

RATING REPORT

Arif Habib Dolmen REIT Management Limited

REPORT DATE:

June 12, 2015

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	MQR	
REIT Rating	AM2- (RMC)	N/A
Rating Date	June 8, '15	-

COMPANY INFORMATION

Incorporated in April 2009

External auditors: **Haroon Zakaria & Co.**

Unquoted Public Listed Company

Chairman of the Board: **Mr. Nasim Baig**

Key Shareholders:

Chief Executive Officer: **Mr. Muhammad Ejaz**

Arif Habib Group

Dolmen Group

Arif Habib Dolmen REIT Management Ltd

OVERVIEW OF THE RMC

AHDRML was incorporated in April 2009 as an unlisted public limited company. It is a joint venture between the Arif Habib Group and the Dolmen Group. The company is engaged in management of Real Estate Investment Trust (REIT) Schemes.

RATING RATIONALE

Arif Habib Dolmen REIT Management Limited (AHDRML) is one of the first REIT management companies to be granted permission for operations in Pakistan. REIT regulations have only recently been finalized by the Securities & Exchange Commission of Pakistan. This has paved the way for launch of first Rental REIT scheme by the company, following which, additional REIT schemes are also in the pipeline.

AHDRML's rating reflects the company's research processes, the experience of key executives and profile of sponsors. The company has a thorough research process in place with sufficient breadth and scope, to vet property investments for inclusion in REIT schemes in addition to periodic update of data pertaining to different property segments for building an internal database on general market dynamics. Given the absence of formal data sources for the real estate market in Pakistan, the RMC gathers data from a combination of market players & in-formal sources. Individual properties undergo extensive due diligence before being selected for inclusion in a REIT scheme, spanning Highest and Best Use studies, supply and demand analysis and cash flow analysis, all of which culminates into a property rating report.

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. Some personnel have been assigned multiple responsibilities currently; these may need to be segregated over time as the operations of the company evolve. The entire senior management team is involved in the decision making process while given the long term commitment involved in such investments, final approval involves input from the Board of Directors as well.

The investment process involves thorough due diligence and deliberations; the same needs to be minutized. Investment policy covering defined criteria for selecting and evaluating property investments for inclusion in REIT schemes, as practiced, also needs to be documented. The current investment policy only caters to investment of surplus funds in various debt instruments. Given that the principle function of the company is to undertake and manage REIT investments, the above requirement is of paramount importance. Risk management processes may also need to be formalized. These areas are planned to be addressed with the growth of the AMC.

Performance track record of funds will be established over time; the group's performance provides comfort to JCR-VIS' assessment of the management quality rating. The company benefits from its affiliation and corresponding operational and financial support, from the Arif Habib & Dolmen Groups. Board features experienced professionals with substantial real estate experience in addition to financial services.

Following a Rs. 100m rights issue in April 2015, paid-up capital of the RMC has increased to Rs. 200m with net equity reported at Rs. 119.5m at April 30, 2015 (December 31, 2014: Rs. 27.2m). Net equity is well over the required level of Rs. 50.0m, as per the newly issued REIT Regulations 2015. Over the years, equity has undergone depletion due to on-going losses; RMC is expected to start generating revenues as the launch of its first fund is in process. The regulations also require the RMC and the strategic investor (International Complex Projects Limited – ICPL, in case of Dolmen City REIT) to maintain 5% and 20% units of the REIT scheme, respectively. With the size of Dolmen City REIT, the first fund being launched by the company set at Rs. 22.2b, the RMC is required to make an investment of Rs. 1.1b. The unit acquisition transaction by the RMC from ICPL is proposed to be structured on a deferred payment basis, having a timeline of 3 years, following which the units will be transferred to ICPL in lieu of the payment; regulations allow RMC, on approval from SECP, to transfer its holdings to a strategic investor after publication of three audited financial statements of the REIT scheme demonstrating acceptable performance.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

MANAGEMENT QUALITY RATINGS

AM1: Highest Management Quality

AM2+, AM2, AM2-: High Management Quality

AM3+, AM3, AM3-: Good Management Quality

AM4+, AM4, AM4-: Adequate Management Quality

AM5+, AM5, AM5-: Weak Management Quality

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

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

REGULATORY DISCLOSURE		Appendix II	
Name of Rated Entity	Arif Habib Dolmen REIT Management Ltd		
Sector	Miscellaneous		
Type of Relationship	Solicited		
Purpose of Rating	Management Quality Rating		
Rating History	Rating Date	RMC Rating	Rating Action
	8-June-15	AM2- (RMC)	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.		
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