

31st December, 2025

PAKISTAN MARKET STRATEGY:

Transitioning from Survival to Growth

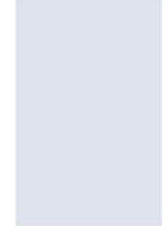
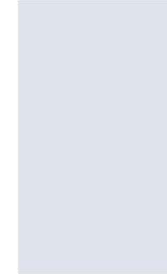
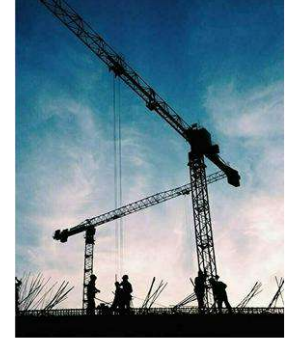


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SECTION 1

Executive Summary

Executive Summary

Pakistan's equity market is transitioning from a liquidity driven rally to earnings led phase. After a strong 52% return by the KSE 100 in CY25, supported by sharp rate cuts, valuation normalization, and improving macro stability, momentum remains positive but expectations are now more measured. We set a CY26 KSE 100 target of 211,042 points, implying around 22% return. With limited appeal in fixed income and real estate, liquidity should continue to favor equities. However, returns are likely to be selective, rewarding companies with strong balance sheets, pricing power, and cash flow visibility, as reforms progress gradually and execution remains the key determinant for sustainable growth.

- **Top picks**

- MLCF, FCCL, SAZEW, FFC, PSO, MCB, PPL

- **Key Triggers:**

- Interest rate cuts expected towards mid-CY26.
- Implementation of circular debt management plan for gas and power.
- Improving risk profile along with reduction in US FED rate may unlock FIPI inflows.

- **Macroeconomic Outlook: From Crisis Management to Growth**

- The macro framework is transitioning from crisis management toward growth, with GDP growth expected to reach 4.0% by FY27.
- Inflation is expected to stay between 5-7% in FY26, with interest rates remaining stable, and the current account deficit likely to stay at around 0.5% of GDP.
- We expect Pakistan's fiscal deficit to clock in at 4.5-4.6% of GDP in FY26 (primary surplus 1.2%), higher than government's initial target of 3.9% due to flood related spending and potential revenue loss.

- **Key Risk**

- While macro stability has improved, currency risks are emerging, with the REER above historical norms, implying the need for gradual PKR adjustment.
- Fiscal performance has strengthened in absolute terms but still falls short of targets, reflecting an overreliance on a narrow-documented tax base.

SECTION 2

Economic Outlook

Macroeconomic Outlook: Consolidation Over, Growth now in Target

■ External Account Stability Restored

- Pakistan's key macro vulnerability "current account instability" has now eased meaningfully. The current account deficit is now expected to remain contained within 0-1% of GDP, marking a shift from stabilization toward a more sustainable growth phase.

■ Remittances Anchoring External Balance

- Strong and broad-based remittance inflows continue to provide a critical buffer to the external account. As per SBP's projection, remittances are expected to exceed USD 41bn in FY26, offering resilience against external shocks and supporting FX liquidity.

■ Currency Over-valuation Risk Emerging

- While stability has improved, currency risk is emerging. The REER at 104.8 (Nov-25) signals an increasingly overvalued PKR, which poses risks to export competitiveness and may constrain future monetary policy flexibility.

■ Borrowing Pressures Under Control

- Fiscal consolidation and improved external debt profile has helped keep borrowing manageable. External debt to GDP has fallen to 23% in FY25 from 29% in FY23 providing significant respite and indicating reduced external risk.

■ Gradual Buildup in Foreign Exchange Reserves

- FX reserves are on a recovery path and are expected to reach USD 17.8bn, strengthening confidence and providing a cushion against external volatility. Import cover stood at 2.3 months in FY25 and is projected to increase to 2.7 months in FY26, indicating improvement in reserve adequacy amid a stable external account.

Macroeconomic Outlook; Consolidation Over, Growth now in Target

■ Inflationary Pressures Have Been Contained

- Inflationary pressures remain largely contained, with average inflation expected to stay within the target range of 5-7% in FY26. While temporary upticks above the upper bound may be observed in certain months of 2HFY26, driven by base effects, these are likely to be transitory rather than structural.

■ Interest Rate Outlook Depends Upon PKR Adjustment

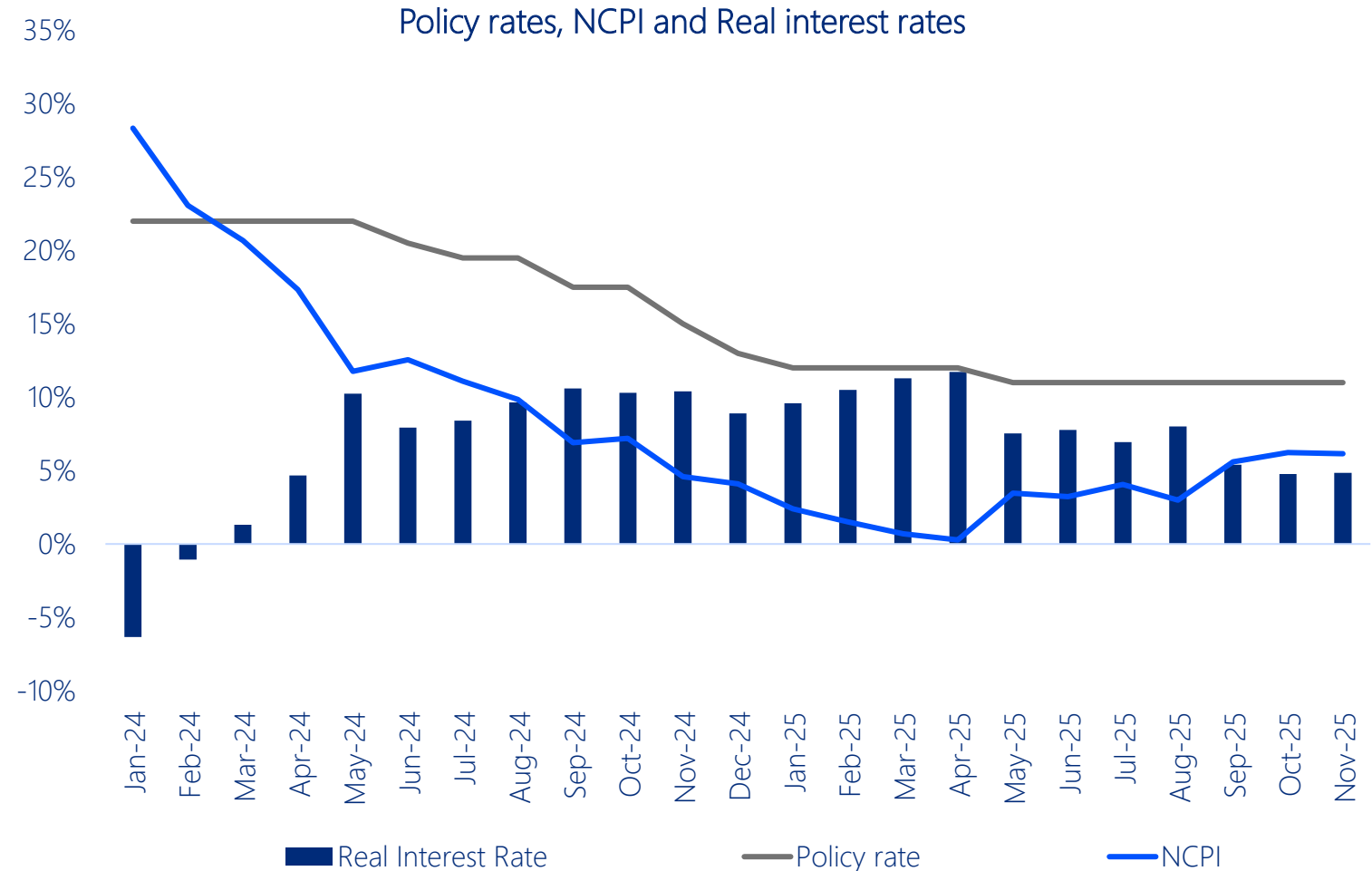
- Going forward, further policy rate cuts are contingent upon currency adjustment. In the absence of PKR devaluation, interest rates are likely to remain broadly stable to prevent renewed external and inflationary pressures.

SECTION 2.1: ECONOMIC OUTLOOK

Inflation & Interest Rate Outlook

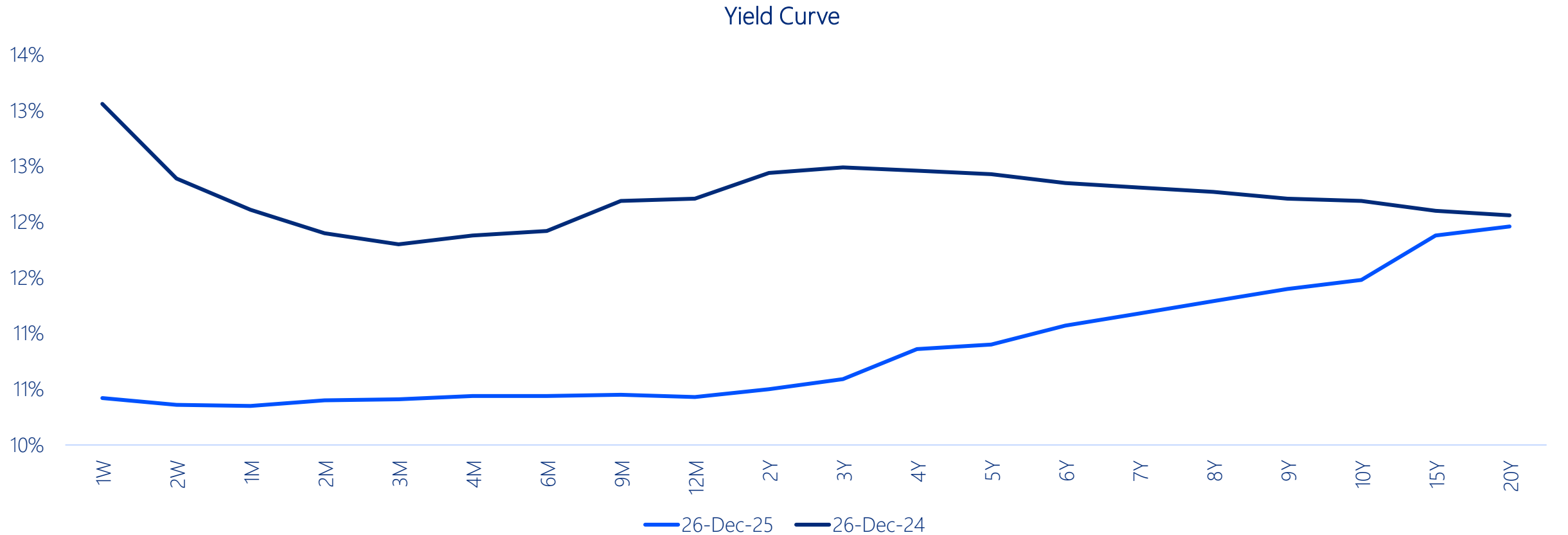
Inflation Pressures and Rate Cycle Ahead – From Aggressive Easing to Pause

- Pakistan's inflation for 2HFY26 is expected to trend moderately higher as the exceptional disinflation observed in CY25 fades and base effect sets in.
- **CPI to average 6.8% in FY26**
 - Our inflation target for FY26 is 6.8% vs. 4.5% in FY25. Inflation likely to rise in 2HFY26, breaching the SBP's 5-7% target range. We expect the highest reading of 9% in Jun-26, driven by low base effect.
 - 1HFY27E inflation is expected to average around 6%.
- **Interest Rates to remain stable at 10.5%**
 - SBP cut Policy rate by 50bps in Dec'25.
 - We expect policy rate to remain stable in 2HFY26
 - FY27 outlook: Scope for a ~100bps cut as monthly inflation readings normalize.



Yield curve comparison

Yield curve has shifted from steeply downward sloping to upward sloping. Short tenor yields are anchored near the current policy rate, while the modest upward slope at the long end suggests that rates are expected to remain broadly stable, with no meaningful cuts priced in over the medium term.

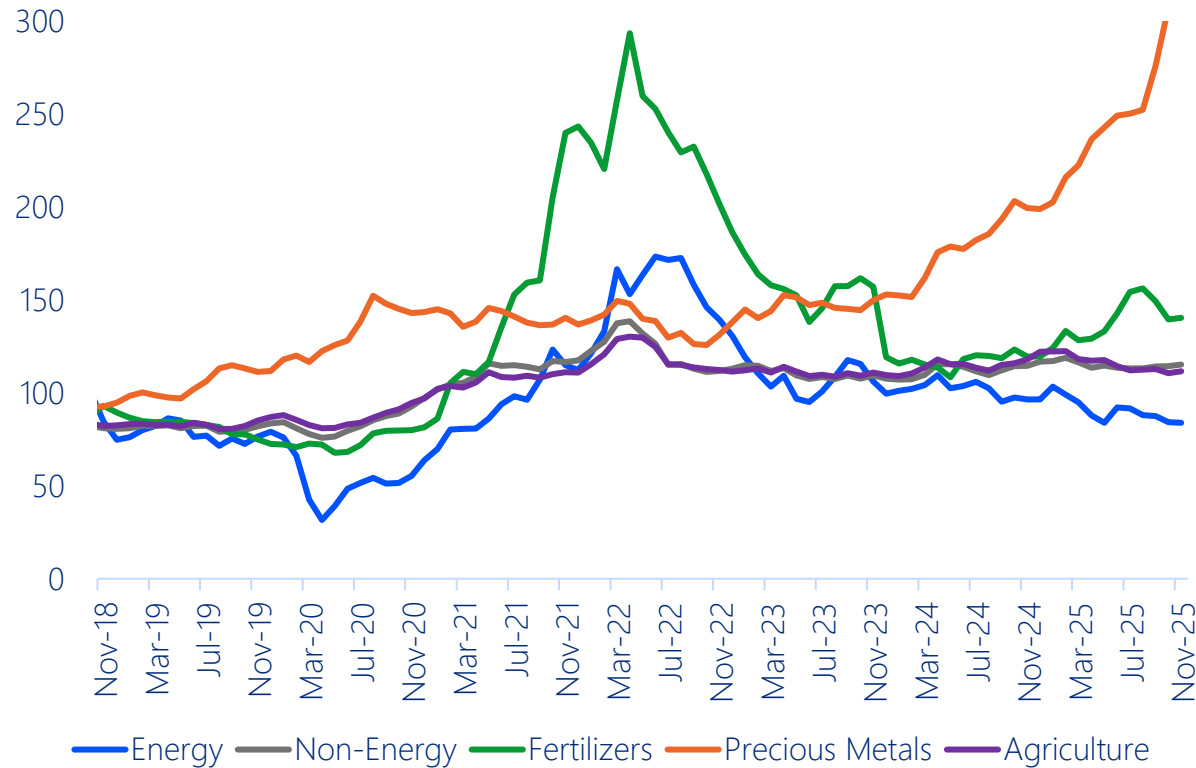


NCPI sensitivity and Global Price Trends

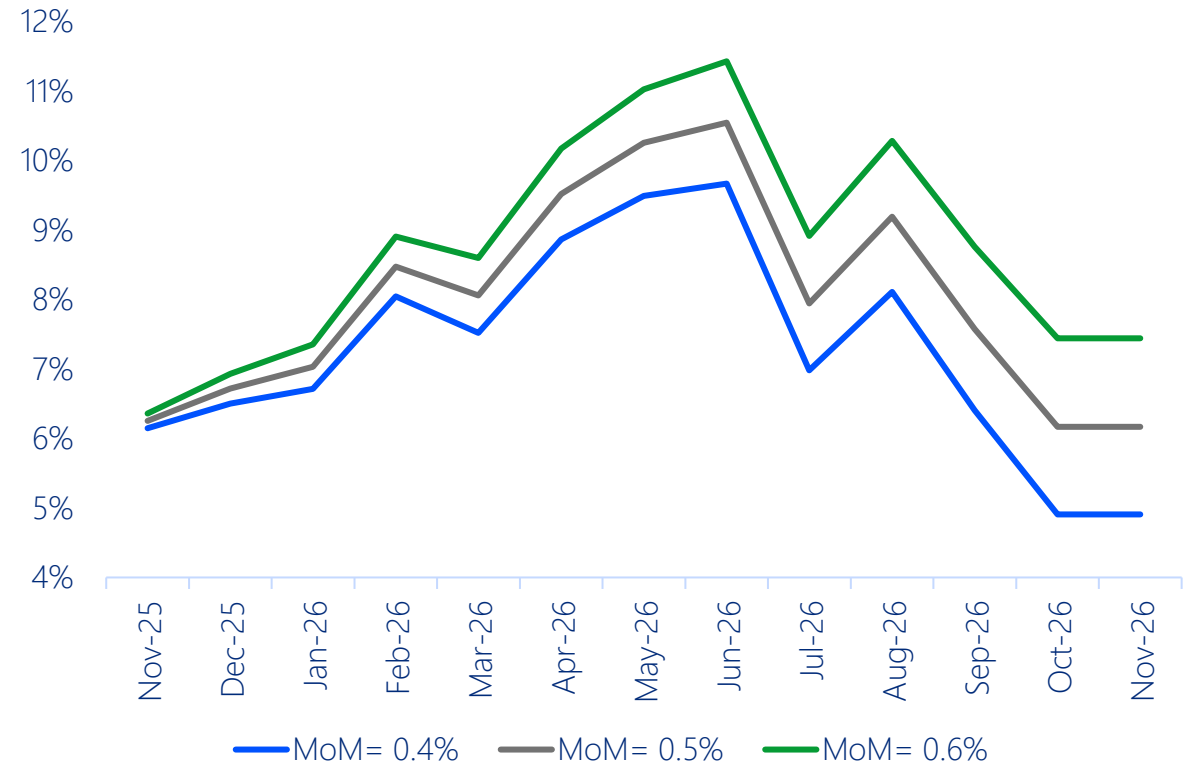
Global commodity prices have started easing along with forecasts of further decline in CY26; this reduces the risk of external price shocks feeding into domestic inflation.

Monthly NCPI Inflation will likely rise in 1HCY26, and peak in Jun-26, after which, it will gradually decline, as the impact of high base effect wanes.

World Bank Commodity Price Index



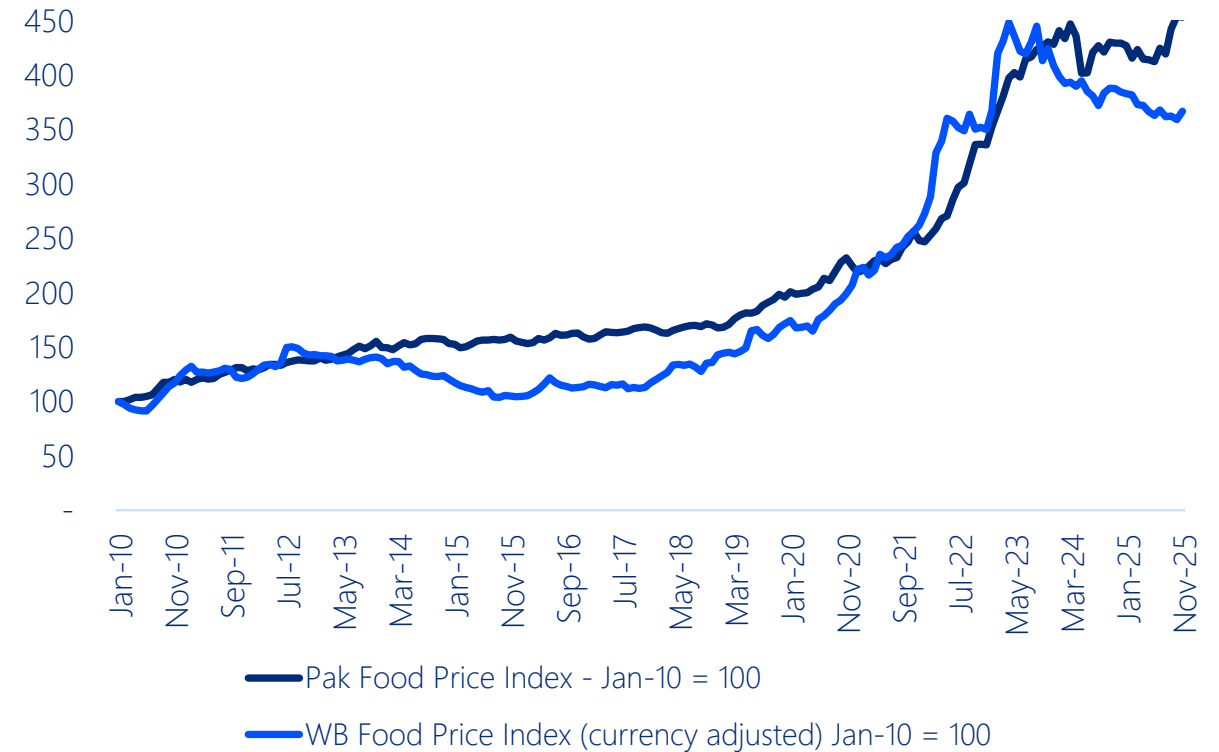
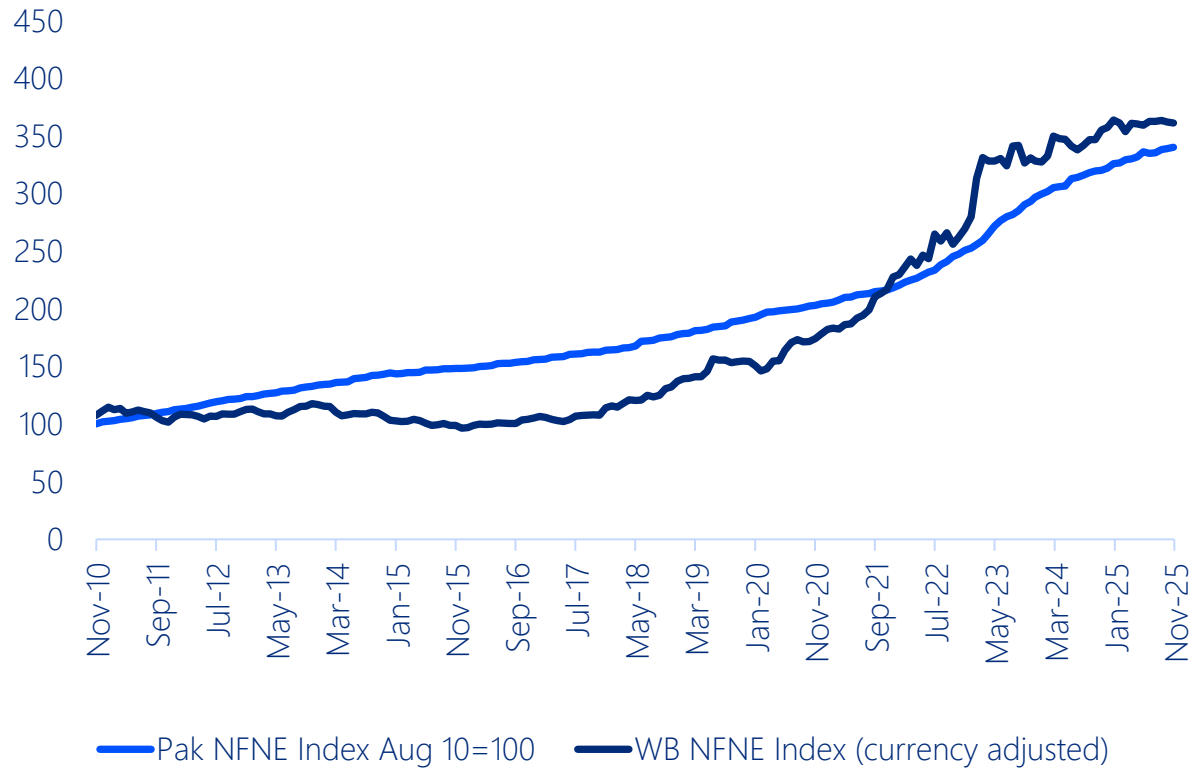
NCPI YoY sensitivity



Limited future inflation risks as domestic food prices are well above global benchmarks

The aggregate prices in NFNE basket, 55% of Pakistan's CPI, are currently 4.7% below the global benchmarks, implying a maximum 2.3% impact on headline inflation if local prices fully converge with global levels.

Domestic food prices, with a 34.6% weight in Pakistan's CPI, and a major driver behind recent inflation spikes, are currently standing 23.6% above global levels. This implies a potential 8.2% buffer on overall inflation.



SECTION 2.2: ECONOMIC OUTLOOK

External Account & Exchange Rate Outlook

FY26 Current Account: Deficit, Remittances, and REER

- Pakistan posted its first CA surplus in 11 years in FY25 but is likely to return to a meager deficit in FY26.
- We expect current account deficit of ~USD 2.4bn (0.5% of GDP) in FY26 in line with IMF projection, driven by higher economic activity and a larger import bill.
- Export competitiveness remains a challenge, as indicated by an overvalued REER of 104.8 (Nov-25), suggesting limited upside to exports in absence of exchange rate flexibility.
- Strong remittances continue to offset the trade deficit and support stability. We expect remittances to cross USD 40bn in FY26.
- We estimate a ~9% PKR devaluation till Dec-26 which shall bring REER down to a normalized level of 98.

PKR/USD - Annual Forecast

Key Assumptions - 2H FY26

Increase in Pak CPI - Jan-Jun'26	3.40%
Increase in US CPI - 2H FY26	1.2%
Devaluation as per Inflation differential	2.2%
Devaluation - Jan-Jun'26	2.2%

Key Assumptions - FY27

Increase in PAK CPI - FY27	6.0%
Increase in US CPI - FY27	2.2%
Devaluation as per Inflation differential	3.8%

Period End Forecast for REER

	REER at 104.8	REER at 98	REER at 96
PKR/USD - Nov-25	280		
PKR/USD - Jun-26		300	312
PKR/USD - Jun-27		311	324

PKR/USD - Quarterly Forecast

Devaluation for last two quarters of FY26

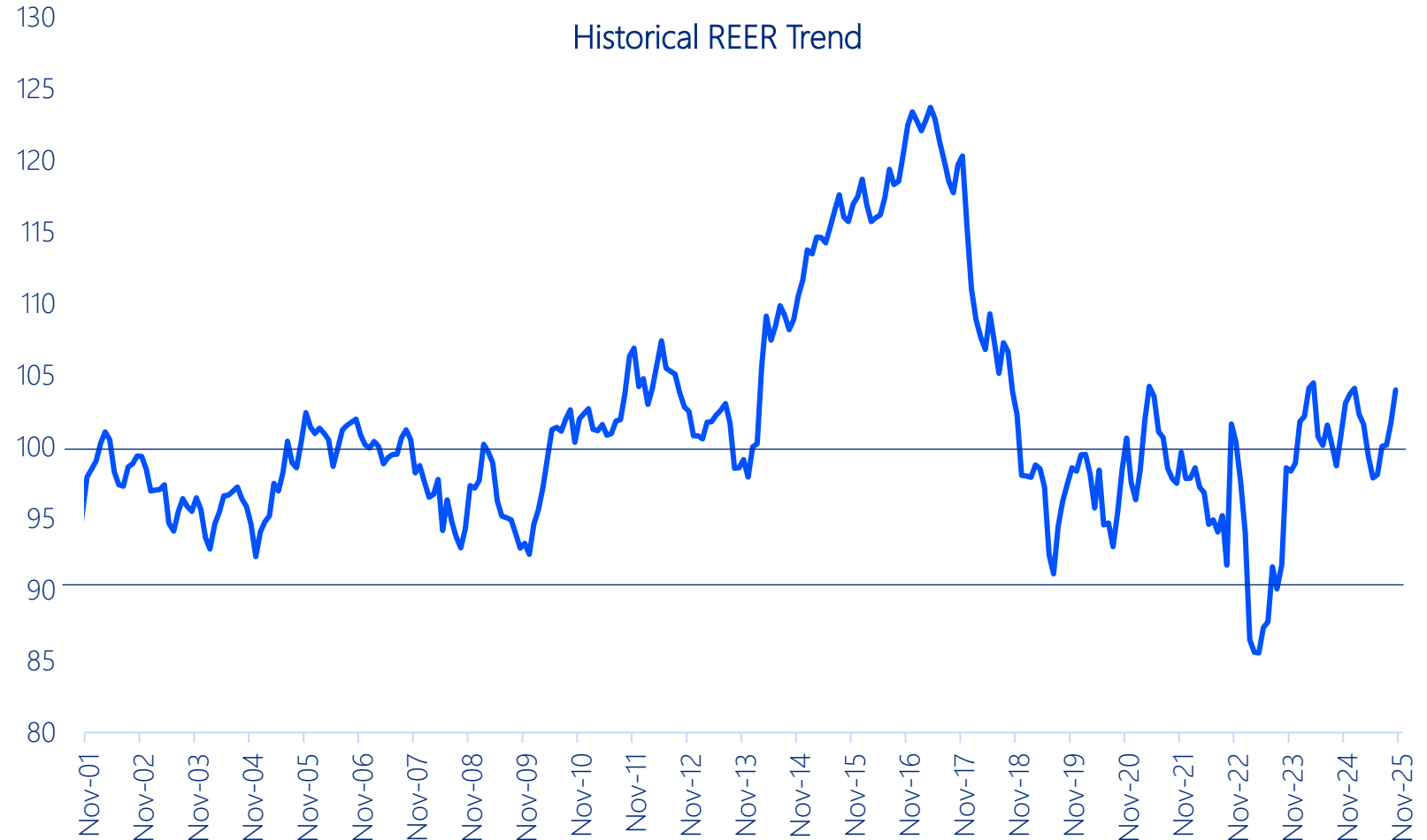
	3.5%		5.6%
PKR/USD - Mar-26		290	296
PKR/USD - Jun-26		300	312

Devaluation for each quarter of FY27

	0.9%		0.9%
PKR/USD - Sep-26		303	315
PKR/USD - Dec-26		306	318
PKR/USD - Mar-27		308	321
PKR/USD - Jun-27		311	324

REER Trends & Policy Implications

- Pakistan's long-term REER has historically ranged between 90-100; 49% of observations over the past 20 years fall within this band.
- The 2013-2018 period saw REER persistently above 100 due to a heavily managed exchange rate regime.
- Current REER of 104.8 indicates overvaluation and reduces export competitiveness and foreign investor appeal.
- Based on Carry trade and purchasing power analysis, Pakistan needs a moderate 4-5% PKR depreciation p.a. to help maintain REER and long-term stability.



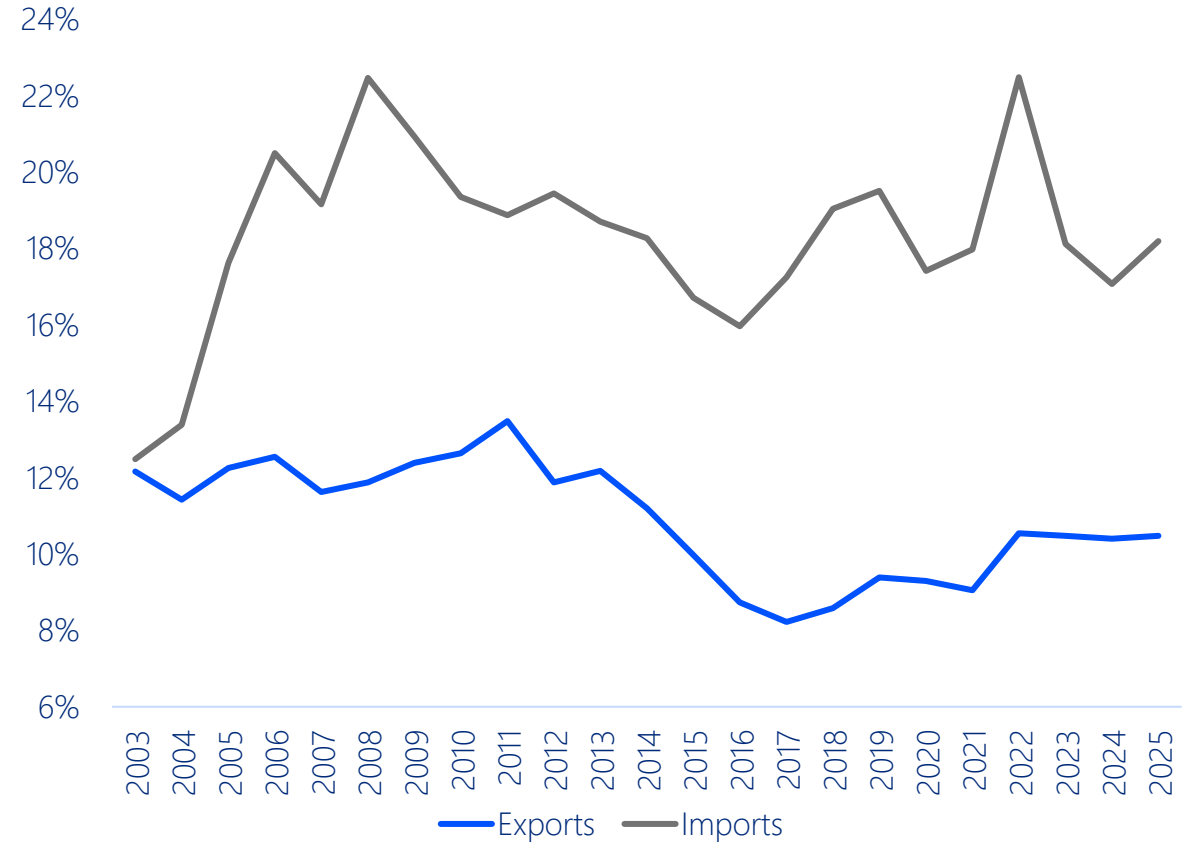
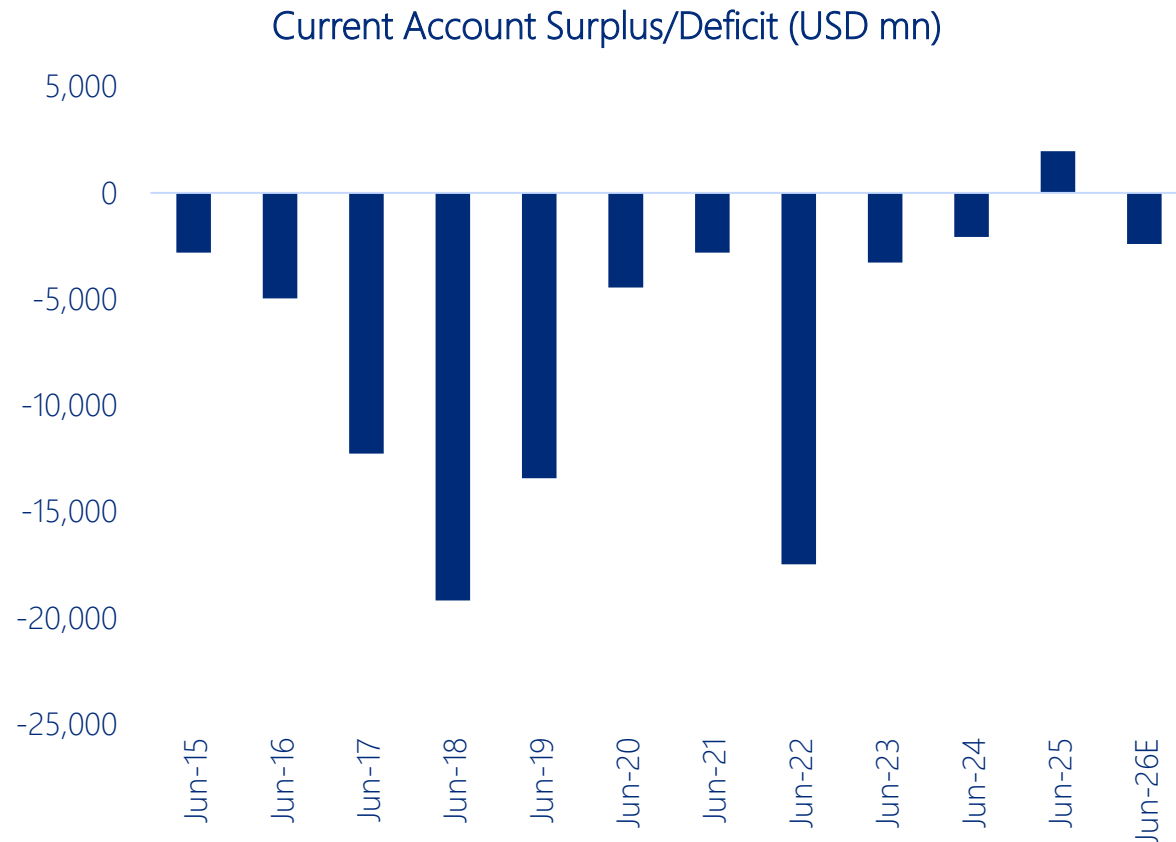
Balance of Payment Position at a glance

BoP (USD bn)	FY21A	FY22A	FY23A	FY24A	FY25A	FY26E
Import of Goods (a)	54.3	71.5	52.7	53.2	59.1	64.3
Export of Goods (b)	25.6	32.5	27.9	31.0	32.3	32.5
Trade Deficit (c=b-a)	(28.6)	(39.1)	(24.8)	-22.2	(26.8)	(31.8)
Import of services (d)	8.5	12.9	8.6	10.7	11.0	11.9
Export of services (e)	5.9	7.1	7.6	7.9	8.4	9.3
Services Deficit (f=e-d)	(2.5)	(5.8)	(1.0)	(3.1)	(2.6)	(2.6)
Remittances (g)	29.5	31.3	27.3	30.3	38.3	40.0
Current Account	(2.8)	(17.5)	(3.3)	-2.1	1.9	(2.4)
FX Reserves	17.3	9.8	4.4	9.4	14.5	17.6
Import Cover (months)	2.5	1.9	0.8	1.6	2.3	2.7

FY26 Current Account Projected to Remain Manageable

Pakistan's current account position is projected to remain stable and manageable in FY26, reflecting a broadly balanced external account despite a gradual recovery in domestic demand.

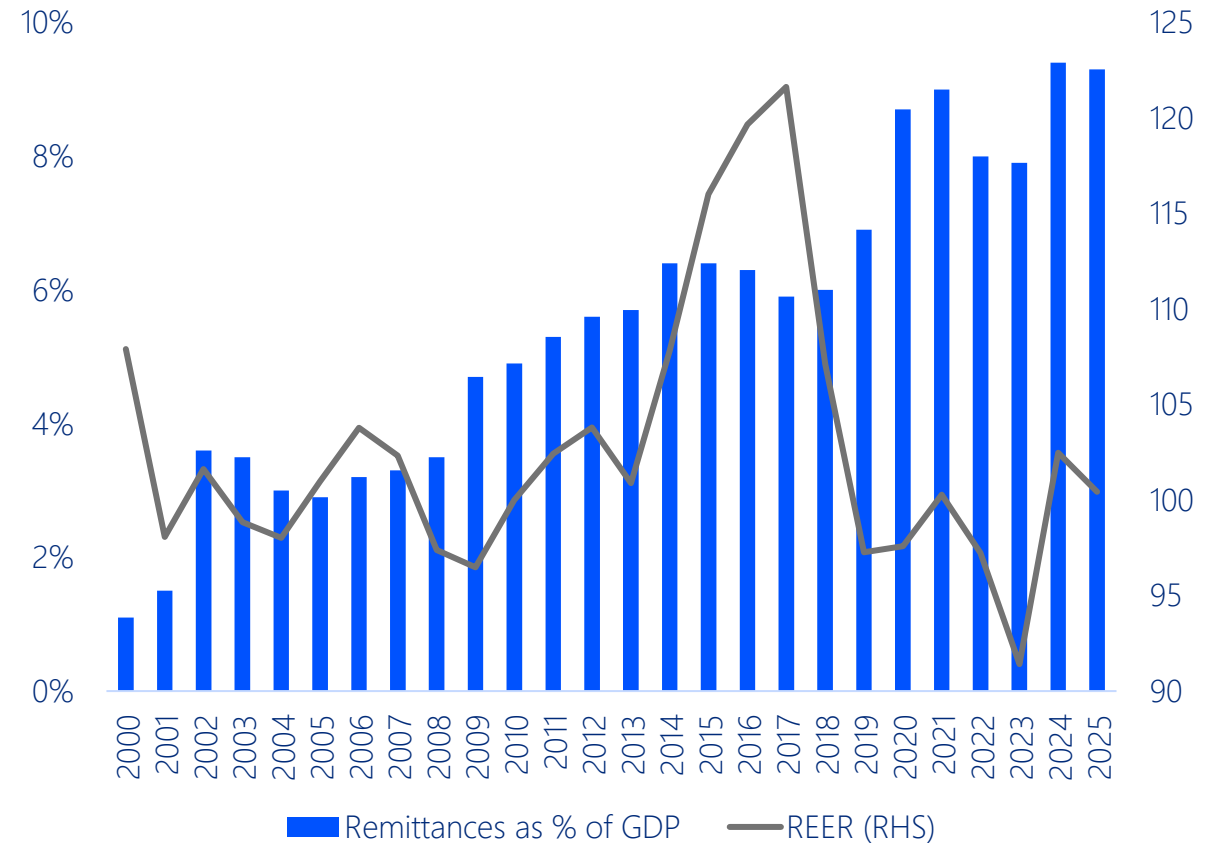
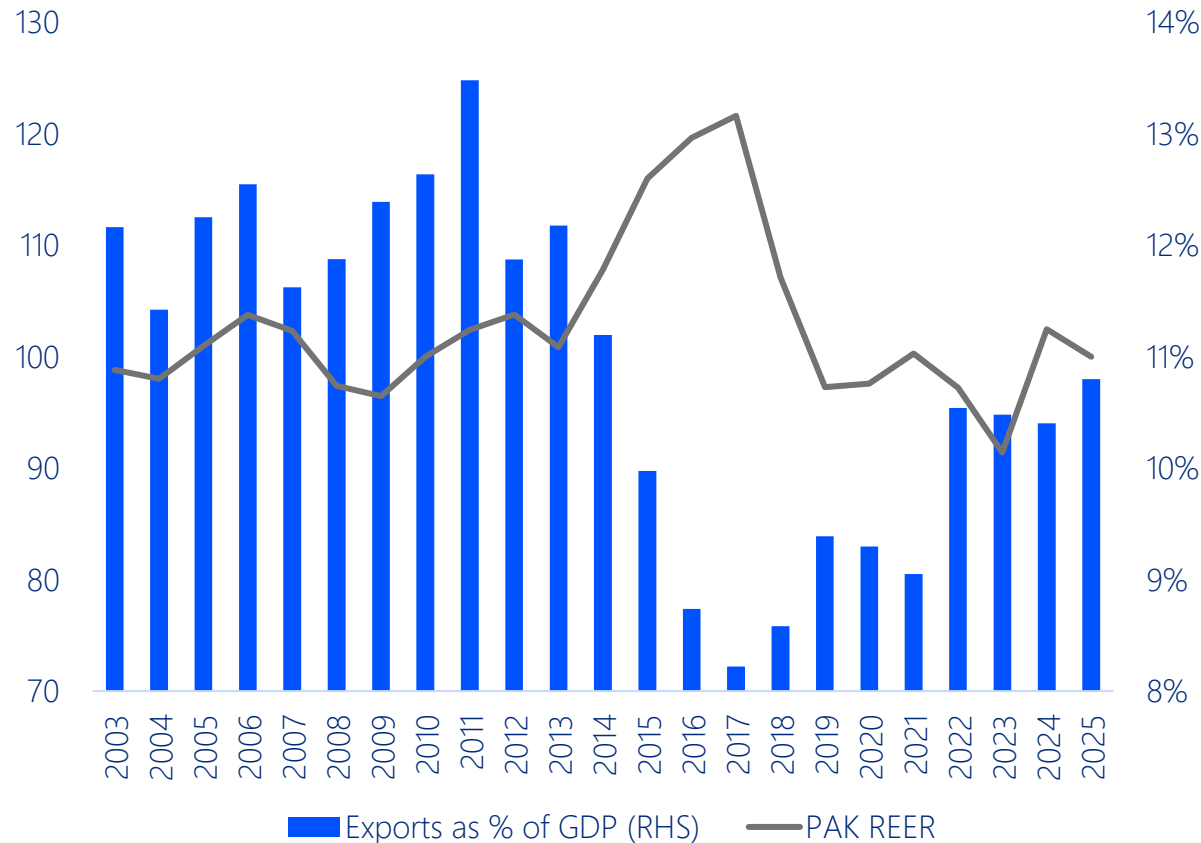
Gap between Imports and Exports as % of GDP has somewhat narrowed but still stands at a very high level



Exchange Rate Influence on Trade and Remittance Flows

Historical trends show that REER near or below 100 has typically supported higher exports as a share of GDP.

Pakistan's REER shows an inverse relationship with remittances as a share of GDP. A higher REER tends to attract mainly essential or maintenance capital, while other funds turn speculative, often awaiting devaluation.



5MFY26 Balance of Payment

External Account Highlights (USD mn)

	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Nov-24	MoM	YoY	5MFY25	5MFY26	YoY
Balance on trade in Goods	-2,637	-2,502	-2,425	-2,751	-2,454	-1,322	-11%	86%	-9,799	-12,769	30%
Exports	2,780	2,496	2,609	2,632	2,273	2,788	-14%	-18%	13,212	12,790	-3%
Imports	5,417	4,998	5,034	5,383	4,727	4,110	-12%	15%	23,011	25,559	11%
Balance on trade in Services	-271	-462	-205	-238	-140	-150	-41%	-7%	-1280	-1316	3%
Exports	724	677	807	811	813	667	0%	22%	3,284	3,832	17%
Imports	995	1,139	1,012	1,049	953	817	-9%	17%	4,564	5148	13%
Primary Income – Net	-811	-701	-673	-905	-739	-893	-18%	-17%	-3,980	-3,829	-4%
Secondary Income - Net	3,340	3,340	3,386	3,603	3,433	3,074	-5%	12%	15,562	17,102	10%
Worker Remittances	3,214	3,138	3,184	3,420	3,189	2,915	-7%	9%	14,767	16,145	9%
Current A/c Balance	-379	-325	83	-291	100	709	-134%	-86%	503	-812	NM
Capital A/C Balance	18	13	1	31	1	4	-97%	-75%	75	64	-15%
Financial Account	-318	-360	213	-379	104	-241	-127%	-143%	-1,206	-740	-39%
Net Errors and Omissions	-131	-71	52	195	37	-97	-81%	-138%	0	82	NM
Overall Balance	174	23	77	-314	-34	-857	-89%	-96%	-1,784	-74	-96%

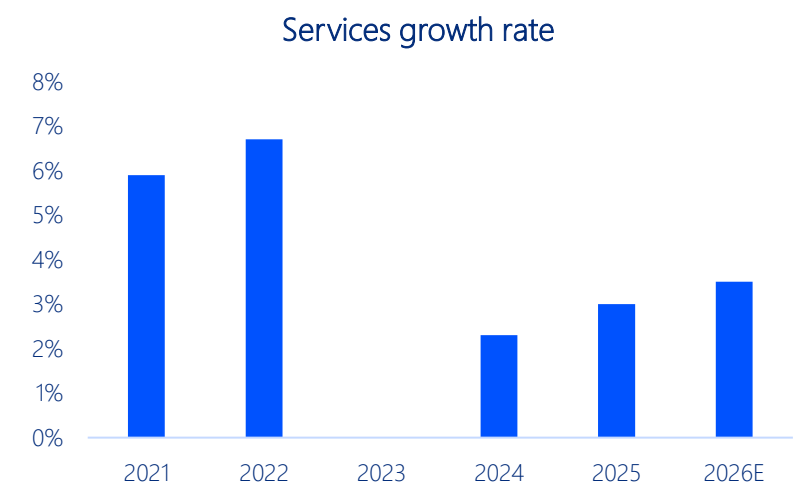
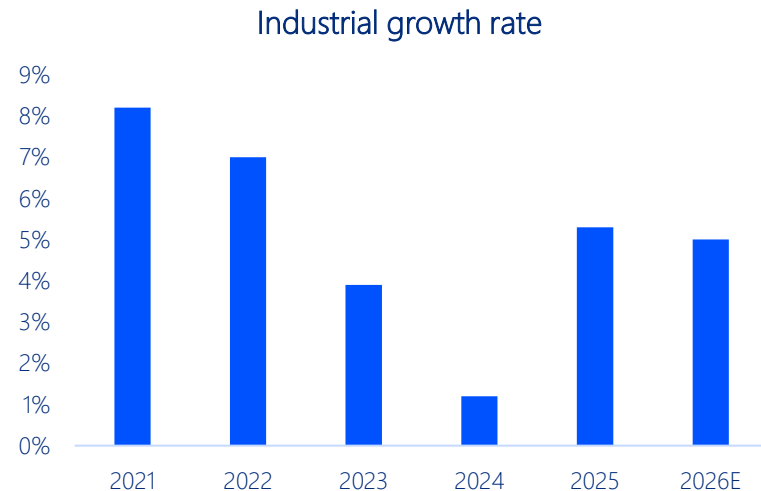
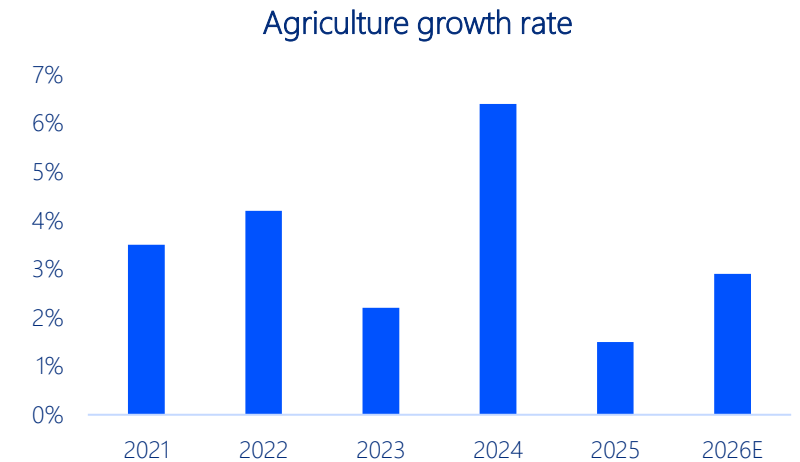
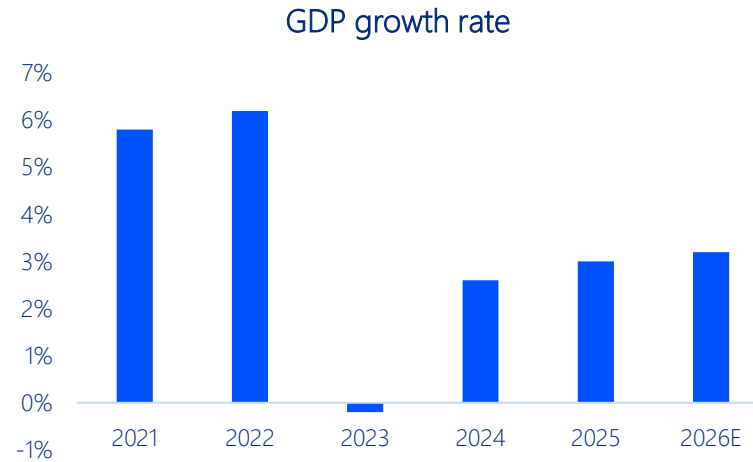
Source: SBP, Akseer Research

SECTION 2.3: ECONOMIC OUTLOOK

GDP Growth and Fiscal Policy

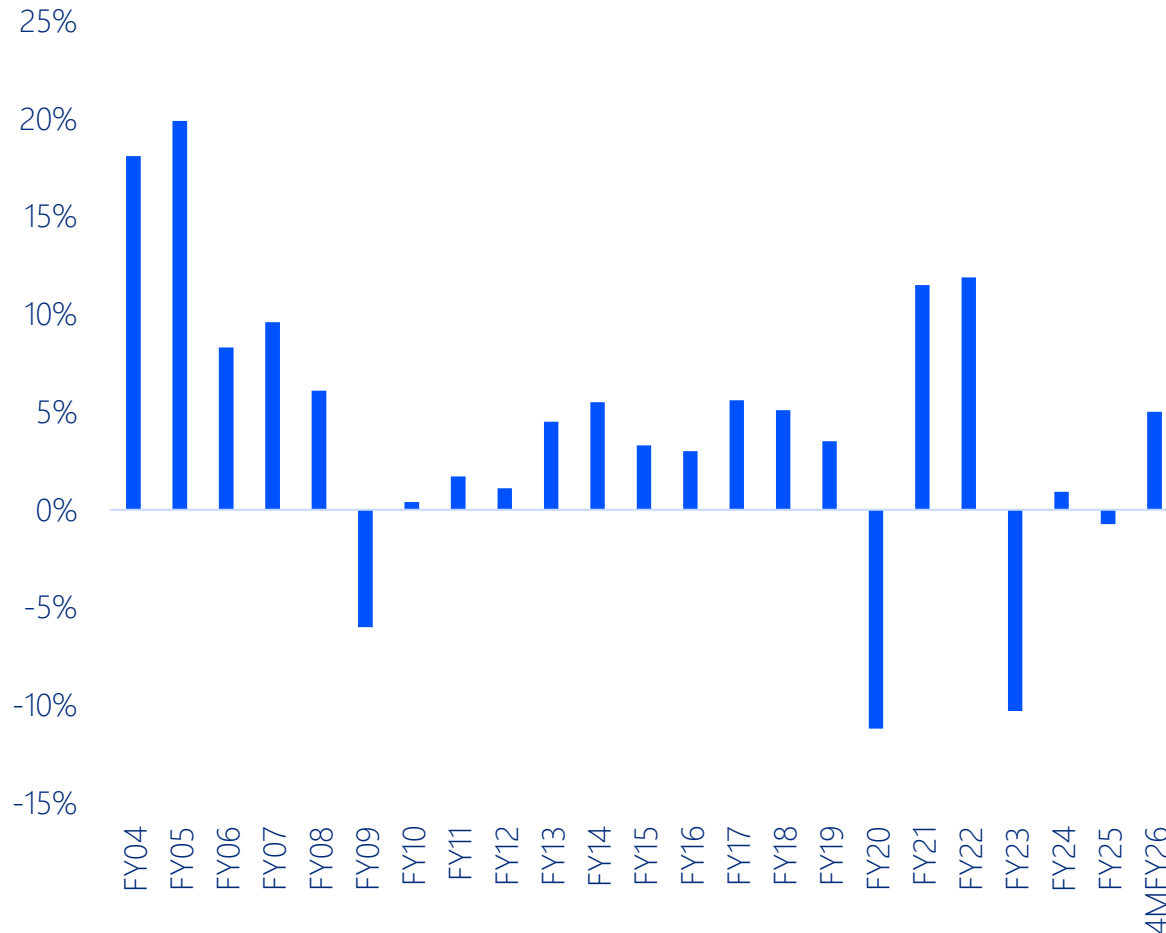
GDP Growth Outlook FY26: Sectoral Dynamics

- Pakistan's economic performance has remained subdued over the past 3 years, characterized by heightened default risk amid bleak macroeconomic environment, high interest rates and weak domestic demand.
- GDP growth is projected at 3.3% YoY in FY26, improving from 3.0% in FY25 but below potential due to flood related disruptions.
- Agriculture is expected to grow by ~2.9% YoY, recovering from a weak FY25, as supportive government initiatives will likely offset flood damage to key crops.
- Industrial sector growth is estimated at ~5.0% YoY, led by a modest recovery in LSM on the back of improving domestic demand. High frequency indicators are encouraging.
- Services sector growth is projected at ~3.5% YoY, driven by wholesale & retail trade and information & communication services.

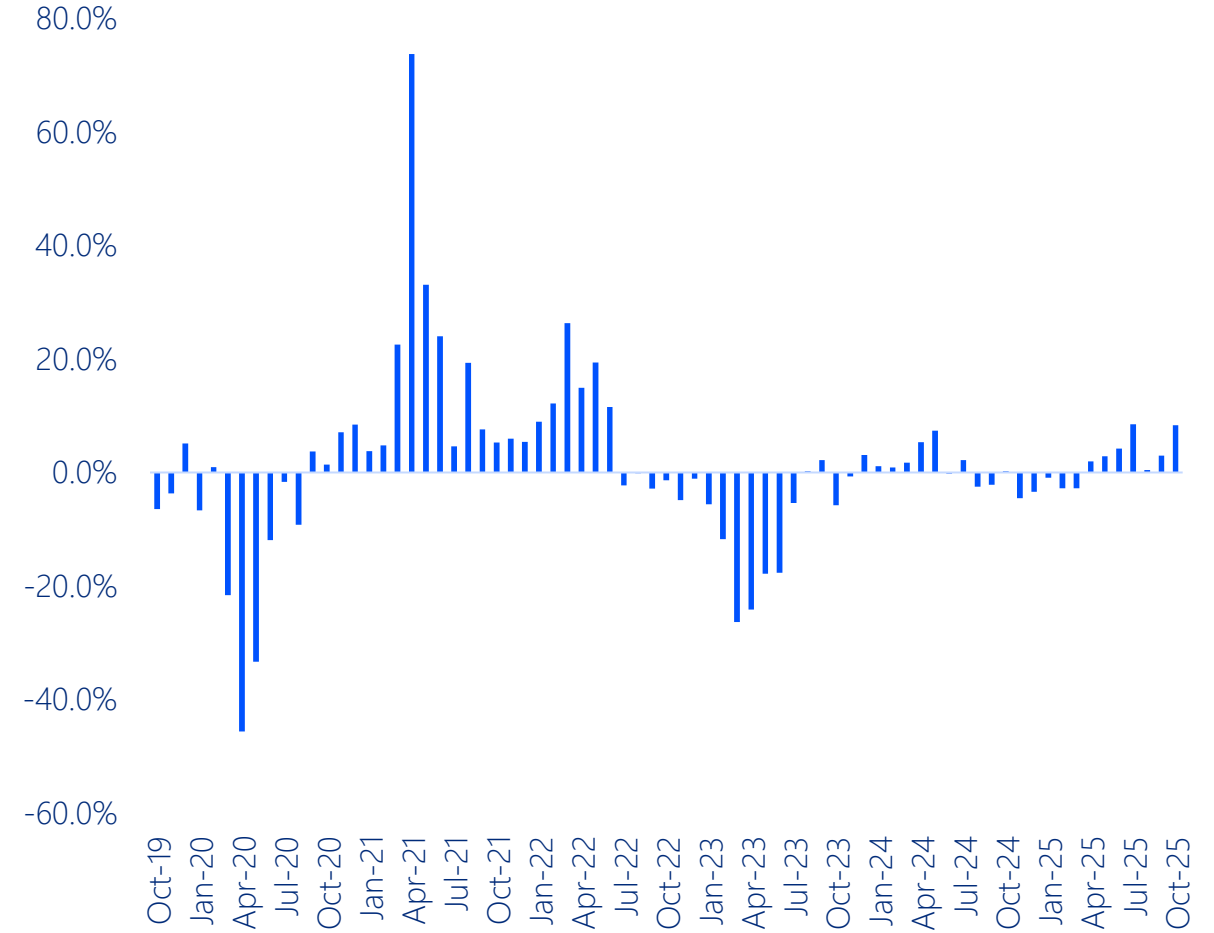


LSMI growth positive 5.02% in 4MFY26

LSM growth positive in 4MFY26

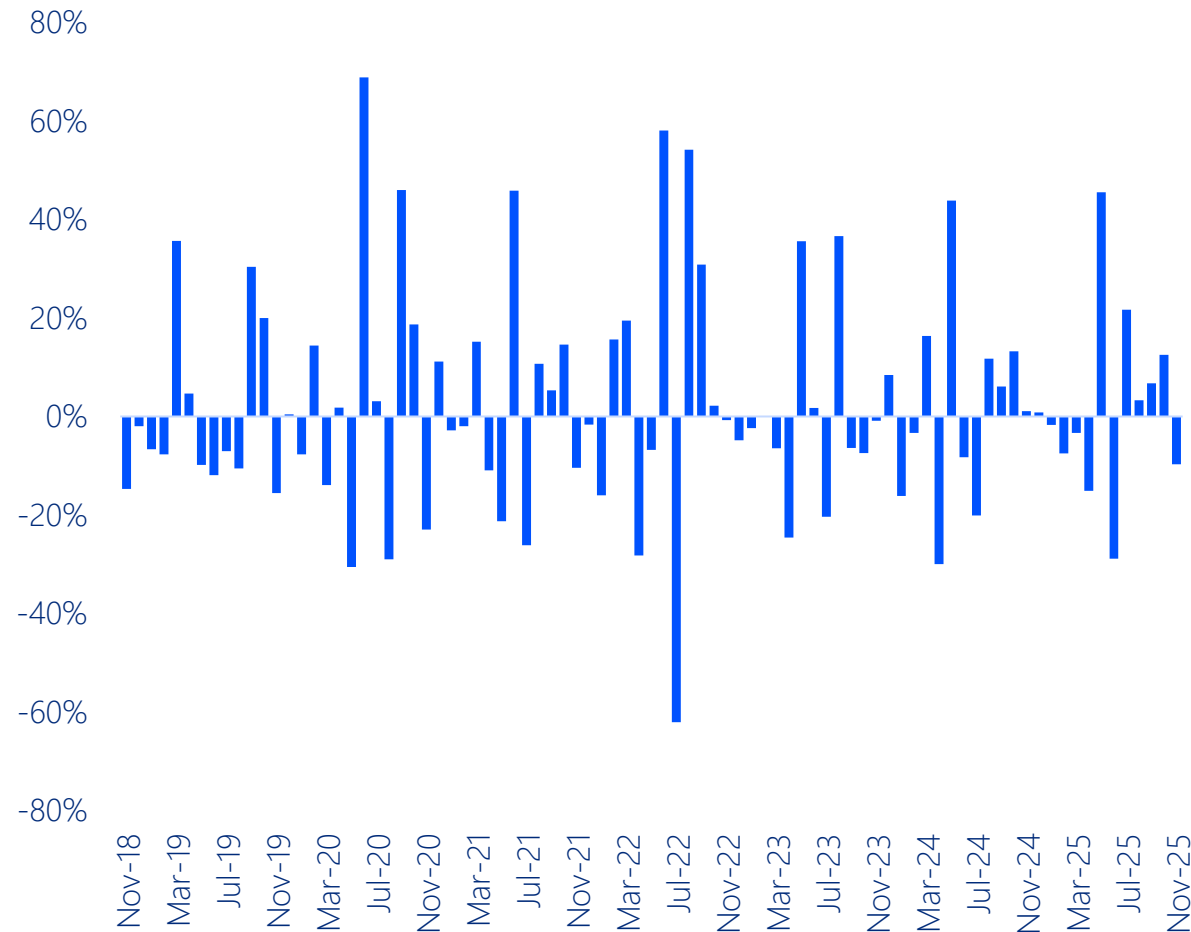


YoY LSM growth - Monthly trend

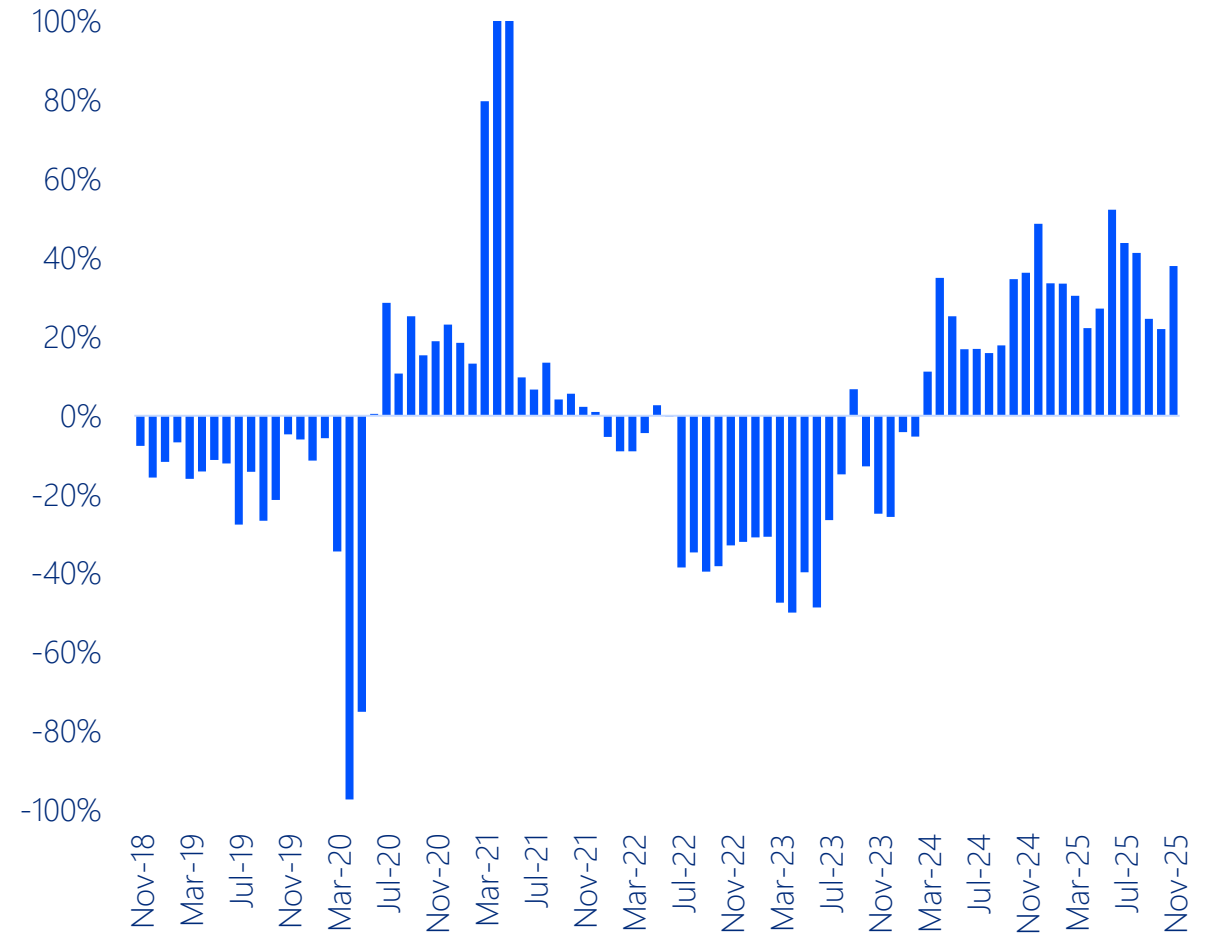


High Frequency Indicators (Cement and Automobile) showing strength

YoY Growth in Domestic Cement Sales



YoY Growth in Domestic Automobile Sales



Fiscal challenges prevail in the mid of ambitious targets

- 1QFY26 fiscal surplus amounted to PKR 2.1tn or 1.6% of GDP. The primary account posted a surplus of PKR 3.5tn or 2.7% of GDP.
- Fiscal deficit is expected to narrow to ~4.5-4.6% of GDP in FY26, compared to 5.4% in FY25.
- Pakistan is likely to post a third consecutive primary surplus in FY26, estimated at ~1.2% of GDP, lower than 2.4% of GDP in FY25, reflecting pressure from relief spending and weaker revenue performance post-floods.
- Although, flood-related fiscal impact appears manageable, floods are estimated to have caused ~USD 3.0bn in economic losses, including USD 1.5bn in agriculture and USD 1.1bn in infrastructure damage. Rehabilitation spending is expected to be largely absorbed within the FY26 PSDP allocation of PKR 1.0tn.
- Revenue collection is likely to fall short of initial targets. Against an annual target of PKR 14.1tn, the revenue shortfall reached PKR 274bn in 4MFY26 and could exceed PKR 500bn by year-end, mainly due to flood related disruptions to economic activity.

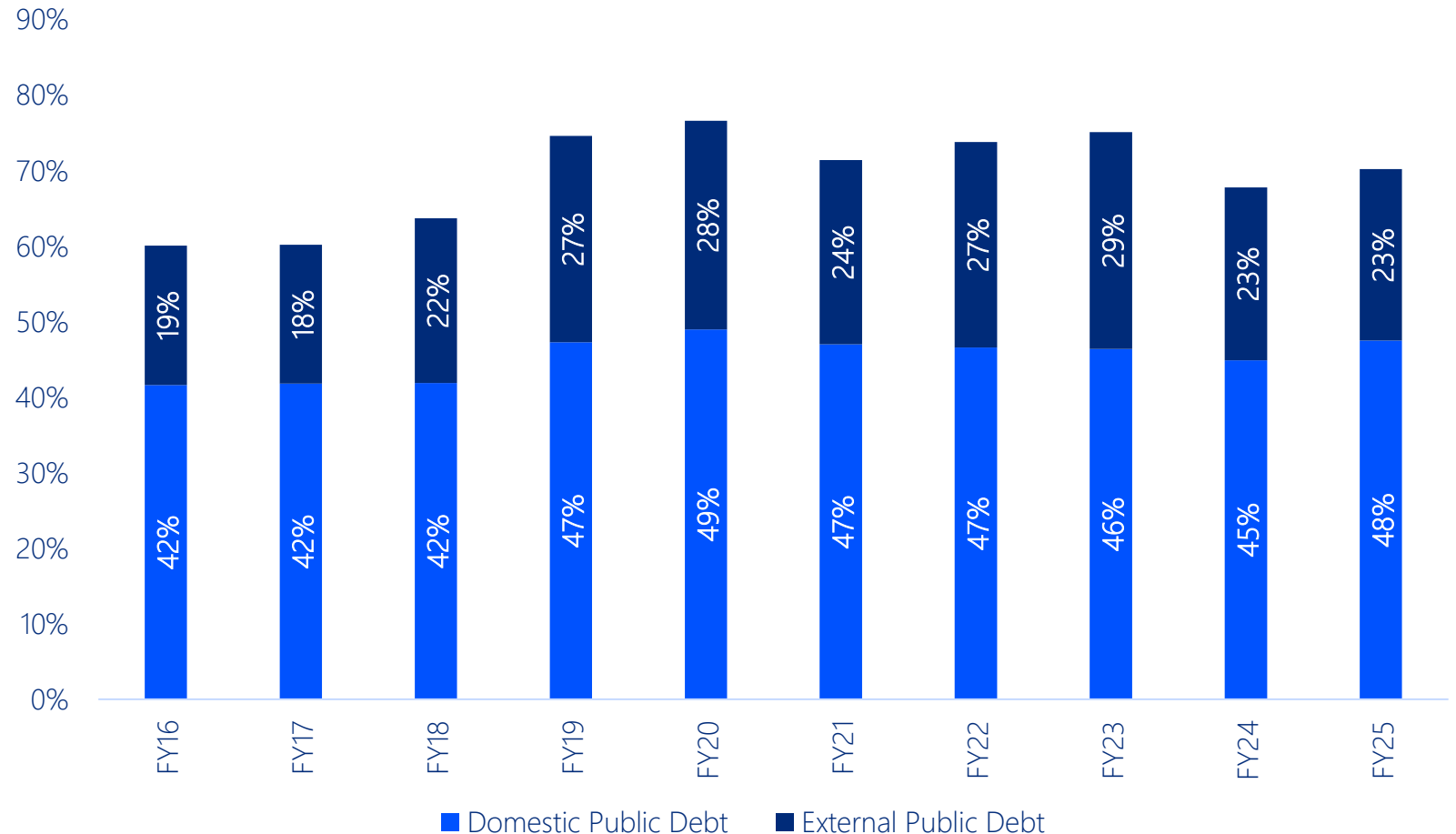
Federal Fiscal Operations (PKR bn)	1QFY25	1QFY26	YoY %	FY25A	FY26B	YoY %
Federal Tax Revenue	2,563	2,884	13%	11,744	14,131	20%
- Direct Revenue	1,230	1,364	11%	5,792	6,902	19%
- Taxes on International trade	276	310	12%	1,285	1,558	21%
- Sales Tax	904	1,019	13%	3,901	4,753	22%
- Federal Excise	151	191	26%	767	888	16%
Federal non-tax Revenue	2,997	2,984	0%	4,961	5,147	4%
Gross Revenue Receipts	5,560	5,868	6%	16,705	19,278	15%
Total Expenditure	3,931	4,080	4%	24,166	17,573	-27%
- Current Expenditure	3,537	4,047	14%	21,529	16,286	-24%
- Mark up payments	1,306	1,378	6%	8,887	8,206	-8%
- Defense	410	447	9%	2,194	2,550	16%
- Development exp.& net lending	276	295	7%	2,966	1,287	-57%
- Statistical discrepancy	117	(261)	(323)%	(329)	-	Na
Overall Budget Balance	1,896	2,119	12%	(6,168)	(5,037)	-18%
Primary Balance	3,202	3,497	9%	2,719	3,170	17%
Primary Balance - % of GDP	2.8	2.7		2.4	2.4	
Fiscal Balance - % of GDP	1.7	1.6		(5.4)	(3.9)	
Federal tax Revenue - % of GDP	2.2	1.9		10.2	10.9	

Source: MoF, Akseer Research

Is Pakistan's Debt level sustainable?

- Pakistan's public debt has risen sharply over the last decade, peaking at 77% (of GDP) in FY20.
- Recent data from Jun-25 suggests a moderation from earlier peaks, with total public debt stabilizing around ~71% of GDP.
- The debt composition shows an increasing reliance on domestic borrowing, while external debt has declined to 23% compared to 29% in FY23.
- According to the latest SBP data, total external public debt stands at approximately USD 103bn.
- External debt servicing for FY26 stands at USD 25.9bn, including USD 4.1bn in interest. As per the SBP, around USD 3.1bn have already been repaid with partial rollovers secured, while the remaining obligations are expected to be settled on schedule.

Public debt stood at 71% of GDP in Jun-25, moderating from peak levels



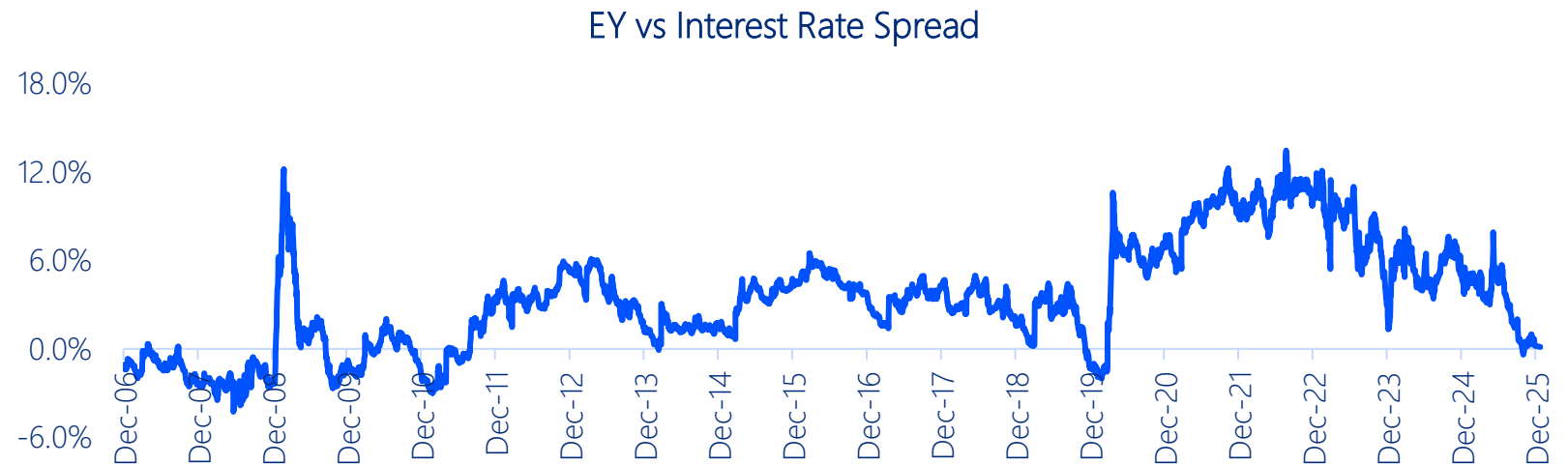
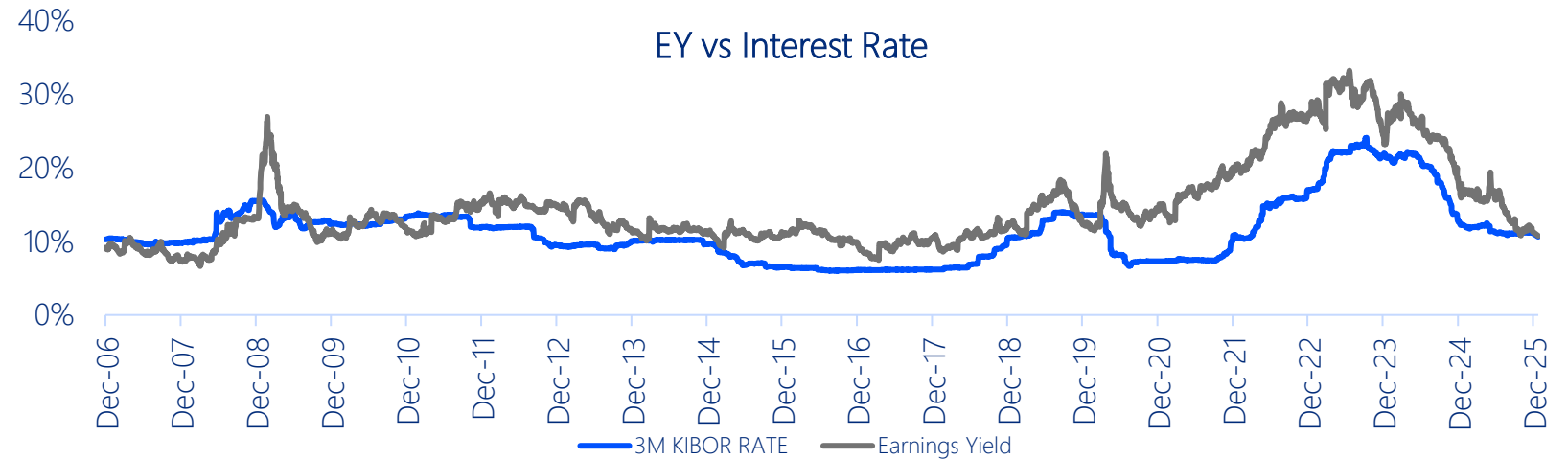
SECTION 3

Market Strategy & Index Target

Earnings yield spread show no mispricing; Returns to be driven by Earning growth

■ Mispricing gone:

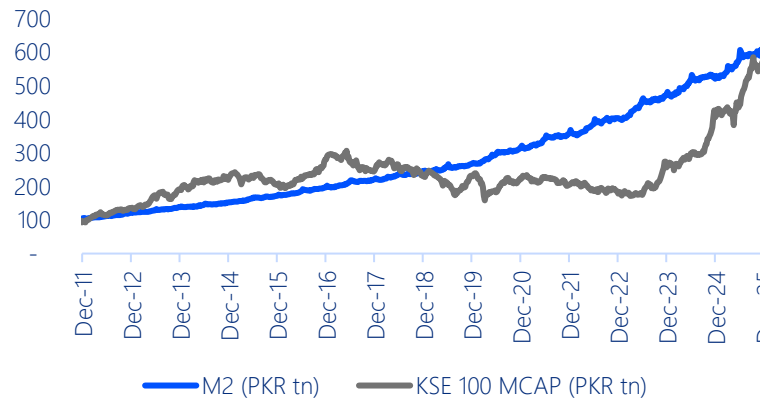
- Earnings yield relative to the risk-free rate has historically been a reliable indicator of equity market valuation. A meaningfully positive spread signals undervaluation, while a compressed or negative spread points towards overvaluation.
- Over the past decade, such dislocations, including in 2014, 2019, 2020, 2024, and the current phase, have been consistently corrected through price appreciation, earnings normalization, or changes in interest rates.
- Currently, the earnings yield signal suggests the market is fairly-valued. While this limits scope for re-rating driven upside, it does not preclude future returns.
- Going forward, equity performance is likely to be driven primarily by earnings growth and dividends, whereas further reductions in interest rate may create additional room for re-rating.



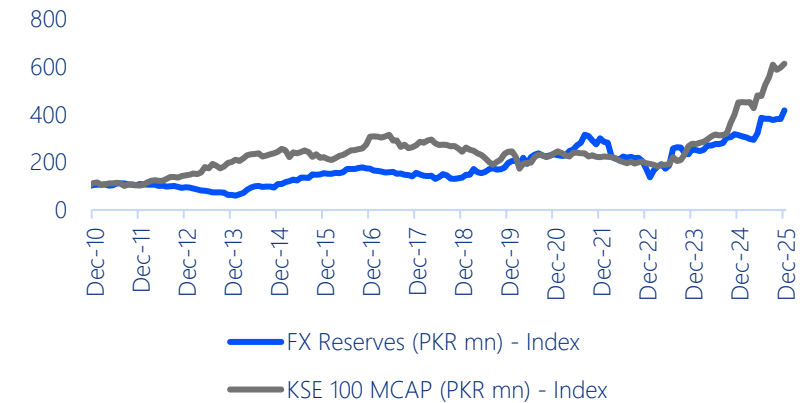
Another look at Market Valuation

- We have used multiple historical valuation metrics to assess the market's return potential.
- Almost all these metrics indicate limited to no mispricing, implying that the scope for broad-based re-rating beyond CY25 remains contingent upon further monetary easing.
- As such, future returns are expected to be primarily driven by earnings growth, interest rate cuts, and dividend yield.
- In this environment, sector allocation and stock selection will be increasingly important in driving incremental returns.

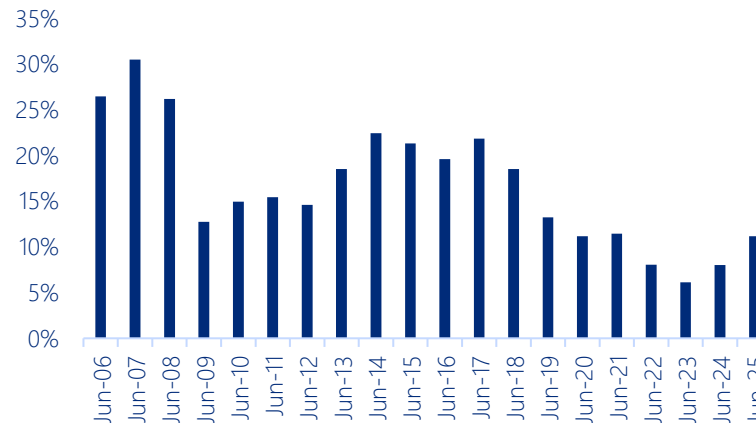
M2 vs MCAP



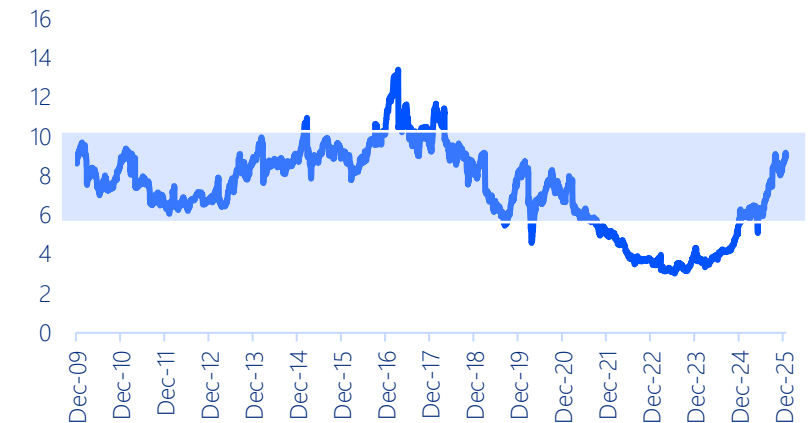
FX Reserves vs MCAP



MCAP to GDP



Best PE



Dec-26 index target of 211,042 points

- Our Dec-26 index target is 211,042 points
 - Our Dec-26 KSE-100 index target implies a total return of ~22.4%, driven by an EPS growth of 9% and a dividend yield of ~6%.
 - Our calculations suggest ~7% re-rating potential from current multiples.
- PER nearing Historical Mean
 - Given interest rates are already around historic mean, PE multiples have also converged thereby leaving limited room for re-rating
 - Earning growth, driven by reviving purchasing power and increasing margins will remain the primary return driver making stock selection critical to future returns from equities.

Justified PER	
Growth	4%
Rf (a)	10%
Risk Premium (b)	6%
Ke (a+b)	16%
Justified PER (x)	8.75
Trailing PER (x)	8.16
Re-rating	7.2%
Earnings and DY yield	
Earnings Growth	9.0%
Dividend Yield	6.2%
Re-rating	7.2%
Total Return	22.4%

Sector	Earning Growth
Cement	21.0%
Fertilizer	12.6%
OMC	10.3%
E&P	9.6%
Banking	3.8%
Autos	-2.9%

**KSE-100
Index
Target of
211,042**

SECTION 4

Emerging Themes

Tariff Rationalization Plan; Margins Under Threat

Shift in trade policy

- Pakistan is transitioning from a protectionist regime to a more liberal import framework, with the planned elimination of ACD and RD and reductions in CD, materially lowering tariff protection

Diverging corporate impact

- Non-integrated and cost-inefficient businesses are likely to face margin pressure from increased import competition, while vertically integrated, and export-oriented firms should demonstrate greater earnings resilience.

Equity strategy implication

- Capital is being redirected toward sectors with natural comparative advantages, shifting market focus from regulatory protection to structural competitiveness, making sector and stock selection increasingly critical.

CD + ACD					
Tariff Slab	FY26	FY27	FY28	FY29	FY30
0	-	-	-	-	-
3.00	-	-	-	-	-
5.00	5.00	-	-	-	-
10.00	10.00	10.00	5.00	5.00	-
15.00	17.00	15.00	10.00	10.00	5.00
20.00	24.00	22.00	15.00	15.00	10.00
>20	>20+6	24-54	22-42	15-30	15.00

Regulatory Duty					
FY25	FY26	FY27	FY28	FY29	FY30
Various rates not tied to CD slabs	-	-	-	-	-
	5	-	-	-	-
	10	-	-	-	-
	15	-	-	-	-
	20	-	-	-	-
	30	-	-	-	-
	40	10	-	-	-
	50	20	10	5	-

Framework for Settlement of Gas Circular Debt

- Objective: Retire PKR 1.7tn gas circular debt over six years through:
 - PKR 5 per litre petroleum levy
 - PKR 415bn savings from LNG cargo diversion
 - PKR 680bn dividends from OGDCL, PPL, and GHPL
- ENI cargoes are already being diverted with no cargoes imported in FY26
- Qatar LNG cargoes are available for diversion, resulting in net additional savings of PKR 50bn.
- Imposition of an additional PKR 5 per litre levy on HSD and MS is expected to generate approximately PKR 90bn in annual cash flow, based on an assumed retail fuel sales volume of 14.49mn tons.
- The government plans to settle a further PKR 680bn from dividend adjustments. As per news flow, expected dividend are PKR 250bn from OGDCL, PKR 230bn from PPL, and PKR 200bn from GHPL.
- The implementation of the additional petroleum levy together with LNG cargo diversion measures is expected to generate cumulative net annual revenue of approximately PKR 140bn in FY26 for the government.

Incremental LNG Cargo Diversion Plan	2026	2027	2028			
Qatar	24	0	0			
ENI	0	0	0			
Total Diversions	24	0	0			
Brent (USD)	65	65	65			
RLNG DES Price (USD)	8.13	8.13	8.13			
Gross Cash Savings						
USD/PKR	285	299	314			
RLNG Diverted (PKRmn) @DES Price	150,053	0	0			
Net Cash Savings						
Incremental Local gas consumed @\$5.4/mmbtu	99,727	0	0			
Net Cash Savings for Gas system	50,325	0	0			
Impact of Levy	2026	2027	2028	2029	2030	2031
Total Retail Fuel (mn Ltrs)	18,113	18,113	18,113	18,113	18,113	18,113
PDL (PKR/Ltr)	5	5	5	5	5	5
PDL (PKRmn)	90,564	90,564	90,564	90,564	90,564	90,564
Combined Impact (PKR mn)	2026	2027	2028	2029	2030	2031
Net Cash Savings for Gas system (PKRmn)	50,325	0	0	0	0	0
Revenue Generated from Levy (PKRmn)	90,564	90,564	90,564	90,564	90,564	90,564
Net Revenue Impact (PKRmn)	140,889	90,564	90,564	90,564	90,564	90,564
Per Share Cashflow Impact (PKR)						
OGDC (37% Share)	12.18	7.83	7.83	7.83	7.83	7.83
PPL (37% Share)	19.40	12.47	12.47	12.47	12.47	12.47

Incremental Power Package; Export tailwind

Policy shift

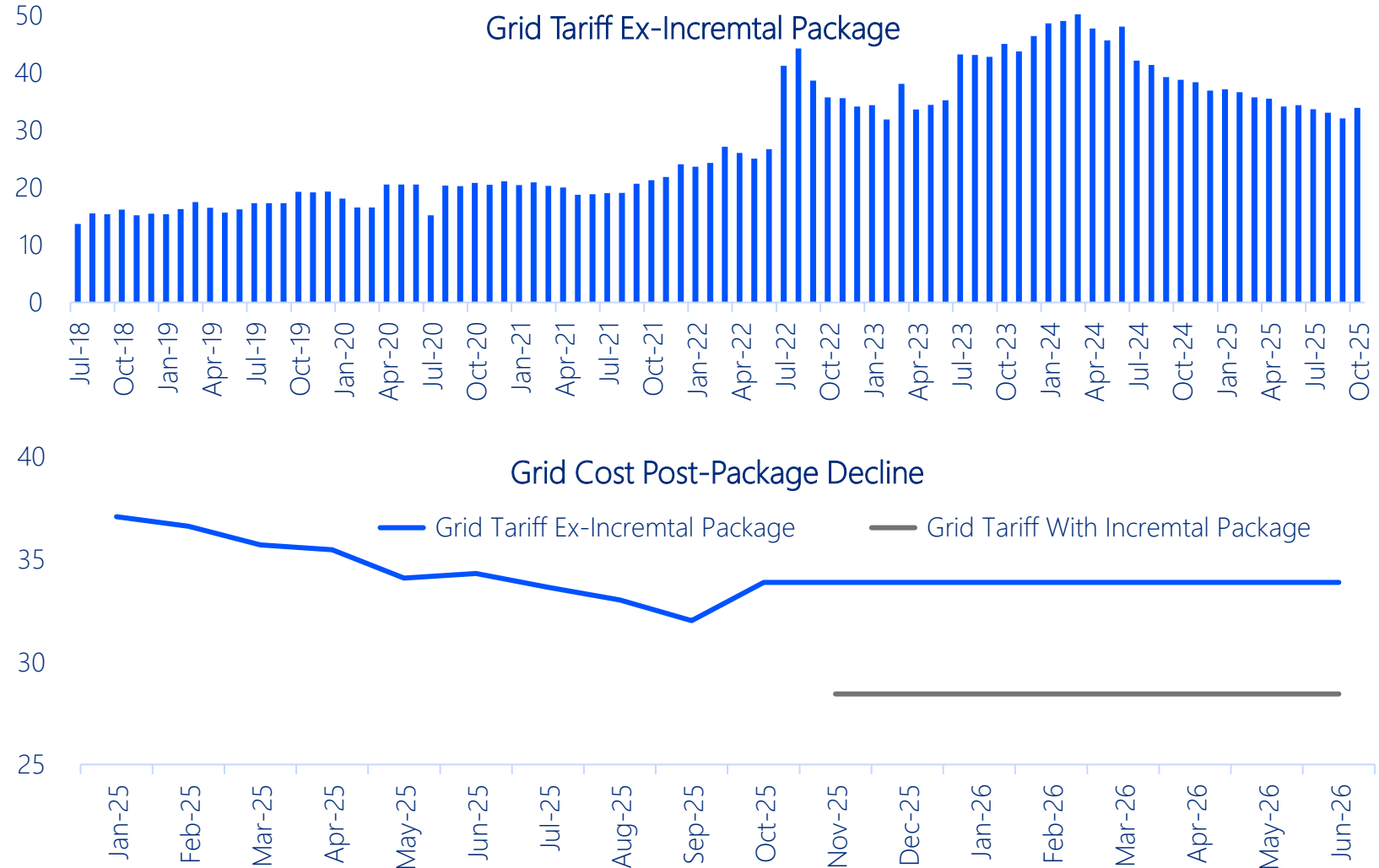
- In March 2025, the government imposed a grid transition levy to reduce reliance on captive gas, which increased production costs for exporters, especially energy-intensive sectors.

Incremental power package

- To restore competitiveness, incremental grid consumption (relative to Dec 2023–Nov 2024) will now be charged at PKR 23/kWh, resulting in an estimated 16% reduction in power costs for eligible users.

Who will benefit?

- Companies experiencing growth or capacity expansion will benefit the most, with the textile sector as a key beneficiary due to its prior dependence on gas and forced shift to grid power.



SECTION 5

Sector Outlook

SECTION 5.1: SECTOR OUTLOOK

E&P Sector

E&P - OVERWEIGHT

Strengthening Energy Sector Cash Flows

- July 2025 gas tariff revisions and improved SNGPL/SSGC cash management have stabilized receivables and liquidity, gradually normalizing upstream cash flows with near-complete payments to E&P companies.
- Government's plans to clear PKR 1.2tn power sector and PKR 1.7tn gas circular debt are expected to strengthen upstream cash flows, support higher dividends, and revive E&P exploration and development.

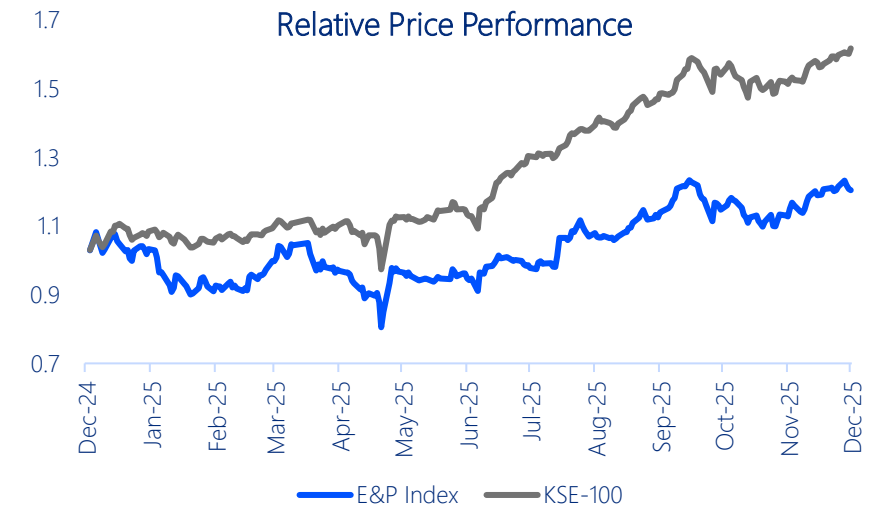
Diversion of RLNG Surplus Will Likely Boost Upstream Performance

- Diversion of 21 ENI and 24 Qatar cargoes, along with new gas connections and subsidized electricity tariffs, is easing the LNG surplus.
- Normalized upstream gas offtake is expected to lift production, speed up cash conversion, and strengthen E&P balance sheets.

Diversification and Growth Through Mining and Offshore Exploration

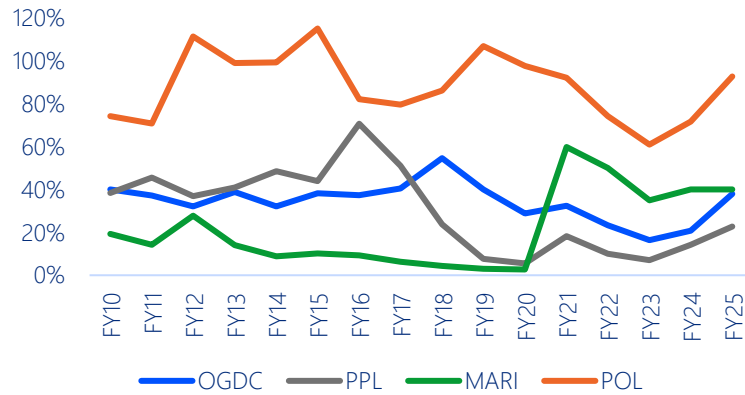
- Major mining projects such as Reko Diq, Balochistan Lead-Zinc belt, and Chagai exploration provide long-term value creation, offering E&P companies an attractive avenue for portfolio diversification.
- Restart of offshore exploration in the Indus and Makran basins enhances long term resource optionality, with new concessions, government support, and potential global partnerships providing technical expertise, risk sharing, and capital inflows.

Key Ratios	PER (TTM)	P/S	P/B
MARI	13.9	4.9	3.2
PPL	7.2	2.7	0.9
OGDC	7	3.0	0.9
POL	6.6	3.1	2.1



Key Charts

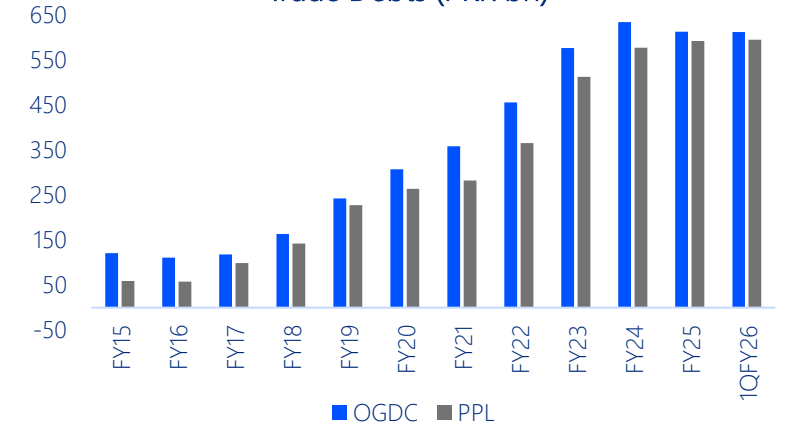
Historical Dividend Payout Ratio



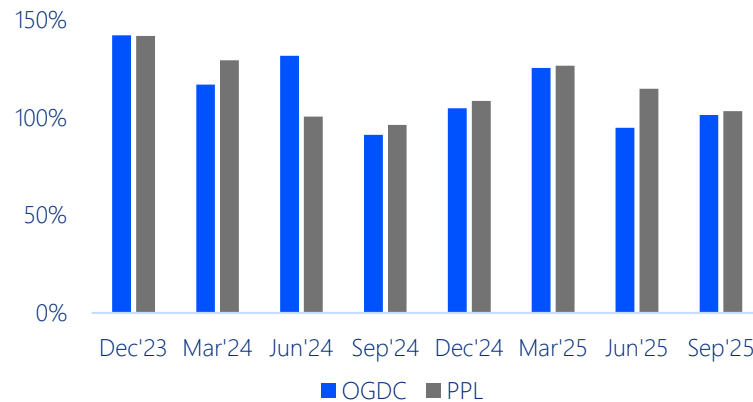
Arab Light Crude Oil Price (USD/bbl)



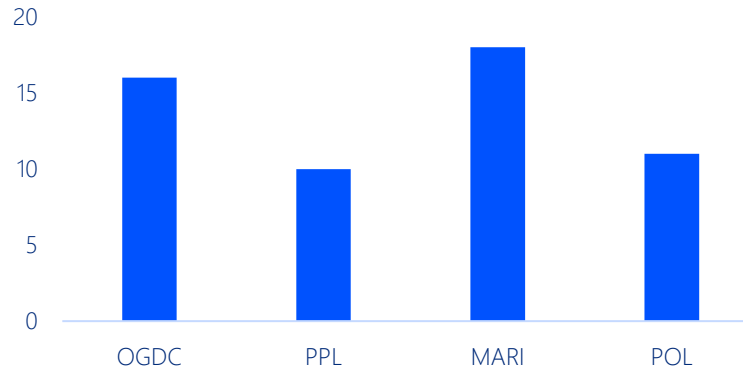
Trade Debts (PKR bn)



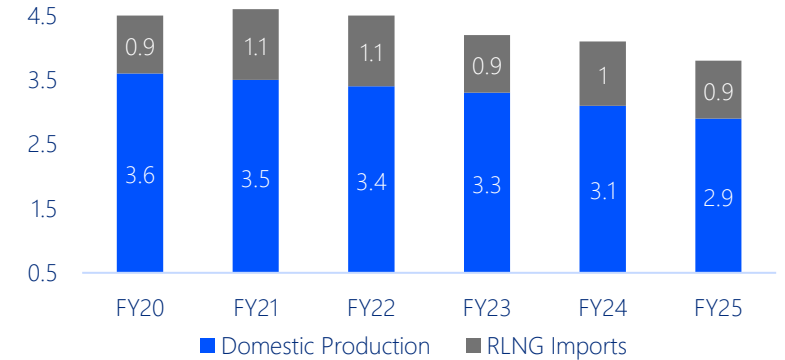
Quarterly Cash Recoveries



Expected Reserve Life (Years)



Pakistan Gas Supply BCFD



SECTION 5.2: SECTOR OUTLOOK

Cement Sector

CEMENT - OVERWEIGHT

Domestic Cement Demand Spooling Up ... On the Runway for Takeoff

- Domestic cement demand is set for a strong rebound in FY26, reversing the declining trend since FY22. We project domestic dispatches to grow by ~15%/10.7% YoY in FY26E/FY27F.
- Domestic demand peaked at ~48mn tons in FY21 and subsequently declined to ~37mn tons in FY25, driven by a sharp slowdown in construction activity.
- Early FY26 clearly reflect the double-digit growth with 5MFY26 domestic dispatches at ~17.4mn tons, up ~15% YoY from ~15.2mn tons in SPY.

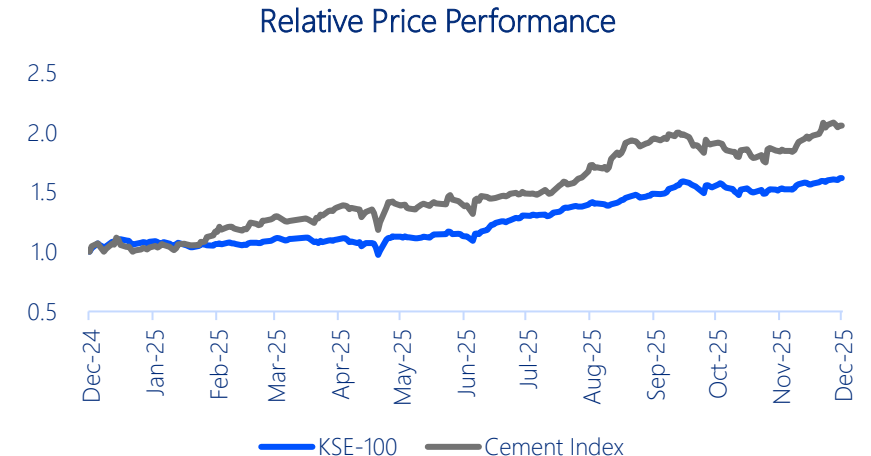
Industry Is Consolidating = More Pricing Power!

- The industry is consolidating with multiple big-ticket acquisitions under way namely PIOC and ACPL. This may strengthen the oligopolistic structure even further enabling the sector to improve margins.
- Furthermore, the industry is yet to reach its peak primary margins of ~54% in previous two cycles. In comparison, 1QFY26 margins have clocked in at ~48%. Further margin improve can provide another tailwind to earnings growth.

Compelling Valuation Discount

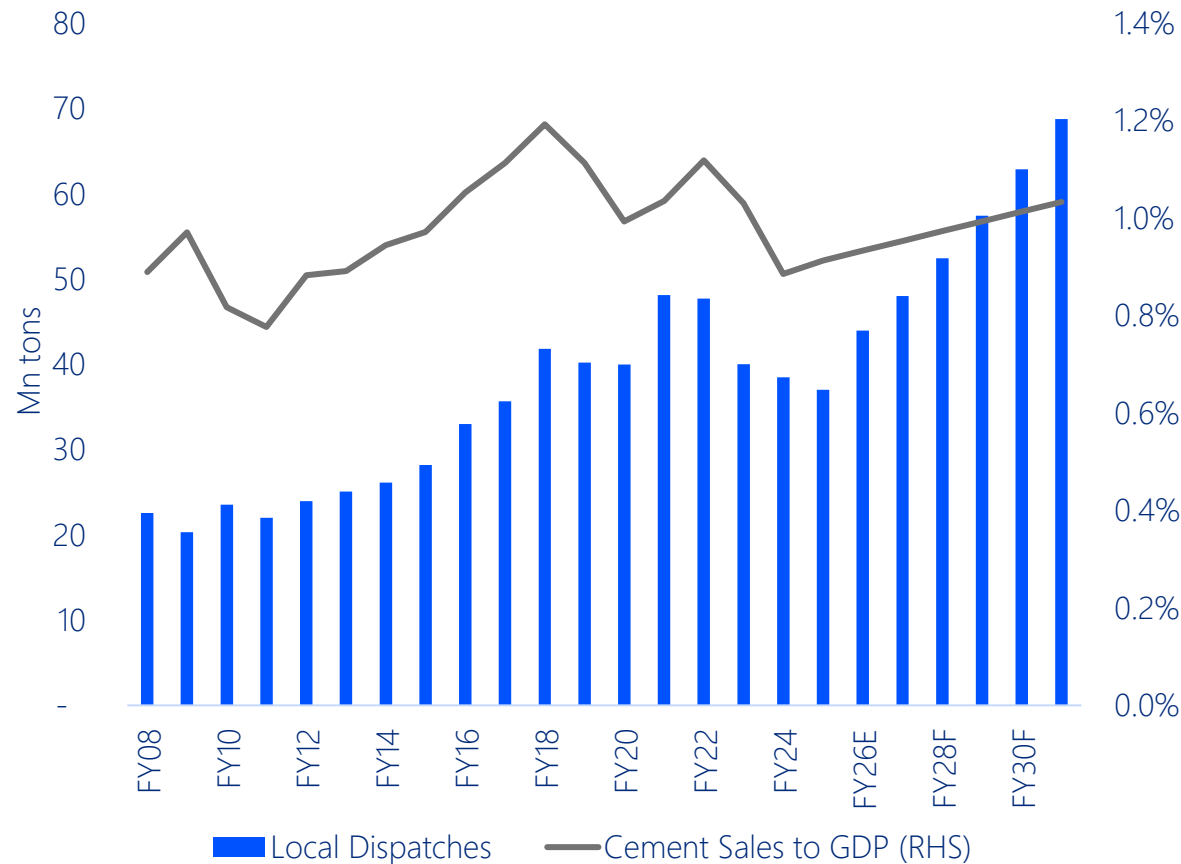
- Our cement universe currently trades at an EV of ~USD 46/ton, with a significant discount of ~23% to brownfield (~USD 60/ton) and of ~58% to greenfield (~USD 100–110/ton) expansion costs.

Key Ratios	PER (TTM)	P/S	P/B	EV/Ton (USD)
ACPL	15.5	1.7	1.2	41.2
BWCL	12.5	2.5	2.9	69.2
CHCC	8.6	1.9	1.8	45.3
DGKC	10.1	1.0	1.4	33.1
FCCL	10.3	1.6	1.5	53.1
FECTC	13.5	1.7	0.7	27.6
GWLC	12.9	1.0	1.3	35.0
KOHC	9.6	2.0	2.7	48.4
MLCF	9.7	1.7	1.8	50.1
PIOC	17.0	1.8	2.6	62.3
POWER	11.7	1.0	0.8	41.9

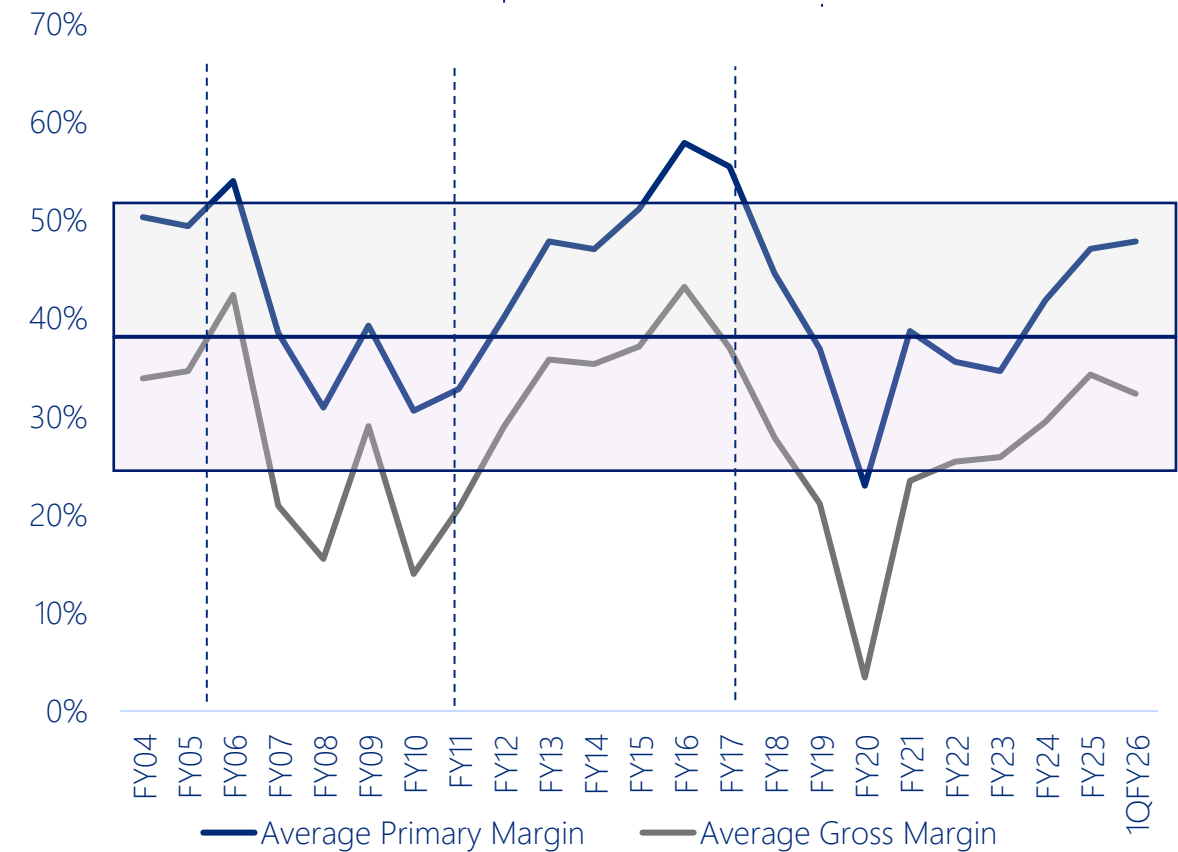


Domestic cement volume growth may match nominal GDP growth in the medium term

Historically, domestic cement sector revenues have averaged ~1% of nominal GDP. However, increase in cement prices post FY22 suppressed the domestic volumes. With prices stabilizing, nominal GDP growth will likely translate entirely into volume growth.



Primary and gross margins, historically driven by coal prices and demand shifts, are now recovering amid increasing reliance on renewable power, weak coal prices and robust domestic demand.



SECTION 5.3: SECTOR OUTLOOK

Fertilizer Sector

FERTILIZER – MARKETWEIGHT

■ CY25 Offtake Weakness Appears Cyclical, not Structural

- Fertilizer offtakes remained under pressure during CY25, where 11MCY25 Urea and DAP offtakes declined by ~18% and ~22% YoY respectively.
- This decline was mainly due to sluggish farm economics amid floods and structural changes affecting crop prices.
- Urea inventories have swelled to ~1.14mn tons as of Nov-25, leading to limited price competition.

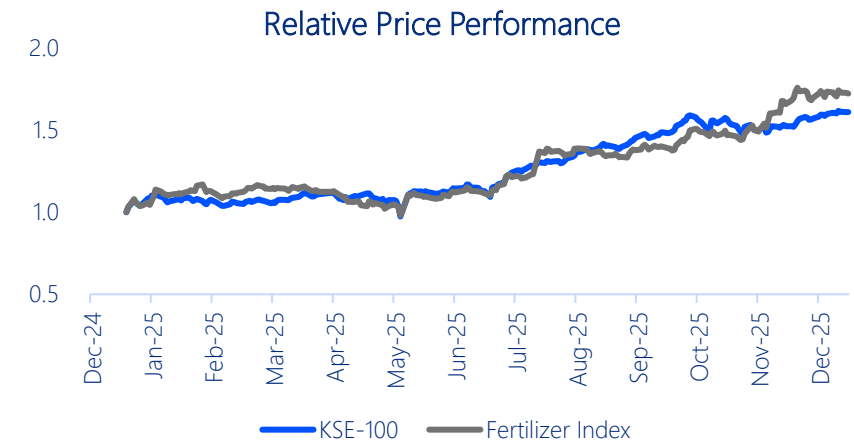
■ Rebound in Crop Prices and Government Support to Uplift Fertilizer Demand

- Urea offtakes are expected to settle ~6.0mn tons in CY25 however, in CY26, it is expected to normalize to ~6.5mn tons led by ~30% recovery in wheat prices and improving crop output.
- Moreover, initiatives such as Sindh Government's PKR 55bn Wheat Farmer's Relief Policy and Punjab Government's ongoing Kisaan Card and Tractor Scheme are further expected to improve farmers' earnings, and uplift fertilizer offtakes.

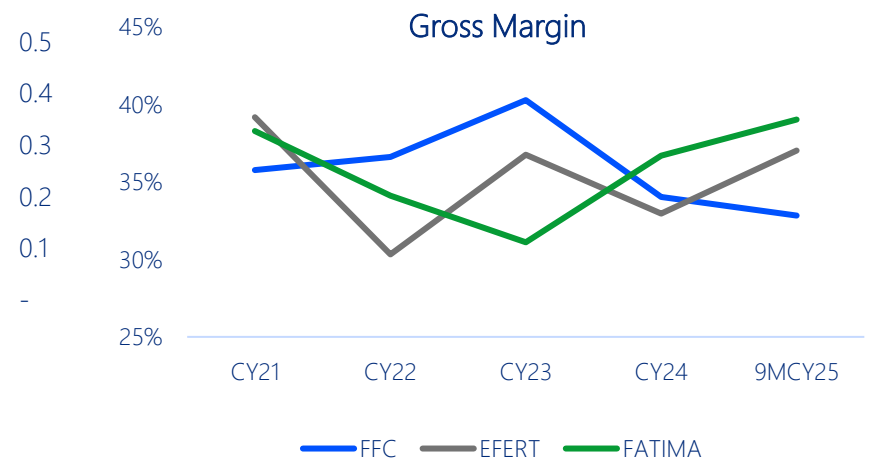
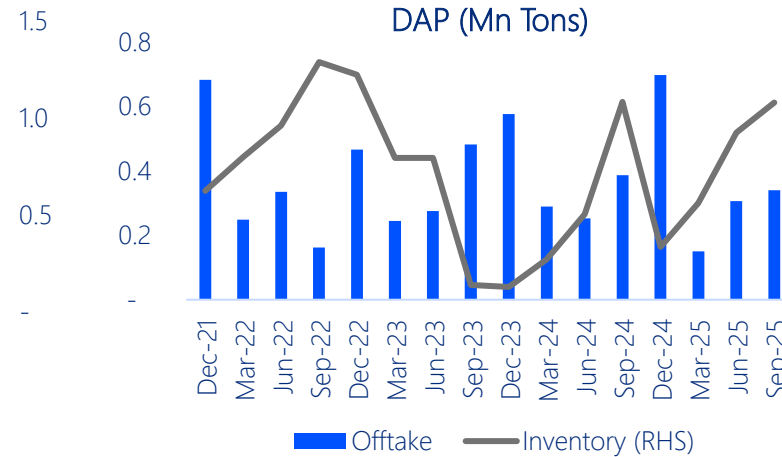
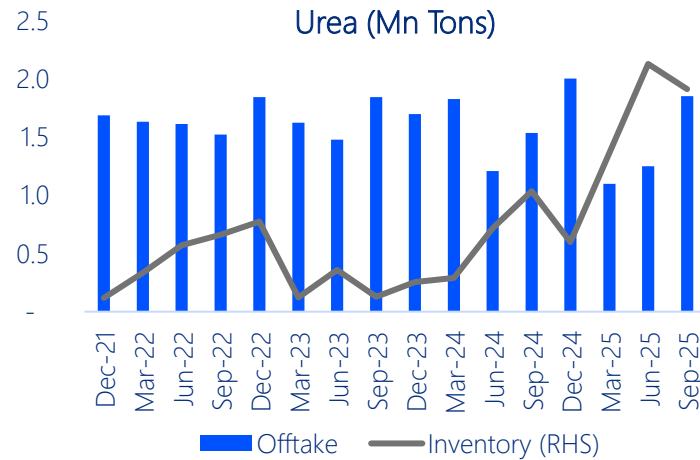
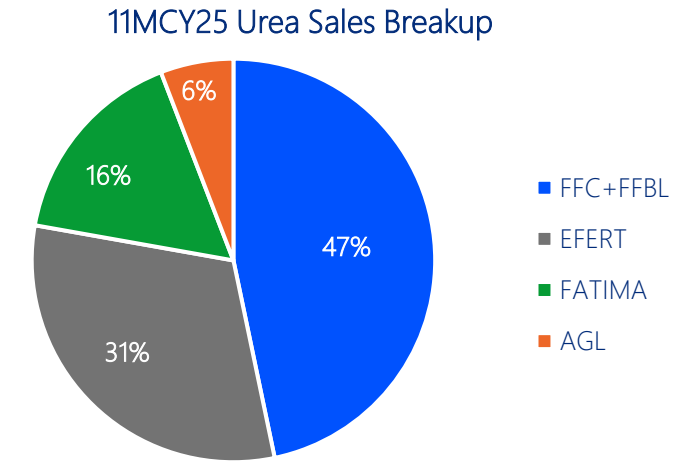
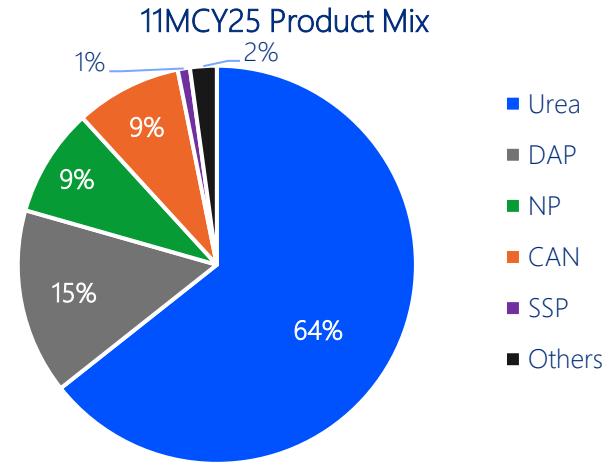
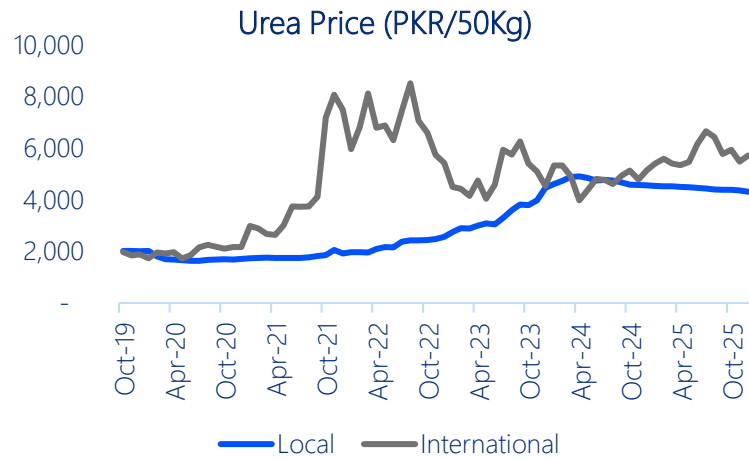
■ Potential Export Opportunity if Domestic Demand Faces Pressure

- Based on historical precedent, the government can potentially allow the sector to export surplus urea stock if domestic demand remains subdued. This would help the companies to reduce the excess stock and tap into global markets, at a significantly higher urea price.

Key Ratios	PER (TTM)	P/S	P/B
FFC	11.0	2.0	6.2
EFERT	13.1	1.1	6.9
FATIMA	8.0	1.2	2.0



Key Charts



SECTION 5.4: SECTOR OUTLOOK

Banking Sector

BANKING - OVERWEIGHT

Resilient Margins Supported by Low-Cost Deposits

- Strong loan growth and an increasing share of current accounts helped banks maintain net interest margins (NIMs) despite monetary easing last year.
- While NIMs may moderate in CY26 as the full effect of past rate cuts flows through, continued growth in zero cost and low-cost deposits is expected to cushion margins.

Earnings Driven by Fee Income and Balance Sheet Growth

- With interest rates near long term mean, banks are shifting focus from rate driven gains to balance sheet expansion, deposit mix optimization, and non-interest income growth through higher trade volumes and transaction banking.

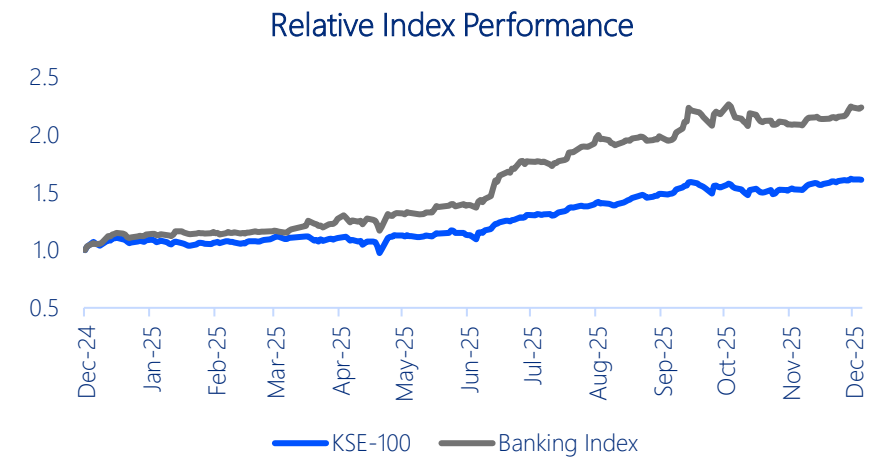
Strong Capital Position

- Most large banks carry capital buffers well above regulatory requirements, providing flexibility to absorb shocks, support growth, and continue dividend payouts even in a gradually easing rate environment.

Deposit and Growth Outlook

- Industry deposits are expected to grow around 10-12% in CY26, supporting volumetric growth. Overall sector earnings are projected to remain largely flat, with NIMs under moderate pressure and non-markup income normalizing from previous highs.

Key Ratios	PER (TTM)	ROE	P/B
UBL	8.1	25%	2.3
HBL	7.1	15%	1.0
MCB	8.0	24%	1.4
MEBL	8.4	46%	2.8
BAFL	6.4	25%	0.9
BAHL	6.0	30%	1.2
NBP	7.3	6%	0.9
BOP	7.4	15%	1.3

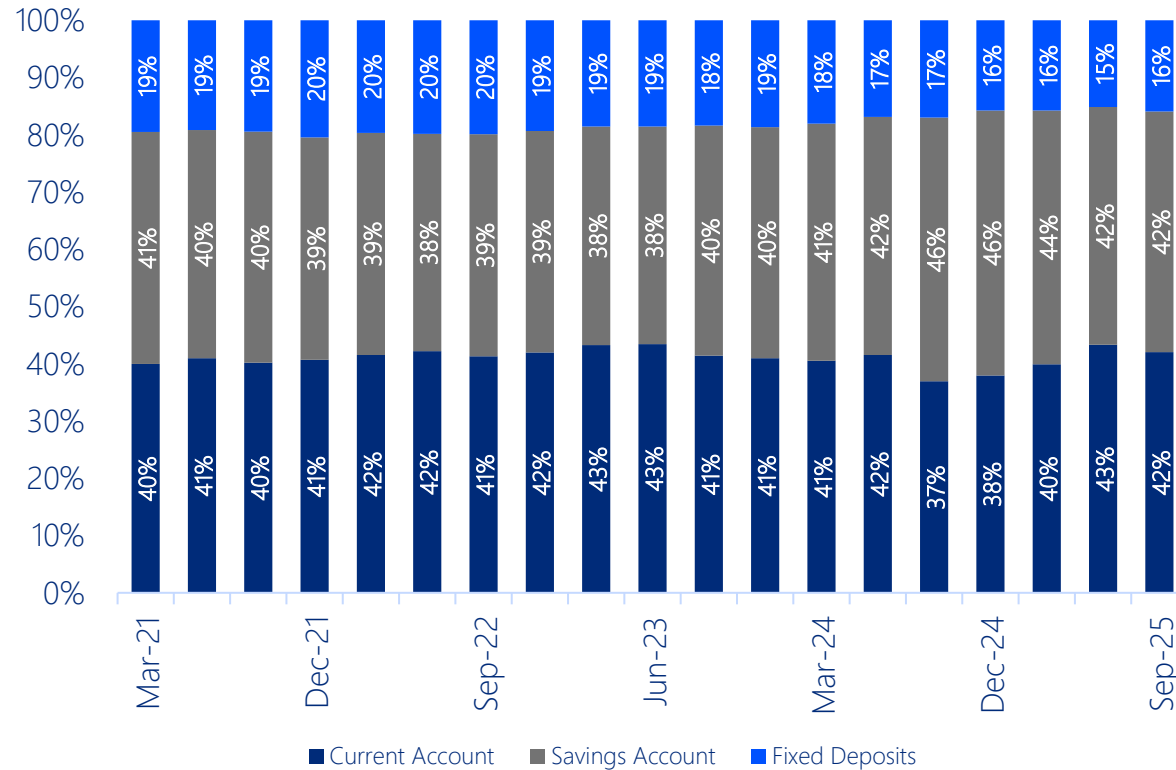


Funding Strength and Balance Sheet Expansion

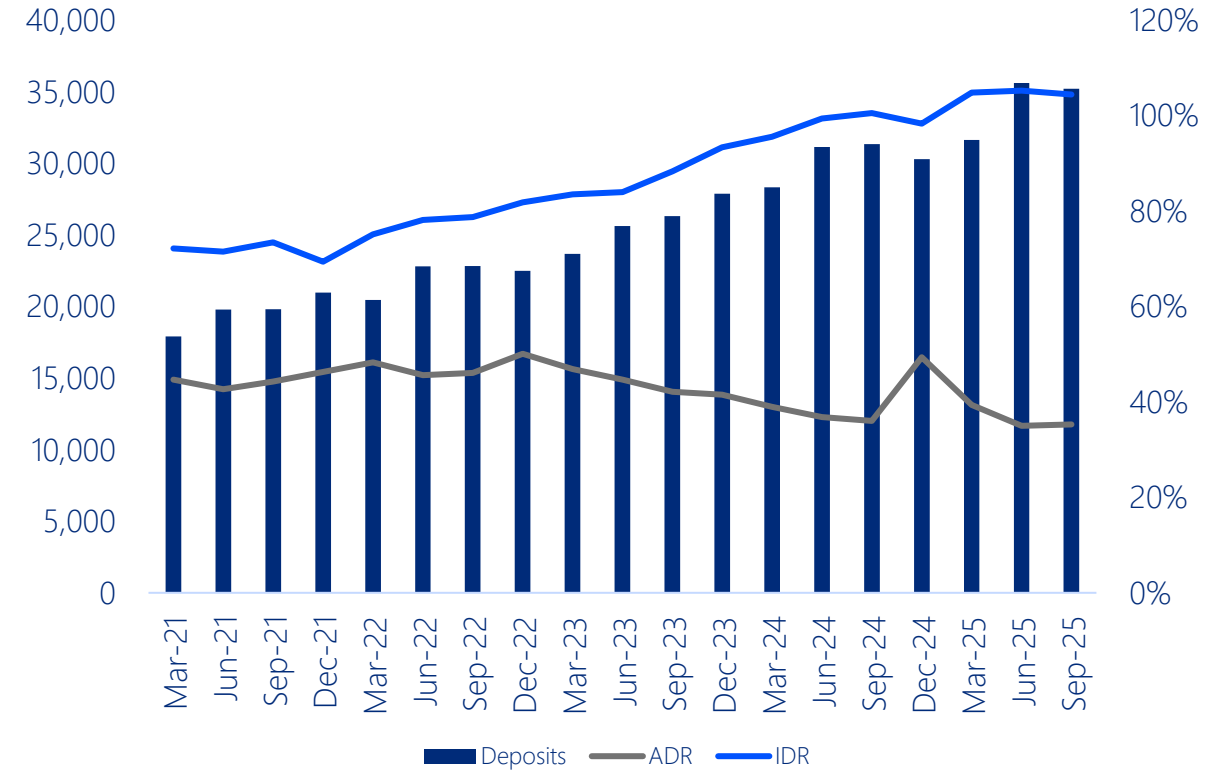
Deposit growth is being driven primarily by low-cost CASA which is supporting margins even as the rate cycle normalizes.

Strong deposit growth has enabled balance sheet expansion, with asset deployment increasingly skewed toward investments rather than advances.

CASA led deposit growth



Deposit-Led Balance Sheet Expansion (PKR Bn)



SECTION 5.5: SECTOR OUTLOOK

OMC Sector

OMC - OVERWEIGHT

Recovery-Led Earnings Normalisation

- Improved collection efficiency would ease working capital constraints, strengthen cash flows and enable balance sheet deleveraging.
- Improving macroeconomic conditions, alongside a recovery in automobile financing, are expected to support growth in petroleum product demand, particularly in the retail fuels segment.

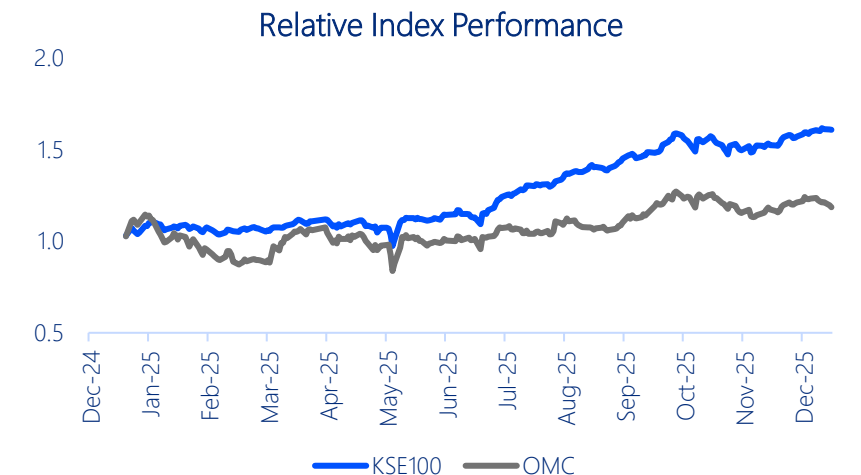
Sector Drivers and Margin Dynamics

- Stable domestic prices and crackdown on Iranian smuggled fuel have supported a modest FY25 volume rebound, particularly in HSD. As enforcement improves, OMCs are expected to recover lost market share, with gradual volume growth projected in FY26, partly limited by the shift to electric vehicles.
- OMC margins, after a prolonged period, are set to increase (MS & HSD, 5–10% phased), which is expected to boost profitability, and support investment in retail and distribution networks.
- Furnace oil demand remains structurally weak due to reduced FO-based power generation and levy imposition, continuing to limit overall industry volume growth.

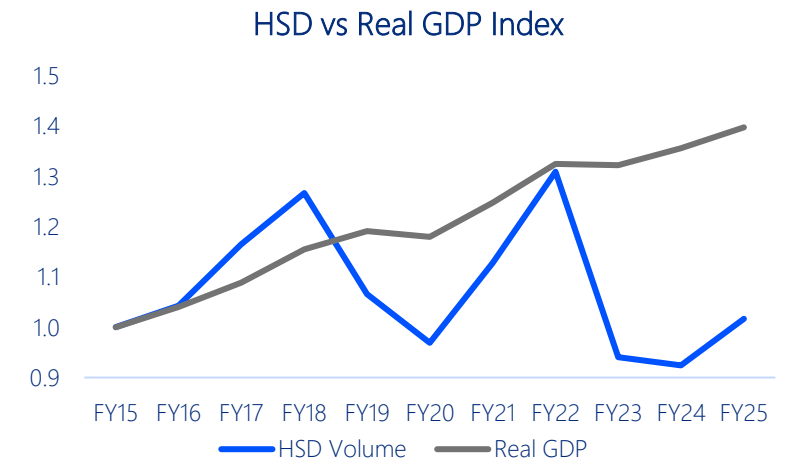
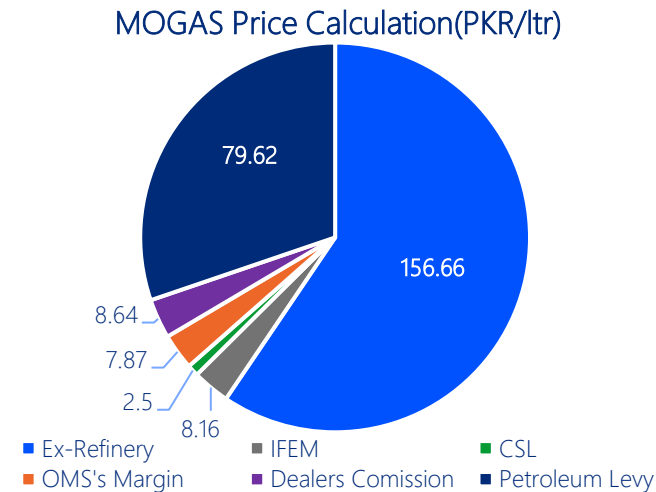
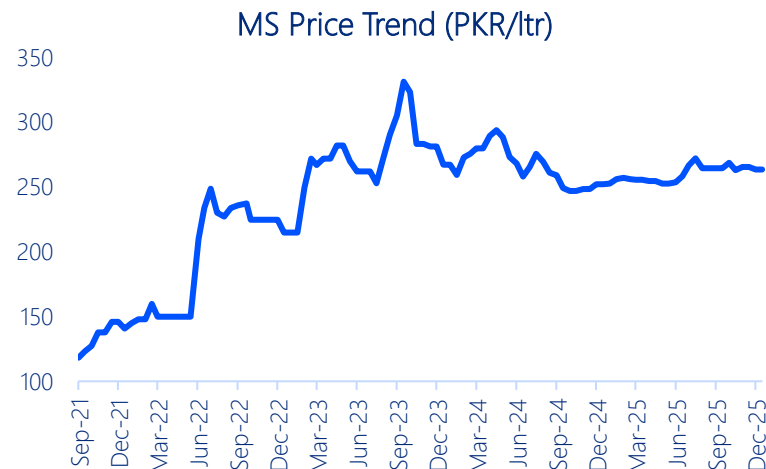
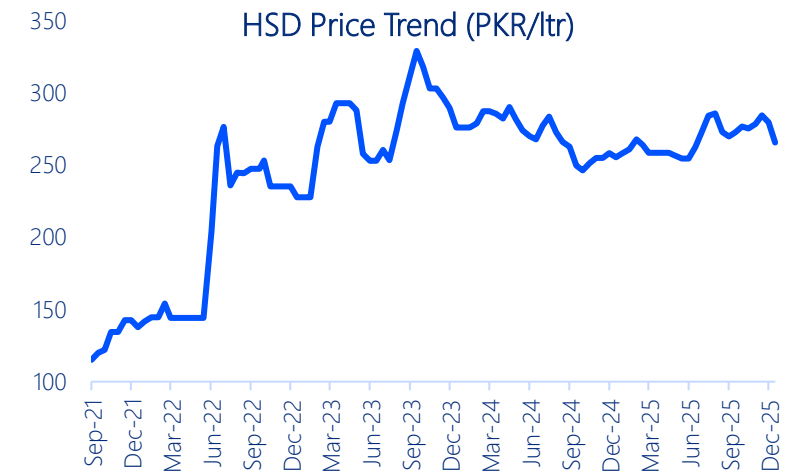
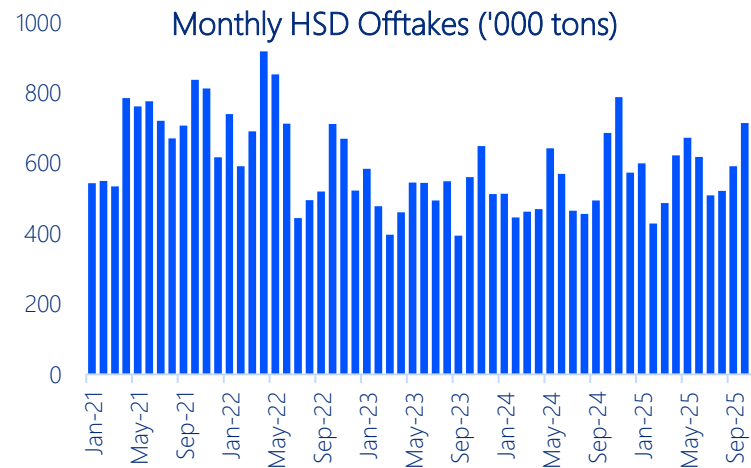
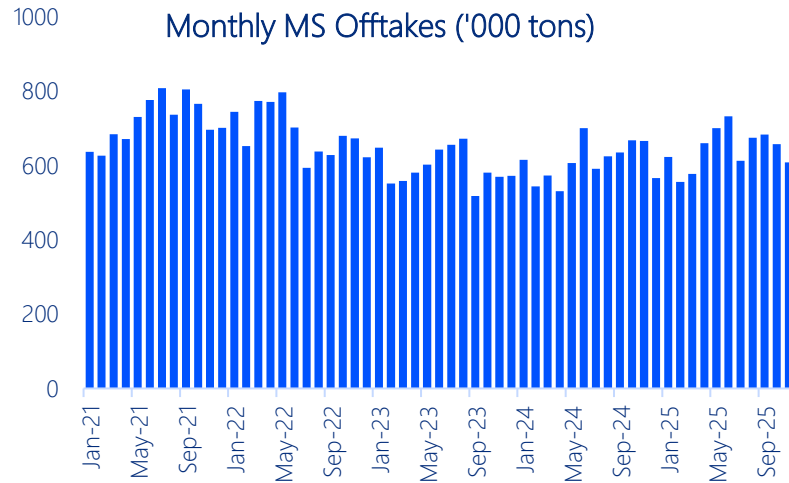
Deregulation a Possibility

- As part of the structural reforms, government is distancing itself from price regulation of various products. Hence, retail fuel deregulation (HSD and MS) maybe on the cards in the upcoming years, enabling the sector to decide margins based on competitive pricing.

Key Ratios	PER (TTM)	P/S	P/B
APL	6.5	0.14	1.1
PSO	10.1	0.07	0.8
WAFI	14.6	0.11	1.9



Key Charts



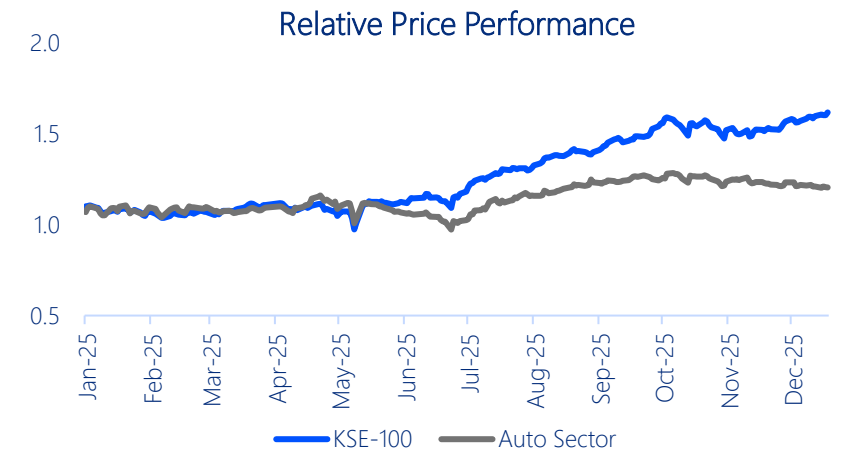
SECTION 5.6: SECTOR OUTLOOK

Automobile Sector

Automobiles – MARKETWEIGHT

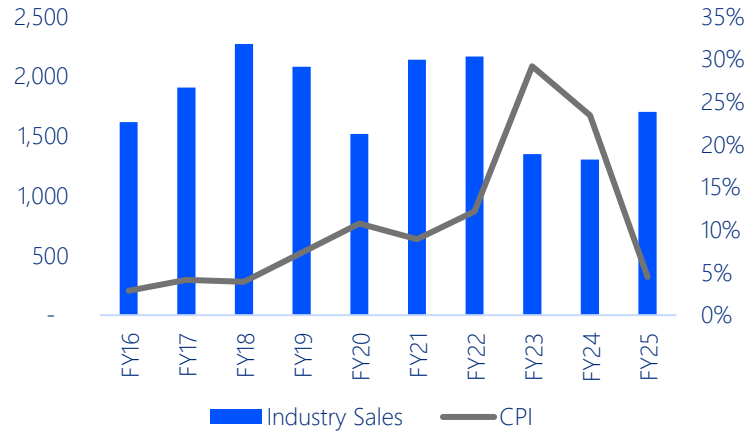
- **Strong Volume Growth Supported by Macroeconomics and Policy Incentives**
 - 4-wheeler sales rose 43% YoY to 148k units in FY25, with momentum sustained in 5MFY26 (+43% YoY), driven by demand across PHEVs, HEVs, EVs, and ICE vehicles.
 - Two and three-wheeler sales increased 32% YoY reflecting improved demand and affordability, while tractor sales declined 36% YoY due to weak farm economics.
 - Overall auto volumes in FY26 are expected to rise 30-35% YoY, supported by macro stability, policy continuity, easing financing, NEV incentives, and used commercial vehicle imports.
- **Financing Support to Drive Auto Sector Growth**
 - Auto financing continues to support demand, reaching PKR 318bn in Nov 2025.
 - The policy rate was cut by 50bps to 10.5% in Dec'25, enhancing affordability and consumer purchasing power.
 - The PKR 3mn financing cap remains a constraint. Any relaxation could unlock demand for higher-priced sedans and SUVs (PKR 5–10mn), supporting further volume growth.
- **Rise of Local Vehicle Assembly in Pakistan to Capture Consumer Attention**
 - Several Chinese automakers, including JAECOO, OMODA, JAC Motors, and Jetour have begun CKD assembly to reduce import duties and offer more competitive pricing.
 - Upcoming CKD operations from Deepal, Chery, and BYD in 2026–27 are expected to further expand HEV, PHEV, and EV options for Pakistani consumers alongside GWM's locally assembled TANK-500 and Cannon Alpha by March 2026.

Key Ratios	PER (TTM)	P/B	P/S	EV/S	EV/EBITDA
SAZEW	6.1	4.2	0.9	0.8	2.9
INDU	6.8	2.0	0.7	0.2	1.1
HCAR	14.6	1.7	0.5	0.5	7.0
MTL	16.4	3.8	0.7	0.9	4.4
ATLH	11.5	4.8	0.9	0.6	6.4
GAL	7.6	2.1	0.9	0.6	3.7
GHNI	7.4	2.5	0.9	0.9	4.9

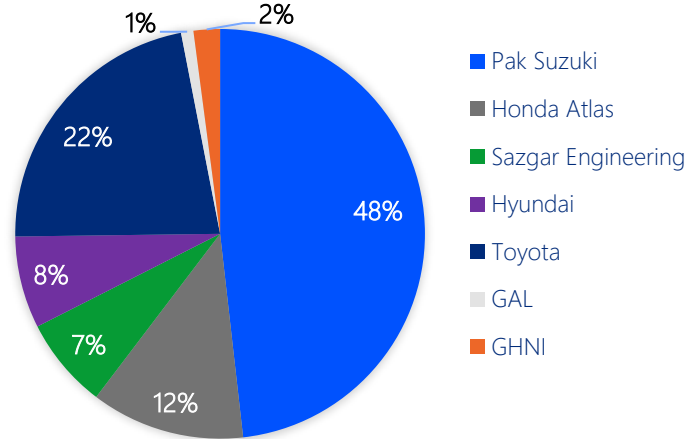


Key Charts

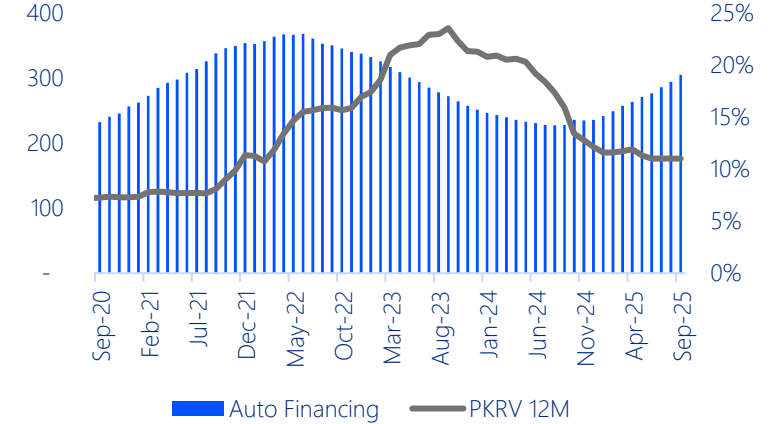
Units Sold ('000) vs. CPI



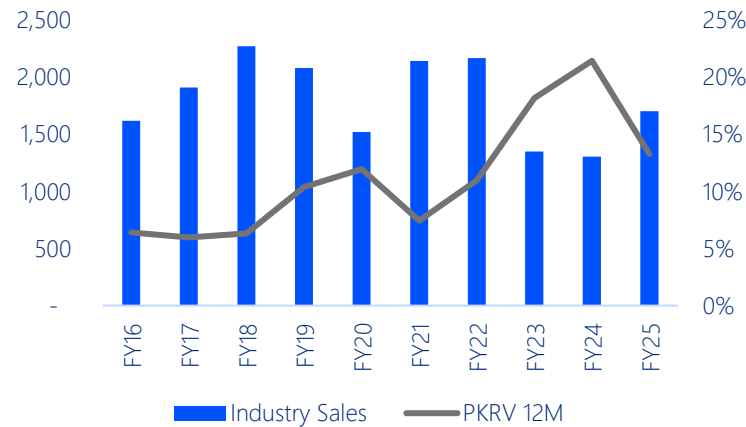
4-Wheeler Market Share in FY25



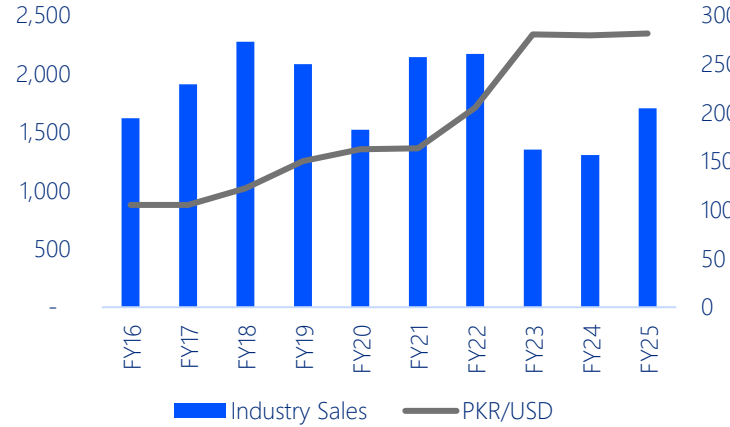
Interest Rate vs Auto Financing (PKR Bn)



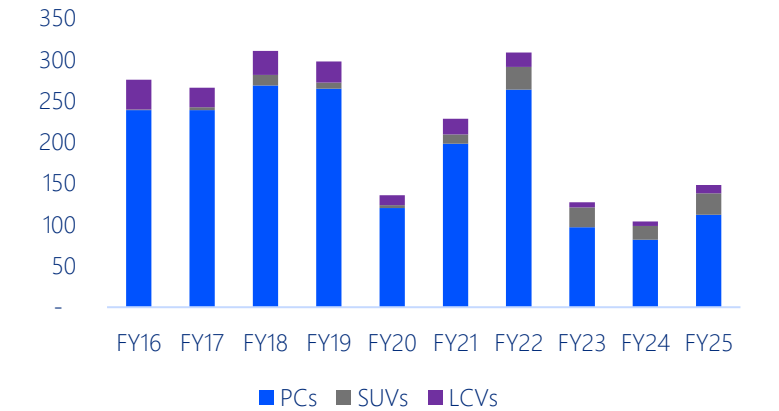
Units Sold ('000) vs. PKRV 12M



Units Sold ('000) vs. PKR/USD



4-Wheeler Sales Units ('000)



SECTION 6

Top Picks

SECTION 6: TOP PICKS

MLCF

Bloomberg	MLCF PA	Target Price (PKR)	156	Div. Yield (%)	0.0%	Shares (mn)	1,048
Reuters	MPLF.PSX	Current Price (PKR)	122	12M High (PKR)	133	Mkt Cap (PKR mn)	127,856
PSX Ticker	MLCF	Upside/(Downside) (%)	28%	12M Low (PKR)	42	Year End	June

Valuation and investment recommendation

- Our Dec-26 PT of PKR 156.7 for MLCF is based on SOTP and offers an upside ~28%.
- MLCF is currently trading at a forward PER of 10.2x, reflecting a discount of ~10% to our cement universe forward PER of 11.5x.

Efficient Energy Mix Driving Sustainable Margins

- MLCF has historically leveraged high GCV, low-cost pet-coke and increasing use of alternative fuels, along with cost-efficient rail transport, saving USD 12/ton in freight. We project a 60%/35% pet-coke/alternative fuel mix. This continued focus on low-cost fuels and efficient transport, amid the Afghan border closure, is expected to maintain MLCF's position as one of the lowest energy cost producer in our universe, with energy cost at PKR 5,505/ton in FY26E.

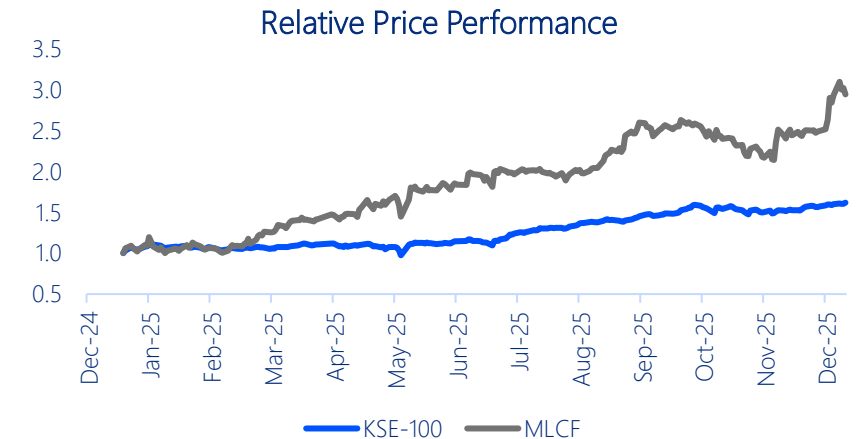
Diversified Portfolio Supports Stable Income Streams

- MLCF's investments in fertilizers (40.1% in AGL, benefiting from debt restructuring and rising demand), power (MLPL which generates tax-exempt profits), and healthcare (99.6% in NHPL, 250-bed hospital under development) provide multiple income streams to offset cement sector volatility.

Horizontal Integration to Increase Market Share

- MLCF's acquisition of ~70% stake in PIOC would raise its combined cement capacity to ~13.4mn tpa, making it the second largest player in the Northern region.

Key Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27F
EPS	4.1	5.4	6.5	11.0	11.7	14.0
EPS Growth	19.0%	29.6%	21.0%	68.7%	6.6%	19.9%
DPS	0.0	0.0	0.0	0.0	0.0	0.0
PER	28.8	22.2	18.7	11.1	10.4	8.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	11.3%	12.8%	13.1%	17.9%	15.8%	16.0%
P/B	3.1	2.7	2.2	1.8	1.5	1.3



SECTION 6: TOP PICKS

FCCL	Bloomberg	FCCL PA	Target Price (PKR)	68	Div. Yield (%)	2.6%	Shares (mn)	2,453
	Reuters	FAUC.PSX	Current Price (PKR)	56	12M High (PKR)	63	Mkt Cap (PKR mn)	137,368
	PSX Ticker	FCCL	Upside/(Downside) (%)	20%	12M Low (PKR)	33	Year End	June

Valuation and Investment Recommendation

- Our Dec-26 PT of PKR 67.6 for FCCL offers an upside of 20%, with a dividend yield of 2.6%.
- FCCL is trading at a forward PER of 9.7x and P/S of 1.4x, reflecting a discount of 16% and 30% to our cement universe's forward PER and P/S of 11.5x and 2.0x respectively.

Highest Projected 3 Year Earnings CAGR

- FCCL is expected to lead our cement universe with a 3yr earnings CAGR of ~18.5% versus the universe average of ~14.2%.
- Growth is driven by higher reliance on renewable energy sources and balance sheet deleveraging, with finance costs declining to ~PKR 140/ton by FY31F from ~PKR 357/ton in FY26E. This will support net margin expansion from 14.0% in 1QFY26 to 21.0% by FY31F.

Scale Advantage with Strategic Potential Expansion

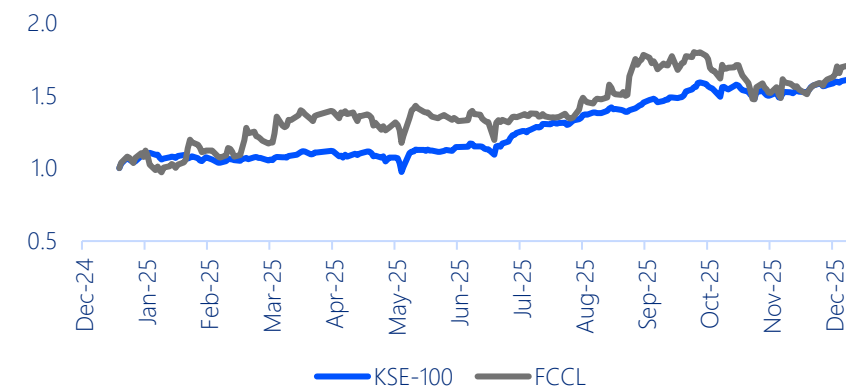
- FCCL's ~10.5mn tpa capacity reinforces its market strength (~16% market share) while potential acquisition of ACPL would provide it with exposure to the Southern region, making it the only player in the industry to operate in 3 provinces.

Potential for Dividend Growth

- During previous cycles (FY15-FY19), FCCL had maintained a payout ratio of ~70%. If ACPL acquisition fails to go ahead, the dividend maybe substantially increased. At the historical payout ratio the company would offer a dividend yield of 7.3%.

Key Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27F
EPS	3.0	3.2	3.4	5.4	5.8	7.2
EPS Growth	20.1%	4.6%	6.0%	62.1%	7.1%	24.4%
DPS	0.0	0.0	1.0	1.3	1.5	1.8
PER	18.6	17.7	16.8	10.4	9.7	7.8
Div. Yield	0.0%	0.0%	1.8%	2.2%	2.6%	3.2%
ROE	17.6%	12.1%	11.9%	16.9%	15.9%	17.4%
P/B	2.3	2.0	1.9	1.6	1.4	1.3

Relative Price Performance



SECTION 6: TOP PICKS

SAZEW

Bloomberg	SAZEW PA	Target Price (PKR)	2,692	Div. Yield (%)	5%	Shares (mn)	60
Reuters	SAZG.PSX	Current Price (PKR)	1,617	12M High (PKR)	2,050	Mkt Cap (PKR mn)	97,020
PSX Ticker	SAZEW	Upside/(Downside) (%)	66%	12M Low (PKR)	947	Year End	June

Valuation And Investment Recommendation

- Our Dec'26 TP of PKR 2,692 implies a 66% upside in addition to a 5% dividend yield.
- Trading at an attractive FY26E and FY27E PER multiple of 5.2x and 6.3x, the company trades at a discount of 44% to its sector average.

Entering a New Segment – Plug-in Portfolio

- The PKR 11.5bn NEV facility will support local assembly of PHEV models and the launch of TANK-500 and Cannon Alpha by end of 3QFY26, expanding the SUV and pickup range.
- Ex-factory prices and volumes are expected as follows: TANK-500 at PKR 24–26mn with ~200 units in FY27 and Cannon Alpha at PKR 18.2mn with ~300 units in FY27.

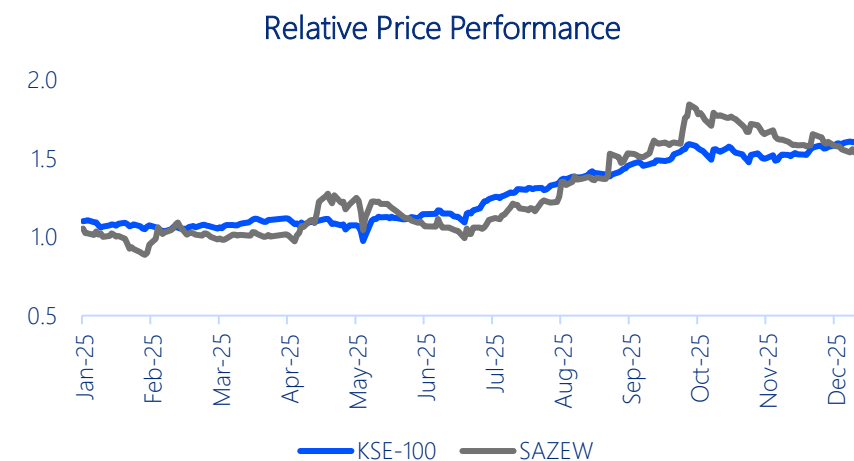
HAVAL Deliveries Strengthen – New PHEV Variant Gains Traction

- SUV leadership strengthens with the H6 HEV/PHEV, creating a differentiated niche through technological innovation, while Haval commands a 43% market share.
- Haval maintained strong momentum into FY26, recording 6,036 units in 5MFY26 (+69% YoY), with FY26E/27F volumes projected at 12.5k/14.0k units.

Enduring Margin Pressures Through Scaling and Localization Gains

- Expiry of Greenfield incentive under AIDEP is expected to moderate margins to ~20% in FY27E–28E. However, ongoing localization and planned ACD removal under NTP is expected to support margins.

Key Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27F
EPS	1.9	16.5	131.3	270.3	314.5	261.7
EPS Growth	19.6%	744.4%	697.5%	105.9%	16.5%	-16.9%
DPS	0.0	4.0	20.0	52.0	87.0	130.0
PER	843.2	99.9	12.3	6.0	5.1	6.2
Div. Yield	0%	0.2%	1.2%	3.2%	5.3%	8.0%
ROE	6.2%	40.9%	121.9%	96.6%	62.2%	38.2%
P/B	50.7	34.0	9.8	4.2	2.6	2.2



SECTION 6: TOP PICKS

FFC	Bloomberg	FFC PA	Target Price (PKR)	660	Div. Yield (%)	7.2%	Shares (mn)	1,423
	Reuters	FAUF.PSX	Current Price (PKR)	585	12M High (PKR)	599	Mkt Cap (PKR mn)	832,882
	PSX Ticker	FFC	Upside/(Downside) (%)	13%	12M Low (PKR)	314	Year End	December

Valuation And Investment Recommendation

- Our Dec-26 PT of PKR 660 for FFC offers an upside of 13%, along with a dividend yield of ~7.2%. FFC is trading at a forward PER of 9.6x.

Structural Cost Advantage Supporting Margins

- FFC continues to benefit from the lowest feed gas pricing in the sector at ~PKR 580/mmbtu from MARI for all plants except FFBL. It procures fuel gas at PKR 1,580/mmbtu. For comparison, SSGC or SNGPL gas pricing (feed/fuel) stands at PKR 1,597/mmbtu.
- This low-cost arrangement enable FFC to sustain high gross margins, which clocked in at ~34% for 9MCY25.

Stronger Footprint in the Market

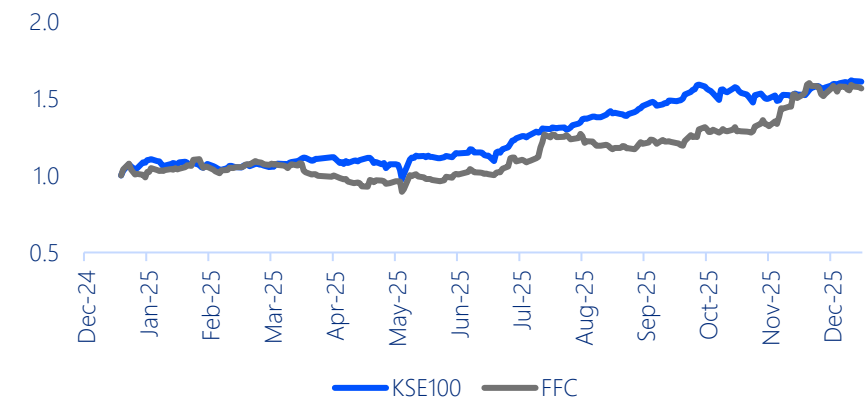
- FFC's footprint in the industry is further strengthened after its acquisition of FFBL, increasing the sale-based market share in Urea/DAP to 47%/62% in 11MCY25 from 42%/10% in 11MCY24.
- On the capacity side, FFC leads the industry with a combined market share of ~48% in Urea.

Cash-Rich Balance Sheet and Diversified Income Stream to Support Earnings

- FFC's earnings are expected to be supported by a diversified investment portfolio, with other income contributing ~15% of PBT in 9MCY25. A robust liquidity position, with cash and cash equivalents of ~PKR 167bn (~PKR 118/share), would also support consistent payouts.

Key Ratios	CY22A	CY23A	CY24A	CY25E	CY26F	CY27F
EPS	27.0	37.3	60.1	62.0	61.0	67.0
EPS Growth	-13.7%	38.0%	61.1%	3.2%	-1.6%	9.8%
DPS	12.1	15.4	36.5	40.0	42.0	44.0
PER	21.5	15.6	9.7	9.4	9.6	8.7
Div. Yield	2.1%	2.7%	6.3%	6.8%	7.2%	7.5%
ROE	29.8%	34.2%	34.9%	32.0%	28.6%	28.4%
P/B	6.1	4.9	3.4	3.0	2.8	2.5

Relative Price Performance



SECTION 6: TOP PICKS

PPL	Bloomberg	PPL PA	Target Price (PKR)	320	Div. Yield (%)	4%	Shares (mn)	2,720
	Reuters	PPL.PSX	Current Price (PKR)	227	12M High (PKR)	236	Mkt Cap (PKR mn)	617,440
	PSX Ticker	PPL	Upside/(Downside) (%)	41%	12M Low (PKR)	129	Year End	June

Valuation And Investment Recommendation

- Our Dec-26 PT of PKR 320 offers an upside of 41% along with a dividend yield of 4%.
- The stock is trading at a forward PER of 7.3x, representing a discount of 12.3% to the market multiple.

Exploration-Led Reserve Growth

- The company delivered a 129% 2P reserve replacement ratio in FY25, underscoring effective exploration outcomes.
- Recoverable reserves increased to 2,418 BCFE, extending reserve life to 10 years and supporting long-term earnings visibility.

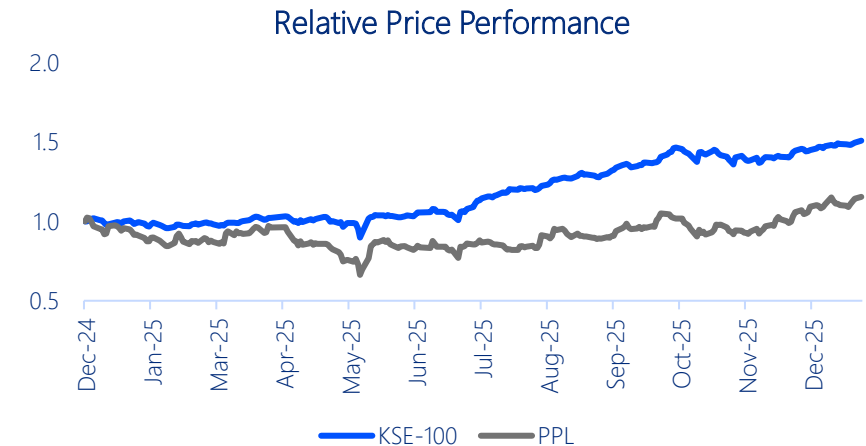
Production Normalisation and Cash Flow Strength

- Production is expected to recover as forced curtailments ease, following an 11% decline in FY25.
- Improved cash generation has enabled higher dividend payouts, with the payout ratio rising to 22% in FY25 and 27% in 1QFY26.

Strategic Diversification Into Mining

- PPL's 8.33% stake in Reko Diq (Phase-1 from 2028) and exposure to BME provide long-term earnings diversification beyond upstream oil and gas exploration.
- Planned 15 wells, new block drillings from FY27, and offshore Block C will likely support reserves and production growth.

Key Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27F
EPS	19.7	36	42	33.8	31.0	31.9
EPS Growth	2.1%	82.7%	16.6%	-19.5%	-8.3%	2.9%
DPS	2	2.5	6.0	7.5	10.0	12.0
PER	11.5	6.3	5.4	6.7	7.3	7.1
Div. Yield	0.9%	1.1%	3%	3%	4%	5%
ROE	13.2%	20.1%	19.4%	13.7%	11.1%	10.6%
P/B	1.4	1.2	1.0	0.9	0.8	0.8



SECTION 6: TOP PICKS

PSO

Bloomberg	PSO PA	Target Price (PKR)	659	Div. Yield (%)	3.3%	Shares (mn)	469
Reuters	PSO.PSX	Current Price (PKR)	458	12M High (PKR)	494	Mkt Cap (PKR mn)	214,802
PSX Ticker	PSO	Upside/(Downside) (%)	44%	12M Low (PKR)	300	Year End	June

Valuation And Investment Recommendation

- Our Dec-26 PT of PKR 659 for PSO offers an upside of 44%, along with a dividend yield of 3.3%.
- The stock is trading at a forward PER of 6.0x, representing a substantial discount of 27% to the market multiple.

Phased Margin Revision to Boost Earnings

- The ECC has approved a two-phase revision of OMC margins for PSO. Margins will increase by PKR 0.61/litre in the first phase from 16-Dec-25. The second phase, effective 01-Jun-26, will add another PKR 0.61/litre.

Circular Debt Resolution to Boost Cash Flows

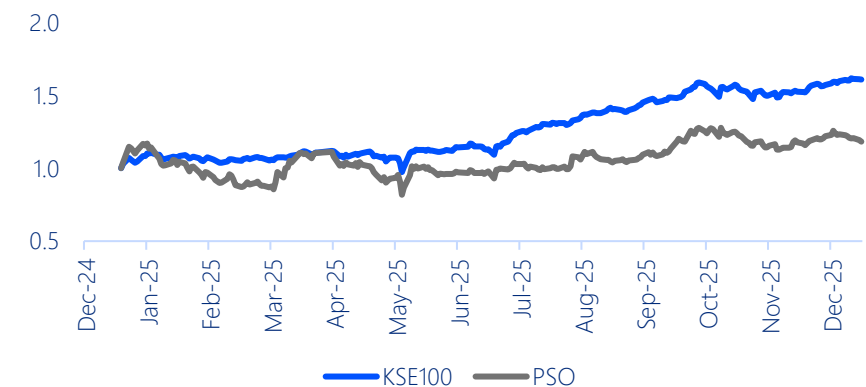
- PSO will benefit from the government's efforts to settle PKR 600-700bn power sector circular debt. This will improve cash flows, reduce debt, and support earnings growth.
- Gas sector receivables of PKR 246 bn (~PKR 525/share) remain outstanding; renewed efforts to resolve gas circular debt could further strengthen liquidity and elevate PSO's financial profile.

Infrastructure Expansion to Strengthen Market Leadership

- PSO added 67 retail outlets, upgraded 30.3 KT storage (total 3,600+ outlets, 1.24 mn tons), is developing 128 EV chargers to further strengthen its market position.

Key Ratios	FY22A	FY23A	FY24A	FY25A	FY26E	FY27F
EPS	183.7	12.1	33.7	44.5	76.0	85.0
EPS Growth	196%	-93.4%	179.3%	32.1%	70.8%	11.8%
DPS	10.0	7.5	10.0	10.0	15.0	20.0
PER	2.5	37.7	13.6	10.3	6.0	5.4
Div. Yield	2.2%	1.6%	2.2%	2.2%	3.3%	4.4%
ROE	48.5%	2.6%	6.8%	8.3%	12.8%	12.9%
P/B	1.0	1.0	0.9	0.9	0.8	0.7

Relative Price Performance



SECTION 6: TOP PICKS

MCB	Bloomberg	MCB PA	Target Price (PKR)	435	Div. Yield (%)	10%	Shares (mn)	1,185
	Reuters	MCB.PSX	Current Price (PKR)	374	12M High (PKR)	400	Mkt Cap (PKR mn)	443,190
	PSX Ticker	MCB	Upside/(Downside) (%)	16%	12M Low (PKR)	247	Year End	December

Valuation And Investment Recommendation

- Our Dec-26 PT of PKR 435 for MCB offers an upside ~16% along with a dividend yield of 10% translating into a total return of 26%.

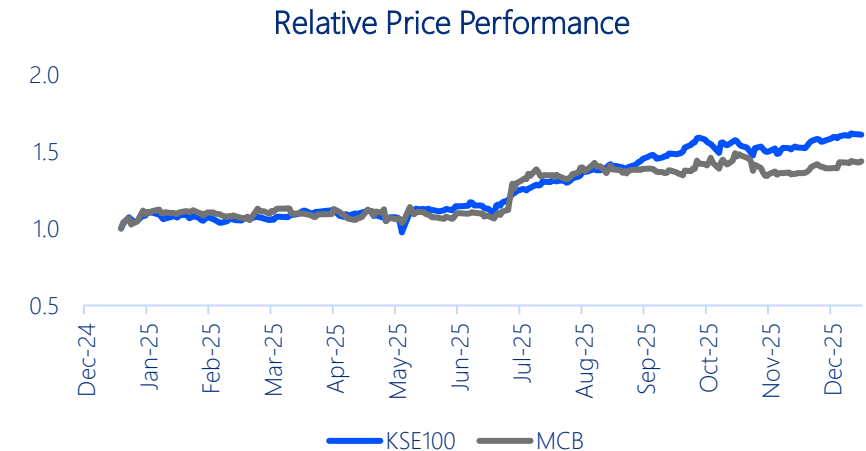
Strong Focus on Zero Cost Deposits

- MCB's strength lies in its low-cost CASA franchise. Total deposits reached PKR 2.2tn as of Sep-25, with current accounts exceeding 50%, pushing CASA to ~97.9%. This leads to lower cost of funds.
- Since the bank's loans and investments have mostly already adjusted to the current interest rate levels, and it has a favorable low-cost deposit base (CASA-heavy), there is minimal risk that net interest margins will shrink further.
- The bank plans to add over 40 new branches (2.9%) in CY26, while NIMs are expected to remain stable, projected above 5% over the next two years.

Efficiency and Capital Powering Sustainable Dividends

- MCB remains strongly capitalized, with a CAR of 19.88%, CET1 of 15.37%, well above regulatory requirements. This provides flexibility to support growth while sustaining dividend payouts. Also, the bank continues to exhibit strong operational discipline, maintaining a cost-to-income ratio of 37.65%.

Key Ratios	CY23A	CY24A	CY25E	CY26E	CY27F
EPS	50.3	48.6	46.2	53.1	53.9
EPS Growth	82.2%	-3.4%	-13.4%	14.9%	1.5%
DPS	30.0	36.0	36.0	36.0	37.0
PER	6.7	7.7	8.1	7.0	6.9
Div. Yield	8.2%	10%	10%	10%	10%
ROE	28.4%	23.0%	19.2%	20.3%	19.4%
P/B	1.9	1.6	1.5	1.4	1.3



SECTION 7

Alpha Stocks

SECTION 7: ALPHA STOCKS

HALEON

Bloomberg	HALEON.PA	Div. Yield (TTM)	3.6%	Shares (mn)	117
Reuters	HALE.PSX	12M High/Low (PKR)	953/653	Mkt Cap (PKR mn)	97,155
PSX Ticker	HALEON	Current Price (PKR)	827	Year End	December

Valuation

- HALEON has historically (2017–2021) traded at an average 200% premium to market multiples, compared to a current premium of 86%. It currently trades at a PER of 15.8x, implying a 38% discount to its historical relative valuation.
- Given continued volumetric growth and margin stability, supported by price deregulation on non-essential drugs, this valuation gap is expected to narrow gradually, unlocking potential upside.

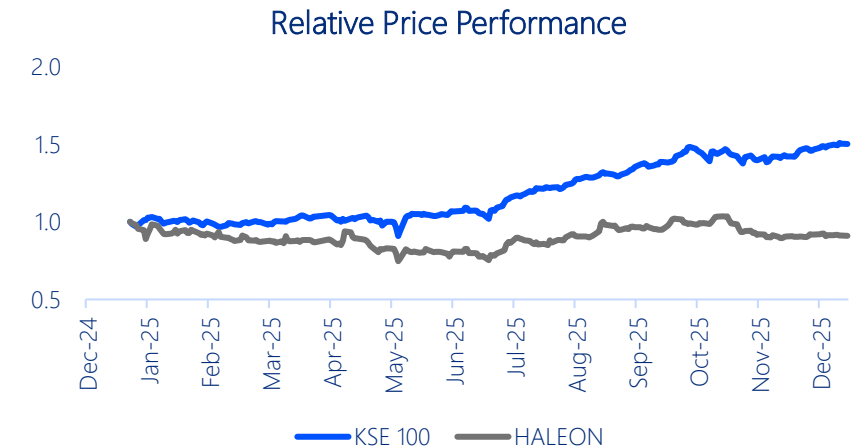
New launches ahead

- Following deregulation, HALEON has accelerated product innovation under the Panadol franchise, expanding into differentiated therapeutic offerings such as Panadol Ultra (Paracetamol + Ibuprofen) and Panadol Night (pain relief with sedation). Additional launches, including Panadol Women and Panadol Migraine, are planned for the coming year.
- The company also introduced Centrum, the world's largest multivitamin brand, in CY25, with scale-up targeted in CY26.

Export Growth Strategy

- HALEON has initiated multiple licensing applications and drug registrations across international markets to expand its export footprint. With incremental manufacturing capacity expected from the plant currently under construction, CY27 could mark an inflection point for export-led growth.

Key Ratios	CY20A	CY21A	CY22A	CY23A	CY24A	9MCY25
EPS	10.8	18.2	2.8	8.5	39.1	39.2
EPS Growth	-1%	69%	-85%	206%	360%	43%
DPS	5.0	0.0	0.0	0.0	20.0	15.0
PER	76.5	45.3	296.8	96.9	21.1	15.8
Div. Yield	1%	0%	0%	0%	2%	2%
ROE	24.4%	31.8%	4.6%	12.4%	38.2%	44.8%
P/B	18.7	14.4	13.7	12.0	8.1	7.1



SECTION 7: ALPHA STOCKS

SYS

Bloomberg	SYS PA	Div. Yield (TTM)	0.7%	Shares (mn)	1,473
Reuters	SYSE.PSX	12M High/Low (PKR)	174/92	Mkt Cap (PKR mn)	245,971
PSX Ticker	SYS	Current Price (PKR)	166	Year End	December

Valuation

- SYS has traded at an average of 3.0x to the market PER over the past decade, implying a target PER of 27.0x versus the current PER of 21.1x, representing a 23% valuation discount. At the target PER, the implied value translates into PKR 217/share based on CY25E EPS.

Consistent Revenue Growth

- SYS has been among the highest and most consistent growth companies on the bourse, with USD-denominated 3yr/5yr revenue CAGR of 23%/36%.
- The company is also realigning its growth strategy toward higher-margin MENA and Western markets, while gradually exiting lower-margin domestic contracts.

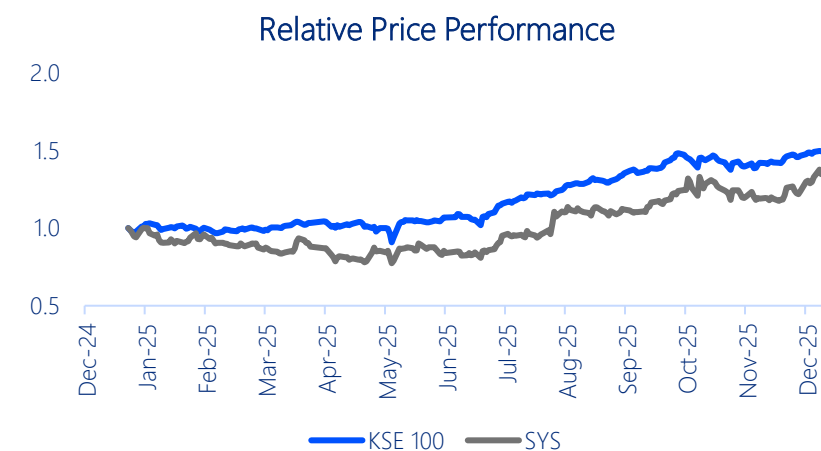
Key Beneficiary of PKR Depreciation

- As a predominantly export-oriented services company, SYS benefits materially from PKR depreciation. Prolonged PKR stability over the past ~34 months compressed margins as HR cost inflation eroded profitability. However, with REER already above 104, PKR depreciation may assist SYS in margin recovery.
- For context, SYS's gross margins averaged 31% during 2014–2022, compared to 26.9% in 9MCY25. Normalizing gross margins to historical levels would imply ~22% uplift in earnings.

Key risks:

- 1) PKR stability persists, 2) Revenue growth underperforms and 3) Margin compress further.

Key Ratios	CY20A	CY21A	CY22A	CY23A	CY24A	CY25E
EPS	1.6	3.2	4.8	6.0	5.1	8.0
EPS Growth	39%	99%	46%	26%	-14%	57%
DPS	0.3	0.5	1.0	1.2	1.2	2.0
PER	104.3	52.3	35.7	28.4	33.2	21.1
Div. Yield	0.2%	0.3%	0.6%	0.7%	0.7%	1.2%
ROE	31.4	20.8	10.9	7.7	6.5	5.3
P/B	27.7%	37.0%	28.9%	26.9%	19.3%	24.9%



SECTION 7: ALPHA STOCKS

BBFL

Bloomberg	BBFL PA	Div. Yield (TTM)	0%	Shares (mn)	299
Reuters	BIGB.PSX	12M High/Low (PKR)	67/40	Mkt Cap (PKR mn)	14,814
PSX Ticker	BBFL	Current Price (PKR)	50	Year End	June

Valuation

- BBFL is a composite of Retail and Premium food processing businesses. Revenue contribution is led by large corporate clients (i.e. KFC, McDonald's, and Kababjees Fried Chicken) with a 48% share, followed by small food service at 41%, retail at 8%, and exports at 3%.
- BBFL is currently trading at a TTM PER of 12.3x, representing a significant discount to the broader food sector average of 28.0x and TOMCL at 21.0x
- With an increasing retail mix and strong sales momentum, BBFL is well positioned for both earnings growth and multiple re-rating, offering meaningful upside potential.

Remarkable Revenue Growth

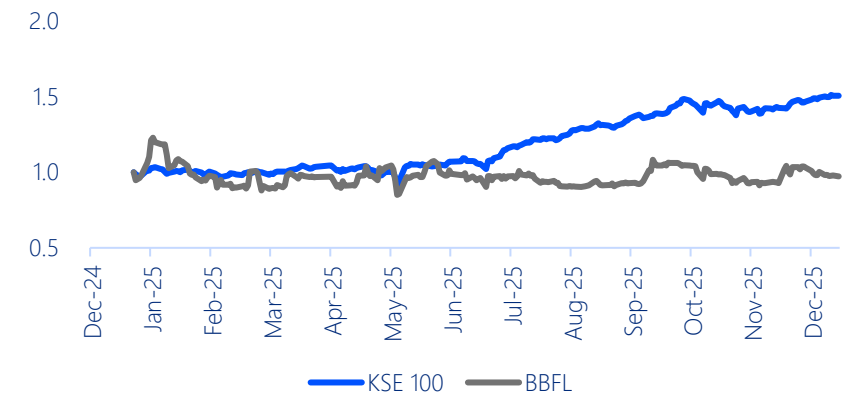
- The company has demonstrated stellar growth in FY25, growing by 58% YoY and continued the momentum in 1QFY26 with a revenue growth of 74%.
- The company has been super aggressive in retail, opting for shop in shop and app driven sales rather than brick and mortar stores.
- Recently gained access to 50 additional retail stores by onboarding Chase Up, Punjab Cash & Carry, Diamond Super Market and Bin Hasim Supermarket – estimated retail revenue contribution ~PKR600mn.

Vertical Integration

- To stabilize and expand supply chain, the company has entered into raising its own chicken (on tolling basis). This may assist in margin expansion and ensure consistent raw material for growth.

Key Ratios	FY23A	FY24A	FY25A	1QFY26A
EPS	-0.4	2.5	3.5	1.0
EPS Growth	NM	NM	39%	24%
DPS	0	0	0	0
PER	NM	19.9	14.3	12.5
Div. Yield	0%	0%	0%	0%
ROE	3.7	3.1	2.6	2.4
P/B	-2.6%	15.7%	17.9%	19.4%

Relative Price Performance



SECTION 8

Top Sell

SECTION 8: TOP SELL

DOL

Bloomberg	DOL.PA	Div. Yield (TTM)	11.8%	Shares (mn)	175
Reuters	DOL.PSX	12M High/Low (PKR)	41/22	Mkt Cap (PKR mn)	5,950
PSX Ticker	DOL	Current Price (PKR)	34	Year End	June

Valuation

- DOL is trading at an elevated PER of 15.2x, an ~85.3% premium to market multiple.
- FY26 is expected to witness a steep fall in earnings post increased competition and price reductions.

Prices Collapsing Internationally

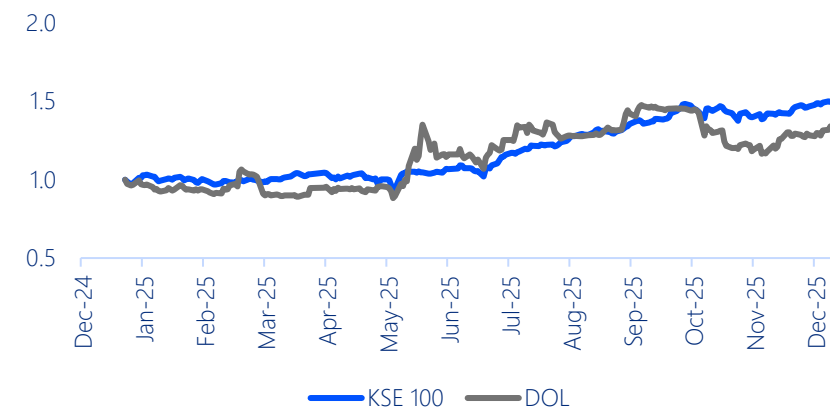
- Since their peak in FY23, Hydrogen Peroxide prices have been under constant decline, with C&F Pakistan prices (from Bangladesh) dropping to USD 350/ton (PKR 98k/ton).
- Pricing premium (over and above imported) also reduced amid stiff competition from EPCL as the company started to compete in high margin non-DTRE market.

Reduce Duty Cover Under National Tariff Plan

- Under the 5-year plan, tariff protection will be reduced by Pakistan across all categories. In FY26, duty on Bangladesh (the primary competitor) dropped to 7.5% (CD: 5.0% and RD: 2.5%) from a cumulative duty cover of 12.0% (CD: 5%, RD: 5.0% and ACD: 2%). Every 2.5 pp duty reduction, results in an earnings impact of PKR0.24/sh.

Key Ratios	FY21A	FY22A	FY23A	FY24A	FY25A	FY26E
EPS	1.6	2.7	8.0	2.7	4.5	2.3
EPS Growth	-50%	69%	197%	-66%	68%	271%
DPS	1.0	2.0	4.0	2.0	4.0	1.0
PER	22.0	13.0	4.4	13.0	7.7	15.2
Div. Yield	3%	6%	11%	6%	11%	3%
ROE	13.5%	20.0%	45.6%	14.8%	24.2%	12.2%
P/B	3.0	2.6	2.0	1.9	1.9	1.7

Relative Price Performance



SECTION 9

Universe

SECTION 9: UNIVERSE

S. No	Symbol	Year End	Rating	Price	Target	Upside	Total Return	EPS				DPS				PER				Div Yield			
								2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
1	EFERT	December	BUY	222	260	17%	27%	21.2	16.2	23.3	28.0	21.5	17.0	23.0	28.0	10.5	13.7	9.5	7.9	10%	8%	10%	13%
2	FFC	December	BUY	585	660	13%	20%	60.1	62.0	61.0	67.0	36.5	40.0	42.0	44.0	9.7	9.4	9.6	8.7	6%	7%	7%	8%
3	OGDC	June	BUY	270	370	37%	42%	48.6	39.5	35.8	38.8	10.1	15.1	15.0	18.0	5.6	6.8	7.6	7.0	4%	6%	6%	7%
4	PPL	June	BUY	227	320	41%	45%	42.0	33.8	31.0	31.9	6.0	7.5	10.0	12.0	5.4	6.7	7.3	7.1	3%	3%	4%	5%
5	POL	June	BUY	609	746	22%	34%	137.9	85.2	90.7	95.7	95.0	75.0	70.0	80.0	4.4	7.1	6.7	6.4	16%	12%	11%	13%
6	MARI	June	HOLD	703	698	-1%	2%	64.4	54.3	49.8	61.5	25.8	21.7	19.9	25.0	10.9	13.0	14.1	11.4	4%	3%	3%	4%
7	HBL	December	BUY	321	413	29%	35%	39.9	46.2	47.5	52.5	16.3	19.0	20.0	21.0	8.1	7.0	6.8	6.1	5%	6%	6%	7%
8	UBL	December	BUY	413	470	14%	22%	32.4	52.8	51.6	52.5	22.0	29.5	32.0	32.0	12.7	7.8	8.0	7.9	5%	7%	8%	8%
9	BAFL	December	BUY	106	141	33%	43%	24.3	17.5	19.2	21.4	8.5	12.0	10.8	12.0	4.4	6.1	5.6	5.0	8%	11%	10%	11%
10	BAHL	December	BUY	186	220	18%	26%	35.9	30.0	28.6	31.5	17.0	14.0	14.0	14.0	5.2	6.2	6.5	5.9	9%	8%	8%	8%
11	MCB	December	BUY	374	435	16%	26%	48.6	46.2	53.1	53.9	36.0	36.0	36.0	37.0	7.7	8.1	7.0	6.9	10%	10%	10%	10%
12	MEBL	December	BUY	442	510	15%	22%	56.6	49.1	50.1	54.4	28.0	28.0	28.0	30.0	7.8	9.0	8.8	8.1	6%	6%	6%	7%
13	CHCC	June	HOLD	360	404	12%	14%	28.3	44.7	39.6	46.1	5.5	5.5	6.8	7.9	12.7	8.1	9.1	7.8	2%	2%	2%	2%
15	FCCL	June	BUY	56	68	20%	23%	3.4	5.4	5.8	7.2	1.0	1.3	1.5	1.8	16.8	10.4	9.7	7.8	2%	2%	3%	3%
16	KOHC	June	HOLD	121	124	2%	2%	9.1	12.0	10.6	12.8	0.0	0.0	0.0	0.0	13.4	10.1	11.5	9.5	0%	0%	0%	0%
17	MLCF	June	BUY	122	156	28%	28%	6.5	11.0	11.7	14.0	0.0	0.0	0.0	0.0	18.7	11.1	10.4	8.7	0%	0%	0%	0%
18	PIOC	June	SELL	391	361	-8%	-6%	22.8	21.5	23.1	27.9	15.0	10.0	7.6	9.3	17.1	18.2	16.9	14.0	4%	3%	2%	2%
21	PSO	June	BUY	458	659	44%	47%	33.7	44.5	76.0	85.0	10.0	10.0	15.0	20.0	13.6	10.3	6.0	5.4	2%	2%	3%	4%
22	APL	June	BUY	546	718	32%	37%	111	84	81	85	28	26	28	34	4.9	6.5	6.7	6.4	5%	5%	5%	6%
26	SAZEW	June	BUY	1617	2692	66%	72%	131	270	315	262	20	52	87	130	12.3	6.0	5.1	6.2	1%	3%	5%	8%
27	INDU	June	BUY	1990	3049	53%	62%	192	293	289	308	115	176	172	199	10.4	6.8	6.9	6.5	6%	9%	9%	10%
28	HCAR	March	BUY	276	316	14%	15%	16	19	27	30	7	8	11	13	16.9	14.6	10.3	9.3	0%	0%	1%	1%

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