



Rating Action

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PACRA MAINTAINS RATINGS OF PAK LIBYA HOLDING COMPANY (PRIVATE) LIMITED

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Pak Libya Holding Company (Private) Limited [PLHC] at **AA-** (Double A minus) and **A1+** (A one plus), respectively. Rating of PPTFC of PKR 1,000mln has also been maintained at **AA** (Double A). The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect sovereign parentage - jointly owned by Governments of Pakistan and Libya. However, so far, this strength has not translated fully in supporting the entity in meeting deficiency in its regulatory capital requirement. On stand-alone basis, PLHC witnessed higher profitability mainly owing to sizeable gain on sale of government securities during CY15. The falling interest rate in the market has resulted in reduced spreads on interest earning assets in 1QCY16. Moreover, treasury operations also had lower return. This resulted in a YoY decline in performance from operations in 1QCY16. However, unrealized gain stood at PKR 286mln at end-Mar16. The Company managed to repossess assets of Kamoki Energy Limited (KEL) - PLHC's largest non-performing exposure. Resultantly, overall pre-tax profitability of the company in 1QCY16 increased to PKR 917mln. Although the management de-classified related non-performing loan (net PKR 868mln reported benefit in profitability), realization of the repossessed asset may take time. Going forward, the management continues to cautiously expand its existing loan book through further penetrating in SME segment while initiating secured consumer financing for corporate employees.

The ratings have a "negative outlook", signifying the need to comply with regulatory minimum capital requirement (shortfall of PKR 1.574bln as at end-Mar16). However, the Government has so far not made any budgetary allocation for equity injection. Nevertheless, the management's ability to develop stable revenue stream and improving asset quality remains important to bridge the statutory gap and maintain the ratings.

The Company: PLHC, established as a joint venture institution in 1978, is equally owned by the Government of Pakistan and Libya through SBP and Libyan Foreign Investment Company (LAFICO), respectively. The six-member board has equal representation of both the sponsor countries. Mr. Abid Aziz (MD & CEO), an MBA, has been associated with the Company since 1983. The DMD - Mr. Khalid Benrjoba - is the representative of LAFICO.

The TFC issue: The Company has issued a secured PPTFC amounting to PKR 1,000mln in Feb-2015. The profit payment is payable quarterly in arrears, based on 3M KIBOR plus 150bps. The PPTFC is secured by First Pari Passu Charge by hypothecation over all present and future current and fixed assets (excluding land and building) of the Company with 25% margin. The TFC has gradually increasing quarterly principal repayments with the final repayment to be made in Feb-2020. The first principal payment PKR 25mln was made in May 2016.

Applicable Criteria and Related Research

- Joint Venture Financial Institutions - Viewpoint | May-16
- Bank Rating Methodology

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