

RATING REPORT

Cyan Limited

REPORT DATE:

December 22, 2016

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 13, '16		Oct 6, '15	

COMPANY INFORMATION

Incorporated in 1960	External auditors: M/s A.F. Ferguson & Co., Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Shahzada Dawood
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)

 Non-Bank Financial Companies (March 2005): <http://jcrvis.com.pk/docs/NBFC.pdf>

Cyan Limited

OVERVIEW OF THE INSTITUTION

CL is public listed company incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) 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). Dawood Corporation (Pvt.) Limited is the majority shareholder with a stake of 62%.

RATING RATIONALE

The assigned ratings of CL continue to be underpinned by the sponsors' profile, with major shareholding vested with Dawood Hercules Group, a prominent industrial conglomerate having presence across diversified sectors. Ratings also incorporate company's structured evaluation process for investment and private equity selection assisted by a strong research function. Furthermore, strong performance track record, adequate liquidity and capitalization indicators and an experienced management team provide additional support to ratings. Overall exposure to market risk remains high.

Investment Portfolio– Investment portfolio of the company entirely comprises listed equities with a healthy mix of dividend yielding and growth stocks. While related party exposures comprise major portion of the investment portfolio, overall sectoral exposures are diversified. The company has also participated in book building/IPO of companies. Investment policy however remains flexible with significant exposure allowed in equities on account of which profitability may be affected in case of stock market downturn.

Performance - Investment returns of CL have outperformed other equity based mutual funds during 2014, 2015 and in the ongoing year. The equity portfolio managed by CL generated a return of 17.24% (KSE-100 Index: 2.13%) & 25.68% (KSE-100 Index: 15.14%) for 2015 and HY16, respectively.

Private equity strategy – Management has developed a clearly laid down criterion for private equity employing the internally developed **CYAN-7** for potential clients. Investment horizon for these private equity deals can vary between 1 to 3 years. In addition to carrying research for investment portfolio of marketable securities, the company's research team also undertakes private equity research. However, the company is yet to make a transaction due to various challenges. The research department at CL is adequate in size comprising three analysts in addition to the Head of Department.

Financial Profile and Profitability – The portfolio of CL has been funded almost entirely through internal capital with no debt on the company's balance sheet at end-9M16. The company has short-term funding lines from financial institutions for funding liquidity needs. Net equity base of the company stood at Rs. 2.8b at end-9M16. With entire investment portfolio comprising liquid investments, liquidity profile is considered sound. With a reduction in portfolio size due to sizeable dividend paid and weaker KSE-100 index performance during 2015 vis-à-vis 2014, profit before tax was significantly lower during 2015. During 9M16, profit before tax was lower by 14% as compared to the corresponding period last year.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Cyan Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	SEPT 30, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Balances	5.4	159.9	21.8
Total Investments	3,141.4	2,825.3	4,780.4
Total Assets	3,246.6	3,032.4	4,886.5
Tier-1 Equity	2,185.0	2,094.7	4,251.1
Net Worth	2,789.5	2515.1	4,590.5
INCOME STATEMENT	SEPT 30, 2016	DEC 31, 2015	DEC 31, 2014
Revenue from Operations	560.5	714.1	1,227.5
Operating Expenses	87.2	218.1	200.2
Profit Before Tax	462.9	496.0	1,027.3
Profit After Tax	471.4	335.0	898.8
RATIO ANALYSIS	SEPT 30, 2016	DEC 31, 2015	DEC 31, 2014
Average Return on Equity Portfolio	17.24% (@ HY16)	25.68%	31.25%
Dividend Payout	45% (@ HY16)	70%	440%
Efficiency (%)	28.4%	44.3%	22.9%
ROAA (%)	15%	8.5%	17.3%
ROAE (%)	22.0%	10.6%	18.2%
Liquid Assets to Total Liabilities (x)	5.71 (@ HY16)	9.92	11.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: 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

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

(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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Cyan Limited				
Sector	Non-Bank Financial Companies				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	12/13/2016	A	Stable	A-1	Reaffirmed
	10/6/2015	A	Stable	A-1	Downgrade
5/16/2014	A+	Stable	A-1	Initial	
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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.				
Probability of Default	JCR-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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