Pakistan Market Strategy

Ideal Entry Opportunity

January 18, 2022

info@akseerresearch.com

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REN # REP-004
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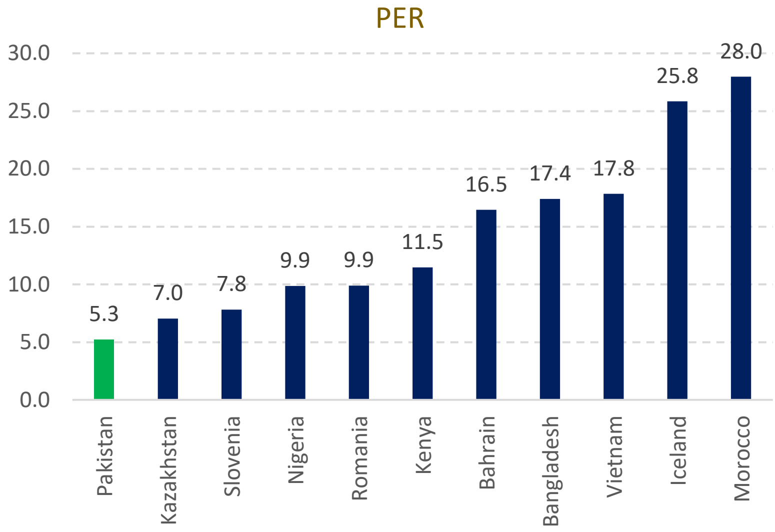

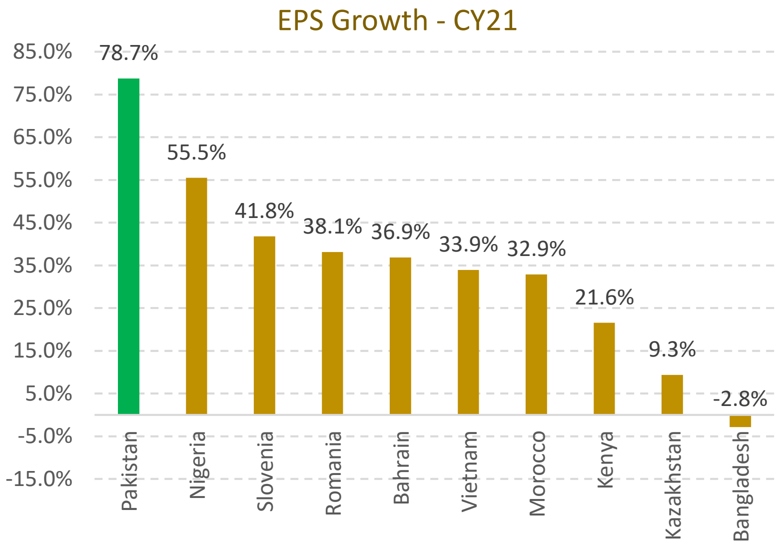

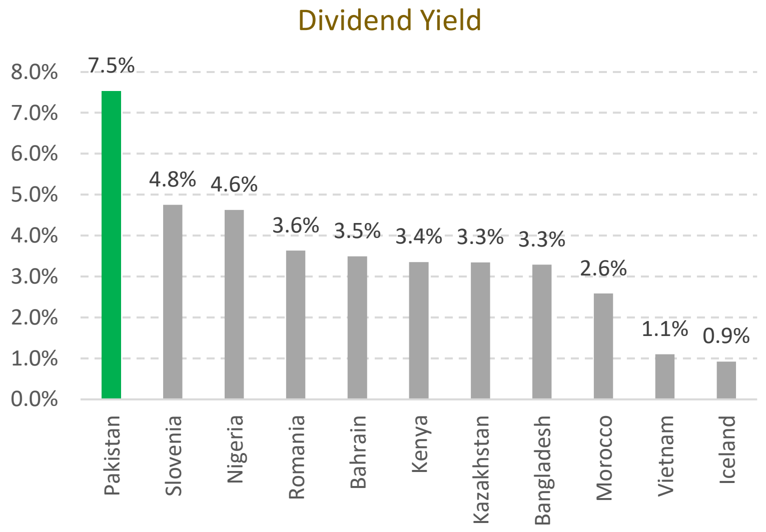

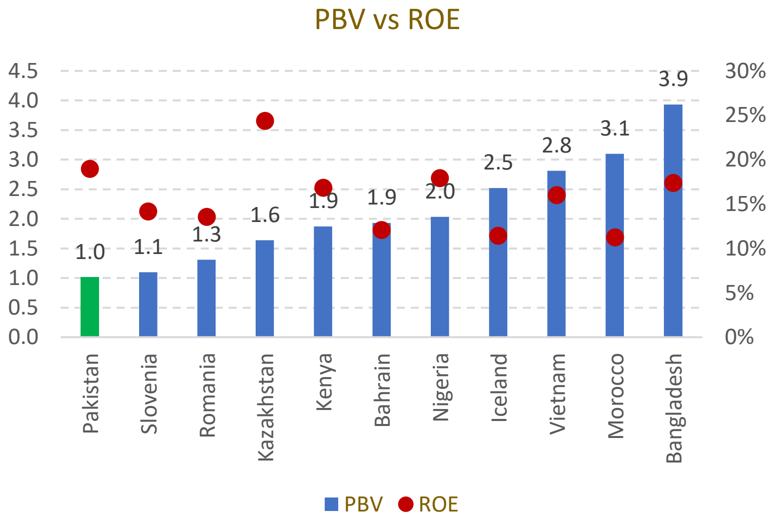

Executive Summary

- **5 years of weak KSE-100 performance has magnified the return potential for the next 5 years as earnings have bounced back strongly making valuations highly attractive**
  - KSE-100 closed CY21 at 44,596 points and yielded 2% for the year in PKR terms. Dec-21 closing for KSE-100 was 5.0% below Dec-16 closing. In USD terms, KSE-100 has yielded a cumulative negative return of -44% between CY17-21 (-11% annualized)
  - Long term (5 year) forward returns at PSX are negatively correlated with trailing returns. We, thus, believe that weak KSE-100 performance between CY17-21 has substantially enhanced return potential during the next 5 years.
  - KSE-100 earnings virtually stagnated between CY16-19 but have risen sharply during CY20-21. Share prices have yet to reflect this turnaround, making valuations highly attractive. **Trailing PE ratio is at 5.0x; 10-year low. Trailing PBV at 1.0x is also at a 10-year low.** Our Dec-22 KSE-100 target of 56,200 offers an upside of 26% from Dec-21 closing.
- **PSX has been missing a market mover as FIIs, mutual funds, banks & DFIs have been net sellers**
  - Since CY15, foreign investors have sold USD2.6bn worth of Pakistan stocks. Mutual funds have sold USD178mn worth of stocks since CY18 whereas banks/DFIs have also sold USD125mn. While Insurance Co.s have been net buyers (USD 474mn) their participation as buyers is concentrated at market bottoms. In this backdrop, bulk of the liquidity since CY18 has been provided by Individuals (USD 784mn) and Corporates (USD 363mn).
- **Return of FIIs post resumption of the IMF program could be the potential liquidity trigger as Pakistan's valuations are at a steep discount to frontier market peers**
  - Pakistan offers one of the lowest PE despite higher EPS growth, highest dividend yield, and a unique blend of low PBV & one of the highest ROEs.
  - While frontier funds' aggregate Pakistan allocation stands at 2.2% vs MSCI FM weight of 1.3%, some funds are substantially overweight on Pakistan, while others have zero / negligible allocation. A strong run at PSX post resumption of IMF program may lead frontier funds with no existing Pakistan allocations to become overweight as Pakistan trades at a steep discount to FM peers. This could be a key source of liquidity infusion in CY22.

Executive Summary (continued)

- **Macro landscape is challenging but likely IMF program resumption in Jan-Feb'22 will lower uncertainty**
  - GoP's target of 4.8% GDP growth during FY22 is higher than Pakistan's ICOR implied growth potential (4.4%) and the external account has already witnessed weakness. During the last two decades; surge in GDP growth beyond ICOR implied GDP growth potential have led to substantial weaknesses in external account; requiring painful adjustments and sharp decline in growth.
  - Current Account Deficit will likely rise to 3.8% of GDP in FY22 versus 0.6% in FY21. PKR/USD to move in the range of 172-182 during FY22.
  - With FY22 CPI inflation likely to average 10.2%, we expect SBP to further increase policy rate by another 125bps in CY22 to 11.0% by Nov-22.
  - Pakistan is tightening its fiscal stance post Covid spending spree. Tax Laws Supplementary Bill and PSDP cuts as per IMF preconditions will partially achieve this with further belt tightening likely in FY23 budget.
- **Sector and stock picks**
  - OVERWEIGHT in Banks, E&Ps, Cements, OMCs; MARKETWEIGHT in Flat Steel, IPPs, Fertilizer; UNDERWEIGHT in Chemicals.
  - Top Picks include UBL, MEBL, BAFL, OGDC, PPL, POL, MARI, PSO, HUBCO, FFC, LUCK, MLCF, FCCL, ISL.

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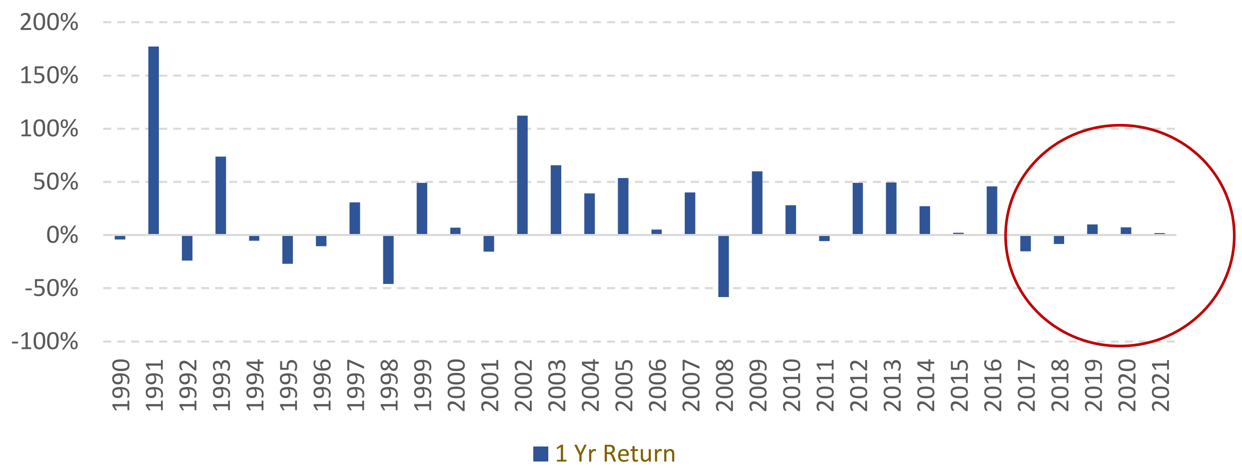
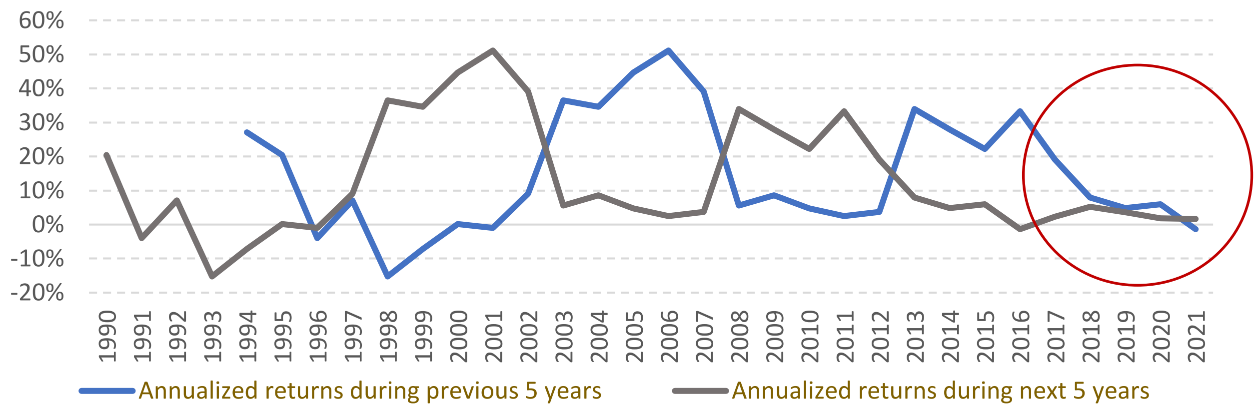
Ideal entry opportunity

- **5 years of dismal performance…**
  - KSE-100 closed CY21 at 44,596 points and yielded 2% for the year in PKR terms.
  - This marked completion of 5 years of dismal return performance by KSE-100, **with Dec-21 closing being 5.0% below Dec-16 closing**.
  - In USD terms, KSE-100 has yielded a cumulative negative return of -44% between CY17-21 (-11% annualized)
- **…means increasingly larger promise for the next 5 years…**
  - Long term (5 year) forward returns at KSE-100 have historically been negatively correlated with trailing returns. Periods of strong and weak 5 year returns alternate. At a given entry point, low or negative returns during the previous 5 years, means a much higher likelihood of earning robust returns during the next 5 years.
  - As such, with negative annualized returns during CY17-21, there is a considerably strong case for commencement of a period of strong returns at PSX.
  - 32-year (1990-2021) annualized return at KSE-100 stands at 14%. This period had more bearish cycles than bullish ones. 27-year average as at Dec-16 stood at 17.5%.
- **… amid strong earnings and attractive valuations**
  - Trailing PE and PBV are now at or near their 10-year lows. There has been a strong recovery in earnings post COVID -19 crisis

KSE-100 annual returns



KSE-100 long term returns



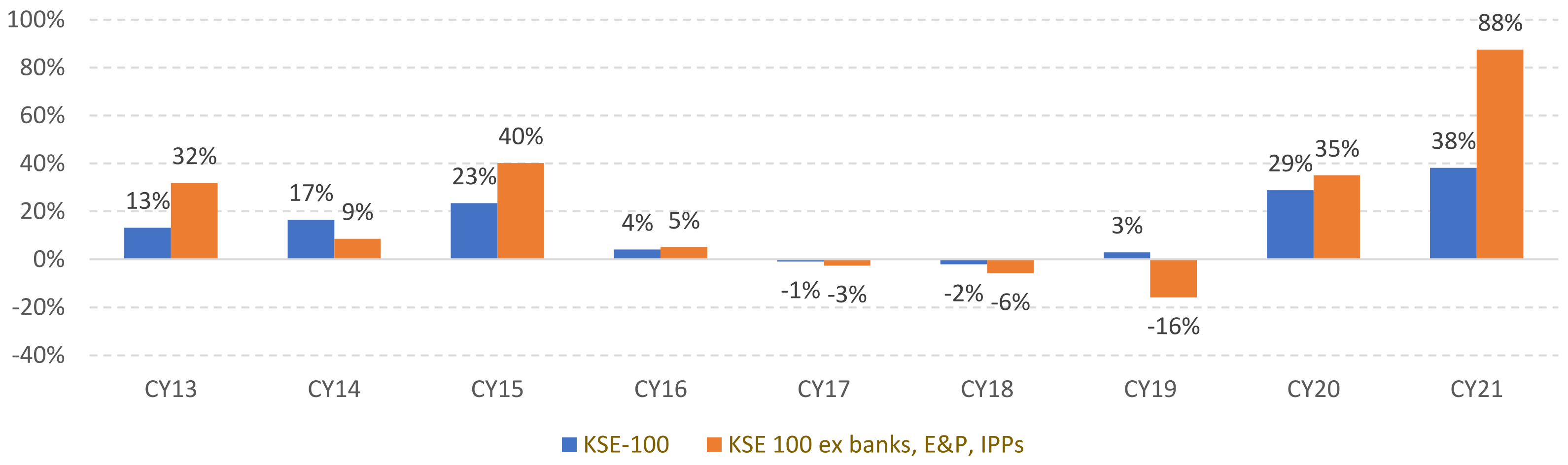
* Next 5 year annualized returns for CY17, 4 yrs for CY18, 3 for CY19, 2 for CY20 and 1yr for CY21

Source: PSX, Akseer Research

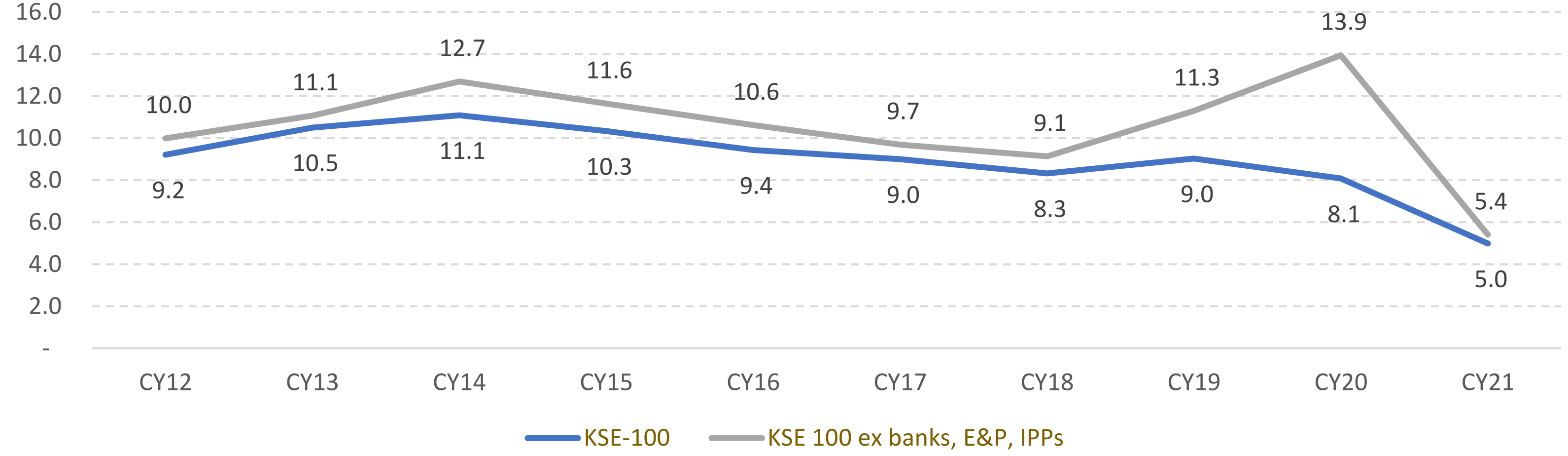
Listed companies' earnings have bounced back strongly but not their share prices

- **KSE-100 earnings virtually stagnated between CY16-19…**
  - Earnings growth at KSE-100 companies remained dismal during CY16-19.
  - As a result, despite weak returns between CY17-19, KSE-100 PE did not witness any substantial de-rating.
- **… but have bounced back strongly during CY20-21**
  - KSE-100 earnings grew by 29% and 38% in CY20 and CY21E respectively.
  - Growth in sectors other than banks, E&Ps and IPPs, which give a truer picture of overall economy, have been even more impressive at 35% for CY20 and 88% for CY21E.
- **Strong bounce back in earnings have yet to affect stock prices**
  - With KSE-100 index returning a meager 9.3% in CY20-21 combined, stock prices are yet to fully reflect the strong bounce back in earnings.

KSE-100 earnings growth (positive, free float weighted)



KSE-100 positive PE (free float weighted)



Prices as of December 31, 2021 *Source: Akseer Research*

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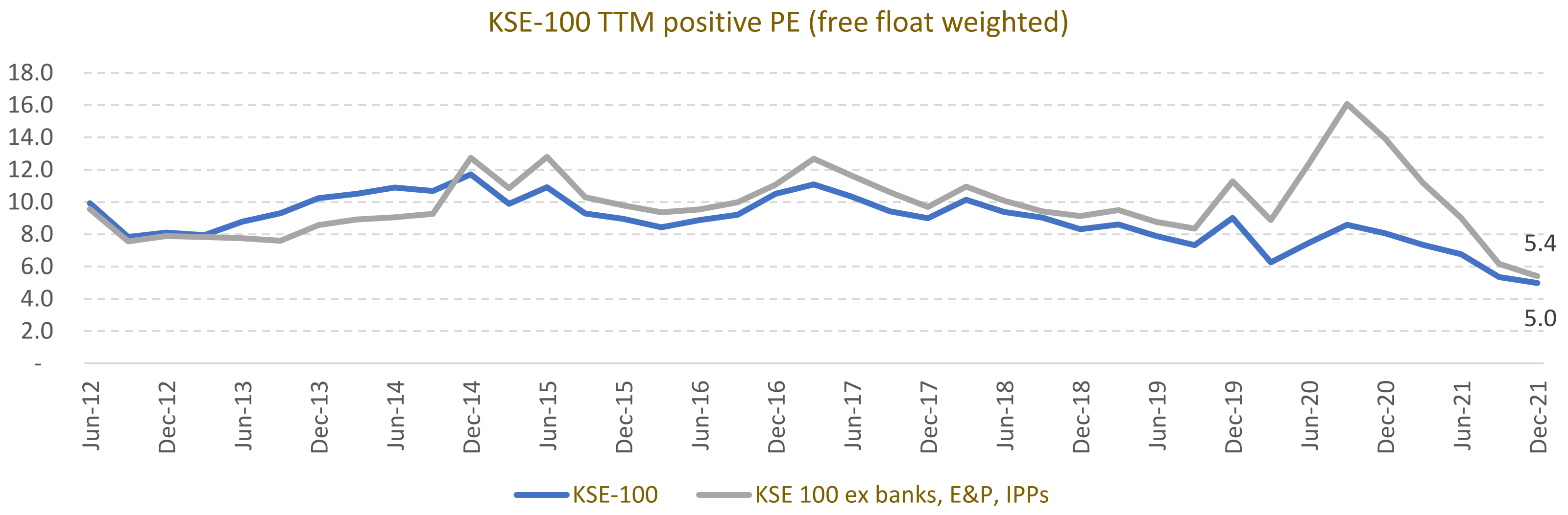
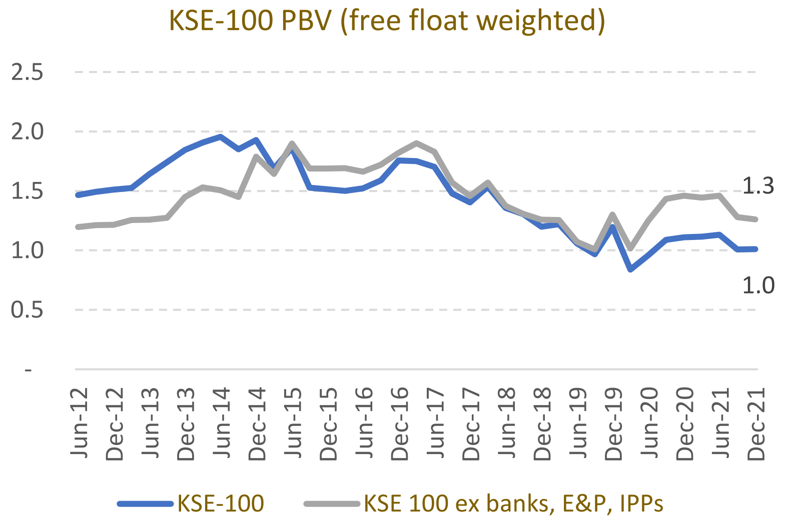
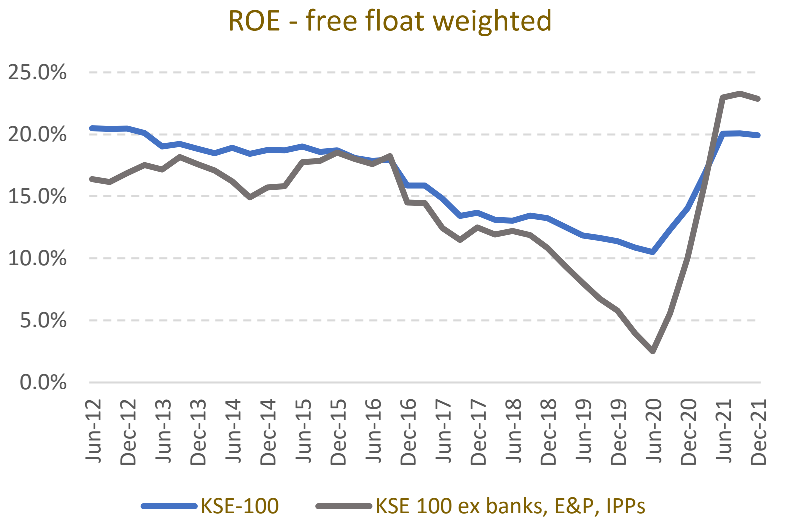
Valuations are now highly attractive

- **Valuations are extremely attractive**
  - With a strong bounce back in earnings during CY20-21 and virtually stagnated KSE-100 index, valuations have become extremely attractive
    - Trailing PE ratio is at 5.0x; 10-year low
    - Trailing PBV at 1.0x is also at a 10-year low
- **Higher-than-historical average ROEs indicate strong domestic business dynamics**
  - ROEs at KSE-100 constituents fell consistently since Dec-16 due to weak business environment as macroeconomic situation deteriorated between CY17-19.
  - ROEs plunged further as COVID-19 related lockdowns brought the economy to a grinding halt during 2QCY20.
  - Since then, ROEs have recovered sharply and are now slightly above CY12-16 average.







Prices as of December 31, 2021 *Source: Akseer Research*

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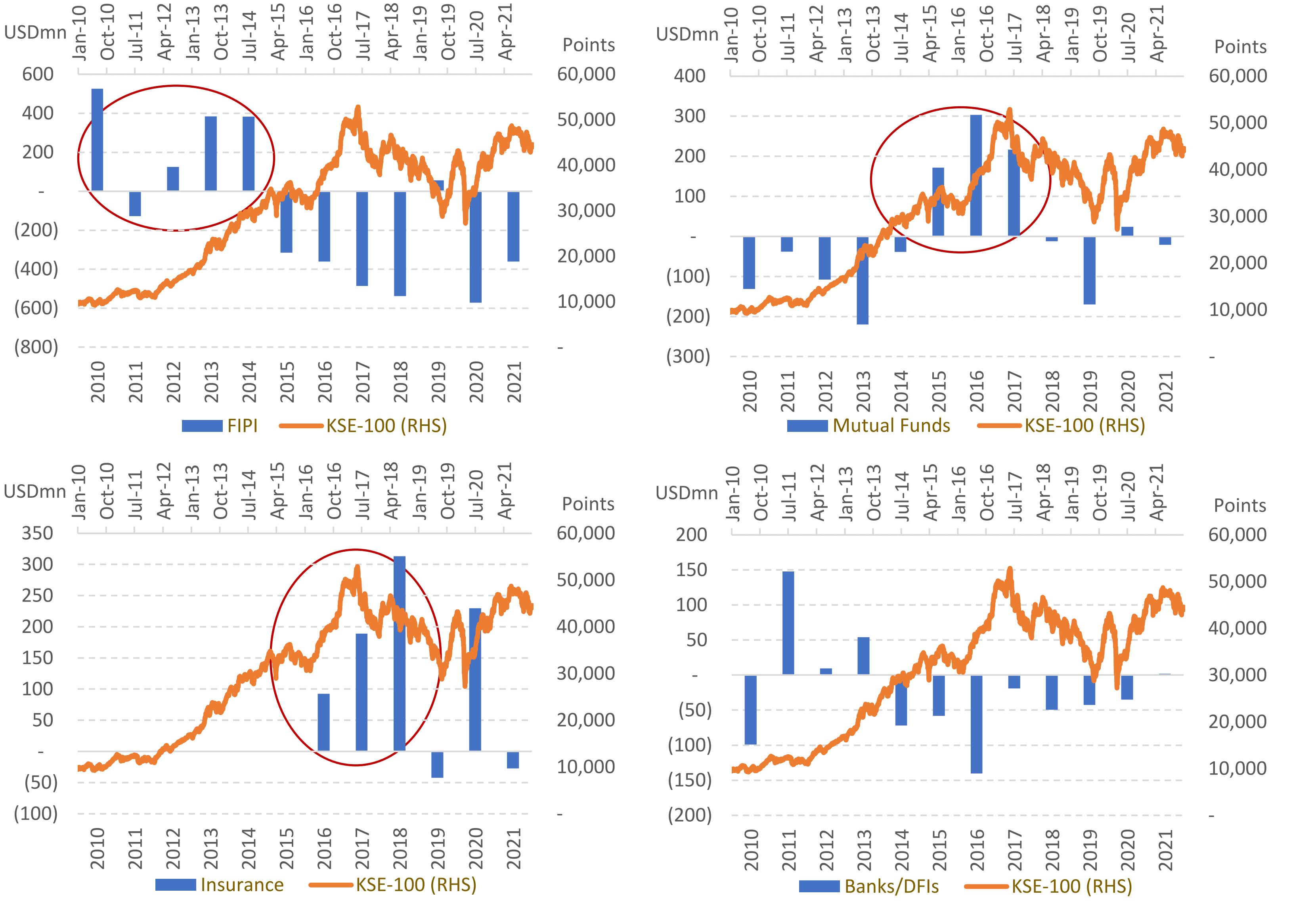
Liquidity appears to be the key reason behind recent de-rating

- **Institutions drove Pakistan Equities during CY12-17…**
  - Foreign investors bought a total of USD1.3bn worth of Pakistan equities between CY12-14.
  - Driven by strong flows from individuals due to stellar PSX returns, mutual funds remained major buyers in CY15-17. Insurance also jumped in a big way between CY16-18.
  - Mutual funds, FIIs and Insurance remained the major players in large cap stocks during this period as Banks/ DFI's participation has been gradually diminishing.
- **… however, since then, PSX is struggling to find a driver, especially in large cap stocks**
  - Since CY15, foreign investors have sold USD2.6bn worth of Pakistan stocks.

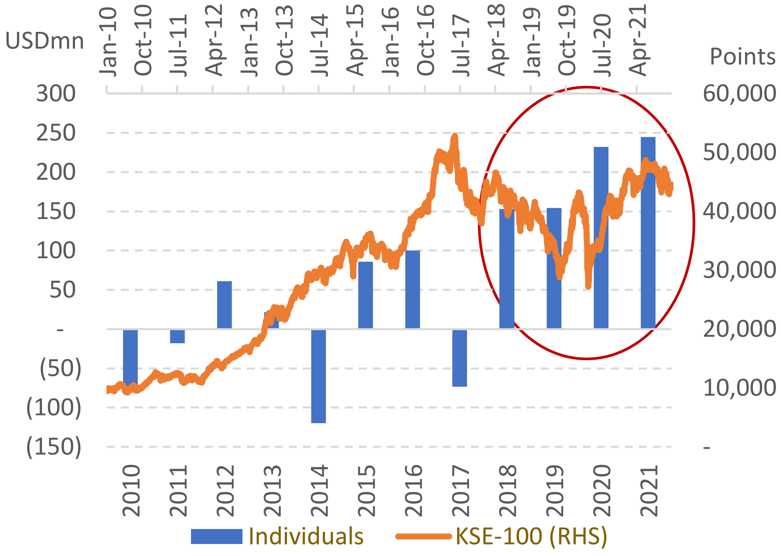


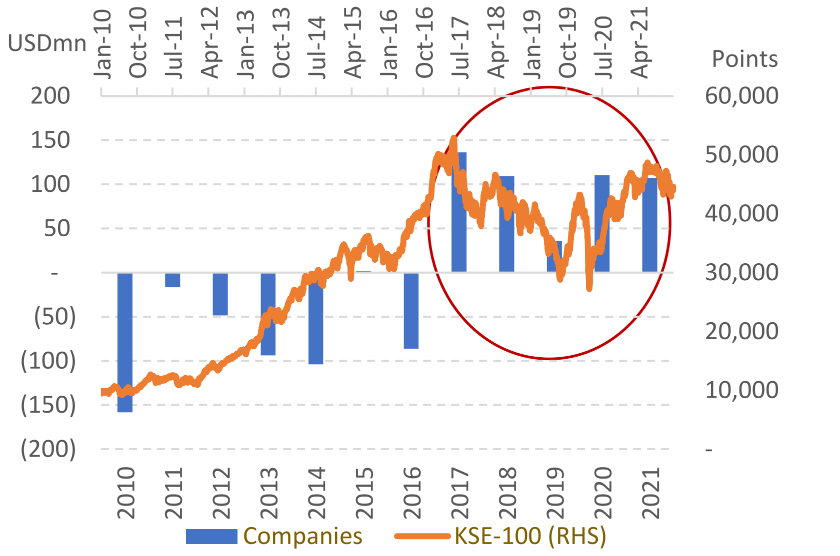
Source: NCCPL & Akseer Research

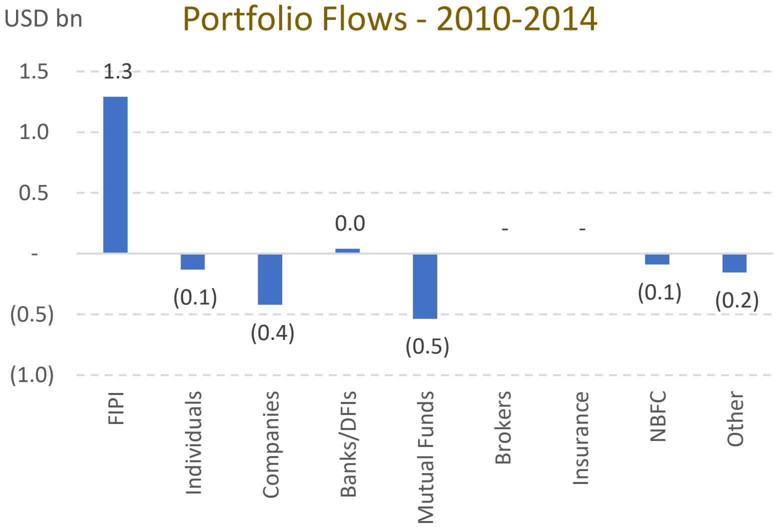
Liquidity appears to be the key reason behind de-rating (continued)

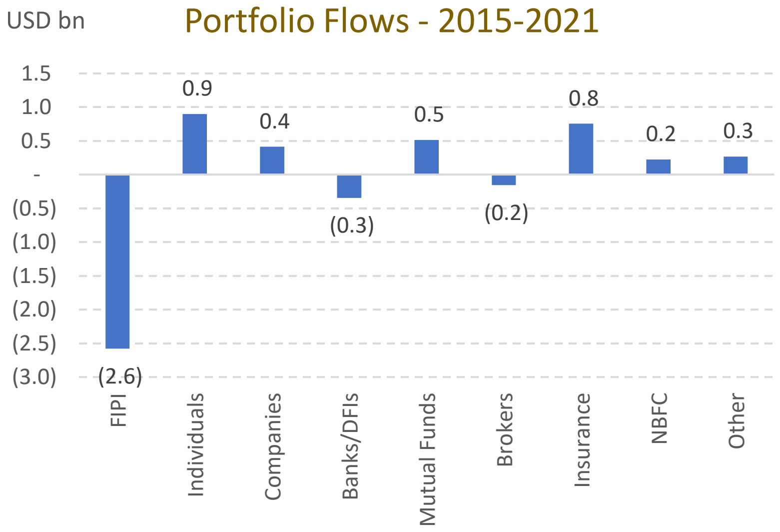
- Flows into equity funds have also dried up and Mutual funds have sold USD178mn worth of stocks since CY18.
- Banks/DFIs have also sold USD125mn.
- While Insurance Co.s have been net buyers (USD 474mn) their participation as buyers is concentrated at market bottoms.
- In this backdrop, bulk of the liquidity since CY18 has been provided by Individuals (USD 784mn) and Corporates (USD 363mn) who have been net buyers through out.

- **Market has witnessed increased activity in second tier side stocks that are sought by individuals and HNWIs**
  - With individuals and companies (which reflects family office wealth), being the main provider of liquidity during CY18-21, the thrust of market activity has been in second tier sideboard stocks which are usually retail and HNWI favorites.









Source: NCCPL & Akseer Research

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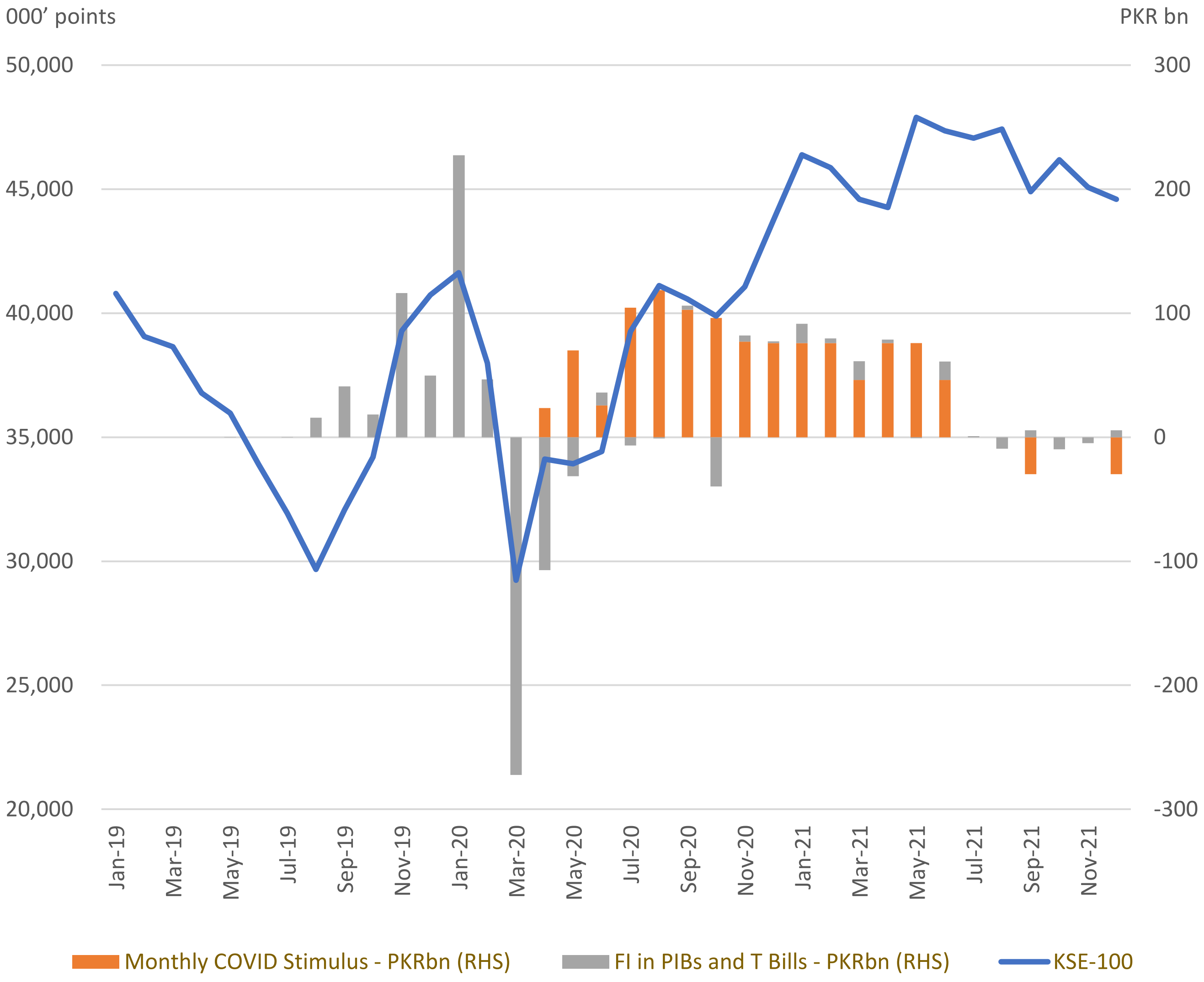
CY19-21 KSE-100 moves have largely tracked exceptional liquidity flows

- **KSE-100 has made two strong upward moves during CY19-21, coinciding with increase in liquidity**
  - ~12k point gain b/w Sep-19 to Jan-20.
  - ~19k point gain b/w April-20 to May-21
  - Both moves were driven by domestic liquidity and Individuals and Companies were major buyers.
- **Aug-19 to Jan-20 move was driven by FII inflows into domestic bond market**
  - Sharp increase in interest rates and changes in FII taxation of fixed income gains led to a strong influx of foreign liquidity in the domestic bond market. Yields on domestic bonds as well as KIBOR fell and excess liquidity led to large inflows in equities from individuals and family offices.
- **Mar-20 to May-21 was largely driven by COVID-19 stimulus**
  - COVID-19 stimulus package i.e wage finance, debt restructuring, principal deferment, freed up cash that would otherwise have been used to pay salaries and service debt.
  - This led businesses and HNWIs to deploy large sums of liquidity into various asset classes including equities. Individuals & Companies were major buyers during this period.



Source: PSX, SBP, Akseer Research

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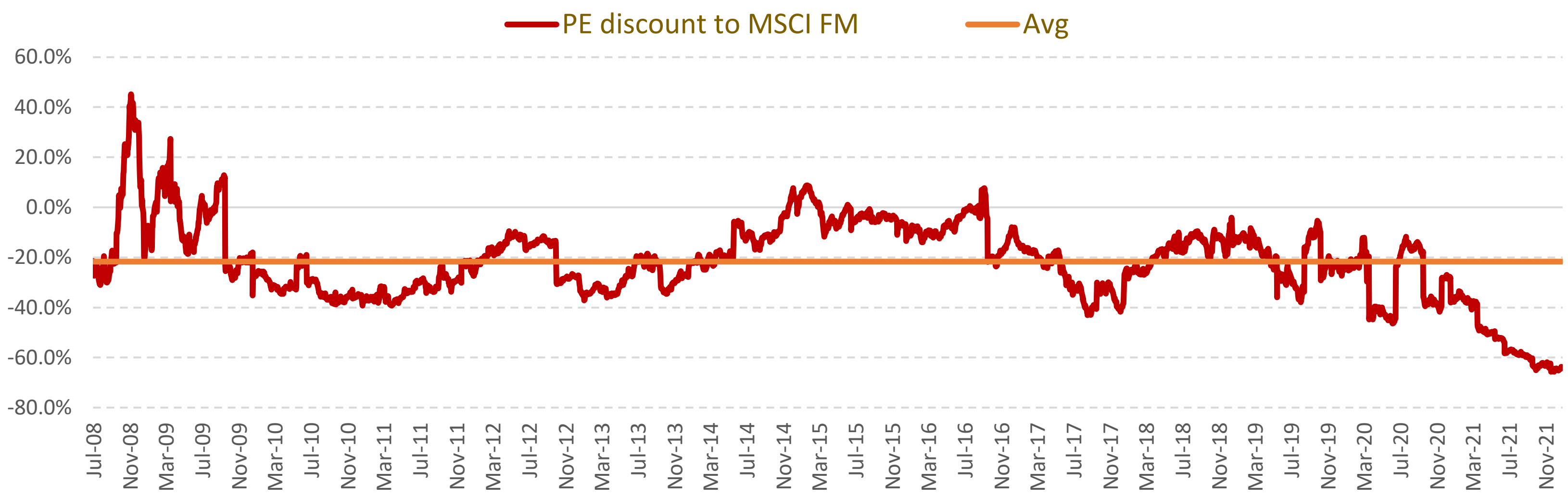
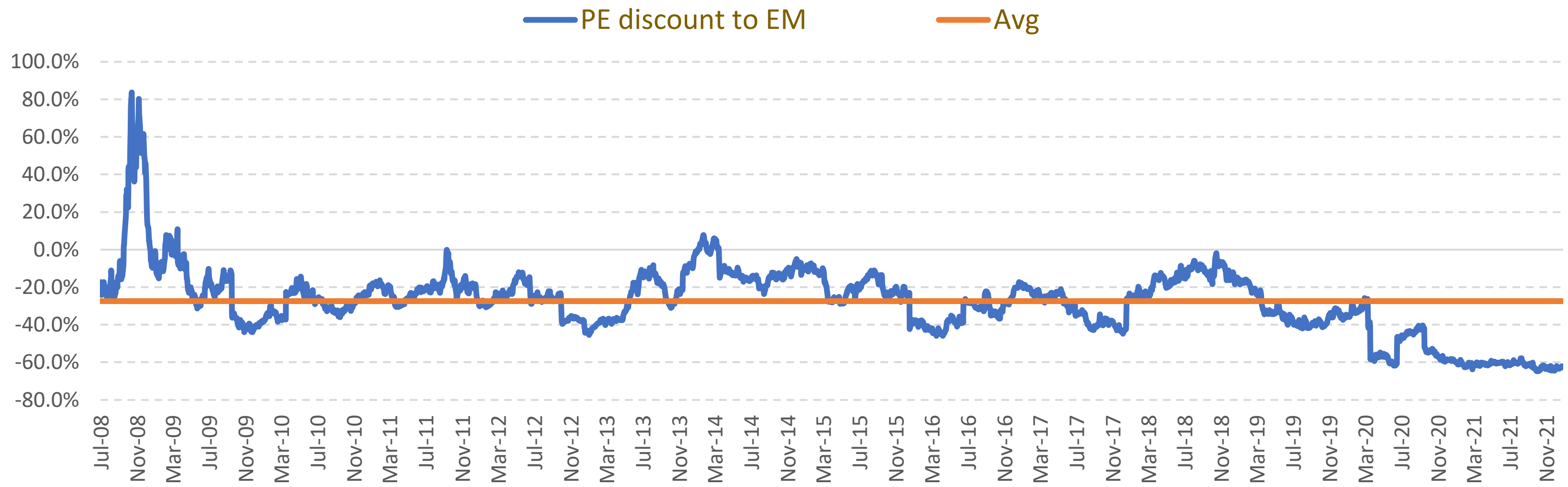
Pakistan's valuation discount to EM and FM peers is very attractive

- **PE discount to MSCI FM index is at its largest in recent history**
  - Pakistan's PE discount to MSCI Frontier Market Index stands at 64%. This is more than 2.9x the average discount during the last 13 years.
  - Pakistan's PE discount to MSCI Frontier Market Index has averaged 22% since Jul-08.
- **PE discount to MSCI EM index is also at its highest**
  - Pakistan's PE discount to MSCI Emerging Markets Index stands at 62%. This is more than 2.2x the average discount during the last 13 years.
  - Pakistan's PE discount to MSCI Emerging Market Index has averaged 28% since Jul-08



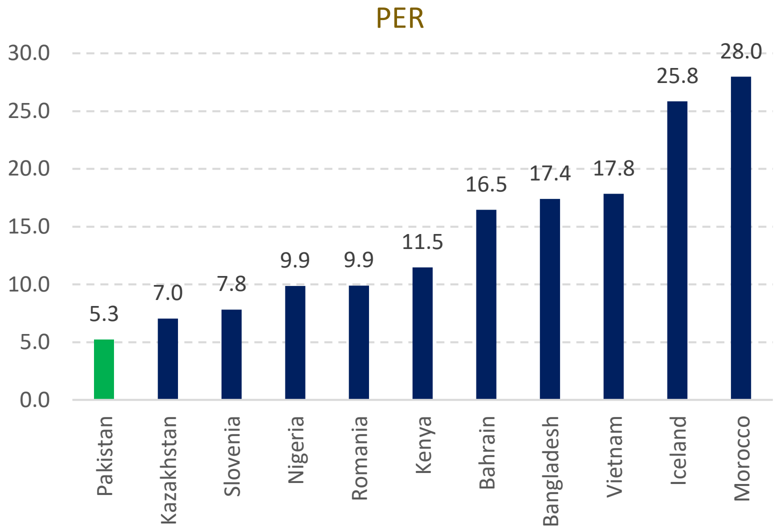


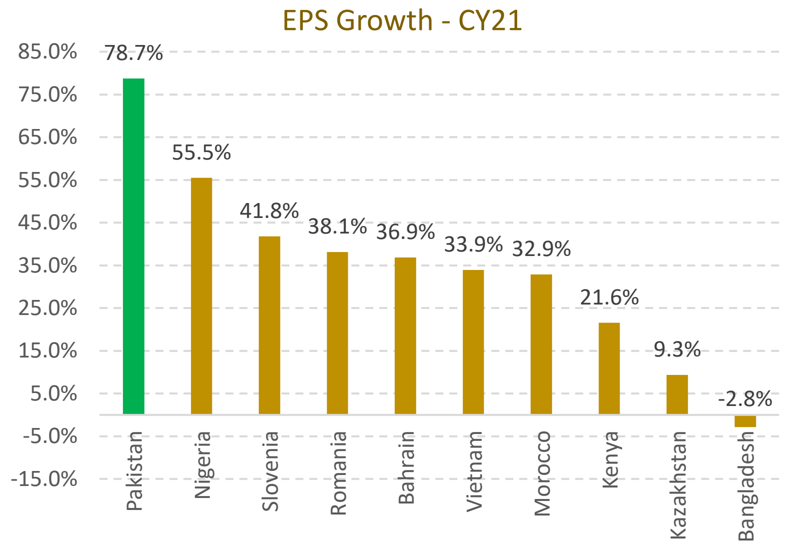
Prices as of January 10,2022
Source: Bloomberg & Akseer Research

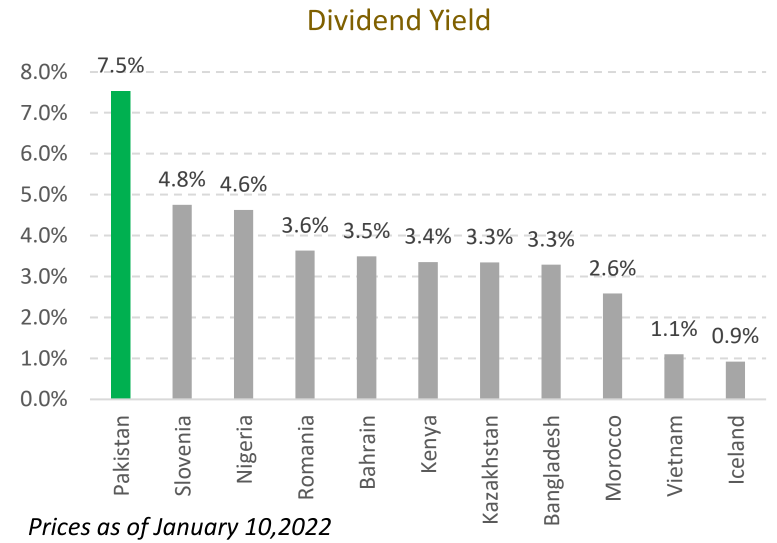
Pakistan Market Strategy: Ideal Entry Opportunity

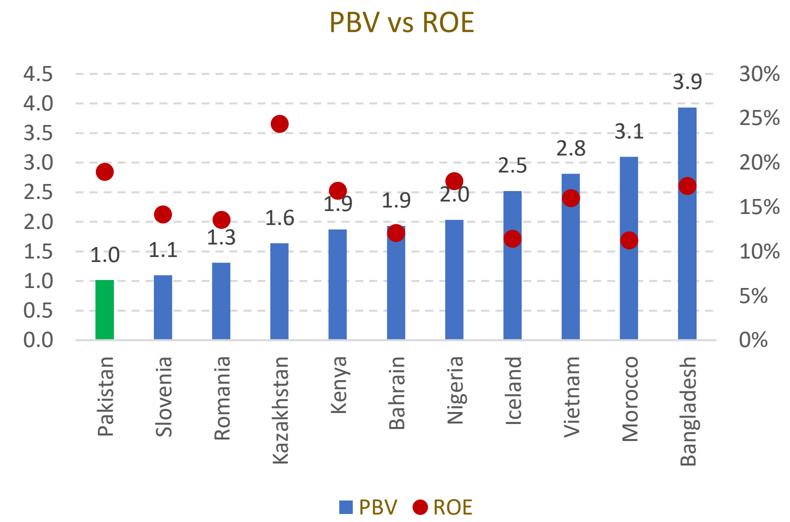
Foreign portfolio inflows could be a key source of liquidity infusion in CY22 as Pakistan Equities trade at a substantial discount to FM peers

- **Pakistan equities are attractively valued vis-à-vis MSCI FM / small EM…**
  - Pakistan offers one of the lowest PE despite higher earnings growth; dividend yield is amongst the highest.
  - A unique blend of low PBV and one of the highest ROEs.
- **This makes a strong case for Frontier funds to be Overweight Pakistan…**
  - Total fund size of Frontier / Small Emerging funds stands at USD5.6bn. Aggregate Pakistan allocation stands at 2.2% vs MSCI FM weight of 1.3%.
  - Some funds are overweight in Pakistan, while others have negligible allocation.
- **FII flows may start coming once IMF program resumes**
  - IMF's oversight is an essential pre-req for FII's conviction in Pakistan equities' re-rating case.









Prices as of January 10,2022
Source: Bloomberg & Akseer Research

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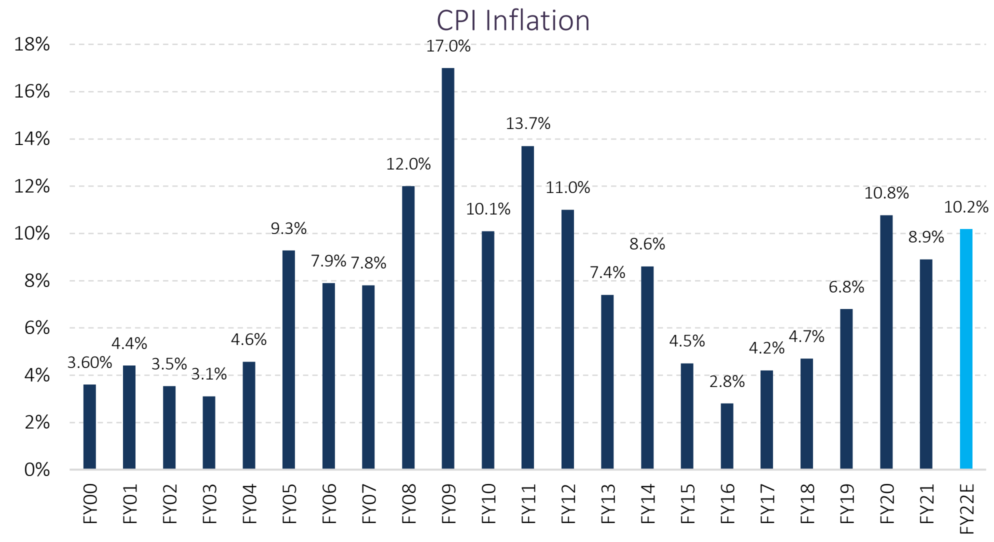
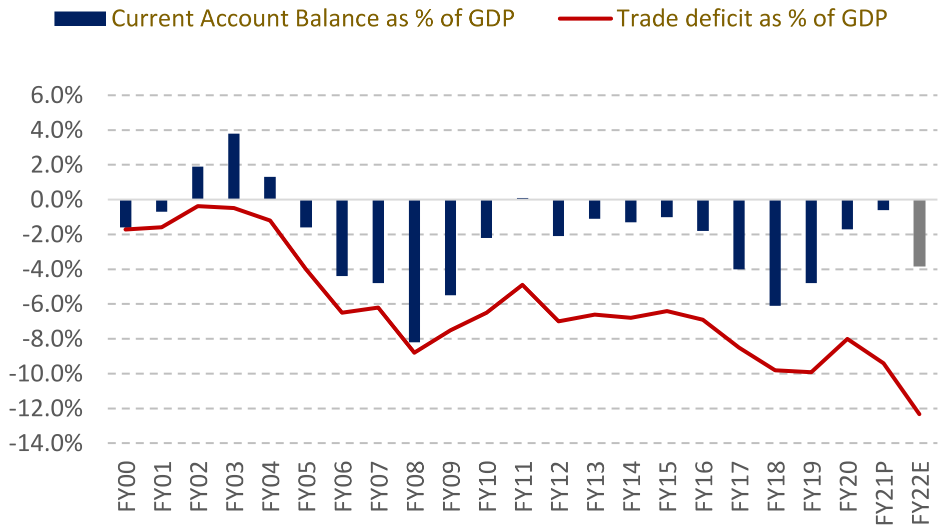
Macro landscape is challenging but IMF program resumption will lower uncertainty

- **IMF program resumption is likely in Jan-Feb' 22**
  - IMF board will consider approval of 6th review and disbursement of USD1.0bn tranche once the parliament approves the Tax Laws Supplementary Bill and the State Bank of Pakistan (SBP) Amendment Bill 2021, both of which are expected within Jan-22.
- **Rising inflation is a challenge; expect further policy rate hikes**
  - SBP has already implemented monetary tightening as part of IMF's preconditions and raised policy rate by 275bps to 9.75%.
  - Driven by higher global commodity prices, domestic demand revival, PKR devaluation and increase in taxes / administered prices, we expect FY22 CPI inflation to average 10.2%. Given SBP's objective of mildly positive interest rates, we expect policy rate to rise by another 125bps in CY22 and reach 11.0% by Nov-22.
- **Current Account Deficit will likely rise to 3.8% of GDP or USD 12.2bn in FY22; a sub 100 REER is likely to persist**
  - We expect CAD to rise to 3.8% of GDP in FY22 versus 0.6% in FY21, as imports growth is outpacing exports growth. Imports are likely to grow 31% in FY22, exports are expected to increase by 20% and remittance by 9% YoY.
  - To continue to build FX reserve buffer, Pakistan would need to maintain a sub 100 REER. For FY22, we estimate PKR/USD to depreciate by 10%-16% and expect it to move in the range of 172.5-181.6 assuming a REER of 100-95.

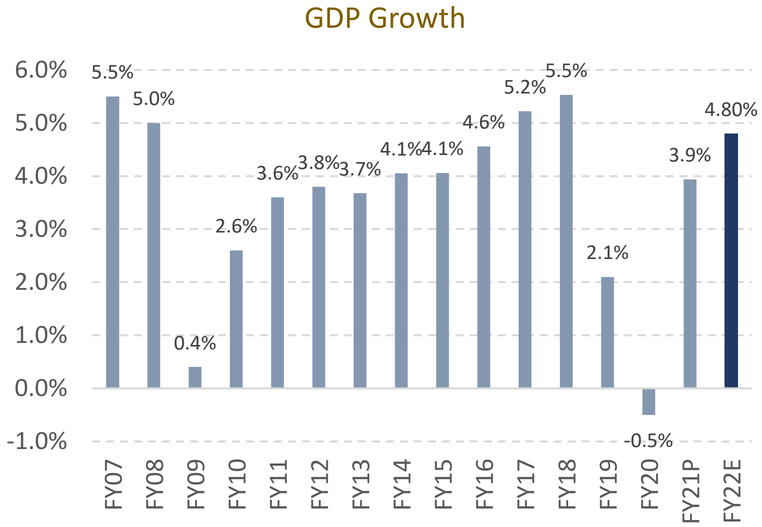


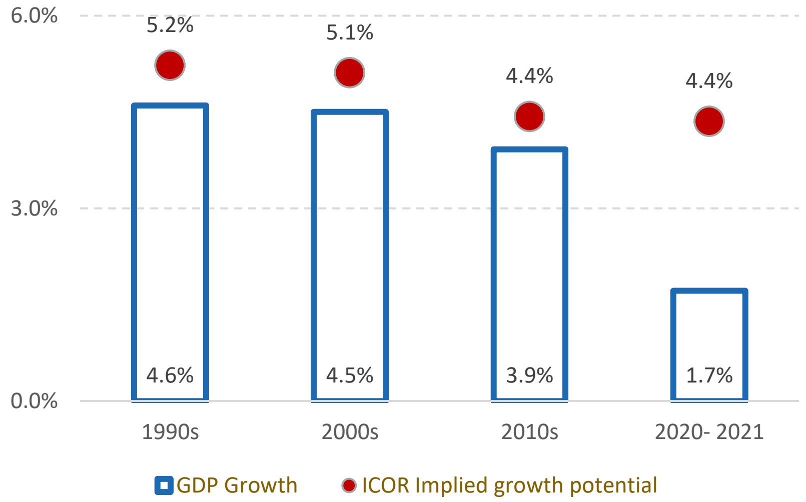


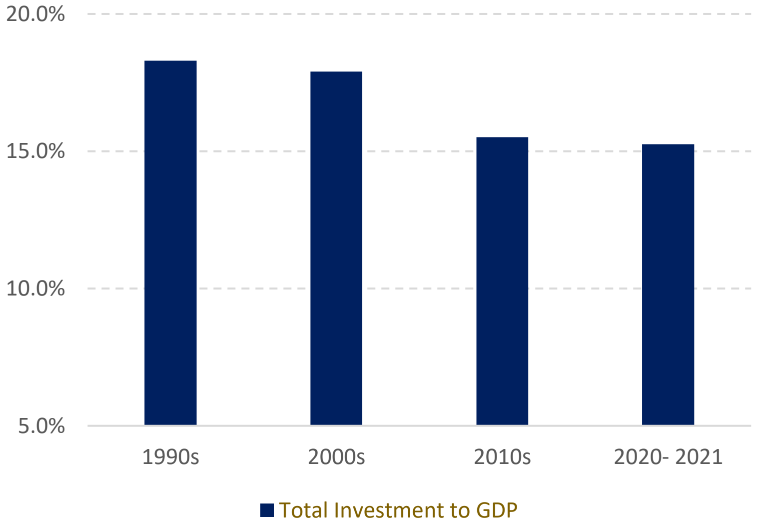
Source: SBP, PBS & Akseer Research

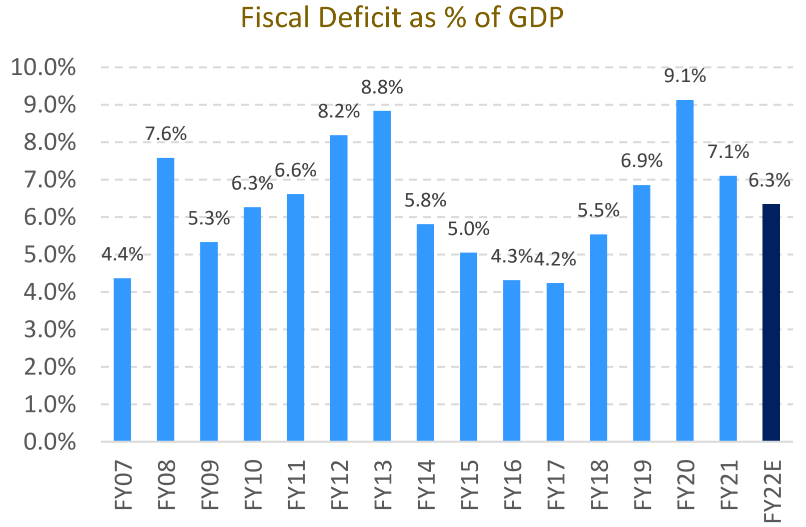
Macro landscape is challenging but IMF program resumption will lower uncertainty (continued)

- **GDP growth rebounded in FY21, but question marks on future sustainability**
  - With falling investment during the last two decades, Pakistan's ICOR implied GDP growth potential has fallen by 70bps from 5.1% in 2000s to 4.4% in 2010s.
  - GoP's target of 4.8% GDP growth during FY22 looks aggressive and the external account has already witnessed weakness, further worsened by higher commodity prices.
  - During the last two decades; surge in GDP growth beyond ICOR implied GDP growth potential have led to substantial weaknesses in external account; requiring painful adjustments and sharp decline in growth.
- **Pakistan needs to tighten its fiscal policy**
  - Tax Laws Supplementary Bill and PSDP cuts as per IMF preconditions will partially achieve this with further belt tightening likely in FY23 budget.



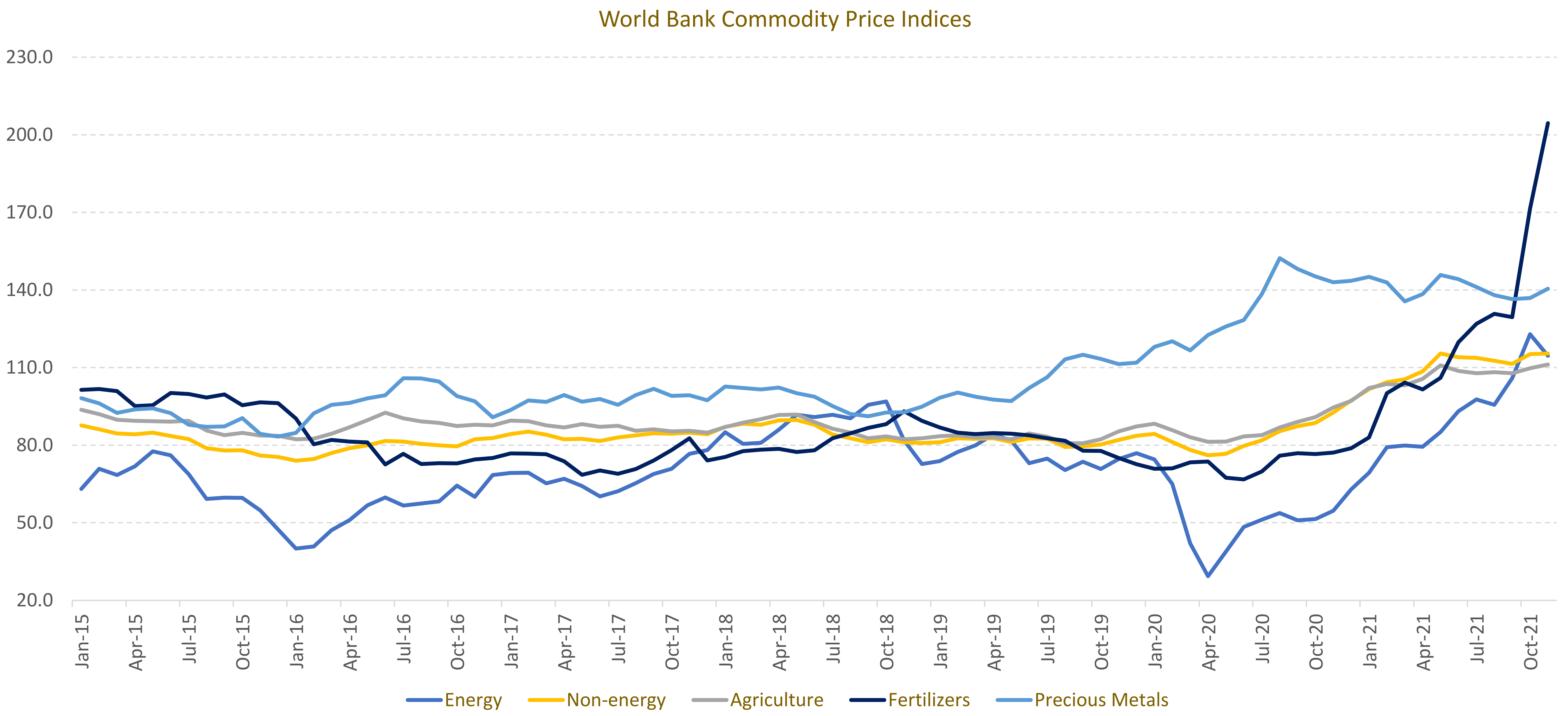






Source: Economic Survey & Akseer Research

World Bank Commodity Price Indices indicate a sharp uptrend in prices post COVID led 2QCY20 declines



Source: World Bank, Akseer Research

World food prices at a multi-year high are pushing up domestic food inflation

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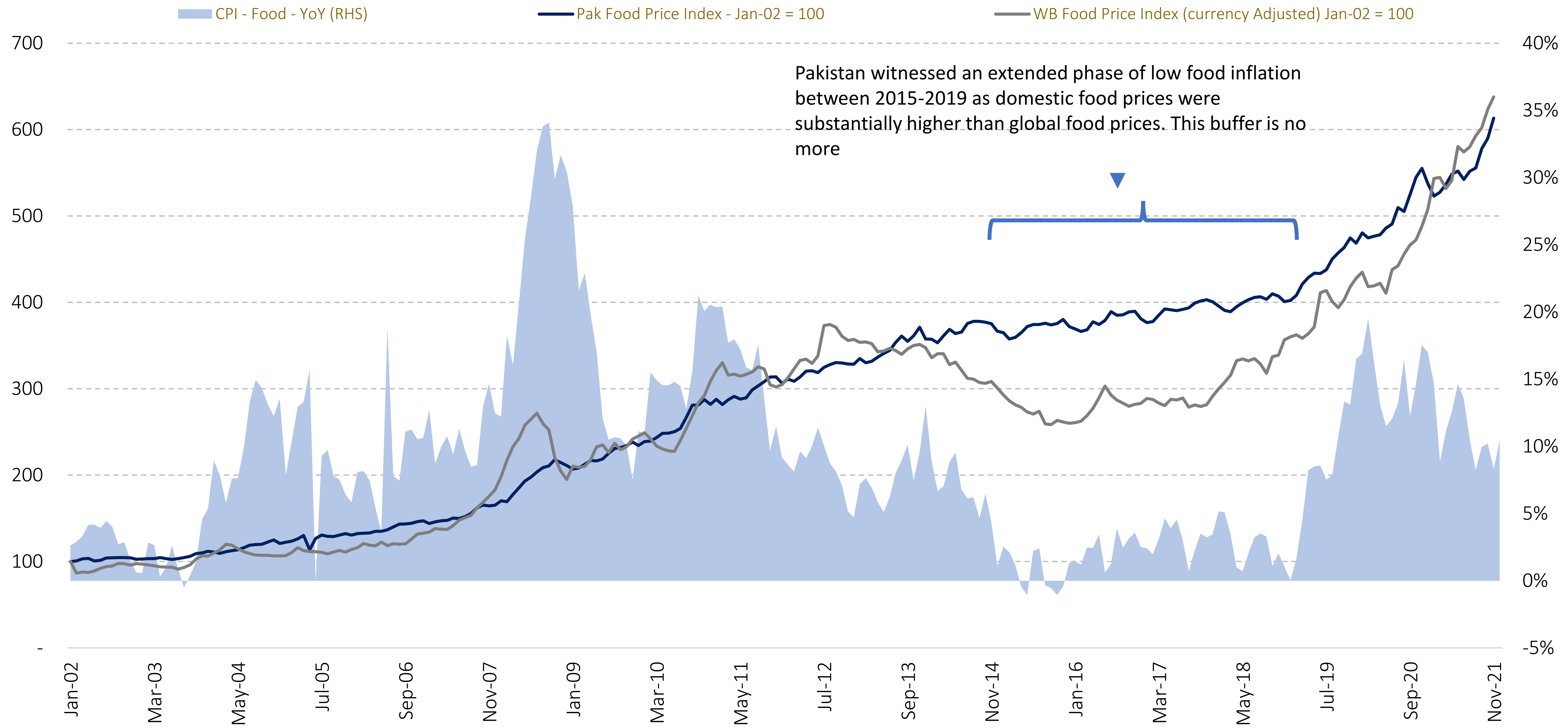
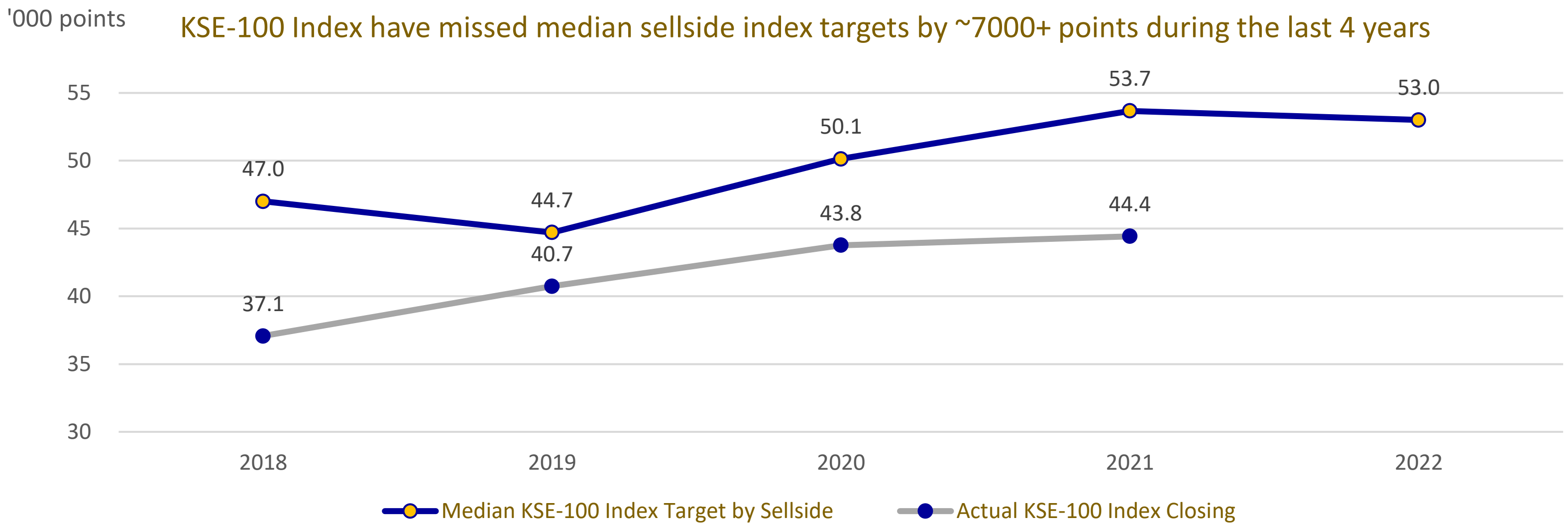
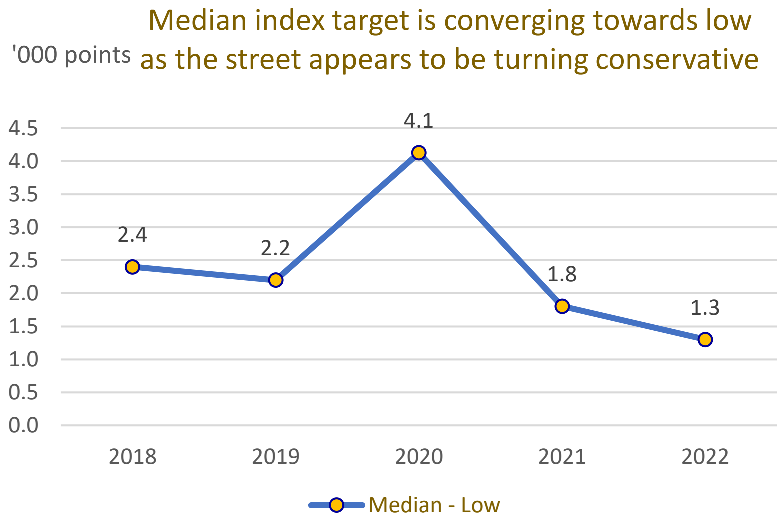


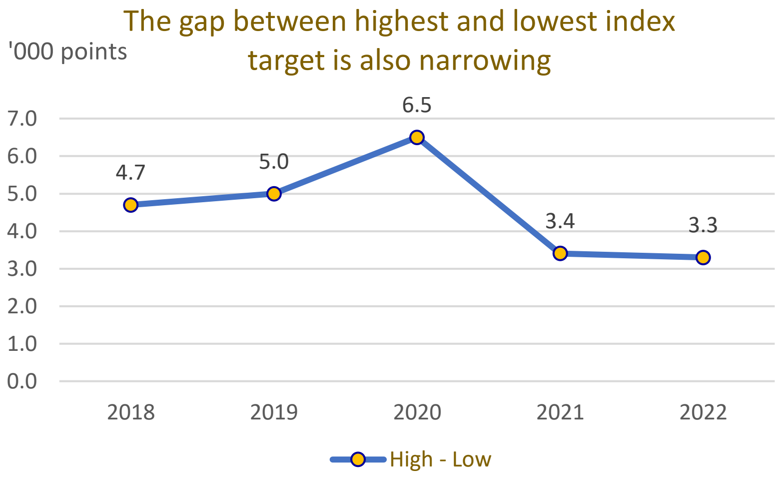
Source: World Bank, PBS, SBP, Akseer Research

Sell side research teams are turning conservative

- Sell side research teams have recently not done well in forecasting Pakistan equities performance.
- CY22 is the third consecutive year in which the sell side research teams are forecasting that the KSE-100 index will surpass its previous highs of ~53,000+ made in 2017.
- With KSE-100, failing to live up to the beginning-of-the-year expectations in CY20 and CY21, the sell side research teams are becoming more conservative.
- The median KSE-100 index targets are coming closer to the low. There is also a clear narrowing of the range.
- This indicates a broad-based weakness in optimism / confidence. Animal spirits have departed. Rationality and conservatism is more dominant.







* 2022 data excludes an outlier at 61.2k

Source: Akseer Research

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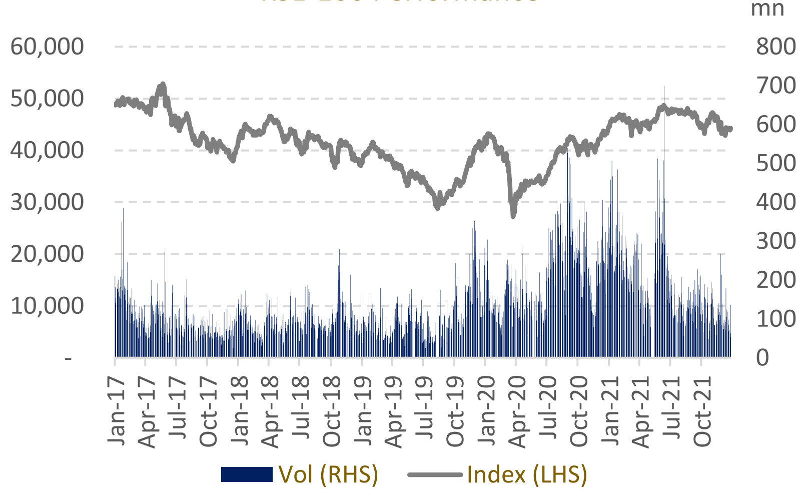
Dec-22 Index Target @ 56,200

- **Dec-22 KSE-100 index target is 56,200**
  - This index target is based on the assumption that the market will price in the earnings growth and the dividend yield of the calendar year ending December 2022 into its valuations.
- **Key triggers for CY22 PSX performance:**
  - Approval of mini budget FY22 and SBP autonomy bill by the Parliament (Jan-22)
  - Resumption of IMF program (Jan-Feb'22)
  - Clarity on peaking of inflation / interest rate cycle (Mid CY22)
  - Major reversal in commodities price cycle expected (2HCY22)
- **Upside risk**
  - There could potentially be an additional upside if there is a substantial FII inflow from frontier funds in CY22.
- **Downside Risks**
  - Upward stickiness in commodity prices, delay in resumption of IMF program, election year politics disturbing macroeconomic discipline

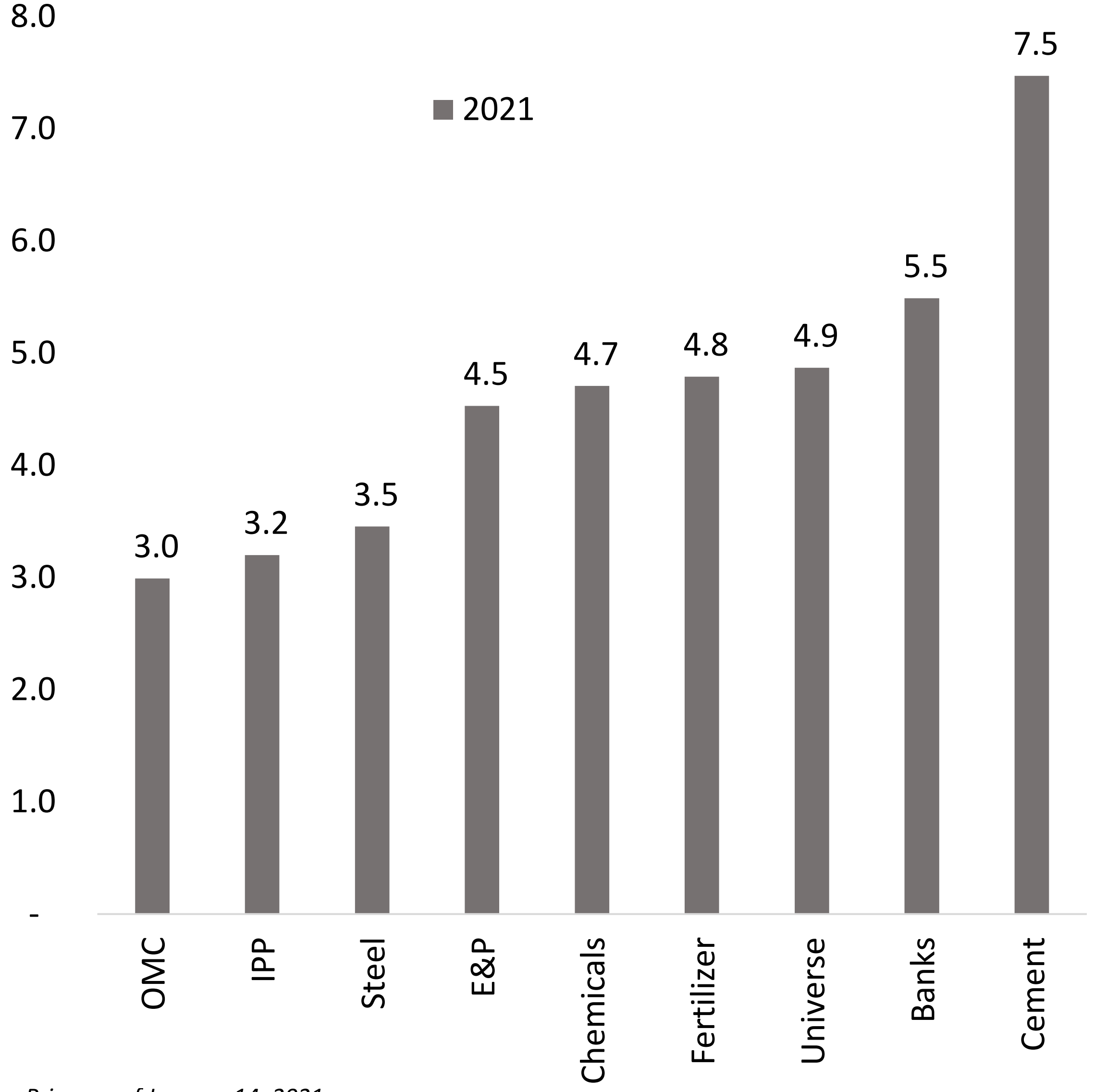
EPS growth of 15.1% + Dividend yield of 10.9% → Dec-22 KSE-100 Index Target of **56,200** points, upside of 26.0% from December 31, 2021 close

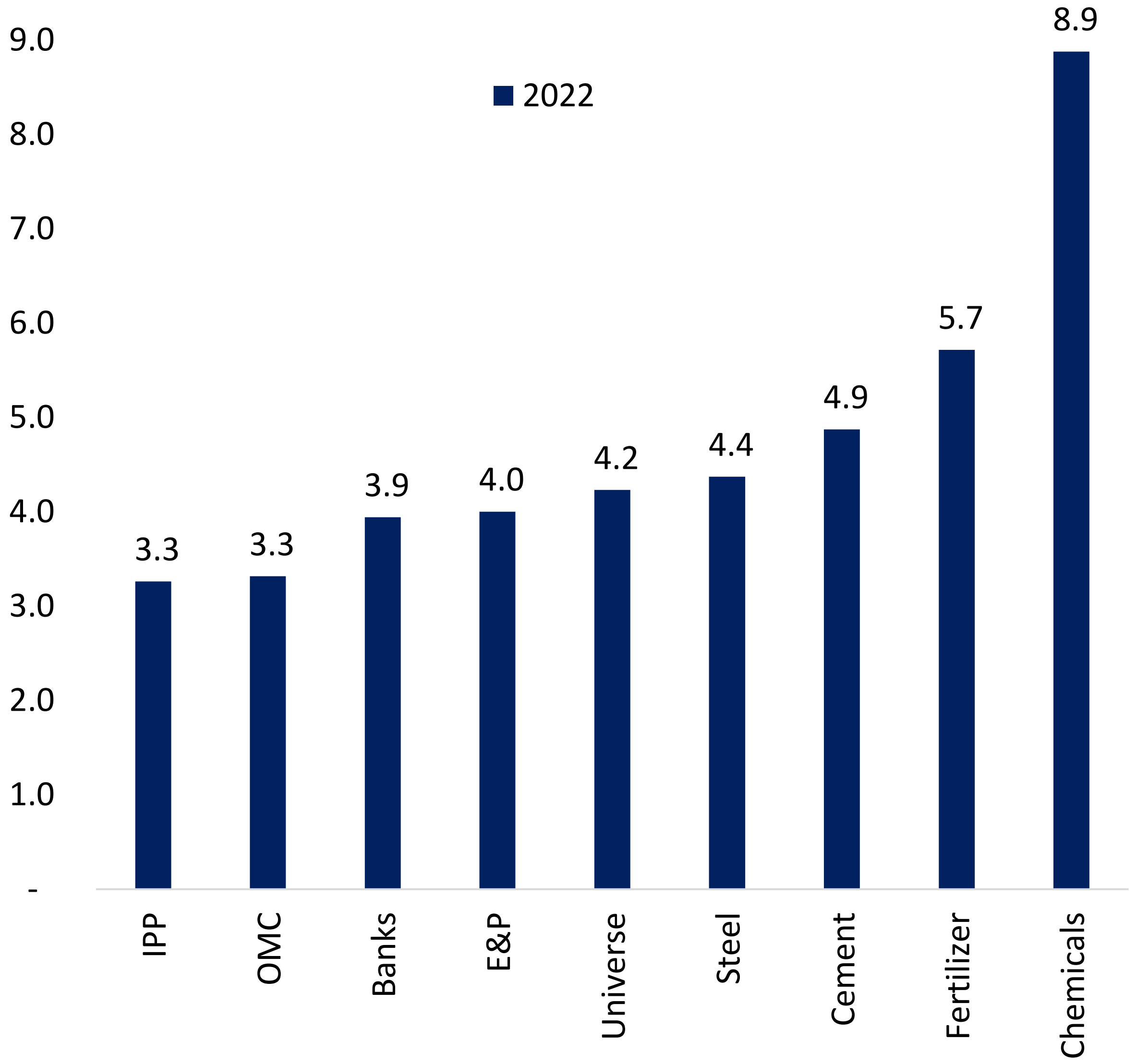
Overweight	Market Weight	Underweight
Banks	IPPs	Chemicals
E&Ps	Flat Steel	
Cements	Fertilizer	
OMCs		

KSE-100 Performance



CY22E PER of 4.2x

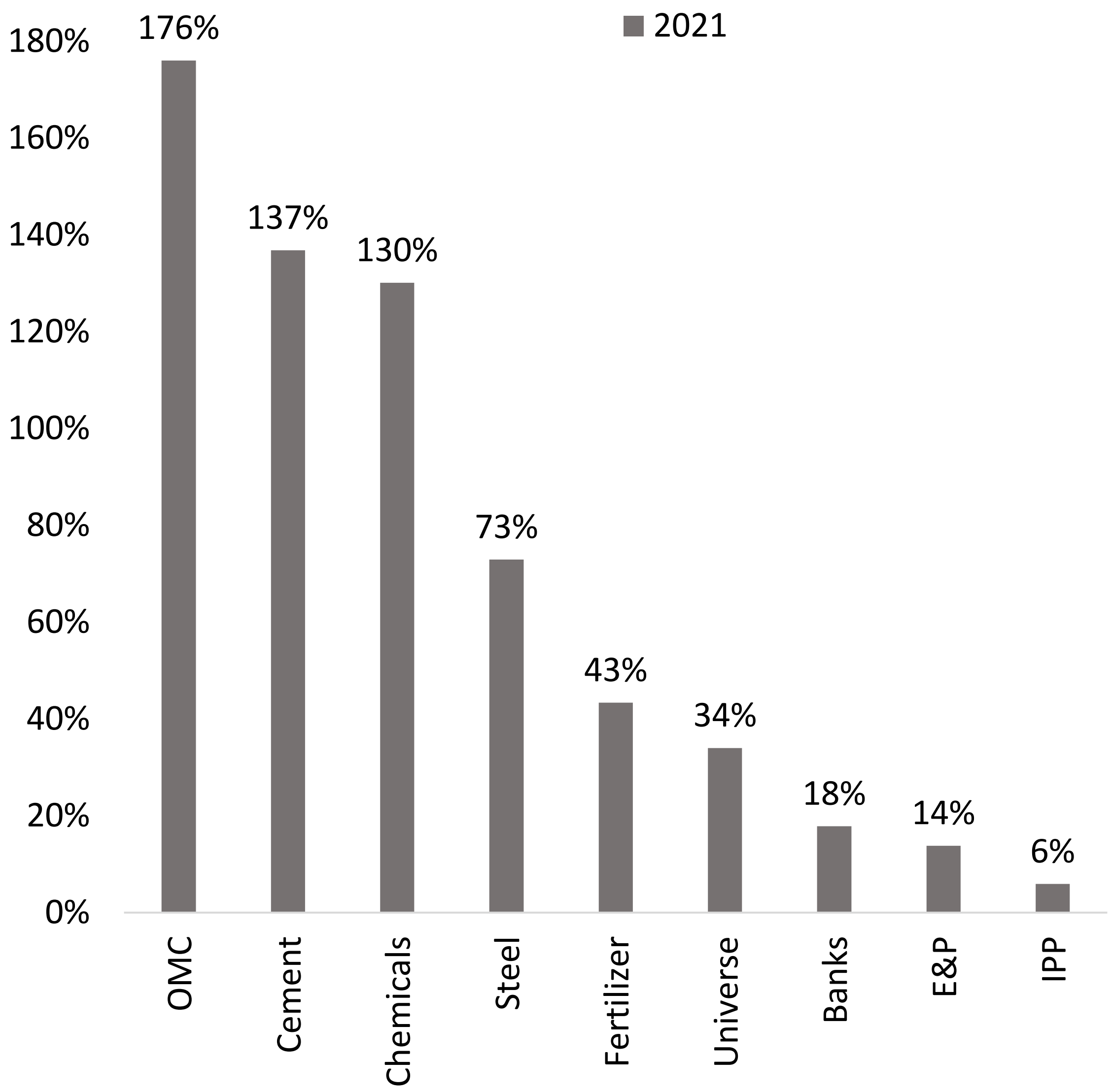


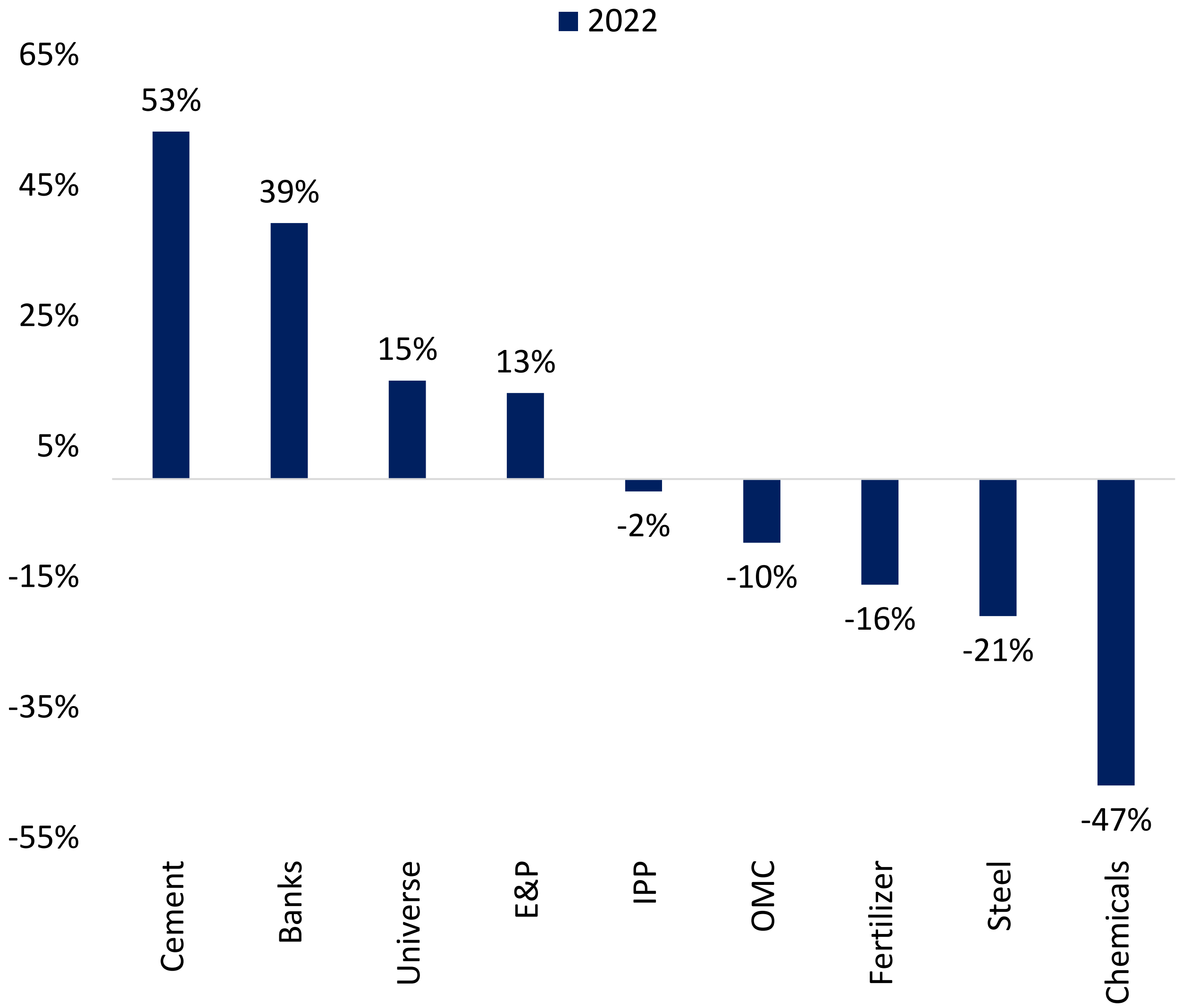


Prices as of January 14, 2021

Alfa Adhi Securities REN # REP-004
AKSEER RESEARCH REN # REP-400R

CY22E earnings growth of 15%





Prices as of January 14, 2022

Alfa Adhi Securities
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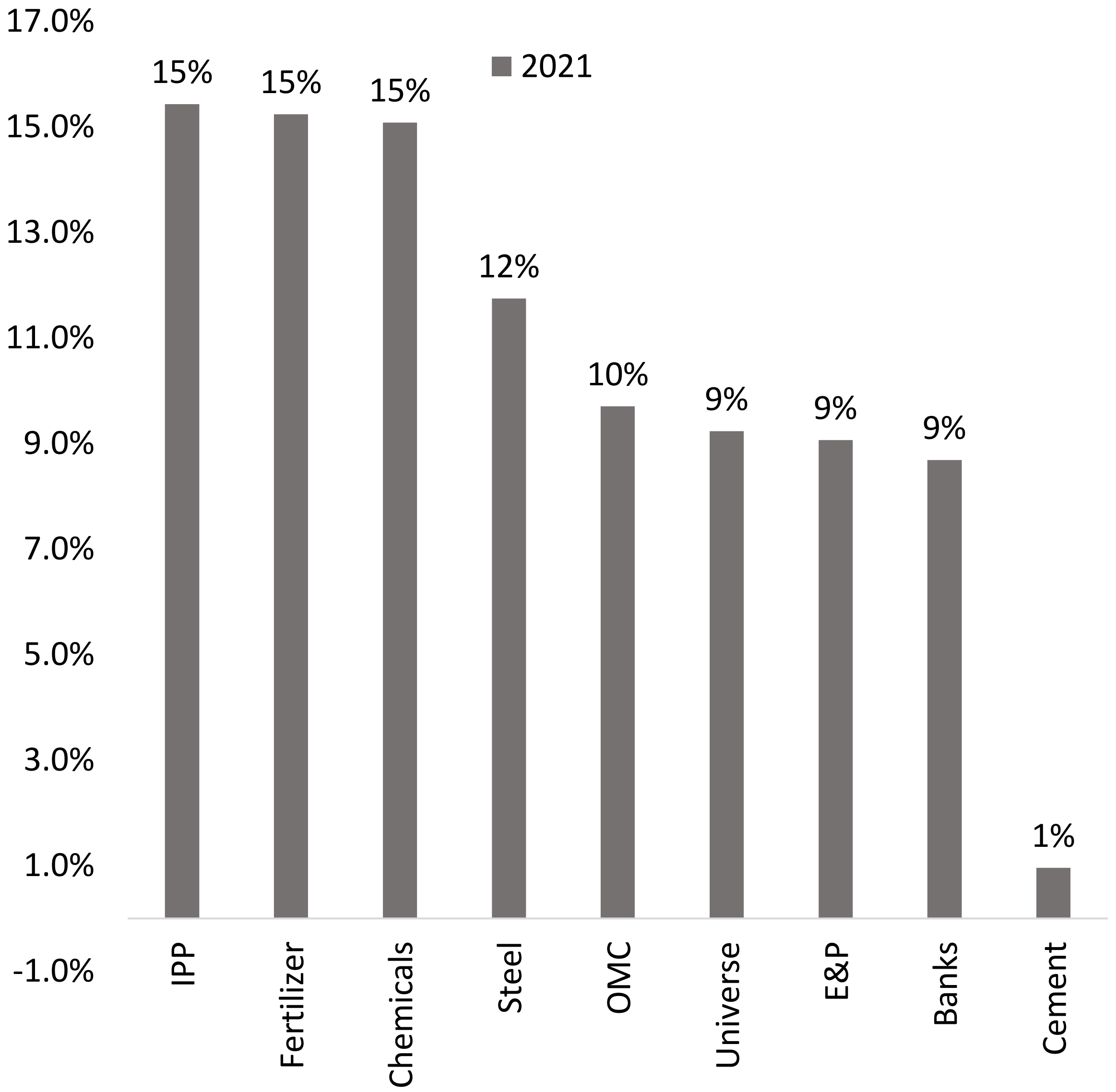
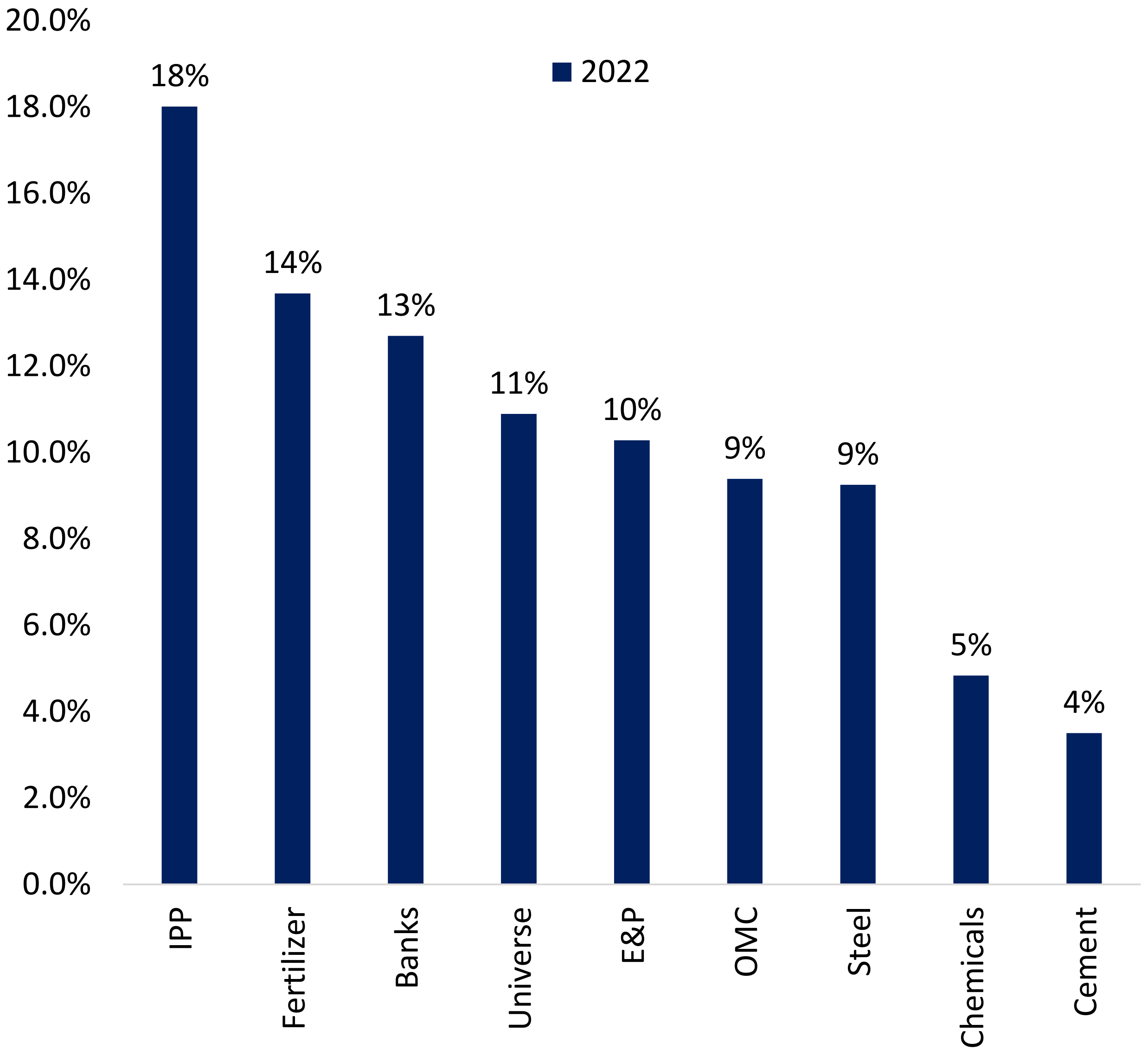
REN # REP-400R

CY22E dividend yield of 11%





Prices as of January 14, 2022

Pakistan Market Strategy: Ideal Entry Opportunity

Alfa Adhi Securities REN # REP-004

AKSEER RESEARCH REN # REP-400R

S. No	Symbol	Year End	Rating	Price	Target	Upside	EPS				DPS				PE				Div Yield				BVPS			
							2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
1	EFERT	December	HOLD	80	80	-1%	13.6	15.7	13.4	12.5	13.0	15.0	12.0	11.0	5.9	5.1	6.0	6.5	16%	19%	15%	14%	35.0	35.7	37.1	38.5
2	FFBL	December	HOLD	27	29	6%	3.8	8.9	6.2	3.2	-	3.5	3.7	2.0	7.2	3.1	4.4	8.6	0%	13%	14%	7%	10.8	16.2	18.6	19.8
3	FFC	December	BUY	105	135	28%	13.3	20.2	17.1	18.6	11.2	14.5	13.8	15.0	7.9	5.2	6.1	5.6	11%	14%	13%	14%	33.4	37.2	40.6	44.2
4	FATIMA	December	HOLD	35	37	5%	6.3	8.8	8.2	6.9	2.5	4.5	4.3	4.0	5.5	4.0	4.3	5.1	7%	13%	12%	11%	41.5	47.8	51.7	54.5
5	OGDC	June	BUY	89	186	110%	23.5	21.3	30.0	26.5	6.8	6.9	10.0	10.0	3.8	4.2	3.0	3.3	8%	8%	11%	11%	165.2	178.9	197.9	215.5
6	PPL	June	BUY	80	155	94%	18.2	19.2	24.8	25.8	1.0	3.5	5.0	7.5	4.4	4.1	3.2	3.1	1%	4%	6%	9%	126.2	142.9	162.8	181.0
7	POL	June	BUY	385	530	38%	56.7	46.2	62.3	64.0	50.0	50.0	50.0	50.0	6.8	8.3	6.2	6.0	13%	13%	13%	13%	141.9	138.7	151.0	165.0
8	MARI	June	BUY	1,674	2,428	45%	227.3	236.1	287.4	305.9	6.6	141.0	144.0	153.0	7.4	7.1	5.8	5.5	0%	8%	9%	9%	698.3	866.1	1,012.5	1,168.6
9	HBL	December	BUY	123	155	26%	21.1	24.4	36.4	42.7	4.3	7.0	12.8	15.3	5.8	5.1	3.4	2.9	3%	6%	10%	12%	177.9	192.6	213.3	237.9
10	UBL	December	BUY	142	196	38%	17.1	24.9	33.5	39.0	12.0	16.0	21.5	24.5	8.3	5.7	4.2	3.6	8%	11%	15%	17%	150.4	154.5	167.3	182.7
11	BAFL	December	BUY	36	55	51%	5.2	5.7	5.7	6.7	4.0	4.5	6.5	6.5	6.9	6.3	6.3	5.4	11%	12%	18%	18%	51.2	54.8	61.6	69.2
12	BAHL	December	BUY	70	102	46%	16.0	17.0	23.7	27.0	4.5	6.8	9.5	10.8	4.4	4.1	3.0	2.6	6%	10%	14%	15%	71.9	83.6	100.8	118.7
13	MCB	December	BUY	162	205	26%	25.6	26.0	30.7	34.0	20.0	19.5	25.0	28.0	6.3	6.2	5.3	4.8	12%	12%	15%	17%	160.4	151.3	158.1	163.9
14	MEBL	December	BUY	139	196	41%	13.6	16.1	25.4	30.3	5.2	5.6	10.3	13.8	10.2	8.7	5.5	4.6	4%	4%	7%	10%	42.5	52.9	69.7	87.2
15	ACPL	June	BUY	139	175	26%	18.7	17.3	18.1	33.3	3.5	4.0	4.0	11.3	7.4	8.0	7.7	4.2	3%	3%	3%	8%	133.6	142.2	167.8	191.2
16	CHCC	June	BUY	147	220	50%	(9.7)	16.5	17.3	32.4	-	2.3	4.5	9.5	(15.0)	8.9	8.5	4.5	0%	2%	3%	6%	51.7	69.9	86.4	114.5
17	DGKC	June	BUY	80	135	69%	(4.9)	8.3	7.8	22.5	-	1.0	-	4.5	(16.2)	9.7	10.3	3.6	0%	1%	0%	6%	152.1	167.7	166.8	191.8
18	FCCL	June	BUY	18	28	56%	(0.0)	2.5	2.9	4.2	-	-	-	-	(421.0)	7.2	6.2	4.3	0%	0%	0%	0%	14.4	16.9	19.8	24.0
19	KOHC	June	BUY	176	270	53%	(2.2)	17.4	20.6	34.5	-	-	4.3	10.3	(79.5)	10.1	8.5	5.1	0%	0%	2%	6%	93.2	110.6	130.5	160.5
20	MLCF	June	BUY	34	55	60%	(3.2)	3.5	4.5	7.6	-	-	-	5.0	(10.5)	9.8	7.7	4.5	0%	0%	0%	15%	28.1	32.1	35.7	43.3
21	PIOC	June	BUY	86	152	76%	(0.9)	8.7	8.9	20.8	-	-	-	6.3	(93.4)	9.9	9.7	4.2	0%	0%	0%	7%	45.9	54.9	63.8	78.3
22	NPL	June	BUY	20	42	112%	13.8	7.6	8.0	8.3	2.0	1.5	3.3	4.8	1.4	2.6	2.5	2.4	10%	8%	16%	24%	66.9	73.5	70.5	74.0
23	HUBC	June	BUY	80	143	79%	20.1	26.0	23.7	24.9	-	12.0	12.9	15.8	-	3.1	3.4	3.2	0%	15%	16%	20%	64.7	84.5	96.0	105.7
24	PSO	June	BUY	186	350	88%	(13.8)	62.1	77.9	45.7	-	15.0	22.0	13.0	(13.5)	3.0	2.4	4.1	0%	8%	12%	7%	240.8	298.2	354.1	386.8
25	APL	June	BUY	327	430	31%	10.1	49.4	66.1	58.7	9.0	27.0	33.0	32.0	32.3	6.6	4.9	5.6	3%	8%	10%	10%	185.3	228.3	261.4	288.1
26	HTL	June	BUY	49	65	33%	0.9	4.7	4.3	5.9	0.8	3.3	3.0	3.0	55.8	10.4	11.4	8.2	2%	7%	6%	6%	28.7	30.9	32.2	35.1
27	ISL	June	BUY	71	112	58%	1.1	17.2	13.5	12.0	-	10.0	8.0	7.0	62.4	4.1	5.3	5.9	0%	14%	11%	10%	26.4	40.6	46.1	51.1
28	ASL	June	BUY	15	31	101%	(0.8)	8.3	5.1	4.9	-	2.0	1.0	1.0	(18.9)	1.8	3.0	3.1	0%	13%	7%	7%	10.6	18.9	25.6	30.6
29	ICI	June	BUY	760	1,108	46%	32.2	59.9	80.2	64.9	16.0	40.0	41.5	32.0	23.6	12.7	9.5	11.7	2%	5%	5%	4%	238.1	275.0	327.7	376.7
30	LUCK	June	BUY	675	1,100	63%	22.6	87.3	121.4	198.1	-	-	15.0	25.0	29.8	7.7	5.6	3.4	0%	0%	2%	4%	406.6	485.6	687.0	815.7
31	EPCL	December	BUY	57	76	33%	6.3	16.1	7.0	7.5	1.2	11.8	2.8	3.0	9.0	3.5	8.2	7.6	2%	21%	5%	5%	28.7	33.0	37.2	41.8

Prices as of January 14, 2022

Top Picks

Top Picks	
UBL	PSO
MEBL	HUBCO
BAFL	FFC
OGDC	LUCK
PPL	MLCF
POL	FCCL
MARI	ISL

Highest Earning Growth FY/CY22

S. No	Symbol	EPS Growth
1	MEBL	58%
2	OGDC	41%
3	LUCK	39%
4	POL	35%
5	UBL	34%

Highest Dividend Yield FY/CY22

S. No	Symbol	Dividend Yield
1	BAFL	17.9%
2	HUBCO	16.1%
3	UBL	15.1%
4	FFC	13.1%
5	POL	13.0%

Highest Upside Potential

S. No	Symbol	% Upside
1	OGDC	110%
2	PPL	94%
3	PSO	88%
4	HUBCO	79%
5	LUCK	63%

Attractive on Multiples

S. No	Symbol	PER
1	PSO	2.4x
2	OGDC	3.0x
3	PPL	3.2x
4	ISL	5.3x
5	MEBL	5.5x

REN # REP-004

REN # REP-400R

PAKISTAN MARKET STRATEGY

Key Sectors and Top Picks

Closing Prices as of January 14, 2022

Alfa Adhi Securities REN # REP-004 | AKSEER RESEARCH REN # REP-400R

Banks - Overweight

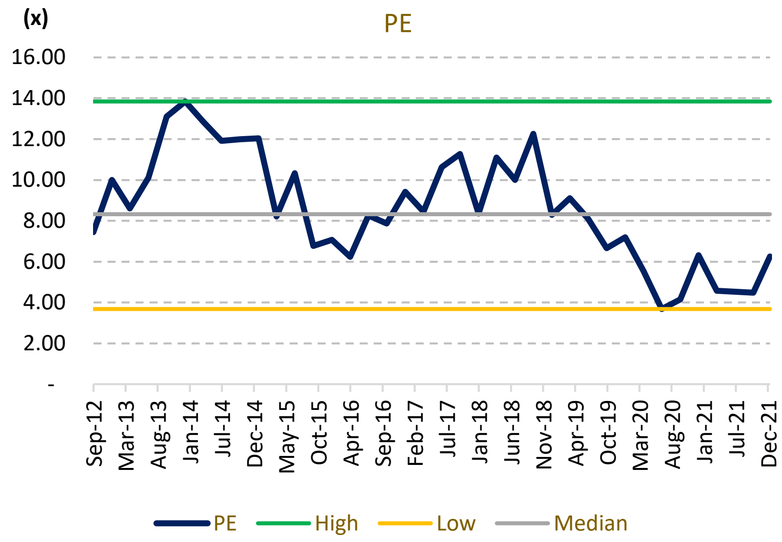
- **Highly attractive valuations…**
  - Akseer's banking universe is trading at a CY22F P/B 0.76x (Ex-Meezan), which is at a significant discount of 24% to its 5-year average P/B of 1.0.
  - With CAR well above the SBP's regulatory requirement, higher payouts will likely sustain. Akseer's banking universe is offering CY22F dividend yield of 13.2% (vs 5-year PIB at 11.6%).
- **… due to recent underperformance resulting from selling by MSCI EM funds**
  - The banking sector unperformed KSE-100 index by 1.3% during CY21, despite strong earnings and payout, due to MSCI reclassification related selling by foreigners (USD 166mn in CY21, USD 626mn since CY17). Risk of further selling has now subsided.
- **A key beneficiary of macroeconomic headwinds**
  - Banking sector earnings are expected to grow at a CAGR of 24% over the next 3 years, driven by strong balance sheet growth and NIM expansion driven by 275bps increase in policy rate to 9.75% since Sep-21. We expect another 125bps increase in policy rate during CY22 which will further prop up NIMs.
- **Strong balance sheet growth**
  - SBP's subsidized lending for priority sectors (Construction, Housing, Agri and TERF) would allow for double digit loan growth (15-20%) for banks in CY22, despite rising interest rates.
  - Private sector lending rose 5% YoY in CY20 and is already up 14% in 11MCY21.
  - Bank's investment portfolios primarily comprises shorter tenure PIBs (mostly floaters) and T-Bills, which will lead to quicker asset repricing in a rising interest rate cycle.
- **Our top picks in the sector include – MEBL, BAFL, and UBL.**
- **Risks to our investments**
  - 1) Lower than expected increase in advances and deposits, 2) higher than expected NPLs accretion.

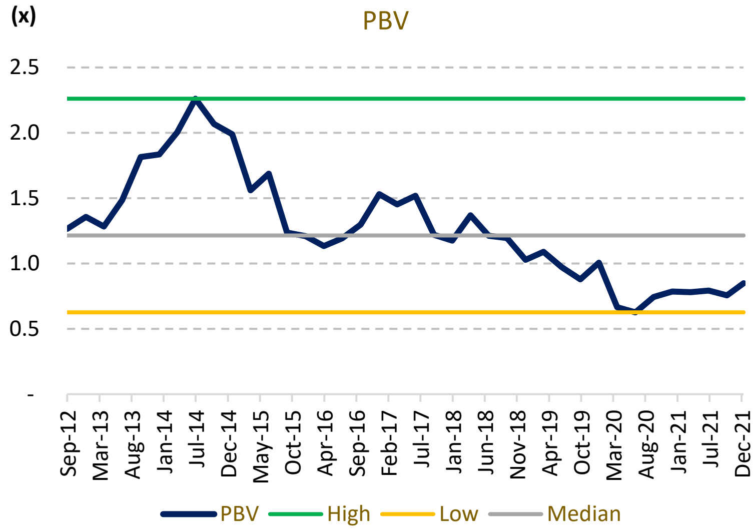
Banking Sector Valuation Matrix						
	HBL	**UBL**	**BAFL**	**BAHL**	**MCB**	**MEBL**
PT	155	196	55	102	205	196
Upside	26%	38%	51%	46%	26%	41%
	2021E	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
		EPS			**PE**	
HBL	24.4	36.4	42.7	5.1	3.4	2.9
UBL	24.9	33.5	39.0	5.7	4.2	3.6
BAFL	5.7	5.7	6.7	6.3	6.3	5.4
BAHL	17.0	23.7	27.0	4.1	3.0	2.6
MCB	26.0	30.7	34.0	6.2	5.3	4.8
MEBL	16.1	25.4	30.3	8.7	5.5	4.6
		DPS			**Div Yield**	
HBL	7.0	12.8	15.3	5.7%	10.4%	12.4%
UBL	16.0	21.5	24.5	11.3%	15.1%	17.2%
BAFL	4.5	6.5	6.5	12.4%	17.9%	17.9%
BAHL	6.8	9.5	10.8	9.6%	13.6%	15.3%
MCB	19.5	25.0	28.0	12.0%	15.4%	17.3%
MEBL	5.6	10.3	13.8	4.0%	7.4%	9.9%
		ROE			**PBV**	
HBL	13.2%	17.9%	18.9%	0.6	0.6	0.5
UBL	16.4%	20.8%	22.3%	0.9	0.8	0.8
BAFL	10.8%	9.9%	10.3%	0.7	0.6	0.5
BAHL	21.9%	25.7%	24.6%	0.8	0.7	0.6
MCB	16.7%	19.8%	21.1%	1.1	1.0	1.0
MEBL	33.7%	41.5%	38.7%	2.6	2.0	1.6

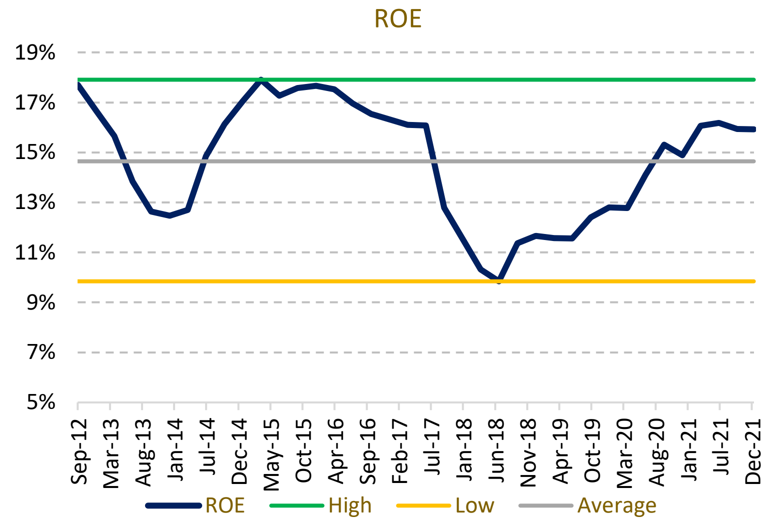
Source: Company Accounts & Akseer Research

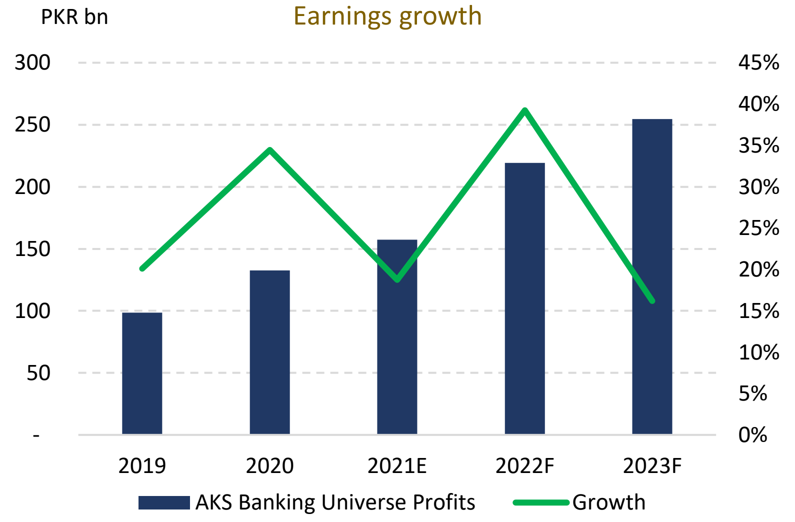
Pakistan Market Strategy: Ideal Entry Opportunity

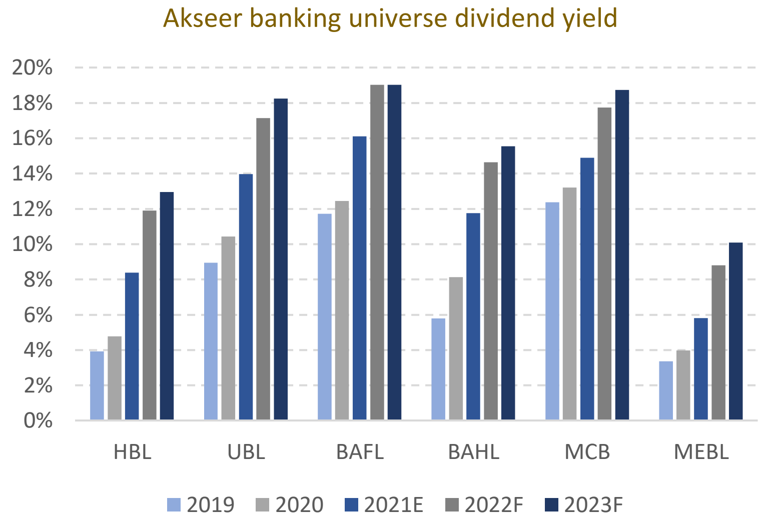
Banks - Key Charts

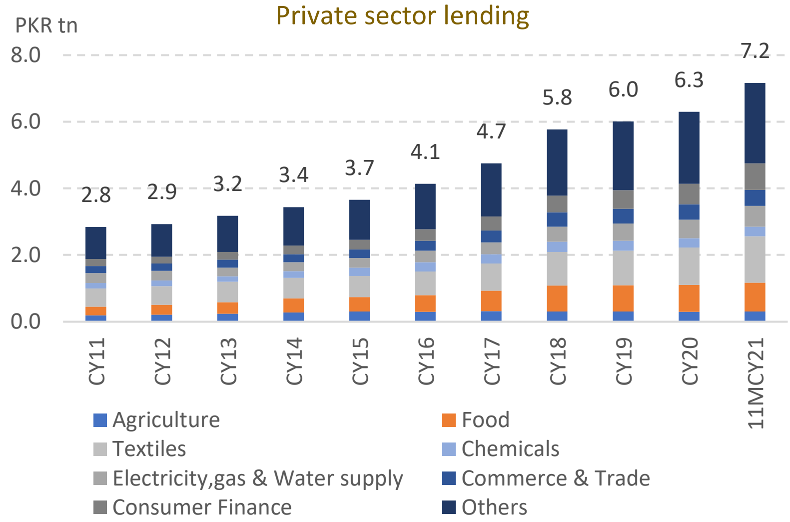












Source: Company Accounts & Akseer Research

Alfa Adhi Securities
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

UBL: BUY Price Target: PKR 196/share

- **Valuation**
  - Our Dec-22 PT of PKR 196 for UBL offers an upside of 38% along with CY22 dividend yield of 15.1%, one of the highest in Akseer's banking universe.
  - The stock is currently trading at CY22F P/BV 0.8x, at a discount of 20% from its CY16-20 P/BV of 1.0x.
- **Robust expected earnings growth during CY21-23**
  - We expect UBL to record EPS growth of 46%/34%/16% in CY21/22/23. Despite an expected decline in payout ratio, dividend growth will likely remain robust. ROE will surpass 20% in CY21 and rise further in CY22
- **Asset quality has improved considerably**
  - UBL's asset quality has improved considerably over time for both overseas and domestic portfolio. Coverage ratio increased to 96% by the end of Sept-21. The bank has booked NPL reversal on its domestic book during 9MCY21. We expect gross infection ratio to reach 10% in CY25 (CY20:13.7%).
- **CASA ratio at an all time high**
  - The bank's CASA ratio has surged to an all time high of 85% (last 5-year average 78%) with current account ratio at 42%. This will bode well for the bank in containing the cost of funds amidst rising interest rate.
- **Investment book tilted towards shorter tenor**
  - The bank has increased its exposure to floaters - both PIBs and T-Bills in order to mitigate the risk of losses amid rising interest rates. IDR stood at 71% as of Sep-21.
- **Cost to income ratio will likely decline**
  - Cost to income ratio will likely fall to 39% in CY22 due to higher revenues & muted expense growth

Key Data	
Bloomberg	UBL.PA
Reuters	UBL.KA
PSX Ticker	**UBL**
Target Price (PKR)	196
Current Price (PKR)	142
Upside/(Downside) (%)	+ 38%
Dividend Yield (%)	15.1%
Total Return (%)	+ 53%
12-month High (PKR)	113
12-month Low (PKR)	149
Outstanding Shares (mn)	1,224.2
Market Cap (PKR mn)	173,993
Year End	December

Key Ratios	CY19A	CY20A	CY21E	CY22F	CY23F	CY24F
EPS	15.6	17.1	24.9	33.5	39.0	40.2
EPS Growth	-12.6%	9.2%	46.0%	34.4%	16.3%	3.1%
DPS	12.0	12.0	16.0	21.5	24.5	25.5
PER	9.1	8.3	5.7	4.2	3.6	3.5
Div. Yield	8.4%	8.4%	11.3%	15.1%	17.2%	17.9%
P/B	1.0	0.9	0.9	0.8	0.8	0.7
ROE	11.9%	11.8%	16.4%	20.8%	22.3%	21.1%

Source: Company Accounts & Akseer Research

MEBL: BUY Price Target: PKR 196/share

- **Valuation**
  - MEBL is one of our top picks in the banking sector. Our Dec-22 PT of PKR 196/ share, provides an upside of 41% from current levels along with CY22F dividend yield of 7.4%.
- **Aggressive branch expansion will lead to higher deposit growth**
  - MEBL has been expanding its branch network aggressively with a CAGR of 14% in the last 10 years. This is the key driver behind better-than-sector deposit growth. The bank opened 34 new branches during 9MCY21 taking total branches to 849 as of Sep-21. The bank is likely to cross 1,000 branches in near term.
  - The bank's deposits grew at a CAGR of 23% during the last 3 years. The Bank's deposit were up 23% YoY in Sep-21. We have conservatively assumed 15% deposit growth in our models.
- **Key beneficiary of rising interest rates due to absence of minimum deposit rate**
  - MEBL is the key beneficiary of rising interest rates due to non-applicability of minimum deposit rate on the Islamic banks. The bank currently has current account deposit ratio of 42%, second highest after Bank Alfalah. The bank's NIMs were recorded at 5.2% in Sep-21 compared to average NIMs of 4% for conventional banks . With recent hike in interest rate, we expect MEBL's NIMs to cross 6%, going forward.
- **One of the highest coverage ratio; lesser risk on asset quality**
  - At ~131%, Meezan has the second highest coverage ratio after Bank Al Habib as of Sep-21. Its Gross Infection Ratio improved to 2.3% in Sep-21 compared to 2.8% in Dec-20. With more-than-adequate coverage in place, we don't see any risk on the asset quality going forward.
- **Higher PBV is justified as the bank is sustaining its higher ROE**
  - MEBL is currently trading at CY22F PBV of 2.0x, significantly higher than banking sector's PBV of 0.8x. We believe, higher multiple is justified since the bank is generating an ROE of more than 35% compared to banking sector's average ROE of 16%.

Key Data	
PSX Ticker	MEBL
Bloomberg	MEBL.PA
Reuters	AMZN.PSX
Target Price (PKR)	196
Current Price (PKR)	139
Upside/(Downside) (%)	+41%
Dividend Yield (%)	7.4%
Total Return (%)	+48%
12-month High (PKR)	165
12-month Low (PKR)	102
Outstanding Shares (mn)	1,626.9
Market Cap (PKR mn)	196,745
Year End	December

Key Ratios	CY19A	CY20A	CY21E	CY22F	CY23F	CY24F
EPS	11.8	15.7	16.1	25.4	30.3	31.2
EPS Growth	70.0%	32.3%	2.5%	58.4%	19.3%	2.8%
DPS	5.0	6.0	5.6	10.3	13.8	15.3
PER	11.7	8.9	8.7	5.5	4.6	4.5
Div. Yield	3.6%	4.3%	4.0%	7.4%	9.9%	11.0%
P/B	3.0	2.8	2.6	2.0	1.6	1.3
ROE	33.8%	39.2%	36.3%	44.1%	40.6%	34.1%

Source: Company Accounts & Akseer Research

Alfa Adhi Securities
REN # REP-004
AKSEER RESEARCH
REN # REP-400R

BAFL: BUY Price Target: PKR 55/share

- **Valuation**
  - Our Dec-22 PT of PKR 55 for BAFL offers an upside of 51%, along with dividend yield of 17.9%, one of the highest in our banking universe.
  - BAFL is trading at a CY22F PBV 0.6x, which is at a significant discount of 58%/ 38% to its 10/5-year average PBV of 1.2x/0.8x, respectively.
  - Earnings are expected to grow at a CAGR of 17% over next 3 years. The capital adequacy ratios are likely to remain well above the SBP's regulatory requirement. This will allow BAFL to maintain its current payout ratio at 55%.
- **One of the best asset quality amongst mid-tier banks**
  - Despite having one of the highest ADRs (65%) in the banking industry, BAFL has successfully maintained its gross infection ratio in the low single digits. The bank's asset quality improved during last decade, wherein the Gross infection ratio (GIR) averaged 4.2% during CY16-20 compared to 7.2% during CY11-15. BAFL further improved its GIR to 3.8% by end of Sep-21, while NPL coverage ratio stood at ~95%.
- **Non-funded income growth will likely weaken due to high base effect and slowdown in remittances**
  - BAFL's fee-based income has grown at a CAGR of 8% over CY16-20 on the back of surge in digital transactions and increased remittances through formal channels. With likely slowdown in remittance growth, we have conservatively assumed non-funded income to grow at a CAGR of 4.3% during CY22-25.

Key Data	
PSX Ticker	BAFL
Bloomberg	BAFL.PA
Reuters	BAFL.KA
Target Price (PKR)	55
Current Price (PKR)	36
Upside/(Downside) (%)	+ 51%
Dividend Yield (%)	17.9%
Total Return (%)	+ 69%
12-month High (PKR)	38.5
12-month Low (PKR)	28.5
Outstanding Shares (mn)	1,777.1
Market Cap (PKR mn)	64,636
Year End	December

Key Ratios	CY19A	CY20A	CY21E	CY22F	CY23F	CY24F
EPS	7.1	5.9	8.6	11.6	13.9	13.8
EPS Growth	19.5%	-17.5%	45.4%	35.5%	19.6%	-0.8%
DPS	4.00	4.00	4.50	6.50	7.75	7.75
PER	5.1	6.2	4.2	3.1	2.6	2.6
Div. Yield	11.0%	11.0%	12.4%	17.9%	21.3%	21.3%
P/B	0.7	0.7	0.7	0.6	0.5	0.5
ROE	15.5%	11.7%	16.2%	19.9%	21.2%	19.0%

Source: Company Accounts & Akseer Research

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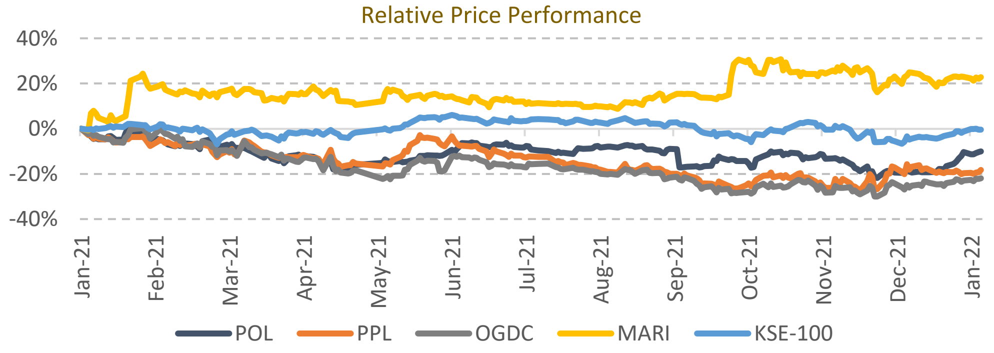
E&Ps - Overweight

- **Attractive valuations**
  - The E&P sector is trading at FY22E PE of 3.8x (free float), close to its 9-year low of 3.2x. This offers a discount of 54% to its 10-year median PE of 8.3x. E&Ps FY22E dividend yield stands at 10%.
- **A beneficiary of economic headwinds**
  - The E&P sector offers a hedge against the commodities upcycle and resulting macroeconomic weaknesses i.e rising interest rates and PKR devaluation.
  - Arab light prices are currently hovering around ~USD 85/bbl whereas our models assume an average Arab Light price of USD 70/60/55 for FY22/23/long-term.
  - We expect E&Ps volumetric growth to remain weak going forward owing to depleting reserves from mature fields and lack of large discoveries. We expect an average annual decline of ~2% during next 5 years.
- **Return to IMF may create an enabling environment for circular debt resolution**
  - Govt. is planning to present a bill in the parliament to introduce "Weighted average cost of gas" which will remove the price difference between indigenous and imported gas.
  - The government is also considering to partially resolve circular debt of state-owned E&Ps by means of declaring large dividends and netting-off government's share of dividends with circular debt. This could be the key trigger for true price discovery of state-owned E&Ps (OGDC and PPL) (*refer to our report published on December 6, 2021*).
- **Top picks: POL and MARI** incase of resolution of circular debt, **OGDC and PPL** would outperform peers.
- **Key risks include**
  - 1) Steep decline in hydrocarbon production, 2) further deterioration in circular debt, 3) lower oil prices and PKR appreciation against USD.

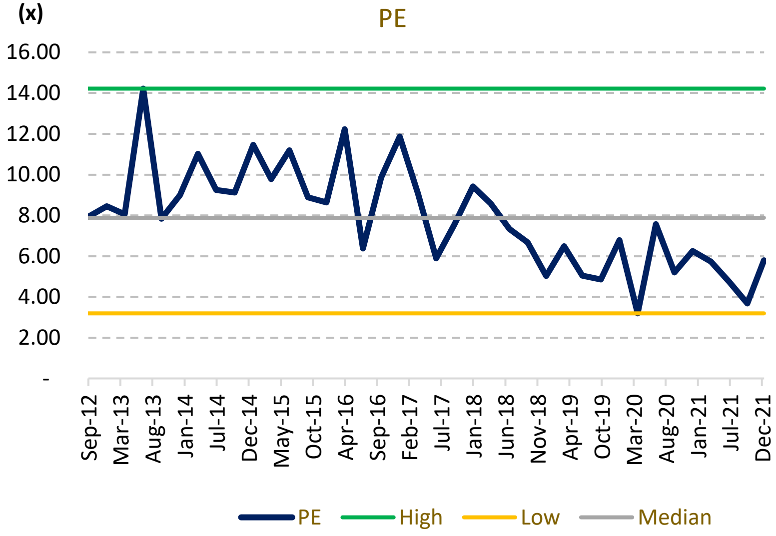
E&P sector Valuation Matrix

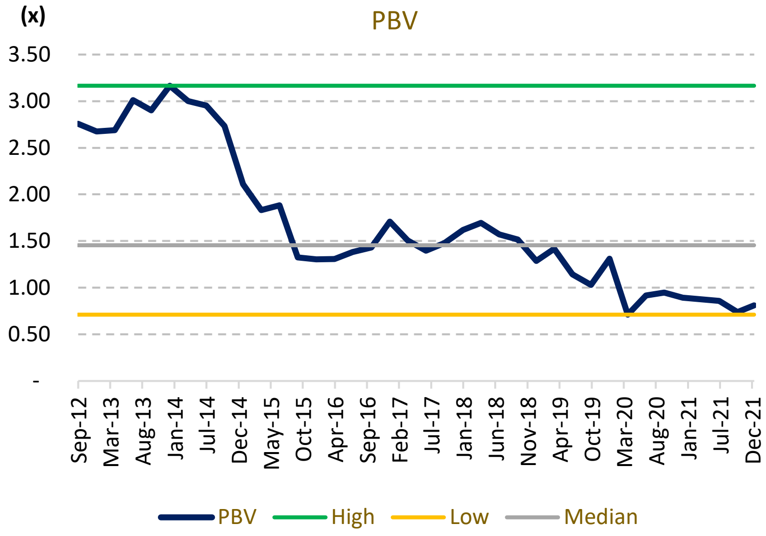
	POL	PPL	OGDC	MARI		
PT	530	155	186	2428		
Upside	38%	94%	110%	45%		
	2021A	**2022E**	**2023E**	**2021A**	**2022E**	**2023E**
		EPS			**PE**	
POL	47.1	62.3	64.0	8.3	6.2	6.0
PPL	19.2	24.8	25.8	4.1	3.2	3.1
OGDC	21.3	30.0	26.5	4.2	3.0	3.3
MARI	236.1	287.4	305.9	7.1	5.8	5.5
		DPS			**Div. Yield**	
POL	50.0	50.0	50.0	13.0%	13.0%	13.0%
PPL	3.5	5.0	7.5	4.4%	6.3%	9.4%
OGDC	6.9	10.0	10.0	7.8%	11.3%	11.3%
MARI	141.0	144.0	153.0	8.4%	8.6%	9.1%
		ROE			**PBV**	
POL	32.9%	43.0%	40.5%	2.8	2.5	2.3
PPL	14.3%	16.2%	15.0%	0.6	0.5	0.4
OGDC	12.4%	15.9%	12.8%	0.5	0.4	0.4
MARI	30.2%	30.6%	28.0%	1.9	1.7	1.4

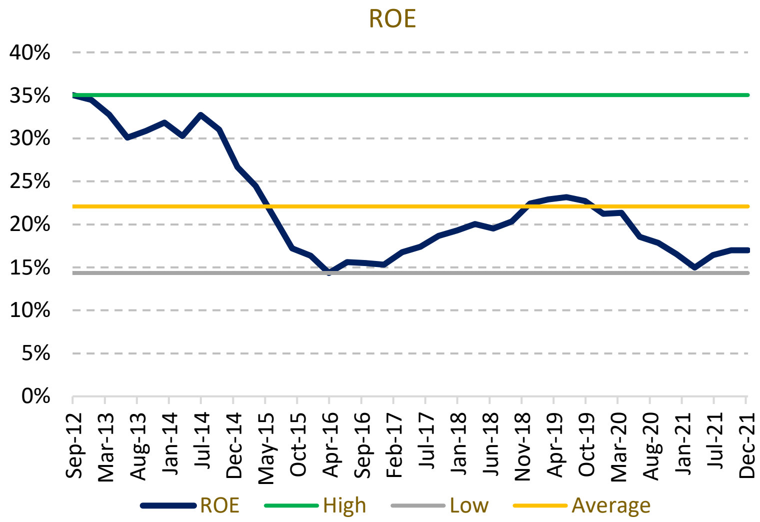


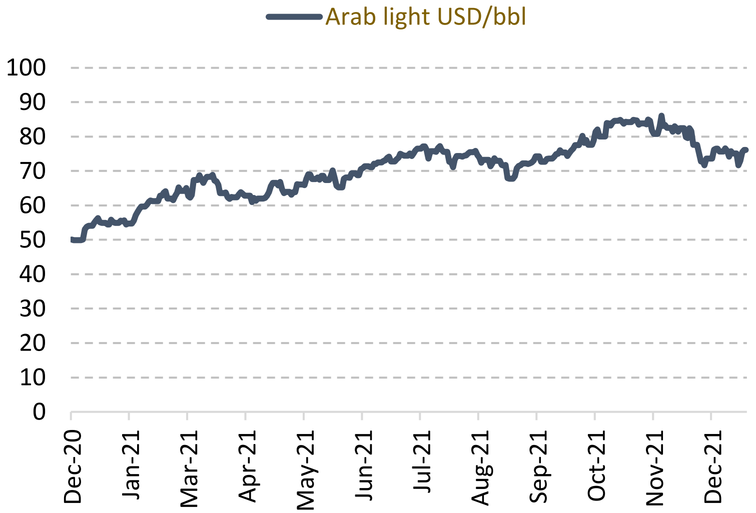
Source: Company Accounts & Akseer Research

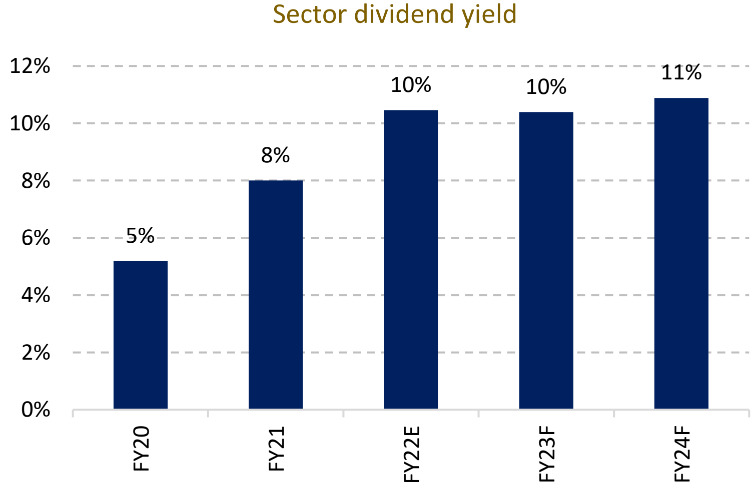
E&Ps – Key Charts

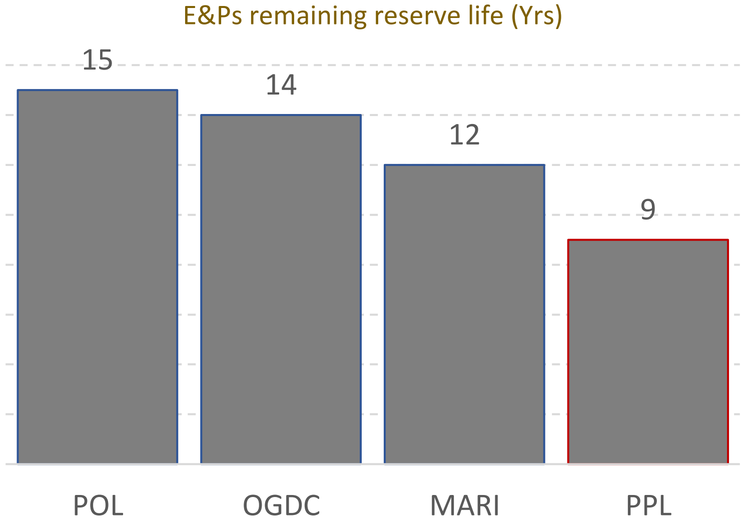












Source: Company Accounts & Akseer Research

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POL: BUY Price Target: PKR 530/share

- **Valuation**
  - Our Dec-22 PT of POL at PKR 530, offers an upside of 38%, along with a dividend yield of 13%. The stock is currently trading at an implied oil price of USD 30/barrel which is at a discount of 45% to our long-term oil price assumption of USD 55/barrel.
  - POL is trading at FY22E PE of 6.2x which is at a 37% discount to its historical PE of 9.9x.
  - No exposure to circular debt and consistent dividend payout makes POL attractive among E&P stocks.
- **Higher oil prices and PKR devaluation to uplift bottom line**
  - POL's EPS is expected to rise 32% to PKR 62.3 in FY22, due to higher crude oil price and PKR devaluation. We have assumed oil price at USD 70/60 per barrel in FY22/23, whereas our average exchange rate assumption is PKR 172/180 for FY22/23 respectively.
  - POL's oil & gas production is likely to decline by an average 1% per annum between FY22-24, owing to 3% per annum decline in gas production, partly offset by 2% per annum increase in oil production, mainly due to additional flows from Jhandial field.
- **Strong balance sheet**
  - POL is sitting on cash balances of PKR 53.0bn which would help sustain its payout going forward.
- **Key risks include**
  - 1) Lower than expected production from Jhandial discovery, 2) delay in connection of discoveries, and 3) sharp decline in oil prices.

Key Data	
PSX Ticker	POL
Bloomberg Ticker	POL:PA
Reuters Ticker	POL:KA
Target Price (PKR)	530
Current Price (PKR)	385
Upside/(Downside) (%)	+ 38%
Dividend Yield (%)	13.0%
Total Return (%)	+ 51%
12-month High (PKR)	435
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	109,252
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	59.4	57.7	47.1	62.3	64.0	56.7
EPS Growth	23%	-3%	-18%	32%	3%	-11%
DPS	50.0	50.0	50.0	50.0	50.0	45.0
PER	6.5	6.8	8.3	6.2	6.0	6.8
Div. Yield	13.0%	13.0%	13.0%	13.0%	13.0%	11.7%
EV/EBITDA	2.6	3.0	2.5	2.1	1.9	1.9
P/B	2.9	2.7	2.8	2.6	2.3	2.2
ROE	47.6%	41.1%	32.9%	43.0%	40.5%	33.2%

Source: Company Accounts & Akseer Research

MARI: BUY Price Target: PKR 2,428/share

- **Valuation**
  - Our Dec-22 PT of 2,428/share for MARI, provides an upside of 45% and a dividend yield of 8.6%.
  - The stock is trading at FY22E PE and PBV of 5.8x and 1.7x, respectively which is at a discount of 42% and 35% to its 9-years average PE and PBV of 10.0x and 2.6x, respectively.
- **Increment flows to result in earnings CAGR of 12%**
  - Higher oil price and PKR devaluation is expected to lift MARI's earnings by 22% YoY to PKR 287/share in FY22E.
  - Despite a lower oil price assumption, earnings will likely grow at 12% CAGR during FY22-24, owing to incremental flows of 150 mmcfd of processed gas from GTH project at Mari field. GTH project includes installation of greenfield gas processing plant for low BTU gas. This facility will process gas from Goru-B, Tipu and HRL reservoirs. This will more than offset the impact of decline in production from old formations. We expect MARI's volumes to grow at a CAGR of 6% between FY22-24.
- **Other key triggers**
  - MARI is immune to circular debt as most of its gas sale is to the fertilizer sector.
  - With the removal of dividend cap and strong cash position, MARI's dividend payout can surprise on the upside.
- **Key risks include:**
  - 1) Concentration risk due to high dependency on Mari gas field, 2) decline in production from Mari HRL reservoir.

Key Data	
PSX Ticker	MARI
Bloomberg Ticker	MARI:PA
Reuters Ticker	MARI:KA
Target Price (PKR)	2,428
Current Price (PKR)	1,674
Upside/(Downside) (%)	45%
Dividend Yield (%)	8.6%
Total Return (%)	54%
12-month High (PKR)	1,807
12-month Low (PKR)	1,345
Outstanding Shares (mn)	133
Market Cap (PKR mn)	223,357
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	182.4	227.3	235.7	287.0	305.5	329.8
EPS Growth	58%	25%	4%	22%	6%	8%
DPS	5.5	6.6	141.0	144.0	153.0	165.0
PER	9.2	7.4	7.1	5.8	5.5	5.1
Div. Yield	0.3%	0.4%	8.4%	8.6%	9.1%	9.9%
EV/EBITDA	4.6	4.0	3.6	2.5	2.2	1.9
P/B	3.2	2.4	1.9	1.7	1.4	1.3
ROE	46.9%	38.7%	30.2%	30.6%	28.0%	26.4%

Source: Company Accounts & Akseer Research

PPL: BUY Price Target: PKR 155/ share

- **Valuation**
  - PPL is trading at FY22E PE and PBV of 3.2x and 0.5x, respectively. This reflects a discount of 48%/38% to its historical average PE and PBV of 6.1x/0.8x.
  - Our Dec-22 PT of PKR 155, offers an upside of 94%, along with a dividend yield of 6.3%. The stock is currently trading at an implied oil price of USD 27/barrel which is at a discount of 51% to our long-term oil price assumption of USD 55/barrel.
- **Price led earnings growth amid weak volumes**
  - PPL is expected to post earnings growth of 29% YoY to PKR 24.8/share in FY22, mainly on account of higher crude oil price and an expected 6.8% PKR devaluation. We have assumed oil prices to average USD 70/bbl in FY22, up 30% YoY.
  - Despite commencement of production from Hatim, Zafir in Gambat South block and Mamikhel South in Tal block, PPL's oil and gas volumes will likely decline by 12% and 6% respectively during FY22.
- **Possible resolution of circular debt could be the key trigger**
  - According to the recent news flow, Govt. is willing to partially resolve circular debt of state-owned E&Ps to the tune of PKR 300-400bn by declaring large dividends and netting-off government's share of dividends with circular debt. PPL's overdue receivables soared to PKR 266bn as of Sep-30, 2021 and we believe this scheme of arrangement could be a key trigger for the stock . (*refer to our report "State owned E&Ps - Government is finally showing some interest in resolving E&Ps circular debt" published on December 6, 2021*).
- **Key risks include**
  - 1) Further increase in overdue receivables due to circular debt, 2) a sharp decline in oil price.

Key Data	
PSX Ticker	PPL
Bloomberg Ticker	PPL:PA
Reuters Ticker	PPL:KA
Target Price (PKR)	155
Current Price (PKR)	80
Upside/(Downside) (%)	94%
Dividend Yield (%)	6.3%
Total Return (%)	100%
12-month High (PKR)	104
12-month Low (PKR)	71
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	216,645
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	24.8	25.8	24.7
EPS Growth	29.8%	-16.9%	5.8%	29.2%	3.7%	-4.2%
DPS	1.7	1.0	3.5	5.0	7.5	7.5
PER	3.6	4.4	4.1	3.2	3.1	3.2
Div. Yield	2.1%	1.3%	4.4%	6.3%	9.4%	9.4%
EV/EBITDA	1.2	1.7	1.4	0.8	0.3	0.1
P/B	0.7	0.6	0.6	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	16.2%	15.0%	13.0%

Source: Company Accounts & Akseer Research

OGDC: BUY Price Target: PKR 186/ share

- **Valuation**
  - OGDC is trading at FY22E PE and PBV of 3.0x and 0.4x, respectively. This reflects a discount of 33%/56% to its historical average PE and PBV of 4.5x/0.9x.
  - Our Dec-22 PT of PKR 186, offers an upside of 110%, along with a dividend yield of 12%.
- **Higher oil price + currency devaluation to result in 41% earnings growth in FY22**
  - OGDC is expected to post earnings growth of 41% YoY to PKR 30/share in FY22, mainly on account of higher crude oil price and an expected 6.8% PKR devaluation. We have assumed oil prices to average USD 70/bbl in FY22, up 30% YoY.
  - We expect OGDC's oil & gas production to decline at a CAGR of 7% in next 5 years, owing to natural decline in mature fields and absence of any sizeable discovery. Oil & gas production is likely to remain flattish in FY22.
- **Weighted average cost of gas; a breather for OGDC**
  - According to the recent news flow, Govt. is willing to partially resolve circular debt of state-owned E&Ps to the tune of PKR 300-400bn by means of declaring large dividends and netting-off government's share of dividends with circular debt. OGDC's overdue receivables soared to PKR 322bn as of Sep-30, 2021 and we believe this scheme of arrangement could be a key trigger for the stock . (*refer our report "State owned E&Ps - Government is finally showing some interest in resolving E&Ps circular debt" published on December 6, 2021*).
- **Key risks include**
  - 1) Further increase in overdue receivables due to circular debt, 2) a sharp decline in oil price.

Key Data	
PSX Ticker	OGDC
Bloomberg Ticker	OGDC:PA
Reuters Ticker	OGDC:KA
Target Price (PKR)	186
Current Price (PKR)	89
Upside/(Downside) (%)	110%
Dividend Yield (%)	12%
Total Return (%)	122%
12-month High (PKR)	116
12-month Low (PKR)	79
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	381,492
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	27.5	23.5	21.3	30.0	26.4	23.7
EPS Growth	50.2%	-14.7%	-9.3%	41.1%	-12.0%	-10.2%
DPS	11.0	6.8	6.9	11.0	10.0	9.0
PER	3.2	3.8	4.2	3.0	3.4	3.7
Div. Yield	12.4%	7.6%	7.8%	12.4%	11.3%	10.1%
EV/EBITDA	1.60	2.22	2.19	1.60	1.65	1.63
P/B	0.6	0.5	0.5	0.4	0.4	0.4
ROE	19.8%	14.9%	12.4%	15.9%	12.8%	10.7%

Source: Company Accounts & Akseer Research

Cements – Overweight

- **Valuation**
  - Akseer's cement universe is currently trading at an EV/ton of USD~ 50/ton, which is at a significant discount (39%) to 10-year mean of USD 82/ton.
  - Positive developments ahead arising from acceleration in low-cost house financing, and likely decline in coal prices will keep earnings upbeat for CY22.
- **Recent underperformance owing to rising coal prices provides ideal entry point**
  - Significant surge in coal prices in during the last few months led to a steep correction in the cement stocks, with market cap shrinking by 19% in 2HCY21 after rising 14% in 1HCY21.
  - Proactive coal procurement at relatively lower prices coupled with partial pass on of the cost impact through price hikes resulted in better-than-expected earnings during 1QFY22. Coal prices receding to around USD 150/ ton will help sustain margins on QoQ basis.
- **Risk of price war in next twelve months is low…**
  - A new expansion cycle has commenced which will take Pakistan's total cement manufacturing capacity to almost 100mn tons by FY25 (current: 69mn tons).
  - However, with expansions likely to commence in a phased manner, we expect cement sector utilization to average 80% during FY23-25, which renders any major price war unlikely.
- **… and will pave way for achieving higher EBITDA margins**
  - Industry average margins have witnessed a V shaped recovery post 4QFY20 induced by strong pickup in the construction activities, declining interest rates and the regime's facilitation of low-cost housing schemes. In absence of any significant capacity expansion in CY22, we expect cement manufacturers to witness a substantial increase in margins as coal prices ease .
- **Our top picks: FCCL, LUCK and MLCF.**
- **Key risks include:**
  - 1) Surge in coal prices, 2) higher than expected increase in interest rates, 3) Lower than anticipated increase in cement demand.

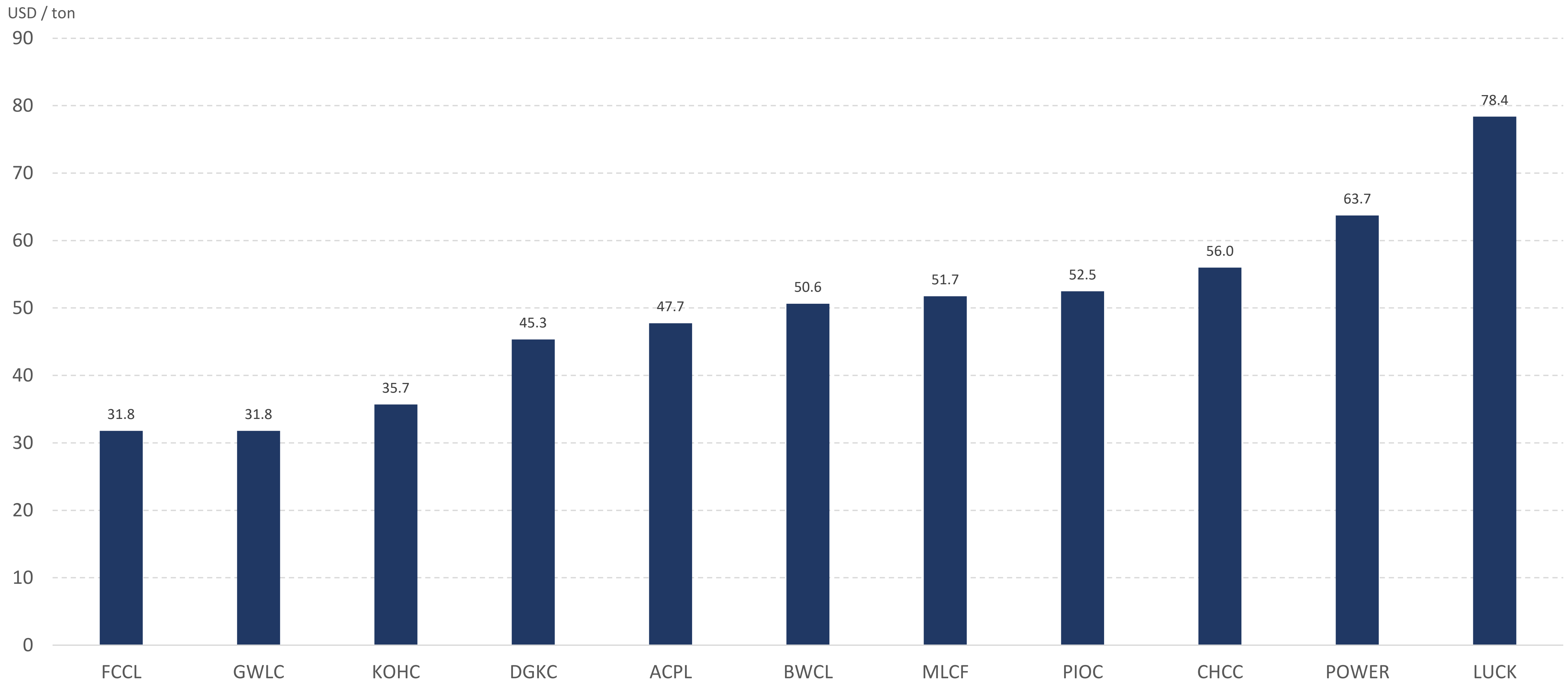
Cement sector Valuation Matrix

	ACPL	LUCK	CHCC	DGKC	FCCL	KOHC	MLCF	PIOC
PT	175	1100	220	135	28	270	55	152
Upside	26%	63%	50%	69%	57%	53%	60%	76%

	2021A	2022E	2023E	2021A	2022E	2023E
	EPS			**PE**		
ACPL	17.3	18.1	33.3	8.0	7.7	4.2
LUCK	87.3	121.4	198.1	7.7	5.6	3.4
CHCC	16.5	17.3	32.4	8.9	8.5	4.5
DGKC	8.3	7.8	22.5	9.7	10.3	3.6
FCCL	2.5	2.9	4.2	7.2	6.2	4.4
KOHC	17.4	20.6	34.5	10.1	8.5	5.1
MLCF	3.5	4.5	7.6	9.8	7.7	4.5
PIOC	8.7	8.9	20.8	9.9	9.7	4.2
	DPS			**Div Yield**		
ACPL	4.0	4.0	11.3	2.9%	2.9%	8.1%
LUCK	0.0	15.0	25.0	0.0%	2.2%	3.7%
CHCC	2.3	4.5	9.5	1.5%	3.1%	6.5%
DGKC	1.0	0.0	4.5	1.3%	0.0%	5.6%
FCCL	0.0	0.0	0.0	0.0%	0.0%	0.0%
KOHC	0.0	4.3	10.3	0.0%	2.4%	5.8%
MLCF	0.0	0.0	5.0	0.0%	0.0%	14.6%
PIOC	0.0	0.0	6.3	0.0%	0.0%	7.3%
	ROE			**PBV**		
ACPL	12.5%	11.7%	18.5%	1.0	0.8	0.7
LUCK	19.6%	20.7%	26.4%	1.4	1.0	0.8
CHCC	27.1%	22.2%	32.3%	2.1	1.7	1.3
DGKC	5.2%	4.7%	12.5%	0.5	0.5	0.4
FCCL	16.1%	15.9%	19.1%	1.1	0.9	0.8
KOHC	17.1%	17.1%	23.7%	1.6	1.3	1.1
MLCF	11.6%	13.2%	19.2%	1.1	1.0	0.8
PIOC	17.2%	14.9%	29.2%	1.6	1.4	1.1

Source: Company Accounts & Akseer Research

Cements – EV/ton Comparison



Source: Company Accounts & Akseer Research

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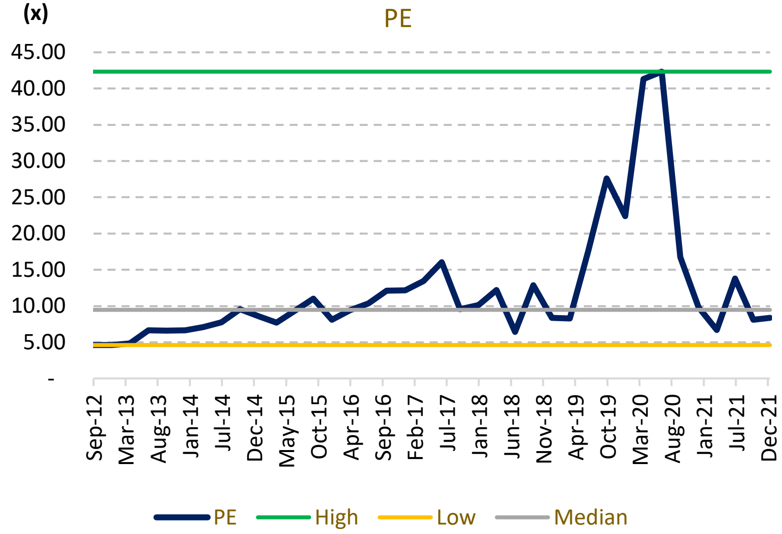
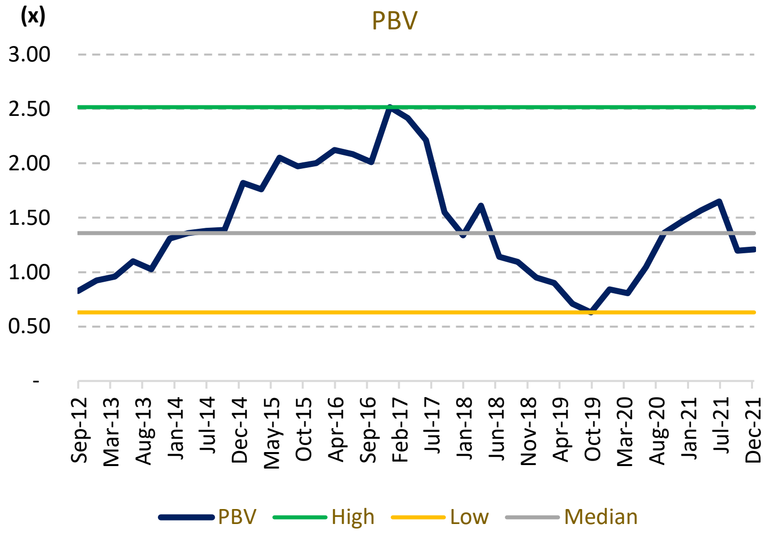
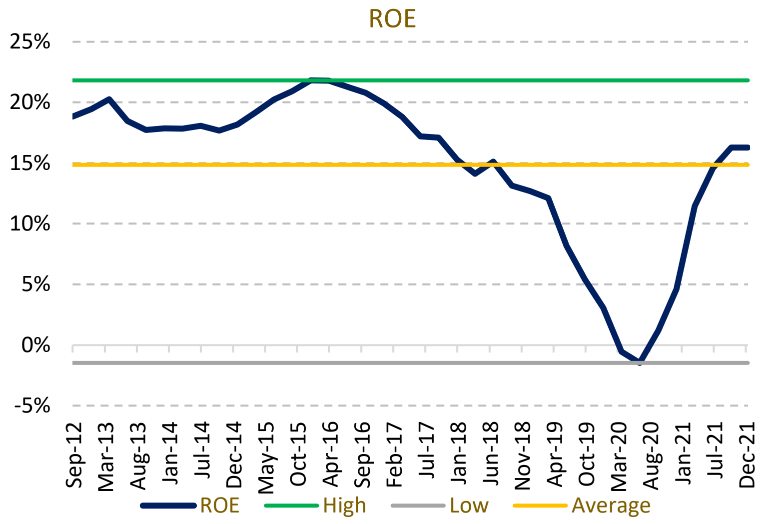
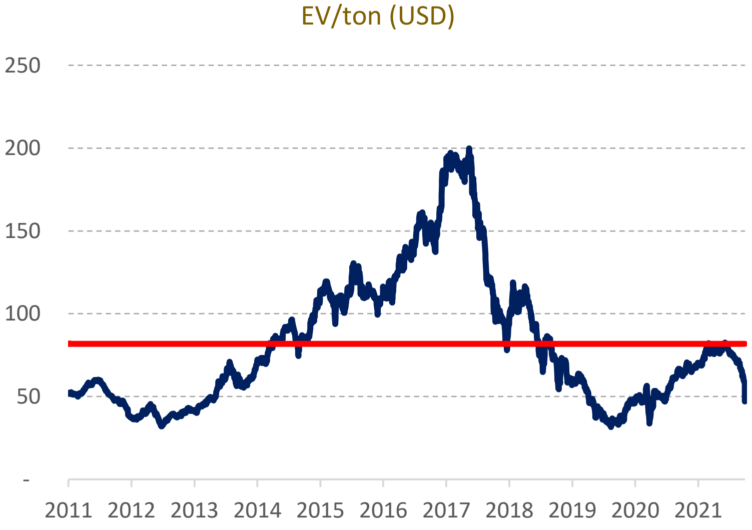
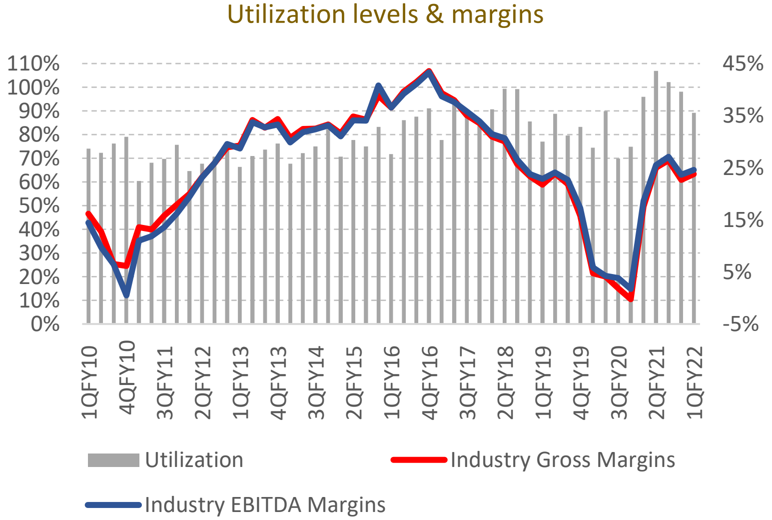
Cements – Key Charts

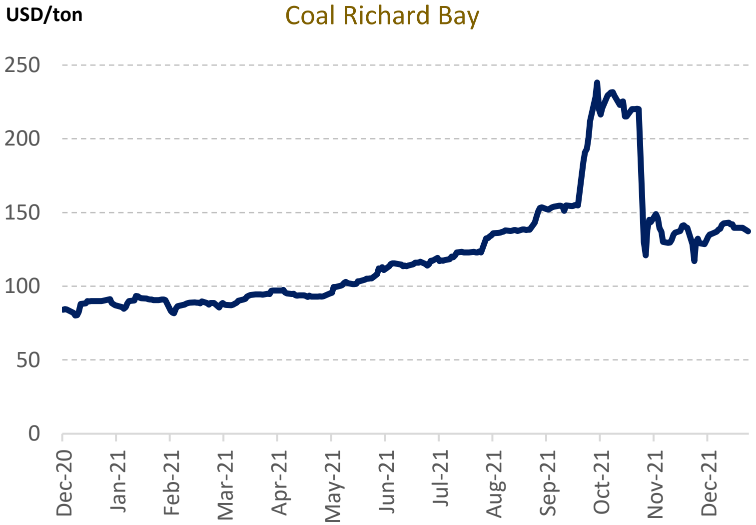












Source: Company Accounts & Akseer Research

MLCF: BUY Price Target: PKR 55/share

- **Valuation**
  - Our Dec-22 PT of PKR 55/share for MLCF provides a potential upside of 60%. The stock is trading at FY22E PE and PBV of 7.7x and 1.0x.
- **Major beneficiary of rising margins in FY23**
  - MLCF will likely be the first company to commence production from its expansion in the North region in 2QFY23. This brownfield expansion of 2.1mn tons will take cumulative capacity of the company to 7.5mn tons.
  - With early commencement of production from expansion, MLCF's capacity-based market share would rise to 13.8% from existing 10.4% and will likely benefit the company with higher volumes in a high margin environment.
- **Alternate energy projects will help contain costs**
  - MLCF will likely commence a 5MW solar and a 9MW WHR plant in 2QFY22. An additional 15MW WHR is also expected to come online in 2QFY23 with its expansion.
- **Low leverage ratios**
  - MLCF is well equipped to meet its debt obligations and its Debt to Equity is likely to reduce from 0.68x in FY22 to 0.38x in FY24. MLCF's debt to Equity in FY22/24 will be much lower than Akseer cement universe's average of 0.80x /0.67x.

Key Data	
PSX Ticker	MLCF
Bloomberg Ticker	MLCF:PA
Reuters Ticker	MPLF.PSX
Target Price (PKR)	55
Current Price (PKR)	34
Upside/(Downside) (%)	60%
Dividend Yield	0%
Total Return (%)	60%
12-month High (PKR)	51
12-month Low (PKR)	30
Outstanding Shares (mn)	1,098
Market Cap (PKR mn)	37,487
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.7	(3.2)	3.5	4.5	7.6	7.15
DPS	0.5	-	-	-	5.0	4.0
PER	12.7	NM	9.8	7.7	4.5	4.8
P/B	0.7	1.0	1.1	1.0	0.8	0.8
EV/EBITDA	4.3	5.9	19.2	5.2	4.0	4.3
ROE	9%	NM	11%	12%	17%	16%
ROA	4%	NM	6%	6%	9%	9%
D/E	0.8	0.6	0.4	0.7	0.5	0.4

Source: Company Accounts & Akseer Research

Alfa Adhi Securities
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

FCCL: BUY   Price Target: PKR 28/share

- **Valuation**
  - Our Dec-22 PT of PKR 28/share for Fauji Cement Company Limited (FCCL) provides a potential upside of 58%. The stock is trading at FY22E PE and P/B of 6.2x and 0.9x.
  - FCCL is trading at an EV/ton USD 32/ton, lowest in Akseer's cement universe.
- **Earnings to grow at 3-year CAGR of 13%**
  - After the greenfield expansion of 2.1mn tons, which is expected to commence in 1HFY24, FCCL's capacity-based market share will rise to 8.1% from current 6.8%. Improved dispatches along with higher retention prices will help FCCL grow its profitability at 3-year CAGR of 13%.
  - FCCL is currently generating 70% of its power from internal sources which will increase further to 83% post addition of WHR plant with the greenfield project. As a result, we expect gross margins of the company to settle at 30% in FY25 compared to FY22E margins of 22%.
- **On course to become the second largest cement player in the north region**
  - Following amalgamation with Askari Cement, Fauji Cement will become the second largest cement player in the North region with a nameplate capacity of 10.6mn tons as Askari cement is also going through its brownfield expansion of 2.1mn tons which is expected to come online in FY23. Capacity based market share of the company will further increase to 13.6%. We have not incorporated this into our model.

Key Data	
PSX Ticker	**FCCL**
Bloomberg Ticker	**FCCL:PA**
Reuters Ticker	**FAUC:KA**
Target Price (PKR)	28
Current Price (PKR)	18
Upside/(Downside) (%)	58%
Dividend Yield	6.9%
Total Return (%)	64%
12-month High (PKR)	28
12-month Low (PKR)	16
Outstanding Shares (mn)	1,379
Market Cap (PKR mn)	24,892
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.0	0.0	2.5	2.9	4.2	4.2
DPS	1.5	-	-	-	-	-
PER	8.8	NM	7.2	6.2	4.3	4.3
P/B	1.2	1.3	1.1	0.9	0.8	0.8
EV/EBITDA	4.2	15.8	3.7	4.0	3.7	2.9
ROE	13.5%	NM	14.9%	14.7%	18.3%	17.5%
ROA	9.8%	NM	10.2%	8.8%	9.5%	9.8%
D/E	0.1	0.1	0.1	0.4	0.7	0.5

Source: Company Accounts & Akseer Research

Alfa Adhi Securities
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

LUCK: BUY Price Target: PKR 1,100/share

- **Valuation**
  - Our Dec-22 PT of PKR 1,100/share for LUCK provides a potential upside of 61% along with a dividend yield of 2%. The stock is trading at FY22E PE and PBV of 6.2x and 1.0x.
- **Market leader with strong EBITDA generation**
  - LUCK is the largest cement manufacturer in Pakistan with a market share of ~17%. Capacity addition in North region will help LUCK in further increasing its market share in FY23.
  - We expect EBITDA margins of the company to grow to 31% in FY23F compared to 21% in FY22E. We expect EPS from cement segment to rise from PKR 43.5 in FY21 to PKR 38.8 in FY22 and PKR 76.1 in FY23.
- **Diversification into Power, Automobile and Chemicals segments helps cushion from cement sector's cyclicality**
  - Lucky cement through its subsidiary Lucky Electric Power Company Ltd (LEPCL) invested in a thar coal-based power plant with a capacity of 600MW which is expected to commence operations in 3QFY22. Once online, the project is expected to contribute PKR 53.6/share in FY23's consolidated earnings and add PKR 298/share to the LUCK's valuation.
  - Lucky Motors has become the 3rd largest automaker in Pakistan in a short span of 2 years. Auto segment contributes PKR 80/share to LUCK's valuation.
  - ICI's earnings (a LUCK subsidiary) are more stable than that of cement. The recent merger of Nutrico Morinaga and NutriCo Pakistan & upcoming expansions in PSF and Soda Ash segment will keep ICI's earnings growth intact.

Key Data	
PSX Ticker	**LUCK**
Bloomberg Ticker	**LUCK:PA**
Reuters Ticker	**LUKC.PSX**
Target Price (PKR)	1,100
Current Price (PKR)	675
Upside/(Downside) (%)	61%
Dividend Yield	2.2%
Total Return (%)	63%
12-month High (PKR)	945
12-month Low (PKR)	608
Outstanding Shares (mn)	323
Market Cap (PKR mn)	218,252
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	35.0	19.0	70.7	108.1	184.4	195.1
DPS	6.5	0.0	0.0	15.0	25.0	25.0
PER	19.3	35.6	9.5	6.2	3.7	3.5
P/B	1.7	1.7	1.4	1.0	0.8	0.7
EV/EBITDA	11.7	19.7	7.7	5.6	3.2	2.5
ROE	9.9%	5.6%	18.0%	17.7%	24.3%	22.3%
ROA	5.4%	2.5%	7.8%	8.1%	12.6%	12.5%
D/E	0.2	0.2	0.2	0.2	0.3	0.3

Source: Company Accounts & Akseer Research

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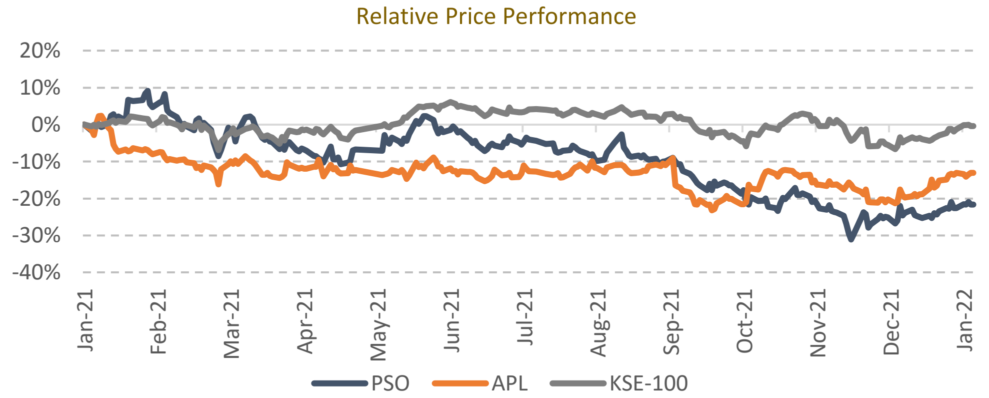
REN # REP-004
AKSEER RESEARCH
REN # REP-400R

OMCs - Overweight

- **Recent underperformance has led to attractive valuation**
  - OMC sector is trading at PBV multiple of 1.0x (free float), offering a discount of 26% to its 9-year median PBV of 1.35x.
  - We maintain 'market weight' on the sector due to its volatile earnings momentum owing to inventories gains/ losses.
- **Strong volumes + CPI linked margin growth**
  - Earnings are likely to grow at a CAGR of 3% during next 5 years owing to high base effect as OMCs booked hefty inventory gains during FY21. Despite assuming lower oil prices (USD 55/bbl in FY24 and onwards), OMCs earnings are expected to post growth, due to higher volumetric sales and retail margins.
  - Industry volumes are expected to increase at a CAGR of 8% during the next 5 years owing to increase in transportation and agricultural activity and automobile sales.
  - OMCs' margins are linked with national CPI and are increased annually. We expect OMCs margins to grow at a CAGR of 8% in next 5 years.
- **Our top pick in the sector is PSO**
- **Key risks include**
  - 1) Sharp decline in oil prices resulting in inventory losses, 2) decline in OMC volumes due to economic slowdown, 3) delays in margin revision, 4) influx of smuggled POL products and, 5) exchange losses.

OMCs sector Valuation Matrix

	PSO	APL	HTL			
PT	350	430	65			
Upside	88%	31%	33%			
	2021A	2022E	2023E	2021A	2022E	2023E
		EPS			PE	
PSO	62.1	77.9	45.7	3.0	2.4	4.1
APL	49.4	66.1	58.7	6.6	4.9	5.6
HTL	4.7	4.3	5.9	10.4	11.4	8.2
		DPS			Div. Yield	
PSO	15.0	22.0	13.0	8.0%	11.8%	7.0%
APL	27.0	33.0	32.0	8.3%	10.1%	9.8%
HTL	3.3	3.0	3.0	6.8%	6.2%	6.2%
		ROE			PBV	
PSO	23.0%	23.9%	12.3%	0.6	0.5	0.5
APL	23.9%	27.0%	21.4%	1.4	1.3	1.1
HTL	15.7%	13.5%	17.6%	1.6	1.5	1.4



Source: Company Accounts & Akseer Research

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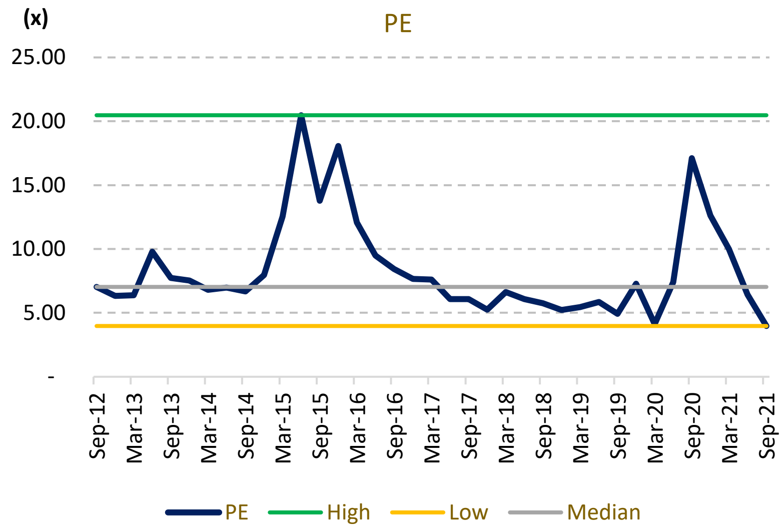
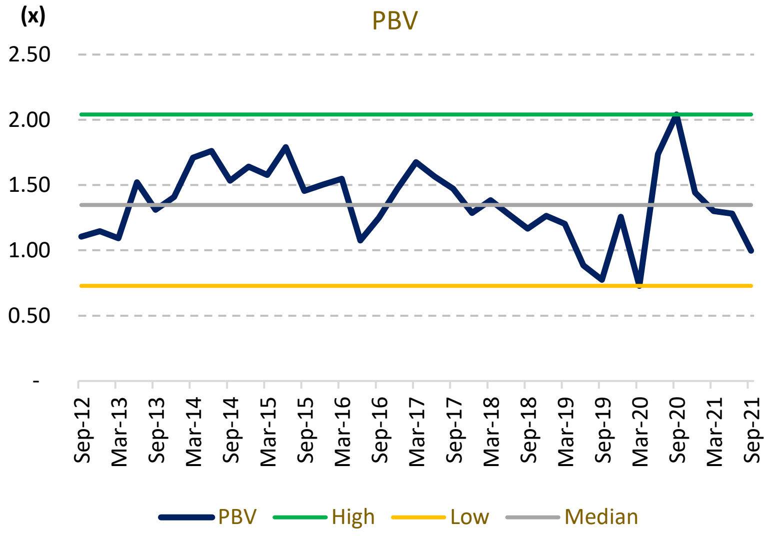
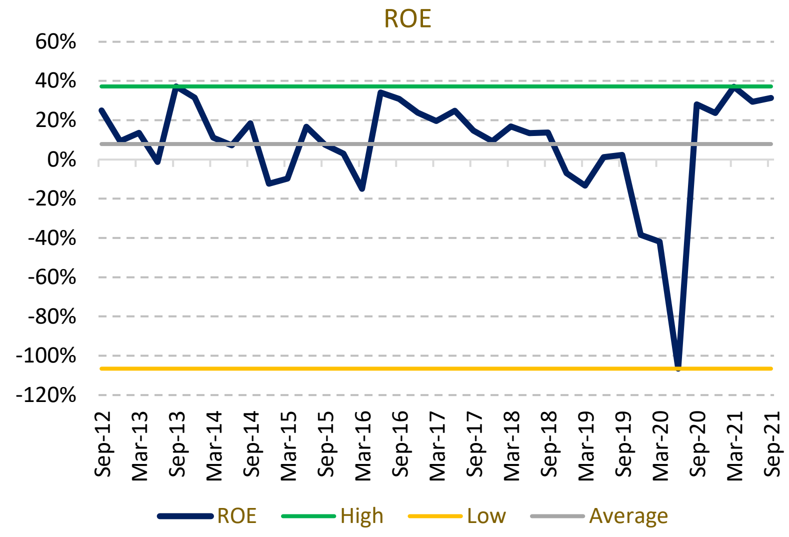
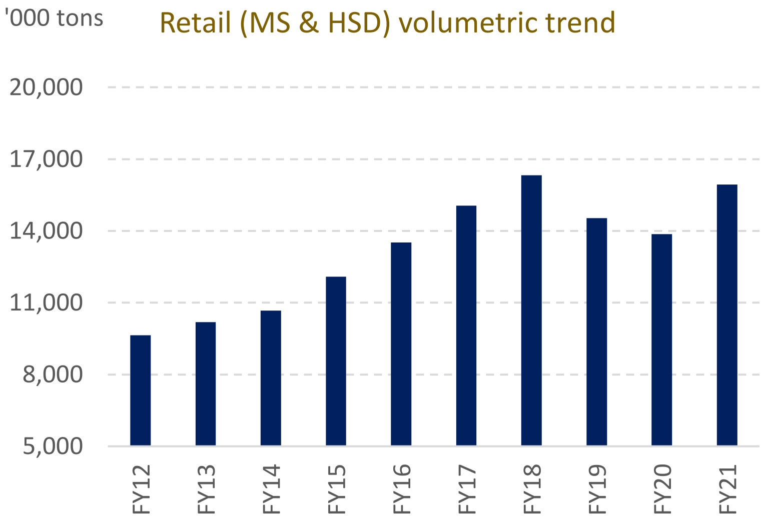
REN # REP-400R

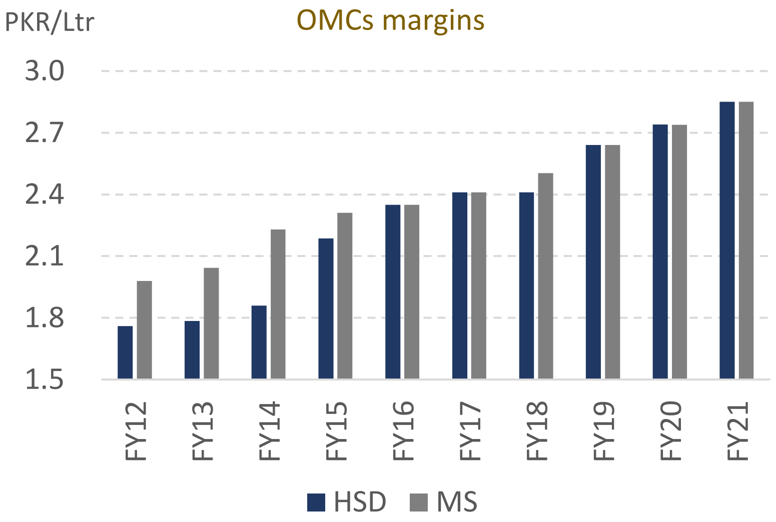
OMCs – Key Charts











Source: Company Accounts & Akseer Research

PSO: BUY Price Target: PKR 350/share

- **Valuation**
  - Our Dec-22 PT for PSO at PKR 350/share, offers an upside of 88%, with a dividend yield of 12%.
  - PSO is trading at FY22E PBV of 0.5x, which is at a 44% discount to its mean PBV of 0.9x during the last 8 years.
- **Volumetric growth and higher retail margin to support earnings growth beyond FY23**
  - PSO's earnings are expected to grow by 25% YoY in FY22 mainly owing to volumetric growth of 17% in HSD and MS. In FY23, lower oil prices (assumed at USD 60/bbl) are likely to result in earnings decline.
  - Post FY23, PSO's earnings expected to rebound with a CAGR of 13% between FY24-26, owing to an average volumetric growth of 2.6% per annum in retail fuels (HSD/MS) and increase in average OMC margins by 8% per annum.
- **Decline in borrowings bodes well for PSO**
  - Significant decline in short term borrowings over the last 2 years will help reduce finance cost.
- **Key risks include:**
  - 1) Rising overdue receivables due to circular debt. PSO's overdue receivables surged PKR 25bn during the 1QFY22 to PKR 215bn. The management has submitted various proposals to the government to contain further increase in receivables including debt to equity swap in Guddu and Nandipur power projects.
  - 2) Sharp decline in oil prices pose risk of inventory losses. 3) influx of smuggled POL products affecting company's retail (HSD/MS) market share 4) exchange losses due to PKR devaluation.

Key Data	
PSX Ticker	PSO
Bloomberg Ticker	PSO:PA
Reuters Ticker	PSO:KA
Target Price (PKR)	350
Current Price (PKR)	186
Upside/(Downside) (%)	88%
Dividend Yield (%)	12%
Total Return (%)	100%
12-month High (PKR)	262
12-month Low (PKR)	160
Outstanding Shares (mn)	469
Market Cap (PKR mn)	87,480
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	22.6	-13.8	62.1	77.9	45.7	53.0
EPS Growth	-32%	NM	NM	25%	-41%	16%
DPS	10.0	0.0	15.0	22.0	13.0	18.0
PER	8.3	NM	3.0	2.4	4.1	3.5
Div. Yield	5.4%	0.0%	8.0%	11.8%	7.0%	9.7%
EV/EBITDA	6.9	NM	3.5	2.7	4.0	3.0
P/B	0.7	0.8	0.6	0.5	0.5	0.4
ROE	9.2%	-5.6%	23.0%	23.9%	12.3%	13.1%

Source: Company Accounts & Akseer Research

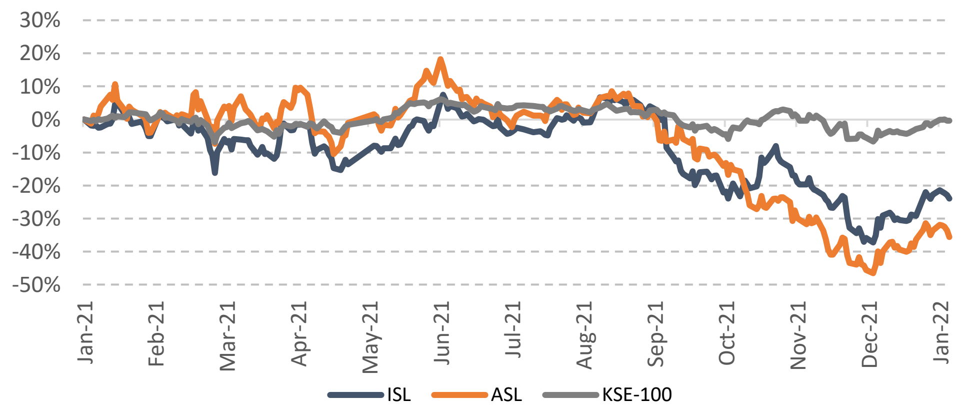
Steel – Market weight

- **Attractive valuations**
  - Steel sector is trading at a trailing PE of 4.6x and PBV of 1.3x. This reflects a 68% and 28% discount to its 9-year median PE and PBV of 14.5x and 1.8x, respectively.
  - Flat steel sector is currently trading at an EV/ton of USD 258, compared to an average of USD 550/ton during the last 9 years.
- **Declining steel prices to keep earnings in check**
  - Flat steel sector's earnings are expected to post a decline in FY22/23 mainly on account of high base effect due to inventory gains booked during FY21. We expect earnings to grow at a CAGR of 11% during FY24-26. Volumetric growth is projected at a CAGR of 8% in next 5 years.
  - Sector's gross margins stood at 20% in FY20 mainly due to inventory gains. We believe that margins will normalize going forward and fall to 13% in FY22 and 12% onwards.
- **Expansions unlikely in the near term**
  - With the sector's capacity utilization below 50%, we see little likelihood of further expansions by flat steel players.
- **Top Pick – ISL**
  - The significant decline in the short-term borrowings bodes well for ISL in rising interest rate environment.
- **Key risks include**
  - 1) Dumping from countries which are exempted from Anti Dumping Duties, and 2) contraction in HRC-CRC spread in international market.

Steel sector Valuation Matrix

	ISL	ASL				
PT	112	31				
Upside	58%	101%				
	2021A	**2022E**	**2023E**	**2021A**	**2022E**	**2023E**
		EPS			**PE**	
ISL	17.2	13.5	12.0	4.1	5.3	5.9
ASL	8.3	5.1	4.9	1.8	3.0	3.1
		DPS			**Div. Yield**	
ISL	10.0	8.0	7.0	14.1%	11.3%	9.9%
ASL	2.0	1.0	1.0	13.1%	6.6%	6.6%
		ROE			**PBV**	
ISL	51.2%	31.1%	24.7%	1.7	1.5	1.4
ASL	56.4%	22.9%	17.6%	0.8	0.6	0.5

Relative Price Performance



Source: Company Accounts & Akseer Research

Pakistan Market Strategy: Ideal Entry Opportunity:

REN # REP-004

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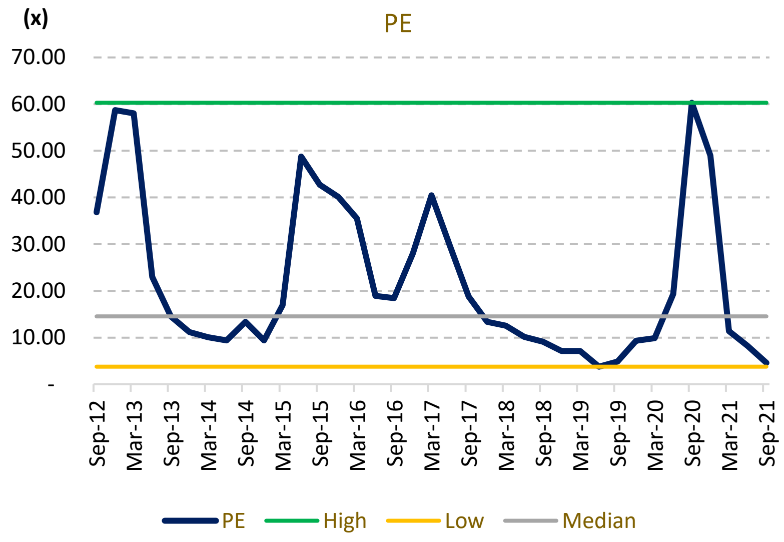
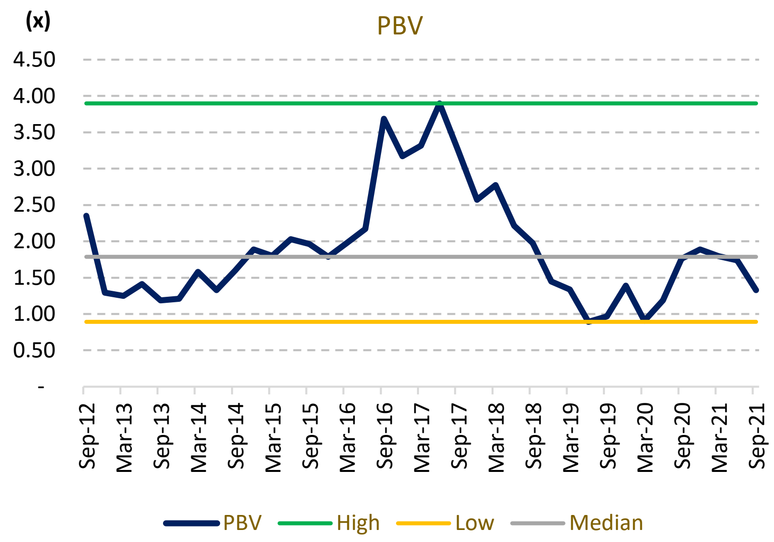
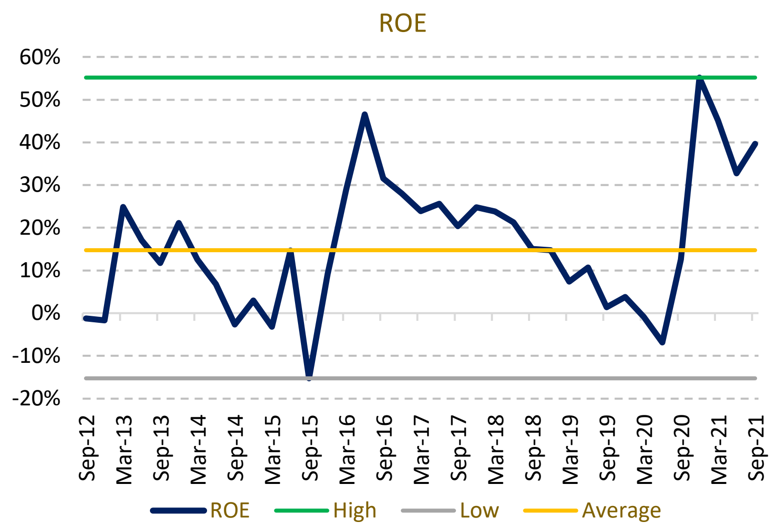
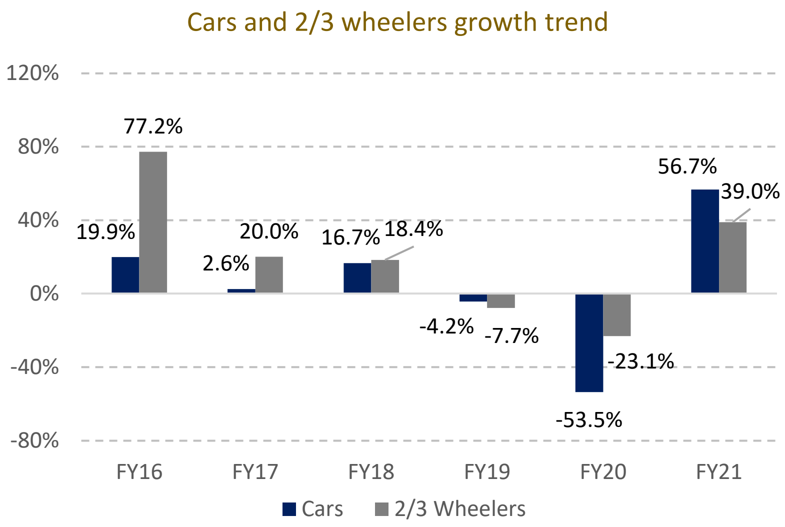
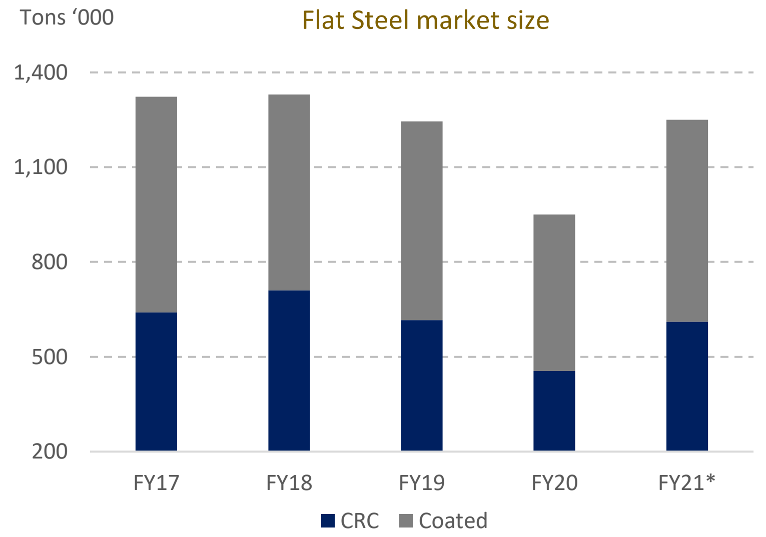
Steel Sector – Key Charts

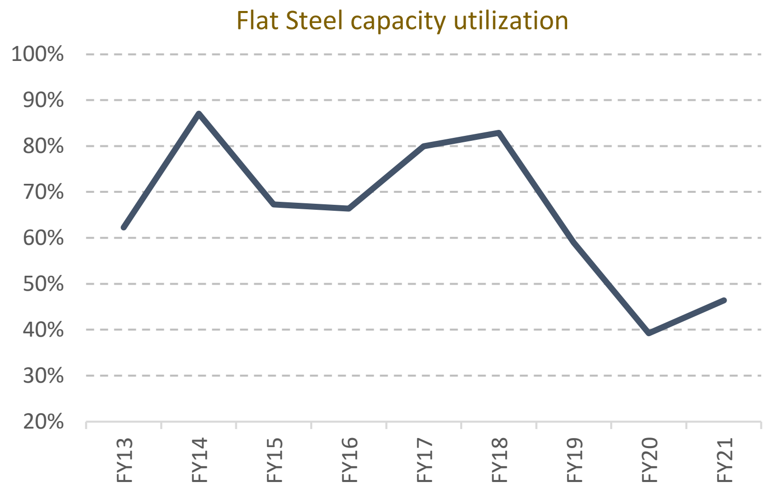








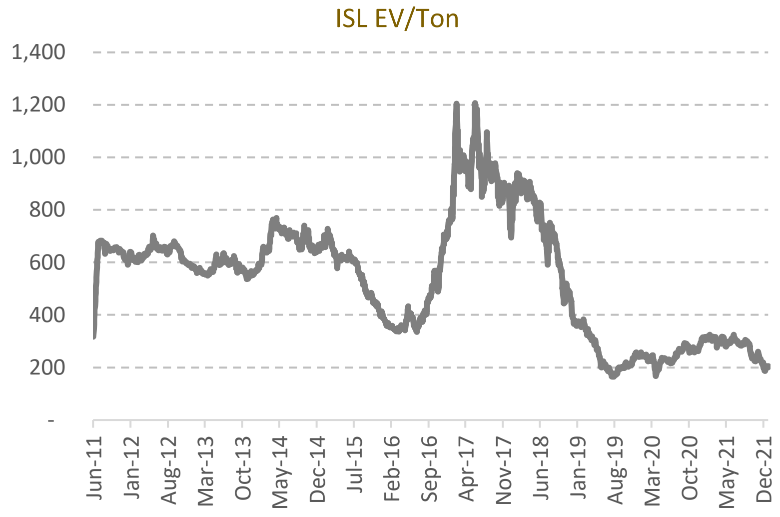


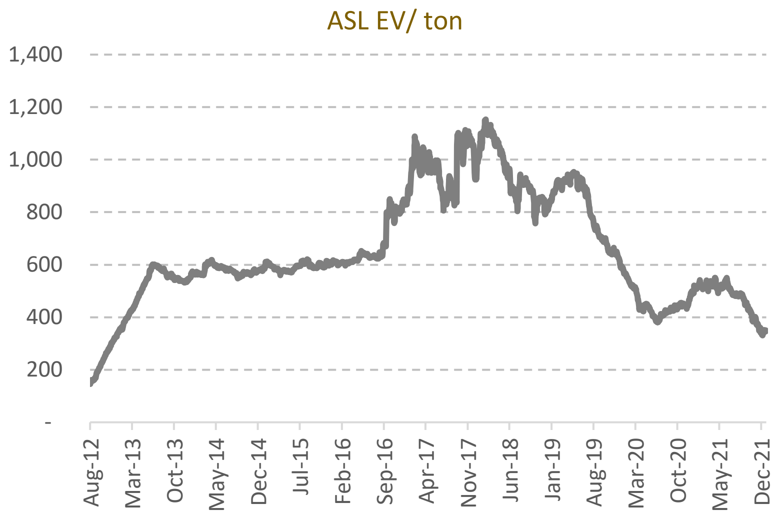


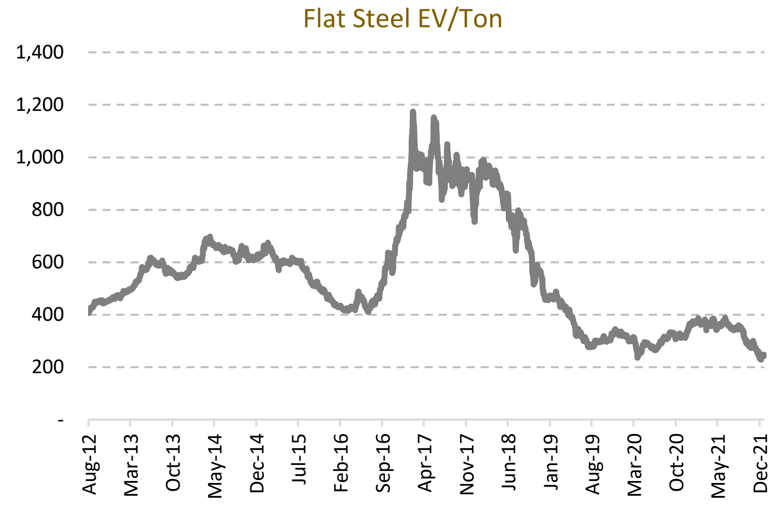
Source: Company Accounts & Akseer Research

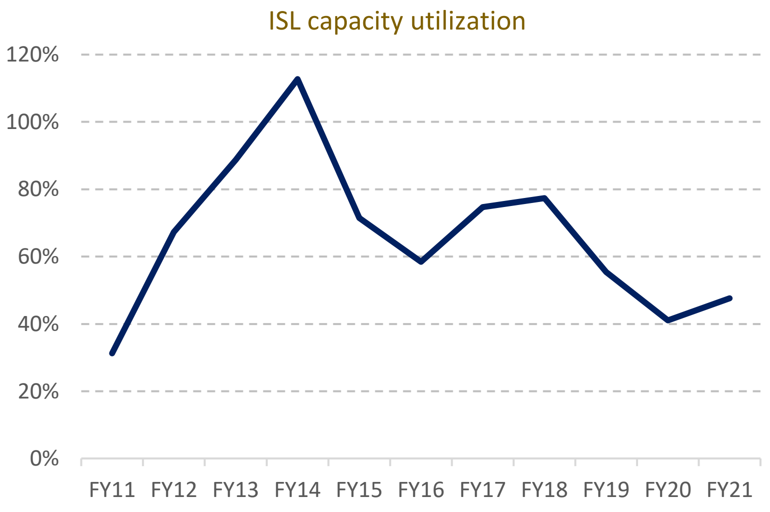
Note: PE, PBV and ROE Includes Long Steel

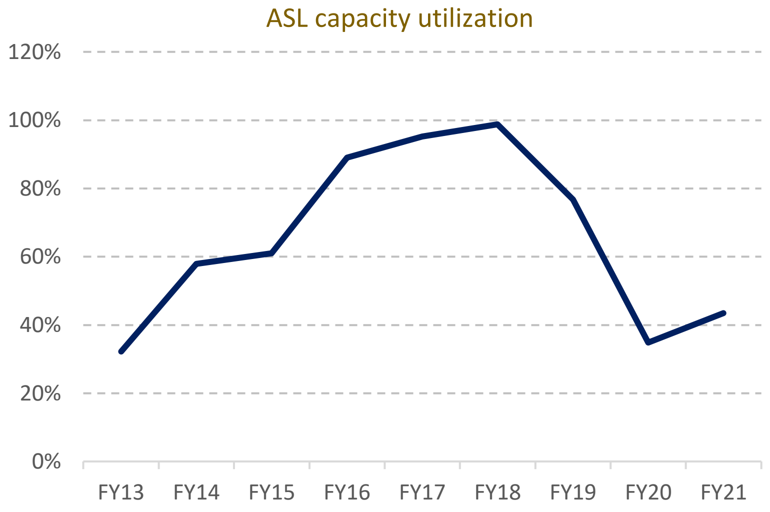
Flat Steel – Key Charts











Source: Company Accounts & Akseer Research

ISL: BUY Price Target: PKR 112/share

- **Valuation**
  - Our Dec-22 PT of PKR112/share for ISL offers an upside of 58% and a dividend yield of 11%.
  - ISL is trading at FY22E PBV of 1.5x, offering a discount of 66% to its historical PBV of 4.4x. ISL trades at an EV/ton of USD 214 compared to ASL's EV/ton of USD 355.
- **Earnings to grow at CAGR 11% beyond FY23**
  - ISL's earnings are expected to take a dip in FY22/23 owing to high base effect of inventory gains in FY21 and likely margin contraction as international steel prices normalize. However, ISL's earnings will likely grow at a CAGR of 11% during FY24-26.
  - We expect ISL's volumetric sales to increase at a CAGR 6%. Capacity utilization will gradually rise to 60% in FY25 from current 48%. Growth will mainly come from an increase in demand from 1) an expanding Auto sector, 2) consumer appliances industry and, 3) construction sector.
  - ISL realized gross margins of 19.3% in FY21 mainly due to inventory gains. We expect margins to normalize going forward to 13.6% in FY22 and 11.6% onwards. National Tariff Commission's (NTC) imposition of Anti-Dumping Duty (ADD) will provide support to margins.
- **Reduced borrowings will result in lower finance cost**
  - Significant decline in the short-term borrowings will help lower finance cost.
- **Key risks include:**
  - 1) Dumping from countries which are exempted from ADDs, 2) sharp contraction in HRC-CRC spread in international market.

Key Data	
PSX Ticker	ISL
Bloomberg Ticker	ISL:PA
Reuters Ticker	INTE:PSX
Target Price (PKR)	112
Current Price (PKR)	71
Upside/(Downside) (%)	58%
Dividend Yield (%)	11%
Total Return (%)	69%
12-month High (PKR)	103
12-month Low (PKR)	58
Outstanding Shares (mn)	435
Market Cap (PKR mn)	30,881
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.1	1.1	17.2	13.5	12.0	14.3
EPS Growth	-39%	-81%	14x	-21%	-11%	19%
DPS	3.0	-	10.0	8.0	7.0	8.3
PER	11.6	62.4	4.1	5.3	5.9	5.0
Div. Yield	4.2%	0.0%	14.1%	11.3%	9.9%	11.7%
EV/EBITDA	7.9	11.7	3.4	3.7	3.9	3.4
P/B	2.4	2.4	1.6	1.5	1.3	1.2
ROE	21.6%	3.9%	47.2%	29.3%	23.4%	25.3%

Source: Company Accounts & Akseer Research

IPPs – Market weight

- **Nonresolution of circular debt continues to hinder price discovery**
  - Rising circular debt has hurt price discovery of IPP stocks owing to a drag on cashflows and payouts.
  - Power sector is though trading at an attractive FY22E PE and PBV of 2.9x and 0.6x respectively which is at a significant discount of ~70/76% to its 11-yr high of 9.7x and 2.5x.
- **But the Govt. has started clearing outstanding dues along with hike in base tariff**
  - The government has increased the base tariff by PKR 1.39/ unit in 2QFY22, as part of its agreement with the IMF, which included a total tariff increase of PKR 3.34/unit in a phased manner.
  - Outstanding stock of circular debt is still very large. Addition of PKR 130bn during Jul-Nov 2021, increased the circular debt to PKR 2.4tn, and is expected to grow further as new projects commence.
- **Our top pick is HUBC**
  - Due to its diversified exposure across multiple fuel sources including RFO, Hydro and imported and indigenous coal.
- **Key risks**
  - 1) Further accumulation of circular debt with upcoming mega power projects.

Power sector Valuation Matrix

	NPL	HUBC				
PT	42	143				
Upside	112%	79%				
	2021A	**2022E**	**2023E**	**2021A**	**2022E**	**2023E**
		EPS			**PE**	
NPL	7.6	8.0	8.3	2.6	2.5	2.4
HUBC	26.0	23.7	24.9	3.1	3.4	3.2
		DPS			**Div Yield**	
NPL	1.5	3.3	4.8	7.5%	16.3%	23.9%
HUBC	12.0	12.9	15.8	15.0%	16.1%	19.8%
		ROE			**PBV**	
NPL	10.8%	11.2%	11.4%	0.3	0.3	0.3
HUBC	34.8%	26.2%	24.7%	0.9	0.8	0.8

Source: Company Accounts & Akseer Research

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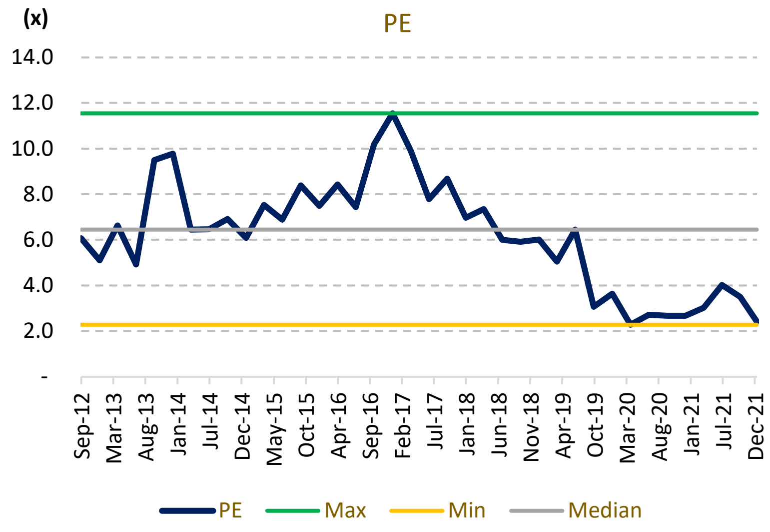
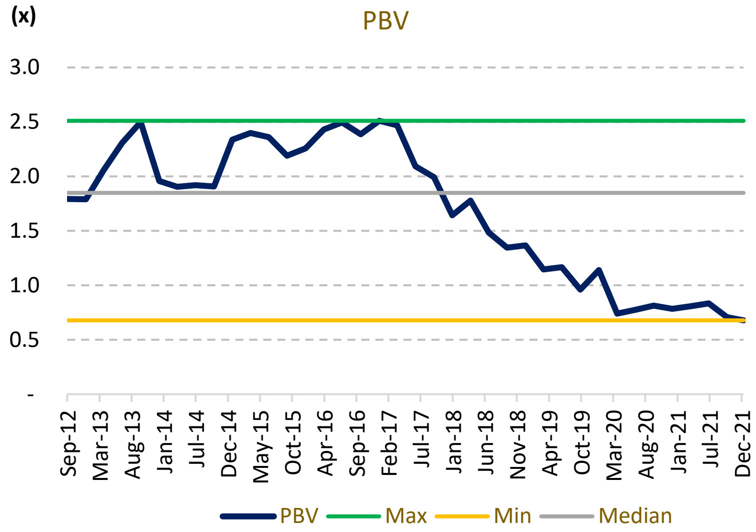
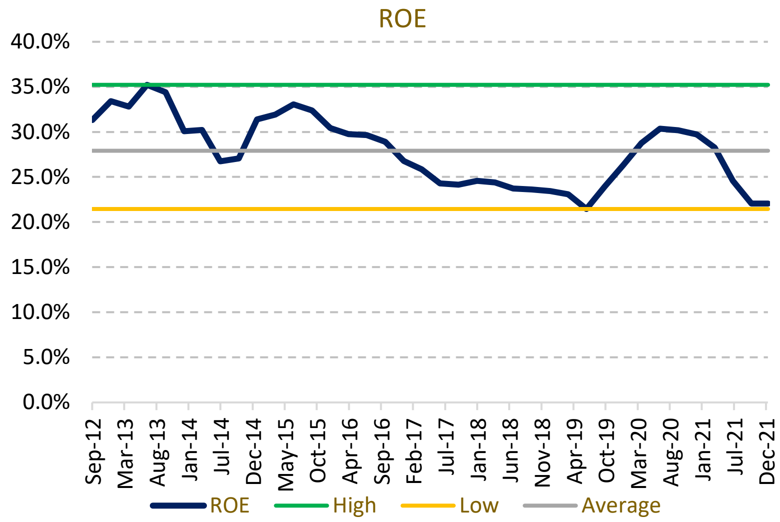
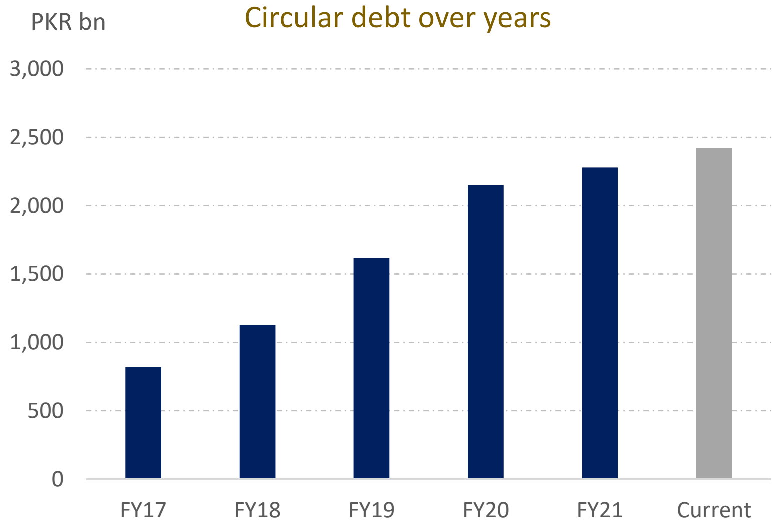
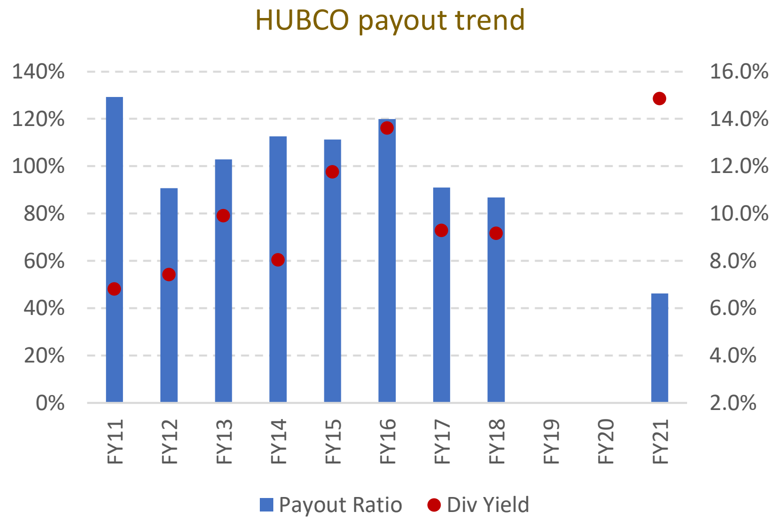
IPPs – Key Charts

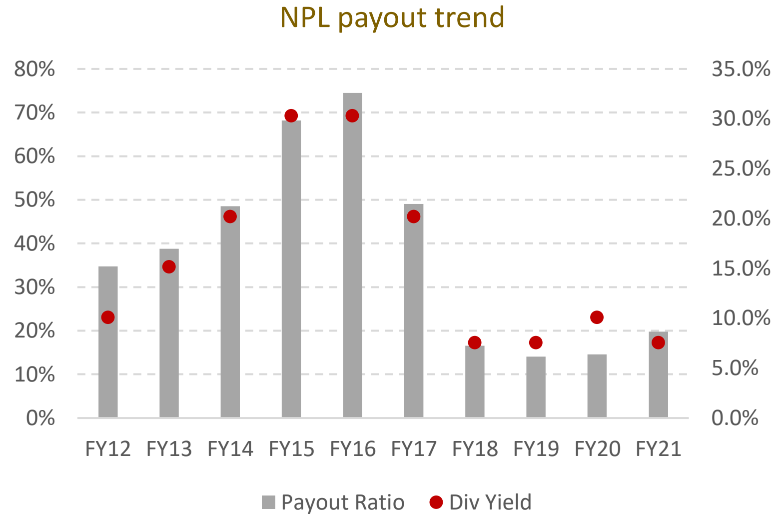












Source: Company Accounts & Akseer Research

HUBC: BUY Price Target: PKR 143/ share

- **Valuation**
  - Our Dec-22 PT of PKR 143 for HUBC, offers an upside of 79%, along with a dividend yield of 15%.
  - HUBC is trading at FY22E PBV of 0.8x, which is at a 70% discount to its mean PBV of 2.3x during the last 9 years. The stock is also trading close to its 9-year low PE of 2.8x.
- **Healthy payouts ahead in FY22/23**
  - We expect the company to pay dividends of PKR 13.0/15.8 per share in FY22/23, with cashflows being buttressed by likely commencement of dividend income from CPHGC in March-22.
- **Upcoming projects**
  - As at Sep 30, 2021, TEL and Thal Nova (TNPTL) had achieved 77% and 53% completion, respectively. These projects are expected to come online in 2nd half of 2022 and contribute PKR 18/share to our valuation.
  - HUBC is in the process of diversifying into E&P business through acquisition of ENI's assets in Pakistan. Our estimates do not incorporate the impact of this potential acquisition.
- **Key risks include**
  - 1) Delay in payment of outstanding dues. 2) delay in completion of ongoing projects

Key Data	
PSX Ticker	HUBC
Bloomberg Ticker	HUBC:PA
Reuters Ticker	HPWR.PSX
Target Price (PKR)	143
Current Price (PKR)	80
Upside/(Downside) (%)	79%
Dividend Yield	16.2%
Total Return (%)	95%
12-month High (PKR)	93
12-month Low (PKR)	70
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	103,916
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	8.8	19.3	6.0	3.7	24.9	28.0
EPS Growth	-7.5%	118.5%	34.5%	-8.8%	5.1%	12.5%
DPS	-	-	12.0	13.0	15.8	19.8
PER	9.1	4.1	3.1	3.4	3.2	2.9
Dividend Yield	0.0%	0.0%	15.0%	16.2%	19.7%	24.7%
EV/EBITDA	7.6	5.8	5.4	6.2	5.1	4.6
P/B	1.6	1.2	0.9	0.8	0.8	0.7
ROE	25.2%	36.9%	36.0%	27.0%	25.4%	26.1%

Source: Company Accounts & Akseer Research

Fertilizer – Market weight

- **Capacity constraints and gas issues to contain earnings growth**
  - Akseer fertilizer universe is trading at CY22E P/E and PBV of 5.4x and 1.7x respectively versus last 10-year average of 8.4x and 1.7x. The sector offers an attractive dividend yield of ~13.5%.
- **Volumetric sales to remain flattish in CY22**
  - Fertilizer shortages and resulting higher prices in Dec-21 may put a dent on yields and farmer incomes during CY22. However, likely higher crop prices and government's agri support / credit would likely offset its impact.
  - High utilization levels will keep a lid on the sector's volume growth. We expect urea and DAP offtake to remain flattish YoY at 6.3mn tons and 1.9mn tons, respectively, in CY22.
- **Pricing dynamics are favorable**
  - Domestic urea prices of PKR ~1860/bag are at 80% discount from international prices. Low domestic prices along with high industry pricing power would enable domestic players to pass on any cost increases.
  - International DAP prices recently touched USD 900/ton and the domestic prices, following the suit, increased to PKR 9,700/ bag. With commodity price cycle cooling off we expect the DAP prices to fall gradually in CY22.
- **Our top pick** in the sector is **FFC**
- **Key risks include:**
  - 1) With depleting gas reserves and under constant pressure from lending institutions, the government might increase gas price for the fertilizer sector. With every 10% hike in gas price (feed and fuel), urea may get costlier by PKR 60/bag. However, fertilizer companies have enough pricing power to pass on the impact. 2) Cash outflows due to potentially unfavorable outcome on GIDC related stay orders

Fertilizer Sector Valuation Matrix

	FFC	FFBL	EFERT	FATIMA		
PT	135	29	80	37		
Upside	28%	6%	-1%	5%		
	2021E	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
		EPS			**PE**	
FFC	18.3	17.1	18.6	5.8	6.1	5.6
FFBL	8.9	6.2	3.2	3.1	4.4	8.6
EFERT	15.7	13.4	12.5	5.1	6.0	6.5
FATIMA	8.8	8.2	6.9	4.0	4.3	5.1
		DPS			**Div Yield**	
FFC	14.5	13.8	15.0	13.8%	13.1%	14.3%
FFBL	3.5	3.7	2.0	12.9%	13.8%	7.4%
EFERT	15.0	12.0	11.0	18.6%	14.9%	13.7%
FATIMA	4.5	4.3	4.0	12.8%	12.1%	11.4%
		ROE			**PBV**	
FFC	57.1%	44.0%	43.9%	2.8	2.6	2.4
FFBL	65.6%	35.6%	16.4%	1.7	1.5	1.4
EFERT	44.4%	36.8%	33.0%	2.3	2.2	2.1
FATIMA	19.7%	16.4%	13.1%	0.7	0.7	0.6

Source: Company Accounts & Akseer Research

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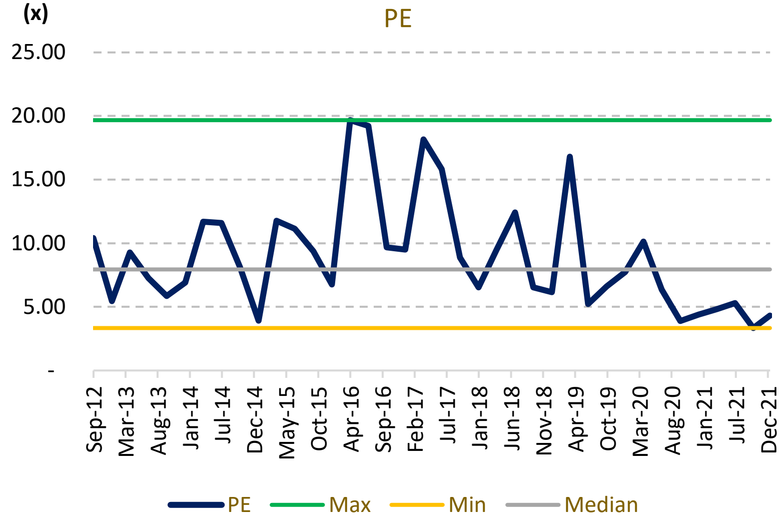
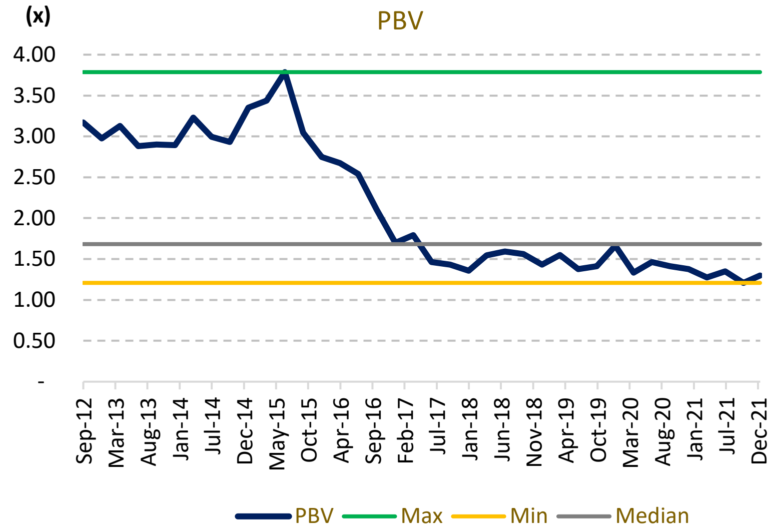
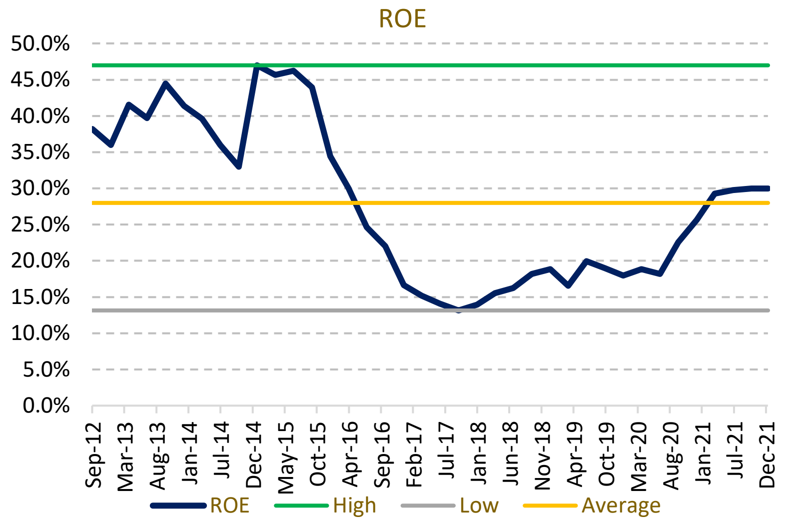
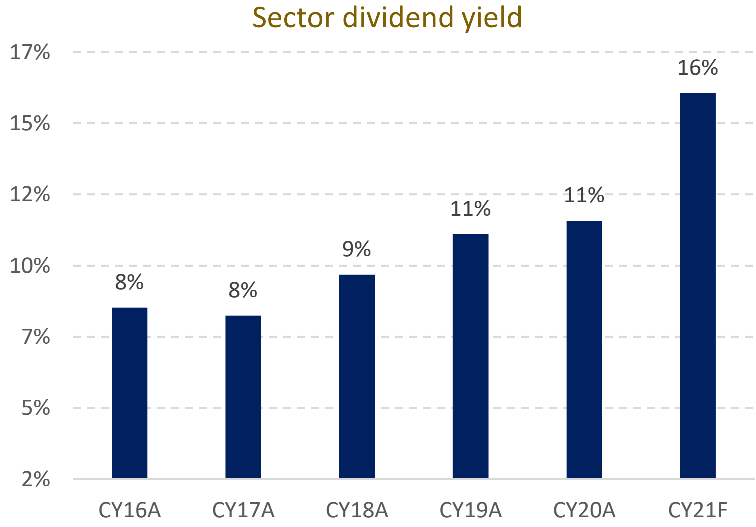
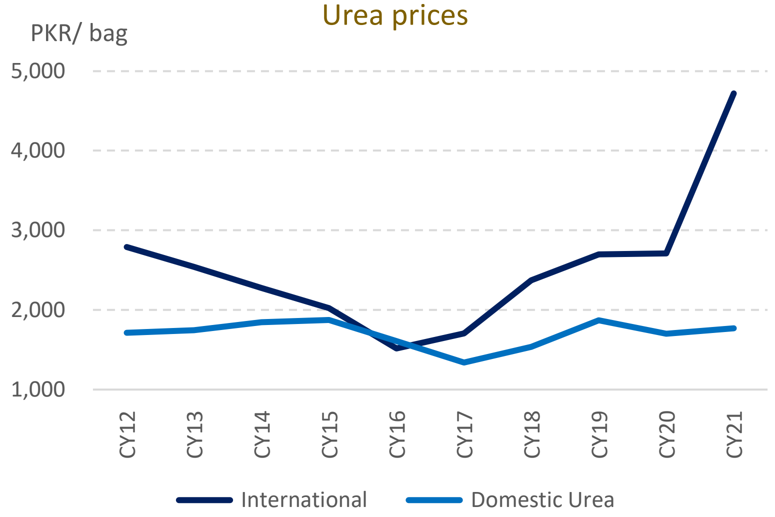
Fertilizer – Key Charts

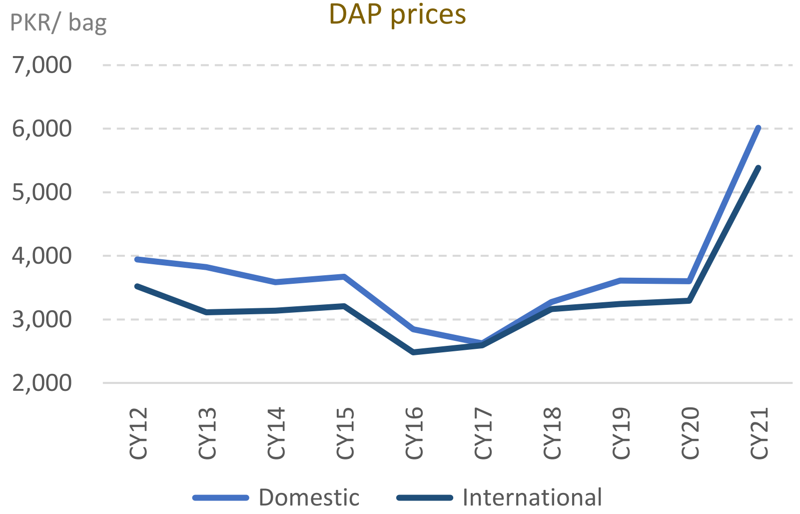












Source: Company Accounts & Akseer Research

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AKSEER RESEARCH
REN # REP-400R

FFC: BUY Price Target: PKR 135/ share

- **Valuation**
  - FFC is our top pick in the fertilizer space with Dec-22 SOTP based PT of PKR 135/ share. Our PT offers an upside of 29%, along with a dividend yield of 13.1%.
  - Core business of the company contributes PKR 85/share while other investments contribute PKR 50/ share to our PT.
- **Earnings to grow by 12% in CY21; but subsequently decline by 6.2% in CY22**
  - FFC is expected to see a rise in its profitability during CY21, where we expect unconsolidated EPS of the company to grow by 11.5% to PKR 18.3. Higher earnings is mainly due to increased urea and DAP prices which are expected to result in gross margins of 37.2% in CY21 vs 32.3% in CY20. However, the company is likely to witness a decline in its earnings by 6% during CY22 due to higher financial charges.
- **Evolving into a conglomerate**
  - Over the years, FFC has diversified its investments into power (both wind and coal), financial and food sectors to lessen reliance on its core business. We expect income from associates to grow to PKR 5.3bn during CY22F compared to PKR 2.6bn in CY21E. Higher contribution is likely due to potential dividend from FFBL. Going forward, we expect contribution from associates to grow to PKR 5.1/share during CY23 compared to PKR 2.0/share in CY21E. This is due to commencement of dividend from Thar Energy and wind power projects, which will further support bottom-line.

Key Data	
PSX Ticker	FFC
Bloomberg Ticker	FFC:PA
Reuters Ticker	FAUF.PSX
Target Price (PKR)	135
Current Price (PKR)	104.97
Upside/(Downside) (%)	29.4%
Dividend Yield	11.3%
Total Return (%)	40.7%
12-month High (PKR)	115
12-month Low (PKR)	95.4
Outstanding Shares (mn)	1,272.4
Market Cap (PKR mn)	133,547
Year End	December

Key Ratios	CY19A	CY20A	CY21E	CY22F	CY23F	CY24F
EPS	13.4	16.4	18.3	17.1	18.6	19.1
EPS Growth	18.5%	21.7%	11.5%	-6.2%	8.7%	2.4%
DPS	10.8	11.2	14.5	13.8	15.0	15.3
PER	7.8	6.4	5.8	6.1	5.6	5.5
Dividend Yield	10.3%	10.7%	13.8%	13.1%	14.3%	14.5%
EV/EBITDA	4.6	3.5	3.4	3.8	3.5	3.5
P/B	3.8	3.1	2.8	2.6	2.4	2.2
ROE	48.1%	48.9%	49.0%	42.2%	42.1%	39.7%

Source: Company Accounts & Akseer Research

Team

	Designation	Email
Azfer Naseem	Chief Executive Officer, Alfa Adhi Securities	azfer.naseem@akseerresearch.com
Research		
Hifza Zia	Director Research, Akseer Research	hifza.zia@akseerresearch.com
Aftab Awan, ACCA	Senior Research Analyst, Akseer Research	aftab.awan@akseerresearch.com
Saqib Hussain	Senior Research Analyst, Akseer Research	saqib.hussain@akseerresearch.com
Arshad Mansoor	Research Analyst, Akseer Research	arshad.mansoor@akseerresearch.com
Mohammad Atif	Research Trainee, Akseer Research	muhammad.atif@akseerresearch.com
Sales		
Bilal Ahmed Ghaffar	Advisor, Institutional & HNWI Sales, Alfa Adhi Securities	Bilal.ghaffar@alfaadhi.pk
Urooj Sohail	Head of Sales	Urooj.sohail@alfaadhi.pk
Ubaidur Rehman Hashmi	Assistant Sales Manager, Alfa Adhi Securities	ubaid.hashmi@alfaadhi.pk

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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.

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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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Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
T: +92-21-34320359-60
E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual University, Karachi
T: +92-21-38694242
E: info@alfaadhi.net