REP-300

Pakistan Strategy FY2024

Resurgence of Optimism

15-Jul-2023

Best Securities House: 2022
Best Investment Bank: 2022

Best Investment Bank: 2022

Best Equity House: 2022

Best Equity Advisor: 2021

Best Brokerage House: 2022
Corporate Finance House: 2022
Best Economic Research House: 2022
Best Equity Research Analyst: 2022

Top 25 Companies
(2019, 2018 & 2017)

Excellence Award
Leading Brokerage House for RDA 2021

Best Money Market Broker
(Islamic) 2021

AHL Research

D: +92 21 32462742

UAN: +92 21 111 245 111, Ext: 322

F: +92 21 32420742

E: ahl-research@arifhabibltd.com

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
Average Target Jun-2024	**100%**	**56,013**
Index Closing 14-Jul-23		45,068
Expected Return 2024		**24.3%**

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

Contents

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 befere and after Elections

		3 Months		6 Months		1 Year	
Election Date	**Index**	**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%
Average		**8%**	**10%**	**12%**	**4%**	**35%**	**15%**

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
Total			**26,627**	**16,832**

Source (s): IMF, AHL Research

Pakistan Economy

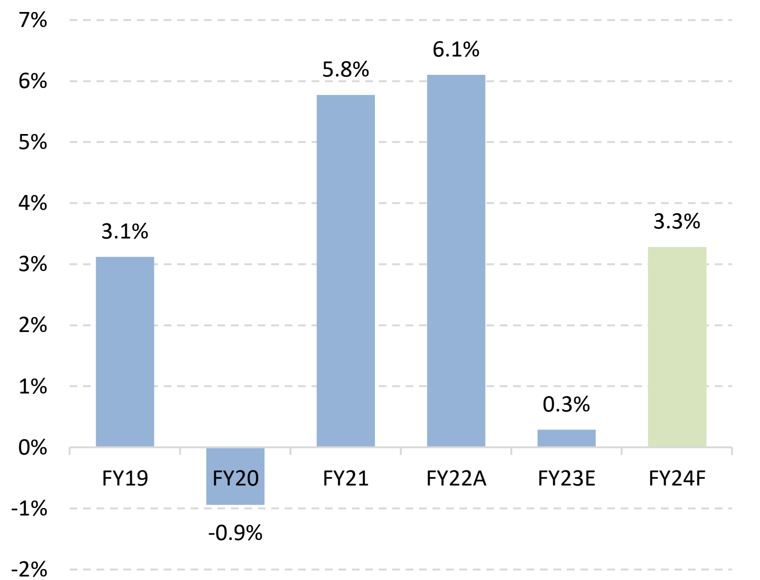
Economic Growth

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.

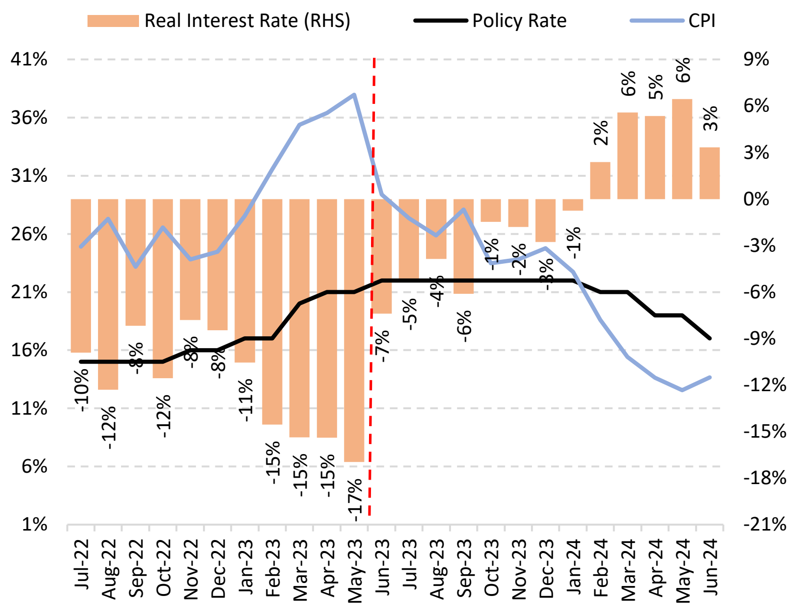
- Pakistan finds itself caught in the grip of soaring inflation. Higher taxes post recently announced Budget FY24, the phasing out of untargeted subsidies, the aftermath of devastating floods, and fluctuations in exchange rates have all come together to fuel a relentless surge in prices. Inflation peaked 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:

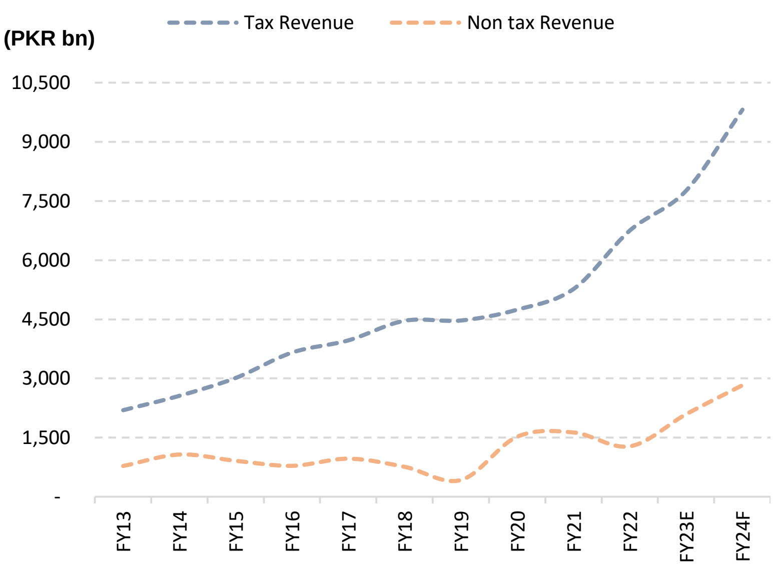
- During FY23, the fiscal deficit is expected to clock in at PKR 5.9trn (7.0% of GDP) compared to the budgeted amount of PKR 3.8trn (4.9% of GDP). Moreover, while gov't expects FY24 fiscal deficit to be around PKR 6.6trn, we believe, this deficit will be close to PKR 7.8trn (7.6% of GDP).

❑ 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
Gross Revenue Receipts	**4,696**	**4,436**	**5,782**	**6,270**	**7,328**	**8,818**	**11,856**
Net Revenue Receipts	**2,479**	**2,038**	**3,278**	**3,528**	**3,739**	**4,689**	**6,645**
FBR Taxes	**3,842**	**3,829**	**3,998**	**4,764**	**6,143**	**7,200**	**9,030**
Non-Tax Revenue	**854**	**606**	**1,784**	**1,505**	**1,185**	**1,618**	**2,826**
Less: Provincial Share	**2,217**	**2,398**	**2,504**	**2,742**	**3,589**	**4,129**	**5,212**
Total Expenditure	**4,704**	**5,599**	**6,819**	**7,245**	**9,350**	**11,090**	**15,205**
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
PSDP	**576**	**502**	**468**	**441**	**400**	714	550
Budget Deficit	**2,260**	**3,445**	**3,376**	**3,403**	**5,260**	**5,941**	**7,910**

% of GDP

% of GDP	FY18	FY19	FY20	FY21	FY22	FY23E	FY24F
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:

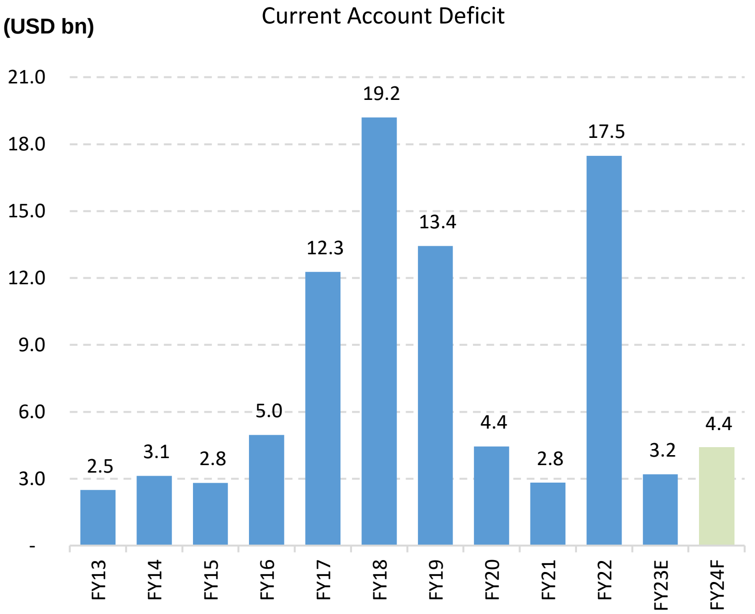
- CAD is likely to remain around USD 4.4bn in FY24 (1.2% of GDP) with imports restriction uplifted while exports fight headwinds from global recession.

- 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

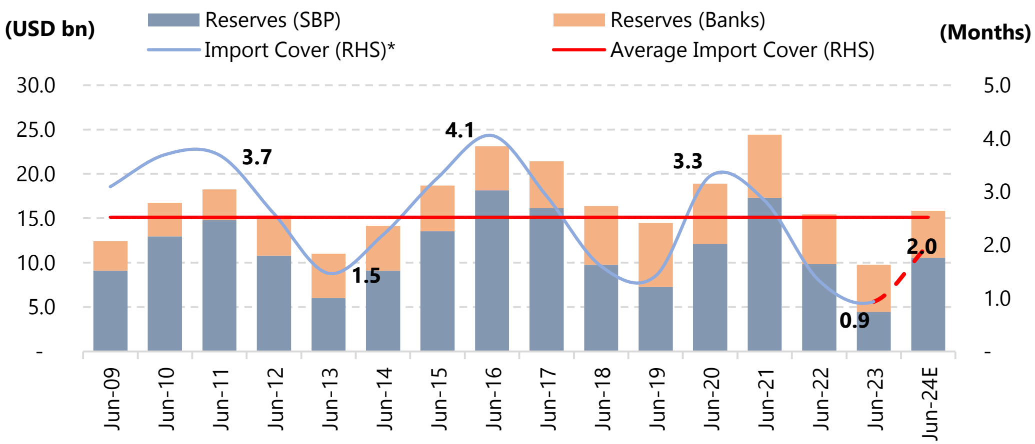
Building Reserves

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		
Total Inflows	**33.50**	**Total Outflows**	**27.40**
SBP Reserves (7-Jul-23)	**4.52**		
Expected SBP Reserves Position (Jun'24)			**10.62**

Source (s): SBP, AHL Research

Pakistan Capital Market

Pakistan Capital Market

KSE100 Index to reach 56,000 by Jun'24

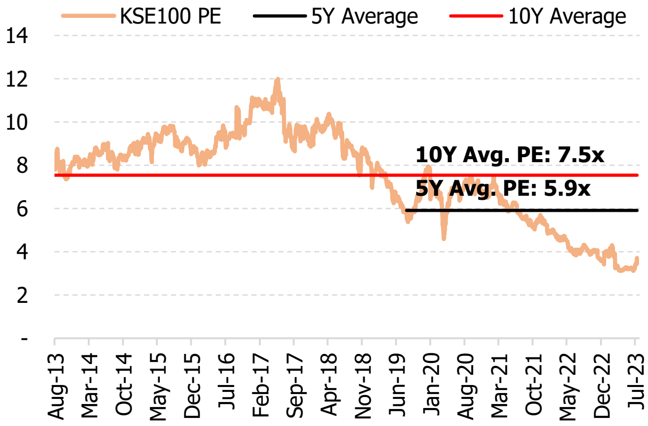
- KSE-100 index posted a return of 8.7% (3,615 points) since the staff-level agreement with the IMF for SBA.
- The IMF program has provided much-needed clarity and assurance concerning the economic plan for the upcoming nine months, a critical period due to the impending general elections and the formation 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
Average Target Jun-2024	**100%**	**56,013**
Index Closing 14-Jul-23		45,068
Expected Return 2024		**24.3%**

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
Company Buyback			
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
Sub Total	**26,074**		
Sponsor Buying			
Habib Bank Ltd.	3,501	3.2%	99% Completed
Sub Total	**3,501**		
Total	**29,575**		

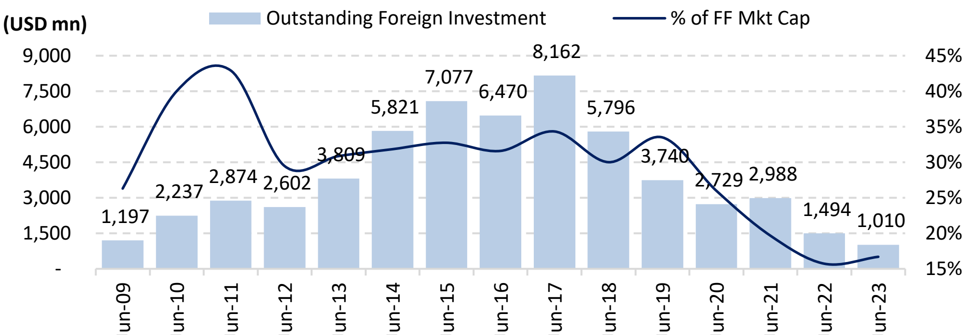
Source (s): PSX, AHL Research, *PKR mn

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*

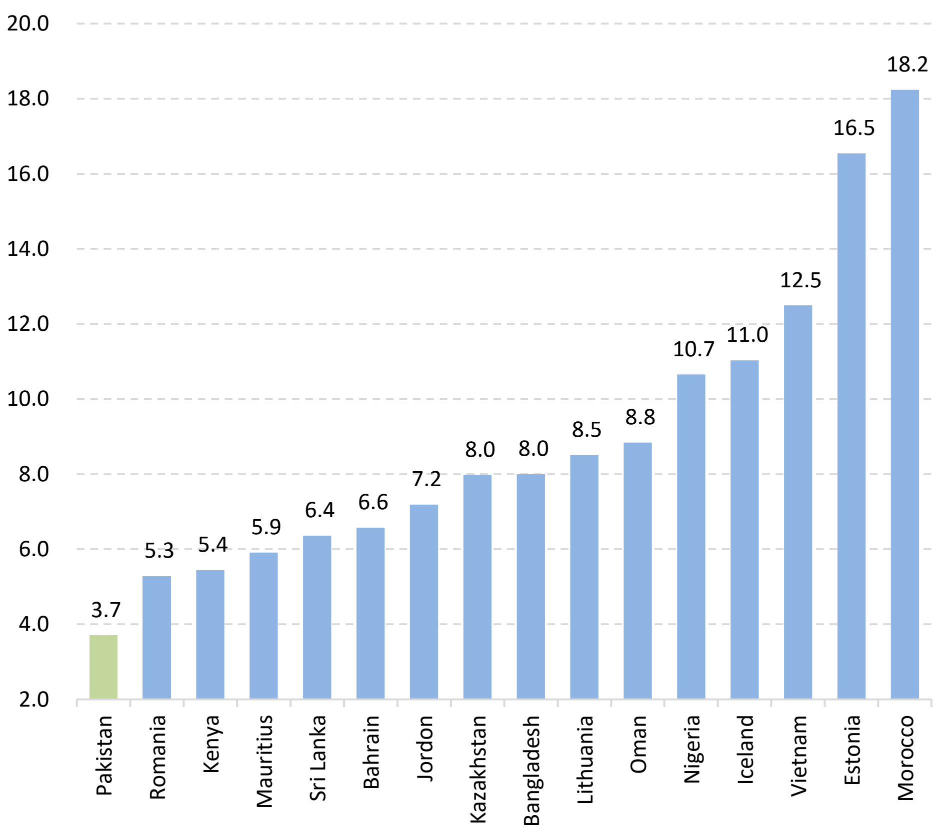
Company	Shares (mn)	PKR mn	USD mn
COLG	12.87	18,505	66.67
SYS	21.99	9,722	35.02
UBL	46.37	6,072	21.87
LUCK	8.92	5,172	18.63
OGDC	49.19	4,196	15.12
PPL	60.98	4,167	15.01
ENGRO	15.12	3,949	14.23
NATF	34.95	4,052	14.60
HUBC	50.18	4,012	14.45
HBL	40.62	3,185	11.47
MCB	24.86	3,206	11.55
MEBL	26.79	2,990	10.77
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
Total Portfolio Investment		**94,614**	**340.86**

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
Jordon	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

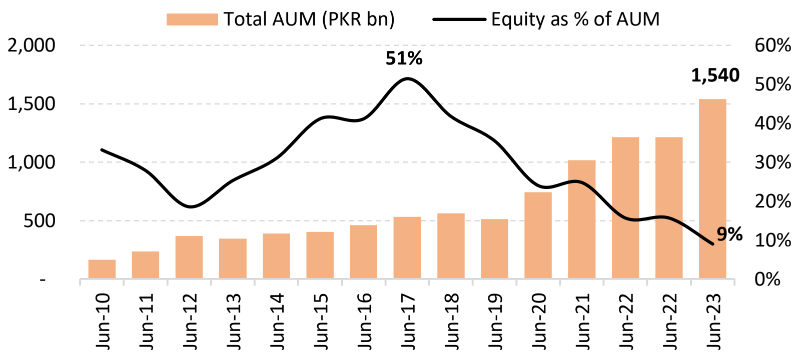
	% of total AUMs/ Investments		KSEAll Ownership*	
	2017	2023	2017	2023
Mutual Funds	51.5%	9.0%	12.0%	7.4%
Banks	2.1%	0.7%	7.7%	7.4%
State Life Insurance (SLIC)**	13.7%	7.2%	4.2%	4.5%
Insurance (ex. SLIC)	38.4%	9.4%	4.0%	1.6%
Foreign	na	na	28.0%	5.1%
Other***	na	na	44.2%	74.1%
Total			**100.0%**	**100.0%**

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:

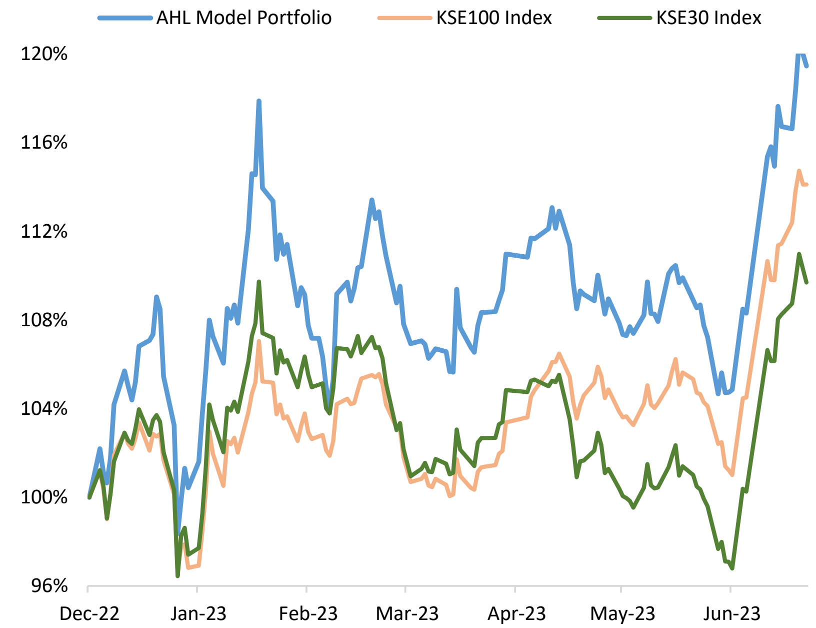
- We have recommended a model portfolio with our 2023 strategy report. AHL model portfolio outperformed the benchmark KSE-30 and KSE-100 indices by 11.7% and 7.8% respectively. AHL model portfolio total return till 14 July 2023 clocked in at 21.4% as compared to KSE-30 and KSE-100 return of 9.7% and 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

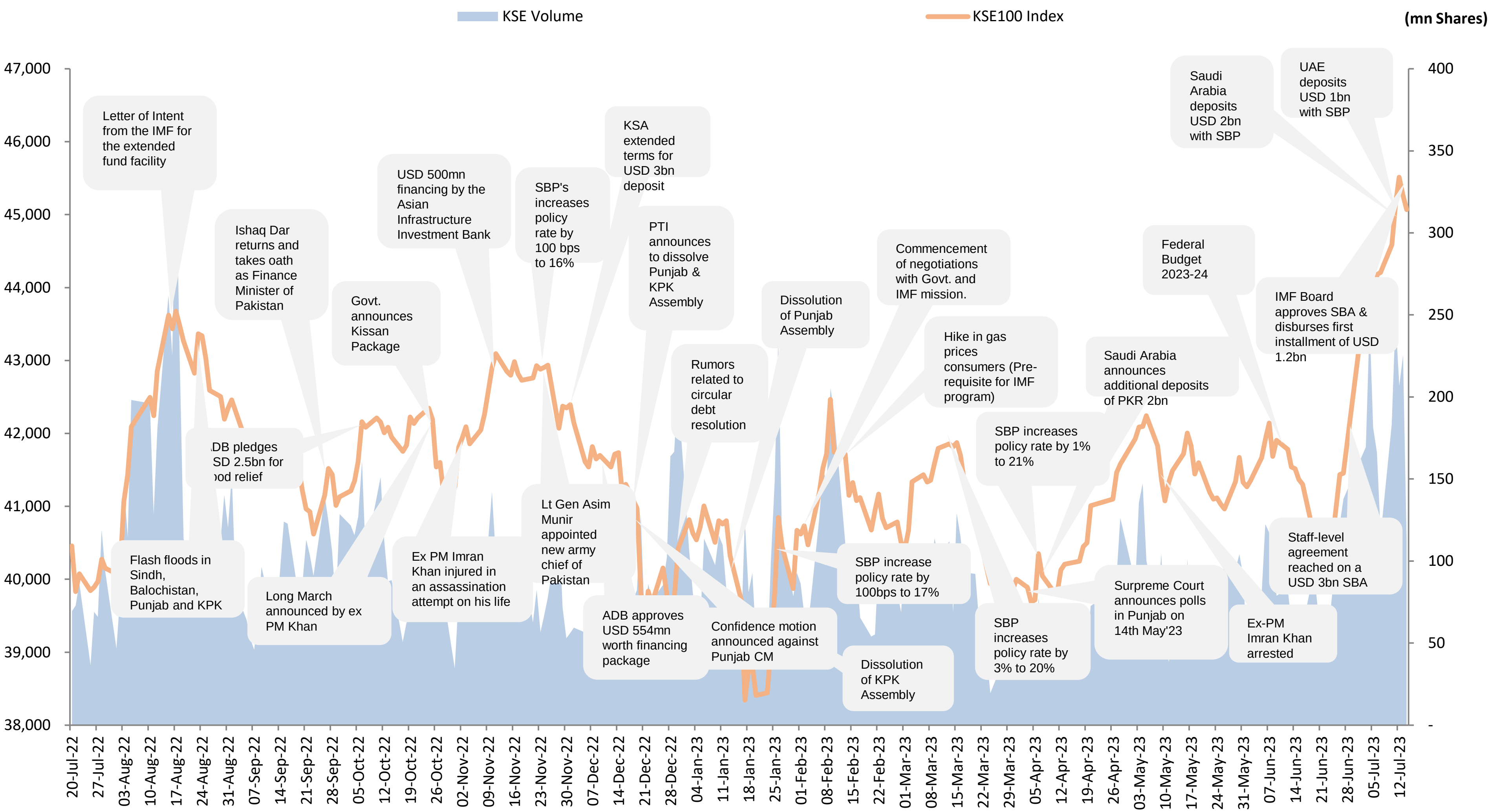
Exhibit: Relative Performance: AHL Model Portfolio vs KSE100 and 30 Indices



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.

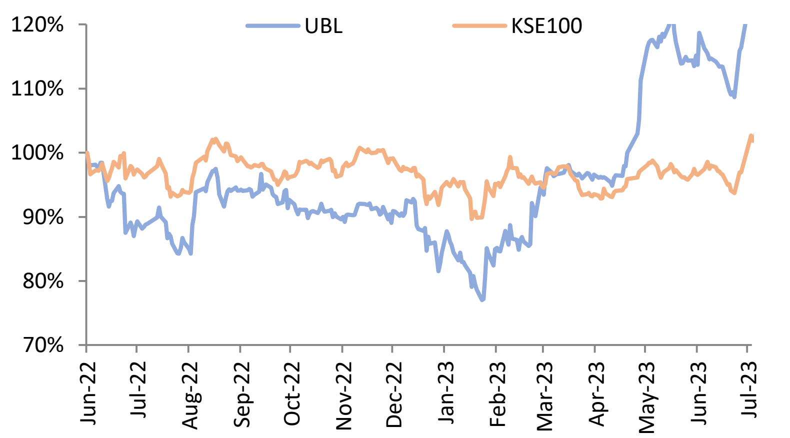
Digital penetration- laying the foundations for a wider eco system: UBL has set up efforts to enhance its digital penetration across the country. It was able to enhance app registration by 31% YoY leading to increased customer transactions (up by 76% YoY). Payment throughput has reached up to 1trn (a 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).

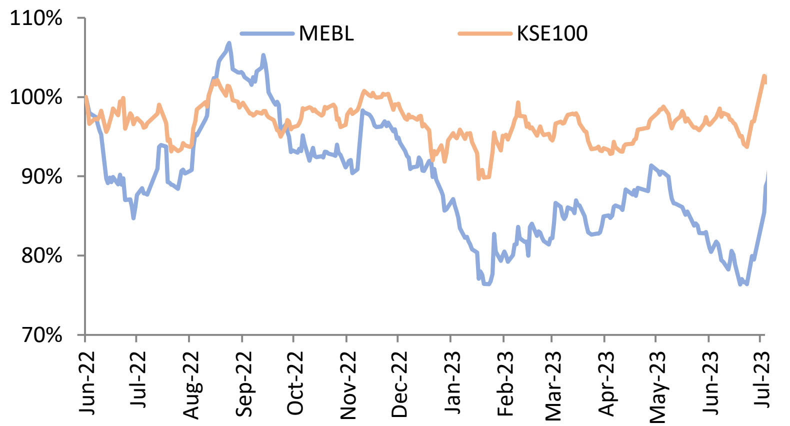
Supreme asset quality: The bank's total assets, in tandem with its strong deposit base, grew at a CAGR of 19% during the last 5-years. Despite this growth in assets base, bank's advances portfolio remained rather shy, growing by a 5-year CAGR of 12.5%. The bank's stringent lending policy and its ability 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.

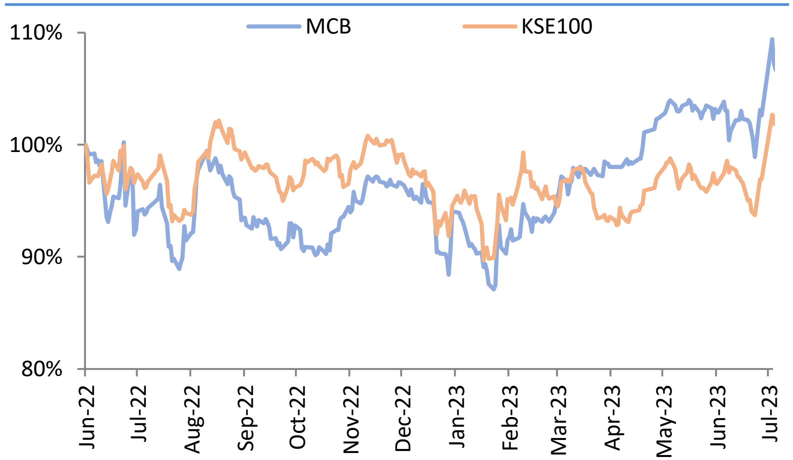
Consistent dividend pay-out: Since CY18, MCB has maintained a stellar payout ratio of an avg. 80%, which drastically outperforms its peers' avg. payout ratio during the said period – HBL: ~36%, and UBL: ~78%. The stock has offered an avg. DY of 11.3% since CY16 while HBL has offered an avg. yield of 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.

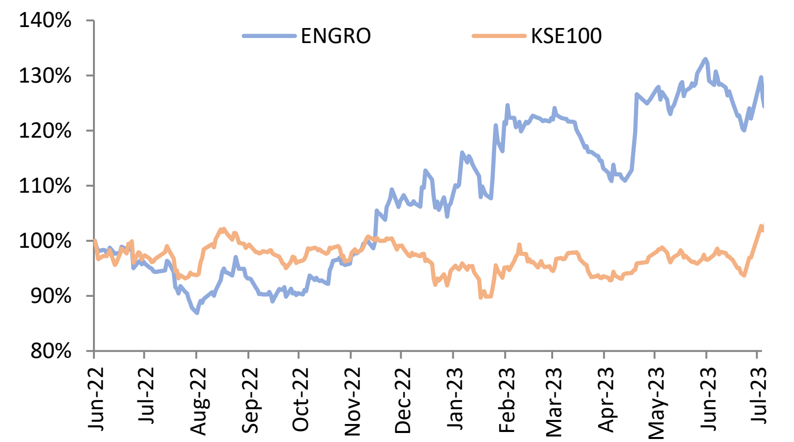
Other businesses: EFERT has increased base plant's capability of producing 950k ton p.a of urea post BMR, which will improve the productivity of the plant, resulting in higher profitability (before tax). Whereas, the earnings from EPCL are projected to decline due to lower PVC margins and imposition 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.

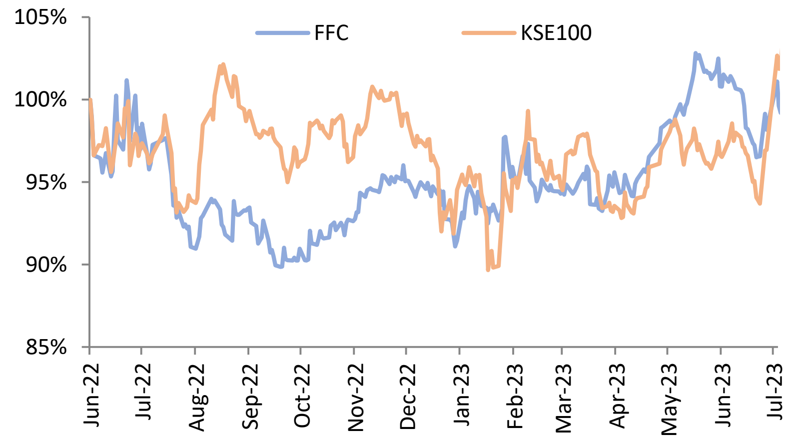
Gas Related Projects: In CY22, FFC, EFERT, and FATIMA signed a Framework Agreement for Gas Pressure Enhancement Facilities project, whereby the aforementioned stakeholders will develop and install pressure enhancement facilities at the MARI's HRL reservoir in order to maintain adequate pressure of gas 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 Sinjhoro. 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 mmcfd 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/mmcfd). 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 pilling 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.

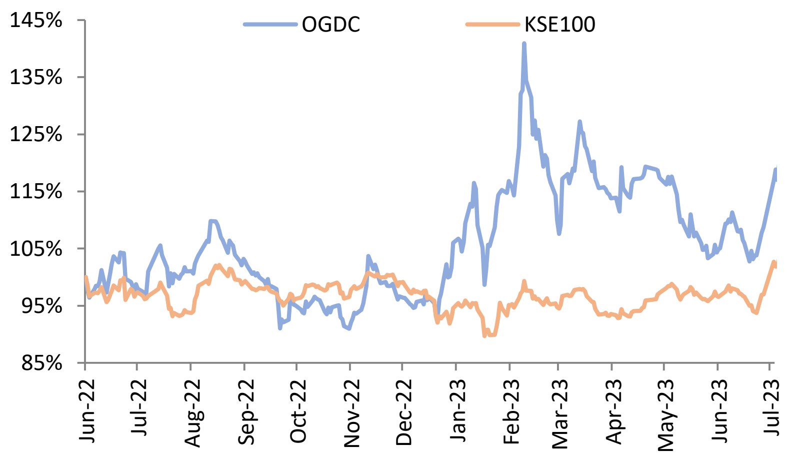
Trading multiples: The stock is currently trading at an implied oil price of USD 67.12/bbl (ex-cash and cash balances) as compared to the current Arab Light Price of USD 83.79/bbl with FY24 PER of 2.2x and P/B of 0.3x along with a dividend yield of 7.6%. We expect the company to post a net profit of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

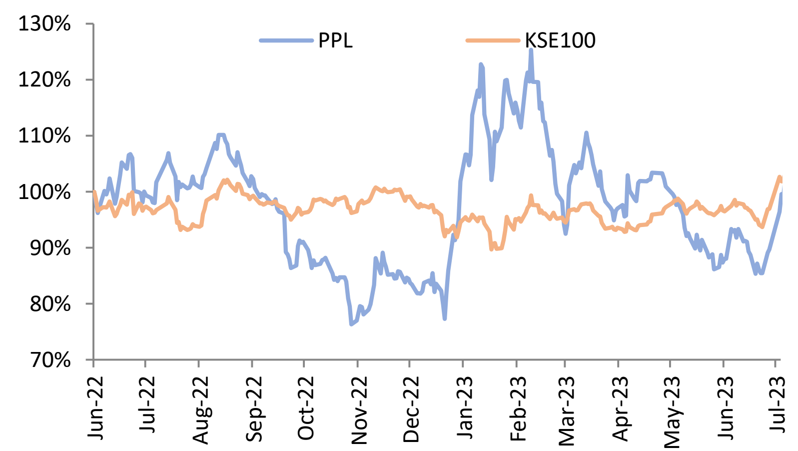
Mounted Circular Debt: The receivables position of the company stood at PKR 487bn (as of Mar'23) which translates to cash of ~PKR 179.0/share, whereas overdue receivables related to circular amount to PKR 434bn. The receivables from SNGP and SSGC stood at PKR 238bn and PKR 215bn, respectively (summing 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 Oil & gas production update: Gas production of MARI remained stable at 774 mmcfd 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.

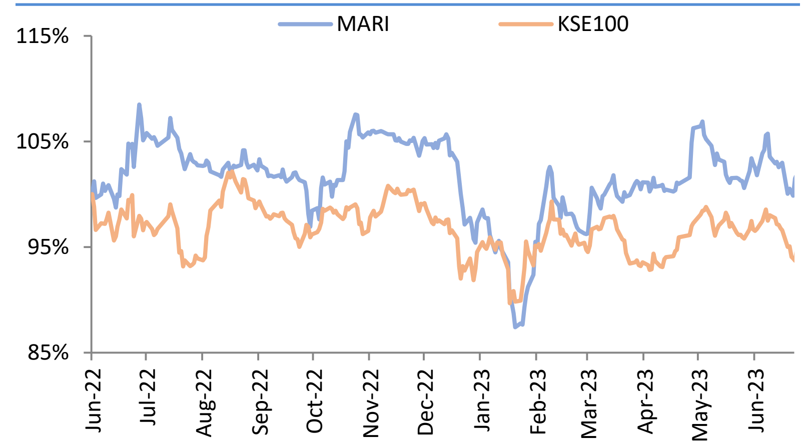
Drilling and Other Projects: Furthermore, during FY23, MARI spud 3 exploratory, and 4 development wells. In addition to this, MARI drilled and commissioned the first ever horizontal well "Mari-122H", which tested at a rate of 21 mmcfd of gas. Alongside this, MARI plans to drill more horizontal wells in order to extend HRL gas plateau. Furthermore, the company made a gas discovery at Mari Ghazij-1 with of 9.6 mmcfd of gas post acid testing. Meanwhile, during 3QFY23, the company completed Phase 2 of the Sachal Gas Processing Complex and started to supply 90mmcfd to the production system. With this, the company's production crossed 850 mmcfd 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.

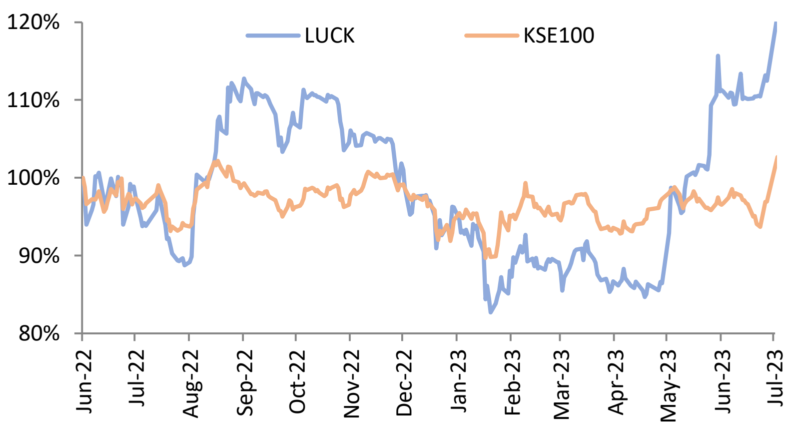
Further investment in fuel efficiency: LUCK is one of the few companies in the sector that do not rely on the national grid. This translates to LUCK being one of the lowest cost manufacturers in the country. The company is further investing in its energy efficiency by putting up a 15MW Waste Heat Recovery (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.

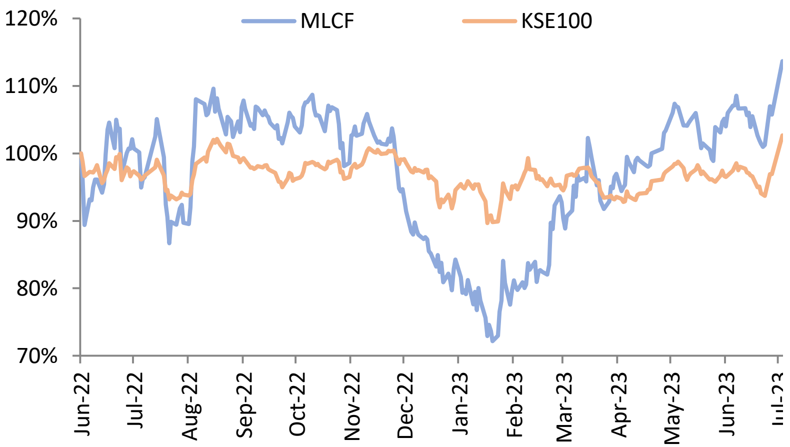
Competitive debt position: The company has secured concessional financing, such as TERF and LTFF, totaling PKR 5bn for its expansion projects, providing the company with a competitive advantage over peers. We estimate that the company's annual savings for these facilities is ~PKR 573mn (PKR 0.57/share)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

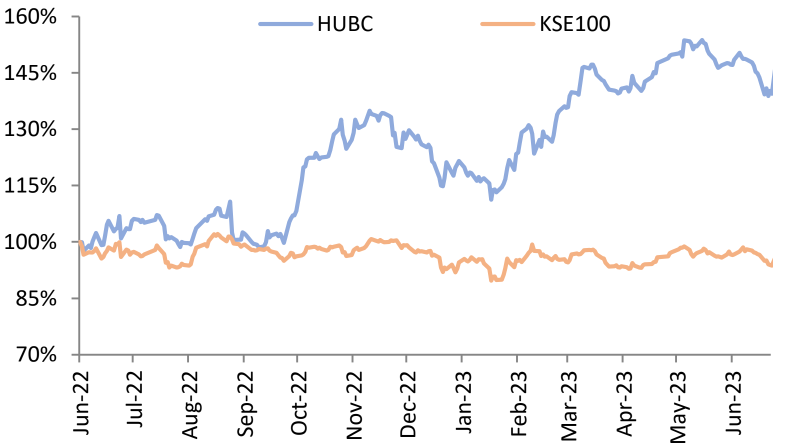
Diversifying into the Oil and Gas Exploration sector: The Prime International Oil and Gas Company Ltd (Prime) entered into four Sales and Purchase agreements with Eni International B.V, Eni Oil Holdings B.V, Eni UK Limited, and Eni ULX Ltd for the purpose of acquiring Eni's business in Pakistan. Prime 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.

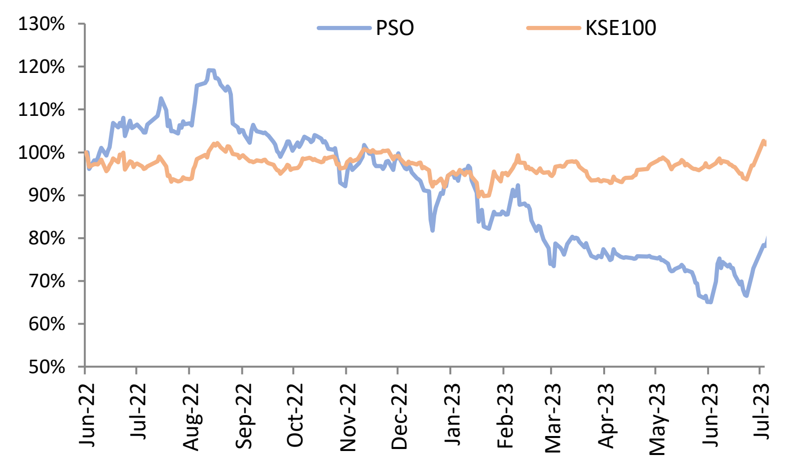
Outlook and Recommendations: We have BUY call for the stock with Jun'24 ending target price of PKR 202.8/share. PSO is currently trading at FY24f P/E and P/B of 1.9x and 0.2x, respectively with a dividend yield of 8%.

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.

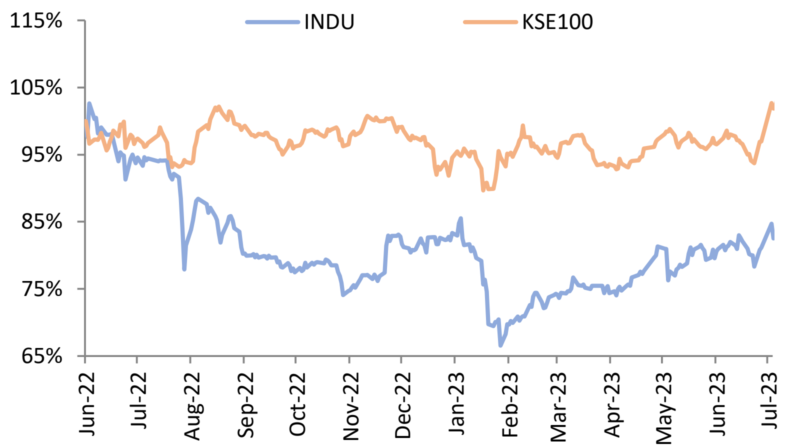
Outlook and Recommendations: The company is trading at FY24 PE(x) of 8.7x, whereas, the launch of the Corolla 12th generation earlier than expected will attract significant interest given the quantum of units sales the company managed to sell each time historically with the launch of Corolla. We have 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.

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

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	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.

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

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	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.

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

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	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

Recommendation Summary

AHL Universe - Recommendation Summary

Code	Company	Price 14-Jul-23	TP Jun-24	Upside (%)	Stance	EPS (PKR) 2021	2022	2023	2024	DPS (PKR) 2021	2022	2023	2024	P/E (x) 2023	2024	DY (%) 2023	2024	P/B (x) 2023	2024	ROE (%) 2023	2024	Indices
Exploration & Production																						
PPL	Pakistan Petroleum Ltd.	68.3	108.67	59.0	Buy	19.3	19.7	37.6	35.8	3.50	2.00	3.50	3.00	1.8	1.9	5.1	4.4	0.4	0.3	21.3	17.1	KSE100, KSE30, KMI & MSCI
OGDC	Oil and Gas Dev Co.	85.3	135.4	58.7	Buy	21.3	31.1	45.1	39.2	6.90	7.25	8.00	7.50	1.9	2.2	9.4	8.8	0.4	0.3	20.5	15.4	KSE100, KSE30, KMI & MSCI
POL	Pakistan Oilfields Ltd.	418.2	553.01	32.2	Buy	47.1	91.4	125.3	98.1	50.00	70.00	90.00	76.00	3.3	4.3	21.5	18.2	1.8	1.9	60.1	42.9	KSE100, KSE30, KMI & MSCI
MARI	Mari Petroleum Ltd	1,549.9	2,414.8	55.8	Buy	235.7	247.8	397.9	536.7	141.00	124.00	195.00	268.00	3.9	2.9	12.6	17.3	1.3	1.1	36.9	41.0	KSE100, KSE30, KMI & MSCI
Commercial Banks																						
UBL	United Bank Ltd.*	131.0	187.9	43.5	Buy	24.8	25.8	40.0	45.5	18.00	22.00	28.00	32.00	3.3	2.9	21.4	24.4	0.6	0.6	20.6	21.4	KSE100, KSE30 & MSCI
BAFL	Bank Alfalah*	34.9	48.0	37.4	Buy	9.2	11.7	21.0	21.6	4.00	5.00	6.00	6.50	1.7	1.6	17.2	18.6	0.4	0.4	28.9	24.2	KSE100
MCB	MCB Bank Ltd.*	129.0	189.9	47.2	Buy	26.3	29.0	42.4	49.6	19.00	20.00	23.00	26.00	3.0	2.6	17.8	20.2	0.7	0.6	24.6	25.9	KSE100, KSE30 & MSCI
HBL	Habib Bank Ltd.*	78.4	112.2	43.0	Buy	23.9	23.2	32.4	38.0	7.50	6.75	6.00	7.00	2.4	2.1	7.7	8.9	0.4	0.3	15.6	16.1	KSE100, KSE30 & MSCI
ABL	Allied Bank Ltd.*	71.0	102.4	44.2	Buy	15.3	18.6	28.0	28.7	8.00	8.50	10.00	12.00	2.5	2.5	14.1	16.9	0.5	0.5	22.8	20.4	KSE100
NBP	National Bank of Pakistan.*	20.8	30.4	46.4	Buy	13.4	14.5	17.0	18.6	-	-	-	-	1.2	1.1	-	-	0.1	0.1	11.1	11.0	KSE100
AKBL	Askari Bank Ltd.*	14.0	20.2	44.8	Buy	6.7	9.7	11.7	13.1	-	-	-	-	1.2	1.1	-	-	0.2	0.2	20.4	19.0	KSE100
BOP	The Bank of Punjab*	3.6	6.2	71.8	Buy	3.8	3.2	1.7	1.9	-	-	-	-	2.2	1.9	-	-	0.2	0.2	8.0	8.4	KSE100
MEBL	Meezan Bank Ltd.*	111.6	151.6	35.9	Buy	15.8	25.1	34.7	37.4	6.00	8.50	11.00	13.00	3.2	3.0	9.9	11.6	1.2	1.0	44.1	36.0	KSE100, KSE30 & KMI
FABL	Faysal Bank Ltd.*	23.1	34.4	48.5	Buy	5.5	7.5	9.5	10.9	1.50	7.00	1.50	2.00	2.4	2.1	6.5	8.6	0.4	0.4	19.2	19.7	KSE100
Fertilizer																						
ENGRO	Engro Corporation*	261.2	366.8	40.4	Buy	48.5	42.2	54.2	72.6	25.00	34.00	50.00	62.00	4.8	-	19.1	23.7	0.5	0.5	12.1	-	KSE100, KSE30, KMI & MSCI
FFBL	Fauji Fert. Bin Qasim	13.7	15.2	10.4	Hold	4.9	1.8	0.5	2.7	-	-	-	-	27.5	5.1	-	-	0.8	0.7	2.8	13.8	KSE100 & KMI
EFERT	Engro Fertilizer	82.8	97.3	17.6	Buy	15.8	12.0	11.0	12.1	16.50	13.50	12.00	14.00	7.6	6.8	14.5	16.9	2.9	3.2	34.9	44.3	KSE100, KSE30, KMI & MSCI
FFC	Fauji Fertilizer Co.	99.7	136.2	36.6	Buy	17.2	15.8	18.1	20.8	14.50	12.13	14.00	16.00	5.5	4.8	14.0	16.0	2.3	2.0	43.2	44.7	KSE100, KSE30 & MSCI
FATIMA	Fatima Fertilizer Co.	28.0	na	na	na	8.8	6.7	na	na	3.50	3.50			Group Company: No estimates are given								KSE100 & KMI
AHCL	Arif Habib Corp. Ltd.	28.5	na	na	na	18.3	8.5	na	na	3.00	4.00			Group Company: No estimates are given								KSEALL
Cement																						
LUCK	Lucky Cement Ltd.	579.7	954.6	64.7	Buy	44.9	48.8	43.6	67.3	-	-	-	20.00	13.3	8.6	-	3.4	1.3	1.2	10.3	14.8	KSE100, KSE30, KMI & MSCI
LUCK	Lucky Cement Ltd.*	579.7	954.6	64.7	Buy	72.9	94.1	151.9	189.0	-	-	-	20.00	3.8	3.1	-	3.4	0.6	0.5	19.0	18.3	KSE100, KSE30, KMI & MSCI
FCCL	Fauji Cement Co.	12.6	19.1	51.6	Buy	1.4	2.9	3.1	4.1	-	-	-	-	4.0	3.0	-	-	0.5	0.4	12.2	13.9	KSE100 & KMI
ACPL	Attock Cement Ltd.	92.6	149.4	61.3	Buy	8.1	8.2	24.7	28.4	4.00	3.50	-	-	3.7	3.3	-	-	0.6	0.5	17.7	17.1	KSEALL & KMI
DGKC	D.G. Khan Cement Co.	56.1	72.0	28.4	Buy	8.5	6.8	6.5	8.2	1.00	1.00	-	-	8.6	6.8	-	-	0.3	0.3	4.0	4.8	KSE100, KSE30 & KMI
KOHC	Kohat Cement Co.	177.9	291.9	64.1	Buy	17.4	25.0	30.4	35.1	-	-	-	-	5.8	5.1	-	-	1.1	0.9	20.2	19.1	KSE100 & KMI
MLCF	Maple Leaf Cement.*	31.2	56.5	81.3	Buy	3.6	4.2	7.7	9.0	-	-	-	2.00	4.1	3.5	-	6.4	0.7	0.6	17.8	17.9	KSE100, KSE30 & KMI
POWER	Power Cement	4.4	na	na	na	0.3	(0.4)	na	na	-	-			Group Company: No estimates are given								KMI
Oil & Gas Marketing																						
PSO	Pakistan State Oil	121.6	202.8	66.7	Buy	62.1	183.7	24.2	64.3	15.00	10.00	10.00	10.00	5.0	1.9	8.2	8.2	0.3	0.2	5.2	12.8	KSE100, KSE30, KMI & MSCI
APL	Attock Petroleum Ltd.	305.57	398.20	30.3	Buy	39.5	149.0	82.6	53.9	27.00	45.00	25.00	20.00	3.7	5.7	8.2	6.5	0.9	0.9	25.9	15.6	KSE100 & KMI
SNGP	Sui Northern Gas Pipeline Ltd.	43.6	66.3	51.9	Buy	17.3	16.3	18.8	20.5	7.00	4.00	8.00	8.00	2.3	2.1	18.3	18.3	0.6	0.5	149.7	249.7	KSE100 & KMI
Automobile Assemblers																						
PSMC	Pak Suzuki Motor Co.	123.9	148.20	19.6	Buy	32.6	(77.0)	(152.6)	7.6	6.50	-	-	6.00	nm	16.4	-	4.8	0.4	0.4	(57.0)	2.4	KSE100 & KMI
INDU	Indus Motor Co.	983.2	1,322.0	34.5	Buy	163.2	201.0	104.0	125.5	103.50	93.75	46.00	61.00	9.5	7.8	4.7	6.2	1.3	1.2	14.6	16.2	KSE100
HCAR	Honda Atlas Cars (Pak)	124.3	122.20	(1.7)	Hold	12.6	17.6	(0.6)	9.3	4.52	7.00	-	5.00	(213.7)	13.4	-	4.0	0.9	0.8	(0.4)	6.5	KSE100 & KMI
MTL	Millat Tractors Ltd.	400.6	389.3	(2.8)	Hold	30.1	28.3	15.8	29.6	100.00	65.00	31.00	51.00	25.4	13.5	7.7	12.7	11.0	10.9	43.1	80.8	KSE100, KSE30, KMI & MSCI
Power Generation & Distribution**																						
HUBC	Hub Power Company*	79.9	126.9	80.9	Buy	26.0	21.9	32.3	36.8	12.00	6.50	29.50	15.75	2.5	2.2	36.9	19.7	0.7	0.6	31.2	30.0	KSE100, KSE30, KMI & MSCI
NCPL	Nishat Chu. Power Ltd.	18.8	21.0	33.1	Buy	6.8	6.8	9.4	7.5	-	10.00	2.00	2.00	2.0	2.5	10.6	10.6	0.3	0.2	13.6	10.0	KSEALL
NPL	Nishat Power Limited	20.5	23.3	38.2	Buy	7.6	9.4	11.1	8.9	1.50	4.50	4.00	3.00	1.8	2.3	19.5	14.6	0.2	0.2	13.5	10.2	KSEALL
Textile Composite																						
NML	Nishat Mills Ltd.	60.4	84.8	40.3	Buy	16.8	29.3	38.2	37.6	4.00	4.00	7.50	7.50	1.6	1.6	12.4	12.4	0.2	0.2	15.8	13.8	KSE100 & KMI
NCL	Nishat (Chunian) Ltd.	22.0	32.7	49.0	Buy	23.3	31.1	(2.5)	12.0	5.00	7.00	-	4.00	(8.7)	1.8	-	18.2	0.2	0.2	(2.6)	12.2	KSE100
FML	Feroze1888 Mills Ltd.	73.9	104.3	41.1	Buy	10.8	8.5	26.7	15.5	3.43	4.27	5.00	6.00	2.8	4.8	6.8	8.1	0.9	0.8	34.5	18.5	KMI
ILP	Interloop Ltd.	37.8	71.4	88.9	Buy	4.5	8.8	12.8	13.6	2.50	4.00	5.00	5.50	2.9	2.8	13.2	14.6	1.2	0.9	47.4	36.8	KSE100
Chemicals																						
LOTCHEM	Lotte Chemical Pak Ltd.										Coverage Restricted due to Advisory Mandate											KSE100
EPCL	Engro Polymer & Chem.	44.1	51.9	17.7	Buy	16.6	12.9	5.8	10.5	16.30	12.50	4.00	7.25	7.6	4.2	9.1	16.4	1.4	1.3	19.1	32.8	KSE100, KSE30 & KMI
LCI	Lucky Core Industries Limited	648.6	920.1	41.9	Buy	60.3	91.7	252.2	86.9	40.00	35.00	20.00	20.00	2.6	7.5	3.1	3.1	1.0	0.9	50.5	12.8	KSE100 & KMI
Engineering																						
ASTL	Amreli Steels Ltd.	21.3	24.0	12.7	Hold	4.61	4.46	3.09	4.35	-	-	-	-	6.9	4.9	-	-	0.4	0.4	5.8	7.7	KSEALL
AGHA	Agha Steel Industries Ltd.	11.1	18.3	65.2	Buy	3.37	3.07	1.53	2.16	-	-	-	-	7.2	5.1	-	-	0.4	0.4	5.7	7.6	KSEALL
ASL	Aisha Steel Mills Ltd.	6.4	na	na	na	6.9	1.2	na	na	2.00	-			Group Company: No estimates are given								KSEALL
Technology & Communication																						
HUMNL	Hum Network Limited.	6.0	10.2	69.0	Buy	0.9	1.2	1.7	2.1	-	0.50	0.75	1.00	3.5	2.9	12.5	16.6	1.1	0.9	33.5	33.1	KSEALL

Source: Bloomberg, AHL Research, *Earnings Consolidated Basis,**upside is total return

Contact Details

Shahid Ali Habib	Chief Executive Officer	shahid.habib@arifhabibltd.com	92 -21-3240-1930

Research Team

Tahir Abbas	Director Research	tahir.abbas@arifhabibltd.com	92-21-3246-2742
Sana Tawfik	VP – Senior Investment Analyst	sana.tawfik@arifhabibltd.com	92-21-3246-2589
Rao Aamir Ali	AVP – Senior Investment Analyst	amir.rao@arifhabibltd.com	92-21-3246-1106
Muhammad Iqbal Jawaid	Investment Analyst	iqbal.jawaid@arifhabibltd.com	92-21-3246-2589
Muhammad Abrar	Investment Analyst	muhammad.abrar@arifhabibltd.com	92-21-3246-2589
Muhammad Amad Bin Aamir	Investment Analyst	muhammad.amad@arifhabibltd.com	92-21-3246-2589
Naseem Akhtar Khattak	Manager Database	naseem.akhtar@arifhabibltd.com	92-21-3246-1106
Ali Muhammad	Assistant Manager Database	ali.muhammad@arifhabibltd.com	92-21-3246-1106

Equities Sales Team

Bilal Khan	Director – Head of International Sales	bilal.khan@arifhabibltd.com	92-21-3246-5894
Usman Taufiq Ahmed	Head – HNWI / Corporates	usman.ta@arifhabibltd.com	92-21-3246-8285
Furqan Aslam	Deputy Head Equities	furqan.aslam@arifhabibltd.com	92-21-3240-1932
Farhan Mansoori	VP – Equity Sales	farhanmansoori@arifhabibltd.com	92-21-3242-9644
Afshan Aamir	VP – Equity Sales	afshan.aamir@arifhabibltd.com	92-21-3244-6256
Junaid Shaharyar Godil	SVP – Institutional Sales	junaidsgodil@arifhabibltd.com	92 21-3246-0232

Analyst Certification and Disclaimer

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings

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

Disclosure required under Research Analyst Regulations, 2015:

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.

ARIF HABIB LIMITED