

## RATING REPORT

### Arif Habib Dolmen REIT Management Limited

**REPORT DATE:**

October 25, 2022

**RATING ANALYSTS:**

Arsal Ayub, CFA

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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
	MQR	MQR
<b>REIT Rating</b>	AM2+ (RMC)	AM2+ (RMC)
<b>Rating Outlook</b>	Stable	Stable
<b>Rating Action</b>	<b>Reaffirmed</b>	<b>Reaffirmed</b>
<b>Rating Date</b>	October 25, 2022	September 22, 2021

#### COMPANY INFORMATION

<b>Incorporated in April 2009</b>	<b>External auditors:</b> Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants
<b>Unquoted Public Company</b>	<b>Chairman of the Board:</b> Mr. Arif Habib
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> Mr. 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>

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 groups of Arif Habib and Dolmen. The company is engaged in launch and management of Real Estate Investment Trust (REIT) Schemes.</p> <p><b><u>Profile of Chairman</u></b></p> <p>Mr. Arif Habib is the Chairman of Arif Habib Dolmen REIT Management Limited and the Chief Executive Officer of Arif Habib Corporation Limited, the holding company of Arif Habib Group. He is also the Chairman of Fatima Fertilizer Company Limited, Pakarab Fertilizers Limited, Aisha Steel Mills Limited, Javedan Corporation Limited (the owner of Naya Nazimabad) and Sachal Energy Development (Pvt.) Limited among others.</p> <p><b><u>Profile of CEO</u></b></p> <p>Mr. Muhammad Ejaz, has over 22 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</p>	<p>Arif Habib Dolmen REIT Management (‘AHDRML’ or the ‘the RMC’) REIT Management Services company licensed by the SECP. As of September 2022, the RMC is managing 4 REIT funds namely 1) Dolmen City REIT; 2) Silk Islamic Development REIT; 3) Silk World Islamic REIT and 4) Globe Residency REIT.</p> <p><b><u>Key Rating Drivers:</u></b></p> <p><b><u>Governance and Management Profile</u></b></p> <p>The assigned rating derives strength from enforcement of sound corporate governance framework at the RMC.</p> <ul style="list-style-type: none"> <li>• The Board of Directors (‘BoD’ or ‘Board’) comprises 9 members, which include 3 independent directors. Composition of BoD is line with best practices, given that a third of the BoD comprises independent representation. Moreover, in line with SECP’s Corporate Governance (CG) guidelines, a female director is also present. There has been no BoD level changes since our last review.</li> <li>• There are 2 Board committees in place i.e. the Board Audit Committee (BAC) and Board Human Resource &amp; Remuneration Committee (BHRRC).</li> <li>• Documentation scope of minutes in Board meetings is considered satisfactory with Board meetings entailing comprehensive discussions with regards to quarterly updates and future strategy.</li> <li>• 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. In addition, each of the properties under management has a dedicated property management company that oversees property maintenance and operations.</li> <li>• Terms of Reference for each of the Board committees (BAC and BHRRC) are clearly defined and documented. A comprehensive policy framework is also in place.</li> <li>• A detailed internal management update report is prepared and circulated every month and it covers economic overview, budgetary &amp; regulatory changes and real estate outlook.</li> </ul> <p><b><u>Research and Investment Infrastructure</u></b></p> <ul style="list-style-type: none"> <li>• A Risk Management Policy (RMP) is in place. The RMP 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 Internal Audit, the latter of which is outsourced to Junaidy Shoaib Asad Co. Chartered Accounts. Management may consider appointing a dedicated resource for Risk Management.</li> <li>• The RMC has adequate research infrastructure in place. The resource deployed by the RMC gathers research from both formal and informal sources to evaluate potential opportunities. Moreover, the resource has significant experience in the real estate</li> </ul>

Institute of Business Administration, Karachi.

sector. The RMC 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 been managing its flagship fund Dolmen City REIT (DCR), since its launch in FY15. Additionally, the RMC has recently added 3 REIT projects in FY22, namely Silk Islamic Development REIT (SIDR), Silk World Islamic REIT (SWIR) and Globe Residency REIT (GRR). Unlike DCR, the 3 newly launched REIT projects are developmental REITs. The management plans to list GRR on PSX in FY23.
- DCR, has posted mixed performance over the years, as rental yields were affected by rental waivers accorded to tenants on account of Covid-19. Since then, DCR’s revenues (comprising of rental and marketing income) increased by 34% in FY22.
- The net distributable income (excluding capital gains) increased by 22% in FY22, which is viewed as strong. The average return (excluding fair value gain) on unit’s par value for FY22 was 14.7% increasing from 12.1% in the preceding year.
- In addition to the 4 REIT funds already under management, there are plans to launch 7 additional REIT funds going forward.

**Financial Analysis**

- The RMC’s business risk profile has depicted improvement since preceding year, as illustrated by improvement in efficiency ratio<sup>1</sup>, which improved from 98% in FY21 to 52% in FY22. The improvement in efficiency ratio was mainly a result of 127% uptick in management fee. Apart from 23% increase in management fee on DCR, the RMC also started booking income under the 3 newly launched developmental REITs. However, since these REITs are fundamentally different from DCR, being developmental REITs, the market for this new type of fund is yet to be tested. VIS views this as a risk, and will continue to review the unit offtake of these new REITs on an ongoing basis.

**Table 1: Gross Revenue Breakup (In PKR<sup>1</sup> Millions)**

	FY21	FY22
<b>Management Fee</b>	<b>90.3</b>	<b>205.1</b>
- Dolmen City REIT	90.3	111.2
- Silk Islamic Development REIT	-	33.2
- Silk World Islamic REIT	-	52.8
- Globe Residency REIT	-	7.9
<b>Advisory Fees</b>	<b>6.3</b>	<b>9.1</b>

- Given growth in revenue base, the RMC’s bottom line was up by 7.5x on YoY basis (FY22: Rs. 41.3m; FY21: Rs. 5.5m). FFO also posted notable improvement rising from negative Rs. 8.2m in FY21 to Rs. 62m in FY22. Resultantly, interest coverage for FY22 was notably strong at 6.1x.
- Given the strong internal capital generation noted in FY22, the RMC’s gearing level has receded to 1.5x as of Jun’22 vis-à-vis 1.8x as of Jun’21. As such, there are no additional debt plans on the anvil through the rating horizon. Accordingly, as per management projects, gearing is envisaged to trend down on the back of internal profit generation capacity.

<sup>1</sup> Administrative Expenses / Operating Revenue

## Arif Habib Dolmen REIT Management Limited

## Appendix I

<b>FINANCIAL SUMMARY (Rs. In Millions)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b><u>BALANCE SHEET</u></b>				
Right of use assets	-	6.06	3.64	1.21
<b>Total Non-current Assets</b>	<b>3.13</b>	<b>9.81</b>	<b>9.01</b>	<b>611.70</b>
<b>Current Assets</b>	<b>216.46</b>	<b>222.06</b>	<b>709.47</b>	<b>415.48</b>
Non-Current liabilities against right of use assets	-	4.51	1.78	-
<b>Non-current Liabilities</b>	<b>-</b>	<b>5.90</b>	<b>401.78</b>	<b>400.45</b>
<b>Current Liabilities</b>	<b>25.20</b>	<b>7.07</b>	<b>92.28</b>	<b>360.98</b>
<b>Paid Up Capital</b>	<b>200.00</b>	<b>200.00</b>	<b>200.00</b>	<b>200.00</b>
<b>Net Equity</b>	<b>194.39</b>	<b>218.90</b>	<b>224.43</b>	<b>265.75</b>
<b><u>INCOME STATEMENT</u></b>				
Revenue	99.42	77.05	85.49	189.60
Administrative Expenses	49.94	64.62	83.91	97.85
<b>PBT</b>	<b>57.10</b>	<b>37.74</b>	<b>15.77</b>	<b>64.70</b>
<b>Profit After Tax</b>	<b>37.63</b>	<b>24.51</b>	<b>5.53</b>	<b>41.32</b>
<b>FFO</b>	<b>39.12</b>	<b>(0.73)</b>	<b>(8.16)</b>	<b>61.95</b>
<b>Gearing</b>	<b>-</b>	<b>0.03</b>	<b>1.80</b>	<b>1.51</b>
<b>Current Ratio</b>	<b>8.59</b>	<b>31.42</b>	<b>7.69</b>	<b>1.15</b>

## ISSUE/ISSUER RATING SCALE &amp; 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](http://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](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

REGULATORY DISCLOSURE		Appendix III	
<b>Name of Rated Entity</b>	Arif Habib Dolmen REIT Management Limited		
<b>Sector</b>	Miscellaneous		
<b>Type of Relationship</b>	Solicited		
<b>Purpose of Rating</b>	Management Quality Rating (REIT Management Company)		
<b>Rating History</b>	<b>Rating Date</b>	<b>RMC Rating</b>	<b>Rating Action</b>
	25-Oct-22	AM2+ (RMC)	Reaffirmed
	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
<b>Instrument Structure</b>	N/A		
<b>Statement by the Rating Team</b>	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.		
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>
	1	Mr. Razi Haider	CFO
	2	Mr. Syed Adnan Ali Rizvi	Head of Investment
			September 15, 2022