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 21'19*		*June 20'18*	

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)
VIS Entity Rating Criteria: Government Supported Entities (June, 2016)
http://www.vis.com.pk/kc-meth.aspx

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. 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: 1QFY19: Rs. 15.5b; FY18: Rs. 15.4b; FY17: Rs.14.7b

Net profit: 1FYQ19: Rs. 187.8m; FY18: Rs. 618.8m; FY17: Rs. 670.6m

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, diversified revenue steam, sound liquidity, conservative risk appetite of the company and efforts of the senior management to implement shareholders' strategic goals and vision.

Advances: By end-FY18, gross advances portfolio declined in comparison to preceding year; however, total disbursements stood higher than the target. Fresh disbursements were made to construction, financial services, electronics, power, sugar and food sectors. Targets set for FY19 are slightly conservative in line with economic dynamics of the country. The company's advances portfolio is largely long-term in nature and comprises lending to the private sector. Concentration in the advances portfolio, albeit improved remained on higher side at end-FY18. Some of the largest exposures pertained to cement, construction, financial and electronics sectors. During the period under review, infection ratios stood higher on account of higher incidence of NPLs. In line with the institution's mandate, PCICL's 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. Moreover, to promote development activities in Pakistan PCICL was instrumental in opening of Gawadar Branch of Kashf Foundation. Further, due to revision of Free Trade Agreement (FTA) between China and Pakistan, more investment and advisory opportunities will be created for PCICL and economy as a whole.

Investments: In the backdrop of economic instability in the country and volatile interest rates, investments funded through borrowings from market were off-loaded. Accordingly, in order to mitigate the risk stemming from interest rate volatility, investment in T-bills was reduced, meanwhile investment in TFCs (listed and unlisted) was increased by end-FY18. Investment portfolio *(at market value)* declined to Rs. 10.0b (FY17: 13.8b) by end-FY18. Exposure in government securities was further reduced by end-1QFY19 to avoid mark to market losses due to interest rate uncertainty. Given the investment portfolio predominantly comprises government securities, credit risk emanating from the same is considered minimal in the local context while market risk is also considered modest given short-term nature of the instruments. Investment in associates comprised 13% (FY17: 10%) of the total investment portfolio, including 5% equity investment each in Central Depository Company of Pakistan Ltd (CDC) and Pakistan Stock Exchange Ltd (PSX). 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: Given that the company has offloaded a major chunk of its government securities portfolio, borrowings channelized through repurchase agreements declined at the end-FY18. Overall liquidity profile of the institution remained strong as proportion of adjusted liquid assets to total deposits & borrowings increased sizably on a timeline basis.

Profitability: On account of lower quantum of average borrowings during the year interest expense reduced significantly, further cost of borrowings also declined in line with lower reliance on high priced call money borrowings during FY18. Subsequently, despite slightly lower yield on mark-up bearing assets, spread increased on back of lower cost of funds. Net mark-up income increased owing to higher business volumes. Further, core income also depicted positive momentum primarily on account of higher net mark-up income and foreign exchange gain during FY18. During 1QFY19, net mark-up income increased as compared to the same in the corresponding period last year in line with increased quantum of markup bearing assets, while non mark-up income provided impetus to the profitability.

Capitalization: Tier-1 equity augmented on a timeline basis on account 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 will further help in reducing dependence on borrowings and lead to reduction in borrowing costs. Capital Adequacy Ratio (CAR) remained significantly above regulatory requirement and is the highest amongst all DFIs.

Pak China Investment Company Limited (PCICL) Annexure I

FINANCIAL SUMMARY			*(amounts in PKR million)*
BALANCE SHEET	**FY17**	**FY18**	**1QFY19**
Total Investments	13,848.1	9,976.2	5,184.4
Net Advances	7,900.0	7,620.2	6,905.8
Lending to Financial Institutions	-	-	759.8
Cash & Balances	2,195.4	1,615.8	2,548.8
Other Assets	477.4	550.1	752.3
Total Assets	24,420.9	19,762.2	16,151.1
Borrowings	9,576.9	4,180.7	323.5
Deposits & other accounts	-	-	-
Subordinated Loans	-	-	-
Other Liabilities	175.5	220.3	328.9
Tier-1 Equity	14,668.3	15,278.3	15,465.9
Net Worth	14,668.6	15,361.3	15,498.7
INCOME STATEMENT			
Net Mark-up Income	954.4	1,082.4	363.1
Net Provisioning / (Reversal)	(70.7)	225.6	27.5
Non-Markup Income	4	441.5	47.5
Operating Expenses	378.1	386.4	104.7
Profit (Loss) Before Tax	969.8	911.8	278.4
Profit (Loss) After Tax	670.6	618.8	187.8
RATIO ANALYSIS			
Gross Infection (%)	3.7	10.0	10.6
Provisioning Coverage (%)	100.0	48.8	55.1
Net Infection (%)	0.0	5.4	5.0
Cost of funds (%)	5.9	3.6	-
Net NPLs to Tier-1 Capital (%)	NM	2.7	2.3
Capital Adequacy Ratio (CAR) (%)	93.7	87.3	89.5
Markup Spreads (%)	0.8	2.9	-
Efficiency (%)	28.2	27.7	26.0
ROAA (%)	2.9	2.8	4.2
ROAE (%)	4.7	4.1	4.9
Liquid Assets to Deposits & Borrowings (%)	199.4	370.5	1,475.3

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	see table below
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 credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
21-June-19	AAA	A-1+	Stable	Reaffirmed
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