

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

RATING REPORT

LSE Financial Services Limited (Formerly Lahore Stock Exchange Limited)

REPORT DATE:

July 14, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A	A-2
Rating Date	4 July, '16	
Rating Outlook	Stable	
Outlook Date	4 July, '16	

COMPANY INFORMATION

Incorporated in 2016	External auditors: M/s A.F. Ferguson & Co., Chartered Accountants
Company Limited by Shares	Chairman of the Board: Mr. Rashid Rahman Mir
Key Shareholders:	Chief Executive Officer: Mr. Naveed Amin
Joint Stock Companies, Corporations and SMCs – 70.6%	
Individuals – 18.9%	
Others – 7.4%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Non-Bank Financial Companies (Mar 2005)*
<http://www.jcrvis.com.pk/Images/NBFC.pdf>

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LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>LSE Financial Services Limited was incorporated in January 2016 under the Companies Ordinance 1984. The company is licensed to carry out business of investment finance services under Non-Banking Finance Company (NBFC) rules.</p>	<p>Ratings assigned to LSE Financial Services Limited (LSEFSL), formerly Lahore Stock Exchange Limited, take into accounts its low risk appetite underpinned by a prudent policy on gearing, stable revenue sources and conservative investment policy. Ratings also take into accounts company's policy of not engaging in underwriting business.</p> <p>Business Model: Core business of the company includes management of lease and rental operation of LSE Building. Total rental area of the LSE building is 55,827sq feet. In addition to this, rental income will begin from South tower in FY17 with total rental area of 13,964 sq feet. The company manages MCF, TCF and IPF Trusts of Former Lahore Stock Exchange. The company has made long term investments in unquoted investments.</p> <p>Investment Policy: LSEFSL has an investment policy in place which is approved by the Board. As per policy, investment shall be made primarily in entity/instrument rated 'AA' and above while investment in 'A' rated entity/instrument is capped at Rs. 30m per institution; however there is no overall capping on 'A' rated investments. Upto 30% of total investment can be made in money market /income funds with minimum fund stability rating of 'A-'. Going forward, the management aims to participate in Margin Trading System (MTS) with an initial investment limit of Rs. 200-300m.</p> <p>The company has also made equity investments in unquoted companies which amounted to Rs. 454.9m at end-9MFY16 (FY15: Rs. 540.9m). These represent investment in Pakistan Credit Rating Agency Limited (PACRA), National Clearing Company of Pakistan Limited (NCCPL), Central Depository Company of Pakistan Limited (CDC), Pakistan Mercantile Exchange Limited (PMEX) and Institute of Capital Markets (ICM).</p> <p>Profitability: Rental income is expected to be the main source of total income (~60%) followed by treasury income (~26%). Other income sources include management fee and dividend income. Total income was reported at Rs. 173.9m during 9MFY16 against which administrative expenses amounted to Rs. 97.7m during 9MFY16 (FY15: 134.6m). During 9MFY16, a onetime cost to the tune of Rs. 12.05m was incurred on account of voluntary separation scheme for employees. Share of profit of associated companies (net of tax) amounted to Rs. 71.3m during 9MFY16. Accounting for taxation, profit amounted to Rs. 76.1m during 9MFY16. Going forward, income levels are expected to increase on account of rentals from the availability of south tower.</p> <p>Capitalization & Liquidity: Share capital of the company amounted to Rs. 1.3b (FY15: 1.3b) at end-9MFY16 with equity reported at Rs. 1.5b (FY15: 1.5b). Accounting for surplus on revaluation of property and equipment, total equity amounted to Rs. 2.3b at end-9MFY16 (FY15: Rs. 1.6b). The company has availed a credit facility amounting to Rs. 200m (FY15: Rs. 200m) for the construction of South Tower. Overall liquidity profile of the institution is considered sound.</p>

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Annexure -2

FINANCIAL PROJECTIONS <i>(amounts in PKR millions)</i>					
<u>BALANCE SHEET</u>	FY16	FY17	FY18	FY19	FY20
Total Assets	2,152.1	2,188.1	2,220.9	2,230.9	2,247.2
Total Investments	1,175.1	1,233.4	1,289.5	1,318.2	1,348.0
Operating Fixed Assets	875.8	849.0	821.2	796.1	773.1
Tier-1 Equity	1,549.0	1,580.9	1,615.6	1,653.5	1,695.1
<u>INCOME STATEMENT</u>	FY16	FY17	FY18	FY19	FY20
Total Income	213.0	144.3	155.4	167.3	180.2
Share of Profit of Associates	93.1	102.4	112.6	123.9	136.3
Total Expenses	116.7	107.8	117.1	127.3	136.4
Efficiency	54.7%	64.3%	65.6%	67.1%	68.5%
Profit After Tax	159.5	127.6	139.0	151.5	166.5
ROAA	7.4%	5.9%	6.3%	6.8%	7.4%
ROAE	10.4%	8.2%	8.7%	9.3%	9.9%

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LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)

Annexure -3

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY15	1HFY16	9MFY16
Property and Equipment	479.1	1,234.9	1,230.8
Total Assets	2,164.4	2,888.9	2,860.8
Borrowings	200.0	200.0	200.0
Long Term Deposit	250.6	271.6	247.1
Tier-1 Equity	1,509.1	1,437.6	1,487.1
Total Equity	1,566.9	2,214.8	2,263.9
<u>INCOME STATEMENT</u>			
	FY15	6MFY16	9MFY16
Total Revenue	292.6	100.3	173.9
Administrative Expenses	165.9	92.1	112.8
Profit (Loss) Before Tax	219.7	53.8	132.3
Profit (Loss) After Tax	158.1	27.1	76.1
<u>RATIO ANALYSIS</u>			
	FY15	6MFY16	9MFY16
Operating Margins (%)	43.3%	8.2%	35.2%
Net Margins (%)	54.0%	27.1%	43.8%
Efficiency (%)	56.7%	91.8%	64.8%
ROAA (%)	4.4%	1.1%	3.0%
ROAE (%)	6.4%	1.8%	5.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 4

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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REGULATORY DISCLOSURES		Annexure 5			
Name of Rated Entity	LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)				
Sector	Non-Bank Financial Institution (NBFC)				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	04/07/2016	A	A-2	Stable	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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