



RATINGS (JUNE 2011)

PAK BRUNEI INVESTMENT COMPANY (PBIC)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+

FINANCIAL DATA

PKR (mln)

	1Q11*	Dec-10	Dec-09
Total Assets	15,847	14,369	12,131
Equity	7,563	7,392	6,311
Net Income	172	581	448
ROA %	4.5	4.4	5.0
ROE %	9.2	8.5	7.7
Equity/Total Assets %	47.7	51.4	52.0
SBP CAR (%)	70	85	81.0

*Based on unaudited accounts for the period ended March 31, 2011.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the joint ownership of PBIC by the Governments of Pakistan and Brunei, signifying strong sponsor support. The company maintains strong financial profile, characterized by low-leveraging, liquid investments portfolio, good asset quality, and improving profitability. The ratings recognize sound management structure and quality systems and controls. However, establishing diversified revenue streams while managing related risks through strengthening of risk management procedures in current economic environment would be challenging.
- The management's ability to successfully implement its business strategy in a timely manner, while maintaining its strong risk absorption capacity would remain critical for the ratings. At the same time, any politically motivated intervention in the company's affairs, impacting the corporate governance standards would negatively affect the ratings.

ASSESSMENT

- During 2010, PBIC's interest income registered considerable growth mainly on account of increase in earning assets, further augmented by rising interest rates. However, relative increase in net interest revenue remained constrained due to high interest expense incurred to finance arbitrage gains. Although income from money market operations improved, the company, to limit risk arising from stock market exposure, significantly reduced its trading portfolio, thereby resulting in lower other income on YoY. Meanwhile, decline in provisioning expense (CY10: PKR 81mln, CY09: PKR 218mln) due to lower diminution in value of investments/impairment losses, supported the bottom-line. During 1Q11, the company continued its growth trend and registered a profit of PKR 171.5mln (1QCY10: PKR 137.4mln) on account increase in the interest earned on total finances (Total Finances; 1Q11: PKR 6,872, 1Q10: PKR 5,327).
- Going forward, PBIC will concentrate on strengthening its risk management systems in line with the overall growth objectives while diversifying its earning assets and sources of revenues. The company will focus on mid-tier clients, where returns are high and risk will be mitigated by strict control over security structure and monitoring mechanism. Furthermore, it plans to increase its major exposure in potentially stable sectors including Pharmaceutical, Food, Sugar and Oil & Gas. Recently, PBIC has obtained approval from State Bank of Pakistan to establish an Asset Management Company. Moreover, the company intends to participate in equity capital of select projects that meet investment criteria. However, as these initiatives are at nascent stage, any revenue generation from these would take time.
- The company has a well defined organizational structure with independent internal audit function. For risk management and assigning internal credit rating, the company has improved upon the already in place internal in-house obligor risk rating model, with a new, more sophisticated model, which will be implemented after approval from BoD. The development of project scoring model is also in process. In order to strengthen the control environment and facilitate effective reporting, PBIC is considering acquiring or developing an Operational Risk Software from a local vendor.
- The company's total finances at end-Dec-10 were dominated by investments in TFCs and sukuks (CY10: 64%, CY09: 72%). The TFCs portfolio, though fairly diversified, a sizeable amount (PKR 725mln, 11% of total finances) represented investment in below investment grade instruments at end-10. During the year, the asset quality of advances improved as NPLs declined (10: PKR 7mln, 09: 282mln) mainly due to settlement of a major non-performing client. PBIC has started diversifying its advances portfolio – top 5 sectors represent ~60% concentration vis-a-vis above 90% last year. However, given the current difficult economic environment and the company's growth plans, maintaining strong asset quality would be challenging.
- PBIC's investment portfolio, with a growth of 19% during 2010, mainly dominated by government securities (97%), while remaining portion consists of investments in equity market and mutual funds. The government securities majorly comprise MTBs having maturity period of one year or less, thus minimizing the interest rate risk. PBIC has a moderate exposure of equity investments and thus the market risk is alleviated. However, in 1Q11, the company has increased its exposure in equities (PKR 843mln, 11% of equity). Although higher investment in equities may yield better returns, market risk remains high. The limit for investment in equities is PKR 1,000mln.
- In order to meet the minimum capital requirement (PKR 6bln) as prescribed by the SBP, the company had fresh injection of PKR 1bln. PBIC has in issue Certificates of Investment worth PKR 844mln at end-Dec10, which further increased to PKR 2,059mln in 1Q11, mainly to fund its stock market investments as well as expansion in money market operations. Going forward, the company intends to explore other sources of funding including the issuance of commercial paper and long-term funding from banks, for which proposals have already been received.

PROFILE

- Pak Brunei Investment Company Limited (PBIC), an equally owned joint venture between the Governments of Pakistan and Brunei Darussalam, commenced business in August 2007. PBIC operates from its head office in Karachi. Brunei Investment Agency (BIA), a department and investment arm of the Ministry of Finance, represents Brunei Darussalam's stake in PBIC and manages the bulk of Brunei's foreign investments.
- PBIC has a professional board of four members comprising two representatives of BIA, the Managing Director of PBIC and a director representing the GoP. Ms. Hjh Hartini binti Haji Abdullah, Managing Director of BIA, is the chairperson of the board. The term of Board expired in April 2011, the same directors were elected for another term of three years. The Managing Director of PBIC, Ms. Ayesha Aziz, possesses extensive experience in the financial sector. Her term serving as MD PBIC expired in April 2011; however, extension of her contract has been recommended by BIA and the Board.