Alpha Capital
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

Pakistan Market Strategy: Winning streak to continue through a turbulent CY24

23rd January 2024

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Executive Summary

Pakistan equities returned a stellar year for investors in CY23 after a hiatus of 5 year as KSE-100 clocked in a return of 55%, a 14 year high, helped by the IMF SBA and some clarity on the economic and political fronts. This return performance was supported by a robust EPS growth of 41% and a dividend yield of 11.9%. However, despite the strong CY23 performance, KSE-100 still remains attractively valued. Akseer Universe trades at a CY23/24 PER of 3.6x/3.2x and offers a CY24 dividend yield of 12.8%. With the macroeconomic and political landscape expected to remain topsy-turvy, we remain conservative and set the Dec-24 index target at 77,152 points, assuming no-rerating. The CY24 dividend yield of 12.8% will drive the larger share of total returns, hence our top picks reflect a dividend preference. We like Banks, E&Ps, Fertilizers and OMCs.

- **Top Picks**
  - MCB, UBL, BAFL, BAHL, OGDC, PPL, POL, MARI, FFC, PSO.
- **Key Risks**
  - Potential increase in political noise post elections and a weak coalition government, sharp increase in global commodity prices amidst geopolitical turmoil, border tension with neighbours, and delay in elections and new IMF program.
- **Macroeconomic Outlook: The worst may be behind us but another difficult year ahead**
  - External financing requirements remain large and FX reserve buffer remains low. Hence Pakistan is looking at another IMF program in 2QCY24.
  - CPI is on a downtrend trajectory but the first rate cut is unlikely to materialize before Sep-24. We expect a 300 bps cut in policy rate in CY24.
  - With high interest rates, continuation of IMF mandated structural adjustments and fiscal discipline, GDP growth will remain low.

SECTION 1

ECONOMIC OUTLOOK



Economic consolidation would continue in CY24 as Pakistan transitions from an IMF SBA to a long term EFF (1/2)

- **The worst may be behind us but another difficult year ahead**
  - While the worst of the macro challenges may be behind us, Pakistan faces another difficult year in CY24 as the country transitions from a short term SBA expiring in Mar-24, to a long term Extended Funding Facility (EFF) by the IMF.
  - This means Pakistan would need to continue its efforts on implementing difficult structural reforms. These includes increasing tax collection following a contractionary fiscal policy and taking measures to reduce the stock of circular debt accumulated due to past unfunded subsidies.
  - A vulnerable external account situation, characterized by low exports to GDP and large external financing requirements, coupled with high domestic inflation would result in continued pressure on the exchange rate.
  - High inflation would keep interest rates high, though we expect monetary easing to commence in 2HCY24, whereas high interest rates and tight fiscal policy will contain the GDP growth.
- **Rate cut unlikely in FY24: CPI to average 25.7% in FY24; 20.6% in CY24**
  - We expect CPI to average 25.7% in FY24 and 18.5% in 1HFY25 and expect NO reduction in policy rate in FY24. Our estimates indicate likelihood of the first rate cut in Sep-24, followed by another 200 bps reduction in Nov-24.
- **PKR/USD to reach 317 by Jun-24, 339 by Dec-24**
  - Given the enhanced external financing needs, low export base and impending negotiations for a longer-term IMF program in 2024, we believe Pakistan will have to keep a relatively undervalued currency with REER hovering around 95. We expect PKR/USD at PKR 317.1 by Jun-24 and PKR 339.4 by the end of CY24 assuming a REER of 95.

Economic consolidation would continue in CY24 as Pakistan transitions from an IMF SBA to a long term EFF (2/2)

- **Next IMF program likely to be significantly tougher**
  - Macroeconomic challenges should entail a greater push for structural reforms, tax base expansion, curtailment in expenditures, circular debt reduction and market based exchange rate as potential contours of the next IMF program.
- **GDP growth to remain low**
  - We expect GDP growth to recover to 2.6% in FY24, driven by a growth of 5.6% in Agriculture. However, Industrial and Services sectors are expected to remain sluggish on the back of tight monetary and fiscal policies.
- **Fiscal tightening**
  - Gov't is on track to achieve fiscal targets for FY24, however we flag higher markup payments due to elevated interest rates as a key risk.

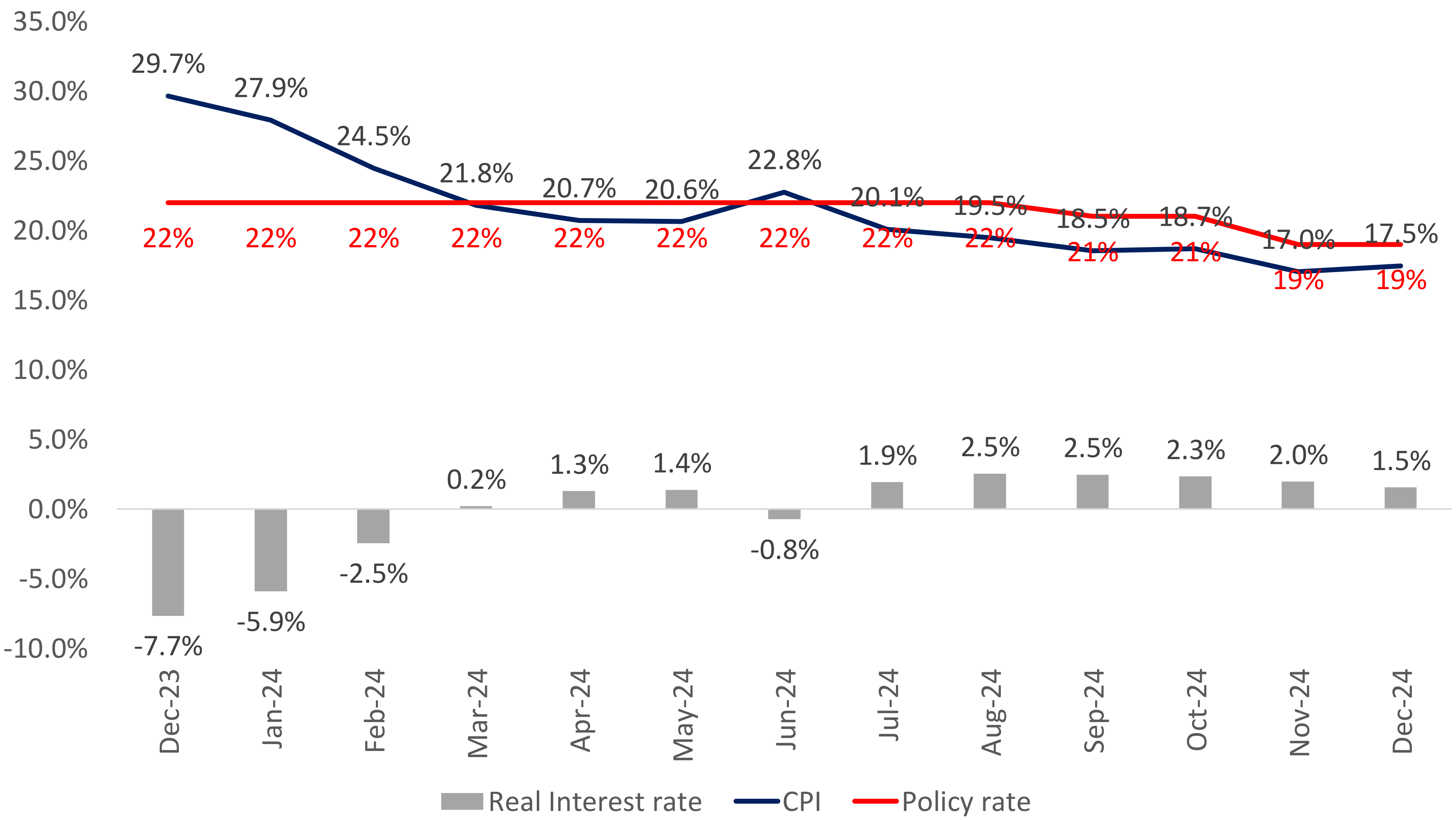
SECTION 1: ECONOMIC OUTLOOK

INFLATION & INTEREST RATE OUTLOOK



Rate cut unlikely in FY24: CPI to average 25.7% in FY24; 20.6% in CY24

- **CPI to average 25.7% in FY24; 18.5% in 1HFY25**
  - Expect MoM CPI uptick to average 1.5% between Jan-24 to Jun-24 and 1.2% in 1HFY25
  - Our assumption is in-line with expected PKR devaluation to PKR 317/USD by Jun-24 and optimistic considering 6M, 12M, 24M moving avg MoM CPI inflation.
- **Rate cut unlikely in FY24**
  - We expect the first rate cut of 100 basis points in Sep-24, followed by a 200 basis points cut in Nov-24.



Source: PBS, Akseer Research

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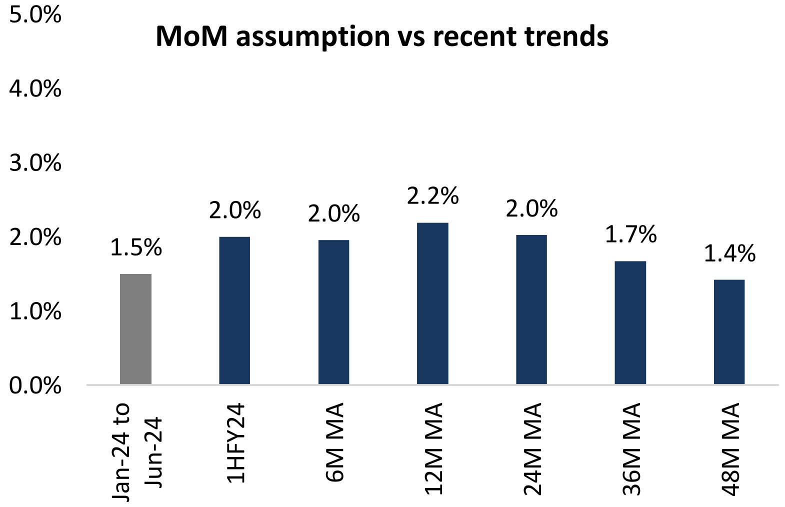
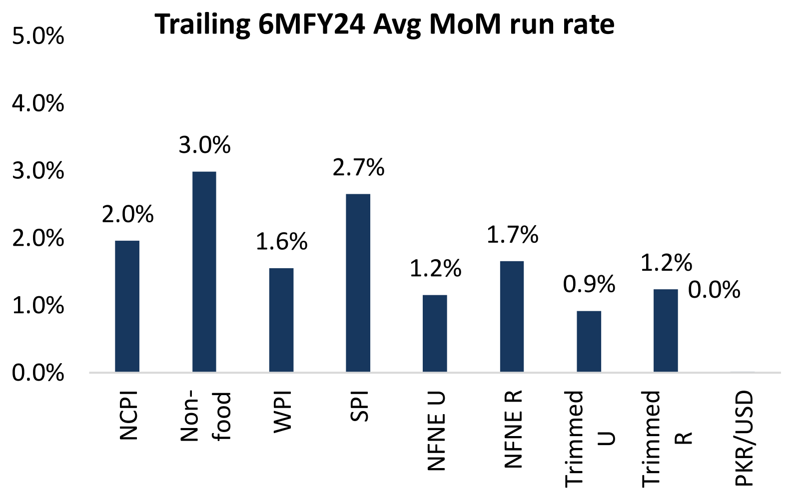
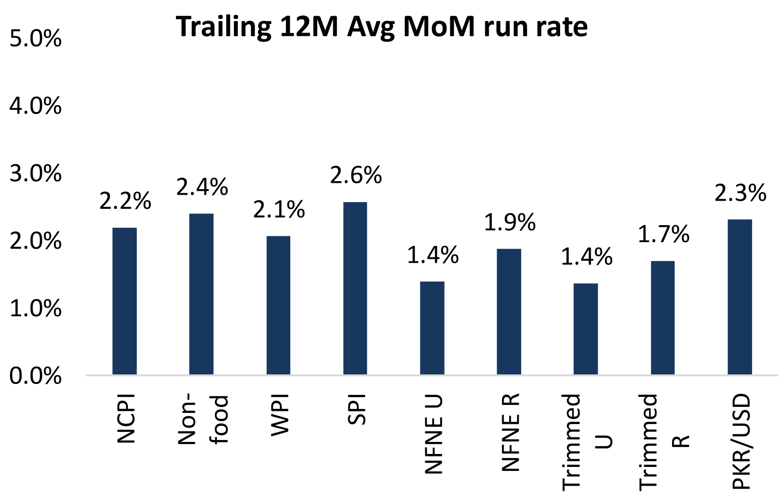
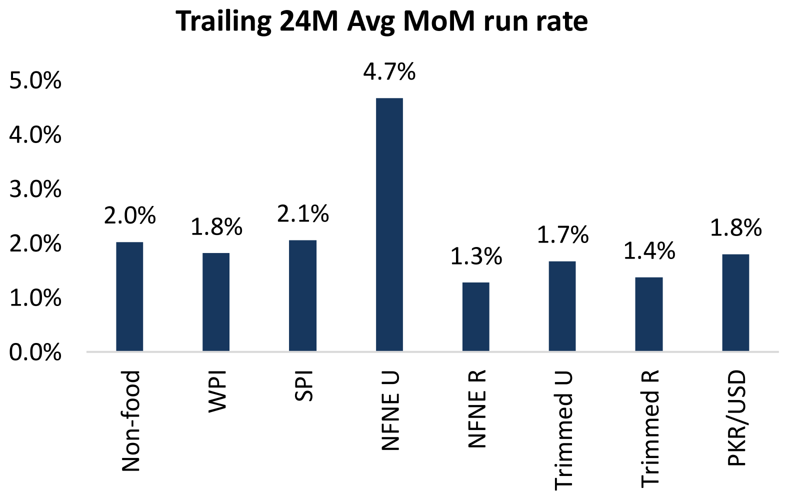
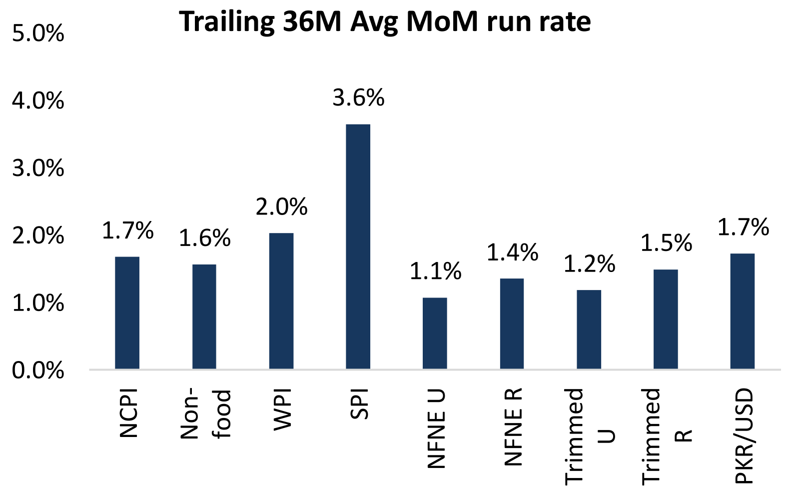
Key Charts – Inflation

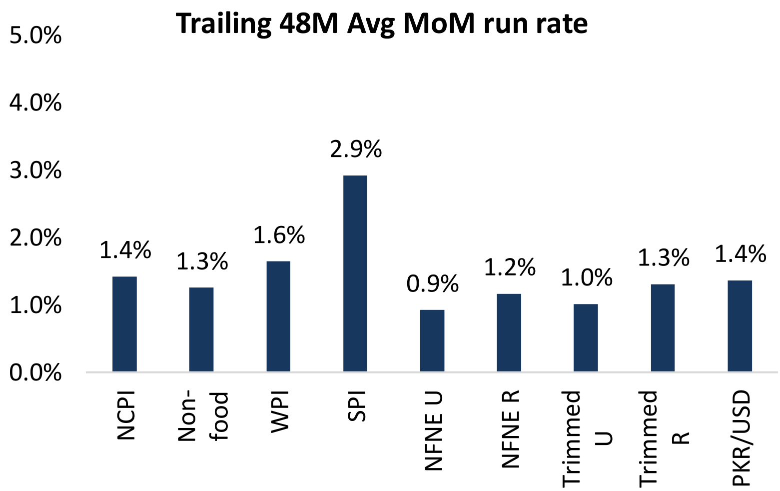












Source: PBS, Akseer Research

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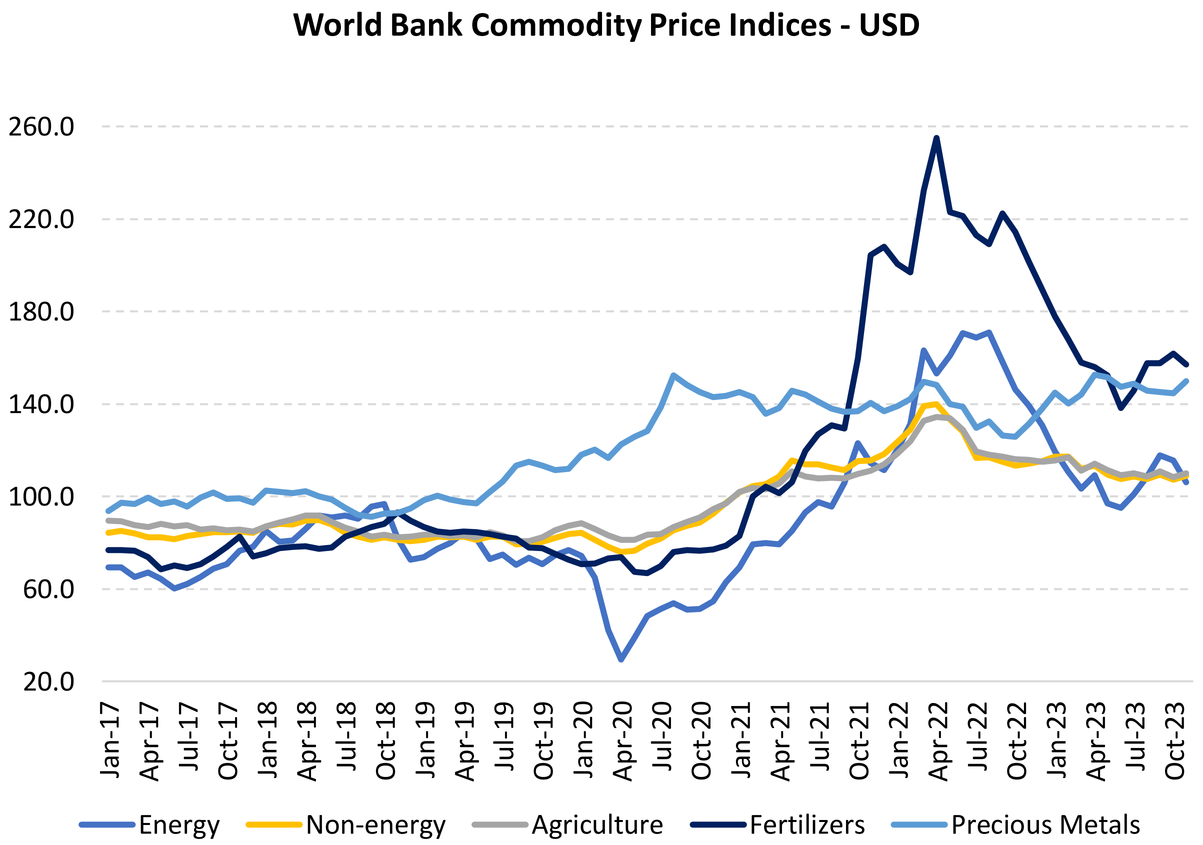
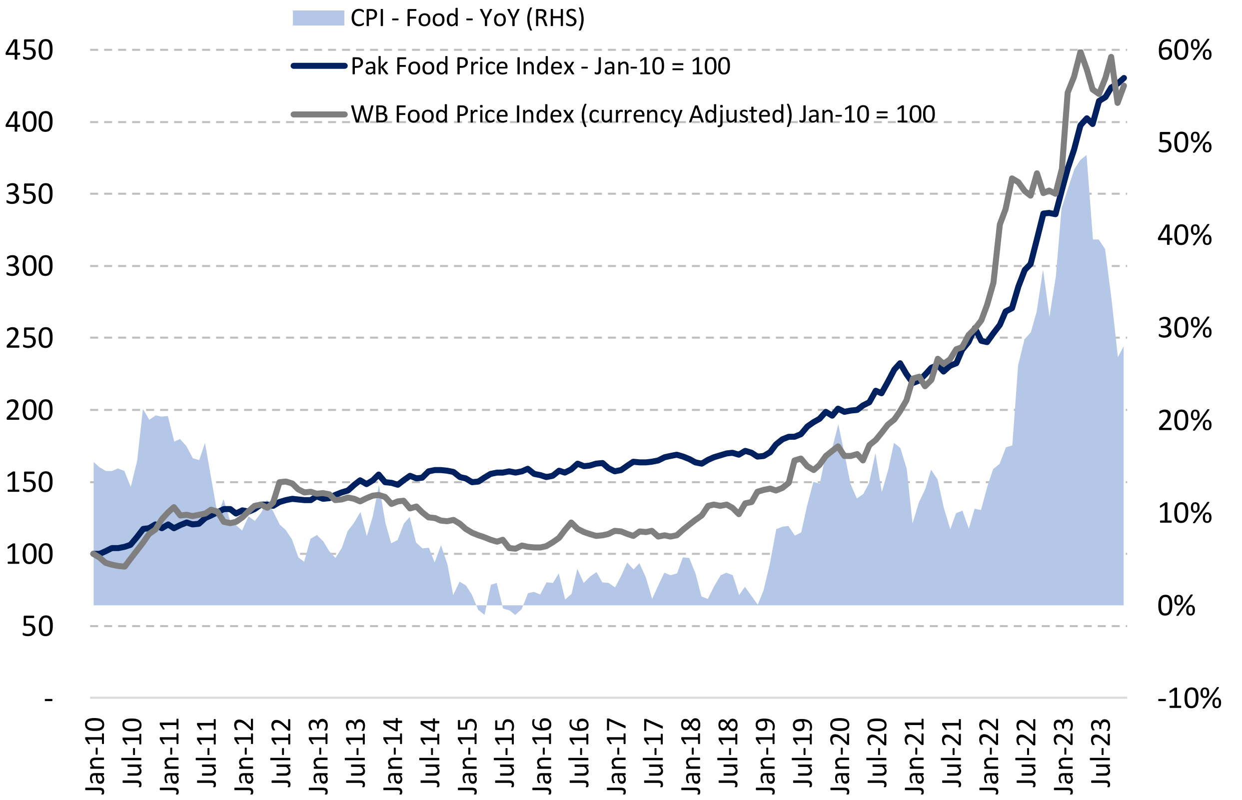
Global commodity prices are receding, but the benefits might evade Pakistan

Global commodity prices have started to ease; but PKR devaluation, upward sticky food prices and supply shortages will prevent the benefit from fully reflecting in domestic prices

Although Int'l food inflation has shown signs of cooling, there is unlikely to be any major downward adjustment in domestic food prices





Source: World Bank, PBS, Akseer Research

SECTION 1: ECONOMIC OUTLOOK

EXTERNAL ACCOUNT & EXCHANGE RATE OUTLOOK

Amidst an impending IMF program around April-24, expect PKR/USD to reach 317 by Jun-24, 339 by Dec-24

- Amidst large external financing requirements, low export base and impending negotiations for a longer-term IMF program in 2024 after general elections and expiry of ongoing SBA in Mar-24, we believe Pakistan will have to keep a relatively undervalued currency with the REER hovering around 95.
- While Pakistan has been able to achieve a nearly balanced current account since Aug-23, it is a result of administrative measures where banks have been asked to match their import related USD needs with export proceeds.
- At PKR 281.9/USD, Dec-23 REER has already increased to 98.9 and with an appreciation to 280, REER could further rise.
- Assuming a REER of 95, we expect PKR/USD at PKR 317.1 by Jun-24 and PKR 339.4 by the end of Dec-24.

PKR/USD - Annual Forecast			
Key Assumptions - 2HFY24			
Increase in Pak CPI - Jan-Jun'24	10.2%		
Increase in US CPI - 2HFY24	1.2%		
Devaluation as per Inflation differential	8.8%		
Devaluation - Jan-Jun'24	8.8%		
Key Assumptions - FY25			
Increase in PAK CPI - FY25	17.2%		
Increase in US CPI - FY25	2.3%		
Devaluation as per Inflation differential	14.6%		
Period End Forecast for REER	**REER at 98.2**	**REER at 90.0**	**REER at 95.0**
PKR/USD - Dec-23	281.9	307.5	291.4
PKR/USD - Jun-24		334.7	317.1
PKR/USD - Jun-25		383.4	363.3

PKR/USD - Quarterly Forecast			
Devaluation for each quarter of FY24	**4.3%**		
PKR/USD - Dec-23		307.5	291.4
PKR/USD - Mar-24		320.8	303.9
PKR/USD - Jun-24		334.7	317.1
Devaluation for each quarter of FY25	**3.5%**		
PKR/USD - Sep-24		346.3	328.0
PKR/USD - Dec-24		358.2	339.4
PKR/USD - Mar-25		370.6	351.1
PKR/USD - Jun-25		383.4	363.3

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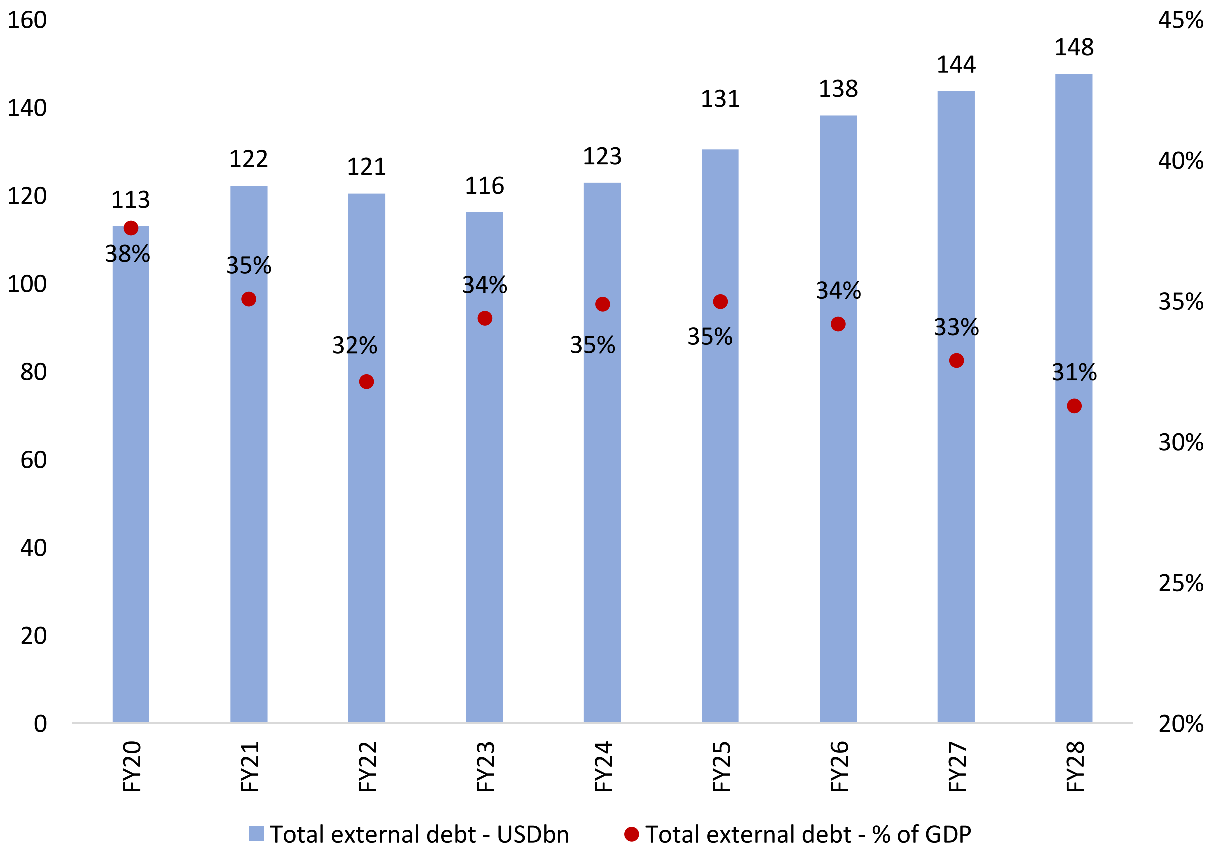
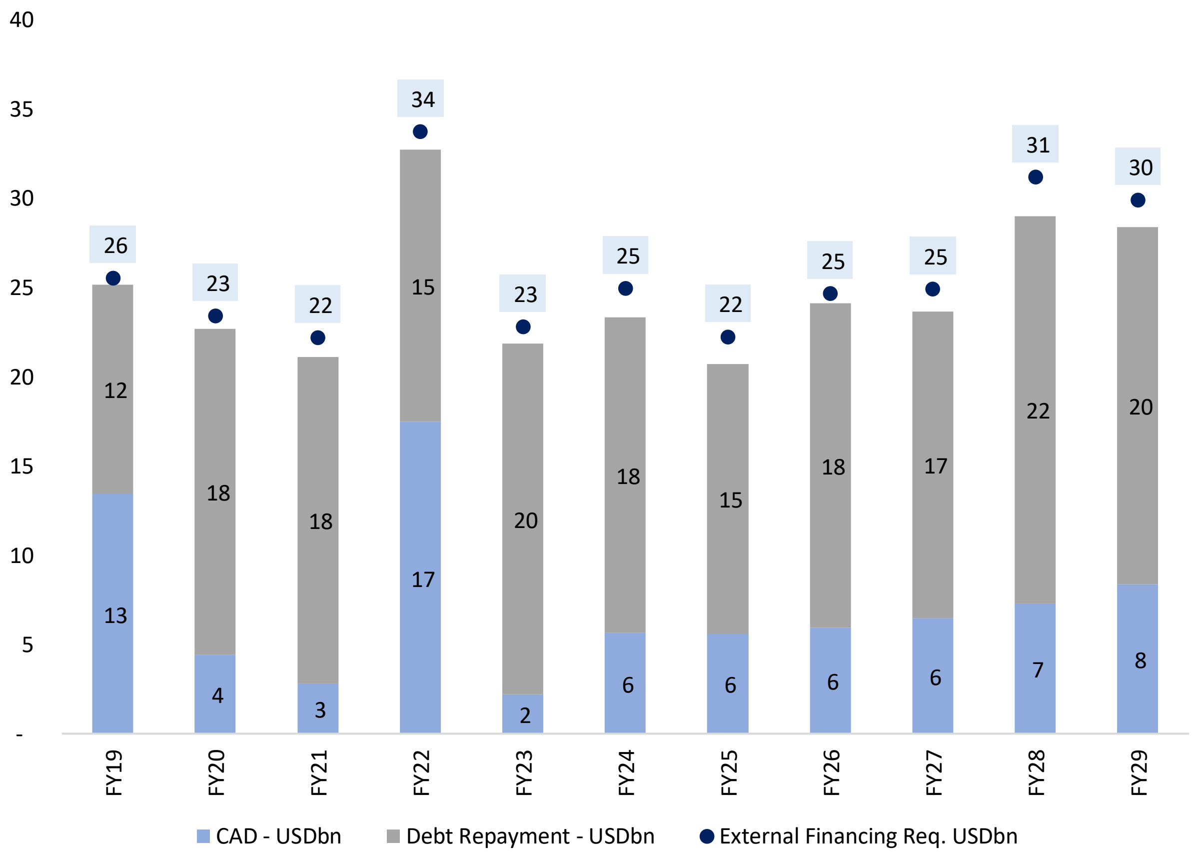
Pakistan's medium term external financing needs remain large, especially considering low exports to GDP, high global interest rates and receding growth

Pakistan's external debt is expected to remain moderate…



…however, external financing requirements to remain high



Source: IMF, MoF, Akseer Research

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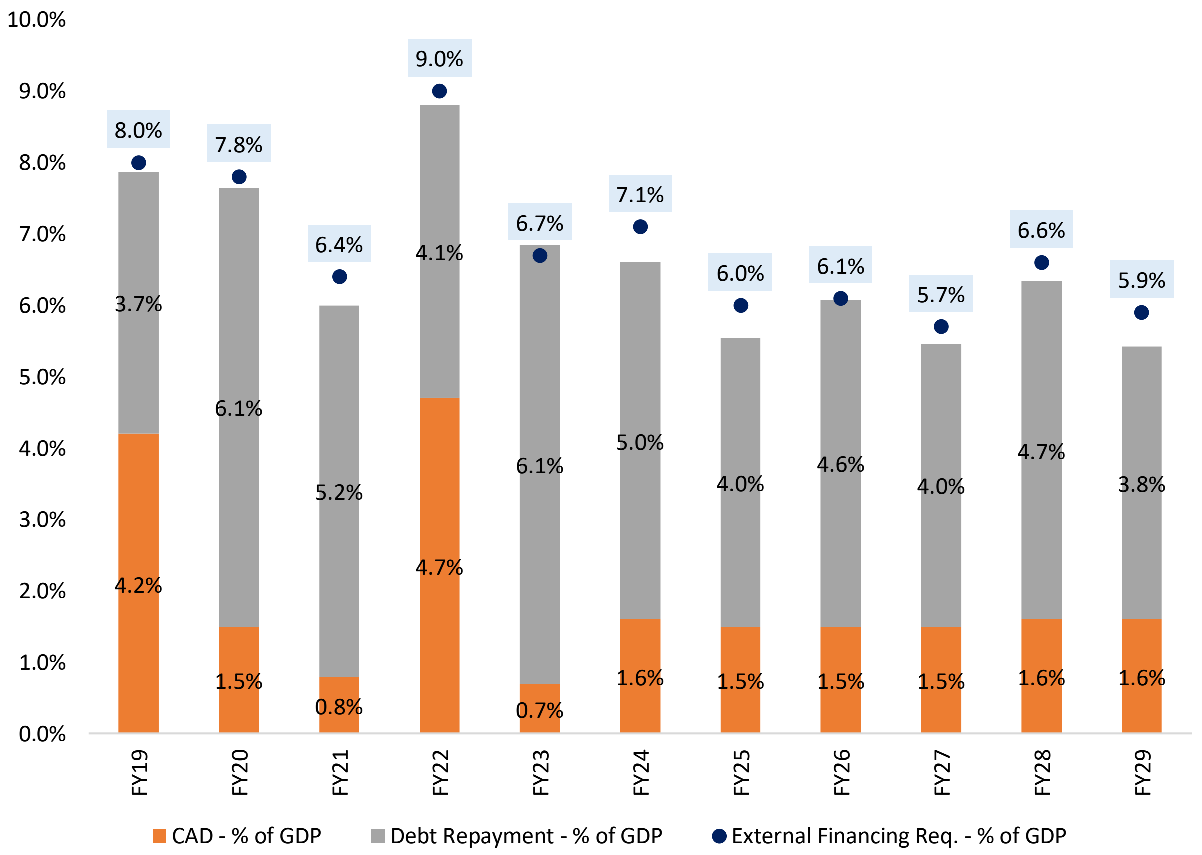
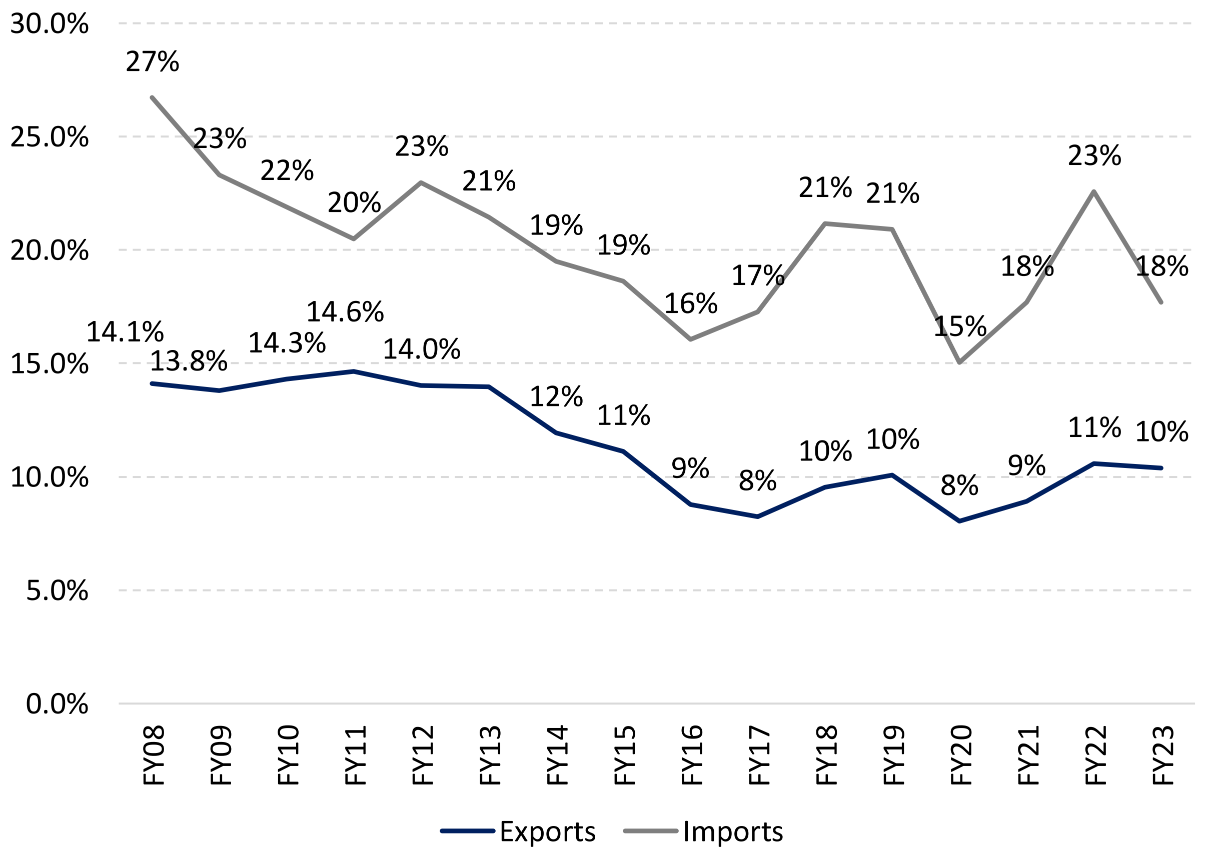
Pakistan's Exports to GDP remain low while imports' containment in FY23 was led by administrative measures

IMF expects external financing requirements at 7.1% of GDP for FY24



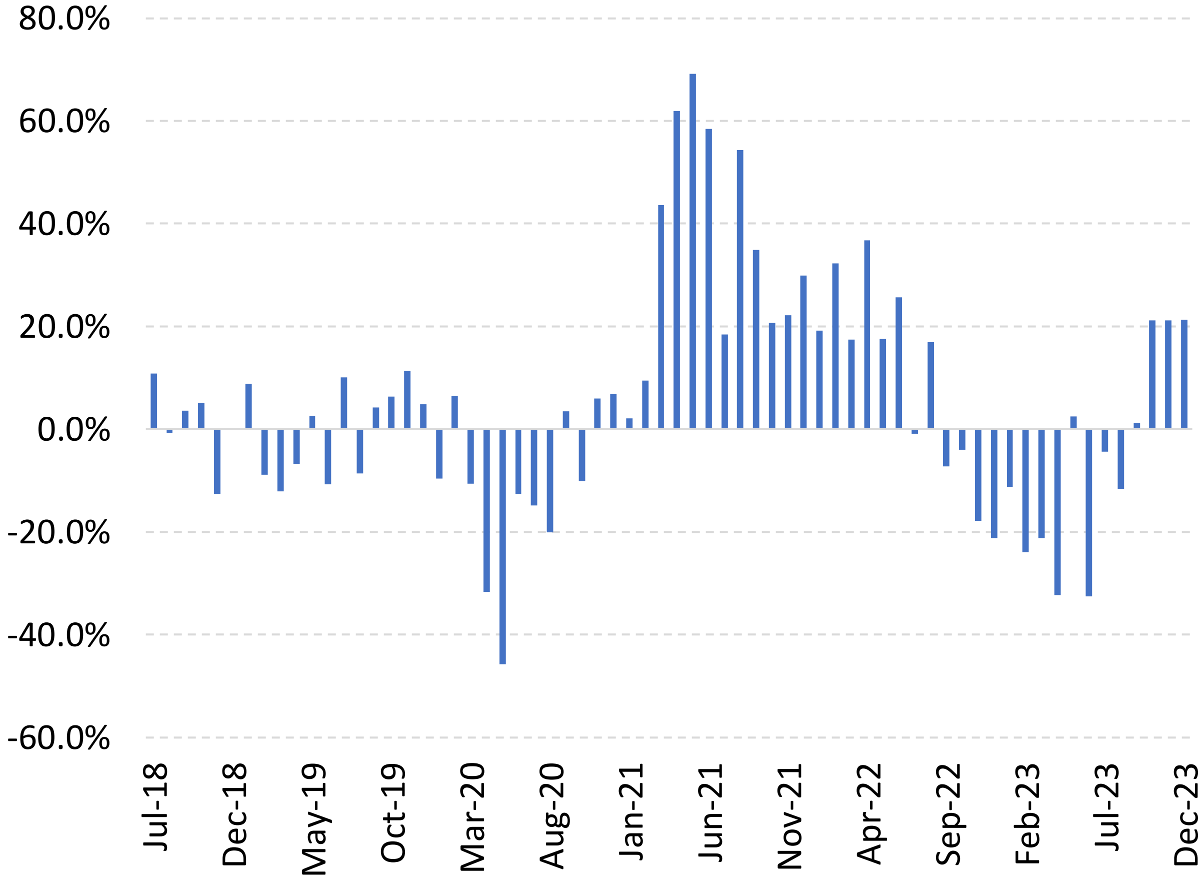
Imports and Exports as % of GDP



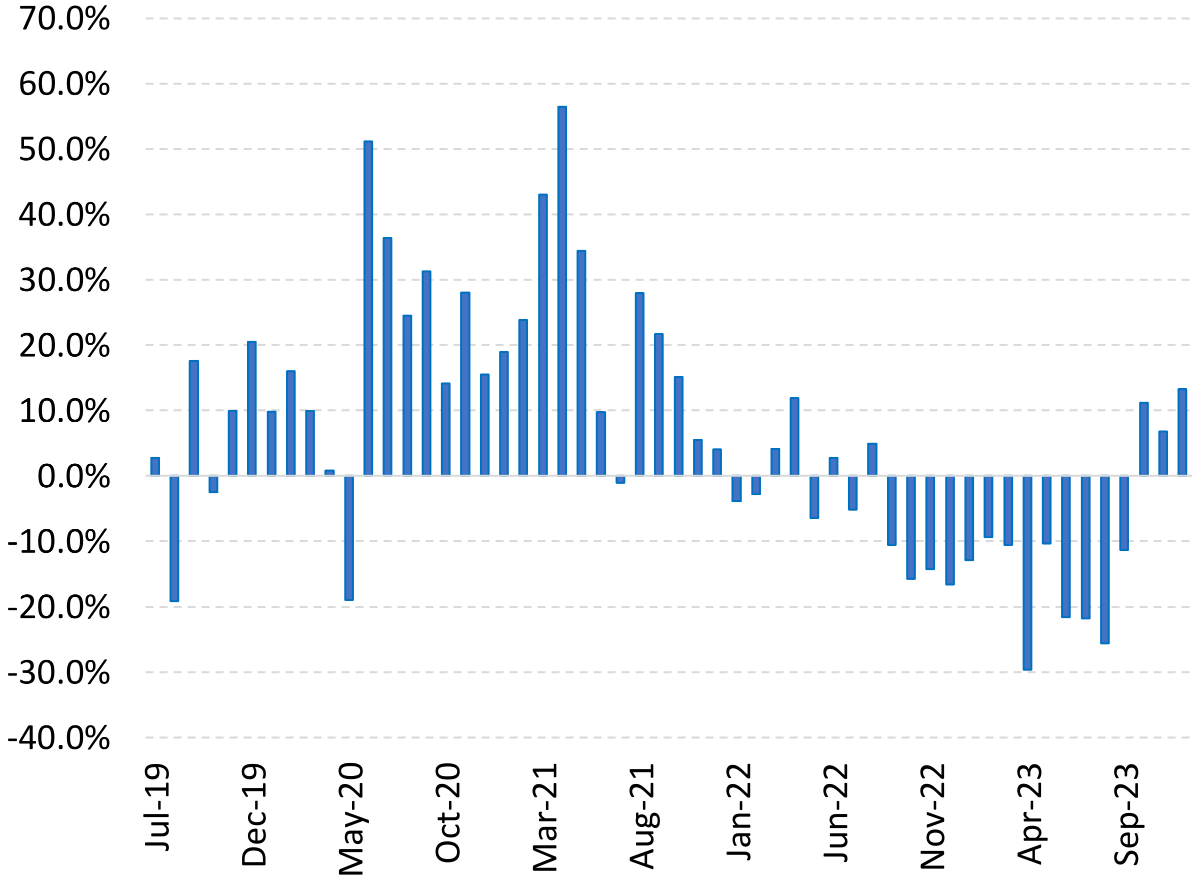
Source: IMF, MoF, SBP, Akseer Research

Exports and Remittances are showing recovery; albeit due to a low base

Exports up 21% YoY in Dec-23: Dec-22 was down 21%



Remittances up 13% YoY in Dec-23; Dec-22 was down 17% YoY



Source: IMF, MoF, Akseer Research

1HFY24 Balance of Payment

External Account Highlights (USD mn)	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Dec-22	MoM	YoY	1HFY24	1HFY23	YoY
Balance on trade in Goods	-2,024	-1,816	-1,487	-1,614	-1,718	-1,293	-1,939	-25%	-33%	-9,952	-15,366	-35%
Exports	2,118	2,418	2,466	2,764	2,724	*2,799*	2,308	3%	21%	*15,289*	*14,223*	7%
Imports	4,142	4,234	3,953	4,378	4,442	*4,092*	4,247	-8%	-4%	*25,241*	*29,589*	-15%
Balance on trade in Services	-261	-220	-318	-250	-226	-155	47	-31%	NM	-1,430	-270	5x
Exports	588	663	563	594	631	*727*	781	15%	-7%	*3,766*	*3,870*	-3%
Imports	849	883	881	844	857	*882*	734	3%	20%	*5,196*	*4,140*	26%
Primary Income - Net	-583	-381	-629	-878	-514	-753	-680	46%	11%	-3,738	-2,631	42%
Secondary Income - Net	2,127	2,265	2,298	2,558	2,443	2,598	2,207	6%	18%	14,289	14,638	-2%
Worker Remittances	2,029	2,095	2,208	2,463	2,259	2,381	2,100	5%	13%	13,435	14,418	-7%
Current A/c Balance	**-741**	**-152**	**-136**	**-184**	**-15**	**397**	**-365**	**NM**	**NM**	**-831**	**-3,629**	**-77%**
Capital A/C Balance	12	8	20	14	19	*15*	258	-21%	-94%	*88*	*317*	-72%
Financial Account	-3,266	-12	-308	112	361	*-1163*	1972	-422%	-159%	*-4,276*	*726*	NM
Net Errors and Omissions	-56	-139	-163	110	-183	*-96*	-213	-48%	-55%	*-527*	*-246*	114%
Overall BoP	-2,481	271	-29	172	540	*-1479*	2,292	NM	NM	*-3,006*	*4,284*	-170%

Source: SBP, Akseer Research

SECTION 1: ECONOMIC OUTLOOK

IMF PROGRAM



IMF program: SBA of USD 3.0bn is structured to cover Jul-23 to Apr-24

- **A program to be managed by three setups**
  - On June 30, 2023, Pakistan entered into a USD 3.0bn SBA with the IMF, designed to help the country navigate through the general elections.
  - The SBA was structured in 3 tranches, with the 1st tranche scheduled during the tenure of the outgoing government, 2nd tranche scheduled during the caretaker setup and the final tranche scheduled after the government is elected in the Feb-24 elections.
- **Key SBA targets**
  - Fiscal discipline to reduce imbalances.
  - Poverty reduction and social protection to increase growth potential.
  - Tighter monetary policy stance to achieve real positive rates on forward looking basis.
  - Restriction on new refinancing scheme while keeping outstanding credit of refinancing facilities below current levels.
  - Improve SOEs governance and continue Privatization.
  - Contain power sector subsidy to PKR 976bn (0.9% of GDP) including allocation of PKR 392bn for clearance of circular debt (CD) to maintain CD level at PKR 2.37tn.
  - Power tariffs should be aligned to cover cost of electricity. Reduce generation cost and clearance of CD through (i) renegotiation of remaining PPA agreements, (ii) gradual conversion of PHPL debt into cheaper public debt, (iii) expansion of renewable capacity and (iv) improving DISCOs efficiencies.
  - Implementation of WACOG for natural gas pricing and creating Circular Debt data along with reduction in current stock.

Pakistan failed to complete 2019-2022 EFF

- **Populist measures derailed the previous IMF program**
  - Pakistan failed to complete its previous EFF facility that spanned FY19-22, due to the reluctance to implement key reforms and expansionary fiscal and monetary policies. The EFF can be broadly categorized into three phases.
  - **Early phase:** Considerable success was being made in stabilizing the economy.
  - **Pandemic:** IMF support proved instrumental in survival.
  - **Extended stop-and-go during FY22-23:** The EFF went off track due to expansionary fiscal policies and loose monetary policy.

- **Key misses of 2019 – 2022 EFF**
  - Fiscal slippages.
  - Continued intervention in the FX market through restriction on import-payments and moral compulsion on banks to nudge the exchange rate.
  - Failure to meet the Debt to GDP and FX Reserves target.
  - Lack of full operationalization of Treasury Single Account by the end of Dec-22.
  - Monetary policy fell behind the curve by not maintaining real positive rates despite record-high inflation and rising inflation expectations.
  - Continuation of energy subsidies and further increase in circular debt.

Benchmark	FY23A	Revised Target
FBR Revenue (% of GDP)	11.4%	12.2%
Tax Revenue (% of GDP)	10.0%	10.8%
Fiscal Deficit (% of GDP)	7.7%	6.9%
Primary Deficit (% of GDP)	1.0%	0.5%
Debt to GDP* (% of GDP)	77.1%	72.4%
FX reserves (USD bn)	3.0 bn	9.8 bn

* IMF calculations

Source: IMF, MoF, Akseer Research

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IMF: 2024 program may be significantly tougher

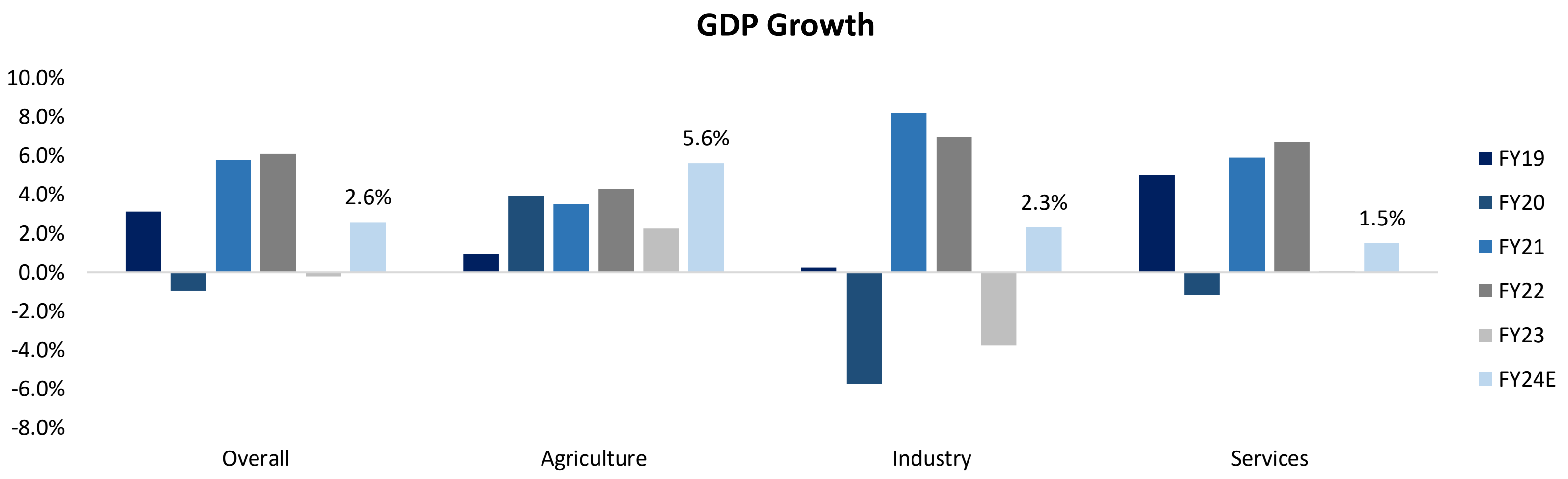
- **IMF would likely stress on:**
  - Achieving fiscal discipline to curtail fiscal deficit to 7.3/5.8% in FY25/26 through revenue mobilization by bringing retailers and agriculture sector into the tax net for increasing the tax base along with containing revenue expenditures.
  - Development of local debt market, implementation of Treasury Single Account (TSA) and lengthening of public debt maturity profile for better debt management.
  - Expediting privatization of State-Owned Enterprises, in particular RLNG power plants, DISCOs, PIA, Pakistan Steel Mills etc. to reduce fiscal slippages.
  - Continuation of tighter monetary policy to contain inflationary pressures and roll back of concessionary financing schemes by SBP to improve monetary transmission.
  - Adoption of market-based exchange rate in true spirit through removal of import restrictions and lifting of obligation on banks to manage current account for reducing external imbalances and creating FX reserves.
  - Reduction in stock of circular debt of both power and gas sectors through continuous alignment of tariffs with cost, reduction in distribution losses, improvement in recoveries, better governance and implementation of PHPL debt conversion to cheaper public debt. Moreover, full implementation of WACOG would be stressed for gas sector pricing.
  - Contain spending on devolved ministries after the implementation of 18^{th} amendment.
  - Restoration of Capital Conversion Buffer (CCB) and CAR limits for Banks to 2.5% and 12.5%, respectively, to safeguard financial sector soundness.

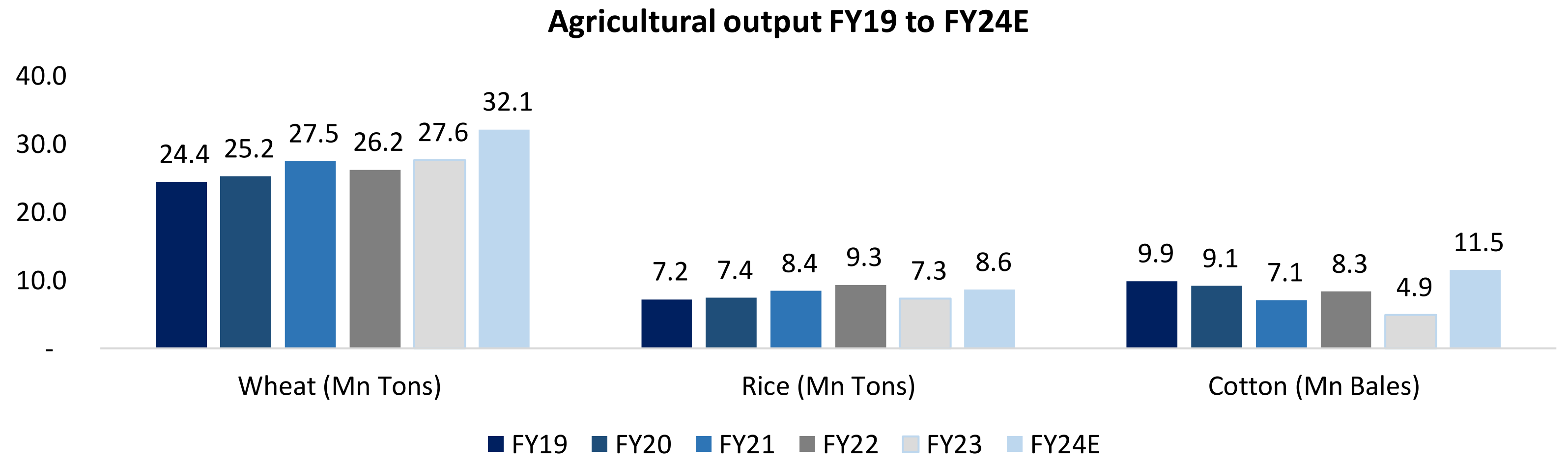
SECTION 1: ECONOMIC OUTLOOK

GDP GROWTH AND FISCAL POLICY

Early signs of economic recovery: 1QFY24 GDP growth clocked in at 2.13%

- 1QFY24 GDP growth clocked in at 2.13%, helped by strong recovery in agriculture (+5.06%) while industry also recovered (+2.48%) in 1QFY24.
- Growth in Agriculture, which comprises 23% of GDP, will likely have a spillover effect on services, particularly the wholesale & retail trade segment during the latter part of FY24.
- We expect FY24 GDP growth to clock in at 2.6%, driven by
  - 5.6% growth in Agriculture
  - 2.3% growth in Industry
  - 1.5% growth in Services
- In FY24 we expect:
  - Cotton output will likely ↑ by 83% YoY,
  - Rice by 17.4% YoY,
  - and Wheat by 16.2% YoY.



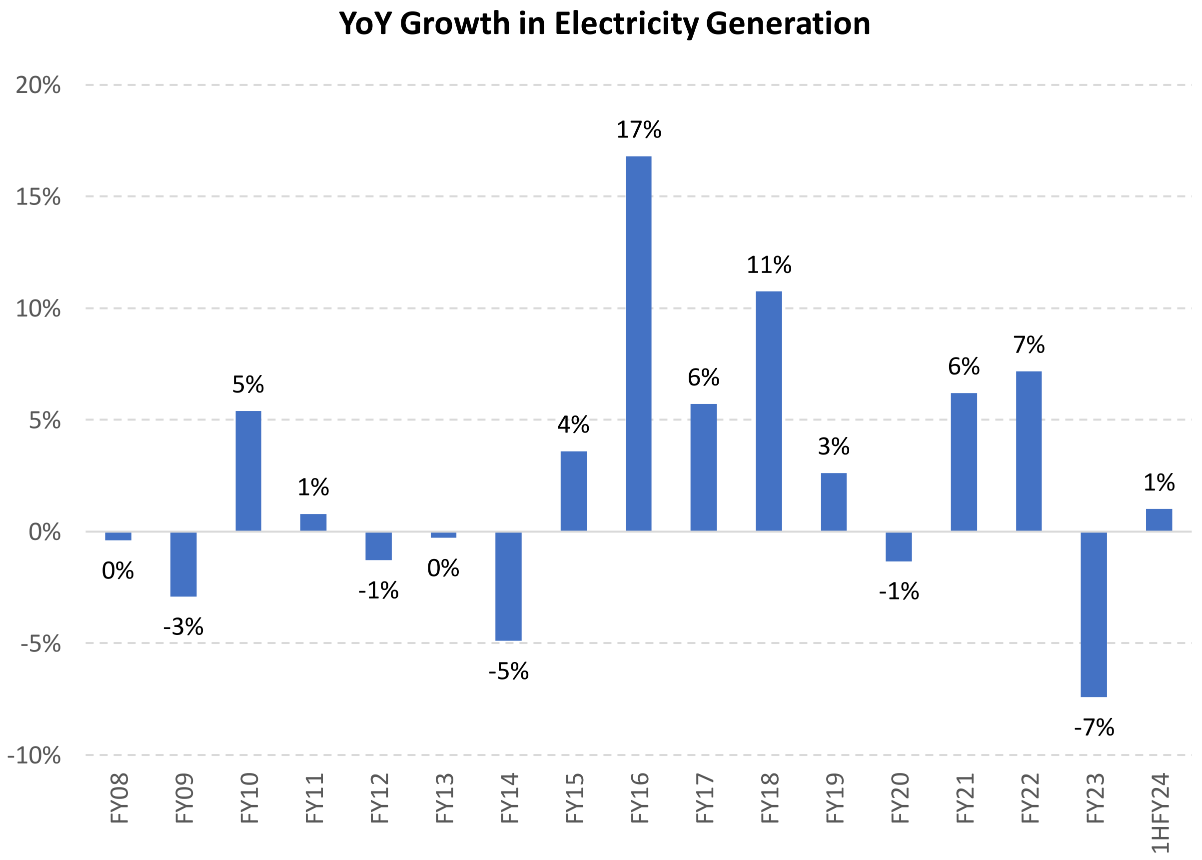


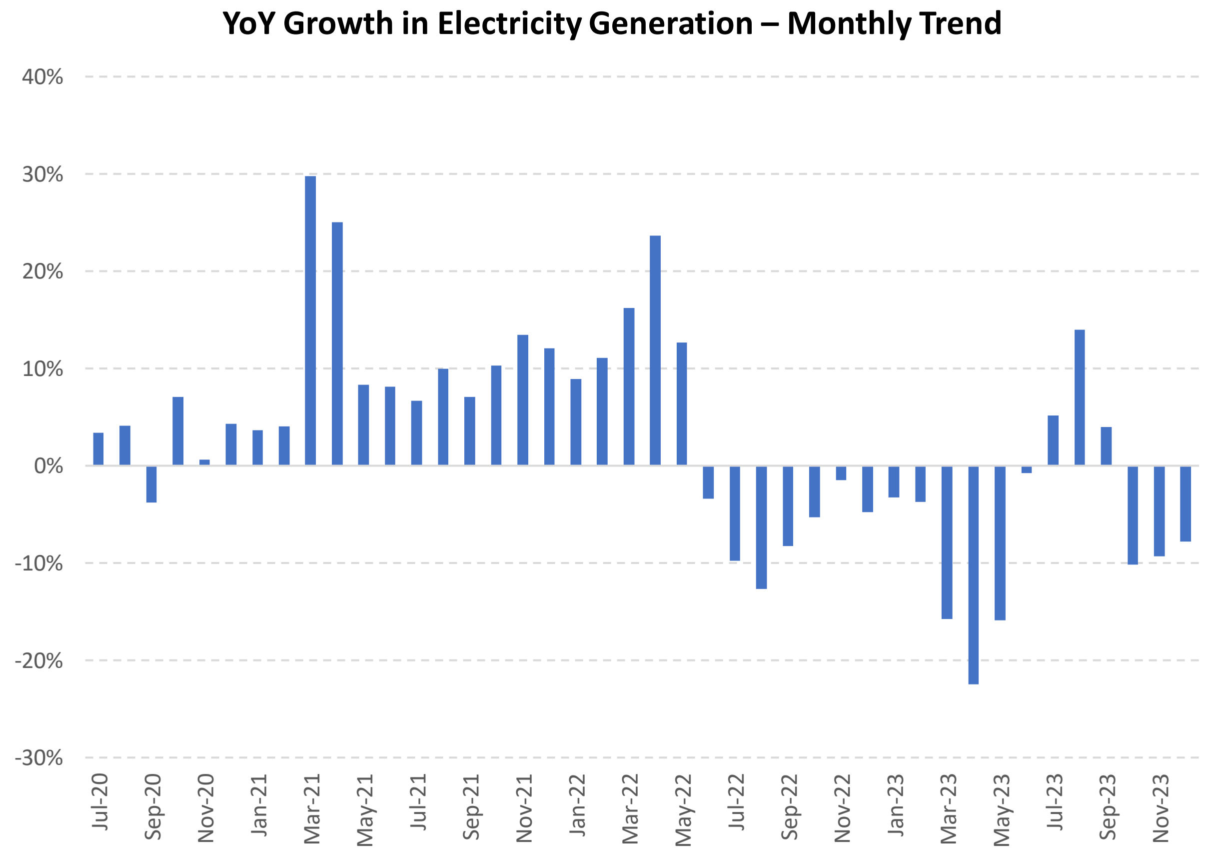
Source: MoF, Akseer Research

Slight recovery seems to be driven by a low base effect of 1QFY23

Electricity generation remained flattish at1.0% YoY in 1HFY24; well below the FY22 levels

YoY growth trend in monthly electricity generation depicts onset of a slowdown again in 2Q, after some recovery in 1QFY24





Source: NEPRA, Akseer Research

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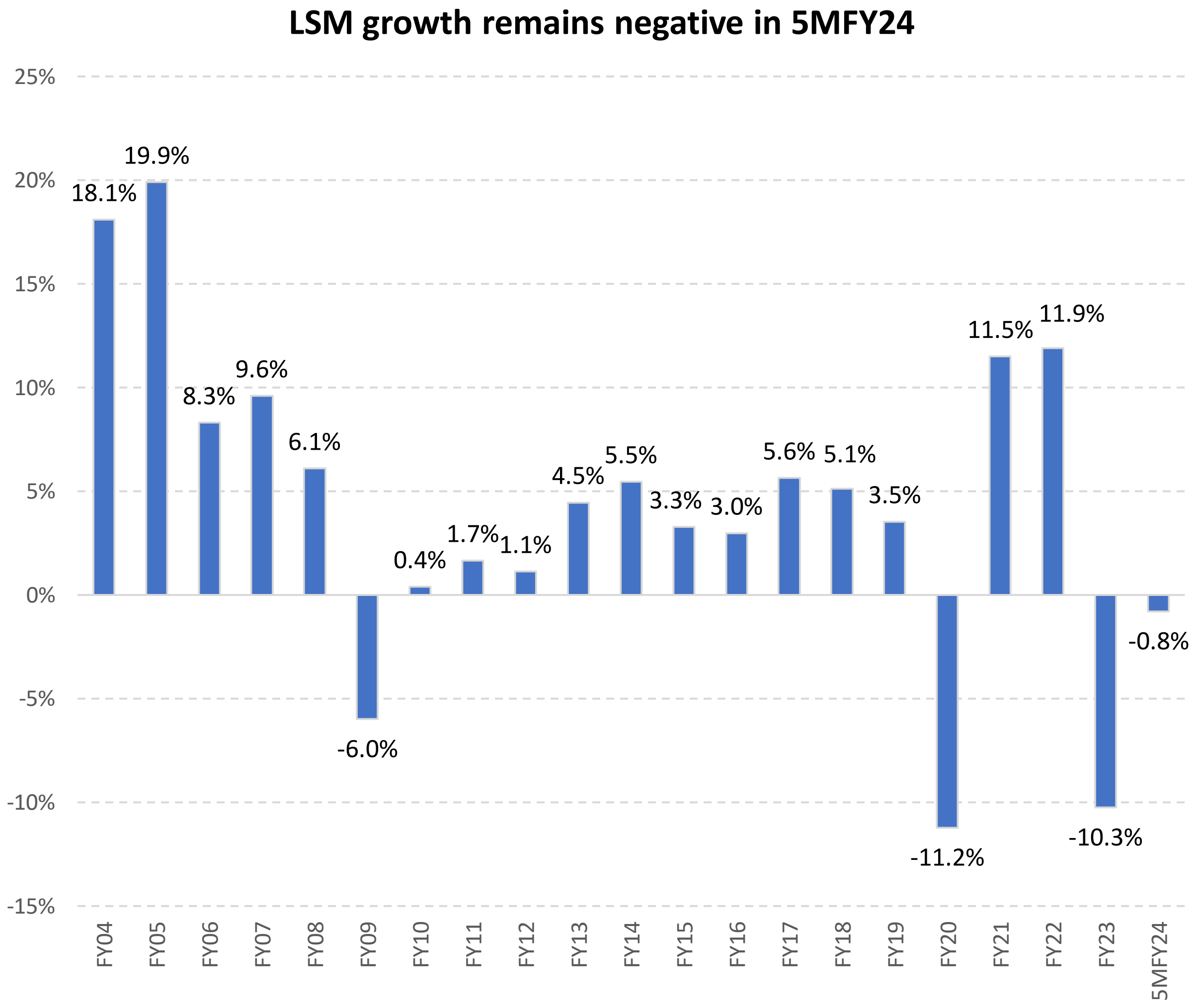
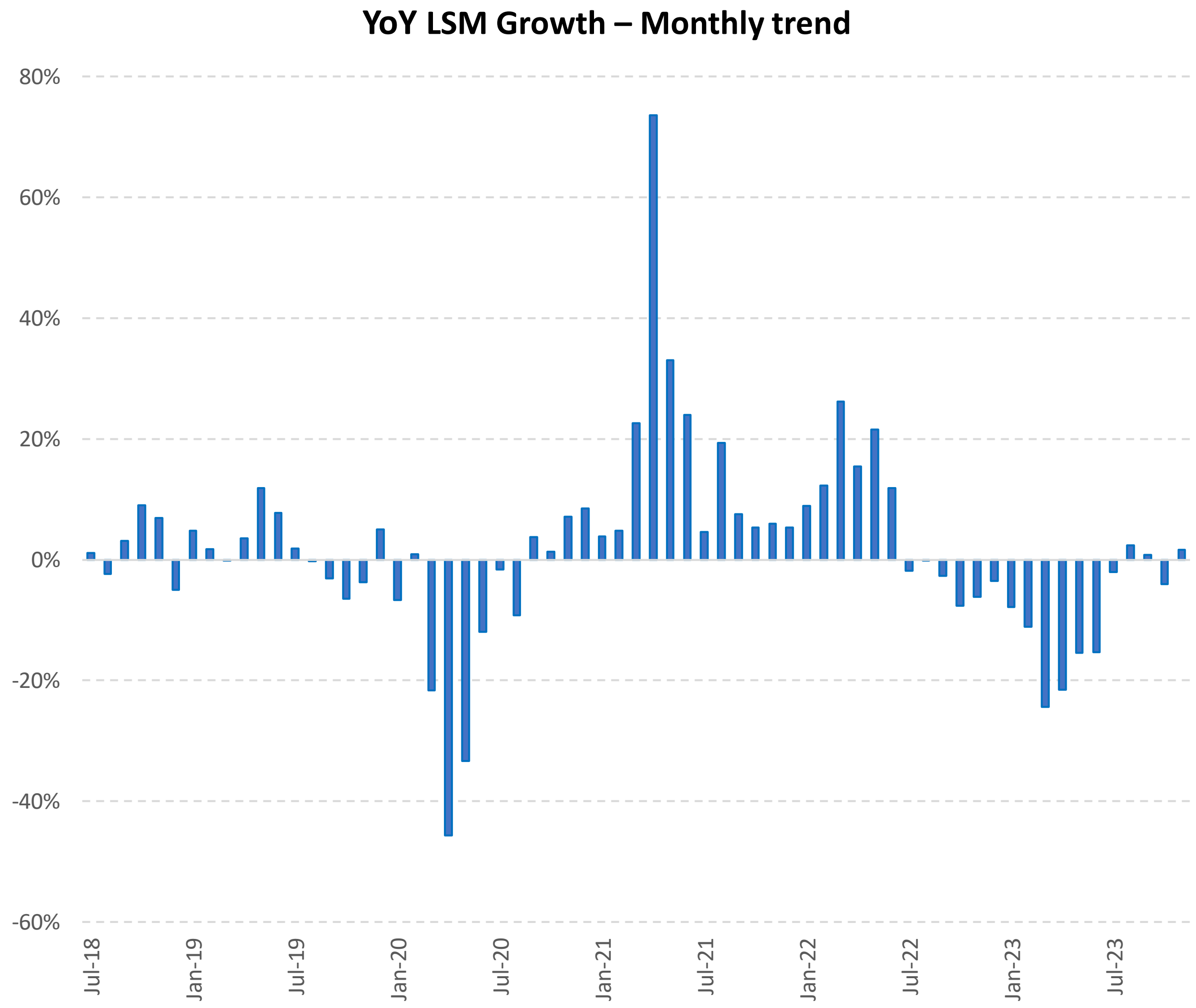
LSM growth remains negative 0.8% in 5MFY24





Source: PBS, Akseer Research

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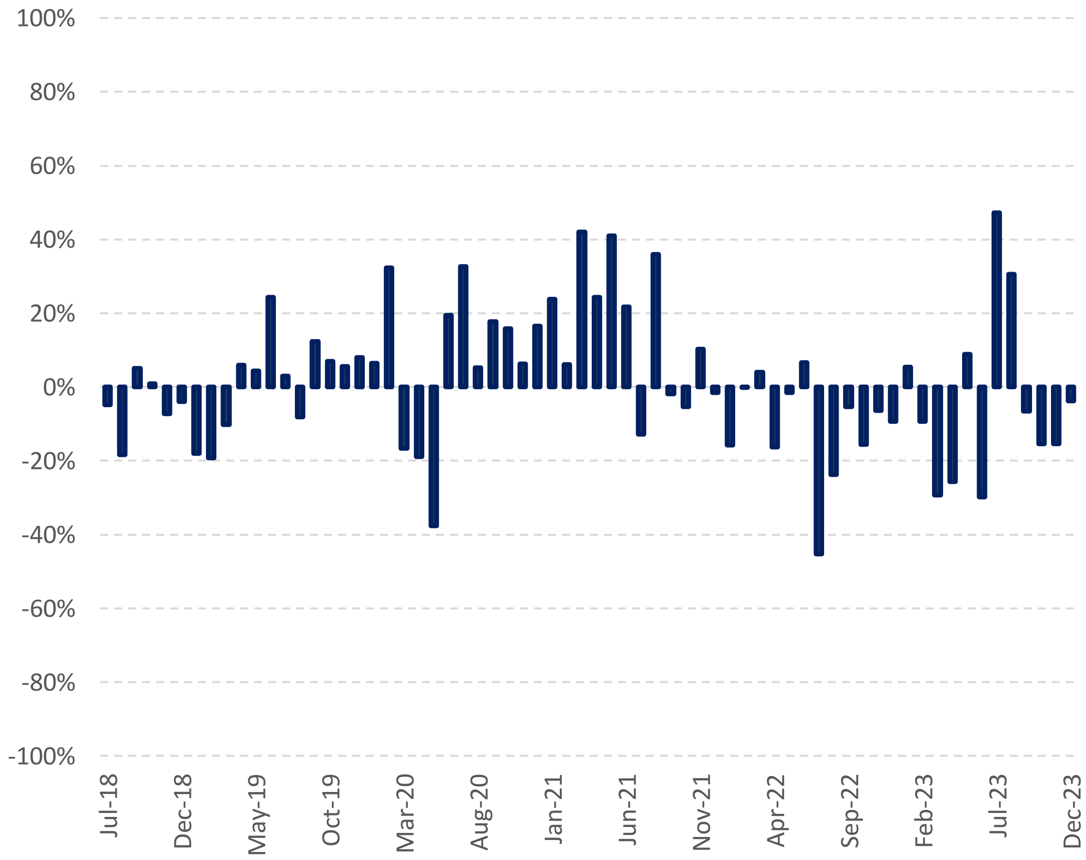
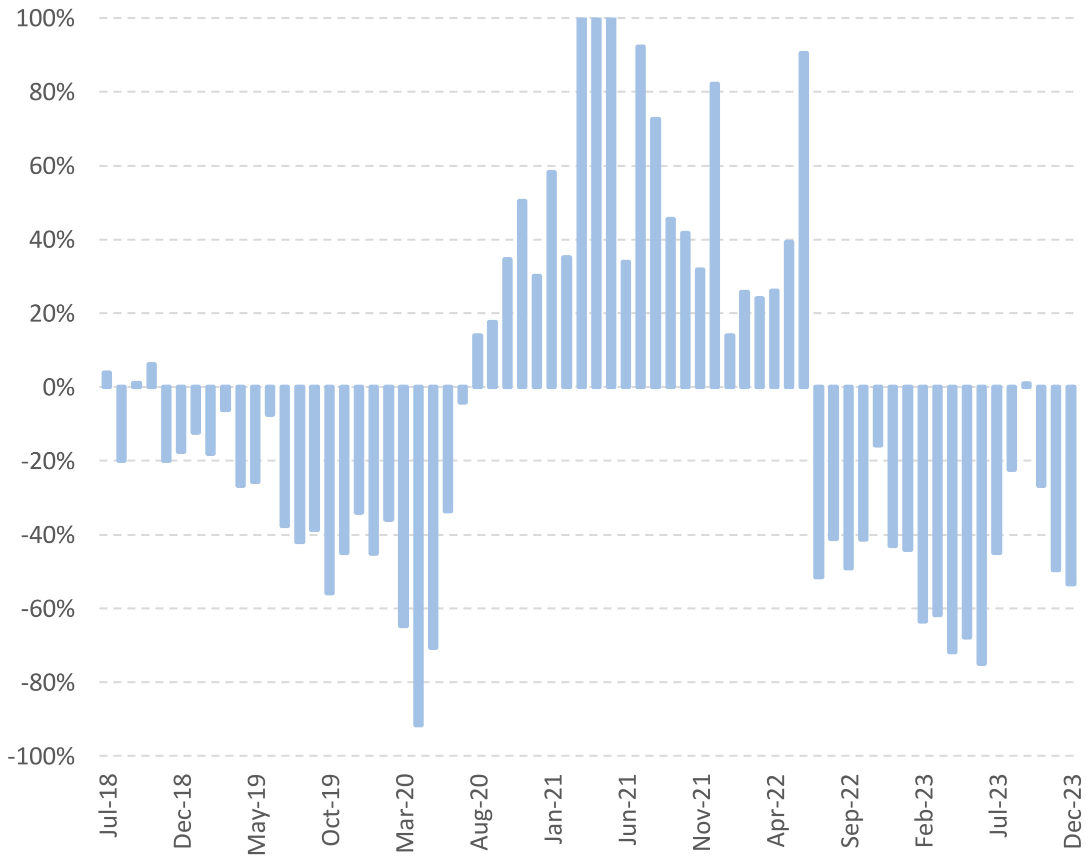
Cement and Automobile volumes remain weak

YoY Growth in Domestic Cement Sales



YoY Growth in Domestic Automobile Sales



Source: APCMA, PAMA, Akseer Research

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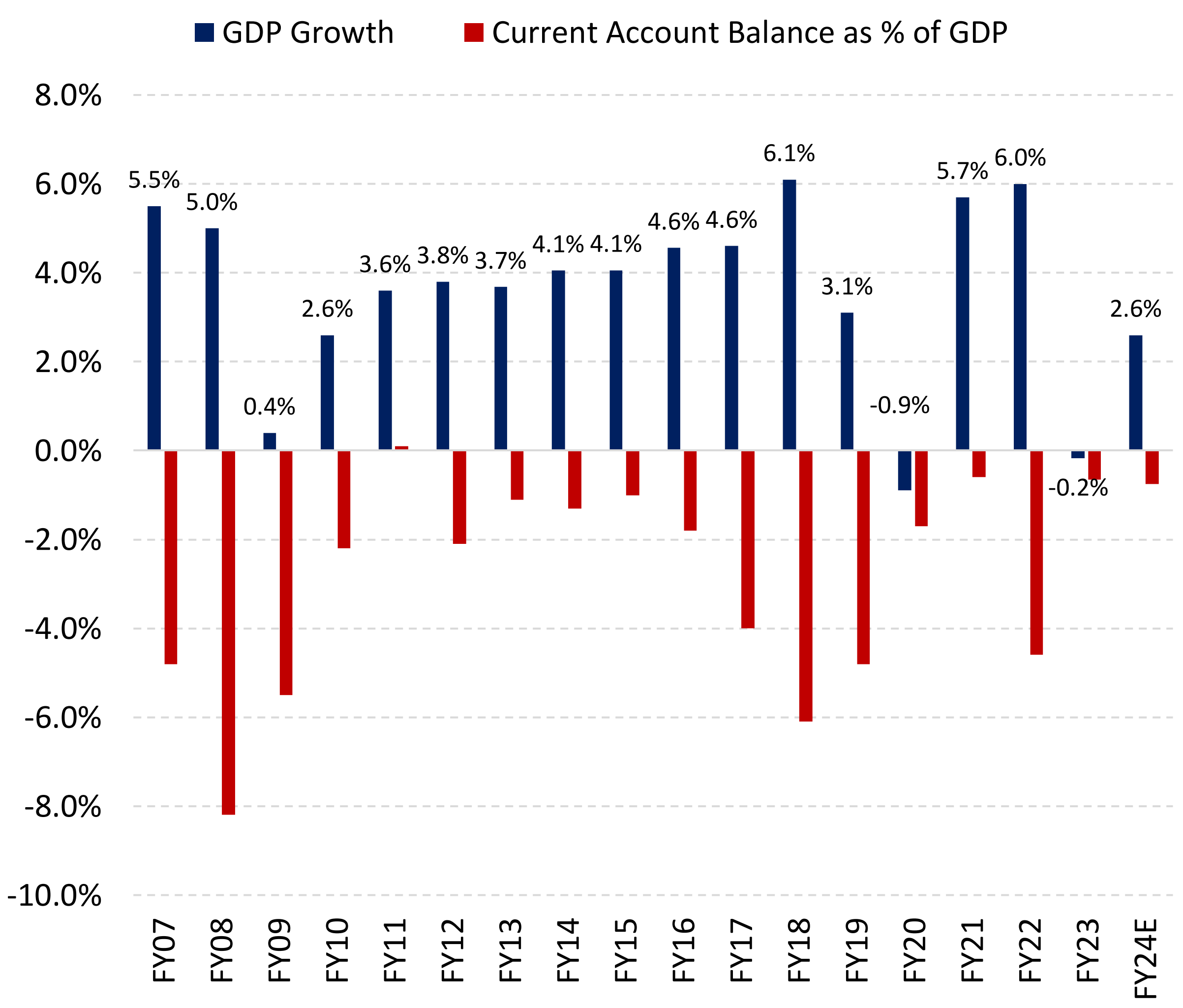
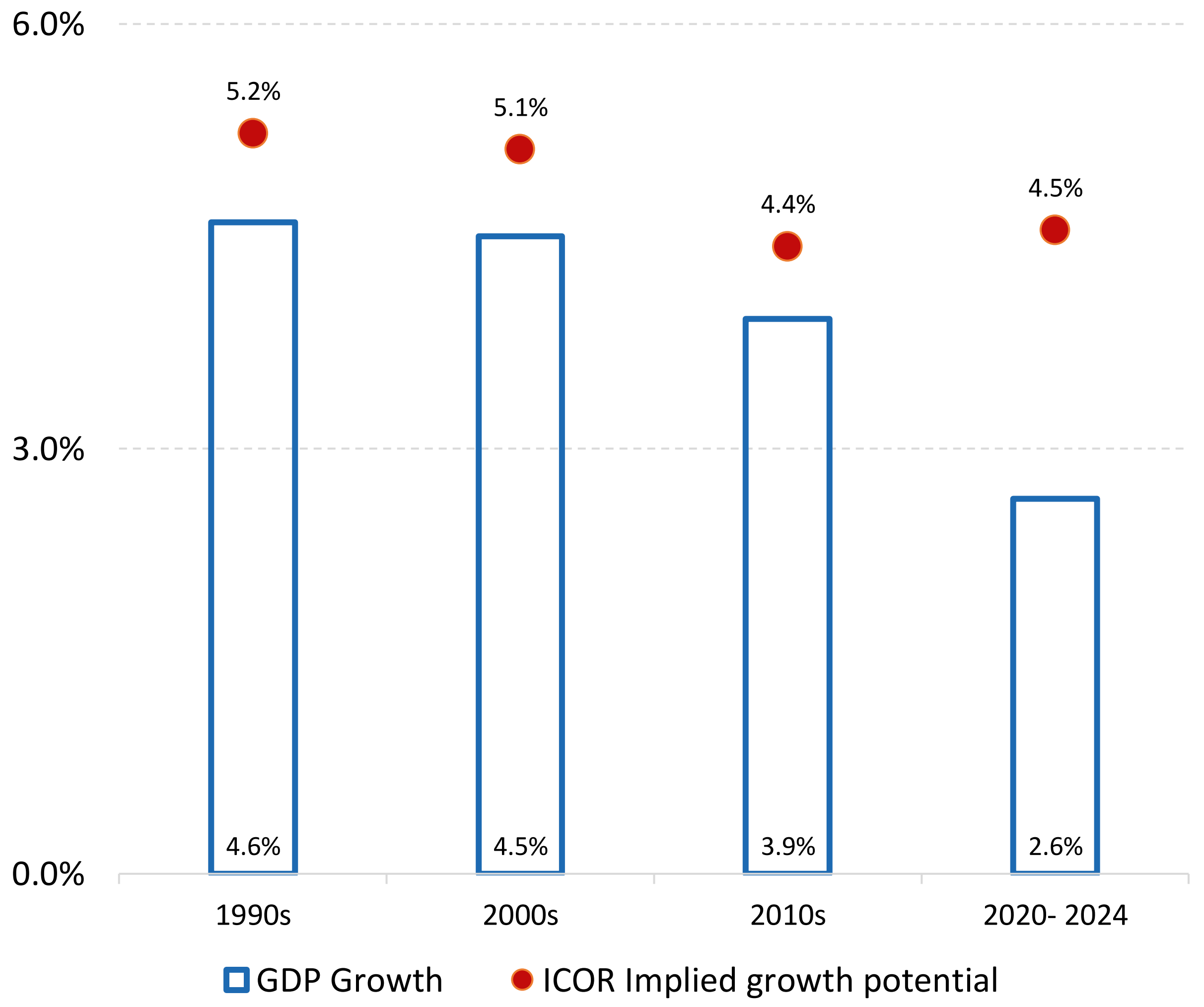
Pakistan's growth potential remains untapped due to low investment to GDP. During the last 12 years, GDP growth exceeding 4.0% has resulted in a BOP crisis





Source: MoF, SBP, Akseer Research

Fiscal tightening on track, demonstrating positive progress

- 1QFY24 fiscal deficit improved slightly to 0.9% of GDP against 1.0% of GDP in 1QFY23. The primary surplus improved to 0.4% of GDP.
- GoP outperformed IMF's benchmarks of PKR 87bn for a primary deficit and PKR 1,977bn for federal government revenues in 1QFY24.
- However, growth in revenue collection was lower than FY24 budget projections given lower growth in custom and sales tax collection, due to weak imports. This was offset by restraint in non markup current expenditures.
- While the GoP seems on track to achieve full year fiscal targets, we believe that higher markup payments on the back of elevated interest rates pose a key risk.

Federal Fiscal Operations (PKR Bn)

	1QFY23	1QFY24	YoY %	FY23A	FY24B	YoY %
Federal Tax Revenue	**1,634**	**2,042**	**25%**	**7,169**	**9,415**	**31%**
-Direct Revenue	683	935	37%	3,272	4,255	30%
-Taxes on International trade	230	252	10%	935	1,211	30%
-Sales Tax	642	727	13%	2,592	3,411	32%
-Federal Excise	79	128	62%	370	538	45%
Federal non-tax Revenue	**211**	**453**	**115%**	**1,711**	**2,963**	**73%**
Gross Revenue Receipts	**1,844**	**2,495**	**35%**	**8,880**	**12,378**	**39%**
Provincial Transfers	880	1,088	24%	4,223	5,399	28%
Net Revenue Receipts	**964**	**1,406**	**46%**	**4,656**	**6,979**	**50%**
Total Expenditure	**2,001**	**2,421**	**21%**	**11,332**	**14,484**	**28%**
Current Expenditure	1,853	2,264	22%	10,732	13,344	24%
Mark up payments	954	1,380	45%	5,696	7,303	28%
Defense	313	343	10%	1,586	1,804	14%
Development exp.& net lending	37	83	127%	890	1,140	28%
Statistical discrepancy	112	74	-34%	(290)	-	na
Federal Budget Balance	**(1,037)**	**(1,014)**	**-2%**	**(6,676)**	**(7,505)**	**12%**
Overall Budget Balance	**(819)**	**(963)**	**18%**	**(6,521)**	**(6,905)**	**6%**
Primary Balance	**135**	**417**	**210%**	**(826)**	**397**	**na**
Primary Deficit - % of GDP	0.2	0.4		(1.0)	0.4	
Fiscal Deficit - % of GDP	(1.0)	(0.9)		(7.7)	(6.5)	
Federal tax Revenue - % of GDP	1.9	1.9		8.5	8.9	

Source: MoF, Akseer Research

SECTION 2

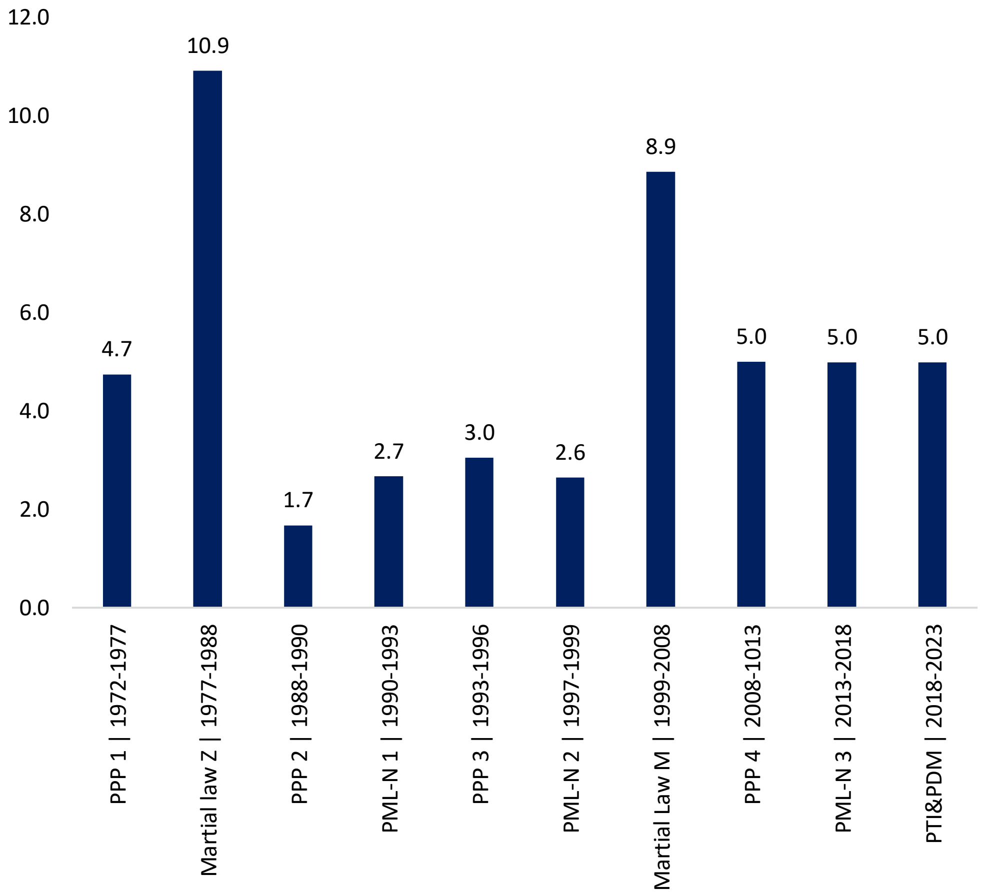
POLITICS AND 2024 ELECTIONS



Pakistan entering into election season

- **General elections scheduled for February 8, 2024**
  - Pakistan will witness its 4th general elections after restoration of democracy in 2008, with a 4 months delay beyond the constitutional deadline of October 12, 2023, to elect its 4th national and provincial assemblies since 2008.
  - While the national assemblies completed their constitutional 5 year term during each of the last 3 governments, the assemblies of KPK and Punjab were dissolved pre maturely by Pakistan Tehreek e Insaaf (PTI) after they were ousted from power in a No Confidence vote in April-22.
  - Since then, the political atmosphere has been tense, characterized by high volume of court cases and arrests against PTI leadership including Imran Khan, eventually culminating with Election Commission taking back PTI's election symbol of a "Cricket Bat".
- **Without the bat and with key leadership in jail, PTI faces an uphill battle**
  - Loss of "Bat" as a party symbol by the PTI will substantially increase administrative challenges in the upcoming elections and has opened up the field for the other parties in the upcoming elections, including PPP and PML-N.

Government tenures after general elections (no. of years)



Source: NA, Akseer Research

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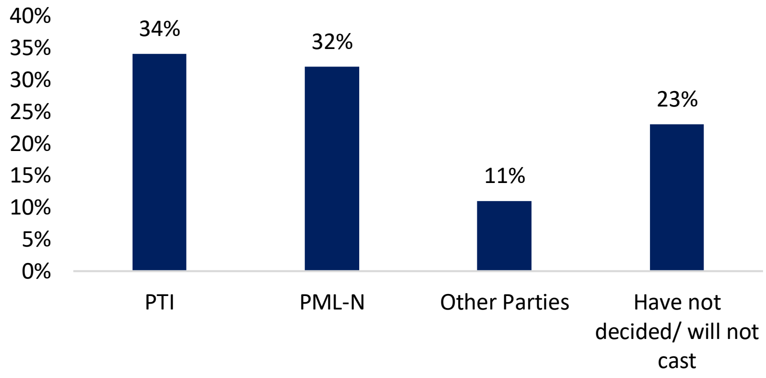
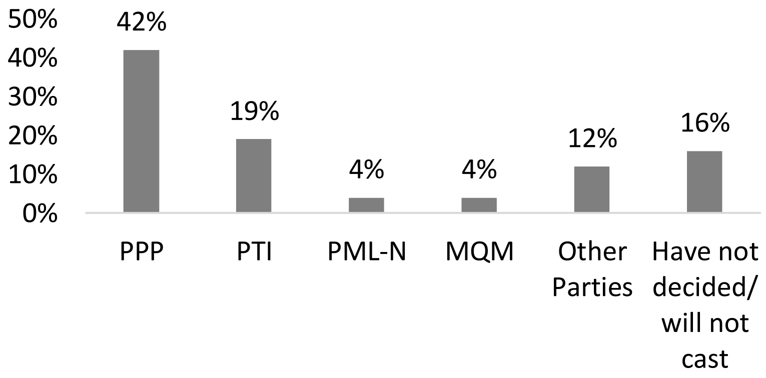
Voting intentions

- **Dec-23 voting intentions survey: PTI remains the most popular; PML-N closing in**
  - PTI leads in Punjab, with 34% of the respondents expressing voting intentions for the party followed by PML-N at 32%.
  - PPP leads in Sindh with a 42% share in voting intentions.
  - PTI leads in KPK with a 45% share.
- **Imran Khan remains the most popular leader**
  - Despite arrest, Imran Khan remains the most popular leader with an approval rating of 57%, followed by Nawaz Sharif at 52% and Bilawal Bhutto at 35%.

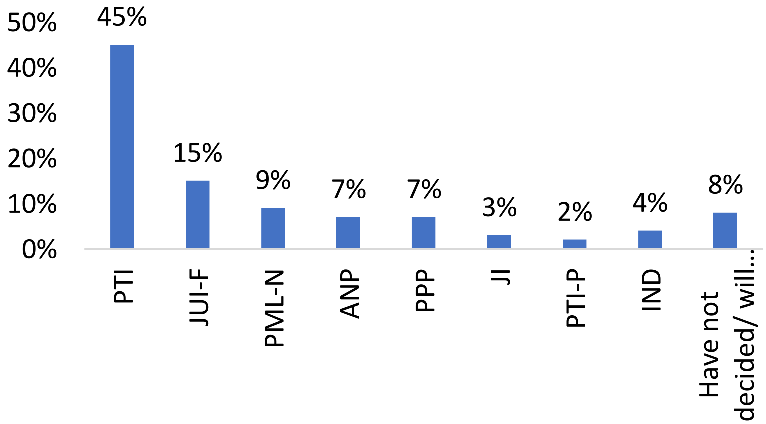
Voting Intentions: PTI expected to lead in Punjab



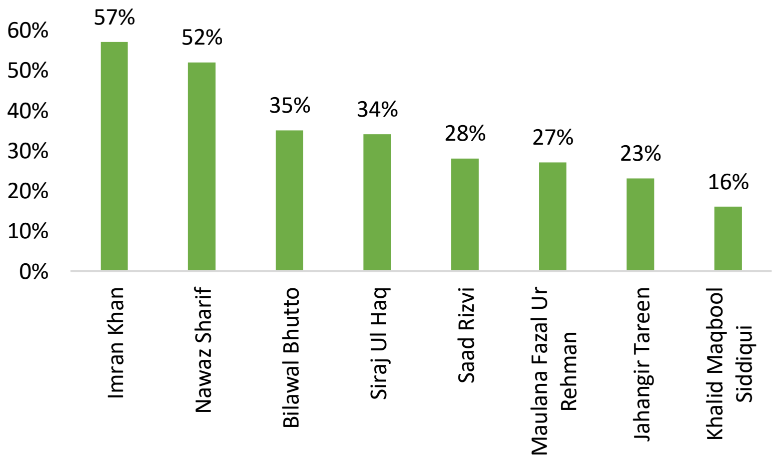
Voting Intentions: Sindh likely to go with PPP



Voting Intentions: PTI could dominate KP



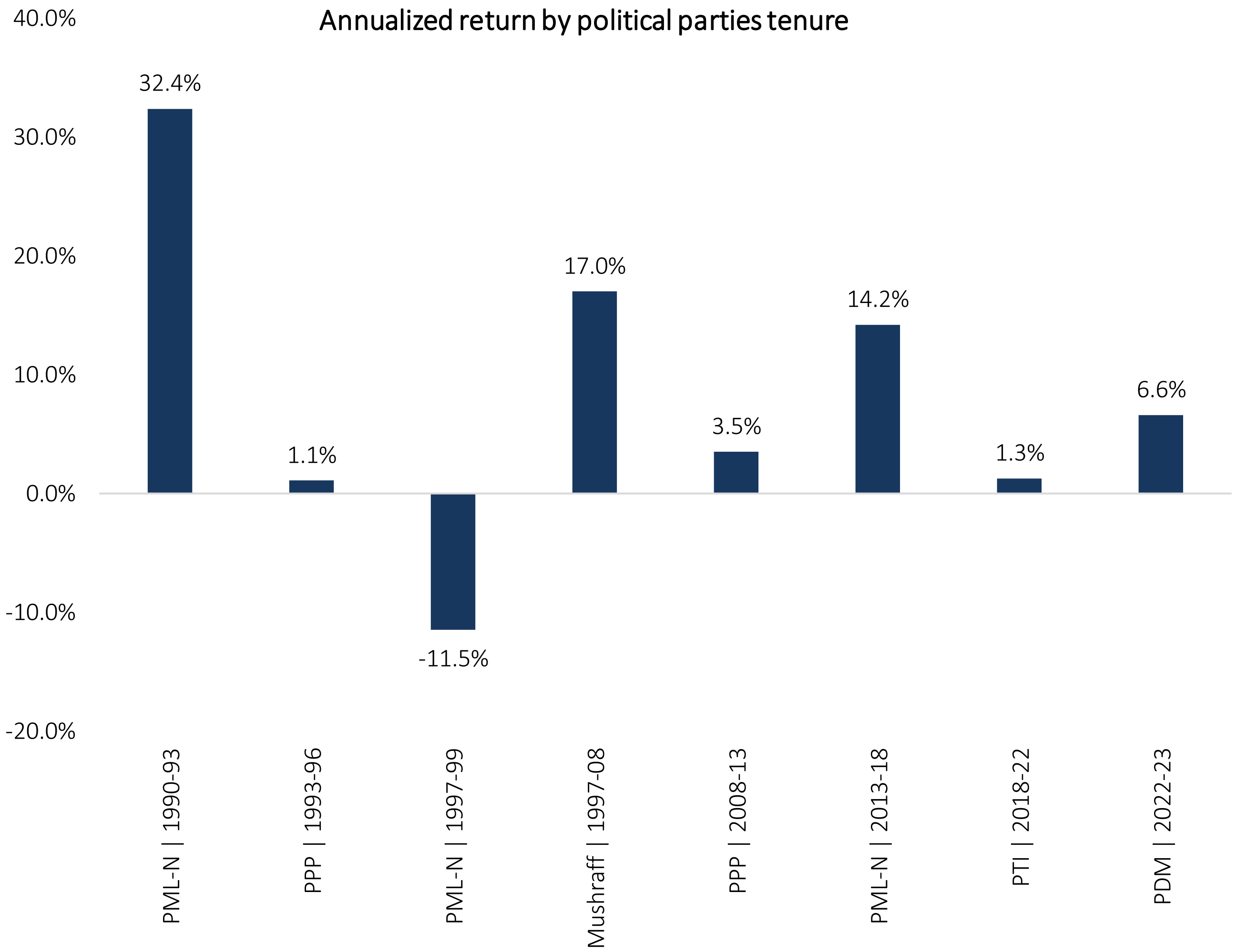
Leaders popularity at National level



Source: Gallup, Akseer Research

Possible election outcomes and their market impact

- **"Alternative perspective" on popularity**
  - Some analysts believe that formal voting intention surveys reflect a bias, paralleling PTI's " falling out of favor". As such, some alternative surveys depict a much stronger support for PTI and a much weaker footings for PML-N.
- **Likely outcome: PML-N led government**
  - Likely continuation of ongoing policies would be positive for the market. KSE-100 has historically performed much better under PML-N tenure.
  - Key risks: Popular decisions might hinder the progress of structural reforms and lead to fiscal slippages.
- **Possibility 2: PPP led government**
  - In the event that the alternative perspective turns out to be true, PPP could well form a government in the center, given its protected vote bank in Sindh.
  - Likely continuation of ongoing policies with a pro rural / anti urban tilt. Historically, KSE-100 has displayed weaker returns during PPP governments.



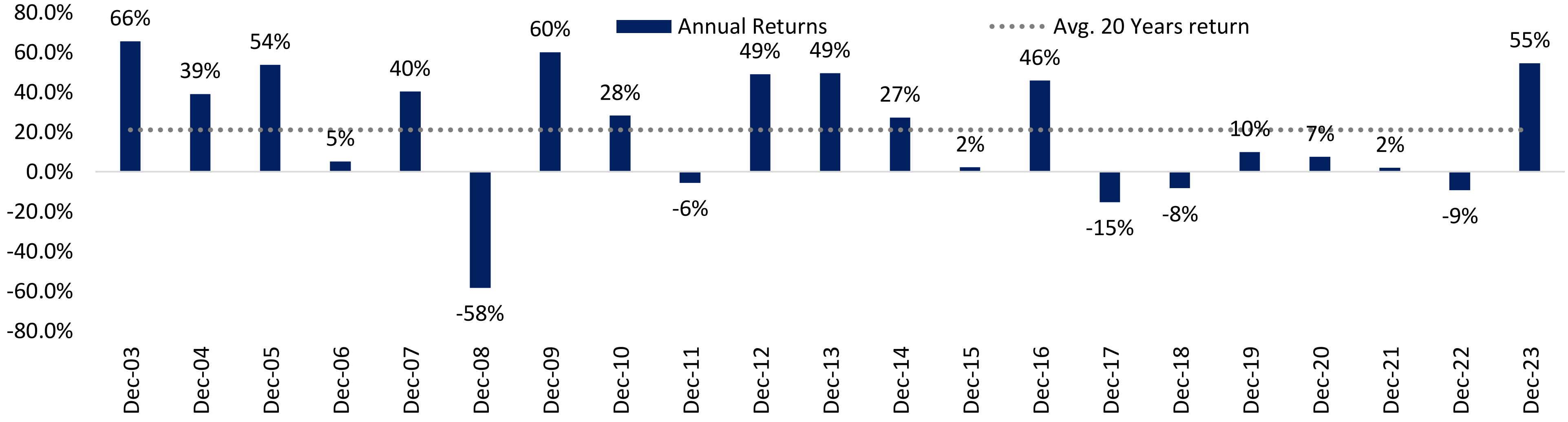
Source: PSX, NA, Akseer Research

SECTION 3

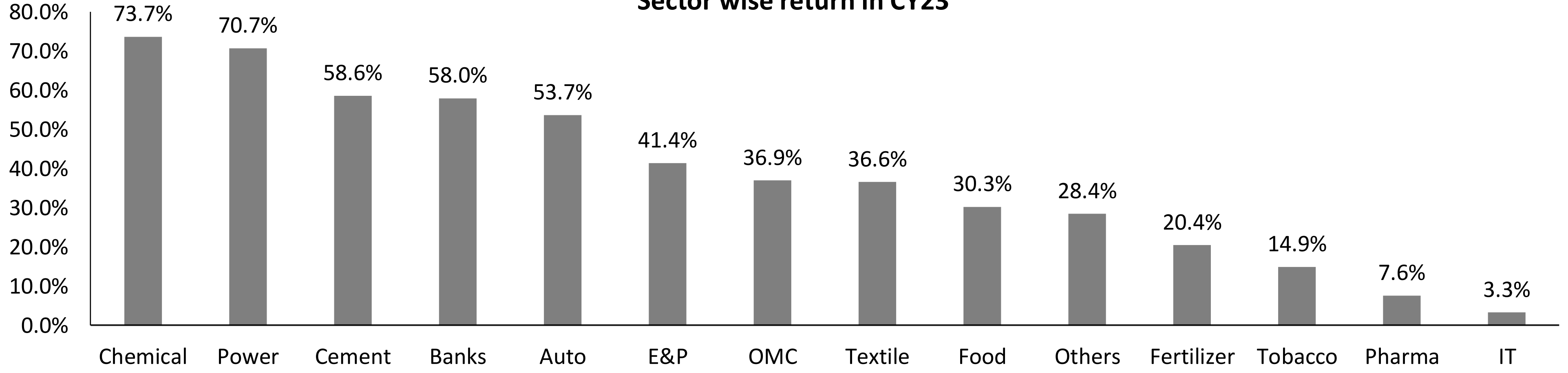
MARKET STRATEGY & INDEX TARGET

Overview of CY23 KSE-100 performance

- KSE-100 clocked in a return of 55% in CY23, a 14 year high, helped by IMF SBA and some restoration of economic & political direction.
- KSE-100 finally managed to breach its previous high of 52,876 set in May-17 after a span of 5.5 years and closed CY23 at 62,451 points.



Sector wise return in CY23



Source: PSX, Akseer Research

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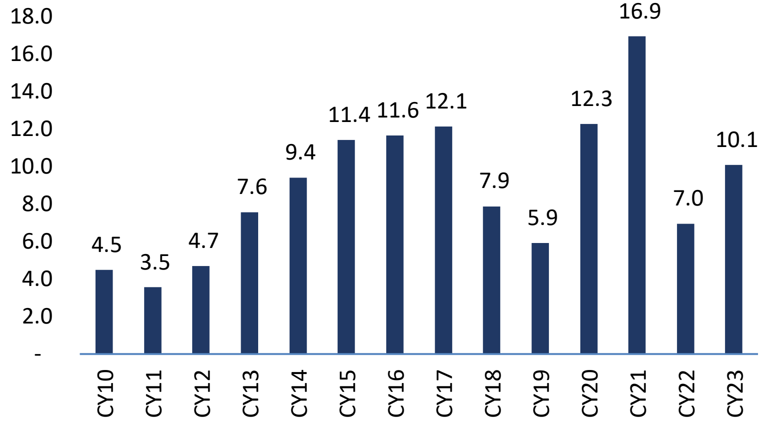
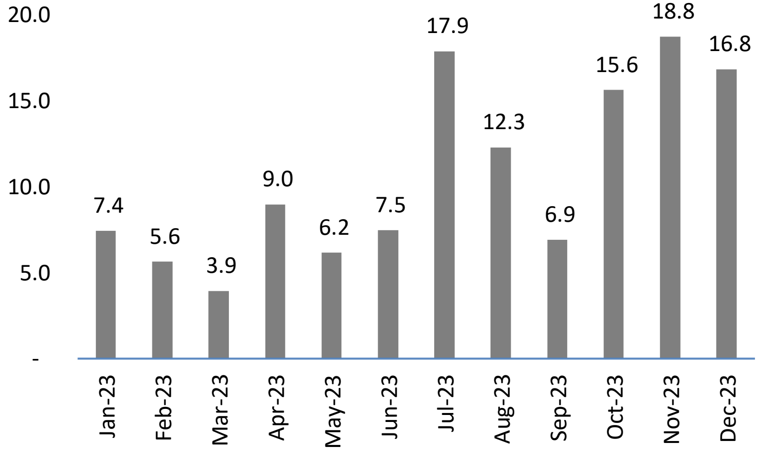
Overview of CY23 KSE-100 performance

- **Improved trading activity**
  - The Average Daily Value Traded (ADV) increased by 45.0% YoY to PKR 10.1bn in CY23.
  - ADV during 4QCY23 was even better at PKR 17.1bn.
- **Foreigners turned net buyers after selling of three years**
  - Foreign investors turned net buyers after remaining sellers for the last three consecutive years
  - In CY23, Foreigner's bought USD 74mn worth of shares compared with selling of USD 979mn between CY20-CY22.

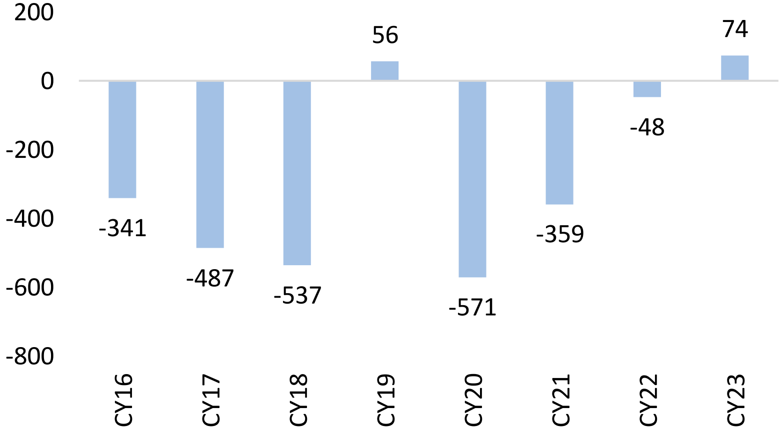
Avg ADV CY10-23 - PKR bn



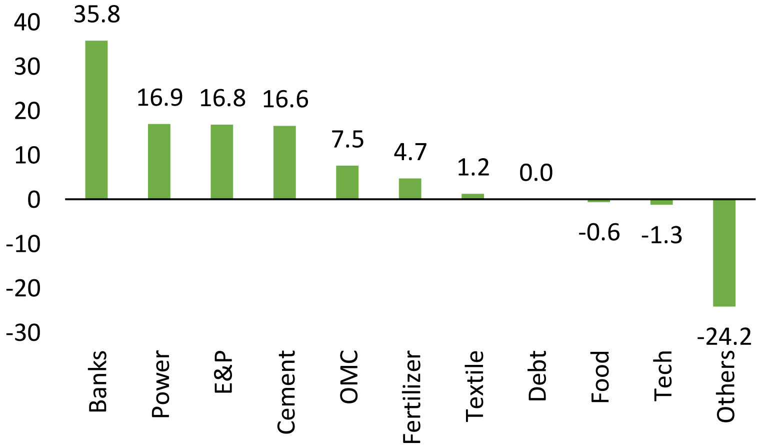
Trading activity improved in 4Q - PKR bn



FIPI – USD mn



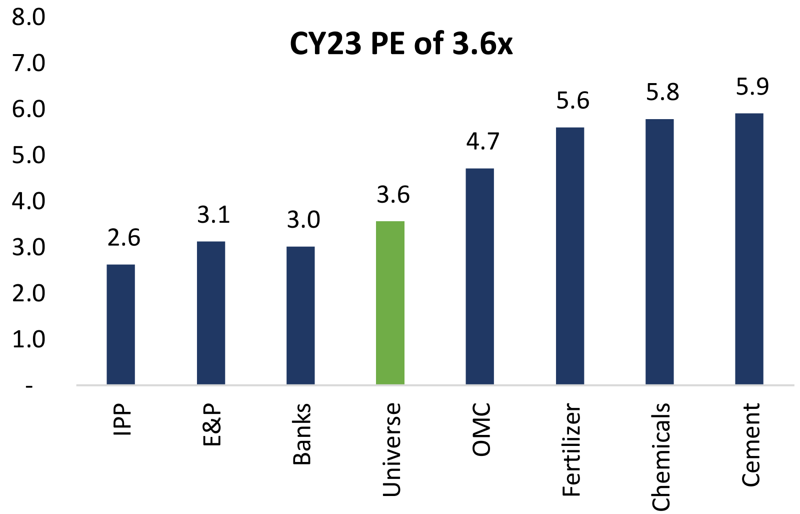
Sector wise foreign buying during CY23

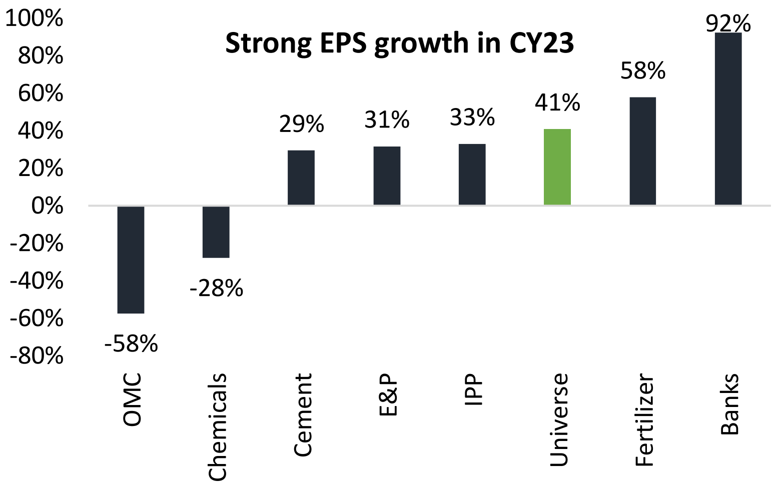


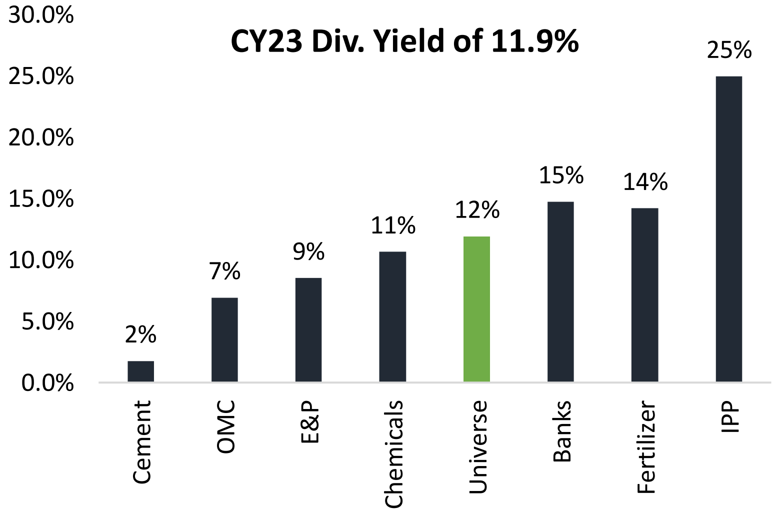
Source: PSX, Akseer Research

CY23 KSE-100 return is paralleled by strong EPS growth

- **Strong earnings growth in CY23…**
  - CY23 earnings of Akseer Universe is estimated to have grown by 41%.
  - Earnings growth was led by the banking (+92% YoY) and fertilizer (+58% YoY) sector.
  - EPS growth also remained strong for cements, E&Ps and IPPs
- **…while KSE-100 valuation has not appreciated much, despite a stellar CY23 return**
  - Helped by 12% dividend yield and 41% EPS growth, KSE-100’s 55% return in CY23 was almost entirely driven by yield and profitability growth and had a very minimal contribution of PE re-rating. As such, CY23 PE remains significantly attractive at 3.6x.



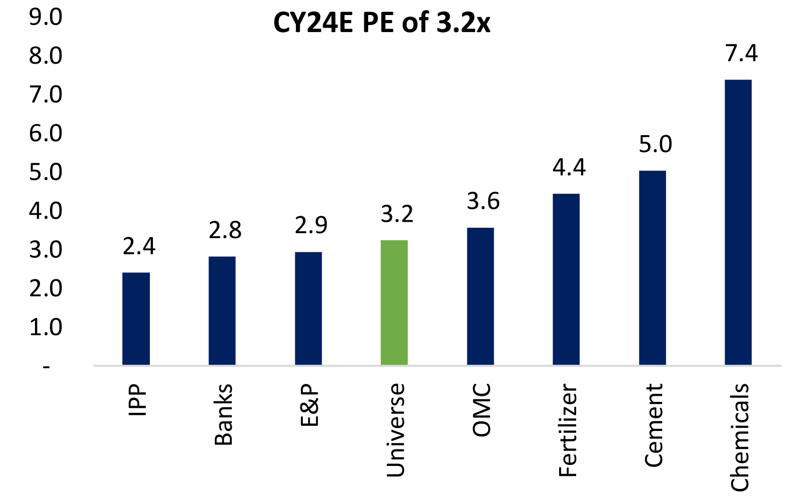


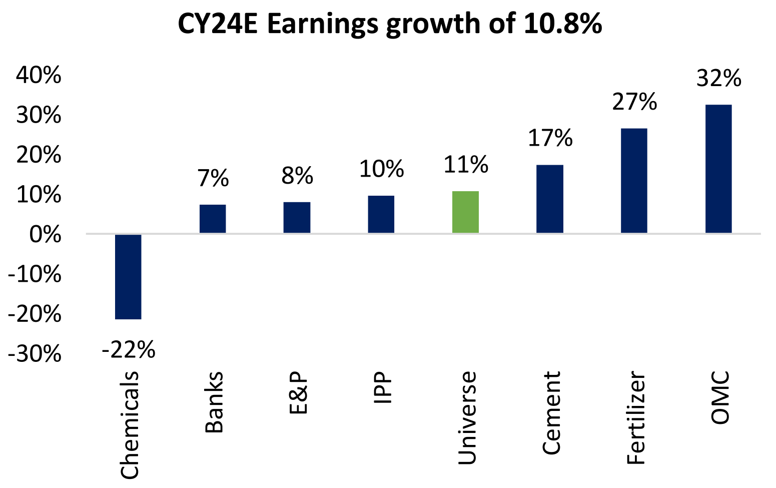


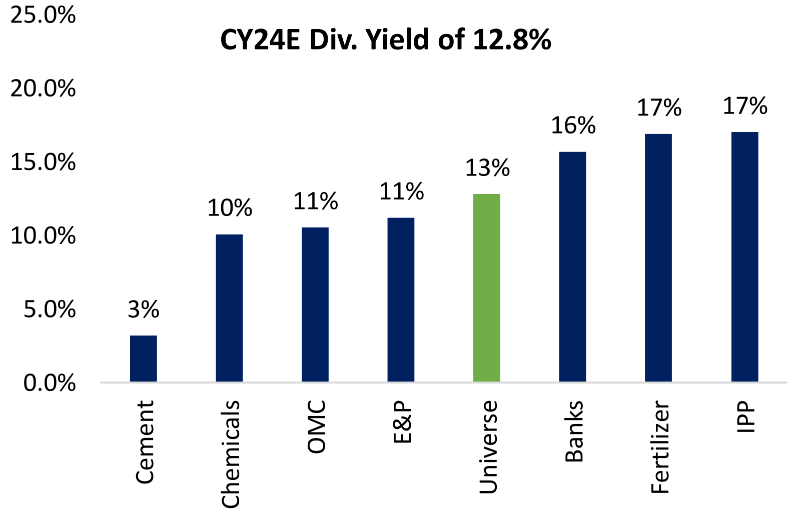
Source: PSX, Akseer Research

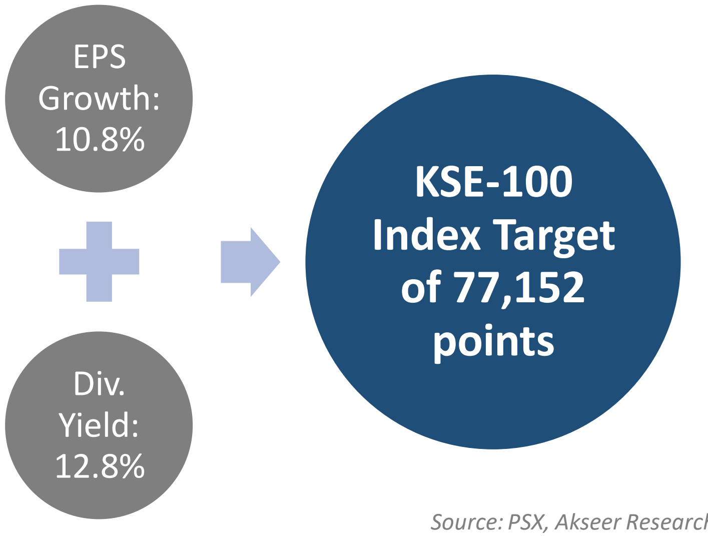
Our Dec-24 index target of 77,152 points (conservatively) assumes no rerating

- **Our Dec-24 index target is 77,152 points**
  - Our Dec-24 KSE-100 index target implies a total return of ~23.5%, driven by an EPS growth of 10.8% and a dividend yield of ~12.8%.
  - We have (conservatively) assumed no re-rating.
- **Very attractive forward PE of 3.2x**
  - Our estimated forward PE based on Akseer Universe's (63% of free float cap) forecasted CY24 earnings at 3.2x.
  - This is very attractive and is still hovering around the all time low achieved during COVID-19.









Source: PSX, Akseer Research

Market Strategy and Top Picks

- **Market outlook amid political noise**
  - Since 2024 is an election year, and considering the heightened political tensions coupled with geopolitics and an impending IMF program, we expect CY24 to be a volatile year for the market.
  - However, since market valuations are extremely attractive and listed companies are likely to record (a modest) growth in earnings, we are confident with our index target of 77,152 for KSE-100.
- **Preferred Sectors**
  - **Banks** profitability will continue to be supplemented by high interest rates. However, double digit dividend yield would help generate a large chunk of expected CY24 return from the sector.
  - **E&P, OMCs and IPPs** will be the key beneficiaries of rationalization of power and gas prices. Additionally, reduction in circular debt stock, in line with IMF guidelines will likely yield strong dividends and could also trigger a rally in respective stocks.
  - **Fertilizer** will benefit from its strong pricing power due to higher demand resulting from better farmer profitability.
- **Key Risks**
  - Heightened political noise post elections, & the possibility of mixed election results leading to a weak government.
  - Escalation in geopolitical turmoil in the Middle East and Russia – Ukraine leading to an increase in commodity prices.
  - Tensions with Pakistan’s neighbours i.e. India, Afghanistan and Iran.
  - Delay in elections.
  - Delay in new IMF program.

Top Picks	
MCB	PPL
UBL	MARI
BAFL	POL
BAHL	FFC
OGDC	PSO

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Coverage Universe

S. No	Symbol	Year End	Rating	Price	Target	Upside	EPS				DPS				PE				Div Yield				BVPS			
							2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
1	EFERT	December	HOLD	121	117	-4%	12.0	18.0	25.6	23.5	13.5	20.4	20.5	19.0	10.1	6.7	4.7	5.1	11%	17%	17%	16%	34	31	36	41
2	FFBL	December	BUY	29	44	52%	1.8	5.1	5.6	7.0	0.0	0.0	2.2	2.7	16.0	5.7	5.2	4.1	0%	0%	8%	10%	18	23	26	31
3	FFC	December	BUY	118	159	35%	15.8	24.1	28.7	32.3	12.1	16.6	21.5	24.3	7.5	4.9	4.1	3.6	10%	14%	18%	21%	40	48	55	63
4	OGDC	June	BUY	124	207	66%	31.1	52.2	47.0	47.5	7.3	8.6	11.0	19.0	4.0	2.4	2.6	2.6	6%	7%	9%	15%	204	252	288	316
5	PPL	June	BUY	122	183	50%	20.0	35.7	43.1	48.6	2.0	1.5	6.5	11.0	6.1	3.4	2.8	2.5	2%	1%	5%	9%	160	199	235	273
6	POL	June	BUY	438	540	24%	91.4	128.4	140.4	145.4	70.0	80.0	84.0	87.0	4.8	3.4	3.1	3.0	16%	18%	19%	20%	180	238	295	353
7	MARI	June	BUY	2,375	3,120	31%	247.8	420.7	562.9	660.7	124.0	147.0	169.0	198.0	9.6	5.6	4.2	3.6	5%	6%	7%	8%	981	1,263	1,660	2,127
8	HBL	December	BUY	115	169	48%	23.2	42.4	46.1	44.3	6.8	8.0	10.8	15.0	4.9	2.7	2.5	2.6	6%	7%	9%	13%	192	238	275	304
9	UBL	December	BUY	183	211	15%	26.2	45.0	48.2	46.9	22.0	44.0	38.0	40.0	7.0	4.1	3.8	3.9	12%	24%	21%	22%	171	182	189	199
10	BAFL	December	BUY	48	60	24%	11.5	21.9	22.0	21.5	5.6	5.5	6.5	7.5	4.2	2.2	2.2	2.3	12%	11%	13%	15%	63	81	97	304
11	BAHL	December	BUY	81	104	29%	14.9	37.0	39.5	41.0	7.0	13.8	16.0	16.5	5.4	2.2	2.0	2.0	9%	17%	20%	20%	86	112	147	199
12	MCB	December	BUY	178	214	21%	27.6	50.9	52.4	51.9	20.0	28.0	31.0	31.5	6.4	3.5	3.4	3.4	11%	16%	17%	18%	160	186	209	230
13	MEBL	December	BUY	165	176	7%	25.1	46.3	54.1	53.9	8.2	17.0	20.0	24.3	6.6	3.6	3.0	3.1	5%	10%	12%	15%	64	95	129	160
14	CHCC	June	BUY	152	190	25%	22.9	22.7	30.3	31.1	3.0	4.5	6.0	6.0	6.6	6.7	5.0	4.9	2%	3%	4%	4%	89	107	134	159
15	DGKC	June	BUY	72	91	25%	6.8	-8.3	5.0	6.7	1.0	0.0	0.8	1.0	10.6	(8.7)	14.5	10.9	1%	0%	1%	1%	160	147	153	160
16	FCCL	June	BUY	19	27	43%	2.9	3.0	3.7	3.7	0.0	0.0	0.0	3.0	6.5	6.2	5.0	5.1	0%	0%	0%	16%	24	27	30	32
17	KOHC	June	BUY	225	301	34%	25.0	29.0	47.8	50.1	0.0	0.0	0.0	7.5	9.0	7.8	4.7	4.5	0%	0%	0%	3%	136	162	205	254
18	MLCF	June	BUY	38	51	34%	4.24	5.38	6.6	6.1	0.0	0.0	0.0	2.0	9.0	7.1	5.8	6.2	0%	0%	0%	5%	37	43	48	54
19	PIOC	June	BUY	115	142	24%	4.6	11.5	19.1	18.9	0.0	0.0	0.0	0.0	24.9	10.0	6.0	6.1	0%	0%	0%	0%	60	71	74	84
20	NPL	June	HOLD	31	27	-12%	9.4	11.6	14.6	11.6	4.5	7.0	5.4	6.1	3.3	2.7	2.1	2.7	14%	22%	17%	20%	78	84	80	78
21	HUBC	June	BUY	116	130	12%	21.9	44.4	43.9	53.2	6.5	37.9	20.6	18.9	5.3	2.6	2.7	2.2	6%	33%	18%	16%	97	122	149	183
22	PSO	June	BUY	179	309	73%	183.7	12.1	60.4	43.4	10.0	7.5	15.0	21.0	1.0	14.9	3.0	4.1	6%	4%	8%	12%	459	461	507	529
23	APL	June	BUY	384	506	32%	149.0	100.2	93.3	96.9	36.0	27.5	45.0	50.0	2.6	3.8	4.1	4.0	9%	7%	12%	13%	300	363	412	459
24	LCI	June	BUY	737	875	19%	91.7	190.1	90.1	112.8	35.0	43.0	45.0	56.5	8.0	3.9	8.2	6.5	5%	6%	6%	8%	360	458	503	559
25	LUCK	June	BUY	749	914	22%	91.2	150.8	165.1	180.0	0.0	18.0	25.0	26.0	8.2	5.0	4.5	4.2	0%	2%	3%	3%	618	807	932	1,050
26	EPCL	December	HOLD	47	40	-14%	12.9	7.6	6.3	7.7	12.5	6.5	5.8	7.0	3.6	6.2	7.5	6.1	27%	14%	12%	15%	30	31	31	32

Prices as of 19th January 2024 closing

SECTION 4

TOP PICKS

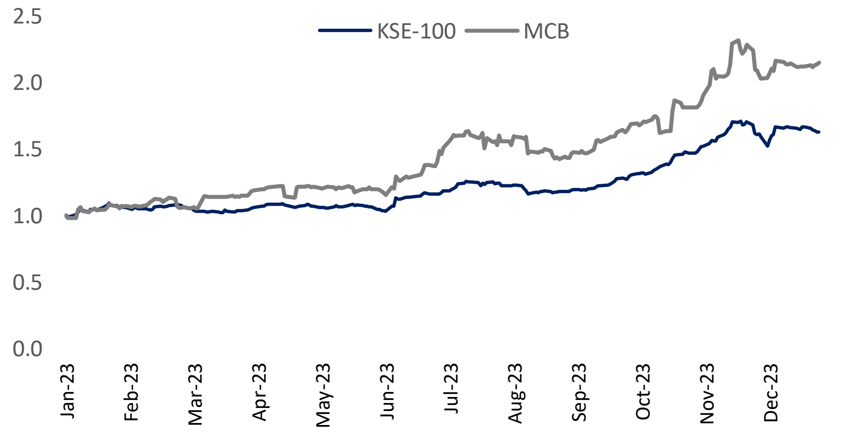
Alpha Capital REN # REP-004 AKSEER RESEARCH REN # REP-400R

MCB	Bloomberg	MCB	Target Price (PKR)	214	Div. Yield (%)	18%	Shares (mn)	1,185.1
	Reuters	MCB:PA	Current Price (PKR)	178	12M High (PKR)	203.8	Mkt Cap (PKR mn)	217,209
	PSX Ticker	MCB.KA	Upside/(Downside) (%)	21%	12M Low (PKR)	106.9	Year End	December

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 214 for MCB offers an upside of 21%, along with an impressive dividend yield of 18%.
  - MCB is trading at a CY24E PBV 0.8x, which is at a significant discount of 42% to its 10-year average PBV of 1.4x.
- **One of the highest CASA in the industry**
  - MCB has one the highest CASA ratio of 96.7% at Sep-23 in the banking industry, with the current account mix of 51.5%.
- **Higher CAR would ensure constant payout**
  - MCB's CAR clocked in at 20.3% at Sep-23, well above the SBP's regulatory requirement. With an ROE of more than 25%, we expect the bank's CAR to remain at comfortable levels. We have assumed a payout ratio of 60% in CY24 and a payout of 70% CY25 onwards.
- **Lowest Cost to Income Ratio**
  - MCB continues to manage an efficient operating expense base and monitors cost prudently. Despite a challenging environment of high inflation, currency devaluation and rapidly escalating technology related expenses, the bank successfully sustains the lowest cost to income ratio in our Universe. To highlight, the cost to income ratio improved to 29% in Sep-23 from 37% a year ago.

Key Ratios	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	24.5	26.0	27.6	50.9	52.4	51.9
EPS Growth	21.1%	6.1%	6.3%	84.4%	2.9%	-1.0%
DPS	20.0	19.0	20.0	28.0	31.0	31.5
PER	7.2	6.8	6.4	3.5	3.4	3.4
Div. Yield	11.3%	10.7%	11.3%	15.8%	17.5%	17.7%
ROE	16.2%	16.9%	18.0%	29.4%	26.5%	23.7%
P/B	1.1	1.2	1.1	1.0	0.8	0.8

Relative Price Performance

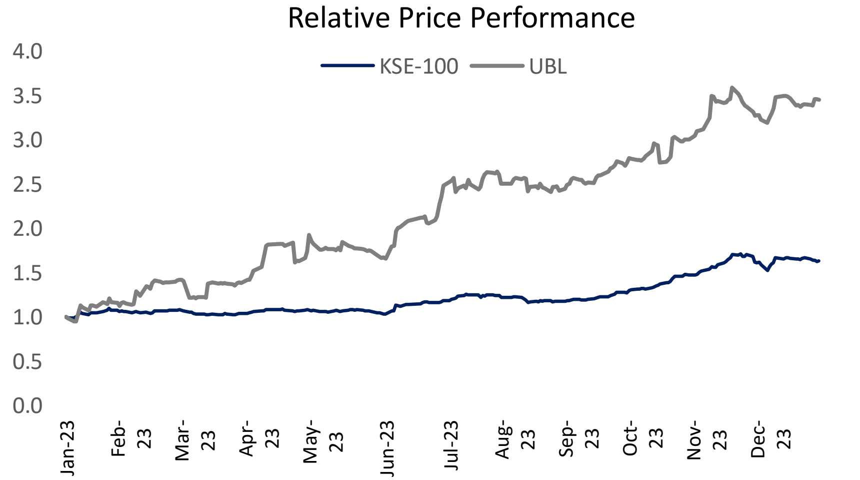


Alpha Capital REN # REP-004 | AKSEER RESEARCH REN # REP-400R

UBL								
	Bloomberg	UBL.PA	Target Price (PKR)	211	Div. Yield (%)	21%	Shares (mn)	1,224.2
	Reuters	UBL.KA	Current Price (PKR)	183	12M High (PKR)	191	Mkt Cap (PKR mn)	222,286
	PSX Ticker	UBL	Upside/(Downside) (%)	15%	12M Low (PKR)	91	Year End	December

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 211 for UBL offers an upside of 15% along with CY24E dividend yield of 21%, the highest in Akseer's banking universe.
  - The stock is currently trading at CY24E P/BV of 0.9x, at a discount of 31% from its last 10 year average P/BV of 1.3x.
- **Healthy dividend payout to continue**
  - We expect UBL to maintain a healthy payout going forward due to comfortable CAR position. The Bank's CAR stood at 18.6% as of Sep-23 with a buffer of 6.6% over the minimum regulatory requirement.
- **CASA continues to strengthen**
  - UBL's CASA to total deposit ratio continued to improve and stood at 90.5% in 9MCY23 from 85.8% in Sep-22.
- **Asset quality has improved considerably**
  - UBL's asset quality has improved considerably over time for both overseas and domestic portfolio. Coverage ratio stood at 98% by the end of Sept-23. The bank's total NPLs increased 17% during 9MCY23 mainly due to currency devaluation on the international NPLs. With relatively stable currency and monetary easing, pressure on NPL is going to ease.

Key Ratios	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	17.1	25.2	26.2	45.0	48.2	46.9
EPS Growth	9.2%	47.8%	3.8%	72.0%	7.0%	-2.6%
DPS	12.0	18.0	22.0	44.0	38.0	40.0
PER	10.7	7.2	7.0	4.1	3.8	3.9
Div. Yield	6.6%	9.8%	12.0%	24.1%	20.8%	21.9%
ROE	11.8%	15.9%	15.5%	25.5%	25.9%	24.2%
P/B	1.2	1.1	1.0	1.0	0.9	0.9



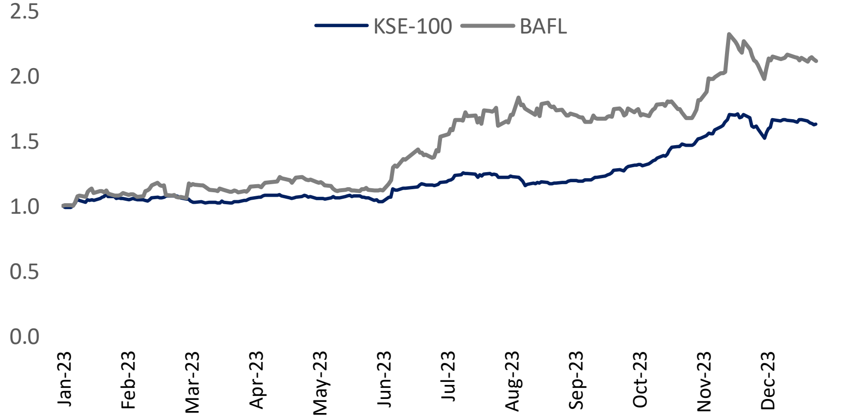
BAFL

Bloomberg	BAFL	Target Price (PKR)	60	Div. Yield (%)	13%	Shares (mn)	1,577.1
Reuters	BAFL.PA	Current Price (PKR)	48	12M High (PKR)	53.4	Mkt Cap (PKR mn)	79,631
PSX Ticker	BAFL.KA	Upside/(Downside) (%)	24%	12M Low (PKR)	27.6	Year End	December

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 60 for BAFL offers an upside of 24%, along with a dividend yield of 13%.
  - BAFL is trading at a CY24E PBV 0.5x, which is at a significant discount of 32%/ 25% to its 10/5-year average PBV of 0.73x/0.66x, respectively.
  - The capital adequacy ratios are likely to remain well above the SBP's regulatory requirement. We have assumed a long term payout ratio of 40%.
- **Impressive deposit growth**
  - The Bank's deposits are expected to post a robust growth on the back of aggressive branch network expansion and focus on technology. Since 2022, the bank has opened over 160 branches.
  - Deposits grew by 31.5% YoY to PKR 1.8tn in Sep-23 with 5-Yr CAGR clocking in at 20.9%, the highest in Akseer Universe.
- **Prudent exposure management in challenging times**
  - BAFL reduced its loan book by 7.5% during 9MCY23 to PKR 708bn to maintain credit discipline amid challenging market conditions. ADR stood at 39% as of Sep-23, compared to 51% at Dec-22. BAFL's infection ratio remains under control at 5.4%. Moreover, non-performing loans remain fully covered with coverage ratio stood at 112.5% at Sep-23.

Key Ratios	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	6.6	9.0	11.5	21.9	22.0	21.5
EPS Growth	-17.5%	35.7%	28.1%	90.1%	0.1%	-2.2%
DPS	4.5	4.5	5.6	5.5	6.5	7.5
PER	7.3	5.4	4.2	2.2	2.2	2.3
Div. Yield	9.3%	9.3%	11.6%	11.4%	13.4%	15.5%
ROE	11.7%	14.9%	18.2%	30.5%	24.7%	20.6%
P/B	0.8	0.8	0.8	0.6	0.5	0.4

Relative Price Performance

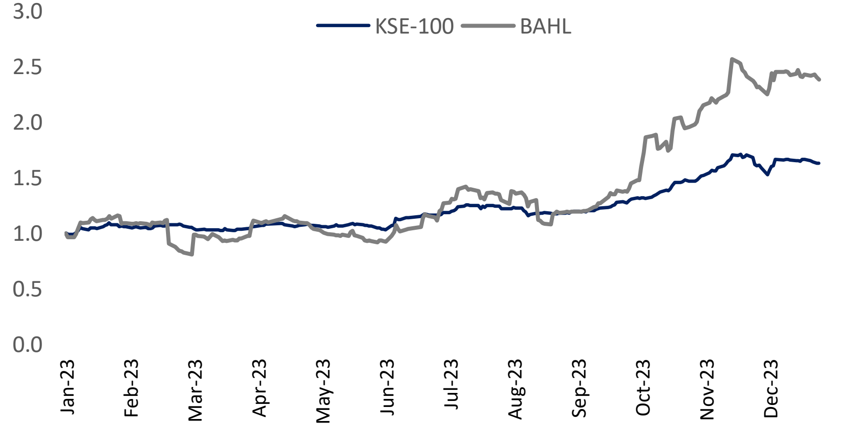


BAHL								
Bloomberg	BAHL	Target Price (PKR)	104	Div. Yield (%)	20%	Shares (mn)	1,777.1
Reuters	BAHL.PA	Current Price (PKR)	81	12M High (PKR)	88.0	Mkt Cap (PKR mn)	92,992
PSX Ticker	BAHL.KA	Upside/(Downside) (%)	29%	12M Low (PKR)	40.0	Year End	December

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 104 for BAHL offers an upside of 29%, along with an attractive dividend yield of 20%.
  - BAHL is trading at a CY24E PBV 0.5x, which is at a significant discount of 66%/ 56% to its 10/5-year average PBV of 1.3x/1.0x, respectively.
  - The capital adequacy ratios are expected to maintain comfortably above the SBP's regulatory requirement. We have assumed a long term payout ratio of 40% for BAHL.
- **One of the lowest infection ratio**
  - BAHL maintains one of the lowest infection ratio of 1.9% in our banking universe while maintaining an ADR above 50%. This is a clear indication of the bank's prudent lending practices and risk management strategies. Lower infection ratio reflects the bank's soundness and resilience in tough market conditions. More importantly, BAHL maintains a coverage ratio of 121%.
- **Aggressive branch expansion strategy is driving deposit growth**
  - Deposits have grown at a 5-Yr CAGR of 18.9%, one of the highest in Akseer Universe. The Bank's deposits grew by 21.9% YoY to PKR 1.9tn in Sep-23 on aggressive branch network expansion. Since 2022, the bank has added 156 new branches.

Key Ratios	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	16.0	16.8	14.9	37.0	39.5	41.0
EPS Growth	59.5%	5.0%	-11.4%	148.5%	6.6%	3.7%
DPS	4.5	7.0	7.0	13.8	16.0	16.5
PER	5.0	4.8	5.4	2.2	2.0	2.0
Div. Yield	5.6%	8.7%	8.7%	17.1%	19.8%	20.5%
ROE	25.2%	22.0%	17.9%	37.4%	30.5%	25.6%
P/B	1.1	1.0	0.9	0.7	0.5	0.5

Relative Price Performance



Alpha Capital REN # REP-004 | AKSEER RESEARCH REN # REP-400R

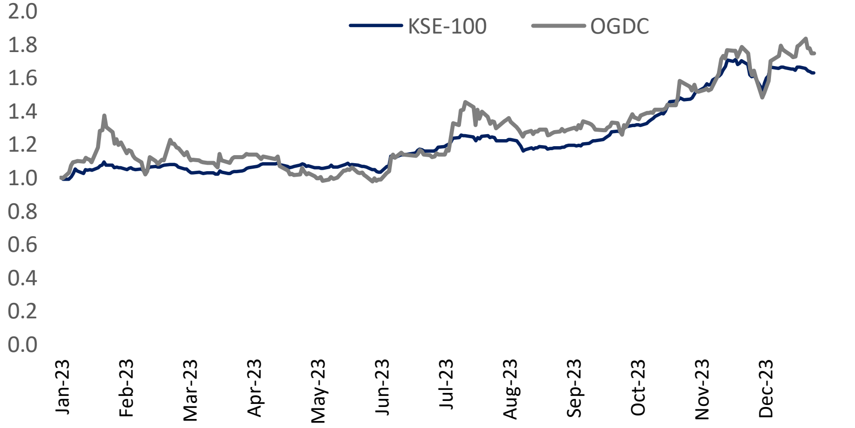
OGDC

Bloomberg	OGDC.PA	Target Price (PKR)	207	Div. Yield (%)	9%	Shares (mn)	4,301
Reuters	OGDC.KA	Current Price (PKR)	124	12M High (PKR)	129	Mkt Cap (PKR mn)	526,863
PSX Ticker	OGDC	Upside/(Downside) (%)	66%	12M Low (PKR)	69	Year End	June

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 207, offers an upside of 66%, along with a dividend yield of 9%.
  - OGDC is trading at FY24E PE and PBV of 2.5x and 0.4x, respectively. This reflects a discount of 60%/64% to its 10-year average PE and PBV of 6.6x/1.1x.
- **Core earnings to grow in FY24**
  - While headline EPS will likely decline by 5.8% YoY in FY25, core earnings to grow by 14% YoY.
  - FY23 earnings included a one-off gain of PKR 75.4bn booked on modification of finance lease.
- **Diversifying in mining**
  - OGDC has invested PKR 36.7bn for 8.33% stake in Reko Diq Mining Company, one of the largest undeveloped copper-gold projects, through Pakistan Mineral Limited. Barrick, the operator, is in the process of updating the project feasibility study, with first production targeted in 2028.
- **Key trigger remains the resolution of circular debt**
  - Clearance of existing circular debt stock will remain the key trigger for the stock. Moreover, recent rationalization of gas prices would lower run rate of receivable pile up, in our view. OGDC's overdue receivables have reached PKR 595bn as of Sep-23, amounting to PKR138/share.
- **Key risks include**
  - 1) Sharp decline in oil prices and 2) further increase in overdue receivables due to circular debt.

Key Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	21.3	31.1	52.2	47.0	47.5	48.7
EPS Growth	-9.3%	46.2%	67.9%	-9.9%	1.0%	2.6%
DPS	6.9	7.3	8.6	11.0	19.0	22.0
PER	5.8	4.0	2.4	2.6	2.6	2.5
Div. Yield	5.6%	5.8%	6.9%	8.9%	15.3%	17.7%
P/B	0.7	0.6	0.5	0.4	0.4	0.4
ROE	12.4%	16.3%	22.9%	17.4%	15.7%	14.8%

Relative Price Performance



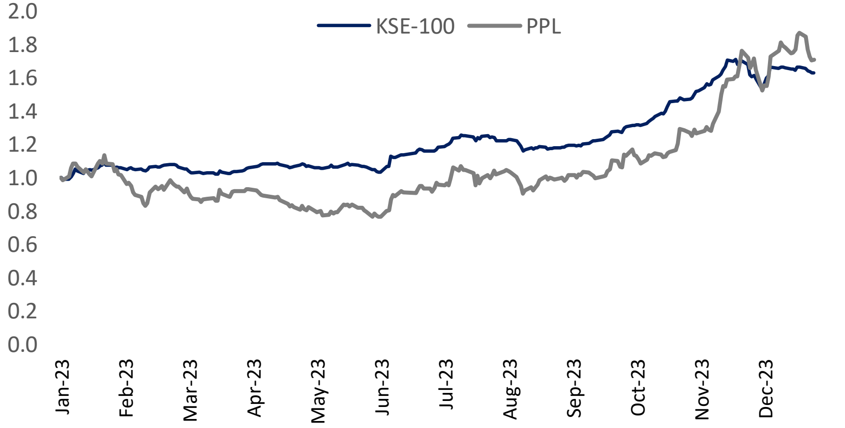
Alpha Capital REN # REP-004 | AKSEER RESEARCH REN # REP-400R

PPL	Bloomberg	PPL.PA	Target Price (PKR)	183	Div. Yield (%)	5%	Shares (mn)	2,721
	Reuters	PPL.KA	Current Price (PKR)	122	12M High (PKR)	119.5	Mkt Cap (PKR mn)	313,292
	PSX Ticker	PPL	Upside/(Downside) (%)	50%	12M Low (PKR)	50	Year End	June

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 183 offers an upside of 50%, along with a dividend yield of 5.3%. PPL is trading at FY24E PE and PBV of 2.8x and 0.5x, respectively. This reflects a discount of 55%/54% to its 10-year average PE and PBV of 6.3x/1.1x.
  - The stock is currently trading at an implied oil price of USD 53/barrel which is at a discount of 41% to our long-term oil price assumption of USD 80/barrel.
- **Price led earnings growth amid weak volumes**
  - PPL is expected to post earnings growth of 20.6% YoY to PKR 43.1/share in FY24, mainly on account of PKR devaluation and higher gas prices. We have assumed oil prices to average USD 86/bbl in FY24.
  - Despite commencement of production from past discoveries, we expect PPL's overall production to decrease by 1% during the next 3 years owing to depleting mature assets.
- **Key trigger remains the resolution of circular debt**
  - Clearance of existing circular debt stock would remain the key trigger for the stock. Moreover, recent rationalization of gas prices would lower run rate of receivable pile up, in our view. PPL's overdue receivables have reached PKR 543bn as of Sep-23, amounting to PKR200/share.
- **Key risks include**
  - 1) Sharp decline in oil prices and 2) further increase in overdue receivables due to circular debt.

Key Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	19.2	20.0	35.7	43.1	48.6	48.9
EPS Growth	5.8%	3.9%	78.9%	20.6%	12.8%	0.5%
DPS	3.5	2.0	1.5	6.5	11.0	14.5
PER	6.4	6.1	3.4	2.8	2.5	2.5
Div. Yield	2.9%	1.6%	1.2%	5.3%	9.0%	11.8%
P/B	0.9	0.8	0.6	0.5	0.4	0.4
ROE	14.3%	13.2%	19.9%	19.8%	19.1%	16.8%

Relative Price Performance



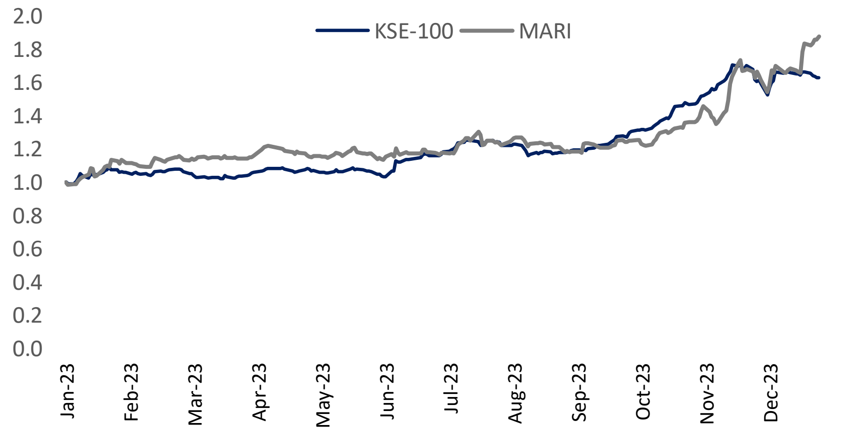
Alpha Capital REN # REP-004 AKSEER RESEARCH REN # REP-400R

MARI								
	Bloomberg	MARI.PA	Target Price (PKR)	3,120	Div. Yield (%)	7%	Shares (mn)	133
	Reuters	MARI.KA	Current Price (PKR)	2,375	12M High (PKR)	1,815	Mkt Cap (PKR mn)	281,646
	PSX Ticker	MARI	Upside/(Downside) (%)	31%	12M Low (PKR)	1,385	Year End	June

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 3,120/share provides an upside of 31%, along with a dividend yield of 7%.
  - The stock is trading at FY24E PE and PBV of 4.2x and 1.4x, respectively which is at a discount of 53% and 46% to its 10-year average PE and PBV of 9.0x and 2.6x, respectively.
  - MARI is immune to circular debt as most of its gas sale is to the fertilizer sector.
- **Incremental flows to result in an EPS CAGR of 21%**
  - Despite lower oil prices, earnings will grow at a CAGR of 21% during FY24-26, owing to (1) incremental flows of 150 mmcfd Mari Deep and sustainability of flows from HRL after installation of GTH gas processing facility at Mari field, and (2) commencement of flows from Shewa (formerly Bannu West).
  - Successful horizontal well drilling (three wells drilled so far) and Pressure Enhancement Facilities Project with fertilizer companies would extend production plateau of HRL Reservoir.
- **Other key triggers**
  - Potential success in drilling of Maiwand X-1 in Block-28.
- **Key risks include**
  - 1) Concentration risk due to high dependency on Mari gas field, 2) decline in production from Mari HRL reservoir and 3) delay in commencement of flows from Shewa.

Key Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	235.7	247.8	420.7	562.9	660.7	699.4
EPS Growth	3.7%	5.1%	69.8%	33.8%	17.4%	5.8%
DPS	141.0	124.0	147.0	169.0	198.0	210.0
PER	10.1	9.6	5.6	4.2	3.6	3.4
Div. Yield	5.9%	5.2%	6.2%	7.1%	8.3%	8.8%
P/B	2.7	2.4	1.8	1.4	1.1	0.9
ROE	30.1%	26.8%	37.5%	38.5%	34.9%	29.5%

Relative Price Performance



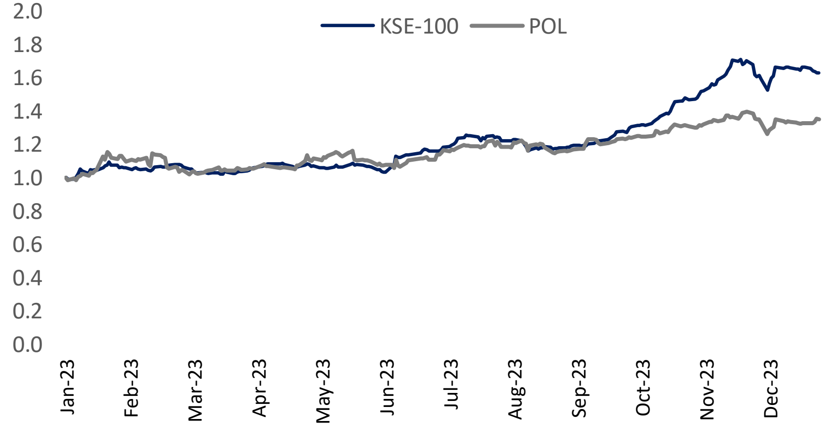
POL

Bloomberg	POL.PA	Target Price (PKR)	540	Div. Yield (%)	19%	Shares (mn)	284
Reuters	POL.KA	Current Price (PKR)	438	12M High (PKR)	469	Mkt Cap (PKR mn)	127,558
PSX Ticker	POL	Upside/(Downside) (%)	24%	12M Low (PKR)	381	Year End	June

- **Valuation and investment recommendation**
  - Our Dec-24 PT of POL at PKR 540, offers an upside of 24%, along with a dividend yield of 19%. POL is trading at FY24E PE of 3.1x which is at a 66% discount to its 10-years PE of 9.0x.
  - The stock is currently trading at an implied oil price of USD 63/barrel which is at a discount of 24% to our long-term oil price assumption of USD 80/barrel.
  - No exposure to circular debt and consistent payout makes POL attractive.
- **PKR devaluation a key earnings driver amid decline in volumes**
  - POL's EPS is expected to rise 10.6% to PKR 142 in FY24, primarily due to PKR devaluation. We have assumed oil price at USD 84/80.5 per barrel for FY24/25, whereas our average exchange rate assumption is PKR 294/339 for FY24/25 respectively.
- **Strong balance sheet**
  - POL is sitting on cash balances of PKR 76.0bn (PKR 268/share) which would help sustain its payout going forward.
- **Key risks include**
  - 1) sharp decline in oil prices, 2) delay in connection of discoveries, and 3) Lower flows from Jhandial-3 discovery.

Key Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	47.1	91.4	128.4	140.4	145.4	149.8
EPS Growth	-18.3%	93.8%	40.6%	9.3%	3.6%	3.0%
DPS	50.0	70.0	80.0	84.0	87.0	105.0
PER	9.3	4.8	3.4	3.1	3.0	2.9
Div. Yield	11.4%	16.0%	18.3%	19.2%	19.9%	24.0%
P/B	3.2	2.4	1.8	1.5	1.2	1.1
ROE	33.6%	57.4%	61.4%	52.7%	44.9%	39.9%

Relative Price Performance



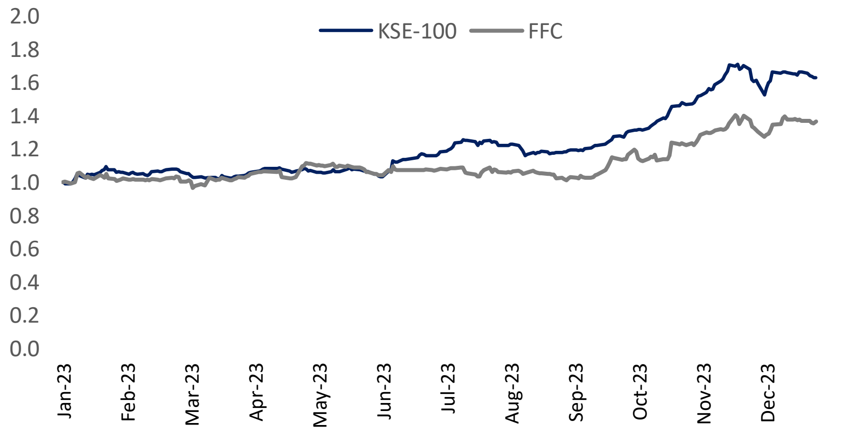
FFC

Bloomberg	FFC.PA	Target Price (PKR)	159	Div. Yield (%)	18%	Shares (mn)	1,272
Reuters	FAUF.KA	Current Price (PKR)	118	12M High (PKR)	122	Mkt Cap (PKR mn)	147,575
PSX Ticker	FFC	Upside/(Downside) (%)	35%	12M Low (PKR)	90	Year End	December

- **Valuation and investment recommendation**
  - Dec-24 PT of PKR 159/share, offers an upside of 35% along with CY24E dividend yield of 18%. Core business of the company contributes PKR 109/share while other investments contributes PKR 50/share to our PT.
- **Pricing power to remain strong**
  - With strong pricing power and Urea market share of ~39%, FFC's CY24E earnings are likely to grow by 19% YoY despite ~50% increase in average gas prices. We expect Urea offtake of the company to clock in at 2.47mn tons (flattish) and DAP offtake to increase to 125k tons (+5% YoY).
  - Strong cash balance of PKR 77bn as of Sep-23, amounting to PKR61/share provides a hedge against any unfavorable decision on GIDC and will also help in sustaining payout.
- **Rising earnings contribution from investment portfolio**
  - Contribution from FFC's investment portfolio is expected to reach PKR 3.6bn in CY25E on dividend resumption from FFBL, AKBL, FCCL and PMP. Commencement of dividends from TEL on project completion would provide further support to the company's profitability.
- **Key risks include**
  - 1) Depletion of MARI HRL reserves, a key gas source for FFC, 2) increase in gas prices for fertilizer sector due to WACOG implementation and 3) fixation of urea prices by govt ensure food security.

Key Ratios	CY20A	CY21A	CY22A	CY23E	CY24E	CY25E
EPS	16.4	17.2	15.8	24.1	28.7	32.3
EPS Growth	21.7%	5.2%	-8.4%	53.2%	19.0%	12.3%
DPS	11.2	14.5	12.1	16.6	21.5	24.3
PER	7.2	6.8	7.5	4.9	4.1	3.6
Div. Yield	9.5%	12.3%	10.3%	14.1%	18.3%	20.6%
P/B	3.5	3.2	2.9	2.5	2.1	1.9
ROE	48.9%	46.1%	39.4%	50.8%	52.4%	51.3%

Relative Price Performance

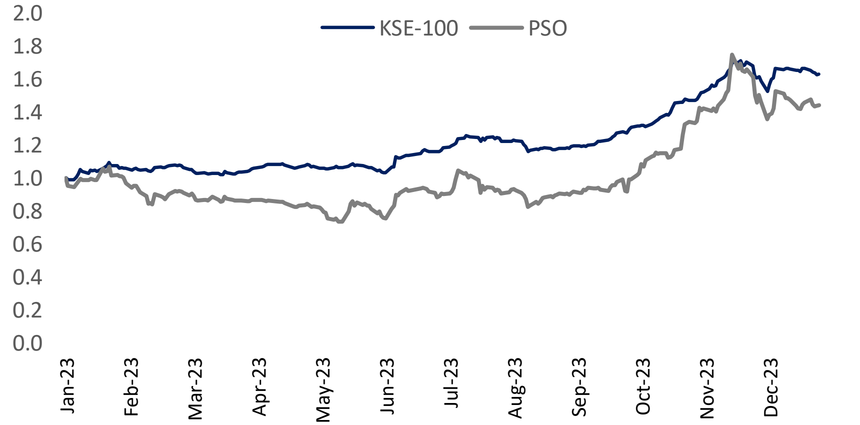


PSO								
	Bloomberg	PSO	Target Price (PKR)	309	Div. Yield (%)	8%	Shares (mn)	469.5
	Reuters	PSO.PA	Current Price (PKR)	179	12M High (PKR)	218.0	Mkt Cap (PKR mn)	96,387
	PSX Ticker	PSO.KA	Upside/(Downside) (%)	73%	12M Low (PKR)	98.8	Year End	June

- **Valuation and investment recommendation**
  - Our Dec-24 PT of PKR 309/share for PSO, offers an upside of 73%, along with a dividend yield of 8%. PSO is trading at FY24E PBV of 0.3x, which is at a 57% discount to its mean PBV of 0.7x during the last 10 years.
- **Higher retail margin to support earnings growth beyond FY25**
  - PSO's EPS is expected to increase in FY24 mainly owing to inventory gains. Subsequently, EPS would likely fall 28% YoY in FY25 due to absence of inventory gains.
  - Amid weak volumes, CPI driven annual increase in OMC margins remain the key driver of EPS growth for PSO.
- **Circular debt resolution remains the key trigger**
  - Implementation of WACOG for gas pricing will help in full cost recovery of LNG sales and reduce receivable pile up.
  - PSO's overdue receivables surged to PKR 510bn at 1QFY24. Net receivables stood at PKR 102bn, or PKR200/share. Any concrete development on circular debt resolution will pose upside risk to our valuation.
- **Key risks include**
  - 1) Sharp decline in oil prices pose risk of inventory losses, 2) influx of smuggled POL products can affect the company's retail fuel market share and 3) exchange losses due to PKR devaluation.

Key Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	62.1	183.7	12.1	60.4	43.4	55.4
EPS Growth	NM	196%	-93%	400%	-28%	28%
DPS	15.0	10.0	7.5	15.0	21.0	27.0
PER	2.9	1.0	14.9	3.0	4.1	3.2
Div. Yield	8.4%	5.6%	4.2%	8.4%	11.7%	15.1%
P/B	0.6	0.4	0.4	0.4	0.3	0.3
ROE	23.0%	48.5%	2.6%	12.5%	8.4%	10.2%

Relative Price Performance



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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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