Pakistan Market Outlook | Strategy

Nov 16, 2024

Prices as of Nov 14, 2024

REP-057

Pakistan Index to reach 127k by Dec 2025

Market re-rating to continue due to improving economic indicators

Best Brokerage House
2016, 2017, FY20 (Winner)
FY22 (Runner Up)

Best Local Brokerage House
Brokers Poll 2016 to 2022

Best Brokerage House
2018, 2019 & 2020

Best Research House
2019, 2020 & 2023

Best Brokerage House
2021

Topline Research
research@topline.com.pk
Tel: +9221-35303330 Ext:133
Topline Securities, Pakistan

Executive Summary

- Fueled by economic stability and fiscal consolidation, Pakistan Stock Market (PSX) is set to touch 127k by Dec 2025, suggesting return of 37% including dividend yield of 10%.
- We expect re-rating in PE primarily on the back of improving macro indicators and falling bond yields which is flushing more liquidity in equities, thus helping current low PE to march towards its historic forward PE of 7x during current IMF program. We expect market forward 2026 PE to reach 5.75x from current level of 4.6x by Dec 2025.
- During 2025, key drivers for the market would be (1) successful completion of IMF review and passing of FY26 budget in line with IMF guidelines, (2) credit rating upgrade for Pakistan, subsequently opening the doors for launch of Eurobonds and Sukuks, (3) Pakistan relations with new USA government and (4) successful privatization of any bleeding SOE i.e. PIAA, DISCOs alongside materialization of Reko Diq deal.
- As a result of falling returns on the fixed income instruments, the mutual funds have remained net buyers of US$138mn in last 2 months in equity market. We expect this conversion from fixed income to equities to continue as 1 year Sukuk and T-bill is now yielding 10.99% and 13.1% which is almost half of the yields seen 1 year ago.
- On Economy side, external indicators are gradually improving on the back of contained import growth and strong momentum in inward foreign workers remittance. As a result of this we expect FX liquid reserves to cross US$13bn mark by Jun 2025, covering ~2.8-3x of monthly imports.
- We expect inflation to average around 7-8% during FY25 after posting 23.4% in FY24. Inflation is receding sharply owning to lower food prices and negative fuel costs adjustments. As a result, we expect policy rate to clock in at 11-12% by Dec 2025 from current level of 15% and peak of 22% in Jun 2024.
- We expect modest growth of 2.5-3.0% in GDP in FY25 on the back of muted agriculture growth of 1.0%. Agriculture growth may remain lower on the back of expected decline of 8% in major crops due to poor outlook of wheat and cotton crop. While, services segment is expected to deliver 4.1% growth followed by industrial segment growth of 2.3% in FY25.
- **Top Sectors:** We believe, amidst falling interest rates, receding inflation, and stable currency, the consumers; both discretionary and staple, and Pharma stocks will witness expansion in both margins and volumes. Alongside this, due to improved recovery ratios in E&Ps after the gas price hikes, we anticipate E&Ps valuation to revert to their mean of 7-8x gradually from current level of 4-5x (OGDC and PPL mainly). Furthermore, companies trading at higher valuation gap or discount to their SoTP value are also expected to converge to their historic valuations/multiples.
- **Top Picks:** Based on the above theme, we like OGDC, PPL, MEBL, FFC, LUCK, HBL, SYS, PSO, SAZEW, AIRLINK, and NML from our universe. While in Alpha stocks, we prefer COLG, PKGS, SEARL, AGP, MUREB, and AICL.

Pakistan Stock Market: Key Numbers

	2022A	2023A	2024A/E	2025F	2026F
PE (x)	7.5	5.5	4.9	5.0	4.6
Earnings Growth	22%	36%	13%	-1%	9%
PBV (x)	1.4	1.2	1.0	0.9	0.8
Dividend Yield	5%	7%	8%	10%	10%
ROE	20%	23%	22%	19%	19%

Source: Topline Research

Key Pakistan Market Drivers for 2025

Successful and timely completion of IMF reviews in Mar and Sep 2025

Pakistan Credit Rating may Upgrade to "B" category from International Institution (S&P, Moody's, Fitch)

Pakistan USA Relationship Under New USA Administration

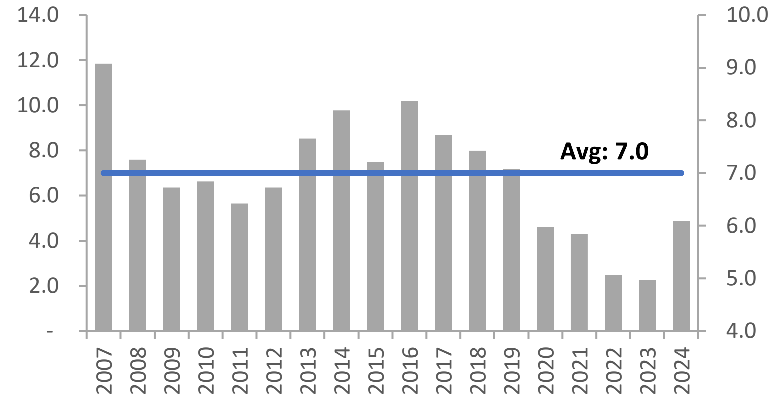
PIAA, or DISCOs privatization and Reko Diq Investment

Launch of Eurobonds, Sukuks, Climate Financing approval by IMF, and approval of Budget FY26

- Year 2025 is expected to witness economic recovery and stability after few years of economic and political instability. We believe, following events will drive the Pakistan equities in 2025.
- **IMF Reviews in Mar and Sep 2025:** Successful IMF program reviews in Mar and Sep 2025 would be key in re-rating the market multiples to historic mean.
- We believe, Govt. may face some pressure in achieving revenue targets which may impact the primary balance. However, we believe, Govt. will pass the IMF reviews timely by meeting the primary balance through cutting development and other non essential expenditures.
- **Credit Rating Upgrade:** We may also expect credit rating upgrade in 2025 as Finance Minister is also quite vocal on this and has been meeting with the rating agencies, as per news. The rating upgrade in our view is quite likely as debt ratios and FX reserves are showing improvements.
- With the credit rating upgrade to "B" category, Pakistan may resort to international bond market by issuing Eurobond and Sukuks which will further support FX reserves and strengthen the debt maturity profile of the country.
- **Pakistan USA Relationship:** Under the new Government in USA, we don't foresee any major policy shift between Pak-US relations. However, as per news reports, Trump is planning to impose 10-20% duties on all imports with higher duties on China and Mexico. In case these duties are imposed, it will be mix for Pakistan as in case of higher duties on Chinese export to US, the Chinese products will be dumped in other countries like Pakistan i.e. Steel.
- There are also some speculations that Trump may use its influence to convince Pakistan for a political solution with jailed PTI leader Imran Khan. If this happens, then political noise may affect market.
- **Privatization of PIAA/Discos and Reko Diq Investment:** Some other events that may shape market direction would be like any breakthrough on front of privatization of PIAA, DISCOs, First Woman Bank, HBFC, Roosevelt Hotel and GENCOs, and materialization of Reko Diq Investment plan from KSA based investors.

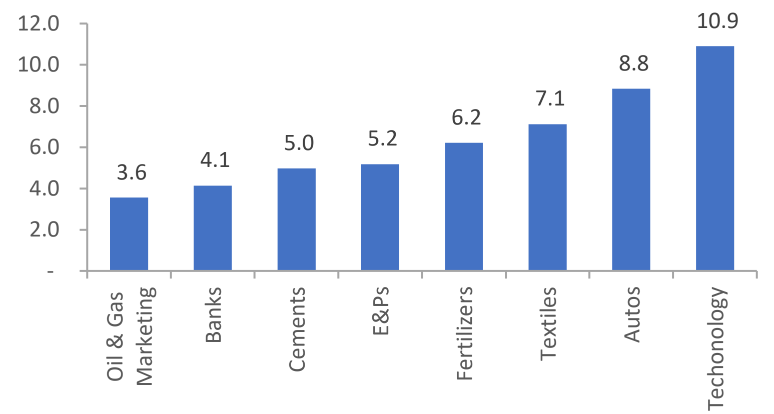
Forward PE to gradually re-rate to 5.75x by Dec 2025

Topline Universe Forward PE Trend (Historical)



Source: Topline Research

Sector wise (Topline Universe) 2025/FY25 PE



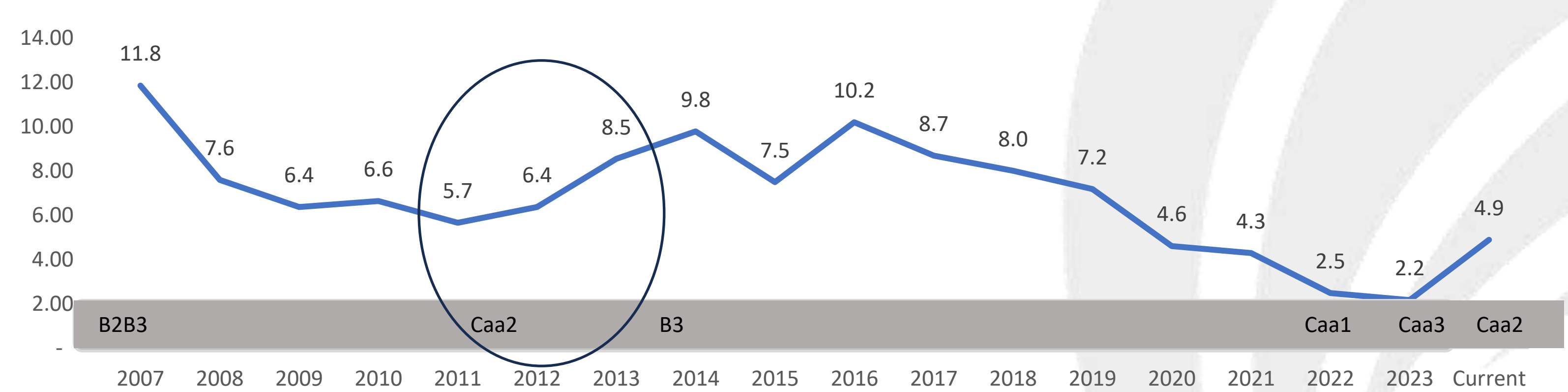
Source: Topline Research

- On the back of gradual stability in economic indicators, the KSE 100 is also gradually re-rating its earnings multiple. Despite return of 124% since Jul 2023 for the benchmark index, the forward PE of market is still at 4.9x, 30% lower than historic forward PE of 7x.
- We believe, current PE will revert linearly to its historical mean over the course of IMF program, subject to successful implementation of the program and its conditionalities with respect to fiscal/monetary measures and structural reforms.
- We expect index to reach its historic forward PE of 7x by Jun 2027 and based on this by Dec 2025 we believe, forward PE will reach at 5.75x.
- This translates into index target of 127k for Dec 2025 including dividend yield of 10%, and PE re-rating of 28%.
- We have assumed linear 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.
- Local funds, insurance and family offices will be a major net buyers in 2025 along with few active foreign funds.
- **Top Sectors/Theme:** We believe, amidst falling interest rates, stable currency, relatively lower inflation and deregulation of non essential pharma prices, the consumer, both discretionary and staple, and Pharma stocks will witness expansion in both margins and volumes. Alongside this, due to improved recovery ratios in E&Ps after the gas price hikes, we anticipate E&Ps valuation to revert to their mean of 7-8x gradually from current level of 4-5x (OGDC and PPL manly). Furthermore, companies trading at higher valuation gap or discount to their SoTP value are also expected to converge to their historic valuations/multiples.
- **Our top picks:** Based on the above theme, we like OGDC, PPL, MEBL, FFC, LUCK, HBL, SYS, PSO, SAZEW, AIRLINK, and NML from our universe. While in Alpha stocks, we prefer COLG, PKGS, SEARL, AGP, MUREB, and AICL.

Pakistan forward PE during Caa2 and CCC+ rating was 6-7x, now it is 4.9x

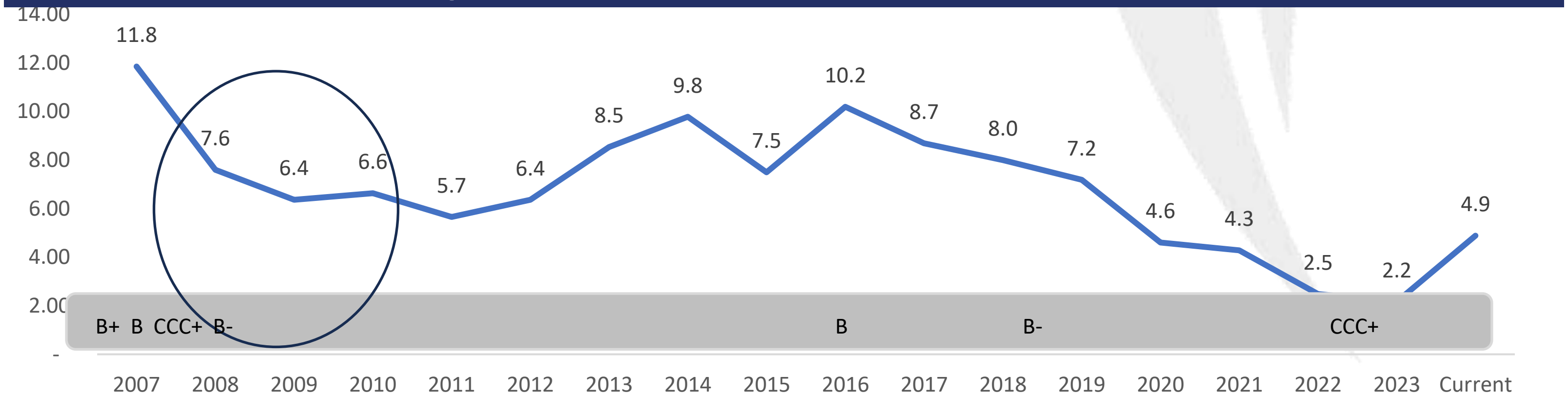
Historically, when Pakistan's sovereign credit rating (Moody's) was poor and more comparable to current rating (Caa2) i.e. in 2012, the forward PE of Pakistan market was close to 6-7x, while currently, forward PE is at ~25% discount at 4.9x.

KSE 100 Index Forward PE vs. Moody's rating



Source: Topline Research, Moody's

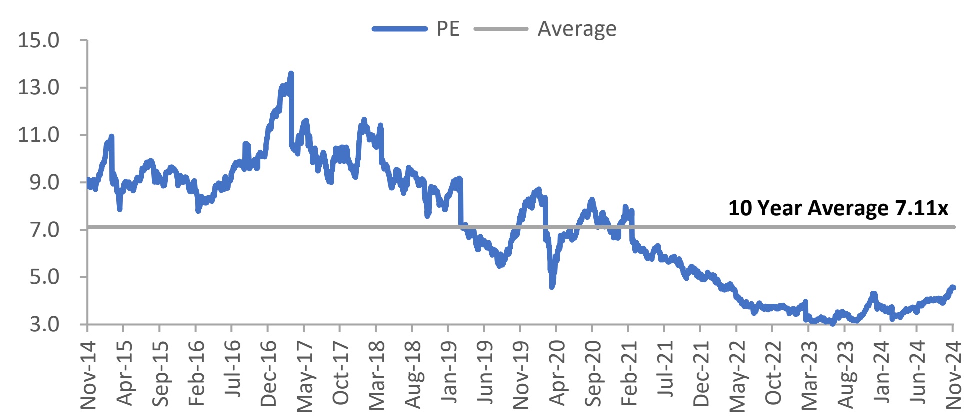
KSE 100 Index Forward PE vs. S&P rating



Source: Topline Research, S&P

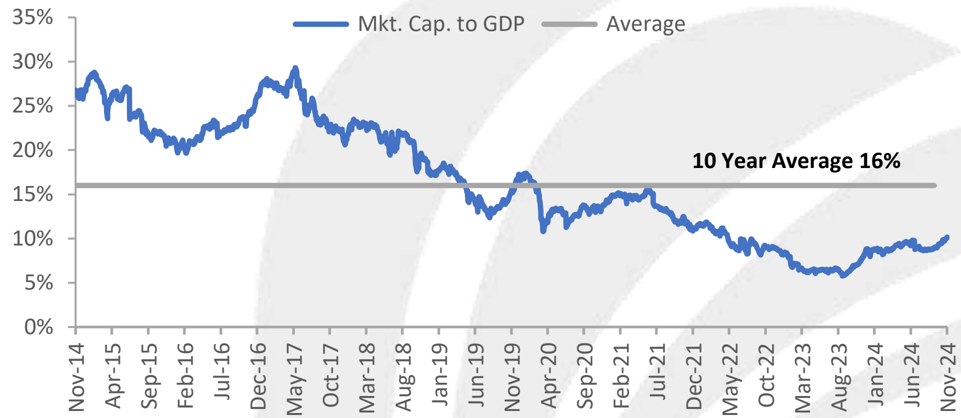
Pakistan market still attractive on different metrics

Pakistan P/E at record low



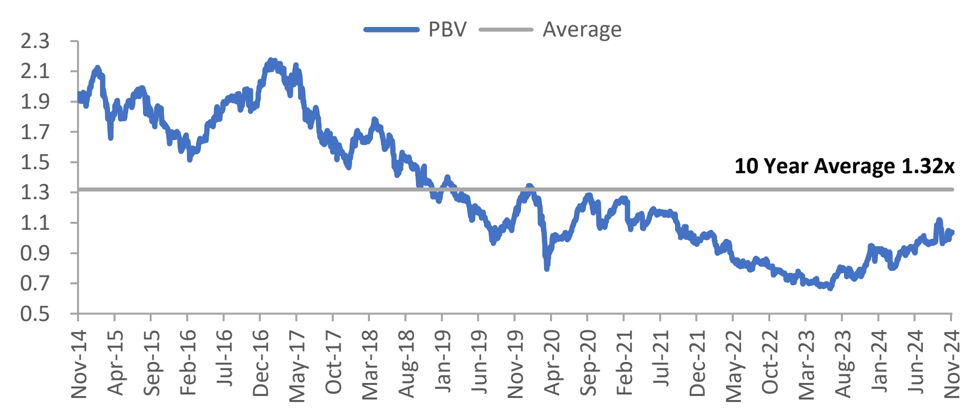
Source: Bloomberg

Market cap to GDP at record low



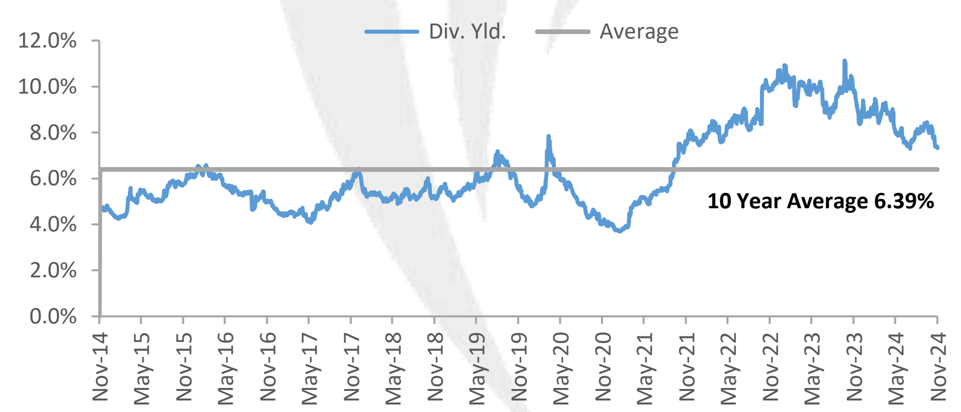
Source: PSX, SBP, Topline Research

Price to Book Value near at all time low



Source: Bloomberg

Dividend Yield near all time high



Source: Bloomberg

Pakistan Economy

Pakistan Economy: External accounts showing improvement; GDP growth modest

- Pakistan Economy is gradually stabilizing with the new IMF program as external accounts are showing substantial improvement, inflation is coming down sharply and fiscal accounts are consolidating. However, growth is expected to remain modest on the back of lower agriculture growth.
- Pakistan External Repayments (net of rollover and refinances) are expected at US$10bn for FY25, as per the Governor State Bank's comment in one of the analyst briefing. With current account deficit expectations of US$1.3bn for FY25, the gross financing requirement (net of rollover/refinances) is expected at US$11.3bn, a manageable amount in our view. As per IMF document, Pakistan Gross external financing requirement is at 9 year low of US$18.8bn.
- As a first sign of external stability, two rating agencies have already upgraded Pakistan's rating by one notch. On Jul 29, 2024, Fitch upgraded Pakistan's long term issuer rating by one notch to CCC+, later on Aug 28, 2024, Moody's upgraded Pakistan to Caa2. We expect Pakistan rating to further improve going forward on the back of rising FX reserves, resultantly opening doors for issuance of long term instruments in international Capital Markets in next few years.
- Pakistan liquid FX reserves are expected to cross US$13bn mark by Jun 2025, first time since Mar 2022 due to successful completion of previous Standby Arrangement (SBA) and start of a new IMF program which is likely to open more funding from bilateral and multilaterals.
- Pakistan Rupee (PKR) on the back of external account stability and higher inflows has appreciated 2.6% in FY24 and 0.3% in FY25TD against US$. We expect PKR/USD of Rs290-295 by Dec 2025.
- Inflation during FY25 is expected to average 7-8% after recording 23.4% in FY24. The sharper decline in inflation rate is attributed to higher base effect, faster disinflation in food segment and negative fuel cost adjustments in previous months.
- As a result, we expect policy rate to come down to 11-12% by Dec 2025 from current level of 15% and peak of 22% in Jun 2024. 6M KIBOR and 6M T-bill in anticipation of further decline in interest rate are at 13.52%, and 13.40%, respectively, 148-160bps below policy rate vs. last five year average spread of 62bps and 46bps for KIBOR and Tbills, above the policy rate.
- Real GDP growth is expected around 2.5-3.0% in FY25 despite muted growth in agriculture amidst weak cotton and wheat crop outlook. Growth is likely to be led by services sector on the back of gradual resumption in economic activities.
- Agriculture sector after posting 19 year high growth of 6.4% in FY24 is expected to post 1% growth as major crops are expected to show contraction of 8.1% based on the poor outlook of cotton and wheat crop.

Higher Remittances and contained import growth resulting in improved current account

- Pakistan external sector indicators are showing continuous improvements on the back of strong momentum in foreign remittances and contained imports of selective segments amidst lower aggregate demand.
- Inward foreign remittances in 4MFY24 have grown by 35% YoY to US$11.8bn, led by strong growth from UAE, Saudi and UK markets by 56%, 37% and 39%, respectively. We believe, this strong momentum is on the back of stability in PKR, and higher export of manpower in last 2-3 years. We expect remittances to clock in at US$35-36bn during FY25, up 16% YoY.
- We expect Imports during FY25/26 to clock in at US$60.6/65.5bn and exports at US$32.7bn/US$34.3bn, translating into trade deficit of US$27.9bn and US$31.2bn for FY25 and FY26, respectively. Trade deficit in last 5 and 10 years has averaged at US$27.1bn and US$25.6bn, respectively.
- Monthly import run rate is currently at US$4.5bn in 1QFY25, up 10% YoY and 8% higher than pre covid 2019 average of US$4.2bn while 11% lower than 2018 average of US$5bn. We believe, oil imports have already reached near normalization category except for few categories mentioned above which can increase the imports by US$300-500k per month once aggregate/import demand restores to US$4.8-5.0bn a month.

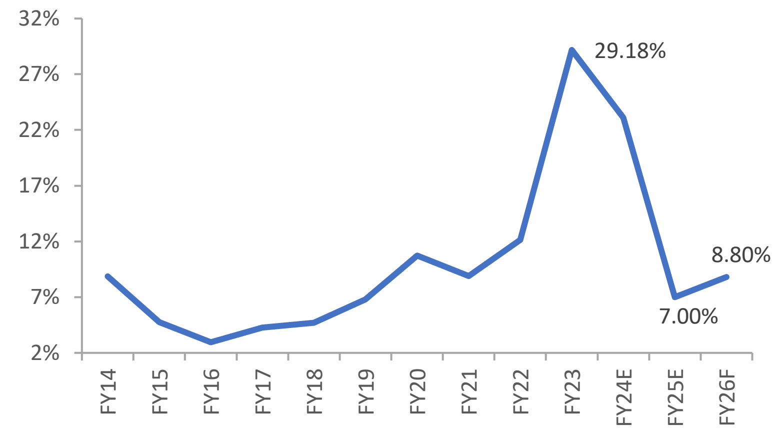
Current Account Projections

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26F
Export of Goods	24,768	24,257	22,536	25,639	32,493	27,876	31,101	32,656	34,289
Import of Goods	55,671	51,869	43,645	54,273	71,543	52,695	53,166	60,609	65,458
Goods Deficit of Goods	**-30,903**	**-27,612**	**-21,109**	**-28,634**	**-39,050**	**-24,819**	**-22,065**	**-27,953**	**-31,169**
Export of Services	5,851	5,966	5,437	5,945	7,102	7,596	7,803	8,193	8,603
Import of Services	12,277	10,936	8,753	8,461	12,942	8,638	10,109	10,311	10,827
Deficit of Services	**-6,426**	**-4,970**	**-3,316**	**-2,516**	**-5,840**	**-1,042**	**-2,306**	**-2,118**	**-2,224**
Primary Balance	-5,437	-5,610	-5,459	-4,400	-5,248	-5,765	-8,623	-8,451	-8,873
Secondary Balance	23,571	24,758	25,435	32,730	32,657	28,351	32,329	37,169	38,573
- O/w Remitances	*19,914*	*21,740*	*23,131*	*29,450*	*31,279*	*27,333*	*30,250*	35,090	36,494
Current Account	**-19,195**	**-13,434**	**-4,449**	**-2,820**	**-17,481**	**-3,275**	**-665**	**-1,353**	**-3,694**
GDP (US$mn)	312,555	282,857	263,326	297,199	376,056	341,433	381,457	428,103	465,563
As % of GDP	**-6%**	**-5%**	**-1.7%**	**-0.9%**	**-4.6%**	**-1.0%**	**-0.2%**	**-0.32%**	**-0.79%**

Source: SBP, Topline Research

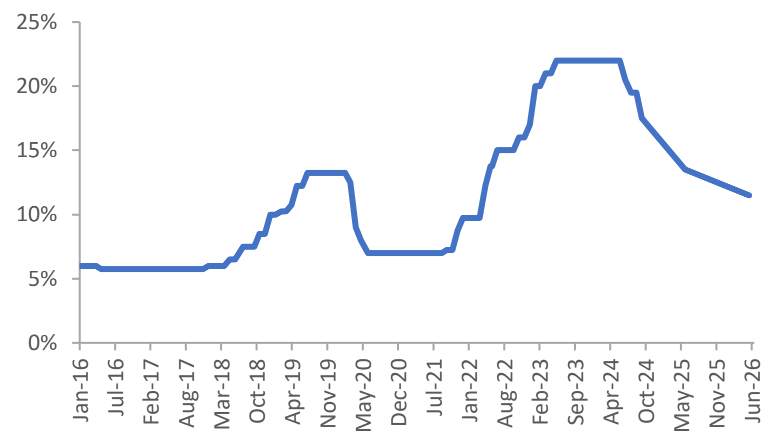
Inflation to fall to 7-8% in FY25; Interest rate to come down to 11-12% by Dec 2025

Inflation is expected to average 7-8% in FY25



Source: IMF, Topline Research

Interest rate to come down to 11-12% by Dec 2025

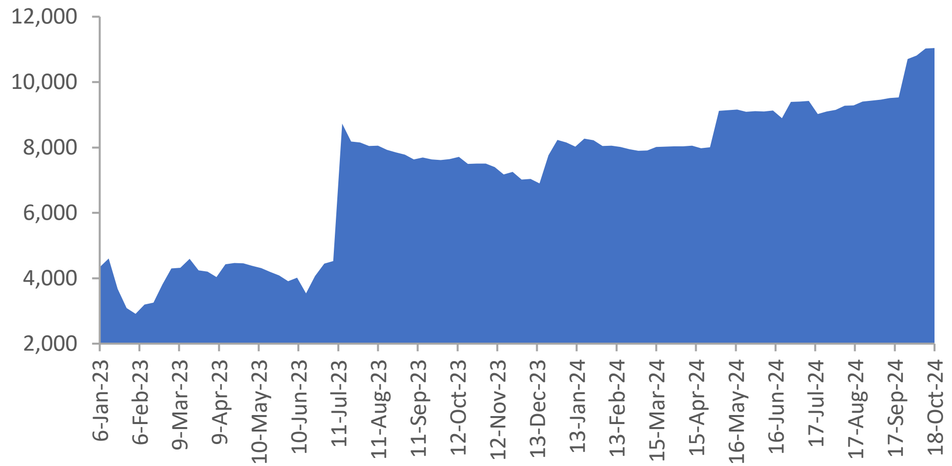


Source: IMF, Topline Research

- **Inflation Outlook:** After posting Inflation of 23.4% in FY24 and 8.7% in 4MFY25, the inflation for 2QFY25 is expected around 5.5-6.0%. While for 3QFY25 and 4QFY25, we expect inflation around 3.75-4.25% and 7.5-8.0%, respectively. This will take FY25 inflation to 7-8%.
- Significant decline in YoY inflation during FY25 is primarily on the back of higher base effect, faster disinflation in food segment and negative adjustments in power tariff in first few months of FY25.
- The inflation is expected to increase in 4QFY25 to higher single digits primarily due to low base effect of last year emanating from 7.8% MoM decline in food segment, 4.5% MoM decline in electricity tariff and 3.2% MoM decline in fuel prices in May 2024.
- **Interest Rate Outlook:** That said, we expect policy rate to come down to 11-12% by Dec 2025 from current level of 15% and peak of 22% in May/Jun 2024. 6M KIBOR and 6M T-bill in anticipation of further decline in interest rate are trading at 13.52%, and 13.4%, respectively, 148-160bps below policy rate vs. last five year average spread of 62bps and 46bps for KIBOR and Tbills, above the policy rate.
- Currently, real rates are around 780bps, much higher than historic average of 200-300bps. We expect SBP to keep real rates on slightly higher side (300-400bps) on forward looking basis to account for any external shock, any new tax measures to cover for shortfall of FY25 tax target, and/or FY26 budgetary measures.
- **PKR Outlook:** Pakistan Rupee (PKR) on the back of gradual external stability and higher inflows has appreciated 2.6% in FY24 and 0.3% in FY25TD. We expect PKR/USD of 290-295 by Dec 2025.
- For FY26 and onwards we have assumed normalized/historical currency depreciation 6-7% as we believe under the IMF program any abnormal deviation is unlikely due to sufficiently financed external accounts.

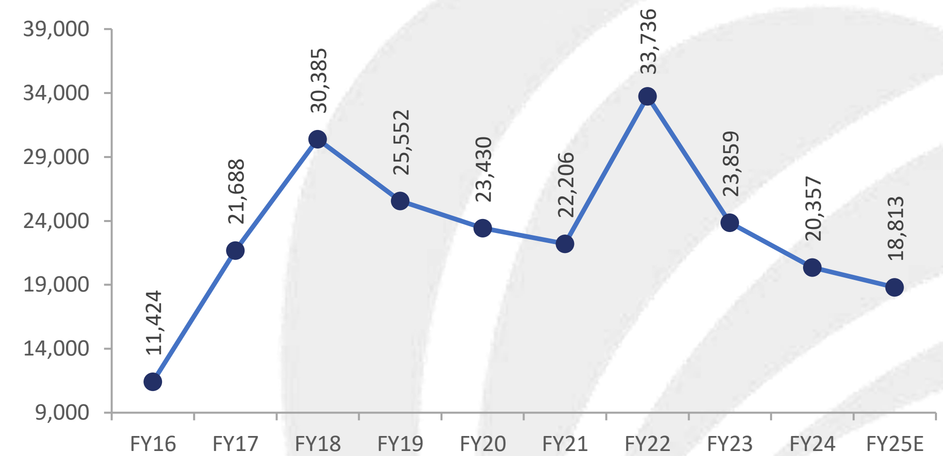
Pakistan FX Reserves are building up gradually with help of International Lenders

Central Bank Foreign Exchange Reserves Trend (US$mn)



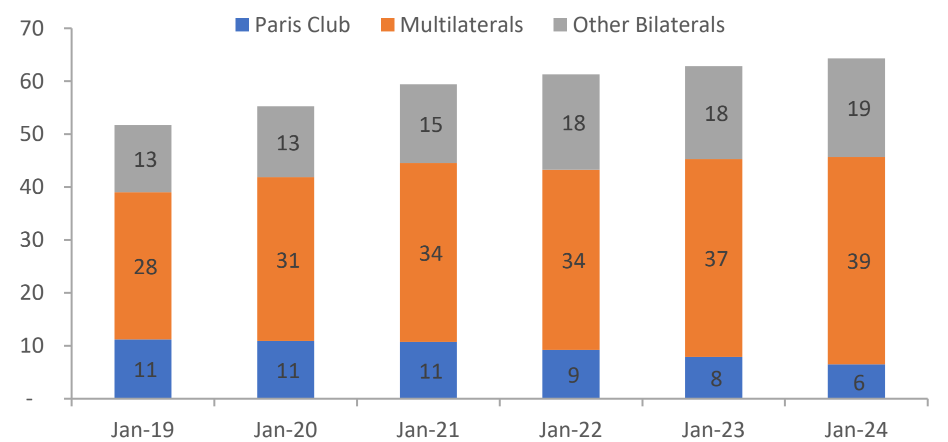
Source: SBP, Topline Research

Pakistan gross financing requirement at 9 year low (US$mn)



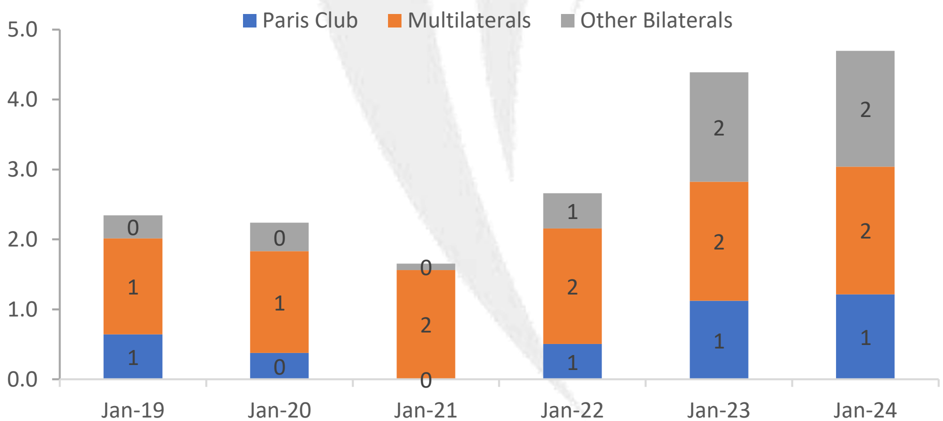
Source: IMF, Topline Research

Paris club exposure declining while Multilaterals exposure rising (US$bn)



Source: SBP, Topline Research

Pakistan has repaid on average US$3-5bn per year in last 3 years to key partners ((US$bn)



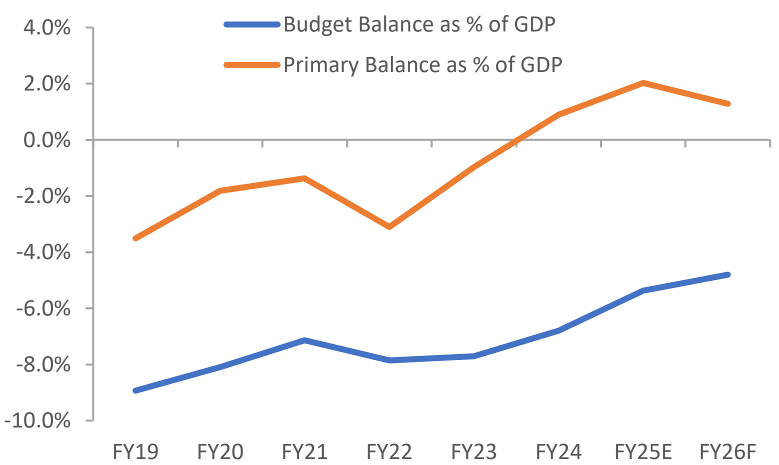
Source: SBP, Topline Research

Primary surplus likely for second consecutive year in FY25

Tax Measures Taken in FY25 (Rsbn)	
Personal and corporate income tax (PIT and CIT)	357
Sales Tax Exemptions Removal	286
Expanding FED coverage and enhancing rates	413
Tax on Retailers Distributors Wholesalers	240
eliminating concessions on customs duty	65
Improving compliance measures	157
Revenue Administration Measures (i.e. Tajir Dost)	250

Source: IMF

Primary Balance and Budget Balance Trend as % of GDP



Source: MoF, Topline Research

- **FBR Revenues:** Govt. has set FBR revenue targets of Rs12.97tn, 39% higher than collection of Rs9.3tn in FY24. The target of 39% growth would be the highest ever tax collection growth for FBR in recent past.
- This mammoth collection target along with Petroleum Development Levy Collection (PDL) of Rs1.28tn, will take tax to GDP ratio to 11.5% in FY25, highest in 7 years. In FY24, tax to GDP ratio stands at 9.7%.
- Furthermore, as per IMF document, if 3 months rolling average revenue collection fall short of the projected target by 1%, then govt. will have to take contingent measures like increase Advance Income Tax (AIT), Withholding Tax (WHT), and Federal Excise Duty (FED) on import of machinery, import of raw material, supplies, services, contracts and sugary drinks etc.
- During 4MFY25, FBR has collected Rs3.442tn, up 25% YoY, however, this collection fell short of target by Rs190bn. We believe, Govt. will have to either impose these contingent measures or introduce some new measures to cover for the shortfall. Very recently on Oct 23, 2024, Govt. has increased GST on tractors from 10% to 14%.
- We expect FBR to face shortfall of ~Rs300-500bn, however, primary surplus target of 2% of GDP would be achieved in our view by lowering Public Sector Development (PSDP) amount. Overall fiscal balance is likely to remain below 5% due to expectations of lower interest expense amidst faster than expected decline in interest rates (KIBOR and 6M bill).
- Govt. has estimated interest expense of Rs9.7tn, however, we expect interest cost to clock around Rs8.5-8.7tn during FY25 due to faster than expected decline in yields. For FY26, we expect interest cost of Rs8.4tn against IMF target of Rs8.76tn.
- We believe, PSDP allocation for FY25 will come down to Rs850bn from earlier govt. allocation of Rs1.4tn. For FY26, amidst better fiscal space, we expect PSDP allocation to rise to Rs1.4tn.

Pakistan Fiscal Snapshot

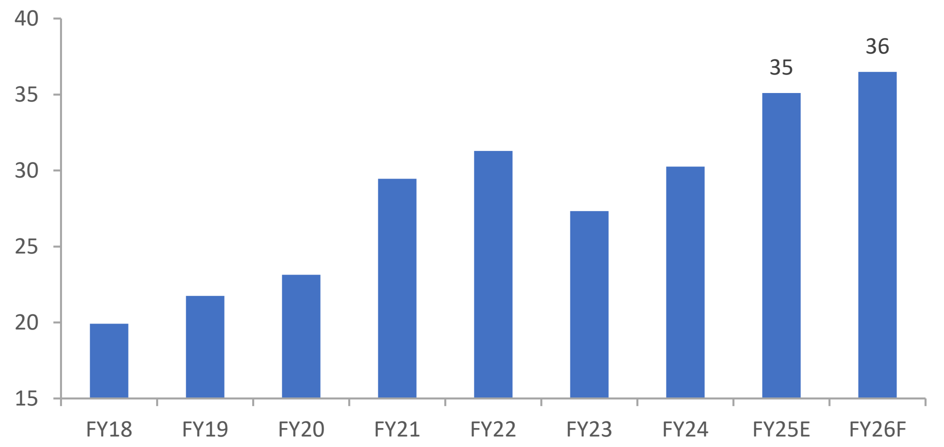
Fiscal Snapshot – Govt to generate primary surplus of 2%

Rsbn	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26F
Tax Revenue	4,473	4,748	5,273	6,755	7,819	10,085	13,388	16,252
-FBR	3,829	3,998	4,764	6,143	7,169	9,311	12,470	14,870
Non Tax Revenues	427	1,524	1,631	1,280	1,815	3,184	4,723	4,024
-PDL	206	294	425	128	580	960	1,066	1,279
Total Revenues	**4,901**	**6,272**	**6,903**	**8,035**	**9,634**	**13,269**	**18,111**	**20,276**
Total Expenditures	8,346	9,648	10,307	13,295	16,155	20,476	24,228	26,689
-Interest expense	2,091	2,620	2,750	3,182	5,696	8,160	8,633	8,414
-Defence expense	1,147	1,213	1,316	1,412	1,586	1,804	2,122	2,334
-PSDP expense	502	468	441	400	652	834	850	1,400
Budget Balance	-3,445	- 3,376	-3,403	-5,260	-6,521	-7,207	-6,117	- 6,613
Primary Balance	-1,354	-757	-654	-2,077	-826	953	2,516	1,801
GDP	38,559	41,727	47,709	66,950	84,658	106,045	124,150	139,669
Budget Balance as % of GDP	-8.9%	-8.1%	-7.1%	-7.9%	-7.7%	-6.8%	-4.9%	-4.7%
Primary Balance as % of GDP	-3.5%	-1.8%	-1.4%	-3.1%	-1.0%	0.9%	2.0%	1.3%
Interest cost as % of FBR Tax	54.6%	65.5%	57.7%	51.8%	79.5%	87.6%	69.2%	56.6%
Interest cost as % of Total Tax	46.7%	55.2%	52.2%	47.1%	72.8%	80.9%	64.5%	51.8%
FBR Tax + PDL to GDP	10.5%	10.3%	10.9%	9.4%	9.2%	9.7%	10.9%	11.6%
Total Tax + PDL to GDP	12.1%	12.1%	11.9%	10.3%	9.9%	10.4%	11.6%	12.6%
Federal PSDP as % of GDP	1.3%	1.1%	0.9%	0.6%	0.8%	0.8%	0.7%	1.0%

Source: Topline Research, IMF, MoF

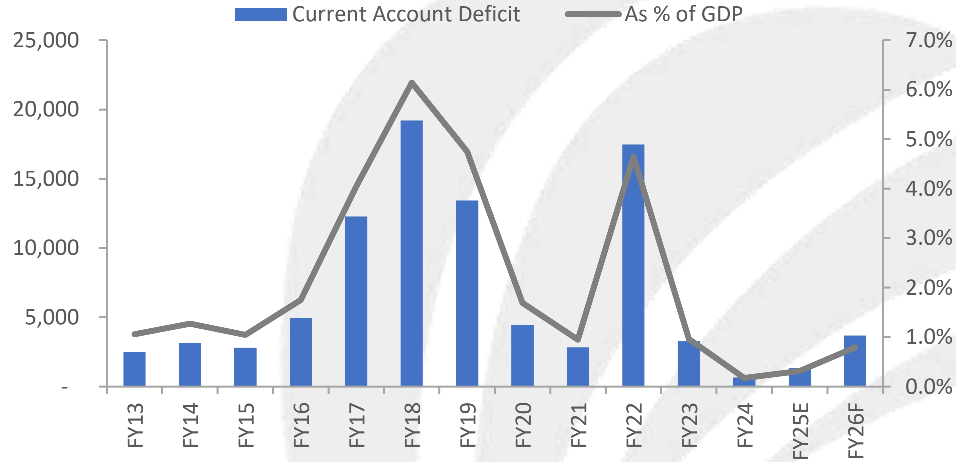
Pakistan Key Statistics – 6M KIBOR/6M Bill are down 1,118bps/1,111bps from peak

Remittances to touch US$35bn in FY25 (US$bn)



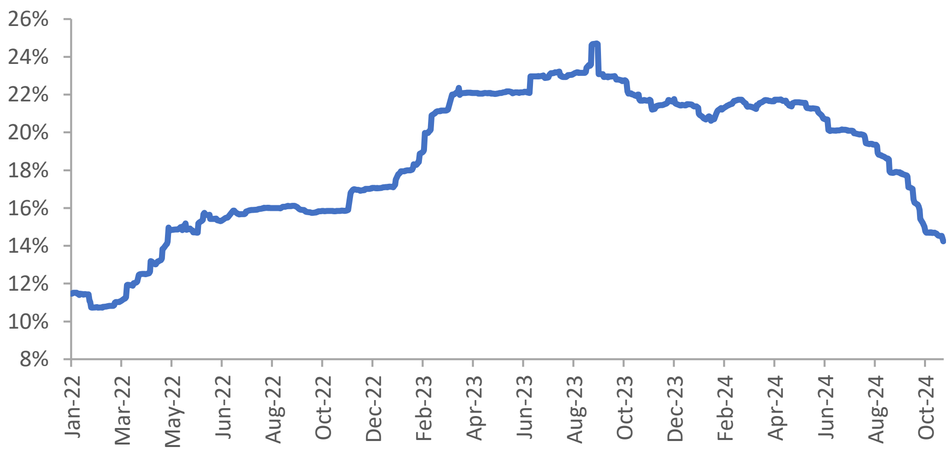
Source: SBP, Topline Research

Current Account Deficit is expected to clock in at 0.3% of GDP



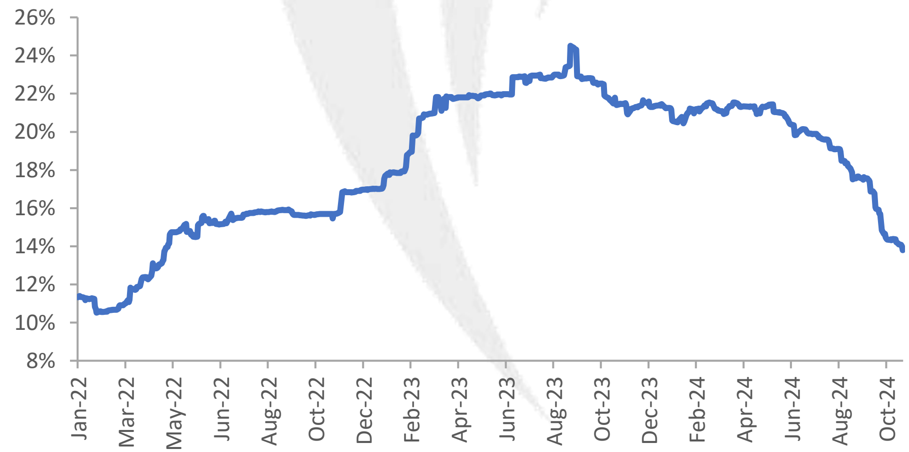
Source: SBP, Topline Research

6M KIBOR is down from Peak of 24.7% in Sep 2023 to 13.52% in Nov 2024



Source: MUFAP, Topline Research

6M T Bills Rate is down from peak of 24.51% in Sep 2023 to 13.40% in Nov 2024



Source: MUFAP, Topline Research

GDP growth for FY25 is expected at 2.5-3.0%

Pakistan real GDP is expected to clock in at 3% in FY25E

	FY21A	FY22A	FY23A	FY24A	FY25E	FY26F
GDP Growth	**5.8%**	**6.1%**	**-0.1%**	**2.5%**	**3.0%**	**4.3%**
Agriculture	**3.5%**	**4.2%**	**2.2%**	**6.4%**	**1.0%**	**4.2%**
Crops	5.8%	8.2%	-1.2%	10.3%	-3.4%	5.6%
-Important Crops	2.9%	6.8%	1.2%	25.4%	-8.1%	5.5%
-Other Crops	7.9%	11.9%	-1.4%	-1.2%	5.0%	5.0%
Livestock	2.4%	2.3%	3.7%	4.5%	3.5%	3.5%
Industrial	**8.2%**	**7.0%**	**-3.7%**	**-1.1%**	**2.3%**	**5.5%**
LSM	11.5%	11.9%	-9.8%	1.1%	3.0%	6.0%
Services	**5.9%**	**6.6%**	**0.1%**	**2.1%**	**4.1%**	**4.1%**

Source: PBS, topline Research

Major Crops Production Numbers

Tons	**FY21A**	**FY22A**	**FY23A**	**FY24A**	**FY25E**	**FY26F**
Wheat	27.5	26.2	28.2	29.7	26.7	28.0
Rice	8.4	9.3	7.3	9.9	10.5	10.2
Maize	8.9	9.5	11.0	10.8	11.2	10.5
Cotton (mn bales)	7.1	8.3	4.9	10.2	7.5	9.5
Sugarcane	81.0	88.7	88.0	84.5	76.7	78.0

Source: PBS, topline Research

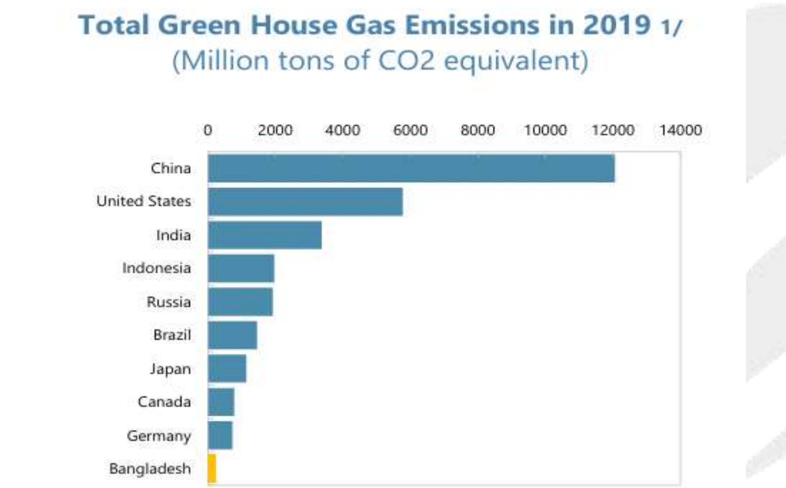
- Pakistan recorded GDP growth of 2.48% in FY24, led by 19 year high agriculture growth of 6.4% followed by 2.1% growth in services, while industries contracted by 1.1%.
- Pakistan posted 19 year high agriculture growth of 6.4% in FY24A on the back of 25.4% growth in important crops with rice output growth of 34.8% to 9.9mn tons, highest ever production in history of Pakistan, and rebound in cotton production by 108% to 10.2mn bales.
- Similarly, wheat production also touched record high production of 29.7mn tons, up 5.3% YoY in FY24.
- For FY25, we expect GDP growth of 2.5-3.0%, likely to be led services sector with anticipated growth of 4.1% and Industrial growth of 2.3%. We expect Agriculture growth to remain muted in FY25 at 1%.
- Agriculture is likely to underperform in 1Q on the back of poor cotton crop and expectations of likely lower wheat crop as farmers have received lower rate of wheat (Rs2,500-3,200/maund) compared to last year despite support price of Rs4,000/maund.
- Cotton arrival during ongoing season as of Oct 15, 2024 has recorded decline of 48% till now to 3.1mn bales. We expect wheat and cotton production to decline by ~27% and 10%, respectively.
- On Industrial sector side, we expect slight recovery of 2.3% mainly led by falling interest rates. Within industries, we expect 3% growth in Large Scale Manufacturing (LSM).
- On Services side, we expect we expect growth of 4.1% on the back expected gradual recovery on wholesale & retail trade and finance and insurance.

The case of climate financing for Pakistan

Countries with High Natural Hazard and Climate Risk

Source: IMF Bangladesh Report

Green House Gas Emission 2019



Source: IMF Bangladesh Report

- 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.
- 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.

Economic Indicators Table Summary

	FY20A	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Real Sector							
GDP Growth	-0.90%	5.80%	6.10%	-0.13%	2.48%	3.03%	4.34%
CPI Inflation (Avg.)	10.60%	8.90%	12.20%	29.20%	23.50%	7.00%	8.80%
CPI Inflation (June End)	8.60%	9.70%	21.30%	29.40%	12.70%	10.5%	5.6%
External Sector							
Exports of Goods (US$bn)*	22.5	25.6	32.5	27.9	31.1	32.7	34.3
Imports of Goods (US$bn)*	43.6	54.3	71.5	52.7	53.2	60.6	65.5
Trade Deficit of Goods (US$bn)	21.1	28.6	39.1	24.8	22.1	28.0	31.2
Remittances (US$bn)	23.1	29.5	31.3	27.3	30.3	35.1	36.5
Current Account Balance (US$bn)	-4.45	-2.82	-17.48	-3.28	-0.67	-1.35	-3.69
FDI (US$bn)	2.60	1.82	1.94	1.63	2.35	2.50	2.50
FX Reserves with SBP (US$bn) (June End)	12.1	17.3	9.8	4.4	9.35	13.00	15.00
Fiscal and Monetary							
Policy Rate – June end	7.00%	7.00%	13.80%	22.00%	20.50%	13.00%	11.5%
PKR/USD parity (Rs) – Avg.	158	161	178	248	283	280	293
PKR/USD parity (Rs) – June end	168	157	205	286	280	284	301
Budget Deficit (% GDP)	-8.1%	-7.1%	-7.9%	-7.7%	-6.8%	-4.9%	-4.7%

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

Key Sectors

Outlook on Major Sectors

Banks	We expect banks' NIMs to come under pressure in 2025 due to a sharp decline in the policy rate, which has already fallen by 700bps from 22% to 15%, with a further reduction of 300-400bps anticipated, bringing it to 11-12% by the end of 2025. However, we also foresee credit growth and a positive repricing lag, which could partially offset the impact of NIM contraction. Deposit growth of 13-15%, along with an expected increase in the lending portfolio, will partially support Net Interest Income (NII). Furthermore, we believe that unrealized gains on debt securities will play a significant role for selected banks in sustaining profitability. That said, we expect Topline Universe profits to decline by 9% in 2025. On the payout front, we anticipate that many banks will maintain their payout ratios due to strong Capital Adequacy Ratio (CAR). The sector is currently trading at attractive valuations, with a 2025 P/E of 4.1x, PBV of 0.9x, ROE of 21%, and a dividend yield of 12%, making it a compelling investment case.
E&Ps	We expect the E&Ps sector to remain in the spotlight in 2025, driven by improving cash recoveries, particularly for OGDC and PPL, which were severely impacted by circular debt issues for last few years. This improvement in cash recovery rates is attributed to upward gas price revisions implemented in Jan-2023, Nov-2023, and Feb-2024. We believe that under the new IMF program, gas tariffs will increase regularly, which will further improve the recoveries of Sui companies, thereby benefiting the E&P companies. As a result, we anticipate this will enhance the dividend payout of sector. Additionally, Reko Diq could be a game changer for the sector, with its feasibility study expected to be completed by Dec-2024. Furthermore, any progress towards selling Reko Diq stake to Saudi Arabia would be a positive catalyst for the sector. Topline E&Ps are currently trading at a FY25 P/E of 5.2x with a dividend yield of 8%.
Cements	We expect local cement dispatches to decline by 7% YoY in FY25. This would be the fourth consecutive fiscal year of decline in domestic dispatches. However, despite the slump in demand, profitability of cement sector has remained robust as evident by growth in profitability in 1QFY25. Going forward, domestic dispatches are expected to witness growth from FY26 onwards due to lower interest rates and higher government spending. Recent reduction in Afghan coal prices and installation of renewables would improve fuel and power mix for cement players. Added upside could emanate from favorable court decision related to royalty for Punjab based cement players. Topline cement universe is trading at EV/ton of US$38.6 at discount of 49% to replacement cost. Similarly Topline cement universe is currently trading at FY25 P/E of 5.0x, and P/B of 0.8x.

Outlook on Major Sectors

Fertilizer	The fertilizer sector always remains in the limelight and a priority for the government, given its role in ensuring food security and providing relief to the farming community. As an agricultural country, Pakistan's demand for fertilizers remains stable, making it a lucrative sector for investors. The difference between international and local urea prices is approximately Rs2,500 per bag, despite removal of gas subsidy, which is favorable for the sector. Fertilizer companies still remain in a position to pass on any cost pressures to farmers. Furthermore, international DAP prices have remained stable from last 10-12 month. DAP price stability along with strong rupee parity are anticipated to boost local demand for DAP in 2025 since local DAP prices are linked with international prices. Topline fertilizer universe trades at a 2025E PE of 6.2x and attractive dividend yield of 14%.
Steels	Flat steel demand is expected to improve amid rising sales of bikes, appliances and other related products. Government is cracking down on smuggling and duty evasion from informal sector. In FY25 budget, formal steel sector was allowed permission to purchase raw material from unregistered suppliers. These developments will gradually increase market share of listed steel manufacturers and allow space to increase retention prices leading to better margins. Added upside could result from removal or partial removal of subsidies granted to FATA/PATA region. Long steel demand is poised for recovery in FY26, driven by economic stability, increased farmers' income, and reduced inflationary pressures. We anticipate a significant improvement in utilization levels reaching 45% and 50% in FY25 and FY26 respectively compared to 40% in FY24, following the ease in import restrictions. Furthermore, the sector is expected to benefit from a decline in interest rates, given its highly leveraged position. Topline Steel sector is currently trading at a FY25E P/E of 13.2x, and FY26F P/E of 5.5x.
Technology	In FY24 Pakistan IT sector exports increased by 24% YoY to US$3.2bn. Looking ahead, due to government incentives and increased expenditure by IT companies to enhance the ecosystem, the sector is expected to sustain its growth momentum. We expect IT sector US$ sales to grow by 10-15% for the next 3-5 years. In 2024 higher allowance (from 35% to 50%) of retention in specialized foreign currency accounts and stability of PKR was one of the reasons for higher growth in 2024. Companies in the IT sector are also strategically pursuing inorganic growth through acquisitions and the introduction of new products. IT companies are now allowed to make strategic acquisitions through amounts retained in foreign currency accounts. Additionally, they are expanding their presence into new regions, capitalizing on the digitization boom in the Middle East.

Outlook on Major Sectors

Textiles	In FY25, Pakistan’s textile sector faces a challenging yet potentially transformative year due to economic and global demand factors. Textile exports, which constitute a major part of Pakistan's export base, are expected to benefit from rising international demand, with 4MFY25 exports reaching $5.9bn, up 6% from 4MFY24. Declining interest rates over recent months and further expected cuts in FY25 will ease financial burdens, supporting recovery. However, high energy costs, stable PKR against US dollar, and imposition of normal tax rate on exports in the FY25 budget could hinder growth. Topline Textile universe trades at a FY25E PE of 7.1x and FY26F PE of 4.9x.
OMCs	The Oil Marketing Companies (OMCs) faced pressure from exchange losses, rising fuel prices and competition from smuggled Iranian oil, impacting demand and margins in FY24. However, with a stable PKR, lower international oil prices, and the government’s crackdown on smuggling, sales volumes for FY25—especially in motor spirit (MS) and high-speed diesel (HSD)—are expected to recover, supporting growth. In 4MFY25 oil sales is up 2% (Ex Furnace Oil up 5% YoY). OMC margins in budget FY25 were expected to rise by Rs1.35/litre and if we expect this to be effective from Jan 2025, this will be a 16% rise in HSD and MS margins which will be positive trigger for the companies. We expect a 8% and 9% rise in MS and HSD sales in FY25. Topline OMC’s universe is currently trading at a FY25E/FY26F PE of 3.6x/3.2x.
Autos	We expect car sales to recover by 30-40% in FY25, supported by recent and anticipated interest rate reductions that will boost auto financing and drive consumer demand. Furthermore, the entry of new players and models, along with the expected incentives announcement in the new Electric Vehicle Policy, will increase car sales. In 4MFY25, tractor sales were down 60% YoY; however, a recovery is expected, driven by several key developments: (1) from October 23rd, the Federal Board of Revenue has rescinded SRO 563(1)/2022, now permitting tractor sales for non-agricultural purposes; (2) an increase in the sales tax rate from 10% to 14%, which is anticipated to improve cash flow by resolving input-output tax issues for manufacturers; and (3) the Punjab government’s launch of the Green Tractors Scheme, allowing a Rs1mn subsidy on each tractor for 9,500 tractors. Topline Auto universe is currently trading at a FY25E/FY26F PE of 8.8/7.1x with dividend yield of 6%/7% respectively.

Outlook on Major Sectors

Consumer	Consumer companies are poised to benefit from easing inflationary pressures and lower interest rates in 2025. Profit margins are expected to improve as most companies have successfully passed on higher costs to end consumers. Additionally, the purchasing power of consumers is anticipated to strengthen due to lower inflation and a stable PKR exchange rate, which should drive volumetric growth for these companies.
Pharmaceutical	The profitability of pharmaceutical companies is expected to increase further in the upcoming year, as the full impact of deregulation is yet to be reflected due to the seasonality of certain products. Notably, the gross margins of pharmaceutical companies have increased from 26% in FY23 to 30% in FY24, although they remain below historical averages. Additionally, with the recent deregulation of non-essential products, many companies are set to launch new offerings that were previously not commercially viable, further bolstering the growth prospects for pharmaceutical firms. Many pharmaceutical companies are leveraged, and the recent decline in interest rates, along with expectations of further rate cuts and stable PKR, will provide additional support to their bottom line.
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. Furthermore, the government's recent negotiations with Independent Power Producers (IPPs), including the premature termination of their Power Purchase Agreements (PPAs) and the conversion from the existing 'Take or Pay' model to a 'Take and Pay' model, will affect profitability and dividend-paying capacity.

Top Picks
&
Alpha Stocks

Top Picks & Alpha Stocks

Top Picks: Key Numbers

Symbol	Current Price Rs/share	Mkt Cap US$mn	PE (x)			Dividend Yield			PBV (x)		
			2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F
OGDC	195	3,017	4.0	4.6	4.4	5%	8%	9%	0.7	0.6	0.6
PPL	153	1,494	3.6	4.1	4.1	4%	7%	10%	0.6	0.6	0.5
MEBL	226	1,460	4.0	4.4	4.3	12%	11%	11%	1.7	1.4	1.2
FFC	278	1,274	5.8	5.4	5.3	6%	13%	13%	3.4	2.9	2.5
LUCK	1,041	1,098	4.7	4.1	3.7	1%	2%	2%	1.0	0.8	0.6
HBL	131	689	3.0	3.1	3.0	12%	12%	12%	0.4	0.4	0.4
SYS	510	535	18.4	12.5	9.3	1%	2%	3%	3.9	3.1	2.5
PSO	248	418	7.3	3.7	3.0	4%	8%	10%	0.5	0.4	0.4
SAZEW	1,082	235	8.2	3.9	3.2	2%	6%	8%	6.5	2.9	1.7
AIRLINK	128	182	10.9	8.0	7.5	5%	5%	5%	3.3	2.7	2.2
NML	76	96	4.2	2.9	2.5	7%	8%	8%	0.2	0.2	0.2
Market			**4.9**	**5.0**	**4.6**	**8%**	**10%**	**10%**	**1.0**	**0.9**	**0.8**

Source: Topline Research

Alpha Stocks: Key Numbers

Symbol	Current Price (Rs/share)	Market Cap (US$mn)	2025/FY25F PE	Last 10-Year Average PE
COLG	1,365	1,193	15.2	28.5
PKGS	517	166	9.1	14.2
SEARL	84	155	12.9	23.7
AGP	151	152	13.0	16.2
MUREB	616	61	5.1	9.7
AICL	42	52	3.5	8.3
Market			**5.0**	**7.0**

Source: Topline Research

Top Picks for 2025

Oil & Gas Development Company (OGDC) Market Cap: Rs838bn (US$3,018mn)

- Our liking of Oil & Gas Development Company (OGDC) stems from the improvement in cash flows of the company and its attractive valuations.
- Over the last 7 years (FY18 to FY24), OGDC's cash recovery ratio averaged 75%, ranging from 70-87%. However, in 1QFY25, the cash collection ratio has significantly improved to 126%. The improvement in recovery ratio is due to upward gas price revisions implemented in January 2023, November 2023, and February 2024.
- In absolute terms, trade receivables in 1QFY25 decreased by Rs27bn, from Rs635bn in Jun-2024 to Rs608bn in Sep-2024, marking the first decline in receivables in 15 quarters. As a result, OGDC also announced a dividend of Rs3/share, translating to a payout ratio of 31%, the highest 1Q payout ratio after three years.
- 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.
- Cash and cash equivalents of OGDC increased to Rs265bn (32% of market cap) in Sep-2024, compared to Rs259bn in Jun-2024. OGDC also holds 20% stake in Mari Petroleum, valuing Rs110n (13% of the OGDCs market cap).
- OGDC’s oil production increased by 2% to 33,117 bpd, while gas production declined by 6% to 717 MMSCFD in FY24. With the expected addition of a few discoveries, including Bettani (Wali) and Shewa (Bannu West), we anticipate a slight uptick in oil and gas production in FY25.
- OGDC holds an 8.33% stake in the Reko Diq project, and any progress towards selling its stake to Saudi Arabia would be a positive trigger for the stock.
- The stock is currently trading at an attractive valuations with FY25F PE of 4.6x vs last 10-Year average PE of 7.0x. The stock also offers dividend yield of 8%.

Pakistan Petroleum (PPL) Market Cap: Rs415bn (US$1,494mn)

- Pakistan Petroleum (PPL) was also affected by circular debt issues which resulted in lower payout previously.
- Over the last 7 years (FY18 to FY24), OGDC's cash recovery ratio averaged 66%, ranging from 48-88%. However in 1QFY25, PPL’s cash collection ratio improved to 106% in 1QFY25.
- In absolute terms, PPL’s trade receivables in 1QFY25 decreased by Rs4bn, from Rs578bn in Jun-2024 to Rs574bn in Sep-2024, marking the second consecutive decline in receivables on QoQ basis.
- 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.
- We expect PPL’s oil and gas production to remain stable at around 11,500 bpd and 650 MMSCFD, respectively, in FY25, supported by the addition of Jhim East, Razgir and enhancement projects at Adhi and Nashpa.
- PPL holds an 8.33% stake in the Reko Diq project, and any progress towards selling its stake to Saudi Arabia would be a positive trigger for the stock.
- The stock is currently trading at an attractive valuations with FY25F PE of 4.1x vs last 10-Year average PE of 7.8x. The stock also offers dividend yield of 7%.

Top Picks for 2025

Meezan Bank (MEBL)	Market Cap: Rs406bn (US$1,463mn)

- 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.
- MEBL 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 165% and below industry average NPL ratio of 2% will also help MEBL deliver strong ROE of around 35% in 2025F.
- In our view, MEBL's sustainable ROE is expected to be around 30%.
- MEBL is trading at an attractive 2025E PE and PBV of 4.4x and 1.4x, respectively. The stock also offers dividend yield of 11%.

Fauji Fertilizer Company (FFC)	Market Cap: Rs354bn (US$1,274mn)

- FFC enjoys the highest gross margins due to higher urea prices and stable gas rates. Notably, gas prices were increased in February 2024 for all fertilizer plants except those connected to the MARI network. We are of view that the gas prices of the company to remain unchanged in the course of time that will further enhance the margins of company.
- FFC's merger with FFBL and acquisition of Agritech Limited (AGL) are expected to have positive impacts on the company. Post-merger, the combined entity will have a total urea production capacity of 2.60mn tons, capturing a 41% market share. Additionally, FFC will also manufacture DAP with a capacity of 0.65mn tons.
- Over the past few years, FFC has sustained its payout ratio of 75%, which in our view is sustainable. The company generates strong cash flow from its core operations on the back of stable business nature and pricing power.
- FFC is currently trading at 2025 and 2026 P/E ratios of 5.4x and 5.3x, respectively, with a dividend yield of 13%, making it an attractive choice from a dividend yield perspective.

Top Picks for 2025

Lucky Cement Limited (LUCK) | **Market Cap: Rs305bn (US$1,099mn)**

- LUCK is well positioned to benefit from investment in diverse business segments.
- Local cement segment will benefit from higher retention prices in North, better renewable power mix and eventual recovery in domestic volumes by FY26.
- Foreign cement operations are expected to continue robust profitability with 1.82mn TPA capacity expected to be online in 2HFY25.
- Lucky motors profitability will improve due to growth in mobile and auto sales led by lower interest rates and introduction of new car models.
- Lucky Electric is benefitting from better receivables recovery and eventual shift to local coal which would improve merit order.
- Lucky core growth plans include soda ash expansion and exports, acquisition of Pfizer portfolio and venture in to animal health segment.
- LUCK is currently trading at a FY25/FY26F PE of 4.1/3.7x compared to last 10-year average PE of 10.0x.

Habib Bank (HBL) | **Market Cap: Rs191bn (US$689mn)**

- HBL stands out as one of the banks in our banking universe, trading at an significantly attractive on valuation with 2025E P/B ratio of 0.4x, P/E ratio of 3.1x and ROE of 14% as compared to last 10-Year average P/B of 1.1x, P/E of 8.5x and ROE of 13%.
- HBL's capital ratios are comfortable (Tier 1: 12.55%, CAR: 16.39% vs. SBP requirements of 10.0% and 12.5% respectively), which should support to continue with in the payout ratio. We expect a dividend payout of 38% in 2025E with a dividend yield of 12%.
- HBL is projected to maintain an average NIM of around 4.5% in the next two years vs 5% in 9M2024, driven by the initial repricing of deposits/liabilities to lower interest rates followed by increase in volumetric growth.
- HBL recorded provisions of Rs19.0bn in 9M2024, compared to Rs7.4bn in the same period last year. The higher provisions are primarily due to the implementation of IFRS 9 and asset aging. That said, we expect provisions to be lower in 2025.
- HBL's coverage ratio stands at 119% as of 9M2024, adequately covering potential non-performing loans and safeguarding against deteriorating asset quality.

Top Picks for 2025

Systems Limited (SYS)	Market Cap: Rs149bn (US$536mn)

- Systems Limited (SYS) gross margins are expected to recover to 24-25% from 2025 onwards due to better cost management and move to more profitable client contracts.
- SYS through premium service delivery now earns US$10mn+ revenue from one of its clients. Similarly 23 clients now generate US$1-5mn revenue in 2024 compared to 15 clients in 2023. Going forward, SYS is expected to generate higher recurring revenue from existing clients.
- Company is geographically diversified and entered Asia Pacific region in 2022. Middle East has been the main driver of growth, increasing by 45% YoY in 9M2024. This region is expected to be main driver of growth since company will utilize client network to boost growth.
- SYS is expanding its workforce to drive growth with employees diversified across Pakistan, Middle East and Egypt. Company plans to expand the resource center in Egypt, since the software developers are also globally competitive.
- Company plans mergers and acquisitions to achieve growth similar to Ndc Tech and Treehouse Consulting acquisitions.
- Considering all the above factors, we expect an EPS growth of 47% in 2025 and a 27% earnings CAGR over the next five years (2025-2029).
- SYS is currently trading at a 2025/26F PE of 12.5/9.3x compared to last 8-year avg. (Ex-COVID) PE of 14.6x and regional peers in Asia trading at a PE of 25x (range of 14x to 47x).

Pakistan State Oil (PSO)	Market Cap: Rs116bn (US$418mn)

- Pakistan State Oil (PSO) leads Pakistan's oil marketing sector with over a 40% share of the retail fuel market and is the largest LNG importer in the country.
- Our liking of PSO stems from the improvement in cash flows of the company and its attractive valuations.
- In absolute terms, PSO’s trade receivables in 1QFY25 decreased by Rs20bn, from Rs488bn in Jun-2024 to Rs468bn in Sep-2024, marking the third consecutive decline on QoQ basis, helped by higher gas prices and the introduction of blended gas prices.
- PSO's earnings are set to grow, driven by lower interest rates, reduced smuggling, and stable oil prices, boosting demand and profitability.
- PSO is currently trading at PE ratios of 3.7x for FY25 and 3.0x for FY26, below its 5-year average of 8.6x, and offers dividend yields of 8% and 10%, respectively.

Top Picks for 2025

Sazgar Engineering (SAZEW) — Market Cap: Rs65bn (US$235mn)

- Sazgar Engineering (SAZEW)'s top-selling model, HAVAL, recorded sales of 999 units in October 2024, marking the highest monthly sales achieved by the company. In 4MFY25 car sales were up 50% YoY.
- With interest rates having fallen over past six months and expected to decrease further, consumer financing is likely to improve, driving stronger car sales in our view.
- Lead times for HAVAL vehicles are currently 2-3 months, and with continued high demand and the absence of any competing models, SAZEW's car sales are expected to grow by 77% YoY to 9,505 units in FY25.
- SAZEW has announced a Rs4.5bn expansion, which includes paint shop upgrades, new warehousing, a 4MW solar installation, and NEV assembly facilities. In our view, this will further support the bottom line.
- SAZEW is currently trading at attractive FY25E and FY26F P/E ratios of 3.9x and 3.2x, with dividend yields of 6% and 8%, presenting a compelling investment case compared to the average Topline auto universe P/E of 8.8x and 7.1x, and dividend yields of 6% and 7%.

Airlink Communication (AIRLINK) — Market Cap: Rs50bn (US$182mn)

- Air Link Communication (AIRLINK) is well positioned to capitalize on rising low price smartphone sales in Pakistan. We expect mobile phone demand in Pakistan to grow at 3 year (2024-2026) CAGR of 18% from 23mn units in 2023 to 38mn units in 2026 vs last 5 year (2019-2023) CAGR of 6%.
- If the government allows exports of mobile phones, it will provide an upside for Pakistan's local mobile industry and AIRLINK. Currently, we have not included exports in our model, and any progress or materialization of exports would offer additional support to AIRLINK’s earnings.
- AIRLINK has also partnered with its existing partner, Xiaomi, to assemble Xiaomi Smart TVs in Pakistan. These TVs will be dispatched to the market soon, with the financial impact expected to become visible from 3QFY25 onwards.
- AIRLINK has signed an agreement with Acer Gadget Inc. for the assembly of Acer laptops in Pakistan. The laptops are expected to be launched in February-March 2025, which will also support earnings.
- AIRLINK is trading at a FY25F P/E of 8.0x and a FY26F P/E of 7.5x, compared to its 3-year average P/E (since IPO) of 10.0x, representing discounts of 20% and 25%, respectively.

Nishat Mills (NML) — Market Cap: Rs27bn (US$96mn)

- Nishat Mills (NML) is a leading, vertically integrated textile company in Pakistan, specializing in spinning, weaving, dyeing, and finishing, with a diverse portfolio of subsidiaries that extends into power and retail.
- NML stands at a Sum-of-the-Parts (SOTP) valuation of Rs270 per share, reflecting a discount of 70% compared to its historical average discount of 40%.
- The recent interest rate cuts are expected to significantly reduce interest expenses, further supporting profitability in the near term.
- NML is trading at forward FY25E and FY26F P/E ratios of 2.9x and 2.5x, respectively, compared to last 10-year average P/E of 7.4x.
- With a 5-year sales CAGR of 21%, NML has demonstrated consistent growth, positioning itself well to capture gains from both domestic and export market.

Alpha Stocks

Colgate-Palmolive (COLG)

Market Cap Rs331bn (US$1,193mn)

- Colgate-Palmolive Pakistan (COLG) is a joint venture between Lakson Group and Colgate Palmolive Company USA. Principal activity is to manufacture, market and distribute home care and personal care products.
- COLG is a leading player in the country's consumer goods sector, holding a dominant position in the market.
- In FY24 72%, 23% and 5% sales were derived from Home Care, Personal Care, and Others respectively. Company has manufacturing capacity of 327k tons and is operating at 87% utilization.
- In the last 10 years (FY15-24), the revenue and profit of Colgate-Palmolive have grown at a CAGR of 17% (6% in US$) and 26% (14% in US$), respectively.
- COLG is trading at FY25E PE of 15.2x compared to last 10-Year average PE of 28.5x.

Packages Limited (PKGS)

Market Cap Rs46bn (US$166mn)

- Packages Limited (PKGS) through its subsidiaries has business in different types of packaging, industrial inks, real estate, starch products, and pharma.
- PKGS stands to benefit from lower interest rates which would boost consumer spending and lower financial charges for the company.
- Besides this PKGS stands to benefit from expansion in packaging, venture into corn starch products, higher stake in pharma and divestment of loss making subsidiary.
- Packages Limited (PKGS) holds an 8% stake in the well-known consumer company, Nestlé Pakistan. This investment contributes approximately 25% to the company's Sum of the Parts (SOTP) valuation.
- SOTP value of PKGS stands at Rs1,172/share and current market price is at a discount of 58% to SOTP.
- PKGS is trading at 2025F PE of 9.1x compared to its last ten-year average PE of 14.2x.

Searle Company (SEARL)

Market Cap Rs43bn (US$155mn)

- 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 affected by this decision. This will be a major turnaround story for the company, as the additional annual revenue impact would be Rs3.5bn.
- This deregulation of non essential drugs will also create room for launching new products that were not commercially viable before.
- SEARL has also initiated the process of selling its subsidiary, Searle Pakistan Limited (SPL), to Ijara Capital Partners Limited for an estimated price of Rs11.2bn. The transaction is expected to be completed by the end of the next calendar year. The proceeds from the sale will be used for working capital and debt retirement, which will further support SEARL's bottom line.
- SEARL is currently trading at FY25F PE of 12.9x vs last 10-Year average PE of 23.7x.

Alpha Stocks

AGP Limited (AGP)

Market Cap Rs42bn (US$152mn)

- AGP Limited (AGP) is the leading listed pharmaceutical company in Pakistan, primarily engaged in the import, marketing, export, dealership, distribution, wholesale, and manufacturing of a wide range of pharmaceutical products.
- AGP also holds a 65% stake in OBS AGP (formerly Sandoz) and a 92% stake in OBS Pakistan (formerly Viatris Pfizer).
- Despite significant rupee devaluation against US dollar and record local inflation, AGP recorded the highest gross margins of 55% in FY24, compared to the average industry margins of 30%.
- The deregulation of non-essential drugs is expected to be a major turnaround for the company, as 70% of AGP's unconsolidated portfolio and 50% of its consolidated portfolio fall under the non-essential category.
- AGP's total debt stands at Rs12bn as of Sep-2024. The recent decline in interest rates, along with expectations of further reductions, is anticipated to positively impact the company's bottom line.
- AGP is currently trading at a 2024E P/E of 19.5x and a 2025F P/E of 13.0x, compared to its 6-year average P/E of 16.2x since its IPO (2018-2023).

Murree Brewery (MUREB)

Market Cap Rs17bn (US$61mn)

- Murree Brewery (MUREB) is engaged in manufacturing and selling of alcoholic beer, non-alcoholic beer, Pakistan made foreign liquor (PMFL), aerated water, mineral water, juice, food products as well as glass bottles and jars.
- MUREB has also launched multiple products with different flavours. These new flavours were aimed at young adults, who tend to be more open to new tastes and like to try products that are infused with flavours that are considered modern, innovative and refreshing. Fruit-flavoured vodka and gin also gained popularity among consumers.
- Easing inflationary pressures to restore purchasing power of consumers which in turn to lift volumetric sales of the company.
- MUREB is currently trading at a cheap valuation, with a FY25E PE of 5.1x, compared to the last 10-year average PE of 9.7x.

Adamjee Insurance Company Limited (AICL)

Market Cap Rs15bn (US$52mn)

- Adamjee Insurance (AICL) is a non life insurance company and through its subsidiaries/associates has investment in Banking, Life Insurance, Autos and various other segments.
- AICL core business (General Insurance) offers products in the segments of car insurance, travel insurance, health insurance, personal accident and home insurance. Life insurance (ALIFE) products are offered in the segments of individual, corporate and bancassurance.
- The insurance segment will stand to benefit from higher consumer financing and recovery in industrial activity.
- Sum of the Parts (SOTP) value of AICL stands at Rs171/share and current market price is at a discount of 77% to SOTP. Company is deriving 24%, 20%, 12%, 6%, 5%, 5% and 28% from MCB, Equity Investments, ALIFE, Hyundai Motors, Security General Insurance, Property and Other Assets respectively.
- AICL is trading at FY25E PE of 3.5x vs last-10 year average PE of 8.3x.

Comp Sheet

Symbol	Stance	Price (PKR)	Mkt Cap US$mn	Year end	Diluted (EPS)			Diluted (DPS)			Earnings Growth			PE (x)			Dividend Yield			PBV (x)			ROE		
					2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F	2024A/E	2025F	2026F
E&Ps											**6%**	**-14%**	**5%**	**4.5**	**5.2**	**4.9**	**6%**	**8%**	**9%**	**0.9**	**0.8**	**0.7**	**22%**	**16%**	**16%**
OGDC	BUY	195	3,017	June	48.6	42.0	44.5	10.1	15.0	17.8	-7%	-14%	6%	4.0	4.6	4.4	5%	8%	9%	0.7	0.6	0.6	18%	14%	13%
PPL*	BUY	153	1,494	June	42.0	36.8	37.6	6.0	11.0	15.0	17%	-12%	2%	3.6	4.1	4.1	4%	7%	10%	0.6	0.6	0.5	19%	15%	14%
MARI	HOLD	459	1,984	June	64.4	62.2	65.3	25.8	31.1	32.6	38%	-3%	5%	7.1	7.4	7.0	6%	7%	7%	2.5	2.1	1.8	39%	31%	28%
POL*	BUY	578	590	June	137.9	86.0	97.2	95.0	80.0	95.0	7%	-38%	13%	4.2	6.7	5.9	16%	14%	16%	2.0	1.9	1.9	52%	29%	33%
Banks											**19%**	**-9%**	**5%**	**3.8**	**4.1**	**4.0**	**13%**	**12%**	**12%**	**0.9**	**0.9**	**0.8**	**27%**	**21%**	**21%**
MCB	BUY	248	1,056	Dec	59.5	50.4	54.6	36.0	32.0	32.0	8%	-15%	8%	4.2	4.9	4.5	15%	13%	13%	1.1	1.0	0.9	27%	21%	21%
HBL	BUY	130.5	689	Dec	42.9	42.3	43.6	16.0	16.0	16.0	9%	-1%	3%	3.0	3.1	3.0	12%	12%	12%	0.4	0.4	0.4	16%	14%	13%
UBL	BUY	323	1,425	Dec	55.7	55.9	57.9	44.0	44.0	44.0	24%	0%	4%	5.8	5.8	5.6	14%	14%	14%	1.1	1.2	1.2	21%	20%	21%
MEBL*	BUY	226	1,460	Dec	57.2	50.9	52.8	28.0	24.0	24.0	21%	-11%	4%	4.0	4.4	4.3	12%	11%	11%	1.7	1.4	1.2	48%	35%	31%
BAHL	BUY	105	418	Dec	42.0	39.4	41.0	14.0	14.0	14.0	30%	-6%	4%	2.5	2.7	2.5	13%	13%	13%	0.8	0.7	0.7	34%	27%	26%
BAFL	BUY	67	381	Dec	29.9	24.6	26.3	8.0	6.0	6.0	29%	-18%	7%	2.2	2.7	2.5	12%	9%	9%	0.6	0.5	0.5	30%	21%	19%
Fertilizers											**69%**	**2%**	**7%**	**6.4**	**6.2**	**5.8**	**8%**	**14%**	**13%**	**2.0**	**2.0**	**1.8**	**35%**	**32%**	**32%**
ENGRO#	BUY	320	619	Dec	40.2	50.9	61.8	29.0	75.0	43.9	3%	27%	21%	8.0	6.3	5.2	9%	23%	14%	0.8	0.8	0.8	10%	12%	15%
FFC*	BUY	278	1,274	Dec	47.6	51.2	52.0	15.5	35.9	36.4	104%	8%	2%	5.8	5.4	5.3	6%	13%	13%	3.4	2.9	2.5	74%	58%	50%
EFERT	HOLD	200	959	Dec	21.0	26.6	27.6	20.0	25.3	26.3	7%	26%	4%	9.5	7.5	7.2	10%	13%	13%	5.4	5.2	5.0	58%	71%	71%
FFBL*	BUY	64	298	Dec	21.3	9.9	11.2	6.4	3.0	4.5	524%	-54%	14%	3.0	6.5	5.7	10%	5%	7%	1.8	1.5	1.3	75%	25%	24%
Cements											**40%**	**22%**	**17%**	**6.1**	**5.0**	**4.3**	**1%**	**2%**	**4%**	**1.0**	**0.8**	**0.7**	**18%**	**18%**	**18%**
LUCK	BUY	1,041	1,098	June	223.7	252.1	284.4	15.0	16.9	19.1	34%	13%	13%	4.7	4.1	3.7	1%	2%	2%	1.0	0.8	0.6	23%	21%	19%
DGKC*	BUY	86	135	June	1.2	8.9	13.1	0.0	2.7	3.9	-115%	619%	47%	69.4	9.7	6.6	0%	3%	5%	0.5	0.5	0.5	1%	5%	7%
MLCF	BUY	41	153	June	6.6	6.6	8.1	0.0	0.0	2.5	19%	1%	22%	6.2	6.1	5.0	0%	0%	6%	0.7	0.7	0.6	13%	11%	12%
FCCL	BUY	32	287	June	3.4	5.2	6.5	1.0	2.6	3.3	11%	56%	24%	9.7	6.2	5.0	3%	8%	10%	1.1	1.0	0.9	12%	17%	19%
KOHC	BUY	421	297	June	45.4	63.2	74.7	0.0	0.0	11.2	53%	39%	18%	9.3	6.7	5.6	0%	0%	3%	2.0	1.5	1.2	24%	26%	24%

*unconsolidated, #includes one-off dividend of thermal asset

Comp Sheet

Symbol	Stance	Price (PKR)	Mkt Cap US$mn	Year end	Diluted (EPS) 2024A/E	Diluted (EPS) 2025F	Diluted (EPS) 2026F	Diluted (DPS) 2024A/E	Diluted (DPS) 2025F	Diluted (DPS) 2026F	Earnings Growth 2024A/E	Earnings Growth 2025F	Earnings Growth 2026F	PE (x) 2024A/E	PE (x) 2025F	PE (x) 2026F	Dividend Yield 2024A/E	Dividend Yield 2025F	Dividend Yield 2026F	PBV (x) 2024A/E	PBV (x) 2025F	PBV (x) 2026F	ROE 2024A/E	ROE 2025F	ROE 2026F
Oil and Gas Marketing											**57%**	**73%**	**12%**	**6.2**	**3.6**	**3.2**	**5%**	**7%**	**9%**	**0.6**	**0.5**	**0.5**	**10%**	**16%**	**15%**
PSO*	BUY	248	418	June	33.8	67.4	83.6	10.0	19.9	24.7	180%	100%	24%	7.3	3.7	3.0	4%	8%	10%	0.5	0.4	0.4	7%	13%	14%
SNGP	BUY	88	202	June	19.1	26.5	23.5	5.0	5.0	5.0	-1%	39%	-11%	4.6	3.3	3.8	6%	6%	6%	1.0	0.8	0.7	24%	27%	20%
Autos											**147%**	**21%**	**25%**	**10.7**	**8.8**	**7.1**	**4%**	**6%**	**7%**	**3.5**	**2.9**	**2.4**	**35%**	**36%**	**37%**
INDU	BUY	2,001	566	June	191.8	226.4	243.3	114.7	135.4	146.0	56%	18%	7%	10.4	8.8	8.2	6%	7%	7%	2.3	2.1	1.9	24%	25%	24%
HCAR	HOLD	301	155	Mar	16.3	5.4	18.4	6.5	4.0	7.0	797%	-67%	240%	18.4	55.7	16.4	2%	1%	2%	2.0	2.0	1.8	11%	4%	12%
SAZEW	BUY	1,082	235	June	131.3	274.8	339.9	20.0	68.7	85.0	698%	109%	24%	8.2	3.9	3.2	2%	6%	8%	6.5	2.9	1.7	122%	102%	68%
MTL*	BUY	584	403	June	51.7	39.5	57.2	25.0	33.6	48.6	194%	-24%	45%	11.3	14.8	10.2	4%	6%	8%	11.5	10.3	8.9	113%	73%	94%
Textiles											**-30%**	**-26%**	**44%**	**5.2**	**7.1**	**4.9**	**7%**	**4%**	**6%**	**0.7**	**0.6**	**0.6**	**15%**	**9%**	**12%**
NML*	BUY	76	96	June	18.1	25.8	30.9	5.0	6.0	6.0	-48%	43%	20%	4.2	2.9	2.5	7%	8%	8%	0.2	0.2	0.2	6%	8%	9%
ILP	BUY	64	321	June	11.3	5.1	9.0	4.5	2.1	3.6	-19%	-54%	75%	5.7	12.4	7.1	7%	3%	6%	1.7	1.6	1.3	32%	13%	20%
Technology											**32%**	**44%**	**24%**	**15.6**	**10.9**	**8.8**	**2%**	**3%**	**3%**	**3.7**	**3.0**	**2.4**	**26%**	**31%**	**31%**
SYS	BUY	510	535	Dec	27.8	40.9	54.8	6.9	10.2	13.7	-7%	47%	34%	18.4	12.5	9.3	1%	2%	3%	3.9	3.1	2.5	23%	28%	30%
AIRLINK	BUY	128	182	June	11.7	16.0	17.1	6.0	6.5	7.0	382%	37%	6%	10.9	8.0	7.5	5%	5%	5%	3.3	2.7	2.2	34%	38%	33%
Steel											**-21%**	**-23%**	**138%**	**10.2**	**13.2**	**5.5**	**4%**	**3%**	**7%**	**1.1**	**1.1**	**1.0**	**12%**	**8%**	**19%**
ISL	BUY	75	117	June	8.4	5.3	9.3	5.5	3.5	6.1	4%	-37%	74%	8.9	14.1	8.1	7%	5%	8%	1.4	1.4	1.3	16%	10%	16%
MUGHAL	BUY	71	86	June	5.7	5.9	18.5	0.0	0.0	4.5	-45%	4%	214%	12.5	12.1	3.8	0%	0%	6%	0.9	0.9	0.7	7%	7%	21%
Power																									
HUBC	BUY	111	517	June	54.0	41.9	43.3	20.0	12.0	18.0	22%	-22%	3%	2.1	2.6	2.6	18%	11%	16%	0.7	0.6	0.5	38%	24%	21%
Pharmaceuticals																									
CPHL	BUY	47	38	June	3.6	4.7	6.3	3.3	3.5	4.0	27%	29%	34%	12.8	9.9	7.4	7%	8%	9%	1.9	1.8	1.6	15%	19%	23%
Consumers																									
PAEL	BUY	28	85	Dec	2.9	4.1	5.2	0.0	0.0	1.5	85%	42%	28%	9.6	6.8	5.3	0%	0%	5%	0.5	0.5	0.5	6%	8%	9%
Chemicals																									
LCI	HOLD	1,174	390	June	120.7	124.1	128.9	60.0	61.7	64.1	-37%	3%	4%	9.7	9.5	9.1	5%	5%	5%	2.2	2.0	1.8	24%	22%	20%
Topline Universe^											**13%**	**-1%**	**9%**	**4.9**	**5.0**	**4.6**	**8%**	**10%**	**10%**	**1.0**	**0.9**	**0.8**	**22%**	**19%**	**19%**

*unconsolidated, ^adjusted for calendar year

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Contact Us

Mr. Mohammed Sohail	CEO	Dir: +92 (21) 35303333-4	sohail@topline.com.pk

Research Team:

Mr. Shankar Talreja, CFA	Director Research	+92 (21) 35303330-2	shankar@topline.com.pk
Mr. Sunny Kumar	Deputy Head of Research	+92 (21) 35303330-2	sunny@topline.com.pk
Mr. Nasheed Malik	Senior Research Analyst	+92 (21) 35303330-2	nasheed@topline.com.pk
Ms. Myesha Sohail	Research Analyst	+92 (21) 35303330-2	myesha@topline.com.pk
Mr. Tanweer Ahmed	Research Analyst	+92 (21) 35303330-2	tanweer.ahmed@topline.com.pk
Mr. Muhammad Fahad Qasim	Senior Data Analyst	+92 (21) 35303330-2	fahad.qasim@topline.com.pk
Mr. Asif Habib	Data Analyst	+92 (21) 35303330-2	asif@topline.com.pk

Equity Sales Team:

Mr. Nabeel Haroon	Senior Trader Equity Sales	Dir: +92 (21) 35370799	nabeel.haroon@topline.com.pk
Mr. Maaz Mulla	Senior Trader Equity Sales	Dir: +92 (21) 35303320	maaz@topline.com.pk
Mr. Syed Sabahuddin Rizvi	Senior Trader Equity Sales	Dir: +92 (21) 35303429	sabahuddin.rizvi@topline.com.pk
Mr. Mohammad Yakub	Senior Trader Equity Sales	Dir: +92 (21) 35303323	mohammad.yakub@topline.com.pk
Mr. Naveed Nadeem	Trader Equity Sales	Dir: +92 (21) 35303343	naveed@topline.com.pk
Mr. Syed Mohammad Kamran	Trader Equity Sales	Dir: +92 (21) 35303428	kamran@topline.com.pk

Corporate Office:
8th Floor Horizon Tower,
Plot 2/6, Block-3, Clifton, Karachi
Tel: +9221-35303330-2
Fax: +9221-35303349