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# From Recovery to Growth: Riding High on Economic Revival

# Pakistan Equity Market Outlook 2025

**RESEARCH ENTITY NUMBER: BRP 009**

Friday, 13th December, 2024

## Contents

## Summary

## 2024 Recap…

- **Stock Market:** KSE100 index had gained 46,446 points by 10th-December in 2024 to reach 108,897 points, translating in to a positive return of ~74%, compared to +55% in CY23. Market performance during 1HCY24 was mainly fueled by declining inflation, improvement in C/a balance, build up in FX reserves, successful completion of IMF SBA Program and PKR stability which led to 26% return during 1HCY24. During 2HCY24, substantial decline in inflation, interest rate reversal, new IMF EFF Program approval, improved domestic liquidity and rating upgrade by Fitch led to overall 39% return during 2HCY24.
- **Key highlights:** During 2024, inflation receded from 29.7% in Dec-23 to 4.9% in Nov-24 leading to a 700bps cut in interest rates from 22% to 15% in Nov-24. Current Account deficit improved significantly declining to US$ 0.1bn in 10MCY24 from US$ 1.0bn in 10MCY23. Forex reserves increased from US$ 12.7bn in Dec-23 to US$ 16.6bn as at Nov-24. Improvement in Forex reserves along with reduced demand led to PKR appreciation of 1.4% (as at 10-Dec2024) compared to depreciation of 23% against US$ in CY23. Moreover, timely elections and political stability supported necessary policy making. Pakistan also successfully completed SBA program with IMF and entered in to new EFF program. These factors along with improved liquidity supported robust market performance in 2024.

## …2025 Outlook

- **In 2025, Economic Stability, Improved Domestic Liquidity and IMF Program to Drive Market re-rating**: In our view, focus is likely to remain on new IMF Program, Fiscal Discipline, Economic and Political Stability. We expect disinflation to continue with further rate cuts expected by SBP. We expect local liquidity to further improve due to conversions from money market to equity funds in Mutual Funds while higher taxation and documentation in other asset classes is likely to divert flows towards equity market. Based on this we anticipate market multiple to further re-rate.
- **Monetary Easing likely to continue**: After 700bps cut already in 2024, we expect further 300bps cut by Jun-25. We estimate inflation to average 7.5% in FY25. We estimate PKR to average 285/USD in FY25 and FX reserves to stand at US$ 17.8.bn as at Jun-25. We forecast GDP growth at 2.7% in FY25 against negative 2.5% in FY24. C/a deficit is expected to settle at 0.4% of GDP while Fiscal deficit is likely to be at 5% of GDP.
- **Eyeing an Index Target of 143,000:** For 2025, we eye an index target of 143,000. This would represent a total return of approximately 31% from its current level of ~108,897. Our target is based on a market price-to-earnings multiple approach. At our target, the market would trade at a forward price-to-earnings ratio of 6.25x, which is below its long-term historical average of 7.1x but higher than current forward P/E of 5.5x.
- **Top Picks**: Improved cash recoveries in energy sector owing to hike in gas prices is likely to keep energy sector in limelight, thus we prefer PPL, OGDC and PSO. Decline in interest rates it likely to suppress banking sector profitability however MDR removal may limit overall decline. We prefer NBP, FABL and UBL among banking sector. Among other sectors, we prefer FFC, LUCK, FCCL, HALEON, AGP, ILP, ISL and TOMCL.

## Market Outlook Snapshot

### Economic Stability and Improved Liquidity to Drive Further Re-rating! Eyeing Index Target of 143,000

| KSE 100 index target | Policy Rate | Earnings Growth | Market P/E | Dividend Yield | Total Return |
|---|---|---|---|---|---|
| **143,000** | **12%** | **6%** | **6.25x** | **7%** | **~38%** |

| Sector | Stance | Top Picks* | Alpha Stocks** | Potential Stocks from Sales Desk*** |
|---|---|---|---|---|
| **Commercial Banks** | Over-weight | UBL, FABL, NBP | | |
| **Oil & Gas Exploration Companies** | Over-weight | OGDC, PPL | | MARI |
| **Oil & Gas Marketing Companies** | Over-weight | PSO | SNGP, HTL | |
| **Pharmaceutical** | Over-weight | HALEON, AGP | | SEARL, CPHL |
| **Power Generation & Distribution** | Market-weight | | | HUBC |
| **Cements** | Over-weight | LUCK, FCCL | | POWER |
| **Automobile Parts & Assemblers** | Market-weight | INDU | GTYR | GAL |
| **Fertilizers** | Over-weight | FFC | | ENGRO |
| **Textile** | Market-weight | ILP | SRVI | |
| **Engineering** | Market-weight | ISL | | CSAP |
| **Glass & Ceramics** | Market-weight | | | GGGL |
| **Technology & Communication** | Market-weight | | PTC | TRG, NETSOL |
| **Refineries** | Market-weight | | | ATRL |
| **Food & Personal Care Products** | Market-weight | TOMCL | | FFL |
| **Chemical** | Under-weight | | | GGL |

* Top picks from IGI Research Universe. For Target Prices please refer pages 41-55
** In light of potential triggers, these scrips are expected to remain in the limelight in 2025
*** Our sales team anticipates interest of investors in these scrips in 2025 and hence price movement in these can not be ruled out

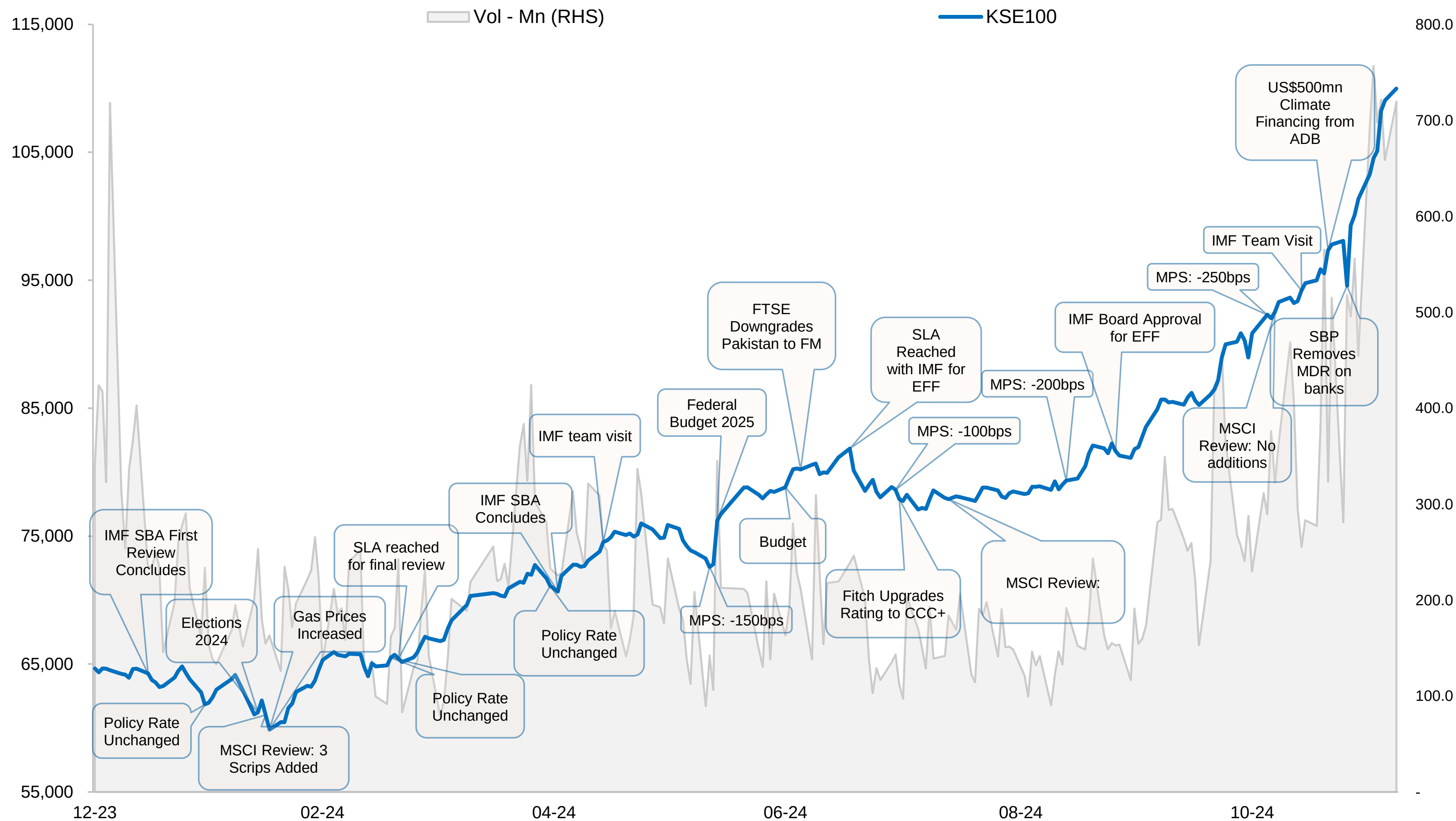
**Market Performance** | **2024: Recap**

## Continuing Momentum from last year on Economic Stability

- KSE100 index gained 46,446 points during CY24 (10-Dec-24) to reach ~108,897 index level, translating in to a positive return of 74%, and compared to gain of +55% in CY23.
- 2024 was an Election year where timely elections and political stability also fueled market performance. During CY24, inflation declined substantially from 28.3% in Jan-24 to 7.2% in Oct-24. This was mainly led by decline in oil prices, stable currency and ease in food prices. As a result, SBP cumulatively slashed interest rates by 700bps between Jun-24 and Dec-24. SBP kept Policy Rates unchanged till May-24 despite inflation easing to 11.8% adopting a prudent policy to monitor direction of oil prices, energy prices adjustments and IMF program.
- During the year, Pakistan successfully completed the IMF SBA program which concluded in Apr-2024 while new 37-month EFF program was signed in Jul-24 and approved by IMF board in Aug-24. Post signing of new program, Pakistan's macroeconomic outlook further improved resulting in rating upgrade by Fitch to CCC+ in Jul-24.
- On external side, current account posted a deficit of US$ 0.3mn during 1HCY24 while Current account is in surplus of US$ 0.2mn during 2HCY24. As a result, current account deficit during CY24 stands at US$ 0.1mn mainly led by higher exports and remittances despite debt repayments. Forex reserves also continued to increase due to improvement from external side and buying from SBP. As a result, PKR remained relatively stable appreciating by 1.5% (25-Nov-24) to stand at PKR 277.75/US$.
- Moreover, owing to robust market performance, Pakistan's weightage in MSCI increased from mere 2% to 5% as new scrips were added to FM and FM Small cap index. Total number of companies in FM index increased from 20 to 21 while in Small Cap index it improved from 56 to 67.
- Market re-rating was also supported by improved liquidity as during 1HCY24 foreigners remained net buyers while post interest rate reversal commencing Jun-24, conversions from money market to stock funds have led to net inflows from Mutual Fund during 2HCY24.

## Market Performance

## Key Events During 2024




Source: PSX, CapitalStake, IGI Research

## Market Performance

## Banks/E&Ps major contributors to robust market performance

**Exhibit:** KSEALL volumes (mn shares) – 3rd highest volumes in 2024 since 2010

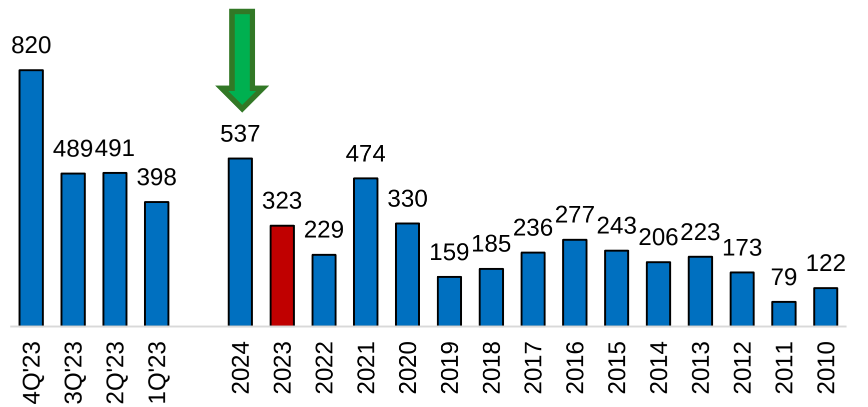



Exhibit: Sector-wise performance – Banks/E&Ps led the charts

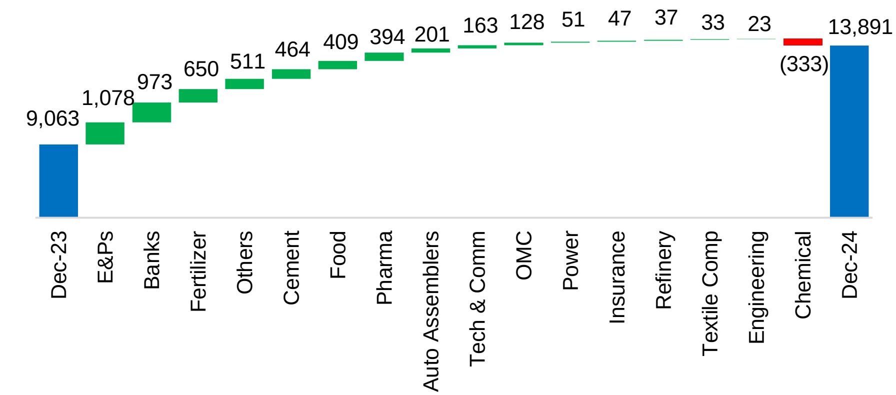



**Exhibit:** Leaders and Laggards

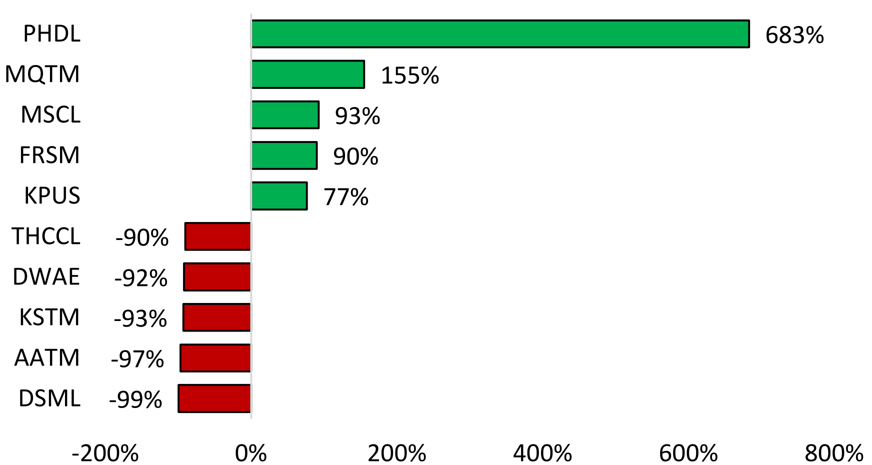
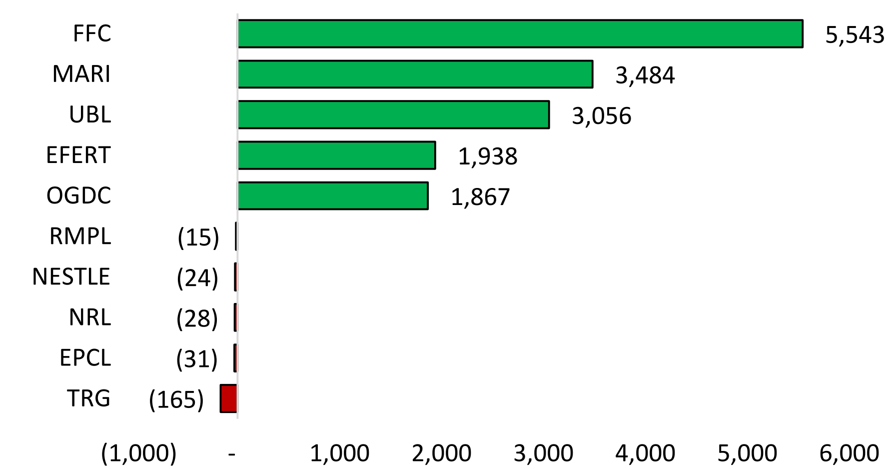



**Exhibit:** Top index contributors – Banks E&Ps led the way




Source: PSX, CapitalStake, Bloomberg, IGI Research, (*Data and Prices as at 10-Dec-2024)*

**Market Performance** | **Monthly Historical Market Performance**

# Macroeconomic and political stability allowed market to continue its positive momentum in to 2024

| Month \ Year | **2024*** | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan | -0.8% | 0.6% | 1.7% | 6.0% | 2.2% | 10.1% | 8.8% | 2.0% | -4.6% | 7.2% | 6.0% | 2.0% |
| Feb | 4.2% | -0.4% | -2.0% | -1.1% | -8.8% | -4.3% | -1.8% | -0.5% | 0.2% | -2.4% | -3.7% | 5.4% |
| Mar | 3.8% | -1.3% | 1.1% | -2.8% | -23.0% | -1.0% | 5.4% | -0.8% | 5.6% | -10.1% | 5.3% | -0.7% |
| Apr | 6.1% | 3.9% | 0.7% | -0.7% | 16.7% | -4.8% | -0.2% | 2.4% | 4.8% | 11.6% | 6.5% | 5.2% |
| May | 6.7% | -0.6% | -4.8% | 8.2% | -0.5% | -2.2% | -5.8% | 2.6% | 3.9% | -2.0% | 2.9% | 15.0% |
| Jun | 3.4% | 0.3% | -3.6% | -1.1% | 1.4% | -5.8% | -2.2% | -8.0% | 4.8% | 4.1% | -0.3% | -3.7% |
| Jul | -0.7% | 15.9% | -3.3% | -0.6% | 14.1% | -5.8% | 1.9% | -1.2% | 4.6% | 3.9% | 2.2% | 11.0% |
| Aug | 0.8% | -6.3% | 5.5% | 0.8% | 4.7% | -7.1% | -2.3% | -10.4% | 0.7% | -2.8% | -5.8% | -4.9% |
| Sep | 3.3% | 2.7% | -2.9% | -5.3% | -1.3% | 8.1% | -1.8% | 2.9% | 1.8% | -7.0% | 4.1% | -1.5% |
| Oct | 9.7% | 12.3% | 0.3% | 2.9% | -1.7% | 6.6% | 1.6% | -6.6% | -1.6% | 6.1% | 2.2% | 4.3% |
| Nov | 13.9% | 16.6% | 2.6% | -2.5% | 3.0% | 14.9% | -2.8% | 1.0% | 6.8% | -5.9% | 2.7% | 6.7% |
| Dec | | 3.2% | -4.6% | -1.1% | 6.5% | 3.7% | -8.5% | 1.2% | 12.2% | 1.7% | 3.0% | 3.9% |
| **CY*** | **74%*** | **55%** | **-9%** | **2%** | **7%** | **10%** | **-8%** | **-15%** | **46%** | **2%** | **27%** | **49%** |

Source: PSX, CapitalStake, IGI Research,
**Return as at 10-Dec-2024, ** Return till 10-Dec-2024*

**Market Performance** | **Market Activity**

## FIPI

## Foreign Investors net Seller in 2024…

- **Improved Liquidity kept Market activity upbeat:** Market volumes during CY24 (10-Dec-2024), increased to average 537mn shares compared to 323mn shares traded in same period last year. During 1HCY23, market volumes averaged 445mn as overall economic condition improved and successful completion of IMF SBA Program. During 2HCY24, volumes further picked up to average 638.6mn as Pakistan successfully entered new IMF EFF program along with commencement of Monetary Easing Cycle. Average daily traded value increased by 106.5% in CY24 (10-Dec-24) to stand at PKR 20.5bn compared to PKR 10.0bn in CY23.
- **Foreign Investors turned net sellers after net buy in 2023:** In terms of value activity, foreign investors were net seller in 2024. Cumulative net selling recorded during CY24 (10-Dec-2024) was US$ 94mn.
- **Fertilizer and E&P Sector witnessed highest selling by Foreign Investors:** Sector wise, Fertilizer, Oil & Gas Exploration, Food, OMCs, Power, Banks and Cement sector saw a cumulative net sell of US$ 147.8mn whereas Technology/Communication and all other sectors attracted net inflow of US$ 69.6mn.

  Foreign investors remained net buyers till Aug-2024 with net buying of US$ 103mn. However, Sep-2024 onwards major selling was witnessed by foreign investors owing to downgrade of Pakistan to Frontier Market from Secondary Emerging by FTSE in Jul-2024. Since Sep-2024 Foreign investors have sold nearly US$ 197mn worth of holding mainly led by companies.

**Market Performance** | **Market Activity**

## LIPI

### …. While Mutual Funds Were Net Buyers in 2024

- **Local buying was mainly led by Mutual Funds and Insurance Companies:** On the local front Companies, Mutual Funds and Insurance Companies poured in nearly US$ 259mn (10-Dec-2024) worth of liquidity, while Banks, Individuals, Other Organization, Brokers and NBFC cumulatively sold US$ 165.0mn (10-Dec-2024).
- During 1HCY4, Insurance companies led the way with net buying of US$ 66mn while mutual funds had net buy of US$ 4.1mn. However, Individuals, Banks and Companies with cumulative net outflow of US$ 117mn remained net sellers during 1HCY4.Mutual Fund's activity remained low to higher interest rates as Monetary Easing Cycle commenced from Jun-2024.
- During 2HCY24, Mutual Funds activity increased substantially and continued to remain net buyers with net inflows of US$ 186.5mn (10-Dec-2024). This was mainly due to decline of 700bps in interest rate since Jun-2024 resulting in conversion towards equity funds and influx of fresh inflows through mutual funds and increase in new accounts. Moreover, other organization and companies also stood as net buyers pouring in US$ 6.3mn and 31.4mn since Jun-2024. However, Individuals, Insurance, brokers and banks were net sellers during 2HCY24 with cumulative net outflow of US$ 60.7mn.

**Market Performance** | **Market Activity**

## Foreign investors net buyer; Banks and Mutual Funds were major sellers

**Exhibit:** Historical Net FIPI (US$ mn)

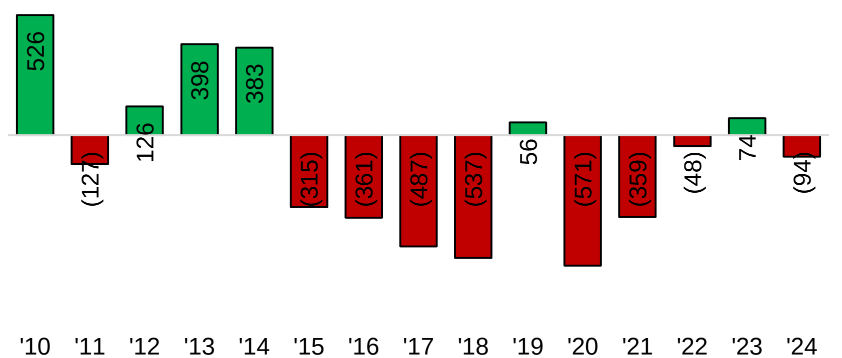



Exhibit: Net FIPI sector wise (US$ mn) in CY24TD

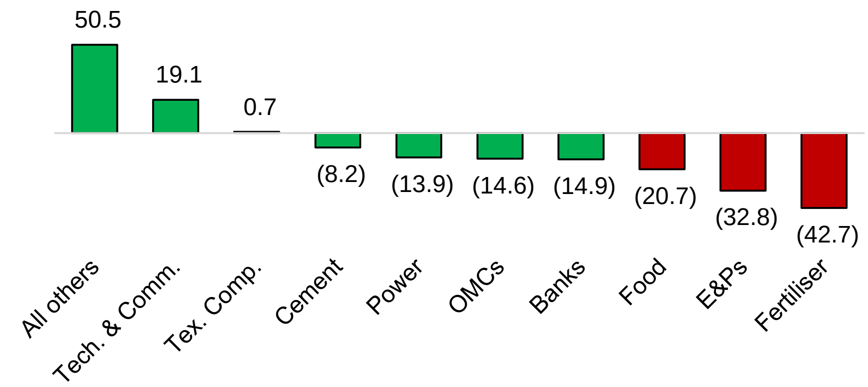



**Exhibit:** LIPI (US$mn) in CY24TD

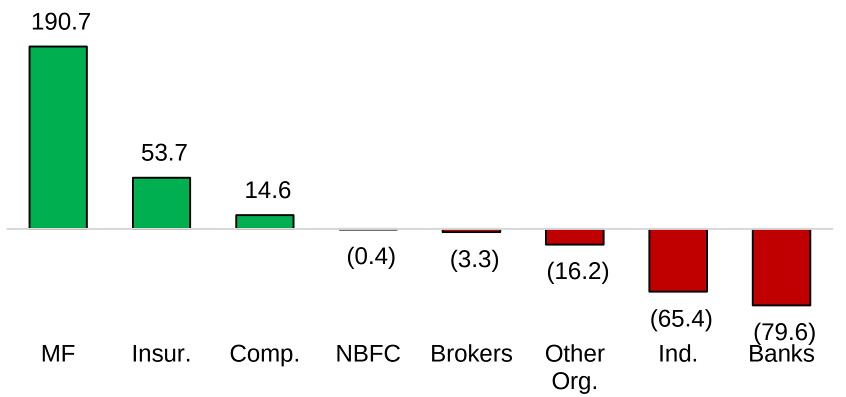
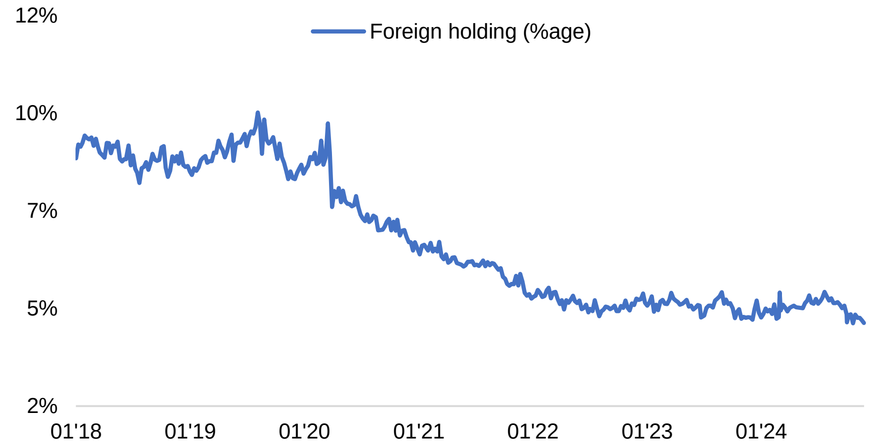



**Exhibit:** Foreign holding of Pakistan Equity as percentage of Market Capitalization




Source: NCCPL, SBP, IGI Research (*Data as at 10-Dec-2024)*

**Market Performance** | **Market Activity**

## MSCI Frontier Market Index

### Pakistan's weightage increased to 4.6%

- **MSCI review:** During CY24, MSCI held 3 quarterly reviews where Pakistan's weightage increased from 2.6% to 4.6% by Nov-2024. Total number companies under Frontier Market index stand at 21 while in Small Cap index total companies stand at 67.
- **Feb-2024 Review:** In Feb-2024, a total of 3 new companies were added in MSCI Frontier Market Index (BAHL, ILP and SNGP) while 19 new companies (AKBL, AICL, GHGL, WTL, HASCOL, PSX, FEROZ, CEPB, JSBL, MUREB, AGL, SSGC, IGIHL, TREET, NCL, ASL, SGF, PCAL and GHNI) were added in Small Cap index. As a result total companies in Frontier index stood at 20 while in small cap index total companies were increased to 56. This brought total number of companies in FM Standard Index to 20 companies and 56 companies under FM Small Cap Index. The new changes in constituents were effective from 01st-Mar-2024.
- **Aug-2024 Review:** In Aug-2024, 1 company was moved from FM Small Cap Index to FM Index namely SAZEW. There were no deletions from FM Index in Aug-2024 review. In Small Cap Index, 6 new companies (ATBA, SNBL, OCTOPUS, HABSM, GAL and LOTCHEM) were added while HASCOL was removed from Small Cap Index. This brought total number of companies in FM Standard Index to 22 companies and 60 companies under FM Small Cap Index. The new changes in constituents were effective from 01st-Sep-2024.
- **Nov-2024 Review:** In Nov-2024, there were no addition to MSCI FM Index. However, TRG was moved from FM Index to Small Cap Index. In Small Cap Index, a total of 8 companies were added including  CPHL, CSAP, FCL, FLYNG, PAKOXY, SHFA, THCCL and TRG. TRG was moved from FM Index to Small Cap while FFBL was removed from Small Cap Index. This brings total number of companies in FM Standard Index to 21 companies and 67 companies under FM Small Cap Index. The new changes in constituents were effective from close of market on 25th-Nov-2024.

Market Performance | Market Activity

## MSCI Frontier Market Index

**Exhibit: MSCI Frontier Market Index**

| # | Company | Status | FIF Mkt Cap (USDmn)* | Weight (%) |
|---|---|---|---|---|
| 1 | UBL | No Change | 550 | 0.4% |
| 2 | FFC | No Change | 515 | 0.4% |
| 3 | HUBC | No Change | 387 | 0.3% |
| 4 | EFERT | No Change | 373 | 0.3% |
| 5 | OGDC | No Change | 373 | 0.3% |
| 6 | LUCK | No Change | 373 | 0.3% |
| 7 | MCB | No Change | 364 | 0.3% |
| 8 | MARI | No Change | 351 | 0.3% |
| 9 | ENGRO | No Change | 289 | 0.2% |
| 10 | BAHL | No Change | 280 | 0.2% |
| 11 | PPL | No Change | 277 | 0.2% |
| 12 | HBL | No Change | 276 | 0.2% |
| 13 | SYS | No Change | 259 | 0.2% |
| 14 | MTL | No Change | 223 | 0.2% |
| 15 | POL | No Change | 205 | 0.2% |
| 16 | PSO | No Change | 169 | 0.1% |
| 17 | BAFL | No Change | 167 | 0.1% |
| 18 | NBP | No Change | 110 | 0.1% |
| 19 | SAZEW | No Change | 80 | 0.1% |
| 20 | SNGP | No Change | 77 | 0.1% |
| 21 | ILP | No Change | 63 | 0.1% |

Source: MSCI, PSX, IGI Research
*FIF Mkt Cap as of 31-Oct-24

**Exhibit: MSCI FM Small Cap Index**

| # | Company | FIF Mkt Cap (USDmn)* | # | Company | FIF Mkt Cap (USDmn)* | # | Company | FIF Mkt Cap (USDmn)* |
|---|---|---|---|---|---|---|---|---|
| 1 | CHCC | 105.87 | 24 | HUMNL | 27.08 | 47 | CSAP | 14.1 |
| 2 | PIOC | 79.6 | 25 | PABC | 26.0 | 48 | LOTCHEM | 13.9 |
| 3 | TRG | 75.8 | 26 | GHGL | 25.9 | 49 | OCTOPUS | 12.8 |
| 4 | ATRL | 66.7 | 27 | MUREB | 24.9 | 50 | GATM | 12.7 |
| 5 | DGKC | 66.5 | 28 | NCPL | 23.3 | 51 | CEPB | 12.6 |
| 6 | ABL | 49.1 | 29 | AVN | 22.8 | 52 | JSBL | 12.2 |
| 7 | KAPCO | 48.2 | 30 | CNERGY | 22.1 | 53 | NETSOL | 12.1 |
| 8 | SEARL | 47.5 | 31 | MUGHAL | 21.8 | 54 | CPHL | 12.0 |
| 9 | AIRLINK | 43.3 | 32 | FLYNG | 21.7 | 55 | JSCL | 11.7 |
| 10 | NATF | 41.7 | 33 | THCCL | 20.8 | 56 | HABSM | 11.6 |
| 11 | UNITY | 39.9 | 34 | NRL | 19.4 | 57 | AGHA | 11.1 |
| 12 | AGP | 38.9 | 35 | PAKOXY | 18.9 | 58 | LPL | 11.1 |
| 13 | ATLH | 37.8 | 36 | IGIHL | 18.5 | 59 | NCL | 9.8 |
| 14 | PAEL | 37.8 | 37 | PRL | 18.3 | 60 | SGF | 9.7 |
| 15 | ISL | 37.2 | 38 | FEROZ | 17.7 | 61 | EPQL | 8.8 |
| 16 | NML | 34.8 | 39 | GHNI | 17.3 | 62 | ATBA | 8.7 |
| 17 | INIL | 32.5 | 40 | NPL | 17.2 | 63 | TREET | 8.5 |
| 18 | SHFA | 32.1 | 41 | SNBL | 16.8 | 64 | PCAL | 7.8 |
| 19 | AGL | 32.0 | 42 | PIBTL | 16.6 | 65 | ASL | 7.6 |
| 20 | AICL | 31.8 | 43 | GAL | 15.8 | 66 | FCL | 7.1 |
| 21 | BOP | 28.9 | 44 | SSGC | 15.2 | 67 | TPLP | 5.9 |
| 22 | PSX | 27.9 | 45 | ACPL | 15.0 | | | |
| 23 | TGL | 27.5 | 46 | WTL | 14.2 | | | |

Source: MSCI, PSX, IGI Research
*FIF Mkt Cap as of 31-Oct-24

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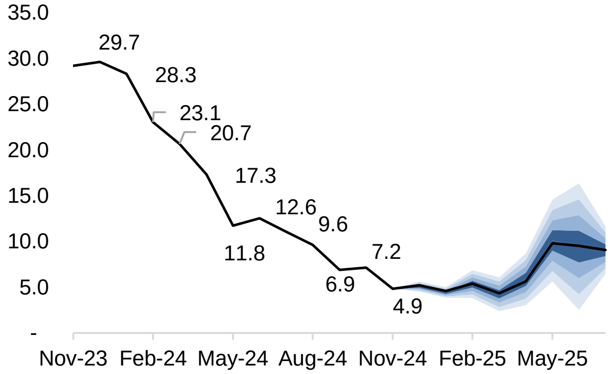
# ECONOMY

## Economy

## Inflation

# High Base and ease in supply dragged CPI; Disinflation likely to Continue

**Exhibit:** Headline inflation down to single digit since Aug-24 (%)




- **Inflation witnessed a sharp decline in 2024…:** Inflation dropped during CY24 mainly due to high base effect, lower POL and slowdown in food prices. Inflation witnessed a substantial decline in May-2024 with inflation falling to 11.8% compared to 17.3% in Apr-2024 as food prices recorded 7.8%m/m decline. From 2HCY24 inflation further dropped to single digit as CPI reading was recorded at 4.9% in Nov-2024 compared to xx% in Jun-2024.
- For FY24, average inflation stood at 23.9% compared to 29.0% in FY23. Decline in inflation during FY24 was mainly led by lower food prices and high base effect in 2HFY24. for 5MFY25 average inflation is further down to 7.9% compared to 28.6% in the same period last year.
- **High base effect, ease in food, POL and housing prices:** Improvement in average inflation during 5MFY25 was mainly led by ease in food prices which stood at average increase of 1.3% compared to 1.6%m/m in 5MFY24. Housing prices also eased substantially with negligible increase of 0.02%m/m compared to +4.7%m/m in 5MFY24 mainly due to negative FCA. Transport index declined by 0.4%m/m during 5MFY24 compared to average monthly increase of +2.3%m/m in the same period last year mainly due to lower POL, LPG and transport services. Moreover, lower inflation reading was further supported by high base effect.
- **Inflation likely to average between 7-8% for FY25**: We expect inflation is likely to average 7.3% for FY25 mainly due to high base effect initially, ease in food prices owing to better supply conditions and higher interest rates (significantly higher real rates). Moreover, ease in global oil and commodity prices along with stable exchange rate is also likely to contribute towards lower inflation reading in FY25.
- **Key risk to inflation outlook:** We highlight certain risks to our inflation outlook which include rise in international oil prices, PKR depreciation, new taxation measures such as higher PDL or imposition of GST on POL products, adjustment in energy prices (electricity and gas).

## Economy

## Monetary Policy

### Expecting Further 300bps Cut in Policy Rate to 12% by Jun-2025

- **Policy Rate down by 700bps in 2024:** As inflation started receding from start of 2024, SBP adopted a prudent approach to monitor inflation and kept interest rates unchanged at 22% till May-2024. However, in Jun-2024 as inflation dropped to 12.6%, SBP slashed interest rates by 150bps to 20.5%. During 2HCY24, SBP further cut interest rates by a cumulative of 550bps to stand at 15% taking total rate cut to 700bps.
- **Real Rates stand significantly positive**: Based on Nov-2024 inflation reading of 4.9%, real rate have again jumped to ~10% despite rate cut of 250bps in Nov-2024. The average real rates historically have stood between 1.5%-2.0% indicating that SBP has substantial room to cut interest rates. Even on 12-month forward inflation, real rates stand significantly positive.
- **However, low base effect to kick in from 2QCY25**: Although inflation is likely to stay in single digit till Apr-2025, low base effect will kick in from May-2024 leading to significant increase in inflation. However, despite the increase current real rates are still higher than historic average and what is required for disinflationary stance.
- **Policy rate to come down further:** We expect SBP is likely to cut rates further in Dec-2024 by 200bps, bringing Policy rate at 13%. However, commencing 2025, we anticipate SBP to adopt a more cautious approach and by Jun-2025 we expect Policy Rate to stand at 12% considering higher inflation due to low base effect.

## Economy

## Inflation & Monetary Policy

**Exhibit:** Pakistan CPI Historical – Inflation down to single digit

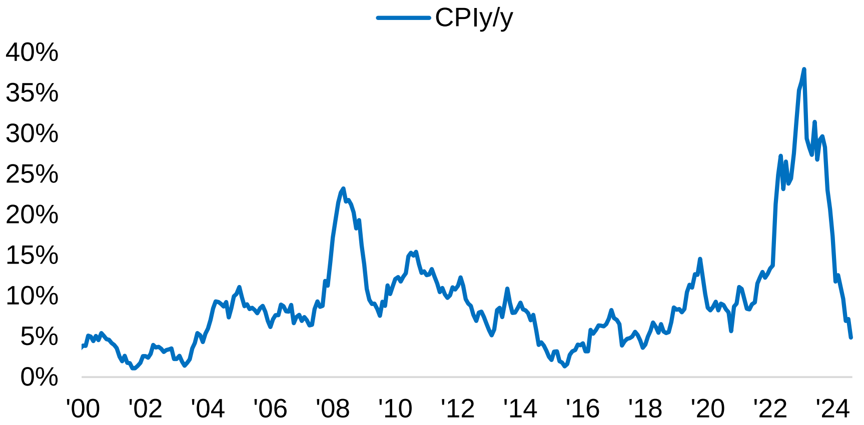



**Exhibit:** Policy Rate and 3M forward Real Rates

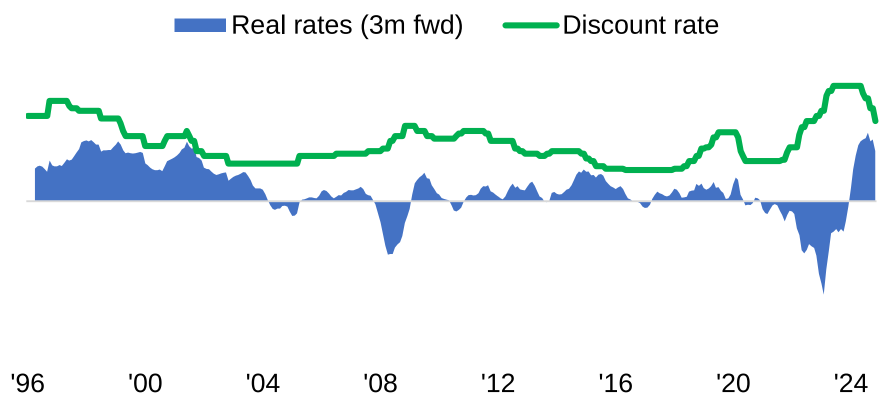



**Exhibit: National CPI Heat Map**

| | Nov-24 | Oct-24 | Sep-24 | Aug-24 | Jul-24 | Jun-24 | May-24 | Apr-24 | Mar-24 | Feb-24 | Jan-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **General** | **4.9** | **7.2** | **6.9** | **9.6** | **11.1** | **12.6** | **11.8** | **17.3** | **20.7** | **23.1** | **28.3** | **29.7** |
| Food | -0.2 | 0.9 | -0.6 | 2.5 | 1.6 | 1.0 | -0.2 | 9.7 | 17.2 | 18.1 | 25.0 | 27.5 |
| Transport | -2.8 | -6.1 | -7.3 | 3.2 | 12.2 | 10.4 | 10.4 | 12.5 | 11.2 | 15.0 | 26.2 | 28.6 |
| Utility/Rent | 7.9 | 19.2 | 20.9 | 22.2 | 25.3 | 35.3 | 33.0 | 35.7 | 36.6 | 36.1 | 38.6 | 37.7 |
| Essentials | 13.2 | 13.1 | 14.4 | 16.1 | 17.5 | 17.4 | 17.5 | 17.9 | 15.8 | 18.4 | 19.5 | 18.6 |
| Disc. | 8.7 | 8.8 | 9.1 | 9.7 | 11.6 | 12.0 | 12.6 | 17.1 | 19.2 | 26.5 | 32.4 | 34.9 |

Source: PBS, IGI Research

Economy

## Current Account Balance

### Current account to remain manageable

- **C/a balance witnessed significant reduction:** During 4MFY25, Current Balance stood at a surplus of US$ 0.22mn compared to a deficit of US$ 1,528mn in the same period last year. Out of 4 month, current account has posted a surplus in 3 months. Substantial improvement in current account balance was witnessed owing to higher exports and remittances despite increase in imports and continuous debt repayments.
- **C/a likely to remain manageable in FY25**: We expect deficit to settle at US$ 1.4bn (or 0.4% of GDP) in FY25. C/a deficit is likely to be on the lower side owing to improvement in exports and remittances. Decline in oil prices and non-essential import curbs are likely to keep imports growth restricted. Growth in imports would be mainly led by machinery and textile imports mainly due to surge in cotton imports. Exports are likely to be supported by growth in IT and textile exports. However, we expect agriculture exports are likely to decline amid stiffer competition from India. As a result, we expect trade deficit to settle at US$ 27.6bn (or 7% of GDP).
- **Higher Remittances to restrict overall deficit:** During 4MFY25, remittances have increased by nearly +35%y/y to US$ 9.5bn compared to US$ 6.6bn in the same period last year. Increase in remittance was mainly led by U.A.E, U.K and Saudi Arabia with 56%y/y, 39%y/y and 37%y/y growth respectively. Higher remittances are largely supported by curb in illegal flow of currency and stable PKR against greenback. We expect overall remittances to clock in at US$ 34.8bn in FY25, up by +15%y/y compared to US$ 30.3bn last year.

## Economy

## Current Account Balance

**Exhibit:** Current Account Balance (US$ bn)

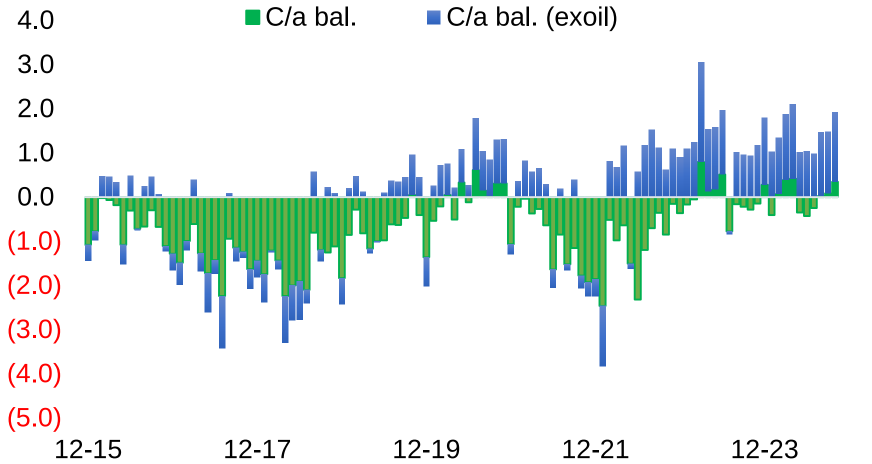



**Exhibit**: SBP Foreign Exchange (FX) Reserves and import Coverage (x)

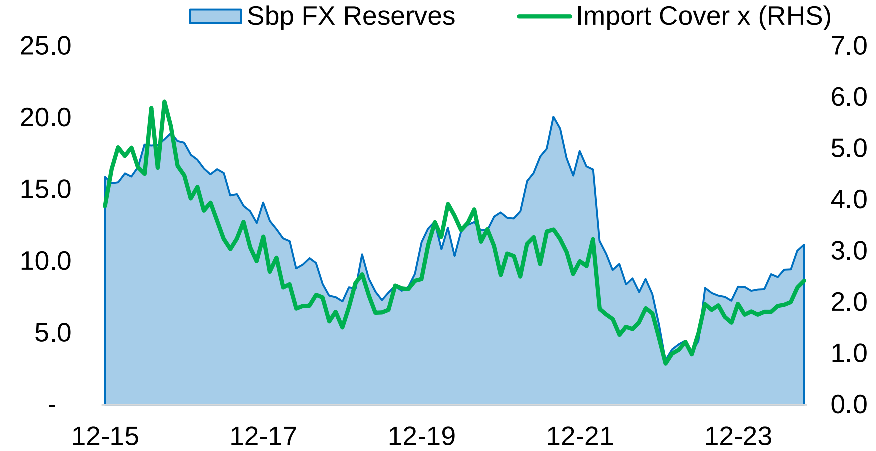



**Exhibit:** Historical Trade Balance (US$ bn)

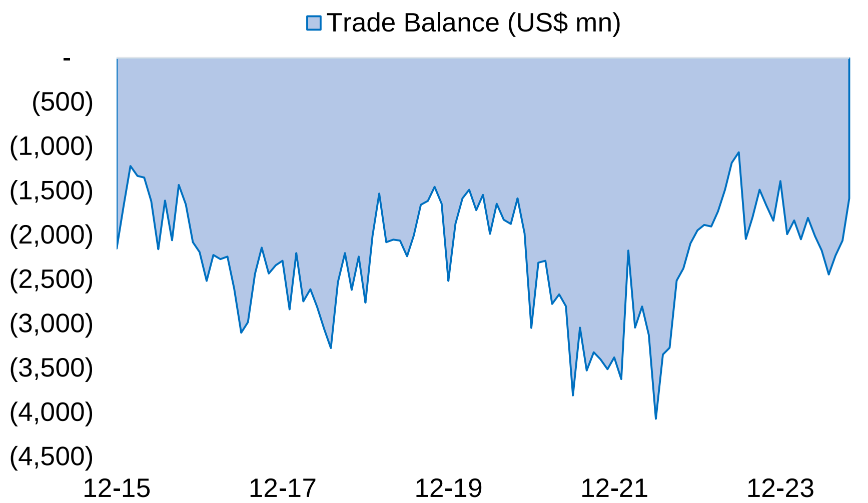
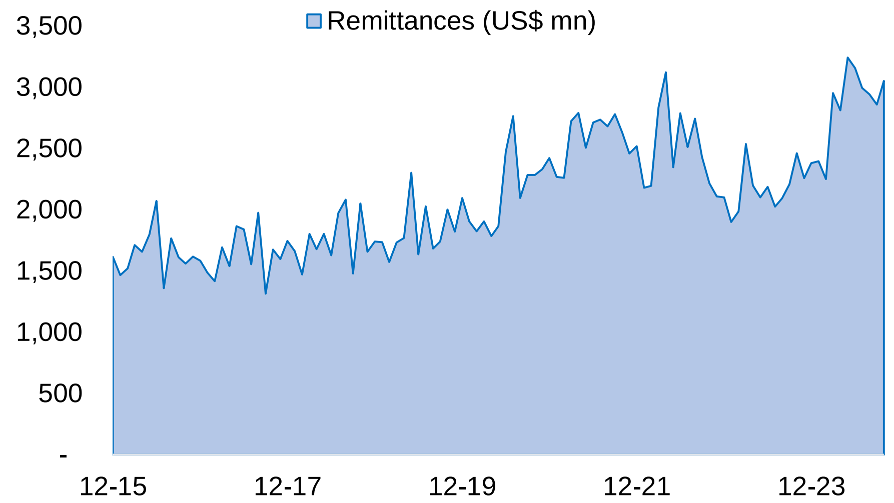



**Exhibit**: Historical Remittances (US$ mn)




Source: SBP, IGI Research (*Data as at 10-Dec-2024*)

**Economy** | **Foreign Exchange Reserves and PKR**

## PKR to remain relatively stable

- **PKR remained relatively stable in 2024**: After depreciating 24%y/y in 2023, PKR remained relatively stable appreciating by 1.4%y/y (10-Dec-2024) in 2024. This was mainly due to tighter measures to curb illegal flow of currency, improvement in trade balance, buildup in Forex reserves, signing of new EFF program with IMF and higher remittances.
- **PKR likely to remain stable in FY25:** In our view, we expect currency to average at PKR 285/USD in FY25 and close at PKR 290/USD in Jun-25 depicting a depreciation of 1%y/y and 3%y/y respectively. We expect exchange rate to stand at PKR 295/USD at Dec-25. To note, sustainability of remittances, manageable C/a deficit (0-1% of GDP) and support from friendly countries, Multilateral and Bilateral Partners remain critical for stability of PKR.
- **SBP reserves likely to stand at US$ 17.8bn by Jun-25**:SBP has been able to buildup forex reserves which currently stand at US$ 16.62bn as at 29-Nov-2024 which stood at US$ 12.7bn at Dec-2023. This was achieved by buying excess liquidity from local market due to lower demand and improvement in current account balance despite making timely debt repayments. Considering stable PKR and C/a likely to remain manageable between 0-1% of GDP in FY25, we expect Forex reserves are likely to further increase to US$ 17.8bn by end of FY25.
- **External inflows key to meet obligations**: In our view, support from friendly countries remains critical in building up Foreign Exchange reserves which currently stand at US$ 16.62bn. In this regard, continuation of IMF program remains critical. Pakistan has to repay total of US$ 26.1bn in FY25 (US$ 22bn in principle and US$ 4bn in interest). SBP in its post MPC briefing in Nov-2024 stated that out of these payments, US$ 16.4bn is expected to be rolled over with US$ 2.3bn already rolled over. Pakistan has made payments of US$ 5.7bn so far in FY25 including the US$ 2.3bn rollover. This leaves roughly US$ 6.3bn to be repaid in the remaining months of FY25. At current SBP reserves of US$ 11.4bn, these payments are likely to managed easily. However, over the next 3 years debt repayments are likely to remain high and therefore support from friendly countries remains critical to avoid pressure on FX reserves.

## Economy

## Foreign Exchange Reserves and PKR

**Exhibit:** US$/PKR historical

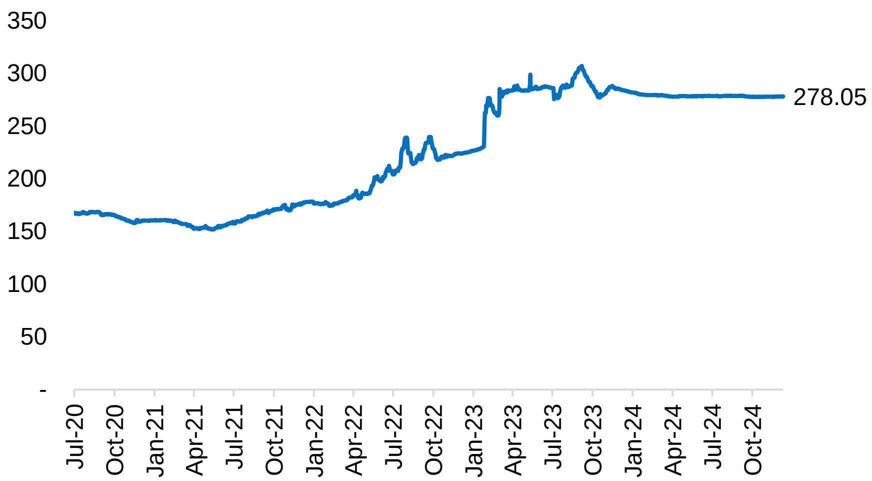



**Exhibit**: Historical PKR Movement against US$ (annual)

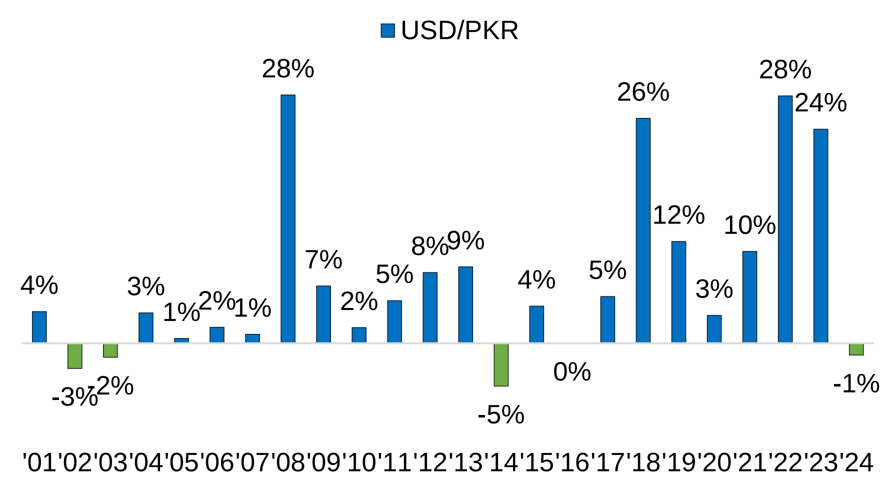
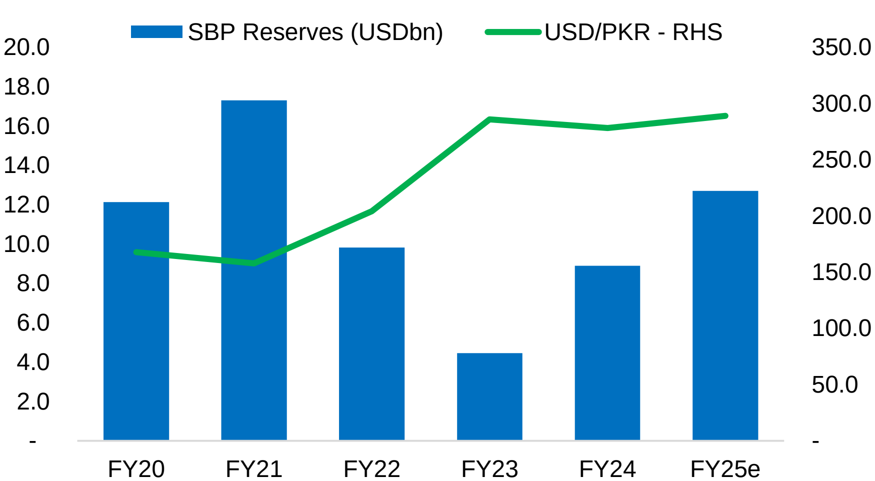
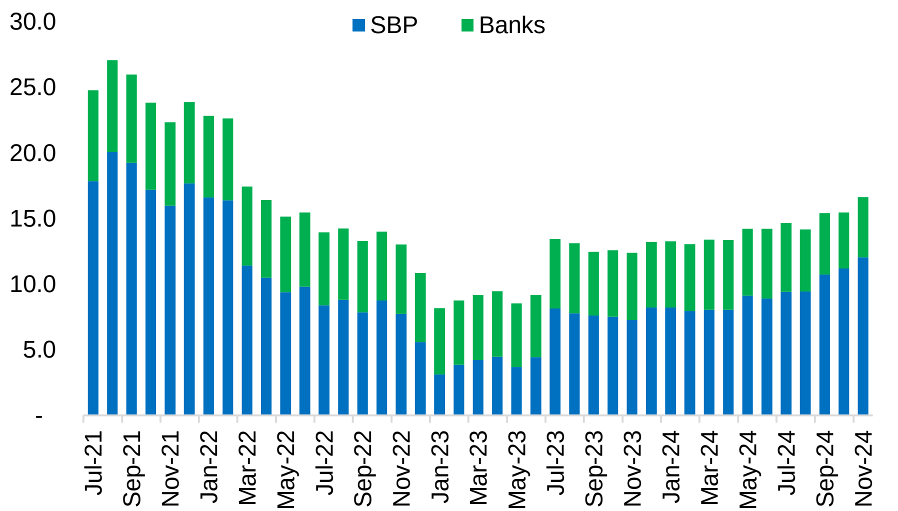



**Exhibit:** SBP reserves and exchange rate (period end)




Source: PBS, SBP, IGI Research

**Exhibit**: Monthly breakup of FX reserves (US$ bn)



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**Economy** | **Growth**

## Modest Growth in FY25; Higher from FY26 onwards

- **FY24 GDP growth stood at 2.5%**: As per revised numbers published by National Accounts Committee (NAC) GDP growth stood at 2.5% for FY24. GDP growth during FY24 was mainly led by Agriculture sector posting 6.4% growth. Services sector posted 2.2% growth while industrial sector posted negative growth of -1.1% during FY24.
- **GDP likely to settle at 2.8% in FY25**: We expect Pakistan GDP growth to settle at 2.8% in FY25 mainly led by growth in services and industrial sector. Agriculture yields are likely to remain subdued during FY25 thus leading to a meagre 0.8% growth expected in FY25. heavy monsoon downpours during Jul-Sep 2024 and flood like conditions are likely to impact wheat and cotton output in FY25. Improvement is expected in industrial sector owing to decline in interest rates and pick up in economic activity. As a result we anticipate, industrial sector to post +2.8% growth in FY25. However in FY25, we expect services sector to continue to drive growth with expected increase of 3.6%.

**Exhibit:** Historical GDP Growth (%)

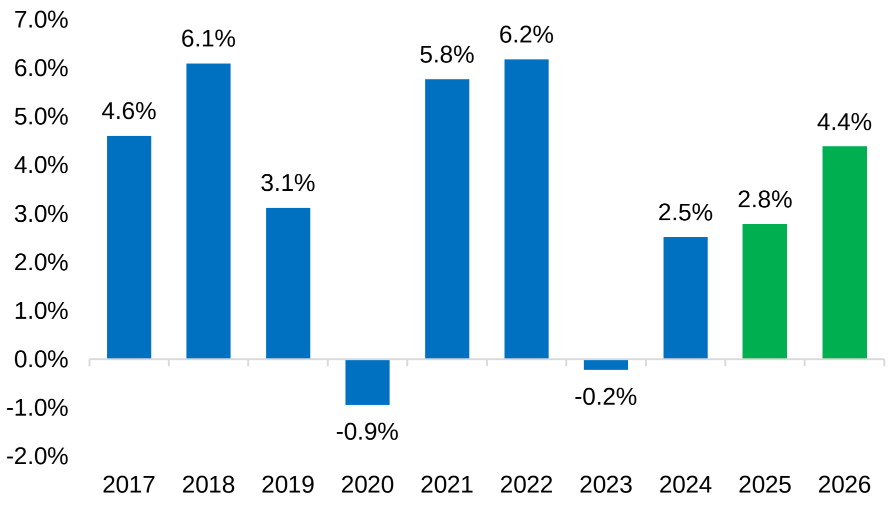
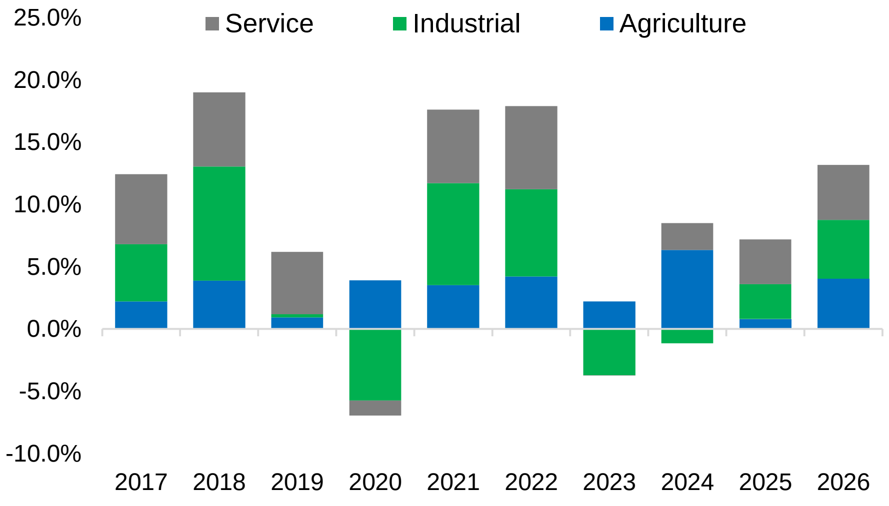



**Exhibit**: Sector wise contribution to GDP.(%)




Source: PBS, IGI Research

## Economy

## Fiscal Accounts

### Fiscal Discipline key to Ensure Sustainability

- **First Fiscal Surplus reported since 2004:** During 1QFY25, Pakistan reported its first surplus since 2004 which stood at PKR 1.7trn. This was mainly supported by higher non-tax revenues as Government received extraordinary profit of PKR 2.5trn from SBP. This led to a primary surplus of PKR 3trn. During FY24, Fiscal deficit increased to PKR 7.21trn from PKR 6.5trn in FY23, however, as a % of GDP Budget deficit declined from 7.8% in FY23 to 6.8% in FY23. Moreover, Pakistan achieved primary surplus of PKR 0.95trn in FY24 compared to primary deficit of PKR 0.83trn in FY23 mainly due to significantly higher revenues despite rise in interest payments.
- **Tax Revenue shortfall a concern; SBP profits may restrict overall deficit:** In the first 5 months of FY25, FBR's revenue shortfall stood at PKR 356bn against the target. This was mainly due to mismatch in assumptions. Direct tax collection has remained on track while indirect taxation such as sales tax, federal excise duty and customs duty reported major shortfalls. However, overall fiscal deficit may be contained due to extraordinary profit received from SBP. We expect fiscal deficit at 5.0% of GDP for FY25.
- **Fiscal Discipline key to manage inflation and current account:** As per IMF Pakistan has to maintain primary surplus and restrict Fiscal Deficit. As per IMF requirement Pakistan has to minimize unbudgeted subsidies, restrict spending and increase its revenue. In order to contain fiscal deficit, Government has reduced PSDP spending on various projects and has also maintained Petroleum Levy at optimum level.
- **Mini-budget or cut in PSDP amid tax shortfall:** As FBR has reported almost PKR 356bn shortfall in 5MFY25, there are concerns that IMF may insist on meeting the target through mini-budget or other measures. So far Finance Minister has refuted the need for mini-budget and expects that tax collection would increase from Dec-24 onwards. The Government is also planning on imposing tax on pesticides to cover revenue deficit. However, we expect that Government can reduce PSDP to allow room for lower tax collection and avoid the need for a mini-budget.

## Economy

## Fiscal Accounts

**Exhibit: Pakistan Fiscal Operations**

| In PKR bn | 2021 | 2022 | 2023 | 2024 | 2025e | 2026f |
|---|---|---|---|---|---|---|
| Total Revenue | 6,903 | 8,035 | 9,634 | 13,269 | 17,962 | 20,003 |
| Tax Revenues | 5,273 | 6,755 | 7,819 | 10,085 | 13,154 | 15,916 |
| Non-Tax Revenues | 1,631 | 1,280 | 1,815 | 3,184 | 4,808 | 4,086 |
| Current Expenditure | 9,084 | 11,521 | 14,448 | 18,571 | 21,357 | 24,499 |
| Interest Payments | 2,750 | 3,182 | 5,696 | 8,160 | 7,833 | 8,068 |
| Defense | 1,316 | 1,412 | 1,586 | 1,859 | 2,122 | 2,313 |
| Development Expenditure | 1,316 | 1,657 | 1,953 | 2,078 | 2,325 | 2,616 |
| PSDP | 1,211 | 1,617 | 1,893 | 1,827 | 2,245 | 2,536 |
| Primary Deficit | -654 | -2,077 | -826 | 953 | 2,287 | 915 |
| Budget Deficit | -3,403 | -5,260 | -6,522 | -7,207 | -5,719 | -7,113 |
| GDP (PKRbn) | 47,709 | 66,950 | 83,955 | 105,741 | 116,724 | 134,208 |
| **%age of gdp** | | | | | | |
| Total Revenue | 14.5% | 12.0% | 11.5% | 12.5% | 15.4% | 14.9% |
| Tax Revenues | 11.1% | 10.1% | 9.3% | 9.5% | 11.3% | 11.9% |
| Non-Tax Revenues | 3.4% | 1.9% | 2.2% | 3.0% | 4.1% | 3.1% |
| Current Expenditure | 19.0% | 17.2% | 17.2% | 17.6% | 18.3% | 18.3% |
| Interest Payments | 5.8% | 4.8% | 6.8% | 7.7% | 6.7% | 6.0% |
| Defense | 2.8% | 2.1% | 1.9% | 1.8% | 1.8% | 1.7% |
| Development Expenditure | 2.8% | 2.5% | 2.3% | 2.0% | 2.0% | 2.0% |
| PSDP | 2.5% | 2.4% | 2.3% | 1.7% | 1.9% | 1.9% |
| Primary Deficit | -1.4% | -3.1% | -1.0% | 0.9% | 2.0% | 0.7% |
| Budget Deficit | -7.1% | -7.9% | -7.8% | -6.8% | -4.9% | -5.3% |

Source: Ministry of Finance, IGI Research

## Economy

## Key Macroeconomic Indicators

**Exhibit: Key macroeconomic forecast**

| | | 2021a | 2022a | 2023a | 2024a | 2025f | 2026f |
|---|---|---|---|---|---|---|---|
| **Real Sector** | | | | | | | |
| GDP (growth rate) | % | 5.8% | 6.2% | -0.2% | 2.5% | 2.8% | 4.4% |
| GDP (in US$) | US$bn | 348.9 | 375.6 | 334.6 | 373.2 | 410.0 | 446.4 |
| GDP per Capita | US$ | 1,567.6 | 1,654.8 | 1,445.9 | 1,581.7 | 1,704.3 | 1,820.3 |
| **Prices and Policy Rate** | | | | | | | |
| CPI (National) | %y/y | 9% | 12% | 29% | 24% | 8% | 10% |
| Policy Rate (Target) | % | 7% | 14% | 22% | 21% | 12% | 12% |
| **External Accounts** | | | | | | | |
| Current Account Balance | US$bn | (2.8) | (17.5) | (3.3) | (1.7) | (1.4) | (2.4) |
| Exports (G) | US$bn | 25.6 | 32.5 | 27.9 | 31.0 | 32.4 | 34.3 |
| Imports (G) | US$bn | 54.3 | 71.5 | 52.7 | 53.1 | 60.0 | 65.7 |
| Trade Balance | US$bn | (28.6) | (39.1) | (24.8) | (22.1) | (27.6) | (31.4) |
| Remittances | US$bn | 29.5 | 31.3 | 27.3 | 30.3 | 34.8 | 36.6 |
| Curr. Acc Bal. / GDP | % | -1% | -5% | -1% | 0% | 0% | -1% |
| Trade Balance / GDP | % | -8% | -10% | -7% | -6% | -7% | -7% |
| Total: Import Cover | x | 5.4 | 4.0 | 2.0 | 3.1 | 3.6 | 3.4 |
| Fx Reserves | US$bn | 24.4 | 15.4 | 9.2 | 14.0 | 17.8 | 18.6 |
| USD (Closing) | | 156.2 | 204.4 | 286.0 | 278.3 | 285.0 | 300.0 |
| **Fiscal Accounts** | | | | | | | |
| Total Revenue | %age of GDP | 12% | 12% | 11% | 13% | 12% | 12% |
| Current Expenditure | %age of GDP | 16% | 17% | 17% | 18% | 16% | 14% |
| Budget Deficit | %age of GDP | -6% | -8% | -8% | -7% | -5% | -5% |

Source: SBP, PBS, MoF, IGI Research

## Economy

## Pakistan and IMF

### IMF; Long Term Program Critical for Sustainable Economic Recovery

- **SBA with IMF**: Pakistan in Jul-23 signed a new SBA of US$ 3bn with IMF for a period of nine months ending Mar-24. To note, Pakistan's EFF program remained incomplete after failure to successfully conclude 9th review. Upon approval of SBA by IMF board, Pakistan received US$ 1.2bn. Pakistan also successfully completed 1st review under SBA in Nov-23 and post approval of IMF Board Pakistan will receive US$ 0.7bn which is scheduled on 11-Jan-24.
- **IMF EFF Program**: The Executive Board of International Monetary Fund (IMF) in its meeting held on 25-Sep-24 approved 37-Month Extended Fund Facility (EFF) for Pakistan worth US$ 7bn (SDR 5,320mn). Pakistan received US$ 1.1bn (or SDR 760mn) post board approval. To recall, IMF team visited Pakistan and held discussions for the new EFF program during May 13-23, 2024. The discussions continued virtually after the team left Pakistan and towards the end of the discussion Pakistan and IMF have successfully reached an SLA on a comprehensive program on 12th-Jul-2024.
- **Program focus**: It involves measures to reinforce fiscal and monetary policies, market determined exchange rate, expand the tax base, improve the management of State-Owned Enterprises (SOEs), enhance competition, ensure fair investment opportunities, develop human capital, and increase the scope and benefits of social protection, particularly through the Benazir Income Support Program (BISP). Provinces are also required to increase tax income from agriculture sector by enhancing tax rates to bring it at par with income tax at federal level. The federal government would require cooperation from all four provinces to successfully complete the IMF program.
- **Government Buyback of Shorter tenure Tbills:** The Government initiated its domestic debt buyback program in Sep-24 when it bought back T-Bills worth PKR 351bn which were set to mature in Dec-24 in an attempt to restructure its debt profile by opting for long-term borrowing over short-term domestic bonds to reduce interest expenses and avoid frequent repayment pressures. With higher debt levels and lower tax-to-GDP ratio, even moderate debt servicing limits fiscal flexibility, leading to under-investment in key drivers of sustainable and inclusive growth. Therefore, the IMF program has conditioned the Government to transition its domestic debt to longer term maturities which would enable the government to more effectively plan for higher tax revenues and reduce its dependence on debt.

## Economy

## Pakistan and IMF

| Structural Benchmarks | Rationale | Status |
|---|---|---|
| **Fiscal** | | |
| Do not grant tax amnesties, and do not issue any new preferential tax treatment. | Protection of tax Revenue | Continuous |
| Obtain prior parliamentary approval for any unbudgeted expenditures or those exceeding limits. | Enhance parliamentary oversight of budget execution | Continuous |
| Amendments to be made in Agriculture Income Tax Legislation and Regime by each province to commence taxation from January 1, 2025. | Protection of Tax Revenue | Oct’24 end |
| Implementation of Compliance Risk Management measures in Large Taxpayer Units. | Improve Tax Compliance | Dec’24 end |
| 5% FED on fertilizer and pesticide. | Protection of Tax Revenue | Jun’25 end |
| **Monetary and Financials** | | |
| Average premium between the interbank and open market rates will not exceed 1.25% over any five consecutive business days. | Maintain FX market functioning | Continuous |
| Parliamentary approval of amendments to the bank resolution and deposit insurance legislation | Strengthen crisis management toolkit | Oct'24 end |
| Place undercapitalized private banks under resolution unless: i) the bank is fully recapitalized by Oct-24, ii) a binding agreement for merger or new sponsor is in place by Oct-24 to achieve full recapitalization by Apr-25. | Enforcement of Regulatory Standards | Nov’24 end |
| Revised regulations on risk mitigating measures to be implemented. | Enhance protections in monetary policy framework | Sep’25 end |
| **Energy Sector** | | |
| Finalize all necessary policy actions to prepare two DISCOs for privatization and concession deals. | Improve DISCO management and efficiency | Jan’25 end |
| Eliminate captive power usage in the gas sector and redirect them to the electricity grid. | Allocate gas to the most efficient generators | Jan’25 end |
| Public notification by the government of the Dec-24 semiannual gas tariff adjustment determination. | Maintain tariffs at cost recovery levels | Feb’25 end |
| **SOEs and Investment Policy** | | |
| Amend the SWF Act and other legislation, in consultation with IMF staff and in line with MEFP. | Align all SOEs with the 2023 SOE legal framework and enhance SWF governance | Dec’24 end |
| Amend the laws for 10 additional statutory SOEs, in consultation with Fund staff and in line with MEFP. | Align all SOEs with the 2023 SOE legal framework | Jun’25 end |
| Prepare a plan based on the assessment conducted to fully phase out all current SEZs incentives by 2035. | Enhance efficiency and ensure a fair environment for investment. | Jun’25 end |

Source: IMF, IGI Research

## Economy

## Pakistan and IMF

### Exhibit: Pakistan and IMF

| Facility | Start Date | Expiration Date | Amount (SDR) | Amount Drawn (SDR) |
|---|---|---|---|---|
| Standby Arrangement | Dec-58 | Sep-59 | 25 | - |
| Standby Arrangement | Mar-65 | Mar-66 | 38 | 38 |
| Standby Arrangement | Oct-68 | Oct-69 | 75 | 75 |
| Standby Arrangement | May-72 | May-73 | 100 | 84 |
| Standby Arrangement | Aug-73 | Aug-74 | 75 | 75 |
| Standby Arrangement | Nov-74 | Nov-75 | 75 | 75 |
| Standby Arrangement | Mar-77 | Mar-78 | 80 | 80 |
| Extended Fund Facility | Nov-80 | Dec-81 | 1,268 | 349 |
| Extended Fund Facility | Dec-81 | Nov-83 | 919 | 730 |
| Structural Adjustment Facility Commitment | Dec-88 | Dec-91 | 382 | 382 |
| Standby Arrangement | Dec-88 | Nov-90 | 273 | 194 |
| Standby Arrangement | Sep-93 | Feb-94 | 265 | 88 |
| Extended Credit Facility | Feb-94 | Dec-95 | 607 | 172 |
| Extended Fund Facility | Feb-94 | Dec-95 | 379 | 123 |
| Standby Arrangement | Dec-95 | Sep-97 | 563 | 295 |
| Extended Fund Facility | Oct-97 | Oct-00 | 455 | 114 |
| Extended Credit Facility | Oct-97 | Oct-00 | 682 | 265 |
| Standby Arrangement | Nov-00 | Sep-01 | 465 | 465 |
| Extended Credit Facility | Dec-01 | Dec-04 | 1,034 | 861 |
| Standby Arrangement | Nov-08 | Sep-11 | 7,236 | 4,936 |
| Extended Fund Facility | Sep-13 | Sep-16 | 4,393 | 4,393 |
| Extended Fund Facility | Jul-19 | Jun-23 | 4,988 | 2,144 |
| Standby Arrangement | Jun-23 | Mar-24 | 2,250 | 2,250 |
| Extended Fund Facility | Jul-24 | Aug-27 | 5,320 | 760 |

Source: IMF, IGI Research

## Key Catalyst and Risk

**Exhibit:** Oil prices (USD/bbl) – Arab Light

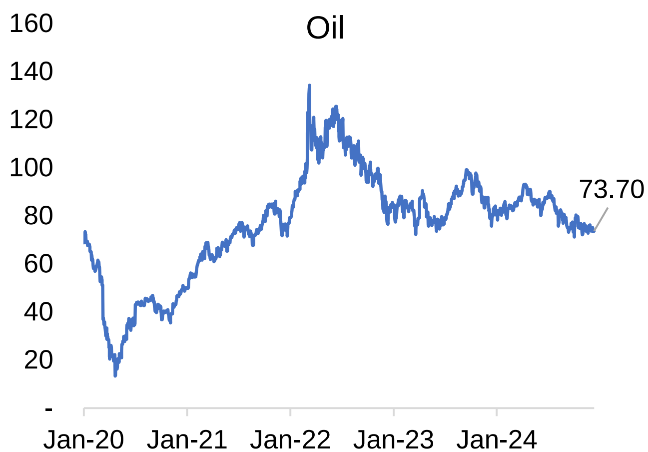
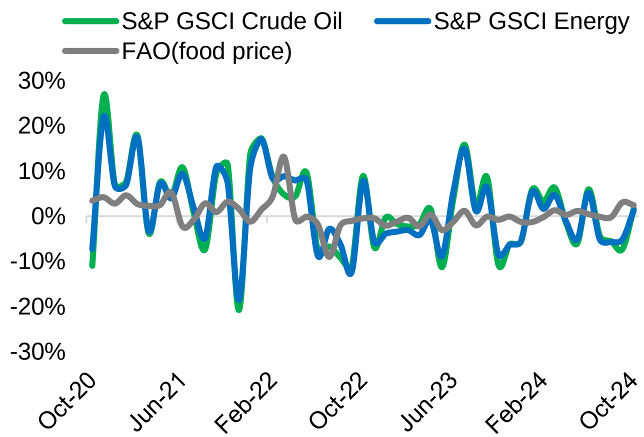



**Exhibit**: S&P Crude and Energy Price Index




Source: Bloomberg, S&P, IGI Research

- **Oil Prices:** Oil prices (Arab Light) have declined by nearly 8% in CY24TD to stand at US$ 73.70/bbl (02-Dec-2024). Oil prices average nearly US$ 82.2/bbl in CY24TD compared to average of US$ 85.0/bbl in CY23. Decline in oil prices during CY24TD has been mainly led by lower demand from US and China, expectation of production increase by OPEC+ and ease in supply. Oil prices witnessed a spike during Jan-Apr-23 owing to escalation of tension in Middle East and attack on Russian oil refinery. However, prices soon retreated as deescalated. Prices again started rising from Jun-24 owing to extension of production cuts by OPEC+ and decline in US inventories. However, oil prices started declining from Aug-24 on demand concerns from China and US. As a result of decline in oil price and stable PKR, MS and HSD prices witnessed decline of 6% during CY24. This has also translated in to lower CPI reading and import bill. We expect oil prices to remain on the lower side (USD 70-75/bbl) during 2025 owing to weaker demand and ease in supply. However, any escalation in middle east conflict may cause oil prices to drift higher.
- **Resolution of circular debt:** After increasing gas prices twice in 2023, the Government further increased gas prices substantially in Feb-24 while keeping it unchanged during 2HCY24 despite OGRA's determination of decline in gas prices. The hike in gas prices was also in line with IMF condition to recover cost for gas and electricity prices from consumers. As a result, cash recoveries in energy chain improved significantly for OGDC, PPL and PSO. OGDC and PPL's cash recoveries increased to over 100%+ during Sep-24 quarter leading to overall decline in trade receivables. Thus, we expect cash collection for energy chain to remain strong going forward if timely gas prices (bi-annually) are notified. As a result, OGDC, PPL, PSO, SNGP and SSGC are likely to be the prime beneficiaries of gas price hike. This would translate in to better payouts for these companies. Furthermore, if Government decides to clear outstanding dues through cash or non cash settlement, these companies are likely to benefit further in terms of cash flow position.
- **Pakistan's Sovereign Rating may be revised:** After series of rating downgrade by international rating agencies in 2022 and 2023, Fitch in Jul-24 upgraded Pakistan's rating to CCC+. Considering continued macroeconomic stability, we expect rating to improve further in 2025 which would allow Pakistan to issue Eurobond and Sukuks in international markets at lower rates allowing further build up in forex reserves and strengthen maturity profile.

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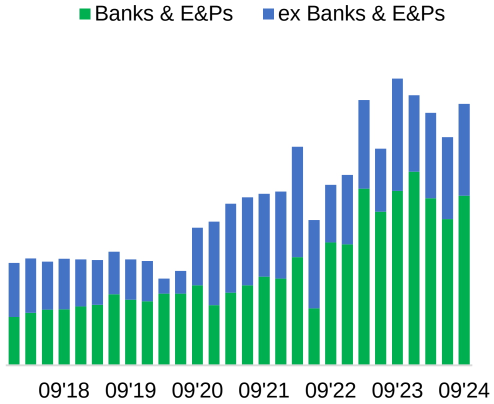
# EQUITY MARKET OUTLOOK

**Market Outlook** | **Earnings Outlook**

# Earnings Outlook



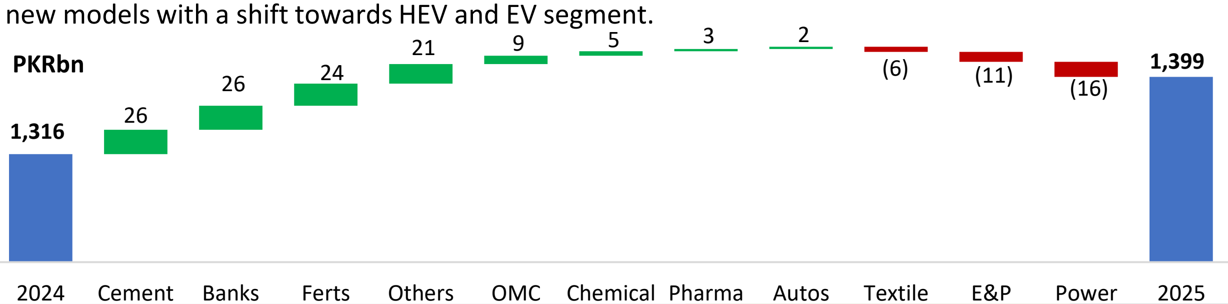

Source: CapitalStake, PSX, IGI Research

**2024; Corporate earnings: Banks/Financials and Other Sectors drove market earnings in 9MCY24**
KSE100 posted earnings of PKR 1,105bn down by 3%y/y. However, excluding oil & gas and banking, core manufacturing sectors, have posted only +18%y/y growth during the 9MCY24 owing to higher profits from Pharmaceutical, Fertilizer, Construction and Autos.

**Exhibit: KSE100 Profitability**

| In PKRbn | 9MCY24 | 9MCY23 | y/y |
|---|---|---|---|
| Oil & Gas | 294.9 | 417.9 | -29% |
| Banks & Financials | 452.9 | 422.8 | 7% |
| **Total** | **747.8** | **840.6** | **-11%** |
| Other | 356.9 | 303.2 | **18%** |
| **KSE100** | **1,104.7** | **1,143.8** | **-3%** |

**2025; Corporate Earnings to post +6%y/y growth**
In 2025, Corporate earnings are expected to grow by nearly 6%y/y primarily led by Fertilizer, Cements and Banks (mainly NBP). Fertilizer sector earnings are likely to increase owing to higher improved margins and shut down of EFERT plant in FY24. Construction sector earnings are likely to improve on account of improved economic activity, stable PKR, lower raw material costs and interest rates. E&P sector earnings are likely to decline in FY25 mainly due to lower oil prices, stable production and exchange rate. Power sector earnings are expected to decline owing to termination of HUBC’s base plant. Excluding that. For Banks, overall profitability is likely to take a hit from decline in interest rates however, for conventional banks removal of MDR may limit decline. Nevertheless, Banking sector is expected to post a +6%y/y growth led by higher earnings by NBP as the bank booked pension liability in 2024. Growth in auto sector is likely to backed by higher auto financing amid reduced interest rates, new models with a shift towards HEV and EV segment.



## Market Outlook

## Key Investment Theme for 2025

### Market still undervalued; Improved liquidity to further fuel re-rating

**Market still undervalued; Further re-rating to drive market performance**
KSE100 has posted a return of 74% since during CY24 (10-Dec-2024) despite market earnings declining by 3%y/y in 9MCY24. However, Market P/E has re-rated from 3.7zx to 5.5x as at 10-Dec-2024. This robust performance has been on account of successful completion of IMF SBA program and commencement of new EFF Program, cumulative decline of 700bps in policy rate, significant improvement in C/a balance and Political stability. However, despite recent rally, KSE100 still remains cheap in terms of valuation where P/E stands at 5.5x, which is at a discount of 22% to long term P/E average of 7.1x. Market Cap to GDP stands 13% compared to 10-yr historic average of 19%. Thus, we believe market can further re-rate on account of monetary easing cycle, improved liquidity, energy sector reforms, political stability and economic recovery and sustainability under new IMF Program.

### Energy sector: Higher cash recoveries to keep valuations upbeat

**Continuation of Energy Sector reforms key to sustain improved cash collection**
Cash collection within energy chain has improved significantly owing to gas price hikes by the Government. As a result, improved cash position has allowed much needed liquidity to the sector for further investment in exploration business for OGDC and PPL especially. This has translated in to multiple re-rating for energy sector companies. We expect further re-rating along with improved cash payouts for these companies going forward. However, continuation of energy sector reforms under IMF program remains key for energy sector.

### Finance cost savings to benefit leveraged companies

**Finance cost reduction to provide support to profitability to highly leveraged companies**
After a cumulative reduction of 700bps in interest rate since Jun-24, we expect a further 300bps cut by Jun-25. As a result, highly leveraged companies are likely to benefit in terms of reduced finance cost which expected to reflect in FY25 earnings and onwards. Cyclical sectors are also likely to benefit from modest recovery in demand. Based on this theme, we expect construction, textile and auto sector to witness improved profitability in 2025 and onwards. Some of the highly leveraged companies are ACPL, DGKC, NCL, ASTL, ILP, MUGHAL, SNGP and PTC. Auto sector is likely to benefit from increase in auto financing where SBP is also considering enhancing financing limited to PKR 6mn.

**Risks to our investment thesis**
We highlight that our risk to our investment strategy emanates from derailment of IMF program, lack of fiscal discipline, higher C/a deficit, rise in political noise and unfavorable exchange rate movement. Escalation in geopolitical tensions may push oil prices higher and lead to pressure on external side.

## Market Outlook

## Market remains cheap compared to historic average and among regional markets

**Exhibit:** Pakistan Market P/E (KSE100)

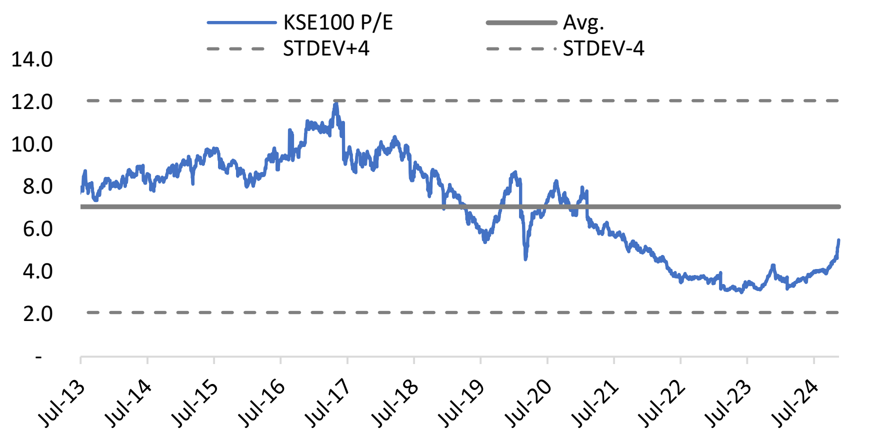



**Exhibit**: Pakistan Market P/E and Dividend Yield to Regional and Global Markets

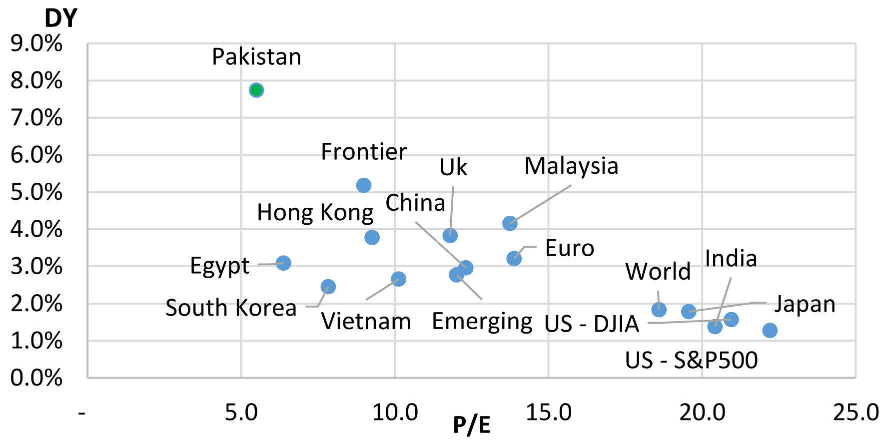



**Exhibit:** Pakistan Market P/B and ROE to Regional and Global Markets

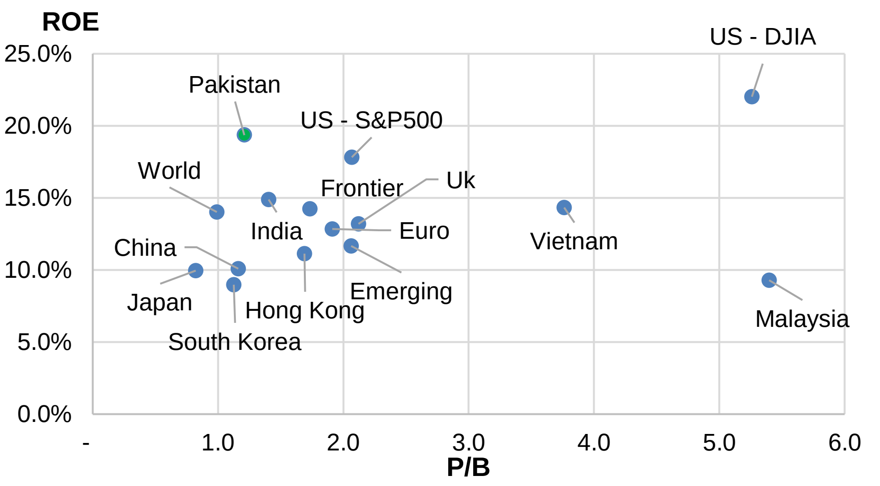
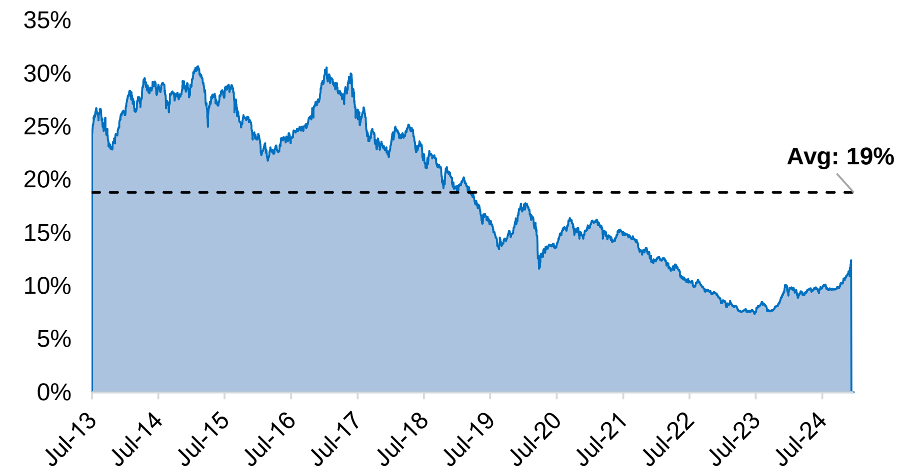



**Exhibit:** Market Cap / GDP (%) stands at a steep discount to historic average




Source: Bloomberg, MoF, PBS, IGI Research (As at 10-Dec-2024)

## Market Outlook | Index Target

| KSE 100 index target | Market P/E | Dividend Yield | Total Return |
|---|---|---|---|
| **143,000** | **6.25x** | **7%** | **~38%** |

# Index Target of 143,000

**Market P/E and Index Target**

| Case | P/E | Index Target | Return |
|---|---|---|---|
| Bear | 4.25 | 92,000 | -16% |
| Base | 6.25 | 143,000 | 31% |
| Bull | 7.25 | 175,000 | 61% |

**Base case: Index target of 143,000; offering a return of +31%**

For 2025, we eye an index target of 143,000, generating a return of ~31% from its current index level of 108,897 and total return of 38% including 7% DY. We have taken a market target P/E multiple approach as our basis for index estimation. Based on our index target market would trade at a forward P/E of 6.25x which is below its LT historic average 7.1x and current 5.5x.

**Bear case: 92,000 – downside 16%**

For our bear case, we factored in higher inflation leading to lower than expected rate cuts, delays in energy sector reforms and subsequently build up in circular debt, drain on FX reserves amid higher imports and lack of committed inflows, fiscal indiscipline and PKR depreciation. Our implied market multiple comes at 4.25x giving an index target of 92,000. However, further downside could emanate from worsening macroeconomic conditions, derailment from IMF program and political instability.

**Bull case: 175,000 – upside 61%**

For our bull case we have factored lower than expected inflation, amid decline in international commodity prices leading to higher than expected rate cuts. For that, we highlight declining oil price could act as a catalyst, which could drive stronger economic and corporate earnings growth than our baseline forecast. Moreover, continuation of IMF program, and financial support from uni/bi-lateral funding will continue to support external accounts and thus FX reserve build-up. If materialized, this could stretch market multiple above 7.25x, implying a target index of 175,000.

**Exhibit: Sensitivity to earnings growth**

| Price-to-Earnings (P/E) | Earnings Growth | | | | |
|---|---|---|---|---|---|
| | 0.0% | 3.0% | 6.0% | 9.0% | 12.0% |
| 4.25x | 92,000 | 95,000 | 97,000 | 100,000 | 103,000 |
| 5.25x | 113,000 | 117,000 | 120,000 | 124,000 | 127,000 |
| 6.25x | 135,000 | 139,000 | 143,000 | 147,000 | 151,000 |
| 6.75x | 146,000 | 150,000 | 155,000 | 159,000 | 163,000 |
| 7.25x | 157,000 | 161,000 | 166,000 | 171,000 | 175,000 |

## Market Outlook

## Key Events to Monitor During 2025

**2024**

**DEC** → **JAN**
- Monetary Policy
- OPEC Production Cuts

**JAN** → **FEB**
- Reko Diq Feasibility

**FEB** → **MAR**
- Monetary Policy
- Gas Tarif Revision
- Monetary Policy
- IMF 1st Review EFF Program

**2025**

**APR** → **MAY**
- Disbursement of 2nd Tranche by IMF
- Monetary Policy

**MAY** → **JUN**
- Federal Budget 2026

**2025**

**JULY** → **AUG**
- Monetary Policy
- Electricity Base Tariff Revision

**AUG** → **SEP**
- MSCI Review
- Monetary Policy
- IMF 2nd Review EFF Program

**2025**

**OCT** → **NOV**
- Disbursement of 3rd Tranche by IMF

**NOV** → **DEC**
- Monetary Policy
- MSCI Review

| SECTOR | RATING | COMMENTS | PICKS |
|---|---|---|---|
| COMMERCIAL BANKS | Over-weight | Pakistan's banking sector may struggle to maintain NIMs in CY25 as interest rates decline. However, the exemption of MDR on deposits from FIs, PSEs, and Public Ltd. Cos. could support conventional banks. Islamic banks, meanwhile, will face narrower margins due to a new MDR on PKR savings deposits (excluding institutional entities). Banks will focus on boosting NFI through improved economic activity and deposit growth driven by rising money supply. Strong balance sheets and healthy CARs should allow banks to sustain high payouts despite expected earnings slowdowns. | UBL<br>FABL<br>NBP |
| OIL & GAS EXPLORATION COMPANIES | Over-weight | Increase in gas price hike amid energy sector reforms have significantly improved cash collection within energy sector resulting in halt in accumulation of circular debt. This is likely to provide improved liquidity for exploration and new projects while also allowing for improved payouts. Profitability growth is likely to stay muted amid lower oil prices and PKR stability. | OGDC<br>PPL |
| POWER GENERATION & DISTRIBUTION | Market-weight | Early termination of plants in 2024 along with ongoing negotiations for bringing other IPPs to take and pay basis gave a major setback to power sector in 2024. However, as per negotiated terms, IPPs are likely to receive one time cash payment of overdue receivables. Decline in demand amid shift towards solar remains key concern for depressed recoveries despite hike in power tariff. We maintain HUBC as our top pick owing to addition of coal plants, NEV venture to sell BYD vehicles and other projects under consideration. | |
| OIL & GAS MARKETING COMPANIES | Over-weight | Decline in domestic prices, curb on grey market sales and decline in interest rates is likely to provide some boost to volumes in FY25. However, gradual shift towards EV vehicles may keep growth restricted in the long term. Potential increase in OMC margins is also likely to lift sector profitability in FY5. We prefer PSO due to significant improvement in cash position post gas price hikes. | PSO |

| SECTOR | RATING | COMMENTS | PICKS |
|---|---|---|---|
| **CEMENTS** | Over-weight | We are bullish on the cement sector and reiterate our over-weight stance on the sector. The domestic dispatches have remained subdued during the 5MFY25, whereas the export dispatches have witnessed a robust growth. We expect the domestic dispatches to start picking up from the last quarter of FY25 due to the declining interest rates, easing inflationary pressures, and the resumption of construction activity due to better weather conditions during 4QFY25. | LUCK<br>FCCL |
| **AUTOMOBILE ASSEMBLERS** | Market-weight | Improved macroeconomic conditions and lower interest rates are expected to benefit the automobile sector. After 27 months of decline, auto financing has started recovering since September 2024, with further rate cuts likely to boost sales. However, consumer demand may take time to fully recover, and the launch of new variants could lead to increased competition. | INDU |
| **FERTILIZERS** | Over-weight | Pakistan's agricultural sector, contributing 24% to GDP in FY24, drives much of the country's growth. Fertilizer, a key input for crop production, plays a critical role in food security, with stable demand keeping earnings less volatile. The fertilizer sector is expected to remain strong, supported by steady urea demand and improved agronomics. High dividend payouts also make the sector an attractive investment. | FFC |
| **CHEMICALS** | Under-weight | We have an under-weight stance on Chemicals sector as the primary margins are expected to remain below the LT averages, the demand is also expected to remain on the lower side, and the margins too are squeezed. | |

| SECTOR | RATING | COMMENTS | PICKS |
|---|---|---|---|
| **TEXTILE** | Market-weight | Textile sector is likely to benefit from increase in export demand owing to easing inflation in export countries. Higher cotton arrival during 2023-24 harvesting season is likely to benefit textile sector. Interest rate reversal is likely to support earnings growth amid decline in finance cost. | ILP |
| **ENGINEERING** | Market-weight | Similar to cements, interest rate cuts are to support the bottom-line of the sector coupled with better demand outlook for rebar as the construction related consumer financing activity is expected to resume. We are positive on the flat steel as well, due to lower informal flows from FATA/PATA region. | ISL |
| **GLASS & CERAMICS** | Market-weight | The glass and ceramics sector is poised for growth, driven by a construction recovery and rising demand. Tariq Glass Industries Limited (TGL) enhances its position with an 84% stake in Balochistan Glass Limited, boosting pharmaceutical bottle sales. With its tableware segment at full capacity and new solar capacity to improve margins, TGL is well-positioned to capitalize on market expansions and sustainability trends. | |
| **TECHNOLOGY & COMMUNICATION** | Market-weight | The Pakistani government aims to position the country as an IT hub within five years, offering incentives to boost IT/ITeS exports to ~USD 25bn. In FY24, IT exports surged 24%y/y to USD 3.2bn. To support growth, the SBP raised the foreign currency retention limit from 35% to 50%, and the government exempted IT export earnings from income tax until June 2025, further enhancing the sector's growth prospects. | |

| SECTOR | RATING | COMMENTS | PICKS |
|---|---|---|---|
| **REFINERIES** | Market-weight | The 2023 Brownfield Refinery Policy continues to face some challenges, including financial strains from unresolved tax issues, petroleum product smuggling, and uncontrolled HSD imports. Addressing these issues could positively impact the sector's profitability. | |
| **PHARMA** | Over-weight | We have an over-weight stance on the pharmaceutical sector owing to several reasons including but not limited to: i) Deregulation of non-essential drug prices, ii) PKR stability, iii) New product launches, and iv) Better regulated prices from DRAP for the essential drugs as well. | HALEON<br>AGP |

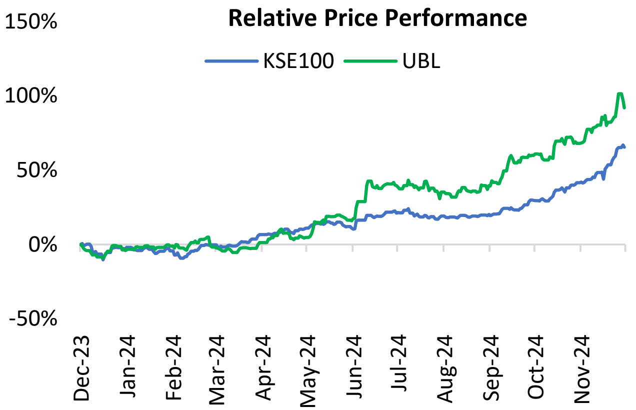

# Top Picks

**BUY** | **Commercial Banks**

## United Bank Limited (UBL)

| | | | | |
|---|---|---|---|---|
| **Target Price**: PKR 427/share; Upside: 19.5% | | | | |
| **2025**: Dividend yld: 13%, P/E: 5.8x | | | | |
| Market Price: PKR 357.55 | | | | |
| 52 weeks: 380.62 — 165.15 | | | | |
| Abs. Return: (3M) 37.7%, (6M) 53.8%, (12M) 91.8% | | | | |
| Outstanding Shares: 1.22bn (FF%: 40) | | | | |
| Market Capitalisation: PKR 437.7bn, US$ 1.57bn | | | | |
| Exchange: KSE100, KSE30, MSCI | | | | |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| EPS | 43.4 | 61.2 | 62.0 | 58.5 |
| DPS | 44.0 | 46.0 | 48.0 | 44.0 |
| BVPS | 206.3 | 255.6 | 236.5 | 243.6 |
| ROE% | 23% | 26% | 25% | 24% |
| P/E | 8.2x | 5.8x | 5.8x | 6.1x |
| DY | 12.3% | 12.9% | 13.4% | 12.3% |
| P/B | 1.7x | 1.4x | 1.5x | 1.5x |



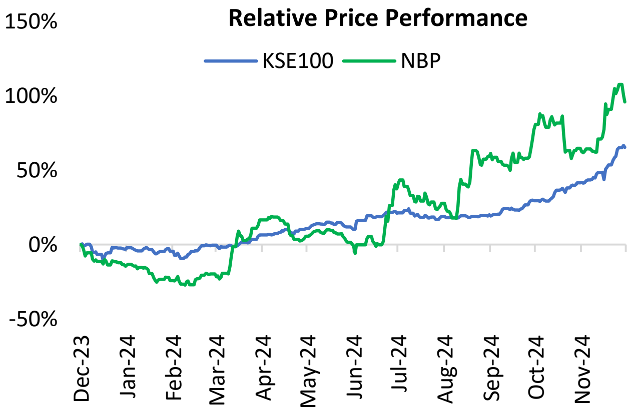

- **Earnings Growth and Payouts to Remain Strong:** The bank has achieved strong earnings growth through effective asset quality management, supporting robust payouts. To mitigate the risk of declining interest rates, it has taken aggressive positions in T-Bills and Fixed Bonds. By 9MCY24, its investment portfolio grew by 47% to PKR 6.4 trillion, with a focus on government securities yielding 19.73%. We forecast UBL's earnings to reach PKR 62.0 per share in CY25 and PKR 58.5 per share in CY26. As of Sep-24, the bank's CAR stood at 19.1%, well above the SBP's 12.5% requirement, ensuring continued strong payouts. A dividend of PKR 48/share is expected in CY25, offering a healthy yield of ~13%.
- **ADR Target Achieved:** According to the Sep-24 financial statements, the bank's gross ADR stood at ~26% posing a risk of additional taxation of up to 16% on income from investment in government securities which could have undermined the bank's CY24 earnings by around PKR 11.3/share (i.e. -20%). However, in Oct-24, the bank's management confirmed an ADR of 50%, achieved through aggressive lending, including a PKR 200bn loan to the Pakistan Agricultural Storage and Services Corporation (PASSCO), along with a strategic reduction in high-cost deposits with term deposits declining by 30% on a q/q basis.
- **Low Cost Deposits:** During 9MCY24, the bank's deposits have grown by 20% to reach PKR 2.83tn with the deposit mix consisting of 52% CA deposits which is highest among peers. The bank has also reduced the proportion of term deposits to 8% which is expected to support NIMs going forward.
- **Potential Acquisition of SILK Bank Limited:** The bank is currently undergoing a due diligence process for the acquisition of SILK Bank Limited, which operates a network of over 100 branches and holds a deposit base of approximately PKR 147 billion (as of Sep-21). If the transaction is completed, we believe the acquisition will strengthen the bank's position and generate tax credits resulting from the target bank's accumulated losses in prior years.
- **Recommendation**: We recommend a 'BUY' call on UBL with Dec-25 target price of PKR 427/share, offering a 20% upside from last close. The company is currently trading at CY24/25 P/B of 1.4/1.5x with 13% dividend yield.

**BUY** | **Commercial Banks**

## National Bank Limited (NBP)

| |
|---|
| **Target Price**: PKR 122.2/share; Upside: 67.8% |
| **2025**: Dividend yld: 13%, P/E: 3.1x |
| Market Price: PKR 72.83 |
| 52 weeks: 78.5 — 26.6 |
| Abs. Return: (3M) 21.5%, (6M) 96.1%, (12M) 96% |
| Outstanding Shares: 2.13bn (FF%: 23.9) |
| Market Capitalisation: PKR 154.9bn, US$ 0.56bn |
| Exchange: KSE100, MSCI |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 24.4 | 6.0 | 23.5 | 25.8 |
| **DPS** | 0.0 | 3.0 | 9.5 | 15.0 |
| **BVPS** | 179.9 | 183.0 | 194.5 | 203.3 |
| **ROE%** | 15% | 3% | 12% | 13% |
| **P/E** | 3.0x | 12.0x | 3.1x | 2.8x |
| **DY** | 0.0% | 4.1% | 13.0% | 20.6% |
| **P/B** | 0.4x | 0.4x | 0.4x | 0.4x |



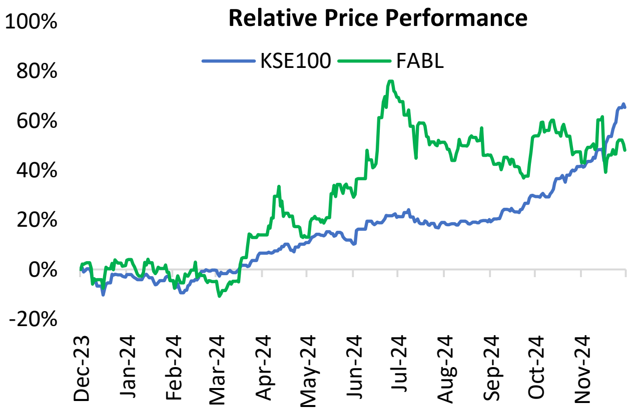

- **Strong Prospects for Resumption of Dividends:** The final settlement of the pension case and availability of abundant capital reserves has positioned NBP well to resume its dividend payouts. As at Sep-24, the bank's total CAR stands at 24.5% which is significantly higher from the regulatory limit of 14%. We expect a dividend payout of 50% i.e. PKR 3/share in 4QCY24 which is expected to gradually increase to their historical average payout of 70-80% leading to forecasted CY25F D/Y of ~13%.
- **Robust Growth in Earnings:** In CY23, the bank registered a robust 70% growth in earnings clocking in at PKR 52bn (EPS: PKR: 24.4/share) whereas in CY24, the earnings are expected to take a hit as the bank booked for the one-time pension payment during 1HCY24. Earnings are expected to improve CY25 onwards as NBP is likely to be one of the largest beneficiary of the recent revision in MDR requirement by SBP which has exempted conventional banks from paying MDR on deposits from FIs, PSEs and Public Limited Cos. as 58.5% of the bank's total deposits are from exempt categories as at Sep-24. This relaxation will result in a lower cost of funding leading to higher NIMs. However, the magnitude of the impact may be lower based on the quantum of saving deposits out of total deposits.
- **Maintaining a Low Cost Deposit Profile:** NBP has mainly focused on maintaining a low cost deposit base with the CASA ratio increasing to 80% in 9MCY24 from 79% recorded at the end of CY23. This ratio is consistent with the CASA ratio of ~83% of KSE-100 banking sector however higher than IGI's banking sector universe average CASA ratio of 79.7%.
- **Discounted Valuation Compared to Peers:** NBP is trading at an attractive P/B multiple of 0.4x as compared to the industry average of 0.9x. NBP's P/B has remained lower compared to its historic average due to pension liability case. Since 2017, NBP's P/B has averaged 0.36x compared to average of 0.76x from 2011-2016. With settlement of pension case, we expect NBP's P/B multiple to re-rate to pre- 2017 levels and stand in line with industry average.
- **Recommendation**: We recommend a 'BUY' call on NBP with Dec-25 target price of PKR 122.2/share, offering a 68% upside from last close. The company is currently trading at CY24/25 P/B of 0.4/0.4x and offers a healthy dividend yield of 13.0%.

**BUY** | **Commercial Banks**

## Faysal Bank Limited (FABL)

| | | | | |
|---|---|---|---|---|
| **Target Price**: PKR 71/share; Upside: 47.5% | | | | |
| **2025**: Dividend yld: 13%, P/E: 3.3x | | | | |
| Market Price: PKR 48.13 | | | | |
| 52 weeks: 58.10 — 28.5 | | | | |
| Abs. Return: (3M) 1.3%, (6M) 8.6%, (12M) 48% | | | | |
| Outstanding Shares: 1.52bn (FF%: 25) | | | | |
| Market Capitalisation: PKR 73bn, US$ 0.26bn | | | | |
| Exchange: KSE100, KMI, KMI30 | | | | |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 13.2 | 17.3 | 14.7 | 15.3 |
| **DPS** | 4.0 | 6.0 | 6.3 | 6.5 |
| **BVPS** | 59.4 | 72.2 | 80.1 | 89.2 |
| **ROE%** | 25% | 26% | 19% | 18% |
| **P/E** | 3.6x | 2.8x | 3.3x | 3.1x |
| **DY** | 8.3% | 12.5% | 13.0% | 13.5% |
| **P/B** | 0.8x | 0.7x | 0.6x | 0.5x |



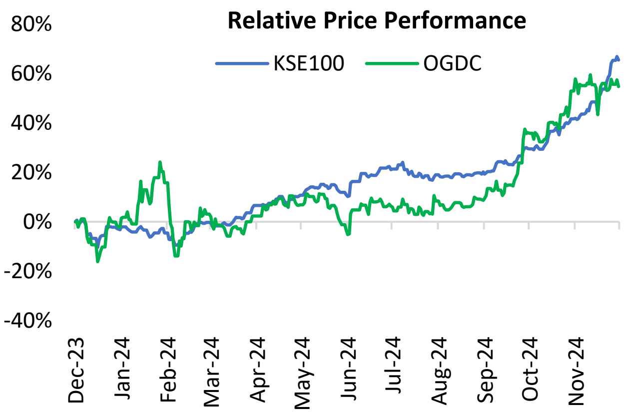

- **Robust Earnings Outlook:** In 9MCY24, the bank reported record earnings of PKR 13.0/share, marking an impressive 64%y/y growth. This stellar performance was driven by a 22% increase in topline, primarily fueled by higher NIMs resulting from the bank's low cost of funding, thanks to its MDR exemption. Additionally, the bank achieved its target ADR of 58% by June 2024, thus avoiding any additional taxation for the year. For CY24, we project FABL's earnings to reach PKR 17.3 per share, with a cumulative payout of PKR 6.0 per share (of which PKR 4.5 per share was distributed in 9MCY24). However, the recent imposition of MDR on individual account holder saving deposits held by Islamic Banks is expected to have a negative impact on its earnings.
- **Deposits Growth and Branch Expansion:** Over the past 5 years, the bank's deposits have increased by 2.5x, reaching PKR 1.16tn, with a CASA (Current and Savings Account) composition of ~78% of total deposits as at Sep-24. From Dec-22 to Sep-24 alone, deposits grew by an impressive 49%, largely driven by the bank's conversion to an Islamic banking model in 2023. However, the bank's CASA composition has remained lower than peers averaging around 73% in the last 4 quarters as compared to the banking's sector average CASA ratio of ~80%. By the end of 9MCY24, the bank operates 765 branches across 308 cities and plans to further expand its footprint by adding 100 new branches over the next two years. Focus on branch expansion and increasing the CASA composition in its deposit mix will aid the bank in reducing its overall cost of deposits.
- **Strong Capital Position May Lead to Higher Payouts:** As at Sep-24, the bank's total CAR has increased to 20.94% from 17.5% in Dec-23 which showcases the bank's solid financial position. With this strong capital position and forecasted growth in earnings, we expect the bank to pay attractive dividends with an average payout of ~50% over the next 5 years.
- **Recommendation:** We recommend a 'BUY' call on FABL with Dec-25 target price of PKR 71/share, offering a 48% upside from last close. The company is currently trading at CY24/25 P/B of 0.7/0.6x with 13% dividend yield.

**BUY** | **Oil & Gas Exploration Companies**

## Oil & Gas Development Company Limited (OGDC)

| |
|---|
| **Target Price**: PKR 252/share; Upside: 30.1% |
| **2025**: Dividend yld: 8%, P/E: 4.1x |
| Market Price: PKR 193.76 |
| 52 weeks: 203.25 — 104.0 |
| Abs. Return: (3M) 41.4%, (6M) 49.9%, (12M) 54.7% |
| Outstanding Shares: 4.3bn (FF%: 15) |
| Market Capitalisation: PKR 833.3bn, US$ 3bn |
| Exchange: KSE100, KSE30, MSCI |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| **EPS** | 52.2 | 48.6 | 47.6 | 43.4 |
| **DPS** | 8.6 | 10.1 | 15.0 | 21.8 |
| **BVPS** | 251.8 | 290.8 | 320.6 | 342.7 |
| **ROE%** | 23% | 18% | 16% | 13% |
| **P/E** | 3.7x | 4.0x | 4.1x | 4.5x |
| **DY** | 4.4% | 5.2% | 7.7% | 11.2% |
| **P/B** | 0.8x | 0.7x | 0.6x | 0.6x |



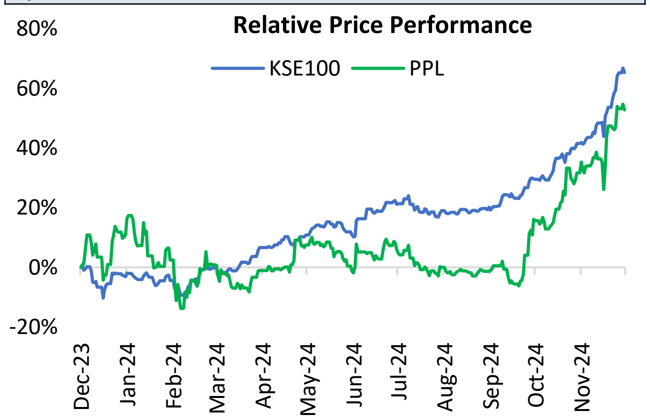

- **Significant improvement in cash collection**: The Government increased gas prices twice in 2023 followed by another hike in Feb-24 which led to a a decline of PKR 27bn in OGDC receivables in Sep-24 to PKR 608bn compared to PKR 635bn in Jun-24. As a result cash collection ratio increased to more than 100% during 1QFY25 compared to 76% in FY24 (42% in FY23). As a result, we expect OGDC's cash recoveries to remain strong in FY25 allowing for better liquidity for exploration activities and increase in cash payouts. Based on this we expect OGDC's free cash flow yields are likely to remain strong leading to higher multiples. Although there is no update on settlement of piled up circular debt, higher cash recoveries are likely to lead to marginal reduction in piled up receivables in FY25.
- **Sale of stake in Reko Diq in 2025**: OGDC along with PPL and GHPL hold ~8% stake in Reko Diq mining project. The Government is planning to sell 15% out of total 25% of SOEs stake in Reko Diq to KSA which is expected to be finalized 2025. The feasibility study is expected to completed by Jan-25 however, due to lower valuation quoted by KSA the Government is likely to get a valuation done before finalizing the price. Although it is unclear how much stake will be sold by OGDC, nevertheless, If OGDC's stake is sold, Company can book substantial gains based on new price and exchange rate.
- **Reserve life of more than 17 years**: As at Jun-24, OGDC's reserve life stood at more than 17 years owing to inclusion of Shewa gas reserves and increase in oil reserves from Thora, Sono, Pasakhi and Kunar. As a result, Reserve Replacement ratio for oil stood at 5.8 bringing total ratio to 0.2.
- **Increase in production and exploration activity**: We expect oil & gas production to increase by 6% and 5% in FY25 owing to recovery in demand as SNGP curtailed gas supply from major field in FY24 owing to lower demand from industries. During FY24, 11 new well were injected which added nearly 2.1kbopd oi oil and 11mmcfd of gas. The Company further plans to drill 10 exploratory/appraisal and 6 development wells in FY25..
- **Recommendation**: We maintain 'BUY' stance on OGDC with our Dec-25 target price of PKR 252/share offering 30% upside from last close. The Company is currently trading at FY25/26 P/E of 4.1/4.5x. Company offers dividend yield of 8%.

**BUY** | **Oil & Gas Exploration Companies**

## Pakistan Petroleum Limited (PPL)

| |
|---|
| **Target Price**: PKR 219/share; Upside: 25.8% |
| **2025**: Dividend yld: 6%, P/E: 4.1x |
| Market Price: PKR 174.07 |
| 52 weeks: 179.20 — 94.00 |
| Abs. Return: (3M) 54.6%, (6M) 41.7%, (12M) 52.7% |
| Outstanding Shares: 2.72bn (FF%: 24.6) |
| Market Capitalisation: PKR 473.6bn, US$ 1.7bn |
| Exchange: KSE100, KSE30, KMI, KMI30, MSCI |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| **EPS** | 36.0 | 42.0 | 42.2 | 40.2 |
| **DPS** | 2.5 | 6.0 | 10.0 | 15.0 |
| **BVPS** | 198.7 | 235.1 | 267.3 | 291.5 |
| **ROE%** | 20% | 19% | 17% | 14% |
| **P/E** | 4.8x | 4.1x | 4.1x | 4.3x |
| **DY** | 1.4% | 3.4% | 5.7% | 8.6% |
| **P/B** | 0.9x | 0.7x | 0.7x | 0.6x |



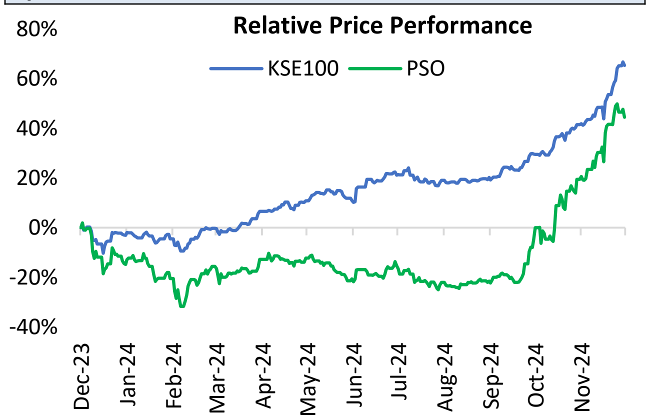

- **Higher cash collection to keep valuation upbeat**: PPL's receivables declined to PKR 574bn as at Sep-24 compared to PKR 582bn as at Mar-24 owing to gas price hike. PPL's cash collection ratio stood at more than 100% in 4QFY24 and 1QFY25 compared to 81% in FY24 (53% in FY23). Cash and cash equivalents increased to PKR 145bn (PKR 53/share) as at Sep-24 compared to PKR 80bn (PKR 29/share) as at Dec-23. As a result, we expect PPL to increase its cash dividend payout in FY25 which stood at 14% in FY24 and lower than OGDC's payout ratio of 21% in FY24. Improved free cash flow yields are likely to keep valuations upbeat for PPL going forward.
- **Sale of stake by Government in Reko Diq**: PPL holds nearly 8% stake in Reko Diq project along with other SOEs. The Government is planning to sell 15% out of total 25% of SOEs stake in Reko Diq to KSA which is expected to be finalized 2025. The feasibility study is expected to completed by Jan-25 however, due to lower valuation quoted by KSA the Government is likely to get a valuation done before finalizing the price. PPL in that case can book gains based on revised price and exchange rate adjustment.
- **Increase in production during FY25**: Over the last year, PPL has taken initiatives to improve production from mature fields where Sui SML Compressor Station Revamp and rig-less production enhancement campaign has added nearly 56mmcfd of gas and 630bopd of condensate. Moreoever, PPL also spud 3 development wells at Adhi to address natural depletion. The Company is also planning on reallocating gas production to other consumers and re-routing gas to SSGC from SNGP to counter lower demand from GENCO-II and back pressure issue from SNPG due to system constraints. The Company also plans to spud 8 exploratory wells and 2 development wells in FY25.
- **Recommendation**: We maintain 'BUY' stance on PPL with our Dec-25 target price of PKR 219/share offering 26% upside from last close. The Company is currently trading at FY25/26 P/E of 4.1/4.3x and offers dividend yield of 6%.

**BUY** | **Oil & Gas Marketing Companies**

## Pakistan State Oil Company Limited (PSO)

| | | | | |
|---|---|---|---|---|
| **Target Price**: PKR 448/share; Upside: 50% | | | | |
| **2025**: Dividend yld: 6%, P/E: 5.2x | | | | |
| Market Price: PKR 298.67 | | | | |
| 52 weeks: 313.85 — 137.00 | | | | |
| Abs. Return: (3M) 85.9%, (6M) 74%, (12M) 44.5% | | | | |
| Outstanding Shares: 0.47bn (FF%: 45) | | | | |
| Market Capitalisation: PKR 140.2bn, US$ 0.5bn | | | | |
| Exchange: KSE100, KSE30, KMI, KMI30, MSCI | | | | |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| **EPS** | 12.1 | 33.8 | 57.2 | 73.1 |
| **DPS** | 7.5 | 10.0 | 17.0 | 22.0 |
| **BVPS** | 461.3 | 492.7 | 532.8 | 583.9 |
| **ROE%** | 3% | 7% | 11% | 13% |
| **P/E** | 24.8x | 8.8x | 5.2x | 4.1x |
| **DY** | 2.5% | 3.3% | 5.7% | 7.4% |
| **P/B** | 0.6x | 0.6x | 0.6x | 0.5x |



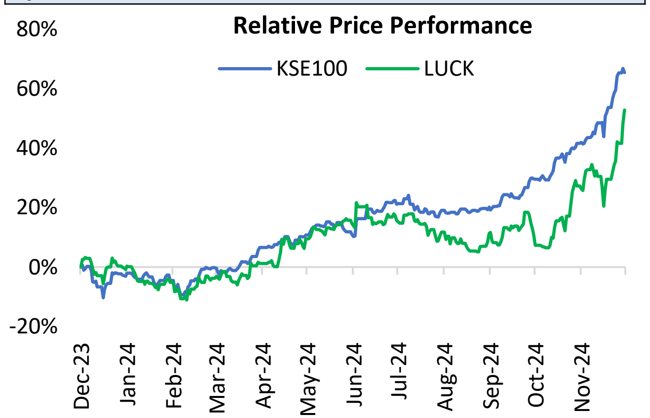

- **Improved liquidity to drive valuations:** PSO's receivables piled up to PKR 548bn as at Dec-23 from PKR 496bn as at Jun-23. However, post gas price hike, PSO's cash recoveries have improved significantly leading to decline in total receivable to PKR 468bn as at Sep-24. As a result short term borrowings have also declined to PKR 397bn as at Sep-24 from PKR 445bn as at Dec-23. Based on this improved liquidity, PSO's multiple is likely to re-rate further on continued strong recoveries on sale of RLNG. This is likely to translate in to better payouts as well where we expect PSO to pay out cash dividend of PKR 17/share in FY25.
- **Potential margin revision to further support bottom line**: PSO reported EPS of PKR 33.79 in FY24 which was mainly due to PKR 30.12/share loss reported in 2QFY24 amid hefty inventory losses. However, in FY5 we expect inventory losses to remain minimal due to stability in oil prices. Furthermore OMC margins are also expected to increase by PKR 1.35/litre which is likely to have annualized earnings impact of PKR 10.7/share on PSO's earnings.
- **Volumes to pick up in 2025**: PSO's volumes declined by 4%y/y during 5MFY25 mainly led by 30%/5%/4%y/y decline in FO/HSD/MS sales against +5%y/y growth in industry volumes. PSO witnessed recovery in market share during Nov-24 where volumes grew by +15%m/m against +6%m/m for industry. This was mainly due to increase in grey market sales, inventory pile up for HSD and increased competition. However, during 2HFY5 we expect MS and HSD volumes to pick up owing to curb on grey market sales and increase in auto financing amid decline in interest rates and potential increase in auto financing limited by SBP and clock in at 7.0mn tons for FY25 against 6.6mn ton in FY24.
- **Recommendation**: We have a 'BUY' stance on PSO with our Dec-25 target price of PKR 448/share offering 50% upside from its last close. The Company is currently trading at FY25/26 P/E of 5.2/4.1x and offers dividend yield of 6%. We base our liking for the stock on potential re-rating backed by improved cash recoveries and growth in earnings led by absence of hefty inventory losses.

**BUY** | **Cements**

## Lucky Cement Limited (LUCK)

| | |
|---|---|
| **Target Price**: PKR 1640/share; Upside: 36.4% | |
| **2025**: Dividend yld: 2%, P/E: 9.8x | |
| Market Price: PKR 1202.54 | |
| 52 weeks: 1,283.84 — 693.80 | |
| Abs. Return: (3M) 36.8%, (6M) 25.6%, (12M) 52.8% | |
| Outstanding Shares: 0.29bn (FF%: 30) | |
| Market Capitalisation: PKR 352.3bn, US$ 1.27bn | |
| Exchange: KSE100, KSE30, KMI, KMI30, MSCI | |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| EPS | 46.8 | 95.9 | 123.0 | 128.3 |
| DPS | 18.0 | 15.0 | 25.5 | 33.0 |
| BVPS | 468.8 | 504.3 | 601.8 | 697.1 |
| ROE% | 10% | 20% | 22% | 20% |
| P/E | 25.7x | 12.5x | 9.8x | 9.4x |
| DY | 1.5% | 1.2% | 2.1% | 2.7% |
| P/B | 2.6x | 2.4x | 2.0x | 1.7x |



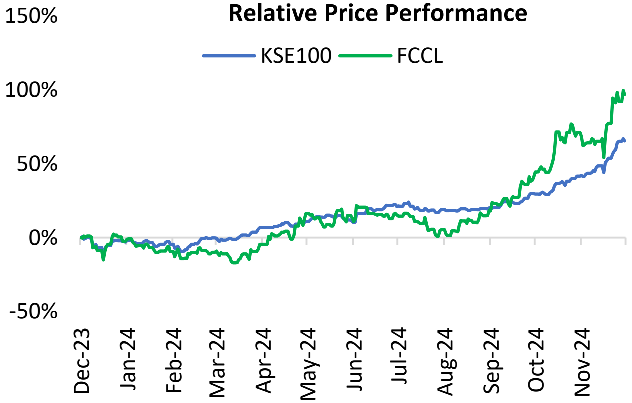

- **Investment thesis:** LUCK is the largest manufacturer of cement in the country. LUCK is amongst our top picks for the following reasons: i) LUCK has been able to unlock cost efficiencies within its cement operations, ii) Diversified business portfolio to act as a hedge from any volatilities, and iii) LUCK is currently trading at a significant discount to its historic average PE.
- **LUCK has been able to unlock cost efficiencies within its cement operations:** LUCK has many competitive advantages if compared to the peers in the industry. LUCK due to its efficient inventory management and reliance on renewable energy sources has the lowest cost/bag in the industry, which leads to better gross margins. LUCK is able to meet more than 50% of its energy requirements through its own sources of power. Declining coal prices are further adding value to the companies export operations by helping the company increase its export dispatches through competitive pricing. We expect local cement dispatches to start picking up from 3QFY25, which would result in better profitability for the company.
- **Diversified business portfolio to act as a hedge from any volatilities:** LUCK has perfectly positioned itself through its investments in diversified business segments to stay protected against any risk arising in the cyclical cement sector. Lucky Motor Corporation (LMC) is expected to perform well on the back of declining interest rates and the launch of new car and phone models. Declining interest rates are to increase the car financing options for the consumers ultimately resulting in better sales for LMC. We expect Lucky Core Industries (LCI) to continue its growth trajectory owing to stable demand and expansion initiatives in Soda Ash and animal health segment. Lucky Electric Power Company Limited (LEPCL) is currently running at 100% capacity and is expected to benefit from better receivable recovery. We expect all these business segments to support the bottom line of the company through dividends.
- **Recommendation**: We recommend a 'BUY' call on LUCK with Dec-25 target price of PKR 1,640/share, offering a 36% upside from last close. The Company is currently trading at FY25/26 P/E of 9.8/9.4x and offers 2.1% dividend yield.

**BUY** | **Cements**

## Fauji Cement Limited (FCCL)

| | |
|---|---|
| **Target Price**: PKR 57/share; Upside: 46% | |
| **2025**: Dividend yld: 5%, P/E: 6.7x | |
| Market Price: PKR 39.03 | |
| 52 weeks: 40.73 — 16.20 | |
| Abs. Return: (3M) 66.7%, (6M) 61.7%, (12M) 96.7% | |
| Outstanding Shares: 2.45bn (FF%: 35) | |
| Market Capitalisation: PKR 95.7bn, US$ 0.34bn | |
| Exchange: KSE100, KSE30, KMI, KMI30 | |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| **EPS** | 3.0 | 3.4 | 5.3 | 6.0 |
| **DPS** | 0.0 | 1.0 | 1.8 | 2.5 |
| **BVPS** | 26.6 | 29.9 | 33.4 | 37.0 |
| **ROE%** | 12% | 12% | 17% | 17% |
| **P/E** | 13.0x | 11.7x | 7.5x | 6.5x |
| **DY** | 0.0% | 2.5% | 4.5% | 6.4% |
| **P/B** | 1.5x | 1.3x | 1.2x | 1.1x |



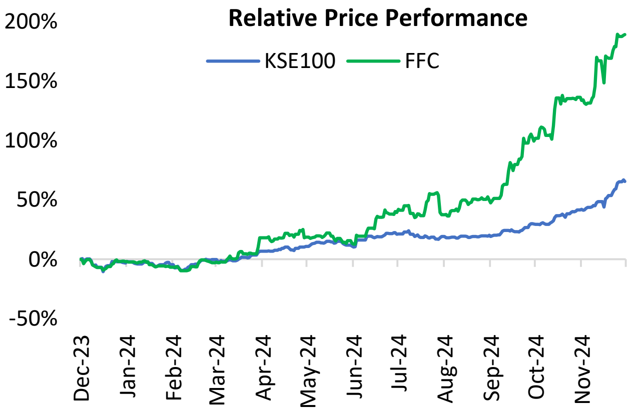

- **Investment thesis:** FCCL over the past few years and after the merger with Askari Cement coupled with the addition of 2.05mn tons in its capacity has been able to position itself as the 3rd largest cement manufacturer in Pakistan and the 2nd largest in the north region. Our liking of the stock stems from the following reasons: i) FCCL reducing its reliance on national grid by enhancing in-house power production capacity, ii) Strong gross margins, and iii) Earnings to increase significantly during FY25 resulting in good payouts.
- **FCCL enhancing in-house power production capacity:** FCCL during FY24 was able to add a solar capacity of 12.5MW bringing the total in-house solar power generation capacity of 52.5MW. In order to reduce the high tariff cost FCCL also added a 12MW WHR plant. These additions have resulted in FCCL being able to meet approx. 50% of its energy requirements through its own power sources. The company also plans to install a 15MW solar capacity by the last quarter of FY25, resulting in lower reliance on national grid.
- **Strong gross margins:** Fauji Cement Company Limited (FCCL) is optimizing its fuel mix to improve gross margins by incorporating alternative fuels, targeting 10% of its total mix by FY25. In FY24, it used 30% local coal, blending it with international and Afghan coal while focusing on efficient procurement. FCCL also plans to invest PKR 1bn in a polypropylene bag manufacturing facility to meet 90% of its packaging needs, reducing reliance on external suppliers and enhancing supply chain efficiency.
- **Earnings to increase significantly during FY25 resulting in good payouts:** Fauji Cement Company Limited (FCCL) is expected to report record earnings of PKR 5.26 per share in FY25, driven by a successful capacity expansion, efficient fuel mix, and in-house energy sufficiency, which enhance gross margins. For the first time since FY19, the company announced a cash payout in FY24, with expected payouts of PKR 1.75 per share in FY25 and PKR 2.50 per share in FY26, reflecting healthy cash generation.
- **Recommendation**: We recommend a 'BUY' call on FCCL with our Dec-25 target price of PKR 57/share, offering a 46% upside from last close. The Company is currently trading at FY25/26 P/E of 7.5x/6.5x.

**BUY** | **Fertilizer**

## Fauji Fertilizer Limited (FFC)

| | |
|---|---|
| **Target Price**: PKR 487.2/share; Upside: 39.7% | |
| **2025**: Dividend yld: 14%, P/E: 5.9x | |
| Market Price: PKR 348.8 | |
| 52 weeks: 360.40 — 108.00 | |
| Abs. Return: (3M) 96%, (6M) 140.3%, (12M) 188.8% | |
| Outstanding Shares: 1.27bn (FF%: 55) | |
| Market Capitalisation: PKR 443.8bn, US$ 1.6bn | |
| Exchange: KSE100, KSE30, MSCI | |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 23.3 | 44.4 | 59.2 | 62.5 |
| **DPS** | 15.5 | 30.0 | 50.0 | 52.0 |
| **BVPS** | 48.6 | 62.4 | 71.9 | 83.6 |
| **ROE%** | 53% | 80% | 88% | 80% |
| **P/E** | 15.0x | 7.8x | 5.9x | 5.6x |
| **DY** | 4.4% | 8.6% | 14.3% | 14.9% |
| **P/B** | 7.2x | 5.6x | 4.8x | 4.2x |



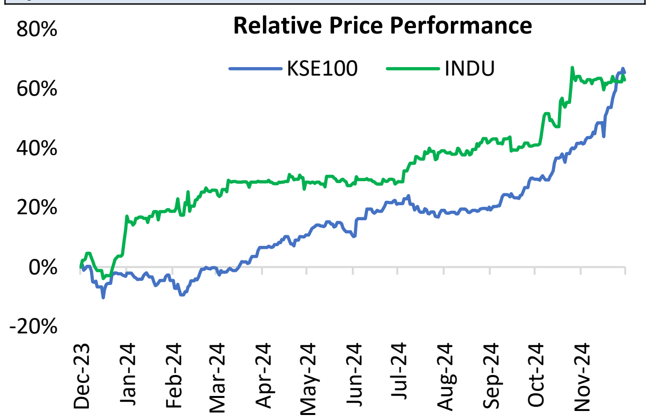

- **Potential Market Leader in the Urea and DAP market:** In CY24, FFC and FFBL approved the amalgamation of FFBL with and into FFC with a swap ratio of 1 FFC share for every 4.29 FFBL shares, excluding FFC's existing shareholding of 49.9% (644mn shares) in FFBL. To settle this transaction, 150.87mn new shares will be issued and allotted taking FFC's total outstanding shares to 1,423mn shares post amalgamation from current 1,272mn shares. Currently, FFC's urea manufacturing capacity is 2.05mn mt, while FFBL's capacity is 0.55mn mt. As the largest urea manufacturer, FFC stands to significantly enhance its position in the urea market through this merger. This integration will also boost FFC's market share, which has averaged ~40% over the past 12 months, by incorporating FFBL's 6% share, raising it to around 46%. Additionally, FFBL's merger with FFC will also bolster its position in the DAP market as FFBL is the sole DAP manufacturer in Pakistan.
- **Lower Gas Prices Boosting Gross Margins:** In Feb-24, the government significantly raised gas prices for fertilizer companies operating on the SNGP and SSGC networks. Companies using the MARI network, such as FFC, continued to benefit from lower gas rates of as no such price hike was announced. This enabled FFC to achieve record-high gross margins of 54% and 52% in 2Q/3QCY24, respectively. However, if gas prices are revised upward for MARI network, FFC will likely need to increase urea prices to sustain its margins.
- **Acquisition of Agritech Limited (AGL):** In Sep-24, FFC announced to acquire a 64.43% controlling share of AGL where it currently holds 28.86% of which it acquired 24.97% from NBP and has made a public offer to acquire an additional 35.57% (151mn shares) at PKR 38.84/share. AGL has urea production capacity of 433k MT and SSP production capacity of 81k MT. Post-acquisition, FFC's urea market share will further increase to ~48%.
- **Robust Growth in Earnings:** FFC's earnings are expected to demonstrate strong growth post-merger of FFC and FFBL coupled with strong dividend income. As a merged entity, we expect earnings to clock in at PKR 59.2 and PKR 62.5 in CY25 and CY26 respectively.
- **Recommendation**: We recommend a 'BUY' call on FFC with our Dec-25 target price of PKR 487/share, offering a 40% upside. The Company is currently trading at CY24/25 P/E of 7.8/5.9x with 14.3% dividend yield.

**BUY** | **Automobile Assemblers**

## Indus Motor Company Limited (INDU)

| |
|---|
| **Target Price**: PKR 2,585/share; Upside: 28.5% |
| **2025**: Dividend yld: 7%, P/E: 8.6x |
| Market Price: PKR 2011.35 |
| 52 weeks: 2,075.0 — 1,170..07 |
| Abs. Return: (3M) 14.4%, (6M) 24.9%, (12M) 62.8% |
| Outstanding Shares: 0.08bn (FF%: 17.7) |
| Market Capitalisation: PKR 158.1bn, US$ 0.57bn |
| Exchange: KSE100 |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| EPS | 123.0 | 191.8 | 233.4 | 266.0 |
| DPS | 71.8 | 114.7 | 140.0 | 160.0 |
| BVPS | 764.2 | 855.3 | 948.7 | 1054.7 |
| ROE% | 17% | 24% | 26% | 27% |
| P/E | 16.4x | 10.5x | 8.6x | 7.6x |
| DY | 3.6% | 5.7% | 7.0% | 8.0% |
| P/B | 2.6x | 2.4x | 2.1x | 1.9x |



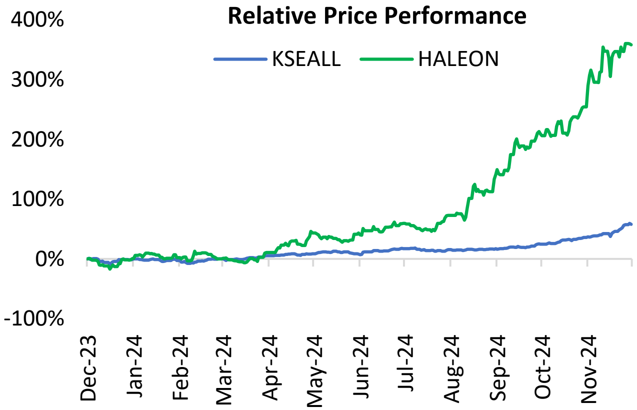

- **Riding the Macroeconomic Tailwinds:** The broader economic recovery, characterized by single-digit inflation, PKR stabilization, and falling interest rates, bodes well for INDU. A positive uptick in auto financing after 27-months in September pertaining to reduction in policy rate, now at 15%, and innovative EMI plans from automakers are expected to drive demand. Additionally, the recent 50% YoY growth in auto sales during 4MFY25 compared to same period of last year, signals a significant rebound in consumer purchasing power and confidence, setting a favorable backdrop for INDU.
- **Market Dominance and Varied Product Portfolio:** The company's offerings, which include market-leading sedans like the Corolla and Yaris, rugged SUVs such as the Fortuner and Corolla Cross, and versatile 4x4s like the Hilux, position it as a preferred choice for consumers. The anticipated launch of the 12th-generation Corolla Hybrid, coupled with its existing hybrid portfolio, underscores INDU's commitment to innovation and sustainability. These offerings will compliment amidst the upward trajectory of the overall volumes in the sector with FY25 sales estimated to reach around 140,000 units with 35%y/y increase.
- **Leveraging PKR Stability and Localization:** Appreciation of PKR by 2.7% against USD during FY24 has eased cost pressures for the sector, with dollar-denominated raw material costs witnessing a decline. For INDU, this translates to margin stability, further supported by its high localization levels for Corolla, Yaris, and Cross of around 50%-65% and around 40%-50% for Fortuner and Hilux. This operational and competitive edge insulates the company from exchange rate volatility, allowing it to maintain competitive pricing and profitability.
- **Strong Financial Cushion:** INDU's robust cash reserves of PKR 83.7bn (PKR 1,064/share) provide ample financial flexibility. This liquidity supports dividend payouts, capacity expansions, and the rollout of new models, making INDU a less risky investment compared to its peers. With improved profitability in FY24, driven by favorable sales mix and reduced costs, the company is poised for further gains as volumes recover in FY25.
- **Recommendation**: We recommend a 'BUY' call on INDU with our Dec-25 target price of PKR 2,585/share, offering a 29% upside from last close. The Company is currently trading at FY25/26 P/E of 8.6x/7.6x.

**BUY** | **Pharmaceuticals**

## Haleon Pakistan Limited (HALEON)

| |
|---|
| **Target Price**: PKR 1,222.9/share; Upside: 37.5% |
| **2025**: Dividend yld: 2%, P/E: 17.2x |
| Market Price: PKR 889.12 |
| 52 weeks: 930.00 — 160.10 |
| Abs. Ret: (3M) 83.8%, (6M) 203.5%, (12M) 357.9% |
| Outstanding Shares: 0.12bn (FF%: 13.4) |
| Market Capitalisation: PKR 104.1bn, US$ 0.37bn |
| Exchange: KSEALL, KMI |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 8.5 | 39.4 | 51.7 | 66.0 |
| **DPS** | 0.0 | 10.0 | 16.0 | 20.0 |
| **BVPS** | 68.5 | 96.0 | 135.7 | 183.7 |
| **ROE%** | 13% | 48% | 45% | 41% |
| **P/E** | 104.5x | 22.6x | 17.2x | 13.5x |
| **DY** | 0.0% | 1.1% | 1.8% | 2.2% |
| **P/B** | 13.0x | 9.3x | 6.6x | 4.8x |



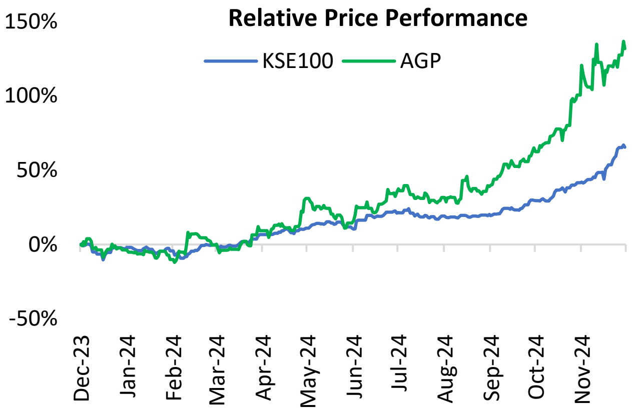

- **Investment Thesis:** Haleon Pakistan, established in 2022 after demerging from GlaxoSmithKline, is a key player in the consumer healthcare industry. Previously known as GlaxoSmithKline Consumer Health, the company has a strong legacy with well-known brands like Panadol, CAC-1000 Plus, and Sensodyne. With an advanced production facility, Haleon has expanded its market presence across various categories. Our interest in the stock is driven by: i) Recent deregulation of non-essential drug prices by DRAP, ii) Special approvals for hikes in Panadol prices, and iii) Capacity expansion and new product additions.
- **Recent Deregulation of Non-Essential Drug Prices by DRAP:** In February 2024, DRAP deregulated non-essential drug prices, allowing companies greater pricing flexibility. As of September 2024, approximately 38% of Haleon's sales mix consists of non-essential drugs, enabling the company to optimize its portfolio and enhance pricing autonomy.
- **Special Approvals for Increase in Paracetamol Prices by DRAP:** Haleon manufactures Panadol, which has seen a price increase of about 45% from November 2022 to September 2024. The current MRP for a box of Panadol 500mg (200 tablets) is PKR 704.88. These increases stem from supply shortages and rising production costs, allowing Haleon to pass on costs effectively and improve gross margins. Panadol contributes over 52% to total sales.
- **Capacity Expansion and Addition of New Products into the Portfolio:** Haleon is expanding its Jamshoro plant to add capacity for around 3mn tablets by FY26, meeting local demand and supporting exports. The company has launched Panadol Ultra and Panadol Night, with plans for Panadol Migraine and Panadol Menses. Haleon also recently announced the launch of Centrum in the vitamin category, vitamin market is valued at approximately PKR 22bn, with Haleon's CAC-1000 Plus contributing around PKR 7bn.
- **Recommendation**: We recommend a 'BUY' call on HALEON due to its attractive valuation with Dec-25 target price of PKR 1,223/share, offering a 38% upside with 2% dividend yield. The Company is trading at CY25 P/E of 17.2x.

**BUY** | **Pharmaceuticals**

## AGP Limited (AGP)

| | | | | |
|---|---|---|---|---|
| **Target Price:** PKR 244.7/share; Upside: 45.3% | | | | |
| **2025**: Dividend yld: 3%, P/E: 14.4x | | | | |
| Market Price: PKR 168.46 | | | | |
| 52 weeks: 179.60 — 60.21 | | | | |
| Abs. Return: (3M) 65.7%, (6M) 84.2%, (12M) 131.7% | | | | |
| Outstanding Shares: 0.28bn (FF%: 30) | | | | |
| Market Capitalisation: PKR 47.2bn, US$ 0.17bn | | | | |
| Exchange: KSE100, KMI, MSCI | | | | |

| PKR/ Share | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 4.3 | 7.6 | 11.7 | 14.9 |
| **DPS** | 2.5 | 3.8 | 5.8 | 7.5 |
| **BVPS** | 38.8 | 42.6 | 48.5 | 56.0 |
| **ROE%** | 11% | 19% | 26% | 29% |
| **P/E** | 39.6x | 22.3x | 14.4x | 11.3x |
| **DY** | 1.5% | 2.2% | 3.4% | 4.5% |
| **P/B** | 4.3x | 4.0x | 3.5x | 3.0x |



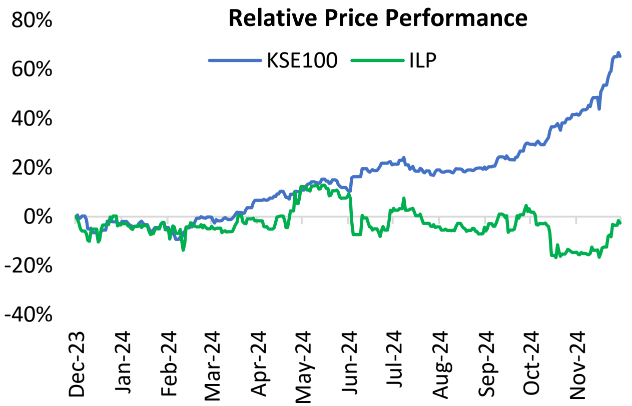

- **Investment Thesis:** AGP is a prominent pharmaceutical company in Pakistan, engaged in various activities including the import, marketing, export, dealership, distribution, and manufacturing of a wide range of pharmaceutical products. Our investment thesis is based on the following reasons: i) Regulatory tailwinds, ii) Healthy and best gross margins across industry, and iii) Diversified product portfolio.
- **Regulatory tailwinds:** In February 2024, the Drug Regulatory Authority of Pakistan (DRAP) lifted the regulations on pricing for non-essential medications. Previously, pharmaceutical companies could only increase prices annually by a maximum of 10%. With this deregulation, companies now have more freedom to set prices for non-essential drugs, giving them a competitive edge. AGP Limited is one of the major beneficiaries of the deregulation of non-essential drugs in Pakistan. Approximately 65% of AGP's product portfolio falls under the non-essential category. Following the deregulation of non-essential drugs, AGP would have the autonomy to set the prices of this 63% of their portfolio without any regulatory interference. This ultimately would lead to increasing profitability for the company.
- **Healthy gross margins across industry:** AGP during 9MCY24 has reported a gross margin of 47%, which is the highest among the peers, and the 5-year average historical gross margin is around 55%. We expect the gross margins of the company to further increase following the deregulation of non-essential drugs and due to the well-optimized product portfolio.
- **Diversified product portfolio:** AGP's product portfolio consists of well-established brands catering to both essential and non-essential categories. Around 63% of the revenue of the company is generated by 5 brands including Rigix, Osnate, Ceclor, Anafortan, and Spasler. The company's product portfolio is well positioned to offer organic growth.
- **Recommendation**: We recommend a 'BUY' call on AGP with Dec-25 target price of PKR 245/share, offering a 45% upside with 3% dividend yield. The Company is trading at CY25 P/E of 14.4x.

**BUY** | **Textile Composite**

## Interloop Limited (ILP)

| |
|---|
| **Target Price**: PKR 83/share; Upside: 14.3% |
| **2025**: Dividend yld: 4%, P/E: 10x |
| Market Price: PKR 72.6 |
| 52 weeks: 85.40 — 61.51 |
| Abs. Return: (3M) 3.5%, (6M) -1%, (12M) -2.7% |
| Outstanding Shares: 1.4bn (FF%: 20) |
| Market Capitalisation: PKR 101.8bn, US$ 0.37bn |
| Exchange: KSE100, KMI, KMI30, MSCI |

| PKR/ Share | 2023a | 2024a | 2025e | 2026f |
|---|---|---|---|---|
| **EPS** | 14.4 | 11.3 | 7.3 | 10.3 |
| **DPS** | 5.0 | 4.5 | 3.0 | 4.5 |
| **BVPS** | 31.3 | 38.2 | 42.4 | 48.2 |
| **ROE%** | 55% | 32% | 18% | 23% |
| **P/E** | 5.0x | 6.5x | 10.0x | 7.1x |
| **DY** | 6.9% | 6.2% | 4.1% | 6.2% |
| **P/B** | 2.3x | 1.9x | 1.7x | 1.5x |



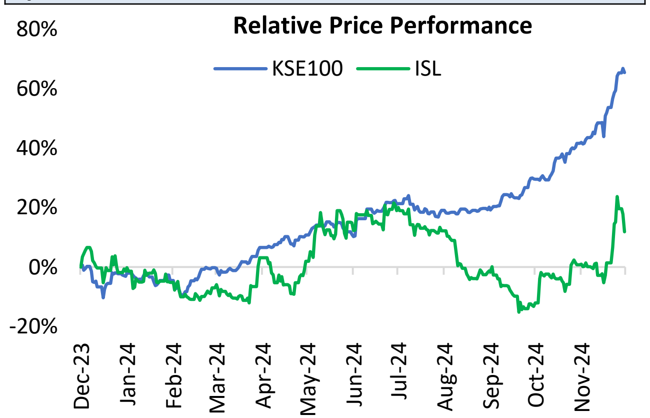

- **Investment Thesis:** Interloop is one of the leading textile companies in the country with fastest growing exports and global clientele. The company has a production capacity of 873mn pairs of socks per year. Our liking of the stocks stems from the following reasons: i) Hosiery segment poised for success, ii) Growing exports, and iii) Capacity expansion in the apparel segment.
- **Hosiery segment poised for success:** Interloop Limited stands out as a premier textile company and a global leader in the sock manufacturing industry, making it our top choice within the textiles sector. With five vertically integrated manufacturing facilities, the company has an impressive production capacity of 873 million pairs of socks each year. It supplies a variety of international brands and retailers, such as Nike, Adidas, STICHD, Target, H&M, C&A, Amazon, and Uniqlo. Furthermore, the recent acquisition of Top Circle has allowed Interloop to broaden its manufacturing presence in China.
- **Growing exports:** As one of Pakistan's largest and rapidly expanding textile exporters, Interloop consistently surpasses industry growth rates. The company ranks first among publicly listed firms and second overall in the textile sector. With export sales totaling USD 530 million, the hosiery segment remains the primary contributor, accounting for 74% of the company's total revenue.
- **Capacity expansion in the apparel segment:** Interloop is revolutionizing textile manufacturing with its state-of-the-art apparel facility, which features a fully integrated and automated production process. This comprehensive approach includes all stages from yarn spinning and fabric processing to knitting, dyeing, garment washing, and sewing. The company anticipates a significant increase in its production capacity in the coming years, nearly doubling its output. Furthermore, the denim garment division is poised for substantial growth, with plans to ramp up production significantly by FY26.
- **Recommendation**: We recommend a 'BUY' call on ILP with Dec-25 target price of PKR 83/share, offering a 14% upside with 4.1% dividend yield. The Company is trading at FY25/26 P/E of 10.0/7.1x.

**BUY** | **Engineering**

## International Steels Limited (ISL)

| | | | | |
|---|---|---|---|---|
| **Target Price**: PKR 116.2/share; Upside: 40.6% | | | | |
| **2025**: Dividend yld: 8%, P/E: 5.7x | | | | |
| Market Price: PKR 82.68 | | | | |
| 52 weeks: 92.48 — 60.00 | | | | |
| Abs. Return: (3M) 13.8%, (6M) -5.2%, (12M) 11.9% | | | | |
| Outstanding Shares: 0.44bn (FF%: 35) | | | | |
| Market Capitalisation: PKR 36bn, US$ 0.13bn | | | | |
| Exchange: KSE100, KMI, MSCI | | | | |

| PKR/ Share | 2023a | 2024a | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 8.1 | 8.4 | 14.4 | 17.7 |
| **DPS** | 5.5 | 5.5 | 7.0 | 9.0 |
| **BVPS** | 49.8 | 53.3 | 64.9 | 76.0 |
| **ROE%** | 16% | 16% | 24% | 25% |
| **P/E** | 10.2x | 9.8x | 5.7x | 4.7x |
| **DY** | 6.7% | 6.7% | 8.5% | 10.9% |
| **P/B** | 1.7x | 1.6x | 1.3x | 1.1x |



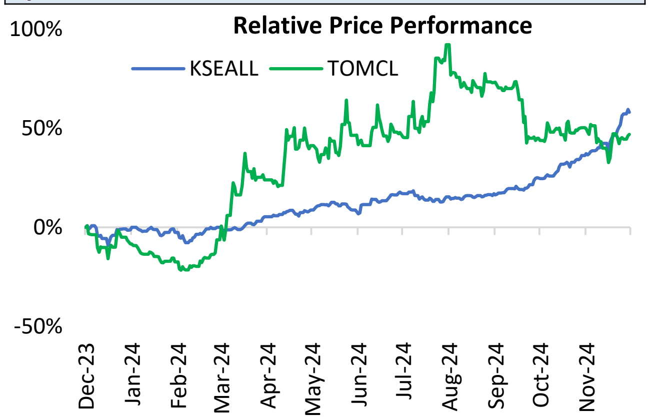

- **Investment Thesis:** ISL is in the business of manufacture and sale of flat steel products that include cold rolled, galvanized, and color coated steel coils and sheets. Our liking of the stock stems from the following reasons: i) Increase in Appliances demand and agricultural yields, ii) Positive outlook on 2/3 wheeler demand.
- **Increase in Appliances demand and agricultural yields:** Flat steel products produced by ISL are utilized by manufacturers in the appliance industry and for constructing storage silos in agriculture. The appliance sector accounts for a significant portion of ISL's sales, while the agriculture sector also contributes notably. We anticipate a rise in demand for appliances due to an increase in purchasing power, which has already shown considerable improvement since the latter half of the fiscal year. Meanwhile, the agriculture sector has experienced growth recently, and yields are projected to rise further as the SIFC focuses on attracting foreign investments to enhance the sector's development.
- **Positive outlook on 2/3 wheeler demand:** As per our analysis 2/3 wheeler industry contributes to approximately 54% of the overall ISL's sale. The 3-wheeler sales in FY24 increased by 28%y/y whereas the 2-wheeler sales augmented by -4%y/y. Looking forward; we expect the 2/3 wheeler demand to stay positive owing to the lower inflation outlook and monetary easing cycle that has just begin leading to increased availability of consumer financing.
- **Recommendation**: We recommend a 'BUY' call on ISL due to its attractive valuation with Dec-25 target price of PKR 116.2/share, offering a 41% upside with 9% dividend yield. The Company is currently trading at FY25/26 P/E of 5.7/4.7x.

**BUY** | **Food and Personal Care Products**

## The Organic Meat Company Limited (TOMCL)

| |
|---|
| **Target Price**: PKR 53.3/share; Upside: 50.6% |
| **2025**: Dividend yld: 0%, P/E: 7x |
| Market Price: PKR 35.39 |
| 52 weeks: 47.7 — 18.60 |
| Abs. Return: (3M) -15.2%, (6M) 2%, (12M) 46.8% |
| Outstanding Shares: 0.15bn (FF%: 50) |
| Market Capitalisation: PKR 5.3bn, US$ 0.02bn |
| Exchange: KSEALL, KMI |

| PKR/ Share | 2023a | 2024a | 2025f | 2026f |
|---|---|---|---|---|
| **EPS** | 4.9 | 3.3 | 5.1 | 8.3 |
| **DPS** | 0.0 | 0.0 | 0.0 | 0.0 |
| **BVPS** | 30.6 | 33.3 | 38.4 | 47.3 |
| **ROE%** | 19% | 10% | 14% | 19% |
| **P/E** | 7.3x | 10.6x | 7.0x | 4.3x |
| **DY** | 0.0% | 0.0% | 0.0% | 0.0% |
| **P/B** | 1.2x | 1.1x | 0.9x | 0.7x |




- **Strong Growth in Revenues and Profit:** TOMCL has shown strong growth with CAGRs of 37% in revenue and 17% in profit from FY20-FY24, driven by product diversification, new launches, capacity expansions, and entry into new export markets. The company expects margin improvements from its expansion into high-margin pet chews and cooked beef segments. Additionally, a new USD 12 million contract for frozen cooked beef exports to China is expected to further boost sales.
- **Large Export Network:** Export sales contribute over 95% to the total sales mix as the Company enjoys the largest export network with access to over 19 export destinations including the GCC countries, CIS Region, China, Canada and USA amongst others.
- **Capacity Expansion to Fuel Growth:** TOMCL completed a major expansion of its meat chilling and freezing capacities at the Gadap facility in September 2024. TOMCL has increased meat chilling capacity by 30% and added 300MT/month for frozen cooked beef production, enhancing the company's production capabilities to meet growing demand.
- **Animal Fattening Facility and Private Labelling Business:** TOMCL operates the largest back-end animal fattening farm, housing up to 3,000 animals. Currently, it meets 10% of its raw material needs from its own stock, with plans to increase this to 25%. The company also leads in private labeling of meat products for international clients, gaining significant acceptance in the Middle East.
- **Issue of Right Shares- A Strategic Move to Fund New Initiatives:** TOMCL has announced the issuance of 30 million right shares at PKR 27/share, raising PKR 810 million. The proceeds will be used to reduce high-cost short-term debt, support working capital for its animal fattening facility, and fund new tripes and offals processing units. This strategic move aligns with TOMCL's long-term growth plan to improve production efficiencies, meet rising export demand, and maintain market leadership.
- **Recommendation**: We recommend a 'BUY' call on TOMCL with Dec-25 target price of PKR 53/share offering 51% upside from last close. The Company is trading at FY25/26 P/E of 7.0/4.3x.

# ALPHA STOCKS

## Alpha Stocks

**Although prices of the following companies may have performed, however in light of potential triggers, these scrips are expected to remain in limelight during 2025:**

| SCRIP | PTC | GTYR | HTL | SRVI | SNGP |
|---|---|---|---|---|---|
| SECTOR | TECHNOLOGY & COMMUNICATION | AUTOMOBILE PARTS & ACCESSORIES | OIL & GAS MARKETING COMPANIES | LEATHER & TANNERIES | OIL & GAS MARKETING COMPANIES |
| Trigger | PTC has recently acquired Telenor and post acquisition PTC (CCP approval pending) will become equivalent to Mobilink in terms of market share. PTC has signed Share Purchase Agreement to acquire Telenor Pakistan for PKR108bn. | Auto sector recovery in CY25 will boost tire demand. The Green Tractor Scheme and strong yields will enhance tractor tire sales. GTYR is partnering with Shandong Huasheng Rubber to enter OTR and EV tire markets. | HTL's fuel volume grew 76% YoY in FY24, with plans to expand to 100 stations and start lubricant blending. It dominates Punjab's pharmaceutical market and has secured orders from Pakistan Tobacco. The company is exploring exports to Malaysia with SK Enmove. | SRVI achieved 57% revenue growth in CY23, driven by strong tyre, tube, and footwear performance. Lower interest rates are expected to reduce borrowing costs and improve profitability. New ventures in auto parts and apparel are projected to boost revenue by 25-30%. | Recent gas price hike is likely to improve cash flow position for the Company. Decline in interest rate is also likely to support earnings. SNGP is also working on various new pipeline construction projects of E&P companies |
| Last Close | 25.27 | 50.80 | 56.56 | 1,502.13 | 87.53 |
| 52 Week High | 26.75 | 54.89 | 63.20 | 1,624.0 | 96.80 |
| 52 Week Low | 8.75 | 28.15 | 22.0 | 523.01 | 57.53 |
| 52W Avg Volume (mn) | 13.34 | 0.81 | 1.73 | 0.02 | 3.59 |

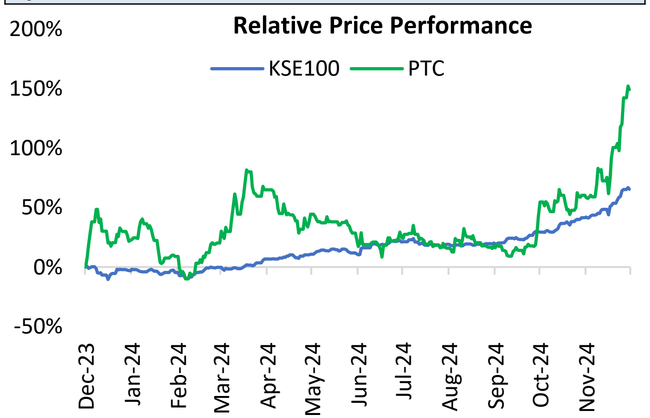
## ALPHA STOCKS | Technology and Communication

### Pakistan Telecommunication Company Limited (PTC)

| Company Data |
|---|
| Market Price: PKR 25.27 |
| 52 weeks: 26.75 — 8.75 |
| Abs. Return: (3M) 114.2%, (6M) 93.2%, (12M) 149% |
| Outstanding Shares: 3.77bn (FF%: 15.7) |
| Market Capitalisation: PKR 95.4bn, US$ 0.34bn |
| Exchange: KSEALL, KSE100 |

**Key Financial data**

| PKR/ Share | 2021a | 2022a | 2023a | 9M24a |
|---|---|---|---|---|
| EPS | 0.7 | -2.1 | -3.1 | -1.2 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS | 23.3 | 19.6 | 15.4 | 11.4 |
| ROE% | 3% | -13% | -24% | -12% |
| P/E | 37.0x | -11.8x | -8.3x | -20.4x |
| DY | 0.0% | 0.0% | 0.0% | 0.0% |
| P/B | 1.1x | 1.3x | 1.6x | 2.2x |




- **Investment Thesis:** PTC a subsidiary of e& (formerly Etisalat) is the largest ICT provider in Pakistan. PTC offers wide range of services including but not limited to high-speed broadband internet, IPTV, and Charji wireless internet. Ufone is a subsidiary of PTC, which provides voice and data services catering to postpaid and prepaid customers with around 25mn customers across the country. PTC is among our Alpha stocks and our liking of the stock stems from: i) Acquisition of Telenor, ii) Declining Interest Rates, and iii) Increase in fiber connections.
- **Acquisition of Telenor:** PTC has signed a share purchase agreement to acquire the 100% stake in Telenor Pakistan (approval pending by CCP), valuing the deal at PKR 108bn on a cash-free and debt-free basis. To finance this acquisition, IFC-led consortium has approved financing of US$400mn. If the acquisition goes through, Ufone and Telenor combined would become a dominant player in the market with a market share of approximately 35%, which would transform the local market dynamics. This acquisition will enable PTC to capitalize on synergies, significantly broaden its customer base, and improve its network coverage, thereby establishing the company as a key player in the market.
- **Declining Interest Rates:** PTCL maintains a cautious leverage position with a debt-to-assets ratio of 25% as of September 2024, essential for financial stability amid economic fluctuations. With declining interest rates, the company anticipates improved profitability in the coming quarters, despite recent losses attributed to increased finance costs and operational expenses. Revenue growth remains resilient, particularly in broadband and business services.
- **Increase in fiber connections:** PTCL's Flash Fiber service has rapidly gained popularity, reaching over 500,000 subscribers by mid-2024. The company operates an extensive fiber network of approximately 63,000 kilometers, continuously expanding to meet the increasing demand for high-speed internet in Pakistan. This growth enhances customer experiences and significantly boosts PTCL's revenue, solidifying its position as a leading provider in the Fiber-To-The-Home (FTTH) segment. Recent upgrades, including transitioning from copper to fiber in areas like Nathiagali, further demonstrate PTCL's commitment to improving digital connectivity and supporting local economies..

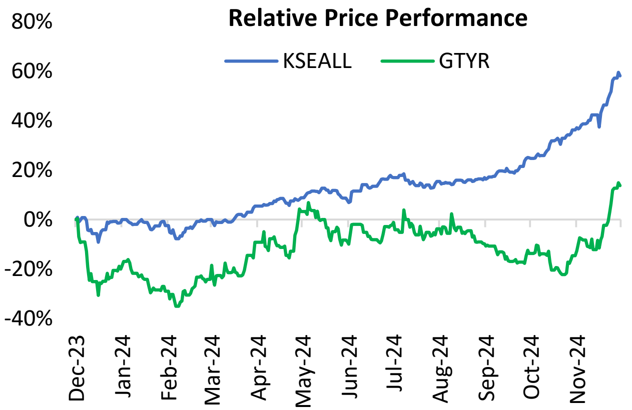
**ALPHA STOCKS** | **Automobile Parts and Accessories**

## Ghandhara Tyre & Rubber Company Limited

| Company Data |
|---|
| Market Price: PKR 50.8 |
| 52 weeks: 54.89 — 28.15 |
| Abs. Return: (3M) 27.4%, (6M) 16.1%, (12M) 13.7% |
| Outstanding Shares: 0.12bn (FF%: 40) |
| Market Capitalisation: PKR 6.2bn, US$ 0.02bn |
| Exchange: KSEALL, KMI |

**Key Financial data**

| PKR/ Share | 2021a | 2022a | 2023a | 2024a |
|---|---|---|---|---|
| EPS | 4.6 | 2.9 | -1.4 | 1.9 |
| DPS | 0.0 | 3.0 | 0.0 | 1.9 |
| BVPS | 28.8 | 31.5 | 47.2 | 49.2 |
| ROE% | 16% | 10% | -3% | 4% |
| P/E | 11.0x | 17.4x | -37.0x | 27.0x |
| DY | 0.0% | 5.9% | 0.0% | 3.7% |
| P/B | 1.8x | 1.6x | 1.1x | 1.0x |




- **Investment Thesis:** The leading manufacturers of automotive tyres and tubes, Ghandhara Tyre and Rubber Company Limited, deals with a diverse product portfolio for passenger cars, SUVs, trucks/buses, light commercial vehicles and motorcycles. The company serves prominent names such as Pak Suzuki, Lucky Motors and Indus Motors for its cars segment. Also, holding a healthy share in the market by supplying to Millat Tractors Limited, Al-Ghazi Tractors Limited, Gandhara Automobiles and Hinopak Motors.
- **Auto Financing Surge amid Interest Rate Cuts:** The upward trajectory of the overall auto sector reflects in the estimates for FY25 sales with an increase of around 35% YoY. The escalation can be attributed to consistent easing of interest rates which in turn is improving the auto financing options. This trend of improving consumer purchasing power will aid the production and supply of tyres in the market. With almost two-third of the business's revenue comprising of passenger cars and tractors, signifies the growth potential.
- **Government Regulations and Promising Agriculture Yields**: Tractor production was disrupted due to the ongoing dispute with the government over sales tax issue. This led to a supply halt of tyres for the company as one of the key customer's plant was shut down. However, Green Tractor Scheme by Punjab is anticipated to boost the demand overall, improving the industry. Furthermore, robust yields in the agriculture sector is anticipated to boost the tyre sales of the tractor segment.
- **Navigating change with Strategic Partnerships:** GTYR has signed a 7 year contract with Chinese company, Shandong Huasheng Rubber Company Limited, with improved quality, design, technology and testing services enhancing its product reliability and sustainability. The company's planning to enter the OTR (Off-The-Road) and EV (Electric Vehicle) tyre industry, leveraging its expertise to capitalize on the early mover advantage and establish a strong foothold in these rapidly growing and innovative markets.

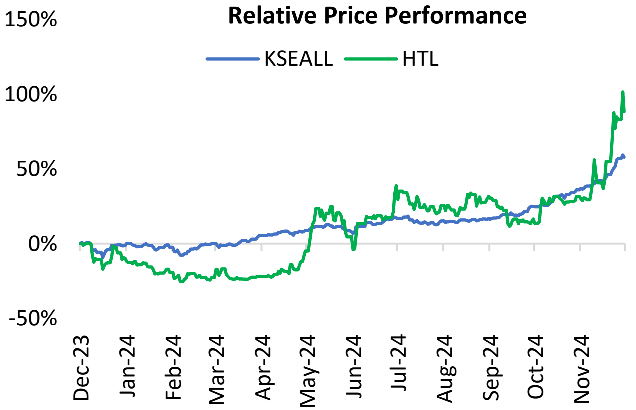
## ALPHA STOCKS | Oil and Gas Marketing Companies

### Hi-Tech Lubricants Limited (HTL)

| Company Data |
|---|
| Market Price: PKR 56.56 |
| 52 weeks: 63.2 — 22.0 |
| Abs. Return: (3M) 44.3%, (6M) 79.8%, (12M) 88.2% |
| Outstanding Shares: 0.14bn (FF%: 25) |
| Market Capitalisation: PKR 7.9bn, US$ 0.03bn |
| Exchange: KSEALL |

**Key Financial data**

| PKR/ Share | 2021a | 2022a | 2023a | 2024a |
|---|---|---|---|---|
| EPS | 2.6 | 5.3 | -0.7 | 0.8 |
| DPS | 4.0 | 3.8 | 0.0 | 0.0 |
| BVPS | 22.9 | 29.8 | 27.5 | 28.3 |
| ROE% | 11% | 20% | -2% | 3% |
| P/E | 21.8x | 10.7x | n/m | 70.7x |
| DY | 7.1% | 6.7% | 0.0% | 0.0% |
| P/B | 2.5x | 1.9x | 2.1x | 2.0x |




- **Investment Thesis:** HTL is a leading lubricant provider that has collaborated with SK Enmove Ltd., a notable industry player, to enhance its offerings. The company primarily distributes petroleum products, including fuels and lubricants, and has recently expanded into the polymer market through its subsidiary, Hi-Tech Blending (Pvt) Ltd. (HTBL). HTL's lubricant range includes products like GEO and DEO oils, MCO industrial oils, and power generation lubricants. Our liking of the stock stems from the following reasons: i) Expansion in fuel station network and initiation of lubricant blending operations, ii) Polymer segment witnessing growth, and iii) Exploring the available export opportunities.
- **Expansion in fuel station network and initiation of lubricant blending operations:** In the fuel segment, HTL reported a remarkable increase in fuel volume, reaching 60mn liters in FY24 compared to 34mn liters in FY23, marking a significant 76% y/y growth. The management is optimistic about expanding operations in this segment, aiming to enhance capacity and strengthen market presence, especially as several Oil Marketing Companies (OMCs) exit the Pakistani market. They project the number of fuel stations to grow to 100 by mid-2025. HTL has also commenced local blending of lubricants through partnership with SK Enmove which is expected to reduce costs. This would allow HTL to keep prices competitive while maintaining healthy margins.
- **Polymer segment witnessing growth:** In its polymer division, HTL supplies plastic products to a substantial portion of the Punjab pharmaceuticals industry, serving around 80-90% of the market. The company has also secured orders from prominent clients, including Pakistan Tobacco Company Limited and several electronics manufacturers. This strong positioning in the polymer sector enhances HTL's growth strategy by expanding its product offerings and strengthening ties with key industry players.
- **Exploring the available export opportunities:** HTL is currently exploring export opportunities and has received a list of 16 potential countries from SK Enmove Ltd., including Malaysia, for future product distribution. While the company is not yet exporting, this collaboration is expected to significantly enhance market reach and improve profit margins. Payments for these orders will be collected directly from SK Enmove, with anticipated gross margins of 10% to 15%.

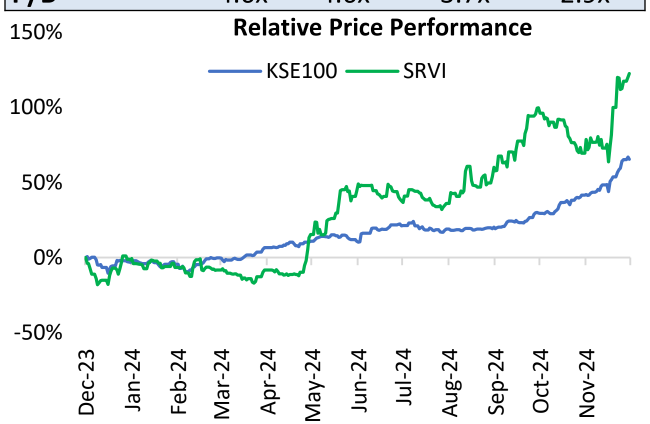
## ALPHA STOCKS | Leather and Tanneries

### Service Industries Limited (SRVI)

| Company Data |
|---|
| Market Price: PKR 1,502.13 |
| 52 weeks: 1,624.0 — 523.01 |
| Abs. Return: (3M) 41%, (6M) 50.2%, (12M) 122.4% |
| Outstanding Shares: 0.05bn (FF%: 45) |
| Market Capitalisation: PKR 70.6bn, US$ 0.25bn |
| Exchange: KSEALL, KSE100 |

**Key Financial data**

| PKR/ Share | 2021a | 2022a | 2023a | 9M24a |
|---|---|---|---|---|
| EPS | 11.4 | -13.6 | 60.5 | 73.2 |
| DPS | 7.5 | 5.0 | 10.0 | 0.0 |
| BVPS | 326.8 | 325.6 | 403.7 | 515.0 |
| ROE% | 3% | -4% | 17% | 16% |
| P/E | 132.0x | -110.8x | 24.8x | 20.5x |
| DY | 0.5% | 0.3% | 0.7% | 0.0% |
| P/B | 4.6x | 4.6x | 3.7x | 2.9x |




- **Diversified Product Portfolio to Fuel Growth in Revenues:** Service Industries Limited (SRVI) is one of the country's largest conglomerates, with a diverse product portfolio spanning footwear, tyres, and tubes. In CY23, the company achieved impressive topline growth of 57%y/y, reaching PKR 97 billion, up from PKR 62 billion in CY22. This surge was primarily driven by a remarkable 76%y/y increase in revenue from the tyres and tubes segment, following the commencement of commercial production by its subsidiary, Services Long March Tyres (SLM). Additionally, the footwear segment also posted strong growth, rising 32%y/y, supported by a 42% increase in local sales driven by the expansion of its retail network. We expect this growth momentum to continue, fueled by higher revenue from SLM, which remains the country's only producer of TBR (Truck and Bus Radial) tyres.
- **Decline in Interest Rates to Support Profitability:** As of Sep-24, SRVI's debt-to-asset ratio stands at 49%, compared to 53% in CY23. During the first nine months of CY24, finance costs accounted for 37% of operating profit. The recent decline in interest rates, coupled with expectations of further reductions, is expected to positively impact the company's bottom line by lowering borrowing costs.
- **Tapping New Revenue Segments:** In CY22, the company ventured into the manufacturing of automobile parts and accessories such as motorcycle chains and sprockets. In CY23, this segment generated PKR 3.2bn in revenue and the management anticipates a 25%-30% growth in this segment in the coming years. Moreover, the Company introduced a line of apparel through its online platform and in select stores in the Lahore region on which the Company has received a positive feedback leading the company to expand the apparel range to other cities. This strategic move into new markets and product categories is expected to further drive the company's revenue growth.

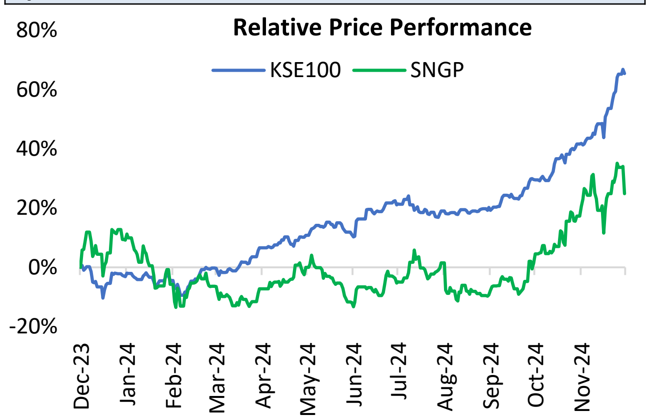
## ALPHA STOCKS | Oil and Gas Marketing Companies

### Sui Northern Gas Pipelines Limited (SNGP)

| Company Data |
|---|
| Market Price: PKR 87.53 |
| 52 weeks: 104.51 — 57.53 |
| Abs. Return: (3M) 35.3%, (6M) 34.9%, (12M) 24.8% |
| Outstanding Shares: 0.63bn (FF%: 45) |
| Market Capitalisation: PKR 55.5bn, US$ 0.2bn |
| Exchange: KSE100, KSE30, KMI, KMI30 |

**Key Financial data**

| PKR/ Share | 2021a | 2022a | 2023a | 9M24a |
|---|---|---|---|---|
| EPS | 17.3 | 16.3 | 16.7 | 16.9 |
| DPS | 7.0 | 4.0 | 4.5 | 0.0 |
| BVPS | 54.0 | 62.5 | 71.9 | 87.3 |
| ROE% | 32% | 28% | 25% | 21% |
| P/E | 5.1x | 5.4x | 5.3x | 5.2x |
| DY | 8.0% | 4.6% | 5.1% | 0.0% |
| P/B | 1.6x | 1.4x | 1.2x | 1.0x |




- **Improved Cash flows amid gas price hike:** Owing to gas price hike in 2023 and 2024, SNGP's cash collection has improved leading to improved liquidity within the energy chain. Continuation of adjustment of gas prices by Government for full cost recovery remains critical in managing cash recoveries with in energy chain and curb accumulation of circular debt. Thus, continued cost recoveries would keep cash position upbeat for SNGP going forward and lead to improved cash payouts.
- **Decline in interest rates to further boost earnings in short term**: As of Mar-24, SNGP borrowings stood at PKR 166bn which has overshadowed the growth in core earnings. Considering 700bps decline in interest rates since Jun-24, we expect SNGP's finance cost to come down significantly during 1HFY25. However, due to lagged impact of adjustment in WACC, benefit of decline in interest rate is likely to be normalized during 2HFY25. The Company also booked late payment surcharge of PKR 104bn in 9MFY24 out of PKR 131bn total finance cost which is also likely to come down going forward owing to improved cash recoveries and decline in interest rate.
- **Efforts to reduce line losses:** SNGP has actively worked on reducing line losses through its TBS Metering Project by focusing on most vulnerable areas. The TBS project is divided in to 2 phases. The Company installed 1,470 meters in 5 major losss contributing cities which covers 40% of total volumetric loss. Under Phase 2, another 5,166 meters which will cover entire 7.3mn consumer base. Based on this line losses are further expected to come down. SNGP's UFG disallowance decreased due to reduction in UFG losses which came down to 6.3% in 9MFY24 compared to 8.4% in 9MFY23.

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# POTENTIAL STOCKS FROM SALES DESK

## Potential Stocks from Sales Desk

**Our sales team anticipates interest of investors in following scrips in 2025 and hence price movement in these can not be ruled out:**

| Scrips | Sector | Last Close * | 52W High | 52W Low | 52W Avg Vol (mn) |
|---|---|---|---|---|---|
| **Attock Refinery Limited (ATRL)** | Refinery | 588.2 | 595.35 | 285.11 | 1.52 |
| **The Searle Company Limited (SEARL)** | Pharmaceutical | 124.96 | 127.25 | 43.03 | 6.63 |
| **Citi Pharma Ltd. (CPHL)** | Pharmaceutical | 59.82 | 60.63 | 20.01 | 2.69 |
| **Ghani Global Holdings Limited (GGL)** | Chemical | 13.91 | 15.3 | 8.65 | 3.38 |
| **Ghani Global Glass Limited (GGGL)** | Glass & Ceramics | 8.79 | 9.99 | 5.26 | 1.69 |
| **TRG Pakistan Limited (TRG)** | Technology & Communication | 60.49 | 99.75 | 44.03 | 4.98 |
| **NetSol Technologies Limited (NETSOL)** | Technology & Communication | 158.88 | 173 | 87 | 2.59 |
| **Engro Corporation Limited (ENGRO)** | Fertilizer | 410.2 | 433.98 | 283.76 | 0.69 |
| **The Hub Power Company Limited (HUBC)** | Power Generation & Distribution | 119.25 | 169.9 | 93 | 6.86 |
| **Crescent Steel & Allied Products Limited (CSAP)** | Engineering | 100.8 | 131.44 | 37 | 1.48 |
| **Ghandhara Automobiles Limited (GAL)** | Automobile Assemblers | 282.56 | 369.69 | 56 | 2.28 |
| **Mari Petroleum Company Limited (MARI)** | Oil & Gas Exploration Companies | 662.65 | 3,718 | 379 | 0.57 |
| **Power Cement Limited (POWER)** | Cement | 9.23 | 9.98 | 4.65 | 5.16 |
| **Fauji Foods Limited (FFL)** | Food & Personal Care Products | 13.7 | 14.83 | 8.18 | 13.46 |

Source: Bloomberg, PSX, IGI Research

*Prices as at 10-Dec-2024

## Recommendation Summary

| Symbol | Target Price | Current Price | Upside - Downside (%) | Recom. | EPS | | | DPS | | | P/E | | | DY | | | P/B | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 |
| **Automobile Assembler** | | | | | | | | | | | | | | | | | | | | | | |
| INDU | 2,585 | 2,011 | 29% | Buy | 191.8 | 233.4 | 266.0 | 114.7 | 140.0 | 160.0 | 10.5 | 8.6 | 7.6 | 5.7 | 7.0 | 8.0 | 2.4 | 2.1 | 1.9 | 16.9 | 23.7 | 25.9 |
| HCAR | 312 | 295 | 6% | Neutral | 16.3 | 10.3 | 21.0 | 6.5 | 4.0 | 8.0 | 18.0 | 28.7 | 14.0 | 2.2 | 1.4 | 2.7 | 1.9 | 1.9 | 1.7 | 1.3 | 11.4 | 6.6 |
| **Cement** | | | | | | | | | | | | | | | | | | | | | | |
| LUCK | 1,640 | 1,203 | 36% | Buy | 95.9 | 123.0 | 128.3 | 15.0 | 25.5 | 33.0 | 12.5 | 9.8 | 9.4 | 1.2 | 2.1 | 2.7 | 2.4 | 2.0 | 1.7 | 10.3 | 19.7 | 22.2 |
| KOHC | 485 | 426 | 14% | Buy | 45.4 | 64.5 | 69.4 | 6.8 | 13.0 | 17.3 | 9.4 | 6.6 | 6.1 | 1.6 | 3.1 | 4.1 | 2.0 | 1.6 | 1.4 | 19.4 | 24.1 | 27.4 |
| FCCL | 57 | 39 | 46% | Buy | 3.4 | 5.9 | 6.9 | 1.0 | 2.0 | 2.8 | 11.6 | 6.7 | 5.7 | 2.6 | 5.1 | 7.0 | 1.3 | 1.2 | 1.0 | 12.1 | 11.9 | 18.4 |
| MLCF | 68 | 48 | 42% | Buy | 5.0 | 6.5 | 7.4 | 0.0 | 0.8 | 1.0 | 9.6 | 7.4 | 6.5 | 0.0 | 1.6 | 2.1 | 1.0 | 0.9 | 0.8 | 10.7 | 10.8 | 12.3 |
| DGKC | 129 | 107 | 20% | Buy | 1.2 | 12.8 | 18.5 | 0.0 | 0.5 | 1.8 | 86.3 | 8.4 | 5.8 | 0.0 | 0.5 | 1.6 | 0.6 | 0.6 | 0.5 | -5.4 | 0.8 | 7.1 |
| CHCC | 353 | 304 | 16% | Buy | 28.3 | 32.6 | 35.2 | 5.5 | 8.0 | 10.3 | 10.7 | 9.3 | 8.6 | 1.8 | 2.6 | 3.4 | 2.3 | 1.9 | 1.7 | 23.1 | 23.7 | 22.7 |
| PIOC | 314 | 217 | 44% | Buy | 22.8 | 26.6 | 32.3 | 15.0 | 17.5 | 22.8 | 9.5 | 8.2 | 6.7 | 6.9 | 8.1 | 10.5 | 1.1 | 1.0 | 1.0 | 12.0 | 12.0 | 13.0 |
| **Chemical** | | | | | | | | | | | | | | | | | | | | | | |
| LCI | 1,383 | 1,131 | 22% | Buy | 120.9 | 139.2 | 165.3 | 60.0 | 60.0 | 74.0 | 9.4 | 8.1 | 6.8 | 5.3 | 5.3 | 6.5 | 2.1 | 1.9 | 2.0 | 19.9 | 23.9 | 24.6 |
| **Commercial Banks** | | | | | | | | | | | | | | | | | | | | | | |
| MCB | 380 | 265 | 44% | Buy | 54.7 | 52.2 | 53.3 | 36.0 | 35.0 | 35.0 | 4.8 | 5.1 | 5.0 | 13.6 | 13.2 | 13.2 | 1.2 | 1.1 | 1.0 | 28.4 | 26.6 | 23.0 |
| UBL | 427 | 358 | 19% | Buy | 61.2 | 62.0 | 58.5 | 46.0 | 48.0 | 44.0 | 5.8 | 5.8 | 6.1 | 12.9 | 13.4 | 12.3 | 1.4 | 1.5 | 1.5 | 23.0 | 26.5 | 25.2 |
| HBL | 218 | 164 | 33% | Buy | 40.5 | 42.0 | 43.5 | 16.0 | 15.0 | 15.0 | 4.0 | 3.9 | 3.8 | 9.8 | 9.2 | 9.2 | 0.6 | 0.5 | 0.5 | 17.7 | 15.3 | 14.5 |
| ABL | 175 | 141 | 24% | Buy | 41.1 | 37.1 | 37.7 | 16.0 | 15.0 | 15.0 | 3.4 | 3.8 | 3.7 | 11.3 | 10.6 | 10.6 | 0.7 | 0.6 | 0.6 | 25.3 | 22.0 | 17.5 |
| BAHL | 168 | 127 | 32% | Buy | 41.0 | 39.5 | 41.8 | 14.0 | 17.8 | 18.8 | 3.1 | 3.2 | 3.0 | 11.0 | 14.0 | 14.8 | 0.9 | 0.8 | 0.7 | 31.8 | 31.8 | 25.7 |
| BAFL | 135 | 79 | 72% | Buy | 29.6 | 29.0 | 270.7 | 8.0 | 6.8 | 7.0 | 2.6 | 2.7 | 0.3 | 10.2 | 8.6 | 8.9 | 0.7 | 0.6 | 0.5 | 30.6 | 30.2 | 24.2 |
| NBP | 122 | 73 | 68% | Buy | 6.0 | 23.5 | 25.8 | 3.0 | 9.5 | 15.0 | 12.0 | 3.1 | 2.8 | 4.1 | 13.0 | 20.6 | 0.4 | 0.4 | 0.4 | 15.2 | 3.3 | 12.5 |
| FABL | 71 | 48 | 48% | Buy | 17.3 | 14.7 | 15.3 | 6.0 | 6.3 | 6.5 | 2.8 | 3.3 | 3.1 | 12.5 | 13.0 | 13.5 | 0.7 | 0.6 | 0.5 | 25.0 | 26.3 | 19.2 |
| **Engineering** | | | | | | | | | | | | | | | | | | | | | | |
| ISL | 116 | 83 | 41% | Buy | 8.4 | 14.4 | 17.7 | 5.5 | 7.0 | 9.0 | 9.8 | 5.7 | 4.7 | 6.7 | 8.5 | 10.9 | 1.6 | 1.3 | 1.1 | 16.3 | 16.3 | 24.4 |
| MUGHAL | 118 | 80 | 48% | Buy | 6.0 | 11.4 | 14.6 | 0.0 | 5.0 | 5.0 | 13.5 | 7.0 | 5.5 | 0.0 | 6.2 | 6.2 | 1.0 | 1.0 | 1.0 | 15.1 | 7.8 | 14.4 |
| **Fertilizer** | | | | | | | | | | | | | | | | | | | | | | |
| FFC | 487 | 349 | 40% | Buy | 44.4 | 59.2 | 62.5 | 30.0 | 50.0 | 52.0 | 7.8 | 5.9 | 5.6 | 8.6 | 14.3 | 14.9 | 5.6 | 4.8 | 4.2 | 52.7 | 80.0 | 88.1 |
| EFERT | 243 | 204 | 19% | Buy | 24.4 | 28.1 | 31.0 | 22.5 | 25.0 | 28.0 | 8.3 | 7.3 | 6.6 | 11.0 | 12.3 | 13.7 | 6.8 | 6.2 | 5.7 | 56.4 | 74.2 | 89.2 |

## Recommendation Summary

| Symbol | Target Price | Current Price | Upside - Downside (%) | Recom. | EPS | | | DPS | | | P/E | | | DY | | | P/B | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 | '24 | '25 | '26 |
| **Glass & Ceramics** | | | | | | | | | | | | | | | | | | | | | | |
| TGL | 158 | 133 | 19% | Buy | 25.4 | 18.5 | 22.2 | 0.0 | 6.5 | 8.0 | 5.2 | 7.2 | 6.0 | 0.0 | 4.9 | 6.0 | 1.2 | 1.1 | 1.0 | 17.7 | 25.8 | 16.2 |
| **Oil & Gas Exploration Companies** | | | | | | | | | | | | | | | | | | | | | | |
| OGDC | 252 | 194 | 30% | Buy | 48.6 | 47.6 | 43.4 | 10.1 | 15.0 | 21.8 | 4.0 | 4.1 | 4.5 | 5.2 | 7.7 | 11.2 | 0.7 | 0.6 | 0.6 | 22.9 | 17.9 | 15.6 |
| MARI | 591 | 663 | -11% | Neutral | 64.4 | 67.4 | 64.3 | 25.8 | 28.0 | 26.0 | 10.3 | 9.8 | 10.3 | 3.9 | 4.2 | 3.9 | 3.5 | 2.9 | 2.6 | 37.5 | 39.3 | 32.3 |
| PPL | 219 | 174 | 26% | Buy | 42.0 | 42.2 | 40.2 | 6.0 | 10.0 | 15.0 | 4.1 | 4.1 | 4.3 | 3.4 | 5.7 | 8.6 | 0.7 | 0.7 | 0.6 | 20.1 | 19.4 | 16.8 |
| POL | 742 | 605 | 23% | Buy | 137.9 | 101.1 | 90.1 | 95.0 | 75.0 | 80.0 | 4.4 | 6.0 | 6.7 | 15.7 | 12.4 | 13.2 | 2.1 | 1.9 | 1.9 | 61.4 | 52.0 | 33.2 |
| **Oil & Gas Marketing Companies** | | | | | | | | | | | | | | | | | | | | | | |
| PSO | 448 | 299 | 50% | Buy | 33.8 | 57.2 | 73.1 | 10.0 | 17.0 | 22.0 | 8.8 | 5.2 | 4.1 | 3.3 | 5.7 | 7.4 | 0.6 | 0.6 | 0.5 | 2.6 | 7.1 | 11.2 |
| APL | 630 | 521 | 21% | Buy | 111.1 | 95.5 | 90.5 | 28.0 | 33.0 | 40.0 | 4.7 | 5.5 | 5.8 | 5.4 | 6.3 | 7.7 | 1.2 | 1.0 | 0.9 | 30.2 | 27.3 | 19.8 |
| **Power Generation & Distribution** | | | | | | | | | | | | | | | | | | | | | | |
| HUBC | 142 | 119 | 19% | Buy | 54.0 | 41.6 | 38.7 | 20.0 | 8.0 | 15.0 | 2.2 | 2.9 | 3.1 | 16.8 | 6.7 | 12.6 | 0.8 | 0.7 | 0.6 | 44.8 | 42.1 | 25.4 |
| **Textile Composite** | | | | | | | | | | | | | | | | | | | | | | |
| ILP | 83 | 73 | 14% | Buy | 11.3 | 7.3 | 10.3 | 4.5 | 3.0 | 4.5 | 6.5 | 10.0 | 7.1 | 6.2 | 4.1 | 6.2 | 1.9 | 1.7 | 1.5 | 54.7 | 32.4 | 18.0 |
| **Pharmaceuticals** | | | | | | | | | | | | | | | | | | | | | | |
| HALEON | 1,223 | 889 | 38% | Buy | 39.4 | 51.7 | 66.0 | 10.0 | 16.0 | 20.0 | 22.6 | 17.2 | 13.5 | 1.1 | 1.8 | 2.2 | 9.3 | 6.6 | 4.8 | 13.2 | 47.9 | 44.7 |
| AGP | 245 | 168 | 45% | Buy | 7.6 | 11.7 | 14.9 | 3.8 | 5.8 | 7.5 | 22.3 | 14.4 | 11.3 | 2.2 | 3.4 | 4.5 | 4.0 | 3.5 | 3.0 | 11.3 | 18.6 | 25.7 |
| **Food & Personal Care Products** | | | | | | | | | | | | | | | | | | | | | | |
| TOMCL | 53 | 35 | 51% | Buy | 3.3 | 5.1 | 8.3 | 0.0 | 0.0 | 0.0 | 10.6 | 7.0 | 4.3 | 0.0 | 0.0 | 0.0 | 1.1 | 0.9 | 0.7 | 18.8 | 10.5 | 14.2 |
| **Miscellaneous** | | | | | | | | | | | | | | | | | | | | | | |
| PABC | 142 | 111 | 28% | Buy | 15.0 | 21.1 | 25.1 | 3.0 | 8.5 | 10.0 | 7.4 | 5.3 | 4.4 | 2.7 | 7.6 | 9.0 | 2.6 | 2.1 | 1.6 | 57.3 | 41.8 | 43.9 |

Source: PSX, Bloomberg, Company Financials, IGI Research, Prices as at 10-Dec-2024

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