



**RATINGS (JUNE 2010)**  
**PAKISTAN CHINA**  
**INVESTMENT COMPANY**  
**LIMITED (PCICL)**

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

**FINANCIAL DATA**

PKR (mln)

	1Q10*	Dec-09	Dec-08
Total Assets	12,705	10,940	7,568
Equity	10,011	9,853	6,812
Net Income	158	514	334
ROA %	5.3	5.6	5.6
ROE %	6.4	6.2	6.0
Equity/ Total Assets %	78.8	90.1	90.0
SBP CAR (%)	125	120	118

\*Based on unaudited accounts for the period ended March 31, 2010.

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**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect PCICL's very strong risk absorption capacity emanating from sound capital structure and robust liquidity profile. The ratings also incorporate sovereign patronage, jointly owned by the governments of Pakistan and China, implying strong sponsor support. Although PCICL has designed institutional framework for various departments, induction of qualified personnel and building systems is in process. Moreover, the management's success in capitalizing its niche market, in the challenging operating environment remains to be seen.
- The management's ability to successfully implement its envisaged strategy while instilling an effective risk management framework to manage the associated risk remains critical for the ratings. At the same time, upholding high governance standards and stable management team will be crucial. Meanwhile, material deterioration in asset quality impacting the risk absorption capacity of the company would have negative implications for the ratings.

**ASSESSMENT**

- The main role of Development Finance Institutions (DFIs) is to promote economic development in the country, by supporting both industrial and service sector projects. In Pakistan, DFIs face many challenges in fulfilling their mandate on the back of intense competition from commercial banks, limited outreach and lack of viable funding sources. Thus, DFIs in general rely on money market operations to generate profitability.
- PCICL, the latest entrant amongst DFIs, though experiencing staff turnover, continues to establish its core management team. Since the top management has participants from both China and Pakistan, cohesion amongst the team, while overcoming cultural barriers is important for the prospects of the company. Meanwhile, the management is focusing on capacity building to augment its systems and controls and risk management function. In this regard, the company has established an independent audit function and implemented software for treasury and for financial reporting function. The company also intends to acquire software for the credit department.
- The company's investment policy doesn't allow exposure in the equity market. The investment portfolio, comprising market treasury bills, increased considerably (2009: PKR 1,731mln, 2008: PKR 1,091mln) representing 16% of total assets at end-09. Moreover, the company has also capped the limit for treasury operations till June 30, 2010, at PKR 4.5bln.
- Since the commencement of its operations, the management has followed a conservative approach towards growth, as it intends to develop the requisite infrastructure to supplement its business plan. During 2009, the company focused towards establishing sustainable revenue base through creation of long-term assets. During 2009, the company expanded its lending operations as advances portfolio grew substantially (total finances 2009: PKR 6,155mln; 2008 PKR 2,128mln). This coupled with higher return on investments, augmented the asset yield and, in turn, spreads of the company. The company posted strong earnings despite higher provisioning and personnel cost. The finances portfolio of company has high proportion of power sector projects (59.7%), storage (9.4%) while textile and communication each has a share of around 6%. Higher power sector exposure, though mitigated to a certain extent due to largely guaranteed nature of operations, and limited number of clients subjects the company to concentration risk. PCICL enjoys strong asset quality with only a single case of infection to date. However, with growth in advances, maintaining asset quality would be challenging.
- Going forward, the management's focus would remain on building a large advances portfolio. In this regard the company has identified energy, transportation and telecommunication as potential avenues. Moreover, with a large contingent of Chinese companies already working in these areas, the company enjoys an inherent advantage as its Chinese counterpart has experience in supporting these companies operating in Pakistan. However, considering the green field nature of these projects, identifying and managing associated risk is crucial. The company also plans to make private equity investments in the entities having proven track record in information and communication technology, health care, and consumer sectors. Meanwhile, investment banking operations – financial advisory services, including mergers and acquisitions, privatization and TFC flotation – and treasury operations would be fostered to complement core earnings. The company would float TFCs to generate long-term funding, while using CoIs for short-term financing. SBP has already granted permission to PCICL to issue CoIs. Timely execution and materialization of these initiatives remain critical.
- PCICL with its limited operations and a conservative stance towards risk has a very strong capitalization. During 2009, the sponsors injected PKR 2,527.8mln (US\$ 32mln), which has further strengthened the equity base of the company (end-Dec09: PKR 9,853mln). As per joint venture agreement both partners have committed to contribute to enhance the equity base to US\$ 200mln out of which US\$ 134mln have been received. The capital structure of the company primarily constitutes Tier I Capital and would supplement the company's growth plans.

**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 six-member board has equal representation of both the sponsor countries. As per arrangement between the sponsors, both countries would have representation at the top management level – currently Managing Director (China) and Deputy MD (Pakistan) – and the BoD Chairman (Pakistan) and Deputy Chairman (China) – these positions are subject to rotation after every three years. The first such rotation is due in the current year, which may have implications for the company's strategy and operational style. The DMD has resigned and nomination regarding this position remains awaited. The contract of MD is also expiring in July 2010.