

RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:

January 10, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
REIT Rating	AM2+(RMC)	AM2+(RMC)
Outlook/Rating Watch	Stable	Stable
Rating Action	<i>Reaffirmed</i>	<i>Reaffirmed</i>
Rating Date	<i>January 10, 2025</i>	<i>December 11, 2023</i>

COMPANY INFORMATION

Incorporated in 2009	External Auditors: Yousuf Adil Chartered Accountants
Unquoted Public Company	Chairman of the Board: Mr. Arif Habib
Key Shareholders (10% or more):	CEO: Mr. Muhammad Ejaz
<i>Arif Habib Group</i>	
<i>Dolmen Group</i>	

APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria for REIT Management Company
<https://docs.vis.com.pk/docs/REITManagement-2023.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Arif Habib Dolmen REIT Management Limited

OVERVIEW OF THE RMC

Incorporated in April 2009 as an unlisted public limited company, AHDRML is a joint venture between the Arif Habib and Dolmen groups. The Company operates as a REIT Management Company and is registered with the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

Profile of Chairman

Mr. Arif Habib serves as the Chairman of Arif Habib Dolmen REIT Management Limited and as the Chief Executive Officer of Arif Habib Corporation Limited, the holding entity of the Arif Habib Group. Additionally, he holds the position of Chairman at Fatima Fertilizer Company Limited, Pakarab Fertilizers Limited, Aisha Steel Mills Limited, Javedan Corporation Limited (owner of Naya Nazimabad), and Sachal Energy Development (Pvt.) Limited, among other companies.

Profile of CEO

Mr. Mubammad Ejaz brings over 23 years of

RATING RATIONALE

Corporate profile

Arif Habib Dolmen REIT Management Limited ('AHDRML' or the 'RMC') is a joint venture between the Arif Habib and Dolmen Groups. The RMC's primary business is to launch Real Estate Investment Trust (REIT) Schemes and provide REIT management services as per the Real Estate Investment Trust Regulations, 2022. After successfully launching its inaugural REIT scheme, Dolmen City REIT, in 2015, the RMC introduced Global Residency REIT in 2022, marking its continued engagement in the REIT sector. Since then, AHDRML has further expanded its portfolio to oversee a total of 13 REIT schemes.

Key Rating Drivers

Corporate Governance and Management

At present, the Board of Directors (BoD) comprises nine members including Chairman of the Board and CEO. There are three independent directors, five non-executive directors, and one executive director, including a female representation on the Board. The composition of the BoD has not changed since the last review. Two board-level committees, the Board Audit Committee (BAC) and the HR & Remuneration Committee, are chaired by independent members in accordance with corporate governance best practices. Detailed examinations are carried out by the internal audit function which reviews adherence to internal control processes as well as compliance of procedures and reports its findings to the Board of Audit Committee. During the year ended June 2024, fifteen (15) Audit Committee meetings and one (1) Human Resource & Remuneration Committee meeting were held. The Terms of Reference for each of the Board committees (BAC and BHRRC) are clearly defined and documented. Record-keeping for Board meetings includes detailed discussions on future strategy, with the scope of the minutes considered satisfactory.

The majority of the executive management team possesses varying levels of real estate industry expertise, demonstrating an understanding of the RMC's role in property management and the dynamics of the local property market. A specialized property management unit oversees the operations and maintenance of each property under REIT management. A detailed internal management update report is prepared and circulated internally every month and it covers economic overview, budgetary & regulatory changes and real estate outlook. The Board has outsourced the internal audit function to M/s Junaidy Shoaib Asad & Co. Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the RMC. The FY24 financial statements were audited by Yousuf Adil Chartered Accountants, categorized as 'Category A' on the SBP's Panel of Auditors. The auditor

experience in financial services and general management. A certified director, he serves on the boards of several Arif Habib Group companies. His career includes senior roles at prominent local and international banks, and he is a certified Financial Risk Manager (FRM). He also holds an MBA from the Institute of Business Administration (IBA), Karachi.

issued an unmodified and unqualified opinion on the state of the RMC’s affairs as at 30th June 2024, and of the loss, other comprehensive income, and its cashflows for the year then ended.

Investment and Risk Management Policy

The investment policy of AHDRML provides an effective framework for managing funds in compliance with REIT regulations. The philosophy of the AHDRML Investment Policy is to ensure that funds are invested wisely with due fiduciary care, focusing on prudence, liquidity, and transparency to secure funds while earning risk-adjusted returns. Investment principles prioritize liquidity, asset class exposure, credit quality, and diversification. It specifies permissible assets, including A+ rated cash equivalents, government securities, and mutual funds, while prohibiting high-risk investments such as derivatives, futures, and venture capital.

Moreover, a comprehensive Risk Management Policy (RMP) is in place, addressing operational risk, credit risk, financial risk, reporting, and compliance/regulations. The Board monitors risk-related aspects through quarterly reporting, circulation of meeting minutes, and the employment of qualified personnel. Risk management is overseen by the Head of Compliance and Internal Audit, with M/s Junaidy Shoaib Asad & Co. Chartered Accountants outsourced to handle the designated team.

AHDRML has a well-established research infrastructure in place. The RMC utilizes resources that gather research from both formal and informal sources to assess potential opportunities. Additionally, the team possesses significant experience in the real estate sector. The RMC follows a defined process for evaluating property investments for inclusion in REIT schemes, in alignment with the strategic investment policy.

Funds Under Management

AHDRML currently manages a portfolio of 13 REITs, including 2 listed REITs.

REIT Scheme	Type	Life	Fund Size (Rs. bn)	SECP Registration
Dolmen City REIT	Rental	Perpetual	22.24	29-May-15
Globe Residency REIT	Development	5 years	2.80	13-Jan-22
Rahat Residency REIT	Development	5 years	1.65	3-Aug-22
Signature Residency REIT	Development	4 years	0.83	22-Mar-23
Naya Nazimabad Apartment REIT	Development	7 years	5.88	03-Aug-22
Park View Apartment REIT	Development	4-5 years	2.42	09-Apr-24
Meezan Center REIT	Development	4-5 years	1.38	13-Jun-24
Silk Islamic Development REIT	Development	8 years	3.00	30-Jun-21
Silk World Islamic REIT	Development	4 years	6.16	27-Sep-21
Pakistan Corporate CBD REIT	Development	4-5 years	15.02	22-Dec-21
Sapphire Bay Islamic Development REIT	Development	8-10 years	25.00	12-Jan-22
DHA Dolmen Lahore REIT	Rental	Perpetual	15.53	03-Aug-22
Gymkhana Apartment REIT	Development	7 years	5.12	27-Dec-23

Among these, 5 REITs are operational:

Dolmen City REIT (DCR)

During FY24, DCR's revenue increased by 12.7% compared to the same period last year, driven by the onboarding of new tenants. Since its inception in 2015, DCR has maintained high occupancy levels, reaching 97.5% as of Jun'24 (Jun'23: 97.8%).

Globe Residency REIT (GRR)

GRR's inventory consisted of 1,344 apartments, with 817 units (approximately 60.8%) sold as of Jun'24, generating a total sales value of Rs. 12.4 bn. This includes 48 units sold in FY24 (FY23: 155).

Rahat Residency REIT (RRR)

The Rahat Residency project, launched under RRR, includes 5 commercial sites. Construction has started on 2 sites, Rahat I and Rahat II. Rahat I, a commercial space featuring offices and retail outlets, has been fully sold and handed over. Additionally, 86 apartments were launched on Rahat II in Oct'23, with 23 apartments booked to date. The entire project is projected for completion by Jun'28.

Signature Residency REIT (SRR)

The Signature Tower A, launched under SRR in Jan'23, comprises 98 apartments, of which 71 have been booked to date. The ground floor, spanning 9,465 sft., has been acquired by Bank Alfalah for its Digital Lifestyle Experience Branch. The project is expected to be completed by Oct'25.

Naya Nazimabad Apartment REIT (NNAR)

Peace Apartments, launched under NNAR in Jun'24, consist of 7 plots, with construction underway on 2 plots. Out of 638 apartments, 111 have been booked to date. A retail space comprising 222 outlets has also been launched.

During the review period, AHDRML registered two new developmental REIT schemes located in Naya Nazimabad, Karachi, with SECP.

The RMC projects that two REIT funds will be primary drivers of fee growth going forward, including:

Pakistan Corporate CBD REIT (PCCR)

The RMC acquired land for project construction in Jun'24, with full payment settled. The project, with an estimated cost of Rs. 61.7 bn, is set to include apartments, offices, a hotel, and a retail shopping mall. Design work is expected to commence soon, with project completion anticipated by Jun'30.

Sapphire Bay Islamic Developmental REIT (SBIDR)

The RMC has acquired 2,000 acres of land from the Ravi Urban Development Authority (RUDA), with possession of 1,637 acres already obtained. The project is estimated to cost Rs. 143.0 bn. Master planning has reached advanced stages, and design work is currently underway. The project is expected to be completed over a 10-year timeline.

Financial Analysis

In FY24, the RMC's operating revenue rose by 20.6% to Rs. 296.6 mn (FY23: Rs. 245.9 mn), largely due to billed management fees from the Sapphire Bay Islamic Development REIT and Pakistan Corporate CBD REIT schemes. No fees were recognized from Silk World Islamic REIT, Gymkhana Apartment REIT, Meezan Centre REIT, Park View Apartment REIT, and Naya Nazimabad Apartment REIT, as these schemes had no operational or commercial activity during the year. The efficiency ratio improved to 49.5% (FY23: 57.9%), reflecting a higher increase in recurring income relative to operating expenses. However, the RMC reported a net loss of Rs. 67.9 mn, as compared to a Profit after Tax (PAT) of Rs. 275.3 mn in FY23. This resulted from an unrealized loss of Rs. 159.0 mn on investment in units of Silk Islamic Development REIT, routed through the P&L, combined with elevated finance charges due to a high monetary policy rate.

In 1QFY25, the RMC reported operating revenue of Rs. 96.1 mn (1QFY24: Rs. 74.2 mn), while administrative expenses increased by 31.8% to Rs. 40.7 mn (1QFY24: Rs. 30.9 mn), driven by inflationary pressures. The efficiency ratio further improved to 43.6%. Net profit rose to Rs. 24.8 mn (1QFY24: Rs. 11.2 mn), indicating favorable bottom-line performance.

During FY24, the RMC's liquidity profile faced pressure, as reflected in a decline in its current ratio to 0.84x (FY23: 1.00x). This was primarily due to an increase in current liabilities resulting from the maturity of a Rs. 400.0 million long-term loan, following the end of its grace period in Oct'23. While current cash flows remain constrained due to upcoming loan maturities, the RMC expects an increase in fees from new REITs in the pipeline, including Pakistan Corporate CBD REIT and Sapphire Bay Islamic Developmental REIT, which are expected to contribute to revenue growth.

Cashflows (Rs. in mn)	FY25	FY26	FY27
Opening Balance	0.4	57.4	150.0
Inflows			
Dolmen City REIT	139.1	143.7	158.1
Silk Islamic Development REIT	48.0	30.0	30.0
Globe Residency REIT	40.9	28.0	28.0
Naya Nazimabad Apartments REIT	22.0	29.4	29.4
Rahat Residency REIT	10.0	10.0	10.0
Signature Residency REIT	8.0	8.3	8.3
Pakistan Corporate CBD REIT	79.2	137.0	212.8
Sapphire Bay Islamic Development REIT	95.0	128.1	182.1
Gymkhana Apartment REIT	-	9.0	12.0
Loan & advance recovery	3.1	2.0	1.3
Other income	6.4	7.1	7.8

Advisory Fee	12.0	12.0	12.0
	463.8	544.6	691.7
Outflows (Admin exp + musharaka repayment + taxes)	(214.3)	(297.3)	(370.8)
Net cashflow before loan repayment	249.9	304.7	470.9
Repayment of Bank Loan			
Principal	(133.3)	(133.3)	(66.7)
Markup	(59.2)	(21.4)	(3.9)
	(192.5)	(154.7)	(70.6)
Net cashflow	57.4	150.0	400.3

By end-Jun'24, the RMC's equity base declined to Rs. 453.2 mn (Jun'23: Rs. 521.0 mn), primarily due to the net loss recorded during the review period. In contrast, as of Sep'24, the RMC's total equity reported an increase to Rs. 478.0 mn, owing to profit retention. The gearing ratio further improved to 0.71x owing to expansion in equity base and debt repayment.

Going forward, augmentation of management fees income, prudent cashflow management, and continuation of sponsor support will remain important from the ratings perspective.

Arif Habib Dolmen REIT Management Limited
Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	1QFY25M
Right of use assets	1.21	-	-	-
Non-current assets	611.70	954.88	808.16	807.61
Current assets	415.48	491.83	518.88	566.32
Long-term Debt (incl. current portion)	400.80	399.99	341.88	341.24
Non-current liabilities	400.45	432.56	259.76	258.95
Current liabilities	360.98	493.12	614.11	636.97
Paid up Capital	200.00	200.00	200.00	200.00
Net Equity	265.75	521.02	453.17	478.00
Income Statement (PKR Millions)				
	FY22A	FY23A	FY24A	1QFY25M
Revenue	189.60	245.91	296.56	96.09
Administrative expenses	97.85	128.96	136.25	40.73
Unrealized remeasurement gain/(loss)	-	341.40	(159.00)	-
Finance Costs	45.45	71.62	92.37	19.79
Profit Before Tax	64.70	385.45	(95.65)	35.16
Profit After Tax	41.32	275.28	(67.85)	24.83
Ratio Analysis				
	FY22A	FY23A	FY24A	1QFY25M
Efficiency ratio (%)	52.15%	57.95%	49.47%	43.56%
Current ratio (x)	1.15	1.00	0.84	0.89
Gearing (x)	1.51	0.77	0.75	0.71

**Annualized, if required*

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURE		Appendix	
II			
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
	10-Jan-25	AM2+ (RMC)	Reaffirmed
	11-Dec-23	AM2+ (RMC)	Reaffirmed
	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	
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	Name	Designation	Date
	1. Mr. Muhammad Ejaz	CEO	30 th October, 2024
	2. Mr. Razi Haider	CFO	