REP - 040

Pakistan Investment Outlook 2024

In calmer waters but still a long way to go

Index Target: 77,000 points

Taurus Research[AC]
research@taurus.com.pk
Direct: 92-21-35216403
UAN: 111-828-787

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TAURUS SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

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REP- 040
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- Since Jun'23 the KSE-100 index is up 52% (~53% in USD terms), making it one of the best performing markets in the world on the back of reinvigorated investor sentiment due to a significant drop in macroeconomic and political uncertainty coupled with across the board beaten-down valuations. Yet the index continues to trade at a forward P/E of 4.5x only, which is at a ~32% discount to the mean P/E of ~6.6x witnessed over the last five years.
- To note, the rebound also reflects substantial and potent decrease in the default risk for Pakistan, which was at its peak just before the approval of the Stand-by Arrangement in Jul'23. Moreover, burgeoning expectations of the commencement of monetary easing early next year has been another factor driving the bulls.
- The above has also revived interest of foreign investors (scooping up the blue chips) and other participants in the market—all wanting to jump on the bandwagon. To date foreign investors have bought net shares worth ~USD 76.5Mn since Jun'23; with more liquidity likely to enter the market as we discuss in detail later.
- Accordingly, we expect the KSE-100 index to touch the **77,000 level** by the end of Dec'24—translating into **a 23% return** from the current level. Our estimate is based on a blend of equally weighted: i) Target Price Mapping Approach (which accounts for fundamental factors along with the adjustment to the cost of capital); and ii) Earnings Growth Approach, wherein we anticipate 15% growth in earnings for CY24, respectively.
- TSL Universe is currently trading at a forward P/E of 3.3x and a forward P/B of 0.7x, offering ~12% dividend yield.

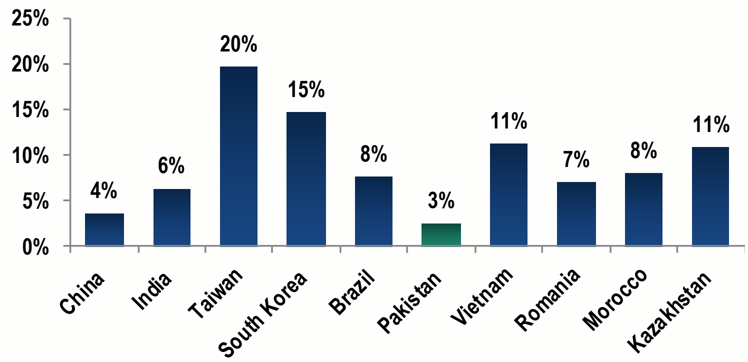
Approach	Weight	Index
Target Price	50%	82,019
Earnings Growth	50%	71,980
Weighted Average Index Level		**77,000**
Index Level (December 19, 2023)		**62,833**
Expected Return		**23%**

TSL Universe 'BUY' Recommendations

Company	Ticker	Total Return (%)
Faysal Bank Limited	FABL	96%
Habib Metro. Bank	HMB	94%
Bank Al-Habib Limited	BAHL	81%
United Bank Limited	UBL	76%
Bank Al-Falah Limited	BAFL	70%
Oil & Gas Dev. Co.	OGDC	55%
Mari Petroleum Co.	MARI	48%
Pakistan Petroleum	PPL	34%
Engro Corporation	ENGRO	45%
Engro Fertilizers	EFERT	42%
Fauji Fertilizer Co.	FFC	40%
Lucky Cement Limited	LUCK	45%
Fauji Cement Co.	FCCL	52%
Hub Power Co.	HUBC	62%
Pakistan State Oil	PSO	42%
Indus Motor Co.	INDU	44%
AGP Limited	AGP	54%
Interloop Limited	ILP	57%
Agha Steel Industries	AGHA	71%
Mughal Iron & Steel	MUGHAL	42%

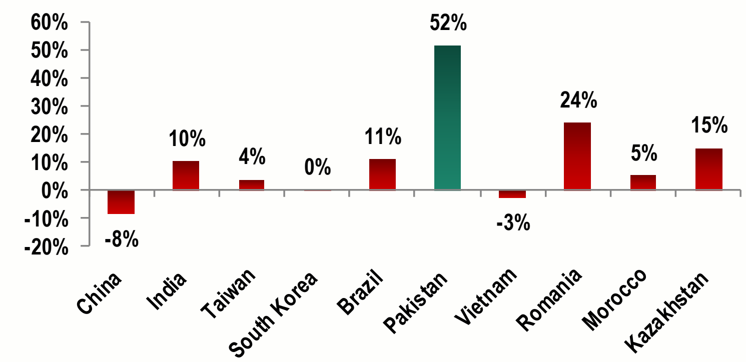
Source: TSL Research

CY23: KSE 100 Index was up 3% as of Jun'23



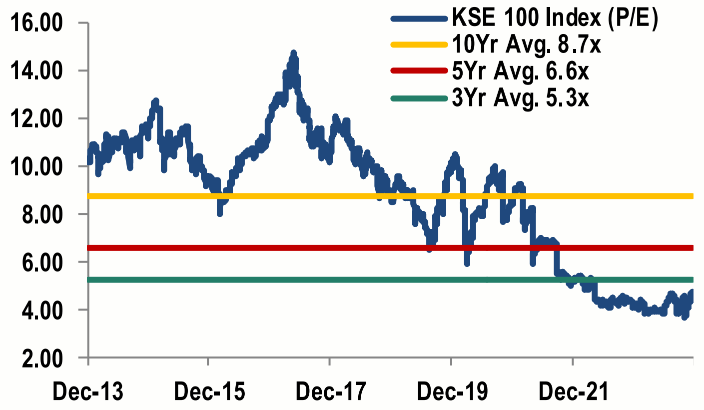
*Source: PSX and Investing.com; *As of last close*

And, since Jun'23 the KSE 100 Index is up 52% to date



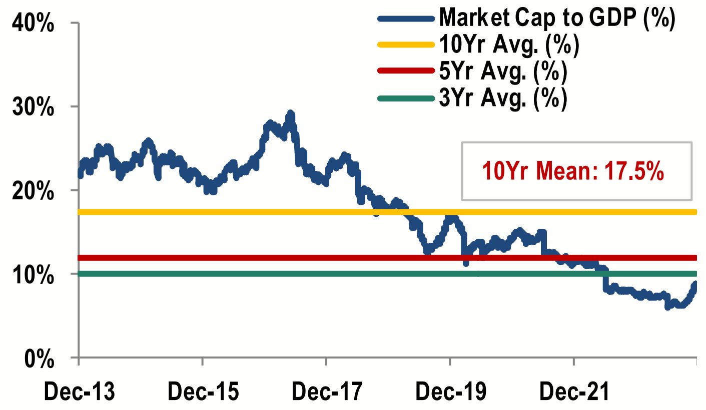
*Source: PSX and Investing.com; *As of last close*

KSE 100 Index trades at a discount to historic multiples



Source: PBS, PSX and TSL Research

Market Cap to GDP: Index at a 53% Discount to 10Yr Mean



Source: PBS, PSX and TSL Research

Valuation levels still at a discount to historic means

- Despite the recent rally, in terms of the P/E ratio the KSE-100 index continues to trade at a discount of 15%, 32% and 48% to the mean P/E witnessed over the last 3Yr, 5Yr and 10Yr periods, respectively.
- In addition, on a Market Cap to GDP basis, the index is currently trading at a 53% discount to its 10Yr Mean; 31% discount to its 5Yr Mean and 17% discount to its 3Yr Mean, respectively. Further, the spread between Earnings Yield and the 1-Yr T-Bill is also quite low compared to the mean spread of ~1.5%-2% observed historically.
- Even on a global level, the KSE-100 index is attractively priced given that the MSCI Frontier Market Index has a forward P/E of 8-10x, while the MSCI Emerging Market Index has a forward P/E of ~15x.
- However, we remain skeptical about the mean reversion approach to estimating the index level for various reasons. Firstly, historic multiples may not reflect current conditions or sentiments. For instance, have fundamentals really improved that much? If yes, how much of the improvement may have already been priced in so far...?
- Secondly, any re-rating would have to be fundamentally driven in order to be sustainable. Hence, company performances will matter eventually if the index is to keep the momentum going along with rock solid macros. Thirdly, the index has also since adjusted substantially to account for items like dividends and other adjustments.
- Hence, we have adopted a more direct approach to estimating the index target i.e. **77,000 by Dec'24,** using a combination of fair value and earnings growth—both reflecting forward expectations.

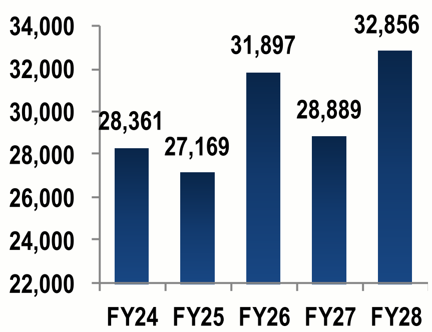
Key investment themes & points for consideration

Timely elections are imperative for reinforcing political stability

- Timely general elections accompanied by smooth transfer of power to help reinforce political stability and boost confidence of local and foreign investors in the democratic institutions of the State. We expect a coalition Government led by PML-N to come into power.

Implementation of the IMF program in full spirit

Gross External Financing Needs (USD Mn)

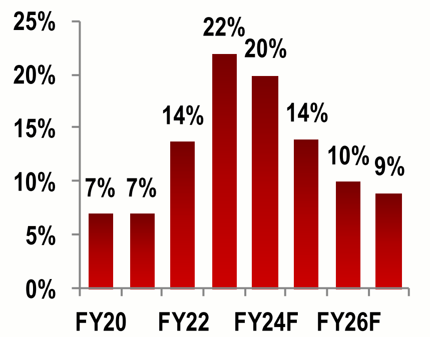


Source: IMF Staff Report

- Pakistan's gross external financing needs stand at USD 55.5Bn over the next two years. Hence, Pakistan will need to enter another IMF program following completion of the SBA in Mar'24, once a newly elected Government is in place. Wherein, the outcome of the negotiations for a new, long-term IMF program will depend entirely on Pakistan's performance under the SBA. Future multilateral disbursements i.e. World Bank & ADB etc. along with support from friendly countries would also be tied to Pakistan remaining in the IMF program.

Monetary easing to commence before the current fiscal year ends

Period End SBP Policy Rate (%)



Source: SBP and TSL Research

- Our base case inflation expectations point towards a room of ~100-200bps in interest rate cuts by Jun'24. However, these will be subject to the performance of core inflation amid continued pressure on energy prices and other ancillary shocks on the supply side. Nevertheless, our valuation estimates account for cumulative rate cuts of 500bps during CY24 and 600bps in CY25, respectively.
- We expect headline inflation to average 25.8% for FY24, before falling drastically to 14.9% for FY25. Period end policy rate is forecast to arrive at 20% as of Jun'24 and 14% as of Jun'25, respectively.

Need to create fiscal space for sustainable economic growth

- Fiscal discipline remains on track with record tax collection and contained spending. However, more fiscal room will be required in order to provide impetus for sustainable economic growth. Although we expect GDP to grow 3% in FY24—the growth comes largely on the back of a lower base. Regardless, we expect fiscal space to be created in the form of lower/reduction in mark-up payments once interest rates are cut. At the same time, efforts will be required to grow the overall tax base of the country which has remained more or less stagnant over the last several years. To note, plans for expanding the tax base have already been shared with the IMF.

TSL Universe Earnings Growth

Sector	YoY Earnings Growth 2024
Banks	15%
E&P	-1%
Fertilizer	20%
Cement	32%
Power	16%
OMCs	65%
Chemical	22%
Auto	63%
Pharmaceutical	151%
Textile	21%
Engineering	62%

Souce: TSL Research

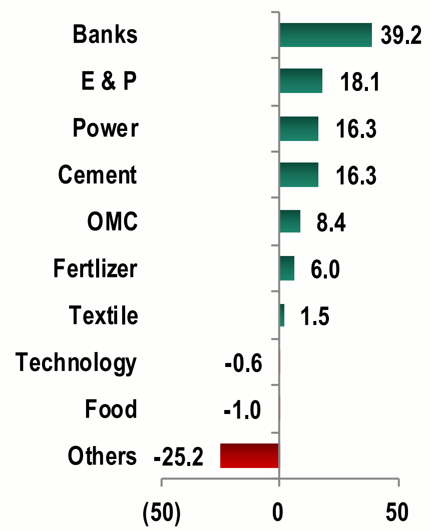
Shares Bought Back CY23 TD

Symbol	Shares Purchased (Mn)	Value (PKR Mn)	Status
MLCF**	19.3	751	In Progress
THCCL	8.0	140	In Progress
TPLP	8.7	113	In Progress
LUCK**	20.4	12,889	Completed
SPEL	10.0	115	Completed
KTML	30.0	1,772	Completed
KOHC	5.0	870	Completed
ENGRO	39.5	11,610	Completed
JDWS	0.8	351	Completed
LUCK*	6.4	2,678	Completed
HBL*	47.1	3,527	Completed
HBL**	34.8	3,464	Completed
Buy-Back Amount		**38,280**	

Source: PSX and TSL Research

**1st buyback; **2nd buyback*

FIPI Net Activity CY23 TD



Source: NCCPL & TSL Research.

Improved external outlook to bode well for investor sentiment

- Pakistan's external sector outlook has improved massively under the SBA. Wherein, administrative measures have helped curb the grey markets for the USD, resulting in increased official flows; supporting the Rupee. Workers' remittances have also recovered complemented by a substantial drop in the trade deficit due to curtailment of the oil import bill—both translating into a lower current account deficit. For context, 5MFY24 CAD stands at ~USD 1.2Bn only, down 64%YoY.
- SBP's foreign exchange reserves have also increased substantially and are now forecast to clock-in at ~USD 9Bn by Jun'24. Further, Pakistan's gross external financing needs are also expected to be fully met. Stable external outlook will be vital in attracting foreign direct investment including portfolio investments into the equity market.

Cyclicals to be in the limelight; TSL Universe earnings to grow 13%

- Economic recovery and improving investor sentiment has brought cyclicals and value plays into the limelight. Even though demand pressures continue to prevail, the situation is better than the last year. Consequently, we expect TSL universe companies belonging to the Cement, Steel and the Automobile sectors to post 32%, 62% and 63%, growth in earnings next year, respectively.
- Overall earnings growth for TSL Universe companies is expected to clock-in at 13%, led by Pharmaceuticals, Cyclicals as discussed above along with Commercial Banks, Textile, Fertilizer and Power.

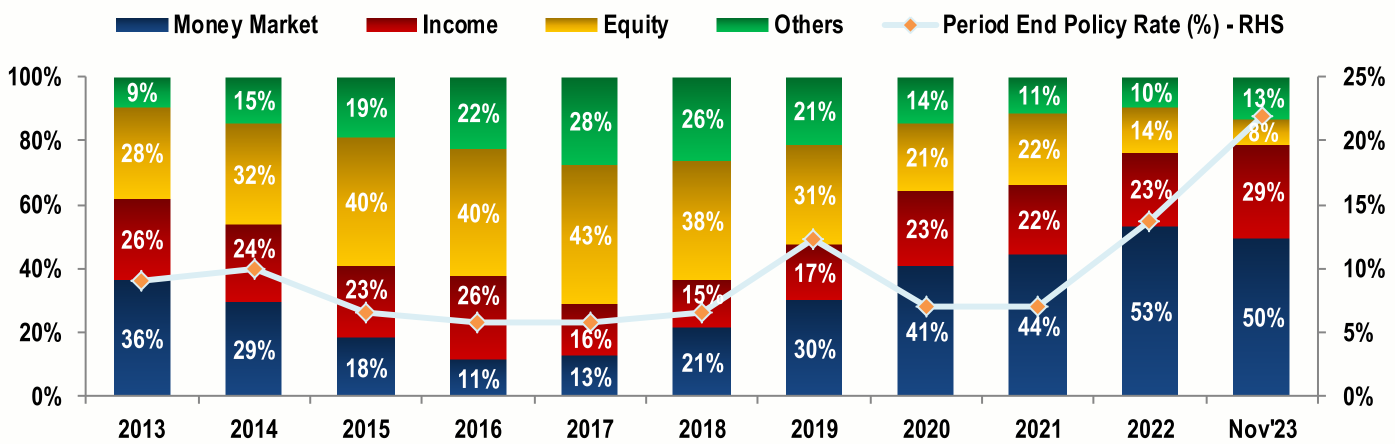
Dividends and Buy-Backs continue to offer liquidity

- CY23 TD investors have received PKR 430Bn in dividends from the companies listed at the PSX, with dividend receipts for CY22 standing at ~PKR 500Bn. Accordingly, we estimate full-year dividend receipts for CY23 to clock-in at ~PKR 573Bn; and PKR 720Bn for CY24. In addition, buy-backs have been another avenue for liquidity generation, with cumulative buy-backs CY23TD amounting to PKR 38.3Bn.
- Moreover, rejuvenated interest of foreign investors has been another source of liquidity for the market during the year. Wherein, foreigners have been net buyers of ~USD 79Mn worth of shares, in particular being net buyers of Commercial Banks (USD 39.2Mn); Oil & Gas Exploration (USD 18.1Mn); Cement (USD 16.3Mn); Power (USD 16.3Mn); and OMC (USD 8.4Mn), respectively. While, offloading Others (USD 25.2Mn) and Food (USD 1Mn) mainly.

Shift in asset allocation by institutions to unlock more liquidity

- According to Mutual Fund Association of Pakistan (MUFAP), Assets Under Management (AUMs) as of Nov'23 stand at over ~PKR 2Trn. Of which, the share of equity funds is ~PKR 168.3Bn or 8% of total industry AUMs. Whereas, Money Market and Income Fund AUMs account for 79% of the industry AUMs, coinciding with record high interest rates and yields on offer in fixed income securities.
- Historically, during periods of low interest rates, Equity based AUMs have accounted for up to 43% of the industry AUMs i.e. 2017 when the policy rate was at its lowest point of 5.75%. In fact, between 2015 to 2018 (prolonged period of low interest rates), Equity based AUMs on an average accounted for ~40% of the industry AUMs. Hence, a similar shift in asset allocation can be expected going forward as the SBP cuts interest rates in the earlier part of CY24 and onwards.
- However, what is interesting to see is that despite the market rally of ~60% Jun'23 onwards to date, Equity based AUMs were down ~PKR 8.6Bn as of Nov'23 compared to the level as of Jun'22. Hence, the shift in asset allocation may just be beginning to take place. Assuming that the current allocation of 8% increases to 14% (seen in FY22), additional flow of funds into equites may amount to PKR 155.6Bn or 8% of the free-float capital of the KSE 100-Index.
- Moreover, Insurance companies, Commercial Banks, DFIs and Other Companies may also increase exposure to equities once the Earnings Yield Spread improves, translating into additional inflow of funds to the market. To note, as of Jun'23 Insurance companies (excluding Takaful) in the Life sector had total investments worth PKR 1.8Trn. Whereas, Commercial Bank's total investments amounted to PKR 23.3Trn as of Sep'23, of which 94% are in Government securities.

Composition of Mutual Fund AUMs since 2013



Source: MUFAP and TSL Research; Equity includes Conventional plus Shariah Compliant Equity

Significant increase in leverage makes index levels vulnerable

- Interestingly, despite record high interest rates CY23TD leverage position in the market is up 64%—a major reason behind increased market activity. While, settlement ratios stand at ~52-53%. Such high leverage amidst such high borrowing cost makes index levels vulnerable and prone to drastic corrections and even panic! without any change in fundamentals which drive long-term market direction and activity.

Increase in Leverage and Drop in Settlement Ratio

Leverage Position (PKR)	30-Dec-22	31-Mar-23	27-Jun-23	29-Sep-23	19-Dec-23
MTS	3,685,509,167	3,964,232,393	3,521,809,985	4,542,358,996	8,422,838,480
MFS	3,704,966,585	3,317,086,446	2,968,583,780	3,225,162,050	5,722,962,982
Future Open Interest	14,882,569,440	13,414,743,365	14,292,307,610	18,531,330,075	22,288,327,365
Total	**22,273,045,192**	**20,696,062,204**	**20,782,701,375**	**26,298,851,121**	**36,434,128,827**
Settlement Ratio - Volume	69%	76%	73%	69%	52%
Settlement Ratio - Value	66%	80%	66%	67%	53%
KSE-100 Index Closing	40,420	40,001	41,453	46,233	62,833
Period End Policy Rate (%)	16%	20%	22%	22%	22%

Source: NCCPL, PSX and TSL Research

Key risks to our investment thesis

- **Delay in elections:** Delay in holding of general elections or a lack of smooth transition of power may reignite political uncertainty.
- **Fiscal slippages:** Failure to meet the primary surplus and fiscal deficit targets set by the IMF may result in cuts to public sector spending and more taxes for the masses—squeezing aggregate demand.
- **Drop in foreign currency inflows:** Failure to secure timely roll-overs and multilateral financial assistance may put pressure on the FX reserves, translating into devaluation and subsequent inflation.
- **Restoration of import restrictions:** Restoration of any form of import restrictions may jeopardize industrial growth in the current fiscal year with a possible repeat of FY23, impeding production and even resulting in unemployment—having a fallout on the equity market.
- **Unexpected geopolitical events:** Possible multilateral escalation in the Middle-East could have repercussions for global commodity prices and the flow of trade. Hence, higher imported inflation.
- **Law and Order situation:** Stable law and order situation including rock solid internal and external security will be critical for encouraging foreign investment and overall macroeconomic stability.

TSL's Top Picks for CY24

Ticker	Company	Dec'24 Target Price	Closing Price	Upside (%)	Dividend Yield (%)	Total Return (%)
FABL	Faysal Bank Limited	54	31	77%	20%	96%
HMB	Habib Metropolitan Bank Limited	89	52	71%	23%	94%
BAHL	Bank AL Habib Limited	129	79	62%	19%	81%
UBL	United Bank Limited	259	173	50%	26%	76%
BAFL	Bank Alfalah Limited	76	49	54%	16%	70%
OGDC	Oil & Gas Development Company Limited	171	118	46%	9%	55%
MARI	Mari Petroleum Company Limited	2,752	2,055	34%	14%	48%
PPL	Pakistan Petroleum Limited	155	119	31%	4%	34%
ENGRO*	Engro Corporation Limited	396	307	29%	16%	45%
EFERT*	Engro Fertilizers Limited	131	108	22%	20%	42%
FFC	Fauji Fertilizer Company Limited	141	115	23%	17%	40%
LUCK*	Lucky Cement Limited	1,110	783	42%	3%	45%
FCCL	Fauji Cement Company Limited	28	18	52%	0%	52%
HUBC*	The Hub Power Company Limited	160	117	37%	26%	62%
PSO	Pakistan State Oil Company Limited	255	187	37%	5%	42%
INDU	Indus Motor Company Limited	1,738	1,260	38%	6%	44%
AGP*	AGP Limited	105	71	48%	6%	54%
ILP	Interloop Limited	100	67	48%	9%	57%
AGHA	Agha Steel Ind.Ltd	25	15	71%	0%	71%
MUGHAL	Mughal Iron & Steel Industries Limited	93	68	38%	4%	42%

Source: PSX and TSL Research

**Consolidated basis.*

Performance of Last Year's Top Picks in Pakistan Investment Outlook 2023

Top-Picks for CY23 Recommended Last Year	Current Closing Price	LDCP at the date of Recommendation Last Year	Target Price Recommended in Last Year's Strategy	Highest Price Achieved CY23 TD	% Target Price Achieved	Date Highest Price Achieved in CY23	Price Return as on the date of Highest Price Achieved in CY23
		A	B	C	C/B		C/A - 1
MEBL	159	100	163	175	107%	8-Dec-23	76%
BAFL	52	30	51	53	104%	8-Dec-23	76%
HBL	125	64	122	130	106%	8-Dec-23	103%
FABL	33	26	40	33	84%	15-Dec-23	29%
FFC	121	99	120	121	101%	11-Dec-23	22%
EFERT	113	77	92	115	125%	12-Dec-23	49%
ENGRO	324	262	372	325	87%	12-Dec-23	24%
PPL	126	68	110	126	115%	15-Dec-23	85%
OGDC	127	80	135	127	94%	15-Dec-23	59%
MARI	2126	1,547	2,143	2,192	102%	12-Dec-23	42%
LUCK	810	447	754	818	109%	1-Dec-23	83%
HUBC	120	63	120	124	103%	4-Dec-23	96%
PSO	206	144	263	217	83%	8-Dec-23	51%
MUGHAL	73	48	67	74	110%	6-Dec-23	53%

Source: PSX, Capital Stake, Company Financials & TSL Research.

Sector & Weight	Stance	Top-Picks	Key Triggers
Commercial Banks Index Weight: 23%	Overweight	FABL, HMB, BAHL, UBL and BAFL	- Net-interet margins to peak in CY24 on the back of re-pricing lag between assets & liabilities, as we expect the SBP to cut the benchmark policy rate by 500bps in CY24. Moreover, with the Government's reliance on Banks for budgetary borrowings, the industry is well positioned to set the course for rate cuts next year. This is likely to coincide with the shift in the industry's investment mix to fixed rate bonds (longer duration) once the differential between the fixed and the variable rate bonds reduces substantially. - Overall asset quality is expected to show resilience due to higher coverage levels and prudent lending appetite - although our estimates account for slight deterioration. Nevertheless, we expect advances growth to rebound in CY24 i.e. up 14% YoY on the back of economic recovery. Industry deposits to post 16% YoY growth next year driving balance sheet growth, offsetting the impact of reduced leverage. - TSL Banking universe earnings expected to grow ~15% next year. The sector is currently trading at a forward P/Bx of 0.6x, offering 16% dividend yield. Finally, in the aftermath of the recent price run, we favour mid-tier banks mostly which offer a combination of growth and value along with attractive dividend yields; and higher a total return.
Oil & Gas Exploration & Production Index Weight: 13%	Overweight	OGDC, MARI and PPL	- TSL E&P Universe earnings were up 63% YoY during FY23 despite continued decline in oil and gas production; driven by higher oil prices and PKR devaluation mainly. However, we expect the momentum to decelerate going forward on account of continued drop in overall oil and gas production owing to the natural decline unless sizeable discoveries come online, drop in international oil prices as well as a strengthening Rupee. - We expect Arab Light to average just under USD 85/bbl. for the rest of FY24; falling to USD 80/bbl. for FY25, with long-term Arab Light price expected to hover ~USD 65/bbl. Our assumptions take into account: i) the current global supply situation which is in excess due to higher production from non-OPEC producers along with build-up in US crude inventories; ii) a fragile demand outlook; & iii) Output cuts by OPEC+ countries. - Neverthess, exploration activity is expected to remain buoyant and ambitious supported by intense efforts to arrest the natural decline in producing fields. In addition, E&P companies are embarking on different ventures i.e. gas compression projects, horizontal drilling, overseas exploration (Abu Dhabi Block-5) and mining (Reko Diq) etc. in order to enhance long-term business prospects. Rate of discoveries has also increased by much. - Finally, we anticipate significant improvement in settlement of circular debt receivables going forward, in particular for OGDC and PPL on account of timely revision in consumer gas prices. Consequently, unlocking the valuations for both the E&P players considerably as well as increasing dividend paying capacity; the recent price run reflects some of it.
Fertilizer Index Weight: 12%	Overweight	ENGRO, EFERT and FFC	- 11MCY23 Urea off-take clocked in at ~6.0Mn tons, up 4% over the SPLY, remaining stable amid higher demand. On the DAP front, 11MCY23 sales arrived at ~1.4Mn tons, up 37% YoY due to the low base effect. However, DAP off-take remained on the lower side as compared to the historical high of more than ~2Mn tons previously. Nevertheless, we expect Urea and DAP demand to clock-in at ~6.8Mn tons and ~1.7Mn tons in CY24. - Moreover, gas pricing disparity continued during 9MCY23 leading to Urea pricing disparities. However, OGRA has notified the much-awaited hike on MARI's connections, wherein the notified tariff is in line with SNGP & SSGC tariffs i.e. feed at PKR 580/MMBtu and fuel at PKR 1,580/MMBtu w.e.f. October 01, 2023, resulting in more clarity in Urea prices, going forward. Nevertheless, the Government is expected to increase consumer gas prices early next year too - the effects of which are likely to be passed on with ease. Hence, we anticipate minimal impact on industry profitability and dividend-paying capacity as a result of an increase in gas prices in the future. Finally, the Government is intensely focused on ensuring adequate gas supply to the industry too.

Sector & Weight	Stance	Top-Picks	Key Triggers
Cement **Index Weight: 8.4%**	Market-weight	LUCK and FCCL	- FY23 remained a turbulent year for the cement industry owing to several factors including i) substantial demand slowdown, ii) higher construction costs, iii) higher interest rates, and iv) PKR devaluation. Accordingly, cement dispatches fell ~16% YoY to clock-in at ~44.6Mn tons. However, cement manufacturers managed to maintain their profitability mainly due to higher retention prices, shifting coal mix by increasing consumption of Afghan as well as local coal, and higher consumption from their own captive generation. - We expect sector profitability to grow in FY24 mainly due to better margins and marginal recovery in demand coupled with less likelihood of a price war. Accordingly, we expect TSL's Cement Universe earnings to post a growth of ~32%. Wherein, cement dispatches are expected to remain under pressure, and are expected to grow by ~5% YoY in FY24. Elsewhere, imposition of axle load restrictions has resulted in an increase in cement prices of up to ~PKR 80/bag so far, which may further put pressure on volumes, going forward.
Power Generation & Distribution **Index Weight: 7.3%**	Overweight	HUBC	- Power generation in Pakistan clocked-in at 129,591 GwH in FY23, translating into a cost of generation of PKR 9.3/unit. Wherein, Hydel, Coal, RLNG and Nuclear made up 80% of the mix. While, TSL Power Universe earnings were up 85% YoY in FY23. - With the country's generation mix shifting swiftly towards low cost indegeneous sources and renewable sources, IPPs offering a diverse mix of fuels for generation are expected to be placed higher on the NTDC's merit order list, resulting in higher utilization levels for them going forward. This includes generation from fuels like Hydel, Thar Coal, RLNG, Nuclear, Wind, Solar etc. Whereas, RFO based generation to be phased-out completely. Implementation of Competitive Trading Bilateral Contracts Market (CTBCM) to speed up. - Finally, circular debt related settlements are expected to support liquidity levels as well as drive valuations, ensuring higher dividend payouts for investors. To note, the Government is focused on controlling the build-up in circular debt as well as reduce its total stock.
Oil & Gas Marketing **Index Weight: 4%**	Market-weight	PSO	- Uptick in margins for both MS and HSD, which account for 80% of industry sales to bode well for industry profitability. We expect margins to average ~PKR 7.4/litre for FY24. The Government is also mulling moving to a weekly price setting mechanism. - Nevertheless, 5MFY24 sales are down 16% YoY. However, we expect POL sales to recover in the coming months on the back of lower POL prices as well as increase in demand for HSD and FO mainly. MS sales are expected to remain flat. Overall, OMC sales are expected to remain flat compared to FY23, growing FY25 onwards. - Elsewhere, introduction of bonded storage facilities is expected to support volumes due to curb on smuggling and hoarding, along with helping reduce foreign exchange losses. Further, development of deep conversion refineries, petrochemical complexes and upgrade of existing refineries would help reduce reliance on imports, encouraging foreign investment in the sector. Finally, settlement of circular debt receivables is likely to bode well for PSO, supporting its liquidity and valuation. PSO is owed PKR 409Bn as of Sep'23.
Chemical **Index Weight: 3.4%**	Market-weight	N/A	- We expect chemical industry demand to recover slightly as the economy recovers with increased demand from the textile and construction sector in particular. However, soaring energy costs coupled with stable and adequate supply of gas remains a cause of concern. - CY23 TD average PVC-Ethylene margin was ~USD 402/ton, down 35% YoY affecting profitability of PVC producers i.e. EPCL. Going forward, we expect the margin to recover only gradually going into CY24 given the outlook for global oil prices and demand situation - adding to margin pressures for PVC producers amid higher gas prices. Some margin pressures may be offset by slightly higher demand for PVC in 2HFY24 as construction activity shows signs of moderate recovery. In addition, demand for downstream chemicals used in the textile and garments sector such as for Hydrogen Peroxide, Soda Ash, Caustic Soda and PTA may also recover as textile exports increase gradually. - TSL Chemical Universe comprises of EPCL only, which offers limited upside at current price levels. Wherein, the key risks include subdued PVC demand, less than expected recovery in core delta and margin pressures due to higher gas prices exacerbated by uncertainty in availability of gas altogether. Hence, although we have a market-weight stance on the sector; EPCL does not make the list of top-picks.

Sector & Weight	Stance	Top-Picks	Key Triggers
Automobile Assemblers Index Weight: 3.4%	Market-weight	INDU	- Despite easing import restrictions, automobile assemblers continue to suffer amid subdued demand, higher input costs and exchange losses. Sales have also been affected due to soaring car prices, surge in POL prices and plunge in auto financing due to record high interest rates and stringent consumer prudential regulations. Passenger car and Farm tractor sales were down 54% YoY and 48% YoY during FY23, as per numbers released by PAMA. In fact, 5MFY24 passenger car sales are down 53% YoY. However, tractor sales have gathered momentum on the back of lower base due to floods last year as well as improving farm economics and agriculture outlook. 5MFY24 production and sales of tractors is up 61% YoY & 98% YoY, respectively over the SPLY. - Nevertheless, we expect some recovery in demand during 2HFY24 on expectations of economic recovery (led by growth in rural areas), monetary easing, lower POL prices as well as further price cuts by the automobile assemblers on account of a stable Rupee. Consequently, we are market-weight on the sector with INDU as our top-pick, given its robust brand value, strong balance sheet, ability to drive volumes from rural sales and consumer financing as well as upside from upcoming variants. INDU also remains the cheapest among TSL Auto Universe companies.
Pharmaceutical Index Weight: 2.1%	Market-weight	AGP	- Despite economic challenges, pharmaceutical industry grew 14% YoY to ~PKR 750Bn (USD 3Bn) during FY23. We expect the momentum to continue given a 20% price hike (14% for essential medicines) in Apr'23. Accordingly, 9MCY23 pharmaceutical universe sales grew 20% YoY and are expected to grow further on account of price revisions as well as uptick in healthcare expenditure in the country as the economy recovers. - In addition, we anticipate industry margins to improve on account of a strengthening Rupee as ~95% of Active Pharmaceutical Ingredient (API) which is a major portion of input costs, is imported. Further, commencement of monetary easing in 2HFY24 to reduce finance costs in the near-term, supporting profitability for the entire industry. - Moreover, focus on high potential products through a combination of organic & inorganic growth strategies and maintaining strong strategic alliances with global pharmaceutical powerhouses will continue to enhance valuation of the sector. Finally, export potential is high for the sector. For context pharma exports in FY23 clocked-in at USD 328Mn, up 22% over FY22. Whereas, 5MFY24 pharmaceutical exports stand at USD 86Mn (SBP).
Textile Composite Index Weight: 2%	Market-weight	ILP	- Despite a challenging operating environment, select plays in the sector offer immense value being attractively priced as well. In fact, earnings have sustained for our Universe companies despite higher energy tariffs, higher interest rates and super-tax. TSL textile Universe earnings were up 10% YoY during FY23. - Recovery in domestic cotton production as well as timely procurement will support margins going forward. Companies are also actively working on optimizing their energy mix in order to alleviate the burden of higher electricity and gas tariffs. Further, respite to margins may also come in the form of lower raw material prices. To note, international cotton prices are down ~10% CYTD. Elsewhere, reduction in interest rates 2HFY24 onwards is expected to bode well for profitability too as the industry is highly leveraged. - Finally, we anticipate mixed trends for textile exports - flat overall for FY24. Wherein, we flag the value added segment to carry on its robust performance. We are market-weight on the sector, with our preference for core plays embarking on aggressive growth and a proven track record (established clientele, management quality, global brand value etc.) with superior quality earnings. Hence, our preference for ILP.
Engineering Index Weight: 1.3%	Market-weight	AGHA and MUGHAL	- TSL Engineering Universe operations remained under pressure owing to a substantial decrease in demand in FY23 due to higher inflation, adversely impacting revenues. However, going forward we expect some respite in long-steel off-take mainly due to slight recovery in construction activity, albeit on a lower side, coupled with the absence of ungraded players offering products at a discount of ~PKR 15,000-20,000/ton. Accordingly, we expect long-steel sector to have a demand growth of ~10% YoY in FY24. Whereas, demand is expected to remain on the lower side for flat steel producers due to a weak demand outlook for the automobile sector - largest customer. - Nevertheless, steel scrap prices are currently trading at ~USD 410/Ton, which we expect to increase slightly due to resumption in global demand which is expected to go up by ~2% in FY24. However, slowdown in Chinese construction activity may put pressure on prices, going forward. Likewise, CRC prices have increased by 4% since the beginning of FY24; we expect them to remain stable, going froward.

Source: TSL Research

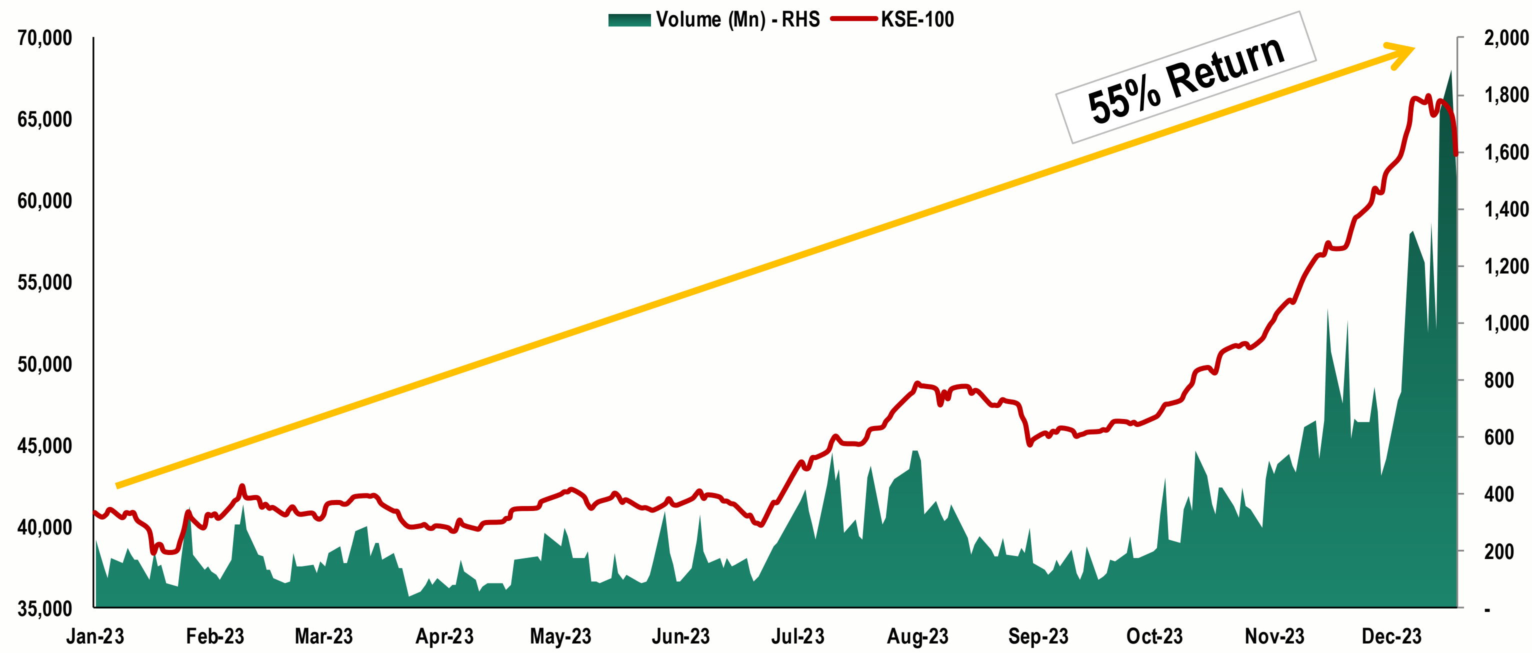
Index Performance

- **Index Level:** 62, 833 up 55% CY23 TD (+22,413 points)
- **Net FIPI Inflow:** ~USD 79Mn (USD 32.4Mn outflow last year)
- **Average Value Traded:** PKR 9.8Bn, up 41%YoY
- **Average Volume Traded:** 310Mn shares, up 35%YoY
- **USD based return:** 30%.

Key triggers during the year

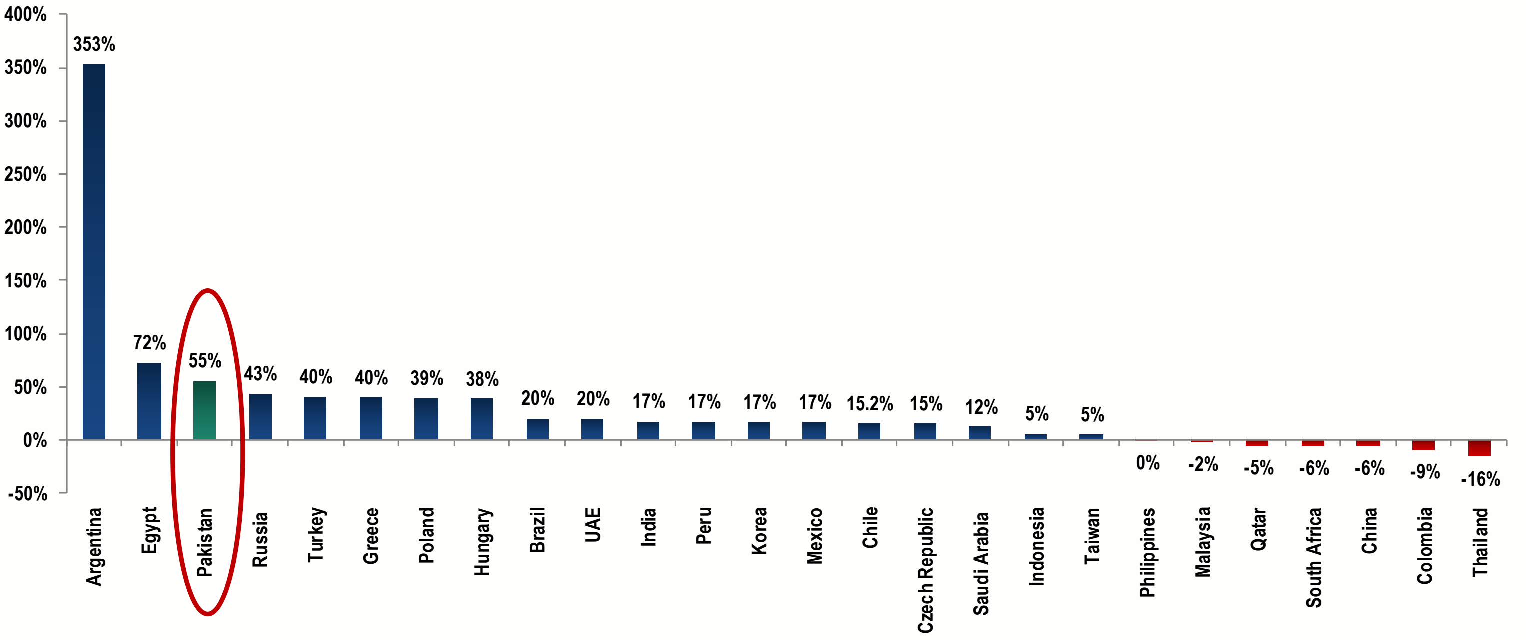
- Pakistan secures USD 3Bn Stand-By Arrangement from the IMF, averting an imminent default; opening access to FX financing.
- Special Investment Facilitation Council is formed to attract FDI.
- ECP announces February 08, 2024 as the date for general elections.
- SBP increases the benchmark policy rate by a cumulative 600bps.
- Pakistan records negative GDP growth in FY23.
- OGRA notifies historic increase in consumer gas prices, paving the way for reduction in flow of gas sector circular debt.
- The Rupee depreciates ~36% against the USD— to its lowest in history before rebounding ~11%. Currently hovering ~PKR 283/USD.
- Jul-Nov'23 CAD falls 64% compared to the SPLY.
- SBP FX reserves recover to ~USD 7Bn after falling to USD 3Bn only.
- 39%YoY growth in KSE-100 index earnings during 9MCY23.

KSE 100 Index Performance CY23 TD



Source: PSX & TSL Research

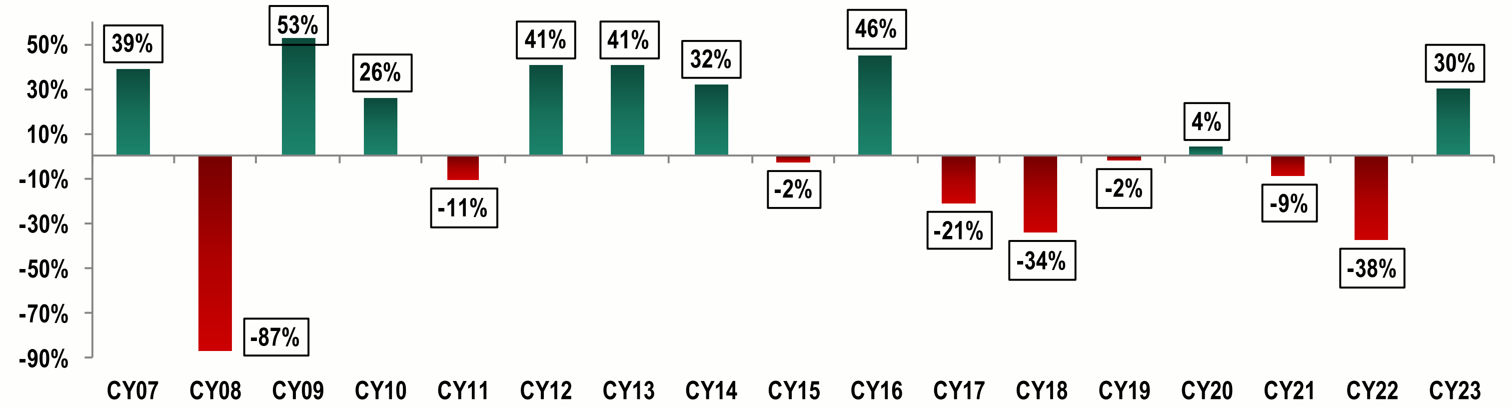
Emerging Market CY23TD Market Return Comparison



Source: Investing.com & TSL Research

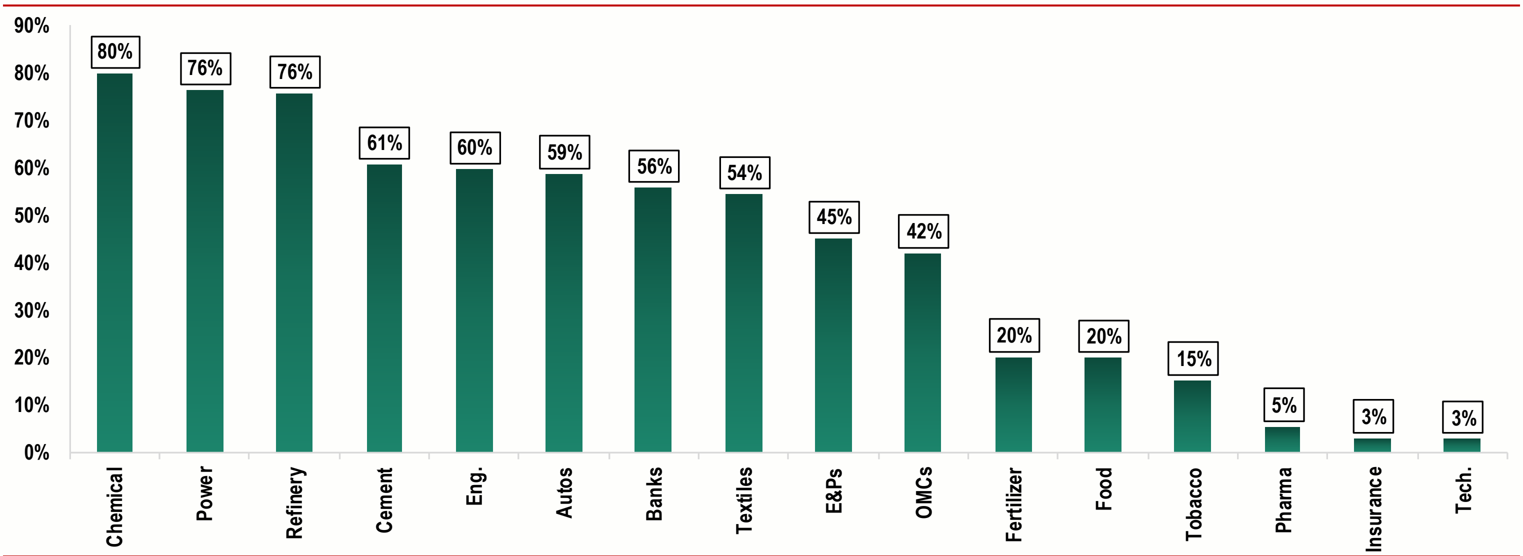
As of December 19, 2023 close

KSE-100 Index USD-based Return



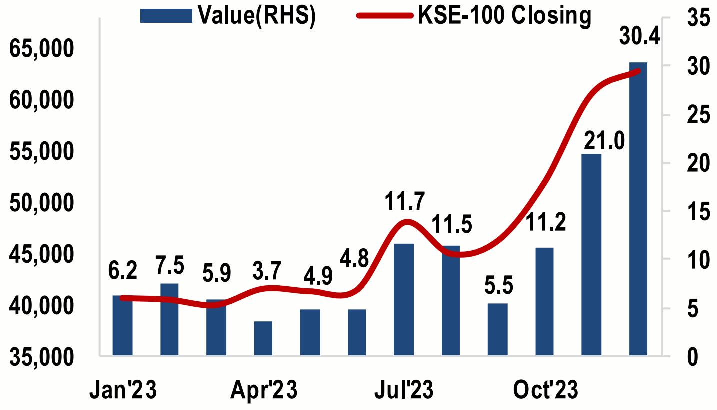
Source: PSX, SBP and TSL Research

CY23 TD Sector-wise return



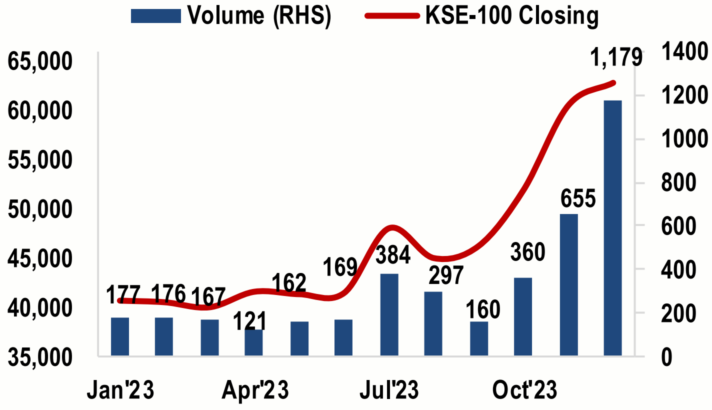
Source: PSX & TSL Research

Average Monthly Value Traded CY23 TD (PKR Bn)



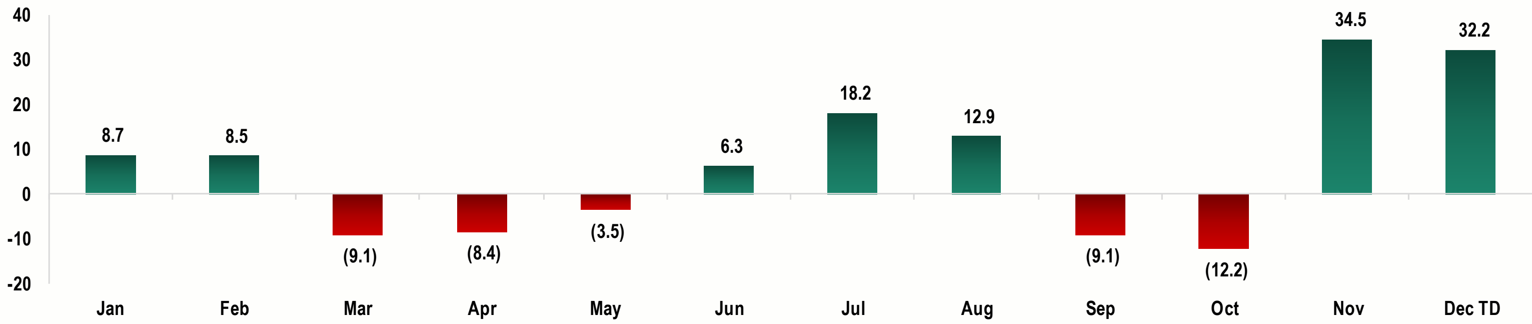
Source: PSX and TSL Research

Average Monthly Volume Traded CY23 TD (Mn)



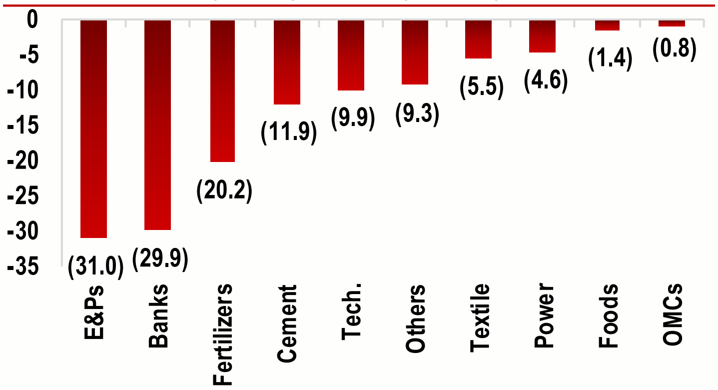
Source: PSX and TSL Research

Net Foreign Portfolio Investment CY23 TD (USD Mn) - Monthly



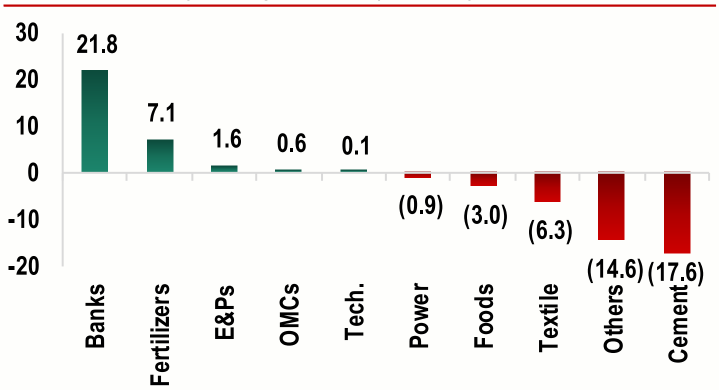
Source: NCCPL and TSL Research

Mutual Fund activity during CY23 TD (USD Mn)



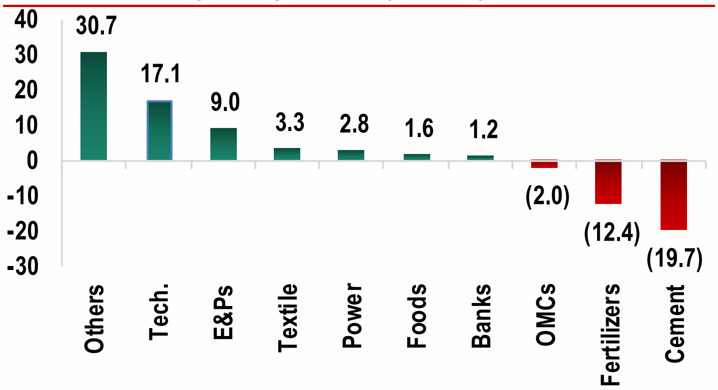
Source: NCCPL & TSL Research

Insurance activity during CY23 TD (USD Mn)



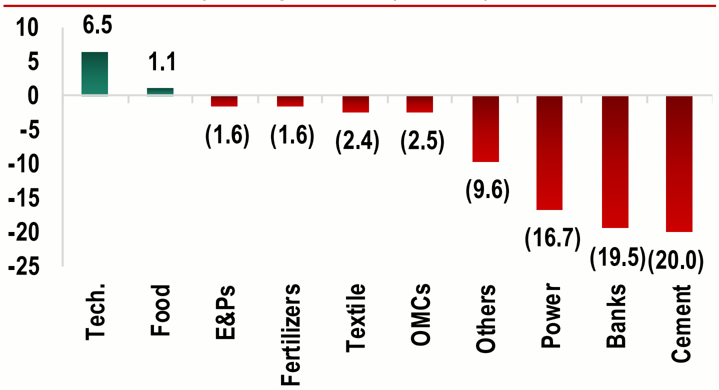
Source: NCCPL & TSL Research

Individuals activity during CY23 TD (USD Mn)



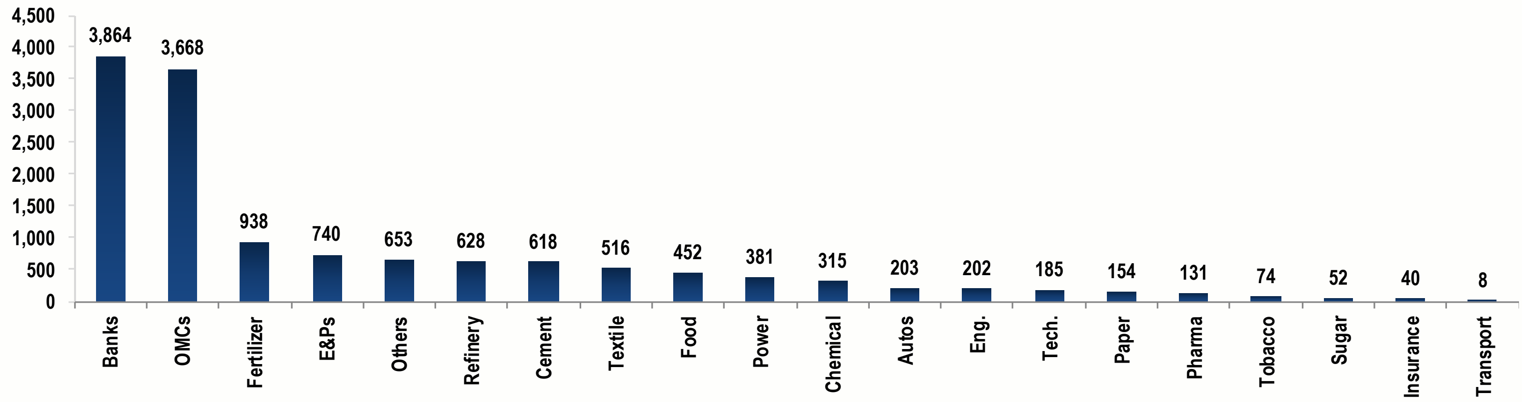
Source: NCCPL & TSL Research

Banks/DFIs activity during CY23 TD (USD Mn)



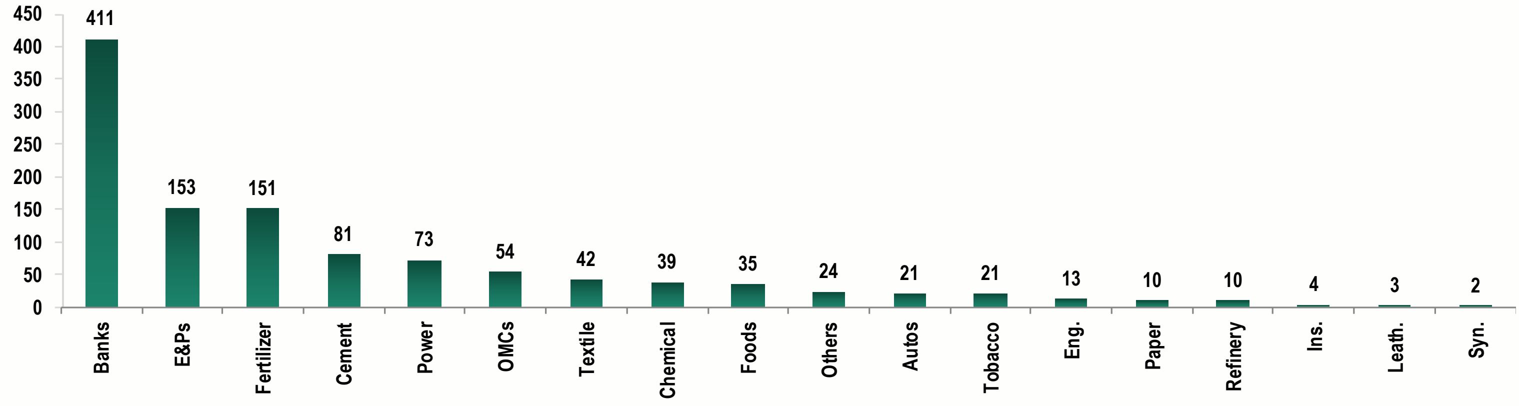
Source: NCCPL & TSL Research

KSE-100 Index Sector wise Sales (PKR Bn) - 9MCY23



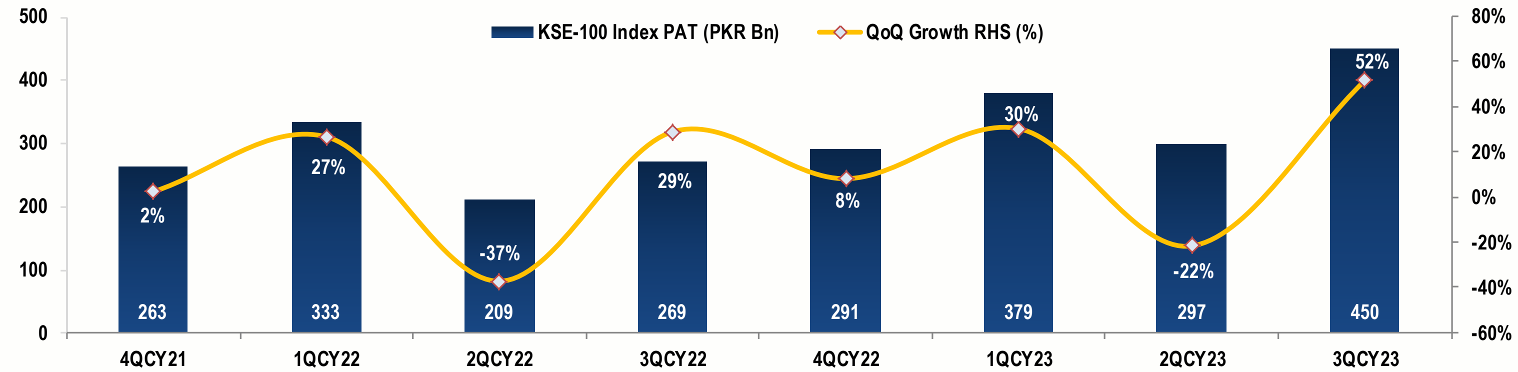
Source: Company Accounts & TSL Research.

KSE-100 Index Sector wise Profits (PKR Bn) - 9MCY23



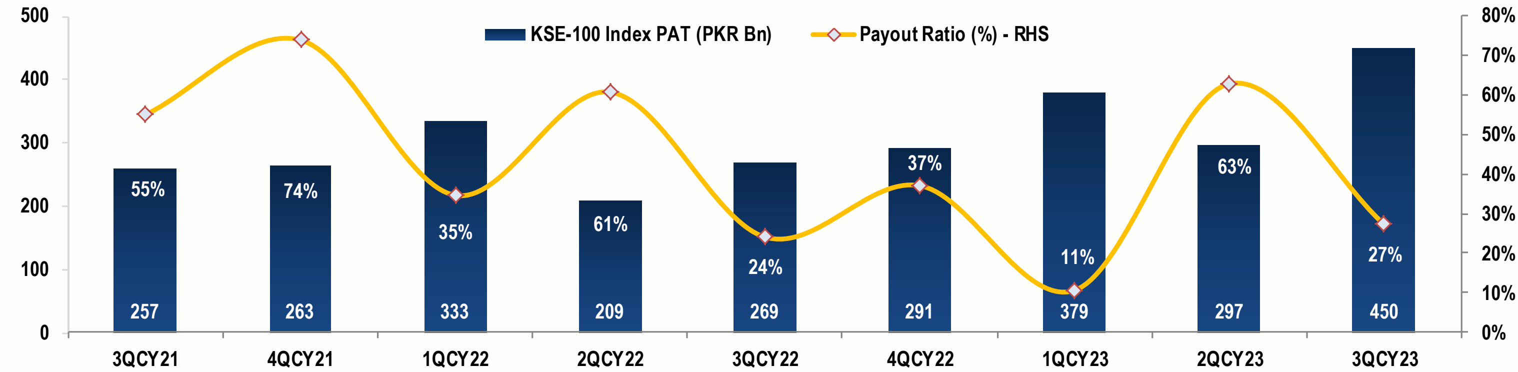
Source: Company Accounts & TSL Research.

KSE-100 Index Quarterly Profits (PKR Bn)



Source: Company Accounts & TSL Research.

KSE-100 Index Quarterly Payout Ratio



Source: Company Accounts & TSL Research.

KSE-100 Index Historic Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	-3.7%	-2.6%	-6.9%	3.2%	0.8%	-0.8%	-10.1%	2.4%	-9.9%	24.1%	-3.6%	-6.1%
2002	27.3%	9.0%	5.8%	1.7%	-12.4%	6.4%	1.0%	10.5%	2.2%	12.9%	0.3%	18.2%
2003	-5.8%	-5.7%	13.2%	6.9%	6.8%	9.8%	15.6%	13.4%	-9.7%	-6.1%	12.7%	4.9%
2004	8.3%	0.0%	5.5%	6.3%	1.2%	-4.0%	0.2%	1.1%	-2.4%	2.2%	4.4%	11.7%
2005	8.5%	22.4%	-5.9%	-8.6%	-3.5%	8.6%	-3.6%	8.6%	5.5%	0.3%	9.4%	5.9%
2006	10.1%	8.9%	0.3%	-1.3%	-13.6%	1.9%	5.1%	-4.1%	4.5%	7.8%	-6.3%	-5.4%
2007	12.3%	-0.8%	0.8%	9.7%	4.8%	6.3%	-0.2%	-11.1%	9.3%	7.2%	-2.2%	0.6%
2008	-0.4%	6.5%	1.3%	0.0%	-19.8%	1.3%	-13.9%	-13.0%	-0.3%	0.0%	0.0%	-36.2%
2009	-8.3%	6.5%	19.8%	5.0%	1.0%	-1.6%	7.8%	12.4%	7.8%	-2.0%	-1.6%	4.1%
2010	2.4%	0.5%	5.4%	2.5%	-10.6%	4.2%	8.2%	-6.7%	2.0%	5.8%	6.0%	7.0%
2011	2.8%	-8.7%	4.6%	2.1%	0.5%	3.1%	-2.4%	-8.4%	5.4%	0.9%	-2.8%	-1.6%
2012	4.6%	8.4%	6.9%	1.7%	-1.5%	0.1%	5.6%	5.6%	0.3%	3.0%	4.2%	2.0%
2013	2.0%	5.4%	-0.7%	5.2%	15.0%	-3.7%	11.0%	-4.9%	-1.5%	4.3%	6.7%	3.9%
2014	6.0%	-3.7%	5.3%	6.5%	2.9%	-0.3%	0.0%	-3.6%	4.1%	2.2%	2.7%	3.0%
2015	7.2%	-2.4%	-10.1%	11.6%	-2.0%	4.1%	3.9%	-2.8%	-7.0%	6.1%	-5.9%	1.7%
2016	-4.6%	0.2%	5.6%	4.8%	3.9%	4.8%	4.6%	0.7%	1.8%	-1.6%	6.8%	12.2%
2017	2.0%	-0.5%	-0.8%	2.4%	2.6%	-8.0%	-1.2%	-10.4%	2.9%	-6.6%	1.0%	1.2%
2018	8.8%	-1.8%	5.4%	-0.2%	-5.8%	-2.2%	1.9%	-2.3%	-1.8%	1.6%	-2.8%	-8.5%
2019	10.1%	-4.3%	-1.0%	-4.8%	-3.5%	-4.5%	-5.8%	-7.1%	8.1%	6.6%	14.9%	3.7%
2020	2.2%	-8.8%	-23.0%	16.7%	-0.5%	1.4%	15.8%	3.1%	-1.3%	-3.6%	5.0%	6.5%
2021	6.0%	-1.1%	-2.8%	-0.7%	8.2%	-1.1%	-0.6%	0.8%	-5.3%	2.9%	-2.4%	-1.1%
2022	1.7%	-2.0%	1.1%	-0.2%	-3.9%	-3.6%	-3.3%	5.5%	-2.9%	0.3%	2.6%	-4.6%
2023	0.6%	-0.4%	-1.3%	3.9%	-0.6%	6.2%	9.4%	-6.3%	3.6%	11.4%	16.6%	*3.8%

Source: PSX & TSL Research.

**Month to date, up to December 19, 2023*

REP - 040

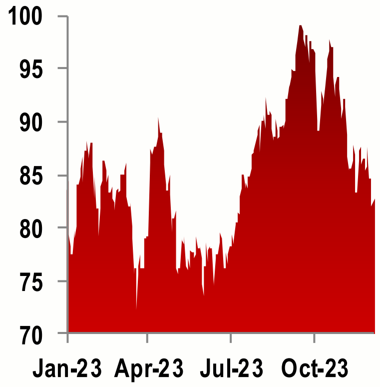
Global Political & Economic outlook

- *Conflict in Gaza to dominate geopolitics*
- *Monetary settings to remain tight for longer*
- *Commodity prices to remain stable*

Conflict in Gaza to dominate geo-politics...impact on global commodity prices likely to be less severe

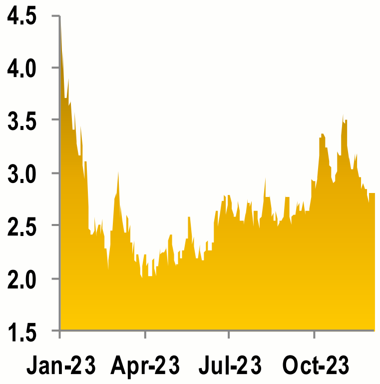
- We anticipate the Arab-Israel conflict to retain center stage in geopolitics next year too with no earlier resolution likely as the conflict carries on despite temporary humanitarian pauses.
- Nevertheless, so far intense diplomatic efforts have helped prevent the conflict from escalating into a full-scale war involving other regional countries like Lebanon or Iran. Accordingly, there has been no disruption in global oil flows too. In fact, the Arab Light crude is down 10% since the start of the conflict, with little change in the prices of other commodities, according to the World Bank. But risks of a full blown conflict remain very high unless a ceasefire is announced.
- Regardless, global oil prices have fallen recently amid increase in output from non-OPEC countries i.e. USA, Brazil etc., build-up in crude inventories as well as fears of a recession in the developed world. However, we expect the over-supply to be met by the OPEC+ extending and even increasing production cuts during CY24 also.
- Consequently, our base case assumes Arab Light to average under USD 85/bbl. next year taking into account lower demand owing to tight monetary conditions globally and slowdown in China, OPEC+ production cuts being offset by higher production from non-OPEC producers and build-up in US crude oil inventory, with a multilateral escalation in the Gaza conflict being an upside risk to our assumption.
- Elsewhere, subdued global goods trade and weakness in China's highly leveraged property sector may also weigh on energy and industrial metal prices next year. Increased supply of metals, grains and other food commodities may also dampen overall prices. Natural gas and coal prices are also expected to continue the downward trend. But focus on expansion of the renewable energy infrastructure may keep demand strong for the likes of copper, lithium and nickel.
- Finally, the Russia-Ukraine war has seemed to have entered into a stalemate following over twenty months of severe fighting. Grain supplies from Ukraine continue albeit at a slower pace. Whereas, Russian oil continues to sell through China and India with the Russian oil and gas revenues remaining buoyant. Focus has also shifted rapidly to the conflict in Gaza with question marks on the ongoing and future support from the West for the war in Ukraine.

Arab Light USD/Bbl.



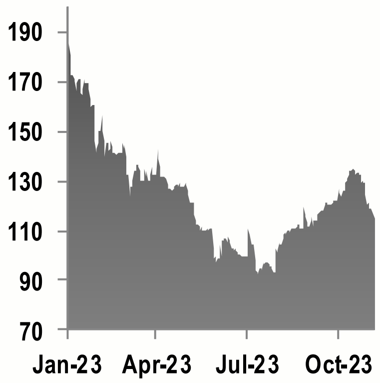
Source: Bloomberg and TSL Research

Natural Gas (USD/MMBTU)



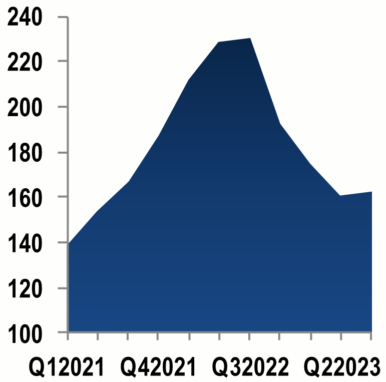
Source: Bloomberg and TSL Research

Coal (USD/Ton)



Source: Bloomberg and TSL Research

IMF Global Price Index for Commodities

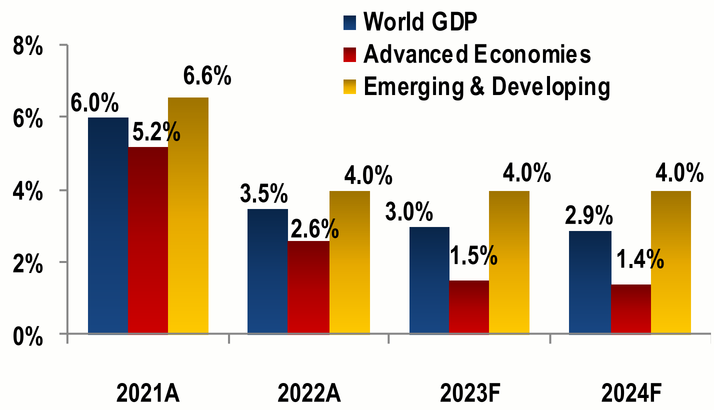


Source: FRED and TSL Research

Global GDP growth to remain subdued next year

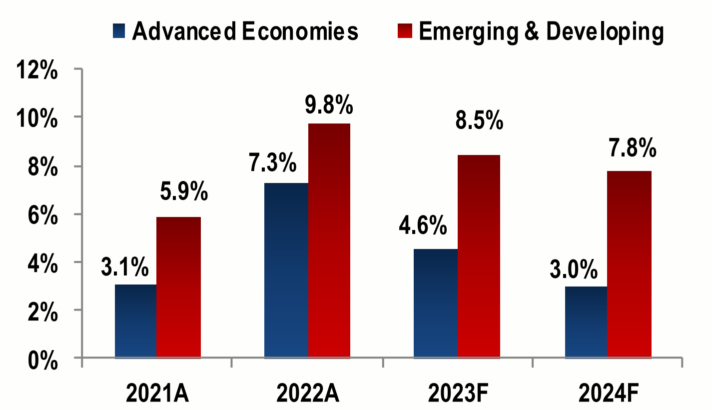
- According to the International Monetary Fund (IMF), global GDP growth is forecast to slowdown from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024—well below the historical average of 3.8% (2000-19). Wherein, GDP in advanced economies is expected to grow 1.4% in 2024 amid stronger momentum in the US and slowdown in Europe. Meanwhile, emerging and developing economies are expected to post 4% GDP growth in 2024 despite challenges to the Chinese economy.
- Additionally, global inflation is expected to fall steadily from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, respectively. However, core inflation pressures are likely to persist in the short-term due to rising near-term inflation expectations and tight labour markets—requiring higher policy rates for longer than expected. Also, increase in natural calamities and geopolitical shocks amid mounting geopolitical risks may also result in additional food and energy price hikes.

IMF Global GDP Forecasts



Source: International Monetary Fund (IMF) and TSL Research

IMF Global Inflation Forecasts



Source: International Monetary Fund (IMF) and TSL Research

Monetary easing to commence in 2024

Monetary Policy Announcements History

MPS Date	Stance	Effective Policy Rate
23-Jan-23	+100bps	17.00%
2-Mar-23	+300bps	20.0%
4-Apr-23	+100bps	21.00%
12-Jun-23	Unchanged	21.00%
26-Jun-23	+100bps	22.00%
31-Jul-23	Unchanged	22.00%
14-Sep-23	Unchanged	22.00%
30-Oct-23	Unchanged	22.00%
12-Dec-23	Unchanged	22.00%

Source: SBP and TSL Research

- Tight monetary settings coupled with the base effect and other factors (supply-side) have helped reverse the trend of rising inflation. Accordingly, the US Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) are expected to reduce interest rates in 2024. However, the pace of easing would be subject to the increase in real-interest rates as well as the target level of inflation.
- For context, all the three major central banks i.e. Fed, BoE and the ECB have now paused the hiking cycle. In Pakistan, the State Bank of Pakistan (SBP) has maintained status quo since Jun'23. Our base case expects the SBP to commence the easing cycle in 1HCY24 too.

REP - 040

Domestic Political Outlook

- *Year of General Elections*
- *Political stability to improve following elections*
- *Likelihood of another coalition Government*

General elections to strengthen political stability

- The Election Commission of Pakistan has announced February 08, 2024 as the date for General Elections in Pakistan. Wherein, chances for formation of a coalition Government led by PML(N) seem high.
- Nevertheless, it is imperative that the elections are held as per schedule and the transfer of power is smooth and timely, in order to ensure long-term political stability and support investor sentiment. To note, scheduling of elections had been a major cause of political uncertainty over the last twelve months. Accordingly, announcement of the date for the general elections has helped reduce political uncertainty drastically we believe, turning into a major driver of the current bull run.
- Apart from the general elections held in 2018, a look at the market performance in the build-up to the last four general elections shows that market performance tends to be positive as elections approach.
- However, post-elections market performance has been mixed in terms of returns; wherein market returns have been both positive as well as negative on two occasions each. One of the reasons for mixed market performance post-elections could be the state of macroeconomics.
- Further, post-elections market activity both in terms of volume and value traded tends to increase substantially.
- In terms of foreign participation, three months following the last general elections held in 2018, foreign investors sold net shares worth USD 208.6Mn, which increased to a net selling of USD 341.8Mn within six months of the 2018 elections. To a large extent, foreign selling then can be attributed to the poor state of macroeconomics including twin deficits, devaluation and Pakistan in need of an IMF program.

		KSE-100 Index Performance				Average All Share Volume Traded (Mn Shares)				Average All Share Value Traded (PKR Bn)			
		Pre-Elections		Post-Elections		Pre-Elections		Post-Elections		Pre-Elections		Post-Elections	
Election Date	Index Level*	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M	3M	6M
10-Oct-02	2,099	18%	13%	32%	36%	118	115	276	250	5.7	4.5	11.7	11.2
18-Feb-08	13,938	8%	17%	-3%	-29%	235	242	254	187	23.9	25.7	31.7	21.4
11-May-13	20,417	14%	23%	17%	17%	211	200	320	248	6.5	5.5	10.5	8.7
25-Jul-18	41,339	-9%	-7%	-9%	-4%	152	179	177	212	6.5	7.6	7.1	7.5

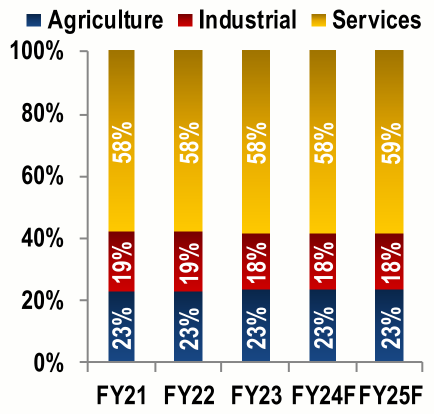
*Source: PSX and TSL Research; *Index level based on last day close corresponding to the election date*

REP - 040

Domestic Economic Outlook

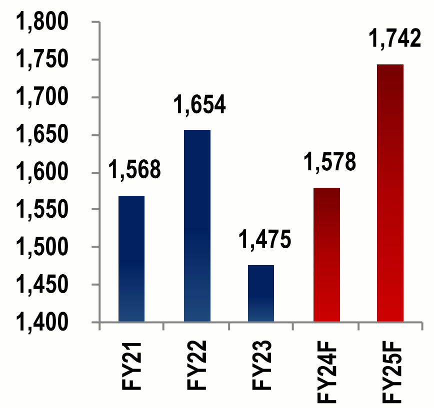
- *Moving in the right direction as recovery in sight*
- *Monetary easing to be a catalyst for growth*
- *IMF support remains critical to ensure stability*

GDP Composition FY21 to FY25F



Source: PBS and TSL Research

Pakistan GDP Per Capita (USD)

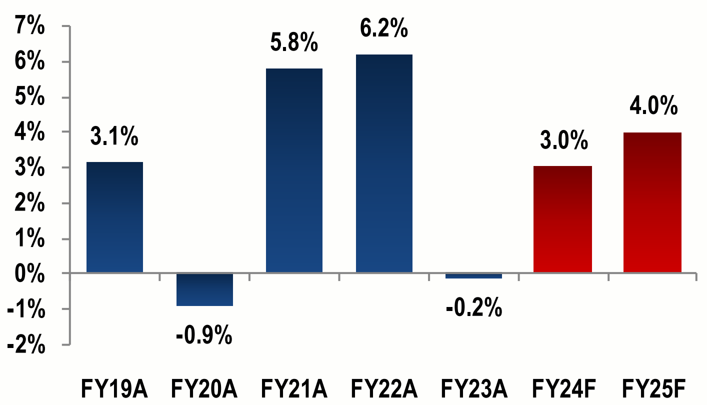


Source: PBS and TSL Research

GDP expected to grow 3% in FY24; 4% in FY25...

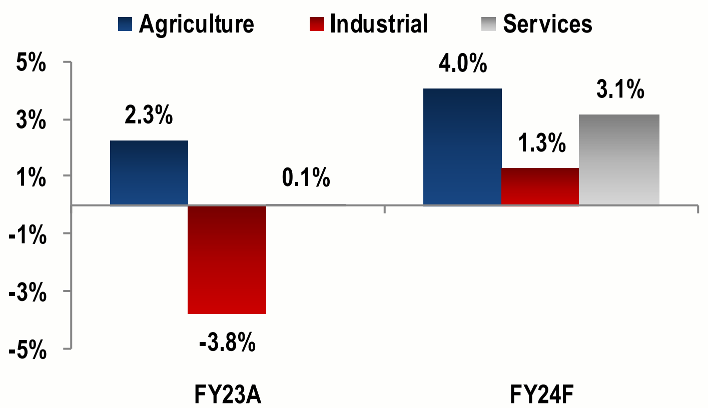
- Despite a tight fiscal and monetary environment we expect GDP growth to recover in FY24 i.e. clocking in at 3% compared to negative growth of ~0.2% in FY23, driven by a lower base and rebound in activity across all sectors of the economy, specially Agriculture.
- Agriculture sector growth is expected to clock-in at 4% after having dropped to 2.3% in FY23 amid catastrophic monsoon floods last year. We attribute the growth in agriculture sector to the increase in contribution from the crops segment due to higher output for important crops like wheat, cotton etc. as well as uptick in cotton ginning complemented by resilient performance of the livestock segment.
- Our assessment for the Agriculture sector is also supported by the increase in sales of agricultural inputs. For instance, Urea & DAP sales are up 15% and 98%, respectively during 5MFY24 over the SPLY. Further, 5MFY24 production and sales of tractors is also up 61% & 98%, respectively over the SPLY. In addition, according to SBP data agriculture credit disbursement is also up 37% over the SPLY (4MFY24).
- Meanwhile, Industrial sector is expected to grow by a meager 1.3% YoY in FY24 owing to lower growth of the manufacturing sector due to subdued demand, expensive credit and higher input costs. For context 4MFY24 LSMI is down 0.4%YoY over the SPLY. Moreover, we anticipate flat performance for the construction sector also, as reflected by the demand outlook for construction materials going forward.
- Finally, services sector is expected to grow ~3%YoY during FY24 compared to negligible growth last year, as we expect an uptick in wholesale & retail activity, transportation & storage, information technology and other private services in the country.
- FY25 GDP growth expected to arrive at 4%.

Pakistan GDP Growth FY19 - FY25F



Source: MoF, PBS and TSL Research

GDP growth to clock-in at 3.0% for FY24

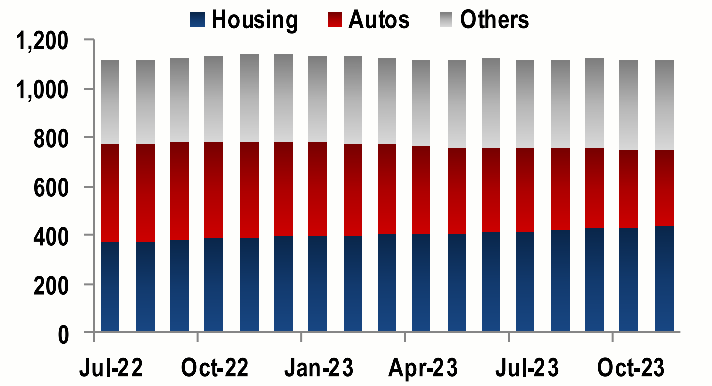


Source: MoF, PBS and TSL Research

Loans to Private Sector Businesses (PKR Bn)

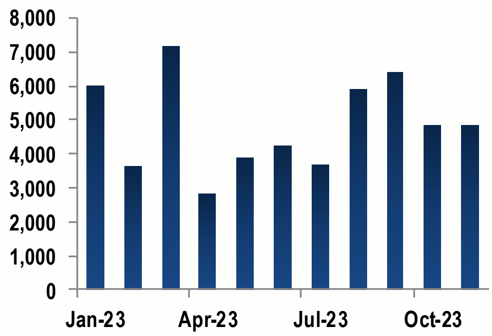
Source: State Bank of Pakistan and TSL Research

Consumer Loans (PKR Bn)



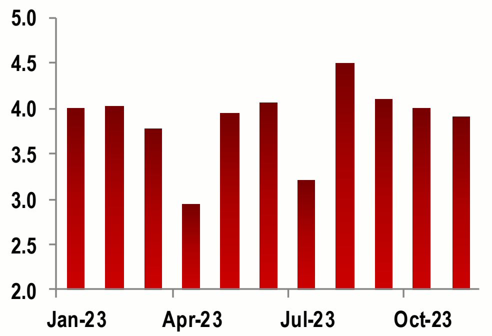
Source: State Bank of Pakistan and TSL Research

Passenger Car Sales CY23 TD (Units)



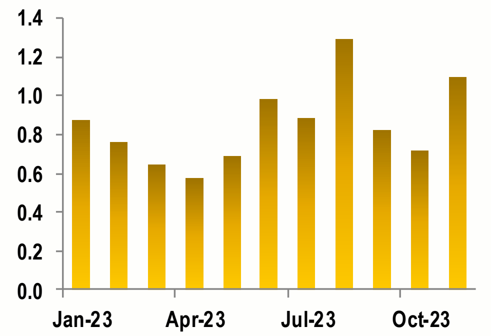
Source: PAMA and TSL Research

Cement Sales CY23 TD (Mn Tons)



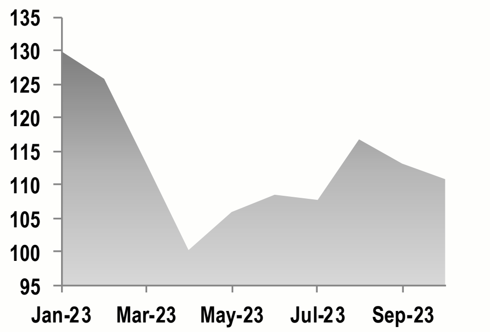
Source: APCMA, News Sources and TSL Research

Fertilizer Sales CY23 TD (Mn Tons)



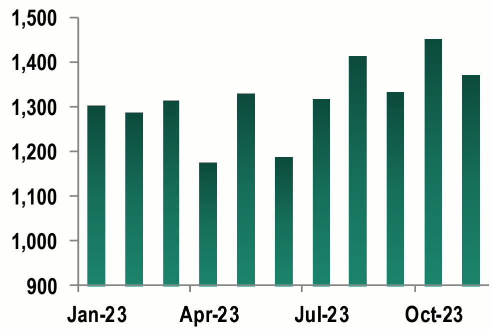
Source: NFDC and TSL Research

Large-scale Manufacturing Index (LSMI)



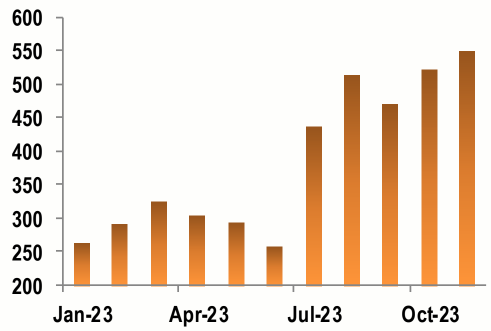
Source: Pakistan Bureau of Statistics and TSL Research

Textile Exports CY23 TD (USD Mn)



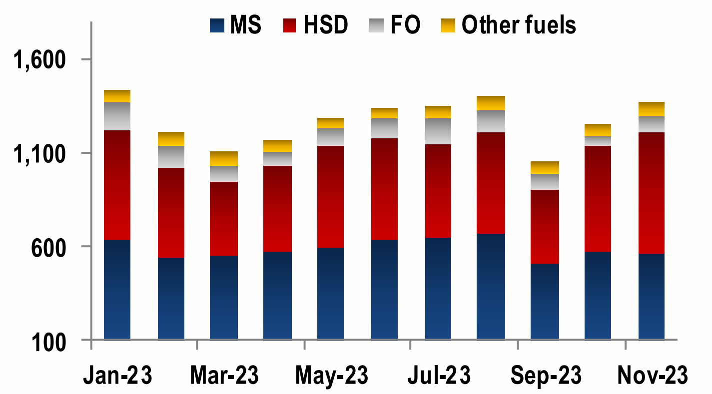
Source: SBP, PBS and TSL Research

Machinery Imports CY23 TD (USD Mn)



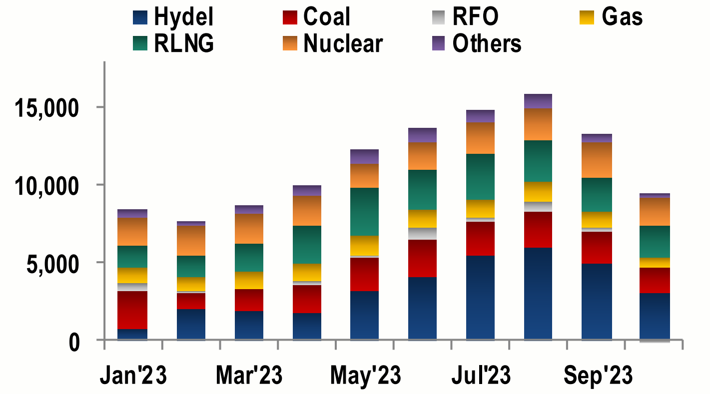
Source: SBP, PBS and TSL Research

Sale of Petroleum Products ('000 Tons) CY23 TD



Source: OCAC and TSL Research

Power Generation (GwH) CY23 TD

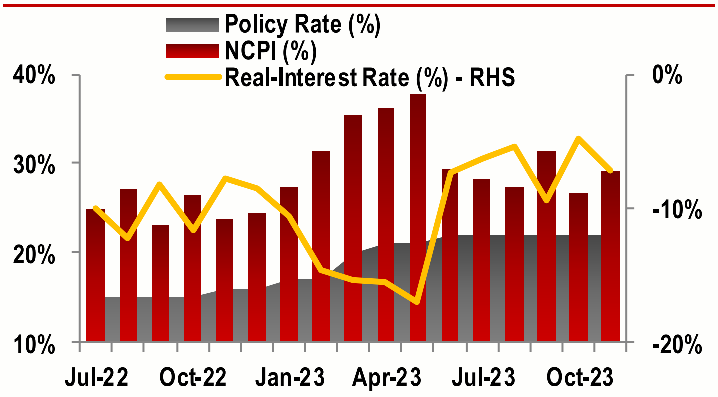


Source: NEPRA and TSL Research

Monetary easing on cards as NCPI likely to subside

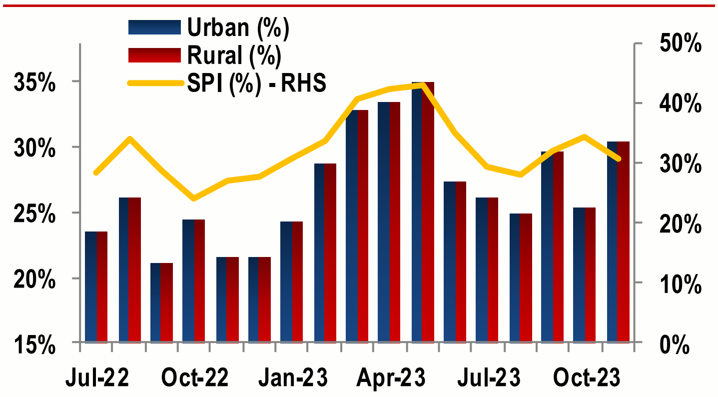
- FY24 TD headline inflation stands at 28.6%YoY, depicting an easing trend despite uptick in energy prices. Wherein, the acceleration in core inflation also seems to have cooled-off (albeit remains sticky) by virtue of a stronger Rupee as well as continued decline in POL prices.
- Going forward, we expect headline inflation for FY24 to average ~25.8% (29%YoY in FY23), easing to ~15%YoY for FY25.

Nov'23 NCPI clocked-in at 29.2%YoY



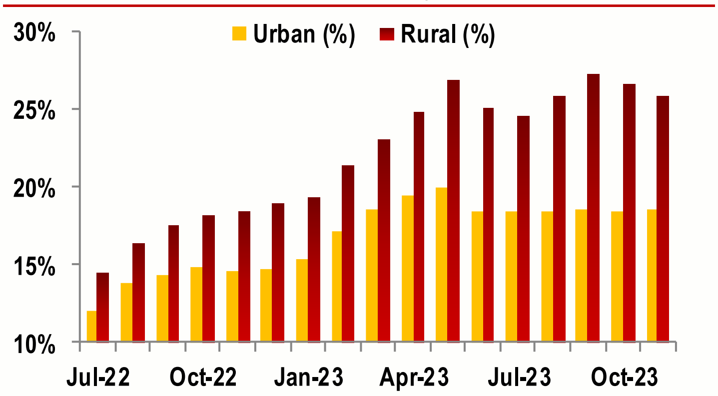
Source: PBS and TSL Research

Urban and Rural NCPIs continue to move in tandem



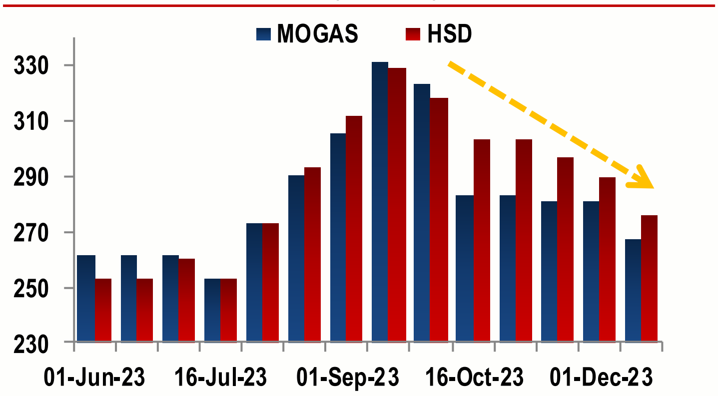
Source: PBS and TSL Research

Core inflation continues to remain sticky



Source: PBS and TSL Research

Retail Prices for POL Products (PKR/litre)



Source: OGRA and TSL Research

- To note, the increase in the general price level reported for Nov'23 i.e. 29.2%YoY was largely attributable to the upward revision in consumer gas prices as recommended by the IMF. In fact, the Government is likely to increase gas prices further (specially for domestic consumers) in a phased manner in Jan'24 and Jul'24, respectively. Further increase in administered energy prices may increase forward inflation expectations—a fact pointed out by the SBP in its latest monetary policy note.
- Elsewhere, although the supply situation for food items has improved over the last few months, we continue to remain skeptical about the likelihood of stable food prices over a longer time horizon owing to certain idiosyncratic factors and seasonality. However, improved performance of the agriculture sector may provide some respite to prices.

- Moreover, we expect core inflation to remain sticky to a large extent for the rest of FY24. Regardless, core inflation readings and expectations will be one of the main considerations for deciding the magnitude and timing of interest rate cuts for the SBP-MPC going forward.
- In addition, we anticipate POL prices to remain on the higher side given the outlook for Arab Light in light of extension of voluntary production cuts by OPEC+ countries for 2024. Accordingly, our base case forecast for Arab Light for the rest of FY24 is USD 85/bbl. and ~USD 80/bbl. for FY25, respectively. The latter coupled with routine appreciation of the USD is likely to keep the cost of supply from falling drastically next year and with it the domestic fuel prices too. Alternatively, drops in the cost of supply may be offset by higher petroleum development levy in order to meet revenue targets.
- Other considerations which pose upside risks to NCPI readings for FY24 and beyond include: i) the effects of fuel cost adjustments; ii) the effects of factors like axle load restrictions or additional taxation measures; iii) the effects of change in energy tariffs for industries (i.e. uniform gas rates for exporters and non-exporters etc.); and iv) PKR devaluation owing to a strengthening USD globally—which may not bode well in case of rapid interest rate cuts domestically.
- Consequently, based on our NCPI projections, we expect the SBP to cut its benchmark policy rate by 200bps by Jun'24 and another 300bps during 2HCY24. Wherein, we expect the easing cycle to operate gradually rather than aggressively as the same may be detrimental for the Rupee (if the real-interest rate differential grows with USD). It also risks offering too much impetus too quickly, which may result in a rapid surge in aggregate demand resulting in inflationary pressures.

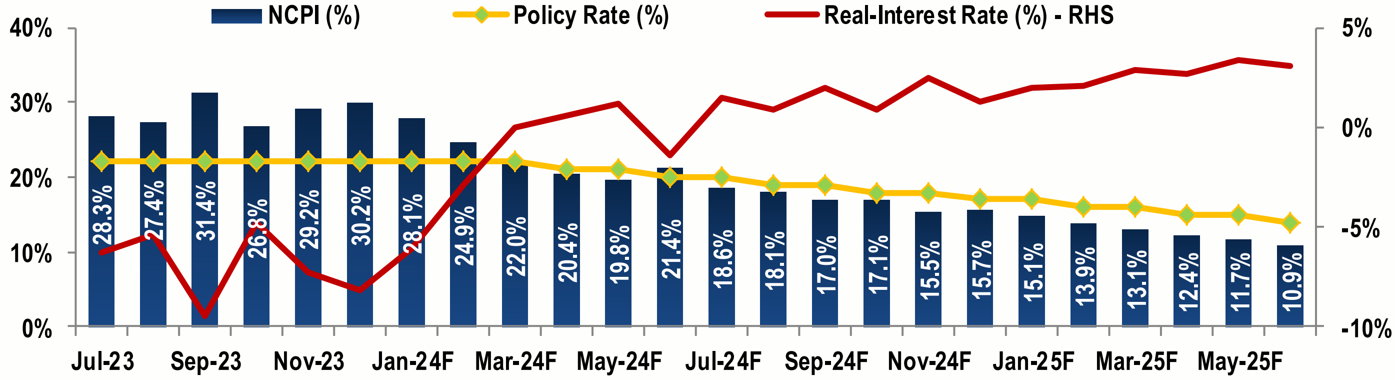
Headline Inflation	FY23	FY24F	FY25F
FY Avg.	29.0%	25.8%	14.9%
FY End	29.4%	21.4%	10.9%

Policy Rate	FY23	FY24F	FY25F
FY Avg.	17.5%	21.0%	17.0%
FY End	22.0%	20.0%	14.0%

Real-Interest Rate	FY23	FY24F	FY25F
FY Avg.	-11.5%	-4.8%	2.1%
FY End	-7.4%	-1.4%	3.1%

Source: PBS, SBP and TSL Research

NCPI and Period-End Policy Rate (%)



Source: PBS and TSL Research

Pakistan Fiscal Operations (PKR Mn)

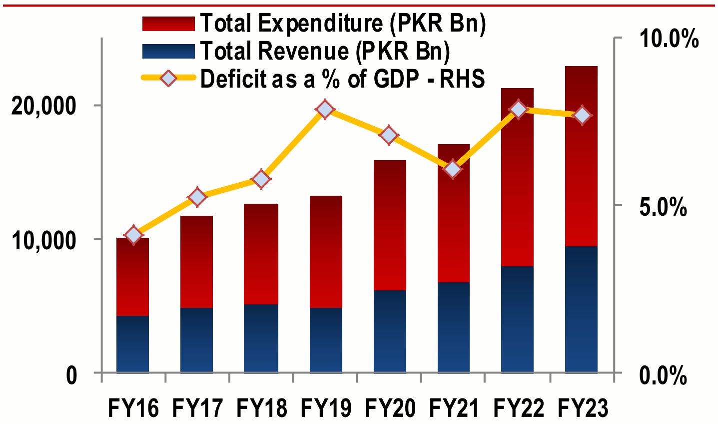
Particulars	FY22	FY23
Tax	**6,755,168**	**7,818,699**
Federal	6,142,802	7,169,140
Provincial	612,366	649,559
Non-Tax	**1,280,215**	**1,814,806**
Federal	1,151,918	1,648,930
Provincial	128,297	165,876
Total Revenue	**8,035,383**	**9,633,505**
Total Expenditure	**13,295,275**	**16,154,951**
Current Expenditure	**11,521,375**	**14,447,833**
Mark-up	3,182,432	5,695,916
Defence	1,411,646	1,585,502
Other	6,927,297	7,166,415
Develop.Exp & Net Lending	**1,657,422**	**1,952,868**
Statistical Discrepancy	**116,478**	**(245,750)**
Budget Balance	**(5,259,892)**	**(6,521,446)**
Primary Balance	**(2,077,460)**	**(825,530)**
Financing	**5,259,892**	**6,521,445**
External (net)	**1,178,410**	**(679,848)**
Domestic (net)	**4,081,482**	**7,201,293**
Non-Bank	980,570	3,672,703
Bank	3,100,912	3,528,590
Privatization	-	-
% of GDP		
Budget Balance	**-7.9%**	**-7.7%**
Primary Balance	**-3.1%**	**-1.0%**

Source: Ministry of Finance

FY24 fiscal deficit to clock-in at 7% of GDP

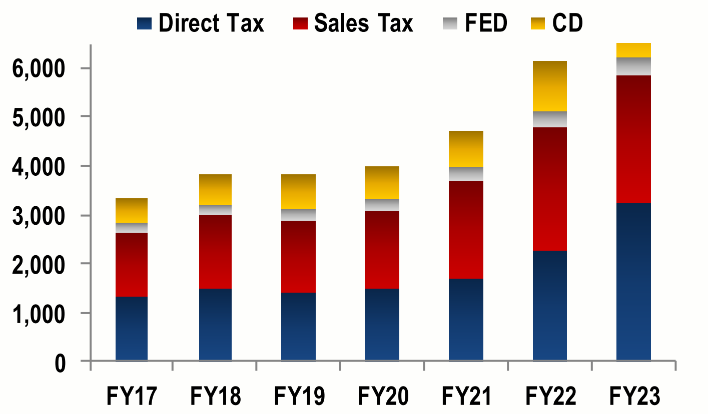
- The IMF has set a tax collection target of PKR 9.4Trn for FY24, of which the Federal Board of Revenue (FBR) has collected ~PKR 3.5Trn during 5MFY24, up ~30% over the SPLY. Collection so far has exceeded its target despite 54% higher refunds compared to last year. However, challenges remain in the form of lower collection from import related taxes amid lower volumes and a strong Rupee.
- All the same, efforts are underway to achieve the PKR 9.5Trn target, which includes improving collection of taxes at the domestic level including increasing the base of filers by ~1Mn during FY24 as well as tracking down registered persons who have not filed returns etc. Regardless, a mini-budget cannot be ruled out too in case the FBR finds it challenging to meet the collection target.
- In addition, according to news sources, target for petroleum levy collection for FY24 is likely to be revised from PKR 869Bn to PKR 918Bn in order meet revenue shortfalls. And for FY25, the target collection from petroleum levy may be set at PKR 1, 065Bn, up 23% from FY24.
- Hence, we expect tax collection by the FBR for FY24 to arrive at PKR 9.2Trn (missing the target of PKR 9.5Trn). The same coupled with non-tax revenues as well as the taxes collected by the provinces is expected to result in total revenue of PKR 12.1Trn for FY24.
- On the expenditure side, we anticipate mark-up payments to soar to over PKR 8Trn in FY24 owing to record high interest rates and the Government's unsatiating appetite for budgetary borrowings—with some respite kicking-in FY25 onwards as interest rates begin to decline. Rest of the current expenditure including share of provinces is expected to clock-in at PKR 11.8Trn. This includes ~PKR 1Trn in budgeted subsidies as well as PKR 1.9Trn for the defence sector.

Pakistan Fiscal Position - FY16 - FY23



Source: Ministry of Finance and TSL Research

Composition of FBR Revenue Collection (PKR Bn)

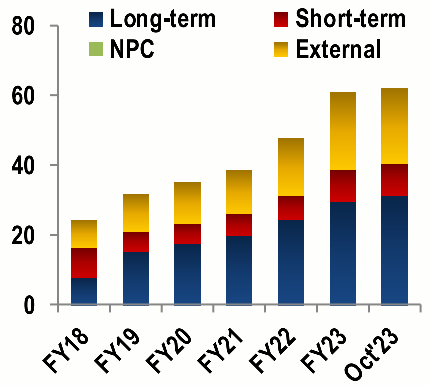


Source: Ministry of Finance and TSL Research

- Development spending (including provincial PSDP) is expected to arrive at ~PKR 1.3Trn. For 1QFY24, cumulative development spending was recorded at PKR 286.5Bn according to Ministry of Finance.
- Moreover, a higher rate of inflation for the year i.e. 25.8% NCPI projected for FY24 is also likely to impact the amounts for both revenue and expenditure, respectively.
- Resultantly, based on our expectations above we forecast fiscal deficit for FY24 to touchdown at 7% of GDP along with a primary surplus of 0.3% (against 0.4% committed to the IMF). For FY25, we anticipate overall fiscal balance to arrive at 6.5% of GDP.

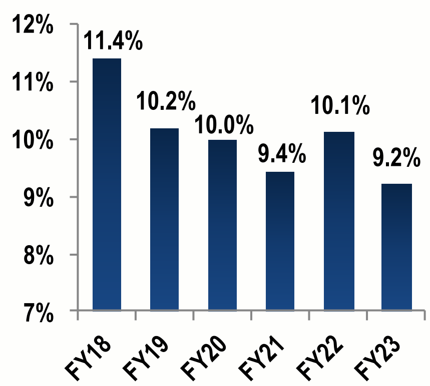
Balancing fiscal consolidation with growth

Central Government Debt (PKR Trn)



Source: SBP and TSL Research

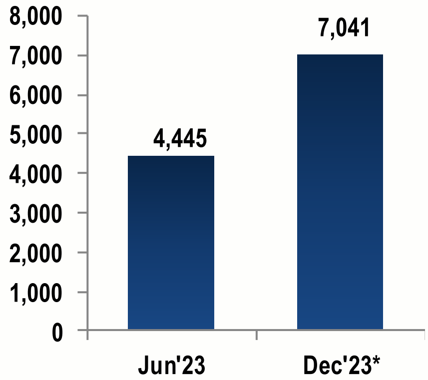
Tax to GDP ratio (%)



Source: MoF, PBS and TSL Research

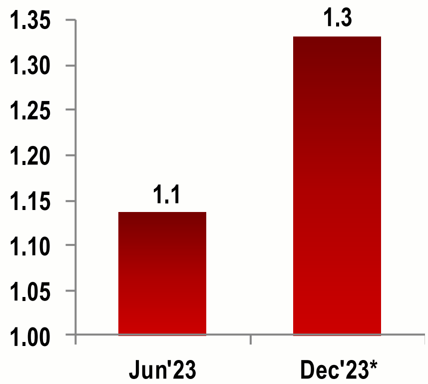
- Under the current circumstances and the fiscal targets set by the IMF, the Federal Government is squeezed for fiscal space—a major impediment to sustainable long-term growth. Wherein, mark-up payments continue to eat up the largest portion of revenues. In fact, mark-up payments (domestic and foreign) in FY23 exceeded Net Federal Revenue Receipts by an alarming 22%, according to fiscal operations data.
- Since FY18, total revenue receipts in nominal terms have grown at a CAGR of 13%, with development spending growing at a CAGR of 4% only. Whereas, mark-up payments have grown at a staggering CAGR of 31%. This explains why the Government has been forced to cut down development spending owing to funding constraints at times.
- In fact, the Government has already decided to end 137 development projects worth PKR 116Bn for FY24 on IMF demands in order to meet the targets for fiscal deficit set under the SBA. Resultantly, the size of the Federal PSDP may be reduced to PKR 834Bn compared to the budgeted allocation of PKR 950Bn for the current fiscal year.
- Further, as per SBP data, since FY18 Central Government Debt has grown at a CAGR of 20%, growing from PKR 24.2Trn as of Jun'18 to PKR 60.8Trn as of Jun'23. Wherein, both domestic and external debt have grown at a CAGR of 19% and 23%, respectively.
- Therefore, commencement of the easing cycle may prove critical in creating the some fiscal space for the Federal Government so that development spending remains on track—supporting economic growth. Also, transition to borrowing from the public instead of financial institutions alone may also fetch lower yields helping alleviate the burden of domestic debt servicing cost in the long-term.

Net SBP Foreign Reserves (USD Mn)



*Source: SBP and TSL Research; *Latest*

Import Cover (Months)

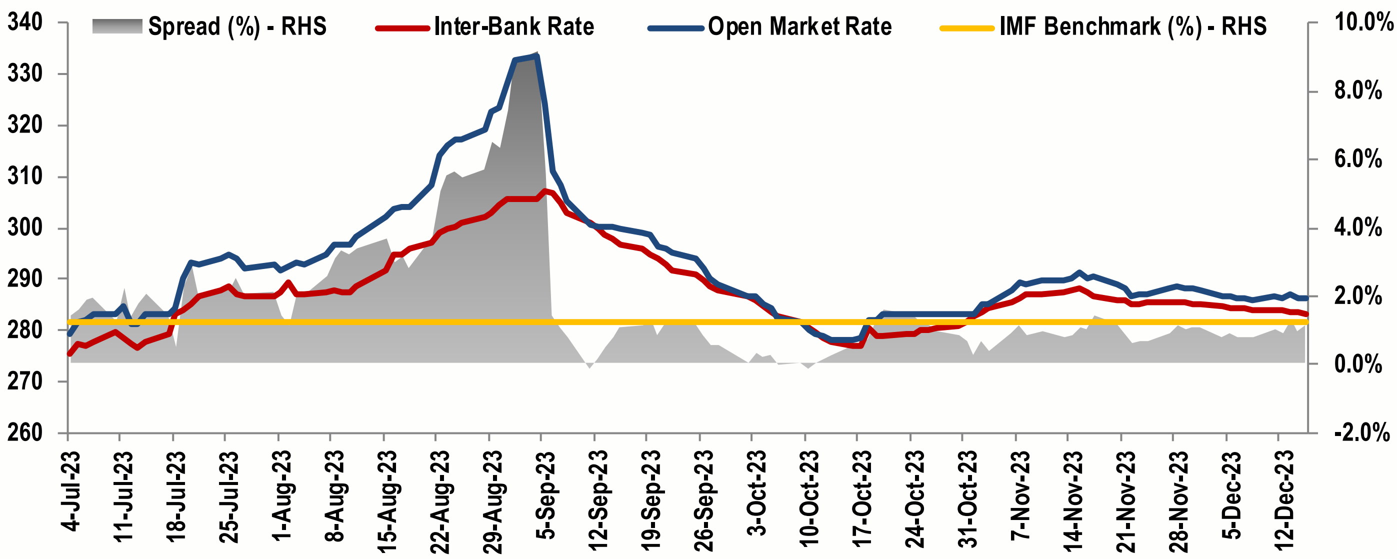


*Source: SBP and TSL Research; *Latest*

External outlook depicts significant improvement

- Since the approval of the Standby Arrangement (SBA) by the IMF, Pakistan's external outlook has improved significantly. Under the SBA, Pakistan was able to secure immediate disbursement of USD 1.2Bn from the IMF along with financial support in the form of deposits as well as roll-overs from friendly countries. The SBA has also enabled Pakistan to secure funding from multilateral institutions like the World Bank and the Asian Development Bank.
- In addition, the SBA also put in place stringent conditions / benchmarks which resulted in landmark reforms for the exchange companies sector by the SBP along with crackdown against illicit hoarding, smuggling and dealing of foreign currency in Pakistan.
- Consequently, the Rupee which had depreciated to its lowest point in history of PKR 307.1/USD on September 05, 2023 in the inter-bank market recovered to ~PKR 277/USD by the mid of Oct'23 as official flows improved. Simultaneously, the open market rate for USD also plunged, with the differential between the inter-bank and the open-market rates falling from a high of 9.2% to almost zero, well below the IMF prescribed benchmark of 1.25%.

Inter-Bank and Open Market Spread is currently hovering ~1.1%; having touched a high of 9.2% back in early Sep'23

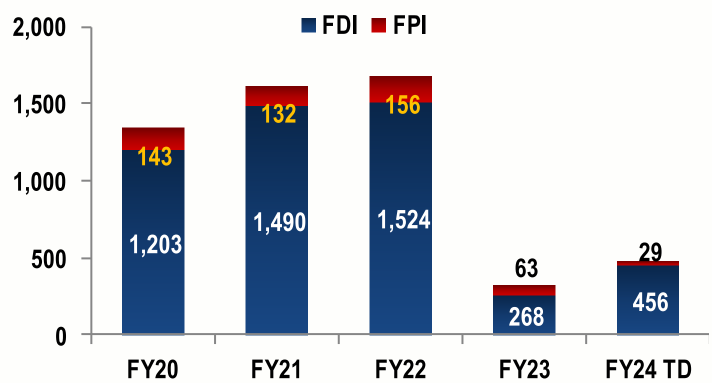


Source: SBP, Forex.pk and TSL Research

** As of December 15, 2023*

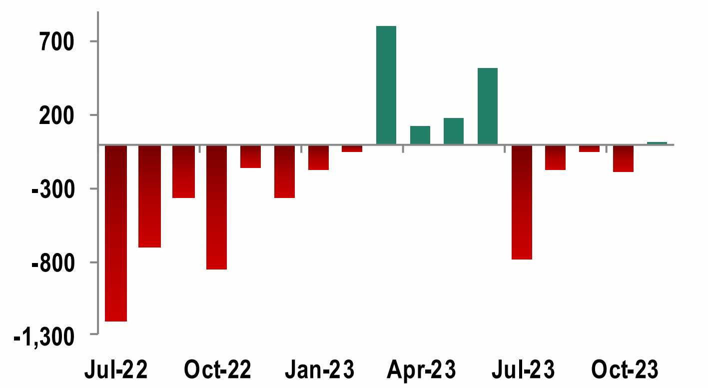
- Import restrictions were also lifted as part of the SBA commitments, breathing new life into the manufacturing sector. Currently, the SBP has allowed banks to manage their FX liquidity needs (settling import LCs mainly) more or less from their own sources i.e. export receipts and remittances. Further, the SBP also allowed banks to process dividend and profit repatriation applications as FX reserves increased. Accordingly, FY24 TD profit and dividend repatriation stands at USD 485Mn—more than the entire amount for FY23.
- Support to FX reserves also came in the form of higher remittances from official channels once the differential between the inter-bank and the open-market rates had dropped significantly; as well as drastic drop in the current account deficit i.e. down 64% over the SPLY.

Repatriation of Profits / Dividends (USD Mn)



Source: State Bank of Pakistan and TSL Research

Current Account Balance (USD Mn)



Source: State Bank of Pakistan and TSL Research

- Moreover, the SBP continues to build FX buffers along with reduction in its forward short positions. To note, SBP's forward short-positions stood as high as USD 5.7Bn in Feb'23, and currently stands at under USD 3Bn as of Oct'23—down ~47%.
- Finally, Pakistan also continues to make timely payments on Eurobonds as they fall due. According to the SBP, so far Pakistan has repaid ~USD 5.4Bn in debt during FY24 which includes USD 1.4Bn in interest payments and USD 4Bn in principal repayments respectively.
- Currently, Pakistan's official foreign exchange reserves stand at ~USD 7Bn; total foreign exchange reserves stand at USD 12.2Bn.

Expected FX Funding Gap FY24

Particulars		USD Bn
CAD Financing*		4.0
Expected Debt Repayments**		24.6
Gross Requirement	**A**	**28.6**
Flows to date**		
Repayments		5.4
Debt Roll-overs Agreed		9.3
Total	**B**	**14.7**
Expected Inflows*		
Foreign Investment		1.5
IMF Disbursements		3.0
Other Multilateral Dibursements		4.5
Total	**C**	**9.0**
Estimated Shortfall (A - B - C)		**4.9**

Source: SBP and TSL Research

**TSL Estimates*

***State Bank of Pakistan and TSL Estimate*

Gross external financing requirements remain high

- For the current fiscal year, we estimate the shortfall in Pakistan's gross external financing requirements and the available funding to amount to ~USD 5Bn compared to official reserves of ~USD 7Bn. This means that Pakistan is well positioned to meet its external obligations during FY24—vital for supporting the Rupee and investor sentiment.
- Our estimates account for USD 28.7Bn in funding needs in FY24 i.e. ~USD 4.0Bn for financing the CAD and USD 24.6Bn for debt repayments. Wherein, ~USD 5.4Bn in debt has been repaid already and ~USD 9.3Bn in debt has been agreed to be rolled-over. This results in a funding gap of ~USD 14Bn, which is expected to be filled by USD 1.5Bn in foreign investments; USD 3Bn in IMF disbursements under the SBA; and USD 4.5Bn in loans from other multilateral creditors. Consequently, leaving a net short-fall of ~USD 5Bn only.
- We expect the shortfall to be met through a combination of: i) tapping existing reserves; ii) further curtailment of CAD through monitoring of imports; iii) achieving higher than expected foreign investment; iv) fresh loans / roll-overs; and v) issuance of Eurobonds.
- Nevertheless, despite the improvement in Pakistan's external outlook, overall, external financing requirements continue to remain high, amounting to ~USD 121Bn over FY25-FY28—latest IMF staff report. Additionally, as of Oct'23 ~USD 20Bn in external debt is expected to mature over the period Nov'23 to Sep'24, of which ~USD 6Bn is expected to mature over the period Dec'23 to Feb'24.

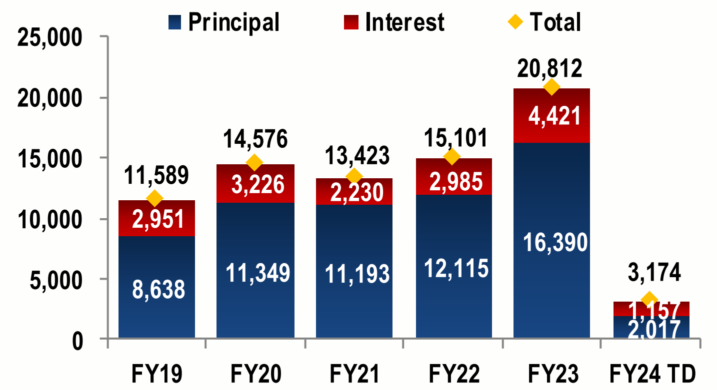
Pakistan Gross External Financing Requirements and Sources FY24 - FY28 according to the IMF (USD Mn)

Particulars	Legend	FY24	FY25	FY26	FY27	FY28
Current account deficit		6,424	6,462	7,139	7,285	7,945
Amortization of debt		20,278	19,169	24,183	20,233	22,678
IMF repurchases		1,659	1,538	574	1,372	2,232
Gross financing requirements	**A**	**28,361**	**27,169**	**31,897**	**28,889**	**32,856**
Foreign direct investment		173	1,526	1,861	2,250	2,689
Fresh loans/roll-over of loans etc.		29,795	29,392	31,193	27,682	30,622
Other net capital inflows		300	157	97	78	30
Available financing	**B**	**30,269**	**31,075**	**33,150**	**30,011**	**33,340**
Remaining financing needs	**C = A - B**	-1,907	-3,906	-1,253	-1,122	-484
Borrowing from the IMF	**D**	3,019	0	0	0	0
Reserve assets	**E = C - D**	**-4,926**	**-3,906**	**-1,253**	**-1,122**	**-484**
Gross SBP reserves (USD Bn)		9.0	12.9	14.1	15.3	15.7
Import cover in months		1.4	1.8	1.9	1.9	1.9
Net FX derivative position (USD Bn)		4.0	4.0	4.0	4.0	4.0

Source: IMF and TSL Research; most recent IMF Staff Report dated July 12, 2023

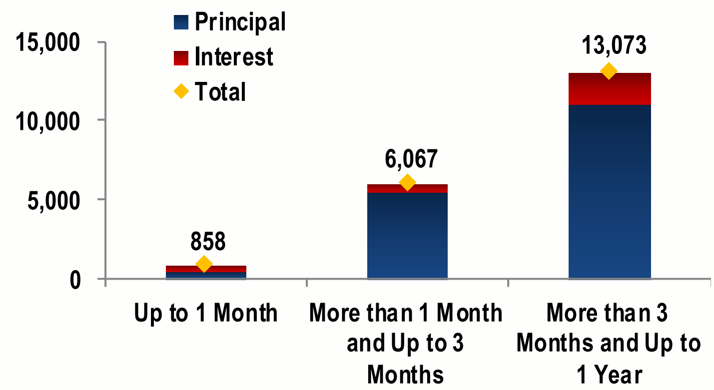
Pakistan Investment Outlook 2024

External Debt Servicing (USD Mn)



Source: State Bank of Pakistan and TSL Research

Expected FX Debt Repayments as of Oct'23 (USD Mn)

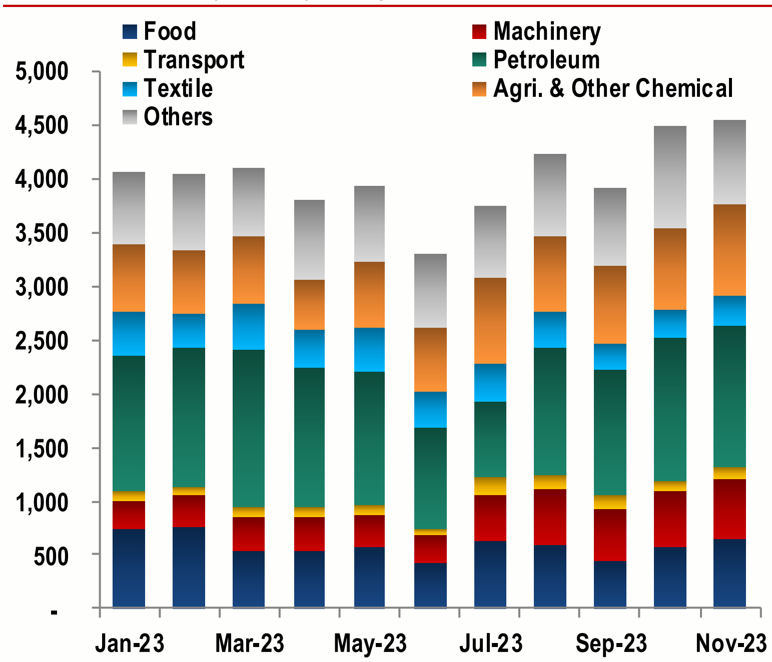


Source: SBP and TSL Research

Current account deficit to arrive at USD 4Bn

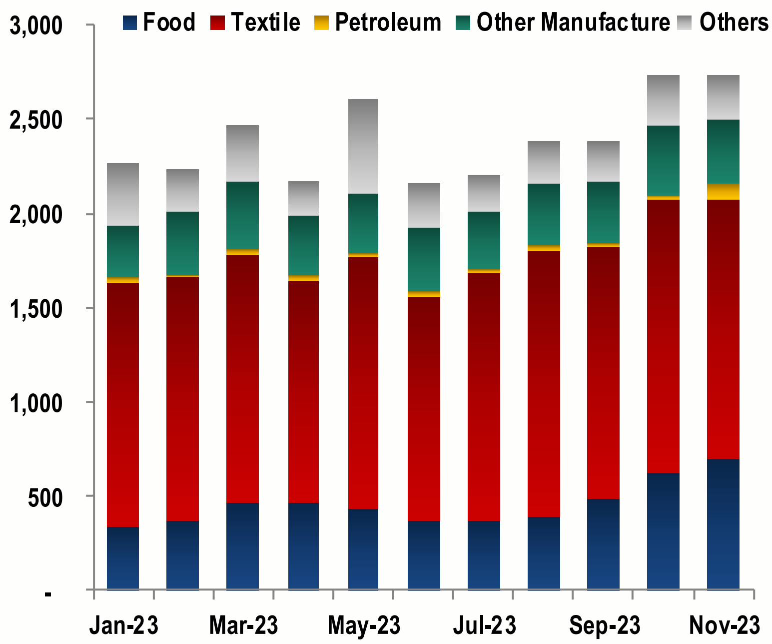
- During 5MFY24 imports are down 16%YoY over the SPLY, whereas exports are up 5%, resulting in trade deficit clocking-in at ~USD 8.8Bn, down 35%YoY over the corresponding period last year. Meanwhile, services deficit was recorded as at USD 1.1Bn for the period. Jul-Nov'23 workers' remittances are down 10% over the SPLY. Wherein, decrease in the trade deficit and sequential recovery in remittances has resulted in CAD arriving at USD 1.2Bn, down 64%YoY.
- Going forward, we expect trade deficit to touchdown at USD 22.2Bn for FY24, down 7%YoY on the back of marginal decline in imports (given an already lower base) and 7% growth in exports. Services deficit is expected to amount to USD 2.7Bn in FY24.

Pakistan's Imports (USD Mn) during 11MCY23



Source: State Bank of Pakistan and TSL Research

Pakistan's Exports (USD Mn) during 11MCY23

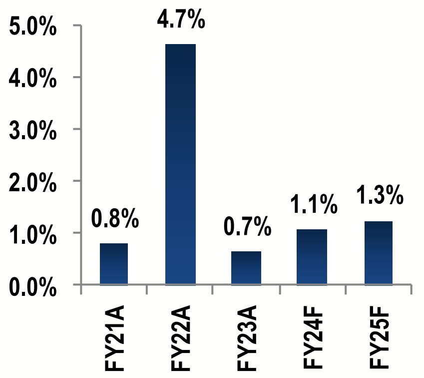


Source: State Bank of Pakistan and TSL Research

Pakistan Investment Outlook 2024

REP- 040
Wednesday, December 20, 2023

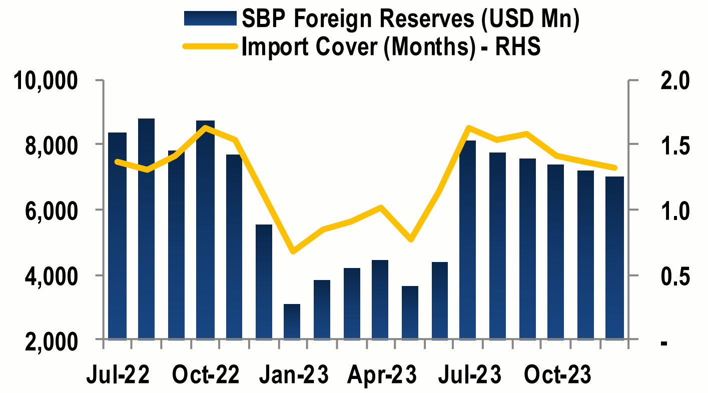
CAD as a % of GDP



Source: SBP, PBS and TSL Research

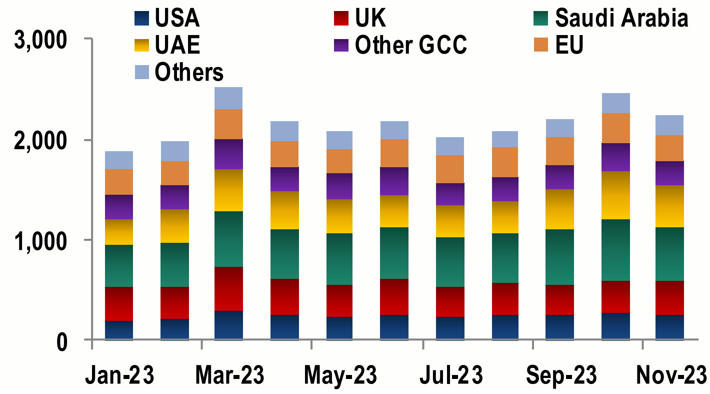
- We expect trade activity to flow uninterrupted mostly compared to the situation witnessed last year even though a few sources hint at some form of import compression being on the cards. However, given that unrestricted flow of trade is one of the IMF's conditions, the overall situation is likely to be far better than the last year.
- Increase in the import cover coupled with stable foreign reserves also makes the case for unrestricted trade flows. Moreover, as discussed earlier, global commodity super-cycle seems to have come to an end. Hence, further decrease in global commodity prices namely oil and food items etc. is likely to bode well for the balance of payments.
- Elsewhere, flow of workers' remittances is expected to increase in the coming months translating into an inflow of USD 28.5Bn for FY24, up 4%YoY. Finally, based on the projections above we forecast current account balance for FY24 to clock-in at USD 4.0Bn or 1.1% of GDP.

Currently import cover is hovering just under 1.4 months



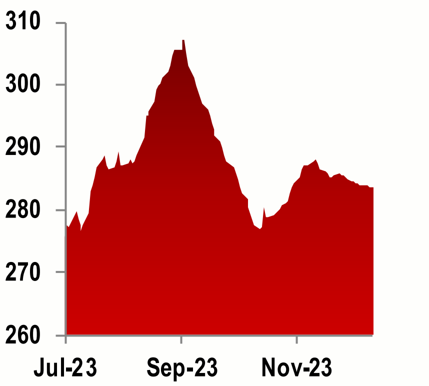
Source: State Bank of Pakistan, PBS and TSL Research

Workers' Remittances since Jan'23 (USD Mn)



Source: SBP and TSL Research

Inter-Bank PKR/USD Movement



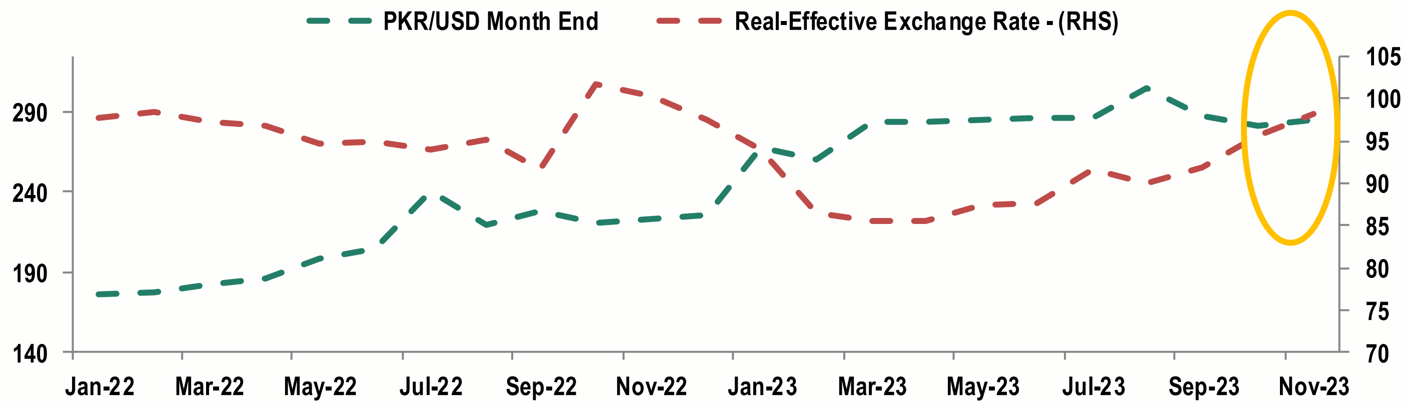
Source: PBS and TSL Research

Stable Rupee to bode well for foreign investment

- During the year, the Rupee depreciated to its all-time low in the inter-bank market of PKR 307.1/USD (down 36% from the Dec'22 closing level) amid rapid increase in macroeconomic and political uncertainty; with the differential between the inter-bank and the open-market rates soaring to as high as 9% at a point.
- However, subsequent actions by the SBP and other authorities helped curb the unofficial flow of dollars in the economy, resulting in the differential between the inter-bank and open-market rates falling to within the IMF prescribed range of 1.25%. This led to increase in official flows of USD, supporting dollar liquidity in inter-bank market.

- Consequently, the above complemented by the improving external outlook for Pakistan and decline in political and macroeconomic uncertainty helped the Rupee recover ~11% against the dollar, translating into a devaluation of 25% during CY23 to date.
- Moreover, the Rupee seems to be fairly priced considering the Real-Effective Exchange Rate (REER) index also.

Real-Effective Exchange Rate for the Rupee



Source: SBP and TSL Research

- Nevertheless, we expect the USD to reach PKR 296.6/USD by the end of FY24, averaging ~PKR 291.4/USD for FY24. Our estimates account for the likely surge in the USD as substantial debt repayments approach early next year as well as in the build-up to the elections. Also, aggressive monetary easing may also put pressure on the Rupee.

Special Investment Facilitation Council (SIFC)

- The Special Investment Facilitation Council (SIFC) was formed on June 19, 2023 with the vision to contribute towards economic revival of Pakistan by significantly expanding investment in Pakistan. In particular to attract investments from friendly countries in sectors like Agriculture, Information Technology, Mines & Minerals and Energy.
- The SIFC can play a critical role in attracting foreign direct investment to Pakistan in future given its leadership which includes the Prime Minister as well as the Chief of the Army Staff along with Chief Ministers of all the provinces and Federal & Provincial cabinet ministers.
- Since the formation of SIFC, Pakistan has been able to attract considerable foreign investor interest. For instance in case of projects like Reko Diq, creation of Pakistan Sovereign Wealth Fund, GCC interest in establishing a refinery and petrochemical complex, investment in RLNG sector by Qatar and so on.

SIFC Mandate

S.no	Particulars
1	Focus on investment and privatization, initially in five areas: i) Defense, ii) Agriculture, iii) Minerals, iv) Information Technology and v) Energy.
2	Act as a 'Single Window' for multi-domain cooperation in relevant fields, with a focus on GCC countries in particular and other countries in general
3	Prepare a long-term roadmap for growth, development, and investment in the relevant fields, while capitalizing on low-hanging fruit
4	Enhance awareness of Pakistan's latent potential in the relevant fields. Also, explore new opportunities to expand cooperation in the relevant fields.
5	Improving the ease of doing business
6	Coordinate Pakistan Army's assistance for the purposes mentioned above, as is being done in other countries, such as China, Indonesia, etc.

Source: SIFC

Gross Domestic Product		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
Real Growth	YoY %	4.1%	4.6%	6.1%	3.1%	-0.9%	5.8%	6.2%	-0.2%	3.0%	4.0%
Nominal Value	USD (Bn)	314	340	357	322	301	349	375	341	374	424
Monetary Indicators		**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25F**
NCPI (% YoY)	FY Avg.	3.9%	4.1%	3.9%	7.3%	10.7%	8.9%	12.1%	29.0%	25.8%	14.9%
Policy Rate (% YoY)	FY Avg.	6.0%	5.8%	6.0%	9.7%	11.8%	7.0%	9.7%	17.5%	21.0%	17.0%
Policy Rate (% YoY)	FY End	5.8%	5.8%	6.5%	12.3%	7.0%	7.0%	13.8%	22.0%	20.0%	14.0%
PKR/USD	FY Avg.	104.2	104.7	109.8	136.1	158.0	160.0	177.5	248.0	291.4	306.1
PKR/USD	FY End	104.6	104.8	121.3	162.0	167.7	157.3	204.6	286.1	296.6	315.7
External Indicators		**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25F**
Goods Imports	USD (Bn)	41.3	48.7	55.7	51.9	43.6	54.3	71.5	51.8	52.0	56.5
Goods Exports	USD (Bn)	22.0	22.0	24.8	24.3	22.5	25.6	32.5	27.9	29.9	33.1
Trade Deficit	USD (Bn)	(19.3)	(26.7)	(30.9)	(27.6)	(21.1)	(28.6)	(39.1)	(24.0)	(22.2)	(23.4)
Services Deficit	USD (Bn)	(3.5)	(4.7)	(6.4)	(5.0)	(3.3)	(2.5)	(5.8)	(1.0)	(2.7)	(2.3)
Remittances	USD (Bn)	19.9	19.4	19.9	21.7	23.1	29.5	31.3	27.3	28.5	30.1
Current Account	USD (Bn)	(5.0)	(12.3)	(19.2)	(13.4)	(4.4)	(2.8)	(17.5)	(2.2)	(4.0)	(5.3)
Foreign Reserves (FY End)	USD (Bn)	23.1	21.4	16.4	14.5	18.9	24.4	15.4	9.2	14.2	18.2
Fiscal Indicators		**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25F**
Total Revenue	PKR (Bn)	4,447	4,937	5,228	4,901	6,272	6,903	8,035	9,634	12,146	14,375
Total Expenditure	PKR (Bn)	5,796	6,801	7,488	8,346	9,648	10,307	13,295	16,155	19,813	22,785
Fiscal Deficit	PKR (Bn)	(1.3)	(1.9)	(2.3)	(3.4)	(3.4)	(3.4)	(5.3)	(6.5)	(7.7)	(8.4)
Deficits % of GDP Summary		**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25F**
Fiscal Deficit	%	4.1%	5.2%	5.8%	7.9%	7.1%	6.1%	7.9%	7.7%	7.0%	6.5%
Current Account	%	1.6%	3.6%	5.4%	4.2%	1.5%	0.8%	4.7%	0.7%	1.1%	1.3%
Trade Deficit	%	6.1%	7.9%	8.7%	8.6%	7.0%	8.2%	10.4%	7.0%	5.9%	5.5%

Source: International Monetary Fund, Ministry of Finance, State Bank of Pakistan, Pakistan Bureau of Statistics and TSL Research

REP - 040

Top-Picks

- *FABL, HMB, BAHL, BAFL, UBL, PPL, OGDC, MARI, FFC, EFERT, ENGRO, LUCK, FCCL, HUBC, PSO, INDU, AGP, ILP, AGHA & MUGHAL*

Rating	BUY	Dec'24 Target Price	PKR 54	Shares	1,518 million
LDCP	PKR 31	Valuation Method	Justified P/B	Market Cap.	PKR 46Bn
Upside	76%	Free-Float (%)	25%	52-Week Range	PKR 20—PKR 35
Ticker	FABL	Industry	Commercial Banks	Sponsor	Ithmaar Bank BSC

Well positioned to reap the benefits of Islamic banking

- As the 2nd largest Islamic bank in the country with 700 branches and growing, FABL is well-positioned to benefit from the growth of Islamic banking in Pakistan. This includes benefiting from the robust growth in Islamic banking deposits (current accounts mainly) and the overall lower cost of funds along with increasing supply of Sukuk etc. offering competitive yields—resulting in superior sustainable ROE.

Positive earnings outlook and growing potential for payouts

- 9MCY23 earnings are up 57% over the SPLY with FABL maintaining a payout ratio of 25%. Our forecasts show FABL's profitability growing at a CAGR of 20% CY24 onwards despite incorporating the effects of monetary easing going forward. Consequently, potential for payouts is also expected to increase. We expect long-term dividend yield to average ~22%.

Remains attractively priced despite the recent run in prices

- We flag FABL as the next big growth story in the Islamic banking space which is attractively priced despite the recent run in its share price, trading a forward P/B of 0.5x only.

Key risks: i) Interest rate changes; ii) Failure to capitalize on the potential of Islamic banking industry; iii) Asset quality shocks; and iv) Drop in dividend payouts.

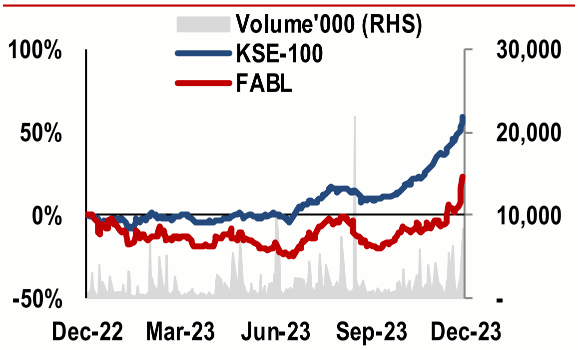
Consolidated					PKR Mn
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Spread Earned	25,839	39,991	67,313	85,237	94,932
Other Income	8,974	9,622	10,001	12,577	14,015
PAT	8,353	11,438	19,903	25,976	27,541
EPS	5.5	7.5	13.1	17.1	18.1
DPS	1.5	7.0	4.0	6.0	7.0
Net Margin (%)	3.9%	4.8%	6.8%	7.6%	7.5%
CAR (%)	18%	16%	20%	20%	19%
ROE (%)	13%	17%	26%	28%	25%
ROA (%)	1%	1%	2%	2%	2%
Dividend Yield (%)	7%	27%	13%	20%	23%
P/E (x)	4.2	3.4	2.3	1.8	1.7
P/B (x)	0.5	0.6	0.5	0.5	0.4

Source:Company Accounts & TSL Research

About the company

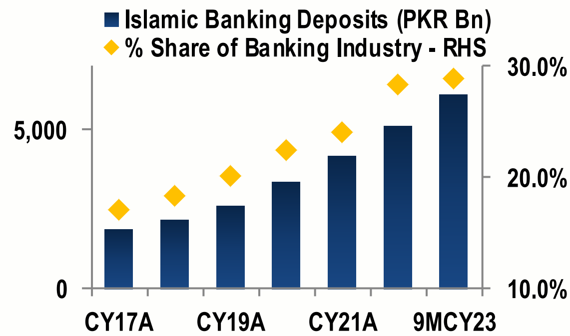
FABL is the first bank in Pakistan to convert into a full-fledged Islamic bank with ~PKR 950Bn in deposits as of Sep'23. FABL operates 700 branches in Pakistan. Post-conversion FABL has the potential become a leader in Islamic banking.

12M Relative Performance of FABL



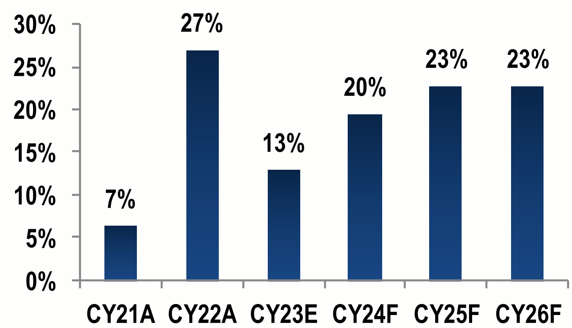
Source: PSX and TSL Research

Islamic banking growth in Pakistan



Source: Company Financials and TSL Research

Dividend Yield (%) CY21 - CY26F



Source: PSX, Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 89	Shares	1,048 million
LDCP	PKR 52	Valuation Method	Justified P/B	Market Cap.	PKR 55Bn
Upside	71%	Free-Float (%)	45%	52-Week Range	PKR 27—PKR 60
Ticker	HMB	Industry	Commercial Banks	Sponsor	Habib Bank AG Zurich

Gradual shift in strategy yielding better results

- The Bank has been gradually shifting focus towards retail banking and non-trade related commercial banking, including focus on Islamic banking and offering digital banking services which has helped margin expansion. Accordingly, the current account mix i.e. 42% of deposits (Sep'23) has also improved significantly and is now far better than the industry average.

Prudent lending has ensures stable asset quality

- Prudent lending practices have enabled the Bank to enjoy stable asset quality. For context, gross advances have grown at a CAGR of 18% over the last three years, while the corresponding growth in NPLs has been to the tune of 8% only. Also, coverage levels have improved and currently stand at 105%. Nevertheless, our projections incorporate a higher cost of risk owing to the Bank's exposure to the textile sector, going forward

Attractive valuation and dividend yield

- Despite the recent rally, HMB continues to trade a forward P/B of 0.5x, offering over 23% dividend yield over the LDCP. The Bank also posses healthier capital buffers compared to peers.

Key risks: i) Interest rate changes; ii) Deterioration in asset quality; iii) Worsening deposit mix; & iv) Drop in dividend payouts.

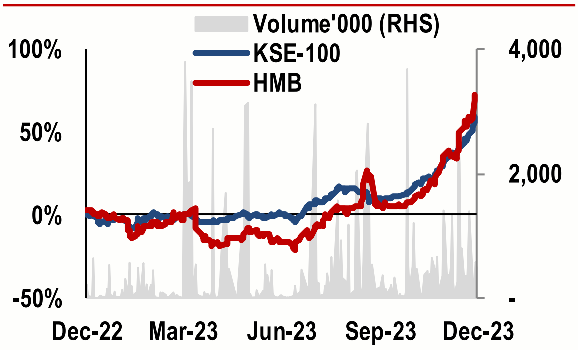
Consolidated					PKR Mn
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Interest Income	30,159	41,665	69,633	83,912	83,345
Non-Markup Income	11,234	13,560	14,993	13,690	14,732
PAT	13,862	14,924	25,852	30,628	29,332
EPS	12.9	13.7	24.7	29.2	28.0
DPS	5.0	5.3	10.0	12.0	13.0
NIM (%)	3.0%	3.5%	5.6%	6.8%	6.4%
CAR (%)	14%	15%	17%	18%	18%
ROE (%)	22%	20%	30%	30%	24%
ROA (%)	1%	1%	2%	2%	2%
Dividend Yield (%)	12%	15%	19%	23%	25%
P/E (x)	3.3	2.5	2.1	1.8	1.9
P/B (x)	0.7	0.5	0.6	0.5	0.4

Source:Company Accounts & TSL Research

About the company

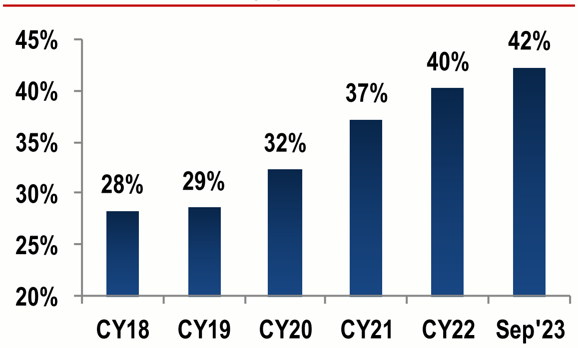
HMB is one of the largest mid-tier commercial banks of Pakistan with PKR 966.6Bn in deposits (Sep'23). HMB is a subsidiary of Habib Bank AG Zurich and operates 524 branches in Pakistan. As of Sep'23, HMB's CAR stands at 16.8%.

12M Relative Performance of HMB



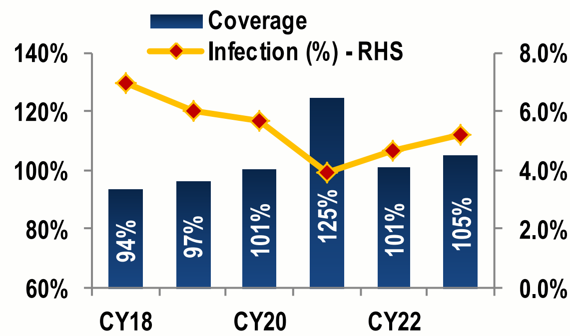
Source: PSX and TSL Research

Current Account Ratio (%)



Source: Company Financials and TSL Research

Infection Ratio and Coverage (%)



Source: Company Financials and TSL Research

Bank Al-Habib Limited (BAHL)—Commercial Banks

Rating	BUY	**Dec'24 Target Price**	PKR 129	**Shares**	1,111 million
LDCP	PKR 79	**Valuation Method**	Justified P/B	**Market Cap.**	PKR 88Bn
Upside	62%	**Free-Float (%)**	65%	**52-Week Range**	PKR 40—PKR 88
Ticker	BAHL	**Industry**	Commercial Banks	**Sponsor**	Dawood Habib Group

Focus on balance sheet growth continues to drive value

- BAHL's balance sheet has been growing at a CAGR of ~21% (5Yr) compared to 17% for the banking industry. This growth is fueled largely by the growth in BAHL's deposits base on the back of branch expansions (5Yr CAGR: 9%) and a growing customer base—enabling the Bank to enjoy a higher ROE.
- Recently, the Bank has also embarked on growing the mix of Islamic banking assets, with an aim to transition majority of the existing and new branches to Islamic over the next 5 years.

Asset quality risks remain low despite growth in loan book

- Gross advances are up 8% CYTD compared to flat growth for industry; growing at a CAGR of 13% (5Yr). Whereas, infection ratio has hovered ~1.5% on an average, with average coverage levels of 1.4x—one of the highest. Barring a few subjective classifications; overall, we expect asset quality risks to remain low.

Valuation remains attractive with increase in payouts

- We forecast long-term dividend yield to average ~19% at current price levels, supported by stable earnings and sufficient capital buffers. Also BAHL is trading a forward P/B of 0.6x.

Key risks: i) Interest rate changes; ii) Slowdown in balance sheet growth; iii) Subdued margin expansion; iv) Asset quality shocks.

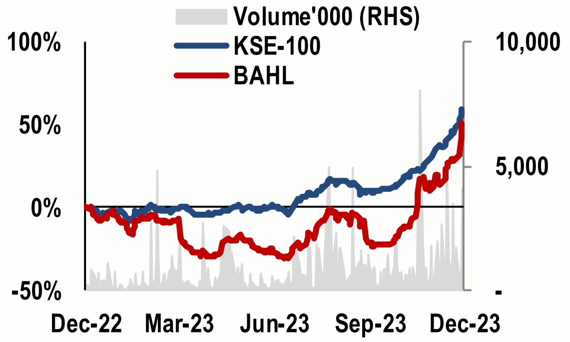
Consolidated					PKR Mn
Key Metrics	**CY21A**	**CY22A**	**CY23E**	**CY24F**	**CY25F**
Net Interest Income	55,609	77,319	118,885	141,017	147,456
Non-Markup Income	14,490	21,581	24,270	22,499	23,907
PAT	18,597	16,189	37,072	42,888	42,680
EPS	16.7	15.0	33.4	38.6	38.4
DPS	7.0	7.0	14.0	15.0	15.0
NIM (%)	3.9%	4.3%	5.7%	6.2%	6.0%
CAR (%)	13%	15%	16%	16%	17%
ROE (%)	22%	18%	35%	33%	27%
ROA (%)	1%	1%	1%	1%	1%
Dividend Yield (%)	10%	13%	18%	19%	19%
P/E (x)	4.1	3.7	2.4	2.1	2.1
P/B (x)	0.8	0.6	0.8	0.6	0.5

Source:Company Accounts & TSL Research

About the company

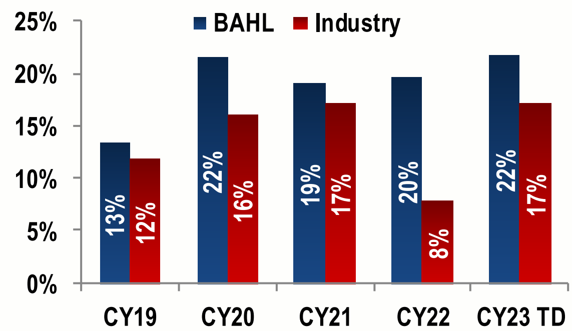
BAHL operates with a network of 1,074 branches in Pakistan and has PKR 1.9Trn in deposits as of Sep'23 i.e. 7% market share. Moreover, 17% of BAHL's branches are Islamic. As of Sep'23, the Bank's Capital Adequacy Ratio stands at 15.9%.

12M Relative Performance of BAHL



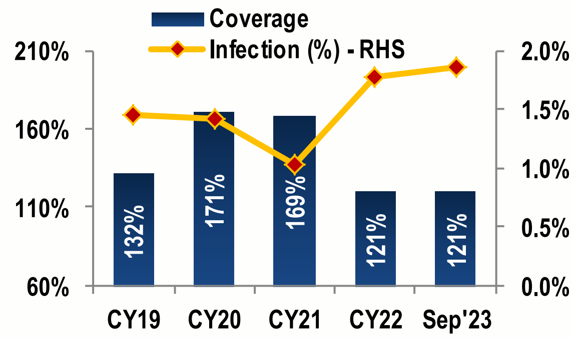
Source: PSX and TSL Research

YoY Growth in Deposits versus the Industry



Source: Company Financials and TSL Research

Infection Ratio and Coverage (%)



Source: Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 259	Shares	1,224 million
LDCP	PKR 173	Valuation Method	Justified P/B	Market Cap.	PKR 212Bn
Upside	50%	Free-Float (%)	40%	52-Week Range	PKR 92—PKR 192
Ticker	UBL	Industry	Commercial Banks	Sponsor	Bestway Group

Robust earnings outlook with stable asset quality

- UBL continues to showcase one of the strongest earnings profiles in our universe with 9MCY23 PAT up 1.3xYoY. We anticipate the momentum to continue in 4QCY23 also, with further accretion in margins on the back of build-up in current accounts as well as accumulation of high yield bonds.
- NIMs are expected to peak next year with positive outlook for total income growth for the next two years. Stable asset quality both domestic and international to support profitability too.

Islamic & International businesses to depict strong performance

- The Bank's Islamic franchise earnings are up 2xYoY CYTD, with 62%YTD growth in Islamic banking assets of the Bank according to Sep'23 financials. International business also continues to deliver along with robust asset quality i.e. the GCC.

Long-term dividend yield remains attractive

- Surge in payouts on account of solid earnings and sufficient capital buffers has been well received by investors. We forecast payouts to remain elevated going forward, translating into a long-term average dividend yield of ~26% at the LDCP.

Key risks: i) Interest rate changes; ii) Lower than expected NIM growth; iii) Deterioration in asset quality; and iv) Drop in payout.

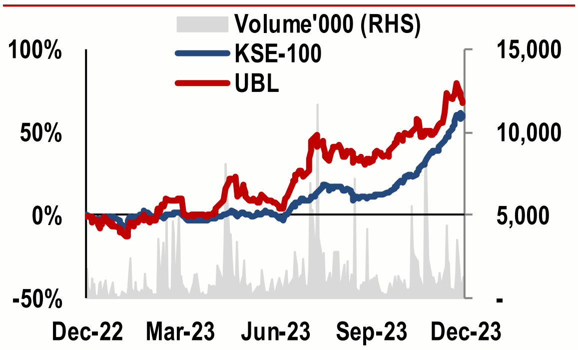
Consolidated					PKR Mn
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Interest Income	74,736	107,743	157,729	203,226	209,507
Non-Markup Income	24,663	35,857	23,018	27,552	30,993
PAT	30,622	32,082	55,112	64,857	63,563
EPS	24.8	25.7	45.0	53.0	51.9
DPS	18.0	22.0	44.0	45.0	46.0
NIM (%)	3.6%	4.3%	4.9%	5.3%	5.2%
CAR (%)	19%	17%	17%	17%	17%
ROE (%)	14%	14%	24%	28%	26%
ROA (%)	1%	1%	2%	2%	1%
Dividend Yield (%)	13%	22%	25%	26%	27%
P/E (x)	5.5	3.9	3.8	3.3	3.3
P/B (x)	0.7	0.5	0.9	0.9	0.9

Source:Company Accounts & TSL Research

About the company

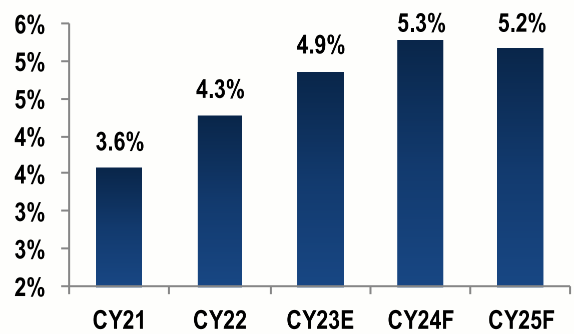
UBL is one of the largest commercial banks in Pakistan with ~PKR 2.5Trn in deposits as of Sep'23. The Bank operates 1,341 branches in Pakistan and 8 branches outside Pakistan. As of Sep'23, UBL's Capital Adequacy Ratio stands at 16.5%.

12M Relative Performance of UBL



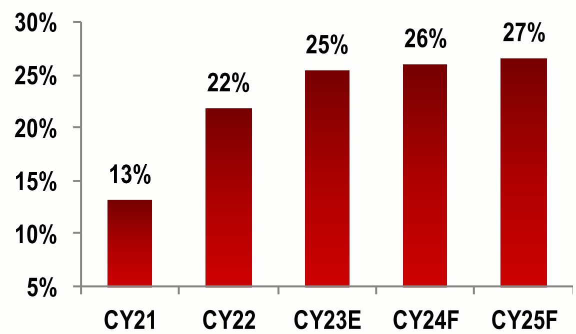
Source: PSX and TSL Research

Net-interest Margins (%)



Source: Company Financials and TSL Research

Dividend Yield (%)



Source: Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 76	Shares	1,577 million
LDCP	PKR 49	Valuation Method	Justified P/B	Market Cap.	PKR 78Bn
Upside	54%	Free-Float (%)	45%	52-Week Range	PKR 28—PKR 53
Ticker	BAFL	Industry	Commercial Banks	Sponsor	Abu Dhabi Group

Robust profitability benefitting from interest rate hikes

- CYTD deposits are up 23% (17% for industry); wherein, the current account mix stands at ~44%. This along with higher leverage has translated into pre-provision operating income growth of 48% in 9MCY23. Also, expansion plus diversification is the strategic focus of management, going forward. For context, BAFL has been consistently growing market share in trade, remittances and consumer segments along with upscaling digital services; supporting earnings when rates decline.

Prudent lending approach reinforces asset quality

- To note, BAFL's ratio of advances to deposits is down significantly i.e. 39% only (Sep'23) from 52% as of Dec'22. Simultaneously, allocation to investments is up i.e. IDR at 85% (77% as of Dec'22). This has enabled BAFL to benefit from higher yields on offer by Government securities as well as reduce credit risk.
- Accordingly, any subjective classifications or otherwise have been offset by robust earnings, with a coverage level ~112%. With economic recovery and anticipated monetary easing, we expect BAFL's asset quality to show resilience, going forward.
- BAFL is currently trading at a forward P/B of 0.5x.

Key risks: i) Interest rate changes; ii) Drop in NIMs; iii) Asset quality deterioration; & iv) Surge in cost-to-income ratio.

Consolidated PKR Mn

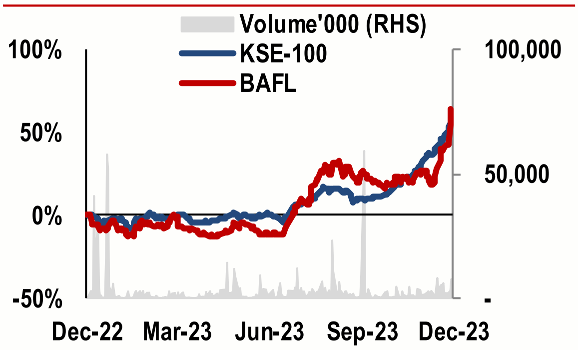
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Interest Income	46,044	77,271	121,643	151,717	154,552
Non-Markup Income	17,237	22,707	27,920	22,133	23,950
PAT	14,460	18,397	37,034	42,275	40,703
EPS at 1.577Mn shares	9.2	11.7	23.5	26.8	25.8
DPS	4.0	5.0	6.0	8.0	9.0
NIM (%)	3.4%	4.4%	5.7%	6.6%	6.4%
CAR (%)	14%	14%	16%	16%	16%
ROE (%)	15%	16%	32%	29%	24%
ROA (%)	1%	1%	1%	1%	1%
Dividend Yield (%)	12%	17%	12%	16%	18%
P/E (x)	3.8	2.6	2.1	1.8	1.9
P/B (x)	0.5	0.5	0.6	0.5	0.4

Source:Company Accounts & TSL Research

About the company

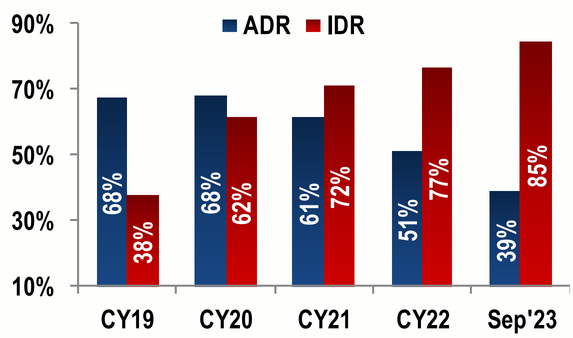
BAFL is one of the prominent mid-tier banks in Pakistan with an asset base of PKR 2.7Trn (Sep'23). The Bank currently operates with 942 branches, including 312 Islamic and 10 overseas branches. As of Sep'23, BAFL's CAR stands at 15.6%.

12M Relative Performance of BAFL



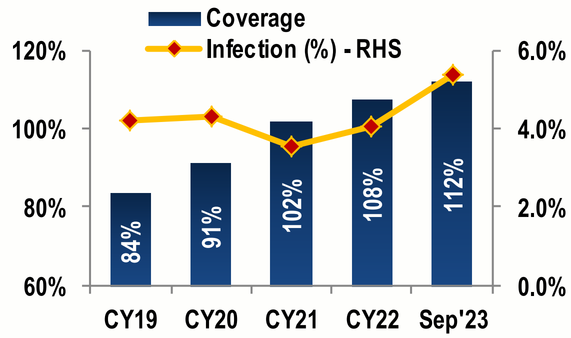
Source: PSX and TSL Research

Movement in ADR and IDR



Source: Company Financials and TSL Research

Infection Ratio and Coverage (%)



Source: Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 171	Shares	4.3 billion
LDCP	PKR 118	Valuation Method	DCF	Market Cap.	PKR 505Bn
Upside	46%	Free-Float (%)	15%	52-Week Range	PKR 69—PKR 129
Ticker	OGDC	Industry	E&P	Sponsor	Government of Pakistan

Largest E&P company with aggressive exploration plans

- OGDC remains the largest E&P company of Pakistan with an aggressive exploration plan to drill 18 wells (exploratory & development) in FY24. To note, 5 new discoveries in FY23 could provide potential earnings upside of ~PKR 9/sh. pa. Furthermore, also a partner in Abu Dhabi Block-5 and Reko Diq.
- The Company is also adopting an approach of taking its time and drilling in difficult terrain which guarantees better results. Work is also underway on three gas compression projects.

Collections from Sui companies to improve significantly

- According to OGDC's management, collections from Sui companies are expected to improve significantly on the back of increase in consumer gas prices. As of Sep'23, overdue circular debt receivables stand at PKR 520Bn or PKR 121/sh.

Attractive valuation and stable payouts

- OGDC is currently trading at a forward P/E of 2.7x only and offers immense potential for price discovery on account of clearing circular debt. The latter coupled with a strong balance sheet is expected to ensure consistent dividend payouts.

Key risks: i) Oil price fluctuation; ii) PKR/USD parity; iii) Delay in circular debt resolution; and iv) Poor exploration outcome.

PKR Mn

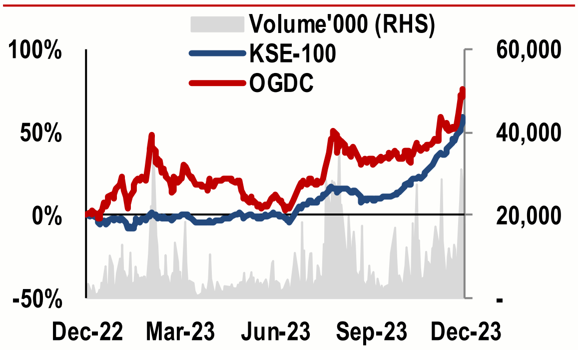
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	239,104	335,464	413,594	448,289	354,258
EBITDA	152,780	258,106	310,196	336,217	265,693
PAT	91,534	133,784	224,618	187,711	164,461
EPS	21.3	31.1	52.2	43.6	38.2
DPS	6.9	7.3	8.6	10.6	10.8
Gross Margin (%)	58%	65%	65%	65%	67%
Net Margin (%)	38%	40%	54%	42%	46%
ROE (%)	12%	16%	23%	17%	13%
ROA (%)	10%	13%	18%	13%	11%
Dividend Yield (%)	7%	9%	11%	9%	9%
P/E (x)	4.5	2.5	1.5	2.7	3.1
P/B (x)	0.5	0.4	0.3	0.4	0.4

Source:Company Accounts & TSL Research

About the company

OGDC is the largest E&P in Pakistan, with 673MMBOE of 2P recoverable reserves from 48 Exploration Blocks, contributing 46%, 29% & 36% to the domestic production of Oil, Gas & LPG, respectively. Partner in Reko Diq and Abu Dhabi Block-5.

12M Relative Performance of OGDC



Source: PSX and TSL Research

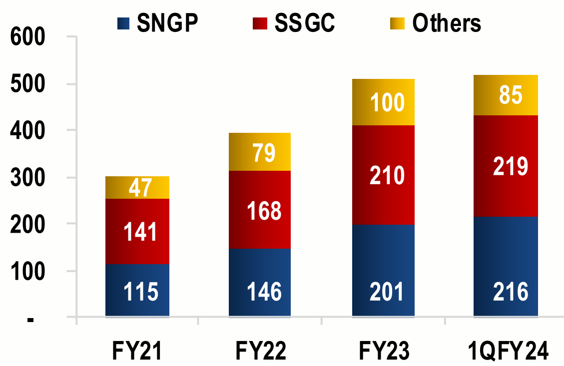
EPS impact of discoveries - FY23

Date	Well	Gas	Oil	EPS
16-Aug-22	Nim East-1	8.3	34	0.1
27-Oct-22	Toot Deep-1	0.9	882	0.9
19-Dec-22	Chak-5 Dim South-3	1.3	2,000	1.6
20-Dec-22	Kot Nawab-1	0.5	125	0.1
15-Jun-23	Wali (Bettani)	50.0	1,000	5.9

Source: Company Annoucement & TSL Research

** Gas is in MMSCFD and Oil in BPD*

OGDC Overdue Receivables Break-Up (PKR Bn)



Source: Company Accounts & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 2,752	Shares	133.4 million
LDCP	PKR 2,055	Valuation Method	DCF	Market Cap.	PKR 274Bn
Upside	34%	Free-Float (%)	20%	52-Week Range	PKR 1,385—PKR 2,245
Ticker	MARI	Industry	E&P	Sponsor	Fauji Foundation

High topline growth; diversified margin accretive streams

- MARI's revenues continue grow at a CAGR of 29% (5Yr) on the back of surge in volumes, favourable pricing as well as addition of reserves. Further, in FY23, MARI also commissioned SGPC, along with diverting of undrawn volumes—both priced under PP12 incremental pricing mostly. Also commenced production from horizontal wells. MARI is also a partner in the Abu Dhabi Block-5 project.

Growing exploration portfolio and other projects

- During FY23, MARI announced discovery in Ghazij (PKR 40/sh. EPS impact) and also added 4 new exploration blocks to its portfolio during FY23. For context, the Company has added 16 blocks to its exploration portfolio in last three years. Work has commenced on GPC for early production from Shewa-1.
- Exploration also ongoing in Hanna & Block-28 (Maiwand X-1); and in Waziristan (Shewa-2, Spinwam etc.) & Mari Ghazij-2.

Dividends to increase with strengthening earnings outlook

- We expect MARI's earnings growth momentum to continue going forward which is also expected to increase payouts.

Key risks: i) Oil price fluctuation; ii) PKR/USD parity; iii) Delay in circular debt resolution; and iv) Poor exploration outcome.

PKR Mn

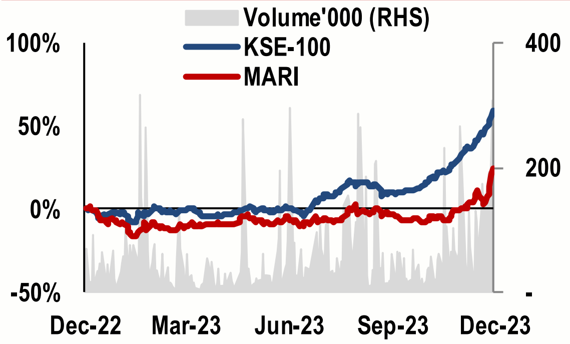
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	73,018	95,134	145,770	191,910	197,661
EBITDA	49,048	60,434	92,991	136,264	129,910
PAT	31,445	33,063	56,129	76,566	78,679
EPS	235.7	247.8	420.7	573.9	589.8
DPS	141.0	124.0	147.0	287.0	295.0
Gross Margin (%)	67%	69%	69%	72%	66%
Net Margin (%)	43%	35%	39%	40%	40%
ROE (%)	30%	27%	35%	34%	26%
ROA (%)	23%	20%	26%	26%	21%
Dividend Yield (%)	9%	7%	10%	14%	14%
P/E (x)	6.5	7.0	3.6	3.6	3.5
P/B (x)	1.8	1.8	1.1	1.0	0.8

Source:Company Accounts & TSL Research

About the company

2nd largest E&P company in Pakistan with ~682MMBOE in 2P reserves. 90% of the Urea production in the country relies on MARI gas. Revitalization of HRL production and SGPC continues to enhance earnings and payouts.

12M Relative Performance of MARI



Source: PSX and TSL Research

Key Developments and Future Projects

Sachal Gas Processing Complex	Situated in Mari Deep and connected through MARI's own cross-country pipeline with the Habib Rahi Limestone (HRL) Reservoir Swing Volume Project. Also, enabled to supply 100MMCFD gas to SNGPL network, majority of which was entitled for incentive price under the 2012 Petroleum Policy
HRL Revitalization Project	Funded by the fertilizer customers, this project aims to maintain Mari HRL Reservoir production plateau at desired delivery pressure for gas supplies to the fertilizer plants.
Abu Dhabi Offshore Block-5	Drilling is expected to commence in early CY24. It is being done in partnership with OGDC, PPL and GHPL under the helm of Pakistan International Oil Limited.
New Blocks	Acquired 4 blocks in Bid Round 2023 of South Pishin, Shaigalu, Tanishpa and Lugai.

Source:Company presentation & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 155	Shares	2.7 billion
LDCP	PKR 119	Valuation Method	DCF	Market Cap.	PKR 323Bn
Upside	31%	Free-Float (%)	24.6%	52-Week Range	PKR 51—PKR 128
Ticker	PPL	Industry	E&P	Sponsor	Government of Pakistan

Global presence and partnerships in diversified ventures

- Ever expanding exploration and production portfolio is spread across Pakistan with presence in UAE, Iraq and Yemen. Furthermore, PPL also holds a mining lease for Baryte, Lead and Zinc which has the potential for exports. PPL is also a partner in Reko Diq and a prospective greenfield refinery project. PPL is also the operator for Abu Dhabi Block 5, holding a 25% stake where drilling is expected to commence in 3QFY24.

Exploration activity bearing fruit

- To note, in FY23 PPL announced discoveries having a cumulative EPS impact of ~PKR 3/sh. Further, for FY24, the Company plans to drill nine exploratory and six developmental wells. FY24 TD, PPL has announced three discoveries having an estimated impact on earnings of PKR 1.8/sh.

Circular debt settlement to support valuation and payouts

- Revision in consumer gas tariffs is likely to increase PPL's collection from the Sui Gas Companies—improving its valuation as well as ensuring higher payouts. Overdue receivables related to circular debt amount to PKR 488.5Bn i.e. PKR 180/sh.

Key risks: i) Oil prices; ii) PKR/USD parity; iii) Delay in circular debt resolution; and iv) Poor exploration outcome.

PKR Mn

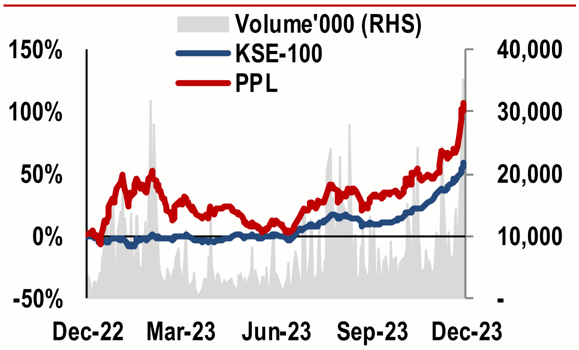
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	148,429	202,199	286,480	310,063	282,320
EBITDA	87,847	120,223	188,633	201,541	183,508
PAT	52,431	53,546	97,937	106,265	96,741
EPS	19.3	19.7	36.0	39.1	35.6
DPS	3.5	2.0	2.5	4.5	5.0
Gross Margin (%)	58%	65%	67%	66%	66%
Net Margin (%)	35%	26%	34%	34%	34%
ROE (%)	14%	13%	20%	19%	15%
ROA (%)	10%	9%	15%	14%	12%
Dividend Yield (%)	4%	3%	4%	4%	4%
P/E (x)	4.5	3.4	1.6	3.0	3.3
P/B (x)	0.6	0.4	0.3	0.5	0.5

Source:Company Accounts & TSL Research

About the company

PPL has 2,560BCF of 2P recoverable reserves with 815MMSCFDE production in FY23 and a share of 21%, 16% and 15% in domestic Oil, Gas, and LPG production. PPL is also a partner in the upcoming Reko Diq project as well as Abu Dhabi Block-5.

12M Relative Performance of PPL



Source: PSX and TSL Research

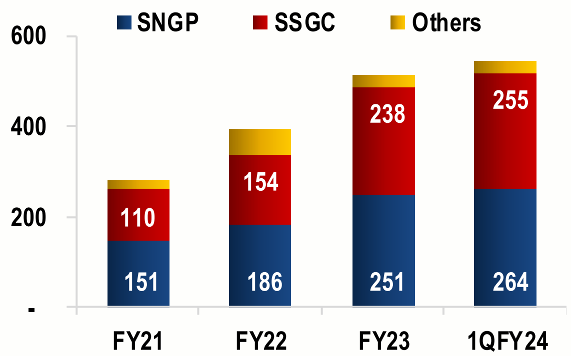
EPS impact of discoveries - FY23

Date	Well	Gas	Oil	EPS
14-Jun-22	Mamikhel South-1	16	3,240	1.1
16-Aug-22	Tolanj West-02	8	34	0.2
12-Oct-22	Shahpur Chakar North X-1	15	321	0.8
3-Apr-23	Rayyan-1	13	0	0.3
12-Sep-23	Nashpa-11	1	830	0.4

Source: Company Annoucement & TSL Research

** Gas is in MMSCFD and Oil in BPD*

PPL Receivables Break-Up (PKR Bn)



Source: Company Accounts & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 396	Shares	536.6 million
LDCP	PKR 307	Valuation Method	SOTP	Market Cap.	PKR 165Bn
Upside	29%	Free-Float (%)	50%	52-Week Range	PKR 237—PKR 330
Ticker	ENGRO	Industry	Fertilizer	Sponsor	Dawood Hercules Corp.

Strong market presence for fertilizer and polymer business

- During 9MCY23, ENGRO's market share of the fertilizer and polymer business stood at 35% and over 90%. Wherein, the fertilizer business grew ~34%. While, the polymer segment performance was flat. We expect the polymer business to rebound as demand recovers in the coming months coupled with better margins. Fertilizer business to carry on its growth momentum.

Other segments also continue to showcase growth

- Performance has improved in power & mining, telecom and other operations too. On the mining side, ENGRO is expected to complete expansion (Phase-III) of the coal mine to 11.4Mn tons by 1HCY24. On the telecom side, number of tower sights continue to grow, aiming to have 5,000+ towers by CY25. Also developing first renewable energy park of Pakistan.

Strong balance sheet ensures sustainable payouts

- Most of the portfolio is hedged against devaluation and other macro imbalances. As of Sep'23, cash & cash equivalents stand at PKR 17.1Bn (~PKR 32/sh.). Possible sale of energy business may also generate a one-time gain and payout surprise.

Key risks: i) Decline in earnings of EFERT & EPCL; ii) Delay or lower returns from growth projects; and iii) Macro headwinds.

Consolidated — PKR Mn

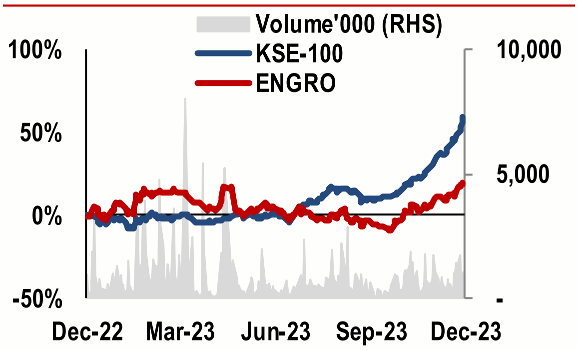
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Sales	311,587	356,428	469,638	493,119	517,775
EBITDA	101,690	113,318	153,059	157,798	165,688
PAT	27,942	24,332	31,680	33,721	35,407
EPS @ 537Mn sh.	52.1	45.3	59.0	62.8	66.0
DPS	25.0	34.0	47.0	50.0	50.0
Gross Margin (%)	32%	29%	29%	28%	27%
Net Margin (%)	9%	7%	7%	7%	7%
ROE (%)	18%	15%	19%	19%	20%
ROA (%)	8%	5%	6%	6%	6%
Dividend Yield (%)	9%	13%	15%	16%	16%
P/E (x)	5.2	5.8	5.2	4.9	4.7
P/B (x)	0.6	0.6	1.0	0.9	0.9

Source:Company Accounts & TSL Research

About the company

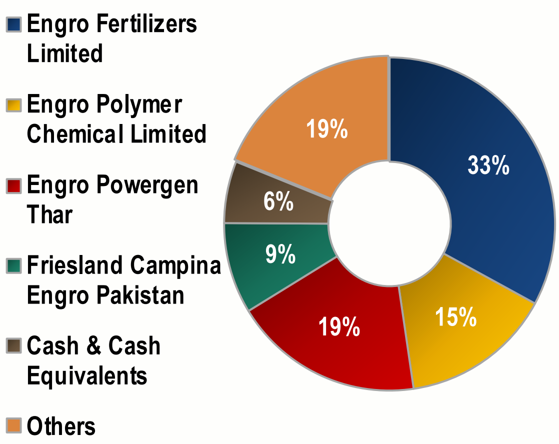
ENGRO is one of the largest conglomerates in Pakistan with diversification in economically vital sectors including Fertilizer, Energy, Petrochemicals, Terminals and Technology. Upcoming projects are likely to add further value to its portfolio.

12M Relative Performance of ENGRO



Source: PSX and TSL Research

Valuation contribution - %



Source: Company Accounts & TSL Research

**Others includes Engro Elengy Terminal Private Limited, Engro Powergen Qadirpur Limited, Sindh Engro Coal Mining Company, Engro Vopak Terminal Limited, Engro Eximp FZE and Engro Infiniti Limited*

Rating	BUY	Dec'24 Target Price	PKR 131	Shares	1,335 million
LDCP	PKR 108	Valuation Method	DCF	Market Cap.	PKR 144Bn
Upside	22%	Free-Float (%)	45%	52-Week Range	PKR 75 —PKR 115
Ticker	EFERT	Industry	Fertilizer	Sponsor	Engro Corporation

Dominant Urea manufacturer, offering attractive payouts

- EFERT continues to remain a dominant player in the Urea space along with being the largest importer of DAP. Our preference for EFERT emanates mainly from: i) strong pricing influence; ii) rise in Urea production following BMR at its base plant; iii) cost-effective operations; and iv) higher dividend payouts compared to peers. Going forward, we expect dividend yield to clock-in at 20% & 22% for CY24 & CY25.

Offtake to remain elevated coupled with robust pricing power

- EFERT's urea off-take during 11MCY23 arrived at ~2.1Mn tons as compared to ~1.7Mn tons in 11MCY22 mainly due to the BMR activity at the base plant resulting in higher production along with increased efficiencies.
- Accordingly, we expect the momentum to continue amid stable gas supply—boding well for the Company. Market share also expected to remain elevated i.e. over ~35% in CY24. Further, we expect EFERT's dominant market position to enable it to pass on any cost hike impacts including higher gas prices, sustaining gross margins in the long-term.

Key risks: i) Availability of gas; ii) Fluctuation in gas prices; iii) Delay in recovery of subsidies; iv) PKR devaluation; and v) Unexpected plant shutdowns disrupting production and market share.

Consolidated — PKR Mn

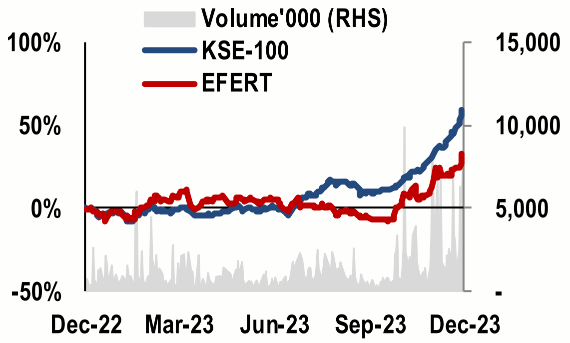
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Sales	132,363	157,017	218,043	228,068	237,835
EBITDA	34,376	32,440	51,649	57,146	62,084
PAT	21,093	16,003	24,162	30,768	33,792
EPS	15.8	12.0	18.1	23.0	25.3
DPS	16.5	13.5	17.7	21.9	24.0
Gross Margin (%)	33%	27%	29%	31%	32%
Net Margin (%)	16%	10%	11%	13%	14%
ROE (%)	45%	35%	53%	66%	67%
ROA (%)	16%	12%	19%	29%	30%
Dividend Yield (%)	22%	18%	16%	20%	22%
P/E (x)	4.8	6.4	5.9	4.7	4.3
P/B (x)	2.2	2.3	3.1	3.0	2.7

Source: Company Accounts & TSL Research

About the company

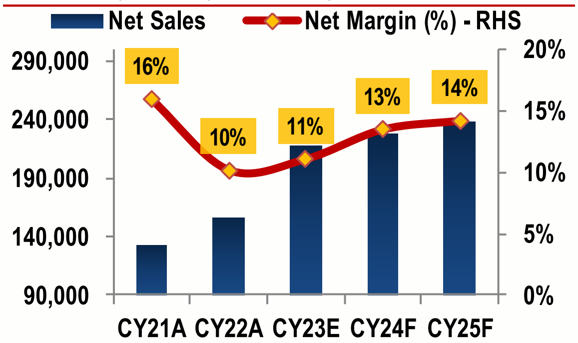
EFERT is the second largest Urea manufacturer in Pakistan, having the most efficient production facilities. The largest importer of DAP ensuring sufficient supplies to the market. Also, the Company manufactures different special fertilizers.

12M Relative Performance of EFERT



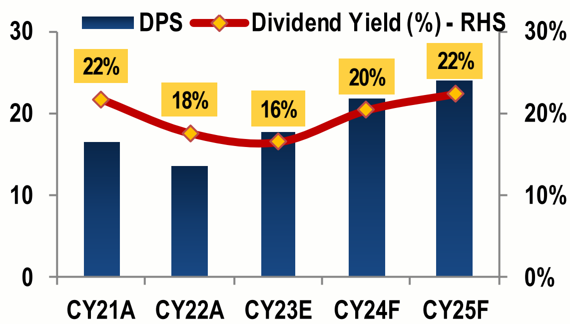
Source: PSX and TSL Research

Net Sales (PKR Mn) & Net Margin - YoY



Source: Company Accounts & TSL Research

Dividend Yield (%)



Source: Company Accounts & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 141	Shares	1,272 million
LDCP	PKR 115	Valuation Method	DCF	Market Cap.	PKR 146Bn
Upside	23%	Free-Float (%)	55%	52-Week Range	PKR 90 —PKR 122
Ticker	FFC	Industry	Fertilizer	Sponsor	Fauji Foundation

Reigning Supreme as the Leading Provider of Urea

- FFC is the market leader in Urea, with a 38% share. Further, has ~49.9% holding in FFBL, the sole producer of DAP along with the largest market share, which benefits FFC on the DAP front. Moreover, FFC also has sizeable short-term investments along with strategic investments in multiple businesses.

Robust pricing power to support margins

- FFC's gross margin peaked at ~47% in 2QCY23 due to higher retention prices and unchanged gas tariffs on MARI network. However, despite OGRA's announced gas tariff hikes, effective October 01, 2023, FFC's gross margin is anticipated to remain stable due to its strong pricing power. The company previously raised Urea prices by ~PKR 1,170/bag in CY23TD anticipating increase in gas tariff, and is expected to continue its aggressive pricing strategy to offset any future cost impacts.

Balance sheet remains strong with sustainable payouts

- Short-term borrowings reduced substantially to ~PKR 5Bn as of Sep'23. Further, FFC has sufficient cash & cash equivalents to meet GIDC obligations and continue paying dividends.

Key risks: i) Govt. intervention in prices; ii) Plant overhaul; iii) Subsidy & GST receivables; and iv) Initiation of GIDC payments.

Standalone — PKR Mn

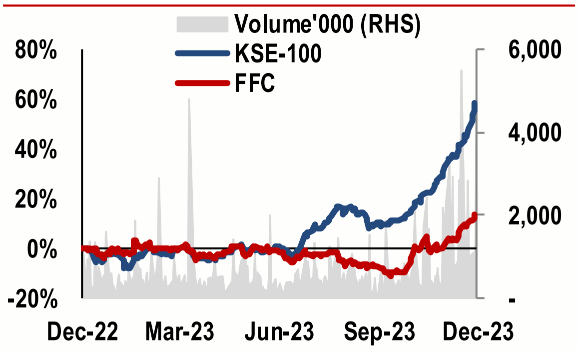
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Sales	108,651	109,364	171,526	204,757	211,919
EBITDA	35,071	40,980	60,701	66,576	68,308
PAT	21,896	20,049	31,625	36,370	38,797
EPS	17.2	15.8	24.9	28.6	30.5
DPS	14.5	12.1	17.0	20.0	21.3
Gross Margin (%)	36%	37%	37%	36%	36%
Net Margin (%)	20%	18%	18%	18%	18%
ROE (%)	49%	41%	57%	58%	56%
ROA (%)	12%	9%	14%	18%	19%
Dividend Yield (%)	14%	12%	15%	17%	19%
P/E (x)	5.8	6.3	4.6	4.0	3.8
P/B (x)	2.7	2.5	2.5	2.2	2.0

Source:Company Accounts & TSL Research

About the company

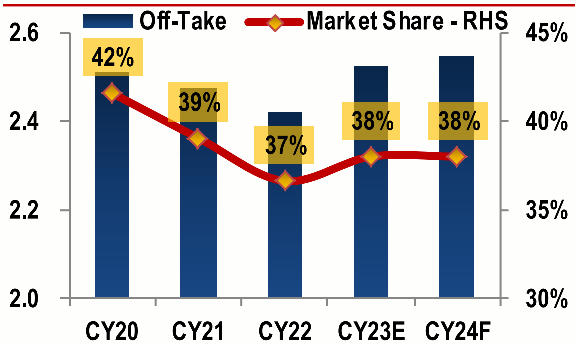
FFC is the leading Urea manufacturer in Pakistan having a vast dealership network, with a market share of ~38%. Apart from the core business, FFC has lucrative investments in multiple businesses which contribute to its earnings.

12M Relative Performance of FFC



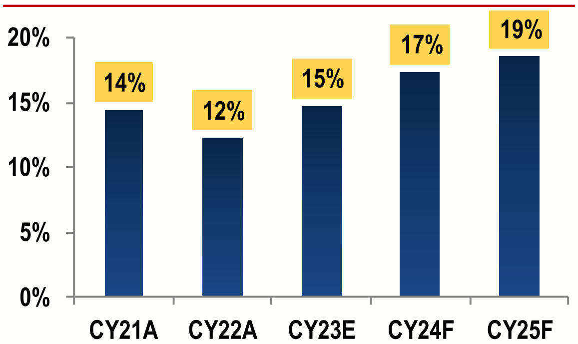
Source: PSX and TSL Research

Urea Off-take (Mn Ton) & Market Share (%)



Source: NFDC & TSL Research

Dividend Yield



Source: Company Accounts & TSL Research

REP- 040

Rating	BUY	Dec'24 Target Price	PKR 1,110	Shares	313.4 million
LDCP	PKR 783	Valuation Method	SOTP	Market Cap.	PKR 245Bn
Upside	42%	Free-Float (%)	30%	52-Week Range	PKR 376 —PKR 830
Ticker	LUCK	Industry	Cement	Sponsor	Yunus Brothers

Largest and most diversified cement producer of Pakistan

- LUCK is the largest manufacturer and exporter of cement and clinker in Pakistan, boasting a capacity of 15.3Mn tons per p.a. with a strong presence in both the North and South regions. The Company is also one of the largest conglomerates with exposure to Autos, Chemical, Power, Pharmaceutical etc. Non-core businesses contribute ~69% to consolidated revenues.

Improving core business outlook and foreign operations

- During 5MFY24, both domestic and export sales are up, with LUCK's market share hovering ~17% in domestic and ~26% in exports. Further, it continues to invest in renewable power projects to achieve cost efficiencies supporting margins.

Contribution from other business segments remains robust

- Going forward, we anticipate all non-core businesses excluding automobile & mobiles segment to continue their growth momentum led by strong results for LEPL (fully operational now) and LCI (Soda Ash, Polyester, Pharmaceutical, Chemicals etc.). However, LMC is expected to under-perform amid dampened outlook for the overall auto sector.

Key risks: i) Fall in cement sales; ii) Drop in non-core earnings; iii) Fluctuation in international coal prices; and iv) High interest rates.

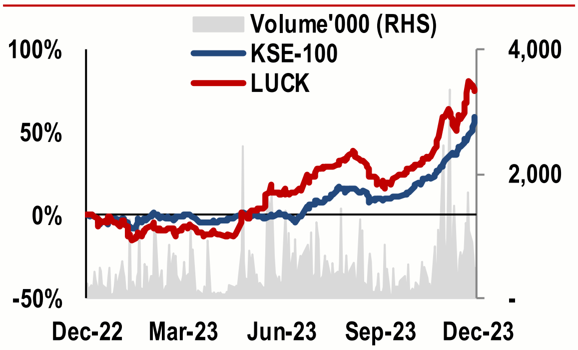
Consolidated					PKR Mn
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	207,159	325,400	385,125	423,500	465,850
EBITDA	40,918	55,404	94,047	108,076	118,884
PAT	28,229	36,423	59,537	66,529	73,181
EPS @ 313Mn Sh.	90.1	116.2	190.0	212.3	233.5
DPS	0.0	0.0	18.0	22.0	28.0
Gross Margin (%)	23%	18%	24%	25%	26%
Net Margin (%)	14%	11%	15%	16%	16%
ROE (%)	20%	20%	26%	24%	24%
ROA (%)	9%	8%	11%	10%	10%
Dividend Yield (%)	0%	0%	3%	3%	4%
P/E (x)	9.5	3.9	2.8	3.7	3.4
P/B (x)	1.7	0.7	0.6	0.9	0.8

Source: Company Accounts & TSL Research

About the company

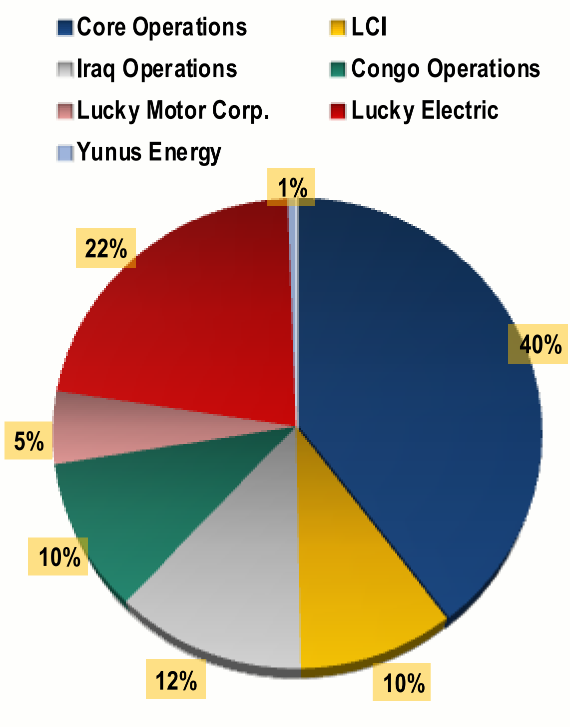
LUCK is the largest cement producer in Pakistan, with a production capacity of ~15.3Mn tons pa. It is also one of the largest conglomerates with diversification in Autos (LMC), Chemicals (LCI), Power (LEPCL) and Pharmaceutical, etc.

12M Relative Performance of LUCK



Source: PSX and TSL Research

Percentage Contribution to Fair Value



Source: TSL Research

Rating	BUY	Dec'24 Target Price	PKR 28	Shares	2.45 billion
LDCP	PKR 18	Valuation Method	DCF	Market Cap.	PKR 45Bn
Upside	52%	Free-Float (%)	35%	52-Week Range	PKR 10 —PKR 21
Ticker	FCCL	Industry	Cement	Sponsor	Fauji Foundation

Expansion makes it one of the largest cement producers

- FCCL has become the third largest cement manufacturer in Pakistan (2nd largest in the North) following commissioning of its greenfield project in DG Khan with a total production capacity of 10.6Mn tons p.a. The latter coupled with earlier addition of 6,825 tons per day at Nizampur plant has led to an increase in FCCL's capacity-based market share to ~13%.
- 1QFY24 overall dispatches were up 25%YoY over the SPLY, wherein local sales clocked-in at 1.15Mn tons (up 20%YoY) and export sales stood at 0.2Mn tons (up 73%YoY), respectively. Exports to Afghanistan also showed significant improvement.

Ensuring cost efficiencies to protect margins

- In FY23, FCCL boosted its solar power capacity to 40MW and WHR power capacity to 47MW, positioning itself strongly against rising grid costs and becoming energy efficient. Own captive generation makes up for ~49% of energy needs. Moreover, current coal mix stands at 53% Local & 47% Afghan coal. Gross margin stood at 31% in 1QFY24 (30% in FY23).
- FCCL is currently trading at a forward P/E of 4.7x.

Key risks: i) Slowdown in demand; ii) PKR devaluation; iii) Higher interest rates; & iv) Price competition between peers.

PKR Mn

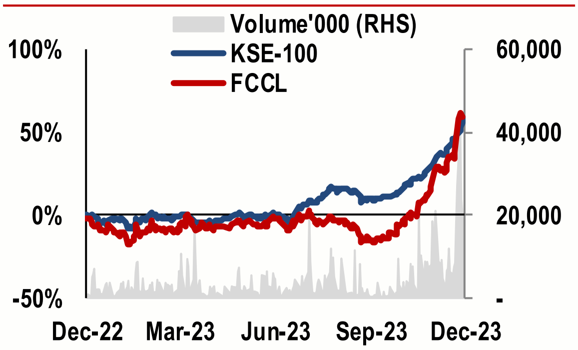
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	24,271	54,243	68,069	81,683	104,554
EBITDA	6,814	15,680	20,179	25,848	34,132
PAT	3,471	7,113	7,440	9,745	14,564
EPS @ 2.45Bn Sh.	1.4	2.9	3.0	4.0	5.9
DPS	0.0	0.0	0.0	0.0	1.0
Gross Margin (%)	25%	29%	30%	31%	32%
Net Margin (%)	14%	13%	11%	12%	14%
ROE (%)	16%	18%	12%	14%	18%
ROA (%)	11%	10%	6%	7%	8%
Dividend Yield (%)	0%	0%	0%	0%	5%
P/E (x)	16.1	5.0	4.0	4.7	3.1
P/B (x)	2.4	0.6	0.5	0.6	0.5

Source:Company Accounts & TSL Research

About the company

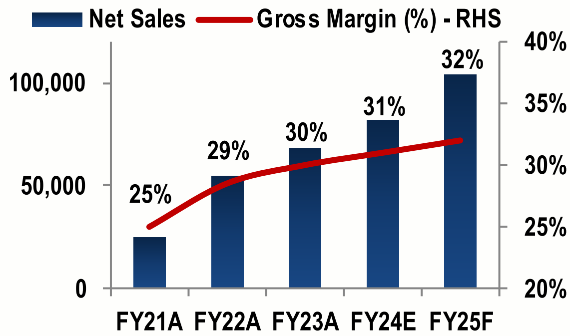
FCCL has emerged as the third largest cement producer in Pakistan, solidifying its presence in the North Region. With state-of-the-art production facilities, the Company boasts exceptional efficiency, leading to optimum cost management.

12M Relative Performance of FCCL



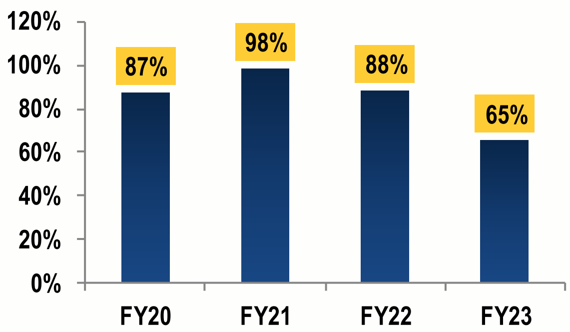
Source: PSX and TSL Research

Net Sales (PKR Mn) & Gross Margin (%)



Source: Company Accounts & TSL Research

Capacity Utilization (%)



Source: Company Accounts & TSL Research

Hub-Power Company Limited (HUBC)—Power

HUBCO

REP- 040

Rating	BUY	Dec'24 Target Price	PKR 160	Shares	1,297 million
LDCP	PKR 117	Valuation Method	DCF	Market Cap.	PKR 152Bn
Upside	37%	Free-Float (%)	75%	52-Week Range	PKR 57—PKR 127
Ticker	HUBC	Industry	Power Generation	Sponsor	Mega Conglomerate

Strategic investments ensure long-term sustainability

- HUBC's timely investments in CPEC related projects i.e. CPHGC, Thar Energy Limited (TEL), ThalNova and SECMC, as well as diversification into the oil & gas sector i.e. acquisition of ENI Pakistan, ensure long-term sustainability with a robust earnings outlook, specially as the nation's generation mix shifts towards cheaper and indigenous fuels.

Improving cash flow situation to sustain dividend payouts

- Inflow of contribution from TEL and ThalNova along with commencement of dividends from CPHGC to improve overall cash flows for the company. Additionally, inflows due to settlement of circular debt related receivables is also likely to boost prospects of higher payouts going forward. To note, HUBC is owed PKR 65.4Bn (~PKR 50/sh.) by the CPPA-G.

Monetary easing to alleviate burden of finance costs

- Commencement of the easing cycle to result in HUBC's finance costs decreasing sharply FY25 onwards. This would support long-term liquidity, enabling funds for further diversification (water recycling, renewables projects) and dividend payouts.

Key risks: i) Drop in load factors; ii) Drop in contribution from strategic investments; and iii) Increase in circular debt receivables.

Consolidated — PKR Mn

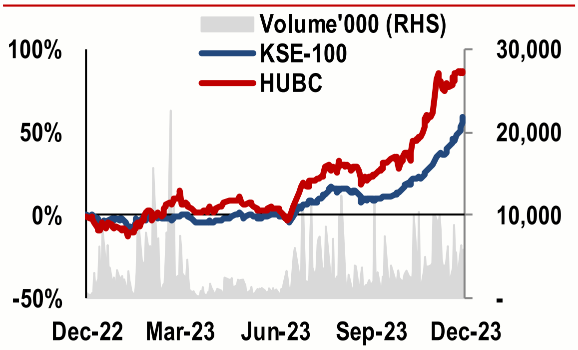
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	54,639	97,158	114,263	119,976	122,976
EBITDA	51,247	47,705	97,089	98,980	101,455
PAT	34,830	29,579	62,007	65,987	71,326
EPS	26.0	22.0	44.4	50.9	55.0
DPS	12.0	6.5	30.0	30.0	28.0
Gross Margin (%)	60%	34%	46%	51%	53%
Net Margin (%)	64%	30%	54%	55%	58%
ROE (%)	36%	25%	44%	38%	35%
ROA (%)	13%	10%	17%	15%	14%
Dividend Yield (%)	15%	10%	43%	26%	24%
P/E (x)	3.1	3.1	1.6	2.3	2.1
P/B (x)	0.9	0.7	0.6	0.8	0.7

Source:Company Accounts & TSL Research

About the company

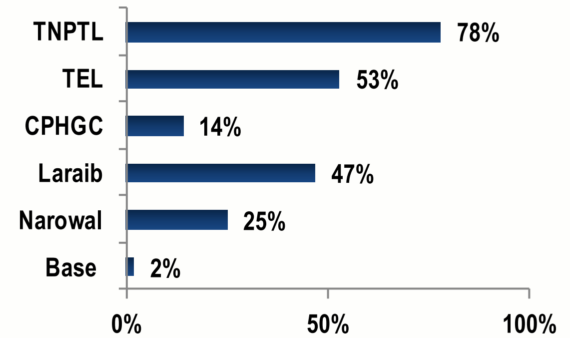
HUBC is the leading and largest IPP of Pakistan operating with six power plants having a combined power generation capacity of 3,581MW. The Company is also engaged in mining and oil & gas exploration businesses, respectively.

12M Relative Performance of HUBC



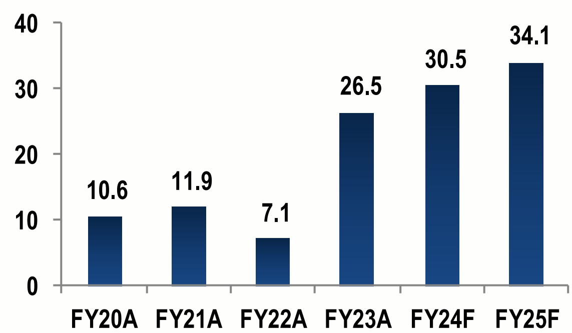
Source: PSX and TSL Research

Load factors for HUBC Power Plants FY23



Source: Company Financials and TSL Research

Share of profit from associates per share



Source: Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 255	Shares	469.5 million
LDCP	PKR 187	Valuation Method	DCF	Market Cap.	PKR 88Bn
Upside	37%	Free-Float (%)	45%	52-Week Range	PKR 98—PKR 218
Ticker	PSO	Industry	Oil Marketing Company	Sponsor	Government of Pakistan

Leadership position with vertical integration

- Overall market share remains at ~52%, with MS and HSD market share during 5MFY24 hovered ~46% and 56%, respectively, attributable to the largest storage, distribution & retail network in Pakistan. PSO also enjoys upstream integration as its holds a controlling stake in PRL which plans to upgrade its facilities.

Largest LNG importer; circular debt dampening valuation

- Recent gas tariff revisions could substantially mitigate PSO's liquidity issues which has been the primary reason for PSO's heavy reliance on short-term borrowings. Whereas, circular debt related overdue receivables stand at PKR 408.9Bn - settlement may unlock PSO's valuation.

Robust earnings growth potential amid rising margins

- Currently, OMC's margin on MS and HSD stands at PKR 7.87/litre—significantly higher than last year. Going forward, timely margin revisions will continue to support profitability and liquidity for PSO due to its market leader position.
- Moreover, PSO's volumetric sales are also expected to recover amid curbs on smuggling and reviving economic activity.

Key risks: i) Oil price / Rupee fluctuation; ii) Delay in margin revisions; iii) Fluctuation in interest rates; and iv) Circular debt.

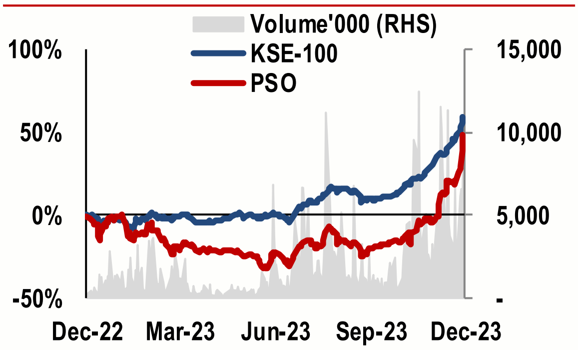
Standalone					PKR Mn
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	1,204,247	2,451,581	3,391,112	3,475,890	3,562,787
EBITDA	55,612	154,267	66,831	104,277	115,791
PAT	29,139	86,223	5,662	30,908	33,929
EPS	62.1	183.7	12.1	65.8	72.3
DPS	15.0	10.0	7.5	10.0	10.0
Gross Margin (%)	5%	7%	2%	4%	4%
Net Margin (%)	2%	4%	0%	1%	1%
ROE (%)	23%	48%	3%	13%	13%
ROA (%)	8%	13%	1%	3%	3%
Dividend Yield (%)	7%	6%	7%	5%	5%
P/E (x)	3.6	0.9	9.2	2.8	2.6
P/B (x)	0.8	0.4	0.2	0.4	0.3

Source:Company Accounts & TSL Research

About the company

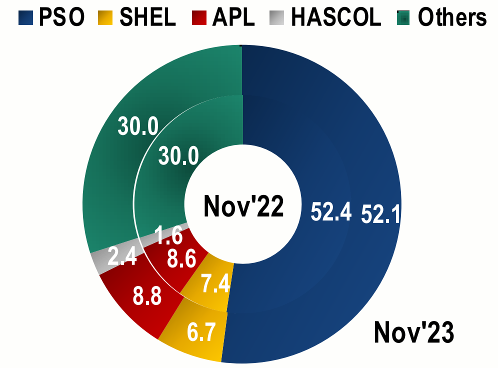
PSO is the largest OMC of Pakistan, having a market share of ~52% (5MFY24). PSO's improving margins and growing storage, distribution and retail network are expected to fuel robust earnings growth going forward.

12M Relative Performance of PSO



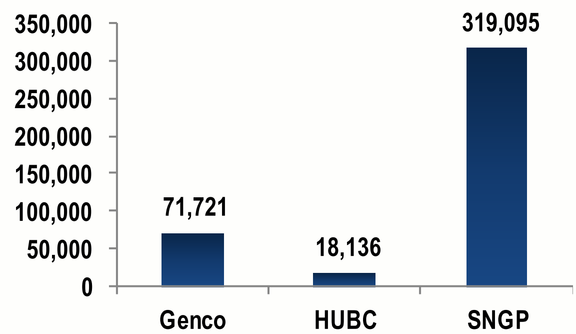
Source: PSX and TSL Research

PSO Market Share (%)



Source: OCAC & TSL Research

PSO Circular Debt Receivables (Sep'23) - PKR Mn



Source: Company Financials and TSL Research

Rating	BUY	Dec'24 Target Price	PKR 1,738	Shares	78.6 million
LDCP	PKR 1,260	Valuation Method	DCF	Market Cap.	PKR 99Bn
Upside	38%	Free-Float (%)	17.6%	52-Week Range	PKR 800—PKR 1,318
Ticker	INDU	Industry	Automobile Assembler	Sponsor	Toyota / Overseas Pak.Inv

Strong market presence in high margin categories

- Manufactures high margin and widely respected brands such as Corolla, Yaris, Fortuner and Hilux that covered 25% of the market in FY23. During 1QFY24, INDU recorded a commendable ~10% gross margin despite subdued demand. We expect margins to remain stable going forward amid a stable Rupee, falling inflation as well as higher vehicle prices.

Sales volumes expected to recover despite ongoing pressures

- 5MFY24 sales are down 58% over the SPLY on account of lower demand. However, we expect recovery in volumes during 2HFY24 on account of commencement of new calendar year, elections driven demand, strong rural economics and some pick-up in consumer finance as interest rates fall. Also launch of new variants i.e. Corolla Cross to boost sales too.

Strong balance sheet bedrock of earnings

- INDU has one of the largest cash and short-term investments of PKR 44.4Bn (~PKR 565/sh.) which makes its liquidity position the best among peers, enabling consistent dividend payouts. The stock is also trading at an attractive forward P/E of 9.9x, cheapest among our auto universe companies.

Key risks: i) Delay in capacity expansion; ii) Drop in margins; iii) Imposition of duties on EVs etc.; and iv) LC restrictions.

PKR Mn

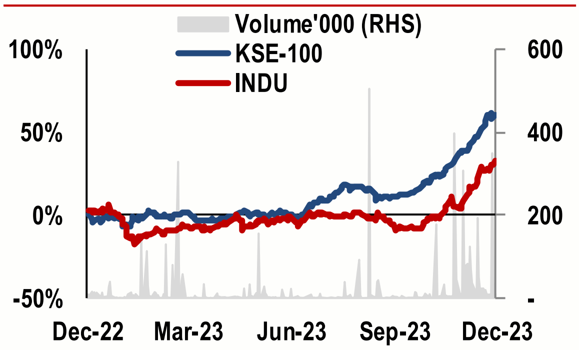
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	179,162	275,506	177,711	125,910	187,506
EBITDA	21,419	28,912	20,632	19,830	26,002
PAT	12,829	15,802	9,664	9,974	13,579
EPS	163.2	201.0	123.0	126.9	172.8
DPS	103.5	93.8	71.8	75.9	103.0
Gross Margin (%)	9%	7%	4%	10%	10%
Net Margin (%)	7%	6%	5%	8%	7%
ROE (%)	34%	19%	17%	30%	23%
ROA (%)	12%	9%	6%	7%	9%
Dividend Yield (%)	8%	8%	8%	6%	8%
P/E (x)	7.7	5.7	7.7	9.9	7.3
P/B (x)	2.0	1.7	1.2	1.5	1.5

Source: Company Accounts & TSL Research

About the company

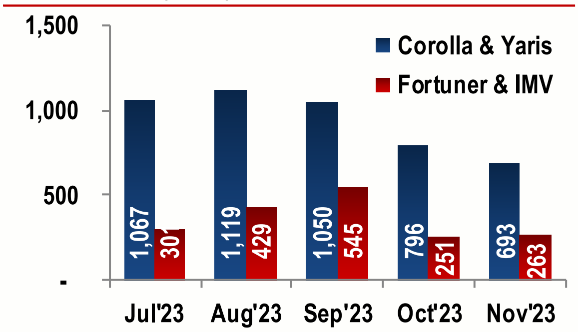
Indus Motor Company Limited is a joint venture between the House of Habib, Toyota Motor Corporation and Toyota Tsusho Corporation of Japan. INDU manufactures and markets "Toyota" brand vehicles in Pakistan, having ~17% (Nov'23) market share of the passenger car segment.

12M Relative Performance of INDU



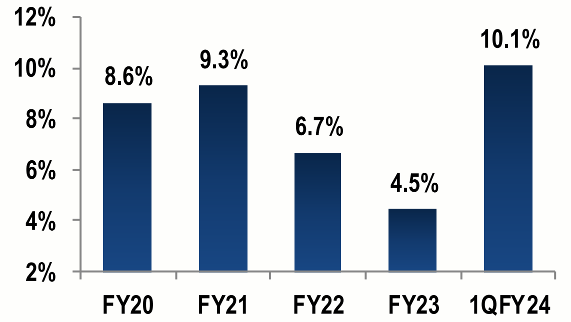
Source: PSX and TSL Research

5MFY24 Sales (Units) for INDU



Source: PAMA

Gross Margin (%)



Source: Company Financials

Rating	BUY	Dec'24 Target Price	PKR 105	Shares	280 million
LDCP	PKR 71	Valuation Method	DCF	Market Cap.	PKR 20Bn
Upside	48%	Free-Float (%)	30%	52-Week Range	PKR 46—PKR 76
Ticker	AGP	Industry	Pharmaceutical	Sponsor	Aitkenstuart Pakistan

Rapid growth of high margin portfolio

- The Company has continued to grow organically with above industry average growth in top selling brands such as Rigix, Osnate, Ceclor, Spasler and Anafortan. Furthermore, exports have also provided high growth and margins which have been increasing due to favourable exchange rate. Meanwhile, new product launches are also in the pipeline with focus on the oncology and anti-microbial segments. Earnings also expected to benefit from lower finance costs as interest rates fall.

Nutraceuticals providing diversification

- Nutraceuticals portfolio consisting of lifestyle products, nutritional supplements and probiotics are produced at a dedicated plant which was acquired in 2019. This will continue to provided higher margins and diversification benefits to the Company as it plans to expand its product pipeline going forward.

Enhancement of "Pfizer portfolio" margins

- Plans are afoot to localize production of the portfolio that includes Cardio-metabolic and Neuro-psychiatry medicines with an annual turnover of ~PKR 2Bn which was acquired from Viatris Inc. currently marketed by Pfizer Pakistan.

Key risks: i) PKR depreciation; ii) Regulatory hindrances, including delay in approvals; & iii) Drop in margins and market share.

PKR Mn

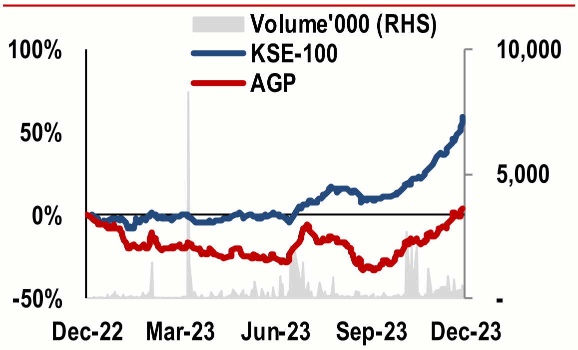
Key Metrics	CY21A	CY22A	CY23E	CY24F	CY25F
Net Sales	9,317	14,459	18,591	24,383	27,734
EBITDA	2,678	3,166	3,963	4,988	5,670
PAT	1,846	1,705	1,825	3,299	3,949
EPS	6.2	5.6	5.6	10.4	12.8
DPS	2.5	2.0	2.0	4.0	5.0
Gross Margin (%)	54%	51%	52%	52%	52%
Net Margin (%)	20%	12%	10%	14%	14%
ROE (%)	18%	16%	15%	23%	24%
ROA (%)	12%	11%	11%	17%	19%
Dividend Yield (%)	3%	3%	3%	6%	7%
P/E (x)	14.8	11.6	12.6	6.8	5.5
P/B (x)	2.5	1.7	1.7	1.4	1.2

Source:Company Accounts & TSL Research

About the company

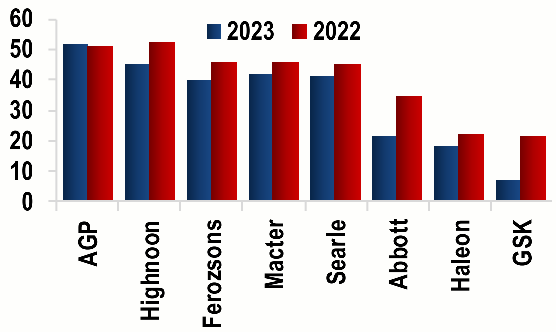
AGP is among the fastest growing pharmaceutical companies in Pakistan with a portfolio comprising of brands from UCB, Lilly, Mylan, Sandoz and Pfizer. Its portfolio mix provides one of the highest gross margins among listed peers.

12M Relative Performance of AGP



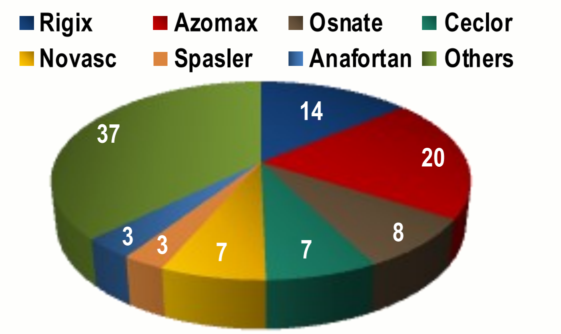
Source: PSX and TSL Research

Gross Margin (%) - Peer Comparison



Source: Company Presentations & TSL Research

AGP - Revenue contribution %



Source: Company Presentations & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 100	Shares	1,401 million
LDCP	PKR 67	Valuation Method	DCF	Market Cap.	PKR 94Bn
Upside	48%	Free-Float (%)	20%	52-Week Range	PKR 32—PKR 77
Ticker	ILP	Industry	Textile Composite	Sponsor	Musadaq Zulqarnain

Vision 2025: Transforming into a full family clothing business

- ILP is targeting and remains poised to achieve USD 700Mn in revenue (~USD 400Mn FY23) by FY25, along with 2.5x growth in revenue from the value added segment. Since FY18, revenue has grown at a CAGR of 31% backed by robust profitability. Going forward, we expect ILP's topline to grow at a CAGR of 34%, with strong margins averaging ~34% overall.

Largest hosiery manufacturer with a growing global presence

- Hosiery business continues to grow from strength to strength driven by a solid global clientele and an ever expanding international presence. Recent acquisition of Top Circle Hosiery USA (supplier to world's leading brands) to drive revenue growth & diversification. Moreover, ILP's latest Apparel plant (more than doubled existing capacity) has also gone live. Expansion also planned for the Denim segment which has immense potential and is expected to become profitable in future.

Healthy operations to overshadow leverage concerns

- Robust operations offset the impact of higher finance costs. Reduction in leverage post-expansions along with lower interest rates FY25 onwards are expected to boost earnings further.

Key risks: i) Interest rate changes; ii) Slowdown in export markets; iii) Energy costs; & iv) Drop in contribution from Hosiery.

PKR Mn

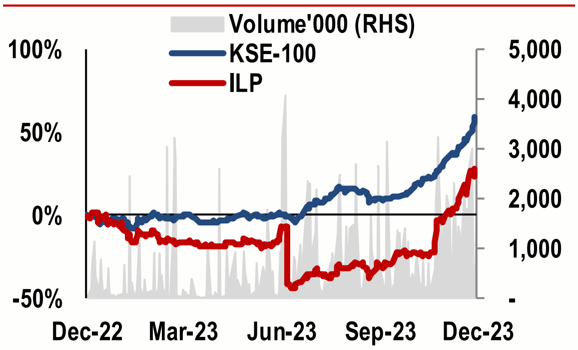
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	54,962	90,894	119,200	149,000	178,800
EBITDA	10,176	18,488	30,093	44,700	53,640
PAT	6,292	12,360	20,172	23,840	32,184
EPS	4.5	8.8	14.4	17.0	23.0
DPS	2.5	4.0	5.0	6.0	7.0
Gross Margin (%)	26%	29%	33%	33%	34%
Net Margin (%)	11%	14%	17%	16%	18%
ROE (%)	33%	49%	55%	46%	46%
ROA (%)	12%	16%	18%	17%	18%
Dividend Yield (%)	4%	7%	14%	9%	10%
P/E (x)	15.6	6.9	2.5	4.0	2.9
P/B (x)	4.8	1.8	1.1	1.6	1.2

Source:Company Accounts & TSL Research

About the company

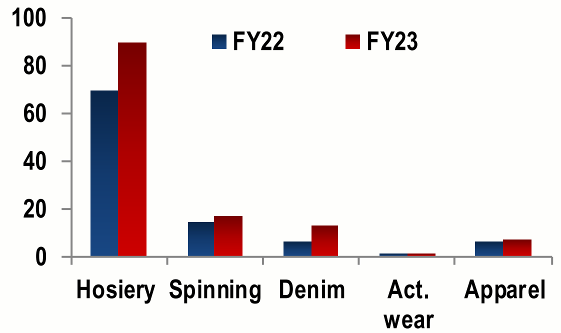
ILP is one of the fastest growing textile companies in Pakistan. It is vertically integrated and manufactures Hosiery, Denim, Apparel and Active wear for leading international brands. It also produces yarn for a range of customers.

12M Relative Performance of ILP



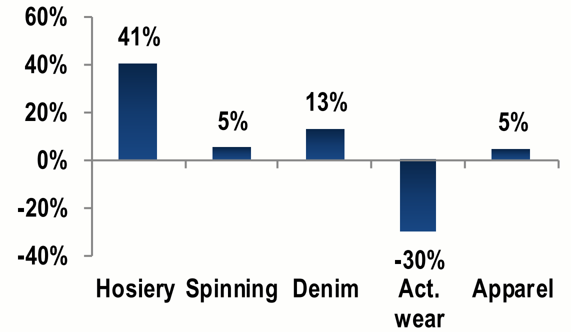
Source: PSX and TSL Research

Segment-wise Contribution to Revenue (PKR Mn)



Source: Company Accounts & TSL Research

Segment-wise Gross Margins FY23



Source: Company Accounts & TSL Research

Agha Steel Industries Limited (AGHA)—Engineering

TAURUS SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

REP- 040

Rating	BUY	Dec'24 Target Price	PKR 25	Shares	604.8 million
LDCP	PKR 15	Valuation Method	DCF	Market Cap.	PKR 6Bn
Upside	71%	Free-Float (%)	40%	52-Week Range	PKR 9 —PKR 17
Ticker	AGHA	Industry	Engineering	Sponsor	Management

Leading the way in technological advancements

- AGHA is the most efficient steel producer in Pakistan, enjoying a relative cost advantage through utilization of DRI compared to its peers on the back of use of Electric Arc Furnace—yielding superior margins compared to peers. The Company is also set on inducting state-of-the-art Mi.Da. plant.

Mi.DA all set to commence operations in 3QFY24

- Mi.DA plant (first in Pakistan) is expected to commence operations in 3QFY24, offering several benefits to the Company: i) increase in re-rolling capacity to 650K tons; ii) improved yields of up to 99%; iii) energy savings; and iv) a compact design compared to a traditional mill, requiring 49% less space.

Indigenous iron ore to reduce reliance on imported scrap

- The company is currently in the process of installing a "Mini Blast Furnace" which will allow them to produce rebar using locally sourced iron ore. For this AGHA has also entered into supply agreements with iron mines in KPK. This development also opens up the opportunity for exporting the same product.

Key risks: i) Inability to complete the aforementioned projects in a timely manner; ii) Lower off-take despite cost-efficiencies; iii) Higher working capital requirements; and iv) Higher finance cost.

PKR Mn

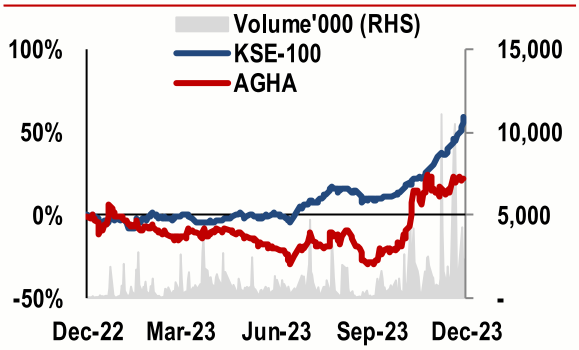
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	19,858	25,648	20,582	26,703	39,383
EBITDA	4,311	4,849	4,825	6,659	9,589
PAT	2,036	1,855	905	2,040	3,603
EPS	3.6	3.1	1.5	3.0	5.7
DPS	-	-	-	-	0.5
Gross Margin (%)	23%	21%	23%	24%	25%
Net Margin (%)	10%	7%	4%	8%	9%
ROE (%)	15%	12%	5%	11%	16%
ROA (%)	6%	4%	2%	5%	8%
Dividend Yield (%)	0%	0%	0%	0%	3%
P/E (x)	9.3	5.1	6.5	4.8	2.6
P/B (x)	1.5	0.6	0.4	0.5	0.4

Source: Company Accounts & TSL Research

About the company

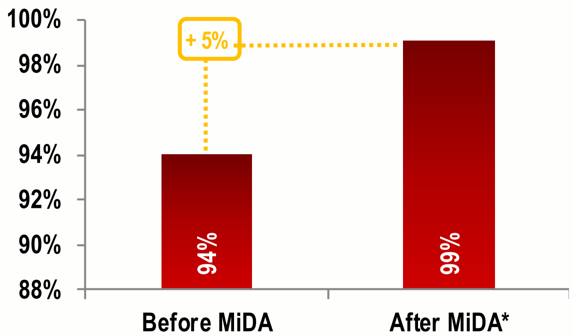
AGHA is one of the most prominent long-steel players in the Country, having most efficient production line i.e. Electric Arc Furnace, providing greater flexibility in terms of using different recipes of raw materials—greater cost optimization.

12M Relative Performance of AGHA



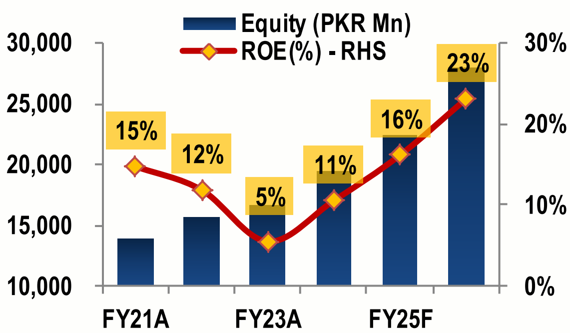
Source: PSX and TSL Research

Expected Yield - Post MiDA Commissioning



Source: Company Announcement & TSL Research

Return on Equity (ROE) - %



Source: Company Financals & TSL Research

Rating	BUY	Dec'24 Target Price	PKR 93	Shares	335.6 million
LDCP	PKR 68	Valuation Method	DCF	Market Cap.	PKR 23Bn
Upside	38%	Free-Float (%)	25%	52-Week Range	PKR 41 —PKR 75
Ticker	MUGHAL	Industry	Engineering	Sponsor	Management

Recovery in ferrous segment demand to improve topline

- MUGHAL is the leading steel producer in Pakistan, known for its wide range of products in both ferrous and non-ferrous segments. Its diverse portfolio includes girders, billets, rebar etc.
- Despite challenges, we anticipate recovery in ferrous segment volumes during FY24 due to economic recovery and the exit of ungraded players. Further, MUGHAL's railway transport system offers it protection from axle load restrictions also.

Diversification in non ferrous segment; higher exports expected

- The Company is further diversifying its non-ferrous segment with another product "copper granule", resulting in conversion cost savings and offering exports potential. To note, the non-ferrous segment contributes ~28-30% to revenues, along with higher margins. According to the management, the Company expects export revenues of ~PKR 22-25Bn in FY24.
- Also, an upcoming coal power project is expected to commence operations within 14-16 months, catering to ~35-40% of MUGHAL's captive power requirements.

Key risks: i) Fluctuation in international scrap prices; ii) Slowdown in construction activity; iii) Unexpected drop in contribution from the non-ferrous segment; and iv) Higher borrowings.

PKR Mn

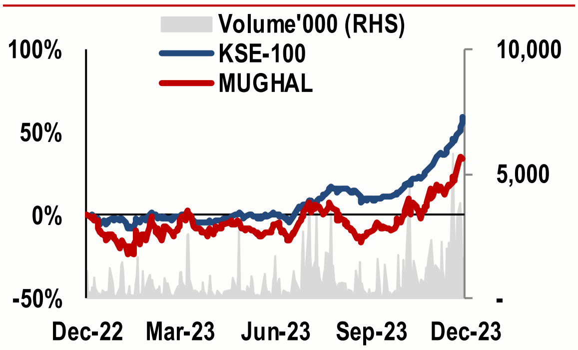
Key Metrics	FY21A	FY22A	FY23A	FY24E	FY25F
Net Sales	44,972	66,153	67,390	73,226	83,619
EBITDA	5,824	9,272	9,226	10,321	11,684
PAT	3,429	5,411	3,480	4,270	6,361
EPS	11.2	16.1	10.4	12.7	19.0
DPS	-	3.0	3.2	3.0	4.5
Gross Margin (%)	15%	15%	14%	14%	15%
Net Margin (%)	8%	8%	5%	6%	8%
ROE (%)	28%	29%	15%	16%	23%
ROA (%)	10%	11%	6%	7%	10%
Dividend Yield (%)	0%	5%	7%	4%	7%
P/E (x)	9.4	3.6	4.7	5.3	3.6
P/B (x)	1.8	0.9	0.6	0.8	0.8

Source:Company Accounts & TSL Research

About the company

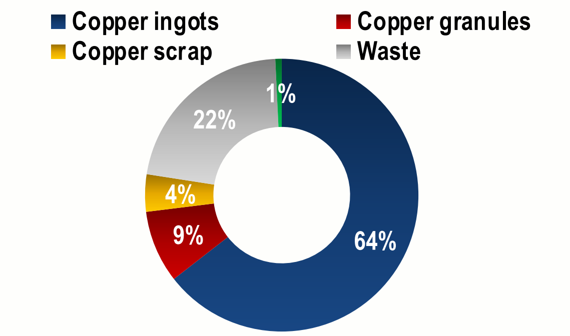
Mughal Steel is the leading steel producer in Pakistan, with a diverse range of products in both ferrous and non-ferrous categories. The Company's strong presence in the non-ferrous segment yields higher margins, and dollarized revenues.

12M Relative Performance of MUGHAL



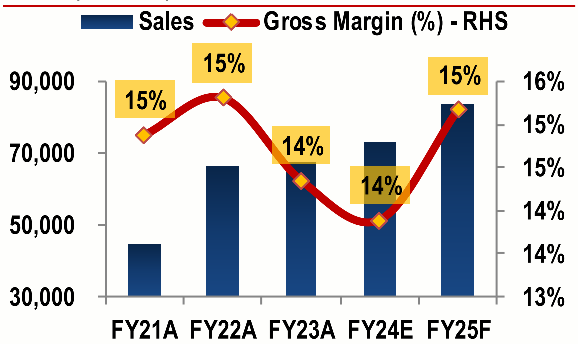
Source: PSX and TSL Research

Non-Ferrous Products Mix - FY23



Source: Company Accounts & TSL Research

Sales (PKR Mn) Trend - YoY



Source: Company Accounts & TSL Research

REP - 040

Other stock ideas

- *Potential Alpha plays*
- *AIRLINK , CPHL, HUMNL, PABC, PAEL, SAZEW, SYS, TGL, TOMCL, UNITY*

Company Name	Symbol	Key Highlights
Air Link Communication Limited	AIRLINK	AirLink Communication Limited is one of Pakistan's leading smartphone assemblers, distributors and retailers. As the official distributor of leading brands such as Samsung, Huawei, TCL, Tecno, Itel, Realme and Xiaomi, AIRLINK strategically positions itself with a robust retail presence across 13 sites commanding a substantial market share of over 20%. FY23 remained a turbulent year for the Company owing to LC restrictions limiting supplies. However, the management expects the recent easing in LCs to be the harbinger of recovery for the Company in FY24, with an anticipated consolidated revenue of ~PKR 100Bn in FY24. The Company currently has a market share of ~23% in the smartphone business. Moreover, AIRLINK has successfully partnered with Xiaomi for the manufacturing of Xiaomi Smart TVs at its Lahore manufacturing facility. The management expects gross margins to be ~18% from this project without requiring any major CAPEX. AIRLINK plans to make TVs which are comparable to Samsung in terms of quality while maintaining competitive pricing (similar to TCL) in order to compete with Samsung in the local market.
City Pharma Limited	CPHL	CPHL is a key player in the pharmaceutical sector, primarily involved in the manufacturing and distribution of pharmaceuticals, medical chemicals, and botanical products, boasting a remarkable topline CAGR of ~52% over the past four years. CPHL deals in 10 APIs primarily, including Paracetamol, Ciprofloxacin, Cefixime (Cephalosporin), and Amoxicillin (Penicillin). CPHL's strategic expansion initiatives include venturing into the formulation segment, particularly targeting the high-margin B2C segment within the pharmaceutical industry. Also, CPHL is set to diversify its portfolio by investing in a 200-bed hospital based in Lahore (2nd most densely populated city of Pakistan), which is expected to be completed within the next 2-2.5 years. Lastly, CPHL has signed a contract with Martin Dow to manufacture "Wintengo" cream, which is a high-demand product. The Company is expected to manufacture 10-15Mn packs annually, providing substantial growth to the topline and profitability, going forward.
Hum Network Limited	HUMNL	HUMNL is one of the most prominent players in the media industry. During 1QFY24, revenue clocked in at ~PKR 1.8Bn, up 39% over the SPLY, wherein the contribution of advertisements to the topline arrived at ~74% mainly due to robust entertainment business, featuring well-known channels like HUM TV, and successful operations of Hum News, being one of the few profitable news channels of Pakistan. The Company has also acquired production rights for "Lux Style Awards". On the social media front, HUMNL has a strong presence having more than ~32.7Mn subscribers solely on Youtube, boding well in terms of dollarized revenue. Also, the Company has launched Pakistan's first ever Arabic dubbed Youtube Channel "Hum Arabia" to benefit from its popularity in the MENA region. Moreover, recent acquisitions include Sphere Ventures (Private) Limited and the acquisition of marketing and distribution rights of Ten Sports in Pakistan from Sony. Ten Sports is carried by every cable network offering 100% visibility in Pakistan and is one of the few satellite channels with subscription revenue. Ten Sports also has broadcasting rights for PCB events for 20 years as well as ICC events.
Pakistan Aluminium Beverage Cans	PABC	PABC is the first and only manufacturer and exporter of beverage cans in Pakistan, having a modern production facility located in Faisalabad. The Company has a substantial share of exports in its sales mix (~54% in 9MCY23, as compared to ~33% in 9MCY22), providing respite during the slowdown in domestic demand. Further, the Company is actively pursuing to diversify its export market to Uzbekistan, Tajikistan and Bangladesh; in order to reduce dependence on Afghanistan market. On the production front, PABC aims to increase its capacity by 950Mn cans p.a. to 1.2Bn cans p.a. by the end of CY23, with a potential to increase capacity by up to 2.5Bn cans/annum at the existing plant, going forward. PABC is the sole supplier of cans to Pepsi, Coca Cola Pakistan, Nestle Pakistan, Muree Brewery, and Mehran Bottlers. PABC is also entitled to a 10-year income tax exemption, effective until September 2027, for its location within the Special Economic Zone (SEZ) in Faisalabad. Lastly, we expect margins to remain stable in CY24 mainly due to cost-plus pricing and higher share of exports.
Pak Electron Limited	PAEL	Pak Elektron Limited specializes in the manufacturing and sale of electrical capital goods and domestic appliances. The Company has a market share in Refrigerator & Freezers, Air Conditioner, Water Dispensers, Washing Machine, and LED segments of 20%, 8%, 33%, 4%, and 3%, respectively. Despite the LC restrictions and demand slowdown in 9MCY23 resulting in 50% lower volumetric sales in the appliances segment, the Company effectively maintained its margins by passing on the cost impacts. Resultantly, the appliances segment is expected to post a revenue of ~PKR 32Bn in CY24. On the power division front, the sales volume is expected to grow by ~5-7% YoY, arriving at a topline of ~PKR 25Bn in CY24 mainly due to the increased focus of the Government to improve efficiency in distribution networks. To note, the Company has secured future orders until the 1HCY24. PAEL has a market share of ~90% in the transformers segment. Lastly, PAEL is actively pursuing its strategy of deleveraging, while the management expects to reduce its total borrowings to ~PKR 9.8Bn in CY24.
Sazgar Engineering Works Limited	SAZEW	SAZEW primarily focuses on the manufacturing and sale of four & three-wheelers, and tractor wheel rims. The Company has the largest production facilities in Pakistan as well as a global presence in more than 20 countries including Sri Lanka, Afghanistan, UAE, Qatar, and Bangladesh. Despite the prevailing slowdown in the automobile sector, the sales volume of four-wheelers, three-wheelers, and tractor wheel rims went up ~5x, 31%, and 84%, respectively over the SPLY in 1QFY24. Also, the Company has introduced the first ever locally assembled Hybrid electric vehicle named "Haval-HEV" in Pakistan. With the recent introduction of Haval-Jolion followed by upcoming plans for expanding production, launching new variants of four-wheelers and a firm commitment to investing in electronic vehicles along with active exploration of international markets for export opportunities, and expanding its dealership network. Lastly, the Company expects the four and three wheeler volumes to recover as it is actively receiving booking orders, while the upsurge in tractor demand is expected to bode well for the wheel rims segment in FY24.
Systems Limited	SYS	System Limited is the leading Pakistani software house specializing in digital, managed and BPO services. The Company has showcased remarkable growth in both revenue and profits over the last few years. During 9MCY23, the sales revenue went up ~56% YoY to clock-in at PKR 23Bn. Out of the total revenue, 81% is on a recurrent basis, maintaining stability along with growth opportunities. SYS has established a strong presence in the GCC region where performance has remained the least impacted by economic headwinds. Likewise, the Company has invested ~USD 15Mn for the acquisition of licensing rights for the banking & financial services segment in GCC countries. Nevertheless, SYS reinvests most of its profits as it believes in the rapid growth of the business both domestically and abroad, especially in MENA and APAC regions. It invests in talent acquisition both in Pakistan as well as in other countries where it has fully owned subsidiaries such as in Egypt and Africa.
Tariq Glass Limited	TGL	TGL is a prominent player in the glass industry, specializing in Tableware, Opal Glass Dinnerware, Containers and Float Glass, having a market share of 44% and 50% in tableware and float glass, respectively. The Company's tableware furnace's ongoing maintenance is expected to be completed in 3-4 months, while another float glass furnace is also ready to resume production once the demand outlook improves. The Company has strategically acquired Baluchistan Glass Limited (BGL) in order to tap the glass container demand of pharmaceutical companies. Also, TGL is in the process of renovating and upgrading BGL's facility. Wherein, BGL already has the requisite approvals and the production is expected to commence in Jan'24. Additionally, the Company is also planning to introduce new products including ceramic dinner sets, ceramic tea mugs, and cutlery items. Lastly, TGL meets its energy requirement through FO and RLNG i.e. priced on dollarized terms, hence, the Company will remain unaffected by the increase in indigenous gas prices compared to some of its peers.
The Organic Meat Company	TOMCL	TOMCL is the largest halal meat processor and exporter in Pakistan, having the most extensive market access within Pakistan's meat export segment. The topline of the Company has been growing at a CAGR of ~25% since FY17 mainly due to sustainable operations. During 1HFY24, TOMCL successfully secured a contract to export 1,000MT of frozen boneless beef to UAE, having an expected contribution of ~USD 4Mn to the topline. TOMCL has also received authorization to export red and white Offals to the UAE. Additionally, the Company secured approval from GACC to export cooked frozen beef to China, which is expected to bode well in terms of higher volumetric growth in exports. Nevertheless, the temporary ban on exports of fresh chilled meat via sea has provided the Company the opportunity for export substitution through exporting value-added MAP vacuum-packed fresh chilled meat via sea to UAE which has a higher shelf life. The Company also exports pet food to the US. Moreover, TOMCL has also recently acquired an offal processing facility in the KEPZ. Lastly, the management is consistently focusing on deleveraging to minimize finance costs, going forward.
Unity Foods Limited	UNITY	UNITY's principal business is edible oil extraction, refining and related businesses. The Company is strategically moving towards backward integration and boasts a sustainable supply chain strategy. To note, UNITY's sales have grown at a CAGR of 1.05x since FY18, reflecting aggressive growth strategy of the Management. In FY23, the Company recorded phenomenonal growth across all key business segments i.e. Industrial Bulk Edible Oil (9.2%), Edible Oil Consumer Packs (43%), Sunridge (1.3x) and Cattle Feed (29.1%), respectively. The Company has recently invested PKR 1Bn through its subsidiary Sunridge Foods Pvt Ltd by incorporating two new companies Unity Plantation Pvt Ltd and Unity Technologies Pvt Ltd. To highlight, the Company is targeting an IRR of 35%-40% through its Unity Plantation. Moreover, Sunridge Ltd has also recently acquired 18.4% shares in Al Shaheer Corporation. Notably, the capacity of its commodities is also expected to increase with the addition of a chemical refinery by 3QFY24. UNITY also plans to acquire land in a Special Economic Zone to mitigate higher tax burden, going forward.

Source: Company Accounts, Company Presentations, Company Announcements and TSL Research

TSL Universe Valuation Sheet

TAURUS
SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

Pakistan Investment Outlook 2024

REP- 040
Wednesday, December 20, 2023

Taurus Securities Limited Universe Valuation

Sector Co.	LDCP	Target Price	Upside (%)	Rating	Year-End	EPS (PKR)			DPS (PKR)			P/E (x)			P/B (x)			Div. Yield (%)			ROE (%)		
Commercial Banks						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
ABL	85	131	55%	BUY	Dec	33.9	38.1	39.6	11.0	13.0	14.0	2.5	2.2	2.1	0.6	0.5	0.5	13%	15%	16%	27%	26%	23%
BAFL	49	76	54%	BUY	Dec	23.5	26.8	25.8	6.0	8.0	9.0	2.1	1.8	1.9	0.6	0.5	0.4	12%	16%	18%	32%	29%	24%
BAHL	79	129	62%	BUY	Dec	33.4	38.6	38.4	14.0	15.0	15.0	2.4	2.1	2.1	0.8	0.6	0.5	18%	19%	19%	35%	33%	27%
BOP	7	12	73%	BUY	Dec	2.8	3.4	3.7	0.0	0.3	0.5	2.4	2.0	1.8	0.3	0.3	0.2	0%	4%	7%	13%	14%	13%
FABL	31	54	76%	BUY	Dec	13.1	17.1	18.1	4.0	6.0	7.0	2.3	1.8	1.7	0.5	0.5	0.4	13%	20%	23%	26%	28%	25%
HBL	120	160	34%	BUY	Dec	39.5	44.8	45.9	8.0	11.0	14.0	3.0	2.7	2.6	0.5	0.5	0.4	7%	9%	12%	19%	18%	17%
HMB	52	89	71%	BUY	Dec	24.7	29.2	28.0	10.0	12.0	13.0	2.1	1.8	1.9	0.6	0.5	0.4	19%	23%	25%	30%	30%	24%
MCB	173	248	43%	BUY	Dec	53.8	59.8	58.4	30.0	32.0	34.0	3.2	2.9	3.0	0.9	0.8	0.7	17%	18%	20%	31%	30%	26%
MEBL	155	223	44%	BUY	Dec	44.7	50.5	47.5	17.0	19.0	20.0	3.5	3.1	3.3	1.6	1.2	1.0	11%	12%	13%	56%	46%	34%
UBL	173	259	50%	BUY	Dec	45.0	53.0	51.9	44.0	45.0	46.0	3.8	3.3	3.3	0.9	0.9	0.9	25%	26%	27%	24%	28%	26%
Oil and Gas Exploration						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
OGDC	118	171	46%	BUY	June	52.2	43.6	38.2	8.6	10.6	10.8	1.5	2.7	3.1	0.3	0.4	0.4	11%	9%	9%	23%	17%	13%
PPL	119	155	31%	BUY	June	36.0	39.1	35.6	2.5	4.5	5.0	1.6	3.0	3.3	0.3	0.5	0.5	4%	4%	4%	20%	19%	15%
MARI	2,055	2,752	34%	BUY	June	420.7	573.9	589.8	147.0	287.0	295.0	3.6	3.6	3.5	1.1	1.0	0.8	10%	14%	14%	35%	34%	26%
POL	438	600	37%	BUY	June	128.4	135.9	85.9	80.0	80.0	70.0	3.1	3.2	5.1	1.5	1.4	1.3	20%	18%	16%	58%	47%	26%
Fertilizer						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
EFERT*	108	131	22%	BUY	Dec	18.1	23.0	25.3	17.7	21.9	24.0	5.9	4.7	4.3	3.1	3.0	2.7	16%	20%	22%	53%	66%	67%
FFBL	29	35	20%	BUY	Dec	3.2	7.2	7.6	0.0	1.0	1.8	9.2	4.1	3.8	1.4	1.0	0.8	0%	3%	6%	17%	30%	24%
FFC	115	141	23%	BUY	Dec	24.9	28.6	30.5	17.0	20.0	21.3	4.6	4.0	3.8	2.5	2.2	2.0	15%	17%	19%	57%	58%	56%
ENGRO*	307	396	29%	BUY	Dec	59.0	62.8	66.0	47.0	50.0	50.0	5.2	4.9	4.7	1.0	0.9	0.9	15%	16%	16%	19%	19%	20%
Cement						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
MLCF*	38	58	50%	BUY	June	5.4	7.8	10.3	0.0	0.0	1.5	5.3	4.9	3.7	0.6	0.7	0.0	0%	0%	4%	13%	16%	18%
PIOC	112	145	29%	BUY	June	11.5	14.2	22.7	0.0	0.0	0.0	7.5	7.9	4.9	0.5	0.6	0.5	0%	0%	0%	7%	8%	11%
KOHC	209	290	39%	BUY	June	29.0	43.7	45.9	0.0	5.0	10.0	6.0	4.8	4.6	1.0	1.0	0.9	0%	2%	5%	19%	23%	21%
DGKC	77	101	31%	BUY	June	-8.3	12.5	17.3	0.0	1.0	2.0	N/A	6.2	4.5	0.4	0.5	0.4	0%	1%	3%	-5%	8%	10%
LUCK*	783	1,110	42%	BUY	June	190.0	212.3	233.5	18.0	22.0	28.0	2.7	3.7	3.4	0.6	0.9	0.8	3%	3%	4%	26%	24%	24%
FCCL	18	28	52%	BUY	June	3.0	4.0	5.9	0.0	0.0	1.0	3.9	4.7	3.1	0.4	0.6	0.5	0%	0%	5%	12%	14%	18%
CHCC	162	190	17%	BUY	June	22.7	27.9	35.0	4.5	5.0	6.0	5.3	5.8	4.6	1.1	1.2	1.0	4%	3%	4%	23%	23%	24%
ACPL	97	130	34%	BUY	June	11.0	22.1	25.2	6.0	7.0	8.0	7.5	4.4	3.8	0.6	0.6	0.6	7%	7%	8%	8%	15%	16%
Power						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
NCPL	29	30	3%	BUY	June	10.8	11.4	10.3	0.0	5.0	5.0	1.6	2.6	2.8	0.2	0.4	0.3	0%	17%	17%	15%	14%	12%
NPL	32	35	9%	HOLD	June	11.6	12.3	11.1	5.0	5.0	5.0	1.5	2.6	2.9	0.2	0.3	0.3	29%	16%	16%	14%	14%	12%
HUBC*	117	160	37%	BUY	June	44.4	50.9	55.0	30.0	30.0	28.0	1.6	2.3	2.1	0.6	0.8	0.7	43%	26%	24%	44%	38%	35%
KAPCO	29	35	22%	BUY	June	4.5	8.0	9.4	8.5	5.0	6.0	4.6	3.6	3.1	0.3	0.4	0.4	41%	17%	21%	6%	11%	12%
EPQL	30	32	5%	BUY	Dec	10.1	7.9	8.3	4.0	4.0	4.0	3.0	3.8	3.7	0.6	0.5	0.5	13%	13%	13%	20%	15%	14%
Oil Marketing Companies						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
APL	382	405	6%	HOLD	June	100.2	96.5	87.0	27.5	35.0	40.0	3.0	4.0	4.4	0.8	0.9	0.8	9%	9%	10%	30%	21%	19%
PSO	187	255	37%	BUY	June	12.1	65.8	72.3	7.5	10.0	10.0	9.2	2.8	2.6	0.2	0.4	0.3	7%	5%	5%	3%	9%	13%
Chemical						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
EPCL	46	55	20%	BUY	Dec	6.7	8.1	11.3	6.3	8.0	11.5	6.8	5.7	4.1	1.5	1.5	1.5	14%	17%	25%	32%	38%	36%
Automobile						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
INDU	1260	1738	38%	BUY	June	123.0	126.9	172.8	71.8	75.9	103.0	7.7	9.9	7.3	1.2	1.5	1.5	8%	6%	8%	17%	14%	21%
HCAR	220	230	5%	HOLD	Mar	1.8	12.1	23.5	0.0	4.8	9.4	120.8	18.2	9.4	1.6	1.6	1.6	0%	2%	4%	1%	7%	18%
PSMC	601	Under Review																					
MTL	612	747	22%	BUY	June	17.6	53.8	78.2	25.0	48.4	70.4	22.2	11.4	7.8	9.7	16.9	14.7	6%	8%	11%	46%	164%	201%
Pharmaceuticals						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
SEARL*	55	87	58%	BUY	June	0.8	5.5	5.4	0.0	0.8	0.8	47.9	10.1	10.3	0.7	0.9	0.9	0%	1%	1%	1%	8%	9%
AGP*	71	105	48%	BUY	Dec	5.6	10.4	12.8	2.0	4.0	5.0	12.6	6.8	5.5	1.7	1.4	1.2	3%	6%	7%	16%	25%	23%
Textile						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
ILP	67	100	48%	BUY	June	14.4	17.0	23.0	5.0	6.0	7.0	2.5	4.0	2.9	1.1	1.6	1.2	14%	9%	10%	55%	46%	46%
GATM*	22	30	36%	BUY	June	5.4	6.2	7.1	0.0	1.0	1.0	3.3	3.6	3.1	0.3	0.4	0.3	0%	5%	5%	10%	10%	11%
NML	79	110	40%	BUY	June	34.6	44.0	46.2	5.0	6.0	7.0	1.6	1.8	1.7	0.2	0.3	0.2	9%	8%	9%	14%	16%	15%
Engineering						2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
ASTL	25	28	14%	HOLD	June	-2.3	2.4	6.3	0.0	0.0	0.0	N/A	10.2	3.9	0.3	0.5	0.4	0%	0%	0%	-5%	5%	12%
MUGHAL	68	93	38%	BUY	June	10.4	12.7	19.0	3.2	3.0	4.5	4.7	5.3	3.6	0.6	0.8	0.8	7%	4%	7%	15%	16%	23%
ISL	76	97	28%	BUY	June	8.1	11.3	18.2	5.5	7.0	7.0	5.0	6.7	4.1	0.8	1.4	1.1	14%	9%	9%	16%	22%	30%
AGHA	15	25	71%	BUY	June	1.5	3.0	5.7	0.0	0.0	0.5	6.5	4.8	2.6	0.4	0.5	0.4	0%	0%	3%	6%	10%	16%

** Target Prices for Dec'24*

** EFERT, ENGRO, LUCK, MLCF, HUBC, SEARL, AGP, GATM and Banks are based on consolidated basis.*

** Prices as of 19-Dec-2023*

CORPORATE OFFICE

Address: Suite# 604, 6th Floor, Progressive Plaza, Beaumont Road, Karachi, Pakistan.
UAN: +92-21-111 82 87 87 Fax : +92-21-3568 6279

Syed Zain Hussain	Chief Executive Officer	+92-21-3568 3728	zain@taurus.com.pk
Asif Jan Muhammad	Chief Operating Officer	+92-21-3568 2690	asifjan@taurus.com.pk

TSL Research Team

Mustafa Mustansir	Director Research and Business Development	+92-21-111-828-787 Ext: 203	mustafa@taurus.com.pk
Abdul Basit	Equity Analyst	+92-21-111-828-787 Ext: 203	abdul.basit@taurus.com.pk
Osama Yousaf	Equity Analyst	+92-21-111-828-787 Ext: 203	osama.yousaf@taurus.com.pk
Ibrar Korejo	Equity Analyst	+92-21-111-828-787 Ext: 203	ibrar.korejo@taurus.com.pk
Jawwad Hussain	Database Manager	+92-21-111-828-787 Ext: 203	jawwad@taurus.com.pk

URL: http://www.taurus-sec.com E-mail: research@taurus.com.pk

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To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: https://jamapunji.pk/

Frequently Used Acronyms

TP	Target Price	**DCF**	Discounted Cash Flows	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DDM**	Dividend Discount Model
SOTP	Sum of the Parts	**P/E**	Price to Earnings ratio	**P/Bv**	Price to Book ratio
P/S	Price to Sales	**EVA**	Economic Valued Added	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**DY**	Dividend Yield
ROE	Return on Equity	**ROA**	Return on Assets	**JPB**	Justified Price to Book