PAKISTAN STRATEGY 2025

December 21, 2024

KSE100 Index Target | 165,215

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REP-019

AKD SECURITIES LIMITED

KSE100 IS THE ONLY GAME IN THE TOWN

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Pakistan Strategy: KSE100 is the only game in the town

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Priced on December 19, 2024

106,275 Current KSE100 Index	**165,215** Target KSE100 Index
13,603.68 Market Capitalization (PkRbn)	**48.87** Market Capitalization (USDmn)
871.79 12M Avg Turnover (mn)	**29.31** 12M Avg DT Value(PkRmn)

KSE-100 is expected to continue its upward trajectory in CY25, despite strong performance over the last two years, given the decline in interest rates to single digits. We anticipate the KSE-100 Index would post a robust return of 55.5% in CY25, primarily driven by the strong profitability of fertilizer companies, higher sustainable ROEs of banks and improving cash flows of E&Ps and OMCs, amid falling fixed income yields.

Market to reach 165,215 by Dec'25 on macroeconomic stability: KSE-100 Index is set to post another year of strong returns, as interest rates are anticipated to fall to single digits in CY25 due to a strong external account. Falling returns from alternative investments are expected to make equities the preferred asset class in 2025. We forecast the KSE-100 Index would reach 165,215 by Dec'25, providing a 55.5% return (49% in USD terms). Furthermore, the focus on structural reforms and tight fiscal and monetary policies under the IMF program is expected to improve the investment climate and support market rally.

Currently, the KSE-100 is trading at a P/E ratio of 6.0x, which remains below its 10-year historical average despite delivering a cumulative return of 130% over the past two years. Notably, the market is trading at a 47% discount to the MSCI FM Index, with an accompanying dividend yield of 8.0% for CY25.

KSE-100 outperformed peers with 2nd best return on records: Political stability and aggressive monetary easing by the SBP, amid a stable currency, drove the strong performance of the KSE-100 Index in CY24. Investor confidence, initially demonstrated by foreign investors and insurance firms in 1HCY24, was further bolstered by mutual funds in the latter half of the year. Consequently, the KSE-100 Index posted its highest return since CY02, achieving approximately 70% in CY24 (~72% in US$ terms), with the majority of the gains attributed to capital appreciation. Globally, the KSE-100 Index ranked as the second-best performing market, trailing only Argentina.

Monetary easing to take policy rate in single digits: Stronger external stability under IMF oversight is expected to allow the SBP to continue monetary easing, with inflation projected to remain in the range of 5–7% in the medium term. Consequently, we anticipate the SBP will further lower rates into single digits next year, with the majority of the easing being front-loaded. A slow recovery in domestic demand following policy rate cuts of 900bps since Jun'24, a significant increase in remittances, and double-digit growth in exports amid a weak outlook for commodity prices further support our outlook. However, we expect the SBP to maintain positive real interest rates of 2–3% to prevent another boom-bust cycle.

Foreigners interest to return in CY25: Strengthened macroeconomic conditions and currency stability, supported by a robust external position and structural reforms under the IMF program, alongside a declining global interest rate environment, collectively enhance the investment appeal of Pakistani equities. Following a 130% rally, the weight of Pakistani equities in the MSCI FM Index has risen to approximately 6.4%, underscoring their growing significance. Additionally, the potential reclassification of Pakistani equities to the MSCI EM Index remains a possibility, with seven stocks anticipated to meet EM criteria based on our target prices.

Model Portfolio: We have overweight stance on Banks, E&P, Fertilizer, Cement, OMCs, Autos, Textile and Technology as we expect these sectors to be the beneficiary of monetary easing, structural reforms and declining commodity prices. However, we have market weight stance on Power due to changes in contracts of IPPs and our underweight stance on Chemical is driven by subdued margins.

Top Picks: OGDC, PPL, MCB, MEBL, HBL, FFC, ENGRO, PSO, LUCK, FCCL, INDU, ILP and SYS

AKD Universe Valuations

	TP (Dec'25)	LDCP*	DY%	Total Upside
OGDC	355	211	8.1%	76.2%
PPL	285	190	6.0%	55.8%
FFC	583	369	11.9%	70.0%
MEBL	348	211	8.5%	73.1%
LUCK	1965	1,084	1.6%	82.8%
MCB	389	257	14.0%	65.3%
HBL	261	155	10.4%	79.3%
ENGRO	675	388	8.8%	82.8%
INDU	3,350	2,245	5.3%	54.5%
SYS	879	553	4.0%	63.0%
PSO	729	381	7.9%	99.4%
ILP	104	69	3.6%	54.6%
FCCL	61	34	4.4%	84.0%

*prices based on Dec 19th 2024

Source: PSX & AKD Research

Top picks

Stock	FF Mcap (US$mn)	Reason For liking
OGDC	497	Improving cash flows due to energy sector reforms and rationalization of energy tariffs Holds 8.33% stake in Reko Diq mine Beneficiary of successful finds at Abu Dhabi Block-5
PPL	463	Gas price hikes to elevate cash collection, as company remains heavily reliant on gas revenues Expectations of raising payouts and advancing E&P activity Beneficiary of successful finds at Abu Dhabi Block-5 Holds 8.3% stake in Reko Diq mine
FFC	968	Amalgamation of FFBL and FFC to strengthen position Lower gas prices to sustain gross margins Providing exposure to Power, Banks, Cement and Food sector
MEBL	352	Strongest brand equity driven by religious sentiments Unmatched asset quality with provisioning coverage of 179% Robust forward ROE justifying valuation premiums
LUCK	350	Increased margins and improving market share to sustain profitability Initiation of dividends from LEPCL to drive core earnings Rebound in non-core business with overall economic recovery
MCB	398	One of the best dividend play in coverage space Solid asset quality Leader in high CASA deposit mix
HBL	330	Improvements in core operations amidst sustaining macros Expansion into agriculture financing and the launch of HBZL enhances its market leadership Improving asset quality
ENGRO	382	Expected improvement in EFERT's profitability to enhance profitability Acquisition of Jazz towers to strengthen earnings outlook Recovery in chemical & food business on the cards
PSO	301	Improving receivables collection set to improve future quality of earnings Growth in OMC volumes and increase in regulated margins inline with CPI
INDU	112	First mover advantage in Hybrid localization Declining interest rates to boost auto sales Higher gross margins amid stable exchange rate and lower steel rates
SYS	377	Presence in MENA region to drive growth Increase in global IT spending to fuel growth Improvement in gross margins amid consolidation
ILP	70	Revenue growth at a dollarized CAGR of 14%, driven by expansions Easing cotton prices and improved retention prices to recover gross margins Easing interest rates to reduce finance cost burden
FCCL	109	Recent expansions to bolster market share Increasing renewables in power mix to support gross margins Easing interest rates to lower finance cost

Source: PSX & AKD Research

Political and Macroeconomic stability to drive the index to a new high

Domestic and external factors are expected to provide political stability: PML-N led coalition government is likely to complete its tenure, given the relatively weak opposition and the country's growing strategic importance in the region. The shifting geopolitical landscape will help Pakistan manage pressures from the US and continue advancing its CPEC projects. However, limited diplomatic engagement with the new U.S. government may increase country's dependence on Gulf countries.

Interest rates to fall in single digit next year: Stronger external stability that comes with IMF Extended Fund Facility (EFF) would allow SBP to continue with monetary easing as inflation seems to anchor around central bank medium term range of 5-7%. With the inflation expectation to remain within SBP range, we expect SBP can lower rates further to single digits next year with majority of the easing to be front loaded. Slow pick up in domestic demand post policy rate cuts of 900bps since Jun'24, significant increase in remittances and double-digit growth in exports amid weak outlook for commodity prices has further provided strength to our call. However, we do expect SBP would maintain positive real interest rates of 2-3% in order to avoid another bust cycle. Subsequently, GDP growth is expected to remain modest over the next three years due to tight monetary policy and prudent fiscal measures.

IMF to keep eye on tight policies and structural reforms: IMF emphasis on policies related to Fiscal, Poverty Reduction and Social Protection, Monetary, Exchange Rate and Financial sector, Energy sector, Structural policies and Climate would address Pakistan's longstanding challenges, most notably low productivity and economic openness, resource misallocation, and climate vulnerability. Policies under the EFF aim to support a gradual fiscal consolidation moving to a primary surplus of 2% of GDP on the back of a net 3% of GDP growth and a fairer tax system.

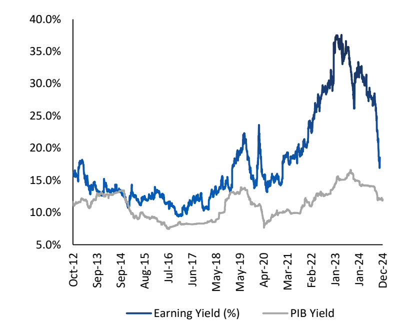
Lower commodity prices to ease import bill and inflation: Pakistan is poised to benefit from the global decline in commodity prices, which will help reduce import bills and keep inflation on lower plane. This is partly due to the expected decrease in oil and gas demand from China, driven by anticipated tariff restrictions from the USA and Europe causing industrial slowdown, leading to an oversupply of oil and gas, coupled with, an anticipated increase in global oil and gas supply is expected to put further downward pressure on prices. Favorable weather conditions are also expected to boost the production of rice and cotton, which should help ease prices from their historic highs.

CPEC is a transformative leap towards economic future: Under CPEC phase two Pakistan will emphasize on industrial, agricultural and trade development. At its core, CPEC features a comprehensive transportation corridor and industrial cooperation between China and Pakistan, with a focus on concrete economic and trade partnerships, as well as people-to-people exchanges and cultural communication. CPEC encompasses key initiatives in infrastructure development, industrial growth, and improvement of living standards, all aimed at fostering socio-economic development, prosperity, and security in the regions it spans.

SIFC unlocking Pakistan's investment potential: Special Investment Facilitation Council (SIFC) has positioned itself as a critical driver of Pakistan's long-run strategy to rejuvenate FDI. By amalgamation of civil-military expertise, the council aims to overcome long-standing bureaucratic inefficiencies. Focused on high-potential sectors such as agriculture, minerals, energy, and technology, the council has set an ambitious annual FDI target of US$5bn in order to enhance country's regional competitiveness as an investment hub.

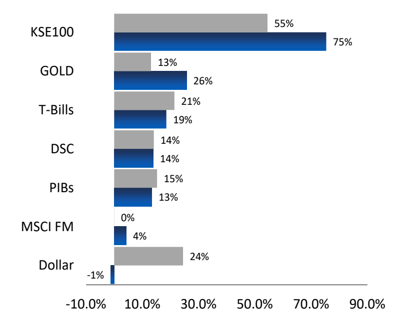
Surplus capacities to result in compounded growth: We anticipate the forthcoming economic recovery to be more sustainable, driven by the ample industrial capacity established during prior expansion cycles, largely during periods of rising interest rate cycles. This surplus capacity is expected to: 1) result in compounded growth in the industrial sector due to a low base in utilization; 2) alleviate pressure on the external account due to low-expansion led imports; and 3) generate higher free cash-flows for corporates, as absence of expansion-related CAPEX is behind us.

Average PIB and E/Y differential (%)



Source: Bloomberg & AKD Research

KSE100 outperform other asset classes in CY23 and CY24



Source: PSX, SBP, Bloomberg & AKD Research

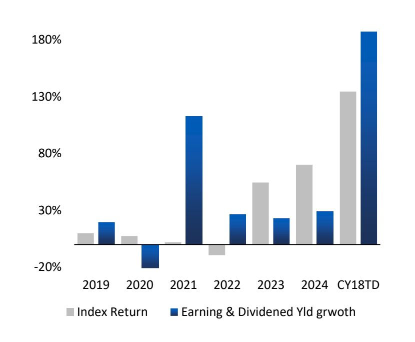
CY24 – Best year in last two decades: Political stability and aggressive monetary easing by SBP amid stable currency has driven the strong performance of the KSE-100 Index in CY24. Macroeconomic stability and a substantial drop in fixed-income yields, in the backdrop of falling commodity prices, have increased the appeal of equities. The decline in yields was facilitated by the government's improved debt management, supported by debt buyback initiatives and strong dividend payout by the central bank. Investor confidence, initially demonstrated by foreign investors and insurance firms in the 1HCY24, was further bolstered by mutual funds in the latter half of the year.

Bottom-up approach yielding an index target of 165,215 by Dec'25: We have adopted a Bottom-up approach for Pakistan equities in CY25 and have arrived at a KSE100 index target of 165,215 by Dec'25, implying a return of ~55.5% (~49.4% in US$ terms), including an impressive dividend yield of ~8.0%. Our index target is primarily a function of our AKD's universe Dec-25 TP based on Risk free assumption of 11.0% and market risk premium of 6.0%.

Earning growth model yields more optimistic target: Based on the earnings growth approach, our index target comes at 167,510pts, implying an upside of ~57.6% (~51.6% in US$ terms). The target is primarily a function of an average AKD universe 3.1% earnings growth for the next year and dividend yield of 8.0% with expectation of multiple rerating to 8.8x. We forecast earnings growth of ~3.1% for the year 2025, and forecast Fertilizer sector to be a major contributor to our universe's earnings growth.

We have overweight stance on Banks, E&P, Fertilizer, Cement, OMCs, Autos, Textile and Technology while have market weight stance on Power and Underweight stance on Chemical.

Index return still lags previous year earnings and dividend yields



Source: PSX & AKD Research

Pakistan Economy Snapshot

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Real Sector								
GDP Nominal (US$bn)	300.8	348.9	373.6	319.1	374.6	414.1	446.5	475.3
Real GDP Growth(%)	-0.9	5.8	6.1	-0.2	2.5	2.7	4.3	3.7
Agriculture Growth (%)	3.9	3.5	4.3	2.3	6.4	0.0	3.7	2.6
Manufacturing Growth (%)	-7.8	10.5	10.9	-5.3	-1.1	4.4	4.7	4.4
Services Growth (%)	-1.2	5.9	6.7	0.1	2.2	3.2	4.4	3.9
External Account								
Current Account Balance (US$bn)	-4.5	-2.8	-17.5	-3.3	-1.7	0.4	0.3	-1.1
Current Account Balance (% of GDP)	-1.5	-0.8	-4.7	-1.0	-0.5	0.1	0.1	-0.2
Trade Balance - SBP (% of GDP)	-7.0	-8.2	-10.5	-7.8	-5.9	-6.0	-5.8	-6.0
Inward Remittances (US$bn)	23.1	29.4	31.3	27.3	30.2	35.3	35.6	36.0
Remittances (% of GDP)	7.7	8.4	8.4	8.6	8.1	8.5	8.0	7.6
Foreign Direct Investment (% of GDP)	0.9	0.5	0.5	0.2	0.6	0.4	0.5	0.5
Exchange Rate (PkR/US$) Avg.	158.0	160.0	178.0	247.0	283.0	280.0	290.0	301.0
Exchange Rate (PkR/US$) End.	168.0	158.0	212.0	287.0	278.0	283.0	295.0	307.0
Fiscal								
Tax to GDP (Federal) (%)	9.4	10.9	9.2	9.2	9.5	10.9	11.2	11.5
Debt to GDP (%) End.	76.6	71.4	73.9	71.9	65.0	65.1	62.6	60.3
Federal budget balance (% of GDP)	-7.1	-7.0	-7.1	-7.7	-6.8	-5.0	-3.2	-2.7
Primary balance (% of GDP)	-1.6	-0.5	-2.4	-1.0	0.9	2.1	1.9	2.2
Monetary								
Average CPI inflation (%)	10.7	8.9	12.2	29.0	23.4	6.5	7.0	7.0
Policy rate (%) - Jun'end	7.0	7.0	13.8	22.0	20.5	10.0	9.5	9.5
Policy rate (%) - Dec'end	7.0	7.0	13.8	22.0	13.0	9.5	9.5	9.5

Source: MoF, PBS, SBP & AKD Research

Domestic and external factors are expected to provide political stability

PML-N led coalition government is likely to complete its tenure, given the relatively weak opposition and the country's growing strategic importance in the region. The shifting geopolitical landscape will help Pakistan manage pressures from the US and continue advancing its CPEC projects. However, limited diplomatic engagement with the new U.S. government may increase country's dependence on Gulf countries.

PDM coalition continues to offer stability: The PDM government has implemented several unpopular economic measures, including the rationalization of energy tariffs and petroleum prices, expanding the tax net to agriculture and services, and tightening regulations for non-filers. These decisions reinforce the likelihood of continued tight economic policies. Notably, the decision to abstain from purchasing wheat at support prices—despite falling international rates—demonstrates a difficult choice, considering the coalition's core voter base. Since taking power in Feb'24, the NA has passed 35 bills, with the 26th Constitutional Amendment standing out due to its passage with a two-thirds majority, reflecting strong parliamentary backing for the current coalition. Moving forward, the government is expected to solidify its position, supported by declining commodity prices and a projected decrease in interest rates to single digits.

US-Pakistan relations may decline with power shift in the US: A Republican-led US government may deprioritize issues that previously strained relations with Pakistan, especially those linked to differing views on Afghanistan, aligning with Trump's non-interventionist approach. However, Pakistan's limited diplomatic engagement with the US could jeopardize the bilateral relationship. This diplomatic gap may also hinder Pakistan's efforts to maximize benefits from CPEC Phase 2.0 and its ambitions to join BRICS. However, imposing any tax on remittances could impact the overall inflow, especially since the US accounts for 11% of these remittances.

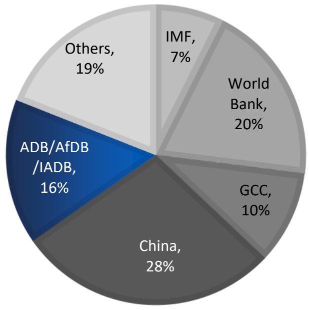
Continued reliance on China for strategic and economic gains: CPEC Phase 2.0 is set to attract substantial Chinese investments, particularly in infrastructure, energy, and the development of industrial zones. Amid the ongoing US-China trade war, Pakistan is well-positioned to draw Chinese companies seeking to avoid tariffs. Beyond economic ties, Pakistan and China maintain strong cooperation on regional and global security issues. Notably, China is the largest creditor to Pakistan with lending of US$23.6bn and also the largest trade partner of Pakistan with trade volume of ~20%. China's diplomatic support for Pakistan, especially on matters like Kashmir, reinforces their strategic partnership.

Gulf states emerging as key partners: The evolving geopolitical dynamics in the region are likely to elevate Pakistan's strategic importance to GCC countries, given its status as the most capable Muslim military power. This relationship can help ensure stable oil supplies and attract investments in Pakistan's energy and infrastructure sectors. The GCC nations, particularly Saudi Arabia and the UAE, play a critical role in supporting Pakistan's external financial stability through timely rollovers of safe deposits, including $5bn from Saudi Arabia and $2bn from the UAE. Additionally, the Gulf region serves as a key source of remittances for Pakistan (contributes ~50%), with millions of Pakistani expatriates employed there.

Persistent tensions between India and Pakistan: Relations with India are likely to remain strained under Modi's leadership. Recent developments, such as India's decision not to send its cricket team to Pakistan and cold response from Indian foreign ministry's during his visit for the SCO meeting, represent missed opportunities for trust-building. Nevertheless, we do not foresee a war-like escalation, which remains a low-probability, high-impact scenario (a "black swan" event).

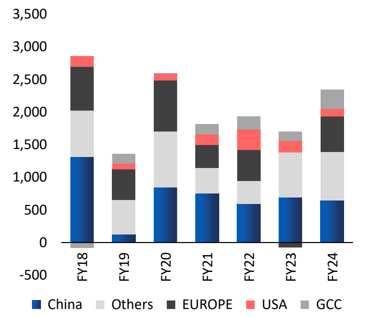
Afghanistan remains a key security concern: Ensuring security and preventing terrorism will continue to be top priorities for both Pakistan and Afghanistan. The establishment of an inclusive political framework that is acceptable to the West will be essential for improving Pakistan's security landscape.

Pakistan external debt composition by lender



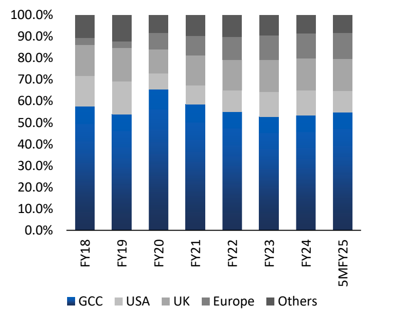
Source: IMF & AKD Research

China contributes significantly in FDI



Source: SBP & AKD Research

50% of remittances comes from GCC



Source: SBP & AKD Research

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Pakistan Economy

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Pakistan Economy outlook
Interest rates to fall in single digits next year

Stronger external stability that comes with IMF Extended Fund Facility (EFF) would allow SBP to continue with monetary easing as inflation seems to anchor around central bank medium term range of 5-7%. With the inflation expectation to remain within SBP range, we expect SBP can lower rates further to single digits next year with majority of the easing to be front loaded. Slow pick up in domestic demand post policy rate cuts of 700bps since Jun'24, significant increase in Remittances and double-digit growth in exports amid weak outlook for commodity prices has further provided strength to our call. However, we do expect SBP would maintain positive real interest rates of 2-3% in order to avoid another bust cycle.

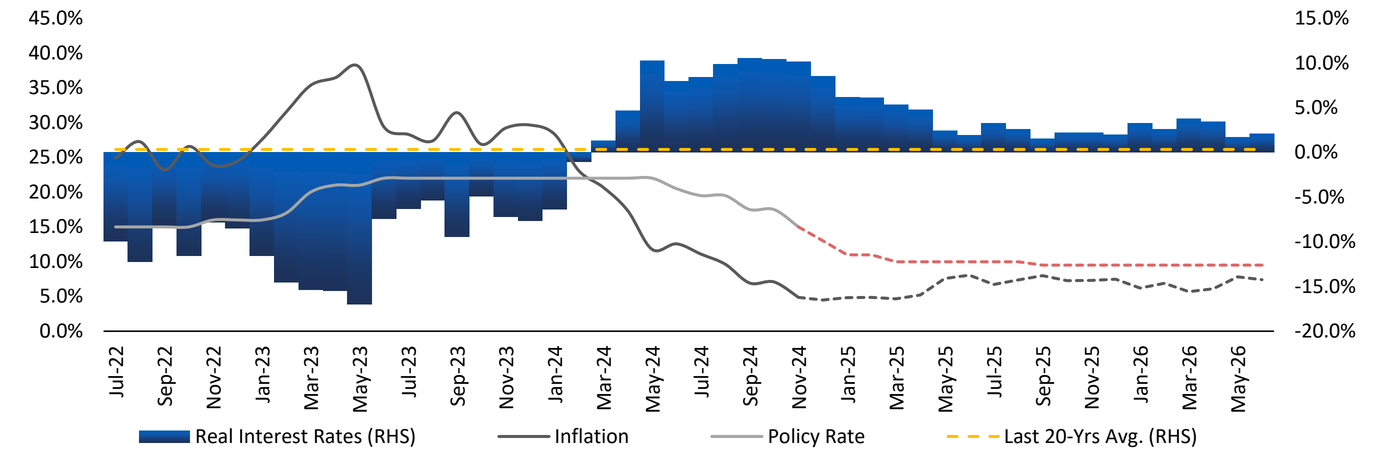
SBP will maintain higher positive real interest rates: We expect SBP to maintain positive real interest rates of 2-3% going forward with inflation ranging between its medium-term range. Our assumption of 2-3% real interest rates is quite higher in comparison to 20 years average of +33bps and 10 years average of -21bps. We expect inflation to average at 6.5% for FY25E and 7.0% for FY26E based on our assumption of improved food supplies, weak global commodity prices outlook and lower periodic energy price adjustments. However, fiscal slippages, global energy supply shocks and climate change effects are key risk to our inflation projections.

Money Supply to remain supportive: We expect money supply to grow at a slower pace in FY25 given banks reluctance to go aggressive for deposits that remain major driver for money supply growth to comply with ADR and significant reduction in policy rate. Meanwhile, higher revenue generation by central government through robust growth in tax streams and higher SBP receipts has allowed government to reduce borrowing from banking system. The same is reflected by a decline in outstanding stocks of OMOs and buy backs of outstanding debts by government. Moreover, the channelization of credit to PSEs for commodity purchase by commercial banks at cheaper rates would help sustaining food inflation at lower levels.

External account to remain stable: External account is in a much comfortable position post entry into the IMF Extend Fund Facility, further supported by robust growth in remittances and exports. We foresee current account to remain in surplus for FY25 and FY26 with surpluses of US$363mn and US$284mn, respectively, before shifting to deficit in FY27. Subsequently, we foresee SBP FX reserves to surpass US$21bn by FY27 along with a significant reduction in the SBP's forward/swap liabilities.

Growth to remain modest: GDP growth is expected to remain modest over the next three years due to tight monetary policy and prudent fiscal measures. We expect GDP growth to increase slightly by 2.7% in FY25, up from 2.5% in FY24 driven by a pickup in industrial and services sector activity, while agriculture growth is anticipated to remain muted due to a decline in cotton production.

Policy rate to reach single digits in CY25



Source: SBP & AKD Research

Inflation to remain subdued given controlled external account

Continued tight monetary and fiscal policies amid stable currency are expected to sustain inflation, ranging between 5.0% to 8.0%. This range aligns with the SBP target of 5-7% set for the medium term. We estimate inflation to average at 6.5% in FY25 and 7.0% in FY26, driven by lowering oil prices and moderate increase in food prices.

After inflation peaked at 38% in May'23, tight monetary policy has led to decline in inflation to single digit despite intermittent pressures from the rationalization of energy tariffs.

We expect inflation to remain contained primarily because of deceleration in food and Transport indices. Food prices are expected to decelerate to 2.9%YoY in FY25, primarily because of significant drop in wheat prices, a slight reduction in sugar prices, and overall moderation in food prices, with some exceptions related to pulses. However, we expect food inflation to pick up in FY26 due to recovery in wheat prices and general pick up in perishable food items. Moreover, the Transport index is expected to remain moderate in FY25 and FY26 driven by falling oil prices. We anticipate Housing Index to gradually slows down given lower adjustments in electricity and gas tariffs.

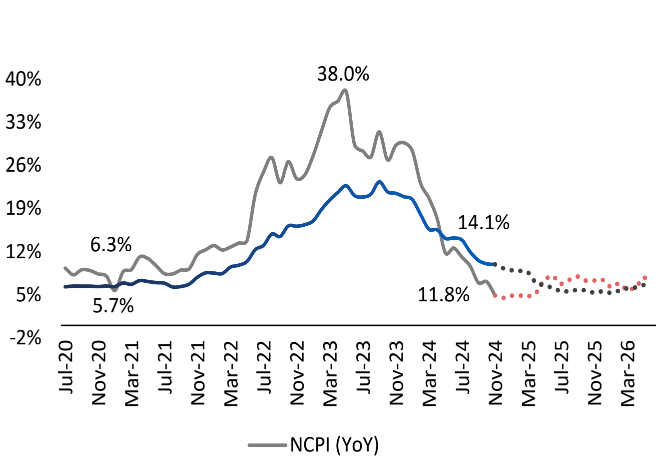
However, inflation outlook is subject to certain risks, including escalation in geopolitical conflicts, recurrence of food inflation pressures, uncertainty related to the adjustments in administered energy prices and any additional fiscal contingency measures.

Composition changes in National Consumer Price Index over the years

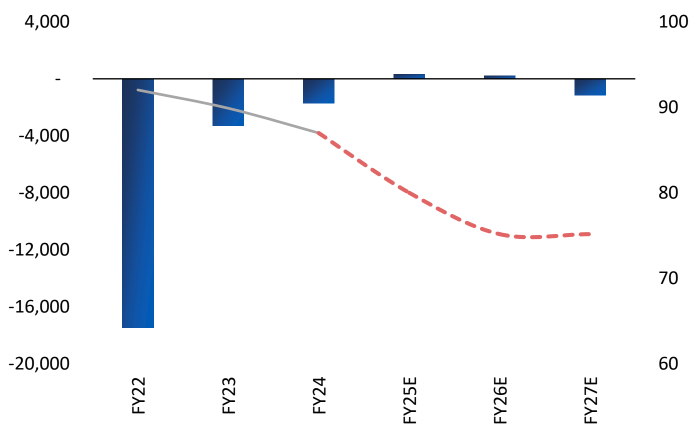
Item	Weight	Jun-23	Jun-24	Jun-25	Jun-26	FY24Change	FY25Change	FY26Change
CPI	100.0%	204.7	252.7	269.2	288.1	23.4%	6.5%	7.0%
Food and Non-Alcoholic Beverages	34.5%	231.3	279.4	287.5	310.6	20.8%	2.9%	8.0%
Housing, Water, Electricity, Gas & Fuels	23.7%	172.0	222.7	245.9	262.5	29.4%	10.3%	6.7%
Clothing and footwear	8.6%	187.1	223.4	251.0	266.3	19.4%	10.5%	6.1%
Restaurants and hotels	6.9%	207.0	259.4	280.2	306.2	25.3%	8.0%	9.3%
Transport	5.9%	259.7	310.4	316.0	318.6	19.5%	1.8%	0.8%
Miscellaneous	4.9%	212.4	270.8	301.0	339.0	27.5%	8.0%	12.6%
Furnishing and household equipment	4.1%	202.7	259.2	273.1	281.8	27.9%	5.2%	3.2%
Education	3.8%	165.2	186.6	201.2	213.2	13.0%	7.8%	6.0%
Health	2.8%	189.6	230.7	260.5	279.0	21.7%	12.9%	7.1%
Communication	2.2%	114.0	127.2	135.4	146.4	11.5%	6.5%	8.1%
Recreation and culture	1.6%	191.3	256.8	277.7	295.4	34.2%	8.0%	6.4%
Alcoholic Beverages, Tobacco	1.0%	248.8	364.6	386.2	389.8	46.5%	5.4%	0.9%

Source: PBS & AKD Research

Core inflation to catch headline inflation in next two quarters

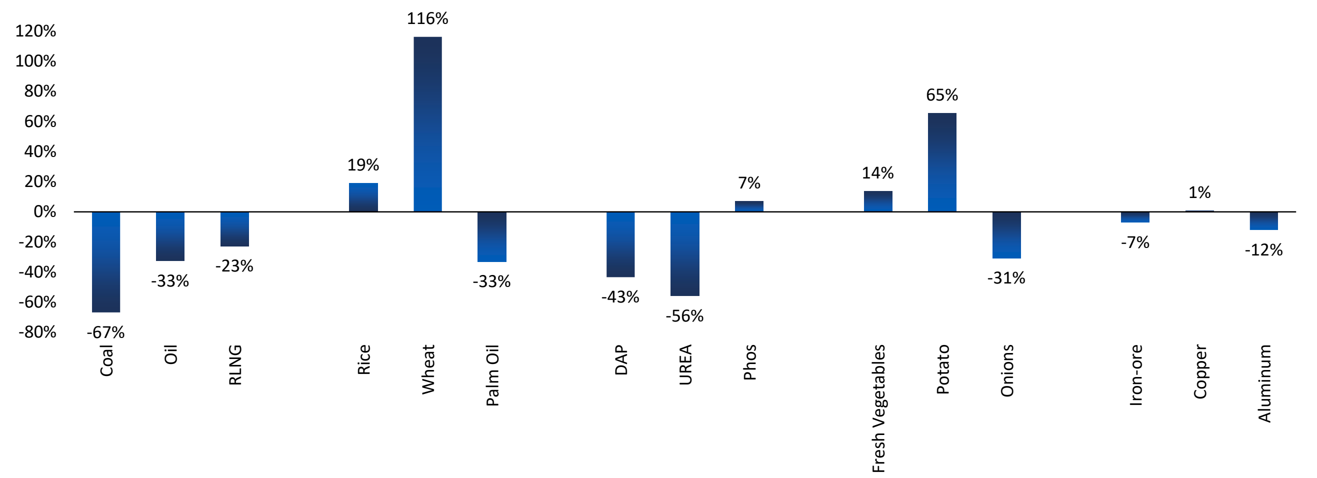


Decline in oil prices to ease burden on current account



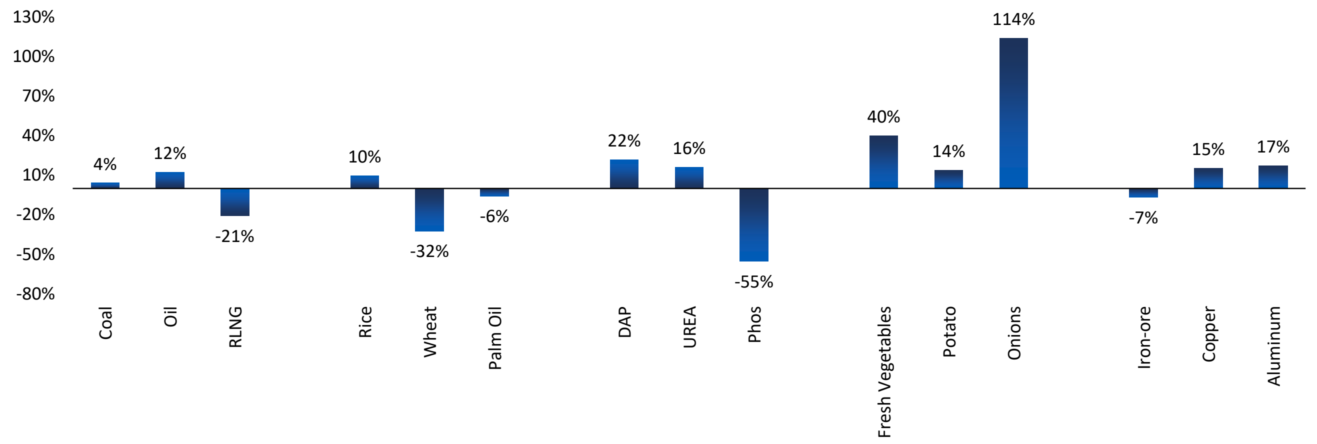
Source: PBS & AKD Research

FY23: After hitting record levels, commodity prices subside



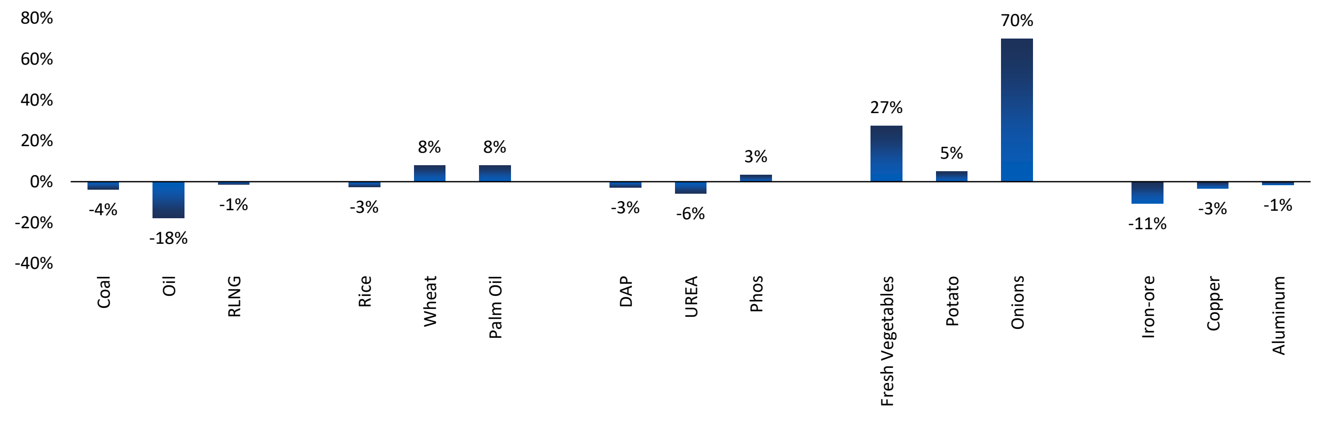
Source: Bloomberg, World Bank, PBS & AKD Research

FY24: Prices remain volatile amid rising geopolitical tensions



Source: Bloomberg, World Bank, PBS & AKD Research

FY25E: Commodity prices to remain low amid industrial slowdown in China



Source: Bloomberg, World Bank, PBS & AKD Research

Remittances to push current account into surplus

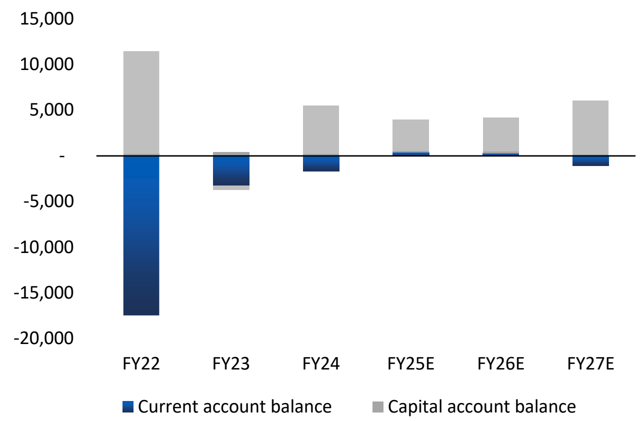
Strong growth in remittances, supported by an increase in exports and moderation in interest and dividend repatriation, is expected to result in a current account surplus for next two years. Meanwhile, we expect imports of goods and services would rise due to a pickup in economic activity and higher textile imports, driven by lower cotton production. Subsequently, we foresee current account to remain in surplus for FY25 and FY26 with surpluses of US$363mn and US$284mn, respectively, before shifting to deficit in FY27. We foresee trade and services deficit to increase to US$32.0bn by FY27 as 7.1% annual rise in imports is likely to outpace 6.1% annual pick up in exports during this period.

Enhanced reliance on indigenous and alternate fuels to keep imports growth low: Non-oil imports, particularly Machinery and Transport sector imports, are anticipated to grow at a higher pace due to rising domestic demand. Growth in food, textile and oil exports is forecasted to remain lower due to ease in commodity prices. Food imports are also affected by improved supplies amid significant reduction in smuggling and hoarding. Unlike in the past, oil imports are likely to remain less elastic to demand given a substantial shift in country's electricity mix towards indigenous resources, such as Thar coal and nuclear, and alternate sources along with the transition of agriculture tubewells to solar power.

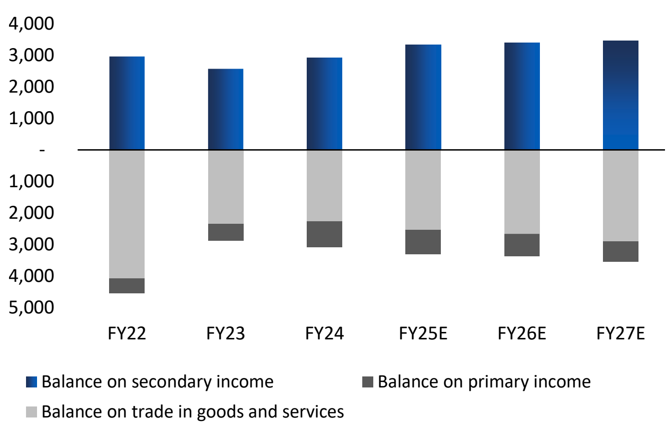
Textile to lead exports in medium terms and Technology in long term: Higher exports of value-added textiles, rice, sugar and furnace oil are likely to sustain exports growth despite lower commodity prices. Moreover, we expect technology exports to post growth in double digits in the near term, up by 33.0%YoY in 5MFY25. Value added Textile products such as Knitwear, Bedwear, Towels and Readymade garments are collectively expected to show double digit growth over the next three both due to higher unit prices and increased volumes. Rice exports are also expected to grow because of higher quantities despite slight moderation in prices after India announces to lift its ban on rice exports. Lower utilization of furnace oil in the local power mix, given higher generation cost, would compel refineries to export furnace oil in order to ensure smooth operations.

Remittances to provide significant support: Worker's remittances would post a significant jump in FY25 of US$5.0bn due to favorable policy measures and stable kerb premium. Increased emigration over the past two years due to subdued domestic economic activity, is also contributing to higher inflows. Moreover, the Primary income balance is likely to fall to US$7.1bn by FY27 from US$9.0bn in FY24 given global monetary easing amid moderate increase in external debt.

Current account to report a surplus in FY25E



Secondary income finances majority of the trade and primary



Source: SBP, PBS & AKD Research

Current account to remain in surplus over next two years driven by robust remittances

Description	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current account balance	**-17,481**	**-3,275**	**-1,695**	**363**	**284**	**-1,060**
Current account balance without off. transfers	-17,823	-3,642	-2,111	26	-76	-1,429
Exports of goods FOB	32,493	27,876	30,967	32,666	34,131	36,419
Imports of goods FOB	71,543	52,695	53,056	57,599	59,876	64,794
Balance on trade in goods	**-39,050**	**-24,819**	**-22,089**	**-24,933**	**-25,745**	**-28,375**
Exports of services	7,102	7,596	7,870	8,497	9,174	9,906
Imports of services	12,942	8,638	10,692	11,445	12,715	13,516
Balance on trade in services	**-5,840**	**-1,042**	**-2,822**	**-2,948**	**-3,541**	**-3,610**
Balance on trade in goods and services	**-44,890**	**-25,861**	**-24,911**	**-27,880**	**-29,286**	**-31,986**
Primary income credit	652	652	909	864	636	545
Primary income debit	5,900	6,417	9,905	**9,358**	8,521	7,725
Balance on primary income	**-5,248**	**-5,765**	**-8,996**	**-8,495**	**-7,884**	**-7,180**
Balance on goods, services and primary income	**-50,138**	**-31,626**	**-33,907**	**-36,375**	**-37,171**	**-39,166**
Secondary income credit	32,949	28,665	32,699	37,488	38,242	38,932
General government	376	380	449	372	394	399
Current international cooperation	54	28	22	35	35	30
Other official current transfers	322	352	427	337	360	369
Financial corp, non-financial corporations, households and NPISHs	32,573	28,285	32,250	37,116	37,848	38,533
Workers' remittances	31,279	27,333	30,251	35,291	35,644	36,000
Other current transfers	1,294	952	1,999	1,825	2,204	2,533
Secondary income debit	292	314	487	750	788	827
Balance on secondary income	**32,657**	**28,351**	**32,212**	**36,738**	**37,455**	**38,105**
Capital account balance	**205**	**375**	**195**	**195**	**195**	**195**
Net lending (+) / net borrowing (–) (balance from current and capital acc)	-17,276	-2,900	-1,500	558	479	-865
Financial account	-11,261	468	-5,291	-3,434	-3,725	-5,866
Direct investment	**-1,702**	**-670**	**-2,126**	**-1,636**	**-2,165**	**-2,265**
Direct investment abroad	**234**	**957**	**220**	**220**	**220**	**220**
Direct investment in Pakistan	**1,936**	**1,627**	**2,346**	**1,856**	**2,385**	**2,485**
Portfolio investment	55	1,012	376	-65	1,065	-650
Portfolio investment abroad	-24	-14	-6	-15	-15	-15
Portfolio investment in Pakistan	**-79**	**-1,026**	**-382**	**80**	**-1,050**	**665**
Other Investment	-9,613	135	-3,541	-1,733	-2,625	-2,951
Net acquisition of financial assets	2,613	-964	-352	640	480	320
Net incurrence of liabilities	**12,226**	**-1,099**	**3,189**	**2,373**	**3,105**	**3,271**
Deposit-taking corporations	382	283	8	320	240	160
General Government	376	380	449	372	394	399
Disbursements	11,256	9,891	6,012	5,155	6,000	6,100
Amortization	8,343	11,660	6,727	6,903	6,846	7,152
Other Liabilities (net)	3,204	-316	2,248	-	-	-
Other Sector	1,317	-364	-370	320	240	160
Overall Balance	6,318	4,218	-2,862	-3,992	-4,204	-5,001
Reserves and Related Items	-6,318	-4,218	2,862	3,992	4,204	5,001
Reserve Assets	**-7,333**	**-5,185**	**5,016**	**3,292**	**3,404**	**4,101**
Use of Fund Credit and Loans	**-1,015**	**-967**	**2,154**	**-700**	**-800**	**-900**
SBP Gross Reserves	11,090	5,669	10,627	13,919	17,323	21,424
External debt	120,534	117,766	119,719	123,011	126,415	130,516
GDP	**374**	**319**	**375**	**414**	**447**	**475**

Source: SBP, PBS & AKD Research

Rupee to remain stable

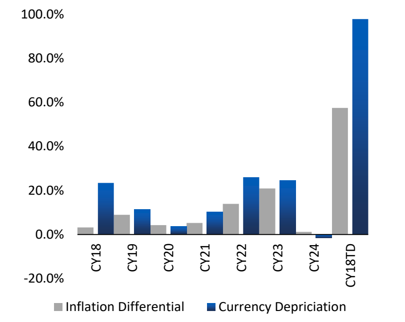
Rupee is expected to gain in CY24 against Greenback for the first in the last 9 years supported by a well managed external account position, higher remittances and rising exports amid tight monetary and fiscal policies. Stability in the PkR has translated into a reduction in inflation to single digit after nearly 3 years. We foresee PkR to devaluing at an inflation differential of 4% given building up of FX reserves, improved external account, tight monetary policy and prudent fiscal approach amid a focus on reforms to address structural issues. Efforts to curb smuggling along with a focus on preferential trade agreements, would also support stability.

FX market largely remain calm since May'23, with the rupee remaining stable around US$277 levels due to narrowing of spreads between FX rates in the interbank and parallel markets. We expect the Rupee to show stability, supported by the IMF program and strong remittance inflows. The IMF program would ensure tight monetary policy, with real positive rates on forward looking basis, ensuring exchange rate flexibility, FX market functionality, and strengthening institutions to safeguard financial stability. Meanwhile, continuing efforts to deepen the interbank FX market along with greater price discovery would further support currency stability.

Greater transparency in the SBP's interventions and FX accumulation strategy would play a critical role in the development of FX market. A stable FX market has allowed the SBP to conduct sizeable FX purchases, which have helped build reserves. During the period from Jun'24 to Aug'24, SBP has made net purchases of US$1.9bn from the FX market. The IMF willingness in maintaining the shortening of the period for repatriation of export proceeds as appropriate would enhance central bank leverage to maintain stability in currency, even with low FX reserves.

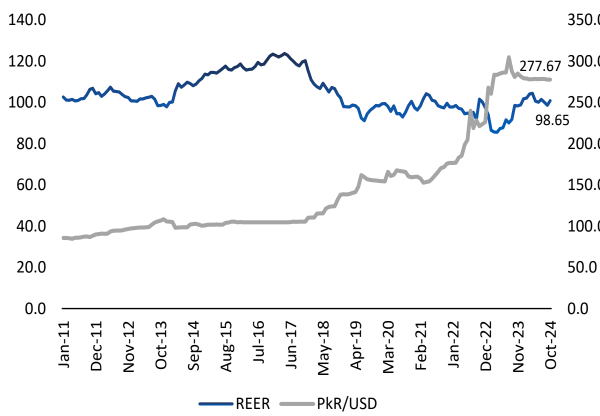
The REER shows some stability due to a falling inflation differential driven by a sharp decline in domestic inflation in comparison to trading partners. REER index has been hovering around 100 for the past year, despite the Rupee gaining 3.4% since Oct'23.

Currency depreciation is higher than inflation differential in last 7 years

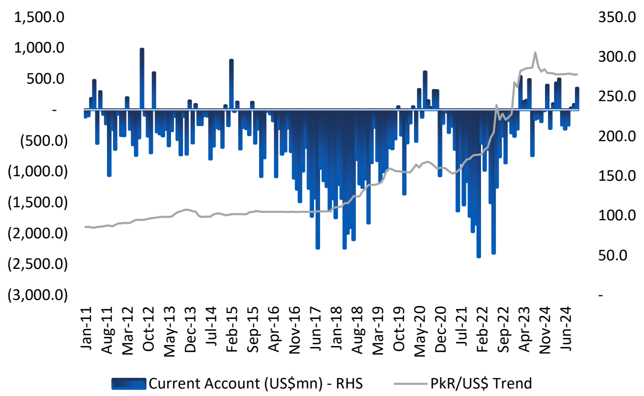


Source: SBP, PBS & AKD Research

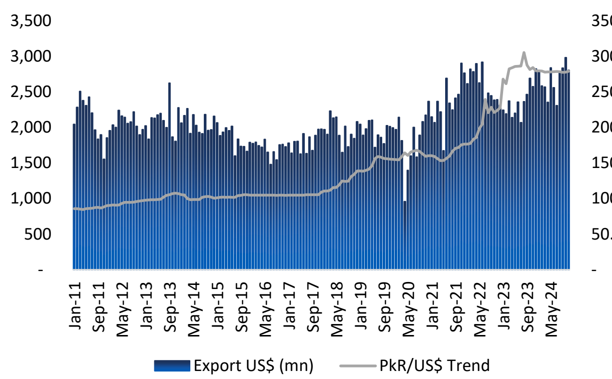
REER has remained contained amid declining domestic CPI



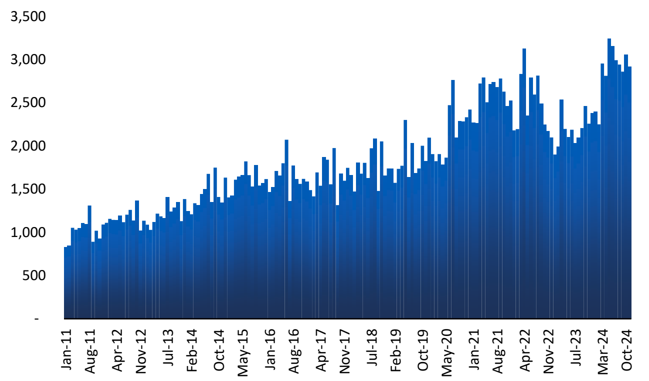
Current account reports surplus for three consecutive months



Textile to top growth in exports



Remittances provide buffer to current account



Source: PBS, SBP & AKD Research

FX reserves to grow over improvement in financial inflows

Improvement in financial inflows under the IMF program, along with a controlled CAD, stable currency, and FX interventions, would help the SBP build FX reserves. We expect SBP reserves to surpass the US$20bn mark by FY27, accompanied by a significant reduction in the SBP's forward/swap liabilities during this period.

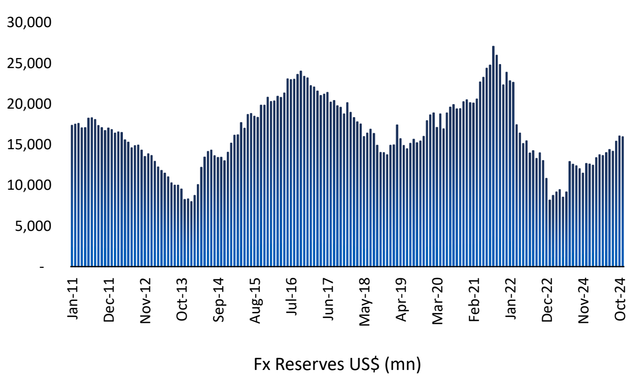
Contained current account to remain the key: The current account balance is anticipated to remain controlled due to tight monetary policy and a prudent fiscal approach amid a flexible exchange rate. This, combined with improved financial inflows—both multilateral and bilateral—as well as rollovers of safe deposits, would provide the SBP room to build external buffers.

FDI to play supportive role: We expect financial account to create a room of US$13bn over the next 3-Yrs, nearly half of which is likely to be driven by Foreign Direct Investment (FDI). Multilateral disbursements are projected to remain the mainstay majorly from WB and ADB. Meanwhile, key bilateral creditors fully maintaining their exposure through new financing activities. Modest access to new short-term borrowing from commercial banks is anticipated for FY25 and FY26, with a gradual return to bond markets assumed for mid-FY27, reflecting a restoration of policy credibility. Furthermore, the SBP FX market interventions, focusing on buying dollars would allow central bank to cover interest payments and build FX reserves.

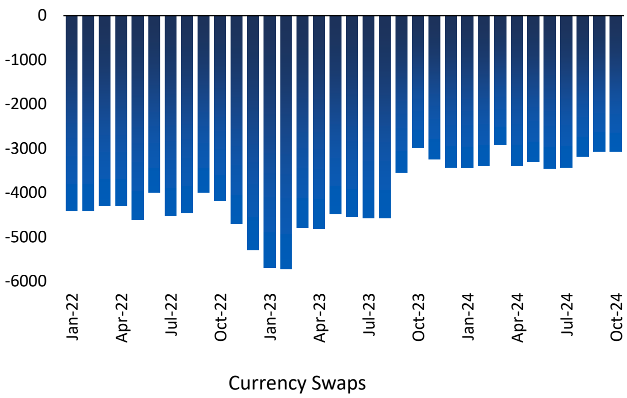
Reserves to top US$20bn by FY27: SBP FX reserves are anticipated to reach US$21.4bn by FY27 enough to cover imports of 3.2 months, up from US$11.0bn in FY24, along with a reduction in the SBP's forward/swap liabilities by US$2.4bn over the next 3-Yrs.

Multilaterals to remain major source of financing: Majority of the external debt stock, US$131bn or 35% of GDP, is owed to multilateral creditors. The country owes US$40.1bn to multilaterals, followed by US$18.2bn to bilateral creditors, and US$12.4bn to the private sector. IMF lending stood at US$9.2bn as of Sep'24.

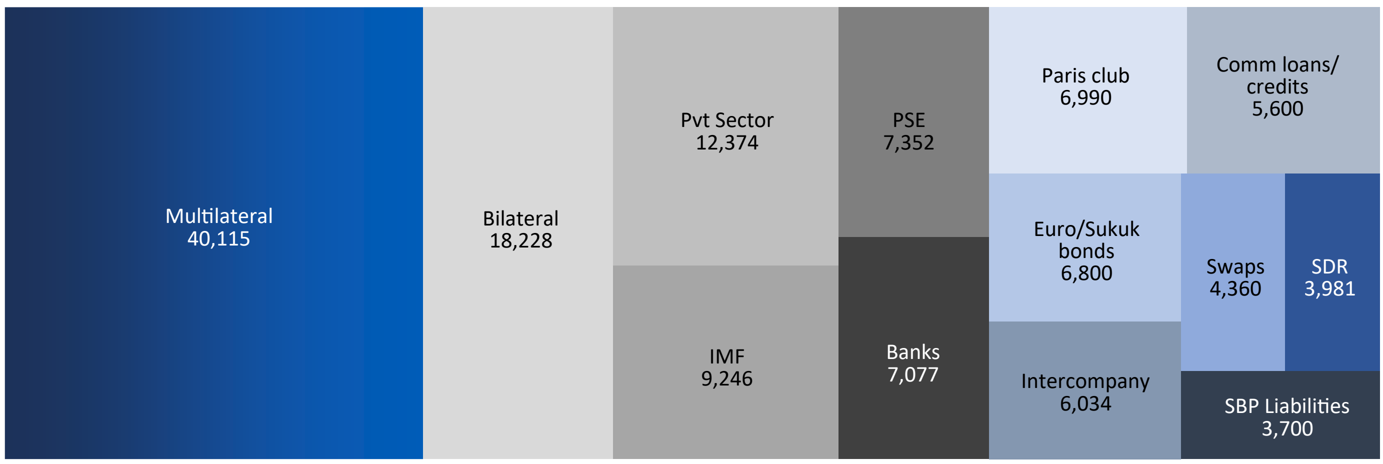
FX reserves reach 31-month high



Currency swap liabilities reduced to half



Outstanding Debt Stock position (Sep'24)



Source: SBP & AKD Research

GDP growth to remain modest

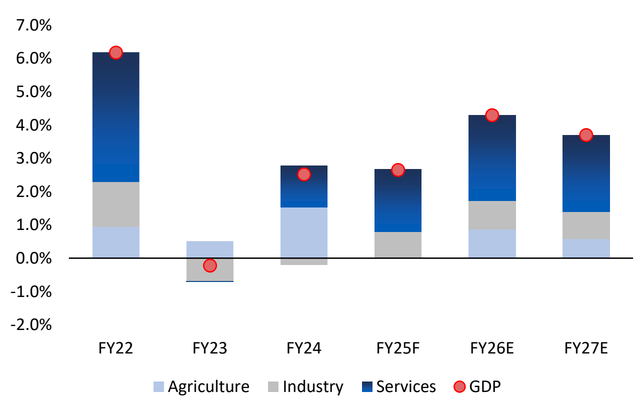
GDP growth is expected to remain modest over the next three years due to tight monetary policy and prudent fiscal measures. We expect GDP growth to increase slightly by 2.7% in FY25, up from 2.5% in FY24 driven by a pickup in industrial and services sector activity, while agriculture growth is anticipated to remain muted due to a decline in cotton production.

Industrial sector to outshine in FY25: We expect industrial sector growth would overshadow muted growth in agriculture sector supported by monetary easing and a stable currency during FY25. The government push for increased lending through the ADR related tax framework would provide necessary financing to meet working capital requirements. Moreover, industry operations at lower utilization levels would support growth without requiring significant CAPEX. Better availability of raw materials, adequate energy supplies, stable currency, and lower commodity prices are likely to facilitate growth in LSM. The services sector is likely to benefit from the spillover effects of enhanced industrial production and increased trading activity.

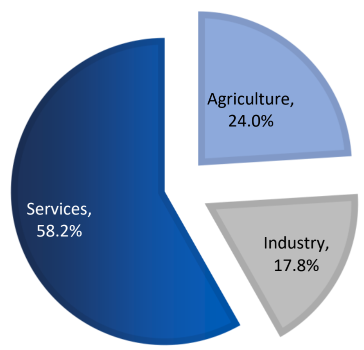
Agriculture growth is likely to remain muted, primarily due to a negative growth of 7.7%YoY in important crops, driven by 40%YoY drop in cotton production. The high base effect from the previous year is likely to result in negative contribution from sugar and rice crops. Maize production is projected to decline by 11.6%YoY given higher temperature during the Kharif season. However, Livestock and poultry are expected to contribute positively, supported by falling commodity prices, particularly Maize.

Growth to improve to 4.3% in FY26 on Agriculture rebound: We anticipate GDP growth to improve to 4.3% For FY26 due to rebound in agriculture sector before stabilizing at a long-term sustainable rate of 3.5%. Agriculture sector growth is anticipated to reach 3.7% in FY26 due to rebound in cotton production along with improved production in all other major crops aided by availability of inputs at affordable prices.

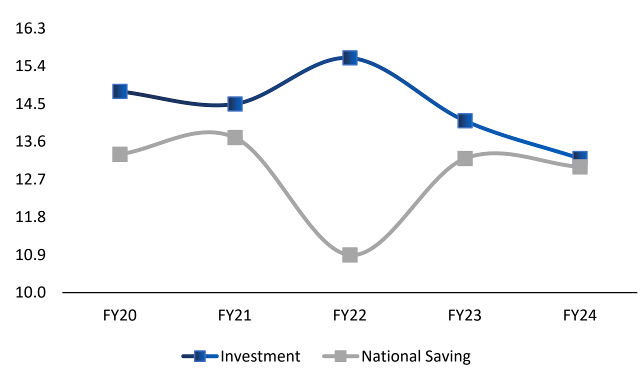
Industrial resurgence to fuel GDP growth



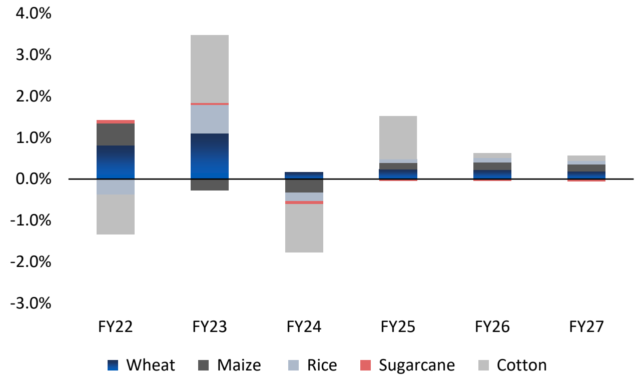
Services sector is the major constituent of GDP



Saving rate improves on higher interest rates



Lower cotton production to keep important crops growth negative



Source: PBS, SBP & AKD Research

Robust tax collection and better debt management to improve fiscal position

Fiscal imbalance is expected to reduce considerably over the next 3 years given robust growth in tax revenues along with prudent spending. We anticipate the Tax-to-GDP ratio to improve to 11.5% by FY27 from 9.5% in FY24, led by growth in tax revenues supported by elevated non-tax revenue. Meanwhile, expenses growth is expected to remain below average inflation rate due to a considerable decline in markup payments as the policy rate falls to single digits.

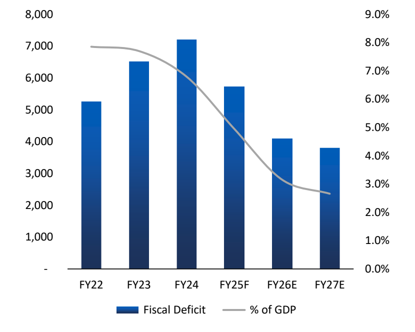
Tax reforms to push Tax-to-GDP ratio to 11.5%: Tax revenues are anticipated to grow at an average annual rate of 18% over the next three years due to reforms in tax systems, along with a focus on collections from untapped services and agriculture sectors. The alignment of Agriculture Income Tax (AIT) with corporate and personal tax, and the transition of GST on services from a positive to a negative list would help add incremental revenue streams for government. Simplifying the entire tax system and improving tax administration would enhance the proportion of direct taxes to 37% over the next three years from 34% in FY24. However, we expect tax revenue growth to slowdown in FY25 due to significant drop in inflation and muted activity in the agriculture sector.

Non-Tax revenue continues to provide significant support: Non-tax revenue is expected to grow by 49% in FY25 due to surplus profit of PkR2.5tn transferred by the State Bank of Pakistan along with persistent support from PDL. SBP is likely to remain the main contributor in non-tax revenue given continued reliance of center on OMO. Moreover, we assume PDL to post double digit growth over next 3 years given increase in per liter rate to PkR70 from Jan'25 and average annual petroleum sales growth of 8% in white oil sales during the period.

Expenditures to grow below inflation levels due to cut in policy rate: Government expenditures are expected to increase at an annual rate of 6% over next three years due to decline in markup payments, despite high teen increase in other expenses. We estimate markup expenses to increase by 1% in FY25 and drop by 20% in FY26 as the policy rate falls to 9.5% from a peak of 22%. Meanwhile, we anticipate limited increases in development expenditures due to the need to meet the IMF's primary surplus target. Moreover, Subsidies and Grants are also expected to post a slight increase by FY27 as the government focuses on structural reforms to address core inefficiencies.

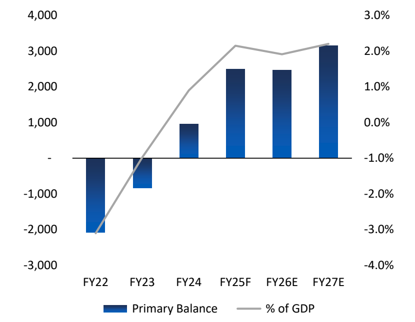
Fiscal deficit to fall below 3% by FY27: The broadening of tax base to include agriculture and services sectors, tightening of taxation on the real estate sector, and the removal of non-filer category combined with a prudent approach to spending (including pension reforms) are expected to significantly reduce the fiscal deficit. We anticipate the fiscal deficit to fall to 5.0% for FY25, further declining to 2.7% by FY27.

Reducing expenses to cushion the fiscal deficit



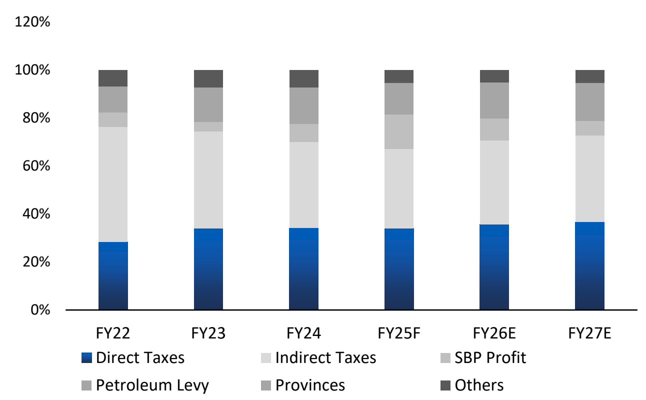
Source: PBS & AKD Research

Primary surplus witnessed after 20 years

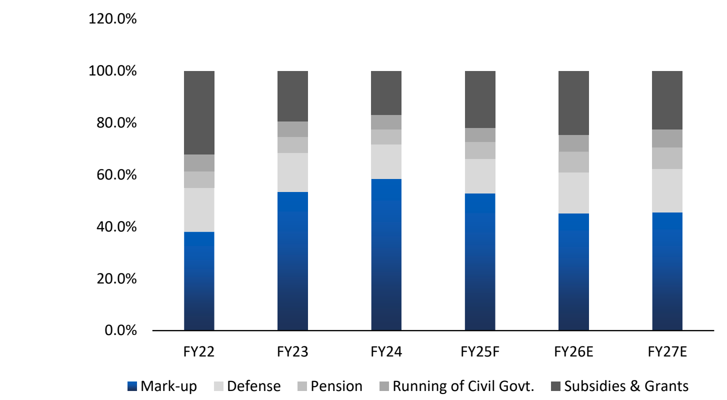


Source: MoF & AKD Research

Implementing agriculture tax to drive direct taxes



Eliminating subsidies to minimize expenses



Source: MoF, FBR & AKD Research

Fiscal deficit to fall considerably on higher revenue growth and monetary easing

Description	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Revenue	**8,035**	**9,634**	**13,269**	**17,361**	**18,831**	**20,752**
Tax Revenue	6,755	7,819	10,085	12,612	14,430	16,426
Federal	6,143	7,169	9,311	11,655	13,301	15,108
Direct Taxes	2,280	3,272	4,531	5,921	6,747	7,608
Taxes on International Trade	1,009	935	1,104	1,167	1,269	1,414
Sales Tax	2,532	2,592	3,099	3,895	4,555	5,273
Federal Excise	321	370	577	671	730	813
Provincial	612	650	774	957	1,129	1,318
Non-Tax Revenue	**1,280**	**1,815**	**3,184**	**4,749**	**4,401**	**4,326**
Federal'	1,152	1,649	2,961	4,455	4,009	3,806
Petroleum	128	580	1,019	1,030	1,298	1,401
Surplus Profit of State Bank of Pakistan	474	371	972	2,500	1,736	1,273
Mark-up (PSEs & Others)	88	145	355	247	181	181
Dividend	43	69	89	115	148	192
Provincial'	128	166	223	294	392	520
Total Expenditure	**13,295**	**16,155**	**20,476**	**23,090**	**22,913**	**24,558**
Current Expenditure	**11,521**	**14,448**	**18,571**	**21,012**	**20,611**	**22,009**
Markup Payments	3,182	5,696	8,160	8,213	6,548	6,953
Defense	1,412	1,586	1,859	2,066	2,307	2,554
Development Expenditure & net lending	**1,657**	**1,953**	**2,078**	**2,078**	**2,301**	**2,549**
Statistical Discrepancy	**116**	**-246**	**-173**	**-**	**-**	**-**
Overall Budget Balance	**-5,260**	**-6,521**	**-7,207**	**-5,730**	**-4,082**	**-3,806**
Primary Balance	***-2,077***	***-826***	***953***	***2,484***	***2,466***	***3,147***
Financing	**5,260**	**6,521**	**7,207**	**5,730**	**4,082**	**3,806**
External	**1,178**	**-680**	**321**	**717**	**796**	**981**
Domestic	**4,081**	**7,201**	**6,886**	**5,012**	**3,286**	**2,825**
Non-Bank	981	3,673	-313	-	-	-
Bank	3,101	3,529	7,198	5,012	3,286	2,825
Privatization Proceeds	-	-	1	-	-	-
GDP	**66,950**	**84,658**	**106,045**	**115,748**	**129,266**	**143,094**
GDP Dollar	374	319	375	414	447	475
% of GDP						
Total Revenue	**12.0%**	**11.4%**	**12.5%**	**15.0%**	**14.6%**	**14.5%**
Tax Revenue	10.1%	9.2%	9.5%	10.9%	11.2%	11.5%
Federal	9.2%	8.5%	8.8%	10.1%	10.3%	10.6%
Non-Tax Revenue	1.9%	2.1%	3.0%	4.1%	3.4%	3.0%
Total Expenditure	**19.9%**	**19.1%**	**19.3%**	**19.9%**	**17.7%**	**17.2%**
Current Expenditure	17.2%	17.1%	17.5%	18.2%	15.9%	15.4%
Development Expenditure & net lending	2.5%	2.3%	2.0%	1.8%	1.8%	1.8%
Overall Budget Balance	**-7.9%**	**-7.7%**	**-6.8%**	**-5.0%**	**-3.2%**	**-2.7%**
Primary Balance	**-3.1%**	**-1.0%**	**0.9%**	**2.1%**	**1.9%**	**2.2%**
Debt	**47,832**	**60,841**	**68,914**	**75,388**	**80,878**	**86,224**
Debt to GDP	**71.4%**	**71.9%**	**65.0%**	**65.1%**	**62.6%**	**60.3%**

Source: FBR, PBS & AKD Research

Changes in fiscal policy under the IMF program

IMF has placed special emphasis on policies related to Fiscal, Poverty Reduction and Social Protection, Monetary, Exchange Rate and Financial sector, Energy sector, Structural policies and Climate to address Pakistan's longstanding challenges, most notably low productivity and economic openness, resource misallocation, and climate vulnerability. Policies under the EFF aim to support a gradual fiscal consolidation moving to a primary surplus of 2% of GDP on the back of a net 3% of GDP growth and a fairer tax system.

Fiscal Policies: Under the EFF, IMF has emphasized on strengthening tax revenues to 12.3% of GDP, to achieve a primary surplus of PkR1.2bn (1% of GDP), by introducing new tax measures in FY25 budget. Fiscal consolidation will depend on strategies that enhance revenue, due to the inflexibility of expenditures and the necessity to increase social spending to support human capital development. The need for controlled spending is crucial, achieved by rationalizing the size of the PSDP and downsizing the scale of government institutions. Policies, such as brining exporters into the regular tax regime, reducing slabs to five for SI & NSIs, and raising the maximum rate for NSI to 45%. Moreover, removing most of the exempt and zero-rated products to standard rate. Expanding FED coverage by introducing a FED on property sales and cigarettes. Enhancing withholding taxes and direct taxation for non-filers under advance tax collection by manufacturers from distributors and wholesalers. Moreover, to an extra emphasis has been placed on strengthening tax administration and federal provincial fiscal relations by digitalizing FBR with the introduction of new tax reforms.

Poverty Reduction and Social Protection: Strengthening social and human capital spending continues to be a key component of the program. This will be pursued through; increasing spending for the UCT programs like BISP. The FY25 budget allocates PkR599bn (0.5% of GDP) to BISP. Authorities should maintain fiscal contingency reserves to support BISP's emergency cash transfers, essential for building climate resilience. Moreover, additional spending should target hiring of teachers and increasing their salaries, building more schools and improving infrastructure.

Monetary, Exchange Rate, and Financial Sector Policies: A tight monetary policy and a flexible exchange rate to absorb emerging pressures are crucial. Monetary policy should focus on reducing inflation to the SBP's target, with efforts to lower core inflation and re-anchor inflation expectations. The SBP will maintain positive real policy rates and adjust based on evolving price dynamics. Rebuilding reserves to cover at least 3 months of imports remains a priority, supported by multilateral and bilateral loans and FX purchases. If outflow pressures persist, the SBP will allow the exchange rate to adjust. The SBP will also ensure recapitalization of undercapitalized private banks or place them under resolution if needed, and complete the wind-down of the public bank. Reforms will be implemented to improve lending to the private sector.

Energy Sector Policies: Pakistan's sustainable development is still hindered by structural issues in the energy sector. Unreliable energy supply and fluctuating costs adversely affect economic activity and growth. Structural inefficiencies particularly in DISCOs, guaranteed US$ returns to power producers, leading to large losses amid cross-subsidization among different consumer groups. To resolve these issues, continuation of timely energy tariff adjustments and consistent cost recovery are needed to stop further accumulation of circular debt. In efforts to reduce power losses and accumulation of circular debt, focus shall be on improving DISCOs efficiencies, privatization of inefficient distribution companies and improving power plant efficiencies. Under the EFF umbrella, to avoid further accumulation of circular debt in the gas sector and better utilization of the electricity grid, reforms such as elimination of gas supply to Captive power from Jan'25 have been made. Moreover, for further unification of pricing, implementing the weighted-average cost of gas pricing (WACOG) is emphasized.

Structural Policies: SOE reforms are key to reducing losses, improving services, and scaling back the role of the state. Many SOEs provide poor-quality services and make large losses, absorbing 8¾% of GDP in direct budget support (cumulative since 2016).

Facility	Beginning	Amount Agreed	Amount Drawn
EFF	Sep-24	5,320	760
SBA	Jul-23	2,250	2,250
EFF	Jul-19	4,988	3,038
EFF	Sep-13	4,393	4,393
SBA	Nov-08	7,236	4,936
ECF	Nov-08	1,034	861
SBA	Nov-00	465	465
EFF	Oct-97	455	114
ECF	Oct-97	682	265
SBA	Dec-95	563	295
ECF	Dec-94	607	172
EFF	Dec-94	379	123
SBA	Sep-93	265	88
SAFC	Dec-88	382	382
SBA	Dec-88	273	194
EFF	Dec-81	919	730
EFF	Nov-80	1,268	349
SBA	Mar-77	80	80
SBA	Nov-74	75	75
SBA	Aug-73	75	75
SBA	May-72	100	84
SBA	Oct-68	75	75
SBA	Mar-65	38	38
SBA	Dec-58	25	0

Extended Fund Facility (EFF)
Standby Arrangement (SBA)
Extended Credit Facility (ECF)
Structural Adjustment Facility Commitment (SAFC)

Source: IMF

Avail ability	Millions of SDRs	Percent of Quota	Conditions
Sep-24	760	37.4	Approval of arrangement
Mar-25	760	37.4	1st review and end- Dec-24 performance
Sep-25	760	37.4	2nd review and end-Jun-25 performance
Mar-26	760	37.4	3rd review and end-Dec-25 performance
Sep-26	760	37.4	4th review and end-Jun-26 performance
Mar-27	760	37.4	5th review and end-Dec-26 performance
Sep-27	760	37.4	6th review and end-Jun-27 performance
Total	**5,320**	**261.9**	

Source: IMF & AKD Research

Recent amendments to the laws of SOE act will ensure the new SOE legal framework covers the entire SOE portfolio by, in consultation with IMF staff. Policies would also prioritize decisive implementation of SOE legal frameworks with the Asian Development Bank support, completing privatization and restructuring plans. Government intervention in agricultural commodities have created distortions inhibiting the sector's productivity, moving forward these interventions shall be discontinued. To promote industrialization, efforts shall be made to remove trade barriers and reduce complexity of tariffs for imported inputs.

Climate Policies: Climate efforts should prioritize policies that build resilience and adaptation. Adaptation should focus on implementing the C-PIMA Action Plan (adopted in December 2023), laying the foundation for integrating adaptation investments into Pakistan's broader investment strategy. Under the UNFCCC framework, Pakistan's Nationally Determined Contribution (NDC) targets a 50% reduction in projected emissions by 2030 (conditional) and a 15% reduction (unconditional).

Projects	End Jun'24	End Sep'24	End Dec'24	End Mar'25	End Jun'25
I. Quantitative Performance Criteria					
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12,349	-12,150	-12,050	-10,200	-8,650
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15,542	15,044	15,211	15,179	15,820
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3,450	-3,250	-3,000	-2,750	-2,500
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees) 2/	-401	-198	-2,877	-2,707	-2,435
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees) 3/	4,585	5,100	5,200	5,400	5,600
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	472	101	235	415	599
Cumulative floor on the number of new tax returns from new filers (thousands)	142	75	225	300	450
II. Continuous Performance Criteria					
Zero new flow of SBP's credit to general government	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	0	0	0	0
III. Indicative Targets					
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.7	2.8	2.8	3.0	3.0
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)		685	1,405	2,150	2,863
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees) 2/	-650	-342	-750	-1,028	-1,217
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	9,251	2,652	6,009	9,168	12,913
Floor on the consolidated net tax revenues collected by Provincial revenue authorities (cumulative, billions of Pakistani rupees)	835	184	376	606	918
Floor on net tax revenues collected by the FBR from retailers under the Tajir Doost scheme (cumulative, billions of Pakistani rupees)	0	10	23.4	36.7	50
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	56	32	43	56	-24
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	475	255	461	554	417

1/ Fiscal year runs from July 1 to June 30. All definitions as per the attached Technical Memorandum of Understanding.
2/ Cumulative from the start of each fiscal year. "-" means surplus.
3/ Including guarantees for commodity operations by SOEs.

Sources: Pakistani authorities; Fund staff estimates.

Key Themes

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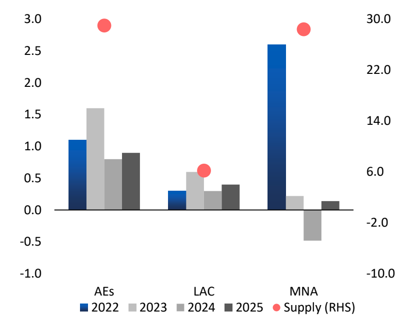
Lower commodity prices to ease import bill

Oil (US$/bbl)	Gas (US$/Mmbtu)	Coal US$/MT	Rice (US$/bbl)	Cotton (USc/lb)
75.06	13.26	107.50	15.01	78.85

Pakistan stands to benefit from falling global commodity prices, which will lower import bills and keep the inflation downward sticky. This is partly due to reduced oil and gas demand from China. Whereas, favorable weather conditions are also expected to boost rice and cotton production, helping to reduce prices from their historic highs.

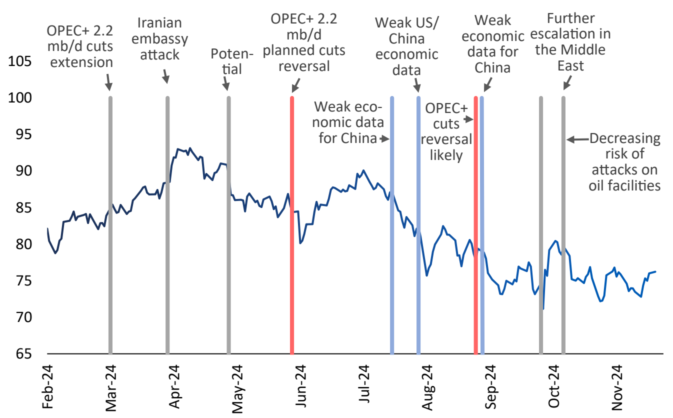
Oil prices to remain volatile amid geopolitical tensions: Crude oil prices have remained volatile driven by shifting market assessments of geopolitical risk, signs of weak economic growth in China and concerns regarding oversupply in 2025, as OPEC+ plans to unwind output cuts gradually starting Apr'25. Additionally, risks over the potential implementation of tariffs on China by both the US and European countries following Donald Trump's election win may further complicate the challenges facing the Chinese economy, and further slowing China's industrial recovery. We anticipate oil prices to clock in at US$80/barrel for FY25.

Change in oil supply by region

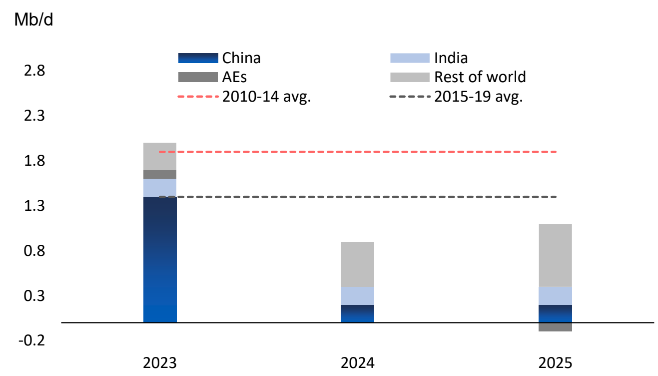


Sources: IEA, WB & AKD Research

Volatile oil prices amid geopolitical tension



Changes in global oil demand



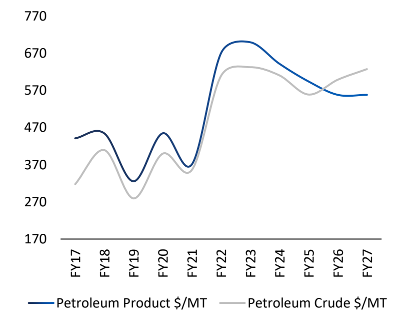
Source: Bloomberg, WB, IEA & AKD Research

Stable oil prices to ease import bill: Pakistan's heavy reliance on petroleum imports has caused immense pressure on the import bill historically, with petroleum imports averaging at 21% of import payments during the past decade. We anticipate easing geopolitical tensions and contraction in overall demand to reduce oil prices come CY25, resulting in a muted burden on the import bill. However, the said relief may not be passed on to consumers, as authorities strive to collect the tall PDL target of PkR1.28tn during FY25.

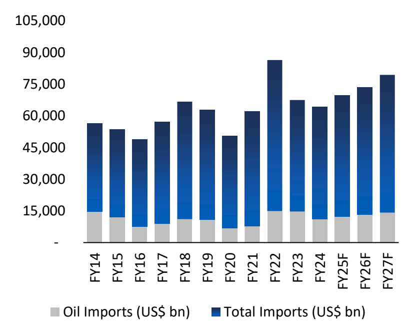
During FY24, oil import payments represented 21% of the total import bill, amounting to US$11.0bn for 19.4mn tons. For FY25, we forecast oil imports to increase by 9% YoY in FY25 to 21.1mn tons, driven by general resurgence in the economy, resulting in oil-led payments amounting to US$12.3/13.2bn in FY25E/FY26E. Additionally, shifting country's power generation mix through reduction in furnace oil led generation towards RLNG, imported/local coal and nuclear are expected to alleviate future pressures on the import bill. However, we do see demand for Motor Spirit (MS) to rise as OMC volumes recover during FY25 and beyond.

Global Outlook: US Energy Information Administration (EIA) estimates global consumption of liquid fuels to increase by 1.2mn bbl/d during FY25. With majority of the growth in demand stemming from India, expected to account for 25% of the consumption increase globally. Additionally, ongoing geopolitical tensions and withdrawals from global oil inventories stemming from OPEC+ production may place upward pressure on oil prices for next couple of months, with forecasted Brent Oil price aver-

Petroleum prices to ease moving forward



Declining oil prices to ease import bill



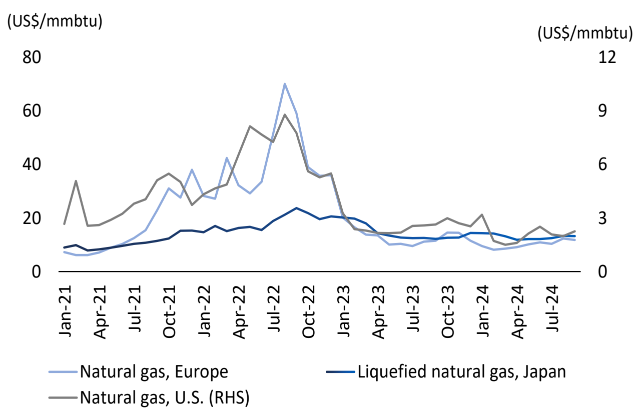
Source: PBS & AKD Research

aging US$78/bbl in the 3QFY25. However, EIA forecasts the global oil production growth will lead to increased inventories in 4QFY25, indicating bearish trend in the crude commodity's price. However, the growth forecast still remains below pre-pandemic 10-year average of 1.5mn bbl/day.

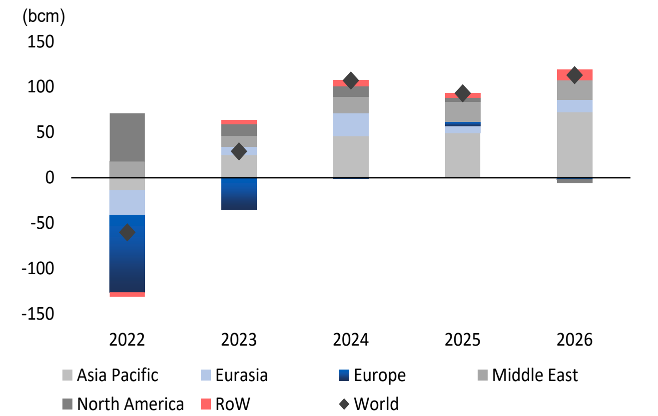
Gas prices to ease amid higher production: During late CY24 and early CY25, tidal wave of new LNG supply will start to take shape. IEEFA expects that roughly 37mn TPA of new LNG facilities will begin operations during 2025, followed in 2026 with 57 mn TPA of new capacity, the most ever built in a single year.

We anticipate global LNG demand to decline during 2025 and onwards, with major consumers of the LNG now starting to move towards renewable energy for their power mix, including Japan, South Korea and Taiwan. Moreover, we anticipate demand from Europe to decline as well from the peaks seen in 2022 due to trade war with Russia amid it's evasion of Ukraine, led by milder winters, increased hydro-electric and nuclear generation and alongside elevated storage levels.

LNG prices eased amid increased supply



Europe's demand on a downward spiral



Source: Bloomberg; OSJ, WB & AKD Research

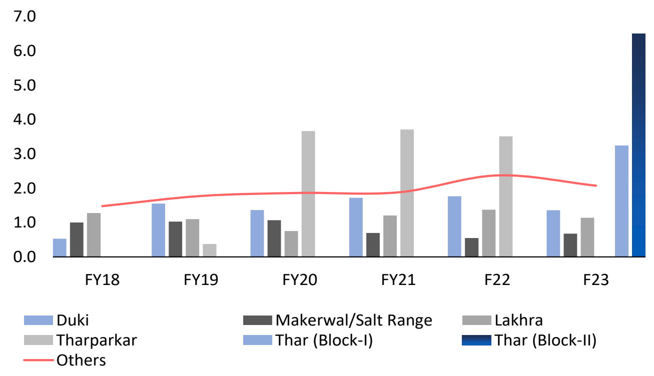
Industrial revival set to drive demand: Subdued demand from the power sector, driven by multi-year high electricity prices and weakened industrial activity, continues to impact overall consumption. Additionally, seasonal volatility, with significantly reduced electricity usage during winter months, has led to the GoP deferring five LNG cargoes from Qatar to 2026. We forecast Pakistan to import 98 cargoes of LNG in FY25 compared to 105 cargoes imported in FY24. Overall, demand for natural gas is expected to recover as economic revival becomes more pronounced, driven by resurgence in industrial activity. The textile and export-oriented sectors are expected to play a pivotal role in driving energy demand, especially given the trade wars and tariffs imposed on China by USA and Europe, which are anticipated to redirect orders toward competitive markets like Pakistan.

China's weak demand to lower coal prices: We expect global coal demand to decline as China experiences a slowdown and India's demand growth moderates during FY25. Moreover, coal demand for power generation in the US and Europe is anticipated to weaken due to higher reliance on renewable and environment-friendly sources i.e. natural gas.

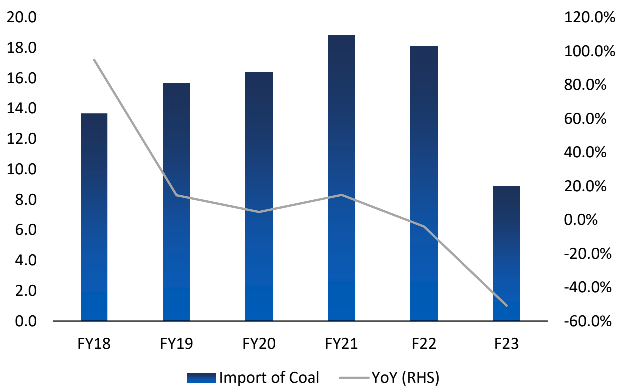
Shifting power mix leads to decreased demand: Shift in country's energy mix has increased the share of power generation from coal, renewable sources and nuclear from heavy reliance on RFO previously. Pakistan's consumption for coal in the power sector increased to 15.5mn tons in FY23 from 4.4mn in FY18. However, country's overall coal demand has witnessed a decline of 13.6%YoY to 23.9mn tons in FY23. Wherein, demand from cement sector and other industries reduced consumption to 5.4mn tons in FY23 from 9.2mn tons in FY22, a decline of 41%YoY, amid economic slowdown. Moving forward, demand from the cement sector is to remain largely flat on an annual basis, as our projections suggest cement offtakes to remain largely unchanged during FY25. This is primarily due to multiple cuts in the PSDP budget, which, coupled with fiscal constraints, will limit government spending.

Coal prices retreat from their record peak (US$/ton)

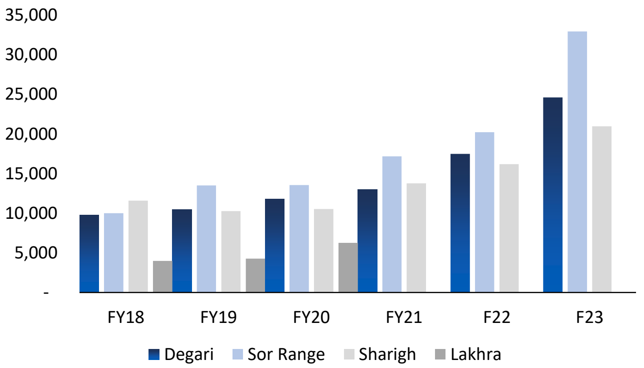
Thar block boosts local coal production



Reliance on imported coal fall amid changes in power mix



Local coal prices soar as demand surges

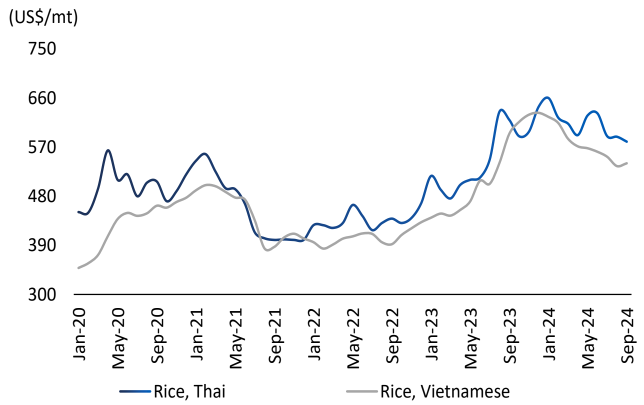


Source: PBS, World Bank, Bloomberg, PMDC & AKD Research

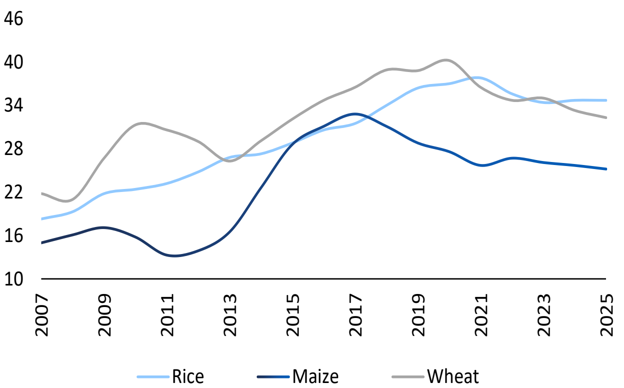
Rice prices poised to drop amid favorable weather: World Bank's agriculture price index projects a 4%YoY decline in rice prices for CY25, driven by favorable weather conditions in key exporting regions. Rice prices, which surged post-2008 and peaked earlier this year, have started to ease. This trend was evident in Oct'24, as demand remained subdued and India lifted all official export restrictions on Indica white, par-boiled, and basmati rice, contributing to the downward price pressure. World bank forecasts rice prices to fall by 11% in 2025 and further 2% in 2026, as global rice output is anticipated to hit new highs 2024-25 season amidst ample monsoon rains and expansion of rice sowings in India and other South Asian countries. Global rice trade is expected to rebound to 54.9mn tons in CY25, marking the second-highest volume on record, as easing international rice prices and reduced stockpiles may surge imports by most countries.

Rice exports bolster stability of current account: Pakistan's rice exports remained strong in FY24, totaling US$3.9bn, supported by an increased share in the global market following India's restrictions on non-fully broken rice exports. The share of rice exports in Pakistan's total commodity exports rose to 12% in FY24, well above the 10-

Rice prices decline owing to lackluster demand



Stock to use ratio remains on the higher side for grains

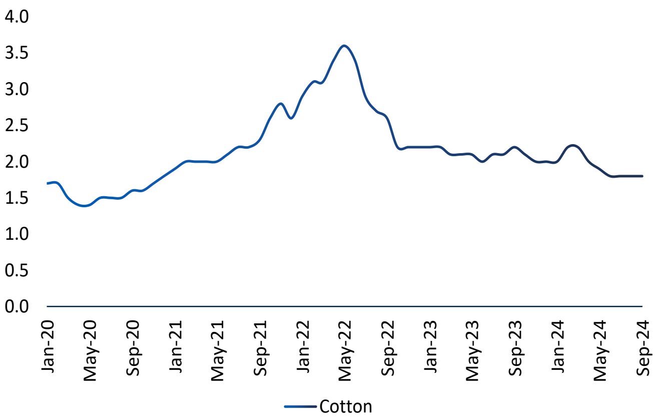


Source: Bloomberg, USDA, WB & AKD Research year average of 8%. However, with India lifting its export ban, we expect market dynamics to shift, allowing India to reclaim its lost share. As a result, we project Pakistan's rice exports to remain stable at US$3.9bn in FY25. Notably, exports for 5MFY25 have already reached US$1.5bn.

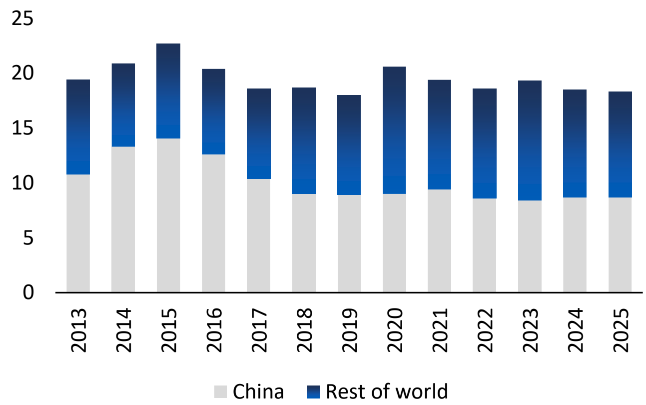
Cotton Outlook: International cotton prices fell to US$1.8/kg in Sep'24, down 18%YoY, with the decline primarily attributable to weak demand and higher production prospect for FY25 crop season. According to USDOAA (Oct'24), global cotton production is expected to increase by 4% in 2024-2025 season. Significant output surge from Brazil (+15%) Turkey (+25%), and United States (+33%) is expected to offset declines in India (-6.5%) and Pakistan (-10%). However, prices may rebound by 2025-2026 once the supply growth moderates.

Textile export growth cushions current account deficit: We expect international cotton prices to remain down at USc85/lb (down 12% from FY24 avg. of USc93/lb), as rise in global production (by 4%YoY) is expected to outpace the consumption growth (2.3%YoY), as per the USDA. Likewise, local cotton prices are also expected to remain down by 3%YoY to USc80.8/lb or PkR18.4k/maund, translating into 5% discount to international prices compared to long-term avg. discount of 11%. Overall, cotton crop output may decline by 17%YoY to 8.5mn bales as well, compared to 10.2mn in SPLY, given the 17%YoY decline in sowing area to 1.97mn hectares alongside sluggish cotton prices in FY24. With total demand expected at 11.4mn tons, we would need to import 2.8mn bales in FY25 compared to 1.2mn in previous year.

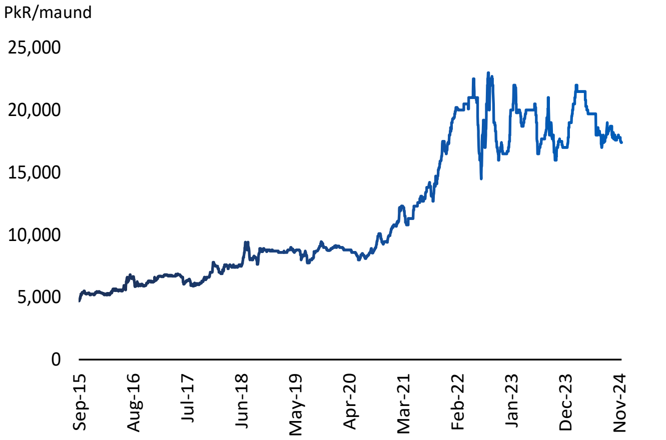
Higher output anticipation drive cotton prices down (US$/kg)



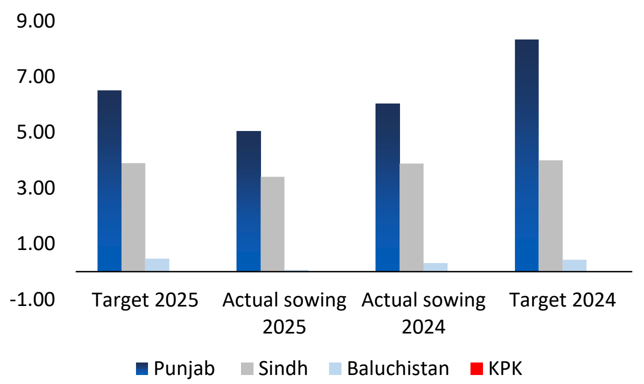
Year-end cotton stocks are projected to stay unchanged



Local cotton prices surge amid higher demand and lower production



Local cotton output remains lower than anticipation



Source: World Bank, Bloomberg, PBS, PCRS & AKD Research

China Pakistan Economic Corridor - CPEC

AKD SECURITIES LIMITED

Socio Economic | Regional Connectivity | Job Growth | Urban Development | Trade & Industry Cooperation

CPEC: A transformative leap towards Pakistan's economic future.

The China-Pakistan Economic Corridor (CPEC) serves as a strategic growth axis and development belt, driven by complementary advantages, collaboration, mutual benefits, and shared prosperity. At its core, CPEC features a comprehensive transportation corridor and industrial cooperation between China and Pakistan, with a focus on concrete economic and trade partnerships, as well as people-to-people exchanges and cultural communication. CPEC encompasses key initiatives in infrastructure development, industrial growth, and improvement of living standards, all aimed at fostering socio-economic development, prosperity, and security in the regions it spans. At present, CPEC has 46 projects completed or under-construction, with a total investment of US$25.4bn. The scope of cooperation under CPEC is continuously expanding, and a series of achievements have been made. Pakistan is now ready to enter the Phase-2 of CPEC which emphasizes on industrial, agricultural and trade development.

COMPLETED GWADAR PROJECTS UNDER CPEC	Development of Port and Free Zone Gwadar Smart Port City Master Plan Pak-China Technical and Vocational Institute at Gwadar Gwadar Eastbay Expressway Pak-China Friendship Hospital 1.2 MGD Desalination Plant
UNDER CONSTRUCTION GWADAR PROJECTS UNDER CPEC	New Gwadar International Airport Necessary facilities of fresh water treatment, water supply and distribution 300MW Coal-Fired Power Project at Gwadar 5 MGD Water Desalination Plant Gwadar
IN-PIPELINE GWADAR PROJECTS UNDER CPEC	Construction of Breakwaters Dredging of berthing areas & channels Fish Landing Jetty and Fishermen Boat Making Industry on West bay Gwadar Smart Environment Sanitation System and Landfill Project

Key Cooperation areas under CPEC:

Connectivity Long-term vision under CPEC: Transport infrastructure serves as the backbone of CPEC, playing a pivotal role in advancing the economic and social development nearby regions along the corridor through enhancement of connectivity.

The development of key infrastructure projects, such as the Kashgar-Islamabad, Peshawar-Islamabad-Karachi, Sukkur-Gwadar, and Dera Ismail Khan-Quetta-Sohrab-Gwadar roads, is expected to improve road safety, increase traffic capacity, and enhance overall service quality. In parallel, expanding strategic railway lines like ML-1 under CPEC and constructing new rail routes will create a more interconnected transport network. Focused efforts in Gwadar will include upgrading both the city and port infrastructure, enhancing the East Bay Expressway, constructing a new international airport, and strengthening the competitiveness of the Free Zone, all aimed at stimulating economic growth and regional development.

COMPLETED TRANSPORT INFRASTRUCTURE PROJECTS UNDER CPEC FINANCING		(US$mn)
	KKH Phase II (Havelian - Thakot Section)	1,315
	Peshawar-Karachi Motorway (Multan-Sukkur Section)	2,889
	Orange Line Metro Train - Lahore	1,626
	Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi)	44
	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	4
	Hakla - D.I Khan Motorway	424

UNDER CONSTRUCTION TRANSPORT INFRASTRUCTURE PROJECTS UNDER CPEC	
	Zhob - Quetta (Kuchlak) (N-50)
	Khuzdar-Basima Road (N-30)
	Hoshab - Awaran Road Section (M-8)
	KKH Alternate Route Shandur - Chitral Road
	Nokundi-Mashkhel Road
	Up-gradation and Dualization of ML-1 and establishment of Dry Port near Havelian
	Up-gradation of D.I.Khan (Yarik) - Zhob, N-50 Phase-I
	KKH Alternative Route Gilgit-Shandur Road
	Realignment of KKH Phase-I Thakot - Raikot Section
	Peshawar - D.I.Khan Motorway
	Awaran - Khuzdar Road Section (M-8)
	Dir Expressway
	DTMB-A (Digitalize the existing three sites of PTV)

Energy Related Fields: To enhance Pakistan's power transmission and supply reliability, CPEC has prioritized collaboration in the fields of power generation, grid networks and Oil & Gas. Efforts are centered around advancements in projects including hydropower, thermal power, coal gasification, and renewable energy generation, with the aim to strengthen the country's energy framework and meet the growing demand. To date, CPEC has helped Pakistan adding 5200MW of power generation and 886km of national core transmission lines, significantly supporting the country's overall development and addressing its energy needs.

COMPLETED ENERGY PROJECTS UNDER CPEC FINANCING (US$MN)			
	1320MW Sahiwal Coal-fired Power Plant	1912	Operational
	1320MW Coal-fired Power Plant at Port Qasim Karachi	1912	Operational
	1320MW China Hub Coal Power Project, Hub Balochistan	1912	Operational
	660MW Engro Thar Coal Power Project	995	Operational
	1000MW Quaid-e-Azam Solar Park (Bahawalpur)	580/781	400 MW project completed, 600MW under Implementation
	50MW Hydro China Dawood Wind Farm, Gharo, Thatta	112	Operational
	100MW UEP Wind Farm, Jhimpir, Thatta	250	Operational
	50MW Sachal Wind Farm , Jhimpir, Thatta	134	Operational
	100MW Three Gorges Second and Third Wind Power Projec	150	Operational
	Matiari to Lahore ±660 KV HVDC Transmission Line Project	1658	Operational
	720MW Karot Hydropower Project, AJK/Punjab	1720	Operational
	330MW HUBCO Thar Coal Power Project (Thar Energy)	498	Operational
	1320MW SSRL Thar Coal Block-I 7.8 mtpa & Power Plant (2×660MW) (Shanghai Electric)	1912	Operational
	330MW HUBCO ThalNova Thar Coal Power Project	498	Operational
	884MW Suki Kinari Hydropower Project, KP	2000	Operational

UNDER CONSTRUCTION ENERGY PROJECTS		
	300MW Coal-Fired Power Project at Gwadar	Financial Close (FC) under process.
	1124MW Kohala Hydropower Project, AJK	Financial Close (FC) under progress.
	700.7MW Azad Pattan Hydropower Project, AJK/Punjab	Financial Close (FC) under progress.
	1320 MW Thar Mine Mouth Oracle Power Plant & surface mine	LOI Stage
	50MW Cacho Wind Power Project	LOI Stage
	50MW Western Energy (Pvt.) Ltd. Wind Power Project	LOI Stage

Trade and Industrial Parks: Both countries aim to deepen cooperation in the trade and industrial sectors in order to advance bilateral ties and fostering overall trade liberalization between them. Focus remains on enhancing quality, value addition, competitiveness, and efficiency within the textile value chain. Key areas include include expanding the scale of the textile sector and increasing the supply of high-value-added products. To elevate exports, both the nations plan to establish a regional cooperation model built on complementary advantages and shared benefits.

Special Economic Zones (SEZs) should be promoted across Pakistan, along with key Chinese projects such as the Kashgar Economic and Technological Development Zone and Caohu Industrial Park. Encouraging Chinese companies to invest in Pakistan will also facilitate the growth of locally made components (away from import-based assembling plants), which would foster sustainable industrial development in the region.

IN-PIPELINE INDUSTRIAL COOPERATION/SPECIAL ECONOMIC ZONES(SEZS)		(Area– acre)
	Rashakai Special Economic Zone	1,000
	Allama Iqbal Industrial City	3,217
	Dhabeji Special Economic Zone	1,530
	Bostan Special Economic Zone	1,000

Information network infrastructure: China and Pakistan have strengthened information connectivity by deploying cross-border optical fiber cables and setting up a robust optical fiber backbone locally. Upgrades to Pakistan's network infrastructure, including a national data center and a second submarine cable landing station, aim to further strengthen digital across its citizens. Moreover, continued efforts towards development of the ITes industry through the establishment of technology zones/parks to promote services outsourcing, in a bid to boost the nation's global competitiveness.

IN-PIPELINE INDUSTRIAL COOPERATION/SPECIAL ECONOMIC ZONES(SEZS)
ICT Model Industrial Zone
Industrial Park on Pakistan Steel Mill Land
Mirpur Industrial Zone
Mohmand Marble City
Moqpondass Special Economic Zone
Mirpur-Muzaffarabad-Mansehra Road
Karachi Circular Railway
Mashkhel - Pangur Road
Quetta Mass Transit
Greater Peshawar Region Mass Transit
Construction of Breakwaters
Dredging of berthing areas & channels
Fish Landing Jetty and Fishermen Boat Making Industry on West bay
Gwadar Smart Environment Sanitation System and Landfill Project
Bacterial grass (JunCao) Technology Training and promotion project
Brightness journey in Pakistan
Pakistan Agricultural Vocational Training
Provision of teaching equipment for primary and secondary schools
China-Pak joint telemedicine network
Rural poverty reduction joint research project
Punjab-Tianjin University of Technology Project

Notable project collaboration under CPEC:

Changan Automobiles Pakistan (Automotive): Changan is a lead Chinese automobile manufacturer that formed a joint venture with Master Motors Ltd. for establishing a manufacturing plant in Pakistan. The investment is estimated to be around US$100mn. Initially they launched their first locally manufactured car Changan Alsvin in the sedan segment. The company has delivered over 40,000 units and has 28 dealerships across Pakistan.

BYD—Build Your Dreams (Automotive): BYD is a Chinese electric vehicle manufacturer. BYD concluded 2023 with over 3.02mn units of NEVs sold, with export volume exceeding 240k. BYD has entered into a Distributorship Agreement with Mega Motors Company (a wholly owned subsidiary of HUBCO) for the launch of BYD New Energy Vehicles (NEVs). Moreover, both companies are also negotiating Technical Licensing agreement to establish an assembly plant in Sindh.

Lucky Electric Power Company (Power Generation): Lucky Electric, part of the Lucky Cement ltd, is a 660 MW coal-fired power plant in the Port Qasim. The project is part of CPEC's energy sector. The LEPCL plant is managed and operated by Harbin Electric International Company Limited, a leading Chinese conglomerate with extensive expertise and investments in the global energy sector.

Service Industries Limited (Tyres and Rubber Products): Service Industries, a leading manufacturer of tyres and rubber products in Pakistan, has expanded its operations in collaboration with Chinese companies as part of the growing industrial sector under CPEC. The company is also involved in various infrastructure projects within Pakistan's manufacturing sector. The investment is estimated to be around US$250mn.

China Power Hub Generation Company (Power Generation): China Power Hub Generation Company (Pvt.) Limited (CPHGC), is a joint venture with equity proportion of 74% from China Power International Holding Limited and 26% from Hub Power Company Limited (HUBCO). It is a 1,320MW imported coal-based power plant. The two units, each with a capacity of 660 MW, were synchronized with the national grid on Dec'18, and May'19, respectively. Additionally, the integrated coal jetty became operational in Dec'18, marked by the arrival of the first coal shipment.

Engro PowerGen Thar (Pvt.) Limited (Power Generation): Engro Energy Limited (EEL) along with China Machinery & Engineering Corporation (CMEC) has set up a Thar coal based (2x 330 MW) power plant (Complex) - Engro PowerGen Thar (Pvt.) Limited (EPTL). Since its COD in Jul'19, EPTL is running its operations smoothly and sustainably and achieving operational benchmarks, with primary fuel being Thar Coal. A 30-year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is operating a coal mine in Thar Block II.

Sindh Engro Coal Mining Company (Mining and Minerals): Sindh Engro Coal Mining Company (SECMC) is a joint venture between Government of Sindh (GoS), Engro Energy Limited (formerly Engro Powergen Limited) and its partners namely; Thal Limited (House of Habib), Habib Bank Limited (HBL), Hub Power Company (HUBCO), China Machinery Engineering Corporation (CMEC), whereas Houlinhe Open Pit Coal Mine, subsidiary of SPI (State Power International) Mengdong (SPIM), formerly CPIM, has joined the SECMC board as strategic investor with preference shares subscription.

The total allocated area of 95.5km has been leased to SECMC for 30 years, further extendable to another 30 years for extraction of coal. The Bankable Feasibility Study (BFS) of the mining project was developed by Sinocoal International Engineering Research & Design Institute of China, RWE of Germany, SRK (UK) and Hagler Bailly in 2010, for a Mine capacity of 6.5mnTPA.

SECMC's mining project is categorized amongst the 'early harvest' projects under CPEC to generate electricity utilizing Thar's untapped coal reserves. Whilst work on the project had been in motion since 2010, the real mining work commenced post the financial closure in Apr'16. SECMC unearthed the first layer of coal in Jul'18 at a dept of 141 meters and declared commercial operations date by reaching the final layer and completing all tests & inspections on Jul'19.

CPEC

China Pakistan Economic Corridor	
Type of project	Economic corridor
Location	**Pakistan** Khyber Pakhtunkhwa Gilgit-Baltistan Punjab Balochistan Sindh Azad Kashmir **China** Xinjiang
Established	April 20 '2015

CPEC
Project Collaborations

Changan Automobiles Pakistan

BYD Automotive

Lucky Electric Power

Service Industries

China Power Hub Generation

Engro PowerGen Thar

Sindh Engro Coal Mining

SIFC: Unlocking Pakistan's Investment Potential

Energy | Agriculture | Mining & Minerals | ITes & Telecom | Industry & Tourism

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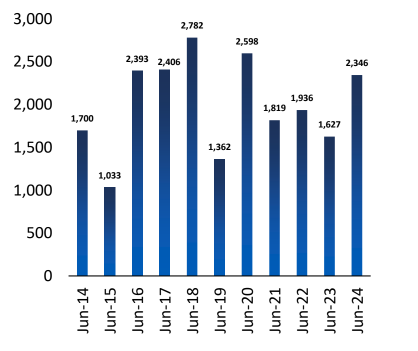
Special Investment Facilitation Council (SIFC) has positioned itself as a critical driver of Pakistan's long-run strategy to rejuvenate FDI. By amalgamation of civil-military expertise, the council aims to overcome long-standing bureaucratic inefficiencies. Focused on high-potential sectors such as agriculture, minerals, energy, and technology, the council has set an ambitious annual FDI target of US$5bn in order to enhance country's regional competitiveness as an investment hub.

Major investment commitments and future projects: SIFC has already secured significant investment commitments, including US$10bn from the UAE and US$5bn from KSA. Key initiatives include the Reko Diq mining project, green refinery and petrochemical project, and Phase-II of the China-Pakistan Economic Corridor (CPEC). Additionally, future plans include corporate farming to boost agricultural output, alongside further investments in the E&P sector space while also fast-tracking implementation of TAPI gas pipeline. These projects underpin the SIFC's focus on enhancing Pakistan's industrial and manufacturing base.

Reforms to address structural inefficiencies: Overall, SIFC is presently spearheading reforms in critical areas that have historically hindered tangible FDI inflows. Measures include rationalizing tariffs in the power and gas sectors, improving revenue collection via FBR overhauls, and enhancing the external account. Efforts to curb illegal currency speculation, address cross-border smuggling, and boost export competitiveness (particularly in ITes) have gained traction. Furthermore, privatization of loss-making SOEs such as PIA, DISCOs, and Pakistan Railways, has remained a priority as well.

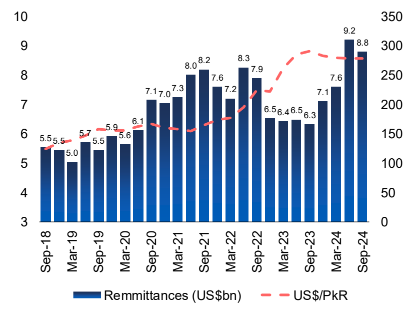
Currency market rationalization, a milestone achievement: A pivotal reform under SIFC has been the rationalization of domestic currency markets, fulfilling IMF conditions by narrowing the delta between the interbank and open market rates to 1.5%.

FDI was up by 44%YoY in FY24 (US$bn)

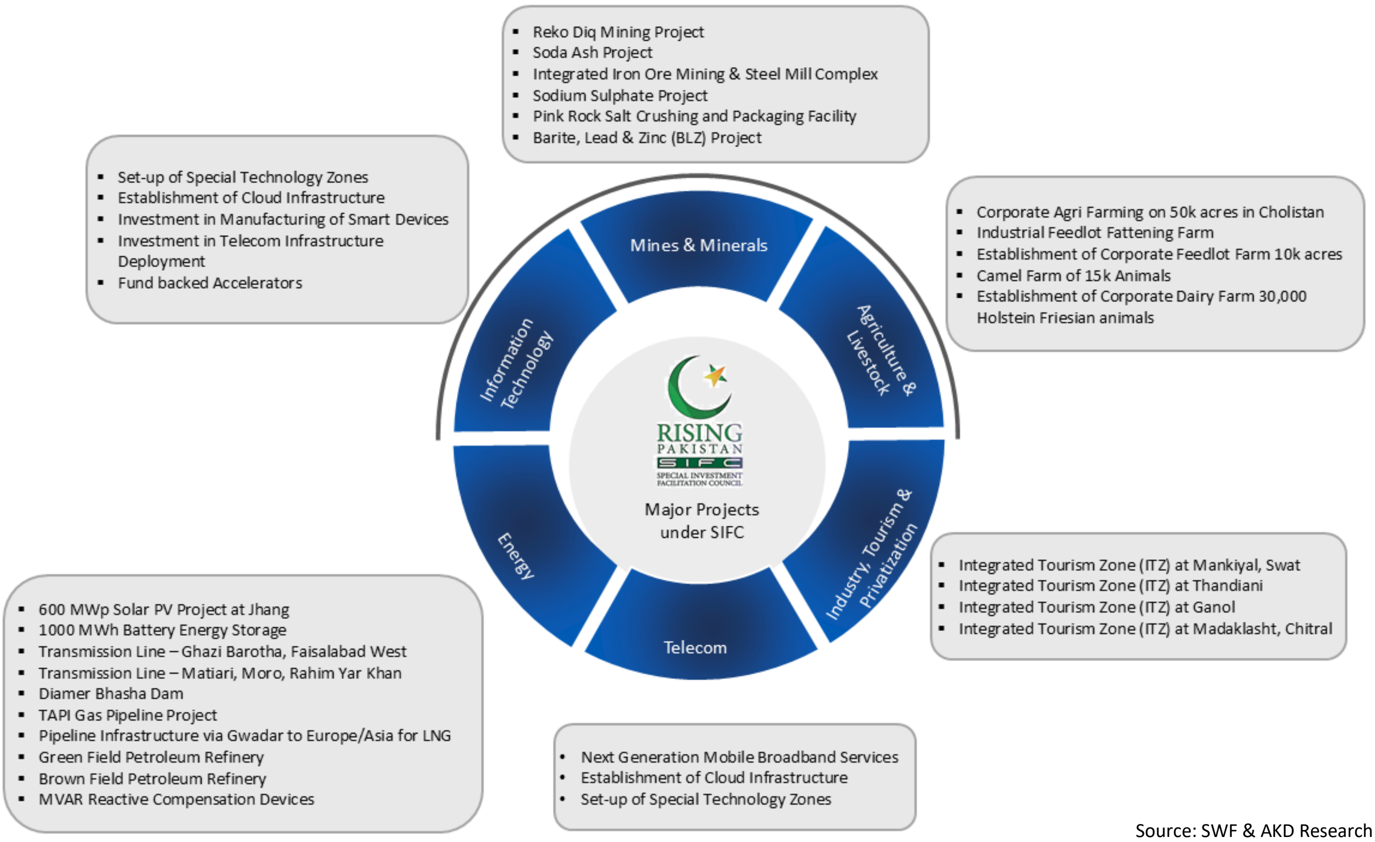


Source: SBP & AKD Research

Currency parity has remained stable since Aug'23



Source: SBP & AKD Research



Source: SWF & AKD Research

This measure has curbed imported inflation (resulting in lower policy rate), and in-turn elevated remittance inflows from formal channels, to average at US$3bn/month during 5MFY25. Key administrative steps include tightening exchange company regulations, raising minimum capital requirements (MCR), integrating banks into the currency exchange network and enhancing overall market transparency through SBP's newly formed interbank FX trading platform. However, stability in the domestic currency over the past 16 months (PkR/US$ down 2.8% since Jun'23) has been in-part supported by improving external account position as well. Notably, the CA balance stood at a surplus of US$944mn during 5MFY24 (vs. deficit of $1.7bn in SPLY), aided by successful debt rollovers and prudent SBP interventions to build reserves.

Unlocking agri-sector potential: The Green Pakistan Initiative (GPI), spearheaded under the SIFC, has emerged as a more recent albeit transformative opportunity for the country's agri sector. With 4.8mn acres of state land earmarked for corporate farming, GPI aims to unlock substantial investments, targeting US$6-7bn over the next five years. While ambitious, even partial success may deliver a multiplier effect across sectors, addressing food security, enhancing productivity, and fostering export-led economic growth. The initiative has already gained traction, with cultivation initiated on 100/500 acres and interest from local and foreign investors, particularly from Saudi Arabia and China. Joint ventures with GCI Ltd (Green Corporate Initiative) provide an organized platform for large-scale farming, backed by long-term (30-year) land leases under special provisions. Moreover, integrated value chain reforms, water management initiatives, and policy development further bolster the initiative's viability.

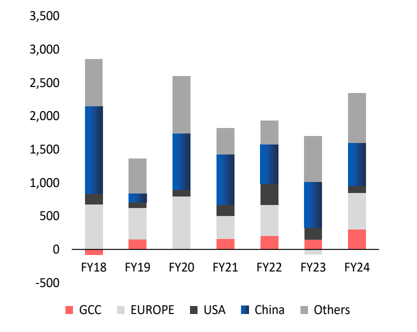
Implementation remains key: While these developments signal a more favorable investment climate, challenges still remain. Successful execution of pledged investments and macroeconomic stabilization are critical for sustaining momentum. SIFC's ability to implement reforms and deliver on its objectives will be pivotal in positioning Pakistan as a preferred destination for global capital.

Key Players in Corporate Farming

Name	Sector	Listing Status
Fatima Fertilizers	Fertilizer	Listed
Unity Foods	Food	Listed
Roshan Packages	Paper & Board	Listed
Fongrow (Fauji Foundation)	Agriculture	Unlisted
Nishat Agriculture Farms Ltd	Agriculture	Unlisted
JDW Sugar Mills	Sugar	Listed
Shakarganj Ltd	Sugar	Listed
Sapphire Dairies Pvt	Agriculture	Unlisted
Tara Group	-	Unlisted

Source: News Reports & AKD Research

FDI by regions (US$mn)



Source: SBP & AKD Research

Major reforms indicated in IMF staff reports

Category	Prior Actions for program approval	Rationale
Fiscal	Parliamentary approval of a FY25 budget in line with IMF staff agreement to meet program targets.	Ensure achievement of fiscal objectives
SOEs	Notification of the annual electricity tariff rebasing	Maintain tariffs at cost recovery levels
SOEs	Notification of the June semiannual gas tariff adjustments	Maintain tariffs at cost recovery levels
	Structural Benchmarks	
Fiscal	Do not grant tax amnesties, and do not issue any new preferential tax treatment	Protect tax revenue
Fiscal	Approve a National Fiscal Pact devolving some spending functions to the provinces.	Address the mismatch of federal and provincial revenues
Fiscal	Share with the IMF staff a report detailing actions to reduce the federal government's footprint.	Reduce the footprint of the state
Fiscal	Approve a National Fiscal Pact devolving some spending functions to the provinces.	Address the mismatch of federal and provincial revenues
Energy	Complete all policy actions needed to prepare two DISCOs for privatization and concession transactions.	Improve DISCO management and efficiency
Energy	Eliminate captive power usage in the gas sector.	Maintain tariffs at cost recovery levels
SOEs	Amend the SWF Act and other legislation, in consultation with Fund staff and in line with MEFP	Improve SOE governance
SOEs	Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP	Improve SOE governance
Investments	Prepare a plan based on the assessment conducted to fully phase out all current Special Economic Zone incentives by 2035.	Improve efficiency and provide a level playing field for investment
Currency	Avg. premium between interbank and open market rate will be no more than 1.25% during consecutive 5 business days	Maintain FX market functioning

Source: IMF & AKD Research

Energy Sector Reforms

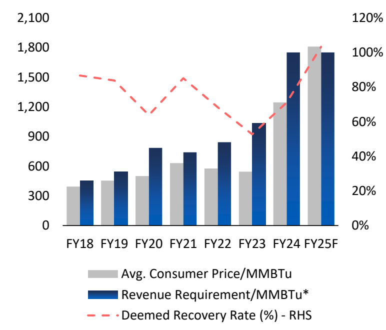
A slow march towards resolution: Reforms and rationalization efforts in the energy sector, particularly in power and gas, have been heavily emphasized by both the companies in question and the Washington-based lender. Liquidity challenges, caused by mismatches between energy prices and costs, have contributed to the circular debt stock ballooning to ~PkR5.0tn for both gas and power, as per media reports. Overall, there has been minimum policy headway into the resolution of the past circular debt stock in both the sectors, besides from raising energy prices and consistently subsidizing from the federal exchequer. In our opinion, the longer this issue continues to remain outstanding, longer industry assets would remain tied up and get delayed under unproductive uses. In this regard, the industry has suffered in terms of heightened financial charges and lack of investments. However, we are encouraged by recent GoP initiatives to resolve this issue (utility tariff hikes to narrow the gap between cost and billing).

Power Circular Debt – What next? The authorities seem to have curbed escalation of the power circular debt's pileup for now, mainly through implementing strict consumer tariff adjustments since FY20 (post Jul'19 IMF program), through annual base tariff revisions. To note, avg. residential base tariff has gone up by more than three folds in over three years, amidst escalating capacity and variable charges, whose impacts were further compounded by a sharply depreciating domestic currency (↓74% since Jun'19). Additionally, fiscal support to the sector, in form of tariff differential subsidies and one-off payoffs towards the IPPs have grown drastically as well, where-in total dole outs towards the power sector stood at 9.1% of total tax receipts (vs. ~5% in FY18). Overall, plans to phase out unbudgeted subsidies alongside introduction of automated QTA/FCA notifications to ensure future rationalization of costs between energy and consumer-end tariffs are expected to keep a lid on increase in outstanding stock going forward.

Gas Circular Debt – halted for now: Over the past year, the authorities seem to have shown great motivation in addressing the issue of burgeoning circular debt pileup in the gas sector, which is presently at PkR2.9tn as per news reports. Tariff hikes exceeding 300% since CY22 have curbed escalation, with collection ratios for OGDC, PPL, and PSO improving to 90%-100% CYTD, where-in we expect similar collection ratios to continue forward. Additionally, WACOG-aligned tariffs for CPP and industrial users, set at PkR3,000/mmbtu, largely at par with RLNG rates, further support our liquidity recovery assumptions moving forward.

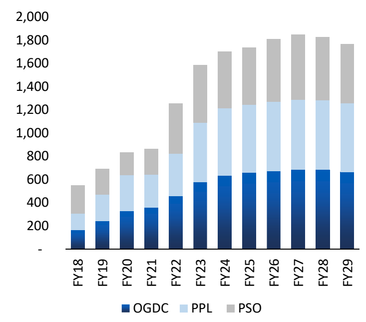
Positive for listed E&P and OMC space: Energy chain's circular debt has deeply marred any prospects the state owned energy companies have had against depleting hydrocarbon reserves/growing energy needs of the country. OGDC/PPL/PSO were the major casualties of the situation, leading the companies to scale back investments in projects (declining CAPEX, drilling activities etc.), undermining growth prospects and subsequent dividend cuts, which in-turn previously led to valuation derating of these scrips. In light of improved liquidity driven by rationalized gas tariffs, we assume collection rates to sustain above 90-100% moving forward, which also underpins our overweight thesis on energy sector stocks, driven by liquidity-based unlocked valuations.

Consumer price vs. Revenue Requirement



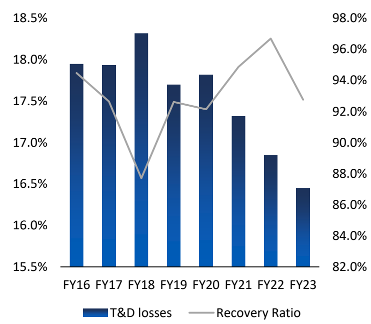
Source: OGRA & AKD Research

Receivables of Listed SOEs — Sep'24 (PkRmn)



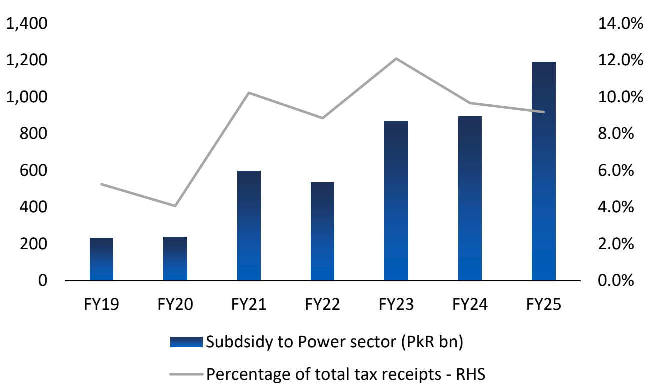
Source: PSX & AKD Research

T&D Losses and Recovery Rates

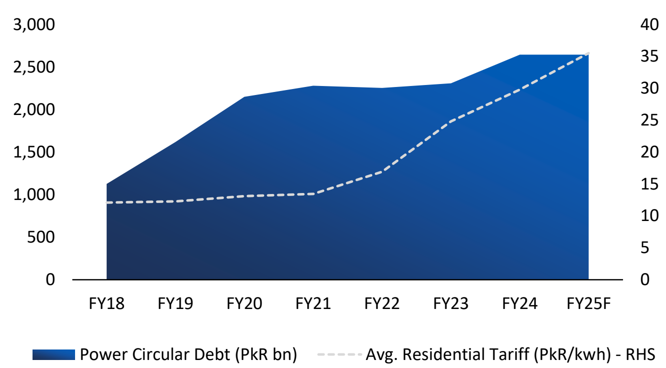


Source: NEPRA & AKD Research

Power subsidies have risen over the years



Power circular debt vs. Residential base tariff



Source: MoF, Nepra & AKD Research

Privatization of SOEs

Privatization Agenda, need of the hour: Country is embarking on an ambitious privatization agenda to address the financial strain caused by inefficient SOEs and reinvigorate its economy. The Cabinet Committee on Privatization (CCOP) recently approved the selling off 24 public sector entities, marking a policy shift aimed at reducing the GoP's footprint in the economy over the next five years. With the SOEs collectively reporting losses of PkR202bn in FY23 (vs. PkR167bn in FY22), the said initiative remains in line with the urgency to alleviate the fiscal burden of the loss-making SOEs. Consequently, these inefficiencies have long continued to divert resources from critical sectors i.e. healthcare, education, and infrastructure, necessitating decisive action to restore fiscal stability.

Beyond privatization, the authorities are also implementing comprehensive reforms in the governance and legal frameworks surrounding SOEs. The enactment of the SOE (Governance and Operations) Act, 2023, and the establishment of a Central Monitoring Unit (CMU) mark key milestones in this process. These reforms aim to modernize SOE management, ensuring that only enterprises with strategic or social importance remain under state control, while others are privatized or restructured to enhance efficiency. Additionally, future plans include revising the Sovereign Wealth Fund Act by Dec'24 as well. Moving forward, key entities due for immediate privatization (supported by ADB), include PIA, Pakistan Railways and DISCOs/GENCOs. Hence, the SOE triage plan will classify enterprises based on strategic importance and financial viability, ensuring an efficient transition. On the trade front, the government is actively pursuing the National Tariff Policy (2025-2029) to boost export competitiveness through reduced tariffs and streamlined trade procedures. However, timely execution remains critical to unlock full potential of these reforms and positioning Pakistan as a competitive force in the region.

Privatization of DISCOs: The GoP and SIFC have been diligently pursuing and prioritizing the privatization of power DISCOs as a critical step towards reducing ATC losses and enhancing overall service delivery, thereby alleviating the financial burden on the national exchequer. To note, total TDS for DISCOs is budgeted at PkR276bn in the Fed Budget'25, while cumulative losses for the sector amounted to PkR239bn/308bn during FY23 and FY24, respectively. Similarly, authorities have committed to privatizing or concession arrangements for nine DISCOs to enhance future efficiency, as their subpar performance has been the primary driver of circular debt accumulation, which has necessitated repeated tariff hike burdens for consumers. A technical advisor is being engaged to prepare two DISCOs for transaction readiness by end Jan'25, a structural benchmark under the IMF program. The initial focus will be towards performing DISCOs (IESCO, GEPCO and FESCO), which are to be given out under concession arrangements by Sep'25. Specifically, operational rights will be granted for minimum 10 years under the concession model, with asset ownership to be retained by the GoP, with SIFC tasked to fast-track the process. However, while the plan promises to halt losses onto towards the fiscal account, execution remains a key hurdle, alongside smoother transition of releasing of unwanted employees.

Sector	SOE	Phase
Aviation	Pakistan International Airlines Corporation Ltd. (PIACL)	I
Real Estate	PIA-IL (Roosevelt Hotel NY)	I
Financial	First Women Bank Ltd (FWBL)	I
	House Building Finance Corporation (HBFC)	I
	Zarai Taraqiati Bank Ltd. (ZTBL)	I
	Pakistan Re-Insurance Co. Ltd. (PRCL)	II
	State Life Insurance Corporation (SLIC)	II
	Postal Life Insurance Company Ltd. (PLICL)	III
Retail	Utility Stores Corporation (USC)	II
Industrial	Pakistan Engineering Company (PECO)	I
	Sindh Engineering Ltd. (SEL)	I
Power	IESCO	I
	FESCO	I
	GEPCO	I
	GENCO-I	II
	GENCO-II	II
	GENCO-III	II
	GENCO-IV	II
	LESCO	II
	MEPCO	II
	HAZECO	II
	HESCO	II
	PESCO	II
	SEPCO	II

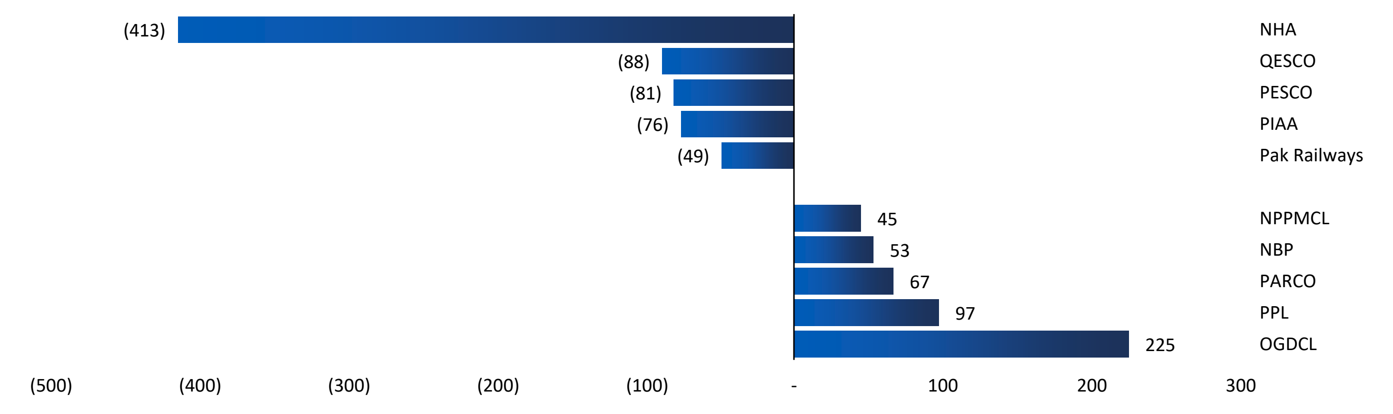
Source: MoF & AKD Research

Profits/Losses of DISCOs (FY23)

	(FY23 PkRmn)
GEPCO	22,884
TESCO	7,080
IESCO	-666
FESCO	-14,983
HESCO	-15,640
MEPCO	-23,372
SEPCO	-30,667
LESCO	-30,839
PESCO	-80,595
QESCO	-88,487

Source: MoF & AKD Research

Top 5 Profit and Loss making SOEs (FY23)



Source: MoF & AKD Research

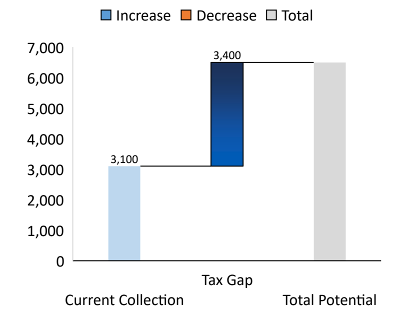
FBR's track and trace system

Battling to raise tax compliance via T&T System: FBR's implementation of the Track and Trace System (TTS) marks a pivotal move towards bolstering tax compliance and curbing revenue leakage across Pakistan's economy. Introduced across key sectors such as sugar, tobacco, fertilizer, and cement, TTS utilizes technologies, including barcodes and Unique IDs (UIMs), to digitally monitor production and sales in real-time, with the supposed outcome to be greater transparency in production volumes in industry which are notorious for underreporting throughout their supply chain processes. However, compliance gaps have significantly undermined its effectiveness, with recent studies indicating over 58% of brands in the tobacco sector alone remain non-compliant, despite the legal mandate. More recent, country's PM has called for immediate action by the relevant ministries to rectify negligence in the TTS rollout, emphasizing the need for modernization within the FBR along this plan as well.

Compliance gap remains significant: The scale of sales-tax evasion as per FBR stands at a staggering PkR3.4tn, compared to annual collection of PkR3.1tn during FY24. Reportedly, sectors like steel, cement, beverages, and textiles are significant contributors to this gap, driven by practices such as misreported turnovers and the use of flying invoices, with only 14% of registered companies complying with sales tax regulations, highlighting across the board non-compliance. Additionally, despite the introduction of TTS in high-risk industries such as sugar, tobacco, and fertilizer, enforcement gaps have limited its effectiveness, necessitating stronger oversight and broader implementation.

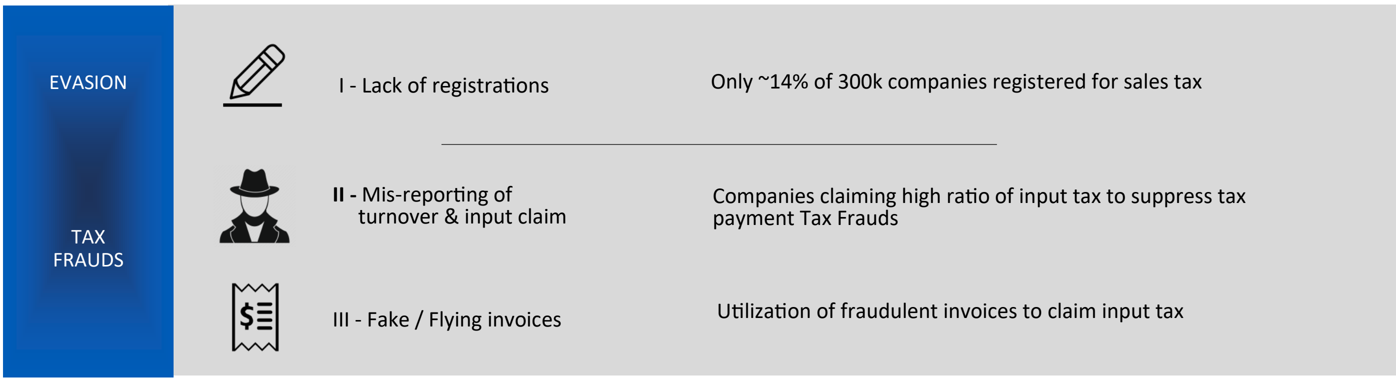
Enforcement Actions: The FBR has intensified efforts to address evasion, identifying PkR227bn through enforcement actions, including penalties and FIRs. Recommendations including, aligning input tax claims with a 7% benchmark in the steel sector may save PkR29bn annually, while similar measures in the cement and battery sectors could possibly recover PkR18/PkR11bn, respectively. Furthermore, authorities are working onto integrating TTS with IT systems and expanding scope towards petroleum, pharmaceuticals and retail remains critical to ensure growth in the sales tax base. Overall, the successful implementation of TTS, supported by stricter penalties and technological upgrades, remains pivotal for addressing Pakistan's chronic revenue shortfalls and strengthening fiscal sustainability.

GST: Collection (FY24) vs. Potential



Source: FBR & AKD Research

FBR's Depiction of Sales Tax Fraud

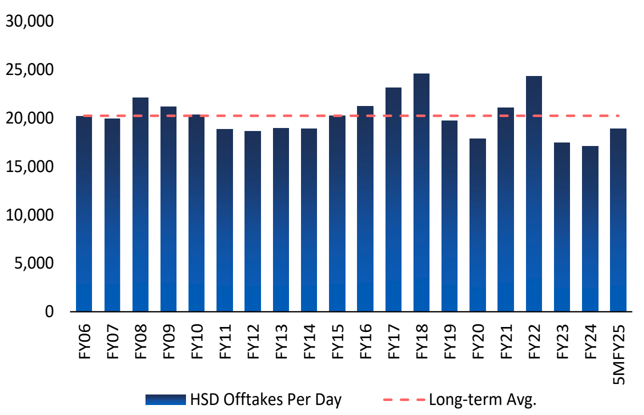


Source: FBR & AKD Research

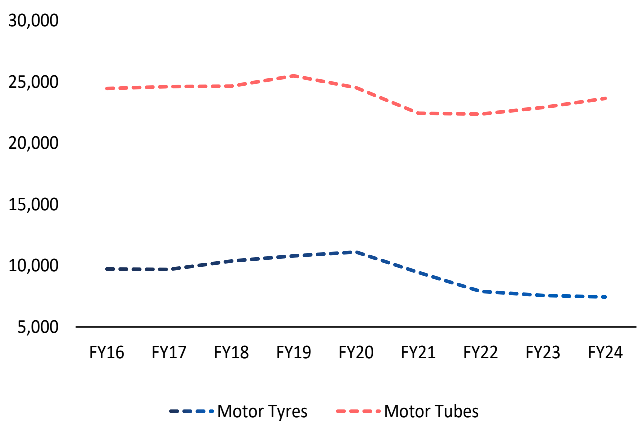
Smuggling: A hidden drain on the economy

Smuggling continues to be a drain on the economy, with revenue losses estimated at PkR3.0bn per day, particularly affecting the petroleum, food, fertilizer and other sectors. More specifically, influx of smuggled diesel from neighboring country Iran has contributed to a decline in formal HSD consumption, which averaged 18.5k tpd during 5MFY25-well below the 20-year average of ~20.5k tpd. Notably, volumetric figures remain lower than those reported during COVID-19 restrictions or any other year. While subdued economic activity during recent times has played a role, the sharp increase in domestic HSD prices since FY22 has significantly widened the price differential with smuggled diesel from across the border, now estimated at PkR80-100/liter. This has fueled cross-border smuggling, intensifying losses for the local oil industry and eroding tax revenues. Authorities estimate that contraband petroleum products worth approximately PkR400bn are smuggled annually, severely impacting formal sector revenues. Similarly, the smuggling of food items through porous borders has disrupted local markets as well, resulting in inflation, and undermined the competitiveness of domestic producers. However, authorities have more recently put a lid onto smuggling of tyres and cellular devices, as reported by industry stakeholders, which has in turn bolstered domestic manufacturing, with mobile phone production rising to 22.59mn units during 9MCY24, surpassing full-year numbers of 21.3mn units recorded in CY23.

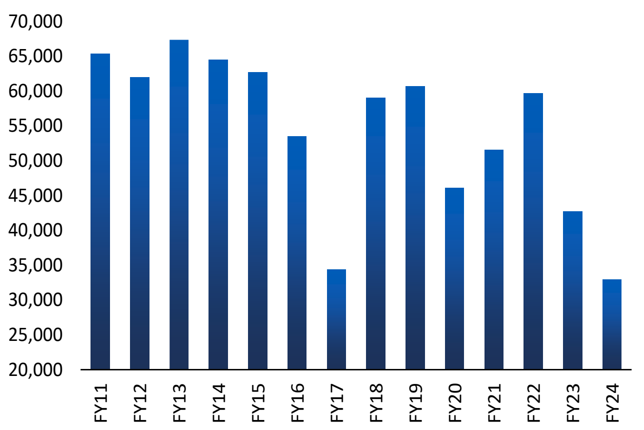
Formal HSD demand has fallen over the years



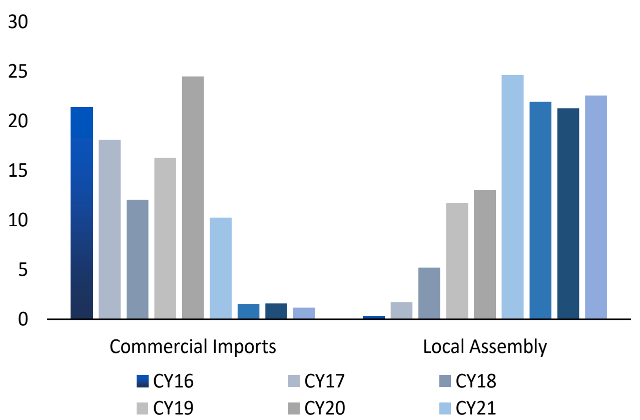
Motor Tyres and Tube production has picked up in FY24



Cigarette sales have fallen significantly, so has FBR's FED collection



Cellular phone manufacturing has picked up as imports die-off



Source: MoF, PTA & AKD Research

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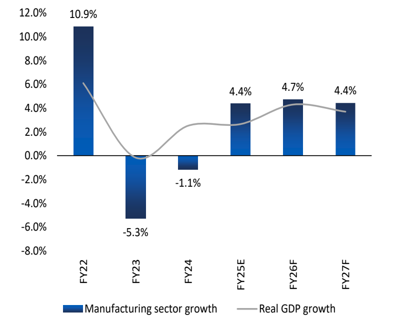
Lower utilizations to keep imports in check

Power | Cement | Textile | Engineering | Food

We anticipate the forthcoming economic recovery to be more sustainable, driven by the ample industrial capacity established during prior expansion cycles, largely during periods of rising interest rate cycles. This surplus capacity is expected to: 1) result in compounded growth in the industrial sector due to a low base in utilization, 2) alleviate pressure on the external account due to low-expansion led imports; and 3) generate higher free cashflows for corporates, as absence of expansion-related CAPEX is behind us.

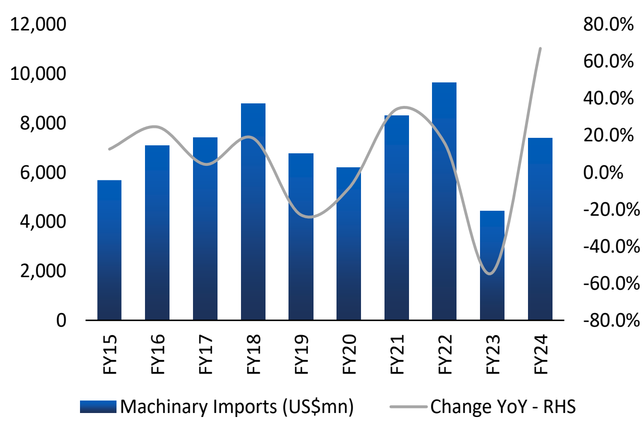
Subsidized loans boosted expansion across key industries: Following the government's announcement of subsidized loans post-COVID-19, local industries entered an expansionary phase. Private loan disbursements towards major sectors, including textile, food, power, and cement rose by 61% between CY19 to CY22, however, disbursements in these loans has slowed during recent years. Similarly, avg. annual machinery imports during this period rose to ~US$9.0bn, 34% higher than the previous 10-year avg. of US$6.7bn (during which CPEC led imports stood high). However, the contraction in economic activity significantly compressed large-scale manufacturing industry (LSMI) activity in the country. Wherein, LSMI activity has declined over the past two years, returning to FY21 levels. Consequently, the average utilization of the manufacturing sector dropped to 65% in FY24, from 73% in FY21, and presently standing at 66%. This utilization trend was largely observed across all major industrial sectors.

Manufacturing sector growth to outpace

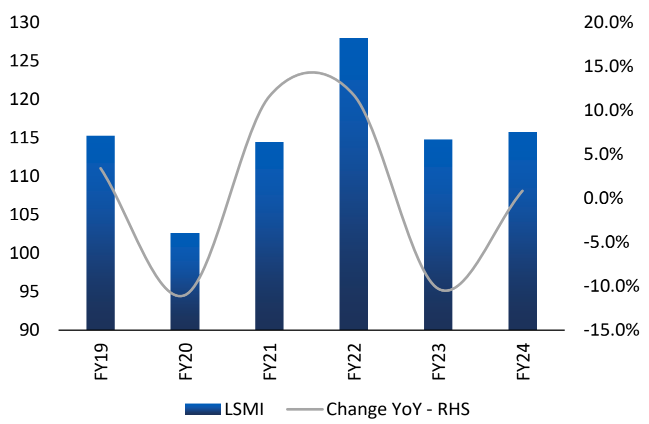


Source: PBS & AKD Research

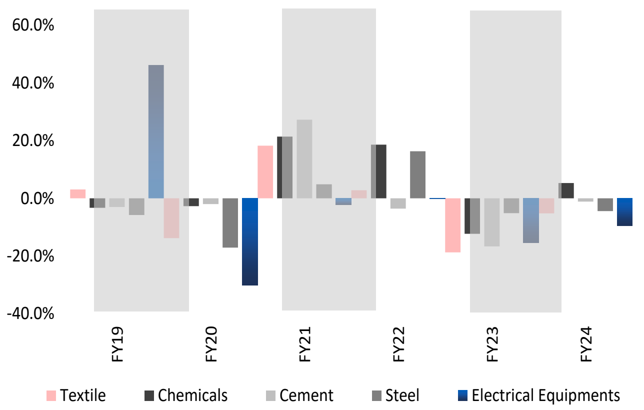
Machinery Imports surged following subsidized loans in FY20



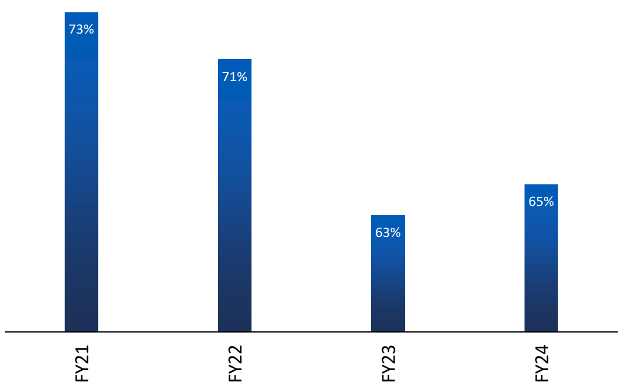
While, manufacturing output dropped for last 2-years



Negative growth observed across major sectors



Taking avg. industrial utilization to drop

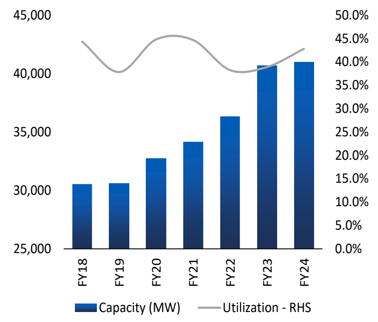


Source: PSX, PBS, SBP & AKD Research

Power Sector

Sufficient capacity for future industrial growth: Power sector being a crucial driver of industrial growth, we foresee the domestic generation base to be well-positioned to meet future energy demands, as present installed capacity surpasses peak generation demand by almost two-folds. For this reason, no major thermal expansions are required throughout the medium term, which would consequently result in low expansion/machinery related imports payments, reducing pressure on the external account. Furthermore, a stable exchange rate and anticipated easing of SOFR rates behest of the FED, we anticipate growth in capacity payments to remain largely at the present levels. Assuming authorities secure extension/re-profiling of loan tenures taken under CPEC IPP agreements, could further ease short-term FX outflows while easing capacity purchase price burden as well. Lastly, improved management of the power sector (through lower T&D losses) would also support the broader goal of managing inflation.

Utilization dropped amid capacity expansion



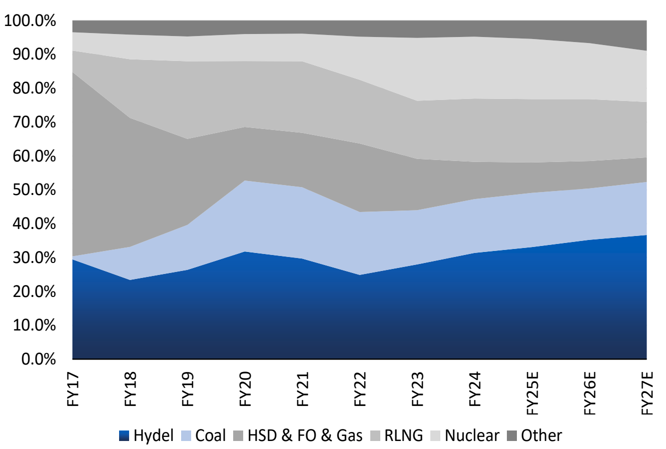
Source: NEPRA & AKD Research

Rising electricity costs; a pressing issue: Over the past several years, consecutive energy tariff hikes, largely driven by dollarized capacity payments, have burdened middle-class households and contributed to rising inflation. Meanwhile, higher interest rates, persistent transmission and distribution losses have exacerbated the phenomena even further. Industrial tariffs have also increased, pushing power costs above regional averages, resulting in manufacturing processes becoming uncompetitive. The said challenges have led many industrial players shifting towards alternative energy sources, including captive power plants (CPPs) and renewables. Households too, are increasingly adopting solar power as an affordable solution. Consequently, average generation demand remained largely contained remaining below 15,000MW, only increasing by 4% over the last six years between FY19-24. Meanwhile, installed capacity increased by 34% during this period to 40,966MW from 30,589MW in FY19.

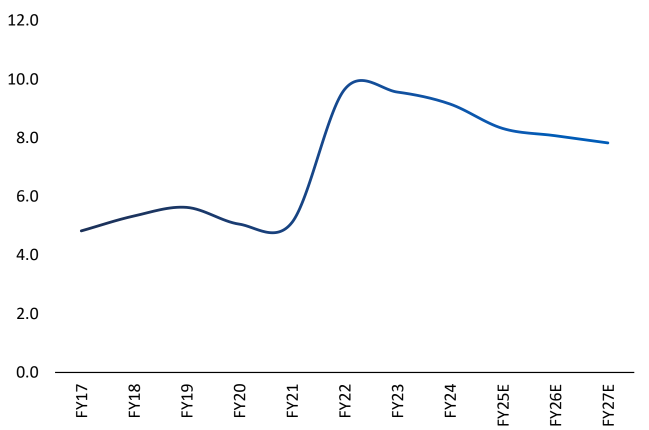
Tariff stabilization in sight: Recent investments in low-cost coal and renewable generation have enabled the phasing out of high-cost HSD and RFO-based plants. This shift in the generation mix is expected to keep the cost of generation below PkR9.0/kWh in the foreseeable future. Additionally, capacity purchase price may decline on the on the back of 1) falling interest rates, 2) stability in rupee, 3) potentially higher consumption to distribute fixed costs over a larger base, and 4) potential early retirements or renegotiations of contracts with IPPs, further easing per-unit costs.

Adequate capacity for future growth: With the current nameplate power generation capacity of 40,966MW and peak summer demand below 24,000MW, Pakistan has ample capacity to meet industrial and household energy needs for the next 3-4 years, even with demand growing at a CAGR of 10%. Looking forward, we expect energy consumption to rise, driven by the revival of economic activity, declining tariffs, and govt. incentives for incremental electricity usage. Furthermore, the IMF-mandated discontinuation of gas supply to CPPs is anticipated to redirect ~1,236MW to the national grid, based on current gas allocations of 350mmcfd to CPPs.

Energy mix to shift toward renewables



...reducing the avg. generation cost (PkR/kWh)

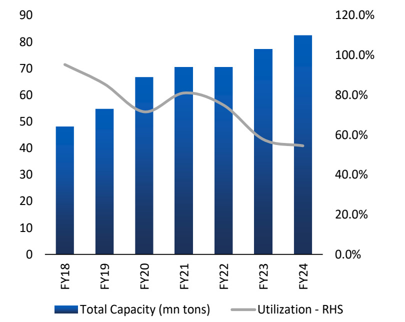


Source: NEPRA & AKD Research

Cement Sector

Expansion triggered by subsidized debt: Historically, the cement industry has undergone expansion cycles triggered by increasing capacity utilization, with industry utilization levels exceeding 80-85% prompting such cycles. However, the recent expansion cycle (FY21-24) has been more driven by the availability of subsidized loans, i.e., LTFF and TERF, rather than utilization levels. Post COVID-19, construction activity resumed, supported by government stimulus in the economy. Additionally, cement exports peaked at 9.0mn tons, taking FY21 industry utilization to ~80% (68% local only). The said rise in utilization, coupled with expectations of continued growth and the introduction of subsidized loan programs, led the industry to embark on new expansion projects. In the most recent expansion cycle, industry expanded by ~22%, increasing total capacity to 86mn TPA, with 2.7mn TPA more to be added in the current fiscal year.

Utilization fall amid expansions and demand

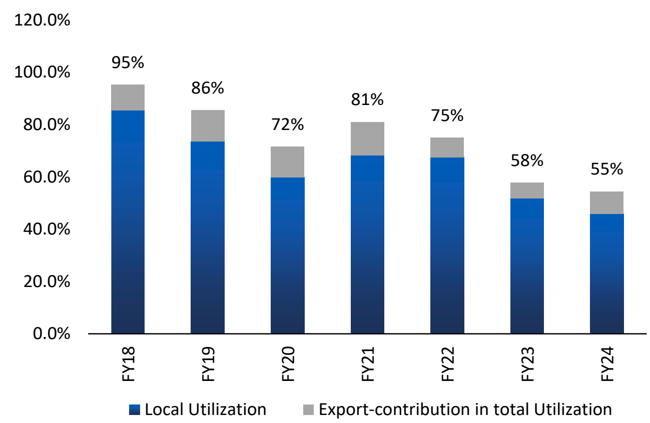


Source: APCMA & AKD Research

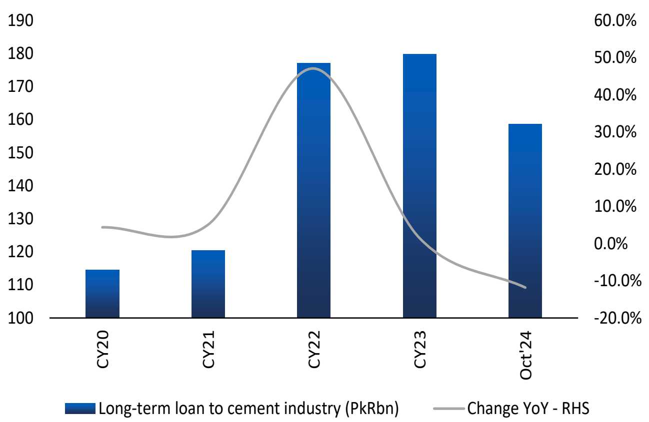
Utilization levels nosedived: The country's economic challenges marked by stagflation, depressed construction severely. Additionally, the Russia-Ukraine conflict caused coal prices (a major raw material for cement production) to soar, raising production costs and dampening exports. These factors led to a 21% decline in industry offtakes in FY24, from the peak levels in FY21. As a result, capacity utilization has fallen to around 51% (42% local only). Moving forward, we expect industry sales to remain muted, with an anticipated 3%YoY decline in FY25E, keeping utilization levels low. Likewise, with moderate to normal growth projections (5-8%) in the short to medium term, utilization levels are expected to stay below 80% until FY27E. We believe the industry will refrain from pursuing any significant expansion projects in the next two years, despite some companies announcing plans and laying the groundwork for expansion.

Time to reap from previous expansions: The past three years have been characterized by outflows for the industry, increasing debt levels, but now, it is time to reap the benefits of expansions. With utilization levels expected to revive in the coming years, the industry will start generating returns from previously made investments without major CAPEX for new expansions, albeit with some BMR or CPP projects. As a result, we anticipate the industry not only reaping its returns but also contributing increasingly to the economy, without the burden of major expansion-related outflows. On the macro front, we expect industry to see its exports surpass US$300mn by FY26E, while machinery imports are likely to remain limited due to the absence of new expansion projects.

Utilization dropped mainly on declining local demand



Meantime expansion-led debt started to ease



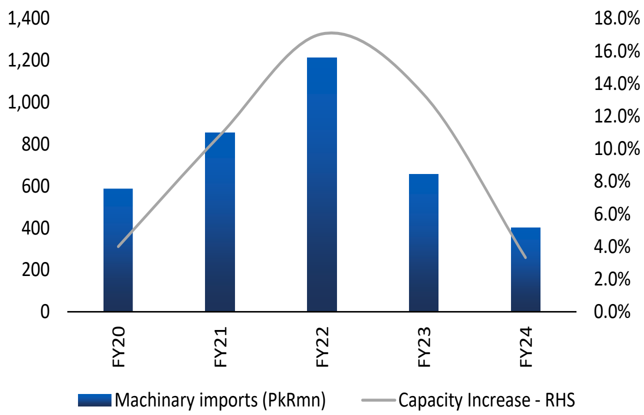
Source: ACPMA, SBP & AKD Research

Textile

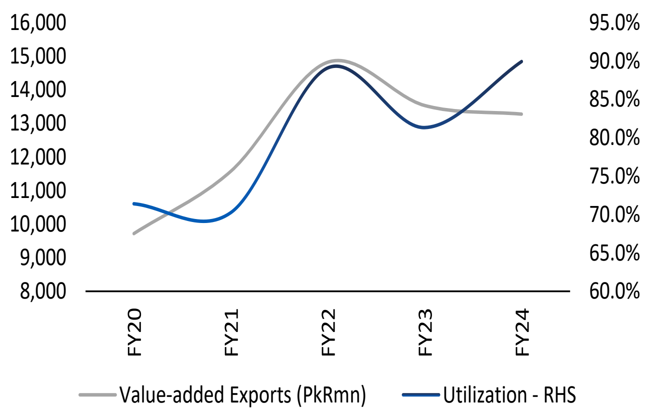
Capacity upgraded; exports declined: Textile industry (listed players) have witnessed a roughly 24% increase in capacity between FY22 and FY24, encompassing from spinning to finished goods, with an additional ~15-20% expected to be commissioned by FY25/26E. Notably, the textile sector consumed the highest portion of subsidized LTFF and TERF loans, with long-term loans in the sector doubling from CY19 to CY22, amounting to PkR550bn in CY22. Despite these expansions, textile exports, which hit a high of US$19.3bn in FY22, have since dropped to a range of US$16-17bn. As a result, utilization levels for the industry have fallen below 90% for spinning, weaving, and finished goods. Furthermore, utilization of unlisted small players is presently expected at 50%, as per news reports.

Subdued CAPEX requirement: We expect the industry's CAPEX to remain subdued compared to previous years due to 1) optimal capacity to meet exports up to US$27-30bn along with local demand, 2) the need to ease borrowing position, given the debt-heavy balance sheets. Moreover, expansion in denim and knitwear segments in recent and future years are expected to lead to higher exports without the need for major capex.

Textile machinery import increased amid expansion in sector



Though utilization dropped given declining exports

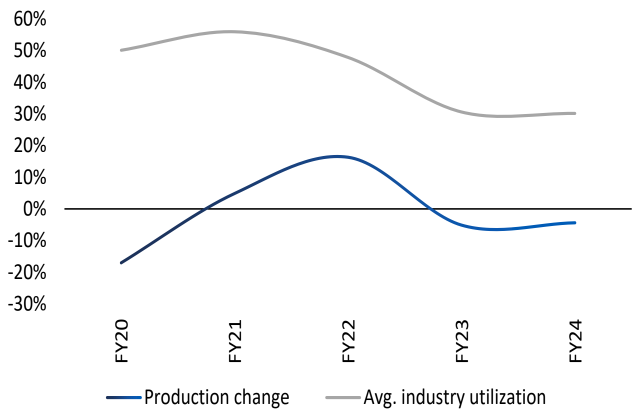


Source: PBS, APTMA, PSX & AKD Research

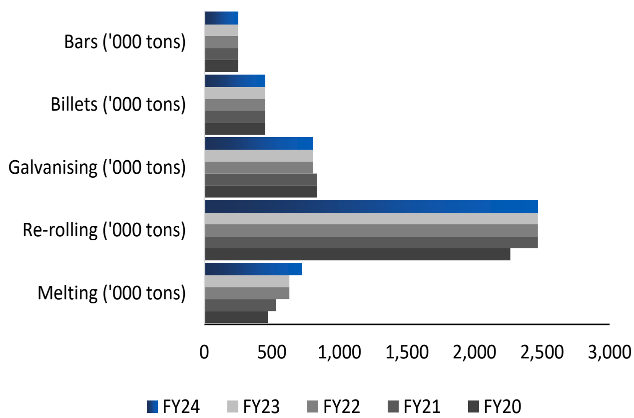
Steel Sector

Steel production has seen negative growth over the last two years, reflecting the broader economic slowdown, with production volumes declining by 16%YoY in FY23 and 8%YoY in FY24. The slowdown in construction activity, coupled with the decline in automotive and electrical product sales, has contributed to a reduction in both flat and long steel production. Consequently, avg. capacity utilization dropped, with listed players' melting and re-rolling capacity utilizations dropping to 40% and 21% in FY24 from 65%/50% in FY21, respectively.

Utilization dropped amid output slowdown



Though capacity remain unchanged

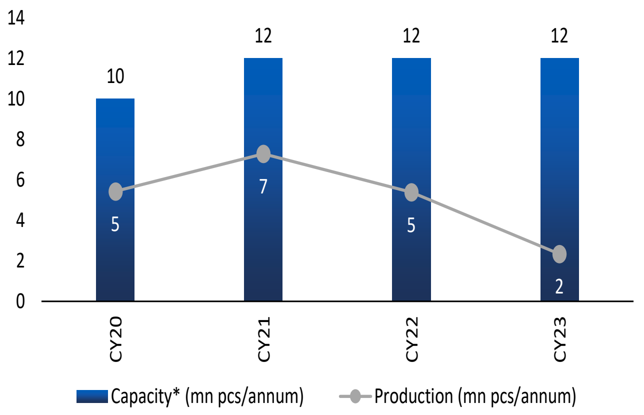


Source: PBS, PSX & AKD Research

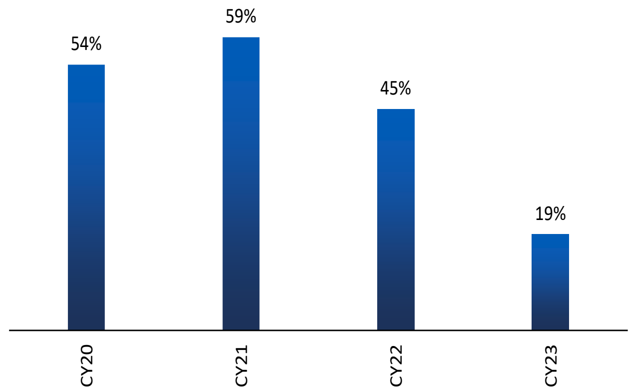
Electrical good

Production of electrical goods, including refrigerators, deep freezers, air conditioners, and others of major listed players, has significantly declined by 68% from CY21 to CY23. This decline has led to a drop in utilization rates to 19% in CY23 from 61% in CY21. However, we expect production in this segment to revive significantly in-line with economic growth, however, the segment will not require any further expansion in near term. The current utilization levels would benefit the inflows as the sector becomes more efficient.

Production declined sharply in last 2-years



Utilization dropped with declining demand

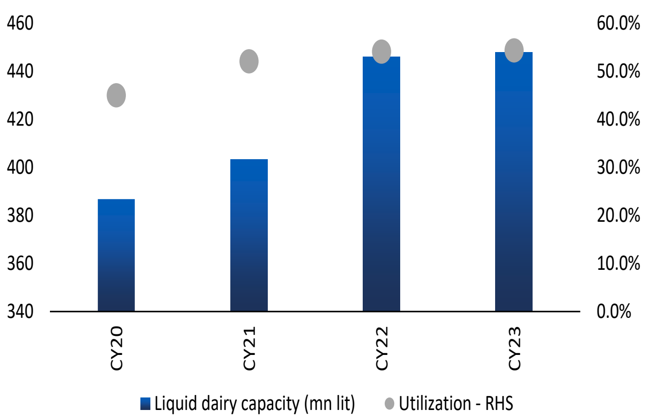


Source: PBS, PSX & AKD Research
*Combined capacity of Refrigerators, freezers and ACs

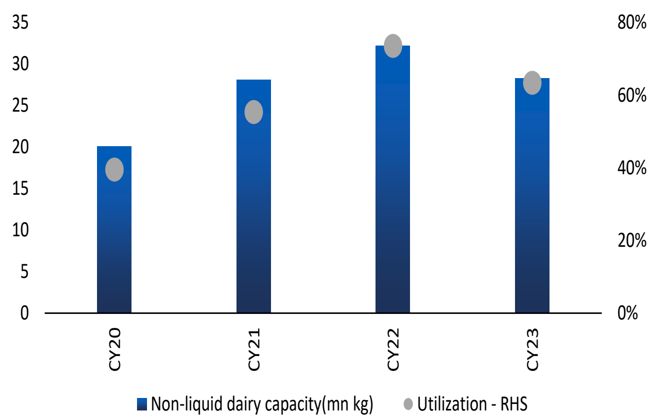
Food

Food sector also has ample capacity to meet demand in the coming years, with total milk production capacity utilization for listed players at 54%, and non-liquid value-added milk product utilization at ~63%. This suggests there is sufficient room for continued economic growth in the sector, with an opportunity to capture the market share of loose milk, currently standing above 90%.

Capacity largely tapped below 60%



Non-liquid production dropped in last year



Source: PBS, PSX & AKD Research

Pakistan Market Strategy

Pakistan Strategy CY2025

CY24 – Best year in last two decades

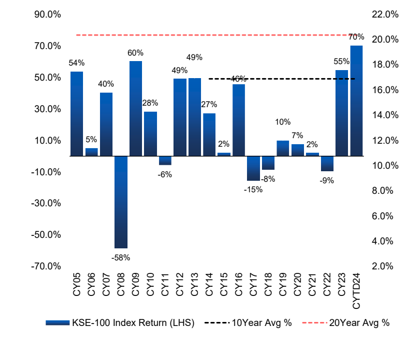
AKD SECURITIES LIMITED

Political stability and aggressive monetary easing by SBP amid stable currency has driven the strong performance of the KSE-100 Index in CY24. Macroeconomic stability and a substantial drop in fixed-income yields, in the backdrop of falling commodity prices, have increased the appeal of equities. The decline in yields was facilitated by the government's improved debt management, supported by debt buy-back initiatives and strong dividend payout by the central bank. Investor confidence, initially demonstrated by foreign investors and insurance firms in the 1HCY24, was further bolstered by mutual funds in the latter half of the year.

Bullish momentum witnessed on political setup continuity: The index began the year with a negative return in Jan'24 but gained momentum following the victory of the PML-N-led coalition in the Feb'24 general elections. A significant drop in inflation and the successful completion of the IMF program provided additional support to the index during the 1HCY24. However, concerns over the approval of the IMF's US$7bn Extended Fund Facility (EFF) by the executive board led to the index's second monthly decline of the year in Jul'24. Following the IMF board's approval of the EFF, the KSE-100 Index surged by 40%, despite foreign investors reducing their exposure by over US$200mn due to Vanguard-related selling after Pakistan's reclassification to Frontier Markets by FTSE Russell.

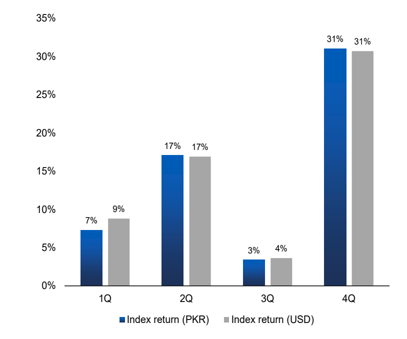
KSE-100 remained 2nd best globally: Subsequently, the KSE-100 index posted its highest return since CY02, achieving 70.0% in CY24TD (72.3% in US$ terms), with the majority of the gains attributed to capital appreciation. In the global arena, the KSE-100 Index ranked as the second-best performing market, trailing only Argentina. Capital gains accounted for 73.2% of the return, while 9% was explained by dividends. Notably, the Rupee gained against the greenback for the first time in 10 years with a return of 1.3% in CY24 due to a significant improvement in the current account position and successful re-entry into the IMF program. Market performance was accompanied by record volumes, which rose 69.0%YoY to 736.4mn shares.

KSE-100 index performance over the years



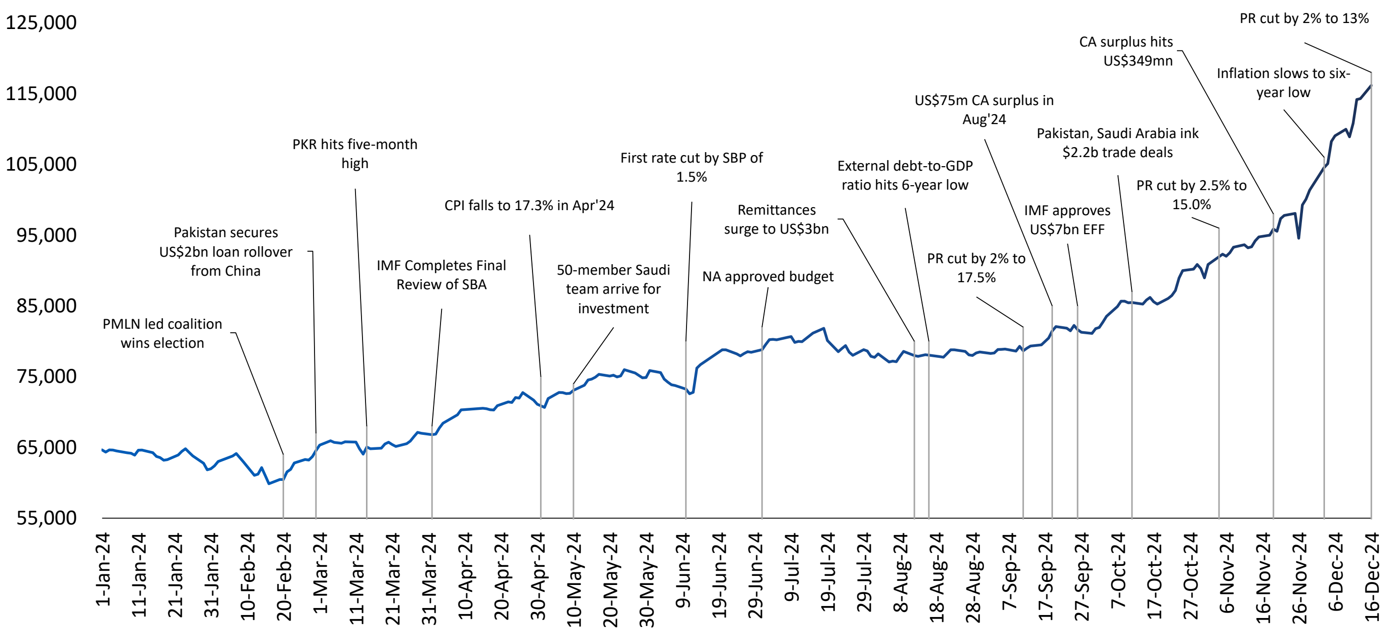
Source: PSX & AKD Research

Quarterly returns in PKR and US$ terms



Source: PSX & AKD Research

KSE-100 Index CY24 Timeline

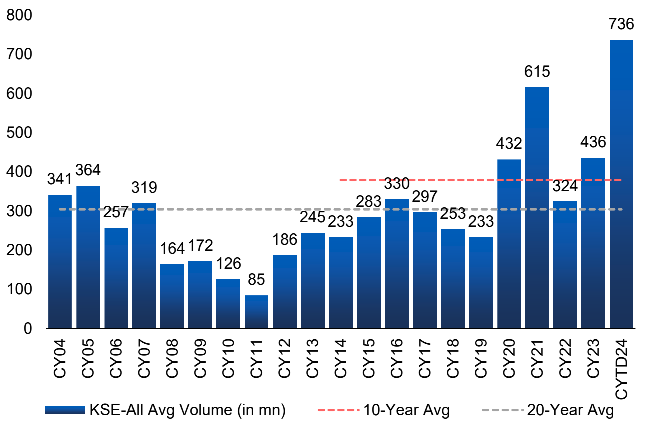


Source: News Flow & AKD Research

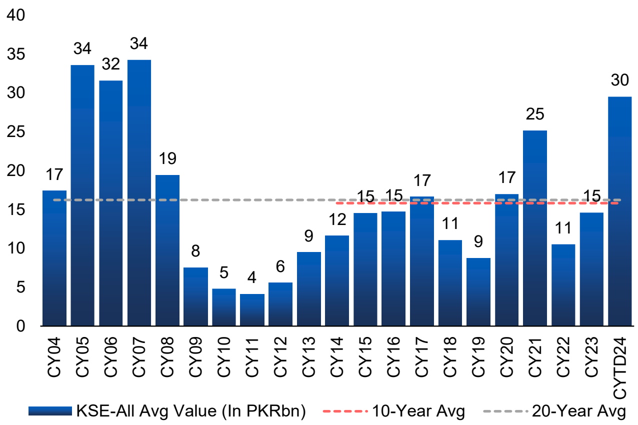
Liquidity improved to record high

The Average Daily Turnover (ADTO) hit all time high increasing by 102.7%YoY to PkR30.0bn (increased 104.0%YoY in US$ terms to US$106mn) in CY24YTD. In dollar terms the ADTO was highest since CY21. Market depth responded positively to continuously improving economic indicators in particular policy rate cuts by SBP and disinflation trend during the year. This is evident from improving market activity, where ADTO increased by 49.4% from ~PkR23.6bn (or US$84.6mn) in 1HCY24 to ~PkR35.3bn (or US$126.7mn) in 2HCY24. During the last quarter of CY24 ADTO increased to ~PkR46.3bn, up 55.7% when compared to full year average.

ADTV reaches highest levels in 20 years



ADTO remains high amid improving market activity



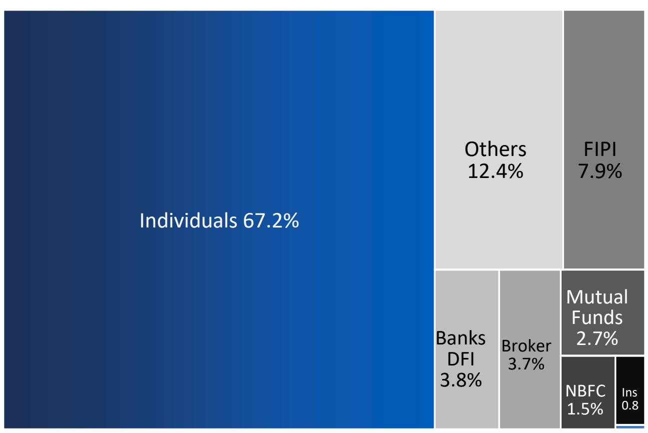
Source: PSX & AKD Research

In terms of shares traded (a more common liquidity barometer for domestic investors), average volumes have reached all-time high. Traded volume clocked in at ~737.2mn shares in CY24YTD against 435.7mn last year, up by 69.2%YoY. However, significant uptick in volumes was seen throughout the year, averaging 863.5mn shares in second half vs 608.7mn shares in the first half of CY24. Notably, these volumes are double when compared to last ten-year average of 355.9mn.

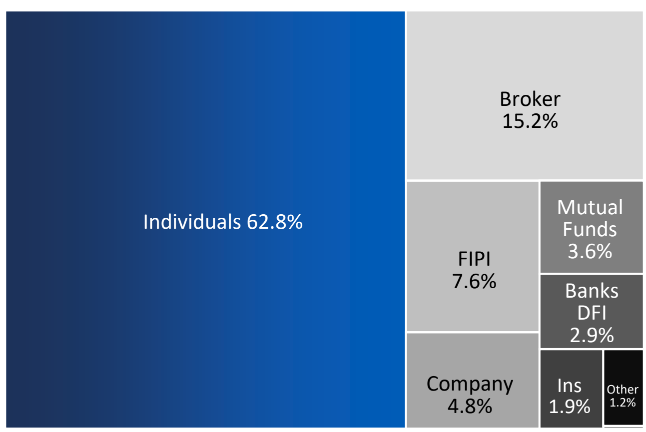
Individuals remain major liquidity provider in CY24: In terms of participation, individuals (including HNWI) remained the lead liquidity provider with a market participation of 67.2% in total ADTO during CY24YTD compared to 62.8% in CY23. Besides Individuals, Foreigners, Mutual Funds and Non-Banking Financial Institutions (NBFIs) participation also increased, while participation of all other participants dropped significantly. Notably, Foreigners share in overall trading value increasing to 7.9% in CY24TD compared to 7.3% during last year.

Brokers' contribution to ADTO dropped this year with participation of 12.4% against 15.2% in CY23. Notably, Companies participation witnessed significant drop of 120bps to a mere 3.7% in CY24 due to drop in buying quantum this year. Moreover, participation from Insurance and companies dropped too to 1.5% and 3.7% in CY24, respectively.

Individuals remain major liquidity provider in CY23...



...but dropped in CY24TD



Source: NCCPL & AKD Research

Mutual Funds remain the key driver behind Index gains

This year, Mutual Funds and Insurance were the primary buyers in the KSE-100, supporting the market and providing liquidity for exiting foreign investors, individuals, and banks. Notably, barring Mutual Funds, Insurance, and Companies, all other local investors joined foreigners as net sellers.

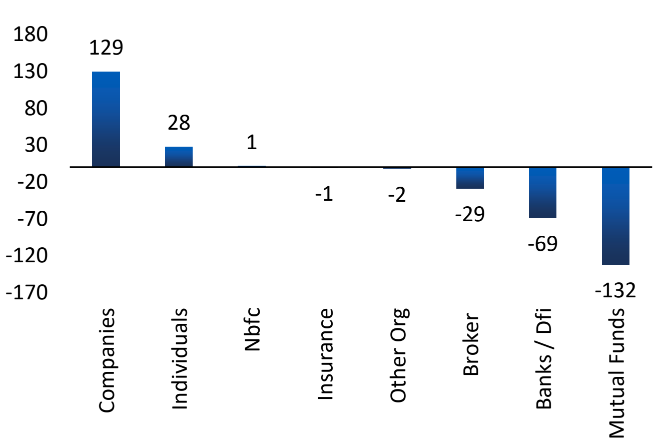
Cement and Fertilizer remained top picks of Mutual Funds: Mutual Funds (MF) have bought US$215.7mn shares, enhancing their exposure in all sectors. This investment surge coincided with a 61.4%YoY growth in industry AUMs to PkR3.7tn in 11MCY24. Despite their aggressive buying, MF equity exposure remains at 8.5% of total AUMs, significantly lower than 40% exposure seen in CY16. They enhanced exposure in Cement the most by US$40.1mn followed by buying of US$36.9mn in Fertilizer and US$32.9mn in OMCs.

Insurance showed liking for Fertilizer & Banks: Insurance was the 2nd largest market buyer, purchasing US$51.9mn in shares. Their key liking was in Fertilizer (US$59.2mn) followed by Banks (US$30.1mn) and FMCGs (US$13.4mn). They also bought US$12.3mn Power companies but trimmed exposure in Other sectors, E&Ps and Cement by US$31.1mn, US$14.5mn and US$12.9mn, respectively.

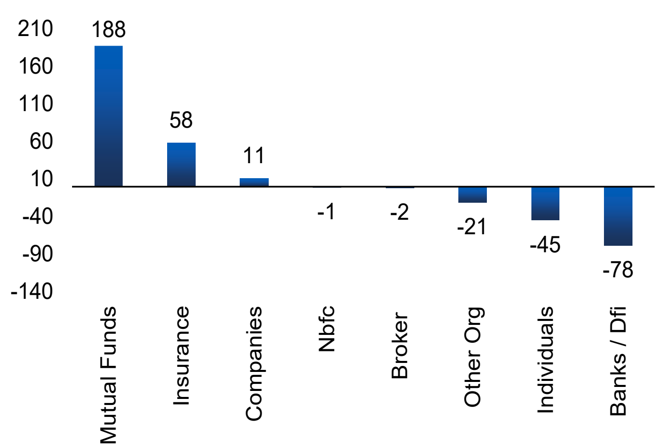
Banks sold Banks aggressively: Banks actively sold shares throughout CY24 to realize gains and mitigate ADR-related tax impacts. They offloaded US$40.1mn in bank stocks, alongside reductions in Fertilizer (US$27.2mn) and Power (US$20.6mn). Nevertheless, banks increased their exposure to Cement (US$11.9mn), E&Ps (US$4.4mn), and Textile (US$3.9mn).

Individuals booked gains in Fertilizer: Individuals realized gains of US$27.2mn in the Fertilizer and US$20.6mn in the Power, with overall selling of US$45.4mn. The sell-off in Fertilizer was driven by significant profit-taking, while trimming in Power were influenced by termination of IPPs contracts. However, they increased exposure in Cements by US$11.9mn and E&P by US$4.4mn.

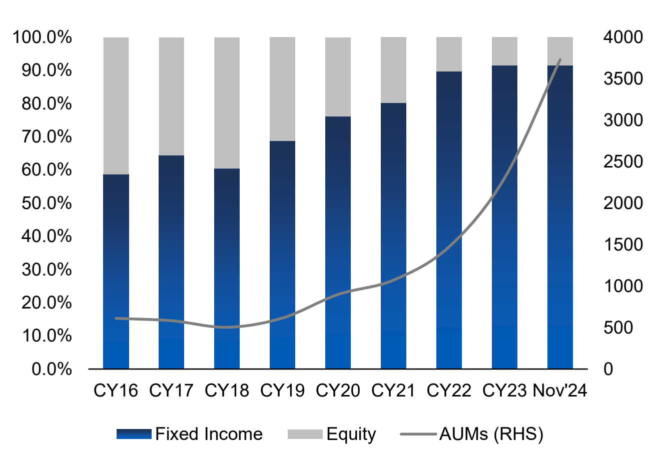
Mutual funds remained major net seller in CY23 (US$ mn)...



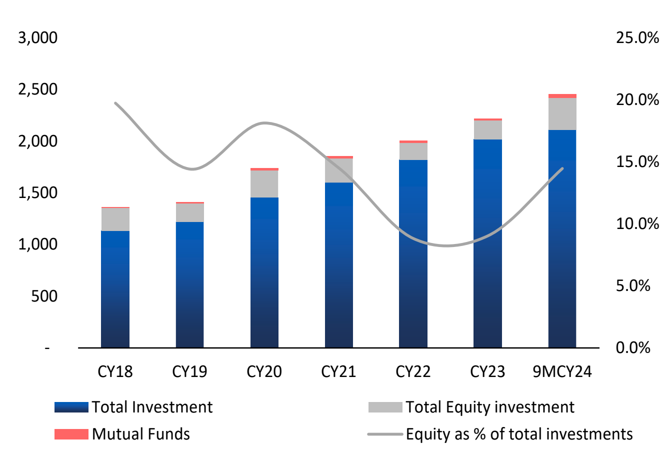
...to absorbing most of the selling in CY24TD (US$ mn)



Insurance companies equity exposure is below historical levels



Mutual fund investments in equity are below historical levels



Source: NCCPL, PSX & AKD Research

Reclassification turns foreigners into net sellers

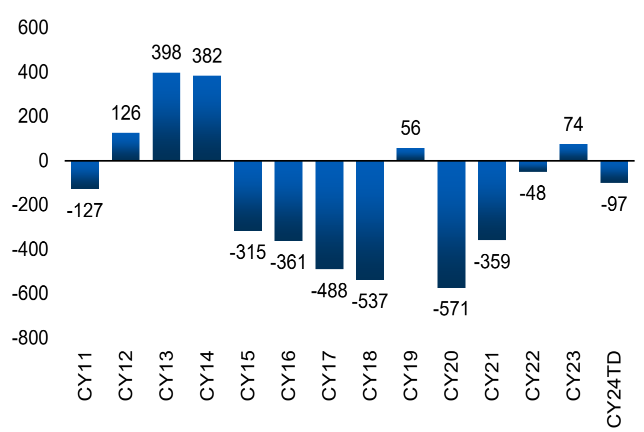
Foreign investors turned negative this year given vanguard related selling on Pakistan's reclassification by FTSE to Frontier Market despite remaining buyer in majority of the months.

Foreigners holding fall to lowest in a decade: Throughout the year, foreign investors sold approximately US$100.1mn worth of shares, leading to a decline in foreign holdings to their lowest levels in terms of market percentage. Foreign ownership fell to 13.3% of the free float and 3.7% of the total market capitalization, marking a two decade-low, compared to 16.6% and 13.3% in the previous year, respectively. Over the last decade, foreign investors have reduced their positions in the PSX by around US$2.6 billion, with most of the selling occurring in the first five years of this period. The primary drivers of these outflows include fund reallocations away from smaller Emerging Markets (EM) and Pakistan's reclassification by both MSCI and FTSE from Emerging Market to Frontier Market status. The improved political stability since May'22, alongside macroeconomic stabilization under the IMF program, has created a more favourable outlook for foreign inflows.

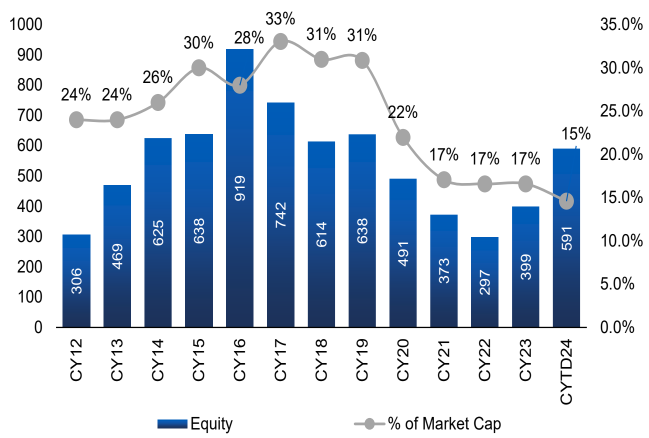
Fertilizer and E&Ps Lead Outflows: Most sectors, with the exception of Technology, Textiles, and Others, experienced net outflows during the year. The Fertilizer sector faced the largest outflow (~US$44.6mn), followed by E&Ps (US$34.7mn), FMCG (US$20.8mn), Banks (~US$14.5mn), OMCs (US$14.2mn), Power (US$13.9mn), and Cement (US$9.4mn). Conversely, the Technology sector saw inflows of US$18.9mn, and the Textile sector recorded modest inflows of US$1.4mn. The "Others" category experienced the highest inflows, totaling US$48.3mn in CY24.

Return of foreign investors this year cannot be ruled out: Improving macroeconomics and currency stability driven by strong external position and structural reforms under the IMF program amid declining global interest rate environment collectively strengthen the investment case for Pakistani equities.

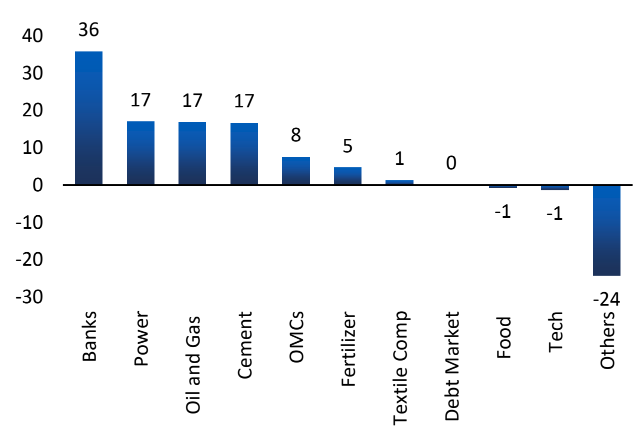
Foreigners remained sellers in CY24TD amid FTSE rebalancing (US$ mn)



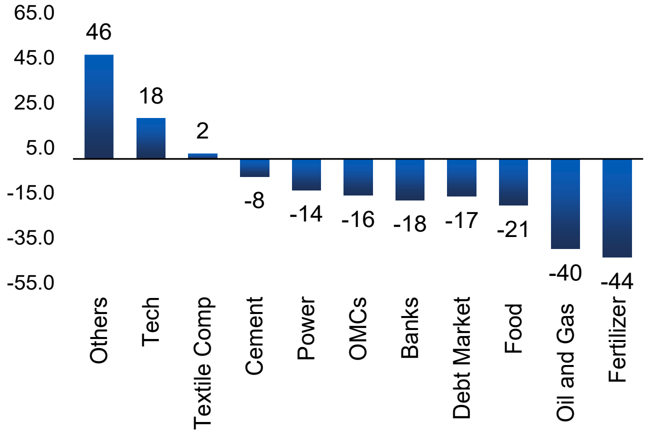
FII exposure in equity drops to lowest



Foreigners remained major buyers in banking sector in CY23 (US$ mn)



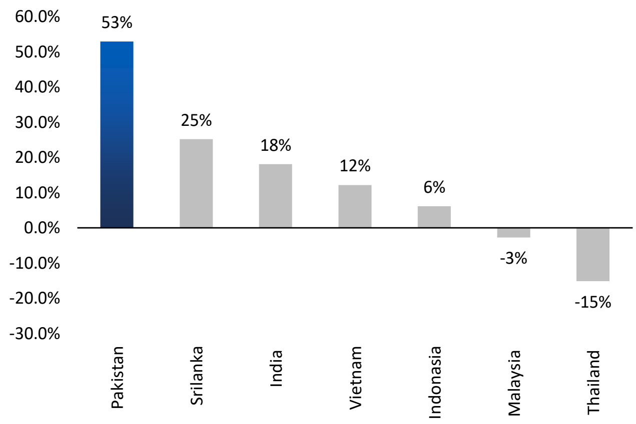
Liking shifts towards Others & Technology sectors in CY24TD



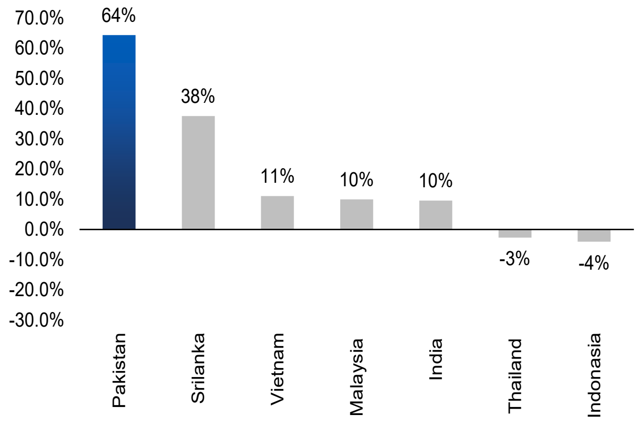
Source: NCCPL & AKD Research

KSE-100 continues to outperform peers in the region

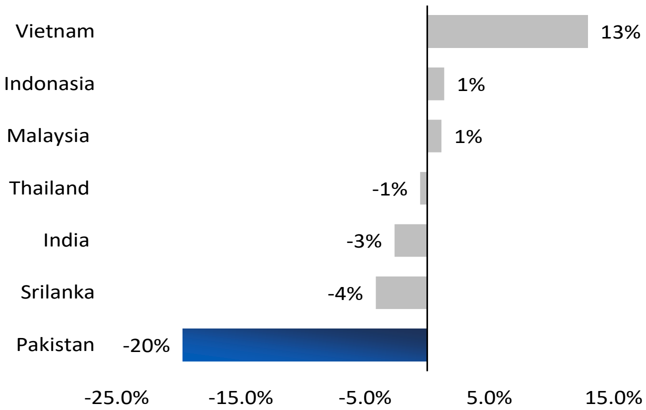
Pakistan outperformed the region in returns for CY23



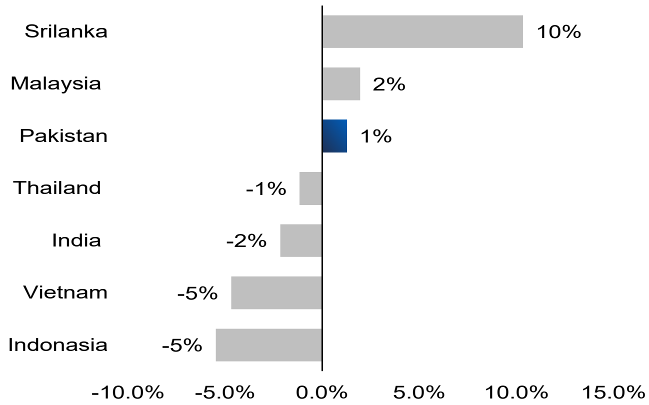
KSE-100 continues to lead regional peers in CY24TD performance



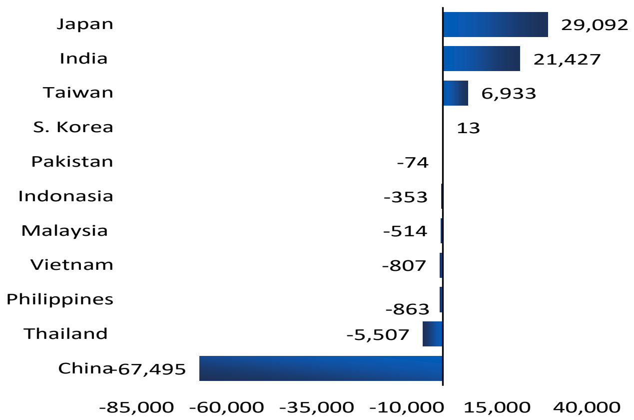
From currency deprecation in CY23…



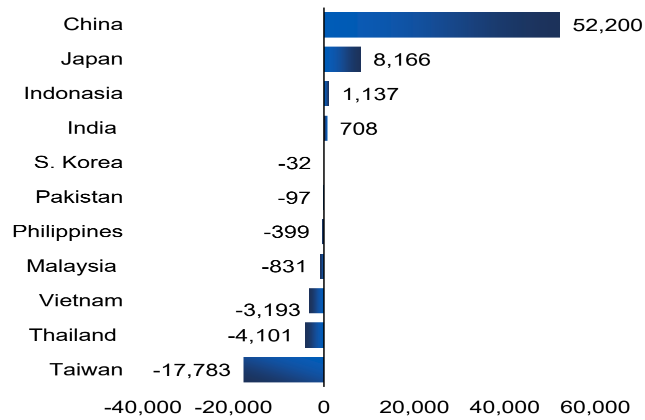
….to appreciation in CY24TD



Selling witnessed by foreigners across the region (US$ mn)



Foreigners selling continues in CY24TD (US$ mn)



Source: SBP, Bloomberg, PSX, NCCPL & AKD Research

Banks and Fertilizer sectors propel market performance

KSE-100 index has delivered an impressive return of 70% year-to-date, marking a significant upward movement in the market. This remarkable surge can be largely attributed to the strong performance of several key sectors. Among the primary drivers of this growth are the Fertilizer, Oil & Gas Exploration, Commercial Banks, Cement, and Pharmaceutical sectors. These sectors have seen substantial gains, which have significantly contributed to the overall positive performance of the index.

Commercial Banks having an index weightage of 22.7% has provided an impressive return of 47% in current year to date. This surge was fueled by commercial banks strong dividend yield during the year, supported by surge in Net Interest Income (NIIs) amid higher Net interest margins (NIMs) due to higher policy rates at 22% during the year.

Fertilizer sector's return has clocked in at 109% in current year to date, having an index weightage of 16.5%. The sector's performance remained robust throughout the year, driven by attractive dividend yields, which provided additional support to investor returns. Furthermore, earnings for the sector remained stable, underpinned by higher gross margins and a consistent supply of gas to RLNG-based plants.

Oil & Gas Exploration having an index weightage of 15.4% has provided an impressive return of 100% in current year to date. This surge was primarily driven by the government's concerted efforts to address the long-standing issue of circular debt, a challenge that has historically weighed on the financial performance of the sector. Additionally, there has been a renewed focus on exploration, which has led to greater optimism about future resource discoveries and enhanced production capabilities.

Pharmaceutical sector has seen a remarkable 189% return year-to-date, with an index weightage of 3.3%. This impressive growth was mainly driven by the deregulation of the non-essential drug portfolio, allowing companies to enhance their margins and transfer cost pressures onto consumers.

Oil & Gas Marketing sector having an index weightage of 4.0%, with a robust return of 76% year-to-date. The surge was primarily attributable to recovery to OEM volumes during the year, along with improvement in recoveries amid government's efforts to stop further accumulation of circular debt. Moreover, stability in international fuel prices led to improved margins.

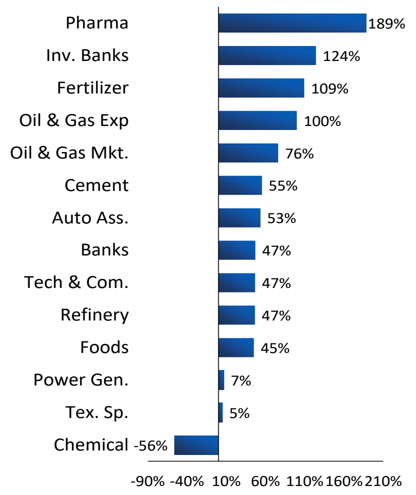
Cement sector's return clocked in at 55% year-to-date, with an index weightage of 7.5%. The exceptional return can be largely attributed to the improved gross margins. This was largely driven by higher retention prices for manufacturers, enabling them to successfully pass on rising cost pressures to consumers.

Auto Assemblers with an index weightage of 3.8% has provided an return of 53% year-to-date. This surge in the sector was primarily driven by improved volumes amid absence of import restrictions, and notably benefited from a low base set in the previous year. The sector faced challenges in SPLY, including restriction on non-essential imports by the State Bank of Pakistan (SBP), resulting in multiple days of plant shutdowns for major OEM's.

Refinery's year-to-date returns clocked in at 47%, having a 1.5% index weightage. The strong returns in the sector can be attributed to several key factors, including the Special Investment Fund Council's (SIFC) proactive approach in addressing longstanding sector issues. Positive developments in refinery policy, such as regulatory support and incentives. Moreover, the government's shift in focus from greenfield refineries, to brownfield refineries have contributed to the sectors return.

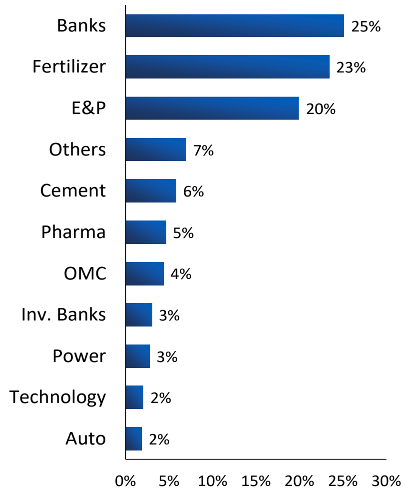
Meanwhile, the chemical sector has notably underperformed this year, posting a negative return of 56% year-to-date, holding an index weightage of 0.9%. The sector's lackluster performance can be primarily attributed to a decline in primary core margins, which significantly impacted profitability. Additionally, rising gas prices added further pressure on production costs, exacerbating the sector's struggles.

Pharma sector tops returns in CYTD



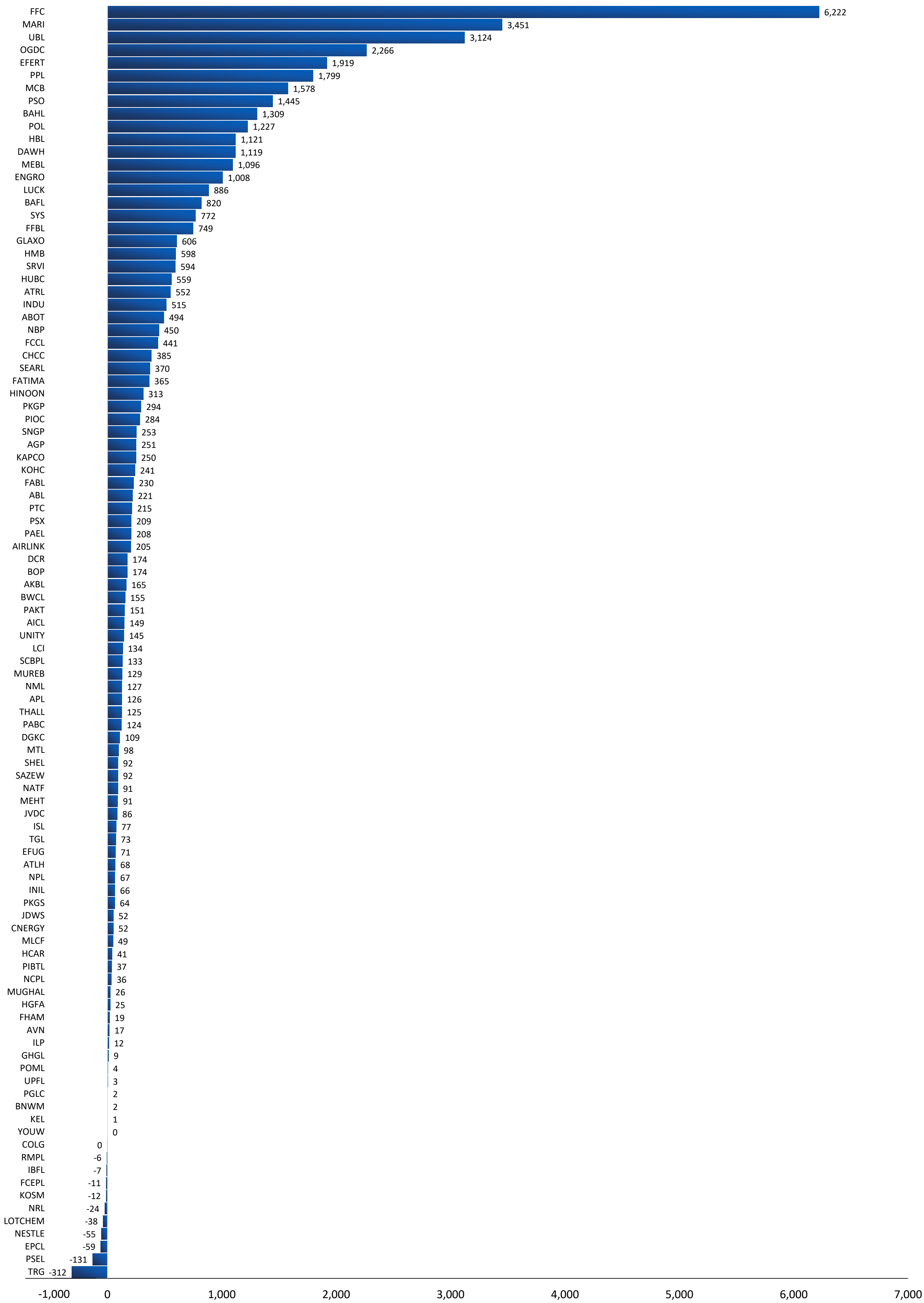
Source: PSX & AKD Research

Sector wise contribution in index



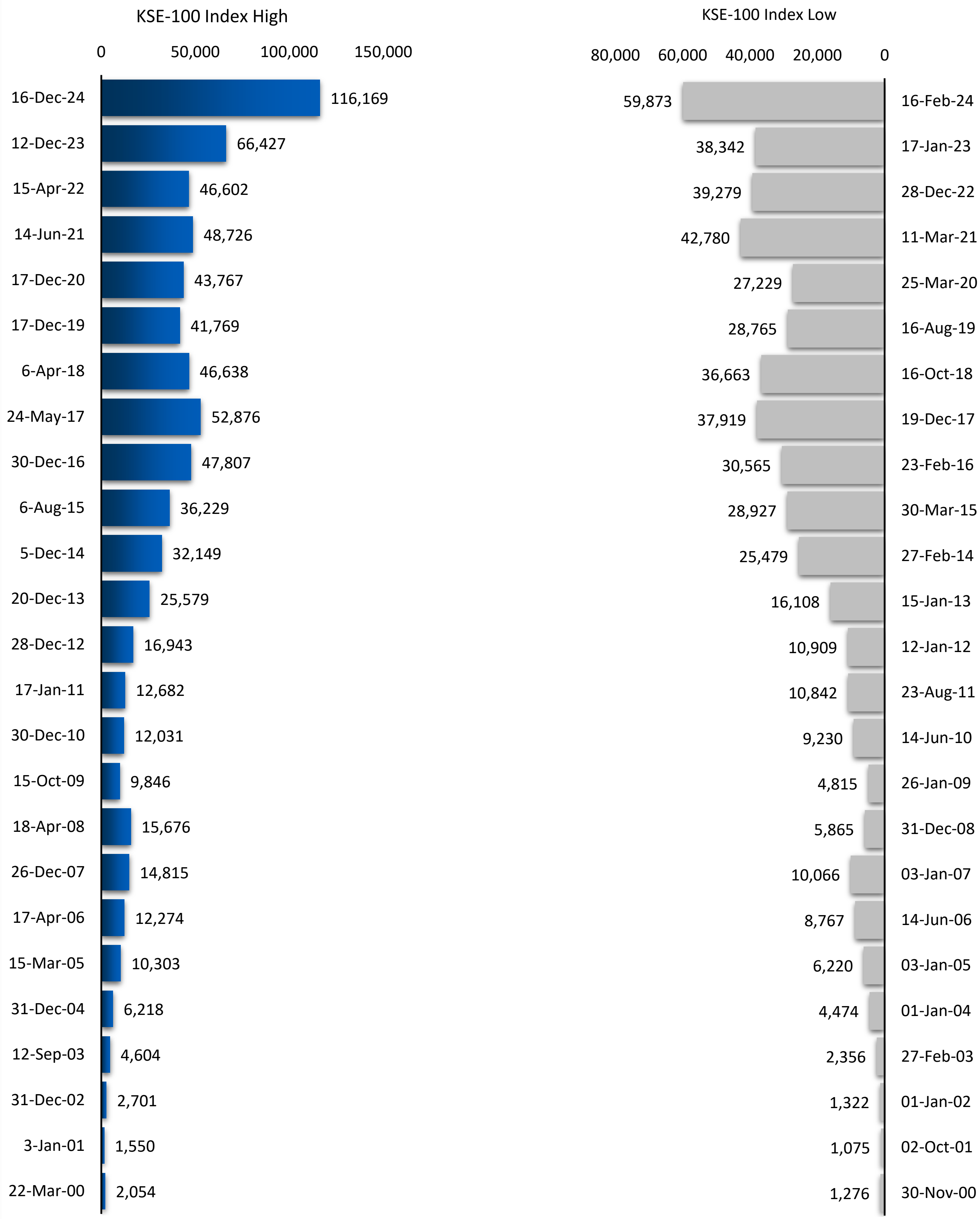
Source: PSX & AKD Research

Index wise point contribution in CY24



Source: PSX & AKD Research

KSE-100 Index Performance Over the Years



Source: PSX & AKD Research

Stock	Total Return	DY	Reason
Banks			
UBL	131%	25%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
MEBL	71%	18%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
MCB	80%	21%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
HBL	65%	14%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
BAHL	84%	19%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
BAFL	89%	23%	Higher NIMs, robust asset quality and healthy capital ratios led to high cash payouts
Fertilizers			
ENGRO	51%	9%	Sale of energy portfolio (EPQL, EPTL & SECMC)
FFC	225%	17%	Increased profitability amid unchanged gas prices and higher DY
EFERT	106%	19%	Higher DY and cost pass-on ability keeping profitability intact
FATIMA	128%	15%	Improved sales with uninterrupted gas supply to Sheikhupura plant
FFBL	155%	3%	Higher DAP margins leading to increased earning
Oil & Gas			
OGDC	85%	10%	Surge in gas tariffs boosted gas-based revenue recoveries
PPL	60%	7%	Surge in gas tariffs boosted gas-based revenue recoveries
MARI	182%	12%	Significant increase in gas production alongside higher payouts
POL	67%	23%	Higher dividend payouts and stability in oil production during the year
Cement			
LUCK	50%	2%	Higher profitability over improved GMs and dividend from LEPCL
MLCF	27%	0%	Improved gross margins amid increase in retention prices
CHCC	87%	3%	Higher gross margins amid better retention prices
PIOC	107%	13%	Payout initiation and de-leveraging
FCCL	115%	5%	Increased profitability given higher retention prices and increased market share amid double expansion
DGKC	37%	0%	Higher dividend income from power and banking associates
KOHC	78%	0%	Higher gross margins and better retention prices along with share buyback announcement
Power			
HUBC	16%	13%	Robust DY during the year, combined with the unveiling of the EV business in partnership with BYD
NPL	54%	37%	Robust DY during the year
Technology			
SYS	42%	1%	Significant growth in Mena and North America region
Automobile Assembler			
HCAR	47%	3%	Improved volumes amid absence of import restrictions
INDU	80%	11%	Improved volumes amid absence of import restrictions
Oil & Gas Marketing			
PSO	78%	6%	Inclusion of RLNG-recoveries in gas tariffs resulted in improvements in receivables
APL	45%	7%	Higher regulated margins during the year alongside expectations of volumetric recovery post CY25.
Textile			
NML	46%	4%	Increased dividend income from power subsidiary and associates supporting profitability
NCL	42%	0%	Improved profitability due to expansion in gross margins amid increase in retention prices
ILP	8%	6%	Increased exports however change in tax regime to NTR
Chemical			
EPCL	-12%	2%	Loss amid falling core delta margins and increase in gas prices
Steel			
MUGHAL	23%	0%	Slowdown in construction activity led to lower offtakes
ISL	27%	8%	Slowdown in cyclical sectors led to underperforming offtakes

Source: PSX & AKD Research

Earning to grow at a modest pace in CY25

Using the AKD universe as a proxy (~70% of FF Market Cap), we forecast earnings growth of ~3.1% for the year 2025. The Fertilizer sector is expected to be a major contributor to our universe's earnings growth, with a projected increase of ~15% next year due to the acquisition of the Jazz tower business by ENGRO and the clearance of backlog inventory by EFERT. However, we expect FFC earnings to normalize given a decline in Int'l DAP margins.

Cement is the second major earnings contributor to our forecast for next year due to a pickup in domestic offtakes and easing coal prices. Moreover, a significant reduction in the policy rate from a peak of 22% would significantly improve profitability of the sector, given its high leverage. Technology sector is anticipated to post earnings growth of ~42%YoY, driven by rising global IT spending and robust MENA demand, particularly as Saudi Arabia prepares to host the 2030 export expo and the 2034 FIFA world cup, amid aggressive development plans under vision 2030.

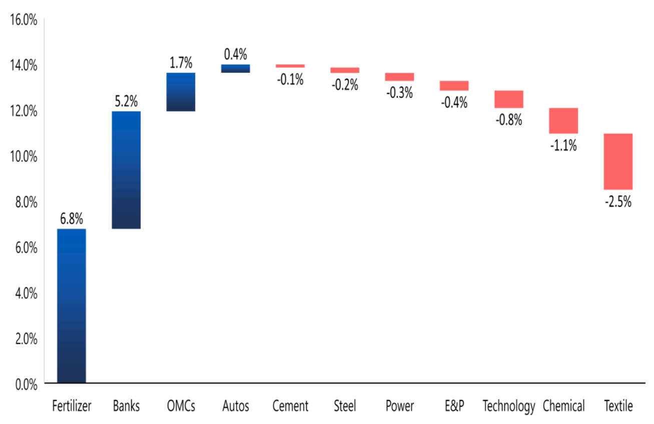
The OMC sector is expected to post ~14% profitability growth, driven by improving volumes due to a curb on smuggling and increased industrial activity. Moreover, higher margins and lower financing charges, amid reduced working capital requirements, would further boost profitability growth. Steel after posting losses for two years due to inventory losses and higher energy cost, is anticipated to rebound with robust profitability growth of 50%. This recovery would be driven by significant reduction in the policy rate and easing electricity charges.

The Textile sector's earnings are likely to rebound next year, with growth of ~10%YoY, after falling for two consecutive years due to reduced inventory cost and lower financing charges. Chemical sector losses are anticipated to decline in CY25 due to improved core margins and easing financial charges.

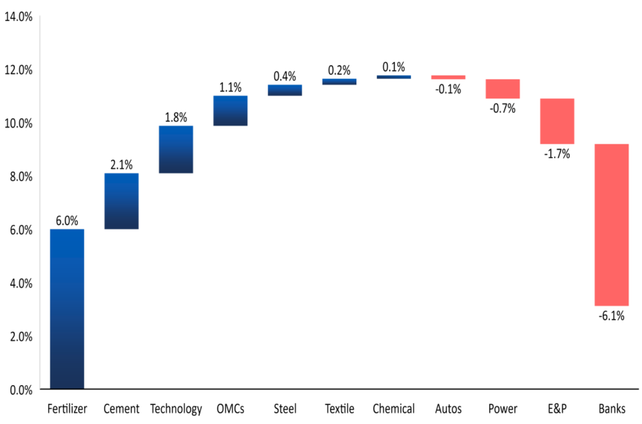
Banks, E&Ps, Power and Autos would collectively reduce our earnings growth by 8.6%YoY due to a significant negative contribution from banks, in our view. Banks profitability is expected to fall by ~27%YoY due to shrinking NIMs, driven by the significant negative spreads between T-Bill yields and the policy rate caused by continuous expectations of monetary easing since Jun'24 amid sharp disinflation. Moreover, Banks' aggressive lending to avoid ADR tax at negative spreads would further aggravate profit declines.

E&Ps are estimated to post negative earnings growth of 6%YoY due to easing oil prices and declining finance income amid a slight drop in production. We expect Arab Light to average at US$87.1/bbl during FY25E, compared to US$79.4/bbl in FY24. Power sector profitability is anticipated to fall by 14%YoY in CY25E due to the termination of the contract for HUBC base plant and tariff revisions for IPPs established under the 2002 power policy. Automobile earnings would decline by ~6%YoY due to lower financial income on customers advances despite stable margins and improved sales.

Fertilizer and banks lead earnings growth in CY24TD.



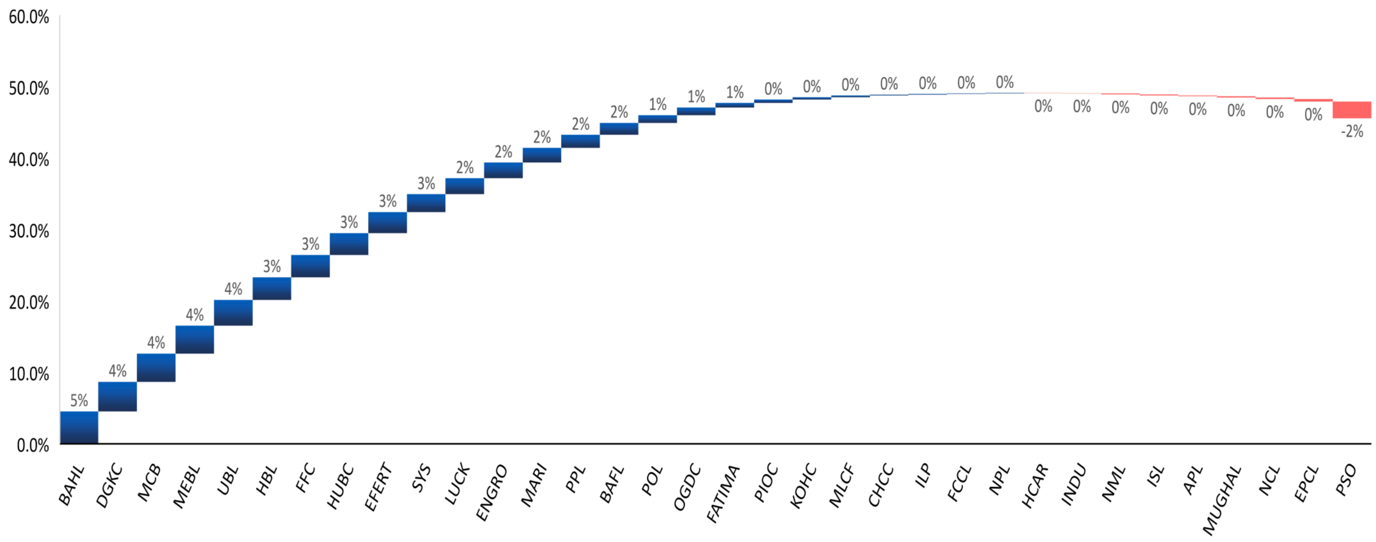
Banks' profitability to drop in CY25E



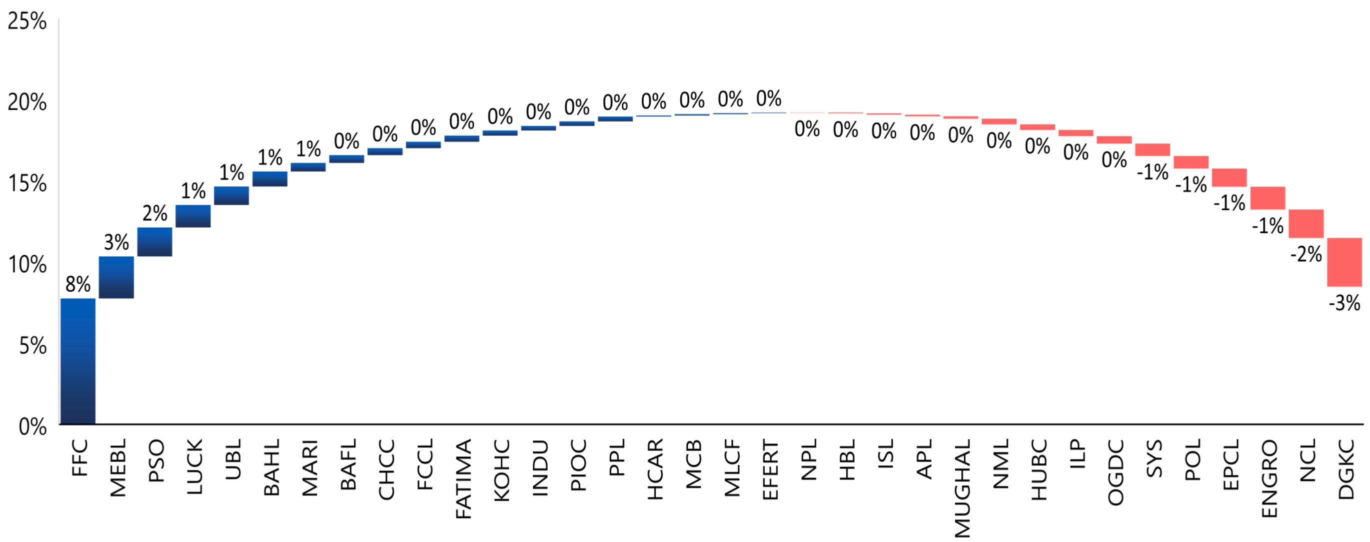
Source: PSX & AKD Research

ENGRO & SYS to lead growth in CY25E

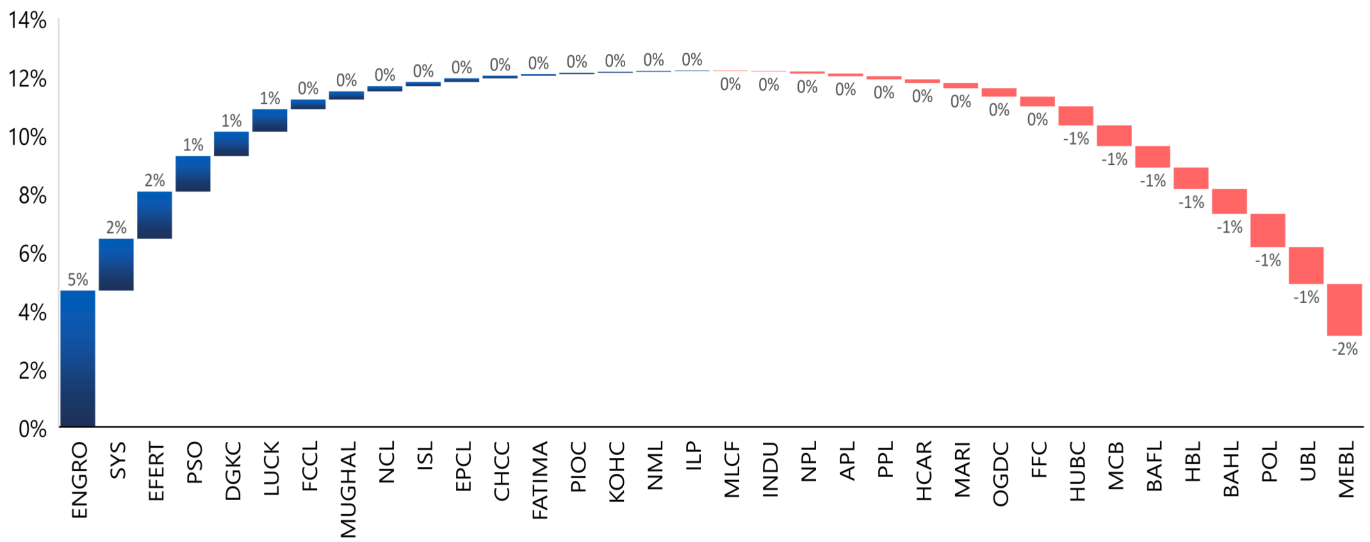
Banks lead the growth in CY23



FFC & MEBL lead the growth in CY24



ENGRO & SYS to lead earning growth in CY25E



Source: PSX & AKD Research

Bottom-up approach yielding an index target of 165,215 by Dec'25

We have adopted a Bottom-up approach for Pakistan equities in CY25 and have arrived at a KSE100 index target of 165,215 by Dec'25, implying a return of ~55.5% (~49.4% in US$ terms), including an impressive dividend yield of ~8.0%. Our index target is primarily a function of our AKD's universe Dec-25 TP based on Risk free assumption of 11.0% and market risk premium of 6.0%.

Key sectors driving this return include Banks, Fertilizer, E&P, Cement and OMCs. We believe the banking sector is available at a steep discount relative to their sustained ROEs, with our preference remains towards top-tier banks, including HBL, MCB and MEBL.

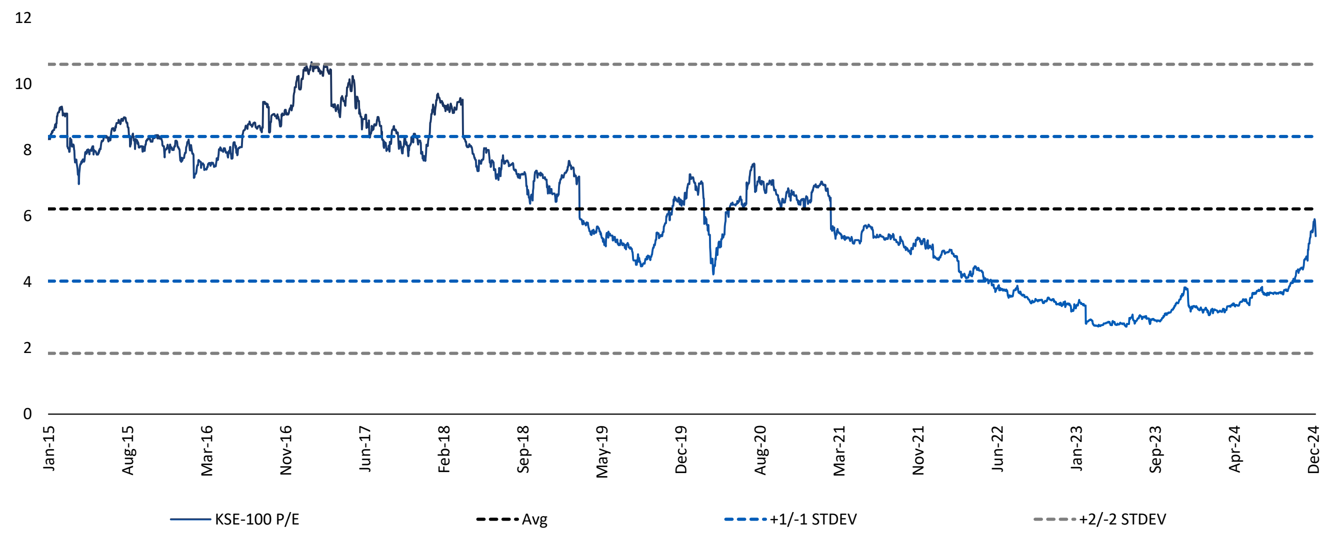
Fertilizers, which have performed well over the last two years with cumulative earnings growth of ~100% and a high teen dividend yield are expected to continue their upward trajectory due to the amalgamation of FFC and FFBL, along with ENGRO's acquisition of Pakistan's largest tower network. The E&P sector is expected to benefit from the reduction in circular debt, which would improve the cash flow position of E&P companies. Our top picks, OGDC and PPL, are poised to gain additional momentum due to their stakes in the Reko Diq gold and copper mine.

Cements are expected to remain a beneficiary from the drop in commodity cycle amid modest economic growth, with improving domestic offtakes and clinker exports. OMCs are expected to benefit from a recovery in volumes and higher CPI linked margins on white oil products. Circular debt reforms and a reduction in past overdue power payments to PSO would help improve sector's cash flows. Technology is poised to reap the benefits of investment in human resources made over the past few years, driven by robust demand from the MENA region. Textile would remain a preference for investors given increasing exports and lower cotton prices. Demand for steel and autos is likely to rebound but is expected to remain modest. Unlike in the past, the power sector is expected to underperform the broader index due to government efforts to manage electricity prices through a cost-reduction approach.

Earning growth approach yielding index target of 167,510 by Dec'25

Based on the earnings growth approach, our index target comes at 167,510pts, implying an upside of ~57.6% (~51.6% in US$ terms). The target is primarily a function of an average AKD universe 3.1% earnings growth for the next year and dividend yield of 8.0%. Furthermore, we predict a slight rerating in market current PE multiple to 8.75x against its recent value of 5.97x justified by lowering of our Required rate of return on equites to 17%.

KSE-100 trading below 10 years average P/E despite 130% rally over last two years



Source: Bloomberg, PSX & AKD Research

KSE-100 to beat MSCI Indices in CY25

We expect Pakistan equities' weight to significantly increase in the MSCI FM main index during CY25, driven by a significant reduction in policy rates and easing global commodity prices. These factors are likely to benefit local equities, which are already trading at a significant discount to regional peers.

Pakistan to Gain Traction in MSCI FM: The rally in Pakistan equities is likely to continue in CY25, despite a ~140% return over the last two years, given significant monetary easing and a stable currency supported by a strong external position under the IMF program. This bull run could significantly increase the weight of Pakistan equities in the MSCI FM main index to ~10% by the end of CY25, while the weight in the MSCI Small Cap index could rise to ~18%, based on our calculations.

Probability of Elevation to MSCI EM Club: Currently, Pakistan equities meet the criteria for inclusion in the MSCI EM Index, with three securities having both float-adjusted and full market capitalizations above the MSCI EM thresholds. Based on our target prices, we expect seven Pakistan stocks to meet these criteria, while three others are marginally below the threshold. Although Pakistan's weight in the MSCI EM index will be small, an improved outlook for Pakistan equities could attract a broader pool of quality foreign investors. Notably, Pakistan equities were reclassified to FM as it no longer meets EM standards for size.

KSE-100 outperform MSCI FM Index in most of the Years: KSE-100 outperformed in comparison to the MSCI World, MSCI EM and MSCI FM indices. MSCI World, MSCI EM and MSCI FM provided a return of ~21.9%, 7.7% and 5.0%, respectively during the year. Consequently, with the return of 70.0%, KSE-100 outperform MSCI World, MSCI EM and MSCI FM by 48.1%, 62.3% and 65.0%. Despite this outperformance KSE-100 is still trading at a discount of 68% against the historical average of 26%.

MSCI FM Index

S.No	Stock	FF Market Cap (US$ mn)	Weight
1	FFC	818	0.7%
2	MARI	399	0.3%
3	ENGRO	511	0.4%
4	OGDC	563	0.4%
5	EFERT	621	0.5%
6	PPL	472	0.4%
7	HBL	548	0.4%
8	MCB	498	0.4%
9	BAHL	512	0.4%
10	UBL	429	0.3%
11	HUBC	381	0.3%
12	LUCK	323	0.3%
13	SYS	335	0.3%
14	POL	337	0.3%
15	MTL	264	0.2%
16	PSO	223	0.2%
17	BAFL	209	0.2%
18	NBP	130	0.1%
19	SNGP	90	0.1%
20	SAZEW	76	0.1%
21	ILP	66	0.1%

Source: MSCI & AKD Research

Stocks likely to meet criteria of MSCI EM index

S.No.	Stock	TP	FIF (mn)	Outstanding shares (mn)	FF Market Cap (US$ mn)	Full Market Cap (US$mn)
1	OGDC	355	801	4,301	1,023	5,492
2	PPL	285	780	2,721	800	2,789
3	FFC	583	700	1,272	1,467	2,668
4	MARI	550	240	1,201	475	2,375
5	LUCK	1,965	88	293	621	2,071
6	UBL	404	351	1,224	510	1,779
7	MCB	389	510	1,185	713	1,658
8	HBL	261	841	1,467	790	1,377
9	ENGRO	675	423	537	1,027	1,303
10	EFERT	242	861	1,335	750	1,162

Source: Bloomberg, PSX & AKD Research

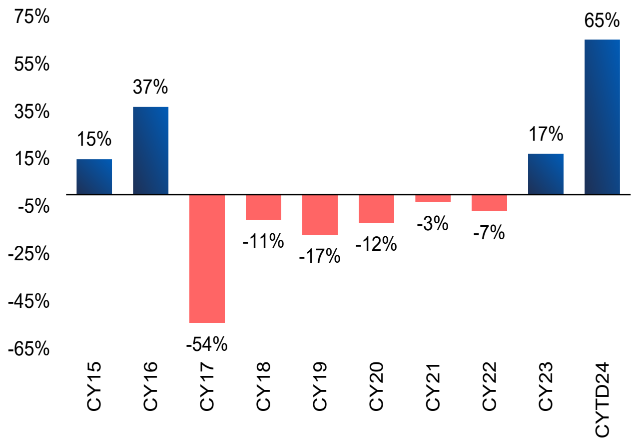
MSCI EM selection criteria

Criteria	Emerging
A Economic Development	
A.1 Sustainability of economic development	No requirement
B Size and Liquidity Requirements	
B.1 Number of companies meeting the following Standard Index criteria	3
Company size (full market cap)**	US$1260 mm
Security size (float market cap)**	US$630 mm
Security liquidity	15% ATVR
C Market Accessibility Criteria	
C.1 Openness to foreign ownership	Significant
C.2 Ease of capital inflows / outflows	Significant
C.3 Efficiency of the operational framework	Good and tested
C.4 Stability of the institutional framework	Modest

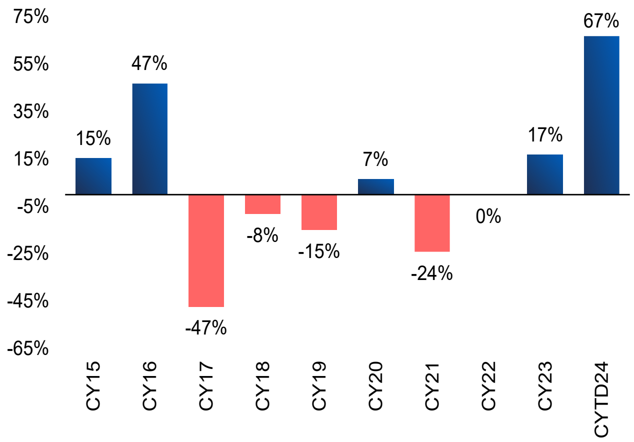
Source: MSCI & AKD Research

KSE-100 to beat MSCI index returns CY25

KSE-100 outperforms MSCI EM index in CY24TD



KSE-100 tops MSCI FM index returns in CY24TD



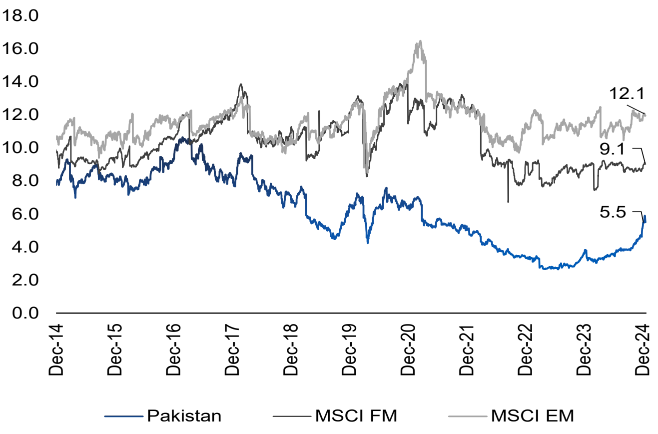
Source: Bloomberg, PSX & AKD Research

Stocks currently in MSCI FM small cap

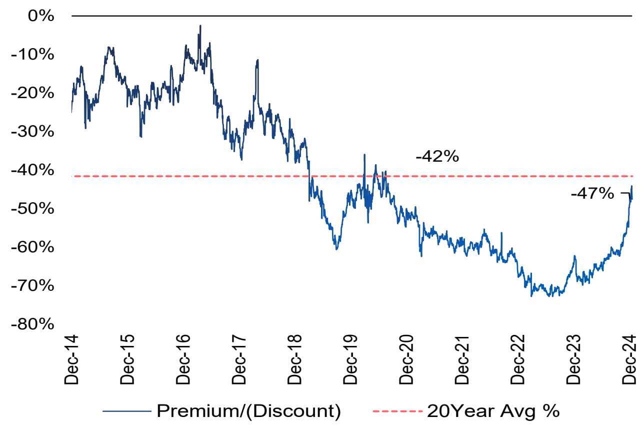
S.No.	Stock	FF Market Cap (US$ mn)	Weight	S.No.	Stock	FF Market Cap (US$ mn)	Weight
1	SEARL	85	0.5%	34	MUGHAL	22	0.1%
2	ATRL	78	0.5%	35	WTL	20	0.1%
3	TRG	81	0.5%	36	GHNI	21	0.1%
4	DGKC	67	0.4%	37	ACPL	20	0.1%
5	PIOC	76	0.4%	38	GAL	20	0.1%
6	AIRLINK	48	0.3%	39	FEROZ	22	0.1%
7	NML	39	0.2%	40	THCCL	17	0.1%
8	KAPCO	60	0.3%	41	NPL	18	0.1%
9	AKBL	62	0.4%	42	SNBL	19	0.1%
10	AGP	48	0.3%	43	NCPL	20	0.1%
11	PAEL	42	0.2%	44	CPHL	13	0.1%
12	AICL	38	0.2%	45	IGIHL	18	0.1%
13	BOP	46	0.3%	46	NETSOL	16	0.1%
14	ISL	41	0.2%	47	GATM	15	0.1%
15	UNITY	40	0.2%	48	CEPB	15	0.1%
16	PABC	27	0.2%	49	TREET	12	0.1%
17	SHFA	41	0.2%	50	JSCL	14	0.1%
18	SSGC	31	0.2%	51	FCL	13	0.1%
19	GHGL	35	0.2%	52	NCL	14	0.1%
20	CNERGY	28	0.2%	53	SGF	14	0.1%
21	NATF	37	0.2%	54	JSBL	13	0.1%
22	PSX	32	0.2%	55	CSAP	13	0.1%
23	INIL	32	0.2%	56	OCTOPUS	12	0.1%
24	TGL	32	0.2%	57	HABSM	11	0.1%
25	HCAR	27	0.2%	58	LPL	12	0.1%
26	AGL	32	0.2%	59	PAKOXY	11	0.1%
27	FLYNG	26	0.2%	60	AGHA	11	0.1%
28	LOTCHEM	26	0.1%	61	ASL	10	0.1%
29	HUMNL	30	0.2%	62	TPLP	8	0.0%
30	AVN	24	0.1%	63	ATBA	9	0.1%
31	PIBTL	22	0.1%	64	EPQL	9	0.1%
32	PRL	21	0.1%	65	PCAL	6	0.0%
33	MUREB	26	0.2%	**Total**			**11.5%**

Source: PSX & AKD Research

Pakistan trading at a discounted P/E over the years...

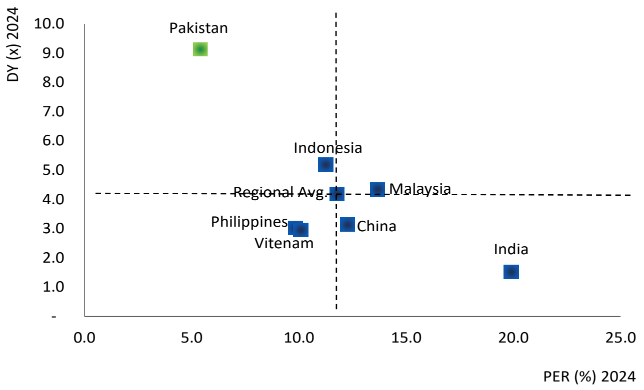


...KSE-100 Index shows a 47% discount compared to MSCI Indices

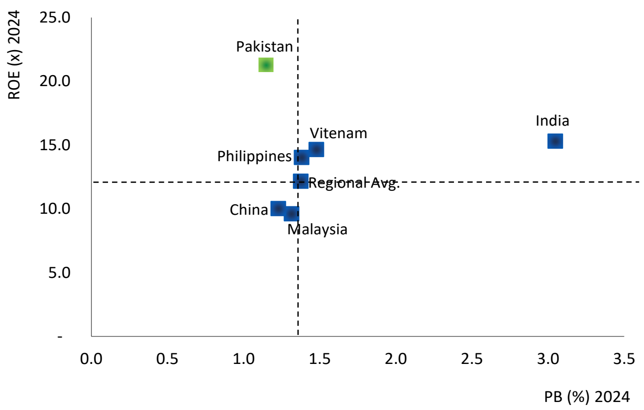


Source: Bloomberg, PSX & AKD Research

Pakistan's trading at discount despite highest DY in the region...



.... With the highest return in the region



Source: Bloomberg, PSX & AKD Research

KSE-100 continues to trade at discounted P/E and P/b despite higher DY

	PE(x) CY24	PE(x) CY25	PB CY24	PB CY25	DY(%) CY24	DY(%) CY25
Pakistan	**5.50**	**5.39**	**1.23**	**1.15**	**7.92**	**9.13**
Sri-lanka	14.63	10.86	1.38	1.01	18.70	26.26
Thailand	15.68	14.07	1.36	1.30	3.43	3.70
Indonesia	11.80	11.23	0.03	0.03	5.22	5.19
Malaysia	14.88	13.65	1.37	1.31	4.17	4.35
Philippines	10.93	9.83	1.52	1.38	2.84	3.03
Vietnam	11.76	10.08	1.68	1.48	2.76	2.96
India	22.85	19.88	3.44	3.05	1.41	1.52
Average	14.65	12.80	1.54	1.37	5.51	6.72
Premium/(Discount)	**-62%**	**-58%**	**-20%**	**-16%**	**44%**	**36%**

Source: PSX, Bloomberg & AKD Research

Sector wise Portfolio positioning

Covered Stock performance in CY24 reasons			
Sector	**Index Weightage (%)**	**Stance**	**Reason**
Banks	22.7	Overweight	Robust capital adequacy and healthy Asset book growth led by economic recovery alongside higher non-core income contribution are to keep the sector in limelight.
Fertilizer	16.5	Overweight	Nutrient offtakes are expected to recover due to improving agronomics. Additionally, rising gross margins would help boost the sector's profitability. Lastly, healthy cashflow generation would continue strong payouts.
E&P	15.4	Overweight	Continued rationalization of energy prices are expected to result in enhanced free-cashflows for the sector as a whole. We anticipate sector participants to ramp up E&P activities (including riskier plays) while also enhancing cash-payouts to shareholders as opposed to muted distributions in the past
Cement	7.5	Overweight	Expanding gross margins supported by higher retention, easing coal prices and power efficiencies to drive earning growth. Additionally, falling interest rates to further ease the financial burden, consequently leading to higher profitability.
Power	5.4	Market-weight	Recent revisions in IPP policy by the authorities may keep earnings growth in check. However, anticipation of sizable cash-payouts by listed players in the event of winding-up proceedings may keep investors interest alive.
Technology	4.8	Overweight	As global IT spending rises in response to growing focus on digitalization, IT companies are poised to capitalize on the demand. They benefit from lower compensation costs compared to the broader region and a strong presence in the MENA region, especially in Saudi Arabia.
OMC	4.0	Overweight	Revision in regulated OMC margins alongside recovery in volumes during FY25 and beyond are anticipated to drive the sector's growth. Furthermore, talks of fuel price deregulation and fresh M&A activity may propel investors to re-rate sector valuations. Further, energy price rationalization efforts by authorities will bode well for the industry leader i.e. PSO
Automobile Assembler	3.8	Overweight	Automobile assemblers are expected to benefit from the removal of import restrictions, which will resolve supply chain issues that have been prevalent in recent years. Additionally, with continued monetary easing and sustainable economic growth, vehicle volumes are projected to rise.
Textile	1.5	Overweight	Recovery in global markets and improving international prices to bolster revenue and margin stability. Additionally, declining financing rates domestically are expected to ease financial burden .
Steel	0.9	Overweight	Declining policy rate alongside negligible inflation in steel prices may boost demand for construction and related activity post 2HFY25.
Chemical	0.9	Underweight	Lower core-delta margins along with higher gas prices are expected to keep gross margins contained. Additionally, the potential discontinuation of gas supply to captive power may further inflate input costs and erode margins at a gross level.

Source: PSX & AKD Research

AKD Universe Valuation Sheet

Company	Symbol	Price (PkR)	TP (PkR)	Stance	EPS				DPS				P/E				DY%			
					FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
OIL & GAS MARKETING																				
Pakistan State Oil	PSO	381	729	BUY	12.1	33.8	42.4	59.8	7.5	10.0	20.0	30.0	31.6	11.3	9.0	6.4	2.0%	2.6%	5.3%	7.9%
Attock Petroleum	APL	502	825	BUY	100.2	111.1	74.9	80.6	27.5	27.5	35.0	42.5	5.0	4.5	6.7	6.2	5.5%	5.5%	7.0%	8.5%
STEEL																				
Mughal Iron & Steel	MUGHAL	76	107	BUY	10.4	6.0	4.2	16.0	3.2	-	1.3	2.5	7.3	12.7	18.0	4.7	4.2%	0.0%	1.6%	3.3%
International Steels Ltd	ISL	83	120	BUY	8.1	8.4	6.4	12.0	5.5	5.5	4.0	8.0	10.3	9.9	13.0	6.9	6.6%	6.6%	4.8%	9.6%
CEMENT																				
Lucky Cement - Standalone	LUCK	1,084	1,965	BUY	46.9	95.9	83.6	128.6	18.0	15.0	17.0	32.0	23.1	11.3	13.0	8.4	1.7%	1.4%	1.6%	3.0%
Lucky Cement - Consol.	LUCK	1,084	1,965	BUY	166.4	223.7	253.8	327.4	18.0	15.0	17.0	32.0	6.5	4.8	4.3	3.3	1.7%	1.4%	1.6%	3.0%
Maple Leaf Cement	MLCF	42	70	BUY	5.5	6.6	6.1	6.4	-	-	1.3	1.3	7.6	6.4	6.9	6.5	0.0%	0.0%	3.0%	3.0%
Cherat Cement Company	CHCC	260	379	BUY	22.7	28.3	38.9	32.9	4.5	5.5	8.0	6.5	11.5	9.2	6.7	7.9	1.7%	2.1%	3.1%	2.5%
Pioneer Cement Ltd	PIOC	188	264	BUY	11.5	22.8	21.8	25.3	-	15.0	13.0	15.0	16.4	8.3	8.6	7.4	0.0%	8.0%	6.9%	8.0%
Kohat Cement Company	KOHC	361	537	BUY	29.7	45.4	52.6	48.8	-	-	-	10.0	12.2	8.0	6.9	7.4	0.0%	0.0%	0.0%	2.8%
Fauji Cement Company	FCCL	34	61	BUY	3.0	3.4	5.2	5.6	-	1.0	1.5	1.5	11.2	10.1	6.5	6.1	0.0%	2.9%	4.4%	4.4%
D.G. Khan Cement	DGKC	93	167	BUY	-8.3	1.2	9.0	10.7	-	-	2.0	3.0	-11.2	74.7	10.3	8.6	0.0%	0.0%	2.2%	3.2%
POWER																				
Hub Power Company	HUBC	121	151	BUY	47.8	58.0	43.4	45.3	30.0	20.0	5.0	14.0	2.5	2.1	2.8	2.7	24.9%	16.6%	4.1%	11.6%
Nishat Power Limited	NPL	34	46	BUY	11.6	15.2	11.1	7.6	7.0	9.5	10.0	7.0	2.9	2.2	3.0	4.4	20.8%	28.3%	29.8%	20.8%
AUTOMOBILE ASSEMBLER																				
Honda Atlas Cars	HCAR	294	426	BUY	1.8	16.3	5.0	9.0	-	6.5	2.0	3.5	161.6	18.0	58.5	32.7	0.0%	2.2%	0.7%	1.2%
Indus Motor Ltd	INDU	2,245	3,350	BUY	123.0	191.8	199.6	185.8	71.8	114.7	120.0	112.0	18.3	11.7	11.2	12.1	3.2%	5.1%	5.3%	5.0%
OIL & GAS																				
Oil & Gas Development	OGDC	211	355	BUY	52.2	48.6	43.3	44.2	8.6	10.1	17.0	20.0	4.0	4.3	4.9	4.8	4.0%	4.8%	8.1%	9.5%
Pakistan Petroleum Ltd	PPL	190	285	BUY	35.7	42.4	39.7	40.9	2.5	6.0	11.5	13.5	5.3	4.5	4.8	4.7	1.3%	3.2%	6.0%	7.1%
Mari Petroleum Company	MARI	656	550	SELL	46.7	64.4	61.2	61.3	16.3	25.8	25.0	25.0	14.0	10.2	10.7	10.7	2.5%	3.9%	3.8%	3.8%
Pakistan Oilfields Ltd	POL	623	750	BUY	128.4	137.9	76.5	70.1	80.0	95.0	75.0	55.0	4.9	4.5	8.1	8.9	12.8%	15.2%	12.0%	8.8%
TEXTILE																				
Nishat Mills Limited	NML	101	187	BUY	34.6	18.1	11.5	19.5	5.0	3.0	2.0	3.0	2.9	5.6	8.8	5.2	4.9%	3.0%	2.0%	3.0%
Nishat Chunian Limited	NCL	34	64	BUY	-4.2	2.9	8.2	15.3	-	-	2.0	4.0	-8.2	11.8	4.1	2.2	0.0%	0.0%	5.9%	11.8%
Interloop Limited	ILP	69	104	BUY	14.4	11.3	7.8	11.5	5.0	4.5	2.5	4.0	4.8	6.1	8.8	6.0	7.3%	6.5%	3.6%	5.8%
BANKS																				
Habib Bank Ltd	HBL	154	261	BUY	39.4	39.0	31.8	34.7	9.8	16.3	16.0	17.8	3.9	4.0	4.9	4.5	6.3%	10.5%	10.4%	11.5%
MCB Bank Ltd	MCB	257	389	BUY	50.3	51.1	43.4	45.1	30.0	36.0	36.0	37.0	5.1	5.0	5.9	5.7	11.7%	14.0%	14.0%	14.4%
United Bank Ltd	UBL	334	404	BUY	46.1	54.4	44.9	46.1	44.0	45.0	39.0	40.0	7.2	6.1	7.4	7.2	13.2%	13.5%	11.7%	12.0%
Meezan Bank Ltd	MEBL	211	348	BUY	47.1	55.7	36.6	35.4	20.0	27.0	26.0	25.0	4.5	3.8	5.8	6.0	9.5%	13.2%	12.3%	11.8%
Bank AL Habib Ltd.	BAHL	119	173	BUY	32.3	39.5	31.3	32.6	14.0	14.0	14.0	14.0	3.7	3.0	3.8	3.7	11.8%	11.8%	11.8%	11.8%
Bank Al Falah Ltd	BAFL	74	123	BUY	21.8	26.1	17.9	18.3	8.0	7.8	7.3	7.3	3.4	2.8	4.1	4.1	10.8%	10.5%	9.8%	9.8%
FERTILIZERS																				
Fauji Fertilizer Company	FFC	371	583	BUY	24.6	58.0	55.6	61.5	12.9	40.8	44.0	49.0	15.0	6.4	6.7	6.0	3.5%	11.0%	11.9%	13.2%
Engro Fertilizers Ltd	EFERT	193	242	BUY	19.6	19.7	26.3	26.6	20.5	19.5	25.0	23.5	9.8	9.8	7.3	7.3	10.6%	10.1%	13.0%	12.2%
Engro Corporation	ENGRO	388	675	BUY	39.2	28.2	57.4	69.7	48.0	27.0	34.0	42.0	9.9	13.7	6.8	5.6	12.4%	7.0%	8.8%	10.8%
Fatima Fertilizer Company	FATIMA	70	103	BUY	11.0	16.0	16.9	15.7	4.5	6.5	7.0	6.5	6.4	4.4	4.2	4.5	6.4%	9.2%	9.9%	9.2%
TECHNOLOGY																				
Systems Limited	SYS	553	879	BUY	29.8	25.5	36.1	46.7	6.0	6.5	9.0	11.8	18.6	21.6	15.3	11.8	1.1%	1.2%	1.6%	2.1%
CHEMICALS																				
Engro Polymer & Chemicals	EPCL	37	30	SELL	9.1	-4.3	-2.9	3.2	6.0	-	-	0.8	4.1	-8.7	-13.1	11.6	16.1%	0.0%	0.0%	2.0%

Source: PSX & AKD Research

Key Risks

I. Intensifying political tensions and challenges may result in significant shifts in the political landscape, potentially leading to changes in leadership, policy direction, and overall governance structures

II. Volatility in global commodity prices, driven by intensifying geopolitical tensions and a subsequent rise in oil prices, could significantly increase the import bill, putting pressure on national finances. This, in turn, may fuel inflationary pressures

III. Climate change-induced flooding has the potential to severely impact the agricultural sector, disrupting crop production and food supply, which could lead to a slowdown in GDP growth and broader economic challenges.

IV. Non-compliance with IMF targets may lead to an early exit from the IMF program, halting financial inflows, destabilizing the currency, and exerting pressure on foreign reserves.

V. FBR's inability to meet revenue targets could result in further reductions in the PSDP budget, leading to decreased government spending on infrastructure and development projects.

VI. Decline in remittances could put significant pressure on the current account balance, exacerbating the country's trade deficit and straining foreign exchange reserves.

VII. Newly elected administration in the USA imposing restrictions or tariffs could negatively impact exports, leading to a widening trade deficit. This may also create pressure on currency stability as export revenues decline and foreign exchange reserves come under strain.

VIII. US-led restrictions on China could create challenges for the China-Pakistan Economic Corridor (CPEC), potentially disrupting trade and infrastructure projects, as well as complicating diplomatic and economic relations between the involved countries.

IX. Smuggling remains a significant threat to sectors such as refineries, tire manufacturing, and mobile phone production, as it undermines legitimate businesses, distorts market competition, and leads to revenue losses for both companies and the government.

X. Instability in Afghanistan, could lead to increase in terrorism, posing a security threat to the region, potentially destabilizing neighboring countries, disrupting trade routes, and increasing the risk of cross-border conflicts.

XI. Escalation of tensions with India could lead to heightened security risks, potential military confrontations, and a strain on diplomatic relations, which may negatively impact regional stability, trade, and economic cooperation.

Source: PSX & AKD Research

Sector Outlook

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AKD SECURITIES LIMITED

Commercial Banks - Overweight

UBL	MEBL	MCB	HBL	BAFL	BAHL
TP (PkR) 404	TP (PkR) 348	TP (PkR) 389	TP (PkR) 261	TP (PkR) 123	TP (PkR) 173

Deposit growth fueled by economic stability: Domestic banking sector has seen deposit growth exceeding M2 supply by 120bps during CYTD, driven by elevated interest rates which encouraged higher savings as aggregate demand contracted during CY22/23. Furthermore, the share of currency in circulation within M2 slowed to 22% as of Nov'24, down from its historical average of 28%, indicating a shift towards formal deposit channels. Looking ahead, we project deposit growth to stabilize around 15%YoY during CY25 and beyond, in line with M2 expansion under a more stable macroeconomic environment, supported by lower interest rates (GDP growth FY25F/26F: 2.7%/4.3%). Additionally, focused efforts to mobilizing low-cost deposits and digital banking initiatives are anticipated to sustain deposit growth over the medium term.

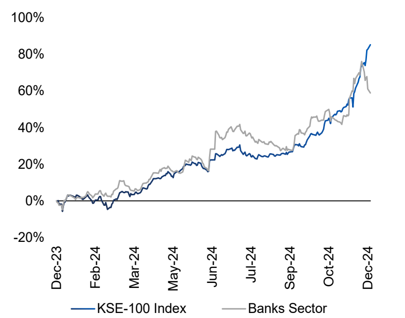
Unmoved asset quality: Despite previous two years of economic slowdown and elevated interest rates, asset quality across the banking sector has remained resilient. Industry infection ratio rose by 100bps between Jun'23 and Sep'24, to end nine-months at 8.4%, led by a focused lending approach. Additionally, coverage ratios strengthened significantly, reaching 105% as of 1HCY24, up from ~94.4% in SPLY, with the proactive provisioning shielding domestic banks against potential losses. With macroeconomic stability and declining interest rates on the horizon, we anticipate growth of NPLs to remain muted moving forward.

NIMs compression ahead despite ADR growth support: SBP's monetary easing during CY24, with a cumulative 900bps reduction by year end, has set the stage for decline in NIMs for the domestic banking industry. Weighted average lending rates on new loans declined to 14.75% as of Nov'24 (down ~520bps YoY), while average rate on fresh deposits fell to 7.46% (down ~320bps YoY). As we look onwards, SBP's likely continuation of rate cuts could bring the policy rate to 10% by Jun'25, which is expected to exert additional pressure on spreads. However, delayed repricing on longer-tenure instruments alongside growth in advances in efforts to meet the 50% ADR threshold may partially offset the impact through interest income growth. Notably, industry ADR ratio has risen to ~48% in Nov'24 end, up from 40% in Jun'24. However, we expect the SBP to shift the ADR calculation methodology to quarterly or yearly averages, instead of relying solely on calendar year-end figures for tax applicability. This may compel banks to sustain higher advances throughout the year.

Banking Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	4.5	19.8	49.0
Rel. Index (%)	-6.3	-18.7	-15.2
Absolute (PkR)	10.8	38.4	64.1

Commercial Banks vs. KSE100



Source: PSX & AKD Research

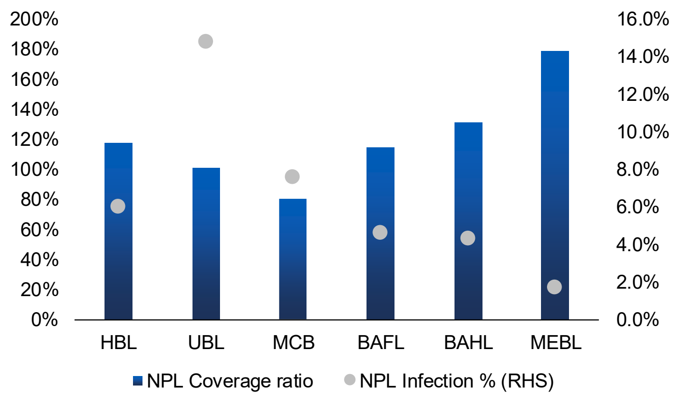
***Bank* - Valuations & Multiples**

(Year End Dec'31)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Earnings Growth	14%	83%	20%	-27%	0%	11%
PE	8.7	4.8	4.0	5.4	5.4	4.9
ROE	18%	25%	25%	17%	16%	17%
ROA	1.1%	1.4%	1.6%	1.1%	1.0%	1.0%
P/BV	1.55	1.18	0.98	0.93	0.87	0.82
Net Margins	22%	27%	28%	23%	22%	22%
Dividend Yield	5.7%	10.7%	12.6%	11.0%	11.4%	13.8%
ETR	53%	51%	49%	49%	50%	50%
ADR	53%	40%	48%	50%	50%	50%
IDR	68%	90%	72%	62%	59%	58%

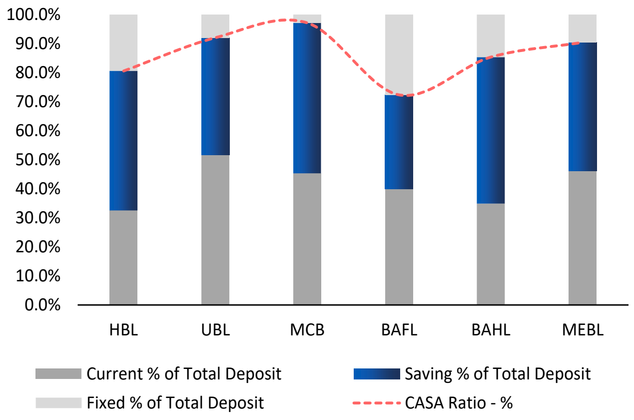
Source: PSX & AKD Research

Stable NIMs and deposit growth to strengthen sector outlook

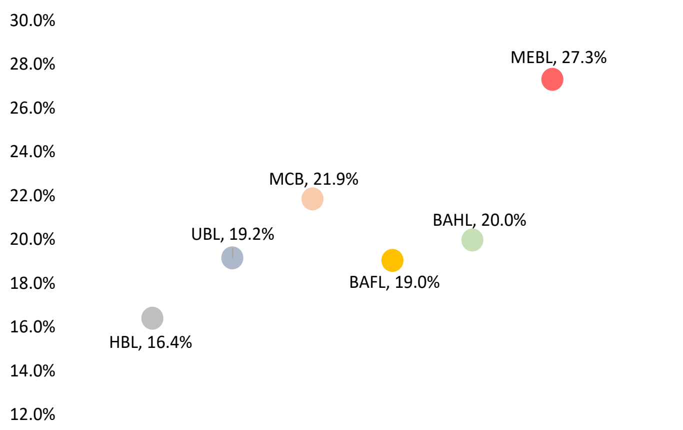
Infection in loans comfortably accounted for (Sep'24)



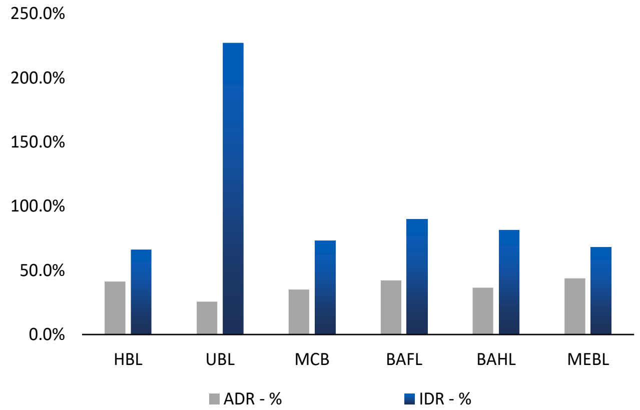
Deposit Composition vs. CASA ratio (Sep'24)



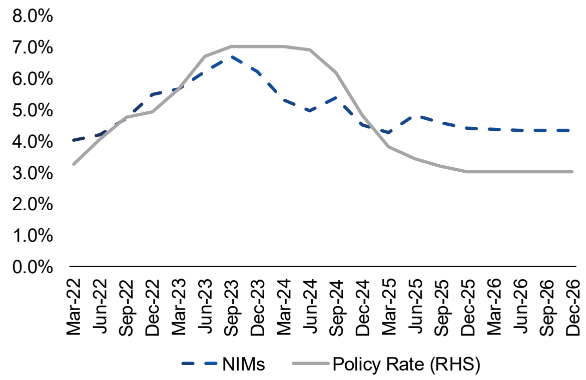
Total CAR comfortably above regulatory requirements (Sep'24)



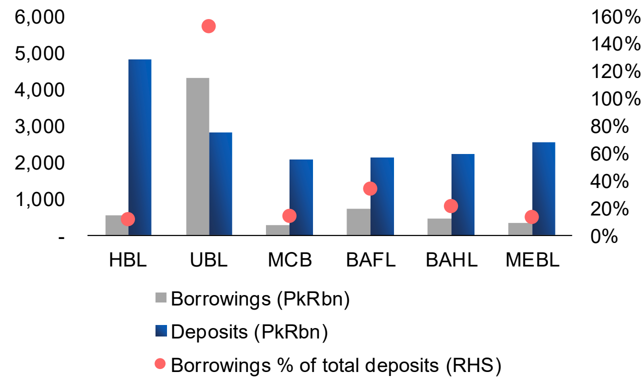
Banks strive to achieve ADR of 50% before Dec'24 end (Sep'24)



NIMs have largely followed the policy rate



UBL towers above the rest in terms of borrowings (Sep'24)



Source: SBP, PSX and AKD Research

AKD SECURITIES LIMITED

Fertilizer - Overweight

FFC	ENGRO	EFERT	FATIMA
TP (PkR) 583	TP (PkR) 675	TP (PkR) 242	TP (PkR) 103

Offtakes expected to improve: We expect urea sales to recover to ~6.4mn tons in CY25E, supported by better agronomics and GoP initiatives like 'Kissan Card program'. However, CY24E is expected to close with an annual decline in the nutrient offtakes, with urea sales anticipated to end the full year at 6.26mn tons, down 6% YoY (11MCY24A sales: down 7.1%YoY), led by deteriorating agronomics driven by lower crop prices and wheat crisis. Additionally, closing inventory has eased to 756k tons by end-Nov'24, from a three-year high of 841k tons in Oct'24, and we expect this to normalize around 500k tons, due to anticipated improvements in offtakes in the last month of CY24.

Gas price disparity benefiting Mari-based players: Disparity in gas pricing persists, with players connected to the Mari network benefitting from an average 53% discount compared to those on the Sui network. This benefits FFC and FATIMA (base plant), where gross margins have increased to over 50% in the last two quarters, while plants on the Sui network remain at a disadvantage. We have incorporated the continued gas price disparity into our base case, as the probability of gas price unification appears to be diminishing over time.

Should feed gas prices be unified, Mari network players are likely to pass on the incremental cost increase given their ongoing discount against international prices. However, the cost advantage for Mari-based producers would effectively diminish, leveling the field across the sector, a shift which would be particularly beneficial for EFERT. To recall, urea prices have increased to PkR4.5k/bag, up from PkR3.4k/bag last year, following an increase in feed gas prices for Sui companies from PkR580/ mmbtu to PkR1,597/mmbtu.

Uninterrupted gas supply to benefit RLNG-based plants: We expect RLNG-based plants, i.e., FATIMA's Sheikhupura and AGL, to continue receiving uninterrupted gas supply, as we believe the govt. would prioritize locally produced urea, which is at 25% discount compared to imported. Furthermore, gas supply to broader industry remains secure, with FFC, EFERT, and FATIMA (base) receiving consistent supplies from Mari network. For future supply security, Pressure Enhancement Facility (PEF) is under development, with a total cost of US$300mn, shared by all three companies.

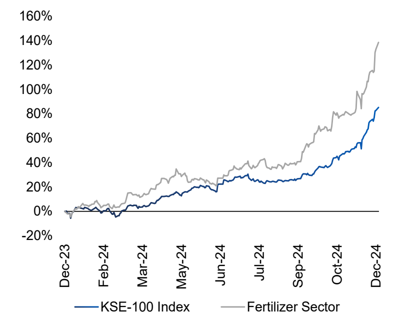
Improving DAP core-margins: Russia-Ukraine conflict has disrupted the supply of DAP in international markets, with Russia, Ukraine, and Belarus accounting for ~17% of global exports. This has driven up global DAP prices and core margins, with core margins averaging US$120/ton in CYTD, compared to a long-term avg. of US$94/ton. Meanwhile, local primary margins have decreased to US$300/ton, down from a peak of US$432/ton in 2QCY24, but still above the long-term avg. of US$240/ton. We expect international margins to remain ~US$110/ton, supported by continued restricted export from Belarus and Russia, alongside increasing demand from countries like Brazil and India. As a result, local primary margins are expected to avg. US$295/ton.

Fertilizer Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	18.0	68.4	109.5
Rel. Index (%)	7.3	30.0	45.4
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Fertilizer Sector vs. KSE100



Source: PSX & AKD Research

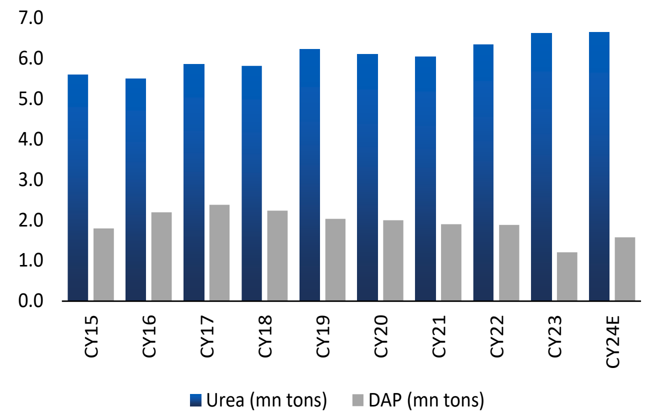
***Fertilizer* - Valuations & Multiples**

(Year End Dec'31)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Earnings Growth	-22.6%	54.7%	69.2%	5.0%	4.2%	1.2%
PE	6.3	3.8	6.6	6.3	6.0	6.0
ROE	24.1%	32.9%	49.0%	45.1%	41.9%	37.9%
ROA	7.1%	11.1%	18.3%	18.1%	18.2%	17.4%
P/BV	1.5	1.2	3.2	2.8	2.5	2.3
Gross Margins	27.6%	30.0%	32.9%	35.4%	35.0%	35.5%
EBITDA Margin	22.8%	25.7%	30.1%	30.2%	29.8%	30.6%
Net Margins	9.3%	10.4%	15.4%	16.2%	16.0%	16.4%
Dividend Yield	14.7%	17.0%	11.1%	11.5%	11.9%	12.1%

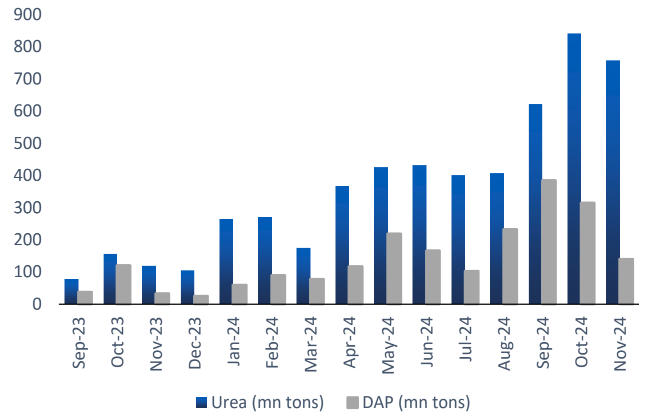
Source: PSX & AKD Research

Offtakes recovery to boost profitability

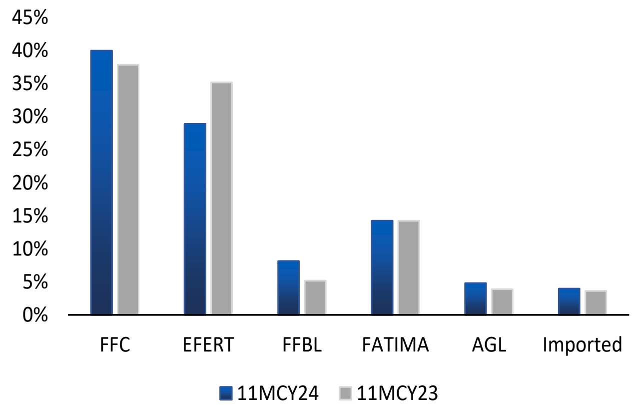
Urea offtakes remains contained in CY24, while DAP sales improved



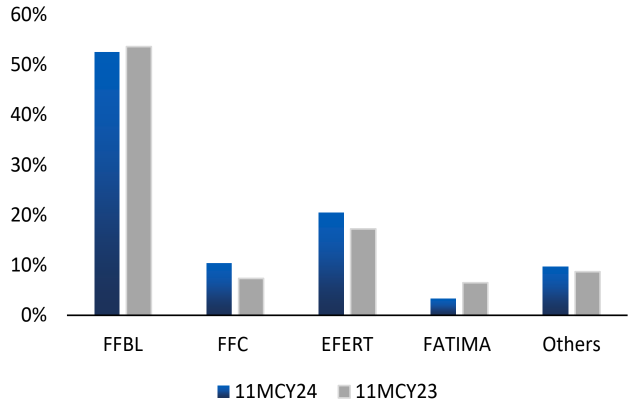
Urea inventory increased to multi-year high



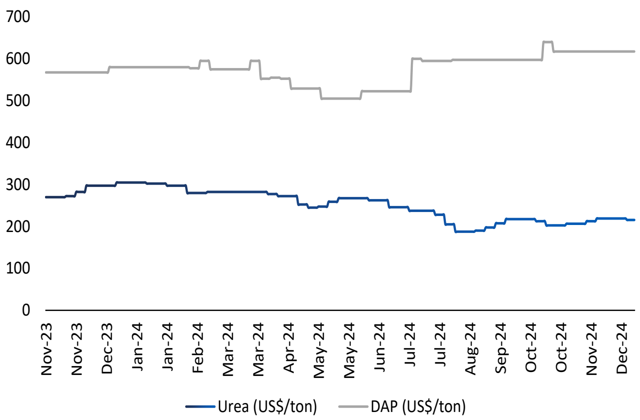
EFERT urea share declined amid 53-days turnaround



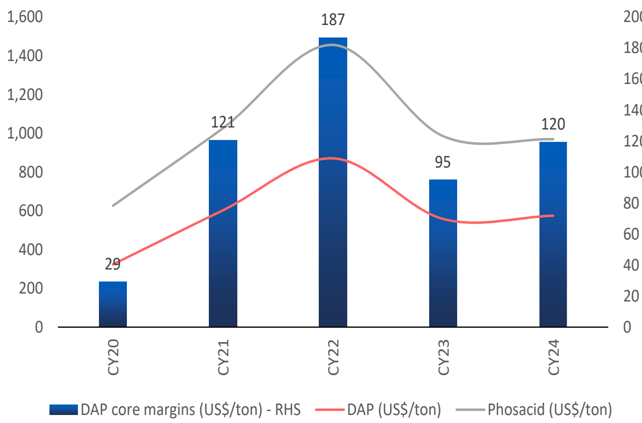
FFBL DAP market share decline on higher imports



International urea price eased though DAP remained high



DAP core margins increased amid easing Phos acid prices



Source: NFDC, Bloomberg, PSX and AKD Research

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Oil & Gas Exploration - Overweight

MARI	OGDC	PPL	POL
TP (PkR) 550	TP (PkR) 355	TP (PkR) 285	TP (PkR) 750

Bi-Annual gas price reviews to curb future GCD buildup: For years, energy chain's circular debt has deeply marred prospects of SOE energy companies, with OGDC & PPL remaining the major casualties among the listed E&Ps, leading the companies to scale back reinvestments in projects (declining CAPEX, drilling activities etc.). As it stands, consumer gas prices have been revised by 3x across the board, resulting in consumer tariff of PkR1,810/mmbtu as per SNGPL's petitioned FRR for FY25. The move was largely on the persistence by the IMF to review gas tariffs bi-annually in accordance with distribution company revenue requirements. More recently, international lender has also called to rationalize non-export captive tariffs in-line with the ring-fenced price of RLNG (~US$12/mmbtu), a move to prioritize more efficient uses of natural gas i.e. power generation and export industries. Overall, any future price rationalization would be positive for the E&P SOEs, as it may enable them to pursue long-delayed development strategies of their existing resources, while also tapping into aggressive plays to unlock new potential finds. Notably, cash-receipts for OGDC and PPL have averaged at 99%/93% during CYTD (vs. 76%/51% in SPLY), where-in we anticipate these to improve up to 95-100% post FY25E and onwards.

Fresh E&P activity to drive sector growth: The focus of authorities has now greatly shifted toward sustainability of the sector, given consistent decline in hydrocarbon resources (avg. decline 3% since FY15), where-in sector average reserve life stands at 9/15 for oil/gas, respectively. Notably, record 14 blocks were awarded during FY24 (vs. avg. 6 awards between FY19-23), with most being in prospective areas (and risky) regions of Baluchistan which is already home to significant gas reserves i.e. Sui, Gambat Block and Zin Block etc. We opine improving cashflow/liquidity situation, driven by rising gas-based revenue receipts, would encourage companies to push towards E&P activities into riskier plays (reverting to levels seen in 2011-2015).

Reko Diq to be the catalyst: The Reko Diq Mine is a mining operation in the planning stages, situated near Reko Diq town within the Chagai District of Baluchistan. It is home to the world's most significant reserves of copper and gold, having indicated reserves of 8.3mn tons of copper and 14mn oz of gold (as per Barrick financials), with an estimated mining life of 40 years. OGDC, PPL and GHPL each hold an effective interest of 8.33% in the project, with an updated feasibility anticipated by late CY24.

Enhanced security situation to renew confidence: Regarding security situation, we believe authorities to be upto the task in providing adequate security, particularly with SIFC taking the lead to push additional investments in the mineral and mining sector, with bilateral partners (KSA and China etc.) vowing to invest in Reko Diq and related natural resources in areas of Baluchistan and KPK. Furthermore, with Phase-II of the CPEC project in the offing and the initiation of economic activity through the Gwadar air and seaports, semi-remote areas of the province are likely to see increased security measures in the near future. Overall, with MARI discovering reserves in the Kohlu Block (Maiwand-X1), PPL's ongoing drilling in Gambat South, and OGDC's reentry plans for the Zin Block, outlook for listed E&P shows promise.

***E&P* - Valuations & Multiples**

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Earnings Growth	31%	68%	6%	-12%	1%	-4%
PE	9.7	5.8	5.4	6.1	6.1	6.3
ROE	17%	22%	20%	16%	15%	13%
ROA	12%	16%	15%	12%	11%	10%
P/BV	1.60	1.29	1.09	0.98	0.90	0.84
Gross Margins	66.2%	67.1%	65.0%	62.7%	61.1%	59.8%
EBITDA Margin	68.1%	79.7%	68.5%	67.9%	64.9%	64.8%
Net Margins	36.0%	45.6%	44.0%	39.9%	38.7%	38.5%
Dividend Yield	3.0%	3.4%	4.6%	5.3%	6.5%	7.6%
ETR	41%	39%	29%	39%	37%	37%

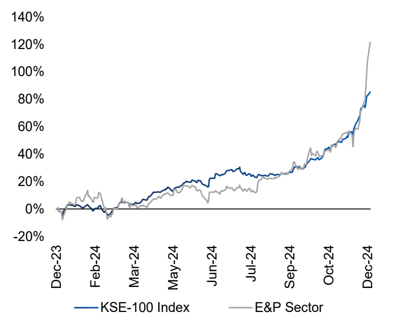
Source: PSX & AKD Research

E&P Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	20.6	67.4	82.7
Rel. Index (%)	9.8	29.0	18.6
Absolute (PkR)	10.8	38.4	64.1

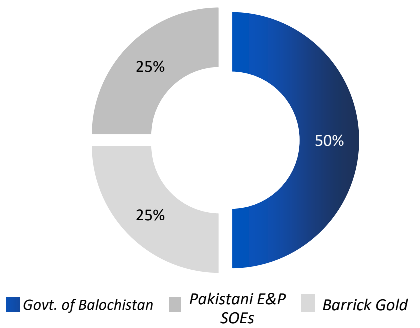
Source: PSX & AKD Research

E&P Sector vs. KSE100



Source: PSX & AKD Research

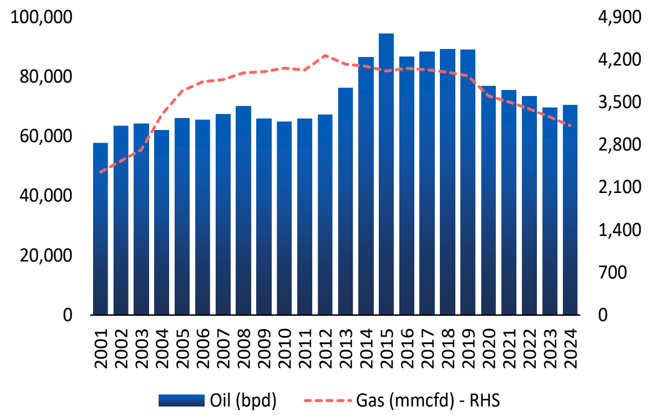
OGDC, PPL and GHPL collectively own 25% in Reko Diq Mining Project



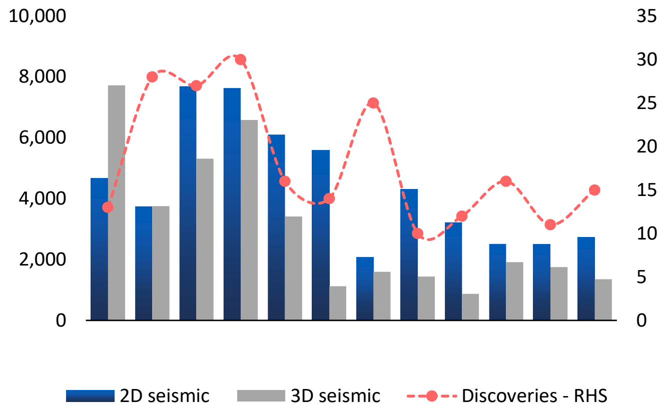
Source: BG Financials & AKD Research

Fundamental reforms under way in the upstream oil and gas sector

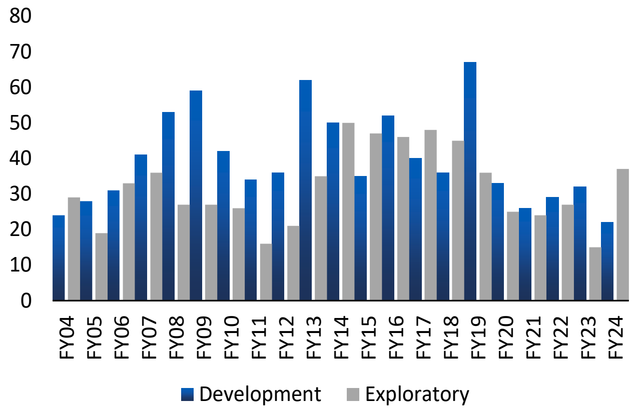
Oil and Gas Production since FY21



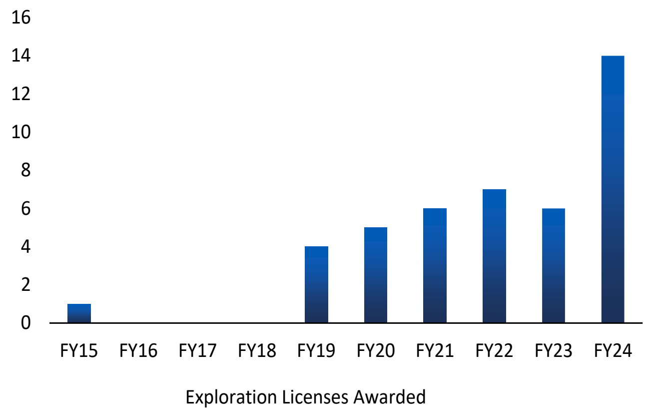
Exploration activity set for revival ahead



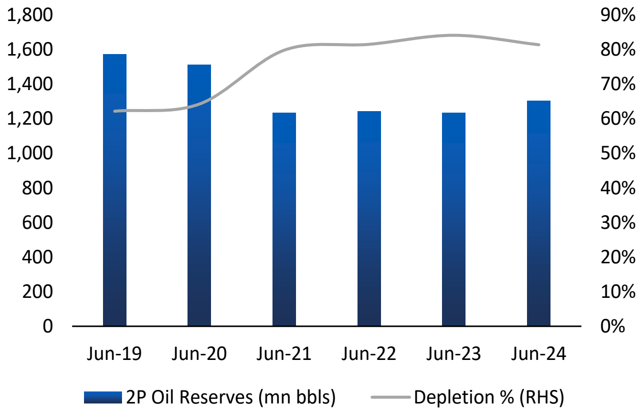
Drilling activity showing signs of recovery



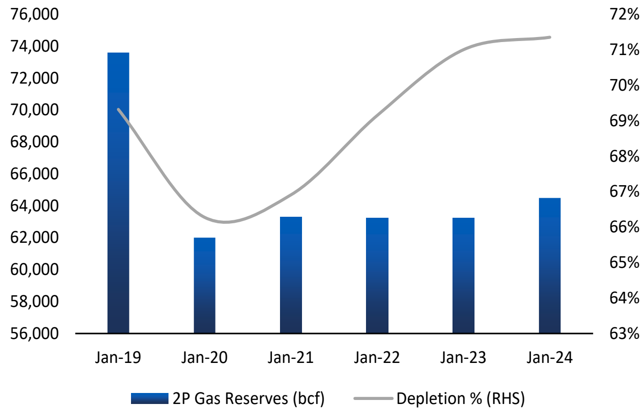
Surge in award of exploration licenses



Oil Reserves show slight uptick as of Jun'24



Gas Reserves have followed the same trend



Source: PPIS, OGRA, PSX & AKD Research

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Cement - Overweight

LUCK	FCCL	KOHC	CHCC	PIOC	MLCF	DGKC
TP (PkR) 1,965	TP (PkR) 61	TP (PkR) 537	TP (PkR) 379	TP (PkR) 264	TP (PkR) 70	TP (PkR) 167

Demand to remain muted: Cement demand has been constrained by elevated cement prices, high inflation, increased FED and royalty rates, and reduced public spending. Consequently, we expect local cement demand to further drop by 6%YoY to clock in at 36mn tons during FY25. However, stability led on by stable coal prices, exports are anticipated to rise by 10%YoY during the same period. This would result in total demand declining by 3.3%YoY in FY25E. Moving on, we expect local demand to recover by an annual avg. 5-6%YoY and exports increasing 8-10% annually. Notably, domestic sales declined to 37.9mn tons in FY24, remaining down 5.3%YoY and 21% from the FY21 peak of 48.1mn tons. The trend continued in 5MFY25, with local sales falling 12%YoY.

Prices to withstand cost pressures: We expect avg. cement prices to increase by 1.5%YoY and 4.9%YoY during FY25/26E, averaging at PkR1,468/1539bag. Notably, cement prices have remained stable despite a 20% decline in offtakes compared to FY21 levels and the addition of approximately 14.5mn tons of new capacity, which has driven utilization rates below 55% in FY24. Furthermore, cost pressures have been effectively passed on, evident from post-royalty price adjustments in Punjab. This resilience has bolstered gross margins, with AKD universe gross margins improving to 33% in 1QFY25 compared to 30%/26% in FY24/23, respectively.

Easing coal prices to support profitability: International coal prices have significantly eased, averaging US$104/ton CYTD, down from peaks of US$400/ton observed in CY22 amid the Russia-Ukraine conflict. Consequently, landing prices have dropped to PkR36k/ton, down from PkR39k/57k/ton in FY24/23, respectively. Additionally, Afghan coal prices are also expected to decline by PkR6k/ton due to recent decrease in taxes by Afghan govt. We believe this reduction would take Afghan coal prices in North region to PkR37k/ton and local coal prices to PkR34k/ton. Furthermore, 15% YoY reduction in average grid tariff (reduction in QTA/FCA adjustments), along with higher reliance on low-cost WHR and renewables are expected to boost gross margins to 33% in FY25E from 30% in FY24, consequently increasing gross profitability by 6%YoY on a topline growth of 4%YoY.

Easing interest rates to further drive profitability: With inflation dropping below 5% during Nov'24, the SBP implemented an aggressive monetary easing stance by slashing interest rates by 900bps during CY24, bringing the policy rate down to 13% from 22% in May'24. Moving forward, we expect further easing, with rates projected to decline to 9.5% by end-CY25E, leading to a 38%YoY decline in finance costs for our coverage universe. Debt-heavy players, particularly DGKC and FCCL, are poised to benefit significantly from this declining interest rate environment, further supporting their profitability and financial stability, in our view.

***Cement* - Valuations & Multiples**

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Earnings Growth	15.0%	-12.2%	75.3%	11.1%	20.0%	30.4%
PE	9.72	8.05	10.25	9.23	7.69	5.89
ROE	11.0%	8.8%	13.6%	13.6%	14.5%	16.7%
ROA	6.4%	5.0%	8.1%	8.4%	9.7%	12.0%
P/BV	1.07	0.71	1.39	1.25	1.12	0.98
Gross margin	25.6%	25.7%	30.0%	30.7%	29.9%	30.5%
Net Margin	12.2%	9.0%	14.4%	15.4%	17.6%	20.6%
Debt to Equity	0.43	0.39	0.28	0.22	0.17	0.13

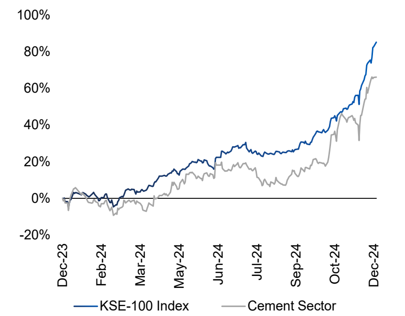
Source: PSX & AKD Research

Cement Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	0.5	22.7	37.8
Rel. Index (%)	-10.3	-15.7	-26.3
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

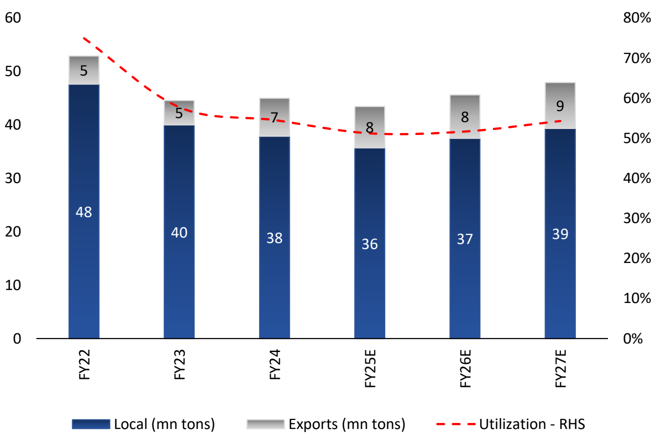
Cement Sector vs. KSE100 Index



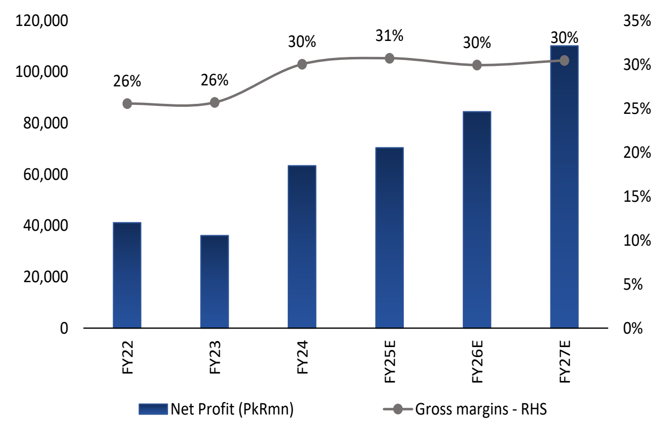
Source: PSX & AKD Research

Economic recovery with eased coal prices to support earnings

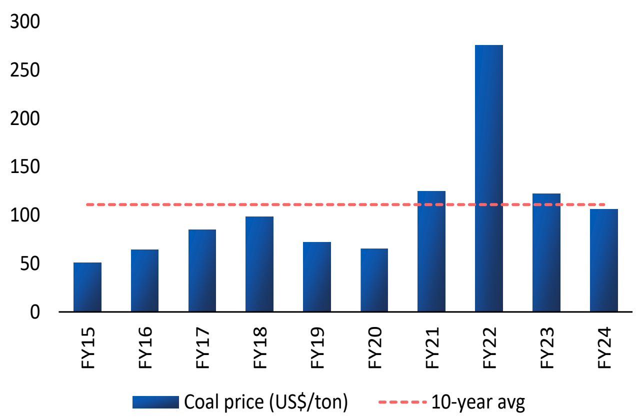
Cement demand recovery to remain slow



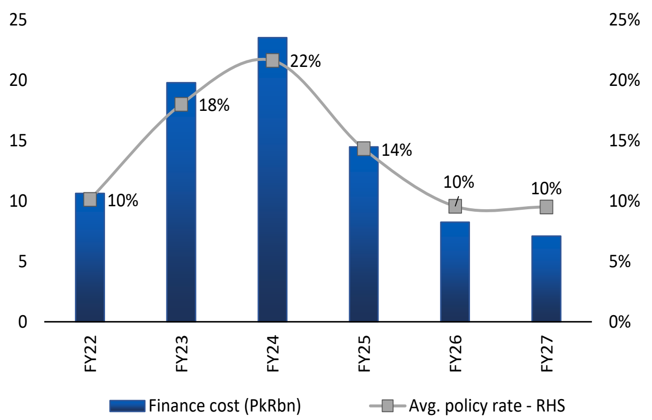
Though profitability to increase with improving margins



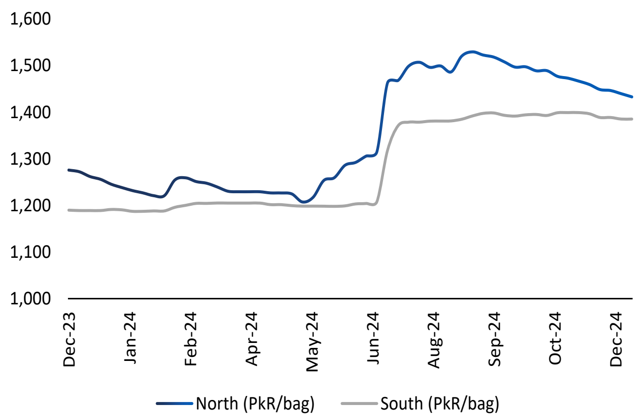
International coal prices eased to below long-term avg.



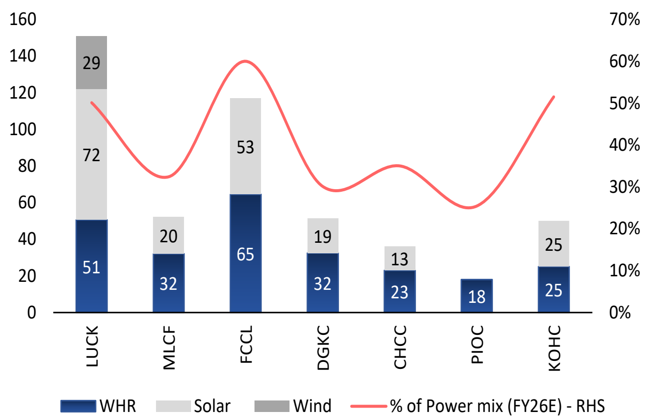
While, finance cost to also decline, inline with policy rate



Declining price divergence to benefit South players



Increased reliance to further cement the margins



Source: APCMA, PBS, Bloomberg, PSX, AKD Research

Power Generation - Market Weight

HUBC	NPL
TP (PkR) 151	TP (PkR) 46

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New era in the making: Several of the country's listed IPP sector has had the rug pulled out from under them, specifically HUBC's base plant and Lalpir Power Ltd. Similarly, the GoP has initiated key reforms particularly targeting IPPs established under the 2002 Power Policy. The proposed hybrid take-or-pay model introduces revised indexation mechanisms for O&M expenses and working capital costs while linking ROE to fixed capacity factors (e.g., 25%-50%). The said change impacts listed IPPs like HUBC's subsidiaries (Narowal and Laraib Energy) and NPL under our coverage universe, potentially altering their revenue streams. Furthermore, affected IPPs will be due to receive the principal portion of trade receivables (excluding delayed payments) outstanding as of October 31st, providing some liquidity relief. Overall, authorities estimate these measures could reduce consumer tariffs by PkR2.5-3.5/kwh, supplemented by further reductions of ~PkR3.5-4.0/kwh through profiling with Chinese IPPs and the elimination of surcharges. To note, present residential base tariff stands at PkR35.5/kwh, up 20%YoY from determined tariff in FY23.

Fuel cost downwards, CPP payments continues to burden: Capacity payments for FY25 are projected at PkR1.95tn, constituting 60% of total power purchase costs and marking a 4%YoY increase from FY24. The rise is largely driven by significant capacity additions, of 18,000MW+ since FY14, mostly under take-or-pay arrangements. Despite high budgetary allocations and sharp consumer tariff hikes, the structural rigidity of these agreements continues to weigh on circular debt mitigation efforts. While fiscal measures and prudent tariff adjustments have curbed the pace of circular debt accumulation, the stockpile remains substantial. Notably, the average monthly circular debt addition has been reduced to ~PkR16bn in FY23/24, compared to ~PkR50-55bn during FY19/20.

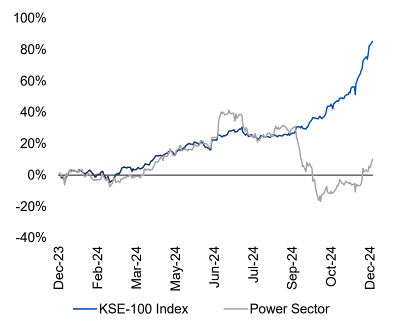
CTBCM Transition in the offing: The transition toward the Competitive Trading Bilateral Contract Market (CTBCM) represents a major shift from the single-buyer model (CPPA-G) to a wholesale market. This move enables competitive suppliers to bid according to demand requirements, introducing efficiency and cost transparency. The shift also aligns with the recent amendments to PPAs of older/inefficient capacities, paving the future for a broader take-and-pay regime. Furthermore, the planned privatization of DISCOs will eliminate their dependency on PEPCO, which has historically been plagued by subpar operational performance, transmission losses, and a reliance on government bailouts for recoveries.

Power Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	9.0	-17.0	-0.4
Rel. Index (%)	-1.8	-55.4	-64.6
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Power Sector vs. KSE100



Source: PSX & AKD Research

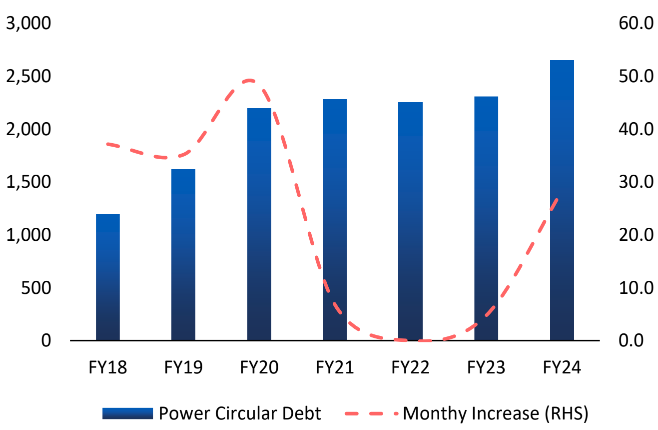
***Power generation* - Valuations & Multiples**

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Earnings growth	-12%	101%	22%	-25%	2%	13%
PE	5.1	2.5	2.1	2.8	2.7	2.4
ROE	21%	35%	33%	20%	18%	18%
ROA	15%	23%	25%	17%	17%	18%
P/BV	1.06	0.89	0.68	0.57	0.50	0.43
Gross Margins	30.6%	41.8%	48.0%	41.9%	37.3%	38.8%
EBITDA Margin	33.7%	45.9%	50.8%	46.5%	41.8%	42.5%
Net Margins	27.2%	48.1%	52.7%	59.7%	70.9%	78.7%
Dividend Yield	6%	25%	17%	6%	12%	15%
ETR	14%	11%	16%	13%	13%	13%

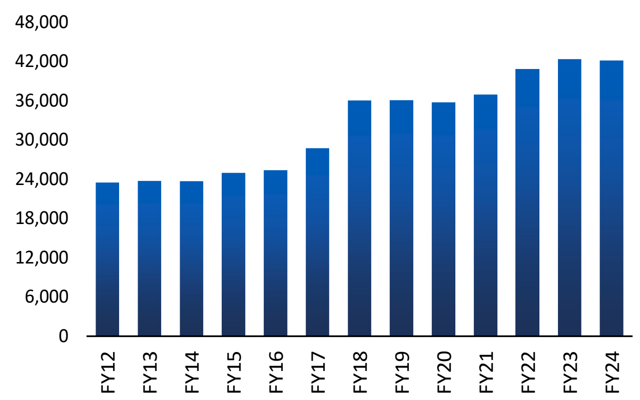
Source: PSX & AKD Research

IPP contract renewals signal a major shift in sector dynamics

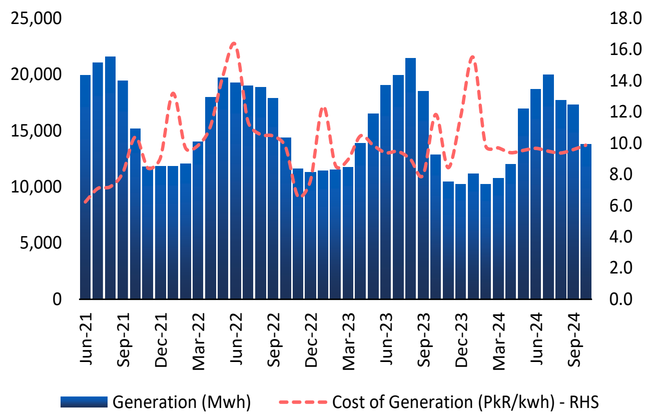
Circular Debt in the power sector has modestly reverted during FY24



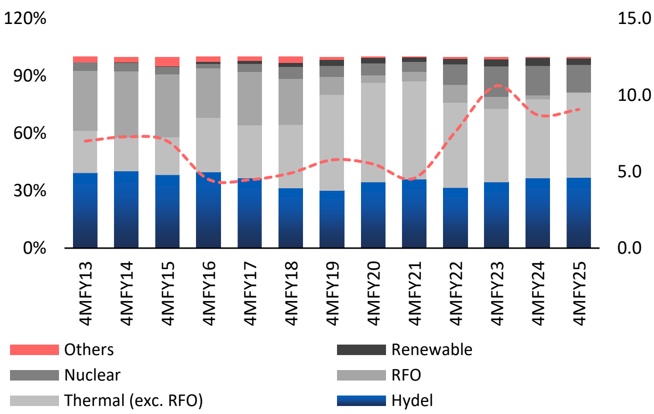
Generation capacity has continued to increase year-over-year (MW)



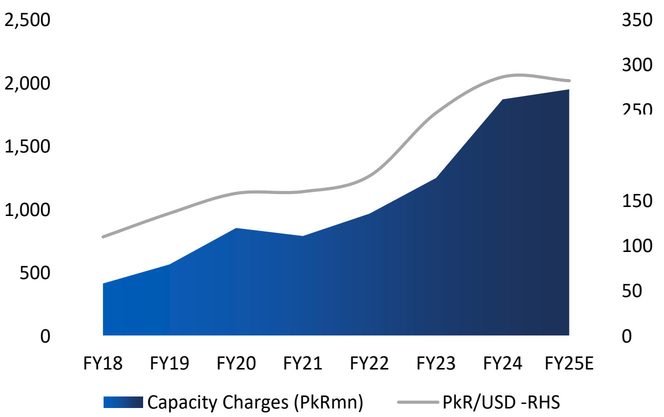
Significant cyclicality in generation demand



Power generation sources over the years



Capacity charges (PkRmn) have increased greatly post PkR/US$ depreciation



New generation capacities in the works for CY25

Suki Kinari Hydro power	Rialli-II Hydro power	Kathai-II Hydro power	Turtonas-Uzghor Hydro power	Azad Pattan Hydel	Kohala Hydro power	Athmuqam Hydro power	Rajdhani Hydro power	Mahl Hydro power	Ashkot Hydel	Gwadar Imported Coal Power	Oracle (Thar Coal)
Hydel	Hydel	Hydel	Hydel	Hydel	Hydel	Hydel	Hydel	Hydel	Hydel	Imported Coal	Thar Coal
884	7.08	8	82	700	1124	450	132	640	300	300	1320
Nov-24	Dec-25	Dec-25	Dec-29	Sep-30	Mar-31	Dec-32	Dec-32	Dec-32	Dec-32	Dec-25	-
COD Achieved	Under Construction	LOS issued. FC in progress.	In Process with IGCEP	LOS issued. FC in progress.	LOS issued. FC in progress.	In Process with IGCEP	In Process with IGCEP	In Process with IGCEP	Transferred by GoAJ&K to PPIB for further processing as per IGCEP.	LOS Issued FC in progress.	Candidate Project in the IGCEP Portfolio.

Source: NEPRA, Senate Report and AKD Research

AKD SECURITIES LIMITED

Technology - Overweight

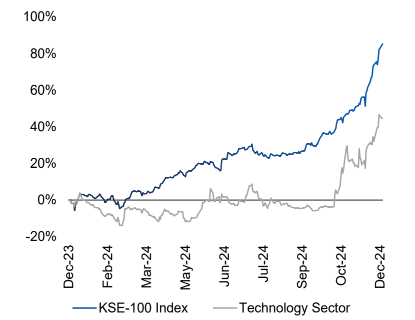
SYS
TP (PkR)
879

Technology Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	0.3	26.3	23.5
Rel. Index (%)	-10.5	-12.2	-40.7
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Technology Sector vs. KSE100 Index



Source: PSX & AKD Research

IT spending on the rise: According to Gartner's outlook for 2025, global IT spending is forecast to grow by 9.3%YoY, reaching an estimated US$5.6tn, up from US$5.1tn in 2024. The primary driver of this growth is expected to be continued investment in cloud technologies, particularly as businesses expedite their digital transformation initiatives. While the global economy continues to navigate challenges such as inflationary pressures and geopolitical instability, businesses are increasingly turning to technology to optimize operations and reduce costs. Country's IT exports grew to US$3.2bn in FY24 from US$2.6bn in FY23, an increase of 24%YoY.

Global outlook of the IT Sector; future growth drivers: Global IT sector is one of the most dynamic and rapidly evolving industries in the world. As technology continues to reshape nearly every aspect of modern life, IT sector's growth trajectory remains strong, with emerging technologies, digital transformation, and global demand for tech services driving expansion. As digital platforms and data-driven technologies grow, so does the need for robust cybersecurity measures. With rising concerns about data breaches, hacking, and privacy, organizations are investing heavily in cybersecurity solutions. Additionally, Artificial intelligence and machine learning are transforming multiple sectors, from healthcare and finance to retail and logistics

Government Initiatives to boost IT exports: Government's recent efforts to promote the "Digital Pakistan" initiative, which includes offering tax incentives for tech startups and implementing policies to attract foreign investment, represent a positive step forward. To facilitate technology companies enhance their exports., SBP increased the permissible retention limit of IT exporters from 35% to 50% of their export proceeds in the Exporters Specialized Foreign Currency Accounts (ESFCAs). Moreover, exporters can now make payments directly from their ESFCA balances without needing approval from the SBP or banks. This step will assist businesses in exploring opportunities in other regions, enabling them to establish subsidiaries, or pursue acquisitions to drive growth in those areas.

Competitive advantage due to lower compensation compared to the region : The average compensation for IT experts in Pakistan remains much lower than in the US and in the region compared to India, Vietnam, Philippines and Ukraine making it a more viable option for companies with lower IT budgets. Moreover, it enables companies to compete in the competitive global markets due to lower costs compared to peers offering services. However, risk to our thesis stems from the following factors; 1) Due to lower salaries in Pakistan, many skilled workers are opting to move abroad in search of more lucrative opportunities and 2) The significant disparity between tax rates for freelancers and salaried class makes freelancing a more enticing option for skilled workers, as a result it creates supply chain shortages for business operating in the sector.

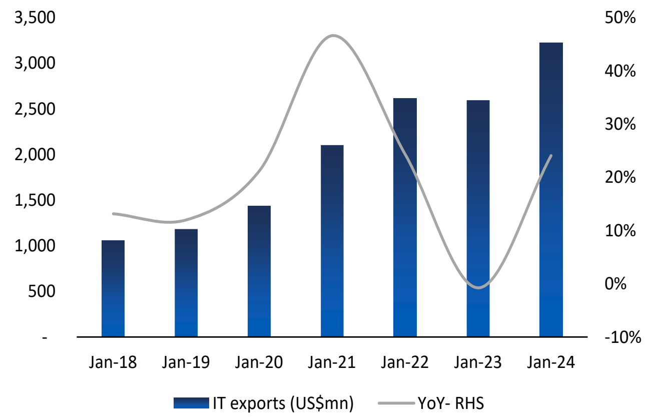
***Technology* - Valuations & Multiples**

(Year End Dec'31)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS (PkR)	22.8	29.8	25.6	36.2	46.8	65.5
EPS Growth	51.4%	31.1%	-14.2%	41.5%	29.2%	40.0%
PE	16.2	14.9	21.6	15.3	11.8	8.5
ROE	28.9%	26.9%	20.4%	23.8%	25.0%	27.7%
ROA	17%	17%	14%	16%	17%	19%
DPS	5.0	6.0	6.5	9.0	11.8	16.3
Dividend Yield	1.4%	1.4%	1.2%	1.6%	2.1%	2.9%
BV	79	111	125	152	187	237
P/BV	4.7	4.0	4.4	3.6	3.0	2.3

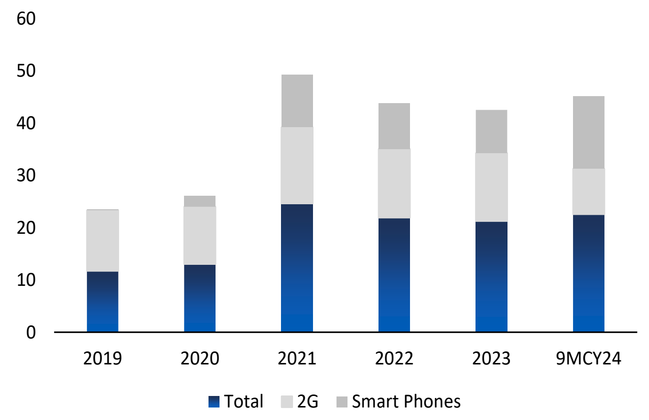
Source: PSX & AKD Research

Increasing global IT spending to surge exports

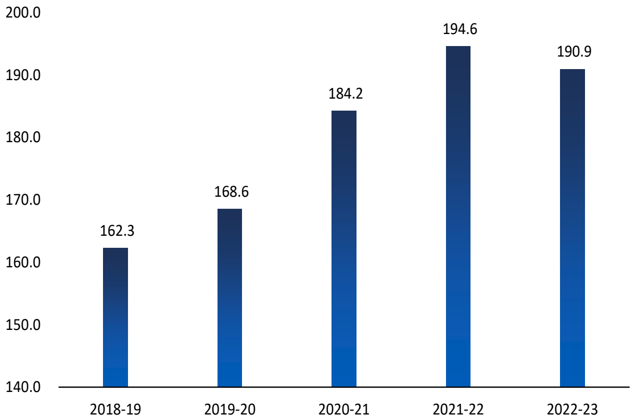
IT exports on the rise



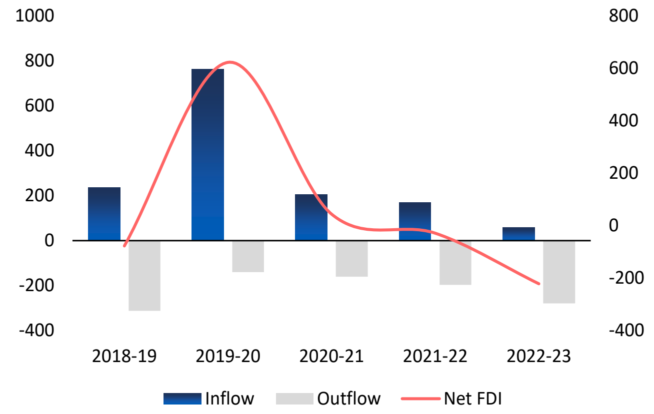
Investment by Telecom Industry remains subdued (US$ mn)



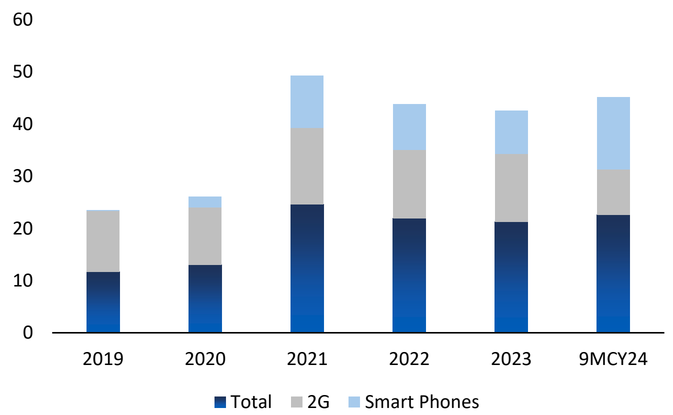
Annual Mobile Cellular Subscribers (in mn)



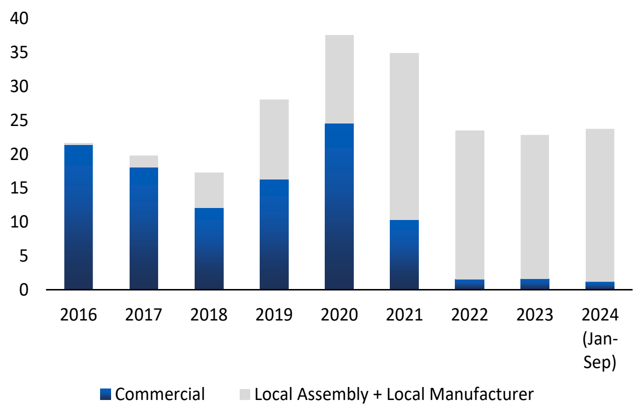
FDI registers net outflow in the Telecom sector in previous year (US$ mn)



Local Assembly/Manufacturing on the rise (mn)



Local assembly reduces dependence on commercial imports (mn)



Source: SBP, PTA & AKD Research

Oil & Marketing - Overweight

PSO
TP (PkR)
729

APL
TP (PkR)
825

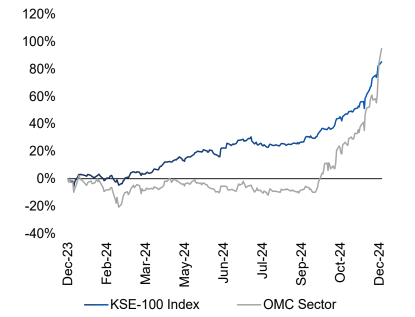
AKD SECURITIES LIMITED

OMC: Price Performance

	1M	6M	CYTD
Absolute (%)	39.7	100.9	85.6
Rel. Index (%)	28.9	62.5	21.5
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

OMC Sector vs. KSE100 Index



Source: PSX & AKD Research

Gas price hikes to bode well for PSO: With the IMF's push for bi-annual gas price revisions, any potential increase in gas prices enhances the revenue prospects for liquefied gas supplying OMC i.e. particularly PSO. The inclusion of RLNG diversion subsidies in the revenue requirements of Sui companies last year positioned PSO as a major beneficiary. Looking ahead, as gas costs and prices remain closely aligned (assuming full recoveries on RLNG diverted to the domestic sector), we foresee a gradual reduction in the stock of gas circular debt beyond FY27. Notably, PSO's receivables stood at PkR468bn (PkR997/share) as of 1QFY25, down by 4% from Jun'24 levels.

Signs of recovery under way: OMC sector had witnessed severe downturns in the shape of lower demand (led by several factors) and regulated margins that have failed to compensate for rising costs over past several years. Consequently, sector sales fell by 26%YoY/8%YoY during FY23/FY24, with the brunt of the impact borne by HSD and MS fuels. However, 5MFY25 numbers have seen an upturn in this regards, where-in sectors sales remain up by modestly 5%YoY during the period. Looking ahead, we anticipate sector growth to end the full year at 3%YoY, led by recuperating economic activity (FY25/26E GDP growth: 2.7%/4.3%), stability in transport fuel prices due to weakening crude oil, recovery in automotive sales (2/4 wheelers sales up 25%/13% during 5MFY25) and finally curb on smuggling activity which has far drained the domestic sector in terms of lost volumes, specifically for HSD. However, expectations of weakening agri demand puts downside to our HSD sector sales, of which we've assumed flat volumes compared to previous year.

Revision in margins to uplift bottom-line: Authorities once again seem to be considering revising OMC margins, where-in the requested increase is PkR4.8/liter, up 61% from present levels of PkR7.87/liter. The previous revision was during Nov'23, which has led to OMCs and dealers alike strongly advocating for increasing their regulated profits to compensate for soaring cost-of-supplies/overheads. Notably, OMC margins at present stand at 3.2%/3.1% of MS/HSD retail prices, slightly up from long-run averages of ~2.5%. Overall, given retail fuels being a cash product, the aforementioned increase will directly raise liquidity, translating into decreased borrowing in case of PSO while for APL, it may potentially lead to higher payouts.

Possible deregulation in the works: Additionally, to address persistent FX/inventory losses and frequent shortages/strikes by dealers in order to get their demands met, a potential deregulation of fuel prices is reportedly under consideration, ending uniformity in MS and HSD prices nationwide, barring IFEM and PDL costs (which would still remain under OGRA's control). Moving forward, the said measure will prompt additional investments into the domestic OMC sector, which has constantly been plagued with volatility, bringing in much-needed capital to drive its modernization/ reforms.

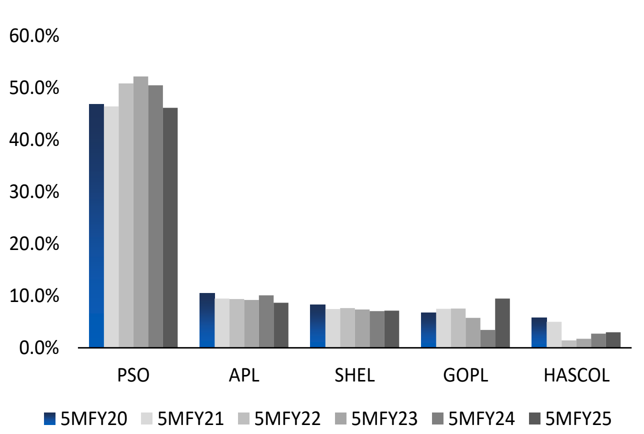
***OMCs* - Valuations & Multiples**

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Earnings growth	208%	-83%	64%	-1%	30%	27%
PE	2.3	13.3	8.1	8.2	6.3	5.0
ROE	41%	7%	10%	9%	11%	13%
ROA	11%	2%	3%	3%	4%	4%
P/BV	0.95	0.92	0.84	0.77	0.72	0.66
Gross Margins	6.6%	2.5%	2.8%	3.1%	3.1%	3.1%
EBITDA Margin	6.0%	1.1%	1.4%	1.6%	1.8%	2.0%
Net Margins	3.4%	0.4%	0.7%	0.8%	0.9%	1.0%
Dividend Yield	4%	3%	3%	6%	8%	10%
ETR	41%	60%	54%	52%	51%	49%

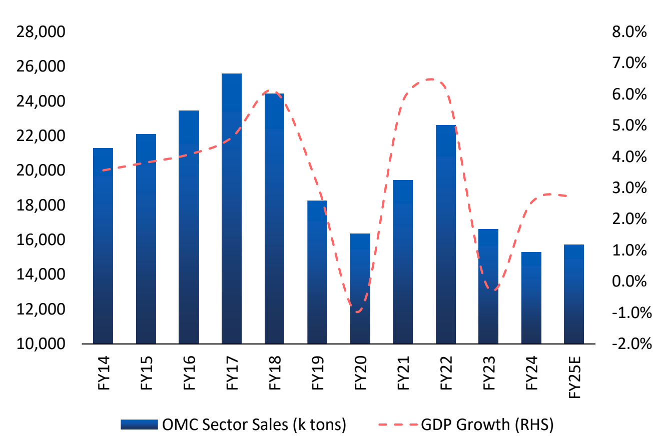
Source: PSX & AKD Research

Economic revival to boost OMC sales

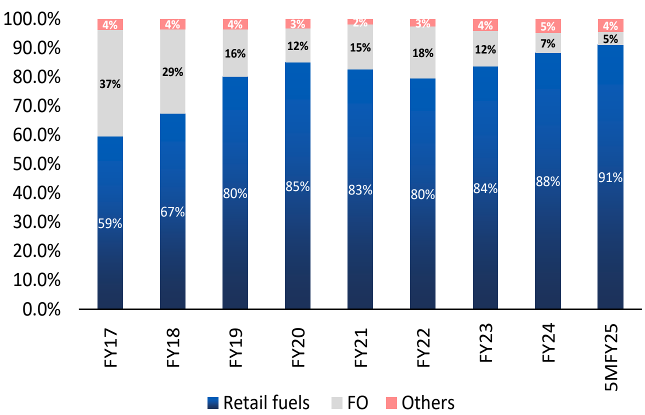
5MFY25 Market share trends



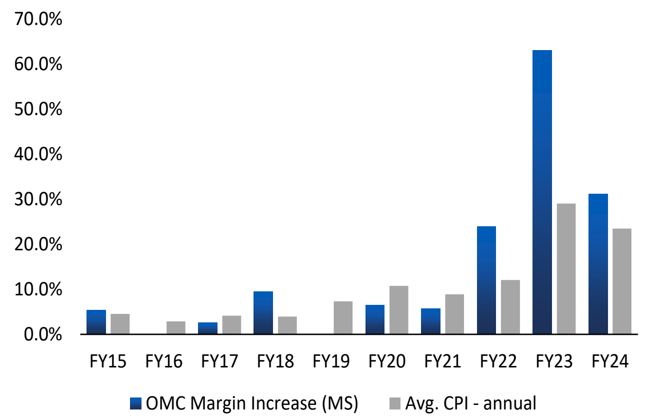
OMC Sector Volumes vs. GDP Growth (YoY%)



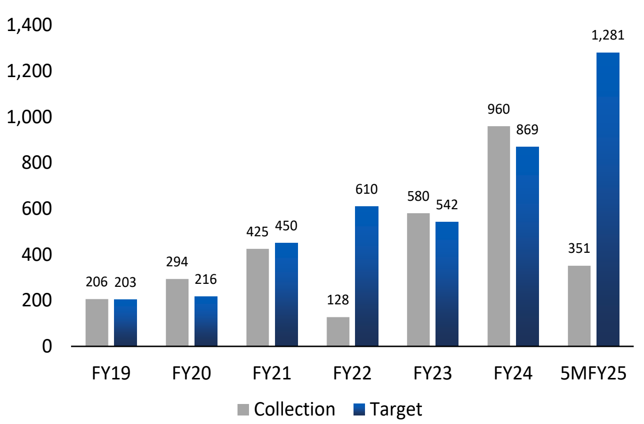
Dominance of retail fuels has increased over the years



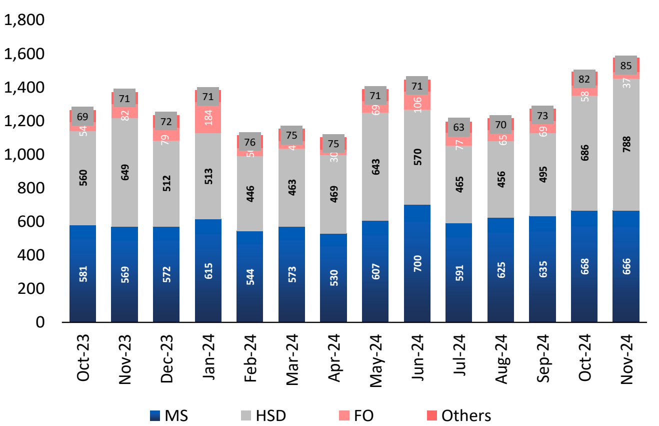
Regulated margin increases have largely followed NCPI trends



PDL collection prospects remain bleak this year (PkR bn)



Volumes have recovered in recent months following stability in prices



*Full year target

Source: OGRA, MoF, OCAC & AKD Research

Automobile - Overweight

INDU
TP (PkR)
3,350

HCAR
TP (PkR)
426

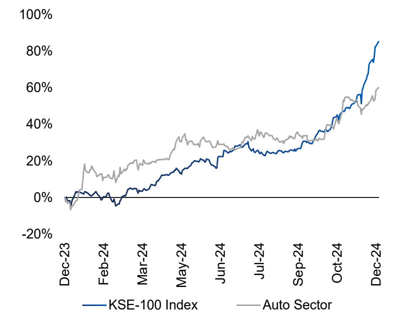
AKD SECURITIES LIMITED

Automobile Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	8.8	29.1	69.6
Rel. Index (%)	-2.0	-9.3	5.4
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Automobile Sector vs. KSE100 Index



Source: PSX & AKD Research

We have an 'Overweight weight' stance on the sector owing to 1) lower financing rates, 2) inflation coming down to single digit, 3) growing acceptability of HEVs and EVs, 4) uninterrupted supply chain, and 5) stable CRC and HRC prices. We foresee a 15%YoY growth in the passenger car segment (FY25E GDP Growth: 2.65%YoY).

Economical segments to outshine: We believe cars with engine capacities of 1,000cc and below classified as economical options to emerge as the top performing segment and lead the growth for the sector due to their pricing. With the SBP's cap on auto financing set at PkR3mn, we believe that cars with an engine capacity of 1,000cc or below, which are priced lower, will benefit the most from the declining auto financing rates. To note, passenger car prices have doubled since FY21, with auto assemblers citing the blame on supply chain challenges, currency devaluation and higher taxation. However, there stood some respite in prices during FY24 and FY25, with OEM's choosing to reduce amidst a stable currency and excessive over supply amidst falling demand.

Hybrids and EVs; fueling automotive growth: With the emergence of new entrants and existing OEM's introducing new HEV and EV models like KIAs EV5, Hyundai's hybrid Elantra, BYD's Seal and Atto 3 and others are expected to offer relief to Pakistan's automobile industry, as the acceptance of HEVs and EVs continues to grow. Moreover, the efforts to adopt sustainable, low-emission vehicle and foster green technology across Pakistan, and reducing dependence on imported fuel, the govt. is set to introduce New Energy Vehicle (NEVs) policy, it's expected tax and duty incentives will be provided to the OEMs to manufacture these vehicles.

Tractor and truck sales to ramp up: Punjab government recently announced Green tractor scheme under which 9,500 tractors will be offered to farmers at subsidized rates. This initiative is expected to drive a significant increase in tractor sales for FY25. Additionally, the Strategic Investment Facilitation Council (SIFC) is promoting corporate farming by leasing land, which will further boost demand. Moreover, demand for trucks is also expected to improve due to the axle load implementation by the government and financing provided under the Kamyab Jawan Scheme.

Investment Perspective: Given the aforementioned revival in demand, increased acceptance of HEVs, and improving company earnings, we recommend a "Overweight" stance on the sector. INDU stands out as our recommended pick with Dec'25 target price PkR3,350/sh. INDU has successfully launched Corolla Cross Hybrid and has sold 5,646 units till date. Moreover, we anticipate INDU to capture a major chunk of the HEVs market moving forward, wth the anticipated launch of Hybrid variant in it's flagship product 'Corolla'.

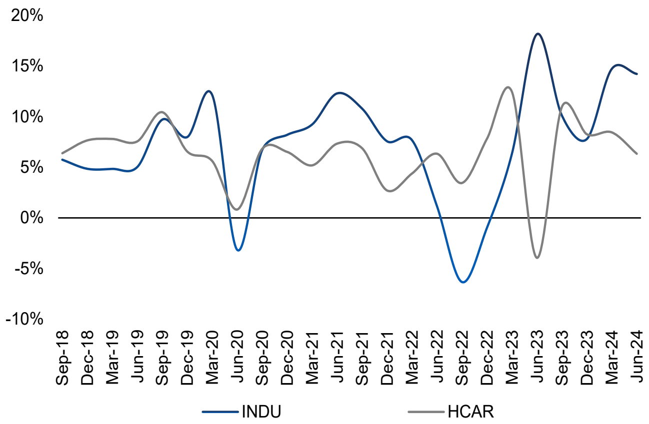
Automobile - **Valuations & Multiples**

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue growth	51.1%	-38.2%	-14.8%	15.6%	17.9%	17.2%
NPAT growth	-37.5%	24.5%	22.0%	-15.1%	28.7%	29.7%
PE	11.2	6.4	7.2	14.2	11.1	8.5
P/BV	1.8	1.2	1.5	2.3	2.2	2.0
ROA	4.3%	8.5%	11.9%	9.1%	10.3%	12.0%
ROE	16.2%	18.6%	20.8%	16.4%	19.6%	23.2%
Gross Margin	7.7%	6.7%	15.1%	13.4%	13.8%	15.2%
EBITDA Margin	6.9%	6.1%	12.9%	12.2%	12.7%	14.0%
Net Margin	3.8%	7.6%	10.9%	8.0%	8.7%	9.7%
Unit Sales Growth	31.7%	-57.9%	-29.2%	18.4%	18.7%	15.4%

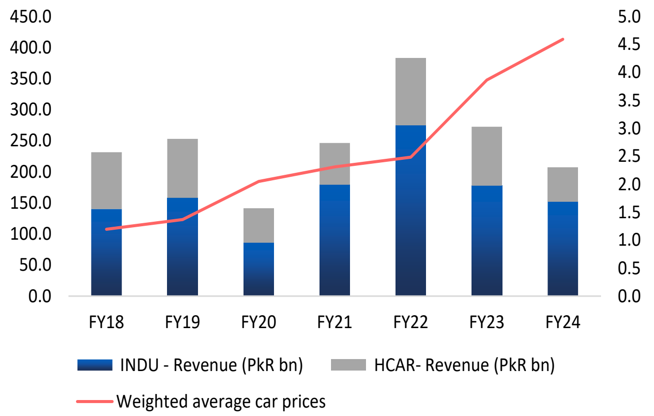
Source: PSX & AKD Research

HEVs and Ev's to lead growth

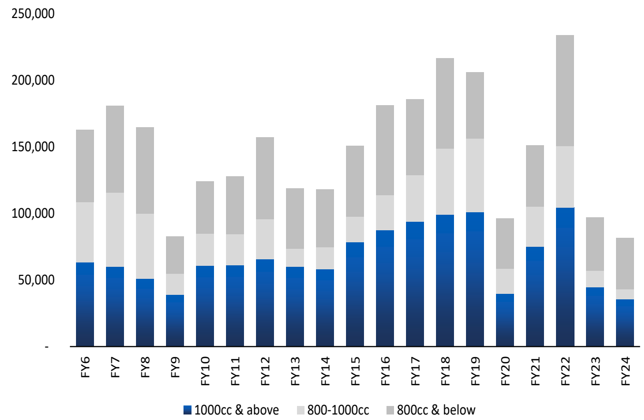
OEM's margins on the rise amid stable currency



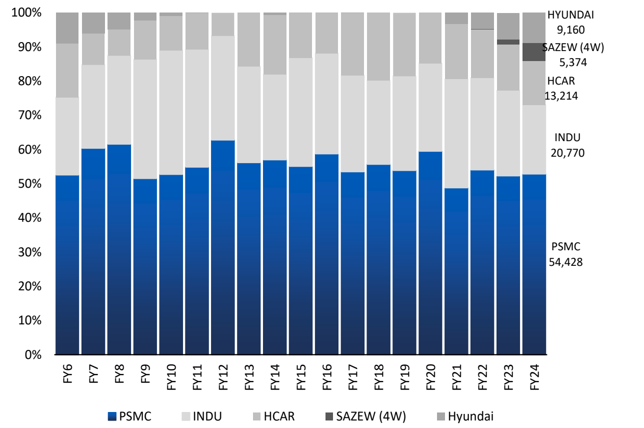
OEM revenue surges due to higher prices, despite lower volumes



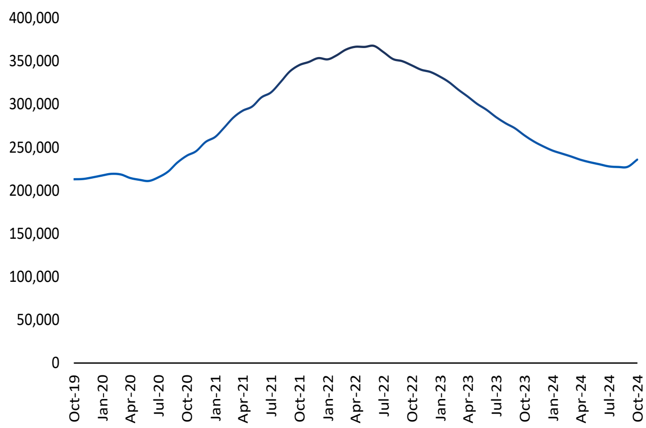
Economical segments to lead growth



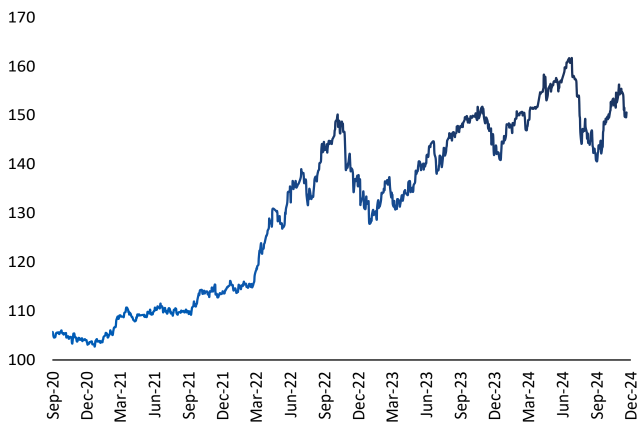
OEM market share remains volatile amid price wars



Auto financing shows growth for two consecutive months (PkR mn)



Appreciating JPY to uphold high price levels (US$/JPY)



Source: SBP, PAMA, PSX & AKD Research

AKD SECURITIES LIMITED

Textile - Overweight

ILP	NML	NCL
TP (PkR) 104	TP (PkR) 187	TP (PkR) 64

Exports gaining momentum: Textile exports are expected to grow by 9.7%YoY in FY25E, reaching US$17.8bn, following the ongoing improvement trend. Notably, textile exports have shown significant recovery during 5MFY24, as exports remained up 11%YoY to US$7.6bn, primarily driven by the value-added segment, which grew 18% YoY during this period. The improvement was attributable to higher international prices for readymade garments and knitwear, coupled with increased sales volumes in bedwear. We believe this trend to continue amid easing global inflation, trade tariffs on Chinese goods by the US, and overall instability in competing markets like Bangladesh. Moreover, availability of idle production capacities resulting from post-COVID expansion under TERF and LTFF loans are expected to contribute further, with capacity utilization of top textile firms remaining below 90%, alongside additional 10-15% capacity enhancements in the pipeline, set to be commissioned shortly.

Eased cotton prices to improve margins: We expect raw material costs to stabilize during incoming calendar year, providing a tailwind for gross margins. International cotton prices are projected to avg. USc85/lb in FY25E, down 8.6% from FY24, as global production growth (4%YoY) is projected to outpace consumption growth (2.3% YoY), as per USDA. Locally, cotton prices are expected to decline by 3%YoY to USc80.8/lb (PkR18.4k/maund), maintaining a 5% discount to international prices. However, Pakistan's cotton production is forecasted to fall by 17%YoY to 8.5mn bales, necessitating imports of 2.8mn bales in FY25E, up from 1.2mn bales last year.

Taxation pressures to impact profitability: Sector faces a significant profitability challenge due to the govt's decision to shift goods exporters from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) in the last federal budget. This change effectively raises tax rates from 6-8% to 39%, significantly increasing the tax burden for players in the sector. For our coverage universe, this translates to an additional taxation impact of ~PkR8bn or 2.2x YoY, which is expected to partially offset the gains from export growth and easing input costs.

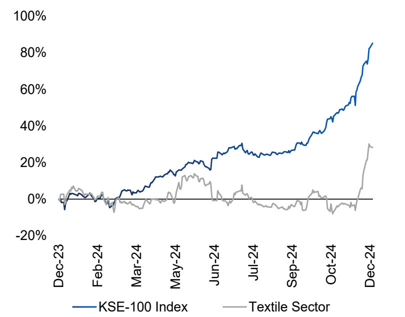
Declining financing rates to provide breather: Textile sector is poised to benefit from declining interest rates, with the average KIBOR projected to decrease by 720bps to 14.4% in FY25E. This expected decline is anticipated to alleviate the financial strain caused by higher interest rates in recent years, especially after SBP linked export financing to KIBOR in CY23, making the textile sector particularly vulnerable to fluctuations in interest rates. To highlight, sector heavily relies on short-term borrowing for working capital, and the decline in rates will help offset the previous burden of high financing costs.

Textile Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	17.1	13.9	7.6
Rel. Index (%)	6.3	-24.5	-56.5
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Textile Sector vs. KSE100 Index



Source: PSX & AKD Research

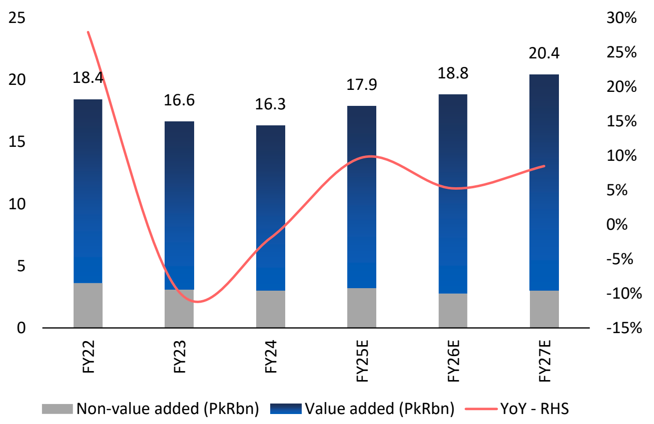
Textile - Valuations & Multiples

(Year End Jun'30)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Earnings growth	69%	4%	-27%	1%	26%	37%
PE	3.53	2.53	5.11	6.40	5.09	3.72
ROE	23%	20%	12%	11%	13%	16%
ROA	10%	9%	5%	5%	6%	8%
P/BV	80%	51%	61%	73%	66%	59%
Gross Margins	21%	21%	18%	18%	17%	19%
EBITDA Margin	18%	19%	17%	15%	14%	15%
Net Margins	11%	10%	6%	5%	6%	7%
ETR	13%	15%	23%	39%	38%	37%

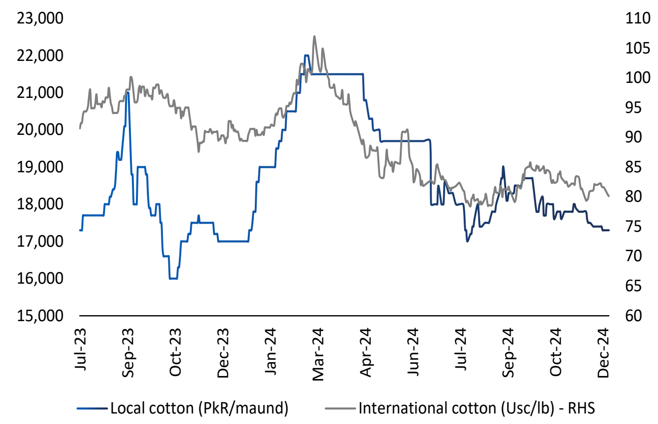
Source: PSX & AKD Research

Increasing export with lower cotton price to offset challenges

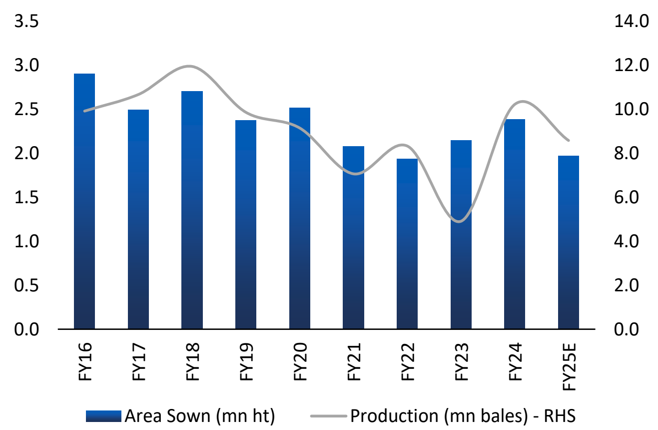
Textile exports expected to continue growth



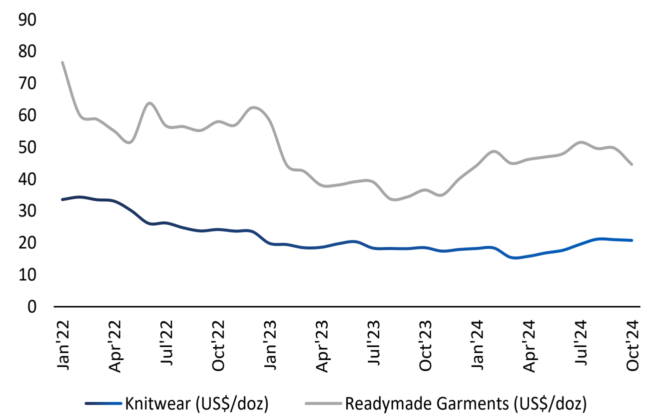
With eased cotton price to improve profitability



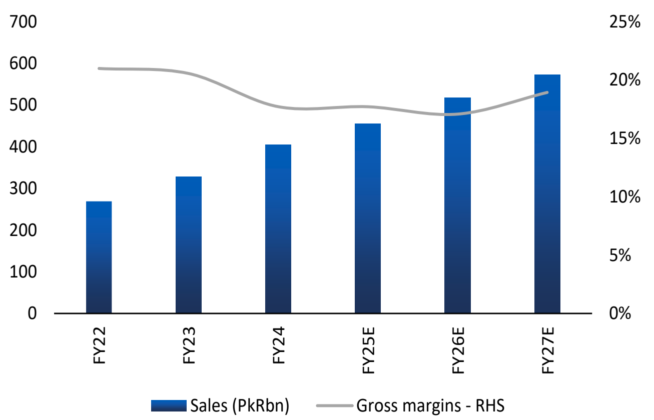
Local cotton production to fall amid decline in sown area



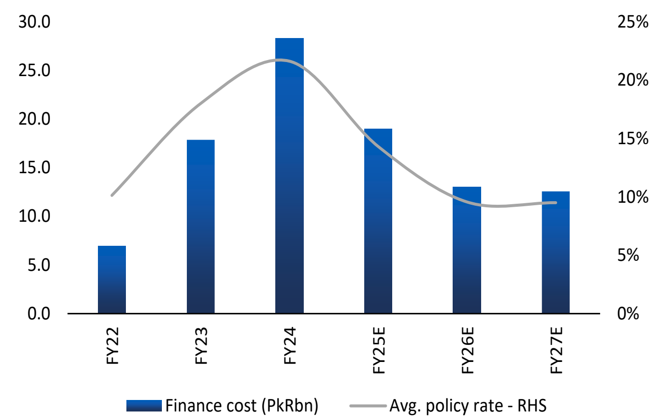
International prices trend started to improve lately



Sector's gross margins to improve with sales



With declining policy rate to ease finance cost



Source: APTMA, PBS, PSX, KCA, PCCA, Bloomberg and AKD Research

AKD SECURITIES LIMITED

Chemical - Underweight

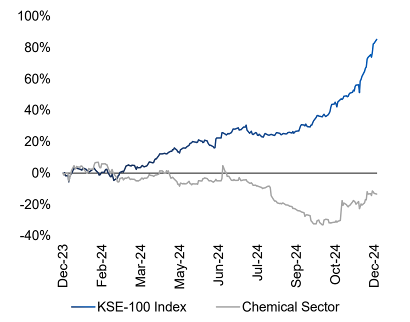
EPCL
TP (PkR)
30

Chemical Sector: Price Performance

	1M	6M	CYTD
Absolute (%)	-1.5	-14.5	-22.4
Rel. Index (%)	-12.3	-52.9	-86.6
Absolute (PkR)	10.8	38.4	64.1

Source: PSX & AKD Research

Chemical Sector vs. KSE100 Index



Source: PSX & AKD Research

Recovery in PVC to be time lagged: We expect recovery in core-margins of chemical sector to be time-lagged, keeping the profitability of commoditized chemical businesses under pressure. Historically, global inflationary environment and high interest rates have significantly impacted the construction and manufacturing industries, leading to a downturn in demand for chemical/construction commodities. International PVC prices declined to an avg. of US$808/ton in CYTD, compared to US$844/1,152/ton in CY23/CY22, respectively, primarily driven by subdued demand from China and India. Conversely, ethylene prices have remained elevated due to supply constraints caused by plant debottlenecking and adverse weather conditions in the US Gulf Coast. Consequently, PVC-ethylene core delta margins fell to avg. of US$349/ton in CYTD, down from US$418/ton in CY23 and historical avg. exceeding US$400/ton. In the long term, we anticipate margins to recover to ~US$400/ton, albeit gradually over the next year. We believe the recovery would be supported by easing ethylene prices following the completion of debottlenecking and improving PVC demand, particularly in China, where government initiatives are expected to stimulate the construction sector.

PTA segment under pressure: We expect core margins to remain under pressure, averaging below historical levels of US$95/ton, due to global oversupply and high inventory levels. Notably, PTA prices have declined to US$640/ton in CYTD, compared to avg. of US$788/741/ton in CY23 and CY22, respectively. The current downward trend is attributed to idle capacities coming online and surplus inventory amid weak demand dynamics, particularly emanating from China. Meanwhile, PX prices have remained volatile as well, averaging US$983/ton in CYTD. Consequently, PTA-PX core margins dropped to US$83/ton in CYTD, below CY23/22 avg. of US$90/115/ton. We expect core margins to remain under pressure, averaging below historical levels of US$95/ton, due to global oversupply and high inventory levels.

Energy price hikes worsening profitability: The sharp upward adjustment in gas prices to PkR2,150/3,000/mmbtu for process and captive use, up from PkR1,200/mmbtu in Nov’23, has significantly strained sector profitability. Additionally, the mix of RLNG in gas pricing has further escalated input costs. While the IMF’s deadline to discontinue gas supply to captive power has passed without implementation due to ministerial disagreements, its potential enforcement would likely a further erosion of gross margins and profitability, in our view.

Demand recovery to be futile: We expect the chemical sector’s production to improve moving forward, led by the broader economic growth, projected to recover by 2.7%/4.3% in FY25/26E. However, shrinking margins and escalating energy costs are expected to offset these gains. Resin offtakes are expected to pick up gradually, in line with a slow recovery in construction, while caustic and PTA sales are expected to benefit from an improved textile sector.

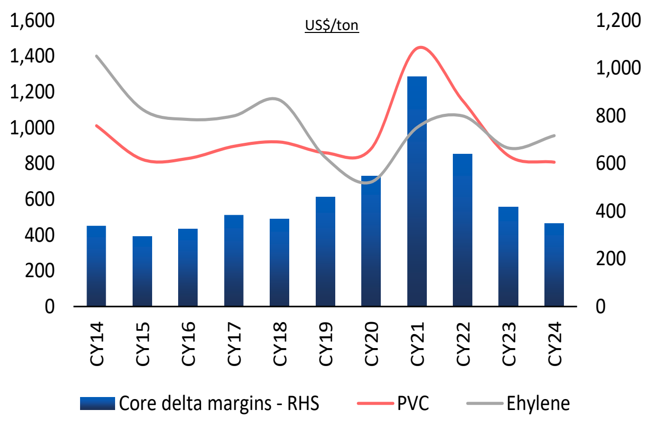
Chemical - **Valuations & Multiples**

(Year End Dec’31)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Earnings Growth	-22.4%	-23.6%	-143.5%	-38.5%	-239.4%	11.4%
Payout Ratio	97.2%	61.1%	50.0%	70.0%	80.0%	80.0%
BV	29.84	31.46	25.96	23.22	25.69	28.58
PE	5.46	5.97	-12.43	-20.23	14.51	13.02
P/BV	1.77	1.40	1.54	1.72	1.56	1.40
ROA	13.2%	9.1%	-4.3%	-2.9%	3.2%	3.5%
ROE	41.5%	29.0%	-16.5%	-12.3%	12.5%	12.7%
Dividend Yield	23.7%	13.6%	0.0%	0.0%	1.9%	1.9%

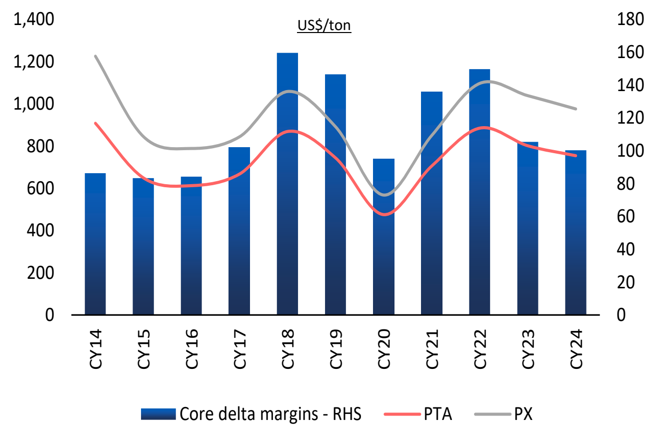
Source: PSX & AKD Research

Declining core margins to keep profitability in check

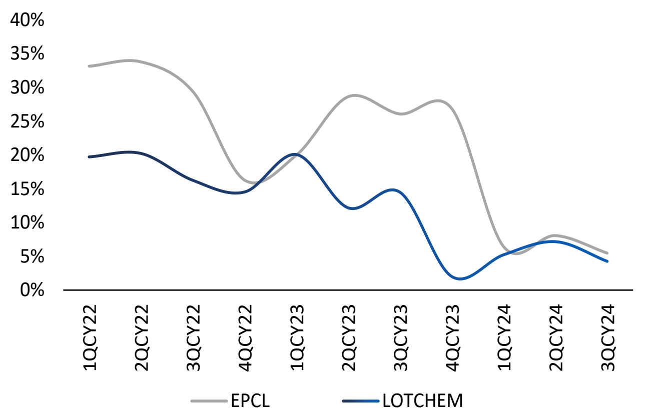
PVC core margin dropped to 8-year low in CY24



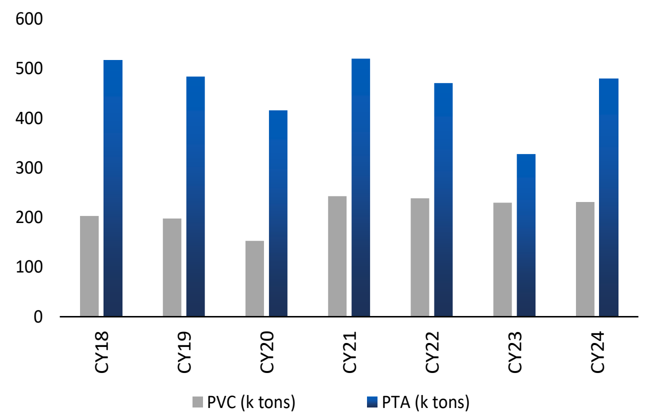
PX-PTA core margins also on continuous decline



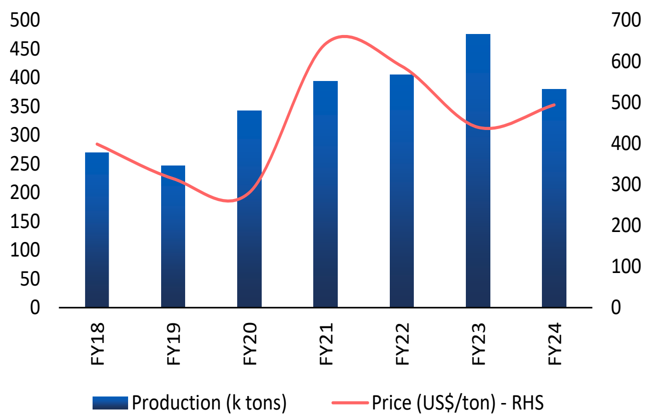
Gross margins followed core-margins trend



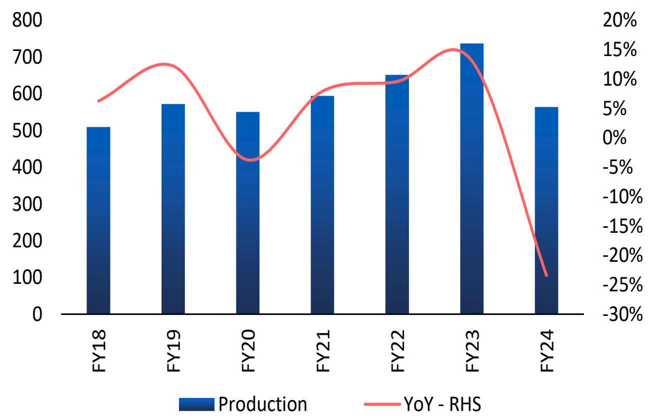
Albeit recovery in PVC & PTA production volumes



Caustic soda demand declined amid higher prices



While soda ash demand dropped with economic slowdown



Source: PBS, Bloomberg, PSX and AKD Research

Preferred Stock

Oil & Gas Development Company Limited

Return to the Days of Old Glory

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
211.2	4,300.9	908,227.1	9.1	1,649.5

Oil & Gas Development Corporation (OGDC), being state-owned with 85% govt ownership, is the largest E&P company in Pakistan. Company's revenue mix comprises of 56%/47%/10% Gas/Oil/LPG, where-in estimated total production life currently stands at a little over ~14 years. Our investment thesis for growth is anchored upon the following key drivers; i) markedly improved cashflows over the past twelve months, reflected in higher payouts and accelerated E&P operations, ii) significant stake in Reko Diq (8.33%) to yield results post FY27, and iii) potential for sizeable wild-cat discovery in Abu Dhabi offshore block-5 in the upcoming year, iv) strong 2P reserve position and substantial recoverable reserve life. In summary, we have a Dec'25 target price of PkR355/sh on the stock, which offers a 68.11% upside from current levels. Additionally, OGDC's 2P reserves stand at 721mn BOE (Oil 125; Gas 596), translating into an indicative reserve value of PkR460/share.

Path to circular debt resolution: As authorities strive to narrow the gap between the cost and sale price of gas, with substantial portion of adjustments already implemented (hikes of over 3x for SNGPL since FY21), we anticipate a significant slowdown in circular debt buildup by FY25 and beyond, amidst continued insistence by IMF to persist with bi-annual gas price revisions. For this reason, collection rates for upstream SOEs are expected to bolster significantly. The positive development was already evident in OGDC's CYTD revenue collection, which stood at 99% (vs. 76% in SPLY). In summary, resolution of the circular debt backlog (and the future flows) may unlock significant growth avenues for the sector as a whole, and possibly rerate valuations.

Reko Diq and Abu Dhabi block to be catalysts: We estimate the company's pre-divested 8.33% stake in the Reko Diq mining project to contribute PkR37/share to its valuation (adjusted for a minority stake discount). This valuation is based on production and cash flow assumptions from the 2010 feasibility study of the project. We estimate the first significant cash flows from the project to impact OGDC starting FY28, aligned with Phase-1 of the mining operations. Additionally, OGDC, PPL and MARI collectively hold 25% equity stake in PIOL to explore Abu Dhabi's offshore block -5, which was awarded in Aug'21. Notable progress has been done including drilling of several appraisal wells, with an additional exploratory well planned. Incurrence of a wildcat discovery in the region may boost hydrocarbon output prospects for the company. Notably, OGDC's commitment to the venture stands at PkR33.4bn (~US$120mn) by year-end as part of its guarantee obligation.

Production to sustain for long: The outgoing year was greatly rewarding in terms of production sustainability for OGDC, with company striking major discoveries, collectively added approximately 5kbpd of oil and 30mmcfd of gas to the company's production base. Further, with regards to maturing fields, the initiation of Qadirpur and Khewari compression pumps are to be followed by four new compression projects (Dhakni, KPD-TAY, Uch and Jhal Magsi), which are expected to be fully operational by early FY26 (cumulative capex: US$100-120mn). To note, KPD-TAY compression project (construction/EPC phase initiated) is expected to revitalize one of the company's largest gas-producing reservoirs (~9% of recoverable reserve base) by adding +90-100mmcfd into production by FY26. Finally, the company vows to target newer (and riskier) plays, evidenced by recent tight gas discovery in Kohat alongside re-entry plans into country's 5th largest recoverable gas-reserve block i.e. Zin E.L., which evaded production for years due to its low GCV. Overall, the full onset of Bettani (Wali Block) and MARI's Shewa-1 (OGDC: 35%) next year are expected to further accumulate to a sustained production/reserve base throughout the medium term.

Ramping up exploration activity: OGDC remains the leading E&P company in terms of participation in auctions, with company securing over 50% of exploration leases on offer since FY21, with most being in the promising and relatively unexplored Baluchistan province. Notably, 12 exploration licenses have been awarded during FY24 alone (7 in Baluchistan) vs. 5 awards on an average annually in previous 5 years.

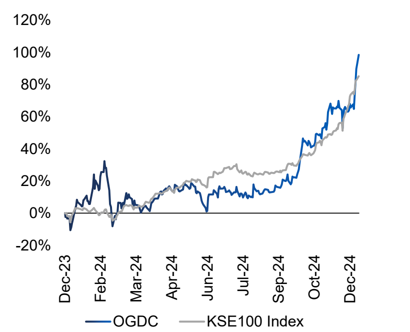
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
355.0	**211.2**
T. UPSIDE/DOWNSIDE	DIV. YIELD
76.2%	**8.1%**

OGDC: Price Performance

	1M	6M	CYTD
Absolute (%)	8.0	60.9	64.8
Rel. Index (%)	-2.8	22.5	12.4
Absolute (PkR)	15.7	80.0	83.0

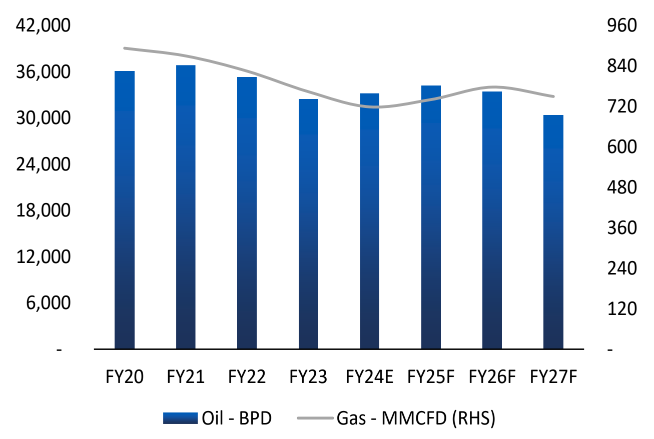
OGDC vs. KSE-100 Index



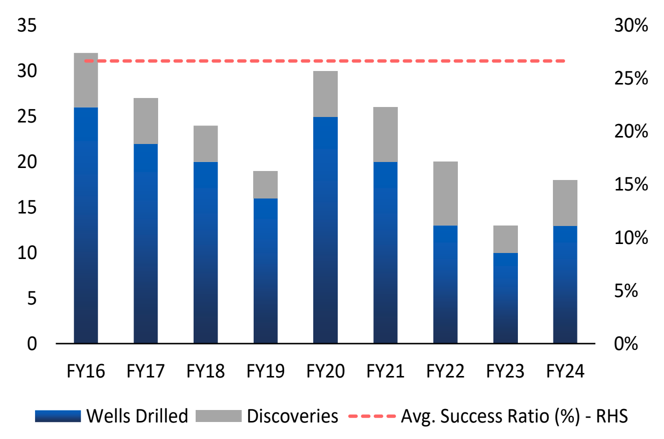
Source: PSX & AKD Research

Revival of E&P activity anticipated with improved cashflows

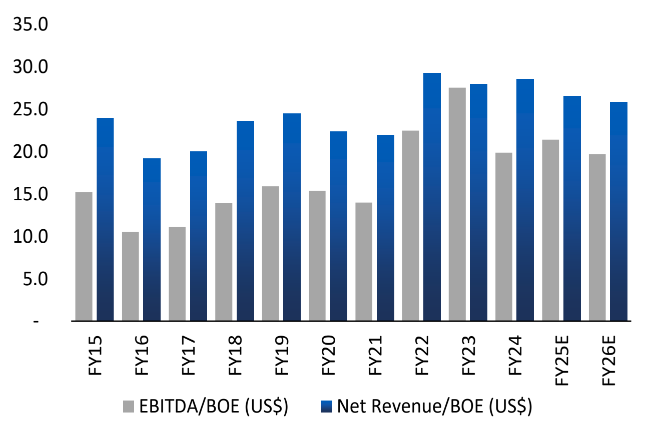
Production over the years: Oil & Gas



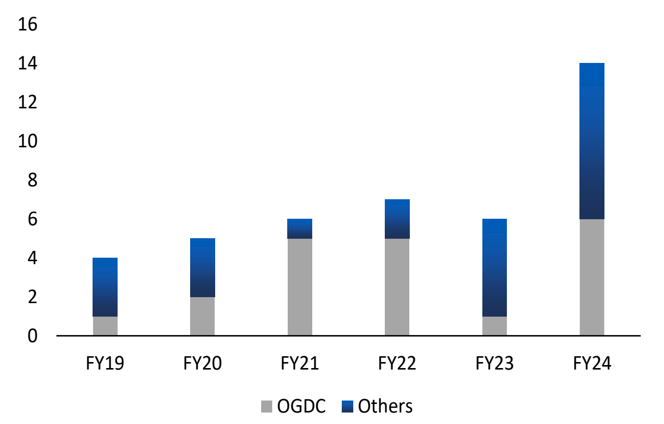
High discovery success despite liquidity challenges



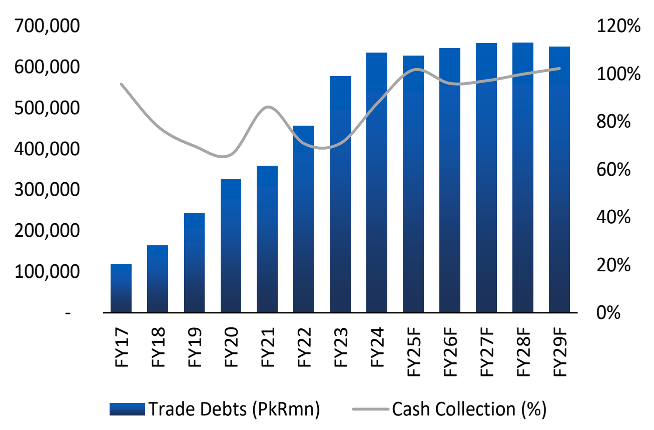
Operational efficiency remains strong



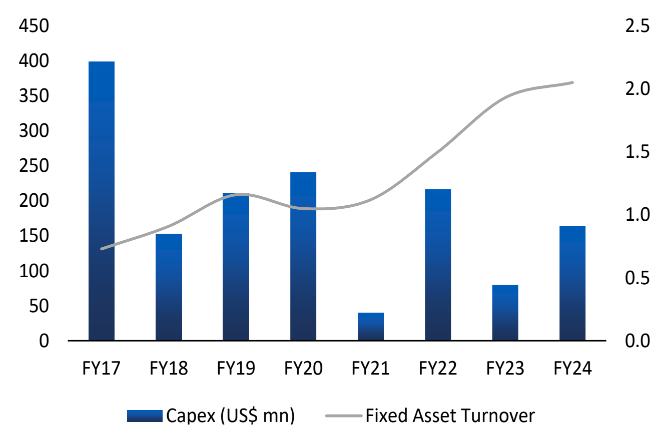
Exploration block auction success: OGDC vs. Other E&P cos.



Trade Receivables to slowdown post FY25E



Future CAPEX to boost topline (US$mn)



Source: PPIS, OGRA & AKD Research

OGDC - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	31.1	52.2	48.6	43.3	44.2	41.6
DPS	7.25	8.55	10.10	17.00	20.00	21.50
BV	204	252	291	320	344	364
PE	2.8	1.5	2.4	4.9	4.8	5.1
Dividend Yield	8.4%	10.6%	8.8%	8.1%	9.5%	10.2%
P/BV	0.42	0.32	0.40	0.66	0.61	0.58
Earnings Growth	46%	68%	-7%	-11%	2%	-6%
ROE	15%	21%	17%	14%	13%	11%
Gross Margin	65%	65%	61%	59%	57%	55%
Net Margin	40%	54%	45%	43%	42%	41%

Income Statement	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	335,464	413,594	463,698	436,544	454,527	436,763
Gross Profit	216,916	269,727	283,313	258,675	260,645	242,390
EBITDA	257,887	407,395	323,046	352,320	346,982	329,744
Profit Before Tax	232,521	383,773	293,787	327,846	319,076	301,545
Net Profit	133,784	224,618	208,976	186,130	190,148	178,938

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current Assets	778,538	959,118	1,060,489	1,119,413	1,275,719	1,328,810
Long Term Assets	351,445	464,948	543,765	578,254	530,014	563,707
Total Assets	1,129,983	1,424,065	1,604,254	1,697,666	1,805,733	1,892,517
Current Liabilities	139,066	160,964	180,856	148,156	154,012	156,150
Non-Current Liabilities	115,525	180,203	172,902	173,211	171,292	169,471
Total Liabilities	254,590	341,167	353,758	321,367	325,304	325,620
Total Equity	875,393	1,082,898	1,250,496	1,376,299	1,480,429	1,566,897

Cash Flow	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	67,821	100,373	181,460	197,870	212,356	214,784
CF from Investing	-46,453	-153,804	-17,517	-110,691	4,981	-68,054
CF from Financing	2,820	47,566	-48,679	-60,018	-87,937	-94,292
Net Change in Cash	24,187	-5,865	115,264	27,160	129,400	52,438
Cash & Cash Equivalents	31,631	25,766	141,030	168,190	297,591	350,029

Source: PSX & AKD Research

AKD SECURITIES LIMITED

Pakistan Petroleum Limited

Continual of circular-debt rationalization holds key

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
190.3	2,721.0	517,854.5	8.9	1,336.8

We reiterate our 'BUY' stance on Pakistan Petroleum Limited (PPL) with a Dec'25 target price of PkR285/sh, offering an upside of 56% from current price levels. Contrary to its peers, PPL has underperformed the broader market by 5% during CYTD, majorly on the back of declining production levels and sharp increase in gas based receivables on book. However, we do anticipate substantial improvements in cash-flow position from here-on, driven by hikes in consumer gas prices, leading to increased overall drilling/E&P activities going forward. In addition to this, recent discoveries at TAL, Kirther and Gambat blocks should continue to augment the company's hydrocarbon production in the medium term as well. The company presently has cumulative 2P reserves of 401mn boe (19.9mn bbl oil and 2.2 TCF of gas) with an estimate production life of ~8.5 years. The stock is currently trading at a forward P/E and EV/EBITDA of 4.8x and 3.3x, we have a 'BUY' stance on PPL.

Newer prospects to sustain production life: With regards to new finds, discoveries in TAL block namely the Razgir well (+50mmcfd and 250bpd) alongside ramping up of full operations at Mamikhel South should enhance companies medium term revenue outlook. The company has also been proactively seeking to participate in local and foreign bidding, with PPL being awarded 6 blocks during FY24 (2 self-operated & 4 partner-operated) vs. 4 block awards in FY23 (of which 2 self-operated), taking total award count to 10 in two years.

In addition to this, PPL has also invested in offshore drilling in Abu Dhabi Block-5 (PIOL), with US$60mn so far invested in the project alongside 8.33% stake in Reko Diq project. These recent diversification bouts may only help if revenues are in addition to the gas-side of the business (which is now improving fast).

Circular debt resolution to bode well: With the authorities aiming to push down the gap between cost and sale price of gas (substantial portion of adjustment already implemented), with SNPL's average consumer price now at PkR1,810/mmbtu as compared to ~PkR570/mmbtu in FY21. For this reason, we anticipate GCD buildup to greatly slowdown beyond FY25. Overall, resolution of the circular debt backlog (and the future flows) may unlock significant growth avenues for the sector as a whole. Company presently trades at deeply discounted compared to MARI, with the gap due to the liquidity issues and fast depleting production levels prevalent in the former. If the government is able to overhaul the balance sheets, it may lead to a re-rating in the multiples, unlocking significant potential for upside growth.

Investment Perspective: PPL would be a major beneficiary of the implementation of the WACOG due to the higher reliance on gas revenues. To note, increasing RLNG prices have worsened the liquidity position of the gas distribution companies, which has led to worsening cash sales recoveries for PPL, estimated to have averaged 63% in FY24, compared to 10-yr averages of ~60%. WACOG implementation would improve revenue cash collection for gas distribution companies, which in turn would affect PPL's collection, which it can then choose to either distribute in the form of dividends or utilize in exploratory activities.

We have a Dec'25 target price of PkR285/sh on the stock, which offers a 56% upside on the stock's current levels. PPL is currently trading at 4.3x times its FY25 earnings, at a substantial discount to AKD Universe PE of 6.0x. Further, PPL's 2P reserves stand at ~401mn boe, resulting in an indicative valuation of PkR310/share, compared to the current price of PkR191sh.

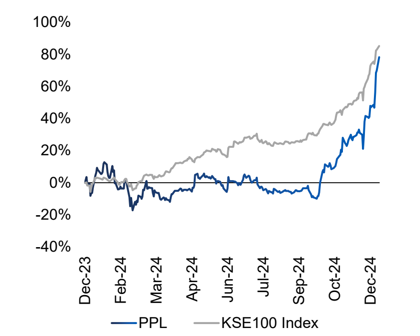
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
285.0	**190.3**
T. UPSIDE/DOWNSIDE	DIV. YIELD
55.8%	**6.0%**

PPL: Price Performance

	1M	6M	CYTD
Absolute (%)	22.1	58.9	69.0
Rel. Index (%)	11.4	20.5	16.6
Absolute (PkR)	34.5	70.6	77.7

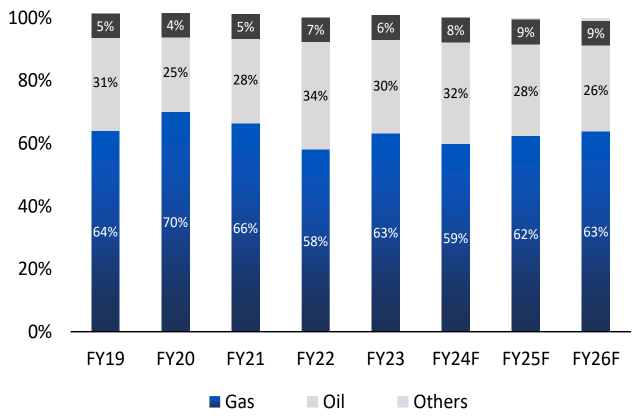
PPL vs. KSE-100 Index



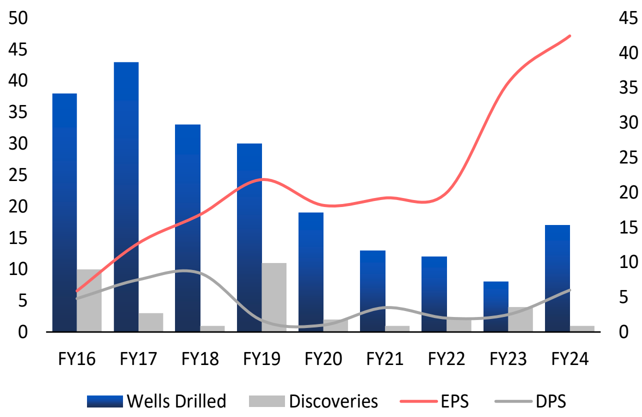
Source: PSX & AKD Research

Enhanced gas collections to boost liquidity

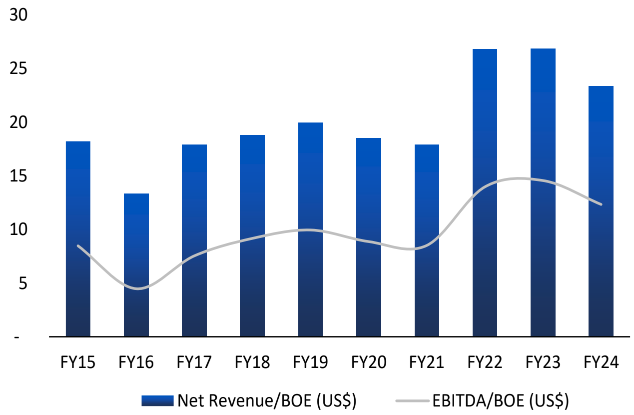
Gas drives majority of the revenues



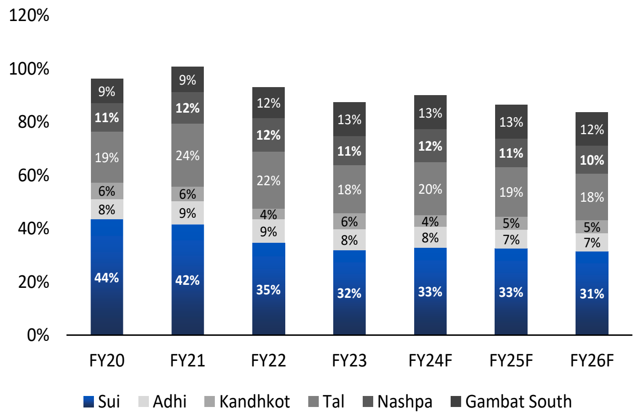
Ability to conduct E&P activity and offer payouts is expected to recover



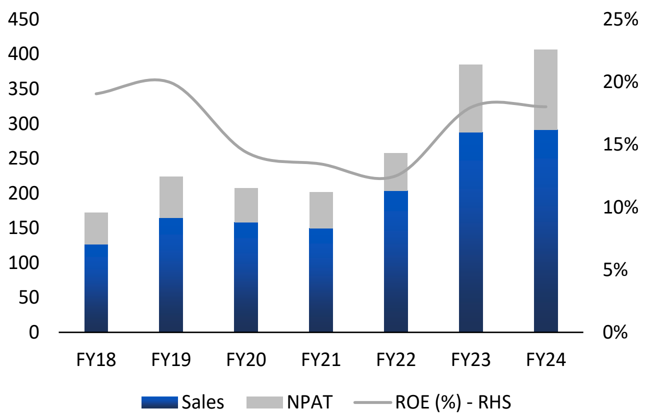
Valuations remain relatively cheap



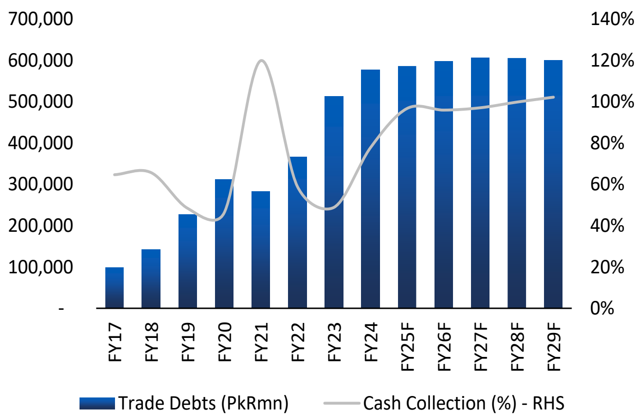
Most producing blocks way past peaks



ROE is anticipated to recover further as distributions increase



Trade debt build-up to slow down significantly



Source: PPIS, OGRA, PSX & AKD Research

PPL - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	20.0	35.7	42.4	39.7	40.9	38.4
DPS	2.00	2.50	6.00	11.50	13.50	16.50
BV	160	199	235	266	293	315
PE	3.8	1.8	4.5	4.8	4.7	5.0
Dividend Yield	2.6%	3.9%	3.2%	6.0%	7.1%	8.7%
P/BV	0.48	0.33	0.81	0.72	0.65	0.60
Earnings Growth	4%	79%	19%	-6%	3%	-6%
ROE	13%	18%	18%	15%	14%	12%
Gross Margin	65%	67%	65%	63%	64%	63%
Net Margin	27%	34%	40%	38%	39%	39%

Income Statement	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	203,811	288,053	291,241	280,886	284,214	268,109
Gross Profit	148,865	212,551	211,914	201,607	206,749	194,264
EBITDA	106,289	156,418	153,752	143,144	147,722	137,368
Profit Before Tax	98,937	164,912	160,279	160,910	162,082	151,483
Net Profit	54,353	97,222	115,477	108,014	111,177	104,466

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current Assets	452,634	600,695	710,880	775,601	822,714	866,675
Long Term Assets	176,045	193,749	202,161	199,456	192,388	185,429
Total Assets	628,679	794,445	913,041	975,057	1,015,103	1,052,103
Current Liabilities	128,670	181,133	200,083	176,996	142,598	120,029
Non-Current Liabilities	65,305	72,445	72,226	75,276	75,276	75,276
Total Liabilities	193,974	253,577	272,309	252,272	217,874	195,305
Total Equity	434,704	540,867	640,732	722,785	797,229	856,798

Cash Flow	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	31,064	28,614	88,519	106,572	91,299	99,365
CF from Investing	-23,241	-36,378	-72,136	-55,744	-24,765	-23,692
CF from Financing	-7,146	8,635	-15,474	-25,996	-36,733	-44,896
Net Change in Cash	676	871	909	24,832	29,802	30,777
Cash & Cash Equivalents	5,427	6,299	7,208	32,039	61,841	92,618

Source: PSX & AKD Research

Fauji Fertilizer Company Ltd. (FFC)

Polishing to perfection; The crown jewel

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
370.6	1,272.2	471,478.7	3.15	917.76

AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
583.0	**370.6**
T. UPSIDE/DOWNSIDE	DIV. YIELD
70%	**11.9%**

FFC: Price Performance

	1M	6M	CYTD
Absolute (%)	29.7	157.2	179.4
Rel. Index (%)	18.9	118.8	127.0
Absolute (PkR)	84.8	226.5	237.9

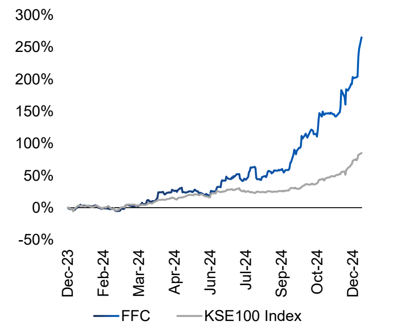
Amalgamation with FFBL will solidify FFC's position as the largest fertilizer manufacturer in the country. The combined synergies and distribution network will create efficiencies, while the stronger balance sheet offers further potential for higher payouts or expansion opportunities, unlocking significant growth prospects.

New strong position with acquisition: The Fauji Group has strengthened its fertilizer business by amalgamating FFBL into FFC, with the merger sanctioned by the Lahore High Court and expected to be concluded by year-end. With combined capacities, FFC will become the largest fertilizer company in the country, boosting urea and DAP capacities of 2.6mn tons and 0.65mn tons per annum, respectively. Combined market share of urea and DAP in 11MCY24 was 48% and 68%, respectively. Going forward, we expect a slight market share decline due to the planned turnaround of FFC & FFBL's plants while EFERT holding huge inventory and higher private DAP imports, although FFC would still maintain the highest urea market share at over 40% in the country.

Beneficiary of cheap gas: FFC continues to benefit from receiving gas from Mari at discounted rates of PkR580/mmbtu for feed gas and PkR1,580/mmbtu for fuel gas, compared to Sui network rates of PkR1,597/mmbtu for both feed and fuel gas. This results in ~53% cheaper gas compared to peers, bolstering gross margins, which have remained above 50% in the last two quarters. With a 10-year gas supply agreement in place with Mari, management is confident that gas prices will remain stable, as prices are aligned with Mari's wellhead prices. If gas prices unify, FFC's gas cost would increase by PkR1,275/bag. However, we expect the company to partially pass on these price increases, as it has done in the past by raising prices by PkR754/bag following the last gas price revision for Sui network plants. This could lead to a reduction in gross margins to 30-35% from the current 50%+ levels, impacting the valuation by ~PkR131/sh.

Gas supply to FFBL's plant has also improved this year, with the company receiving 77% of its allocated gas quota, compared to 56% in SPLY. We expect this improved allocation to continue, which would drive higher production volumes moving forward from FFBL as well. Notably, the company has a gas supply allocation of 68mmcfd with SSGC.

FFC vs. KSE-100 Index



Source: PSX & AKD Research

Other investments to bore results: In addition to its strong positioning in the fertilizer segment, FFC's investments in banking, power, and food businesses are expected to support other income streams through consistent dividend inflows. AKBL (64.7% stake) has once again begun cash payouts and is expected to maintain this trend. Furthermore, PMP (37.5% stake), after experiencing losses in the previous year, has rebounded strongly and paid dividends twice in the current year and we expect the company to give dividend of PkR3.8bn in CY25E (PkR2.7/sh). FFC's power business, which includes wind power (FFCEL, FWE 1 & 2; 100% stake), coal plants (FPCL; 75% stake), and the 330MW Thar coal IPP (TEL; 30% stake), are expected to continue paying consistent dividends, with TEL expected to start payouts next year to the tune of PkR3.0bn annually to FFC. These power investments are expected to contribute more than 20% to the company's PBT. Additionally, FFC's food businesses (FFL; 47.8% stake | FFF; 100% stake) are witnessing strong turnarounds, with FFL posting its first-ever net profitability post-acquisition and FFF expected to become profitable this year. Moreover, future growth prospects in this segment are substantial. Overall, above mentioned portfolio business contribute PkR96/sh towards our SoTP valuation.

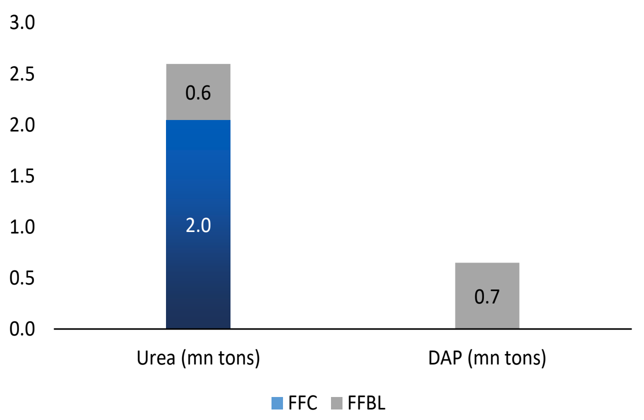
Investment Perspective: We have a 'BUY' stance on FFC with Dec'25 SoTP target price of PkR583/sh, offering potential upside of 58%, along with CY25E dividend yield of 11.9%. Our liking on the scrip is due to 1) amalgamation of FFBL and FFC to strengthens the position in the sector, 2) lower gas prices to FFC plants to keep the gross margins up, 3) higher dividend yield, and 4) huge portfolio adding value.

FFC Amalgamation to compound growth potential

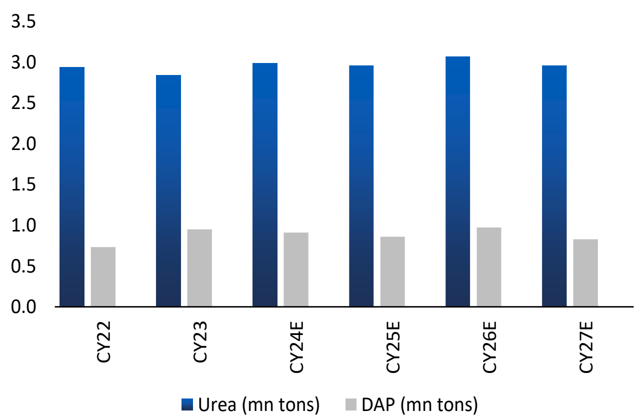
FFC sum of the part valuation (Dec'25 TP)

	Valuation Method	Valuation (PkRmn)	Shares held (%)	Portfolio Discount (%)	FFC share (PkRmn)	TP Contri (PkR/sh)	% contri in TP
Standalone	DCF	684,254			684,254	481	83%
AKBL	Market value	49,160	65%	20%	25,465	18	3%
FFF	DCF	37,828	100%	25%	28,371	20	3%
FFL	DCF	60,461	48%	25%	21,675	15	3%
TEL	DDM	69,950	30%	25%	15,739	11	2%
PMP	DDM	69,332	38%	25%	19,500	14	2%
FPCL	DDM	24,000	75%	25%	13,500	9.5	2%
FWE 1&2	Book value	13,512	100%	25%	10,134	7.1	1%
FCCL	DCF	149,624	4%	25%	4,814	3.4	1%
AGL	Market value	16,111	30%	25%	3,625	2.5	0%
FFCEL	Book value	2,438	100%	25%	1,829	1.3	0%
OLIVE	Book value	100	100%	25%	75	0.1	0%
Dec'25 TP						**583**	

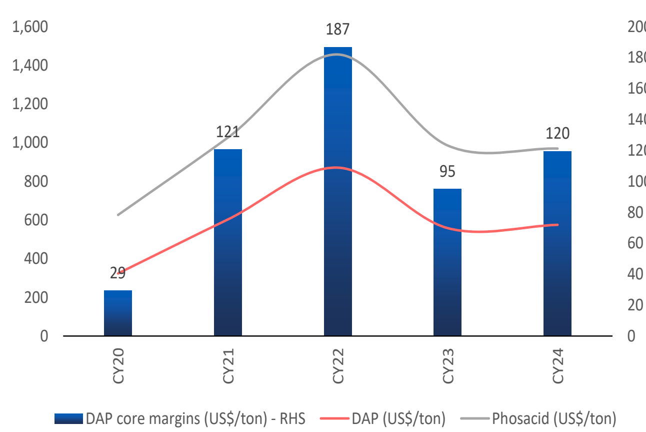
FFC to become largest fertilizer producer post-merger



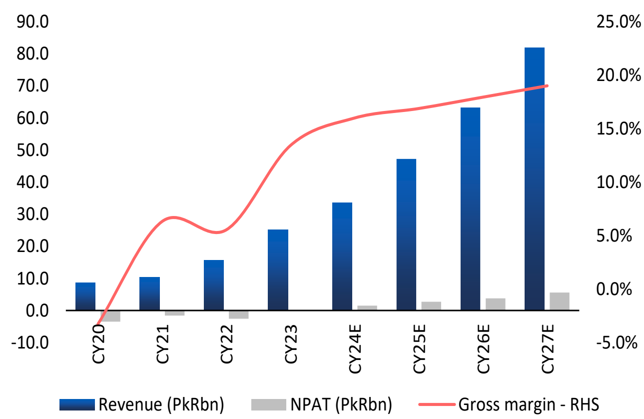
Company's offtakes are expected to remain largely stable



Improving DAP margins to keep DAP profitability stable



Food sector to improve phenomenally



Source: NFDC, Bloomberg, PSX & AKD Research

FFC - Annual Financial Data Bank*

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	17.0	24.6	58.0	55.6	61.5	62.5
DPS	10.8	12.9	40.8	44.0	49.0	50.0
BV	51.7	62.5	71.7	83.3	95.8	108.3
PE	6.2	4.0	6.4	6.6	6.0	5.9
Dividend Yield	10.3%	13.2%	11.1%	11.9%	13.3%	13.6%
P/BV	2.0	1.6	5.1	4.4	3.8	3.4
Earnings Growth	-21.5%	45.2%	135.4%	-4.2%	10.7%	1.6%
ROE	32.8%	39.4%	80.9%	66.7%	64.2%	57.7%
Gross Margin	24.5%	27.6%	33.9%	36.2%	35.5%	37.0%
Net Margin	9.0%	9.9%	18.5%	18.6%	18.7%	20.3%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Sales	268,590	352,536	446,198	425,391	468,062	437,972
Gross Profit	65,915	97,362	151,303	153,867	165,994	162,241
EBITDA	56,808	86,638	150,351	135,991	148,278	149,973
Profit Before Tax	43,974	68,689	137,843	128,063	141,651	143,642
Net Profit	24,160	35,073	82,566	79,073	87,546	88,923

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Current Assets	266,176	240,828	215,843	235,930	239,061	258,421
Long Term Assets	123,809	128,324	139,910	140,180	141,172	142,629
Total Assets	389,985	369,152	355,752	376,110	380,233	401,050
Current Liabilities	265,952	242,298	229,360	243,391	233,576	237,376
Non-Current Liabilities	50,476	37,911	24,364	14,234	10,359	9,609
Total Liabilities	316,427	280,209	253,724	257,625	243,934	246,984
Total Equity	73,557	88,944	102,029	118,485	136,299	154,066

Cash Flow	CY22	CY23	CY24E	CY25E	CY26E	CY27E
CF from Operations	143,152	17,291	71,548	102,556	82,888	95,529
CF from Investing	(38,810)	(31,872)	6,376	(4,618)	(747)	(6,187)
CF from Financing	20,960	(81,489)	(103,577)	(76,553)	(78,447)	(72,853)
Net Change in Cash	125,302	(96,070)	(25,653)	21,386	3,695	16,489
Cash & Cash Equivalents	162,621	66,551	15,170	36,555	40,250	56,739

*FFC merged-entity @ 1,423mn shares

Source: PSX & AKD Research

Meezan Bank Limited

Strong ROE trajectory justifies premium valuation

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
211.4	1,794.7	379,408.2	1.86	439.9

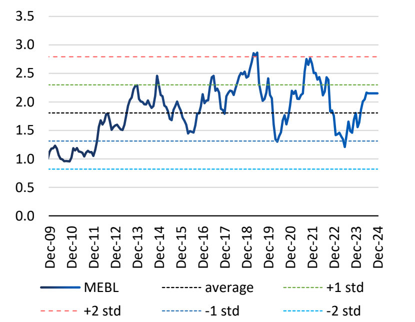
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
348.0	211.4
T. UPSIDE/DOWNSIDE	DIV. YIELD
76.9%	12.3%

MEBL: Price Performance

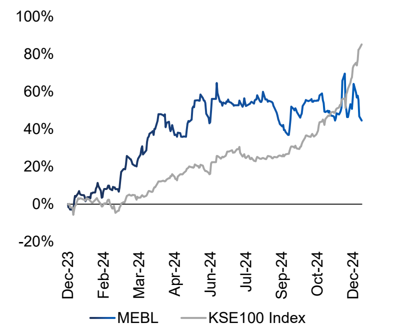
	1M	6M	CYTD
Absolute (%)	-8.5	-12.8	-5.7
Rel. Index (%)	-19.2	-51.2	-58.1
Absolute (PkR)	-19.5	-31.1	-12.8

MEBL P/B with ±1/2 Std. Dev.



Source: Bloomberg & AKD Research

MEBL vs. KSE-100 Index



Source: PSX & AKD Research

Meezan Bank Ltd (MEBL) remains a top-tier performer in the banking sector, offering an unmatched mix of superior ROE along with robust asset growth. MEBL's disciplined asset allocation, levered by an asset-to-equity ratio of 15x alongside support from high ROA of ~1.8% results in a projection of Tier-I ROE of 25.5% over the medium term. Despite expectations of monetary easing, where we see the PR declining to 10% by mid-CY25, However, MEBL's efficient asset deployment ensures it retains a competitive edge. The bank's year-over-year book-value growth, expected at a 5-year CAGR of 12% up till CY29E alongside unmatched capital adequacy (CET-1/Total CAR as of Sep'24: 22.3%/27.3%), further warrants room for growth in cash payouts moving forward, as TTM payout average stood at 50%.

Deposit growth to remain strong; ADR challenges still loom: MEBL continues to deliver exceptional deposit growth, achieving a solid 26% 10-year CAGR, with a CASA ratio consistently above 75%. Additionally, bank's deposit mobilization strategy remains aggressive, averaging 59 annual branch openings since CY18 alongside expansion in digital channels. We anticipate a modest assumption of deposit growth of 13%YoY between CY24-29E, as opposed to the rapid expansion historically. However, the bank's current ADR of 42.5% falls short of the 50% threshold, exposing MEBL to potential ADR-related taxation. To meet the required level, MEBL must expand its loan book by PkR192bn (or by 17%), reflecting pressure on asset deployment in the near term.

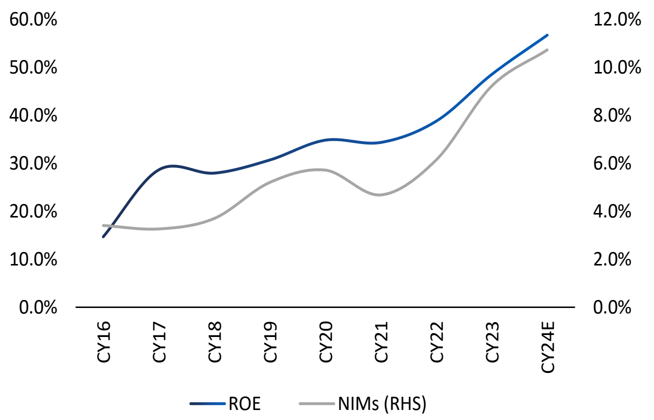
Markup Income to stabilize in CY25E: MEBL's NIMs surged to 10.6% during 9MCY24 (vs. 9.2% in CY23), primarily driven by the absence of a rate floor on savings deposits (44% of mix), and a robust CA base led by individual depositors, particularly during the multi-year high-interest rate environment. However, the recent imposition of an MDR-like regulation by the SBP in late Nov'24, mandating IBIs to offer at least 75% of the weighted average gross yields of all investment pools, is expected to exert downward pressure on NIMs. While this development may compress spreads in the near term, we believe MEBL is well-positioned to offset the impact by attracting a new segment of depositors seeking returns, which were previously sidelined due to lower rate offering, further adding deposit mobilization efforts. To note our base case already factored in a gradual reduction of the MDR spread to 2.5% below the policy rate by CY27E, minimizing the impact on our valuation outlook. Looking ahead, we expect NIMs to moderate to the range of 6.7%/5.9% over CY25-26E as MEBL's high CASA mix and significant exposure to variable-rate GIS investments are likely to cushion the impact.

Asset and efficiency indicators remains impeccable: MEBL continues to maintain one of the cleanest loan portfolios in the industry, with an infection ratio of 1.7% and total coverage of 179% as of 3QCY24. Moving forward, we forecast a conservative cost of risk at 32bps for CY25/26E, reflecting robust provisioning buffer throughout the medium term. On the expense side, MEBL's network expansion has slowed (6 branches opened in 1HCY24), with admin expenses expected to grow at a 5-year CAGR of 11.7%. We anticipate cost-to-income to normalize around 42% in CY25E, reflecting revenue moderation and continued branch network optimization.

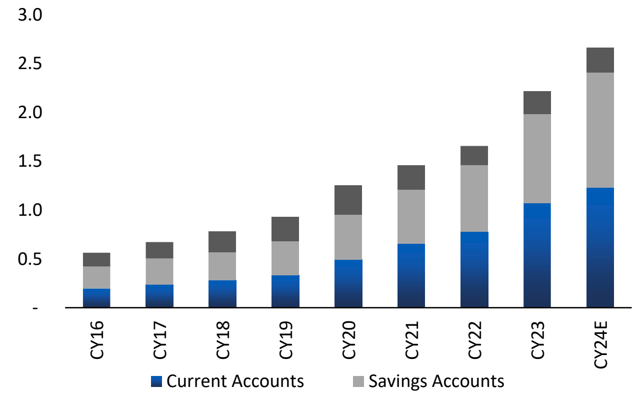
Investment perspective: MEBL is our top pick from banking universe with a TP of PkR348/sh, offering total return of 77% on the last close. Though the scrip trades at a forward P/BV multiple of 1.5x, the expected average ROE of 25.5% between CY25-CY27 is far superior to what any other bank is currently offering.

Higher NIMs results in lower cost to income

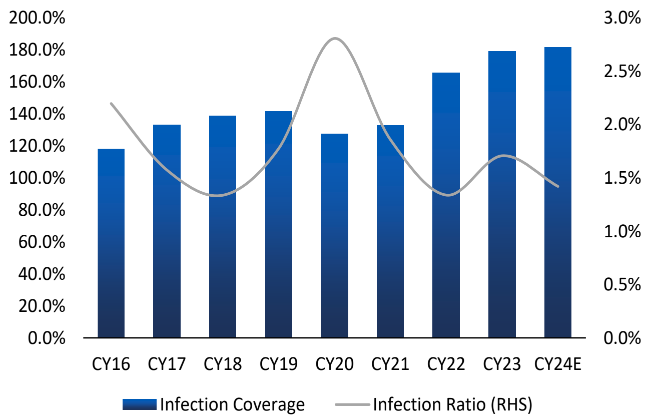
ROE and NIMs have grown largely in line



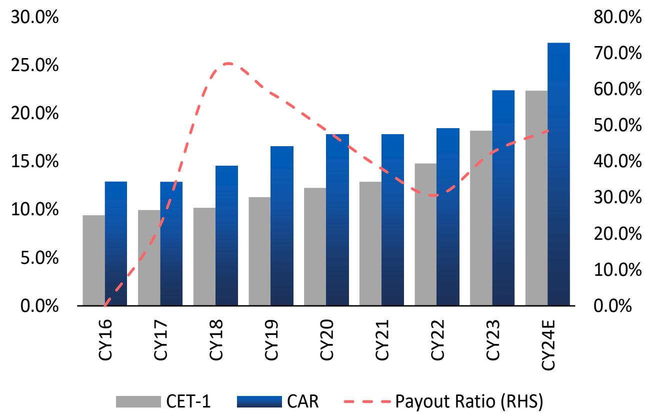
Deposit growth led by high CASA concentration



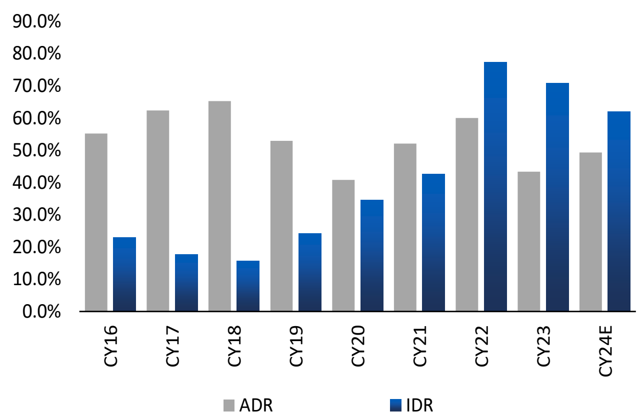
Asset quality remains unmatched



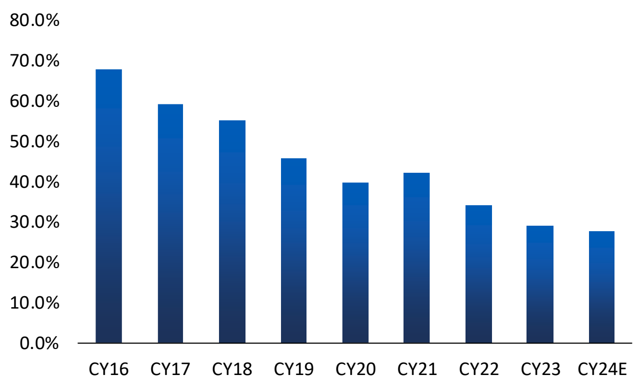
Capital ratios remain ever growing



ADR is set to be achieved by CY24 end



Cost-to-Income ratio has receded over the years



Source: SBP, PSX & AKD Research

MEBL - Annual Financial Data Bank

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	25.1	47.1	55.7	36.6	35.4	42.7
DPS	7.68	20.00	28.00	26.00	25.00	26.00
BV	64.3	103.0	131.0	140.9	151.9	169.2
PE	4.6	2.4	3.8	5.8	6.0	5.0
Dividend Yield	6.6%	17.8%	13.2%	12.3%	11.8%	12.3%
P/BV	1.80	1.09	1.61	1.50	1.39	1.25
Earnings Growth	59%	88%	18%	-34%	-3%	21%
ROE	39%	49%	45%	27%	24%	26%
Net Interest Margin (NIMs)	6.1%	9.2%	10.0%	6.4%	5.9%	6.1%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Net Interest Income	121,704	226,429	279,364	201,682	202,184	236,286
Non-Markup Income	19,103	22,107	25,704	30,223	35,213	39,773
Total Revenues	140,807	248,536	305,068	231,904	237,397	276,059
Total Expenses	48,245	71,788	90,600	98,717	107,863	120,695
Provision/Credit allowance charge	4,177	7,340	3,470	4,541	5,107	5,078
Profit Before Tax	88,385	169,408	210,997	128,646	124,428	150,286
Net Profit	45,007	84,476	100,030	65,610	63,458	76,646

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Advances	995,508	961,673	1,313,668	1,522,987	1,755,750	1,965,026
Investments	1,283,210	1,572,388	1,653,628	1,673,959	1,806,960	2,021,058
Total Assets	2,577,398	3,012,109	3,525,562	3,832,270	4,303,409	4,836,279
Deposits	1,658,490	2,217,474	2,663,246	2,978,398	3,433,711	3,847,471
Borrowings	573,326	377,495	340,997	246,431	143,623	149,455
Total Liabilities	2,462,077	2,827,201	3,290,464	3,579,303	4,030,744	4,532,685
Total Equity	115,321	184,908	235,098	252,967	272,665	303,594

Source: PSX and AKD Research

Lucky Cement Ltd. (LUCK)

Thrilling on all fronts

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
1,084.2	293.0	317,664.7	0.33	326.9

LUCK's impressive growth in profitability, driven by gross margin expansion, dividends from LEPCL, and a resurgence in its auto, mobile, and chemical segments, coupled with a broader economic recovery, positions it as a compelling investment opportunity.

Market dominance intact: LUCK continues as the largest cement player with commissioning of 3.5mn tons in FY23, taking total capacity of 15.3mn tons. As the dominance is intact, company is expected to maintain its 16.5% domestic market share through FY25E/FY26E. While local offtake growth is projected at 3% in FY25E and 5% in FY26E. Meanwhile LUCK's established port infrastructure and diverse markets will drive exports at a 5-year CAGR of 14%, providing a cushion against periods of subdued local demand. Additionally, LUCK's Pezu plant stands to benefit from the Punjab government's recent increase in royalty rates, due to lower cost in KPK region. We also expect the 7% price delta between North and South markets to narrow as regional demand grows, which will help increase retention prices for the Karachi plant.

Lowest cost producer: LUCK remains the lowest-cost producer in the cement sector, with COGS/bag at a 13% discount to the sector average. This is largely due to an efficient coal mix and procurement strategy, along with maximum reliance on self-power generation. LUCK has made significant investments in renewable power sources and efficient kiln fuel management, which continue to drive down costs. Moreover, its solar and wind energy expansions are expected to mitigate the impact of gas supply cuts to captive power producers. While reliance on grid power may increase, LUCK's cheaper energy mix, comprising of WHR, wind, and solar, is expected to rise to above 50% by FY26E, further reducing cost pressures.

LEPCL; true value enhancer: LUCK's 660MW IPP, LEPCL, continues to add significant value to the company. To highlight, company paid a PkR6.0bn dividend in the previous year, despite the absence of tariff true-up, with special permission from lenders. However, with tariff true-up expected by FY26E, we haven't assumed dividend in our base case in FY25E, resulting in earnings decline during the year. While, post tariff true-up, consistent dividend contributions is expected, estimated at PkR19bn (PkR65/sh) annually. Furthermore, the company will benefit from Phase-2 of Thar Coal Mine 3, which is expected to be commissioned by FY25E, allowing LUCK to start receiving local Thar coal, enhancing its ROE to 29.5% from 27.2% on imported coal.

Diversification fuels continued growth: LUCK's foreign operations continue to perform well, with increasing demand and the expansion of its clinker line in Samawah to 3.1mn TPA. This expansion is expected to boost consolidated earnings contribution from foreign operations to PkR68/sh in FY26E, up 34%YoY. Moreover, company's chemical arm (LCI) is also on a growth trajectory, driven by increasing demand in the soda ash segment and upcoming expansion plans, which will enhance profitability and dividend consistency. Additionally, LUCK's auto and mobile assembly business (LMC) is expected to see profitability increase by ~50%YoY, contributing PkR11/sh and PkR14/sh in consolidated earnings of FY25/26E, respectively. The growth in these segments will be supported by anticipated interest rate reductions to single digits, which would stimulate auto sales, and the implementation of GST on high-end imported mobile phones, boosting mobile operations.

Investment Perspective: LUCK trades at a FY25E consolidated PE of 4.3x and highest EBITDA/ton of PkR3,204 in the sector. In summary, we have a 'BUY' stance on the stock with Dec'25 SoTP target price for the scrip is PkR1,965/sh, offering total return of 83%.

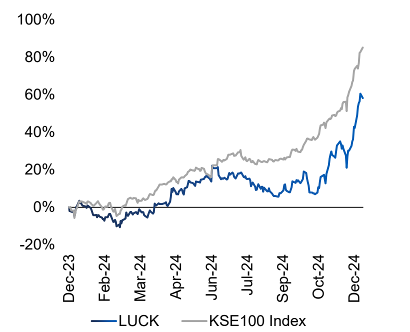
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
1,965.0	**1,084.18**
T. UPSIDE/DOWNSIDE	DIV. YIELD
83%	**1.6%**

LUCK: Price Performance

	1M	6M	CYTD
Absolute (%)	3.6	14.6	35.6
Rel. Index (%)	-7.1	-23.9	-16.8
Absolute (PkR)	38.2	137.7	284.5

LUCK vs. KSE-100 Index



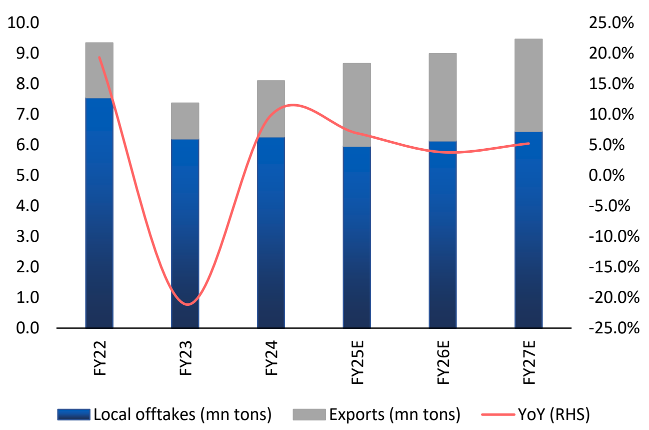
Source: PSX & AKD Research

Efficiencies and increasing market share to boost margins

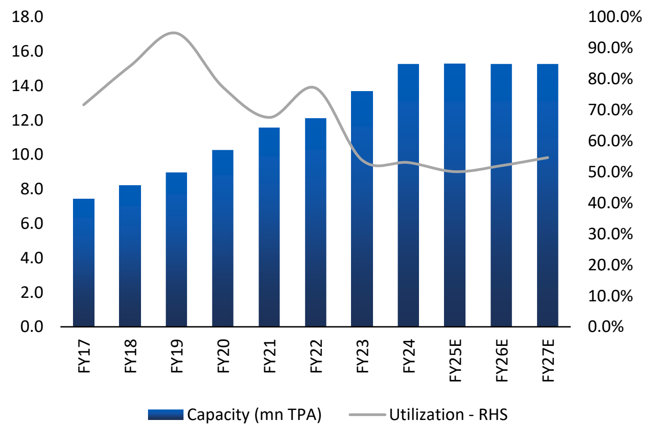
LUCK sum of the part valuation (Dec'25 TP)

	Valuation Method	Valuation (PkRmn)	Shares held (%)	Portfolio Discount (%)	LUCK share (PkRmn)	TP Contri (PkR/sh)	% contri in TP
Standalone	DCF	275,517			275,517	940	47.8%
LEPCL	DDM	181,959	100.0%	25.0%	136,469	466	23.7%
LMC	DCF	69,621	71.1%	25.0%	37,146	127	6.5%
LCI	Market value	94,708	55.0%	25.0%	39,067	133	6.8%
Iraq	DCF	188,715	50.0%	30.0%	66,050	225	11.5%
Congo	DCF	55,649	50.0%	30.0%	19,477	66	3.4%
YEL	DDM	12,896	20.0%	30.0%	1,805	6.2	0.3%
NRL	Book value	-	33.3%	30.0%	478	1.1	0.1%
LHL	Book value		75.0%	25.0%	32	0.1	0.0%
Dec'25 TP						**1,965**	**100%**

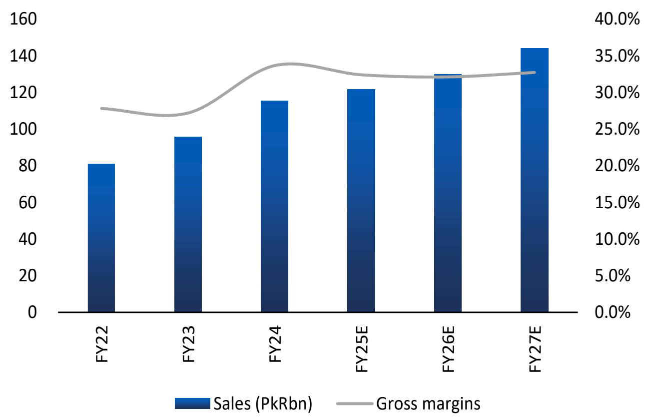
Offtakes to increase steadily



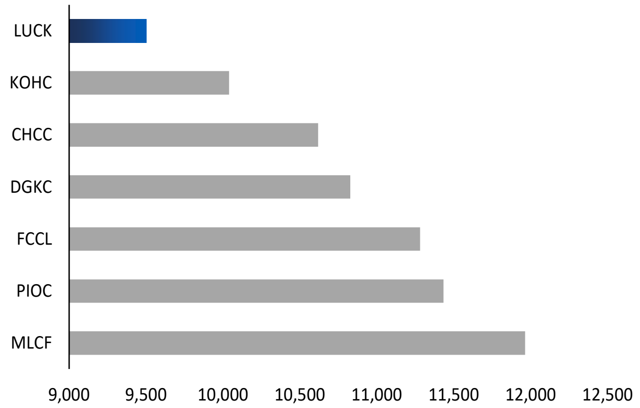
...resulting in improving utilization



Core sales to improve with stable margins...



...due to lowest production cost among peer



Source: APCMA, PSX & AKD Research

LUCK - Annual Financial Data Bank (Unconsolidated)

(Valuation Multiples)	FY22	FY23	FY24	FY25F	FY26F	FY27F
EPS	52.21	46.85	95.93	83.62	128.55	190.02
DPS	0.0	18.0	15.0	17.0	32.0	48.0
BV	424.2	468.8	504.3	555.9	652.5	794.5
PE	20.8	23.1	11.3	13.0	8.4	5.7
Dividend Yield	0.0%	1.7%	1.4%	1.6%	3.0%	4.4%
P/BV	1.76	1.07	1.46	1.95	1.66	1.36
Earnings Growth	8.7%	-10.3%	104.7%	-12.8%	53.7%	47.8%
ROE	11.9%	10.0%	19.0%	15.0%	19.7%	23.9%
Gross Margin	27.8%	27.2%	33.6%	32.4%	32.1%	32.6%
Net Margin	18.9%	14.3%	24.4%	20.1%	28.9%	38.6%

Income Statement	FY22	FY23	FY24	FY25F	FY26F	FY27F
Sales	81,093	95,832	115,325	121,705	130,124	144,418
Gross Profit	22,551	26,061	38,805	39,422	41,726	47,130
EBITDA	25,047	27,810	49,023	43,313	57,045	78,308
Profit Before Tax	21,421	21,345	41,388	35,919	50,127	71,521
Net Profit	15,298	13,728	28,107	24,501	37,665	55,678

Balance Sheet	FY22	FY23	FY24	FY25F	FY26F	FY27F
Current Assets	44,816	59,577	68,452	80,403	99,955	138,453
Long Term Assets	140,147	153,502	165,566	165,827	166,091	166,355
Total Assets	184,962	213,079	234,018	246,230	266,045	304,807
Current Liabilities	30,361	46,181	54,188	51,621	44,999	44,001
Non-Current Liabilities	26,061	29,532	32,068	31,721	29,868	28,016
Total Liabilities	56,422	75,713	86,257	83,342	74,868	72,016
Total Equity	128,540	137,366	147,761	162,888	191,177	232,791

Cash Flow	FY22	FY23	FY24	FY25F	FY26F	FY27F
CF from Operations	15,469	23,243	27,581	27,060	37,140	57,253
CF from Investing	(24,826)	(12,979)	(2,580)	(12,887)	(6,510)	(6,528)
CF from Financing	6,159	245	(18,620)	(12,680)	(12,887)	(16,596)
Net Change in Cash	(3,198)	6,381	1,493	1,493	17,744	34,130
Cash & Cash Equivalents	15,493	26,002	32,382	4,060	21,804	55,934

Source: PSX & AKD Research

MCB Bank Limited

An attractive dividend play!

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
257.1	1,185.1	304,655.2	0.6	153.8

With a robust CET-1 and total CAR of 17.15%/21.3% in 3QCY24, MCB remains well placed to maintain a 70%+ cash payout over the medium term (the last 5yr payout has been 71%+ on average). The bank has effectively paid out interim dividends of PkR27/sh during 9MCY24, as the stock offers one of the highest yields in the listed space with a yield of 14% for CY25E - higher than 1Y Govt. paper rate of 11.5%. Supported by robust profitability metrics and one of the lowest cost-to-income ratios in the sector at 33% for 9MCY24, along with effective mitigation of risks associated with IFRS-9, management has indicated towards continued payouts moving forward.

However, the imposition of ADR-related taxation, with the bank's ADR ratio at 35.6% –as of Sep'24, may create pressure on capital ratios—an industry wide concern. Consequently, we conservatively projected the payout to remain around 70% for CY25-27F.

Asset quality remains solid: As per the management guidance, bank has recovered PkR772mn from NIB's NPL stock during the nine-months, taking total recoveries to PkR10.4bn. Further, limited exposure to the consumer & SME segments provides adequate cover against implementation of IFRS-9, where-in we assume a gross credit charge of 6bps on a recurring basis per annum on average on incremental loans. Overall, bank boasts one of the cleanest portfolios in the industry, with an infection rate 7.6%, below sector average of 8.4% as of Sep'24, alongside a strong coverage of 91.7%. Looking ahead, as macroeconomic conditions stabilize, the bank is well-positioned to sustain its asset quality, minimizing the risk of provisioning surges.

Asset growth anchored by low-cost deposits: Deposits surged by 14%YoY, crossing the PkR2.0tn mark as of Sep'24, with the CASA ratio improving to an industry-leading 97.15%. The bank's focus on current and savings accounts has allowed it to maintain a low-cost deposit base, with zero-cost deposits making up 45% of the total. This coupled with MCB's strategic focus on no-cost and low-cost deposit franchise underscores the bank's ability to navigate various interest rate cycles effectively. As monetary easing continues, bank's robust CASA mix is expected to provide a significant competitive advantage, supporting superior NIMs over the medium term.

ADR Risks loom ahead: MCB's conservative lending strategy is reflected in its low ADR of 36.4%, substantially below the industry average of ~39.3% as of Sep'24. This cautious approach to credit expansion has added to a potential regulatory risk due to tax implications associated with banks having ADR ratios below 50%. However, the management has vowed to growing advances to meet the ADR threshold, with a particular emphasis on selective lending opportunities. However, any incremental ADR-based taxation could weigh on profitability in the near term.

Investment Case: MCB Bank's robust fundamentals—strong capital buffers, clean asset quality, highest CASA ratio in the industry and stable cash payouts, —make it an attractive defensive play. Trading at a discount of 25% to its historical P/BV average of 1.6x, we have a TP of PkR389/sh for Dec'25.

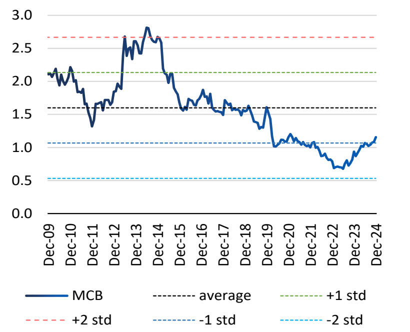
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
389.0	**257.1**
T. UPSIDE/DOWNSIDE	DIV. YIELD
65.3%	**14.0%**

MCB: Price Performance

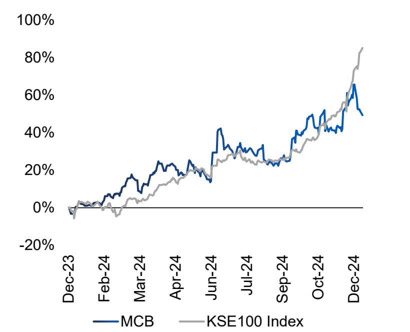
	1M	6M	CYTD
Absolute (%)	3.8	14.6	18.9
Rel. Index (%)	-7.0	-23.8	-33.5
Absolute (PkR)	9.3	32.8	40.9

MCB trading at lower P/BV



Source: Bloomberg, PSX & AKD Research

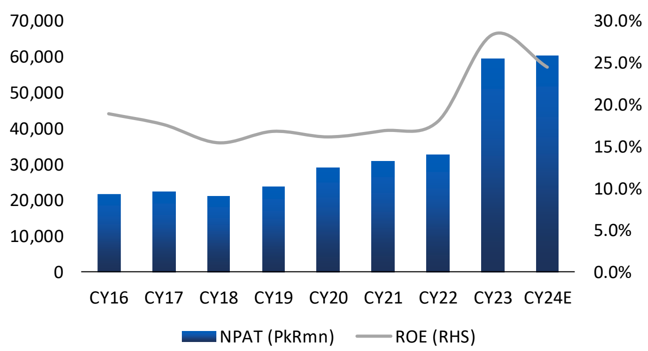
MCB vs. KSE-100 Index



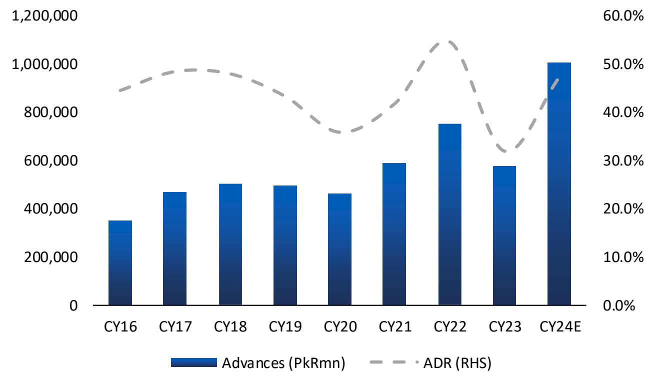
Source: PSX & AKD Research

Payout to maintain on strong capital buffer

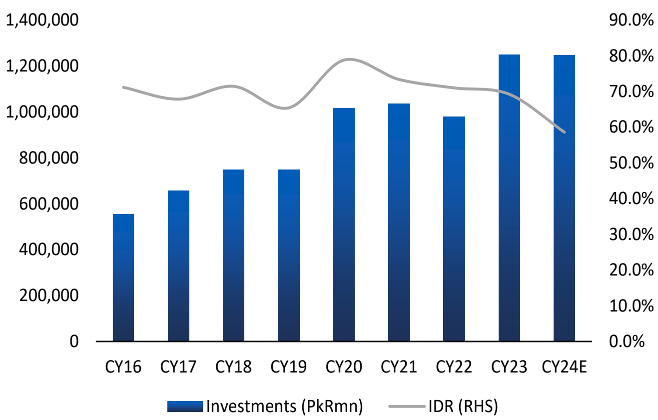
ROE has turned the corner



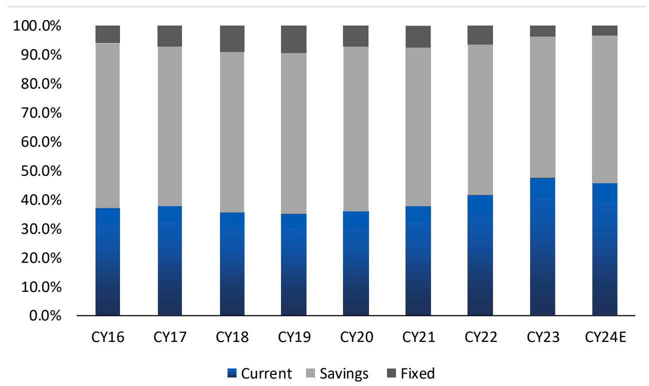
ADR ratio expected to recover in wake of tax related mandate



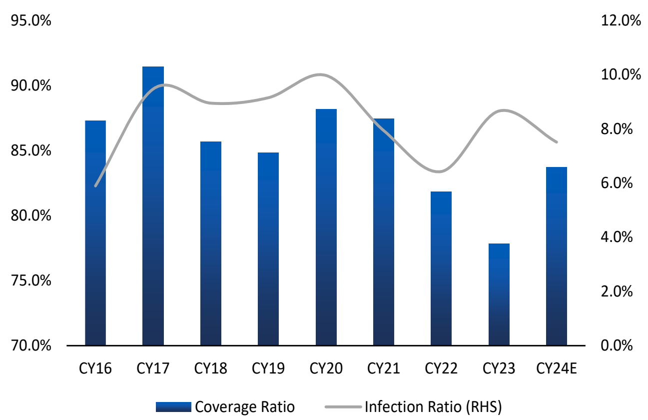
Investment book has expanded in-line with deposit base



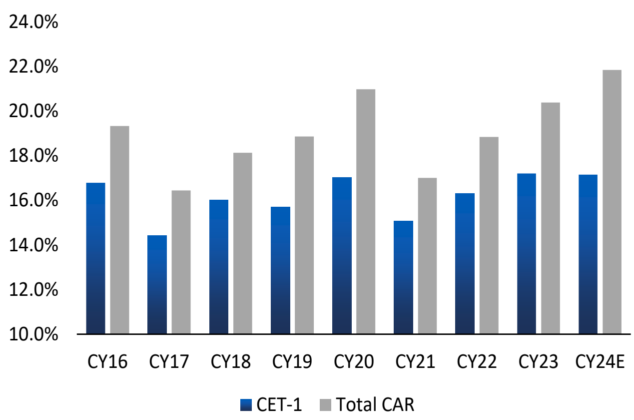
MCB boasts the highest CASA in the industry



Cost of risk has remained under control



Capital adequacy remains robust



Source: PSX & AKD Research

MCB - Annual Financial Data Bank

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	27.6	50.3	51.1	43.4	45.2	50.3
DPS	20.0	30.0	36.0	36.0	37.0	38.0
BV	160	195	222	228	236	247
PE	4.8	2.6	5.0	5.9	5.7	5.1
Dividend Yield	14.9%	23.0%	14.0%	14.0%	14.4%	14.8%
P/BV	0.00	0.00	0.00	0.00	0.00	0.00
Earnings Growth	6%	82%	1%	-15%	4%	11%
ROE	18%	28%	25%	19%	19%	21%
Net Interest Margin (NIMs)	5.1%	8.0%	6.8%	5.3%	4.8%	4.7%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Net Interest Income	87,156	147,701	143,759	132,027	135,623	150,856
Non-Markup Income	24,613	32,916	39,238	40,753	46,297	51,099
Total Revenues	111,769	180,617	182,997	172,780	181,920	201,955
Total Expenses	43,186	55,003	62,813	69,054	73,992	80,584
Provision/Credit allowance charge	-2,782	373	864	798	1,083	3,288
Profit Before Tax	71,365	125,241	119,320	102,928	106,845	118,083
Net Profit	32,741	59,631	60,515	51,430	53,502	59,551

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Advances	753,400	577,863	1,006,171	1,141,451	1,324,574	1,489,795
Investments	978,731	1,249,439	1,248,299	1,378,583	1,552,532	1,711,505
Total Assets	2,085,355	2,427,179	2,879,501	3,219,097	3,676,949	4,095,295
Deposits	1,378,717	1,805,387	2,131,360	2,388,957	2,736,812	3,052,962
Borrowings	340,237	216,611	288,621	300,340	312,535	325,225
Total Liabilities	1,895,861	2,196,472	2,616,318	2,948,612	3,397,031	3,802,210
Total Equity	189,495	230,707	263,183	270,485	279,918	293,085

Source: Company Accounts and AKD Research

Habib Bank Limited

HBL **Steady growth amid shifting dynamics**

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
154.5	1,466.9	226,614.0	3.9	577.4

Reflective of the fundamental challenges faced by the bank, HBL's price performance has remained wary. While the entire banking sector has been under celebrated performance (elevated NIMs, growing capital and robust asset base), HBL has prominently lagged the market by ~30% since beginning of the rally in Jun'23, on account of recovery from hiccups particularly on its foreign business. However, the issue seems to be behind us, as HBL reported a consolidated profit of PkR43.3bn (EPS: PkR30.0) for 9MCY24, along with interim dividends of PkR12.0/share (payout: 40%), despite the challenges posed by higher provisioning and operating expenses during the period. The bank's BVPS stood at PkR281, with an adjusted ROE of 15.8% for the nine-month period, while stable earnings and disciplined capital management drove the total CAR to 16.4% as well.
Overall, we see CY25 to should be better off with growth becoming more visible thereon (CY25-30E revenue CAGR of 12%). In summary, we maintain a 'BUY' stance on HBL, with a Dec'25 TP of PkR261/sh. The bank currently trades at highly attractive valuations, with a P/BV multiple of 0.60x as of Sep'24, representing a significant 55% discount to historical averages.

Continued expansion of low-cost deposit base: Deposits rose by 16.1% over Dec'23, reaching PkR4.8tn, driven by a robust 21.3%YoY growth in average domestic deposits, with current accounts growing 22%CYTD. This contributed to an improved CASA mix of 81%, up from 79.6% at CY23 end, highlighting HBL's success in attracting low-cost deposits. The bank's IDR and ADR ratios stood at 66% and 37%, respectively, with the investment book expanding by 24%YoY to PkR3.2tn. Liquidity was primarily allocated to short-term T-Bills, while floater PIBs constituted 39% of the portfolio, according to management. Additionally, the bank reduced repo borrowings to PkR272bn (down 28%CYTD), reflecting efforts to bolster NIMs amid declining yields on investments. Moreover, the stability in the domestic exchange rate is likely to shield the bank's foreign portfolio and legal expenses from potential losses as in the past, reinforcing a positive trajectory moving forward.

Expanding agricultural focus to revolutionized supply chain: HBL continues to solidify its position as a leader in agriculture financing, with lending to the sector reaching PkR57bn as of Dec'23, up 13%YoY growth. Initiatives such as the 'Kissan Ki Awaaz' platform and collaborations with agri-tech operators to digitize farm operations underscore the bank's commitment to enhancing financial inclusion in rural areas. Additionally, the launch of HBL Zarai Services Limited (HBZL), a dedicated subsidiary with an initial capital investment of PkR2bn, marks a significant step in modernizing the agricultural value chain. HBZL aims to support small farm owners by providing tailored solutions, including storage infrastructure, equipment financing, and advisory services. Management has outlined plans to invest over PkR7.5bn in HBZL over the next five years.

Improving transaction channels through technology-focus: HBL's emphasis on digital transformation continues to deliver efficiency gains and enhance customer engagement. Financial transactions through HBL Mobile and Internet Banking witnessed a robust 89%YoY increase, reaching one billion transactions, with volumes doubling to PkR4.7tn in CY23. The bank's remittance and foreign transaction channels also gained significant traction, driven by the Symphony and Infinity platforms. Additionally, international deposits grew by 11%YoY, surpassing US$2bn during 9MCY24, while RMB trade volumes surged 1.75x. Looking ahead, the improved digital capabilities are expected to further support non-interest income.

Asset quality to improve: HBL's infection ratio increased to 6.0% as of Sep'24 from 5.2% in Dec'23, largely impacted by sector-wide challenges in textile, steel, and retail industries. Despite the pressures, the bank upheld a strong coverage ratio of 92%, ensuring adequate provisioning against distressed assets. Looking ahead, we expect asset quality to stabilize as macroeconomic conditions improve, driven by easing inflation and declining interest rates.

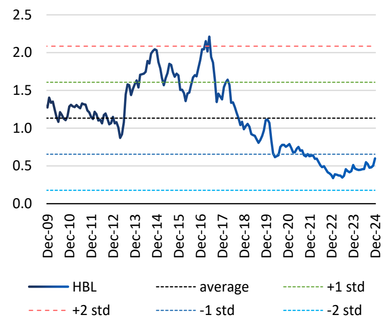
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
261.0	**154.5**
T. UPSIDE/DOWNSIDE	DIV. YIELD
79.3%	**10.4%**

HBL: Price Performance

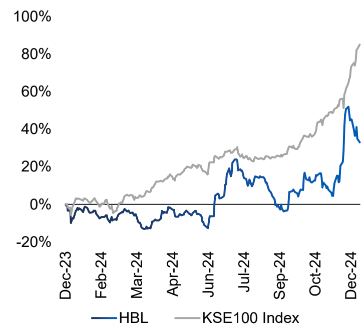
	1M	6M	CYTD
Absolute (%)	11.7	37.5	40.1
Rel. Index (%)	0.9	-0.9	-12.3
Absolute (PkR)	16.2	42.1	44.2

HBL at lower end of historical P/B avg.



Source: Bloomberg & AKD Research

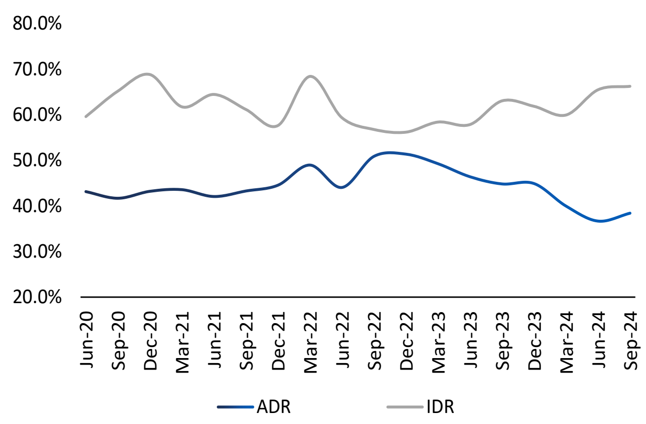
HBL vs. KSE-100 Index



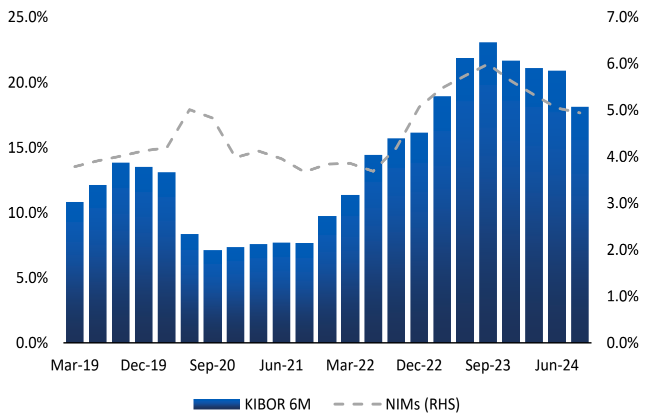
Source: PSX & AKD Research

HBL Capital ratios continues to improve

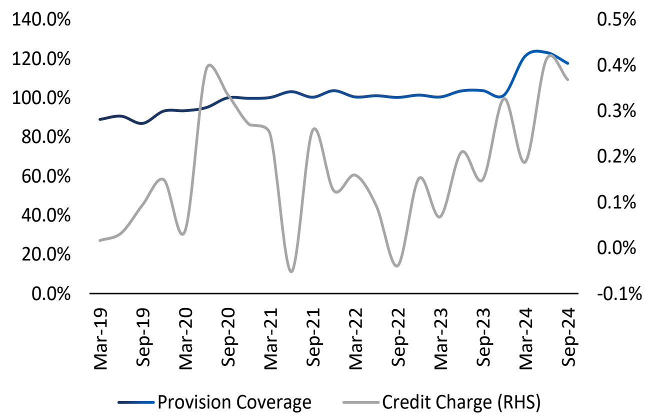
ADR and IDR have parted ways over the past several quarters



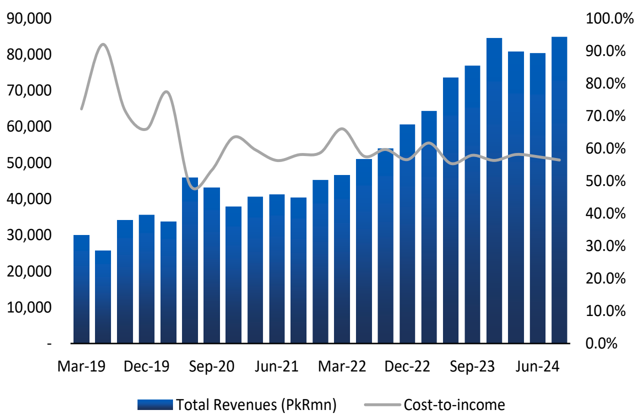
NIMs expansion has followed KIBOR



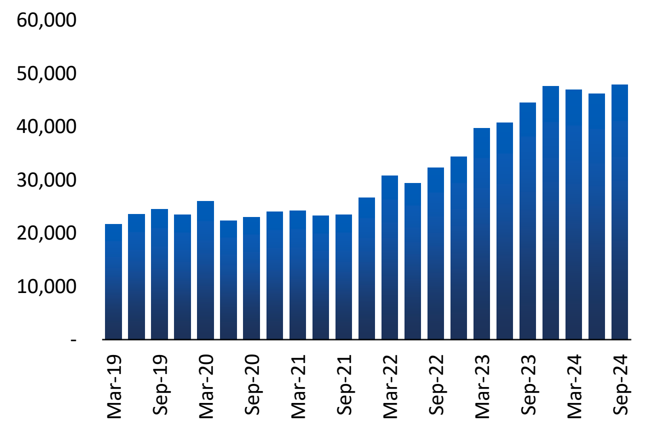
Provisioning remains adequate



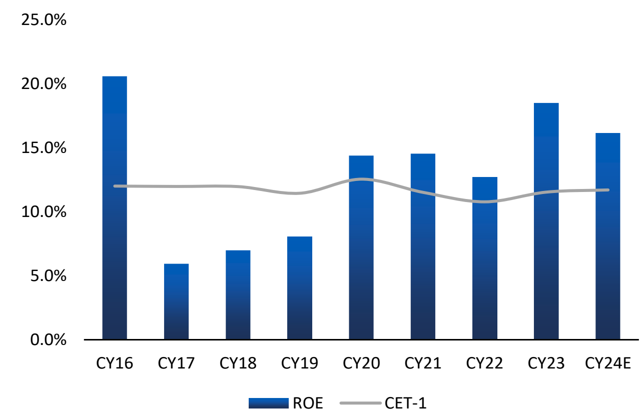
Cost-to-income largely stable over several quarters



Non-fee income has risen significantly



Capital adequacy continues to recover



Source: SBP, PSX & AKD Research

HBL - Annual Financial Data Bank

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	23.2	39.3	39.7	32.4	35.3	38.2
DPS	6.75	9.75	16.25	16.00	17.75	23.50
BV	194.3	249.5	312.1	320.1	337.7	352.6
PE	4.0	2.2	4.0	4.9	4.5	4.1
Dividend Yield	7.1%	11.5%	10.5%	10.4%	11.5%	15.2%
P/BV	0.49	0.34	0.49	0.48	0.46	0.44
Earnings Growth	-3%	68%	-1%	-18%	9%	8%
ROE	13%	19%	16%	13%	13%	13%
Net Interest Margin (NIMs)	4.3%	5.6%	4.9%	4.1%	4.0%	4.0%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Net Interest Income	165,563	242,133	241,759	232,755	250,952	281,718
Non-Markup Income	46,732	57,451	86,795	73,498	78,390	84,985
Total Revenues	212,294	299,584	328,553	306,253	329,342	366,703
Total Expenses	126,783	172,767	188,918	199,039	216,004	235,744
Provision/Credit allowance charge	8,482	13,266	25,992	15,784	13,652	23,276
Profit Before Tax	77,030	113,551	113,643	91,430	99,687	107,683
Net Profit	34,398	57,757	57,138	46,629	50,840	54,918

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Advances	1,782,498	1,861,345	2,412,469	2,780,808	3,230,988	3,633,154
Investments	1,948,801	2,562,299	2,772,682	3,017,008	3,337,523	3,627,195
Total Assets	4,638,806	5,534,348	6,387,706	7,146,587	8,098,394	8,961,549
Deposits	3,469,342	4,142,352	4,959,552	5,567,404	6,356,500	7,085,924
Borrowings	583,771	665,043	545,358	567,501	590,544	614,523
Total Liabilities	4,353,784	5,168,328	5,929,890	6,677,114	7,603,064	8,444,378
Total Equity	285,022	366,021	457,815	469,473	495,330	517,171

Source: PSX & AKD Research

Engro Corporation Ltd.

Upfolding more chapters for growth

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
387.9	536.6	208,152.0	1.34	472.5

Enhanced prospects for ENGRO's fertilizer business and strategic diversification through acquisitions underpin our optimistic view. Increased profitability on expected better offtakes, and the recent Jazz tower business acquisition position ENGRO for sustained growth.

Fertilizer business to rebound: EFERT's profitability is forecasted to surge by 31.4% YoY in CY25E to PkR35bn from PkR26bn in CY24, driven by 1) increased offtakes post-plant turnaround, 2) improving gross margins due to the absence of negative-margin imported urea sales, and 3) higher DAP offtakes amid declining prices. Company's market share is projected to recover to 35% in CY25E, supported by enhanced production and inventory carryover of 313k tons. Moreover, turnaround of FFC & FFBL plants expected in CY25E would help regain the market share. Additionally, a 90%+ payout is anticipated, owing to strong cash flow generation and reliance on debt for PEF project. Further, upside potential lies in gas price unification, enabling EFERT to adjust prices, which could elevate its valuation contribution by PkR71/sh.

Unlocking synergies with Jazz tower acquisition: ENGRO's acquisition of Deodar Pvt. Ltd. (Jazz tower business) at US$563mn (PkR156bn) heralds transformative growth. The business is expected to turn profitable by CY25E, with EPS contributions of PkR15/sh and PkR20.5/sh in CY25E and CY26E, respectively, driven by operational efficiencies and economies of scale. With the tower network expansion from 4,063 to ~15k towers post-merger expected to yield significant cost savings. Notably, company's per-tower acquisition cost at PkR15mn (vs. new tower costs of PkR17–20mn). Overall, this acquisition is expected to post visible gains, contributing 26–30% of ENGRO's profitability in the coming years and 23% to company's valuation.

Chemical & food business to recover: EPCL (56% stake) is expected to recover, albeit slowly, by CY26E, driven by an improvement in core margins to ~US$400/ton, along with stronger demand from the PVC and alkali businesses. Additionally, the commencement of HPO and HTDC and the reduction in financing costs are expected to support this recovery. Consequently, EPCL's loss contribution is expected to decline to PkR4.5/sh in CY25E from PkR7.2/sh in CY24E. To recall, EPCL has been posting losses over the last three quarters due to shrinking Ethylene-PVC core delta margins and higher gas prices.

On the food side, FCEPL (40% stake) is expected to continue its growth, driven by increased demand in both the milk and frozen dessert segments. Despite the 18% GST on packaged milk, the company is expected to contribute PkR5.0/sh and PkR7.0/sh to ENGRO's profitability in CY25E and CY26E, respectively, compared to PkR2.8/sh in CY23. This improved profitability is expected to result from ongoing operational efficiencies, with gross margins expected to improve by 1ppt YoY to 17% in CY24E.

Energy transactions to be concluded next year: ENGRO has signed a share sale agreement for the sale of its energy businesses—EPTL, EPQL, and SECMC—at transaction values of PkR21.4bn, PkR7.5bn, and PkR6.2bn, respectively. The transaction is expected to be completed in 1HCY25, which will help boost the financial position, particularly after the Jazz tower business acquisition for PkR156bn (PkR104bn in debt and PkR52bn in cash payment).

Investment Perspective: We have a 'BUY' stance on ENGRO as profitability growth from the existing business, coupled with the expansion into the tower business and exit from the energy sector, is expected to enhance future prospects. Our Dec'25 target price for the scrip is PkR675/sh, offering a potential upside of 74% and CY25E dividend yield of 8.8%. Additionally, with ENGRO set to vest into Engro Holdings Ltd. (EHL) under the approved scheme of arrangement with its parent company, DAWH, the adjusted price based on the new share count is estimated at PkR173/sh, with our Dec'25 target price for EHL calculating to PkR301/sh.

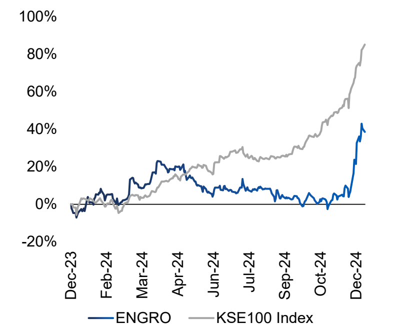
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
675.0	**387.89**
T. UPSIDE/DOWNSIDE	DIV. YIELD
83%	**8.8%**

ENGRO: Price Performance

	1M	6M	CYTD
Absolute (%)	21.0	16.0	2.9
Rel. Index (%)	10.3	-22.4	-49.4
Absolute (PkR)	67.5	53.4	11.0

ENGRO vs. KSE-100 Index



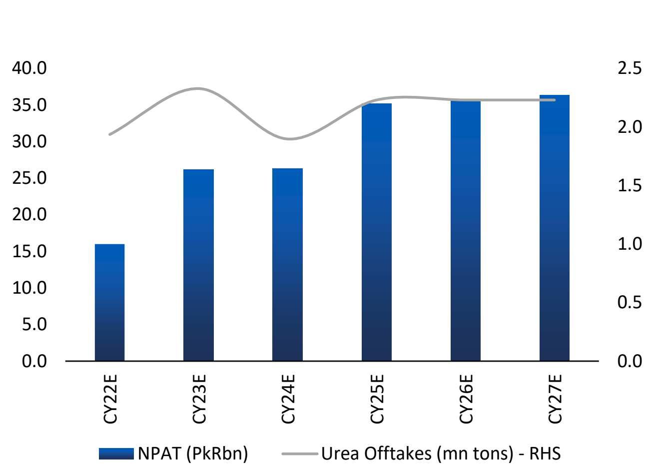
Source: PSX & AKD Research

Acquisition of Jazz towers to redefine growth

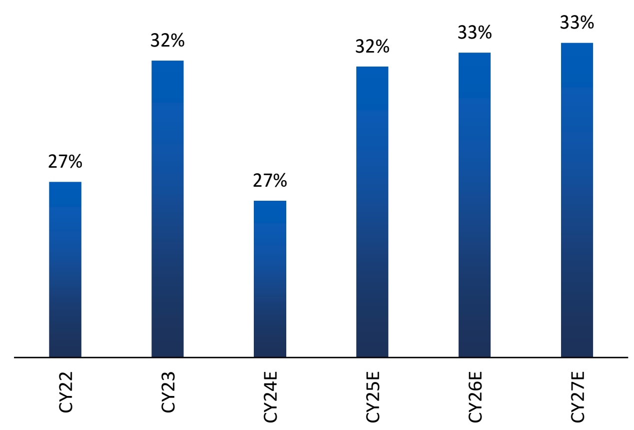
ENGRO sum of the part valuation (Dec'25 TP)

	Valuation Method	Valuation (PkRmn)	Shares held (%)	Portfolio Discount (%)	ENGRO share (PkRmn)	TP Cont (PkR/sh)	% cont in TP
EFERT	DCF	323,142	56%	20%	145,285	271	40%
Engro Connect	DCF	108,853	100%	25%	81,640	152	23%
FCEPL	Marked value	58,806	40%	25%	17,611	33	5%
Elengy Terminal	DDM	47,969	56%	25%	20,147	38	6%
EPCL	DCF	27,268	56%	25%	11,473	21	3%
Engro Vopak	DDM	19,581	50%	25%	7,343	14	2%
Engro Eximp	Book Value	7,527	100%	25%	5,645	11	2%
Engro Eximp FZE	Book Value	1,973	100%	25%	1,479	3	0%
Engro Infinit	Book Value	1,117	100%	25%	838	2	0%
Others	Book Value			0%	5	0	0%
EPTL	Transaction value	42,715	0.501	0%	21,400	40	6%
EPQL	Transaction value	10,901	69%	0%	7,500	14	2%
SECMC	Transaction value	52,185	12%	0%	6,210	12	2%
Cash & ST investment				0%	35,634	66	10%
Dec'25 TP						**675**	

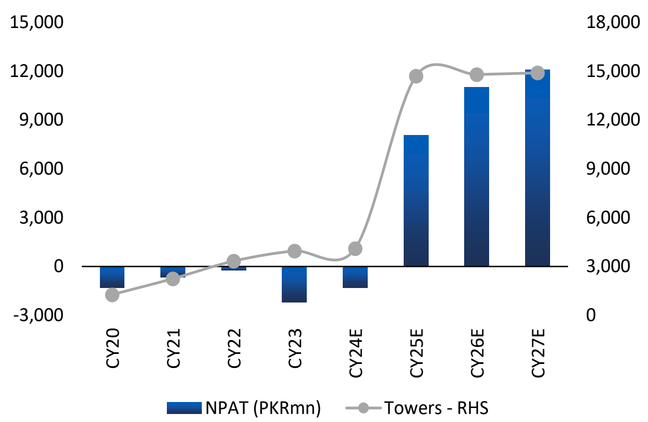
EFERT's profitability to improve with offtakes increase



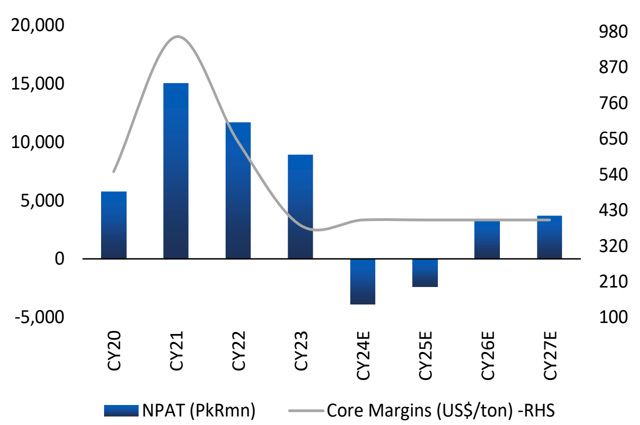
...along with gross margins recovery



Tower business to turn profitable with Jazz tower acquisition



Though chemical business to remain suppressed



Source: PSX, Bloomberg & AKD Research

ENGRO - Annual Financial Data Bank

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	45.3	39.2	28.2	57.4	69.8	73.4
DPS	34.0	48.0	27.0	34.0	42.0	44.0
BV	297.3	270.6	269.0	219.3	238.7	245.9
PE	6.1	7.4	13.7	6.8	5.6	5.3
Dividend Yield	12.2%	16.5%	7.0%	8.8%	10.8%	11.3%
P/BV	0.93	1.07	1.44	1.77	1.63	1.58
Earnings Growth	19%	-14%	-28%	104%	21%	5%
ROE	15%	14%	10%	26%	29%	30%
Gross Margin	29%	32%	24%	31%	33%	33%
Net Margin	7%	4%	4%	7%	8%	8%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Sales	356,428	482,489	355,177	440,965	462,487	483,521
Gross Profit	104,619	155,636	83,771	138,225	150,517	157,369
EBITDA	109,949	170,269	89,648	143,289	155,499	163,086
Profit Before Tax	68,201	77,164	45,857	79,866	92,790	97,357
Net Profit	24,332	21,020	15,143	30,820	37,428	39,407

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Current Assets	307,254	349,681	217,011	213,757	209,728	223,394
Long Term Assets	442,161	452,816	299,360	474,798	487,486	500,872
Total Assets	749,416	802,496	792,927	688,554	697,214	724,267
Current Liabilities	268,834	325,388	226,444	251,802	256,743	277,383
Non-Current Liabilities	239,998	253,975	132,679	309,811	327,207	336,221
Total Liabilities	401,521	508,832	579,364	582,724	561,613	583,950
Total Equity	159,523	145,205	144,343	117,664	128,085	131,951

Cash Flow	CY22	CY23	CY24E	CY25E	CY26E	CY27E
CF from Operations	63,392	48,605	76,720	106,963	116,995	110,329
CF from Investing	(7,323)	35,750	(88,882)	5,255	27,864	(181,115)
CF from Financing	(31,774)	(44,877)	(54,759)	(93,699)	(154,614)	17,675
Net Change in Cash	24,295	39,479	(66,921)	18,519	(9,755)	(53,110)
Cash & Cash Equivalents	51,426	91,663	26,596	46,710	57,341	4,231

Source: PSX & AKD Research

Indus Motor Company Ltd.

First mover advantage in hybrid segment to bode well

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
2,245.4	78.6	176,485.3	0.003	6.9

Indus Motors (INDU) is popular in Pakistan due to its strong reputation for producing reliable and durable vehicles that cater to local preferences. The company's commitment to high-quality manufacturing, coupled with excellent after-sales service, has earned it a loyal customer base. Its well-established presence with models like the Toyota Corolla appeals to a wide range of consumers, offering affordability and performance.

Prospect seem to be aligning: Recent stability in the domestic currency has provided a reliable foundation for cost management (in contrast to previous year), while stable car prices (and declining inflation) seemed to have reverted company's demand, with sales up 67%YoY in 5MFY25. With regards to cost pressure, relative stability in CRC/HRC prices and overall easing in import restrictions have helped company stay competitive in terms of overall pricing strategy. These combined factors create a favorable environment for the company to optimize its operations and achieve improved margins in the near future. Moreover, INDU has a strong presence in rural areas, where it is highly favored. As a result, the rising income of farmers is expected to drive an increase in sales for INDU.

Alleviating economic headwinds to bode well: Steadily declining inflation, expectation of relative currency stability and macro indicator pointing to a favorable outlook (FY25E GDP Growth: 2.65%YoY). We anticipate healthy demand recovery for the sector overall. Volume recovery remains intact as well as country continues to have below regional average car ownership (20 motor vehicle per 1,000 individuals whereas the regional average being 116), disposable income down the line may lead to convergence on this end as well. Additionally, margin improvement due to absence of FX losses and, healthy pricing power may stand to benefit the bottom-line as well.

Launch of Yaris facelift and promising demand for the Corolla Cross: Indus Motors has launched the Yaris facelift, showcasing a range of six variants. Among these, they've unveiled the latest addition: the ATIV X CVT 1.5 Black Int, which stands as the pinnacle of the lineup priced at PkR6.3mn. This pricing strategy for the Yaris Facelift aims to gain ground in the market against rivals like the Honda City Aspire 1.5L by offering additional features and charging a premium, they seek to attract consumers looking for enhanced value, despite the higher price tag. This strategic move is geared towards increasing market share and boosting sales in a competitive auto sector landscape. Strong sales of Corolla Cross since its launch have left a distinct mark on the INDUs market footprint for HEVs, showcasing its growth. INDU sold over 5,600 units for the Cross to date, showcasing market warmly embraced and welcomed the new model. With the increasing adaptability of the HEV/EV models in Pakistan, we see Corolla Cross being one of the leaders in HEV/EV segment.

Resilience to currency fluctuations: With company's plan to continuously increase localization of parts and components of vehicles, its exposure to potential currency devaluation would be minimized. In line with this, the board has approved a further investment of PkR1.1bn for additional localization of parts and components, thereby taking total investment in project for additional localization to PkR4.1bn.

Unmatched reach and expertise: Company boasts an extensive nationwide dealership network, consisting of 50 independent dealers and 3S dealers, ensuring that vehicles and spare parts are easily accessible. Additionally, the expertise of local workshops has fostered consumer preference for Toyota cars over new entrants.

INDU – Dec'25 TP of PkR3,350/sh: Our preferred player in the sector remains INDU with Dec'25 target price of PkR3,350/sh, providing an upside of 49.2% from the last close along with the DY of 5.3%. We expect revenue in FY25 to increase by 16%YoY to PkR177bn.

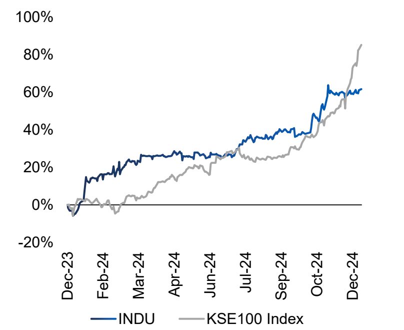
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
3,350	**2,245.4**
T. UPSIDE/DOWNSIDE	DIV. YIELD
54.2%	**5.3%**

INDU: Price Performance

	1M	6M	CYTD
Absolute (%)	11.7	40.5	41.1
Rel. Index (%)	0.9	2.1	-11.3
Absolute (PkR)	234.6	647.8	654.0

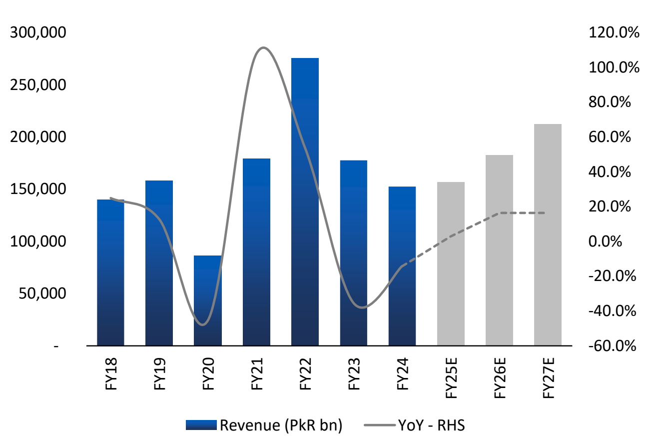
INDU vs. KSE-100 Index



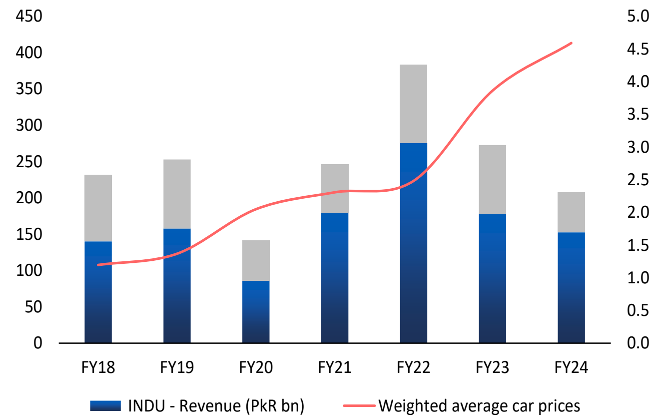
Source: PSX & AKD Research

Increased localization to shield against currency volatility

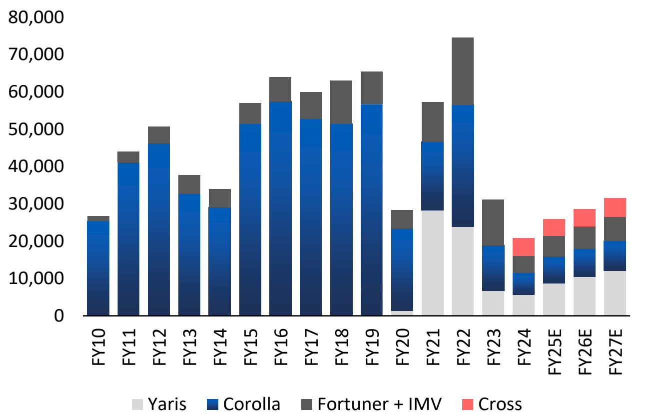
Revenue surge driven by the inclusion of Corolla Cross



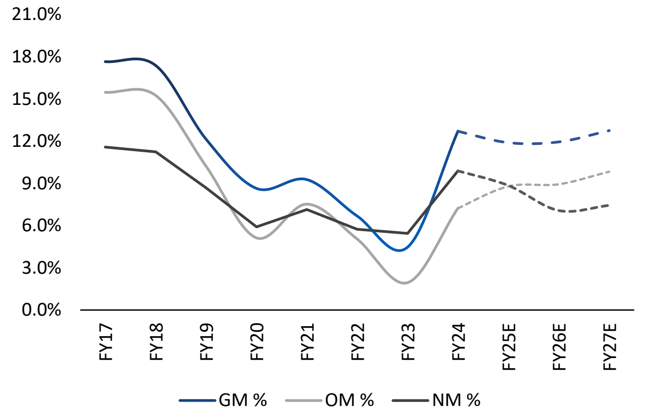
Stable revenue due to higher prices, despite lower volumes



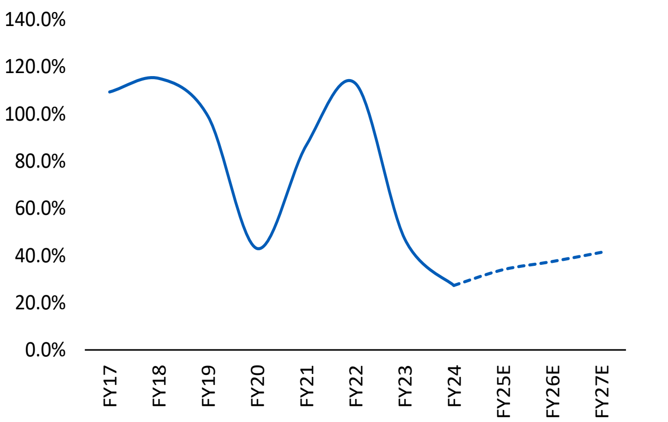
Corolla Cross to lead growth



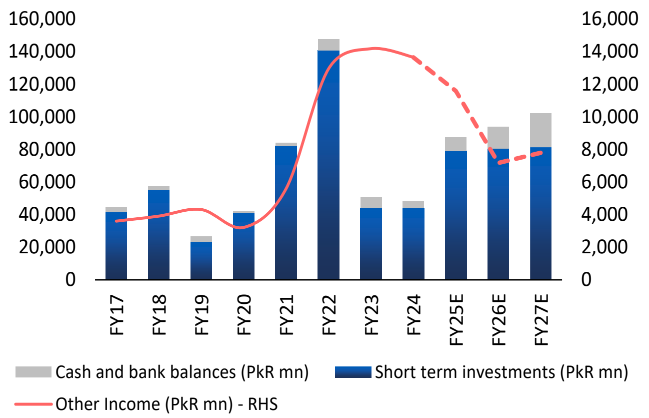
Margins on the rise amid stable currency



Plenty of room to meet growing demand (Capacity utilization)



Strong balance sheet to provide a buffer amid lower volumes



Source: PAMA, PSX & AKD Research

INDU - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	201.0	123.0	191.8	199.6	185.8	228.0
DPS	93.8	71.8	114.7	120.0	112.0	136.0
BV	687.2	764.2	841.3	920.9	994.7	1086.7
PE	6.3	7.8	6.6	11.2	12.1	9.8
Dividend Yield	7.4%	7.5%	9.0%	5.3%	5.0%	6.1%
P/BV	0.5	0.3	0.7	0.6	0.6	0.5
Earnings Growth	23.43%	-38.84%	55.96%	4.08%	-6.92%	22.74%
ROE	29.26%	16.09%	22.79%	21.67%	18.68%	20.98%
Gross Margin	6.68%	4.46%	12.71%	11.89%	11.94%	12.75%
Net Margin	5.74%	5.44%	9.88%	8.85%	7.07%	7.44%

Income Statement	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	275,506	177,711	152,481	177,248	206,549	240,986
Gross Profit	18,404	7,931	19,382	21,068	24,668	30,735
EBITDA	17,053	6,978	16,857	20,001	23,408	29,235
Profit Before Tax	25,452	16,797	23,327	25,268	23,598	29,018
Net Profit	15,802	9,664	15,072	15,688	14,602	17,922

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current Assets	190,132	98,180	85,131	95,086	104,842	116,682
Long Term Assets	23,834	24,584	24,323	26,150	28,197	30,489
Total Assets	213,966	122,764	109,454	121,236	133,039	147,171
Current Liabilities	159,674	62,141	42,814	48,380	54,424	61,364
Non-Current Liabilities	281	554	514	474	434	394
Total Liabilities	159,955	62,694	43,328	48,854	54,858	61,757
Total Equity	54,011	60,070	66,127	72,383	78,181	85,413

Cash Flow	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	81,990	-89,403	12,250	22,309	21,618	25,734
CF from Investing	-66,697	92,491	-5,577	-6,248	-6,997	-7,836
CF from Financing	-10,539	-3,619	-9,055	-9,472	-8,843	-10,730
Net Change in Cash	4,754	-531	-2,382	6,589	5,778	7,168
Cash & Cash Equivalents	6,794	6,263	3,881	10,470	16,248	23,416

Source: PSX & AKD Research

System Ltd.

Empowering growth in a world of rising IT investments

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
552.8	291.8	161,286.9	0.40	201.2

AKD SECURITIES LIMITED

AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
879	**552.8**
T. UPSIDE/DOWNSIDE	DIV. YIELD
60.6%	**1.6%**

AKD Stance

	1M	6M	CYTD
Absolute (%)	0.3	26.3	35.1
Rel. Index (%)	-10.5	-12.2	-17.3
Absolute (PkR)	1.8	115.0	143.5

SYS has witnessed an impressive growth in topline over the years, with a 5-year CAGR of 63% for revenue. Moving forward, we anticipate the same to continue, with revenue expected to grow 29%YoY in CY25. However, the company witnessed a dip in margins during the past few years amid efforts to expand their presence into other regions. Consequently, these efforts boded well, as reflected by the growth in topline. We believe that the company has made substantial investments and changes in workforce mix which resulted in decline in margins. However, the company is poised to consolidate investments in these regions and gross margins are anticipated to recover, as witnessed in 3QCY24, where GM clocked in at 25.3% compared to 22% in 2QCY24.

The local market has been the most volatile region for the company where revenue growth is stagnant and gross margins are depressed. However, many old loss making contracts are on the verge of expiry, which will provide relief.

Expanding across varied regions to foster growth: Historically, the North American region has been the largest contributor to revenue, accounting for an average of 34% from 2018 to 2023. The MENA region followed as the second highest contributor, with an average of 37%. However, System Ltd. expanded into new markets, resulting in shifts in its revenue mix. Consequently, North America's contribution declined, while the newly entered European market began to capture some market share. Additionally, the MENA region has experienced robust revenue growth over the past three years, raising its contribution to 55% in CY23. As the company expanded its operations in 2023, it entered the Asia-Pacific region.

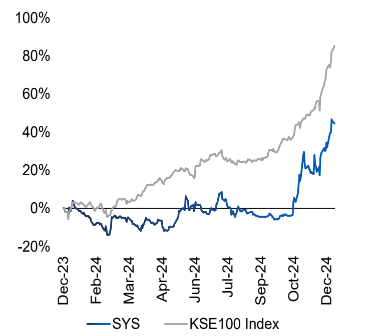
Growth to stem from MENA region... SYS is poised to make the most of the growing IT boom in the MENA region, particularly in Saudi Arabia, where IT spending is on a spiral. This growth is steered by major upcoming developments and events under Saudi Vision 2030, including the NEOM City project, the Riyadh Expo in 2030, and the hosting of the FIFA World Cup in 2034. SYS's strong presence in the region positions it well to capitalize on these opportunities.

...followed by improving margins: The company has allocated significant resources and adjusted its workforce composition to drive growth in newer markets, increasing its presence in key regions, which led to lower margins. However, the company is now well-positioned to focus on consolidating its investments in these regions rather than pursuing further expansion. Additionally, the company plans to no longer pursue small-mid size implementations in Pakistan and will instead focus on renegotiating existing contracts for better rates, along with contracts with lower/negative margins near expiration.

Government initiatives to sort supply chain issues : Pakistan is positioning itself as a competitive player in the global digital economy. The Pakistan Telecommunication Authority (PTA) is also facilitating the deployment of Optical Fiber Cables (OFC) by addressing critical challenges like Right-of-way disputes and infrastructure security, paving the way for improved broadband penetration. These efforts collectively aim to create a more vibrant IT landscape, ultimately contributing to an increase in GDP and greater employment opportunities across the country. A significant focus is placed on Human Resource and Skill Development, with PSEB successfully placing 800 interns in ICT companies from Jul-Apr'24, contributing to a total of 2,700 interns over the past two years. This initiative aims to develop a skilled talent pool that meets the needs of the growing industry.

SYS – Dec'25 TP of PkR879/sh: Our preferred player in the sector remains SYS with Dec'25 target price of PkR879/sh, providing an upside of 59% from the last close providing DY of 1.6%. We expect revenue in CY25 to increase by 29%YoY to PkR86.3bn.

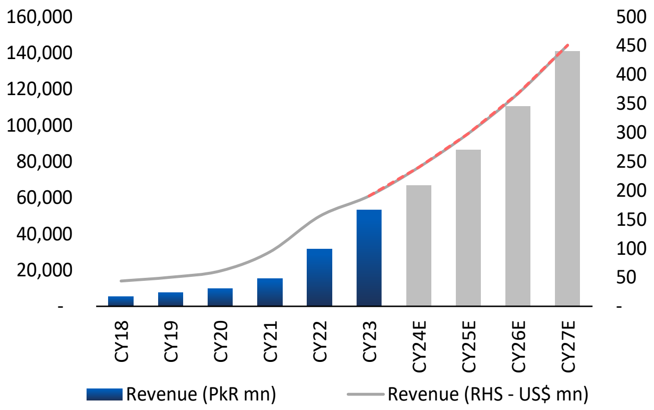
KSE-100 index performance over the years



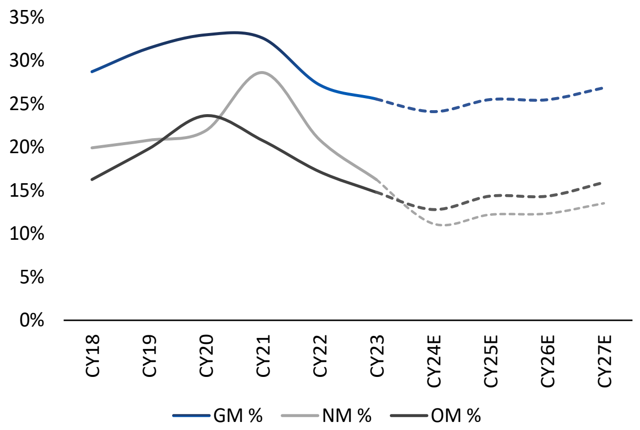
Source: PSX & AKD Research

systems MENA region at the forefront of growth

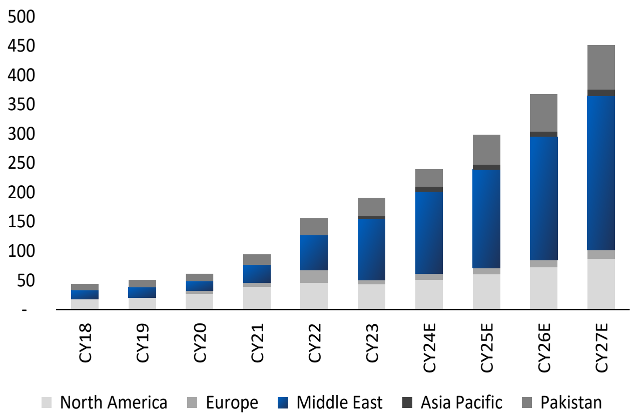
Global expansion drives a surge in revenue



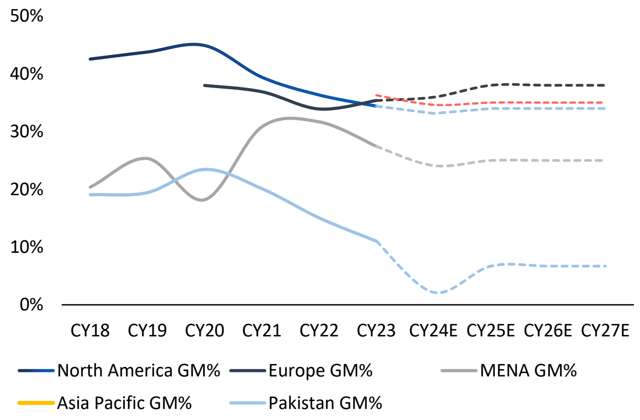
Consolidation paves the way for margin improvement



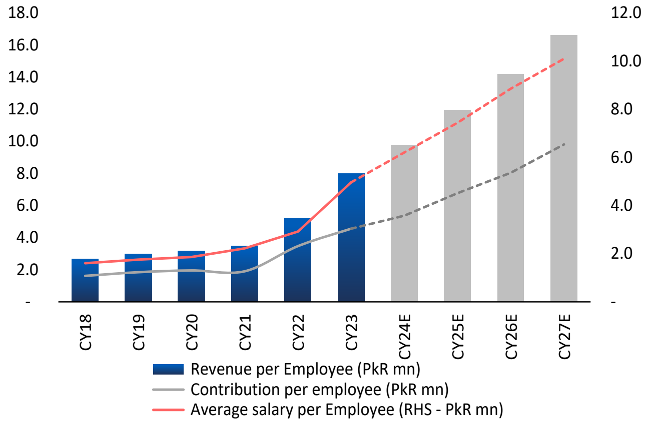
MENA region poised to spearhead revenue growth.



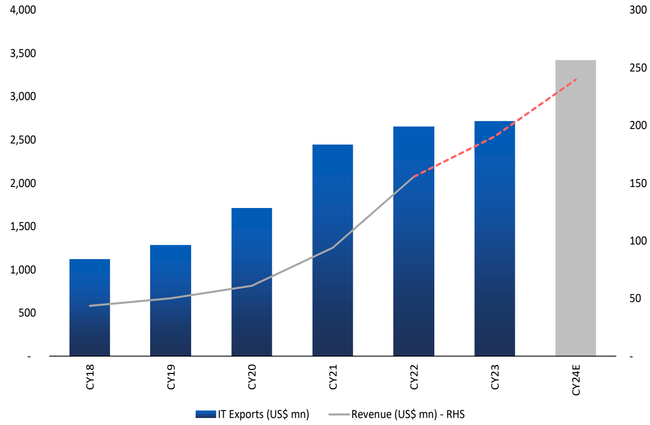
Expiring contracts set to boost local margins



Contribution growth to surpass rising salary cost



Surge in exports poised to drive revenue growth



Source: SBP, PSX & AKD Research

SYS - Annual Financial Data Bank

(Valuation Multiples)	CY22	CY23	CY24E	CY25E	CY26E	CY27E
EPS	22.8	29.8	25.6	36.2	46.8	65.5
DPS	5.0	6.0	6.5	9.0	11.8	16.3
BV	78.7	111.0	125.1	152.3	187.3	236.6
PE	16.2	14.9	21.6	15.3	11.8	8.5
Dividend Yield	1.4%	1.4%	1.1%	1.6%	2.1%	2.9%
P/BV	4.7	4.0	4.4	3.6	3.0	2.3
Earnings Growth	51.4%	31.1%	-14.2%	41.5%	29.2%	40.0%
ROE	28.9%	26.9%	20.4%	23.8%	25.0%	27.7%
Gross Margin	27.2%	25.6%	24.1%	25.5%	25.5%	26.9%
Net Margin	20.9%	16.3%	11.2%	12.2%	12.3%	13.5%

Income Statement	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Sales	31,760	53,435	66,761	86,334	110,488	141,046
Gross Profit	8,636	13,657	16,094	22,022	28,158	37,903
EBITDA	6,148	9,591	10,346	14,181	17,825	24,685
Profit Before Tax	6,981	9,280	8,349	12,356	15,998	22,703
Net Profit	6,630	8,689	7,452	10,544	13,627	19,071

Balance Sheet	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Current Assets	24,275	33,515	36,937	47,945	61,421	79,546
Long Term Assets	14,051	17,150	16,198	17,203	18,411	19,915
Total Assets	38,326	50,666	53,136	65,148	79,832	99,461
Current Liabilities	13,403	15,369	14,420	18,480	22,929	28,188
Non-Current Liabilities	1,995	2,966	2,272	2,302	2,333	2,365
Total Liabilities	15,397	18,335	16,693	20,782	25,262	30,553
Total Equity	22,928	32,332	36,443	44,366	54,570	68,908

Cash Flow	CY22	CY23	CY24E	CY25E	CY26E	CY27E
CF from Operations	6,866	3,339	2,820	10,642	10,533	14,521
CF from Investing	-10,264	-1,955	-2,033	-3,499	-4,070	-4,831
CF from Financing	6,233	784	-4,357	-2,579	-3,379	-4,687
Net Change in Cash	2,836	2,168	-3,570	4,564	3,084	5,003
Cash & Cash Equivalents	5,814	7,983	4,413	8,977	12,061	17,064

Source: PSX & AKD Research

Pakistan State Oil Company Ltd

RLNG Conundrum effectively tamed, all-set for the macro upswing

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
380.7	469.5	178,723.8	5.8	1,536.0

Tariff led gas-price hikes, which effectively included cost of RLNG diversion into the revenue requirements of the Sui companies has been a long-overdue blessing for PSO. This has led to company's receivable collection ratios markedly improving, with RLNG-based collection rates averaging at 101% during FY24 (vs. 85% between FY19-23). To note, revenue requirement calculations include costs of both indigenous gas and the RLNG segment, alongside stipulated UFG disallowances and WACC based returns for the gas distribution companies. With consumer gas prices now closely aligned with the revenue requirements (excluding previous year shortfalls), woes regarding escalating buildup of gas-based circular debt are to have diminished. We effectively assume over 95% collection rates between FY25-27, after which we assume some cut down of past circular debt receivable stock to be in the offing, led by diligent gas-tariff increases (although not so dramatic as in the past), which effectively has a hefty impact on our forward valuations.

Margin hikes key for core operations: The current ratio of regulated margins to product prices stand at 3.0%, above long term averages of 2.4-2.5%. However, despite four major upward revisions allowed by authorities since CY22, average regulated margins still fall short of the industry's demanded threshold of 4-8% of fuel prices. With the POL segment mostly cash based, we believe higher sustainable margins may be necessary to shield the company from volatile inventory prices to ensure prolonged sustenance. Looking ahead, following ECC's directives in 2020 to revise margins in-line with average annual inflation, we conservatively assume 7.0% accretion annually, which results in projected GP margins averaging at 3.4% between FY25-29F (compared to 2.7% in FY24).

Ever-growing retail presence: With a more pronounced recovery in country's economic activity forward FY25, we expect PSO's OMC sale penetration to remain strong amidst company's far-reaching retail network. To note, company's market share ended FY24 at 49%, up from 45% between FY15-23. However, company's dominance has more temporally been thwarted by several up and coming OMCs, where-in retail slice of the pie shrunk by ~4% to end 5MFY24 at 46.2% (vs. 50.4% in SPLY). We believe this to be a temporary phase, primarily due to strong retail footprint (3,528 outlets, 37% of country's total) and relative coverage from exchange losses, amidst a testing outgoing several years for smaller players in the segment.

Upgradation of Refinery subsidiary to be fruitful: PRL (PSO subsidiary: 63.6% stake) entered into MoU agreements with OGDC and United Energy Group (UEG) of China during late CY23, with regards to brownfield refinery upgradation plans, the subsidiary is poised to benefit from the duty protections offered in the recently introduced Brownfield policy. Moreover, post-upgradation, PRL may begin producing high margin products (MS/HSD/HOBC) locally, enabling increased PSO's procurement from the refinery (current procurement: 4-5%). This may essentially reduce dependence on imported supplies and contribute to price/margin stability in the longer run. To note, the state-owned refinery has long suffered from weak refining dynamics due to low utilization levels (60-70%), negative spreads on RFO (present: –ve $US26/bbl), and penalties for noncompliance with Euro-II standards. Overall, we anticipate the project's financing to be a mix of debt-equity, and may possibly include engaging the recently signed MoU partners.

Buy with a TP of PkR729/sh: PSO stands as our top pick from the sector, with a Dec'25 target price of PkR729/sh on the stock, offering upside potential of 91% over the last close. In addition to this, the stock provides an FY25/26 dividend yield of 5%/8%.

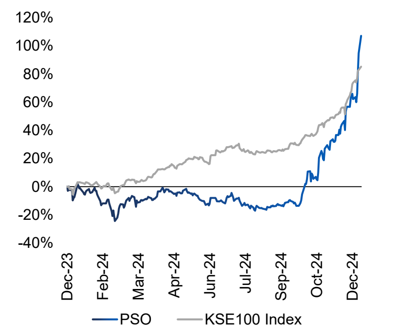
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
729.0	**380.7**
T. UPSIDE/DOWNSIDE	DIV. YIELD
96.7%	**5.3%**

PSO: Price Performance

	1M	6M	CYTD
Absolute (%)	45.2	121.8	119.1
Rel. Index (%)	34.4	83.3	66.7
Absolute (PkR)	118.5	209.0	206.9

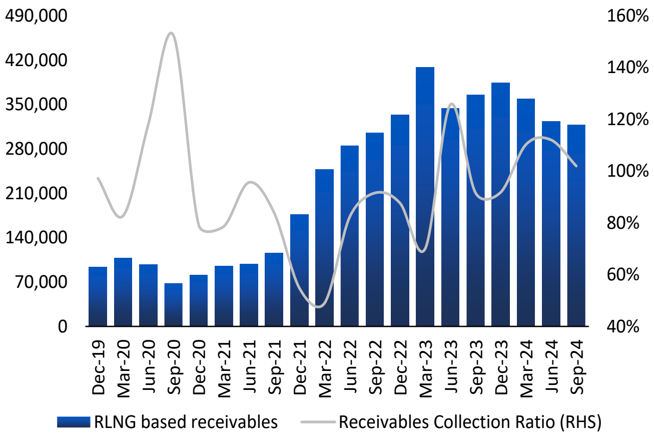
PSO vs. KSE-100 Index



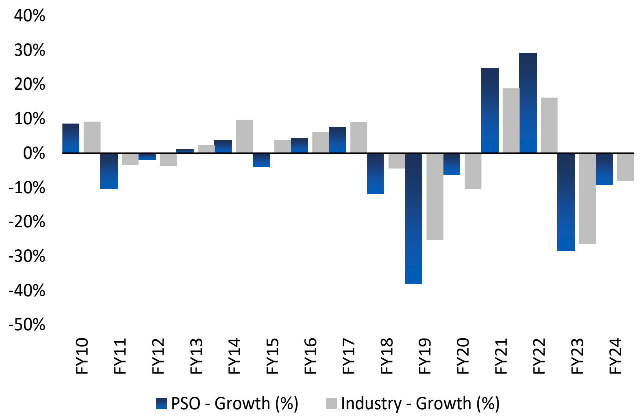
Source: PSX & AKD Research

Improving cash flows to increase payout

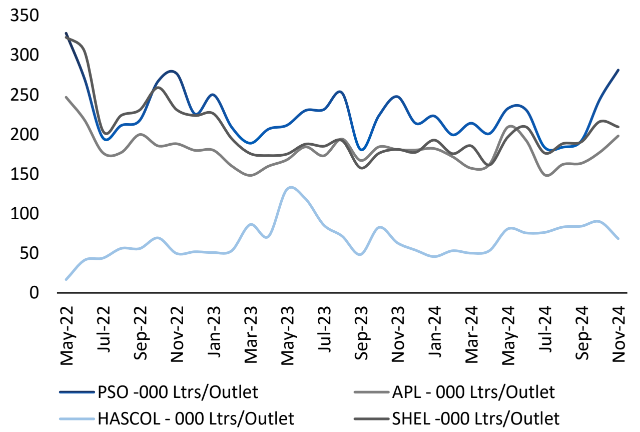
Receivables collection ratios have improved markedly



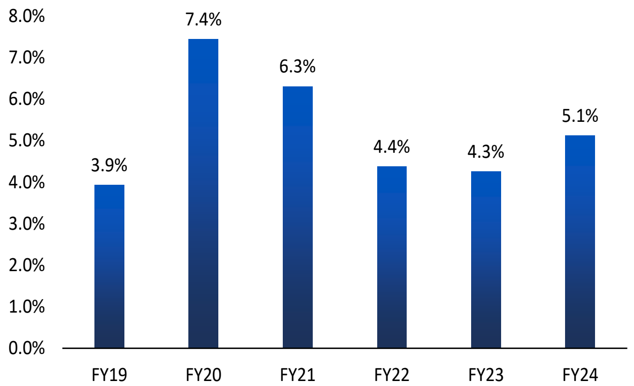
PSO vs. Industry's volumetric growth (YoY%)



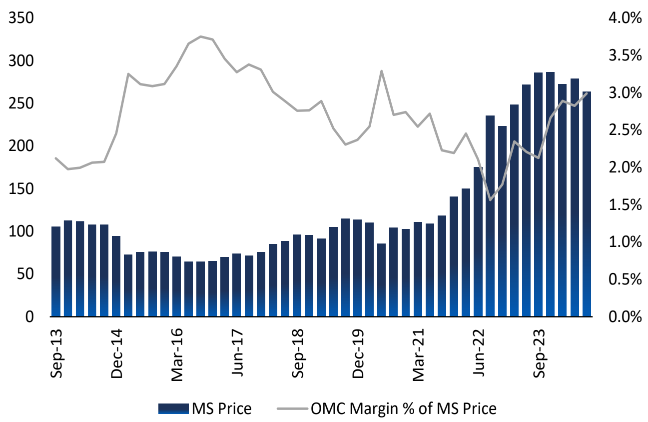
State-owned giant leads in the sales/outlet race



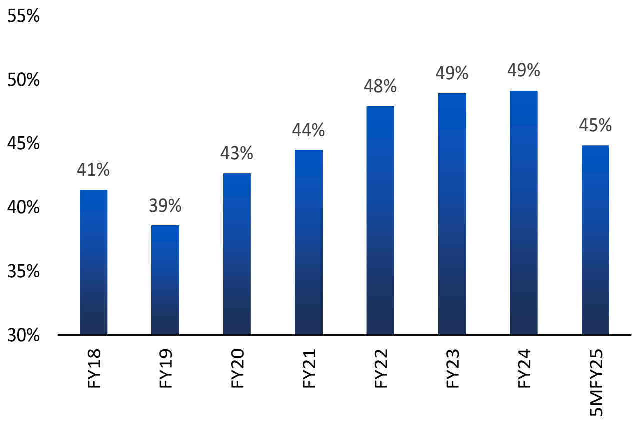
Procurement from PRL over the years



OMC margin % of fuel prices has grown steadily



Retail market share has dropped recently amidst influx of new entrants



Source: OCAC, OGRA & AKD Research

PSO - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	183.7	12.1	33.8	42.4	59.8	78.7
DPS	10.0	7.5	10.0	20.0	30.0	40.0
BV	459	461	493	534	571	617
PE	1.0	11.7	11.3	9.0	6.4	4.8
Dividend Yield	5.4%	5.3%	2.6%	5.3%	7.9%	10.5%
P/BV	0.41	0.30	0.77	0.71	0.67	0.62
Earnings Growth	196%	-93%	180%	26%	41%	32%
ROE	40%	3%	7%	8%	10%	13%
Gross Margin	6.6%	2.2%	2.7%	3.3%	3.4%	3.6%
Net Margin	3.5%	0.2%	0.4%	0.7%	0.9%	1.1%

Income Statement	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	2,697,061	3,605,464	3,806,811	3,219,923	3,595,881	4,059,852
Gross Profit	160,995	74,847	97,291	96,552	106,715	122,497
EBITDA	149,472	26,384	43,784	46,950	61,813	76,839
Profit Before Tax	147,855	24,366	41,417	45,991	60,690	75,524
Net Profit	86,223	5,662	15,863	19,926	28,076	36,955

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current Assets	845,830	923,349	906,322	803,665	872,170	866,651
Long Term Assets	53,624	60,047	68,126	73,440	80,111	87,649
Total Assets	899,454	983,396	974,448	877,105	952,281	954,300
Current Liabilities	667,258	748,345	725,139	607,026	663,923	643,447
Non-Current Liabilities	16,548	18,491	18,001	19,588	20,355	21,152
Total Liabilities	683,805	766,836	743,139	626,614	684,277	664,599
Total Equity	215,649	216,560	231,309	250,491	268,004	289,701

Cash Flow	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	-79,013	-243,444	11,538	69,866	-17,595	43,721
CF from Investing	-795	-4,087	-10,625	-8,014	-6,922	-7,942
CF from Financing	90,826	262,566	-19,141	-58,054	27,890	-34,736
Net Change in Cash	11,018	15,035	-18,229	3,799	3,373	1,042
Cash & Cash Equivalents	13,919	28,954	10,725	14,524	17,898	18,940

Source: PSX & AKD Research

Interloop Ltd.

Growth to overcome short-term challenges

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
68.9	1,401.7	96,549.7	1.5	105.6

Interloop Ltd. (ILP) is poised for robust growth, supported by its competitive product portfolio, favorable macros, and expanding operations. Despite near-term challenges of gross margin contraction and higher taxation, we expect the company to sustain its growth trajectory, outpacing peers.

Sales growth to outpace sector peers: We expect ILP to continue robust sales growth at a 5-year dollarized CAGR of 14%, driven by 1) on-going expansion in the hosiery and denim segments, 2) optimization of apparel plant to start boring result with increasing utilization rate, 3) expansion/footprint into international markets, providing additional growth avenues. Over the past five years, the company has achieved a sales CAGR of 44% (25% in dollar terms), even as Pakistan's textile exports faced a slowdown. Notably, ILP's hosiery and denim sales grew by 8% and 32%, respectively, over the last two years, underscoring its resilience and strong relationships with renowned global brands.

Expansions to support growth and drive efficiency: We anticipate a notable improvement in ILP's gross margins in the coming years, driven by 1) rationalization of price revisions of export orders amid improving international prices, and 2) higher offtakes supported by continuous investments in the hosiery, denim, and apparel segments. Hosiery segment will remain a cornerstone of growth, with utilization currently at 82%. The commissioning of Plant 6 is projected to immediately boost segment revenues. In the apparel segment, profitability is expected to materialize by the end of FY26E, as the segment ramps up utilization to 100%. This optimization will drive economies of scale, enhance efficiency, and reduce waste, reversing the segment's current pre-tax loss of PkR0.8/sh to profit of PkR0.5/sh in FY26E. Additionally, denim segment is set to benefit from the commissioning of a new production line, hence we expect segment's gross margins to increase to 36% by FY26E from 6% in FY24, contributing pre-tax profit of PkR5.5/sh.

Easing cotton prices to revive margins: We expect robust recovery in ILP's gross margins, rising to 26% in FY26E and 29% in FY27E, compared to 18.6% during 1QFY25. This recovery is anticipated on the back of 1) easing cotton prices, both globally and locally, 2) improving operational efficiencies in the apparel and denim segments, and 3) reduction in energy costs through renewable power projects. We expect international cotton prices to remain below USc85/lb, significantly lower than the FY24 avg. of USc93/lb. Similarly, local cotton prices are anticipated to drop by 3% YoY to avg. at USc80.8/lb or PkR18.4k/maund. This downturn is largely due to lack of govt's support pricing this year and weakening global prices.

Declining financing rates to offset the challenges: Company's financial burden is expected to ease under the declining interest rate environment, where we projected a 7.2ppts YoY decline in avg. 6M-KIBOR rate during FY25E to 14.4%. We foresee this drop to reduce the company's finance cost-to-EBITDA ratio to 23% in FY25E and 17% in FY26E, down from 31% during FY24. Company currently has a debt-to-equity of 0.45x, reflecting its reliance on external financing due to higher working capital requirements and ongoing CAPEX plans. To highlight, a 100bps reduction in interest rates would have a positive after-tax EPS impact of PkR0.3/sh.

Investment Perspective: We believe the impact of increased taxation has been priced in, offering an attractive entry point at current levels. We maintain a 'BUY' stance on the scrip, with a Dec'25 target price of PkR104/sh, offering total upside of 55%, including FY25 DY of 3.6%.

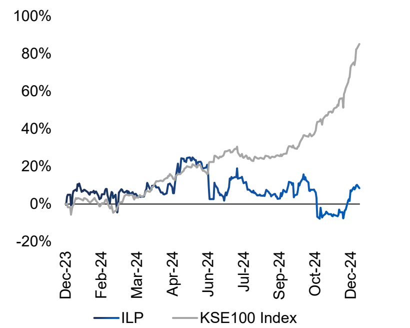
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
104.0	**68.88**
T. UPSIDE/DOWNSIDE	DIV. YIELD
55%	**3.6%**

ILP: Price Performance

	1M	6M	CYTD
Absolute (%)	9.4	-0.3	-7.0
Rel. Index (%)	-1.4	-38.8	-59.4
Absolute (PkR)	5.9	-0.2	-5.2

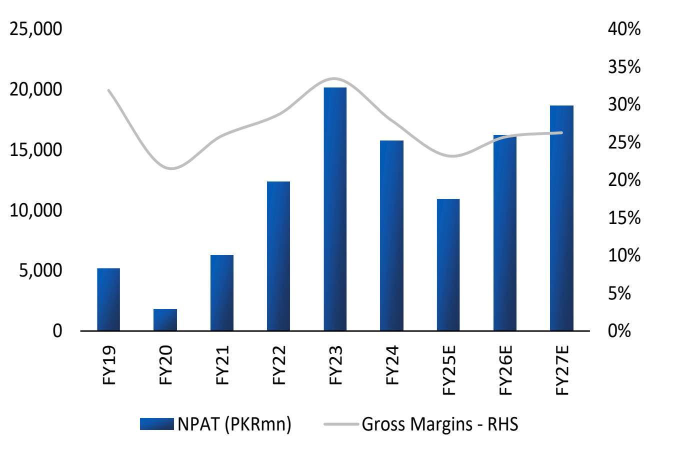
ILP vs. KSE-100 Index



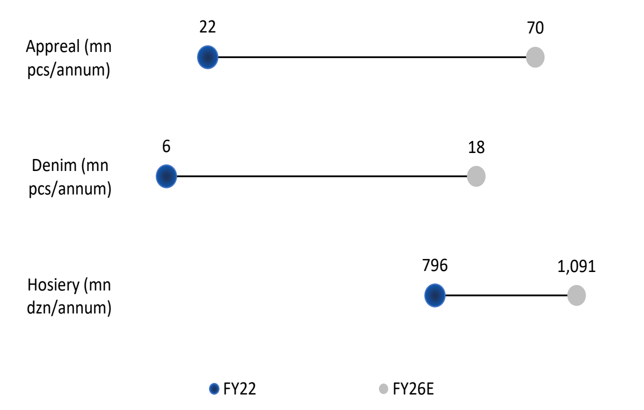
Source: PSX & AKD Research

INTERLOOP Expansion led growth to overcome challenges

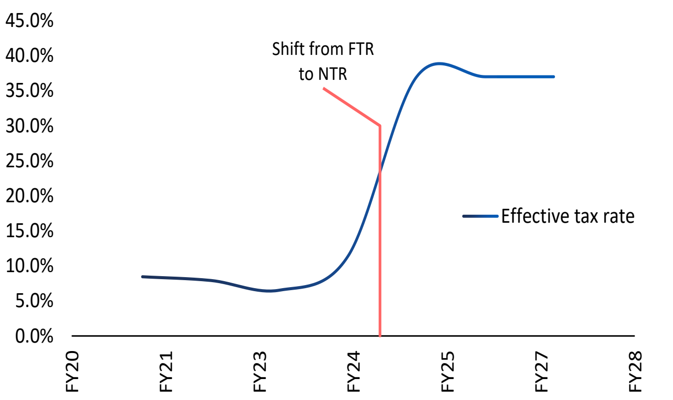
Profitability to improve along with margins recovery



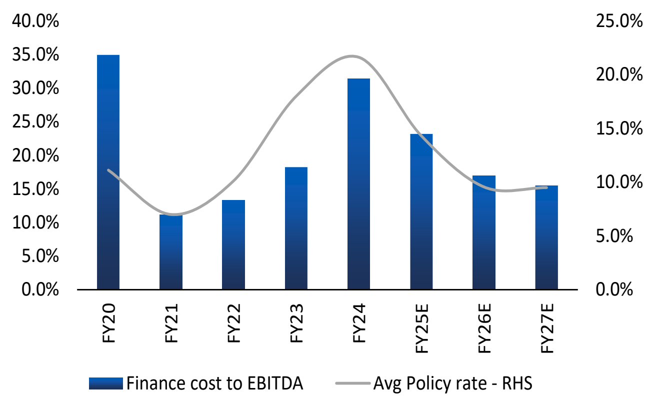
...ongoing expansions to further boost topline growth



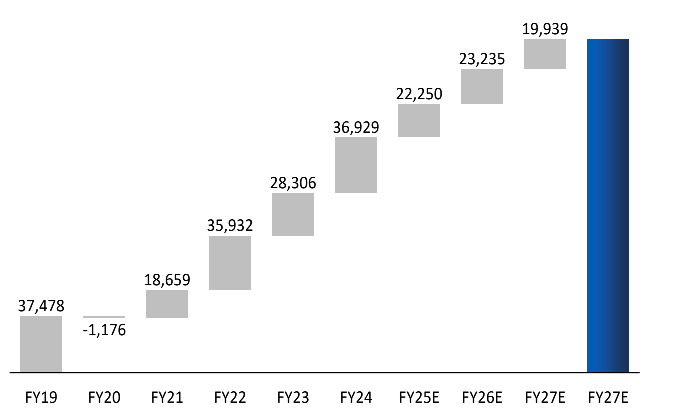
Higher taxation to take a toll given shift to NTR



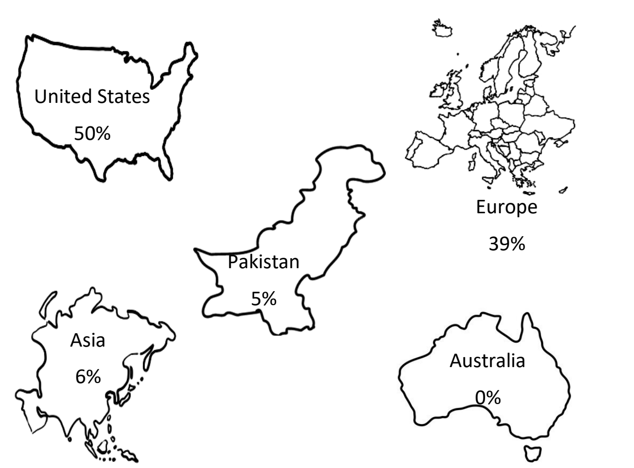
...meanwhile easing interest rates to offset the taxation impact



Revenue to increase at dollarized CAGR of 14%



With exports largely covering the developed economies



Source: SBP, PSX & AKD Research

ILP - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	13.8	14.4	11.3	7.8	11.5	13.3
DPS	2.0	5.0	4.5	2.5	4.0	4.5
BV	21.4	31.3	38.2	43.5	51.0	59.9
PE	5.2	2.5	5.5	9.5	6.4	5.6
Dividend Yield	2.8%	13.7%	7.3%	3.4%	5.4%	6.1%
P/BV	2.2	1.2	1.6	1.7	1.5	1.2
Earnings Growth	96.4%	63.2%	-21.8%	-30.7%	48.0%	15.3%
ROE	41.3%	46.0%	29.5%	17.9%	22.6%	22.2%
Gross Margin	28.7%	33.4%	27.9%	23.2%	25.7%	26.3%
Net Margin	19.1%	25.4%	14.0%	8.0%	10.8%	11.4%

Income Statement	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	90,894	119,200	156,129	178,379	201,614	221,552
Gross Profit	26,066	39,872	43,544	41,372	51,821	58,215
EBITDA	18,691	30,325	32,253	30,069	38,162	43,284
Profit Before Tax	13,423	21,584	17,807	17,361	25,693	29,635
Net Profit	12,359	20,172	15,772	10,938	16,187	18,670

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Current Assets	61,091	65,970	81,071	92,843	100,851	113,277
Long Term Assets	35,224	59,275	70,603	78,476	87,675	88,364
Total Assets	96,316	125,245	151,674	171,318	188,526	201,641
Current Liabilities	46,837	58,033	70,970	83,990	91,385	92,868
Non-Current Liabilities	19,539	23,405	27,172	26,362	25,593	24,862
Total Liabilities	66,375	81,438	98,142	110,352	116,978	117,731
Total Equity	29,940	43,806	53,532	60,966	71,547	83,911

Cash Flow	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	6,866	3,339	2,820	10,346	10,339	13,791
CF from Investing	-10,264	-1,955	-2,033	-3,295	-3,782	-4,705
CF from Financing	6,233	784	-4,357	-2,361	-3,160	-4,468
Net Change in Cash	2,836	2,168	-3,570	4,690	3,396	4,617
Cash & Cash Equivalents	5,814	7,983	4,413	9,104	12,500	17,117

Source: PSX & AKD Research

Fauji Cement Company Ltd.

In for a marathon

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover (mn)	3M Avg DT Value (PkRmn)
34.0	2,452.8	83,323.2	12.1	396.9

FCCL's double expansion during last year is set to not only enhance its market share but also unlock significant export opportunities through its DG Khan facility. Moreover, efficiency in the coal mix and investments in renewable energy should sustain strong gross margins, while declining interest rates will reduce finance cost in the medium term. These factors warrant our 'BUY' stance.

Expansion driving growth: We expect FCCL's local market share to rise to 13.5% in FY25E from 12.1% in FY24, driven by adjustments following its recent double expansion. Notably, aforementioned expansions have already increased the market share to 12.1% in FY24, up from 11% in the previous year. Consequently, we anticipate the local market share to stabilize at 13.1% once the current expansion cycle is complete. Additionally, FCCL has the highest retention prices in the grey cement segment, commanding a 5-8% premium over the industry average, due to its strong brand recognition. Furthermore, we project FCCL's exports to double, reaching ~1.0mn tons by FY29E from 0.5mn tons in FY24. This growth is expected to be driven by the opening of sea export routes with the expansion of its DG Khan plant. Overall, we project revenue growth at a 5-year CAGR of 12%.

Renewables to boost gross margins: FCCL's investment in renewable energy and an optimal fuel mix are expected to expand its gross margin to 33.0% in FY25E, up from 32.1% in FY24 and 30.0% in FY23. Last year, the company added 12.5MW of solar capacity, bringing its total solar capacity to 52.5MW. Combined with 64.5MW of waste heat recovery (WHR) capacity, renewable energy now accounts for 60% of FCCL's power needs. This efficient energy mix results in after-tax annual savings of PkR5.2bn (or PkR2.1/sh).

Additionally, the expansion of two new efficient production lines, along with an improved coal mix, will further support gross margins. The expected decrease in local coal prices, driven by a drop in Afghan coal, are expected to lower the company's average coal price to ~PkR35k/ton from ~PkR38k/ton in FY24. Furthermore, FCCL plans to increase its use of alternative fuels (chicken waste, rice husks, and tires) to 10% in FY26E from the current 5-6%, would further keep input costs in check. Moreover, company's investment in a PP-bag line, which is expected to meet 90% of its total demand, will further bolster margins. As a result, we expect gross margins to average 32.6% over our investment horizon.

Low-cost capital supporting financial strength: Despite a relatively higher debt-to-equity ratio (0.6x) compared to its peers, FCCL's finance costs remain manageable due to the significant portion of debt (33%) being subsidized (through fixed TERF & LTFF rates and interest-free parent debt). Moreover, with SBP's continued monetary easing, we expect the policy rate to decline to 9.5% by the end of CY25E, which would further reduce finance cost. Consequently, we project FCCL's finance costs to EBITDA to drop to 14% and 8% in FY25E and FY26E, respectively, from 22% in FY24. Additionally, the company generates annual free cash flow of PkR14-15bn, which covers about 50% of its KIBOR-linked debt, demonstrating a solid financial position.

Investment Perspective: We have a 'BUY' stance on the scrip due to 1) market share expansion amid a depressed industry outlook, 2) efficient and optimal coal and power mix supporting gross margins, and 3) easing interest rates providing further support to earnings. Company trades at FY25E P/E and EV/ton of 6.5x and US$40.3, respectively. We have a Dec'25 target price of PkR61/sh, offering total upside of 84%.

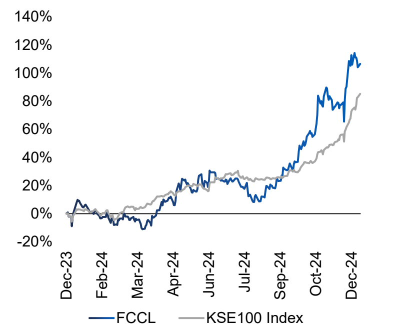
AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
61.0	**33.97**
T. UPSIDE/DOWNSIDE	DIV. YIELD
84%	**4.4%**

FCCL: Price Performance

	1M	6M	CYTD
Absolute (%)	2.9	42.1	86.2
Rel. Index (%)	-7.8	3.7	33.9
Absolute (PkR)	1.0	10.1	15.7

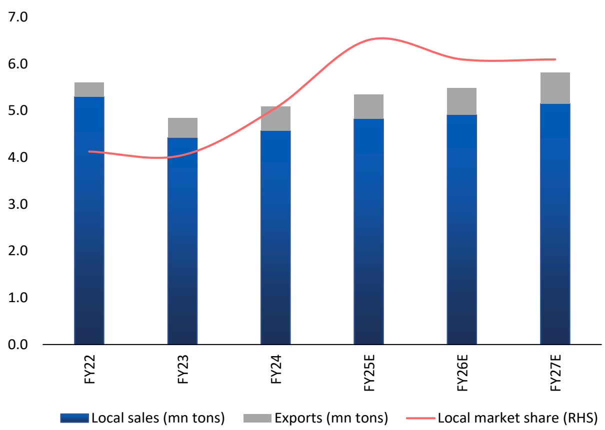
FCCL vs. KSE-100 Index



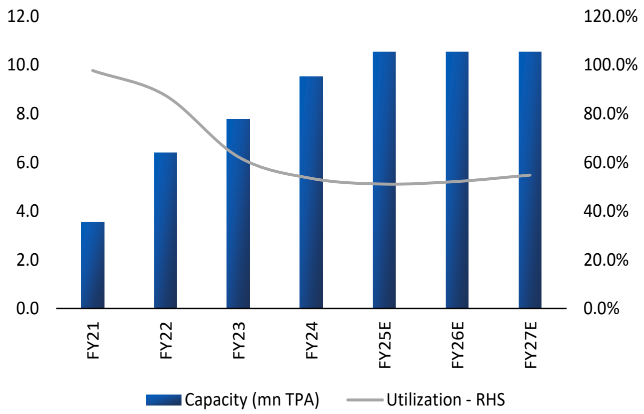
Source: PSX & AKD Research

Recent expansion to boost market share

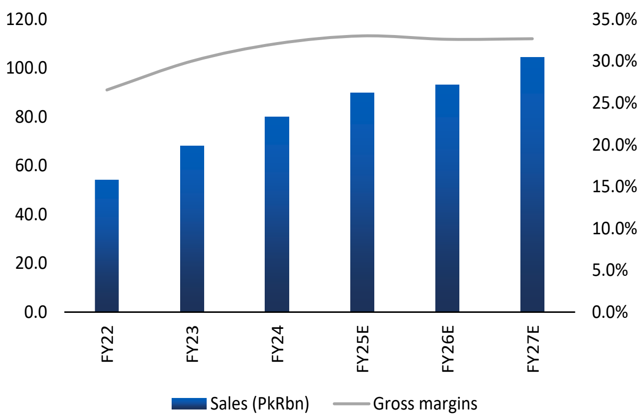
Offtakes to grow with improving market share



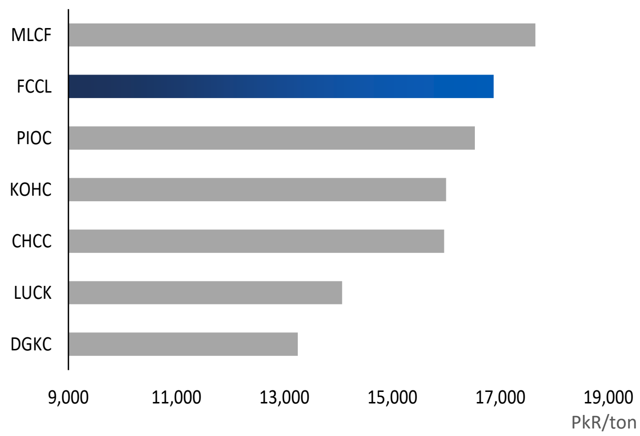
...while utilization to remain low given recent expansion



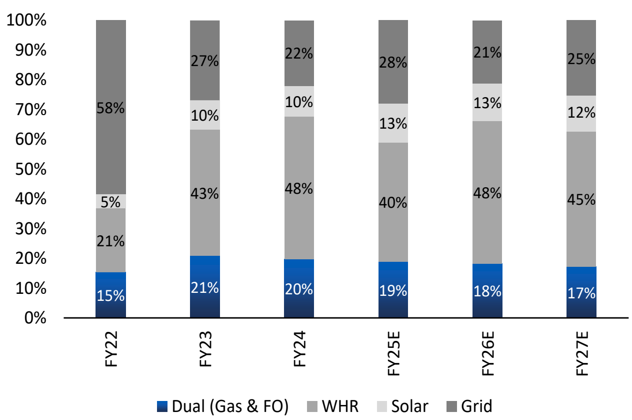
Gross margins to improve along with revenue increase



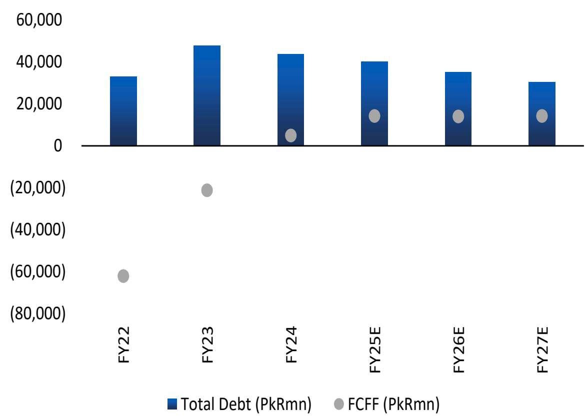
...as commands higher retention price due to brand recognition



Increasing proportion of renewable to ease energy cost



Cashflow to improve significantly given lower CAPEX needs



Source: APCMA, PSX and AKD Research

FCCL - Annual Financial Data Bank

(Valuation Multiples)	FY22	FY23	FY24	FY25F	FY26F	FY27F
EPS	2.9	3.0	3.4	5.2	5.6	6.4
DPS	0.0	0.0	1.0	1.5	1.5	2.0
BV	23.5	26.6	29.9	33.6	37.7	42.1
PE	11.7	11.2	10.1	6.5	6.1	5.3
Dividend Yield	0.0%	0.0%	2.9%	4.4%	4.4%	5.9%
P/BV	0.8	0.5	1.1	1.0	0.9	0.8
Earnings Growth	111.1%	4.6%	10.5%	55.5%	7.0%	14.7%
ROE	12.3%	11.4%	11.2%	15.5%	14.8%	15.2%
Gross Margin	26.5%	30.0%	32.1%	33.0%	32.6%	32.7%
Net Margin	13.1%	10.9%	10.3%	14.2%	14.7%	15.0%

Income Statement	FY22	FY23	FY24	FY25F	FY26F	FY27F
Sales	54,243	68,069	80,026	89,907	93,247	104,424
Gross Profit	14,399	20,418	25,680	29,681	30,402	34,115
EBITDA	14,673	19,912	24,667	29,737	29,326	32,269
Profit Before Tax	11,527	12,900	15,355	20,824	22,360	25,638
Net Profit	7,111	7,440	8,223	12,790	13,685	15,701

Balance Sheet	FY22	FY23	FY24	FY25F	FY26F	FY27F
Current Assets	28,217	23,134	25,784	33,853	41,316	49,346
Long Term Assets	85,481	115,694	121,852	123,440	123,825	124,211
Total Assets	113,698	138,828	147,636	157,293	165,142	173,557
Current Liabilities	26,721	28,487	26,865	28,134	30,615	32,850
Non-Current Liabilities	29,241	45,166	47,372	46,649	42,011	37,396
Total Liabilities	55,962	73,653	74,237	74,783	72,626	70,246
Total Equity	57,736	65,176	73,399	82,510	92,516	103,311

Cash Flow	FY22	FY23	FY24	FY25F	FY26F	FY27F
CF from Operations	7,568	16,031	21,685	17,280	17,306	17,994
CF from Investing	(26,065)	(29,667)	(8,158)	(8,373)	(4,725)	(4,992)
CF from Financing	19,346	10,898	(8,480)	(7,239)	(8,864)	(9,715)
Net Change in Cash	849	(2,738)	5,047	1,669	3,716	3,287
Cash & Cash Equivalents	(912)	(3,650)	1,397	4,602	8,318	11,605

Source: PSX & AKD Research

Alpha Stocks

Pakistan Telecommunication Company Ltd (PTC)

Telenor acquisition to result in market dominance

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
23.5	3,774.0	88,500.3	15.4	286.6

PTC stands as Pakistan's foremost integrated ICT provider: With the largest fixed-line network in the country, its diverse range of services includes voice communication, high-speed broadband, and more. Company has continued to post significant increase in topline. The substantial growth can be mainly attributed to excellent performance in various sectors, including fixed broadband, mobile data and business solutions. PTCL's strategic focus on investing in Fiber-to-the-Home (FTTH) technology, along with the gradual phase-out of its legacy copper network, has driven a notable resurgence in its broadband services. PTCL Flash Fiber remains the fastest-growing operator through the highest net adds contribution in the industry. The company has already taken significant steps in this direction by launching 'Onic,' the industry's first digital brand, and 'SHOQ,' a premium streaming platform. These initiatives strengthen PTCL's position in the OTT streaming market and address the growing demand for On-The-Go (OTG) entertainment. The launches not only diversify the company's revenue streams but also bolster its overall revenue strategy.

PTCL's investments in digital infrastructure, service diversification, and strategic acquisitions indicate a strong commitment to driving Pakistan's digital transformation. The growth in its business segments and partnerships highlights PTCL Group's forward-thinking approach to adapting to the evolving telecommunications landscape.

Ufone 4G emerged as the top performer in the telecom industry, achieving historic revenue growth and outpacing all other operators. The company recorded the highest net additions of 4G subscribers in the industry and surpassed the 25mn subscriber mark for the first time, further expanding its 4G customer base. However, Ufone remains to be a loss making subsidiary for PTCL.

Telenor acquisition to optimize costs: PTCL Group signed a Share Purchase Agreement (SPA) with Telenor ASA to acquire 100% stake in Telenor Pakistan, which is in review phase by CCP. This acquisition would strengthens PTCL's market position and supports its ambition to become the largest technology player in Pakistan's digital transformation. Company plans to conduct a substantial dismantling of the current network infrastructure, leveraging synergies to reduce costs associated with towers in overlapping areas currently operated by both Telenor and Ufone. We believe the acquisition would create synergies by not only reducing operating costs but also providing the company with greater leverage, allowing it to exercise pricing power due to its increased market share in the telecom segment. The acquisition of Telenor will enhance their market position and strengthen their pricing strategy, ultimately boosting their revenue.

In CY23, country's overall teledensity reached 80.5%, with mobile teledensity at 79.4% and fixed teledensity at 1.1%. Broadband penetration stood at 54.5%. This indicates that Pakistan's telecom industry still holds significant potential to capture more opportunities and drive further expansion.

PTC - Valuations & Multiples

(Year End Dec'31)	CY20	CY21	CY22	CY23	9MCY24
EPS/(LPS)	0.9	0.7	-2.9	-4.1	-4.1
DPS (PkR)	0.0	0.0	0.0	0.0	0.0
Gross Margins	25.6%	25.1%	20.3%	19.2%	23.5%
Net Margins	2.5%	1.9%	-7.2%	-8.3%	-9.5%
PE	14.0	19.7	n.m	n.m	n.m
BV	23.1	23.3	19.6	15.4	11.4
P/BV	0.53	0.58	0.51	0.58	2.25
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	3.8%	2.9%	-14.8%	-26.7%	-47.6%
ROA	0.8%	0.5%	-1.7%	-2.4%	-3.2%

*9MCY24 profitability ratios are annualized

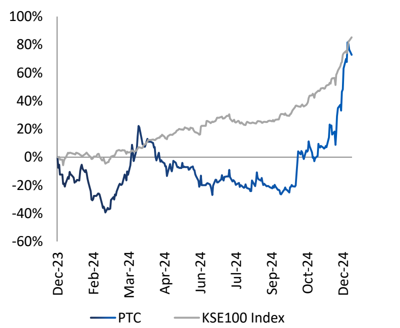
Source: PSX & AKD Research

PTC: Price Performance

	1M	6M	CYTD
Absolute (%)	26.3	94.4	91.7
Rel. Index (%)	15.6	56.0	21.4
Absolute (PkR)	4.9	11.4	11.2

KATS Code	PTC
Bloomberg Code	PTC.PA
Price PkR	23.5
Market Cap (PkRmn)	88,500.3
Market Cap (US$mn)	318.1
Shares (mn)	3,774.0
3M High (PkR)	27.4
3M Low (PkR)	11.1
1Yr High (PkR)	27.4
1Yr Low (PkR)	9.1
3M Avg Turnover '000	15,370.7
1Y Avg Turnover '000	12,391.2
3M Avg DT Value (PkR'000)	286,584
3M Avg DT Value (US$'000)	1,030.0
1Yr Avg DT Value (PkR'000)	188,238.3
1Yr Avg DT Value (US$'000)	676.6

PTC VS. KSE100 Index



Source: PSX & AKD Research

Sui Northern Gas Pipelines Limited (SNGP)

Tides are turning

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
96.0	634.2	60,910.2	6.9	606.3

Earnings resilient amid challenges: SNGP posted robust PAT of PkR10.7bn (EPS: PkR16.9) during 9MFY24, reflecting a 28%YoY increase compared to PKR8.4bn (EPS: PkR13.2) during FY23. This growth was primarily driven by a notable reduction in Unaccounted for Gas (UFG) losses, which declined to 6.32% from 8.37% in SPLY, alongside an improved rate of return on average operating assets (20.64% vs. 16.60% in SPLY). Notably, the company's ROA for FY24 is petitioned at 22.06%, although OGRA's decision remains pending. However, during full year, gas sale volumes fell to 1,660mmcfd in FY23 (vs. 1,856mmcfd in FY22) due to a greater reliance on RLNG and a drop in indigenous production amidst natural depletion.

Continuing advancements in infrastructure: Operationally, SNGPL laid 19.4km of transmission lines and 236.4km of distribution mains during 9MFY24 to enhance supply consistency and expand customer base. Company's digitization initiatives, including GIS mapping and process automation, contributed to cost savings of ~PkR1.0bn during the period. Furthermore, integration of future discoveries such as Lakki Marwat, alongside upcoming wells at Kot Palak (45mmcfd) and Shewa (70mmcfd), are anticipated to raise future gas supplies, partially offsetting declining volumes. However, delays in Bannu West pipeline construction due to security challenges remain a critical bottleneck, with only 20% of the pipeline laying process left.

Regulatory Overhang due to UFG Benchmarks and Tariff Adjustments: Domestic energy sector has long grappled with regulatory headwinds in shape of weak tariff adjustments and irregular UFG benchmarks. While the KMI regime has positively contributed to UFG reduction targets, disallowances reached PkR3.0bn during (vs. PkR2.5bn in FY22) due to revised benchmarks and higher gas costs Additionally, the deferral of OGRA's decision on interest charges for running finance facilities as a pass-through adds further uncertainty due to the regulatory regime.

Investment Perspective: Despite persistent challenges, company remains strategically positioned to leverage sectoral tailwinds. Consecutive tariff hikes in Nov'23 and Feb'24 have improved payment flows to E&P companies, easing liquidity constraints. The company's diversification into LPG supply and marketing further enhances revenue streams. However, challenges such as regulatory hurdles, volatile UFG scenario, and delays in passing on RLNG diversion subsidy towards domestic consumers due to declining indigenous supplies stand as a risk. Overall, progress on pipeline expansion, particularly in Bannu West, alongside operational efficiencies, remain critical to maintaining momentum and unlocking value for shareholders.

***SNGP* - Valuations & Multiples**

(Year End Jun'30)	FY20	FY21	FY22	FY23	9MFY24
EPS (PkR)	9.5	17.3	16.3	16.7	16.9
DPS (PkR)	4.0	7.0	4.0	4.5	0.0
Gross Margins	7.3%	7.0%	6.6%	8.7%	11.1%
Net Margins	0.8%	1.5%	0.8%	0.7%	0.9%
PE	6.7	2.8	2.3	2.3	4.3
P/BV	1.6	0.9	0.6	0.5	1.1
Dividend Yield	6.3%	14.3%	10.5%	11.8%	0.0%
ROE	23.9%	32.1%	26.1%	23.2%	25.8%
ROA	0.7%	1.2%	0.8%	0.6%	0.7%

*9M profitability ratios are annualized

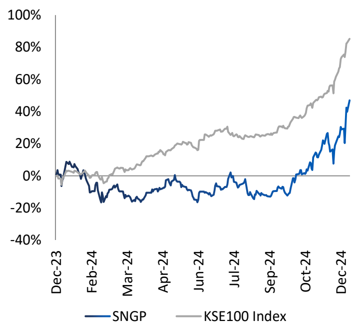
Source: PSX & AKD Research

SNGP: Price Performance

	1M	6M	CYTD
Absolute (%)	4.3	46.6	30.6
Rel. Index (%)	-6.5	8.2	-39.7
Absolute (PkR)	4.0	30.5	22.5

KATS Code	SNGP
Bloomberg Code	SNGP.PA
Price PkR	96.0
Market Cap (PkRmn)	60,910.2
Market Cap (US$mn)	218.9
Shares (mn)	634.2
3M High (PkR)	106.8
3M Low (PkR)	63.7
1Yr High (PkR)	106.8
1Yr Low (PkR)	60.6
3M Avg Turnover '000	6,902.7
1Y Avg Turnover '000	3,648.1
3M Avg DT Value (PkR'000)	606,347
3M Avg DT Value (US$'000)	2,179.3
1Yr Avg DT Value (PkR'000)	284,393.2
1Yr Avg DT Value (US$'000)	1,022.2

SNGP VS. KSE100 Index



Source: PSX & AKD Research

Highnoon Laboratories Limited (HINOON)

Capitalizing growth on regulatory tailwinds

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
895.0	53.0	47,420.1	0.1	42.3

Sustained growth despite sector challenges: HINOON is the fastest and consistent growing pharmaceutical company in Pakistan, with its growth outperforming its peers. Wherein, company sales and earnings have grown at a 5-years CAGR of 22%/25% compared to peers avg. of 15%/-4%, respectively. Likewise, in 9MCY24, company's topline grew by 22%YoY, driven by both price and volumetric growth. Moreover, gross margins also improved by 4.1ppts to 50.1% in 9MCY24, mainly due to double price adjustments allowed for essential products and the deregulation of non-essential products. Notably, five of its key brands, namely Combivair, Tagipmet, Cyrocin, Kestine, and Ulsanic, are in PkR1.0bn club. Moreover, company engages in toll manufacturing for major brands such as 'Abbot,' contributing ~3% to its topline.

Deregulation of non-essentials to boost earnings: HINOON is poised to benefit significantly from recent deregulation of non-essential drugs, which account for ~50-60% of its product portfolio. Notably, the deregulation of non-essential drugs, approved by GoP in Feb'24, has allowed prices to increase beyond the previous CPI-linked increase with cap of 10%. The said policy change has already begun to positively impact earnings in recent quarters, although its full effect is expected to be realized in the upcoming year. Additionally, with easing inflation, a stable currency, and declining API prices in the international market, the performance of essential drugs is also anticipated to improve compared to SPLY. Furthermore, reductions in discounts by company and improved distribution efficiency would help maintain strong operating margins moving forward (19% in 9MCY24).

Aggressive growth to continue: With a strong history of growth, company remains committed to its growth trajectory, highlighted by land acquisition for a new manufacturing unit at the Quaid-e-Azam Business Park, expected to be operational by CY27. With this facility, HINOON aims to expand its export footprint. Company currently exports 215 products, contributing ~8% of the revenue. Furthermore, company has plans to have an additional 130 products in the pipeline for exports. Moreover, continued investment in R&D will also support the growth of its product portfolio. Notably, the company has reinvested PkR1.4/0.8bn in CY24/23, primarily in R&D activities.

Outlook: HINOON has outperformed the KSE100 index by 7.1% CYTD while still trading at an attractive valuation, with TTM P/E of 15.4x, compared to the sector avg. of 26.2x. Key positive triggers for the company include: 1) higher proportion of non-essential drugs in portfolio to sustain margin growth; 2) ongoing projects to support future growth prospects; and 3) easing inflation and a stable currency environment contributing to cost stability.

***HINOON* - Valuations & Multiples**

(Year End Dec'31)	CY20	CY21	CY22	CY23	9MCY24
EPS (PkR)	27.8	35.0	46.7	46.2	45.2
DPS (PkR)	15	20	20	30	0
Gross Margins	49%	50%	52%	48%	50%
Net Margins	14%	14%	16%	12%	13%
PE	12.8	12.4	9.3	8.5	14.8
BV	86.7	111.7	144.5	189.4	204.6
P/BV	4.12	3.88	3.00	2.06	4.37
ROE	32%	31%	32%	24%	29%
ROA	22%	22%	23%	17%	19%

*9MCY24 profitability ratios are annualized

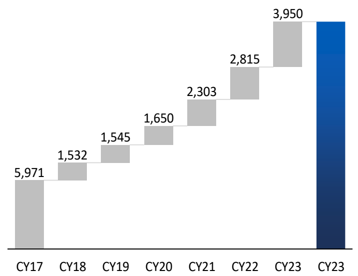
Source: PSX & AKD Research

HINOON: Price Performance

	1M	6M	CYTD
Absolute (%)	-3.8	23.4	77.4
Rel. Index (%)	-14.6	-15.0	7.1
Absolute (PkR)	-35.5	170.0	390.4

KATS Code	**HINOON**
Bloomberg Code	**HINOON.PA**
Price PkR	**895.0**
Market Cap (PkRmn)	47,420.1
Market Cap (US$mn)	170.4
Shares (mn)	53.0
3M High (PkR)	946.3
3M Low (PkR)	682.4
1Yr High (PkR)	946.3
1Yr Low (PkR)	450.3
3M Avg Turnover '000	50.1
1Y Avg Turnover '000	33.3
3M Avg DT Value (PkR'000)	42,287
3M Avg DT Value (US$'000)	152.0
1Yr Avg DT Value (PkR'000)	23,553.3
1Yr Avg DT Value (US$'000)	84.7

Revenue increased at a CAGR of 22%



Source: PSX & AKD Research

Shell Pakistan Limited (SHEL)

Prospects remain upbeat

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
203.1	214.0	43,474.8	0.3	50.7

Operation performance has remained bleak: SHEL reported earnings of PkR723mn (EPS: PkR3.38) during 9MCY24, down 86%YoY from PkR6.4bn (EPS: PkR30.1) in SPLY. Revenues remained flat, amounting to PkR321bn, however sales of the unregulated premium fuel 'V-Power' improved (Shell HOBC offtakes: up 38%YoY during 9M), alongside growing lubricant segment due to aggressive marketing strategy. However, the decline in profitability was led by lower gross margins of 5.5% which were attributed to inventory losses during the period, alongside absence of one-off exchange gains compared to the prior year. Moving forward, we anticipate stability in inflation (and domestic currency) during 2HCY24 to provide relief to the OMC sector (including Shell), with industry offtakes already up 5%YoY during 5MFY25 (SHEL up 2%YoY).

Wafi Energy's Acquisition, A New Chapter: Transfer of SHEL's 77.42% ownership from Shell plc has been done, as Wafi Energy finalized its share purchase agreement for the acquisition, including physical assets, a 26% PAPCO stake, and brand licensing rights. Management assured continuity of SHELL branding under Wafi's expertise, given its operational experience in Saudi Arabia. We expect the acquisition to bring in fresh investments while focusing on efficiency, potentially revitalizing SHEL's future trajectory. Notably, Shell previously suffered on an operating level due to higher instances of fixed overheads (compared to industry peers). Assuming this gets addressed under the new management, alongside continued working capital financing to the OMC for elongating payments to its suppliers (as was with SHELL plc), we anticipate company to scale new heights in the domestic OMC sector space.

Lubricants and Retail division: Lubricants remain SHEL's crown jewel, commanding a dominant ~30% market share. Strategic campaigns, including the "Original Pehchano Shell Khareedo," bolstered consumer retention aswell. However, despite weak auto sales during recent years, alongside influx of up-and-coming competitors such as Hascol, GoPetroleum and state-owned giant i.e. PSO, company maintained its leadership in this deregulated segment, which offers gross margins as high as 30-40%. Furthermore, SHEL expanded its retail footprint with 11 new stations in 9MCY24 and invested in modernizing seven outlets, enhancing overall consumer experience. Premium fuel, particularly Shell V-Power, showed robust growth through targeted consumer education campaigns, solidifying position in high-margin segments.

Outlook: SHEL's dependence on imports for 75% of its fuel supply makes it vulnerable to exchange rate fluctuations, highlighted by the PkR10.6bn FX loss incurred in 9MCY23 amid significant volatility in the domestic currency. Stakeholders, including OGRA, are deliberating mechanisms to mitigate such impacts, potentially adopting PSO's 30-day LC adjustment standard. Moreover, competition from local players, aggressive network expansions by PSO and APL, and stagnant retail outlet growth remain concerns. However, the anticipated CPI-based margin indexation for FY24 and the expected recovery in industry volumes due to declining inflation provide a favorable outlook, while Wafi Energy's acquisition provides a platform for operational refinement moving forward.

***SHEL* - Valuations & Multiples**

(Year End Dec'31)	CY20	CY21	CY22	CY23	9MCY24
EPS (PkR)	-22.5	20.9	-0.3	27.3	3.4
DPS (PkR)	0.0	0.0	3.0	5.0	0.0
Gross Margins	4.6%	9.5%	8.1%	7.1%	5.5%
Net Margins	-2.9%	1.8%	0.0%	1.4%	0.2%
PE	-4.6	7.1	-359.9	4.3	46.3
P/BV	-34.04	2.06	1.78	1.28	1.6
Dividend Yield	0.0%	0.0%	2.5%	4.2%	0.0%
ROE	N.M	29.2%	-0.5%	29.6%	3.5%
ROA	-8.8%	5.3%	-0.1%	5.5%	0.9%

*9MCY24 profitability ratios are annualized

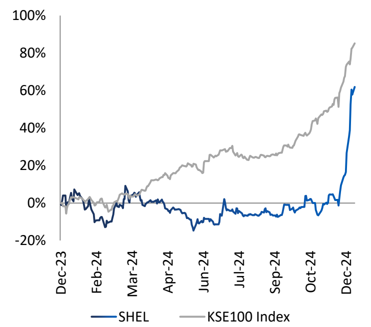
Source: PSX & AKD Research

SHEL: Price Performance

	1M	6M	CYTD
Absolute (%)	28.2	46.6	35.0
Rel. Index (%)	17.4	8.2	-35.3
Absolute (PkR)	44.7	64.6	52.7

KATS Code	SHEL
Bloomberg Code	SHEL.PA
Price PkR	203.1
Market Cap (PkRmn)	43,474.8
Market Cap (US$mn)	156.3
Shares (mn)	214.0
3M High (PkR)	245.1
3M Low (PkR)	141.4
1Yr High (PkR)	245.1
1Yr Low (PkR)	129.1
3M Avg Turnover '000	285.8
1Y Avg Turnover '000	601.9
3M Avg DT Value (PkR'000)	50,744
3M Avg DT Value (US$'000)	182.4
1Yr Avg DT Value (PkR'000)	91,881.7
1Yr Avg DT Value (US$'000)	330.2

SHEL VS. KSE100 Index



Source: PSX & AKD Research

Nishat Mills Limited (NML)

Discounted portfolio presents opportunity

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
101.0	351.6	35,525.6	2.3	180.6

We have a 'BUY' stance on NML due to 1) expected earnings growth driven by the recovery in textile exports and increasing retention prices, 2) declining finance cost to support the bottom-line, and 3) trading at a discount to its portfolio value. Company trades at FY25/26E PE of 8.8/5.2x and P/B of 0.3/0.3x, respectively, with our Dec'25 SoTP target price of PkR187/sh, offering potential upside of 85%.

Volume growth and improving prices to boost revenue: NML's revenue is expected to grow by 9%YoY in FY25E and 5-year CAGR of 7%, driven by rising export volumes and prices. Notably, we project textile exports to increase by 9.7%YoY in FY25E and 5.3%YoY in FY26E. Moreover, retention prices for export products have also started to rise recently, supported by an improving global demand outlook amid easing inflation and monetary easing. Notably, retention prices for knitwear and readymade garments increased by 13% and 35%YoY in 5MFY25, respectively, and are expected to remain elevated, which would support topline growth and contribute to margin expansion.

Lower cotton prices to support core profitability: We expect gross margins to gradually improve to 13% by FY29E from 11% in FY24. Additionally, decline in cotton prices and the enhancement of low-cost power production are expected to largely offset the impact of increased salary expense given 16%YoY increase in minimum wage. We project cotton prices to decline by 2%YoY in international markets and 3%YoY locally in FY25E. Furthermore, the addition of 14MW of solar capacity, bringing the total to 28MW, is expected to fulfill ~12% of the company's energy requirement. Additionally, 8%YoY expected decline in coal prices (40-50% of energy requirement) would further reduce energy costs.

Easing financing rates to support profitability: NML would benefit from ongoing monetary easing, with policy rate reduced to 13% from 22% in FY24. As 95% of NML's debt is KIBOR-linked, further interest rate cuts will significantly benefit earnings. Consequently, finance cost to EBITDA is expected to drop to 22% in FY26E from 42%/39% in FY24/25, respectively. Notably, each 100bps cut in interest rates have a positive after-tax impact of PkR1.1/sh on profitability.

Trading at a discount to portfolio value: NML holds significant stakes in group companies, notably MCB, DGKC, NPL, LPL, and PKGP. The current portfolio value is PkR145/sh (or PkR195/sh pre-conglomerate discount), while the stock is trading at a 45% discount to portfolio value. Furthermore, stable dividend income from these group companies is expected to contribute 40-50% of total earnings in FY26-29E, enhancing overall profitability.

NML - **Valuations & Multiples**

(Year End Jun'30)	FY23	FY24	FY25E	FY26E	FY27E
EPS (PkR)	34.61	18.12	11.53	19.49	28.16
DPS (PkR)	5.00	3.00	2.00	3.00	4.50
Gross Margins	14.9%	10.8%	10.5%	10.7%	12.0%
Net Margins	8.6%	4.0%	2.3%	3.7%	5.0%
PE	1.57	5.58	8.8	5.2	3.6
BV	255	327	329	346	369
P/BV	0.21	0.31	0.31	0.29	0.27
ROE	13.6%	5.5%	3.5%	5.6%	7.6%
ROA	7.1%	2.9%	1.8%	3.1%	4.5%

Source: PSX & AKD Research

AKD Stance

	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
187.0	**101.04**
T. UPSIDE/DOWNSIDE	DIV. YIELD
87%	**2.0%**

NML: Price Performance

	1M	6M	CYTD
Absolute (%)	34.7	39.4	31.7
Rel. Index (%)	23.9	1.0	-38.6
Absolute (PkR)	26.0	28.6	24.3

KATS Code	NML
Bloomberg Code	NML.PA
Price PkR	101.0
Market Cap (PkRmn)	35,525.6
Market Cap (US$mn)	127.7
Shares (mn)	351.6
3M High (PkR)	126.1
3M Low (PkR)	61.0
1Yr High (PkR)	126.1
1Yr Low (PkR)	61.0
3M Avg Turnover '000	2,269.9
1Y Avg Turnover '000	1,234.2
3M Avg DT Value (PkR'000)	180,640
3M Avg DT Value (US$'000)	649.2
1Yr Avg DT Value (PkR'000)	93,192.5
1Yr Avg DT Value (US$'000)	334.9

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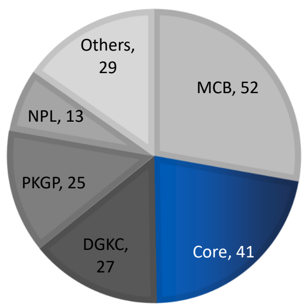


Source: PSX & AKD Research

International Steels Limited (ISL)

Promising days ahead

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)1	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
83.1	435.0	36,157.2	1.2	96.7

Company achieved a NPAT of PkR3.7bn (EPS: 8.40) in FY24 despite headwinds including slowdown in domestic demand, rising energy tariffs, and dumping of products from FATA/PATA producers amidst sales tax exemptions applicable in the region. Furthermore, company showcased financial discipline by further reducing debt, which is down from PkR21.6bn in FY22 to presently at PkR9.6bn as per 1QFY25 accounts (down ~60%), culminating to a D/E of 0.44x vs. average of 1.1x between FY19-23. Additionally, working capital investments continued to decrease, as company's cash conversion cycle dropped to multi-year lows of 87 days during FY24, amidst a testing time for other steel manufacturers during the period.

Cost efficiency and solar expansion to drive margins: Company remains as the largest flat steel producer in Pakistan, commanding a 35%/21% market share in the domestic flat steel manufacturing space for FY23/FY24, respectively. Further, ISL's dominant position in the HDGC segment, which traded at a premium of ~PkR10k/ton over CRC during FY24, continues to support our outlook. Utilization levels, however, fell to 27% in FY24, led by subdued demand; however, company's efficient cost management enabled it to sustain gross margins at 12.4%, outperforming listed competitor i.e. ASL's 8.4% during the period. This was due to lower conversion costs, which stood at ~PkR21k/ton, significantly below ASL's PkR33k/ton, reflecting superior inventory management and operational efficiency. Additionally, ISL's planned commissioning of a 6.4MW solar power facility by the end of CY24 is expected to enhance gross margins further by reducing power costs.

GoP support to provide relief: Domestic flat steel industry has been grappling with elevated imports, accounting for over 50% annual of CRC consumption. The misuse of tax exemptions in FATA/PATA regions further eroded ISL's market share, reducing it to 21% in FY24. However, GoP imposed ADD and import restrictions have provided temporary relief. The CRC-HRC spread averaged US$90/ton in FY24 but has presently stabilized at ~$80/ton. Moving forward, favorable macro indicators (projected GDP growth FY25E: 2.7%YoY), alongside recovery in 2/3 wheeler and appliance sales, support a positive demand outlook.

Strategic Investment in Reko Diq Project: ISL's investment in Chinoy Engineering & Construction (CECL) positions the company to benefit from involvement in Reko Diq Copper-Gold mining project, related to the design and construction of an accommodation camp in Balochistan. Company has committed PkR48.45mn in equity, securing a 17% post-issuance ownership stake, alongside extending a PkR300mn short-term loan at KIBOR+3% aswell. This partnership with one of the world's largest undeveloped copper-gold projects enhances potential synergies for ISL's galvanized steel segment while reinforcing its market position.

***ISL* - Valuations & Multiples**

(Year End Jun'30)	FY21	FY22	FY23	FY24	1QFY25
EPS (PkR)	17.2	12.4	8.1	8.4	0.4
DPS (PkR)	10.0	6.5	5.5	5.5	0.0
Gross Margins	19.3%	13.5%	13.8%	12.4%	6.7%
Net Margins	10.7%	5.9%	4.6%	5.3%	1.3%
PE	4.8	5.8	5.9	7.6	-
P/BV	1.9	1.5	1.0	1.2	-
Dividend Yield	12.2%	9.0%	11.5%	8.6%	0.0%
ROE	39.5%	25.1%	16.2%	15.8%	-
ROA	17.9%	9.7%	8.3%	8.2%	-

*1QFY25 profitability ratios are annualized

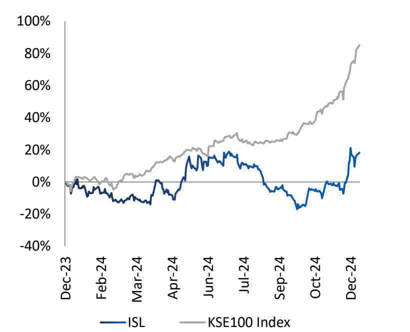
Source: PSX & AKD Research

ISL: Price Performance

	1M	6M	CYTD
Absolute (%)	13.1	-4.3	13.8
Rel. Index (%)	2.3	-42.7	-56.5
Absolute (PkR)	9.6	-3.8	10.1

KATS Code	ISL
Bloomberg Code	ISL.PA
Price PkR	83.1
Market Cap (PkRmn)	36,157.2
Market Cap (US$mn)	130.0
Shares (mn)	435.0
3M High (PkR)	91.5
3M Low (PkR)	62.7
1Yr High (PkR)	91.5
1Yr Low (PkR)	62.7
3M Avg Turnover '000	1,204.9
1Y Avg Turnover '000	918.0
3M Avg DT Value (PkR'000)	96,722
3M Avg DT Value (US$'000)	347.6
1Yr Avg DT Value (PkR'000)	73,306.5
1Yr Avg DT Value (US$'000)	263.5

ISL VS. KSE100 Index



Source: PSX & AKD Research

Fauji Foods Limited (FFL)

Set for leap with product diversification

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
12.8	2,520.0	32,129.5	23.8	287.4

We have a 'BUY' stance on FFL with Dec'25 target price of PkR24/sh, offering a potential upside of 76%. Our stance is due to: 1) strong growth potential in the dairy segment amid ample capacity and expected shift towards packaged milk, 2) product portfolio diversification through the addition of cereals and pasta to enhance growth stability, and 3) steady improvement in gross margins to strengthen profitability.

Huge growth prospect: We expect company's dairy segment (liquid + non-liquid) to grow at a 5-year CAGR of 28% in CY25-29E, driven by increased efforts in marketing and an expanded retail distribution network. Company's retail outlet penetration has risen significantly, reaching 35k outlets by end-CY23, up from 18k outlets at end-CY21. Additionally, we foresee volumetric growth supported by ample market space and educational campaigns promoting packaged milk. Furthermore, GoP initiatives like 'minimum pasteurization law' are expected to boost the share of packaged milk (currently ~8%), albeit at a slower pace than anticipated due to the implementation of 18% GST. Moreover, the aggressive transformation in the company's top management over the past two years has yielded positive results. We expect this trend to continue, as the new leadership brings valuable experience from successfully driving expansion at competing firms.

Portfolio diversification to support margin accretion: FFL's pivot towards value-added product portfolio is expected to aid growth stability, with 'Nurpur' segment now contributing over 85% of sales, up from ~50% in CY20. Additionally, we project the cereal and pasta business to generate ~PkR4.5bn (12% of total revenue) in CY25E, with CAGR of 15% over the next 5-years. Notably, local cereal and pasta markets in Pakistan are valued at PkR6.0bn and PkR12.0bn, respectively, with Fauji Cereal commanding a dominant 70-80% market share in cereal segment. To recall, company acquired cereal and pasta businesses this year from parent.

Gross margins recovery on the horizon: FFL's gross margins are expected to recover to 17.9% in CY24, up from 15.1% and 7.8% in CY23 and CY22, respectively. We anticipate further margin improvement, averaging 20.6% over our investment timeline. The said recovery would be driven by: 1) absorption of fixed costs with increasing utilization levels, 2) inclusion of high-margin cereal and pasta businesses, 3) shift in the energy mix towards solar and biomass for power and steam, replacing grid and coal, and 4) optimization of the distribution network by focusing on metro regions, reducing the number of towns served from 269 to 91.

Additionally, minimal finance cost, due to a 2-year grace period on loans from the parent company, will further support profitability.

FFL - Valuations & Multiples

(Year End Dec'31)	CY23	CY24E	CY25E	CY26E	CY27E
EPS (PkR)	0.24	0.54	0.83	1.05	1.54
DPS (PkR)	-	-	-	-	-
Gross Margins	15%	18%	19%	19%	20%
Net Margins	3%	5%	6%	5%	6%
PE	22.9	23.6	15.3	12.1	8.3
BV	5.6	4.1	4.9	5.9	7.5
P/BV	1.0	3.1	2.6	2.1	1.7
ROE	4%	13%	17%	18%	21%
ROA	4%	7%	10%	10%	13%

Source: PSX & AKD Research

AKD Stance

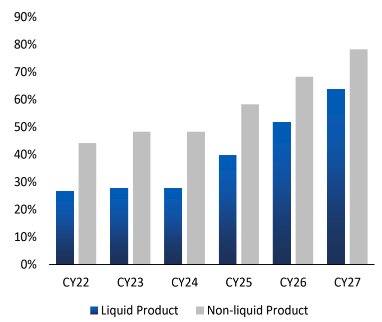
	BUY
TARGET PRICE (PkR)	SHARE PRICE (PkR)
24.0	12.75
T. UPSIDE/DOWNSIDE	DIV. YIELD
88%	0.0%

FFL: Price Performance

	1M	6M	CYTD
Absolute (%)	11.3	38.4	14.5
Rel. Index (%)	0.5	0.0	-55.8
Absolute (PkR)	1.3	3.5	1.6

KATS Code	FFL
Bloomberg Code	FFL.PA
Price PkR	12.8
Market Cap (PkRmn)	32,129.5
Market Cap (US$mn)	115.5
Shares (mn)	2,520.0
3M High (PkR)	15.0
3M Low (PkR)	8.5
1Yr High (PkR)	15.0
1Yr Low (PkR)	8.2
3M Avg Turnover '000	23,792.6
1Y Avg Turnover '000	13,461.0
3M Avg DT Value (PkR'000)	287,438
3M Avg DT Value (US$'000)	1,033.1
1Yr Avg DT Value (PkR'000)	146,823.5
1Yr Avg DT Value (US$'000)	527.7

Utilization improvement on the cards



Source: PSX & AKD Research

Pak Elektron Limited (PAEL)

All set for the cycical upswing

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
37.6	856.0	32,168.9	17.7	551.6

PAEL's Appliances division demonstrated strong performance in FY24, with revenues surging by 82%YoY to PkR31.9bn in 9MFY24, up from PkR17.5bn in the SPLY. This recovery was driven by easing import restrictions, improved supply chains, and favorable macro conditions, including political stability and overall improving consumer confidence. The Appliance division may continue its demand uptrend, amidst favorable macro factors (GDP Growth for FY25E: 2.7%YoY) and contained inflationary expectations and recovering farmer income, resulting in volumetric growth during the full year amidst low base in CY23 (segment revenues: down 46% YoY). Additionally, persistent rise in summer temperatures are expected to drive demand for air conditioners, refrigerators, and deep freezers as well.

Power Division, opportunities amid sector reforms: PAEL's Power division contributed 42% to total sales during 9MCY24, stands to benefit significantly from ongoing reforms in Pakistan's electricity distribution network. With government efforts focused on reducing infrastructure losses, curbing pilferage, and improving billing recoveries, demand for PAEL's offerings, including power transformers, energy meters, and EPC solutions, is likely to grow. Management anticipates a 30-35%YoY increase in power division sales for CY24, driven by intensified efforts to overhaul transmission and distribution infrastructure, alongside outsourcing of DISCO operations to the private sector. Additionally, company continues to be the largest supplier to WAPDA and NTDC (distribution transformers/switch gears/energy meters), with management anticipating significant growth in orders as the government undertakes major overhaul work on the country's transmission/distribution network (pressing demand from the IMF of the same).

Deleveraging strengthens financial position: PAEL continues to make significant strides in its deleveraging efforts, reducing total debt to PkR16.1bn as of Sep'24, a sharp decline from PkR23.9bn at CY22-end. The D/E ratio has improved to 0.37x (vs. 0.59x at CY22-end), while easing monetary policy (PR at 13% by Dec'24-end) is expected to substantially lower finance costs. For this reason, interest coverage has risen to over 2.1x as of 9MCY24, compared to its long-term average of 1.6x. Moving forward, the following moves are anticipated to enhance company's bottom-line outlook, resulting in sharper focus on operational efficiency moving forward.

Margin improvement causes valuation appeal: Gross margins continued to stride upwards at 28.7%/26.5% during CY23/9MCY24, up from 21.1%/% in FY23, led by effective cost pass-through, and overall currency stability. Overall, PAEL currently trades at an attractive valuation, with a CY24E P/E of 13.6x, representing a significant discount to its long-term averages. This valuation, combined with strong operational performance, presents a compelling investment case.

PAEL - Valuations & Multiples

(Year End Dec'31)	CY20	CY21	CY22	CY23	9MCY24
EPS (PkR)	0.2	1.8	1.2	1.5	2.1
DPS (PkR)	0.0	0.0	0.0	0.0	0.0
Gross Margins	22.2%	21.1%	19.7%	28.7%	26.5%
Net Margins	0.6%	3.6%	2.0%	3.3%	4.4%
PE	79.6	10.3	12.1	8.0	13.6
P/BV	0.45	0.46	0.32	0.25	0.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	0.6%	4.4%	2.6%	3.1%	5.6%
ROA	0.3%	2.6%	1.5%	1.9%	3.6%

*9MCY24 profitability ratios are annualized

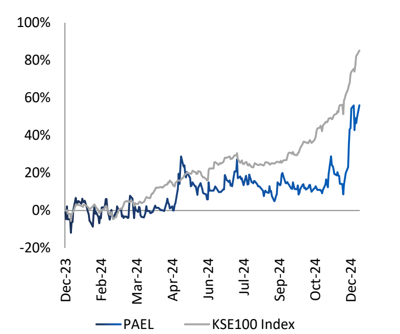
Source: PSX & AKD Research

PAEL: Price Performance

	1M	6M	CYTD
Absolute (%)	38.7	51.0	66.4
Rel. Index (%)	27.9	12.6	-3.9
Absolute (PkR)	10.5	12.7	15.0

KATS Code	PAEL
Bloomberg Code	PAEL.PA
Price PkR	37.6
Market Cap (PkRmn)	32,168.9
Market Cap (US$mn)	115.6
Shares (mn)	856.0
3M High (PkR)	38.5
3M Low (PkR)	24.4
1Yr High (PkR)	38.5
1Yr Low (PkR)	19.8
3M Avg Turnover '000	17,740.9
1Y Avg Turnover '000	12,654.6
3M Avg DT Value (PkR'000)	551,614
3M Avg DT Value (US$'000)	1,982.6
1Yr Avg DT Value (PkR'000)	340,793.7
1Yr Avg DT Value (US$'000)	1,224.9

PAEL VS. KSE100 Index



Source: PSX & AKD Research

AKD SECURITIES LIMITED

Pakistan Stock Exchange Limited (PSX)

Riding the wave of economic recovery and investor confidence

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
22.5	801.5	18,041.2	2.5	46.8

The Pakistan Stock Exchange (PSX) is responsible for conducting, regulating, and overseeing the trading and business activities related to the buying, selling, and dealing of various equity and debt securities. These securities include shares, bonds, Modaraba certificates, and other financial instruments issued by both the private and public sectors in Pakistan.

PSX profitability jumped 4.67xYoY in FY24 to PkR1.0bn (EPS: PkR1.28) compared to PkR219mn (EPS: PkR0.27) in FY23. The surge in profitability was largely attributable to an increase in trading fee to PkR396mn, driven by rising investor confidence, supported by improving macroeconomic indicators such as easing inflation and lower financing rates, following the IMF's SBA program last year.

Improving macroeconomic indicators to bode well: The exceptional performance of the KSE-100 index, which has delivered a 70% return year-to-date and is trading at an all-time high, is likely to attract new investors and increase activity in the stock exchange. This, in turn, has driven higher trading fees for the company. Additionally, with declining interest rates, more capital is expected to flow into the stock market as investors move money out of fixed income assets. The slowdown in the construction and real estate sectors has also led to stagnant returns, hence capital is being diverted from these sectors. Furthermore, following the IMF program's approval, the local currency has remained stable during 1HFY25, with expectations of continued stability. Given these factors, investors are anticipated to seek risk adjusted returns in equity moving forward.

Growth opportunity in investor base: Pakistan's stock market capitalization to GDP ratio is also one of the lowest in the world. With over 500 companies currently listed on the exchange, there is significant potential for further listings, which will drive future growth. Additionally, PSX's business model allows it to acquire new customers at no extra cost, boosting profitability. As a result, an increase in UINs would lead to higher revenue without affecting costs.

Multi-Source revenue strategy: PSX's strategic approach focuses on reducing reliance on income from exchange operations and diversifying its revenue streams through recent initiatives, such as the Government of Pakistan raising funds through the PSX, opening up a fresh source of income for the exchange. This move enables the exchange to generate revenue from both the issuance process and subsequent trading activities. Additionally, the company does not depend solely on income from its exchange operations, which can sometimes be volatile. Revenue from listing fees, annual fees, and rental income from properties tends to be more stable. Furthermore, there is potential for its associate, NCCPL, to raise transaction fees as the stock market continues to gain momentum. Recently, CDC (an associate of PSX) introduced a transaction fee on intraday securities movements, a move anticipated to increase their revenue.

***PSX* - Valuations & Multiples**

(Year End Jun'30)	FY21	FY22	FY23	FY24	1QFY25
EPS (PkR)	0.9	0.5	0.3	1.3	0.3
DPS (PkR)	0.2	0.0	0.0	1.0	0.0
Gross Margins	6.3%	1.9%	-7.5%	5.3%	-2.1%
Net Margins	47.5%	27.4%	15.0%	48.5%	46.8%
PE	17.1	31.9	32.1	7.5	17.5
BV	12.1	12.7	13.0	14.3	14.6
P/BV	1.22	1.24	0.68	0.68	1.49
Dividend Yield	1.3%	0.0%	0.0%	10.3%	0.0%
ROE	7.2%	3.9%	2.1%	9.0%	8.5%
ROA	5.8%	3.2%	1.7%	7.2%	6.6%

*1QFY25 profitability ratios are annualized

Source: PSX & AKD Research

PSX: Price Performance

	1M	6M	CYTD
Absolute (%)	20.8	73.3	123.1
Rel. Index (%)	10.0	34.9	52.8
Absolute (PkR)	3.9	9.5	12.4

KATS Code	PSX
Bloomberg Code	PSX.PA
Price PkR	22.5
Market Cap (PkRmn)	18,041.2
Market Cap (US$mn)	64.8
Shares (mn)	801.5
3M High (PkR)	23.3
3M Low (PkR)	13.8
1Yr High (PkR)	23.3
1Yr Low (PkR)	8.1
3M Avg Turnover '000	2,541.8
1Y Avg Turnover '000	2,080.3
3M Avg DT Value (PkR'000)	46,815
3M Avg DT Value (US$'000)	168.3
1Yr Avg DT Value (PkR'000)	29,889.6
1Yr Avg DT Value (US$'000)	107.4

PSX VS. KSE100 Index

Source: PSX & AKD Research

Ghani Chemical Industries Limited (GCIL)

Expansions to unlock future potential

AKD SECURITIES LIMITED

Price (PkR)	Shares (mn)	Market Cap (PkRmn)	3M Avg Turnover mn)	3M Avg DT Value (PkRmn)
14.1	500.2	7,027.6	2.6	36.3

Stable earning stream with better margins: GCIL has maintained topline growth with a 5-year CAGR of 28% from FY20-24, despite challenging macroeconomic conditions in recent years, due to long-term contract-based revenue stream. Additionally, company's gross margins have averaged over 30%, higher than peer's (PAKOXY) avg. of 19%, driven by operational efficiencies and an optimized product mix. More recently, gross margins improved to 37% in 1QFY25 from 30% in FY24, mainly due to renewal of previous contracts.

Expansion to optimize operations: GCIL is undertaking expansion with the commissioning of country's largest Air Separation Unit (ASU) plant with a capacity of 275 TPD, currently in the testing phase and expected to be completed in the ongoing quarter. Located in the Special Economic Zone of Hattar, this expansion benefits from a tax incentive that is expected to reduce GCIL's effective tax rate going forward. Furthermore, the said unit is 20% more power-efficient, as per management, supporting elevated gross margins as power costs constitute ~60% of the COGS. Additionally, GCIL plans to add a coal-fired power plant alongside the ASU unit by next year, which would potentially reduce energy costs by 40-50%. Consequently, we expect gross margins to average ~39% from FY25-29E.

Company further plans to sell two spare ASU plants to Gulf, with expected proceeds of ~US$4-4.5mn, as per management. These funds will enhance liquidity, aiding in the execution of expansion projects and strengthening the company's financial position.

Value-accretive spin-off of calcium carbide plant: GCIL's 78TPD calcium carbide project is also nearing commissioning, anticipated in 2HFY25. Notably, GCIL currently imports calcium carbide for in-house use (in acetylene gas production) and also trades the product in the local market. As per our back of the envelop working, this project would contribute PkR454/523mn to the bottom line in FY26E and FY27E, respectively, contributing PkR0.7/0.8 per sh to consolidated EPS.

To highlight, company' board has approved the scheme to separate the calcium carbide project into a separate entity, Ghani ChemWorld Limited (GCWL). Under this arrangement, GCIL shareholders would receive 50 partially redeemable shares of GCWL for every 1,000 shares of GCIL (swap ratio of 1:0.05). GCWL shares have a value of PkR100 (Par value: PkR10 | Redeemable portion: PkR90), facilitating future dividend distributions of up to PkR90/sh while avoiding taxation, as per management.

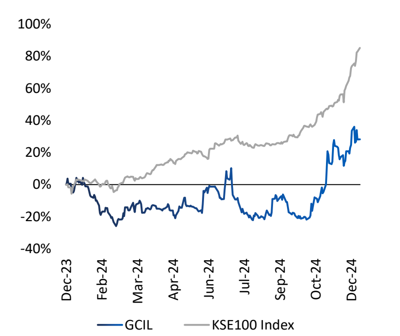
Outlook: GCIL is currently trading at a TTM P/E of 8.5x and a P/B of 0.7x, a significant discount compared to its competitor 'PAKOXY', which trades at P/E of 22.2x and a P/B of 1.4x. We project company's core business to grow at a CAGR of 9% from FY25-29E, with profitability rising at a CAGR of 13% during the period, driven by aforementioned energy savings, tax advantages, and operational efficiencies.

GCIL: Price Performance

	1M	6M	CYTD
Absolute (%)	-5.8	17.2	20.5
Rel. Index (%)	-16.6	-21.2	-49.8
Absolute (PkR)	-0.9	2.1	2.4

KATS Code	GCIL
Bloomberg Code	GCIL.PA
Price PkR	14.1
Market Cap (PkRmn)	7,027.6
Market Cap (US$mn)	25.3
Shares (mn)	500.2
3M High (PkR)	16.5
3M Low (PkR)	9.5
1Yr High (PkR)	16.5
1Yr Low (PkR)	9.0
3M Avg Turnover '000	2,562.6
1Y Avg Turnover '000	1,527.9
3M Avg DT Value (PkR'000)	36,295
3M Avg DT Value (US$'000)	130.4
1Yr Avg DT Value (PkR'000)	19,111.7
1Yr Avg DT Value (US$'000)	68.7

GCIL VS. KSE100 Index



Source: PSX & AKD Research

GCIL - Valuations & Multiples

(Year End Jun'30)	FY21	FY22	FY23	FY24	1QFY25
EPS (PkR)	1.38	1.74	1.02	1.57	0.61
DPS (PkR)	-	-	-	-	-
Gross Margins	43.2%	41.5%	33.7%	29.7%	36.7%
Net Margins	18.0%	20.7%	11.7%	14.4%	17.5%
PE	n.m	n.m	11.4	6.6	5.8
BV	5.8	15.2	17.7	19.7	20.3
P/BV	n.m	n.m	0.7	0.5	0.7
ROE	23.7%	11.4%	5.8%	8.0%	11.9%
ROA	11.5%	7.6%	3.9%	4.6%	7.0%

*1QFY25 profitability ratios are annualized

Source: PSX & AKD Research

Technical

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From Breakout To Breakthrough For Next Big Moves

AKD SECURITIES LIMITED

Index	Closing	1 Year change	52-Weeks High	52-Weeks-Low	Last Vol
KSE100	109,842	75.37%	117,039	58,758	321,981,379

Source: PSX & AKD Research

A Bullish Trajectory: The Index is currently in an upward phase following the breakout from a symmetrical triangle pattern on the daily charts. This breakout has reignited the upward momentum, with the Index moving out of its previous trading range and forming consecutive large bullish candles on both weekly and monthly charts.

Historically, the Index achieved a 423.60% extension of the move from the April 2008 high of 15,200 to the January 2009 low of 4,705. After experiencing a significant correction that wiped out 24,000 points, the market staged a strong recovery. This recovery surpassed the previous high, it marked the beginning of a sustained bull run.

In such phases, buying positions with trailing stops is typically recommended, as the likelihood of further gains remains high. The current chart pattern suggests the Index may continue to set new highs, though a corrective phase is possible due to overbought conditions on the weekly and monthly timeframes.

The Index is projected to target the 131,500 region, which corresponds to the 423.60% Fibonacci extension of the move between the May 2017 high of 53,127 and the August 2019 low of 28,671. Sustained trading above 116,000, supported by strong volumes, would increase the probability of achieving this target.

Expanded trading volumes and heightened volatility are signs of a potential trend shift, reinforcing the importance of cautious optimism in this advancing market phase.

Recommendation:

As per the above observations, the Index might experience volatility however we expect that the Index could preform well in near term. We recommend investors to trade with a cautions approach and accumulate positions on predefined support area and use stop losses during trading.

KSE-100: Key highlight	
Date	20th Dec 2024
Open	106,073
High	109,847
Low	105,601
Current	109,513
MA(20)	106,098
MA(100)	88,676
MA(200)	80,799

Source: PSX & AKD Research

KSE-100 : Synopsis weekly	
Resistance 1	116,000
Resistance 2	123,800
Resistance 3	131,500
Closed	**109,513**
Support 1	102,000
Support 2	92,600
Support 3	88,400

Source: PSX & AKD Research

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