RATING REPORT

Pak China Investment Company Limited (PCICL)

REPORT DATE:
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RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

M. Daniyal
daniyal.kamran@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 20' 18*		*June 30' 17*	

COMPANY INFORMATION

Incorporated in 2007	**External Auditors:** KPMG Taseer Hadi & Co, Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: Mr. Arif Ahmad Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Wang Baojun
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

Pak China Investment Company Limited (PCICL)

RATING RATIONALE

The assigned ratings of Pak China Investment Company Limited (PCICL) incorporate implicit support of its two sovereign sponsors, Government of Pakistan (GoP) and People's Republic of China (PRC), with equal shareholding held through Ministry of Finance (MoF) and China Development Bank (CDB), respectively. The ratings also take into account strong capitalization, sound liquidity, conservative risk appetite of the company and efforts of the senior management to implement shareholders' strategic goals and vision.

Advances: By end-FY17, gross advances increased to Rs. 8.4b (FY16: Rs. 6.5b) as total disbursements stood higher at Rs. 3.5b (FY16: Rs. 2.0b). Fresh disbursements were primarily made to petroleum, electronics, power, food & beverages, cement and sugar sectors. Gross advances amounted to Rs. 8.1b by end-1QFY18. The company's advances portfolio is almost entirely long-term in nature and comprises lending to the private sector. In line with the mandate, focus remains on advisory and matchmaking between Chinese and Pakistani industries through JV and advisory while also exploring the option of debt and equity exposure in high importance sectors thus promoting FDI in Pakistan. During FY17, sectoral concentration within the loan portfolio witnessed changes as concentration in the power sector declined, whereas concentration in other segments particularly sugar and cement sector increased. Concentration in the advances portfolio remains high as top ten exposures comprised more than half of gross advances at end-FY17. During the period under review, asset quality indicators exhibited further improvement, whereas NPLs have been fully provided for.

Investments: By end-1QFY18, investments of PCICL amounted to Rs. 12.7b (FY17: Rs. 13.8b; FY16: Rs. 7.7b) with more than three-fourth of the portfolio comprising government securities. As exposure in government securities comprise T-bills entirely, therefore credit and market risk from the same is considered low. Investment in associates forms around 11% of the total investment portfolio and includes 5% investment each in Central Depository Company of Pakistan Ltd (CDC) and Pakistan Stock Exchange Ltd (PSX). Both companies are categorized as associates due to common directorship. As per the management, these strategic investments have been made keeping in view PCICL's long-term business plans besides expectation of recurring income. Remaining portfolio mainly comprise highly rated listed TFCs and unlisted Sukuks, while non-performing unlisted TFCs have been fully provided for. Market risk arising from listed equities is also considered manageable given its low quantum.

Liquidity: Tier-1 equity and borrowings from financial institutions continue to be the main source of funding for PCICL. Liquidity profile of the company draws comfort from the high proportion of equity to assets; equity comprised around two-third of the asset base at end-1QFY18. Moreover, adjusted liquid assets-to-total borrowings also witnessed increase on a timeline basis primarily due to utilization of debt funding through collateralized repo borrowings.

Profitability: During FY17, spreads declined on the back of maturity of higher yielding GOP securities, thereby reducing overall return on mark-up bearing assets and marginal increase in cost of borrowing. Net mark-up income increased owing to higher business volumes. Core income increased to Rs. 956.2m (FY16: Rs. 657.3m) on the back of higher net mark-up and fee based income during FY17. As a result, net income also stood higher. During 1QFY18, net mark-up income largely remained stable at prior year's level, while non mark-up income provided impetus to the profitability.

Capitalization: By end-1QFY18, tier-1 capital augmented to Rs. 14.8b (FY17: Rs. 14.7b; FY16: Rs. 14.0b) on the back of profit retention. PCICL maintains one of the highest initial paid-up capital amongst all DFIs. Remaining authorized capital is expected to be injected going forward which while enhancing paid-up capital will also help in reducing dependence on borrowing and related costs of the company. Capital Adequacy Ratio (CAR) remained significantly above regulatory requirement.

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. Khan is a civil servant with 35 years of experience in Public Administration and holds Masters in Public Policy from Concordia University, Quebec. Before joining Finance Division, he served as Secretary Economic Affairs Division (EAD), Secretary Interior and Secretary, Climate Change.

Profile of CEO

Mr. Wang serves as CEO of PCICL and carries more than 20 years' experience of working in Development Financial Institutions with diversified exposure in the areas of Credit Management, Finance, Research, Information Technology and Planning.

Financial Snapshot

Net equity: 1QFY18: Rs. 14.9b; FY17: Rs. 14.7b; FY16: Rs.14.1b

Net profit: 1FYQ18: Rs. 156.6m; FY17: Rs. 670.6m; FY16: Rs. 615.1m

Pak China Investment Company Limited (PCICL) — Annexure I

FINANCIAL SUMMARY			*(amounts in PKR million*
BALANCE SHEET	**FY16**	**FY17**	**1QFY18**
Total Investments	7,734.3	13,848.1	12,702.7
Net Advances	6,039.8	7,900.0	7,582.8
Cash & Balances	5,166.4	2,195.4	1,247.0
Total Assets	22,518.2	24,421.0	22,092.9
Borrowings	8,196.5	9,576.9	7,060.5
Deposits & other accounts	-	-	-
Subordinated Loans	-	-	-
Tier-1 Equity	14,001.0	14,668.3	14,825.0
Net Worth	14,126.1	14,668.6	14,867.5
INCOME STATEMENT			
Net Mark-up Income	843.7	954.4	220.1
Net Provisioning / (Reversal)	(68.5)	(103.9)	(6.5)
Non-Markup Income	288.5	322.8	59.3
Operating Expenses	342.2	411.3	77.0
Profit (Loss) Before Tax	858.5	969.8	208.9
Profit (Loss) After Tax	615.1	670.6	156.6
RATIO ANALYSIS			
Gross Infection (%)	5.9	3.7	3.9
Provisioning Coverage (%)	100.0	100.0	100.0
Net Infection (%)	0.0	0.0	0.0
Cost of funds (%)	5.5	5.9	-
Net NPAs to Tier-1 Capital (%)	NM	NM	NM
Capital Adequacy Ratio (CAR) (%)	103.9	93.7	100.4
Markup Spreads (%)	1.7	1.0	-
Efficiency (%)	32.9	25.5	32.9
ROAA (%)	2.9	2.9	2.7
ROAE (%)	4.5	4.7	4.2
Liquid Assets to Deposits & Borrowings (%)	169	249	4,854

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				
20-June-18	AAA	A-1+	Stable	Reaffirmed
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 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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