

Holding Companies

May 2016

Introduction

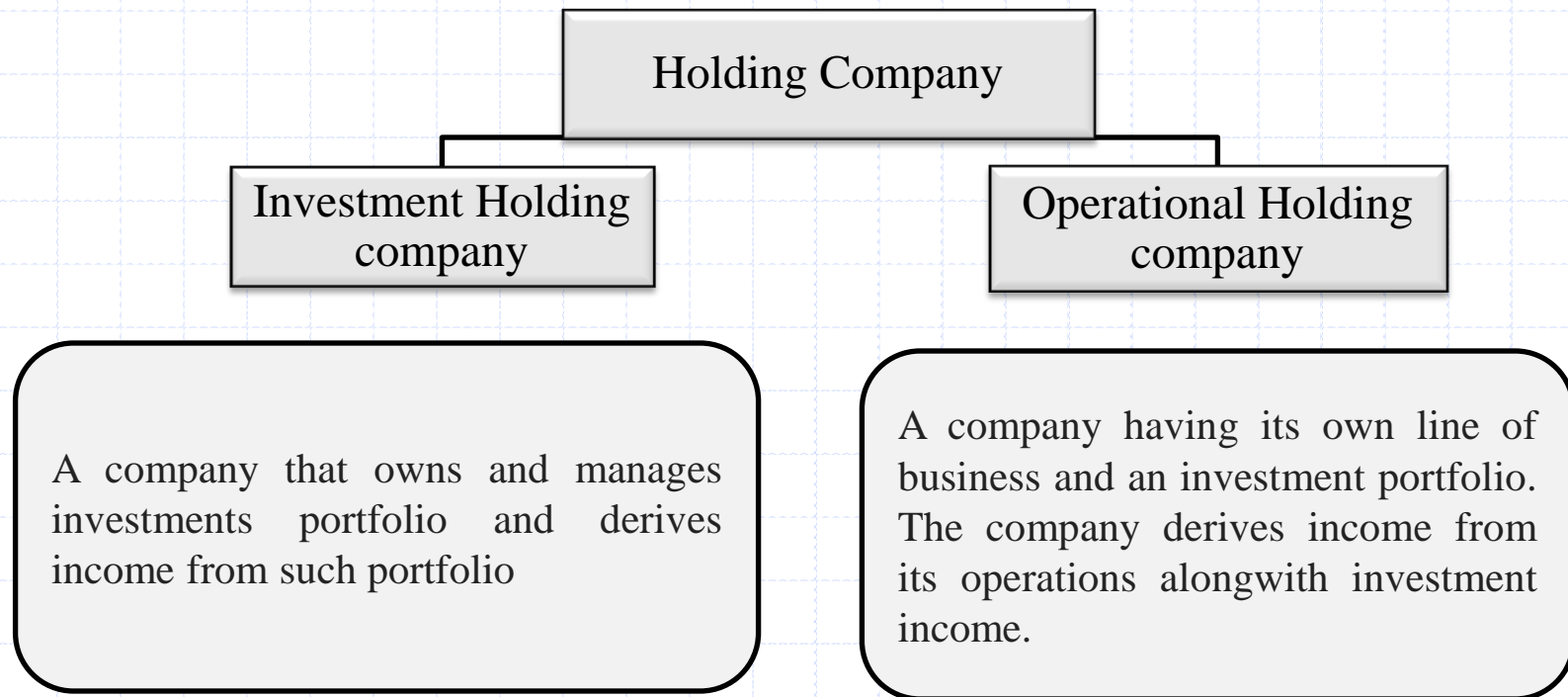
Investment
Portfolio

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

- The holding companies structure in Pakistan has seen major transformation in the last decade.
- Previously the big business houses had a greater focus on their core operations.
- The growth and expansion of the established business houses in the multi category business lines necessitated to establish holding company structures.
- 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
- Some of the established business houses are still working with the operational holding companies model
- The trend in Pakistan is increasing towards the investment holding companies as key business houses have established their investment holdco's.

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.	Dec-15
			239,711
Dawood Group	DH Corporation Limited.	Energy.	Dec-15
			208,463
Dawood Group	Engro Corporation Limited.	Fertilizers, Food, Energy, Petrochemicals & Storage.	Dec-15
			196,291
Arif Habib Group	Arif Habib Corporation.	Financial services, fertilizers, cement, steel and real state.	Dec-15
			33,417

Operational Holding Companies

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

Group Name	Holdco	Key sectors	Asset size (PKR mln)	Main Operations
Nishat Group	Nishat Mills	Textile, Cement, Banking, Insurance, Power generation and Realty.	Dec-15	Textile.
			122,842	
Packages Group	Packages Limited	Packaging and Construction.	Dec-15	Packaging.
			63,421	

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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