RATING REPORT

Pak China Investment Company Limited (PCICL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	N/A	
Rating Outlook	Stable			
Rating Date	*June 24' 15*		-	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** M/s Ernst & Young
Unlisted Public Company	**Chairman of the Board**: Dr. Waqar Masood Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Li Peng
Government of Pakistan – 50%	
People's Republic of China – 50%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Government Supported Entities *http://jcrvis.com.pk/images/gse.pdf*

Pak China Investment Company Limited (PCICL)

OVERVIEW OF THE INSTITUTION

Pak China Investment Company Limited was incorporated in 2007 as a unlisted public limited company under a joint venture agreement between two sponsors, the Government of Pakistan (GoP) and People's Republic of China (PRC). The head office of the company is located in Islamabad while representative office is situated in Karachi.

RATING RATIONALE

The ratings assigned to Pak China Investment Company Limited (PCICL) take into account implicit support of its two sovereign sponsors, Government of Pakistan (GoP) and People's Republic of China (PRC), with shares held through Ministry of Finance and China Development Bank (CDB) respectively. Given Pakistan's long-term relations with PRC, being cemented further with the planned opening of economic corridor between the two countries, PCICL may be strategically positioned to play a role in the investments coming in Pakistan from China.

Other factors that distinguish PCICL from other DFIs and provide basis for the assigned ratings include the management composition, which has been spearheaded by a representative of CDB since inception, the highest initial paid-in capital amongst all DFIs, focus on lending for capital expansion and restriction on assuming stock market exposure. The last two factors are likely to keep the operational activities of the institution aligned with its core mandate, which is to invest in financial sector and infrastructure projects. The credit approval authority is fully vested with the management.

Ratings also draw strength from the sound standalone financial profile of the institution. In recent years, positive momentum in business operations has been noted with growth exhibited in the loan portfolio. Credit risk profile of the loan portfolio has improved over time with no fresh infection reported over the last two years. Further, PCICL has streamlined its strategy for lending activities in relation to its size of operations; decline in ticket size of loans has provided the institution with risk diversification. Lending strategy is focused on financing for capital expansion; advances portfolio mainly comprises mid tier corporate; overall risk appetite of the institution is moderate.

As per the approved strategy for the institution, PCICL does not have the mandate to take direct exposure in equities reflecting positively on the overall risk profile of the institution. Surplus funds are mainly deployed in government securities; credit risk arising from the same is considered minimal in the local context. The recent declining trend in discount rate positively impacted the valuation of fixed income instruments; the company realized some gain on sale of securities during the ongoing year. Other investments includes TFCs/sukuks and mutual funds; provisions are gradually being created against non-performing exposures.

As a secondary market borrower, the institution is primarily dependent on funding from other financial institutions; fund mobilization activity under COIs from corporate clients has only recently commenced. The liquidity profile of the institution draws comfort from the high proportion of equity to assets of about 65%; meanwhile, advances currently comprise 30% of total assets. In view of this, the current level of liquidity carried on balance sheet is very high.

PCICL's basic earnings augmented to Rs. 814.3m (FY13: Rs. 642.6m) on account of higher markup bearing assets and better return on investments; impact on bottom line was limited due to higher funding cost, incremental provisions against advances and TFCs and exchange loss. Profitability of the company is expected to remain a function of portfolio size, mix and quality; the company plans to strengthen its fee based income by participating in infrastructure projects.

Mr. Li Peng has recently been appointed as MD. At the senior management level, positions of Head of Risk, Head of Compliance and CFO are vacant; stability in senior management is considered important for organizational growth. Further, governance standards need improvement with Board and committee meetings not convened regularly.

Pak China Investment Company Limited (PCICL) — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	11.29	4.28	8.02
Net Advances	5.95	5.33	4.59
Total Assets	20.00	12.73	15.97
Borrowings	6.74	0.33	4.13
Deposits & other accounts	0.25	-	-
Subordinated Loans	-	-	-
Tier-1 Equity	12.76	12.29	11.73
Net Worth	12.95	12.31	11.77
INCOME STATEMENT			
Net Mark-up Income	1.11	0.93	1.21
Net Provisioning / (Reversal)	0.15	0.12	0.17
Non-Markup Income	0.02	0.35	0.23
Operating Expenses	0.36	0.31	0.23
Profit (Loss) Before Tax	0.62	0.85	1.04
Profit (Loss) After Tax	0.47	0.56	0.67
RATIO ANALYSIS			
Gross Infection (%)	11.6	11.7	13.4
Provisioning Coverage (%)	63.2	61.1	57.8
Net Infection (%)	4.6	4.9	6.2
Cost of funds (%)	7.4	4.9	-
Net NPAs to Tier-1 Capital (%)	2.8	3.3	-
Capital Adequacy Ratio (C.A.R (%)	87	98	109.1
Markup Spreads (%)	1.8	3	-
Efficiency (%)	29	32	-
ROAA (%)	2.9	4.4	-
ROAE (%)	3.7	4.7	-
Liquid Assets to Deposits & Borrowings (%)	268	1,524	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

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

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Pak China Investment Company Limited (PCICL)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
24-June-15	AAA	A-1+	Stable	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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