Chief Executive of Arif Habib Consultancy and was the founding Chief Executive of MCB-Arif Habib Savings. Mr. Beg is a Fellow Chartered Accountant with the Institute of Chartered Accountants in Pakistan (ICAP).</p> <p><u>Profile of CEO</u> Mr. Muhammad Ejaz, has over 20 years of experience in financial services and general management. Mr. Ejaz is a certified director and has served in senior positions at leading local and international banks. Mr. Ejaz is a certified Financial Risk Manager (FRM) and holds an MBA degree from the Institute of Business Administration (IBA), Karachi.</p>	<p>Rating of Arif Habib Dolmen REIT Management Limited (AHDRML’s) is underpinned by operational experience and financial support from its shareholders, namely Arif Habib and Dolmen Groups in developing and managing real estate projects. Rating also draws comfort from adequate research and investment process.</p> <p><u>Rating Drivers</u></p> <ul style="list-style-type: none"> <p>• <u>Governance and Management Profile</u> Although governance of the company is considered strong, discussion in Board minutes pertaining to future strategy of the company with respect to launching of new REITs in Pakistan was limited. This is because the current taxation and regulatory regime of REITs in Pakistan is considered as a major hindrance for promotion and development of REITs in Pakistan. The board and management believe there are numerous projects and opportunities which can be tapped using REIT modality; subject to rationalization of taxation and regulatory regimes towards REITs. Senior Management at AHDRML comprises qualified, seasoned professionals from the real estate and financial services sector.</p> <p>• <u>Research and Investment Process</u> The Company has an adequate research process in place with sufficient knowledge and experience to vet property investment for inclusion in REIT Schemes. The Company uses the data gathered from experience over the years and informal sources including market players. The vetting process involves due diligence based on the strategic investment policy and other key policies including risk management policy to strengthen the governance framework and formalizing the decision making process.</p> <p>• <u>Funds Under Management</u> AHDRML currently has Dolmen City REIT (DCR) as the sole fund under its management. The property management of DCR has been assigned to Dolmen Real Estate Management (Private) Limited in accordance with the requirement of REIT Regulations 2015, who has sufficient experience in operations and management of such real estate complexes. Investment monitoring of the fund under management also takes place through quarterly performance reviews presented by the property manager to AHDRML. This includes discussion on key performance indicators, any major incidence at the property as well as its remedy, and other issues deemed relevant to administration of property. Performance of DCR in terms of net income (before fair value adjustment) has surpassed projections. This is attributable to higher occupancy levels and as well as growth in rent from parties whose lease expired during the year. Since last review, net asset value of the fund witnessed considerable increase on account of change in fair value of investment property. However, this increase has not manifested itself in the market price of the fund, owing to the closed end nature of the rental REIT scheme.</p> <p>• <u>Financial Analysis</u> Since revenue of the RMC is correlated with the income of DCR, which exceeded projections, in the same vein, revenue of the company was higher than estimated. Profitability of AHDRML has improved year on year to Rs. 33.8m for 9MFY17 (FY16: Rs. -32.2m). This improvement is on the back of dividend received from DCR. According to regulations, AHDRML has to hold 5% of DCR units.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Arif Habib Dolmen REIT Management Ltd.

Appendix I

BALANCE SHEET (Rs. In Millions)	9MFY17	FY16	FY15
Non-current Assets	1,374.8	1,397.1	1,475.3
<i>Investment Property</i>	1,245.3	1,200.8	1,224.1
Current Assets	91.6	90.7	71.1
Non-current Liabilities	977.0	975.8	919.1
Current Liabilities	48.5	149.5	202.4
Net Equity	440.7	362.5	424.9
INCOME STATEMENT			
Management Fee	58.1	69.6	5.3
Administrative Expenses	33.5	44.2	30.7
Operating Profit	24.6	25.4	(25.4)
Profit/ (Loss) after tax	33.8	(39.1)	175.1

MANAGEMENT QUALITY RATINGS

AM1: Highest Management Quality

AM2+, AM2, AM2-: High Management Quality

AM3+, AM3, AM3-: Good Management Quality

AM4+, AM4, AM4-: Adequate Management Quality

AM5+, AM5, AM5-: Weak Management Quality

For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

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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. www.jcrvis.com.pk/images/criteria_outlook.pdf

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REGULATORY DISCLOSURE		Appendix III	
Name of Rated Entity	Arif Habib Dolmen REIT Management Ltd		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	Management Quality Rating		
Rating History	Rating Date	RMC Rating	Rating Action
	18-Aug-17	AM2 (RMC)	Reaffirmed
	25-Jul-16	AM2 (RMC)	Reaffirmed
	4-May-16	AM2 (RMC)	Harmonized
	8-Jun-15	AM2-(RMC)	Initial
Instrument Structure	N/A		
Statement by the Rating Team	JCR-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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