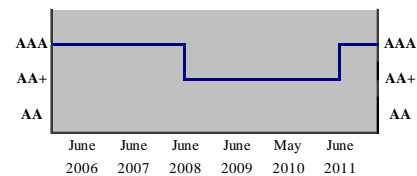


## RATINGS (JUNE 2011)

### PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED (PKIC)

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	AAA	AA+
Short Term	A1+	A1+

## LT ENTITY RATING – HISTORY



## FINANCIAL DATA

	PKR (mln)		
	1Q11*	Dec-10	Dec-09
Total Assets	22,686	22,898	24,206
CoIs	3,254	3,139	4,076
Equity	9,246	9,422	8,885
Net NPLs to Equity %	2.1	2.4	3.4
Net Income	184	537	516
ROA %	3.2	2.5	2.6
ROE %	7.9	5.8	6.0
Equity/ Total Assets %	40.8	41.1	36.7
CAR %	60.55	59.88	63.25

\* Based on unaudited accounts for 3 months ended March 31, 2011.

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## RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the joint ownership of PKIC by the Governments of Pakistan and Kuwait, implying strong sponsor support. At the same time, the ratings recognize robust financial profile of the company, an outcome of its sound capital structure, diversified strategic investments and conservative lending stance. PKIC's key core investments are well established companies in their respective fields - mainly Islamic banking and asset management - and offers significant gains. Although PKIC's traditional dependence on stock market exposes its earning to market risk, the management is carefully developing a stable interest-based earning stream.
- The ratings are dependent on the company's ability to sustain its relative position in DFI segment while maintaining strong risk absorption capacity. Any significant erosion in the company's risk profile owing to either sizeable deterioration in asset quality or loss on stock market exposure may put pressure on 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

- PKIC's core activities are divided into two main functions: i) Corporate Finance (CF) and Investment Banking (IB), and ii) Treasury and Capital Markets (CM). However, despite being in operations for a long time, it has achieved only limited credit expansion and has skewed operations towards capital markets. The company has developed a sizeable and diversified portfolio of strategic investments. Consequently, PKIC's performance largely remains a function of the company's equity investment portfolio and money market operations.
- During CY10, PKIC's gross finances witnessed sizeable growth (37%) mainly on account of rise in its exposure in textile and power sectors. However, finances-to-total assets remained lower as compared to the industry average. The company's investment portfolio, largely concentrated in risk-free government securities (T-bills), continued to represent a major portion in total assets. To fund its assets, the company besides strong equity base, mainly relied on bank borrowings.
- The company's mark-up earnings improved (17%), mainly attributable to rise in prevailing interest rates besides an increase in finances book. Meanwhile, income from stock-market operations, though declined on YoY basis, supported total revenues. The asset quality of PKIC improved as a result of vigorous recovery efforts and focus on quality lending. Consequently, the provisioning reversal further strengthened the bottom-line. During 1Q11, the company posted significant improvement in its profitability.
- PKIC's investment portfolio (CY10: PKR 14,630mln, CY09: PKR 16,637mln), subsequent to incurring significant stock-market losses in 2008, continued to dominate by government securities (70%), followed by strategic investments (16%) and trading portfolio (14%). Although equity trading exposes the company to market risk, significant investments in low-risk short-term government securities help mitigate the related risks. PKIC's major strategic investments include a 30% stake in Meezan Bank Limited, General Tyre (28% holding), 30% stake each in Pak-Kuwait Takaful and Al-Meezan Investment Management. This diversified portfolio is expected to complement the company's earnings in the form of dividend stream, going forward.
- PKIC, during 2010, largely sustained its asset quality. Meanwhile, NPLs-to-Gross finances ratio (CY10: 24%, CY09: 31%) though rationalized on account of an increase in loan book, remained high as compared to most of the peers. Despite NPLs from textile sector represent a significant portion in total NPLs (70%), exposure in textile sector witness further increase (CY10: 42%, CY09: 35%). With limited client base, the company is exposed to concentration risk (CY10: top 20: 72%). Nonetheless, gradual curtailment in NPLs poses well for the company.
- Going forward, the management would focus on improving the asset quality of the company with intension of further reducing NPLs and carrying intense scrutiny of credit proposal before disbursement. In order to achieve the desire growth in its loan book, PKIC would focus on sectors with high growth potential including food, power & energy, textile (export oriented), Oil & Gas, fertilizers and telecommunication along with reducing sectoral concentration, especially, textile. For capital market, PKIC would continue to make investments in strong blue chip companies and vend up strategic investments at the appropriate time to make maximum capital gains. In order to further improve the IT infrastructure and further strengthening of MIS, PKIC is currently implementing complete Oracle based ERP software, it is expected to be implemented by end-Dec 2011.
- PKIC's funding base is mainly dominated by borrowings from FIs. During CY10, COIs decreased as the company rationalized some of its high cost deposit. Furthermore, PKIC is also exploring options to raise long-term funds via Islamic banking channels to improve its maturity profile. PKIC continues to enjoy a strong capital structure.

## PROFILE

- PKIC was established in March 1979 as a joint venture between the governments of Pakistan and Kuwait. Currently the shareholding is equally held through the State Bank of Pakistan and the Kuwait Investment Authority (KIA). The Board of Directors, including the Managing Director, has six members with equal representation by the joint venture partners.
- The Managing Director, Mr. ShamsulHasan, who joined PKIC in 2008, has over three decades of diversified national as well as international experience. However, his term will be expiring soon and is subject to extension.