RATING REPORT

Pak China Investment Company Limited (PCICL)

REPORT DATE:
June 23, 2022

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 23'22*		*June 28' 21*	

COMPANY INFORMATION	
Incorporated in 2007	**External Auditors:** EY Ford Rhodes
Unlisted Public Company	**Chairman of the Board**: Mr. Wang Baojun
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Jiang Ketao
Government of Pakistan – 50%	
People's Republic of China – 50%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Government Supported Entities (July, 2020)
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. 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 Practitionerr. He has over 25 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).

Profile of CEO

Mr. Jiang was appointed as Deputy Managing Director of the Company in August, 2021 and assumed the office of Managing Director on acting basis in October, 2021. Prior to joining PCICL, Mr. Jiang had 21 years' of affiliation with China Development Bank (CDB), where he served at various positions in Asset Management, Credit Management, Customer Services, Global Cooperation Management and International Finance Departments.

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. CDB has an outstanding rating of 'A+' from an international credit rating agency. In the backdrop of economic recovery post COVID-19, there was a noticeable change in the quantum of disbursements made, while the conservative strategy by tapping listed and rated clients in the medium to long-term horizon remained in check. Overall, asset quality has exhibited improvement as efforts have been undertaken for recoveries from non-performing clients. The ratings are underpinned by strong capitalization, diversified revenue steam, sound liquidity, conservative risk appetite and efforts of the senior management to implement shareholders' strategic goals and vision.

Key Rating Drivers

Growth in lending book on the back of economic recovery post COVID-19.

Quantum of advances disbursement in 2021 increased to Rs. 13.5b (2020: Rs. 4.3b) with growth emanating in Sindh and Punjab. The institution continued to focus on its strategy of lending to rated clients pertaining to investment grade category coupled with tapping listed entities during the rating review period. With higher disbursements, Gross Loan Portfolio (GLP) grew by around 30% and was recorded at Rs. 16.2b (2021: Rs. 16.9b; 2020: Rs. 12.4b) at end-March'22. New disbursements were mainly targeted towards textile, chemical & pharmaceutical, mining, and power sectors. Concentration in the advances portfolio reduced slightly, however remained on the higher side. Top ten exposures on basis of total funded & non-funded exposure accounted for 54% (2020: 67%) of gross advances at end-2021.

Asset quality indicators have depicted improvement due to de-classification of some clients, higher recoveries and no infection emanating from new portfolio

Non-performing loans (NPLs) were recorded slightly lower at Rs.1.6b (CY20: Rs. 1.7b) at end-March'22 owing to de-classification and recovery from two clients in the last quarter of 2021. The company is consistently managing other legacy clients with further increase in recoveries projected going forward. No new NPLs from disbursements in 2021 were recorded in the last three years. Recoveries against rescheduled clients stood higher at Rs. 242.2m (2020: Rs. 221.2m) during 2021. In line with a higher growth in advances portfolio and reduction in NPLs, asset quality indicators have depicted improvement. Gross infection improved to 10.0% (2021: 9.7%, FY20: 13.6%) at end-Mar'22, respectively. With higher provisioning, net infection ratios have also improved on a timeline basis to 4.5% (2021: 4.9%, 2020: 8.6%) at end-Mar'22.

A sizeable and well-diversified investment portfolio with credit risk emanating from the same to be on the lower side.

A noticeable change in investment mix was observed in 2021 as the proportion of investments in TFCs went up. Investment in T-Bills was reduced to a noticeable extent, which is dependent upon the availability of clean/bi muajjal borrowings to the entity. TFC portfolio consists of high rated instruments offered by the financial sector. The T-Bill portfolio was re-built during 2022 as the investments were funded with borrowings of similar rates, which helped to maintain spread. Investment in government securities accounted for more than 50% of the total pool and was reported at Rs. 10.4b at end-March'22 with credit risk being on the lower side. This was followed by exposure in Sukuks/TFCs/Commercial Papers to the tune of Rs. 7b. Investment exposures also include shareholding in Central Depository Company of Pakistan Limited (CDC), Pakistan Stock exchange Limited (PSX), and Deli JW Glassware Company Limited, which has been maintained at a similar level over the period. Equity market exposure of the entity has remained at a low level.

Going forward, the plan is to further build the GoP securities portfolio once interest rates stabilize. In that regard, the management aims to invest additional Rs. 5b in Pakistan Investment Bonds (PIBs).

Overall liquidity position of the institution has remained strong:

PCICL's liquidity position is considered sound in line with sizeable quantum of investments carried on the books coupled with substantial cash balances. Even though the portfolio of investments fell at end-2021 in comparison to the previous year, there was a significant increase in the size of deposits with commercial banks. As a result of the same, total liquid assets were reported higher at year end. Further, deposit base of the entity depicted a noticeable rise over the period, on account of the issuance of COIs to a listed corporation.. In line with that, liquid assets coverage of deposits and borrowings increased. Given company's plans to enhance its investment portfolio in the ongoing year as evident from the investment base at end-Mar'22, liquidity profile of the company is expected to remain sound, going forward.

A major goal for 2022 is to ensure maximum utilization of Long Term Financing Facility (LTFF), a refinancing facility offered by SBP that is allocated among financial institutions on quota basis. Growth in advances portfolio going forward is expected to be financed through borrowings since limited deposit base. Going forward, management plans to build short-term borrowing portfolio to cater working capital needs of the clients enabling the company to compete with commercial banks. In view of the same, the short-term line has already been enhanced to Rs. 3b and a sub-line of money market instrument has also been arranged. COIs will not be a part of funding plan in near future, and will only be considered if positive spreads are on offer.

At end-March'22, relevant liquidity indicators including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained in compliance with regulatory requirements and at comfortable levels of 755% and 144.64%, respectively.

Profitability has been maintained at a similar level despite growth in the scale of operations

Markup income of the company declined to Rs. 2.7b (2020: Rs. 3.2b) in 2021 owing to lower benchmark rates with average return on advances clocking in at 7.8% (2020: 10.2%). Full year impact of rising interest rates will be visible next year due to lag in re-pricing of assets. Despite rising quantum of borrowings and deposit cost, spreads of the company improved in 2021 to 0.7% (2020: -0.4%).

The institution has a spread size as a combined outcome of inherent limitations of business model and operational phenomenon; the DFI is heavily funded by equity therefore, there is notable mismatch in yield on assets and cost of liabilities recorded. Further, the institution has historically refrained from investment in PIBs entailing higher interest yield in comparison to T-Bills as longer tenure exposure in government securities portfolio is to be avoided to minimize market risk.

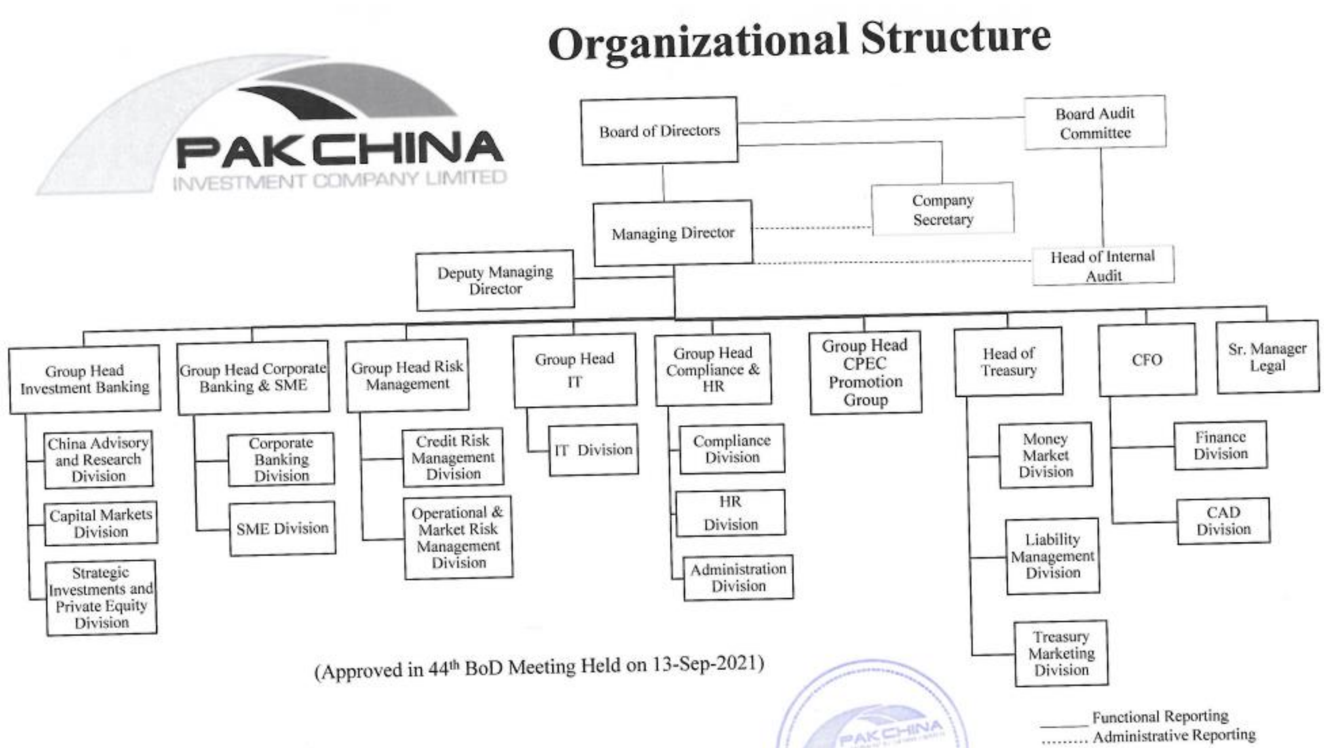
Foreign exchange income depicted a substantial increase because of the currency depreciation, whereas the entity incurred an overall loss on securities held mainly due to the suppressed performance of the stock market during the year. Fee income went up by more than 30% in 2021 provided by higher credit card related fees(+25% YoY), commission on guarantees (43% YoY) and investment banking fees (+54% YoY). Several initiatives in relation to investment banking division are on board with higher income from the same projected going forward. Despite increase in core operating income, with higher provisioning charge and increase in operating expenses; profit after tax of the company was maintained at preceding year levels in 2021. Efficiency ratio has improved on a timeline basis due to uptick in recurring income being greater than growth in operating expenses.

Equity base has expanded on a timeline basis on account of profit retention:

Total equity of the institution rose to Rs. 18.5b (Dec'21: Rs. 18.3b, Dec'20: Rs. 17.5b) by end-March'22 on the back of profit retention. With reduction in NPLs and retention in equity, NPLs as a proportion of Tier-1 equity were reported lower at 10.7% (2020: 11.5%) at end-Dec'21. Risk Weighted Assets (RWAs) also went up to Rs. 24.7b (CY20: Rs. 20.6b) in line with higher growth in asset base. Comfort is drawn with around 70% of the lending portfolio encompassing rated clientele. The entity has grown its portfolio of rated clients over time and will continue to do so, which may help to keep RWAs related to credit risk in check going forward. Owing to higher RWAs, Capital Adequacy Ratio (CAR) decreased slightly and was reported at 63.57% (Dec'20: 70.7%) at end-Dec'21. However, the same is considerably higher than the minimum regulatory requirement and represents sizable room for growth for the institution.

Pak China Investment Company Limited (PCICL) Annexure I

Mr. Wang Baojun *Chairman*	Mr. Wang 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. Mr. Wang holds degrees of Masters in Public Administration and Masters in Computer Science from China National School of Administration and Harbin Engineering University, School of Computer & Information Science, respectively. He is also a Qualified Accountant and Security Practitioner. 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.
Mr. Jiang Ketao CEO/MD (Acting)	Mr. Jiang was appointed as Deputy Managing Director of the Company in August, 2021 and assumed the office of Managing Director on acting basis in October, 2021. Prior to joining PCICL, Mr. Jiang had 21 years' of affiliation with China Development Bank (CDB), where he served at various positions in Asset Management, Credit Management, Customer Services, Global Cooperation Management and International Finance Departments. He has also accomplished various international investment ventures of CDB as Senior Appraisal Specialist and Senior Negotiator. His last posting at CDB was as Director of Coordination Division, International Finance Department of CDB. Mr. Jiang received his degrees of Master's in Finance and Bachelor's in Economic Information Management from Jiangxi University of Finance & Economics, China.
Ms. Wang Li *Non-Executive Director*	Ms. Wang joined the Board of Directors of PCICL in October, 2018 as non-executive Director. She is Deputy Director General of Market Development & Equity Investment Department of China Development Bank (CDB). She joined CDB's predecessor China Investment Bank in 1987 and has held many positions in the Bank over the past three decades, including Division Chief of Corporate Bond Underwriting Division in Treasury & Financial Market Department, and Vice President of CDB Securities Co. Ltd. Ms. Wang currently serves on professional committees of numerous self-regulatory organizations.


Organizational Structure
PAKCHINA
INVESTMENT COMPANY LIMITED
Board of Directors
Board Audit Committee
Company Secretary
Managing Director
Head of Internal Audit
Deputy Managing Director
Group Head Investment Banking
China Advisory and Research Division
Capital Markets Division
Strategic Investments and Private Equity Division
Group Head Corporate Banking & SME
Corporate Banking Division
SME Division
Group Head Risk Management
Credit Risk Management Division
Operational & Market Risk Management Division
Group Head IT
IT Division
Group Head Compliance & HR
Compliance Division
HR Division
Administration Division
Group Head CPEC Promotion Group
Head of Treasury
Money Market Division
Liability Management Division
Treasury Marketing Division
CFO
Finance Division
CAD Division
Sr. Manager Legal
(Approved in 44th BoD Meeting Held on 13-Sep-2021)
Functional Reporting
Administrative Reporting

Pak China Investment Company Limited (PCICL) Annexure III

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**2019**	**2020**	**2021**	**1Q2022**
Total Investments	19,242	15,658	12,843	19,449
Net Advances	9,291	11,550	15,842	15,040
Lending to Financial Institutions	-	1,150	-	-
Cash & Balances	4,055	2,258	8,614	4,626
Other Assets	813	793	673	926
Total Assets	33,400	31,409	37,971	40,041
Borrowings	16,119	12,903	14,694	20,963
Deposits & other accounts	-	512	4,750	-
Other Liabilities	652	512	251	543
Paid-Up Capital	9,697	9,697	9,697	9,697
Tier-1 Equity	14,483	14,549	15,508	14,972
Net Worth	16,632	17,482	18,275	18,524
INCOME STATEMENT				
Net Mark-up Income	1,713	1,439	1,468	447
Net Provisioning / (Reversal)	472	117	220	61
Non-Markup Income	263	284	352	74
Operating Expenses	476	492	534	128
Profit Before Tax	1,066	1,167	1,133	347
Profit After Tax	760	773	773	244
RATIO ANALYSIS				
Gross Infection (%)	9.9%	13.6%	9.7%	10.0%
Provisioning Coverage (%)	59.7%	39.9%	51.9%	57.0%
Net Infection (%)	4.2%	8.6%	4.9%	4.5%
Cost of funds (%)	12.1%	10.1%	7.1%	10.9%
Markup Spreads (%)	-0.3%	-0.4%	1.1%	-0.5%
Net NPLs to Tier-1 Capital (%)	2.8%	6.9%	5.1%	4.6%
Capital Adequacy Ratio (CAR) (%)	73.7%	70.7%	62.8%	63.6%
Efficiency (%)	23.9%	29.8%	27.9%	22.7%
ROAA (%)	2.9%	2.4%	2.2%	2.5%
ROAE (%)	4.8%	4.5%	4.3%	5.3%
ADR	NA	2271.8%	318.2%	NA
LCR	2064.0%	317.0%	246.0%	755.0%
NSFR	110.0%	133.0%	148.0%	144.6%
Liquid Assets to Deposits & Borrowings (%)	113.2%	91.3%	70.3%	68.7%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix IV

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 V
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					
	23-June-22	AAA	A-1+	Stable	Reaffirmed	
	28-June-21	AAA	A-1+	Stable	Reaffirmed	
	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	
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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Due Diligence Meetings Conducted		Name	Designation	Date		
	1	Syed Mehar Ali Shah	Financial Controller	May 23, 2022		
	2	Mr. Abbas Athar Hamadani	Group Head SME & Corporate Finance	May 23, 2022		
	3	Mr. Tariq Mehmood	Group Head Investment Banking	May 23, 2022		
	4	Syed Nabeel Abbas	Head of Treasury	May 23, 2022		
	5	Mr. Umer Farooq	Group Head Risk Management	May 24, 2022		
	6	Mr. Armughan Ahmed	CFO	May 24, 2022		
	7	Mr. Saeed Ahmed Khan	Head Internal Audit	May 24, 2022		
	8	Mr. Khurram Shahzad	Group Head Compliance	May 24, 2022		