

RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:

September 4, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
REIT Rating	AM2+(RMC)	AM2+ (RMC)
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Upgrade
Rating Date	September 4, 2020	October 18, '19

COMPANY INFORMATION

Incorporated in April 2009	External auditors: Rehman Sarfaraz Rahim Rafiq, Chartered Accountants
Unquoted Public Company	Chairman of the Board: Nasim Beg
Key Shareholders:	Chief Executive Officer: Muhammad Ejaz
Arif Habib Group	
Dolmen Group	

APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria

Management Quality Rating of REIT Management Company (October 2019)

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

Arif Habib Dolmen REIT Management Limited

OVERVIEW OF THE RMC

AHDRML was incorporated in April 2009 as an unlisted public limited company.

It is a joint venture between the groups of Arif Habib and Dolmen. The company is engaged in launch and management of Real Estate Investment Trust (REIT) Schemes.

Profile of Chairman

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. He is a Fellow Chartered Accountant with the Institute of Chartered Accountants in Pakistan (ICAP).

Profile of CEO

Mr. Muhammad Ejaz, has over 20 years of experience in financial services and general management. He is a certified director and serves on the boards of several Arif Habib Group Companies. He has served in senior positions at leading local and international banks and is a certified Financial Risk Manager (FRM). He also holds an MBA degree from Institute of Business

RATING RATIONALE

Arif Habib Dolmen REIT Management (AHDRML) is one of the five companies licensed to undertake REIT Management Services in Pakistan. Currently, it operates the only REIT scheme in the country called Dolmen City REIT (DCR). The assigned rating continues to be underpinned by REIT management company's (RMC) affiliation with sound sponsors, Arif Habib & Dolmen Groups. The rating also reflects implementation of comprehensive research and investment processes, along with presence of experienced key executives and sponsors at helm. Board of Directors also comprises seasoned professionals having experience in real estate and financial services sectors.

Key Rating Drivers:

• Governance and Management Profile

The assigned rating derives strength from enforcement of sound corporate governance framework at the company.

- The Board of Directors (BoD) comprises nine members, which include three independent directors. Composition of BoD is line with best practices, which entail that at least one third of total Board must constitute independent directors. Moreover, female representation is also present on the Board. No change has been witnessed in BoD composition since last review.
- At-least one-third of board comprises members with relevant experience.
- Documentation scope of minutes in Board meetings is considered satisfactory with board meetings entailing comprehensive discussions with regards to quarterly updates and future strategy.
- The executive management demonstrates an understanding of the RMC's role in management of property and local property market dynamics, with most of them having varying level of experience specific to the real estate sector.
- Terms of Reference for each of the Board committees (audit committee and human resource and remuneration committee) are clearly defined and documented.
- Policy framework is also comprehensive as policies governing all the critical aspects of the company are in place.
- Senior management comprises qualified and seasoned professionals from the real estate and financial services sector. No turnover has been witnessed in the senior management team since last review exercise.
- A detailed internal management update report is prepared and circulated every month and it covers economic overview, budgetary & regulatory changes and real estate outlook. During the outgoing year, the report included timely updates with regards COVID-19 situation, which helped management to decision making process.

• Research and Investment Process

Policy for risk management is documented by the management and approved by the board. The risk management policy is comprehensive in nature as it covers operational risk, credit risk, financial risk, reporting and compliance/regulations. Measures implemented by the board to monitor risk related aspects include quarterly reporting to the board, circulation of minutes and employing appropriately qualified employees. Risk management is overseen by the Head of Compliance and the internal audit team, which is outsourced to Junaidy Shoaib

Administration, Karachi.

Asad Co. Chartered Accounts. Management may consider appointing a dedicated resource for risk management.

The Company has an adequate research process in place as the resource deployed by the company gathers research from both formal and informal sources to evaluate potential opportunities. Moreover, the employed resource has significant experience in the real estate sector. The company follows a defined process for vetting property investment for inclusion in REIT Schemes in line with the strategic investment policy.

- **Funds Under Management**

AHDRML has currently only one REIT fund under management namely; Dolmen City REIT (DCR). Performance of DCR in terms of net income (before fair value adjustment) has depicted improvement on a timeline basis and surpassed projections. This is attributable to high occupancy levels as well as growth in rent on a timeline basis. Net asset value of the fund has increased in FY20 on account of change in fair value of the 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.

Limited number of funds and lack of diversity in the types of REITs exposes the company to concentration risk. Enforcement of lockdown measures and social distancing protocols due to COVID-19 affected the sales of the tenants in both Dolmen Mall and Harbour Front (barring essential service providers); hence, rent waivers were granted by the management to provide temporary relief to the tenants, which affected the financial performance of the fund. However, with improvement in COVID-19 situation in the country, performance of the fund is expected to normalize over the ratings horizon. Performance track record of funds (existing and those that will be launched) will be established over time and will be a key area of assessment, going forward.

- **Financial Analysis**

Top line of the company was reported at Rs. 71.2m (9M'FY19: Rs. 76.9m) in 9M'FY20. The decrease was on account of advisory fees which amounted to Rs. 10.2m during 9M'FY19. Due to slowdown in economy, the timeline of the advisory mandates has been moved forward to FY21. Hence the topline only constituted income from management fees and investment fees in 9M'FY20. Despite decrease in topline and increase in administrative and operating expenses and finance costs, profit after tax remained at approximately similar level vis-à-vis the corresponding period in the preceding year on account of significant growth in dividend income and lower taxation expense. Finance cost was reported higher due to implementation of IFRS 16, which resulted in recognition of lease liabilities on balance sheet. Total equity base registered growth to Rs. 226. 8m (9M'FY19: Rs. 194.9m) on account of profit retention.

Arif Habib Dolmen REIT Management Limited
Appendix I

<u>FINANCIAL SUMMARY (Rs. In Millions)</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>9M FY20</u>
<u>BALANCE SHEET</u>				
Right of use assets	-	-	-	6.7
Total non-current Assets	128.5	61.7	3.1	10.5
Current Assets	1,411.6	111.1	216.4	230.8
Liabilities against right of use assets	-	-	-	4.5
Non-current Liabilities	32.5	16.1	0.0	4.6
Current Liabilities	1,011.1	-	25.2	10.0
Net Equity	496.6	156.8	194.4	226.8
<u>INCOME STATEMENT</u>				
Revenue	193.7	86.9	107.1	71.2
Administrative Expenses	47.4	46.6	49.9	41.3
Operating Profit	146.3	40.3	57.1	29.9

RATING SCALE - MANAGEMENT QUALITY RATINGS**AM1:**

Asset manager exhibit Excellent management characteristics

AM2++, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

AM3++, AM3+, AM3:

Asset manager exhibit Good management characteristics

AM4++, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

AM5:

Asset manager exhibit Weak management characteristics

For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.

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.

Rating Watch: JCR-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. www.jcrvis.com.pk/images/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. www.jcrvis.com.pk/images/criteria_outlook.pdf

REGULATORY DISCLOSURE		Appendix III	
Name of Rated Entity	Arif Habib Dolmen REIT Management Limited		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	Management Quality Rating (REIT Management Company)		
Rating History	Rating Date	RMC Rating	Rating Action
	4-Sep-20	AM2+ (RMC)	Reaffirmed
	18-Oct-19	AM2+ (RMC)	Upgrade
	17-Sep-18	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	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.		
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Due Diligence Meetings Conducted	S.No	Name	Designation
	1	Mr. Zohaib Yaqoob	CFO & Company Secretary
		Date	August 18, 2020