RATING REPORT

Pak China Investment Company Limited (PCICL)

REPORT DATE:
June 25, 2020

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 25' 20*		*June 21' 19*	

COMPANY INFORMATION	
Incorporated in 2007	**External Auditors:** EY Ford Rhodes
Unlisted Public Company	**Chairman of the Board**: N/A
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

N/A

Profile of CEO

Mr. Wang holds degrees of Masters in Public Administration and Masters in Computer Science from China National School of Administration and Harbin Engineering University respectively. He is also a Qualified Accountant and Security Practitioner. Mr. Wang has assumed the office of Managing Director/ Executive Director of the Company in May, 2018. He brings 23 plus years' experience of working in Development Financial Institutions, with diversified exposure in the areas of credit management, finance, research, information technology and planning. Before joining PCICL, he was head of Australian Group as Senior Commissioner of China Development Bank (CDB). During his affiliation with CDB, he lately held positions of Division Director of Credit Management and Division Director of International Cooperation & Study in International Finance Department, while he also served as Deputy Division Director of Confidential Affairs and Deputy Division Director of General Affairs in General Office.

Financial Snapshot

Tier-1 Equity: end-FY19: Rs. 16.6b; end-FY18: Rs. 15.3b

Net Profit: FY19: Rs. 760.1m; FY18: Rs. 618.8m

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, and efforts of the senior management to implement shareholders' strategic goals and vision.

Current pandemic and the resultant lockdown have impacted various sectors across the globe; it will also have some implications on DFIs operating in the country. However, given that the company has diversified revenue stream, the impact of the same may remain manageable. Delays in projects timelines may affect targeted growth and profitability, the extent of which remain to be seen.

Key Rating Drivers

Higher disbursement of advances amid largely intact asset quality indicators: Gross advances portfolio exhibited growth of around 22% in FY19; total disbursements increased considerably to Rs. 4.7b (FY18: 2.7b) against the target of 3.9b for FY19. Fresh disbursements were majorly made to public sector enterprise operating in transportation and in private sector to power, services, steel, engineering, sugar, and cement. The company's advances portfolio is largely long-term in nature and presently comprised lending to both public and private sector. Meanwhile, concentration in advances portfolio has remained on higher side. Non-performing loans were recorded higher during FY19, however, asset quality indicators have remained intact on back of higher gross advances and provisioning against infected portfolio. In line with the institution's mandate, PCICL's focus remained 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.

Growth in investment portfolio was mainly manifested in higher investment in market T-bills: Investment portfolio (at market value) stood higher at Rs. 19.1b (FY18: Rs. 10.0b) by end-FY19 and the increase was primarily manifested in T-bills. Investment in T-bills increased to Rs. 13.9b (FY18: Rs. 4.9b). Investment in non-government debt securities (listed and unlisted) also increased to Rs. 4.1b (FY18: Rs. 3.7b) by end-FY19. Given the return on these instruments is pegged to market benchmark rate, interest rate risk arising from the same is considered low, while non-performing unlisted debt securities have been fully provided for. 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. Market risk arising from listed equities is also considered manageable given its low quantum. Investment in associates comprised around 6% (FY18: 13%) of the total investment portfolio, including 5% equity investment each in Central Depository Company of Pakistan Ltd and Pakistan Stock Exchange Ltd. As per the management, these strategic investments have been made keeping in view PCICL's long-term business plans besides expectation of recurring income.

Overall liquidity position of the institution has remained strong: Borrowings stood higher at Rs. 16.1b (FY18: Rs. 4.2b) mainly to fund higher investment in government securities. Borrowings through financial institution increased, while borrowings channelized through repurchase agreement decreased notably by the end-FY19. Liquid assets (adjusted for repo) amounted to Rs. 14.8b (FY18: Rs. 4.1b) by end-FY19. While the proportion of adjusted liquid assets to total deposits and borrowings (adjusted) decreased to 93.5% (FY18: 296.5%) by end-FY19, it remained sizeable. PCICL has also sufficient unutilized long-term credit lines available from various banks as a liquidity cushion as of now.

Higher profitability mainly on back of volume expansion: Average mark-up bearing assets stood higher in FY19, net mark-up income increased on account of higher markup income despite considerable increase in markup expense. Despite higher yield on markup bearing assets, spread narrowed in FY19 on account of sizeable increase in cost of funds. Non-markup income was decreased mainly on account of lower un-realized exchange gain on foreign currency term deposits due to some stability in Pak Rupee and USD parity in last two quarters of the review period. Further, gain on sale of securities decreased while, fee & commission income increased primarily on account of higher investment banking fee & non fund income earned by corporate banking department. Despite higher provisions charged against loans and advances and impairment loss on investments along with increase in operating expenses, net profit increased on the back of higher topline growth during FY19.

Augmentation in core equity on back of profit retention and equity injection by partners: Equity base augmented on a timeline basis on account of profit retention. Also, during FY19, the company received first tranche of the remaining authorized capital amounting Rs. 580m from equity partners. 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.

Pak China Investment Company Limited (PCICL) Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**FY17**	**FY18**	**FY19**
Total Investments	13,848.1	9,976.2	19,129.8
Net Advances	7,900.0	7,620.2	9,286.1
Lending to Financial Institutions	-	-	-
Fixed Assets	174.0	187.3	276.9
Cash & Balances	2,195.4	1,615.8	4,054.6
Other Assets	303.4	362.8	655.6
Total Assets	24,420.9	19,762.2	33,403.0
Borrowings	9,576.9	4,180.7	16,119.3
Deposits & other accounts	-	-	-
Subordinated Loans	-	-	-
Other Liabilities	175.5	220.3	651.7
Tier-1 Equity	14,668.3	15,278.3	16,627.3
Net Worth	14,668.6	15,361.3	16,632.0
Paid-Up Capital	9,116.4	9,116.4	9,696.6
INCOME STATEMENT			
Net Mark-up Income	954.4	1,082.4	1,713.0
Net Provisioning / (Reversal)	(70.7)	225.6	471.9
Non-Markup Income	4	441.5	301.0
Operating Expenses	378.1	386.4	476.3
Profit Before Tax	969.8	911.8	1,065.8
Profit After Tax	670.6	618.8	760.1
RATIO ANALYSIS			
Gross Infection (%)	3.7	10.0	9.9
Provisioning Coverage (%)	100.0	48.8	59.7
Net Infection (%)	0.0	5.4	4.2
Cost of funds (%)	5.9	3.6	10.4
Markup Spreads (%)	0.8	2.9	0.7
Net NPLs to Tier-1 Capital (%)	N/A	2.7	2.4
Capital Adequacy Ratio (CAR) (%)	93.7	87.3	73.7
Efficiency (%)	28.2	27.7	26.5
ROAA (%)	2.9	2.8	2.9
ROAE (%)	4.7	4.1	4.8
Liquid Assets to Borrowings (%)	199.4	296.5	93.5

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
25-June-20	**AAA**	**A-1+**	**Stable**	**Reaffirmed**
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

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Syed Mehar Ali Shah	Financial Controller	May 12, 2020
2	Mr. Abbas Athar Hamadani	Group Head SME & Corporate Finance	May 13, 2020
3	Mr. Tariq Mehmood	Group Head Investment Banking	May 13, 2020
4	Mr. Nabeel Abbas	Head of Treasury	May 13, 2020