



JS ABAMCO LIMITED

Ratings (December 2006)

JS ABAMCO Limited (JS ABAMCO)

Entity	New	Previous
Long-term	AA-	A+
Short-term	A1+	A1

Financial Data

PKR (mln)

	30-Jun-06	30-Jun-05
Total Assets	2,353.3	1,502.5
Equity	1,201.0	666.8
Net Income	531.6	144.5
ROE (%)	56.92	24.35
ROA (%)	27.57	9.90
Equity / Total Assets (%)	51.04	44.38

Analysts

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Rating Rationale Assessment

- JS ABAMCO's ratings reflect sustained improvement in its performance and, in turn, the capital structure while maintaining a low risk business profile. The ratings also recognize the continuing efforts by the management to strengthen the human and infrastructure resources that provides a strong platform for the company's growth plans. Meanwhile, the company's strong franchise value in the country's asset management industry and association with the JS group are also key rating factors.
- The company recorded robust YoY growth in assets under management (AUM). The main contribution was from open-end funds that registered a substantial increase (101%) in AUM. The main increase came from mainly two funds, UTP Income Fund and UTP Aggressive Asset Allocation Fund. In line with growth in AUM, the fee revenue, which is linked with funds net assets, also showed a substantial increase. This coupled with sizeable returns, in the form of dividend (FY06: PKR 334mln; FY05: PKR112mln) and capital gains (FY06: PKR 139mln; FY05: PKR0.4mln), on the company's investment portfolio bolstered the profitability during FY06. This resulted in robust improvement in performance – in terms of ROE – despite rising trend in operating expenses due to business development and expansion costs, and higher financial charges. The increase in operating costs is primarily attributable to rise in employee cost (No of employees – end-FY06: 132; end-FY05: 93). The bottom line was flattered by lower tax incidence during the year on account of tax-exempt capital gains and lower applicable tax rate on dividend income.
- The company could not maintain the increasing trend in AUM during the first quarter of FY07 mainly due to redemption pressure in some of its open-end funds. However, JS ABAMCO has developed a two-pronged business strategy to ensure sustenance in AUM. This strategy envisages (1) reorganizing and strengthening of distribution function primarily to tap immense potential at retail level (2) launching new funds to cater to diverse needs of investors. The management has embarked upon launching a series of capital protected / guaranteed funds mostly in strategic partnership with multinational and local banks. Each of the funds would be exclusively distributed by the participating bank. It would provide impetus for growth in assets under management. Although, based on targeted increase in AUM, the core revenue is expected to increase, the income from the company's investments – in terms of dividends and capital gains – may not be replicated. While operating revenue is projected to show YoY increase, the profitability is expected to remain stagnant mainly due to relatively sharp increase in operating costs.
- JS ABAMCO has been assigned an asset manager rating of 'AM2' with a positive outlook by PACRA reflecting a very strong capacity to manage the risks inherent in asset management. This rating is a reflection of the continuing efforts of the company's forward-looking management to improve the human and technology infrastructure. The full implementation of an advanced IT system provides a greater degree of integration in terms of data sharing, transparency and decision-making.
- The equity base of the company registered a sizeable increase through entire retention of the higher profits during FY06. The financial leverage of the company has further reduced. Although management fee of the closed-end funds is received on an annual basis, as against monthly basis for open-end funds, there is no material working capital requirement, as fee for open-end funds covers almost the entire operating expenditure of the company. Hence, current borrowings are mainly made for financing a part of the company's investments. Meanwhile, the company is in the process of issuing a structured TFC of PKR 702.5mln, the proceeds of which would be utilized for its expansion purposes. Nevertheless, the company's gearing is expected to remain at comfortable level.

Background

- Incorporated in 1995, JS ABAMCO is the largest private sector asset management company in Pakistan, registered with the Securities & Exchange Commission (SECP) as investment advisor for closed-end funds and asset management company for open-end funds. It is a subsidiary of Jahangir Siddiqui & Company Limited (JSCL) (52% shareholding at end-FY06). Starting as a traditional securities firm, JSCL now functions as a holding company for Jahangir Siddiqui (JS) group for its interest within the financial sector. JSCL has a dynamic approach in identifying new growth opportunities with a proven ability to take quick but prudent investment decisions. JSCL enjoys a very strong market standing emanating from its reputation as a well-managed and strong entity carrying a long-term rating of 'AA+' from PACRA. Other institutional investors include AIM Global Venture Company and International Finance Corporation. The company is expected to be listed on the Karachi Stock Exchange through an offer for sale of 20% of the existing issued shares.
- JS ABAMCO's main office is located in Karachi. The company has expanded its distribution capabilities and intensified its marketing efforts in other parts of the country as well. Currently, the company has seven branches - including the main branch - in major cities of the country. Going forward, the management plans rapid expansion in branch network in the medium-term.
- The staff of JS ABAMCO comprises professional managers with relevant qualifications including chartered accountants, and MBAs. The current Chief Executive is a chartered accountant with extensive exposure to the financial sector.