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+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 28' 16*		*June 24' 15*	

COMPANY INFORMATION

Incorporated in 2007	**External auditors:** M/s KPMG Taseer Hadi & Co.
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 an 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

Ratings assigned to Pak China Investment Company Limited (PCICL) take into account its shareholders' profile, with two sovereigns, Government of Pakistan (GoP) and People's Republic of China (PRC), having an equal stake in the company with shares held through Ministry of Finance and China Development Bank (CDB), respectively. The ratings also draw comfort from the strong capitalization related indicators along with conservative risk appetite of the institution.

Advances: In the recent years, the advances portfolio has posted subdued growth owing to company's strategy of asset deployment in low risk government securities. Given the thin spreads in lending to top tier corporate, the company's risk appetite remains moderate, with disbursements mainly targeted towards mid tier companies. Weakening in asset quality indicators was noted during the ongoing year on account of subjective classification of a large exposure pertaining to storage/logistic sector; the exposure was earlier restructured. Non-performing loans on a timeline basis are fully provided for, while un-provided non performing loans (on subjective basis) as a percentage of equity remained manageable. As per the strategic plan, company intends to gradually increase the advances portfolio with focus on infrastructure related projects and top tier industrial corporates. Moreover, efforts are being made to promote economic collaboration between China and Pakistan through China Advisory Desk by establishing linkages with relevant public/private sector players.

Investments: Investment portfolio remained concentrated in low risk government securities which represented 83% of net investment at end-FY15 followed by mutual funds (9%) and TFCs/Sukuks (7%). The company maintains adequate provisioning against non-performing investments. PCICL's policy of not taking direct exposure in secondary trading of equities reflects positively on the overall risk profile of the institution.

Liquidity: As a secondary market borrower, the company is primarily reliant on funding from other financial institutions which are time based liabilities. The institution maintains high level of liquidity on the balance sheet with equity representing around two-third of asset base. Fund mobilization under COIs has remained limited; the management aims to strengthen this avenue in the coming years.

Profitability: A sizeable amount of asset base is deployed in low yielding foreign currency deposit account impacting the overall yield on the markup bearing assets; the same is also exposed to foreign currency risk. Decline in return on markup bearing assets was partially offset by lower cost of funding with spreads reported at 1.6% (FY14: 1.8%) during FY15. Gain on sale of securities positively reflected on the bottom line. Given planned expansion, human resource related expenses are projected to increase. Management initiatives of making strategic equity investments and exploring consultancy & advisory opportunities are expected to diversify revenue sources, going forward.

Capitalization: The capital base of the company in comparison to the risk carried on the balance sheet is considered strong. The company plans to convert balance amount of capital in the coming years is expected to further strengthen the capital base while also providing additional funding sources.

Management and Board: The management team is headed by Mr. Li Peng, MD and Vice Chairman of PCICL while Mr. Shahnawaz Mahmood holds the office of DMD. As per the revised organogram, the number of departments reporting to the MD has been reduced to seven as against eleven earlier. A new investment banking department has been established which will focus on non-funded business including advisory and capital market transactions. Functioning of Board and its committees has improved.

Pak China Investment Company Limited (PCICL) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	10,118	12,091	11,289
Net Advances	5,973	5,708	5,957
Total Assets	17,719	20,549	20,008
Borrowings	3,944	6,903	6,742
Deposits & other accounts	-	-	250
Subordinated Loans	-	-	-
Tier-1 Equity	13,539	13,385	12,762
Net Worth	13,680	13,561	12,948
INCOME STATEMENT	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	188	1,144	1,112
Net Provisioning / (Reversal)	22	122	150
Non-Markup Income	124	238	19
Operating Expenses	67	309	362
Profit (Loss) Before Tax	224	951	619
Profit (Loss) After Tax	153	621	469
RATIO ANALYSIS	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	18.5	10.3	11.6
Provisioning Coverage (%)	45.5	81.6	63.2
Net Infection (%)	11.04	2.1	4.6
Cost of funds (%)	-	6.7	7.4
Net NPAs to Tier-1 Capital (%)	4.96	0.90	2.8
Capital Adequacy Ratio (C.A.R (%)	98.47	96.5	87
Markup Spreads (%)	-	1.6	1.8
Efficiency (%)	7.14	26	29
ROAA (%)	0.80	3.06	2.9
ROAE (%)	1.12	4.68	3.7
Liquid Assets to Deposits & Borrowings (%)	4622	4010	268

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				
28-June-16	AAA	A-1+	Stable	Reaffirmed
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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