



The Pakistan Credit Rating Agency Limited

Rating Report

AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Sep-2021	AM2	-	Stable	Maintain	-
15-Sep-2020	AM2	-	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

AL Habib Asset Management Limited's (or the "Company") stable market share, experience management team, structured investment decision process and adequate risk management framework. Strong ownership and good governance profile also provide support to the rating. The Company has gained significant market share through aggressive growth in AUMs, which stand at ~PKR 34.2bln in July (Dec 20: ~PKR 25.5bln). The rating reflects the Company's association with Bank AL Habib, its growing market share, strong governance framework and fortified equity base. The Company's market share is improving, and stood at ~3.1% (Dec 20: ~2.7%) but AUM concentration remains high with tilt towards money market and Islamic income funds. The Company is benefiting 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 and asset allocation categories, which underperformed and has limited size. The Company reported net profit of ~PKR 57mln at end 1HCY21 (1HCY20 : ~PKR 18.8mln). The Company's equity stood at ~PKR 718mln at end Jun'21, comfortably meeting the minimum regulatory capital requirement of PKR capital 230mln. The core-income has shown an increase of ~16.3% and stood at ~PKR 57mln at end 1HCY21 (1HCY20: ~PKR 49mln). The increase in-core income is due to influx from money market and income categories.

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	AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504

Profile

Structure AL Habib Asset Management Limited, was incorporated in September 2005, as a public unlisted company.

Background The Company is financial arm of Bank AL Habib Limited (AAA rated bank) and Habib Group.

Market Share AL Habib Asset Management Limited has a modest but growing standing in the Asset Management industry. The Company's market share has increased to ~3.1% at end Jun'21 (SPLY:~1.8%).

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 Jun'21.

Ownership

Ownership Structure The Company is wholly owned subsidiary of the bank Al Habib.

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 more than 900 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 AAA and short term rating of A1+. The reported equity of the Bank was PKR 80bln with PAT of PKR ~18bln at end Dec'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.

Members' Profile Mr. Abbas D Habib is the chairman of the board, also the chairman of Bank Al Habib Limited, he is a Fellow Member of the Institute of Bankers Pakistan, having a rich experience of over 40 years in commerce, industry and banking in local and international environment. Overall, the board has a mix of local and foreign banking industry and financial services expert.

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.

Transparency The external auditor of the the Company is M/S EY Ford Rhodes, which falls under 'A' category of SBP panels of auditors.

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 CEO, Mr. Kashif Rafi, 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 Vasanani, 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, AL Habib Asset Management Limited does not have an app facility.

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 AL Habib Asset Management Limited's AUM's increased significantly to ~PKR 33bln at end Jun'21 (SPLY: ~PKR 14.1bln). This growth is predominantly driven by Islamic income and money market categories. 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 and asset allocation funds lagged compared to peers.

Asset Manager The Company reported net profit of ~PKR 57mln in 1HCY21 (1HCY20 : ~PKR 18.8mln). The Company's equity stood at ~PKR 718mln at end Jun'21, comfortably meeting the minimum regulatory capital requirement of PKR capital 230mln. The core-income has shown an increase of ~16.3% and stood at ~PKR 57mln at end 1HCY21 (1HCY20: ~PKR 49mln).

Fund's Performance Alhabib Funds												
Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR '000')			Returns Jun'21					Top Ten Investors Concentration
				Growth %	Jun'21	Dec'20	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.	
1	First Habib Asset Allocation Fund	Asset Allocation	0.3%	5.8%	109	103	17.22%	21.76%	23.85%	-4.5%	-6.6%	98%
2	First Habib Cash Fund	Money Market	51.1%	28.1%	16,899	13,193	6.84%	6.56%	6.70%	0.3%	0.1%	68%
3	First Habib Income Fund	Income	4.3%	78.7%	1,412	790	6.43%	5.85%	7.43%	0.6%	-1.0%	80%
4	First Habib Islamic Income Fund	Shariah Compliant Income	42.7%	25.8%	14,130	11,233	6.57%	6.30%	3.56%	0.3%	3.0%	99%
5	First Habib Islamic Stock Fund	Shariah Compliant Equity	0.9%	182.4%	288	102	26.88%	32.60%	39.32%	-5.7%	-12.4%	85%
6	First Habib Stock Fund	Equity	0.7%	93.7%	234	121	27.66%	41.30%	36.49%	-13.6%	-8.8%	78%
Sum/Average:			100%		33,072	25,542						

Asset Manager Rating

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.

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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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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- (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)
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- (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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