PSX: Riding the bull wave to new altitudes

Pakistan's resilience is clearly demonstrated by the strong performance of KSE-100 index after a period of turbulence. The impressive rebound, over the past two years, shows that the country's economy remains a force to be reckoned with, highlighting Pakistan's ability to overcome challenges

The ongoing momentum has been fueled by the government's commitment to reforms under the IMF program. With the government continuing to stay on track, we can expect further improvements from here. Positive macroeconomic indicators are visible across the board—interest rates are gradually decreasing, inflation is low, and foreign reserves have started rising after dropping to alarming levels earlier.

We remain optimistic about the market and believe the index still has significant growth potential. We *project the index to reach 160k by year-end*, representing a ~40% return in 2025. The primary driver of this growth, in our view, will be a re-rating of the market from its current PE of 6.0x to long term avg of ~8.0x. We anticipate modest PAT growth across sectors while dividend yield contributes 10% to our target.

Stable Macros to have a trickle-down effect on demand

Most macro indicators have shown improvement in recent months. Pakistan's current account has experienced a notable turnaround, with remittances playing a key role. Fiscal account also posted a surplus. Moreover, easing inflation has helped reduce macroeconomic volatility. We anticipate that the central bank's continued monetary easing will stimulate growth in key sectors that faced pressure over the past two years, particularly Cement, Steel, Pharmaceuticals, FMCG, and Autos.

Thematic plays for CY25

Despite an 84% run-up in CY24, we still see room for KSE-100 re-rating as the monetary easing cycle continues with stable macros. Our top picks include, FCCL, PIOC, AGP, BAHL, BAFL, PSO and ILP. In addition, we highlight, FFC, EFERT, MCB and POL among top dividend yielding stocks from our Universe.

Stable political landscape to ensure sustainability of reforms

The government has passed essential legislation with ease so far, and as long as this continues, the market will likely overlook any political noise. We believe ongoing efforts to improve the economy will be vital for maintaining market stability. However, any disagreements on economic policies between PML-N and its allied parties will pose a risk to market performance. We highlight that the role of SIFC and IMF remains crucial to ensure the sustainability of the reform process and keep investor confidence intact.

Maintaining vigilance amid positive market outlook

The market outlook remains positive; we must, however, remain vigilant to potential risks. Changes in international relations or a rise in unrest on the local political front that leads the government to deviate from the reform path could derail this bullish momentum. Besides geopolitical risk, any unforeseen pressure on the fiscal front, delay in external flows/ rollovers, or the IMF review and bounce-back of inflation – remain key risks to our investment thesis.

JS Research
research@js.com

JS Universe: Market valuation snapshot

	FY23A/ CY23E	FY24F/ CY24F	FY25F/ CY25F	FY26F/ CY26F
P/E (x)	2.52	5.96	6.16	5.88
Price/BV (x)	0.62	1.29	1.17	1.06
D/Y	14.59%	6.84%	7.42%	8.29%
ROE	24.71%	22.40%	19.11%	18.18%

Source: JS Research

Pakistan: Macro snapshot

		FY24A	FY25F
GDP	YoY	2.5%	2.4%
CPI	avg.	23.9%	6.5%
Policy Rate	p/e	20.5%	12.0%
Trade balance	US$bn	(22.1)	(23.4)
C/A balance	US$bn	(1.7)	(0.9)
C/A balance	% of GDP	-0.5%	-0.2%
Fiscal balance	Rsbn	(7,207)	(6,275)
Fiscal balance	% of GDP	-7.0%	-5.4%
Primary balance	% of GDP	0.90%	1.75%
PKR/US$	Avg.	283	280

Source: JS Research, Govt. estimates

Theme for the year

Improved macro indicators to uplift sentiments

The inflation trend has been on a lower growth pace now, reflected through the CPI readings for recent months, owing to the high base impact. Our CPI projections reflect a disinflation trend that will continue for a few more months, with FY25 CPI reaching 6.5% and CY25 CPI reaching 7.7%. The same has also been built into our earnings forecasts in our coverage.

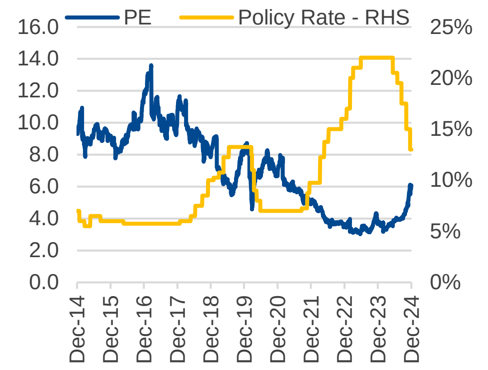
Country's real effective interest rate (RIR) is in the green zone both on a spot basis and 12M rolling basis. On a forward-looking basis, the RIR stands at ~525bp+ at present as our projections for CY25 CPI are 7.7%. Our base case incorporates gradual PKR depreciation, its impact on POL products and food prices and regular increases in gas & electricity tariffs. We expect atleast one more rate cut from here, likely in calendar year's first MPC meeting.

We expect interest rates to decline to 12% in coming days and broadly remain at these levels in the long run.

Impact of interest rate cuts has helped the country post a fiscal surplus. Given Pakistan's mark-up expenses are a significant portion of total revenue, the decline in interest rate would have a meaningful impact on the fiscal balance.

The current account has also posted a surplus for the fourth consecutive month in Nov-2024, with a cumulative surplus of US$944mn in 5MFY25. This positive trend is driven by higher remittances and a reduced trade deficit, supported by lower imports and higher exports.

All-time high interest rates - key reason for depressed multiples earlier

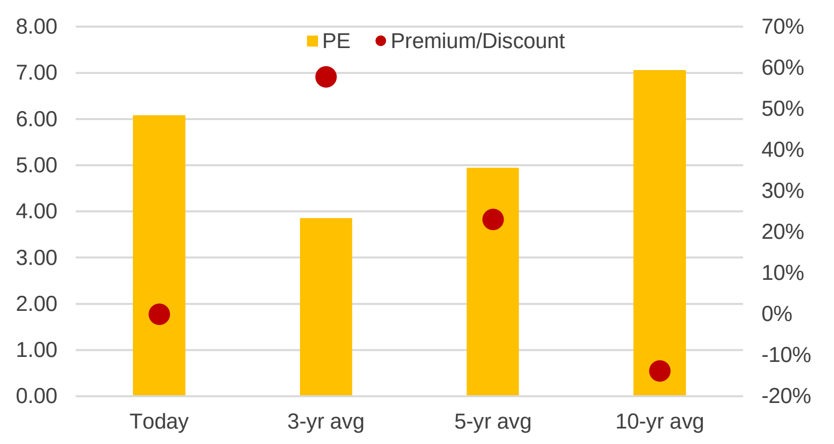


Source: SBP, Bloomberg, JS Research

Rerating to take index levels higher in CY25

We believe that market players have yet to factor in the fact that 10yr avg P/E multiples, which averaged 8.5x only five years ago, are currently 6x. We think that concerns about both domestic and foreign debt, monetary tightening, the unprecedented devaluation of the PKR, and political and geopolitical issues at the state and national levels were the main causes of the derating, and that these worries overshadowed the strong increase in profits.

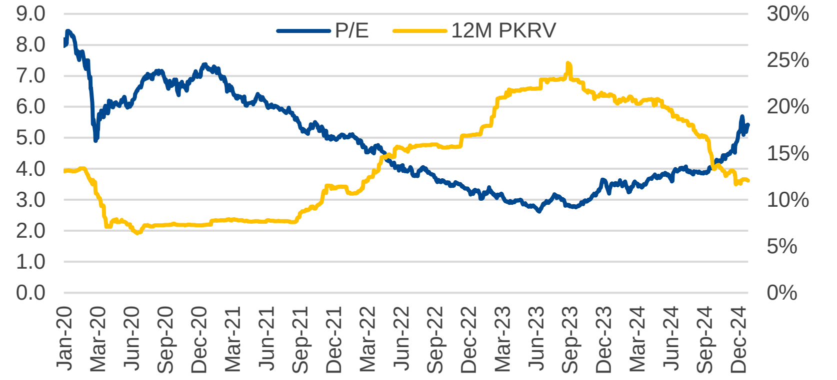
Existing P/E vs. historical average



Source: JS Research

The key reasons of the de-rating since 2021 were rising concerns on external and domestic debt, sharp monetary tightening and PKR depreciation and unprecedented geo-political and state-level political developments, where these concerns outweighed the sharp profit growth during the period.

Drop in risk-free returns to drive equity market valuations



Source: Bloomberg, MUFAP, JS Research

PSX regional outperformance to attract foreign investment

We believe the stage is set for Pakistan equity markets to attract foreign investments especially in stocks offering direct exposure to the domestic demand of growing population of the country. Pakistan's macroeconomic stabilization and reform process continue under the IMF program, providing confidence in foreign inflows and currency stability. To note, the Pakistan equity markets have outperformed regional markets with a CY24 annual return of 84% and a strong dividend yield, which will likely bring Pakistan back onto investors' radar. KSE-100 index outperformed the regional markets with 84% return in CY24, followed by Taiwan (+28%) and Malaysia (+13%).

We highlight MSCI Pakistan has outperformed with 71.4% return in CY24, compared to MSCI EM performing 6.7%, MSCI FM up 5.3% and MSCI EFM up 5.1% YoY in CY24.

During CY24, MSCI added 26 stocks in MSCI FM and 4 stocks in MSCI FM Small Cap. Pakistan now has 88 stocks in MSCI FM including 67 stocks in MSCI FM Small Cap.

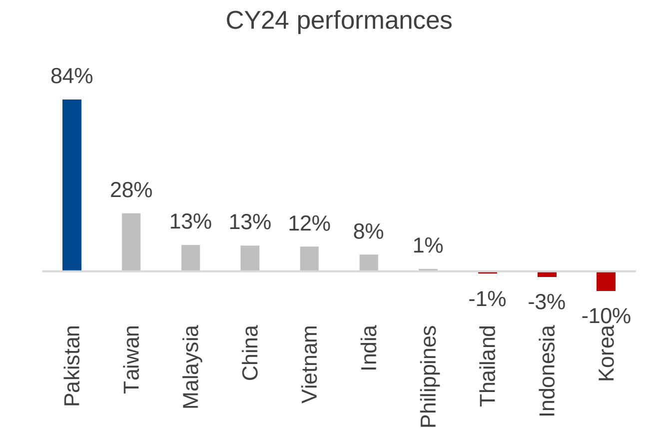
With the recent run-up in KSE-Index Market Capitalization in US$ terms, we highlight, CHCC, AIRLINK, ATRL, PIOC, DGKC, SEARL, TRG, PAEL as potential candidates (based on respective stocks' Mkt Cap and FF-based Mkt Cap) for transfer (additions) to MSCI FM from MSCI FM Small Cap index.

Potential Upgrade candidates* from MSCI Small Caps stocks to MSCI FM

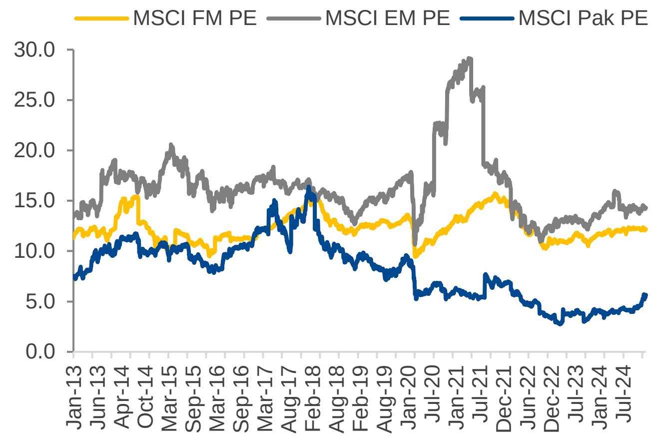
	Stock	FF Mcap (US$mn)	Mcap (US$mn)
	Criteria	**63**	**126**
1	CHCC	115	191
2	AIRLINK	78	312
3	ATRL	109	272
4	PIOC	74	164
5	DGKC	83	165
6	SEARL	96	192
7	TRG	97	138
8	PAEL	67	135

**Our preliminary calculations are based on the market capitalization (in US$ terms) and free float based MCap of the respective stocks, assuming stocks meet liquidity and market accessibility criteria.*

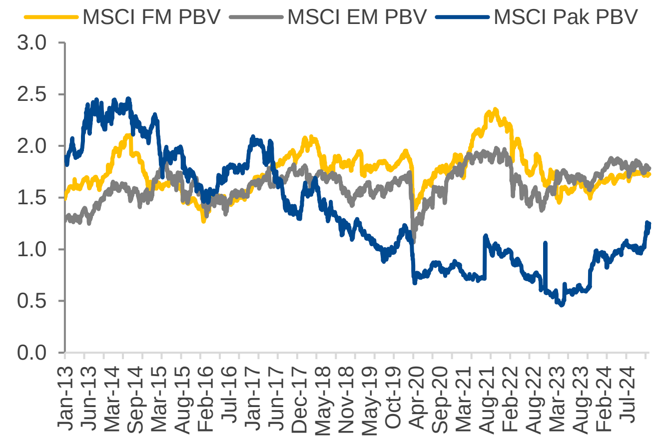
KSE-100 outperformed regional markets



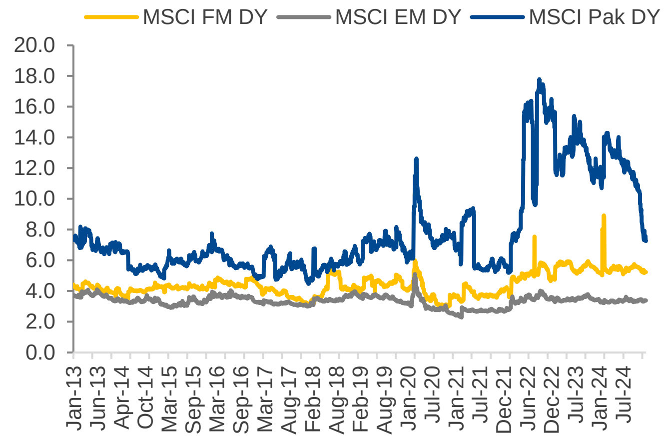
P/E: Pakistan's discount to peers at 67%



P/B: Pakistan's discount to peers at 46%



Pakistan's D/Y remains higher despite the run-up



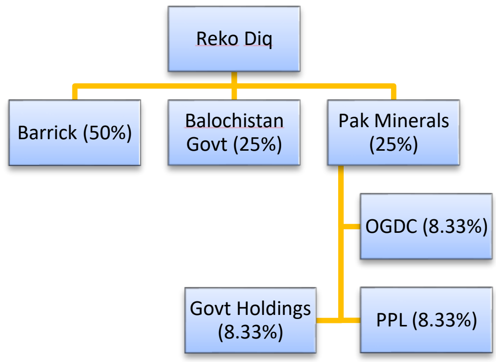
Source: NCCPL, Bloomberg, JS Research

Reko Diq Project execution to benefit multiple industries

Barrick of Canada (50% stake holder) has begun execution of early work at Reko Diq, Balochistan which is one of the largest Gold and copper reserves, with 37 years of mine life. The feasibility study and work on early infrastructure is going on at fast track basis. The project is expected to complete its financial close by Jun-2025 and phase 1 of mineral extraction and production is scheduled to begin from CY28. Reko Diq has one of the earliest anticipated execution time-lines among Barrick's mega projects. The plan for the physical infrastructure requires railway and road network development, transport and other infrastructure facilities, installation of solar power and grid network.

A number of industries will benefit from the project, involved in construction materials (ACPL, DGKC, LUCK, ASTL, AGHA, INIL), mining and blasting (BIFO), transportation and logistics (HINO, GHNI, Service Long March (SRVI/ SGF) and port and shipping companies (PIBTL, PNSC). We highlight that OGDC and PPL have an equity stake of 8.33% each in the Reko Dik project (through their holding in Pakistan Minerals (Pvt) Ltd) and are likely to be the key beneficiaries of project's equity stake sell-off, if that happens.

Reko Diq – Shareholding pattern



Source: Barrick

Key events during the year

Jan
- ENGRO to get delisted with formation of ENGRO Holdings
- Expected approval of Refinery upgradion Policy & EV Policy
- SBP's MPC meeting

Feb
- Notify Gas supply cut to Captive Power Plants (CPPs)
- MSCI quarterly review
- IMF EFF Review: 2nd Week Feb-2025

Mar
- FTSE Review
- SBP's MPC meeting
- US$3bn Pak External Debt Maturities

Apr
- Expiration of Kohat Cement buyback period
- SBP's MPC meeting
- IMF Spring meetings: 21 Apr - 27 Apr 2025

May
- MSCI quarterly review

Jun
- SBP's MPC meeting
- Federal Budget FY26 announcement
- Green Bond Issuance 4QFY25/ U$300mn Panda Bond issuance
- US$6.5bn Pak External Debt maturities
- MUGHAL's coal power plant to come online

Jul
- Interloop Ltd to complete Apparels plant revamp
- S&P Pakistan Credit rating review

Aug
- MSCI quarterly review
- SBP's MPC meeting

Sep
- FTSE Review
- CY15 Pak Euro Bonds US$357mn and US$143mn maturity in Sep-2025

Oct
- IMF Annual meetings: 13 Oct -19 Oct 2025
- SBP's MPC meeting

Nov
- MSCI quarterly review

Dec
- SBP's MPC meeting

Domestic Politics & International Relations

Domestic political arena

The 2024 elections resulted in PML-N forming a government, with PPP as its main support, along with a few other coalition partners. Despite the new political landscape, the government continues to rely on support from all key stakeholders to pass critical legislation. While the election process itself has concluded, political dynamics remain fluid, with the opposition exerting pressure. Any calls for sit-ins or protests could create market jitters, as seen in past instances.

Thus far, the government has managed to pass essential legislation, and as long as this continues, the market is likely to overlook political noise. We believe that ongoing efforts to improve the economy will be vital for maintaining market stability. However, political deadlock or disagreements on economic policies between PML-N and its allied parties pose a significant risk to the market. As seen in 2018 and 2022, political turmoil—such as the ousting of Nawaz Sharif in 2017 or Imran Khan in 2022—can severely impact investor confidence and disrupt market stability.

IMF support and rating upgrades amid reform commitment

Foreign capital flows are essential for maintaining macroeconomic stability, and Pakistan's investment prospects are closely linked to its political landscape and international relations. Staying aligned with the IMF program and implementing the required economic reforms is crucial, as it not only guarantees continued financial support from the IMF but also attracts funding from other international sources. By July last year, Pakistan secured a US$7bn IMF Extended Fund Facility (EFF) with an ambitious revenue target of Rs18trn, which was subsequently followed by credit rating upgrades from both Fitch and Moody’s. While the country remains committed to structural reforms, political uncertainties following the 2024 elections continue to pose challenges. The resolve of the authorities to remain steadfast on the reform path could however be tested in case of any hiccups on the local political front. We highlight the role of SIFC and IMF remain crucial to ensure continuity of the reform process in the country.

Geo-political situation remains relevant

In the immediate neighborhood, while relations with China for economic reasons and India for security reasons remain key, relations with Afghanistan also remain relevant now with a new regime there.

Pakistan will also have to navigate the intricacies of Middle Eastern politics with caution. In recent years, UAE and Saudi Arabia have provided the nation with substantial assistance in the form of investment commitments, deferred oil facilities, and deposits. Should Pakistan adopt a firm stance on any matter, a sudden recall of these supports might have a detrimental effect on market sentiment and the outlook for Pak rupee which can trigger a wave of inflation.

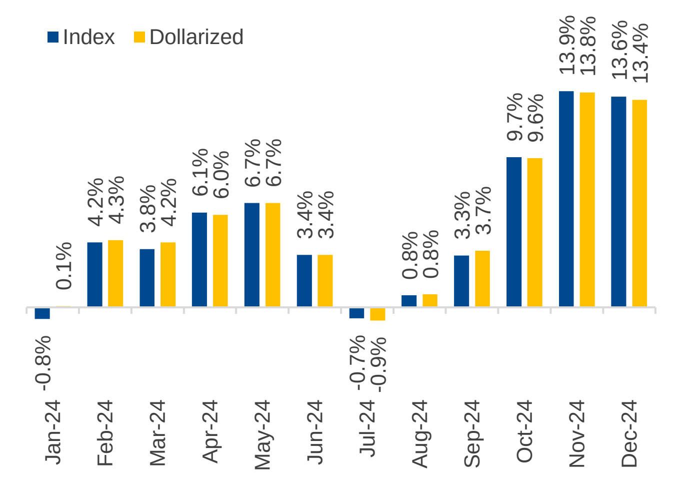
The most defining international relations effort by Pakistan in 2025 will be towards reinforcing relations with United States. Donald Trump will assume office as the 47th U.S. President in Jan-2025. His re-election has sparked interest and concern globally. His leadership style and approach to power politics is somewhat unconventional and may present new opportunities and/or challenges. A successful breakthrough on this front will reflect in both equity and debt markets.

CY24 Market Wrap

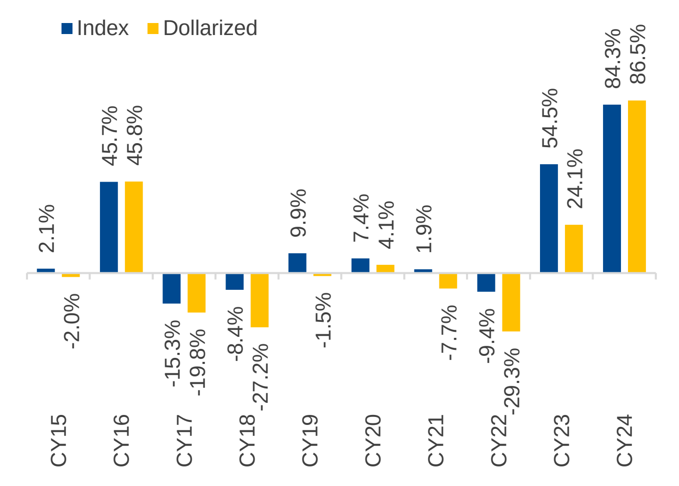
KSE-100 re-rating led by improved fundamentals

Stable macros with IMF on board, softening of interest rates and excess liquidity available in the market, led to the KSE-100 Index marking historic gains of 84% during CY24. Market continued its re-rating from 3.5x in Dec-2023 to 6.0x in Dec-2024, bridging the gap between earnings yield and interest rates (12MPKRV) from historic average of 4ppt and a high of 16ppt seen in the past 2-years to 6.4ppt now.

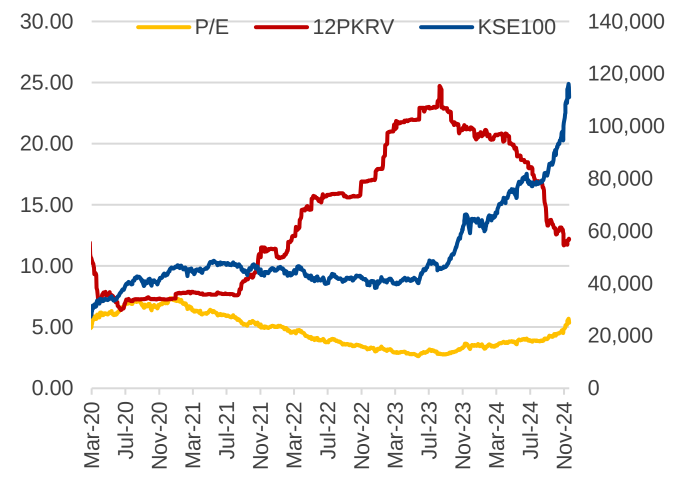
KSE100 Index: Monthly returns for CY24



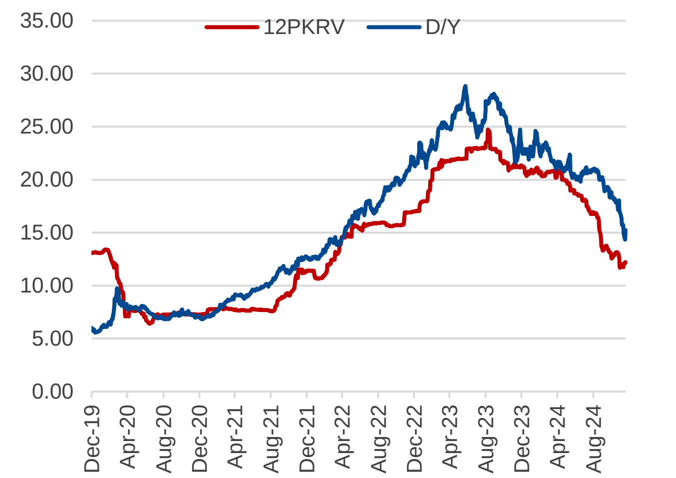
KSE100 Index: Yearly returns



KSE100 Index: P/E multiples expanded to 6.0x



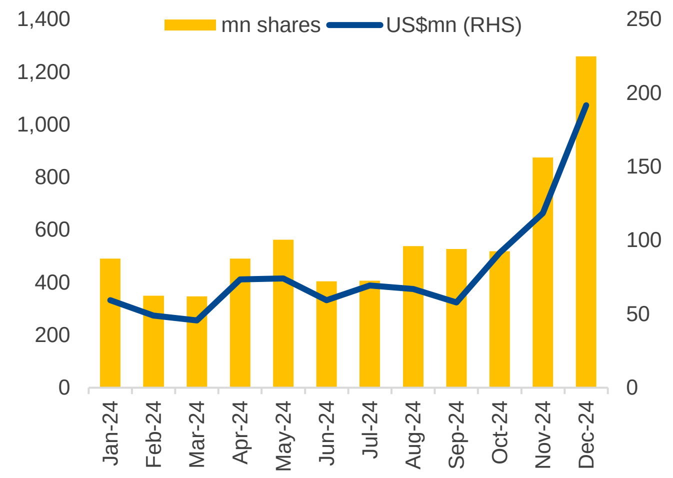
KSE100: Dividend Yield vs. interest rates



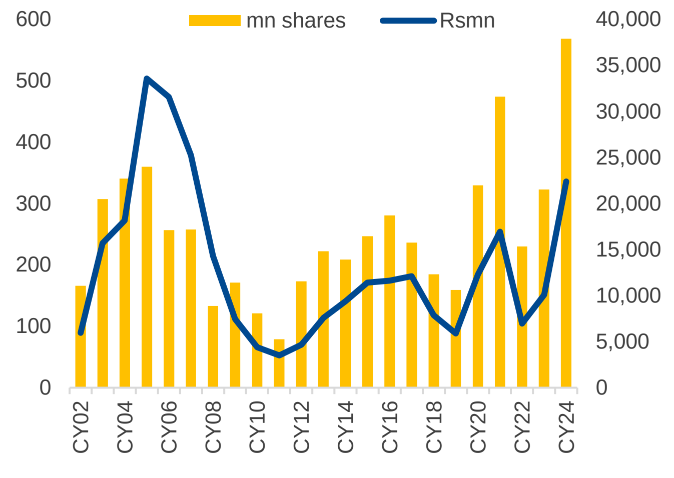
Rise in individual and mutual fund activity

Average traded volumes during CY24 were up 76% to 569mn shares, record high historic levels, while ADTO in US$ terms was up 124% to US$80mn, which is a 3-year high (CY22-CY24). Local and Foreign investors portfolio investments data depicts 172% YoY higher gross buying by mutual funds, followed by 124% YoY higher buying by individuals and 102% higher buying by foreigners. The share of individuals' activity has enhanced to 67% in the total gross buying activity in the market from a previous 3-year average of 63%. On net basis, foreigners were net sellers with net outflow of US$117mn during CY24, where sizable selling by foreigners was seen during Sep-Dec 2024 followed by an event-based rebalancing from Sep 2024 onwards, otherwise Foreigners were net buyers during Feb-Aug 2024. However excessive domestic liquidity helped the market to continue its uptrend where most foreign selling was absorbed by mutual funds which were net buyers with net inflow of US$187mn.

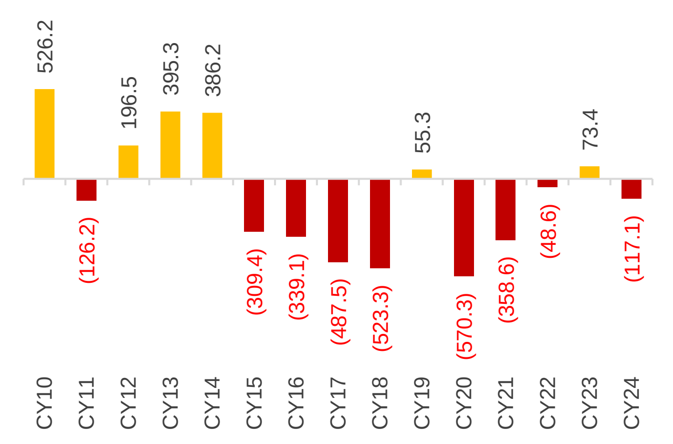
Average monthly volumes traded trend in CY24



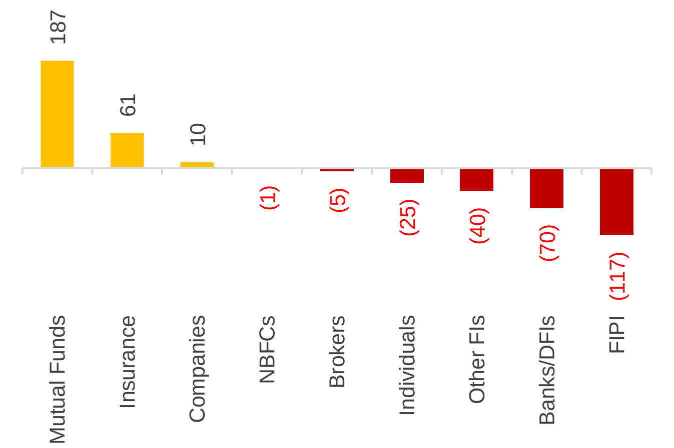
Average yearly volumes trend



FIPI declines due to event-based rebalancing in Sep-2024



CY24: FIPI & LIPI activity (US$mn)

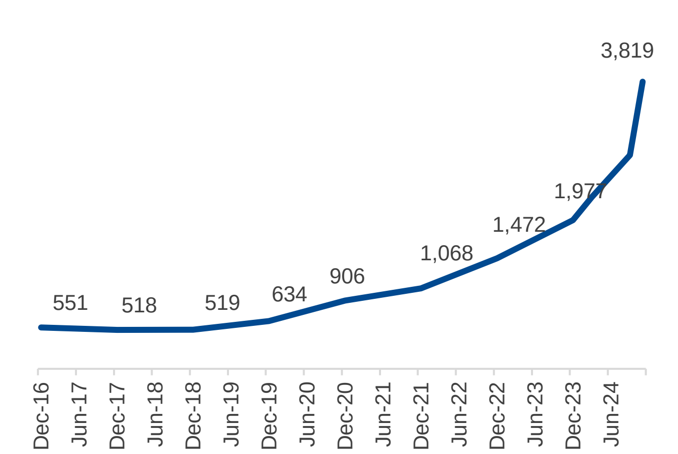


Source: NCCPL, Bloomberg, JS Research

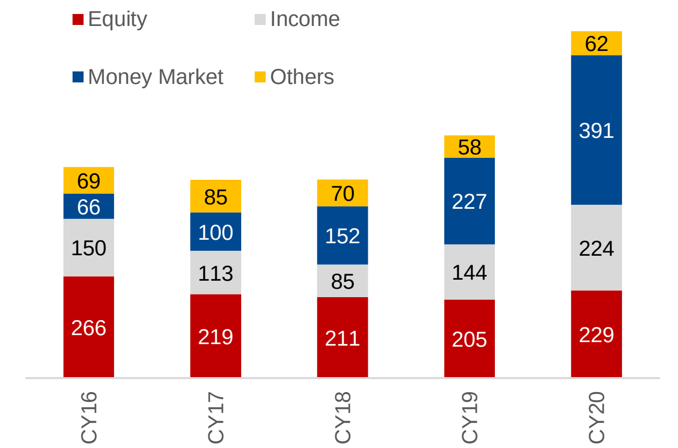
Assets under management up 92%, AUMs in equity up 79%

Asset under management (AUMs) by mutual funds have almost doubled in size (up 92% during 11MCY24 based on data compiled from MUFAP) to Rs3.8trn in Nov-2024 compared to Rs1.98trn in Dec-2023. Within AUMs, investment in equity portfolio was up 79% while investment in debt portfolio (income, fixed income and money market funds) is up 99% in 11MCY24. Interestingly with the beginning of monetary easing cycle in Jun-2024, we saw decline in share of AUMs under money market funds (down 9ppt since Dec-2023 to 42%) and income funds (down 2ppt since Sep-2024 to 26%) within the total pie of AUMs, while share of fixed income continues to rise (up 7ppt since Dec-2024 to 9%).

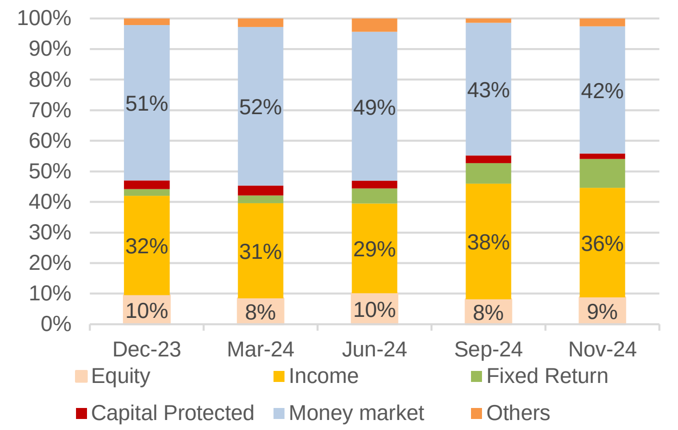
AUMs increased by 92% in 11MCY24 vs. Dec-2023



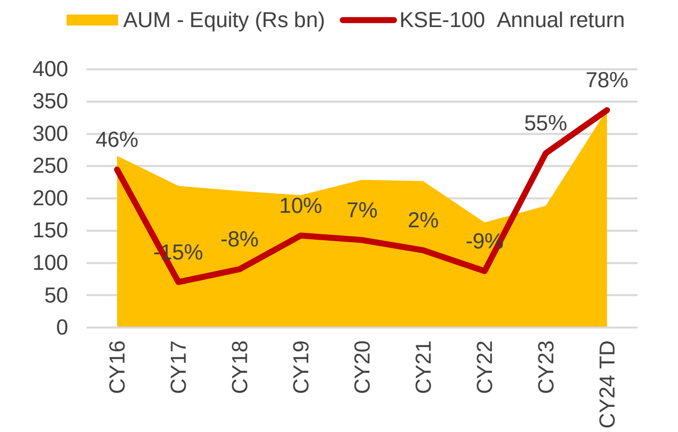
AUMS – Equity portfolio up 79% in 11MCY24 vs. Dec-2023



AUM-equity share improved marginally since Sep-24



Rising Equity AUMs as KSE picks record momentum

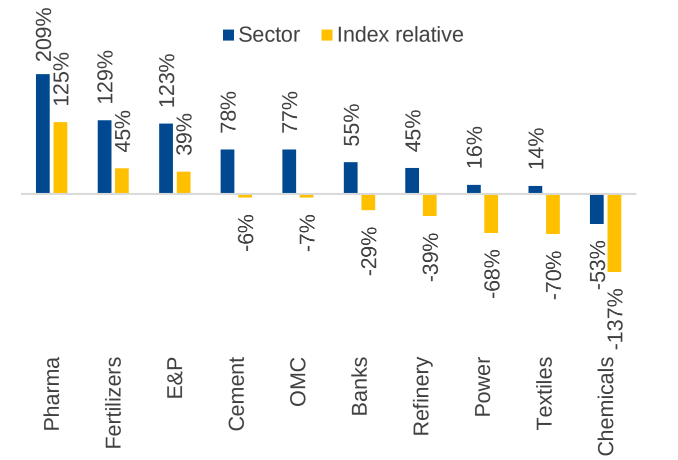


Source: MUFAP, JS Research

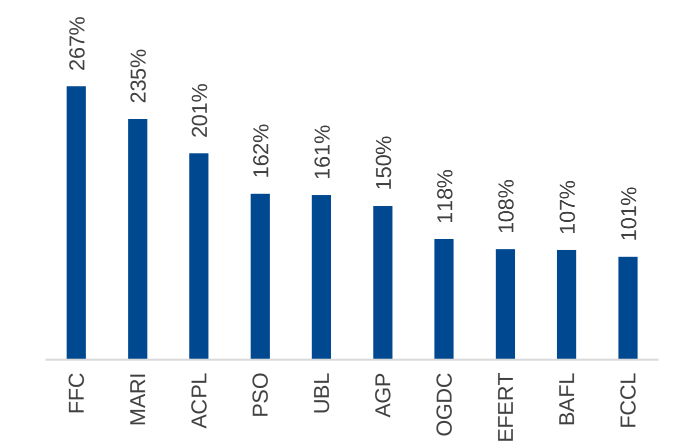
Pharma, Fertilizers and E&Ps outperformed KSE-100

During CY24, Pharmaceuticals, Fertilizer and E&P sector outperformed KSE-100 by 125%, 45% and 39%, while Power, Textile and Chemicals sectors were laggards. Within JS Universe, FFC (267%), MARI (235%) and ACPL (+201%) were the top performing stocks while ILP (+2%) and EPCL underperformed the most.

CY24: Sector Performance



CY24: JS Universe best performing stocks



Source: JS Research

Other developments

SECP approves stock-split guidelines

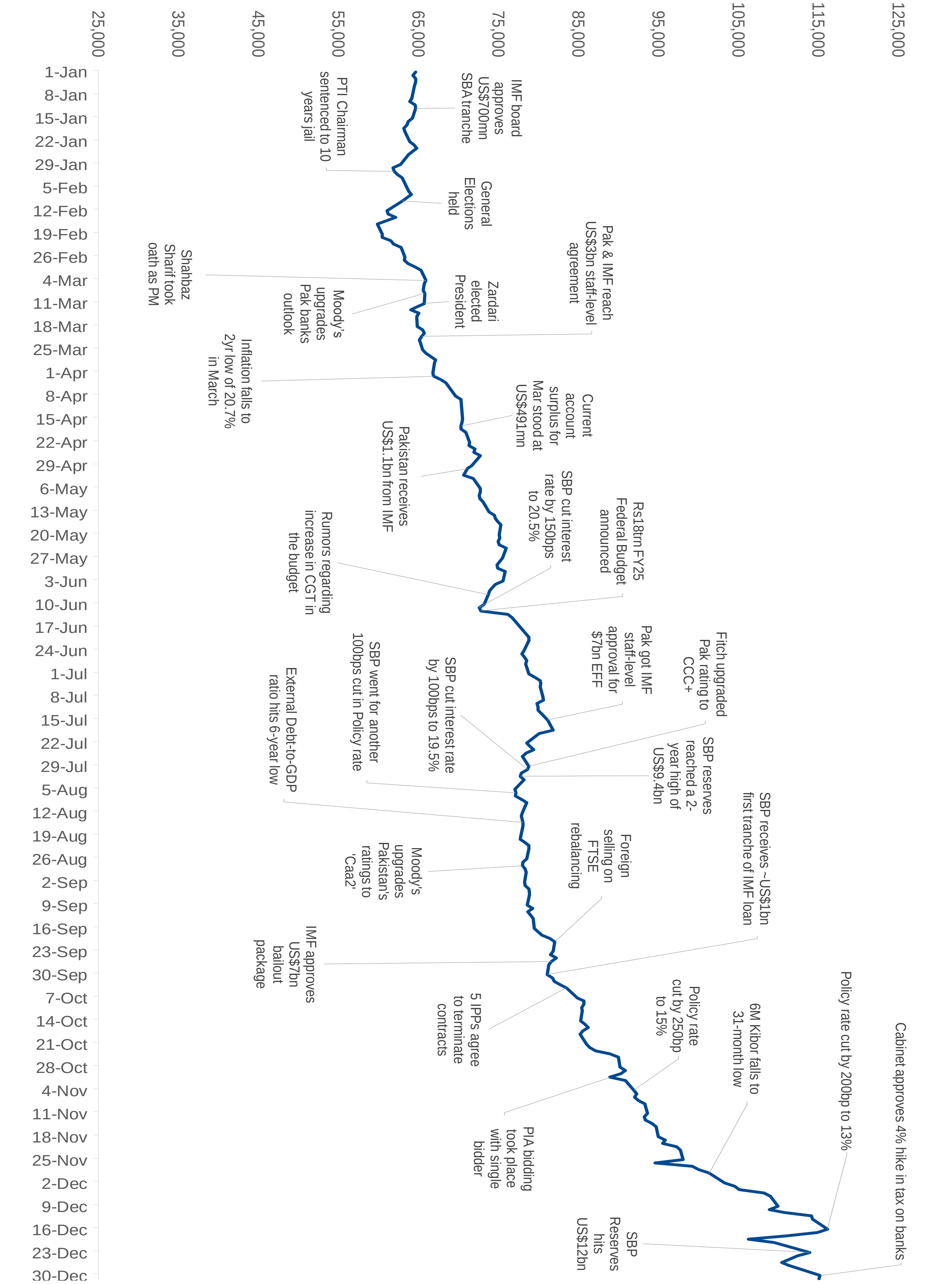
SECP has recently approved guidelines for stock-split for the listed companies. If a company opts for stock split option, it would not only improve tradability, market presence and liquidity of the company's stock but would also diversify company's ownership structure and reduce risk of hostile take-overs. Within KSE-100 Index, we have at least 24 stocks, having price denomination above Rs500/share with low average daily turnover. Exercising such a stock option by any of these companies is likely to improve tradability.

KSE-100: Stocks with price denomination above Rs500

Company	Symbol	Stock Price	Outstanding shares (mn)	6M ADTO (mn shares)
Unilever Pakistan Foods Limited	UPFL	21,225	6	0.00
Rafhan Maize Products Company Limited	RMPL	9,000	9	0.00
Nestle Pakistan Limited	NESTLE	7,450	45	0.00
Indus Motor Company Limited	INDU	2,130	79	0.02
Colgate-Palmolive (Pakistan) Limited	COLG	1,503	243	0.05
Service Industries Limited	SRVI	1,585	47	0.01
Pakistan Tobacco Company Limited	PAKT	1,332	255	0.01
Abbott Laboratories (Pakistan) Limited	ABOT	1,238	98	0.08
Sazgar Engineering Works Limited	SAZEW	1,118	60	0.58
Lucky Cement Limited	LUCK	1,100	293	0.22
Lucky Core Industries Limited	LCI	1,076	92	0.01
Highnoon Laboratories Limited	HINOON	918	53	0.04
Atlas Honda Limited	ATLH	807	124	0.02
Pakistan Services Limited	PSEL	798	33	0.00
Murree Brewery Company Limited	MUREB	718	28	0.02
Mari Petroleum Company Limited	MARI	720	1,201	1.98
Attock Refinery Limited	ATRL	711	107	1.84
JDW Sugar Mills Limited	JDWS	668	58	0.00
Mehmood Textile Mills Limited	MEHT	670	30	0.00
Pakistan Oilfields Limited	POL	632	284	0.34
Millat Tractors Limited	MTL	621	192	0.21
Packages Limited	PKGS	596	89	0.02
Systems Limited	SYS	621	292	0.44
Attock Petroleum Limited	APL	554	124	0.06

Source: JS Research

CY24: Major events



Source: PSX, JS Research

Macroeconomics

IMF program & structural reforms

Reforms seem to be on track

The IMF remains important for the country as it provides an assurance to other lenders of the country regarding continued reforms & fiscal discipline, leading to Pakistan's ability to pay back outstanding and potential loans.

Pakistan has entered into a new IMF program following the 9-mth StandBy Arrangement availed during Jul-2023 to Apr-2024. With a total value of US$7.1bn, this program is one of the largest programs Pakistan has ever accessed. 1st tranche of US$1bn was disbursed timely and the 2nd review is due in 3QFY25. The last time Pakistan utilized an IMF program of this size was between 2008-2011, when it participated in a Standby Arrangement, receiving approximately US$7.5bn out of the total US$10.8bn.

Current program seeks to enhance government effectiveness and accelerate economic transformation. Key initiatives include: (1) fiscal sustainability, (2) monetary stability (3) energy sector reform, (4) structural reforms and (5) climate resilience. The recent IMF report mentions exposure of banking sector in government's domestic debt and the role of SBP's OMO, and how it poses as a key risk in detail.

So far, Pakistan has borrowed more than US$20bn from IMF, with most of it repaid and around US$7bn outstanding excluding the US$1bn released under the new program. This makes the dues ~7% of the country's external debt and makes Pakistan 5th largest country in the list of outstanding pmts to the Fund.

Pakistan and IMF: History of Lending Commitment Programs

	Start	Expiration	Amount (SDR mn)	Availed (SDR mn)	Dues (SDR mn)
Extended Fund Facility	**Sep-24**	**Sep-27**	**5,320**	**760**	
Standby Arrangement	Jul-23	Apr-24	2,250	2,250	2,250
Rapid Financing Instrument	Apr-20	Apr-20	1,016	1,016	381
Extended Fund Facility	Jul-19	Jun-23	4,988	3,038	2,891
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393	630
Standby Arrangement	Nov-08	Sep-11	7,236	4,936	0
Extended Credit Facility	Dec-01	Dec-04	1,034	861	0
Standby Arrangement	Nov-00	Sep-01	465	465	0
Extended Credit Facility	Oct-97	Oct-00	682	265	0
Extended Fund Facility	Oct-97	Oct-00	455	114	0
Standby Arrangement	Dec-95	Sep-97	563	295	0
Extended Credit Facility	Feb-94	Dec-95	607	172	0
Extended Fund Facility	Feb-94	Dec-95	379	123	0
Standby Arrangement	Sep-93	Feb-94	265	88	0
Structural Adj. Facility Commitment	Dec-88	Dec-91	382	382	0
Standby Arrangement	Dec-88	Nov-90	273	194	0
Extended Fund Facility	Dec-81	Nov-83	919	730	0
Extended Fund Facility	Nov-80	Dec-81	1,268	349	0
Standby Arrangement	Mar-77	Mar-78	80	80	0
Standby Arrangement	Nov-74	Nov-75	75	75	0
Standby Arrangement	Aug-73	Aug-74	75	75	0
Standby Arrangement	May-72	May-73	100	84	0
Standby Arrangement	Oct-68	Oct-69	75	75	0
Standby Arrangement	Mar-65	Mar-66	38	38	0
Standby Arrangement	Dec-58	Sep-59	25	0	0

Source: IMF, JS Research

IMF seeks progress on certain key benchmarks

The IMF expects progress on several key benchmarks. These include carrying out energy sector reforms to tackle the growing circular debt, adhering to fiscal recommendations and a flexible exchange rate mechanism to address BoP pressures that arise from time to time. Regular adjustments to gas and power tariffs are also now a part of routine to restrict any new pileup of circular debt stock, along with the potential introduction of the weighted average cost of gas pricing (WACOG) at some point going forward.

IMF: Quantitative Performance Criteria & Indicative Targets

		2QFY25	3QFY25	4QFY25
I. Quantitative Performance Criteria				
Floor on net international reserves of the SBP	US$mn	(12,050)	(10,200)	(8,650)
Ceiling on net domestic assets of the SBP (stock)	Rsbn	15,211	15,179	15,820
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative)	US$mn	(3,000)	(2,750)	(2,500)
Ceiling on the general government primary budget deficit (cumulative)	Rsbn	(2,877)	(2,707)	(2,435)
Ceiling on the amount of government guarantees (stock)	Rsbn	5,200	5,400	5,600
Cumulative floor on targeted cash transfers spending (BISP)	Rsbn	235	415	599
II. Continuous Performance Criteria				
Zero new flow of SBP's credit to general government		0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government		0	**0**	**0**
III. Indicative Targets				3
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock	Years	3	3	3
Cumulative floor on general government budgetary health and education spending	Rsbn	1,405	2,150	2,863
Ceiling on the aggregate provincial primary budget deficit (cumulative)	Rsbn	(750)	(1,028)	(1,217)
Floor on net tax revenues collected by the FBR (cumulative)	Rsbn	6,009	9,168	12,913
Floor on the consolidated net tax revenues collected by Provincial revenue authorities (cumulative)	Rsbn	376	606	918
Floor on net tax revenues collected by the FBR from retailers under the Tajir Dost scheme (cumulative)	Rsbn	23	37	50
Ceiling on net accumulation of tax refund arrears (cumulative)	Rsbn	43	56	(24)
Ceiling on power sector payment arrears (cumulative flow)	Rsbn	461	554	417

Source: IMF, JS Research

Key areas to be vigilant of

IMF has identified several risks to the smooth progress of the program, emphasizing political instability and pressures for more lenient policies as major concerns. A decline in the political or social environment could impede policy implementation and jeopardize debt sustainability.

Reduced external finance and policy lapses, especially in relation to revenue measures, might put pressure on the currency rate and compel banks to expand government lending, which could drive out private investment and result in a cycle of poor growth and development. Pakistan is a net importer of oil and usually has a trade deficit balance, thus rising commodity prices and international geopolitical concerns could destabilize the economy.

Government focus on driving economic revival

SIFC to promote and facilitate investments

Special Investment Facilitation Council (SIFC) acts as a dynamic "Single Window" to streamline business processes and reduce delays, ensuring smooth investor facilitation. It fosters a favorable policy environment by driving cross-sectoral reforms, enhancing Pakistan's untapped potential and the ease of doing business. SIFC aims to contribute to Pakistan's economic revival by expanding both foreign and domestic investments, achieving macro-economic stability, promoting socio-economic prosperity, and restoring the country's stature among global nations.

Mineral mining development

Balochistan is home to abundant mineral resources, and efforts are underway to accelerate mining activities following an out-of-court settlement regarding the Reko Diq copper and gold mining project. The Reko Diq project is being executed through a joint venture comprising Barrick Gold, the government of Balochistan and SOEs Pakistan Petroleum Limited (PPL), Oil and Gas Development Company (OGDC) and Government Holdings (Private) Limited. The project is expected to greatly expand Barrick's copper portfolio and the ongoing development promises substantial economic growth and prosperity for the country as well.

Reforming State-owned enterprises (SOEs)

There has been swift and unprecedented progress in privatization of national assets, including the Pakistan International Airlines (PIA). The need to lessen financial strain from State-Owned Enterprises (SOEs) that is vital. These entities have caused resources to be diverted from other important areas for several years. Government also plans to either privatize or enter into concession arrangements for the private management of energy DISCOs to improve their performance, efficiency, and governance. The power sector's infamous circular debt and the need for increased tariffs have been largely caused by the absence of these measures in the past.

Tax reforms and revenue mobilization

The government has made significant efforts to bring more people into the tax net with an increased focus on additional taxes on non-filers, which include restrictions on maintaining bank accounts, higher taxes on purchase and sale of property, foreign travel and increased withholding taxes on vehicle registration, cash withdrawals and interbank transfers etc. Furthermore, revenue mobilization efforts such as integration of POS systems and track and trace systems have already started contribution to the same.

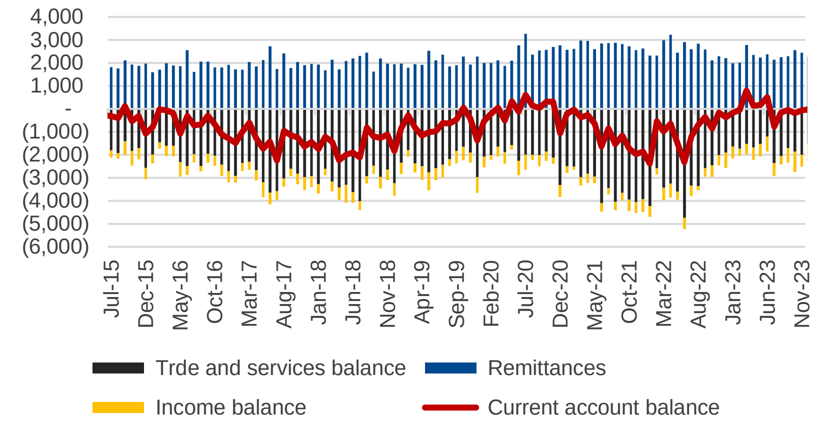
Current account – Robust remittances and narrowed trade deficits this year

FY25E CAD to clock in below US$1bn

So far, Pakistan's economy seems to be making positive progress. The current account balance has remained healthy and registered a surplus for the fourth consecutive month in Nov-2024. This is a significant achievement with a cumulative surplus of US$944mn through 5MFY25. The key drivers behind this positive trend include increasing remittances and lower trade deficits, which were naturally supported by lower imports and higher exports.

In addition, factors such as restrained domestic demand, contractionary policy and low global commodity prices all contributed to a more favorable trade balance. Overall, these developments in the short term indicate a more stable economic perspective on Pakistan. We, however, expect CAD to expand in later months of the remainder of FY25 taking it to US$875mn for FY25E compared to CAD of US$1,695mn in FY24. Our projection for FY25 comes to -0.2% of GDP.

Current account balance trend (US$mn)



Source: SBP, JS Research

Import normalization ahead; Oil price will be crucial

Oil price movement would be crucial as the segment contributes around 25-30% to the import bill. Our international oil price assumption for FY25 stands at US$75/bbl. So far, oil has averaged at US$78/bbl in FY25TD.

For the remaining ~65-70% imports, we expect gradual uptick as imports ease across almost all segments. We expect Machinery and Metals imports (~15% of total) to expand as they may contribute toward economic productivity, while Food imports (~12% of total) may remain on the low side.

Increasing remittances and exports to provide support

Recent months have witnessed a remarkable turnaround in Pakistan's current account, with remittances providing crucial support and being instrumental in delivering current account surpluses in six out of the last nine months, effectively more than offsetting trade deficits.

We see a positive contribution to the external balance this year from exports. Although with single-digit growth of 5-6% YoY for FY25E, we expect exports for the year to clock in at US$32.7bn, close to FY22 levels of US$32bn. The expansion is expected to be led by increasing diversification where segments other than textiles are likely to contribute to overall growth in Exports.

During 5MFY25, exports of knitwear, bedwear, and garments are up ~20% YoY while yarn exports are down 39%. On the other hand, Pakistan's domestic cotton output is expected to fall to around 6-8mn bales (-36% to -17% YoY) due to 17% decline in cotton sowing area and lower crop yields.

During FY25 so far, textile exports have witnessed a 4% YoY growth where the ~20% growth in volumes have been broadly offset by declining prices. The sector's share in total exports have trimmed from 55% during the same period last year to now 54% in 5MFY25. The remaining exports have witnessed 9% YoY jump in exports.

Remittances, the other key contributor to the external front, has been providing great support so far. We believe the sustained remittances are driven by a shift towards official channels. The recent trend underscores a newfound confidence in the stability of the Pakistani Rupee with narrowing gap between interbank and open market exchange rates, thanks to tightened foreign exchange regulations.

The growth is led by strong remittance flows from KSA and UAE, with a jump of 34% YoY and 50%, respectively in Nov-2024. For perspective, the contribution from these two countries averaged at 41.6% during the last two fiscal years and has now risen to 46.3% in Nov-2024.

Current account balance

(US$ mn)	FY23	FY24	FY25E
Current Account Balance	**(3,275)**	**(1,695)**	**(875)**
Trade Balance	**(24,819)**	**(22,089)**	**(23,454)**
Goods Exports	**27,879**	**30,967**	**33,013**
Textile Exports	16,632	16,633	17,207
Other Exports	11,247	14,334	15,806
Goods Imports	**(52,695)**	**(53,056)**	**(56,467)**
Oil Imports	(18,882)	(15,162)	(14,997)
Machinery Imports	(4,431)	(7,405)	(7,657)
Food Imports	(7,968)	(7,111)	(6,958)
Other Imports	(21,414)	(23,378)	(26,855)
Services Balance	**(1,042)**	**(2,822)**	**(2,180)**
Income Balance	**(5,765)**	**(8,996)**	**(7,801)**
Net Current Transfers	**28,351**	**32,212**	**32,560**

Source: SBP, JS Research

Debt management and growth: Pakistan's path forward

External debt service pressures subside

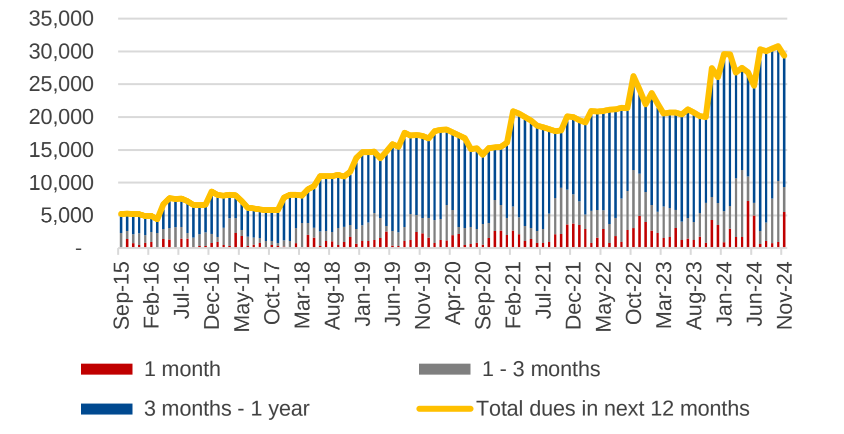
Pakistan's external debt is predominantly sourced from concessional bilateral and multilateral creditors. Despite the expectation of a relatively extended maturity structure over the projection period, a substantial portion of the debt is short-term, exposing the government to refinancing risk. Additionally, the high share of external debt in the overall public debt introduces substantial currency risk.

Pakistan plans to lower its debt load to a manageable balance. This can be accomplished through effective debt management, preserving the federal primary surplus, and giving priority to policies that promote long-term, sustainable economic growth. Public debt is expected to follow a steady downward trajectory with a smaller budget deficit as the government works wisely to enhance the maturity structure, which will further support debt sustainability. Recent external flows including the IMF's fresh program have addressed investor's concerns on piling external debt and its servicing.

A key factor for Pakistan's external debt is its lender composition. The majority share of the pie is contributed by China and its lenders, followed by bilateral/multi-lateral lending agencies and Middle East countries.

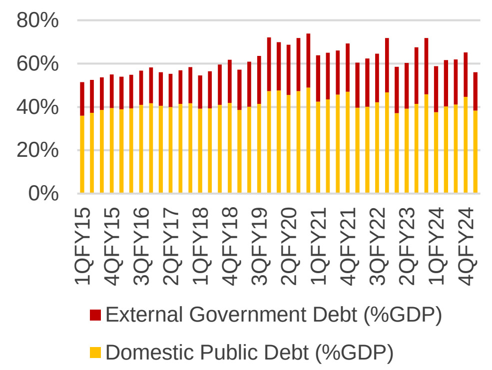
For FY25, the government is on track to fulfill its obligations of ~US$26bn, with expectations to secure rollovers and refinancing of ~US$16-17bn, leaving a net repayment of only US$5.5bn for the remaining half. This would keep the import cover at current levels at ~2.8x. The target of taking SBP reserves to US$13bn by Jun-2025 is also conceivable in our view. For at least the medium term, dependency on roll overs and refinancing would dominate. The path between now and reaching a comfortable position still needs to be navigated with caution.

SBP reported pre-determined short-term net drains on foreign currency asset (US$mn)



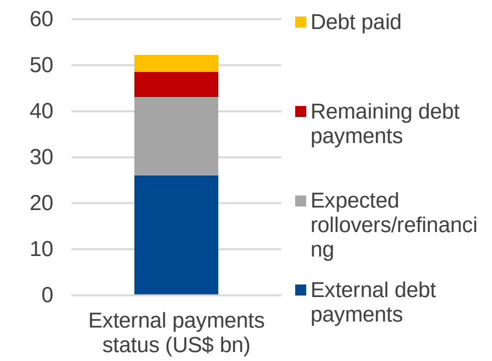
Source: SBP, JS Research

Debt to GDP



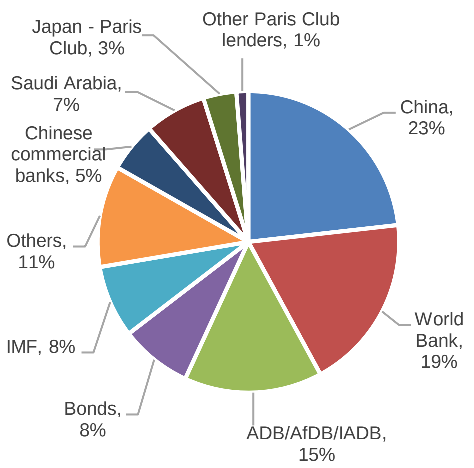
Source: SBP, JS Research

FY25E: External loan payments status



Source: SBP Briefing, JS Research

US$101bn Foreign loans - Lender wise



Source: IMF, JS Research

Pak International bonds

CODE	Coupon pmt %	Maturity	Amount (US$ mn)	Duration (yrs)
PKSTAN	8.25	30-Sep-25	500	10
PKSTAN	6	8-Apr-26	1,300	24
PKSTAN	6.875	5-Dec-27	1,500	10
PKSTAN	7.95	31-Jan-29	1,000	7
PKSTAN	7.375	8-Apr-31	1,400	10
PKSTAN	7.875	31-Mar-36	300	30
PKSTAN	8.875	8-Apr-51	800	30

Source: Bloomberg, JS Research

FY25: Expected external inflows

(US$mn)	Budgeted by govt	JS Estimates
EXTERNAL LOANS	**23,705**	**20,305**
Project Loans	**2,043**	**2,043**
Federal Government	236	236
Provinces	1,807	1,807
Programme Loans	**2,660**	**2,660**
Other Aid	**19,002**	**15,602**
Saudi Arabia (Time Deposit roll over)	3,000	3,000
New Deposit KSA – (received)	2,000	2,000
New Deposit UAE – (received)	1,000	1,000
Euro Bond/International Sukuk – (least likely)	1,500	-
Commercial Banks – (less likely)	4,500	2,000
SAFE China Deposit (roll over)	4,000	4,000
IMF Loan for Budgetary Support	2,400	3,000
Others	602	602
EXTERNAL GRANTS	**166**	**166**
External Resources	**23,870**	**20,471**
Project Loans Outside PSDP	169	169
GROSS EXTERNAL RESOURCES	**24,040**	**20,640**

Source: Budget Documents, JS Research

Fiscal account – *Consolidation fosters stability*

Positive fiscal performance so far

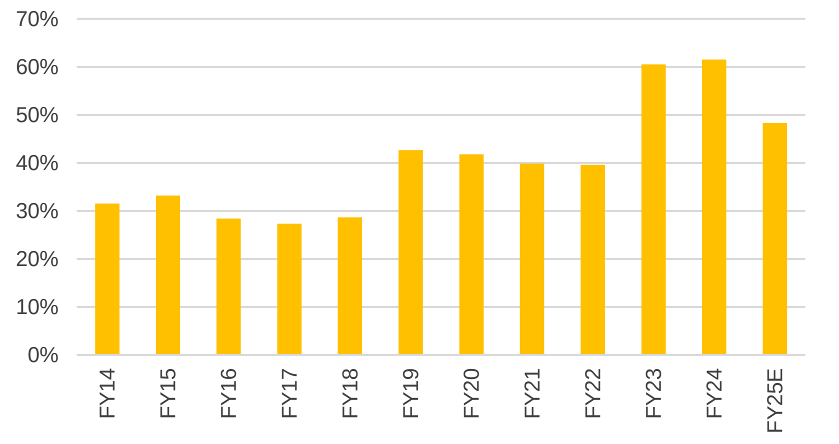
The Federal Fiscal Operations for 4MFY25 report an increase in non-tax revenue by 101.2% YoY to Rs3.2trn, accounting for 71.8% of the net federal revenues, which increased to Rs4.8trn. Similarly, tax income increased from Rs2.7trn last year to Rs3.4trn. Expenditure growth was kept to a manageable 20.6%. this led to a fiscal surplus of Rs 495 billion (0.4% of GDP) in contrast to the fiscal deficit of Rs 862 billion (-0.8% of GDP) in the previous year. Additionally, the primary surplus rose to Rs 3.1 trn (3.0% of GDP) from Rs1.4trn (1.4% of GDP) in the previous year.

Revenue targets remain tall

The Budget revealed a tall tax target of Rs12.97trn (+40% YoY), taking total revenue collection to Rs17.8trn (+46% YoY). More than half of the jump is targeted from Indirect Taxes, largely through Sales Tax. The government targets to increase collection from Direct Taxes by more than 48% YoY (compared to revised FY24 numbers), which is broadly contributed by Income Tax. From Indirect Taxes highest contribution would be from Sales tax, amounting to almost 38% of total tax collection, and marking a growth target of 36%+ YoY.

For the Non-tax revenue segment from the two main sub-segments that contribute the most are SBP Profits and PDL collection. We believe SBP profits is likely to remain the main contributor in non-tax revenue, whereas the high PDL target at Rs1.28trn is going to be difficult to achieve even with some uptick in growth for POL product volumes of late unless PDL charge is increased from the current Rs60/ltr on MS & HSD. To meet annual PDL target, a volumetric growth of 41% YoY would be required in remaining months of FY25 assuming PDL charge stays at Rs60/ltr during FY25. Given lower probability of the same, shortfall in PDL collection cannot be ruled out, denting fiscal and primary balance targets.

Mark up expenses % of Total revenue



Source: MoF, JS Research

Fiscal Account (Rs bn)

	FY23	FY24	FY25 (JS Estimates)
1. Total Revenue (a+b)	**9,633**	**13,269**	**17,180**
(a) Tax Revenue	7,818	10,085	12,435
Federal	7,169	9,311	11,572
Provincial	650	774	862
(b) Non-Tax	1,815	3,183	4,745
Federal	1,649	2,961	4,556
Provincial	166	223	190
2. Total Expenditure (a+b+c)	**16,156**	**20,476**	**23,456**
(a) Current Expenditure	14,584	18,570	20,872
Of which: Mark-up Payments	5,831	8,160	8,306
Defence	1,585	1,858	2,130
Others	7,168	8,552	10,437
(b) Development Expenditure & net lending	1,952	2,078	2,039
(c) Statistical Discrepancy	-381	-173	544
3.Overall Budget Balance	**-6,522**	**-7,207**	**-6,275**
% of GDP	**-7.70%**	**-6.80%**	**-5.36%**
4.Primary Balance	-692	953	2,031
% of GDP	-0.82%	0.90%	1.75%

Source: MoF, JS Research

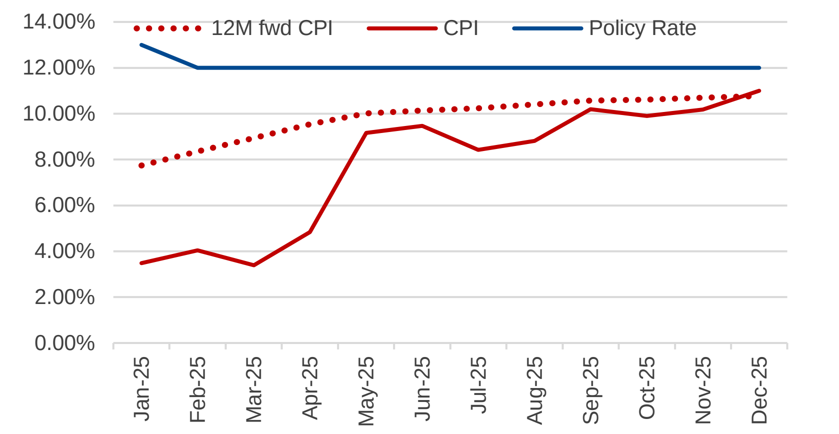
Interest Rates & CPI – *Real interest rates positive despite easing*

CPI to remain on the lower side for some time

State Bank is continuing with easing monetary policy, reducing the Policy Rate by an additional 200bps to 13% mainly influenced by declining inflation in the last review. This marked the fifth consecutive rate cut in the ongoing monetary easing cycle bringing cumulative reduction to 900bps from its peak of 22%. The prevailing CPI levels have been multi-year lows with the last time Pakistan witnessed CPI readings of similar levels on an annual basis was in FY18.

We expect CPI to clock in at 6.5%/7.7% for FY25/CY25, where we incorporate gas price increases, power tariff adjustments, steady global oil prices and gradual PKR depreciation. Since transportation and food segment (dependent on transportation) are ~36% of CPI, any favorable oil price adjustment is an upside to our base case estimates. On the other hand, any sharp PKR depreciation is a key risk to our projections.

CPI and Policy Rate projections



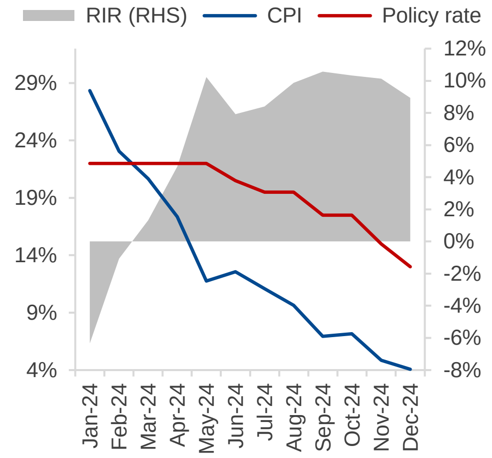
Source: JS Research

Policy Rate to settle at 12% in long run

On the monetary policy front, IMF has been emphasizing the importance of tightened regulations to keep a check on inflation and the need for central bank to remain proactive. Reducing core inflation and re-anchoring inflation expectations are commitments reiterated by the government. We believe that policy rates will stay positive in real terms and be promptly adjusted in response to inflation data.

We expect Policy Rate to land at 12% in 3QFY25, maintaining around these levels in the longer run. Although the likelihood is low but we do not exclude another interest rate cut, where the central bank may lower rates for a while before raising them back around the 12% level. Any situation where secondary market yields decline would have a short-term, broad effect on government securities auction yields and lending rates.

RIR



Source: SBP, JS Research

Yield curve flattens; expected to slope upward going forward

The recent flattening of the yield curve, with 3M to 12M yields dropping by an average of 108 basis points in Dec-2024, indicates a shift in market expectations. This flattening contrasts with the inverted yield curve observed in earlier months. To recall, Pakistan's yield curve, which was upward sloping till Oct-2021, turned flattish by Apr-2022. After that, it moved towards an inversion with highest spreads between shorter and longer tenors in at least two decades. This, however, was not a different phenomenon when compared to other countries owing to global inflation pressures and recession fears.

SBP will need to carefully monitor these developments to ensure that the monetary policy remains aligned with the overall economic objectives, particularly regarding inflation control and exchange rate stability. Going forward, we anticipate the yield curve to normalize and slope upwards, driven by expectations of economic growth, which generally leads to higher long-term yields compared to short-term rates.

Economic indicators snapshot

	units	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
GDP	YoY	3.1%	-0.9%	5.7%	6.0%	-0.2%	2.5%	2.4%
Agriculture	YoY	0.9%	3.9%	3.5%	4.4%	2.3%	6.2%	5.3%
Industrial	YoY	0.3%	-5.8%	7.8%	7.2%	-3.8%	-1.7%	-0.3%
Services	YoY	5.0%	-1.2%	6.0%	6.2%	-0.5%	2.7%	2.3%
Nominal GDP	Rsbn	41,110	44,747	52,213	66,640	84,069	106,238	115,703
GDP per capita	US$mn	1,412	1,297	1,466	1,651	1,424	1,524	1,645
Population	mn	214	218	223	227	241	246	251
CPI	avg.	6.80%	10.74%	8.90%	12.15%	29.18%	23.87%	6.51%
CPI	p/e	8.02%	8.59%	9.65%	21.33%	29.40%	12.56%	9.47%
Policy rate	avg.	10.38%	11.13%	7.00%	9.10%	17.23%	22.00%	14.60%
Policy rate	p/e	12.25%	7.00%	7.00%	13.75%	22.00%	20.50%	12.00%
Current account balance	US$mn	(13,434)	(4,449)	(2,820)	(17,405)	(2,235)	(1,695)	(875)
Current account balance	% of GDP	-4.2%	-1.5%	-0.8%	-4.6%	-0.7%	-0.5%	-0.2%
Exports	US$mn	24,257	22,536	25,639	32,471	27,879	30,967	33,013
Imports	US$mn	51,869	43,645	54,273	72,152	52,695	53,056	56,467
Trade balance	US$mn	(27,612)	(21,109)	(28,634)	(39,681)	(24,816)	(22,089)	(23,454)
PKR/US$	avg.	136.09	158.03	160.02	177.81	248.55	283.09	280
Total Revenue	Rsbn	4,901	6,272	6,903	8,035	9,633	13,269	17,180
Tax Revenue	Rsbn	4,473	4,411	5,273	6,755	7,818	10,085	12,435
Non-Tax Revenue	Rsbn	427	1,860	1,631	1,280	1,815	3,183	4,745
Fiscal Balance	Rsbn	(3,445)	(3,376)	(3,404)	(5,260)	(6,522)	(7,207)	(6,275)
Primary Balance	Rsbn	(1,354)	(757)	(654)	(2,077)	(692)	953	2,031
Total Revenue	% of GDP	11.92%	14.02%	13.22%	12.00%	11.38%	12.51%	14.85%
FBR Tax Revenue	% of GDP	10.88%	9.86%	10.10%	10.09%	9.23%	9.51%	10.75%
Non-Tax Revenue	% of GDP	1.04%	4.16%	3.12%	1.91%	2.14%	3.00%	4.10%
Expenditure	% of GDP	20.30%	21.56%	19.74%	19.86%	19.08%	19.31%	20.27%
Fiscal Balance	% of GDP	-8.38%	-7.54%	-6.52%	-7.86%	-7.70%	-6.97%	-5.36%
Primary Balance	% of GDP	-3.29%	-1.69%	-1.25%	-3.10%	-0.82%	0.90%	1.75%
Gross Public Debt (incl. IMF)	% of GDP	74.70%	76.60%	71.50%	73.50%	74.90%	67.40%	67.40%
Domestic	% of GDP	47.30%	49.00%	47.10%	46.40%	45.80%	44.60%	38.00%
External	% of GDP	25.20%	24.90%	22.30%	25.00%	26.00%	20.60%	17.70%

Source: SBP, PBS, JS Research

Technical Analysis

Technical Analysis

KSE-100 crossed 100k milestone in CY24

In the recent Bull Run of last two years, KSE-100 index has posted a return of 185% or 74,706 points to achieve the milestone of 100k level. Bulls dominated the outgoing year (2024) as KSE-100 touched the high of 117,039 during the year, though the year end closing clocked in at 115,127 level, up 84% YoY (+52,676 points). Investors' confidence was high that reflects a 76% YoY rise in the average market volumes. We believe, the index will continue its record-breaking spree and will remain in uncharted territory in the upcoming year.

Breakout of all-time high will trigger a short run

KSE-100 is consolidating below the all-time high of 117,039 as we believe, the breakout of the said level will trigger a new bullish rally in the short run. We highlight, KSE-100 may post a return of 15-17% in the short run targeting 132,800-134,200 range. Though, a minor resistance between 126,000-128,500 cannot be ruled out. The stoploss for the short term should be placed below 105,600 that also coincides the 30-DMA on daily timeframe at 106,820 level.

Bulls are likely to hold the key in 2025

We stand bullish on KSE-100 in medium to longer term as it is trending upward and is well above its all term moving averages. However, a minor correction cannot be ruled out as KSE-100 is overbought in weekly and monthly timeframe. We are eyeing KSE-100 to target 160,050 by the year end (238% of Fibonacci extension of the rally started from 94,180 and touched the peak of 117,040 and showed correction towards 105,600). The said level will provide a return of 39% from current close. Meanwhile, the threshold level for any bearish momentum is defined below 99,000 level, whereas the 55-EMA and 50-DMA on daily chart will provide support at 101,300 and 100,700 levels, respectively. We advise investors to consider buying on dips and highlight Oil, Cement, Steel, Tech, Auto and Pharma to remain in the lime light.

Expected Target and Stoploss in CY25

Target	
Short Term	132,800 - 134,200
Medium Term	160,050
Stoploss	
Short Term	105,600
Medium Term	99,000

Support and Resistance (CY25)

Support 2	39,272
Support 1	77,199
PIVOT	**97,119**
Resistance 1	135,047
Resistance 2	154,967

Key averages on different timeframes

	Daily	Weekly	Monthly
30-DMA	106,822	88,256	58,977
50-DMA	100,694	80,331	53,407
100-DMA	90,809	64,186	46,958
200-DMA	82,237	54,141	32,985

Key indicators on different timeframes

	Daily	Weekly	Monthly
RSI	64.3	83.9	93.8
Stoch	75.2	75.1	94.2
MACD	3,580.4	9,235.7	13,345.0
CCI	98.2	114.6	213.1

Source: PSX, JS Research

Sectors & Stocks

Banks – Market weight

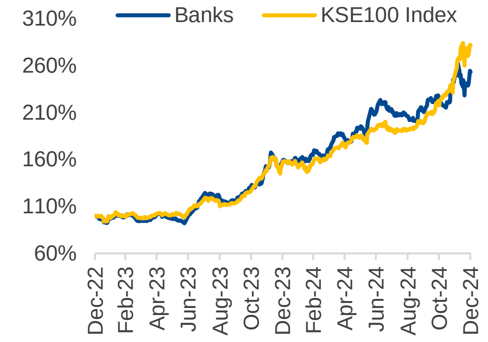
Sector remains relevant as a defensive play

Pakistan's banking sector has remained defensive in placing those deposits by tilting its asset allocation broadly towards shorter and longer tenor government securities being a key lender to the cash hungry government. Deposit mobilization, traditionally driven by the conventional brick-and-mortar model, is increasingly transitioning towards digital platforms. The sector has managed to register 17% 5-year CAGR in deposits and an even higher growth in zero-cost deposits during the same period. This has significant room to improve as banking penetration stands at just 30%.

With a 9ppt decrease in Policy Rate in around 6 months (22% to 13%), banks earnings would likely take a hit. With CPI in a disinflation phase due to a high base, interest rates are also following. For Pak Banks, this would mean contraction of NIMs and ROEs, upside through higher volumetric growth is going to act as a buffer. We expect Policy Rate to further reduce from current levels by 1-1.5ppt.

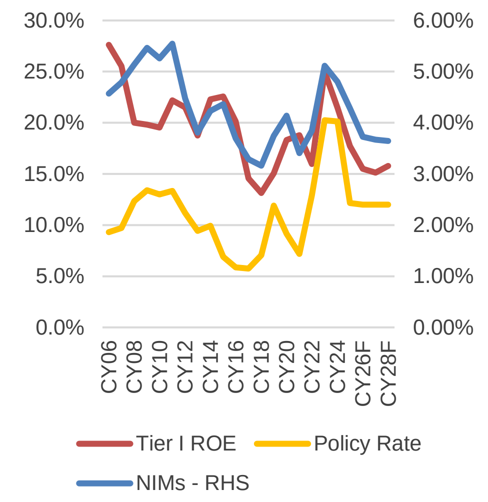
On valuations, while sector average ROE touched 30% (recurring: 21% on long-term interest rates of 12%), a record-high level, multiples remained depressed, in-line with the overall KSE100 sentiments. The sector traded at P/B of 0.6x, with average D/Y of 15%.

Sector Performance



Source: PSX, JS Research

JS Banking Universe: NIMs and ROE normalizing with Policy Rate decline



Source:, SBP, JS Research

Banks were set to reach the 50% ADR target to avoid taxes…

Majority of banks would have achieved the 50% ADR goal by CY24 end. Increased investment income taxes of up to 16% were to be applied to banks that failed to meet this requirement. Notably, the most recent data shows that the industry's ADR ratio has risen from 40% in Jun-2024 to approximately 50%. SBP data revealed record private sector lending of Rs1.35trn since Jul-2024, which is more than the average lending for the previous three years. Additionally, banks have given Non-bank financial organizations Rs1.33trn throughout this time to raise ADR levels.

… government, however, changed plans to increase tax rates

Federal cabinet, led by PM Sharif, approved an ordinance last week to abolish the 15% incremental tax on bank profits from govt loans. In return, as per the ordinance, banks' income tax rate will increase from 39% to 44%, with planned reductions to 43% in 2026 and 42% in 2027. To note, super tax of 10% will remain unchanged.

Banks will now be required to pay additional 5% tax on PBT despite meeting the Advance to Deposits ratio (ADR) threshold. Purpose of the additional income tax based on ADR levels was to encourage banks to lend to businesses instead of depending on government. Banks were on track to adjust their lending books so as to avoid the tax before the December 31 deadline.

The increased tax rate is expected to raise around Rs70bn for the government by Dec-2024 helping to address revenue shortfall. Cumulatively, in three years, govt expects to generate ~Rs140bn through this measure.

Bank Al-Habib Limited (BAHL PA)

Upside on table despite recent rally

Bank Al Habib Ltd (BAHL) remains among our top picks with a Target Price of Rs200, offering 50% upside from current levels. Following 8% outperformance vs KSE100 Index over CY24, we are of the view that the stock still provides an attractive investment opportunity. We believe BAHL's current multiples are undervalued owing to higher Tier I ROE and superior asset quality of the bank.

Moreover, despite focus on growth, the stock's D/Y is 10.5% - even if we maintain current absolute dividends (which translates into a payout ratio of a little over 50% for CY24F). A decent buffer on Capital Adequacy Ratio (CAR) is a positive sign suggesting the company may be able to increase payouts in the future.

Strategic branch expansion to drive deposit growth

The bank wants to continue adding new branches where more branches would be Islamic. At present the bank has a network of 1,176 branches where 256 are Islamic. We have assumed a relatively higher (2ppt over peers) deposit growth for the bank as the higher branch expansion is also likely to translate into high deposit growth for the bank. As per Sep-24 numbers, BAHL has posted a higher deposit growth than the market. The bank has also maintained its market share in deposits of around 6.9%.

Rising trend in CAR signals potential for payout growth

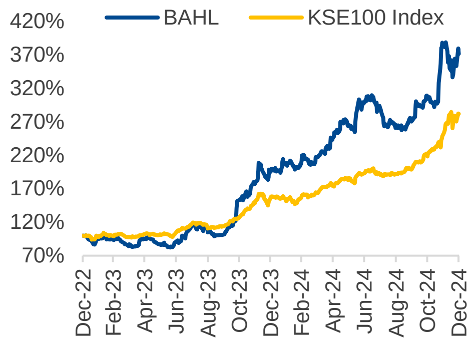
The faster buildup of Capital Adequacy for BAHL is a positive indicator of its financial health and potential for future growth. Over the past three years, the bank's average CAR has been 14%, showcasing a stable foundation. However, recent numbers reflect a significant increase, with CAR reaching 20% as at Sep-24 end. This rise in capital adequacy demonstrates the bank's strong financial position and its ability to manage risk effectively. A higher CAR not only showcases bank's relative ability to absorb shocks but also hints at the capacity to increase payouts.

Target Price	PKR**200**
Share Price	PKR131.43

Statistics

52w high / low (PKR)	137.55 / 78.79
3m avg turnover (USDmn)	0.4
Free float (%)	70.0
Issued shares (mn)	1,111.4
Market capitalisation	PKR146.1B
	USD0.5B

Price Performance



	-1M	-6M	-12M
Absolute (%)	(4)	25	92
Relative to index (%)	(18)	(22)	8

Source: PSX

BAHL: Key statistics

(Rs mn)	CY24F	CY25F	CY26F
Net Int. Income	154,763	136,403	153,708
Total Income	179,879	163,591	183,618
Operating exp.	84,366	96,563	111,904
PAT	42,477	40,060	40,060
EPS (Rs)	33.03	25.85	27.56
EPS growth	4%	-22%	7%
DPS (Rs)	14.00	14.00	14.00
Tier I ROE	30%	21%	20%
P/B (x)	1.01	0.86	0.79
P/E (x)	3.89	3.55	5.03
DY	11%	11%	11%
Policy Rate (avg)	*20.13%*	*12.15%*	*12.00%*

Source: Company accounts, JS Research

Key drivers

- Growth in volumes

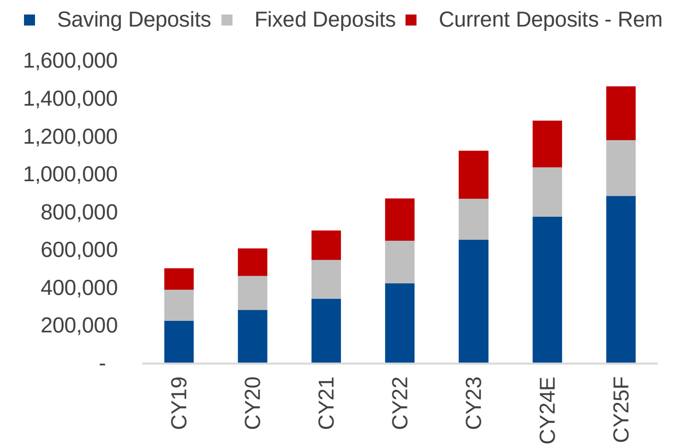
Key risks

- Higher than expected credit cost

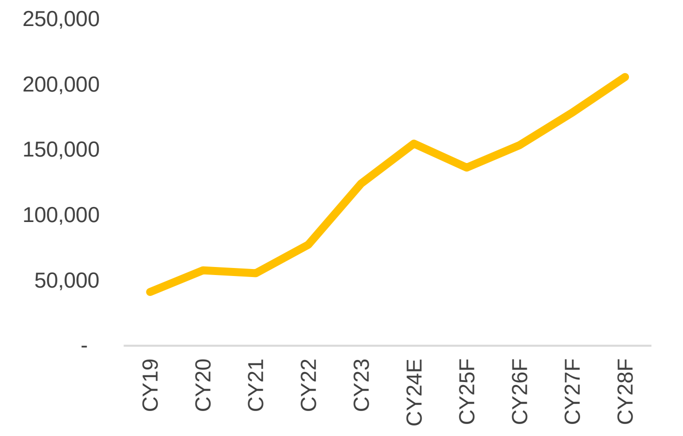
About the Company

Bank Al-Habib Ltd (BAHL) is one of the prominent commercial banks of Pakistan. The Dawood Habib Group, sponsor of BAHL, has a long history in banking that dates back to the 1920s. The group was also founding member of Habib Bank Limited, which has played a major role in providing banking and financial services to Pakistan over the years.

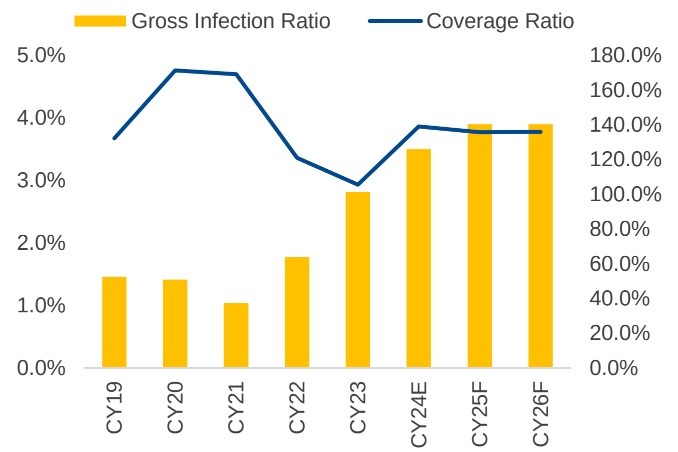
BAHL: Deposit growth and mix (Rsmn)



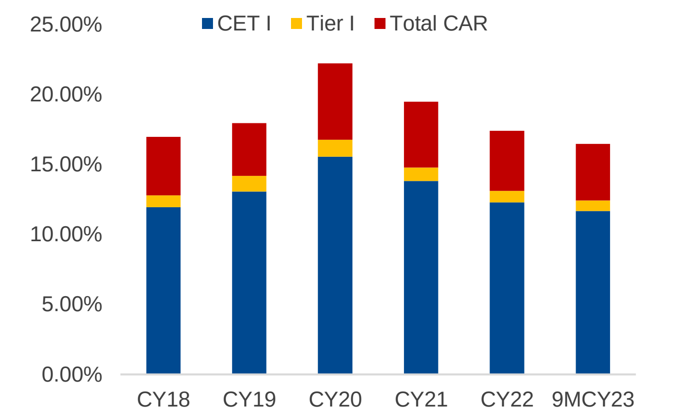
BAHL: Net Interest Income (Rsmn)



BAHL: Asset quality



BAHL: Adequacy Ratios



Source: Company accounts, JS Research

Bank Alfalah Limited (BAFL PA)

Expanding branch network

Embarking on the journey of growth, BAFL has been maintaining an average of opening 1 new branch almost every week. The bank has crossed its previously set target of 1,000 branches and wants to further add new branches the coming year where more branches would be Islamic. The higher branch expansion is also likely to translate into high deposit growth for the bank. The bank maintains higher than peer average zero-cost deposits of 41% (average: 39%). Not just focusing on brick-and-mortar expansion, the bank is also advancing on the digital front and has launched its new flagship Alfa app recently.

Focus on optimal deposit mix

The bank has also managed to maintain among the largest mix of zero-cost deposit consistently since CY11, where the contribution from the said segment has now reached 40%, while peer average is 35%. The higher zero/low-cost deposits have kept BAFL's cost of funds under much control, keeping its NIMs competitive. In addition, BAFL's mix of savings deposits is also one of the lowest among other banks.

CAR levels depict potential for higher dividends

BAFL remains comfortably positioned when it comes to capital adequacy demonstrated by its CAR of 19% as per latest numbers, well above SBP's minimum requirement of 11.5%, providing ample room for higher payouts in the future. The bank is likely to maintain an average payout ratio of around 40%.

A total return of ~60% on offering

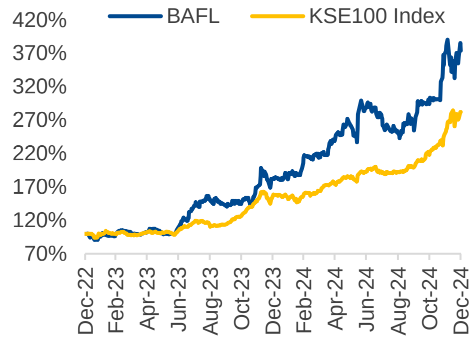
We believe BAFL offers an opportunity as a growth play with capital upside potential of 50% and a total return of c. 60% with dividends. With recurring Tier-I ROE for the coming five years to average at 19%, we believe prevailing P/B of 0.7x does not justify the true value the bank offers. On the dividend front, we expect regular quarterly dividends to continue at steady levels on an absolute basis, where slight increase of Rs0.8/share in the same from CY26 is a part of our base case investment thesis. The bank's CET-I/total CAR stands at comfortable levels of 13/19% as of Sep-24, which is more than 540/750bp above the current minimum requirement, respectively.

Target Price	PKR**130**
Share Price	PKR83.33

Statistics

52w high / low (PKR)	86.97 / 48.37
3m avg turnover (USDmn)	0.5
Free float (%)	45.0
Issued shares (mn)	1,577.2
Market capitalisation	PKR131.4B
	USD0.5B

Price Performance



	-1M	-6M	-12M
Absolute (%)	2	30	107
Relative to index (%)	(12)	(16)	23

Source: PSX

BAFL: Key statistics

(Rs mn)	CY24F	CY25F	CY26F
Net Int. Income	125,553	115,595	122,854
Total Income	173,653	155,104	166,885
Operating exp.	81,028	89,654	100,295
PAT	40,304	28,990	29,960
EPS (Rs)	25.56	18.38	19.00
EPS growth	11%	-28%	3%
DPS (Rs)	8.00	8.00	8.80
Tier I ROE	30%	19%	18%
P/B (x)	0.77	0.71	0.66
P/E (x)	3.26	4.53	4.39
DY	10%	10%	11%
Policy Rate (avg)	*20.13%*	*12.15%*	*12.00%*

Source: Company accounts, JS Research

Key drivers

- Increase in fixed rate instruments to shield NIMs deterioration during current monetary easing

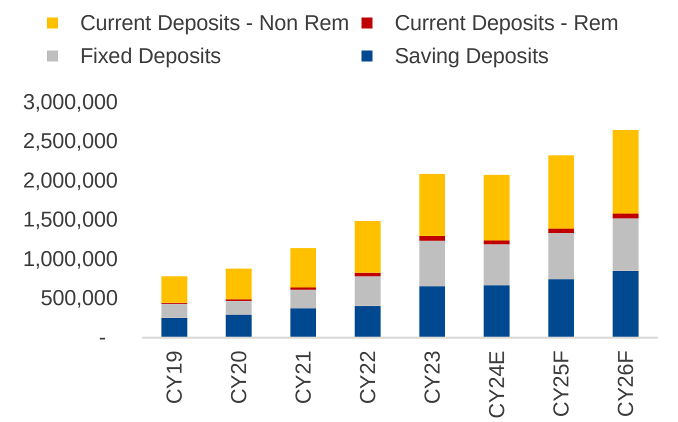
Key risks

- Higher than expected credit costs

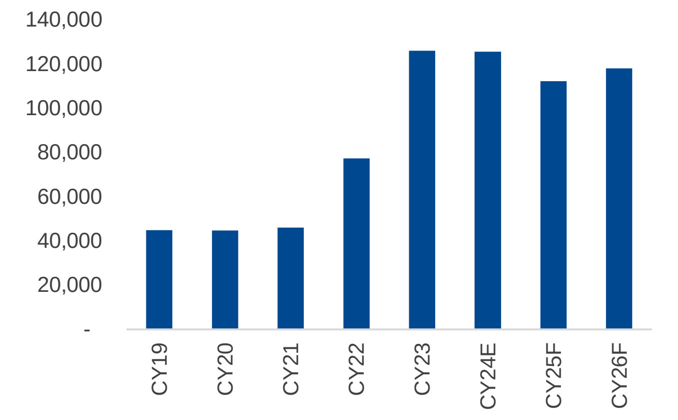
About the Company

Bank Alfalah Ltd (BAFL) is the eighth largest bank in Pakistan, with a branch network size of 942 (11 overseas), out of which 312 branches operate under Islamic banking mode. The bank's largest shareholding pertains to Sheikh Nahayan Mabarak Al Nahayan. BAFL owns substantial shareholding in a brokerage house, Alfalah CLSA Securities (Pvt) Ltd, in addition to investments in an asset management company - Alfalah GHP Investment Management.

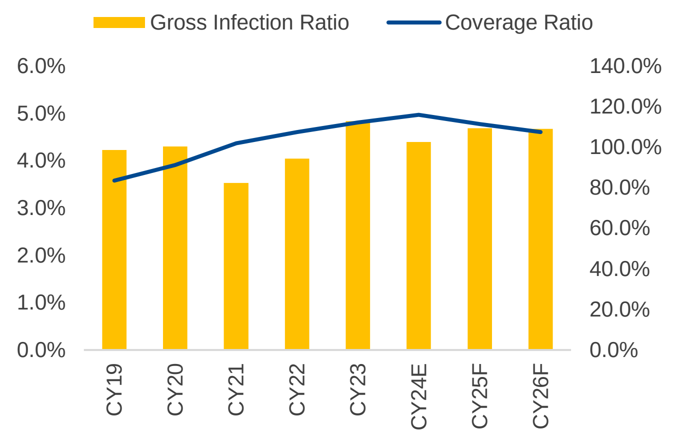
BAFL: Deposit growth and mix (Rsmn)



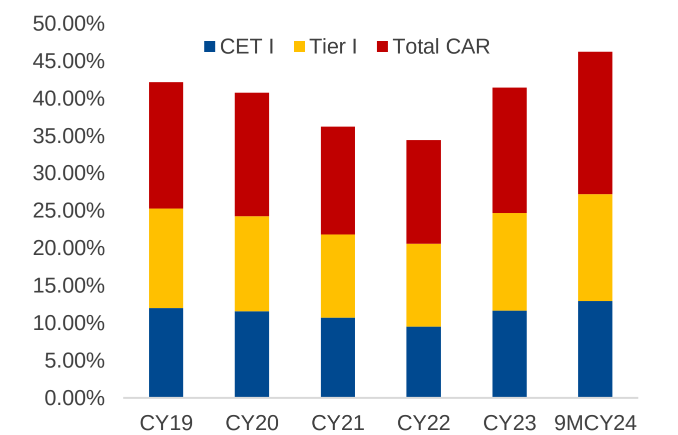
BAFL: Normalized NIMs and ROE



BAFL: Asset quality



BAFL: Adequacy Ratios



Source: Company accounts, JS Research

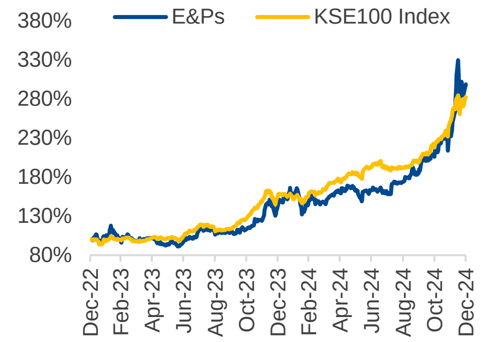
Oil & Gas Exploration Companies – Overweight

Valuations remain attractive amid energy reforms

E&P sector has rallied 123% during CY24, led by improving prospects owing to ongoing energy reforms committed to the IMF to curtail further accumulation of gas circular debt. As per the last IMF review, key structural benchmarks related to the gas sector included; i) suspension of gas to captive power plants, while switching to other efficient avenues, ii) semi-annual tariff adjustments, in line with revenue requirements continued to include the cost of imported RLNG and iii) implementation of weighted average cost of gas (WACOG).

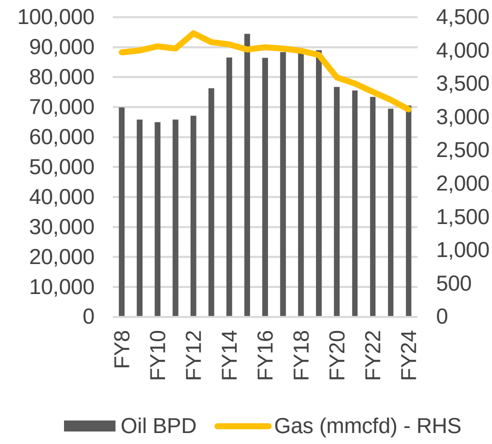
We believe these benchmarks would bring long term sustainability to distribution companies, with improving cashflows as evident in recent quarters paving way for brighter dividend payout prospects as well as providing muscle for more aggressive exploratory plans. Apart from these measures, resolution of past accumulated debt remains an upside trigger for the sector, albeit likelihood of the same remains uncertain in near future.

Sector performance



Source: PSX, JS Research

Industry: Oil & Gas Production



Source: PPIS, JS Research

Exploration activities likely to enhance in upcoming years

We expect the said positive developments to bode well for the sector, which is likely to lead to further exploratory activities in coming years. For context, around 67 wells including 27 exploratory and 40 appraisal & developed wells are planned to be spudded during FY25, compared to 59 wells spud during the same period last year. During 5MFY25, 38,758 meters of exploratory wells and 25,529 meters of appraisal & wells were drilled. Security threats, nevertheless, remain a cause of concern for smooth operations.

Planned explorations underway at Abu Dhabi Block

Exploration and evaluation activities continue at Abu Dhabi Offshore Block-5, with drilling of two appraisal wells namely BuDana-003 and Al Bateen-002 were completed in Jun-2024 and Aug-2024, respectively. Wherein, drilling of first exploration well i.e. XF003-1V (Marwah) is currently underway. To recall, OGDC, PPL, MPCL, and GHPL through a consortium of four companies, were awarded an offshore block in Abu Dhabi, covering an area of 6,223 square kms, is located 100kms north-east of Abu Dhabi city.

Diversification into Reko Diq project to further add value

Diversification led by prospective investments likely to bode well for OGDC and PPL having an 8.33% ownership stake each in the Reko Diq mining project, renowned for containing one of the most extensive untapped reserves of copper and gold in the world. Currently, project feasibility study and initial project layout is in progress and its financial close is expected to be completed by the end of FY25. The commencement of project is likely to commence operations by 2028, driving earning prospects of the listed players as mentioned above. If the government approves selling stake in Reko Diq to Saudi Arabia, we believe, it will be sold from SOEs including OGDC, PPL, and GHPL in equal proportions. However, we await further clarity on this front.

Pakistan Petroleum Limited (PPL PA)

Unlocking valuation from improving cash flows

Pakistan Petroleum Limited (PPL) likely to remain beneficiary of the ongoing reforms pertaining to the gas sector including semi-annual tariff adjustments aiming to keep meeting the revenue requirements of Sui companies, thus enabling them to pay their dues timely. PPL's trade debt, as per latest financials, dipped marginally on a sequential basis, albeit remains on a higher side at Rs574bn (Rs211/share) which is likely to improve with higher cash collection during upcoming quarters.

The company's cash collection ratio has improved to 106% during 1QFY25, compared to 5yr. average ratio of 70% mainly driven by timely tariff revisions. Notably, the company's revenue mix is highly skewed towards gas supplies, having a share of 61%, wherein oil's share in revenue was around 32% during FY24. The stock is currently trading at a forward P/E of 5.7x, wherein PPL has rallied 88% during CY24.

Challenges impacted production; targets to improve in sight

The company's overall production fell 12%YoY during FY24 owing to several factors including decline in output from maturing fields and lower off-take from GENCOs. Despite the odds, the company managed to enhance the production by 37MMSCFD and 630bbl/day of gas and condensate, respectively during the year. The company drilled ten exploration and appraisal wells in own operated and partner operated.

PPL aims to achieve production growth of 2% over the next 5-years. The company aims at production estimate of 0.7 BCFD of natural gas for FY25 compared to 0.8 BCFD produced during FY24. The company targeted Seismic campaign of ~900 line km 2D and 50 Sq km 3D acquisition along with drilling of 8 exploration wells and 2 development wells during FY25. PPL's exploration target included high risk wells in Dhok Sultan, Shah bandar and Ghambat South (operated areas).

Diversifying towards circular-debt free cashflows

PPL remained committed to diversify its business via international investments and as well as expanding mining activities within the country in order to 1) reduce its revenue exposure from depleting reserves of the key gas fields and 2) gas sector circular debt. The Company's investments in Abu Dhabi's offshore block 5 and the Reko diq copper-gold mining project and recently signed agreement with Degan Exploration Works. PPL also holds mining rights in Balochistan for mining of copper, gold, iron ore, barite, lead, zinc etc.

Potential sell-off of PPL's stake in Reko Diq

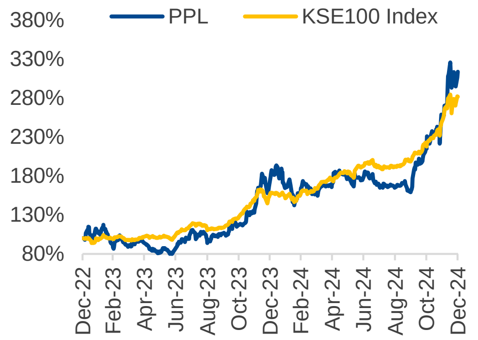
PPL owns 8.33% stake in Reko Diq project. To recall, Reko Diq (25% stake of state-owned entities -OGDC, PPL and GHPL, 25% Govt of Balochistan, 50% held by Canada's Barrick Gold) represents world leading gold & copper reserves of 5.9bn tons of copper and 41.5mn oz of gold, with mining life of 40years. As per Barrick, the they have reconstituted the Reko Diq project where early works has started and Feasibility Study is on track, project's financial close is expected by Jun-2025 and is expected to begin first production by 2028. Saudi Arabia based Manara Minerals have shown interest in acquiring 15% stake in Reko Diq (from PPL, OGDC and GHPL).

Target Price	PKR**230**
Share Price	PKR203.55

Statistics

52w high / low (PKR)	211.40 / 98.23
3m avg turnover (USDmn)	5.3
Free float (%)	24..6
Issued shares (mn)	2,721.0
Market capitalisation	PKR553.9B
	USD2.0B

Price Performance



	-1M	-6M	-12M
Absolute (%)	21	80	88
Relative to index (%)	8	33	4

Source: PSX

PPL: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	291,241	288,707	296,052
YoY Growth	1%	-1%	3%
Gross Margin	65%	62%	62%
PAT	113,608	97,273	100,029
YoY Growth	17%	-14%	3%
EPS (Rs)	41.75	35.75	36.76
DPS (Rs)	6.00	9.00	9.00
P/E (x)	4.88	5.69	5.54
DY	6%	4%	4%

Source: Company accounts, JS Research

Key drivers

- Improving cash collection cycle.
- Capex activities to enhance pressure/flow buildup
- Stable discovery success rate

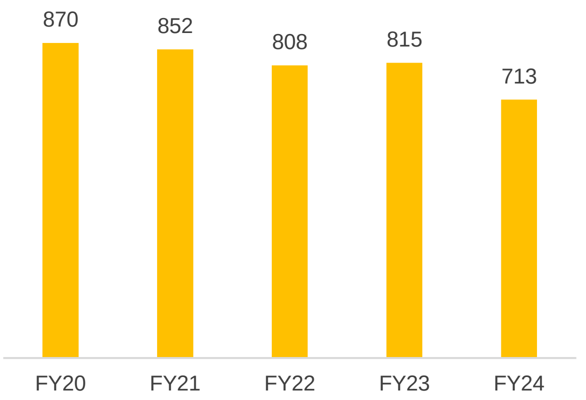
Key risks

- Delays in commencement of planned projects
- Unchecked gas circular debt flow
- Lower discovery success in high risk areas

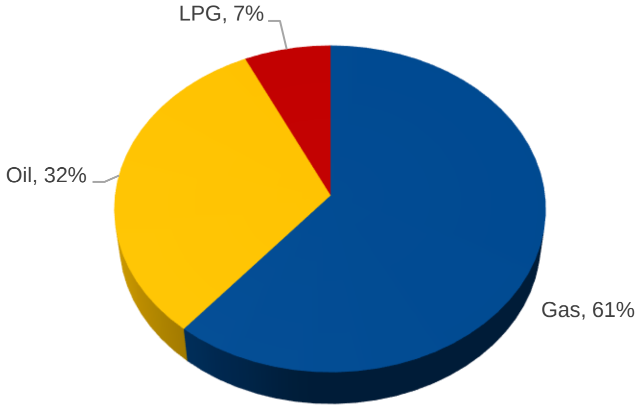
About the Company

Pakistan Petroleum Limited (PPL) is a leading oil and gas exploration and production company in Pakistan, playing a vital role in meeting the country's energy needs since the early 1950s. The Company operates across various regions of Pakistan and has an international presence in the UAE and Yemen. In addition to its core business, PPL is actively looking for diversification in the mining and related energy industry.

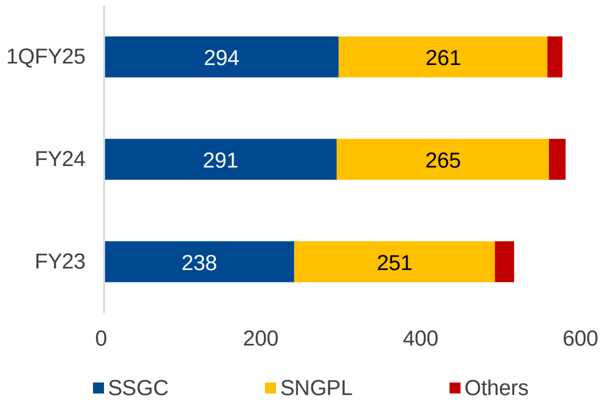
PPL: Production (net) - MMCFD



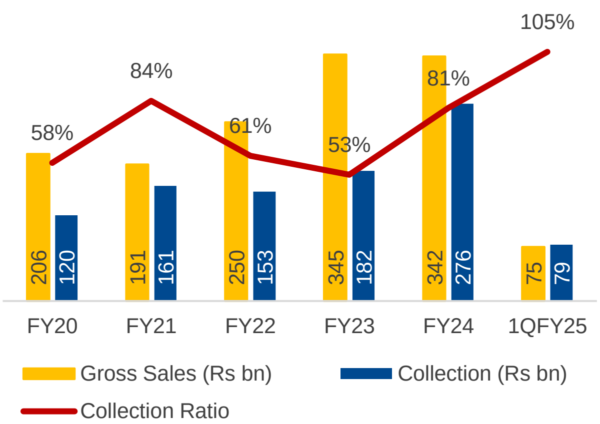
PPL: FY24 Revenue break-up



PPL: Outstanding receivables (Rs bn)



PPL: Improving cash collection from customers



Source: Company accounts, JS Research

Oil & Gas Development Co. (OGDC PA)

Improving fundamentals to turn the boat

Oil and Gas Development Company (OGDC) remains our top pick from the sector, with a Dec-2025 based TP of Rs280/share. Our liking on the stock mainly stems from the improving fundamentals, including the recovery in cash collection cycle from Sui companies, which remained under pressure previously due to lower gas prices compared to the costs. For context, OGDC's cash collection ratio which averaged at 75% during the last five years, has now improved to above 100% during 1QFY25.

We believe, this trend to continue in upcoming quarters mainly driven by the bi-annual gas revisions to meet the revenue requirements of Sui companies, and other ongoing energy reforms. The product wise contribution of crude oil and gas to total sales of the company stood at 50% and 41%, respectively during FY24. OGDC is currently trading at a forward P/E of 5.8x based on FY25 earnings. The stock has rallied 118% since CY24, compared to an average rally of 6% witnessed in last three years owing to the positive developments.

Continued exploration & drilling activities continue its way

OGDC has the largest share in the exploration acreage of 39%, according to the PPIS data as of Jun-2024. During FY24, six operated wells and four non-operated wells were awarded to the company. On the drilling front, OGDC spud 13 wells including seven exploratory wells namely Kharo-1, Bettani Deep1, Walidad-1, Soghri North-1, Chak 202-1, Kandewaro-1, and TAY North East-1, wherein it also spudded 6 development wells namely Togh-2, Sono-9, Kunnar West-3, Baloch-2, Uch-35 and Uch-36 FY25.

Going forward, the company has planned to spud 10 exploratory wells and 6 appraisal & development wells during FY25. Furthermore, the company had different completed revival and production activities during FYTD, which include production at Uch-35 development well, Bettani-02 (slant) well, Kunnar West Well-3, Dars-2 well, Pasakhi-5, and Raijan Oil field, enhancing the company's production capacities.

Potential selling of Reko Diq Project stake

OGDC currently holds 8.33% stake in the Reko Diq mining project, having a book value of Rs12.38/share as of Sep-2024 financials. As per the recent news flows, the government is in process of divesting 15% stake to the Saudi Fund, we expect the OGDC's stake to also be divested partially. Assuming equal divestment of 5% from OGDC, PPL, and GHPL, OGDC is likely to have gain on divestment of ~Rs11bn after tax, translating into an earnings impact of Rs2.5/share, wherein cash contribution is likely to be around Rs11/share.

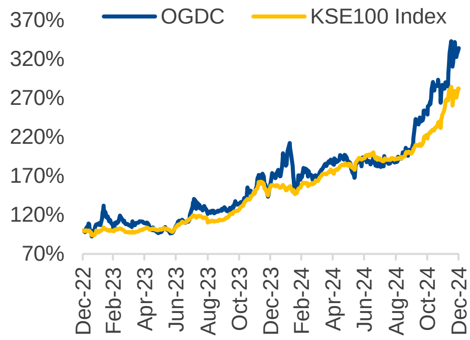
Improving balance sheet position to drive payouts prospects

OGDC's trade debts, which had been consistently rising on a quarterly basis, recorded a decline for the first time in 1QFY25 since last four years, settling at Rs608bn. Concurrently, the company's cash and cash equivalents improved significantly to Rs137bn (Rs31.9/share). With a positive outlook on receivables from Sui companies, we anticipate further improvement in company's cash position. This improvement is likely to facilitate higher dividend payouts in the coming years while enabling increased investments in capital expenditures (CapEx).

Target Price	**PKR280**
Share Price	PKR227.26

Statistics	
52w high / low (PKR)	233.29 / 107.93
3m avg turnover (USDmn)	6.2
Free float (%)	15.0
Issued shares (mn)	4,300.9
Market capitalisation	PKR483.6B
	USD1.7B

Price Performance



	-1M	-6M	-12M
Absolute (%)	16	75	118
Relative to index (%)	3	28	33

Source: PSX

OGDC: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	463,698	455,786	454,775
YoY Growth	12%	-2%	0%
Gross Margin	21%	37%	44%
PAT	208,976	172,846	175,912
YoY Growth	-7%	-17%	2%
EPS (Rs)	48.59	40.19	40.90
DPS (Rs)	10.10	15.00	18.00
P/E (x)	4.68	5.65	5.56
DY	9%	7%	8%

Source: Company accounts, JS Research

Key drivers

- Improving cash collection cycle.
- Capex activities to enhance pressure/flow buildup
- Stable discovery success rate

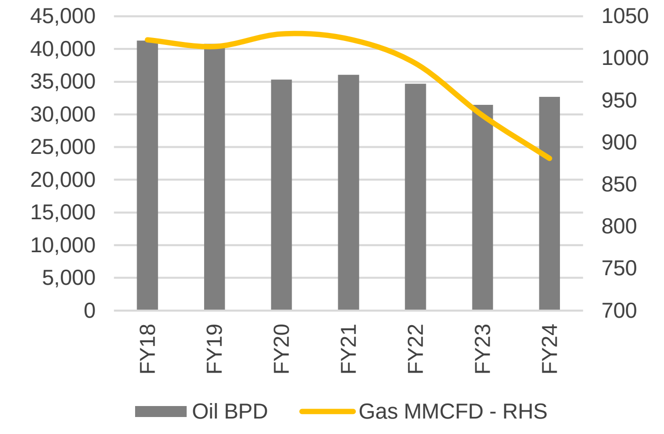
Key risks

- Delays in commencement of planned projects
- Unchecked gas circular debt flow
- Lower discovery success in high risk areas

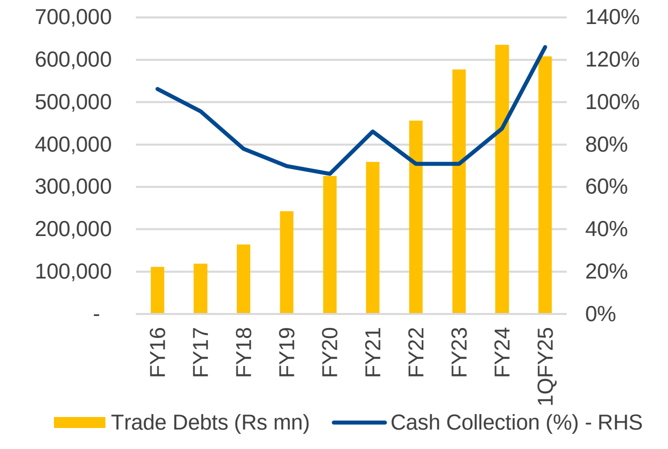
About the Company

OGDC is one of the leading players in the E&P sector, OGDC leverages cutting-edge technology to identify and capitalize on potential exploration opportunities, driving growth and energy security for the country. It has the largest exploration acreage in the country and holds the largest share of oil reserves (42%) and gas reserves (36%).

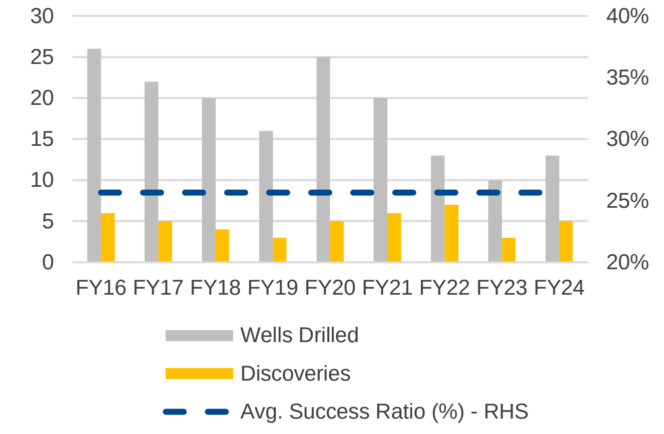
OGDC: Production levels



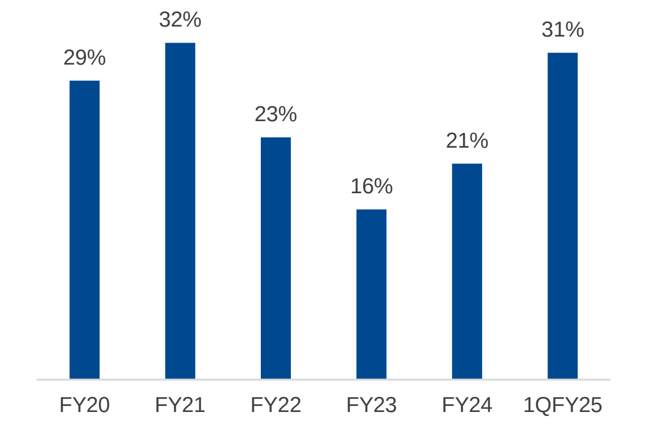
OGDC: Improvement in cash collection levels



OGDC: Exploration activities



Dividend payout trend



Source: Company accounts, JS Research

Oil & Gas Marketing Companies – Overweight

Growth opportunities fueled by economic expansion

Pakistan's OMC sector comprises of over 30 official supply and distribution companies that offer a wide range of petroleum, oil, and lubricants (POL) products. Market is, however, highly concentrated with the top eight companies accounting for nearly 90% of the industry. Government regulations typically serve as a deterrent for new players owing to licensing requirements, contributing to a more stable competitive environment. Established companies, hence, often enjoy strong long-term relationships with suppliers and customers.

Leading the sector is the state-owned Pakistan State Oil (PSO), which holds around half of the market share and is backed by a 25.5% government stake. The industry faces high import r eliance, with over 70% of petroleum products being imported. Annual demand for POL products fluctuates between 17 and 23 million tons, peaking at 25.6 million tons in FY17. Retail fuel products, including Motor Spirit (MS), High-Speed Diesel (HSD), and HOBC, dominate the sector, making up over 75% of total POL sales.

Aramco (acquired GO) and Wafi's (acquired Shell Pak) entry to Pakistan's OMC sector is likely to attract further foreign investments and improve competitive environment for the sector.

OMC margin revision to bode well for the sector

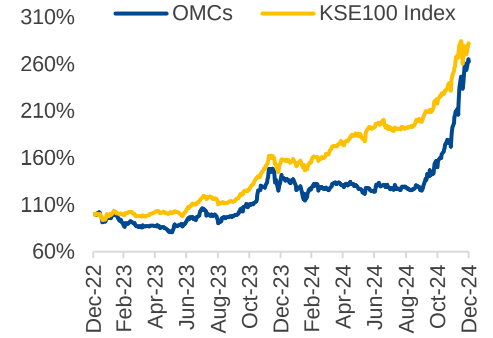
OGRA more recently proposed a hike in OMC margins taking regulated product margins (MS & HSD only) to Rs9.22/liter, up 17% from current number. Moreover, it is proposed that dealer margins on MS and HSD be raised by Rs1.40/ltr to Rs10.04/ltr. The revision is majorly on the back of OMCs/Dealers strongly advocating for increasing their regulated profits due to soaring costs-of-supplies/inflation in the outgoing year. Regulated margins to fuel prices are falling below historical averages, impacting sustainability for OMCs and dealers. Since retail fuels are a cash product, the aforementioned increase will immediately boost liquidity, which would result in lower borrowing for PSO and possibly higher payouts for APL.

Likely shortfall in PDL puts pressure on FY25 fiscal targets

We estimate that Petroleum Development Levy (PDL) collection for 5MFY25 at Rs467bn, +16% YoY owing to increase in PDL charge over time. To recall, FY25 PDL target stands at Rs1.28trn, 26% YoY higher compared to collection in FY24. Our estimates suggest that to meet the collection target set in the FY25 budget, MS and HSD volumes would require to post a growth in volumes of around 40% YoY in the remaining months.

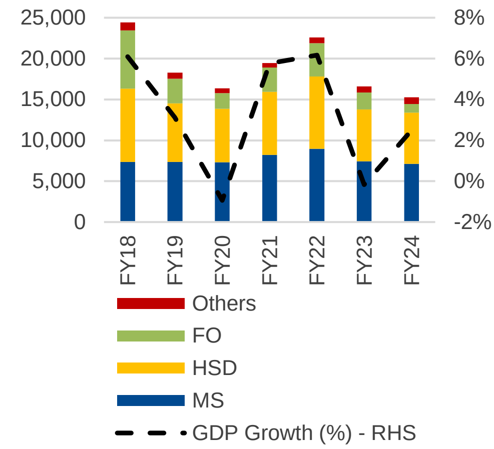
Given materialization of these growth levels in OMC volumes carry a lesser probability, we do not rule out PDL collection shortfall this year. PDL target contributes 7% to total revenue targets. The ongoing trend of OMC sales potentially leads to a Rs122bn shortfall from FY25 target, amounting to c. 10bps of the GDP

Sector performance



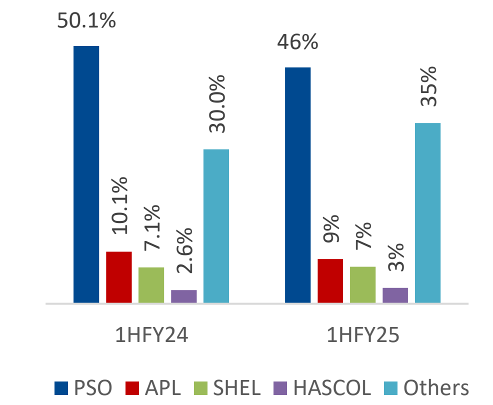
Source: PSX, JS Research

POL Sales ('000) vs. GDP Growth (%)



Source: OCAC, PBS & JS Research

OMC Industry market shares



Source: OCAC, PBS & JS Research

Pakistan State Oil Company (PSO PA)

Strong retail presence

The company's retail fuel market share has remained largely resilient over the years. The outgoing year's market share trend suggests that larger industry players generally maintained their position despite declining volumes. During 1HFY25, however, average market share for PSO has been below the FY24 average of 49.4% at 46%.

With improving volumes, the company's market share is expected to rise, supported by its strong retail presence (3,603 outlets, 36% of the total). The past 2-3 years were tough for OMC players where smaller players struggled due to higher working capital needs, exchange losses, and rising import costs. This resulted in consolidation which benefited PSO, as it remained relatively broadly unaffected by macroeconomic volatility, thanks to government coverage against exchange losses on trade and foreign exchange liabilities. Company's operations remained strong, even during the PDL subsidy period in May 2022.

Efforts to improve Circular Debt ease liquidity concerns

Incoming Government's efforts to increase gas prices in a regular fashion to restrain gas circular debt (reported figure: Rs2.9tn), alongside implementing stringent recoveries of RLNG diversion subsidies towards the domestic/fertilizer sectors during winter may greatly ease liquidity concerns of the country's largest fuel supplier.

To note, PSO's receivables from gas and power utilities (GENCO, HUBC, SNGP) stood at Rs417bn as of Sep-24, approximating ~4.5x of the company's total market cap. Hence, any improvements in future cash collections (or clearances of past dues) may be highly positive not only for future capital expenditure needs, but also for reduction in financial charges (finance cost to EBIT: 47% in 1QFY25). This is due to company being heavily reliant on short term financing to bridge the working capital gaps.

Upgradation of PRL to be beneficial for the company

Pakistan Refinery Limited (PRL), a subsidiary of PSO with a meaningful 63.6% stake, is the only refinery that has already initiated work on the upgradation project. The upgradation will double the Refinery's crude processing capacity from 50k bpd to 100k bpd. Front-End Engineering Design (FEED) work has been completed in Sep-2024 as per schedule. The Refinery has now initiated the Engineering, Procurement, Construction and Finance (EPCF) tendering process to be followed by Financial Close.

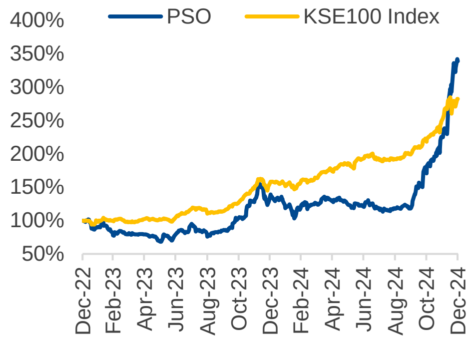
PRL entered into MoUs with OGDC and United Energy Group (UEG) of China with regards to brownfield refinery upgradation plans during CY23, the company is set to benefit from duty protections offered in the Brownfield policy.

Post-upgradation, PRL will be able to produce high margin products (MS, HSD, HOBC) locally, enabling PSO to procure them from the refinery. This may essentially reduce dependence on imported supplies and contribute to price/margin stability in the longer run.

Target Price	**PKR675**
Share Price	PKR440.69

Statistics	
52w high / low (PKR)	444.62 / 141.18
3m avg turnover (USDmn)	6.5
Free float (%)	45.0
Issued shares (mn)	469.5
Market capitalisation	PKR206.9B
	USD0.7B

Price Performance



	-1M	-6M	-12M
Absolute (%)	51	179	162
Relative to index (%)	37	132	78

Source: PSX

PSO: Key statistics

Rs mn	FY24	FY25F	FY26F
Revenue	3,571,750	3,633,960	4,019,682
PAT	15,863	23,637	32,345
EPS (Rs)	56.97	50.35	68.90
DPS (Rs)	10.00	16.50	20.00
BVPS (Rs)	493	541	593
PER (x)	13.04	8.80	6.42
Dividend Yield	6%	4%	5%
P/BV (x)	0.86	0.79	0.71
ROE	7%	9%	12%

Source: Company accounts, JS Research

Key drivers

- Regular energy tariff adjustments to be cash-positive
- OMC margin revisions to bode well
- Upgradation of refinery subsidiary (PRL) to enhance productivity
- Phasing out of RFO coupled with increasing share of retail fuels

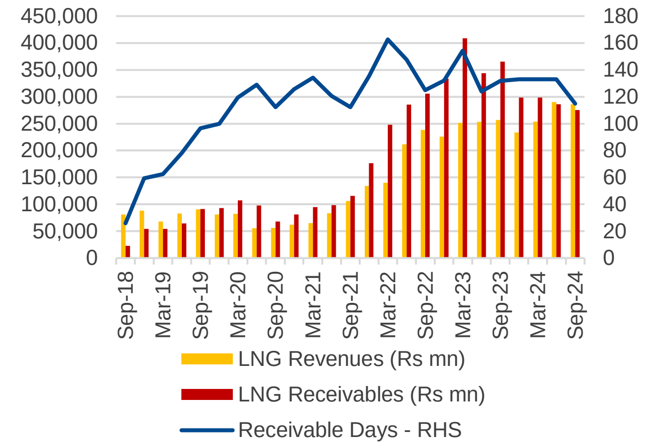
Key risks

- Accumulation of circular debt, hindering operations and payouts
- Irregular OMC margin revisions
- Volatility in oil prices, resulting in inventory losses

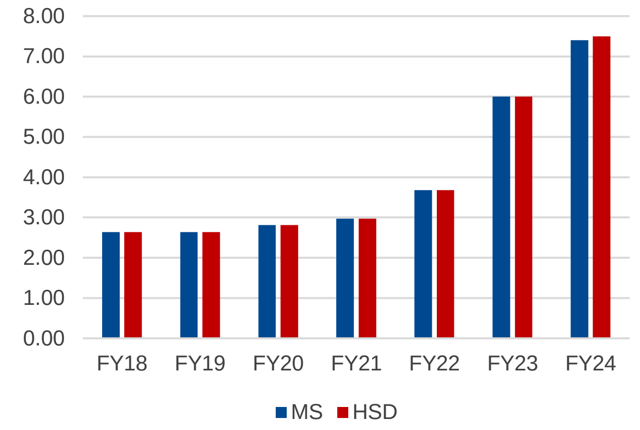
About the Company

PSO, the largest energy company of Pakistan is operating with an extensive country-wide network of 3,603 retail outlets, 9 installations, 19 depots, refueling facilities at 14 airports and operations at 2 seaports. PSO's storage capacity of 1.14 million tons is the largest in the country.

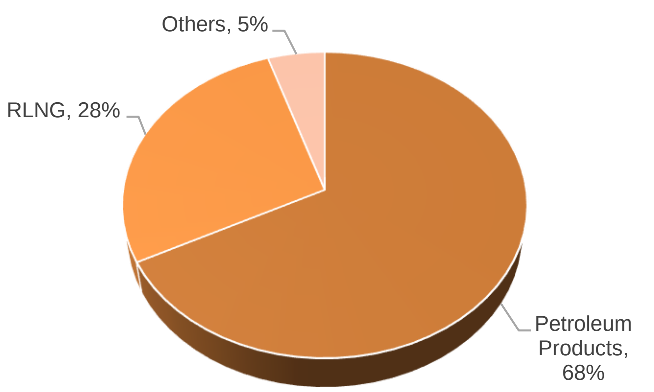
PSO: LNG Sales, Receivables Outstanding vs. Receivable Days



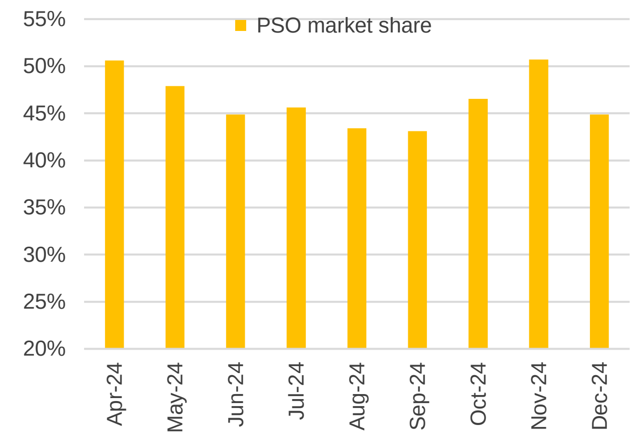
PSO: OMC Margin Rs/liter: MS & HSD



PSO: FY24: Revenue Contribution



PSO: Market share



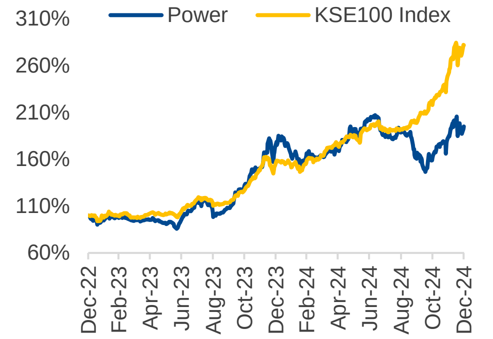
Source: Company accounts, JS Research

Power Generation – Market-weight

Inefficiencies in the system…

Tariff determination delays, high transmission and distribution losses, and poor revenue collection by DISCOs have historically led to financial challenges for the sector. The government's delayed payment of tariff differential subsidies (TDS) and DISCOs' inefficiencies cause cash blockages in the supply chain, creating financial constraints and additional borrowing costs. These issues, coupled with high financial costs from borrowings and penalties, have worsened the power sector's circular debt. Inefficiencies, like high AT&C losses, and growing capacity have intensified the problem, burdening the national exchequer and end-users with power outages and rising tariffs. Country's power sector capacity payments have continued to grow year over year almost 2x since FY14, amidst a highly lucrative guaranteed take-or-pay arrangements on offer.

Sector performance

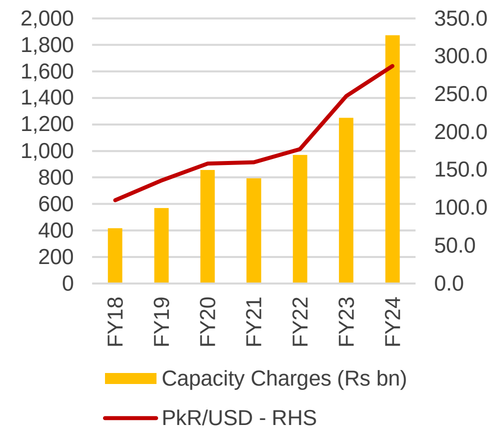


Source: PSX, JS Research

… result in Circular Debt – a continuous strain on the sector

As of FY24 end, circular debt stood at Rs2.4tn (~US$8.6bn), higher by Rs100bn from FY23 end. To note, the government has been able to restrain the pileup to a great extent. Major causes of the pileup are issues mentioned above like delays in necessary tariff adjustments, disbursement of subsidies and rising capacity payments due to consistent new additions to the grid load. Furthermore, exchange rate devaluation in recent years has caused this number to soar further, resulting in escalating dollar indexations and input prices.

Industry Capacity Charges (Rs bn) vs. Exchange Rate



Source: NEPRA, JS Research

Concerted efforts preventing further pileup

Authorities have managed the outstanding stock through fiscal allocations toward both IPP and GPPs, coupled with prudent tariff consumer adjustments amidst surging input costs. 5 major IPPs recently volunteered to terminate their respective agreements with the government signed under 1992 and 2002 power policies against a final cash settlement, and move from 'Take or Pay' mode to 'Take and Pay' to curb future accumulations. With that, additional 18 IPPs are expected to enter similar talks with the govt.

Framework for competitive electricity procurement

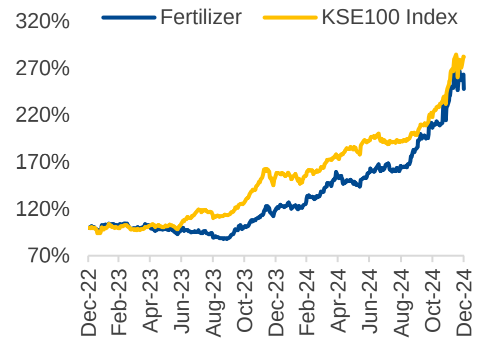
The Competitive Trading Bilateral Contract Market (CTBCM) is a new electricity market framework introduced by NEPRA. Currently, the state-owned National Transmission & Dispatch Company (NTDC) dominates the transmission segment, operating under a single-buyer model under which the Central Power Purchasing Agency (CPPA-G) buys electricity from producers and sells it to distribution companies, creating a monopoly. The CTBCM aims to transition the power sector from this single-buyer model to a competitive bilateral contract market, fostering open access and competition in electricity procurement. This shift will open Pakistan's wholesale electricity market, enabling consumers to select their electricity suppliers and promoting a more competitive market structure. This will eventually encourage power producers to arrange for direct sales of power to bulk industrial consumers or EV stations to be installed in the coming years.

Fertilizers – Overweight

Bumpy ride likely to end in a stable market during CY25

Fertilizer market followed a bumpy ride with demand fluctuations throughout the CY24. This was majorly due to the weak farmer agronomics led by weather fluctuations affecting yields, lower crop support prices amid ample supplies, and stable fertilizer prices throughout 2HCY24 which led farmers to delay their advance purchasing which was done proactively in anticipation of price hikes. We believe the consumption pattern is likely to remain intact with marginal fluctuations due to variation in sowing of important crops. Urea and DAP volumes are estimated to close in at 6.6mn tons (-1%YoY) and 1.6mn tons (+4%YoY), respectively in CY24 which mainly recovered in latter half of the year. We expect urea demand to remain stable during CY25 on the back of recovery in crop support prices, as well as other government initiatives including the launch of Kissan Card and corporate farming.

Sector performance



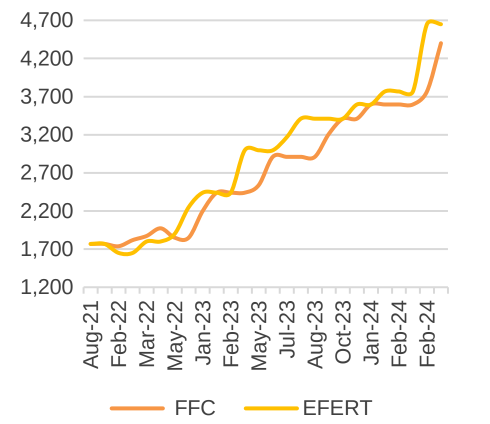
Source: PSX, JS Research

Disparity in Urea pricing likely to continue

Unparallel hike in gas tariff remains a key concern for the fertilizer industry, where MARI-based plants including FFC and FATIMA remains at a competitive edge with getting gas at 64% discount compared to SNGPL and SSGC based fertilizer plants (having a production stake of 60% in total fertilizer production). For context, EFERT and FFC, which together hold a 70-75% share of the urea market, historically maintained competitive pricing with a minimal difference of Rs40-50/bag. However, following a gas tariff hike on the SNGP network, the price gap widened sharply to Rs882/bag during the early CY24. FFC later raised urea prices by Rs630/bag in Apr-2024, despite no change in gas tariffs, reducing the gap (EFERT and FFC) to Rs250/bag and stabilizing the market.

This variation is mainly due to the gas supply agreements varying between players, which we believe is likely to persist during CY25 owing to different legal and regulatory constraints. Nevertheless, if any such unification in gas tariff materializes, we expect it to bode well for the SNGP based plants, as MARI based plants may not be able to fully pass on gas hikes, as they already increased Urea prices despite unchanged tariffs.

EFERT vs FFC: Urea price trend

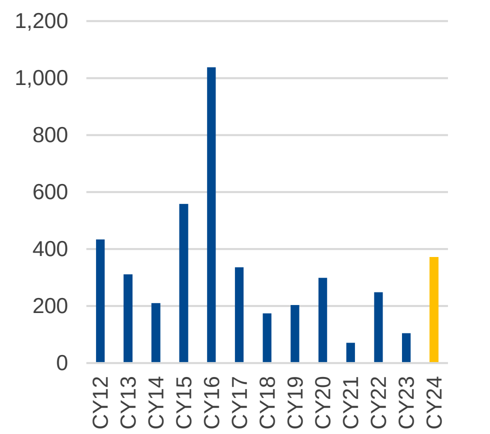


Source: Industry sources, JS Research

Stable international prices further supported tough

International Urea prices averaged at US$321/ton (-9% YoY) during CY24, translating into an average landed price of Rs6,800/bag compared to the locally manufactured Urea, averaged at a retention price of Rs4,500/bag (34% discount to international). On the DAP front, international price also remained stable, averaging at US$564/ton (+3% YoY) as phosphoric acid prices also remained stable, while closing in at US$1,060/ton. Local DAP prices remained stable throughout 2HCY24 despite marginal increase in international prices owing to support the demand amid struggling farm agronomics.

Urea closing inventory



Source: NFDC, JS Research

Stable revenue streams likely to keep the sector in limelight

Our long-term view on the sector remains positive with Overweight stance, given its stable revenue stream and profit margins. Fertilizer sector has rallied 129% compared to the KSE-100 upside of 84%, we believe the sector likely to remain in limelight driven by re-rating across KSE-100, positive implications of on-going M&A and restructuring within the sector and attractive dividend yields despite the rally in respective stocks. While all the transactions have already concluded or near conclusion, the benefit of the same would be visible from CY25 onwards

Fauji Fertilizer Company (FFC PA)

Driving growth through strong fundamentals

Fauji Fertilizer Company (FFC) holds a dominant position in the fertilizer landscape, boasting the highest market share for urea in the country. The year CY24 was a rollercoaster for the stock, where the stock rallied 267% on the back of strong earnings, and other developments including merger with Fauji Fertilizer Bin Qasim Limited (FFBL). These developments position FFC not just as a reliable dividend-yielding stock but also as a compelling growth story, signaling a promising future for investors. As a result of FFC's amalgamation with FFBL, completed in Dec-2024, FFC's shares outstanding now stand at around 1,423mn shares (Mcap of Rs521bn or US$1.9bn). We have an overweight stance on FFC based on improving dividend prospects, with Dec-2024 SoTP based TP of Rs440, trading at a forward P/E of 5.3x (consolidated CY25 P/E of 4.6x).

Ongoing gas price disparity likely to continue; what if not?

FFC continues to benefit from the ongoing gas pricing disparity as the company occupies direct gas arrangement with MARI, presently there is no subsidy on gas pricing for fertilizer plants, as highlighted by the management in previous briefing session. Thus, our sbase case assumes disparity to continue in CY25 boding well in terms of higher profitability prospects as evident during 9MCY24, where gross margins hovered around 45% compared to last 10 yr. avg. of 33%. To recall, FFC increased urea prices by Rs630/bag during Apr-2024, despite unchanged gas tariffs. Wherein, despite hikes in gas tariffs for FFBL's plant, the company decrease urea prices by Rs650/bag, taking hit on margins to assure sufficient gas availability as per the guidelines given by the government.

Going forward, we expect FFC's gas prices to remain in-line with MARI's wellhead pricing, however, in case of unification of gas pricing with gas tariff for the company increasing at par with peers, FFC may not be able to fully pass on the cost impact as it already increased Urea prices with rationale of maintaining stability in market. In this case, FFC's CY25 earnings may dent by Rs8-15/share, albeit the probability of such happening remains bleak.

Fauji Group's commanding presence in both Urea and DAP

The merger of FFBL into FFC will significantly strengthen FFC's commanding presence in both the Urea and DAP markets. FFC, already the largest Urea manufacturer in the country with an annual production of approximately 2.5mn tons, will enhance its market share by 7% (FFBL's share) from 38% to cumulative ~45% through this amalgamation with an average capacity utilization of 115%. By incorporating FFBL, which holds the largest market share as the only DAP manufacturer in Pakistan, FFC will also strengthen its grip in the DAP segment with market share of over 60%.

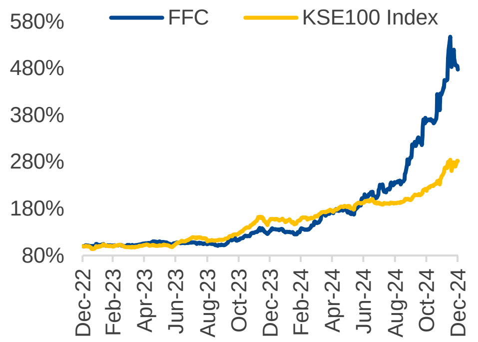
Acquisition of AGL to further add value

FFC is also acquiring a controlling stake in Agritech Limited (AGL), aiming to strengthen dominance in the fertilizer landscape. AGL has a Urea and SSP capacity of 433k tons and 81k, respectively. This acquisition will increase the group's Urea production capacity by 16%. FFC could further diversify its product offerings with Single super phosphate (SSP), a close substitute for DAP. Currently, based on our estimates, AGL's contribution to the SoTP-based TP of FFC stands at Rs2.4/sh. Post accumulation of controlling stake, we anticipate an expected improvement in AGL's business prospects, including restructuring and ensuring availability of stable gas supplies, which is expected to unlock valuations further.

Target Price	PKR**440**
Share Price	PKR366.32

Statistics	
52w high / low (PKR)	420.11 / 109.06
3m avg turnover (USDmn)	3.5
Free float (%)	60.0
Issued shares (mn)	1,423.1
Market capitalisation	PKR466.0B
	USD1.7B

Price Performance



	-1M	-6M	-12M
Absolute (%)	13	137	267
Relative to index (%)	(1)	90	183

Source: PSX

FFC: Key statistics

Rs mn	CY24E*	CY25F*	CY26F*
Sales	372,266	445,978	479,913
YoY Growth	NM	20%	8%
Gross Margin	36%	34%	33%
PAT	73,960	88,654	91,623
YoY Growth	NM	20%	3%
EPS (Rs)	58.13	62.30	64.38
DPS (Rs)	40.00	50.00	52.00
P/E (x)	6.30	5.90	5.70
DY	12%	15%	16%

Source: Company accounts, JS Research

**Our estimates for FFC are based on merged financials of FFC-FFBL since Jul-2024 and new number of shares for FFC (1,423mn shares) from CY25 onwards*

Key drivers

- A price increase over and above the impact from gas price hike
- Persistent high global Urea prices

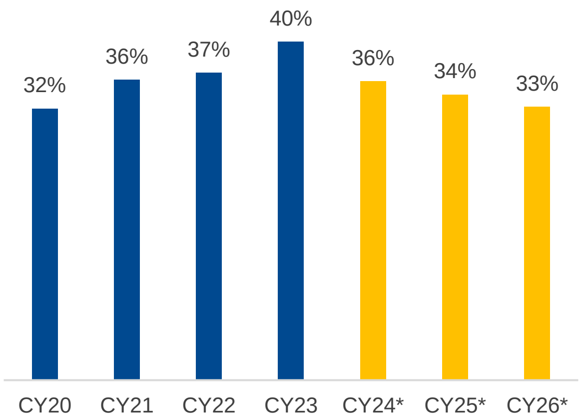
Key risks

- Pressure from government to not increase urea prices
- Higher than expected hike in gas prices.
- Farm economics/ urea sales to remain weak in CY25

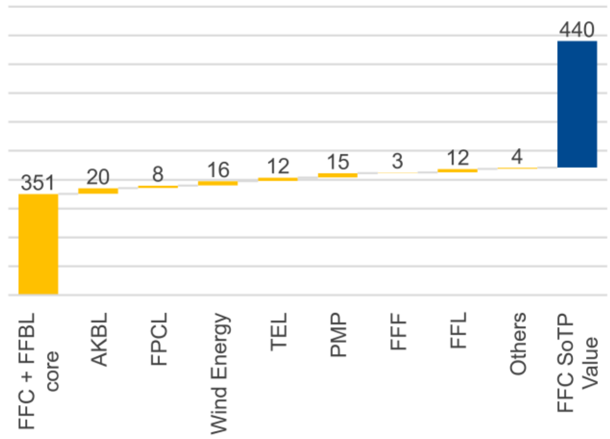
About the Company

The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers and chemicals. Company has investments in fertilizer, chemical, cement, energy generation, food processing and banking operations.

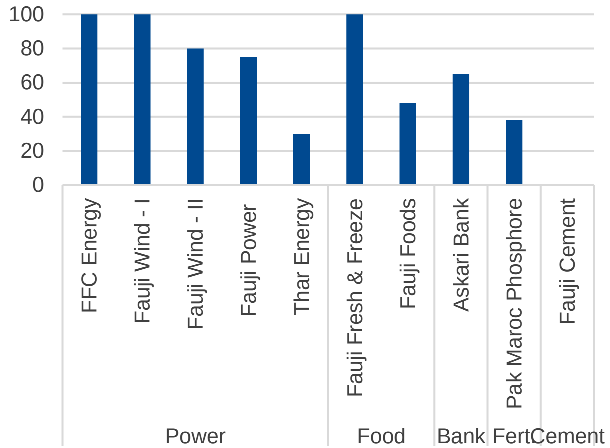
FFC: Gross Margin trend



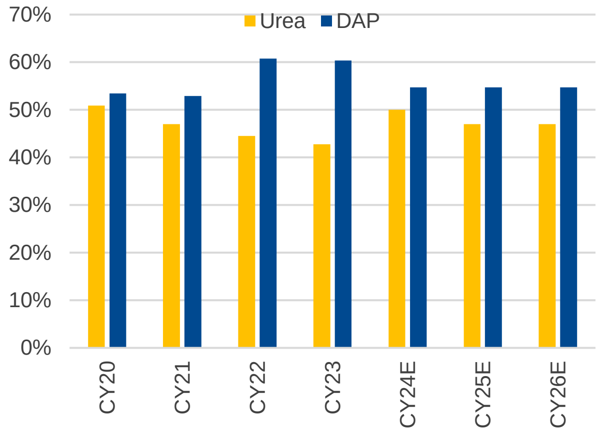
FFC Dec-25 SoTP based valuation



Investment Holdings of FFC post-merger



FFC and FFBL combined Urea & DAP market share



*Source: Company accounts, JS Research; * post merger*

Cements – Overweight

Sector to sustain margins despite dull dispatches

The cement industry is vital to the economy as it contributes ~4.65% to large-scale manufacturing. The total installed cement annual capacity is ~88mn tons with around 79% located in the northern region. On the demand front, local dispatches remained under pressure falling 5% during FY24. We expect the trend to continue in FY25 (local dispatches down 10% in 1HFY25) owing to slowdown in construction activities led by higher cost of construction materials, unfavorable property tax measures, and higher interest rates. Elsewhere, the government increased FED on cement bags by Rs100/bag in FY25 budget, coupled with the imposition of 6% royalty charge on ex-factory prices for Punjab based manufacturers (~55% of total country production).

Despite the odds, cement sector continued to report higher profitability led by cost efficiencies, absence of price wars, and reduction in coal prices boding well in terms of improved margins. Going forward, we expect the ongoing monetary easing to be reflected in revival of construction activity during FY26, where we expect local dispatches to rebound by 6%YoY.

Slight pressure on retention prices of late

Cement prices in the North have gradually declined during the last quarter mainly due to low dispatches which have fallen 9% YoY in the North in 1HFY25 citing rumors of a price war in the region. We do expect a slight decrease in local retention due to the events in the coming quarter however, reduction in Afghan coal prices by Rs3000/ton and consequent decrease in local coal prices is expected to support margins on that front.

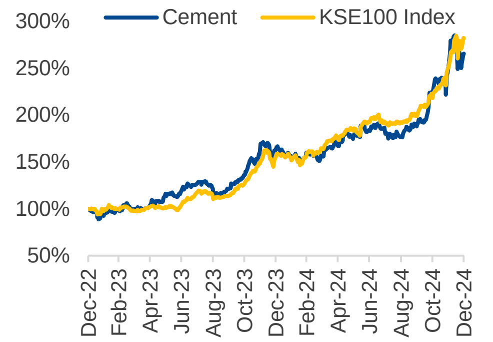
Meanwhile, Southern players continue to underperform, compared to the Northern players owing to lower retention prices led by weaker local demand (down 14% in 1HFY25). Accordingly, the manufacturers tilted towards higher exports (+30% YoY), aiming to sustain capacity utilizations despite lower margins on that front.

Margin accretion to keep the sector's prospects intact

We maintain an Overweight stance on the sector amid margin accretion led by cost efficiencies. Companies' efforts to expand internal power generation capacity, particularly through solar energy, to reduce dependence on costly grid electricity, along with declining coal prices and high retention prices, are expected to support stable margins. We anticipate that the impact of the monetary easing cycle on dispatches will begin to materialize from FY26 onwards. Additionally, lower interest rates are expected to reduce financial costs for heavily leveraged cement manufacturers.

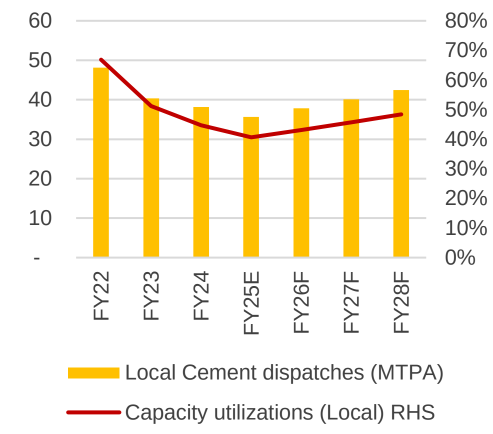
We highlight PIOC, LUCK, FCCL & DGKC among our top picks on the basis of cost efficiencies and savings in finance costs.

Sector performance



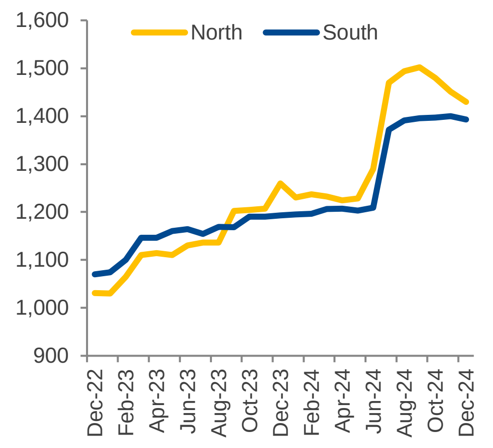
Source: PSX, JS Research

Dispatches vs capacity utilizations - local



Source: PBS, JS Research

Cement retail prices (Rs/bag)



Source: PBS, JS Research

Lucky Cement Company (LUCK PA)

Largest cement player with diversified investments

We have a Buy stance on LUCK with an SoTP based Target Price of Rs1,520, reflecting a potential upside of 38%. This includes LUCK's diversified investment portfolio including 8 segments combined with cash on the balance sheet which contributes Rs1,030 to the company's TP, while the core cement business contributes Rs490 to our valuations.

Furthermore, the company's strategic expansions, which have secured it a domestic market share of 15% in the North and 30% in the South, along with its cost optimization initiatives such as investments in renewable energy, are expected to sustain its core operational strength.

Highest renewable capacity in the industry

LUCK continues to invest in renewable energy capacity, the company's 28.8MW wind power plant recently commenced operations. This plant, combined with the new solar installations of 37.3MW during FY24 takes renewable energy capacity to 103.1MW — 55% of company's total electricity generation.

This, along with effective fuel cost management and declining coal prices in the North, is expected to sustain the company's strong gross level performance. Additionally, declining interest rates are expected to reduce financial charges, further supporting the company's bottom-line.

Diversified portfolio set for strong performance

LUCK has a diversified pool of investments ranging from Power, Chemical, Pharma, Automobiles & mobile phone assembly segment and its ability to reap benefits from the international projects. LCI Pakistan (55% owned subsidiary of LUCK) is expected to continue with its growth trajectory owing to demand prospects. Lucky Electric Power Company Ltd (100% stake held) which operates a 660MW coal-based power plant maintained 100% availability as per management during 1QFY25.

While LUCK's automobile and phone assembly businesses are well-positioned for growth under a stable currency, relaxation in imports of key raw materials/ parts and a declining interest rate scenario.

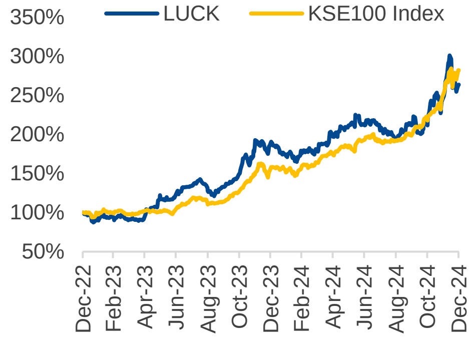
LUCK's foreign cement operations remain on track, operating at 90% capacity utilization, according to management. With their high return on investment (ROI), the company is reinvesting the cash generated from these operations. Additionally, LUCK plans to add a new 1.82mn tpa clinker line in Iraq, with expected completion by the end of FY25.

Target Price	PKR**1,520**
Share Price	PKR1,100.49

Statistics

52w high / low (PKR)	1,257.41 / 699.89
3m avg turnover (USDmn)	1.2
Free float (%)	30.0
Issued shares (mn)	293.0
Market capitalisation	PKR322.4B
	USD1.2B

Price Performance



	-1M	-6M	-12M
Absolute (%)	8	23	42
Relative to index (%)	(6)	(23)	(42)

Source: PSX

LUCK: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	115,325	129,991	148,829
YoY Growth	20%	13%	14%
Gross Margin	34%	34%	31%
PAT	28,106	27,454	29,169
YoY Growth	105%	-2%	6%
EPS (Rs)	95.93	93.70	99.55
DPS (Rs)	15.00	15.69	19.91
P/E (x)	4.92	4.17	4.08
DY	2%	1%	2%

Source: Company accounts, JS Research

Key drivers

- Timely expansion of the cement business
- Increase in renewable energy capacity
- Declining interest rates to increase demand for the company's diverse portfolio of investments

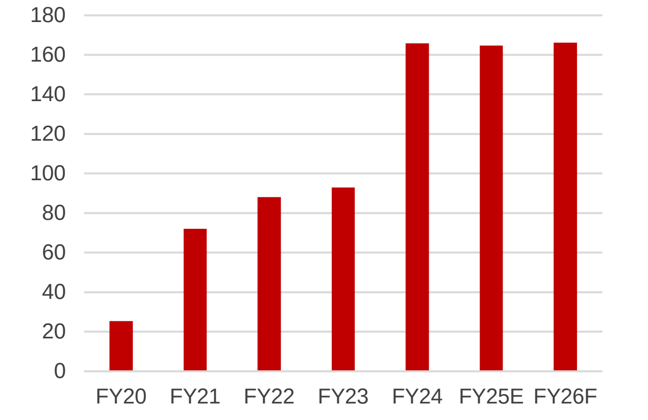
Key risks

- KPK government may increase royalty on KPK based plants
- Low retention in the South
- Less than expected demand pick-up in other segments

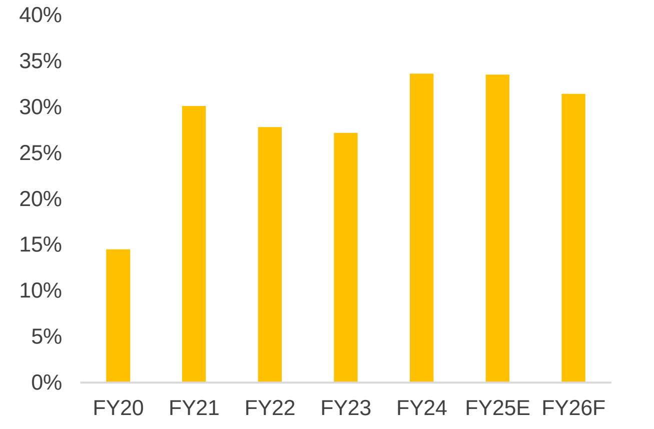
About the Company

Principal activity of the company is manufacturing and sale of Cement. The company has two production facilities at Pezu in Khyber Pakhtunkhwa and one at Main Super highway, Karachi, Sindh. LUCK has a presence in chemicals, consumer, power generation, automobiles and mobile phone assembling segment through its subsidiaries and associates.

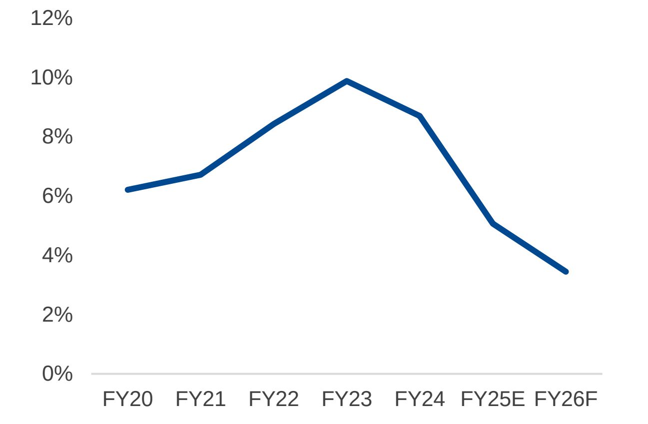
LUCK: EBITDA/share



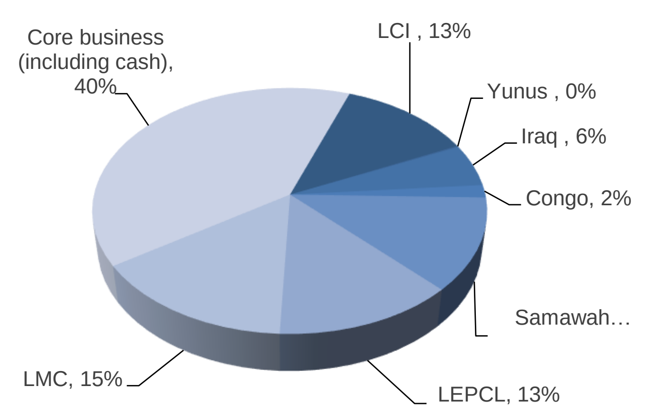
LUCK: Gross Margins



LUCK: Debt to Assets ratio



LUCK: Contribution to SoTP valuation



Source: Company accounts, JS Research

Pioneer Cement (PIOC PA)

Stable core margins and strong dividend yield; Buy

We maintain our "Buy" rating for PIOC with a target price of Rs262, depicting attractive upside from current levels of 30% and an expected dividend yield of 6% in FY25. The company has been able to consistently pull off a stable gross level performance due to better cost management. We expect the company's core business performance to remain strong because of management's cost efficiency prioritization.

Focus on deleveraging balance sheet

Additionally, company's focus on deleveraging its balance sheet coupled with the declining interest rates is expected to result in significant savings in financial charges going forward. For perspective, the company's interest coverage has increased from 2.8x in FY23 to 4x in FY24 and according to our forecast it will further increase to 7.2x in FY25.

Low Afghan coal prices to offset the impact of reduced MRPs

The company has been reporting stable gross margins in recent quarters (above 30% in the last 5 quarters), which is expected to continue according to our forecasts. PIOC has remained tilted toward the relatively economical local coal and Afghan coal with a mix of 70:30.

PIOC's power costs remain among the lowest in our coverage, primarily due to the company's efforts to reduce reliance on the grid. Management recently shared that they have reduced their reliance on grid from 30% in FY23 to 14% in FY24 and currently, reliance on grid is less than 5%. In addition, the company operates a 30MW coal power plant, which provides approximately 65% of its energy requirements. Consequently, the ongoing decline in coal prices is expected to further reduce the company's power costs.

Focus on increasing captive power before expansion

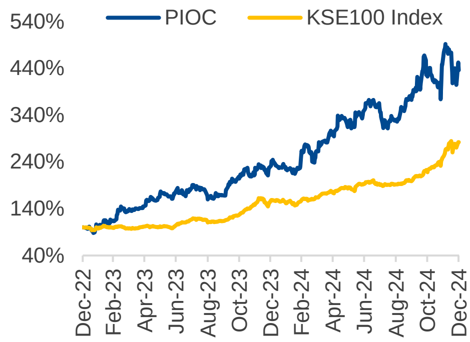
PIOC's management believes that the current conditions do not support expansion, however, they do not rule out the possibility of adding 7.5mn tons of capacity over the next seven years, in addition to their existing 5.2mn tons. However, their immediate focus will be on investing in captive generation sources, such as coal power plants and waste heat recovery. While the company is not keen on solar investments right now, citing high equipment costs, and a three-fold increase in regional land prices in recent times.

Target Price	PKR**262**
Share Price	PKR201.04

Statistics

52w high / low (PKR)	226.72 / 108.33
3m avg turnover (USDmn)	0.4
Free float (%)	45.0
Issued shares (mn)	227.1
Market capitalisation	PKR45.7B
	USD0.2B

Price Performance



	-1M	-6M	-12M
Absolute (%)	(2)	26	91
Relative to index (%)	(16)	(21)	7

Source: PSX

PIOC: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	35,519	33,990	37,755
YoY Growth	-2%	-4%	11%
Gross Margin	33%	32%	33%
PAT	5,176	5,033	6,347
YoY Growth	92%	-3%	26%
EPS (Rs)	22.79	22.16	27.94
DPS (Rs)	15.00	11.25	14.00
P/E (x)	8.82	9.07	7.19
DY	13%	6%	7%

Source: Company accounts, JS Research

Key drivers

- Minimal reliance on grid
- Declining interest rates and deleveraging to reduce finance costs
- low coal prices keeping both power and fuels costs low

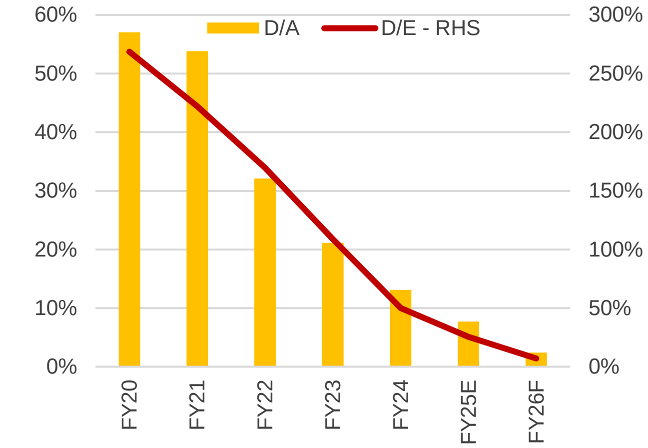
Key risks

- Royalty charge imposed on Punjab players
- Slower than expected dispatch recovery in the region

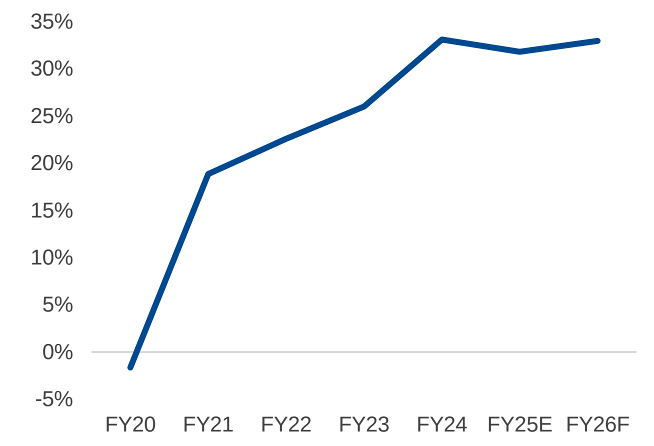
About the Company

The principal activity of the Company is manufacturing and sale of cement. PIOC's manufacturing facility is located at Chenki-District Khushab. Its location in central Punjab allows easy and fast approach to market. The main markets of the company are central and South Punjab. Pioneer operates with two production lines having a combined annual cement capacity of ~5.2mn tons.

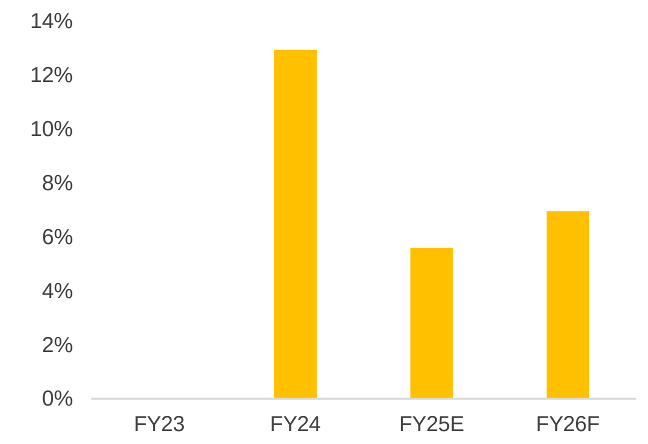
PIOC: Debt to Asset ratio



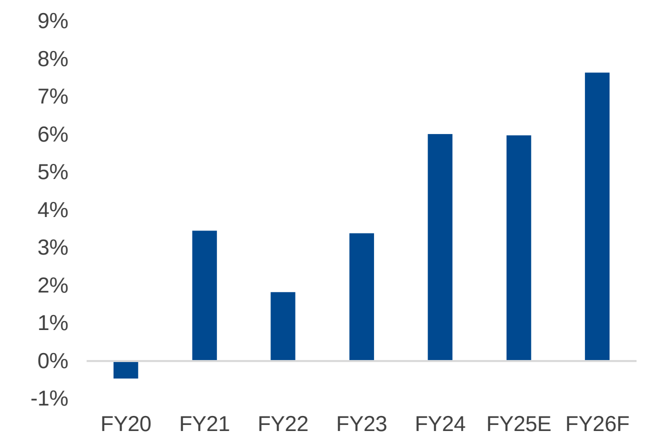
PIOC: Gross Margins



PIOC: Dividend Yield



PIOC: ROA



Source: Company accounts, JS Research

Fauji Cement (FCCL PA)

High retention prices to support margins; Buy

FCCL is the third largest cement producer in the country as the Greenfield capacity expansion at DG Khan has taken FCCL's capacity to 10.6mn tons, positioning the company to avail the higher market share once overall demand improves. FCCL also enjoys the second highest retention prices in our universe at around Rs808/bag in FY24 and we forecast it to rise to Rs889/bag in FY25. The company's sales mix which includes ~50% project sales, as per management that yield higher retention prices, boost overall net local retention.

A proactive approach regarding decisions on expansions to cater to growing demand, along with a continual focus on cost efficiency places FCCL in an attractive position. Our Dec-25 Target Price for the stock comes at Rs55, depicting a lucrative capital upside of 50%.

Focus on cost optimization

FCCL has enhanced its green captive power capacity over the years, installing a 12.5MW solar plant in FY24, with an additional 15MW solar expansion this year in the pipeline. This is expected to take FCCL's solar capacity to 67.5MW in FY25 - Second largest solar capacity behind LUCK.

FCCL has further enhanced its WHR (Waste Heat Recovery) capacity with its recent capacity expansion in DG Khan, adding a 12MW WHR unit, taking total WHR capacity to 64.5MW. The management shared that these captive energy resources meet nearly half of FCCL's energy requirements, which are essentially free of cost, while the remainder is sourced from the grid.

The company is also effectively managing its fuel costs using up to 70% cheaper local coal in its fuel mix driving its weighted average fuel cost to one of the lowest among our universe. The company also plans to setup a Polypropylene (PP) bags plant with an investment of Rs1bn, which is expected to meet 90% of its packaging needs.

Debt reduction emphasis going forward

FCCL has been focusing on reducing debt evident from the drop in outstanding debt on its 1QFY25 balance sheet where total debt declined by Rs2.1bn. With no major capex expected in the future, we expect the company will continue to focus on debt retirement with its cashflows.

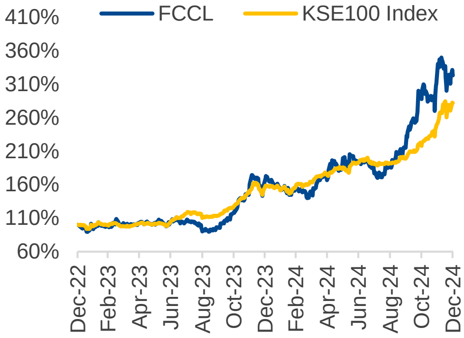
With an optimal debt book, where 36% of loans are concessionary and declining interest rates, our projections indicate finance costs to average Rs969mn per quarter in our FY25 forecast compared to quarterly average of Rs1.309bn in FY24. It is also pertinent to highlight that company has a Rs7.4bn interest free convertible loan provided by the parent company.

Target Price	**PKR55**
Share Price	PKR36.58

Statistics

52w high / low (PKR)	39.60 / 16.44
3m avg turnover (USDmn)	1.6
Free float (%)	35.0
Issued shares (mn)	2,452.8
Market capitalisation	PKR89.7B
	USD0.3B

Price Performance



	-1M	-6M	-12M
Absolute (%)	4	66	101
Relative to index (%)	(10)	19	16

Source: PSX

FCCL: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	80,026	96,216	108,024
YoY Growth	18%	20%	12%
Gross Margin	26%	30%	31%
PAT	8,223	13,473	16,805
YoY Growth	11%	64%	25%
EPS (Rs)	3.35	5.49	6.85
DPS (Rs)	1.00	1.00	2.75
P/E (x)	10.91	6.66	5.34
DY	6%	3%	8%

Source: Company accounts, JS Research

Key drivers

- Ability to procure Local and Afghan coal at cheaper rates compared to other Punjab based players
- Proactive with cost efficiency measures
- Higher retention prices due to project sales
- Monetary easing cycle leading to savings in Finance costs

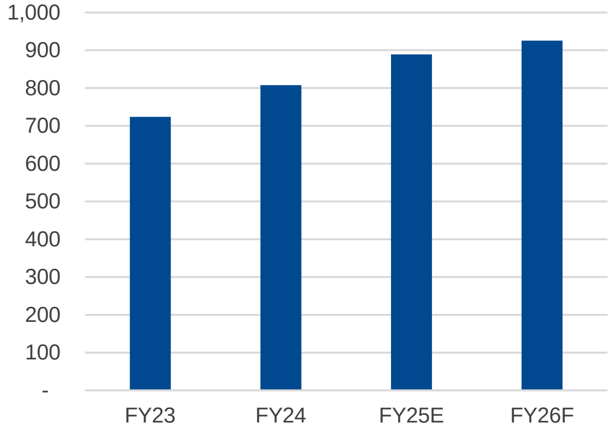
Key risks

- Increases in grid tariff
- Government not meeting their PSDP targets
- Not able to fully utilize extended capacity amid less than expected demand pick-up from FY26 onwards

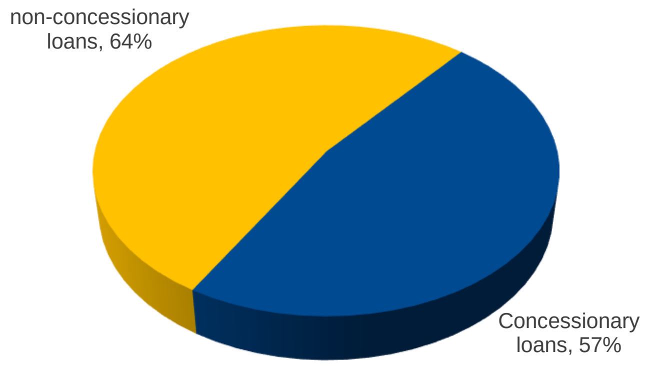
About the Company

Fauji Cement Company Limited (FCCL), is a public listed company established in 1992. The company is listed on Pakistan Stock Exchange (PSX). The Company has been set up with the primary objective of manufacturing, selling and exporting of different types of Cement products. FCCL is majority owned by its sponsor Fauji Foundation and other group companies (66.81%) while remaining is held by General public and Financial institutions.

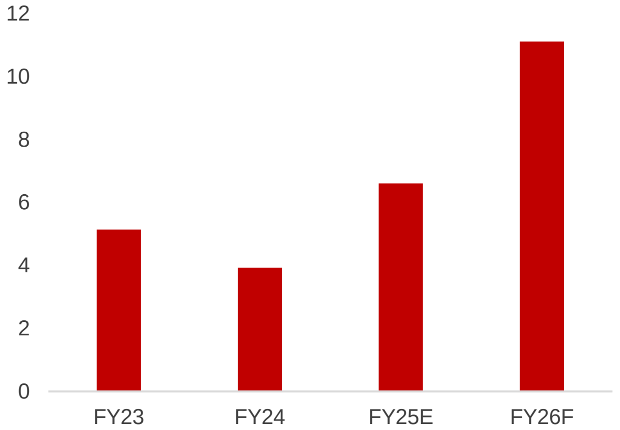
FCCL: Retention price (Rs/bag)



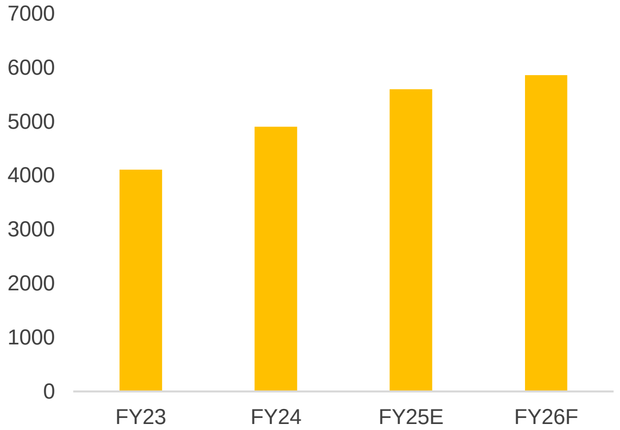
FCCL: Loan break-up



FCCL: Interest cover (x)



FCCL: EBITDA/Ton



Source: Company accounts, JS Research

DG Khan Cement (DGKC PA)

Buy on falling interest rates and strong equity portfolio

DGKC is one of Pakistan's largest cement producers with a total cement production capacity of ~7.1mn MTPA and has operations in both the country's northern and southern markets. Total market share of the company is about 9% in the domestic market. With a well-diversified investment portfolio that includes Textiles, Banking, Auto, Insurance, Power and Automobile segments, the company also gains substantial support from non-core income. DGKC stands out as one of the most highly leveraged cement companies in our universe. Consequently, the ongoing monetary easing cycle is expected to significantly benefit the company.

Our SoTP-based target price (TP) for the stock is Rs150, indicating a compelling upside potential of 42% from current levels. Additionally, the company's substantial investment portfolio, contributing Rs66 to our SOTP-based target price, is expected to perform well and provide further support to its valuation.

Sub-par gross margins, expected improvement ahead

DGKC recorded the lowest gross margins in our cement universe for FY24, weighed down by low local retention prices, particularly from its southern operations. Additionally, the company reported an export price of Rs471/bag in FY24, falling short of covering the contribution margin of Rs542/bag. This was primarily due to 87% of the total export dispatches of 1.23mn tons in FY24 consisting of clinker, which fetches a very low export price. However, we anticipate an improvement in the export sales mix going forward, enabling the company to secure higher prices for its exports. Moreover, an expected increase in southern MRPs as demand recovers should further support DGKC's margins.

The company has optimized its fuel mix, with northern plants primarily utilizing cost-effective local and Afghan coal, while the southern plant relies on imported coal. Additionally, the company has significantly reduced its reliance on the national grid in recent years, favoring captive energy sources for its power needs

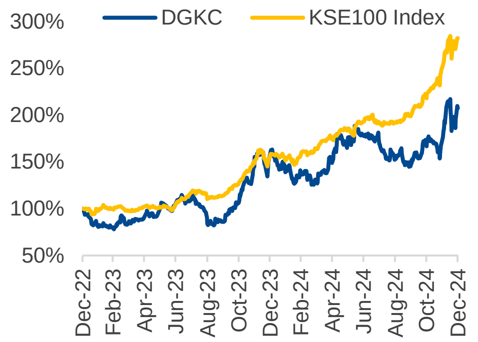
Key beneficiary of the monetary easing cycle

DGKC is poised to be a key beneficiary of the ongoing monetary easing cycle within our cement universe. We project the company's interest coverage ratio to improve significantly, rising from 1.37x in FY24 to 2.28x in FY25 and further to 3.9x in FY26. This improvement is primarily attributed to declining interest rates and retirement of debt.

Target Price	PKR**150**
Share Price	PKR104.92

Statistics	
52w high / low (PKR)	109.82 / 63.58
3m avg turnover (USDmn)	2.1
Free float (%)	50.0
Issued shares (mn)	438.1
Market capitalisation	PKR46.0B
	USD0.2B

Price Performance



	-1M	-6M	-12M
Absolute (%)	23	16	36
Relative to index (%)	9	(31)	(49)

Source: PSX

DGKC: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	66,039	64,648	72,884
YoY Growth	2%	-2%	13%
Gross Margin	26%	30%	31%
PAT	646	4,034	6,604
YoY Growth	NM	525%	64%
EPS (Rs)	1.47	9.21	15.07
DPS (Rs)	0.00	0.00	3.00
P/E (x)	71.18	11.39	6.96
DY	0%	0%	3%

Source: Company accounts, JS Research

Key drivers

- Increase in South MRPs once demand pick ups
- Better export mix
- Monetary easing cycle leading to savings in Finance costs

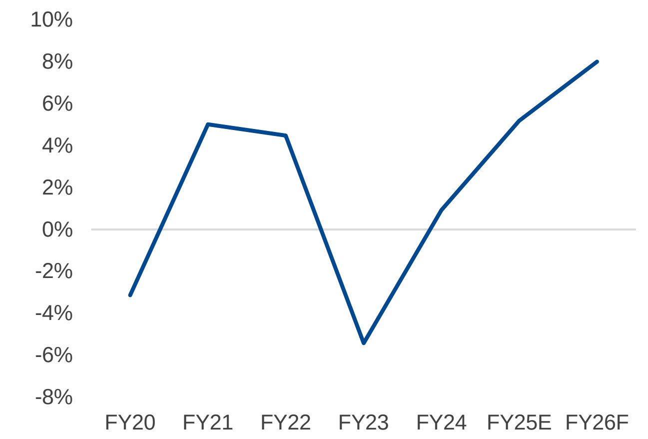
Key risks

- Geopolitical tensions causing decline in exports
- Royalty on Punjab based operations keeping margins low

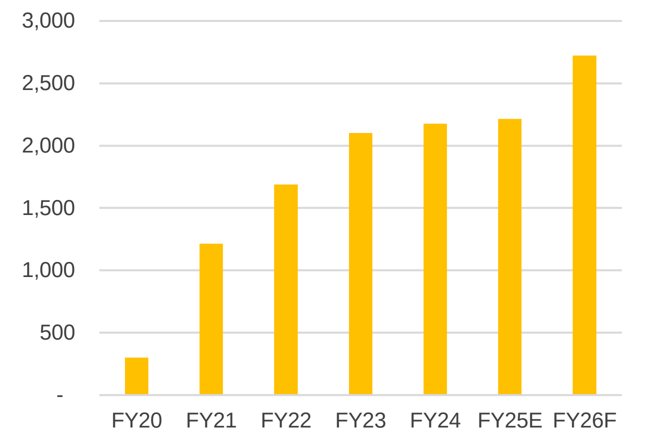
About the Company

DG Khan Cement Company Limited (DGKC) is a flagship company of the Nishat Group, one of Pakistan's leading business conglomerates. Established in 1986, DGKC has grown to become a key player in the cement industry with operations in both North and South. The company has a diversified pool of investments which includes Banking, Dairy, Insurance, Textile and Autos.

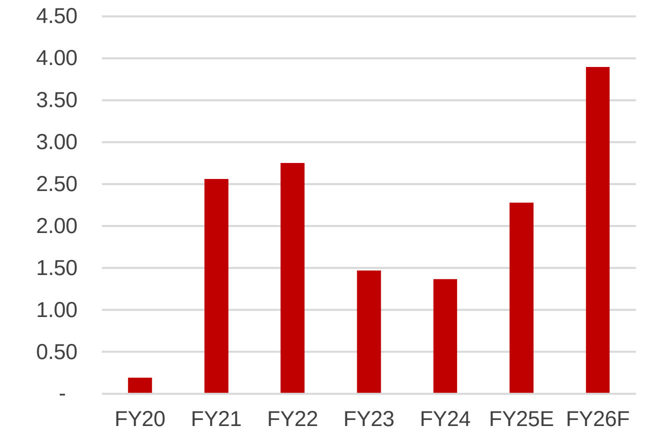
DGKC: ROE



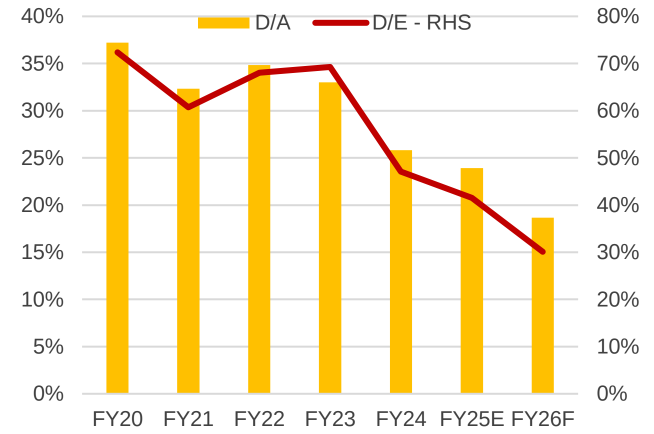
DGKC: EBITDA/ton



DGKC: Interest coverage ratio (x)



DGKC: D/A and D/E ratios



Source: Company accounts, JS Research

Other notable mentions

Maple Leaf Cement (MLCF PA)

MLCF stands out as a key cement player in the North, boasting the largest single-site capacity. MLCF holds a 90% market share in the white cement market, granting the company the highest retention price among our cement universe in FY24 of Rs858/bag in FY24 and Rs924/bag according to our forecasts of FY25. We have a SOTP based TP of Rs60, indicating a lucrative upside of 31%.

The company enjoys a distinct competitive edge over other northern players due to its direct rail connectivity, enabling substantial transportation cost savings when importing coal or pet coke from southern seaports. Furthermore, the company is actively diversifying its portfolio, with plans to expand into the fertilizer sector by acquiring control of Agritech and entering the healthcare industry through Novacare Hospitals. This is in addition to MLCF investment in wholly owned subsidiary Maple Leaf Power limited.

Target Price	PKR**60**
Share Price	PKR45.94

Statistics

52w high / low (PKR)	49.98 / 32.15
3m avg turnover (USDmn)	1.5
Free float (%)	45.0
Issued shares (mn)	1,047.6
Market capitalisation	PKR48.1B
	USD0.2B

MLCF: Key statistics

(Rs mn)	FY23	FY24	FY25E	FY26F
Sales	62,074	66,452	65,579	72,259
YoY Growth	28%	7%	-1%	10%
Gross Margin	26%	32%	31%	31%
PAT	4,490	5,273	5,449	7,014
YoY Growth	24%	17%	3%	29%
EPS (Rs)	4.29	5.03	5.20	6.70
DPS (Rs)	0.75	1.00	0.00	0.00
P/E (x)	6.23	9.13	8.83	6.86
DY	0%	0%	0%	0%

Source: Company accounts, JS Research

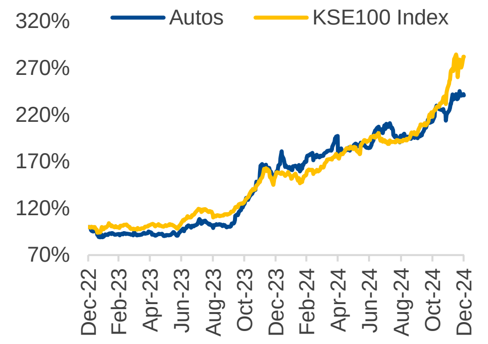
Autos – Overweight

FY25: A year of recovery for autos

The Pakistani automobile market has faced significant challenges over the past two years, driven by adverse macroeconomic conditions. These included soaring car prices due to substantial PKR depreciation, increased taxes on four-wheelers (with sales tax raised from 18% to 25% for vehicles above 1400cc engine capacity and valued over Rs4mn, excluding sales tax), and LC restrictions that led to widespread plant shutdowns among major OEMs due to supply chain disruptions.

In 5MFY25 however, four-wheeler sales registered notable growth of 57% YoY, supported by relaxed LC policies, attractive auto financing rates offered by banks and OEMs, promotional incentives by automakers, and a more stable PKR.

Sector performance



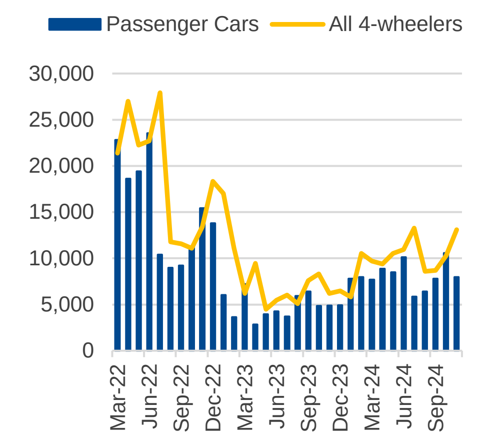
Source: PSX, JS Research

Japanese OEMs face tough competition amid Chinese entry

In recent years, the country has witnessed a surge of Chinese manufacturers entering the market, particularly in the premium SUV segment. While some are yet to make a mark, others, like SAZEW, have quickly gained traction. This success is attributed to their modern designs, advanced features previously unseen in offerings from traditional Japanese OEMs, competitive pricing, and a first-mover advantage in introducing hybrid technology to Pakistan.

We anticipate this trend to persist, with competition in the industry expected to intensify. However, we believe that Japanese automakers will continue to command attention, thanks to their strong brand presence and consumer perceptions of superior durability and higher resale values.

Auto sales (units)

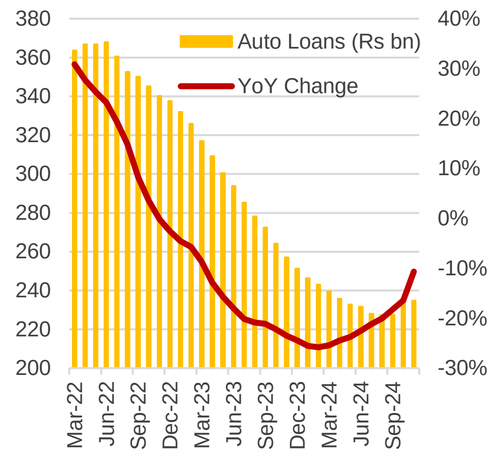


Source: PBS, JS Research

NEV policy on the cards

The government is actively working to promote EV adoption across all vehicle categories, including four-wheelers, two-wheelers, trucks, and buses. With Pakistan's high vulnerability to climate change and some of the worst air quality index (AQI) levels globally, we anticipate the government will take decisive steps to address these challenges. This likely includes reductions in customs duties on EV and hybrid components, encouraging local EV assembly, and developing EV charging infrastructure nationwide. These initiatives have sparked significant interest from global EV manufacturers, with BYD emerging as a prominent contender. Additionally, Dewan Farooque Motors Limited (DFML) has already commenced local assembly of electric vehicles.

Outstanding Auto Loans (Rs bn)



Source: SBP, JS Research

Monetary easing cycle to be a key trigger

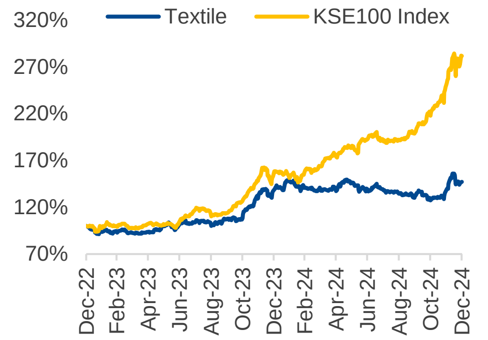
Auto financing has historically been a key driver of vehicle sales, contributing approximately 30% to total sales when interest rates were in single digits. However, this share is now estimated to have declined to the lower double digits. Going forward, lower interest rates, combined with anticipated relaxations in auto financing regulations by the SBP—such as increased financing caps (from the current levels of Rs3mn) and extended loan tenures—are expected to stimulate volume growth.

Textiles – Market-weight

Global slower demand growth, but diversifying supply-chain

Global cotton consumption is expected to grow by 2% during FY24-25E to 115.8mn bales as per USDA, this figure is close to the 10-year average and 9mn bales above the last 4-year average. Global cotton production is forecasted to 117.4mn bales (+3% YoY) where higher yields in Brazil and China, will be most likely to offset lower yields in USA, India and Pakistan. Stagnant supply of cotton due to lower cotton plantings and farmers switching to more profitable crops. Energy crises and political uncertainty in Bangladesh and increasing tariffs on imports from China – have been pushing the US and EU textile made-ups importers to diversify their supply chain to other exporting countries like India, Vietnam, Sri Lanka and Pakistan to some extent.

Sector performance

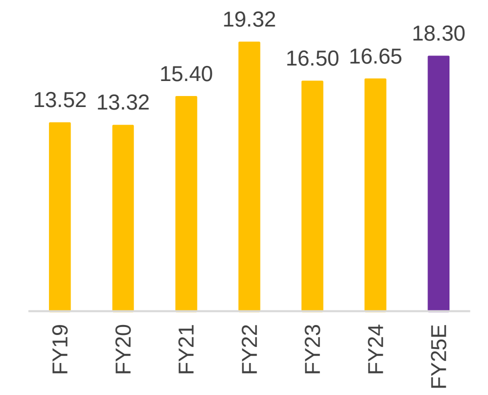


Source: PSX, JS Research

Pakistan Exports: Growth opportunity for value-added sector

Pakistan Textile exports are up 10% YoY during 4MFY25 to US$6.15bn with major growth witnessed in knitwear (+32% YoY), readymade garments (+32%) and bedwear (+13%). Continuation of similar pace of growth, would lead to jump in the country's total exports to over US$18bn in FY25E from US$16.65bn in FY24. Thanks to stable currency, weak international cotton and yarn prices – Pakistan is now able to exploit the available opportunity for expanding its base in value-added textile products markets which are dislocated from Bangladesh and China.

Textile exports up 10% YoY YTDFY25 (US$ bn)

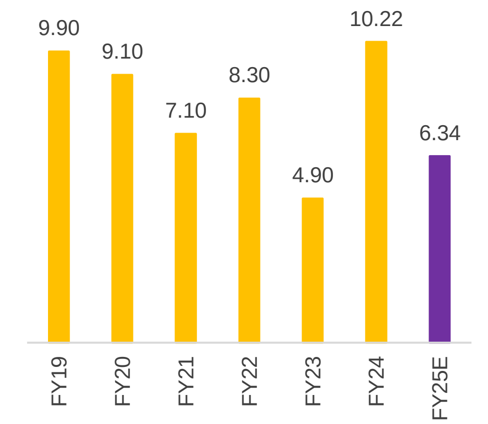


Source: PBS, JS Research

Domestic shortfall leads to higher cotton imports

Pakistan is likely to report a decline in cotton output to tune of 7mn bales in FY25 compared to a bumper crop of 10.2mn bales recorded in FY24. During 1HFY25, cotton arrivals to the ginners have shown a decline of 33% YoY to 5.4mn bales, this was primarily led by unfavorable weather conditions and shift from cotton to more profitable crops. Textile mills also took advantage of the stable currency and lower international prices and imported 96% YoY higher raw cotton volumes, leading to 69% YoY jump in raw cotton Import bill (US$247mn) during 4MFY25.

Cotton output down 33% in 1HFY25 (mn bales)



Source: PCGA, PBS, JS Research

Rising energy cost and taxation remains a challenge

High cost of energy yet one of the highest among the regional textile exporting countries, makes Pakistan less competitive among the regional textile exporters. Since IMF required Pakistan govt to disconnect gas supplies to the captive power plants from Jan-2025, key Industry players have already started working on alternate power solutions (FO, solar power, coal, direct RLNG purchase) since uninterrupted power supply from the grid remains questionable.

Adequate energy supply and relaxed import policy would remain crucial for the sector to exploit this opportunity. Declining interest rates on one hand ease off working capital financing pressure on the sector while doubling of advance tax against exports receipts, GST on local inputs and long pending over-due receivables are increasing working capital requirements.

Pakistan Textile sector has underperformed KSE100 index during CY24, due to weaker margins, higher financing cost and taxation. Going forward, we suggest investor to invested in selected stocks, with ability to exploit the export opportunity and undertaking expansions alongwith cost saving measures. Interloop Limited (ILP) is our top pick in the textile space.

Interloop Limited (ILP PA)

Unmatched value proposition; Buy for growth

Interloop Limited (ILP) is Pakistan's second largest textile exporter, largest exporter among the listed companies and one of the world's leading socks producer with a production capacity of over 870mn pairs of socks per annum. ILP stands out among its textile sector peer group companies, in terms of superior revenue growth and highest margins from higher finished product contribution to sales.

Revenue growth led by expansions underway

ILP has been aggressively investing in expanding its scale of operations (addition in Apparels, Hosiery and Denim plant), upgradation of machinery and installation of alternate fuel source (bio-mass and solar), to achieve strong revenue growth and improve cost efficiencies (in-house dyeing). At a time of a less favorable budgetary environment for textile exporters, ILP unveiled an aggressive US$92mn expansion plan. ILP plans a 25% capacity increase in its flagship hosiery business segment (from 870mn to 1,034mn) by 1QFY26, led by current demand resulting in 100% utilization of the existing plant size. The company aims for a significant 2.4x expansion in denim capacity by 4QFY26, indicating strong confidence in this segment's future potential via further boosting economies of scale. ILP's expansion plans also includes investment in solar power, bio-mass and dyeing capacity in order to achieve cost efficiencies.

Near term pressure on margins, stable from FY26E onwards

ILP is currently facing pressure on its gross margins mainly due to ongoing ramp-up of its green-field Apparels plant. Apparels segment margins are currently in the red zone due to higher depreciation, jump in salaries expenses from induction of new employees and teething cost of the newly commenced plant. The company has completed 80% of the ramp-up of the new plant, which is currently operating at ~30% of its capacity. The management expects this plant to achieve optimal operating levels and thus will start making positive margins from the beginning of FY26. In the meantime, hosiery business revenues and improvement in denim margins will continue to support the company's operations.

Favorable Positioning on financial charges

With major revenue contribution in ILP's top-line coming from exports, ILP is entitled to benefit from fixed concessionary rates available to Pakistan's Textile exporters on both, short-term and long-term financing, ILP effective cost of debt comes out to be at least 400bp cheaper than benchmark interest rates ie. 6M KIBOR in the coming years. Since the company undertaken major expansion plans, with ~50% of the Capex plans being financed by debt and more than 80% of the working capital requirements are met through short term debt, we expect the company is set to benefit from the ongoing monetary easing by the central bank, should bode well for the company.

Reiterate "Buy"

We reiterate our Buy rating on ILP with a TP of Rs115, premised on management aggressive efforts to capitalize on its superior positioning and growth prospects for exports.

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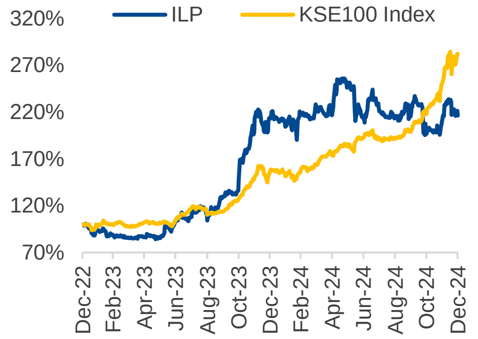
Target Price	**PKR115**
Share Price	PKR68.72

Statistics	
52w high / low (PKR)	84.08 / 62.09
3m avg turnover (USDmn)	0.4
Free float (%)	20.0
Issued shares (mn)	1,401.7
Market capitalisation	PKR96.3B
	USD0.3B

Price Performance



	-1M	-6M	-12M
Absolute (%)	5	0	2
Relative to index (%)	(8)	(46)	(83)

Source: PSX

ILP: Key statistics

Rs mn	FY24	FY25E	FY26F
Net Sales (Rs mn)	156,129	169,231	209,577
YoY growth	31%	8%	24%
Gross Profit	28%	22%	28%
EBITDA margin	21%	15%	21%
PAT (Rs mn)	15,771	6,523	16,127
EPS (Rs)	11.25	4.65	11.51
YoY growth	-22%	-59%	147%
DPS (Rs)	4.50	3.50	4.50
P/E (x)	6.11	14.77	5.97
D/Y (%)	7%	5%	7%
ROE (%)	29%	12%	25%

Source: Company accounts, JS Research

Key drivers

- Stronger Pick up in export orders/ prices
- Achieving break-even levels for Apparels plant
- Unprecedent Pak Rupee depreciation

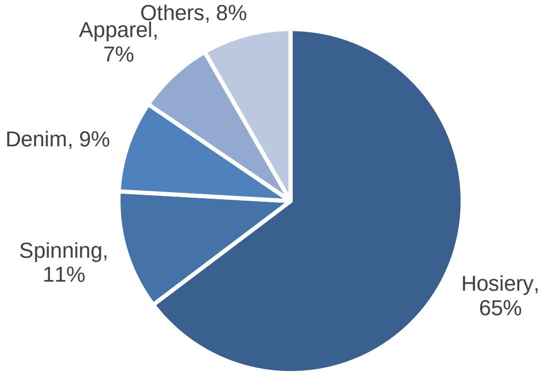
Key risks

- Sharp appreciation in Pak Rupee
- Prolong ramp-up of Apparels plant
- Decline in hosiery prices/ margins

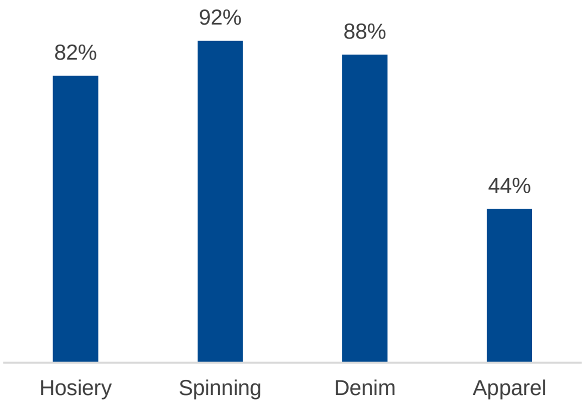
About the Company

ILP is Pakistan's top largest textile exporter and largest among listed companies with FY24 exports of over US$500mn. ILP is engaged in production and exports of Socks, yarn, Demin, apparels and activewear products to world leading brands like Adidas, Nike, Levi's, Puma, Guess, H&M, M&S, Zara. By producing more than 873mn pairs of socks, ILP is one of the leading socks suppliers in the global market, where 94% of its sales are contributed by exports. Hosiery business (socks) remains the top revenue and bottom-line contributor to ILP. The segment contributed 65% to the company revenues and more than 95% to its operating profits.

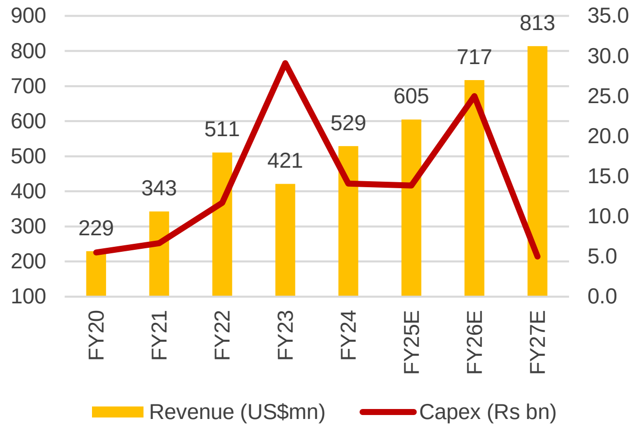
ILP: Segment-wise Revenue Break-up (FY24)



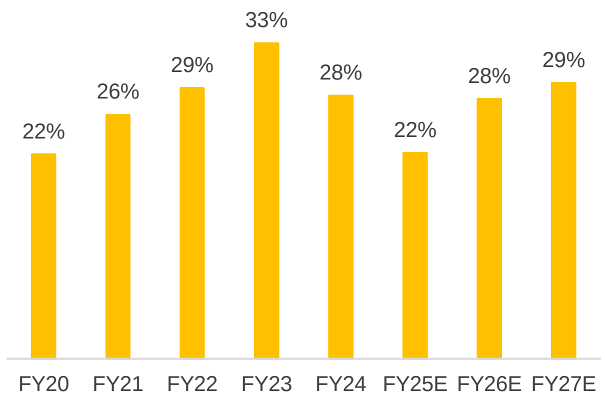
ILP: Segment-wise Capacity utilization rates (FY24)



ILP: Revenue growth vs. Capex



ILP: Gross margins



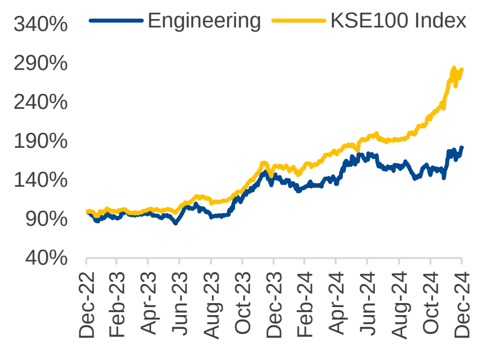
Source: Company accounts, JS Research

Engineering – Market weight

Dark clouds may remain for a while; long term growth intact

Steel sector of Pakistan continued to face significant challenges due to dull demand from key sectors including housing, developmental projects, automobiles, appliances, and other allied sectors. Weak demand from the upstream industry was mainly driven by the higher inflation, devaluation of PKR, soaring energy costs, and squeezed disposable income amid challenging macros. The demand outlook is likely to remain dull during FY25, albeit, the ongoing monetary easing and lower inflation is expected to gradually be reflected in the resurgence of higher steel demand from FY26 onwards.

Sector performance



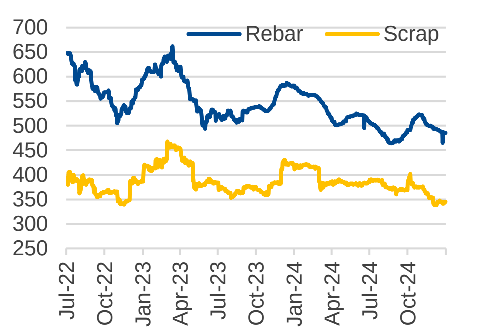
Source: PSX, JS Research

Local prices continue to skew towards lower side

Local rebar prices continue to witness a decline during current year after peaking above Rs300k/ton witnessed during last year, and are currently hovering in the range of Rs255k-270k/ton due to stable currency and international scrap prices. For context, international steel scrap prices averaged at US$375/ton during FYTD vs. an average of US$387/ton during FY24.

On the flat steel front, local prices remained flat during 2HFY24 followed by a significant decline of Rs40k during the start of FY25 owing to lower international prices of Hot Rolled Coil (HRC), which averaged at US$482/ton during FYTD compared to an average price of US$542/ton during FY24. International prices are likely to remain stable amid higher Chinese supplies, going forward. We expect flat steel volumes to recover amid expected resurgence in automobile and appliances segment led by improving macros boding well in terms of higher disposable income.

Rebar and Scrap prices (US$/ton)

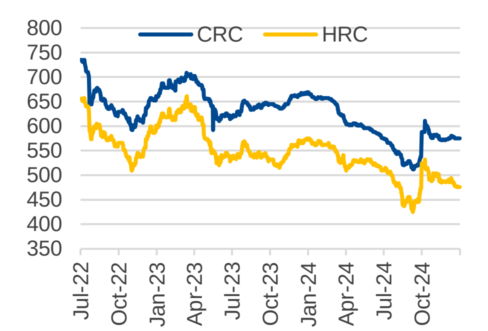


Source: Bloomberg, JS Research

Presence of ungraded products and FATA PATA exemptions

Presence of ungraded products coupled with the influx of FATA PATA exempted products in the country continues to adversely impact the listed space. Where the production and supplies from the region is way above the consumption levels required in the region, unfavorably impacting the listed space bearing higher duties compared to the FATA PATA players (offering products at discount to grader players). We believe withdrawal of exemptions remain a way forward to the improving outlook of the sector. In other news, the government is likely planning to restrict the import of raw material for steel production to the extent of local consumption, with different regulations including the consumption certificate of raw material.

Steel use per capita (kgs)

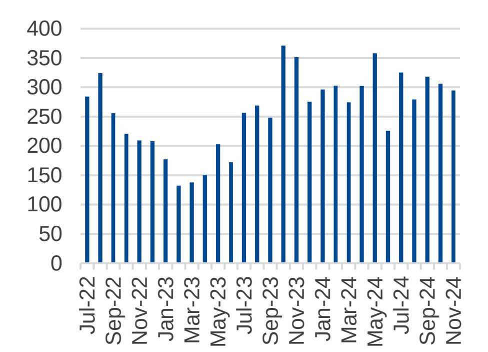


Source: Bloomberg, JS Research

Performance review and outlook

Engineering sector, particularly long steel, showed significant underperformance during CY24, underperforming the KSE-100 by 55%. Anticipated surge in construction demand is anticipated to serve as a pivotal catalyst for increased steel demand. We believe that major players in the long steel industry have already factored in a substantial portion of the prevailing challenges into their respective stock prices.

Iron and steel scrap imports (US$bn)



Source: SBP, JS Research

Mughal Iron & Steel (MUGHAL PA)

MUGHAL – One of the leading players in the North region

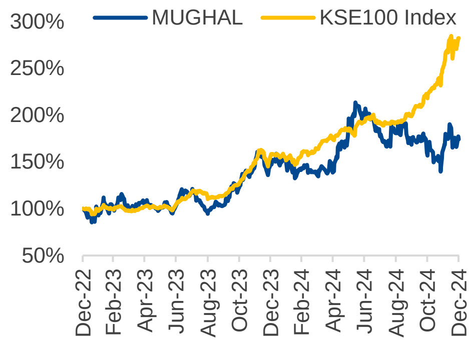
MUGHAL remains our top pick in the engineering sector, encompassing significant presence in the northern region. Our optimistic stance on MUGHAL is driven by potential recovery in demand for ferrous segment FY26 onwards with company expanding the portfolio focusing on products other than rebar, aiming better utilization levels, coupled with the healthy contribution from the non-ferrous segment. Further, MUGHAL is also in process of commencing the coal-based power plant having a capacity of 36.5MW, which will be used to cater energy needs of the company at comparatively lower rates than grid. Our DCF based Dec-2025 TP is Rs115, wherein the stock is currently trading at a forward P/E of 4.54x based on FY26 earnings.

Target Price	**PKR115**
Share Price	PKR80.10

Statistics

52w high / low (PKR)	98.19 / 60.83
3m avg turnover (USDmn)	0.3
Free float (%)	25.0
Issued shares (mn)	335.6
Market capitalisation	PKR26.9B
	USD0.1B

Price Performance



	-1M	-6M	-12M
Absolute (%)	9	(14)	21
Relative to index (%)	(5)	(61)	(63)

Source: PSX

Ferrous volumes likely to improve by diversification

We expect MUGHAL's ferrous volumes to remain flat on a YoY basis during FY25, owing to continued slowdown in construction activities, where we believe the ongoing improving macros is likely to drive volumes in the latter part of the year with better volumes expected during FY26. To recall, MUGHAL's ferrous volume hovered around 310k tons during FY24, with rebar, girder, and billets having a share of 53%, 27%, and 19%, respectively. Currently, MUGHAL's rebar is priced at between Rs250k-255k, down compared to previous quarters owing to stable scrap prices and subdued demand.

Additionally, the company is in process of expanding ferrous portfolio through a BMR activity at the existing rolling mill to facilitate manufacturing of both steel rebars and medium sections with an estimated CapEx of Rs2bn. The capacity of manufacturing sections would be around 8-10k per month, with the production likely to commence during 1QFY26. We expect sections to increase ferrous volumes by 30-40k tons in FY26. Notably, the company aims to increase the share of girders and sections in the ferrous mix which are likely to be more margin accretive, wherein the ongoing surge in demand of solar installations likely to bode well for the demand of such products.

MUGHAL: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	92,383	87,920	102,069
YoY Growth	37%	-5%	16%
Gross Margin	8%	12%	15%
PAT	1,999	2,162	5,919
YoY Growth	-43%	8%	174%
EPS (Rs)	5.96	6.44	17.64
DPS (Rs)	0.00	0.00	3.50
P/E (x)	13.45	12.44	4.54
DY	0%	0%	4%

Source: Company accounts, JS Research

Non-ferrous segment continues to support the profitability

MUGHAL's focus remains on augmenting export volumes in the non-ferrous segment (including copper ingots and granules) while sustaining volumes in the ferrous segment. Recent guidance by the company directs at export sales from the non-ferrous division likely to improve by 10-15%YoY during FY25, with sales primarily targeted at customers in China. Higher international copper prices are expected given the global focus toward EV and hybrid vehicles and increased demand for semiconductors and plugs. MUGHAL, hence, foresees robust export demand for its non-ferrous products. However, the availability of quality raw material, remains key concern in copper processing which is necessary for improving the quarterly run rate of copper exports, which has been hovering around 1,700 tons in recent quarters.

Coal power plant to drive cost efficiencies going forward

MUGHAL is currently in process of installing the coal-based power plant's operations which is likely to commence operations in 4QFY25 and will be the primary source of energy for MUGHAL whereas the remaining requirement would be met from other sources including grid. The plant is likely to remain operational for nearly 7,000 hours p.a. Moreover, income tax exemption will remain applicable for Mughal Energy Limited, likely to bode well for the profitability prospects on a consolidated basis.

Key drivers

- Incremental contribution from Non-ferrous segment
- Uplift in demand due to construction activities
- Improvement in utilization levels
- Higher demand for margin accretive girders

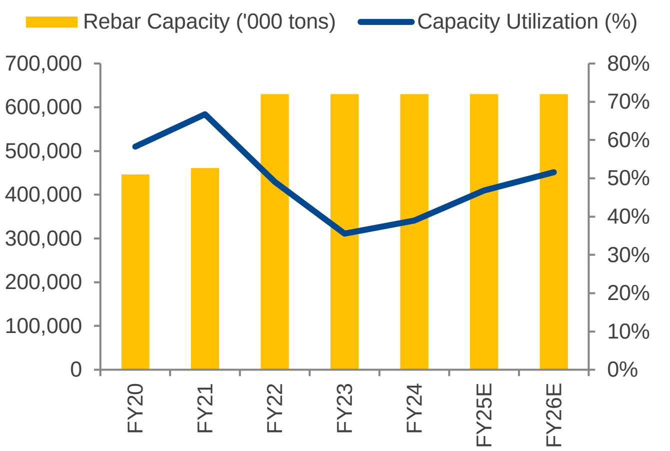
Key risks

- Higher than expected increase in scrap prices
- Slower than expected economic recovery
- A cut in public sector development spending
- FATA/PATA policy uncertainties

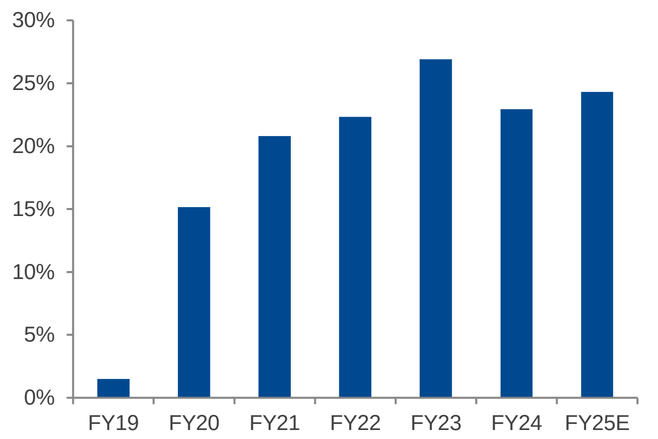
About the Company

MUGHAL is a prominent long steel manufacturer of Pakistan and has been operating in the industry since 1950s. Principal activity of the company is the manufacturing and sale of mild steel products relating to ferrous segment. The ferrous segment comprises of Billets, Rebars & Girders while non-ferrous segment comprises of Copper Ingot but the company has shared plans to add further products to its portfolio in the non-ferrous space.

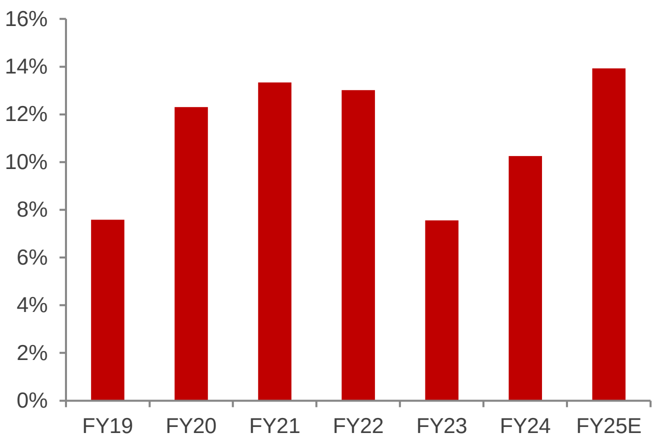
MUGHAL: Capacity Utilization over the years



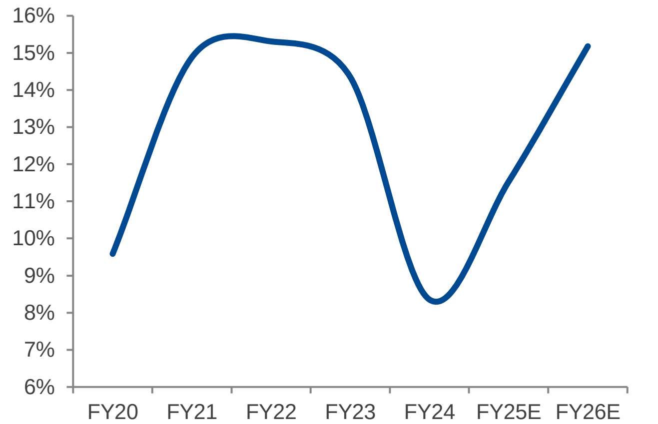
MUGHAL: Exports as a % of total sales



MUGHAL: Operating Margins (%)



MUGHAL: Gross Margins



Source: Company accounts, JS Research

Pharmaceuticals – Overweight

Outperformance backed by strong earnings growth

Pharma sector has rallied 209% CY24, outperforming the broader market by 125% (KSE-100 Index up 84%), after underperforming the market for consecutive three years (CY21-CY23). This was mainly led by positive developments including the deregulation of non-essential medicines, improving margins driving profitability, availability of drugs, and softening international API prices.

Pharmaceutical sector posted a 4-yr value CAGR of 19%

Pakistan's Pharma sector continues its growth trajectory with the industry reaching Rs982bn in value terms as of Oct-2024 (moving annual total), posting a YoY growth of 22% and a 4-year value CAGR of 19%. On the volumetric front, the industry reported a growth of 3.5% YoY during the same period. Pharmaceutical exports during FY24 clocked in at US$212mn, compared to the proceeds of US$210mn during the same period last year, whereas the same arrived at US$105mn for 5MFY25, up 23% YoY.

Deregulation of non-essential drugs yet to show full colors

Deregulation of non-essential drugs has provided breathing space to the sector, ensuring sufficient availability of drugs. To recall, drug pricing is highly regulated in Pakistan, with essential drugs being capped at 7% and non-essential drugs were being capped at 10%. Following the deregulation, pharma players would be allowed to increase non-essential drug prices as per needed. As per the industry sources, the current mix of non-essential drugs for industry is around 50%. Wherein, some companies including AGP, SEARL, HINOON, and HALEON have portfolios more skewed towards non-essential category.

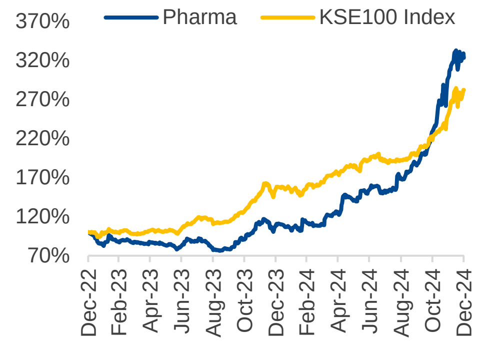
Reliance on Imported APIs likely to remain

Pakistan is heavily reliant on imported raw materials i.e. Active Pharmaceutical Ingredients (APIs), with around 90-95% of the total requirements being met through imports. To highlight, API requirement for each medicine varies but generally raw materials account for 40%-50% of the medicine cost. Pakistan's pharmaceutical import bill during FY24 was US$417mn, up 4% YoY.

Sector profitability likely to grow by recurring organic growth

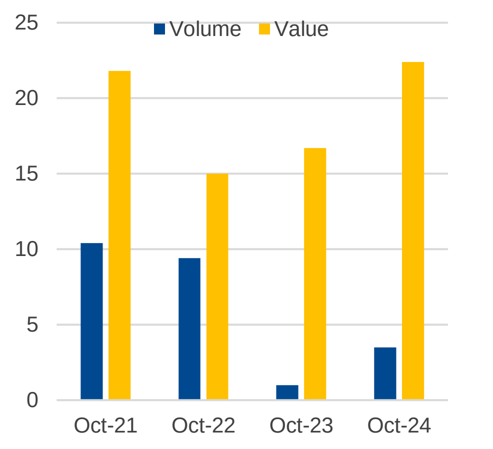
Despite the strong run-up, we still believe there is room for upside given 1) the stronger quarters due to the seasonality factor in drug sales volumes, with better availability of viable products that remained short amid margin pressures, 2) price hike yet to fully reflect in margins, 3) cost optimization, stable currency, lower raw material prices, 4) recurring organic growth in demand for healthcare products, and 5) expansion in businesses and investments - in the form of JVs, signing of agreements with leading global pharma brands, localization of different products, which is likely to keep the selected stocks in the limelight.

Sector performance



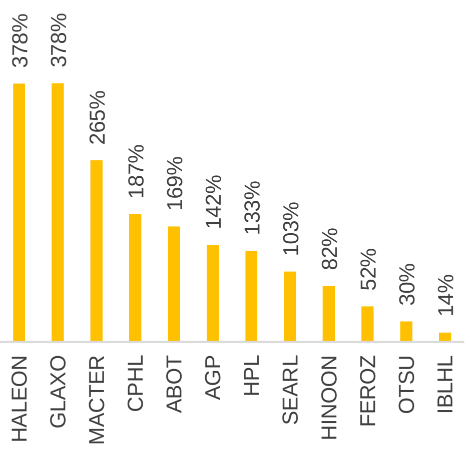
Source: PSX, JS Research

Pharma industry value & volume growth



Source: Industry sources, JS Research

Pharma: Stocks rally during CY24



Source: PSX, JS Research

AGP Limited (AGP PA)

Unlocking value through strong growth

AGP Limited remains our top pick in the listed pharma space with a TP of Rs250, offering 47% upside from Dec-24 levels. We believe that AGP's current valuation, with a CY25E P/E of 12.52x and a PEG ratio of 0.35x (based on 3-yr EPS CAGR of 36%), does not fully capture its strong growth prospects and superior margins. The company's earnings growth potential warrants higher valuation multiples.

Organic growth supported by well-established portfolios

AGP is well-positioned for 5-year revenue CAGR of 16% (CY24-CY29E), driven by its robust product portfolio, expanding distribution network, and strategic acquisitions (Sandoz and Viatris), increasing contribution of chronic drugs (share rising from 1-2% in previous years to 19% now) after the inclusion of Norvasc and other chronic drugs, with plan to further increase this mix. We highlight that 60%-65% of the company’s standalone revenues are contributed by top-five well-established brands including Rigix, Ceclor, Spasler, Osnate, and Anafortan plus with some medicines being the market leader in their respective drug category and offering stable organic growth. Additionally,

Cost optimization and industry-leading margins

AGP currently possess the most superior gross margins compared to the listed space. For context, AGP’s gross margin during 9MCY24 stood at 55.6% compared to an average industry gross margin of 35% mainly due to better product pricing of established drugs, coupled with the cost optimizations. Also, AGP is in process of internalizing the subsidiaries’ portfolio which will further improve the margins on consolidated basis. Resultantly, we expect gross margins to further improve up to 60% levels in upcoming years.

Higher non-essential mix to bode well going forward

AGP is one of the pharmaceutical companies with a significant portion of non-essential medicines in its product portfolio. On a standalone basis, AGP’s share of non-essential drugs currently stands at 63%, whereas on a consolidates basis, the non-essential mix hovers around 50-55% which is still one of the highest in the listed pharmaceutical space. On the other side, despite a higher mix of essential medicines in the subsidiaries’ product portfolio, both OBS AGP and OBS Pakistan reported a high gross margin of 55% and 71%, respectively, during CY23 owing to better pricing power amid established product portfolio and are likely to continue on the same trajectory.

Monetary easing to further cushion earnings growth

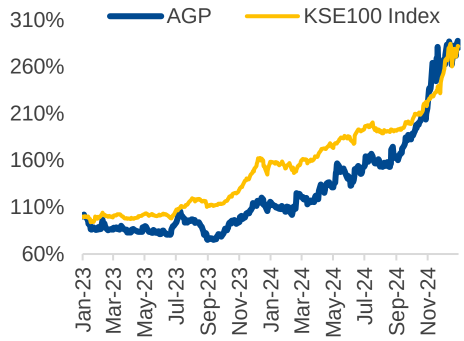
Ongoing monetary easing cycle is likely to benefit highly leveraged players like AGP, as it remained under pressure amid higher financial charges. For context, AGP's debt-to-equity ratio stands at 0.93x, with a debt-to-assets ratio of 0.42x as of Sep-2024 consolidated financials. With the easing of monetary policy with interest rates down 900bps since Jun-2024, and the repayment of long-term borrowings, the company’s net margins are expected to improve up to 15% over the next 3 years.

Target Price	**PKR250**
Share Price	PKR170.10

Statistics

52w high / low (PKR)	174.59 / 63.93
3m avg turnover (USDmn)	0.4
Free float (%)	30.0
Issued shares (mn)	280.0
Market capitalisation	PKR47.6B
	USD0.2B

Price Performance



	-1M	-6M	-12M
Absolute (%)	6	84	150
Relative to index (%)	(7)	37	66

Source: PSX

AGP: Key statistics

Rs mn	FY24	FY25E	FY26F
Sales	25,513	31,866	36,040
YoY Growth	36%	25%	13%
Gross Margin	56%	56%	57%
PAT	2,459	3,803	4,756
YoY Growth	57%	55%	25%
EPS (Rs)	8.78	13.58	16.99
DPS (Rs)	3.50	5.50	6.50
P/E (x)	19.37	12.52	10.01
DY	2%	3%	4%

Source: Company accounts, JS Research

Key drivers

- Strong demand of well-established products
- Deregulation of non-essential drugs
- Superior gross margins with room to further improve
- Strategic acquisitions

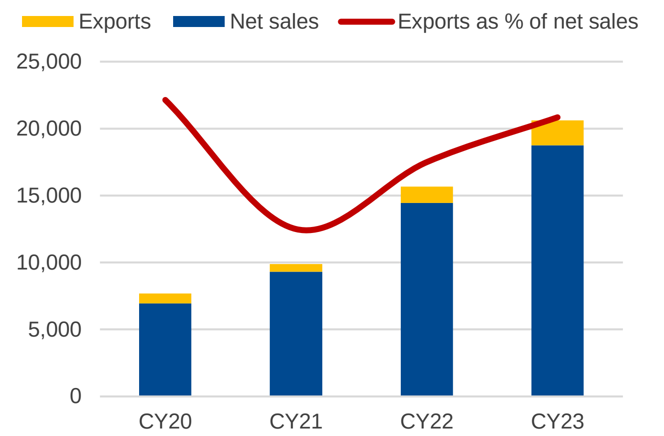
Key risks

- Lack of stability in policies
- Increase in raw material prices
- Smuggling and counterfeit issues
- Currency devaluation

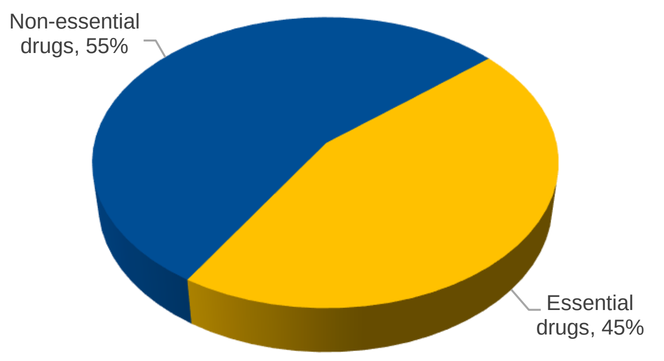
About the Company

AGP is one of the leading pharmaceutical players in Pakistan, primarily involved in the business of import, marketing, export, dealership, distribution, wholesale and manufacturing of all kinds of pharmaceutical products. AGP distributes its products locally through Muller & Phipps Pvt. Ltd. which is the largest pharmaceutical distributer of Pakistan.

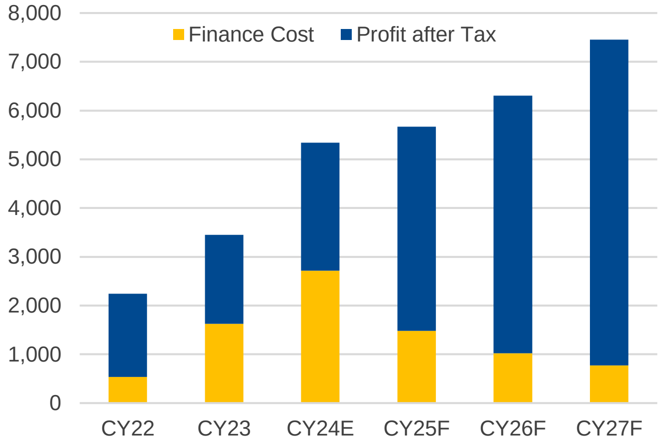
AGP: Exports contribution to net sales



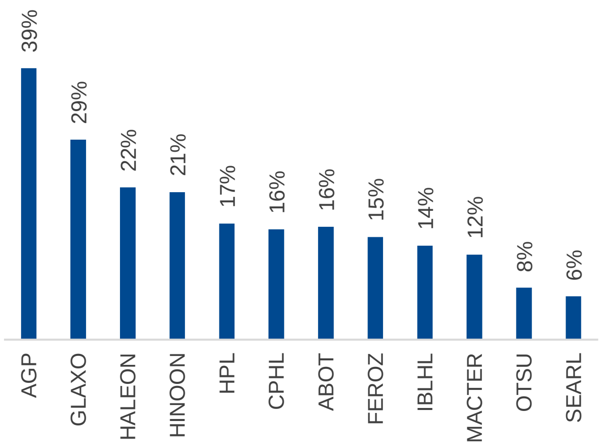
AGP: Mix of Essential & Non-essential drugs



Declining interest rate to bode well amid high leverage



AGP leading with highest 3 yr. revenue CAGR



Source: Company accounts, JS Research

We revisit our stance on:

Pakistan Aluminium Beverage Can (PABC PA)

A Proxy to untapped Domestic & Regional demand for Can

PABC, the sole producer of aluminium beverage Cans in Pakistan provides us a proxy to untapped organic growth in sparkling soft drinks demand in Pakistan and the regional markets. PABC is optimally placed in terms of capacity, positioning and market penetration to tap new markets and new customers.

We expect PABC to report earnings growth CAGR of 15% over CY24-26F fueled by 1) strong exports, 2) recovery in domestic sales post CY24, 3) strong price power enabling the company to pass-on entire impact of input cost hike to its customers, 4) declining financial charges and 5) income tax holiday given to the company till 2026 for being located in SEZ. However, going forward, PABC earnings are set to decline in CY27E due to applicability of normal income tax at the expiry of tax holiday period.

Robust Exports offsetting near term soft domestic demand

PABC is making rigorous efforts to capitalize on its strength of proximity and capacity surplus to capture the demand in regional markets of Afghanistan, Bangladesh and Central Asian states. This also enabled PABC to more than offset the impact of near-term softness in domestic demand. Afghanistan remained the biggest export market for PABC, where due to lack of availability glass-bottle or Can locally, local beverage producers remain dependent on PABC to supply the packaging material. We, hence, expect PABC exports to grow by 16% over CY24-29F.

Organic growth outlook for domestic market intact

Targeting a population size of 240mn+ with 45% aged below 18-years, increasing urbanization and consumer awareness about environmentally friendly packaging material, we believe the demand for Canned beverages is set to grow from the current levels of less than 5% of the total sparkling drinks sold. Pakistan beverage user penetration is expected to grow from 3.9% currently (CY23) to 4.9% in CY27E (vs. 14.8% and 21% for Asia).

Strong pricing power keeping margins intact

PABC's cost-plus, dollar-based pricing enables the company to maintain its absolute margins. We, hence, don't expect 1) recovery in Aluminium prices expected in CY24-25F from increasing global supply deficit and 2) depreciation of PKR/US$, to inversely impact PABC margins, instead improve local margins.

Already rallied 66% in CY24, 'Underperform' rating

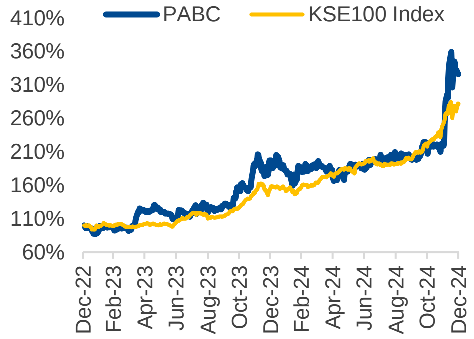
We have an "Under-perform" rating on PABC as the stock rallied 66%+ over the past 12-months, surpassing our revised TP of Rs100. Our valuations incorporate risk free rate of 12% and terminal growth rate of 7%. Our forecast incorporates a 10% growth in domestic sales volumes over CY24-28F and flat sales volumes afterwards as the company will hit its maximum operating levels in CY28E. We consider strong than exports sales and above expected recovery in domestic demand as key upside triggers to our estimates. Given the ample availability of internally generated funds, we don't rule out the possibility of any investment/ diversification plans announcement by the management.

Target Price	PKR**100**
Share Price	PKR125.09

Statistics

52w high / low (PKR)	137.79 / 61.05
3m avg turnover (USDmn)	0.1
Free float (%)	25.0
Issued shares (mn)	78.6
Market capitalisation	PKR45.2B
	USD0.2B

Price Performance



	-1M	-6M	-12M
Absolute (%)	48	69	66
Relative to index (%)	35	23	(19)

Source: PSX

PABC: Key statistics

Rs mn	CY24E	CY25F	CY26F
Sales	21,411	27,611	32,216
Sales Growth	8%	29%	17%
GMs (Rs/Can)	11.23	9.46	10.10
GP margin %	39%	32%	32%
PAT (Rs mn)	5,811	6,403	7,707
EPS (Rs)	16.09	17.73	21.34
EPS Growth	16%	10%	20%
DPS (Rs)	0.0	0.0	0.0
P/E (x)	7.77	7.05	5.86

Source: Company accounts, JS Research

Key drivers

- Recovery in domestic sales
- Agreement with large Cola Cos in Bangladesh
- Unprecedent Pak Rupee depreciation

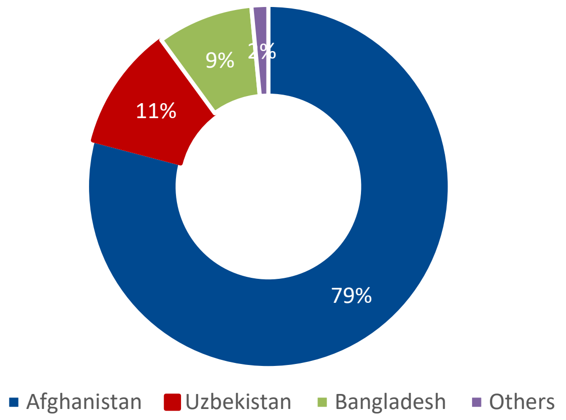
Key risks

- Prolonged border closure with Afghanistan
- Delay in pick-up in domestic sales
- Weaker sales of large MNCs' (Pepsi and Coca Cola)

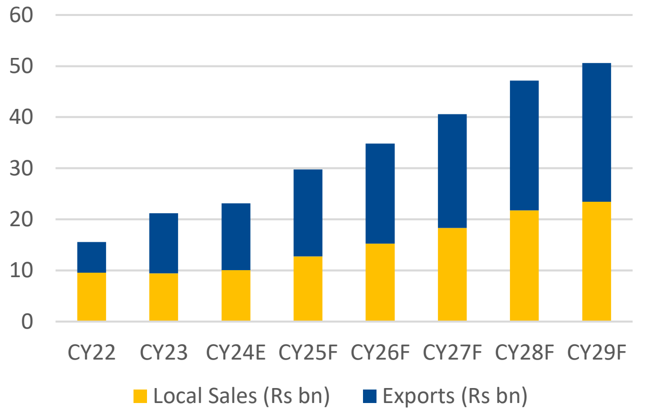
About the Company

Pakistan Aluminium Beverage Cans Ltd. (PABC) is the sole aluminium Can producing company of Pakistan. The company began its commercial production in CY17 with a rated capacity of 700mn Cans pa, which is expanded to 1,200mn Cans in CY24. As at CY23 end, Pakistan's leading exporters Liberty group along, Soorty Enterprise, cumulatively own 77% stake in PABC. PABC is a sole supplier of Can to Pepsi, Coca Cola Pakistan, Nestle Pakistan (NESTLE), Muree Brewery (MUREB), Mehran Bottlers (Pakola) and other local beverage companies. It also exports to regional markets like Afghanistan, Uzbekistan, Tajikistan and Bangladesh. PABC enjoys a 10-year income tax holiday ending 2026 for being located in the Special Economic Zone (SEZ) in Faisalabad.

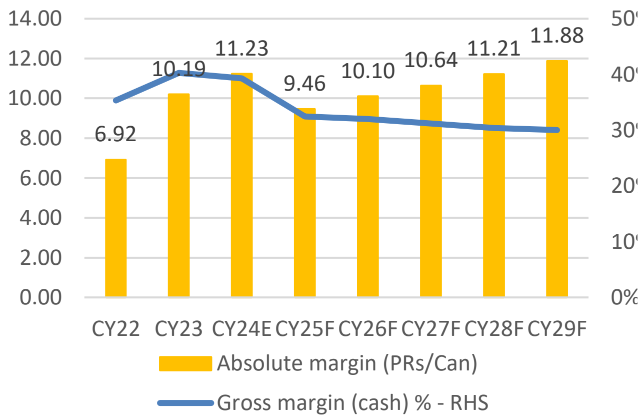
PABC: Exports Breakup 2023



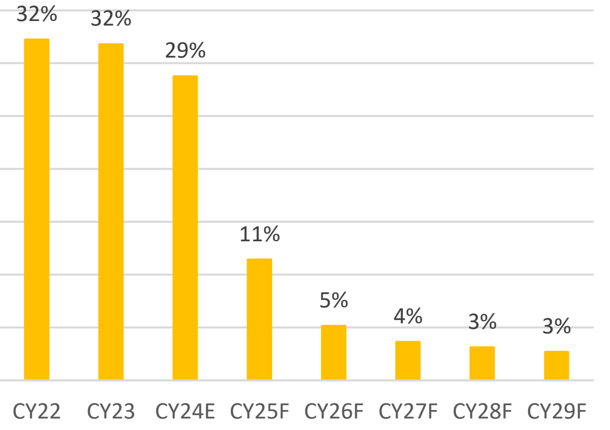
PABC: Exports leading the revenue growth



PABC: Stable gross margins



PABC: Deleveraging Balance sheet



Source: Company accounts, JS Research

Key risks for CY25

1. Any pressure on the current account balance

Combined with a positive current account, the breakeven capital account helped the Balance of Payments (BoP) remain in positive territory for 5MFY25, despite loan repayments. As a result, SBP foreign exchange reserves reached near three-year high levels of late and currently standing at US$11.7bn, with import cover improving to ~2.7x. However, if this trend reverses and the country begins posting current account deficits, it could pose significant challenges for Pakistan, potentially leading to pressure on foreign exchange reserves, reduced import cover, and increased vulnerability to external shocks.

An underlying assumption of our thesis for CY25 lies on Pakistan's external financing needs being met through 1) the ongoing IMF program remaining on track, 2) support from other external lenders and 3) government not falling into the trap of implementing policies that aim to please the masses.

We believe any import controls to curb the trade deficit and prevent PKR depreciation will negatively impact the auto, pharmaceutical, chemical, textile, steel, and mobile assembling sectors.

2. Delay in IMF reviews

Any unfavourable developments such as Pakistan's inability to secure the second tranche timely owing to lagged reform-related measures, deficit in tax collections and lack of support from friendly countries backed by changing geopolitical preferences etc, may put pressure on SBP foreign exchange reserves. The same would likely lead to a negative impact on investor confidence and country's macroeconomic outlook.

3. CPI readings bouncing back

Inflation in Pakistan showed a promising decline in recent months, with the CPI reaching 4.1% in Dec-2024, the lowest in over 6.5 years. This drop is largely attributed to the base effect from last year's high inflation levels. The overall YoY trend remains on a downward trajectory. The average inflation rate for 1HFY25 stands at 7.3%, a significant reduction compared to the 28.8% average recorded during the same period last year. This easing of inflationary pressures is paving the way for monetary policy adjustments, although external factors like oil prices and currency movements still pose risks.

Any pressure on CPI, which could be reasoned by higher PKR depreciation, rise in commodity prices (especially oil) and higher than expected impact of energy reforms on gas and power utility costs, could signal a spike in inflation triggering monetary tightening.

4. Political deadlock: Key risk to stability

Important laws have been passed by the government, and as long as this keeps up, the market will probably overlook political clamor. Stability depends on sustained economic growth, but there is still a chance of political bottlenecks or policy disputes between the PML-N and its supporters. Political unrest can undermine investor confidence and market stability, as seen in 2018 and 2022, impacting the ongoing market optimism and confidence recovery.

Valuation snapshot

Valuation Snapshot

		Ticker	Price 31-Dec-24	Target Price	EPS FY24A / CY24E	EPS FY25E / CY25F	EPS FY26F / CY26F	DPS FY24A / CY24E	DPS FY25E / CY25F	DPS FY26F / CY26F	Earnings Growth FY24A / CY24E	Earnings Growth FY25E / CY25F	Earnings Growth FY26F / CY26F
	Banks										**0.6%**	**-6.8%**	**1.9%**
1	Habib Bank	HBL	174.46	190	33.0	32.3	34.0	16.0	16.0	16.0	-16.1%	-2.2%	5.2%
2	United Bank	UBL	382.23	380	47.2	57.3	60.0	44.0	44.0	44.0	4.8%	21.4%	4.7%
3	MCB Bank	MCB	281.30	315	52.9	45.8	43.9	36.0	36.0	36.0	-3.7%	-13.5%	-4.0%
4	Bank Al-Falah	BAFL	83.33	130	25.6	18.4	19.0	8.0	8.0	8.8	10.6%	-28.1%	3.3%
5	Bank Al-Habib	BAHL	131.43	200	33.0	25.8	27.6	14.0	14.0	14.0	3.9%	-21.7%	6.7%
6	Habib Metro	HMB	87.00	130	21.8	22.1	23.1	10.0	10.0	10.0	-6.3%	1.4%	4.5%
7	Askari Bank	AKBL	38.27	42	13.8	13.2	12.6	2.8	2.8	3.3	-6.8%	-4.2%	-4.6%
8	Faysal Bank	FABL	48.48	75	13.5	10.7	10.1	6.0	6.0	6.0	2.3%	-21.1%	-5.2%
9	Meezan Bank	MEBL	241.97	325	52.6	49.2	50.0	28.0	28.0	28.0	10.4%	-6.3%	1.5%
	Oil & Gas Exploration										**1.6%**	**-11.6%**	**-0.3%**
10	Oil & Gas Dev. Co	OGDC	227.26	280	48.6	40.2	40.9	10.1	15.0	18.0	-7.0%	-17.3%	1.8%
11	Pakistan Oilfields	POL	631.62	720	137.9	88.1	82.1	95.0	75.0	70.0	6.8%	-35.8%	-6.8%
12	Pakistan Petroleum	PPL	203.55	230	42.0	35.7	36.8	6.0	9.0	9.0	16.9%	-14.4%	2.8%
13	Mari Petroleum	MARI	719.61	500	64.4	64.3	59.8	25.8	25.0	30.0	6.1%	29.6%	-6.9%
	Oil & Gas Marketing										**63.8%**	**8.2%**	**29.1%**
14	Pakistan State Oil	PSO	440.69	675	33.8	50.1	68.6	10.0	16.5	20.0	180.2%	48.3%	36.9%
15	Attock Petroleum	APL	554.44	730	111.1	69.2	74.6	27.5	35.0	47.5	10.9%	-37.7%	7.8%
	Power Generation										**21.7%**	**-22.2%**	**4.8%**
16	Hub Power	HUBC	130.89	150	54.0	42.0	44.0	20.0	8.0	15.0	21.7%	-22.2%	4.8%
	Fertilizer										**83.7%**	**22.7%**	**4.7%**
17	Fauji Fertilizer Co	FFC	366.32	440	58.1	62.3	64.4	40.0	50.0	52.0	149.2%	19.9%	3.3%
18	Engro Fertilizers	EFERT	204.19	240	21.5	27.9	30.1	21.0	27.3	29.5	9.5%	29.9%	7.9%
	Cement										**43.8%**	**18.3%**	**14.4%**
19	Lucky Cement	LUCK	1,100.49	1,520	223.7	247.6	269.4	15.0	15.7	19.9	34.4%	10.7%	8.8%
20	DG Khan Cement	DGKC	104.92	150	1.5	9.2	15.1	0.0	0.0	3.0	NM	524.7%	63.7%
21	Fauji Cement	FCCL	36.58	55	3.4	5.5	6.9	1.0	1.0	2.8	10.5%	63.8%	24.7%
22	Maple Leaf Cement	MLCF	45.94	60	5.0	5.2	6.7	0.0	0.0	0.0	17.4%	3.3%	28.7%
23	Cherat Cement	CHCC	273.69	336	28.3	44.6	45.3	5.5	7.7	18.0	24.9%	57.6%	1.4%
24	Pioneer Cement	PIOC	201.04	262	22.8	22.2	27.9	15.0	11.3	14.0	92.1%	-2.8%	26.1%
25	Attock Cement	ACPL	269.89	175	26.0	7.5	18.0	6.5	1.5	3.5	135.2%	-71.0%	138.6%
26	Kohat Cement	KOHC	387.34	477	45.4	58.4	62.6	0.0	0.0	25.0	52.8%	28.6%	7.2%
	Iron & Steel										**-42.5%**	**8.1%**	**173.8%**
27	Mughal Iron & Steels	MUGHAL	80.10	115	6.0	6.4	17.6	0.0	0.0	3.5	-42.5%	8.1%	173.8%
	Textile										**-21.8%**	**-58.6%**	**147.2%**
28	Interloop Limited	ILP	68.72	115	11.3	4.7	11.5	4.5	3.5	4.5	-21.8%	-58.6%	147.2%
	Miscellaneous										**-63.4%**	**100.6%**	**31.5%**
29	AGP Limited	AGP	170.10	250	8.8	13.6	17.0	3.5	5.4	6.8	57.1%	54.7%	25.0%
30	Pak Aluminium Bev. Can	PABC	125.09	100	16.1	17.7	21.3	0.0	0.0	0.0	15.8%	10.2%	20.4%
31	Engro Polymer	EPCL	37.07	37	(2.7)	1.6	3.1	0.0	0.4	2.5	NM	NM	99.3%

		Ticker	PE			PBV			DY			ROE		
			FY24A / CY24E	FY25E / CY25F	FY26F / CY26F	FY24A / CY24E	FY25E / CY25F	FY26F / CY26F	FY24A / CY24E	FY25E / CY25F	FY26F / CY26F	FY24A / CY24E	FY25E / CY25F	FY26F / CY26F
	Banks		**5.3**	**5.7**	**5.6**	**1.2**	**1.1**	**1.0**	**10.3%**	**10.3%**	**10.4%**	**20.8%**	**17.6%**	**16.6%**
1	Habib Bank	HBL	5.3	5.4	5.1	0.6	0.6	0.6	9.2%	9.2%	9.2%	12.5%	11.2%	11.1%
2	United Bank	UBL	8.1	6.7	6.4	2.0	1.8	1.7	11.5%	11.5%	11.5%	22.0%	28.3%	27.6%
3	MCB Bank	MCB	5.3	6.1	6.4	1.2	1.2	1.1	12.8%	12.8%	12.8%	24.2%	19.2%	17.8%
4	Bank Al-Falah	BAFL	3.3	4.5	4.4	0.8	0.7	0.7	9.6%	9.6%	10.6%	26.1%	16.3%	15.5%
5	Bank Al-Habib	BAHL	4.0	5.1	4.8	1.0	0.9	0.8	10.7%	10.7%	10.7%	26.5%	18.3%	17.9%
6	Habib Metro	HMB	4.0	3.9	3.8	0.8	0.7	0.6	11.5%	11.5%	11.5%	22.2%	19.2%	18.0%
7	Askari Bank	AKBL	2.8	2.9	3.0	0.5	0.4	0.4	7.2%	7.2%	8.5%	18.3%	14.8%	12.7%
8	Faysal Bank	FABL	3.6	4.5	4.8	0.7	0.7	0.6	12.4%	12.4%	12.4%	21.4%	15.2%	13.3%
9	Meezan Bank	MEBL	4.6	4.9	4.8	1.8	1.6	1.4	11.6%	11.6%	11.6%	43.8%	34.1%	30.1%
	Oil & Gas Exploration		**6.1**	**6.9**	**6.9**	**1.2**	**1.1**	**1.0**	**10.1%**	**5.4%**	**6.1%**	**20.7%**	**16.1%**	**14.6%**
10	Oil & Gas Dev. Co	OGDC	4.7	5.7	5.6	0.8	0.7	0.7	8.8%	6.6%	7.9%	17.9%	13.2%	12.4%
11	Pakistan Oilfields	POL	4.6	7.2	7.7	2.2	2.4	2.3	21.7%	11.9%	11.1%	51.7%	31.9%	30.7%
12	Pakistan Petroleum	PPL	4.9	5.7	5.5	0.9	0.8	0.7	6.1%	4.4%	4.4%	19.2%	14.3%	13.2%
13	Mari Petroleum	MARI	14.5	11.2	12.0	3.8	3.2	2.8	11.2%	3.5%	4.2%	30.3%	31.4%	25.0%
	Oil & Gas Marketing		**9.3**	**8.6**	**6.7**	**0.9**	**0.9**	**0.8**	**6.9%**	**4.4%**	**5.5%**	**10.7%**	**10.5%**	**12.3%**
14	Pakistan State Oil	PSO	13.0	8.8	6.4	0.9	0.8	0.7	6.4%	3.7%	4.5%	6.9%	9.4%	11.7%
15	Attock Petroleum	APL	5.0	8.0	7.4	1.3	1.2	1.1	7.7%	6.3%	8.6%	27.6%	15.1%	15.3%
	Power Generation		**2.4**	**3.1**	**3.0**	**0.8**	**0.6**	**0.6**	**18.1%**	**6.1%**	**11.5%**	**38.1%**	**23.0%**	**20.0%**
16	Hub Pow er	HUBC	2.4	3.1	3.0	0.8	0.6	0.6	18.1%	6.1%	11.5%	38.1%	23.0%	20.0%
	Fertilizer		**7.2**	**5.9**	**5.6**	**4.3**	**3.9**	**3.5**	**11.2%**	**14.6%**	**15.3%**	**66.2%**	**69.3%**	**66.0%**
17	Fauji Fertilizer Co	FFC	6.3	5.9	5.7	3.8	3.2	2.9	11.7%	15.2%	15.8%	69.1%	66.2%	59.8%
18	Engro Fertilizers	EFERT	9.5	7.3	6.8	5.7	5.8	6.0	10.3%	13.4%	14.4%	59.9%	78.2%	86.4%
	Cement		**7.0**	**5.9**	**5.2**	**1.6**	**1.4**	**1.2**	**2.8%**	**1.6%**	**3.6%**	**24.0%**	**24.8%**	**24.9%**
19	Lucky Cement	LUCK	4.9	4.4	4.1	2.2	1.9	1.7	2.0%	1.4%	1.8%	46.0%	45.6%	43.3%
20	DG Khan Cement	DGKC	71.2	11.4	7.0	0.6	0.6	0.5	0.0%	0.0%	2.9%	0.9%	5.2%	8.0%
21	Fauji Cement	FCCL	10.9	6.7	5.3	1.2	1.0	0.9	6.0%	2.7%	7.5%	11.9%	16.8%	17.9%
22	Maple Leaf Cement	MLCF	9.1	8.8	6.9	1.0	0.9	0.8	0.0%	0.0%	0.0%	11.5%	10.5%	12.0%
23	Cherat Cement	CHCC	9.7	6.1	6.0	2.1	1.6	1.4	3.7%	2.8%	6.6%	23.7%	29.8%	24.9%
24	Pioneer Cement	PIOC	8.8	9.1	7.2	2.0	1.8	1.6	12.9%	5.6%	7.0%	26.4%	21.2%	23.8%
25	Attock Cement	ACPL	10.4	35.9	15.0	1.7	1.7	1.5	7.1%	0.6%	1.3%	17.6%	4.7%	10.6%
26	Kohat Cement	KOHC	8.5	6.6	6.2	1.8	1.4	1.3	0.0%	0.0%	6.5%	24.1%	24.5%	21.8%
	Iron & Steel		**13.4**	**12.4**	**4.5**	**1.0**	**1.0**	**0.8**	**0.0%**	**0.0%**	**4.4%**	**7.8%**	**7.9%**	**18.9%**
27	Mughal Iron & Steels	MUGHAL	13.4	12.4	4.5	1.0	1.0	0.8	0.0%	0.0%	4.4%	7.8%	7.9%	18.9%
	Textile		**6.1**	**14.8**	**6.0**	**1.8**	**1.7**	**1.5**	**7.3%**	**5.1%**	**6.5%**	**32.4%**	**12.0%**	**26.9%**
28	Interloop Limited	ILP	6.1	14.8	6.0	1.8	1.7	1.5	7.3%	5.1%	6.5%	32.4%	12.0%	26.9%
	Miscellaneous		**21.8**	**10.9**	**8.3**	**2.3**	**2.0**	**1.7**	**0.8%**	**1.5%**	**3.3%**	**11.0%**	**19.7%**	**21.8%**
29	AGP Limited	AGP	19.4	12.5	10.0	3.9	3.2	2.6	2.1%	3.2%	4.0%	20.7%	28.0%	28.6%
30	Pak Aluminium Bev. Can	PABC	7.8	7.1	5.9	2.7	2.0	1.5	0.0%	0.0%	0.0%	42.9%	32.6%	28.9%
31	Engro Polymer	EPCL	NM	23.8	12.0	1.3	1.3	1.3	0.0%	1.0%	6.7%	-9.1%	5.5%	10.6%

Disclosures

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JS Global Capital Limited uses a 3-tier rating system i.e. Buy, Hold and Sell, based on the level of expected return. Time horizon is usually the annual financial reporting period of the company.

'Buy': Stock will outperform the average total return of stocks in our universe

'Hold': Stock will perform in line with the average total return of stocks in our universe

'Sell': Stock will underperform the average total return of stocks in our universe

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Contact Us

Khalil Usmani
Chief Executive
+92-21-3279 9558
khalil.usmani@js.com

Pakistan Research Team

Muhammad Waqas Ghani, CFA
Dy. Head of Research
+92-21-3279 9005 Ext: 3096
waqas.ghani@js.com

Shagufta Irshad
Senior Analyst
Ext: 3103
shagufta.irshad@js.com

Abdul Basit
Analyst
Ext: 3118
a.basit@js.com

Wadee Zaman
Analyst
Ext: 3035
wadee.zaman@js.com

Raheel Ashraf
Senior Technical Analyst
Ext: 3098
raheel.ashraf@js.com

S. Adeel A. Jafri
Database Manger
Ext: 3102
adeel.jafri@js.com

Muhammad Furqan
Librarian
Ext: 3105
muhammad.furqan@js.com

Pakistan Equities Team

Syed Faran Rizvi
Head of Business Development
+92-21-3279 9508
faran.rizvi@js.com

Qasim Ali Shah
Head of Intl. Sales
+92-21-3279 9512
qasim.shah@js.com

Shahrique Khan
Head of Sales
+92-21-3279 9508
shahrique.khan@js.com

Head Office:

The Centre
17th & 18th Floor | Plot No. 28, SB-5, Abdullah Haroon Road, Karachi, Pakistan.
UAN: +92-21-111-574-111 | Fax: +92-21-3280 0166 | URL:
www.jsglobalonline.com