



KASB SECURITIES LIMITED

Ratings (September 2006)

KASB Securities Limited (KSL)

Entity	New
Long-term	A+
Short-term	A1

Financial Data

PKR (mln)		
	30-Jun-06	30-Jun-05
Total	1,461.7	1,537.0
Assets		
Equity	496.9	330.7
Net Income	187.5	48.0
ROE (%)	45.32	18.97
ROA (%)	12.51	4.50

Analysts

Usman Khizer
+92 42 5869504
ukhizer@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

Rating Rationale Assessment

- The rating reflects the company’s strong position in the country’s capital market industry, an outcome of its established franchise supported by an advanced technology infrastructure, effective risk management systems and extensive research skills. Meanwhile, the company’s investment banking division, while adding diversity, supplements core revenues. The company’s association with Merrill Lynch – one of the world’s largest investment banking and asset management entities – is also a key rating factor.
- Equity brokerage is the forte of KSL, though it also provides fixed income / money market and forex brokerage services. The company, as against most other equity brokers, has a sizeable business volume originating from foreign investors. The management, in addition to reinforcing its sourcing business through ML, is taking various steps to establish sustainable foreign brokerage relationships. In this context, it is organizing a series of investors’ conferences with participation from major corporates of Pakistan and internationally active investors – the first such conference was held in Singapore in early 2006. Additionally this has helped local corporates in exploring global capital markets.
- In terms of local equity brokerage business, institutional clientele has the major contribution followed by high networth individuals. Retail investors have a modest contribution towards the total. In order to attract a large number of retail investors, the company has established internet based trading solution – KASB Direct. To bolster the business through this source, which currently is growing gradually, the company is considering further advancement in systems. KSL is also encouraging its relatively low-volume individual clients to switch to KASB Direct. This would help efficient utilization of human and infrastructure resources, while improving quality of services to high-volume clients. An important strength of KSL for attracting a higher volume of business is the quality of its research work. This is an outcome of the company’s strong research team that benefits from its regular liaison with ML in addition to continuous enhancement of analytical skills through training.
- KSL with improving brokerage volume – standalone and as a percentage of total volume on Karachi Stock Exchange – has shown robust performance. This is supplemented by investment banking revenues. The company has a relatively high cost structure mainly due to its technology related expenditure and focus on building foreign clientele. This is expected to benefit the company in the medium to long-term in terms of incremental business volume and profitability. The management also plans to increase its participation in money market / fixed income brokerage services. KSL offers a wide range of investment banking services. Its association with ML’s investment banking group has improved its competitiveness for big-ticket assignments. This, in addition to a track record of successful completion of a number of transactions, is expected to ensure a reasonable deal flow, going forward.
- KSL continuously reviews its risk management systems including exposure limits and margin requirements in line with changing market dynamics. The company has established an independent Risk and Compliance Department, which is responsible for monitoring the client position and timely implementation of designed corrective measures. The company, however, remains relatively subjective in imposing margin limits on off line clients with an established relationship. Although the counter-party risk can arise in CFS, the retention of sufficient margins substantially mitigates the associated risk. The company’s investment policy suggests long-term investment horizons and does not seek speculative gains from the market, largely mitigating the market risk. Moreover, in the near-term, the management does not intend to expand the size of the portfolio. The company also uses this portfolio as collateral for arranging short-term financing.
- KSL’s capital structure is primarily equity based with debt being mainly a function of CFS financing and occasionally utilized for timely settlement to the clearinghouse. The management intends to further strengthen the capital structure by following a prudent cash dividend distribution policy. However, given the relatively subdued performance of its parent – KASB Bank Limited – the company could come under pressure for higher dividend payout, which, in turn could impact the risk absorption capacity.

Background

- KASB Securities Limited is a successor to brokerage business started by Mr. Khadim Ali Shah Bukhari (Late) in mid fifties, corporatized in 1991 as Khadim Ali Shah Bukhari & Company Limited. Later on it was merged with KASB Bank Limited (KBL) in 2003 subsequent to its acquisition by KASB group. KSL was incorporated as a wholly owned subsidiary of the bank with transfer of all brokerage related business.
- KSL, mainly a brokerage house, provides a range of services including investment banking, research, strategic portfolio management and investment consultancy. The current CEO, Mr. Farrukh H. Sabzwari, an MBA, joined the company in Jan 2005 and holds over 14 years of experience in investment banking and broking businesses. A team of experienced professionals backs him. The company continues to focus on its core areas of expertise and has successfully improved the quality of its research products and execution ability while also strengthening its relationship with Merrill Lynch. The company recognizes stability and quality of human resource critical for its business. While aligning its remuneration structure with market trends, KSL is in the process of developing a comprehensive human resource strategy aimed at gradual augmentation of human capital through training.

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