



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Asset Management Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2020	AM2	-	Stable	Upgrade	-
26-Dec-2019	AM3+	-	Stable	Maintain	-
27-Jun-2019	AM3+	-	Stable	Maintain	-
28-Dec-2018	AM3+	-	Stable	Maintain	-
30-Jun-2018	AM3+	-	Stable	Maintain	-
22-Dec-2017	AM3+	-	Stable	Maintain	-
15-May-2017	AM3+	-	Stable	Maintain	-
08-Jun-2016	AM3+	-	Stable	Harmonize	-
31-Mar-2016	AM3	-	Stable	Maintain	-
09-Jun-2015	AM3	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Habib Asset Management was in the process of transformation with Bank AL Habib acquiring entire shareholding (from 30%) in the Company to make it a wholly owned subsidiary of the bank. The process is now complete with the bank's acquisition of the remaining 70% stake. The bank has injected fresh capital of PKR 450mln in the Company to meet regulatory requirement and ensure future viability. A new management team is in place now and changes on board of directors are underway. On the back of these initiatives, the Company has gained significant market share through aggressive growth in AUMs, which stand at PKR 11.6bln in May (Dec 19: 6.9bln). The upgrade in rating reflects the Company's association with Bank AL Habib, its growing market share, strong governance framework and fortified equity base. The new management team intends to enhance fund slate, while strengthening overall risk management and control processes. The Company's market share is improving but AUM concentration remains high with tilt towards money market and fixed income funds. The Company is expected to benefit from access to large branch network of Bank AL Habib and its strong brand name. The overall fund performance remained above the benchmark except for the equity category, which underperformed and has limited size. The profitability of the Company remained under pressure lately but is expected to improve with higher AUMs and sizeable equity injection. The integration of the Company with the bank and cohesion of new management team will determine extend of synergies.

The rating is dependent on the Company's ability to capitalize on synergies emanating from association with Bank Al Habib through increased market share. Diversification of the fund slate and maintaining strong fund performance will be critical. Strengthening systems and adhering to robust investment process is important.

Disclosure

Name of Rated Entity	Habib Asset Management Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-19)
Related Research	Sector Study Asset Managers(Jun-20)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure Habib Asset Management Limited ("HAML" or "The Company"), was incorporated in September 2005, as a public unlisted company.

Background The Company is the financial arm of Bank Al Habib Limited (AA+ rated bank) in the asset management industry.

Market Share HAML has a modest but growing standing in the Asset Management industry. The Company's market share has increased to ~1.6% at end May-20 (SPLY: ~0.5%).

Diversification Of Fund Mix The Company is currently managing a product slate of six open-end funds in multiple categories. Going forward, the Company plans to launch pension funds and enhance fund slate to increase diversification.

Investor Concentration The average top 10 investors concentration remains high at ~78% in the six funds of the Company. The average related party holdings were ~9% at end-May 20.

Ownership

Ownership Structure Recently, Bank AL Habib has acquired 100% stake in the Company making it a wholly owned subsidiary of the bank. The Company is expected to garner strong synergies from this association and brand names could be aligned.

Business Acumen The Company's sponsor, Bank AL Habib, is one of the prominent banks in conventional banking sector. The bank has a widespread network of ~800 branches all across Pakistan. The strong presence of sponsor in the financial sector will be beneficial for the Company.

Financial Strength Bank AL Habib has long term rating of AA+ and short term rating of A1+. The reported equity of the Bank was PKR 67bIn with PAT of PKR 2.8bIn at end Mar'20. The bank has already injected additional capital and has very strong capacity to provide further support, if needed.

Governance

Board Structure The Company is expecting changes in the board structure as a result of the recent acquisition with higher representation of Bank AL Habib nominated directors. Currently, the Board of Directors comprises six members including the CEO. Three non-executive, two independent, and one executive director make up the board. Mr. Saeed Allahwala replaced Mr. Liaquat Habib Merchant as an Independent Director in CY19. The ex CEO, Mr. Imran Azim, has Joined the Company's board as non-executive director.

Members' Profile Overall, the board has a mix of local and foreign banking industry and financial services expert. The governance framework will be strengthened with induction of new members. Currently, the chairman position is vacant and will be filled by Bank AL Habib nominee.

Board Effectiveness The board actively provides guidance and has setup audit and HR committees to help the Company in smooth operations and keeping check on relevant activities.

Financial Transparency The Company has established an in-house internal audit department, which reports to the audit committee. The internal audit assignment encompasses the review of internal control system of the Company. The external auditors of the Company are Ernst & Young and are ranked in the 'A category' on the State Bank's list of approved auditors. They provided an unqualified opinion on the Financial Statements for FY19.

Management

Organizational Structure The Company has a well-designed and formalized organizational structure. It operates through five main departments, all directly reporting to the CEO. The management intends to streamline the organizational structure to maximize efficiencies.

Management Team The senior management team of HAML underwent significant changes. The CEO, Mr. Kashif Rafi, has joined the Company in Apr'20. He holds an MBA in Finance from IBA and has established track record in the AMC industry expanding over 20 years senior level positions in top AMCs. The COO, Mr. Zahid Hussain Vasnani, has recently joined the Company and is a Professional Accounting Affiliate from ICAP. He has vast experience in financial services and capital markets. They are supported by a qualified and experienced team.

Technology Infrastructure The Company has procured Asset Connect, a widely used IT system in the asset management industry. The software is integrated and comprises basic modules: (1) Unit Holder Module, (2) Portfolio Module, and (3) General Ledger (GL) Module.

Control Environment The Company has devised detailed policies for IT, operations, research and risk management. The Company uses excel based models to monitor the exposure limits and margins.

Investment Risk Management

Credit Risk To monitor credit risk, internal assessment modules are in place with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are being used to provide statistical estimates for counter party credit risk.

Liquidity Profile The risk management department monitors the liquidity profile of the Company. Sufficient liquidity is maintained by investing a significant portion of funds in liquid avenues.

Market Risk The Company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to movements in interest rates. The exposure limits applicable to interest-bearing securities are regularly reviewed and reported to the management.

Portfolio Management

IC Composition The Company's investment committee comprises of five members including the CEO, COO, Risk Officer and two Fund Managers.

Effectiveness The IC formally meets on fortnightly basis in order to take investment decisions. The composition and performance of the IC is considered adequate. Further strengthening of investment process for consistent fund performance is important.

Investment Research And Analysis The research department of the Company only comprises of the Research Officer. The research function is presided by the CEO. The department uses excel based models for equity valuation. Fortifying research function, in line with peers, for larger coverage will bode well for the Company.

Customer Relationship

Investor Services The Company is providing sound services to its clients. For the ease of investors, the Company has introduced an online chat facility where the investors can ask investment related questions, seek guidance and make a complaint. The Company has launched an online redemption module to facilitate its customers in making online transactions. Currently, HAML does not have an app.

Investor Reporting The AMC publishes FMR on its website in a timely manner. The website is also used as a reporting platform for dissemination of information pertaining to the Company, its management, NAV history, fund performance, product characteristics and other important announcements.

Distribution And Sales Network The Company has a modest distribution and sales network. The Company plans to leverage Bank AL Habib's vast branch network to increase its outreach. Effective utilization of this platform for visibility and AUM growth will determine the Company's ability to increase its market share.

Performance

Asset Under Management HAML's AUM's increased significantly to ~PKR 11.68bIn at end May-20. (Dec-19: ~PKR 6.95bIn, May'19: ~PKR 3.32bIn). This growth is predominantly driven by Islamic fixed income category. Diversifying fund slate to reduce dependence on single fund will be critical, going forward. Majority of the funds better than the benchmark. However, performance of equity funds lagged compared to peers.

Asset Manager HAML reported net loss of ~ PKR 29.09mIn in 9MFY20. (9MFY18 : ~PKR -29.37mIn). The Company's equity stood at ~PKR 167mIn at end Mar-20. However, the equity base was recently augmented with capital injection of PKR 450mIn from Bank Al Habib Limited. This, not only makes the Company compliant with the minimum regulatory capital requirement of PKR capital 230mIn, but will also impact the profitability positively.

Fund's Performance Summary: Habib Asset Management Limited

Sr. No	Fund Name	Category	Assets Under Management (PKR In mln)			Return May-20 (Rolling 12 months) (%)	Benchmark Return May-20 (Rolling 12 months) (%)	Industry Average Returns (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating Dec'19
			May'20	Dec-19	May-19					
1	First Habib Asset Allocation Fund	Asset Allocation	95	101	98	-4.87%	-1.58%	0.77%	99.39%	1-Star
2	First Habib Cash Fund	Money Market	2,494	2,111	2,101	13.24%	11.81%	12.93%	56.50%	AA (f)
3	First Habib Income Fund	Income	1,171	660	695	13.21%	12.43%	14.56%	84.26%	AA- (f)
4	First Habib Islamic Income Fund	Shariah Compliant Income	7,728	3,844	102	12.12%	6.27%	10.64%	88.92%	AA (f)
5	First Habib Islamic Stock Fund	Shariah Compliant Equity	92	116	99	-7.25%	-5.26%	-6.91%	85.69%	2-Star
6	First Habib Stock Fund	Equity	106	127	112	-7.97%	-8.23%	-6.91%	78.44%	3-Star
	Total AUM		11,686	6,959	3,207					

Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
AM1	Very high quality. Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	High quality. Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	Good quality. Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	Adequate quality. Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	Weak. Asset manager does not meet the minimum investment management industry standards and benchmarks.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

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