

# Company Report

Wednesday, September 3, 2025

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Securities

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## Coverage Initiation

### COMPANY UPDATE

#### Pakistan Tobacco Company Limited (PAKT)

Tobacco

Recommendation	<b>BUY</b>
Target Price: Jun-26	1,716
Last Closing: 15-Aug-25	1,339
Upside (%):	28%
Valuation Methodology:	DCF

#### Market Data

Bloomberg Tkr.	PAKT PA
Shares (mn)	255.49
Free Float Shares (mn)	12.61
Free Float Shares (%)	4.93%
Market Cap (PKRbn)	342.36
Market Cap (USDmn)	1,215
Exchange	KSE-100

Price info.	01M	03M	09M	12M
Abs. Return	3%	13%	12%	38%
Low	1,265	1,061	1,385	1,400
High	1,368	1,368	1,050	830

#### Key Company Financials

Period End: Dec

PKRbn	CY24A	CY25E	CY26F	CY27F
Total Revenue	121.08	132.69	148.01	166.32
Net Income	27.78	32.64	37.42	43.18
EPS (PKR)	108.74	127.7	146.46	169.03
DPS (PKR)	125.0	133.0	144.0	151.0
Total Assets	94.48	97.25	104.85	114.00
Total Equity	52.29	51.0	51.58	56.20

#### Key Financial Ratios

ROE (%)	54%	63%	73%	80%
P/E (x)	12.31	10.48	9.14	8.00
P/B (x)	6.54	6.71	6.63	6.09
DY (%)	9.3%	9.9%	10.8%	11.3%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

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## Tobacco

### PAKT: Market Leader with Expanding Global Footprint

- We initiate coverage on PAKT with a buy rating and target price of PKR 1,716/share offering 28% upside from last close. Pakistan Tobacco Company (PAKT) is Pakistan's largest legal tobacco manufacturer and a key subsidiary of British American Tobacco (BAT), they have entrenched brand leadership in cigarettes (Capstan, Gold Flake, John Player, etc.) with fast-growing new-category products (VELO).
- Export markets expanded to Japan, France, Peru, and Paraguay, aligning with BAT Group's "Building a Smokeless World" strategy. While combustibles remain the revenue backbone, the Modern Oral (VELO™) category delivered exceptional performance in CY2024, VELO volumes grew 27% YoY, aided by portfolio innovation. In CY2024, PAKT exported products worth US\$36mn, comprising 1.3bn sticks, 47mn nicotine pouches, and 4.8mn kg of unmanufactured tobacco.
- Using DCF, we have a 'BUY' rating on PAKT with a Jun-26 target price of PKR 1,716/ share offering ≈ 28% upside from the last closing price of PKR 1,339.11/share (02-Sep-2025)

### Initiating Coverage on Pakistan Tobacco Company Limited (PAKT) with "BUY" Rating

We initiate coverage on PAKT with a buy rating and target price of PKR 1,716/share offering 28% upside from last closing price of PKR 1,339.11/share (02-Sep-2025). The Company is Pakistan's largest tobacco manufacturer and a subsidiary of British American Tobacco (BAT), they have entrenched brand leadership in cigarettes (Capstan, Gold Flake, John Player, etc.) with fast-growing modern oral products (VELO).

We base our investment thesis on 1) Market Leadership in a Distorted Industry Landscape, 2) Multi-Category Momentum Led by VELO 3) Export Growth as a Strategic Earnings Lever 4) Margin Expansion from Easing Leaf Prices and Untapped Cultivation Potential 5) Healthy Dividends

**Recommendation:** We have a 'BUY' rating on PAKT with a Jun-26 target price of PKR 1,716/share offering a ~28% upside from the last closing price of PKR 1,339.11/share (02-Sep-2025). The Company is currently trading at CY25/26 P/E of (10.48/9.14) and offers a dividend yield of 10%

**Key Catalyst:** Key catalyst include a) Illicit trade enforcement & Track & Trace b) Modern Oral adoption c) Room to grow in tobacco cultivation d) Geographic Expansion into New Markets

**Key Risk:** Key risk include a) Regulatory & Tax uncertainty b) Tobacco Leaf Price volatility c) Illicit Trade Persistence

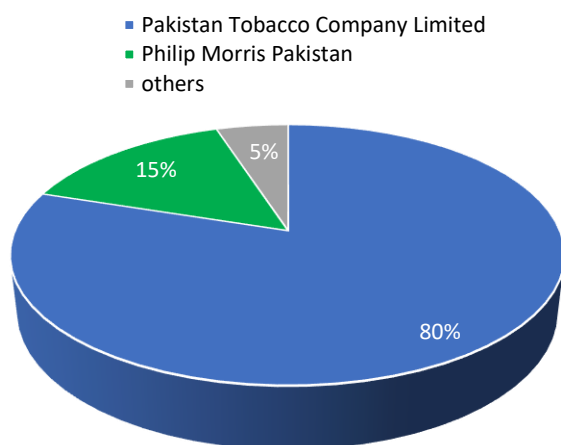
## Investment Thesis

### 1. Market Leadership in a Distorted Industry Landscape

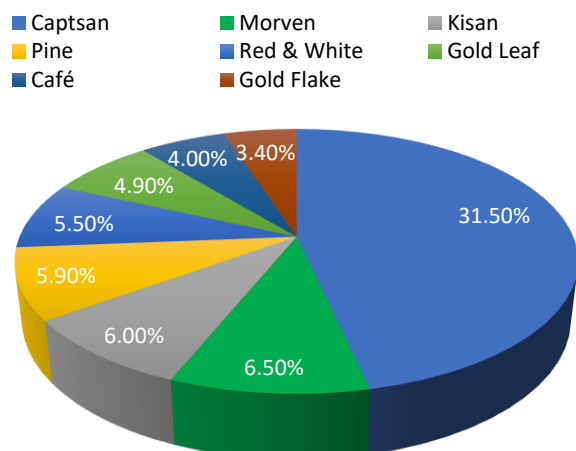
PAKT commands a record 80.1% share of Pakistan's formal cigarette market, reaffirming its dominance despite illicit trade surging to  $\approx 54\%$  of total consumption following the CY22/23 200% FED hike. Capstan, PAKT's flagship brand, alone captures  $\approx 32\%$  of the formal cigarette market share followed by Gold Leaf in the premium segment.

Furthermore, In FY23–24, cigarette FED rates jumped  $\sim 150\%$  (PKR 16,500/1,000 sticks for premium, PKR 5,050/1,000 for economy). In FY24–25, rates stayed unchanged but the tier threshold rose to PKR 12,500/1,000 sticks, lifting the minimum pack price from PKR 108 to Rs 150 allowing PAKT to increase prices without contributing to excise tax revenues. In FY25–26 Budget however, no new tax was imposed and the two-tier structure was maintained, helping sustain demand in the formal cigarette market. The duopoly structure with Philip Morris further supports disciplined pricing and volume stability.

**Exhibit: Market Share Company wise formal market**



**Exhibit: Most Popular Cigarettes by Brand in 2023-2024**



Source: SPDC Policy Brief, Company Accounts, IGI Research

### 2. Multi-Category Momentum Led by VELO

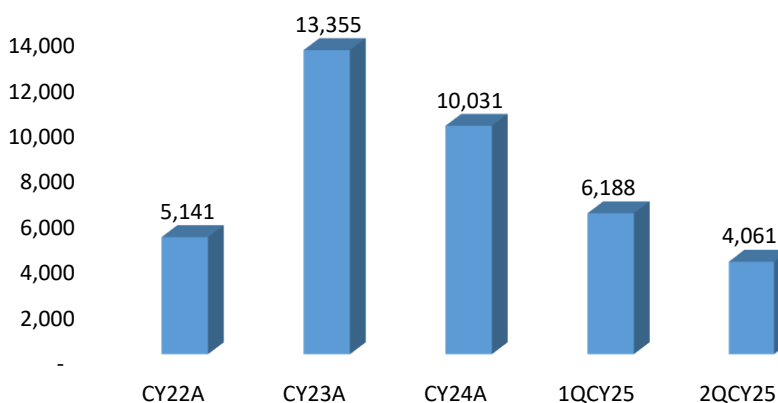
The Company is capitalising on BAT Group's "Smokeless World" strategy through accelerated expansion in Reduced-Risk Products (RRPs), particularly in the Modern Oral category. The flagship VELO brand recorded +27% YoY volume growth in CY24, consolidating its leadership in Pakistan's smokeless nicotine segment with over 0.5mn active users, the largest globally for BAT's oral nicotine portfolio. Manufactured locally under the "Made in Pakistan"

initiative, VELO™ has also expanded into high-margin export markets including Japan, France, and Peru. With BAT reporting 4bn pouches sold globally in 2022 and expecting a 500% market increase by 2026 supported by surge in demand for safer smoking alternatives globally, Velo's entrenched brand position and first-mover advantage in Pakistan places PAKT well positioned to capture sustained high-margin growth from this category.

### 3. Export Growth as a Strategic Earnings Lever

In CY24, the company exported products worth US\$ 36mn, comprising 1.3bn sticks, 47mn nicotine pouches, and 4.8mn kg of unmanufactured tobacco. PAKT's export growth in CY25 has been remarkable, with 1HCY25 exports at PKR 10,249mn already exceeding the PKR 10,031mn achieved in CY24. 1QCY25 surged to PKR 6,188mn (vs. PKR 1,051mn in 1QCY24) and 2QCY25 rose to PKR 4,061mn (vs. PKR 1,205mn), underscoring the rapid scale-up of export operations. This momentum strengthens PAKT's foreign exchange earnings, boosts margins, and reduces reliance on the volatile domestic market. The Company added VELO™ exports to Japan, France, and Peru, and is exploring further growth in South America. With sector-level trade data showing Pakistan's tobacco exports up 158% YoY in CY25 to US\$166.5mn, the Company is well positioned to contribute a meaningful share to this growth.

**Exhibit: PAKT's Exports in 2023-1H2025 in (mn)**



Source: Company Accounts, IGI Research

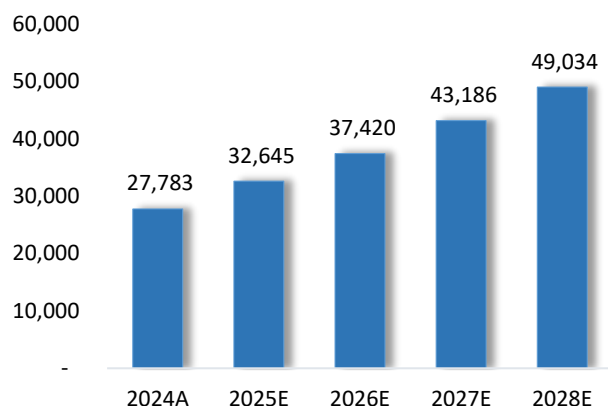
### 4. Margin Expansion from Easing Leaf Prices and Untapped Cultivation Potential

Tobacco leaf, PAKT's key raw material, saw prices surge in 2023 due to poor yields, pushing CY24 cost of sales up 21% YoY. Despite this, PAKT's gross turnover grew by +12.6%/y in CY24 and maintained PAT of PKR 27.8bn with

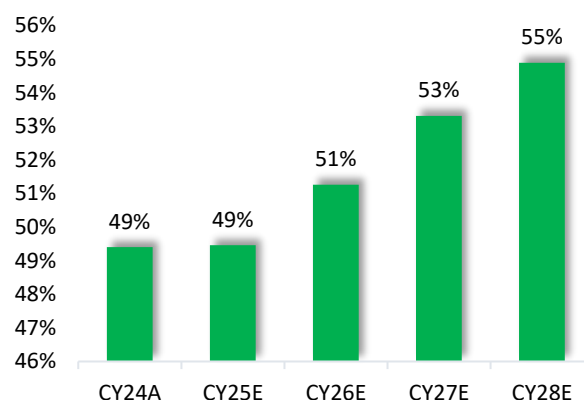
EPS of PKR 108.74, absorbing both demand-side pressure and rise in cost of sales from tobacco leaf shortages in CY23. Supply conditions are now improving, with better crop cycles and stable procurement expected ahead. PAKT is positioned to maintain gross margin which hover around 50%.

Moreover, Pakistan currently devotes only 0.25% of its irrigated land to tobacco, primarily in Khyber Pakhtunkhwa, producing 120-140mn kg annually. Notably, from 1980 to 2020, yields rose 75% with just a 16% increase in cultivated area, underscoring the scope for further productivity gains without significant land expansion. For PAKT, strong local farmer relationships and long-term sourcing contracts position it to benefit directly from easing input costs, supporting gross margin sustainability and enhanced profitability going forward. The management also highlighted that recent floods will not impact tobacco prices as most of the crop was already harvested.

**Exhibit: Profit After Tax in PKR (mn)**



**Exhibit: Gross Margin Trend CY24A-CY28E**



Source: Company Accounts, IGI Research

## 5. Healthy Dividend Payout with Attractive Yields

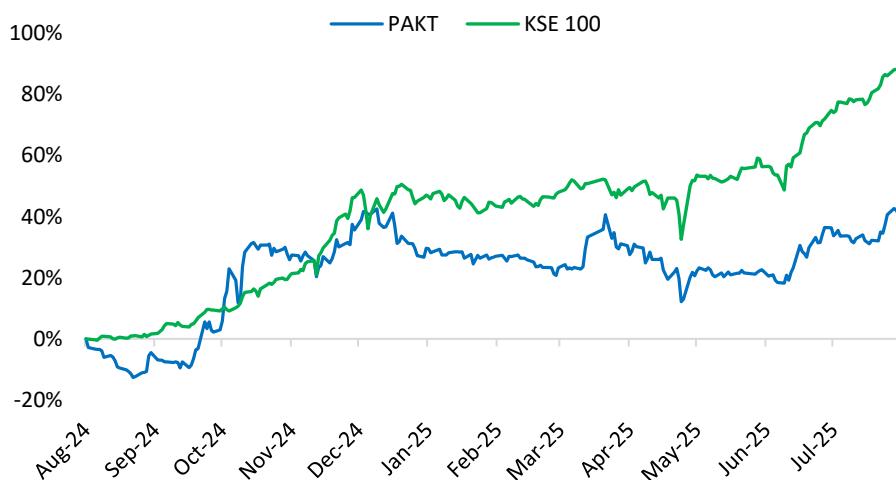
In CY24, interim dividends totaled PKR 125/share, supported by robust operating cash flows. The company's capital-light business model, and minimal leverage allow for continued high distribution. Distributable reserves remained healthy for the company. With interim dividends reaching 100/share by 1HCY25, we expect cumulative dividends of 130/share for CY25. As a result, dividend yield stands at 9.9%/10.8% for CY25/26.

## Valuation

Using DCF, we have a 'BUY' rating on PAKT with a Jun-26 target price of PKR 1,716/share offering a ~28% upside from the last closing price of PK 1,339.11/share (02-Sep-2025).

We have determined our target price using Discounted Cash Flow (DCF) valuations with Cost of Equity of 17% and a terminal growth rate assumed at 5% based on cash flows projected until CY29. Our calculation includes a risk-free rate of 11%, a beta of 1.0 and an equity risk premium of 6%.

### Exhibit: Relative Price Performance



Source: CapitalStake, IGI Research

The table below presents a sensitivity analysis of earnings under varying cigarette sales growth scenarios. It evaluates how changes in both domestic sales growth (2%–20%) and export sales growth (5%–25%) impact earnings.

### Exhibit: Sensitivity of FY26 Earnings to changes in Cigarette Sales Growth

		Domestic Sales growth				
		2%	5%	10%	15%	20%
	Export Sales growth					
	5%	138.8	143.3	150.8	158.3	165.8
	10%	138.8	143.3	150.8	158.3	165.8
	15%	138.9	143.4	150.9	158.4	165.9
	20%	139.0	143.5	151.0	158.5	166.0
	25%	139.0	143.5	151.1	158.6	166.1

Source: Company Accounts, IGI Research

## Key Catalyst

### 1. Illicit trade enforcement & Track & Trace

Any meaningful enforcement of T&TS at manufacturing and retail levels would shift substantial volumes back to the legal channel. Even partial recovery of illicit share would deliver outsized earnings impact for PAKT due to its operational scale and fixed cost absorption.

### 2. VELO / Modern Oral adoption

VELO continuous volume growth and expansion of pouch formats and export markets (Japan, France, Peru) support higher-margin non-combustible revenue. The ongoing shift from combustible to smokeless products presents a long-term structural growth opportunity.

### 3. Room to Grow in Tobacco Cultivation

Pakistan currently devotes only 0.25% of its irrigated land to tobacco, primarily in Khyber Pakhtunkhwa, producing 140-150mn kg annually. Notably, from 1980 to 2020, yields rose 75% with just a 16% increase in cultivated area, underscoring the scope for further productivity gains without significant land expansion. local supply will remain abundant and procurement prices can normalise or even decline helping PAKT attain better cost predictability

### 4. Geographic Expansion into New Markets

PAKT's entry into high-growth regions such as South America through VELO exports will further diversify revenue streams and reduce dependence on the domestic market

## Risk to Rating

### 1. Regulatory and Tax Policy Risk

The tobacco sector faces constant risk of abrupt policy shifts, including steep FED hikes, additional provincial levies, or outright bans on certain products. Sudden changes can destabilise demand, fuel illicit trade, and disrupt pricing strategies.

### 2. Volatility in Tobacco Leaf Prices

Although prices are easing from the 2023 spike, weather shocks, pest outbreaks, or global supply disruptions could again tighten supply and raise procurement costs. Given tobacco leaf's significant share of input costs, such volatility could compress margins despite operational efficiencies.

### 3. Persistent Illicit Trade and Weak Enforcement

Weak enforcement of Track & Trace, coupled with high price gaps between legal and illegal products, risks continued market share erosion for regulated players like PAKT. Sustained illicit dominance would limit the benefits of domestic volume recovery.

## Financial Summary

### Pakistan Tobacco Company Limited (PAKT)

Current Price (PKR): 1,339

Target Price (PKR): 1,716

Upside: 28%

Recommendation: BUY

PKRbn	CY22A	CY23A	CY24A	CY25E	CY26F	CY27F	CY28F	PKRbn	CY22A	CY23A	CY24A	CY25E	CY26F	CY27F	CY28F
<b>Income Statement</b>								<b>Per Share</b>							
Net Sales	94,862	109,933	121,078	132,691	148,015	166,316	186,411	EPS	83.45	113.35	108.74	127.77	146.46	169.03	191.92
Gross Profit	45,156	59,479	59,813	67,501	75,927	86,846	98,327	DPS	20.00	32.00	125.00	133.00	144.00	151.00	170.00
Operating Profit	32,787	45,020	44,448	55,092	62,179	71,483	81,236	BVPS	104.21	200.85	204.66	199.44	201.90	219.93	241.85
EBITDA	34,424	46,825	46,505	57,527	64,798	74,266	84,161	<b>Growth rates &amp; Margins</b>							
Finance Costs	(328)	(2,191)	(1,275)	(1,020)	(612)	(306)	(312)	Sales Gr. %	27%	16%	10%	10%	12%	12%	12%
Profit Before Tax	34,734	50,012	49,500	57,273	62,367	71,977	81,724	EPS Gr. %	13%	36%	-4%	18%	15%	15%	14%
Taxation	13,413	21,053	21,717	24,627	24,947	28,791	32,690	Gross Margin	48%	54%	49%	51%	51%	52%	53%
Profit After Tax	21,321	28,960	27,783	32,645	37,420	43,186	49,034	EBIT Margin	35%	41%	37%	42%	42%	43%	44%
								Net Margin	22%	26%	23%	24%	25%	26%	26%
								<b>Valuation</b>							
Inventory	24,905	46,672	48,842	50,817	56,194	61,948	68,663	P/E	16.05x	11.81x	12.31x	10.48x	9.14x	7.92x	6.98x
Receivables	3	2,688	3	36	41	46	51	DY	1.5%	2.4%	9.3%	9.9%	10.8%	11.3%	12.7%
Current Assets	53,696	86,518	68,076	71,513	80,206	90,820	99,791	P/B	12.85x	6.67x	6.54x	6.71x	6.63x	6.09x	5.54x
PP&E	16,802	21,672	24,687	24,023	22,929	21,470	23,451	P/S	3.61x	3.11x	2.83x	2.58x	2.31x	2.06x	1.84x
Total Assets	71,058	109,584	94,477	97,250	104,849	114,004	124,957	ROE (%)	96%	74%	54%	63%	73%	80%	83%
Payables	27,198	39,130	28,526	36,614	43,450	47,899	53,091	ROA (%)	35%	32%	27%	34%	37%	39%	41%
Total Liabilities	44,434	58,269	42,187	46,296	53,265	57,814	63,166	P/EBITDA	9.94x	7.31x	7.36x	5.95x	5.28x	4.61x	4.07x
Paid Up Capital	2,555	2,555	2,555	2,555	2,555	2,555	2,555	EV/EBITDA	13.07x	9.52x	9.64x	7.97x	7.06x	6.14x	5.40x
Total Equity	26,624	51,315	52,290	50,955	51,584	56,190	61,791								

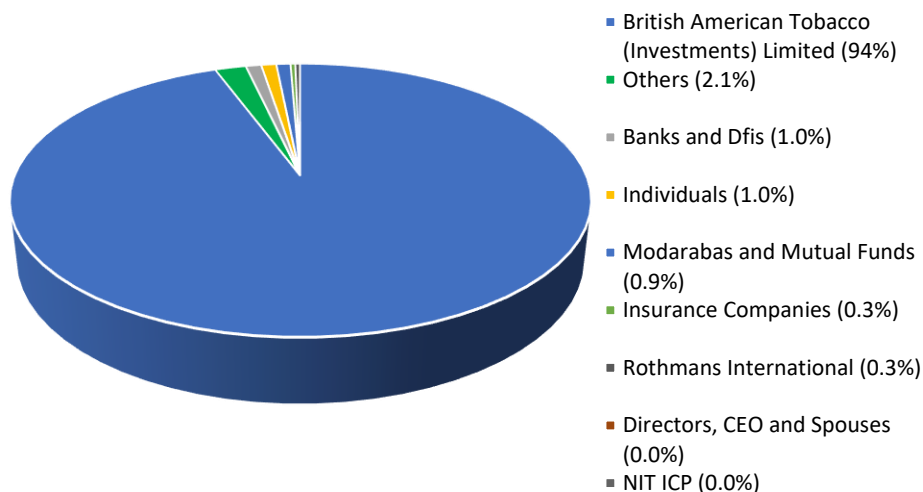
Source: PSX, Capital Stake, Company Accounts, Bloomberg, IGI Research

## About the Company

Pakistan Tobacco Company Limited (PAKT), a subsidiary of British American Tobacco (BAT), is the country's largest legal tobacco manufacturer and a key player in the FMCG sector. Headquartered in Islamabad, PAKT operates modern manufacturing facilities in Jhelum and Akora Khattak, producing a diversified portfolio of products ranging from combustible brands such as Capstan, Gold Flake, and John Player to high-growth non-combustible offerings like VELO™ oral nicotine pouches.

With a nationwide distribution network and growing export footprint, the Company contributes significantly to Pakistan's economy through tax revenues and foreign exchange earnings. The company maintains a dominant market position, underpinned by strong brand equity, operational efficiency, and alignment with BAT's global "Building a Smokeless World" strategy.

### Exhibit: Shareholding Pattern As of Dec-24



Source: Company Accounts, IGI Research



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Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

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- Discounted Cash Flow (DCF)
- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

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