

## RATING REPORT

## Cyan Limited

**REPORT DATE:**

January 06, 2020

**RATING ANALYSTS:**

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	Dec 31, '19		Jan 2, '19	

## COMPANY INFORMATION

Incorporated in 1960	External auditors: M/s A.F. Ferguson & Co., Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Hasan Reza-ur Rahim
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Sulaiman S. Mehdi
Dawood Corporation (Pvt.) Limited – 62.0%	
General Public – 20.7%	
Mr. Hussain Dawood – 8.0%	

## APPLICABLE METHODOLOGY(IES)

Corporates (May 2016)

<http://vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Asset Management Companies (March 2016)

<http://www.vis.com.pk/docs/AMC-Methodology-201603.pdf>

**Cyan Limited**

**OVERVIEW OF THE INSTITUTION**

CL is public listed company incorporated under the Companies Act, 1913 (now Companies Act 2017) in 1960. Prior to being restructured as an investment company in 2011, CL operated as an insurance company by the name of Central Insurance Company Limited (CICL). The company is listed on the Pakistan Stock Exchange.

**Profile of Chairman:**

Mr. Rahim possesses over 30 years of domestic and international experience in the Banking and Financial Services industry. He also served as the Executive Director, in-charge of the Chairman’s Office of the Dawood Hercules Group, one of the largest entrepreneurial groups in Pakistan. He currently serves on the Boards of Dawood Hercules Corporation Limited (flagship investment holding company) and Dawood Lawrencepur Limited (renewable energy investment holding company).

**Profile of CEO:**

Mr. Sulaiman S. Mehdi

**RATING RATIONALE**

Cyan Limited (CL or “The Company”) is an investment management company with 3 principal lines of business which are 1) Strategic advisory services; 2) Investment in public equities and 3) Equity investment in private companies

**Key Rating Drivers:**

**Balance Sheet Composition**

Total asset base of the Company majorly (90%) comprises of short-term investment portfolio, which is primarily (91%) funded by the equity base of the company. Use of short-term funding line has been minimal (only in CY18), and is only undertaken when justified by possibility of excess return generation from the public equities market.

Accordingly, gearing and leverage indicators for the company remain low.

Table 1: Balance Sheet Composition

In Rs.Mn	9M'19	CY18	CY17
<b>Total Assets</b>	1,973.4	2,264.0	2,546.2
- Other Non-Current Assets	124.5	96.2	77.9
- Long Term Investments	41.8	-	-
- Short Term Investments	1,772.1	2,108.0	2,440.9
- Other Assets	34.9	58.9	27.4
<b>Short Term Borrowings</b>	-	218.1	-
<b>Other Liabilities</b>	171.5	211.8	276.1
<b>Equity</b>	1,801.9	1,834.1	2,270.1

**Investment Portfolio**

Investment mix of the Company has largely remained similar since last review undertaken, with 96.3% of the portfolio invested in public equities and remainder in fixed income instruments as of end-9M'19. Within equities, investment strategy has primarily been focused towards

investing in non-cyclical sectors wherein a large chunk of the portfolio was invested in commercial banks, oil & gas and technology sectors as at end-9M'19. On the fixed income front, liquidity derived from matured T-Bills has been channeled in long term PIBs while exposure in term deposits has also been enhanced.

Table 2: Investment Portfolio

Carrying Values (In Rs. Mn)	9M'19	%	CY18	%
<b>Fixed Income</b>	52.3	3.7%	47.9	2.3%
PIBs	41.8	3.0%	-	0.0%
T-Bills	-	0.0%	44.9	2.2%
Term Deposits	10.5	0.7%	3.0	0.1%
<b>Equity</b>	1,358.8	96.3%	2,023.9	97.7%
Quoted Shares - related parties	117.9	8.4%	117.9	5.7%
Quoted Shares	1,238.6	87.8%	1,903.1	91.9%
Mutual Funds	2.3	0.2%	2.9	0.1%
<b>Total Investments</b>	1,411.1	100%	2,071.8	100%

Table 3: CL Yield on Portfolios

Asset Class	Return type	Company's Return		Benchmark Return	
		9M'19	CY18	9M'19	CY18
<b>Equities</b>	Average Return-with Dividend	0.60%	-7.74%	-13.46%	-8.41%
<b>Mutual Funds</b>	Average Return	9.72%	8.25%	12.01%	8.20%
<b>Fixed Income</b>	Average Return-w/o Amor.		N/A		

In CY18, the company’s yield on equity portfolio, albeit negative, has outperformed the benchmark index while yield on the same has turned positive during 9M'19, which has continued to exceed benchmark returns.

is the Chief Executive of Cyan Limited (Cyan).

He holds more than one-and-a-half-decade experience of working with leading Financial Services Groups at the senior positions in the areas of investments, operations, marketing, legal and corporate affairs. He is also the Chairman at the Pakistan Stock Exchange Limited (PSX) and the Pebbles (Pvt.) Limited, the real estate arm of Dawood Hercules (DH) Group and is leading all real estate initiatives of the Group.

## Revenue

Core revenue stream of the company is derived from dividend income and capital gains earned from investment in public equities. In CY18, dividend income sharply declined by 36.2% largely on account of lower dividend payout by HUBCO. However this decline was largely offset by sizeable capital gains booked on offloading HUBCO shares. So far, sizeable unrealized losses on the investment portfolio have kept the profitability depressed.

Additionally, the company has gained license to undertake consultancy services for public and private issues/mandates. So far, advisory income has been limited (CY18: Rs. 10.8m; CY17: Rs. 15.8m) with the same emanating solely from services rendered to related parties.

## Profitability

Cost to income ratio of the company has been lower and compares favorably to A rated peers<sup>1</sup> on a timeline basis owing to a leaner expense base. However adverse return on public equities has adversely impacted efficiency of the Company during 9M'19. Precipitated by lower unrealized losses during 9M'19 and sizeable capital gains booked in CY18, CL's return metrics have fairly improved, albeit still negative. Going forward, recent bull run of the stock market ~ which has grown by 25% from Oct'19 to date, is expected to give some impetus to the overall earnings profile in the ongoing quarter for the Company

## Capitalization

As at end-9M'19, the equity base of the company has receded by 21% since CY17 by virtue of consistent losses posted and intermittent dividends paid out in this period. Despite the erosion, overall capitalization is considered adequate, given lack of leveraging. In 2018, an interim dividend was paid at Rs. 2.5/share, despite the Company being in an operational loss position for the year. As per management, the interim dividend in 2018 was a one-off and future dividend distribution policy of the Company will be closely aligned with profitability.

**Table 4: Breakup of Income**

In Rs. Mn	9M'19	CY18	CY17
<b>- Dividend Income - Related Parties</b>	42.2	30.3	93.0
Dawood Hercules	9.5	6.4	3.2
Dawood Lawrencepur	32.6	8.9	14.8
HUBCO	-	15.0	75.0
<b>- Others</b>	29.8	63.6	54.1
<b>Total Dividend Income Earned (A)</b>	72.0	93.9	147.1
<b>Gain on Sale of Investments (B)</b>	2.8	228.8	85.5
<b>Core Income (A+B)</b>	74.8	322.7	232.6
<b>Other Income</b>	12.0	12.4	17.5
<b>Unrealized Gains/(Losses)</b>	(172.8)	(419.7)	(677.4)
<b>Total Income</b>	(82.0)	(81.6)	(424.8)

**Table 5: Profitability Metrics**

	9M'19	CY18	CY17
<b>Efficiency</b>	106.9%	35.2%	41.0%
<b>Profit Before Tax</b>	(169.8)	(211.0)	(535.9)
<b>Profit After Tax</b>	(151.0)	(218.1)	(537.9)
<b>ROAA</b>	(7.1%)	(9.1%)	(17.3%)
<b>ROAE</b>	(8.3%)	(10.6%)	(19.8%)

**Table 6: Capitalization**

In Rs. Mn	9M'19	CY18	CY17
<b>Paid up Capital</b>	586.3	586.3	586.3
<b>Unappreciated Profit</b>	508.7	659.8	1,024.4
<b>Reserves</b>	133.1	133.1	133.1
<b>Re-measurement on PRB</b>	(1.9)	(1.9)	(2.1)
<b>Surplus on Revaluation of AFS</b>	575.6	456.8	528.4
<b>Total Equity</b>	1,801.9	1,834.1	2,270.1

<sup>1</sup> (peers include A rated brokerage firms and commercial banks)

Cyan Limited

Appendix I

<b>FINANCIAL SUMMARY</b> (amounts in PKR millions)				
<b>BALANCE SHEET</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2018</b>	<b>Sep 30, 2019</b>
Cash and Bank Balances	0.9	5.3	9.6	8.0
Total Investments	3,612.5	2,440.9	2,108.0	1,813.9
Total Assets	3,659.0	2,546.2	2,264.0	1,973.4
Paid-up Capital	586.3	586.3	586.3	586.3
Tier-1 Equity (exc surplus)	2,425.7	1,741.7	1,377.4	1,226.3
Net Worth	3,172.6	2,270.1	1,834.1	1,801.9
<b>INCOME STATEMENT</b>				
	<b>Dec 31, 2016</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2018</b>	<b>Sep 30, 2019</b>
Revenue from Operations	460.5	235.1	325.7	78.8
Operating Expenses	113.0	96.4	114.7	84.2
Profit Before Tax	734.3	(535.9)	(211.0)	(169.8)
Profit After Tax	711.2	(537.9)	(218.1)	(151.0)
<b>RATIO ANALYSIS</b>				
	<b>Dec 31, 2016</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2018</b>	<b>Sep 30, 2019</b>
Average Return on Equity Portfolio	40.0%	-22.8%	-7.7%	0.6%
Efficiency (%)	24.5%	41.0%	35.2%	106.9%
Gearing	0.06	-	0.12	-
Leverage	0.15	0.12	0.23	0.10
Current Ratio	7.9	9.4	5.2	11.8
ROAA (%)	21.3%	-17.3%	-9.1%	-7.1%
ROAE (%)	25.0%	-19.8%	-10.6%	-8.3%
Liquid Assets to Total Liabilities (x)	7.4	8.9	4.9	10.6

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**Medium to Long-Term**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and / or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and / or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
<b>Name of Rated Entity</b>	Cyan Limited				
<b>Sector</b>	Non-Bank Financial Companies				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	<b>XX/XX/XX</b>	A	Stable	A-1	Reaffirmed
	<b>1/2/2019</b>	A	Stable	A-1	Reaffirmed
	<b>12/27/2017</b>	A	Stable	A-1	Reaffirmed
	<b>12/13/2016</b>	A	Stable	A-1	Reaffirmed
	<b>10/6/2015</b>	A	Stable	A-1	Downgrade
	<b>5/16/2014</b>	A+	Stable	A-1	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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