



RATINGS (JUNE 2011)

PAK-LIBYA HOLDING COMPANY (PVT.) LIMITED (PLHC)

RATINGS	NEW	PREVIOUS
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+
Secured, unlisted PPTFC	AA	AA
PKR 1,000mln	(Final)	(Preliminary)

L.T ENTITY RATING HISTORY

AA					
AA-					
A+					
A					
	June 2007	June 2008	June 2009	June 2010	June 2011

FINANCIAL DATA

PKR (mln)

	Mar-11*	Dec-10	Dec-09
Total Assets	15,828	16,401	16,416
Equity	6,713	6,676	6,525
Net Income	37	151	(728)
ROA %	0.95	0.92	(5.1)
ROE %	2.2	2.3	(10.6)
Equity / Assets (%)	42.4	40.7	39.8
SBP CAR %	41.2	42.0	37.0

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

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TFC Issue:

PLHC has issued a secured, Privately Placed Term Finance Certificate (PPTFC) of PKR 750mln for five years tenor (February 2010). The instrument would be repaid after a grace period of two years in six equal semi-annual installments commencing from 30th month (February 2013). The profit is payable at 6 month KIBOR plus 160bps semi-annually in arrears. The instrument is secured by a Fixed Charge over loan and lease receivable of PLHC with 25% margin. The instrument has a call option, which can be exercised after 12 months of the issue date by providing a 60 days' notice.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the joint ownership of PLHC by the Governments of Pakistan and Libya. The company has lately reverted to profits, despite sizeable provisioning on its equity portfolio. Meanwhile, the company is strengthening its system and controls and management structure, which are beneficial to its prospects. However, recent classification of certain loans requires management's attention. A detailed business plan has been operationalized and is beginning to show results; however, its sustainability would be challenging in a highly competitive and adverse economic environment.
- The management's ability to control NPL trend while rationalizing its stock market exposure (exposing the company to market risk) would remain critical. Meanwhile, venturing into profitable businesses would be important to augment its market position. The recent ongoing internal crisis in Libya does not have any immediate bearing on the operations of Pak-Libya.

ASSESSMENT

▪ During CY10, PLHC's overall assets remained stagnant. However, PLHC made strategic shift in its portfolio: Stock Market exposure was reduced in favor of high yielding corporate debt instruments and Government Securities. The advances remained largely at last year's level. This was due to prevailing adverse economic environment, where financial institutions mostly lent to selected accounts only. The majority of PLHC's loans are long-term financing lines directed towards corporates within power (25%), chemicals and pharmaceutical (16%), transport (13%) and agriculture (12%) sectors. PLHC's top twenty funded finances remained high (CY10: 93%, CY09: 88%) and thus, exposing PLHC to concentration risk. Exposure in debt instruments – both TFCs and Sukuks – increased significantly (42%). However, majority of these are rated "A" or above with major concentration in fertilizer sector, followed by financial institutions. Nevertheless, against PLHC's classified portfolio (PKR 185mln) of debt instruments, a significant portion (60%) has already been provided.

▪ PLHC reverted to profitability during 2010. The company registered improvement in its net interest income on account of rise in spreads as the company partly shed costly certificate of investments. Meanwhile, operating expenses grew by ~27%, an outcome of inflationary pressure and opening up of two new offices. However, credit and investment related losses (provision, diminution, disposal loss) remain key determinants of PLHC's profitability. During the year, the company witnessed curtailment in these losses from PKR 1,169mln to PKR 345mln. This mainly explains the bottom line improvement. During the first quarter, the increasing drag of non-performing finances – higher suspended income – kept net income low. In the absence of any significant support from other sources, this led to modest bottom-line.

▪ PLHC's investment portfolio comprises around 22% (CY09: 27%) of asset base as at end-Dec 2010. Government securities constitute majority (53%). The company maintains a sizeable portfolio of equity investments (33%). However, subsequent to incurring a significant loss during 2009, the company has rationalized its equity book, while focusing on high dividend yielding stocks of blue chips companies. However, market risk remains (stock market book is ~17% of PLHC's equity base). The remaining portfolio comprises a strategic investment (11%) and mutual funds (3%).

▪ Going forward, the management has adopted a five-year business plan that entails a multi-pronged strategy. The company, adopting a cautious stance toward advances, would be focusing on strategic investments and project financing to establish sustainable revenue stream, while enhancing attention on profitable sectors for credit expansion. Money market and capital market operations would supplement the profitability. On the liabilities side, the management expects to rationalize its cost of funds while generating longer tenure funding base through CoIs, financial intuitions borrowings and by issuing TFCs/ bonds. Moreover, PLHC will continue to rationalize its equity portfolio.

▪ Delinquencies in loan book increased and stood at 15% in CY10 (CY09: 10%). The rise emanate mainly from the company's exposure in chemical sector. While the company made certain recoveries, the fresh infection currently classified under 'Substandard' category did not require significant provisioning. Meanwhile, the company's risk management team is in the process of developing various policies, which besides strengthening the internal risk assessment procedures, would meet regulatory requirements. In order to strengthen the overall IT infrastructure, PLHC is in the process of implementing various (IB, Treasury, and CBD) modules, which would be completed by end-Dec11. Meanwhile, the IT team would continuously strive to streamline applications to improve operational efficiencies.

▪ During the year, the company's borrowing mix changed and skewed towards money market borrowing. Moreover, PLHC rationalized some of its high cost CoIs, while increasing its borrowings from money market. In order to effectively match its maturity profile, PLHC has issued a PPTFC of PKR 1,000mln.

▪ The capital structure of PLHC primarily constitutes Tier I Capital and remains strong. Moreover, the company's equity base strengthened as PLHC reverted back to profitability.

PROFILE

▪ PLHC, established as a joint stock company in 1978, is equally owned by the Government of Pakistan and the Socialist Peoples Libyan Arab Jamahiriya, through SBP and LFICO, respectively. LFICO, a state owned company, has a large portfolio of investments spread over Africa, Asia, Europe, and Americas. Despite, ongoing unrest in Libya, the management is confident that LFICO will not call back its investment in PLHC.

▪ The six-member board of PLHC has equal representation of both sponsor countries. The Chairman, General Ehsan Ul Haq (Retd) is a Pakistani national; however, the Libyan Government has nominated him. Mr. Kamaluddin Khan, the managing director of the company, has extensive experience in the financial sector, both local and international. However, his term is expiring soon and is subject to renewal. Dr. Abdalla, a Libyan nominee and the Deputy Managing Director (DMD), at PLHC since July 2007, has profound international experience in the financial sector. A senior management team consisting of seasoned professional, whom have shown a high stability over the years, assists him.