ARIF HABIB LIMITED

# Pakistan Strategy 2025

## Conquering new heights

**REP-300**

**16-Nov-2024**

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# Pakistan Investment Strategy 2025

## Conquering new heights

**Synopsis:** We expect KSE-100 index to reach 120,010 points by Dec'25, indicating a 27% upside from current levels. We view that the stage is set for a potential market rerating with declining interest rates, a stable PKR, and improving macroeconomic indicators. Domestic liquidity is on the upswing, driven by fresh domestic inflows alongside conversions from fixed income. Pakistan is increasingly attracting the attention of foreign investors, particularly in its debt and equity markets. The momentum for mergers and acquisitions along with expected FDI is also boosting investor sentiment.

**Improving macros:** We maintain an optimistic outlook for FY25, supported by conducive domestic macro factors.

- GDP growth is expected at 2.4% during FY25.
- The Current Account deficit is expected to be manageable (FY25e: -0.3% of GDP).
- Downward trajectory for inflation, we estimate FY25 and FY26 inflation to clock in at 7.5% and 9.9%.
- Continuation of monetary policy easing, bringing the policy rate down to 12% by Jun'25 end.
- Improved external flows to keep PKR stable.

**Valuations are still compelling:** Even with a 50.8% return during CY24TD, the KSE100 index remains undervalued across various valuation perspectives.

- On P/E basis, the KSE100 index is trading at 5.3x; 36.1% discount to last 10-year average of 8.3x.
- The KSE-100 Index is trading at market cap to GDP of 11.1%, a discount of 34.3% compared to last 10-year average.

**AHL sectoral view**

- **Banks:** Subdued interest rates to suppress earnings, but banks to focus on volumetric growth to ensure profitability.
- **E&P:** Earnings to remain broadly unchanged, higher payouts and circular debt resolution will keep the sector in limelight.
- **Fertilizer:** Stable urea and higher DAP offtake alongside margins to propel earning growth of 11.4%.
- **Cement:** Margins to remain elevated due to better power mix and low coal prices leading to 32.1% earnings growth.
- **OMCs:** The sector is expected to witnessed 39.1% earnings growth amid reduction in inventory losses, alongside improved OMC margins.
- **Textile:** Global recovery to drive demand, however higher taxes to hurt profitability.
- **Technology:** Earnings growth of 39.3% earnings growth, driven by a stable demand environment, innovation, and increasing adoption of digital solutions.
- **Autos:** Demand to recover following economic stability and lower interest rates, with EVs to gain prominence.

**AHL Top Picks:** OGDC, PPL, PSO, NBP, FABL, UBL, MEBL, FFC, LUCK, FCCL, MLCF, INDU, HUMNL, AIRLINK, SYS and HTL.

**KSE 100 Index Target Estimates 2025**

| Valuation Basis | Target Price | Justified PE |
|---|---|---|
| Weight | 50% | 50% |
| Index | 119,459 | 120,561 |

Target 2025
**120,010**

Current Index
**94,192**

Expected Return 2025
**27.4%**

*Closing as of 14-Nov-2024*

# Table of Contents

# AHL Portfolio

## Outperforms, yet again!

ARIF HABIB LIMITED

## AHL Model Portfolio shines once again

Since Jan'23, we have introduced the AHL Model Portfolio to assess the performance of our recommended stocks relative to the market. The portfolio undergoes semi-annual rebalancing, aligned with our calendar and fiscal year strategy reports, to ensure it remains reflective of our latest market insights and recommendations.

AHL Model portfolio has been consistently outperforming all the benchmark indices since inception. The portfolio has outperformed the benchmark KSE-30, KMI-30 and KSE-100 indices by 107.9%, 92.9% and 70.5% respectively since inception. From the last rebalancing (Jul'24), AHL model portfolio outperformed KSE-30, KMI-30 and KSE-100 indices by 18.0%, 19.9% and 13.5%, respectively.

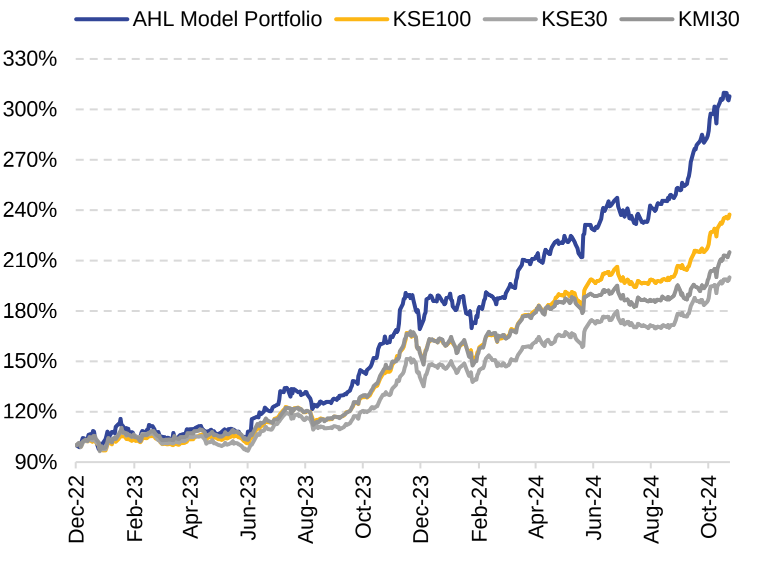
For CY25 we are rebalancing our model portfolio. We have closed our position in MARI (previously 5.0%) and HUBC (previously 5.0%) and added PSO, HUMNL, AIRLINK and HTL with a weight of 10.0%, 5.0%, 2.5% and 2.5% respectively. We have increased FFC weight to 7.5% (previously 5.0%) while reducing UBL, MEBL, MLCF and LUCK weight to 5.0%, 7.5%, 7.5% and 5.0% respectively (previously 7.5%, 10.0%, 10.0% and 10.0%).

**Exhibit:** Proforma AHL Model Portfolio

| Company | Model Portfolio Weight | | Benchmark Index weight | 1-year forward PE (x) | 1-year forward PB (x) | 1-year forward DY (%) |
|---|---|---|---|---|---|---|
| | Previous | Revised | | | | |
| **Unchanged positions** | | | | | | |
| OGDC | 10.0% | 10.0% | 4.35% | 3.96 | 0.57 | 12.83 |
| PPL | 10.0% | 10.0% | 3.52% | 3.49 | 0.53 | 10.82 |
| FCCL | 10.0% | 10.0% | 0.96% | 5.10 | 0.85 | 6.16 |
| NBP* | 7.5% | 7.5% | 1.08% | 3.29 | 0.31 | 14.74 |
| INDU | 5.0% | 5.0% | 0.96% | 7.04 | 1.88 | 8.50 |
| FFBL | 5.0% | 5.0% | 1.00% | Estimates incorporated in FFC due to merger | | |
| **New additions** | | | | | | |
| PSO | 0.0% | 10.0% | 1.81% | 3.58 | 0.43 | 6.06 |
| HUMNL | 0.0% | 5.0% | n.a | 5.79 | 1.40 | 3.32 |
| AIRLINK | 0.0% | 2.5% | 0.44% | 7.54 | 2.22 | 5.87 |
| HTL | 0.0% | 2.5% | n.a | 4.33 | 0.73 | 10.20 |
| **Closed positions** | | | | | | |
| MARI | 5.0% | 0.0% | 3.81% | 7.13 | 1.67 | 5.66 |
| HUBC* | 5.0% | 0.0% | 3.73% | 3.24 | 0.49 | 9.93 |
| **Change in weights** | | | | | | |
| FFC | 5.0% | 7.5% | 6.73% | 4.69 | 3.89 | 17.98 |
| UBL* | 7.5% | 5.0% | 5.47% | 6.56 | 1.32 | 13.61 |
| MEBL* | 10.0% | 7.5% | 3.51% | 5.22 | 1.55 | 10.60 |
| MLCF | 10.0% | 7.5% | 0.66% | 4.86 | 0.60 | 7.40 |
| LUCK* | 10.0% | 5.0% | 3.16% | 6.04 | 0.79 | 3.33 |

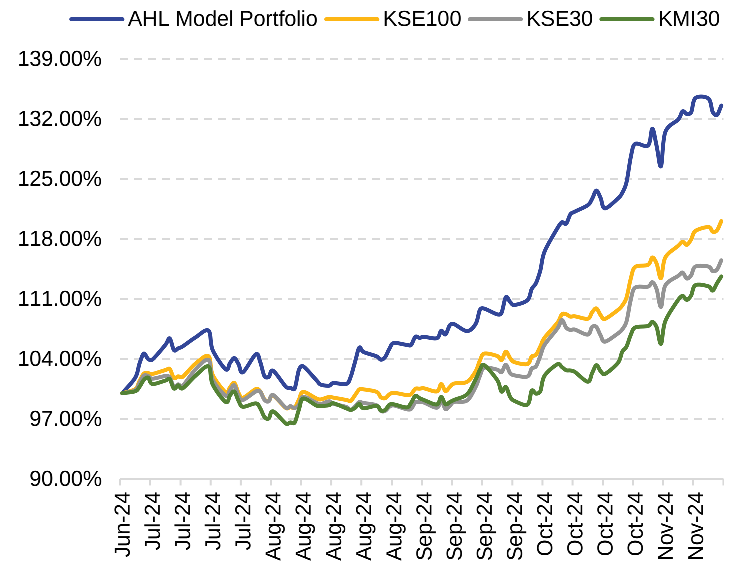
Source (s): AHL Research, *Consolidated, ^model portfolio reflects the analysis and consensus views of research and trading desks.

**Figure:** AHL model portfolio performance (since inception)




Source (s): Bloomberg, PSX, AHL Research

**Figure:** AHL model portfolio performance (Jun-2024)



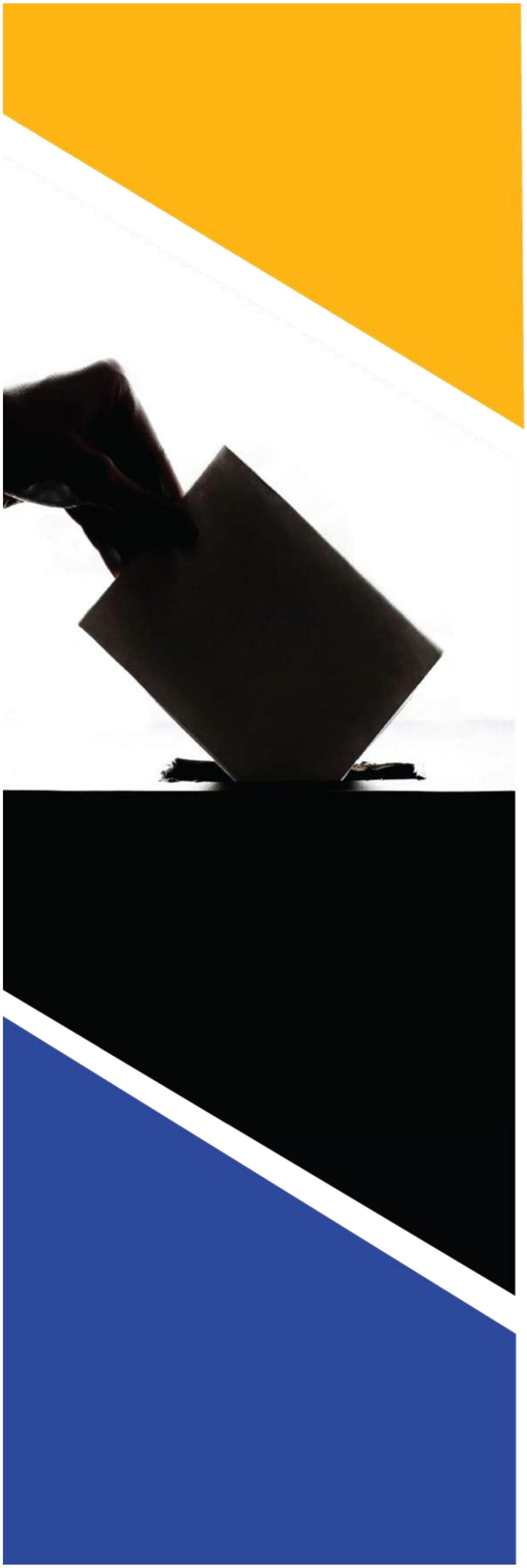

Source (s): Bloomberg, PSX, AHL Research

# Pakistan at a glance

**Exhibit:** Pakistan at a Glance

| Economy | | Equities | |
|---|---|---|---|
| Population (mn) | 241 | Major Stock Exchange | Pakistan Stock Exchange |
| Lower Middle-Income Class (of population) | 40.5% | Benchmark Index | KSE100 Index |
| Per Capita Income (USD, FY24) | 1,673 | Total Market Cap (USD bn, Nov'24) | 43.8 |
| GDP size (USD bn, FY24) | 374 | Free Float Market Cap (USD bn, Nov'24) | 12.1 |
| GDP Growth (FY24) | 2.52% | Market Cap as % of GDP | 11.1% |
| Sovereign Rating | Fitch: CCC+, Moody's: Caa2 | Avg. Daily Traded Value (USD mn, CY24TD) | 67.1 |
| SBP Reserves (USD bn, Nov'24) | 11.3 | Avg. Daily Traded Volume (mn shr. CY24TD) | 480.0 |
| Current Account Balance (USD mn, 1QFY25) | (98) | MSCI Category | Frontier Markets |
| Fiscal Deficit (PKR bn, FY24) | 7,207 | Number of Stocks in MSCI FM | 21 |
| CPI Inflation (10MCY24 Avg.) | 14.80% | Largest Sector | Banks |
| Policy Rate (Nov'24) | 15.00% | Largest Stock | OGDC |
| Domestic Debt as % of GDP (FY24) | 44.6% | Net Foreign Flows (USD mn, CY24TD) | (35.7) |
| External Debt as % of GDP (FY24) | 23.1% | | |
| Total Debt as % of GDP (FY24) | 67.7% | | |

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



# Politics

## Stability is crucial

## Upholding reforms amidst political challenges

Elections that took place in Feb'24 and the formation of an elected government were crucial for sustaining the economic reforms initiated under the caretaker administration. This transition served as a significant catalyst for the bull run in the equity market during the outgoing FY24. The markets responded positively, driven by investor optimism that these reforms would continue and further stabilize the economy.

PSX has demonstrated remarkable resilience in CY24TD, buoyed by improving macroeconomic indicators and robust fundamentals. Investors are increasingly optimistic, anticipating that the new government will effectively manage the challenges ahead and capitalize on the groundwork laid by the caretaker administration, as well as the commitments made under the newly signed 37-month Extended Fund Facility (EFF) with the International Monetary Fund (IMF). The EFF represents a crucial lifeline for Pakistan, providing not only financial support but also a framework for necessary economic reforms.

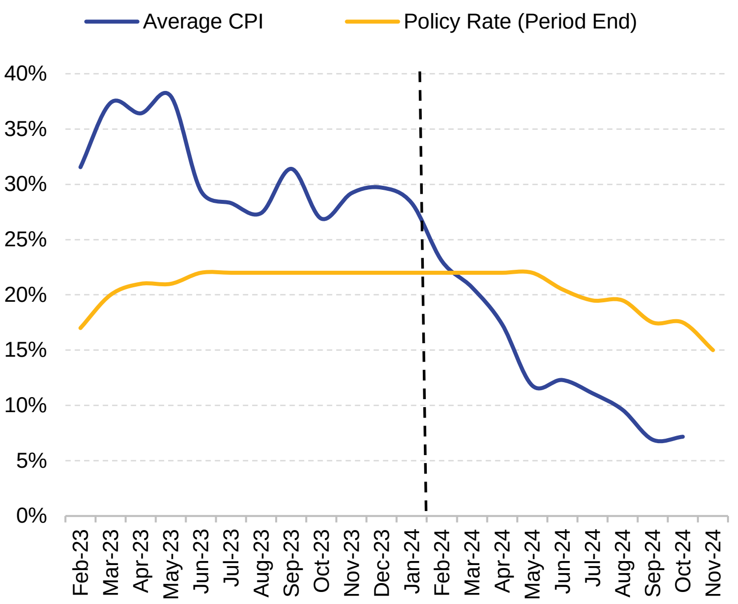
The current environment suggests that the PSX is on the brink of a fresh era characterized by long-awaited re-rating and value realization, offering promising opportunities for investors. As the government seeks to reassure both local and international stakeholders, maintaining a stable political environment will be essential for fostering continued investment and economic growth.

Going forward, we remain optimistic that the incumbent government will remain committed to the IMF and fulfill the benchmarks laid out under the EFF to ensure that Pakistan achieves sustainable economic growth. Adhering to these benchmarks is vital not only for restoring investor confidence but also for stabilizing the macroeconomic environment. By meeting the stipulated requirements, the government can pave the way for structural reforms that enhance fiscal discipline, bolster external reserves, and create a more conducive environment for both domestic and foreign investments.

Such measures will be instrumental in addressing the economic challenges and accelerating our path toward growth. Key areas of focus should include improving tax collection mechanisms, rationalizing subsidies, and implementing transparent governance practices. By prioritizing these structural reforms, the government can effectively reduce fiscal deficits and create a stable economic framework that encourages investment. Furthermore, enhancing the regulatory environment will be critical for attracting FDI. If the government effectively manages the current situation, it will enhance the economy and build a solid foundation for long-term prosperity in Pakistan.

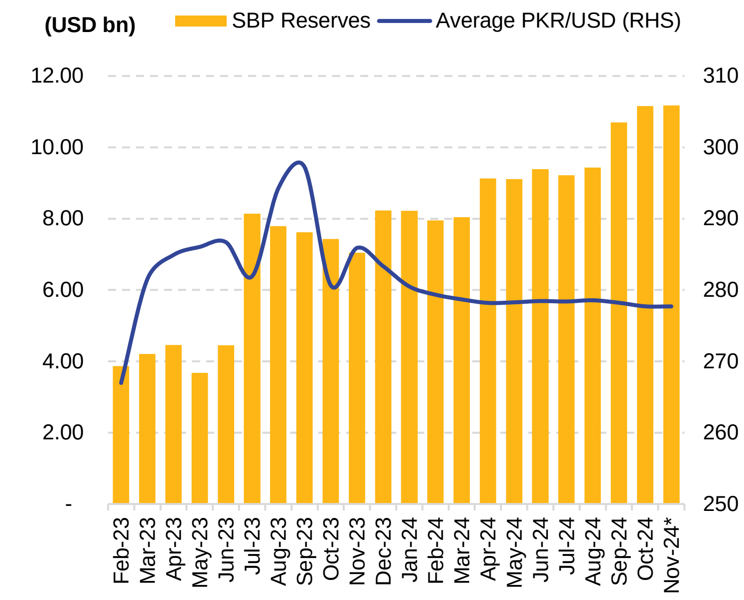
# Economy pre & post elections

**Figure:** Average CPI and policy rate



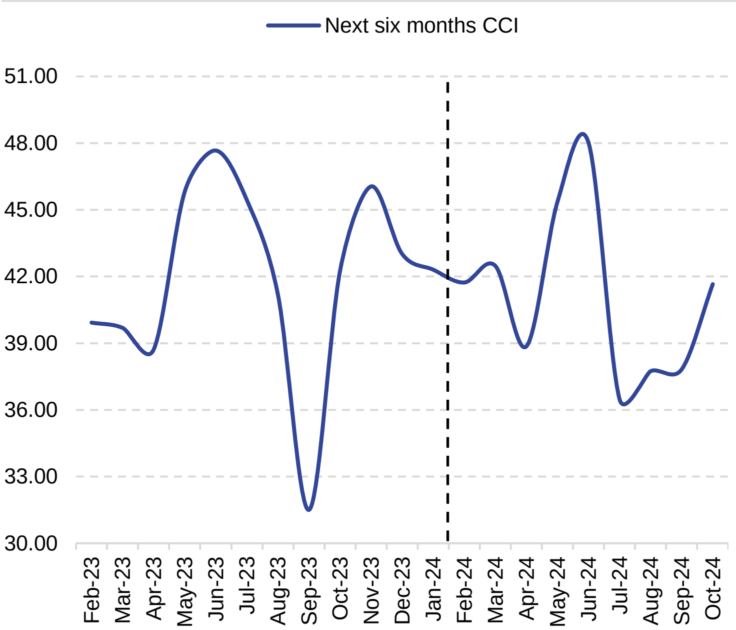

Source (s): PBS, SBP, AHL Research

**Figure:** SBP reserves and PKR/USD



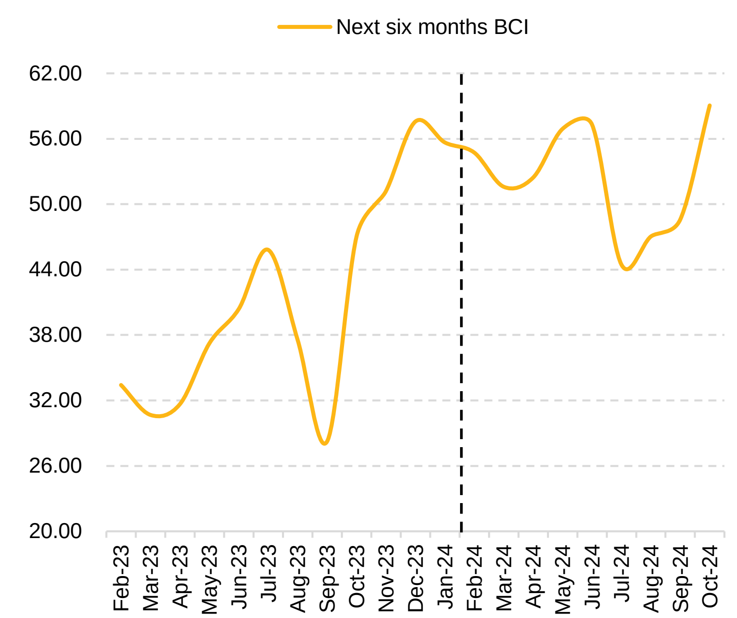

Source (s): SBP, AHL Research, *as of 1st Nov

**Figure:** Trend of consumer confidence index




Source (s): SBP, AHL Research

**Figure:** Trend of business confidence index




Source (s): SBP, AHL Research

# Economy

From challenges to changes

# Economic Outlook

**Aiming for fiscal consolidation**

- Focus on fiscal consolidation
- Fiscal deficit could potentially decrease to 4.9% of GDP in FY25e.
- Gov't's fiscal plan includes revenue-enhancing and expenditure-controlling measures.

**Structural reforms - Strategic necessities**

- Pakistan plans to privatize 24 state-owned enterprises from 2024 to 2029 to alleviate fiscal burdens.
- All SOEs are to be integrated into a new legal framework by Jun'25, and the Sovereign Wealth Fund Act will be revised by Dec'24.

**Trade dynamics and deficit**

- CAD for FY25e: USD 1.0bn (-0.3% of GDP).
- Trade deficit for FY25 expected around USD 30bn, driven by a 10% YoY increase in imports and a 3% growth in exports.
- Remittances FY25e: +15% YoY to USD 34.7bn

**Revitalizing Pakistan's economy with IMF support**

- Pakistan has secured an EFF facility from the IMF, valued at USD 7bn.
- For FY25, the financing plan includes USD 16.4bn in rollovers.
- Pakistan eyeing another short-term IMF facility of USD 1bn under RSF.

**Stable PKR- The impact of strengthened reserves**

- SBP is expected to end FY25 with reserves around USD 13.0bn.
- With strengthened reserves, supported by the IMF program and the removal of multiple currency practices; we expect PKR/USD will be around 280 by Dec'24 and 288.4 by Jun'25.

**Further rate cuts loom as inflation eases**

- Inflation average of 7.5% expected in FY25.
- Combined efforts of stringent monetary and fiscal measures have led to a sustained reduction in inflationary pressures.
- Substantial further cuts are anticipated by the

**Emerging signs of modest growth**

- GDPg in FY25 is projected at 2.4%.
- Growth rebound to 4.7% in FY26 expected.
- Agri- sector est. to grow at 0.4% in FY25.
- Industry is expected to grow by 2.6%.
- Services are projected to grow by 3.2%.

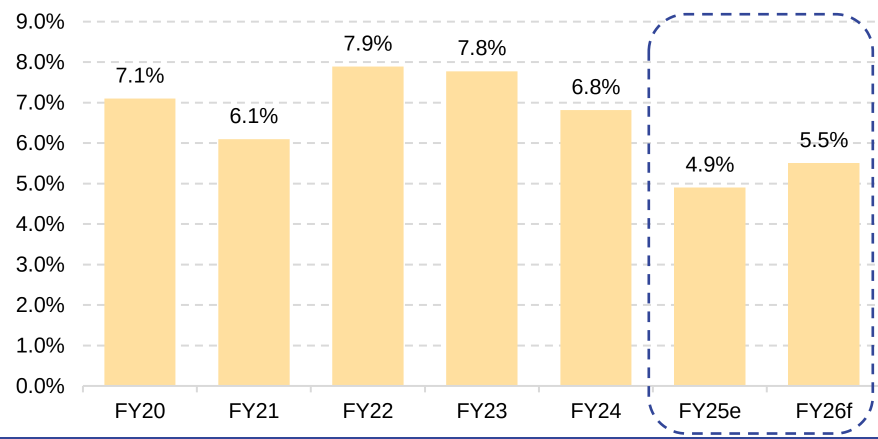
# Aiming for fiscal consolidation

- Focus on fiscal consolidation
- If reforms are effectively implemented, the deficit could potentially decrease to 4.9% of GDP in FY25e.
- Gov't's fiscal plan includes revenue-enhancing and expenditure-controlling measures.

Pakistan is charting a bold course towards fiscal resilience in FY25, with the IMF spotlighting a leaner, more disciplined approach to economic management. Last year's historic primary surplus of PKR 953bn (0.9% of GDP) set the tone, and the government now targets a robust 2% surplus, reaffirming its commitment to fiscal stability. This quarter marks Pakistan's first budget surplus since 2QFY04, powered by an extraordinary PKR 2.5trn profit from the SBP and resulting in a record-high primary surplus of PKR 3trn. In line with IMF recommendations, Pakistan seems to be focused on curbing high expenditure on pensions, infrastructure, and subsidies to reduce debt and sustain deficit control. With a projected deficit of 5.9% (our expectation is 4.9%) of GDP this year, down from 6.8% in FY24, the country's fiscal roadmap reflects a clear commitment to reform.

**Path to consolidation:** The fiscal outlook for Pakistan in FY25e reflects an ambitious, yet achievable, path toward fiscal consolidation, building on the progress made in FY24. For FY25b, the government has laid out a fiscal adjustment plan aimed at reducing the overall fiscal deficit from 6.8% of GDP in FY24 to 5.9% (our expectation is 4.9%). This plan includes both revenue-enhancing and expenditure-controlling measures. The government projects gross revenue at 14.3% of GDP and total spending at 15.2% of GDP. While these targets are ambitious, there is potential for the deficit to be reduced even further, potentially down to 4.9% of GDP (we view), if reforms are successfully implemented. Key to achieving this will be the government's commitment to improving tax collection through direct and indirect taxes, including bringing the retail, export, and agricultural sectors fully into the tax net and curtailing markup expense.

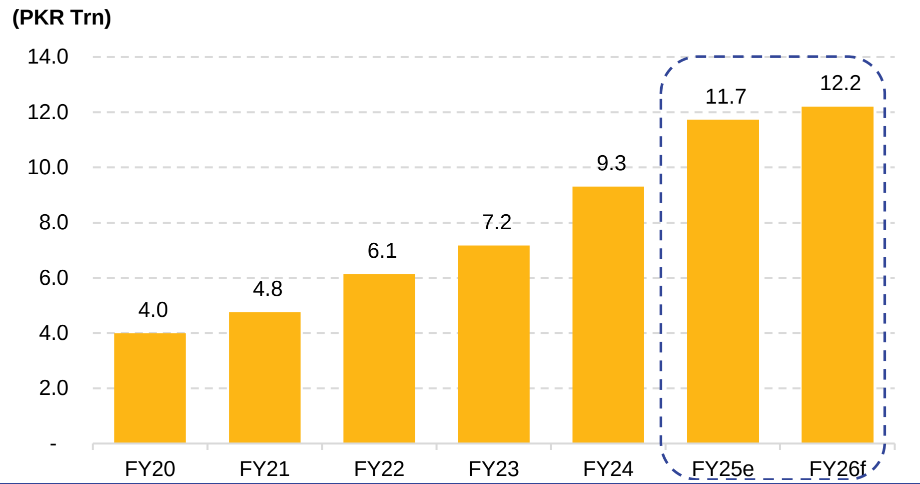
**Figure:** Fiscal Deficit (% of GDP)




Source (s): MoF, AHL Research

**Revenue assumption remains aggressive:** On the revenue front, the FBR target of PKR 12.9trn set for FY25 faces significant challenges as economic conditions and tax collection trends reveal potential shortfalls. With roughly 40% of FBR's revenue historically dependent on import taxes, the high tariffs and restrictions on non-essential imports, combined with PKR stability, mean customs duties and import sales tax collections may struggle to meet their targets. Although the FBR projects additional revenue from GDP and LSM growth, inflation, and recent tax measures, the first four months already missed its target by ~ PKR 190bn. Achieving FY25's 40% YoY revenue growth increase will hinge on robust enforcement and favorable economic shifts. Moreover, the authorities aim to generate significant non-tax revenue, with the SBP alone contributing PKR 2.5trn in profits. This revenue boost, alongside targeted tax policy reforms, will be essential for meeting fiscal targets. As per the Budget FY25, personal and corporate income tax reforms are expected to yield PKR 357bn by incorporating exporters into the regular tax regime and simplifying individual tax brackets. Additionally, reforms in the sales tax system are projected to generate PKR 286bn by adjusting tax rates on various products. The expansion of Federal Excise Duty (FED) to cover property sales and other areas is forecasted to add PKR 413bn to the national coffers. Despite optimistic projections, we anticipate an overall shortfall in FBR collections for FY25, with total revenues likely to settle around PKR 11.7trn an estimated 9.6% below the ambitious PKR 12.97trn target.

**Figure:** FBR Tax Revenue

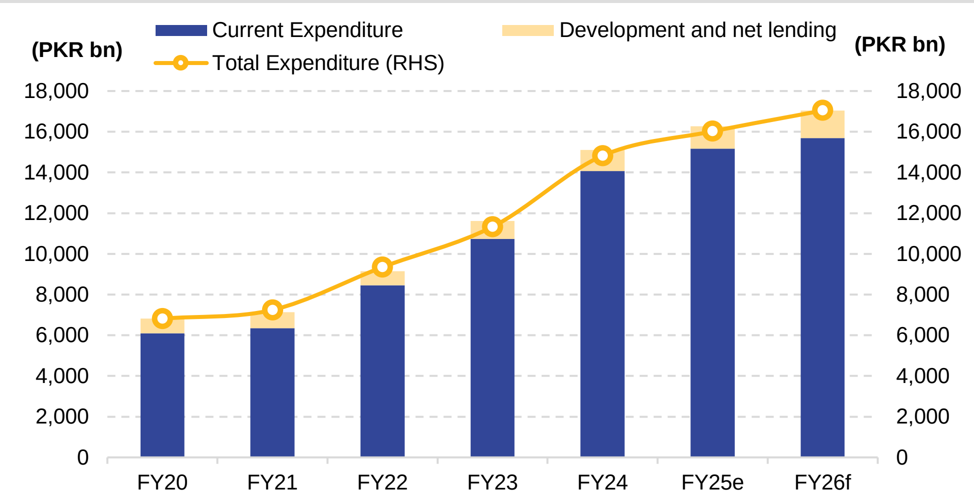



Source (s): MoF, FBR, AHL Research

**Lower current expenditure to provide respite:** While the revenue side of the fiscal equation is critical, managing expenditures remains a pressing challenge. Non-development expenditures continue to weigh heavily on the budget, largely due to soaring mark-up payments, which surged by 42% in FY24 and are projected to rise another 20% in FY25, reaching an anticipated PKR 9.8trn. However, substantial interest rate cuts could help ease debt-servicing costs. The government's recent T-bill buyback program, funded by SBP profits, also aims to reduce debt levels. We estimate that these measures could bring debt servicing down to approximately PKR 7.8trn 4.1% lower YoY than FY24's PKR 8.2trn and well below the budgeted PKR 9.8trn for FY25. Additionally, with a tighter grip on expenses, development spending may also fall short of the budgeted PKR 1.7trn, potentially landing closer to PKR 1trn by year-end.

- FBR's FY25 revenue target of PKR 12.9trn overambitious.
- Significant interest rate cuts may help reduce debt-servicing costs to PKR 7.8trn (Budgeted: PKR 9.8trn).
- Develop. exp likely to fall short of the PKR 1.7trn budgeted number.

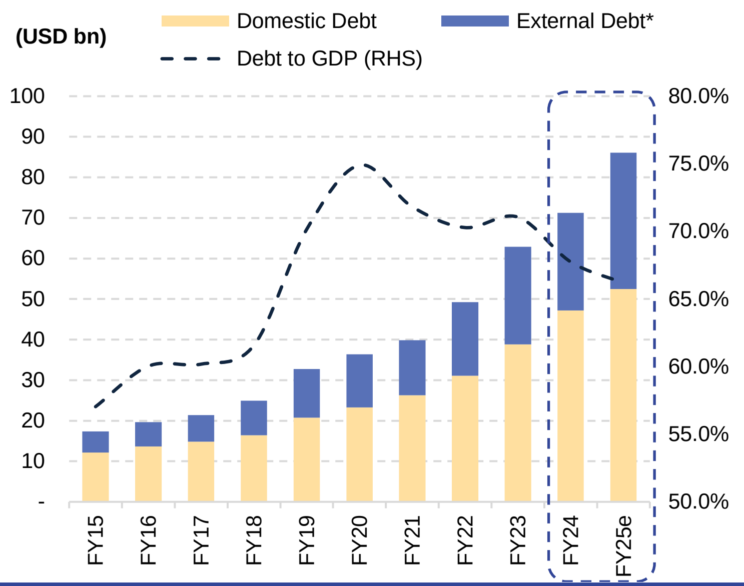
**Figure:** Breakdown of expenditure




Source (s): MoF, AHL Research

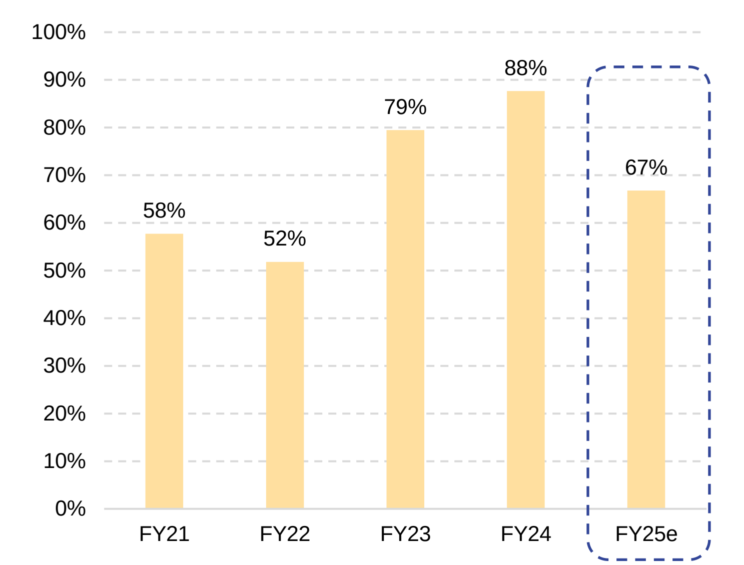
Looking beyond FY25, the government's broader fiscal strategy emphasizes the need for structural reforms to sustain fiscal health. This includes broadening the tax base, enhancing tax administration, combating evasion, and reducing corruption. Collaboration between federal and provincial governments is also crucial, with provinces expected to contribute to fiscal surpluses, targeting ~1% of GDP in FY25e. The EFF with the IMF aims for gradual fiscal consolidation, setting a long-term goal of achieving a primary surplus of 2% of GDP, supported by a 3% of GDP net revenue mobilization effort.

**Figure:** Total public debt (%)




Source (s): MOF, AHL Research, *including IMF

**Figure:** Markup expense as % of FBR revenue




Source (s): FBR, MOF, AHL Research

**Exhibit:** Pakistan Fiscal Operations

| PKR bn | FY23 | FY24 | FY25e | FY26f |
|---|---|---|---|---|
| Gross Revenue Receipts | 8,880 | 12,361 | 16,547 | 16,263 |
| FBR Taxes | 7,169 | 9,311 | 11,719 | 12,205 |
| Non-Tax Revenue | 1,711 | 3,050 | 4,828 | 4,057 |
| **Less: Provincial Share** | **4,223** | **5,264** | **6,876** | **7,079** |
| **Net Revenue Receipts** | **4,656** | **7,098** | **9,671** | **9,184** |
| Total Expenditure | 11,332 | 14,823 | 16,018 | 17,043 |
| Current Expenditure | 10,732 | 14,073 | 15,167 | 15,690 |
| Mark-up Payments | 5,696 | 8,160 | 7,825 | 7,981 |
| Defence | 1,586 | 1,859 | 2,122 | 2,228 |
| Grants | 1,070 | 1,395 | 1,777 | 1,866 |
| Subsidies | 1,080 | 1,067 | 1,363 | 1,431 |
| Pension | 666 | 808 | 1,115 | 1,171 |
| Running of Civil Govt and Others | 634 | 784 | 965 | 1,013 |
| Federal PSDP | 743 | 732 | 1,000 | 1,050 |
| **Federal Budget Balance** | **(6,676)** | **(7,725)** | **(6,348)** | **(7,859)** |
| Provincial Surplus | 155 | 518 | 655 | 650 |
| **Overall Budget Balance** | **(6,521)** | **(7,207)** | **(5,693)** | **(7,209)** |
| **Primary Balance** | **(826)** | **953** | **2,132** | **772** |

Source (s): MoF, AHL Research

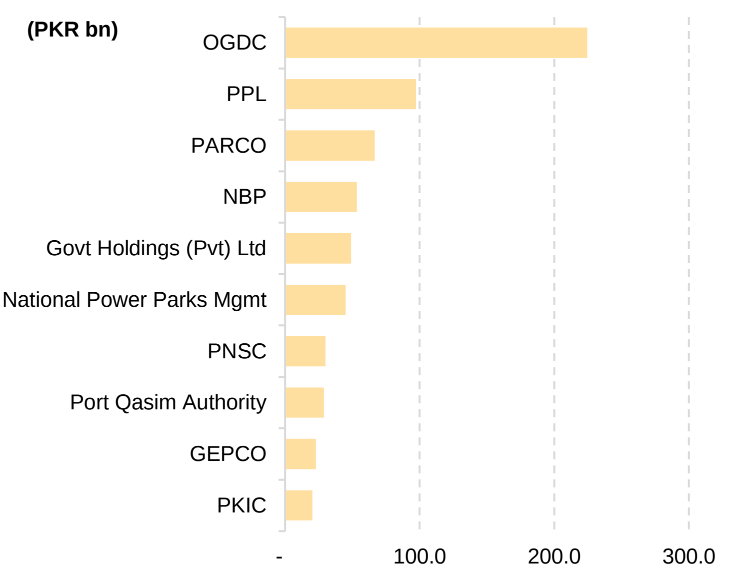
## Structural reforms - Strategic necessities

Pakistan is on the verge of a transformative shift as it embarks on an ambitious privatization agenda aimed at alleviating the long-standing fiscal burden of inefficient and loss-making SOEs. With the decision by the Cabinet Committee on Privatization (CCOP) to approve the sale of 24 public sector entities, the government has made clear its intent to streamline its role in the economy over the next five years, covering 2024-2029. This initiative signifies a major policy shift, with even profitable SOEs potentially being considered for privatization, underscoring the administration's commitment to structural economic reforms.

- Pakistan plans to privatize 24 state-owned enterprises from 2024 to 2029 to alleviate fiscal burdens.
- All SOEs are to be integrated into a new legal framework by Jun'25, and the Sovereign Wealth Fund Act will be revised by Dec'24.

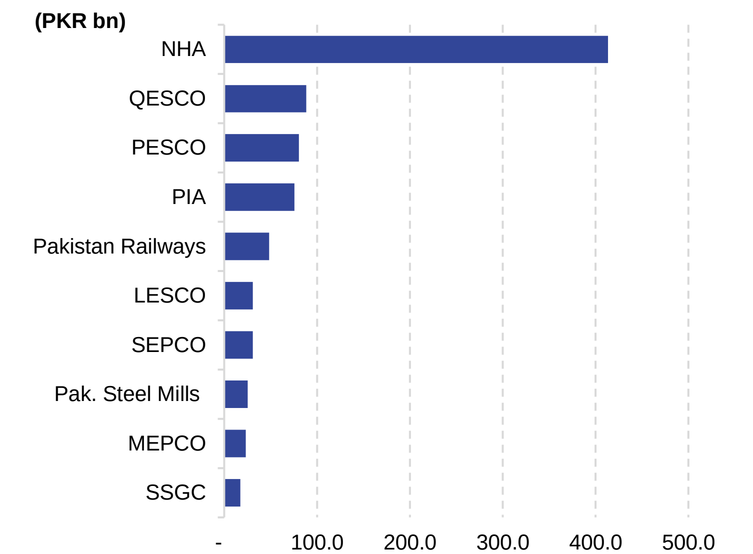
**Economic revitalization via privatization**: The need for privatization has never been more critical. Historically, SOEs have been a substantial drain on Pakistan's public finances, contributing to chronic budget deficits and stifling economic growth. In FY23 alone, 23 of these entities collectively posted a staggering loss of PKR 905bn, while the country's top 15 profit-making SOEs only managed to generate a profit of PKR 687bn. The inefficiencies within these enterprises have diverted much-needed resources away from essential sectors such as healthcare, education, and infrastructure, underscoring the necessity of privatizing these assets to improve fiscal stability.

**Figure:** Top 10 profit making entities




Source (s): MOF, AHL Research

**Figure:** Top 10 loss making entities




Source (s): MOF, AHL Research

**Beyond privatization- Comprehensive SOE reforms:** Privatization is only one component of a broader structural reform agenda. As part of its commitments to the IMF, Pakistan is also pursuing comprehensive reforms in governance and legal frameworks governing SOEs. The recently adopted SOE Act, along with the establishment of a Central Monitoring Unit (CMU) in 2023, represents key milestones in this process. These reforms aim to modernize the management and oversight of SOEs, ensuring that only those with significant strategic, social, or security importance remain under state control. All others will either be privatized or restructured to improve efficiency and reduce their drain on public resources.

Further reforms are in the pipeline, with plans to bring all SOEs under the new legal framework by Jun'25 and to revise the Sovereign Wealth Fund Act by Dec'24. These legal adjustments will be complemented by efforts to improve the governance structures of key statutory SOEs and to implement the SOE triage plan, which will help classify enterprises based on their strategic importance and financial viability. Additionally, with support from the Asian Development Bank (ADB), privatization and restructuring plans are being refined to ensure a smooth transition for the selected enterprises.

Beyond SOE reform, the government is also focused on enhancing transparency and governance across the public sector. Anti-corruption initiatives are being strengthened, with a Governance and Corruption Diagnostic Assessment report set to be published by July 2025. Moreover, asset declarations of high-level public officials are expected to be publicly accessible by Feb'25, with appropriate safeguards for personal data. These measures are expected to reduce corruption, enhance public trust, and create a more transparent business environment. On the trade front, as per the latest IMF report, the authorities are working to further liberalize trade policies by reducing tariffs and simplifying import/export documentation. These reforms are part of the National Tariff Policy (2025-2029) and are aimed at boosting competitiveness, facilitating private sector growth, and promoting export-led economic development.

**Exhibit:** Pakistan - Structural Conditionality

| Some of the key structural benchmarks | Rationale | Status |
|---|---|---|
| **Fiscal** | | |
| Do not grant tax amnesties, and do not issue any new preferential tax treatment | Protect tax revenue | Continuous |
| Seek ex-ante parliamentary approval for any expenditures that are non-budgeted or that exceed the budgetary appropriation. | Improved parliamentary oversight of budget execution | Continuous |
| Approve a National Fiscal Pact devolving some spending functions to the provinces. | Address the mismatch of federal and provincial revenues and expenditures | Sep'24 end |
| Share with the IMF staff a report detailing actions to reduce the federal government's footprint. | Reduce the footprint of the state | Sep'24 end |
| Each province amends their Agriculture Income Tax legislation and regime so that taxation can commence from January 1, 2025. | Protect tax revenue | Oct'24 end |
| Fully implement compliance risk management measures in Large Taxpayer Units | Improve tax compliance | Dec'24 end |
| Introduce a 5 percent FED on fertilizer and pesticide. | Protect tax revenue | Jun'25 end |
| **Monetary and Financials** | | |
| Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period. | Maintain FX market functioning | Continuous |
| Parliamentary approval of amendments to the bank resolution and deposit insurance legislation | Strengthen crisis management toolkit | Oct'24 end |
| Place undercapitalized private banks under resolution unless (i) these banks are fully recapitalized by end-October 2024; or (ii) a legally binding agreement is in place by end-October 2024 towards a merger with other banks or with a new sponsor that would achieve full recapitalization by April 2025. | Enforce regulatory standards | Nov'24 end |
| Implement revised regulations on risk mitigating measures. | Improve safeguards in monetary policy operations | Sep'25 end |
| **Energy Sector** | | |
| Complete all policy actions needed to prepare two DISCOs for privatization and concession transactions. | Improve DISCO management and efficiency | Jan'25 end |
| Eliminate captive power usage in the gas sector. | Push captive gas users on to the electricity grid and channel gas to the most efficient generators | Jan'25 end |
| Public notification by the government of the December 2024 semiannual gas tariff adjustment determination. | Maintain tariffs at cost recovery levels | Feb'25 end |
| **State-Owned Enterprises and Investment Policy** | | |
| Amend the SWF Act and other legislation, in consultation with Fund staff and in line with MEFP | Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023 and strengthen SWF governance and accountability. | Dec'24 end |
| Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP. | Improve SOE governance by bringing all SOEs into line with the SOE legal framework approved in 2023 | Jun'25 end |
| Prepare a plan based on the assessment conducted to fully phase out all current Special Economic Zone incentives by 2035. | Improve efficiency and provide a level playing field for investment | Jun'25 end |

Source (s): IMF, AHL Research

## Trade dynamics and deficits

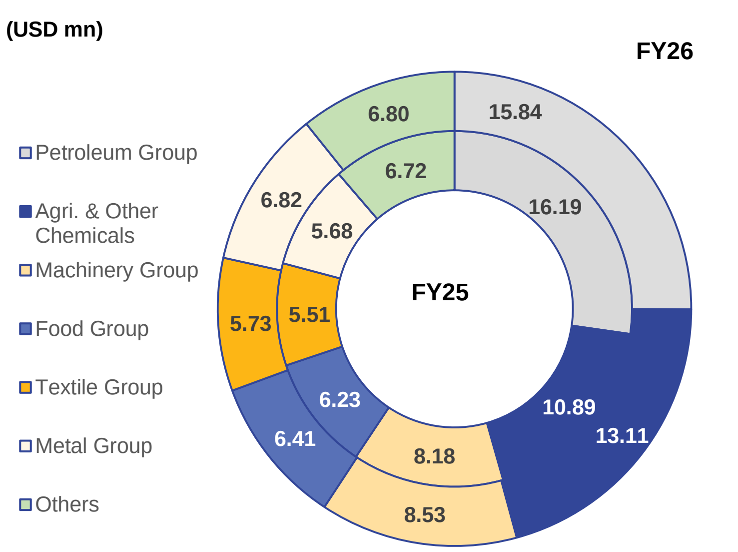
Pakistan's external account in FY24 saw encouraging shifts, driven by stabilization efforts that curbed long-standing imbalances. FY24 witnessed a significant reduction in the current account deficit, which shrank to USD 1.7bn from USD 3.3bn in FY23. Looking ahead to FY25, we expect the current account deficit to remain manageable, projected at USD 1.0bn, which translates to -0.3% of GDP. This marks a continued commitment to economic stabilization, building on the modest performance of FY24, where the deficit was confined to a mere 0.5% of GDP.

- CAD for FY25e: USD 1.0bn (-0.3% of GDP).
- Trade deficit for FY25 expected around USD 30bn, driven by a 10% YoY increase in imports and a 3% growth in exports.
- Remittances FY25e: +15% YoY to USD 34.7bn

Turning to trade dynamics, we project a trade deficit of USD 30bn for FY25e, reflecting an increase from the previous fiscal year. This reflects an increase from the previous fiscal year, driven by a robust 10% YoY rise in imports, while exports are expected to grow at a more conservative 3%. Despite the challenges posed by the global economic climate, the government's strategic initiatives aimed at enhancing export-oriented sectors, along with declining oil prices, offer a glimmer of hope for improving the trade balance.

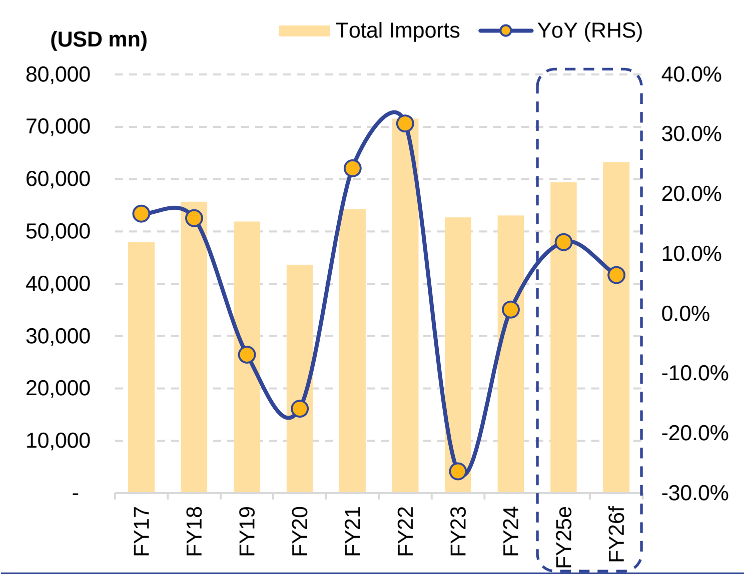
**Vigilance remains concerning non-essential imports:** In recent years, managing imports has become a critical focus for Pakistani authorities. Initially, strict restrictions were implemented to curb imports in response to economic pressures, but these measures have since been relaxed, leading to a more flexible import regime. While formal restrictions on imports have been lifted, vigilance remains concerning non-essential items. This cautious stance is influenced by the current reserve position of USD 11.2bn and the imperative to navigate upcoming debt repayments throughout FY25. The import sector is poised for significant growth in key areas, we believe. As per our estimates, petroleum products are projected to see a 7% YoY increase (with an assumption of 5% rise in volume), machinery is expected to grow by 11% YoY, and textiles are set to soar by an impressive 42% YoY, primarily driven by a surge in cotton imports.

**Figure:** Breakdown of imports




Source (s): AHL Research

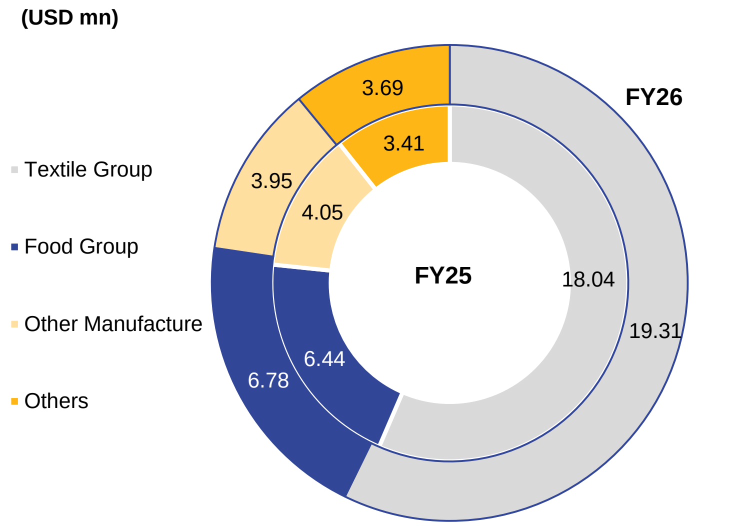
**Figure:** Historical trend of imports




Source (s): SBP, AHL Research

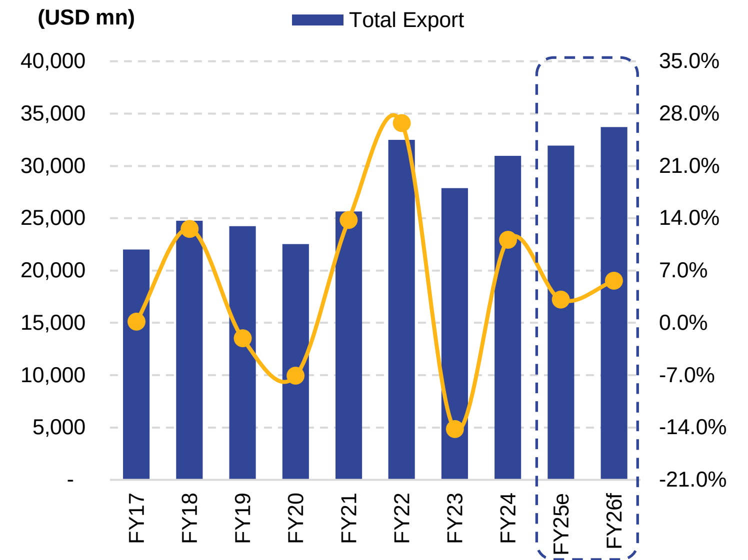
**Seizing the export opportunities:** On the export front, optimism surrounds an 11% boost in textile exports, partly fueled by a shift of orders from Bangladesh amid its internal challenges. However, agricultural exports may experience a decline of ~9%, attributed to reduced wheat production and intensified competition from India in the rice export market. Encouragingly, Pakistan's IT sector is experiencing remarkable growth. In the first quarter of FY25, total IT exports reached USD 877mn, marking a remarkable 34% YoY increase. This highlights the substantial potential for service exports to positively impact the trade balance. As the government navigates these evolving dynamics, focusing on enhancing service exports and diversifying the overall export landscape will be essential for fostering economic resilience and maintaining a balanced trade outlook.

**Figure:** Breakdown of exports




Source (s): AHL Research

**Figure:** Historical trends of exports




Source (s): SBP, AHL Research

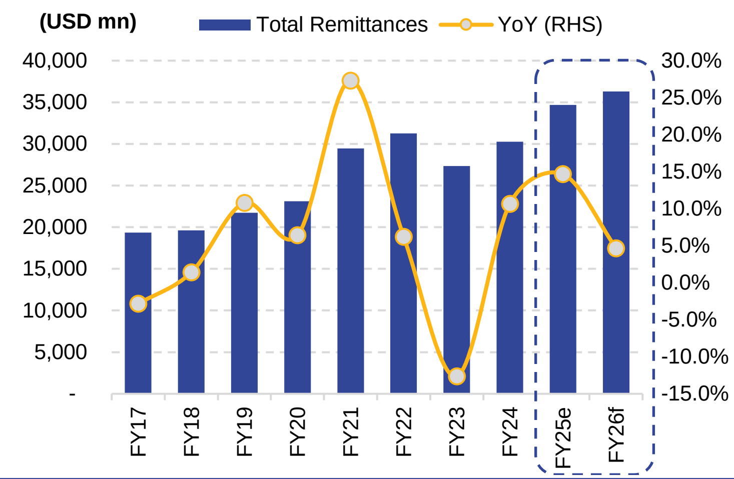
**Remittances on a strong upward trajectory:** Remittances, a crucial pillar of Pakistan's external account, have shown a commendable increase of 11% YoY in FY24, buoyed by improving macroeconomic conditions and the stability of the PKR. This influx of remittances is expected to contribute significantly to the external account, with estimates suggesting a total of USD 34.7bn in FY25e. Moreover, as the backlog of dividend payments has been addressed and interest rates have begun to decline, we anticipate the primary deficit to normalize in FY25, which had surged by 56% YoY in FY24, further supporting the overall economic picture. Several key factors are contributing to the anticipated improvement in remittances for Pakistan. Firstly, the stability of the PKR against the US dollar is playing a crucial role. Additionally, the narrowing spread between interbank and open market exchange rates is making it more appealing for remittance senders to transfer funds through formal channels rather than informal ones. Finally, an increase in the number of Pakistani workers moving abroad is further bolstering remittance inflows.

**Exhibit:** Country wise remittances

| USD mn | FY23 | FY24 | FY25e | FY26f |
|---|---|---|---|---|
| Saudi Arabia | 6,533 | 7,424 | 8,591 | 9,021 |
| UAE | 4,656 | 5,535 | 7,037 | 7,389 |
| Other GCC Country | 3,198 | 3,180 | 3,603 | 3,783 |
| UK | 4,073 | 4,522 | 5,353 | 5,621 |
| USA | 3,168 | 3,531 | 3,509 | 3,684 |
| EU Countries | 3,134 | 3,531 | 3,973 | 4,172 |
| Australia | 593 | 644 | 726 | 763 |
| Canada | 552 | 505 | 560 | 588 |
| Norway | 111 | 107 | 113 | 119 |
| Japan | 75 | 52 | 59 | 62 |
| Switzerland | 44 | 46 | 49 | 52 |
| Others Countries | 1,196 | 1,174 | 1,114 | 1,055 |
| **Total** | **27,333** | **30,251** | **34,688** | **36,308** |

Source (s): SBP, AHL Research

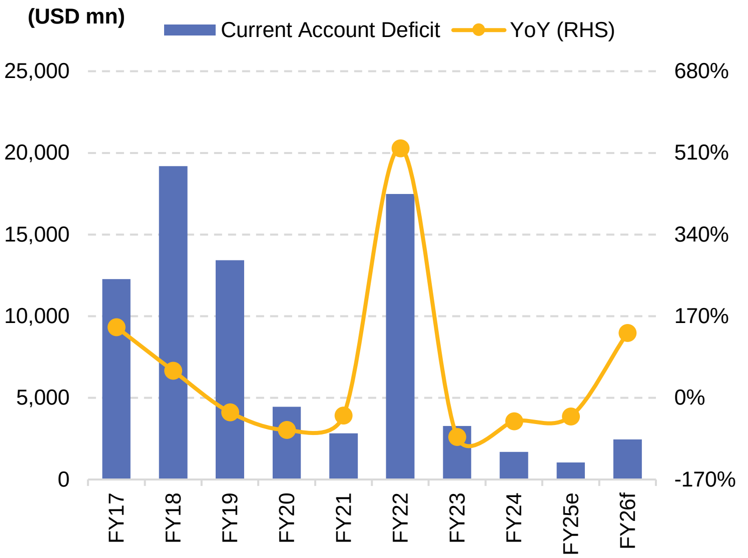
**Figure:** Historical trend of total remittances




Source (s): SBP, AHL Research

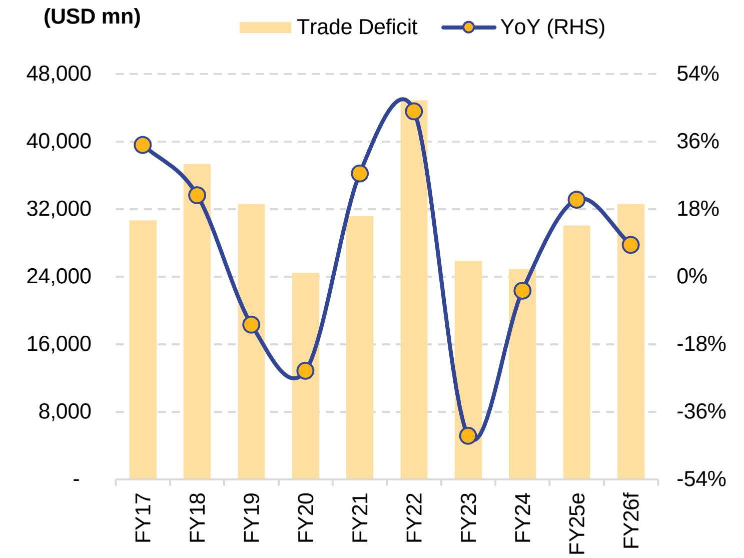
**Foreign investment surges with improving confidence:** Talking about foreign investment, Pakistan is taking proactive steps to attract and retain capital through the SIFC. This initiative is designed to create a more investor-friendly climate, with a particular focus on engaging key regional players such as Gulf countries, Turkey, and China. Particularly, the UAE recently committed to investing USD 10bn across major sectors, while Saudi Arabia is expediting an initial USD 5bn investment, primarily targeting the minerals sector, including the Reko Diq. These commitments highlight a growing interest in Pakistan's economic potential, but the actual execution of these investments will be critical in determining their impact on foreign investment flows. In addition, net foreign direct investment reached USD 2.0bn in 9MCY24, marking the highest level since 9MCY08. The substantial increase in FDI is driven by Chinese investment, which accounts for 30% with a contribution of USD 686mn, followed by Hong Kong with a share of USD 19mn. The major sector for FDI is Power, attracting USD 677mn, followed by Financial Business and E&P’s, with net FDI of USD 564mn and USD 451mn, respectively.

**Figure:** Historical trend of current account deficit




Source (s): SBP, AHL Research

**Figure:** Historical trend of trade balance




Source (s): SBP, AHL Research

**Exhibit:** Current Account Balance

| USD mn | FY23 | FY24 | FY25e | FY26f |
|---|---|---|---|---|
| **Current Account Balance** | **(3,275)** | **(1,695)** | **(1,044)** | **(2,459)** |
| ***% of GDP*** | ***-1.0%*** | ***-0.5%*** | ***-0.3%*** | ***-0.6%*** |
| Exports of Goods | 27,876 | 30,967 | 31,932 | 33,725 |
| Imports of Goods | 52,695 | 53,056 | 59,422 | 63,251 |
| Balance on Trade in Goods | (24,819) | (22,089) | (27,490) | (29,525) |
| Exports of Services | 7,596 | 7,870 | 8,244 | 8,708 |
| Imports of Services | 8,638 | 10,692 | 10,790 | 11,770 |
| Balance on Trade in Services | (1,042) | (2,822) | (2,546) | (3,062) |
| Balance on Trade in Goods and Services | (25,861) | (24,911) | (30,036) | (32,588) |
| Balance on Primary Income | (5,765) | (8,996) | (8,116) | (8,700) |
| Balance on Secondary Income | 28,351 | 32,212 | 37,108 | 38,828 |
| Workers' Remittances | 27,333 | 30,251 | 34,690 | 36,308 |

Source (s): SBP, AHL Research

## Revitalizing Pakistan's economy with IMF support

Pakistan has successfully signed a crucial agreement with the IMF for a 37-month Extended Fund Facility valued at ~USD 7bn. This arrangement follows the completion of a USD 3bn Stand-By Arrangement (SBA) and arises from a challenging economic environment where securing such financing was not merely an option but a vital necessity. The program is fully financed, featuring firm commitments for the first 12 months, with promising prospects thereafter.

- Pakistan has secured an EFF facility from the IMF, valued at USD 7bn.
- For FY25, the financing plan includes USD 16.4bn in rollovers.
- Pakistan eyeing another short-term IMF facility of USD 1bn under RSF.

**Bridging funding gap:** For FY25, financing includes about USD 16.8bn in rollovers of existing short-term financing and an additional USD 2.5bn in commitments from key partners, such as China, Saudi Arabia, ADB, and the Islamic Development Bank (IsDB). Additionally, authorities have received firm commitments from essential bilateral partners to maintain their existing exposures throughout the program, ensuring continued rollover of existing short-term liabilities, which will help meet financing needs during the remaining program period. Loans from foreign commercial banks totaling USD 6.6bn, renewed during the previous EFF and SBA, are also expected to continue during this new program. Together with commitments from multilateral institutions, these arrangements provide necessary financing assurances.

**Exhibit:** History of Lending Commitments

| Date of Arrangement | Expiration Date | Amount Agreed SDR mn | Amount Drawn SDR mn |
|---|---|---|---|
| **Standby Arrangement** | | | |
| Dec-58 | Sep-59 | 25 | 0 |
| Mar-65 | Mar-66 | 38 | 38 |
| Oct-68 | Oct-69 | 75 | 75 |
| May-72 | May-73 | 100 | 84 |
| Aug-73 | Aug-74 | 75 | 75 |
| Nov-74 | Nov-75 | 75 | 75 |
| Mar-77 | Mar-78 | 80 | 80 |
| Dec-88 | Nov-90 | 273 | 194 |
| Sep-93 | Feb-94 | 265 | 88 |
| Dec-95 | Sep-97 | 563 | 295 |
| Nov-00 | Sep-24 | 465 | 465 |
| Nov-24 | Sep-24 | 7,236 | 4,936 |
| Jul-24 | Apr-24 | 2,250 | 2,250 |
| **Extended Fund Facility** | | | |
| Nov-80 | 1-Dec | 1,268 | 349 |
| Dec-81 | Nov-83 | 919 | 730 |
| Oct-97 | Oct-00 | 455 | 114 |
| Sep-13 | Sep-16 | 4,393 | 4,393 |
| Jul-19 | Jun-23 | 4,988 | 2,144 |
| Sep-24 | Oct-24 | 5,320 | 760 |
| Feb-94 | Dec-95 | 379 | 123 |
| Oct-97 | Oct-00 | 682 | 265 |
| Feb-94 | Dec-95 | 607 | 172 |
| Dec-24 | | 1,034 | 861 |
| **Structural Adjustment Facility Commitment** | | | |
| Dec-88 | Dec-91 | 382 | 382 |
| **Total** | | **31,947** | **18,948** |

Source (s): IMF, AHL Research

**Implementation of comprehensive reforms:** Under the EFF program, Pakistan is set to implement comprehensive reforms aimed at tackling persistent structural issues that have long impeded economic growth. These reforms include enhancing fiscal and monetary policies, broadening the tax base, and improving the management of SOEs. To secure the agreement, the government committed to implementing crucial reforms across various sectors, including energy, taxation, and fiscal management. These reforms are not only essential for immediate stabilization but also for steering the country toward long-term structural improvements that foster sustainable economic growth.

Recent media reports indicate that Pakistan has formally requested ~USD 1bnn from the IMF under the Resilience and Sustainability Facility (RSF), in addition to its ongoing EFF. The RSF, established in 2022, is designed to provide long-term concessional financing to help low and middle-income countries address climate-related risks. This funding will support essential climate-related initiatives, including adaptation measures and the transition to cleaner energy sources. To highlight, in our report titled *Pakistan's Path to Enhanced IMF Support*, published on March 16, 2024, we emphasized the potential for Pakistan to engage in an Extended Fund Facility complemented by the newly established Resilience and Sustainability Facility.

- EFF program requires reforms to address structural challenges, emphasizing improvements in economic policies, expanding the tax base, and enhancing the management of SOEs.
- Pakistan has formally requested ~ USD 1bn from the IMF under RST.

**Taking cues from the recent IMF's program for Bangladesh:** Amid discussions for a more extensive IMF program, Pakistan can draw insights from Bangladesh's recent program, which featured a larger quantum of assistance a direction Pakistan also requires. Bangladesh secured significant financial support, including SDR 2.5bn (~USD 3.3bn) under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. Furthermore, the IMF also approved SDR 1bn (~USD 1.4bn) under the newly established RSF. Bangladesh's successful access to the RSF positions it as the first Asian country to do so, prompting speculation that Pakistan may seek similar financial instruments to address its economic challenges. The IMF-supported program under the ECF/EFF arrangements will help preserve macroeconomic stability and prevent disruptive adjustments to protect the vulnerable, while laying the foundations for strong, inclusive, and environmentally sustainable growth. The concurrent RSF arrangement will supplement the resources made available under the ECF/EFF to expand the fiscal space to finance climate investment priorities identified in the authorities' plans, help catalyze additional financing, and build resilience against long-term climate risks.

According to the IMF's country report, Pakistan faces a gross financing requirement of USD 51bn for the fiscal years 2025 to 2027. Of this total, ~USD 10-11bn is rolled over annually, reflecting a consistent figure each year. The net repayable amount stands at around USD 8-9bn per year, with an estimated USD 4-5bn comprising payments to multilateral creditors. Positively, Pakistan receives roughly the same amount annually in inflows from these multilateral sources, indicating that the net repayable amount can be managed effectively, provided timely rollovers continue. However, rather than relying solely on annual rollovers, it would be more prudent for the government to seek loan reprofiling to distribute the debt burden over a more extended period, thereby easing fiscal pressures. Continued engagement with the IMF is crucial for Pakistan as it addresses these economic challenges. This relationship is vital for attracting inflows from other lenders, securing FDI, and reentering international capital markets.

**Exhibit:** Different IMF programs and Pakistan's engagements

| Facility | Purpose | Duration | Repayment | Conditionality |
|---|---|---|---|---|
| SBA | Respond to countries' external financing needs by supporting their adjustment policies with short-term financing. | Up to 3 years but usually 12-18 months | Due within 3¼-5 years of disbursement. | Ex-post, and ex-ante (prior actions) if needed |
| SCF | Support low-income countries (LICs) that have reached broadly sustainable macroeconomic positions. | 1 to 3 years | Grace period of four years and a final maturity of eight years. | |
| EFF | Provide assistance to countries experiencing serious payment imbalances. | Up to 4 years | Over 4½–10 years in 12 equal semiannual installments. | Ex-post, with focus on structural reforms. and ex-ante (prior actions) if needed |
| ECF | Assist eligible countries with a protracted balance of payments problem to implement economic programs that make significant progress toward a stable and sustainable macroeconomic position | 3 to 4 years, extendable to 5 years | Grace period of 5½ years, and a final maturity of 10 years. | |
| RFI | Provide rapid, low-access financial assistance to countries facing urgent balance of payments needs. | Outright purchase | Within 3¼ to 5 years | No reviews /ex-post conditionality, but ex-ante (prior actions) possible |
| RCF | Provide concessional, rapid, and low-access financial assistance to qualifying LICs facing an urgent balance of payments need. | Outright disbursement | Grace period of 5½ years, and a final maturity of 10 years | |
| FCL | Provide financial support to countries with very strong economic fundamentals and sustained policy track records to help them meet actual or potential balance of payments needs. | 1 or 2-year | Over a 3¼ to 5-year period | Ex-ante (qualification criteria) and annual reviews |
| SLL | Provide support to countries facing potential, moderate, short-term balance of payment needs related to capital account pressures | Approved for a period of 12 months with successor SLLs possible | 12 months | Ex-ante (qualification criteria) |
| PLL | Provide financial support to meet actual or potential balance of payments needs of countries with sound policies that may have some remaining vulnerabilities. | 6-month (liquidity window) or 1 or 2-year | Over a 3¼ to 5-year period | Ex-ante (qualification criteria) and ex-post |
| RSF | Provide longer-term financing to strengthen economic resilience and sustainability. | Minimum duration 18 months, cannot exceed the concurrent UCT-quality program | 20-year maturity and a 10½ -year grace period during which no principal is repaid. | Ex-post, concurrent IMF. Upper-Credit Tranche (UCT)-quality program required |
| SMP1 | The PCI is a non-financing upper-credit-tranche instrument designed to help countries demonstrate commitment to a reform agenda and unlock financing from other sources. | 6 to 18 months, longer durations not precluded | Not available | Ex-post, and ex-ante (prior actions) if needed |
| PCI | | 6 months to 4 years | | |

Source: IMF, AHL Research

## Stable PKR- The impact of strengthened reserves

- SBP is expected to end FY25 with reserves around USD 13bn.
- For FY25e, external debt repayments are projected at USD 26.1bn, with expectations to roll over USD 16.4bn, resulting in a net repayment of USD 5.7bn.

In a remarkable turnaround, the SBP's foreign exchange reserves have surged past the USD 11.2bn mark, marking a significant milestone amid ongoing economic challenges. The SBP's proactive measures during the consolidation phase played a crucial role in managing dollar outflows. By tightening import restrictions and overseeing the repatriation of profits from foreign investments, the central bank effectively stabilized the currency. In FY24, ~USD 12bn of these repayments were made, with an equivalent amount rolled over. As Pakistan sails through FY25, the outlook appears cautiously optimistic. External debt repayments are projected to total USD 26.1bn, with expectations of rolling over USD 16.4bn, leaving a manageable net repayment of USD 5.7bn.

Following the IMF disbursement, the country is well-positioned to attract inflows from multilateral and bilateral lenders. Initiatives to boost Foreign Direct Investment, enhance export performance, and eventually re-enter international capital markets are expected to bolster the external account further. With these strategic initiatives, the SBP is projected to close FY25 with reserves estimated at USD 13bn. The strengthening of reserves has played a vital role in stabilizing the PKR. A key catalyst for this recovery was the nine-month SBA with the IMF, which provided essential policy support and reinstated effective operations in the foreign exchange market. Additionally, the government's removal of multiple currency practices and lifting of restrictions on import advance payments have further contributed to stabilizing the PKR. The recovery of the PKR has been particularly noteworthy, rebounding from declines of 23% and 28% in FY22 and FY23, respectively, to a 4% appreciation against the USD in FY24. This impressive turnaround is a direct result of the increased foreign exchange reserves, which have instilled confidence in the currency market and attracted investor interest.

Moreover, the recent successful execution of the IMF EFF program has not only enhanced foreign exchange reserves but is likely to unlock additional funding and facilitate new borrowing and rollovers from international partners. The IMF program underscores the importance of maintaining a market-determined exchange rate as a fundamental strategy to rectify external imbalances and support the gradual buildup of reserves.

- Strengthened reserves have stabilized the PKR, supported by the IMF program and the removal of multiple currency practices.
- We expect PKR/USD will be around 280 by Dec'24 and 288.4 by Jun'25.

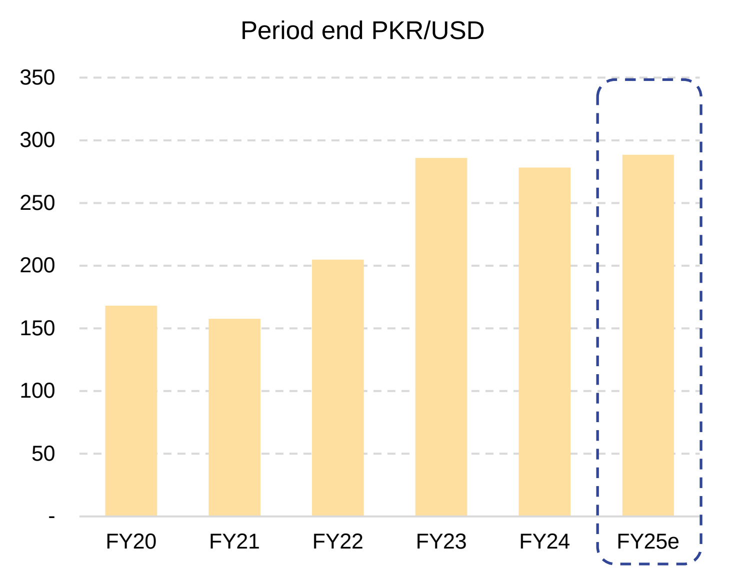
**Improved reserves to support parity:** Looking ahead, forecasts indicate that by Dec'24 and Jun'25, the PKR/USD exchange rates are likely to hover around 280 and 288.4, respectively. Rebuilding reserves is crucial to ensuring that gross reserves cover at least three months of imports, supported by disbursements from multilateral and bilateral loans, along with foreign exchange purchases. Should outflow pressures resurface, the SBP remains committed to allowing flexible exchange rate adjustments while refraining from intervening against a trend depreciation. The foreign exchange market has shown significant improvement, with the interbank-open market spread remaining negligible, enabling the SBP to make substantial foreign exchange purchases, effectively doubling its reserves. Our projections for SBP reserves for FY25 are as follows.

**Exhibit:** Expected inflows and outflows during FY25

| Inflows | USD bn | Outflows | USD bn |
|---|---|---|---|
| IMF | 2.02 | Repayments | 10.00 |
| KSA Rollover | 5.00 | CAD | 1.04 |
| UAE Rollover | 3.00 | KSA Rollover | 5.00 |
| China Rollover | 4.00 | UAE Rollover | 3.00 |
| China Swap | 4.00 | China Rollover | 4.00 |
| Multilateral | 5.50 | China Swap | 4.00 |
| FDI | 2.80 | | |
| Euro Bond/Sukuk | 1.50 | | |
| Commercial (New) | 3.00 | | |
| **Total Inflows** | **30.82** | **Total Outflows** | **27.04** |
| **SBP Reserves (Jun'24)** | **9.39** | | |
| **Expected SBP Reserves Position (Jun'25)** | | | **13.17** |

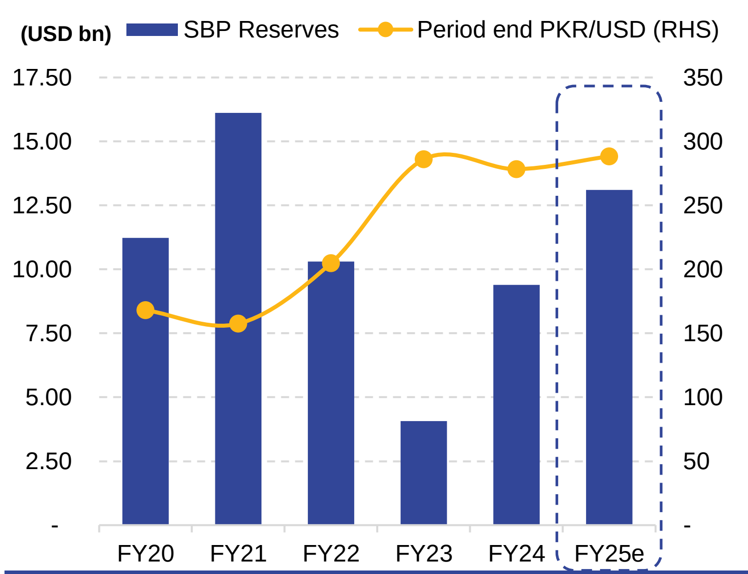
Source (s): SBP, AHL Research

**Figure:** Historical trend of PKR/USD




Source (s): SBP, AHL Research

**Figure:** Historical trend of SBP reserves and PKR parity




Source (s): SBP, AHL Research

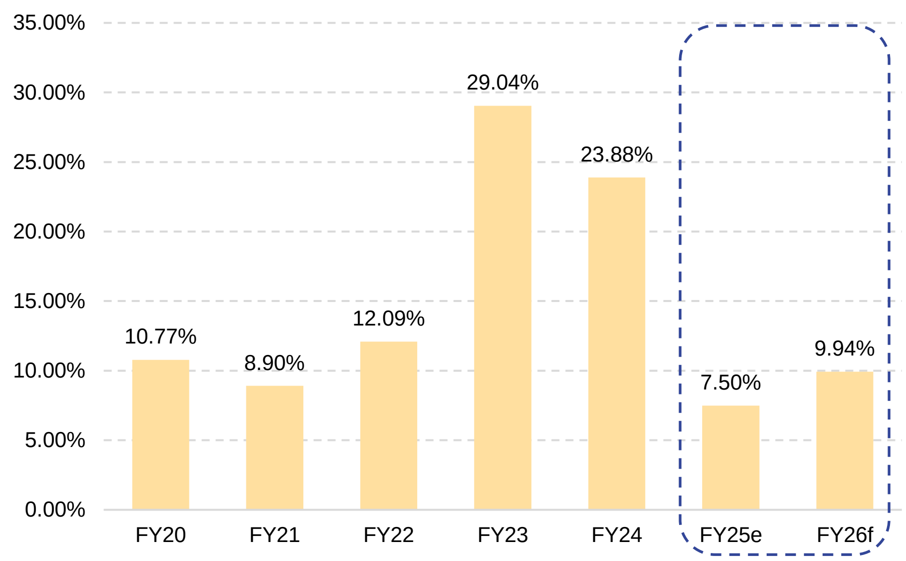
# Rate cuts loom as inflation eases

Pakistan's economy has witnessed a remarkable turnaround following a challenging period marked by peak inflation rates of 38% in May'23. By Oct'24, inflation has significantly eased to 7.2%, reflecting the effectiveness of stringent monetary and fiscal policies alongside stabilizing energy and food prices. The initial success in controlling inflation was largely influenced by base effects, as energy prices that had previously surged due to geopolitical tensions could not sustain their trajectory, resulting in a YoY moderation. Additionally, the sharp increases in food prices, initially exacerbated by shortages, have begun to stabilize. The combined impact of these factors, bolstered by tight monetary and fiscal policies, has led to a sustained decrease in inflationary pressures.

- Current estimates suggest inflation may decline further to an average of 7.5% in FY25.
- Combined efforts of stringent monetary and fiscal measures have led to a sustained reduction in inflationary pressures.

**Base effect verses real measures:** The initial success in curbing inflation was relatively straightforward, primarily attributable to base effects. The rapid escalation of energy prices, driven by geopolitical tensions, could not sustain its steep upward trajectory, leading to a moderation in year-over-year increases. Moreover, the sharp rise in food prices, initially exacerbated by shortages, has begun to stabilize. These developments, coupled with disciplined monetary and fiscal measures, have played a pivotal role in fostering a sustained reduction in inflationary pressures. The impact of higher interest rates is increasingly evident, as they systematically alleviate inflationary pressures on the headline CPI. The momentum of rising prices is diminishing, signaling that monetary tightening is gradually bringing inflation under control. Should this trend persist, the State Bank of Pakistan (SBP) is likely to approach its medium-term inflation target of 5-7% by Sep'25. Current forecasts suggest that inflation may further decline, averaging around 7.5% in FY25, representing a reduction from FY24's average of 23.4%.

**Figure:** Average National Consumer Price Index




Source (s): PBS, AHL Research

- Further cuts are anticipated by the end of FY25, potentially to 12%.
- Pakistan's real interest rate stands at ~ 780bps, with historical averages between 1.5% and 2%.

Following a prolonged period of stagflation characterized by low growth and high inflation, the economy is now poised to transition towards moderate growth and disinflation. Achieving sustainable growth is contingent upon enhancing both domestic and foreign investment and improving productivity. While discussions often prioritize foreign investment, it is essential to recognize the critical role of domestic investment. To foster domestic investment, lower interest rates are necessary, contingent upon a continued decline in inflation. Thus, maintaining prudent macroeconomic policies is essential for reducing both inflation and interest rates.

Nevertheless, several risks remain that could impede progress. A significant depreciation of the PKR against the USD could reignite inflationary pressures. Additionally, major upward revisions in gas and electricity tariffs may contribute to inflation. Furthermore, a widening demand-supply gap for food commodities exacerbated by rising demand and adverse weather conditions affecting crop yields could lead to persistent food inflation.

**Sales tax sensitivity analysis:** One of the proposals to bridge the tax collection gap is to implement a sales tax on petroleum products. In 4MFY25, the revenue shortfall has reached ~PKR 190bn. Since Jan'22, the government has been charging zero sales tax on these products. However, we have already factored in a 5% sales tax on petroleum products starting from Dec'24 in our base case. To provide more insight, we have run a sensitivity analysis on the potential increase in sales tax and its impact on both inflation and tax revenue. Please refer to the table.

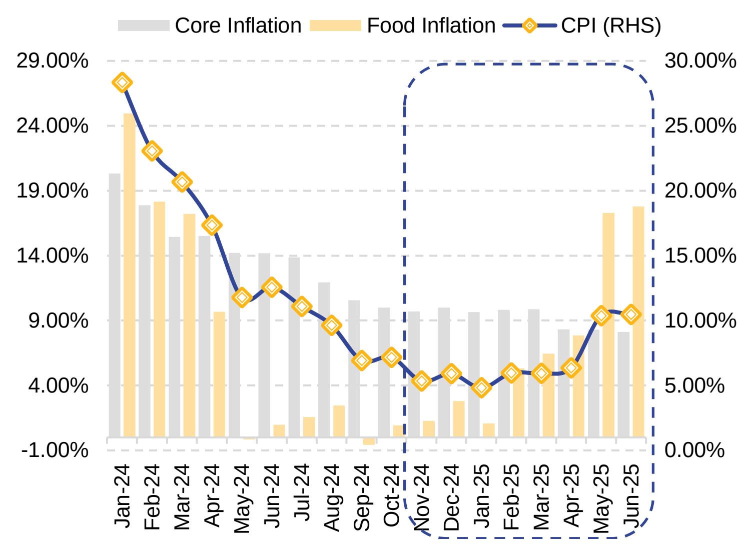
**Exhibit:** Sensitivity Analysis - Sales tax on POL

| | Sales tax | Tax Revenue (PKR bn) | FY25 Avg Inflation |
|---|---|---|---|
| Base Case | 5.0% | 130 | 7.50% |
| Case-1 | 10.0% | 260 | 7.67% |
| Case-2 | 15.0% | 391 | 7.84% |
| Case-3 | 18.0% | 469 | 7.95% |

Source (s): AHL Research

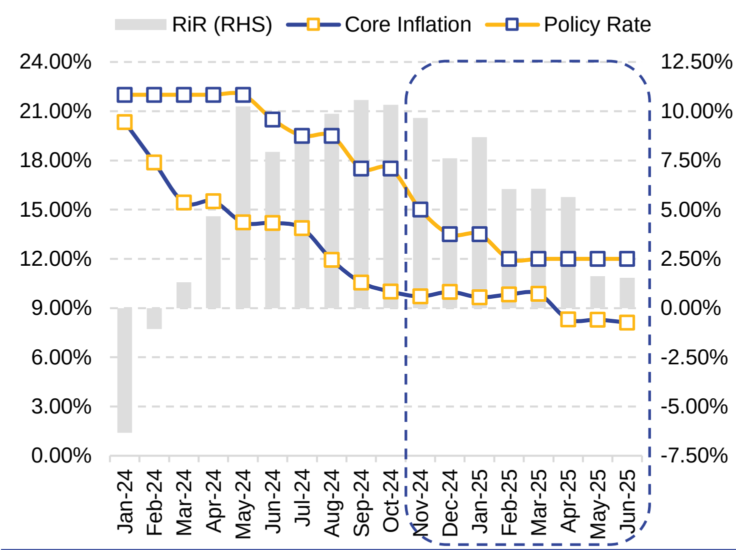
To support economic growth, the SBP implemented its first rate cut in June 2024, reducing the policy rate by 150bps, followed by a 100bps cut in July, 200bps in September, and a 250bps reduction in November, bringing the rate down to 15%. However, given that inflation projections suggest the base effect will end by the close of 1QCY25, we believe the SBP will adopt a more cautious stance going forward, likely reducing the policy rate to 12% by the end of FY25. Pakistan's real interest rate remains exceptionally high, reaching ~7.8% on a spot basis. Even on a forward 12-month basis, real interest rates hover around 694bps. Historically, Pakistan's average real interest rate has ranged between 1.5% and 2%, indicating substantial room for rate cuts to bring the real interest rate closer to historical norms.

**Figure:** Trend of National CPI and Core




Source (s): PBS, AHL Research

**Figure:** Real Interest Rates in Pakistan




Source (s): PBS, SBP, AHL Research

In its recent statement following the signing of the Staff-Level Agreement for the Extended Fund Facility program, the IMF underscored the need for monetary policy to prioritize disinflation in order to protect real incomes, particularly for vulnerable populations. Lowering the policy rate to 13.5% by Dec'24 and 12% by Jun'25 aligns with the IMF's guidance, as the current rate of 15% remains higher than what is needed for a disinflationary stance, we believe.

# Emerging signs of modest growth

Pakistan is on a positive trajectory of recovery, with FY24 showcasing a GDP growth rate of 2.5%. Looking ahead to FY25e, we expect growth to be around same level that is 2.4%. However, we expect potential for healthier growth in FY26f, which we anticipate could rebound to 4.7%. This modest growth in FY25e could have been higher had the agriculture sector not faced setbacks, primarily due to the low cultivation of important cash crops. While this figure remains below the long-term average of 3.5%, the potential for progress hinges on the government's ability to maintain a balanced and effective economic policy.

- FY25e GDPg is projected at 2.4%, slightly down due to agriculture sector setbacks.
- Growth rebound to 4.7% in FY26f expected.
- Future progress depends on effective government economic policies.

**Agriculture growth to remain subdued:** The robust 16.8% increase in major crops during FY24 has been a defining factor in Pakistan's economic growth narrative. However, as we look ahead to FY25e, the outlook appears less favorable, with a projected slight increase in output of 0.42%. In light of this, farmers are reassessing their sowing strategies for staple wheat, particularly after the Punjab government's failure to procure grain last season an issue of significant concern, given that Punjab contributes 70% of the nation's wheat production. Additionally, challenges such as water scarcity and rising temperatures have already begun to adversely affect cotton sowing and yields. The situation is further complicated by India's re-entry into the global rice export market, which poses a risk to Pakistan's multibillion-dollar rice exports.

**Industries and Services to support growth:** As the agriculture sector is projected to contract in FY25e, two vital sectors industry and services are expected to propel economic growth, with anticipated growth rates of 2.62% and 3.23%, respectively. In the first two months of FY25, large-scale manufacturing (LSM) has experienced a slight YoY decline of 0.19%, primarily driven by low demand and high cost of doing business. Moreover, this marks the first time in six months that cumulative LSM growth has turned negative, suggesting a slow and uneven recovery trajectory. This downturn occurs against the backdrop of a historically low base. However, there is cautious optimism on the horizon, as a reduction in interest rates and currency stabilization are projected to facilitate a rebound in LSM, which has encountered numerous obstacles in recent years. With positive trends emerging in food, textiles, and automobiles, these sectors are likely to be key contributors to the economy, alongside the export-oriented industries for FY25. Expectations are particularly high for growth in textiles and apparel, especially as orders shift from Bangladesh following recent turmoil there. The automobile sector is also poised for recovery, aided by the reversal of the interest rate cycle already in progress. Meanwhile, the food sector has remained robust with minimal fluctuations, and the performance of the sugar crop will be crucial in shaping sectoral growth in the on-going quarter of FY25.

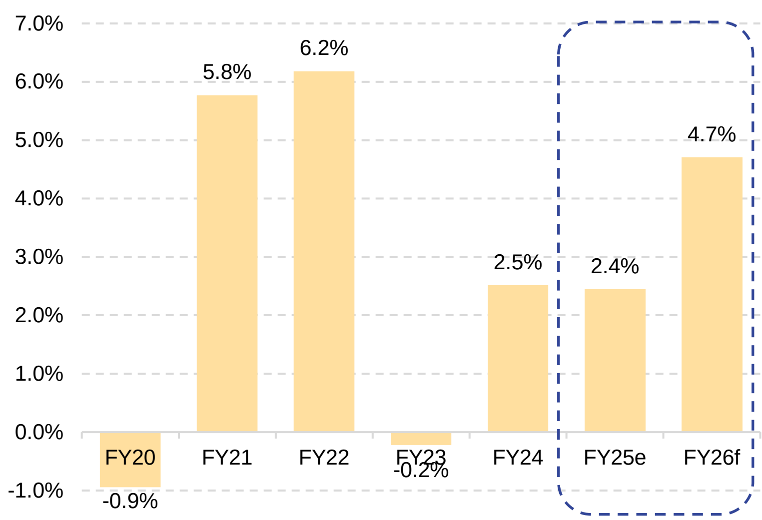
We anticipate that the growth momentum in the services sector will persist into FY25, bolstered by developments in commodity-producing sectors and increased goods imports. Specifically, LSM is expected to contribute positively to this growth. Merchandise imports are projected to rise to USD 59.4bn in FY25e, up from USD 53bn last year, reflecting an expansion in economic activities that will positively impact wholesale and retail trade as well as the transport sectors during the review period. In addition to these trends, the services sector particularly wholesale and retail trade, along with finance and insurance is poised to maintain its upward trajectory, supported by favorable policies from the SBP. A standout area is Pakistan's rapidly expanding IT industry, which has demonstrated remarkable growth in export earnings for FY24.

- Agri- sector growth est. to grow at +0.42% in FY25.
- Industry is expected to grow by 2.62%.
- Services are projected to grow by 3.23%.
- LSM and wholesale & retail trade -key contributors to economic growth.

**Key risks:** However, the path to sustained growth is not without its challenges. Geopolitical uncertainties, global inflationary pressures, and a potential rise in oil prices could drive up inflation, increasing costs for consumers and businesses alike. These factors will play a crucial role in shaping the country's overall economic performance in the coming fiscal year. Overcoming these challenges will be essential for maintaining growth momentum. Continued monetary easing, coupled with efforts to lower business costs such as cutting energy prices could create a more supportive environment for economic growth. Attracting foreign investment and boosting export potential will be key in strengthening the economy. Additionally, addressing the effects of climate-related risks, especially in the agricultural sector, will be crucial to keeping the recovery on course.

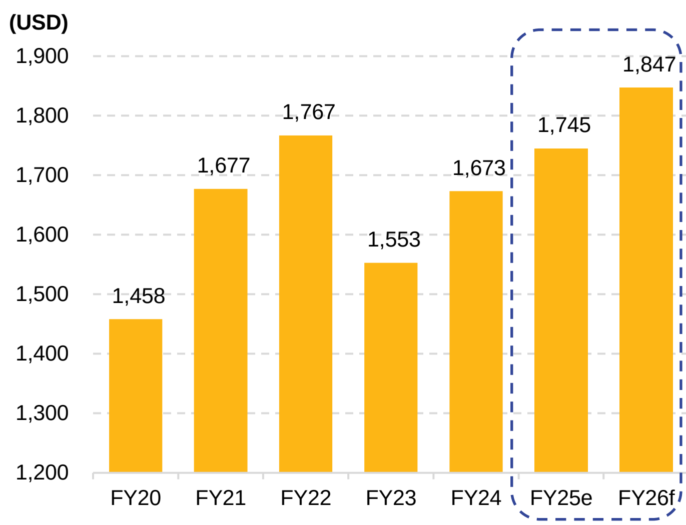
Various organizations have forecasted Pakistan's GDP growth with differing outlooks for the ongoing fiscal year FY24-25. BMI, a Fitch Solutions company, projects growth at 3.2%, while the Asian Development Bank (ADB), in its Asian Development Outlook, anticipates GDP growth of 2.4% for 2024 and 2.8% for 2025. The International Monetary Fund (IMF) offers a more optimistic estimate of 3.5% for FY2024-25. Additionally, the State Bank of Pakistan (SBP), in its recent State of the Economy report, expects GDP growth to fall within the range of 2.5% to 3.5%, supported by lower borrowing costs and a gradual recovery in the large-scale manufacturing and services sectors.

**Figure:** Historical trend of GDP growth




Source (s): MOF, AHL Research

**Figure:** Historical trend of Per Capita GDP (in USD)




Source (s): MOF, SBP, AHL Research

**Figure:** Industrial sector breakdown

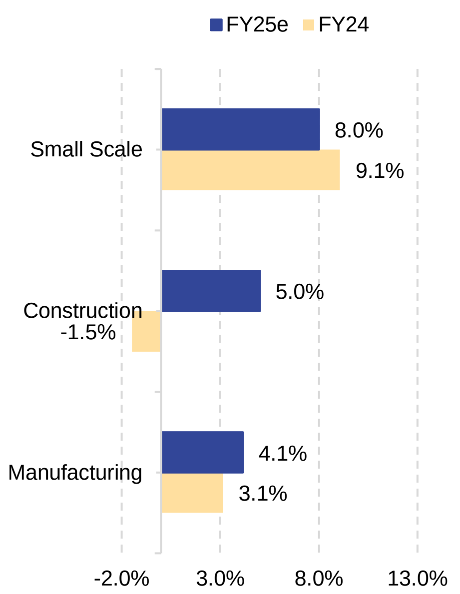



**Figure:** Agriculture sector breakdown

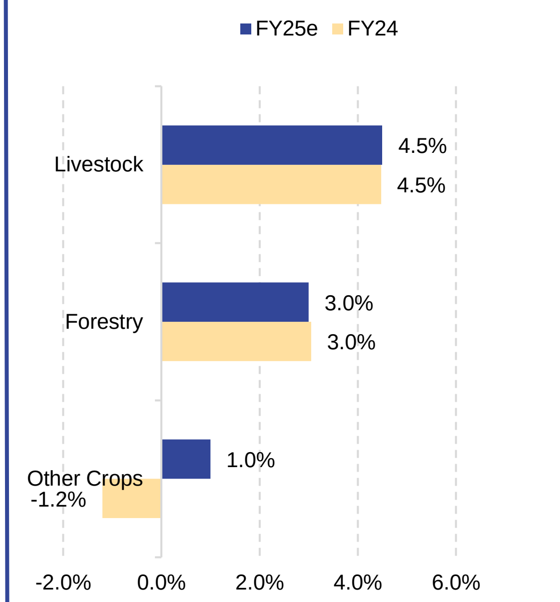
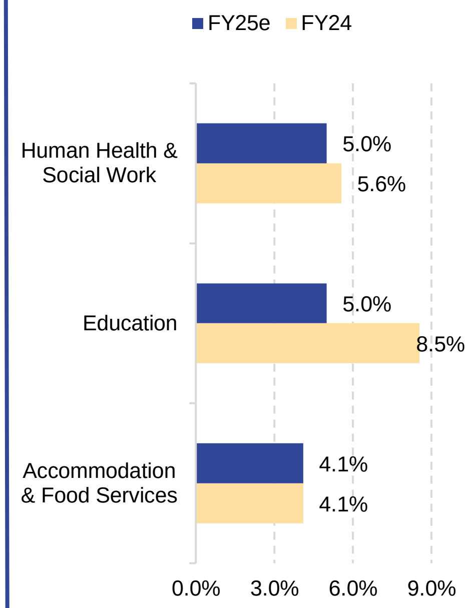



**Figure:** Service sector breakdown




Source (s): PBS, AHL Research

**Exhibit:** Gross Domestic Product of Pakistan

| Items | FY23 | FY24 | FY25e | FY26f |
|---|---|---|---|---|
| **Commodity Producing Sector** | **-0.5%** | **3.0%** | **1.4%** | **4.4%** |
| **Agriculture Sector** | **2.2%** | **6.4%** | **0.4%** | **4.1%** |
| 1. Crops | -1.2% | 10.3% | -6.9% | 4.6% |
| 2. Livestock | 3.7% | 4.5% | 4.5% | 4.0% |
| 3. Forestry | 16.6% | 3.0% | 3.0% | 3.0% |
| 4. Fishing | 0.6% | 0.8% | 0.9% | 1.0% |
| **Industrial Sector** | **-3.7%** | **-1.1%** | **2.6%** | **4.8%** |
| 1. Mining & Quarrying | -3.2% | 3.5% | 3.5% | 3.5% |
| 2. Manufacturing | -5.3% | 3.1% | 4.1% | 5.6% |
| 3. Electricity Generation & Distribution & Gas Distribution | 9.9% | -23.1% | -10.0% | 3.0% |
| 4. Construction | -9.2% | -1.5% | 5.0% | 3.0% |
| **Service Sector** | **0.0%** | **2.2%** | **3.2%** | **4.9%** |
| 1. Wholesale & Retail trade | -4.0% | 3.4% | 3.4% | 9.2% |
| 2. Transportation & Storage | 3.8% | 1.9% | 1.9% | 1.9% |
| 3. Accommodation and Food Services Activities | 4.1% | 4.1% | 4.1% | 4.1% |
| 4. Information and Communication | -0.7% | 0.3% | 2.0% | 2.0% |
| 5. Financial and Insurance Activities | -10.0% | -10.7% | 2.0% | 2.0% |
| 6. Real Estate Activities (OD) | 3.7% | 3.7% | 4.0% | 3.0% |
| 7. Public Administration and Social Security | -7.0% | -7.3% | 3.0% | 3.0% |
| 8. Education | 5.1% | 8.5% | 5.0% | 5.0% |
| 9. Human Health and Social Work Activities | 8.8% | 5.6% | 5.0% | 2.5% |
| 10. Other Private Services | 4.2% | 3.6% | 3.5% | 3.5% |
| **GDP Growth** | **-0.2%** | **2.5%** | **2.4%** | **4.7%** |

Source (s): MoF, AHL Research

**Exhibit:** Key Economic Indicators

| | | FY21 | FY22 | FY23 | FY24 | FY25e | FY26f |
|---|---|---|---|---|---|---|---|
| **Real** | | | | | | | |
| GDP Growth | | 5.8% | 6.2% | -0.2% | 2.5% | 2.4% | 4.7% |
| Nominal GDP | $ bn | 348.9 | 375.6 | 338.5 | 373.8 | 413.7 | 441.0 |
| **CPI and Policy Rate** | | | | | | | |
| CPI (YoY average) | | 8.9% | 12.2% | 29.0% | 23.4% | 7.5% | 9.9% |
| Policy Rate (Period end) | | 7.0% | 13.8% | 22.0% | 20.5% | 12.0% | 12.0% |
| **External Sector** | | | | | | | |
| Exports (Goods) | $ bn | 25.6 | 32.5 | 27.9 | 31.0 | 31.9 | 33.7 |
| Imports (Goods) | $ bn | 54.3 | 71.5 | 52.7 | 53.1 | 59.4 | 63.3 |
| Trade Deficit (Goods) | $ bn | 28.6 | 39.1 | 24.8 | 22.1 | 27.5 | 29.5 |
| Remittances | $ bn | 29.5 | 31.3 | 27.3 | 30.3 | 34.7 | 36.3 |
| FX Reserves (Period end) | $ bn | 24.4 | 15.5 | 9.2 | 14.0 | 4.6 | 4.6 |
| SBP FX Reserves (Period End) | $ bn | 17.3 | 9.8 | 4.4 | 9.4 | 13.2 | 13.7 |
| Bank FX Reserves (Period End) | $ bn | 7.1 | 5.6 | 4.7 | 4.6 | 4.6 | 4.6 |
| Exchange Rate (Period end) | USD/PKR | 157.5 | 204.8 | 286.0 | 278.3 | 288.4 | 305.7 |
| PKR Appreciation / (Depreciation) (%) | | 6.7 | (23.1) | (28.4) | 2.7 | (3.5) | (5.7) |
| **Debt** | | | | | | | |
| Domestic | PKR bn | 26,265 | 31,085 | 38,810 | 47,160 | 50,576 | 54,902 |
| External | $ bn | 86.5 | 88.8 | 84.1 | 86.5 | 88.4 | 92.4 |
| **Fiscal Sector** | | | | | | | |
| Total Revenue | PKR bn | 6,270 | 7,328 | 8,880 | 12,361 | 16,547 | 16,263 |
| FBR Taxes | PKR bn | 4,764 | 6,143 | 7,169 | 9,311 | 11,719 | 12,205 |
| Nontax Revenue | PKR bn | 1,505 | 1,185 | 1,711 | 3,050 | 4,828 | 4,057 |
| Total Expenditure | PKR bn | 7,245 | 9,350 | 11,332 | 14,823 | 16,018 | 17,043 |
| Current Expenditure | PKR bn | 6,349 | 8,452 | 10,732 | 14,073 | 15,167 | 15,690 |
| Budget Deficit | PKR bn | 3,403 | 5,260 | 6,521 | 7,207 | 5,693 | 7,209 |
| **% of GDP** | | | | | | | |
| Current Account Deficit | | 0.8% | 4.7% | 1.0% | 0.5% | 0.3% | 0.4% |
| Trade Deficit | | 8.2% | 10.4% | 7.3% | 5.9% | 6.6% | 6.7% |
| Fiscal Deficit | | 6.1% | 7.9% | 7.8% | 6.8% | 4.9% | 5.5% |
| External Debt | | 24.8% | 23.6% | 24.8% | 23.1% | 21.4% | 21.0% |
| Domestic Debt | | 47.0% | 46.6% | 46.2% | 44.6% | 43.5% | 41.9% |

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

# Capital Market

## Thrills and gains

## KSE100: Re-rating on the cards

Our Dec'25 target for the KSE-100 index is 120,010 points, implying a robust 27% upside from current levels. The market appears ripe for a rerating in CY25 with declining interest rates, a stable PKR, and improving macroeconomic indicators. Domestic liquidity is on the upswing, driven by fresh domestic inflows. Pakistan is also on the radar of foreign investors for debt and equity markets. The momentum for mergers and acquisitions along with expected FDI are also boosting investor sentiment.

We expect earnings growth to clock in at 4.2% in 2025. We anticipate earnings growth to from six sectors out of the eleven under our coverage, with the majority expected to achieve double-digit growth.

Earnings for the E&P sector are projected to decline by 0.6%, amid lower oil and gas production and the absence of exchange gains. The banking sector is expected to see a 6.4% decline due to anticipated reductions in interest rates impacting net interest margins. In contrast, the fertilizer sector is poised for a 11.4% growth, driven by improved margins and enhanced pricing power. Cement sector growth is forecasted at 32.1%, underpinned by relatively better demand, stable product prices, and the decline in interest rates. OMCs are anticipated to post a strong 39.1% increase in earnings, supported by higher volumes amid economic growth. The auto sector is expected to grow by 19.6%, supported by a revival of demand and increased auto financing facilitated by lower interest rates. On the downside, the power sector is projected to experience a significant 27.0% decline, primarily due to the termination of HUBC's base plant. The textile sector is likely to witness a steep 35.9% decline in earnings, driven by higher tax rates and shrinking profit margins. Meanwhile, the chemicals sector is projected to achieve a promising 31.6% growth, attributed to better margins compared to the previous year. Finally, the technology sector is set to benefit from the export of IT services and improved consumer demand for smartphones, expected to post a 39.3% growth.

**KSE 100 Index Target Estimates 2025**

| Valuation Basis | Target Price | Justified PE |
|---|---|---|
| Weight | 50% | 50% |
| Index | 119,459 | 120,561 |

Target 2025 **120,010**

Current Index **94,192**

Expected Return 2025 **27.4%**

**Exhibit:** Corporate Sector KSE100 Earnings Growth: Trend & Forecast

| (%) | 2019a | 2020a | 2021a | 2022a | 2023a | 2024e | 2025e | 2026f |
|---|---|---|---|---|---|---|---|---|
| Banks | 20.7 | 33.3 | 13.5 | 15.5 | 81.9 | -0.6 | -6.4 | 6.5 |
| E&P | 46.3 | -10.5 | -4.6 | 30.5 | 68.5 | 5.9 | -0.5 | 1.5 |
| Fertilizer | -4.4 | 40.3 | 20.5 | -18.0 | 32.8 | 62.5 | 11.4 | -3.8 |
| Cement | -35.4 | nm | nm | 13.5 | -6.7 | 60.6 | 32.1 | 10.7 |
| Power | 71.7 | 63.5 | -28.2 | -33.0 | 80.5 | 57.9 | -27.0 | -20.9 |
| Technology | 135.9 | 46.0 | 28.7 | 43.4 | 14.5 | 9.0 | 39.3 | 10.1 |
| OMCs | -35.3 | nm | nm | 132.4 | -71.9 | 32.2 | 39.1 | 8.4 |
| Autos | -24.5 | -55.0 | 118.4 | 22.3 | -34.4 | 128.6 | 19.6 | 30.1 |
| Textiles | 79.5 | -54.5 | 150.6 | 91.9 | 29.8 | -31.3 | -35.9 | 71.0 |
| Chemicals | -5.0 | 1.5 | 102.0 | 16.8 | 16.1 | -27.1 | 31.6 | 19.1 |
| **KSE100** | **5.5** | **3.9** | **40.4** | **16.9** | **35.3** | **8.6** | **4.2** | **5.5** |

Source (s): Company Financials, AHL Research

**Equities: Preferred asset class**

Falling interest rates, subdued real estate demand, and measures against dollarization has positioned equities as the preferred asset class.

**Buoyant domestic liquidity:**

Domestic liquidity, fueled by new funds and fixed-income conversions, set to drive valuations.

**Ready to garner foreign interest:**

Foreign holdings dropped to 3.2% of FF market cap; Pakistan now on radar for equities and debt flows.

**Rising investor confidence:**

Business confidence level up 15pts to 54.2pts, default risk at 1,496bps compared to 4,740bps (Oct'23)

Next Leg of

**Valuation Re-rating**

**Boom in M&A activity:**

The country is experiencing a surge in M&A activities, which is expected to drive enhanced valuation discovery.

**FDI inflows on the horizon:**

Attracting export-led FDI in agriculture, mining, and IT, ensuring balance of payments stability and unlocking valuations.

**Supportive macro environment:**

Declining inflation and interest rates, increasing FX reserves, stabilized current account and stable currency.

**Earnings growth:**

Earnings growth expected at 4.2% in 2025, led by Cement, Fertilizer, OMCs, Technology, Chemicals and Autos.

**Key Risks:**

1. Macro-economic imbalances during the IMF program
2. Volatility in the commodity prices
3. Political instability

## Macros to support the market

The strengthening of key economic indicators is a primary driver behind the robust performance observed in the market. We anticipate that this positive trajectory in macroeconomic fundamentals will continue into the coming year, supporting the KSE100 index performance. Historically, the PSX has demonstrated a pattern of re-rating during periods of favorable economic shifts, and we believe that the current outlook signals a potential re-rating similar to past cycles.

- The PSX has historically re-rated during periods of favorable economic shifts
- The convergence of improved economic fundamentals with market performance suggests the KSE-100 index's P/E multiple will re-rate

Our analysis of the past 12 years shows that the KSE-100 index's P/E multiple has re-rated during four distinct years. The comparison of the key economic indicators from those periods, specifically, FY14, FY15, FY17 and FY24 with our expectations for FY25, we observe striking similarities.

The key economic indicators projected for FY25 including inflation, current account as % of GDP, and foreign exchange reserves are closely aligned with historical benchmarks observed during previous market re-rating periods. Moreover, robust remittances momentum (% of imports) expected to be on the higher side during FY25. However, GDP growth in FY25 is expected to be lower in comparison to the re-rating period.

We believe that this alignment reflects a narrowing gap between market performance and economic fundamentals. Given this convergence and anticipated improvements in the country's macroeconomic position, we expect the market's P/E multiple to experience a re-rating, driving further momentum for the KSE-100 index.

**Exhibit:** Key Economic Indicators

| | P/E | Real GDP Growth | CPI (YoY average) | Policy Rate (Period end) | CAD (as % of GDP) | Remittances (as % of imports) | SBP Reserves (USD bn) |
|---|---|---|---|---|---|---|---|
| FY13 | 9.7 | 3.9% | 7.4% | 9.0% | 1.1% | 28.7% | 6.01 |
| FY14 | 11.7 | 3.6% | 8.6% | 10.0% | 1.3% | 31.9% | 9.10 |
| FY15 | 11.7 | 3.8% | 4.6% | 7.0% | 1.0% | 37.3% | 13.53 |
| FY16 | 11.0 | 4.1% | 2.9% | 5.8% | 1.7% | 39.7% | 18.14 |
| FY17 | 11.6 | 4.6% | 4.2% | 5.8% | 4.1% | 33.0% | 16.14 |
| FY18 | 11.2 | 6.1% | 4.7% | 6.5% | 6.3% | 29.3% | 9.77 |
| FY19 | 8.4 | 3.1% | 6.8% | 12.3% | 4.9% | 34.6% | 7.29 |
| FY20 | 8.2 | -0.9% | 10.8% | 7.0% | 1.5% | 44.1% | 12.13 |
| FY21 | 7.1 | 5.8% | 8.9% | 7.0% | 0.8% | 46.9% | 17.30 |
| FY22 | 4.7 | 6.2% | 12.2% | 13.8% | 4.7% | 37.0% | 9.81 |
| FY23 | 4.0 | -0.2% | 29.0% | 22.0% | 1.0% | 44.6% | 4.45 |
| FY24 | 4.8 | 2.5% | 23.4% | 20.5% | 0.5% | 47.5% | 9.39 |
| **FY25e** | **5.3** | **2.4%** | **7.5%** | **12.0%** | **0.3%** | **49.4%** | **13.17** |

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

## Domestic liquidity

Domestic liquidity always plays a crucial role in determining the momentum of the market. KSE ownership has already witnessed an astonishing shift and now free float is predominantly (75.8%) held by High Net worth Individuals (HNWIs), companies, brokers, and other entities.

In addition to this, Pakistan's mutual fund industry's assets under management (AUM) grew from PKR 0.7trn in FY20 to nearly PKR 3trn by Sep'24, out of which only ~8.4% or PKR 256bn are equity asset under management (AUMs). Recently, with the declining interest rates and improved macros, we have witnessed net inflow from the mutual fund industry in CY24TD amounting to PKR 34bn which is highest net inflow after 7 years. Also, it's important to mention that during last couple of years, the local corporates have bought shares amounting to PKR 44.9bn via buy backs.

We present a detailed liquidity sensitivity analysis, focusing on the anticipated influx of liquidity into the market. We highlighted this trigger in our previous year's strategy, forecasting substantial inflows driven by the expanding scale of the mutual fund industry.

Our estimation suggests that with every 1% reallocation from fixed income to equities, mutual funds and insurance companies could potentially deploy PKR 27.3bn and PKR 15.4bn, respectively, into the market. Please refer to the accompanying table below for a comprehensive overview of the sensitivity analysis.

**Exhibit:** KSEALL Ownership

| | KSE ALL Ownership | |
|---|---|---|
| | **2017** | **2024** |
| Mutual Funds | 12.0% | 7.5% |
| Banks | 7.7% | 6.2% |
| State Life Insurance (SLIC)** | 4.2% | 6.0% |
| Insurance (ex. SLIC) | 4.0% | 1.3% |
| Foreign | 28.7% | 3.2% |
| Other*** | 43.5% | 75.8% |

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

- KSE ownership has shifted significantly, with 76.4% of the free float now held by HNWIs, companies, brokers, and other entities.
- A 1% reallocation to equities from fixed income could lead mutual funds and insurance companies to deploy PKR 29.8bn and PKR 15.0bn, respectively.

**Exhibit:** Sensitivity of additional funds allocation in equities

| | | | ***Additional*** | |
|---|---|---|---|---|
| (PKR bn) | *Current* | *1.0%* | *3.0%* | *5.0%* |
| Mutual Funds | 251.3 | 27.3 | 81.8 | 136.4 |
| ***Equity AUMs %*** | ***8.4%*** | ***9.4%*** | ***11.2%*** | ***13.0%*** |
| State Life Insurance Corporation (SLIC) | 201.7 | 12.2 | 36.5 | 60.8 |
| ***Equity AUMs %*** | ***14.2%*** | ***15.1%*** | ***16.8%*** | ***18.5%*** |
| Insurance (Ex. SLIC) | 43.7 | 3.2 | 9.7 | 16.2 |
| ***Equity AUMs %*** | ***11.9%*** | ***12.8%*** | ***14.5%*** | ***16.3%*** |
| **Total** | **496.6** | **42.7** | **128.0** | **213.4** |
| ***% of FF Mkt Cap*** | ***14.8%*** | ***1.3%*** | ***3.8%*** | ***6.4%*** |

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

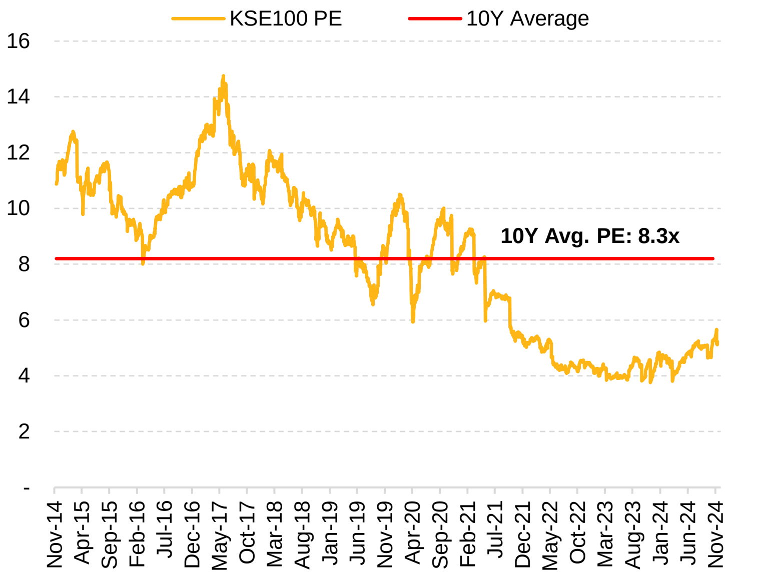
## Valuations are still compelling

The KSE-100 2025 forward PE ratio of 5.3x is still substantially below the 10-year average P/E of 8.3x. This discount signals a sharp undervaluation of the index, suggesting that the market has 57% room to appreciate to 148k points as it aligns closer to historical valuation multiples.

In addition, the market cap to GDP ratio, a key metric reflecting the equity market's size relative to the economy, is currently at 11.0%. This is well below the 16.9% average for the last ten years. A normalization of this ratio would imply 52% upside for the KSE-100 index to 143k points.

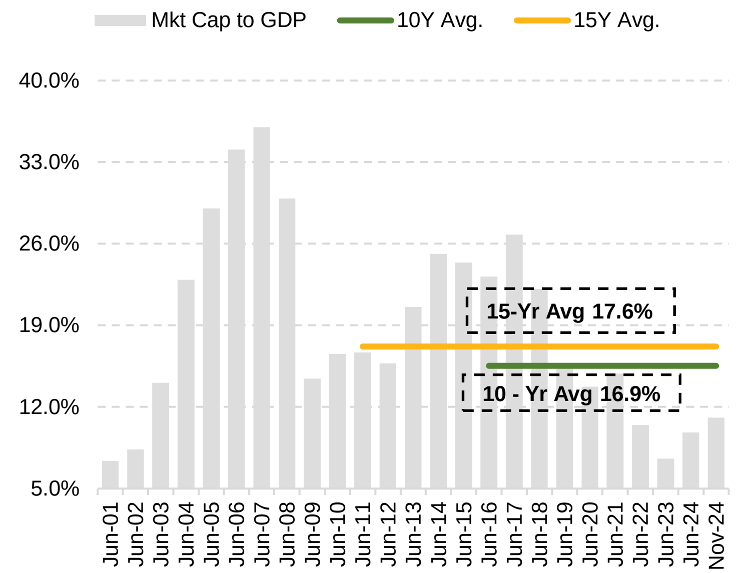
- The KSE-100's 2025 forward P/E ratio of 5.3x is well below the 10-year average of 8.3x
- The market cap to GDP ratio has dropped to 11.0%, indicating a potential 52% upside

**Figure:** KSE-100 historical P/E




Source (s): Bloomberg, PSX, AHL Research

**Figure:** Historical trend of market cap to GDP



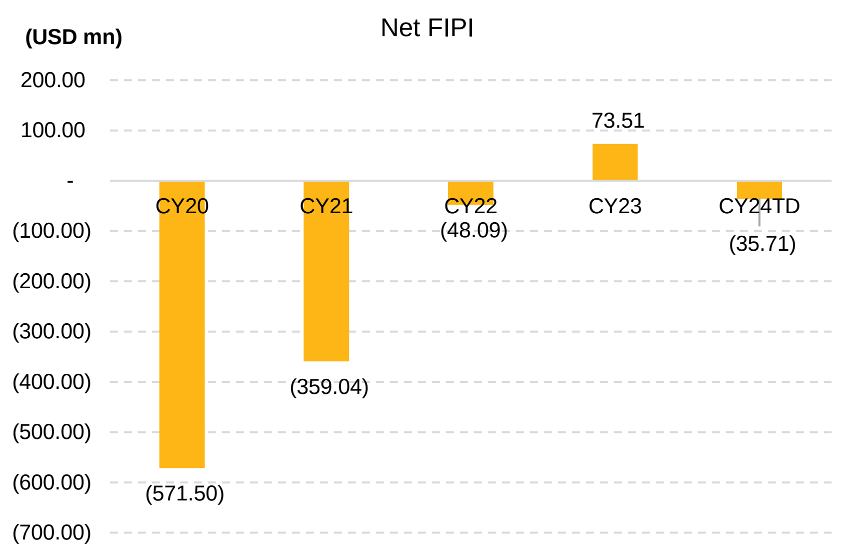

Source (s): PBS, Bloomberg, AHL Research

## Ready to garner foreign interest

The strong returns (50.8% CY24TD) in 2024 highlight the role of compelling valuations and ample domestic liquidity, enabling local investors to absorb the impact of foreign selling amounting to USD 35.7mn. Our data suggest that foreign holdings in the KSE-All shares have significantly decreased to 3.2% of free float market cap as compared to 28.7% back in 2017. In 2024, major events including liquidation of the BlackRock Pakistan ETF (USD 30mn outflow) and FTSE-related selling by Vanguard (~USD 100mn) has been easily absorbed by the market. After incorporating these, we estimate that current foreign holdings now stand at approximately USD 388mn, representing 3.2% of the free-float market capitalization.

Looking ahead, Pakistan stands to benefit from potential reclassification changes within the MSCI Frontier Markets index. Vietnam, which currently holds a significant weight of around 30%, is expected to migrate to Emerging Market, redistributing its weight across remaining FM constituents. The weight of Pakistan can potentially increase from the current level (~4.5%), positioning well to attract incremental foreign flows.

**Exhibit:** Net Foreign Portfolio Investment




Source (s): NCCPL, AHL Research

**Exhibit:** Foreigners Portfolio Investment*

| Company | Shares (mn) | PKR mn | USD mn |
|---|---|---|---|
| UBL | 38.40 | 10,337 | 37.20 |
| LUCK | 7.13 | 6,074 | 21.86 |
| HBL | 41.20 | 4,320 | 15.55 |
| OGDC | 42.18 | 8,024 | 28.88 |
| HUBC | 47.36 | 2,556 | 9.20 |
| ENGRO | 16.94 | 3,088 | 11.11 |
| PPL | 74.07 | 8,976 | 32.30 |
| FFC | 30.63 | 3,901 | 14.04 |
| NBP | 101.83 | 6,216 | 22.37 |
| EFERT | 22.17 | 3,744 | 13.47 |
| PSO | 17.80 | 2,123 | 7.64 |
| BAFL | 8.88 | 596 | 2.14 |
| POL | 6.35 | 2,034 | 7.32 |
| SEARL | 5.38 | 452 | 1.63 |
| LOTCHEM | 1.28 | 22 | 0.08 |
| Others | | 45,340 | 163.18 |
| **Total Portfolio Investment** | | **107,804** | **387.98** |

Source (s): Company Financials, AHL Research

* @market price

## M&As to unlock valuation potential

Contrary to the narrative of foreign investment exiting Pakistan, the country's FDI is evolving with strategic shifts rather than a withdrawal. Over the past 18 months, while 11 foreign companies have exited or announced intentions to divest from Pakistan, this has been more than offset by the entry of ~16 new international firms, actively acquiring stakes and establishing partnerships in key sectors. These incoming firms are bringing fresh capital, technology, and expertise, which speaks to a continued and even renewed confidence in Pakistan's economic potential despite global and local challenges.

- the country is seeing strategic shifts in FDI, with 16 new international firms entering key sectors.
- M&A activity is expected to unlock value, enhance key sectors, and support market re-rating.

These M&A transactions are expected to unlock significant value within the local stock market, enhancing the attractiveness of key sector / stocks and supporting a broader market re-rating. These M&As activities can drive operational efficiencies and growth in targeted companies, thereby improving market perceptions, valuation metrics and contribute to a re-rating of the overall market, aligning valuations more closely with underlying growth potential.

**Exhibit:** Acquisition filed by companies since Jan'23

| Target Company | Seller | Origin of Seller | Acquirer | Origin of Acquirer | Interest | Status | Transaction size (PKR bn) |
|---|---|---|---|---|---|---|---|
| **Foreign to Foreign** | | | | | | | |
| Total PARCO Pakistan Ltd | Total Energies | France | Gunvor Group Ltd. | Switzerland | 50% | Pending | n/a |
| Shell Pakistan | Shell Petroleum Company | UK | Wafi Energy Holding Ltd. | Saudi Arabia | 78% | Complete | 20 |
| Telenor Pakistan | Telenor Group | Norway | Etisalat / PTC | UAE / Pakistan | 100% | Pending | 108 |
| Orion Towers | Telenor Group | Norway | Etisalat / PTC | UAE / Pakistan | 100% | Pending | |
| Coca-Cola (Pakistan) | Atlantic Industries | Cayman Islands | Coca-Cola Içecek (Turkiye) | Turkey | 50% | Complete | 83 |
| Tabeer Energy Pvt Ltd | Diamond Gas International Japan Co. Ltd. | Japan | Bison Energy FZCO | UAE | 100% | Pending | n/a |
| SadaPay Pvt Ltd | SadaPay Technologies Ltd. | UAE | PPR Holding A.S | Turkey | 100% | Complete | n/a |
| Ontex Pakistan Pvt Ltd | Ontex Group NV | Belgium | Asaia Holding FZ | UAE | 100% | Complete | n/a |
| Advans Pakistan Microfinance Bank Ltd | Advans S.A SICAR | Luxembourg | MNT Halan Pak B.V | Egypt/Netherlands | 100% | Complete | n/a |
| **Foreign to Local** | | | | | | | |
| Assets of six products of Pfizer Pakistan Ltd | Pfizer Pakistan Ltd | USA | Lucky Core Industries Ltd. | Pakistan | 100% | Complete | n/a |
| SafeGuard Soap business | Procter & Gamble | USA | Nimar Industrial Chemicals Ltd. | Pakistan | 100% | Complete | n/a |
| Assets of Bayer Pakistan Pvt Ltd | Bayer AG | Germany | OBS Pakistan | Pakistan | 100% | Complete | 7 |
| **Local to Foreign** | | | | | | | |
| Gas and Oil Pakistan Ltd | Gas and Oil Pakistan Ltd | Pakistan | Saudi Aramco | Saudi Arabia | 40% | Complete | 22 |
| ZIL Ltd. | ZIL Ltd. | Pakistan | New Future Consumer International | UAE | 85% | Complete | 2 |
| Reon Energy Ltd | Dawood Lawrencepur Ltd | Pakistan | Juniper International FZ LLC | UAE | 100% | Complete | n/a |
| Unity Foods Ltd. | Unity Foods | Pakistan | Wilmar Pakistan Holdings | Singapore/Pakistan | 6% | Complete | n/a |
| Gamalux Oleochemicals Ltd | Shareholders | Pakistan | SNA Equity SDN BHD | Malaysia | 51% | Complete | 1 |
| Alif Innovations | Shareholders | Pakistan | Alif Holdings | UK | 100% | Complete | n/a |
| Tez Financial Services Ltd | Shareholders | Pakistan | OrientSwiss S.A | Switzerland | 100% | Complete | n/a |
| Assets of Quixel Pakistan Ltd. | Quixel Pakistan Ltd. | Pakistan | Epic Games Scanning Service | UK | 100% | Complete | n/a |
| Eon Onebyte Pvt Ltd | Shareholders | Pakistan | Matrix Analytics Inc | USA | 100% | Complete | n/a |

Source(s): CCP, AHL Research

## FDI – The next big trigger

With the establishment of the Special Investment Facilitation Council (SIFC), Pakistan is strategically positioning itself as an attractive destination for foreign investment. The SIFC aims to streamline investment processes, reduce bureaucratic hurdles, and create a more business-friendly environment, signaling to global investors that Pakistan is committed to economic reform and sustainable growth. This improved framework has already begun to capture the interest of international companies, particularly in high-growth sectors such as mining, agriculture, information technology and energy industries which are critical for export led long-term development of the country.

As macroeconomic conditions stabilize and policy reforms take root, Pakistan is poised for a steady increase in FDI inflows. These investments are expected not only to inject capital but also to bring in advanced technology and expertise, bolstering export potential, industrial capacity and creating jobs. The anticipated rise in foreign investment will strengthen economic resilience specially on the balance of payment front, enhance sectoral productivity, and help the country meet its sustainable growth objectives in the coming years.

- The SIFC has attracted international interest, particularly in high-growth sectors like mining, agriculture, IT, and energy.
- As macroeconomic conditions stabilize and policy reforms take effect, Pakistan is set to experience a steady

**Exhibit:** Projects offered under SIFC

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

Source (s): SIFC Website, AHL Research

## Equities – the preferred asset class

We believe that a key driver for the re-rating of the KSE100 index in 2025 will be the growing preference for equities as the primary asset class. We expect fixed-income returns to remain in single digit (after-tax) territory next year, reducing its attractiveness relatively.

Additionally, the outlook for real estate as an investment avenue remains subdued, with rising costs and regulatory hurdles dampening its appeal. Stringent measures to combat dollarization, coupled with a stable balance of payments outlook, are expected to limit investment in foreign currency, further curbing investment in dollar-denominated assets. Furthermore, the previously attractive auto sector as an investment class has also lost its attraction amid lower purchasing power and higher car price and is unlikely to recover in the near term.

This combination of factors creates an ideal environment for equities to outperform, positioning them as the preferred investment class in 2025.

Historically, equities have consistently outperformed other asset classes over the mid to long term, driven by their potential for higher capital appreciation and the ability to generate sustainable returns through dividends and growth. We have summarized the table below, which highlights the performance of equities relative to other asset classes demonstrating outperformance in all tenures.

- The re-rating of the KSE100 index in 2025 will be driven by a growing preference for equities.
- Fixed-income returns are projected to remain in single digits

**Exhibit:** Pakistan equities vs. other asset classes

| Year | KSE100* | Gold | T-Bills | DSC* | Bank Deposits | USD PKR | PIBs |
|---|---|---|---|---|---|---|---|
| CY24TD | 58.39% | 24.72% | 21.44% | 13.88% | 17.68% | -1.42% | 12.10% |
| 5Y CAGR | 28.38% | 11.37% | 13.90% | 11.74% | 10.40% | 12.76% | 12.45% |
| 10Y CAGR | 19.41% | 8.03% | 11.17% | 10.26% | 8.13% | 10.85% | 11.25% |
| 15Y CAGR | 24.27% | 5.90% | 11.09% | 10.84% | 8.00% | 8.35% | 11.64% |
| 20 CAGR | 21.95% | 9.31% | 10.98% | 10.83% | 7.38% | 8.07% | 11.71% |

Source (s): SBP, Bloomberg, PSX, AHL Research, *Total return

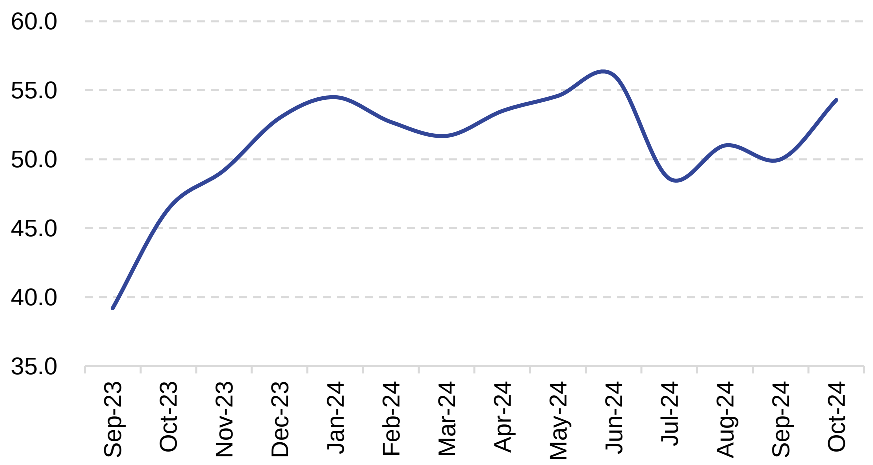
## Increasing investor confidence

Investor confidence in Pakistan has shown significant improvement, reflecting positive sentiment in the market. The Business Confidence Index (BCI) has risen to 54.3, a significant increase from 39.2 in Sep'23, indicating a stronger outlook from businesses on the economic environment. This surge in confidence is driven by various factors, including improved macroeconomic stability and optimism surrounding fiscal reforms.

Additionally, Pakistan's Credit Default Swap (CDS) has experienced a significant decline, currently standing at 1,496, compared to 4,740 in the same period last year and a peak of 12,388 in Nov'22. This sharp decline in the CDS reflects a reduction in perceived sovereign risk, signaling growing investor confidence in Pakistan's ability to meet its debt obligations. Collectively, these indicators point to a more favorable investment climate, fostering optimism about the country's economic trajectory.

- The BCI has risen to 54.3, up from 39.2 in Sep'23
- CDS has declined to 1496 bps, reflecting a reduction in perceived sovereign risk.

**Exhibit:** Trend of business confidence survey




Source (s): SBP, AHL Research

# Capital raising during CY24

The IPO market in Pakistan has seen a major revival in CY24, on the back of by economic growth and an unprecedented performance by the stock market. A total of five (5) IPO transactions in the main board and two (2) in the GEM have been concluded in 2024, as compared to only one (1) transaction in 2023. During the year, main board welcomed new listings such as SLGL, TPLRF1, IPAK, FCL and BFBIO. Whereas, GEMMEL and GEMBCEM has been added on the GEM board. Total demand for IPOs in 2024 amounted to PKR 13.0bn, with PKR 8.4bn raised.

**Exhibit:** Equity Capital Raising (IPO) CY24

| Company | Amount (PKR mn) |
|---|---|
| **Main Board** | |
| Secure Logistics Group Ltd. | 600 |
| TPL REIT Fund - I (Offer for Sale) | 589 |
| International Packaging Films Ltd. | 1,767 |
| Fast Cables Ltd. | 3,130 |
| BF Biosciences Ltd. | 1,925 |
| **Subtotal** | **8,010** |
| **GEM Board** | |
| Mughal Energy Ltd. | 325 |
| Burj Clean Energy Modaraba | 100 |
| **Subtotal** | **425** |
| **Total Capital Raising (IPO)** | **8,435** |

Source (s): PSX, AHL Research

### Capital raising through the right issue

A total of ten companies issued right shares in 2024, raising PKR 18.3bn as compare to PKR 6.8bn in 2023, showcasing a consistent demand for capital expansion across various sectors.

**Exhibit:** Equity Capital Raising (Right Issue) in CY24

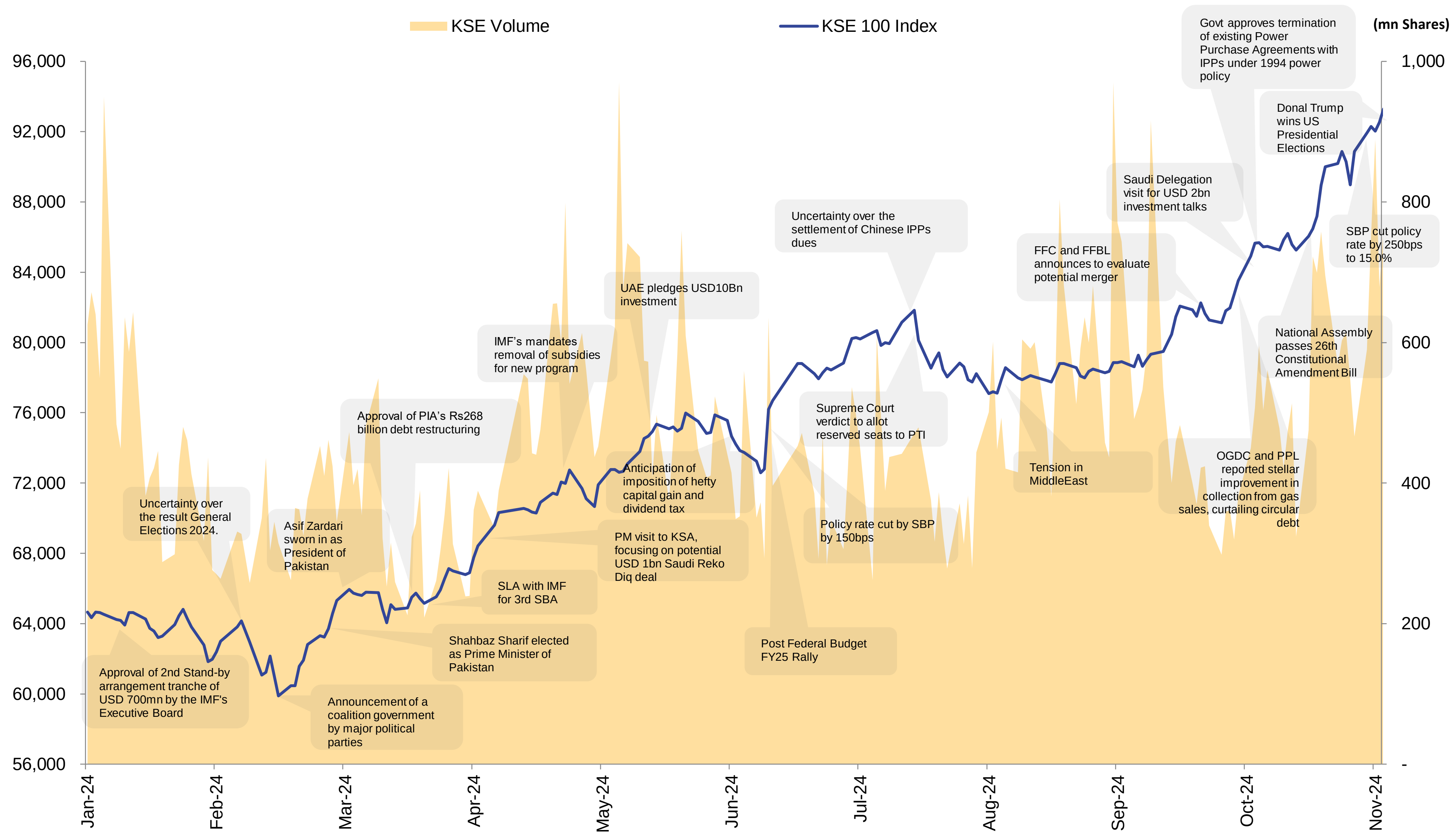
| Company | Amount (PKR mn) |
|---|---|
| The Pakistan General Insurance Co. Ltd. | 36 |
| Tariq Corporation Ltd. | 199 |
| Gatron (Industries) Ltd. | 5,600 |
| Mirpurkhas Sugar Mills Ltd. | 500 |
| Image Pakistan Ltd. | 987 |
| KSB Pumps Company Ltd. | 1,947 |
| Allawasaya Tex. & Finishing Mills Ltd | 200 |
| Faran Sugar | 551 |
| Bawany Air Products | 6,000 |
| Stylers International | 2,329 |
| **Total** | **18,349** |

Source (s): PSX, AHL Research

### Outlook for IPOs in 2025

In the year 2025, as anticipated monetary easing and improved valuation multiples come into play, we foresee a surge in IPO activity in 2025. We expect the launch of ~7-8 new IPOs in sectors such as Auto Parts, Retail, Technology, Consumer, and Data/AI with an estimated capital raising of approximately PKR 8-10bn.

## KSE100 Event Graph



# Event to watch out in 2025

**Table:** Key Events to watch out for during 2025

| | | | |
|---|---|---|---|
| Lucky motors to launch Peugeot 3008 | Nov-24 | Monetary policy meeting | May-25 |
| Changan to launch its electric vehicle named Changan Lumin | Nov-24 | USD 126mn repayment to IMF | May-25 |
| MG5 to be launched | Nov-24 | Monetary policy meeting | Jun-25 |
| MG Cyberster to be launched. | Nov-24 | Federal Budget 2025-2026 | Jun-25 |
| Prime minister to visit cop29 event in Azerbaijan | Nov-24 | USD 155mn repayment to IMF | Jun-25 |
| MSCI Quarterly Review | Nov-24 | Electricity base tariff hike expected | Jul-25 |
| USD 157mn repayment to IMF | Nov-24 | Saudi Arabia debt of PKR 2bn to be rolled over | Jul-25 |
| Monetary policy meeting | Dec-24 | USD 79mn repayment to IMF | Jul-25 |
| MG Marvel R and MG GT to launch | Dec-24 | Base power tariff revision | Jul-25 |
| Completion of debottlenecking of pipelines under phase 1 of PEF project | Dec-24 | Monetary policy meeting | Aug-25 |
| USD 243mn repayment to IMF | Dec-24 | MSCI Quarterly Review | Aug-25 |
| The Shah Taj Sugar Mills Project, a 32 MW bagasse-based plant to complete | Dec-24 | OGDC's Dakhni Compression Project to complete | Aug-25 |
| Conclusion of Reko Diq's feasibility study | Dec-24 | USD 141mn repayment to IMF | Aug-25 |
| Completion of FFC & FFBL merger | Dec-24 | Monetary policy meeting | Sep-25 |
| Unwinding of production cut by OPEC | Jan-25 | 2nd Review of IMF's EFF Program | Sep-25 |
| Completion of pipeline to connect MARI's field Shewa to gas network | Jan-25 | USD 126mn repayment to IMF | Sep-25 |
| Rollover of USD 3bn UAE deposits | Jan-25 | Pakistan Govt international bond of USD 500mn to mature | Sep-25 |
| USD 246mn repayment to IMF | Jan-25 | Disbursement of USD 1.3bn by IMF post conclusion of 2nd review | Oct-25 |
| Monetary policy meeting | Feb-25 | Executive Board approval of IMF's third tranche of EFF program | Oct-25 |
| EPCL's Hydrogen Peroxide plant to reach completion | Feb-25 | OGDC's Uch development Project to complete | Oct-25 |
| MSCI Quarterly Review | Feb-25 | Zorlu Solar Pakistan Ltd's 100 MW solar project to complete | Oct-25 |
| USD 154mn repayment to IMF | Feb-25 | Monetary policy meeting | Nov-25 |
| Monetary policy meeting | Mar-25 | Saudi Arabia debt of PKR 3bn to be rolled over | Nov-25 |
| 1st Review of IMF's EFF Program | Mar-25 | MSCI Quarterly Review | Nov-25 |
| Rollover of USD 2bn of Chinese debt | Mar-25 | OPEC + increases production by 2.2mnb/d | Nov-25 |
| Sale of thermal asset of ENGRO concludes | Mar-25 | USD 138mn repayment to IMF | Nov-25 |
| USD 127mn repayment to IMF | Mar-25 | Monetary policy meeting | Dec-25 |
| OPEC+'s 2nd phase of oil production extension | Jan-25 | MARI’s pressure enhancement projects’ phase 2 to complete | Dec-25 |
| Disbursement of USD 1.3bn by IMF post conclusion of 1st review | Apr-25 | USD 115mn repayment to IMF | Dec-25 |
| USD 168mn repayment to IMF | Apr-25 | TAY Powergen's 30 MW bagasse project to complete | Dec-25 |
| MSCI Quarterly Review | May-25 | CIHC Pak Power Co.'s 300 MW coal-based plant in Gwadar to complete | Dec-25 |

Source (s): AHL Research

## Pakistan Capital Market

## Sector-wise top picks

### E&Ps
**OGDC | PPL**

100% recovery of receivables which has raised prospects of high dividends

### Banks
**FABL | NBP**

Subdued interest rates to suppress earnings, but banks to focus on volumetric growth to ensure profitability

### Fertilizer
**FFC**

Stable offtake and margins.

### Cement
**FCCL | LUCK | MLCF**

Margins to remain elevated due to better power mix and low coal prices

### Technology
**SYS | AIRLINK**

Focus towards sustainable and long-term growth will boost technology services exports

### Auto
**INDU**

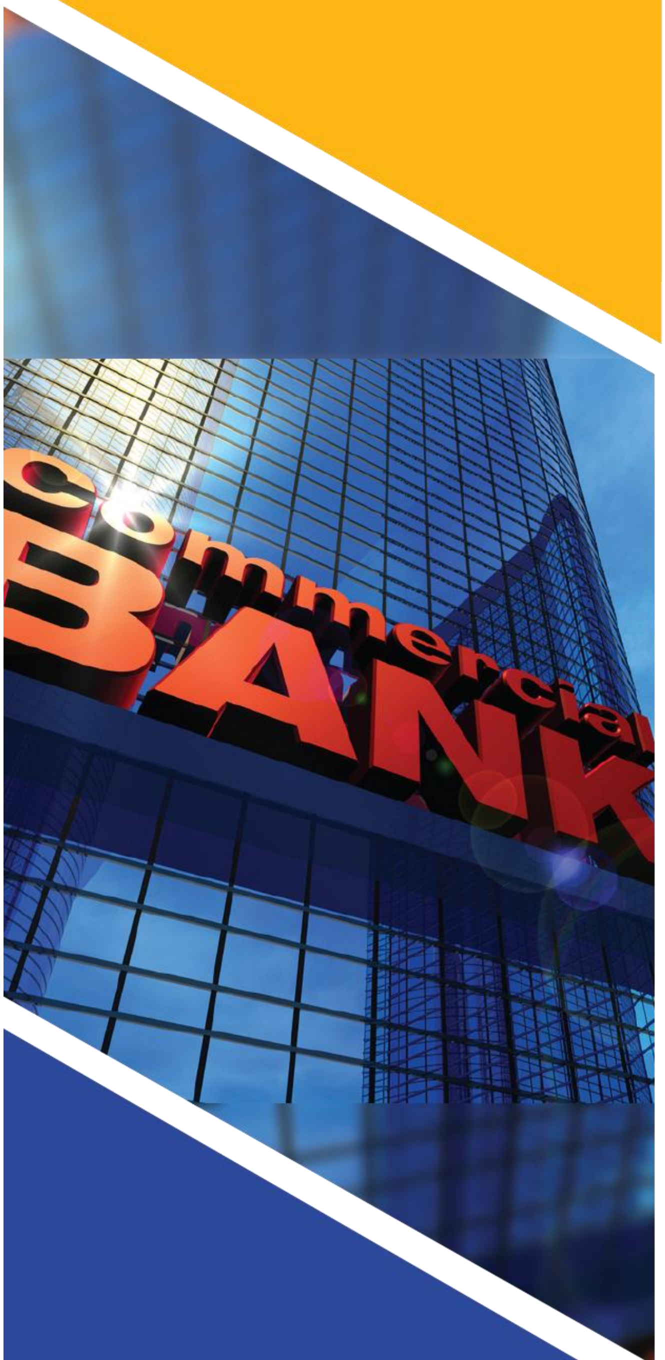
Demand to recover following economic stability and lower interest rates, with EVs to gain prominence.

### Textile
**ILP**

Global recovery to drive demand, however higher taxes to hurt profitability

### OGMC's
**PSO**

Revival of economic growth and higher automobile sales to drive demand




# Commercial Banks

## Strong Balance Sheets navigating headwinds

## Banking on resilience

**Testing times:** As banks grapple with the ripple effects of lower interest rates and looming ADR related tax obligations, the outlook for Pakistan's banking sector in CY25f seems challenging. The SBP eased its policy stance in Jun'24, reducing the policy rate by a cumulative 700bps throughout CY24TD, putting pressure on rupee-lending rates in the second half of the year. Subsequently, the weighted average lending rate on new loans fell to 18.42% by Sep'24, down from 20.25% in Sep'23, while the average deposit rate decreased to 9.53% from 11.2%. Despite these pressures, the sector's profitability gained momentum in 3QCY24, bolstered by lower interest expenses and significant capital gains. Management indicators, particularly the cost-to-income ratio, demonstrated upward trends, rising to 42.4% as of 9MCY24 compared to 41.8% in the previous year, supported by higher operational costs due to inflationary pressures. As we look to CY25, maintaining profitability will be an uphill task. The cost-to-income ratio is expected to stabilize around 40%, with inflation forecasted to remain low at 8.6%, down from an estimated 13.3% in CY24e. However, total income growth could be restricted by lower interest rates, which are anticipated to average 12.1% in CY25f against 19.4% in CY24e. Additionally, incremental tax liabilities could arise for banks failing to meet the 50% ADR threshold, further weighing on sector profitability.

**Deposit growth driven by expanding money supply:** Driven by an era of record-high interest rates at 22%, funds surged into Pakistan's banking system, powering an impressive 19.1% YoY increase in deposits by 3QCY24. This momentum was further amplified by an expanding money supply (M2), with broad money climbing 8.8% CY24TD. Additionally, the proportion of Currency in Circulation within M2 decelerated to around 25%, down from a typical 30% over the past five years. This monetary expansion significantly boosted deposit growth across the sector, spurred by a substantial rise in government borrowings for budgetary support, which rose 12.1% CYTD. However, as for CY25f, deposit growth is expected to moderate alongside a more tempered M2 expansion. Rate cuts likely to strain deposit rates, while ADR-linked tax obligations could shift banks' lending priorities toward the private sector. Our forecast for CY25f sector deposit growth stands at 12%, aligning with this adjusted outlook.

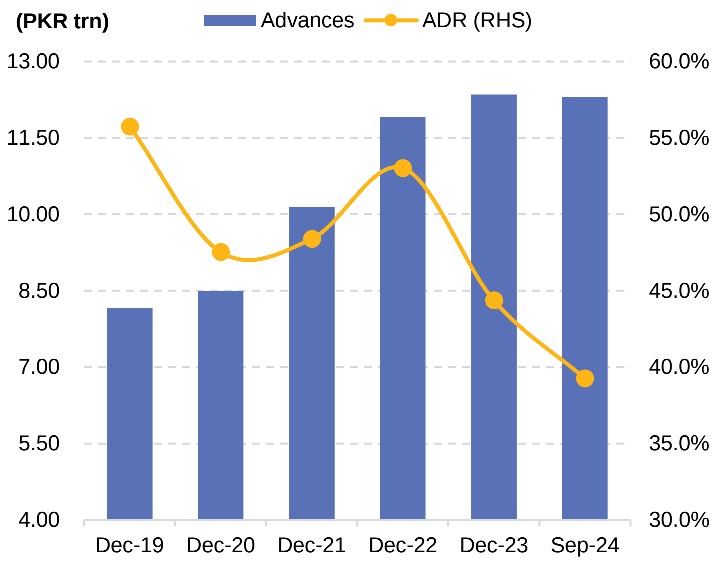
**Strengthened coverage ratios:** In a proactive move to safeguard against potential losses, banks had bolstered their coverage ratios by booking considerable provisioning. As of Sep'24, the average coverage ratio across the banking sector stands at ~112.8%, an increase from ~98.4% in Dec'23. However, the infection ratio has crept up to 6.8%, rising from 6.3% in Dec'23. Looking ahead, we anticipate a slight rise in NPLs across the board, projecting a YoY increase of +1.2% for the AHL universe. On the other hand, we expect provisioning expenses to decrease significantly, -5.3% YoY for the AHL universe, as this decline is influenced by a high base effect from the provisioning booked this year.

**Robust CAR and dividend growth signal sector stability:** Capital adequacy ratio (CAR) for KSE-100 banking sector remains robust at 21.6%, compared to 18.5% in the same period last year, comfortably above the regulatory requirement of 11.5%. The slowdown in credit growth, coupled with increased investments in risk-free debt instruments, has contributed to a controlled expansion of risk-weighted assets. With strong balance sheets supporting their positions, banks have rewarded shareholders with substantial dividends, totaling PKR 191bn in 9MCY24, representing an impressive 25% increase YoY. Going forward, we anticipate that banks will maintain attractive payout ratios to keep investors engaged.

### Key risks

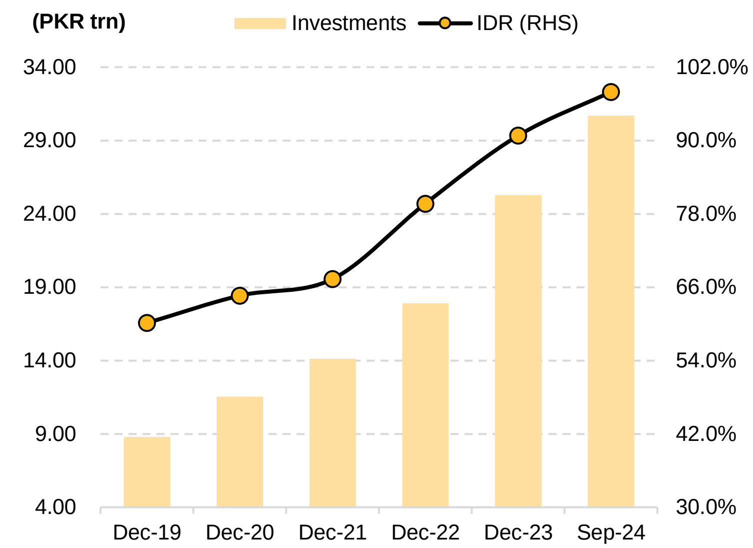
- Continued reduction in interest rates could compress lending margins, impacting profitability.
- Persistent low economic demand could diminish business volumes and overall banking transactions, limiting lending opportunities and potentially resulting in incremental taxes related to the ADR threshold.
- Anticipated growth in NPLs due to slow loan growth and economic conditions may strain banks' balance sheets.
- While the cost-to-income ratio is expected to improve, maintaining efficiency amidst declining income could pose challenges.

**Figure:** ADR vs Gross Advances



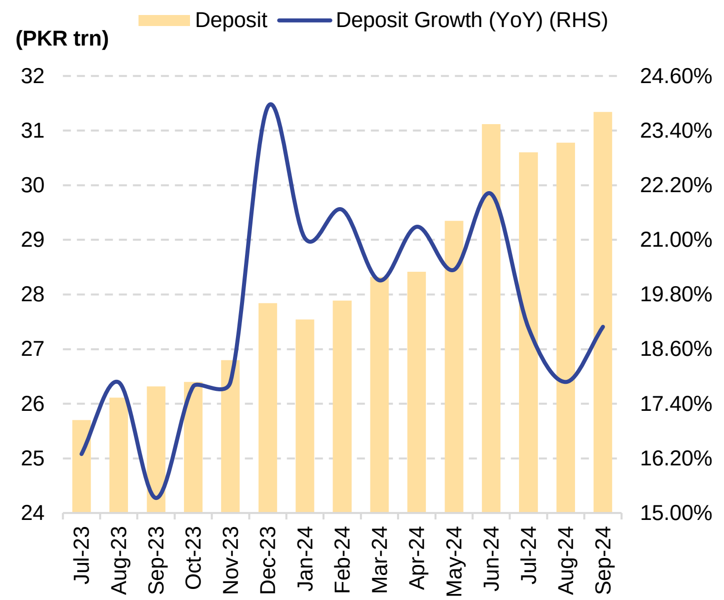

Source (s): SBP, AHL Research

**Figure:** Investment to Deposits ration



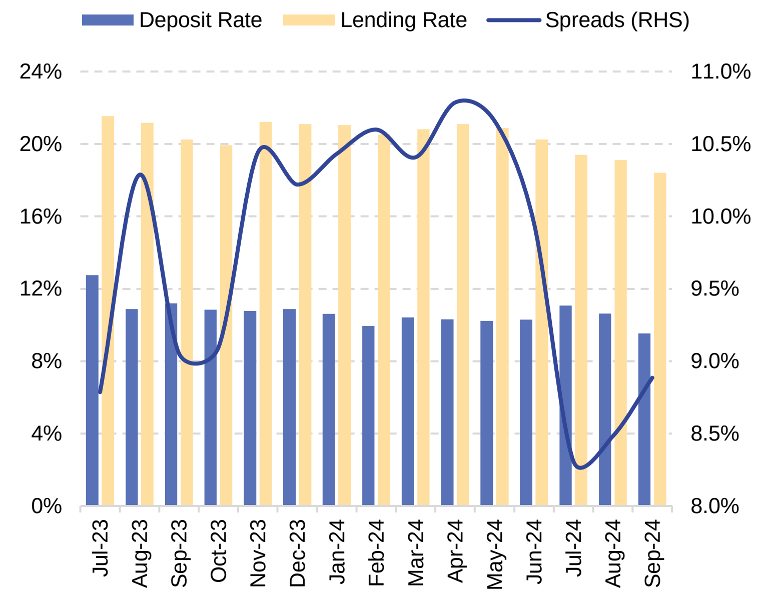

Source (s): SBP, AHL Research

**Figure:** Deposit growth remains high in CY24




Source (s): SBP, AHL Research

**Figure:** Spreads decline post rate cuts




Source (s): SBP, AHL Research

# National Bank of Pakistan (NBP)

## High dividend potential to attract investors attention

Our investment thesis on National Bank of Pakistan (NBP) hinges on four key factors: (i) resolution of the pension fund case, (ii) robust capital adequacy supporting dividend growth, (iii) strategic balance sheet expansion that drives earnings growth while preserving asset quality, and (iv) compelling valuations at current levels. In 9MCY24, NBP's earnings reflected mainly two critical elements pensions and provisioning. Pension-related expenses weighed on profitability, but substantial 68% YoY decline in provisioning charge strengthened the bottom line. It is essential to note that the pension-related impact on earnings was one-off in 2024, and going forward earnings are expected to grow at a 3-year CAGR of 26%.

### Pension resolution clears path for earnings growth

The long-standing pension liability has been addressed, with NBP booking an extraordinary expense of PKR 49bn in 9MCY24, a post-tax impact of PKR 12.0/share. This settlement figure, lower than the initially estimated PKR 60bn, will help lift the burden on NBP's balance sheet, paving the way for growth. While this one-off expense impacts CY24 earnings, the outlook beyond CY24 is robust, with projected earnings growth of 26% CAGR over the next three years.

### Strong capitalization underpins dividend resumption

Since suspending dividends in 2016 amid the prolonged pension case, NBP has significantly strengthened its capital adequacy ratios. As of 3QCY24, the bank’s total CAR and Tier-1 CAR stand at 24.6% and 18.3%, respectively, compared to 16.5% and 12.3% in CY16, substantially above the regulatory minimums of 14% and 10.5%, even with NBP’s reduced additional capital requirement (from 2.5% to 1.5%). With prudent provisioning for the pension liability, we anticipate a much-awaited return to dividend payments. Our base case forecasts a 50% payout in CY24 and CY25, equating to PKR 3.0/share in CY24e, while PKR 9.0/share in CY25f. Post CY25f, we project NBP to revert to its historical 70% payout ratio, positioning it as one of the highest-yield dividend stocks in the sector (CY25f DY: 15%; CY26f: 18%).

### Valuations reflect deep discount to peers

NBP currently trades at a substantial discount relative to its private sector peers, with a CY25f P/B of 0.31x and a P/E of 3.3x, well below the industry averages of 0.8x P/B and 3.74x P/E. NBP's transformation is underway, leveraging a strong capital position, distinctive fee-based income streams, and improved coverage ratio. We believe these factors will help unlock the bank's earnings potential. NBP remains an attractive proposition in our view, with favorable P/B multiples and a strong dividend outlook placing it among the highest-yielding stocks in the banking sector.

## NBP

### Summary Data

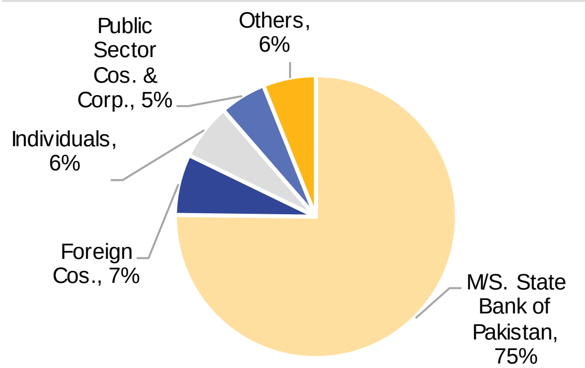
| | |
|---|---|
| Target Price (Dec'25) | 89.3 |
| Last Closing | 61.1 |
| Upside (%) | 46.3 |
| Shares (mn) | 2,127.5 |
| Free float (%) | 24 |
| Market Cap. (PKR mn) | 129,885 |
| Market Cap. (USD mn) | 468 |

**Recommendation** **BUY**

### Price Performance

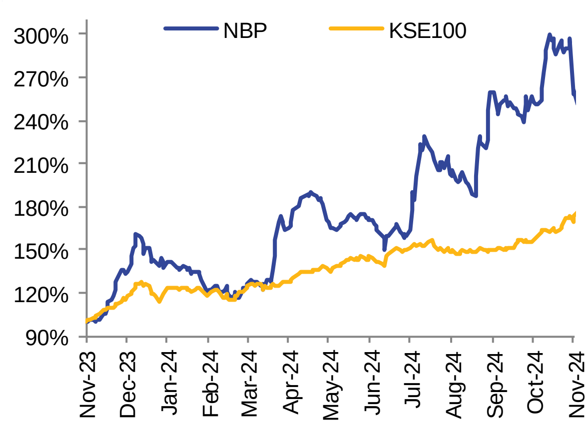
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 39.2 | 50.3 | 149.1 |
| Avg. Volume (000) | 4,539 | 5,289 | 4,571 |
| ADTV (mn) - PKR | 271 | 269 | 204 |
| ADTV (000) - USD | 976 | 967 | 732 |
| High Price - PKR | 69.9 | 69.9 | 69.9 |
| Low Price - PKR | 43.7 | 34.9 | 24.5 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

**Exhibit:** Ratio Analysis

| | | CY24e | CY25f | CY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 5.24 | 18.56 | 22.22 |
| Dividend per share | PKR | 3.00 | 9.00 | 11.00 |
| Book value per share | PKR | 187.53 | 195.66 | 205.51 |
| Price to Earning | x | 11.64 | 3.29 | 2.75 |
| Price to Book | x | 0.33 | 0.31 | 0.30 |
| ADR | % | 27.33 | 31.57 | 31.06 |
| IDR | % | 120.05 | 120.11 | 120.03 |
| NIMs | % | 2.27 | 2.44 | 2.81 |
| RoE | % | 2.80 | 9.69 | 11.08 |

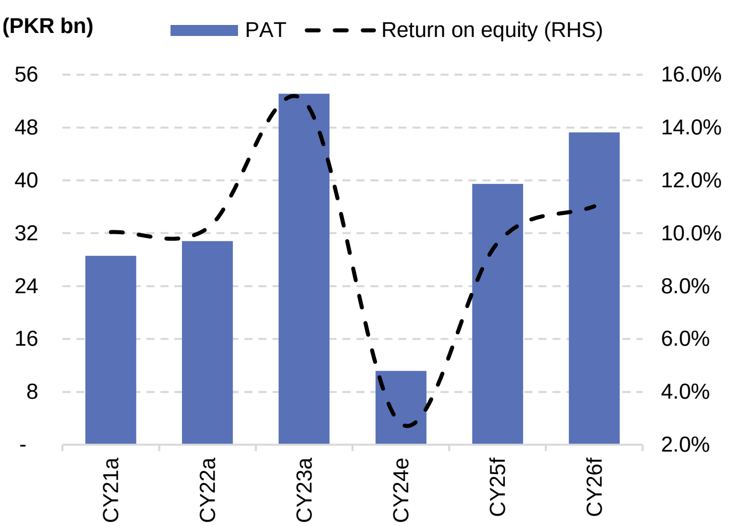
Source (s): Company Financials, AHL Research

**Table:** Key Financial Highlights

| PKR mn | CY24e | CY25f | CY26f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Mark-up Income | 138,986 | 149,095 | 180,076 |
| Non-Mark-up Income | 51,378 | 74,371 | 75,922 |
| Total Income | 190,364 | 223,466 | 255,998 |
| Provisioning | 2,576 | 8,446 | 7,619 |
| OPEX | 113,425 | 116,479 | 132,542 |
| Post Tax Profit | 11,158 | 39,487 | 47,264 |
| **Balance Sheet** | | | |
| Advances | 1,098,408 | 1,210,663 | 1,334,226 |
| Deposits | 4,019,780 | 3,835,168 | 4,295,388 |
| Investments | 4,825,859 | 4,606,546 | 5,155,674 |
| Borrowings | 2,383,280 | 2,273,825 | 2,546,684 |
| Total Equity | 401,105 | 418,393 | 439,356 |

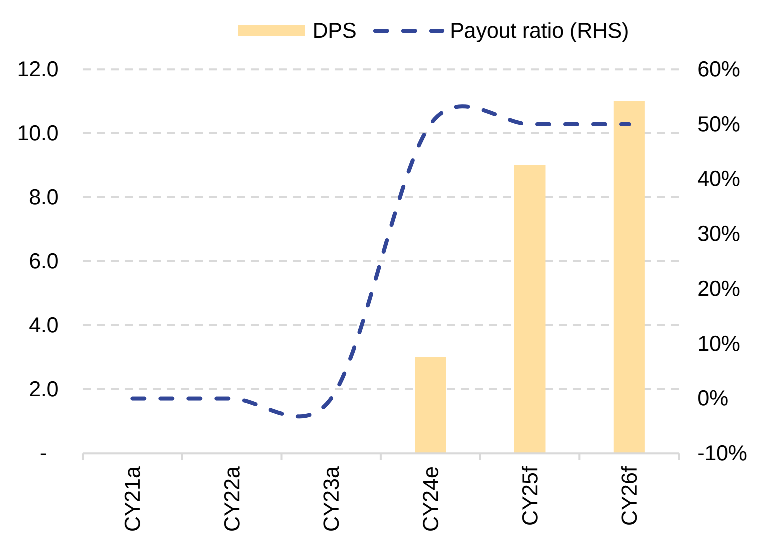
Source (s): Company Financials, AHL Research

**Figure:** Improving profitability and ROE




Source (s): Company Financials, AHL Research

**Figure:** Resumption of payout on the cards




Source (s): Company Financials, AHL Research

# Faysal Bank Limited (FABL)

## Picking up the pace in the Islamic league

FABL, after exemplary conversion form conventional to Islamic, now stands as the second-largest Islamic bank in the country, FABL is strategically positioned with a network of 765 branches across 308 cities. With a resilient capital structure, low infection ratio, and high coverage metrics, FABL is well-equipped to continue excelling in the Islamic banking sphere, marking it as a prime choice within AHL's banking coverage.

### Exceptional top-line growth

FABL's transition to Islamic banking has exempted it from the Minimum Deposit Rate (MDR) requirement, a regulatory advantage that has significantly contributed to earnings growth. By the end of 9MCY24, FABL reported a stellar 22% YoY growth in net profit earned, primarily fueled by this MDR exemption, expanding current account balances (now 33% of total deposits), and variable Sukuk holdings. Going forward, this along with a strong retail presence and aggressive lending history, will support bank's interest/profit earning yield.

### Strong CASA composition

FABL's asset base crossed PKR 1.4trn in 9MCY24, driven by effective deposit mobilization and strategic borrowings. The bank has steadily increased its CASA (Current Account and Savings Account) mix, which has now reached 79% as of Sep'24, up from 76% at Dec'23. With a current cost of deposits at ~11.7%, this strong CASA ratio places FABL in a favorable position to sustain low funding costs.

### Record Performance and Solid Growth Outlook

FABL's financial results for CY24e are anticipated to reach new heights, with record earnings projected at PKR 17.3/share (9MCY24: PKR 13.4 per share) and a forecasted dividend payout of PKR 6/share (9MCY24: PKR 4.5 per share). The bank's Capital Adequacy Ratio (CAR) has risen to a solid 21.2% as of Sep'24, compared to 17.5% at Dec'23, underscoring its financial stability. With this strong foundation, FABL is well-positioned to enhance shareholder returns through potential dividend increases and a strategic focus on expanding its branch network.

### Valuations at discount

We value FABL using a Justified P/B ratio methodology, considering our estimated average ROE of 19.1% for the period CY25-27. Our analysis yields a justified P/B multiple of 0.93x. Based on our valuation, our Dec'25 Target Price for FABL is PKR 76.4/share, implying a potential upside of 58.8% from the last closing price and a dividend yield of 11% (CY25f). Currently, FABL is trading at a forward P/E ratio of 3.0x in favorable comparison to the current peers' P/E ratio of 3.7x. This 23% discount makes the stock particularly attractive at its current level, hence we rate FABL as a "Buy".

**FABL**

**Summary Data**

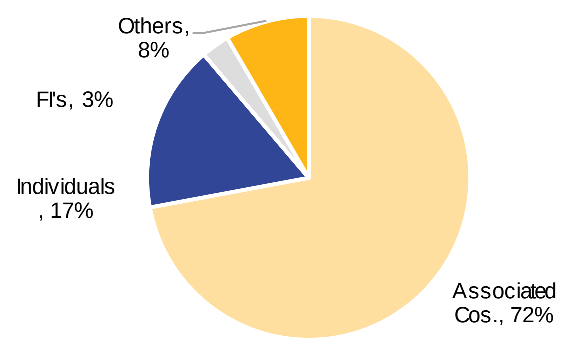
| | |
|---|---|
| Target Price (Dec'25) | 76.4 |
| Last Closing | 48.1 |
| Upside (%) | 58.8 |
| Shares (mn) | 1,517.7 |
| Free float (%) | 25 |
| Market Cap. (PKR mn) | 73,001 |
| Market Cap. (USD mn) | 263 |

**Recommendation** **BUY**

**Price Performance**

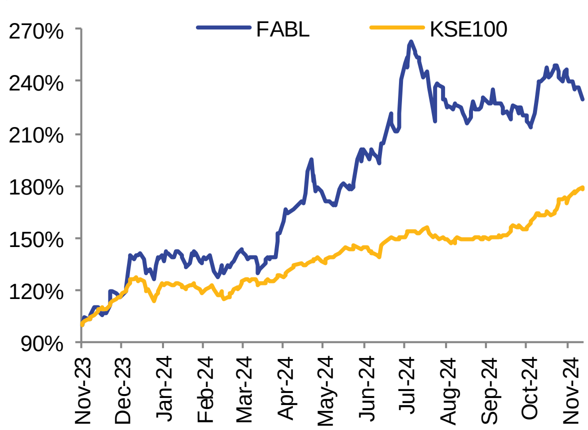
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 10.3 | 31.9 | 118.5 |
| Avg. Volume (000) | 2,002 | 3,263 | 2,941 |
| ADTV (mn) - PKR | 98 | 160 | 126 |
| ADTV (000) - USD | 354 | 575 | 453 |
| High Price - PKR | 50.5 | 53.3 | 53.3 |
| Low Price - PKR | 43.2 | 36.0 | 21.4 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Exhibit: Ratio Analysis**

| | | CY24e | CY25f | CY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 17.27 | 15.93 | 16.37 |
| Dividend per share | PKR | 6.00 | 5.00 | 5.00 |
| Book value per share | PKR | 71.18 | 82.11 | 93.47 |
| Price to Earning | x | 2.79 | 3.02 | 2.94 |
| Price to Book | x | 0.68 | 0.59 | 0.51 |
| ADR | % | 61.43 | 61.96 | 62.49 |
| IDR | % | 70.36 | 70.32 | 70.28 |
| NIMs | % | 6.56 | 6.14 | 5.48 |
| RoE | % | 26.35 | 20.78 | 18.64 |

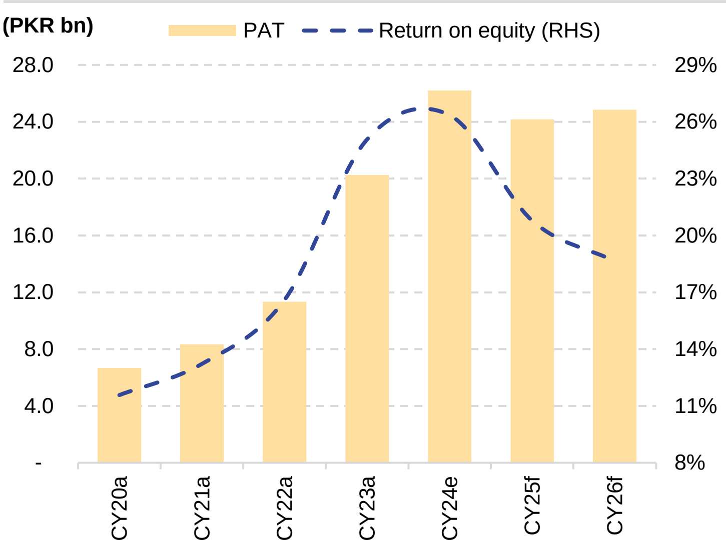
Source (s): Company Financials, AHL Research

**Table:** Key Financial Highlights

| (PKR mn) | CY24e | CY25f | CY26f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Mark-up Income | 79,845 | 82,274 | 82,501 |
| Non-Mark-up Income | 17,313 | 21,120 | 22,501 |
| Total Income | 97,158 | 103,394 | 105,002 |
| Provisioning | 4,455 | 3,412 | 3,886 |
| OPEX | 41,310 | 47,363 | 47,758 |
| Post Tax Profit | 26,210 | 24,173 | 24,840 |
| **Balance Sheet** | | | |
| Advances | 588,277 | 664,533 | 750,671 |
| Deposits | 957,570 | 1,072,478 | 1,201,175 |
| Investments | 673,718 | 754,154 | 844,242 |
| Borrowings | 304,104 | 344,514 | 392,050 |
| Total Equity | 108,029 | 124,614 | 141,865 |

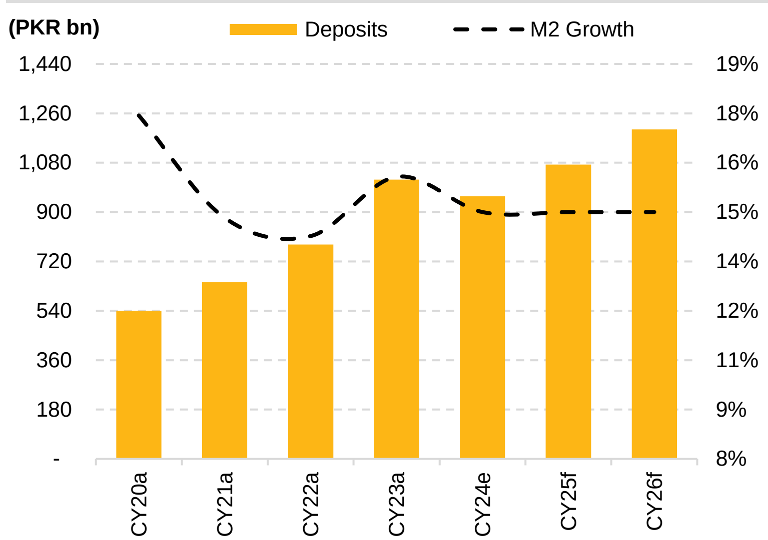
Source (s): Company Financials, AHL Research

**Figure:** Profitability vs ROE

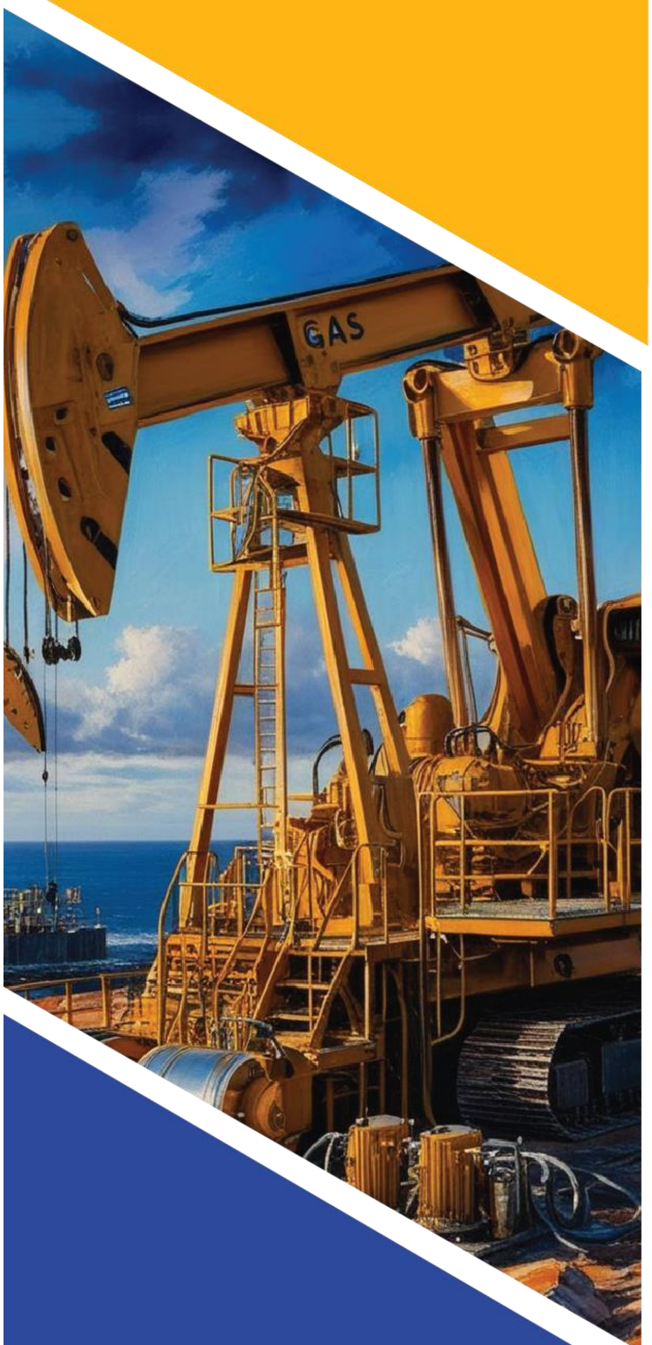



Source (s): Company Financials, AHL Research

**Figure:** Deposits vs M2 Growth




Source (s): Company Financials, AHL Research




# Oil & Gas Exploration Companies

## Powering the nation’s energy needs

# International oil

### Tug of war in oil prices

In CY24TD, oil prices have been influenced by a blend of supply cuts, economic slowdown-induced demand fluctuations, and geopolitical tensions that introduced volatility into the market. Prices of WTI, Brent, and Arab Light declined by 1.2%, 1.8%, and 2.9%, respectively. The year started with an anticipated recovery in global oil demand, yet tensions from the Middle East conflict pushed prices upward. High inflation in major oil-consuming economies brought demand concerns and recession fears into focus. Additionally, Ukraine's attack on Russian refineries briefly stirred supply disruption worries in Eastern Europe, and a Gulf Coast hurricane in the U.S. temporarily lifted prices. In Jun'24, OPEC+ extended its 2.2mn b/d production cuts through Dec'24, with a phased increase planned through Nov'25. Although these moves, along with the geopolitical climate, initially supported oil prices, weaker demand from the U.S. and China ultimately tempered gains.

### Demand revival on the horizon

For 2025 the world oil demand is projected to grow by 1.30 mb/d to 104.36 mb/d, according to EIA. Major contributor for the jump is anticipated to be demand from Asia (+0.49mb/d YoY), Euroasia (+0.38 mb/d YoY) and Europe (+0.21 mb/d YoY).

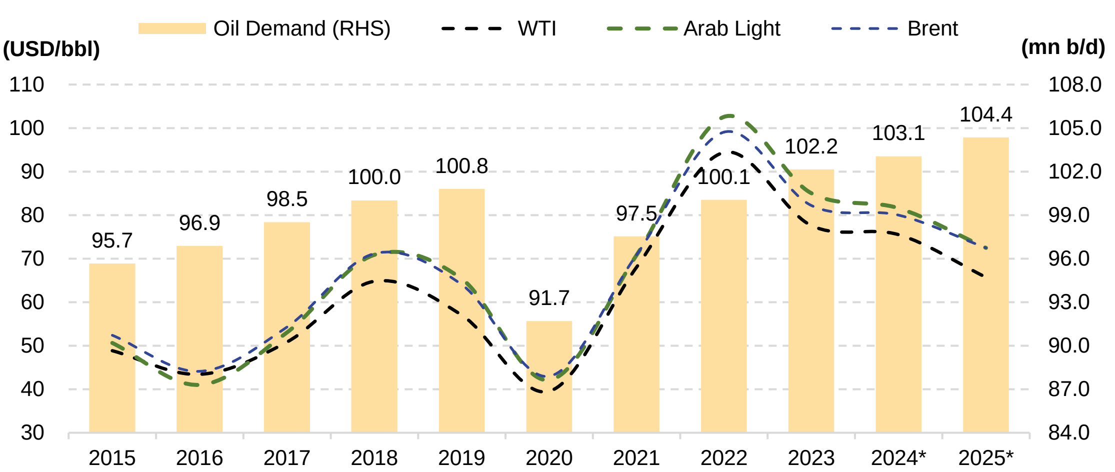
### Unwinding supply

The non-OPEC oil supply growth for CY25 is project to arrive at 71.94 mb/d, showcasing a growth of 1.48 mb/d YoY mainly due to growth from OECD countries such USA (+0.45 mb/d) and Canada (+0.25mb/d). Similarly, supply by OPEC is forecasted to augment by 0.55 mb/d to 32.60mb/d in CY25 versus 32.04 mb/d in CY24.

### Oil price projection

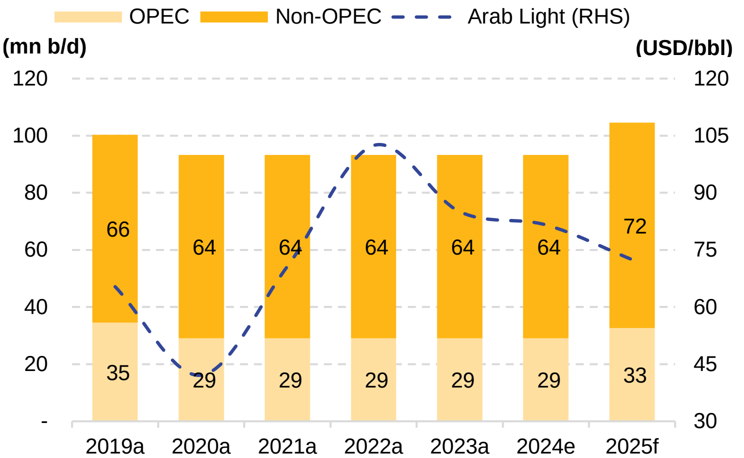
Going forward, the countries around the globe are expected to witness an economic revival given the inflation rate is coming down tagged with interest rates easing off. However, the Middle East conflict is escalating, bringing in Iran (which is one of the key oil producer) into picture. Moreover, the Ukraine and Russia war is also ongoing, and in the event of further intensification of the conflict can result in surge in oil prices. Hence, we expect oil price in FY25 and FY26 to settle at USD 77/bbl and USD 70/bbl.

**Figure:** Oil demand in relation to oil prices



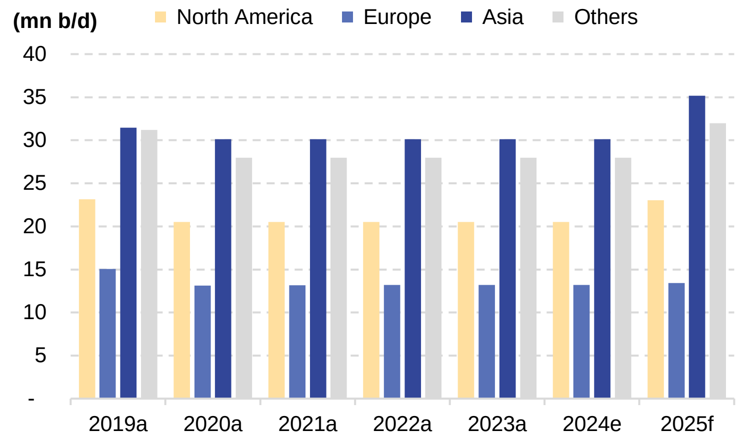

Source (s): EIA, AHL Research, *estimated

**Figure:** World oil production in relation to oil price



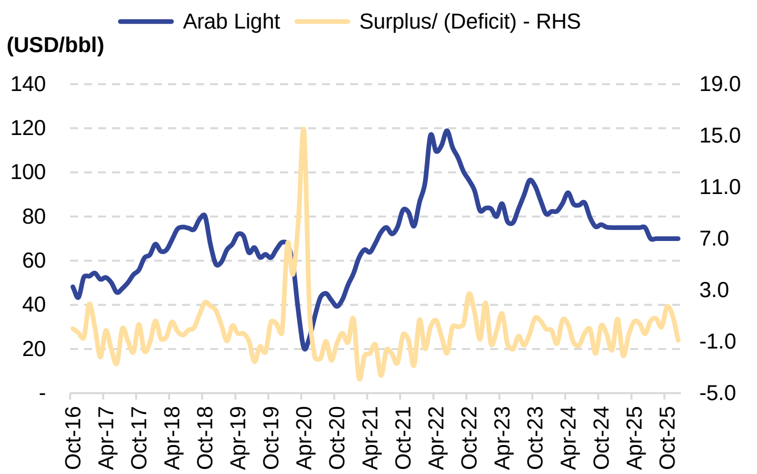

Source (s): EIA, AHL Research

**Figure:** World oil consumption



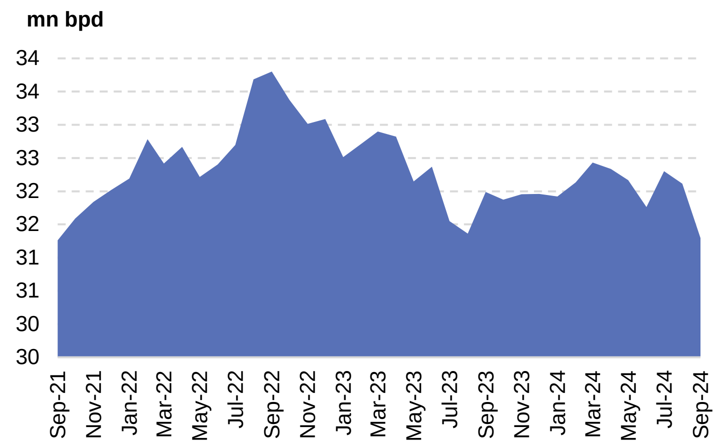

Source (s): EIA, AHL Research

**Figure:** Surplus/(Deficit) Production trend



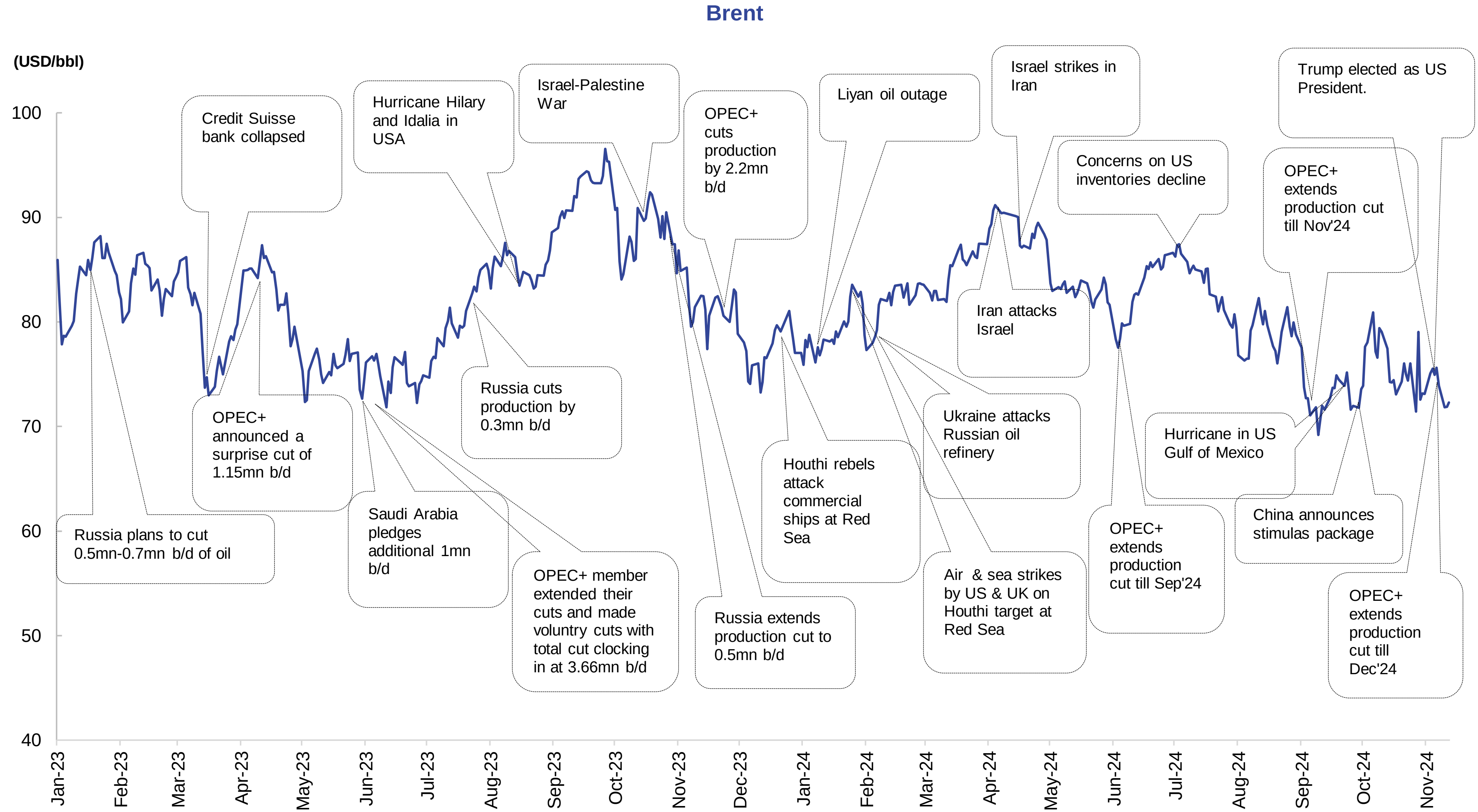

Source (s): EIA, AHL Research

**Figure:** OPEC production




Source (s): EIA, AHL Research

## Oil Event Graph

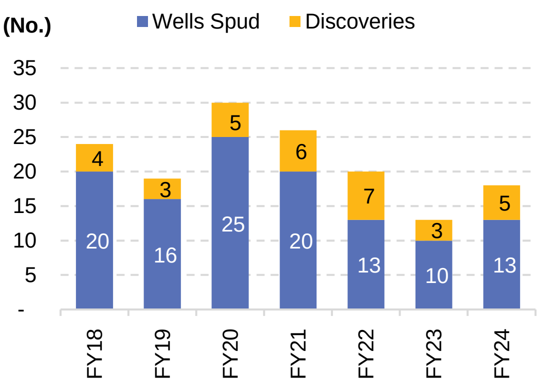


# Powering the Nation's Energy Needs

**Exploration targets:** The Pakistani E&P companies spud a total of 59 wells, which is more than the initially planned 56 wells in FY24, which consists of 15 exploratory and 32 development/appraisal wells. The higher numbers of wells were drilled amid improved liquidity of E&P companies due to gas price hike. The drilling efforts resulted in 15 oil & gas discoveries. In FY25, 67 wells (27 exploratory & 40 development/appraisal wells) are planned to be spud by E&Ps.

**Curtailment of Pakistan's oil and gas production:** Pakistan's oil production during FY24 witnessed an uptick of 1% YoY to settle at 70,524 bopd against 69,513 bopd during FY23. The jump in oil production is owed to commencement new discoveries and increase production from matured fields post production enhancement initiatives. However, gas production declined by 4% YoY to arrive at 3,116 mmcfd in FY24 vis-à-vis 3,259 mmcfd in FY23. The decrease in gas production is owed to natural decline at major fields coupled with curtailment by SNGP amid reduction in demand from gas from industrial sector. In order to address the natural decline, the E&P companies have taken intervention measures to improve production.

**Figure:** Historical exploration activity




Source (s): PPIS, AHL Research

**Govt. introduces Tight Gas policy:** In Feb'24, the Govt. introduced the Tight Gas Policy 2024, offering exploration companies a 40% premium over the Petroleum Policy 2012 price as an incentive to tap into untapped tight gas reserves. The policy also allows for a lease period of up to 30 years, with the option to extend for an additional 10 years. Following this, E&P companies are now focusing on wells with tight gas potential. In Apr'24, OGDC announced a tight gas discovery at Nur West-1 with an output of 1.24mmcfd and plans to conduct fracking on 6-7 wells in Sindh. Meanwhile, PPL intends to appraise four tight gas discoveries Naushahro Firoz, Hadi, Hub, and Morgandh while MARI is assessing tight gas prospects in the Kawagarh Formation at its Shewa-2 appraisal well.

**Drilling at Abu Dhabi Block:** In Abu Dhabi's offshore Block-5, where OGDC, PPL, and MARI each hold a 25% stake, appraisal wells BuDana-003 and Al Bateen-002 have reached completion, while drilling on the first exploration well, Marwah (XF003-1V), is currently underway. Additionally, the appraisal wells BuDana-003, Al Manhal, and Al Bateen are now undergoing a Pre-FEED study alongside technical and commercial due diligence. Any major discovery here could potentially deliver a significant boost to revenue and earnings for the stakeholders involved.

**Divestment of Reko Diq Mining Project under consideration:** The copper and gold extraction project at the Reko Diq Mine in Balochistan, where OGDC and PPL each hold an 8.33% stake, is currently in the feasibility study for the project is ongoing, expected to conclude by the end of 2024. Following this, construction will begin, with mining operations anticipated to commence in 2028. Additionally, OGDC and PPL are considering divesting a portion of their stake in the project to a sovereign foreign investor.

**Risk (s):**

- Disruption of production from major fields.
- Hefty drop in oil prices or sharp appreciation of PKR/USD
- Inability to bring discovery online since a long time.

# Oil Price Sensitivity

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

| Code | Current Price | TP Dec-25 | Upside (%) | Stance | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPL | 152.5 | 181.2 | 18.8 | Buy | 38.3 | 37.2 | 9.0 | 14.0 | 4.0 | 4.1 | 6% | 9% |
| OGDC | 194.9 | 230.8 | 18.4 | Buy | 39.7 | 41.7 | 12.0 | 21.0 | 4.9 | 4.7 | 6% | 11% |
| MARI | 459.0 | 429.7 | (6.4) | Sell | 64.7 | 49.5 | 26.0 | 20.0 | 7.1 | 9.3 | 6% | 4% |
| POL | 577.8 | 627.7 | 8.6 | Buy | 95.4 | 110.2 | 65.0 | 76.0 | 6.1 | 5.2 | 11% | 13% |

**With USD 55/bbl in FY25 and going forward**

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

| Code | Current Price | TP Dec-25 | Upside (%) | Stance | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPL | 152.5 | 188.2 | 23.4 | Buy | 40.7 | 41.5 | 10.0 | 16.0 | 3.8 | 3.7 | 7% | 10% |
| OGDC | 194.9 | 241.0 | 23.7 | Buy | 43.9 | 46.7 | 14.0 | 24.0 | 4.4 | 4.2 | 7% | 12% |
| MARI | 459.0 | 466.8 | 1.7 | Hold | 65.7 | 57.8 | 27.0 | 23.0 | 7.0 | 7.9 | 6% | 5% |
| POL | 577.8 | 669.4 | 15.8 | Buy | 103.2 | 121.3 | 71.0 | 84.0 | 5.6 | 4.8 | 12% | 15% |

**With USD 65/bbl in FY25 and going forward**

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

| Code | Current Price | TP Dec-25 | Upside (%) | Stance | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPL | 152.5 | 195.2 | 28.0 | Buy | 42.4 | 43.7 | 10.0 | 17.0 | 3.6 | 3.5 | 7% | 11% |
| OGDC | 194.9 | 249.1 | 27.8 | Buy | 48.8 | 49.2 | 15.0 | 25.0 | 4.0 | 4.0 | 8% | 13% |
| MARI | 459.0 | 488.2 | 6.4 | Hold | 67.0 | 64.4 | 27.0 | 26.0 | 6.9 | 7.1 | 6% | 6% |
| POL | 577.8 | 696.6 | 20.6 | Buy | 112.3 | 127.6 | 77.0 | 88.0 | 5.1 | 4.5 | 13% | 15% |

**With USD 77/bbl in FY25 and USD 70/bbl in FY26**

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

| Code | Current Price | TP Dec-25 | Upside (%) | Stance | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPL | 152.5 | 202.2 | 32.5 | Buy | 43.0 | 45.4 | 10.0 | 18.0 | 3.5 | 3.4 | 7% | 12% |
| OGDC | 194.9 | 251.3 | 29.0 | Buy | 48.1 | 51.6 | 15.0 | 26.0 | 4.0 | 3.8 | 8% | 13% |
| MARI | 459.0 | 500.0 | 8.9 | Hold | 66.8 | 65.0 | 27.0 | 26.0 | 6.9 | 7.1 | 6% | 6% |
| POL | 577.8 | 710.5 | 23.0 | Buy | 111.1 | 132.3 | 76.0 | 91.0 | 78.0 | 4.4 | 13% | 16% |

**With USD 75/bbl in FY25 and going forward**

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

| Code | Current Price | TP Dec-25 | Upside (%) | Stance | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPL | 152.5 | 209.1 | 37.1 | Buy | 45.4 | 48.9 | 4.50 | 4.50 | 3.4 | 3.1 | 3% | 3% |
| OGDC | 194.9 | 261.7 | 34.3 | Buy | 52.3 | 56.5 | 9.75 | 10.25 | 3.7 | 3.5 | 5% | 5% |
| MARI | 459.0 | 529.3 | 15.3 | Buy | 67.9 | 71.3 | 237.00 | 285.00 | 6.8 | 6.4 | 52% | 62% |
| POL | 577.8 | 751.1 | 30.0 | Buy | 119.0 | 143.3 | 102.00 | 101.00 | 4.9 | 4.0 | 18% | 17% |

**With USD 85/bbl in FY25 and going forward**

# Oil & Gas Development Company Limited (OGDC)

## Paddling ahead in terms of liquidity

### Strong liquidity post gas price revision

After over a decade of struggles with circular debt, the gas tariff revision (re-commenced in Feb'23) and subsidy removal have reduced OGDC's gas circular debt. Receivable collections in 1QFY25 reached 100%, up from 85% YoY. As of Sep'24, trade receivables stood at PKR 608bn (down from PKR 635bn in Jun'24), with overdue receivables at PKR 547bn (down from PKR 561bn in Jun'24), showing a quarterly recovery of PKR 14bn. OGDC is actively pursuing outstanding debt recovery from customers and stakeholders. Additionally, OGDC recovered PKR 82bn from the government in FY24, representing the principal amount invested in Privately Placed Term Finance Certificates issued by PHPL for the partial settlement of circular debt in 2013. As a result, OGDC's cash and cash equivalents increased to PKR 265bn (PKR 61.58/share) as of Sep'24. OGDC may consider capital-intensive projects, such as offshore or frontier block drilling in Pakistan, and pursue acquisitions of new offshore or international blocks to expand its global footprint.

### Oil & gas production

Due to the reduction in gas demand by industries, the SNGP curtailed gas production from major fields such as Qadirpur, Nashpa, Chanda, and Dhok Hussain. Resultantly, the gas production of OGDC has witnessed decline 6% YoY in FY24. The government is taking steps to resolve the issue. Additionally, the company has undertaken measures to augment production going forward. Going forward, we expect oil and gas production to increase by 7% and 4% YoY, respectively in FY25.

### Efforts to fully maximize output from existing fields

Over the past year, the company has implemented measures to maximize production from mature fields and counter natural decline. In FY24, 11 wells were injected, adding 2,122 bopd of oil and 11 mmcfd of gas. The installation of electrical submersible pumps at Pasakhi-11, Kunnar-8 & 11, and Sono-2 & 9 increased production by 4,850 bopd. In the past 1.5 years, the company made four gas and condensate discoveries, along with a tight gas find at Nur West-1, which are expected to add a combined 1,219 bopd of oil and 61 mmcfd of gas. Looking ahead, the company plans to drill 10 exploratory/appraisal wells and 6 development wells in FY25

### Highest hydrocarbon reserve life in Pakistan

OGDC's oil reserves have significantly improved over the past year, reaching 136mn bbls by Jun'24, up 56% YoY. This growth is driven by the addition of new fields such as Shewa and Dhodak Deep, as well as a substantial increase in reserves at existing fields like KPD-TAY. Hence, OGDC holds highest reserve life in Pakistan, at 20-Yrs.

### Bettani ramping up production

Since the early production facility came online in Jun'23, the Bettani field has been producing 950 bopd of oil and 14 mmcfd of gas. With additional flows from Bettani-2 and Bettani Deep-1 following successful drilling in FY24, production is expected to climb up to 3,000 bopd of oil and 35 mmcfd of gas.

### Earnings outlook

For FY25 and FY26, we project OGDC's earnings to arrive PKR 48.78/share and PKR 49.25/share, respectively. The scrip is currently trading at FY25e P/E, P/B and D/Y of 4.0x, 0.6x, and 7.7%, respectively.

## OGDC

**Summary Data**

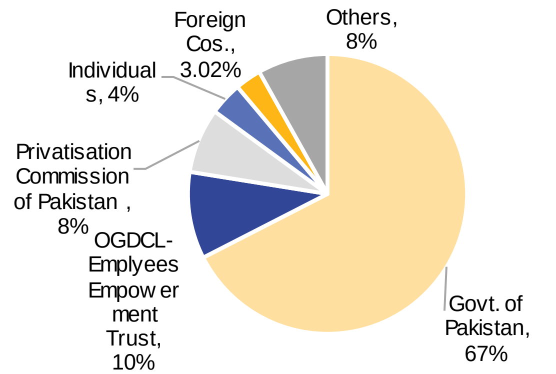
| | |
|---|---|
| Target Price (Dec'25) | 249.1 |
| Last Closing | 194.9 |
| Upside (%) | 27.8 |
| Shares (mn) | 4,300.9 |
| Free float (%) | 15 |
| Market Cap. (PKR mn) | 838,122 |
| Market Cap. (USD mn) | 3,018 |

**Recommendation: BUY**

**Price Performance**

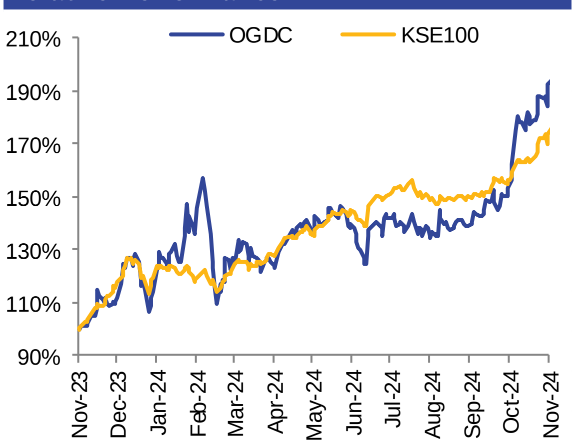
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 54.5 | 46.9 | 102.7 |
| Avg. Volume (000) | 6,983 | 6,600 | 9,255 |
| ADTV (mn) - PKR | 1,119 | 979 | 1,243 |
| ADTV (000) - USD | 4,026 | 3,520 | 4,445 |
| High Price - PKR | 197.6 | 197.6 | 197.6 |
| Low Price - PKR | 126.1 | 114.1 | 96.1 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

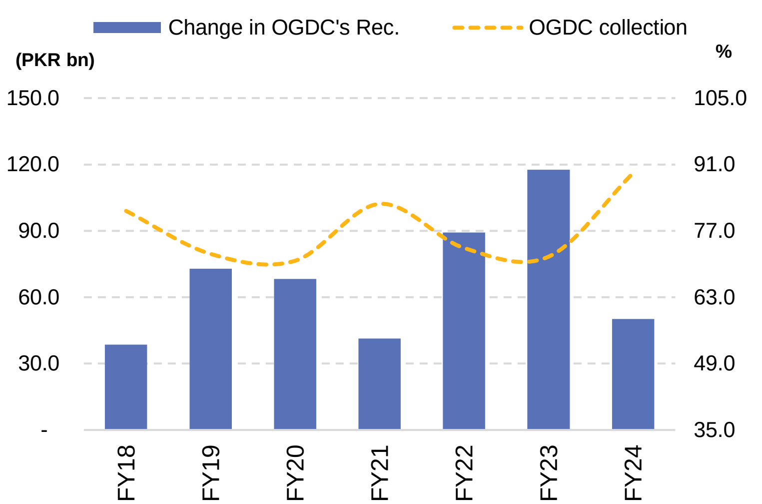
| Exhibit: Key Ratios | | | | |
|---|---|---|---|---|
| | | 2024a | 2025e | 2026f |
| Earnings per share | PKR | 48.6 | 48.8 | 49.2 |
| Dividend per share | PKR | 10.1 | 15.0 | 25.0 |
| Book value per share | PKR | 290.8 | 313.1 | 342.7 |
| Price to Earning | x | 2.8 | 4.0 | 4.0 |
| Price to Book | x | 0.5 | 0.6 | 0.6 |
| Dividend Yield | % | 7.5 | 7.7 | 12.8 |

Source (s): Company Financials, AHL Research

| Exhibit: Key Financial Highlights* | | | |
|---|---|---|---|
| PKR mn | 2024a | 2025e | 2026f |
| **Income Statement** | | | |
| Net Sales | 463,698 | 464,066 | 474,626 |
| Gross Profit | 283,313 | 270,958 | 267,446 |
| Operating Profit | 261,863 | 252,236 | 248,935 |
| Finance Cost | 7,143 | 4,012 | 3,901 |
| Post Tax Profit | 208,976 | 209,803 | 211,819 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 1,250,496 | 1,346,443 | 1,473,791 |
| Total Liabilities | 353,758 | 370,138 | 449,712 |
| Current Assets | 1,060,489 | 1,075,175 | 1,144,095 |
| Non-Current Assets | 543,765 | 641,406 | 779,407 |
| Total Assets | 1,604,254 | 1,716,581 | 1,923,503 |

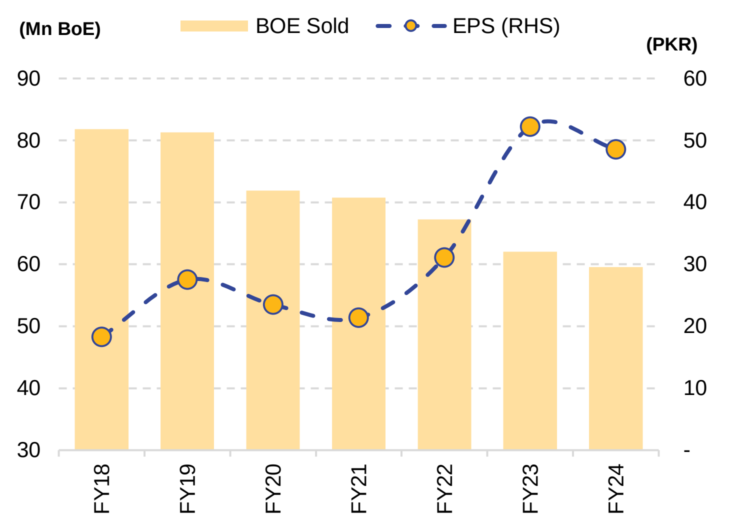
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** OGDC's receivable compared to collection




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

**Figure:** Hydrocarbon production in relation to EPS




Source (s): PPIS, AHL Research

# Pakistan Petroleum Limited (PPL)

## Lucrative payout on the horizon

### Robust cash flow stream to bolster higher payout

The company's receivable collections have significantly improved over the past 1.5 years, achieving 100% collection for two consecutive quarters. This improvement follows three gas price revisions in Jan'23, Nov'23, and Feb'24, which curtailed circular debt and strengthened the company's financial position. As of Sep'24, trade debts stood at PKR 574bn (down from PKR 578bn in Jun'24), with overdue receivables related to circular debt at PKR 532bn (a PKR 3bn sequential recovery). Consequently, cash and cash equivalents rose to PKR 145bn (PKR 53.40/share) in Sep'24, up from PKR 112bn in Jun'24. With healthy liquidity, a dividend of PKR 10.00/share is expected in FY25. Additionally, the company plans to participate in offshore block bidding.

### Optimistic production forecast for FY25

In FY24, oil and gas production declined by 5% and 14% YoY, respectively, primarily due to natural depletion, lower offtakes from GENCO-II, and excessive back pressure from SNGP due to system constraints. To address this, the company has started re-routing gas to SSGC and is considering reallocating gas production to other customers to counter lower GENCO-II offtakes. As a result, we expect oil and gas production to grow by 4% and 3% YoY in FY25, driven by new discoveries and the revival of production from existing fields.

### Augmenting production from existing wells

PPL has implemented many initiatives over the past 1.5 years to boost production from mature fields. The revamping of the Sui SML Compressor Station in FY24 increased production potential by ~19 mmcfd. Additionally, a low-cost, rig-less production enhancement campaign added 37 mmcfd of gas and 630 bopd of condensate. To address natural decline at Adhi, three development wells were spud, along with multiple production optimization efforts. In FY25, the company plans to spud 8 exploratory and 2 development wells to tap new reserves.

### Update on international blocks

The company has reached a settlement agreement with Midland Oil Company (Iraqi oil company) to conclude the Exploration, Development, and Production Service Contract at Block-8 in Iraq. As part of the settlement, PPL will receive USD 6mn (PKR 1,665mn). Meanwhile, at Abu Dhabi Offshore Block-5, the PPL-led consortium PIOL has completed drilling two appraisal wells, with an exploratory well currently being drilled. The reserve size will be assessed upon completion of the appraisal phase.

### Renewal of Sui lease

The government has approved the Sui Mining Lease until 31st May'25. As a result, the company will enter into a D&P and Petroleum Concession Agreement to fulfill financial obligations (lease extension bonus, production bonus, and others) totaling PKR 52.5bn or PKR 19.29/share. PPL plans to apply for an extension upon lease expiry in May'25.

### Earnings outlook

We forecast bottom-line to arrive at PKR 42.41/share and PKR 43.67/share in FY25 and FY26, respectively. The scrip is trading at an attractive FY25 P/E 3.6x, along with P/B and D/Y of 0.6x and 6.6%, respectively.

## PPL

### Summary Data

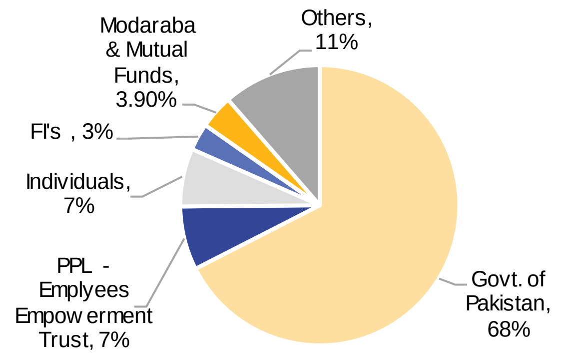
| | |
|---|---|
| Target Price (Dec'25) | 195.2 |
| Last Closing | 152.5 |
| Upside (%) | 28.0 |
| Shares (mn) | 2,721.0 |
| Free float (%) | 25 |
| Market Cap. (PKR mn) | 415,029 |
| Market Cap. (USD mn) | 1,494 |

### Recommendation BUY

### Price Performance

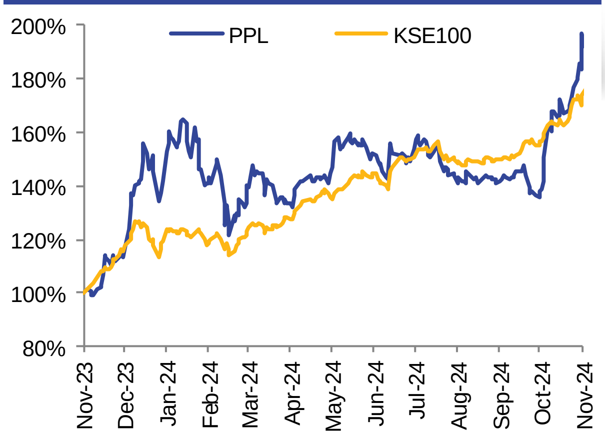
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 41.9 | 27.6 | 94.3 |
| Avg. Volume (000) | 6,357 | 5,586 | 8,499 |
| ADTV (mn) - PKR | 836 | 707 | 1,008 |
| ADTV (000) - USD | 3,011 | 2,545 | 3,601 |
| High Price - PKR | 154.2 | 154.2 | 154.2 |
| Low Price - PKR | 103.4 | 103.4 | 78.5 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

**Exhibit:** Key Ratios

| | | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| Earnings per share | PKR | 42.0 | 42.4 | 43.7 |
| Dividend per share | PKR | 6.0 | 10.0 | 16.5 |
| Book value per share | PKR | 235.1 | 262.5 | 290.2 |
| Price to Earning | x | 2.8 | 3.6 | 3.5 |
| Price to Book | x | 0.5 | 0.6 | 0.5 |
| Dividend Yield | % | 5.1 | 6.6 | 10.8 |

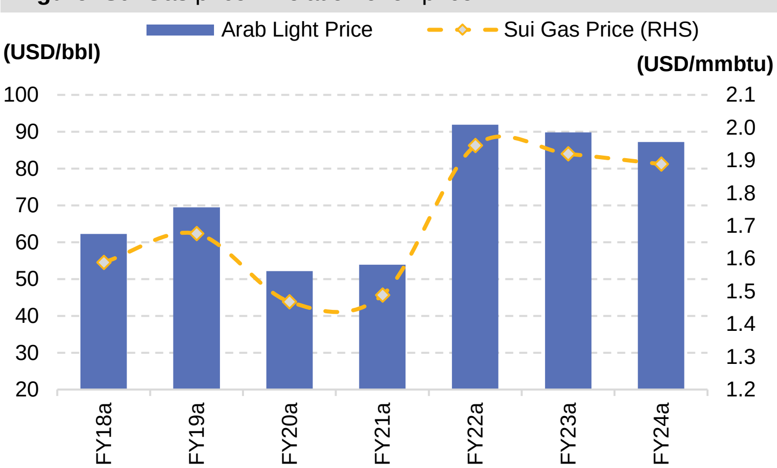
Source (s): Company Financials, AHL Research

**Exhibit:** Key Financial Highlights*

| PKR mn | 2024a | 2025e | 2026f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Sales | 288,797 | 288,953 | 291,152 |
| Gross Profit | 189,381 | 186,390 | 186,427 |
| Operating Profit | 170,248 | 175,389 | 176,184 |
| Other income | 16,977 | 15,884 | 26,828 |
| Post Tax Profit | 114,309 | 115,408 | 118,815 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 639,573 | 714,154 | 789,569 |
| Total Liabilities | 267,874 | 296,409 | 387,295 |
| Current Assets | 705,349 | 679,721 | 703,136 |
| Non-Current Assets | 227,726 | 307,427 | 455,898 |
| Total Assets | 907,448 | 1,010,563 | 1,176,864 |

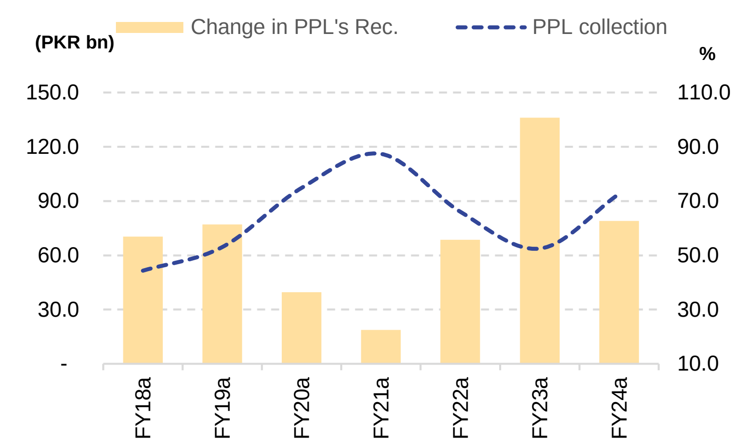
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** Sui Gas price in relation of oil price

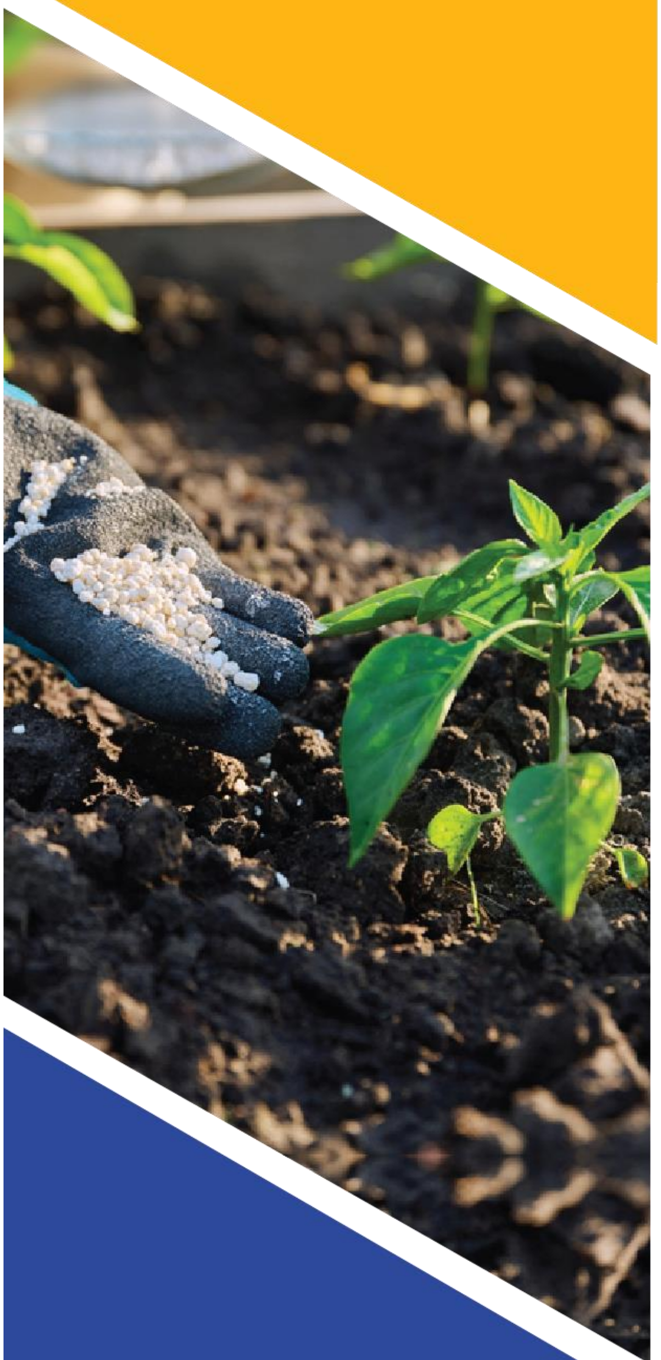



Source (s): Bloomberg, AHL Research

**Figure:** Change in receivable compared to collection




Source (s): PPIS, AHL Research



# Fertilizer

## Profitability outweighs agricultural issues

## Profitability out - weighs the agriculture issues

**Problems related to wheat summed up:** In 2024, the government halved its wheat procurement target, owing to the availability of 2.3mn tons of imported wheat in storage. This led to a decrease in the market price of wheat, which fell to around PKR 3,000/bag – 3,100/bag between Mar'24 – May'24, below the minimum support price of PKR 3,900/bag. As a result, farmers withheld their wheat, reluctant to sell at such low prices. Additionally, due to rainfall, the wheat grain had higher moisture content, prompting the government to avoid procurement. The government also altered the process for wheat sales, which created further complications. Farmer unions blamed the import of 3.2 million tons of wheat for exacerbating the crisis. This situation negatively impacted agricultural economics, as evidenced by a decline in fertilizer offtake.

**Performance in agriculture sector:** Agriculture forms the backbone of Pakistan's economy, contributing significantly to both its GDP and employment. In FY24, the sector accounted for 24% of the GDP, reflecting a slight increase from 23% in FY23, highlighting its sustained importance. Approximately 37% of the country's workforce is employed in agriculture, with the sector providing crucial livelihoods, especially in rural areas. Additionally, agriculture is vital to Pakistan's export economy, as nearly 70% of its exports are derived from agricultural products such as textiles, rice, and wheat. The sector's performance has a direct impact on the overall economic health, influencing trade balances, food security, and rural development. Therefore, maintaining stability in agriculture is essential not only for economic growth but also for managing inflation, ensuring food security, and boosting export revenues.

**Gas Price Revision:** In Feb'24, in line with the IMF's condition to reduce the gas circular debt and eliminate subsidies, the government significantly increased the feedstock price by 2.8x to PKR 1,597/mmbtu from the previous rate of PKR 580/mmbtu. Simultaneously, the fuel stock price depicted a slight rise of 1%, reaching PKR 1,597/mmbtu, compared to the previous rate of PKR 1,580/mmbtu. Consequently, fertilizer manufacturers such as EFERT and FFBL, which operate on the SNGP and SSGC networks respectively, passed on the higher costs to consumers by increasing urea prices. In contrast, FFC, which receives gas from the MARI network, continues to benefit from the old rates, as no price hike has yet been announced for MARI's consumers. Therefore, if gas price increase is notified to MARI's customers, FFC will likely have to jack up the urea prices by PKR 1,120/bag.

**Homogenous urea prices:** After over a year of disparities in urea prices among manufacturers, the price gap has significantly narrowed. As of Feb'24, EFERT and FFC were selling urea at PKR 4,435/bag and PKR 3,652/bag, respectively. By Nov'24, however, all manufacturers have aligned their prices at PKR 4,308/bag, achieving price harmony. On the other hand, the international price of urea in Nov'24 stood at USD 293/ton, a 26 YoY decrease from USD 397/ton, due to a slowdown in global urea demand. Looking ahead to CY25, local urea prices are expected to rise following an anticipated revision in gas prices. Among manufacturers, FFC is projected to experience the highest price increase, potentially exceeding PKR 1,120/bag, due to the delayed impact of the gas price hike that was last implemented in Feb'24.

**International DAP prices influencing local price:** In CY24TD, DAP prices averaged around PKR 11,922/bag, up 9% YoY. In CY24, initially DAP prices remained elevated (PKR 12,755/bag in Jan'24) due to higher phosphoric acid price and international DAP prices. However, the decline in demand locally given weak purchasing power of farmers and downturn international DAP prices resulted in decline in the DAP prices. In Nov'24, the local DAP price hovered around PKR 12,064/bag. On the international DAP front, the price arrived at USD 580/tons in Nov'24 (averaging USD 563/tons in CY24TD) from USD 536/tons in Nov'23 (USD 550/tons in CY23), up 7% YoY amid strong demand from India. The phosphoric acid prices reduced from USD 985/ton in Nov'23 to USD 950/ton in Nov'24, down 4% YoY. During CY24, the Indian DAP import remained lower due limited purchases. Meanwhile, Chinese exports remained unchanged at 4.5mn tons amid fall in demand from India coupled with export restrictions in China. The primary margin of DAP in 9MCY24 stood at ~USD 130/tons. Meanwhile, the Middle East war has kept the DAP prices higher. In the event of escalation in geopolitical issues in the Middle East, phosphoric acid and international DAP prices are anticipated to climb up.

**Weak purchasing power taking toll on offtake:** During the 10MCY24, the urea sales depicted decline of 9% YoY to 4.9mn tons compared to 5.4mn tons in SPLY. The decline in urea sales is attributed to weak farm economics and a 58-day BMR shutdown of EFERT's EnVen plant. Meanwhile, DAP sales rose by 3% YoY to 1.2mn tons, driven by higher purchasing in anticipation of rising DAP prices. By the end of CY24, urea and DAP offtake is expected to reach 6.1mn tons and 1.6mn tons, respectively. Looking ahead, urea and DAP sales are expected to stabilize at 6.6mn tons and 1.7mn tons, respectively, in CY25.

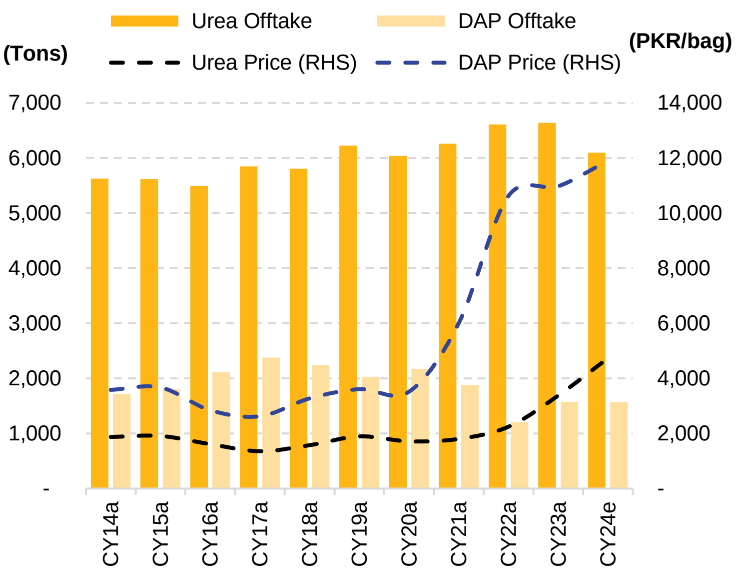
**Update on Pressure Enhancement Facility:** The Pressure Enhancement Facility Project, in which FFC, EFERT, and FATIMA are collaborating together with MARI to develop and install pressure enhancement facilities at the MARI's HRL reservoir is ongoing. About 90% of scope 1 of Phase I has been completed and is slated to be finished by year-end. Meanwhile, scope 2 of phase I is on track for completion in 2QCY25, while order of compressors for Phase II is currently in progress.

**Kissan Card Program- Solution to farmers woe?** In an attempt to support the farmers, the Punjab Govt has announced PKR 400bn Kisan Card Program on 29th Oct'24. The government plans to increase the number of Kisan Cards from 500k to 750k. Under this program, free laser levelers will be provided to farmers cultivating wheat on 12.5 to 25 acres of land coupled with tractors to famers to cultivating above 25 acres. Moreover, the agricultural machinery offered under the program will be on a no profit rental basis to farmer. The card holders will now be able to buy seeds, fertilizers, and pesticides at subsidized rates of ~PKR 150,000. The program comes at the time of commencement of Rabi season and will encourage the farmers (some of whom plan to skip planting wheat crop) to grow wheat.

**Key Risk (s)**

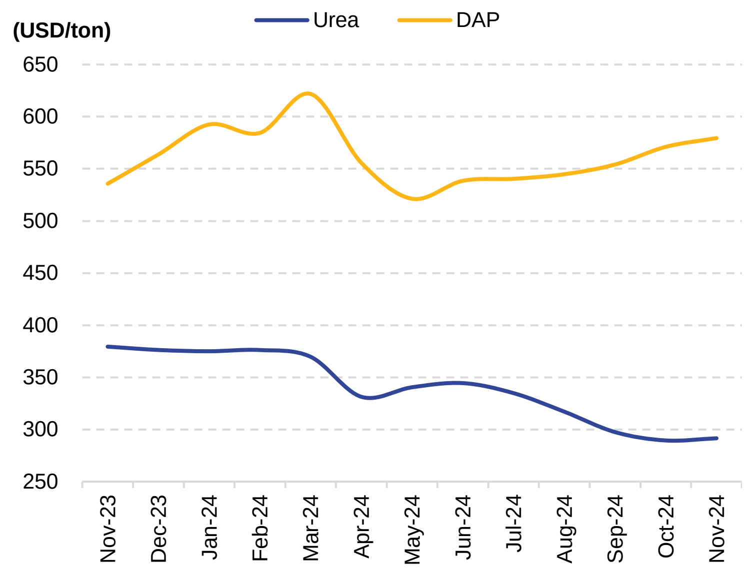
- Inability to pass on the impact of hike in gas price to end consumers.
- Disruption of gas supply
- Natural calamity such as floods can negatively fertilizer offtake

**Figure:** Offtake and prices of Urea and DAP



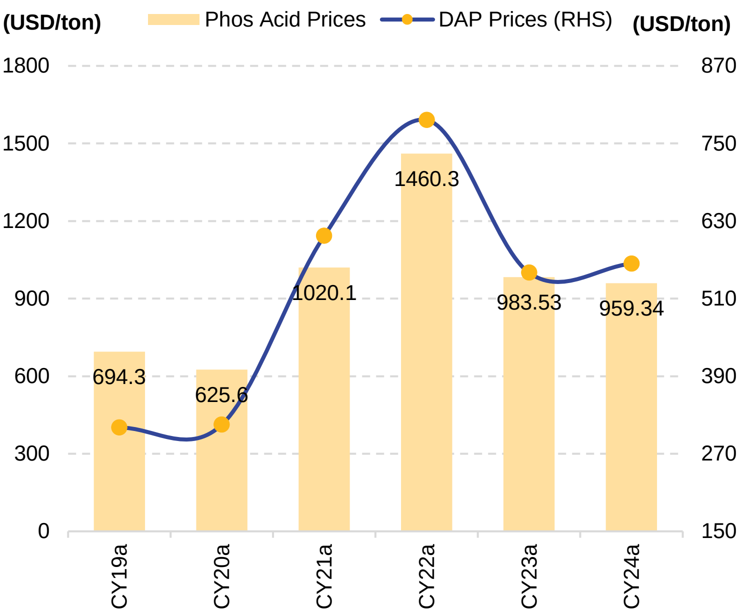

Source (s): NFDC, AHL Research

**Figure:** International Urea and DAP prices



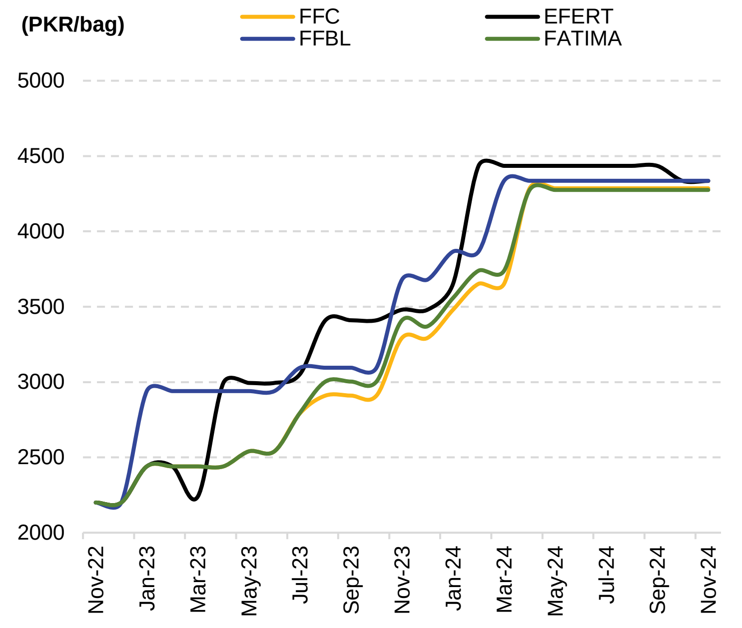

Source (s): Bloomberg, AHL Research

**Figure:** Phosphoric acid in relation to international DAP price




Source (s): Bloomberg, AHL Research

**Figure:** Urea prices of major Urea producers




Source (s): Fertilizer Dealers, AHL Research

# Fauji Fertilizer Company Limited (FFC)

## In pursuit industrial dominance

### Unification of FFC & FFBL

In CY24, Fauji Fertilizer Company Ltd and Fauji Fertilizer Bin Qasim Ltd announced and approved an amalgamation, merging FFBL's entire undertaking into FFC. FFBL has 1,291 million outstanding shares, while FFC has 1,272 million, with FFC holding a 49.9% stake in FFBL The companies agreed to a swap ratio of 4.29 FFBL shares per 1 FFC share, resulting in the cancellation of FFBL shares and issuance of 151mn new FFC shares to FFBL shareholders. This will yield a book value of PKR 143.33/share for the merged entity. Post-merger, FFC's capacity will reach 2.60mn tons of urea and 0.65mn tons of DAP, securing market shares of ~43% in urea and ~60% in DAP. This horizontal merger is expected to eliminate double taxation and generate operational, financial, and expansionary synergies.

### Intention to acquire of Agritech Limited

FFC aims to acquire a 64.43% controlling stake in Agritech Limited (AGL), which has a urea capacity of 0.4mn tons (4% market share in terms of sale) and an SSP capacity of 0.08mn tons. This acquisition would increase FFC's urea market share by 48%. After acquiring a 24.97% stake from NBP, FFC now holds 28.86% of AGL. In Oct'24, announced a public offer to acquire an additional 35.57% (151mn shares) at PKR 38.84/share.

### Reaping fruits of lower gas prices

FFC is procuring feed and fuel gas at a lower rate of PKR 580/mmbtu, and PKR 1,580/mmbtu, respectively while consumers on SNGP and SSGC are receiving feed and fuel at PKR 1,597/mmbtu each. This cost advantage supports FFC's strong gross margin, (51.84% reported in 3QCY24, up 2,091 bps YoY). If Mari gas prices are revised, likely in 1HCY25, FFC may need to raise urea prices by PKR 1,200/bag to offset the impact. We estimate that each one-month delay in the Mari gas price revision could boost FFC's after-tax earnings by PKR 2.26/share.

### Earnings to clock in at PKR 45.39/share in CY25

As a merged entity with FFBL profitability is projected in CY25 and CY26 to be PKR 59.30/share and PKR 60.89/share. For CY25 and CY26, we expect FFC's EPS to be PKR 45.39 and PKR 46.26, respectively. Key growth drivers for combined FFC & FFBL are robust margins in core businesses tagged with dividend income from AKBL, FFL, PMP, FFCEL, FFBL Power Company Limited, FWEL I and FWEL II.

### Thar Energy contribution

We anticipate earnings contribution of PKR 3.59/share and PKR 3.90/share on annualized basis in CY25 and CY26, respectively from Thar Energy. Moreover, the Thar Energy contributes PKR 5.51/share to our target price.

### Urea and DAP offtake to stabilize from CY25

With weak agronomics, we expect urea and DAP sales in the CY24 to be 2.4mn tons and 0.1mn tons, respectively. In CY25 and CY26, we expect the urea and DAP sales to stabilize at 2.5tons and 0.2mn tons, respectively.

**FFC**

**Summary Data**

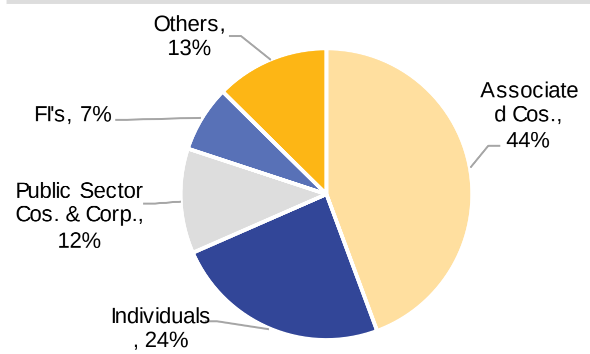
| | |
|---|---|
| Target Price (Dec'25) | 361.5 |
| Last Closing | 278.2 |
| Upside (%) | 30.0 |
| Shares (mn) | 1,272.2 |
| Free float (%) | 55 |
| Market Cap. (PKR mn) | 353,886 |
| Market Cap. (USD mn) | 1,274 |

**Recommendation** **BUY**

**Price Performance**

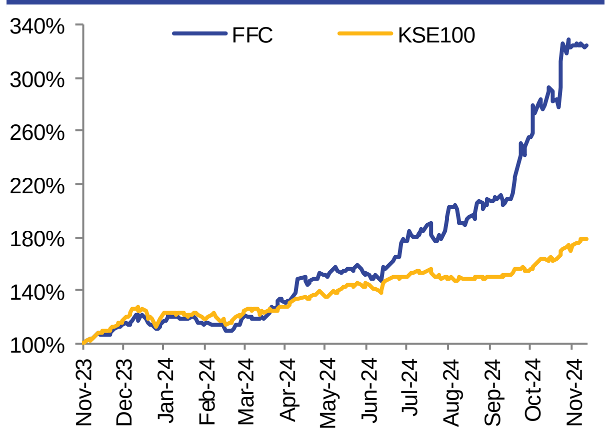
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 63.3 | 103.5 | 197.9 |
| Avg. Volume (000) | 2,291 | 2,013 | 1,894 |
| ADTV (mn) - PKR | 525 | 409 | 316 |
| ADTV (000) - USD | 1,888 | 1,470 | 1,135 |
| High Price - PKR | 287.1 | 287.1 | 287.1 |
| Low Price - PKR | 169.6 | 128.7 | 92.9 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Exhibit:** Key Ratios

| | | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| Earnings per share | PKR | 44.9 | 45.6 | 46.3 |
| Dividend per share | PKR | 33.5 | 34.0 | 35.0 |
| Book value per share | PKR | 60.0 | 71.6 | 82.8 |
| Price to Earning | x | 6.2 | 6.1 | 6.0 |
| Price to Book | x | 4.6 | 3.9 | 3.4 |
| Dividend Yield | % | 12.0 | 12.2 | 12.6 |

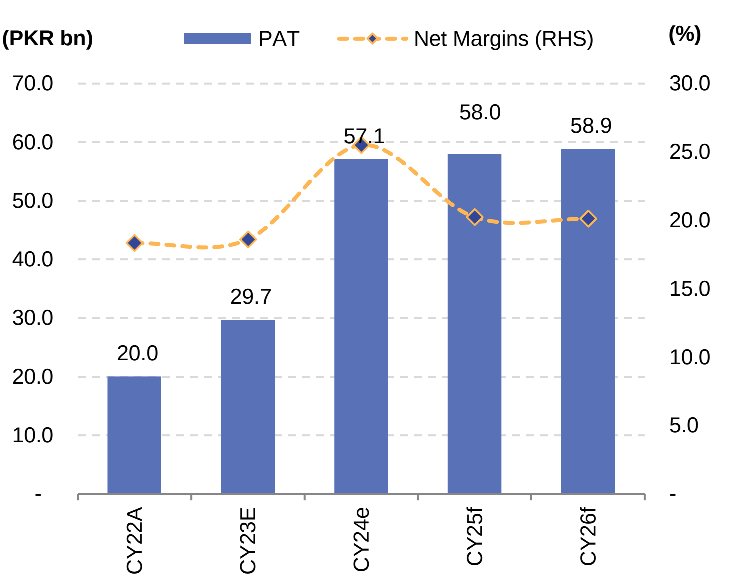
Source (s): Company Financials, AHL Research

**Exhibit:** Key Financial Highlights*

| PKR mn | 2024e | 2025f | 2026f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Sales | 223,902 | 286,597 | 292,566 |
| Gross Profit | 104,362 | 114,701 | 116,367 |
| Operating Profit | 85,110 | 88,758 | 89,567 |
| Finance Cost | 5,189 | 4,257 | 2,403 |
| Post Tax Profit | 57,095 | 57,999 | 58,853 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 76,328 | 91,071 | 105,396 |
| Total Liabilities | 170,831 | 196,853 | 202,023 |
| Current Assets | 131,699 | 164,360 | 170,934 |
| Non-Current Assets | 115,459 | 123,565 | 136,484 |
| Total Assets | 247,159 | 287,924 | 307,419 |

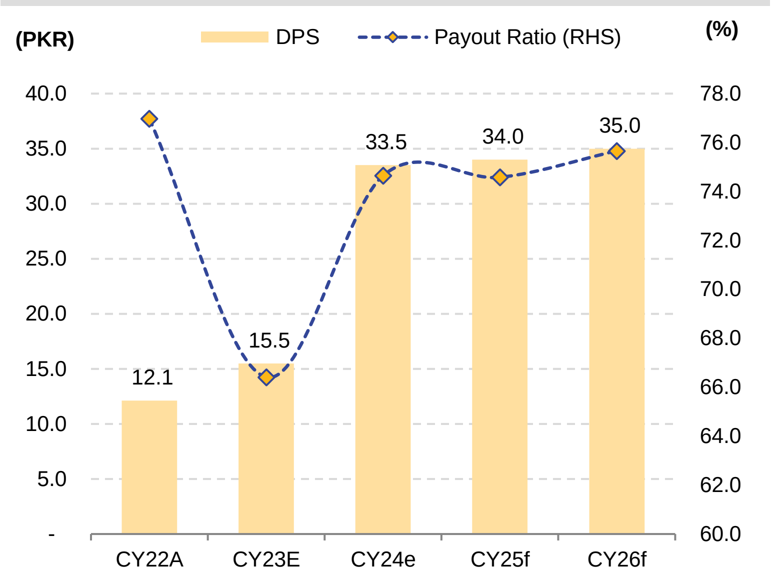
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** FFC's profitability

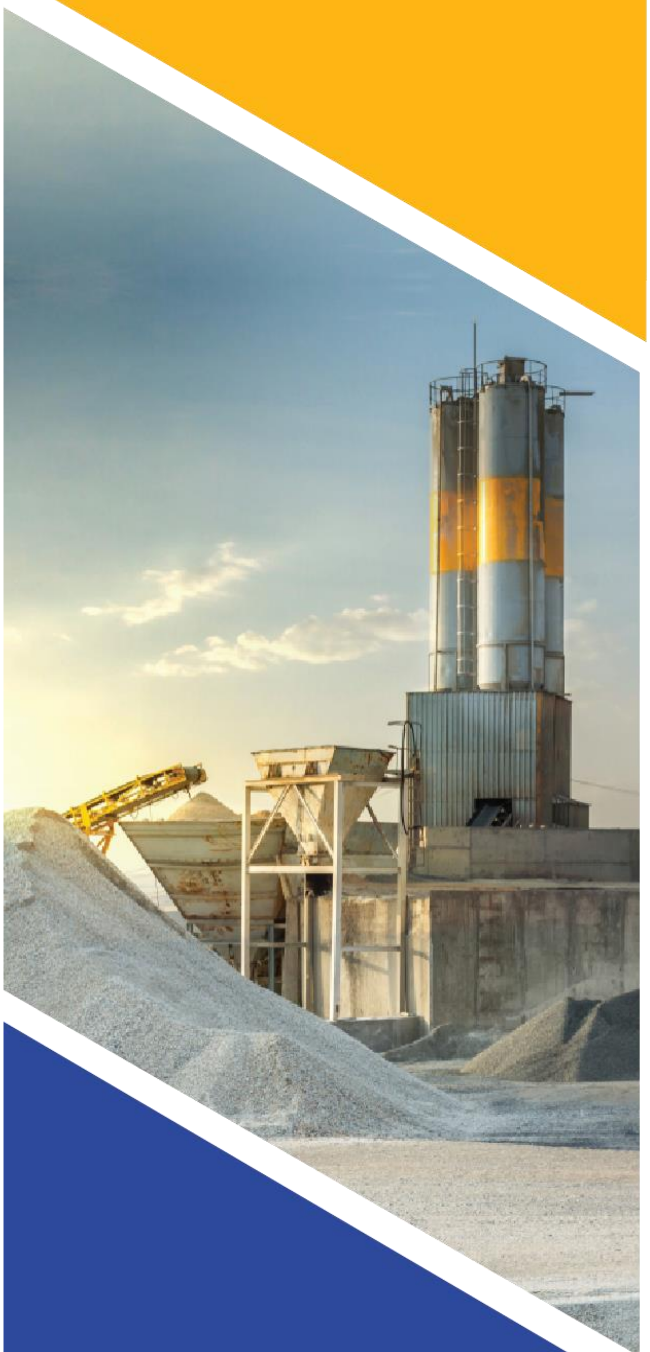



Source (s): Company Financials, AHL Research

**Figure:** Dividend payout




Source (s): Company Financials, AHL Research



# Cements

## Robust margin game

## Margins Expansion

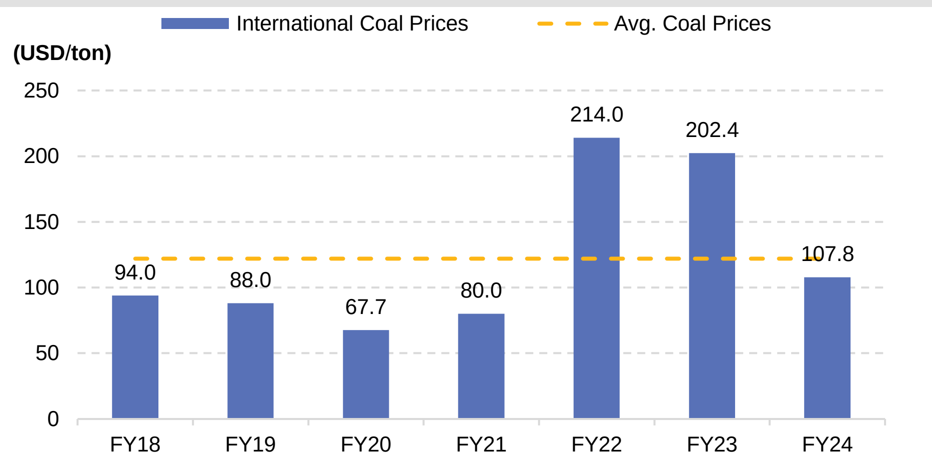
**"Renewables" the only option for survival:** Industries experienced some relief when government raised the consumer base tariff by PKR 5.72/kWh in Jul'24, leaving industrial base tariffs unchanged. However, the cost of grid electricity for industrial consumers remains higher than that of neighboring countries. This continues to hinder Pakistan's competitiveness in the region. To mitigate the impact of these high tariffs, many cement companies have turned to renewable energy sources, such as solar, waste heat recovery, and wind power.

Additionally, some have installed coal power plants to reduce reliance on the national grid, thereby lowering their overall energy costs. These strategic shifts have helped cement companies protect profitability and maintain their margins. The sector's average energy mix consists of 24% from the grid, 32% from waste heat recovery, 25% from captive, and 18% from renewables.

**Coal the largest cost contributor**: Coal is a vital raw material, accounting for approximately 40%-45% of the total cost of cement production. It is used as a primary input, and the price of cement is highly correlated to the cost of coal. In FY23 coal prices were recovering from the effects of Russia-Ukraine conflict, which in Mar'22 took coal prices to a peak level of USD 460/ton. In FY23, the coal price averaged at ~ USD 202.4/ton and closed at USD 100/ton due to slowdown in the global activity and excess supply of coal. The momentum was carried in FY24, majorly due to suppressed demand from China, resulting in commodity price to be soft during the year arriving at an average of USD 108/ton.

This lower international coal prices helped the cement industries improve their margins hence boosting the profitability. Furthermore, to be protected from the fluctuations in the international coal prices and PKR against the greenback, the cement companies incorporated a diverse mix of fuel, by adoption of alternative coal sources, such as Afghan and local coal. Due to this, the cement companies in FY24 experienced an increase in profitability by 61% YoY to PKR 81.0bn compared to PKR 50.4bn in FY23. Although, some companies were adversely impacted by the change in tax on exports regime from presumptive to normal tax.

**Exhibit:** International coal prices witnessed a decline of 47% YoY during FY24




Source (s): Bloomberg, AHL Research

**Exhibit:** Cement Sector Profit after tax

| PKR mn | FY24 | FY23 | YoY |
|---|---|---|---|
| LUCK* | 28,107 | 13,726 | 105% |
| BWCL | 13,769 | 11,892 | 16% |
| KOHC | 8,893 | 5,821 | 53% |
| FCCL | 8,223 | 7,440 | 11% |
| MLCF | 6,891 | 5,771 | 19% |
| CHCC | 5,500 | 4,404 | 25% |
| PIOC | 5,176 | 2,611 | 98% |
| DGKC | 542 | -3,636 | nm |
| Others | 3,920 | 2,337 | 68% |
| **Total** | **81,022** | **50,365** | **61%** |

Source (s): Company Financials, AHL Research
*Unconsolidated

**Cement growth outlook:** Inflation has begun to ease, with Oct'24 recording a rate of 7.2% compared to 26.8% during Oct'23. This decline has triggered a series of policy rate cuts, dropping from 22.0% in Jun'24 to 15.0%, a reduction of 700bps. The disinflation is projected to continued, which could prompt the SBP to further reduce interest rates, providing essential support for economic recovery. Furthermore, the real interest rate in Nov'24 stood at 7.8%, a level that is unsustainable, further bolstering the case for additional rate cuts.

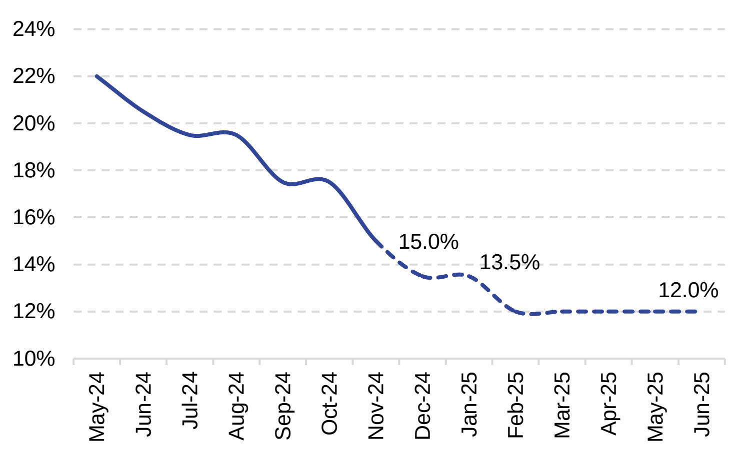
The local cement dispatches have declined by 15% YoY during 4MFY25, primarily due to fiscal measures introduced in the FY25 budget and the imposition of royalties on cement manufacturers in Punjab. However, demand is expected to recover as inflation eases and interest rates decline, with a projected decline of around 9% for FY25 in the local cement dispatches. Looking ahead to FY26, the combination of low inflation and reduced interest rates is expected to drive further demand growth, with local dispatches anticipated to rise by 5% YoY.

**Exhibit:** Cement Dispatches

| mn tons | 4MFY25 | 4MFY24 | YoY |
|---|---|---|---|
| **North** | **10.4** | **11.7** | **-11%** |
| Local | 9.6 | 11.1 | -13% |
| Exports | 0.7 | 0.6 | 29% |
| **South** | **4.3** | **4.2** | **1%** |
| Local | 1.8 | 2.3 | -24% |
| Exports | 2.5 | 1.9 | 31% |
| **Total Local** | **11.4** | **13.4** | **-15%** |
| **Total Exports** | **3.2** | **2.5** | **31%** |
| **Grand Total** | **14.6** | **15.9** | **-8%** |

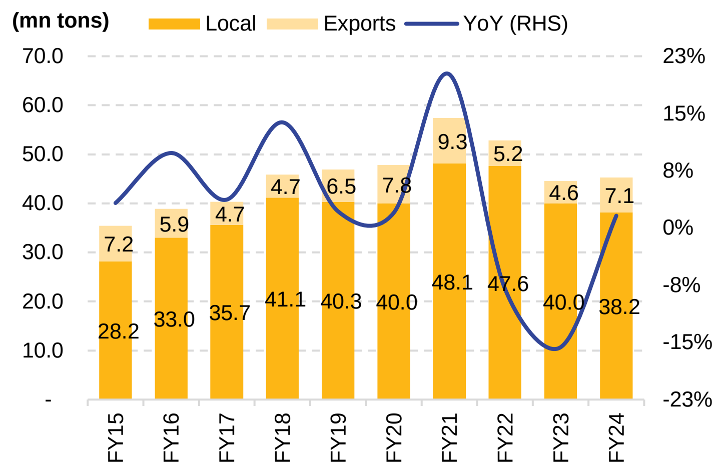
Source (s): APCMA, AHL Research

**Figure:** Policy rate Trend and forecast




Source (s): SBP, AHL Research

**Figure:** Local cement dispatches in FY24 down by 5% YoY




Source (s): APCMA, AHL Research

**Risk**

1. Cement price cut scenario
2. Slower rebound in cement demand.
3. Uptick in international coal prices also rendering higher coal prices in Afghanistan, Mozambique and local market.
4. Slowdown in the economy with need for higher tax revenue to force the government to impose more taxes on industries.

# Lucky Cement Limited (LUCK)

## At the Summit

One of our picks in the AHL cement universe is Lucky Cement Limited (LUCK), which offers an upside of 20.6% from last closing to our Dec'25 SoTP based target price of PKR 1,256/share. The company's diverse portfolio is anticipated to serve as a safeguard against disruptions in cyclical operations, including those in the cement and automobile sectors.

### Dominant Force in the Cement Sector

LUCK's 3.15mn tons brownfield expansion in the North, commissioned in FY23 and become the largest cement producer in the country, with a total capacity of 15.3mn tons. In FY24, the company's market share increased by 2.2%, reaching 18.7%. Additionally, LUCK boasts an extensive distribution network of over 200 dealers and distributors. It is also the only company in Pakistan with port silos, enabling the export of loose cement.

### Strategic Investment in Energy Optimization

Following the successful completion of a 25 MW solar plant in 1QFY24, the company has added two more solar plants with capacities of 6.3 MW and 6.0 MW in Karachi and Pezu, respectively, bringing its total solar capacity to 74.3 MW. In addition, LUCK operates a 56 MW waste heat recovery plant. The company recently commissioned a 28.8 MW wind power project at its Karachi plant, which will reduce cost of production by ensuring that nearly 50% of its energy needs are met through renewables.

### Multi-Sector Business Strategy

To diversify its revenue streams, LUCK has strategically invested across various sectors. The company's portfolio includes an automobile assembly venture for Kia and Peugeot vehicles, a mobile phone assembly plant in collaboration with Samsung, and a wind power plant. Additionally, LUCK has overseas cement operations in the Democratic Republic of Congo and Iraq. Furthermore, LUCK has presence in the energy sector through investment in 660MW coal power plant (LEPCL) that achieved CoD in Mar'22 and is currently operating at full capacity. Furthermore, LUCK invested PKR 1.0bn in National Resources Private Limited for copper and gold mining.

### IPPs renegotiations might reduce profitability

Potential challenges could arise due to the government's renegotiation efforts with IPPs aimed at reducing the power tariff. We have prepared a sensitivity of the impact of reduction in the RoE component, this would also impact the SoTP valuation. Despite these potential setbacks, LUCK's diverse portfolio mix is expected to cushion the impact and mitigate significant downside risk.

**Exhibit:** Sensitivity Analysis

| | RoE | EPS (PKR) | | SoTP (PKR) |
|---|---|---|---|---|
| | | FY25e | FY26f | |
| Base case | 13.6% | 186.8 | 163.9 | 1,256 |
| Case 1 | 16.3% | 190.3 | 170.8 | 1,288 |
| Case 2 | 19.0% | 193.7 | 177.6 | 1,319 |
| Case 3 | 21.8% | 197.2 | 184.4 | 1,351 |
| Case 4 | 27.2% | 204.1 | 198.1 | 1,415 |

Source (s): AHL Research

## LUCK

**Summary Data**

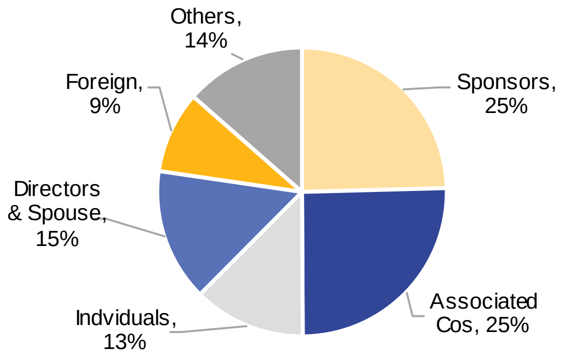
| | |
|---|---|
| Target Price (Dec'25) | 1,255.9 |
| Last Closing | 1,041.3 |
| Upside (%) | 20.6 |
| Shares (mn) | 293.0 |
| Free float (%) | 30 |
| Market Cap. (PKR mn) | 305,104 |
| Market Cap. (USD mn) | 1,098 |

**Recommendation** BUY

**Price Performance**

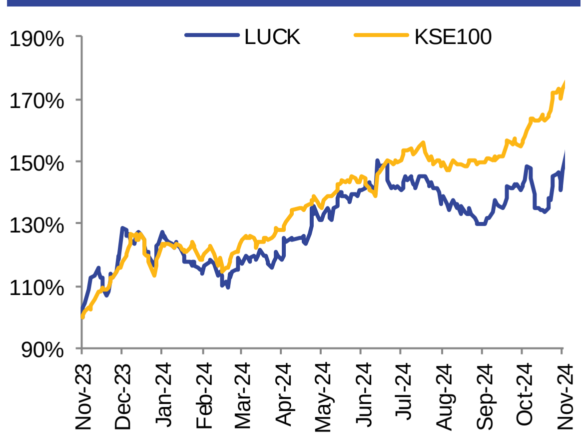
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 22.5 | 19.5 | 45.0 |
| Avg. Volume (000) | 228 | 212 | 269 |
| ADTV (mn) - PKR | 205 | 191 | 222 |
| ADTV (000) - USD | 739 | 687 | 791 |
| High Price - PKR | 1,041.3 | 1,041.3 | 1,041.3 |
| Low Price - PKR | 813.3 | 813.3 | 670.1 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Profitability is expected to remain strong on unconsolidated basis:** LUCK's bottom line is expected to maintain its growth, mainly due to expected rise in cement demand in FY26, supported by cost reduction initiatives taken by the company, and dividend from its subsidiary and associate companies.

**Exhibit:** Key Ratios*

| | | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| Earnings per share | PKR | 95.9 | 109.6 | 119.1 |
| Dividend per share | PKR | 15.0 | 30.0 | 33.0 |
| Book value per share | PKR | 504.3 | 613.9 | 733.0 |
| Price to Earning | x | 9.5 | 9.5 | 8.7 |
| Price to Book | x | 1.8 | 1.7 | 1.4 |
| Dividend Yield | % | 1.7 | 2.9 | 3.2 |

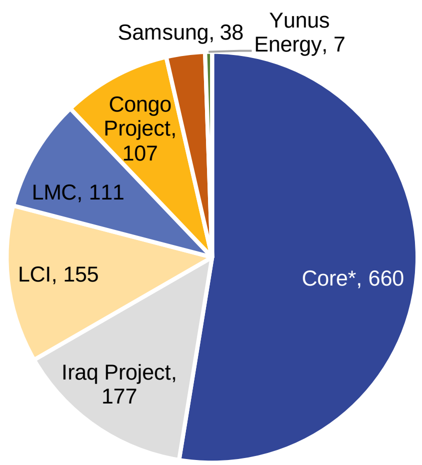
Source (s): Company Financials, AHL Research, *Unconsolidated

**Exhibit:** Key Financial Highlights*

| PKR mn | 2024a | 2025e | 2026f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Sales | 115,325 | 133,875 | 153,738 |
| Gross Profit | 38,805 | 47,204 | 52,368 |
| Operating Profit | 28,870 | 31,713 | 33,143 |
| Finance Cost | 1,581 | 1,438 | 692 |
| Post Tax Profit | 28,107 | 32,112 | 34,901 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 147,761 | 179,873 | 214,774 |
| Total Liabilities | 86,257 | 84,681 | 86,455 |
| Current Assets | 68,452 | 103,818 | 145,394 |
| Non-Current Assets | 165,566 | 160,736 | 155,835 |
| Total Assets | 234,018 | 264,554 | 301,229 |

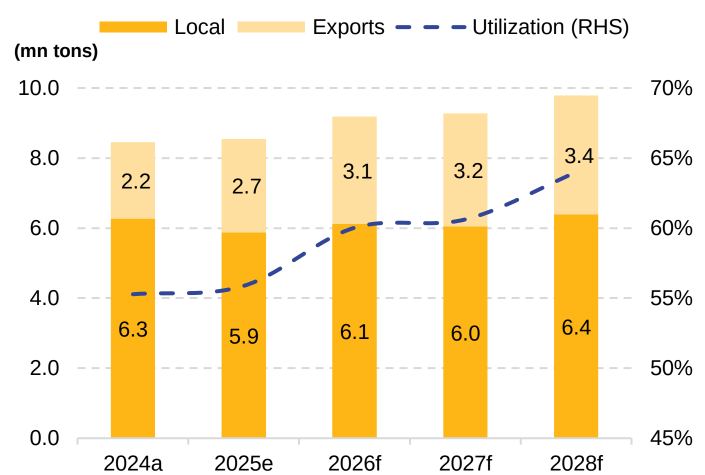
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** LUCK: SoTP Valuation




Source (s): Company Financials, AHL Research, *Dividends from LEPCL included

**Figure:** Dispatches and Utilization




Source (s): Company Financials, AHL Research

# Fauji Cement Company Limited (FCCL)

## Safe and secure

Our Dec'25 target price for Fauji Cement Company (FCCL) is set at PKR 44.6/ share, whereby the stock offers a return of 37.2% from last closing. Our positive outlook for the stock stems from its recent merger with Askari Cement and the addition of a 2.05mn ton brownfield project, which has positioned FCCL as the third-largest player in the industry and the second-largest cement producer in the northern region. Furthermore, with the commissioning of a 2.05mn ton greenfield project in Feb'24, FCCL's total installed capacity has now reached 9.26mn tons.

### Greenfield project commenced in a record time

FCCL successfully commissioned its Greenfield cement manufacturing plant in D.G. Khan on 01-Feb-24, with a production capacity of 6,500 tons/day. The Greenfield project was completed in a record 13 months, underscoring FCCL's strong commitment to growth. This expansion is expected to boost the company's market share, enhance its competitiveness, and open doors to international markets.

### Quest for cheapest alternate fuel and power

During FY24, the company installed an additional 12.5MW solar plant, bringing its total solar capacity to 52.5MW. Additionally, it added a 12MW waste heat recovery plant (WHRP) to help mitigate high tariff costs. As a result, approximately 52% of the company's power needs in FY24 were met through inhouse generation. To further reduce its reliance on the national grid, the company plans to install an additional 15MW of solar capacity by 3QFY25, with an expected payback period of 3.5 years. In terms of fuel mix, about 31% of the company's consumption was local coal, while the remainder was a blend of Afghan and imported coal. The company also used 5% alternative fuel to cut production costs and aims to increase this to 10-11% by FY25, further enhancing its cost-efficiency.

### Installation of polypropylene (PP) bags

The company has announced plans to establish a Polypropylene (PP) bag manufacturing plant, representing a significant investment of PKR 1.0bn. This strategic initiative is expected to meet approximately 90% of the company's packaging requirements, thereby reducing its reliance on external suppliers and improving overall supply chain efficiency. The project is anticipated to have a payback period of 4-5 years.

### Earnings to reach all time high level

We expected the company to post record earnings of PKR 5.3/share in FY25, driven by the successful expansion of its greenfield project and improved power mix efficiency. This growth results from increased production capacity and better energy utilization. We also expect a dividend of PKR 1.50/share during FY25.

## FCCL

### Summary Data

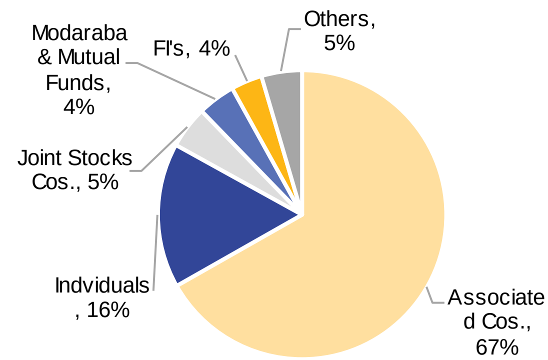
| | |
|---|---|
| Target Price (Dec'25) | 44.6 |
| Last Closing | 32.5 |
| Upside (%) | 37.2 |
| Shares (mn) | 2,452.8 |
| Free float (%) | 35 |
| Market Cap. (PKR mn) | 79,693 |
| Market Cap. (USD mn) | 287 |

### Recommendation BUY

### Price Performance

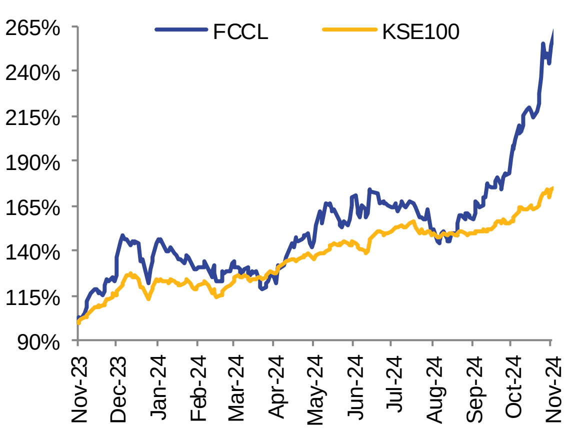
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 62.6 | 49.9 | 105.1 |
| Avg. Volume (000) | 9,837 | 9,964 | 9,583 |
| ADTV (mn) - PKR | 277 | 253 | 217 |
| ADTV (000) - USD | 996 | 909 | 777 |
| High Price - PKR | 35.1 | 35.1 | 35.1 |
| Low Price - PKR | 19.4 | 19.3 | 15.4 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

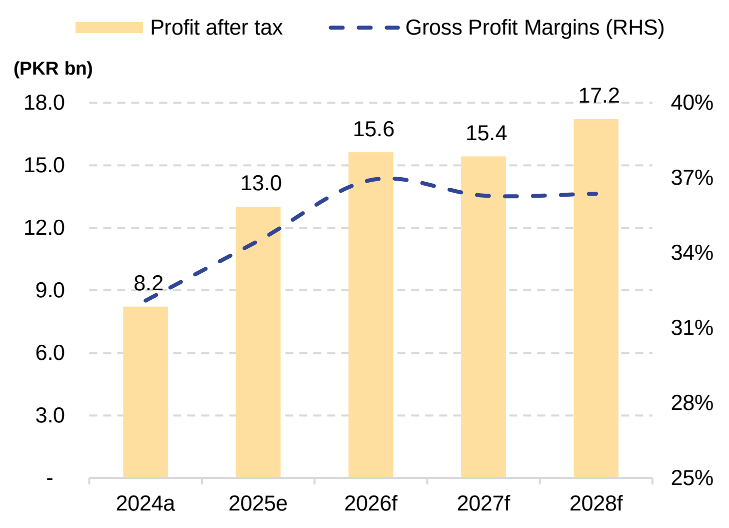
| **Exhibit:** Key Ratios | | | | |
|---|---|---|---|---|
| | | 2024a | 2025e | 2026f |
| Earnings per share | PKR | 3.4 | 5.3 | 6.4 |
| Dividend per share | PKR | 1.0 | 1.5 | 2.0 |
| Book value per share | PKR | 29.9 | 33.7 | 38.1 |
| Price to Earning | x | 6.8 | 6.1 | 5.1 |
| Price to Book | x | 0.8 | 1.0 | 0.9 |
| Dividend Yield | % | 4.4 | 4.6 | 6.2 |

Source (s): Company Financials, AHL Research

| **Exhibit:** Key Financial Highlights | | | |
|---|---|---|---|
| PKR mn | 2024a | 2025e | 2026f |
| **Income Statement** | | | |
| Net Sales | 80,026 | 89,398 | 92,947 |
| Gross Profit | 25,680 | 30,824 | 34,307 |
| Operating Profit | 20,878 | 26,044 | 29,311 |
| Finance Cost | 5,237 | 3,961 | 2,808 |
| Post Tax Profit | 8,223 | 13,021 | 15,622 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 73,399 | 82,741 | 93,457 |
| Total Liabilities | 74,237 | 77,178 | 72,020 |
| Current Assets | 25,784 | 36,543 | 46,234 |
| Non-Current Assets | 121,852 | 123,375 | 119,243 |
| Total Assets | 147,636 | 159,918 | 165,477 |

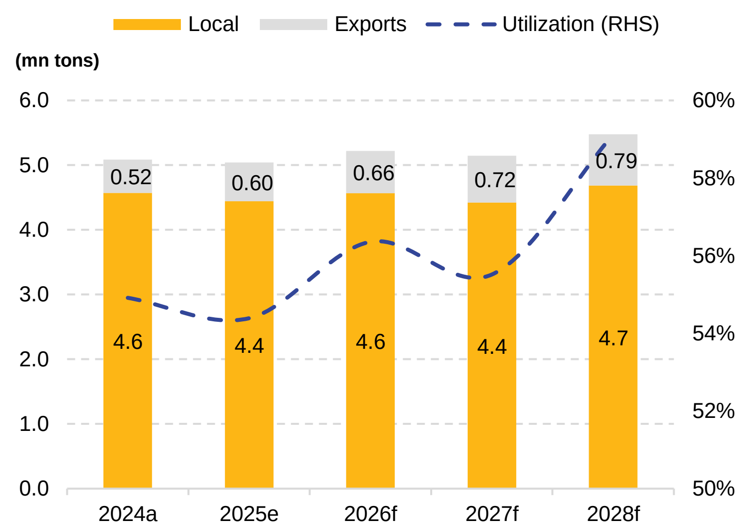
Source (s): Company Financial, AHL Research

**Figure:** Profitability and Gross Margins




Source (s): Company Financials, AHL Research

**Figure:** Dispatches and Utilization




Source (s): Company Financials, AHL Research

# Maple Leaf Cement Factory Limited (MLCF)

## Operational efficiency

Our Dec'25 target price for Maple Leaf Comet (MLCF) is set at PKR 53.9/share. Our liking for the stock stems from i) one of the highest gross margins, ii) one of the lowest EV/ton in AHL cement universe and iii) diverse fuel mix. The stock offers an upside of 32.9% from last closing; we recommend BUY.

### Proactive growth and buyback measures

In Nov'22, MLCF completed the commissioning of a new grey clinker production line with a capacity of 7,000 metric tons per day (2.1mn tons annually), increasing its total clinker capacity to 7.8mn tons. As one of the first industry players to operationalize this expansion, MLCF set itself apart as a leader in the sector. The newly established plant not only improves the company's operational efficiency but also gives MLCF a competitive edge in the ongoing expansion phase. This development reinforces MLCF's dominance in the northern market, making it the largest producer in the region at a single location. Additionally, following the successful buyback of 25mn shares, MLCF in FY24 repurchased another 25.8mn shares, representing 2.4% of its paid-up capital and 21.9% of its free float.

### Better Energy Mix

MLCF is well positioned to mitigate rising electricity costs due to internal power generation capabilities. Its subsidiary, Maple Leaf Power (MLPL), operates a 40 MW coal-fired power plant. Moreover, MLPL profits are exempt from charge of income tax on profits, resulting in fall in effective taxation for MLCF. In addition, MLCF has successfully installed a 12.5 MW solar power plant, offering partial protection from escalating tariffs. The company has also completed a Waste Heat Recovery Plant (WHRP) for its new Line-4, expanding its capacity from 25 MW to 37 MW, which now covers one-third of the company's total power expenses. These energy initiatives have enabled the company to maintain higher margins than its competitors.

### Prudent steps taken to change the fuel mix

MLCF was the first in the industry to use Afghan coal. This has been a game changer as local and Afghan coal became a substantial part of the fuel mix used by the cement manufacturers in North. Furthermore, the company is also using biomass, such as rice husk, to further lower its production cost, resulting in higher margins for the company.

### Market leader in white cement

MLCF is one of the few cement producers in Pakistan with a presence in the white cement market, commanding over 90% of the domestic market share. It is also the country's largest exporter of white cement. While, in FY24 white cement accounted for approximately 3.75% of MLCF's total sales, it is sold at a premium compared to grey cement, further enhancing its value contribution.

## MLCF

### Summary Data

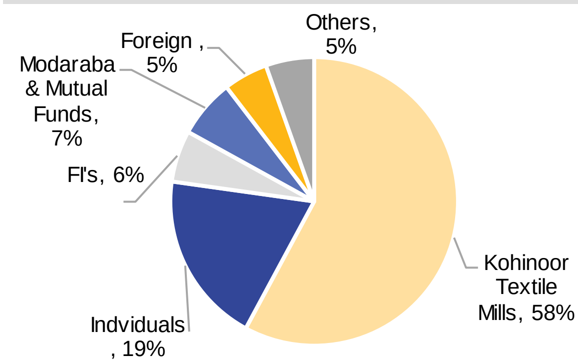
| | |
|---|---|
| Target Price (Dec'25) | 53.9 |
| Last Closing | 40.5 |
| Upside (%) | 32.9 |
| Shares (mn) | 1,047.6 |
| Free float (%) | 45 |
| Market Cap. (PKR mn) | 42,447 |
| Market Cap. (USD mn) | 153 |

### Recommendation BUY

### Price Performance

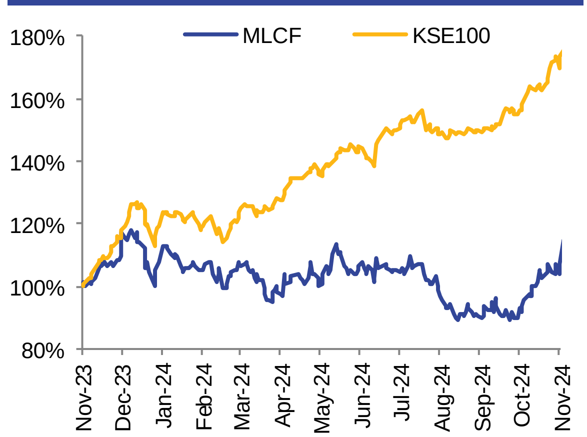
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 23.5 | 1.6 | 4.1 |
| Avg. Volume (000) | 7,512 | 6,308 | 6,074 |
| ADTV (mn) - PKR | 280 | 237 | 233 |
| ADTV (000) - USD | 1,008 | 852 | 832 |
| High Price - PKR | 43.0 | 43.0 | 43.0 |
| Low Price - PKR | 32.2 | 32.2 | 32.2 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

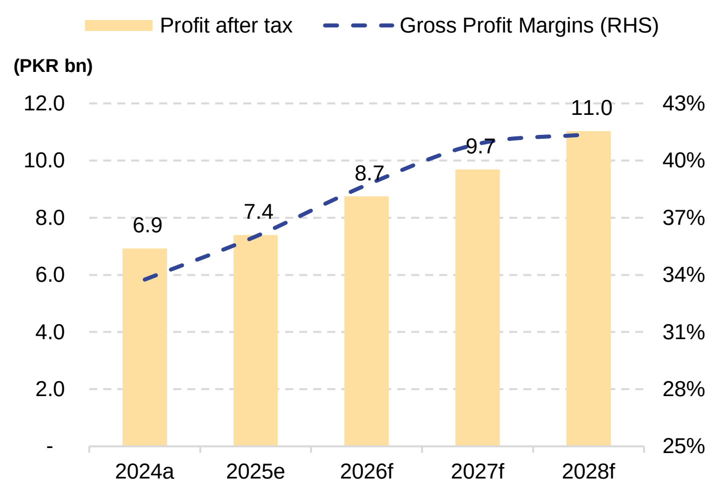
| **Exhibit:** Key Ratios | | | | |
|---|---|---|---|---|
| | | **2024a** | **2025e** | **2026f** |
| Earnings per share | PKR | 6.6 | 7.1 | 8.3 |
| Dividend per share | PKR | - | - | 3.0 |
| Book value per share | PKR | 55.0 | 62.1 | 67.4 |
| Price to Earning | x | 5.8 | 5.7 | 4.9 |
| Price to Book | x | 0.7 | 0.7 | 0.6 |
| Dividend Yield | % | - | - | 7.4 |

Source (s): Company Financials, AHL Research

| **Exhibit:** Key Financial Highlights | | | |
|---|---|---|---|
| **PKR mn** | **2024a** | **2025e** | **2026f** |
| **Income Statement** | | | |
| Net Sales | 66,452 | 61,436 | 62,374 |
| Gross Profit | 22,430 | 22,128 | 24,152 |
| Operating Profit | 14,971 | 15,308 | 17,042 |
| Finance Cost | 3,535 | 1,960 | 1,207 |
| Post Tax Profit | 6,920 | 7,398 | 8,743 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 57,644 | 65,042 | 70,642 |
| Total Liabilities | 42,700 | 32,264 | 23,614 |
| Current Assets | 27,375 | 27,118 | 26,950 |
| Non-Current Assets | 72,969 | 70,187 | 67,305 |
| Total Assets | 100,344 | 97,305 | 94,255 |

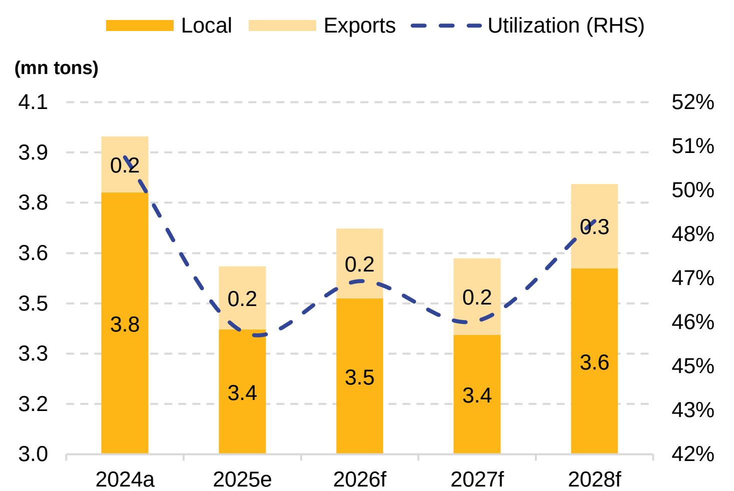
Source (s): Company Financial, AHL Research

**Figure:** Profitability and Gross Margins




Source (s): Company Financials, AHL Research

**Figure:** Dispatches and Utilization




Source (s): Company Financials, AHL Research

# Power generation & distribution

Through turbulent waters

# Through turbulent waters

## Government determined to reduce power tariff

**FY25 consumer end tariff:** The government announced a hike in consumer base tariff in FY25 to PKR 35.50/KWh from PKR 29.78/KWh in FY24. The major reason for the jump in the consumer tariff was due to the increased higher reliance on RLNG for power generation, along with reduced use of both local and imported coal compared to the assumptions made for FY24. Additionally, capacity charges increased due to the anticipated devaluation of the PKR against the USD and the addition of new power generation capacity. This led to energy charges and capacity charges to rise by PKR 3.31/KWh and PKR 1.38/KWh to arrive at PKR 10.94/KWh and PKR 18.39/KWh, respectively, making Pakistan's energy tariff one of the highest in the regions.

**Exhibit:** Reference Power Tariff for FY25 increased by PKR 5.72/KWh

| | FY24 | | FY25 | |
|---|---|---|---|---|
| | PKR bn | PKR/KWh | PKR bn | PKR/KWh |
| **Units received (billion KWh)** | **124.76** | | **121.84** | |
| **T&D losses (%)** | **11.70** | | **11.43** | |
| **Units delivered (billion KWh)** | **110.17** | | **106.14** | |
| Energy Charges | 840 | 7.63 | **1,161** | 10.94 |
| Capacity Charges | 1,874 | 17.01 | **1,952** | 18.39 |
| Use of System Charges | 151 | 1.37 | 164 | 1.54 |
| **Generation cost** | **2.866** | **26.02** | **3,277** | **30.88** |
| Disco Margin | 341 | 3.10 | 391 | 3.68 |
| Prior Year Adjustments (PYA) | 74 | 0.67 | 100 | 0.94 |
| **Revenue Requirement** | **3,281** | **29.78** | **3,768** | **35.50** |

Source (s): NEPRA, AHL Research

**Reasons for increase:** There are several reasons for the sharp rise in electricity tariffs in the country over the past few years. Below, we have outlined one of the major factors contributing to this increase;

1) **Rise in Capacity Payments:** The induction of new power plants and the depreciation of the Pakistani Rupee (PKR) have caused a significant rise in capacity payments. By FY24, these payments reached PKR 1,874bn (PKR 17.01/KWh), up from PKR 275bn (PKR 3.08/KWh) in FY16. For FY25, the government's projection is PKR 1,952bn (PKR 18.39/KWh). The largest share of capacity payments is attributed to nuclear power plants (22.3%), followed by hydel (21.4%), imported coal (18.9%), and local coal (12.2%). Other contributors include RLNG, wind, gas, RFO, solar, and bagasse.

2) **Currency Depreciation:** The depreciation of PKR (62% since November 2017) has increased the revenue requirements of Independent Power Producers (IPPs), whose tariffs are linked to the USD. This has led to higher electricity tariffs for consumers.

3) **Capacity Addition:** Since 2016, ~18,000 MW of new power generation capacity has been added, contributing to higher overall capacity payments and driving up electricity tariffs.

4) **Decline in Demand:** Electricity demand has been declining for the past two years, primarily due to rising electricity prices, inflation, reduced industrial demand, and increased solarization.

**Exhibit:** Reference Capacity Charges for FY25

| Source | PKR bn | % Share |
|---|---|---|
| Nuclear | 466 | 22.3% |
| Hydel | 446 | 21.4% |
| Coal (Imported) | 395 | 18.9% |
| Coal (Local) | 256 | 12.2% |
| RLNG | 168 | 8.0% |
| Wind | 168 | 8.0% |
| RFO | 81 | 3.9% |
| Gas | 61 | 2.9% |
| Solar | 42 | 2.0% |
| Bagasse | 7 | 0.3% |
| **Total** | **2,091** | |

Source (s): NEPRA, AHL Research

## Government to curtail the power tariff

To address this issue, the government decided to reform the power sector and formed a high-level task force for the purpose of implementing structural reforms. The task force's responsibility included recommending measures to make the power sector financially and operationally sustainable, overseeing the development of an efficient and liquid power market, and recommending the utilization of excess capacity by industries and special economic zones to stimulate growth.

We have identified several measures that can lead to a reduction in electricity tariffs;

1) **Power Holding Charges:** As of May 2024, PKR 765bn of the total circular debt of PKR 2,655bn is held by Power Holding Limited, with the associated finance costs passed on to consumers. If the government absorbs this debt, electricity tariffs could decrease by PKR 3.23/KWh.

2) **Debt Restructuring with Chinese IPPs:** The government is negotiating with Chinese IPPs, which account for 20% of the total power capacity, to extend repayment periods of front-loaded debts. This could save PKR 277bn and reduce tariffs by PKR 2.61/KWh.

3) **Captive Gas Diversion to IPPs:** If the gas used by 1,500 MW of captive power plants (with lower efficiency) were redirected to more efficient IPPs, about 3,000 MW could be generated, reducing electricity costs by approximately PKR 3.35/KWh.

4) **Distribution Losses:** The allowed T&D losses for FY25 are 11.43%. Reducing this threshold by 5% could lower tariffs by PKR 1.90/KWh. Transmission infrastructure issues, such as overloading and inadequate capacity, have led to inefficiencies. In FY24, T&D losses and short recoveries reached PKR 509bn, contributing to circular debt. Privatization of distribution companies (DISCOs), like K-Electric, could help reduce these losses.

5) **Power Demand:** The government plans to sell 106.14bn units in FY25 with a revenue requirement of PKR 3,768bn (PKR 35.5/KWh). A 5% increase in power consumption could reduce the average cost by PKR 1.17/KWh.

6) **"Take or Pay" to "Take and Pay" Conversion:** The government is negotiating to convert contracts with 18 IPPs from a "take or pay" model to "take and pay." This could save around PKR 110bn and lower tariffs by PKR 1.04/KWh. However, some fixed costs will still persist, limiting the full reduction.

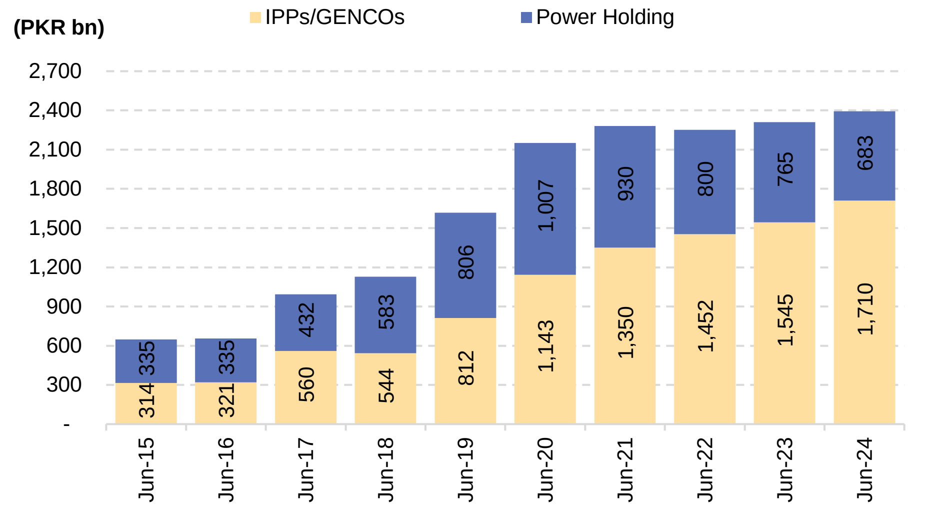
7) **Agreement with Five IPPs:** In Oct'24, the Govt reached an agreement to terminate Power Purchase Agreements (PPAs) with five IPPs, saving consumers PKR 60bn and reducing tariffs by PKR 0.57/KWh. These IPPs have received their outstanding payments (excluding interest).

# Circular debt position of Pakistan

Pakistan Circular Debt (CD) position within its power sector is on a rising trend for several years, and has recently increased significantly due to a rapid expansion in electricity generation capacity over the past five years and devaluation of the PKR against the USD.

As of Jun'24, the circular debt stood at PKR 2,393bn, up from PKR 2,310bn in Jun'23. Of this total, ~PKR 683bn is managed by Power Holding (Pvt.) Limited (PHPL), while the remaining PKR 1,710bn is owed to Independent Power Producers (IPPs) and Generation Companies (GENCOs). Under the IMF's Stand-By Arrangement (SBA) guidelines, Pakistani authorities are required to keep the circular debt at PKR 2,393bn.

**Figure:** Trend of circular debt position




Source (s): PIDE, NEPRA State of Industry Report 2023, AHL Research

**Circular debt management plan FY25:** The ECC approved a plan from the Ministry of Energy (Power Division) to reduce liabilities in the power sector and improve financial sustainability. The Govt projects the stock of circular debt (CD) is expected to reach at PKR 2,429bn at the end of FY25 compared to PKR 2,393bn at the end of FY24. Further, the Government also intends to curtail the CD flow to minimum possible level for FY25; the govt is to take the following actions;

1) By giving an additional subsidy of PKR 228bn during FY25.
2) By converting the old debt of Power Holding into public debt and gradually retire it through budget allocations.
3) In FY25 payment of PKR 358bn would be made to IPPs/GPPs as an outcome of negotiations / revision of PPAs. This will reduce the stock of circular debt.
4) In FY25, the distribution companies are permitted to incur losses of up to 11.4%. The actual losses for FY24 were 18.3%, and the government expect them to reduce to 17.3% in FY25. The lower losses in FY25 compared to FY24 will help to reduce the stock of circular debt.
5) CDMP for FY25, considering the significant tariff hikes and budgeted subsidies, the recovery ratio targets have been set at 90%.

# The Hub Power Company Limited (HUBC)

## Turning into a holding company

The base plant's Power Purchase Agreement (PPA) has been terminated, and Narowal Energy Limited (NEL) and Laraib Energy Limited (LEL) are among 18 Independent Power Producers (IPPs) whose PPA status is expected to shift from "take or pay" to "take and pay." HUBC holds 100% stake in NEL while in LEL its shareholding is 75%. In our base case, we have taken the NEL and LEL on a take-and-pay basis, and we have HOLD stance for the company with Dec'25 target price of PKR 115.8/share.

HUBC holds a 46.0% stake in China Power Hub Generation Company (CPHGC), a 60.0% stake in Thar Energy Limited, and a 38.3% stake in ThalNova, all of which are power plants under the China Pakistan Economic Corridor (CPEC). In past, China has refused to renegotiate the terms of the plants. But due to recent developments in the sector, we have run a sensitivity analysis considering the impacts of a reduction in return on equity (RoE) and a debt moratorium.

**Exhibit:** Sensitivity Analysis

| | RoE Discount | EPS (PKR) | | SoTP (PKR) |
|---|---|---|---|---|
| | | FY25e | FY26f | |
| Base case | 0.0% | 41.2 | 34.1 | 115.8 |
| **Without Debt Moratorium** | | | | |
| Case 1 | 0.0% | 41.2 | 34.1 | 115.8 |
| Case 2 | 20.0% | 39.6 | 30.9 | 105.8 |
| Case 3 | 30.0% | 38.9 | 29.2 | 100.1 |
| Case 4 | 40.0% | 38.1 | 27.6 | 86.9 |
| Case 5 | 50.0% | 37.3 | 25.9 | 75.1 |
| **With Debt Moratorium** | | | | |
| Case 1 | 0.0% | 33.9 | 18.2 | 115.8 |
| Case 2 | 20.0% | 32.3 | 14.9 | 105.8 |
| Case 3 | 30.0% | 31.5 | 13.2 | 100.1 |
| Case 4 | 40.0% | 30.8 | 11.6 | 86.9 |
| Case 5 | 50.0% | 30.0 | 10.0 | 75.1 |

Source (s): AHL Research

HUBC is transforming itself from a power generation company into a diversified business, expanding into areas such as oil and gas exploration, electric vehicle manufacturing, and mining.

### Tapped into the Oil and Gas Exploration sector

Prime International is a 50:50 joint venture between the HUBC and the Employee Buyout Group. The company is operating in Pakistan since 2000 in the exploration and production sector. We estimate Prime International to contribute PKR 2.9bn (PKR 2.3/share) in HUBC's FY26 consolidated earnings.

### Partnering with world largest EV manufacturer

Hub Power Holdings Limited, a wholly-owned subsidiary of The Hub Power Company Limited (HUBC), is diversifying its investment by entering in the business of electric vehicles, with Build Your Dreams (BYD) a leading Chinese EV manufacturer, through its associate company, Mega Motor Company (Private) Limited. It is anticipated that HUBC will commence the manufacturing of the EV and plug-in hybrid vehicles in 2027.

## HUBC

### Summary Data

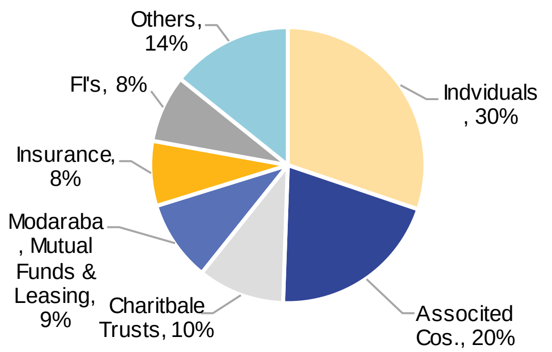
| | |
|---|---|
| Target Price (Dec'25) | 115.8 |
| Last Closing | 110.8 |
| Upside (%) | 4.5 |
| Shares (mn) | 1,297.2 |
| Free float (%) | 75 |
| Market Cap. (PKR mn) | 143,686 |
| Market Cap. (USD mn) | 517 |

### Recommendation HOLD

### Price Performance

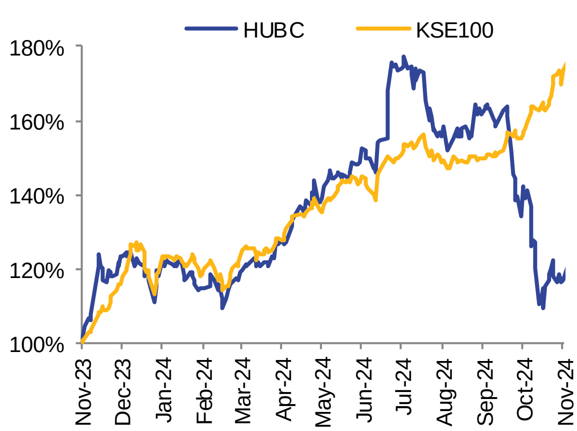
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | -19.9 | -13.5 | 9.2 |
| Avg. Volume (000) | 12,581 | 9,045 | 6,516 |
| ADTV (mn) - PKR | 1,487 | 1,155 | 821 |
| ADTV (000) - USD | 5,351 | 4,154 | 2,942 |
| High Price - PKR | 146.0 | 157.5 | 157.5 |
| Low Price - PKR | 97.4 | 97.4 | 97.0 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

BYD is a publicly listed Chinese multinational conglomerate manufacturing company. BYD is the world's largest maker of electric vehicles. In 2023 BYD sold 1.57mn battery electric vehicles, an increase of 73% YoY, in addition to selling 1.44mn units of plug-in hybrid vehicles. Mega Motors has signed a supply and manufacturing agreement and technical license agreement with BYD Auto industry. Moreover, the company has already signed distribution agreement in Jun'24 to launch and sell BYD's vehicle in Pakistan.

We have also prepared a sensitivity, with respect to volume and price, to showcase the impact on HUBC.

**Exhibit:** Sensitivity Analysis of BYD

| | Cars Sales (in 000) | Expected Sales (PKR mn) | PKR/share | TP Contribution |
|---|---|---|---|---|
| Case 1 | 5.0 | 60,000 | 3.7 | 29.6 |
| Case 2 | 6.0 | 72,000 | 4.4 | 35.5 |
| Case 3 | 7.0 | 84,000 | 5.2 | 41.4 |
| Case 4 | 8.0 | 96,000 | 5.9 | 47.4 |
| Case 5 | 9.0 | 108,000 | 6.7 | 53.3 |
| Case 6 | 10.0 | 120,000 | 7.4 | 59.2 |

Source (s): AHL Research

### Expanding footprints into mining business

HUBC has expressed interest in increasing its stake in Sindh Engro Coal Mining Company Limited (SECMC), where it currently holds an 8% share. According to a notice released to PSX in Feb'24, HUBC has entered into a definitive agreement to acquire an additional 9.5% stake in SECMC from Habib Bank Limited (HBL). This acquisition will raise HUBC's total ownership to 17.5%, positioning it as the second-largest shareholder in SECMC. The transaction is expected to positively impact HUBC's profitability, contributing ~PKR 1,054mn annually (EPS: PKR 0.84). However, we have not incorporated it our valuations.

Moreover, The Hub Power Company Limited has formed a joint venture with Ark Metals (Private) Limited to explore and develop mineral mines in Pakistan. Completion of this joint venture agreement is contingent upon obtaining the necessary regulatory approvals and consents. This partnership marks a strategic step for HUBC and is expected to favorably affect the profitability of the company.

**Exhibit:** Key Ratio

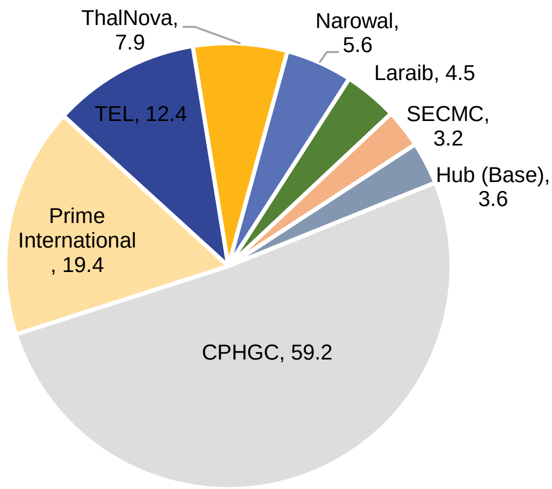
| | | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| Earnings per share | PKR | 54.0 | 41.6 | 34.6 |
| Dividend per share | PKR | 20.0 | 8.0 | 11.0 |
| Book value per share | PKR | 161.9 | 200.4 | 229.1 |
| Price to Earning | x | 3.0 | 2.7 | 3.2 |
| Price to Book | x | 1.0 | 0.6 | 0.5 |
| Dividend Yield | % | 12.3 | 7.2 | 9.9 |

Source (s): Company Financials, AHL Research

| **Exhibit:** Key Financial Highlights | | | |
|---|---|---|---|
| **PKR mn** | **2024a** | **2025e** | **2026f** |
| **Income Statement** | | | |
| Net Sales | 130,462 | 87,739 | 73,092 |
| Gross Profit | 68,346 | 42,045 | 25,958 |
| Operating Profit | 67,336 | 44,034 | 28,086 |
| Finance Cost | 26,744 | 15,617 | 8,280 |
| Post Tax Profit | 70,018 | 53,451 | 44,289 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 209,972 | 259,475 | 296,112 |
| Total Liabilities | 242,831 | 219,255 | 203,646 |
| Current Assets | 171,319 | 169,311 | 168,349 |
| Non-Current Assets | 281,485 | 309,420 | 331,411 |
| Total Assets | 452,804 | 478,732 | 499,760 |

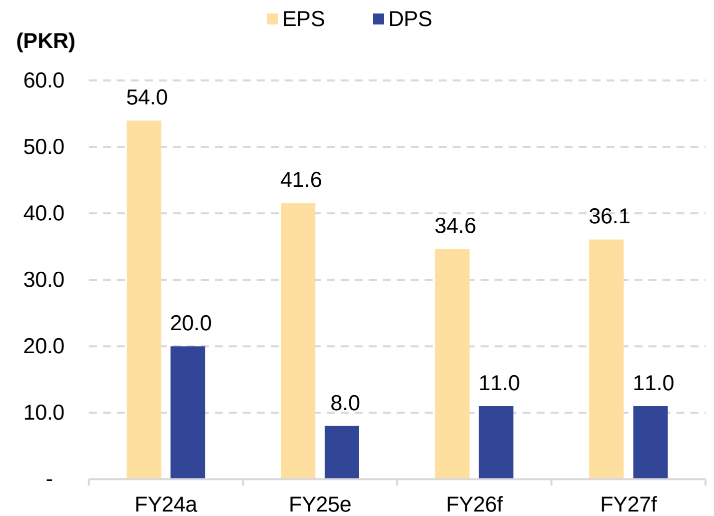
Source (s): Company Financial, AHL Research

**Figure:** HUBC: SoTP Valuation




Source (s): AHL Research

**Figure:** Earrings to decline due to termination of Hub base plant




Source (s): Company Financials, AHL Research

# Technology & Communication

## Unveiling the path to our future

## Unveiling the path to our future

**Technology sector potential to unveil:** Pakistan's IT sector has pivoted towards more sustainable, long-term growth by shifting focus away from startup and venture capital investments, which delivered mixed results in recent years. Instead, Pakistani tech firms are now making a significant mark on the global stage, actively participating in renowned international tech events. Notably, at GITEX Global, Pakistan was recognized as the "Tech Destination of the Year," underscoring the country's growing reputation as a key tech hub. Additional appearances at prominent events, including Black Hat, the USD Conference, London Tech Week 2024, and Collision Canada, further exemplify the sector's ambitions for expansion.

**Government incentive to support sector growth:** Recognizing the tech sector's role in enhancing the current account, the government has bolstered support to sustain this momentum. Pakistani IT firms' increased engagement with MENAP and European markets has already led to substantial gains in exports, which surged to USD 876mn in 1QFY25, a 34% YoY increase. The recent federal budget reflects this commitment, with continued tax concessions for export services, underscoring the sector's economic importance. Additionally, the State Bank of Pakistan (SBP) has raised the allowable retention limit for Specialized Foreign Currency Accounts from 35% to 50%, empowering IT firms to reinvest in growth initiatives. The recent stability in the PKR-USD exchange rate is another positive factor, encouraging exporters to repatriate a higher proportion of earnings, strengthening the local economy and positioning the tech sector for even greater expansion.

**MENA Expansion: BFSI Market Gains:** The MENA region has become a strategic market for Pakistan's IT sector, especially in the Banking, Financial Services, and Insurance (BFSI) segments. With established Pakistani IT presence in the Middle East and Saudi Arabia, expatriates in these regions have also contributed to client growth. Saudi Arabia, under Vision 2030, is driving rapid IT sector growth, spending increased 17.5% in CY23, the highest globally. This expansion, along with MENA's projected IT spending growth of 11% and 5% in CY24 and CY25, respectively, provides a robust demand backdrop. However, key risks include potential corrections in oil prices and geopolitical tensions, which could impact regional growth.

## Smartphone segment

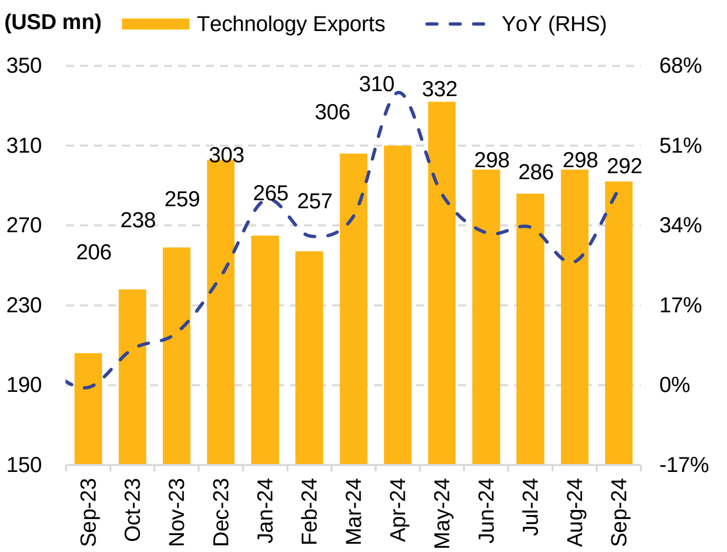
**Domestic Production to support foreign reserves:** Pakistan's mobile phone market, with an annual demand of around 34mn units, has witnessed a substantial shift toward local manufacturing. This shift, which has replaced most imports with domestic assembly, has significantly supported Pakistan's foreign exchange reserves by reducing reliance on imports. Only premium brands, such as Apple's iPhone, remain primarily imported. This local production also provides new economic opportunities, allowing manufacturers to explore export markets and position Pakistan as a low-cost mobile manufacturing hub in the region. This evolution in the mobile phone industry is closely aligned with government incentives aimed at supporting domestic production and reducing the country's import burden.

**Expansions of digital ecosystem:** The demand for smartphones in Pakistan is projected to grow at a steady annual rate of 10%, underpinned by population growth, advancing technology, and the expansion of digital infrastructure. Pakistan's young and tech-savvy demographic, coupled with an increasing middle class, fuels this demand. Rising smartphone affordability, aided by government policies such as the Device Identification Registration and Blocking System (DIRBS), has made smartphones accessible to a larger segment of the population. The expansion of 4G and the anticipated introduction of 5G networks further strengthen demand by creating new opportunities for connectivity and digital engagement.

**Shaping Consumption Patterns** Several macro trends are driving up smartphone adoption in Pakistan, each of which deepens the mobile market's integration with everyday life. The growth of e-commerce has made online shopping more accessible, requiring reliable mobile internet for transactions and communication. Remote work and online education, both of which expanded significantly during and post-pandemic, have underscored the need for smartphones as essential tools for work and learning. Additionally, the surge in social media use has enhanced digital connectivity, making smartphones indispensable for personal and professional engagement.

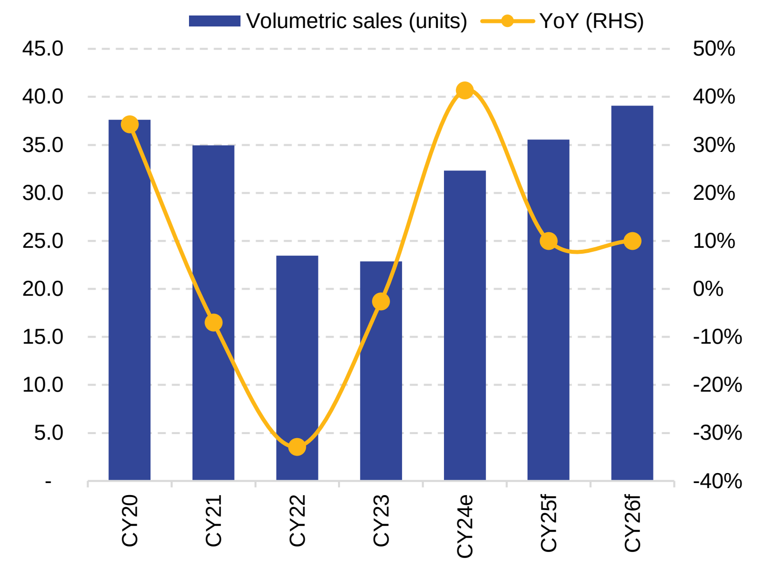
**Policy Support and Market Expansion:** Government support remains a key catalyst for growth in the mobile segment. In recent years, the introduction of policies favoring local manufacturing and assembly, such as DIRBS, has not only curbed smuggling and unauthorized imports but has also incentivized local production. Additionally, by encouraging investment in digital infrastructure, the government has created an environment conducive to increased smartphone penetration. This government support aims to reduce dependency on imports while fostering a stronger digital ecosystem that supports job creation and economic development within Pakistan.

**Figure:** Historical trend of technology exports




Source (s): SBP, AHL Research

**Figure:** Historical trend of volumetric sales




Source (s): PTA, AHL Research

# Systems Limited (SYS)

## Expansion in MENA to strengthen

We anticipate SYS Limited will maintain a robust USD-denominated revenue growth of over 7% annually for the next five years, with gross margins stabilizing above 25% after recent volatility. The company's strategic expansion into the MEA region has significantly boosted revenue but initially pressured margins due to increased non-billable fixed costs, including foreign-based hiring. However, SYS's refined focus on high-growth markets like Saudi Arabia is expected to improve margins as the company begins monetizing recent investments and captures higher-value contracts.

### Balancing Expansion and Profitability

As of 3QCY24, SYS's stock has underperformed the KSE-100 Index, weighed down by margin contraction and currency appreciation. However, with expectations of moderate PKR-USD depreciation and a notable recovery in margins, SYS's fundamentals appear poised for improvement. After a challenging period of aggressive investment in regional and HR expansion, SYS is now rebalancing its strategy to concentrate on organic growth within the MEA market (Saudi Arabia in particular) while moderating fixed costs, including HR and other overheads, to sustain profitability.

### Driving Regional Growth

The MEA region offers significant growth opportunities for SYS, particularly with the Saudi Vision 2030 initiative emphasizing economic diversification and digitization. This pivot has contributed to MEA accounting for 58% of SYS's revenue (compared to 22% from North America), though it initially led to lower margins due to rapid scaling costs. In 2023, Saudi Arabia's IT spending increased by 17.5%, the highest globally, and is expected to grow at around 11% and 5% in 2024 and 2025, respectively, according to IDC. SYS's acquisitions of Treehouse and NDC Tech have been timely, strengthening its market share in the BFSI sector, which mirrors global trends where BFSI accounts for around 12% of total IT spending with a CAGR of 10.5%.

### Focused Growth on Core Markets and High-Value Services

After experimenting with multiple geographies, SYS is consolidating its efforts in core areas, primarily the MEA region, to leverage its established expertise. By partnering closely with tech giants like Microsoft and SAP, SYS aims to stay agile and responsive to shifts in the global IT landscape. The company has expanded its service offerings in high-growth areas such as AI, cloud computing, and cybersecurity, supported by a growing foreign-based workforce, which now constitutes around 40% of total employees. Moving forward, SYS plans to focus on securing high-value clients, leveraging its strong portfolio to target premium customers rather than casting a wide net, as it did previously.

**SYS**

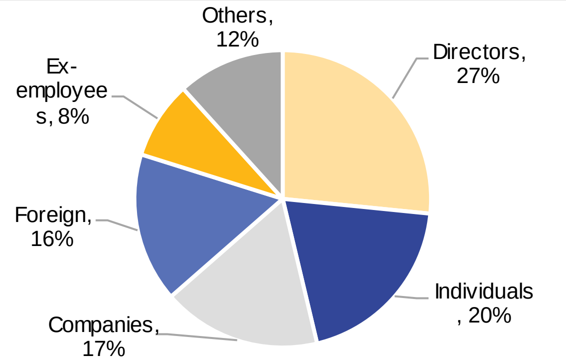
| Summary Data | |
|---|---|
| Target Price (Dec'25) | 661.0 |
| Last Closing | 510.2 |
| Upside (%) | 29.6 |
| Shares (mn) | 291.8 |
| Free float (%) | 60 |
| Market Cap. (PKR mn) | 148,872 |
| Market Cap. (USD mn) | 536 |

**Recommendation** **BUY**

**Price Performance**

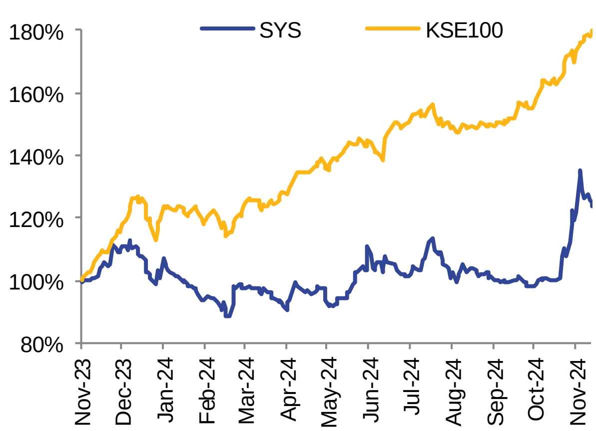
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 19.2 | 28.1 | 19.0 |
| Avg. Volume (000) | 409 | 456 | 422 |
| ADTV (mn) - PKR | 181 | 200 | 181 |
| ADTV (000) - USD | 651 | 719 | 649 |
| High Price - PKR | 557.9 | 557.9 | 557.9 |
| Low Price - PKR | 405.4 | 388.8 | 365.2 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Exhibit:** Ratio analysis

| | | CY24e | CY25f | CY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 26.61 | 33.10 | 36.60 |
| Dividend per share | PKR | 5.5 | 6.5 | 7.5 |
| Price to earning | x | 19.18 | 15.41 | 13.58 |
| Return on equity | % | 19.4% | 21.5% | 19.8% |
| Return on asset | % | 13.5% | 15.3% | 14.7% |

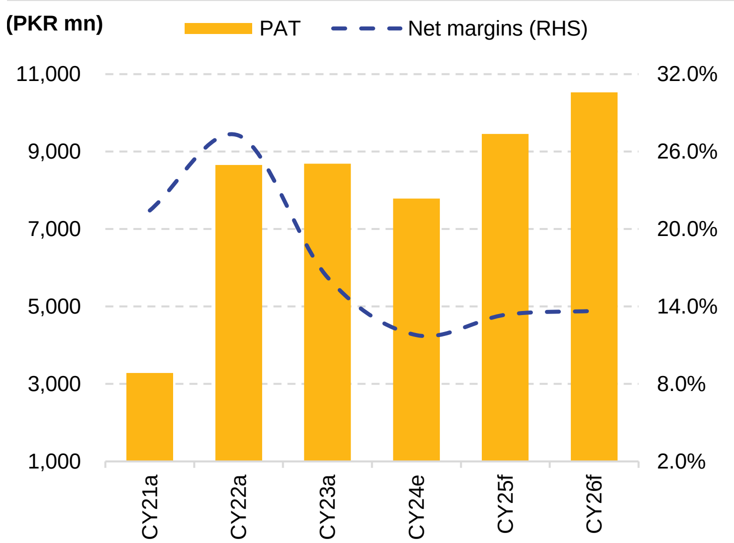
Source (s): Company Financials, AHL Research

**Exhibit:** Key financial highlights

| PKR mn | CY24e | CY25f | CY26f |
|---|---|---|---|
| **Income Statement** | | | |
| Revenue | 66,102 | 77,131 | 89,442 |
| Gross Profit | 16,031 | 19,682 | 22,872 |
| Operating Profit | 9,020 | 10,949 | 12,746 |
| Finance Cost | 558 | 542 | 470 |
| PAT | 7,790 | 9,641 | 10,946 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 40,083 | 49,729 | 60,680 |
| Total Liabilities | 18,296 | 18,844 | 20,183 |
| Current Assets | 41,811 | 52,955 | 65,673 |
| Non-Current Assets | 16,096 | 15,146 | 14,719 |
| Total Assets | 57,907 | 68,101 | 80,392 |

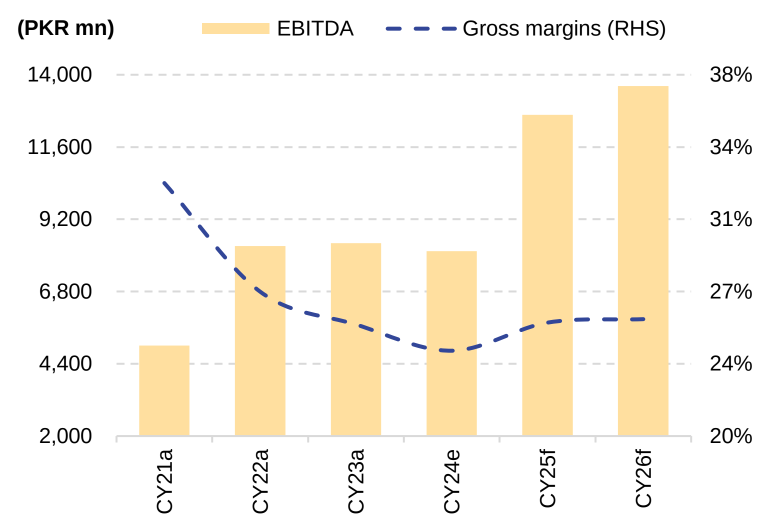
Source (s): Company Financials, AHL Research

**Figure:** PAT and Net Margins




Source (s): Company Financials, AHL Research

**Figure:** EBITDA and Gross Margins




Source (s): Company Financials, AHL Research

# Air link Communication Limited (AIRLINK)

## Shaping the future

Our investment thesis for Airlink is anchored on four primary factors: i) affordable price range to drive locally assembled phone demand ii) rising smartphone adoption, spurred by population growth and technological advancements, iii) local assembly of Xiaomi TVs reflecting the company's expanding product portfolio and revenue diversification and iv) significant export potential. We project the company to generate a 4-year forward earnings CAGR of 28%. Currently, the stock is trading at an attractive FY25 / FY26 PE(x) of 8.0x / 7.6x as compared to its last 3-yr avg PE(x) of 9.9x

### "Made in Pakistan" Vision: Transforming Local Assembly

The government's initiative to promote local mobile assembly has driven remarkable success, with 93% of domestic demand met through local production in 2023. Central to this shift has been the Device Identification Registration and Blocking System (DIRBS), which discourages imports through added duties and limits smuggled devices, making locally assembled phones more accessible and affordable. As a leading assembler, Airlink is well-positioned to benefit, with projected revenue growth in its assembly segment at an 18% CAGR through FY28.

### Key Drivers of Smartphone Demand Growth

Pakistan's smartphone demand is expected to grow by approximately 10% annually, supported by demographic expansion, technology adoption, and the proliferation of 4G and 5G networks. Policies like DIRBS have improved affordability, while e-commerce, remote work, online education, and social media further bolster demand, establishing smartphones as indispensable tools for connectivity and digital interaction.

### Strategic Partnerships Boosting Market Reach

Airlink's partnership with Xiaomi through its subsidiary, Select Technologies, has enabled it to locally manufacture Xiaomi smartphones since 2022. This success has paved the way for new ventures, with plans underway to assemble Xiaomi Smart TVs and explore introducing Xiaomi electric vehicles to Pakistan. Additionally, Airlink's recent exclusive partnership with Acer Gadget highlights its ability to secure significant collaborations, enhancing its presence across diversified product lines.

### Tapping into Export Opportunities

With local production now meeting Pakistan's ~34mn unit annual mobile demand, export opportunities are emerging for manufacturers like Airlink. While exports are not included in our base case, the upside potential is noteworthy. Exporting 400,000 units could yield an additional PKR 26.7bn in revenue, with a 4% government rebate on exports further boosting EPS by PKR 5.2/share, potentially enhancing FY25 EPS by 30%.

## AIRLINK

### Summary Data

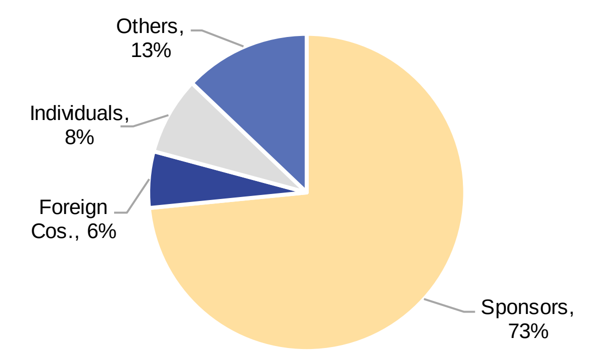
| | |
|---|---|
| Target Price (Dec'25) | 172.9 |
| Last Closing | 127.7 |
| Upside (%) | 35.4 |
| Shares (mn) | 395.3 |
| Free float (%) | 25 |
| Market Cap. (PKR mn) | 50,476 |
| Market Cap. (USD mn) | 182 |

### Recommendation BUY

### Price Performance

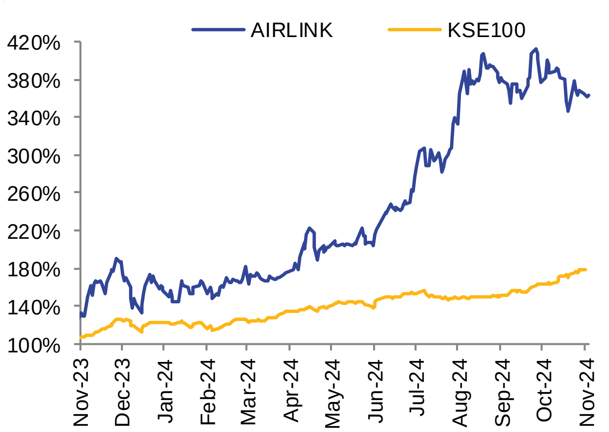
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | -6.4 | 78.0 | 179.1 |
| Avg. Volume (000) | 6,231 | 7,287 | 8,079 |
| ADTV (mn) - PKR | 862 | 838 | 704 |
| ADTV (000) - USD | 3,099 | 3,011 | 2,522 |
| High Price - PKR | 145.2 | 145.2 | 145.2 |
| Low Price - PKR | 121.8 | 71.5 | 45.7 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

**Exhibit:** Ratio analysis

| | | FY 24a | FY 25e | FY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 11.70 | 15.93 | 16.93 |
| Dividend per share | PKR | 6.00 | 7.00 | 7.50 |
| Price to earning | x | 7.59 | 8.02 | 7.54 |
| Return on equity | % | 30.69 | 33.50 | 29.45 |
| Return on asset | % | 11.42 | 14.39 | 13.68 |

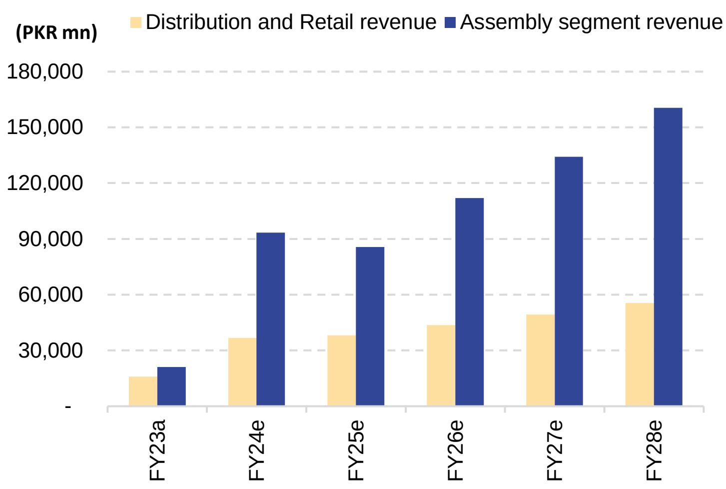
Source (s): Company Financials, AHL Research

**Exhibit:** Key financial highlights

| PKR mn | FY24a | FY25e | FY26f |
|---|---|---|---|
| **Income Statement** | | | |
| Revenue | 129,742 | 130,659 | 165,712 |
| Gross Profit | 9,806 | 10,574 | 13,375 |
| Operating Profit | 8,493 | 9,090 | 11,699 |
| Finance Cost | 2,974 | 1,486 | 873 |
| PAT | 4,625 | 6,297 | 6,692 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 15,069 | 18,797 | 22,722 |
| Total Liabilities | 25,449 | 24,959 | 26,201 |
| Current Assets | 30,545 | 33,875 | 39,126 |
| Non-Current Assets | 9,973 | 9,881 | 9,798 |
| Total Assets | 40,518 | 43,756 | 48,924 |

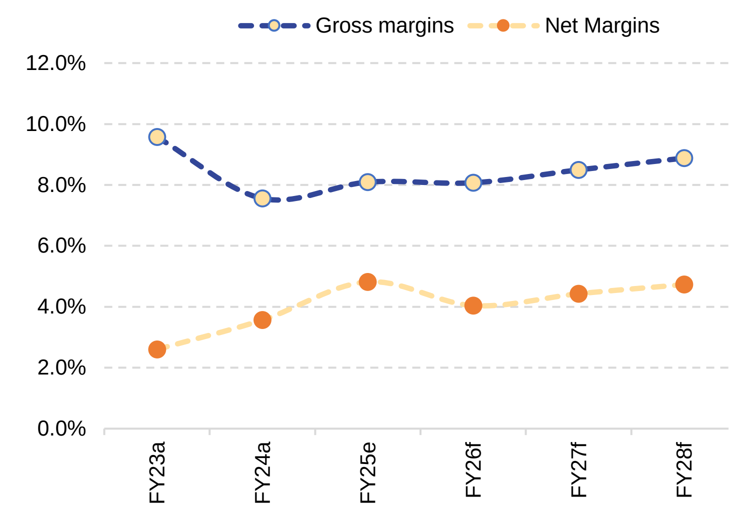
Source (s): Company Financials, AHL Research

**Figure:** Distribution and Retail revenue




Source (s): Company Financials, AHL Research

**Figure:** Gross margins vs. Net margins




Source (s): Company Financials, AHL Research

# Oil & Gas Marketing Companies

Fueling ambitions

# Fueling ambitions

**Petroleum sales to grow amid higher demand:** The Pakistan oil marketing industry's sales have witnessed a decline of 8% YoY in FY24. However, petroleum offtake has picked up in FY25TD, with petroleum sales volumes increasing by 2% YoY during the 4MFY25. This growth in petroleum offtake is attributed to i) a surge in demand due to a decline in prices for MS and HSD, ii) restrictions on smuggled petroleum products from Iran, and iii) an increase in sales of passenger cars. Product-wise, dispatches of MS and HSD in 4MFY25 rose by 15% and 22% YoY, respectively. Consequently, we expect MS and HSD volumes to grow by 5% year-on-year in both FY25 and FY26, keeping in view economic growth. Currently, international oil prices are on a downward trend due to weak demand in major economies such as the USA and China. However, escalating tensions in the Middle East could drive oil prices upward.

**Revision of OMC margins on the cards:** During Oct'24, OGRA proposed a revision in margins for OMCs and dealers to the government. The proposal was submitted after PSO provided data on operating costs for the review and calculation of margins. The proposed margins would increase OMC margins on MS and HSD from PKR 7.87/ltr to PKR 9.22/ltr. Meanwhile, dealer margins on MS and HSD are proposed to increase by PKR 1.40/ltr, bringing them to PKR 10.04/ltr. The final decision on this matter is pending with the Federal Government. If approved, the revision in margins would have an annualized earnings impact of PKR 11.63/share for PSO, PKR 8.36/share for APL, and PKR 4.39/share for SHEL.

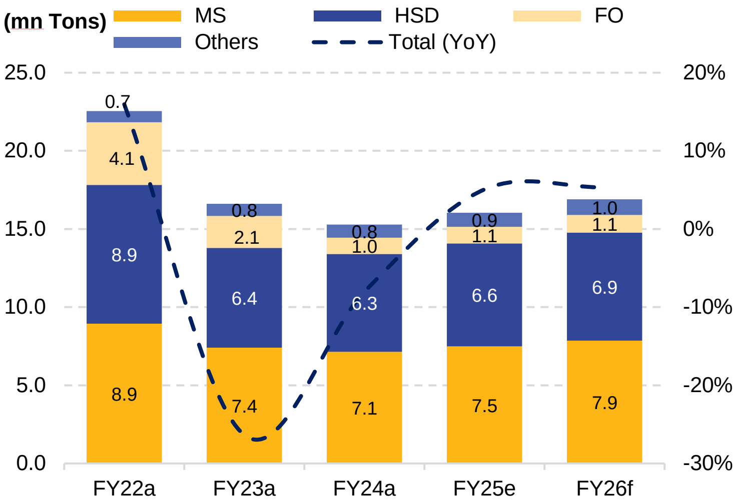
**De-regulation under consideration…again:** The government is once again considering deregulating petroleum prices to attract more foreign investment in the sector. The sector has already seen mergers and acquisitions by new foreign companies. Currently, petroleum prices are set by the government. With deregulation, OMCs would be permitted to determine and revise prices at their discretion, considering factors such as fuel quality, location, and other variables. In this regard, OGRA is still evaluating the potential consequences and developing a plan for deregulation.

**International oil groups entering the local arena:** In FY24, the OMC sector witnessed significant merger and acquisition activity. During this period, foreign companies such as Shell Petroleum Company Ltd. exited the country by selling an 88% stake in Shell Pakistan to another foreign company, Wafi Energy Holding, in 2024. Meanwhile, TotalEnergies, which holds a 50% stake in Total Parco Pakistan, announced its intention to exit Pakistan and will be replaced by another international company, Gunvor Group. Additionally, a major international oil giant, Saudi Aramco, entered Pakistan's retail oil distribution market by acquiring a 40% stake in Gas and Oil Pakistan Ltd. (GO) in May'24. Following the entry of this oil giant, GO's market share rose to 10% in Oct'24 compared to 4% in the SPLY. Furthermore, the government is considering to deregulate petroleum prices, allowing OMCs to set their own prices, which is expected to attract more foreign investors to the local market.

**Risk (s):**

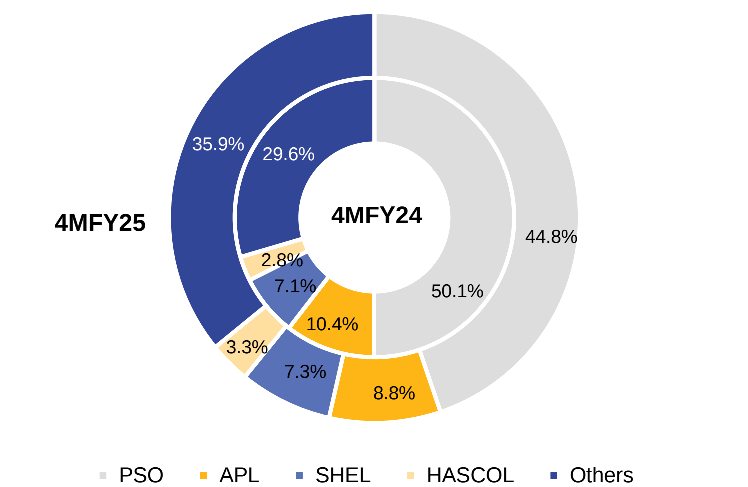
- Influx of smuggled MS and HSD
- Disruption of White Oil Pipeline (WOP)
- Prolonged delay in cargo of crude and petroleum due blockage in trade routes

**Figure:** Industry's Petroleum sales



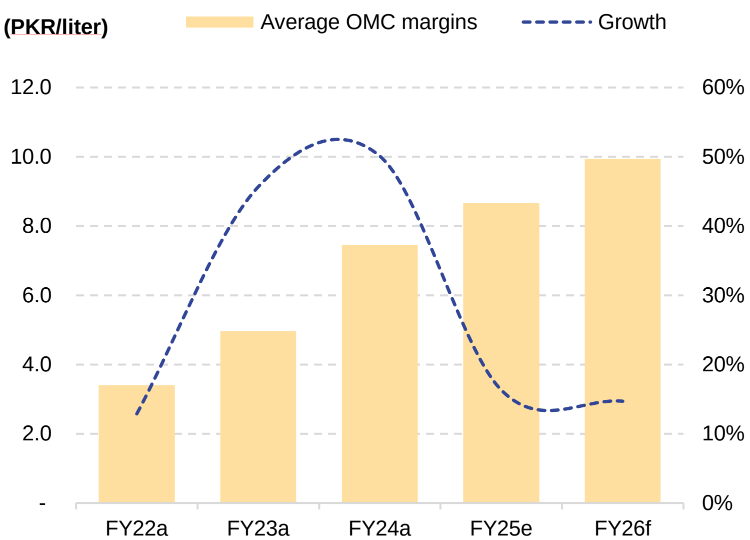

Source (s): OCAC, AHL Research

**Figure:** Market share of OMC companies



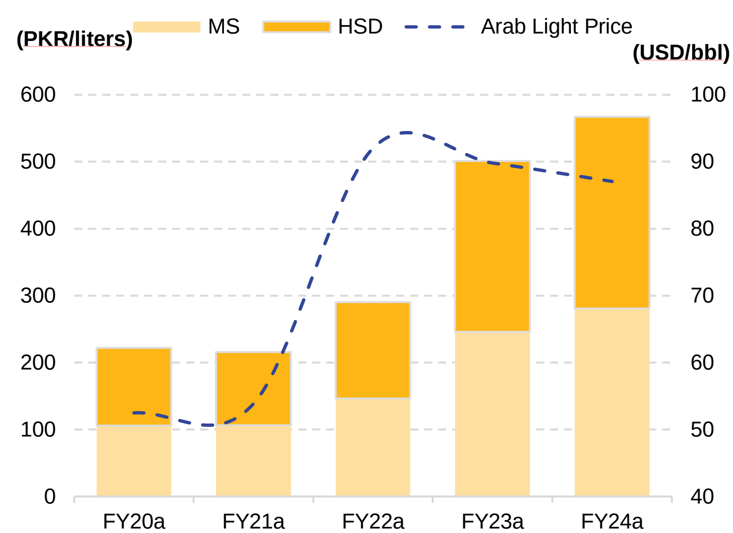

Source (s): OCAC, AHL Research

**Figure:** Average OMC margins




Source (s): OGRA, AHL Research

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




Source (s): OGRA, AHL Research

# Pakistan State Oil Company Limited (PSO)

## Influx of liquidity amid gas price revision

### Production and market share

During 4MFY25, PSO's white oil sales decline by 10% YoY 2.01mn tons (MS 1.04mn and HSD 0.97mn tons) compared to 2.23mn tons while market share drastically declined to 44.8% from 50.1% in 4MFY24 on the back of i) higher import of HSD resulting in pile of stock, and ii) increase in competition post entry of new foreign oil giant. We expect the sales of PSO to climb up in the latter half of the ongoing fiscal year, taking FY25 white oil sales to 6.93mn tons. Whereas, in FY26, we foresee the white oil sales of PSO to arrive at 7.39mn tons.

### RLNG Circular Debt curtailed

The government's efforts to reduce gas circular debt by revising gas prices and eliminating subsidies have started to pay off, as overdue receivables have witnessed a decline over the past two quarters. As of Sep'24, overdue receivables decreased by PKR 3bn, reaching PKR 417bn compared to PKR 420bn in Jun'24. A significant portion of these overdue receivables is owed by SNGP, amounting to PKR 275bn in Sep'24 (PKR 286bn in Jun'24). Consequently, the company's trade debts stood at PKR 468bn in Sep'24 compared to PKR 488bn in Jun'24. Reflecting this reduction in receivables, the company's short-term borrowing also declined, falling to PKR 397bn in Sep'24 from PKR 404bn in Jun'24. It is important to note that PSO supplies RLNG to the industrial sector, which is redirected to the domestic sector during winter, leading to an increase in price differentials. Therefore, the higher Gas Development Surcharge, along with fixed charges (raised in the 2023 gas tariff hike), could support the government reduce circular debt within the RLNG chain and may be used to offset the price differential.

### Profitability to arrive at PKR 62.69/share in FY25

In FY24, PSO faced significant inventory losses due to a decline in international oil prices. However, the company's profitability increased, supported by higher other income, as financial charges on line-fill costs of PKR 8.6 billion were recorded. We anticipate average oil prices to be around PKR 77/bbl and 70/bbl in CY25 and CY26, respectively. Additionally, a revision in OMC margins of PKR 1.35/ltr is expected soon, which would have an annualized impact of PKR 11.63/share on earnings growth. Moreover, economic growth and ongoing monetary easing are supporting auto sales and petroleum demand, which is expected improve company's topline. Meanwhile, higher receivable collections are improving the company's liquidity position, resulting in a downward trend in short borrowings, according to the latest accounts. As a result, the company's financing costs are expected to decline. Consequently, we project FY25 and FY26 earnings to reach PKR 62.69/share and PKR 82.04/share, respectively.

### Other developments

During FY24, the company completed the development of new storage facilities totaling 91k tons at Faqirabad, Faisalabad, and Mehmoodkot, bringing it to 1.24mn tons. With this expansion, PSO is targeting to open 1,500+ new retail stations across Punjab and KPK. Furthermore, PSO has established a direct connection from the Zulfiqarabad Oil Terminal to the White Oil Terminal Station (WOTS-1), bypassing the FOTCO header. Not only this will enable direct MS and HSD supply to the WOP, but also reduce costs and enhance the storage capacity of the terminal. Meanwhile, during FY25TD, PSO signed a long-term LPG supply agreement with UEP, which increased LPG allocation by 25%. Additionally, three lubricant tanks with a total capacity of 3,000 tons at the Keamari Terminal B and LMPA facilities have been restored.

## PSO

### Summary Data

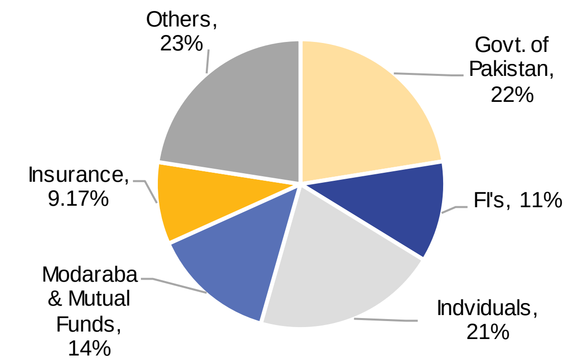
| | |
|---|---|
| Target Price (Dec'25) | 361.9 |
| Last Closing | 247.5 |
| Upside (%) | 46.2 |
| Shares (mn) | 469.5 |
| Free float (%) | 45 |
| Market Cap. (PKR mn) | 116,195 |
| Market Cap. (USD mn) | 418 |

**Recommendation BUY**

### Price Performance

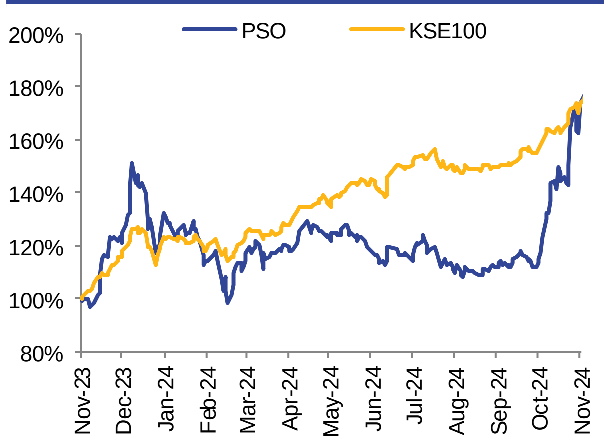
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 65.0 | 45.2 | 77.9 |
| Avg. Volume (000) | 3,387 | 2,289 | 2,833 |
| ADTV (mn) - PKR | 726 | 467 | 534 |
| ADTV (000) - USD | 2,614 | 1,682 | 1,905 |
| High Price - PKR | 249.4 | 249.4 | 249.4 |
| Low Price - PKR | 148.5 | 147.4 | 134.4 |

### Shareholding Pattern




Source: Company Financials, AHL Research

### Relative Performance




Source: Bloomberg, AHL Research

**Exhibit:** Key Ratios

| | | FY24a | FY25e | FY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 33.8 | 62.7 | 82.0 |
| Dividend per share | PKR | 10.0 | 15.0 | 15.0 |
| Book value per share | PKR | 492.7 | 530.4 | 587.4 |
| Price to Earning | x | 4.9 | 3.9 | 3.0 |
| Price to Book | x | 0.3 | 0.5 | 0.4 |
| Dividend Yield | % | 6.0 | 6.1 | 6.1 |

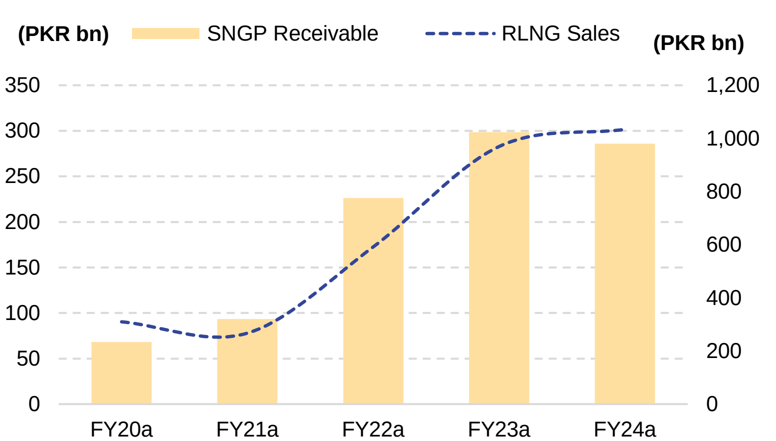
Source (s): Company Financials, AHL Research

**Exhibit:** Key Financial Highlights*

| PKR mn | FY24a | FY25e | FY26f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Sales | 3,571,750 | 3,128,809 | 3,420,235 |
| Gross Profit | 97,291 | 131,953 | 145,369 |
| Operating Profit | 92,129 | 106,280 | 123,427 |
| Finance Cost | 52,338 | 40,430 | 40,534 |
| Post Tax Profit | 15,863 | 29,433 | 38,514 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 231,309 | 249,005 | 275,783 |
| Total Liabilities | 743,140 | 677,064 | 709,245 |
| Current Assets | 906,322 | 852,900 | 905,321 |
| Non-Current Assets | 68,127 | 73,170 | 79,706 |
| Total Assets | 974,449 | 926,069 | 985,027 |

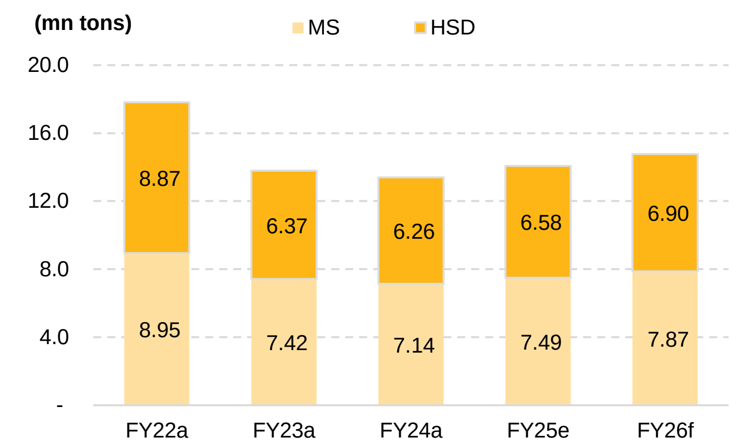
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** PSO receivables from SNGP in relation to RLNG sales




Source (s): Company Accounts, AHL Research

**Figure:** PSO's white oil sales




Source (s): OGRA, AHL Research

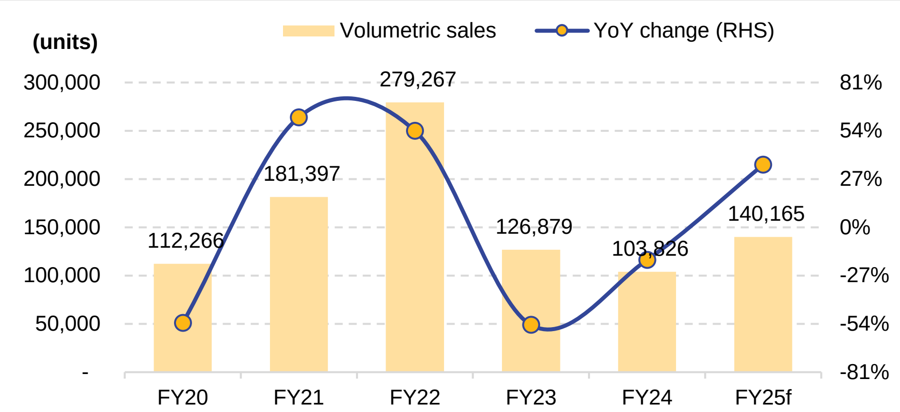
# Automobile Assemblers

## On the road to recovery

# On the road to recovery

**Macros to improve volumes:** With macroeconomic indicators pointing towards revival, the auto assembling sector, due to its cyclical nature, is set to recover. This recovery can be attributed to several key factor such as i) inflation coming to single digits increasing over-all consumer purchasing power ii) lower interest rates making auto financing more accessible, iii) the stability of PKR-USD parity reducing the cost of dollar-denominated raw materials. iv) government policies promoting hybrids and EVs, which are attracting new market entrants and v) falling fuel prices encouraging overall demand. These factors suggest that FY25 is set to be considerably more promising than the difficulties experienced during last 2 years. This positive trend is already reflected in the 4MFY25 auto sales, which reached 40.7K units a 50% increase YoY. We expect this trend to continue, projecting that auto industry sales in FY25 will rise by 35% YoY, reaching ~140K units.

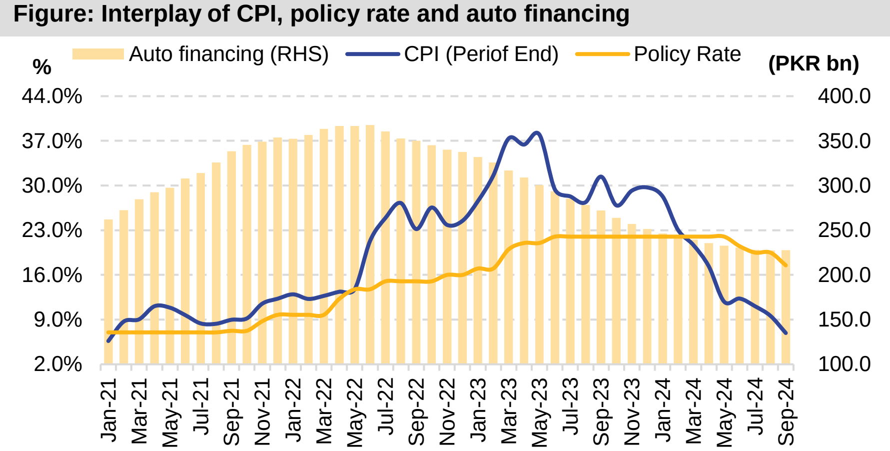
**Figure:** Volumetric auto sales




Source (s): PAMA, AHL Research

**Auto financing providing much needed support:** The SBP has lowered the policy rate by 700bps to 15% since Jun'24, offering much-needed relief to the auto financing rates. As a result, auto financing has finally seen an increase, reaching PKR 228bn, after experiencing a consistent decline over the past 27 months. Furthermore, with the commencement of FY25, we have witnessed an increase in easy monthly installment (EMI) plans offered by auto assemblers. We expect cheaper bank financing and attractive EMI plans to emerge as a major factor to contribute to the auto assembling sector's volumes.

**Figure: Interplay of CPI, policy rate and auto financing**




Source (s): SBP, PBS, AHL Research

**Strengthening PKR parity to improve situation:** The auto assembling sector has faced several challenges over the past two years, largely due to the depreciation of the PKR, which has increased dollar-denominated costs, exerting pressure on margins. However, in FY24, the PKR showed a modest improvement of 2.7% against the USD, providing some relief to margins. With expectations of further stability in PKR parity, the decreasing cost of dollar-denominated imports are likely to attract new players to the sector, increasing competition and supporting the sector's overall recovery.

**EVs and hybrids to change dynamics:** The government is actively promoting hybrid and electric vehicles in the country to mitigate fuel dependence and alleviate the burden on the import bill. This is evident in the tax incentives it has provided within its auto policies, which have allowed many auto assemblers like INDU and SAZEW to incorporate hybrid vehicles in their product line to enhance their profitability. Furthermore, according to market sources, the upcoming auto policy in FY26 will mainly focus on providing tax incentives for EVs. As a result, many new players, such as BYD and DFML, along with existing players like KIA have launched new electric models to benefit from these tax and duty advantages.

**Exhibit:** New electric and hybrid launches

| Company | Vehicle | Category | Launch date |
|---|---|---:|---:|
| BYD | BYD Atto 3 | Electric | Oct-24 |
| BYD | BYD Seal | Electric | Oct-24 |
| Hyundai | Hyundai Elantra | Hybrid | Oct-24 |
| KIA motors | KIA EV 5 | Electric | Oct-24 |
| MG Motors | MG HS PHEV | PHEV | Nov-24 |
| Lucky Motors | Peugeot 3008 | Hybrid | Nov-24 |
| MG Motors | MG Cyberster | Electric | Nov-24 |
| Changan | Changan Lumin | Electric | Nov-24 |
| Cherry | Chery Tiggo 8 Pro | PHEV | Dec-24 |
| BYD | BYD Sealion 6 | PHEV | Dec-24 |
| MG Motors | MG MARVEL R | Electric | Dec-24 |

Source (s): Pak Wheels, AHL Research

**New EV policy on the cards:** The government is set to finalize its electric vehicle policy by the end of this year to accelerate the adoption of EVs. To address the infrastructure challenges associated with electric vehicles, the government plans to install 40 charging stations along motorways, as well as an additional 300 stations at key locations nationwide. Additionally, to ensure that charging remains affordable, the government has set a power tariff of PKR 39.75/unit for these stations. These efforts are part of a broader strategy to promote the widespread adoption of electric mobility in Pakistan.

**Competition driving consumer choices:** The automotive industry is experiencing a major shift with new competitors entering the market. South Korean brands like KIA and Hyundai paved the way years ago, and now Chinese manufacturers, including Cherry, Sazgar, and newer players like BYD, are gaining traction and offering consumers more options. In response to this rising competition, INDU the only established player introduced the Corolla Cross and now plans to launch the 12th-generation Corolla Hybrid to strengthen its market position.

**Key risks**

- Rising inflation will hurt consumer affordability and shrink demand.
- Any Interest rate hike will lead to expensive auto-financing
- Exchange rate volatility affecting the cost of production.
- Delay in auto policy 2026.

# Indus Motor Company Limited (INDU)

## Strong base

### Diverse product portfolio

Indus motors company Limited is a leading player in the automotive industry, renowned for its strong brand reputation built on durable, reliable vehicles with excellent resale value. Its diverse product portfolio, including sedans like the Corolla and Yaris, SUVs such as the Fortuner and Corolla Cross, and 4x4s like the Hilux, has built strong customer loyalty and contributed significantly to profitability. Following the launch of the Corolla Cross in Dec'23, company's gross margins have risen to ~14%. Looking ahead, even with the expiration of the auto policy in FY26 and end of concessionary duties on hybrids, the company is well-positioned to sustain profitability due to its varied product range and high localization level, offering resilience against changes in policies and market fluctuations, ensuring continued strong margins.

### High profitability despite low volumes

In FY24, INDU reported a 56% YoY increase in profitability, with PAT reaching PKR 15.1bn. This growth was primarily driven by reduced raw material costs driven by a favorable exchange rate, enhanced localization (ranging from 50%-65% for Corolla, Yaris, and Cross, and 40%-50% for Fortuner and Hilux), and a favorable shift in the sales mix, particularly following the launch of the Corolla Cross. Despite a 33% YoY decline in sales volumes, INDU achieved a significant improvement in profitability with gross margins increasing to 13% in FY24, up 900 bps from 4.5% in FY23. With a recovery in sales volumes anticipated in FY25, the company is well-positioned to build on this performance and drive continued growth.

### Robust cash position

INDU sits on massive piles of cash and cash equivalents (including short term investment) of PKR 83.7bn which translates to PKR 1064/share. This creates a solid cushion for INDU and creates ample room for stunning dividend pay-outs, new model launch and investment in capacity expansion. Also, availability of huge liquidity makes company less risky stock compared to listed peers.

### Cheap Valuation

We anticipate the company's bottom-line for FY25 and FY26 to stand at PKR 237.55/share and PKR 284.06/share, respectively. This valuation positions the company at a FY25 P/E of 8.4x, signifying an undervalued P/E multiple. This is supported by the expectation of earnings recovery due to INDU's persistent brand image and the new launch of the Hybrid Corolla. We recommend a buy stance on INDU with a Dec'25 target price of PKR 2,459/share, implying an upside potential of 22.9%.

**INDU**

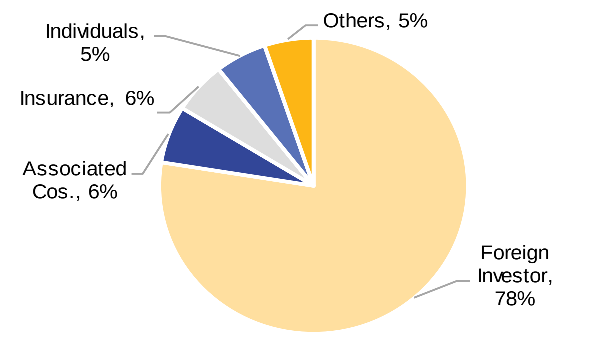
| Summary Data | |
|---|---|
| Target Price (Dec'25) | 2,459.7 |
| Last Closing | 2,001.2 |
| Upside (%) | 22.9 |
| Shares (mn) | 78.6 |
| Free float (%) | 18 |
| Market Cap. (PKR mn) | 157,290 |
| Market Cap. (USD mn) | 566 |

**Recommendation** **BUY**

**Price Performance**

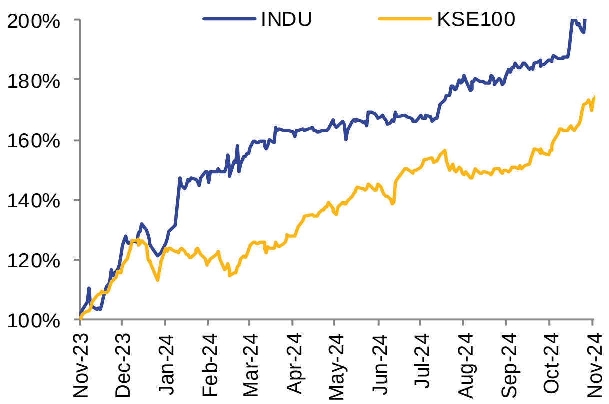
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | 22.7 | 31.7 | 111.9 |
| Avg. Volume (000) | 3 | 12 | 20 |
| ADTV (mn) - PKR | 5 | 20 | 28 |
| ADTV (000) - USD | 17 | 73 | 99 |
| High Price - PKR | 2,026.5 | 2,026.5 | 2,026.5 |
| Low Price - PKR | 1,627.9 | 1,500.1 | 940.7 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Exhibit:** Ratio analysis

| | | FY24a | FY25e | FY26f |
|---|---|---|---|---|
| Earnings per share | PKR | 181.0 | 237.5 | 284.1 |
| Dividend per share | PKR | 114.7 | 143.0 | 170.0 |
| Book value per share | PKR | 855.3 | 949.8 | 1,063.9 |
| Price to Earning | x | 8.7 | 8.4 | 7.0 |
| Price to Book | x | 1.8 | 2.1 | 1.9 |
| Dividend Yield | % | 7.3 | 7.1 | 8.5 |

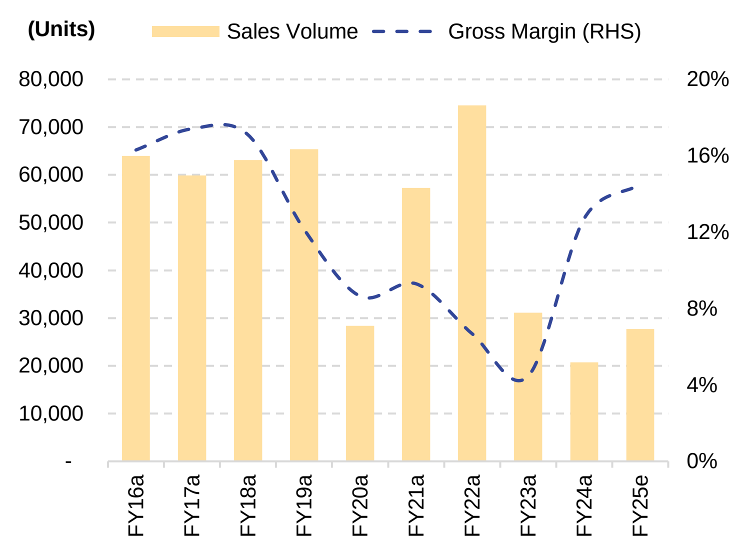
Source (s): Company Financials, AHL Research

**Exhibit:** Key Financial Highlights*

| PKR mn | 2024a | 2025e | 2026f |
|---|---|---|---|
| **Income Statement** | | | |
| Net Sales | 152,481 | 177,759 | 243,344 |
| Gross Profit | 19,382 | 25,766 | 35,601 |
| Other Income | 14,269 | 12,947 | 11,569 |
| Finance Cost | 170 | 185 | 118 |
| Post Tax Profit | 14,230 | 18,671 | 22,328 |
| **Balance Sheet** | | | |
| Shareholder's Equity | 67,226 | 74,658 | 83,624 |
| Total Liabilities | 78,593 | 106,040 | 109,462 |
| Current Assets | 119,420 | 149,539 | 163,964 |
| Non-Current Assets | 26,400 | 31,159 | 29,123 |
| Total Assets | 145,820 | 180,698 | 193,087 |

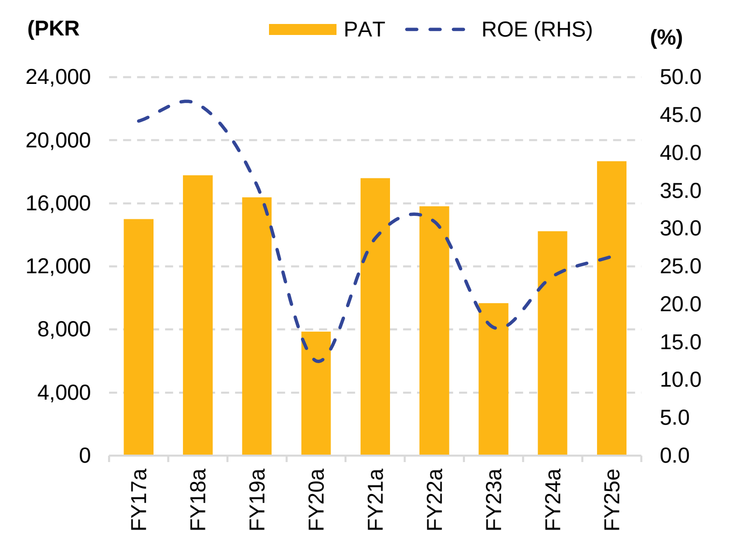
Source (s): Company Financial, AHL Research, *Unconsolidated

**Figure:** Sales volumes and Gross margins




Source (s): Company Financials, AHL Research

**Figure:** PAT and Return on equity




Source (s): Company Financials, AHL Research

# Textile Composite

## Facing the headwinds

# Facing the headwinds

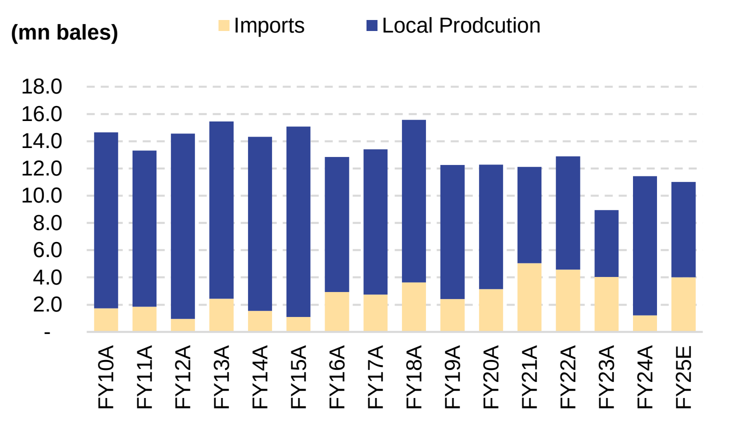
**Recovery in textile exports:** The textile industry forms the backbone of Pakistan's export economy, accounting for 60% of total exports and contributing 8.5% to GDP. In Sep'24, textile exports grew by 18% YoY to USD 1.6bn, bringing cumulative 1QFY25 exports to USD 4.5bn, up by 10% YoY. Looking ahead, demand is anticipated to strengthen, driven by increasing wages, improved consumer spending power, and lower pipeline inventories. Coupled with ongoing U.S restrictions on Chinese imports and rising production costs in Bangladesh, this sets the stage for Pakistani textile exporters to capture greater market share, with the anticipated rate cuts by the Federal Reserve and the recovery of global economies, we expect the textile industry to rebound, leading to a potential 8% YoY jump in textile exports in FY26.

**Cotton supply and demand in Pakistan:** Pakistan's cotton demand stands at 11.0mn bales, with a projected production of 7.0mn bales for FY25, requiring imports of around 4.0mn bales. As of 31st Oct'24, the cotton arrivals in Pakistan have dropped by 37% YoY totaling 4.3mn bales. The contraction in cotton output is largely attributed to delays in sowing, which stemmed from reduced farmer income on wheat. This income drops resulted from the Punjab government's decision not to purchase wheat at the support price of PKR 3,099 per maund, which impacted farmers' cash flow and planting decisions. On a positive note, international cotton prices (Cotlook A) have significantly declined by 9.5% YoY to USD 81.7/maund, relieving Pakistan's textile sector from price pressures and ensuring steady supply availability.

**Elevated energy tariffs and financing costs still remains a hurdle:** The textile industry faces considerable headwinds from escalating gas and electricity tariffs, along with increased Long-Term Financing Facility (LTFF) rates. The electricity rates went up from 9 cents/kWh to 14 cents/kWh in FY24. Additionally, the LTFF, set at 3% below the policy rate, has driven financing costs higher, adding strain to a sector reliant on subsidized loans for capital investment.

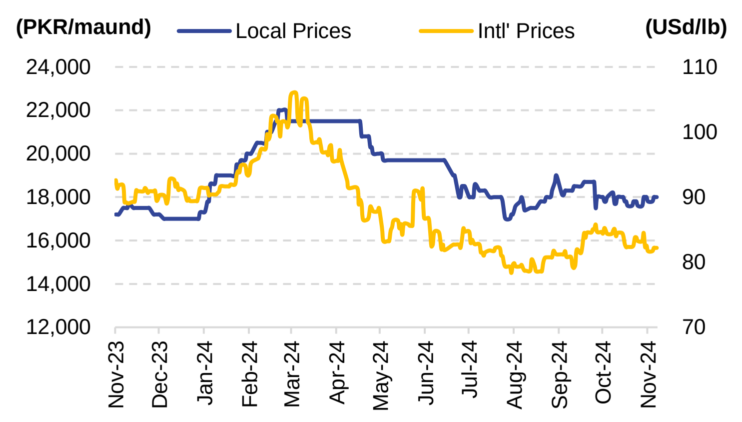
**Impact of Increased Taxation:** In a recent budgetary shift (Budget FY25), the government transitioned export-oriented companies from a final tax regime to a normal tax structure. This change means that while the 1.5% export sales tax has been eliminated, companies will now face a 39% tax on profit before tax (PBT). This adjustment poses challenges for cash flow management and profitability, making operational efficiency even more crucial

**Exhibit:** Domestic cotton production compared to imports




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

**Exhibit:** Historical trend of cotton prices




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

# Interloop Limited (ILP)

## Dominating Pakistan's export landscape

### Hosiery segment to outshine

Interloop, the leading textile company and a global frontrunner in the socks (hosiery) manufacturing sector, emerges as our top pick within the textiles industry. The company operates a production capacity of 873mn pairs of socks per year through five vertically integrated manufacturing facilities. It serves international brands and retailers globally, including Nike, adidas, STICHD, Target, H&M, C&A, Amazon, and Uniqlo. The recent acquisition of Top Circle has also helped the company expand its manufacturing footprint to China. We forecast a 10% rebound in volumetric sales within the hosiery segment for FY25, leading to an impressive projected 4-year CAGR of 34% in hosiery sales. Looking ahead, we expect gross margins for this segment to remain robust at 27% in FY25, strengthened by a decline in international cotton prices.

### Capacity expansion with new apparel plant

Interloop's apparel facility is setting new standards for textile manufacturing with a fully integrated, automated process encompassing yarn spinning, fabric processing, knitting, dyeing, garment laundry, and sewing. By FY26, annual production capacity is expected to nearly double, reaching 69.8mn pieces from 33.6mn in FY24. Moreover, the denim garment segment, currently producing 7mn pieces annually, is also on track for expansion to 1.5mn pieces per month by 2026.

### Leading export growth

As one of Pakistan's largest and fastest-growing textile exporters, Interloop consistently outpaces industry growth. Ranking first among listed companies and second among all textile firms in the country, Interloop achieved a substantial 33% revenue growth from FY19 to FY24, compared to the sector average of 11%. With USD 529mn in export sales, the hosiery business remains the key driver, contributing 74% of total revenue.

### Sustainability driven future

Towards the end of FY26, the revenue of ILP is expected to touch USD 700mn. Interloop is a pioneer in sustainability, becoming the first large enterprise in Pakistan's manufacturing sector to have its science-based targets approved. The company is expanding its renewable energy portfolio, aiming to increase solar capacity to 25MW by FY26, up from the current 12.6MW. Furthermore, Interloop is enhancing its clean energy initiatives with a biomass boiler for steam generation and a water recycling facility at its Apparel Park. These investments highlight Interloop's commitment to environmentally responsible growth.

**ILP**

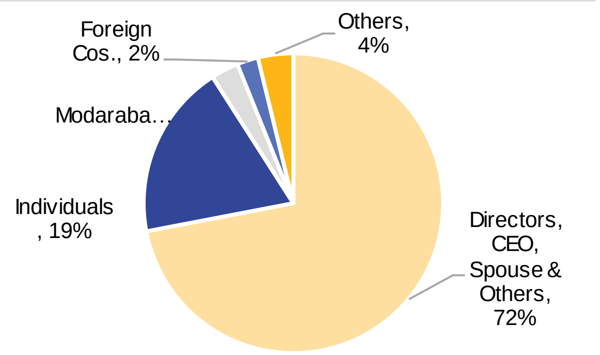
| Summary Data | |
|---|---|
| Target Price (Dec'25) | 77.4 |
| Last Closing | 63.7 |
| Upside (%) | 21.6 |
| Shares (mn) | 1,401.7 |
| Free float (%) | 20 |
| Market Cap. (PKR mn) | 89,233 |
| Market Cap. (USD mn) | 321 |

**Recommendation: BUY**

**Price Performance**

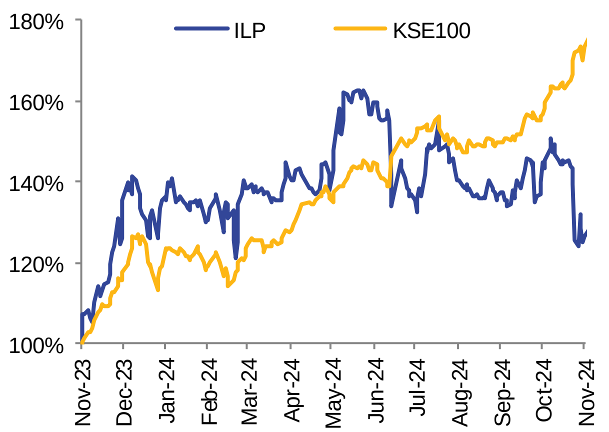
| | 3M | 6M | 12M |
|---|---|---|---|
| Return (%) | -6.4 | -21.5 | 13.1 |
| Avg. Volume (000) | 971 | 1,073 | 860 |
| ADTV (mn) - PKR | 66 | 76 | 61 |
| ADTV (000) - USD | 239 | 274 | 218 |
| High Price - PKR | 75.4 | 81.3 | 81.3 |
| Low Price - PKR | 62.1 | 62.1 | 55.8 |

**Shareholding Pattern**




Source: Company Financials, AHL Research

**Relative Performance**




Source: Bloomberg, AHL Research

**Exhibit:** Ratio Analysis

| | | FY24a | FY25e | FY26f |
|---|---|---|---|---|
| Earnings per share* | PKR | 11.8 | 6.2 | 12.0 |
| Dividend per share | PKR | 4.5 | 2.5 | 5.0 |
| Book value per share | PKR | 38.5 | 42.3 | 49.3 |
| Price to Earning | x | 6.0 | 10.2 | 5.3 |
| Price to Book | x | 1.8 | 1.5 | 1.3 |
| Dividend Yield | % | 6.4 | 3.9 | 7.9 |
| Net Margins | % | 10.4 | 4.5 | 7.5 |

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

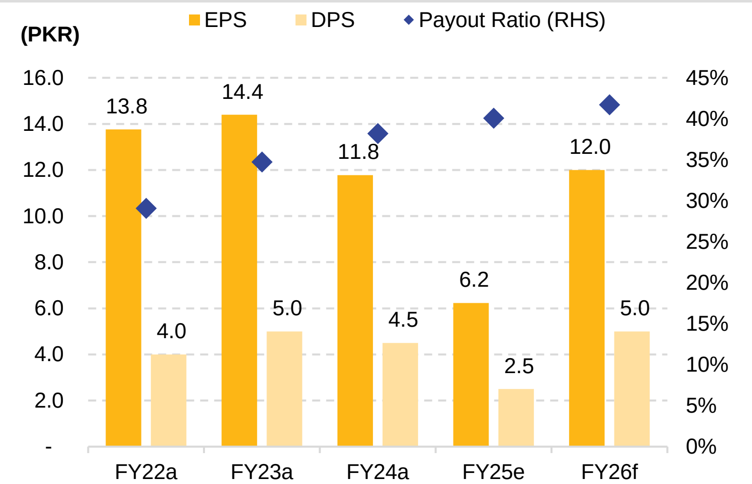
**Exhibit:** Key Financial Highlights

| Income Statement | FY24a | FY25e | FY26f |
|---|---|---|---|
| Net Sales | 158,183 | 195,061 | 223,117 |
| Gross Profit | 44,166 | 44,546 | 54,382 |
| Operating Profit | 28,648 | 23,658 | 35,238 |
| Finance Cost | 10,156 | 8,895 | 7,685 |
| Post Tax Profit | 16,511 | 8,741 | 16,807 |

| Balance Sheet | FY24a | FY25e | FY26f |
|---|---|---|---|
| Shareholder's Equity | 54,011 | 59,248 | 69,048 |
| Trade and other Payables | 23,727 | 29,259 | 33,468 |
| Total Liabilities | 92,978 | 96,516 | 89,876 |
| Current Assets | 87,217 | 95,826 | 99,211 |
| Non-Current Assets | 59,770 | 59,936 | 59,712 |
| Total Assets | 146,987 | 155,762 | 158,923 |

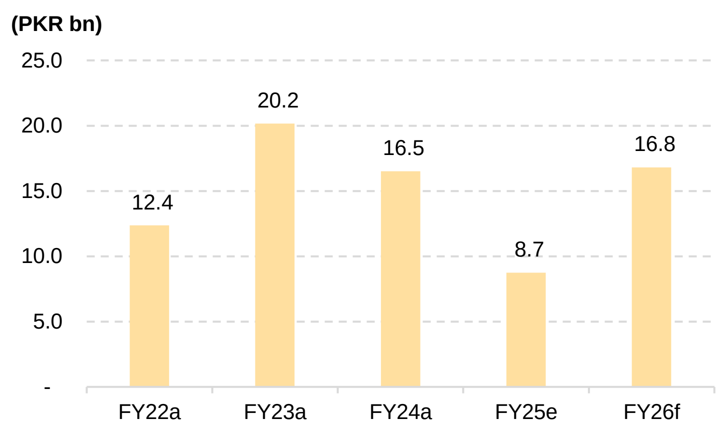
Source (s): Company Financial, AHL Research

**Exhibit:** Payout ratio (trend and forecast)

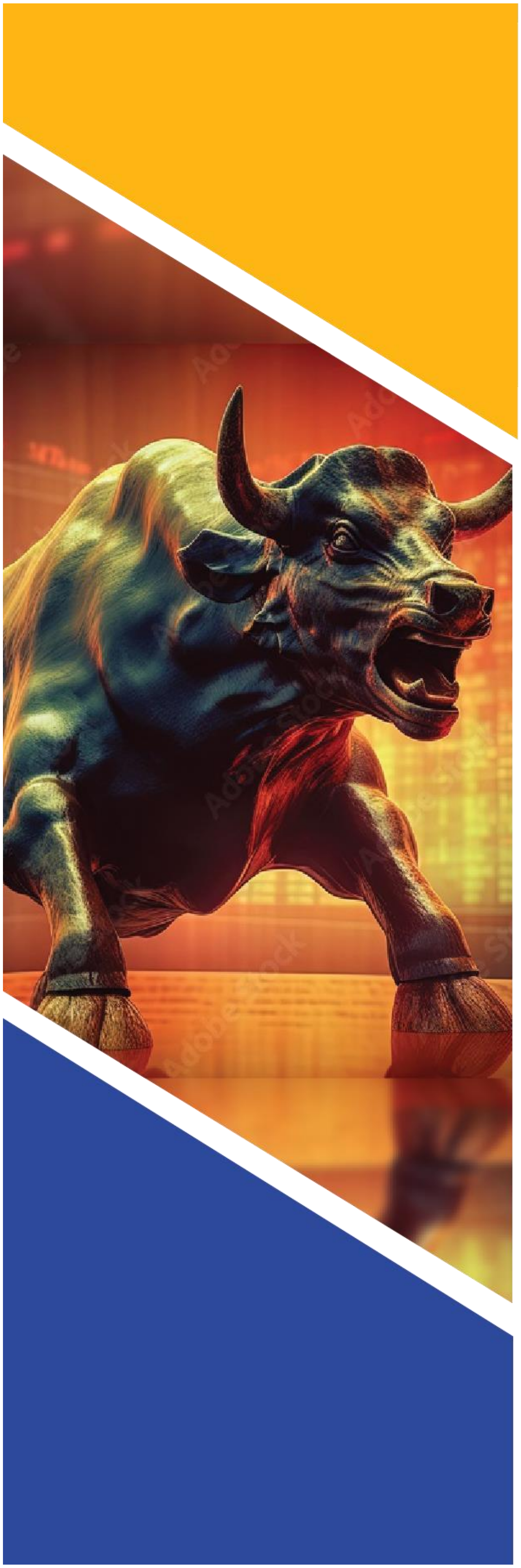



Source (s): Company Financials, AHL Research

**Exhibit:** PAT Trend and forecast




Source (s): Company Financials, AHL Research



# Alpha Stocks

# GlaxoSmithKline Pakistan Limited (GLAXO)

GlaxoSmithKline Pakistan Limited (GLAXO) is engaged in the manufacturing and marketing of specialty pharmaceuticals and ethical products. The company has partnered with Marham, a leading health-tech platform, expanding its digital outreach to healthcare professionals across Pakistan. GLAXO's product portfolio is skewed toward essential medicines, comprising approximately 60% of its sales mix, with the remaining 40% in non-essential products.

Following a recent price increase for essential medicines under the "hardship" category, including flagship brands such as Augmentin, Amoxil, and Zantac, GLAXO reported significant margin expansion in 2QCY24, reaching 24% compared to just 4% in the same period last year. This margin improvement reflects effective price pass-throughs, strengthened by strong demand across its essential portfolio.

The company recorded 9MCY24 earnings at PKR 11.25/share and is expected to close CY24 with an earnings of PKR 17.2/share. With full impact of deregulation of non-essential medicines and better margins, GLAXO's CY25 earnings are projected at PKR 26.5/share, yielding a P/E multiple of 12.1x as compared to pharma average P/E of 16.8x

| GLAXO | | | | |
|---|---|---|---|---|
| Last Closing | | | | 316.7 |
| Shares (mn) | | | | 318.5 |
| Market Cap. (PKR mn) | | | | 100,858.6 |
| Market Cap. (USD mn) | | | | 363.1 |
| **Price Performance** | | | | |
| | | **3M** | **6M** | **12M** |
| Return | | 134.2% | 130.7% | 287.5% |
| Average Volume (000) | | 679.2 | 396.2 | 277.5 |
| ADTV (mn) - PKR | | 140.9 | 79.6 | 47.1 |
| ADTV (000) - USD | | 506.8 | 286.4 | 169.2 |
| High Price - PKR | | 324.34 | 324.34 | 324.34 |
| Low Price - PKR | | 155.75 | 121.01 | 77.20 |
| **Key Financials** | | | | |
| | | **2022** | **2023** | **LTM** |
| Earnings Per Share | PKR | 7.73 | 1.68 | 14.15 |
| Price to Earning | x | 11.3 | 54.6 | 22.4 |
| Price to Book | x | 1.39 | 1.29 | 3.99 |
| Dividend Yield | % | 0.0% | 0.0% | 0.0% |
| Return on Equity | % | 12% | 2% | 19% |

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

# Shifa International Hospitals Limited (SHFA)

Shifa International Hospitals Limited is engaged in establishing and running medical centers and hospitals across the country. SHFA developed its maiden hospital in Islamabad in 1993, followed by establishment of hospital in Faisalabad (2011) and another hospital in Islamabad in 2011. Alongside, the company manages its own medical centers, pharmacies and lab collection points in various cities. SHFA also offers kidney, liver, bone marrow, liver and cornea transplant services. Since its inception, the company has completed over 350 bone marrow, 700 kidneys and 1,100 livers and 287 corneal transplants. In addition to this, the company is able to perform stem cell transplant.

Additionally, Shifa has extended its gastroenterology offerings by creating new revenue-generating clinical spaces, including eight consultation rooms and a comfortable waiting area for 35 individuals. Reinforcing its commitment to sustainability, Shifa has installed a 900KW PV solar system, significantly reducing energy costs while repurposing heat from generators via waste heat recovery boilers to minimize gas emissions. Shifa's recent strategic expansions have positively impacted profitability, with EPS rising by 70% YoY to PKR 10.1. Looking ahead, FY25 earnings are projected at PKR 44.2/share, which translates into an attractive forward PE multiple of 8.5x as compared to its last 5-yr average P/E of 14.2x.

| **SHFA** | | | | |
|---|---|---|---|---|
| Last Closing | | | | 370.65 |
| Shares (mn) | | | | 63.2 |
| Market Cap. (PKR mn) | | | | 23,430.4 |
| Market Cap. (USD mn) | | | | 84.4 |
| **Price Performance** | | | | |
| | | **3M** | **6M** | **12M** |
| Return | | 181.1% | 170.6% | 187.7% |
| Average Volume (000) | | 113.51 | 69.76 | 42.87 |
| ADTV (mn) - PKR | | 23.67 | 13.91 | 8.03 |
| ADTV (000) - USD | | 85.16 | 50.02 | 28.82 |
| High Price - PKR | | 375.03 | 375.03 | 375.03 |
| Low Price - PKR | | 125.41 | 125.41 | 125.41 |
| **Key Financials** | | | | |
| | | **2023** | **2024** | **LTM** |
| Earning Per Share | PKR | 18.69 | 21.55 | 25.27 |
| Price to Earning | x | 6.5 | 6.4 | 14.7 |
| Price to Book | x | 0.81 | 0.64 | 1.87 |
| Dividend Yield | % | 1.1% | 3.3% | 1.1% |
| Return on Equity | % | 12% | 12% | 13% |

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

# Tariq Glass Limited (TGL)

TGL is engaged in manufacturing and distribution of glass containers, opal glass, float glass, and tableware under well recognized brands, such as Toyo Nasic, Omroc, and Nova, which are exported. In FY24, tableware operations reached full capacity, while full-scale float glass production was delayed until construction sector demand improves. This segment contributes about 64% of revenue.

TGL acquired 50% stake in MMM Holding Pvt Ltd during FY24, which holds an 84% stake in Balochistan Glass Limited (BGL), which has expanded its portfolio into pharmaceutical bottles. Post-acquisition, BGL's Unit-1 plant in Hub, Balochistan, resumed commercial operations in Jun'24.

Keeping in view high cost of power and fuel, TGL added 2.5 MWh of solar capacity, raising total solar generation to 3.5 MWh, which has resulted in enhanced gross margins. During FY24, the company's profitability increased to PKR 25.41/share (PKR 22.05/share ex-bargain purchase gain) from PKR 14.63/share in SPLY. With economic stability and better margins from reliance on solar power, TGL's FY25 earnings are projected at PKR 21.50/share, yielding a P/E multiple of 6.0x

| **TGL** | | | | |
|---|---|---|---|---|
| Last Closing | | | | 130.59 |
| Shares (mn) | | | | 172.2 |
| Market Cap. (PKR mn) | | | | 22,483.3 |
| Market Cap. (USD mn) | | | | 81.0 |
| **Price Performance** | | | | |
| | | **3M** | **6M** | **12M** |
| Return | | 16.1% | 14.4% | 39.9% |
| Average Volume (000) | | 294.05 | 300.16 | 404.13 |
| ADTV (mn) - PKR | | 34.39 | 34.86 | 44.12 |
| ADTV (000) - USD | | 123.71 | 125.33 | 157.48 |
| High Price - PKR | | 132.86 | 132.86 | 132.86 |
| Low Price - PKR | | 108.09 | 105.72 | 87.89 |
| **Key Financials** | | | | |
| | | **2023** | **2024** | **LTM** |
| Earning Per Share | PKR | 14.63 | 25.41 | 25.10 |
| Price to Earning | x | 4.3 | 4.2 | 5.2 |
| Price to Book | x | 1.19 | 0.59 | 1.16 |
| Dividend Yield | % | 5.7% | 0.0% | 0.0% |
| Return on Equity | % | 18% | 26% | 23% |

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

# Pak Elektron Limited (PAEL)

Pak Elektron Limited (PAEL) offers a strong investment opportunity as a leading manufacturer and distributor of electrical equipment and consumer appliances. The company operates through two main divisions:

Appliance Division: This division contributes ~58% to total revenue and provides a wide variety of products such as refrigerators, air conditioners, washing machines, microwave ovens, LED TVs, and other household appliances. The appliance segment's growth is driven by addressing the product penetration gap, rapid urbanization, and improving lifestyles, ensuring robust fundamentals. With improving macroeconomic conditions, eased import restrictions, and controlled inflation, the division's performance has strengthened and is expected to continue driving growth as the country's economy undergoes further revitalization.

Power Division: Contributing around 42% to the total revenue, this division focuses on manufacturing power transformers, distribution transformers, energy meters, switch gears, and grid stations. The division is well-positioned to benefit from increasing demand for electrical infrastructure driven by urbanization, lifestyle improvements, and government initiatives to upgrade the country's electricity transmission and distribution networks. The rising demand from industrial growth, expanding housing, and greater electricity consumption (due to the growing use of electrical appliances) further strengthens the outlook for this division.

For the 9MFY24, PAEL posted earnings of PKR 2.14 per share. Full-year earnings are expected to reach PKR 2.74 per share, with profitability projected to rise to PKR 4.11 per share in 2025, offering an attractive forward P/E ratio of 6.3x.

| **PAEL** | | | | |
|---|---|---|---|---|
| Last Closing | | | | 27.51 |
| Shares (mn) | | | | 856.0 |
| Market Cap. (PKR mn) | | | | 23,548.9 |
| Market Cap. (USD mn) | | | | 84.8 |
| **Price Performance** | | | | |
| | | **3M** | **6M** | **12M** |
| Return | | 9.0% | 1.4% | 73.2% |
| Average Volume (000) | | 8,535.9 | 8,599.7 | 10,992.5 |
| ADTV (mn) - PKR | | 252.9 | 249.4 | 284.5 |
| ADTV (000) - USD | | 909.5 | 896.6 | 1,017.2 |
| High Price - PKR | | 29.01 | 29.01 | 29.01 |
| Low Price - PKR | | 23.61 | 23.61 | 15.88 |
| **Key Financials** | | | | |
| | | **2022** | **2023** | **LTM** |
| Earning Per Share | PKR | 1.25 | 1.55 | 2.62 |
| Price to Earning | x | 10.4 | 11.3 | 10.5 |
| Price to Book | x | 0.4 | 0.3 | 0.5 |
| Dividend Yield | % | 0.0% | 0.0% | 0.0% |
| Return on Equity | % | 2.9% | 3.3% | 5.3% |

Source (s): Company Financials, AHL Research

# Pakistan Telecommunication Company Limited (PTC)

Pakistan Telecommunication Company Limited (PTC), a subsidiary of e& (formerly known as Etisalat Group), is the largest integrated Information Communication Technology (ICT) provider in Pakistan. As the operator of Pakistan's largest fixed-line network, PTCL offers a wide array of services, including high-speed broadband internet, CharJi wireless internet, Smart TV (IPTV), and OTT applications like Smart Link, Smart TV, and Touch App. Additionally, PTCL's enterprise solutions such as Smart Cloud, Tier-3 Certified Data Centers, Managed Services, and Satellite Services support businesses in enhancing operational efficiency and connectivity.

Ufone, a subsidiary of PTCL, provides mobile voice and data services, offering both prepaid and postpaid plans. The company has a customer base of over 25mn. It also holds the highest 4G net additions in the industry. Additionally, PTC has signed a share purchase agreement to acquire 100% stake in Telenor Pakistan with cash and debt free value of PKR 108bn. This acquisition will allow PTC to leverage synergies, significantly expand its customer base, and enhance its network coverage, positioning the company as a dominant player in the market.

In CY24, Telenor's EBITDA is projected to reach PKR 45.2bn. Assuming the same profitability from Telenor going forward and depreciation expense of PKR 10bn annually and expected interest cost of PKR 5.4bn on USD 400mn loan, the annual contribution after tax expected to be PKR 15.8bn (EPS PKR 4.2/share).

PTC reported a consolidated loss of PKR 15.3bn (LPS: PKR 4.06) for 9MCY24, primarily driven by substantial finance costs totaling PKR 38.7bn (PKR 10.2/share). As of Sep'24, PTC's long-term debt stands at PKR 106.5bn. In lieu of this leveraged position, we estimate that a 1% reduction in interest rates could enhance PTC's profitability by approximately PKR 1.1bn (PKR 0.3/share), highlighting the company's sensitivity to a declining interest rate environment.

| **PTC** | | | | |
|---|---|---|---|---|
| Last Closing | | | | 16.26 |
| Shares (mn) | | | | 3,774.0 |
| Market Cap. (PKR mn) | | | | 61,365.2 |
| Market Cap. (USD mn) | | | | 220.9 |
| **Price Performance** | | | | |
| | | **3M** | **6M** | **12M** |
| Return | | 30.9% | 16.8% | 127.7% |
| Average Volume (000) | | 8,364.69 | 7,064.93 | 9,604.73 |
| ADTV (mn) - PKR | | 141.87 | 115.04 | 168.43 |
| ADTV (000) - USD | | 510.53 | 413.71 | 602.22 |
| High Price - PKR | | 16.76 | 16.76 | 18.42 |
| Low Price - PKR | | 11.09 | 11.01 | 6.94 |
| **Key Financials** | | | | |
| | | **2022** | **2023** | **LTM** |
| Loss Per Share | PKR | (2.06) | (3.72) | (5.16) |
| Price to Earning | x | nm | nm | nm |
| Price to Book | x | 0.70 | 0.56 | 0.52 |
| Dividend Yield | % | 0.0% | 0.0% | 0.0% |
| Return on Equity | % | -21% | -35% | -46% |

Source (s): Company Financials, AHL Research

ARIF HABIB LIMITED

## AHL Universe - Recommendation Summary

| Code | Company | Price 14-Nov-24 | TP Dec'25 | Upside (%) | Stance | EPS (PKR) 2024 | EPS (PKR) 2025 | EPS (PKR) 2026 | DPS (PKR) 2024 | DPS (PKR) 2025 | DPS (PKR) 2026 | P/E (x) 2025 | P/E (x) 2026 | DY (%) 2025 | DY (%) 2026 | P/B (x) 2025 | P/B (x) 2026 | RoE (%) 2025 | RoE (%) 2026 | Indices |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Exploration & Production** | | | | | | | | | | | | | | | | | | | | |
| MARI | Mari Petroleum Ltd | 459.0 | 488.2 | 6.4 | Hold | 64.4 | 67.0 | 64.4 | 25.78 | 27.00 | 26.00 | 6.9 | 7.1 | 5.9 | 5.7 | 1.9 | 1.7 | 31.6 | 25.2 | KSE100, KSE30, KMI & MSCI |
| OGDC | Oil and Gas Dev Co. | 194.9 | 249.1 | 27.8 | Buy | 48.6 | 48.8 | 49.2 | 10.10 | 15.00 | 25.00 | 4.0 | 4.0 | 7.7 | 12.8 | 0.6 | 0.6 | 16.2 | 15.0 | KSE100, KSE30 & MSCI |
| POL | Pakistan Oilfields Ltd. | 577.8 | 696.6 | 20.5 | Buy | 137.9 | 112.3 | 127.6 | 95.00 | 77.00 | 87.90 | 5.1 | 4.5 | 13.3 | 15.2 | 2.0 | 1.7 | 38.2 | 40.1 | KSE100, KSE30 & MSCI |
| PPL | Pakistan Petroleum Ltd. | 152.5 | 195.2 | 28.0 | Buy | 42.0 | 42.4 | 43.7 | 6.00 | 10.00 | 16.50 | 3.6 | 3.5 | 6.6 | 10.8 | 0.6 | 0.5 | 17.1 | 15.8 | KSE100, KSE30, KMI & MSCI |
| **Commercial Banks*^** | | | | | | | | | | | | | | | | | | | | |
| AKBL | Askari Bank Ltd. | 29.1 | 35.6 | 39.3 | Buy | 13.6 | 10.3 | 11.4 | 5.00 | 4.00 | 5.00 | 2.8 | 2.6 | 13.7 | 17.2 | 0.4 | 0.3 | 13.1 | 13.4 | KSE100 |
| BAFL | Bank Alfalah Ltd. | 67.1 | 82.9 | 26.5 | Buy | 29.8 | 24.5 | 26.1 | 8.00 | 8.00 | 10.00 | 2.7 | 2.6 | 11.9 | 14.9 | 0.5 | 0.5 | 20.6 | 19.1 | KSE100, KSE30 & MSCI |
| BOP | The Bank of Punjab | 6.6 | 7.2 | 16.5 | Buy | 3.6 | 2.7 | 2.5 | 0.50 | 1.00 | 1.00 | 2.4 | 2.6 | 15.1 | 15.1 | 0.2 | 0.2 | 9.6 | 8.4 | KSE100 |
| FABL | Faysal Bank Ltd. | 48.1 | 76.4 | 62.0 | Buy | 17.3 | 15.9 | 16.4 | 6.00 | 5.00 | 5.00 | 3.0 | 2.9 | 10.4 | 10.4 | 0.6 | 0.5 | 21.0 | 19.1 | KSE100 & KMI |
| HBL | Habib Bank Ltd. | 130.5 | 133.5 | 5.3 | Hold | 41.7 | 35.6 | 38.2 | 16.00 | 14.00 | 14.00 | 3.7 | 3.4 | 10.7 | 10.7 | 0.4 | 0.4 | 12.4 | 12.3 | KSE100, KSE30 & MSCI |
| MCB | MCB Bank Ltd. | 247.5 | 337.7 | 40.1 | Buy | 54.8 | 49.7 | 51.0 | 36.00 | 36.00 | 36.00 | 5.0 | 4.9 | 14.5 | 14.5 | 1.1 | 1.0 | 22.0 | 21.6 | KSE100, KSE30 & MSCI |
| MEBL | Meezan Bank Ltd. | 226.4 | 289.3 | 30.9 | Buy | 49.1 | 43.3 | 45.1 | 28.00 | 24.00 | 25.00 | 5.2 | 5.0 | 10.6 | 11.0 | 1.5 | 1.4 | 31.7 | 28.8 | KSE100, KSE30 & KMI |
| NBP | National Bank of Pakistan. | 61.1 | 89.3 | 51.2 | Buy | 5.2 | 18.6 | 22.2 | 3.00 | 9.00 | 11.00 | 3.3 | 2.7 | 14.7 | 18.0 | 0.3 | 0.3 | 9.6 | 11.0 | KSE100 & MSCI |
| UBL | United Bank Ltd. | 323.3 | 313.3 | 0.3 | Hold | 57.2 | 49.3 | 50.6 | 44.00 | 44.00 | 44.00 | 6.6 | 6.4 | 13.6 | 13.6 | 1.3 | 1.3 | 20.4 | 20.8 | KSE100, KSE30 & MSCI |
| **Fertilizer*** | | | | | | | | | | | | | | | | | | | | |
| EFERT | Engro Fertilizer^ | 199.6 | 197.6 | 3.7 | Hold | 24.6 | 27.9 | 28.3 | 23.00 | 27.00 | 28.00 | 7.1 | 7.0 | 13.5 | 14.0 | 6.0 | 6.3 | 82.2 | 86.9 | KSE100, KSE30, KMI & MSCI |
| ENGRO | Engro Corporation^ | 320.5 | 337.8 | 8.8 | Hold | 47.9 | 64.1 | 48.8 | 35.00 | 47.00 | 36.00 | 5.0 | 6.6 | 14.7 | 11.2 | 0.5 | 0.5 | 10.1 | 7.2 | KSE100, KSE30, KMI & MSCI |
| FFBL | Fauji Fert. Bin Qasim | 64.0 | | | | 18.5 | | | | | | | | | | | | | | KSE100, KSE30 & KMI |
| FFC | Fauji Fertilizer Co. | 278.2 | 361.5 | 36.2 | Buy | 44.9 | 59.3 | 60.9 | 33.50 | 50.00 | 52.00 | 4.7 | 4.6 | 18.0 | 18.7 | 3.9 | 3.4 | 69.3 | 59.9 | KSE100, KSE30 & MSCI |
| **Cement** | | | | | | | | | | | | | | | | | | | | |
| DGKC | D.G. Khan Cement Co. | 85.8 | 108.9 | 26.9 | Buy | 1.2 | 9.2 | 12.5 | - | - | 3.00 | 9.3 | 6.9 | 0.0 | 3.5 | 0.5 | 0.5 | 5.7 | 7.0 | KSE100, KSE30 & KMI |
| FCCL | Fauji Cement Co. | 32.5 | 44.6 | 37.2 | Buy | 3.4 | 5.3 | 6.4 | 1.00 | 1.50 | 2.00 | 6.1 | 5.1 | 4.6 | 6.2 | 1.0 | 0.9 | 16.7 | 17.7 | KSE100, KSE30 & KMI |
| KOHC | Kohat Cement Co. | 420.8 | 492.1 | 16.9 | Buy | 45.4 | 66.5 | 67.6 | - | - | 10.00 | 6.3 | 6.2 | 0.0 | 2.4 | 1.5 | 1.3 | 27.4 | 22.3 | KSE100 & KMI |
| MLCF | Maple Leaf Cement.^ | 40.5 | 53.9 | 32.9 | Buy | 6.6 | 7.1 | 8.3 | - | - | 3.00 | 5.7 | 4.9 | 0.0 | 7.4 | 0.7 | 0.6 | 12.1 | 12.9 | KSE100, KSE30 & KMI |
| LUCK | Lucky Cement Ltd.^ | 1,041.3 | 1,255.9 | 20.6 | Buy | 223.7 | 186.8 | 163.9 | 15.00 | 30.00 | 33.00 | 5.6 | 6.4 | 2.9 | 3.2 | 0.9 | 0.8 | 16.7 | 13.5 | KSE100, KSE30, KMI & MSCI |
| **Oil & Gas Marketing** | | | | | | | | | | | | | | | | | | | | |
| APL | Attock Petroleum Ltd. | 448.4 | 596.5 | 33.0 | Buy | 111.1 | 112.8 | 114.3 | 27.50 | 52.50 | 52.50 | 4.0 | 3.9 | 11.7 | 11.7 | 0.9 | 0.9 | 23.4 | 22.2 | KSE100 & KMI |
| HTL | Hi-Tech Lubricants Ltd. | 39.2 | 59.2 | 51.1 | Buy | (1.0) | 7.8 | 9.1 | - | 2.00 | 4.00 | 5.0 | 4.3 | 5.1 | 10.2 | 0.8 | 0.7 | 17.2 | 17.8 | KMI |
| PSO | Pakistan State Oil | 247.5 | 361.9 | 46.2 | Buy | 33.8 | 62.7 | 82.0 | 10.00 | 15.00 | 15.00 | 3.9 | 3.0 | 6.1 | 6.1 | 0.5 | 0.4 | 12.3 | 14.7 | KSE100, KSE30, KMI & MSCI |
| SNGP | Sui Northern Gas Pipeline Ltd. | 88.3 | 112.6 | 27.4 | Buy | 17.9 | 22.2 | 24.5 | 5.50 | 4.50 | 5.00 | 4.0 | 3.6 | 5.1 | 5.7 | 0.8 | 0.7 | 22.8 | 21.4 | KSE100, KSE30, KMI & MSCI |
| **Automobile Assemblers^** | | | | | | | | | | | | | | | | | | | | |
| HCAR | Honda Atlas Cars (Pak) | 301.2 | 261.6 | -13.2 | Sell | 16.3 | 12.4 | 25.1 | 6.50 | 4.97 | 10.03 | 24.2 | 12.0 | 1.7 | 3.3 | 1.9 | 1.7 | 8.0 | 15.0 | KSE100 |
| INDU | Indus Motor Co. | 2,001.2 | 2,459.7 | 22.9 | Buy | 181.0 | 237.5 | 284.1 | 114.70 | 143.00 | 170.00 | 8.4 | 7.0 | 7.1 | 8.5 | 2.1 | 1.9 | 26.3 | 28.2 | KSE100 |
| MTL | Millat Tractors Ltd. | 583.7 | 534.0 | -8.5 | Sell | 51.7 | 26.3 | 57.9 | 25.00 | 13.00 | 29.00 | 22.2 | 10.1 | 2.2 | 5.0 | 9.1 | 6.3 | 45.6 | 73.7 | KSE100, KSE30, KMI & MSCI |
| SAZEW | Sazgar Engineering Works Ltd. | 1,081.8 | 929.1 | -14.1 | Sell | 131.3 | 251.0 | 267.4 | 20.00 | 62.50 | 67.00 | 4.3 | 4.0 | 5.8 | 6.2 | 3.0 | 1.9 | 96.0 | 58.7 | KSE100, KSE30, KMI & MSCI |
| **Power Generation & Distribution** | | | | | | | | | | | | | | | | | | | | |
| HUBC | The Hub Power Company Ltd.*^ | 110.8 | 115.8 | 14.5 | Hold | 54.0 | 41.6 | 34.6 | 20.00 | 8.00 | 11.00 | 2.7 | 3.2 | 7.2 | 9.9 | 0.6 | 0.5 | 23.0 | 16.2 | KSE100, KSE30, KMI30 and MSCI |
| **Textile Composite** | | | | | | | | | | | | | | | | | | | | |
| ILP | Interloop Ltd.^ | 63.7 | 77.4 | 21.6 | Buy | 11.8 | 6.2 | 12.0 | 4.50 | 2.50 | 5.00 | 10.2 | 5.3 | 3.9 | 7.9 | 1.5 | 1.3 | 15.4 | 26.2 | KSE100, KMI & MSCI |
| NML | Nishat Mills Ltd. | 76.0 | 90.9 | 19.5 | Buy | 18.1 | 16.5 | 23.6 | 3.00 | 2.50 | 3.50 | 4.6 | 3.2 | 3.3 | 4.6 | 0.2 | 0.2 | 5.0 | 6.7 | KSE100 & KMI |
| **Chemicals** | | | | | | | | | | | | | | | | | | | | |
| LCI | Lucky Core Industries Ltd. | 1,174.4 | 1,382.7 | 17.7 | Buy | 120.6 | 131.3 | 152.2 | 40.00 | 50.00 | 50.00 | 8.9 | 7.7 | 4.3 | 4.3 | 1.9 | 1.6 | 23.3 | 22.9 | KSE100 & KMI |
| LOTCHEM | Lotte Chemical Pak Ltd.* | 17.3 | 22.2 | 34.6 | Buy | 2.7 | 3.2 | 4.1 | 2.50 | 1.50 | 2.00 | 5.4 | 4.2 | 8.7 | 11.6 | 1.0 | 0.9 | 20.7 | 23.4 | KSE100 & KMI |
| **Leather & Tanneries** | | | | | | | | | | | | | | | | | | | | |
| SGF | Service Global Footwear Ltd. | 78.5 | 93.8 | 19.5 | Buy | 5.4 | 7.9 | 9.8 | 4.50 | 6.50 | 8.00 | 10.0 | 8.0 | 8.3 | 10.2 | 2.3 | 2.2 | 23.7 | 28.3 | KMI |
| **Technology & Communication** | | | | | | | | | | | | | | | | | | | | |
| AIRLINK | Air Link Communication Ltd.^ | 127.7 | 172.9 | 35.4 | Buy | 11.7 | 15.9 | 16.9 | 6.00 | 7.00 | 7.50 | 8.0 | 7.5 | 5.5 | 5.9 | 2.7 | 2.2 | 37.2 | 32.2 | KSE100 |
| HUMNL | Hum Network Ltd.^ | 15.1 | 19.9 | 32.2 | Buy | 2.6 | 2.8 | 3.3 | - | 0.50 | 0.75 | 5.5 | 4.5 | 3.3 | 5.0 | 1.3 | 1.1 | 27.1 | 26.6 | KSE ALL |
| SYS | Systems Ltd.*^ | 510.2 | 661.0 | 30.6 | Buy | 26.7 | 33.1 | 36.6 | 5.50 | 6.50 | 7.50 | 15.4 | 14.0 | 1.3 | 1.5 | 3.0 | 2.5 | 21.5 | 19.3 | KSE100, KSE30, KMI & MSCI |

Source (s): Bloomberg, AHL Research, *Upside is total return, ^ Consolidated, *Since AHCL, FATIMA, POWER, and ASL are our group companies, we are unable to provide their estimates.*

ARIF HABIB LIMITED

## List of Abbreviations

| | | | | | |
|---|---|---|---|---|---|
| 1H | First Half | FMCGs | Fast Moving Consumer Goods | NSS | National Saving Scheme |
| 1Q | First Quarter | FO | Furnace Oil | NTDC | National Transmission & Despatch Company |
| 9M | 9 Months | FTSE | Financial Times Stock Exchange | NY | New York |
| ADB | Asian Development Bank | FX | Foreign Exchange Reserves | O&M | Operations & Maintenance |
| ADR | Advances Deposit Ratio | FYTD | Fiscal year to date | OMCs | Oil Marketing Companies |
| AHL | Arif Habib Limited | FY | Fiscal Year | OPEC | Oil Producing and Exporting Countries |
| APCMA | All Pakistan Cement Manufacturers Association | GBP | Great Britain Pound | OPEX | Operating Expense |
| ATA | Annual Turned Around | GDPg | GDP growth | p.a. | Per annum |
| Avg | Average | GDP | Gross Domestic Product | PARCO | Pak Arab Refinery |
| bn | Billion | GENCOs | Power Generation Companies | PAT | Profit After Tax |
| bbl | Barrel | GEPCO | Gujranwala Electric Power Company | PBS | Pakistan Bureau of Statistic |
| bcf | Billion Cubic Feet | GIDC | Gas Infrastructure Development Cess | PBV | Price to Book Value |
| BoE | Barrels of Oil Equivalent | GHPL | Government Holdings (Pvt) Ltd. | PE | Price Earning |
| BoP | Balance of Payment | Gov't | Government | PER | Price Earning Ratio |
| bpd | barrels per day | GSP | Generalised Scheme of Preferences | PESCO | Peshawar Electric Supply Company |
| bps | Basis Points | GST | General Sales Tax | PIAC | Pakistan International Airline Corporation |
| CAB | Current Account Balance | HSD | High Speed Diesel | PIB | Pakistan Investment Bonds |
| CAD | Current Account Deficit | IDR | Investment Deposit Ratio | PKR | Pakistan Rupee |
| CAGR | Compounded Annual Growth Rate | IFC | International Finance Corporation | POL | Petroleum Products Prices |
| CAR | Capital Adequacy Ratio | IMF | International Monetary Fund | PP | Petroleum Policy |
| CASA | Current Account Saving Account | IPPs | Independent Power Producers | PPA | Power Purchase Agreement |
| CEO | Chief Executive Officer | JPY | Japanese Yen | PPIS | Pakistan Petroleum Information Service |
| CM | Chief Minister | KO | Kerosene Oil | PR | Policy Rate |
| CNG | Compressed Natural Gas | KSA | Kingdom of Saudi Arabia | PSDP | Public Sector Development Program |
| COD | Commercial Operations Date | KSE | Karachi Stock Exchange | PSM | Pakistan Steel Mills |
| CPEC | China Pakistan Economic Corridor | LESCO | Lahore Electric Supply Company | PSX | Pakistan Stock Exchange |
| CPI | Consumer Price Index | LHS | Left hand side | QESCO | Quetta Electric Supply Company |
| CPP | Capacity Purchase Price | LNG | Liquified Natural Gas | QR | Quick Response |
| CPPA | Central Power Purchase Agency | LPS | Loss Per Share | RDs | Regulatory Duties |
| CYTD | Calendar year to date | LSM | Large Scale Manufacturing | REER | Real Effective Exchange Rate |
| CY | Calendar Year | LTFF | Long Term Financing Facility | RFO | Residue Fuel Oil |
| DAP | Di-ammonium Phosphate | mn | Million | RHS | Right hand side |
| DISCOS | Distribution Companies | mb/d | Million barrels per day | RIR | Real Interest Rate |
| DCF | Discounted Cash Flow | ME | March End | RLNG | Degasified Liquified Natural Gas |
| DPS | Dividend Per Share | MEPCO | Multan Electric Power Company | ROA | Return on Assets |
| DR | Discount rate | mmbtu | Metric Million British Thermal Unit | ROE | Return on Equity |
| DY | Dividend Yield | mmcfd | Million Cubic Feet Per Day | SBP | State Bank of Pakistan |
| E&P | Exploration & Production | MoU | Memorandum of understanding | SECMC | Sindh Engro Coal Mining Company |
| EBITDA | Earning Before Interest, Taxes & Amortization | MPC | Monetary Policy Committee | SME | Small Medium Enterprises |
| ECC | Economic Coordination Committee | MPS | Monetary Policy Statement | SOE | State-Owned Enterprises |
| EFF | Extended Fund Facility | MS | Motor Spirit | SoTP | Sum of the parts |
| EIA | Energy Information Administration | MSCI | Morgan Stanley Composite Index | SPLY | Same period last year |
| EM | Emerging Markets | MTM | Mark to Market | TD | To Date |
| EPCC | Engineering, procurement, construction & commissioning | MW | Mega Watts | T&D | Transmission & Distribution |
| EPP | Energy Purchase Price | NCCPL | National Clearing Company of Pakistan Limited | TPA | Tonnes Per Annum |
| EPS | Earrings Per Share | NEPRA | National Electric Power Regulatory Authority | UFG | Unaccounted for Gas |
| EU | European Union | NFA | Net Domestic Assets | US | United States |
| EV | Enterprise Value | NFC | National Finance Commission | UK | United Kingdom |
| Ex | Excluding | NII | Net Interest Income | USD | US Dollar |
| FBR | Federal Board of Revenue | NIM | Net Interest Margins | WAPDA | Water & Power Development Authority |
| FIPI | Foreign Investor Portfolio Investment | NIR | Net International Reserve | YTD | Year-to-date |
| FM | Frontier Markets | NPL | Non-Performing Loans | YoY | Year-on-Year |

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**Equity Research Ratings**

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

| Rating | Description |
|---|---|
| BUY | Upside of subject security(ies) is more than +15% from last closing of market price(s) |
| HOLD | Upside of subject security(ies) is between 0% and +15% from last closing of market price(s) |
| SELL | Upside of subject security(ies) is less than 0% from last closing of market price(s) |

**Equity Valuation Methodology**

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

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

**Risks**

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

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**