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## **RATING REPORT**

# Pak China Investment Company Limited (PCICL)

## **REPORT DATE:**

July 04, 2017

## **RATING ANALYSTS:**

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RATING DETAILS					
	Latest	Latest Rating		Previous Rating	
	Long-	Short-	Long-	Short-	
Rating Category	term	term	term	term	
Entity	AAA	A-1+	AAA	A-1+	
Rating Outlook	Sta	Stable		Stable	
Rating Date	June 3	June 30' 17		June 28' 16	

COMPANY INFORMATION	
Incorporated in 2007	External Auditors: KPMG Taseer Hadi & Co, Chartered
	Accountants
Unlisted Public Company	Chairman of the Board: Mr. Tariq Bajwa
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 (June, 2016)

http://www.jcrvis.com.pk/kc-meth.aspx

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## Pak China Investment Company Limited (PCICL)

# OVERVIEW OF THE INSTITUTION

## Pak China Investment Company Limited (PCICL) was incorporated in 2007 as an unlisted public limited company. PCICL operates as a Development Financial institution (DFI) under a joint venture agreement between its two sponsors i.e. 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. Profile of Chairman

Mr. Tariq Bajwa is the chairman of the board. He currently holds the position of Secretary Finance Division, GoP. Mr. Bajwa has obtained a degree in Law and also did Masters in Public Administration from Harvard University, USA, with special focus on Economics.

## Profile of CEO

Mr. Li Peng has been serving as Managing Director of the company since May 2015. He holds a Master's degree in Banking and International Finance from Cass Business School, UK. Prior to joining PCICL, he has worked for over 19 years at China Development Bank in various capacities.

### Financial Snapshot

Net equity: FY16: Rs. 14.1b; FY15: Rs. 13.6b

Net profit: FY16: Rs. 615.1m; FY15: Rs. 620.8m

## 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. The ratings also incorporate strong capitalization along with conservative risk appetite of the company and dynamic management.

Advances: Gross advances of PCICL increased to Rs. 7.0b (FY16: Rs. 6.5b; FY15: Rs. 6.4b) by end-1QFY17. Total disbursements stood higher at 2.0b during FY16 against Rs. 1.8b in the preceding year. Fresh disbursements were made to electronics, energy, food & beverages, cement and engineering sectors; all advances outstanding pertained to the private sector. Asset quality indicators exhibited improvement on a timeline basis; NPLs have been fully provided for. Being cognizant of its role as DFI, the management has embarked upon exploring various avenues by virtue of enhancing focus on infrastructure development in the national strategic interest, private equity operations, microfinance and human capital development along the CPEC route, export oriented sectors and social sectors.

Investments: As per the approved strategy for the institution, PCICL does not possess 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. Market risk of the investment portfolio is also considered manageable given relatively small proportion of PIBs. During FY16, PCICL took fresh exposure in highly rated unlisted TFCs/Sukuks. Overall, the company maintains adequate provisioning against non-performing investments. The company also made strategic investments in PSX Limited (PSX) and Central Depository Company of Pakistan (CDC) by acquiring 5% stake in both companies. PCICL played a pivotal role in attracting major Chinese exchanges as investors in PSX. The company's investments in PSX and CDC are made keeping in perspective its long-term business plans.

**Liquidity:** As a secondary market borrower, the institution is primarily dependent on funding from other financial institutions; fund mobilization activity under COIs is currently limited. The liquidity profile of the institution draws comfort from the high proportion of equity to assets. Liquid assets to total deposits & borrowings declined on a timeline basis but still remained strong.

**Profitability:** Core income decreased mainly on account of lower net mark-up income generated during the outgoing year. Yield on mark-up bearing assets also declined mainly on account of decrease in benchmark rates and lower proportion of high yielding PIBs portfolio during FY16. Despite decline in cost of funds; spreads stood lower on a timeline basis. Net non-markup income augmented mainly on the back of higher capital gain and fee & commission income. While profit before tax stood lower, net profit was largely maintained on the back of lower incidence of taxation during FY16. With higher focus of investment banking, non-fund based income is expected to increase, which will help in supporting the company's bottom line, going forward.

**Capitalization:** Tier-1 capital increased to Rs. 14.1b (FY15: Rs. 13.4b) by end-1QFY17 on account of retention of profit. As per the strategic plan, capitalization levels are likely to augment further with injection of additional equity by end-FY19 and end-FY20. With higher capitalization levels, CAR remained strong at 103.9 % (FY15: 96.5%) at end-FY16, providing considerable cushion for growth.

**Management:** During the period under review, Group Head, Corporate Banking & Private Equity and Head of Compliance have been appointed. The position of permanent Chief Financial Officer is currently vacant. Stability at the senior management level is essential in effective implementation of the strategic plan. Functioning of Board is adequate while working of its committees has room for improvement.

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## Pak China Investment Company Limited (PCICL)

Annexure I

FINANCIAL SUMMARY			mounts in PKR million
BALANCE SHEET	March 31, 2017	Dec 31, 2016	Dec 31, 2015
Total Investments	23,054.2	7,734.3	12,091.2
Net Advances	7,011.2	6,039.8	5,707.7
Total Assets	36,700.4	22,518.2	20,549.4
Borrowings	22,013.1	8,196.5	6903.2
Deposits & other accounts	100.0	-	-
Subordinated Loans	-	-	-
Tier-1 Equity	14,108.0	14,001.0	13,385.4
Net Worth	14,221.6	14,126.1	13,561.2
INCOME STATEMENT			
Net Mark-up Income	226.0	696.7	1,144.2
Net Provisioning / (Reversal)	12.1	(68.5)	122.0
Non-Markup Income	15.8	435.5	237.6
Operating Expenses	71.2	342.2	309.1
Profit (Loss) Before Tax	158.4	858.5	950.9
Profit (Loss) After Tax	107.0	615.1	620.8
RATIO ANALYSIS			
Gross Infection (%)	5.0	5.9	10.3
Provisioning Coverage (%)	100.0	100.0	81.6
Net Infection (%)	0.0	0.0	2.1
Cost of funds (%)	-	4.8	6.7
Net NPAs to Tier-1 Capital (%)	NM	NM	0.9
Capital Adequacy Ratio (CAR) (%)	81.3	103.9	96.5
Markup Spreads (%)		0.4	1.7
Efficiency (%)	31.3	38.7	28.8
ROAA (%)	1.4	2.9	3.1
ROAE (%)	3.0	4.5	4.7
Liquid Assets to Deposits & Borrowings (%)	139	169	4011

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## 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.

#### Δ-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.

#### В

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. Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES Appendix					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		Medium to		Rating			
	<b>Rating Date</b>	Long Term	<b>Short Term</b>	Outlook	Rating Action		
	<u>RATING TYPE: ENTITY</u>						
	30-June-17	AAA	A-1+	Stable	Reaffirmed		
	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.						
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to						
, i	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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