Pakistan Market Outlook | Strategy

May 11, 2024

REP-057

Prices as of May 06, 2024

Index to reach 87k by Dec 2024, 106k by Jun 2025

PE to revert to its mean in 3 years

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Executive Summary

- We have revisited our target PE for Dec 2024 after incorporating Pakistan's successful completion of US$3bn stand-by agreement with IMF and initiation of talks for a new IMF program, Extended Funding Facility (EFF).
- We believe, current PE of 3.7x will linearly revert to its historical average of 6.93x over next 3 years of IMF program (Jul 2024 – Jul 2027), subject to successful implementation of the program and its conditionalities with respect to fiscal/monetary discipline and structural reforms.
- That said, we believe forward PE by Jun 2025 will rise to 4.6x, taking our index target for Jun 2025 to 106k. In line with this, our Index target for Dec 2024 is now revised up to 87k (earlier: 75k), providing further return of 20%.
- For FY25, we estimate real GDP to grow in range of 3.5-4.0% from our earlier numbers of 3.5%. Upward revision is after incorporating Govt's crop target numbers for next season along with the slight positive adjustment in services numbers considering negligible growth in last two years.
- We expect inflation to come down to average of 13.0-13.5% during FY25 (vs. FY24E inflation of 24.4%). Our inflation estimates of FY25 includes 15% hike in power tariff, 8% hike in rent, 14.5% hike in wheat prices (taking market price back to support price of Rs4,000/40kg), 14.3% hike in fuel price (assumed Rs20/liter change in PDL), and 40% hike gas tariff (20% in Jul 2024 and 20% in Jan 2025).
- Going with our inflation assumption of 13-13.5% during FY25, we expect interest rates to witness cumulative cuts of 500-600bps till Jun 2025 with real interest rate assumption of 300-400 bps. That said, we expect interest rate to fall to 16-17% by Jun 2025.
- **Top Sectors:** Due to expected monetary easing, deregulation of non essential pharmaceutical prices, lower inflation and gradual addressal of recurring circular debt, we believe, high leverage, pharma, consumer and circular debt affected companies/sectors will garner investors attention in next 12 months.
- **Top picks**: Our Top picks are MEBL, HBL, ENGRO, OGDC, PPL, ILP, LUCK, FCCL, DGKC, and ISL. In alpha stocks, we prefer PABC, MUGHAL, AIRLINK, SAZEW, and SEARL.

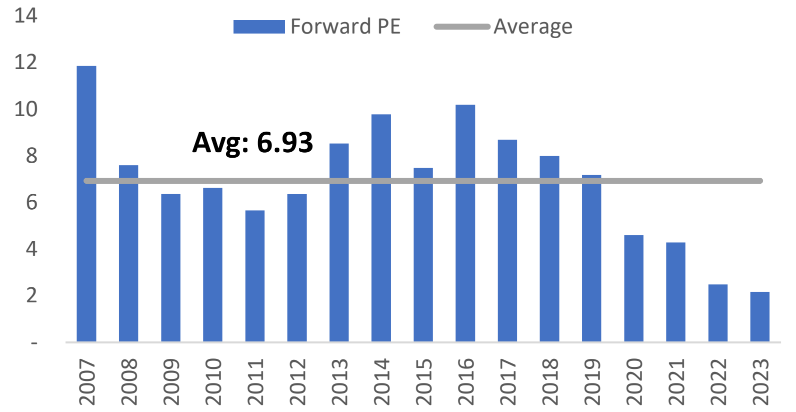
Pakistan Stock Market: Key Numbers*

	2021A	2022A	2023A	2024E	2025F
PE (x)	7.1	5.8	4.2	3.7	3.5
Earnings Growth	37%	21%	38%	14%	6%
PBV (x)	1.3	1.1	0.9	0.8	0.7
Dividend Yield	6%	6%	9%	11%	13%
ROE	19%	20%	24%	23%	21%

Source: Topline Research *based on Topline Sample Universe

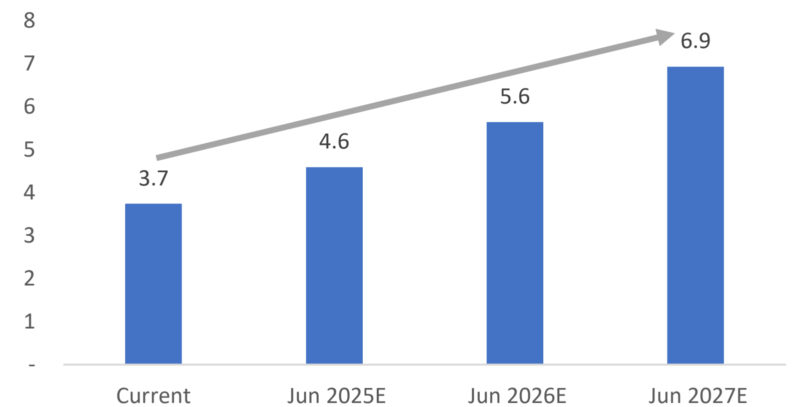
New IMF program to help Index PE to revert to its historical mean

Topline Universe Forward PE Trend (Historical)



Source: Topline Research

Expected PE Re-rating path during next 3 years



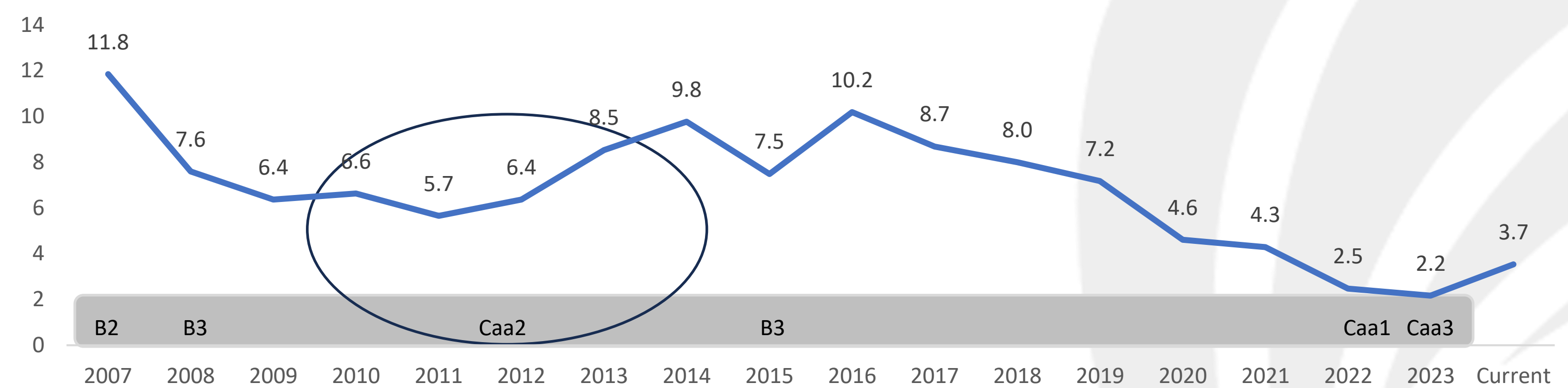
Source: Topline Research

- We have revisited our target PE for Dec 2024 after incorporating the successful completion of US$3bn Stand-by Agreement (SBA) with IMF and initiation of talks to enter into a new IMF program, Extended Funding Facility (EFF) by Jun-Jul 2024.
- Topline universe (considering proxy to KSE100 index) is currently trading at forward PE of 3.7x, 46% lower than historic forward PE of 6.9x.
- We believe, current PE will revert linearly to its historical mean over next 3 years of IMF program (Jul 2024 – Jul 2027), subject to successful implementation of the program and its conditionalities with respect to fiscal/monetary measures and structural reforms.
- That said, we believe forward PE by Jun 2025 will rise to 4.6x from current PE of 3.7, taking our index target for Jun 2025 to 106,000, providing return of 46%. In line with this, our Index target for Dec 2024 is now revised up to 87,000 (earlier: 75,000), providing further return of 20%.
- We have assumed linear 3 years convergence path for Index as we believe every IMF review will be equally important in restoring investors confidence in the country/market as Pakistan has also long history of delaying the reviews and breaching the IMF obligations in the midst of the program except for a very few successful programs.
- Furthermore, the economic challenges this time are also quite significant to be addressed especially in areas of external repayments, fiscal and energy issues.
- IMF program's timely initiation, regular reviews and successful completion will help in building the required FX reserves of the country and in improving sovereign credit rating.

Pakistan forward PE during Caa and CCC rating was 6-7x, now it is 3.7x

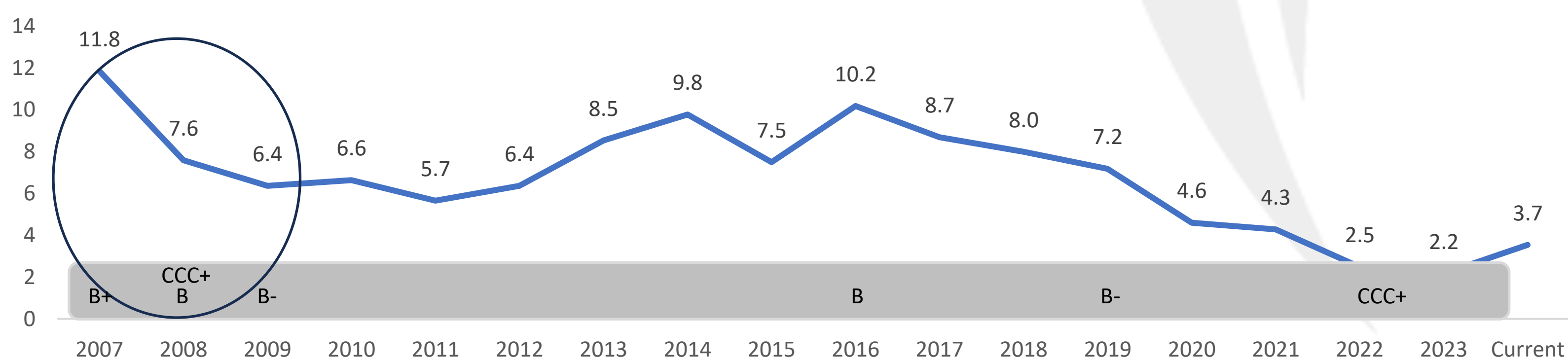
Historically, when Pakistan's sovereign credit rating (Moody's) was poor and more comparable to current rating (Caa) i.e. in 2012, the forward PE of Pakistan market was close to 6x, while currently, forward is at ~41% discount at 3.7x.

KSE 100 Index Forward PE vs. Moody's rating



Source: Topline Research, Moody's

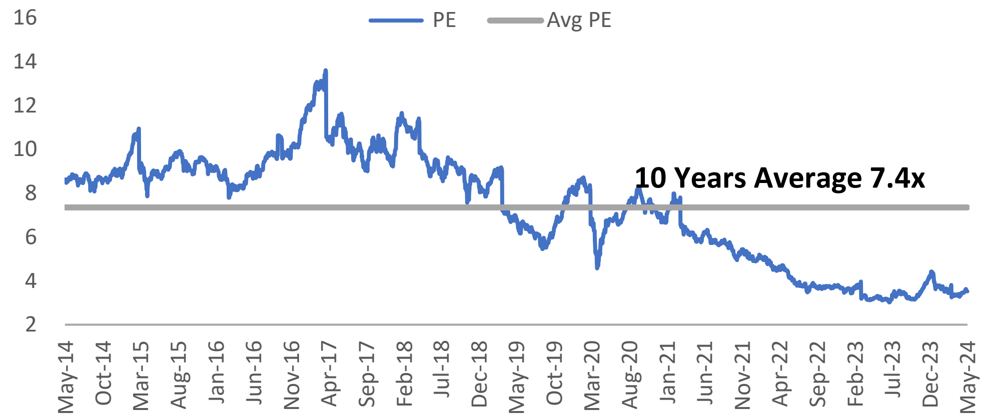
KSE 100 Index Forward PE vs. S&P rating



Source: Topline Research, S&P

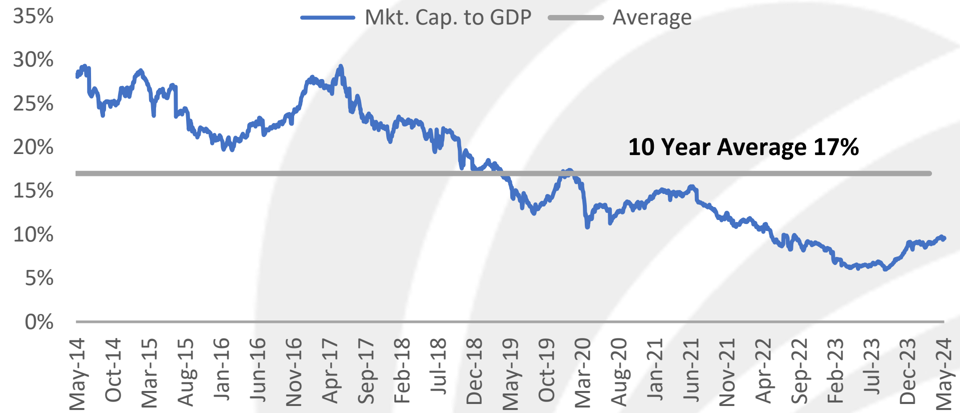
Pakistan market cap to GDP is at 10% vs. 10 year average of 17%

Pakistan P/E at record low



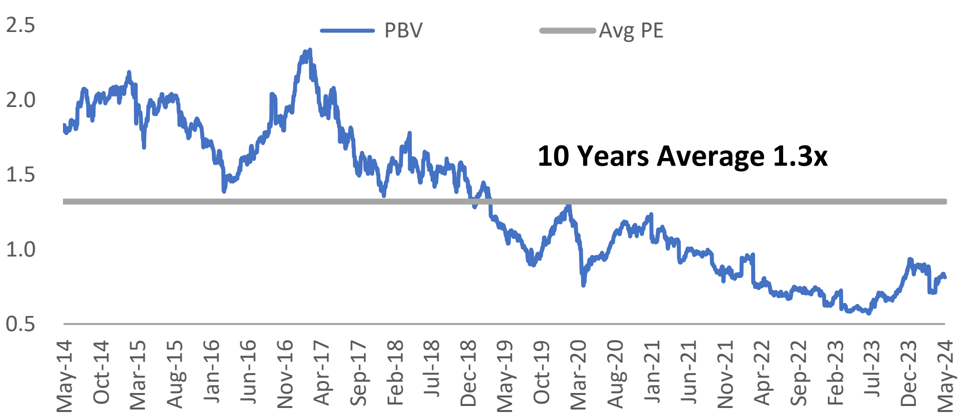
Source: Bloomberg

Market cap to GDP at record low



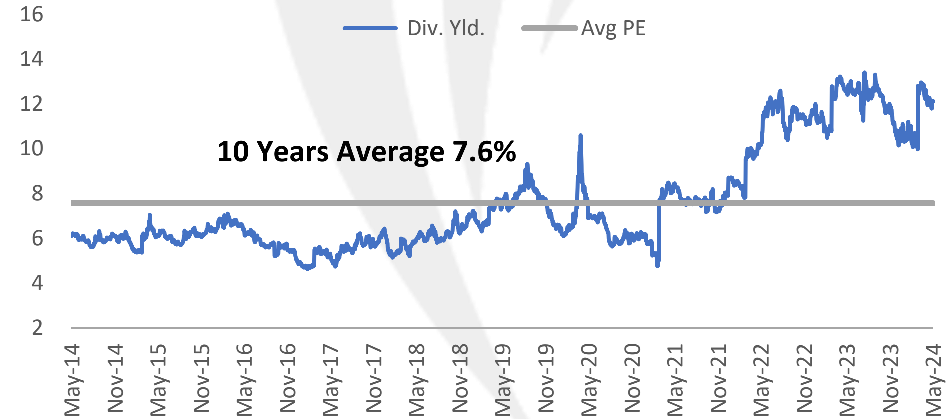
Source: Bloomberg

Price to Book Value near at all time low



Source: Bloomberg

Dividend Yield near all time high



Source: Bloomberg

Size of IMF program likely to be higher amidst climate finance facility

Topline SECURITIES

History of IMF Lending Commitments to Pakistan (amount in mn SDR)

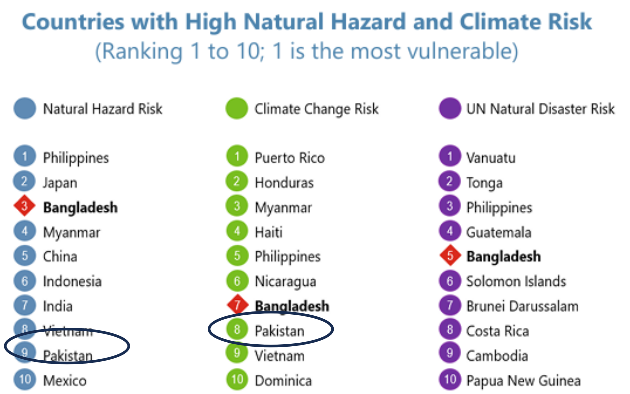
Program Name	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
Standby Arrangement	Jun 30, 2023	Mar 30, 2024	2,250	2,250
Extended Fund Facility	Jul 03, 2019	Jun 30, 2023	4,988	2,144
Rapid Financing	Apr 16, 2020	Apr 20, 2020	1,016	1,016
Extended Fund Facility	Sep 04, 2013	Sep 30, 2016	4,393	4,393
Standby Arrangement	Nov 24, 2008	Sep 30, 2011	7,236	4,936
Extended Credit Facility	Dec 06, 2001	Dec 05, 2004	1,034	861
Standby Arrangement	Nov 29, 2000	Sep 30, 2001	465	465
Extended Fund Facility	Oct 20, 1997	Oct 19, 2000	455	114
Extended Credit Facility	Oct 20, 1997	Oct 19, 2000	682	265
Standby Arrangement	Dec 13, 1995	Sep 30, 1997	563	295
Extended Credit Facility	Feb 22, 1994	Dec 13, 1995	607	172
Extended Fund Facility	Feb 22, 1994	Dec 04, 1995	379	123
Standby Arrangement	Sep 16, 1993	Feb 22, 1994	265	88
Structural Adjustment	Dec 28, 1988	Dec 27, 1991	382	382
Standby Arrangement	Dec 28, 1988	Nov 30, 1990	273	194
Extended Fund Facility	Dec 02, 1981	Nov 23, 1983	919	730
Extended Fund Facility	Nov 24, 1980	Dec 01, 1981	1,268	349
Standby Arrangement	Mar 09, 1977	Mar 08, 1978	80	80
Standby Arrangement	Nov 11, 1974	Nov 10, 1975	75	75
Standby Arrangement	Aug 11, 1973	Aug 10, 1974	75	75
Standby Arrangement	May 18, 1972	May 17, 1973	100	84
Standby Arrangement	Oct 17, 1968	Oct 16, 1969	75	75
Standby Arrangement	Mar 16, 1965	Mar 15, 1966	38	38
Standby Arrangement	Dec 08, 1958	Sep 22, 1959	25	-

Source: IMF, Topline Research

- The upcoming Extended Fund Facility (EFF) is likely to be augmented by climate finance. Size of both funds to Pakistan can vary between US$6-8bn, in our view.
- However, actual timeline of the climate funding could vary as recently Pakistan's Finance Minister, Mr. Aurangzeb has mentioned that, for climate financing, Ministry of Environment needs to do some ground work.
- Under EFF, IMF provides financing to countries experiencing serious medium term balance of payment problems. Countries getting this facility make some policy commitments to IMF in form of prior actions, quantitative performance criteria (QPCs), indicative targets, and structural benchmarks.
- We believe, conditionalities for new program will not be that harsh as these use to be before as Pakistan is just coming out of two back to back IMF programs, 1) EFF of US$6bn approved in 2019, and 2) SBA of US$3bn approved after expiration of EFF in Jun 2023.
- Under the previous 2 programs, the Govts have taken significant measures to bring stability in economy including (1) reversal of relief package i.e. fuel subsidies and power subsidies, (2) increase in Petroleum Development Levy (PDL) to Rs60/liter on diesel and petrol, (3) adjustment of energy tariffs, (4) allowing flexible exchange rate, (5) increase in policy rate, and (6) removal of concessionary financing practices for exporters etc amongst others.
- For upcoming IMF program, we believe the talks between IMF and Pakistan authorities will start in May 2024 and the key areas under consideration would be 1) FY25 budget, 2) structural reforms (including privatization, pension etc.) and (3) seeking financial assurances from multilaterals/bilaterals/friendly countries to ensure sufficient inflows for meeting gross financing requirement of US$21bn in FY25 and building up the reserves level to US$13bn by Jun 2025.
- Some of the key revenue measures that IMF has taken recently in other countries like Bangladesh, Sri Lanka and Egypt are mentioned in slide 10.

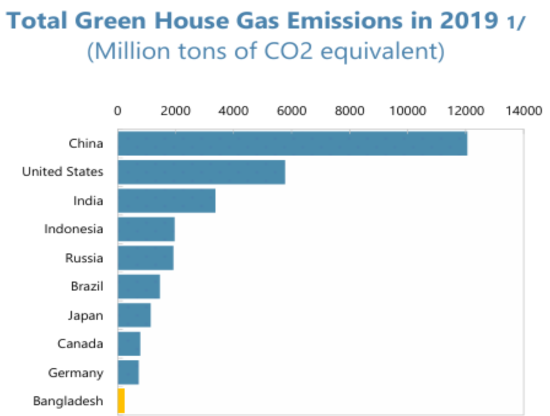
Bangladesh has also got approved climate finance of US$1.4bn with US$3bn EFF

Countries with High Natural Hazard and Climate Risk



Source: IMF Bangladesh Report

Green House Gas Emission 2019



Source: IMF Bangladesh Report

- Alongside EFF, reportedly, govt has also requested IMF formally for climate finance and that we believe, if approved, will be under "The Resilience and Sustainability Facility (RSF)".
- According to IMF website, RSF provides long term financing to countries undertaking reforms to reduce risks to prospective balance of payment stability including those related to ***climate change*** and pandemic preparedness.
- Repayment period for RSF facility is 20 years with cumulative access cap set at 150% of quota or SDR 1bn (approx. US$1.3-1.4bn), whichever is lower.
- According to a report published by IMF in Nov 17, 2023, Pakistan faces significant risk from climate change with rising temperatures and unpredictable rainfall patterns increasing the risk of floods, cyclones, droughts, and heatwaves. Although Pakistan contributes less than 1% of global emission currently, it could become globally relevant without proper mitigation measures.
- Pakistan ranks in top 10 nations which are at natural hazard risk and climate change risk, according to IMF report, as shown in accompanied graph.
- To note, Bangladesh has also obtained the approval of financing under the RSF from IMF to the extent of US$1.4bn (~SDR 1bn) along with EFF financing to US$3.3bn in Jan 2023.
- Following the agreement with IMF under RSF, World Bank and ADB also approved climate financing for Bangladesh amounting to US$500 and US$400mn, respectively.

Revenue measures under IMF program for different countries

Select revenue/tax measures reported in IMF reports for countries		
Sri Lanka	1	Introduction of a property tax as well as a gift, wealth transfer tax and inheritance tax by 2025
	2	Abolishing exemptions on fuel, Liquefied Petroleum Gas and selected food and agriculture items
	3	Increasing the VAT rate from 15 to 18%
	4	Elimination of VAT exemptions
	5	Introduction of a progressive reform of the structure of the personal income tax (PIT) system.
	6	Introduction of a final withholding tax for dividends
	7	Remove all sector-specific exemptions and reduced corporate income tax (CIT) rates and increase it to 30%
	8	Liquor and Tobacco excise increase
Egypt	1	Strategies aimed to increase tax to GDP by 300 bps by FY2026/27
	2	Adding a new income bracket in personal income tax
	3	Amending tax rate for secondary employment income
	4	Imposing capital gain tax on transaction in stock exchange
	5	Abolishing exemption on Interest income tax on T-bills/T-bonds
	6	Imposing VAT on non-resident e-commerce
	7	Reforming VAT on Tabacco and widening tax brackets
	8	Streamlining of VAT law and removing VAT exemptions
	9	Eliminating tax exemptions for SOEs
	10	Withholding tax on turnover of exports from free zone in Egypt to domestic market
	11	State Development tax amendment
Bangladesh	1	Increased applicable taxes on tobacco, land registration, foreign loans and travel
	2	An environmental surcharge on multiple car ownership
	3	Removal of several VAT exemptions
	4	Increased import duties on select products

Source: IMF

Key takeaways from IMF report released on May 10, 2024

Comparison of current and previous IMF projections

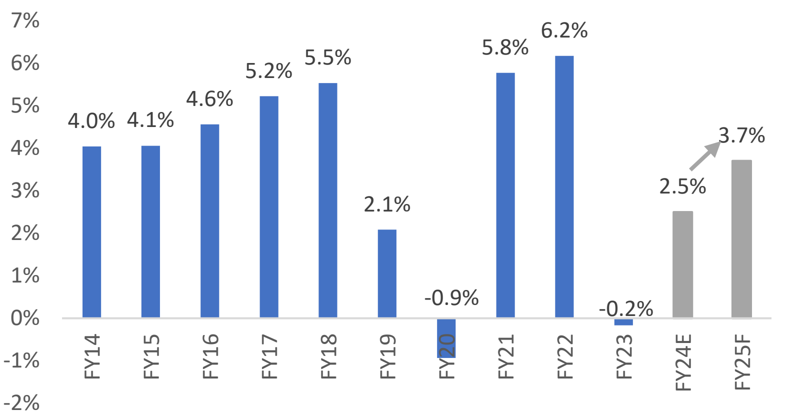
	FY24	FY25	FY26	FY24	FY25	FY26
US$mn	**Earlier – Jan 2024**			**New – May 2024**		
GDP	2.0%	3.5%	4.5%	2.0%	3.5%	4.5%
Inflation - Average	24.0%	11.7%	7.7%	24.8%	12.7%	7.6%
Inflation - End of period	18.5%	9.0%	NA	19.6%	9.5%	NA
Gross Reserves - US$bn	9.1	13.0	16.8	9.0	13.4	16.9
Budget Deficit	7.6%	7.3%	5.8%	7.4%	7.4%	5.80%
Export FOB	30,327	32,356	34,689	31,204	32,556	34,412
Import FOB	58,262	63,025	66,553	54,962	60,479	63,680
Remittances	29,470	31,172	33,039	28,081	29,870	31,596
Current Account Deficit	5,649	5,617	5,952	3,010	4,554	5,024
Gross External Financing Requirement	24,965	22,245	24,678	22,268	21,044	23,111
Amortization of debt (inc IMF)	19,316	16,628	18,726	19,258	16,491	18,087
FBR Revenue	9,415	11,005	12,407	9,415	11,113	12,522
Interest Expense	8,602	9,586	8,669	8,371	9,787	8,822

Source: IMF, and Topline Research

- Pakistan successfully completed its second review under IMF program that enabled release of US$1.1bn on Apr 29, 2024, taking total disbursement under this program to US$3bn.
- Pakistan has achieved all Dec 2023 quarter end quantitative performance criteria (7) and indicative targets (4) compared to 2 missed targets in Sep 2023 quarter namely, primary deficit, and ceiling on power sector arrears.
- On structural benchmarks side, all 11 out of 12 conditions were met, the missed one was “Improve State Owned Enterprise (SOE) governance”.
- On power sector side, IMF has insisted on strong cost side reforms that includes (1) moving captive demand to grid, (2) improving discos performance, and (3) revisiting, where feasible, the terms of power purchase agreements among others.
- On gas sector side, IMF has stated that, continued timely gas tariff determinations while protecting vulnerable households, starting with the June 2024 semi-annual adjustment, are critical to preventing further CD flow.
- Further, IMF has also stated to fully equalize gas prices for all fertilizer companies.
- IMF staff has also recommended SBP to proactively build reserves via interbank purchases.
- On PIAA privatization, IMF has highlighted that, the use of divestment proceeds would prioritize the settling of government guaranteed debt, to be transferred from PIA’s balance sheet to a holding company, held by commercial banks.
- On economic indicators, largely there is no significant change compared to Jan 2024 report, except for following;
  - ✓ Inflation forecast for FY25 is revised upward to 12.7% (earlier: 11.7%)
  - ✓ Gross financing requirement for FY25 is down $1.2bn primarily due to decline in Current Account Deficit (CAD) projections to $4.6bn (earlier: $5.6bn).
  - ✓ More changes in indicators is given in side table.

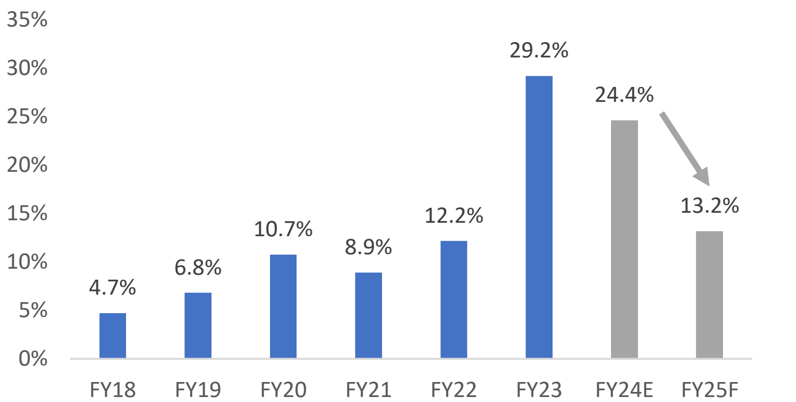
Economic Outlook FY25: Inflation to avg at 13-13.5%, GDP growth at 3.5-4.0%

Pakistan GDP to grow at 3.7% in FY25



Source: Ministry of Finance, and Topline Research

Pakistan Annual Inflation to come down to 13-13.5% in FY25

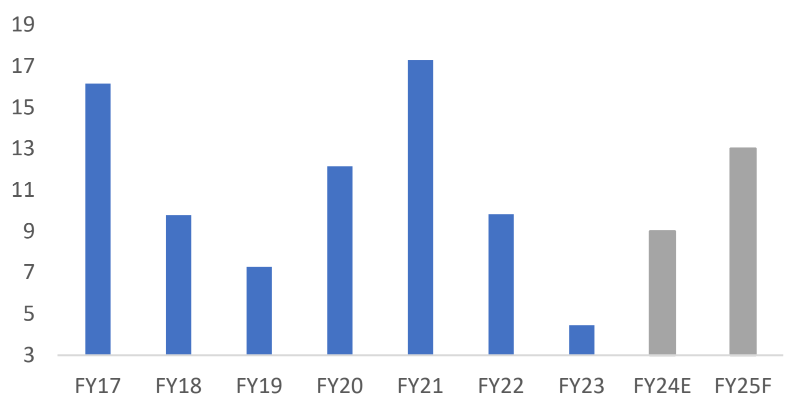


Source: PBS, and Topline Research

- We have revised down our GDP forecast for FY24 to 2.5% from earlier projected numbers of 3.0% on account of downward revision in growth assumptions of Industrial, and Services sector. The former is now taken at +2.6% (earlier: 3.7%), while latter is assumed at +1.4% (earlier 2.2%) after incorporating 1HFY24 numbers of National Accounts Committee (NAC).
- We are expecting 5.1% YoY growth in Agriculture in FY24, highest growth in % terms after 18 years mainly due to rebound in cotton, wheat and rice production by 73%, 5.3%, and 35%, respectively.
- For FY25, we estimate real GDP to grow at 3.5-4.0% after incorporating Govt's crop target numbers for next season along with the slight positive adjustment in services numbers considering negligible growth in last two years.
- Sector wise, we expect agri, services and manufacturing growth of 1.6%, 4.1%, and 5.0%, respectively during FY25.
- We expect **inflation** to average 24.4% during FY24 and then to come down to average of 13-13.5% during FY25.
- Inflation is expected to recede in FY25 due to high base effect and we believe food prices will remain under control due to domestic bumper crops and ease of in global food price index; FAO food price index is down 4% since FY24TD.
- Our inflation estimates of FY25 includes 15% hike in power tariff, 8% hike in rent, 14.5% hike in wheat prices (taking price back to support price of Rs4,000/40 kg), 14.3% hike in fuel price (assumed Rs20/liter change in PDL), and 40% hike gas tariff (20% in Jul and 20% in Jan). Our brent oil price assumption stands at US$85/barrel for FY25.
- Key risks to our economic indictors projections are 1) Budget FY25 measures, 2) significant increase in commodity prices (including crude oil), and (3) political instability.

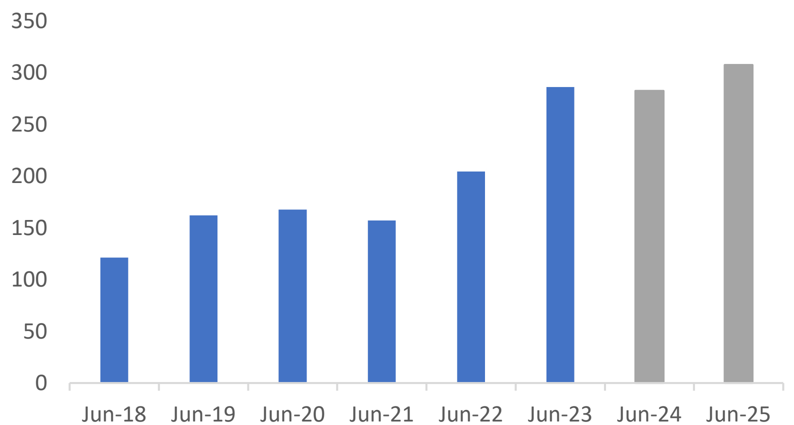
Economic Outlook FY25: Interest rates to come down to 16-17% by Jun 2025

FX Reserves State Bank of Pakistan to touch US$13bn by Jun 2025



Source: State bank of Pakistan, IMF and Topline Research

PKR/USD parity to remain in range of Rs300-305 by Jun 2025



Source: State bank of Pakistan, and Topline Research

- Going with our base case inflation assumption of 13-13.5% during FY25, we expect interest rates to witness cumulative cuts of 500-600bps till Jun 2025 with real interest rate assumption of 300-400 bps. That said, we expect interest rate to fall to 16-17% by Jun 2025.
- Our view on real interest rate is aligned by Pakistan's average real rates of 300bps during IMF program and the recent event of Sri Lanka (Dec 2023 report) in which IMF has considered there rate cuts as appropriate measure after accounting for high forward looking real rate of 400 bps amongst other factors i.e. rapid disinflation, credit contraction etc.
- Also, we believe, keeping high real rate in range of 300-400 bps in medium/near term would be a prudent approach to achieve sustainable economic growth.
- **FX Reserves:** Foreign exchange reserves of Pakistan are likely to remain above US$9bn by Jun 2024 (current: US$9bn) with import cover of 2 months, according to Central Bank Governor despite repayment of US$1.8 (excluding rollover amount) before Jun 2024.
- We expect reserves to gradually increase to US$13bn by Jun 2025, in line with IMF forecast.
- **Currency:** Till Jun 2024, we expect PKR/USD parity to remain in range of Rs275-285, while going forward we expect currency to revert to its historical depreciation rate of of ~6-8% per annum.

External financing requirement for FY25-27 has reduced by US$21bn

- IMF has shown reduced external financing requirement of Pakistan by US$21bn to US$67bn during next 3 year (FY25-27).
- Out of this US$67bn, debt amortization is US$48bn (earlier: US$64bn), Current Account Deficit (CAD) is US$16bn (earlier: US$21bn), and IMF repurchase is $3.2bn (earlier: US$3.5bn).
- Majority of the repayments (approximately 73%) have reduced from debt amortization. We believe, this is largely due to lower expectations of short term borrowings (from available financing) in FY24 at US$4.3bn compared to the earlier projections of $8.5bn.
- Lower short term borrowing in FY24 will result in lower repayments in FY25 and cycle goes on till FY27 every year due to its short-term nature.
- We believe, in next IMF report publication, this repayment number shall further be reduced as actual CAD for FY24 can clock in at much lower than IMF projected numbers of US$3bn for FY24. This will further help country to not borrow in FY24 (to finance CAD) and subsequently repayments will be lower going forward.

	Jul-23 Report					May-24 Report					Difference				
	FY24	FY25	FY26	FY27	Total FY25-27	FY24	FY25	FY26	FY27	Total FY25-27	FY24	FY25	FY26	FY27	Total FY25-27
Gross Financing Requirement	**28,361**	**27,169**	**31,897**	**28,889**	**87,955**	**22,268**	**21,044**	**23,111**	**22,716**	**66,871**	**-6,093**	**-6,125**	**-8,786**	**-6,173**	**-21,084**
o/w Current Account	6,424	6,462	7,139	7,285	20,886	3,010	4,554	5,024	5,955	15,533	-3,414	-1908	-2,115	-1330	-5,353
o/w Amortization	20,278	19,169	24,183	20,233	63,585	17,614	14,970	17,521	15,640	48,131	*-2,664*	*-4,199*	*-6,662*	*-4,593*	*-15,454*
-Shortterm	*5,612*	*7,828*	*10,466*	*10,627*	*28,921*	*3,462*	*5,172*	*5,538*	*5,861*	*16,571*	*-2,150*	*-2,656*	*-4,928*	*-4,766*	*-12,350*
-Longterm	*14,666*	*11,341*	*13,717*	*9,606*	*34,664*	*14,152*	*9,798*	*11,983*	*9,779*	*31,560*	*-514*	*-1,543*	*-1,734*	*173*	*-3,104*
o/w IMF repurchase	1,659	1,538	574	1,372	3,484	1,644	1,521	566	1,121	3,208	-15	-17	-8	-251	-276
Available Financing	30,269	31,075	33,150	30,011	94,236	23,833	25,379	26,682	24,901	76,962	-6,436	-5,696	-6,468	-5,110	-17,274
FDI	173	1,526	1,861	2,250	5,637	795	1,258	1,521	1,902	4,681	622	-268	-340	-348	-956
Short-term	8,512	9,651	9,807	9,942	29,400	4,337	5,538	6,078	6,078	17,694	-4,175	-4,113	-3,729	-3,864	-11,706
Others	21,584	19,898	21,482	17,819	59,199	18,701	18,583	19,083	16,921	54,587	-2883	-1,315	-2,399	-898	-4,612

Source: IMF

Pakistan Economic Snapshot

	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24F	FY25F
Real Sector								
GDP Growth	6.1%	3.1%	-0.9%	5.8%	6.1%	0.3%	2.5%	3.7%
CPI Inflation (Avg.)	3.9%	6.8%	10.6%	8.9%	12.2%	29.2%	24.4%	13.2%
CPI Inflation (June End)	5.2%	8.0%	8.6%	9.7%	21.3%	29.4%	15.3%	12.9%
External Sector								
Exports of Goods (US$bn)*	24.8	24.3	22.5	25.6	32.5	27.9	30.7	31.6
Imports of Goods (US$bn)*	55.7	51.9	43.6	54.3	71.5	51.8	52.1	58.9
Trade Deficit of Goods (US$bn)	30.9	27.6	21.1	28.6	39.1	24.0	21.4	27.3
Remittances (US$bn)	19.9	21.7	23.1	29.5	31.3	27.3	28.0	30.6
Current Account Deficit (US$bn)	19.2	13.4	4.4	2.8	17.5	2.2	1.1	5.0
FDI (US$bn)	2.8	1.4	2.6	1.8	1.9	1.5	1.6	2.0
FX Reserves with SBP (US$bn) (June End)	9.8	7.3	12.1	17.3	9.8	4.4	9.0	13.0
Fiscal and Monetary								
Policy Rate – June end	6.5%	12.3%	7.0%	7.0%	13.8%	22.0%	22.0%	16.5%
PKR/USD parity (Rs) – Avg.	110	136	158	161	178	248	284	294
PKR/USD parity (Rs) – June end	122	163	168	157	205	286	280	303
Budget Deficit (% GDP)	5.8%	7.9%	7.1%	6.1%	7.9%	7.7%	7.2%	7.0%

Source: Ministry of Finance, Topline Research, *State Bank of Pakistan

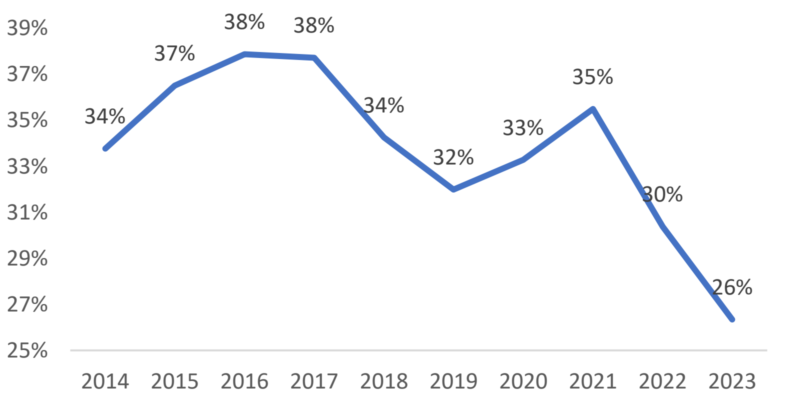
High leverage cos, pharma and circular debt affected cos to benefit

OMCs, Textile, Steel and Cements have high leverage

Sector	Debt to Equity
OMCs	1.39
Textile	0.89
Steel	0.70
Cement	0.53
Chemical	0.39
Paper & Board	0.36

Source: Topline Research

Gross margins of Pharma sector at over a decade low of 26%



Source: Topline Research

- Due to expected monetary easing, declining inflation, deregulation of pharmaceutical prices and gradual addressal of recurring circular debt, we believe, high leverage, pharma, consumer and circular debt affected companies/sectors will garner investors attention in next 12 months.
- **High leverage:** In anticipation of monetary easing, we believe companies/sectors with high leverage will get a sigh of relief especially, textile, cement, steel, OMCs and chemical companies. Companies in these sectors are trading at debt to equity ratio of 0.4-1.4x.
- **Pharma and consumer:** We believe, deregulation of Pharma sector will help companies to efficiently pass on their cost to consumers and subsequently revert to their historic gross margins. Currently gross margins of the sector are lowest in decade at 26%. While, due to receding inflation, we expect consumer stocks i.e. FMCG, appliance to fetch investors attention as low inflation will result in revival of aggregate demand and better margins.
- **Gas sector circular debt affected sectors/companies:** Gas sector circular debt affected companies are set to rebound as government under IMF program has sizably increased gas tariff twice in last one year with 75% upward revision in Nov 2023 and 20% upward revision in Feb 2024. This has partly addressed issue of annual pileup of gas circular debt in country. We believe, under the IMF program, gas prices will now be adjusted regularly, thus helping the sector to ensure better cashflow management.

Key Sectors & Top Picks

Outlook on Major Sectors

Banks	We expect banks' NIMs to come under pressure as we anticipate a 500-600bps cut in policy rate from current at 22% to 16-17% by Jun 2025. However, we also foresee credit growth improving going forward, partially offsetting the impact of NIM contraction. Deposit growth of 15-18% and expected increase in lending portfolio will support Net Interest Income (NII). Despite reduction in interest rate, sector profits are likely to grow by 15% albeit at slow rate in 2024 primarily due to higher advances growth, lower provisions, and absence of one-off tax expenses. Sector is currently trading at attractive valuations with 2024E PE of 3.2x, PBV of 0.8x, ROE of 25% and dividend yield of 16%, making it a compelling buy case.
Cement	After 16% fall in local cement dispatches in FY23 and remaining almost flattish in 10MFY24, we expect local cement dispatches to grow by 7-8% YoY in FY25 due to economic stability, improved farmers income and pickup in construction activity. Further we also expect cement companies margins and profit to improve further due to decline in coal prices internationally and expected decline in interest rate. Moreover, we believe that pricing arrangements among the players will remain firm as most of the expansions have come online in previous years with around 3mn tons added by two players i.e. namely Fauji Cement (FCCL) and Attock Cement (ACPL) in FY24. Sector is trading at EV/ton of US$31 at discount of 60% to replacement cost. Similarly our cement universe is currently trading at FY25E P/E of 3.6x.
Steels	Benchmarking long steel with cement sector, we believe steel sector is poised to recover by 7-8% in FY25, driven by economic stability, increased farmers' income, and reduced inflationary pressures. Furthermore, the sector is expected to benefit from a decline in interest rates, given its highly leveraged position. Flat steel sales is also expected to improve in FY25 amid improving sales of bikes, appliances and other related products.
E&Ps	Cash position of E&P companies is improving significantly. We have also released a separate note on cashflows of E&P companies titled as ***“OGDC and PPL are witnessing improvement in recoveries from customers”*** dated May 03, 2024. This will improve payout ratio of the sector. Topline E&Ps trade at FY25 PE of 3.0x (PE ex OGDC/PPL of 4.1x) with dividend yield of 12% (FY24E: 8%).

Outlook on Major Sectors

Fertilizers	Fertilizer sector always remain one of the government's top priorities, especially in providing maximum relief to the poor farming community. Farmer economics is expected to improve in 2024, driven by higher farm output and enhanced support prices. The difference between international and local urea prices is approximately ~Rs1,475 per bag as of 1Q2024, which is favorable for the sector. While as of today, gap has reduced to Rs500-600/bag. Currently, there is a gap in gas prices among fertilizer companies, which we believe will be removed under the IMF program. Due to decline of international DAP prices and improving farm economics, DAP offtake increased by 31% in 2023 and this trend continued in 1Q2024 with offtakes increasing by 18% YoY. Fertilizer trades at 2024E PE of 5.0x and attractive dividend yield of 16%.
Technology	The majority of revenue in the technology sector is denominated in USD, offering a significant advantage amid expectations of PKR devaluation. On average, 80% of the revenue for IT companies is based on exports, while 80% of their costs are in PKR. This structure provides a currency hedge for investors. Looking ahead, due to government incentives and increased expenditure by IT companies to enhance the ecosystem, the sector is expected to sustain its growth momentum. Companies in the IT sector are also strategically pursuing inorganic growth through acquisitions and the introduction of new products. Additionally, they are expanding their presence into new regions, capitalizing on the digitization boom in the Middle East.
Textiles	Textile sector benefits from a PKR devaluation against US dollar since majority of the revenue is export based. However, recent PKR stability, increase in energy prices and fluctuations in global textile prices have posed challenges for the sector. However, due to expected monetary reasoning globally, the exports markets can witness demand growth. Further expectations of domestic interest rate cut can improve the textile sector profits in FY25. Topline Textile universe trades at a FY25E PE of 4.1x and offers dividend yield of 8%.
Consumer & Pharma	Consumer companies is likely to benefit from easing of inflation pressure and interest rate reversal in 2024. Furthermore, easing of import restrictions as witnessed last year coupled with improvements in farmers' income, will help enhance the profitability of consumer companies. The pharmaceutical sector is also expected to witness significant improvement in profitability following the government's decision to deregulate non-essential goods.

Outlook on Major Sectors

OMCs	Oil & Marketing Companies (OMCs) experienced a decline in profits in FY23, primarily attributed to exchange losses. In 10MFY24 oil sales were down 11% YoY (Ex furnace oil down 4% YoY). This decline was primarily driven by rising prices and increased circulation of smuggled Iranian oil in the market. The government's focus on reducing smuggling, along with recent border regulations, aims to regulate this situation and is expected to contribute to a recovery in oil sales in the coming months. We are expecting a 8% increase in MS sales and a 9% increase in HSD sales in FY25. Topline OMC's universe is currently trading at a FY25E PE of 2.6x.
IPPs	Power tariffs are regularly adjusted in forms of fuel cost adjustment and quarterly tariff adjustment, and we believe this exercise will continue during new IMF program, thus helping IPPs to ensure regular cash collection. However, sector is still affected by high aggregate technical and commercial losses and steps towards that are yet to be taken in true spirit, i.e. privatization of Disco's, ensuring high recovery rate etc.
Autos	We expect car sales to improve by 10-15% in FY25 following the anticipated decline in interest rates which may give some boost to auto financing. However, we expect healthy competition among players in an over supply market as recently many manufacturers have lowered their car prices, this may keep their margins in check. Tractor sales are expected to increase by 70% YoY in FY24, given significant growth in tractor's sales due to higher farmer income and effect of lower base in previous year due to the floods. Topline Auto's sector is currently trading at FY25 PE of 9.1x with dividend yield of 8%.

Top Picks

Meezan Bank (MEBL) Market Cap: US$1,360mn

- MEBL is one of the fastest growing banks in Pakistan with last 5-year (2019-2023) profit CAGR of 57% with superior ROE of 56% in 2023.
- The bank is likely to continue witnessing strong double digit deposit growth due to increasing branch network, strong brand name and excellent customer services.
- We believe the bank's Net Interest Margins (NIMs) are anticipated to remain over 7% in next two years which is higher than the industry average due to MEBL's exemption from the minimum deposit rate which enables bank to contain its cost of deposits.
- Furthermore, strong coverage of 179% and below industry average NPL ratio of 2% will also help MEBL deliver strong ROE of around 50% in 2024E. MEBL is trading at an attractive 2025E PE and PBV of 3.7x and 1.3x, respectively. The stock also offers dividend yield of 13%.

Habib Bank (HBL) Market Cap: US$596mn

- HBL stands out as one of the banks in our banking universe, trading at an significantly attractive 2024E P/B ratio of 0.4x, P/E ratio of 2.5x and ROE of 17%.
- HBL's capital ratios are comfortable (Tier 1: 12.41%, CAR: 15.98% vs. SBP requirements of 11.5% and 13.0% respectively), which should support an increase in the payout ratio. We expect a dividend payout of 27% in 2024E with a dividend yield of 11%.
- HBL is projected to maintain an average NIM of over 5% in the next two years, driven by the initial repricing of deposits/liabilities to lower interest rates.
- Cost to Income was at 58% in 2023, which is higher than the industry average of 42%. Any improvement in cost efficiency can meaningfully lift HBL's earnings.

Engro Corporation (ENGRO) Market Cap: US$695mn

- Our liking for ENGRO primarily stems from (1) anticipation of potential special dividend or investment in other projects through the sale of its Thermal Energy portfolio, (2) implementation of Weighted Average Cost of Gas (WACOG) to benefit EFERT, (3) expanding Enfrashare (Tower) business along with declining interest rates to enhance profitability, and (4) anticipated resurgence of construction activities leading to an increase in EPCL earnings.
- ENGRO has already announced that they have entered into definitive agreements with Liberty Power Holding for sell of its entire: (1) 68.9% shareholding in Engro Powergen Qadirpur Limited (EPQL), (2) 50.1% shareholding in Engro Powergen Thar (EPTL), and (3) 11.9% shareholding in Sindh Engro Coal Mining (SECMC) at a total value of Rs35bn.
- ENGRO is trading at an attractive 2024E PE and PBV of 5.4x and 0.8x, respectively. The stock also offers dividend yield of 15%.

Top Picks

Oil & Gas Development Company (OGDC)	Market Cap: US$2,086mn

- Our liking of OGDC stems from the improvement in cash flows of the company and its attractive valuations.
- Over the last six years, from FY18 to FY23, OGDC's change in receivables to sales ratio averaged 27%, with a range of 21% to 30%. This ratio suggests that, on average, 27% of the sales remained uncollected. However, during 3QFY24/9MFY24, this ratio has decreased to 20%/14%, respectively. We believe that under the new IMF program, gas tariffs will increase uniformly, which will further improve the recoveries of Sui companies, thereby benefiting the E&P companies.
- The improvement in recovery will help OGDC announce regular/historic dividends. To highlight, the average payout of OGDC from FY11 to FY15 stands at 36%. We expect the payout to increase to historical levels, albeit at a gradual pace.
- The stock is currently trading at an attractive valuations with FY25F PE of 2.6x and dividend yield of 10%.

Pakistan Petroleum (PPL)	Market Cap: US$1,195mn

- PPL has also been affected by circular debt issues which lead to lower payout.
- However, during 3QFY24/9MFY24, the change in receivables from Sui Companies to net sales ratio has fallen to 22%/30%, respectively, which is an improvement from the FY23 ratio of 52%. To note, PPL in its 3QFY24 report has also mentioned about this improvement by stating that, collection ratio from customers have improved to 74% vs. 49% in corresponding period.
- Furthermore, the outstanding circular debt is yet to be resolved. Its resolution will alleviate the company's financial strain, enhance dividend payouts, and potentially lead to a re-rating of its multiples.
- Currently PPL is trading at an attractive FY25E PE and PBV of 2.7x and 0.4x, respectively. The stock also offers dividend yield of 13%.

Interloop (ILP)	Market Cap: US$396mn

- ILP is on a growth trajectory due to the commencement of its apparel master project, which will further contribute to its top-line.
- ILP has a long-term Debt to Asset ratio of 31% and with a reduction in policy rate in FY25 the company will benefit.
- The government's focus on boosting exports, especially in the textile sector is particularly beneficial for Interloop given that over 90% of the company's revenue comes from export activities. This favorable export environment is expected to significantly contribute to Interloop's continued growth.
- ILP is trading at FY24E and FY25F PE of 6.4 and 5.0x. The stock also offers dividend yield of 8%.

Top Picks

Lucky Cement (LUCK)	Market Cap: US$900mn

- LUCK to reap the benefits of (i) cement demand pickup in FY25, (ii) timely cement capacity expansion, (iii) superior gross margins lead by efficient power and energy mix, (iv) interest rate reversal to support vehicles sales, (v) expansion of Soda Ash to lift earnings, and (vi) additional line of 1.8mn tons in Iraq to support bottom line.
- LUCK was one of the cement companies that embarked on its fourth expansion cycle with a capacity of 3.15mn tons to 15.3mn tons. This timely expansion raised LUCK's market share in the North from 12.7% in FY22 to 14% in FY23 and we expect company to maintain its market share in coming years.
- With the decline in interest rates, local cement dispatches in FY25 are expected to perform better YoY with a growth of 8-9%, following a 16% decline in FY23 and an expected decline of 2-4% in FY24.
- LUCK is currently trading at a FY24E and FY25F PE of 3.9x and 3.3x respectively. The stock is trading at EV/ton of US$39.

Fauji Cement (FCCL)	Market Cap: US$194mn

- Local cement dispatches are expected to increase in the range of 8-9% in FY25 due to (i) stable construction costs, (ii) improvement in government spending under PSDP and (iii) higher disposable income in light of better farm outputs.
- After capacity expansion of 4.0mn tons (Nizampur & DG Khan City), FCCL has become the 2nd largest player in North region. Latest capacity (2.0mn tons) came online by end of November 2023, with FCCL North domestic market share increasing to 14.9% in Mar-24 compared to 13.8% in Nov-23.
- Due to recent expansions FCCL has Rs39bn interest bearing debt with Debt to Asset ratio standing at 27%. With a reduction in policy rate in FY25 the company stands to benefit.
- FCCL is currently trading at a FY24E and FY25F PE of 5.8x and 3.7x respectively. The stock is trading at EV/ton of US$32.

D.G. Khan Cement Company (DGKC)	Market Cap: US$130mn

- High leverage has adversely affected DGKC's financial performance in recent years. However, with decline in interest rates, this situation can now potentially contribute to earnings growth. Thus, DKGC emerges as major beneficiary of the interest rate decline, considering that the total debt stands at Rs40bn as of Mar-2024.
- In the event of low domestic cement demand, DGKC, being one of the southern players, has leverage to exports due to its proximity to ports. To highlight, DGKC has shipped cement to the USA and Mexico, while also exploring additional export avenues.
- With a well-diversified investment portfolio encompassing Textiles, Banking, Auto, Insurance, and Power segments, the company also benefits from non-core income.
- DGKC is currently trading at a FY24E and FY25F PE of 11.4x and 5.4x respectively. The stock is trading at EV/ton of US$22.

Top Picks

International Steels (ISL)	Market Cap: US$113mn

- Decline in policy rate and improved buying power of consumers will increase the demand for construction, automobiles and electronic appliances will lead to industry rebounding to FY22 levels in 2-3 years' time.
- Government is expected to withdraw duty and tax exemptions granted to steel manufacturers based in FATA/PATA region in the FY25 budget. This region houses 10-15% of steel sector capacity according to industry experts. Steel produced in this region is sold in southern provinces (Punjab etc.) at a lower price. Withdrawal of these exemptions will benefit the documented steel sector which includes ISL
- ISL is expected to diversify its power mix with a 6.4MW solar plant coming online in 1QFY25. This power plant will cater to 15-18% of the company's demands.
- In 9MFY24 ISL's export revenue has increased by 84% to Rs14.1bn with the company grabbing new clients in North America, Europe and Asia. This trend of export revenue growth is expected to normalize going forward but is still expected to increase in the range of 20-25% in the next 2-3 years.
- ISL is trading at FY24/25 PE of 6.4/5.9x and offers a FY25F dividend yield of 10%.

Top Picks for 2024

Top Picks: Key Numbers

	PE (x)			Dividend Yield			PBV (x)		
	2023A	**2024E**	**2025F**	**2023A**	**2024E**	**2025F**	**2023A**	**2024E**	**2025F**
MEBL	4.5	3.7	3.7	9%	13%	13%	2.0	1.6	1.3
HBL	2.9	2.5	2.7	9%	11%	11%	0.5	0.4	0.4
ENGRO	5.6	5.4	5.4	13%	15%	23%	0.8	0.8	0.8
OGDC	2.6	2.6	2.6	6%	7%	10%	0.5	0.5	0.4
PPL	3.4	2.6	2.7	2%	4%	13%	0.6	0.5	0.4
ILP	5.5	6.4	5.0	6%	8%	8%	2.5	2.1	1.7
LUCK	5.1	3.9	3.3	2%	4%	5%	1.0	0.8	0.6
FCCL	7.2	5.8	3.7	0%	0%	9%	0.8	0.7	0.6
DGKC	NM	11.4	5.4	0%	0%	0%	0.6	0.5	0.5
ISL	8.9	6.4	5.9	8%	8%	10%	1.5	1.2	1.1
Topline Universe^	**4.2**	**3.7**	**3.5**	**9%**	**11%**	**13%**	**0.9**	**0.8**	**0.7**

Source: Topline Research, ^adjusted for calendar year

Alpha Stocks

Pakistan Aluminium Beverage Cans (PABC)

- Pakistan Aluminium Beverage Cans (PABC) is engaged in manufacturing of aluminium cans.
- The stock has potential upside from (1) capacity additions from 700mn cans to 1,200mn cans (+71%), 2) market penetration through better positioning, and (3) long term contract with Bangladesh and Afghanistan.
- Strong operating income due to dollar-based cost-plus pricing, increasing export contribution, improved margins enabling PABC to post good profits.
- PABC is currently trading at 2024E PE of 3.8x.

Mughal Iron & Steel (MUGHAL)

- Mughal Iron & Steel (MUGHAL) is engaged in manufacturing of rebar and copper ingots.
- MUGHL is the first listed rebar company which has diversified its revenue stream into non-ferrous segment.
- Company exports over 70% of its copper production which provides hedge against PKR devaluation. Moreover, 1% tax on profit generated from copper exports results in lower effective tax rate.
- MUGHAL will be beneficiary of declining interest rates given its total debt of Rs28bn as of Mar-24.
- MUGHAL is currently trading at FY25F PE of 5.9x.

Air Link Communication (AIRLINK)

- Airlink Communication (AIRLINK) is a top-tier distributor, manufacturer, and retailer of smartphones in Pakistan.
- The company has witnessed a significant jump in revenue in 9MFY24 amid the easing of LC issues. As per management, from the mobile segment, company is targeting Rs120bn revenue in FY24 and Rs155bn in FY25.
- AIRLINK has also partnered with Xiaomi to produce Xiaomi Smart TVs. We estimate that this TV segment will contribute around Rs20bn in revenue in FY25.
- AIRLINK is currently trading at FY25E PE of 4.8x.

Searle Company (SEARL)

- Searle Company (SEARL) is the leading listed pharmaceutical company in Pakistan, principally engaged in the manufacture of pharmaceutical and other consumer products.
- The government approved deregulation of drug price which falls in the category of other than essential. SEARL has around 76 drugs which will be impacted by the decision of deregulation. This will be a major turnaround story for the company, as the additional annual revenue impact would be Rs3.5bn.
- In a recent notice to the exchange, SEARL informed that the board is authorized to explore the feasibility and viability of generating funding or liquidity for its subsidiary, namely Searle Pakistan Limited (SPL), by pursuing the following transaction through IPO, strategic sales, joint ventures, and private placements. The sale of SPL will reduce liquidity issues for the company.
- SEARL is currently trading at FY25F PE of 7.6x.

Sazgar Engineering (SAZEW)

- Sazgar Engineering (SAZEW) is engaged in the manufacture and sale of automobiles.
- SAZEW has captured significant attention within the auto sector by introducing Haval SUV brand through a JV with Chinese Great Wall Motors (GWM). During 9MFY24, SAZEW sold 3,136 units which is 2.5x higher than sold in same period last year as per PAMA.
- Beside SUV market, SAZEW already has a well established 3-wheeler rickshaw brand alongside automotive parts segment.
- SAZEW is currently trading at FY25F P/E of 4.6x.

Comp Sheet

Comp Sheet

Symbol	Stance	Price (PKR) May 07, 2024	Mkt Cap US$mn	Year end	Diluted (EPS) 2023A	2024E	2025F	Diluted (DPS) 2023A	2024E	2025F	Earnings Growth 2023A	2024E	2025F	PE (x) 2023A	2024E	2025F	Dividend Yield 2023A	2024E	2025F	PBV (x) 2023A	2024E	2025F	ROE 2023A	2024E	2024F
E&Ps											**69%**	**12%**	**0%**	**3.4**	**3.0**	**3.0**	**6%**	**8%**	**12%**	**0.8**	**0.6**	**0.5**	**25%**	**22%**	**19%**
OGDC	BUY	135	2,086	June	52.2	52.7	51.8	8.6	9.0	12.9	68%	1%	-2%	2.6	2.6	2.6	6%	7%	10%	0.5	0.5	0.4	23%	19%	16%
PPL*	BUY	122	1,195	June	36.0	47.8	45.0	2.5	5.0	15.8	83%	33%	-6%	3.4	2.6	2.7	2%	4%	13%	0.6	0.5	0.4	20%	22%	17%
MARI	BUY	2,719	1,305	June	420.7	515.0	602.0	147.0	257.5	300.0	70%	22%	17%	6.5	5.3	4.5	5%	9%	11%	2.2	1.3	1.5	38%	31%	31%
POL*	BUY	447	457	June	128.4	134.0	137.5	80.0	80.0	85.0	41%	4%	3%	3.5	3.3	3.3	18%	18%	19%	1.9	1.5	1.3	61%	50%	44%
Banks											**86%**	**16%**	**-6%**	**3.7**	**3.2**	**3.4**	**14%**	**16%**	**16%**	**0.9**	**0.8**	**0.7**	**28%**	**27%**	**23%**
MCB	BUY	206	876	Dec	54.9	59.7	56.7	30.0	36.0	36.0	89%	9%	-5%	3.7	3.4	3.6	15%	18%	18%	1.0	0.9	0.8	30%	27%	23%
HBL	BUY	112.9	596	Dec	39.3	44.5	42.0	9.7	12.0	12.0	69%	13%	-6%	2.9	2.5	2.7	9%	11%	11%	0.5	0.4	0.4	18%	17%	14%
UBL	BUY	196	865	Dec	45.0	54.9	48.1	44.0	44.0	44.0	75%	22%	-12%	4.4	3.6	4.1	22%	22%	22%	0.8	0.9	0.8	21%	24%	21%
MEBL*	BUY	211	1,360	Dec	47.2	57.6	56.9	20.0	28.0	28.0	88%	22%	-1%	4.5	3.7	3.7	9%	13%	13%	2.0	1.6	1.3	56%	49%	39%
BAHL	BUY	101	402	Dec	32.3	37.3	34.3	14.0	17.0	17.0	115%	16%	-8%	3.1	2.7	2.9	14%	17%	17%	0.9	0.7	0.7	32%	30%	24%
BAFL	BUY	59	335	Dec	23.1	25.9	24.8	8.0	10.0	10.0	98%	12%	-4%	2.6	2.3	2.4	14%	17%	17%	0.7	0.5	0.5	30%	26%	21%
Fertilizers											**51%**	**34%**	**4%**	**6.7**	**5.0**	**4.8**	**12%**	**16%**	**19%**	**1.7**	**1.6**	**1.5**	**26%**	**33%**	**32%**
ENGRO	BUY	360	695	Dec	63.9	66.8	66.5	48.0	53.0	83.0	41%	4%	0%	5.6	5.4	5.4	13%	15%	23%	0.8	0.8	0.8	14%	15%	15%
FFC*	BUY	149	684	Dec	23.3	36.6	36.9	15.5	27.5	27.7	48%	57%	1%	6.4	4.1	4.1	10%	18%	19%	3.1	2.6	2.3	52%	70%	60%
EFERT	BUY	153	735	Dec	19.6	23.9	28.3	20.5	23.9	28.3	64%	22%	19%	7.8	6.4	5.4	13%	16%	18%	4.6	4.3	3.9	59%	69%	75%
FFBL*	BUY	34	159	Dec	3.4	9.5	8.4	1.0	2.8	2.4	89%	178%	-11%	10.0	3.6	4.0	3%	8%	7%	1.6	1.2	0.9	18%	38%	26%
Cements											**30%**	**43%**	**28%**	**6.6**	**4.6**	**3.6**	**1%**	**3%**	**5%**	**0.9**	**0.8**	**0.6**	**15%**	**18%**	**19%**
LUCK	BUY	854	900	June	165.9	219.0	258.3	19.3	32.8	38.8	65%	32%	18%	5.1	3.9	3.3	2%	4%	5%	1.0	0.8	0.6	23%	22%	21%
DGKC*	BUY	83	130	June	(8.3)	7.3	15.2	0.0	0.0	0.0	NM	NM	110%	NM	11.4	5.4	0%	0%	0%	0.6	0.5	0.5	-5%	5%	10%
MLCF	BUY	38	147	June	5.4	5.4	8.6	0.0	1.1	1.7	27%	1%	58%	7.1	7.0	4.4	0%	3%	5%	0.9	0.8	0.7	13%	12%	17%
FCCL	BUY	22	194	June	3.1	3.8	5.9	0.0	0.0	2.1	6%	24%	55%	7.2	5.8	3.7	0%	0%	9%	0.8	0.7	0.6	12%	13%	18%
KOHC	BUY	221	156	June	29.0	45.8	54.8	0.0	6.9	8.2	16%	58%	20%	7.6	4.8	4.0	0%	3%	4%	1.4	1.1	0.9	19%	25%	24%

*unconsolidated

Comp Sheet

Symbol	Stance	Price (PKR) May 07, 2024	Mkt Cap US$mn	Year end	Diluted (EPS)			Diluted (DPS)			Earnings Growth			PE (x)			Dividend Yield			PBV (x)			ROE		
					2023A	2024E	2025F	2023A	2024E	2025F	2023A	2024E	2025F	2023A	2024E	2025F	2023A	2024E	2025F	2023A	2024E	2025F	2023A	2024E	2024F
Oil and Gas Marketing											**-82%**	**99%**	**37%**	**7.2**	**3.6**	**2.6**	**4%**	**6%**	**7%**	**0.4**	**0.4**	**0.3**	**6%**	**12%**	**14%**
PSO*	BUY	178	300	June	12.1	45.3	70.1	7.5	10.0	10.0	-93%	275%	55%	14.8	3.9	2.5	6%	6%	6%	0.4	0.4	0.3	3%	9%	13%
SNGP	BUY	70	159	June	19.2	22.4	25.0	5.0	5.5	6.0	18%	17%	11%	3.6	3.1	2.8	7%	8%	9%	0.6	0.5	0.5	18%	18%	18%
Autos											**-47%**	**99%**	**28%**	**23.0**	**11.6**	**9.1**	**3%**	**6%**	**8%**	**3.3**	**3.1**	**2.8**	**15%**	**28%**	**33%**
INDU	BUY	1,606	454	June	123.0	170.4	208.2	71.8	102.0	125.0	-39%	39%	22%	13.1	9.4	7.7	4%	6%	8%	2.1	1.9	1.8	17%	21%	24%
HCAR	HOLD	313	161	Mar	1.8	8.8	20.0	0.0	2.0	10.0	-90%	380%	129%	172.0	35.8	15.7	0%	1%	3%	2.3	2.2	2.1	1%	6%	14%
MTL *	BUY	612	422	June	13.5	53.5	65.5	15.8	53.5	65.5	-52%	296%	22%	45.3	11.4	9.3	3%	9%	11%	15.2	15.2	15.2	35%	133%	163%
Textiles											**43%**	**-29%**	**46%**	**4.2**	**5.9**	**4.1**	**6%**	**7%**	**8%**	**1.0**	**0.9**	**0.8**	**27%**	**16%**	**21%**
NML*	BUY	71	90	June	34.6	15.9	31.7	5.0	3.0	6.0	18%	-54%	99%	2.0	4.5	2.2	7%	4%	8%	0.3	0.3	0.2	14%	6%	11%
ILP	BUY	79	396	June	14.4	12.3	15.8	5.0	6.0	6.0	63%	-15%	29%	5.5	6.4	5.0	6%	8%	8%	2.5	2.1	1.7	55%	36%	37%
Consumers											**-45%**	**-23%**	**340%**	**28.1**	**36.7**	**8.3**	**0%**	**2%**	**3%**	**0.9**	**0.8**	**0.8**	**3%**	**2%**	**10%**
PAEL	BUY	27	83	Dec	1.5	3.7	4.9	0.0	1.0	2.0	29%	138%	33%	17.4	7.3	5.5	0%	4%	7%	0.6	0.5	0.5	3%	8%	10%
UNITY*	HOLD	25	108	June	0.5	(1.4)	1.8	0.0	0.0	0.0	-77%	NM	NM	53.1	NM	13.9	0%	0%	0%	1.4	1.5	1.4	3%	-8%	10%
Chemicals											**31%**	**-56%**	**32%**	**4.3**	**9.8**	**7.4**	**8%**	**4%**	**7%**	**1.6**	**1.4**	**1.3**	**40%**	**15%**	**19%**
EPCL	HOLD	43	140	Dec	9.8	1.0	4.9	6.0	0.8	3.9	-24%	-89%	371%	4.4	41.3	8.8	14%	2%	9%	1.4	1.4	1.3	32%	3%	15%
LCI	BUY	808	268	June	190.1	114.8	117.5	43.0	45.9	47.0	107%	-40%	2%	4.2	7.0	6.9	5%	6%	6%	1.7	1.5	1.3	45%	23%	20%
Power																									
HUBC	BUY	140	653	June	44.4	52.0	60.5	30.0	20.0	23.0	102%	17%	16%	3.2	2.7	2.3	21%	14%	16%	1.1	0.9	0.7	41%	38%	35%
Pharmaceuticals																									
CPHL	BUY	29	24	June	2.9	3.9	4.9	2.5	2.5	3.5	3%	35%	27%	10.2	7.6	6.0	9%	9%	12%	1.3	1.2	1.2	13%	17%	20%
Steel																									
ISL	BUY	72	113	June	8.1	11.2	12.3	5.5	6.0	7.0	-35%	39%	9%	8.9	6.4	5.9	8%	8%	10%	1.5	1.2	1.1	16%	21%	20%
Technology																									
SYS	BUY	380	399	Dec	29.8	33.9	46.8	6.0	8.5	11.7	31%	14%	38%	12.8	11.2	8.1	2%	2%	3%	3.4	2.8	2.2	31%	27%	30%
Topline Universe^											**38%**	**14%**	**6%**	**4.2**	**3.7**	**3.5**	**9%**	**11%**	**13%**	**0.9**	**0.8**	**0.7**	**24%**	**23%**	**21%**

*unconsolidated, ^adjusted for calendar year

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