



## Pak China Investment Company Limited (PCICL)

RATINGS (JUNE 2008)

**PAK CHINA INVESTMENT COMPANY LIMITED**

	Initial
<b>Entity</b>	
Long Term	AA-
Short Term	A1+

### FINANCIAL DATA

PKR (million)

	31-Dec-07
Total Assets	4,293.3
Equity	4,273.3
Net Income	20.1
Equity/Total Assets %	99.5

### ANALYSTS

Musa Khan Durrani  
+92 42 5869504  
musa.khan@pacra.com

Waqas Munir  
+92 42 586 9504  
waqas@pacra.com

### RATING RATIONALE & KEY DRIVERS

▪ The ratings reflect the sovereign ownership- governments of Pakistan and China of PCICL and its strong risk absorption capacity emanating from a robust capital structure. The company is in the process of developing its key management team and building the requisite infrastructure before actively pursuing its business plans. The identified business lines, though similar to other DFIs, include a greater focus on facilitating trade-flows between the two countries and supporting Chinese companies operating in Pakistan. However, the management's success in carving out a distinctive niche in the increasingly competitive operating environment remains to be seen.

▪ The ratings are dependent on the management's ability to build a strong management team and systems and processes, while instilling an effective risk management framework. At the same time, the management's success in effectively tapping the identified niche and developing stable revenue streams would remain critical.

### ASSESSMENT

▪ To establish the company as a viable and sustainable financial institution, PCICL intends to develop the following lines of business: 1) Treasury, 2) Project Finance and Marketing, 3) Corporate Finance and Advisory 4) Investment Management, and 5) China Advisory. Benefiting from the shared border and Free Trade Agreement (FTA) between the two countries, PCICL intends to enhance and facilitate bilateral trade. Moreover, the company would focus on infrastructure projects with identified opportunities mainly in the areas of power and energy, mining and oil and gas. Notably, Chinese companies are also more active in these segments, offering PCICL a potential to capitalize upon. However, in case of green-field projects, the management's ability to identify respective risks and put in adequate controls would be crucial.

▪ PCICL intends to build a portfolio of strategic investments in related fields including banking, brokerage, asset management and insurance. However, no concrete plan for diversifying in any of the above businesses has yet been devised. The management is targeting to gradually build its core loan book. Meanwhile, the company would also deploy funds in low-risk fixed-income mutual funds and government securities, while maintaining a cautious stance towards trading in stocks.

▪ Since commencement of its operations, the management has followed a conservative approach towards growth, as it intends to develop the requisite infrastructure before actively pursuing its business plan. However, its progress in developing requisite human resource is slow. Regarding business growth, it has achieved reasonable performance in terms of identifying the opportunities to build the loan book. Though still, most of its share capital is deployed in low-risk avenues including money market instruments and deposits with banks,

▪ Given the competitive environment, gradual deployment of capital in high-yielding avenues, and high incidence of operating costs in the gestation phase, the profitability is likely to be constrained in the initial years. Going forward, the company's standing in the increasingly competitive financial sector landscape of Pakistan would be dependent on the speed and efficacy with which the management builds the requisite infrastructure, more importantly the human resource, and implements its business plan by capitalizing on its inherent strengths.

▪ The management is at an initial stage of designing and implementing the risk management framework to identify, monitor and manage the various risks that the company is exposed to. Given the management's prudent stance towards risk and plans to instill effective credit risk management policies and procedures before pursuing active expansion in loan book, the exposure to credit risk, is expected to remain low.

▪ The company, pursuant to its objective of supporting developmental projects, usually requiring long-term funding, intends to build a strong equity-base. Accordingly, the sponsors, while meeting the prudential requirement of PKR 6,000mln by end-09, have plans to raise PCICL's capital to PKR 12,000mln by that time. Thus, given the robust capital structure and management's emphasis on risk management, the risk absorption capacity is expected to remain strong.

### PROFILE

▪ Pak-China Investment Company Limited (PCICL) an equal joint venture between the Government of Islamic Republic of Pakistan (through Ministry of Finance- MoF) and Government of Peoples Republic of China (through China Development Bank- CDB) was established in July 2007. The major objective of the company is to undertake financially viable projects to meet socio-economic development goals, while also facilitating Chinese investment into Pakistan. The company currently has its operations mainly in the Money Market, however lending operations have just recently started. PCICL operates from its head office in Islamabad with a branch office in Karachi.

▪ The six-member board, with equal representation of both the sponsor countries- three representatives of Ministry of Finance, Pakistan, including the Chairman of the Board, and three representatives of CDB, including the MD of PCICL, controls the company. As per arrangement between the sponsors, both countries would have representation at the top management level- Managing Director and Deputy MD. These positions, along with that of Chairman and Deputy Chairman of Board, would be subject to rotation every three years. Although this would ensure a higher degree of involvement by both partners; formulating decision-making hierarchy and building a coordinated team in a timely manner would be critical. Mr. Chen Jianbo, the present Managing Director and CEO, possess over thirteen years of extensive experience, mainly with CDB. Mr. Iqbal Ashraf, the DMD, has been associated with the financial sector for over 30 years and has diverse experience. PCICL is in the process of building a management team and developing effective systems and processes. However, the key management positions filled to date include, qualified and experienced professionals.