



The Pakistan Credit Rating Agency Limited

AL-HOQANI SECURITIES & INVESTMENT CORPORATION (PRIVATE) LIMITED

ENTITY RATING REPORT

NEW
[APR-16]

Long-Term	BB+
Short-Term	A3
Outlook	Stable

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APRIL 2016

RATING ANALYSES
(APRIL 2016)

AL-HOQANI SECURITIES AND INVESTMENT CORPORATION (PRIVATE) LIMITED

RATING RATIONALE:

Al-Hoqani Securities is a key company for Mr. Suleiman Ahmed Saeed Al-Hoqani in Pakistan. Long time investor in Pakistan, he has strategic stakes in various ventures besides managing a trading portfolio in stocks. Al-Hoqani Securities is the prime vehicle that provides requisite support to Mr. Hoqani's investment transactions in Pakistan. This provides sustainable revenue stream to the company from Mr. Hoqani. However, profitability of the company is constrained as the recurring revenue hardly matches the operational cost. The financial cost is an additional burden, which emanates from the company's need to finance historical non performing clients as an outcome of 2008 financial crisis. Comfort can be drawn from debt rationalization plan to reduce debt through sponsor support. The management is taking steps to strengthen and diversify the revenue stream including underwriting and money market operation.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to increase its revenue base. Going forward, Al-Hoqani Securities is fortifying its current forte while augmenting related business streams. Proper execution of debt rationalization plan will remain pivotal for the ratings.

- **Capital Market Overview:** After delivering exceptional return of ~40% in FY14, the KSE-100 posted a return of ~17% in FY15. Though lowered on time-series basis, the performance of KSE-100 index was still one of the best in the regional markets. Key highlights during FY15 which kept investor confidence high and facilitated the index to post positive return comprise: (i) stable macroeconomic environment, (ii) strong corporate profits, and (iii) downward inflationary trend. Lately, the three stock exchanges have agreed to form a national stock exchange to be called Pakistan Stock Exchange (PSX).
- **Brokerage Mix:** AHSIC major source of brokerage is equity – comprising ready market. Local corporate and local retail clients represent 84% and 3% of the overall client mix while foreign portfolio consists of retail clients that represent remaining 12% of brokerage income. On overall basis, AHSIC top ten clients contributed to ~77% to total revenue during FY15. The categorical contribution of top10 clients was foreigners (7%) and local corporate/institutional (93%).
- **Performance:** AHSIC revenue source originates primarily from Advisory fee (70%), brokerage commission (20%) and rest from dividend income (10%). The company's brokerage revenues have grown by 20% to PKR 12.1mln as at end-Jun'15 (end-Jun'14: PKR 10.3mln). Meanwhile, the company witnessed higher capital gains on its proprietary book (end-Jun'15: PKR 15mln, end-Jun'14: PKR 4mln). Yet the overall operating revenue stream declined by 35% due higher unrealized losses and weaker stream of dividend inflows (end-Jun'15: PKR 5.5mln, end-Jun'14: PKR 10.0mln) put additional pressure on the profitability of the company. The administrative cost of the company remained stagnant (PKR 43mln). The overall finance cost of the company witnessed a decline of 15% (end-Jun'15: PKR 41mln, end-Jun'14: PKR 48mln) due to overall reduction in short term borrowings. The bottom line remained red as net loss FY15 surged to PKR 29.6mln compared to net loss of PKR 1.4mln in FY14. During 1HFY16, the core revenue stream remained in line with the overall trend of the company's performance but the company managed to perform well on the back of higher capital gains booked during the period (end-Dec'15: PKR 29mln) and lower expenses resulted in net profit of PKR ~17mln.
- **Strategy:** Going forward, AHSIC is fortifying its current forte while diversifying revenue streams – underwriting and money market operations. Main focus would remain on initiating new underwritings and gaining system share in money market operations while increasing local institutional and retail clientele.
- **Liquidity Management:** The company's liquid assets were very low in comparison to its short term borrowings and trade related liabilities, 0.2x at end-Dec'15. As at end-Dec'15, the company's liquid assets represent 13% of its total assets. In 1HFY16 company managed to improve its net capital balance on the back of gain from sale of investments. AHSIC, borrowing needs emanates from the company's need to finance historical non performing clients as an outcome of 2008 financial crisis. AHSIC is offloading its proprietary book in regular intervals thus reducing its reliance on short term borrowings.
- **Capital Structure:** AHSIC has a adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 47.2mln at end Dec-15 [Jun-15: PKR - 10mln]. This gives AHSIC the capacity to avail big orders. AHSIC has low risk absorption capacity resulting from (i) weak equity base of PKR181mln at end-Dec15 [Accumulated losses at Dec-15: PKR -446mln], and (ii) highly leveraged capital structure (end-Dec'15: Debt/Equity:145%, end-Jun'15: 211%).
- **Profile:** Al-Hoqani Securities & Investment Corporation (Pvt.) Limited, a venture of Mr. Hoqani, was established in March 29, 2005. AHSIC acquired the corporate membership of Karachi Stock Exchange and Lahore Stock Exchange in 2005 and 2006. Currently both exchanges have merged into Pakistan Stock Exchange. The company operates through its head office based in Karachi along with two branches. The company intends to expand through branches in near future.
- **Governance & Management:** The board comprises four members. Mr Hoqani's two sons are on the board; Mr. Ahmed Sulaiman Ahmed Saeed Al-Hoqani and Mr. Nasser Sulaiman Ahmed Saeed Al-Hoqani are non executive directors. The remaining two directors are executive; Mr. Akbar Naqi and Mr. Mohammad Jafer Sadiq. The CEO, Mr. Syed Dawar Raza, has been associated with the company for above six years and is supported by an adequate team.



The Pakistan Credit Rating Agency Limited

Al-Hoqani Securities & Investment Corporation (Private) Limited

	31-Dec-15	30-Jun-15	30-Jun-14	30-Jun-13
<i>PKR mln</i>				
BALANCE SHEET				
EARNING ASSETS				
Finances	-	-	-	-
Investments	111	262	338	382
	111	262	338	382
NON-EARNING ASSETS				
Cash and Bank Balances	4	3	2	2
Trade debts	260	176	158	182
Advances, Deposits and Other receivables	48	48	44	26
Others (including Fixed Assets)	40	38	35	40
TOTAL ASSETS	462	528	578	631
Equity	181	161	197	196
Borrowings	262	342	361	411
Other Liabilities (Non-Interest Bearing)				
Trade Creditors	3	3	2	1
Other Liabilities	17	22	19	22
TOTAL EQUITY & LIABILITIES	462	528	578	631
INCOME STATEMENT				
Fee-Based Income				
Fees	21	42	42	47
Commission	-	-	-	-
Brokerage	5	12	10	7
Interest / Mark-up Income				
Bank Deposits and others	1	1	1	1
Gain on Sale of Investments	29	15	4	9
Others	2	(14)	31	27
Total Operating Revenue	57	57	88	90
Operating Expenses				
Personnel Expenses	(13)	(20)	(22)	(22)
Other Non-interest/Mark Up Expenses	(13)	(24)	(18)	(17)
Pre-Tax Profit	32	13	49	51
RATIO ANALYSIS				
Performance				
Net Profit Margin	66%	-55%	1%	-14%
Cost-to-Total Operating Income	45%	77%	45%	43%
Net Non-Earning Assets / Assets net of Non-Interest Liabilities	75%	48%	40%	37%
Liquidity				
Liquid Assets / Trade Related Liabilities	23.0	72.5	149.6	568.8
Liquid Assets / Total Assets	0.1	0.4	0.5	0.5
Trade Related Assets / Trade Related Liabilities	100.5	60.9	84.4	328.2
Capital Adequacy				
Equity / Total Assets	39%	31%	34%	31%

Al-Hoqani Securities & Investment Corporation (Private) Limited



STANDARD RATING SCALES & 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		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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 or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High 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.</p>	
CCC CC C	<p>Very high 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.</p>	
D	<p>Obligations are currently in default.</p>	

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 within 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, a suspended 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.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's 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.



Name of Entity AL-HOQANI SECURITIES AND INVESTMENT CORPORATION (PRIVATE) LIMITED
Sector Brokerage
Type of Relationship Solicited
Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
21-Apr-16	BB+	A3	Stable	Initial

Related Criteria and Research

Rating Methodology Securities Brokers Entity Rating Methodology
 Sector Study Brokerage Industry - Viewpoint | Nov-15

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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.

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[Probability of Default \(PD\)](#)

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