



Holding Companies

June 2017

Introduction

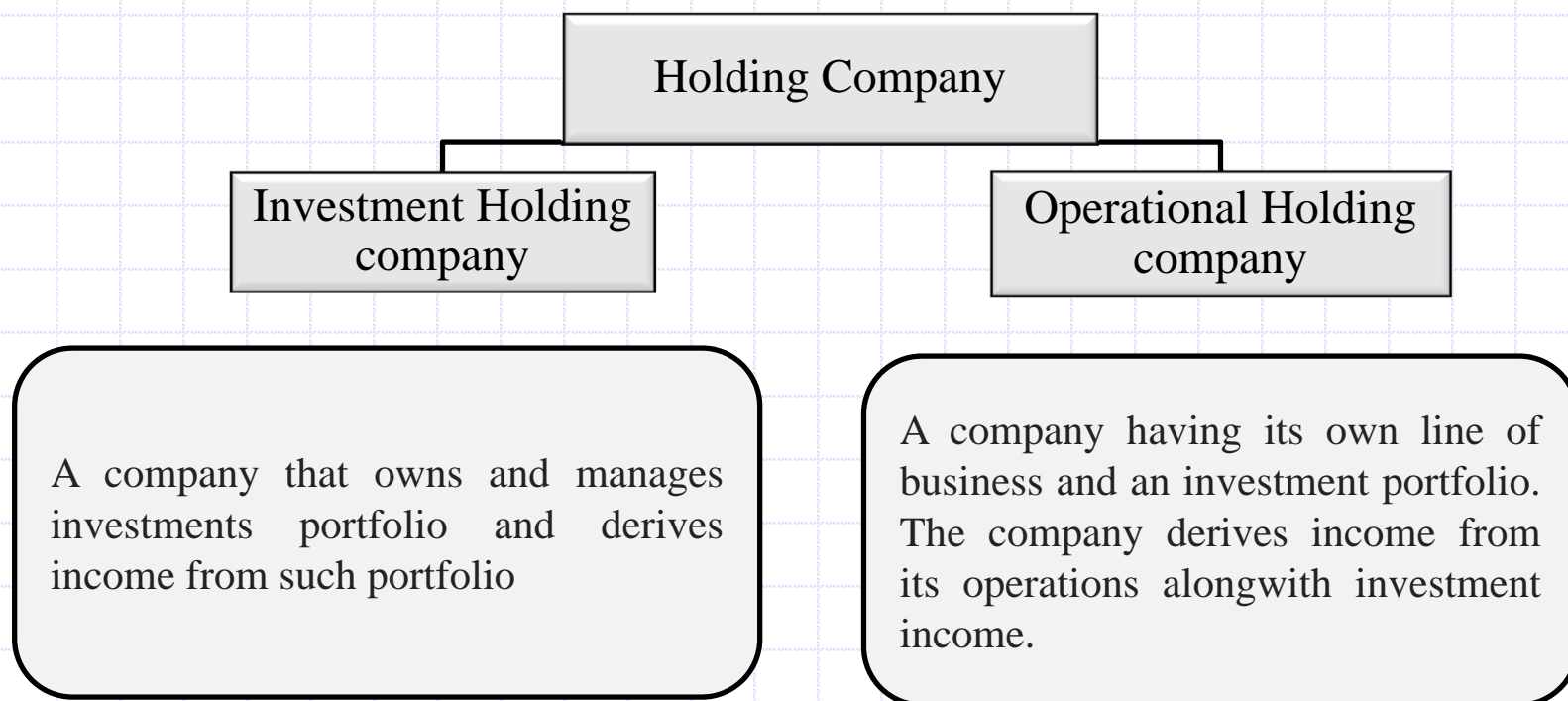
Investment
Portfolio

Domestic Holdco

Key Challenges

Introduction | Types of HoldCo

- A holding company (HoldCo) is defined as a corporate having investment in one or more companies.
- The investment portfolio is built in order to capitalize on opportunities and to diversify the risk.
- The holdco can be classified in two broad categories on the basis of the underlying structure



Investment Portfolio

- The classification of the investment portfolio can be done in three levels based on its relationship with the holdco.
- The degree of economic and financial significance plays an important role in categorizing the investment portfolio.
 - **Core** : The entities where the group has operational control and are essentially a part of the holdco. Financial stress for core entities will have a significant effect on the holdco's credit profile. It is very unlikely that the group may decide to divest.
 - **Strategic**: These entities may not act as flagship companies. Group can have partnerships in these companies. Core investments can translate into strategic investment upon divestiture of holdings.
 - **Trading**: Least integrated entities. Holdco classifies these as HFT and has clear intention to sell in near-term. Primarily held to make gains in short-term. The key risk involved here is market risk.



Holding Companies in Pakistan

- Through the establishment of the holdco structure, the business houses felt that they could manage their investment portfolio in a more efficient manner by focusing on:
 - Performance monitoring of investee companies,
 - Efficient allocation of capital,
 - Management of talent within group companies
 - Control structures
- The performance of an holding company is determined by:
 - Subsidiaries net working capital & cash-flow management
 - Debt structure & Dividend Income
- The trend in Pakistan is increasing towards the investment holding companies as key business houses have established their investment holdco's.

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Investment Holding Companies

- Following is the list of Key investment holding companies of Pakistan. List is not exhaustive.

Group Name	Holdco	Key sectors	Asset size (PKR mln)
JS	Jahangir Siddique & co. Limited.	Commercial Banking, Asset Management, Securities Brokerage and Insurance.	CY16
			293,676
Dawood Group	DH Corporation Limited.	Energy.	CY16
			301,316
Dawood Group	Engro Corporation Limited.	Fertilizers, Food, Energy, Petrochemicals & Storage.	CY16
			290,333
Arif Habib Group	Arif Habib Corporation.	Financial services, fertilizers, cement, steel and real state.	CY16
			36,764

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Operational Holding Companies

Group Name	Holdco	Key sectors	Asset size (PKR mln)
Nishat Group	Nishat Mills	Textile, Cement, Banking, Insurance, Power generation and Realty.	CY16
			135,578
Packages Group	Packages Limited	Packaging and Construction.	CY16
			75,109

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Key Challenges

- In an operational holding company major resource allocation is involved in operations and management of core operations, limited time is allocated towards monitoring of investment book.
- Investment management framework for monitoring performance of investee companies needs attention
- Borrowing patterns are not clearly established between the holdco and operational entities.

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