

RATING REPORT

Dolmen City REIT

REPORT DATE:

September 25, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
REIT Rating	RR1	RR1
Rating Date	September 17, 2018	July 25, 2017

COMPANY INFORMATION

REIT Name: Dolmen City REIT	Shariah Advisor: Alhamd Shariah Advisory Services (Private) Limited
RMC: Arif Habib Dolmen REIT Management Limited	Scheme: Perpetual, listed closed-end Rental REIT
Chairman of the Board: Mr. Nasim Beg	Listing: Pakistan Stock Exchange (PSX)
Chief Executive Officer: Mr. Muhammad Ejaz	Valuer: MYK Associates (Private) Limited
Property Manager: Dolmen Real Estate Management (Pvt.) Limited	
Trustee: Central Depository Company of Pakistan Limited (CDC)	

APPLICABLE METHODOLOGY(IES)

Real Estate Investment Trusts (January 2015) (<http://www.jcrvis.com.pk/Images/RentalREITs-Methodology%202015.pdf>)

Dolmen City REIT

OVERVIEW OF THE FUND

DCR is a perpetual, listed, close-end rental REIT and was established on 20th January 2015 under Trust deed between Arif Habib Dolmen REIT Management Limited, as the REIT Management Company and Central Depository Company of Pakistan Limited as the Trustee of the fund. DCR is governed under the REIT Regulations 2015. The fund received the approval of the scheme on 29th May 2015 and was subsequently listed on the stock exchange.

RATING RATIONALE

Current rating of the closed-end Dolmen City REIT fund derives strength from its exposure in two properties namely the Dolmen Mall and The Harbour Front (office building). As per industry dynamics, the properties enjoy competitive advantage based on their location, provision of amenities, high quality maintenance services and security. Since inception, both properties have experienced high occupancy levels and continue to exhibit a diversified tenancy profile and increasing footfall particularly of the mall.

In order to maintain the premises in desirable conditions, all property management related activities are performed by Dolmen Real Estate Management (Pvt.) Limited (DREM). As per management, DREM's track record for providing high quality services is considered favorable. Going forward, the role of DREM will continue to play a significant part of the fund.

Given that the property continues to hold a strong competitive position, risk of variation in occupancy levels has significantly reduced. As per management, occupancy levels will only be sensitive to greater competition from comparable properties (if any) with similar facilities management, over the long term. Moreover, sustaining occupancy levels will be a key driver for investment returns, particularly if economic growth faces slowdown. However, assurance of returns over the foreseeable horizon is considered high.

At current levels, the Harbor Front is generating about 28% of the rental revenues whereas two-thirds are being generated by the Dolmen Mall. The mall currently has 97% occupancy and the office building is fully occupied. Tenant risk, as manifested in concentration levels, is high in case of Harbor Front, with one group alone contributing about 24% of the revenues of the total office space, while top 5 contribute 66% of the rental income. Moreover, a total of 14 tenants are currently occupying 19 floors of Harbor Front. Although client concentration is considered high, comfort is drawn from strong financial profile of clients. Tenant profile of Harbor Front includes a few leading business local and international groups namely Engro Corporation and Procter & Gamble. Tenant profile is more diversified in case of the mall; with top 5 clients contributing about 18% of the mall's revenues. Weighted average lease expiry / tenure of tenancy agreements for Harbor Front and the mall is approximately 3.4 and 3.1 years, respectively.

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Dolmen City REIT

Appendix I

BALANCE SHEET (Rs. In Millions)	9M18	FY17	FY16
Non-current Assets-Investment property	39,967	38,840	37,659
Paid up capital	22,237	22,237	22,237
Net Equity (Total Unit holder's Fund)	41,014	41,735	40,261
Net Asset Value per unit	18.44	18.77	18.11
INCOME STATEMENT (Not annualized)			
Rental Income	2,263	2,842	2,526
Total Income	2,408	3,010	2,664
Net Operating Income	2,033	2,582	2,319
Profit after tax	3,170	3,787	17,743

RATING SCALE AND DEFINITION

Annexure II

RATING SCALE & DEFINITIONS: REITS RATINGS

RR1+, RR1, RR1-

Funds rated in the 'RR1' category are judged to be of highest investment quality. Assurance of returns over the foreseeable horizon is excellent.

RR2+, RR2, RR2-

Funds rated in the 'RR2' category are judged to be of high investment quality. Assurance of returns over the foreseeable horizon is high.

RR3+, RR3, RR3-

Funds rated in the 'RR3' category are judged to be of good investment quality. Assurance of returns over the foreseeable horizon is good.

RR4+, RR4, RR4-

Funds rated in the 'RR4' category are judged to be of average investment quality. Assurance of returns over the foreseeable horizon is moderate.

RR5+, RR5, RR5-

Funds rated in the 'RR5' category are judged to be of speculative investment quality. Assurance of returns over the foreseeable horizon is limited.

Rating Watch:

JCR-VIS places a rating under 'Rating Watch' status when it deems that there are conditions present that necessitate re-evaluation of the assigned rating. Refer to our 'Criteria for Rating Watch' for details

(www.jcrvis.com.pk/images/criteria_watch.pdf)

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REGULATORY DISCLOSURE		Appendix III	
Name of Rated Entity	Dolmen City REIT		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	REIT Rating		
Rating History	Rating Date	REIT Rating	Rating Action
	17-Sept-18	RR1	Reaffirmed
	24-July-17	RR1	Reaffirmed
	25-July-16	RR1	Reaffirmed
	26-May-15	RR1	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 fund stability only and is not a recommendation to buy or sell any securities.		
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