RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:
September 22, 2021

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**	**Reaffirmed**
Rating Date	September 22, 2021	September 4, 2020

COMPANY INFORMATION

Incorporated in April 2009	**External auditors:** Rehman Sarfaraz Rahim Iqbal 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 for REIT Management Company (December 2018)
https://docs.vis.com.pk/docs/REIT%20management%20company.pdf

Arif Habib Dolmen REIT Management Limited — Appendix I

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 seven companies licensed to undertake REIT Management Services in Pakistan. Currently, it operates the first and 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 in line with best practices. No change has been witnessed in BoD composition since the last review.
- There are three Board committees in place- BoD, Board Audit Committee, Board Human Resource & Remuneration Committee.
- 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. Mr. Razi Haider has been appointed as the new CFO of Arif Habib Dolmen REIT Management Limited. He was previously associated with Askari Insurance as the CFO and possesses industry experience of around six years. No other change has been observed in the senior management.
- 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 facilitated management’s decision making process.

Administration, Karachi.

Research and Investment Process

Policy for risk management is documented by the management and has been 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 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 (after fair value adjustment) has depicted significant improvement on a timeline basis attributable to higher unrealized gain on investment property. Enforcement of lockdown measures and social distancing protocols due to COVID-19 has resulted in more profound impact on the retail sector (barring essential service providers). Operating profit before fair value adjustment decreased in FY20 to Rs. 2.6b (FY19: Rs. 3b) due to rental waivers and deferment in rental escalations offered to tenants along with reduction in occupancy levels amidst COVID-19. However, the same witnessed improvement in FY21 to Rs. 2.7b given gradual recovery in economic activity leading to a reduction in the monthly percentage of rent waiver granted to the tenants on a case-to-case basis. Going forward, future rental income is dependent on pace of economic recovery and materialization of planned rental escalations in the ongoing year. Moreover, additional revenue is also expected to emanate from launch of new REITs.

Net asset value of the fund has increased on a timeline basis 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.

As per management, two developments REIT- Silk Islamic Development REIT (SIDR) and Silk World Islamic REIT (SWIR) are expected to begin their operations soon; consequently, concentration risk is projected to improve, going forward.

Financial Analysis

Top line of the company decreased to Rs. 77.1m owing to lower rental income of the fund during FY20. However, given improvement in rental income during FY21, operating revenue increased to Rs. 85.5m. Overall revenue was also supported by advisory income to the tune of Rs. 6.9m during FY21. Despite lower taxation and finance cost, profit after tax decreased to Rs. 5.5m (FY20:Rs. 24.5m) in FY21 on account of lower dividend income and significant increase in administrative and operating expenses (FY21: Rs. 84.0m; FY20: Rs. 64.6m). Factors attributing to higher operating expense include one-time commission expense against SBLC issued for purchase of land under the SIDR scheme, and greater salary compensation. Dividend income reduced during FY21 owing to liquidation of short-term investments for land purchase under SIDR. Going forward, profitability is projected to depict growth through additional annual management fee from the launch of new funds partly offsetting higher finance cost on borrowings. Materialization of the same is considered important.

Funds from operation of the company decreased and were reported lower at negative Rs. 8.9m in FY21. However, current assets significantly increased from Rs. 222.1m in FY20 to Rs. 672.6m in FY21 due to advance issued for purchase of units of SIDR. Accrued expenses were reported higher due to the high commission charges yet to be paid against the SBLC and re-imbursement of formation cost of the new fund to the sponsors amounting Rs. 8m and Rs. 37m, respectively. Debt payment and finance cost on long term debt drawn (Rs. 400m) to partially finance investment in the REIT is expected to be paid through the additional management fee that the company aims to earn from the new REIT projects. Going forward, liquidity indicators are expected to restore back to adequate levels bolstered by income from new projects.

In order to fund strategic investment in SIDR, the company liquidated its short-term investments (DCR units) worth Rs. 84m, drew long-term loan amounting Rs. 400m and the remaining Rs. 116m were financed from internal cash flows. The Company obtained a term finance facility of Rs. 400m in FY21 under a mark-up arrangement at the rate of 3 Month Average KIBOR (Ask) + 2.0% per annum to be charged on quarterly basis having re-payment terms of 2+3 years with the first payment due in Dec'2023. Total equity base registered growth to Rs. 224.4m (FY20: Rs. 218.9m) on account of profit retention. Given low-base effect, gearing levels were elevated at 1.78x at end-FY21. Improvement in the same is considered important from a ratings perspective.

FINANCIAL SUMMARY (Rs. In Millions)	FY19	FY20	FY21 UA
BALANCE SHEET			
Right of use assets	-	6.06	3.64
Total non-current Assets	3.13	9.81	9.01
Current Assets	216.46	222.06	672.60
Liabilities against right of use assets	-	4.51	1.78
Non-current Liabilities	-	5.90	401.78
Current Liabilities	25.20	7.07	55.46
Paid Up Capital	200.00	200.00	200.00
Net Equity	194.39	218.90	224.38
INCOME STATEMENT			
Revenue	99.42	77.05	85.49
Administrative Expenses	49.94	64.62	84.02
PBT	57.10	37.74	15.77
Profit After Tax	37.63	24.51	5.48
FFO	39.12	(0.73)	(8.85)
Gearing	-	0.03	1.80
Current Ratio	8.59	31.42	12.13

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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
22- Sept-21	AM2+ (RMC)	Reaffirmed
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	Date
1	Mr. Razi Haider	CFO	September 3, 2021
2	Mr. Hamza Bin Naeem	Manager	September 3, 2021