

## RATING REPORT

### Arif Habib Dolmen REIT Management Limited

**REPORT DATE:**

November 1, 2019

**RATING ANALYSTS:**

Muhammad Ibad Desmukh  
[ibad.desmukh@vis.com.pk](mailto:ibad.desmukh@vis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	MQR	MQR
<b>REIT Rating</b>	AM2+ (RMC)	AM2 (RMC)
<b>Rating Outlook</b>	Stable	Stable
<b>Rating Action</b>	<b>Upgrade</b>	<b>Reaffirmed</b>
<b>Rating Date</b>	October 18, '19	September 17, '18

#### COMPANY INFORMATION

<b>Incorporated in April 2009</b>	<b>External auditors:</b> Rehman Sarfaraz Rahim Rafiq, Chartered Accountants
<b>Unquoted Public Company</b>	<b>Chairman of the Board:</b> Nasim Beg
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> Muhammad Ejaz
Arif Habib Group	
Dolmen Group	

#### APPLICABLE METHODOLOGY(IES)

VIS Management Quality Rating Criteria  
 Management Quality Rating of REIT Management Company (October 2019)  
<http://vis.com.pk/kc-meth.aspx>

**Arif Habib Dolmen REIT Management Limited**

OVERVIEW OF THE RMC	RATING RATIONALE
<p>AHDRML was incorporated in April 2009 as an unlisted public limited company. It is a joint venture between the groups of Arif Habib and Dolmen. The company is engaged in launch and management of Real Estate Investment Trust (REIT) Schemes.</p> <p><b>Profile of Chairman</b></p> <p>Mr. Nasim Beg has extensive experience of over forty years in financial services, both locally and internationally. Mr. Beg is the founding Chief Executive of Arif Habib Consultancy and was the founding Chief Executive of MCB-Arif Habib Savings. He is a Fellow Chartered Accountant with the Institute of Chartered Accountants in Pakistan (ICAP).</p> <p><b>Profile of CEO</b></p> <p>Mr. Muhammad Ejaz, has over 20 years of experience in financial services and general management. He is a certified director and has served in senior positions at leading local and international banks and is a certified Financial Risk Manager (FRM). He holds an MBA degree from Institute of Business Administration, Karachi.</p>	<p>Arif Habib Dolmen REIT Management (AHDRML) is one of the five companies licensed to undertake REIT Management Services in Pakistan. Currently, it operates the first and only REIT scheme in the country called Dolmen City REIT (DCR). The assigned rating draws comfort from REIT management company's (RMC) affiliation and corresponding operational and financial support from its sponsors, Arif Habib &amp; Dolmen Groups. Rating also reflects research and investment processes, the experience of key executives and profile of sponsors. Board features seasoned professionals having experience in real estate and financial services sectors.</p> <p><b>Key Rating Drivers:</b></p> <ul style="list-style-type: none"> <li>• <b>Governance and Management Profile</b> Assigned ratings derive strength from improvement in corporate governance framework of the company. Board of Directors has been reconstituted in order to bring it in line with best practices of corporate governance. <ul style="list-style-type: none"> <li>• In addition to 2 independent directors, an additional independent director been appointed, taking the total number of board members to 9.</li> <li>• In line with best practices, at-least one-third of board members are independent and one female independent director is part of the board. Mr. Tayyeb Afzal has appointed in place of Mr. Asadullah Khawaja as independent director. Mr. Sajidullah Sheikh, Group CFO at Dolmen Group, has been appointed in place of CEO as Executive Director.</li> <li>• At-least one-third of board comprises members with relevant experience.</li> <li>• Documentation scope of minutes in Board meetings has been broadened since last review with discussion on future fund launches including both, developmental and rental REIT'S.</li> <li>• The executive management demonstrates an understanding of the RMC's role in management of property and local property market dynamics, with most of them having varying level of experience specific to the real estate sector.</li> <li>• Terms of Reference for each of the Board committees have been clearly defined and documented. Compliance framework has been improved with development of a Directors' Remuneration Policy and Trade Receivables Policy (in process).</li> <li>• Apart from planned functional rotations, senior management has witnessed no turnover during period under review.</li> <li>• A detailed internal management update report is prepared and circulated every month and it covers economic overview, budgetary &amp; regulatory changes and real estate outlook.</li> </ul> </li> </ul> <p>Senior Management at AHDRML comprises qualified, seasoned professionals from the real estate and financial services sector.</p> <ul style="list-style-type: none"> <li>• <b>Research and Investment Process</b> Policy for risk management is documented and approved by the board. The risk management policy covers, operational risk, credit risk, financial risk, reporting and compliance/regulations. Arrangements put in place by the board to monitor risk management include quarterly reporting to the board, circulation of minutes and employing appropriately qualified employees. Risk management is overseen by the Head of Compliance and the internal audit team (outsourced to Junaidy Shoaib Asad Co. Chartered Accounts.</li> </ul>

Management may consider appointing a dedicated resource for risk management.

Investment policy covering defined criteria for selecting and evaluating property investments for inclusion in REIT schemes, as practiced, also needs to be documented. Given that the principle function of the company is to undertake and manage REIT investments, the above requirement is of paramount importance.

The company has an adequate research process in place with sufficient knowledge and experience to vet property investment for inclusion in REIT Schemes. The company uses the data gathered from experience over the years and informal sources including market players. The vetting process involves due diligence based on the strategic investment policy and other key policies including risk management policy to strengthen the governance framework and formalizing the decision making process.

- **Funds Under Management**

AHDRML has currently only one REIT fund under management namely; Dolmen City REIT (DCR). The performance of DCR has exceeded projections. Performance track record of funds (existing and those that will be launched) will be established over time and will be a key area of assessment, going forward.

Performance of DCR in terms of net income (before fair value adjustment) has surpassed projections. This is attributable to higher occupancy levels and as well as growth in rent from parties whose lease expired during the year. Since last review, net asset value of the fund witnessed increase on account of change in fair value of investment property. However, this increase has not manifested itself in the market price of the fund, owing to the closed end nature of the rental REIT scheme.

- **Financial Analysis**

Top line of the company has witnessed diversification on account of increase in advisory fees and investment income which increased to 10.2m (FY18: Rs. 3.4m) and Rs. 7.7m (FY18: Rs. 0.7m) respectively. The company therefore, has three sources of income, Management Fee, Advisory Fees and Investment Income. Moreover, the company has obtained several mandates for advisory fees in the ongoing year. Moreover, the company reported management fee of Rs. 99.2m (FY18: Rs. 86.1m) As a result, revenue increased to Rs. 99.3m (FY18: Rs. 86.2m) in FY19. The company does not have any long term liabilities on balance sheet.

**Arif Habib Dolmen REIT Management Limited**
**Appendix I**

<b>BALANCE SHEET (Rs. In Millions)</b>	<b>FY19</b>	<b>FY18</b>	<b>FY17</b>
<b>Non-current Assets</b>	3.1	61.7	128.5
<i>Investment Property</i>	-	-	-
<b>Current Assets</b>	216.4	111.1	1,411.6
<b>Non-current Liabilities</b>	0.0	16.1	32.5
<b>Current Liabilities</b>	25.2	-	1,011.1
<b>Paid up Capital</b>	200.0	200.0	200.0
<b>Net Equity</b>	194.4	156.8	496.6
<b><u>INCOME STATEMENT</u></b>			
<b>Revenue</b>	107.1	86.9	193.7
<b>Administrative Expenses</b>	49.9	46.6	47.4
<b>Operating Profit</b>	57.1	40.3	146.3
<b>Profit before Tax</b>	57.1	(113.5)	72.1
<b>Profit after Tax</b>	37.6	(136.3)	19.6
<b><u>RATIOS</u></b>			
<b>Gearing (x)</b>	-	-	2.1
<b>Current Ratio (x)</b>	8.6	6.9	1.4

**RATING SCALE - MANAGEMENT QUALITY RATINGS****AM1:**

Asset manager exhibit Excellent management characteristics

**AM2++, AM2+, AM2:**

Asset manager exhibit Very Good management characteristics

**AM3++, AM3+, AM3:**

Asset manager exhibit Good management characteristics

**AM4++, AM4+, AM4:**

Asset manager exhibit Adequate management characteristics

**AM5:**

Asset manager exhibit Weak management characteristics

*For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.*

*For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.*

*For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.*

**Rating Watch:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

<b>REGULATORY DISCLOSURE</b>		<b>Appendix III</b>	
<b>Name of Rated Entity</b>	Arif Habib Dolmen REIT Management Limited		
<b>Sector</b>	Miscellaneous		
<b>Type of Relationship</b>	Solicited		
<b>Purpose of Rating</b>	Management Quality Rating (REIT Management Company)		
<b>Rating History</b>	<b>Rating Date</b>	<b>RMC Rating</b>	<b>Rating Action</b>
	18-Oct-19	AM2+ (RMC)	Upgrade
	17-Sep-18	AM2 (RMC)	Reaffirmed
	25-Jul-16	AM2 (RMC)	Reaffirmed
	4-May-16	AM2 (RMC)	Harmonized
	8-Jun-15	AM2-(RMC)	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 management 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.		
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.		