

## Pakistan Strategy

# Strategy 2025

## Towards sustainable growth

The return of macro stability saw the KSE100 gain 74% in 2024td (77% in USD terms), underscoring the remarkable comeback from the default fears only eighteen months ago. Now, with the monetary easing theme greatly in the price, the longevity of the rally depends on structural reforms.

Pakistan has so far been compliant with the IMF program and appears well placed to enact meaningful reforms. The current political configuration and continued focus on the economy have the potential to deliver more sustainable growth, in contrast to the short boom and bust cycles of the last fifteen years. This underpins our bullish outlook.

Despite two consecutive years of 50%+ returns, the KSE100 trades at a discounted forward P/E of 6.1x vs. the 10yr avg. of 7.5x. The tail-end of the monetary easing cycle should revert valuations to the mean, driving the bulk of our 2025 Index target of 130,000 points. Successful reforms, especially in taxation, energy, and SOEs, can unlock stronger rerating.

### Investment Thesis

Our thesis for 2025 is premised on: (i) the continuation of the current political configuration i.e. the gov't successfully keeping out a popular opposition, and (ii) compliance with the IMF program together with a concerted effort for structural reforms. Domestic liquidity remains strong and foreign buying can return, provided Pakistan is able to demonstrate a transition from stabilization to sustainable growth, in contrast to the short boom-and-bust cycles of the past. Strong reform execution will unlock our bull case (KSE100 at 160,000pts), while a failure to kick on toward sustainable growth may have valuations stagnating around the LT mean.

### Politics & Reforms hold the key for further re-rating

Pakistan's best periods of GDP growth have come under a confluence of relative political calm and favorable geopolitical settings. This playbook is back in favor, and the desire to elongate the economic cycle implies overarching efforts to preserve political status quo while avoiding entanglement in geopolitical disputes. Political disruption is unlikely, in our view, with the government and deep state strongly incentivized to keep PTI out of power. This may allow space for Pakistan to enact difficult and much-delayed economic reforms.

### Economy: Factors driving macro stability seem entrenched

Economic policies are disciplined – the CA has been positive for the last four months, the fiscal side should see big savings from lower interest rates, and the IMF appears satisfied. We expect the policy rate to come down to 11% by end-June 2025, and see the PKR-USD remaining in a tight band across the year. Reforms remain critical; however, for the next leg of the rally, especially now that macro stabilization and lower interest rates are greatly in the price already. If Pakistan takes full advantage of the current political configuration, by expanding the tax net, privatizing loss-making SOEs, and conducting energy reforms, it may achieve more sustainable GDP growth and stronger investor confidence.

### Equities: Market P/E on course toward LT average of 7.5x

The KSE100 trades at a forward P/E of c.6.1x, a c.20% discount to the 10yr average of 7.5x. We expect the tail-end of the monetary easing cycle and progress on reforms to take the market toward 8.0x P/E in 2025f. Pakistan equities continue to offer good variety - there are several high quality defensive stocks still offering double-digit D/Ys, while those willing to "play the cycle" have options in stocks more closely tethered to a recovery in the real economy which require time to show meaningful demand improvement.

December 11, 2024

### IMS Research

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 111-467-000

## KSE100 Index Target: 130,000pts

### Market Snapshot

KSE 100 Index	108,897
Market Cap (PKRbn)	13,891
Market Cap (US\$bn)	50.0
Market Free Float	29%
Avg. Daily Vol (mn shrs)	714
Avg. Daily Td Val (PKR mn)	28,184
Avg. Daily Td Val (US\$ mn)	101
CY KSE100 Index – High (pts)	109,970
CY KSE100 Index – Low (pts)	59,873

### Valuations Snapshot

P/E (x)	6.1
P/B (x)	1.1
D/Y	7%
ROE	19%
KSE 100 CYTD (in PKR)	74%
KSE 100 CYTD (in US\$)	77%
Policy Rate	15.0%
CPI * YoY	4.86%
PKR/US\$	278.1

\*Last reported

## Top Picks

10-Dec-24						EPS (PKR)		P/E (x)		P/B (x)		DPS (PKR)		DY (%)		ROE (%)	
SYM	MCAP (US\$bn)	Price (PKR)	TP (PKR)	Total Return	Rating	25f	26f	25f	26f	25f	26f	25f	26f	25f	26f	25f	26f
<b>IMS Universe</b>								<b>6.1</b>	<b>5.8</b>	<b>1.1</b>	<b>1.0</b>			<b>7%</b>	<b>8%</b>	<b>19%</b>	<b>18%</b>
BAFL	0.45	79	100	39%	Buy	23.37	22.61	3.4	3.5	0.6	0.5	9.0	9.0	11%	11%	19%	16%
MCB	1.13	265	320	35%	Buy	55.26	53.56	4.8	4.9	1.0	1.0	36.0	36.0	14%	14%	23%	20%
HBL	0.86	164	190	26%	Buy	41.04	44.97	4.0	3.6	0.5	0.5	16.0	18.0	10%	11%	13%	14%
OGDC	3.00	194	266	45%	Buy	38.60	41.11	5.0	4.7	0.6	0.6	15.0	18.0	8%	9%	13%	13%
PPL	1.70	174	200	20%	Buy	34.68	33.33	5.0	5.2	0.7	0.6	9.0	10.0	5%	6%	14%	12%
LUCK	1.27	1,203	1,400	18%	Buy	250.84	273.67	4.8	4.4	2.0	1.7	16.0	18.0	1%	1%	18%	16%
MLCF	0.18	48	56	16%	Buy	6.54	8.37	7.4	5.7	0.8	0.7	-	-	0%	0%	21%	18%
INDU	0.57	2,011	2,650	38%	Buy	225.76	269.80	8.9	7.5	2.1	1.9	135.0	161.0	7%	8%	25%	27%
PSO	0.50	299	400	38%	Buy	65.38	91.51	4.6	3.3	0.6	0.6	13.0	18.0	4%	6%	13%	18%
SYS	0.63	601	650	10%	Neutral	36.23	45.31	16.6	13.3	3.9	3.3	12.5	18.0	2%	3%	25%	27%

Source: IMS Research

### Investment Thesis

#### BAFL

BAFL is more margin sensitive compared to peers, but we believe the market will overlook the coming earnings decline and instead focus on the bank's underlying positives, including strong balance sheet growth, a keen focus on digital, and a deposit structure that should benefit more than peers from the changes to the MDR regime.

#### MCB

MCB's core business remains strong, backed by superior asset quality, an efficient cost structure, very high CAR buffers, and growth prospects from its Islamic subsidiary. We see little risks to MCB's dividends, where an ample CAR buffer means dividends should sustain in absolute terms even if earnings come off.

#### HBL

HBL can outperform during monetary easing – softer inflation and macro stabilization should ease pressure on NPL formation and admin expense growth, while lower interest rates should help HBL improve the proportion of current accounts in its deposit mix. This, together with the recent 50bps reduction in D-SIB requirements, should unlock higher cash payouts (we project c 40% cash payouts vs. last 5yr average of c 30%).

#### OGDC

Recent gas price revisions have alleviated concerns over circular debt accumulation, driving OGDC's recovery ratios above 100%, significantly enhancing its liquidity position. The company's robust exploratory initiatives point to a favorable production outlook, despite declining output from mature fields, which is expected to sustain profitability amid softening oil prices and a stable PKR. Additionally, dividends may see an uptick following the government's clearance of a longstanding TFC liability worth PKR82bn, potentially enabling a one-off payout.

#### PPL

PPL stands out as a key beneficiary of recent gas sector reforms, given its significant reliance on gas in its production portfolio. Additionally, the Reko Diq project holds immense potential for PPL, offering a substantial upside due to the company's relatively lower share count vs OGDC. However, production levels are expected to remain constrained, primarily due to the depletion of mature fields and limited new discoveries.

#### LUCK

The diversified nature of the business protects it from the vicissitudes of country and sector specific shocks. This robustness is further enhanced by a strong balance sheet position with a large amount of the cement related debt being subsidized.

#### MLCF

MLCF benefits from strong retention prices, driven by its 90% market share in the white cement market and a cost-efficient power and fuel mix. Its investments in the fertilizer and healthcare services sectors are expected to reduce cyclicalities thereby enhancing business resilience.

#### INDU

Car sales have begun to rise across the whole automotive industry. INDU's utilization levels are likely to return to 60-70% as purchasing power and demand grow. Indus has excellent brand loyalty and it will continue to enjoy HEV policy tax benefits until 2026. If the car financing limit is revised, sedan category which INDU dominates will see higher demand, particularly Toyota Yaris.

#### PSO

We like PSO due to its attractive valuation multiple of 4.6x as it is trading at a 25% discount to market multiple of 6.1x whereas, circular debt build-up is no more an overhang, paving the way for substantial rerating potential. While volumes may face pressure from heightened competition with smaller OMCs, the anticipated revision in margins is expected to support profitability.

#### SYS

SYS's revenue growth rate remains exceptional. It has consolidated its operations and established a presence in MEA, helping to restore margins. SYS is a one-of-a-kind tech company in Pakistan that offers high-quality services in growing markets such as AI and cyber security, earning a premium valuation.

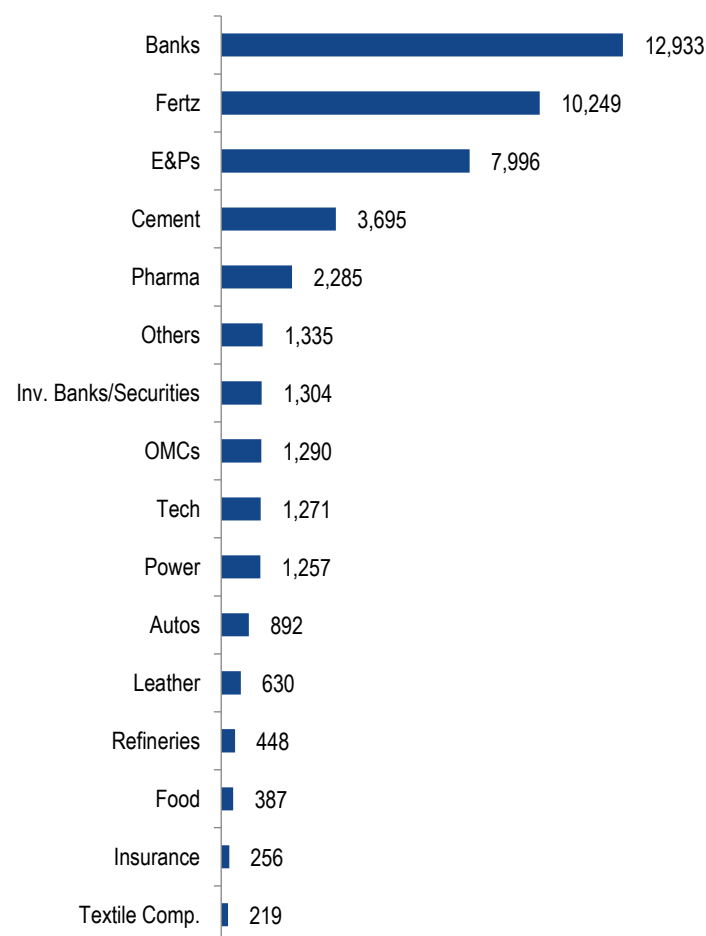
Source: IMS Research

## 2024 Market Review

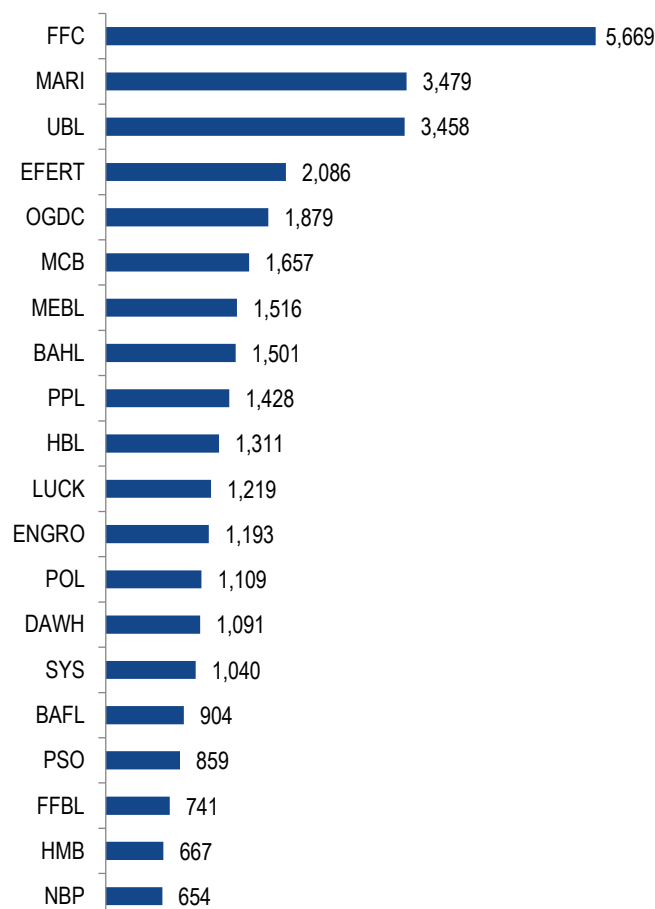
The KSE100 index has returned an impressive 74% (77% in USD terms), following the 55% return in 2023. Market activity surged 65% to 704mn shares while ADVT of c.US\$100mn was up 95% YoY. The rally was supported by several factors: (i) Pakistan completing the short-term IMF program (SBA) on time, which paved the way for smooth negotiations for another 37mth program (EFF, which started in Oct 2024); (ii) elections saw the PML-N led gov't back into office; and (iii) the SBP commenced monetary easing from June 2024, cutting the policy rate cumulatively by 700bps to 15%, until end-November.

Unlike previous bull runs in the Pakistan market, the current rally has been driven by large cap stocks among mostly the defensive sectors (in terms of point contribution to the index). That is, Bank, Energy and Fertilizer sectors were among the top outperforming sectors. This partly explains the strong jump in ADVT – which matched the activity during MSCI Upgrade rally in the 1H of 2017. However, major cyclical sectors – Autos and Cements – and Pharmaceutical sector returned more than 70% for the year.

**KSE100 – Index point contribution - Sector wise (CYTD)**



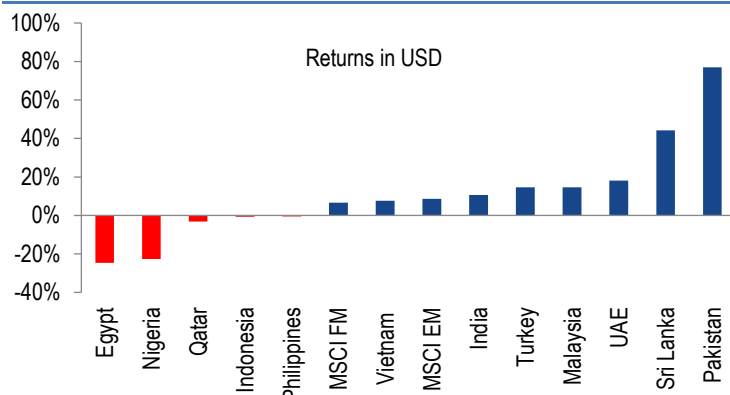
**KSE100 – Top 20 Index contribution – Stock wise (CYTD)**



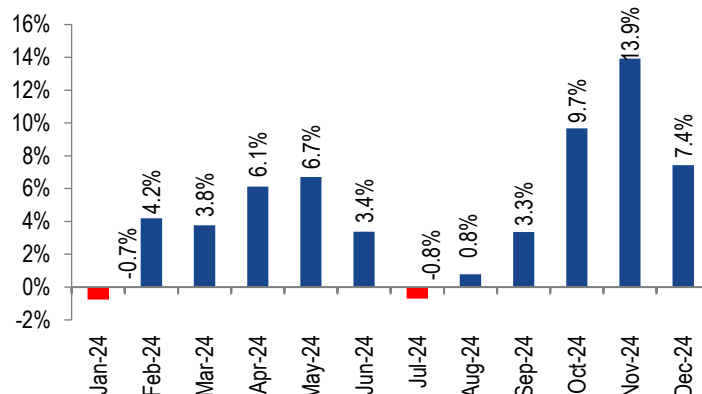
Source: Bloomberg

## 2024 Review in Charts

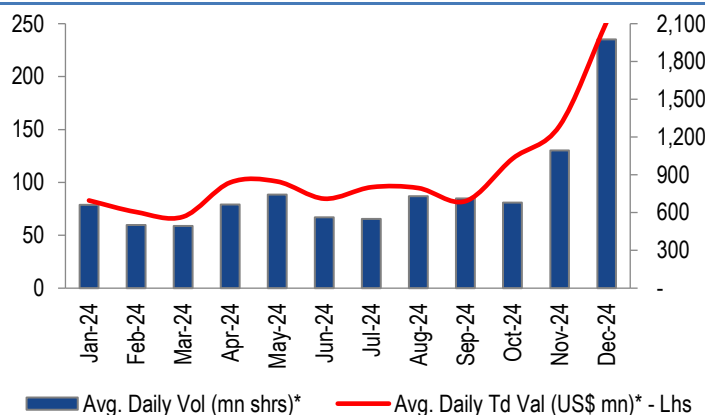
2024 Equity Gains: Pakistan outperformed global peers again



KSE100 Monthly Returns: Monetary easing since June has led to rerating

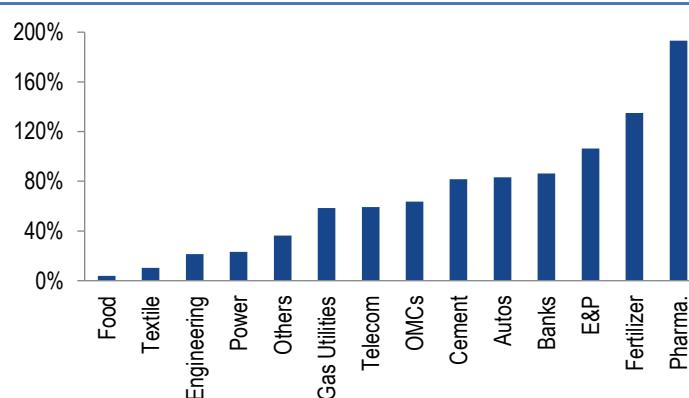


KSE100 Turnover: Strong domestic liquidity is having an impact

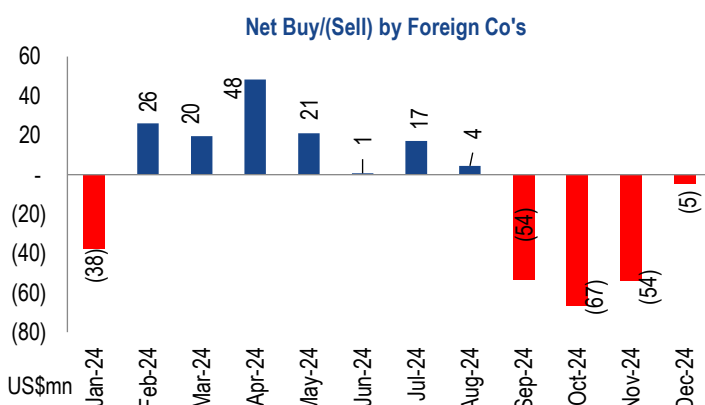


\*Regular +Future

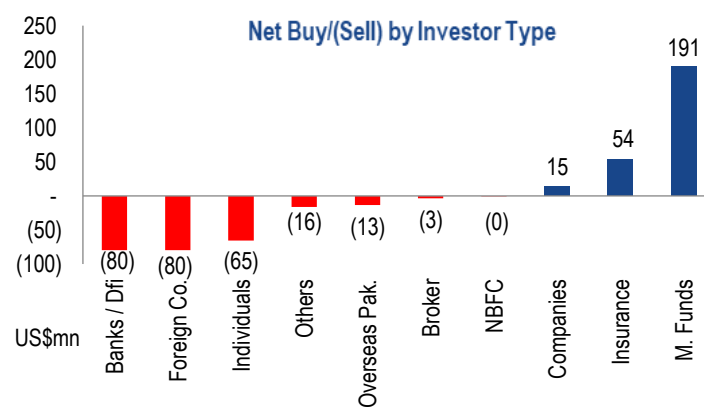
Sector Performance: Defensive stocks outperformed in 2024



Foreign Institutional Activity: FTSE downgrade led to passive selling in 2H24



Local Activity: Mutual funds are seeing strong rotation into equities



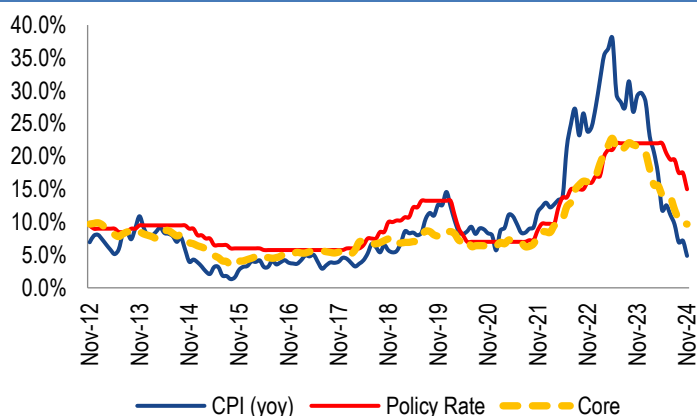
Source: Bloomberg, IMS Research, PSX, NCCPL

# 2025 Investment Thesis

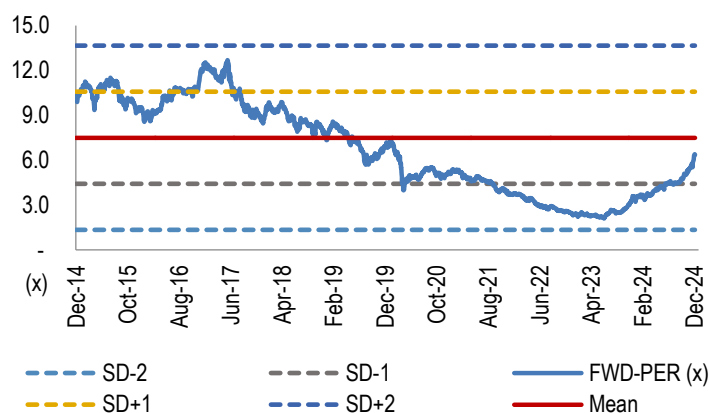
Our base-case Dec 2025 target for the KSE100 is 130,000 points, implying a potential 1yr total return of c.20%, inclusive of 7% dividend yield.

- Politics may be noisy due to PTI but not so much as to force regime change. The deep state and the PML-N led government will likely continue to maintain a united front to keep PTI out of power.
- With memories of Pakistan's near-descent into default still fresh, the government and authorities will likely maintain their sharp focus on the economy. Some reforms should also come through, as Pakistan attempts to transition from economic stabilization to sustainable growth.
- Inflation should remain in single-digits, while the Policy Rate may settle around 11% by June 2025. We expect the market's forward P/E to converge towards the last 10yr average of 7.5x. More forceful rerating, on the back of strong reform implementation, can take P/E toward 9x and the KSE100 toward 160,000pts, all else the same.
- Flows will likely continue to be very supportive. Domestic liquidity should continue to find equities attractive as domestic interest rates reduce further, while foreign funds may find Pakistan equities to their liking again provided the reform theme sticks.
- Our top picks present a blend of defensive and growth plays. Banks are backed by double-digit dividend yields, while Construction and Autos can see robust demand growth through the cycle. Energy reforms and FDI materialization can lift E&Ps.

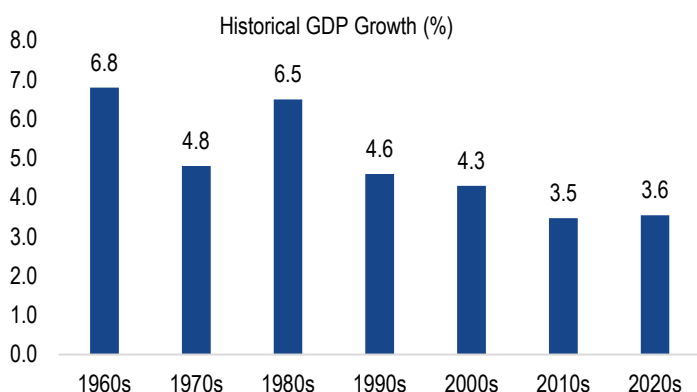
## The bulk of monetary easing has already happened



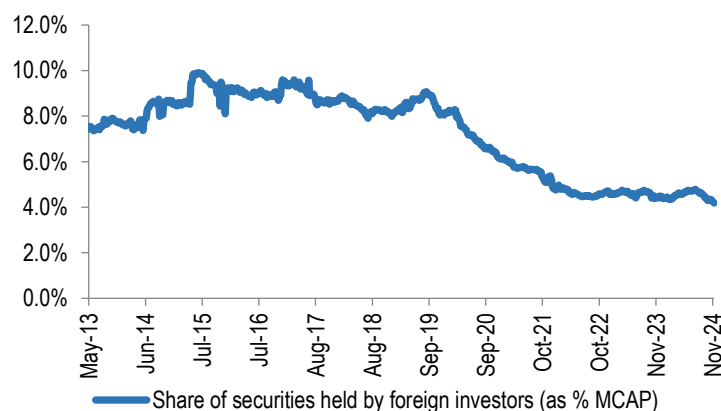
## Reforms needed for valuations to reach high single digits



## Successful reforms can lead to higher, more sustainable GDP growth



## FI ownership as % of MCAP: Passive exodus is over and active PMs can return



## Index Target

### Mean Reversion

We expect the KSE100 Index to reach 130,000pts by end of 2025, implying a 1yr total return of c.20%, inclusive of a 7% dividend yield. The Index target is based on an equal weighted average of four valuation methodologies.

- We expect market P/E to rise to its 10yr average of 7.5x, from 6.1x at present. This is backed by the expectation that most of the top-down risks (political uncertainty and repeated boom-and-bust cycles) of the recent past have been largely addressed.
- Market's forward ROE, based on the IMS Universe, is estimated to be 19% compared with the 10yr average of c.17%, as per Bloomberg. Market's current dividend yield of 7% is similar to the average 6.3% over the past 10 years. Hence, the market should revert to its 10yr average P/B of 1.4x, from 1.1x presently.
- Liquidity is strong and will support the re-rating theme. The liquidity is different this time, as other asset classes, notably real estate, are not expected to do well. This is unlike similar periods of macro recovery and market bull runs, in which real estate also performed well. Also, foreign selling is notably missing as the passive FM funds have sold out almost completely. Active FM funds may return to the market once global liquidity moves out of the US market into Emerging markets, and Pakistan shows political stability and a firm resolve by carrying out structural reforms.
- Going by precedence, the market should have an earnings yield of 3% over a benchmark fixed income security. If the yield on the 12m T-Bill falls to 11% then the market should have an EY of 14% to revert to its mean level.

**Our Index target for Dec 2025, based on equally weighting four methodologies, is 130,000pts**

Valuation methodology	Rational	Target level	KSE100 index
P/E based	Re-rating to LT average. Top down risks resolved to a great extent thanks to reforms. Strong liquidity boost	7.5	137,500
P/B based	Re-rating to LT average. Market ROEs of 19% is higher than 10yr average of 17%	1.4	129,091
EY based	3% spread over 11% yield on 1yr paper	14%	130,952
TP based	IMS Universe	na	123,000
<b>Average</b>	<b>Equal weighted</b>		<b>130,000</b>

Source: IMS Research

## Risks to Thesis

- The government and the army appear on the same page, presenting a united front to keep a popular opposition at bay. As unlikely as it seems at this point, the PTI mounting a comeback cannot completely be ruled out. Any political disruption would likely affect equities negatively, at least in the short-term.
- Several IMF directors noted during program talks that there is no room for policy slippages without undermining debt sustainability. Pakistan has so far been in close compliance with the IMF program, but the risk of policy fatigue remains. This can result in failure to implement wide-ranging reforms and, at worst, a loss of economic discipline putting the IMF program at risk.
- Security conditions are much better compared to 5-10yrs ago but there has recently been an uptick in security incidents in the restive border areas with Afghanistan. Failure to address the security situation has the potential to impact investor confidence and the ongoing economic recovery.
- More than ever, Pakistan's future seems to rest in its own domestic policies. That said, it is possible that Pakistan is dragged into overarching geopolitical conflicts e.g. USA vs. China given the latter's close relationship with Pakistan, or USA vs. Iran given a shared border with the latter.
- The floods in 2022 were the worst in more than a decade. With Pakistan particularly vulnerable to climate change, there is a chance that natural disasters are more frequent than in the past. This could have a negative impact on the economy and corporate profitability.

## 2025 Outlook



## Politics: Holds the key to reforms

### The search for a longer cycle

Pakistan has experienced very short economic cycles in the post-Musharraf era, initial discipline by newly elected governments inevitably falling prey to populist decisionmaking ahead of the next election cycle. With Pakistan narrowly escaping sovereign default last year, there appears to be a conscious effort to avoid political disruption and elongate the economic cycle. As such, it has not been a surprise to see the continued incarceration of Imran Khan given his popularity and vehement opposition to the current political setup.

Other measures that also seem to point toward the end-goal of prolonged political and economic stability include: (i) amendments to the Army Act increasing the terms of services chiefs to 5yrs from 3yrs earlier, and (ii) passage of the 26<sup>th</sup> constitutional amendment giving Parliament the power to appoint the Supreme Court's chief justice. The desire for stability should inform foreign relations also, with Pakistan likely to carefully navigate US-China relations during President Trump's second term, while not letting relations with India deteriorate further. Risks arise from any mass public protests against the government, such as those seen in Bangladesh, but the probability remains low, in our view.

### Challenges along the way

Short economic cycles have meant little has been done in the way of structural reforms over the last fifteen years, but these cannot be delayed any longer. For instance, Pakistan has exhausted room to further tax its overburdened salaried class (the highest marginal personal income tax rate in Pakistan is 35%), highlighting the urgent need to broaden the tax base. Similarly, friendly countries such as Saudi Arabia, that have historically extended direct handouts (e.g. hard-currency deposits with the SBP) have instead switched their preference to investments. Attracting meaningful FDI would likely require political stability and consistent policies.

That said, it will not entirely smooth sailing, even if Imran Khan and the PTI are kept in check. Many reforms such as imposing an agriculture income tax will require buy-in from coalition partners such as the PPP, which may not be easy. As a result, it is difficult to expect strong reform execution as a base case. However, even piecemeal reforms will be a win, in our view, compared to the last decade or so.

Government	General Seats	Opposition	General Seats
PML-N	86	SIC (PTI)	80
PPP	55	JUI-P	6
MQM	17	BNP	1
PML-Q	4	MWMP	1
IPP	3	PKMAP	1
PML-Z	1	IND	8
BAP	1	<b>Total</b>	<b>97</b>
NP	1	<b>%</b>	<b>37%</b>
<b>Total</b>	<b>168</b>		
<b>%</b>	<b>63%</b>		

Source: NA website, IMS Research

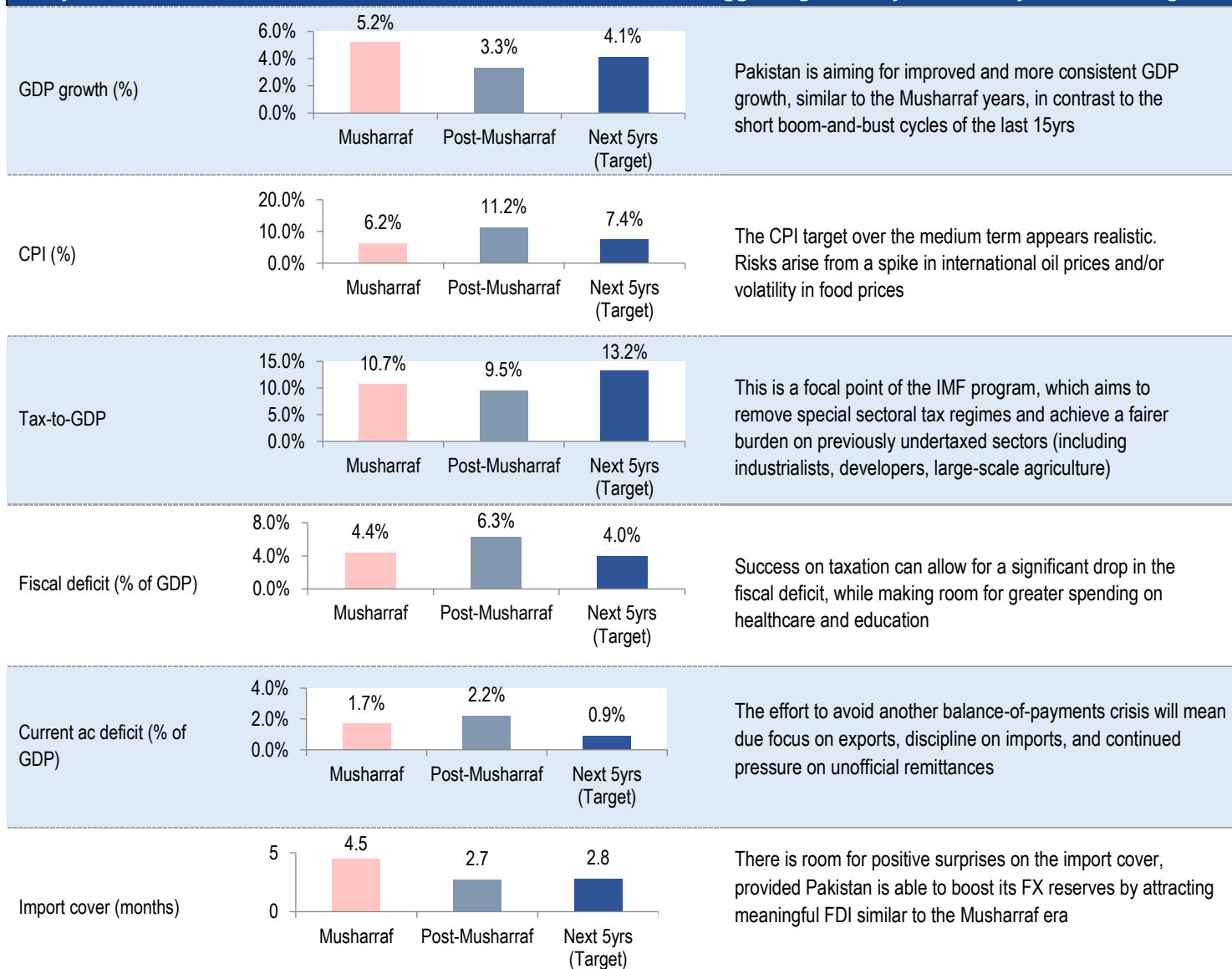
*We expect the current political configuration to persist, together with a sharp focus on the economy.*

*Some reforms should come through, despite challenges.*

## Return to Musharraf-era is the best economic case

Risks aside, the upshot to relatively stable politics and reform implementation is potentially massive. Precedence exists in the Musharraf-era (1999-2008), which saw the KSE100 index jump from 1,369pts to a peak of 15,676pts between 2001 and 2008 (annual return CAGR of c.40%). In this regard, many of the economic numbers that Pakistan is either currently posting or is aiming for are reminiscent of the macros last seen during the Musharraf years. This, of course, requires stability and continued close adherence with the IMF program but it serves to illustrate the bull case for the economy.

### Many economic indicators similar to levels seen in Musharraf era – suggesting a multi-year bull rally is in the offing



Source: IMF, MoF, IMS Research

## Benefit may outlast future political gyrations

If there is anything that can be said about politics, it is that nothing is certain. After all, Nawaz Sharif was exiled for more than a decade before returning as prime minister in 2013. As unlikely as it seems right now, Imran Khan mounting a political comeback going forward cannot be ruled out completely. That said, if Pakistan is able to implement reforms that stick, this can have recurring benefits for the country irrespective of the political configuration in the years ahead. Key reforms and their probabilities of success are discussed in more detail in the next section.

## Reforms will extend market re-rating

If Pakistan continues on the reforms path and is able to materially reduce the likelihood of boom-and-bust cycles of the past 15yrs, then the Pakistan market should re-rate to at least its LT average PE of 7.5x, with prospects for stronger rerating on effective reform implementation. Pakistan has already addressed several structural weaknesses, especially in the Energy sector, in the past two IMF programs (over 2019-24), but more needs to be done across other areas.

### Key reforms already done

Reform	How it reduces the likelihood of boom-and-bust cycles...
<b>Amendments in NEPRA and OGRA Acts</b>	<ul style="list-style-type: none"> <li>Energy regulators empowered to change gas and power tariffs independent of the gov't.</li> <li>Fully pass-on of the increase in global oil prices, which has effectively checked consumer demand for petroleum during surging prices (moderating imports).</li> <li>Another positive impact of these regulatory changes is stalling the buildup in circular debt.</li> </ul>
<b>SBP Act gives greater independence to the central bank while limiting its roles as a quasi-fiscal agent.</b>	<ul style="list-style-type: none"> <li>Independent monetary policy decisions</li> <li>Discontinuation of lending to the gov't which was inflationary</li> <li>Discontinuation of quasi-fiscal roles (including lending to favored sectors, such as textile exporters, at concessionary rates) which distorted the transmission of monetary policy.</li> <li>Hence, there has been only a moderate increase in machinery imports by industries (a precursor to the past two BoP crises) since the passing of this legislation.</li> </ul>
<b>Market determined exchange rate</b>	<ul style="list-style-type: none"> <li>Fixed exchange rate was one of the prime drivers of recurrent BoP crisis.</li> <li>The exchange rates now acts as the first line of shock absorber – checking abnormally high imports.</li> <li>Less speculation thanks to a crackdown on smuggling of dollars into Afghanistan and encouraging banks to set up exchange companies, for greater oversight by the SBP.</li> </ul>
<b>Removal of subsidies</b>	<ul style="list-style-type: none"> <li>Power subsidies cannot be more than 1% of GDP and restricted to life-line consumers only (that slab pushed down as well).</li> <li>Higher power tariff moderating consumption – ultimately taming demand for imported fuels.</li> <li>Less borrowing by the gov't and less burden on the FX reserves due to lower imports.</li> <li>End of concessionary energy tariffs and borrowing rates for exporters and bringing them into normal tax regime. These changes may drive greater innovation and investment in cost efficiencies by the exporters (although they will hurt their competitiveness against regional competitors in the interim).</li> </ul>
<b>Removal of sales tax and import duty exemptions.</b>	<ul style="list-style-type: none"> <li>Raising the GST on hitherto exempted and zero-rated goods leading to greater tax revenues despite a slowing economy.</li> <li>These protective policies led to domestic industries being uncompetitive at the global level, undermining Pakistan's export potential.</li> </ul>

Source: IMS Research

### Progress on IMF-led reforms will propel the rally further

We think that the market has already greatly incorporated the policy rate falling to 11-12% before end-June 2025, and has recently found comfort in political stability. Both of these (in concert with the relaxation of MDR from conventional banks, the largest sector by market cap) drove the most recent leg of the rally in 2024 (KSE100 index rose 34% in 4QCY24 to 10 Dec).

To extend the rally across 2025, there have to be new catalysts – either through execution of pending reforms or earnings growth among the cyclical sectors, which would be visible through high-frequency data. Earnings growth among the cyclicals is still under stress from elevated price levels (of construction materials and cars, for example) or significantly higher power tariffs (hurting demand for other durables

*Completed reforms mostly focus on BoP stability. Coming reforms focus on better fiscal management.*

such as home appliances). For autos in particular, the SBP's restriction of max amount of auto loan (capped at PKR3mn vs price of an SUV of PKR7-10mn) is deterring broad-based recovery in auto demand. One tailwind for consumer demand, however, is the sharply lower interest rates across 2025, and the banks' willingness to ramp up lending to the private sectors to avoid ADR related taxation.

### Future reforms required under the IMF program

Pending reforms (shown below) will focus on significantly increasing revenue to ensure debt sustainability and support human capital development. Already completed reforms, in contrast, mostly check an unsustainable rise in imports-led consumption.

Delivering some of these reforms will likely be a tough ask for any government in Pakistan, as they entail unpopular ramifications such as significant downsizing in public sector enterprises. That said, we draw optimism from the government's keen focus on the economy, amidst support from the army e.g. via the SIFC. More stable politics - at least compared to the last few years - can finally enable the government to deliver on much-delayed reforms.

### Future reforms that can lead to sustainable growth

Reform	Timeline for completion	How it can reduce the likelihood of boom-and-bust cycles
<b>National Fiscal Pact</b>	End-September 2024 (not yet met)	<ul style="list-style-type: none"> <li>It requires the provinces to raise more taxes (from agriculture and services industries) and be responsible for the health and education expenditure of their people.</li> <li>Less burden on the federal gov't fiscal balance and thus lower gov't borrowing.</li> <li>Federal gov't can thus focus attention on more pressing issues as climate change and addressing the paltry export-to-GDP ratio (c.10% vs 20%/30% for South/East Asian countries).</li> </ul>
<b>Agriculture Income Tax</b> (to be effective 1 Jan 2025)	End-October 2024 for passing the legislation (not yet met)	<ul style="list-style-type: none"> <li>Agriculture sector is nearly 25% of the GDP but its contribution to tax revenues is less than 0.01% of GDP! Current rate of tax on agri-income is 15% in Punjab and Sindh.</li> <li>The reform posits aligning taxation on agri-income with personal income tax rate (up to 35%) and corporate tax rate for commercial agriculture (39% with super tax).</li> <li>The additional revenues will enable Pakistan to bring down its excessive reliance of domestic borrowing and external debt. This is a difficult reform to push through though.</li> </ul>
<b>Rationalizing PSDP</b>	End-January 2025 for developing the framework to select development projects	<ul style="list-style-type: none"> <li>Once the legislation is passed, the government will select development projects based on a scorecard, the criteria for which will be made publicly available.</li> <li>Projects geared toward advancing human capital development are likely to have a higher score than pure infrastructure projects. This is critical for advancing Pakistan's IT and services exports, which are less than 1% of GDP vs 7.5% for India and over 30% for Vietnam!</li> <li>Allocating resources for projects aimed at defense against climate change will positively influence the scorecard and hence these projects will be prioritized.</li> <li>Pakistan is at high risk of extreme weather events such as the floods of 2022, which led to unforeseen fiscal spending in FY23 and additional food imports. Prioritizing climate change adaptation/mitigation projects is critical for LT macro stability.</li> </ul>
<b>Privatization of PIA</b>	Undefined	<ul style="list-style-type: none"> <li>Pakistan has to demonstrate a firm resolve to restart the privatization process, and getting rid of the SOEs that are a big drain on the fiscal balance.</li> <li>PIA has been in advanced stages of being privatized; however, the initial round of bidding fell apart unsuccessfully, having received only one (underwhelming) bid from a local investor. The gov't is since reportedly trying to sell the national carrier through a G2G transaction (most likely to a GCC sovereign and potentially being packaged with the airports of major cities in Pakistan).</li> <li>This is a key milestone. If the gov't is successful in completing this transaction, future transactions may become easier as there could be greater investor confidence (especially for FDI).</li> </ul>
<b>Privatization of DISCOS</b>	End-June 2025 for laying out the policy actions to prepare two DISCOS for privatization.	<ul style="list-style-type: none"> <li>We believe privatizing the DISCOS is the most durable solution of eradicating CD buildup from the Power sector.</li> <li>K-Electric is a shining success story of privatization in the Energy sector. The company was privatized in 2005 and became profitable in 2012 – having reduced T&amp;D losses from 40% at the time of privatization to sub-25% by 2015.</li> <li>We think the two DISCOS will likely be sold to a local investor or business group.</li> </ul>

Source: IMS Research

## Macro stability should persist

interest rates suggesting there is ample room to adjust interest rates lower (real rates are +7.0% at present based on the PR of 15%).

CA balance will continue to be supported by remittances and stable exports. Goods imports are unlikely to rise to the highs of 2021, given most large industries are still facing weak demand growth. This is supported by a broad downtrend in global commodity prices.

GDP growth across FY25 will be barely better than 3%, in our view, which could undermine FBR's tax collection. This may encourage the SBP to accelerate its easing cycle (given its FX reserves continue to build up).

Meeting IMF's fiscal target will be a challenge, however, given the sluggish economic activity, which could lead to increased tax measures by early 2025.

### Global commodity prices face a downtrend

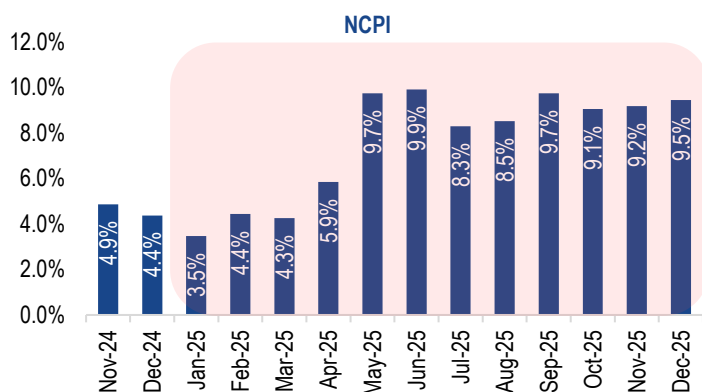
Global commodity prices – both of energy and food – should trend downwards through 2025. Economic growth in China remains weak, despite its gov't having rolled out fiscal stimulus packages since September 2024. Incoming US President Trump will likely impose higher trade tariffs on China and other countries by at least another 10%. This will undermine global GDP growth and in turn oil prices. It is possible that the conflicts in the Middle East and Ukraine ease out in a way that reduces the geopolitical premiums from oil and other commodity prices (less disruption in shipping routes).

### Few upside risks for inflation

Two additional expectations support our outlook for moderate inflation (<10%) across 2025, on top of weak global commodity prices. First, the sitting gov't has effectively managed supply-chain issues in the food chain. There have not been any reports of the gov't missing the targets for wheat crop harvest, while output of sugar and rice have exceeded targets. Second, the PKR-USD exchange rate will be supported by the continuation of the IMF program and external inflows from bilateral and multilateral lenders. The SBP guides for debt payments of only US\$6bn over November 2024 to June 2025 period, net of the committed rollovers. The outlook for PKR stability will be enhanced if the gov't kickstarts privatization, potentially to GCC based investors first. Risk could come from large increase in power and gas tariffs, should the IMF ask the gov't to expedite WACOG implementation or recover outstanding circular debt through fresh surcharges, in our view.

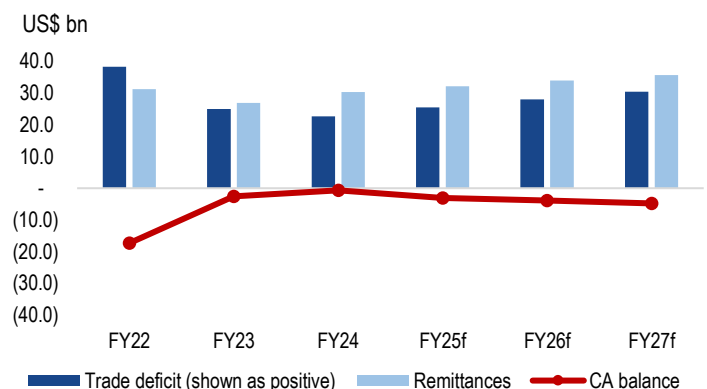
*Inflation should average in single digits in 2025, indicating room for further rate cuts*

National CPI expected to remain in the single digits through 2025



Source: IMS Research, PBS

CA deficit expected to remain under 1% of GDP



Source: SBP, IMS Research

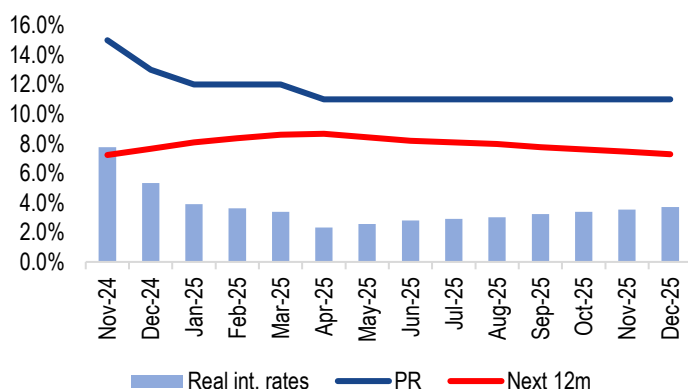
### Trade deficit will remain moderate

Pakistan's textile exports could continue to benefit from higher tariffs on China and political issues in Bangladesh. Remittances from the GCC have so far not exhibited any weakness, despite pressure on oil prices and threat to tourism from the conflict in Gaza-Lebanon. If the authorities in Pakistan are able to maintain the narrow spread between the interbank and kerb exchange rates, remittances will maintain the US\$3bn monthly run rate. Recent big outflow of human resource from Pakistan, including skilled ones, also support our view. We expect the CA deficit to remain under 1% of GDP through the year.

### Monetary easing will be brought forward

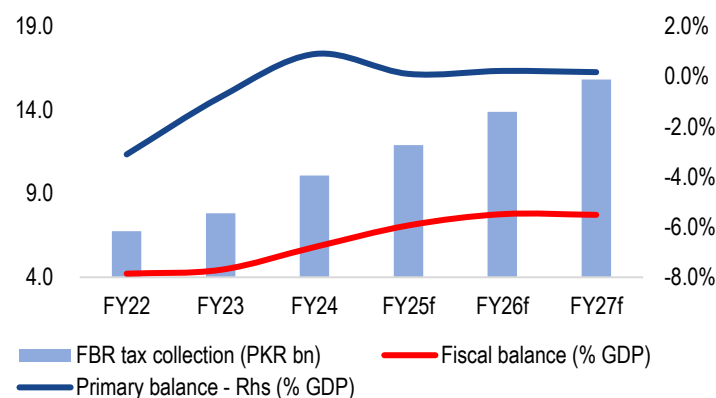
Given the outlook for inflation and CA balance and few upside risks thereof, the SBP may complete its easing cycle by end-1QCY25 – bringing the policy rate to 11-12%. We think another driving factor could be the still sluggish growth in industrial activity; the SBP would accelerate the easing to spur greater demand. It may also consider relaxing certain restrictions, such as on the maximum amount of auto loans.

**We expect the PR to fall to 11% by April 2025, given real rates have ample room**



Source: PBS, SBP, IMS Research

**Achieving FBR tax collection will be challenging; however, we see significant improvement in fiscal deficit**



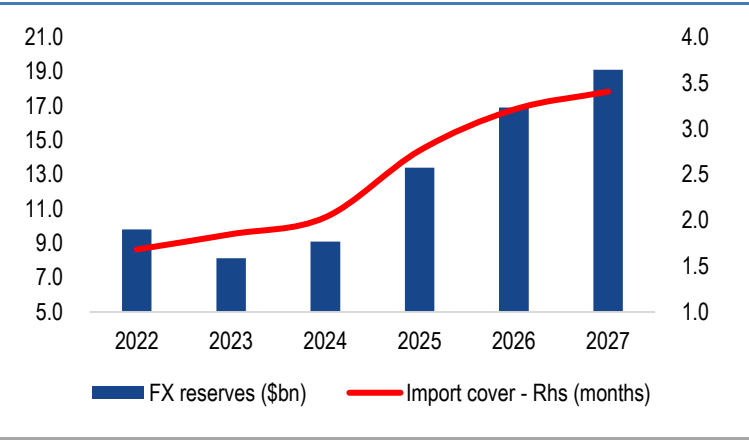
Source: MoF, IMS Research

### Meeting FBR's tax collection target would be a challenge

The gov't has set out an ambitious target for FBR tax collection of PKR12.9tn (29% higher than in previous year). This is driven by 35-40% growth in income and sales taxes. The growth in income taxes would require the government to increase the tax base to cover more of the undertaxed sectors – mostly retail and agriculture. The provinces have yet to pass the legislation that aligns agriculture income tax with personal income tax for individual farmers and corporate tax rate for commercial agriculture. The task has become harder because of weak agrodynamics through FY25 – marked by falling prices for most major crops, and issues with the cotton crop – on top of the wheat crisis of FY24. We think that the gov't will announce additional tax measures (potentially in a mini budget) by 1QCY25. They will include the contingency measures the gov't has already penciled in, as per the IMF report, complemented by fresh taxes.

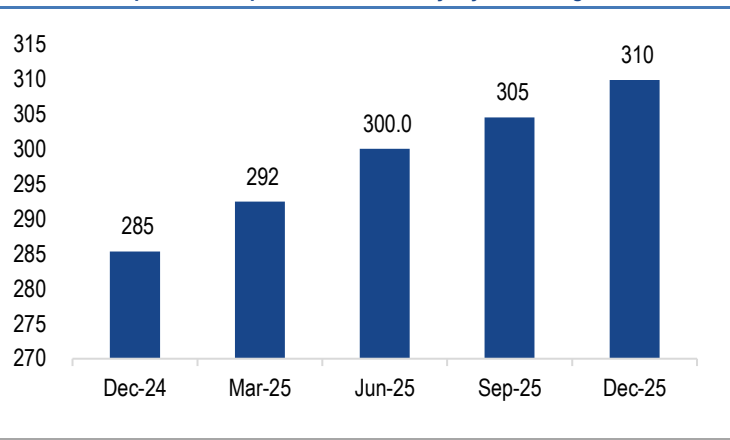
*A mini budget is possible or ad-hoc increases taxation via SROs may come through.*

SBP's FX reserves are expected to recover to 3mth imports' equivalent



Source: SBP, IMS Research

PKRUSD is expected to depreciated moderately, by 6% through 2025



Source: SBP, IMS Research



# Pakistan Economic Indicators

		FY23	FY24	FY25e	FY26f	FY27f	Key Features
<b>GDP growth</b>	yoy	-0.3%	2.4%	3.0%	4.0%	4.5%	Growth will <u>not</u> be much higher than the 2.4% in FY24 due to sluggish uptick in industries and issues with agriculture.
<b>Inflation</b>	yoy	29.0%	23.9%	6.8%	7.6%	9.5%	Moderate food inflation, stable PKR-USD and moderate increase in energy tariffs – should maintain the present disinflation.
<b>Policy rate</b>	end June	22.0%	20.5%	11.0%	11.0%	10.0%	There is a possibility that the SBP brings the PR to 11% before end of 1QFY25.
<b>C/A deficit</b>	US\$bn	2.6	0.7	3.1	3.8	4.7	Remittances continue to rise; imports will rise gradually
<b>CAD</b>	as % GDP	0.8%	0.2%	0.8%	0.9%	1.0%	CA deficit should remain under 1% of GDP through the year
<b>Exports</b>	US\$bn	27.8	31.0	32.7	35.2	36.9	Textile exports have gained momentum from political issues in Bangladesh and could benefit from increased tariffs on China by the US. Rice exports however may have a weak year.
<b>Imports</b>	US\$bn	52.8	53.7	58.2	63.2	67.3	Tepid growth in petroleum imports while oil pressures are tilted downwards. Global food prices have stabilized as well. Industries still not seeing a rebound in demand because of elevated prices.
<b>Trade Deficit (Goods)</b>	US\$bn	25.0	22.7	25.5	28.0	30.4	Hereon, growth in imports may outpace the growth in exports.
<b>Remittances</b>	US\$bn	26.9	30.3	32.2	34.0	35.7	Support from the GCC should remain intact, despite lower oil prices, thanks to the recent outflow of skilled labor.
<b>PKR/USD</b>	end June	286.0	278.3	290.0	310.0	330.0	Moderate 6-7% annual depreciation given the outlook for CA balance, and IMF program helping maintain debt rollovers and bridge any financing gaps. Unlikely to tap Eurobond market during 2025.
<b>Fiscal deficit</b>	as % GDP	-7.7%	-6.8%	-5.9%	-5.5%	-5.5%	We do not expect the gov't to meet its tax collection target in FY25 but see substantial savings from debt servicing due to sharply lower interest rates.
<b>Primary balance</b>	as % GDP	-0.8%	0.9%	0.1%	0.2%	0.2%	Primary balance is expected to remain positive through the 3yr IMF program as the gov't aims to ramp up tax-to-GDP ratio to 13%.
<b>Total Gov't Debt</b>	as % GDP	75%	67%	67%	69%	71%	Debt to GDP ratios over the next 3 years could be stagnant or lower if the gov't is successful in substantially lifting the tax-to-GDP ratio.
<b>Fx reserves*</b>	end June	8.1	9.1	13.4	16.9	19.1	Support expected from US\$16bn of rollover of existing debt and US\$2.5bn fresh loans from the bilateral lenders.

\* IMF projections

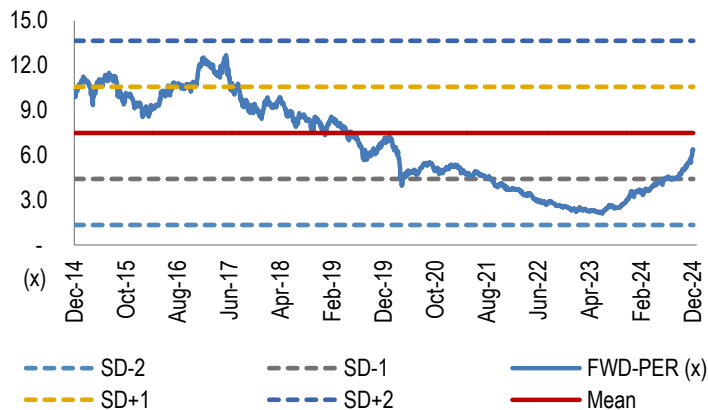
Source: SBP, PBS, MoF, IMS Research



## Valuations & Liquidity

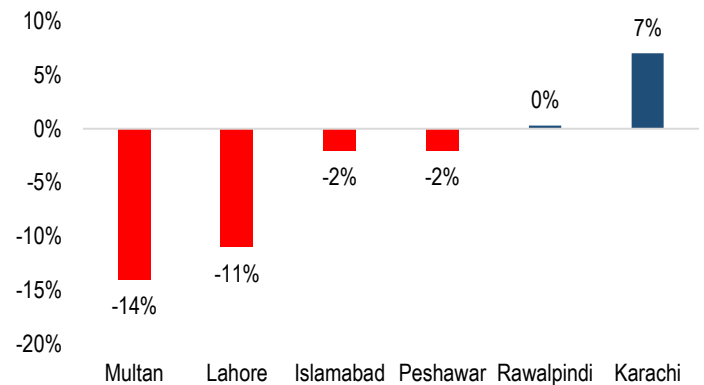
We think that the market has room to continue rerating despite an astounding 163% rally since June 2023, having re-rated nearly 50% ever since. The market is trading at 6.1x at the time of writing, which is still about 20% lower than the 10yr average of 7.5x (10yr peak of 12x). Such a strong rebound has come off an extraordinary low (c.3.4x) that had priced in a sovereign default. But it has been backed by a marked turnaround in the economy and a surge in domestic liquidity, amid falling interest rates and weak competition from alternate asset classes (real estate in particular but also gold, USD and even new cars).

P/E remains very cheap despite the recent rally



Source: IMS Research

Prices of residential plots have fallen across five major cities in the past 12m

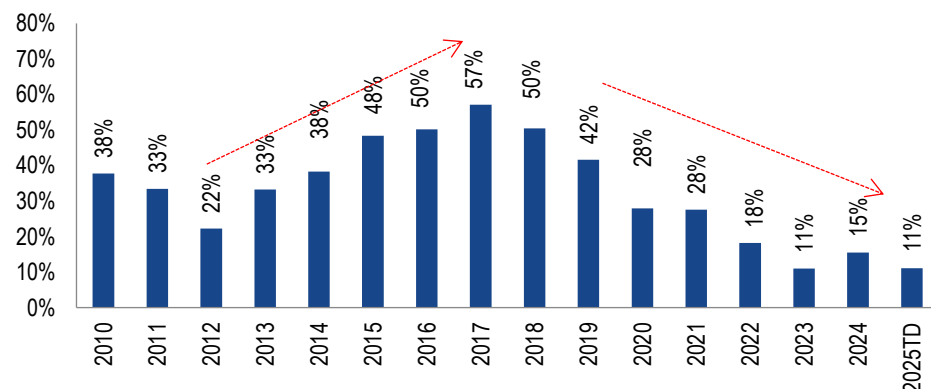


Source: Zameen.com

We believe the liquidity boost will continue. Mutual funds will continue to see rotation from fixed income funds to equity and hybrid funds. Pension and insurance funds would allocate more to equities as interest rates approach 10%. Of these, the one that excites us the most is that only c.10% of all money in domestic mutual funds, taken together, is invested in equities as of Nov 2024. Historically, this ratio has been as high as 57% (June 2017). Just the doubling of equity-to-fixed-income fund ratio across the mutual funds, to 20% from 10% presently would mean an inflow of PKR300bn (c.US\$1.0bn) into the equity market (ignoring the impact of future returns); this money is equivalent to c.7.5% of the free-float adjusted market cap of the PSX (c.US\$14.5bn), at the time of writing.

Local mutual funds are seeing strong rotation into equities.

Equity AUMs as % of Total AUMs



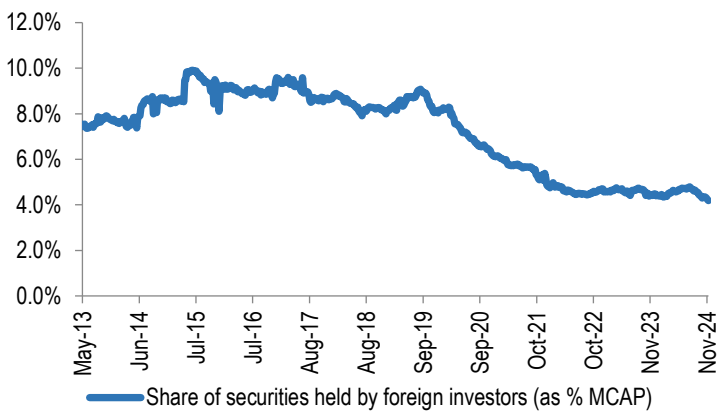
Source: MUFAP, IMS Research

2025td data is up to Nov'2024

Importantly, foreign investors have largely exited the market. 2024 saw a large outflow of nearly US\$100mn from Vanguard, the passive behemoth. The other major passive Frontier investor, Blackrock iShares, is liquidating and has sold down all equities. We understand that lately active Frontier funds, have been selling Pakistan equities as well – majorly to cash out the strong profits of the recent rally. But active FM investment in Pakistan is much smaller than in the past decade. Hence, this source of negative liquidity is largely over, in our view.

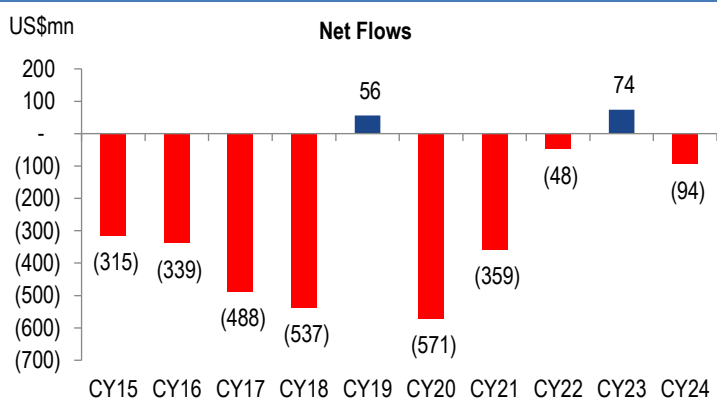
Moreover, foreign investment in Pakistan may not grow substantially in the near term, largely because of the dim outlook for flows into Emerging and Frontier markets in the face of US exceptionalism and the outlook for strong USD. But also, Pakistan needs to show sustainable GDP growth of over 4%, political stability and continued focus on reforms to attract more foreign portfolio investment – should foreign interest in Frontier markets revert to pre-Covid levels. In that scenario, we highlight the top Pakistani stocks that we think would be on their radar (see next section).

Foreign investment as a % of MCAP



Source: SBP, IMS Research

FIPI over the past 10 years until 2024td



Source: NCCPL

# Top Themes for 2025

## 1. Will foreign investors return to Pakistan in a big way?

Until 2014, Pakistan attracted foreign portfolio investment for its high dividend yield of 7%, high ROEs of over 20% among its large caps (particularly banks, fertilizer and energy names). The bull rally of 2012-17 saw foreign investors (mostly FM investors) pounce on high-growth themes and consumer catch-up stories – ranging from cements, automobiles and pharmaceuticals to even tractors – tilting away from banks and Oil & Gas names. Since 2017, after Pakistan market was upgraded to MSCI EM index (and later downgraded to FM in 2021), and until 10 December 2024, it has seen a net outflows of c.US\$2bn mainly from passive EM and FM funds.

Looking ahead, we note that globally the preference for ESG may have weakened, especially among the US domiciled funds. Hence O&G and Cement stocks in Pakistan can now attract foreign money. Interest rates in the US have begun declining, albeit gradually, which could spell interest for Pakistan's high-yielding banks and fertilizer stocks (if PKR-USD is stable, as we expect). Globally, Tech and AI trump every other investment theme. We do not have that in Pakistan, but Systems offers a play on the global rise in tech spending. Below are a few names that we think would draw the greatest attention from foreign investors.

### Stocks that would be high on the radar of returning foreign investors in Pakistan

Company name	Ticker	MCAP US\$mn	ADVT US\$mn	PE (x)	PB (x)	ROE	DY	Past 3yr EPS CAGR	Comments
Meezan Bank	MEBL	1,647	1.1	6.8	1.6	25%	9.4%	56%	Best-in-class bank with ROEs consistently above 20%. Leader in the high-growth Islamic banking space. Average deposit growth over the past years of +20%.
Systems Ltd	SYS	597	0.7	15.7	3.9	25%	2.2%	58%	Leveraged to the burgeoning IT spending in the GCC (Saudi Vision 2030) and US markets. 5yr EPS CAGR of over 25%.
Lucky Cement	LUCK	1,176	0.7	4.4	1.8	18%	1.4%	42%	Best-in-class (largest) cement producer. Diversified into other high-growth cyclical business.
Maple Leaf Cement	MLCF	176	0.9	7.1	0.7	21%	0.0%	22%	Cost optimization strategy and a focus on high-margin niche products such as white cement and wall putty boost profitability. Diversification plans aim to enhance business resilience.
Fauji Fertilizer	FFC	1,590	1.9	8.2	4.7	61%	9.7%	13%	Strongest player in the sector with Urea/DAP market share of 51/66% and post-merger D/Y of 11.5%
Oil & Gas Dev. Co.	OGDC	3,017	3.8	5.1	0.6	13%	7.7%	32%	Largest E&P in Pakistan with improving production outlook that offers a relatively better DY of 8%.
Indus Motors	INDU	567	0.1	8.9	2.1	25%	6.7%	6%	Indus has a strong foothold in the sedan market. It boasts a balanced blend of defensive attributes, including a robust balance sheet and a consistent dividend policy.
Hub Power Co.	HUBC	556	4.5	3.1	0.6	23%	5.9%	28%	The largest IPP with a c.20% average DY over the past 3 years. Expansion into the automobile sector provides medium-term growth to counter power sector challenges.
National Foods	NATF	157	0.1	17.0	2.8	17%	4.7%	2.8%	Tremendous growth story with 5-year revenue CAGR of 29% and expected revenue growth of 20% in FY25.
Airlink Comm.	AIRLINK	276	3.2	6.6	1.5	23%	11.8%	27%	Airlink Communications is a market leader with strong growth momentum (3yr CAGR of 26.7%), supported by solid affiliations with major global mobile brands.
Pakistan Aluminium Beverage	PABC	145	0.1	3.6	1.7	57%	7.0%	47%	Sole manufacturer of Aluminium beverage cans with ability to pass on changes in raw material cost to the customers. Exports to Afghanistan and Central Asia contribute c.56% to its topline.

Source: IMS Research

## 2. Outperformance by cyclical sectors led by the macro recovery

The top 10 outperforming sectors in 2024, by total returns, are: Autos, Pharmaceuticals, Fertilizer, Construction Materials, E&P and Banks – in the same order. We think 2025 should be the year of cyclical sectors which should promise accelerated earnings growth beyond FY25 – backed by volume growth mostly – as a year of stable inflation, exchange rate appreciation and lower interest rates would open up disposable incomes for increased consumption.

The most prominent theme across 2025 will be growth, in our view. Monetary easing is likely to complete before the end of 1H2025. We think it is also likely that the SBP would have built its FX reserves to nearly equivalent of 3mth imports (c.US\$14bn), and the gov't would have created the fiscal space to ramp up infrastructure spending through FY26 (increased allocation in FY26 Budget).

In this context, our top picks would be INDU, LUCK, MLCF, MUGHAL, and TGL. Outside our coverage, we would pick AIRLINK, PABC, NATF, SHIFA and HUMNL.

## Sector Outlook

## Sector Outlook

Sector	Stance	Comments
<b>Banks</b>	<b>OW</b>	CY25 will be a challenging year for banks in the backdrop of sharply lower interest rates – SBP has reduced the policy rate by a sharp 700bps from an all-time high of 22% to 15% in CY24. While macro stabilization and softening inflation may lower overall costs for the sector (particularly the cost-to-income ratio) – we see earnings coming off by a sharp c.14% YoY in CY25f. High reliance of government on borrowings and risk-off stance by banks may restrict private sector credit growth. That said, recent changes to MDR should allow some banks to stand out – driven by lower cost of deposits. In this backdrop, we prefer MCB, HBL and BAFL.
<b>Oil &amp; Gas Exploration</b>	<b>OW</b>	Reforms in Pakistan's gas chain have significantly improved recovery rates for E&Ps, rising to over 100% compared to 65-70% in the past 5yrs, which will enhance payouts for OGDC and PPL. Despite natural declines in major fields, production is expected to grow over 2025, driven by recent discoveries from OGDC and MARI. This is further bolstered by the gov't's agreement with Qatar to defer LNG contracts to 2026, freeing up pipeline capacity for gas transportation. These developments are anticipated to mitigate the impact of declining oil prices, supported by a stable PKR/USD rate.
<b>Cements</b>	<b>OW</b>	Local cement demand continues to disappoint, down 11% YoY in 5MFY25, reflecting higher taxes imposed on the real estate sector in the FY25 Budget, along with dwindling PSDP spending. The sector faced another blow when Punjab drastically raised the royalty on limestone and clay, disproportionately benefiting KPK-based players. However, green shoots have started to appear, as ongoing monetary easing is likely to stimulate demand, albeit with a lag. We prefer cost-efficient producers with healthy balance sheets, such as LUCK and MLCF, with the former benefiting from a diversified business model, while the latter aims to achieve similar diversification by investing in the fertilizer and healthcare sectors.
<b>Autos</b>	<b>OW</b>	Utilization levels in the Auto sector are improving, driven by lower interest rates and related recovery auto financing (up 3.7% MoM in Oct 2024). INDU's portfolio and models like Yaris and City are well-positioned to benefit. The auto loan cap is expected to remain in place for FY25. The anticipated NEV Policy could intensify competition, particularly from China's BYD, challenging the SUV segment, where other OEMs have recently introduced new models.
<b>Fertilizers</b>	<b>MW</b>	Removal of support price regime, introduction of agriculture income tax, and recent cotton crisis to keep fertilizer demand subdued until the harvest of wheat crop in April 2025. Sector's D/Y is comparable to current yields on 3-year PIB of 12%: FFC's post-merger D/Y of 11.5% (one-time high dividend expected on conclusion of merger), while EFERT's D/Y of 13% (which comes with a downside risk due to its weak cash position).
<b>Technology</b>	<b>MW</b>	Pakistan's IT sector has experienced rapid growth. IT exports have grown at a CAGR of 11.2% over FY20-24, with a notable 37% YoY increase in 9MCY24. This growth is fueled by rising external demand, the emergence of tech start-ups, and collaborations with global tech giants. Pakistani IT companies have increasingly penetrated GCC markets, particularly Saudi Arabia, where the demand for IT services continues to rise. In 2023, the value of IT exports from Pakistan stood at around US\$2.6bn, and the government is ambitiously targeting a substantial increase to US\$15bn in annual IT exports in the next five years.
<b>Oil Marketing</b>	<b>MW</b>	Volumetric sales are expected to depict modest growth in FY25 due to still elevated prices driving cost cutting measures, weak economic growth and elevated smuggling. However, expected improvement in margins should support profitability. Circular debt accumulation is no more a concern as gas price revisions over FY24/25 have improved PSO's recovery rates from LNG sales to over 100% vs. last 5yr avg. of c. 85% – which has substantially unlocked PSO's cash flows.
<b>Steel</b>	<b>MW</b>	The long steel sector has suffered from weak demand due to high interest rates, inflation, and rising construction costs (utilization levels in FY24 for our coverage stocks of only 34%). However, ongoing monetary easing is expected to support a recovery from FY26 onwards and ease pressure on the sector's profitability, which has been eroding due to high leverage. Similarly, the flat steel sector's volumes are poised for recovery, driven by the strong growth in motorcycle sales (up 55% YoY during 5MFY25) and potential export opportunities arising from US tariffs on Chinese flat steel. Nevertheless, global flat steel prices are likely to remain under pressure in the near term due to weak demand in China.
<b>Glass</b>	<b>MW</b>	Weakness in the construction sector is expected to weigh on sales in FY25. However, sustained pricing power will preserve margins and establish a strong foundation for growth in FY26 and beyond.

Sector	Stance	Comments
<b>Tractors</b>	<b>MW</b>	The tractor sector is expected to face challenges in FY25 due to the lingering effects of FY24's wheat crisis and declining commodity prices, which are likely to suppress demand. However, Punjab's announced tractor scheme is expected to mitigate the sharp decline observed in 1HFY25. Despite this support, growth is projected to remain negative, with double-digit contraction anticipated. Furthermore, IMF-led reforms, including the removal of crop support prices and higher taxes on farmer income, may create additional headwinds for the sector beyond FY25
<b>Pharmaceuticals</b>	<b>MW</b>	Pakistan's Pharmaceutical sector has been the best performing sector of CY24 (total return of 187% CYTD), rising on the tailcoats of DRAP's new price regime (removal of a pricing cap for non-scheduled drugs vs. 10% cap earlier). This, together with several other price increases (for hardship category and scheduled drugs) in the backdrop of a stable PKR, has helped form the base of a multi-year growth cycle for pharmaceuticals. We expect most pharmaceuticals to report over 20% annual sales growth in CY25f with margins of the sector averaging over 45% vs. under 40% SPLY. That said, much of these positives are priced in with some companies approaching fair valuations. Positive surprises can arise from small acquisitions (under PKR5bn in sales at under 2x P/S) – as most MNCs have either exited or are on the verge of exiting the industry – AGP has a strong track record on this front.
<b>Textiles</b>	<b>UW</b>	Sector's gross margins are shrinking due to increased reliance on high-cost imported cotton as a consequence of 33% plunge in local cotton production. Meanwhile, a key overhang for the sector is IMF's condition to phase out gas supply to captive power plants (by Jan 2025) leading to higher energy costs. Companies with higher exposure to exports would now be subject to normal corporate tax rate as opposed to a turnover tax regime.
<b>Power</b>	<b>UW</b>	The Power sector faces challenges as the gov't pushes IPPs to amend or terminate PPAs, shifting from take-or-pay to hybrid take-and-pay arrangements, which has heightened the risk profile of the sector. Nonetheless, these agreements will result in clearance of IPPs' receivables, which may potentially lead to one-off bumper payouts. Moreover, country's largest IPP, HUBC is expanding in an automobile venture with BYD which may constrain dividends in the near term. The project has an estimated NPV of PKR35/sh, as per our preliminary working, but we have not yet incorporated this in our valuations for HUBC.
<b>Chemicals</b>	<b>UW</b>	Gas price hike and supply cut for captive power plants would mean chemical plants shift to alternate, more expensive, sources of power such as RFO. Petrochemicals lack pricing power while the slowdown in China is straining primary margins.

Source: IMS Research

# Bank Alfalah Ltd.

## Rate sensitive but focused on growth

### A key beneficiary of the recent changes in MDR

The SBP introduced MDR on Islamic savings deposits equivalent to at least 75% of their gross asset yield while exempting deposits of financial institutions, public sector enterprises, and public limited companies - for both conventional and Islamic banks. This move would reduce the overall deposit costs for certain conventional banks – where BAFL is key beneficiary within our coverage (c.47% of its deposits stand exempt to MDR vs. under 30% for the banks in our coverage). This should outweigh the drag on earnings expected from declining interest rates.

### Margin sensitivity may lead to earnings decline

BAFL delivered strong revenue growth in CY24f given that it is leveraged to rising interest rates. Consequently, we expect earnings to come off as assets reprice towards lower rates in CY25f. Strong balance sheet growth should help limit some of the impact on NII (deposits up 17% in 3QCY24) with room to further grow its current accounts (which slipped to under 40%). We expect NII to remain flat in CY25 (up 3%) with NIMs likely to come off to under 4% over the medium term.

### Cost of risk is sticky

BAFL LLP provisions settled down in 9MCY24 (PKR1.2bn vs. c.PKR10bn SPLY), due mostly to large specific provisions for subjective downgrades. While we expect some uptick in CY25f (cost of risk rising from 20bps in CY24f to c.50bps in CY25f), an improving macroeconomic backdrop can lead credit costs lower over the medium term. We estimate credit costs settling at under 20bps through the cycle.

### Comfortable on CAR - still trading cheap

As interest rates come off we see mid-cycle T1 ROE settling over 18%. Even so, we expect BAFL to maintain a payout of c.40% on average. BAFL's CAR stands at a high 16% – comfortably above SBP's requirement of 11.5% leaving room for an even greater payout. BAFL trades at a CY25f P/B of 0.6x. and P/E of 3.4x, while offering a dividend yield of c.11%.

### BAFL - Valuation Snapshot

	CY22A	CY23A	CY24f	CY25f	CY26f	CY27f
EPS (PKR)	11.66	23.15	29.71	23.37	22.61	26.06
EPS Growth (%)	27%	98%	28%	-21%	-3%	15%
PER (x)	2.9	1.5	2.6	3.4	3.5	3.0
DPS (PKR)	5.00	8.00	9.00	9.00	9.00	10.00
DY (%)	15%	23%	11%	11%	11%	13%
PBV (x)	0.5	0.4	0.7	0.6	0.5	0.5
ROE (%)	18%	30%	29%	19%	16%	17%

Source: IMS Research

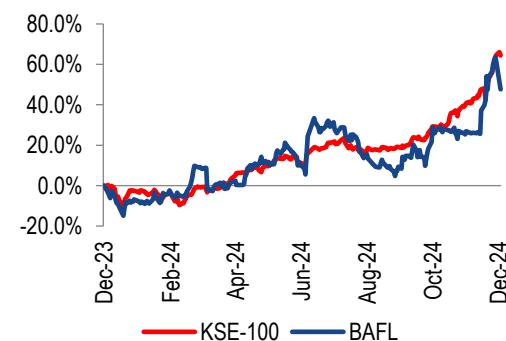
**BUY**

**TP: PKR100/sh**

### Bank Alfalah Limited

Price (PKR/sh)	78.52
Bloomberg	BAFL PA
Mkt Cap (US\$mn)	445
Upside (%)	27.4
Fwd D/Y (%)	11.5
Total Return (%)	38.8
12m Hi-Low (PKR/sh)	86.97/45.27
6m Avg. D. Vol ('000 shrs)	1,241
6m Avg. Td Val (US\$mn)	0.31

### BAFL vs. KSE100 Index





# MCB Bank Ltd.

## A balanced business

### Dividends should sustain

MCB has a solid capital base. MCB's CAR stands at 21% and can easily support a c.65% cash payout over the medium term (the last 3yr payout has been over 70% on average). We see little risks to MCB's absolute dividends even if earnings come off. MCB offers dividend yields of 13%. Moreover, a high but sustainable cash payout boosts ROE, which is expected to clock in at 23% in CY25f before converging to 21% mid-cycle.

### Asset quality remains strong, costs are in control

MCB has a conservatively structured loan book which is preventing infection from coming through despite a very tough economic backdrop. Modest loan provisions are a function of ageing with the NPL stock rising marginally. High domestic coverage of c 100% provides additional comfort even if asset quality pressures comes through. Admin costs also remain in control – up 20% YoY and should tread lower in line with inflation. As a result, the C/I has come down to 35%, a multi-year low. This is unlikely to sustain going forward as interest rates comes off, but it showcases one of MCB's core strengths.

### Focus on low-cost deposits

MCB's net interest income rose sharply in CY24f, with margins touching +8.0%. This was driven by a combination of low-cost deposits and asset re-rating. The deposit mix improvement in particular has been very impressive - MCB has managed to increase current accounts to +40% of the deposit mix. This is a marked departure from the past, where MCB's CASA has historically been dominated by savings accounts. That said, While NIMs have been higher than the average, MCB has not taken on significant leverage to boost its investment mix. This has led to modest investment gains, compared to peers, implying it will likely find it difficult to stave off earnings declines (albeit modest) in 2025/26f. On the flip side, NFI growth is solid (up 30% YoY), led by fee which is growing strongly across all major lines (trade guarantees up +50%YoY, cards up 45%YoY and home remittances up +25%YoY) – this should provide support in CY25f.

### Premium is justified

MCB trades at a CY24f P/B and P/E of 1.0x and 4.8x respectively. While most banks in Pakistan are trading at cheaper multiples, not all offer a defensible dividend stream and a capital base to support.

### MCB - Valuation Snapshot

	CY22A	CY23A	CY24f	CY25f	CY26f	CY27f
EPS (PKR)	29.00	54.94	58.55	55.26	53.56	56.30
EPS Growth (%)	10%	89%	7%	-6%	-3%	5%
PER (x)	4.6	2.4	4.5	4.8	4.9	4.7
DPS (PKR)	20.00	30.00	36.00	36.00	36.00	38.00
DY (%)	15%	23%	14%	14%	14%	14%
PBV (x)	0.8	0.6	1.1	1.0	1.0	0.9
ROE (%)	19%	30%	27%	23%	20%	20%

Source: IMS Research

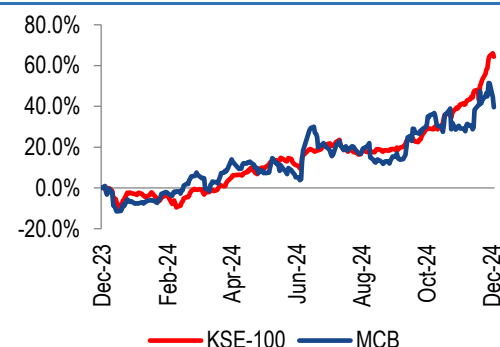
BUY

TP: PKR320/sh

### MCB Bank Ltd.

Price (PKR/sh)	264.55
Bloomberg	MCB PA
Mkt Cap (US\$mn)	1,128
Upside (%)	21.0
Fwd D/Y (%)	13.6
Total Return (%)	34.6
12m Hi-Low (PKR/sh)	287.16/167.77
6m Avg. D. Vol ('000 shrs)	502
6m Avg. Td Val (US\$mn)	0.44

### MCB vs. KSE100 Index



# Habib Bank Ltd.

## Well placed in a declining rate cycle

### Much room for improvement

HBL is well placed to outperform in a declining interest rates climate. It has suffered from a relatively high cost of risk, an elevated cost-to-income, and low current accounts in its deposit mix. All three factors should show improvement as interest rates come off and the economy settles. HBL is the cheapest bank in our coverage (CY25f P/B: 0.5x – a c.50% discount to peers). The D/Y is lower than peers at 10% but should stand out more as interest rates reduce further. Our liking is reinforced by a strong pickup in fee income – another positive during monetary easing.

### Deposit mix and asset quality have room to improve

There appears to be significant room to optimize the deposit mix (CA: 32%) – particularly as interest rates come off. These should help limit the impact of NIM compression over the medium term (CY24: 5.7%/ CY25f: 5.1%). NPLs should decline as economic pressure alleviates in line with softening inflation – HBL reported large PKR17.4bn LLP provisions in 9MCY24 with domestic NPLs rising over 30% CYTD. Importantly, NPLs on international business have come off 9% to PKR34bn, against which coverage levels stand at c.90%. Admin expense growth has slowed (13% YoY in 9MCY24); however, C/I has immense room to come off from c.60% currently.

### Poised for improved pay-outs with strengthened balance sheet

HBL offers a D/Y of c.10% and is the cheapest bank in our banking universe, trading at a CY25f P/B of 0.5x and P/E of 4.0x. On P/B, HBL is at a c.50% discount to peer banks. HBL has lagged peers in the last few years, but we believe it is better placed to outperform in the interest rate down-cycle. Our liking is reinforced by HBL's focus on digital, together with renewed efforts to grow market share in trade. This has resulted in a strong push to fee income (over 20% YoY in 9MCY24), which should help offset margin compression going forward.

#### HBL - Valuation Snapshot

	CY22A	CY23A	CY24f	CY25f	CY26f	CY27f
EPS (PKR)	23.23	39.32	39.27	41.04	44.97	48.35
EPS Growth (%)	-3%	69%	0%	5%	10%	8%
PER (x)	4.1	2.2	4.2	4.0	3.6	3.4
DPS (PKR)	6.75	9.75	16.00	16.00	18.00	20.00
DY (%)	7%	11%	10%	10%	11%	12%
PBV (x)	0.5	0.3	0.6	0.5	0.5	0.4
ROE (%)	12%	18%	15%	13%	14%	13%

Source: IMS Research

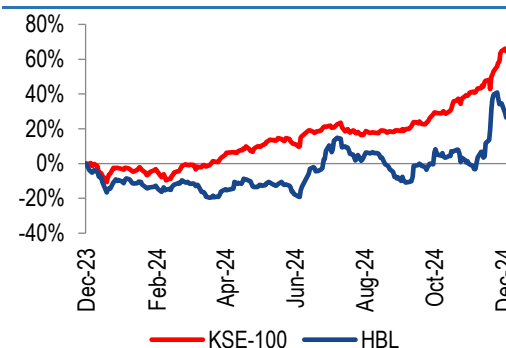
**BUY**

**TP: PKR190/sh**

#### Habib Bank Ltd

Price (PKR/sh)	163.80
Bloomberg	HBL PA
Mkt Cap (US\$m)	864
Upside (%)	16.0
Fwd D/Y (%)	9.8
Total Return (%)	25.8
12m Hi-Low (PKR/sh)	182.44/104.13
6m Avg. D. Vol ('000 shrs)	3,517
6m Avg. Td Val (US\$m)	1.76

#### HBL vs. KSE100 Index



# Oil & Gas Development Co. Ltd.

## Leading the pack

### Well positioned among peers

We reiterate our Buy rating on OGDC with a revised June 2025 TP of PKR266/sh, incorporating an improved recovery ratio of almost 150% in 1QFY25, well above the 5yr average of 60%. The company's focus on appraising and developing recent discoveries, including Bettani (Wali) and Bannu West (Shewa), is expected to drive production growth and mitigate concerns over natural declines in major fields. This should support future profitability despite a stable PKR-USD exchange rate and declining oil prices. While the stock has had a strong rally of 43% FYTD, it still remains attractively valued at a Fwd P/E multiple of 5.0x, compared to the market P/E of 6.1x, offering significant upside potential.

### Production set to improve

OGDC's hydrocarbon production is set to improve, with FY25f oil and gas production projected at 36,000bpd and 800mmcf, up 7% and 11% YoY, respectively. The company is advancing development at Bettani (Wali), currently producing c.1,000bpd, with additional exploratory and appraisal wells underway, targeting production of c.3,500bpd by FY26. As a JV partner with MARI, OGDC is also developing Shewa (Bannu West), which is expected to commence production soon at 70mmcf of gas and 700bpd of oil. These fields could add PKR3.5/sh to annualized FY26f EPS, contributing 8% of earnings.

### Reko Diq can be a game changer

The Reko Diq investment has the potential to be a game changer for OGDC, given the mine's significant copper and gold reserves. OGDC owns 8.3% stake in the project, which is currently in the feasibility stage and is expected to conclude by the mid-2025. Construction will commence thereafter, with production anticipated by 2028. While we have valued the project at its book value of US\$2.3bn (PKR12.4/sh for OGDC's stake), we believe its actual value is significantly higher due to its high potential. Our preliminary estimates suggest a total project value of US\$7-8bn, though we await detailed economic insights to incorporate its true value. Notably, a reported offer of US\$0.8bn by the Saudi sovereign fund for a 15% stake values the project at US\$5.3bn, substantially above its reported book value of US\$2.3bn also suggests a substantial upside potential.

### OGDC - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	31.11	52.23	48.59	38.60	41.11	42.50
EPS Growth (%)	46%	68%	-7%	-21%	6%	3%
PER (x)	2.8	1.5	2.4	5.0	4.7	4.6
DPS (PKR)	7.25	8.55	10.10	15.00	18.00	21.00
DY (%)	8%	11%	9%	8%	9%	11%
PBV (x)	0.4	0.3	0.4	0.6	0.6	0.5
ROE (%)	16%	23%	18%	13%	13%	12%

Source: IMS Research

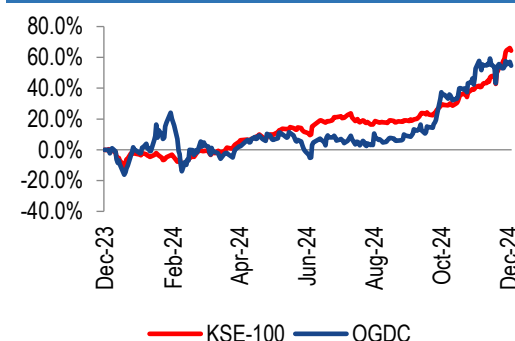
**BUY**

**TP: PKR266/sh**

### Oil & Gas Development Company Ltd

Price (PKR/sh)	193.76
Bloomberg	OGDC PA
Mkt Cap (US\$mn)	2,997
Upside (%)	37.3
Fwd D/Y (%)	7.7
Total Return (%)	45.0
12m Hi-Low (PKR/sh)	199.66/105.09
6m Avg. D. Vol ('000 shrs)	6,723
6m Avg. Td Val (US\$mn)	3.80

### OGDC vs. KSE100 Index



# Pakistan Petroleum Ltd.

## Another gem in E&Ps

### Upgrade to Buy with a revised TP of PKR200/sh

We upgrade our rating on PPL to Buy with a revised TP of PKR200/sh. The recent improvement in recovery ratios following the gas price hike has significantly bolstered PPL's cash flows, offsetting concerns about its weak production outlook. While challenges such as low production and a one-off outflow of PKR52.5bn (PKR19/sh) persist, our optimism stems from PPL's investment in the Reko Diq copper and gold mine project, which holds considerable potential due to PPL's smaller base. Additionally, the recent gas sector reforms have the most significant impact on PPL, given its higher gas in production mix. However, in the event Reko Diq does not materialize, OGDC remains our preferred stock due to its stronger production outlook. Despite substantial re-rating, PPL continues to trade at a low P/E multiple of 5x, the lowest among peers, and at a deep discount of 22% compared to the broader index.

### Significant upside potential from Reko Diq

We are positive on PPL due to its stake in Reko Diq, one of the largest copper and gold mines, located in the high-potential Tethyan Belt, which holds enormous promise. The feasibility study for Reko Diq is expected to be completed by the end of this month, with production slated to begin in 2028. PPL holds a stake comparable to OGDC's, but the impact on PPL's share price will be significantly greater due to its lower share count. Currently, we have valued it based on its book value due to uncertainties surrounding the mine's economics. However, considering its potential, we believe the true value is likely far higher than the current book value of US\$2.3bn, which suggests a substantial rerating potential for PPL.

### Production remains a major concern

PPL's oil and gas production is expected to remain steady in FY25 at approximately 11,500bpd and 650mmcf/d, supported by the upcoming contribution from Razgir and capacity enhancement at Adhi and Nashpa. However, in FY26, overall production is projected to decline by 8% for oil and 5% for gas, driven by natural depletion at mature fields and reduced offtakes by Gencos and Sui gas utilities. To address these challenges, PPL has planned an ambitious exploration and development program, with a planned capex of PKR38bn for FY25. While aimed at sustaining production levels, coupled with expected outlay of PKR52.5bn against Sui lease extension bonus could limit the company's ability to higher payouts.

### PPL - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	19.98	35.73	42.44	34.68	33.33	32.68
EPS Growth (%)	4%	79%	19%	-18%	-4%	-2%
PER (x)	3.8	1.8	2.3	5.0	5.2	5.3
DPS (PKR)	5.00	2.50	6.00	9.00	10.00	11.00
DY (%)	7%	4%	6%	5%	6%	6%
PBV (x)	0.5	0.3	0.4	0.7	0.6	0.6
ROE (%)	13%	20%	20%	14%	12%	11%

Source: IMS Research

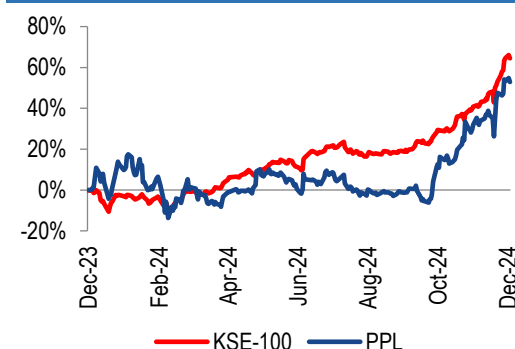
BUY

TP: PKR200/sh

### Pakistan Petroleum Ltd.

Price (PKR/sh)	174.07
Bloomberg	PPL PA/PPL.KA
Mkt Cap (US\$mn)	1,703
Upside (%)	14.9
Fwd D/Y (%)	5.2
Total Return (%)	20.1
12m Hi-Low (PKR/sh)	176.26/98.23
6m Avg. D. Vol ('000 shrs)	5,767
6m Avg. Td Val (US\$mn)	2.78

### PPL vs. KSE100 Index



# Lucky Cement Ltd.

## Benefits of diversification

### Resilient business profile

We maintain our Buy rating on LUCK but revise our TP to PKR1,400/sh to reflect the positive impact of lower royalty rates for KPK-based cement players. LUCK is a diversified conglomerate with significant business interests both in Pakistan and internationally. This is further supported by its strong financial position, with PKR98bn (PKR335/sh) in cash, enabling the company to invest aggressively in cost-efficiency initiatives, such as implementing renewable energy solutions at its cement plants. Additionally, LUCK's solid financial base allows it to internally finance new business ventures, further strengthening its growth outlook.

### Diversified business offers stability

LUCK's diversified business model has enabled the firm to thrive in a challenging macro environment. Its foreign cement operations in Iraq and Congo, alongside its power business (supported by dollarized contracts), provide vital hedging against devaluation risks. Additionally, the power sector, combined with LCI's growing pharmaceutical business, ensures stable profitability, balancing the cyclical nature of its cement and auto operations. While the cement and auto businesses at end of FY24 were operating at 49% and 12% utilization, respectively, they are expected to significantly boost earnings as Pakistan's macroeconomic conditions improve.

### Fortress balance sheet

LUCK's robust financial position, backed by a PKR98bn (PKR335/sh) liquidity pool, allows it to pursue growth initiatives like mining through NRL and expanding cement capacity in Iraq. This strong financial footing also enables the company to navigate potential challenges, such as rising energy costs (grid and captive gas), through strategic investments in renewable energy, including 68MW of solar and 29MW of wind power.

### LUCK - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	100.67	166.41	223.74	250.84	273.67	307.62
EPS Growth (%)	29%	65%	34%	12%	9%	12%
PER (x)	6.7	2.7	3.2	4.8	4.4	3.9
DPS (PKR)	-	19.25	15.00	16.00	18.00	21.00
DY (%)	0%	4%	2%	1%	1%	2%
PBV (x)	1.5	1.0	1.4	2.0	1.7	1.5
ROE (%)	13%	10%	16%	18%	16%	14%

Source: IMS Research

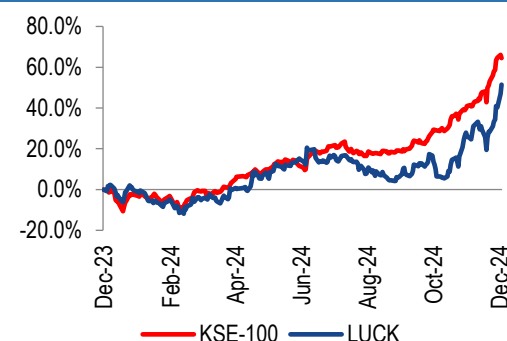
BUY

TP: PKR1,400/sh

### Lucky Cement Ltd.

Price (PKR/sh)	1,202.54
Bloomberg	LUCK PA
Mkt Cap (US\$m)	1,267
Upside (%)	16.4
Fwd D/Y (%)	1.3
Total Return (%)	17.8
12m Hi-Low (PKR/sh)	1202.54/699.89
6m Avg. D. Vol ('000 shrs)	219
6m Avg. Td Val (US\$m)	0.74

### LUCK vs. KSE100 Index



# Maple Leaf Cement Factory Ltd.

## Lagging valuation offers attractive upside

### Buy rating maintained with a higher TP

We maintain our Buy rating on MLCF and revise our 2025 TP to PKR56/sh. The higher TP is driven by the management's sustained focus on cost efficiencies and its ability to introduce innovative products that capture profitable market niches. Despite these positive developments, the stock has underperformed the IMS Cement Universe by 38%, and it currently trades at a P/B ratio of 0.8x, compared to 1.4x for the IMS Cement Universe. We believe the current discount is unwarranted and presents an attractive entry point for investors.

### Innovative strategies to enhance profitability

Cement demand for FY25 appears challenging, with 5MFY24 local dispatches falling by 11% YoY. In this tough environment, management remains focused on cost efficiencies, increasing the use of alternative fuels from 15% to 30% of total requirements in 1QFY25, with a target of 45% in the near future. This shift offers cost savings, as alternative fuels are priced at PKR32,000/ton compared to PKR35,000/ton for local coal. Simultaneously, the launch of HD Cement Putty capitalizes on the company's market share of 90% in the white cement market. Being 3.5x more profitable than white cement, this innovative product supports premium retention prices and offers potential for further upside.

### Enticing valuation offers an attractive entry point

MLCF trades at an EV/ton of US\$28/ton, reflecting a c.30% discount compared to the average of US\$40/ton for our coverage companies. When compared to its closest Punjab-based peer, PIOC, MLCF's gross margins were 1.1ppt higher in 1QFY25, yet it trades at a 32% discount in terms of EV/ton. This discount is likely due to the company's lack of dividend payouts and its investment in NovaCare Hospital, which, despite having a long-gestation project, is expected to reduce the inherent cyclicality of the cement business. Moreover, management has mitigated risks by hiring experienced professionals, including a CEO who previously led Aga Khan Hospital, the country's leading healthcare institution.

### MLCF - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	4.35	5.51	6.58	6.54	8.37	10.15
EPS Growth (%)	19%	27%	19%	-1%	28%	21%
PER (x)	8.1	4.7	5.4	7.4	5.7	4.7
DPS (PKR)	-	-	-	-	-	-
DY (%)	0%	0%	0%	0%	0%	0%
PBV (x)	0.9	0.6	0.7	0.8	0.7	0.6
ROE (%)	9%	11%	17%	21%	18%	18%

Source: IMS Research

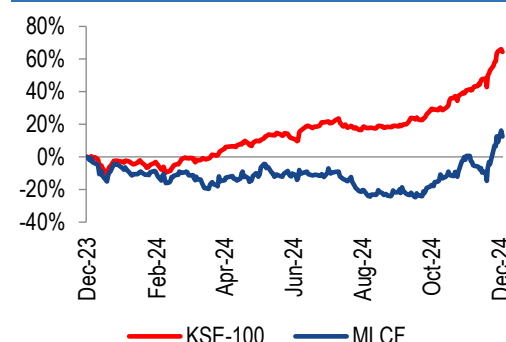
**BUY**

**TP: PKR56/sh**

### Maple Leaf Cement Factory Ltd

Price (PKR/sh)	48.10
Bloomberg	MLCF PA
Mkt Cap (US\$mn)	181
Upside (%)	16.4
Fwd D/Y (%)	-
Total Return (%)	16.4
12m Hi-Low (PKR/sh)	49.61/32.15
6m Avg. D. Vol ('000 shrs)	6,985
6m Avg. Td Val (US\$mn)	0.97

### MLCF vs. KSE100 Index





# Indus Motor Company Ltd.

## Earnings to accelerate with growing sales and margins.

### Upgrading TP to PKR2,650/sh with a Buy rating

We reiterate our Buy rating on INDU and increase our TP from PKR1,910/sh to PKR2,650/sh. Demand recovery should accelerate given present macro recovery. As a rebound in auto-financing pushes utilization levels back to historical averages of 70-80% (from c.31% in FY24), INDU presents an impressive revenue CAGR of c.18% over the next five years. Based on current car pricing, a 10yr average utilization level of around 80%, and 10yr average gross margins of c.12%, we estimate INDU's cyclically-adjusted earnings of c.PKR330. Based on this, INDU is presently trading at a P/E of 6.1x compared to a 10yr median P/E of 7.6x.

### Recovering utilization and margins ought to fuel INDU's earnings

Based on the increased baseline capacity of 80,000 units (or 47% based on the prior capacity of 66,000 units), INDU should achieve higher utilization levels, which was only 31% in FY24, well below the 6yr average of over 70%. This suggests that there is still plenty of opportunity for volumetric expansion driven by the recovery in sedan demand, particularly if the car finance restriction (PKR3mn) is eased. INDU maintains higher gross margins (over 12%) than HCAR, mostly because of the high-margin Toyota Corolla Cross, which enjoys tax benefits under the AIDEP 2021-26 Policy. In FY25/26, gross margins are expected to be stable at roughly 13%, but they may drop once the HEV policy expires.

### INDU should be least affected by the NEV Policy

The NEV Policy which is scheduled to be unveiled by early 2025, has raised concerns among local automakers due to features that allow unrestricted imports of CBUs at reduced duties (25%) and sales tax rates (10%). The market share of current OEMs could be eroded by this trend. However, because of its solid after-sales market and strong demand in rural areas, INDU is expected to be least affected. Furthermore, INDU has a competitive advantage against imported CBUs thanks to its aggressive investments in localization.

### INDU - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	201.04	122.96	191.76	225.76	269.80	250.76
EPS Growth (%)	23%	-39%	56%	18%	20%	-7%
PER (x)	6.3	7.8	6.6	8.9	7.5	8.0
DPS (PKR)	93.75	71.80	114.70	135.00	161.00	150.00
DY (%)	7%	8%	9%	7%	8%	7%
PBV (x)	1.8	1.2	1.5	2.1	1.9	1.7
ROE (%)	31%	17%	24%	25%	27%	23%

Source: IMS Research

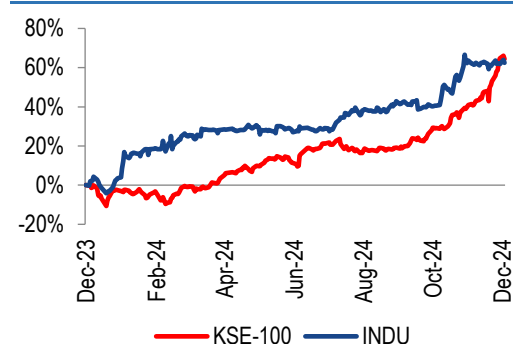
**BUY**

**TP: PKR2,650/sh**

### Indus Motor co. Ltd.

Price (PKR/sh)	2,011.35
Bloomberg	INDU PA
Mkt Cap (US\$mn)	569
Upside (%)	31.8
Fwd D/Y (%)	6.7
Total Return (%)	38.5
12m Hi-Low (PKR/sh)	2062.88/1186.77
6m Avg. D. Vol ('000 shrs)	12
6m Avg. Td Val (US\$mn)	0.07

### INDU vs. KSE100 Index



# Pakistan State Oil

## Promising prospects ahead

### Reiterate Buy with a TP of PKR400/sh

We reiterate our Buy rating on PSO with a TP of PKR400/sh for June 2025. Higher gas tariffs since October 2023 are expected to keep PSO's recovery ratio to c.100%, up from 85-90% in recent years. However, volumes are expected to remain subdued due to weak demand amid sluggish economic growth and increasing competition by smaller OMCs. Nonetheless, revision in OMC margins and ongoing monetary easing should support profitability. Despite a strong rally of 80% FYTD, PSO still trades at a 25% discount to market multiple depicting a potential upside. We estimate PSO's EPS for FY25/26 to be PKR65.38/91.51. However, payouts may remain low (DPO assumed 20% over FY25/26f) amid elevated short-term borrowings. We estimate FY25f DPS of PKR13, translating into a DY of 4%.

### Circular debt accumulation comes to an end...

PSO stands to benefit from recent reforms in the gas sector, which have already enhanced recovery ratios to more than 100% from the gas utilities (SNGP and SSGC) thereby strengthening its liquidity position. However, the challenge of outstanding receivables still persist, which will take time to resolve. Nonetheless, improved cash flows from the gas utilities present a positive catalyst for the stock. After a long spell of underperformance (trailing the KSE100 index by 40ppt in FY24), the stock has rallied 80% FYTD, primarily due to a positive cash flow outlook. Despite this performance, we believe PSO still has re-rating potential. PSO is trading at FY25f P/E of 4.6x, depicting discount of 25% to the broad market P/E of 6.1x.

### ...but volumetric sales will remain weak

Volumetric sales for FY25 are projected at 7.2mn MT, a 6% YoY decline, despite an expected 1.5% growth in overall industry volumes. This decline is driven by a drop in PSO's market share in the white oil market, which has fallen to 42% from 48% in FY24, amid increased competition from smaller OMCs, particularly GO Petroleum, whose acquisition by Saudi Aramco has bolstered its market position. We expect PSO's market share in white oil products to stabilize at 42-44% over the medium term. However, future revisions in OMC margins will offset the impact of lower sales.

### PSO - Valuation Snapshot

	FY22A	FY23A	FY24A	FY25f	FY26f	FY27f
EPS (PKR)	183.66	12.06	33.79	65.38	91.51	113.60
EPS Growth (%)	196%	-93%	180%	94%	40%	24%
PER (x)	1.0	11.7	4.6	4.6	3.3	2.6
DPS (PKR)	10.00	7.50	10.00	13.00	18.00	23.00
DY (%)	5%	5%	6%	4%	6%	8%
PBV (x)	0.4	0.3	0.3	0.6	0.6	0.4
ROE (%)	48%	3%	7%	13%	18%	18%

Source: IMS Research

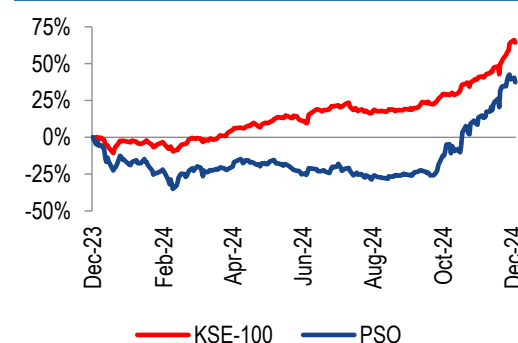
BUY

TP: PKR400/sh

### Pakistan State Oil

Price (PKR/sh)	298.67
Bloomberg	PSO PA
Mkt Cap (US\$mn)	504
Upside (%)	33.9
Fwd D/Y (%)	4.4
Total Return (%)	38.3
12m Hi-Low (PKR/sh)	309.83/141.18
6m Avg. D. Vol ('000 shrs)	3,082
6m Avg. Td Val (US\$mn)	2.54

### PSO vs. KSE100 Index





# Systems Ltd.

## SYS poised for sustained earnings

### Raised TP but cut rating to Neutral

We have revised our TP for SYS to PKR650/sh from PKR575/sh while downgrading our stance from Buy to Neutral, reflecting an updated valuation methodology that increases the target P/E multiple from 16x to 20x. This revision is supported by an expected revenue/earnings CAGR of 25%/24% over the next five years. Our earnings estimates remain unchanged and we reiterate the key driver being the rebound in GMs in 3QCY24 following three consecutive quarters of decline, as SYS shifts its focus to organic growth after a period of aggressive expansion.

### MEA region to continue to provide growth opportunities

Although the MEA region has offered opportunities for growth, the quick expansion has resulted in reduced profit margins until now. Saudi Vision 2030, which places a strong emphasis on economic diversification and digitization, is the driving force for the shift towards MEA, which currently accounts for 58% of total revenues (compared to 22% from North America). In 2023, KSA's IT spending increased by a strong 17.5%, the highest globally. SYS expanded its market share in the BFSI vertical and expedited its regional expansion with the opportune acquisitions of Treehouse and NDC Tech. Globally, BFSI contributes c.12% of all IT expenditures, as per IDC. Nonetheless, two major threats are a sharp decline in oil prices globally and slow growth in Saudi Arabia due to declining oil revenues and a widening budget deficit.

### Focus on core markets and high-growth services

SYS plans to expand its presence in regions where it has established a foundation, particularly in the MEA market, after evaluating various options. The company aims to stay agile in the global IT landscape by collaborating closely with partners and channels like SAP and Microsoft. As a result, SYS is already offering high-growth services such as cybersecurity, cloud computing, and AI. This strategy ensures sustained growth with reduced risk in an ever-evolving market. Furthermore, instead of targeting every potential client as in the past, SYS intends to focus on high-value clients and leverage its existing portfolio to attract new business

### SYS - Valuation Snapshot

	CY22A	CY23A	CY24f	CY25f	CY26f	CY27f
EPS (PKR)	22.75	29.81	28.41	36.23	45.31	54.53
EPS Growth (%)	49%	31%	-5%	28%	25%	20%
PER (x)	17.0	15.0	21.1	16.6	13.3	11.0
DPS (PKR)	5.00	6.00	8.50	12.50	18.00	24.50
DY (%)	1%	1%	1%	2%	3%	4%
PBV (x)	4.9	4.0	4.6	3.9	3.3	2.8
ROE (%)	38%	31%	24%	25%	27%	28%

Source: IMS Research

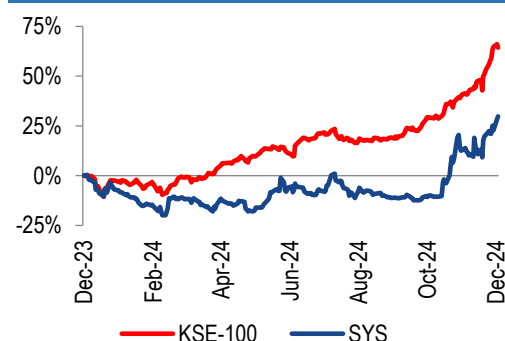
Neutral

TP: PKR650/sh

### Systems Ltd.

Price (PKR/sh)	600.73
Bloomberg	SYS PA
Mkt Cap (US\$mn)	630
Upside (%)	8.2
Fwd D/Y (%)	2.1
Total Return (%)	10.3
12m Hi-Low (PKR/sh)	600.73/370.86
6m Avg. D. Vol ('000 shrs)	391
6m Avg. Td Val (US\$mn)	0.65

### SYS vs. KSE100 Index



## Other Stocks (Not Rated)

## National Bank of Pakistan

NBP is out of the woods, having taken the full financial impact of the pension litigation charge of PKR49bn in 2QCY24 (favorable outcome expected on its remaining case). While there is a future recurring charge estimated at under c. PKR8bn – this is still much lower than anticipated. NBP can now resume dividend payouts given its CAR stands at a comfortable c. 25%. NBP will maintain a minimum buffer of c. 200-250bps above the MCR. Moreover, the bank has been allowed to stagger the impact of TSA (PKR100bn of PKR1.2tn Federal/provincial deposits transferred) which should not hamper balance sheet growth in the immediate term. NBP reported a net ADR of 30% in Sep'24. The bank aims at maintaining the ADR between c. 40-50% by the year end in order to avoid additional taxation. However, it will ultimately weigh in the benefit of restricting deposit growth in order to meet ADR limits vs. the revenue it will forgo.

NBP has rallied 127%CYTD with further room to rise particularly after the management has alluded at resuming dividend payouts granted it does not compromise CAR or its growth aspirations. Notably NBP helmed as one of the highest dividend paying stocks almost a decade ago – with payouts averaging 70-80% between 2011-2016. NBP trades at a current P/B of 0.35x.

### National Bank of Pakistan

Price (PKR/sh)	72.83
Bloomberg	NBP PA
Mkt Cap (US\$mn)	557
12m Hi-Low (PKR/sh)	77.23/27.08
6m Avg. D. Vol ('000 shrs)	5,763
6m Avg. Td Val (US\$mn)	1.18

### NBP – Valuation Snapshot

Key Ratios	CY20A	CY21A	CY22A	CY23A
EPS (PKR)	14.33	13.44	14.49	24.96
EPS Growth	84%	-6%	8%	72%
PER (x)	2.48	2.63	2.01	0.95
PBV (x)	0.3	0.3	0.2	0.1
DPS (PKR)	-	1.0	-	-
DY	0.0%	2.8%	0.0%	0.0%
ROE	12%	10%	10%	15%

Source: Company Reports

## Attock Refinery Ltd.

Attock Refinery Ltd. (ATRL), established in 1922, is Pakistan's oldest oil refinery and a key entity within the Attock Oil Group, which operates across E&P, refining, and OMC segments. The refinery primarily relies on crude oil sourced from the Potohar and KPK regions. ATRL benefits from vertical integration that ensures a steady supply of crude, which is processed and largely sold to its group company, Attock Petroleum Ltd. With a total crude processing capacity of 18.7mn barrels, ATRL accounts for c.12% of Pakistan's refining capacity. Over the years, ATRL has undergone significant upgrades, evolving into one of the country's most efficient refineries, capable of processing both light and heavy crude oil.

We have a positive outlook on ATRL due to its attractive valuations, trading at a P/B of 0.4x compared to the pre-COVID average of 0.5x, indicating room for further re-rating despite a FY25TD rally of 67%. ATRL's robust profitability over past three years was driven by elevated international GRMs, inventory gains, and record-high other income from peak interest rates in FY24. However, this trend is expected to reverse amid softening GRMs and declining other income. On the upside, utilization levels may improve as ATRL seeks government approval for an additional 5,000bpd of crude oil from the southern region, supporting earnings. While the brownfield Refinery Policy is delayed due to Finance Act amendments exempting sales tax on white oils, we expect a resolution soon. With a robust balance sheet and a cash position of PKR68.9bn (PKR650/sh), ATRL is well-positioned to upgrade its refinery, enhancing efficiency and eliminating penalties associated with low RON production.

### Attock Refinery Ltd

Price (PKR/sh)	588.20
Bloomberg	ATRL PA
Mkt Cap (US\$mn)	226
12m Hi-Low (PKR/sh)	588.2/292.61
6m Avg. D. Vol ('000 shrs)	1,755
6m Avg. Td Val (US\$mn)	2.66

### ATRL – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	(20.12)	93.14	274.12	236.77
EPS Growth	-24.1%	n.m.	194.3%	-13.6%
PER (x)	n.m.	1.83	0.59	1.32
PBV (x)	0.48	0.35	0.16	0.25
DPS (PKR)	-	10.00	12.50	15.00
DY	0%	6%	8%	5%
ROE	-5%	21%	36%	21%

Source: Company Reports

## National Foods Ltd.

National Foods Ltd. (NATF) is a leading recipe mix brand of Pakistan, which has expanded into segments including pickle, sauces, spreads, and desserts. The company banks its growth on rising demand from urbanization, growing trend of nuclear families, and aggressive marketing campaigns to retain its market share. Branded recipe mixes and condiments market has tremendous room to grow as majority of the condiments market comprises of unorganized players.

We expect the company to post consolidated revenues of PKR104bn, up 20% in FY25 with A-1 bags and Supplies Inc. contributing around PKR59bn (FY24: PKR49bn). NATF has a 5yr CAGR of 25% with FY24 sales standing at PKR86bn. NATF's core business contributed around 43% to the total revenues (FY23: 46%), while A-1 Bags and Supplies contributed 57% (FY23: 54%). NATF acquired 60% stake in A-1 Bags and Supplies Inc. in 2017, which is a leading restaurant supplier based in Canada. In FY18, this business contributed around PKR5bn to the topline of NATF, while its contribution has grown tremendously to PKR49bn in FY24. We expect 18% revenue growth in core business and 21% revenue growth in A-1 Bags. Despite this tremendous growth story, the stock has underperformed the benchmark index by 37ppt CYTD.

### National Foods Ltd.

Price (PKR/sh)	184.51
Bloomberg	NATF PA
Mkt Cap (US\$mn)	155
12m Hi-Low (PKR/sh)	200.13/128.21
6m Avg. D. Vol ('000 shrs)	125
6m Avg. Td Val (US\$mn)	0.09

### NATF – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	7.54	10.40	13.62	8.19
EPS Growth	19.4%	37.8%	31.0%	-39.8%
PER (x)	22.6	15.4	8.5	17.0
PBV (x)	6.0	4.4	2.4	2.7
DPS (PKR)	4.0	5.0	2.5	6.5
DY	2.3%	3.1%	2.2%	4.7%
ROE	29%	32%	32%	17%

Source: Company Reports

## Shifa International Hospitals Ltd.

Shifa International Hospitals Ltd (SHFA), the only publicly listed hospital in Pakistan, offers investors access to the country's thriving healthcare sector. The company operates three hospitals, with its flagship 550-bed facility in Islamabad's H-8 sector generating 90% of total revenues. A new facility in Faisalabad, developed in partnership with Interloop Holdings, is expected to begin operations in 2026, with 127 beds planned for Phase 1. Additionally, SHFA manages a wide network of medical centers, pharmacies, and lab collection points across various cities, further strengthening its presence in the healthcare industry.

SHFA offers an extensive range of services, notably being the only hospital in Pakistan to provide four different types of transplants under one roof. This diverse service offering, coupled with its ability to perform complex procedures, has driven robust revenue growth, with a 5yr CAGR of approximately 15%. The company has also demonstrated impressive profitability, with margins reaching 16.4% in 1QFY25, up 3.6ppt YoY, compared to a 5yr average of 11%. This improvement is attributed to an increasing mix of higher-margin complex procedures, price adjustments, and cost-optimization measures. For FY25, we expect SHFA to achieve revenues of PKR28.2bn (up 20% YoY), with operating margins of 15% translating into a PAT of PKR2.3bn, an EPS of PKR36.3, and a P/E of 11x, which compares favorably to its 5yr average P/E of 14.2x.

### Shifa International Hospitals Ltd

Price (PKR/sh)	398.79
Bloomberg	SHFA PA
Mkt Cap (US\$mn)	91
12m Hi-Low (PKR/sh)	409.2/126.94
6m Avg. D. Vol ('000 shrs)	82
6m Avg. Td Val (US\$mn)	0.07

### SHFA – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	11.07	18.39	18.69	21.55
EPS Growth	38.5%	66.1%	1.6%	15.3%
PER (x)	19.92	10.47	7.14	6.16
PBV (x)	1.64	1.26	0.78	0.70
DPS (PKR)	-	3.00	1.50	4.00
DY	-	0.02	0.01	0.03
ROE	9%	13%	12%	12%

Source: Company Reports

## Hum Network Ltd.

HUM Network Limited (HUMNL) is a diversified media holding company with a robust portfolio, including HUM TV, HUM News, HUM Sitaray, HUM Masala, and Ten Sports. Its premium content and strong brand equity enable it to maintain a leading position in the media industry, with gross margins rising to c.45% in the recent years, driven by higher ad rates and increased campaigns. The company is capitalizing on the digital shift, with substantial growth in YouTube earnings complementing its traditional TV revenue streams. HUMNL has also secured broadcasting rights for major cricket event of ICC for 2024-25.

A significant risk for HUMNL is the potential for cannibalization, where audiences may increasingly shift from traditional TV to platforms like YouTube. This could impact earnings from HUMNL's most profitable segment – advertising revenues.

HUMNL has demonstrated impressive growth over the last four years, with revenue expanding at a CAGR of 20% and earnings growing at 32%. Despite this strong performance, the company is currently trading at a P/E of 5.9x, lower than its historical average of 8.5x. With a focus on content monetization, digital growth, and strategic diversification, HUMNL is well-positioned for sustainable growth amid an evolving media landscape.

### Hum Network Ltd.

Price (PKR/sh)	14.00
Bloomberg	HUMNL PA
Mkt Cap (US\$mn)	57
12m Hi-Low (PKR/sh)	15.9/6.2
6m Avg. D. Vol ('000 shrs)	7,184
6m Avg. Td Val (US\$mn)	0.32

### HUMNL – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	0.89	1.20	1.90	2.30
EPS Growth	n.m.	34.5%	57.6%	21.5%
PER (x)	7.00	4.77	3.00	3.05
PBV (x)	1.75	1.28	0.89	0.81
DPS (PKR)		0.3		
DY	-	5%	-	-
ROE	29%	30%	35%	31%

Source: Company Reports

## Ghandhara Automobiles Ltd.

Ghandhara Automobiles Ltd (GAL) is engaged in the assembly and progressive manufacturing of vehicles, including Chery SUVs and JAC trucks. The company also imports and sells parts and completely built-up (CBU) vehicles from brands such as Dongfeng and Renault. GAL maintains partnerships with leading manufacturers, including JAC Motors, Dongfeng Motor Corporation, and Chery Automobile Co. Ltd.

In 1QFY25, GAL's sales grew by 19.2% YoY and 16.5% QoQ, reflecting a recovery in demand. The company's gross margins have consistently improved over the three quarters to 1QFY25, with the average gross margin of 14% and net margin of 7.7%, up from 12% and 3.9%, respectively, driven primarily by the growing contribution of the truck segment, specifically Dongfeng and JAC trucks.

Truck sales have started to pick up, and with improving macroeconomic conditions, demand for trucks is expected to remain strong. Additionally, the implementation of the new axle load regime significantly reduces the lifting capacity of each truck (40% on 22-wheelers and 100% on 10-wheelers), will further boost truck demand as transporters adjust to the new regulations.

### Ghandhara Automobiles Ltd.

Price (PKR/sh)	282.56
Bloomberg	GAL PA
Mkt Cap (US\$mn)	58
12m Hi-Low (PKR/sh)	360.03/57.96
6m Avg. D. Vol ('000 shrs)	2,756
6m Avg. Td Val (US\$mn)	2.52

### GAL – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	2.29	1.77	1.12	(4.54)
EPS Growth	n.m.	-22.6%	-37.0%	n.m.
PER (x)	44.22	47.02	36.69	n.m.
PBV (x)	0.96	0.78	0.38	0.36
DPS (PKR)	-	-	-	-
DY	-	-	-	-
ROE	2%	2%	1%	-4%

Source: Company Reports

## Loads Ltd.

Loads Ltd (LOADS) is a prominent auto parts manufacturer specializing in radiators, exhaust systems, and sheet metal components, primarily catering to the four-wheeler segment. The company's key clients include major auto OEMs in Pakistan, with Suzuki, Toyota, and Honda contributing 88% of its FY24 revenue of PKR4.5bn. As the sole provider of exhaust systems to local OEMs, LOADS is well-positioned to attract new business from the auto OEMs that entered Pakistan under the ADP2016 policy, especially as the lower duties granted to these new entrants are set to expire by June 2026. We believe the company offers an attractive avenue for exposure to the auto sector, given the increasing competition in the passenger car market. Regardless of which assembler emerge as winners, LOADS is poised to supply auto parts across the board, benefiting from the rebounding growth in the industry.

The auto sector is poised for recovery, with industry sales already rising by 50% YoY in 4MFY25. Given that the industry is currently operating at only 24% capacity utilization, there is significant potential for growth as interest rates decline further and the auto financing market strengthens. Profitability has also improved notably, with gross margins surging to 26%, up from 18% in FY24, driven by price revisions. Management projects revenues of PKR7bn for FY25. We estimate an EPS of PKR2.5, which stack up favorably compared to an adjusted LPS of PKR2.4 (adjustment made to remove large one-off benefit from land sale).

### Loads Ltd.

Price (PKR/sh)	14.96
Bloomberg	LOADS PA
Mkt Cap (US\$mn)	14
12m Hi-Low (PKR/sh)	15.34/7.13
6m Avg. D. Vol ('000 shrs)	2,185
6m Avg. Td Val (US\$mn)	0.09

### LOADS– Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	0.23	0.00	(5.23)	2.65
EPS Growth	n.m.	-97.9%	n.m.	n.m.
PER (x)	67.02	n.m.	n.m.	3.11
PBV (x)	1.01	0.99	0.78	0.65
DPS (PKR)	-	-	-	-
DY	-	-	-	-
ROE	2%	0.0%	-41%	23%

Source: Company Reports

## Otsuka Pakistan Ltd.

Otsuka Pakistan is looking to revamp its product portfolio and introduce new products with better margins. Currently 85% of OTSU sales are derived from Intravenous Solutions (mostly essential products that are not benefiting from price deregulation). Utilization levels dropped to 65% for IV (vs. 75% SPLY) in FY24, due to plant closure and oversupply situation – however, utilization of newly introduced sachet business (under Nutraceuticals) noticeably improved. Low IV sales, together with exchange losses on its FCY loan of JPY550mn, led to a sharp drop in recent results.

However, the company has devised a plan to (i) rationalize the IV business, (ii) strategize Clinical Nutrition business and Nutraceuticals and expand it by launching new value-added products with better margins. While we do not have sufficient information to provide formal estimates – we weigh in strong management quality and a growing demand for nutraceutical products. A shift toward non-essential product portfolio would allow OTSU to benefit from the recent price deregulation. Moreover, a stable PKR should also help avoid exchange losses on its outstanding loan. OTSU has gained 22% CYTD – unlike 193% pharmaceutical sector growth. However, the stock has picked up in the last 10 trading sessions (up 33%). We await further details but flag OTSU as a stock to watch.

### Otsuka Pakistan Limited.

Price (PKR/sh)	170.68
Bloomberg	OTSU PA/OTSU.KA
Mkt Cap (US\$mn)	7
12m Hi-Low (PKR/sh)	185.66/110.43
6m Avg. D. Vol ('000 shrs)	71
6m Avg. Td Val (US\$mn)	0.04

### OTSU – Valuation Snapshot

Key Ratios	FY21A	FY22A	FY23A	FY24A
EPS (PKR)	31.93	19.16	(0.60)	(0.39)
EPS Growth	324.2%	-40.0%	n.m.	-33.9%
PER (x)	8.96	13.56	n.m.	n.m.
PBV (x)	6.91	4.41	1.97	2.04
DPS (PKR)	1.50	1.50	1.50	
DY	1%	1%	1%	0%
ROE	125%	38%	-1%	-1%

Source: Company Reports



# IMS Universe

Valuation Summary																		
10-Dec-24					EPS (PKR)		P/E (x)		EPS Gth.		P/B (x)		DPS (PKR)		DY		ROE	
SYM	Price (PKR)	Tp (PKR)	Total Return	Rating	25f	26f	25f	26f	25f	26f	25f	26f	25f	26f	25f	26f	25f	26f
IMS Universe							6.1	5.8	-10%	6%	1.1	1.0			7%	8%	19%	
E&P	5.3						6.4	6.1	-19%	4%	0.9	0.9			6%	7%	15%	
OGDC#	3.0	194	266	45%	Buy	38.60	41.11	5.0	4.7	-21%	6%	0.6	0.6	15.0	18.0	8%	9%	13%
PPL#	1.7	174	200	20%	Buy	34.68	33.33	5.0	5.2	-18%	-4%	0.7	0.6	9.0	10.0	5%	6%	14%
POL	0.6	605	671	23%	Buy	93.62	100.11	6.5	6.0	-32%	7%	1.9	1.8	75.0	80.0	12%	13%	31%
MARI	2.9	663		Under-review		57.00	62.07	11.6	10.7	-11%	9%	3.0	2.6	23.0	25.0	3%	4%	28%
Banks							4.8	4.9	-14%	-2%	1.0	0.9			12%	12%	21%	
MCB	1.1	265	320	35%	Buy	55.26	53.56	4.8	4.9	-6%	-3%	1.0	1.0	36.0	36.0	14%	14%	23%
MEBL	1.6	244	260	17%	Neutral	37.55	38.69	6.5	6.3	-40%	3%	1.6	1.4	24.0	24.0	10%	10%	25%
HBL	0.9	164	190	26%	Buy	41.04	44.97	4.0	3.6	5%	10%	0.5	0.5	16.0	18.0	10%	11%	13%
UBL	1.6	358	380	20%	Neutral	63.83	60.46	5.6	5.9	-3%	-5%	1.3	1.3	48.0	48.0	13%	13%	24%
BAFL	0.4	79	100	39%	Buy	23.37	22.61	3.4	3.5	-21%	-3%	0.6	0.5	9.0	9.0	11%	11%	19%
BAHL	0.5	127	160	38%	Buy	41.12	33.81	3.1	3.8	1%	-18%	0.7	0.7	15.0	15.0	12%	12%	25%
Cement							6.0	5.2	22%	14%	1.4	1.2			2%	2%	17%	
DGKC	0.2	107	112	5%	Neutral	8.73	12.61	12.2	8.5	605%	44%	0.6	0.5	-	-	0%	0%	5%
LUCK	1.3	1,203	1,400	18%	Buy	250.84	273.67	4.8	4.4	12%	9%	2.0	1.7	16.0	18.0	1%	1%	18%
MLCF	0.2	48	56	16%	Buy	6.54	8.37	7.4	5.7	-1%	28%	0.8	0.7	-	-	0%	0%	21%
CHCC	0.2	304	331	12%	Neutral	43.82	46.41	6.9	6.6	55%	6%	1.8	1.5	9.0	14.0	3%	5%	29%
FCCL	0.3	39	41	10%	Neutral	5.54	6.99	7.0	5.6	65%	26%	1.2	1.0	2.0	2.0	5%	5%	17%
KOHC	0.3	426	492	16%	Buy	57.97	60.29	7.3	7.1	28%	4%	1.6	1.3	-	-	0%	0%	24%
PIOC	0.2	217	240	16%	Buy	24.70	35.18	8.8	6.2	8%	42%	1.0	1.0	12.0	16.0	6%	7%	12%
Fertilizer							7.3	7.4	6%	-1%	3.9	3.4			10%	10%	58%	
FFC	1.6	349	320	1%	Neutral	42.32	43.13	8.2	8.1	0%	2%	4.7	4.2	33.5	34.5	10%	10%	61%
EFERT	1.0	204	220	21%	Neutral	28.39	28.09	7.2	7.3	44%	-1%	6.3	6.2	27.0	27.8	13%	14%	89%
FFBL	0.4	82		No Rating		15.64	14.53	5.2	5.6	-21%	-7%	1.5	1.2	-	-	0%	0%	33%
OMC							5.1	3.9	35%	31%	0.7	0.6			5%	6%	14%	
PSO	0.5	299	400	38%	Buy	65.38	91.51	4.6	3.3	94%	40%	0.6	0.6	13.0	18.0	4%	6%	13%
APL	0.2	521	550	11%	Neutral	75.66	77.46	6.9	6.7	-32%	2%	1.1	1.0	30.0	31.0	6%	6%	16%
Steel							n.m	7.6	n.m	573%	1.1	1.0			1%	2%	2%	
ASTL	0.0	23	25	11%	Neutral	(10.59)	2.02	n.m	11.2	n.m	n.m	0.6	0.6	-	-	0%	0%	-25%
MUGHAL	0.1	80	105	31%	Buy	7.71	15.26	10.4	5.3	29%	98%	0.9	0.8	-	-	0%	0%	9%
ISL	0.1	83	83	3%	Neutral	4.40	7.85	18.8	10.5	-48%	78%	1.5	1.4	2.0	3.0	2%	4%	8%
Power							3.1	3.4	-28%	-11%	0.6	0.5			6%	6%	23%	
HUBC*	0.6	119	118	5%	Neutral	39.02	34.77	3.1	3.4	-28%	-11%	0.6	0.5	7.0	7.7	6%	6%	23%
Autos							10.2	7.8	13%	31%	2.1	1.8			6%	7%	21%	
HCAR	0.2	295	313	8%	Neutral	12.95	31.86	22.8	9.3	-21%	146%	1.8	1.6	5.0	12.0	2%	4%	8%
INDU	0.6	2,011	2,650	38%	Buy	225.76	269.80	8.9	7.5	18%	20%	2.1	1.9	135.0	161.0	7%	8%	25%
Tractors							18.1	12.8	-36%	42%	8.0	7.0			3%	6%	49%	
MTL	0.4	645	590	-5%	Neutral	35.59	50.51	18.1	12.8	-36%	42%	8.0	7.0	20.0	40.0	3%	6%	49%
Pharma							20.3	14.9	66%	36%	2.1	2.0			2%	2%	11%	
AGP	0.2	168	190	16%	Neutral	12.97	16.87	13.0	10.0	57%	30%	3.0	2.6	6.0	8.0	4%	5%	25%
SEARL	0.2	125	125	0%	Neutral	3.60	5.34	34.7	23.4	87%	48%	1.8	1.7	-	1.0	0%	1%	5%
Tech							16.6	13.3	28%	25%	3.9	3.3			2%	3%	25%	
SYS	0.6	601	650	10%	Neutral	36.23	45.31	16.6	13.3	28%	25%	3.9	3.3	12.5	18.0	2%	3%	25%
Textiles							8.5	5.6	-28%	53%	0.7	0.7			6%	8%	12%	
ILP	0.4	73	79	14%	Neutral	8.51	13.05	8.5	5.6	-28%	53%	0.7	0.7	4.0	6.0	6%	8%	12%
Glass							6.4	5.6	-19%	15%	1.1	1.0			5%	7%	18%	
TGL	0.1	133	148	16%	Neutral	20.70	23.84	6.4	5.6	-19%	15%	1.1	1.0	6.0	9.5	5%	7%	18%

Source: IMS Research

\*NPV of BYD estimated at PKR35/sh is not incorporated

#Reko Diq is valued at book value

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
Neutral	Total return expectation of $> -5\%$ or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

\*Based on 12 month horizon unless stated otherwise in the report.

**Valuation Methodology:** We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

**Risks:** Please see page 07

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