The Pakistan Credit Rating Agency Limited

# TPL PROPERTIES LIMITED

| | NEW [OCT-16] | PREVIOUS [OCT-15] |
|---|---|---|
| **Entity** | | |
| Long Term | A+ | A+ |
| Short Term | A1 | A1 |
| **Outlook** | Stable | Stable |

**REPORT CONTENTS**



OCTOBER 2016

## Profile & Ownership

- TPL Properties - the real estate arm of TPL Group - is engaged in real estate development and property management
- 'Centrepoint Karachi' - TPL Properties' first and only project - is a 28 storey commercial building including 17 office floors (rentable space). The company follows 'Rental Yield' model.
- Centrepoint Management Services (CMS) – 100% subsidiary of TPL Properties – is responsible for providing maintenance services
- With completion of IPO in Jun16, TPL Properties was listed on PSX in Jul16. IPO raised PKR 697mln at the strike price of PKR 12.5 per share
- TPL Properties is majority owned by TPL Group (~53%) through companies and individuals
- TPL Group, with an equity base of over PKR 7bln at end-June16, has investments in auto, insurance, real estate, security services, energy and financial services sectors

## Governance & Management

- TPL Properties has eight-member board of directors. Six members, including two executive and five non-executive members, represent TPL Group while one is independent from sponsoring group
- Capturing BoD discussions would improve quality of minutes
- Mr. Ali Jameel, the CEO, is supported by an experienced team

## Operational Risk

- Sound operational infrastructure including security management system
- Captive power generation (2MW gas, 2MW diesel) to meet energy requirements

## Business Risk

- Key business risks with rental model are occupancy rate and inflation. TPL Properties has hedged these risks through built-in clauses in contracts, including i) annual advance rent, ii) 10% increase in rent annually, and iii) five-year term commitment signed with tenants
- Presently, 100% of the office space has been serviced
- During FY16, rental income increased by 57% YoY to report at PKR 364mln. This was on account of rise in average per sq. ft. rate – a factor of increase in both rental space and rate
- Independent valuation of Centrepoint resulted in revaluation gain of PKR 274mln; down by ~14% on YoY basis
- The company booked exchange loss of ~PKR 57mln on US$ denominated loan due to Pak Rupee depreciation. With repayment of US$ denominated loan with local financing in Sep15, exchange loss risk is eliminated
- Finance cost decreased (~7%) on YoY basis. TPL Properties posted net profit of PKR 291mln (FY15: PKR 184mln)
- TPL Properties plans to enter in residential buildings segment in Karachi. For this TPL Properties is in initial discussions with a foreign real estate company

## Financial Risk

- Working capital requirement is mainly the function of payables, for which the company relies on internal sources. During FY16, the company added a short-term facility to its financing sources; Short-term debt was repaid post Jun16
- During FY16, net cash cycle increased [negative ~19days, end-Jun15: negative ~54days); though remained strong
- Coverages are currently adequate
- Despite the step-up payment; expected to remain adequate owing to i) annual rental increase, and ii) likely and continuous sponsor's financial support
- During FY16, mainly due to issuance of new shares, the equity increased to PKR 3.2bln (end-Jun15: PKR 1.8bln) also outstanding debt level declined (~11%). Resultantly, debt to debt plus equity ratio declined

## RATING RATIONALE

TPL Properties owns a high-end office building (Centrepoint) in Karachi. The company is following build, own, maintain, and rent-out model. The building is fully functional since Jan-13 and currently enjoys full occupancy coupled with relatively long-term agreements engendering low business risk. The annual increment incorporated in tenant agreements provides adequate cushion against inflationary risk. In pursuance of PSX listing and private placement, TPL Properties issued 98mln shares that generated fresh equity of PKR 1,120mln. The proceeds were partially utilized to settle intergroup balances and short-term borrowing. A sizeable portion is being kept liquid in the company to cushion against any contingencies. The company's long term debt (lately converted from foreign currency to local currency) is termed to ensure adequacy of cash inflows against repayment obligation. Meanwhile, comfort is also drawn from the sponsors' demonstrated financial support.

## KEY RATING DRIVERS

The ratings are dependent on (i) management's ability to maintain higher occupancy (minimum of ~90% in initial years) to ensure adequacy of cashflows against debt repayment commitments, and (ii) continuous financial support from sponsors. Any material deviation in strategy impacting financial profile of the company will be rating negative.

PKR mln

# TPL Properties Limited

| BALANCE SHEET | 30-Jun-16 | 30-Jun-15 | 30-Jun-14 |
|---|---|---|---|
| | Annual | Annual | Annual |
| **Non-Current Assets** | **84** | **54** | **19** |
| **Investments (Incl. associates)** | **4,996** | **4,518** | **4,166** |
| Equity | 353 | 1 | 1 |
| Debt | 11 | 198 | 187 |
| Investment Property | 4,632 | 4,319 | 3,978 |
| **Current Assets** | **989** | **287** | **124** |
| Inventory | - | - | - |
| Trade Receivables | 21 | 11 | 7 |
| Others | 968 | 277 | 117 |
| **Total Assets** | **6,069** | **4,859** | **4,310** |
| | | | |
| **Debt** | **2,275** | **2,034** | **1,975** |
| Short-term | 200 | - | - |
| Long-term (Inlc. Current Maturity of long-term debt) | 2,075 | 2,034 | 1,975 |
| Other shortterm liabilities | 264 | 291 | 174 |
| Other Longterm Liabilities | 334 | 749 | 559 |
| **Shareholder's Equity** | **3,196** | **1,785** | **1,601** |
| **Total Liabilities & Equity** | **6,069** | **4,859** | **4,310** |
| | | | |
| **INCOME STATEMENT** | | | |
| **Turnover** | **364** | **232** | **68** |
| Gross Profit | 352 | 220 | 60 |
| Net Other Income | 252 | 285 | 561 |
| Financial Charges | (237) | (254) | (87) |
| **Net Income** | **291** | **184** | **516** |
| | | | |
| **Cashflow Statement** | | | |
| Free Cashflow from Operations (FCFO) | 256 | 131 | 30 |
| Net Cash changes in Working Capital | (23) | 107 | 140 |
| Net Cash from Operating Activities | (201) | 82 | 88 |
| Net Cash from InvestingActivities | (210) | (62) | (312) |
| Net Cash from Financing Activities | 1,067 | 80 | 242 |
| | | | |
| **Ratio Analysis** | | | |
| **Performance** | | | |
| Turnover Growth | 57.0% | 240.6% | n.a |
| Gross Margin | 96.6% | 95.0% | 88.8% |
| Net Margin | 79.8% | 79.3% | 758.6% |
| ROE | 10.1% | 10.9% | 35.8% |
| **Coverages** | | | |
| FCFO/Gross Interest | 7.7 | 6.8 | 0.3 |
| FCFO/Gross Interest+Principal Payment | 7.7 | 3.9 | 0.1 |
| **Liquidity** | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | -18.8 | -53.5 | -263.2 |
| **Capital Structure** (Total Debt/Total Debt+Equity) | 46.9% | 64.0% | 65.8% |

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# STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

## Long Term Ratings

| | |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. |
| AA+<br>AA<br>AA- | **Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A+<br>A<br>A- | **High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| BBB+<br>BBB<br>BBB- | **Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| BB+<br>BB<br>BB- | **Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| B+<br>B<br>B- | **Highly speculative.** Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| CCC<br>CC<br>C | **High default risk**. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| D | Obligations are currently in default. |

## Short Term Ratings

**A1+:** The highest capacity for timely repayment.

**A1:.** A strong capacity for timely repayment.

**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

**A3:** An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

**B:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

**C:** An inadequate capacity to ensure timely repayment.

**Rating Watch**
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

**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'.

**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.

**Withdrawn**
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

## Regulatory and Supplementary Disclosure

| | |
|---|---|
| **Name of Issuer** | TPL Properties Limited |
| **Sector** | Real Estate |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Independent Risk Assessment |

**Rating History**

| Dissemination Date | Long Term | Short Term | Outlook | Action |
|---|---|---|---|---|
| 11-Oct-16 | A+ | A1 | Stable | Maintain |
| 12-Oct-15 | A+ | A1 | Stable | Initial |

**Related Criteria and Research**

| | |
|---|---|
| Rating Methodology | Corporate Rating Methodology |
| Sector Research | Real Estate Sector Overview - 2016 |

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Rating Team Statement

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

**Rating Shopping**

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

**Conflict of Interest**

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

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PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

**Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

**Reporting of Misconduct**

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

**Confidentiality**

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

**Prohibition**



Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past