



Rating Action

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Applicable Criteria and Related Research

- Electronic Media - Viewpoint | Jun-16
- Corporate Rating Methodology

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PACRA MAINTAINS RATINGS OF HUM NETWORK LIMITED, OUTLOOK IS POSITIVE

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of HUM Network Limited (HNL) at "A+" (Single A plus) and "A1" (A one) respectively. The outlook on entity ratings is "positive". The ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect HNL's strong market position in the domestic media industry. HNL enjoys sound financial profile supported by good coverages and low leveraging - though increased a bit lately. On performance side, stiff competition kept the business margin under check; thus lower profitability. To further strengthen and diversify its revenue stream, HNL is expanding its viewer ship in different geographies. Moreover, HNL is establishing income stream through (i) film distribution under the brand of "HUM Films" and (ii) ancillary domains including publications and holding events. The management expects improvement in performance as a result of these initiatives. However, these impacted the company's working capital cycle which witnessed further extension in the recent period. The same was funded through a combination of cashflow from operations and borrowings. The ratings recognize HNL's experienced management team having sound understanding of the media industry.

The ratings are dependent on the company's ability to diversify its revenues while perpetuating margins at an adequate level. Meanwhile, any stress on financial profile either by decline in business margins, in turn, weakened operational cash flows or by further material increase in working capital cycle, would affect the ratings. At the same time, upholding governance standards would remain important.

The Company: HNL, listed on PSX, commenced its operations in January 2005. Over the recent period, the company's shareholding has experienced changes. Although sponsoring family continues to have majority stake; it is diluted to 31% (end-Apr16), mainly held by Duraid Qureshi (the CEO). A group of foreign investors/funds, though unrelated, own a significant 44% stake; The Kingsway Fund (24%), Stitching Bermont Limited (10%), ACACIA Partners LP (10%). The rest (24%) is spread amongst institutions and individuals.

HNL board has yet to experience any changes in lieu of changes in ownership structure. The board comprises eight members including five from sponsoring family, one nominee of JS group, one independent and one executive director. From five sponsoring family directors, three are non-executive while the remaining two hold executive positions - ED (Sultana Siddiqui) and CEO (Duraid Qureshi). The management team of the company comprises well-qualified and seasoned professionals of the media industry. The CEO and the ED have extensive experience in television production and media marketing.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.