



The Pakistan Credit Rating Agency Limited

Rating Report

EFG Hermes Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Dec-2020	A-	A1	Stable	Maintain	-
27-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	-
28-Dec-2018	A-	A1	Stable	Maintain	-
30-Jun-2018	A-	A1	Stable	Maintain	-
23-Jun-2017	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect EFG Hermes Pakistan Limited's ("EFG Hermes" or "The Company") association with an international financial services group "EFG Hermes" having access to emerging and frontier markets. The Company has carved its footprints in thirteen countries across four continents, spanning 35 years of growth. The assigned ratings incorporate company's adequate market share, well built governance structure and satisfactory operating profitability. The Company maintains a high leveraged capital structure whereby, the parent company has provided unconditional and irrevocable financial guarantee to the bank. Following the recent boom in traded volumes of stock exchange, the core revenue of the Company remained buoyant and the Company maintained its market share to ~3%. The Company does not maintain proprietary investments hence less exposed to market risk. Sizable liquid assets and support from parent provide comfort to the ratings. Further, appointment of 'A' category auditors and establishment of two board level committees augurs well for insightful monitoring. The Net Capital Balance of the company clocked in at ~PKR 370mln with an equity base of ~PKR 138mln as at end Sep'20 whereas, the net profit after tax and net equity of parent Company stood at ~EGP 426mln and ~EGP 13.6bln. The topline of the EFG Hermes Pakistan lacks diversification in revenue stream and concentrated to the equity brokerage income which clocked in at ~PKR 128mln at end Sep'20 (SPLY: ~PKR 70mln). The Company earned profit amounting to ~PKR 0.49mln during 3QCY20 (3QFY19: ~PKR 56.6mln loss).

The ratings are dependent on the management's ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry. Retention of key personnel and sustainability of profitability will remain imperative from ratings perspective.

Disclosure

Name of Rated Entity	EFG Hermes Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-20)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



PROFILE

Legal Structure EFG Hermes Pakistan Limited ("EFGH" or "The Company") is listed on Pakistan Stock Exchange (PSX) as a public limited company.

Background The Company was incorporated on September 27, 1999, as a private limited company, under the name Invest and Finance Securities as. Later on, it converted into public unquoted company on November 27, 2006. It was listed on the Pakistan stock exchange on March 20, 2008. On 18 May 2017, an Egyptian Financial Services Group, EFG Hermes Frontier Holdings LLC, acquired 51% stake in the Company.

Operations With its head office in Karachi, EFG Hermes Pakistan Limited's main activities of the Company include brokerage, research and investment banking advisory.

OWNERSHIP

Ownership Structure EFG Hermes Pakistan Limited is a subsidiary of EFG Hermes Frontier Holdings LLC, which controls 51% stake in EFG Pakistan. The ultimate owner of the group is EFG Hermes Holding S.A.E (Egyptian Financial Group Hermes Holding Company). Directors, CEO and their spouse and minor children own ~9%, while the remaining 40% stake is held by the general public.

Business Acumen EFG Hermes Holding S.A.E., established in 1984, is an Egyptian investment bank specializing in securities brokerage, asset management, investment banking and private equity. EFG Hermes is listed on the Egyptian Exchange (EGX) and London (LSE) Stock Exchange. EFG Hermes has offices in thirteen countries including Pakistan and serve clients from the Middle East, North Africa, Europe and the United States.

Financial Strength EFG Hermes Holding S.A.E.'s equity stood at ~EGP 13.6bln as at the end of 3QCY20. The Group made net profit of ~EGP 426mln in 3QCY20.

GOVERNANCE

Board Structure The Company' board of directors has thirteen members comprising eight non-executive directors, four independent directors and one CEO. The Company has appointed one female director in compliance with CCG requirements.

Members' Profile Mr. Murad Ansari is the Chairman of EFG Pakistan and he is also the co-head of the MENA financials team of EFG Hermes Frontier Holdings LLC. He holds an MBA from Institute of Business Administration and carries sixteen years of professional experience in equity research and sales.

Board Effectiveness EFG Pakistan has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. TOR's for both committees are well defined. Audit committee meets on quarterly basis to review the financial statements and internal audit findings. Audit committee is chaired by an independent director.

Transparency Internal audit function of EFG Pakistan is performed by the parent company. The Company's external auditors are AGN Riaz Ahmad Saqib Gohar & Co, ranked under category "B" as per the SBP rankings. The auditor's issued an unqualified opinion on the financial statements of EFG Pakistan for the year ended CY19.

MANAGEMENT

Organizational Structure For effective management integration, matrix reporting structure is in place. Key departmental heads have reporting line to respective functions at group level, in addition to reporting to the CEO. This structure provides better oversight while bringing broader exposure and experience to local operations.

Management Team The Company has a team of seasoned professionals. Mr. Saad Iqbal is the CEO of the Company. He is a CFA Charter holder and carries around a decade of experience in Pakistan Capital Market industry. Mr. Ahmad Zakir Hafeez is CFO of the Company. He has been associated with the Company since 1999.

Effectiveness The management of the Company continues its focus on streamlining the risk management architecture and internal control.

Control Environment EFG Hermes Pakistan has devised detailed policies, at group level, for operations, research, IT, trading and investment and risk among others. The risk department makes continuous efforts to minimize the Company's exposures primarily to market risk, credit risk and liquidity risk.

BUSINESS RISK

Industry Dynamics As the COVID-19 pandemic triggered the deepest global recession in decades, The Pakistan Stock Market also remained under par with the world markets. The SBP responded the unprecedented situation, by addressing monetary easing and debt moratorium. Whereas, certain proactive measures taken by SECP of trading halts, circuit limits, relaxation in Base Minimum Capital (BMC) requirements, and linking of short sell with uptick/zero plus rule, were geared to provide respite to the market participants. During 11MCY20 KSE-100 index witnessed a seesaw situation but maintained the momentum despite continuous hiccups. The bourse touched the highest point of 43,219 on 13th Jan'20, after which it started dropping to hit the low of 27,228 on 25 Mar'20. Currently index stood at 41069 points posting a positive return of 1% since start of CY20. The traded volumes remained elevated over the period and remained at an average of ~203mln (SPY: ~99mln) despite large market swings. Going forward, the index is expected to recover with the COVID-19 vaccines expected to roll out in the coming months. Concern over pandemic is likely to reduce while improvement in economic activity is likely to accelerate globally as well as locally in medium term. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Furthermore, high traded volumes would bode well for brokerage firms.

Relative Position EFGH is a mid-tier brokerage house having average market share of ~2.8% during 9MCY20 (FY19: ~2.6%).

Revenue The major source of revenue of the Company stemmed from equity brokerage. Equity brokerage revenue increased by 83% to ~PKR 128mln(9MCY19: ~PKR 70mln) which makes ~80% of the total revenue. The Company's topline has shown recovery from the preceding year corresponding with the elevated traded volumes on stock exchange.

Profitability The Company earned profit after tax amounting to ~PKR 0.49mln (SPY: ~PKR 56.6mln loss). The profits can be attributed to strapping growth in stock traded volumes of PSX. Operating expenses however followed the downtrend and slightly decreased by ~3.1% (9MCY20: PKR 118mln, 9MCY19 PKR 122mln) mainly due to decrease in salaries and rent & rates. Operating revenues successfully covered the operating expenses.

Sustainability Going forward, the management intends to leverage its brand to capture maximum market share as activity in stock market picks up.

FINANCIAL RISK

Credit Risk EFG Hermes Pakistan has due diligence procedures in addition to its KYC, for the assessment of its client creditworthiness. The board has approved per party and per scrip limits, which are strictly adhered to by the management which minimizes the credit risk.

Market Risk In line with the EFG group's policy, the Company does not engage in proprietary trading thus limiting the market risk exposure. Funds have been deployed in government securities and shares of PSX as per the requirement of Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012.

Liquidity Risk The trade related assets are 0.65x of the trade related liabilities as at end Sep'20 (CY19: ~1.67x). The Company retains the ability to borrow funds in the short term and liquidate investments in the financial assets if the need arises.

Coverages The Company has availed long-term loan of ~PKR 375mln which is secured against the unconditional and irrevocable financial guarantee by the parent company. The Company's debt to equity ratio clocked in at ~273% (CY19: ~287%) whereas, FCFO of the Company stood at ~PKR 41mln (CY19: ~PKR 1mln negative) due to which its coverage ratios are not satisfactory.

Capitalization The net capital balance of the Company is ~PKR 370mln as at Sep'20 (CY19: ~PKR 368mln). The Company can take exposure up to 25 times of its NCB.



PKR mln

EFG Hermes Pakistan Ltd.
Listed Public Limited

Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Dec-18	Dec-17
9M	6M	3M	12M	9M	6M	12M	12M

A BALANCE SHEET

1 Finances	19	6	44	15	31	26	96	180
2 Investments	422	411	433	401	392	402	321	247
3 Other Earning Assets	12	11	12	11	12	11	12	12
4 Non-Earning Assets	345	270	260	334	216	216	548	381
5 Non-Performing Finances-net	-	-	-	-	-	-	-	-
Total Assets	798	698	749	762	650	656	977	820
6 Funding	526	482	485	530	460	517	735	540
7 Other Liabilities (Non-Interest Bearing)	135	93	139	101	75	-	62	40
Total Liabilities	660	575	624	631	535	517	797	580
Equity	138	123	125	131	115	139	180	240

B INCOME STATEMENT

1 Fee Based Income	131	83	50	123	76	43	134	77
2 Operating Expenses	(118)	(81)	(46)	(167)	(122)	(78)	(171)	(80)
3 Non Fee Based Income	32	26	16	51	35	20	36	17
Total Operating Income/(Loss)	45	28	20	8	(11)	(15)	(2)	13
4 Financial Charges	(30)	(22)	(13)	(45)	(29)	(21)	(29)	(16)
Pre-Tax Profit	15	6	6	(37)	(40)	(35)	(31)	(3)
5 Taxes	(12)	(7)	(5)	(11)	(11)	(6)	(15)	(8)
Profit After Tax	3	(1)	2	(48)	(51)	(41)	(46)	(11)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	66.7%	77.9%	68.2%	571.7%	-264.6%	-140.3%	-1922.5%	121.7%
Return on Equity (ROE)	4.1%	-2.4%	6.5%	-45.3%	-69.0%	-69.0%	-34.9%	-5.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	17.2%	17.6%	16.7%	17.1%	17.7%	21.2%	18.4%	29.3%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	-137.9%	-112.6%	-130.4%	1.5%	68.3%	107.6%	59.6%	-5.7%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	73.3%	73.7%	74.8%	66.0%	70.0%	71.4%	41.1%	48.0%
Liquid Assets / Trade Related Liabilities	387.9%	493.6%	509.3%	609.0%	540.9%	332.2%	576.8%	587.7%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	13.4%	15.0%	18.2%	13.9%	10.3%	6.4%	3.2%	32.2%
Equity Instruments / Investments	8.2%	5.8%	4.8%	7.0%	5.5%	7.2%	9.3%	17.8%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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