

# Pakistan Strategy FY2024

## Resurgence of Optimism

15-Jul-2023

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# Pakistan Capital Market

## KSE100 Index to reach 56,000 by Jun'24

❑ **Index Target:** The KSE-100 is expected to provide a return of 24% in FY24. The index is celebrating an end to the balance of payments-led economic crisis and is expected to return to its historic mean multiples.

❑ **Economic Outlook:**

- The IMF program has provided much-needed clarity and assurance concerning the economic plan for the upcoming nine months.
- External sector pressure expected to ease-off, SBP reserves to reach \$10.6bn by FY24.
- CPI to average around 21% in FY24, monetary easing to start by 2HFY24.
- With the election around the corner, new gov't is expected to take major structural reforms with the bigger IMF program.

❑ **Earnings Growth and Valuation:** In 2024, earnings growth is estimated at 11.3%. Moreover, the KSE-100 is trading at 2024 PE(x) of 3.7x, a valuation even lower than the trough PE(x) during the 2008 financial crisis (3.9x) and a significant discount (38%) compared to the 5-year historical average P/E of 5.9x.

❑ **Sector Outlook**

- **Commercial Banks:** Significant growth in deposits and elevated interest rates to keep banking sector earnings upbeat.
- **E&Ps:** Gas tariff hike will curtail the further accumulation of circular debt. The resolution of gas circular debt will keep the sector in the limelight.
- **Fertilizer:** Pricing power, and recovery in demand in the following year post-floods are expected to escalate earnings.
- **Cement:** Demand is expected to recover in FY24, a significant decline in coal prices, energy efficiencies, and higher retention prices should stimulate the bottom line.
- **Power:** Timely tariff resets are expected to ease off cash flow concerns while simultaneously restricting the flow of circular debt.
- **OGMCs:** Earnings to improve given higher OMC margins and relatively better offtake in FY24.

❑ **Top Picks:** OGDC, PPL, MARI, MCB, UBL, MEBL, LUCK, MLCF, ENGRO, FFC, HUBC and, INDU.

**Exhibit: KSE100 Index Target FY2024**

| Valuation Basis                | Weight      | Target        |
|--------------------------------|-------------|---------------|
| Target Price Based             | 33%         | 59,250        |
| Earnings Growth                | 33%         | 55,073        |
| Justified PE                   | 33%         | 53,715        |
| <b>Average Target Jun-2024</b> | <b>100%</b> | <b>56,013</b> |
| Index Closing 14-Jul-23        |             | 45,068        |
| <b>Expected Return 2024</b>    |             | <b>24.3%</b>  |

Source (s): AHL Research

**Exhibit: Top Picks**

| Sector     | Top Picks         |
|------------|-------------------|
| E&P        | OGDC   PPL   MARI |
| Banks      | UBL   MEBL   MCB  |
| Cement     | LUCK   MLCF       |
| Fertilizer | ENGRO   FFC       |
| Power      | HUBC              |
| Autos      | INDU              |

Source (s): AHL Research

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# Politics

# Pakistan Politics

## 2024 - Election Year

- ❑ With elections expected this year in Oct'23/Nov'23, a protracted duration of political uncertainty is finally expected to cede. National and Provincial Assemblies (Punjab and KPK already dissolved earlier) are due to complete their 5 year constitutionally mandated term in Aug'23, which will be followed by elections within 3 months.
- ❑ The successful holding of national elections will mark the end of more than a year of political instability. We think a newly voted-in government will be able to make better economic policy decisions including the successful negotiation of a new IMF program.
- ❑ That said, Pakistani politics seems to be highly polarized at the moment. While ruling government parties are not expected to participate in the elections under one platform, a seat adjustment formula cannot be ruled out.
- ❑ We expect financial markets to rejoice in the new political setup as elections will bring clarity to the political arena. This will help in taking bold economic decisions that address the structural issues. A new IMF program is expected to be negotiated as soon as the SBA ends. Interest rate cuts are expected in Feb'24/Mar'24. In our view, political stability and monetary easing are likely to be the biggest triggers for a sustained rally in the index.

Exhibit: KSE100 Performance before and after Elections

| Election Date  | Index  | 3 Months  |            | 6 Months   |           | 1 Year     |            |
|----------------|--------|-----------|------------|------------|-----------|------------|------------|
|                |        | Before    | After      | Before     | After     | Before     | After      |
| 10-Oct-02      | 2,099  | 18%       | 32%        | 13%        | 36%       | 80%        | 97%        |
| 18-Feb-08      | 14,354 | 8%        | -1%        | 16%        | -29%      | 26%        | -59%       |
| 16-May-13      | 20,417 | 15%       | 16%        | 26%        | 14%       | 45%        | 41%        |
| 25-Jul-18      | 41,339 | -9%       | -9%        | -7%        | -4%       | -10%       | -22%       |
| <b>Average</b> |        | <b>8%</b> | <b>10%</b> | <b>12%</b> | <b>4%</b> | <b>35%</b> | <b>15%</b> |

Source (s): PSX, AHL Research

# Pakistan Economy

# Pakistan Economy

## Economic Indicators Summary

### Exhibit: Economic Indicators Summary

| Economic Indicators/ Factors | FY24F | FY23(A/E) | Unit               | Rationale   |
|------------------------------|-------|-----------|--------------------|---|
| GDP                          | 3.3   | 0.3       | %                  | Driven by sectoral growth given: i) the monetary policy shifts, ii) domestic uncertainties diminish, and iii) the external account pressures ease.  |
| Total Revenue                | 11.8  | 8.8       | PKR trn            | FBR collection target of PKR 9.4trn seems over-optimistic. We expect a shortfall to be partially covered by measures proposed in the Budget FY24. Chances of another mini-budget during FY24 cannot be ruled out.   |
| Total Expenditure            | 15.2  | 11.1      | PKR trn            | Current spending (the more rigid part of expenditure) is expected to remain up resulting from the prevailing high interest rate scenario and the government's reliance on domestic borrowing to finance the deficit.  |
| Fiscal Deficit               | 7.6   | 7.0       | % of GDP           | The fiscal deficit is likely to remain high despite austerity measures underway as part of the IMF program. A combination of lower revenues and borrowing costs is likely to keep the fiscal deficit around PKR 7.8trn (7.6% of GDP), well-above government's target.                 |
| Imports (Goods)              | 53.2  | 52.8      | USD bn             | While we do expect a gradual easing of the import curbs early next year given IMF discourages import restrictions. Moreover, reduction in oil import bill amid lower oil prices would be fully visible in FY24.   |
| Exports (Goods)              | 31.9  | 28.5      | USD bn             | The downside risk to this remains mainly the global recession leading to demand suppression.  |
| Current Account Deficit      | 4.4   | 3.2       | USD bn             | Pakistan's CAD has significantly reduced due to import restrictions, fiscal policies, and energy consumption measures. However, risks persist as import backlogs, manufacturing sector dependencies, and post-flood reconstruction needs could widen the deficit.                     |
| Inflation                    | 20.8  | 29.1      | % YoY              | Cost pressures, supply shocks, subsidy reversals, tariff hikes and a weaker PKR have been the primary contributors to a surge in inflationary pressure, with international commodity prices down and high base effect kicking in, headline inflation should come down, going forward. |
| Interest Rates               | 17.0  | 22.0      | Period end-Jun (%) | We expect a tight monetary policy to continue until Dec'23. With inflation expected to come down, gradual easing of rates in FY24 is expected in the later half.  |
| Gross external financing     | 27.4  | 24.0      | USD bn             | We expect that Pakistan will remain in the IMF program which shall pave the way for fund flows from other international creditors. All said, we continue to see risks skewed to the downside for PKR.   |

Source (s): SBP, PBS, AHL Research

# Pakistan Economy

## IMF and Pakistan- The Road Ahead?

### AHL Take:

- The new IMF (SBA) program has provided a much-needed breather to address some of Pakistan's immediate challenges. We believe, Pakistan will enter into another longer-term agreement with the IMF post-elections which will also help in unlocking further financial assistance from other creditors.

□ Pakistan's economy stands at a pivotal juncture where it has managed to avoid default by embarking on a new International Monetary Fund (IMF) program. This program, a Stand-By Arrangement (SBA) spanning a short term of nine months, entails a financial support of USD 3bn. Along with approval of this new program, an initial disbursement of SDR 894mn (~USD 1.2bn) has been made immediately. The remaining funds will be provided in phases over the program's duration, subject to two quarterly reviews.

□ This new agreement with the IMF holds the potential to attract further inflows from international creditors, thereby bolstering liquidity and strengthening reserves which currently stand at USD 4.5bn (SBP's reserves) while repayment in next six months amount to USD 9bn (including USD 4bn expected rollovers). Market issuance and commercial bank borrowing may pose challenges, but previously unrolled loans could return, and maturing deposits from China, Saudi Arabia, and the UAE are expected to be rolled over.

□ However, despite this positive development, Pakistan faces the pressing task of reviving economic recovery and enhancing overall economic performance.

□ We believe Pakistan will likely enter into another longer-term agreement with the IMF after the elections. Such an agreement would not only provide continued financial support and policy guidance from the IMF but also enhance Pakistan's credibility and signal its commitment to economic stability and reforms. This, in turn, can help unlock additional financial assistance from other international creditors.

### Exhibit: History of Lending Commitments

| Facility                                  | Date of Arrangement | Expiration Date | Amount Agreed SDR mn | Amount Drawn SDR mn |
|---|---------------------|-----------------|----------------------|---------------------|
| Standby Arrangement                       | Dec-58              | Sep-59          | 25                   | -                   |
| Standby Arrangement                       | Mar-65              | Mar-66          | 38                   | 38                  |
| Standby Arrangement                       | Oct-68              | Oct-69          | 75                   | 75                  |
| Standby Arrangement                       | May-72              | May-73          | 100                  | 84                  |
| Standby Arrangement                       | Aug-73              | Aug-74          | 75                   | 75                  |
| Standby Arrangement                       | Nov-74              | Nov-75          | 75                   | 75                  |
| Standby Arrangement                       | Mar-77              | Mar-78          | 80                   | 80                  |
| Extended Fund Facility                    | Nov-80              | Dec-81          | 1,268                | 349                 |
| Extended Fund Facility                    | Dec-81              | Nov-83          | 919                  | 730                 |
| Structural Adjustment Facility Commitment | Dec-88              | Dec-91          | 382                  | 382                 |
| Standby Arrangement                       | Dec-88              | Nov-90          | 273                  | 194                 |
| Standby Arrangement                       | Sep-93              | Feb-94          | 265                  | 88                  |
| Extended Credit Facility                  | Feb-94              | Dec-95          | 607                  | 172                 |
| Extended Fund Facility                    | Feb-94              | Dec-95          | 379                  | 123                 |
| Standby Arrangement                       | Dec-95              | Sep-97          | 563                  | 295                 |
| Extended Fund Facility                    | Oct-97              | Oct-00          | 455                  | 114                 |
| Extended Credit Facility                  | Oct-97              | Oct-00          | 682                  | 265                 |
| Standby Arrangement                       | Nov-00              | Sep-01          | 465                  | 465                 |
| Extended Credit Facility                  | Dec-01              | Dec-04          | 1,034                | 861                 |
| Standby Arrangement                       | Nov-08              | Sep-11          | 7,236                | 4,936               |
| Extended Fund Facility                    | Sep-13              | Sep-16          | 4,393                | 4,393               |
| Extended Fund Facility                    | Jul-19              | Jun-23          | 4,988                | 2,144               |
| Standby Arrangement                       | Jul-23              | Mar-24          | 2,250                | 894                 |
| <b>Total</b>                              |                     |                 | <b>26,627</b>        | <b>16,832</b>       |

Source (s): IMF, AHL Research



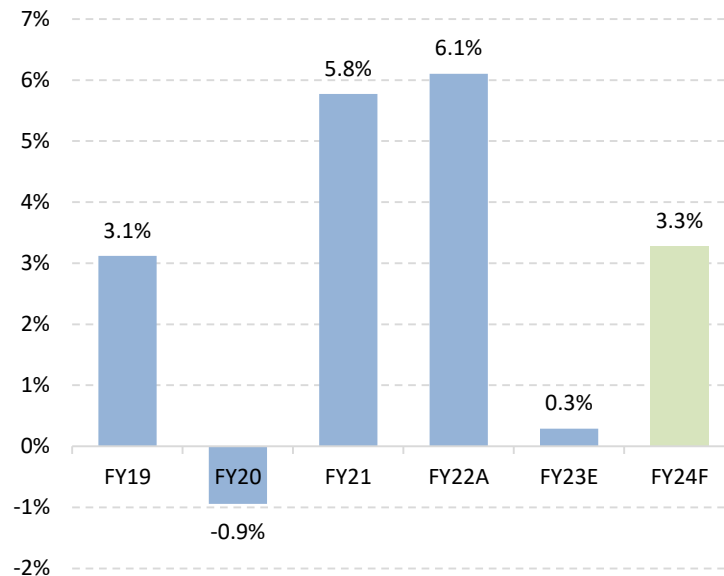
# Pakistan Economy

## Economic Growth

### AHL Take:

- We anticipate a boost in domestic demand when the monetary policy shifts, domestic uncertainties diminish, and the external account pressures ease. If these conditions materialize, we predict that the GDP growth for FY24 to reach 3.3%.
- ❑ The outgoing fiscal year witnessed a significant decline in Pakistan's GDP growth, falling to 0.29% compared to the previous fiscal year's growth rate of 6.1%. This decline can be attributed to a multitude of challenges faced by the economy.
- ❑ Firstly, devastating floods have caused extensive damage, impacting infrastructure and disrupting agricultural activities.
- ❑ Secondly, the economy has been grappling with surging inflationary pressures, leading to the implementation of strict monetary and fiscal policies. These measures, aimed at curbing inflation, have resulted in higher policy rate, reduced government spending, and increased taxes.
- ❑ While necessary to stabilize the economy, these policies have had a short-term negative impact on GDP growth, as businesses face higher production costs and individuals have less disposable income, limiting consumer spending and overall economic activity.
- ❑ Going forward, the anticipation of a boost in domestic demand is expected when there is a shift in monetary policy (from tight to loose), a reduction in domestic uncertainties, and an improvement in the external account pressures- factors highly conducive to economic growth. Based on these conditions materializing, we expect GDP growth during FY24 to reach 3.3%.
- ❑ We expect 2.9% growth in agriculture, 1.7% growth in the industrial sector (where LSM growth is likely to be jump by 2.9% in FY24) and 3.9% growth in services vis-à-vis 1.5%, -2.9% and 0.9% last year, respectively.

Exhibit: Real GDP Growth



Source (s): PBS, AHL Research

# Pakistan Economy

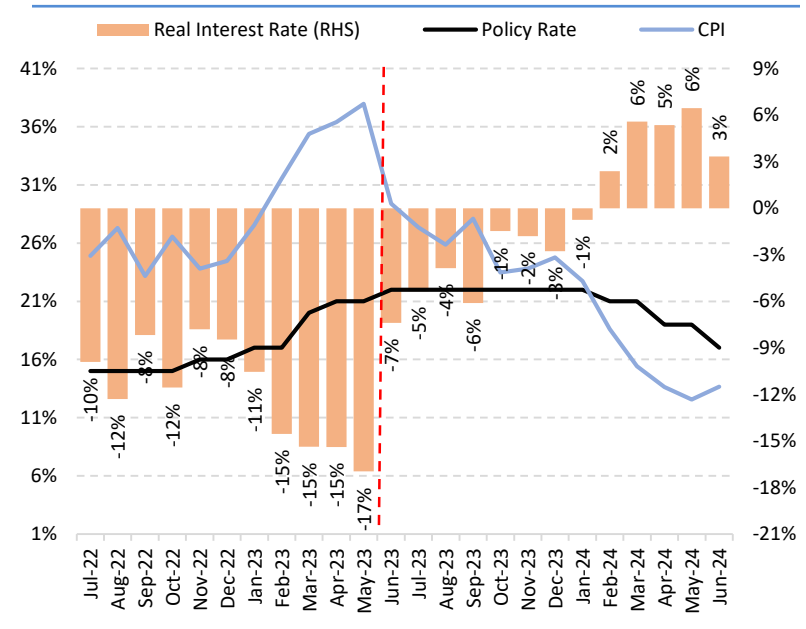
## Inflation and Interest Rates

### AHL Take:

- FY24's CPI is expected slightly below 21%
- Going forward, key risks to overall inflation are: high food and energy prices, impact of budgetary measures and weaker currency.

- ❑ Pakistan finds itself caught in the grip of soaring inflation. Higher taxes post recently announced Budget FY24, the phasing out of untargeted subsidies, the aftermath of devastating floods, and fluctuations in exchange rates have all come together to fuel a relentless surge in prices. Inflation peaked in May'23 when headline numbers soared to unprecedented heights, registering an alarming 38.0% YoY.
- ❑ While in the forthcoming months, it is projected that headline inflation will gradually subside, primarily due to the impact of a high base effect, which has come into play starting from the Jun'23 readings clocking-in at 29.4% YoY.
- ❑ Anticipating an average monthly inflation rate of 0.99% until Dec'23, we expect the headline inflation to fluctuate within the range of 23-29% during this period. On a YoY basis, based on our estimations, the CPI is anticipated to average slightly above 20% YoY in FY24. Looking ahead, we anticipate a shift towards positive real interest rates in the 2HFY24, allowing room for policy rate cuts.
- ❑ Consequently, we foresee the initiation of monetary policy easing in the latter part of the upcoming fiscal year (FY24), with a potential reduction of 400-500bps in the policy rate. All said, the rolling back of some fiscal relief measures, additional/revision in taxation along with impact of passing-on of any shock in global commodity prices – are some of the factors that are likely to keep inflation in-check.

Exhibit: Real Interest Rate



Source (s): PBS, SBP, AHL Research

# Pakistan Economy

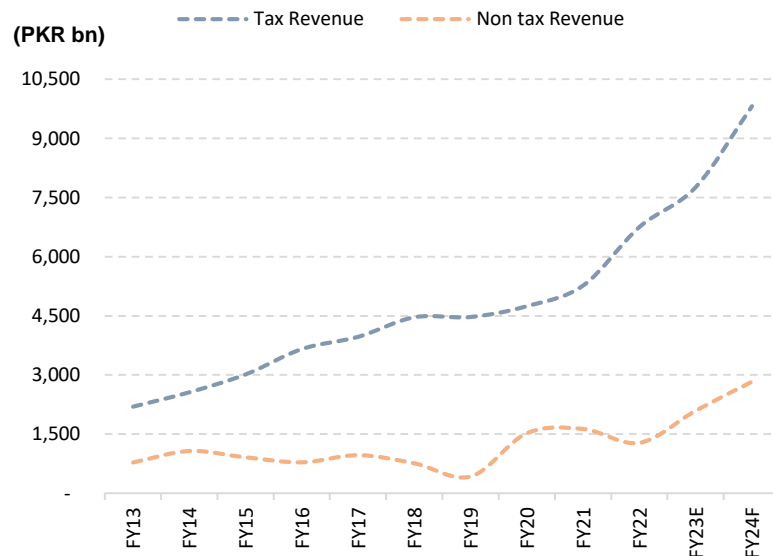
## Fiscal Account

### AHL Take:

▪ During FY23, the fiscal deficit is expected to clock in at PKR 5.9trn (7.0% of GDP) compared to the budgeted amount of PKR 3.8trn (4.9% of GDP). Moreover, while gov't expects FY24 fiscal deficit to be around PKR 6.6trn, we believe, this deficit will be close to PKR 7.8trn (7.6% of GDP).

- The Federal Government recently announced the Budget for FY24, with a total budgeted outlay of PKR 14.5trn (up 51% compared to the budgeted outlay of FY23). A significant portion (51%) of the budget allocated to interest payments. In addition, Federal PSDP allocation for FY24 is PKR 950bn, reflecting a substantial increase of 30.8% compared to FY23. We believe that the current expenditure will exceed the budgeted amount by 9%, primarily due to higher markup payments (our estimates suggests ~PKR 8.5trn) resulting from the prevailing high interest rate scenario and the government's reliance on domestic borrowing to finance the deficit.
- In line with the conditions set forth in the recent IMF negotiations, the government has aimed for an increase in overall revenue target on the back of higher FBR tax collections and non-tax income. The government hopes that FBR tax collections will rise to PKR 9.4trn. We believe, given the current economic scenario, there is a significant level of over-optimism and despite revenue measures by the government, it highly unlikely that the projected revenue figures will be met. Our analysis indicates that the FBR will likely collect around PKR 9.0trn, falling short of the targeted revenue collection. Non-Tax revenues are budgeted at PKR 2.9trn, with an expected rise of 60% to PKR 869bn in PDL collection.
- With this, the fiscal deficit is budgeted at PKR 6.9trn, which forms 6.5% of GDP as compared to 7.0% for FY23 revised estimates. Our estimates suggest that fiscal deficit is likely to clock-in at PKR 7.8trn, which forms 7.6% of GDP.

Exhibit: Tax and Non-Tax Revenue



Source (s): MoF, AHL Research

# Pakistan Economy

## Fiscal Account

### Exhibit: Budgetary Trend

| PKR bn                        | FY18         | FY19         | FY20         | FY21         | FY22         | FY23E         | FY24F         |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Gross Revenue Receipts</b> | <b>4,696</b> | <b>4,436</b> | <b>5,782</b> | <b>6,270</b> | <b>7,328</b> | <b>8,818</b>  | <b>11,856</b> |
| <b>Net Revenue Receipts</b>   | <b>2,479</b> | <b>2,038</b> | <b>3,278</b> | <b>3,528</b> | <b>3,739</b> | <b>4,689</b>  | <b>6,645</b>  |
| <b>FBR Taxes</b>              | <b>3,842</b> | <b>3,829</b> | <b>3,998</b> | <b>4,764</b> | <b>6,143</b> | <b>7,200</b>  | <b>9,030</b>  |
| <b>Non-Tax Revenue</b>        | <b>854</b>   | <b>606</b>   | <b>1,784</b> | <b>1,505</b> | <b>1,185</b> | <b>1,618</b>  | <b>2,826</b>  |
| <b>Less: Provincial Share</b> | <b>2,217</b> | <b>2,398</b> | <b>2,504</b> | <b>2,742</b> | <b>3,589</b> | <b>4,129</b>  | <b>5,212</b>  |
| <b>Total Expenditure</b>      | <b>4,704</b> | <b>5,599</b> | <b>6,819</b> | <b>7,245</b> | <b>9,350</b> | <b>11,090</b> | <b>15,205</b> |
| Current Expenditure           | 3,814        | 4,804        | 6,093        | 6,349        | 8,452        | 10,528        | 14,465        |
| Mark-up Payments              | 1,500        | 2,091        | 2,620        | 2,750        | 3,182        | 5,520         | 8,452         |
| Defence                       | 1,030        | 1,147        | 1,213        | 1,316        | 1,412        | 1,510         | 1,800         |
| <b>PSDP</b>                   | <b>576</b>   | <b>502</b>   | <b>468</b>   | <b>441</b>   | <b>400</b>   | <b>714</b>    | <b>550</b>    |
| <b>Budget Deficit</b>         | <b>2,260</b> | <b>3,445</b> | <b>3,376</b> | <b>3,403</b> | <b>5,260</b> | <b>5,941</b>  | <b>7,910</b>  |

### % of GDP

|   |      |      |      |      |      |      |      |
|---|------|------|------|------|------|------|------|
| Total Revenue                           | 12.0 | 10.1 | 12.2 | 11.2 | 11.0 | 10.4 | 11.3 |
| FBR Revenue                             | 9.8  | 8.7  | 8.4  | 8.5  | 9.2  | 8.5  | 8.6  |
| Non-Tax Revenue                         | 2.2  | 1.4  | 3.8  | 2.7  | 1.8  | 1.9  | 2.7  |
| Total Expenditure                       | 12.0 | 12.8 | 14.3 | 13.0 | 14.0 | 13.1 | 14.5 |
| Current Expenditure                     | 9.7  | 11.0 | 12.8 | 11.4 | 12.7 | 12.4 | 13.8 |
| Mark-up Payments                        | 3.8  | 4.8  | 5.5  | 4.9  | 4.8  | 6.5  | 8.1  |
| Defence                                 | 2.6  | 2.6  | 2.6  | 2.4  | 2.1  | 1.8  | 1.7  |
| Development Expenditure and net lending | 3.0  | 3.0  | 2.5  | 2.4  | 2.5  | 0.7  | 0.7  |
| Budget deficit                          | 5.8  | 7.9  | 7.1  | 6.1  | 7.9  | 7.0  | 7.6  |

Source (s): MoF, AHL Research

# Pakistan Economy

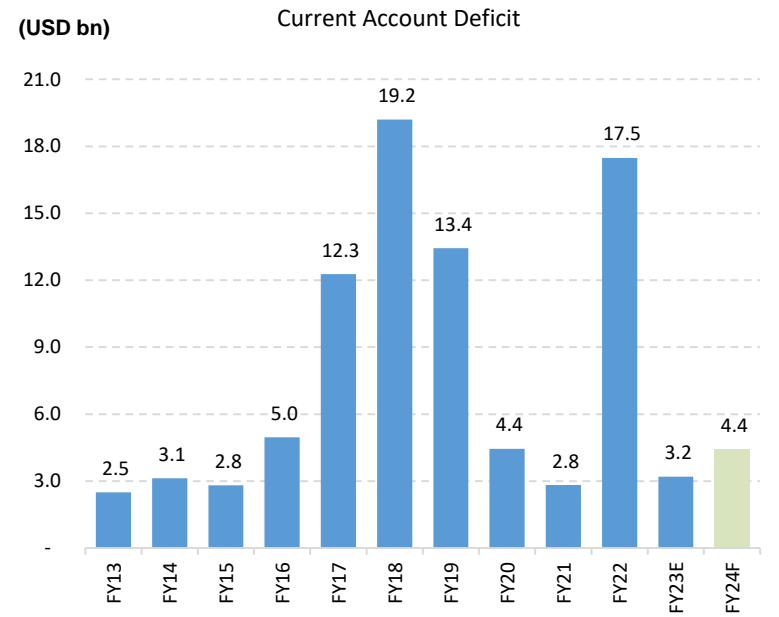
## External Account

### AHL Take:

- CAD is likely to remain around USD 4.4bn in FY24 (1.2% of GDP) with imports restriction uplifted while exports fight headwinds from global recession.

- Pakistan’s international trade shrank drastically in FY23 as recent numbers released by the PBS show a massive decline of 43% YoY in the trade deficit. This comes from mixed results- tight macroeconomic policies, administrative measures and global recession. The impact of floods on the CAD has remained muted so far as slower domestic growth and lower global commodity prices have offset the impact of higher food and cotton imports and lower textile exports.
- With this, the deficit in FY23 is likely to shrink drastically to below USD 3.5bn from a year earlier as the economic slowdown drags import bill, while exports fight headwinds from global recession and remittances decline year-on-year. On the export front, downside risk remains mainly the global recession that is likely to cause dent on the exports.
- While we do expect a gradual easing of the import curbs going forward in FY24, given IMF discourages import restrictions, but with tight macroeconomic policies current account deficit is likely to hover around USD 4.4bn in FY24 which is 1.2% of GDP. Although concern abounds over the two fundamental “Fs” of commodity markets – food and fuels but with international prices likely to remain low amid rising global recessionary fears, we don’t see any major uptick from hereon in these categories.

Exhibit: Current Account Balance - Trend and Forecast



Source (s): SBP, AHL Research

# Pakistan Economy

## Current Account Balance

Exhibit: Current Account Balance

| USD mn                                 | FY20a    | FY21a    | FY22a    | FY23e    | FY24f    |
|--|----------|----------|----------|----------|----------|
| Current Account Balance                | (4,449)  | (2,820)  | (17,481) | (3,196)  | (4,355)  |
| % of GDP                               | -1.5%    | -0.8%    | -4.6%    | -0.9%    | -1.3%    |
| Exports of Goods                       | 22,536   | 25,639   | 32,493   | 28,512   | 31,911   |
| Imports of Goods                       | 43,645   | 54,273   | 71,543   | 52,849   | 53,710   |
| Balance on Trade in Goods              | (21,109) | (28,634) | (39,050) | (24,337) | (21,799) |
| Exports of Services                    | 5,437    | 5,945    | 7,102    | 7,279    | 7,215    |
| Imports of Services                    | 8,753    | 8,461    | 12,942   | 8,747    | 12,393   |
| Balance on Trade in Services           | (3,316)  | (2,516)  | (5,840)  | (1,469)  | (5,178)  |
| Balance on Trade in Goods and Services | (24,425) | (31,150) | (44,890) | (25,805) | (26,977) |
| Balance on Primary Income              | (5,459)  | (4,400)  | (5,248)  | (5,514)  | (7,300)  |
| Balance on Secondary Income            | 25,435   | 32,730   | 32,657   | 28,123   | 29,921   |
| Workers' Remittances                   | 23,131   | 29,450   | 31,279   | 26,968   | 28,469   |

Source (s): SBP, AHL Research

# Pakistan Economy

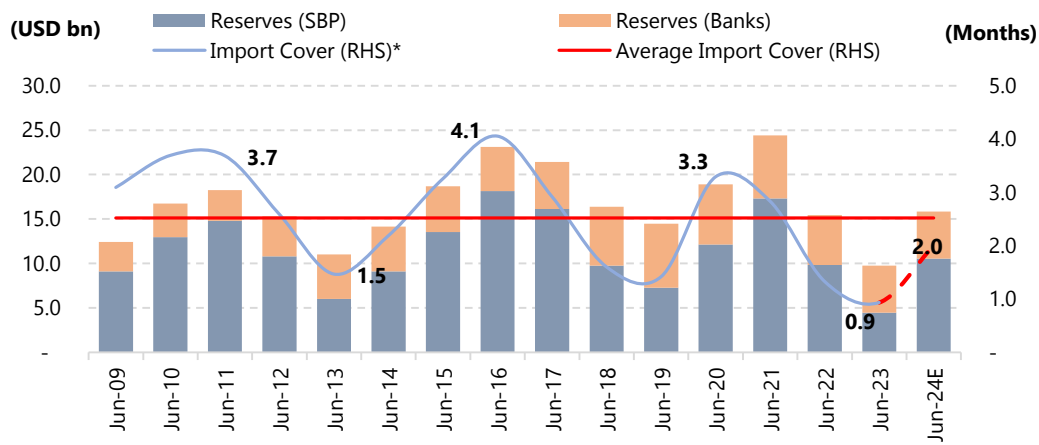
## Building Reserves

### AHL Take:

- With the financial assistance worth USD 3bn expected from the IMF, followed by financial support expected from multilateral and bilateral creditors, we expect SBP reserves to jump up to USD 10.62bn by Jun'24 end.

The IMF SBA program is poised to play a crucial role in improving SBP's reserve position which currently stands at USD 4.5bn (as of 7th Jul'23). With the financial assistance worth USD 3bn from the IMF in a phased-wise manner, followed by financial support anticipated from multilateral and bilateral creditors, we expect SBP reserves to jump up to USD 10.6bn by Jun'24 end. This shall then help maintain parity at PKR 290/USD by Dec'23. The import cover, which currently stands at ~4 weeks is likely to improve to ~8 weeks by Jun'24, however, still below the 3-month adequacy threshold. Protracted PKR depreciation due to persistent SBP hawkishness and anticipated increase in imports, both factors pose downside risks that may stoke higher-than-expected inflation and put further strain on foreign reserves until SBP decides to shift the policy.

### Exhibit: SBP Reserves and Import Cover



Source (s): SBP, AHL Research, \*based on average imports of last 3 months

### Exhibit: Expected Inflows and Outflows during FY24

| Inflows  |              | Outflows              |              |
|--|--------------|-----------------------|--------------|
|  | USD bn       |                       | USD bn       |
| IMF SBA  | 3.00         | Repayments            | 10.00        |
| KSA New Deposit                                | 2.00         | CAD                   | 4.40         |
| KSA Rollover                                   | 3.00         | KSA Rollover          | 3.00         |
| UAE Rollover                                   | 2.00         | UAE Rollover          | 2.00         |
| China Rollover                                 | 4.00         | China Rollover        | 4.00         |
| China Swap                                     | 4.00         | China Swap            | 4.00         |
| Multilateral                                   | 5.50         |                       |              |
| UAE New Deposit                                | 1.00         |                       |              |
| IDB  | 1.00         |                       |              |
| Multilateral (Geneva)                          | 1.00         |                       |              |
| Commercial                                     | 2.50         |                       |              |
| FDI  | 1.50         |                       |              |
| Euro Bond/Sukuk                                | 1.50         |                       |              |
| New IMF - First Tranche                        | 1.50         |                       |              |
| <b>Total Inflows</b>                           | <b>33.50</b> | <b>Total Outflows</b> | <b>27.40</b> |
| <b>SBP Reserves (7-Jul-23)</b>                 | <b>4.52</b>  |                       |              |
| <b>Expected SBP Reserves Position (Jun'24)</b> | <b>10.62</b> |                       |              |

Source (s): SBP, AHL Research

# Pakistan Capital Market



# Pakistan Capital Market

## KSE100 Index to reach 56,000 by Jun'24

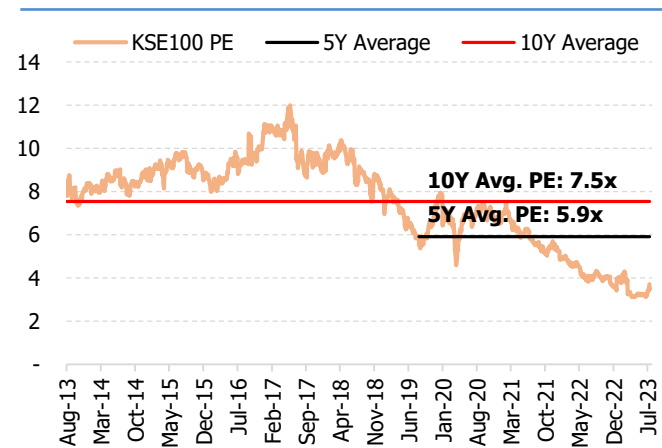
- ❑ KSE-100 index posted a return of 8.7% (3,615 points) since the staff-level agreement with the IMF for SBA.
- ❑ The IMF program has provided much-needed clarity and assurance concerning the economic plan for the upcoming nine months, a critical period due to the impending general elections and the formation of a new government.
- ❑ We view that the stage has been set for positive market momentum, supported by a combination of Stand by Arrangement with the IMF, a downward trajectory of inflation, easing import restrictions by the SBP, and adjustments in energy tariffs.
- ❑ We expect the KSE100 index to post a total return of 24% to 56,013 points by Jun'24.
- ❑ KSE-100 index is trading at 2024 PE(x) of 3.7x, indicating a valuation even lower than the trough PE(x) observed during the 2008 financial crisis (3.9x) and a significant discount (38%) compared to the 5-year historical average P/E of 5.9x.
- ❑ Earnings growth in 2024 is estimated at 11.3%, the uptick is attributable to earnings growth in the heavyweight Banking (11.1%), Cement (23.7%), and Fertilizer sector (23.7%), which have a cumulative ~40% weight in the KSE-100 index.
- ❑ Historical data suggest that interest rates tend to reach peak levels prior to the initiation of Pakistan's IMF program. Out of the eight IMF programs that Pakistan has availed since 1991, in six instances, interest rates peaked before the approval of the IMF program as part of the prerequisites. We view that interest rates have most likely peaked and monetary easing may start from Feb/Mar 2023.
- ❑ Our preferred coverage stocks are OGDC, PPL, MARI, MCB, MEBL, BAFL, LUCK, MLCF, FCCL, ENGRO, FFC and, HUBC. Additionally, on the sideboard, we recommended looking at PNSC, SYS, PRL, UNITY, ATRL, SAZEW, and TGL.

Exhibit: KSE100 Index Target FY2024

| Valuation Basis                | Weight      | Target        |
|--------------------------------|-------------|---------------|
| Target Price Based             | 33%         | 59,250        |
| Earnings Growth                | 33%         | 55,073        |
| Justified PE                   | 33%         | 53,715        |
| <b>Average Target Jun-2024</b> | <b>100%</b> | <b>56,013</b> |
| Index Closing 14-Jul-23        |             | 45,068        |
| <b>Expected Return 2024</b>    |             | <b>24.3%</b>  |

Source (s): PSX, AHL Research

Exhibit: KSE100 PE at all-time low



Source (s): Bloomberg, AHL Research

# Pakistan Capital Market

## AHL's sectoral views

### Exhibit: AHL's sectoral views

| Sector      | Top Picks         | Comment  |
|-------------|-------------------|--|
| E&Ps        | OGDC   PPL   MARI | Gas tariff hike will curtail the further accumulation of circular debt. The resolution of gas circular debt and PKR depreciation will keep the sector in the limelight.  |
| Banks       | UBL   MCB   MEBL  | Significant growth in deposits and elevated interest rates to keep banking sector earnings upbeat.   |
| Fertilizer  | ENGRO   FFC       | Pricing power, and strong recovery in demand in the following year post-floods are expected to escalate earnings.  |
| Cement      | LUCK   MLCF       | Demand is expected to recover in FY24, significant decline in coal prices, energy efficiencies, and higher retention prices should stimulate the bottom line.  |
| Engineering | ASTL              | The sector is expected to get relief with relaxation in import restrictions by SBP. The demand is expected to increase given overall growth in economy alongside all time highest PSDP allocation.   |
| Power       | HUBC              | Timely tariff resets are expected to ease off cash flow concerns while simultaneously restrict the flow of circular debt, PKR depreciation, and another circular debt clearance for newer IPPs. This will support the profitability and cash flows.            |
| OGMCs       | PSO   SNGP        | Earnings expected to improve given higher OMC margins and relatively better offtake in FY24. Stable oil prices will keep the inventory gain/losses in check. With the expected reforms in the energy sector, cash flows are expected to improve going forward. |
| Autos       | INDU              | Volumetric sales to remain subdued, however, earnings are expected to grow amid low base and relatively higher sales/production as compared to last year.  |

Source (s): AHL Research

# Pakistan Capital Market

## Buy backs and sponsor buying

- ❑ Since the beginning of CY22, buybacks, and sponsor buying have garnered significant attention in the PSX.
- ❑ Due to a significant decline in the market prices alongside attractive valuations, coupled with limited investment and expansion opportunities amid high-interest rates and an overall economic slowdown, companies have opted for buybacks.
- ❑ A total of nine (9) companies announced buybacks with an estimated value (remaining buyback at last closing) of PKR 52bn (USD 196mn). Out of this, PKR 30bn (USD 117mn) has been executed till 13 Jul 2023.
- ❑ Likewise, one sponsor (HBL) increased their stake in their respective companies with a cumulative value of PKR 3.5bn.
- ❑ The largest buyback remained of ENGRO with a total estimated value of PKR 19bn (assumed remaining buyback at last closing) while PKR 11.6bn (56% of announced) has been bought back to date.
- ❑ LUCK is the only company that announced back-to-back buybacks with an estimated value of PKR 18bn. The first buyback was completed with 10mn shares at an average price of PKR 435.6/share while the second buyback is ongoing with 8% completion (PKR 1.1bn) till Jul 12, 2023.

### Exhibit: Buyback and Sponsor buying Summary

as of: 13-Jul-2023

| Company                             | Purchase Value* | % of Free Float | Status         |
|-------------------------------------|-----------------|-----------------|----------------|
| <b>Company Buyback</b>              |                 |                 |                |
| Maple Leaf Cement Factory Ltd.      | 669             | 2.3%            | 100% Completed |
| NetSol Technologies Ltd.            | 184             | 2.2%            | 100% Completed |
| JDWS Sugar                          | 879             | 3.3%            | 100% Completed |
| Bank Alfalah Ltd.                   | 6,044           | 11.3%           | 100% Completed |
| Lucky Cement Ltd. (1st Buyback)     | 4,356           | 3.1%            | 100% Completed |
| Engro Corporation Ltd.              | 11,610          | 12.1%           | 56% Completed  |
| Synthetic Products Enterprises Ltd. | 55              | 5.0%            | 50% Completed  |
| Kohat Cement Ltd.                   | 457             | 2.5%            | 56% Completed  |
| Kohinoor Textile Mills Ltd.         | 324             | 10.0%           | 21% Completed  |
| Lucky Cement Ltd. (2nd Buyback)     | 1,496           | 7.6%            | 12% Completed  |
| <b>Sub Total</b>                    | <b>26,074</b>   |                 |                |
| <b>Sponsor Buying</b>               |                 |                 |                |
| Habib Bank Ltd.                     | 3,501           | 3.2%            | 99% Completed  |
| <b>Sub Total</b>                    | <b>3,501</b>    |                 |                |
| <b>Total</b>                        | <b>29,575</b>   |                 |                |

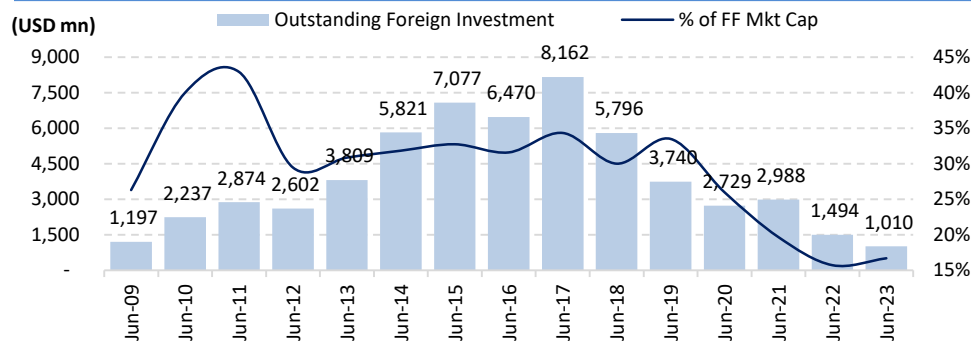
Source (s): PSX, AHL Research, \*PKR mn

# Pakistan Capital Market

## Foreign investors to make a comeback?

- Since FY17, Pakistan's equity market has witnessed foreign outflows to the tune of USD 1.9bn. However, in FY23, foreign investors became net buyers, albeit with a modest value of USD 1.6mn.
- Foreigner equities holdings in Pakistan through Special Convertible Rupee Accounts (SCRA) have declined from USD 8.2bn in FY17 to USD 1.0bn in FY23. The decline is primarily due to currency depreciation, price decline, and foreign selling.
- Following the approval of the IMF program coupled with extremely attractive valuations, foreign investors may be reevaluating the Pakistani market as a potential investment destination.
- Important to mention that KSE100 is the third most liquid market (ADTV: USD 22mn) in the MSCI FM space and the second cheapest in terms of PE while the most attractive in terms of PB and DY.
- The table on the right summarizes the major companies where foreigner holds significant holding via portfolio investments.

**Exhibit: Foreigner holdings in Pakistan through SCRA as % of FF Mkt Cap**



Source (s): SBP, PSX, AHL Research

**Exhibit: Foreigners Portfolio Investment\***

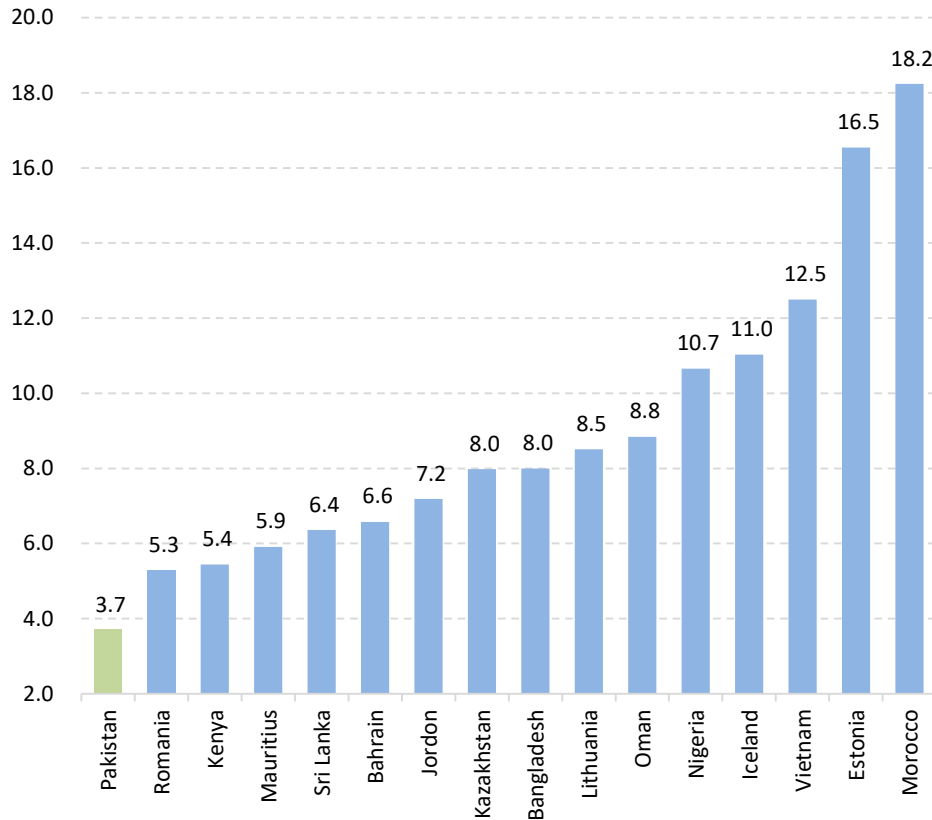
| Company                           | Shares (mn) | PKR mn        | USD mn        |
|-----------------------------------|-------------|---------------|---------------|
| COLG                              | 12.87       | 18,505        | 66.67         |
| SYS                               | 21.99       | 9,722         | 35.02         |
| UBL                               | 46.37       | 6,072         | 21.87         |
| LUCK                              | 8.92        | 5,172         | 18.63         |
| OGDC                              | 49.19       | 4,196         | 15.12         |
| PPL                               | 60.98       | 4,167         | 15.01         |
| ENGRO                             | 15.12       | 3,949         | 14.23         |
| NATF                              | 34.95       | 4,052         | 14.60         |
| HUBC                              | 50.18       | 4,012         | 14.45         |
| HBL                               | 40.62       | 3,185         | 11.47         |
| MCB                               | 24.86       | 3,206         | 11.55         |
| MEBL                              | 26.79       | 2,990         | 10.77         |
| POL                               | 6.53        | 2,731         | 9.84          |
| FFC                               | 26.28       | 2,621         | 9.44          |
| PIOC                              | 24.61       | 2,121         | 7.64          |
| EFERT                             | 26.54       | 2,197         | 7.92          |
| MTL                               | 5.43        | 2,174         | 7.83          |
| TRG                               | 19.29       | 1,973         | 7.11          |
| NBP                               | 96.14       | 1,996         | 7.19          |
| PSO                               | 13.45       | 1,636         | 5.89          |
| Others                            |             | 7,937         | 28.60         |
| <b>Total Portfolio Investment</b> |             | <b>94,614</b> | <b>340.86</b> |

Source (s): Bloomberg, AHL Research, \* @market price

# Pakistan Capital Market

## Attractive valuation in the FM Space

**Exhibit:** Frontier Markets Price Earning (PE) Multiples



Source (s): Bloomberg, AHL Research

**Exhibit:** Liquidity Profile of MSCI FM Space

| Country    | Average Traded Value* |
|------------|-----------------------|
|            | 000 USD               |
| Vietnam    | 461,578               |
| Bangladesh | 77,812                |
| Pakistan   | 26,181                |
| Iceland    | 25,049                |
| Morocco    | 10,732                |
| Nigeria    | 9,545                 |
| Jordan     | 8,297                 |
| Romania    | 6,490                 |
| Sri Lanka  | 6,046                 |
| Oman       | 5,345                 |
| Kenya      | 2,353                 |
| Bahrain    | 2,035                 |
| Estonia    | 1,168                 |
| Mauritius  | 713                   |
| Lithuania  | 712                   |
| Croatia    | 696                   |
| Kazakhstan | 431                   |

Source (s): Bloomberg, AHL Research, \*12M Avg.

# Pakistan Capital Market

## Who owns KSEALL free float?

- ❑ KSEALL ownership has changed significantly over the last 6 years.
- ❑ Individuals, companies, NBFCs, and brokers now own 74% as compared to 44% in FY17.
- ❑ A significant shift has been observed in foreign holding, declining from 28% in FY17 to just 5% in FY23.
- ❑ Mutual funds ownership has reduced from 12% in FY17 to 7% in FY23.
- ❑ Banks holdings remain almost at same levels at 7.4% (7.7% in 2017)
- ❑ During FY23, major domestic outflows included Mutual Funds (USD 144mn) and Insurance companies (USD 124mn), while the selling has been absorbed by local companies (USD 100mn), individuals (USD 84mn), and banks (USD 74mn) highlighting the high levels of liquidity available with the other local investors.
- ❑ It is worth noting that institutional investment in equities by Mutual Funds, Insurance companies (ex-SLIC) and SLIC has declined significantly to 9.0%, 9.4%, and 7.2% respectively, as % of their Assets Under Management (AUMs) (compared to 51.5% | 38.4% | 13.7% in 2017). This suggests the possibility of a re-rating of the equities once funds are redeployed towards equity market. This could alone serve as a catalyst for the market to potentially generate robust returns going forward.
- ❑ For every 1% conversion from fixed income to equities by mutual funds and insurance companies (ex SLIC) will have an estimated inflow of PKR 15bn and PKR 3.2bn respectively. For SLIC, we estimate that for 1% conversion, would have an estimated inflow of PKR 11.7bn in the equity market.

**Exhibit: KSEALL Ownership**

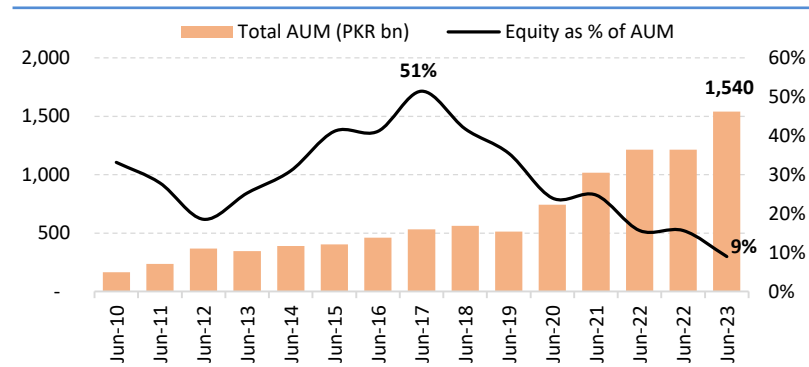
|                               | % of total AUMs/<br>Investments |      | KSEALL Ownership* |               |
|-------------------------------|---------------------------------|------|-------------------|---------------|
|                               | 2017                            | 2023 | 2017              | 2023          |
| Mutual Funds                  | 51.5%                           | 9.0% | 12.0%             | 7.4%          |
| Banks                         | 2.1%                            | 0.7% | 7.7%              | 7.4%          |
| State Life Insurance (SLIC)** | 13.7%                           | 7.2% | 4.2%              | 4.5%          |
| Insurance (ex. SLIC)          | 38.4%                           | 9.4% | 4.0%              | 1.6%          |
| Foreign                       | na                              | na   | 28.0%             | 5.1%          |
| Other***                      | na                              | na   | 44.2%             | 74.1%         |
| <b>Total</b>                  |                                 |      | <b>100.0%</b>     | <b>100.0%</b> |

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

\* % of KSEALL FF Market Cap, \*\*Financial statements as of Dec'17 and Mar'23

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

**Exhibit: Equity as % of Total AUMs**



Source (s): MUFAP, AHL Research

# Pakistan Capital Market

## AHL's model portfolio outperformed the benchmark KSE30 by 11.7%

### AHL Take:

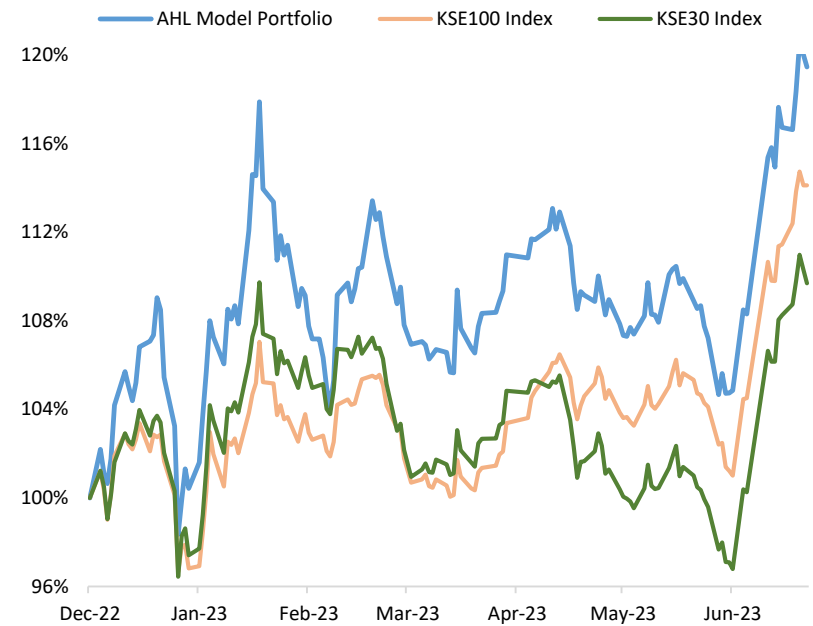
- We have recommended a model portfolio with our 2023 strategy report. AHL model portfolio outperformed the benchmark KSE-30 and KSE-100 indices by 11.7% and 7.8% respectively. AHL model portfolio total return till 14 July 2023 clocked in at 21.4% as compared to KSE-30 and KSE-100 return of 9.7% and 13.6% respectively.
- We are rebalancing the AHL portfolio, adding MLCF with a 7.5% weight, and increasing weight for HUBC to 15% while reducing weights for LUCK, ENGRO, MEBL, BAFL and FFC. Please find below the details.

### Exhibit: Proforma AHL Model Portfolio

| Company | Model Portfolio Weight |         | Benchmark Index weight | PE (x) | PB (x) | DY (%) |
|---------|------------------------|---------|------------------------|--------|--------|--------|
|         | Previous               | Revised |                        |        |        |        |
| OGDC    | 15.0%                  | 15.0%   | 3.43%                  | 2.18   | 0.32   | 8.79   |
| PPL     | 15.0%                  | 15.0%   | 2.84%                  | 1.91   | 0.30   | 4.39   |
| ENGRO*  | 12.5%                  | 10.0%   | 4.69%                  | 4.82   | 0.55   | 19.14  |
| LUCK*   | 12.5%                  | 10.0%   | 3.96%                  | 3.07   | 0.52   | 3.45   |
| MARI    | 10.0%                  | 10.0%   | 2.57%                  | 2.89   | 1.07   | 17.29  |
| MEBL*   | 10.0%                  | 7.5%    | 3.11%                  | 3.22   | 1.23   | 11.65  |
| HUBC*   | 10.0%                  | 15.0%   | 4.84%                  | 2.17   | 0.59   | 18.76  |
| BAFL*   | 7.5%                   | 5.0%    | 1.37%                  | 1.66   | 0.43   | 18.62  |
| FFC     | 7.5%                   | 5.0%    | 4.34%                  | 5.50   | 2.26   | 14.04  |
| MLCF*   | 0.0%                   | 7.5%    | 0.94%                  | 4.06   | 0.67   | 6.41   |

Source (s): AHL Research, \*Consolidated

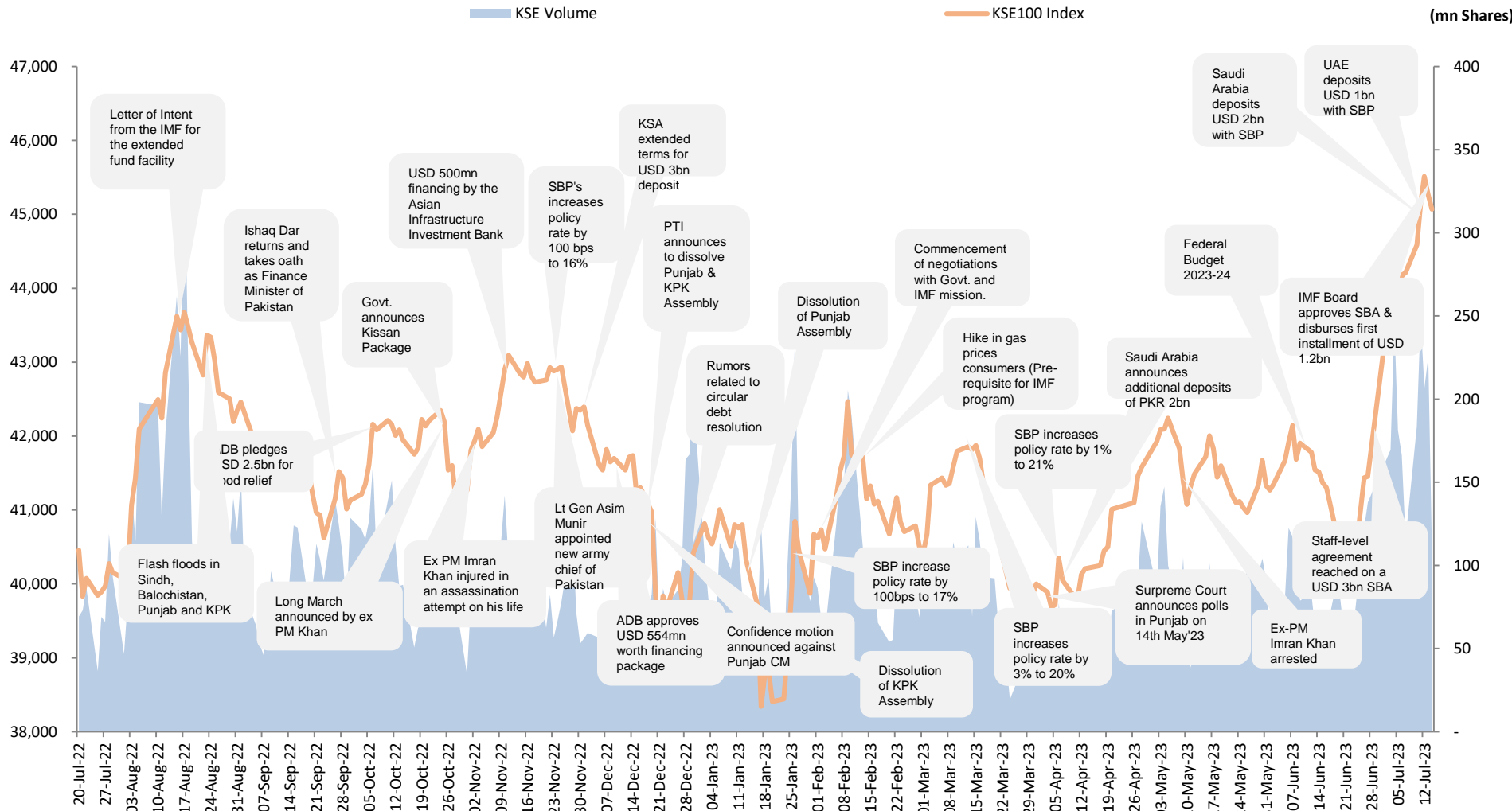
### Exhibit: Relative Performance: AHL Model Portfolio vs KSE100 and 30 Indices



Source (s): PSX, AHL Research

# Pakistan Capital Market

## KSE100 event graph





# Pakistan Capital Market

## Event to watch out

**Table: Key Events to watch out for during FY24**

|  |        |
|--|--------|
| T Bills worth PKR 1.3tn to be matured  | Jul-23 |
| BMR of TBB Plant of PTL  | Jul-23 |
| Commissioning of 270 TPD ASU plant of PAKOXY                                       | Jul-23 |
| New Refinery Policy  | Jul-23 |
| Consumer Gas Price Revision  | Jul-23 |
| Outcome of KAPCO's tariff petition   | Jul-23 |
| Monetary Policy Committee Meeting on 31st Jul'23                                   | Jul-23 |
| PIBs worth PKR 0.5tn to be matured   | Aug-23 |
| Dissolution of National Assembly   | Aug-23 |
| T Bills worth PKR 3.0tn to be matured  | Aug-23 |
| Completion of APL's new bulk oil terminal at D I Khan (KPK)                        | Sep-23 |
| Monetary Policy Committee Meeting on 14th Sep'23                                   | Sep-23 |
| New Chief Justice of Pakistan to charge  | Sep-23 |
| Completion of second phase of capacity expansion by PABC                           | Sep-23 |
| COD of Hydrogen Peroxide Project of EPCL   | Oct-23 |
| Commencement of AVN's retail business in Saudi Arabia                              | Oct-23 |
| Monetary Policy Committee Meeting on 30th Oct'23                                   | Oct-23 |
| General Elections in Pakistan  | Nov-23 |
| Commencement of processed gas supply from MARI's Shewa-1 Field                     | Nov-23 |
| 36th OPEC & non-OPEC Ministerial Meeting   | Nov-23 |
| COD of Mi.Da.plant of AGHA   | Dec-23 |
| Monetary Policy Committee Meeting on 12th Dec'23                                   | Dec-23 |
| COD of 1.28mn ton p.a Brownfield expansion of ACPL                                 | Dec-23 |
| Launch of Toyota Corolla Cross (CKD unit)  | Dec-23 |
| First spud-in at Block 5 of Abu Dhabi Block by consortium (OGDC, PPL, MARI & GHPL) | Jan-24 |
| COD of 2.05mn ton p.a Greenfield expansion of FCCL                                 | Jan-24 |
| Implementation of IFRS 9 by Banks  | Jan-24 |
| Presidential Elections in Russia   | Mar-24 |
| COD of 2MW Bhimber Dam Project   | Mar-24 |
| Capacity expansion of flexible packaging division of CPPL                          | Mar-24 |
| Conclusion of IMF's Standby Arrangement  | Mar-24 |
| COD of OGDC's Dakhni Compression project   | Apr-24 |
| Federal Budget 2024-25   | Jun-24 |

Source (s): AHL Research

# Top Picks

# United Bank Limited

## Pivoting around core strengths

**Targeting to minimize cost:** Bank's focus on increasing the CA portion has resulted in domestic CASA ratio levels recorded at 91% in 1QCY23 (CY22: 89%). Despite rate hikes, UBL was able to contain its cost of deposit at 5.9% in 1QCY23 (CY22: 5.7%). Going forward, UBL will be optimizing its branch network through maintaining aggressive acquisition across the target market, which would lead to enhanced 'low cost' deposit growth and increase its market share.

**Diversifying portfolio:** UBL aims to build a well-diversified portfolio across long term and floating-rate assets going forward, seizing trading opportunities. As of 1QCY23, out of the total investment portfolio of the bank, PKR 296bn is invested in fixed-income PIBs while PKR 690bn is invested in a floating PIB portfolio. Around PKR 402bn is invested in T-Bills. Moreover, 10-15% of the bond book is maturing this year and the average yield on the bond portfolio is slightly below 12%. On the international investment book, there are no major maturities of Eurobond this year and the portfolio is stratified out to 2025, 2026, 2027, and 2031. Further, the full impact of asset repricing will be also be reflected in the second quarter of CY23.

**Quality asset growth:** The international business has portrayed improvements with the GCC economies seeing a recovery. However, the global recession still remains a concern. On the domestic front, the coverage ratio stands at a 90%, while the international book is 94% covered of which Bahrain and Qatar are 100% covered. In addition, UBL has also set a priority to improve its ADR ratio which currently stands at 39%. Hereon, UBL focuses on the prudent and cautious lending approach to bring down the infection ratio which stands at 10.7% as of 1QCY23, one of the highest in the industry.

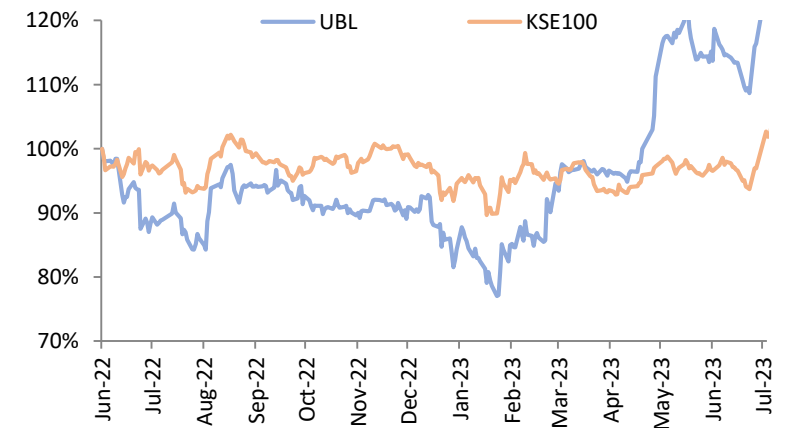
**Digital penetration- laying the foundations for a wider eco system:** UBL has set up efforts to enhance its digital penetration across the country. It was able to enhance app registration by 31% YoY leading to increased customer transactions (up by 76% YoY). Payment throughput has reached up to 1trn (a jump of 91% YoY). UBL has been able to approach a wider ecosystem through innovation and aims to increase its customer base.

### Exhibit: Ratio Analysis

|                      |     | CY22A | CY23E | CY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 25.8  | 39.8  | 45.3  |
| Dividend per share   | PKR | 22.0  | 28.00 | 32.00 |
| Book value per share | PKR | 187.2 | 201.9 | 223.5 |
| Price to Earning     | x   | 5.2   | 3.4   | 3.0   |
| Price to Book        | x   | 0.7   | 0.7   | 0.6   |
| ADR                  | %   | 52.1  | 51.6  | 51.2  |
| IDR                  | %   | 71.3  | 77.6  | 78.8  |
| NIMs                 | %   | 4.3   | 4.2   | 3.9   |
| RoE                  | %   | 13.2  | 20.8  | 22.2  |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Meezan Bank Limited (MEBL)

## Capitalizing on a booming industry

**Benefitting from expanding Islamic banking industry:** MEBL has been able to benefit from the expanding Islamic banking industry in Pakistan, capturing almost ~7.5% of the deposit share of the total industry and ~33% of the Islamic industry. In our view, MEBL will likely dominate the Pakistan Islamic banking although we expect some consolidation in the bank's branch network in the following years to come. Moreover, so far 1QCY23 has turned out to be an exceptional year for the Bank. Improved interest rate scenario along with the bank's ability to keep the cost of deposit low, led to a profit after tax (PAT) of PKR 15.4bn (+68% YoY) in 1QCY23. As of Mar'23, NIMs stand at 6.7% which the management expects to go up once the full impact of asset repricing is reflected in the upcoming quarters.

**Liquidity conundrum solved:** Islamic banks of Pakistan have been facing a tough environment previously due to shortages of available Islamic products either for SLR requirement or short-term liquidity management. In recent years, where growth in advances is muted due to risk-averse strategy of banks, excess liquidity and shortage of investment avenues is creating a drag on the Islamic Banks. However, recent shift of Gov't to Islamic banking and instruments as reflected by auction of government Ijara certificates has, to an extent, resolved the liquidity management problems. MEBL is considered the primary beneficiary of the increasing number of auctions as Sukuks comprise 98% of the total investment book (Mar'23).

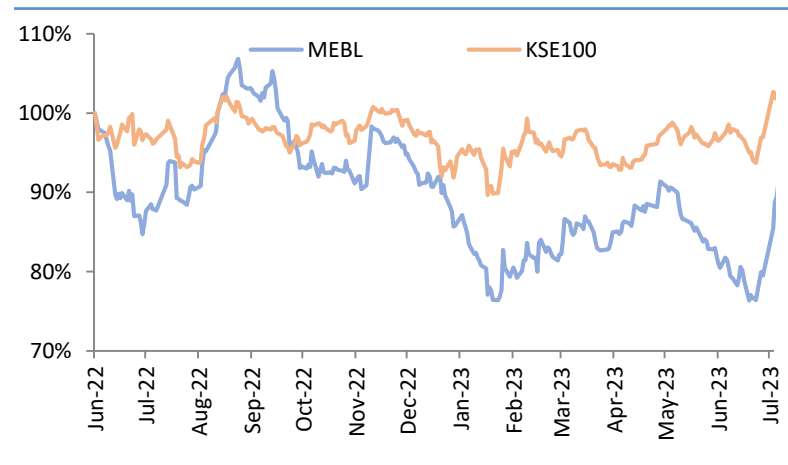
**Supreme asset quality:** The bank's total assets, in tandem with its strong deposit base, grew at a CAGR of 19% during the last 5-years. Despite this growth in assets base, bank's advances portfolio remained rather shy, growing by a 5-year CAGR of 12.5%. The bank's stringent lending policy and its ability to manage credit risk makes it less exposed to Non-Performing Loans as compared to the industry. NPL's to gross advances ratio remains considerably lower at 1.5% as against the industry average of 6.8%. In addition to this, during 1QCY23, the bank's coverage ratio went up to 161%.

Exhibit: Ratio Analysis

|                      |     | CY22A | CY23E | CY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 25.2  | 34.7  | 37.4  |
| Dividend per share   | PKR | 8.5   | 11.0  | 13.0  |
| Book value per share | PKR | 66.6  | 90.7  | 117.1 |
| Price to Earning     | x   | 3.9   | 2.8   | 2.6   |
| Price to Book        | x   | 1.5   | 1.1   | 0.8   |
| ADR                  | %   | 60.0  | 60.3  | 61.9  |
| IDR                  | %   | 77.6  | 78.7  | 79.3  |
| NIMs                 | %   | 6.1   | 6.9   | 7.6   |
| RoE                  | %   | 43.1  | 44.1  | 36.0  |

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance



Source (s): PSX, AHL Research

# MCB Bank Limited (MCB)

## Strategically growing

**Superior deposit mix:** MCB has maintained one of the highest CASA in the industry over the years. Going forward, the bank will continue focusing on improving current accounts proportion, which rose to PKR 815bn as of Mar'23 from PKR 684bn as at Dec'21. With this, the bank's CASA improved from 94% (Dec'22) to 95.3% (Mar'23), much higher when compared to its peers. In the event of monetary easing which is expected in CY24, these deposits will be re-priced downwards immediately whereas the assets will be re-priced with a lag, thus giving NIMs support and cushion to the top-line during 1HCY24.

**Changing portfolio mix:** The bank continues its risk-averse strategy for its loan book evident from the flat advances number through the year. Currently, the gross ADR of the bank is at 44%. The bank's NPLs only increased by 7.5% from Dec'22 to Mar'23, recorded at PKR 57bn. This can be accredited to its prudent lending and strict credit risk management. We expect provisioning to increase in the coming year as the bank plans to have an expansive loan strategy. As at Mar'23, the coverage ratio of the bank stood at 80.7% (Dec'22: 84.6%) while the NPLs ratio clocked in at 7.1% (Dec'22: 5.9%). An IDR of 59% (1QCY23) further clarifies the bank's wait-and-see approach as the current strategy aims at maximizing the return from available asset classes (PIBs/T-Bills) till the focus on lending resumes. The average yield on investment increased to 15% in 1QCY23 as compared to 10.16% in SPLY while yields on advances improved from 8.99% (1QCY22) to 15.39% (1QCY23). However, additional new funds arising from an increase in the deposit base are expected to be channeled into investments.

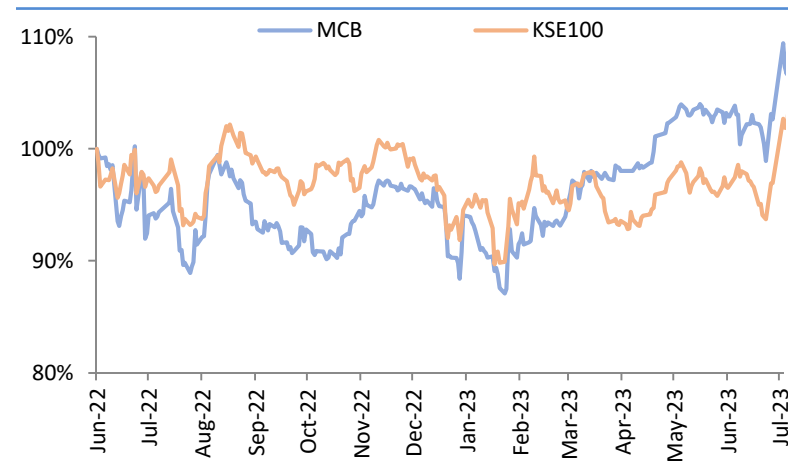
**Consistent dividend pay-out:** Since CY18, MCB has maintained a stellar payout ratio of an avg. 80%, which drastically outperforms its peers' avg. payout ratio during the said period – HBL: ~36%, and UBL: ~78%. The stock has offered an avg. DY of 11.3% since CY16 while HBL has offered an avg. yield of 5.4% and UBL has provided an avg. yield of 12.2%. Overall CAR stands at 17.25% at Mar'23. We understand this high CAR will allow MCB to maintain a healthy dividend payout ratio going forward as well.

### Exhibit: Ratio Analysis

|                      |     | CY22A | CY23E | CY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 29.0  | 42.4  | 49.6  |
| Dividend per share   | PKR | 20.0  | 23.5  | 27.5  |
| Book value per share | PKR | 162.9 | 180.8 | 201.4 |
| Price to Earning     | x   | 4.2   | 2.9   | 2.5   |
| Price to Book        | x   | 0.8   | 0.7   | 0.6   |
| ADR                  | %   | 55.1  | 56.0  | 56.7  |
| IDR                  | %   | 67.9  | 69.6  | 71.4  |
| NIMs                 | %   | 5.3   | 5.3   | 4.8   |
| RoE                  | %   | 18.5  | 24.6  | 25.9  |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Engro Corporation Limited (ENGRO)

## Diversified Businesses

**Profitability to grow by 34% in CY24:** For CY23 and CY24 we anticipate earnings to arrive at PKR 54.2/share and PKR 72.6/share, respectively. This is anticipated on account of: 1) higher available capacity of urea post-BMR of the base plant of EFERT, 2) the addition of hydrogen peroxide plant (expected to come online in 2HCY23) to support earnings growth of EPCL, 3) contribution from Engro Powergen Thar Power Limited (EPTPL) and Sindh Engro Coal Mining Company (SECMC), which has been operational since the past three years, and 4) stable business operations from Elengy terminal based on USD based revenue stream.

**Thar projects:** During 1QCY23, the plant availability remained low given scheduled important maintenance, due to which EPTL dispatched 514 GWh to national grid against 610 GWh in SPLY. We forecast earnings contribution in CY23 of PKR 21.14/share and PKR 1.83/share from EPTL and SECMC, respectively. Phase II of SECMC reached completion during CY22, which increased the mining capacity to 7.6mn tpa. Meanwhile, work on phase III, which will increase mining capacity to 11.4mn tpa, has commenced post approval of the Sindh Govt., with COD expected in 1QCY24.

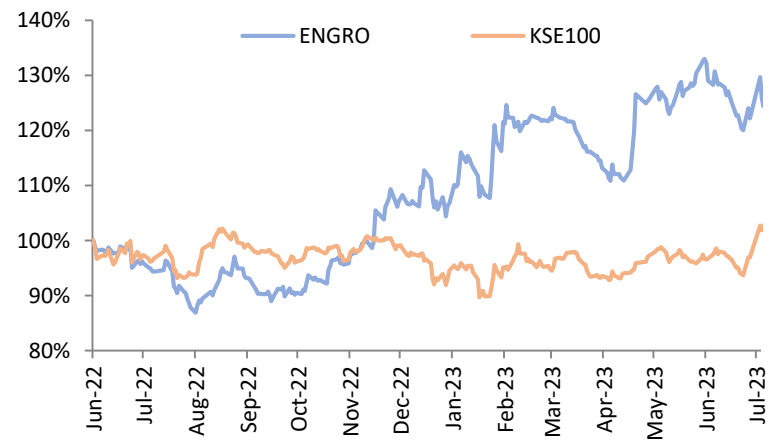
**Other businesses:** EFERT has increased base plant's capability of producing 950k ton p.a of urea post BMR, which will improve the productivity of the plant, resulting in higher profitability (before tax). Whereas, the earnings from EPCL are projected to decline due to lower PVC margins and imposition of a higher super tax. Moreover, EPCL is conducting a FEED study for the expansion of VCM by 300K tons per annum, with a completion time estimated to be 12 months. Moreover, the hydrogen peroxide plant (28K tons capacity) is expected to come online which will boost the overall volumes of the EPCL. In terminal business, Engro Elengy is forecasted to continue to have a higher throughput (carrying momentum from CY22). On the other hand, Engro Vopak's marine LPG imports are anticipated to remain under pressure due to imports via the Taftan border. Furthermore, EPQL's operations are expected to remain stable.

### Exhibit: Ratio Analysis

|                      |     | CY22A | CY23E | CY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 42.2  | 54.2  | 72.6  |
| Dividend per share   | PKR | 35.0  | 50.0  | 55.0  |
| Book value per share | PKR | 417.6 | 477.0 | 512.9 |
| Price to Earning     | x   | 6.2   | 4.8   | 3.6   |
| Price to Book        | x   | 0.6   | 0.5   | 0.5   |
| Dividend Yield       | %   | 13.4  | 19.1  | 21.1  |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Engro Corporation Limited (ENGRO)

## Diversified Businesses

**Engro Enfrashare:** Engro Enfrashare has been able to secure 3,900+ orders for the tower. The company is targeting to achieve 5,000+ towers by 2024 (ahead of the previous target of 2025). Furthermore, the business outlook is strong owed to massive jump in data usage in Pakistan. Moreover, the market share in the build-to-suit towers segment stood at 52% in 1QCY23.

**Future investments:** Engro Energy is in the process of developing the first Renewable Energy Park in Pakistan. Phase I of the project will have a capacity of 400MW. At present, the company is undergoing a feasibility study for this project. Furthermore, the company has setup Engro Eximp FZE in Dubai, scope of which is to seek trading opportunities and extend capability of export and make efficient imports. For chemical business, the company is exploring alternative energy sources amid shortage of domestic gas.

# Fauji Fertilizer Company Limited (FFC)

## Value creation from diversification

**5-yr earnings CAGR of 9.2%:** FFC's profitability to grow at a 5-Yr CAGR of 9.2%, arriving at PKR 22.37/share in CY26, taking into consideration diversified portfolio of business in banking, energy and FMCG sectors. For CY23 and CY24, we expect earnings to clock-in at PKR 18.14/share and PKR 20.76/share, respectively. Key growth driver for the company is higher margins in core business, coupled with dividend income from AKBL, FFBL, FFCEL, FWEL I and FWEL II.

**Urea Prices:** Keeping in view rising inflation, the company along with all the other manufacturers increased urea price to PKR 2,440/bag in Jan'23 from PKR 2,250/bag previously. In Feb'23, Govt. revised feed and fuel prices of PKR 510/mmbtu (PKR 302/mmbtu previously) and PKR 1,500/mmbtu (PKR 1,023/mmbtu previously). However, FFC is not yet notified increase in prices by OGRA and continues to procure gas at pre-revised prices. In Jul'23, the company increased the urea prices to PKR 2,910/bag for passing on the impact of the imposition of 5% FED on urea tagged with anticipation of hike in gas prices.

**Fertilizer Offtake:** The urea and DAP sales in 1HCY23 arrived at 1.2mn tons and 0.04mn tons, respectively. We project stable urea sales (average of 2.5mn tons and 122% utilization level during last 5 years), to settle at 2.5mn tons in CY23. In addition, DAP offtake of the company is expected at 0.2mn tons during CY23.

**Thar Energy Limited:** We estimate an earnings contribution of PKR 1.41/share on an annualized basis from CY23 and a contribution of PKR 3.08/share to our target price.

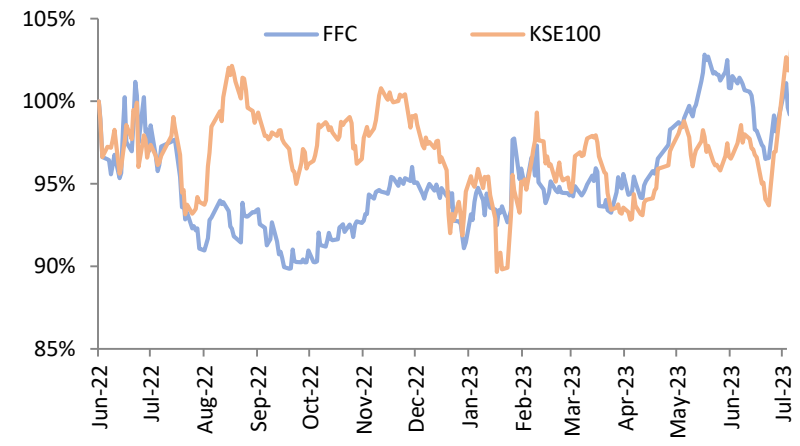
**Gas Related Projects:** In CY22, FFC, EFERT, and FATIMA signed a Framework Agreement for Gas Pressure Enhancement Facilities project, whereby the aforementioned stakeholders will develop and install pressure enhancement facilities at the MARI's HRL reservoir in order to maintain adequate pressure of gas supply, with a CAPEX size for this project is USD 150mn. In addition to PEF project, FFC has also commenced a new pipeline (RLNG) project to connect SNGPL network with Mirpur Mathelo plant as an alternate source of gas supply, in the event disruption gas from Mari field. The estimated CAPEX for this project is PKR 2.0bn.

### Exhibit: Ratio Analysis

|                      |     | CY22A | CY23E | CY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 15.8  | 18.1  | 20.76 |
| Dividend per share   | PKR | 12.1  | 14.0  | 16.0  |
| Book value per share | PKR | 40.0  | 44.1  | 48.86 |
| Price to Earning     | x   | 6.3   | 5.5   | 4.80  |
| Price to Book        | x   | 2.5   | 2.3   | 2.04  |
| Dividend Yield       | %   | 12.3  | 14.0  | 16.0  |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research



# Oil & Gas Development Company Limited (OGDC)

## Standing Tall

**Largest E&P Company:** OGDC is the leading E&P company in Pakistan contributing 46% and 29% of the country's oil and gas production, respectively. In FY23, the company's oil and gas production declined by 7.8% and 8.4% YoY, respectively owing to natural decline at major fields such as Chanda, KPD-TAY, Mela, Nashpa, and Sinjhor. Additionally, the reduction in gas intake by UPL further contributed to lower production. The company carried out 57 work-over jobs to mitigate major fields' natural decline. Moreover, electric submersible pumps have been installed at Sono-7, bringing in additional oil production of 2,000 bopd. Moreover, Wali well has come online, producing 1,000 bopd of oil and 10 mmcf of gas. Meanwhile, in FY23, 5 exploratory, and 6 development wells were spud by the company. The exploratory activities resulted in 3 oil and gas discoveries (which have the potential to produce 3,007/bopd and 2.7/mmcf). In terms of reserves, OGDC's reserve life is expected to be at 20 years.

**Prevailing Circular Debt issue:** In Feb'23, the government revised gas tariff for consumers, which was aimed at curtailing the quantum of circular debt and improving the company's cash earnings. The Govt. is expected to revise gas price again during Jul'23. Whereas, the company's total receivables as of Mar'23 have climbed up to PKR 571bn, which includes overdue receivables of PKR 498bn relating to the circular debt. These include pending receivables from SSGC and SNGP amounting to PKR 201bn and PKR 190mn, respectively (totalling PKR 391bn or PKR 90.85/share). With the piling up of circular debt paused, the gov't will now consider either cash injection in Sui companies (SNGP and SSGC), or non-cash settlement of the outstanding balance. In the event of the resolution of circular debt, we project the company's multiple to re-rate, aided by a one-time pay-out.

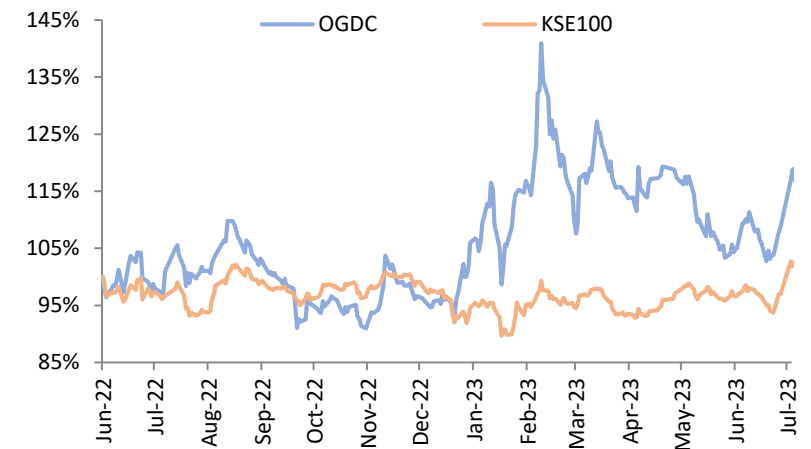
**Trading multiples:** The stock is currently trading at an implied oil price of USD 67.12/bbl (ex-cash and cash balances) as compared to the current Arab Light Price of USD 83.79/bbl with FY24 PER of 2.2x and P/B of 0.3x along with a dividend yield of 7.6%. We expect the company to post a net profit of PKR 39.20/share in FY24.

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 31.1  | 45.1  | 39.2  |
| Dividend per share   | PKR | 7.3   | 7.5   | 6.5   |
| Book value per share | PKR | 203.5 | 237.2 | 270.7 |
| Price to Earning     | x   | 2.5   | 1.7   | 2.2   |
| Price to Book        | x   | 0.4   | 0.3   | 0.3   |
| Dividend Yield       | %   | 9.2   | 9.6   | 7.6   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Pakistan Petroleum Limited(PPL)

## Circular Debt resolution to improve liquidity

**Production and Other Activities:** The oil production of the company remained stable during FY23, which was owed to the commencement of production from Dhok Sultan which mitigated the impact of decline in production from major fields such as Nashpa, Mela, and Adhi. Whereas, gas production witnessed a growth of 2.5% YoY which came on the back of higher production from Kandhkot, Latif, and Sharf, offsetting the lower production from Adhi, Sui and Tal Blocks amid natural decline. The company has commenced work on Sui compression upgrade project during 3QFY23 in order to mitigate natural decline from the field. For FY23, the company to spud 3 exploratory and 4 development wells compared to a target of 7 exploratory and 9 development wells amid difficulty in importing spare parts and equipment for drilling activity due to restriction on imports. Meanwhile, the company's exploratory efforts yielded four discoveries with a potential to produce 355 bopd of oil and 46.43 mmcf of gas.

**Bottom-line to arrive at PKR 35.81/share in FY24:** We expect profitability at PKR 35.81/share FY24, amid i) PKR depreciation, and ii) stable oil prices (expected at USD 75/bbl on average in FY24). The stock is trading at an implied oil price of USD 62.10/bbl against Arab Light Price of USD 83.79/bbl with FY24 PER of 1.9x and P/B of 0.3x along with a dividend yield of 2.9%.

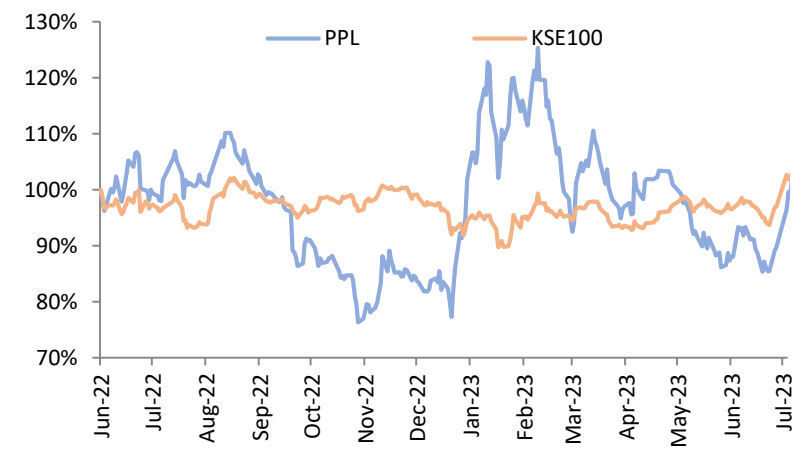
**Mounted Circular Debt:** The receivables position of the company stood at PKR 487bn (as of Mar'23) which translates to cash of ~PKR 179.0/share, whereas overdue receivables related to circular amount to PKR 434bn. The receivables from SNGP and SSGC stood at PKR 238bn and PKR 215bn, respectively (summing up to be PKR 453bn or PKR 166.62/share). The resolution of the circular debt will reduce the company's financial strain, improve dividend payout and aid multiple re-rating. With gas tariff revised in Feb'23, the climbing up of gas circular debt is halted from accumulating further. Moreover, gas prices are expected to be revised again in Jul'23.

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 19.7  | 37.6  | 35.8  |
| Dividend per share   | PKR | 2.0   | 2.5   | 2.0   |
| Book value per share | PKR | 159.8 | 193.6 | 224.9 |
| Price to Earning     | x   | 3.4   | 1.6   | 1.9   |
| Price to Book        | x   | 0.4   | 0.3   | 0.3   |
| Dividend Yield       | %   | 3.0   | 4.2   | 2.9   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Mari Petroleum Company Limited (MARI)

## Leading as Pakistan's largest gas producer

**Oil & gas production update:** The oil production of the company remained stable at 774 mmcf during FY23 commencement of incremental gas production from Sachal Gas Processing Complex, offsetting the decline in production in 1HFY23 due to extended ATA at EFERT's EnVen plant followed by ATA at FFC's plant-1. Meanwhile, the oil production decline by 17% YoY owing to temporary closure of Bolan and Zarghun Fields due to floods. In FY24, the gas production is expected to climb up by 20% YoY, respectively. We expect the gas production to achieve a 3-Yr CAGR of 10%.

**Earnings to clock-in at PKR 536.66/share in FY24:** Earnings are anticipated to climb up at a 3-Yr CAGR of 21%. We expect the company to post a net profit of PKR 536.66/share in FY24, respectively. Major reasons behind this growth are i) attractive pricing for incremental production from MGF under Petroleum Policy 2012, ii) incremental gas production from Sachal Gas Processing Complex, and iii) Pak Rupee depreciation against greenback.

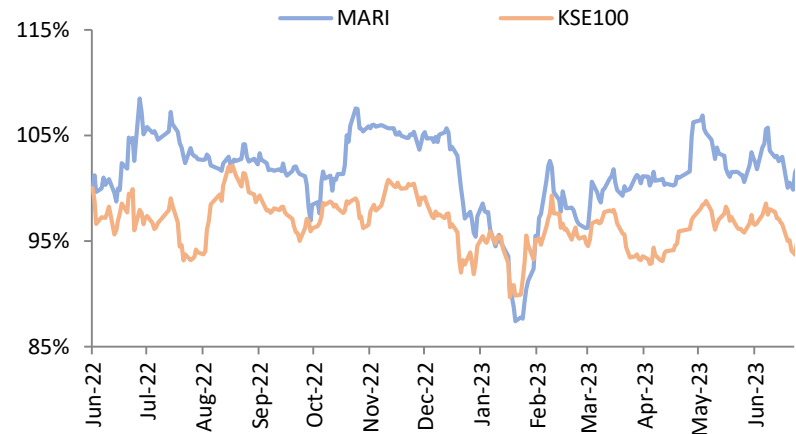
**Drilling and Other Projects:** Furthermore, during FY23, MARI spud 3 exploratory, and 4 development wells. In addition to this, MARI drilled and commissioned the first ever horizontal well "Mari-122H", which tested at a rate of 21 mmcf of gas. Alongside this, MARI plans to drill more horizontal wells in order to extend HRL gas plateau. Furthermore, the company made a gas discovery at Mari Ghazij-1 with of 9.6 mmcf of gas post acid testing. Meanwhile, during 3QFY23, the company completed Phase 2 of the Sachal Gas Processing Complex and started to supply 90mmcf to the production system. With this, the company's production crossed 850 mmcf of gas (making MARI the leading gas producer of Pakistan). Additionally, MARI has also entered into an agreement with Fertilizer companies such as FFC, EFERT and FATIMA for development of a project, the purpose of which is maintenance of gas production at required delivery pressure from Habib Rahi Limestone Reservoir.

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F   |
|----------------------|-----|-------|-------|---------|
| Earnings per share   | PKR | 247.8 | 397.9 | 536.7   |
| Dividend per share   | PKR | 124.0 | 195.0 | 268.0   |
| Book value per share | PKR | 866.1 | 980.9 | 1,175.2 |
| Price to Earning     | x   | 7.0   | 3.8   | 2.9     |
| Price to Book        | x   | 2.0   | 1.5   | 1.3     |
| Dividend Yield       | %   | 7.1   | 12.9  | 17.3    |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Lucky Cement Limited (LUCK)

## All in one

Our top pick in the AHL cement universe is Lucky Cement Limited (LUCK), which offers an upside of 64.7% from last closing to our Jun'24 sum-of-the-parts based target price of PKR 954.6/share. Dynamic portfolio of the company is expected to provide a natural hedge against hiccups in cyclical operations (cement, automobile), with forward earnings CAGR over the next three years forecast at a solid 35%.

**New cement line at the cusp of commencing operations:** LUCK's new 3.15mn tons brownfield expansion at North has began operations from Dec'22, echoing the company's status as the largest cement manufacturer in the country with a total capacity of 15mn tons. Pertinently, this PKR 30bn expansion will be most efficient in terms of investment per ton (at USD 48/ton) compared to industry average of USD 62/ton. Whereas the company also attained the lowest debt to equity ratio of just 33:67. LUCK secured PKR 10bn under the subsidized TERF and LTFF schemes of the State Bank, also making it the best positioned cement player during the high interest rate scenario.

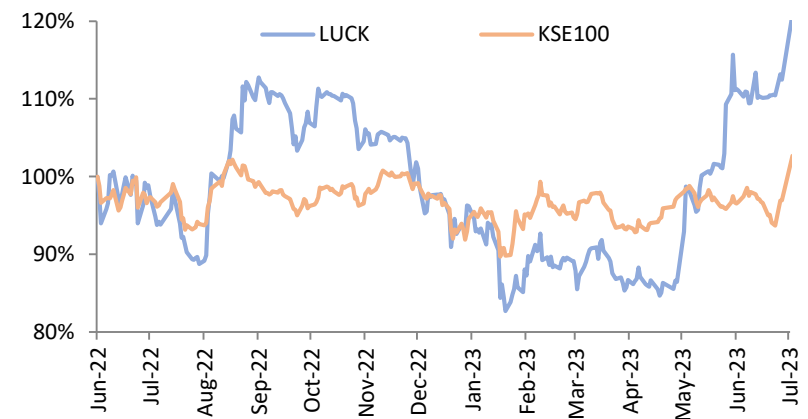
**Further investment in fuel efficiency:** LUCK is one of the few companies in the sector that do not rely on the national grid. This translates to LUCK being one of the lowest cost manufacturers in the country. The company is further investing in its energy efficiency by putting up a 15MW Waste Heat Recovery (WHR) plant and a 34MW solar power plant alongside the new line at Pezu, in addition to installing a 25MW solar power plant at its South site by Mar'23. Current power mix is 80% Thermal (185MW) and 20% WHR (46MW). Once these come online, the power mix will be Thermal 62% (185MW), Solar 20% (60MW) and WHR 18% (55MW).

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 47.3  | 43.6  | 72.8  |
| Dividend per share   | PKR | -     | -     | 20.0  |
| Book value per share | PKR | 397.5 | 439.6 | 506.6 |
| Price to Earning     | x   | 9.7   | 12.0  | 8.0   |
| Price to Book        | x   | 1.2   | 1.2   | 1.1   |
| Dividend Yield       | %   | -     | -     | 3.4   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Lucky Cement Limited (LUCK)

## All in one

**LEPCL to move past initial teething issues:** The company's fully owned 660MW coal power plant achieved its COD in Mar'22, incurring a massive CAPEX of USD 850mn with USD 210mn equity contribution and USD 640mn debt contribution. Although it faced initial teething issues, posting a loss during 1QFY23, the company has addressed these issues. We expect profitability from the power plant to average over PKR 27bn over the next five years and contribute a mammoth PKR 13bn to unconsolidated earnings. This project contributes PKR 306/share to our Jun'24 target price. Apart from this, the portfolio consists of an automobile assembling company (Kia and Peugeot vehicles), phone business (Samsung), Wind power plant, and overseas cement operations in DR Congo and Iraq.

# Maple Leaf Cement Factory Limited (MLCF)

## Efficiency and growth combo

Our Jun'24 target price for MLCF is set at PKR 35.45/share. Our liking for the stock stems from i) addition of a new 2.1mn tons Brownfield plant rendering MLCF to become the largest player in North with all lines of 7.7mn tons at one site, ii) ability to operate its plant on different types of coal, and iii) efficient power mix with the company relying mostly on captive generation. The stock is trading at an attractive FY23 PE ratio of 3.4x and offers an upside of 81% from last closing; we recommend BUY.

**Timely expansion:** MLCF recently commissioned a grey clinker line of 7,000 metric tons per day (2.1mn tons p.a.) by Chengdu Design & Research Institute, China in Nov'22. Despite weathering multiple COVID-19 waves, the company remained one of the first few players to bring its expansion online. Not only will this plant bring in new efficiencies in the company, it will also give MLCF a prime mover advantage in the ongoing expansionary phase whilst also improving its presence in North as the largest player with all lines of 7.7mn tons at one place.

**Solid fuel efficiency:** Maple is one of the most power efficient companies in the country currently, relying almost completely on its captive generation to power its plant operations. The company has a 25MW Waste Heat Recovery (WHR) plant, a 40MW coal power plant, a 15.8MW dual-fired (FO + gas) plant, and a 12.5MW solar plant. Pertinently, MLCF has been running its captive coal plant on Afghan coal and faced no problems thus far, which has materially saved power costs in the ongoing scenario. As a result, margins of the company are one of the highest in the sector.

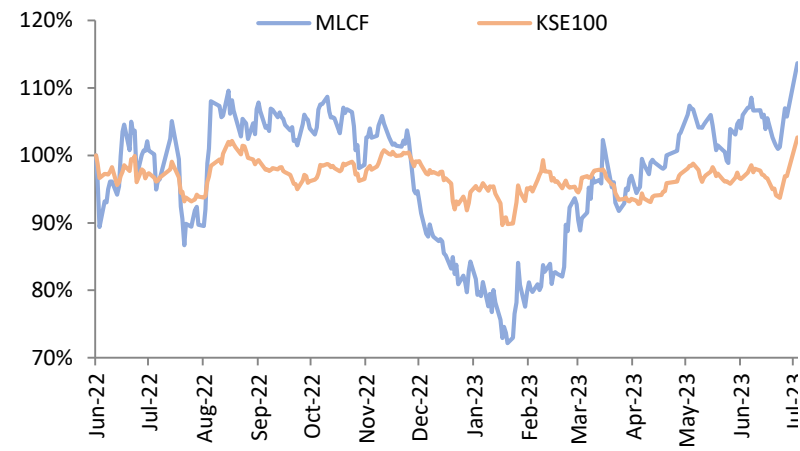
**Competitive debt position:** The company has secured concessional financing, such as TERF and LTF, totaling PKR 5bn for its expansion projects, providing the company with a competitive advantage over peers. We estimate that the company's annual savings for these facilities is ~PKR 573mn (PKR 0.57/share) post tax.

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 4.1   | 7.7   | 9.0   |
| Dividend per share   | PKR | -     | -     | 2.0   |
| Book value per share | PKR | 38.5  | 46.9  | 53.9  |
| Price to Earning     | x   | 6.6   | 3.7   | 3.4   |
| Price to Book        | x   | 0.7   | 0.6   | 0.6   |
| Dividend Yield       | %   | -     | -     | 6.4   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# The Hub Power Company Limited (HUBC)

## Extremely attractive valuations

**Hefty dividend expected from CPHGC:** On Feb 23rd, 2023, the lenders of CPHGC officially declared the project as complete (PCD). This declaration released HUBC from its obligation to maintain a USD 150mn standby letter of credit (SBLC). Additionally, the government has shown a strong commitment to resolve the circular debt issue, as evidenced by the payment of PKR 142bn to independent power producers (IPPs) in Jun'23, with 32% of the amount allocated to coal-based power plants. While HUBC has not received any dividends from CPHGC thus far, the resolution of the circular debt issue is expected to pave the way for substantial dividends in the future. Consequently, with the combined impact of circular debt resolution and the project completion declaration, HUBC's overall liquidity position is likely to improve, raising the potential for enhanced payouts. Notably, as of Mar'23, HUBC's investment in CPHGC has reached PKR 90.4bn, marking a significant increment of PKR 56.4bn (PKR 43.5/share) since Sep'19.

**Addition of coal power plants to support earnings growth:** Thar Energy Ltd (TEL) and ThalNova achieved commercial operation date (CoD) in Oct'22 and Feb'23, respectively. Both plants are local coal-based with a capacity of 330 MW each. We expect the addition of these two new coal-based power plants to together contribute PKR 7.8/share to HUBC's target price while earnings contribution is estimated at PKR 3.24/share (TEL) and PKR 1.67/share (ThalNova) to HUBC's FY24 earnings. We expect HUBC to witness 59% YoY earnings growth in FY23E, settling at PKR 34.6/share while FY24f's earnings are anticipated at PKR 37.7/share.

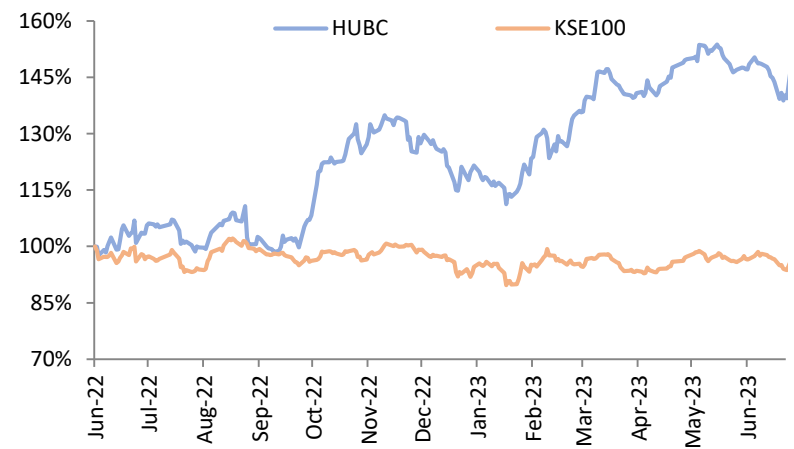
**Diversifying into the Oil and Gas Exploration sector:** The Prime International Oil and Gas Company Ltd (Prime) entered into four Sales and Purchase agreements with Eni International B.V, Eni Oil Holdings B.V, Eni UK Limited, and Eni ULX Ltd for the purpose of acquiring Eni's business in Pakistan. Prime is a 50-50 joint venture between Hub Power Holdings Limited (a fully owned subsidiary of HUBC) and Eni's Employee Buy-out-Group. The addition of ENI will have an annualized earnings impact of ~PKR 2.98/share on HUBC's earnings. However, we have not incorporated this in our valuations.

Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 21.9  | 34.6  | 37.7  |
| Dividend per share   | PKR | 6.50  | 30.00 | 15.75 |
| Book value per share | PKR | 96.8  | 104.6 | 130.9 |
| Price to Earning     | x   | 3.1   | 2.0   | 2.1   |
| Price to Book        | x   | 0.7   | 0.7   | 0.6   |
| Dividend Yield       | %   | 9.5   | 43.1  | 20.3  |

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance



Source (s): PSX, AHL Research

# The Hub Power Company Limited (HUBC)

## Extremely attractive valuations

**Local coal plants are higher in merit order:** Being the cheaper source of power generation (local coal-based cost PKR 3.39/KWh compared with 20.9/KWh of RLNG and 27.9/KWh of FO), local coal power plants are higher in the merit order list. The TEL and ThalNova was placed at the 2nd and 4th number (as of 4th Jul'23) in merit order, respectively. The plants with higher numbers in merit order are expected to be given preference for payments. We expect these plants to continue ranking over others in the merit order and therefore, be given preference for payments.

**Outlook and Recommendations:** We have a BUY call for the stock with Jun'24 ending target price of PKR 129.3/share. The stock is providing a lucrative dividend yield of 20.3% based FY24f dividend per share of PKR 15.75.



# Pakistan State Oil Company Limited (PSO)

## Circular Resolution to improve cash flows

**Petroleum Offtake:** During FY23, PSO's white oil sales declined by 21% YoY to 6.76mn tons (MS 3.31mn and HSD 3.46mn tons) compared to 8.57mn tons. Whereas, in FY24, we foresee the white oil sales of PSO to climb up by 8% YoY to arrive at 7.87mn tons.

**Earnings to settle at PKR 64.08/share in FY24:** We expect the bottom-line of PSO in FY24 to clock-in at PKR 64.08/share since the full-year impact of the revision of OMC margins, which came into effect in 2HFY23, will be witnessed given the revised margins. To recall, the ECC and Cabinet approved revision of OMC margins of MS and HSD to PKR 6.00/ltr each from PKR 3.68/ltr in Oct'22, annualized earnings impact of which is ~PKR 28.12/share. We expect international oil prices to be USD 75/bbl in FY24. Meanwhile, we expect less fluctuation of ex-refinery prices, given oil prices have already come down drastically in FY23 (currently hovering around USD 83.79/bbl) after surging beyond USD 130/bbl in FY22.

**Mammoth Circular Debt:** PSO's trade debts stood at PKR 545bn as of Mar'23, out of which PKR 439bn is overdue receivables in terms of circular debt. From the overdue receivables, major amount is due from SNGP and Northern Power Generation Company Limited which clocked in at PKR 350bn and PKR 69bn, respectively. In case the Govt. resolves the circular debt issue, the company's cash flows will improve, therefore, reliance on short borrowings will reduce. Furthermore, the company's late payment surcharge is estimated to be PKR 165bn as of Mar'23, which translates in after-tax impact of PKR 250/share.

**Update on Storages:** During FY23, PSO upgraded existing 79K tons of existing storage. The company's total storage stands at 1.1mn tons. At present, the PSO is developing 90K tons of storage at Faisalabad, Faqirabad and Mehmoodkot, which is projected to reach completion by FY24.

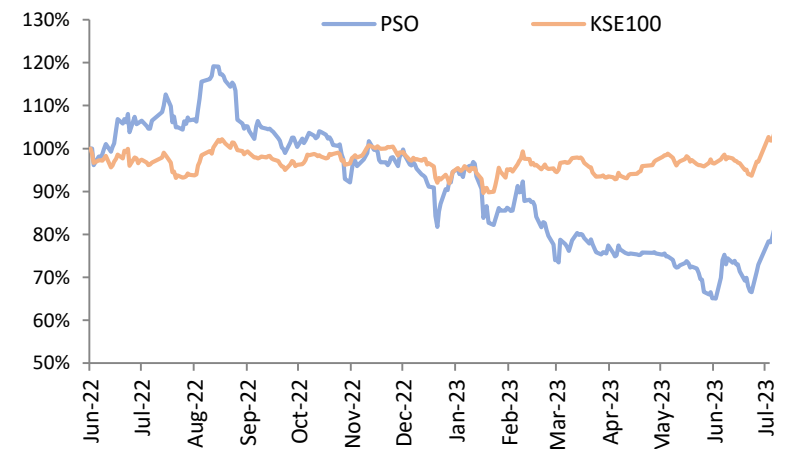
**Outlook and Recommendations:** We have BUY call for the stock with Jun'24 ending target price of PKR 202.8/share. PSO is currently trading at FY24f P/E and P/B of 1.9x and 0.2x, respectively with a dividend yield of 8%.

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 183.7 | 24.2  | 64.1  |
| Dividend per share   | PKR | 10.0  | 10.0  | 10.0  |
| Book value per share | PKR | 459.3 | 475.2 | 514.3 |
| Price to Earning     | x   | 0.9   | 4.6   | 1.9   |
| Price to Book        | x   | 0.4   | 0.2   | 0.2   |
| Dividend Yield       | %   | 5.8   | 9.0   | 8.2   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Indus Motor Company Limited (INDU)

## Leader to thrive

**Augmented prices to recover gross margins:** We witnessed volumetric sales of INDU plunge by 58% YoY in FY23 mainly on the back of SBP's import restriction and Rupee devaluation. Margins of the company went drastically down and were recorded at a meager of 0.1% in 9MFY23 compared to 8.6% in SPLY. This massive drop was on the back of the higher cost of production amid higher exchange rate volatility. However, we expect margins to improve in 4QFY23 as the impact of prices that were increased in during 2HFY23 is yet to be reflected in the company financials.

**Hybrid technology to drive sales in the mid to long term:** In its recent briefing, the management confirmed that irrespective of the economic downturn, it will continue to develop its hybrid assembly plant. It is expected that the company might launch Corolla Cross Hybrid (CKD unit) by the end of this year (Dec'23). While the 12th generation Toyota Corolla, the flagship model, is going to be launched in FY25, which we believe would give tough competition in the Sedan segment to all competitors operating in the OEM segment.

**Massive short-term investment:** INDU, has a strong cash and cash equivalents position (PKR 38bn), which provides the company an edge over other OEMs. In fact, other income of INDU has provided a cushion against operational losses. The company recorded notable returns on its short-term investments amid higher interest rates; In 9MFY23, INDU's other income arrived at PKR 11.7bn, up by 51% YoY. With this, we expect the other income in FY23 to clock in at PKR 14.6bn, providing support to the overall profitability.

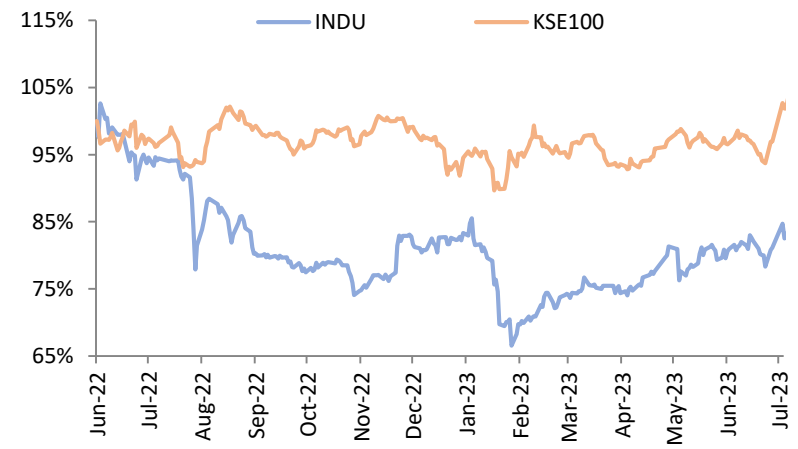
**Outlook and Recommendations:** The company is trading at FY24 PE(x) of 8.7x, whereas, the launch of the Corolla 12th generation earlier than expected will attract significant interest given the quantum of units sales the company managed to sell each time historically with the launch of Corolla. We have a BUY stance on the company with a Jun'24 price target of PKR 1,322/share

### Exhibit: Ratio Analysis

|                      |     | FY22A | FY23E | FY24F |
|----------------------|-----|-------|-------|-------|
| Earnings per share   | PKR | 201.0 | 94.7  | 114.2 |
| Dividend per share   | PKR | 93.8  | 44.0  | 53.0  |
| Book value per share | PKR | 687.2 | 737.8 | 799.1 |
| Price to Earning     | x   | 5.7   | 10.5  | 8.7   |
| Price to Book        | x   | 1.7   | 1.4   | 1.2   |
| Dividend Yield       | %   | 8.2   | 4.4   | 5.3   |

Source (s): Company Financials, AHL Research

### Exhibit: Relative Performance



Source (s): PSX, AHL Research

# Alpha Stocks

# Alpha Stocks

## PNSC and SYS

### Pakistan National Shipping Corporation (PNSC)

PNSC is a global transportation company that specializes in the shipping of dry bulk and liquid cargo. The company has a fleet of eight oil tankers that transport petroleum products from the Middle East to Pakistan via seaport for local consumption. The addition of two tankers in 1HFY23 has increased the capacity of the tanker business by 214,246 MT and would result in greater revenue in the coming times. In addition to oil tankers, PNSC also has five bulk carriers for dry cargo. Despite global challenges, PNSC has managed to supply liquid and dry cargo to Pakistan without significant delay. The company has also outperformed in terms of income earned from shipping, as most of its revenues are fixed at global freight indices. We expect the oil tankers to grow in the coming years. Other income will remain buoyant enough on the back of exchange gain and high return on deposits.

### Systems Limited (SYS)

Systems Limited (SYS) is a technology company that provides software development, software trading, and business process outsourcing services. The company has subsidiaries in Egypt, South Africa, Singapore, and Australia. SYS's revenue is primarily generated from digital services (76%), followed by managed services (14%) and BPO (10%). The company's revenue is denominated in USD, while its costs are denominated in Pakistani Rupees (PKR). This means that the company's profitability is positively affected by the devaluation of the PKR against the USD. During CY23, the company entered into a few multiyear and multiscale deals with renowned banks in the MEA region promising a reasonable revenue trajectory for 2023 and beyond. The company also expects to continue the momentum in the MEA region, especially in KSA where the Company sees a healthy pipeline. The company's focus on digital services, its presence in key markets, and its strategic acquisitions position it well for continued growth in the future.

### Key Financials

|                      |     | FY22 | FY21 | LTM   |
|----------------------|-----|------|------|-------|
| Earnings per share * | PKR | 42.8 | 17.2 | 205.7 |
| Price to Earning     | x   | 1.1  | 4.2  | 0.7   |
| Price to Book        | x   | 0.2  | 0.3  | 0.3   |
| Dividend Yield       | %   | 10.4 | 4.1  | 7.5   |
| Return on Equity     | %   | 13.3 | 6.1  | 41.8  |

Source: Company Financials, AHL Research \*@ 132mn shares

### Key Financials

|                     |     | FY22 | FY21 | LTM  |
|---------------------|-----|------|------|------|
| Earnings per share* | PKR | 22.8 | 15.1 | 33.1 |
| Price to Earning    | x   | 23.6 | 37.1 | 13.8 |
| Price to Book       | x   | 6.8  | 13.5 | 4.8  |
| Dividend Yield      | %   | 0.9  | 0.9  | 1.1  |
| Return on Equity    | %   | 28.9 | 36.3 | 35.1 |

Source: Company Financials, AHL Research \*@ 290mn shares

# Alpha Stocks

## PRL and UNITY

### Pakistan Refinery Limited (PRL)

Pakistan Refinery Limited (PRL) is a company involved in the production and sales of petroleum products (which includes MS, HSD, FO, JP, and Kerosene), with refinery complex and storage tanks located in Karachi. The company has the capacity to refine up to 2.1mn tons annually. The company was able to produce 1.1mn tons (throughput: 54%) during FY23, compared to 1.7mn tons in SPLY.

The company finalized and approved Refinery Expansion and Upgrade Project (REUP) in Dec'21 (estimated CAPEX size: USD 1.5bn – USD 1.7bn), which aims to i) increase crude processing capacity from 50k bopd to 100k bopd, ii) transition the refinery's configuration from Hydro-skimming to Deep Conversion, iii) production of Euro-V compliant MS and HSD. At present, PRL is still undertaking Front-End Engineering Design (FEED) study before commencing any upgradation process. Meanwhile, PRL continues to be in talks with the government for the finalization of the refinery policy which will make REUP economically viable for the company, which could lead to the stock generating alpha returns. With deemed duty imposed on MS and HSD post approval of Refinery Policy, we expect the annualized earnings impact of PKR 10.02/share on the company.

### Unity Foods Limited (UNITY)

UNITY Foods Limited is a holding company with primary stake in food related companies. Its subsidiary companies' names are Sunridge Foods(Private) Limited and Uni-Food Industries Limited. Net sales for Unity Foods grew by 47% in the third quarter of FY23 as compared to the corresponding period. During 3QFY23, Unity Foods net sales crossed PKR 31 bn, the highest ever for any quarter. For 9MFY23, Unity Foods' sales stood at PKR 78 bn compared to PKR 61 bn for SPLY. A rise in inflation and continuous devaluation of PKR against USD has taken a toll on the company. However, inelastic demand in the food industry, continuous enhancements in the product mix, and upward revision in the price across UNITY's various products would help grow the sales of the company.

### Key Financials

|                      |     | FY22 | FY21 | LTM  |
|----------------------|-----|------|------|------|
| Earnings per share * | PKR | 20.0 | 1.5  | 15.7 |
| Price to Earning     | x   | 0.9  | 16.5 | 1.1  |
| Price to Book        | x   | 0.5  | 7.6  | 0.4  |
| Dividend Yield       | %   | 0.0  | 0.0  | 0.0  |
| Return on Equity     | %   | 53.3 | 45.8 | 37.8 |

Source: Company Financials, AHL Research \*@ 630mn shares

### Key Financials

|                     |     | FY22 | FY21 | LTM |
|---------------------|-----|------|------|-----|
| Earnings per share* | PKR | 2.0  | 2.6  | nm  |
| Price to Earning    | x   | 9.8  | 16.9 | nm  |
| Price to Book       | x   | 1.1  | 3.9  | 1.2 |
| Dividend Yield      | %   | 0.0  | 0.0  | 0.0 |
| Return on Equity    | %   | 11.5 | 23.3 | nm  |

Source: Company Financials, AHL Research \*@ 1194mn shares

# Alpha Stocks

## ATRL and SAZEW

### Attock Refinery Limited (ATRL)

Attock Refinery Limited refines crude oil exclusively produced from Potohar and KPK regions, producing petroleum products such as Motor Gasoline (MS), High-Speed Diesel (HSD), Furnace Oil (FO), Kerosene, and Jet Fuels. The company has the capacity to refine 2.6mn tons annually. During FY23, ATRL's throughput was 60%, given the company produced 1.6mn tons (down by 5% YoY). In addition to this, the company is also the producer of LPG.

The government is expected to approve of the much-awaited refinery policy. Subject to the approval of policy, the company has shortlisted projects such as i) Continuous Catalyst Regeneration (CCR), ii) revamping of Diesel Hydrodesulphurisation (DHDS), and iii) upgradation of Furnace Fuel Oil (FFO) for which a feasibility study is ongoing. For CCR and DHDS, the total CAPEX size is estimated to be ~USD 500mn. Post-refinery policy approval work on these two projects will commence and is expected to reach completion in five to six years. The company is also expected to undergo an upgradation of refineries in order to meet Euro-V specifications in the future. We expect Refinery Policy to impose deemed duty on petroleum products (10% and 2.5% on MS and HSD, respectively), which will be collected by the ATRL (annualized earnings impact of PKR 112.71/share) and shall be used for expansion purposes.

### Sazgar Engineering Works Limited (SAZEW)

Sazgar Engineering is a public limited company incorporated in Pakistan in 1994. The company is the largest rickshaw maker in Pakistan and manufactures and sells automobiles, automotive parts and accessories, and household electronic appliances. In FY22, Sazgar received the government's green-field status to manufacture Haval SUVs and introduced the first-ever hybrid vehicle, Haval H6 in 2023. The company also brought another Chinese carmaker, BAIC, to Pakistan, which introduced its D20 vehicle, X25 crossover, and the BJ40-Plus off-roader SUV in the country. The company is expected to achieve revenue of PKR 24bn along with earnings to the tune of PKR 22.13/share indicating an attractive PE multiple of 2.7x.

### Key Financials

|                      |     | FY22 | FY21   | LTM   |
|----------------------|-----|------|--------|-------|
| Earnings per share * | PKR | 93.1 | (20.1) | 282.7 |
| Price to Earning     | x   | 1.9  | (12.7) | 0.7   |
| Price to Book        | x   | 0.4  | 0.7    | 0.3   |
| Dividend Yield       | %   | 5.7  | 0.0    | 4.8   |
| Return on Equity     | %   | 19.3 | (5.1)  | 40.5  |

Source: Company Financials, AHL Research \*@ 107mn shares

### Key Financials

|                    |     | FY22 | FY21  | LTM   |
|--------------------|-----|------|-------|-------|
| Earnings per share | PKR | 2.0  | 1.3   | 10.0  |
| Price to Earning   | x   | 31.9 | 134.0 | 6.1   |
| Price to Book      | x   | 1.9  | 5.5   | 1.5   |
| Dividend Yield     | %   | 0.0% | 0.0%  | 0.0%  |
| Return on Equity   | %   | 6.0% | 4.1%  | 24.4% |

Source: Company Financials, AHL Research \*@ 60mn shares

# Alpha Stocks

## TGL

### Tariq Glass Industries Limited (TGL)

Glassware, dinnerware, opal glass, and float glass are all produced and sold by TGL. While the company exports to Sri Lanka, Saudi Arabia, Afghanistan, and other countries, domestic sales account for the majority of its revenue. While, after serving their useful lives, one plant from the Tableware Plant and one Plant from Float Glass (unit 1) were both closed for reconstruction last year. The furnace of the Float Glass Plant ( Unit-1 with a capacity of 550 metric tons per day) is ready and will be placed back in production in the first quarter of the next financial year. Meanwhile, the company has installed and commissioned New Spectrum Mirror Coating line, High Speed Double Gob Press Machine and Six Colours Pad Printing Production Line, which will result in efficient production and improve quality of the products. Keeping in view curbs on import of tableware glass by the SBP, we expect demand for local glass to continue. With the upgradation of plants and new projects, the company will be able to fill the gap of import tableware and float glass products.

### Key Financials

|                     |     | FY22 | FY21 | LTM  |
|---------------------|-----|------|------|------|
| Earnings per share* | PKR | 24.1 | 12.3 | 14.4 |
| Price to Earning    | x   | 4.3  | 8.2  | 5.6  |
| Price to Book       | x   | 1.4  | 1.6  | 0.9  |
| Dividend Yield      | %   | 1.9  | 12.0 | 2.5  |
| Return on Equity    | %   | 31.6 | 19.9 | 16.6 |

Source: Company Financials, AHL Research \*@ 172mn shares





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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun 2024 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 -15% and +15% from last closing of market price(s) |
| SELL   | Upside* of subject security(ies) is less than -15% 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

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In order to avoid any conflict of interest, we hereby disclosed that;

Arif Habib Limited (AHL) has a shareholding in OGDC, NBP, BOP and PSO.