Pakistan Strategy 2024

Targeting 81,000; Resilience and Redefined

04-Dec-2023

REP-300

Best Securities House: 2023
Best Investment Bank: 2023

Best Investment Bank: 2022

Best Equity House: 2022

Best Equity Advisor: 2021

Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023
Best Equity Research Analyst: 2022

Top 25 Companies
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Pakistan Investment Strategy 2024

Synopsis: Fueled by robust earnings growth, enticing valuation, substantial domestic liquidity, and comparatively steady economic growth, we expect KSE100 index will yield an attractive total return of 32% in 2024. Our projection is grounded in the methodologies of earnings growth, target price mapping, and justified P/E ratio, with the expectation of reaching an index level of 81,000 by Dec'24.

Economic headwinds to subside: We maintain an optimistic outlook for FY24, supported by conducive domestic macro factors.

- GDP growth is expected at 3.3% during FY24.
- The Current Account deficit is expected to be manageable (FY24E: -1.1% of GDP).
- Downward trajectory for inflation, we estimate FY24 and FY25 inflation to clock in at 24.0% and 12.8%.
- Start of monetary easing cycle from Jan'24, reaching 15% till Dec'24.
- Administrative steps, improved external flows to stabilize PKR.

Valuations Bonanza: Even with a notable 45% return during CY23TD, the KSE100 index remains significantly undervalued across various valuation perspectives.

- On P/E basis, the KSE100 index is trading at 4.2x – 29% discount to last 5-years average of 5.9x
- The KSE-100 Index is trading at market cap to GDP of 8.8%, a discount of 26% compared to last 5-year average
- Bond Equity Earnings Yield ratio (BEER) also depicts a discount of 12% as current BEER is 0.63 as compared to historic level of 0.70 during last 5 years.

Exhibit: AHL's sectoral views

Sector	Top Picks	Comment	SIFC Impact	Import Restrictions	Currency depreciation impact
E&Ps	OGDC | PPL | MARI	Gas tariff hike will curtail the further accumulation of circular debt. Any outcome on the resolution of gas circular debt will keep the sector in the limelight.	Expected investments in mining and minerals	No	Positive
Banks	HBL | UBL | MCB | MEBL | FABL	Significant growth in deposits and higher average interest rates to keep banking sector earnings upbeat.	Advances growth with increase in demand for local financing	To an extent	Positive
Fertilizer	FFC	Pricing power, elevated margins and recovery in demand (phosphates) are expected to escalate earnings.	Investments in agriculture and corporate farming	No	Neutral
Cement	LUCK | MLCF | FCCL	Demand is expected to recover, significant decline in coal prices, energy efficiencies, and higher retention prices should stimulate the bottom line.	Indirect, via economic activities picking up	To an extent	Neutral
Power	HUBC	Timely tariff resets are expected to ease off cash flow concerns while simultaneously restrict the flow of circular debt.	FDI expected in transmission network and battery energy storage system	No	Positive
OGMCs	PSO	Earnings expected to improve given higher OMC margins and relatively better sales alongside improved cash flows due to gas tariff increase.	Investments in gas pipeline and refinery sector	No	Neutral
Autos	INDU	Volumetric sales to remain subdued, however, earnings are expected to grow amid low base and relatively higher sales/production as compared to last year.	None	Yes	Negative

Source (s): AHL Research

Closing prices are as of 01-Dec-2023

AHL Model Portfolio outperformed once again

We had recommended a model portfolio with our Jul'23 strategy report. AHL model portfolio outperformed the benchmark KSE-30 and KSE-100 indices by 11% and 6% respectively. AHL model portfolio total return till 01 Dec 2023 clocked in at 51.7% as compared to KSE-30 and KSE-100 return of 40.4% and 48.8%, respectively.

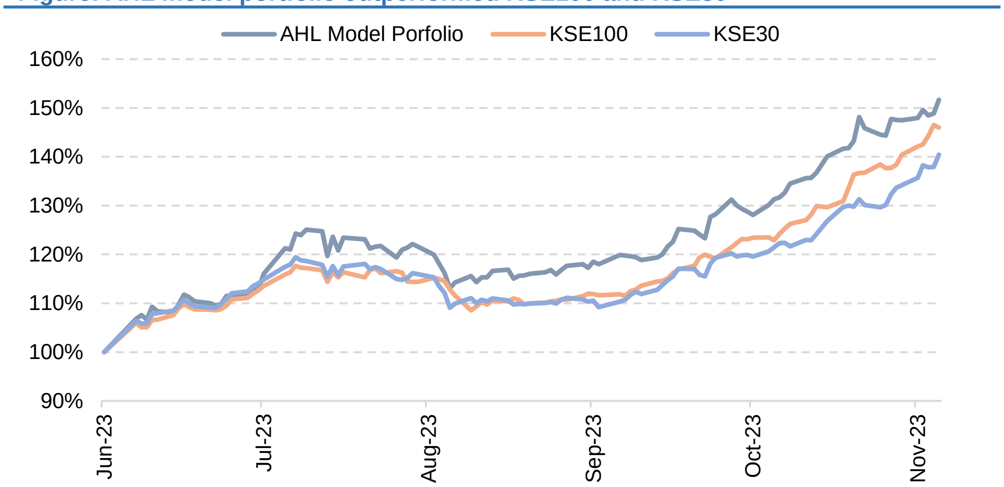
We are rebalancing the AHL portfolio in order to optimize our holdings. We are introducing UBL, NBP, FCCL, and INDU into the portfolio with respective weights of 7.5%, 7.5%, 7.5%, and 5.0%. Simultaneously, we are reducing the weights assigned to OGDC, PPL, ENGRO, MARI, HUBC, and BAFL. Furthermore, as part of our revised strategy, we are increasing the weights for MEBL and MLCF. Please find below the details.

Exhibit: Proforma AHL Model Portfolio

Company	Model Portfolio Weight		Benchmark Index weight	PE (x)	PB (x)	DY (%)
	Previous	Revised				
OGDC	15.0%	10.0%	3.55%	2.54	0.35	7.93
PPL	15.0%	10.0%	3.10%	2.53	0.37	3.70
ENGRO*	10.0%	2.5%	4.01%	4.00	0.47	20.09
LUCK*	10.0%	10.0%	3.48%	3.76	0.74	2.44
MARI	10.0%	5.0%	2.43%	2.82	0.89	16.29
MEBL*	7.5%	10.0%	3.59%	2.69	1.18	14.18
HUBC*	15.0%	10.0%	5.79%	2.13	0.65	19.84
BAFL*	5.0%	0.0%	1.55%	1.76	0.47	17.52
FFC	5.0%	5.0%	3.97%	4.08	2.16	18.60
MLCF	7.5%	10.0%	0.96%	5.15	4.67	7.08
UBL*	0.0%	7.5%	4.27%	3.24	0.89	23.08
NBP*	0.0%	7.5%	0.82%	1.40	0.15	6.37
INDU	0.0%	5.0%	0.80%	9.74	1.45	8.92
FCCL	0.0%	7.5%	0.75%	2.71	0.53	10.60

Source (s): AHL Research, *Consolidated

Figure: AHL model portfolio outperformed KSE100 and KSE30



Source (s): Bloomberg, PSX, AHL Research

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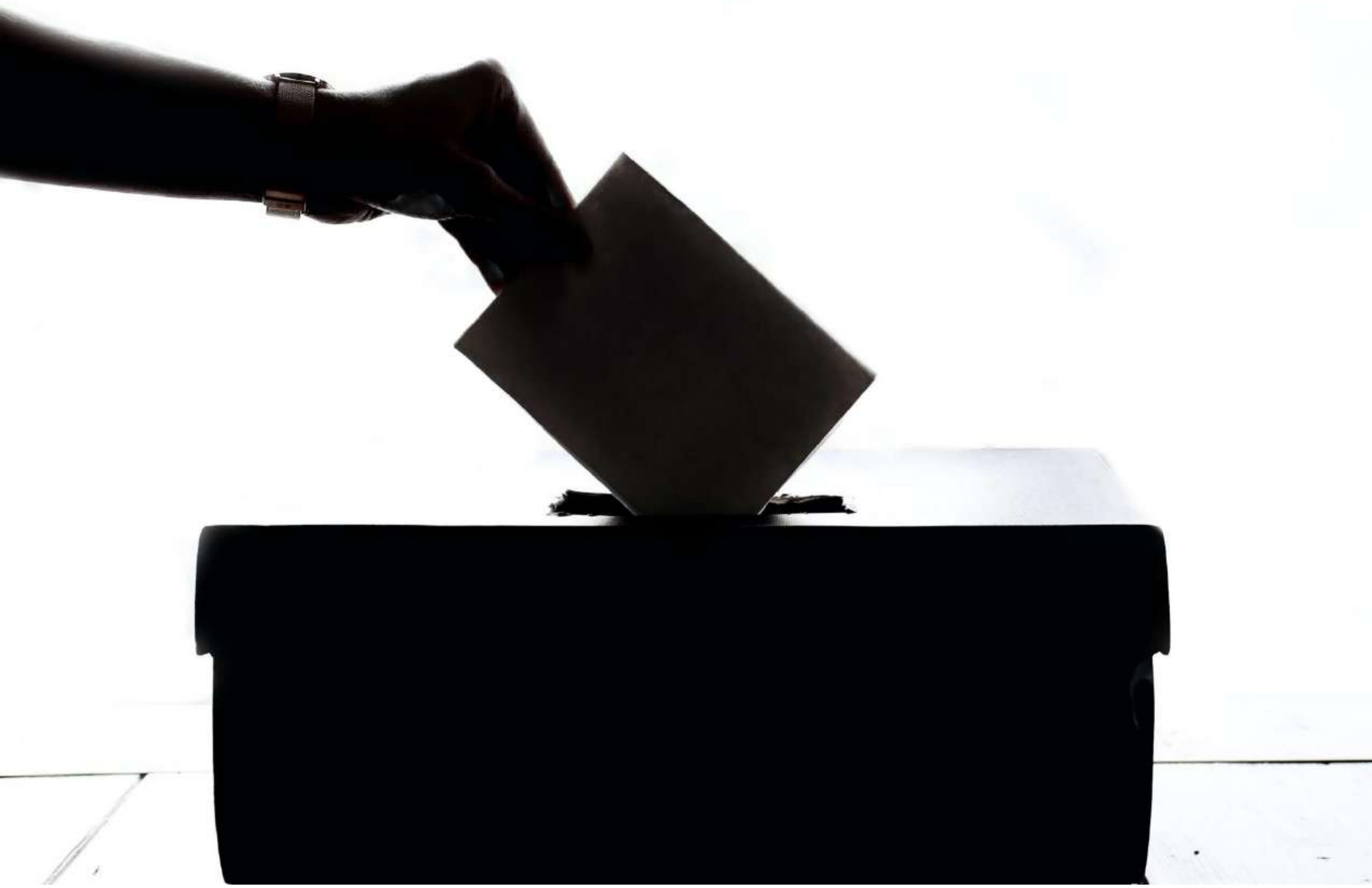
Pakistan at a Glance

Exhibit: Pakistan at a Glance

Economy		Equities	
Population (mn)	232	Major Stock Exchange	Pakistan Stock Exchange
Middle Class (of population)	35%	Benchmark Index	KSE-100
GDP/Capita (USD, FY23)	1,553	Total Market Cap (USD bn, Nov'23)	31.2
GDP size (USD bn, FY23)	339	Free Float Market Cap (USD bn, Nov'23)	8.3
GDP Growth (FY23)	-0.17%	Market Cap as % of GDP	8.8%
Sovereign Rating	Fitch: CCC, Moody's: Caa1	Avg. Daily Traded Value (USD mn CY23TD)	31
SBP Reserves (USD bn, Nov'23)	7.3	Avg. Daily Traded Volume (mn shr CY23TD)	262
Current Account Balance (USD mn, 4MFY24)	(1,059)	MSCI Category	Frontier Markets
Fiscal Balance (PKR bn 1QFY24)	(963)	Number of Stocks in MSCI FM	58
CPI Inflation (5MFY24 Avg.)	28.62%	Largest Sector	Banks
Policy Rate (Nov'23)	22.00%	Largest Stock	OGDC
External Debt (% of GDP, FY23)	24.8%	Net Foreign Flows (USD mn, CY23TD)	49
Domestic Debt (% of GDP, FY23)	46.2%	Foreign Holdings (% of FF Mkt. Cap)	17%

Source (s): PSX, SBP, MSCI, PBS, NCCPL, AHL Research



Politics

Stability is crucial

Politics

One of the major catalysts for the recent bull run in the equity market was the announcement of the date for general elections in the country - 8th Feb 2024. Undoubtedly the noise and instability of the last few years was detrimental for investment sentiment in the country. We think that with the arrival of a freshly elected government, a much-needed era of political stability is set to start and this will be positive for the stock market.

We also view that persisting fears of a delay in elections are unfounded. Pakistan is on the verge of completing its SBA and immediately will be required to enter into an EFF with the IMF. Media has reported several times that IMF officials have sought clarity from all stakeholders and received assurances that elections will take place on time. Timely elections and a freshly elected government to take charge is essential to continue the economic reforms that have been initiated under the caretaker government.

In the forthcoming election, there is a palpable sense of optimism and anticipation surrounding the prospect of a coalition government emerging as a catalyst for political stability. Having said all the above, we do not rule out any street agitation and protests post elections as is usually witnessed in the country as results are widely rejected. That may shake sentiment in the short term. Over the medium to long term horizon, we view that the PSX is set to usher in a fresh era of long-awaited re-rating and value realization.

KSE100 Performance Pre and Post Elections

		Performance		Performance	
Election Date	KSE100 Index	3M Before	3M After	6M Before	6M After
10-Oct-02	2,099	17.7%	32.4%	12.9%	35.9%
18-Feb-08	14,354	7.8%	-0.8%	16.4%	-28.5%
16-May-13	20,417	14.7%	15.7%	26.0%	14.1%
25-Jul-18	41,339	-9.1%	-8.8%	-7.2%	-4.3%

Source (s): AHL Research

Pakistan Economy

The comeback story

Pakistan's Economic Snapshot

Economic Outlook

#	Indicator	Year	Value	Comment
1	Economic Growth (%)	FY24E	3.3	Recovery expected amid improved agriculture and industrial production
		FY25F	4.6	Economic growth to accelerate with support from monetary policy easing
2	Fiscal Balance (% of GDP)	FY24E	7.5	Fiscal deficit expected to stay high due to increased markup payments
		FY25F	6.8	Support from reduced markup payments and increased tax collection
3	Inflation (Average % YoY)	FY24E	24.0	Inflation anticipated to decrease in 2H supported by the high base effect
		FY25F	12.8	Controlled food inflation and a high base to keep YoY inflation lower
4	Interest Rate (Period end- %)	FY24E	17.0	Interest rate reversal set to begin in the latter half of FY24
		FY25F	12.0	Interest rates to continue downward due to persistent low inflation
5	Current Account Deficit (USD bn)	FY24E	3.9	Narrowing of CAD expected mainly on the back of lower trade deficit
		FY25F	4.6	Increased economic activity is expected to drive up CAD as imports rise
6	Gross External Financing Requirement (USD bn)	FY24E	25.9	IMF tranches, multilateral/bilateral flow and rollovers to bridge the gap
		FY25F	30.6	A bigger (new) IMF program key for continued external financing
7	Currency (June end)	FY24E	315.0	Administrative steps, lower imports, and IMF success to stabilize PKR
		FY25F	340.2	Timely external inflows and managing of CAD to ensure PKR stability

Bridging funding gap

Repayment obligations (including current account deficit) of USD 87.4bn during FY24-26 against projected disbursements of USD 90.4bn (Source: IMF report)

External debt servicing remains in a tight spot

Pakistan has a total external debt servicing obligation of USD 24.5bn in FY24E which includes USD 3.5bn in interest payments and slightly over USD 21bn in principal repayments. During 4MFY24, a sum of USD 4.3bn has been successfully repaid, with USD 3.2bn going towards the principal and the remaining USD 1.1bn covering interest. This leaves an outstanding balance of USD 20.1bn (USD 2.3bn in markup and the remaining USD 17.8bn in principle) yet to be settled. Approximately USD 12.3bn of this outstanding amount is expected to be rolled over, with most of it already confirmed for rollover. Consequently, the net amount to be repaid stands at around USD 5.5bn. Examining the performance of foreign reserves, the combination of lower export revenues, heightened debt repayments, and a decrease in external flows due to increased economic uncertainties, both domestically and globally, resulted in a substantial reduction in FX reserves to USD 4.5bn by the end of Jun'23. However, a ray of hope emerged with the initiation of the IMF new 9-month Stand-By Arrangement (SBA) program, acting as a savior. This program, along with inflows from several bilateral countries, contributed to a modest improvement in our reserves position.

Looking ahead, the successful and timely completion of the remaining reviews of the IMF program is deemed crucial for the country's external account. This is particularly significant as major bilateral and multilateral flows are intricately linked to the IMF program. Furthermore, the nation's ability to secure additional funding for reconstruction efforts is contingent upon the support of key multilateral agencies, including the World Bank, IMF, and the Asian Development Bank (ADB). The quantum of this additional funding will play a pivotal role in shaping the country's economic recovery and development efforts. Our preliminary assessments indicate the following projections for the reserve position by the end of the fiscal years FY24E and FY25F.

Exhibit: Expected inflows and outflows during FY24

Inflows	USD bn	Outflows	USD bn
IMF SBA	3.00	Repayments	8.00
KSA New Deposit	2.00	Bond	1.00
KSA Rollover	3.00	CAD	3.90
UAE Rollover	2.00	KSA Rollover	3.00
China Rollover	4.00	UAE Rollover	2.00
China Swap	4.00	China Rollover	4.00
Multilateral	5.00	China Swap	4.00
UAE New Deposit	1.00		
IDB	1.00		
Multilateral (Geneva)	1.00		
Commercial	2.50		
FDI	1.50		
New IMF - First Tranche	1.00		
Total Inflows	**31.00**	**Total Outflows**	**25.90**
SBP Reserves (Jun'23)	**4.45**		
Expected SBP Reserves Position (Jun'24)			**9.55**

Source (s): SBP, AHL Research

Exhibit: Expected inflows and outflows during FY25

Inflows	USD bn	Outflows	USD bn
IMF	3.00	Repayments	10.00
KSA New Deposit Rollover	2.00	CAD	4.60
KSA Rollover	3.00	KSA Rollover	3.00
UAE Rollover	2.00	UAE Rollover	2.00
China Rollover	4.00	China Rollover	4.00
China Swap	4.00	China Swap	4.00
Multilateral	5.50	KSA New Deposit Rollover	2.00
UAE New Deposit Rollover	1.00	UAE New Deposit Rollover	1.00
Commercial Rollover	2.50		
FDI	2.00		
Euro Bond/Sukuk	1.00		
Commercial (New)	2.50		
Total Inflows	**32.50**	**Total Outflows**	**30.60**
SBP Reserves (Jun'24)	**9.55**		
Expected SBP Reserves Position (Jun'25)			**11.45**

Source (s): SBP, AHL Research

Stand-By Arrangement Update:

- On Nov 15th, 2023, the IMF staff and Pakistani authorities reached a staff-level agreement on the first review of IMF Stand-By Arrangement (SBA) program.
- This agreement reached between Pakistan and the IMF is subject to approval by the IMF Executive Board which is expected to meet on Dec 7th, 2023.
- Following approval from the Executive Board, the release of the second tranche, totaling USD 700mn (SDR 528mn), will be awaited.
- With this tranche, the total disbursements under the SBA will reach USD 1.9bn.
- To recall, Pakistan had achieved a significant breakthrough by signing a new nine-month Stand-By Arrangement (SBA) deal with the IMF worth USD 3bn (SDR 2.25bn) in Jun'23. This program had come at a crucial juncture as the previous EFF program concluded incomplete, emphasizing the urgency and importance of signing this new agreement.

Moreover, with further repayment obligations (including current account deficit) of USD 87.4bn during FY24-26, the external account remains in a tight spot. Finance Ministry is targeting disbursements of USD 90.4bn (including approximately USD 16bn annual rollover, we view) during the next three years to finance the repayments and the C/A deficit (USD 20bn), using a combination of bilateral and private debt (USD 48.8bn), and multilateral flows (USD 41.6bn). Unlocking these flows, however, would require Pakistan to stay engaged with the IMF with another bigger program necessary post General Elections later next year. The continuation of Pakistan's engagement with the IMF is imperative for the country to navigate its economic challenges. With the existing Stand-By Arrangement (SBA) set to conclude in Mar'24 and significant external repayments on the horizon, it is crucial for Pakistan to secure another robust IMF program of around USD 6-8bn. The external repayments, coupled with the need to maintain adequate reserves and finance the current account deficit, underscore the urgency of a renewed and sizable IMF agreement. This becomes particularly pivotal as the country approaches a period of political transition, with elections expected in early Feb'24. The incoming government is expected to prioritize negotiating a favorable deal with the IMF to stabilize the economy, instill investor confidence, and ensure the timely repayment of debts. The continuation of the IMF program will be instrumental in putting Pakistan's fiscal house in order and expediting economic recovery.

Exhibit: History of Lending Commitments

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
			SDR mn	*SDR mn*
Standby Arrangement	Dec-58	Sep-59	25	-
Standby Arrangement	Mar-65	Mar-66	38	38
Standby Arrangement	Oct-68	Oct-69	75	75
Standby Arrangement	May-72	May-73	100	84
Standby Arrangement	Aug-73	Aug-74	75	75
Standby Arrangement	Nov-74	Nov-75	75	75
Standby Arrangement	Mar-77	Mar-78	80	80
Extended Fund Facility	Nov-80	Dec-81	1,268	349
Extended Fund Facility	Dec-81	Nov-83	919	730
Structural Adjustment Facility Commitment	Dec-88	Dec-91	382	382
Standby Arrangement	Dec-88	Nov-90	273	194
Standby Arrangement	Sep-93	Feb-94	265	88
Extended Credit Facility	Feb-94	Dec-95	607	172
Extended Fund Facility	Feb-94	Dec-95	379	123
Standby Arrangement	Dec-95	Sep-97	563	295
Extended Fund Facility	Oct-97	Oct-00	455	114
Extended Credit Facility	Oct-97	Oct-00	682	265
Standby Arrangement	Nov-00	Sep-01	465	465
Extended Credit Facility	Dec-01	Dec-04	1,034	861
Standby Arrangement	Nov-08	Sep-11	7,236	4,936
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393
Extended Fund Facility	Jul-19	Jun-23	4,988	2,144
Standby Arrangement	Jun-23	Mar-24	2,250	1,422
Total			**26,627**	**17,360**

Source (s): IMF, AHL Research

New found optimism as recovery appears to be underway

We maintain an optimistic outlook for FY24, supported by conducive domestic macro factors.

- To begin with, we expect a strong rebound in FY24 GDP growth to ~3.33% (a stark contrast to 0.17% contraction in FY23) further accelerating to 4.58% in FY25.
- Secondly, we expect inflationary pressure to ease substantially over the next 6-12 months resulting in CPI inflation decelerating to 24% by Jun'24.
- Lastly, we anticipate an accommodative monetary policy stance, starting first quarter of CY24, which shall serve as a catalyst for accelerated economic activity in the latter part of the current fiscal year and more importantly in the 2H2024.

Potential impediments: Nevertheless, it is important to acknowledge key downside risks to our estimates. These include i) vulnerability of the PKR to global and local macro and geopolitical developments, ii) looming threat of a global macro slowdown, iii) resurgence of international commodity prices, iv) political instability and v) extremely aggressive structural reforms which could hurt growth in the short to medium term. On the flip side, we would like to highlight a few upside risks which include i) faster than anticipated economic rebound, ii) sustained political stability iii) a more dovish monetary policy stance and iv) better than anticipated external flows.

Upside risks: On the flip side, there are also upside risks that could positively impact our projections. These include the potential for a faster-than-expected recovery in macroeconomic fundamentals, improved agricultural yields, sustained political stability, and proactive interest rate measures aimed at bolstering businesses. These factors could contribute to an even more favorable economic outlook than currently anticipated.

- We maintain an optimistic outlook for FY24, supported by conducive domestic macros.
- Robust GDP growth of expected +3.33% in FY24 (FY23R: -0.2% and FY25F: +4.58%).

Exhibit: GDP of Pakistan

Items	FY23R	FY24E	FY25F
Agriculture Sector	**2.3%**	**3.2%**	**2.9%**
Crops	-1.0%	2.6%	2.9%
Livestock	3.8%	3.5%	3.0%
Forestry	14.2%	3.0%	2.5%
Fishing	1.4%	1.5%	1.0%
Industrial Sector	**-3.8%**	**2.9%**	**4.6%**
Mining & Quarrying	-4.4%	-4.5%	-4.5%
Manufacturing	-5.3%	4.4%	2.0%
Large Scale	-9.9%	4.6%	8.8%
Construction	-9.2%	1.5%	2.0%
Service Sector	**0.1%**	**3.4%**	**5.2%**
Wholesale & Retail trade	-4.0%	6.5%	12.2%
Transportation & Storage	3.3%	3.0%	2.0%
Real Estate Activities (OD)	3.7%	2.0%	2.0%
Other Private Services	5.0%	3.0%	2.0%
GDP Growth	**-0.2%**	**3.3%**	**4.6%**

Source (s): MoF, AHL Research

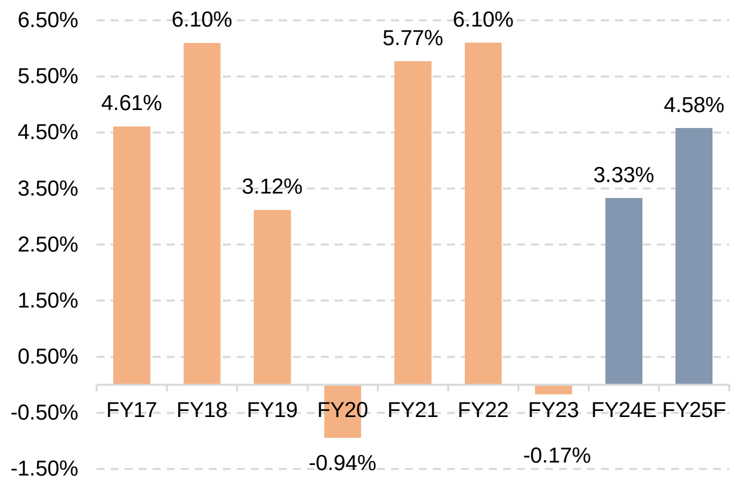
On a recovery path

The economic recovery has proven to be more resilient than anticipated. The recent economic indicators released by the PBS unveil a positive trajectory. In 1QFY24, the economy displayed signs of recovery, registering a substantial growth rate of 2.13%. This performance starkly contrasts with the 0.96% figure recorded in the same quarter of FY23. We project that the GDP growth for FY24 to experience a significant increase, reaching 3.33%, compared to a negative 0.2% recorded in FY23. This anticipated growth is attributed to several factors: i) an improvement in agricultural output, particularly in important crops like cotton and wheat; ii) a reduction in inflationary pressures, expected to lead to a more relaxed monetary policy; iii) the anticipated political stability following the scheduled elections in Feb'24; and iv) a stable outlook for the currency. Going forward, the economic growth should remain solid in FY25F (around 4.6%) mainly supported by industrial output uptick and services growth.

Anticipated growth is attributed to several factors:

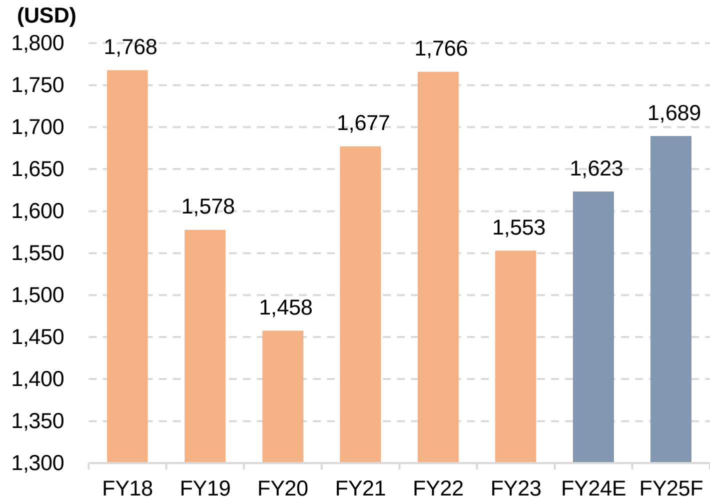
- an improvement in agricultural output, particularly in important crops like cotton and wheat;
- a reduction in inflationary pressures, expected to lead to a more relaxed monetary policy;
- the anticipated political stability following the scheduled elections in Feb'24; and
- a stable outlook for the currency

Figure: GDP growth



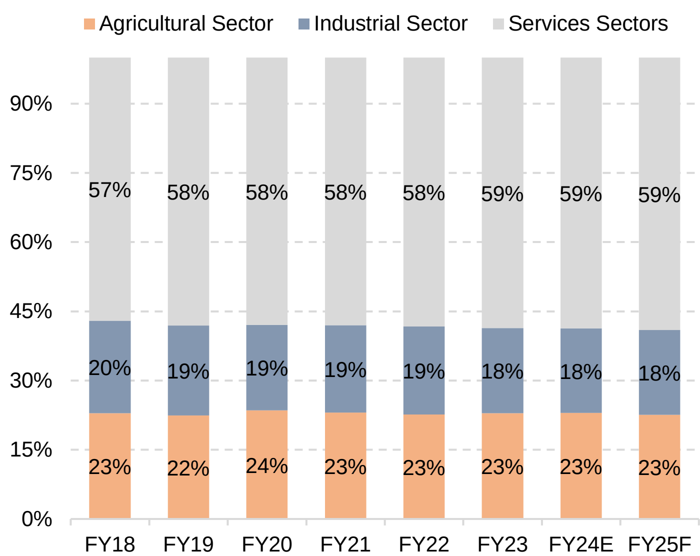
Source (s): Pakistan Economic Survey, AHL Research

Figure: Per Capita GDP (in USD)



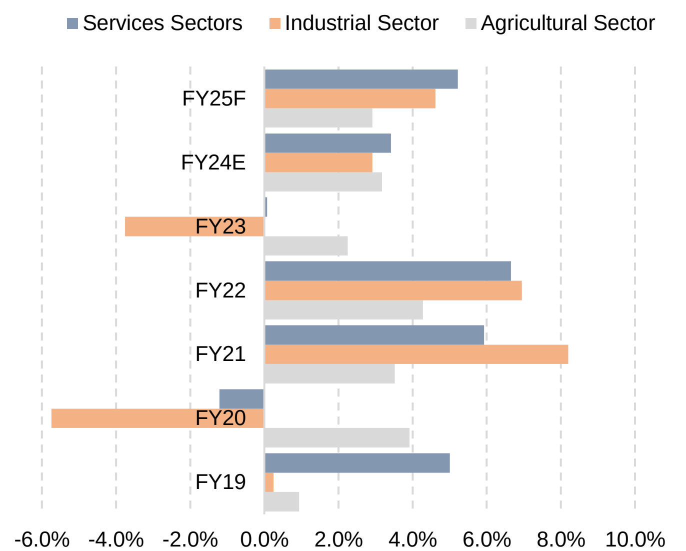
Source (s): Pakistan Economic Survey, SBP, AHL Research

Figure: GDP composition over the years



Source (s): PBS, AHL Research

Figure: Sectoral growth

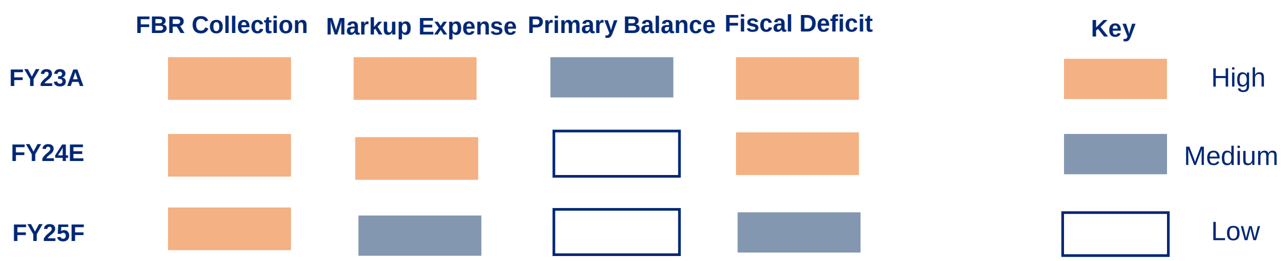


Source (s): PBS, AHL Research

The fiscal tug-of-war-tightening strings

Despite the IMF advocating for fiscal consolidation to address challenges such as a high budget deficit, increased borrowing costs, and lower revenue collection; slow economic acceleration and high interest rates are expected to keep the fiscal deficit above the initial targets. Our assumption for the fiscal deficit is PKR 8.1trn (7.5% of GDP) well above the budget target of PKR 6.9trn (6.5% of GDP). We maintain the perspective that fiscal policy continues to be geared towards mitigating the adverse effects of heightened current expenditure, especially regarding markup payments. However, it is important to note that the impact has diminished significantly due to a substantial increase in the policy rate over the past few quarters. In FY24E, the government is targeting around PKR 9.4trn for FBR revenue. Nevertheless, it is highly probable that the actual collection will fall below this target, with our expectations indicating a figure around PKR 9.2trn.

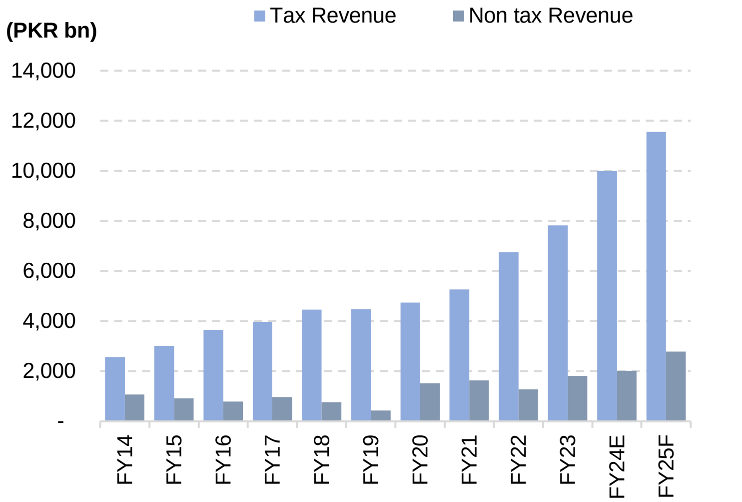
- Fiscal deficit is expected ~PKR 8.1trn (7.5% of GDP) vs. target of PKR 6.9trn (6.5% of GDP).
- Challenges: high borrowing costs, high revenue collection target, any deceleration in economic acceleration and import compression are expected to keep the fiscal deficit above the initial targets.



Balancing expenditure goals with revenue realities

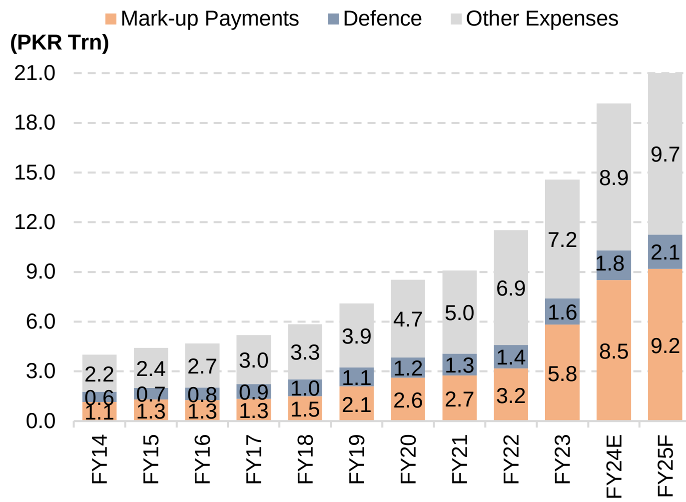
In the realm of fiscal policy, the government's performance is anticipated to be characterized by recurring themes, including challenges in meeting revenue collection targets, sub-optimal allocation of development spending compared to recurrent expenditure, and sustained losses from State-Owned Enterprises (SOEs). For FY24E, the government aims to achieve an underlying primary surplus of 0.4% of GDP, as outlined in the IMF document. This target hinges on judicious spending by federal and provincial governments, augmented revenue generation, and, if necessary, the implementation of additional support measures. A significant concern on the fiscal front is the government's ambitious revenue target, aiming for a 24% YoY increase in overall revenue receipts in FY24E. This optimism is particularly centered on the expectation of the FBR tax collections reaching PKR 9.4trn. The feasibility of these goals is questioned, considering the slow pace of reforms on the tax front. Turning to expenditure, the total budget is set at PKR 14.5trn, with a significant portion (51%) allocated to interest payments. Concerns arise regarding the realism of allocating a higher expense for pensions (up by ~17.5% YoY) and salaries (ranging from 30-35%), despite the fiscal constraints. While providing relief to employees and pensioners is acknowledged as important, adopting a realistic and sustainable approach is deemed crucial. Furthermore, the budget for the Federal PSDP in FY24 is PKR 950bn, marking a substantial increase of 30.8% compared to the previous fiscal year. Concurrently, PKR 1.6trn is earmarked for provincial PSDP, indicating a decrease of 6.0% YoY. The combined PSDP of PKR 2.5trn sets a new record and is expected to contribute 2.4% to the country's GDP.

Figure: Non-tax and Tax Revenue – Trend and Forecast



Source (s): MoF, AHL Research

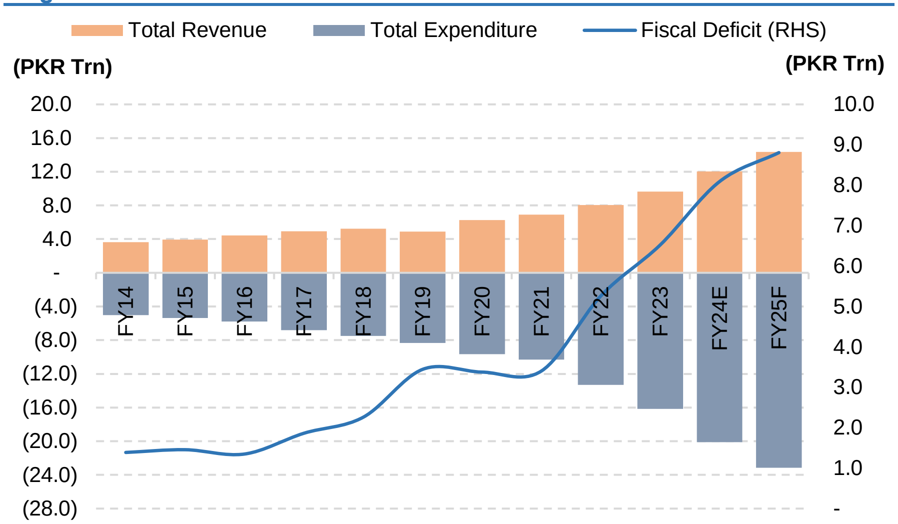
Figure: Current Expenditure – Trend and Forecast



Source (s): MoF, AHL Research

Estimating the fiscal deficit as a percentage of GDP, we anticipate it to be 7.5% in FY24 (projected to decrease to 6.8% in FY25F), compared to 7.7% in FY23. The government's initial forecast for the fiscal deficit in FY24 was 6.5%, driven by anticipated revenue growth through additional tax measures and the reduction of non-productive spending. However, considering the fiscal performance in the first five months, we estimate that the fiscal deficit may surpass targets by approximately 1.1% of GDP. Downside risks to achieving the fiscal deficit targets include the government's ability to raise projected revenue, the staggered implementation of policy and development measures, the provinces' commitment to delivering historically high surpluses, and the significant containment of current spending relative to GDP, particularly in an election year.

Figure: Pakistan's Fiscal Deficit – Trend and Forecast



Source (s): MoF, AHL Research

Exhibit: Pakistan Fiscal Operations

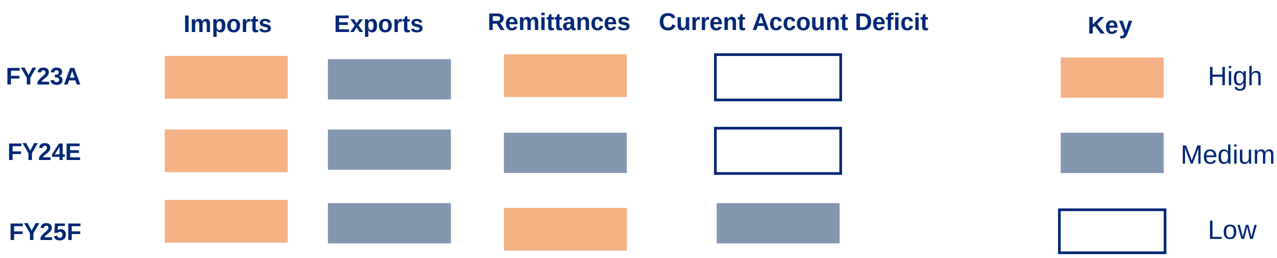
PKR bn	FY21	FY22	FY23	FY24E	FY25F
Total Revenue	**6,903**	**8,035**	**9,634**	**12,019**	**14,343**
Tax Revenue	**5,273**	**6,755**	**7,819**	**10,002**	**11,554**
Federal	4,764	6,143	7,169	9,190	10,580
Provincial	508	612	650	812	974
Non-Tax	**1,631**	**1,280**	**1,815**	**2,017**	**2,789**
Federal	1,480	1,152	1,649	1,826	2,570
Provincial	150	128	166	191	219
Less: Provincial Share	2,750	3,182	5,831	5,526	6,136
Total Expenditure	**10,307**	**13,295**	**16,155**	**20,109**	**23,149**
Current Expenditure	**9,084**	**11,521**	**14,583**	**19,169**	**21,006**
Mark-up Payments	2,750	3,182	5,831	8,510	9,191
Defence	1,316	1,412	1,586	1,800	2,070
Other Expenses	5,018	6,927	7,166	8,859	9,745
Development Expenditure & net lending	1,316	1,657	1,953	1,346	1,950
Total Development Expenditure	1,316	1,657	1,953	1,346	1,950
Federal PSDP	441	400	652	550	950
Provincial PSDP	770	1,217	1,241	800	1,000
Budget Balance	**(3,403)**	**(5,260)**	**(6,521)**	**(8,090)**	**(8,806)**
Primary Balance	**(654)**	**(2,077)**	**(690)**	**420**	**384**

% of GDP					
Total Revenue	12.4	12.1	11.4	11.1	11.1
Tax Revenue	9.4	10.1	9.2	9.2	9.0
Nontax Revenue	2.9	1.9	2.1	1.9	2.2
Total Expenditure	18.5	20.0	19.1	18.6	18.0
Current	16.3	17.3	17.2	17.7	16.3
Mark-up Payments	4.9	4.8	6.9	7.9	7.1
Defence	2.4	2.1	1.9	1.7	1.6
Development Expenditure and net lending	2.4	2.5	2.3	1.2	1.5
Budget Deficit	6.1	7.9	7.7	7.5	6.8
Primary Balance	(1.2)	(3.1)	(0.8)	0.4	0.3

Source (s): MoF, AHL Research

External Account – Balancing act

Bearing in mind the events that unfolded over the course of the year, we expect the current account deficit to print at USD 3.9bn (FY25F: USD 4.6bn) in FY24E. Pakistan remains confronted with a confluence of challenges, including a growing apprehension regarding the funding gap, which heavily relies on foreign inflows, and sluggish growth in exports. While our base case assumption is optimistic, suggesting that Pakistan will successfully unlock pending tranches from the IMF, thereby paving the way for funds from other international creditors, it is important to note that uncertainties persist. Despite potential positive developments, we maintain a cautious outlook, acknowledging that risks are tilted towards the downside for the PKR in FY24 | 25.



For FY24E, we project that the current account will navigate within a manageable range. It's worth recalling that initially, Pakistan implemented measures to restrict imports, which were later lifted. Presently, it appears that authorities are inclined to remain cautious about the import of non-essential items, particularly given our constrained reserve position. This prudence stems from the necessity to manage our debt repayments in the remaining part of FY24. Looking ahead to FY25F, we expect a potential continuation of deficit on external front. This projection is influenced by a surge in total imports, expected to increase by 9% YoY, coupled with a comparatively lower growth in exports, estimated at +6.6% YoY. To sum up, we expect the trade deficit to continue at a declining trend, led by incentives for export-oriented sectors, impact of lower oil prices and volumes on the import bill and a slowdown in imports such as machinery. On the export front, downside risk remains mainly the global economic slowdown that is likely to dent the overall jump in exports. A key risk that has emerged on the current account in the recent months is the deteriorating trend in remittances, which have fallen by 13% during 4MFY24. Anticipating the remittance scenario for FY24E, we project remittances to reach USD 28.2bn, reflecting a modest 3% increase. This marginal growth is attributed to the fact that Ramadan and Eid, traditionally associated with increased remittance inflows, are expected to fall in the 2HFY24, providing a slight boost to the overall remittance figures.

- For FY24E, we project that the current account will navigate within a manageable range, expected around USD 3.9bn (-1.1% GDP)
- In FY25F, our expectations indicate a surge in total imports, expected to increase by 9% YoY, coupled with a comparatively lower growth in exports, estimated at +6.6% YoY. CAD expected around USD 4.6bn in FY25F.

Exhibit: Goods Exports Breakup

USD mn	FY23A	FY24E	FY25F
Textile Group	16,632	17,066	18,274
Food Group	4,742	4,623	4,861
Other Manufacture	4,034	3,848	4,233
Petroleum Group	291	356	392
Others	2,180	3,090	3,760
Total	**27,879**	**28,983**	**31,519**

Source (s): SBP, AHL Research

Exhibit: Goods Imports Breakup

USD mn	FY23A	FY24E	FY25F
Petroleum Group	17,539	14,830	13,824
Agri. & Other Chemicals	8,263	8,489	10,612
Food Group	7,966	7,733	8,301
Textile Group	4,565	3,958	4,385
Others	13,502	15,818	18,734
Total	**51,834**	**50,829**	**55,856**

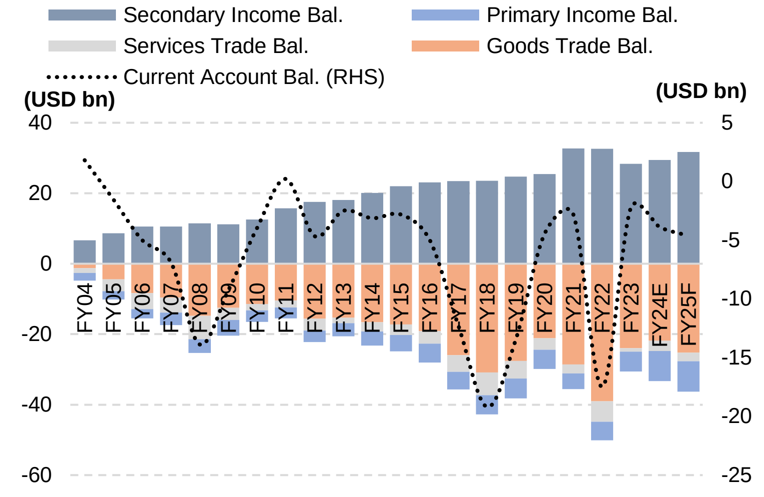
Source (s): SBP, AHL Research

Exhibit: Current Account Balance

USD mn	FY23A	FY24E	FY25F
Current Account Balance	-2.4	-3.9	-4.7
% of GDP	-0.7%	-1.1%	-1.2%
Exports of Goods	27.9	29.0	31.5
Imports of Goods	51.8	50.8	55.9
Balance on Trade in Goods	-24.0	-21.8	-24.3
Exports of Services	7.6	7.5	8.2
Imports of Services	8.6	10.4	10.7
Balance on Trade in Services	-1.0	-2.9	-2.5
Balance on Trade	-24.9	-24.8	-26.8
Balance on Primary Income	-5.7	-8.5	-9.5
Balance on Secondary Income	28.3	29.4	31.7
Workers' Remittances	27.3	28.2	30.5

Source (s): SBP, AHL Research

Figure: Breakdown of current account



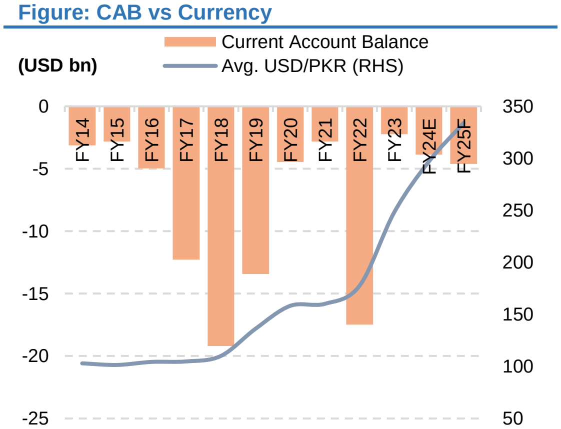
Source (s): SBP, AHL Research

PKR stability key to sustainable macros

In the YTD performance of the PKR against the USD, the narrative can be divided into two distinct periods. In the initial half of CY23, the PKR experienced a depreciation of 20.83% against the dollar. This depreciation was primarily attributed to the absence of external inflows, a surge in activity within the informal currency market, a slowdown in remittance flows, and the SBP reserves declining to USD 4.4bn by the end of Jun'23. However, the latter half of the year paints a more positive picture as the PKR appreciated against the USD. This improvement was accompanied by an enhancement in SBP reserves, reaching USD 7.2bn after engaging in the SBA Program with the IMF. Inflows from friendly nations such as Saudi Arabia and the UAE, along with the current account maintaining manageable levels and administrative measures targeting the informal currency market, contributed to this positive trend.

It is important to note that the IMF program explicitly emphasizes a commitment to maintaining a market-determined exchange rate as a strategic approach to address external imbalances and facilitate the eventual build-up of reserves. With the anticipation of the IMF's next tranche following the Executive Board's likely approval in the first week of Dec'23, coupled with forthcoming inflows from bilateral and multilateral creditors, the overall reserve position is expected to improve (SBP reserves: USD 10bn expected by Jun'24). This, in turn, should help keep the current account at manageable levels, fostering continued stability in the near term. Our projections indicate that by the closing rates of Jun'24 and Dec'24, the PKR/USD rates are expected to stand at 315 and 328, respectively.

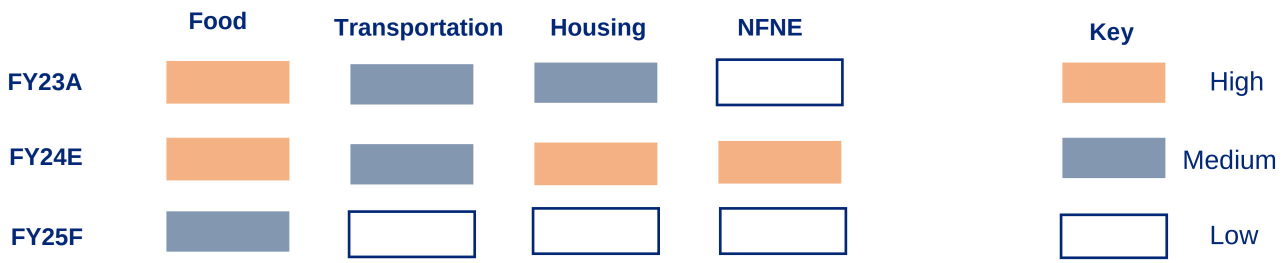
Figure: CAB vs Currency



Source (s): SBP, AHL Research

The interest rate - Inflation tango

Elevated food prices, coupled with multiple FX devaluations, budgetary measures, and hikes in petroleum product prices and electricity tariffs, have markedly heightened inflationary pressures, resulting in an average headline figure of 28.6% in FY24TD. Our model predicts a continued decline in headline inflation throughout the 2HFY24, closing at ~17.7% in Jun'24 with an overall average of 24.0% for FY24E vs 29.2% in FY23. We project a further decline in FY25F to 12.8%. This projected moderation is attributed to the high base effect from the previous year, influenced by factors such as floods, which we assume are unlikely to recur.



Deceleration in headline inflation starting from 1HCY23

We anticipate a deceleration in headline inflation starting from 1HCY24- with the exception of a potential gas tariff increase, several factors support this expectation.

- Firstly, the high base-effect is set to come into play, which typically exerts downward pressure on inflation.
- Moreover, there is a strong possibility of food inflation easing in the months ahead with the abundant production of essential crops like wheat and rice likely to serve as a buffer against further escalation of food prices. Additionally, the anticipated improvement in agricultural output for other significant crops, such as sugar, shall further mitigate food inflation in the near future. This was also highlighted in the Monetary Policy Review (Sep'23), where the MPC stated that it observed improvements in the outlook for the agricultural sector, facilitated by improved input conditions.
- In addition, global commodity markets, which underwent substantial tightening, are now experiencing a strong resurgence. This resurgence is expected to contribute to maintaining low imported inflation in the coming months. Furthermore, the anticipated stability of the PKR will help alleviate concerns about imported inflation.

We have assessed the potential impact of key macroeconomic changes that could alter inflation dynamics in Pakistan.

- Overall average CPI of 24.0% for FY24E (FY25F: 12.8%) vs 29.2% in FY23
- High-base effect comes into play,
- Strong possibility of food inflation easing in the months ahead with the abundant production of essential crops
- Risks: Energy tariff hikes, weakening of currency, resurgence of international oil price
- The SBP expected to start monetary easing with 500bps rate cut in 2HFY24, taking it to 17% by Jun'24 end (Dec'24E end: 15%).

Exhibit: Impact on CPI (YoY basis)

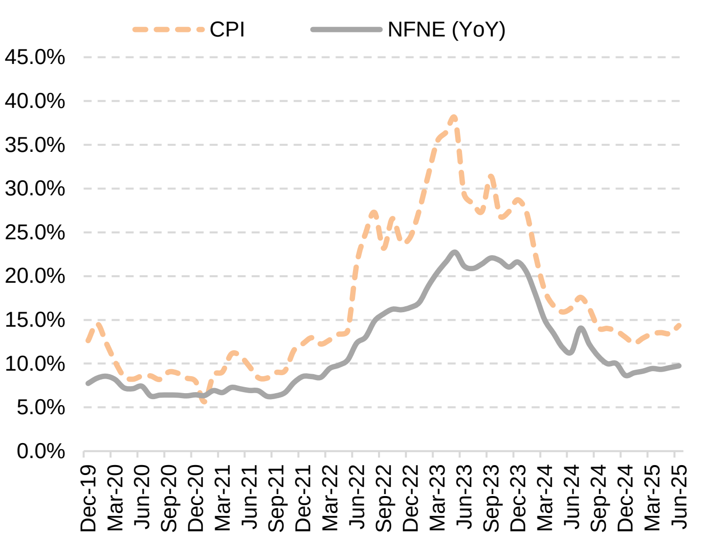
Variable	Impact on CPI (YoY basis)
International oil prices	Every USD 5/barrel change in international oil price, on average, results in 25bps increase in Pakistan's CPI.
PKR exchange rate	1% change on average in exchange rate leads to 19bps change in CPI
Base tariff	Every PKR 1 hike in base tariff results in 20bps change in CPI.

Source (s): AHL Research

Reasons to support a dovish stance

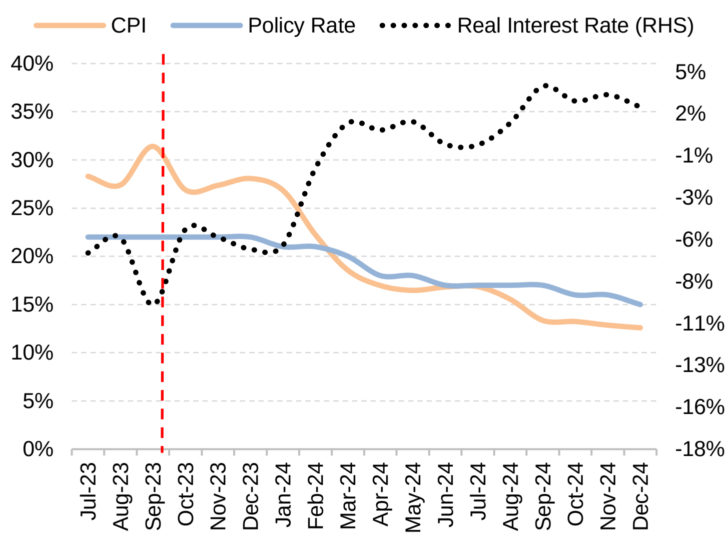
Assessing the recent developments (data and events) in the last few weeks, it was not inconceivable that the central bank would make changes to the policy stance in the upcoming policies. However, for now, it appears that the central bank is likely to keep policy rates untouched, possibly for the rest of the calendar year while keeping itself ready for potential loosening should inflation risks ease off. We believe SBP will begin its rate-cut cycle in 1QCY24. A positive story line can be formed from the headline inflation situation. Inflation is on a downward trend with expectations of reaching 16.2% by Jun'24 and a further drop to an average of 13.6% during 1HFY25. These projections indicate a favorable environment for the MPC to consider a gradual easing of the monetary policy stance. Moreover, the external balance indicators show a more robust recovery than anticipated, with a substantial 61% decrease in the current account deficit during the first four months of FY24. If timely external commitments, including both inflows and rollovers, materialize, the Current Account Deficit is expected to remain consistently below USD 500mn per month. This, coupled with the SBP's FX Reserves, which are anticipated to provide nearly three months' worth of import cover, paints a positive picture for the country's external financial stability. However, economic activity, while showing slight improvement, remains sluggish. This is evident in the modest 0.9% growth of the LSMI in the first quarter of FY24. In this context, a rate cut would likely play a crucial role in stimulating overall economic activity. Last but not least, market sentiment has also improved dramatically - consider the movement of core market and local yields. So, everything is in place for the authorities to shift the gears from tight monetary policy to a loose one in remaining part of FY24 and the pace could even be further fine-tuned towards the dovish side in the following fiscal year (FY25). All these factors should provide ample room for the SBP to start monetary easing with 500bps rate cut in 2HFY24, taking it to 17% by Jun'24 end (Dec'24E end: 15%).

Figure: CPI vs NFNE



Source (s): PBS, AHL Research

Figure: Real Interest Rate – Trend and Forecast



Source (s): SBP, PBS, AHL Research

Key Economic Indicators

Exhibit: Key Economic Indicators

		FY19A	FY20A	FY21A	FY22A	FY23A	FY24F	FY25F
Real								
GDP Growth		3.1%	-0.9%	5.8%	6.1%	-0.2%	3.3%	4.6%
Nominal GDP	$ bn	321.8	300.8	348.9	375.5	338.4	364.3	385.7
CPI and Policy Rate								
CPI (YoY average)		6.8%	10.8%	8.9%	12.1%	29.0%	24.0%	12.8%
Policy Rate (Period end)		12.3%	7.0%	7.0%	13.8%	22.0%	17.0%	12.0%
External Sector								
Exports (Goods)	$ bn	24.3	22.5	25.6	32.5	27.9	29.0	30.7
Imports (Goods)	$ bn	51.9	43.6	54.3	71.5	51.8	50.8	55.9
Trade Deficit (Goods)	$ bn	27.6	21.1	28.6	39.1	24.0	21.8	25.2
Remittances	$ bn	21.7	23.1	29.5	31.3	27.3	28.2	30.5
FX Reserves (Period end)	$ bn	14.5	18.9	24.4	15.5	9.2	15.4	17.3
SBP FX Reserves (Period End)	$ bn	7.3	12.1	17.3	9.8	4.5	9.6	11.5
Bank FX Reserves (Period End)	$ bn	7.2	6.8	7.1	5.6	4.7	5.9	5.9
Exchange Rate (Period end)	USD/PKR	160.1	168.1	157.5	204.8	286.0	315.0	340.2
PKR Appreciation / (Depreciation) (%)		(24.1)	(4.8)	6.7	(23.1)	(28.4)	(9.2)	(7.4)
Debt								
Domestic	PKR bn	20,732	23,283	26,265	31,085	38,809	43,663	48,947
External	$ bn	73.4	78.0	86.5	88.8	84.1	89.2	91.1
Fiscal Sector								
Total Revenue	PKR bn	4,901	6,272	6,903	8,035	9,634	12,019	14,343
Tax Revenue	PKR bn	4,473	4,748	5,273	6,755	7,819	10,002	11,554
Nontax Revenue	PKR bn	427	1,524	1,631	1,280	1,815	2,017	2,789
Total Expenditure	PKR bn	8,346	9,648	10,307	13,295	16,155	20,109	23,149
Current Expenditure	PKR bn	7,104	8,532	9,084	11,521	14,583	19,169	21,006
Budget Deficit	PKR bn	3,445	3,376	3,403	5,260	6,521	8,090	8,806
% of GDP								
Current Account Deficit		4.9%	1.5%	0.8%	4.7%	0.7%	1.1%	1.2%
Trade Deficit		8.6%	7.0%	8.2%	10.4%	7.1%	6.0%	6.5%
Fiscal Deficit		7.9%	7.1%	6.1%	7.9%	7.8%	7.5%	6.8%
External Debt		22.8%	25.9%	24.8%	23.7%	24.8%	24.5%	23.6%
Domestic Debt		47.3%	49.0%	47.0%	46.6%	46.2%	40.3%	38.0%

Source (s): SBP, PBS, MoF, AHL Research

AHL Economic Pulse Poll

AHL conducted survey on anticipations of key stakeholders with respect to some of Pakistan's focal macroeconomic indicators and capital market for the forthcoming year 2024. We would like to express our gratitude to all the respondents who participated in the survey.

- **Poll Survey Theme:** Our poll survey is mainly focused on the anticipations of key stakeholders with respect to Pakistan's macroeconomic and Index targets. We incorporated such questions so as to gauge participants' anticipations regarding forthcoming GDP growth, inflation, interest rate, fiscal deficit, PKR parity against USD, current account deficit, international oil & coal prices, foreign exchange reserves, index target, and foreign flows for the year 2024.
- The participants of our poll were:
  - Financial Institutions: Banks, AMCs, Insurance, and DFIs
  - Non-Financial Services/Manufacturing Companies: E&Ps, Cements, Fertilizers, Steel, Textiles and Pharmaceuticals.
- What does our survey suggest? The result of our survey suggests that majority of the respondents expect economic recovery in FY24. Moreover, inflation is expected to remain elevated in FY24 and declining in FY25 while majority expects interest rate to close Jun'24 below 18% and to remain in between 13-15% at Jun'25. Current Account expectations are between USD4-5bn in FY24 and above USD 5bn during FY25. On currency outlook, market expects parity to settle above PKR 300/USD by FY24 end and above 340/USD by Jun'25 . Lastly, majority respondents expect KSE-100 index to close CY24 above 70K level. Enlisted below are all the responses received from the poll participants:

1) **GDP Growth Expectation for FY24**
   - 48% expect it to remain below 3%,
   - 38% of the respondents expect it to remain in between 3-4%,
   - While remaining 14% expect it to remain above 4%.

2) **GDP Growth Expectation for FY25**
   - 57% expect it to remain above 4%,
   - 40% of the respondents expect it to remain in between 3-4%,
   - While remaining 7% expect it to remain below 3%.

3) **Average Inflation for FY24**
   - 50% of the poll participants expect inflation to above 23%,
   - 38% of the respondents expect it to remain in between 22-23%,
   - While remaining 13% expect it to remain below 22%.

4) **Average Inflation for FY25**
   - 67% of the poll participants expect inflation to remain in between 12-15%,
   - 20% of the respondents expect it to remain below 12%,
   - While remaining 13% expect it to remain above 15%.

5) **Interest Rate Expectation for Jun'24**
   - Jun'24: 59% of the respondents expect the interest rate to remain below 18%, 41% of participants expect the interest rate to remain in between 18-20%.

6) Interest Rate Expectation for Jun'25

- Jun'25: 53% of the respondents expect the interest rate to remain in between 13-15%, 35% of participants expect the interest rate to remain below 13%, while the remaining 12% expect to remain above 15%.

7) Current Account Deficit Expectation for FY24

- Jun'24: 47% expect it to it to be in the range of USD 4-5bn, 35% expect it to remain below USD 4bn, while the remaining 18% of the respondents expect CAD to remain above USD 5bn.

8) Current Account Deficit Expectation for FY25

- 46% expect CAD to remain above USD 5 bn,
- 38% expect CAD to remain in the range of 4-5 USD bn.
- While the remaining 15% of participants expect it to remain less than USD 4bn.

9) Fiscal Deficit (% of GDP) for FY24

- 42% of the responses expect fiscal deficit (as a % of GDP) to fall within the range of 7-8%,
- 33% expect it to be more than 8%,
- While the remaining 25% expect it to be less than 7%.

10) Fiscal Deficit (% of GDP) for FY25

- 43% of the responses expect fiscal deficit (as a % of GDP) to be less than 7%,
- 36% expect it to be fall within the range of 7-8%,
- While the remaining 21% expect it to be less than more than 8%.

11) USD/PKR Parity Expectation for Jun'24, Dec'24 and Jun'25

- Jun'24: 57% expect parity to settle above PKR 300/USD, 36% of the respondents expect parity to hover in the range of PKR 290-300/USD, while the remaining 7% expect parity to remain below PKR 290/USD.
- Dec'24: 53% anticipate parity to close above PKR 330/USD, 33% expect it to remain in between PKR 300-330/USD, while the remaining 13% expect parity to remain below PKR 300/USD.
- Jun'25: 57% anticipate parity to close above PKR 340/USD, 43% expect it to remain in between PKR 310-340/USD.

12) SBP Reserves for Jun'24 and Jun'25

- Jun'24: 64% expect SBP reserves to settle between USD 8-10bn, 21% of the respondents expect reserves to remain below USD 8bn, while the remaining 14% expect reserves to remain above USD 10bn.
- Jun'25: 47% expect SBP reserves to settle above USD 10bn, 41% of the respondents expect reserves to hover between USD 8-10bn, while the remaining 12% expect reserves to remain below USD 8bn.

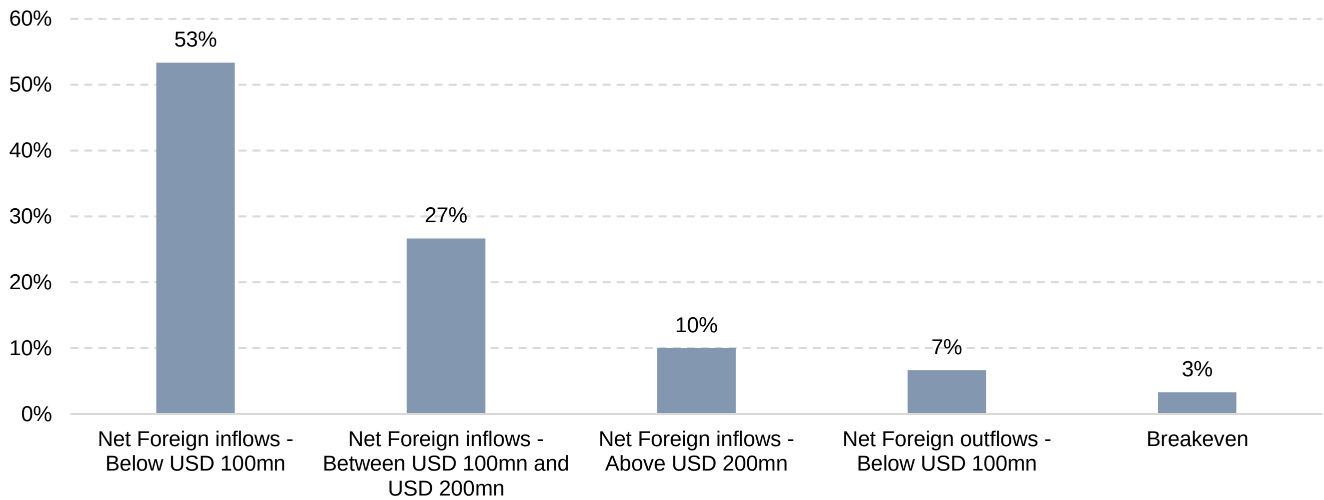
13) International Oil Price Expectation for CY24

- 79% of the respondents expect oil prices to trade in the range of USD 70-90/bbl,
- 14% expect it to remain below USD 70/bbl,
- While 7% expect it to trade above USD 90/bbl.

14) KSE-100 Dec'24 Target

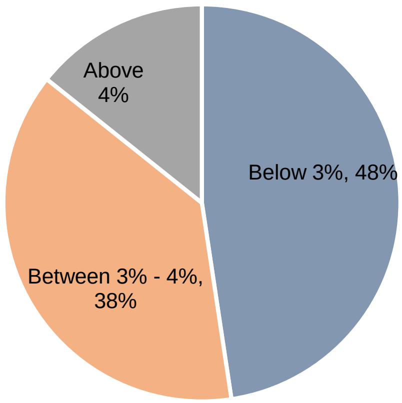
- 61% of the participants expect the KSE-100 index to close above 70,000 pts,
- 36% expect it to close between 65,000-70,000 pts,
- While the remaining 4% expects it to close below 57,000 level.

Exhibit: Foreign investor's portfolio investment for the calendar year 2024



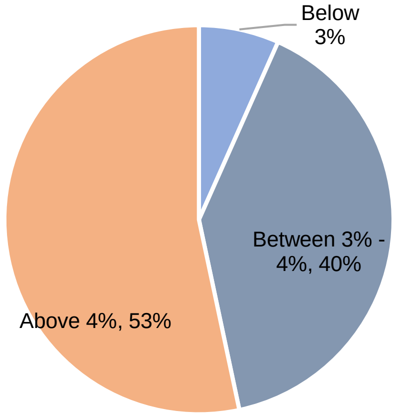
Source (s): AHL Research

Exhibit: GDP growth for the fiscal year 2024



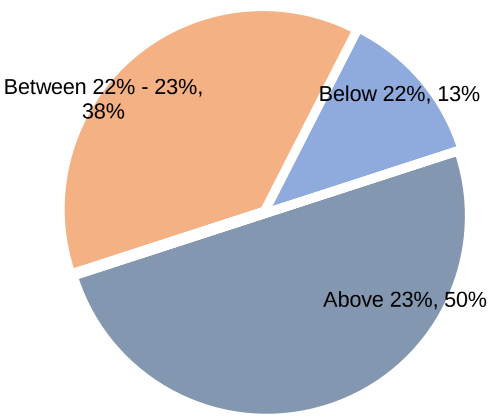
Source (s): AHL Research

Exhibit: GDP growth for the fiscal year 2025



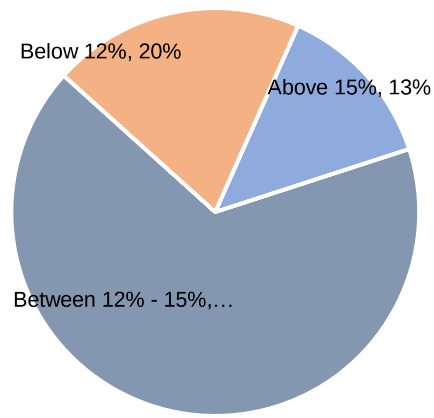
Source (s): AHL Research

Exhibit: Average inflation fiscal year 2024



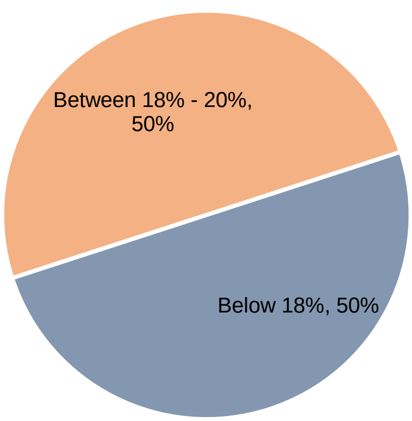
Source (s): AHL Research

Exhibit: Average inflation fiscal year 2025



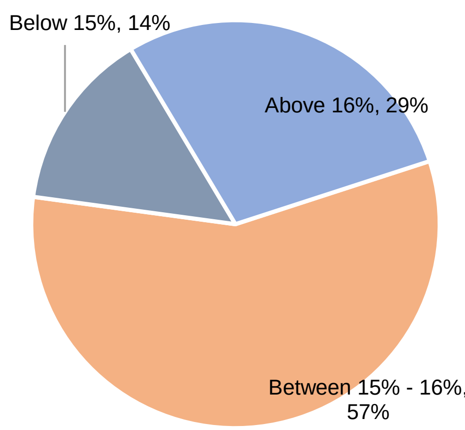
Source (s): AHL Research

Exhibit: Interest rates Jun'2024



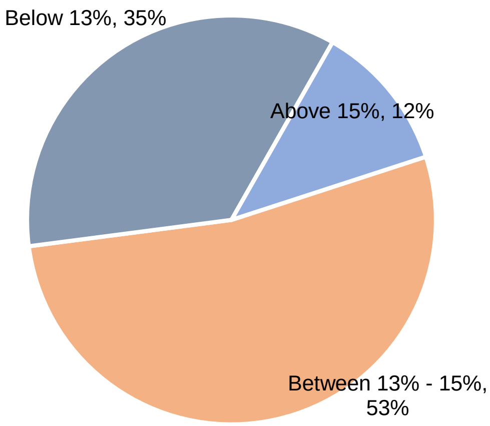
Source (s): AHL Research

Exhibit: Interest rates Dec'2024



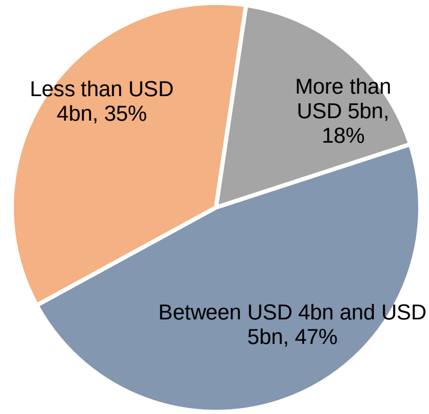
Source (s): AHL Research

Exhibit: Interest rates Jun'2025



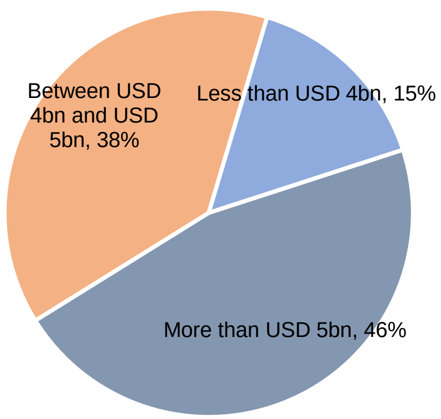
Source (s): AHL Research

Exhibit: Current account deficit fiscal year 2024



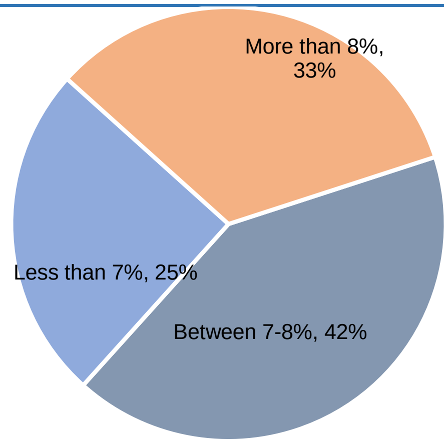
Source (s): AHL Research

Exhibit: Current account deficit fiscal year 2025



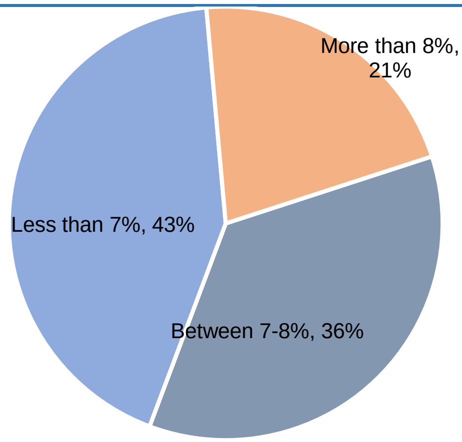
Source (s): AHL Research

Exhibit: Fiscal deficit (% of GDP) during fiscal year 2024



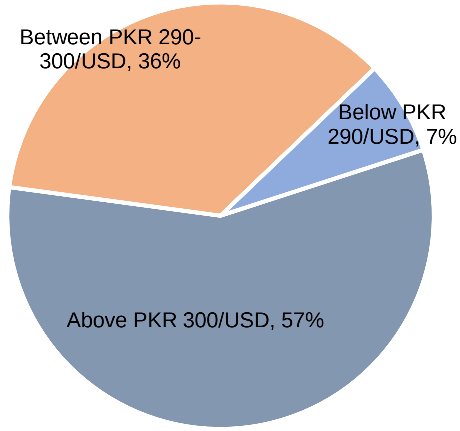
Source (s): AHL Research

Exhibit: Fiscal deficit (% of GDP) during fiscal year 2025



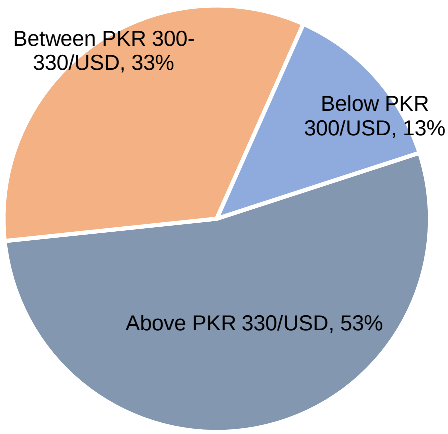
Source (s): AHL Research

Exhibit: PKR vs USD for Jun'2024



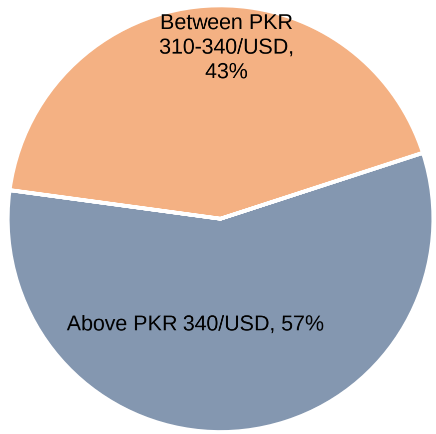
Source (s): AHL Research

Exhibit: PKR vs USD for Dec'2024



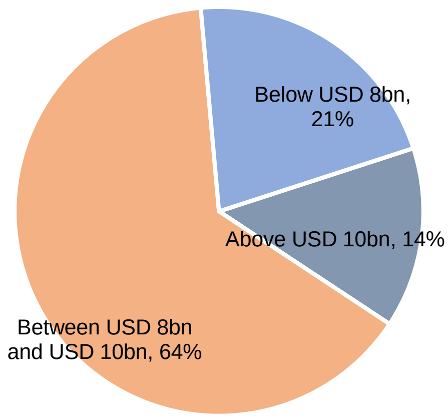
Source (s): AHL Research

Exhibit: PKR vs USD for Jun'2025



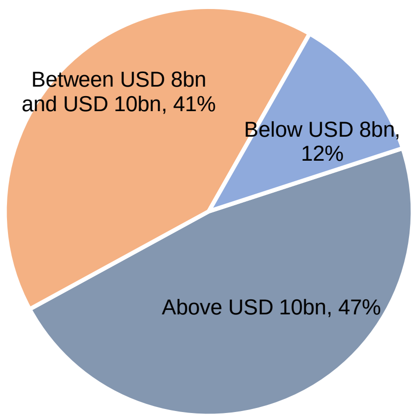
Source (s): AHL Research

Exhibit: SBP Reserves Jun'2024



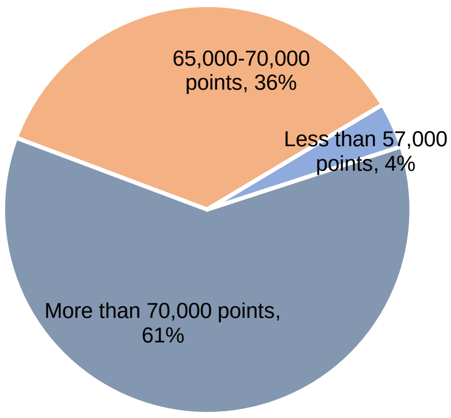
Source (s): AHL Research

Exhibit: SBP Reserves Jun'2025



Source (s): AHL Research

Exhibit: KSE-100 index level by Dec'2024



RISING
PAKISTAN

SIFC

SPECIAL INVESTMENT
FACILITATION COUNCIL

Special Investment Facilitation Council

Economic revival under consideration

The government initiated Special Investment Facilitation Council (formed in Jun'23), a facility to act as a single window to attract foreign and domestic investments in key sectors of Pakistan. The immediate aim of SIFC is to bring in foreign investments in Pakistan in key sectors, unlocking untapped potential. These sectors consist of defence production, agriculture, mining, information technology and energy. One of the mandate of SIFC is to focus on investment and privatization in the above mentioned sectors. Another mandate of SIFC is to develop business-friendly policies for foreign clients, especially GCC countries. In this regard, SIFC will fast-track investments and project implementation. Moreover, SIFC will built a roadmap for growth and provide awareness of Pakistan's hidden potential in relevant fields/sectors. Using this facility, the government to revive the economy and shore up foreign exchange reserves of the country.

Mining: Keeping in view Pakistan has vast untapped mineral resources, the SIFC is offering projects to investors which include exploration and mining of copper/gold in Chagai, Balochistan, integrated soda ash manufacturing, Thar Coldfield, Mineral Development Framework at Chagai, Prospect of metallic minerals in Gilgit-Baltistan, exploration and mining of lead/zinc in district Khuzdar. Balochistan, Coal Gasification and Liquefaction at Thar Coalfield, assembly plant for mining machinery, and exploration of metallic minerals in KPK. The government will be providing variety of fiscal incentives to the investors including concessional custom duty and sales tax on import of machinery.

Energy Sector: In this sector, the SIFC offers investment opportunities in projects such Solar PV, 1320 MW Thar Coal Based Power, 4500 MW Diamer Basha Dam, 132 MW Rajdhani Hydropower, 2,000 MVAR Reactive Compensation, 1000 MWH Battery Energy Storage System, Strategic Gas Pipeline, Green Refinery Project, and Transmission Line projects. Under SIFC, the Pakistan Refinery Limited (PRL) has successfully signed a MoU with United Energy Group of China (UEG) for an investment of USD 1.5bn for refinery upgradation. Another MoU was signed between Norwegian company "NorHydro" and Gilgit-Baltistan Govt. to develop a 4.5MW solar power project, with an investment of USD 7mn for Phase I.

Agriculture: The SIFC seeks to attract investment to transition from traditional farming to innovative, hi-tech, high-yield, and low-cost community based corporate farming, revolutionizing the agriculture sector. Under this project, the government is working on Green Pakistan initiative, purpose of which is to improve the food security, accelerate exports and cut down the agriculture-related imports. SIFC is currently offering corporate farming in Cholistan (50,000 Acres), while providing opportunity to establish corporate dairy farm (20,000 animals), corporate feedlot farm (30,000 animals), and corporate camel farm (10,000 animals). Moreover, the Govt. launched Land Information and Management System (LIMS), which will assist in land management at country and farm levels. Moreover, the LIMS has marked waste land for planned use. In addition to this, LIMS will provide vital information such as soil quality, water need, and weather forecast to each farmer.

Exhibit: Projects offered under SIFC

Energy Sector:
1320 MW Thar Coal Based Power
1000 MWH Battery Energy Storage System
132 MW Rajdhani Hydropower
2000 MVAR Reactive Compensation
4500 MW Diamer Basha Dam
Solar PV
Transmission Lines
Greenfield Refinery
Strategic Gas Pipeline
Mines and Minerals:
Copper Gold Expl. & Min. in Chagai Balochistan
Lead-Zine Expl. & Min. in Khuzdar Balochistan
Mineral Development Framework - Chagai
Integrated soda ash manufacturing plant
Thar Coalfield
Prospect of Metallic Minerals in Gilgit-Baltistan
Metallic Minerals Expl. in KPK
Coal Gasification & Liquefaction at Thar Coalfield
Assembling Plant for mining machinery
Information Technology:
Setup of Technology Zones
Investment in Telecom Infrastructure Deployment
Cloud Infrastructure Establishment
Investment in Manufacturing of Smart Devices
Global Skills Hub/Integrated Delivery Center
Agriculture:
Corporate Farming in Cholistan
Corporate Dairy Farm Establishment
Corporate Feedlot Farm Establishment
Corporate Camel Farm Establishment

Source (s): SIFC Website, AHL Research

Technology: In this sector, SIFC offers opportunities in setting up of Technology Zones, investment in telecom infrastructure deployment, establishment of cloud infrastructure, investment in manufacturing of smart devices, global skills hub/integrated delivery centre. To support investor friendly environment, tax is exempted on profit and gains derived by venture capital companies and funds. Moreover, foreigners are offered 100% ownership and profit repatriation. Under SIFC, MoU was signed between Pakistan and Saudi Arabia to work together in the field of technology. With this, Pakistani companies will get an opportunity to work in the Saudi Arabia, provide trained IT manpower to Saudi companies, promote joint ventures with Saudi firms, and establish a startup exchange programme with top Saudi tech incubators

Pakistan Capital Market

Redefining the allure of valuation

KSE100: Redefining the allure of valuation

Our Dec'24 target for the KSE-100 Index is set at 81,259 points, portraying an upside of 32% from the index closing of 01-Dec-2023. The major themes which would come into play during 2024 includes compelling valuations, substantial domestic liquidity and improving macros and monetary easing.

"We anticipate robust growth across all the sectors, projecting double-digit earnings growth for the majority. Our outlook for KSE100 indicates an expected 17.2% earnings growth in 2024. The heavyweight banking sector is poised for a 18.8% jump, driven by higher average interest rates, increased non-market income (capital gains and fee income), and prudent provisioning. In the Cement (+43.8%) and Steel (+13.5%) sectors, we foresee substantial gains fueled by rising demand, stable product prices, and the initiation of a monetary easing cycle. The fertilizer sector is geared for a +15.6% earnings growth, benefiting from improved margins and pricing power, coupled with increased phosphate offtake. Within the energy chain, E&Ps (excluding OGDC Uch one-off; +19%), OMCs (71.5%), and the Power sector (+18.5%) are set to benefit from gas and electricity tariff hikes, promising enhanced cash flows. The textile sector is expected to be driven by anticipated higher utilization and increased export orders, while the refinery sector stands to gain from the implementation of the brownfield refinery policy, alongside better GRMs."

Exhibit: KSE100 Index Target Estimates 2024

Valuation Basis	Weight	Target
Target Price	33%	85,990
Earnings Growth	33%	79,088
Justified PE	33%	78,699
Target 2024	**100%**	**81,259**
Index Closing 01-Dec-23		61,691
Expected Return 2024		**31.7%**

Source (s): AHL Research

Exhibit: Corporate Sector KSE100 Earnings Growth: Trend & Forecast

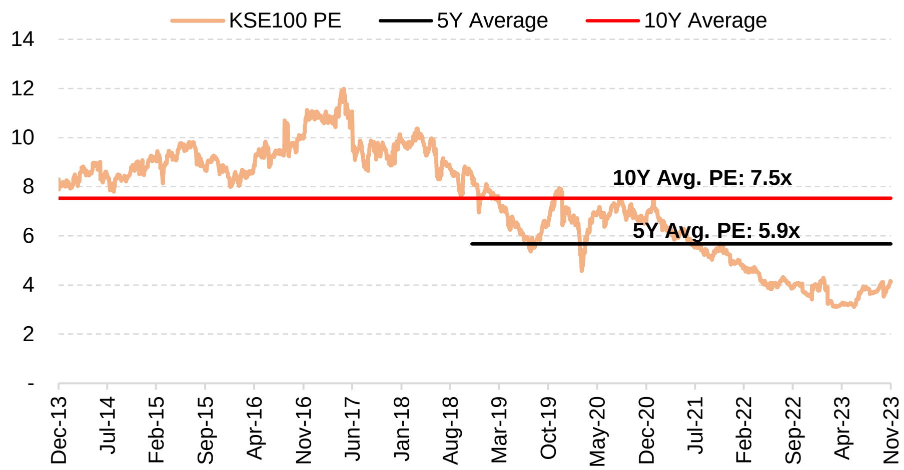
(%)	2018A	2019A	2020A	2021A	2022A	5-Y Avg.	2023E	2024F
E&P	27.8	46.3	(10.5)	(4.6)	30.5	17.9	70.1	(2.2)
Banks	5.6	21.2	33.4	13.5	16.4	18.0	81.0	18.8
Fertilizer	33.6	(3.2)	40.3	20.5	(19.8)	14.3	45.2	15.6
Cement	(3.4)	(29.9)	nm	nm	19.9	(4.5)	28.0	43.8
OMCs	(11.8)	(35.3)	(121.3)	nm	132.4	(9.0)	(66.9)	71.5
Autos	22.3	(17.8)	(58.3)	157.3	14.1	23.5	(38.6)	47.1
Power	(3.1)	36.1	78.8	15.3	(8.5)	23.7	93.8	18.5
Textiles	12.2	40.0	(61.3)	205.4	87.0	56.7	6.8	15.3
Chemicals	61.7	(2.2)	(2.1)	101.9	14.4	34.8	10.8	(25.8)
Steel	(10.7)	(14.0)	nm	nm	(19.0)	(14.5)	(23.9)	13.5
KSE100	**6.8**	**9.0**	**(0.7)**	**44.5**	**16.4**	**15.2**	**34.0**	**17.2**

Source (s): Company Financials, AHL Research

A bargain bonanza across valuation metrics

The KSE100 index is currently presenting an intriguing investment opportunity with PE multiple of 4.1x, notably lower than its 5-year and 10-year average of 6x and 8x respectively. Furthermore, the PB multiple for the KSE100 index is at an all-time low of 0.7x, suggesting that stocks are priced well below their book values. Additionally, the current dividend yield stands at an impressive 11%, significantly higher than the five-year average of 6%. In light of these metrics, the KSE100 index appears to offer a compelling investment opportunity, supported by a combination of low valuation multiples and an attractive dividend yield.

Figure: Historical PE



Source (s): Bloomberg, AHL Research

Historic low bond equity earnings yield ratio (BEER) and…

Currently, Pakistan BEER is at 0.63, which is one of the lowest in the last 10 years with KSE100 index EY of 23.8% and secondary market yields (10-yr PIBs) at 15.0%. Comparing it with the BEER averages of last 5 years, 10 years, and 15 years of 0.70, 0.81, and 0.83 respectively, assuming BEER reverts to its mean average, the expected re-rating of the market would be with the potential upside of 12%, 28%, and 32%, respectively from current levels.

Exhibit: Bond-Equity Earnings Yields Ratio

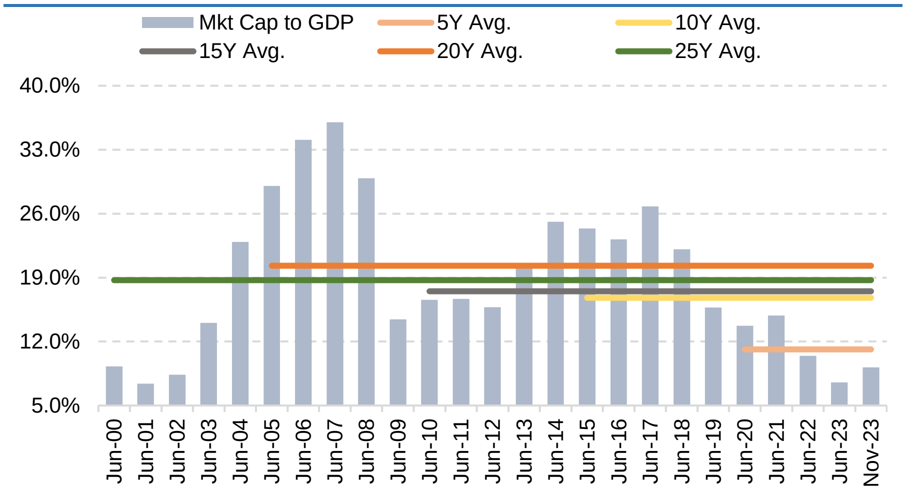
Year	10Y PIB	Earning Yield	BEER
CY09	12.8%	14.4%	0.88
CY10	13.1%	12.4%	1.06
CY11	13.5%	13.2%	1.03
CY12	12.5%	17.0%	0.73
CY13	12.0%	17.1%	0.70
CY14	12.7%	11.4%	1.11
CY15	9.5%	10.8%	0.88
CY16	8.2%	10.6%	0.77
CY17	8.2%	9.5%	0.87
CY18	9.9%	10.7%	0.92
CY19	12.7%	14.8%	0.86
CY20	9.6%	11.9%	0.81
CY21	10.4%	13.7%	0.76
CY22	12.5%	23.2%	0.54
CY23	15.3%	27.6%	0.55
Current	**15.0%**	**23.8%**	**0.63**
5Y Average			**0.70**
10Y Average			**0.81**
15 Average			**0.83**

Source (s): Bloomberg, AHL Research

…market cap to GDP

Pakistan's equity market has the greatest room for expansion of its market capitalization to GDP ratio, which currently stands at 16%, exceptionally lower by 9ppts than the historical average market capitalization to GDP. This suggests that potential reversion to the mean ratio would result in incremental market cap, with for every 1% change in market cap to GDP ratio, the market cap is expected to increase by PKR 946bn or 10.4% upside potential from current levels. Moreover, assuming the market cap to GDP reverted to its mean (5-year; 11.2%) will result in an incremental market cap of PKR 1,818bn implying an upside potential of 20.9% from current levels.

Figure: Historical Trend of Market Cap to GDP



Source (s): MoF, PSX, AHL Research

Buy Back Bonanza

In the current high-interest-rate environment, companies are strategically opting for share buybacks over expensive growth initiatives due to the advantageous low Price-to-Book (PB) ratio. Companies buying back their own shares at a lower price will enhance shareholder value and signal confidence in their stock, leveraging the price inefficiency to their advantage. In a climate where borrowing costs are elevated alongside the country's low forex reserves restricting machinery imports, opting for share buybacks allows companies to allocate capital efficiently, prioritizing the reduction of outstanding shares over potentially costly expansion projects.

Since 2022, twelve (12) companies announced buyback with a cumulative value of ~PKR 59bn. Moreover, from 2022 (since the buy-back spree), the companies purchased shares worth PKR 45.5bn with LUCK being the largest buy-back of PKR 15.6bn followed by ENGRO with a cumulative value of PKR 11.6bn (dividend adjusted: PKR 10.0bn). On the last closing basis, the remaining buy-backs are expected to be PKR 4.1bn which is expected to provide liquidity in the market. Moreover, we also do foresee more buy-backs coming, as, despite 48.8% rally since FY24TD, the valuation is still very attractive and can easily outperform the new projects IRR in the mid to long term.

Exhibit: Buy Back during 2023

Completed Transactions	Shares (mn)	Amount (PKR mn)
JDWS	0.80	351
LUCK[1]	6.43	2,678
ENGRO[2]	39.54	9,998
KOHC	5.00	870
HBL[3]	47.11	3,527
KTML	30.00	1,772
SPEL	9.99	115
HBL[4]	34.96	3,484
LUCK[5]	20.38	12,889
Sub Total		**35,685**
Ongoing Transactions		
TPLP	8.72	113
MLCF[5]	15.03	584
THCCL	3.50	59
Sub Total		**755**
Total		**36,440**

Source (s): PSX, AHL Research

1) 1st Buy back, 2) Price and value is dividend adjusted, 3 & 4) Buying by sponsor (AKFED)

5) 2nd Buy Back

Diving into the deep pockets of big liquidity

Analyzing the ownership landscape of KSE All free float reveals a notable transformation in ownership structure. A significant portion of the free float (76.8%) has undergone a substantial shift in ownership, now predominantly held by High Net worth Individuals (HNWIs), companies, brokers, and other entities, in contrast to the 44.2% recorded in 2017. Noteworthy adjustments are also evident in the ownership patterns of foreign investors, decreasing from 28.0% in 2017 to 4.3% in 2023. Similarly, mutual funds holdings have contracted to 7.1% in 2023 compared to their previous position of 12.0% in 2017. The holdings of insurance companies, excluding State Life Insurance Corporation (SLIC), have seen a decline to 1.3% in 2023 compared to 4.0% in 2017. In contrast, SLIC's holdings have witnessed an increase of 0.4%, reaching 4.6% in 2023. Lastly, the commercial banks' holdings also decreased to 5.8% as compared to 7.7% back in 2017.

We have outlined a liquidity sensitivity analysis with respect to the potential infusion of liquidity into the market. We believe that mutual funds and insurance companies possess substantial liquidity potential. In 2017, the equity percentage of mutual funds and insurance companies, as a proportion of total Assets under Management (AUMs), was 51.5% and 38.4% respectively. However, these figures have now dwindled to a modest 8.8% and 9.2%. Our estimation suggests that with every 1% reallocation from fixed income to equities, mutual funds and insurance companies could potentially deploy PKR 18.7bn and PKR 16.1bn, respectively, into the market. Please refer to the accompanying table below for a comprehensive overview of the sensitivity analysis.

Exhibit: KSEALL Ownership

	% of total AUMs/ Investments		KSEAll Ownership*	
	2017	2023	2017	2023
Mutual Funds	51.5%	8.8%	12.0%	7.1%
Banks	2.1%	0.7%	7.7%	5.8%
SLIC**	13.7%	8.5%	4.2%	4.6%
Insurance (ex. SLIC)	38.4%	9.2%	4.0%	1.3%
Foreign	na	na	28.0%	4.3%
Other***	na	na	44.2%	76.8%
Total			**100.0%**	**100.0%**

Source (s): MUFAP, FMR, Company Financials, AHL Research

* % of KSEALL Free Float Market Cap,

**Financial statements as of Dec'17 and Sep'23

***Others include; Individuals, Companies, NBFCs, Other Organizations, and Brokers.

Exhibit: Current Investment in PSX

(PKR mn)	AUMs | Investments	Current Equity AUMs	Equity AUMs %	% of PSX FF Mkt Cap
Mutual Funds	1,875	165	8.8%	7.1%
Banks	19,867	136	0.7%	5.8%
State Life Insurance Corporation (SLIC)	1,270	108	8.5%	4.6%
Insurance (Ex. SLIC)	340	31	9.2%	1.3%
Foreign	na	101	na	4.3%
Others*	na	1,792		
Total	**23,352**	**2,332****		

Exhibit: Sensitivity of additional funds allocation in equities

		Additional		
(PKR mn)	***Current***	***1.0%***	***3.0%***	***5.0%***
Mutual Funds	164.8	18.7	56.2	93.7
Equity AUMs %	*8.8%*	*9.8%*	*11.8%*	*13.8%*
State Life Insurance Corporation (SLIC)	107.5	12.7	38.1	63.5
Equity AUMs %	*8.5%*	*9.5%*	*11.5%*	*13.5%*
Insurance (Ex. SLIC)	31.4	3.4	10.2	17.0
Equity AUMs %	*9.2%*	*10.2%*	*12.2%*	*14.2%*
Total	**303.7**	**34.8**	**104.5**	**174.2**
% of FF Mkt Cap	***13.0%***	***1.5%***	***4.5%***	***7.5%***

Source (s): MUFAP, FMR, Company Financials, AHL Research

*Others include; Individuals, Companies, NBFCs, Other Organizations, and Brokers.

**KSEALL Free Float Market Cap

Pakistan again on foreign investor radar?

During FY24TD, foreign investors have transitioned to net buyers in the KSE100 after an extensive selling spree that amounted to USD 2.6bn since CY15. Foreign equity holdings in Pakistan through Special Convertible Rupee Accounts (SCRA) have decreased from USD 8.8bn in CY16 to USD 1.3bn in CY23. This reduction can be attributed due to currency deprecation, a decline in prices, and foreign selling.

Historically, we have seen significant inflows from foreign investors with the market performance and stability in currency and overall macros. After the financial crisis of 2008 and economic adjustments afterwards, we have witnessed a huge foreign inflow of USD 1.3bn during CY09-CY14.

With the current market performance alongside being in an IMF program with extremely attractive valuations and outperformance with the world's major markets, foreign investors are expected to reevaluate the Pakistan market as a potential investment destination. We project a foreign capital inflow of USD 200-300mn in 2024, with potential for the actual amount to exceed this range.

Important to mention that KSE100 is the third most liquid market (ADTV: USD 43mn) in the MSCI FM space and the cheapest in terms of PE, PB and DY.

The table on the right summarizes the major companies where foreigner holds significant holding via portfolio investments.

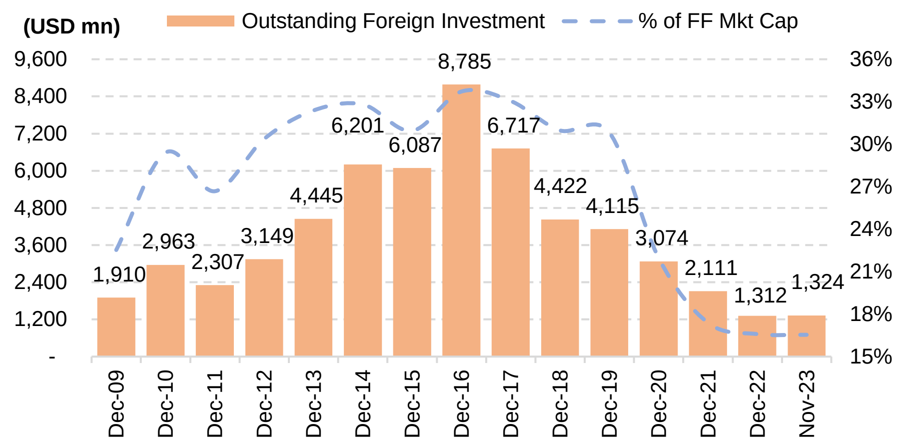
Exhibit: Foreigners Portfolio Investment*

Company	Shares (mn)	PKR mn	USD mn
COLG	12.87	21,318	74.80
SYS	15.73	7,367	25.85
UBL	47.67	8,747	30.69
LUCK	11.27	9,147	32.10
OGDC	61.34	7,057	24.76
PPL	72.72	7,254	25.46
ENGRO	16.14	4,956	17.39
HUBC	57.75	7,067	24.80
HBL	47.88	5,386	18.90
MCB	2.62	444	1.56
MEBL	22.28	3,466	12.16
POL	7.62	3,314	11.63
FFC	32.17	3,658	12.83
PIOC	24.86	2,832	9.94
EFERT	30.69	3,142	11.03
MTL	5.89	3,962	13.90
TRG	21.20	1,793	6.29
NBP	54.03	1,750	6.14
PSO	15.23	2,799	9.82
Others		5,337	18.73
Total Portfolio Investment		**110,797**	**388.78**

Source (s): Company Financials, AHL Research

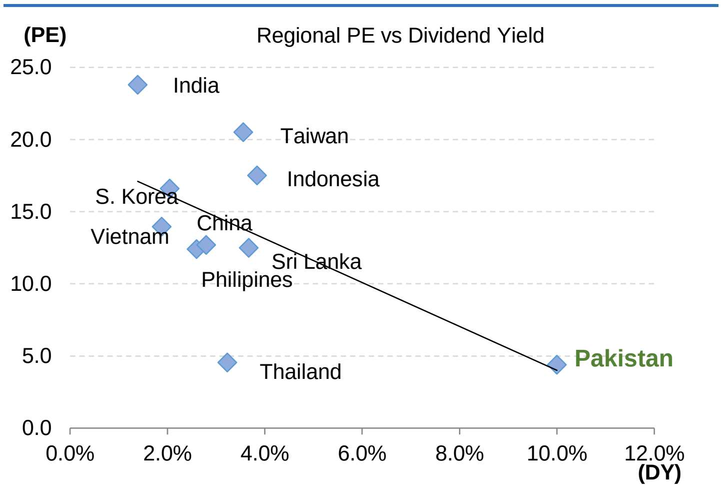
* @market price

Figure: Foreign investment as % of free float market cap



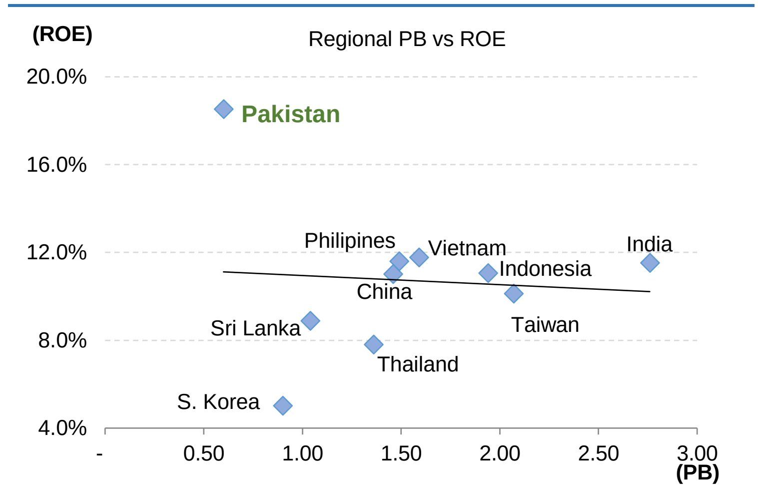
Source (s): SBP, PSX, AHL Research

Figure: Regional PE and Dividend Yield



Source (s): Bloomberg, AHL Research

Figure: Regional PB and ROE



Source (s): Bloomberg, AHL Research

Capital Raising & Buybacks

Equity IPO during CY23: With the highest ever interest rates alongside economic slowdown, only one equity IPO transaction was witnessed in CY23 with the value of PKR 435mn as compared to three IPOs in 2022 with the capital raising of PKR 1.3bn.

Exhibit: Equity capital raising during CY23 (IPO)

Company	Amount Raised (PKR mn)
Symmetry Group Limited	435
Total	**435**

Source (s): PSX, AHL Research

Capital raising through the right issue: A total of six companies issued right shares in the outgoing year, raising PKR 6.8bn as compare to PKR 8.8bn in CY22. The trend of capital raising through right remained weak in CY23 amid overall economic challenges and a slowdown in economic activity.

Exhibit: Equity capital raising during CY23 (Right Issue)

Company	Amount Raised (PKR mn)
The Searle Company Ltd.	3,036
JS Bank Ltd.	2,206
Al Shaheer Corporation Ltd.	750
Pakistan Oxygen Ltd.	489
G3 Technologies Limited	220
Modaraba Al-Mali	114
Total	**6,814**

Source (s): PSX, AHL Research

Outlook for IPOs in 2024: In the year, as anticipated monetary easing and improved valuation multiples come into play, we foresee a surge in IPO activity in 2024. We expect the launch of ~5-6 new IPOs in sectors such as Cable and Electrical Goods, Textiles, Consumer, Pharma, Technology, and Logistics, with an estimated capital raising of approximately PKR 8-12bn.

Market Review

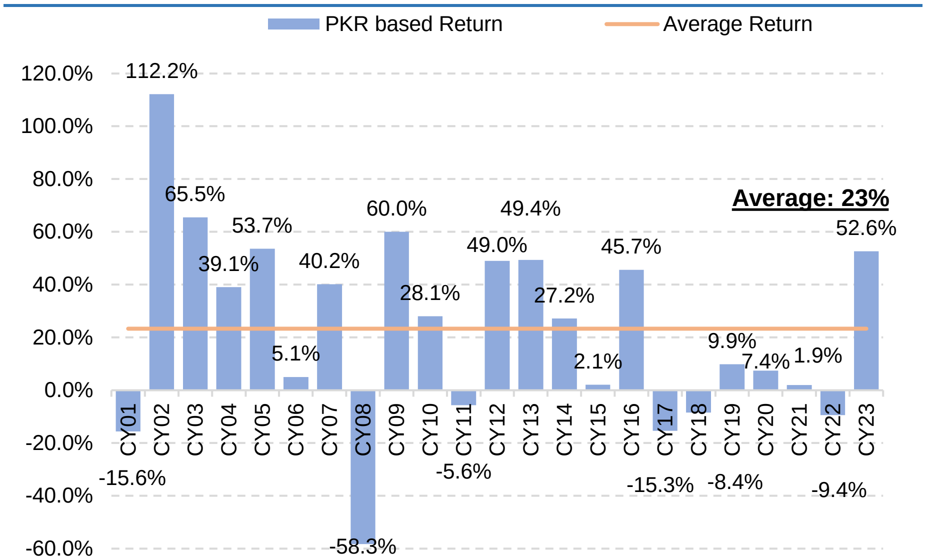
A journey from 40,420pts to 61,691 pts

The KSE100 reached unprecedented heights, hitting 61,691 points during CY23TD, marking a gain of 21,271 (52.6%) pts since Dec'22. The year CY23 can be delineated into two distinct halves, each telling a unique story.

The first half commenced on an optimistic note with renewed discussions with the IMF and the anticipation of resolving the gas circular debt, maintaining positive momentum. Nevertheless, political turbulence and the formidable economic landscape, encompassing escalating interest rates, placed strain on the market. Furthermore, setbacks in finalizing the IMF agreement eroded investor confidence. The combination of inflation and persistent depreciation of the Pakistani Rupee constrained market performance. Additionally, the postponement of elections and heightened political polarization contributed to a prevailing negative sentiment.

Following the Standby Arrangement with the IMF in Jun'23, investor confidence rebounded, leading to a resurgence of flows into the market. Simultaneously, financial commitments and disbursement from the friendly countries bolstered investor interest. The establishment of the SIFC to attract foreign direct investment (FDI) played a significant role in maintaining strong momentum. Additionally, government measures aimed at curbing illegal foreign currency and preventing further depreciation of PKR contributed to enhanced investor confidence. The market's confidence has been fully restored, driven by robust profitability, dividends, and the anticipation of inflation and interest rates peaking out.

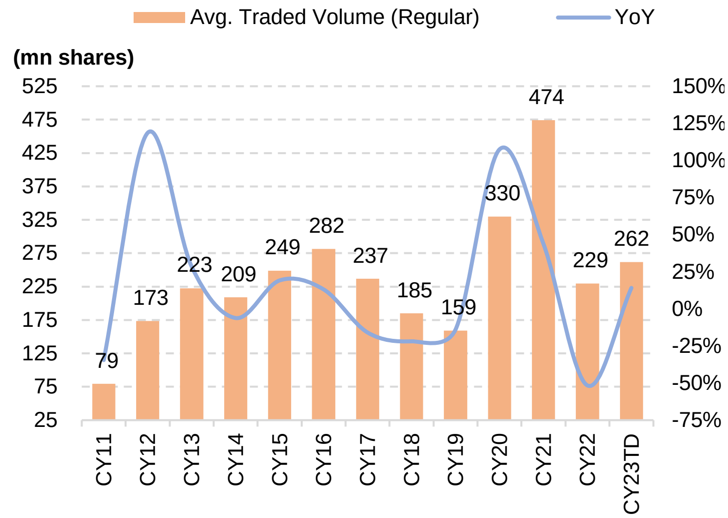
Figure: KSE-100 historical returns (PKR based)



Source (s): PSX, AHL Research

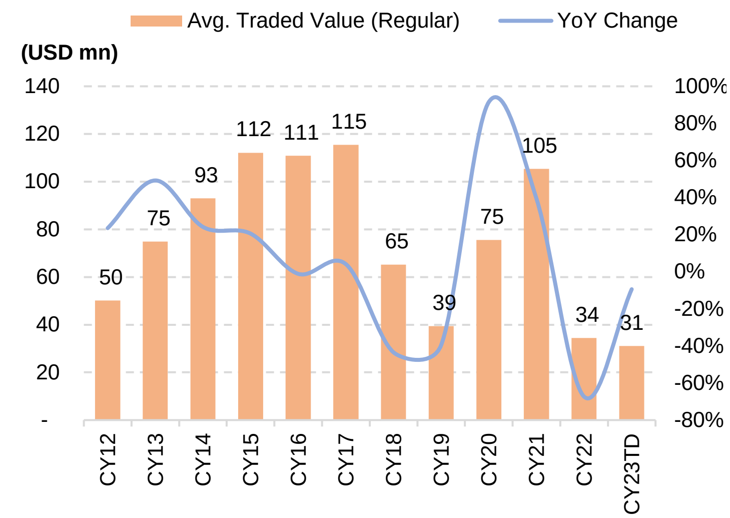
Market momentum witnessed revival: Average traded volume for the year settled at 262mn shares, up by 14% YoY, while average value trade declined by 9% YoY to USD 31mn.

Historical Average Traded Volume



Source (s): PSX, AHL Research

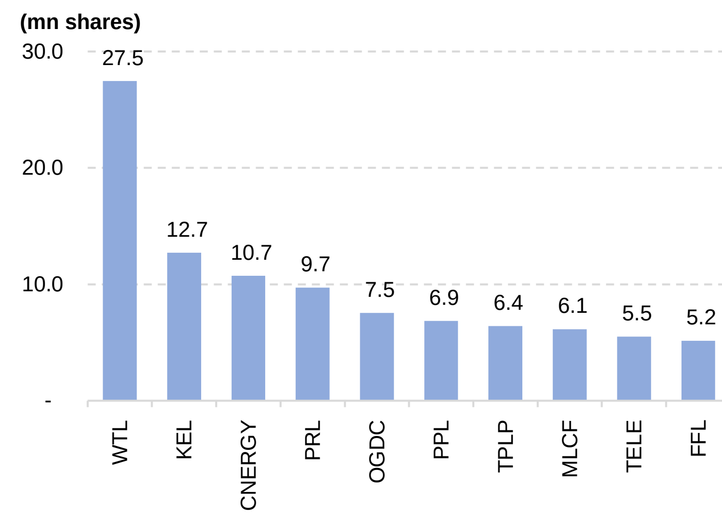
Figure: Monthly Average Traded Value



Source (s): PSX, AHL Research

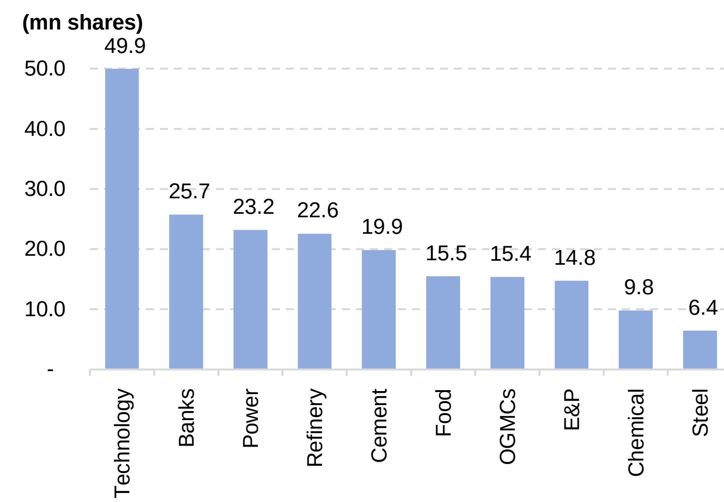
Volume leaders during CY23TD: Sectors that attracted the most activity during the period were Technology, Banks, Power, Refinery and Cement registering average volumes of 50mn, 26mn, 23mn, 23mn and 20mn, respectively. Whereas on a scrip-wise basis, volumes were led by WTL (28mn), KEL (13mn) and CNERGY (11mn).

Figure: Top Scrip-wise Volume Leaders (CY23TD)



Source (s): PSX, AHL Research

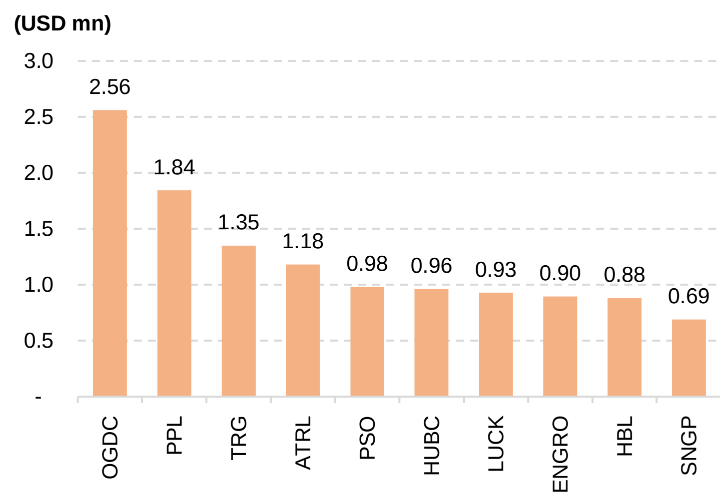
Figure: Top Sector-wise Volume Leaders (CY23TD)



Source (s): PSX, AHL Research

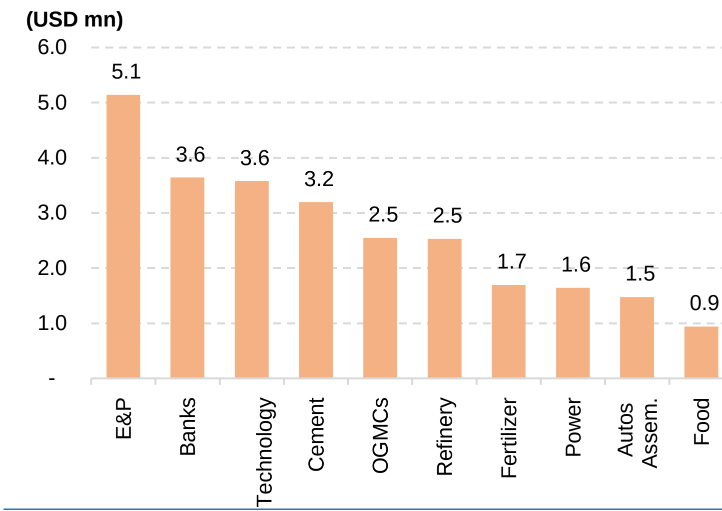
Value leaders during CY23TD: In terms of value, sectors that attracted the most activity during the period were E&P, Banks, Technology, Cement and OGMCs registering average volumes of USD 5mn, USD 4mn, USD 4mn, USD 3mn and USD 3mn, respectively. Whereas on a scrip-wise basis, values were led by OGDC (USD 3mn), PPL (USD 2mn), TRG (USD 1mn), and ATRL (USD 1mn).

Figure: Top Scrip-wise Value Leaders (CY23TD)



Source (s): PSX, AHL Research

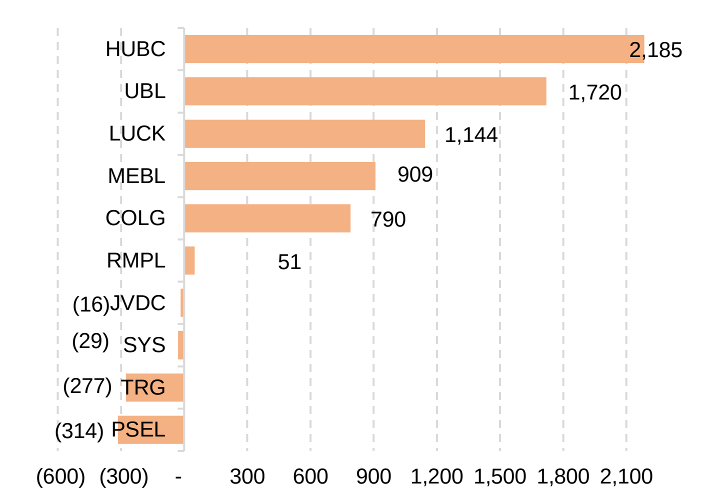
Figure: Top Sector-wise Value Leaders (CY23TD)



Source (s): PSX, AHL Research

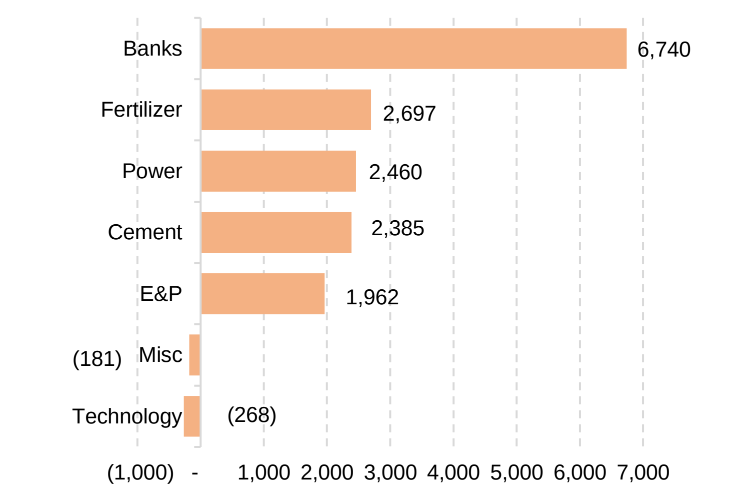
Index contribution (gainers vs. losers): Top positive index contributing sectors remained Banks (6,740pts), Fertilizer (2,697pts), Power (2,460pts), Cement (2,385pts) and E&P (1,962pts). Whereas sectors which contributed negatively to the index included Technology (268pts) followed by Miscellaneous Sector (181pts). Meanwhile, scrip wise top contributions to the upside were HUBC (2,185pts), UBL (1,720pts), LUCK (1,144pts), and MEBL (909pts). Scrip wise negative contributors were i) PSEL (314pts), ii) TRG (277pts), and iii) SYS (29pts).

Figure: Top Scrip-wise Index Contributors (CY23TD)



Source (s): PSX, AHL Research

Figure: Top Sector-wise Index Contributors (CY23TD)

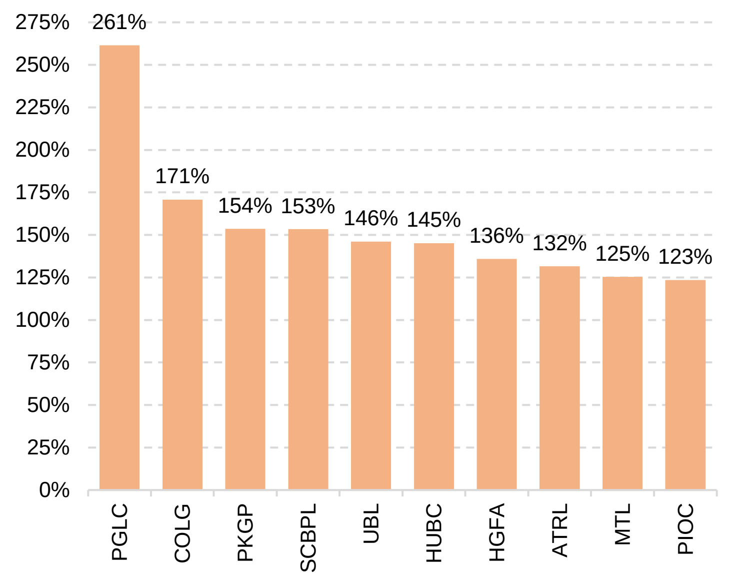


Source (s): PSX, AHL Research

Major Gainers and Losers

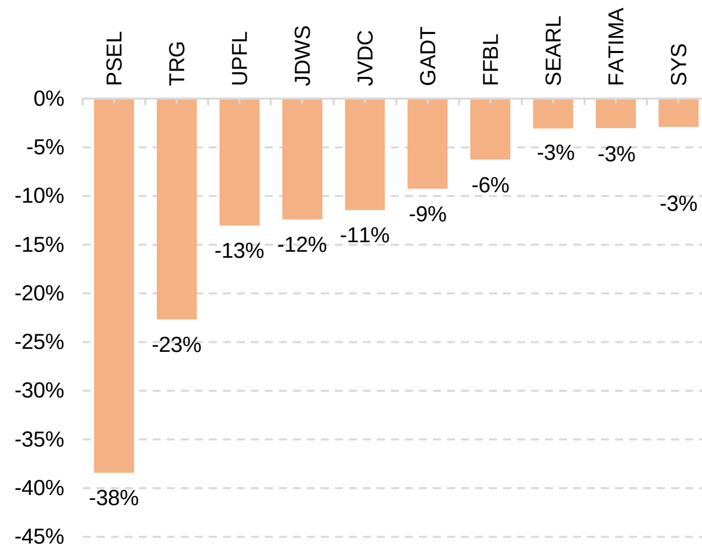
- Scrip-wise performance chart during the year was led by PGLC, COLG and PKGP, each posting significant returns of 261%, 171%, and 154% respectively. On the flip-side, PSEL, TRG and UPFL posted the most negative returns (38%, 23% and 13% respectively).
- In terms of sectors, Leasing sector leads from the front, closing the year at +261%, followed by Mutual Fund (+136%) and Power (+117%). Negative returns were came from Miscellaneous (21%), Sugar (12%), Textile Spinning (9%) and Technology (8%).

Figure: Scrip wise major gainers (KSE100)



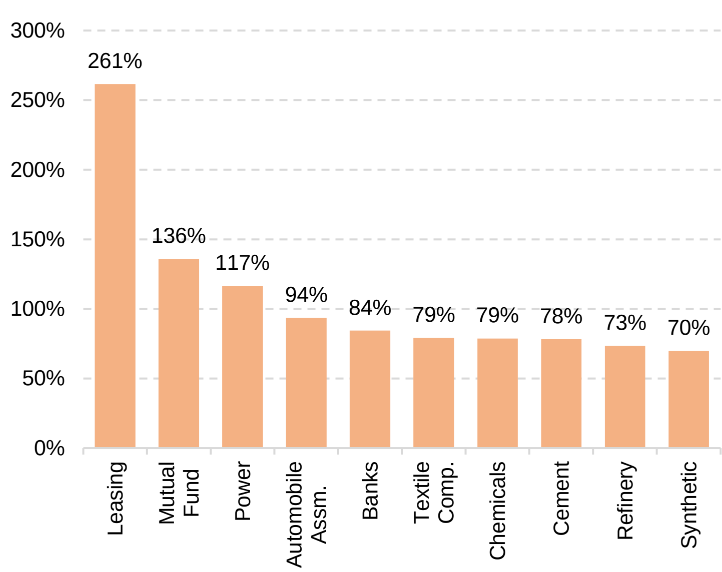
Source (s): PSX, AHL Research

Figure: Scrip wise major loser (KSE100)



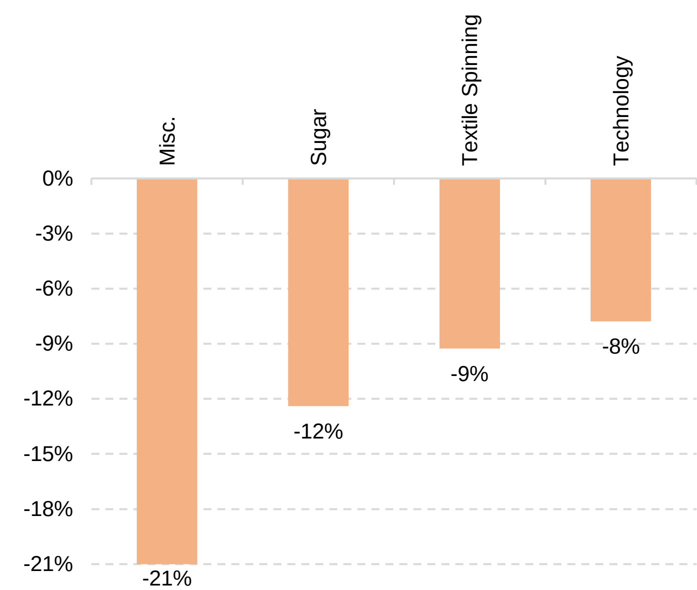
Source (s): PSX, AHL Research

Figure: Sector wise major gainers (KSE100)



Source (s): PSX, AHL Research

Figure: Sector wise major losers (KSE100)



Source (s): PSX, AHL Research

Foreign and Domestic Investors Portfolio Investment (FIPI)

Foreigner inflows improve post IMF deal:

After successfully negotiating a Standby Arrangement valued at USD 3bn with the IMF, the market saw heightened foreign activity and inflows, which had been subdued during the first half of CY23. The government's initiatives to address USD hoarding and smuggling, contributing to PKR stability, further bolstered foreign investor confidence. Additionally, macroeconomic stability, coupled with the anticipation of interest rates peaking and historically low valuations, played a crucial role in sustaining foreign flows into the market. Inflows to the PSX amounted to USD 38.6mn, marking what is expected to be the highest yearly inflow ever, surpassing the previous record of USD 383mn (CY14).

Sector-wise buying: Major foreign buying was witnessed in i) Commercial Banks (USD 33mn), ii) E&Ps (USD 19mn), and iii) Cement (USD 11mn)

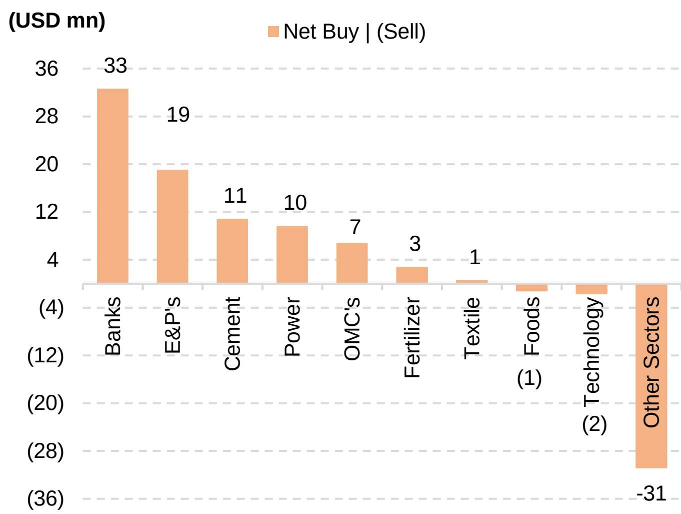
Locals resorts to sell: On the domestic front, selling was witnessed by Mutual Funds (USD 125mn), Banks/DFIs (USD 65mn), and Brokers (USD 22mn) in CY23TD.

Exhibit: LIPI Activity, CY23 (Net, USD mn)

Companies	131
Individuals	40
NBFC	1
Other Org.	-0.5
Insurance	-9
Brokers	-22
Banks/DFIs	-65
Mutual Funds	-125
Total	**-49**

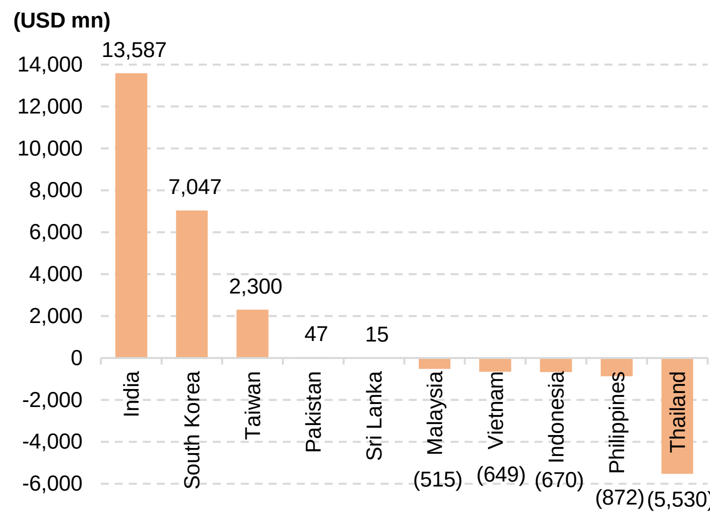
Source (s): NCCPL, AHL Research

Figure: Sector wise FIPI CY23



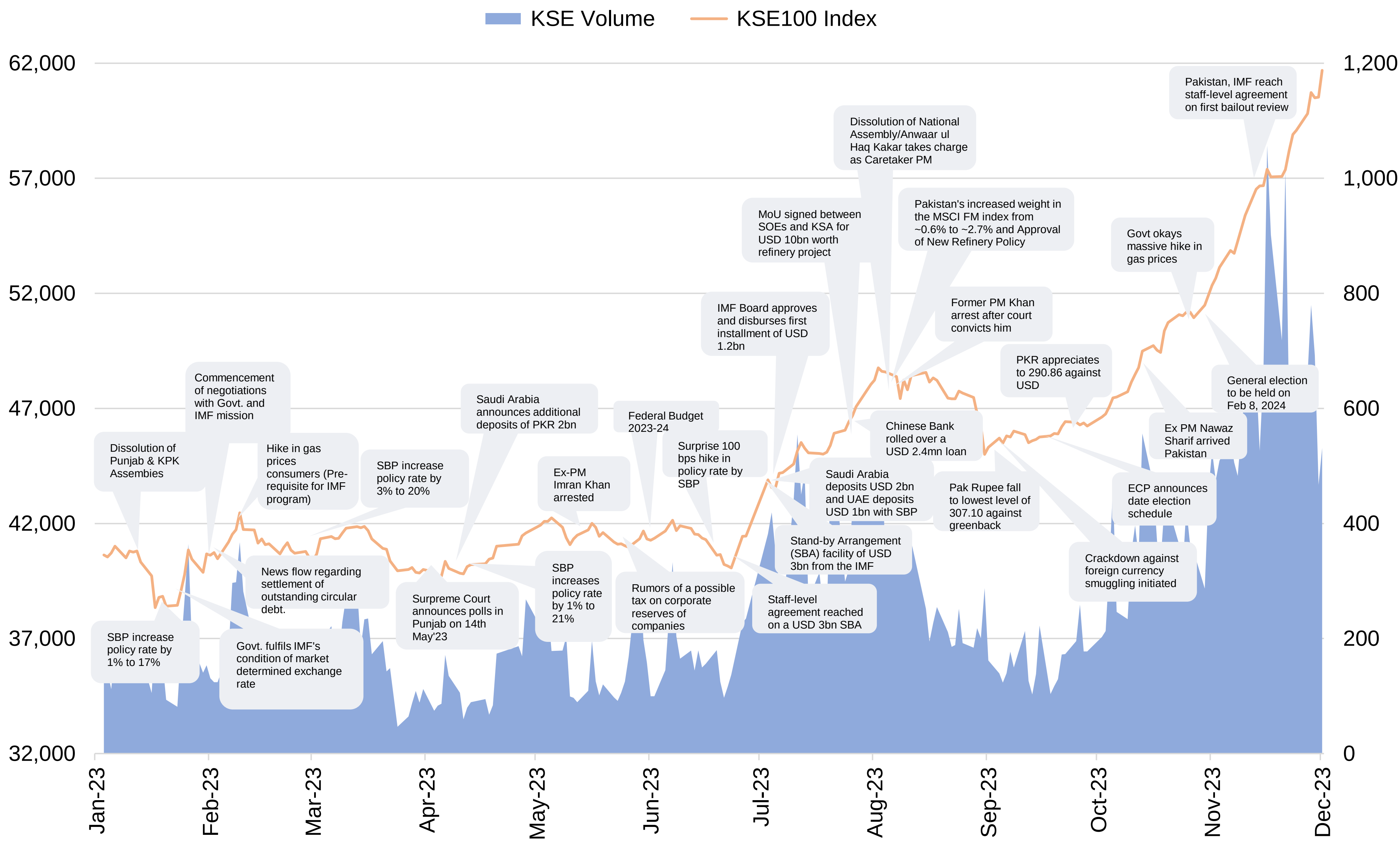
Source (s): NCCPL, AHL Research

Figure: Regional Portfolio Investment during CY23



Source (s): Bloomberg, AHL Research

KSE100 Event Graph



Commercial Banks

Poised for steady growth

Robust near-term profitability outlook despite some headwinds

We expect near term profitability for the banking sector to remain robust in 1HCY24 despite potential future headwinds from a reversal in the policy rate cycle (cumulative 7% reduction in policy rates in CY24 starting 1QCY24). The lagged effect of asset repricing versus funding costs, potential balance sheet expansion and opportunities for capital gains on the Fixed PIB portfolio are likely mitigation factors against potential NIM reduction from rate cuts. That said, as highlighted in our note "Tax on Windfall (FX) gains of Banks', 4QCY23 profits shall be impacted by one-time windfall tax on forex gains (currently suspended by the Islamabad High Court). The earnings are expected to remain robust in the upcoming quarters before experiencing a downturn in the latter half of CY24. Despite the anticipated decline, there is a forecasted 18% growth for CY24F on the back of aforementioned factors. ('Banks-Bumper profits YTD, more in the offing'). Amongst our coverage banks, we have relative preference for MEBL, UBL, MCB and BAFL as these offer the best mix of growth and dividend yield, in our view.

NII to keep the profit momentum in the near term: In the near term, NII is expected to remain a key support for the banking sector. Anticipated interest rate cuts during CY24F are poised to act as a catalyst, particularly in the 1H. This initial boost to profitability can be attributed to the immediate downward adjustment of deposit rates, driven by the lagged impact of asset re-pricing. Furthermore, banks have proactively begun to build their investment portfolios, focusing on the longer end of the yield curve. This strategic shift is expected to provide an additional stimulus for NIMs in the foreseeable future.

Balance-sheet growth to cushion earnings: With a more pronounced downtrend expected in inflation next year, we anticipate the commencement of monetary easing, which should, in turn, contribute to a deceleration in NPLs build-up. Additionally, the rapid deposit growth of 17% CYTD is projected to ease, partly due to banks shedding fixed deposits. In the upcoming year, we forecast a continuation of deposit growth, albeit at a slightly moderated rate of around 13% in CY24F. Banks are likely to counter the narrowing of their NIMs by maintaining a persistent volume-based growth. The expansion of the deposit base will continue to be channeled toward investments, as banks extend their lending to the government. The re-profiling of the investment book, following the maturity of legacy bonds, combined with investments in attractive shorter-term securities, characterized by an inverted yield curve, is expected to fuel investment yields in the initial part of the year. Furthermore, we anticipate loan growth to accelerate to 10%, compared to the 2% projected for CY23E, in line with the broader shift of the economy towards growth.

Adequate capital position to support payouts: We view that the banks in Pakistan covered by our analysis possess substantial capital adequacy, providing them with the resilience required to weather any disruptions in credit quality. These banks maintain Tier 1 ratios that align with Basel III standards and range from 12% to 20%, with MEBL leading the pack. Furthermore, the central bank has taken a proactive stance in reinforcing the financial sector's stability. By increasing capital requirements for systemically important banks—specifically, NBP, HBL, and UBL—by 250 bp, 150 bp, and 50 bp, respectively, for the year 2023, these measures are expected to bolster the banking sector's overall robustness. Looking forward, given the sound state of the banks' balance sheets, we anticipate that the sector's capital positions will remain robust. This strength will enable them to continue their dividend payout policies. Our coverage banks are anticipated to deliver an average CY23E dividend yield of 14.0% and 17.4% in CY24F.

Provisioning buffers to deflect any asset quality: Banks have taken a proactive approach to fortify their provisioning buffer, raising it to ~ 0.32% of the domestic loan book in 9MCY23 (9MCY22: 0.21%). This robust provisioning strategy is anticipated to be maintained through Dec'23. Furthermore, with the adoption of IFRS 9 scheduled to begin in CY24F, even though banks are well-prepared to handle potential fluctuations in asset quality, there is a possibility of witnessing an increase in provisioning charges.

Cheap Valuations: Although the outgoing year CY23 was marked by robust profitability in Pakistan's banking sector, there is still potential for further upward movement in valuations, despite the price performance throughout the year. Within our banking sector, the valuation metrics for our banking universe are currently positioned at the lower end of their historical ranges in terms of both P/E and P/B multiples. Their current P/E ratio stands at 2.3x, while their P/B ratio is at 0.5x. This represents a significant discount compared to the 5-year average of 5.8x for P/E and 0.7x for P/B multiples.

Key developments & risks, going forward

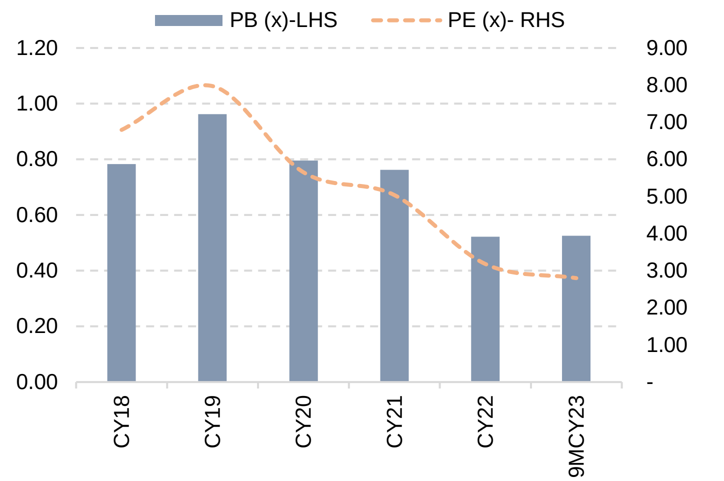
- As headline inflation gradually recedes, we anticipate a substantial 700bp policy rate reduction in CY24, ultimately settling at 15%. Consequently, we project a decline in the NIMs of banks in the 2HCY24. In response, banks are likely to adapt by shifting their income composition from interest-based to non-interest-based sources.
- Islamic banks consistently exhibit strong performance, competing head-to-head with their conventional counterparts. The recent government and official authorities' endorsement of interest-free banking further paves the way for substantial growth in this sector.
- The implementation of IFRS-9, effective from Jan'24, is expected to lead to an increase in provisioning expenses, as the expected credit loss approach will alter the manner in which impairments are assessed. However, based on corporate briefings, nearly all banks have confirmed that they have assessed the impact of IFRS 9 and do not foresee any significant adverse effects on profitability moving forward.
- The extended global economic slowdown and geopolitical instability could have adverse effects on international operations and the quality of the loan book.
- A resurgence of NPLs could occur in the event of a deterioration in macroeconomic conditions and unfavorable changes in the interest rate environment.
- Regulatory risks, including those linked to the Treasury Single Account, as well as the possibility of the reimplementation of taxation on income derived from government securities, should be closely monitored.
- An unexpectedly sharp reversal in the interest rate cycle in CY24 could potentially impact bank earnings, further contributing to decreased NIMs.

Exhibit: Summary of key banking ratios

Ratios	Unit	MEBL		UBL		MCB		BAFL	
		CY23E	CY24F	CY23E	CY24F	CY23E	CY24F	CY23E	CY24F
Book value per share	PKR	96.0	131.7	187.1	203.4	186.0	211.9	80.0	98.1
Price to Earning	x	3.3	2.7	3.9	3.2	3.2	2.8	2.1	1.8
Price to Book	x	1.6	1.2	1.0	0.9	0.9	0.8	0.6	0.5
Return on Equity	%	58.5	50.7	24.9	28.7	30.6	30.9	30.1	29.1
Return on Assets	%	3.0	3.1	1.7	1.7	2.5	2.5	1.3	1.3
Cost to Income Ratio	%	26.0	27.3	33.1	30.4	29.7	30.3	43.9	43.6
NIMs	%	8.2	8.6	4.4	4.0	7.4	7.2	5.2	4.8
Infection Ratio	%	1.5	1.5	12.0	11.5	7.8	7.6	7.8	7.6
Coverage Ratio	%	161.9	166.1	84.0	80.5	82.7	82.8	133.0	126.6

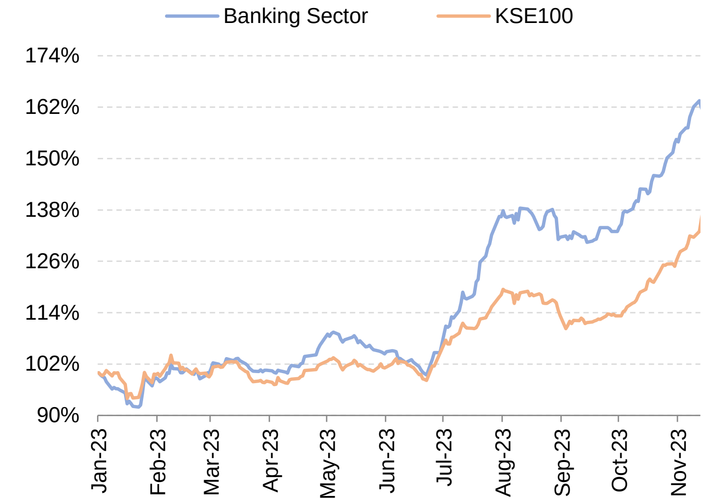
Source(s): Company Financials, AHL Research

Exhibit: Attractive valuations - Banks trading at a discount



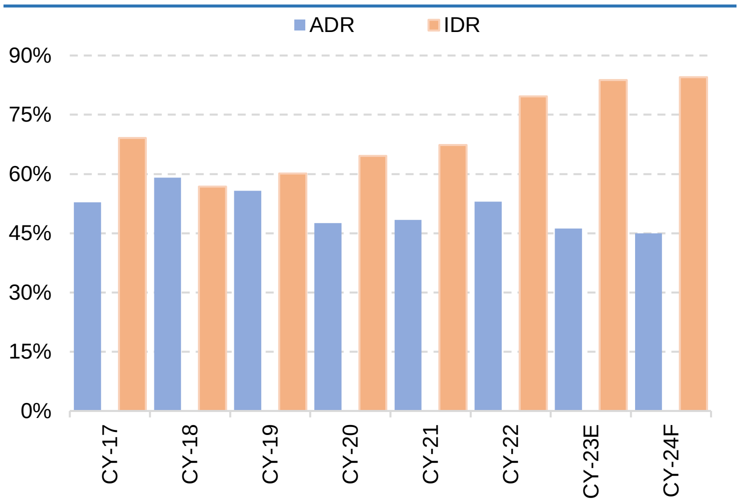
Source(s): Company Financials, AHL Research

Exhibit: Banking sector outperforms KSE100 FYTD



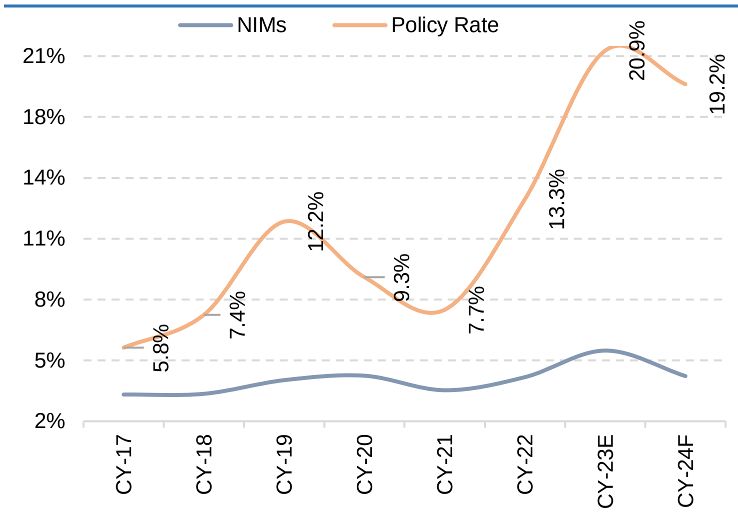
Source (s): Bloomberg, AHL Research

Exhibit: Banks' portfolio remains tilted towards investments



Source(s): Company Financials, AHL Research

Exhibit: NIMs- From soaring high in CY23 to marginally shrink in CY24



Source (s): Company Financials, SBP, AHL Research

Meezan Bank Limited (MEBL)

Unparalleled excellence

The most robust deposit franchise nationwide, featuring the lowest deposit cost, lowest infection, the highest coverage ratio, and a substantial mix of current deposits. Achieved historically high profitability in CY23TD and is poised for sustained growth, aided by minimal interest expenses (as the Minimum Deposit Rate is not applicable to Islamic banks). The bank boasts strong asset quality metrics, including a high coverage of 170% plus and a provisioning buffer, offering ample capacity to absorb potential shocks to asset quality.

Highest RoE within the sector: MEBL has been able to benefit from the expanding Islamic banking industry in Pakistan, capturing almost ~8% of the deposit share of the total industry. Boasting an impressive ROE that exceeds 50% as of Sep'23, Meezan sets the benchmark for the highest ROE within the sector. For CY23E and CY24F, we expect RoE to clock-in at 58.5% and 50.7%, respectively.

NIMs jump significantly: CY23 has turned out to be an exceptional year for the Bank profitability wise as the bank achieved its highest-ever PAT of PKR 59bn in 9MCY23, marking a substantial YoY increase of 63%. This remarkable performance can be attributed to the improved interest rate environment and the bank's low cost of deposits, balance sheet growth and high-profit margins contribute to a low-cost to income ratio of 28% in CY23TD, ranking among the lowest in the sector. Going forward, with interest rate reversal cycle expected in the coming months, we expect NIMs to normalize and come down from these levels to 8.6% in CY24F.

Supreme asset quality: In anticipation of potential asset quality stress in a challenging macro environment, Meezan proactively accumulated provisioning buffers over the past three quarters. This effort has resulted in MEBL's Non-Performing Loans to gross advances ratio remaining significantly lower at 1.7% compared to the industry average of approximately 6.1%. Furthermore, during 9MCY23, the bank increased provisioning against NPLs by approximately 11% YoY from the same period last year, elevating the bank's coverage ratio to over 170%.

Adequate capital buffers: Capitalizing on its robust profitability, the bank has enhanced its capital ratios, with a CET-1 of 19.74% and a total CAR of 23.37% in 3QCY23—significantly exceeding the regulatory requirement of 11.5%. In our opinion, the strengthened capital ratios give an opportunity to augment the bank's payout ratio, potentially reaching 45-50%. Historically, the payout ratio has averaged around 38% over the last five years.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	47.5	57.7	54.9
Dividend per share	PKR	18.0	22.0	21.0
Book value per share	PKR	96.0	131.7	165.6
Price to Earning	x	3.3	2.7	2.8
Price to Book	x	1.6	1.2	0.9
ADR	%	49.4	48.9	49.4
IDR	%	78.7	79.2	80.2
NIMs	%	8.2	8.6	7.8
RoE	%	58.5	50.7	44.3

Source (s): Company Financials, AHL Research

MEBL

Summary Data

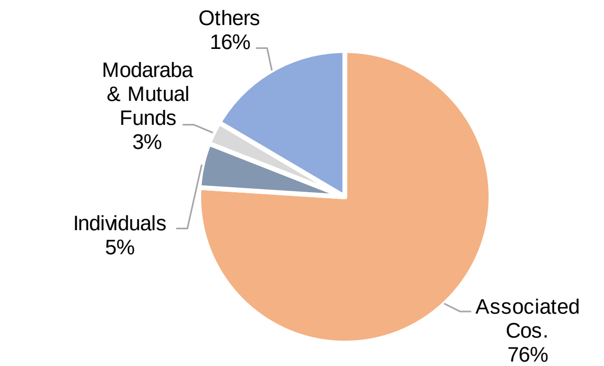
Target Price (Dec'24)	240.0
Last Closing	155.1
Upside (%)	54.7
Shares (mn)	1,791
Free float (%)	25
Market Cap. (PKR mn)	277,877
Market Cap. (USD mn)	975

Recommendation BUY

Price Performance

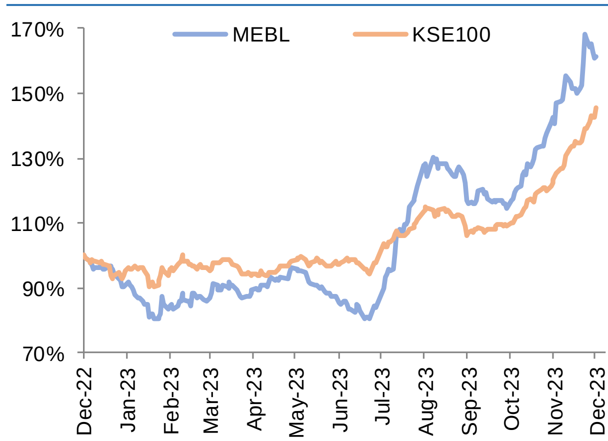
	3M	6M	12M
Return (%)	39.0	90.0	61.2
Avg. Volume (000)	1,788	1,902	1,477
ADTV (mn) - PKR	249	241	171
ADTV (000) - USD	869	840	617
High Price - PKR	162.0	162.0	162.0
Low Price - PKR	110.4	77.5	77.5

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

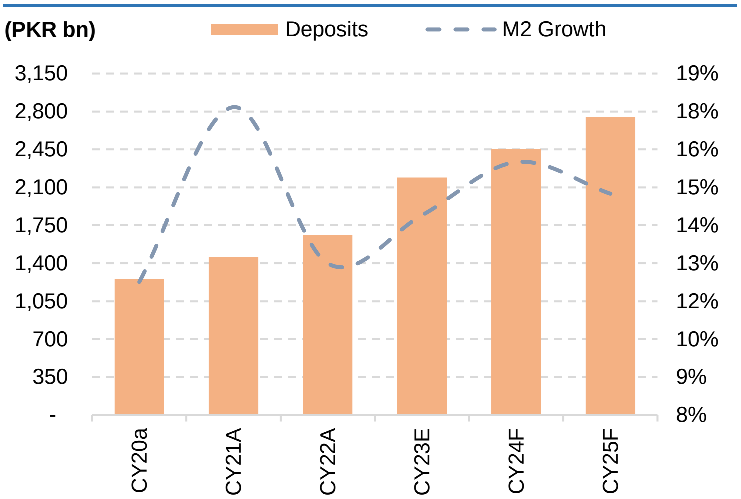
Exhibit: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	212,755	260,528	266,504
Non-Mark-up Income	22,745	25,728	29,054
Total Income	235,500	286,256	295,558
Provisioning	4,706	5,585	4,306
OPEX	61,186	78,021	98,554
Post Tax Profit	85,139	103,352	98,276

Balance Sheet	CY23E	CY24F	CY25F
Advances	1,083,258	1,200,570	1,357,225
Deposits	2,191,865	2,454,889	2,749,475
Investments	1,723,971	1,945,483	2,206,073
Borrowings	566,972	615,610	718,835
Total Equity	172,047	235,991	296,651

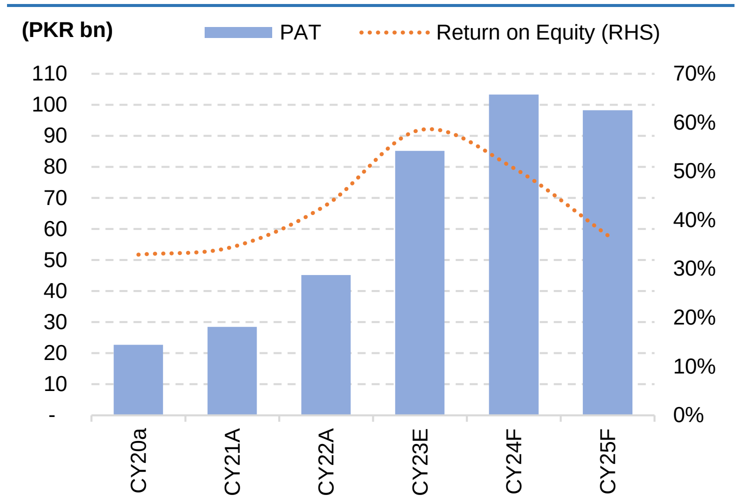
Source (s): Company Financials, AHL Research

Exhibit: Tracking deposit and M2 growth in tandem



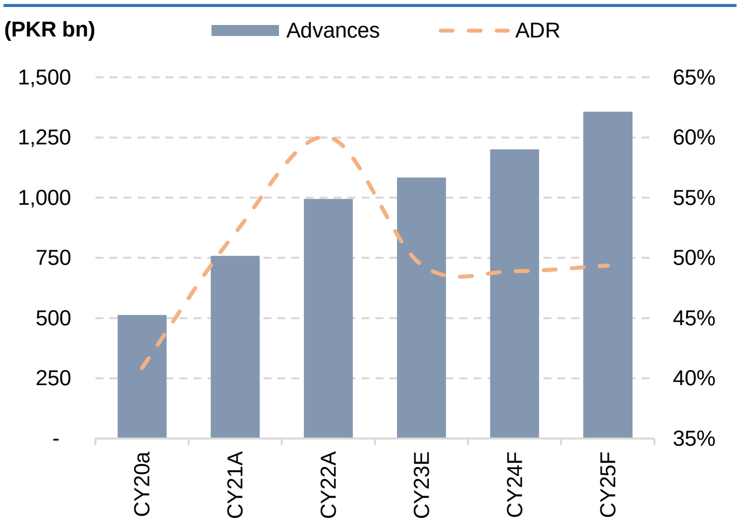
Source (s): SBP, Company Financials, AHL Research

Exhibit: CY23's profitability highs fade in CY24F



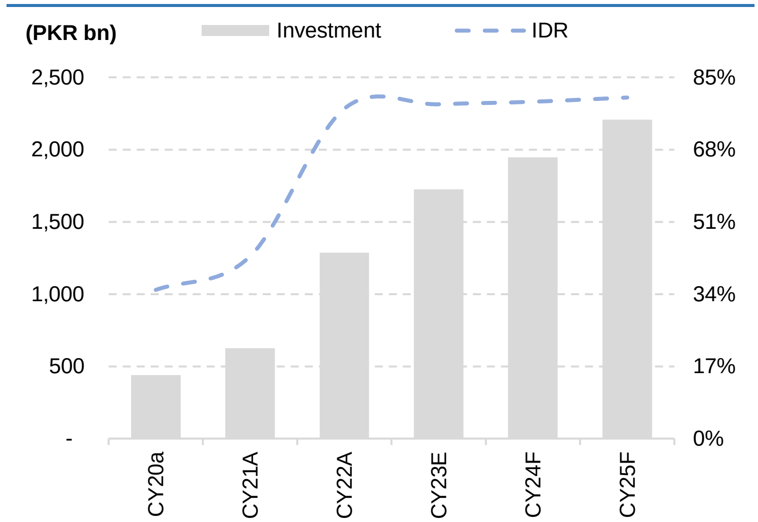
Source (s): Company Financials, AHL Research

Exhibit: ADR on the path to slight improvement



Source (s): Company Financials, AHL Research

Exhibit: IDR projections point to continued strength



Source (s): Company Financials, AHL Research

United Bank Limited (UBL)

Robust dividend yield

UBL has recently gained prominence in the banking sector, primarily attributable to its remarkable dividend policy shift initiated in Dec'22. Subsequently, UBL has adopted an aggressive strategy in dividend payouts, and this approach is expected to continue. However, UBL, we believe will ensure the maintenance of a healthy buffer of capital well above the stipulated minimum requirement. With conservative lending practices on the domestic front, the bank aims to contain any potential decline in asset quality. Furthermore, the bank's prospects on the international business are optimistic, particularly given the economic rebound in the GCC economies.

Leading the league in terms of payout: UBL's dividend declaration in CY23TD pleasantly surprised the market. As of 3QCY23, UBL's total CAR stands at a robust 16.5%, comfortably exceeding regulatory requirements and leaving room for sustaining high payouts. We foresee the management maintaining a payout ratio of around 75%, suggesting a promising payout going forward too, hence we expect a dividend yield of 23% in CY24F.

Improved CA mix supports topline: The bank's emphasis on bolstering the CA portion has led to an enhanced average current account to deposit ratio, reaching 45% by Sep'23 compared to the 44% recorded in CY22. Additionally, the average CASA has risen to 82%, up from the 79% reported in CY22. Despite these positive developments, there has been an uptick in the bank's cost of deposit, reaching ~6.6% in 9MCY23, compared to 5.7% in CY22, attributed to interest rate hikes during this period. Going forward, it is anticipated that the bank will persist in its focus on digitalization and the expansion of Islamic branches aimed at laying the groundwork for deposit growth.

Profitability momentum to continue: NIMs are projected to be 4.02% in CY24F compared to ~4.4% in CY23E based on factors such as volumetric growth in balance sheet, improving CA proportion, lower cost of funding, to name a few. Resultantly, the ROE is expected to increase to 29.4% in CY24F, surpassing 24.9% that is expected to be recorded in CY23E. This profitability will be further supported by a slight dip in the Cost/Income ratio is projected to clock-in at 31.0%, down from 33.9% in CY23E which is expected mainly on the back of slowdown in overall inflationary pressures and uptick in total income. All said, the expansion of the branch network will keep upside concerns to the overall cost side.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	46.5	56.0	52.0
Dividend per share	PKR	42.8	42.0	39.0
Book value per share	PKR	187.1	203.4	216.4
Price to Earning	x	3.9	3.3	3.5
Price to Book	x	1.0	0.9	0.8
ADR	%	32.7	34.0	35.1
IDR	%	103.0	104.8	104.8
NIMs	%	4.4	4.0	3.4
RoE	%	24.9	29.1	25.7

Source (s): Company Financials, AHL Research

UBL

Summary Data

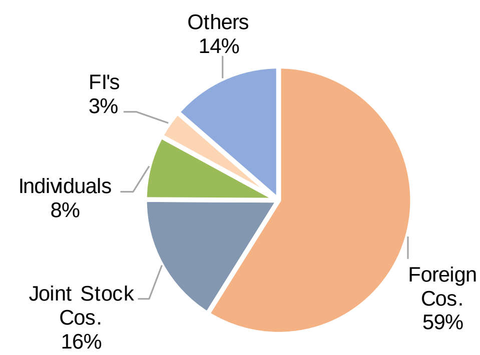
Target Price (Dec'24)	276.0
Last Closing	181.9
Upside (%)	51.7
Shares (mn)	1,224
Free float (%)	40.0
Market Cap. (PKR mn)	222,727
Market Cap. (USD mn)	782

Recommendation BUY

Price Performance

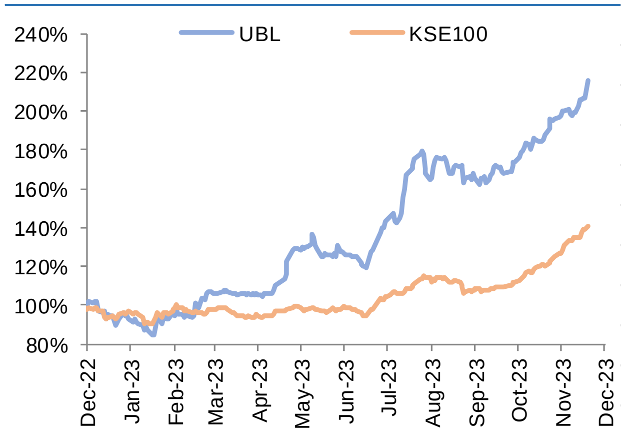
	3M	6M	12M
Return (%)	37.5	74.7	128.1
Avg. Volume (000)	1,388	1,565	1,287
ADTV (mn) - PKR	220	234	174
ADTV (000) - USD	770	815	621
High Price - PKR	184.9	184.9	184.9
Low Price - PKR	129.4	95.4	67.6

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

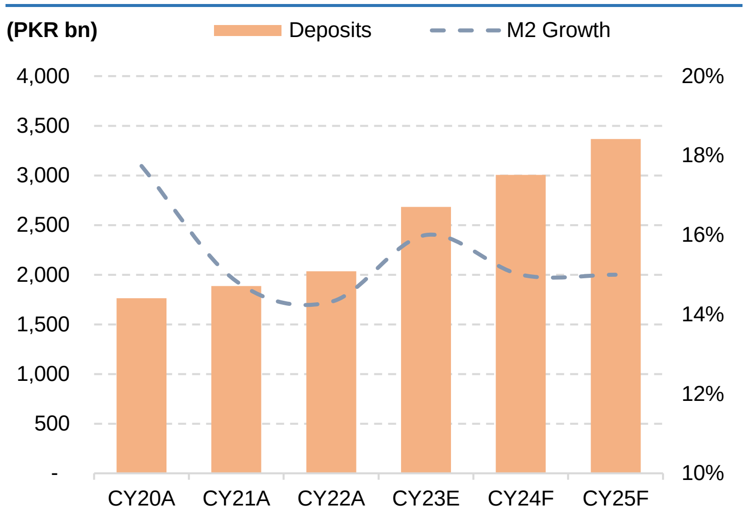
Exhibit: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	139,840	160,935	152,943
Non-Mark-up Income	25,888	40,401	46,362
Total Income	165,078	200,686	198,655
Provisioning	(7,904)	3,826	7,634
OPEX	55,896	62,120	65,560
Post Tax Profit	57,132	68,718	63,985

Balance Sheet	CY23E	CY24F	CY25F
Advances	756,339	886,183	1,039,287
Deposits	2,683,836	3,005,896	3,366,604
Investments	2,764,921	3,149,034	3,528,699
Borrowings	746,934	836,566	936,954
Total Equity	229,029	241,930	251,169

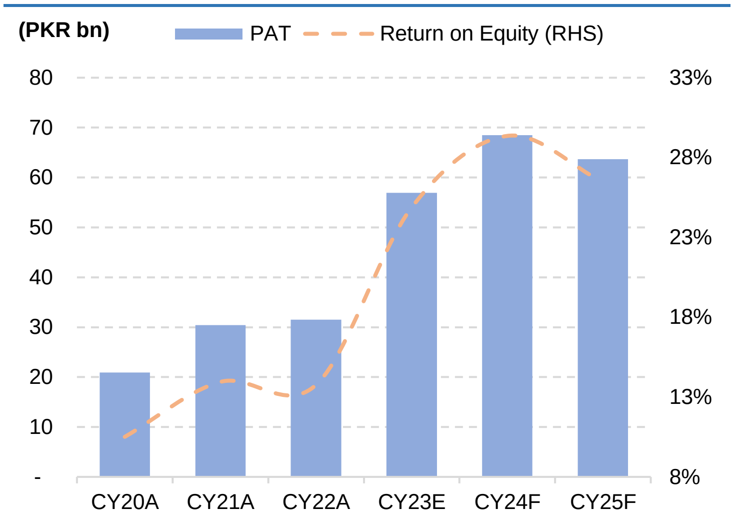
Source (s): Company Financials, AHL Research

Exhibit: Deposits to jump going forward



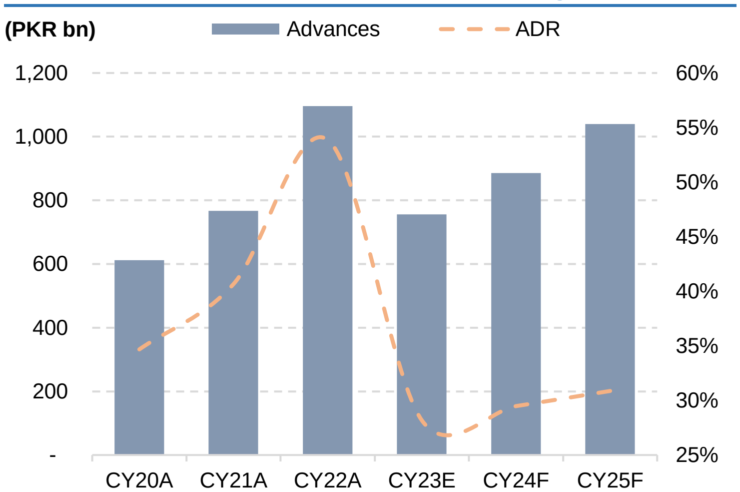
Source (s): SBP, Company Financials, AHL Research

Exhibit: An overview of profitability



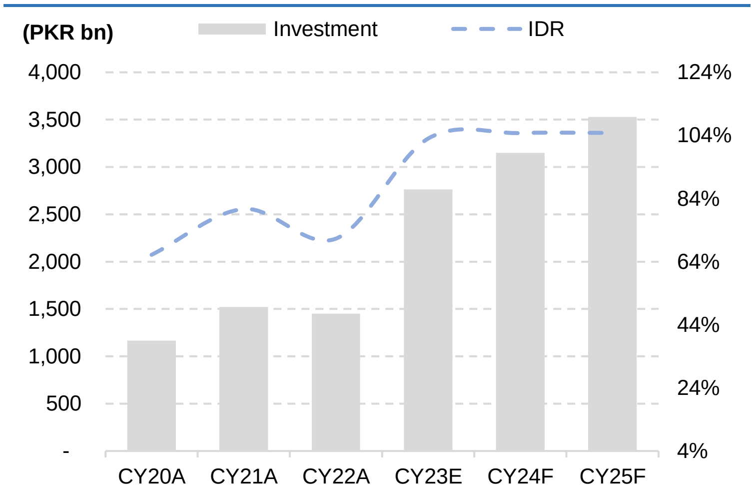
Source (s): Company Financials, AHL Research

Exhibit: Credit offtake to support bank's lending



Source (s): Company Financials, AHL Research

Exhibit: Investments to remain high



Source (s): Company Financials, AHL Research

MCB Bank Limited (MCB)

A safe bet

MCB stands out in the banking industry with a consistently high CASA ratio, showcasing its risk-averse approach to conservative lending practices. Complementing this stability, the bank has maintained an impressive payout ratio of ~75%. With a substantial capital buffer in place, MCB is not only well-prepared for unforeseen challenges but also poised for future growth in dividends, potentially surpassing the currently projected figures.

Steady dividends to sustain: MCB's CAR is currently at 19.6%, which is well above the regulatory requirement. Moreover, bank's ROE generation is expected to stay above 31% in CY23E, as full impact of repricing occurs and interest rates peak. Sufficient CAR provides buffer to maintain its dividend stream, which is currently at 75% payout. However, with strong capital levels and higher profitability (CY23E: PKR 47.2/share), we believe, MCB has ample room to improve its payout ratio.

Best CASA mix in industry: MCB runs one of the most efficient and solid deposit franchises in the country. The bank's CASA ratio has remained around 90% consistently over the past several years, allowing it to maintain above-peer average NIMs. The bank has been focusing on improving its current deposit mix as evident in the reported number of 3QCY23, where the CA mix stands at ~45%, from previous levels of late thirties in CY22. Management expects this mix to sustain.

Profitability to remain strong: To navigate the phase of declining interest rates, MCB is poised to sustain its profitability growth by leveraging its high CASA ratio, allowing for an initial advantage of lower cost of deposits. The anticipated profitability surge will be driven by an initial increase in NII, as the effects of downward deposit repricing come into play, coupled with lower operating and provisioning expenses due to the bank's low-risk profile and ample coverage ratio. NIMs are expected to reach to ~7.2%, and we project a deposit base growth of ~12%, given the bank's strategic focus on cultivating low-cost deposits.

Cautious and strategic asset deployment: The bank has adopted a cautious approach to lending and has strategically managed its asset deployment with optimal prudence amid economic slowdown and monetary tightening. This is evident in its IDR of 75.7% and an ADR of 36.4%. While the IDR aligns with industry peers, the ADR is significantly lower than the industry average of 45%, underscoring the bank's deliberate strategy of prioritizing investments over aggressive lending. Simultaneously, the bank's infection ratio stands at 7.8%, with an effort expected to bring it down as the bank adopts a more discerning approach to minimize NPLs.

Exhibit: Ratio Analysis

Key Metrics		CY23E	CY24F	CY25F
Earnings per share	PKR	53.6	61.4	58.7
Dividend per share	PKR	29.5	34.0	32.5
Book value per share	PKR	186.0	211.9	236.8
Price to Earning	x	3.2	2.8	2.9
Price to Book	x	0.9	0.8	0.7
ADR	%	36.4	37.0	37.4
IDR	%	75.7	76.8	78.9
NIMs	%	7.4	7.2	6.1
ROE	%	30.7	30.9	26.1

Source (s): Company Financials, AHL Research

MCB

Summary Data

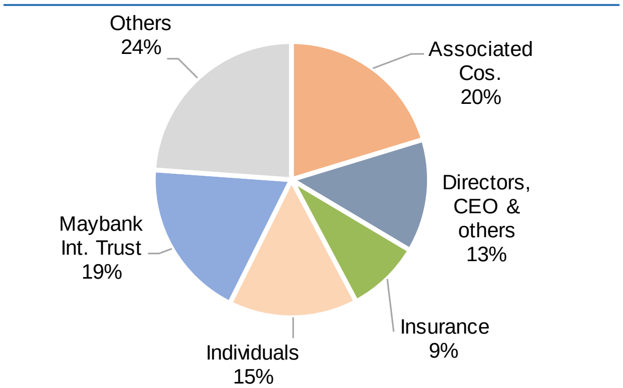
Target Price (Dec'24)	294.1
Last Closing	169.4
Upside (%)	73.6
Shares (mn)	1,185
Free float (%)	35
Market Cap. (PKR mn)	200,690
Market Cap. (USD mn)	704

Recommendation BUY

Price Performance

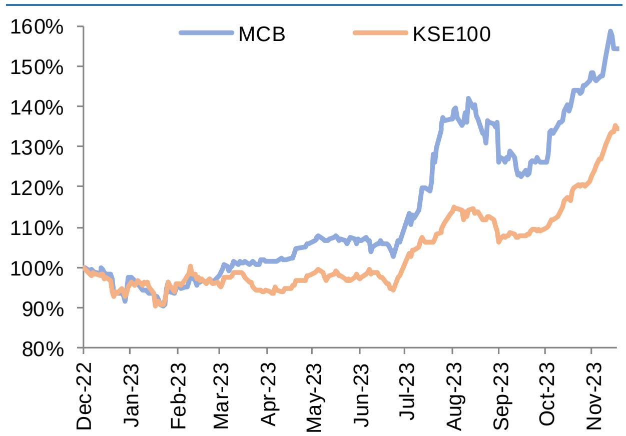
	3M	6M	12M
Return (%)	37.1	63.5	74.4
Avg. Volume (000)	1,172	1,183	815
ADTV (mn) - PKR	162	161	106
ADTV (000) - USD	558	555	375
High Price - PKR	173.9	173.9	173.9
Low Price - PKR	119.0	99.6	87.7

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

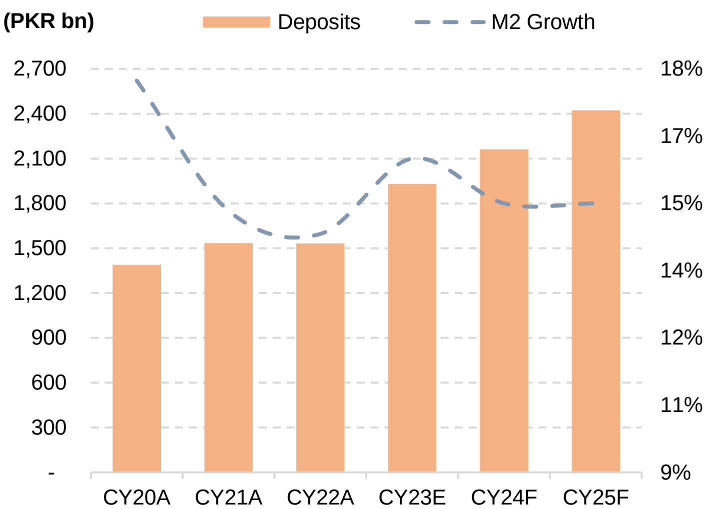
Exhibit: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	153,635	168,557	162,284
Non-Mark-up Income	36,135	42,195	51,858
Total Income	189,770	210,753	214,142
Provisioning	2,016	4,223	5,467
OPEX	56,430	63,761	72,381
Post Tax Profit	63,539	72,812	69,510

Balance Sheet	CY23E	CY24F	CY25F
Advances	655,298	738,464	841,429
Deposits	1,930,648	2,162,326	2,421,805
Investments	1,423,203	1,627,495	1,879,677
Borrowings	448,453	502,268	562,540
Total Equity	220,379	251,148	280,567

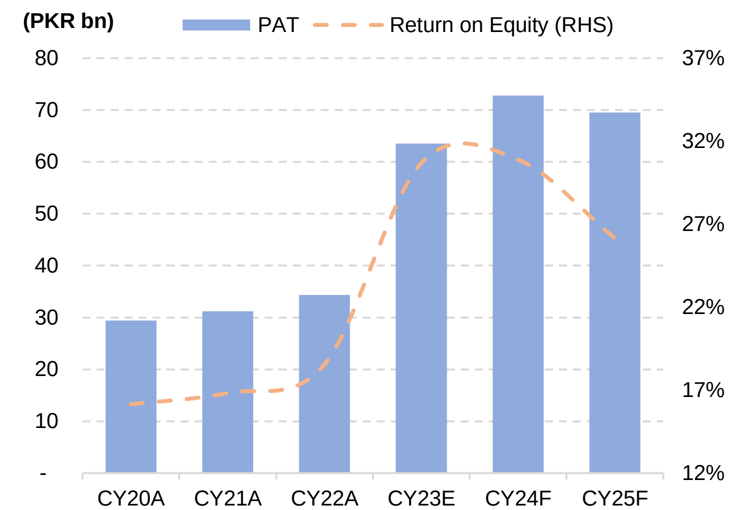
Source (s): Company Financial, AHL Research

Exhibit: Deposits vs. M2



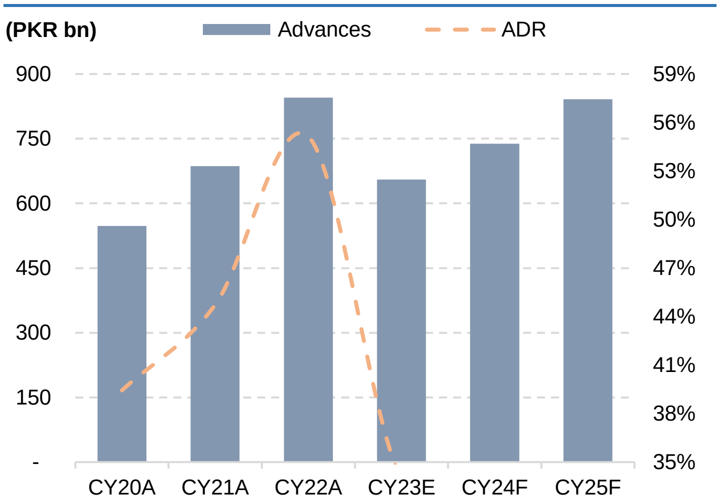
Source (s): SBP, Company Financials, AHL Research

Exhibit: PAT vs. ROE



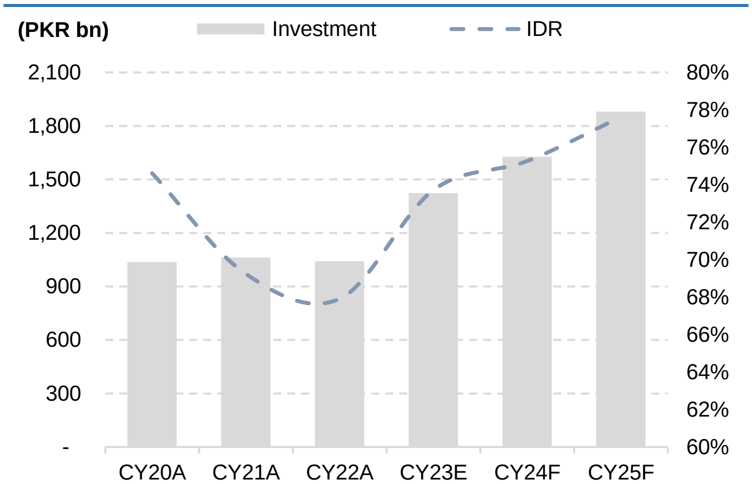
Source (s): Company Financials, AHL Research

Exhibit: ADR on the path to improvement



Source (s): Company Financials, AHL Research

Exhibit: Sustainable growth in IDR



Source (s): Company Financials, AHL Research

Bank Alfalah Limited (BAFL)

Achievements on multiple fronts

BAFL stands out as a strong contender in our banking universe, with a robust outlook for CY24F. The bank is set to capitalize on volumetric growth in its balance sheet which is expected to provide support to the bank's overall profitability. Moreover, BAFL has adopted a conservative approach by proactively building provisioning buffers to mitigate potential asset quality shocks. Additionally, the bank is making substantial strides in various segments, particularly in the realm of digital banking, reflecting its aggressive growth strategy.

Low-cost Deposits: As of Sep'23, BAFL has experienced a 31% YoY increase in its deposits, reaching a substantial sum of PKR 1.82trn. This surge has contributed to a current CASA Ratio of 71%, as of the end of Sep'23, in comparison to the 74.0% reported during SPLY. Moreover, a significant portion of the bank's deposits, ~14-15%, is attributed to Islamic banking. The bank is actively expanding its Islamic Banking division and has successfully opened 65 new branches in CY23TD. Looking ahead, BAFL anticipates the establishment of 160 new branches in the upcoming CY, with a focus on Islamic banking, aiming to open 100 Islamic branches. This strategic expansion aligns with the bank's emphasis on securing low-cost deposits and Islamic deposits.

Well-positioned books: The investment book of BAFL comprises 18% of Fixed PIBs while the rest 82% includes a major chunk of Floater PIBs and remaining T-Bills. The average yield of the portfolio is around 14% with an average duration of 3 years. Moreover, the bank's loan book experienced an 11% YoY decline in 3QCY23. BAFL maintains a robust coverage ratio at over 112%, and the infection ratio is reported at 5.4%. In the outgoing quarter, provisioning mainly included subjective downgrading but the management believes that this subjective provisioning would disseminate as IFRS-9 is to be implemented in CY24.

Capital concerns addressed: Bank has been consistent with its dividend policy which takes the average (3-yr) payout to ~45%. As far as CAR position is concerned, it currently stands at 15.5%, comfortably above the regulatory limit. Moreover, BAFL has consistently upheld stable capital ratios, consistently residing in the 14-15% range. This stability persists even after executing a PKR 6.0bn share buyback, concurrently demonstrating improvement in its dividends.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	21.8	25.9	23.9
Dividend per share	PKR	5.8	8.1	7.4
Book value per share	PKR	80.0	98.1	114.7
Price to Earning	x	2.1	1.7	1.9
Price to Book	x	0.6	0.5	0.4
ADR	%	31.4	32.9	34.7
IDR	%	85.3	82.5	82.6
NIMs	%	5.2	4.8	4.1
RoE	%	25.1	25.1	19.5

Source (s): Company Financials, AHL Research

BAFL

Summary Data

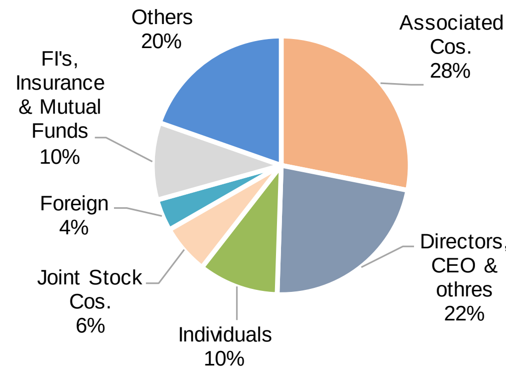
Target Price (Dec'24)	69.1
Last Closing	45.7
Upside (%)	51.4
Shares (mn)	1,577
Free float (%)	45
Market Cap. (PKR mn)	72,013
Market Cap. (USD mn)	253

Recommendation BUY

Price Performance

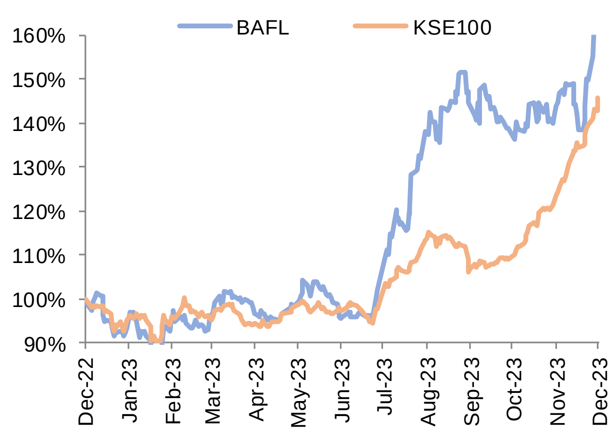
	3M	6M	12M
Return (%)	14.5	71.6	64.8
Avg. Volume (000)	2,669	2,693	2,919
ADTV (mn) - PKR	109	105	100
ADTV (000) - USD	375	362	378
High Price - PKR	45.7	45.7	45.7
Low Price - PKR	37.7	26.5	24.3

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

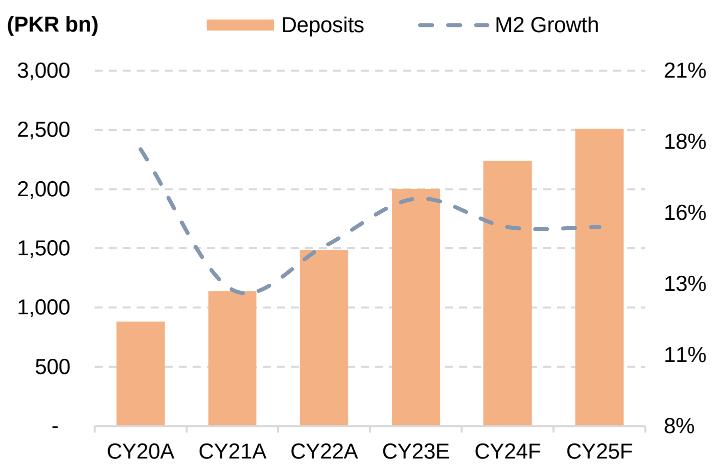
Exhibit: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	115,938	122,643	118,038
Non-Mark-up Income	27,005	33,124	38,405
Total Income	142,944	155,767	156,443
Provisioning	8,429	11,424	11,286
OPEX	60,014	64,094	71,210
Post Tax Profit	34,369	40,927	37,713

Balance Sheet	CY23E	CY24F	CY25F
Advances	628,663	737,964	870,693
Deposits	2,000,526	2,240,590	2,509,460
Investments	1,705,689	1,848,491	2,072,296
Borrowings	600,158	672,177	752,838
Total Equity	126,187	154,682	180,876

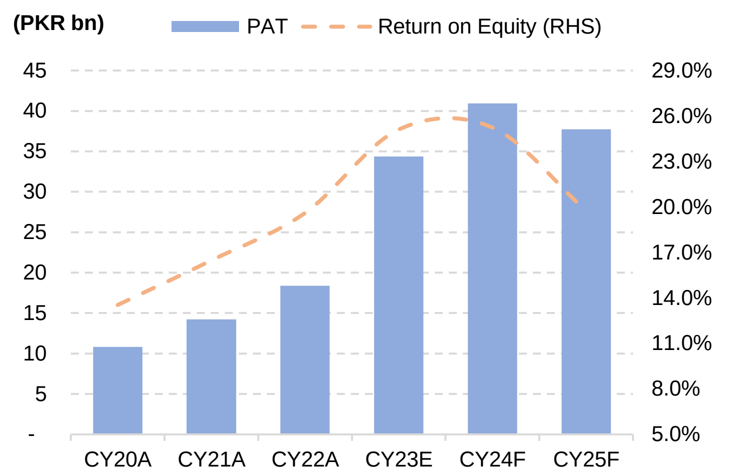
Source (s): Company Financials, AHL Research

Exhibit: Deposits vs. M2



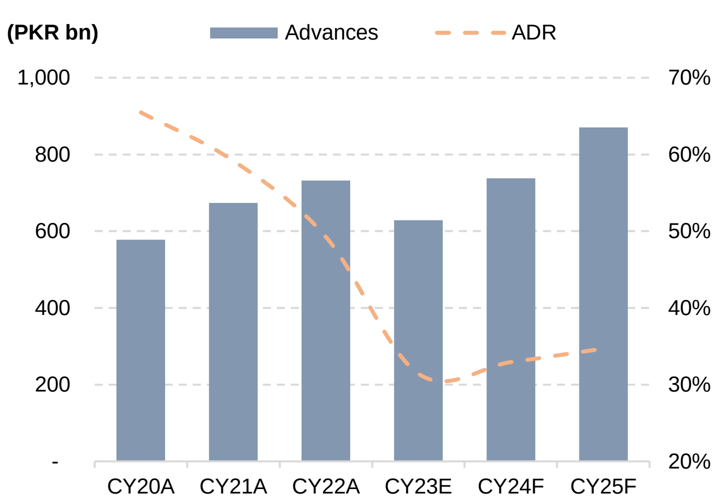
Source (s): SBP, Company Financials, AHL Research

Exhibit: PAT vs. ROE



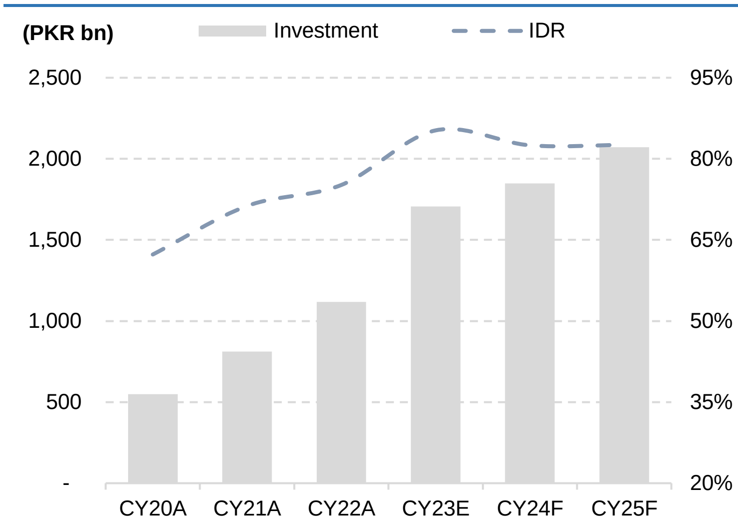
Source (s): Company Financials, AHL Research

Exhibit: Advances vs. ADR



Source (s): Company Financials, AHL Research

Exhibit: Investments vs. ADR



Source (s): Company Financials, AHL Research

Faysal Bank Limited (FABL)

Strong contender in the Islamic league

Faysal Bank Limited holds the distinction of being the first bank in Pakistan to achieve a unique milestone—the successful conversion from a conventional bank to an Islamic bank. Now it stands as the second-largest Islamic bank in Pakistan, boasting a robust network of 700 branches spanning 270 cities. FABL emerges as a formidable player in the Islamic banking sector, boasting a strong foothold, robust capital position, low infection, and a high coverage ratio. With the potential for continued strong financial performance, FABL stands out as a strong contender among the AHL's coverage banks.

Strong CASA mix: Faysal Bank began CY23 as a fully-converted Islamic Bank. During the out-going year, FABL crossed the PKR 1.0trn mark in total assets backed by strong deposit mobilization and borrowings. Bank's unwavering perseverance to increase its CASA ratio has been successful, keeping its cost of deposit low (~8.7%). FABL's CA ratio remained around 35%, however, we expect this proportion to grow in the later quarters. With this, CASA mix improved to 78% from 75% at Dec'21.

Impressive top-line growth: With FABL's re-entry into the Islamic league, it becomes exempted from the Minimum Deposit Rate (MDR) requirement, hence helping boost the top-line. FABL demonstrated a robust financial performance during 9MCY23, experiencing a remarkable 57% YoY growth and a 7% sequential increase. This success can be attributed to several factors, including the exemption of minimum savings rate regime for Islamic banks. Additionally, the bank has benefited from the growth in current accounts (35% of deposits) and variable Sukuk. Going forward, this along with a strong retail presence and aggressive lending history, should support bank's interest earning yield.

Record year with unprecedented growth: FABL will be closing CY23E on a high note, breaking its own records, we believe. It is expected to post the highest ever earnings of PKR 12.0/share (9MCY23: PKR 8.11/share) with unprecedented pay-out of PKR 9/share (9MCY22: PKR 6/share). Currently, CAR of the bank stands at a comfortable level of 19.9% as against 15.5% as at Dec'22, one of the highest in the industry. Considering Faysal Bank Limited's impressive performance, there is a potential opportunity for the bank to enhance shareholder value by improving its payout. Simultaneously, focusing on strategic branch expansion and diversifying its portfolio can contribute to sustained growth.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	12.0	16.1	14.9
Dividend per share	PKR	3.6	5.6	6.0
Book value per share	PKR	53.6	61.5	70.4
Price to Earning	x	2.3	1.7	1.9
Price to Book	x	0.4	0.4	0.3
ADR	%	49.2	48.6	49.0
IDR	%	59.4	59.3	59.3
NIMs	%	7.1	8.0	7.4
RoE	%	24.0	27.9	22.6

Source (s): Company Financials, AHL Research

FABL

Summary Data

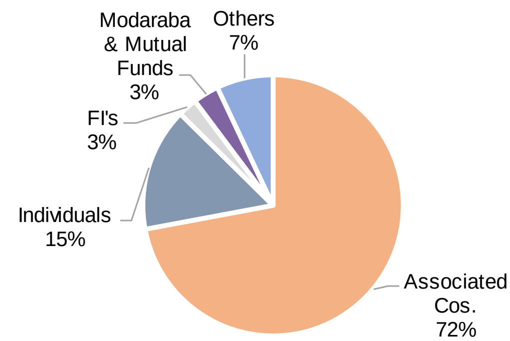
Target Price (Dec'24)	53.4
Last Closing	27.8
Upside (%)	91.9
Shares (mn)	1,518
Free float (%)	25
Market Cap. (PKR mn)	42,192
Market Cap. (USD mn)	148

Recommendation BUY

Price Performance

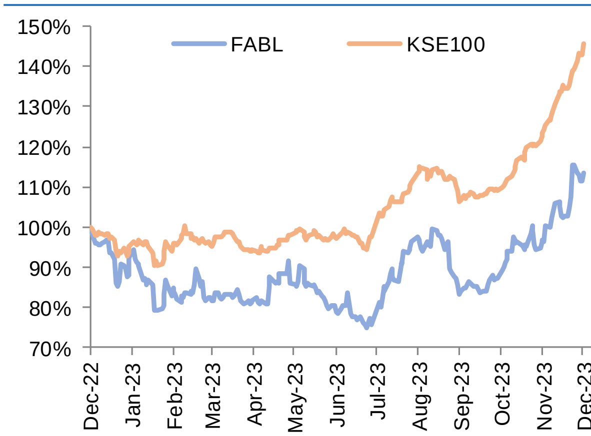
	3M	6M	12M
Return (%)	34.6	44.5	13.4
Avg. Volume (000)	1,507	1,830	1,505
ADTV (mn) - PKR	38	44	36
ADTV (000) - USD	132	154	131
High Price - PKR	28.3	28.3	28.3
Low Price - PKR	20.5	18.4	18.4

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

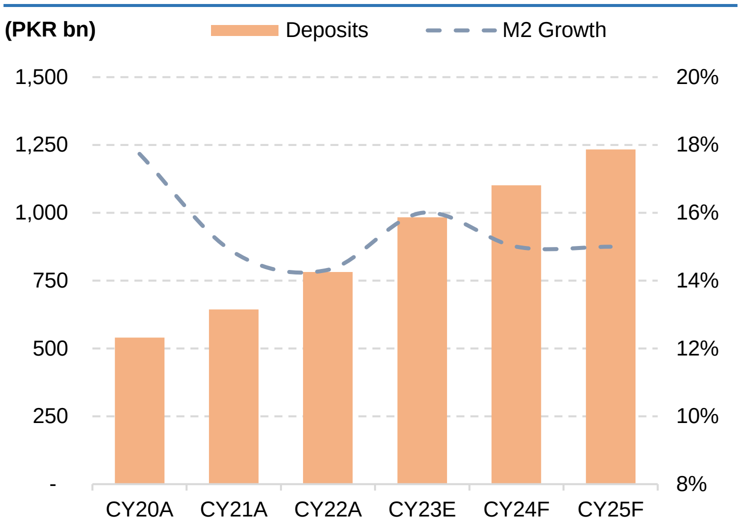
Table: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	71,222	91,457	94,243
Non-Mark-up Income	11,236	14,960	16,285
Total Income	82,457	106,417	110,528
Provisioning	4,236	4,634	4,432
OPEX	41,170	53,946	61,779
Post Tax Profit	18,274	24,396	22,602

Balance Sheet	CY23E	CY24F	CY25F
Advances	483,880	535,690	605,085
Deposits	983,529	1,101,553	1,233,739
Investments	583,918	653,697	731,849
Borrowings	99,484	104,829	122,095
Total Equity	81,406	93,264	106,825

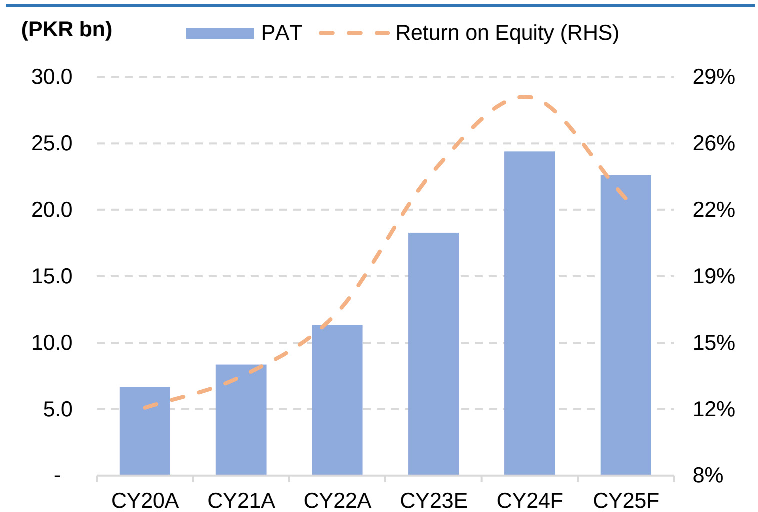
Source (s): Company Financials, AHL Research

Exhibit: Deposit growth in-line with M2 growth



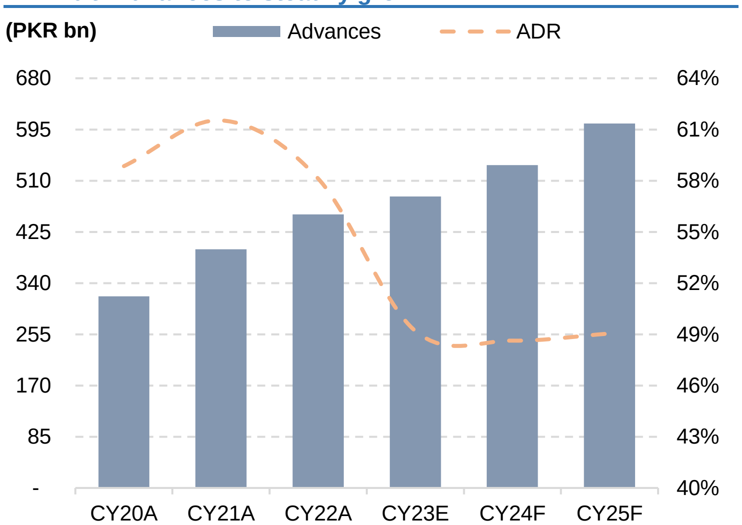
Source (s): SBP, Company Financials, AHL Research

Exhibit: CY24 to post upsurge in profitability



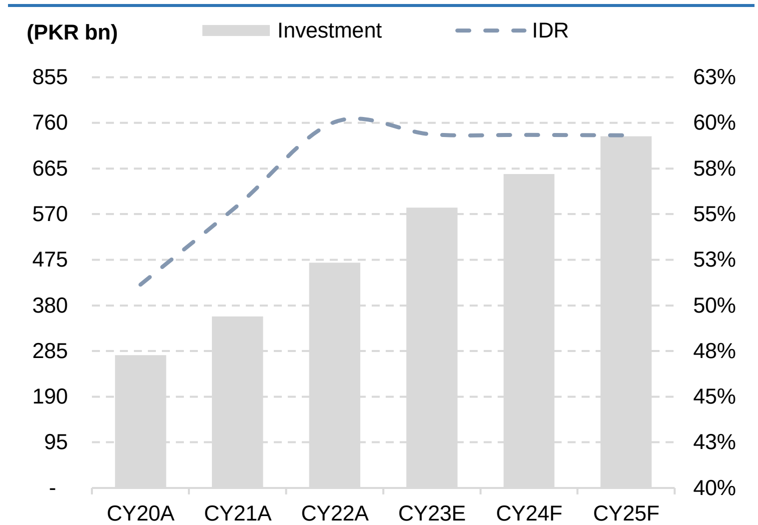
Source (s): Company Financials, AHL Research

Exhibit: Advances to steadily grow



Source (s): Company Financials, AHL Research

Exhibit: Investments jump with increased Sukuk issuance



Source (s): Company Financials, AHL Research

Habib Bank Limited (HBL)

A testament to resilience and growth

HBL is poised for another highly profitable year, with projections indicating its highest-ever profitability in CY23. The bank is expected to maintain this momentum in the following year, supported by a resilient asset portfolio, a well-positioned investment book, a high CASA mix, lower than industry average infection, and decent spreads. HBL stands out as one of the strongest banks in our banking universe. Furthermore, the anticipated increase in CAR due to improved profitability and asset revaluation may lead to higher payouts, enhancing the bank's attractiveness for investors.

Resilient asset quality: Bank's ADR in Sep'23 declined to 44.8% as compared to 51.4% in Dec'22, mainly on the back of credit demand slowdown. The bank's management has set a target to rebuild the loan book and anticipates the ADR to increase, going forward. Its infection ratio stands at a meager 5.0% against a massive gross advances book of PKR 1.8trn as of 9MCY23. Total provisioning during 9MCY23 has settled at PKR 7.4bn while coverage has been built up, remaining at 104% as of Sep'23. Moreover, the bank keeps on performing stress testing of its portfolio and does not foresee any major concerns.

Income mix to change: The total investments surpassed PKR 2.5trn, with a focus on shorter tenors. The lower-yielding fixed-rate PIBs now constitute 20% of the total investments, down from 25% in Dec'22. Going forward, during CY24, ~one-third of the existing fixed-rate investment portfolio, which yields 10.5%, is scheduled to mature, primarily in 3QCY24 which will support revenue stream in the upcoming year. NIMs were up to 5.4% in 3QCY23 as lagged asset repricing began to catch up. As of Sep'23, the bank's Cost to Income ratio stood at 57.1%. This increase in the cost-to-income ratio was attributed to the impact of high inflation and the devaluation of the PKR. Additionally, HBL aims to reduce the Cost to Income ratio to ~mid-40s (%), aiming for a range of around 45-46%. With this, HBL recorded its highest-ever profitability (PAT) of PKR 43bn in 9MCY23, driven mainly by higher total income.

Deposit mix to remain tilted towards CASA: Total deposits of the bank were recorded at PKR 4trn as at Sep'23, up ~14.6% since Dec'22. Out of this the current average domestic deposits stood at PKR 3.1trn, reflecting an increase of PKR 296bn compared to the same period last year. This growth is attributed entirely to the addition of low-cost deposits, with current deposits amounting to PKR 116bn and low-cost savings deposits totaling PKR 174bn.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	41.0	50.2	43.5
Dividend per share	PKR	8.0	10.0	10.0
Book value per share	PKR	227.1	267.0	300.3
Price to Earning	x	2.7	2.2	2.6
Price to Book	x	0.5	0.4	0.4
ADR	%	41.3	39.8	38.7
IDR	%	55.6	58.9	62.0
NIMs	%	6.1	6.1	5.2
RoE	%	19.4	20.3	15.4

Source (s): Company Financials, AHL Research

HBL

Summary Data

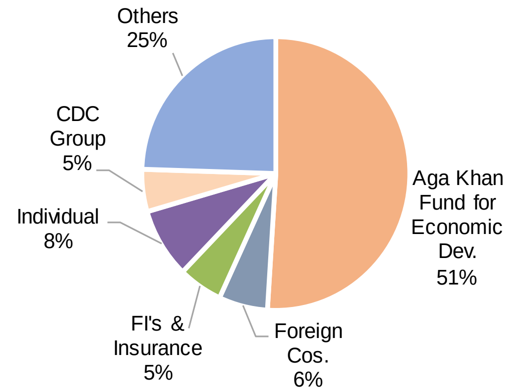
Target Price (Dec'24)	158.3
Last Closing	111.5
Upside (%)	41.9
Shares (mn)	1,467
Free float (%)	40
Market Cap. (PKR mn)	163,613
Market Cap. (USD mn)	574

Recommendation BUY

Price Performance

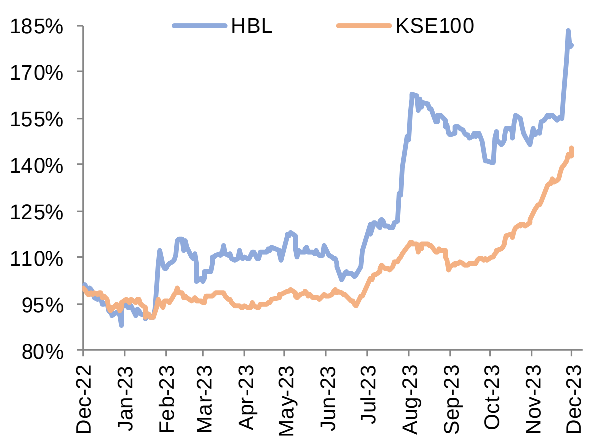
	3M	6M	12M
Return (%)	19.2	61.3	78.4
Avg. Volume (000)	2,692	3,304	2,741
ADTV (mn) - PKR	265	306	233
ADTV (000) - USD	927	1,067	833
High Price - PKR	114.8	114.8	114.8
Low Price - PKR	87.9	64.4	55.2

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

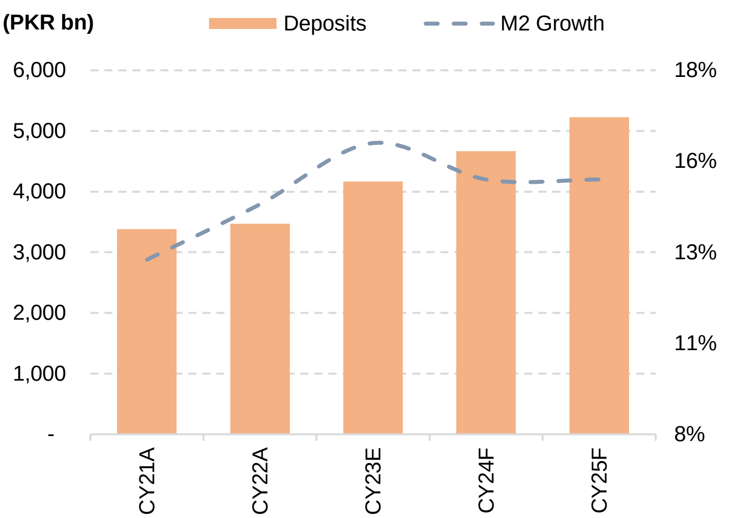
Exhibit: Key Financial Highlights

Income Statement	CY23E	CY24F	CY25F
Net Mark-up Income	251,362	274,249	263,341
Non-Mark-up Income	51,437	64,313	70,453
Total Income	135,927	154,818	135,173
Provisioning	8,360	10,511	9,925
OPEX	166,873	183,744	198,621
Post Tax Profit	60,086	73,596	63,876

Balance Sheet	CY23E	CY24F	CY25F
Advances	1,722,760	1,857,730	2,025,126
Deposits	4,167,764	4,667,895	5,228,043
Investments	2,317,662	2,747,708	3,242,375
Borrowings	708,520	793,542	888,767
Total Equity	333,053	391,655	440,530

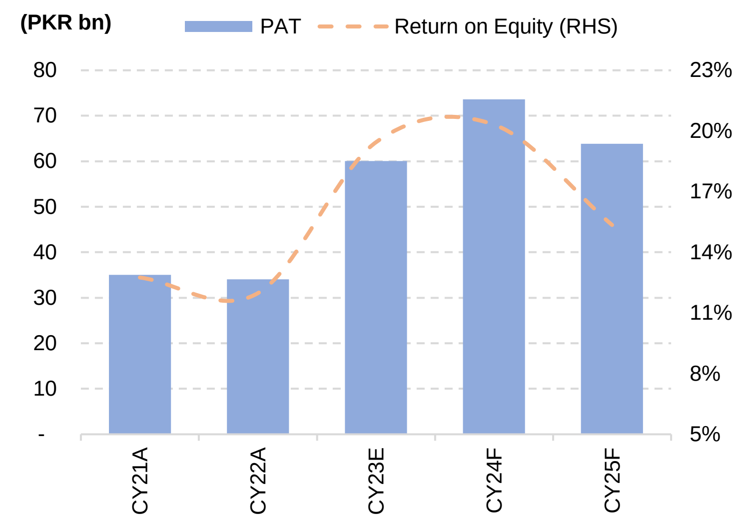
Source (s): Company Financials, AHL Research

Exhibit: Milder deposits growth



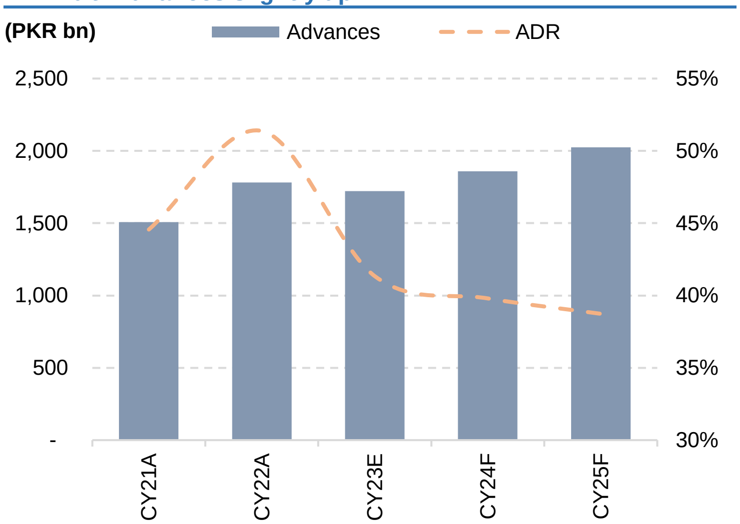
Source (s): SBP, Company Financials, AHL Research

Exhibit: Profitability improves before declining



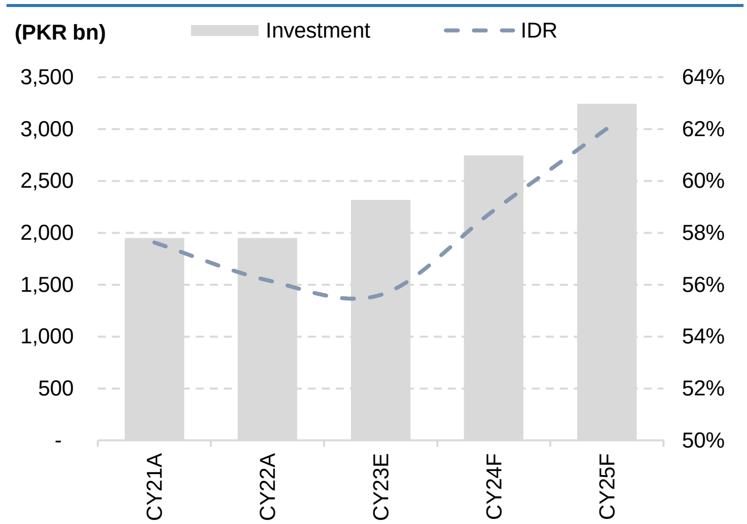
Source (s): Company Financials, AHL Research

Exhibit: Advances slightly up



Source (s): Company Financials, AHL Research

Exhibit: Investments continue to grow



Source (s): Company Financials, AHL Research

Fertilizer

Organic fuel for the economy

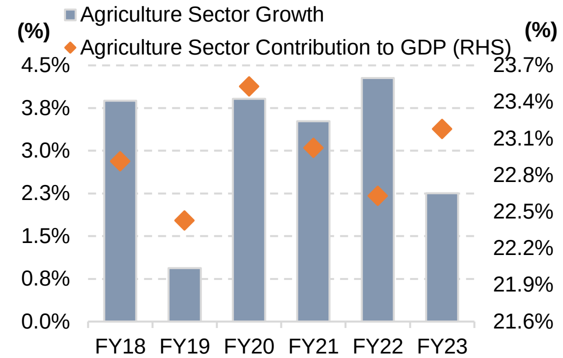
Fertilizers

Better farm agronomic amid bumper production

Performance in agriculture sector: During FY23, the agriculture sector's accounted for 22.9% of Pakistan GDP against 22.6% in FY22, while sector posted a growth of 1.5% YoY. For FY24, agriculture sector is projected to grow by 3.26% in FY24 on the back of better agronomics due to bumper crops.

Consumer Gas Price Revision: At the onset of CY23, the OGRA revised feed and fuel prices to PKR 510/mmbtu (previously: PKR 302/mmbtu) and PKR 1,500/mmbtu (previously: PKR 1,023/mmbtu), respectively. However, the hike in gas prices was notified to consumers on SSGC and SNGP network. As a result, FFBL and EFERT jacked up their respective fertilizer prices to nullify the impact. Meanwhile, the FFC received feed and fuel at PKR 302/mmbtu and PKR 1,023/mmbtu, respectively. In Nov'23, the gov't again revised the gas tariff and feed and fuel prices increased to PKR 580/mmbtu and PKR 1,580/mmbtu, respectively. On the other hand, FFC is getting gas at lower price (pricing on MARI is yet to finalize).

Figure: Agriculture Sector Growth



Source (s): PBS, AHL Research

Fertilizer sales: Urea sales for CY23 are projected to climb up to at 6.7mn tons (up by 2% YoY) . Meanwhile, DAP offtake is anticipated to settle at 1.5mn tons (up by 20%), owing to the absence of floods during the period coupled with higher demand on the anticipation of further hike in DAP prices. For CY24, we forecast urea offtake to remain stable at 6.7mn tons level, while DAP offtake to arrive at 1.7mn tons.

Urea Prices: During CY23, average urea prices surged by 48% YoY to PKR 3,329/bag compared to an average price of PKR 2,247/bag during CY22. At the start of the year, the fertilizer manufacturers augmented the urea prices to PKR 2,440/bag in Jan'23 from PKR 2,246/bag in Dec'22 as OGRA revised the consumer gas prices, increasing feed and fuel prices by 69% and 47%, respectively. With this, the homogeneity in the urea prices amongst the fertilizer players vanished since some manufacturers were not notified revised feed and fuel gas prices. With this, the urea price of EFERT and FFBL increased to PKR 2,994/bag and PKR 2,940/bag, respectively to pass on the impact of jump in gas prices. Meanwhile, the FFC urea's price stayed at PKR 2,440/bag. Moreover, Federal Budget'24 imposed 5% FED on fertilizers, impact of which was passed on by all the fertilizer companies. In Nov'23, the government again revised consumer gas prices and similar to last time, the gas prices of manufacturers on MARI network were not revised. Albeit, the current urea prices of FFC, FATIMA, EFERT, and FFBL stood at PKR 3,193/bag, PKR 3,410/bag, PKR 3,480/bag and PKR 3,680/bag, respectively. Furthermore, the government is expected to revise the gas prices in Jan'24 and if fertilizer manufacturers on MARI network are notified, then there will be a massive jump in urea prices of those manufacturers. On the flipside, the international urea prices is Nov'23 were USD 379/ton compared to USD 591.59/ton, down by 27% YoY amid slowdown in urea demand internationally.

Phosphoric Acid and International DAP Prices: The international DAP price came down to USD 534/tons in Nov'23 from USD 673/bag in Nov'22, down by 21% YoY. The decline in international DAP price comes primarily on the back of reduction in phosphoric acid prices, which was USD 985/ton in Nov'23 compared to USD 1,150/ton in Nov'22, down by 14% YoY. The reduction in phosphoric acid price is attributable to drop in international demand. The international DAP prices internationally are expected to remain stable during CY24.

Local DAP price: Meanwhile, the DAP prices averaged around PKR 10,910/bag, up by 3% YoY. The decrease in phosphoric acid and DAP prices was balanced by Pak

Rupee depreciation. The DAP prices after peaking at PKR 10,544/bag in Mar'23 plummeted to PKR 9,270/bag in Jul'23. However, imposition of 5% FED on all the fertilizers and 5% sales tax on imported DAP ballooned up the DAP prices, which is currently PKR 13,014/bag towards the end of Nov'23.

Pressure Enhance Facilities project: The HRL Pressure Enhance Facilities project, which is a joint venture between EFERT, FFC, FATIMA and MARI retain production from Mari HRL Reservoir at necessary delivery pressure for gas supplies to fertilizer plants. At present, the project is under pipeline debottlenecking phase. For installation of compression facility at different nodes, the detailed designing and procurement is being conducted.

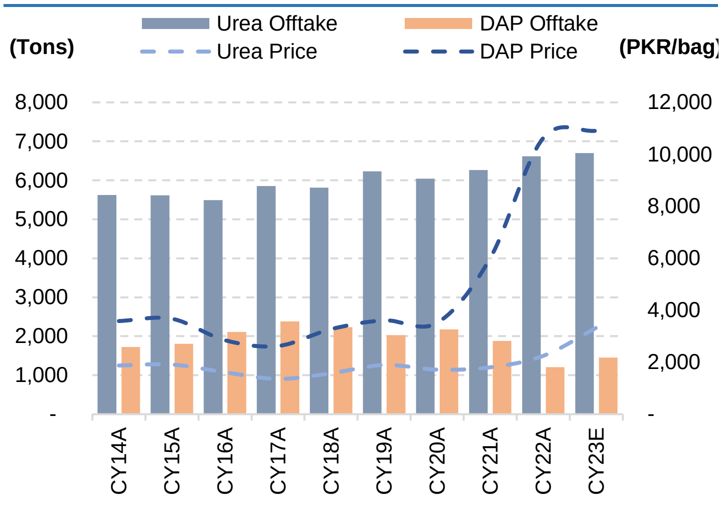
Agriculture to be promoted under SIFC: Under single window of Special Investment Facilitation Council (SIFC), the government is promoting is agriculture sector, where the goal is to transition from traditional farming to innovative, hi-tech, high-yield, and low cost community based corporate farming, revolutionizing the agriculture sector. Under this project, the government is working on Green Pakistan initiative, purpose of which is to improve the food security, accelerate exports and cut down the agriculture-related imports. We believe incentives offered under SIFC will entice investors towards fertilizer business. The incentives include allowing foreign investors to hold up to 60% stake in agriculture projects, while 100% for corporate agriculture farming.

Outlook: The government is expected further revise gas prices in Jan'24, which would impact the local fertilizer pricing. Moreover, the government is importing urea of 0.2mn tons to prevent shortfall in demand during Rabi Season. The Govt. has also tightened border surveillance to prevent fertilizers from being smuggled out of the country. Meanwhile, the federal government may withdraw subsidy on imported urea, which then be borne by the provinces. Furthermore, the Kissan Package worth PKR 158bn is extended till Feb'24, which will support small farmers.

Key Risk (s)

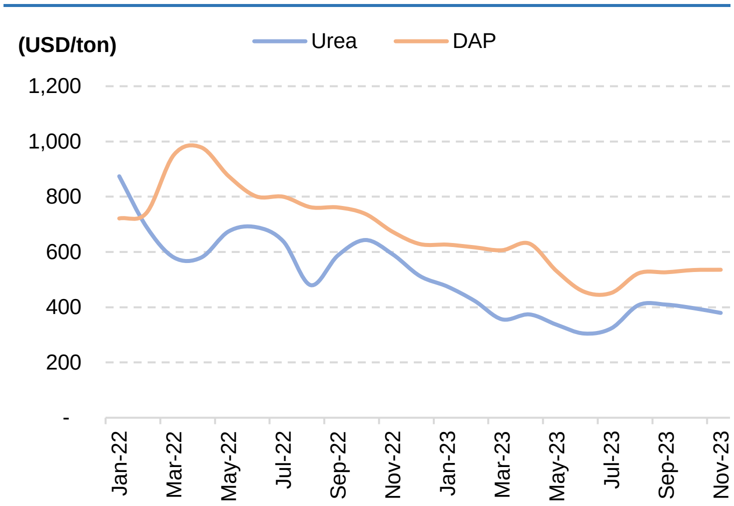
- Inability to pass on the impact of hike in gas price to end consumers.
- Prolonged shortfall of gas
- Natural disasters such as floods can adversely affect fertilizer sales.

Figure: Urea and DAP offtake and prices



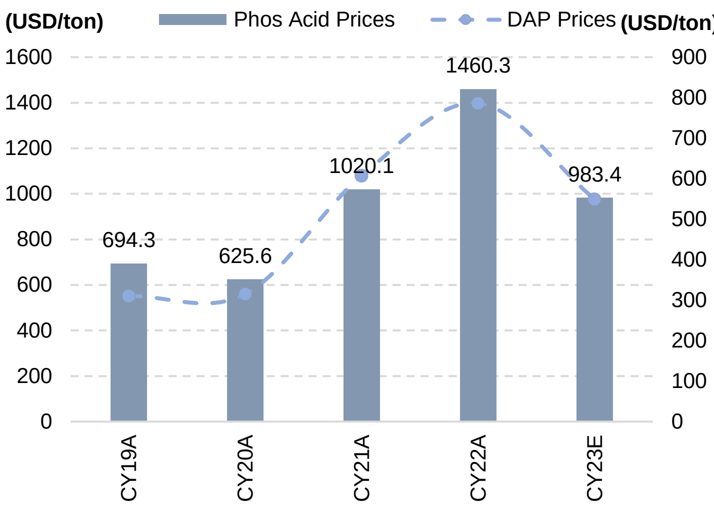
Source (s): NFDC, AHL Research *estimated

Figure: International Urea and DAP prices



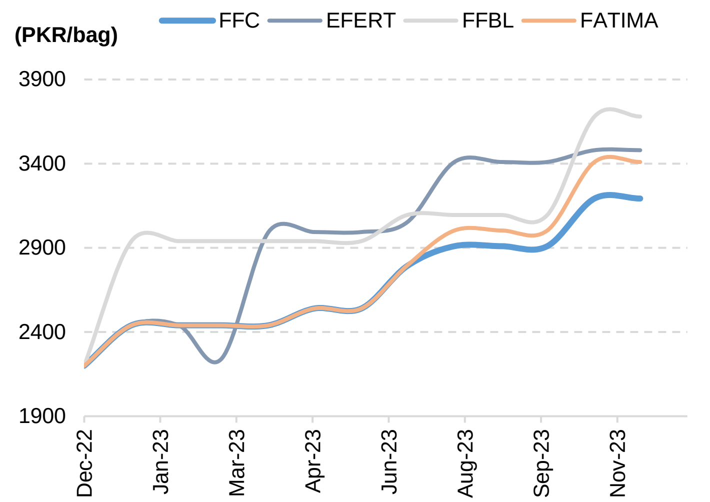
Source (s): Bloomberg, AHL Research

Figure: Phosphoric Acid price in relation to DAP prices



Source (s): Bloomberg, AHL Research *estimated

Figure: Urea prices of major urea producer in CY23



Source (s): Fertilizer Dealers, AHL Research

Fauji Fertilizer Company Limited (FFC)
Top-tier triumphh

Competitive Advantage in urea cost: The government notified price of feed and fuel for the consumers of SNGP and SSGC in Feb'23 and Nov'23. Meanwhile, companies under Mari network are procuring feed and fuel gas at PKR 302/mmbtu and PKR 1,023/mmbtu. This gives FFC a competitive edge over other major urea producers in the industry since it is under Mari's network, resulting in better gross margins during 9MCY23 compared to other fertilizer manufacturers in the sector. The company will have to increase the urea price by PKR 479/bag after OGRA notified hike in consumer gas price to consumers under Mari network. In event of notification of gas price, FFC's gross margins in CY24 are expected to be 36%. If there is no revision in gas price, then the gross margins in CY24 will climb up to 41%. Currently, FFC's urea price stands at PKR 3,193/bag (which is discounted compared to industry).

Urea and DAP offtake to remain stable: The urea sales in CY23 and CY24 are estimated at 2.5mn tons each. Similarly, we project stable DAP sales to be 0.2mn tons during CY23 and CY24 each.

5-yr earnings CAGR of 17.6%: FFC's profitability to grow at a 5-Yr CAGR of 17.6%, arriving at PKR 30.11/share in CY26, taking into consideration diversified portfolio of business in banking, energy and FMCG sectors. For CY23 and CY24, we expect earnings to clock-in at PKR 25.15/share and PKR 27.87/share, respectively. Major growth driver for the company is higher margins in core business, coupled with dividend income from AKBL, FFBL, FFCEL, FWEL I and FWEL II.

Thar Energy to enhance value proposition: We project an earnings contribution of PKR 2.83/share on an annualized basis from CY24 and a contribution of PKR 4.21/share to our target price.

Gas Projects: The company along with other fertilizer companies is involved in Pressure Enhancement Facilities project, which upon completion will supply gas at appropriate pressure to fertilizer plants. Currently, the project is under the pipeline debottlenecking phase. Furthermore, the company is engaged in a RLNG pipeline project to connect SNGP network to Mirpur Mathelo plant as an alternative source of gas supply.

Retrospective Super Tax: The company has challenged imposition of additional super tax of 6% charged on PBT of CY22 and 1QCY23 in the court of law. The company was able to secure a stay order on retrospective super tax charge. To recall, the company challenged the imposition of super tax on PBT of CY21 in IHC, in which the court declared it unconstitutional.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	25.6	27.67	28.29
Dividend per share	PKR	20.0	21.0	22.0
Book value per share	PKR	45.5	52.18	58.47
Price to Earning	x	4.4	4.08	3.99
Price to Book	x	2.5	2.16	1.93
Dividend Yield	%	17.9	18.60	19.49
Net Margins	%	18.6	16.72	17.13

Source (s): Company Financials, AHL Research

FFC

Summary Data

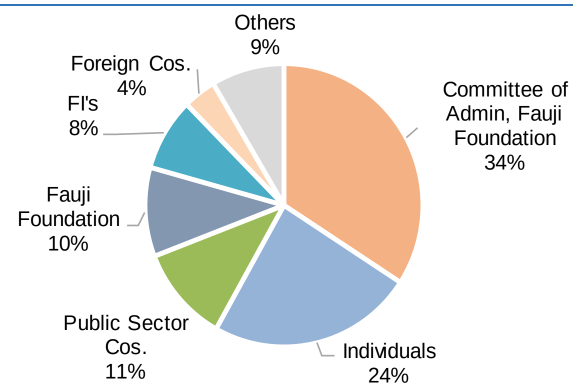
Target Price (Dec'24)	152.3
Last Closing	112
Upside (%)	36.1
Shares (mn)	1,272
Free float (%)	55
Market Cap. (PKR mn)	142,325
Market Cap. (USD mn)	498

Recommendation BUY

Price Performance

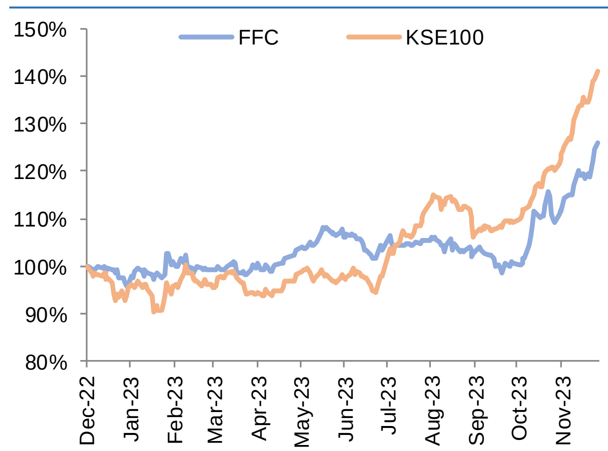
	3M	6M	12M
Return (%)	20.4	16.0	23.8
Avg. Volume (000)	994	771	671
ADTV (mn) - PKR	103	79	68
ADTV (000) - USD	362	275	249
High Price - PKR	112.3	112.3	112.3
Low Price - PKR	87.5	87.5	85.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



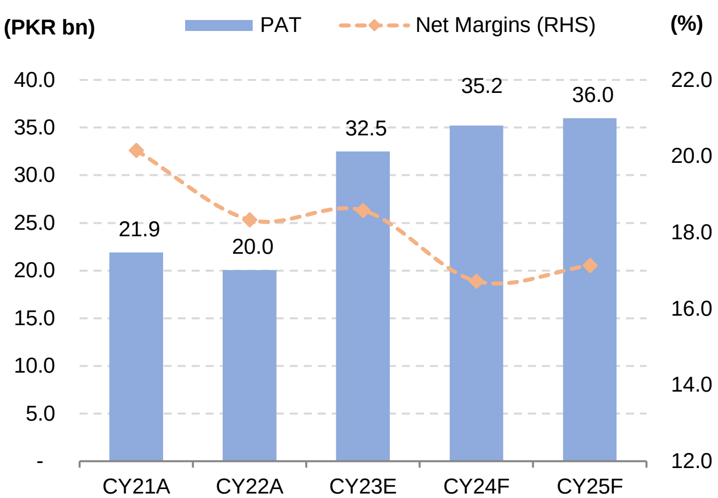
Source: Bloomberg, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	CY23E	CY24F	CY25F
Net Sales	174,991	210,542	210,023
Gross Profit	65,234	75,346	76,461
Operating Profit	16,830	13,172	12,140
Finance Cost	7,402	9,658	6,746
Post Tax Profit	32,507	35,206	35,987
Balance Sheet	**CY23E**	**CY24F**	**CY25F**
Shareholder's Equity	57,897	66,386	74,384
Trade and Other Payables	129,491	142,390	140,483
Total Liabilities	199,513	216,584	216,335
Current Assets	156,681	177,433	179,076
Non-Current Assets	100,730	105,536	111,643
Total Assets	257,411	282,970	290,719

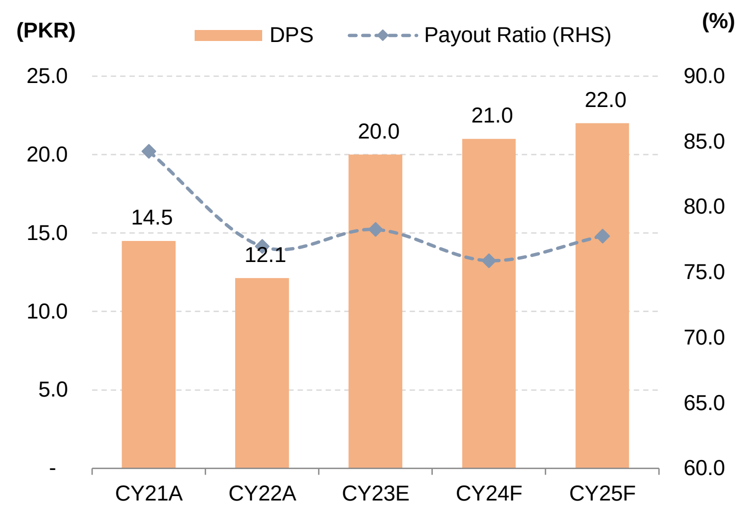
Source (s): Company Financial, AHL Research

Figure: FFC's Profitability



Source (s): Company Financials, AHL Research

Figure: Dividend payout



Source (s): Company Financials, AHL Research

Fauji Fertilizer Bin Qasim Limited (FFBL)

Sovereign DAP supremacy

Higher DAP margins: The international price of phosphoric acid in CY23TD is USD 983/ton compared to USD 1,460/ton in CY22. The downward trend in phosphoric acid is owed to fall in price of phosphate rock which is due to jump in supply from major producers. The impact of lower prices phosphoric acid is offset by Pak Rupee depreciation. Hence, we estimate primary DAP margins for CY23 to be ~USD 308/ton compared to USD 190/ton in CY22.

Urea and DAP Offtake: Whereas, we project DAP offtake (averaging at 0.8mn at a utilization of 120% during the last 5 years) to settle at 0.8mn tons during CY23.We expect urea offtake to arrive at 0.4mn tons for CY23.

Sale of Meat Business: During CY23, the company sold off its entire stake in Fauji Meat Limited to Fauji Foundation for PKR 4.3bn (resulting in company booking capital gain of PKR 265mn). The company plans to utilize the cash for stabilizing operations, restructuring and paying off debts. Furthermore, the company has no plans for diversification.

Update on Subsidiaries: FFBL Power Company Limited (FPCL) is expected to post healthy profits. Currently company uses a coal mix, which includes Thar coal (70% international and 30% local). The company planning to bring international and local coal mix ratio to 50:50 in CY24. Beyond CY24, the company will seek to bring the international and local mix ratio to 30:70. On the other hand, Fauji Food Limited (FFL) is projected to be profitable in CY24 and onwards. Through internal efficiencies, the company has managed to its improve its gross margins. The company has increased distribution outlets and has garnered strong institutional clientele which would keep the sales volumes robust. Furthermore, company made 1MW solar and bio mass projects operational during the CY23 which reduced energy costs of the company. In addition to this, the company has fulfilled all the banking obligations in Mar'23, owing to which finance cost is now eliminated.

Gas supply matter: During 9MCY23, the gas curtailment reached 47% of the allocation. To resolve this issue, the company engaged with the Govt., in response to which commitment to supply uninterrupted gas till Mar'24 was made. With this we expect proper gas supply in the month of Rabi season. Furthermore, the company delayed ATA plans in CY24 due to this commitment. Moreover, the company is contemplating various options to cater shortfall in gas supply which includes acquiring unallocated gas from new discoveries.

Earnings to settle at PKR 4.58/share in CY24: We expect profitability in CY23 and CY24 to arrive at PKR 2.12/share and PKR 4.58/share, respectively, which is expected on stable better DAP margins and higher income from subsidies. Furthermore, we anticipate higher dividend income from subsidies such as Pakistan Maroc Phosphore S.A (PMP), FFBL Power Company Limited (FPCL) and Askari Bank Limited (AKBL).

FFBL

Summary Data

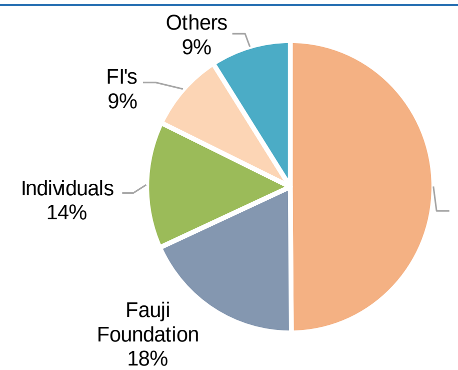
Target Price (Dec'24)	29.9
Last Closing	24.6
Upside (%)	21.7
Shares (mn)	1,291
Free float (%)	35
Market Cap. (PKR mn)	31,713
Market Cap. (USD mn)	111

Recommendation BUY

Price Performance

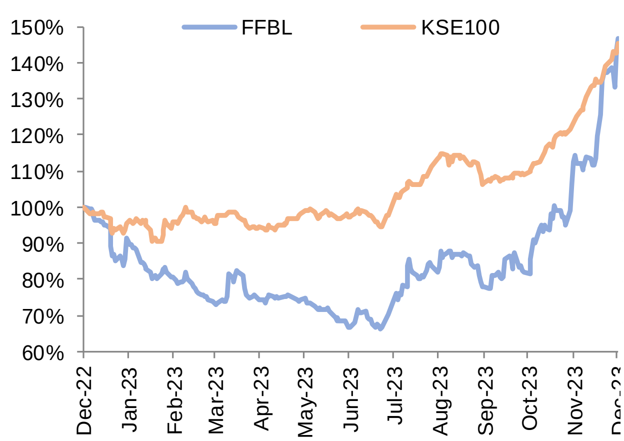
	3M	6M	12M
Return (%)	88.8	118.9	46.7
Avg. Volume (000)	4,743	3,234	2,023
ADTV (mn) - PKR	98	61	36
ADTV (000) - USD	343	214	128
High Price - PKR	24.6	24.6	24.6
Low Price - PKR	12.9	11.1	11.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	2.12	4.58	5.55
Dividend per share	PKR	-	-	1.00
Book value per share	PKR	19.71	24.30	28.84
Price to Earning	x	11.60	5.36	4.43
Price to Book	x	1.25	1.01	0.85
Dividend Yield	%	-	-	4.07
Net Margins	%	1.48	3.36	4.09

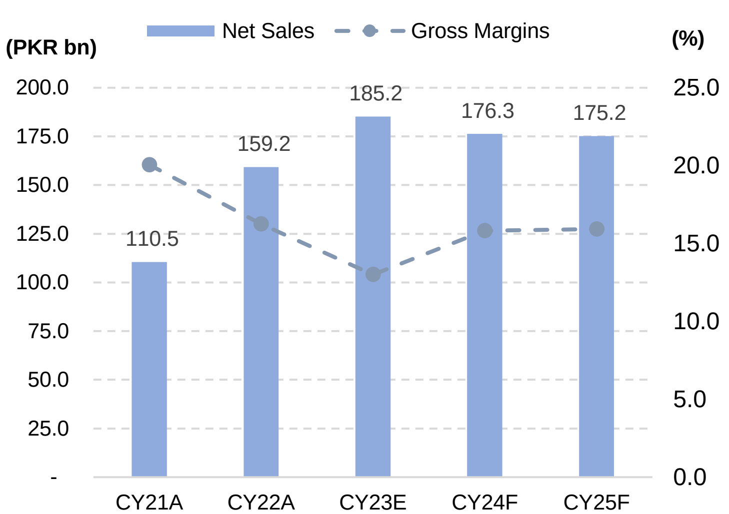
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	CY23E	CY24F	CY25F
Net Sales	159,226	185,228	176,287
Gross Profit	25,869	24,087	27,906
Operating Profit	6,342	8,034	6,265
Finance Cost	5,144	9,151	8,770
Post Tax Profit	2,328	2,734	5,919
Balance Sheet	**CY23E**	**CY24F**	**CY25F**
Shareholder's Equity	22,722	25,457	31,376
Trade and Other Payables	69,459	62,949	69,093
Total Liabilities	127,140	117,079	117,329
Current Assets	110,351	106,992	111,864
Non-Current Assets	39,511	35,544	36,840
Total Assets	149,863	142,536	148,704

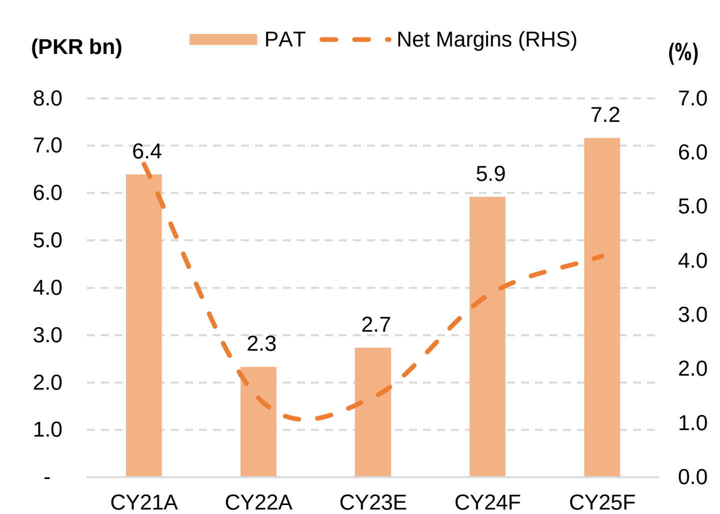
Source (s): Company Financial, AHL Research

Figure: Sales in relation to gross margin



Source (s): Company Financials, AHL Research

Figure: PAT in relation to net margin



Source (s): Company Financials, AHL Research

Engro Corporation Limited (ENGRO)

Harvesting Success

Profitability to climb up at a 5-year CAGR of 20%: For CY23 and CY24 we expect earnings to arrive at PKR 63.2/share and PKR 76.0/share, respectively. This is anticipated on account of: 1) higher available capacity (950k tons) at base plant of EFERT, 2) the addition of hydrogen peroxide plant (expected to come online in 2HCY23) to support earnings growth of EPCL, 3) contribution from Engro Powergen Thar Power Limited (EPTPL) and Sindh Engro Coal Mining Company (SECMC), which has been operational since the past three years, and 4) stable business operations of Elengy terminal based on a USD-denominated revenue stream. Albeit, we forecast the company's 5-year earnings to CAGR to grow by 20%.

Thar projects: During 9MCY23, the plant availability was 80% compared to 68% in SPLY. The major reason behind higher plant availability is conveyor belt accident which happened last year. EPTL dispatched 2,617 GWh to national grid against 2,657 GWh in SPLY. We forecast earnings contribution in CY24 of PKR 7.89/share and PKR 1.92/share from EPTL and SECMC, respectively. The company is willing to start work on phase III of SECMC, which will increase mining capacity to 11.4mn tpa. The company has commenced work on phase III after approval from Sindh Govt., with COD expected in 1QCY24.

Divestment of Thermal businesses: The company has entered into agreement with Libery Power Tech Limited to divests its thermal business held through wholly owned subsidiary Engro Energy Limited. Both entities are in discussions regarding the implementation of a scheme of arrangement to establish a strategic equity partnership concerning ENGRO's thermal asset portfolio. The thermal assets include Engro Powergen Thar Limited, Engro Powergen Qadirpur Limited and SECMC. The stake adjusted present value of EPTL, EPQL and SECMC is expected to be PKR 32bn, PKR 7bn and PKR 8bn, respectively. We project an earnings contribution from EPTL, EPQL and SECMC of PKR 36.79/share in total in CY24. Meanwhile, these subsidiaries contribute in total PKR 87.5/share to our target price. Hence, this transaction will have a significant impact on ENGRO's consolidated earnings and valuation. Depending on the mutually agreed selling price, the company will book a one-time gain on divestment. Furthermore, the company's cash and cash balances will witness a significant jump, which the company could use to pay out hefty dividends or retain some of them for potential investment. At present the company's cash and cash balance stand at PKR 17bn as of Sep'23.

Renewable Energy: Engro Energy, in partnership with STDC and DAE, is undertaking the development of a renewable energy park in Jhimpir in two phase. During the initial phase, the generation capacity will reach 400MW. Following the completion of phase II, the total generation is projected to escalate to 1 GW. The anticipated Commercial Operation Date (COD) for the project is by the end of CY25. The COD of the project is end towards the end of CY25. The CAPEX size is estimated to be USD 400mn – USD 600mn

Engro Enfrashare: Engro Enfrashare was able to reach 3,787 tower sites by Sep'23. Moreover, the company has a market share of 55% in Built-to-Suit towers. Furthermore, the business outlook remains robust given the surge of data usage in Pakistan while mobile network operators seek to improve service quality and availability.

FZE Trading: The company has setup Engro Eximp FZE in Dubai, scope of which is to seek trading opportunities and extend capability of export and make efficient

ENGRO

Summary Data

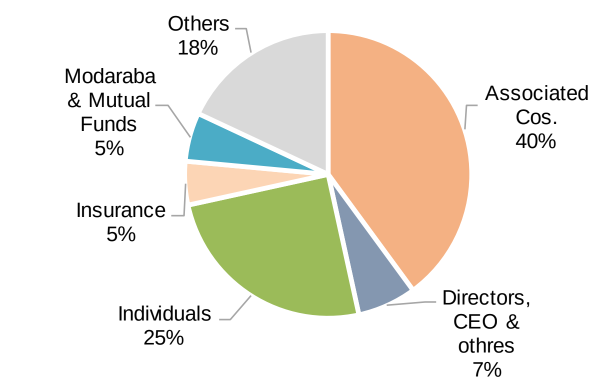
Target Price (Dec'24)	372.1
Last Closing	303.7
Upside (%)	22.5
Shares (mn)	537
Free float (%)	50
Market Cap. (PKR mn)	162,947
Market Cap. (USD mn)	572

Recommendation BUY

Price Performance

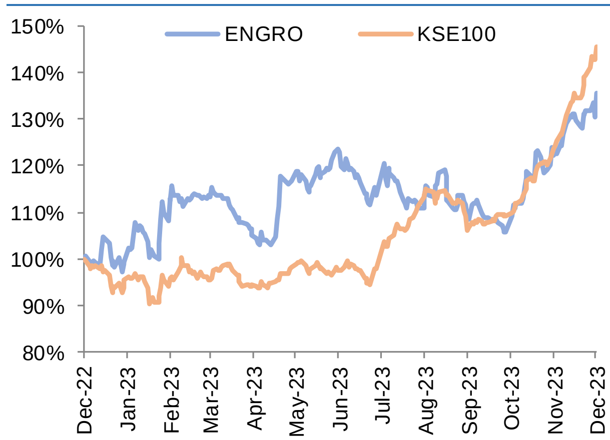
	3M	6M	12M
Return (%)	25.2	13.1	35.7
Avg. Volume (000)	617	622	876
ADTV (mn) - PKR	169	167	247
ADTV (000) - USD	594	585	911
High Price - PKR	303.7	303.7	303.7
Low Price - PKR	236.7	236.7	217.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

imports. In CY23TD, the business transported 260k tons volumes and handled 12 products. Moreover, the business reported first ever DAP and Ammnonium Sulphate transaction of 22K tons each in CY23TD, which was procured from China and sold to an Indonesian state company.

Other businesses:

Fertilizer: EFERT has enhanced the production capacity of its base plant to 950k tons p.a of urea after the BMR, resulting in higher production and sales leading improved profitability during the 9MCY23. We anticipate that this positive trend in sales and profitability will persist in CY24.

Chemical: However, earnings from EPCL are predicted to decline due to lower PVC margins and the imposition of a higher super tax. EPCL is currently conducting a FEED study for a VCM expansion by 300k tons p.a with a completion time estimated to be 6-7 months. Additionally, the hydrogen peroxide plant with a capacity of 28k tons is expected to become operational, improving EPCL's overall volumes. The company is exploring alternative energy sources amid shortage of domestic gas.

Power: Furthermore, EPQL's operations are forecasted to remain stable.

Terminal: Engro Elengy is expected to maintain a higher throughput. Conversely, Engro Vopak's marine LPG imports are anticipated to face pressure due to imports via the Taftan border.

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	*PKR*	63.2	76.0	85.6
Dividend per share	*PKR*	54.0	61.0	61.0
Book value per share	*PKR*	596.3	652.8	707.3
Price to Earning	*x*	4.8	4.0	3.5
Price to Book	*x*	0.5	0.5	0.4
Dividend Yield	*%*	17.8	20.1	20.1
Net Margins	*%*	7.7	8.5	9.2

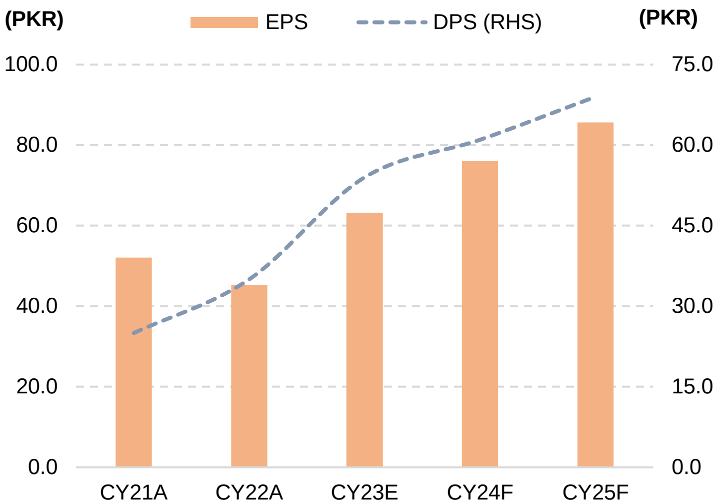
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	CY23E	CY24F	CY24F
Net Sales	440,601	479,659	498,176
Gross Profit	145,174	157,279	150,181
Other Income	24,922	15,048	5,300
Other Expenses	8,120	6,660	6,231
Post Tax Profit	33,937	40,769	45,938
Balance Sheet	**CY23E**	**CY24F**	**CY24F**
Shareholder's Equity	320,012	350,312	379,536
Trade and Other Payables	153,263	175,179	227,733
Total Liabilities	581,181	634,016	712,910
Current Assets	409,985	456,977	525,147
Non-Current Assets	491,208	527,352	567,299
Total Assets	901,193	984,329	1,092,446

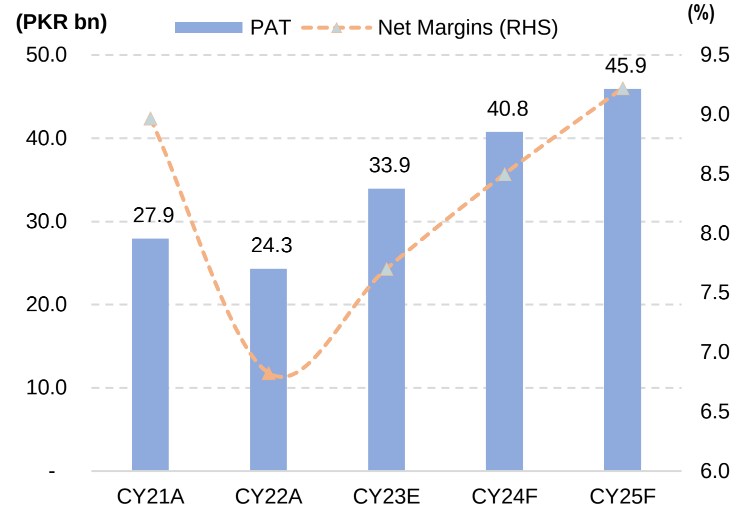
Source (s): Company Financial, AHL Research

Figure: EPS versus DPS



Source (s): Company Financials, AHL Research

Figure: ENGRO's Profitability margin



Source (s): Company Financials, AHL Research

Fatima Fertilizer Company Limited (FATIMA)

Exhibit: Ratio Analysis

		CY20A	CY21A	CY22A
Earnings per share	PKR	6.3	8.80	6.73
Dividend per share	PKR	2.5	3.5	3.5
Book value per share	PKR	41.5	47.74	50.91
Price to Earning	x	4.6	4.09	5.00
Price to Book	x	0.7	0.75	0.66
Dividend Yield	%	8.6	9.72	10.42
Net Margins	%	18.6	16.42	9.28

Source (s): Company Financials, AHL Research

Exhibit: Key Consolidated Financial Highlights (PKR mn)

Income Statement	CY20A	CY21A	CY22A
Net Sales	71,267	112,488	152,231
Gross Profit	28,795	43,084	51,943
Operating Profit	22,212	30,191	33,695
Finance Cost	3,469	2,007	2,930
Post Tax Profit	13,275	18,474	14,124
Balance Sheet	**CY20A**	**CY21A**	**CY22A**
Shareholder's Equity	87,103	100,263	106,911
Trade and Other Payables	22,871	38,469	55,372
Total Liabilities	70,454	84,630	115,595
Current Assets	42,558	71,774	102,790
Non-Current Assets	114,999	113,120	119,715
Total Assets	157,557	184,893	222,506

Source (s): Company Financial, AHL Research

FATIMA

Summary Data

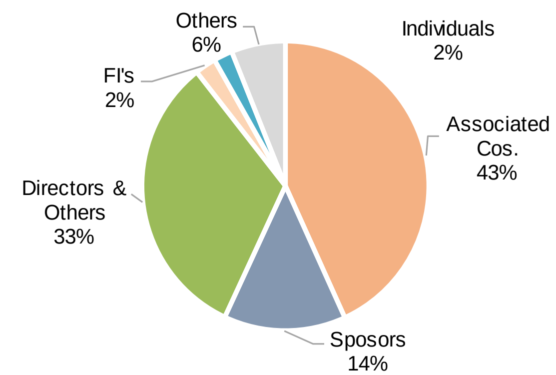
Target Price (Dec'24)	na
Last Closing	33.9
Upside (%)	na
Shares (mn)	2,100
Free float (%)	15
Market Cap. (PKR mn)	71,190
Market Cap. (USD mn)	250

Recommendation n.a

Price Performance

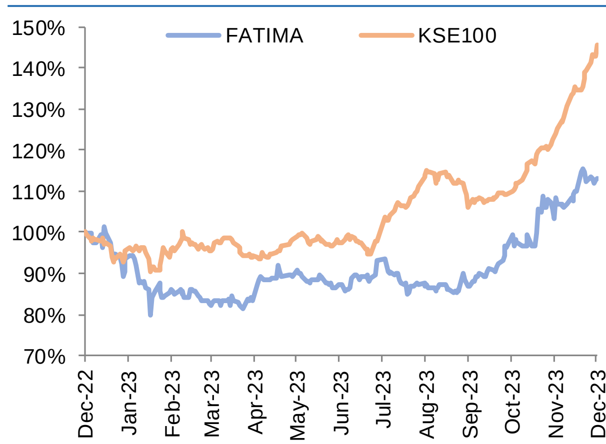
	3M	6M	12M
Return (%)	30.1	29.5	13.0
Avg. Volume (000)	514	298	202
ADTV (mn) - PKR	17	10	6
ADTV (000) - USD	58	33	23
High Price - PKR	34.6	34.6	34.6
Low Price - PKR	26.1	25.4	23.9

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Oil & Gas Exploration & Production

Attractive discounts warrant attention

Exploration and Production

International oil price outlook

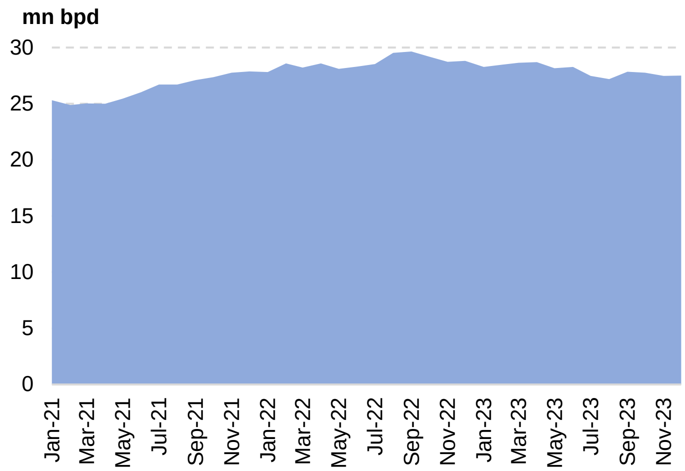
Weak Oil Demand and Production Cut: The oil prices during CY23TD reported a decline due to in weak oil demand. The prices of Brent, Arab Light and WTI plummeted by 16.59%, 16.77%, and 17.28% YoY, respectively during CY23. At the onset of the fiscal year 2023, oil prices initially depicted a growing trend aided by production cut by OPEC+ in Nov'22 by 2mn b/d. However, the oil price could not sustain the momentum and tumbled on the back worries related to recession at major world economies. In Mar'23, the oil price further came down to USD 72.31/bbl level (Arab Light) given one of the largest bank Credit Suisse collapsed. Meanwhile, in Apr'23 OPEC+ announced a surprise cut of 1.15mn b/d, aiming to bring stability to the oil prices. With this, the oil prices climbed up for short period. However, concerns over economic slowdown, and strengthening of USD coupled with expectation of interest rate hike by US Federal Reserve and US debt ceiling pact resulted in decline in oil prices. Keeping this in view, several OPEC+ members pledged voluntary cuts from May'23. In Jun'23, the OPEC+ extended the production cut until end of 2024, with total oil output cuts clocking in at 3.66mn b/d. Saudi Arabia in Jun'23 pledged to cut additional 1mn b/d from Jul'23 till Dec'23. Similarly, Russia in Aug'23 announced 0.3mn b/d cut production. Moreover, hurricane Hilary and Idalia in USA during Aug'23, also influenced the jump in oil price. Amidst all this, the US and Iran diplomatic relations improvement, with Iranian minster drafting a plan to bring oil production to pre-sanction level. However, with commencement of Israel and Palestine war oil prices witnessed a rally, the impact of which dialed down in few days. Meanwhile, oil price declined on the back of the back of concerns over oil demand and potential surplus in CY24. Russia increased the production cut to 0.5mn b/d, extending the timeline till Dec'24. The OPEC+ met again towards the end of Nov'23, where the cartel to cut oil production by additional 2.2 b/d deadline till 1QCY24, in which Saudi Arabia, Russia, Iraq, UAE, and Kuwait announced to cut 1mn b/d, 0.2mn b/d, 0.2mn b/d, and 0.1mn b/d, respectively.

Demand outlook: During CY24, world oil demand is anticipated to grow by 1.39 mb/d to 102.44 mb/d according to EIA. Major contributor for the jump is anticipated to be demand from Asian countries (+0.52mb/d YoY), China (+0.38 mb/d YoY) and United States of America (+0.21 mb/d YoY).

Supply outlook: The non-OPEC oil supply growth for CY24 is project to arrive at 69.31 mb/d, showcasing a growth of 1.14 mb/d YoY mainly due to growth from OECD countries (+0.67 mb/d YoY). Whereas, supply by OPEC is forecasted to decline by 0.13 mb/d to 33.24mb/d in CY24 versus 33.36 mb/d in CY23.

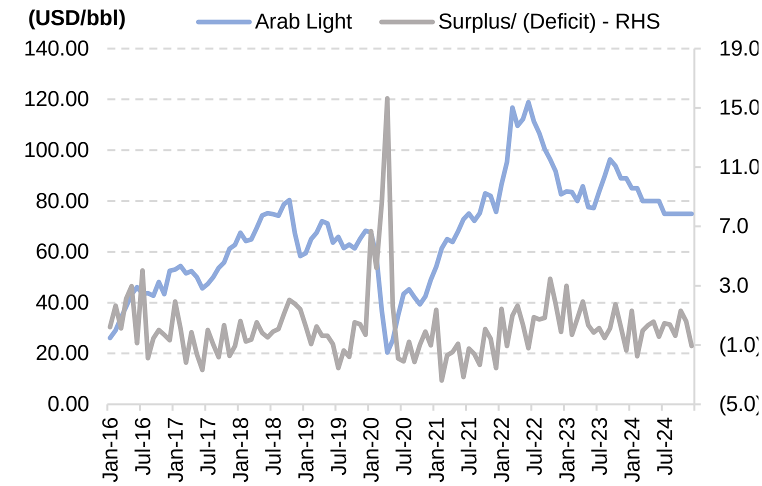
Oil price outlook: In our view, oil prices are expected to average around USD 85/bbl in FY24, USD 75.00/bbl in FY25. Key factors to watch out for oil price outlook include 1) global demand slowdown owed to high inflation, 2) outcome of the Russia and Ukraine war, 3) Israel and Palestine conflict, and 4) further UN sanctions on Iran.

Figure: OPEC Crude Oil Production



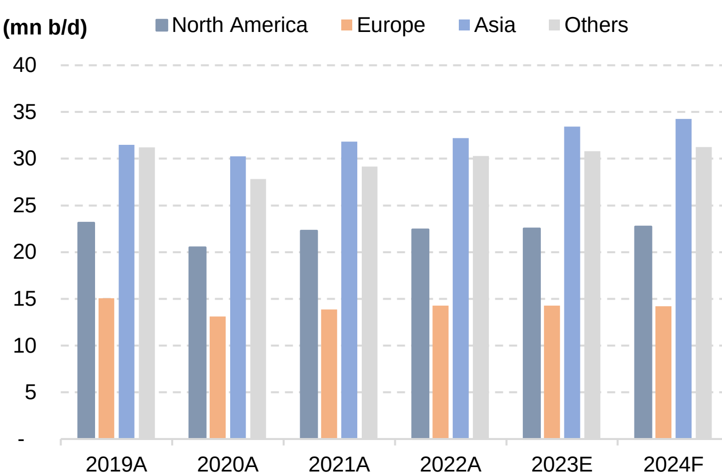
Source (s): EIA Short Term Energy Outlook, AHL Research

Figure: World Oil Balance and Arab Light Price



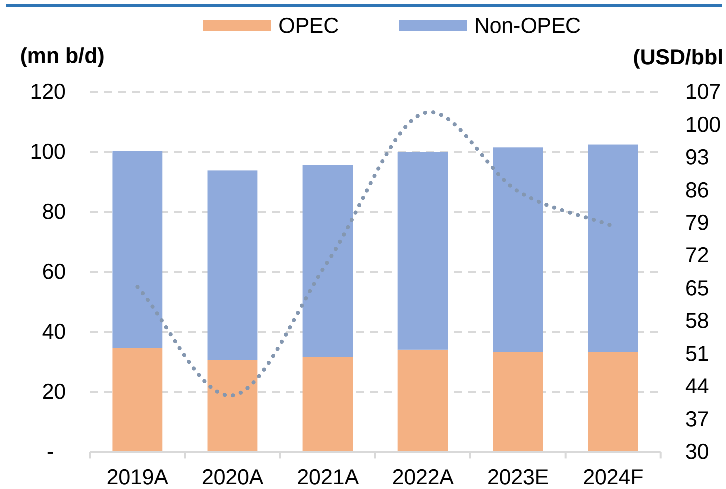
Source (s): EIA Short Term Energy Outlook, AHL Research

Figure: Crude Oil Consumption Worldwide



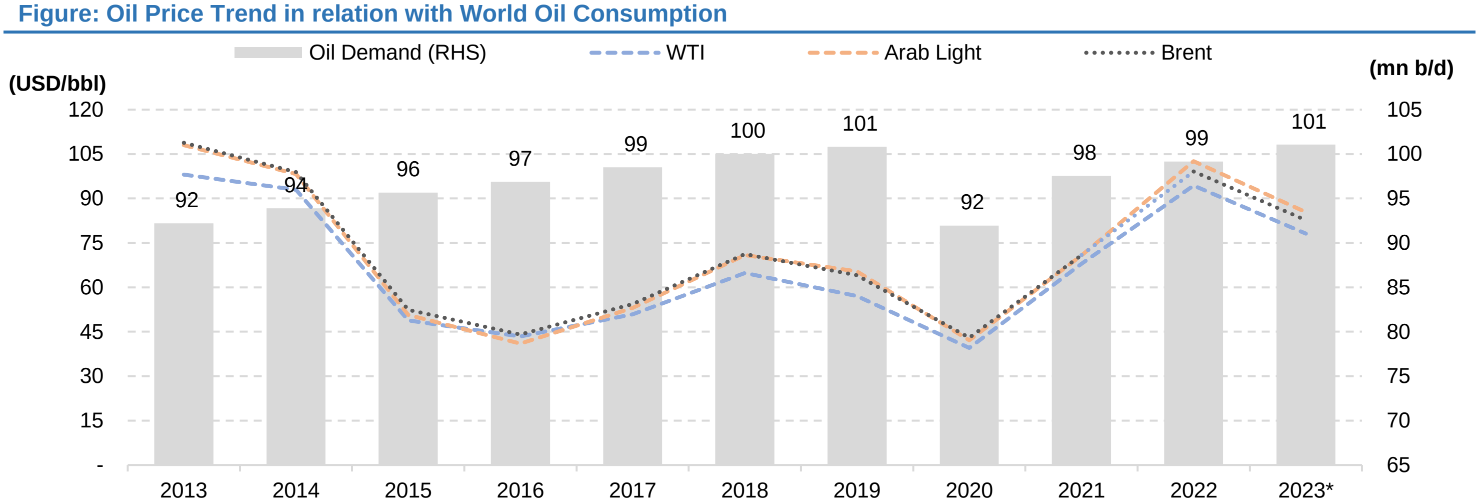
Source (s): EIA Short Term Energy Outlook, AHL Research

Figure: OPEC and Non-OPEC Production



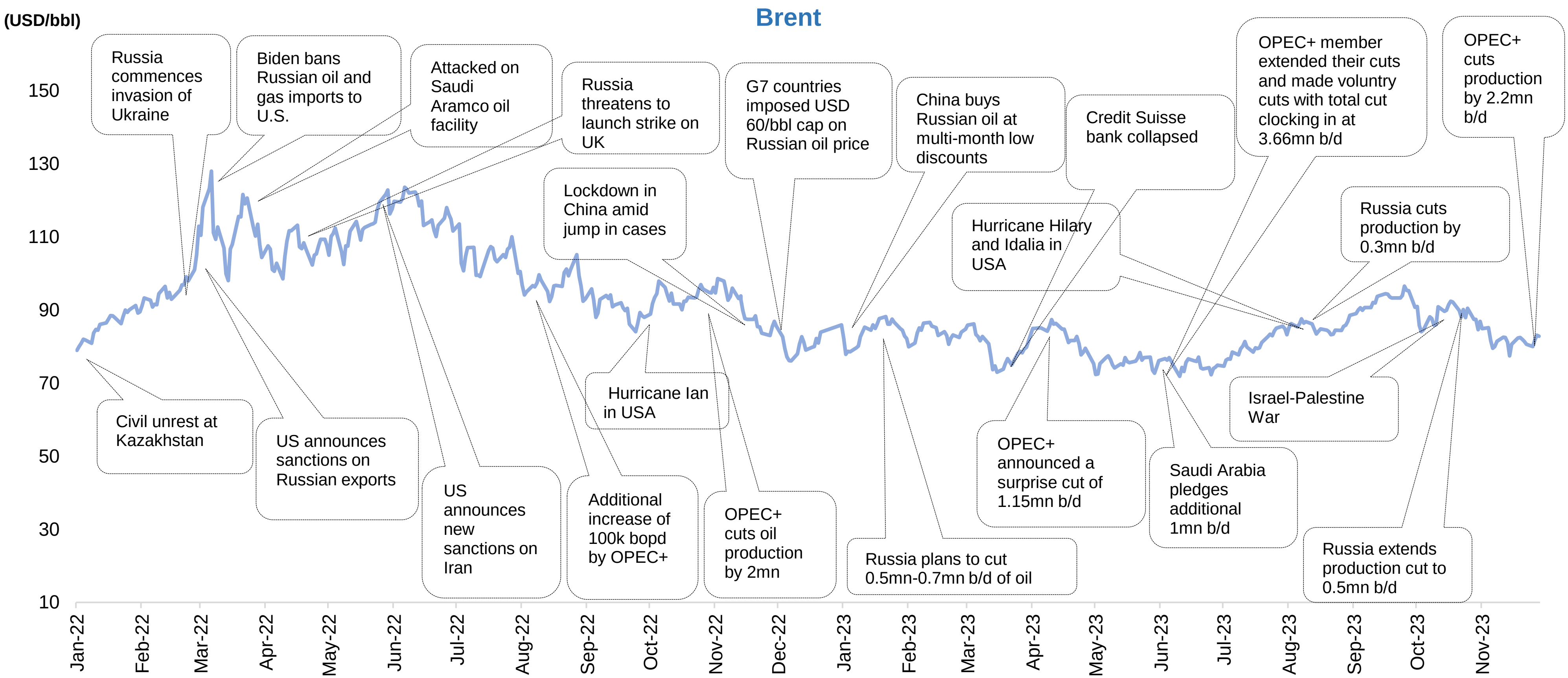
Source (s): EIA Short Term Energy Outlook, AHL Research

Figure: Oil Price Trend in relation with World Oil Consumption



Source (s): EIA Short Term Energy Outlook, Bloomberg, AHL Research *Estimated

Oil Event Graph

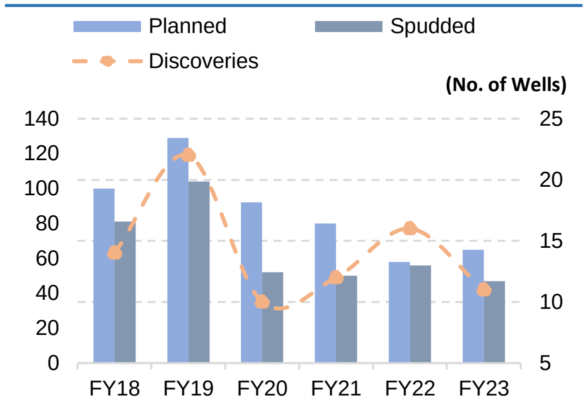


Exploration and Production

Attractive discounts warrant attention

Exploration targets: Domestic E&P companies spud a total of 47 wells out of 65 planned wells during FY23, which consists of 15 exploratory and 32 development/appraisal wells. Lower numbers of wells were drilled amid restrictions on the import by SBP on drilling equipment and materials. The drilling efforts yielded 11 oil & gas discoveries. For FY24, 56 wells (21 exploratory and 35 development/appraisal wells) are planned to be spud by local E&P companies.

Figure: Planned/Spudded Wells & Discoveries



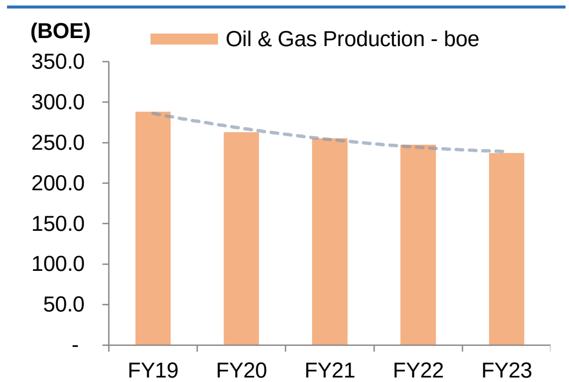
Source (s): PPIS, AHL Research

Oil and Gas Reserves: The oil and gas reserves of the country have depleted by 17% and 6% YoY in Jun'23, respectively to 193 mnbbls and 18,339 bcf, respectively. OGDC is the only company to witness a growth in oil reserves owed to addition of new reserves. However, gas reserves of OGDC depleted by 4% YoY. Meanwhile, oil and gas reserves of POL drastically reduced by 59% and 55% YoY, respectively owed to revision in Jhandial's reserves. Meanwhile, oil and gas reserves of PPL dwindled by 10% and 9% YoY amid fall in major fields such as Sui, Adhi, Nashpa, and TAL block fields. Similarly, MARI's oil and gas reserves plummeted by 77% and 12% YoY, respectively due to fall in reserves of Mari fields.

Pakistan's oil and gas production: Pakistan's oil production during FY23 reduced by 5.3% YoY to settle at 69,513 bopd against 73,436 bopd during FY22. Whereas, gas production plummeted by 3.9% YoY to arrive at 3,259 mmcfd in FY23 vis-à-vis 3,390 mmcfd in FY22. The fall in oil and gas production is owed to natural decline at major oil and gas fields alongside forced curtailment due to torrential rains/floods at some fields. The new discoveries are expected to come online in FY24 while completion of production enhancement projects at major fields by E&P companies will bring in further flows, which we expect will mitigate or suppress natural decline to some extent.

Circular debt issue and revision in gas prices: Overdue circular debt of E&P companies such as OGDC and PPL has swelled up to PKR 1tn as of Sep'23. OGDC's total receivables as of Sep'23 stood at PKR 596bn, which includes overdue amount of PKR 520bn (PKR 511bn in Jun'23) on account of circular debt. These receivables are due from SSGC, and SNGP worth PKR 219bn, PKR 216bn, respectively. Whereas, PPL's receivables during Sep'23 settled at PKR 547bn, in which trade debts stood at PKR 543bn. This comprises of receivables from gas utility companies such as SNGP and SSGC at PKR 264bn and PKR 255bn, respectively. Due to revision in consumer gas prices, the increase in circular debt has slowed down. Meanwhile, the respective companies and the government is engaged in discussions and plans are being made to resolve the pending gas circular debt issue.

Figure: Pakistan's Oil & Gas Production



Source (s): PPIS, AHL Research

Reko Diq Mining Project: The project which pertains to extraction of copper and gold from Reko Diq Mine in Balochistan (where OGDC and PPL have 8.33% stake each) is currently undergoing feasibility study, which is expected to end in 2024, after which construction work will commence. The commencement of mining is expected in 2028. Furthermore, OGDC and PPL have opted to assess possibility of involvement with sovereign foreign investors (friendly countries such Saudi Arabia) for this project and to appoint advisors via a special purpose vehicle "Pakistan Minerals (Pvt) Limited".

SIFC to attract foreign investors in the sector: The government has formed Special Investment Facilitation Council, a one window platform which aims to bring foreign investment opportunities in IT, Agriculture, Energy and Mining. Through these projects the government aims to attract investments from friendly countries such as Saudi Africa, Qatar, Kuwait, China, and Turkey. Potential foreign investments in exploration, production and mining industry will speed up activity and may result in higher production from Pakistan's natural resources.

Greenfield Refinery project: OGDC and PPL are seeking to diversify and avail benefits from incentives offered under the new refinery policy and vertically integrate in oil sector. For this purpose, both the companies have signed entered into a MoU with PSO to collaboratively devise an investment strategy for establishing a greenfield refinery project in Balochistan through a consortium arrangement with foreign investors.

Pakistan International Oil Limited: The Pakistan International Oil Limited, where OGDC, PPL and MARI have 25% each, has planned to drill 5 wells in Abu Dhabi block-5, with first spud-in expected in Jan'24. The Abu Dhabi Block has many discoveries in surrounding blocks. Therefore, any discovery in that block could potentially expand Pakistan's production sources.

Trading at cheap valuations: The AHL E&P sector is currently trading at a PER of 2.6x based on FY24 earnings expectation compared to a PER of 4.5x of the KSE-100 Index and a five-year historical PER of 3.7x of the sector.

Key risk (s)

- Hefty appreciation of PKR against USD
- Massive reduction in oil prices.
- Delays in bringing new discoveries online.
- Curtailment of production from oil and gas producing fields.

Oil price sensitivity

Case-1: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-24	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2024	2025	2024	2025	2024	2025	2024	2025
PPL	94.7	119.1	25.7	Buy	32.6	29.0	2.50	2.50	2.9	3.3	3%	3%
OGDC	110.4	145.3	31.6	Buy	33.4	35.3	6.75	7.00	3.3	3.1	6%	6%
MARI	1,718.7	2,447.3	42.4	Buy	531.9	456.4	226.00	194.00	3.2	3.8	13%	11%
POL	433.4	509.5	17.6	Buy	97.0	93.3	78.00	75.00	4.5	4.6	18%	17%

With USD 55/bbl in FY24 and going forward

Case-2: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-24	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2024	2025	2024	2025	2024	2025	2024	2025
PPL	94.7	125.0	31.9	Buy	34.8	33.0	3.00	3.00	2.7	2.9	3%	3%
OGDC	110.4	159.7	44.7	Buy	37.2	39.4	7.50	7.75	3.0	2.8	7%	7%
MARI	1,718.7	2,604.5	51.5	Buy	538.3	522.3	229.00	222.00	3.2	3.3	13%	13%
POL	433.4	531.4	22.6	Buy	104.5	101.6	84.00	82.00	4.1	4.3	19%	19%

With USD 65/bbl in FY24 and going forward

Base Case: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-24	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2024	2025	2024	2025	2024	2025	2024	2025
PPL	94.7	129.6	36.8	Buy	37.4	39.5	3.50	3.50	2.5	2.4	4%	4%
OGDC	110.4	165.6	50.1	Buy	52.2	45.2	9.00	8.75	2.1	2.4	8%	8%
MARI	1,718.7	2,711.4	57.8	Buy	420.7	553.3	235.00	259.00	4.1	3.1	14%	15%
POL	433.4	554.8	28.0	Buy	128.4	120.4	97.00	89.00	3.4	3.6	22%	21%

With USD 85/bbl in FY24 and USD 75/bbl in FY24

Case-4: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-24	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2024	2025	2024	2025	2024	2025	2024	2025
PPL	94.7	134.4	41.9	Buy	39.2	39.9	4.00	4.00	2.4	2.4	4%	4%
OGDC	110.4	188.9	71.2	Buy	44.8	47.6	9.00	9.50	2.5	2.3	8%	9%
MARI	1,718.7	2,892.2	68.3	Buy	551.3	625.1	234.00	266.00	3.1	2.7	14%	15%
POL	433.4	572.6	32.1	Buy	119.6	118.2	96.00	95.00	78.0	3.7	22%	22%

With USD 85/bbl in FY24 and going forward

Case-5: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-24	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2024	2025	2024	2025	2024	2025	2024	2025
PPL	94.7	142.0	72.7	Buy	41.4	43.2	4.50	4.50	2.3	2.2	5%	5%
OGDC	110.4	203.7	101.0	Buy	48.6	51.7	9.75	10.25	2.3	2.1	9%	9%
MARI	1,718.7	3,031.4	77.5	Buy	557.8	671.2	237.00	285.00	3.1	2.6	14%	17%
POL	433.4	592.7	36.3	Buy	127.2	126.5	102.00	101.00	3.4	3.4	24%	23%

With USD 95/bbl in FY24 and going forward

Oil & Gas Development Company Limited (OGDC)

Voyage of a titan

Planned operations & activities: The company plans to spud 16 wells (9 exploratory, 6 development, and 1 re-entry) during FY24. During FY23, OGDC spud 9 wells (5 Exploratory, 4 development and 1 re-entry wells). The exploratory activities resulted in 4 oil and gas discoveries (which have a potential to produce 3,041/bbls and 13/mmcfd). Meanwhile, the company won two exploration blocks at the bidding round held in Jun'23. Meanwhile, activities are underway at the Abu Dhabi offshore block 5 exploration with plan for drilling of five wells, with maiden scheduled for spud-in in Jan'24.

Resolution of Circular Debt: The government revised consumer gas tariff in Feb'23 and Nov'23, in order to halt the climbing up of circular debt. The former consumer gas tariff revision resulted in slowdown of circular debt. After gas price revision the overdue circular debt increased to PKR 519bn in Sep'23 from PKR 511bn in Jun'23. Moreover, the government is expected to revise gas prices again in Jan'24. With the gas price revision the cash earnings and cashflows of OGDC are expected to improve, which will enable the company to undergo aggressive exploration activity and announce a higher cash dividend. The overdue receivables are majorly pending from SSGC and SNGP, amounting to PKR 219bn and PKR 216mn, respectively. Keeping in view the pilling up of circular debt halted, the government is considering either cash injection in Sui companies (SNGP and SSGC), or non-cash settlement of the outstanding balance. If the circular debt issue get resolved, we project the company's multiple to re-rate, aided by a one-time pay-out.

Production & developmental projects: OGDC is the leading E&P company in Pakistan contributing 45% and 29% of the country's oil and gas production, respectively. During FY23, the company's oil and gas production witnessed a decline of 9% and 7% YoY, respectively in FY22 owing to natural decline at Nashpa, Chanda, Qadirpur, Rajian and KPD-TAY followed by ATA at eight producing fields. Moreover, due to heavy rain/floods there was curtailment of production at some fields. Moreover, lower intake of gas by Uch Power Ltd further effected OGDC's gas production. In an attempt to mitigate the fall in production, the company has injected 7 fields to the production stream. Moreover, the company completed 96 workover jobs including 14 rig and 82 rigless to halt the natural decline. Moreover, electric submersible pumps have been installed at Sono-7 and Pasakhi-11 which have started to bring in additional oil production of 2,000 bopd, and 1,350, respectively. Furthermore, the company's efforts to enhance production resulted in incremental flows from Nashpa X-10 (440bopd of oil and 3.4 mmcfd gas), Siab-1 (265 bopd of oil and 14.3 mmcfd of gas), Nim East (585 bopd of oil and 7.4 mmcfd of gas), Chak 2-1 (140 bopd of oil and 4.7 mmcfd of gas), and Chak 5 Dim South-3 (130 bopd of oil and 3.8 mmcfd of gas). Additionally, the company is working on development projects such as Dakhni Compression (COD: Nov'24), KPD-TAY (COD: Apr'25) and Uch Compression (COD: Feb'25). These projects upon completion will be able to enhance oil and gas production.

New discoveries to mitigate natural decline in production: Over the span of one year, the company has announced discoveries at Tolanj West-2, Toot Deep, Chak-5 Dim South-3, and Kot Nawab-1 (cumulative annualized earnings impact of PKR 0.85/share). These discoveries are expected to bring in mitigate natural decline in production from mature fields. In addition to this, Wali field has commenced oil and gas production (currently producing 880/bopd of oil and 13mmcfd of gas. The

OGDC

Summary Data

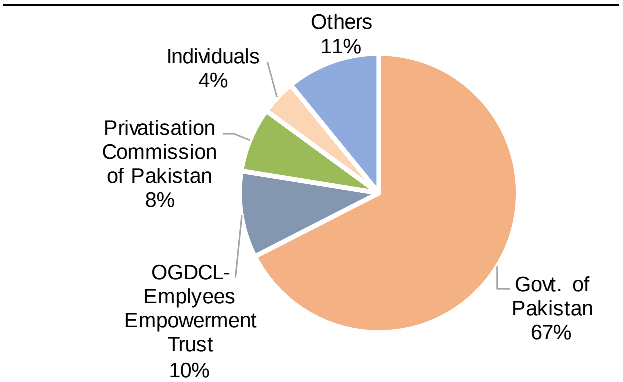
Target Price (Dec'24)	165.6
Last Closing	110.4
Upside (%)	50.1
Shares (mn)	4,301
Free float (%)	15
Market Cap. (PKR mn)	474,693
Market Cap. (USD mn)	1,666

Recommendation BUY

Price Performance

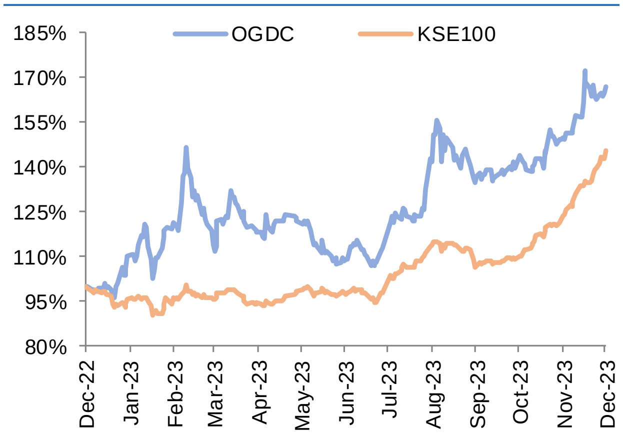
	3M	6M	12M
Return (%)	22.1	53.1	66.8
Avg. Volume (000)	8,179	9,216	7,114
ADTV (mn) - PKR	836	905	671
ADTV (000) - USD	2,925	3,151	2,410
High Price - PKR	113.8	113.8	113.8
Low Price - PKR	89.3	70.5	63.7

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

company is further conducting drilling activities at Bettani-2 well to improve oil and gas production from the field.

Reserve life: As per PPIS's Oil & Gas Reserve Report for Jun'23, OGDC's reserve life is expected to be 20 years. The company's oil and gas reserves stand at 90mn bbls and 6,269 bcf, respectively as per Jun'23 reserves. The oil reserves witnessed addition of Bettani (Wali) well (which is currently the third highest oil reserve in the country), and Kot Nawab. Similarly, gas reserves witnessed addition of Bettani (Wali) and Umair South East.

Trading at the cheapest PE multiple: The stock is currently trading at an implied oil price of USD 61.55/bbl (ex-cash and cash balances) as compared to current Arab Light Price of USD 85.98/bbl with FY24 PER of 2.4x and P/B of 0.4x along with a dividend yield of 8%. We expect the company to post a net profit of PKR 45.24/share and PKR 43.50/share in FY24 and FY25, respectively.

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	PKR	52.2	45.2	43.5
Dividend per share	PKR	8.6	9.0	8.8
Book value per share	PKR	251.8	280.5	315.1
Price to Earning	x	1.5	2.4	2.5
Price to Book	x	0.3	0.4	0.4
Dividend Yield	%	11.0	8.2	7.9
Net Margins	%	54.3	42.2	42.6

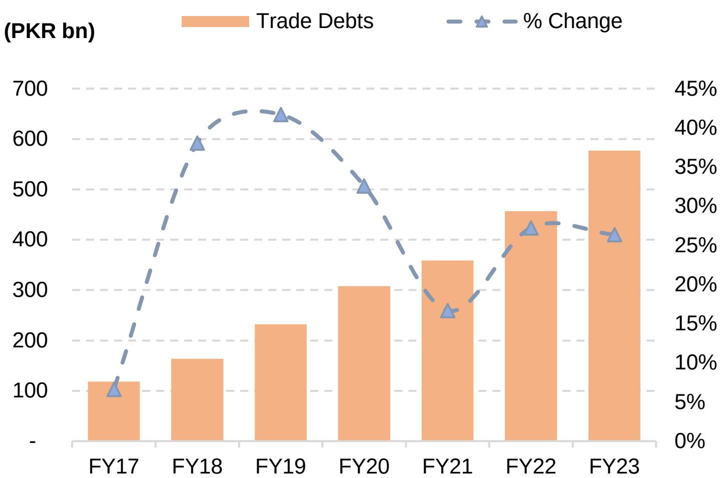
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	FY23A	FY24E	FY25F
Net Sales	413,594	461,049	438,852
Gross Profit	269,727	294,679	264,682
Other Income	154,692	32,103	34,483
Finance Cost	4,715	3,661	3,414
Post Tax Profit	224,618	194,588	187,082
Balance Sheet	**2023A**	**2024E**	**2025F**
Shareholder's Equity	1,082,898	1,206,384	1,355,420
Trade and Other Payables	160,964	202,485	192,737
Total Liabilities	341,167	372,166	364,143
Current Assets	959,118	1,099,198	1,141,926
Non-Current Assets	464,948	479,352	577,636
Total Assets	1,424,065	1,578,551	1,719,563

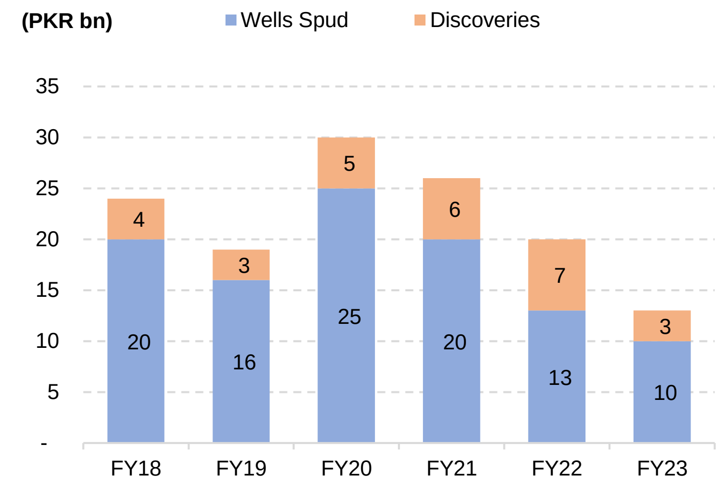
Source (s): Company Financial, AHL Research

Figure: OGDC's Trade Debts



Source (s): Company Financials, AHL Research

Figure: Hydrocarbon Discoveries against Wells Spud



Source (s): Company Financials, AHL Research

Pakistan Petroleum Limited (PPL)

Gas tariff revision to improve cash sales

Earnings to clock in at PKR 39.46/share in FY23: We project net profit at PKR 39.46/share and PKR 37.42/share in FY24 and FY25, respectively, amid i) PKR depreciation, and ii) stable oil prices (expected at USD 85/bbl on average in FY24 and USD 75/bbl in FY25). The stock is trading at an implied oil price of USD 70/bbl (ex-cash and cash balances) against Arab Light Price of USD 85.59/bbl with FY24 PER of 2.4x and P/B of 0.4x along with a dividend yield of 4%.

Circular debt issue: The receivables position of the company stood at PKR 543bn (as of Sep'23) which translates to cash of ~PKR 199.6/share, whereas overdue receivables related to circular amount to PKR 489bn. The receivables from SNGP and SSGC stood at PKR 264bn and PKR 255bn, respectively (summing up to be PKR 520bn or PKR 191.02/share). Post revision of consumer gas price, the climbing up of circular debt slowed down. Another hike in Jan'24 is due, which will further improve cash earnings of PPL. However, the outstanding circular debt is yet to be resolved. The resolution of the circular debt will reduce the company's financial strain, improve dividend payout and aid multiple re-rating.

Hydrocarbon production & development projects: The oil production of the company depicted a decline of 3% YoY in FY23. The fall in production was owed to decline in production of Adhi amid natural decline and water production from the well. Meanwhile, gas production showcased a growth of 2% YoY during FY23, owed to revival of production at Kandkhot given offtake from GENCO-II. However, production from the Sui field continued to drop amid natural decline. The company is working on upgradation/modification of Sui compression, which is expected to complete within one year. Out 5 compressor trains 3 have been commissioned. Currently, revamping of 4th compressor train is in progress. In addition to this, the company has linked up SML and SUL surface networks, which has resulted in a net gain of 5mmcfd gas. Furthermore, some of Sui fields underwent acid stimulation, additional perforations, and surface de-bottlenecking, which resulted in additional 10.4 mmcfd of gas during 1QFY24. At Kandkhot, major overhauling of gas Genset-B and maintenance work at Turbo-Compressor-B has been carried out during 1QFY24.Meanwhile, the company has completed construction at well site of Adhi water disposal well, which expected to be spud in FY24. Furthermore, the company has carried out perforation jobs Kabir X-1 and Sharf-3 well, which led to additional 90 bopd of oil and 2.1 mmcfd of gas. Whereas, GPF-IV compression project has reached completion and will be commissioned soon. Moreover, the development well Nashpa-11 was connected to the production network, bringing in 820 bopd of oil and 1mmcfd of gas in the ongoing FY24. Similarly, Rehman-8 well has also been commissioned during the ongoing FY24, resulting in further production of 10mmcfd gas and 0.7 bopd of oil. Fazl X-1 also witnessed scale clean out for well revival, which led to incremental 10 bopd of oil and 7.5 mmcfd of gas. Lastly, the development well Adhi South-6 has commenced production, adding 600 bopd of oil and 0.4 mmcfd of gas.

Discoveries to provide some cushion to declining production: The company made discoveries at Shahpur CN X-1, Rayyan-1, Tolanj West-2 (two different formations), and Jhim East X-1 which have cumulative discovery size of 148 bopd of oil/condensate and 51.8 mmcfd of gas, which as per estimates will have a total annualized earnings impact of PKR 3.33/share.

PPL

Summary Data

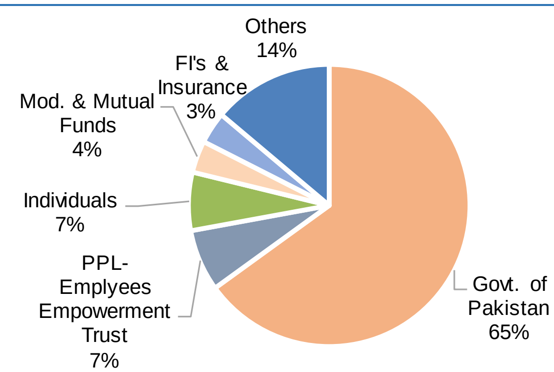
Target Price (Dec'24)	129.6
Last Closing	94.7
Upside (%)	36.8
Shares (mn)	2,721
Free float (%)	25
Market Cap. (PKR mn)	257,730
Market Cap. (USD mn)	889

Recommendation BUY

Price Performance

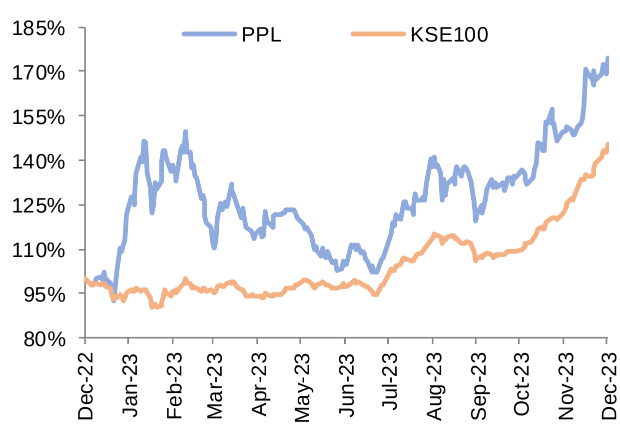
	3M	6M	12M
Return (%)	42.8	66.2	74.8
Avg. Volume (000)	7,512	7,675	6,620
ADTV (mn) - PKR	615	586	493
ADTV (000) - USD	2,150	2,041	1,802
High Price - PKR	94.7	94.7	94.7
Low Price - PKR	66.2	55.2	50.0

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Maiden well at Abu Dhabi to be spud in Jan'24: The consortium under the name Pakistan International Oil Limited (PIOL) is planning to spud 5 wells at Abu Dhabi block 5, with maiden well expected to be drilled in Jan'24. It is pertinent to note that PPL serves as an operator in this consortium with a 25% stake.

Outlook on future operations: The company plans to spud 9 exploratory and 6 development wells in FY24. Furthermore, the company has won four exploration blocks (1 operated and 4 partner-operated) during FY23. The company plans to acquire more blocks in order to conduct more exploration activities to mitigate natural decline in major fields. The company is focusing on frontier blocks, while also considering overseas diversification. Additionally, the company is also contemplating to re-allocate gas to different customers.

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	PKR	37.6	39.5	37.4
Dividend per share	PKR	2.5	3.5	3.5
Book value per share	PKR	198.7	233.0	257.91
Price to Earning	x	1.6	2.4	2.5
Price to Book	x	0.3	0.4	0.37
Dividend Yield	%	4.2	3.7	3.7
Net Margins	%	35.6	35.8	36.06

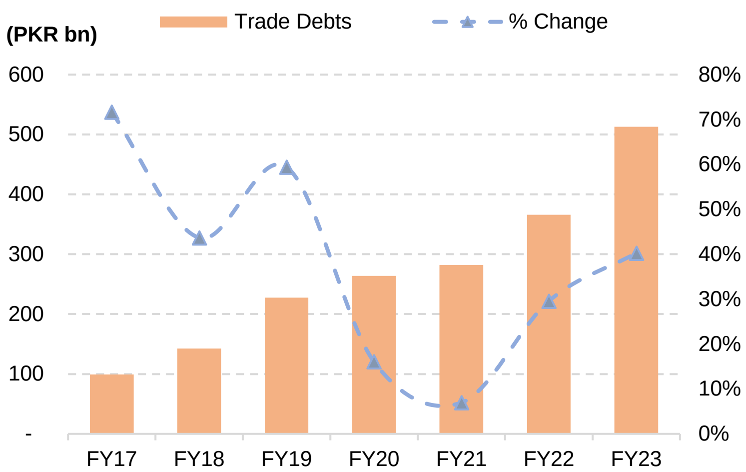
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	FY23A	FY24E	FY25F
Net Sales	286,480	299,829	282,373
Gross Profit	191,549	189,676	172,702
Other Income	17,539	9,854	20,802
Finance Cost	1,485	2,353	4,850
Post Tax Profit	101,857	107,374	101,812
Balance Sheet	**FY23E**	**FY24F**	**FY25F**
Shareholder's Equity	1,082,898	1,206,384	1,355,420
Total Liabilities	160,964	202,485	192,737
Current Assets	341,167	372,166	364,143
Fixed Assets	959,118	1,099,198	1,141,926
Non-Current Assets	464,948	479,352	577,636
Total Assets	1,424,065	1,578,551	1,719,563

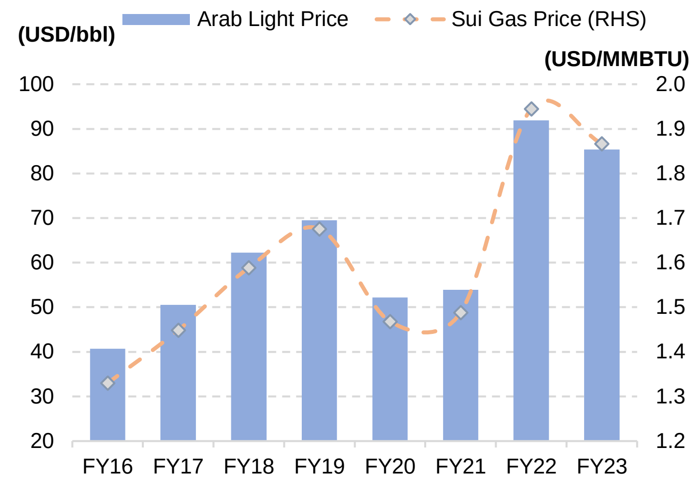
Source (s): Company Financial, AHL Research

Figure: PPL's Trade Debt



Source (s): Company Financials, AHL Research

Figure: Arab Light vs. Sui Gas Price



Source (s): OGRA, Bloomberg, AHL Research

Mari Petroleum Company Ltd. (MARI)

Largest gas producer in Pakistan

Oil & gas production update: Gas production of MARI declined by 2% YoY FY24 amid in decline in production in 1HFY23 due to extended ATA at EFERT's EnVen plant followed by ATA at FFC's plant-1. Meanwhile, commencement of incremental gas production from Sachal Gas Processing Complex offset some of the decline in production. Meanwhile, the oil production reduced by 15% YoY owing to temporary closure of Bolan and Zarghun Fields due to floods. In FY24, gas production is expected to climb up by 25% YoY given full year impact of Sachal Gas Processing Complex will be witnessed tagged with expectation of commencement of production from Shewa-1 (Bannu West), and Horizontal wells will improve the production further. We expect the gas production to achieve a 3-Yr CAGR of 11%. Meanwhile, the oil production in FY24 is expected to remain stable.

Earnings to clock-in at PKR 553.28/share in FY24: The profitability of the company is forecasted to ascend at a 3-Yr CAGR of 20%. We expect the company to post earnings of PKR 553.28/share and PKR 609.09/share in FY24 and FY25, respectively. Major reasons behind this growth are i) attractive pricing for incremental production from MGF under Petroleum Policy 2012, and ii) completion of Sachal Gas Processing Complex (upto 100 mmcfd gas), and iii) incremental volumes from Swing (upto 68mmcfd gas capacity).

Reserve life of 15 years: As per PPIS's Oil & Gas Reserves Reports for Jun'23, reserve life for MARI is estimated to be 15 years (second highest after OGDC). In terms of gas reserves, the largest field - Mari Gas Fields (MGF's) - reserve life is projected to be 15 years, with the field's reserves settling at 4,261 bcf in Jun'23. MARI's oil reserves reported depletion of 77% YoY, arriving at 5.0mn bbl in Jun'23 owing to a tapering off reserve of Mari fields such as Shaheen, and Bhitai. Similarly, MARI's gas reserves were reduced by 11% YoY due to a 12% YoY fall in the Mari Gas Fields reserve. The reserve of Mari Ghazij was added to the total gas reserves of MARI with a reserve size of 34.9 bcf, while Bolan East's oil reserve of 0.60mn bbl was included in the total oil reserves.

SGPC project: During FY23, the company completed phase II of Sachal Gas Processing Complex. The supply from this project was brought up to 100 mmcfd. The third amine sweeting unit (ASU) at the complex was commissioned in 1QFY24, which will further enhance the gas processing capacity for the high CO2 Goru-B gas into saleable gas. Furthermore, the company is considering options for routing discoveries such as Mari Ghazij to Sachal Gas Processing Complex.

Early Production Facilities at Shewa-1: The company is working on Shewa Early Production Facilities project since Jul'23 to monetize discovery of Shewa-1 (Bannu West) by starting production facilities as early as possible. The work has reached 71% completion. Albeit, the SNGPL new pipeline for new production is expected to be added towards the end of 1HFY24. To recall, the discovery size of the well is 50 mmcfd gas and 300 bopd condensate. In addition to this, the company has commenced drilling appraisal well Shewa-2. In case Shewa yield additional oil and gas production, then it will be connected to Shewa Early Production Facilities.

New discovery at Mari Ghazij: The company announced the discovery at Mari Ghazij-1 flowing at 9.6 mmcfd post acid testing in FY23. The well came online in Mar'23 and currently producing 6mmcfd of gas. Subsequent to this, the company drilled appraisal well Mari Ghazij-2, which resulted in 11.1mmcfd of gas post post acid

MARI

Summary Data

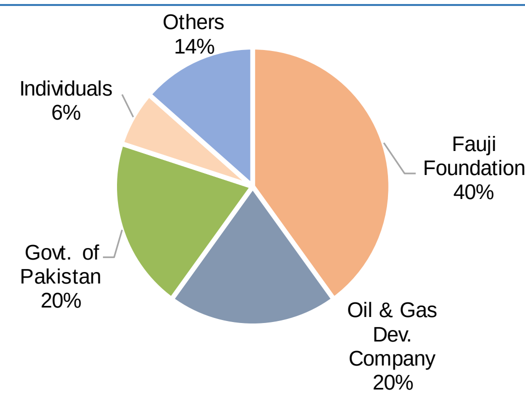
Target Price (Dec'24)	2,711.4
Last Closing	1,718.7
Upside (%)	57.8
Shares (mn)	133
Free float (%)	20
Market Cap. (PKR mn)	229,282
Market Cap. (USD mn)	805

Recommendation BUY

Price Performance

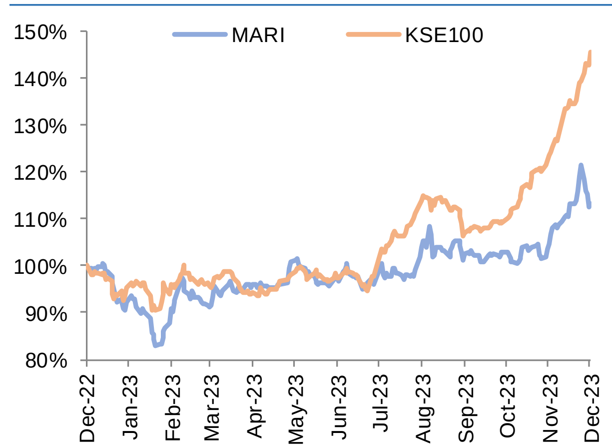
	3M	6M	12M
Return (%)	10.4	17.1	13.2
Avg. Volume (000)	58	66	54
ADTV (mn) - PKR	96	107	85
ADTV (000) - USD	336	373	308
High Price - PKR	1,842.3	1,842.3	1,842.3
Low Price - PKR	1,524.4	1,439.5	1,260.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

test. The well is kept on extended well for the purpose and will commence supplying gas to government designated buyer after all the regulatory formalities are met. Hence, Mari Ghazij field will lead to improvement in company's overall production.

Prospects ahead: For FY24, MARI plans to spud 5 exploratory, and 5 development wells. The company has been evaluating different options and opportunities to further enhance production. As a part of Revitalization projects, the company drilled two horizontal wells during FY23. Horizontal wells Mari-122H and Mari-123H reported 20 and 21 mmcfd gas, respectively. Moreover, the company is jointly working with fertilizer companies on HRL Pressure Enhancement Facilities Project. This project aims to conduct the debottlenecking of pipelines and install compression facility at different nodes. At present, the project is under the debottlenecking phase. Meanwhile, the acquired 5 new exploration blocks in Bidding Round Oct'22. Additionally, the company has been granted mineral exploration license for a timeframe of three years. Furthermore, the company is allotted an area near Dalbandin, Balochistan for mineral exploration. Apart from this, MARI and Barrick Gold have signed MoU to work together on mining projects. Lastly, Abu Dhabi Block-5 is expected to undergo maiden drilling in Jan'24.

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	PKR	397.9	553.3	609.1
Dividend per share	PKR	147.0	235.0	259.0
Book value per share	PKR	980.9	1,262.5	1,580.8
Price to Earning	x	3.8	3.1	2.8
Price to Book	x	1.5	1.4	1.1
Dividend Yield	%	9.7	13.7	15.1
Net Margins	%	38.5	28.8	29.0

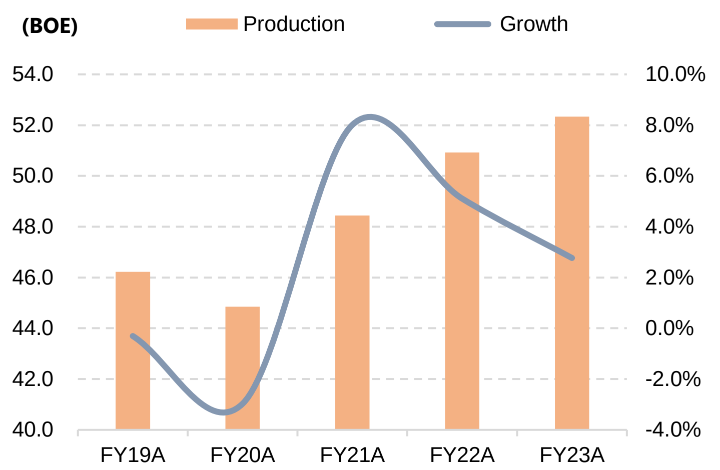
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	FY23A	FY24E	FY25F
Net Sales	145,770	256,535	280,569
Gross Profit	101,110	170,387	185,771
Operating Profit	78,547	141,099	135,350
Finance Cost	9,075	5,555	9,388
Post Tax Profit	56,129	73,810	81,254
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	130,859	168,426	210,886
Trade and Other Payables	38,013	62,635	88,563
Total Liabilities	54,281	86,170	111,426
Current Assets	85,950	123,795	170,126
Non-Current Assets	99,190	130,802	152,186
Total Assets	185,140	254,597	322,313

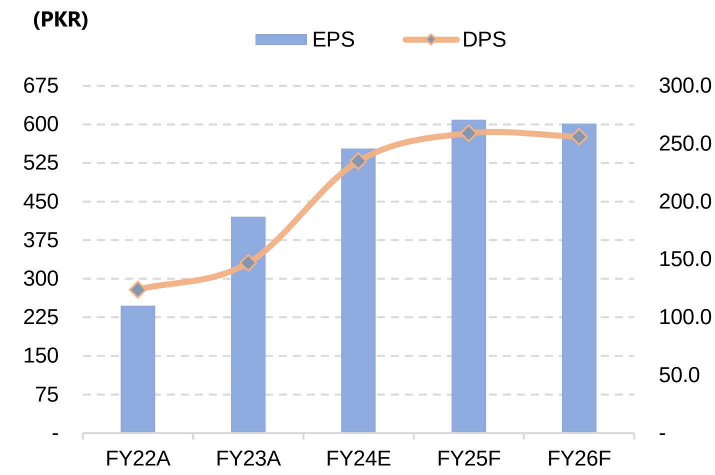
Source (s): Company Financial, AHL Research

Figure: MARI's Production in terms BoE



Source (s): Company Financials, AHL Research

Figure: EPS in relation to DPS



Source (s): OGRA, Bloomberg, AHL Research

Cements

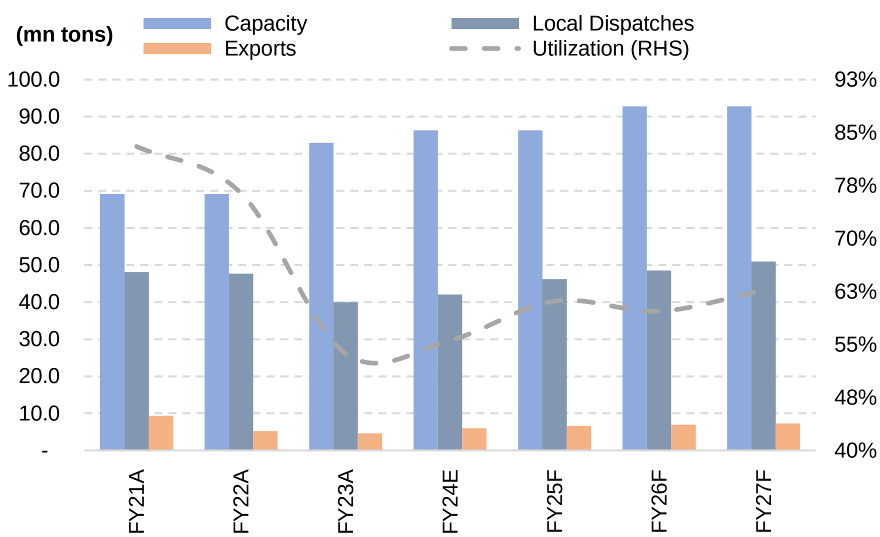
Renewables are the ultimate key to sustainability

Unlocking the door to a greener universe

Recap of FY23: A series of interest rate hikes, combined with a contractionary fiscal policy, had a detrimental impact on the country's economic activity. This unfavorable economic environment resulted in a substantial contraction of approximately 10% YoY in the Large-Scale Manufacturing (LSM) sector. Among the casualties of this depressed demand was the cement industry, which experienced a significant decline in domestic dispatches.

Cement dispatches during FY23 settled at 44.6mn tons, given a 16% YoY decline in domestic dispatches to 40mn tons as the SBP increased the interest rates to an all-time high, in tandem with highest inflation recorded. The commodity super cycle, PKR depreciation, and surge in energy tariff, together with low public spending led to suppressed demand in the construction sector. It is pertinent to note that, Pakistan suffered heavy rainfall and flooding which further dampened the demand for cement. Along with this, exports in FY23 dropped by 12% YoY as compared to FY22, clocking in at 4.6mn tons vis-à-vis 5.2mn tons in SPLY. Further dissection revealed that deterioration in North region's dispatches during FY23 settled at 33.9mn tons, a fall of 16% YoY. This was mainly due to a drop is local offtakes in north by 17% YoY reaching 32.7mn tons. On the contrary, due to rehabilitation activity in Afghanistan, exports soar to 1.07mn tons (up 17% YoY). South-based dispatches underwent a dip of 14% YoY to 10.7mn tons owed to a 18% fall in exports settling at 3.5mn tons. Also, domestic demand in the South market remained depressed, declining by 12% YoY to 7.2mn tons.

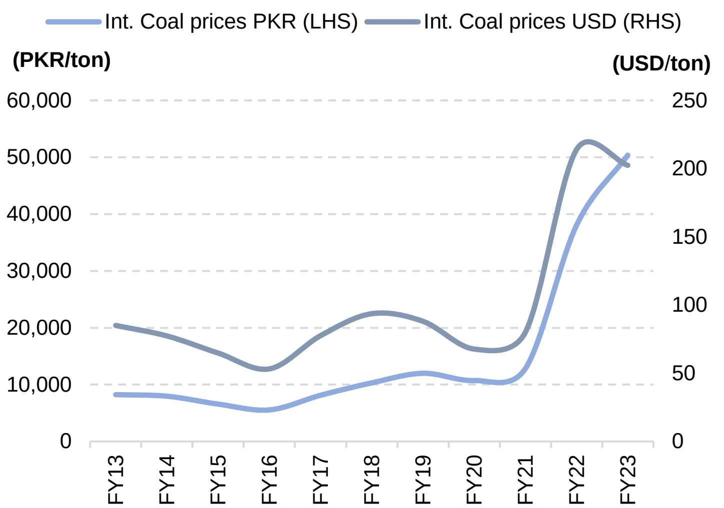
Figure: Cement offtake and utilization



Source (s): AHL Research

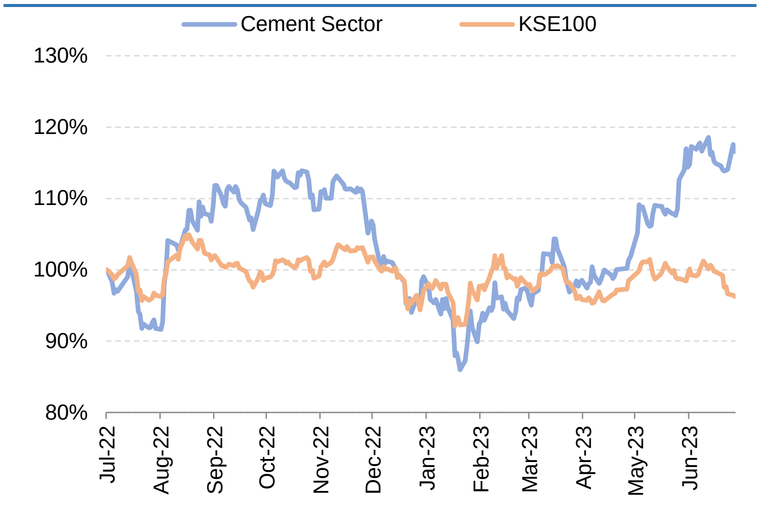
Alternative of imported coal: Coal is an essential input and contributes to about 45%-50% of the total cement cost. It is used as a feed, and cement price is positively correlated to the cost of coal. Amid Russia-Ukraine conflict in FY22, coal prices sky-rocketed reaching an all-time high of USD 460/ton. Since then, major respite was shown amid global slowdown in demand. However, due to the massive devaluation of PKR in FY23, there was a further increase in the price of imported coal in the local currency. Consequently, cement prices had to adjust as well; jumping to record high levels. As a result, cement industry players began seeking substitute of imported coal. This shift led to the adoption of alternative coal sources such as Afghan coal and local coal from Darra Adam Khel and Umar Kot, enabling cement manufacturers to achieve a remarkable profitability growth of 27% YoY. Although, profitability was adversely impacted, amid reimposition of the super tax to tune of 10%. The profitability of the cement sector was also reflected in the price performance of the sector, as it outgrew the KSE-100 index in FY23, registering a return of 17% vs -3.8% in SPLY.

Figure: International coal prices



Source (s): Bloomberg, AHL Research

Figure: Cement sector vs KSE-100 index return



Source (s): Bloomberg, AHL Research

Cement growth outlook: As inflation is expected to cool-off during FY24, which is evident from the policy rate staying status quo, Pakistan is yet again at a very intriguing juncture where we await the rebound in economic activity in the economy. In the 1QFY24 total dispatches rose by 24% YoY arriving at 11.9mn tons vs 9.6mn tons in SPLY. The rise in total dispatches was not due to an increase in the demand but because of low base effect, due to rain and flooding last year, which lower the construction activity, especially in south.

Our estimates suggest that total dispatches will observe an increment of 5% YoY to 46.7mn tons in FY24 with local dispatches settling at 42mn tons. In the 1QFY24, exports experienced a substantial surge, with a remarkable 72% YoY increase, clocking at 1.75mn tons. This upswing can be attributed to heightened demand compared to the same period last year. Export viability was limited in the previous year because of elevated production and shipping costs in Pakistan relative to global markets, making Pakistan uncompetitive with its regional peers. Going forward, cement demand is expected to surge, amid decline in interest rates and inflation, and high expected utilization of PSDP. In FY25 we anticipate the total cement dispatches to settle at 52.8mn tons, a growth of 13% YoY, with local dispatches and exports arriving at 46.2mn tons and 6.6mn tons, respectively.

Opting for renewables: The rise in electricity tariff has become a norm in Pakistan. Most of the cement companies were able to foresee the negative implications of this continuance rise and initiated investments in renewable energy (such as Solar, WHR and wind) to cut down power cost and be cost effective, as electricity cost is the second highest cost for cement manufacturers. This, for those cement companies who invested in renewables, resulted in maintaining their margins and were able to partially offset the negative consequences of multiple hikes in electricity tariff.

The ongoing expansionary phase: Initiated in FY21, major new plants/lines have already come online in 2023, with more to follow suit shortly. The main reason for the expansion of the plants was because of the high-capacity utilization of ~80% in tandem with the availability of cheap loans that was offered by the SBP previously in the form of LTFF/TERF. Significantly, five plants/lines have been successfully commissioned. Notably, these include Bestway Cement's Greenfield expansion of 2.16 million tons in Mianwali (Punjab), Askari Cement's (now merged with Fauji Cement) 1.95 million tons Brownfield expansion in Nowshera (KPK) and also a greenfield plant 2.05 million tons (D.G Khan, Punjab), Maple Leaf's 2.10 million tons Brownfield expansion in Mianwali (Punjab), Lucky's 3.15 million tons Brownfield expansion in Pezu (KPK). As a result of these expansions, the total installed capacity for cement has now reached 83 million tons.

Others to follow suit include Attock cement (1.28mn, Hub, Balochistan) in Feb’24, Kohat cement (Planned; 3.5mn, Khushab, Punjab) Dec’25, and Cherat Cement (Planned; 3mn tons, DI Khan, KPK) in Dec’25.

Axle load factor: The Pakistani government has recently enforced an axle load regime, impacting various sectors including cement. This regulation reduces the truck's lifting capacity, leading to higher fuel expenses and will result in a 50% increase in freight costs. Consequently, exports will face challenges, becoming less competitive and unviable. As a result of these factors, cement prices increased by PKR 70-90 per bag.

Outlook for profitability: We believe the cement sector to post record high earnings, due to normalization of coal prices in tandem with persistent high cement prices. Also, the impact of cut in interest rates will positively impact the sector. We maintain a buy stance on cement sector.

Risk

1. Cement price cut scenario to play out in a more aggressive way and / or elongated period of time.
2. Slower rebound in cement demand.
3. Uptick in international coal prices also rendering higher coal prices in Afghanistan, Mozambique and local market.
4. Hike in the domestic policy rate and / or delay in reversal of the same to augment the finance cost of leveraged companies in the sector.
5. Slowdown in the economy with need for higher tax revenue to force the government to impose more taxes on industries.
6. Jump in energy costs (higher than anticipated grid tariff and augmented gas prices to curb profitability of companies).

Lucky Cement Company Limited (LUCK)

Top of the game

Our top pick in the AHL cement universe is Lucky Cement Limited (LUCK), which offers an upside of 40.4% from last closing to our Dec'24 sum-of-the-parts based target price of PKR 1,149share. The company's diverse portfolio is anticipated to serve as a safeguard against disruptions in cyclical operations, including those in the cement and automobile sectors.

Leader of the cement sector: Luck's new 3.15mn tons brownfield expansion in North came online in Dec'22, showcasing the managements' commitment and maintaining the company's status as the largest cement manufacturer in the country with a total capacity of 15.3mn tons. LUCK enjoys being one of the most deleveraged companies in the cement sector. On top of this LUCK was able to utilize LTFF/TERF, which helped it to lower the burden of finance cost. This move shields the company from a high interest rate environment.

Investment in fuel efficiency and announcement of the second buyback: LUCK is one of the few companies in the sector that do not rely on the national grid. This translates to LUCK being one of the lowest cost manufacturers in the country. After successful completion of 25 MW solar plant in 1QFY24, it is expected to contribute about 20% of the total power mix. Furthermore, the company is in the process of installing another solar plant having a capacity of 6.3MW Karachi. Moreover, the board of directors of the company has approved to undertake a 6 MW solar power project at Pezu. Alongside this, the company has a 56MW waste heat recovery plant, which contributed ~19% in energy mix in FY23. Also, the company is in the process of installing a 28.8MW wind power project, which will further reduce its cost of production. Along with this, after the completion of first buy back of shares, LUCK has also completed its second buyback (the highest in terms of value on the PSX) of 20.4mn shares which represented 6.6% of its paid-up capital and 21.7% of free float.

LEPCL to move past initial teething issues: The 660MW coal power plant, wholly owned by the company, attained its COD in March 2022, involving a substantial capital expenditure (CAPEX) of USD 850 million. This investment comprised a USD 210 million equity contribution and a USD 640 million debt contribution. The company was able to resolve its teething issues, that it suffered in 1QFY23 and now it is operating at a 100% capacity. The contribution of this project to our December 2024 target price is PKR 321 per share. Additionally, the company's portfolio encompasses diverse assets, including an automobile assembly venture handling Kia and Peugeot vehicles, a mobile phone business with Samsung, a wind power plant, and overseas cement operations in DR Congo and Iraq. Along with this, the company invested PKR 1bn in National resources private limited for copper and gold mining.

Massive growth in profitability: LUCK's bottom line is expected to witness a substantial growth, mainly due to rise in cement demand, supported by cost reduction initiatives taken by the company, and hefty dividend expected from its power project. Due to these factors, we forecast the company to post a 5-yr forward unconsolidated CAGR of 35%.

LUCK

Summary Data

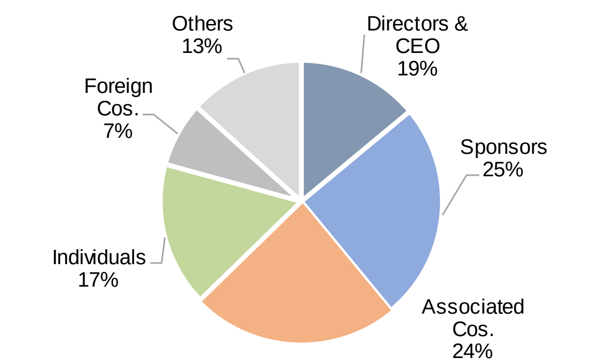
Target Price (Dec'24)	1,148.9
Last Closing	818.5
Upside (%)	40.4
Shares (mn)	293
Free float (%)	32
Market Cap. (PKR mn)	239,794
Market Cap. (USD mn)	841

Recommendation — BUY

Price Performance

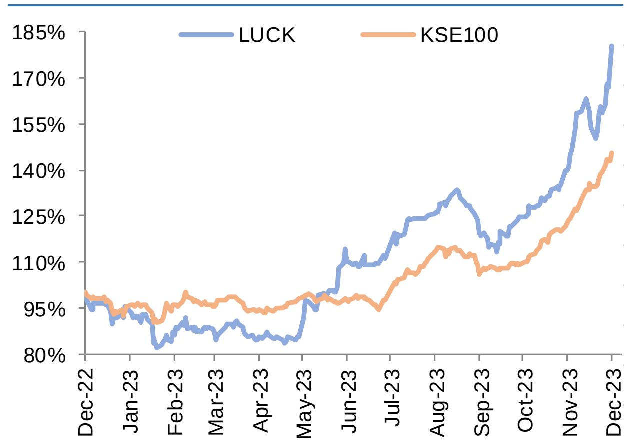
	3M	6M	12M
Return (%)	52.5	64.2	80.5
Avg. Volume (000)	521	531	456
ADTV (mn) - PKR	354	330	249
ADTV (000) - USD	1,236	1,152	893
High Price - PKR	818.5	818.5	818.5
Low Price - PKR	514.4	491.2	371.2

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	43.8	89.2	127.4
Dividend per share	*PKR*	18.0	20.0	43.0
Book value per share	*PKR*	438.3	557.5	684.8
Price to Earning	*x*	11.5	9.2	6.4
Price to Book	*x*	1.2	1.5	1.2
Dividend Yield	*%*	3.6	2.4	5.3
Net Margins	*%*	14.3	19.9	25.4

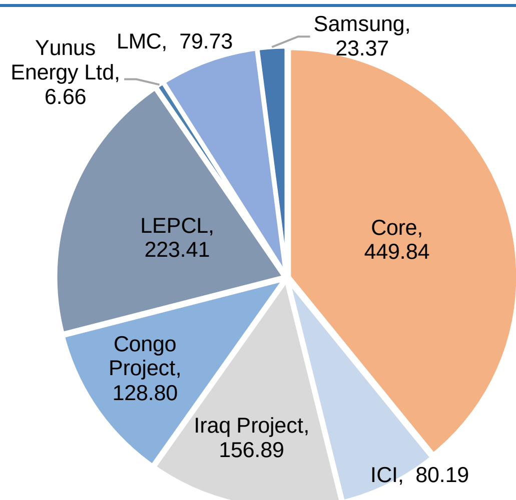
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	95,832	131,239	146,996
Gross Profit	26,061	44,302	44,443
Operating Profit	18,908	35,141	33,292
Finance Cost	5,327	7,150	8,940
Post Tax Profit	13,726	26,148	37,319
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	137,366	163,326	200,644
Trade and other Payables	29,919	25,169	28,191
Total Liabilities	75,713	71,824	72,042
Current Assets	59,577	85,929	128,187
Non-Current Assets	153,502	149,220	144,500
Total Assets	213,079	235,149	272,687

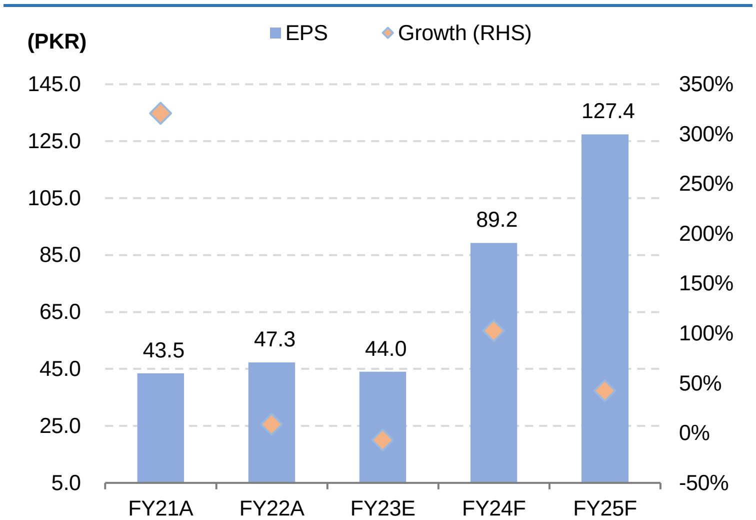
Source (s): Company Financial, AHL Research

Figure: LUCK: SOTP Valuation



Source (s): Company Financials, AHL Research

Figure: LUCK: Unconsolidated earnings



Source (s): Company Financials, AHL Research

Maple Leaf Cement Factory Limited (MLCF)
First mover advantage

Our Dec'24 target price for MLCF is set at PKR 59.4/share. Our liking for the stock stems from i) having one of the highest gross margins and one of the lowest EV/ton in AHL cement universe ii) efficient power mix with the company relying on captive generation through WHR, solar, and coal power plants, ii) Successful completion of 2.1mn tons Brownfield plant (line-4) rendering MLCF to become one of largest players in North having a total capacity of 7.7mn tons at the same site, and iii) diverse fuel mix amid early movers' advantage with switch to the Afghan and local coal. The stock is trading at an attractive forward PE ratio of 5.7x and offers an upside of 40% from last closing; we recommend BUY.

Timely expansion and announcement of second buyback: In November 2022, MLCF successfully completed a new grey clinker line with a production capacity of 7,000 metric tons per day (2.1mn ton/annum). MLCF distinguished itself as one of the early industry leaders to operationalize its expansion. This newly commissioned plant not only enhances operational efficiencies within the company but also positions MLCF as a key player with a strategic advantage during the current phase of expansion. Furthermore, it strengthens MLCF's market presence in the North as the largest player, consolidating all production lines to a substantial 7.7 million tons in a single location. Moreover, after the successful completion of 25mn shares buy back, Maple leaf cement in FY23 financial result announced second buy back of ordinary shares up to maximum of 100mn shares, representing 9.3% of total paid up capital and 20.7% of free float.

Optimum power mix: MLCF is well protected by the ever-rising electricity cost amid availability of internal power generation. Maple leaf power limited is a 40MW coal fired plant, which is a wholly owned subsidiary of MLCF. Along with this, the company has successful installed solar power plant of 12.5MW partially protecting the company from surge in tariffs. In addition to this the company has completed work on a new Waste Heat Recovery Plant for new cement Line-4. The planned project has increased capacity further from 25 MW to 37 MW, which now accounts for 1/3rd of the total power cost. Because of these factors gross margins for MLCF were one of the highest as compared to its competitors. Additionally, the company has opted to use polypropylene packaging bags instead of paper bags to improve its cost efficiency

Ideal coal mix: Coal is a major input in the manufacturing of cement. MLCF was the first in the industry to test Afghan coal at its plant. This successful experiment was swiftly adopted in policy with the management building contacts and procuring inventory in an otherwise disorganized market. This has been a game changer as Local and Afghan coal became a substantial part of the fuel mix used by the cement manufacturers in North.

Market leader in white cement: MLCF is one of the few cement companies in Pakistan that has an exposure in white cement product. It captures more than 90% of the market share and, is also the biggest white cement exporter of Pakistan. White cement contributes to about 20% in the profitability for the company.

Earning on the rise: The company is forecasted to post substantial earnings due to rise in cement prices, in tandem with using alternative energy mix. The company's 5-year forward CAGR is anticipated to arrive at 16%.

MLCF

Summary Data

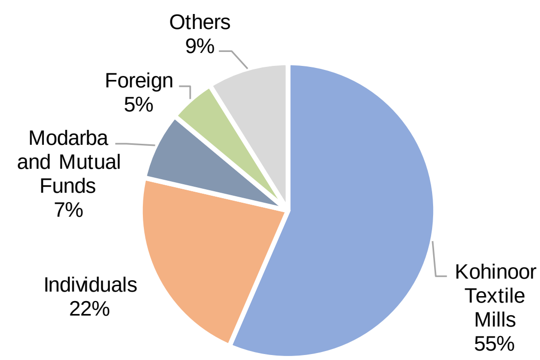
Target Price (Dec'24)	59.4
Last Closing	42.4
Upside (%)	40.1
Shares (mn)	1,073
Free float (%)	45.0
Market Cap. (PKR mn)	45,467
Market Cap. (USD mn)	160

Recommendation BUY

Price Performance

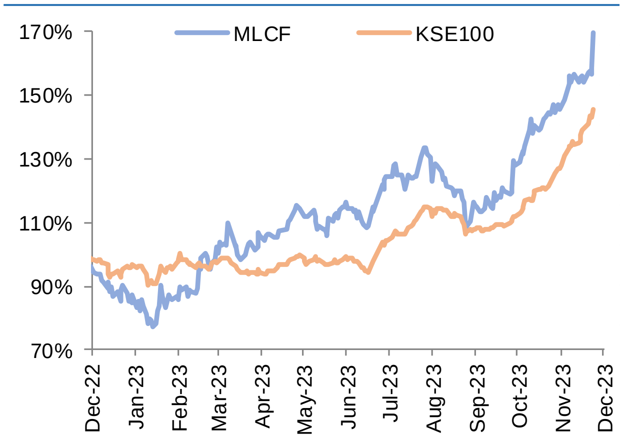
	3M	6M	12M
Return (%)	56.6	49.2	69.5
Avg. Volume (000)	9,442	6,998	5,977
ADTV (mn) - PKR	332	237	180
ADTV (000) - USD	1,162	829	645
High Price - PKR	42.4	42.4	42.4
Low Price - PKR	27.1	27.1	19.3

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	5.4	6.7	8.2
Dividend per share	*PKR*	-	2.0	3.0
Book value per share	*PKR*	42.9	47.6	52.8
Price to Earning	*x*	5.3	6.3	5.2
Price to Book	*x*	0.7	0.9	0.8
Dividend Yield	*%*	-	4.7	7.1
Net Margins	*%*	9.3	10.7	11.9

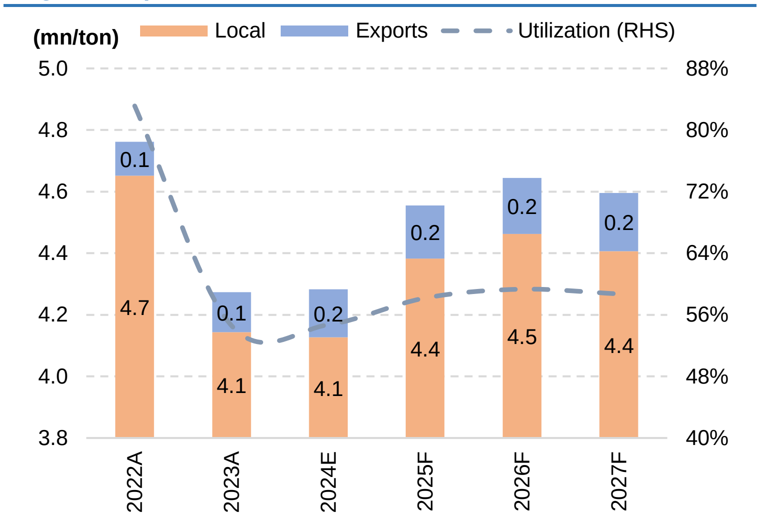
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	62,075	67,443	73,854
Gross Profit	17,614	21,545	23,637
Operating Profit	14,213	15,155	16,891
Finance Cost	2,381	2,933	1,828
Post Tax Profit	5,770	7,233	8,824
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	46,019	51,106	56,710
Trade and other Payables	11,445	11,203	13,559
Total Liabilities	41,666	39,546	33,972
Current Assets	22,756	28,590	31,534
Non-Current Assets	66,830	63,962	61,049
Total Assets	89,585	92,552	92,582

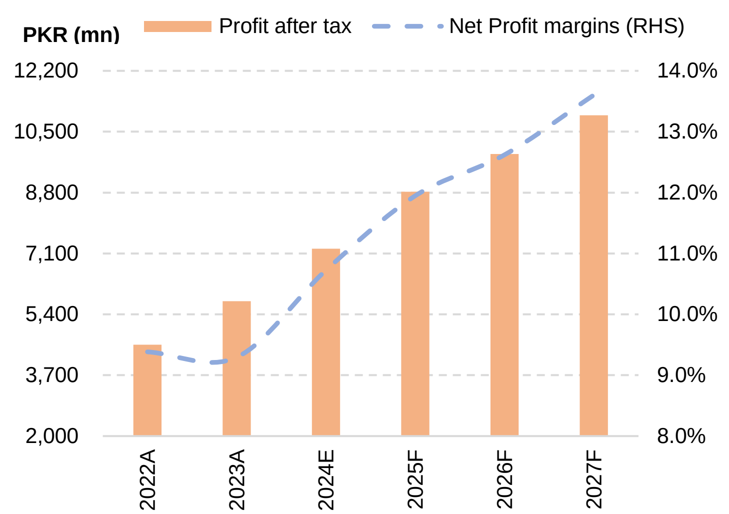
Source (s): Company Financial, AHL Research

Figure: Dispatches



Source (s): Company Financials, AHL Research

Figure: Earnings at a glance



Source (s): Company Financials, AHL Research

Fauji Cement Company Limited (FCCL)

Climbing up the ladder

Our Dec'24 target price for Fauji Cement Company Limited (FCCL) is set at PKR 35.0/share, whereby the stock offers a return of 86% from last closing. The company has the third highest market share in the industry, given its merger with Askari Cement Limited and addition of 2.1 brownfield project. This has made the company second largest in north and 3rd largest in Pakistan. Another 2.05mn tons of green field project cement plant has commissioned in 2QFY24, this has taken total installed capacity to 10.5mn tons. The company is also investing in improving its power and fuel efficiency by installing new waste heat recovery (WHR) and solar power plants, as well as using alternative coal sources (Afghan / local).

Greenfield expansion commissioned: FCCL has successfully commissioned its Greenfield cement manufacturing plant at D.G. Khan on 30th Nov, having a production capacity of 6,500 tons per day. Following this expansion, the company's overall capacity has surge from 8.4 million tons to 10.5 million tons, solidifying its position as the third-largest player nationwide and the second-largest in the North region. Moreover, the greenfield project has been completed in a record time of 13 months, showcasing commitment. This expansion is expected to improve company's market share, and make the company more competitive among its counterparts. It will also help the company to tap into international markets.

Continuous improvement in power and fuel: The company has successfully installed an additional solar plant of 20MW during the FY23, taking total solar capacity to 40MW. Region wise break up is: 20MW in Jhang Bahtar, 8.6MW in Wah and 11MW in NZP. Alongside this, the company installed additional 7 MW of WHRP during the year, taking total WHRP capacity to 47.5MW. Region wise break up is: 21MW in Jhang Bahtar, 7.5MW in Wah and 19MW in NZP (previously 12MW). On the fuel side, the company used 53% of Afghan coal (66% last year) vis-à-vis 47% local coal (34% last year) as fuel, which helped the company save PKR 285/ton of cement produced. In tandem with this, approximately 7% to 8% of coal was replaced by alternate fuel such as burning of Tire-derived fuel and poultry waste. As the management, this is expected to climb up to 10% - 12% next year, further making the company cost efficient.

PAT to reach all time high: After the successful expansion of the greenfield project and improvements in the power mix efficiency, the company is poised to achieve record earnings of PKR 7 per share in the FY25. Furthermore, FCCL is anticipated to declare a dividend of PKR 2 per share.

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	3.0	3.8	7.0
Dividend per share	*PKR*	-	-	2.0
Book value per share	*PKR*	26.6	30.4	35.3
Price to Earning	*x*	3.9	4.9	2.7
Price to Book	*x*	0.4	0.6	0.5
Dividend Yield	*%*	-	-	11.1
Net Margins	*%*	10.9	11.5	15.1

Source (s): Company Financials, AHL Research

FCCL

Summary Data

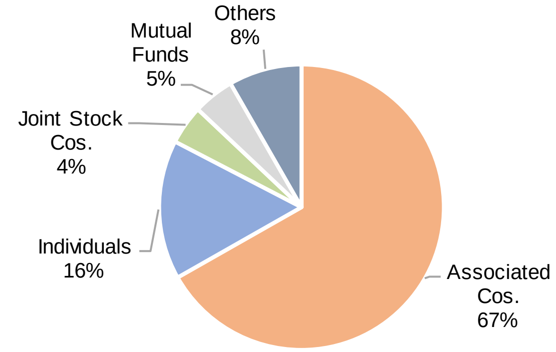
Target Price (Dec'24)	35.0
Last Closing	18.9
Upside (%)	85.6
Shares (mn)	2,453
Free float (%)	35.0
Market Cap. (PKR mn)	46,261
Market Cap. (USD mn)	162

Recommendation BUY

Price Performance

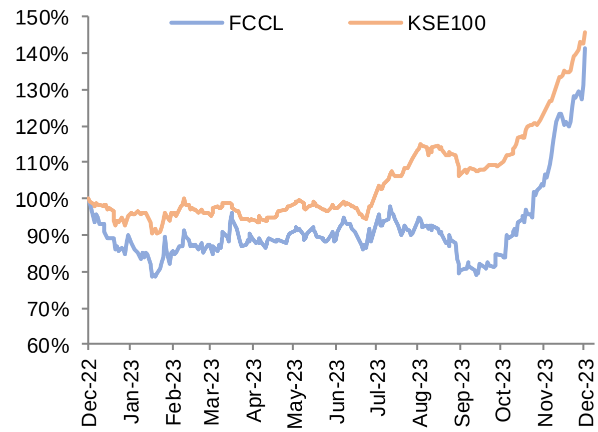
	3M	6M	12M
Return (%)	75.4	55.1	41.3
Avg. Volume (000)	5,406	4,478	3,603
ADTV (mn) - PKR	81	63	47
ADTV (000) - USD	284	220	172
High Price - PKR	18.9	18.9	18.9
Low Price - PKR	10.5	10.5	10.5

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



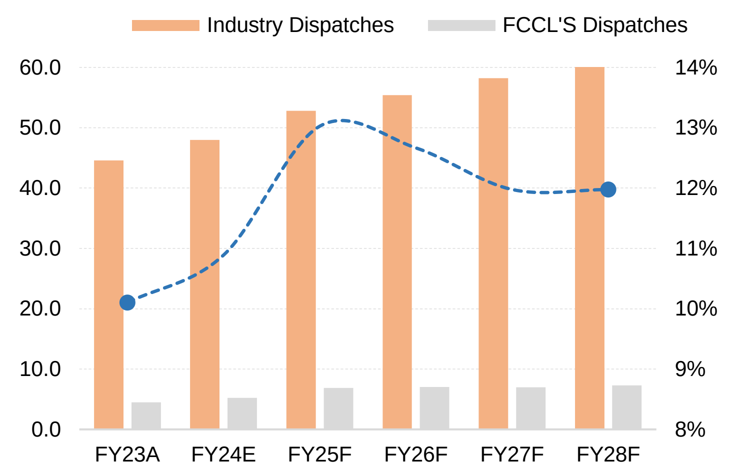
Source: Bloomberg, AHL Research

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	68,069	81,626	113,037
Gross Profit	20,418	26,797	38,934
Operating Profit	16,332	22,288	34,520
Finance Cost	3,118	6,346	4,014
Post Tax Profit	7,440	9,408	17,090
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	65,176	74,584	86,546
Trade and other Payables	6,516	7,216	9,753
Total Liabilities	73,653	76,050	74,385
Current Assets	23,134	26,055	34,802
Non-Current Assets	115,694	124,578	126,129
Total Assets	138,828	150,633	160,931

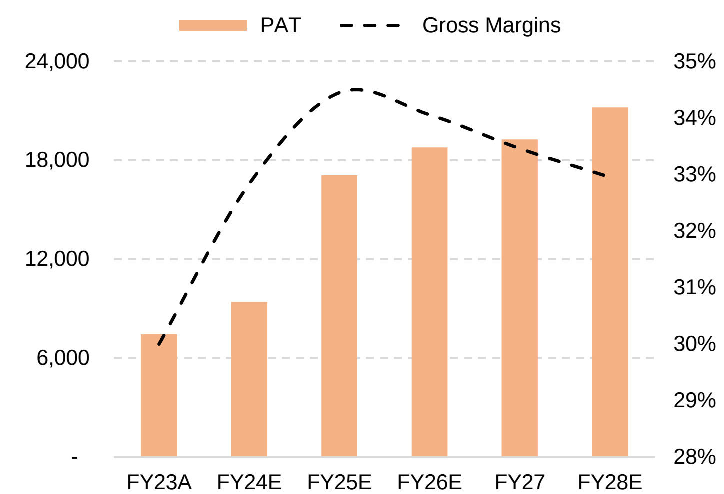
Source (s): Company Financial, AHL Research

Figure: Growing market share amid merger and expansion



Source (s): Company Financials, AHL Research

Figure: Peek at earnings



Source (s): Company Financials, AHL Research

Power Generation and Distribution

Dollar hedged returns

Circular debt, the issue has been partially resolved thus far

Pakistan has grappled with the persistent issue of Circular Debt (CD) within its power sector for several years, and this problem has been exacerbated by the expansion of electricity generation capacity in the last 5 years. As of Jun'23, the circular debt stands at PKR 2,310bn (compared to PKR 2,253bn in Jun'22). Approximately PKR 765bn of this debt is held by Power Holding (Pvt.) Limited (PHPL), while the remaining PKR 1,545bn is owed to Independent Power Producers (IPPs) and Generation Companies (GENCOs). Under the guidelines established by the IMF through the SBA program, Pakistani authorities are mandated to maintain the power sector circular debt at the level of PKR 2.3trn by the end of FY24.

In the past 16 years, the stock of circular debt has grown with a CAGR of 21% from PKR 111bn (Jun'06) to PKR 2,310bn (Jun'23).

The accumulation of circular debt can be attributed to five primary factors:

1. Inadequate sector governance.
2. Delays in tariff determination and notification.
3. Lag in fuel price adjustments (FPA).
4. Insufficient revenue recovery from both government and private consumers.
5. High Transmission and Distribution (T&D) losses.

In Jul'19, the Circular Debt (CD) Management Plan for 2019 was established in collaboration with the IMF, with the objective of curbing the growth of CD. The goal was to reduce it from PKR 491bn in FY19 to PKR 130bn in FY20, and further down to PKR 80bn in FY21. To achieve this, the government disbursed a total of PKR 385bn, with PKR 225bn allocated to IPPs of PP-1994 and the remaining PKR 160bn allocated to PP-2002 in two installments. Additionally, around PKR 200bn was disbursed to IPPs by the end of FY23 to maintain the circular debt at the PKR 2.3trn level as of Jun'23.

Steps can help address the issue of circular debt

a) Timely tariff notification

b) Improvement in recovery ratios

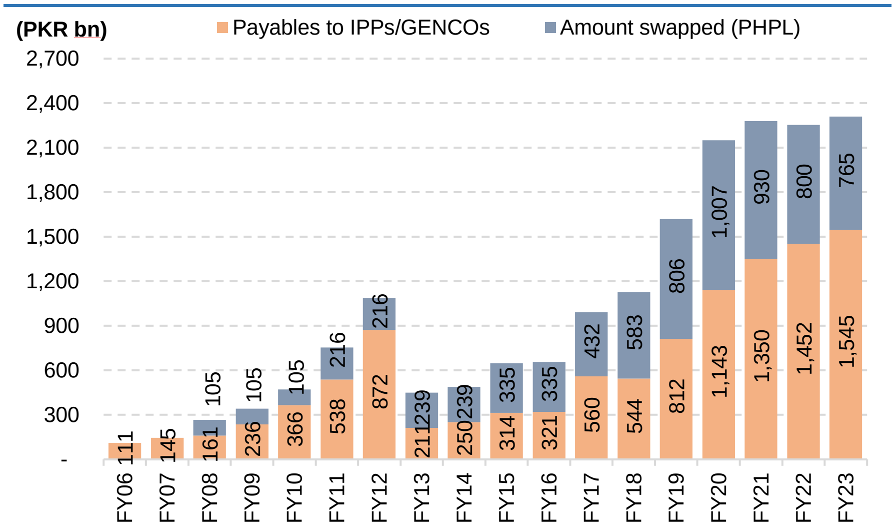
c) Improving system efficiencies & reducing T&D losses

d) Debt servicing of Power Holding (Pvt.) Limited loans

e) Timely payments of subsidies

f) Unbundling or divestment/privatization of distribution companies

Figure: Power Sector Circular Debt



Source (s): PIDE, Ministry of Energy, NEPRA State of Industry Report 2022, AHL Research

Exhibit: Circular Debt Position

PKR bn	Jun-22	Jun-23
Payables to IPPs/GENCOs	1,453	1,545
Payable Power Producers	1,351	1,434
GENCO's payable to fuel suppliers	101	111
Amount parked in PHL	800	765
Total	**2,253**	**2,310**
Break-up of Increase / (decrease)		
Budgeted but unreleased subsidies	-12	-
Unbudgeted / (unclaimed) subsidies	-133	-70
IPPs Interest Charges on delayed payments	105	100
PHL Mark-up paid out of IPPs' claims	29	43
Pending Generation Cost (QTAs+FCA)	414	250
Non Payment by K-Electric	107	-53
DISCO Losses Inefficiency	133	160
DISCO Under recoveries	180	236
Other Adjustments (Prior Year Recovery, etc)	-285	-447
Subtotal	**536**	**220**
Payment through fiscal space		
PHL Principal Payments	-130	-35
PHL unpaid mark-up	-	-
Stocks payments	-434	-127
Subtotal	**-564**	**-162**
Total	**-27**	**57**

Source (s): Ministry of Energy (Power Division), AHL Research

Is the capacity payment of IPPs genuine concern?

The induction of new power plants, totaling approximately 18,000 MW since 2016, combined with the depreciation of the Pakistani Rupee (PKR) against the US dollar, has resulted in a significant increase in capacity payments. By the end of FY23, these payments reached PKR 1,652bn, equivalent to PKR 14.62/KWh, in contrast to the PKR 275bn (PKR 3.08/KWh) recorded during FY16. The government's projection for capacity payments in FY24 stands at PKR 1,954 (including Transmission & MoE and Disco margin, and PYA PKR 2,440bn), corresponding to PKR 22.15/KWh.

In terms of the breakdown of capacity payments, nuclear power plants hold the largest share, accounting for PKR 443bn (22.7% of the total). They are followed by imported coal-based plants with PKR 387bn (19.8% of the total). Local coal-based plants represent 15.6% of the total country's capacity payments, amounting to PKR 305bn. Hydropower and RLNG (Re-Gasified Liquefied Natural Gas) plants contribute PKR 282bn (14.4% of the total) and PKR 185bn (9.5% of the total), respectively.

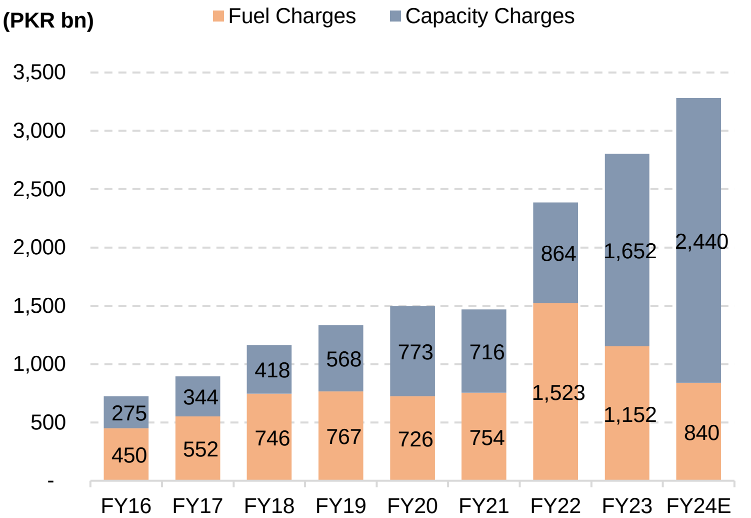
Residual Fuel Oil (RFO) based plants make up a smaller share of the country's capacity payments, totaling PKR 65bn, which is only 3.3% of the total payments.

Exhibit: Expected Capacity Payment (FY24)

Source	PKR bn	% Share
Nuclear	443	22.7%
Coal (Imported)	387	19.8%
Coal (Local)	305	15.6%
Hydel	282	14.4%
RLNG	185	9.5%
Wind	175	9.0%
RFO	65	3.3%
Gas	64	3.3%
Solar	39	2.0%
Bagasse	10	0.5%
Total	**1,954**	**100.0%**

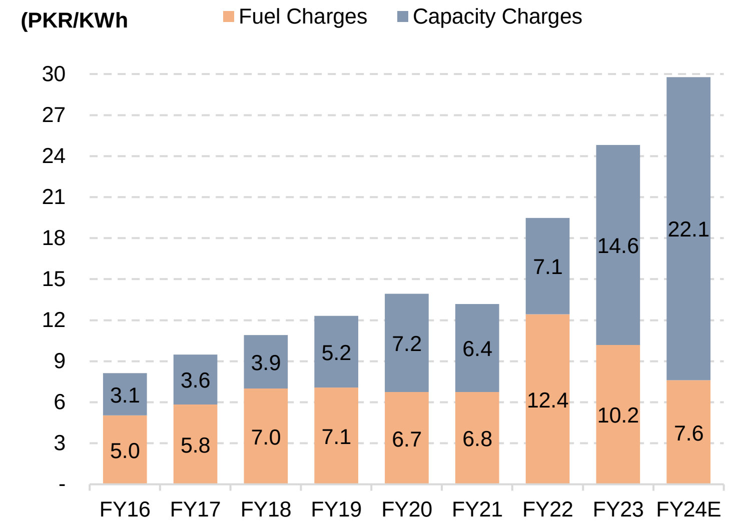
Source (s): NEPRA, AHL Research

Figure: Trend of Fuel and Capacity Charges



Source (s): CPPA (G), NEPRA, AHL Research

Figure: Trend of Fuel and Capacity Charges



Source (s): CPPA (G), NEPRA, AHL Research

Factors to be taken into account to address capacity payment issue

1. Increase in power demand

The demand for electricity is influenced by a range of factors, including fluctuations in usage between day and night and seasonal variations. For instance, in June 2022, the peak electricity demand reached 28,253 MW, a significant increase compared to the peak demand of 15,962 MW recorded in December 2021. This variation in demand is primarily attributed to domestic consumers, who account for approximately 49% of the total power demand.

To mitigate the impact of escalating capacity payments, it is imperative to promote the growth of power demand. This growth can help distribute the increasing capacity payments more evenly across a greater number of units.

Exhibit: Category wise sales (FY22)

Category	% Share
Domestic	48.5%
Industrial	27.3%
Agricultural	8.9%
Commercial	7.4%
Bulk Supply	3.3%
Public Lighting	0.3%
Others	4.4%
Total	**100.0%**

Source (s): NEPRA SoI Report 2022, AHL Research

2. Privatization of distribution companies

The issue at hand is the insufficient investment in transmission and distribution infrastructure, which has not kept pace with investments in generation capacity. This lack of investment has led to limitations in the transmission system, resulting in the underutilization of efficient power plants. The constraints in the transmission system include:

a. Overloading of transmission lines.
b. Inadequate transformation capacity.
c. Frequent outages of transmission lines.

In FY22, Distribution Companies (DISCOs) were allowed a T&D (Transmission and Distribution) loss at the rate of 13.41%, but the actual losses reached 17.13%. This 3.72% difference translated into a financial loss of approximately PKR 133bn. Furthermore, during the same fiscal year, recoveries stood at 90.51%, resulting in a losses of PKR 180bn compared to the billed amount. The combined impact of T&D losses and recovery shortfalls amounted to PKR 313bn, contributing to the circular debt.

a) Every 1% additional distribution loss will add ~PKR 29bn to the circular debt.
b) Every 1% lower recovery will add ~PKR 33bn to the circular debt.

In FY23, the excess T&D losses and low recoveries contributed PKR 296bn to the circular debt.

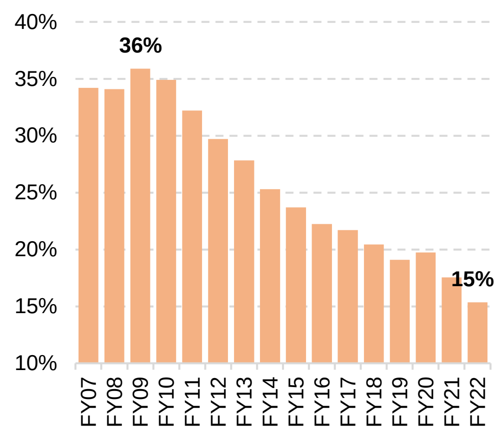
Privatizing DISCOs could be a solution to reduce T&D losses, as demonstrated by the example of K-Electric Limited. In FY22, K-Electric Limited managed to reduce its T&D losses to 15.3%, a significant improvement from 35.9% in FY09. In 2009, the Abraaj group took control of K-Electric Limited (formerly known as Karachi Electric Supply Company) and initiated measures to revamp the company, resulting in the reduction of T&D losses to 15.3%.

To mitigate losses at the distribution level, the following steps can be taken;

a) Unbundling of DISCOs, which involves breaking down larger DISCOs into smaller units.

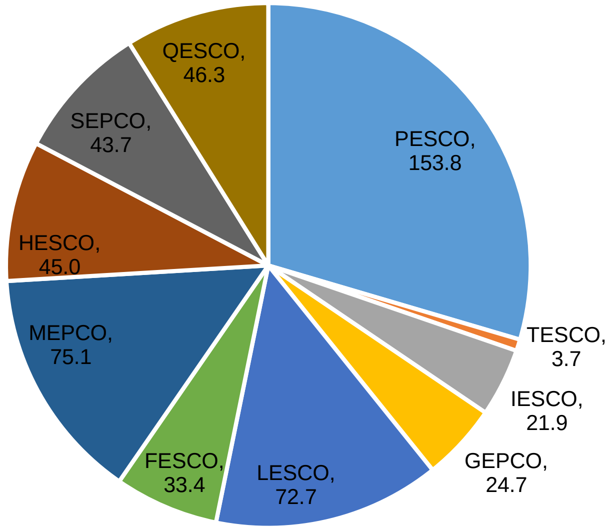
b) Urgent infrastructure upgrades for DISCOs to enhance their efficiency and reliability.

Figure: Trend of T&D Losses of KEL



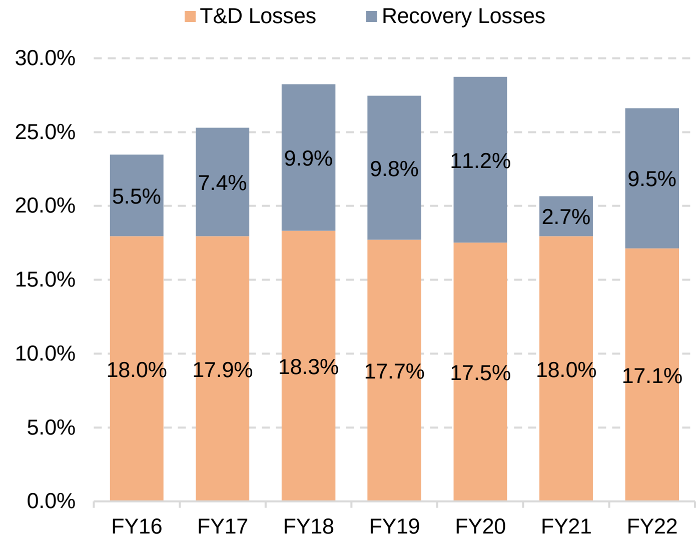
Source (s): Company Financials, AHL Research

Figure: Transmission & Distribution Losses (FY22, PKR bn)



Source (s): NEPRA State of Industry Report 2022, AHL Research

Figure: Trend of T&D and Recovery losses



Source (s): NEPRA State of Industry Reports, AHL Research

3. Front-loaded tariffs

The IPPs (Independent Power Producers) have tariff agreements ranging from 20 to 30 years, with 75% of the total debt portion having a 10-year repayment period. During the initial 10 years of the Power Purchase Agreement (PPA), the tariffs are relatively higher. By extending the debt repayment period within the PPA timeframe, it is possible to lower the electricity tariff by PKR 7/KWh.

4. Captive gas diversion to the IPPs

Presently, approximately 1,500 MW of captive power plants are utilizing domestic gas. These plants operate at an efficiency level of around 30%, which is half of the efficiency of gas-based IPPs operating at approximately 60%. This essentially means that the same amount of gas used by captive plants can generate twice as much electricity when produced by IPPs.

Furthermore, the introduction of an additional 3,000 MW to the grid will result in a reduction of the CPP by approximately PKR 3.3/KWh.

Competitive Trading Bilateral Contract Market (CTBCM); a shift from the single-buyer model to multiple-buyer market model

The power sector in Pakistan follows a single-buyer market model, where CPPA (G) serves as the entity purchasing electricity from various electric power generation companies, including the Water and Power Development Authority (WAPDA), Independent Power Producers (IPPs), and Generation Companies (GENCOs). CPPA (G) subsequently sells this electricity to Distribution Companies (DISCOs).

In Nov'22, NEPRA (National Electric Power Regulatory Authority) approved the design and implementation roadmap for the Competitive Trading Bilateral Contract Market (CTBCM). Under this new model, the existing Power Purchase Agreements (PPAs) between IPPs and the National Transmission & Dispatch Company (NTDC)/CPPA (G) will be replaced by bilateral contracts between each IPP and distribution company. As part of the new PPAs signed with IPPs from 2002 and 1994, their Take-or-Pay contracts will transition to Take-and-Pay once the CTBCM becomes fully operational.

NEPRA has granted the market operator license for the CTBCM to CPPA (G). The market operator will be responsible for overseeing its operations, establishing standards of practice, and ensuring the business conduct of market participants in accordance with the market's approved commercial code as sanctioned by NEPRA.

The Hub Power Company Limited (HUBC)

Electrifying dividend expectation

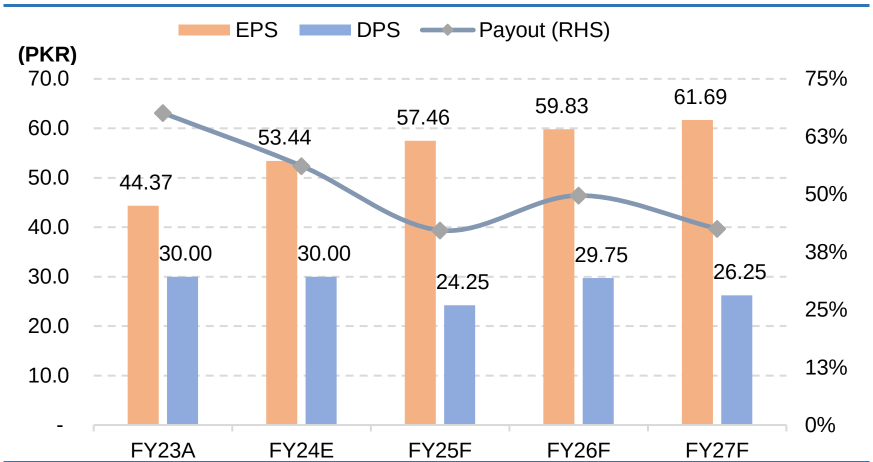
A dividend is on the horizon from the CPHGC: The government has demonstrated a strong commitment to resolving liquidity challenges within the power sector, making payments of PKR 385bn (as of Nov'20 stock) in two installments. Additionally, the government has disbursed approximately PKR 200bn to the Independent Power Producers (IPPs) to maintain the circular debt stock at PKR 2.3trn as of Jun'23. According to the guidelines laid down by the IMF under the SBA program, Pakistani authorities are required to maintain the stock of power sector circular debt at PKR 2.3trn at the end of FY24.

As of Sep'23, The Hub Power Company Limited's (HUBC) investment in CPHGC has grown to PKR 111bn, marking an increase of PKR 77.3bn (equivalent to PKR 59.6/share) since Sep'19. CPHGC's lenders officially declared Project Completion (PCD) on Feb 23, 2023. The project completion of CPHGC has released HUBC to maintain a Standby Letter of Credit (SBLC) amounting to USD 150mn, after which CPHGC will be able to distribute dividends to its shareholders subject to the availability of liquidity. HUBC has not received any dividends from CPHGC thus far, which is during FY24 to the tune of ~PKR 11bn, we view.

Diversified into the Oil and Gas Exploration sector: On Dec 30, 2022, HUBC successfully finalized the acquisition of Prime International, establishing a 50:50 joint venture between the company and the Employee Buyout Group. In 1QFY24, Prime International contributed PKR 845mn (PKR 0.7/share) to the HUBC earnings, which includes certain one-offs. We anticipate that Prime International will contribute PKR 3.6/share and PKR 4.2/share to HUBC's FY24 and FY25 earnings, respectively.

Addition of coal power plants to support earnings growth: Thar Energy Ltd (TEL) and ThalNova Power Thar (Private) Ltd (TNPTL) achieved their commercial operation dates on Oct 01, 2022, and Feb 17, 2023, respectively. Both of these power plants are fueled by local coal and each has a capacity of 330 MW. In 1QFY24, TEL contributed PKR 0.79/share, while TNPTL contributed PKR 0.67/share. We expect TEL to contribute PKR 5.31/share and PKR 6.41/share and to earnings in FY24 and FY25, respectively. TNPTL to contribute PKR 2.75/share and PKR 3.07/share to earnings of FY24 and FY25, respectively. Additionally, TEL and TNPTL will have an impact of PKR 7.8/share and PKR 5.1/share on HUBC's target price, respectively.

Figure: Historical and Expected Payout



Source (s): Company Financials, AHL Research

HUBC

Summary Data

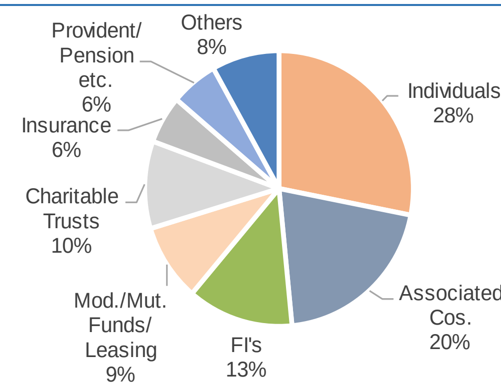
Target Price (Dec'24)	170.70
Last Closing	122.2
Upside (%)	39.7
Shares (mn)	1,297
Free float (%)	75
Market Cap. (PKR mn)	158,551
Market Cap. (USD mn)	556

Recommendation **BUY**

Price Performance

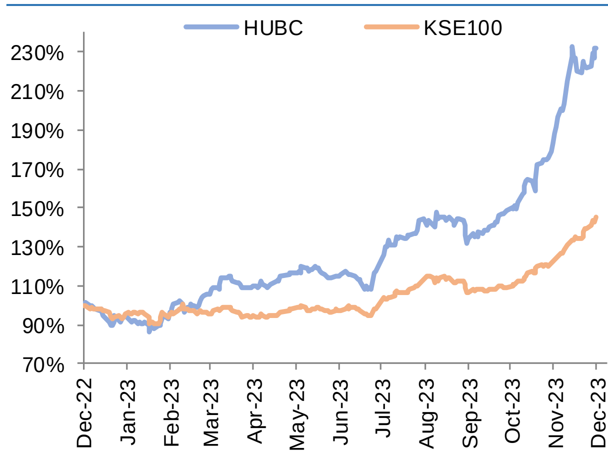
	3M	6M	12M
Return (%)	72.4	100.8	132.0
Avg. Volume (000)	3,845	3,637	3,190
ADTV (mn) - PKR	392	335	259
ADTV (000) - USD	1,370	1,170	938
High Price - PKR	122.8	122.8	122.8
Low Price - PKR	70.9	56.9	45.6

Shareholding Pattern



Source: Company Financials, AHL Research

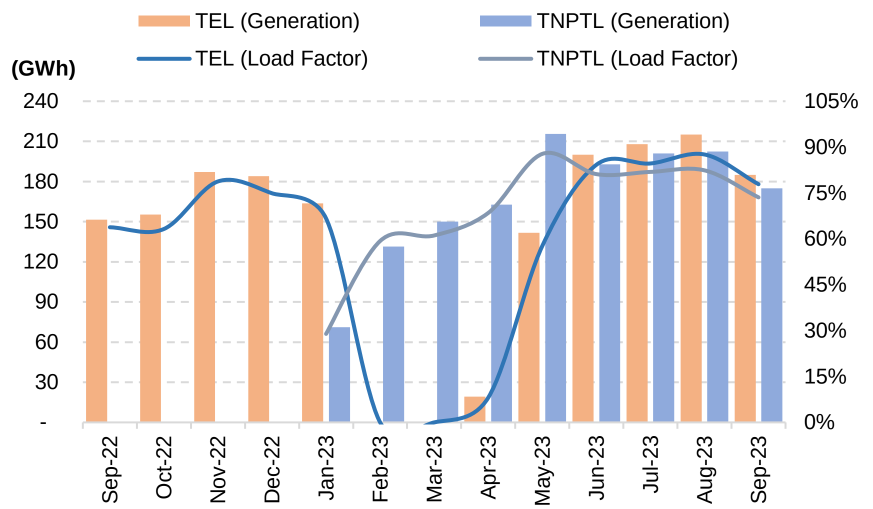
Relative Performance



Source: Bloomberg, AHL Research

Local coal plants are higher in merit order: Both TEL and TNPTL, as local coal-based power plants, currently hold positions within the top 5 in the merit order. We anticipate that these plants will maintain their favorable ranking, thus receiving priority in payments. TEL and TNPTL have already contributed ~USD 150mn in savings to the economy and are expected to continue delivering annual savings of ~ USD 380mn by reducing our dependence on imported fuels.

Figure: Load factor of TEL and TNPTL



Source (s): NEPRA, AHL Research

Exhibit: Merit Order (01-Nov-2023)

Sr #	Plant	Fuel	Fuel and VO&M Cost*
1	UCH	Gas	3.02
2	Thar Coal Block-1	Coal	4.97
3	Engro Power Thar	Coal	5.48
4	**Thar Energy Ltd.**	**Coal**	**5.50**
5	**ThalNova**	**Coal**	**5.50**
6	Liberty Power	Gas	5.52
7	Guddu 747 MW	Gas	8.40
8	Guddu CC	Gas	9.03
9	Foundation Power	Gas	9.53
10	JDW Sugar	Bagasse	9.58

Source (s): NTDC, AHL Research, *PKR/KWh

Outlook and Recommendations: We have a BUY call for the stock with a Dec'24 ending target price of PKR 170.7/share. The stock is providing a lucrative dividend yield of 24.5% based FY24F dividend per share of PKR 30.00. HUBC is currently trading at FY24F P/E and P/B of 2.3x and 0.8x, respectively.

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24F	FY25F
Net Sales	114,263	118,668	113,212
Gross Profit	52,778	63,246	64,268
Operating Profit	55,425	63,858	62,077
Finance Cost	19,323	26,765	20,124
Post Tax Profit	57,554	69,314	74,540
Balance Sheet	**FY23A**	**FY24F**	**FY25F**
Shareholder's Equity	158,036	193,821	242,977
Total Liabilities	247,529	212,614	179,406
Current Assets	145,730	129,772	121,243
Non-Current Assets	259,835	276,662	301,140
Total Assets	405,566	406,434	422,383

Source (s): Company Financial, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24F	FY25F
Earnings per share	*PKR*	44.4	53.4	57.5
Dividend per share	*PKR*	30.00	30.00	24.25
Book value per share	*PKR*	121.8	149.4	187.3
Price to Earning	*x*	1.6	2.3	2.1
Price to Book	*x*	0.6	0.8	0.7
Dividend Yield	*%*	43.1	24.5	19.8

Source (s): Company Financials, AHL Research

Key Risk (s)

Circular debt: According to the IMF's guidelines as part of the SBA program, Pakistani authorities are obligated to keep the power sector's circular debt at PKR 2.3trn by the conclusion of FY24. However, it's important to note that the current IMF program is set to end in Mar’24. In the event that the country does not enter into a new IMF program, there is a potential risk that the circular debt could increase, potentially leading to liquidity issues for IPPs and a reduction in dividend payouts due to a lack of available cash.

Competitive Trading Bilateral Contract Market (CTBCM): The Hub-base plant and Narowal Energy Limited (NEL) were also included in the agreement signed with the government in 2020. From our perspective, it's important to acknowledge that the transformation of distribution companies is a substantial challenge, and it will indeed require time to implement.

Technology & Communication

Unveiling the path to our future

Technology & communication

Unveiling the Path to Our Future

Dollar denominated income to generate revenue: The technology sector in Pakistan is undergoing a remarkable transformation, fueled by a combination of strategic initiatives, government incentives, and the global demand for digital solutions. One of the key strengths of the sector lies in its revenue structure, with a majority of earnings denominated in USD. This provides a significant advantage, especially in the face of expectations of PKR devaluation. The unique composition of revenue and costs for IT companies, where 80% of revenue comes from exports while 80% of costs are in PKR, creates a natural currency hedge for investors.

Growth momentum: Looking ahead, the growth trajectory of the technology sector in Pakistan appears promising. Government incentives and increased investments by IT companies to bolster the ecosystem contribute to this optimistic outlook. The sector is not only focusing on organic growth but is also strategically pursuing inorganic expansion through acquisitions and the introduction of new products. Moreover, companies are capitalizing on the digital boom in the Middle East by expanding their presence into new regions.

Technological advancement across the world: On a global scale, the technology sector remains highly attractive, with the digital transformation market projected to reach USD 1 trn by CY25. This growth is driven by the escalating use of data and artificial intelligence (AI) in business operations. Anticipated trends include a significant portion of consumers spending an hour daily in the metaverse by 2026, opening up new avenues for interaction and digital experiences. Additionally, by 2025, the widespread use of data by employees is expected to enhance work efficiency, leading to more streamlined business operations and strategies.

Pakistan contribution to regional market share lagging: In the region, tech giants like Tata Consultancy Services (TCS) and Infosys from India have experienced impressive growth, reflected in their high price-to-earnings (P/E) multiples. These multiples underscore their outstanding potential for further expansion and development. Notably, both India and China have demonstrated remarkable global growth trajectories, and Pakistan, with its comparable pool of potential resources, is well-positioned to harness similar growth opportunities. The technology sector in Pakistan is not only contributing to the country's economic growth but is also actively participating in the global digital revolution. With a focus on innovation, strategic expansion, and leveraging emerging technologies, Pakistan's technology sector is poised to make significant strides in the coming years, establishing itself as a key player in the global tech landscape.

Systems Limited (SYS)

The Bright Future

We initiate our coverage on Systems Limited with our DCF based target price of PKR 614/share implying and upside potential of 32% from current levels.

"Growth momentum": Systems Limited impressive growth trajectory is evident in its financial performance, with a 5-year dollarized CAGR of 34% in its topline and a striking 64% CAGR in its bottom line. The company maintains a diversified client base across multiple sectors. Whereas, the digital services segment is the most significant revenue contributor with ~78% share, followed by managed services (18%) and BPO (4%). Notably, approximately 80% of Systems revenue is in USD, providing a hedge against PKR depreciation, whereas about 20% is in PKR terms. Conversely, around 74% of their costs are in PKR, with the rest in foreign currency. This robust financial foundation supports our projection of a 3-year CAGR of 26% in profitability.

Revenue expansion seems evident: The company has demonstrated outstanding revenue generation, with export proceeds surging from PKR 16.4bn in 9MCY22 to PKR 29.8bn in 9MCY23, up by 81.4% YoY The company anticipates achieving a significant milestone in revenue, projecting it to reach PKR 51 billion in the calendar year 2023, representing a remarkable 62% year-over-year increase compared to the SPLY. The upward trajectory in revenue is expected to endure throughout both CY24 and CY25. We forecast the revenue for CY25 is poised to reach PKR 87 bn, resulting in a notable 5-year compound annual growth rate (CAGR) of 55% by CY25.

MENA region, a gold mine for Systems: The company's strategic pivot towards the MENA region, driven by rapid digitalization and robust IT spending forecasts, is yielding impressive results. Despite a global economic slowdown, Systems reported a remarkable 42% YoY revenue growth of USD 25 mn in the 3QCY23, showcasing its ability to thrive in the MENA region. As per Gartner, IT spending in the MENA region is likely to record at USD 184bn mark in CY24, which will provide the company with many new opportunities to expand its business. We project profitability from the MENA region to grow at a 3-yr forward CAGR of 77% in CY24.

A year of consolidation of Offerings: In 2023, the company is prioritizing the consolidation of its services into three core verticals. firstly, the Banking and Finance Sector (BFS), will be strengthened via the acquisition of NDC, enabling cross-selling and end-to-end services to conventional, Islamic, and digital banks. The second, Telco, focuses on digital Business Solution Services (BSS) and expanding into the GCC and APAC regions. Lastly, the Growth Vertical caters to diverse sectors, including public entities, pharmaceuticals, healthcare, and retail, with a strong emphasis on technology offerings. This strategic realignment aims to optimize service delivery and capture growth opportunities.

Relatively well priced: In the forthcoming fiscal years, Systems is poised to exhibit robust earnings, projecting PKR 35.7/share and PKR 43.1/share for CY24 and CY25, respectively. The current market valuation underscores an appealing investment opportunity, with the stock trading at a modest price-to-earnings ratio (PER) of 13.0x and 10.8x for the aforementioned periods. This contrasts favorably with its historical PER, averaging 22.7 over the last three years implying a discount of 42%.

SYS

Summary Data

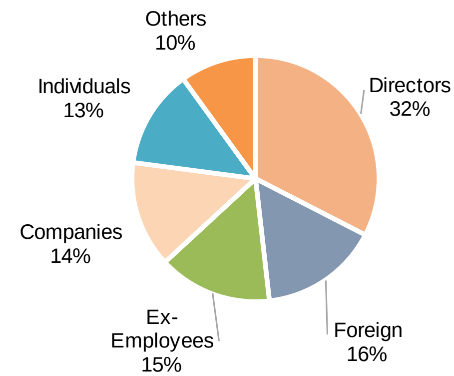
Target Price (Dec'24)	614.0
Last Closing	464.3
Upside (%)	32.2
Shares (mn)	291
Free float (%)	60
Market Cap. (PKR mn)	135,244
Market Cap. (USD mn)	475

Recommendation BUY

Price Performance

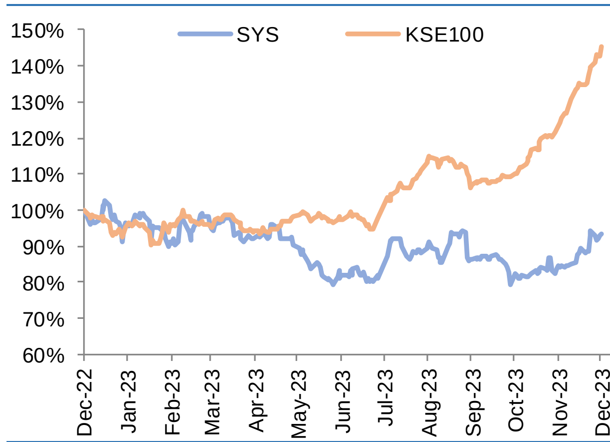
	3M	6M	12M
Return (%)	8.0	14.1	-6.5
Avg. Volume (000)	423	390	421
ADTV (mn) - PKR	181	169	190
ADTV (000) - USD	636	590	700
High Price - PKR	468.9	468.9	508.8
Low Price - PKR	393.8	393.8	393.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		CY23A	CY24E	CY25F
Earnings per share*	*PKR*	31.7	35.7	43.1
Dividend per share	*PKR*	6.8	12.5	15.5
Book value per share	*PKR*	112.0	147.7	190.8
Price to Earning	*x*	14.6	13.0	10.8
Price to Book	*x*	4.1	3.1	2.4
Dividend Yield	*%*	1.5	2.7	3.3
Net Margins	*%*	18.0	15.3	14.3

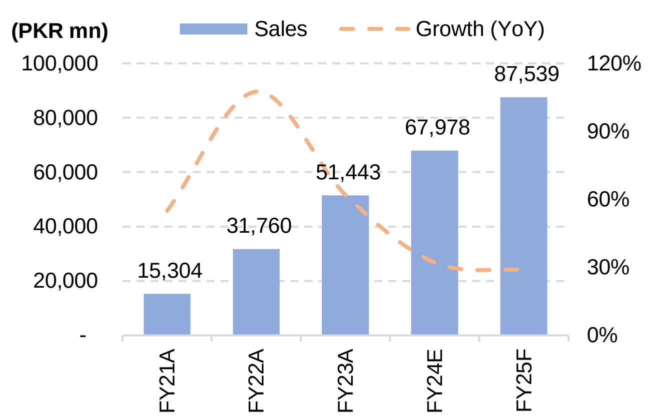
Source (s): Company Financials, AHL Research, *@291mn shares

Exhibit: Key Financial Highlights

Income Statement	CY23A	CY24E	CY25F
Net Sales	51,443	67,978	87,539
Gross Profit	14,155	19,613	24,177
Operating Profit	8,310	11,999	14,371
Finance Cost	900	774	606
Post Tax Profit	9,245	10,389	12,549
Balance Sheet	**CY23A**	**CY24E**	**CY25F**
Shareholder's Equity	32,637	43,027	55,576
Trade and other Payables	7,736	10,418	13,283
Total Liabilities	19,521	22,203	25,069
Current Assets	36,441	48,244	62,153
Non-Current Assets	15,717	16,986	18,492
Total Assets	52,158	65,230	80,645

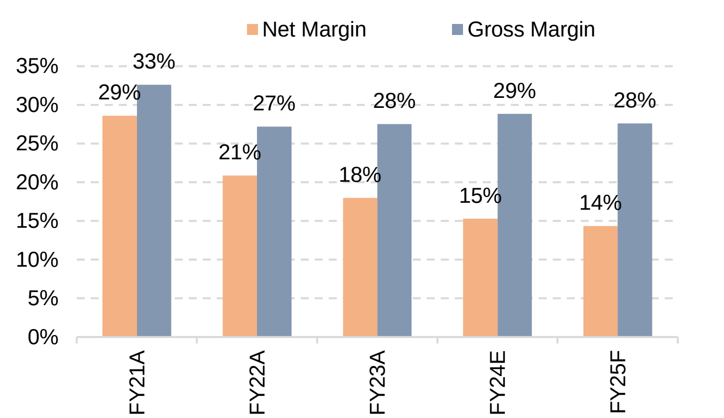
Source (s): Company Financial, AHL Research

Exhibit. Sales and growth



Source (s): Company Financials, AHL Research

Exhibit. Margins trend



Source (s): Company Financials, AHL Research

Oil & Gas Marketing Companies

Fueling the future

Oil Marketing Companies

Fueling the future

Volumes to revive amid potential fall in petroleum price: The petroleum sales volumes have depicted a decline of 26% YoY in FY23. The declining momentum continued in 4MFY24, with petroleum sales volumes showcasing a reduction of 17% YoY. The fall in petroleum offtake is attributable to i) economic slowdown, ii) lower demand amid a massive surge in MS and HSD prices, iii) a noteworthy decline in automobile sales given import restrictions, and iv) significant drop in FO-based power generation. Product-wise the dispatches of MS, HSD, and FO in 4MFY24 plummeted by 4%, 8%, and 66% YoY, respectively. At present, international oil prices are witnessing a downward trend, which will provide some respite in petroleum prices. Hence, we expect volumes of MS and HSD to climbed up by 5% YoY each in FY24, and 7% YoY each in in FY25.

OMC margins revision: During Sep'23, the Economic Coordination Committee and Cabinet approved revision of OMC margins of MS and HSD to PKR 7.87/ltr each from PKR 6.00/ltr. We expect this to have an annualized impact of PKR 20.79/share, and PKR 13.83/share on PSO, and APL, respectively. From 1st Nov'23, OGRA increased the OMC margins of MS and HSD to PKR 7.87/ltr each.

Development of bonded storage facilities: The government introduced a new policy of bonded warehouse, purpose of which is to prevent dry outs problem in the petroleum sector. As per this policy, the international oil companies would build bonded warehouses for oil storage in major cities of Pakistan and will make sure availability of petrol and diesel in the country. These countries will also bring in sufficient foreign exchange reserves to Pakistan so that petroleum availability is ensured. With this, creation of artificial shortage and hoarding of petroleum will be discouraged.

Petroleum Prices: The international oil prices during FY23 witnessed a slight reduction (Arab Light down by 25 YoY). Arab Light price post Ukraine and Russia War came down from a high of USD 116.29/bbl in Jul'22 to USD 73.61/bbl in Jun'23. During the year the OPEC+ introduced new production cuts to maintain oil price at higher level. Despite Arab prices came down to USD 89.81/bbl in FY23 from USD 92.02/bbl in FY22, the ex-refinery price of MS and HSD in FY23 averaged to PKR 187.45/ltr (PKR 134.58/ltr in FY22) and PKR 217.99/ltr (PKR 141.55/ltr in FY22), respectively. The ex-refinery prices continued to be higher due to sharp PKR depreciation (28% YoY). Going forward, we expect ex-refinery price of MS and HSD in FY24 to be PKR 204.03/ltr and PKR 225.38/ltr, respectively, which will lead to further inventory gains for oil marketing companies. In this case, we have assumed average Arab Light price of USD 85.95/bbl and PKR/USD parity averaging to PKR 297.10.

Key Risk (s)

- Hefty plunge in ex-refinery prices will lead to higher inventory losses.
- Outage in petroleum supply chain
- Availability of smuggled fuel from Iran

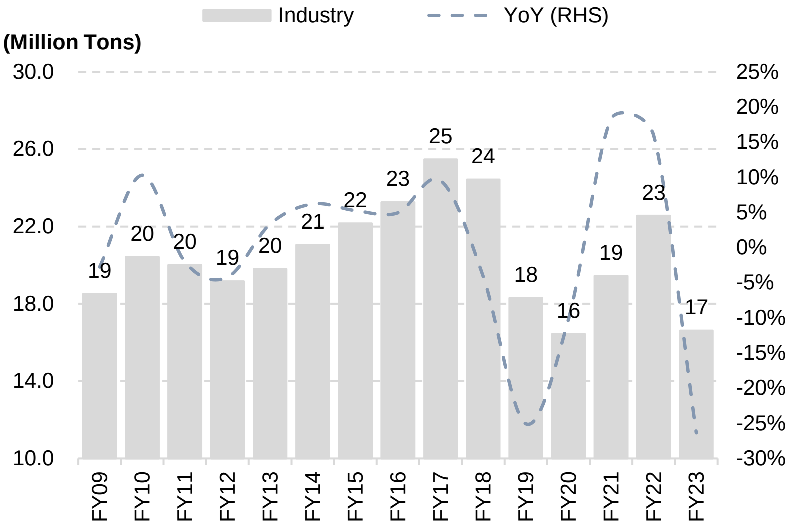
Gas utilities: A national treasure

Gas reserves continue to decline: Domestic gas production has been reducing continuously over the years. According to per PPIS data, gas production has dipped by 27% from 4,141mmcfd in FY12 to 3,259mmcfd in FY23 (3,390mmcfd in FY22). This was due to a significant decline in some large gas fields, since 2013, including Qadirpur (-341mmcfd), Zamzama (-396mmcfd), Manzalai (-151mmcfd), Sawan (-140mmcfd), and Sui (-201mmcfd). Despite some new discoveries in the last decade such as Sharf, Mardankhel, and Rehman, they have not been able to make up for the natural depletion in other gas fields.

RLNG procurement an undeniable challenge: Gas crisis in Pakistan has been an annual challenge for a long time. Against domestic production, gas demand has been estimated at nearly 6,000mmcfd, which translates to a shortage of over 2,000mmcfd per annum. The shortfall in gas demand is fulfilled by importing RLNG. To mitigate the same, Pakistan has been importing LNG since 2015. Pakistan managed to import over 941mmcfd of LNG in FY23, down by 15% YoY. With the commencement of Russia Ukraine war and sanctions placed by major countries on the exports from Russian resulted in surge in energy prices internationally. Although long term LNG contracts have been the saving grace, the country has had major trouble obtaining spot cargos amid very high prices in the backdrop of depleting FX reserves. Due to weak demand the oil prices have come down, resulting in fall in prices of RLNG to PKR 12.84/mmbtu in Sep'23 from a high of PKR 21.83/mmbtu in May'23. Currently the RLNG prices are hovering around PKR 13.49/mmbtu in Nov'23. In 5MFY24, the RLNG price have come down to PKR 13.49/mmbtu compared to PKR 16.12/mmbtu in SPLY (down by 20% YoY). During, 5MFY24, Pakistan has only procured 46 cargos vis-à-vis 43 in SPLY, showcasing a 7% growth in LNG import to 748mmcfd. Despite this, the RLNG volume lower, which means frequent load shedding in the ongoing winter season for industries, since the government shifts RLMG to prioritize maximum supply for households. The government has to bring new discoveries online in order to lower dependency on RLNG gas. At present, the E&P companies are working on revamping mature fields to maximum output.

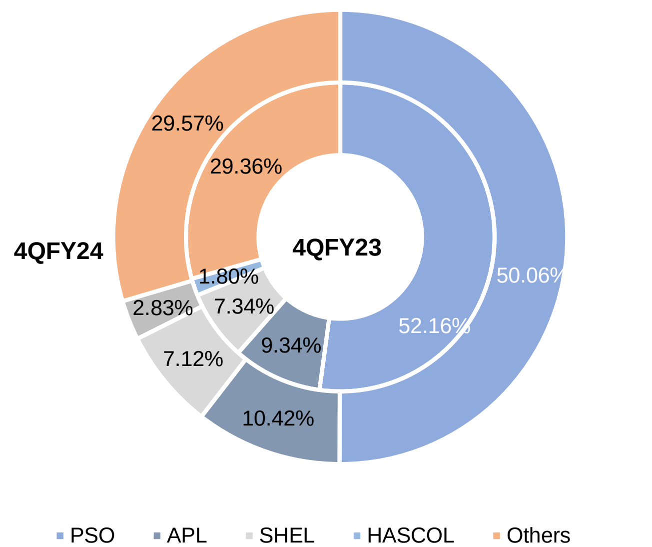
- **Risks:**
  - Delay in clearance of outstanding gas circular debt.
  - Postponing gas tariff determination and notification could add to the gas circular debt (which has crossed over PKR 2.1trn)
  - Higher UFG levels can adversely affect earnings of gas companies.

Figure: Historical Trend of Petroleum products' sales



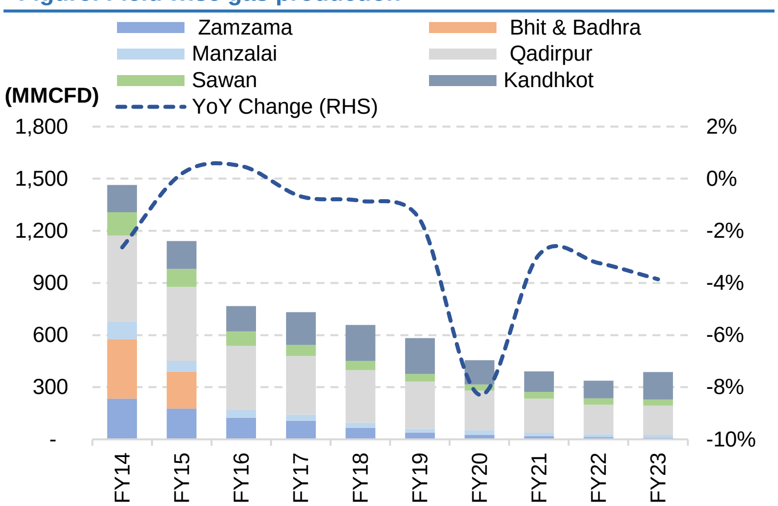
Source (s): OCAC, AHL Research

Figure: Market share of OMC companies



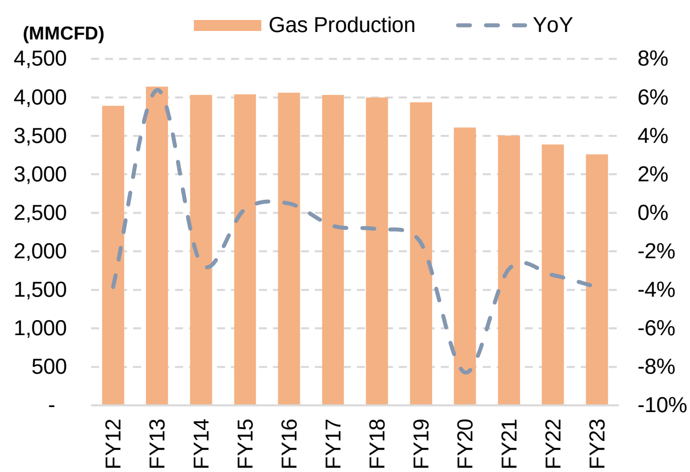
Source (s): OCAC, AHL Research

Figure: Field wise gas production



Source (s): PPIS, AHL Research

Figure: Trend of domestic gas production



Source (s): PPIS, AHL Research

Pakistan State Oil Company Limited (PSO)

Inventory gains amid elevated ex-refinery prices

RLNG Circular Debt: The gas circular debt continues to be a sore issue for the company, with the government considering variety of options to resolve the matter. Currently, the company trade debts stand at PKR 511bn, which comprise of overdue receivables worth PKR 401bn or in terms of circular debt. Amongst the overdue receivables, major amount is due from SNGP and GENCO of PKR 319bn and PKR 72bn, respectively. Meanwhile, the company's late payment surcharge is estimated to be PKR 173bn or PKR 81.22/share. The ECC has approved sovereign guarantees worth PKR 100bn to strengthen PSO's financial position. It is pertinent to note, the company supplies RLNG to industrial sector. During the winters, the RLNG gas is shifted to domestic sector by the government, which leads to an increase in price differential. The government has revised consumer gas prices in along with hefty jump fixed monthly charges in 2023. With the higher Gas Development Surcharge (GDS) (estimated to increase by ~PKR 46bn) and fixed charges (forecasted to bring in additional ~PKR 84) at disposal, the government will be able to lower RLNG circular debt and settle price differential.

Production and Market share: During 4MFY24, PSO's white oil sales remained stable at 2.23mn tons (MS 1.13mn and HSD 1.10mn tons) compared to 2.24mn tons while market share decrease to 50.1% from 52.2% in 4MFY24. We expect the sales of PSO to improve in 2HFY24, taking FY24 white oil sales to 6.93mn tons, up by 2% YoY. Whereas, in FY25, we foresee the white oil sales of PSO to climb up by 7% YoY to arrive at 7.41mn tons.

Profitability to arrive at PKR 65.88/share in FY24: During FY23, the company witnessed massive inventory losses during the period owed to correction in international oil prices due to lower demand. Due to this, the company witnessed lower profitability compared to FY22. With further depreciation of Pak Rupee expected in the upcoming quarters of FY24, we expect the ex-refinery prices to be elevated (resulting in inventory gains). Moreover, we project MS sales to increase by 2% YoY while HSD offtake is expected to remain stable in FY24. Furthermore, the revision in OMC margins (annualized impact of which is PKR 20.79/share) is expected to contribute towards earning growth. Hence we expect the FY24 and FY25 earnings to arrive at PKR 65.88/share and 73.67/share, respectively.

Other Developments: During FY24TD, the company upgrade 24k tons of storages at Sihala and Zulfiqarabad. Meanwhile, development of new storages totalling 91k tons at Faqirabad,, Faisalabad and Mehmoodkot is ongoing. Furthermore, the company created new subsidiaries/associated companies such as Cerisma (Pvt), PSO Renewable Energy (Pvt) Ltd, and PSO Venture Capital (Pvt) Ltd as part of long term strategy of diversification and growth. Moreover, PSO and OGDC have signed an MoU for a joint venture to establish a greenfield refinery project in Balochistan through a consortium arrangement with foreign investors. Furthermore, the company is also contemplating regarding USD 10bn investment with Bank of China and Sinopec for refinery or petrochemical project. Apart from this, the company is focusing on improving its footprints in electric vehicle charging segment in the country. Furthermore, the company is working on new ideas such as oil change and car service on doorstep.

PSO

Summary Data

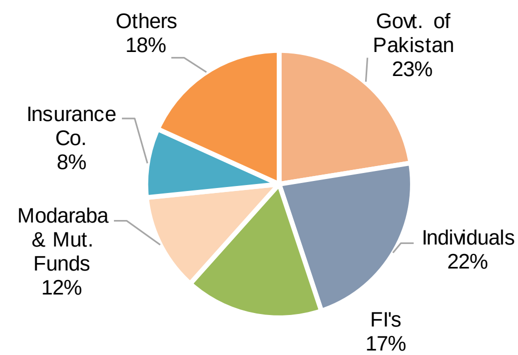
Target Price (Dec'24)	258.8
Last Closing	178.8
Upside (%)	44.8
Shares (mn)	469
Free float (%)	45
Market Cap. (PKR mn)	83,928
Market Cap. (USD mn)	295

Recommendation BUY

Price Performance

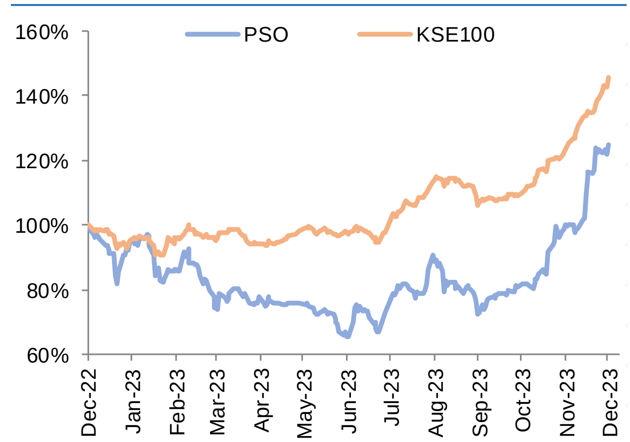
	3M	6M	12M
Return (%)	70.8	91.5	24.8
Avg. Volume (000)	3,339	2,994	1,944
ADTV (mn) - PKR	488	406	261
ADTV (000) - USD	1,715	1,424	937
High Price - PKR	178.8	178.8	178.8
Low Price - PKR	104.7	93.4	93.4

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	12.1	65.9	73.7
Dividend per share	*PKR*	10.0	10.0	10.0
Book value per share	*PKR*	461.3	502.2	550.8
Price to Earning	*x*	9.2	2.7	2.4
Price to Book	*x*	0.2	0.4	0.3
Dividend Yield	*%*	9.0	5.6	5.6
Net Margins	*%*	0.2	0.9	0.9

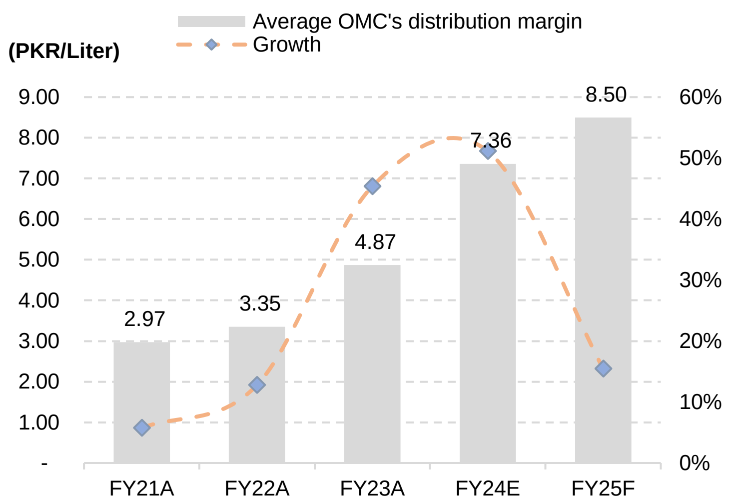
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	FY23A	FY24E	FY25F
Net Sales	3,391,112	3,592,069	3,641,424
Gross Profit	74,847	132,795	139,487
Other Income	13,507	6,695	4,314
Finance Cost	40,335	36,563	31,829
Post Tax Profit	5,662	30,927	34,584
Balance Sheet	**2023A**	**2024E**	**2025F**
Shareholder's Equity	216,560	235,750	258,598
Trade and Other Payables	309,652	490,161	496,206
Total Liabilities	766,836	967,155	989,742
Current Assets	923,349	1,139,638	1,180,814
Non-Current Assets	60,047	63,268	67,525
Total Assets	983,396	1,202,906	1,248,340

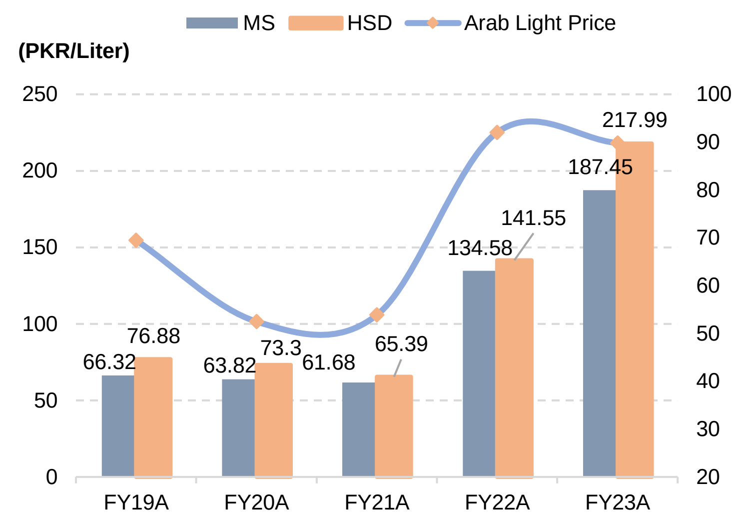
Source (s): Company Financial, AHL Research

Figure: Average OMC's distribution margin



Source (s): OGRA, AHL Research

Figure: MS & HSD ex refinery price in relation to oil price



Source (s): OGRA, Bloomberg, AHL Research

Chemicals

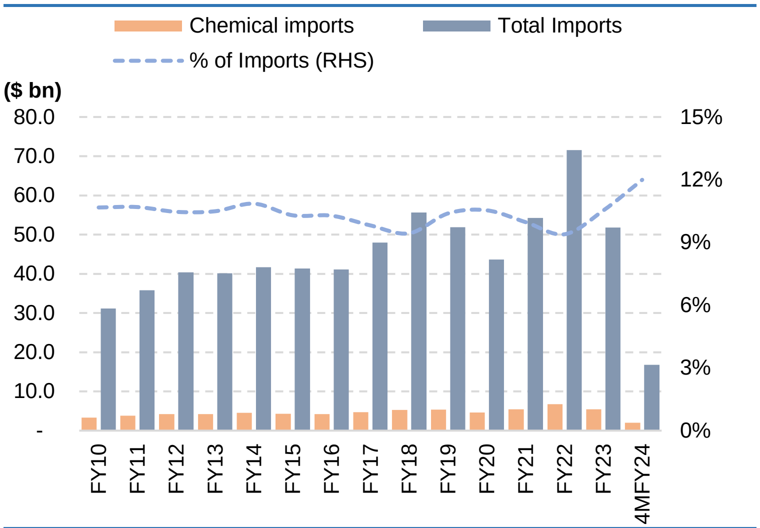
Substituting imports; generating profits

Chemicals

Economic recovery will partially offset the energy issues

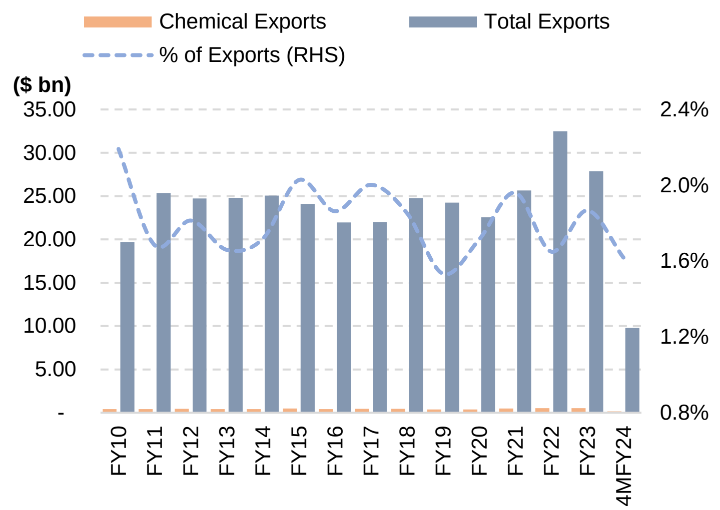
Economic recovery to pick up the demand gradually: There is a positive correlation between the chemical sector and overall economic activity meaning that an increase in the aggregate demand of the economy results in higher demand for chemicals. This is evident from the growth figures of the sector during FY22 and FY23 which stood at 19% and -4.6%, respectively while the real Gross Domestic Product (GDP) growth clocked-in at 6% and -0.17%, respectively. The share of chemical sector in imports is 11%, whereas in exports it is 2%. The GDP growth is expected to improve to 3.3% which will boost the demand for chemicals.

Figure: Share of chemical imports in total imports



Source (s): SBP, AHL Research

Figure: Share of chemical exports in total exports



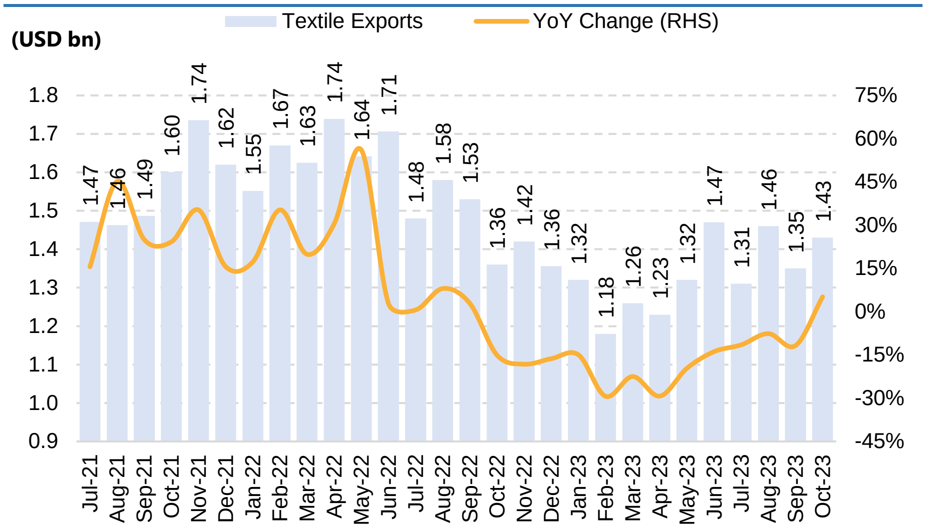
Source (s): SBP, AHL Research

The hike in energy will lead to an increase in the cost of production: The production of chemical products involves a high energy demand, and in Pakistan, there has been a gas shortage for the past few years due to increasing demand and diminishing gas reserves. Various manufacturers employ alternate energy sources such as coal, Re-Gasified Liquefied Natural Gas (RLNG), and local gas. This gas is utilized for both in-house electricity generation (Captive) and the manufacturing process itself. Amid this shortfall of gas, some manufacturers have entered into agreements with SSGC to acquire RLNG. However, the cost associated with RLNG, is approximately PKR 3,318/MMBTU, significantly exceeding that of local gas, priced at PKR 2,100/MMBTU. In the face of dwindling demand, manufacturers may encounter difficulties in fully passing higher production costs to consumers.

Demand for Polyvinyl chloride (PVC) is anticipated to rise: The PVC market faced challenges due to economic uncertainty and fluctuations in global energy prices. The sales of local PVC slightly dropped by 3% YoY clocking at 169K tons during 9MCY23, compared to 174K tons in the same period last year. This slowdown is linked with slower economic activity, due to multiple hikes in interest rates, a rise in inflation in the country, and a cut in the public sector development program due to rising fiscal deficit. During CY24, we anticipate that the demand of PVC will increase by ~19% on the back of economic revival.

Textile exports shows sign of recovery: It is anticipated that the demand of Purified Terephthalic Acid (PTA) and Polyester Staple Fiber (PSF) to improve due to a rise in textile exports. Following a continuous YoY decline for 12 consecutive months, textile exports have now shown signs of recovery, with a 6% YoY increase, reaching USD 1.44bn in Oct'23.

Figure: Textile exports increased by 5.1% YoY during Oct'23

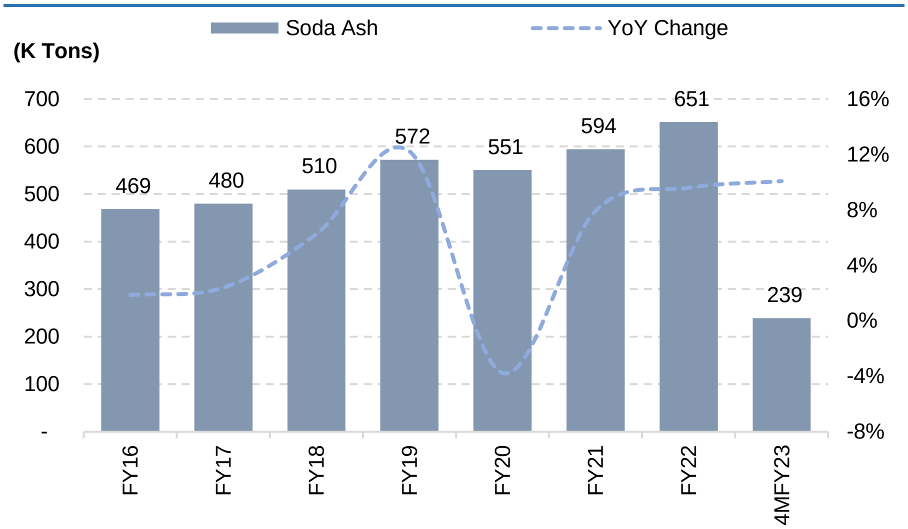


Source (s): PBS, AHL Research

Room for expansion in Hydrogen Peroxide: The local demand for hydrogen peroxide stands at ~80K tons/annum, with around 60K tons being domestically produced and the remaining quantity imported. Of the total demand, the Northern region accounts for 75%, while the Southern region comprises 25% of the country's overall demand. A significant of 80% of the demand for hydrogen peroxide is attributed to the textile industry, where it is utilized for bleaching purposes. Considering that textiles contributed approximately 56% to the country's total exports and given the recent decline in textile exports during 4MFY24, it is anticipated that the demand for hydrogen peroxide will also remain subdued. Notably, Engro Polymer & Chemicals Limited (EPCL) has announced the establishment of a hydrogen peroxide plant with a capacity of 28K tons, expected to be operational in Mar'24. Situated in the Southern region of the country, EPCL's plant is anticipated to replace approximately 15-20K tons/annum of the imported market.

Soda ash expansion to satisfy the demand: The annual local demand for Soda Ash stands at approximately 590k tons, with two key local players in the segment, namely Lucky Core Industries (LCI) and Olympia Chemicals. Recently 60K tons of additional capacity has further solidified LCI's position in soda ash market, taking total installed production capacity to 560K tons per annum. Moreover, on the back of growing downstream demand, the company plans install another 200K tons of soda Ash plant. Local Soda Ash production has experienced a noteworthy 9%YoY increase, reaching 193K tons during 1QFY24. This surge in production is fueled by heightened demand from the downstream industry, particularly the expanding glass sector. Anticipated collaborative efforts between LCI and Tariq Glass include the establishment of a float glass manufacturing facility with a daily capacity of 1,000 tons.

Figure: Soda Ash production increased by 9% YoY



Source (s): Pakistan Bureau of Statistics, AHL Research

Key Risk (s)

- Lower than expected demand due to the economic slowdown
- Lower than expected exports amid a slowdown in global economies.

Engro Polymer & Chemicals Limited (EPCL)

Rising demand to offset the higher gas prices

PVC profit margins to improve: The PVC demand remained low in 9MCY23, amid reduced demand from the downstream construction sector, increasing inflationary pressure and elevated borrowing cost. Despite the Chinese government's initiatives to stimulate infrastructure development through new policies, demand from China remained lackluster. The North American PVC market has maintained stability, buoyed by demand from the construction and automotive sectors. In addition to this, the market in India witnessed initial indications of restocking in anticipation of increased demand after the conclusion of the monsoon season in September, but subsequently, a bearish trend persisted. We view, that demand from China and India is anticipated to improve which will lead to jump in PVC prices from current levels resulting in margins to arrive at around USD 425/ton in CY24, currently hovering at USD 320/ton.

Higher economic activity to improve local PVC demand: The domestic PVC volume decelerated by 3% in 9MCY23. This slowdown is attributed to mounting inflationary pressure and multiple hikes in interest rates, which resulted in a reduction in construction activities. Nevertheless, we anticipate that EPCL will utilize the opportunity to improve its market share due to import restrictions and a growing preference among users for locally produced PVC over imported alternatives. We view that, the PVC sales are expected to increase by 19% during CY24.

Unresolved gas issue to remain a concern: The expected increase in gas price will negatively impact the chemical companies, including EPCL as it fulfills the energy requirements through the gas-based captive power plant. Due to the prevailing gas shortage in the country, EPCL has also been affected adversely due to gas supply constraints. To manage this issue EPCL has entered into an interim agreement with SSGC for the supply of both indigenous gas (75%) and RLNG (25%) for 9 months and 100% of RLNG for 3 months starting from Nov’23 till Feb’24. The rate at which RLNG is charged to EPCL, as notified by OGRA, is PKR 3,846/MMBTU. Going forward, we have assumed the company will rely on RLNG for three (3) months. The current gas price for captive power plants (for EPCL) is PKR 2500/ which has increased from PKR 1,200/MMBTU (+108%). Consequently, we anticipate that the gas price hike will have a negative impact on EPCL's earnings in CY24E, reducing by PKR 3.33/share (-39%). It is pertinent to note that, EPCL will need to raise PVC prices by USD 80/ton in order to fully offset the impact.

Diversification into Hydrogen Peroxide market: The local demand for hydrogen peroxide is ~80K tons per annum of which ~60K is locally produced while the remaining quantity is imported. Out of the total demand, 25% of demand is south based while remaining comes from north region. EPCL has announced to set up a Hydrogen Peroxide plant with a capacity of 28K tons with an expected capital expenditure of USD 30-35mn. Previously, the expansion was planned to come online in 2023, but due to LCs restriction, it got delayed. The plant is expected to commence its operations in 1QCY24. EPCL is located in the South region of the country so it is likely to replace the imported market which is ~15-20K tons per annum. The addition of the Hydrogen Peroxide business is expected to contribute PKR 1.1/share to the CY24 earnings of EPCL.

Outlook and Recommendations: We have a BUY call for the stock with Dec’24 ending target price of PKR 56.8/share and CY24F P/E and P/B of 5.2x and 1.4x, respectively. However, the gas supply issue and operation of the company on RLNG poses big threat to company’s margins and profitability.

EPCL

Summary Data

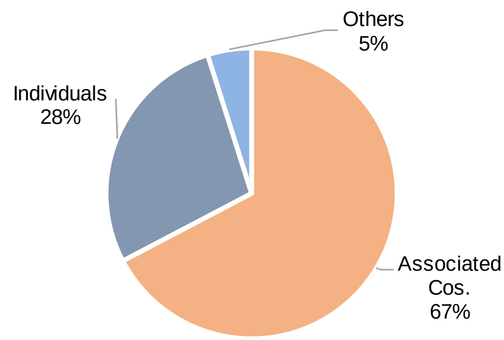
Target Price (Dec'24)	56.8
Last Closing	45.0
Upside (%)	26.2
Shares (mn)	909
Free float (%)	25
Market Cap. (PKR mn)	40,911
Market Cap. (USD mn)	144

Recommendation BUY

Price Performance

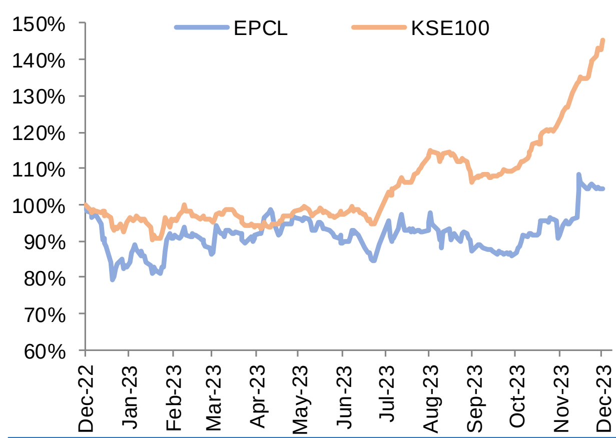
	3M	6M	12M
Return (%)	18.8	16.2	4.4
Avg. Volume (000)	1,700	1,534	1,289
ADTV (mn) - PKR	73	67	57
ADTV (000) - USD	258	235	210
High Price - PKR	46.8	46.8	46.8
Low Price - PKR	37.1	36.4	34.2

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		CY23E	CY24F	CY25F
Earnings per share	PKR	6.6	8.6	10.6
Dividend per share	PKR	5.5	6.0	7.5
Book value per share	PKR	30.1	32.1	34.8
Price to Earning	x	6.8	5.2	4.2
Price to Book	x	1.5	1.4	1.3
Dividend Yield	%	12.2	13.3	16.7
Net Margins	%	7.4	7.5	8.5

Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	CY23E	CY24F	CY25F
Net Sales	80,834	105,195	114,341
Gross Profit	18,430	18,958	20,485
Operating Profit	15,667	15,675	17,728
Finance Cost	5,155	2,809	1,884
Post Tax Profit	6,008	7,848	9,665
Balance Sheet	**CY23E**	**CY24F**	**CY25F**
Shareholder's Equity	27,355	29,213	31,614
Trade and other Payables	16,500	14,410	15,037
Total Liabilities	55,545	51,237	48,738
Current Assets	29,887	26,356	28,694
Non-Current Assets	53,013	54,094	51,658
Total Assets	82,900	80,450	80,352

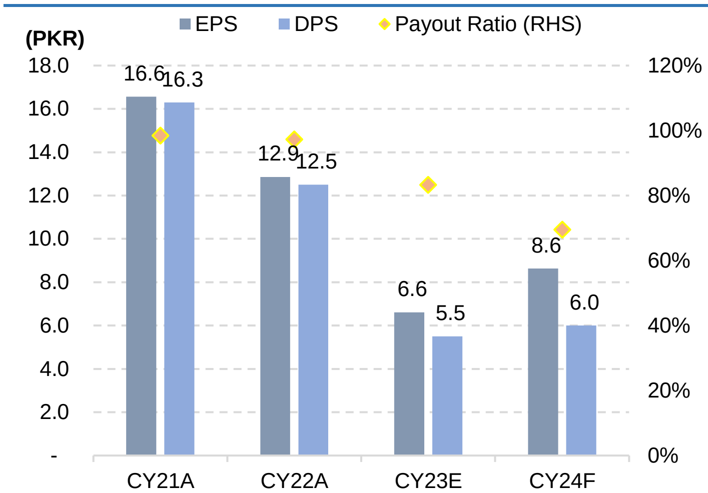
Source (s): Company Financial, AHL Research

Figure: PVC Margins Sensitivity

	PVC Margins*	EPS (PKR)		TP Dec'24
		2024	2025	
Case 1	325	2.32	4.10	46.16
Case 2	350	3.90	5.73	48.85
Case 3	375	5.48	7.37	51.50
Base Case^	**425**	**8.64**	**10.63**	**56.81**
Case 5	450	10.21	12.27	59.48
Case 6	550	16.54	18.80	70.15
Case 7	650	22.86	25.34	80.86

Source (s): Company Financials, Bloomberg, AHL Research,
*International, USD 450/ton beyond 2025.

Figure: Payout Ratio



Source (s): Company Financials, AHL Research

Automobile Assemblers

Auto sector to remain under hot waters

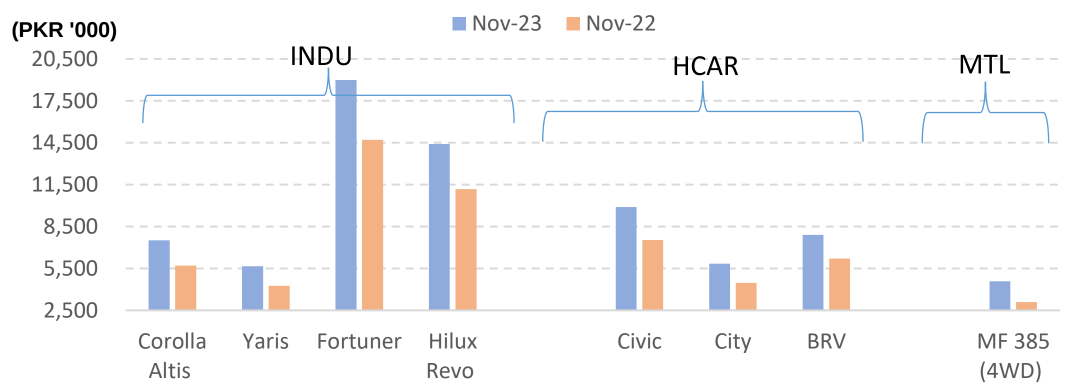
Automobile Assemblers

Auto sector to remain under hot waters

An overview of FY23: The Auto Assembler sector earnings during FY23 remained under pressure on the back of i) historic low volumetric auto sales, ii) SBP import restriction due to lower exchange reserves, iii) frequent non-production days due to supply chain restraints amid import restrictions, iv) higher auto financing rate amid hikes in the policy rate, v) Higher raw material prices leading to shrinking gross margins vi) relentless depreciation in the Pak Rupee against USD (20.6% in CY23TD) which hurts the USD denominated cost, vii) Imposition of tariffs and additional GST as the government focuses on tightening policy. Despite these challenges, the sector's long-term potential remains intact, and it is expected to recover gradually as economic conditions improve.

Volumetric sales decline amid a surge in Prices: In 4MFY24, Automobile volumetric sales portrayed a decline of 44% YoY to record 27.2K units, vs 48.6K units in 4MFY23. These drop-in sales can be attributed to significant price hikes in automobiles during the same period. All major players including INDU, HCAR, and MTL increased car prices by an average of ~30%, ~29%, and ~51%, respectively on YoY basis. These price hikes were necessary for auto assemblers to offset the impact of rising raw material costs and the devaluation of the PKR against the USD. Nevertheless, due to the current economic environment, these hikes ended up hurting the revenue of all major players in the industry by ~50% YoY. The hike in prices has impacted consumer affordability massively and the industry must address consumer affordability concerns while navigating current economic challenges to remain competitive and maintain sales growth.

Exhibit. Hike in car prices (Top of the line models)

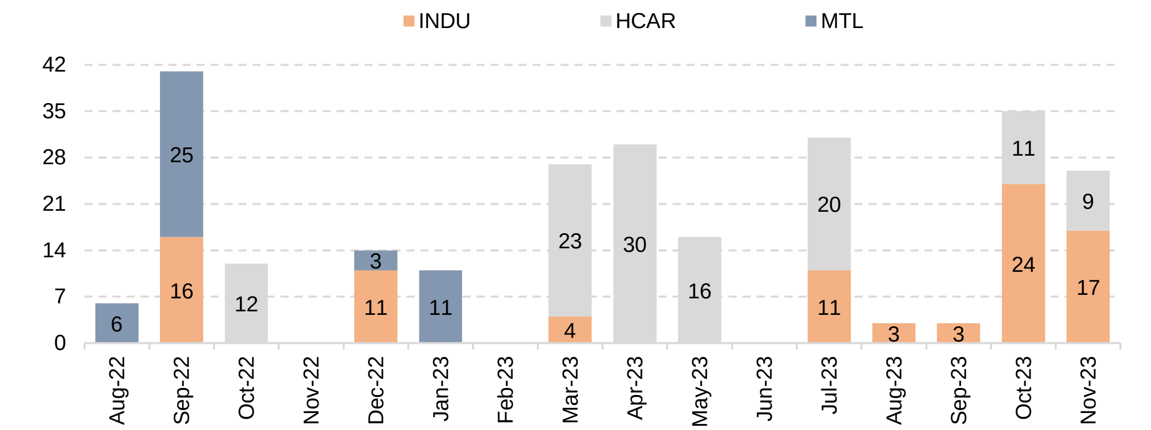


Source (s): AHL Research

Government implementing stringent measures: As we recall, SBP introduced a mechanism for prior approval for the import of CKD units to curtail the pressure on the depleting foreign exchange of the country, as a result, the auto sector has to face severe supply chain restrictions. A production cut of 49% YoY was witnessed in 4MFY23. In addition to these restrictions, the government has imposed a 25% General Sales Tax (GST) on cars with engine capacities exceeding 1400 CC, further adding to the hike in automobile prices and leading to a decline in demand. The government's approach to curbing imports and increasing taxes on automobiles has had a profound effect on the auto sector, resulting in declining sales and reduced profitability.

Plant shutdowns: The auto sector in Pakistan has faced a significant number of unplanned non-production days in the last 1-1.5 years, which has become a recurring trend. All major passenger car assemblers, including INDU, HCAR, and MTL, have shut down their production plants multiple times, with HCAR shutting down for a straight 67 calendar days. These non-production days have been primarily driven by shortages in raw-material inventory, which has disrupted the production process. The industry will need to work towards improving inventory management practices to minimize unplanned non-production days and maintain stable employment levels

Exhibit. Number of plant shutdown days



Source (s): AHL Research

PKR depreciation to increase the cost: Over the last year, PKR has experienced an unprecedented free fall against the US dollar, with a depreciation of 20.6% CYTD. This depreciation has had a significant impact on the auto sector, as it has led to increased costs of raw materials, resulting in higher automobile prices for consumers. To survive in this challenging economic climate, the industry must prioritize the localization of auto parts to reduce reliance on imports and minimize costs. Assembling vehicles using locally sourced parts would help minimize exchange rate fluctuations' impact on the industry's bottom line. Achieving this goal will require significant capital investments. The government should promote local investment to support the auto industry and encourage more localized production, ultimately benefiting both the industry and consumers.

Exhibit: Localization Level

Company	Vehicle	Localization level
INDU	Corolla / Yaris	65.00%
	IMV / Fortuner	55.00%
HCAR	City	70.00%
	Civic	60.00%
	BRV	50.00%
MTL	Tractors	90.00%

Source (s): AHL Research, Corporate Briefings

Outlook: The automobile sales are expected to remain under pressure during FY24, while a notable upswing of 55% YoY is forecasted in tractor sales, attributed to a favorable low base effect following the previous year's floods and an upturn in farmers' income. Impressively, tractor sales soared by 87% YoY in the initial 4MFY24, reaching 17,296 units, compared to 9,258 units in 4MFY23. Furthermore, the cyclical nature of the automobile sector positions it for recovery, particularly amid expectations of an interest rate cut in the latter half of FY24, signaling potential resilience and growth in the industry.

Key risk (s)

- Supply chain challenges may lead to lower earnings in 2024.
- Exchange rate volatility affecting the cost of production.
- Changes in taxes and further duties would hurt profitability.
- Any Interest rate hike will lead to expensive auto-financing.
- Continuous rising inflation will hurt consumer affordability and shrink demand.

Indus Motor Company Limited

Brand image to revive sales

The Anticipated Arrival of Corolla Cross: Indus Motors (INDU) is poised for a potential recovery in volumetric sales contingent upon positive shifts in key macroeconomic indicators such as interest rates, inflation, and exchange rates. Affirming this trajectory, we maintain an optimistic perspective on its forthcoming hybrid vehicle endeavor, the Corolla Cross, scheduled for completion by the close of the CY23 with an anticipated market launch in Dec'23/Jan'24. The projected price for the Corolla Cross is estimated to be around PKR 120k. Despite prevailing challenges, the company remains steadfast in its commitment to advancing this substantial USD 100mn project and has thoughtfully allocated capital expenditures accordingly. Historically, the introduction of any 11th generation Corolla model in Pakistan has led to a substantial 75% increase in Corolla sales during FY15. Likewise, with the recent launch, we anticipate a noteworthy surge, projecting a 15% increase in volumetric sales for FY24. Furthermore, we anticipate a significant upward spike in sales during FY25.

INDU's Declining Short-Term Investments: Indus Motors, renowned for its historically robust cash and short-term investment portfolio, has recently undergone a strategic shift by reducing its short-term investment. As of Sep,'23, the company maintains a position in cash and cash equivalents, totaling PKR 44 bn, reflecting a 56% YoY decline from PKR 102 bn in Sep'22. The decline is a result of the company's strategic decision to prioritize the fulfillment of customer deliveries and settle outstanding customer advances. The advances from customers, decreased significantly from PKR 77.7 bn in 1QFY23 to PKR 7 bn in 1QFY24. During the 1QFY24, Indus Motors (INDU) experienced a decline in other income, reaching PKR 2.8 bn, reflecting a 45% YoY decrease. Despite this decline, it is noteworthy that this income stream is poised to play a pivotal role in supporting overall profitability, particularly in light of the persistent pressure on net revenue.

Augmented prices to recover gross margins: INDU has implemented a proactive strategy of consistently raising prices for its CKD units. Notably, the Corolla Altis models have seen the most substantial increase, experiencing an average surge of 68% YoY. The flagship Corolla model's top-of-the-line variant is now priced at PKR 7.5 mn, reflecting a significant 32% YoY escalation. The challenging economic landscape, characterized by subdued consumer affordability and diminished demand, has further impacted the company's profitability. Additionally, the depreciation of the PKR has presented a significant challenge for INDU, resulting in narrow margins of 4.5% during FY23. Despite these obstacles, INDU's management has demonstrated proactive measures by optimizing its production processes to mitigate potential operating losses. Notably, gross margins have shown improvement, reaching 10.1% in 1QFY24, and are anticipated to remain elevated, contingent upon the stability of the PKR/USD exchange rate and commodity prices. Looking ahead into FY24, we project the margins to reach stability at 9.0%.

Cheap Valuation: We anticipate the company's bottom-line for FY24 and FY25 to stand at PKR 186.1/share and PKR 227.1/share, respectively. This valuation positions the company at a FY25 P/E of 5.4x, signifying an undervalued P/E multiple. This is supported by the expectation of earnings recovery due to INDU's persistent brand image and the new launch of the Hybrid Corolla. We recommend a buy stance on INDU with a Dec'24 target price of PKR 1,571/share, implying an upside potential of 28.6%.

INDU

Summary Data

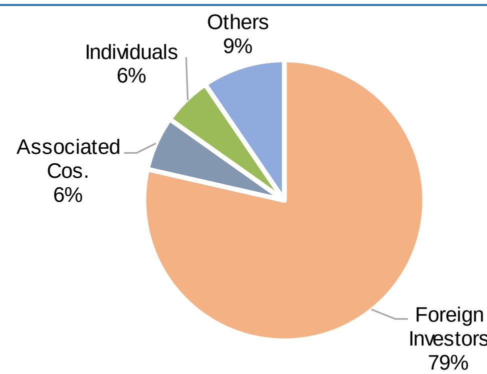
Target Price (Dec'24)	1,571.0
Last Closing	1,221.5
Upside (%)	28.6
Shares (mn)	79
Free float (%)	18
Market Cap. (PKR mn)	96,012
Market Cap. (USD mn)	337

Recommendation BUY

Price Performance

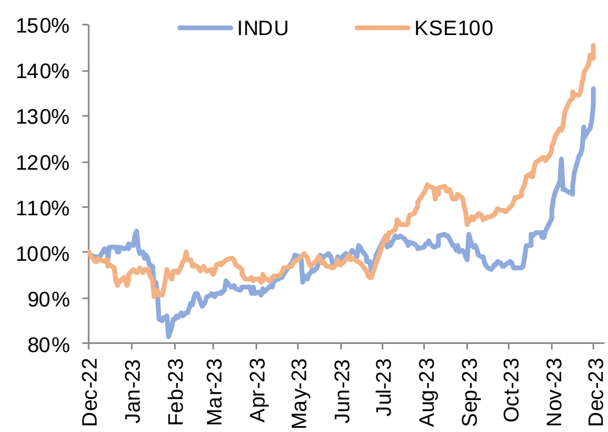
	3M	6M	12M
Return (%)	30.7	37.2	36.0
Avg. Volume (000)	29	22	18
ADTV (mn) - PKR	31	23	18
ADTV (000) - USD	109	78	63
High Price - PKR	1,221.5	1,221.5	1,221.5
Low Price - PKR	864.7	861.2	731.7

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	123.0	186.1	227.1
Dividend per share	*PKR*	71.8	109.0	133.0
Book value per share	*PKR*	764.2	841.4	935.5
Price to Earning	*x*	9.9	6.6	5.4
Price to Book	*x*	1.6	1.5	1.31
Dividend Yield	*%*	5.9	8.9	10.9
Net Margins	*%*	5.4	6.6	6.3

Source (s): Company Financials, AHL Research

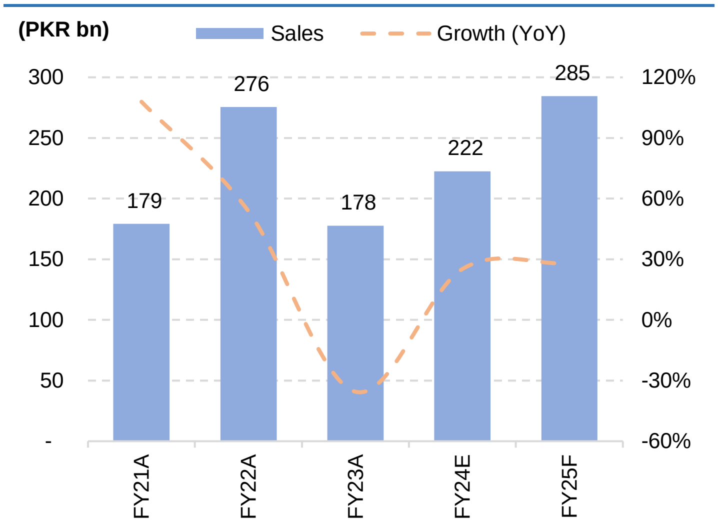
Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	2025F
Net Sales	177,711	222,478	284,621
Gross Profit	7,931	19,155	25,495
Operating Profit	16,938	24,100	29,363
Finance Cost	141	116	101
Post Tax Profit	9,664	14,630	17,850

Balance Sheet	FY23A	FY24E	2025F
Shareholder's Equity	60,070	66,132	73,528
Trade and other Payables	41,228	44,370	53,854
Total Liabilities	62,694	60,185	70,312
Current Assets	98,180	96,332	107,966
Non-Current Assets	24,584	29,985	35,874
Total Assets	122,764	126,317	143,840

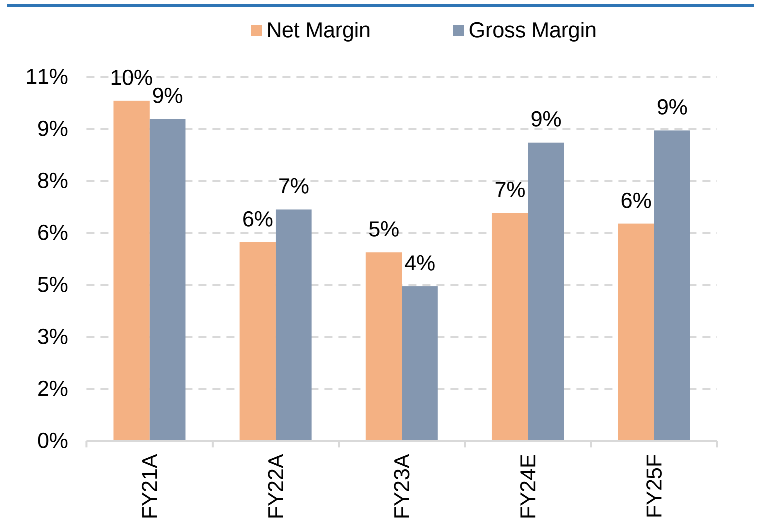
Source (s): Company Financial, AHL Research

Exhibit. Sales and Growth (YoY)



Source (s): Company Financials, AHL Research

Exhibit. Margins trend



Source (s): Company Financials, AHL Research

Millat Tractors (MTL)

Tractors demand to revive amid Famers income growth

Localization is Key Catalyst: Millat Tractors (MTL) stands as a dominant force in the Pakistani tractor industry, boasting a substantial 60% market share. The company's manufacturing prowess is evident in its impressive annual production capacity of 30,000 tractors, achieved through a double-shift operational model. One of the key factors contributing to MTL's resilience in the market is its high localization level, which currently stands at an impressive 90%. This commitment to localization has shielded MTL from the adverse effects of import restrictions that have plagued other players in the industry. By sourcing a significant portion of its components and materials locally, the company has managed to insulate itself from external market fluctuations and trade barriers. This strategic localization not only ensures a stable supply chain but also aligns with the broader economic objectives of self-sufficiency and reduced dependency on foreign imports.

FY24 has so far been a road to recovery for the tractor industry: In FY24, the tractor industry has embarked on a path of recovery, evident in the robust performance during the first four months. Volumetric sales witnessed an impressive 87% YoY surge, reaching 17,296 units compared to 9,258 units in the same period of FY23. This surge is attributed to heightened demand fueled by improved farmer income due to bumper crop. Millat Tractors (MTL) mirrored this trend, reporting a remarkable 117% YoY increase, reaching 10,191 units. In the 1QFY24, MTL's local sales revenue skyrocketed by 3.1 times YoY, driven by a low base effect amid floods last year. Additionally, the export segment experienced a noteworthy 50.5% YoY surge, further contributing to MTL's positive performance in this recovery phase.

Huge Sales tax refund due: Millat Tractors (MTL) faces a significant financial hurdle with an outstanding sales tax refund of PKR 5.9 bn held by the government for the past three years. This has triggered liquidity challenges for both MTL and its downstream vendors in the tractor industry. Consequently, MTL experienced a substantial 5.9x YoY surge in finance costs in FY23, as the company had to resort to hefty short-term borrowing to sustain its operations. Moreover, the government's decision to reduce the sales tax for tractors to 5% offers a potential remedy. If this reduction is passed on to end customers, it could stimulate a recovery in tractor demand both locally and in the export market. This, in turn, could alleviate MTL's liquidity concerns and contribute to market revitalization.

Maintaining Dividend Payout: Anticipating a robust investment outlook, we expect the earnings for the full year of FY24 to reach 48.6/share, with FY25 earnings projected to record at 59.0/share, resulting in a P/E multiple of 10.7 in FY25. Amidst challenges, the company maintains consistent high payout ratio, demonstrating resilience in maintaining shareholder value. Despite profitability pressures, MTL maintains its payout ratio by disbursing PKR 25/share, equating to a robust 142%. Our buy stance on MTL is influenced by its positive market share and high localization level. However, it's crucial to acknowledge industry challenges such as demand fluctuations and liquidity issues. The company's ability to navigate these hurdles while sustaining its dividend performance adds a favorable dimension to its overall investment outlook.

MTL

Summary Data

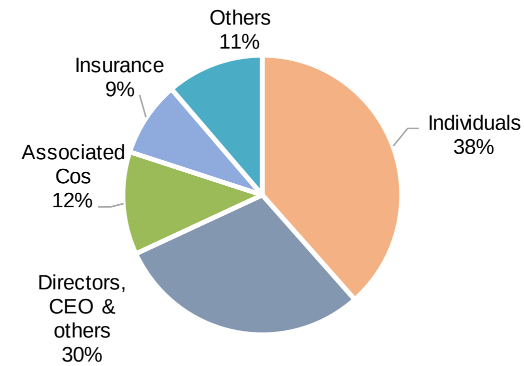
Target Price (Dec'24)	661.2
Last Closing	629.6
Upside (%)	5.0
Shares (mn)	192
Free float (%)	45
Market Cap. (PKR mn)	120,764
Market Cap. (USD mn)	424

Recommendation BUY

Price Performance

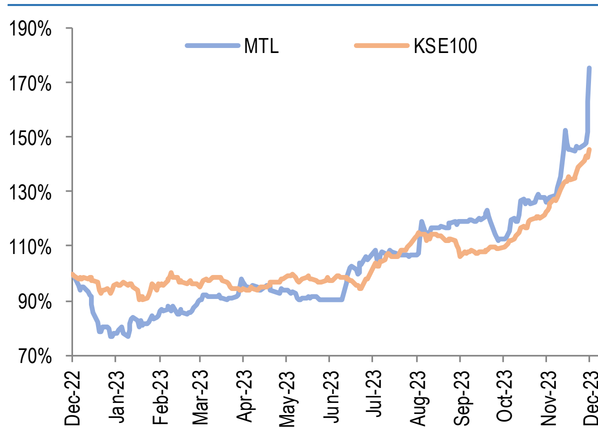
	3M	6M	12M
Return (%)	47.2	93.6	75.4
Avg. Volume (000)	154	175	133
ADTV (mn) - PKR	76	78	54
ADTV (000) - USD	265	270	194
High Price - PKR	629.6	629.6	629.6
Low Price - PKR	403.2	323.8	275.2

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	17.6	48.6	59.0
Dividend per share	*PKR*	25.0	49.0	53.0
Book value per share	*PKR*	40.2	39.8	45.8
Price to Earning	*x*	22.2	13.0	10.7
Price to Book	*x*	9.7	15.8	13.7
Dividend Yield	*%*	6.4	7.8	8.4
Net Margins	*%*	7.6	11.1	11.4

Source (s): Company Financials, AHL Research

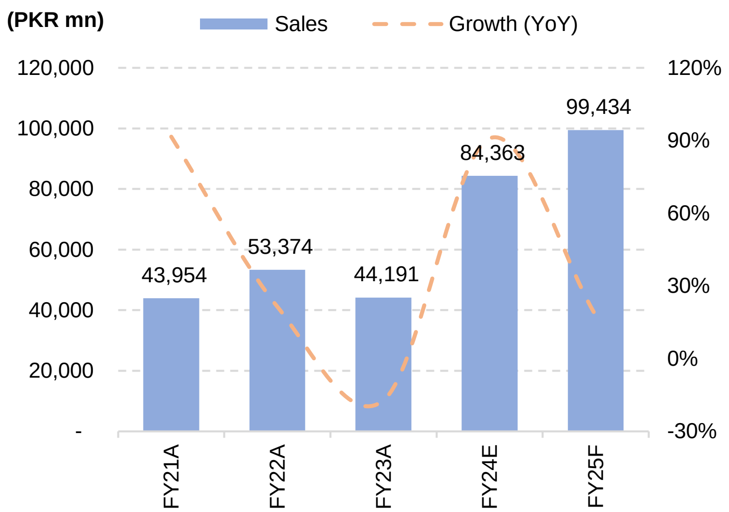
Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	44,191	84,363	99,434
Gross Profit	8,842	19,812	22,829
Operating Profit	7,131	16,999	20,274
Finance Cost	1,357	811	616
Post Tax Profit	3,377	9,323	11,307

Balance Sheet	FY23A	FY24E	FY25F
Shareholder's Equity	7,718	7,643	8,784
Trade and Other Payables	7,505	10,435	11,794
Total Liabilities	17,975	17,907	18,556
Current Assets	17,766	17,609	19,370
Non-Current Assets	7,927	7,941	7,970
Total Assets	25,693	25,550	27,340

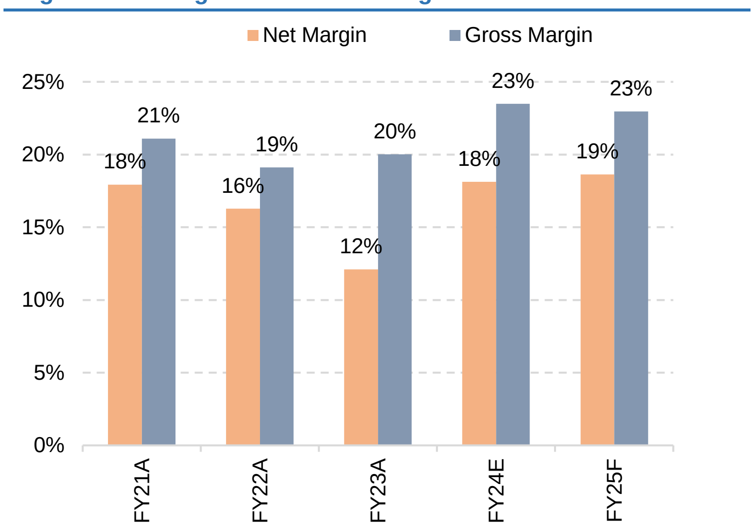
Source (s): Company Financial, AHL Research

Figure: Sales and Growth



Source (s): Company Financials, AHL Research

Figure: Net Margins and Gross Margins



Source (s): Company Financials, AHL Research

Textile Composite

Textile Industry Rejuvenation

Textile Composite

Textile Industry Rejuvenation

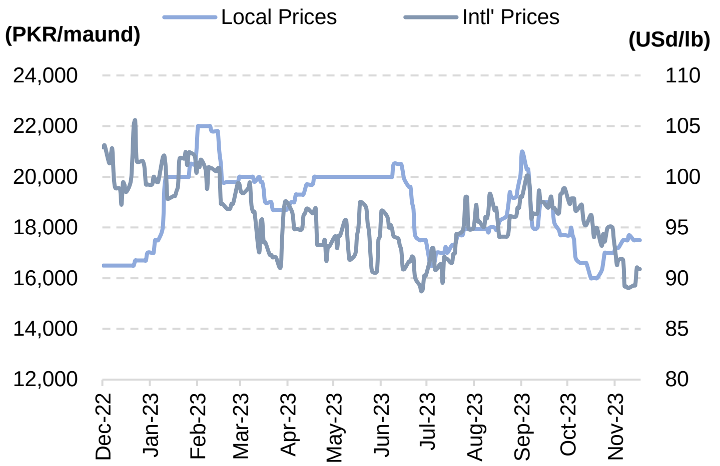
Challenges in Textile Export Markets: The textile sector plays a significant role in supporting the economy of Pakistan and continues to be in the spotlight owing to the country's dependence on the sector's exports, contributing ~59% of total exports. To recall, in FY23, Pakistan's textile exports clocked in at USD 16.51 bn vs. USD 19.31 bn in SPLY, down by 14.5% YoY. The shrink in textile exports was mainly attributable to inflationary pressure in the USA and European markets, leading to inventory pileup at buyers end, thus, resulting in a slowdown in demand from buyers, Additionally, our products face strong competition from other countries, further impacting our market share. Moreover, the prevailing interest rate in the USA, currently at 5.25%, is affecting the affordability of consumers engaged in hire purchases. With disposable income dropping in the major economies of the world, the expenditure on textile products remained subdued in FY23. Nevertheless, with the anticipated rate cuts by the Federal Reserve and the recovery of global economies, we expect the textile industry to rebound, leading to a potential 7.1% YoY jump in textile exports in FY25.

Challenge of the gas tariff, electricity cost, and higher LTFF rates: The textile industry is currently facing challenges related to increased gas tariffs, elevated electricity costs, and higher Long-Term Financing Facility (LTFF) rates. The International Monetary Fund (IMF) has raised concerns regarding subsidies, citing potential strain on the government's fiscal account. As a result, the government has discontinued the regionally competitive energy tariff (RCET) rates for the textile sector. Since March 2023, electricity rates have increased from 9 cents/kWh to 14 cents/kWh. Moreover, the adjustment in the financing rate for the LTFF facility, which is set at 3% below the policy rate, has led to higher financing costs for the textile sector, which heavily relies on subsidized financing.

Bumper cotton crop to improve margins: The significant floods experienced last year had a profound effect on the cotton crop. However, the current scenario reveals a substantial recovery and a notable impact from the favorable base effect. From Aug'23 to Nov'23, the data on cotton arrivals indicates a remarkable increase, with 7.37mn bales harvested. Taking this into consideration, we anticipate that cotton production will stabilize at 8.0mn bales during FY24 up by 70% YoY. In light of the global economic deceleration alongside with commodity prices rationalization, cotton prices have experienced a notable decline, settling at USD 0.89 per pound in Nov'23, down from USD 0.99 per pound in Dec'22. On the back of bumper cotton crop and declining cotton prices we expect the sales and gross margins of textile companies to improve in FY24.

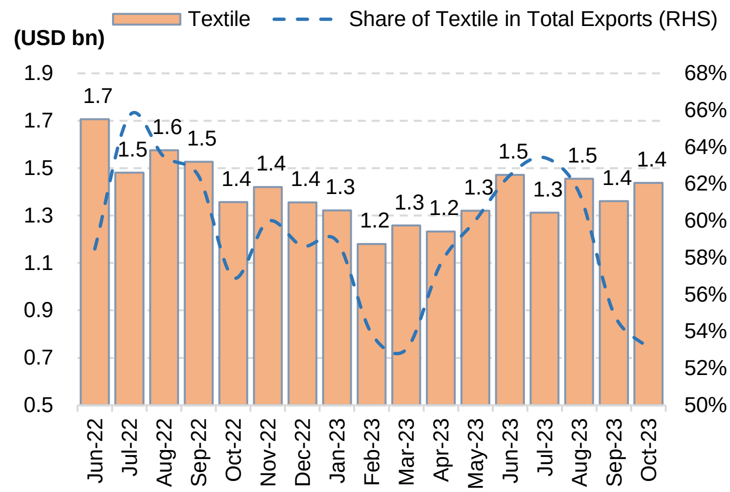
PKR depreciation to benefit export-oriented businesses: The gradual depreciation of the PKR against USD is anticipated to yield favorable outcomes for export-oriented enterprises, particularly within the textile sector. Recognizing the significance of the textile industry in generating foreign exchange amid a constrained SBP reserve position, the government is poised to accord strategic importance to this sector. Given that the textile sector stands as the foremost contributor to the country's exports, it is poised to derive substantial benefits from this evolving economic landscape.

Figure: Historical trend of cotton prices



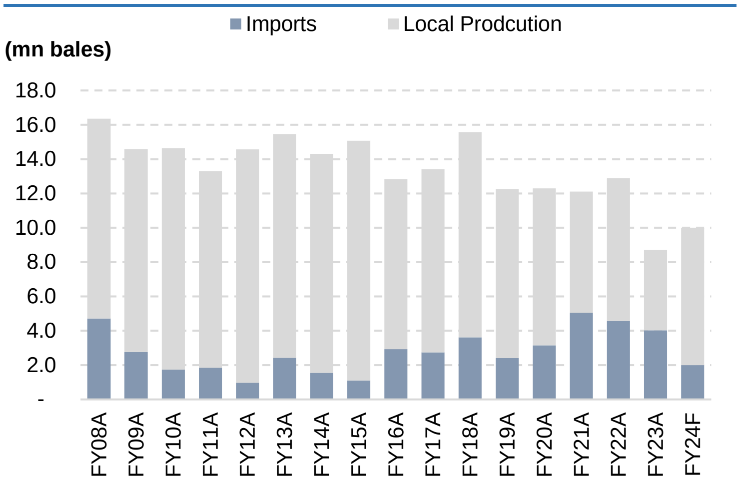
Source (s): Business Recorder, Bloomberg, AHL Research

Figure: Textile share in total exports



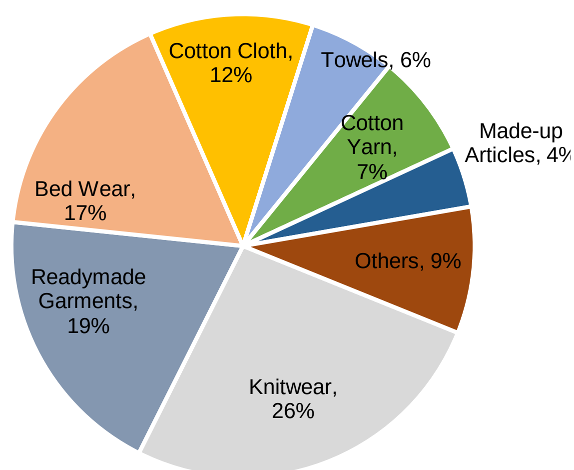
Source (s): PBS, AHL Research

Figure: Domestic cotton production compared to imports



Source (s): PBS, Pakistan Economic Survey, AHL Research

Figure: Textile exports breakup (4MFY24)



Source (s): PBS, AHL Research

Interloop Limited (ILP)

Largest exporter of branded hosiery

Hosiery segment to lead the revenue: ILP's hosiery segment contributes ~75% to the topline of ILP. The robust demand for hosiery is mainly attributable to premium brand positioning, being one of the largest sock's exporters globally. Currently, the company has a production capacity of 796mn pairs of socks annually. Meanwhile, the company's hosiery division during FY23 operated at 75% of its capacity compared to 84% in FY22. The decline in the hosiery division relates to production constraints amid a lack of raw material due to import restrictions by SBP. However, the segment portrayed a growth of 28% YoY in 1QFY24. We expect a recovery of 15% in volumetric sales in the hosiery segment during FY24. Hence, we forecast hosiery sales growth at a 4-Yr CAGR of 43%. Furthermore, the average price of hosiery in FY23 clocked in at USD 6.3/dozen. We believe that gross margins for hosiery to remain at 38% due to a decline in local cotton prices after bumper crop this season, hence maintaining the profitability in this segment.

Denim - Operational efficiency coupled with a two-fold capacity enhancement: In FY23 company's denim utilization clocked in at 71% due to a growing customer base. Moreover, the denim segment became profitable in FY23 for the first time after posting consistent losses ever since the business started in FY20. During FY23, revenue from the denim segment improved by more than 100% to PKR 12.7bn contributing 11% to the company's overall revenue. We expect ILP's denim share of 11% in revenue will further improve to 12% by FY25. Gross margin in denim improved to 13% in FY23 as compared to gross losses incurred in FY22. Due to rising global demand, ILP is planning to double its denim production capacity from the current 6mn pcs to 12mn pcs per annum by 2025. Moreover, Company has invested USD 100mn in a fully vertical knitwear apparel segment which is expected to commence in 2QFY24. This will further enhance aggregate capacity of the apparel segment from 22mn to 40mn garments annually. To note, the apparel segment posted the highest ever gross profit margin of 15% in 1QFY24 which suggests promising prospects for the apparel segment.

Bottom-line to arrive at PKR 16.2/share in FY24: Despite industry challenges, we project robust fiscal performance for the company in FY24, with anticipated earnings growth. Profitability is forecasted to stabilize at PKR 16.24/share in FY24, poised for a subsequent ascent to PKR 20.1/share in FY25. This trajectory yields a compelling P/E multiple of 3.1 in FY25, reflecting a resilient financial outlook amidst sectoral challenges.

Future Outlook: Towards the end of FY26, the revenue of ILP is expected to touch USD 700mn. The company is in the process of commissioning additional solar of 4.6 MW taking the total capacity of solar to 12.6MW. Also, ILP is installing state-of-the-art Biomass based Boilers replacing coal for steam generation by using Biomass Fuels. Furthermore, the company has commenced work on an apparel project, and at present construction activity is being undertaken. The project is slated to be completed in 2QFY24.

ILP

Summary Data

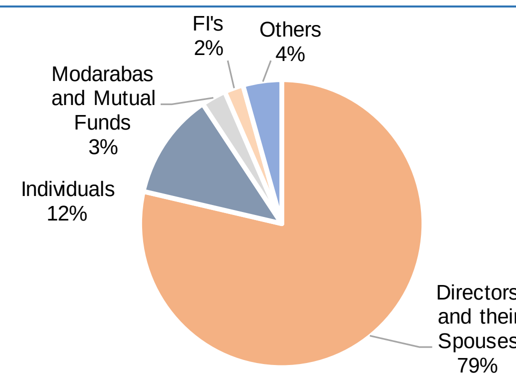
Target Price (Dec'24)	99.2
Last Closing	72.0
Upside (%)	37.8
Shares (mn)	1,401
Free float (%)	20
Market Cap. (PKR mn)	100,904
Market Cap. (USD mn)	354

Recommendation BUY

Price Performance

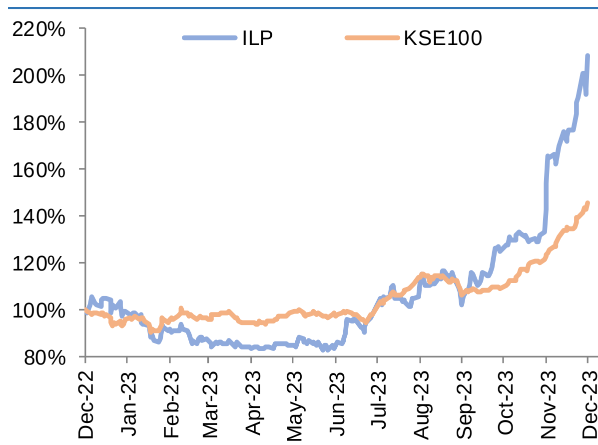
	3M	6M	12M
Return (%)	97.9	142.5	108.3
Avg. Volume (000)	938	972	823
ADTV (mn) - PKR	50	44	34
ADTV (000) - USD	175	155	124
High Price - PKR	72.0	72.0	72.0
Low Price - PKR	36.4	29.2	28.4

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share*	*PKR*	14.4	16.2	20.1
Dividend per share	*PKR*	5.0	5.5	8.0
Book value per share	*PKR*	31.3	42.0	54.1
Price to Earning	*x*	2.4	4.4	3.6
Price to Book	*x*	1.1	1.7	1.3
Dividend Yield	*%*	14.2	7.6	11.1
Net Margins	*%*	16.9	14.9	16.0

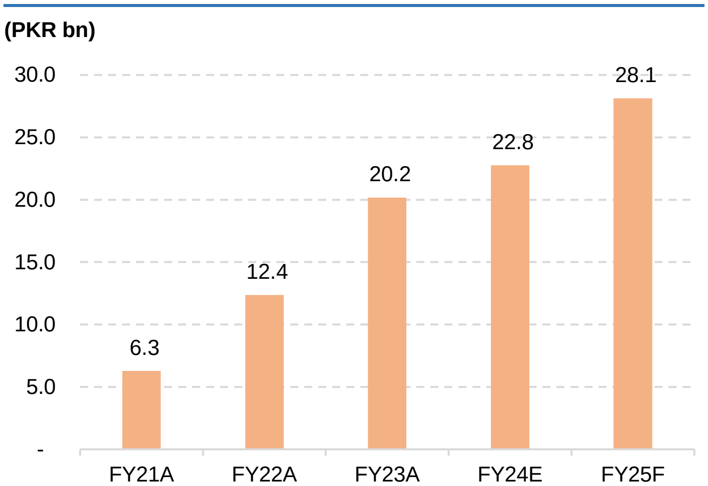
Source (s): Company Financials, AHL Research, *@1,401mn shares

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	119,200	152,605	175,909
Gross Profit	39,873	51,049	58,661
Operating Profit	27,112	35,631	40,833
Finance Cost	5,528	11,276	10,743
Post Tax Profit	20,172	22,761	28,121
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	43,806	58,860	75,769
Trade and other Payables	12,004	15,368	17,715
Total Liabilities	81,438	84,618	84,971
Current Assets	65,968	83,707	100,802
Non-Current Assets	59,275	59,770	59,936
Total Assets	125,243	143,476	160,739

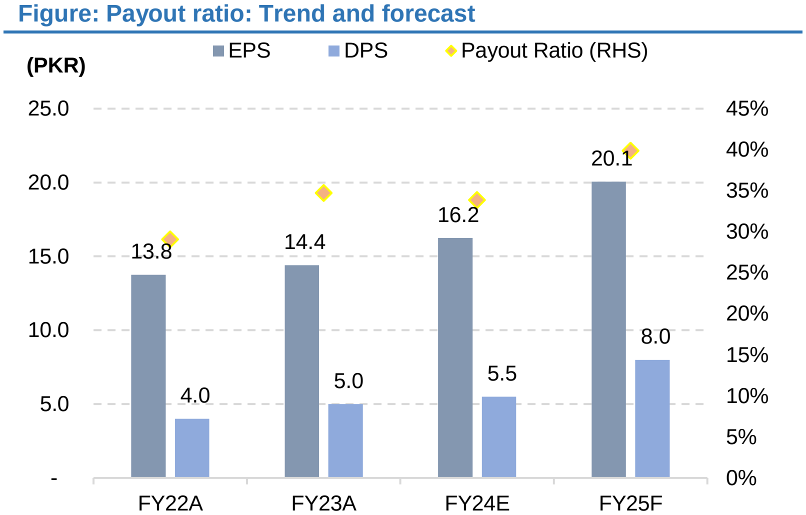
Source (s): Company Financial, AHL Research

Figure: PAT Trend and forecast



Source (s): Company Financials, AHL Research

Figure: Payout ratio: Trend and forecast



Source (s): Company Financials, AHL Research

Nishat Mills Limited (NML)

Harnessing Diversification

Leveraging its market presence: Nishat Mills Limited (NML), the flagship company of Nishat Group stands as a beacon of success in Pakistan's textile industry, boasting a legacy of excellence spanning decades. As one of the largest and most diversified textile enterprises in the country, NML has positioned itself as a key player in the global textile market, delivering consistent growth and financial resilience. Its commitment to innovation and quality has fueled a Profit after tax CAGR of 24.3% over the past five years. The company's sales mix comprises of 20% local, 66% exports, and 14% local sales to direct exporters. On a segment basis, company's sales mix consists of yarn (22%), grey cloth (24%), processed cloth (23%), made ups (16%), towel and bath robes (5%) and garments (10%).

Expansion and value addition: Since the reopening of global economies, NML has observed a surge in orders from existing global clientele and the acquisition of new customers, contributing to robust volumetric growth. Looking ahead, NML's management is strategically focusing on various initiatives, including investments in the denim sector, expanding workwear production, advancements in the terry division, and the establishment of a new factory in the garment's division. The current capital commitment includes substantial investments in denim, expansion efforts in terry, and an increase in workwear production. With the successful completion of the 100% acquisition, Wernerfelt A/S has been seamlessly integrated into NML's portfolio. Additionally, the management highlights the accomplishment of commissioning 9.86 MW Solar Power Projects.

Massive boost in Dividend Income: The core income has demonstrated stability, primarily attributed to the resilience in gross margins, maintaining a consistent 15% in FY23. In the 1QFY24, NML's other income reached PKR 5.6bn, reflecting a remarkable 178% YoY increase, primarily driven by elevated dividend income. It is pertinent to highlight that NPL, LPL, and PKGP declared dividends of PKR 3/share, PKR 15/share, and PKR 15/share, respectively, for FY23. Looking ahead, we expect NML's earnings to stabilize at PKR 41.34/share for FY24 and PKR 44.4/share for FY25. This translates to an appealingly low P/E multiple of 1.8 in FY25.

Massive portfolio investment to unlock valuation: We remain positive on NML due to (i) Equity portfolio, with a market value of PKR 74/share, after 30% portfolio discount, (ii) focus on high-margin yarn and weaving segment, (iii) Regular BMR which will improve capacity and efficiency of the plant, and (iv) Economic revival in US and Europe. Our SoTP based Dec'24 TP for NML works out to PKR 107.88/share.

Exhibit: Ratio Analysis

		FY23A	FY24E	FY25F
Earnings per share	*PKR*	34.6	41.3	44.4
Dividend per share	*PKR*	5.0	6.0	6.5
Book value per share	*PKR*	255.3	288.4	326.4
Price to Earning	*x*	1.6	2.0	1.8
Price to Book	*x*	0.2	0.3	0.2
Dividend Yield	*%*	8.8	7.4	8.1
Net Margins	*%*	8.6	8.6	7.0

Source (s): Company Financials, AHL Research

NML

Summary Data

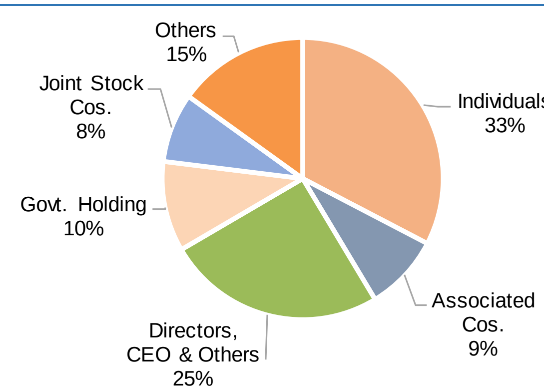
Target Price (Dec'24)	107.3
Last Closing	80.6
Upside (%)	33.1
Shares (mn)	352
Free float (%)	40
Market Cap. (PKR mn)	28,346
Market Cap. (USD mn)	99

Recommendation BUY

Price Performance

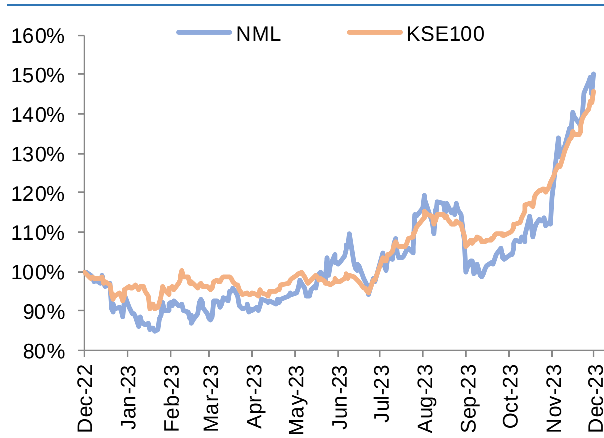
	3M	6M	12M
Return (%)	48.6	46.6	50.0
Avg. Volume (000)	1,816	1,519	1,150
ADTV (mn) - PKR	124	101	72
ADTV (000) - USD	436	353	259
High Price - PKR	80.6	80.6	80.6
Low Price - PKR	53.1	50.7	45.5

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



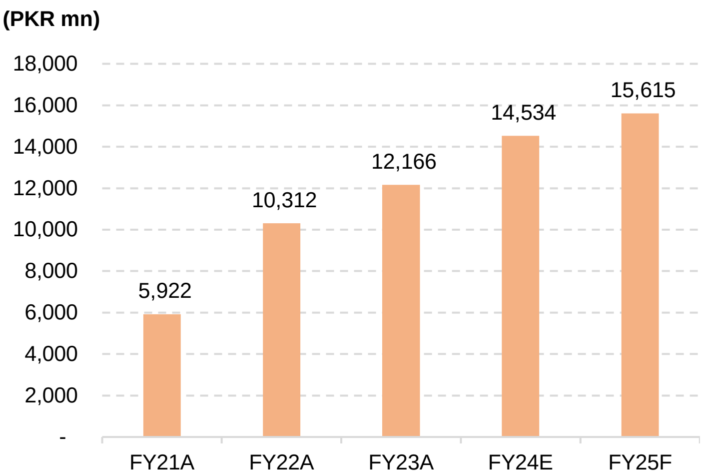
Source: Bloomberg, AHL Research

Exhibit: Key Financial Highlights

Income Statement	FY23A	FY24E	FY25F
Net Sales	141,756	168,724	221,751
Gross Profit	21,079	23,753	26,191
Operating Profit	12,690	15,098	15,390
Finance Cost	6,928	6,088	2,019
Post Tax Profit	12,166	14,534	15,615
Balance Sheet	**FY23A**	**FY24E**	**FY25F**
Shareholder's Equity	89,764	101,418	114,747
Trade and other Payables	13,969	15,196	19,963
Total Liabilities	80,522	71,908	78,647
Current Assets	85,468	86,505	104,713
Non-Current Assets	84,818	86,821	88,682
Total Assets	170,286	173,326	193,395

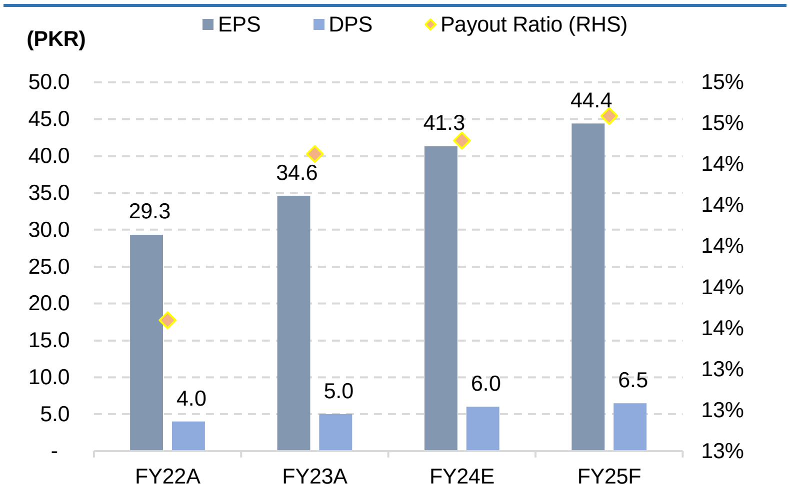
Source (s): Company Financial, AHL Research

Figure: Profitability: Trend and forecast



Source (s): Company Financials, AHL Research

Figure: Payout ratio: Trend and forecast



Source (s): Company Financials, AHL Research

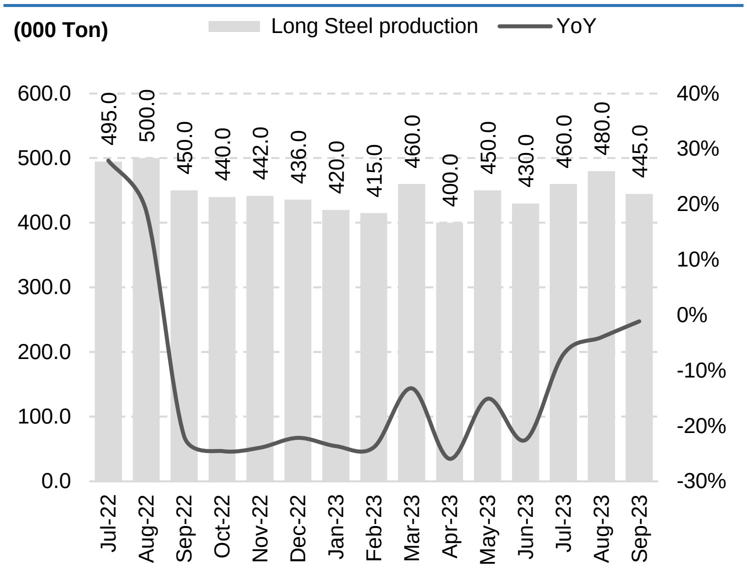
Engineering

The margins game

The margins game

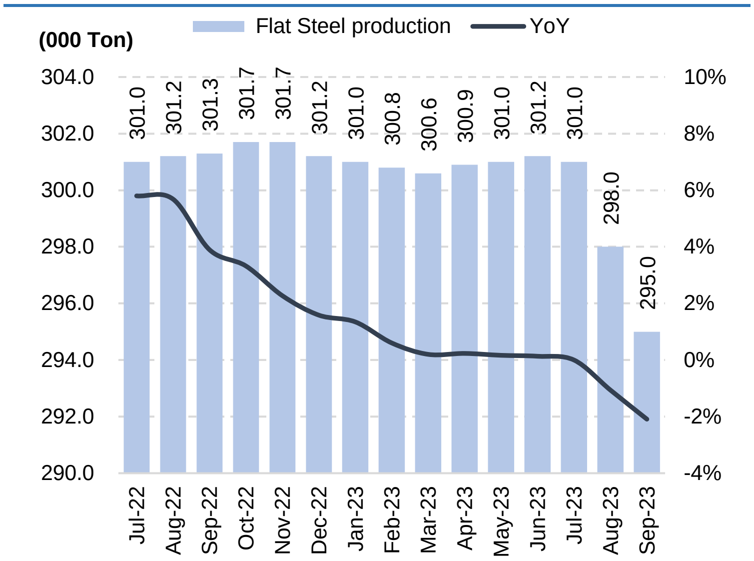
Demand expected to remain sluggish this year: In FY23 steel production declined by 10% YoY, (according to PBS data) with total production in FY23 recording at 8.95mn tons as compared to 9.90mn tons last year. The local dispatches of cement in FY23 dropped by 16% YoY, clocking at 40.02mn tons vis-à-vis 47.65mn tons same period last year. Although, steel sector is widely known to mirror the cement sector, the outperformance in the steel sector compared with cement sector came on the back of 2% YoY growth in the production of flat steel to 3.6mn tons. On the other hand, if we solely look at long steel (rebars) production, which is a fairer comparison with the cement sector, the decline in production was exactly the same as the decline in the cement sector dispatches, setting at 5.33mn tons in contrast with 6.36mn tons.

Figure: Trend of Long Steel Production



Source (s): PBS, AHL Research

Figure: Trend of Flat Steel Production



Source (s): PBS, AHL Research

The primary factor contributing to the decline in long steel prices is connected to weakened demand in the construction sector. The deceleration transpired during FY23, primarily attributed to multiple hikes in interest rates. Also, significant rise in inflation (averaging 29% in FY23) lowered the demand for housing activities, due to the erosion of purchasing power.

The picture was different in the flat steel segment. Although the economy was going through one of the worst economic situations it has ever faced, domestic production of flat steel experienced a slight increase. This surge can be attributed to diminished foreign exchange reserves, which resulted in restrictions in opening of letter of credits (LCs), leading to a reduction in the import of flat steel and a subsequent boost in local production.

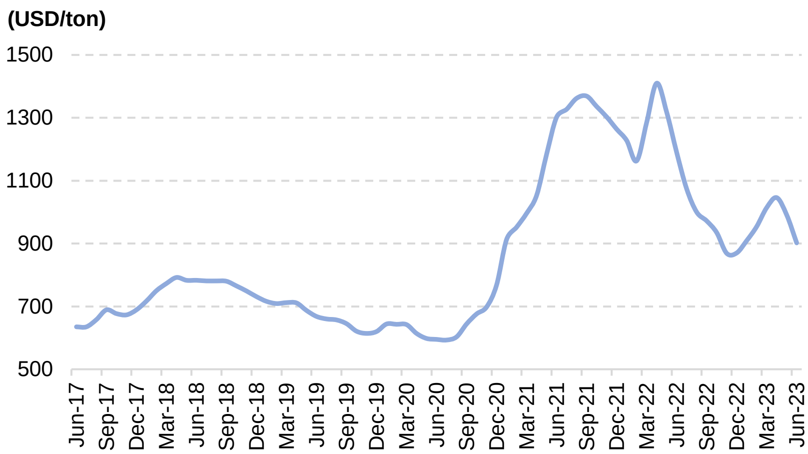
However, we do highlight that since the initiation of the FY24 cement sector has shown a massive growth of 24% YoY for the 1QFY24. This growth is not because of increase in economic activity in the economy but due to low base effect in the same period last year, amid torrential rainfall and floods. On the contrary, steel demand declined in 1QFY24 by 3% YoY. Diving more deeply in to the break up, it turns out that long steel was the main contributor for the drop in the demand, as it reduced by 4%YoY to 1.4mn tons in 1QFY24.

Moreover, flat steel also suffered the same fate, it showcased a 1% YoY drop, arriving at 0.90mn tons.

In the backdrop of stagnant demand in the general manufacturing industry as well as retail construction, we believe listed long steel players will post a flattish growth of 2-3% YoY in offtake during FY24. Post this period, we believe once inflation cools off and interest rate starts to come down, construction activity will pick up pace, which could potentially exhibit a notable jump in steel demand.

Steel prices have come off their peak: Over the course of the year, global steel prices exhibited fluctuations, commencing at USD 1,074 per metric ton and gradually decreasing to USD 869 per metric ton, with the anticipated sanctions on Russia failing to materialize. Consequently, the average prices of Hot Rolled Coil (HRC) experienced a drop, of USD 532 in Nov'22 from USD 623 in Jul'22 (down 15%). Subsequently, there was a gradual uptick in the prices by 20% in Mar'23 arriving at USD 640, on the back of post COVID demand push. However, the downward trend resumed after march, with prices declining to USD 536 by June 2023. A similar pattern was observed in Cold Rolled Coil (CRC) prices, which dwindled by 16% YoY in FY23 due to subdued demand arriving at USD 618/ton. In addition to this, on average, in Feb'23 rebar prices sky rocketed, climbing close to PKR 300,000/ton. The main culprit behind this was, massive devaluation of PKR against the greenback (~12% MoM), and a rise in the international scrap steel prices. Moreover, the sales tax exemption in FATA/PATA, continues to exert a detrimental impact on the local steel industry. The extension of this sales tax exemption for FATA/PATA has been prolonged until June 2024, as stipulated in the Finance Act 23.

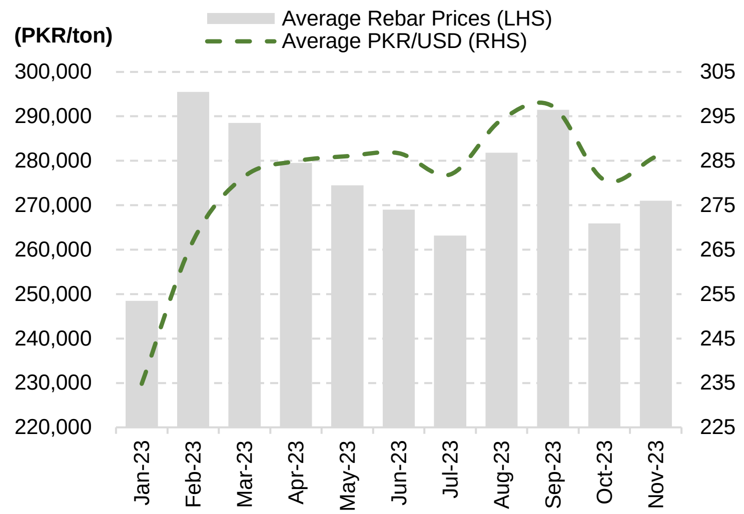
Figure: Trend of Global Steel Prices



Source (s): Bloomberg, AHL Research

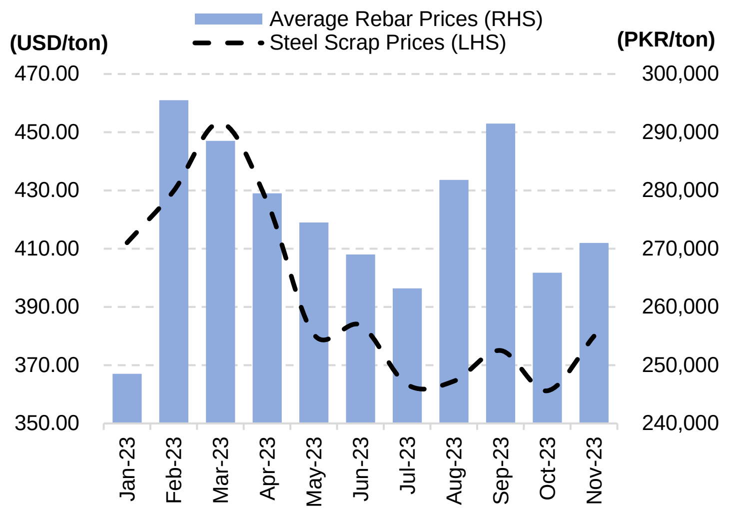
In Nov'23, hot rolled coil (HRC) and cold rolled coil prices are hovering around USD 551 and 650, respectively. Projections suggest that this stability is anticipated to persist, given the sluggish demand observed in major economies. Furthermore, rebar prices have fallen from their peak, settling at PKR 271,000/ton, amid drop in steel scrap prices and stability in exchange rate.

Figure: Trend of Average Rebar Prices & PKR to USD



Source (s): Bloomberg, AHL Research

Figure: Trend of Rebar Prices & Steel Scrap Prices



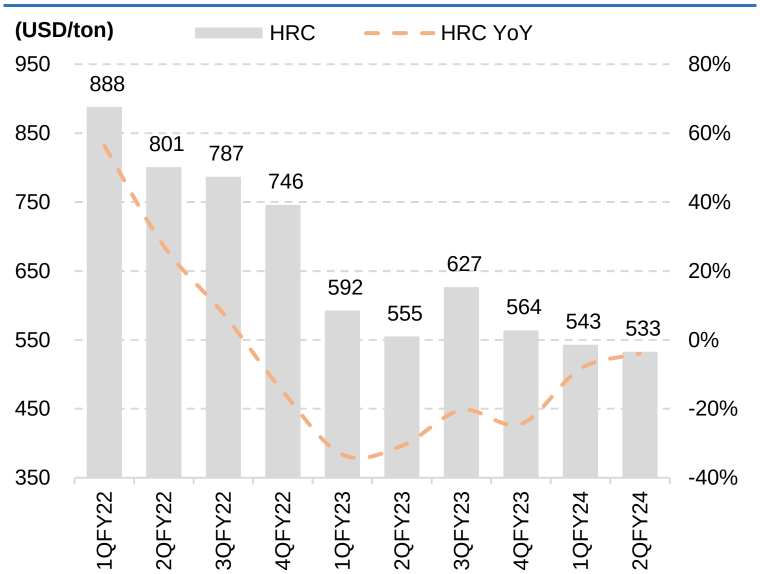
Source (s): Bloomberg, AHL Research

Sectoral headwinds to erode sector-wide profitability: We do highlight that local players (both flat and long) will experience lower growth in FY24, due to flattish demand in construction activity, which will result in lower offtakes during the year. Along with this, more hike in electricity tariff is expected which will further erode profitability for this sector. Going forward, in FY25, steel sector is anticipated to stay in limelight, amid fall in inflation and drop-in interest rates.

Key risk (s)

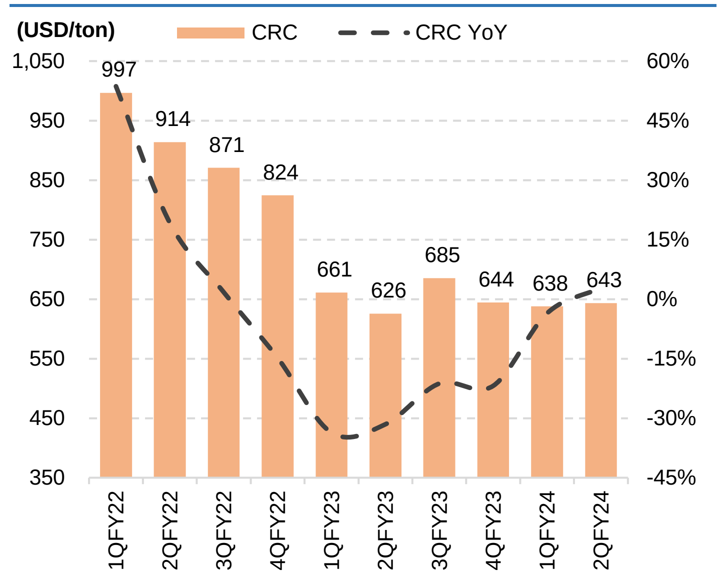
- Continued weakness in construction demand will keep steel demand dull. Slower than expected demand can potentially reduce the ability of players to pass on costs and further dent profitability.
- Delay in monetary policy easing will exacerbate earnings of the sector.

Figure: Trend of HRC prices



Source (s): Bloomberg, AHL Research

Figure: Trend of CRC prices



Source (s): Bloomberg, AHL Research

Agha Steel Limited (AGHA)
Bold risk endeavor

Agha steel Industries Limited (AGHA) is our top pick in the AHL steel universe with our Dec'24 target price of PKR 26.73/share, offering an upside of 68%. We believe the company will continue posting unparalleled margins in the domestic steel space, amid i) use of virgin scrap, given the ability of the electric arc furnace to purify it and produce high-margin products, ii) new MI.DA. plant set to bring in significant cost efficiencies, augment the rolling capacity by 400k tons and render AGHA to be the largest re-roller in the country iii) and plans to install a blast furnace which will further cut the manufacturing cost and allow the company to use indigenous iron .

Unique technology: The domestic rebar sector utilizes induction furnaces for steel production, which is inferior in comparison to AGHA's electric arc furnace. One of the key distinguishing factors is the company's advanced technology for purifying virgin steel, effectively eliminating sulfur, phosphorus, and other impurities. This technological superiority enhances efficiency for several reasons: i) virgin scrap is more cost-effective (with a delta ranging between USD 80-200 per ton), ii) and also it enables the production of low-carbon specialized billets, a high-margin product specifically tailored for the wire rod industry. This strategic advantage positions AGHA ahead of its competitors in the market.

Cold commission initiated: AGHA's upcoming MI.DA. Rolling mill will put the company on the global map amongst other technologically advanced steel manufacturers. Its current capacity for rolling is set at 250k tons/annum whereas it has a melting capacity of 450k tons/annum. Cold commissioning has successfully operationalized. AGHA's rolling capacity is all set to reach an impressive 650,000 tons – establishing the company as the holder of the largest nameplate capacity in the country. Notably, MI.DA. (a 400k tons micro mill by Danieli, Italy) is a continuous rolling mill, which will eliminate the casting process. Its continuous uninterrupted production cycle, and the extreme compactness of the plant size (49% less space needed), makes it one of the most cost-efficient rebar plants in the world.

Margins to shine: With the implementation of MI.DA. and the advantages it will deliver to the company, diversification into high-margin products, and a continued reliance on virgin scrap, AGHA is poised to achieve a superior margin compared to its competitors. Moreover, the company is in plans to install blast furnace, which will allow AGHA to use indigenous raw material (iron ore) instead of importing steel scrap. This shift will reduce the company's exposure to exchange rate fluctuations.

Profitability to surge massively: We anticipate AGHA's bottom line to experience a 5 year-CAGR of approximately 47%. This growth is primarily attributed to an upsurge in off-take, driven by recovery in demand, along with expansion under the "MiDA" initiative whose hot commissioning is expected to commence in FY24. The new plant would manufacture rebar directly from scrap and hence will have a higher yield of 99% vs AGHA's current yield of 94%, minimizing waste in the process.

AGHA
Summary Data

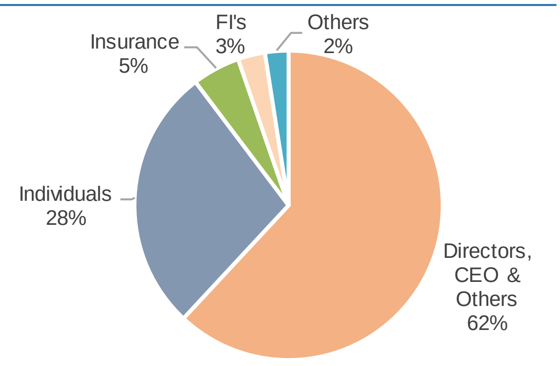
Target Price (Dec'24)	26.73
Last Closing	15.92
Upside (%)	67.9
Shares (mn)	605
Free float (%)	40
Market Cap. (PKR mn)	9,630
Market Cap. (USD mn)	34

Recommendation **BUY**

Price Performance

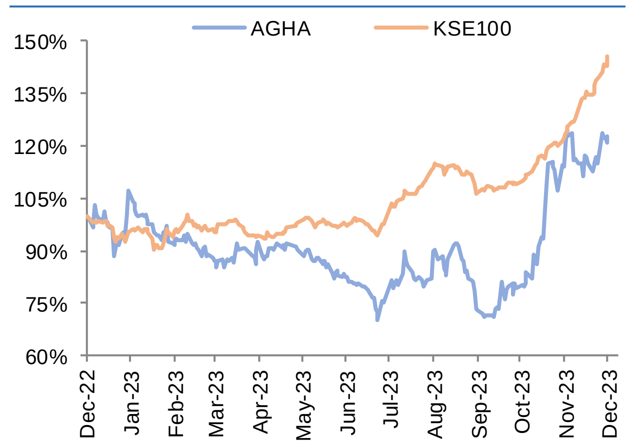
	3M	6M	12M
Return (%)	68.1	51.8	22.9
Avg. Volume (000)	1,605	1,200	925
ADTV (mn) - PKR	23	16	12
ADTV (000) - USD	81	56	42
High Price - PKR	16.2	16.2	16.2
Low Price - PKR	9.2	9.1	9.1

Shareholding Pattern



Source: Company Financials, AHL Research

Relative Performance



Source: Bloomberg, AHL Research

Exhibit: Ratio Analysis

		FY23A	FY24F	FY25F
Earnings per share	*PKR*	1.5	1.1	5.1
Dividend per share	*PKR*	-	-	-
Book value per share	*PKR*	27.4	28.5	33.5
Price to Earning	*x*	6.5	13.9	3.0
Price to Book	*x*	0.4	0.5	0.4
Dividend Yield	*%*	-	-	-
Net Margins	*%*	4.4	2.8	6.2

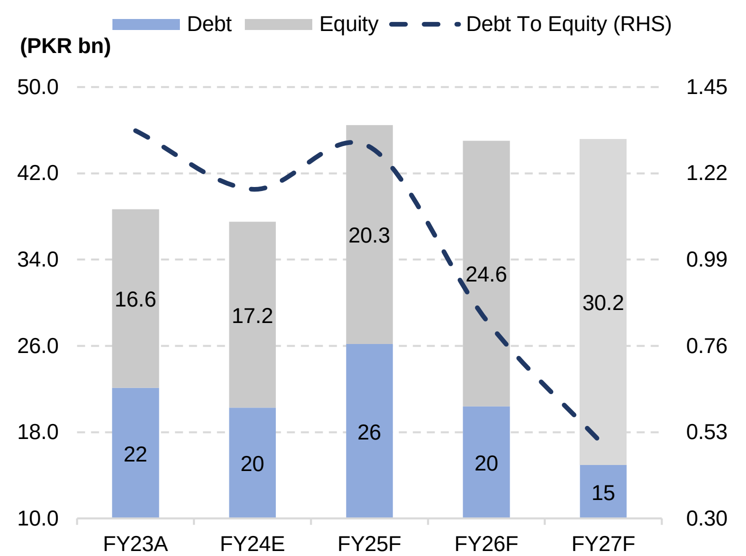
Source (s): Company Financials, AHL Research

Exhibit: Key Financial Highlights (PKR mn)

Income Statement	FY23A	FY24F	FY25F
Net Sales	20,582	23,477	49,036
Gross Profit	4,820	5,487	11,078
Operating Profit	4,377	5,132	9,416
Finance Cost	3,209	4,261	4,394
Post Tax Profit	905	653	3,063
Balance Sheet	**FY23A**	**FY24F**	**FY25F**
Shareholder's Equity	16,570	17,224	20,287
Trade and other Payables	829	903	1,898
Total Liabilities	25,410	23,665	30,568
Current Assets	20,211	16,820	25,761
Non-Current Assets	21,769	24,069	25,095
Total Assets	41,980	40,889	50,856

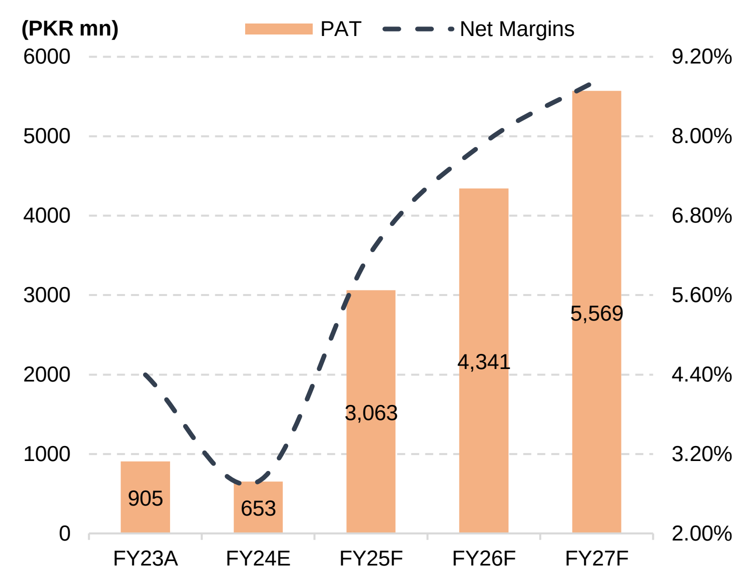
Source (s): Company Financial, AHL Research

Figure: Debt to equity



Source (s): Company Financials, AHL Research

Figure: PAT and Net margins



Source (s): Company Financials, AHL Research

Alpha Stocks

Pakistan National Shipping Corporation (PNSC)

PNSC is a global player in transporting dry bulk and liquid cargoes. With seven oil tankers facilitating the shipment of petroleum products from the Middle East to Pakistan, the company has recently expanded its liquid cargo capacity through the addition of two oil tankers in Aug'23. Furthermore, PNSC operates five bulk carriers for dry cargo. The Liquid Cargo segment significantly contributes to the Group's revenues, recording a noteworthy PKR 41 bn during FY23, marking a substantial 117% YoY increase, attributable to global events and international macroeconomic factors.

PNSC's stellar performance in shipping income is emphasized by fixed revenues at global freight indices. Notably, during FY23 a remarkable rise in average AFRA (+84% YoY) and average World Scale (+24.3% YoY), translated into USD 14/metric ton in average freight rates, a 100% surge from SPLY. Historical gains on foreign balances, driven by significant PKR depreciation against the USD, further strengthened the company's financial standing. With the addition of new oil tankers, PNSC anticipates continued growth in the oil tankers and dry cargos business in FY24. The company has posted earnings of PKR 47.46/share in 1QFY24, and is expected to post earnings of PKR 151/share in FY24 after assuming conservative margins resulting in an exceptionally low PE multiple of 1.4x.

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	227.12	42.78	233.79
Price to Earning	x	0.93	0.92	0.91
Price to Book	x	0.39	0.43	0.39
Dividend Yield	%	9.4%	12.7%	9.4%
Return on Equity	%	72%	47%	43%

Source (s): Company Financials, AHL Research

PNSC

Last Closing	212.25
Shares (mn)	132.1
Market Cap. (PKR mn)	28,030.4
Market Cap. (USD mn)	98.4

Price Performance

	3M	6M	12M
Return	76.6%	71.1%	125.7%
Average Volume (000)	119.61	90.06	85.08
ADTV (mn) - PKR	19.71	13.93	11.57
ADTV (000) - USD	68.81	48.54	42.09
High Price - PKR	212.98	212.98	212.98
Low Price - PKR	118.72	111.49	81.68

Source (s): Company Financials, Bloomberg, AHL Research

Tariq Glass Industries Limited (TGL)

The primary operational focus of the company revolves around the manufacturing and distribution of glass containers, opal glass, float glass, and tableware. In addition to catering to the demands of the local market, TGL's globally recognized brands, namely Toyo Nasic, Omroc, and Nova, are also exported worldwide. During the reporting year, both the Tableware and Float Glass plants (Unit-1) operated at full capacity, with the latter boasting a production capacity of 550 metric tons per day.

Float glass, a significant contributor, accounting for approximately 63% of the total revenue, is poised to benefit from an anticipated recovery in the construction sector. The increasing preference for glass in commercial buildings is expected to drive volumetric sales. TGL's move to acquire Balochistan Glass Limited (BGL) is strategically positioned to enhance its product portfolio by incorporating pharmaceutical bottles and leveraging the advanced machinery already present in BGL. Given the restrictions on the import of tableware glass by the State Bank of Pakistan, there is an anticipated sustained demand for local glass. Through plant upgrades and the initiation of new projects, TGL is well-positioned to bridge the gap in the market for imported tableware and float glass products. Securing its ongoing significance and expansion in the ever-changing environment, the company has achieved remarkable growth with earnings per share reaching PKR 4.41 in 1QFY24, marking a 72% YoY increase. This boost is attributed to the company's adeptness in partially transferring costs to its consumers. The earnings are expected to stabilize at PKR 21.2/share for FY24, resulting in a P/E multiple of 5.1x.

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	14.63	24.05	16.99
Price to Earning	x	7.4	3.2	6.4
Price to Book	x	1.21	1.00	1.21
Dividend Yield	%	5.6%	2.6%	5.6%
Return on Equity	%	18%	35%	19%

Source (s): Company Financials, AHL Research

TGL

Last Closing	108.03
Shares (mn)	172.2
Market Cap. (PKR mn)	18,599.2
Market Cap. (USD mn)	65.3

Price Performance

	3M	6M	12M
Return	46.1%	59.1%	36.4%
Average Volume (000)	667.67	570.81	473.49
ADTV (mn) - PKR	62.12	50.46	38.11
ADTV (000) - USD	218.34	177.08	136.77
High Price - PKR	105.97	105.97	105.97
Low Price - PKR	72.14	63.32	52.99

Source (s): Company Financials, Bloomberg, AHL Research

Century Paper & Board Mills Limited (CEPB)

Century Paper & Board Mills (CEPB) emerges as a cornerstone in Pakistan's packaging board industry, catering primarily to FMCGs and pharmaceuticals. Despite facing challenges in the recent macroeconomic landscape that impacted volumes, CEPB has showcased resilience, maintaining a noteworthy 5-year revenue CAGR of 20% in FY23, attributed to higher prices. Operating at around 95% utilization, the company has diligently executed a comprehensive Business Modernization and Revitalization (BMR) plan since 2021, elevating its capacity from 240,000 tons to the current 274,000 tons. With an ongoing BMR, CEPB anticipates a further expansion to 280,000 tons per annum.

Boasting a historical market leadership position in quality packaging boards, Century Paper holds a strong presence in both the paper and corrugated box segments. Despite a slight dip in the country's total demand for Paper & Board (P&B) products to 1.93mn tons in FY23, the company remains integral to the local supply chain, meeting 75-80% of the demand. Notably, CEPB has benefitted from the recent global decline in commodity prices, reducing costs for key imported materials like wood pulp and fuels such as coal. Strategic initiatives, including upgrading the grid station and transitioning to a more cost-effective gas supplier, have improved the energy mix. Moreover, smart inventory management, coupled with efforts to mitigate the impact of high interest rates, instil confidence in achieving a more robust financial performance in the coming year.

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	2.25	5.51	2.40
Price to Earning	x	15.8	5.7	14.8
Price to Book	x	1.09	1.03	1.09
Dividend Yield	%	0.0%	0.0%	0.0%
Return on Equity	%	7%	20%	7%

Source (s): Company Financials, AHL Research

CEPB

Last Closing	35.68
Shares (mn)	401.7
Market Cap. (PKR mn)	14,333.1
Market Cap. (USD mn)	50.3

Price Performance

	3M	6M	12M
Return	49.0%	24.2%	6.0%
Average Volume (000)	793.52	537.20	341.02
ADTV (mn) - PKR	24.90	16.70	10.13
ADTV (000) - USD	87.16	58.49	35.93
High Price - PKR	35.26	35.26	35.26
Low Price - PKR	22.80	22.80	22.03

Source (s): Company Financials, Bloomberg, AHL Research

Attock Refinery Limited (ATRL)

Attock Refinery Limited (ATRL), a pioneer in crude oil refining since 1922, boasts over a century of successful operations. With a modern, state-of-the-art refinery featuring a nameplate capacity of 53,400 bpd, ATRL continues to be a key player in the energy sector. In FY23, ATRL demonstrated robust financial performance, with net sales surging by 41% YoY from PKR 261bn to PKR 369bn. Despite a challenging economic landscape, the company maintained an impressive 5-year revenue CAGR of 23% in FY23, driven partly by a 44% increase in petroleum product prices attributed to Pak Rupee devaluation. Operating at approximately 78% capacity during the year, ATRL processed 1.8mn tons, showcasing operational resilience. Despite a marginal decrease from the SPLY, the company remains a vital contributor to the refining industry. Along with this, in 1QFY24 the company's earnings surged by 57% YoY reaching PKR 107/share.

The Government's approval of the Pakistan Refining Policy for Existing Refineries 2023 in Aug'23 offers a strategic advantage to ATRL. The policy includes fiscal incentives, such as tariff protection, subject to stringent terms and conditions monitored by OGRA. This support is anticipated to bolster ATRL's upgradation projects, crucial for meeting Euro V fuel specifications. ATRL stands out as the sole refinery in Pakistan operating exclusively on 100% indigenous crude oil. The company's commitment to implementing upgradation projects aligns with its focus on providing high-quality, environmentally friendly energy resources.

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	274.12	93.14	313.15
Price to Earning	x	1.2	1.7	1.0
Price to Book	x	0.31	0.32	0.31
Dividend Yield	%	3.9%	6.4%	3.9%
Return on Equity	%	36%	21%	30%

Source (s): Company Financials, AHL Research

ATRL

Last Closing	316.56
Shares (mn)	106.6
Market Cap. (PKR mn)	33,750.4
Market Cap. (USD mn)	118.4

Price Performance

	3M	6M	12M
Return	50.0%	101.6%	99.8%
Average Volume (000)	1,823.84	1,875.78	1,401.26
ADTV (mn) - PKR	510.50	474.70	312.29
ADTV (000) - USD	1,784.61	1,654.35	1,120.54
High Price - PKR	313.80	313.80	313.80
Low Price - PKR	208.64	155.04	117.18

Source (s): Company Financials, Bloomberg, AHL Research

Pak Elektron Limited (PAEL)

Pak Elektron Limited (PAEL) presents a compelling investment opportunity as a leading producer and distributor of electrical capital goods and domestic appliances. With two key operating divisions, the appliance segment, contributing approximately 51% to the total revenue, offers a diverse range of products including refrigerators, air conditioners, deep freezers, microwave ovens, water dispensers, LED TVs, washing machines, and other smaller domestic appliances. The growth drivers for this division include addressing the product penetration gap, rapid urbanization, and improving lifestyles. Despite recent challenges, the company's product business fundamentals remain robust, poised for sustained growth as the country's economy undergoes revitalization.

In parallel, PAEL's power division, contributing around 49% to the total revenue, specializes in power transformers, distribution transformers, grid stations, switch gears, and energy meters. The company boasts an impressive 90% market share in power transformers, along with significant shares in energy meters (19%), distribution transformers (25%), and switch gears (73%). The division is strategically positioned to capitalize on the surging demand for electrical equipment driven by urbanization, lifestyle improvements, and proactive government initiatives to enhance transmission and distribution infrastructure. The incremental demand from industries, housing, and the growing electricity consumption associated with the rising use of electrical home appliances further bolsters the outlook for the power division. As the government aggressively pursues infrastructure augmentation and economic revival, coupled with developments in CPEC-oriented Special Economic Zones (SEZs), PAEL is well-positioned for substantial growth in both its power and appliances divisions. Given 9MCY23 earnings of PKR 1.07, we expect full-year earnings to reach PKR 1.60/ share. In CY24, profitability is anticipated to be PKR 3.3/share, an attractive forward P/E multiple of 5.6x.

Key Financials

		CY22	CY21	LTM
Earnings per share	PKR	1.25	1.86	0.60
Price to Earning	x	10.4	10.6	31.5
Price to Book	x	0.28	0.48	0.41
Dividend Yield	%	0.0%	0.0%	0.0%
Return on Equity	%	3%	5%	1%

Source (s): Company Financials, AHL Research

PAEL

Last Closing	18.97
Shares (mn)	856.0
Market Cap. (PKR mn)	16,238.6
Market Cap. (USD mn)	57.0

Price Performance

	3M	6M	12M
Return	107.1%	105.7%	23.6%
Average Volume (000)	8,212.37	6,024.10	3,937.66
ADTV (mn) - PKR	121.40	81.77	51.55
ADTV (000) - USD	426.64	287.53	185.84
High Price - PKR	18.31	18.31	18.31
Low Price - PKR	9.10	8.79	8.79

Source (s): Company Financials, Bloomberg, AHL Research

Pakistan Refinery Limited (PRL)

Established in May 1960, Pakistan Refinery Limited (PRL) stands as a pioneering public limited company, dedicated to the production and sale of petroleum products. As a vital subsidiary of the Pakistan State Oil Company Limited (PSO), PRL has played a pivotal role in the evolution of the country's energy. With a rich history spanning over six decades, PRL's commitment to excellence and sustainability is exemplified through its transformative initiatives, including the Refinery Expansion and Upgrade Project (REUP). This transformative initiative aims to double the crude processing capacity from 50,000 barrels per day (bpd) to 100,000 bpd, transitioning the refinery from a Hydro-skimming configuration to a Deep Conversion Refinery. The upgraded facility will focus on producing EURO V-compliant fuels, including High-Speed Diesel (HSD) and Motor Spirit (MS) Petrol, while significantly reducing the production of high sulfur fuel oil (HSFO). Despite facing adverse domestic and international economic indicators, PRL posted a profit after tax of PKR 1.82 bn for the FY23. This noteworthy achievement is particularly commendable given challenges such as persistent PKR devaluation, soaring inflation, and record-high interest rates. PRL's profitability in such a challenging environment underscores the company's resilience and strategic financial management.

Currently in the Front-End Engineering Design (FEED) phase, the REUP is projected to complete this stage by Sep'24. Subsequently, Engineering Procurement & Construction (EPC) tenders will be floated, with Financial Close and Final Investment Decision (FID) anticipated by Jun'25. The EPC phase is estimated to take approximately three years, targeting project completion by Jun'28. This phased approach reflects PRL's meticulous planning and commitment to project milestones. PRL's operational philosophy centers on sustainability through the production of high-margin products, economically fit crude procurement, and strategic inventory planning. Amid local demand constraints, the company exported HSFO to ensure unhindered operations. The ongoing FEED study for the REUP project, with PKR 2.17 bn spent up to Jun'23, highlights PRL's continuous efforts to combat economic challenges and position itself for future growth.

PRL

Last Closing	25.32
Shares (mn)	630.0
Market Cap. (PKR mn)	15,951.6
Market Cap. (USD mn)	56.0

Price Performance

	3M	6M	12M
Return	84.4%	80.1%	55.2%
Average Volume (000)	15,518.41	13,089.92	8,566.95
ADTV (mn) - PKR	369.62	275.12	165.49
ADTV (000) - USD	1,299.60	966.08	592.53
High Price - PKR	25.53	25.53	25.53
Low Price - PKR	13.55	13.16	12.14

Source (s): Company Financials, Bloomberg, AHL Research

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	2.90	19.96	2.90
Price to Earning	x	8.7	0.9	8.7
Price to Book	x	0.63	0.48	0.63
Dividend Yield	%	0.0%	0.0%	0.0%
Return on Equity	%	7%	98%	7%

Source (s): Company Financials, AHL Research

Mughal Iron & Steel Industries Limited

Mughal Iron and Steel Industries Limited is one of the largest long steel producer of the country operating in both ferrous and non-ferrous segments. Its primary focus lies in the manufacturing and sale of mild steel products (rebars and girders). The company's expansion into the non-ferrous segment has enabled it to broaden its global presence by exporting copper ingots to China. As a result, the company has partial protection against fluctuations in exchange rates. Currently, the company has a copper handling capacity of 7000 tons/annum. This is anticipated to increase by 25%, after the completion of second phase which is expected to come online in FY24.

MUGHAL recently added another product in its portfolio “copper granules”, through this the company has tapped into new markets, also heating and melting cost are eliminated in the production of copper granules. Non-ferrous segment contributes to ~30% of the total revenue. Global copper demand is expected to rise, amid higher demand for EV vehicles, batteries and renewable generators. Moreover, the total captive generation capacity will contribute to about 30-40% of total electricity requirement, after the completion of coal power plant. Going forward inflation is expected to come down in FY24, which in turn will result in a lowering of interest rates. The company is one of the highest-leverage companies in the engineering sector, and due to this, the company’s profitability is expected to surge. Along with this, the demand for rebar will rise, increasing the topline, as construction activity in the economy would soar. The 5-year historical CAGR for the company arrives at 22%. We expect the earnings in FY24 to settle at PKR 13.1/share with a forward multiple of 5.2x.

MUGHAL

Last Closing	69.39
Shares (mn)	335.6
Market Cap. (PKR mn)	23,289.6
Market Cap. (USD mn)	81.7

Price Performance

	3M	6M	12M
Return	53.4%	49.3%	29.1%
Average Volume (000)	1,047.12	983.23	711.16
ADTV (mn) - PKR	63.08	56.91	39.56
ADTV (000) - USD	221.73	199.94	142.57
High Price - PKR	67.43	67.43	67.43
Low Price - PKR	43.45	43.45	39.25

Source (s): Company Financials, Bloomberg, AHL Research

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	10.37	16.12	9.31
Price to Earning	x	6.7	3.4	7.5
Price to Book	x	0.92	0.88	0.92
Dividend Yield	%	4.6%	5.5%	4.6%
Return on Equity	%	15%	29%	12%

Source (s): Company Financials, AHL Research

Ghandhara Automobiles Limited (GAL)

The company is involved in the assembly/progressive manufacturing of vehicles, specifically JAC Trucks and Chery SUVs. Additionally, the Company is engaged in the import and sale of parts for Dongfeng and Renault vehicles in completely built-up condition. It also undertakes the assembly of various other vehicles under contract agreements.

GAL	
Last Closing	78.9
Shares (mn)	57.0
Market Cap. (PKR mn)	4,497.5
Market Cap. (USD mn)	15.8

Against a production capacity of 4,800 trucks, buses, and pickups (2022: 4,800) on a single-shift basis, the Company assembled 3,132 units (2022: 5,200) of JAC, DongFeng, and Isuzu trucks, buses, and pickups on a single shift, along with an overtime basis. The demand for trucks is expected to boost significantly amid the implementation of the axle load regime. The trucks are now limited to carrying a weight of 14 tons, compared to the previous limit of 28 tons. This change is expected to increase the demand for trucks, consequently positively impacting the profitability of the company going forward.

Price Performance

	3M	6M	12M
Return	111.1%	148.7%	54.2%
Average Volume (000)	801.41	520.01	302.74
ADTV (mn) - PKR	45.51	27.86	15.52
ADTV (000) - USD	160.05	97.86	55.20
High Price - PKR	81.18	81.18	81.18
Low Price - PKR	36.61	29.28	29.28

Source (s): Company Financials, Bloomberg, AHL Research

Moreover, Tiggo sales are anticipated to revive with the economic recovery, boosting overall company sales. Against the designed annual production capacity of 6,000 vehicles (2022: 6,000) at the car plant on a single-shift basis, the Company assembled 1,318 Chery SUVs during the year (2022: 226).

Additionally, once the mining process begins in full swing through the SIFC platform, it is expected that demand for trucks will increase substantially.

Key Financials

		FY23	FY22	LTM
Earnings per share	PKR	1.12	1.77	0.44
Price to Earning	x	70.6	33.5	178.7
Price to Book	x	0.73	0.56	0.73
Dividend Yield	%	0.0%	0.0%	0.0%
Return on Equity	%	1%	2%	0%

Source (s): Company Financials, AHL Research

AHL Universe - Recommendation Summary

Code	Company	Price	TP	Total Return (%)	Stance	EPS (PKR)			DPS (PKR)			P/E (x)		DY (%)		P/B (x)		ROE (%)		Indices
		1-Dec-23	Dec-24			2023	2024	2025	2023	2024	2025	2023	2024	2023	2024	2023	2024	2023	2024	
Exploration & Production																				
PPL	Pakistan Petroleum Ltd.	94.7	129.61	36.8	Buy	37.4	39.5	37.4	2.50	3.50	3.50	2.5	2.4	2.6	3.7	0.5	0.4	20.9	18.3	KSE100, KSE30, KMI & MSCI
OGDC	Oil and Gas Dev Co.	110.4	165.6	50.1	Buy	52.2	45.2	43.5	8.55	9.00	8.75	2.1	2.4	7.7	8.2	0.4	0.4	22.9	17.0	KSE100, KSE30, KMI & MSCI
POL	Pakistan Oilfields Ltd.	433.4	554.82	28.0	Buy	128.4	120.4	110.8	80.00	76.00	70.00	3.4	3.6	18.5	17.5	1.8	1.7	61.4	49.2	KSE100, KSE30 & MSCI
MARI	Mari Petroleum Ltd	1,718.7	2,711.4	57.8	Buy	420.7	553.3	609.1	147.00	235.00	280.00	4.1	3.1	8.6	13.7	1.4	1.1	37.5	38.9	KSE100, KSE30, KMI & MSCI
Commercial Banks																				
UBL	United Bank Ltd.*	181.9	276.0	51.7	Buy	46.7	56.1	52.3	43.00	42.00	39.00	3.9	3.2	23.6	23.1	1.0	0.9	24.9	28.7	KSE100, KSE30 & MSCI
BAFL	Bank Alfalah*	45.7	69.1	51.4	Buy	21.8	25.9	23.9	6.00	8.00	7.00	2.1	1.8	13.1	17.5	0.6	0.5	30.1	29.1	KSE100 & MSCI
MCB	MCB Bank Ltd.*	169.4	294.1	73.6	Buy	53.6	61.4	58.7	30.00	34.00	33.00	3.2	2.8	17.7	20.1	0.9	0.8	30.6	30.9	KSE100, KSE30 & MSCI
HBL	Habib Bank Ltd.*	111.5	158.3	41.9	Buy	41.0	50.2	43.5	8.00	10.00	10.00	2.7	2.2	7.2	9.0	0.5	0.4	19.4	20.3	KSE100, KSE30 & MSCI
ABL	Allied Bank Ltd.*	85.4	148.8	74.2	Buy	32.8	38.6	33.3	11.00	14.00	12.00	2.6	2.2	12.9	16.4	0.6	0.5	26.4	26.3	KSE100
NBP	National Bank of Pakistan.*	31.4	47.6	51.7	Buy	23.5	26.0	22.4	-	3.00	2.00	1.3	1.2	-	9.6	0.2	0.2	15.0	14.6	KSE100
AKBL	Askari Bank Ltd.*	22.0	33.7	53.0	Buy	12.7	15.0	13.8	3.00	5.00	4.00	1.7	1.5	13.6	22.7	0.4	0.3	22.4	22.1	KSE100
BOP	The Bank of Punjab*	5.3	7.9	47.6	Buy	2.8	3.2	2.9	0.50	0.75	0.50	1.9	1.6	9.4	14.0	0.2	0.2	13.4	13.4	KSE100 & MSCI
MEBL	Meezan Bank Ltd.*	155.1	240.0	54.7	Buy	47.5	57.7	54.9	18.00	22.00	21.00	3.3	2.7	11.6	14.2	1.6	1.2	58.5	50.7	KSE100, KSE30 & KMI
FABL	Faysal Bank Ltd.*	27.8	53.4	91.9	Buy	12.0	16.1	14.9	4.00	6.00	6.00	2.3	1.7	14.4	21.6	0.5	0.5	24.0	27.9	KSE100, KMI & MSCI
Fertilizer																				
ENGRO	Engro Corporation*	303.7	372.1	22.5	Buy	63.2	76.0	85.6	54.00	61.00	69.00	4.8	4.0	17.8	20.1	0.5	0.5	12.1	12.2	KSE100, KSE30, KMI & MSCI
FFBL	Fauji Fert. Bin Qasim	24.6	29.9	21.7	Buy	2.1	4.6	5.5	-	-	1.00	11.6	5.4	-	-	1.2	1.0	11.4	20.8	KSE100, KMI & MSCI
EFERT	Engro Fertilizer	101.5	110.2	8.5	Hold	16.4	17.5	18.1	18.00	20.00	20.00	6.2	5.8	17.7	19.7	3.2	3.4	49.7	56.7	KSE100, KSE30, KMI & MSCI
FFC	Fauji Fertilizer Co.	112.9	152.3	34.9	Buy	25.6	27.7	28.3	20.00	21.00	22.00	4.4	4.1	17.7	18.6	2.5	2.2	59.8	56.7	KSE100, KSE30 & MSCI
FATIMA	Fatima Fertilizer Co.	33.9	na	na	na	na	na	na	na	na		**Group Company: No estimates are given**								KSE100 & KMI
AHCL	Arif Habib Corp. Ltd.	30.0	na	na	na	8.4	na	na	-	na		**Group Company: No estimates are given**								KSEALL
Cement																				
LUCK	Lucky Cement Ltd.*	818.5	1,239.0	40.4	Buy	166.4	217.6	232.7	18.00	20.00	43.00	4.9	3.8	2.2	2.4	0.9	0.7	21.2	21.8	KSE100, KSE30, KMI & MSCI
FCCL	Fauji Cement Co.	18.9	35.0	85.6	Buy	3.0	3.8	7.0	-	-	2.00	6.2	4.9	-	-	0.7	0.6	12.1	13.5	KSE100, KMI & MSCI
ACPL	Attock Cement Ltd.	96.1	155.1	61.5	Buy	11.0	22.2	30.4	6.00	10.00	12.00	8.7	4.3	6.2	10.4	0.2	0.2	4.0	4.9	KSEALL, KMI & MSCI
DGKC	D.G. Khan Cement Co.	78.6	98.7	25.6	Buy	(8.3)	9.8	16.2	-	-	4.00	(9.5)	8.0	-	-	0.5	0.5	(5.4)	6.5	KSE100, KSE30, KMI & MSCI
KOHC	Kohat Cement Co.	229.3	322.1	40.5	Buy	29.7	38.6	37.3	-	11.58	11.18	7.7	5.9	-	5.1	1.4	1.1	19.4	20.8	KSE100, KMI & MSCI
MLCF	Maple Leaf Cement.*	42.4	59.4	40.1	Buy	5.4	6.7	8.2	-	2.00	3.00	7.9	6.3	-	4.7	1.0	4.7	13.2	26.5	KSE100, KMI & MSCI
POWER	Power Cement	6.0	na	na	na	0.2	na	na	-	na		**Group Company: No estimates are given**								KMI
Oil & Gas Marketing																				
PSO	Pakistan State Oil	178.8	258.8	44.8	Buy	12.1	65.9	73.7	7.50	10.00	12.00	14.8	2.7	4.2	5.6	0.4	0.4	2.6	13.7	KSE100, KSE30, KMI & MSCI
APL	Attock Petroleum Ltd.	365.48	398.20	9.0	Hold	100.2	97.3	110.6	27.50	57.50	67.50	3.6	3.8	7.5	15.7	1.0	0.9	30.2	25.4	KSE100 & KMI
SNGP	Sui Northern Gas Pipeline Ltd.	64.3	66.3	3.1	Hold	18.8	20.5	13.2	8.00	8.00	5.00	3.4	3.1	12.4	12.4	0.8	0.7	149.7	249.7	KSE100, KSE30, KMI & MSCI
Automobile Assemblers																				
PSMC	Pak Suzuki Motor Co.	545.3							**Coverage Restricted due to Advisory Mandate**											KSE100 & KMI
INDU	Indus Motor Co.	1,221.5	1,571.0	28.6	Buy	123.0	125.5	186.1	71.80	109.00	133.00	9.9	9.7	5.9	8.9	1.6	1.5	16.9	15.6	KSE100
HCAR	Honda Atlas Cars (Pak)	232.1	248.1	6.9	Hold	1.8	19.4	27.8	-	8.00	11.00	127.4	12.0	-	3.4	1.7	1.6	1.3	13.8	KSE100 & KMI
MTL	Millat Tractors Ltd.	629.6	661.2	5.0	Hold	17.6	48.6	59.0	25.00	49.00	53.00	35.8	13.0	4.0	7.8	15.6	15.8	45.8	121.4	KSE100, KSE30, KMI & MSCI
Power Generation & Distribution																				
HUBC	Hub Power Company*	122.2	170.7	39.7	Buy	44.4	53.4	57.5	30.00	30.00	24.25	2.8	2.3	24.5	24.5	1.0	0.8	40.6	39.4	KSE100, KSE30, KMI & MSCI
NCPL	Nishat Chu. Power Ltd.	24.5	29.6	20.8	Buy	10.8	12.7	10.3	-	4.00	2.75	2.3	1.9	-	16.3	0.4	0.3	16.4	18.1	KMI & MSCI
NPL	Nishat Power Ltd.	29.4	35.8	21.8	Buy	11.6	13.6	9.9	7.00	6.00	4.00	2.5	2.2	23.9	20.4	0.3	0.3	14.1	15.4	KSEALL & MSCI
Textile Composite																				
NML	Nishat Mills Ltd.	80.6	107.3	33.1	Buy	34.6	41.3	44.4	5.00	6.00	6.50	2.3	2.0	6.2	7.4	0.3	0.3	14.4	15.2	KSE100, KMI & MSCI
NCL	Nishat (Chunian) Ltd.	29.1	39.0	34.2	Buy	(4.2)	10.8	11.5	-	4.00	4.00	(7.0)	2.7	-	13.8	0.3	0.3	(4.4)	12.1	KSEALL
ILP	Interloop Ltd.	72.0	99.2	37.8	Buy	14.4	16.2	20.1	5.00	5.50	8.00	5.0	4.4	6.9	7.6	2.3	1.7	52.2	44.3	KSE100 & KMI
Chemicals																				
LOTCHEM	Lotte Chemical Pak Ltd.	27.80	27.90	0.4	Hold	4.5	4.5	4.9	3.50	2.00	2.50	6.1	6.2	12.6	7.2	1.7	1.5	28.8	25.6	KSE100 & KMI
EPCL	Engro Polymer & Chem.	45.0	56.8	26.2	Buy	6.6	8.6	10.6	5.50	6.00	7.50	6.8	5.2	12.2	13.3	1.5	1.4	22.1	27.8	KSE100, KSE30 & KMI
LCI	Lucky Core Industries Ltd.	738.0	937.1	27.0	Buy	191.1	86.8	113.1	43.00	40.00	50.00	3.9	8.5	5.8	5.4	1.6	1.0	45.7	14.6	KSE100 & KMI
Engineering																				
ASTL	Amreli Steels Ltd.	26.4	27.4	3.6	Hold	(2.3)	1.5	5.7	-	-	2.00	(11.6)	17.5	-	-	0.5	0.5	(4.6)	3.0	KSEALL
AGHA	Agha Steel Industries Ltd.	15.9	26.7	67.9	Buy	1.5	1.1	5.1	-	-	-	10.6	14.7	-	-	0.6	0.6	5.6	3.9	KMI
ASL	Aisha Steel Mills Ltd.	7.6	na	na	na	(3.5)	na	na	-	na		**Group Company: No estimates are given**								KSEALL
Technology & Communication																				
SYS	Systems Ltd.	464.3	614.0	32.2	Buy	31.7	35.7	43.1	5.00	6.75	12.50	14.6	13.0	1.1	1.5	4.1	3.1	33.3	27.5	KSE100, KSE30, KMI & MSCI

Source: Bloomberg, AHL Research, *Earnings Consolidated Basis

List of abbreviations

1H	First Half	FM	Frontier Markets	NSS	National Saving Scheme
1Q	First Quarter	FMCGs	Fast Moving Consumer Goods	NTDC	National Transmission & Despatch Company
9M	9 Months	FO	Furnace Oil	NY	New York
ADB	Asian Development Bank	FRDLA	Fiscal Responsibility and Debt Limitation Act	NYSDFS	New York State Department of Financial Services
AIDP	Auto Industry Development Policy	FTSE	Financial Times Stock Exchange	OEM	Original Equipment Manufacturer
ADR	Advances Deposit Ratio	FX	Foreign Exchange Reserves	O&M	Operations & Maintance
AHL	Arif Habib Limited	FYTD	Fiscal year to date	OMCs	Oil Marketing Companies
AML	Anti-Money Laundering	FY	Fiscal Year	OPEC	Oil Producing and Exporting Countries
APCMA	All Pakistan Cement Manufacturers Association	GBP	Great Britain Pound	OPEX	Operating Expense
ATA	Annual Turned Around	GDPg	GDP growth	p.a.	Per annum
Avg	Average	GDP	Gross Domestic Product	PARCO	Pak Arab Refinery
bn	Billion	GENCOs	Power Generation Companies	PAT	Profit After Tax
bbl	Barrel	GEPCO	Gujranwala Electric Power Company	PBS	Pakistan Bureau of Statistic
bcf	Billion Cubic Feet	GIDC	Gas Infrastructure Development Cess	PBV	Price to Book Value
BoE	Barrels of Oil Equivalent	GHPL	Government Holdings (Pvt) Ltd.	PE	Price Earning
BoP	Balance of Payment	Govt	Government	PER	Price Earning Ratio
bpd	barrels per day	GSP	Generalised Scheme of Preferences	PESCO	Peshawar Electric Supply Company
bps	Basis Points	GST	General Sales Tax	PIAC	Pakistan International Airline Corporation
CAB	Current Account Balance	HESCO	Hyderabad Electric Supply Company	PIB	Pakistan Investment Bonds
CAD	Current Account Deficit	HSD	High Speed Diesel	PKR	Pakistan Rupee
CAGR	Compounded Annual Growth Rate	IDR	Investment Deposit Ratio	PM	Prime Ministers
CAR	Capital Adequacy Ratio	IFC	International Finance Corporation	POL	Petroleum Products Prices
CASA	Current Account Saving Account	IMF	International Monetary Fund	PP	Petroleum Policy
CEO	Chief Executive Officer	IPPs	Independent Power Producers	PPA	Power Purchase Agreement
CFT	Combating the Financing of Terrorism	JIT	Joint Investigation Team	PPIS	Pakistan Petroleum Information Service
CKD	Complete Knock Down	JPY	Japanese Yen	PR	Policy Rate
CM	Chief Minister	KO	Kerosene Oil	PSDP	Public Sector Development Program
CNG	Compressed Natural Gas	KSA	Kingdom of Saudi Arabia	PSM	Pakistan Steel Mills
CNIC	Computerized National Identity Card	KSE	Karachi Stock Exchange	PSX	Pakistan Stock Exchange
COD	Commercial Operations Date	LESCO	Lahore Electric Supply Company	PTI	Pakistan Tehreek-e-Insaf
CPEC	China Pakistan Economic Corridor	LHS	Left hand side	QESCO	Quetta Electric Supply Company
CPI	Consumer Price Index	LNG	Liquified Natural Gas	QR	Quick Response
CPP	Capacity Purchase Price	LPS	Loss Per Share	RDs	Regulatory Duties
CPPA	Central Power Purchase Agency	LSM	Large Scale Manufacturing	REER	Real Effective Exchange Rate
CYTD	Calendar year to date	LTFF	Long Term Financing Facility	RFO	Residue Fuel Oil
CY	Calendar Year	mn	Million	RGDP	Real Gross Domestic Product
DAP	Di-ammonium Phosphate	mb/d	Million barrels per day	RHS	Right hand side
DISCOS	Distribution Companies	ME	March End	RIR	Real Interest Rate
DCF	Discounted Cash Flow	MEPCO	Multan Electric Power Company	RLNG	Regassified Liquified Natural Gas
DPS	Dividend Per Share	mmbtu	Metric Million British Thermal Unit	ROA	Return on Assets
DR	Discount rate	mmcfd	Million Cubic Feet Per Day	ROE	Return on Equity
DY	Dividend Yield	MoU	Memorandum of understanding	RRR	Reserve Replacement Ratio
E&P	Exploration & Production	MPC	Monetary Policy Committee	SBP	State Bank of Pakistan
EBITDA	Earning Before Interest, Taxes & Amortization	MPS	Monetary Policy Statement	SECMC	Sindh Engro Coal Mining Company
ECC	Economic Coordination Committee	MS	Motor Spirit	SME	Small Medium Enterprises
EFF	Extended Fund Facility	MSCI	Morgan Stanley Composite Index	SOE	State-Owned Enterprises
EIA	Energy Information Administration	MTM	Mark to Market	SoTP	Sum of the parts
EM	Emerging Markets	MW	Mega Watts	SPLY	Same period last year
EPCC	Engineering, procurement, construction & commissioning	NCCPL	National Clearing Company of Pakistan Limitec	TD	To Date
EPP	Energy Purchase Price	NEPRA	National Electric Power Regulatory Authority	T&D	Transmission & Distribution
EPS	Earrings Per Share	NFA	Net Domestic Assets	TPA	Tonnes Per Annum
EU	European Union	NFC	National Finance Commission	UFG	Unaccounted for Gas
EV	Enterprise Value	NHA	National Highway Authority	US	United States
Ex	Excluding	NII	Net Interest Income	UK	United Kingdom
FATF	Financial Action Task Force	NIM	Net Interest Margins	USD	US Dollar
FBR	Federal Board of Revenue	NIR	Net International Reserve	WAPDA	Water & Power Development Authority
FIPI	Foreign Investor Portfolio Investment	NPL	Non Performing Loans	YTD	Year-to-date
				YoY	Year-on-Year

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BUY	Upside of subject security(ies) is more than +10% from last closing of market price(s)
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Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

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The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
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In order to avoid any conflict of interest, we hereby disclosed that;
Arif Habib Limited (AHL) has a shareholding in OGDC, NBP, BOP, FFBL, MLCF, and PSO.