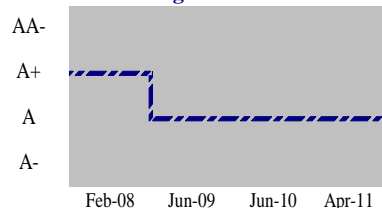


RATINGS (APRIL 2011)
ARIF HABIB INVESTMENTS LIMITED (AHI)

ENTITY	NEW*	PREVIOUS
Long-Term	A	A
Short-Term	A1	A1

*** Placed on rating watch**

FINANCIAL DATA

PKR (mln)

	Dec-10 [^]	Jun-10	Jun-09
Total Assets	626.9	821.9	768.4
Equity	503.9	398.1	333.8
Adjusted Equity	568.8	488.1	354.7
Net Income/(loss)	105.8	64.3	(302.5)
RoE (%)	46.92	17.56	(57.9)
Debt/Adjusted Equity (%)	n.m	51.3	98.5

[^] Figures are based on the 6 months period ended December 31, 2010 (un audited)

n.m means not meaningful
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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the company's ability to manage pressure on its financial profile, in a challenging environment for asset management industry. There has been a significant improvement in the company's risk absorption capacity on account of enhanced equity base and debt free structure. Nevertheless, the company is exposed to market risk through investments in its own mutual funds mainly equity funds. The company's AUM has remained largely stable, sustaining the stream of fee revenue.
- The rating is dependent on the sustained credit profile of the entity despite continuing tough operating environment. While ensuring seamless integration of Arif Habib Investments Limited and MCB Asset Management Company, the design and implementation of a robust business strategy would be critical. The ratings would remain on rating watch, pending proposed merger between AHI and MCB AMC of which the implications for the merged entity would be assessed as a combined business plan is finalized.

ASSESSMENT

- AHI after witnessing expansion in AUM during FY10, registered decrease in its overall AUMs (Feb10: PKR 17.5bln, Feb11: PKR 13.2bln), as well as market share (Feb10: 8.7%, Feb11: 5.9%). This was owing to major redemptions on conversion of two closed end funds into open end funds, namely Pakistan Premier Fund and Pakistan Strategic Allocation Fund. However, AHI maintains an edge over most of its peers in terms of diversity of products offered. With the launch of AH Dow Jones Safe Pakistan Titans 15 Index Fund in October 2010, the company has the most diverse fund slate with 11 open end funds and two pension funds under management.

- The overall holding of retail investors in AHI's funds is the highest, compared with all players in the investment management business. The company's income and money funds have superior ratings and have performed well in respect to peers. In equity and hybrid category, performance has been adequate. The increase was mainly seen in fixed income funds, reflecting the market trend of investments in low risk products. Despite major redemption by investors and tough operating environment during the second half of FY10, the liquidity profile of the company's funds has remained strong, reflecting AHI's structured investment process and experienced management.

- The company's distribution strategy hinges on organic growth, maximizing its franchise value. AHI has distribution arrangements with a few leading commercial banks. The marketing department is segregated according to different clients namely institutional, strategic, and retail clients.

- During FY10, AHI reported a net profit of PKR 64mln as against a significant loss of PKR 303mln during FY09. This was mainly a result of a modest rise in fee from open-end funds due to increase in funds size. Another factor leading to profitability was a significant gain on sale of investments amounting to PKR 81mln, despite increased depreciation and market cost among others. Decline in AUM base during 1HFY11 impacted, though slightly, fee income of AHI. Nevertheless, investment income in the form of dividend and capital gain gave a boost to AHI's total revenue during 1HFY11. Gradual de-leveraging reduced the financial charges, enabling 35% YoY increase in company's net profit.

- Going forward, AHI intends to complete the merger process during FY11. After merger, the combined entity is likely to be the leading AMC in terms of AUMs with a stronger equity base. With augmented investment infrastructure and stronger financial muscle, the company would be undertaking many initiatives, likely to be unfolding gradually.

- The company is currently carrying a debt free capital structure, which has been augmented through retention of profits. AHI investments in its own funds, though declining on a YoY basis, are exposed to market risk.

PROFILE

- Incorporated in August 2000 and listed on the Karachi Stock Exchange, AHI is among the leading asset management companies in Pakistan. Arif Habib Securities Limited (AHSL) – the holding company for Arif Habib Group – holds majority stake (60%) in the company. Arif Habib group is engaged in investment management, financial advisory services, brokerage, cement, and fertilizer industries. Lately, AHI is at an advanced stage of merger with MCB Asset Management Company Limited. MCB AMC, currently a wholly owned subsidiary of the country's fourth largest bank, MCB Bank, is a part of acclaimed Nishat Group. After the merger, the combined entity will have equal shareholding of each group.

- AHI's seven member board includes CEO, three members from the holding company and three independent directors, carrying diversified experience of various sectors including financial services. Mr. Nasim Beg, the Chief Executive of AHI, who would elevate to the position of Executive Vice Chairman once the merger is completed, is a Chartered Accountant with over three decades of experience in the financial sector. He is supported by a seasoned team.