Strategy

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Favour Defensive Sector as GDP Growth Slows Down

2018 remained a volatile and lacklustre year for the Pakistan equity market. The benchmark KSE 100 recorded a decline of 8.2% making it the second consecutive year of negative returns (~15.3% in 2017). Regionally too, KSE100 failed to impress, which barring a few EM countries, MSCI Pakistan underperformed MSCI EM by 21%.

Two Competing Macro themes
Heading into 2019, we view two competing macro themes that emerged in 2018 and will steer market performance in the upcoming year,

I. Interest rates
II. Economic growth

Market earnings to remain robust despite macro headwinds…
We estimate 3-year forward annualised earnings growth of +16% and excluding Banks and E&Ps of +4%. We have revised our base assumptions to reflect changes in interest rates, slowdown in GDP and international commodity prices.

Market P/E corrected to weak macro data in 2018
Responding to weaker macro and corporate earnings outlook in 2018, market multiple after touching a high 10.4x corrected by ~21% to 8.2x by Dec-18. For the whole year the average multiple stands at 9.1x. The lowest in 10yrs history market P/E averaged 6.6x in 2012. These periods, were marked by high interest rates, high oil prices and a sustained low GDP averaging ~3.5% (2010-12).

Stretched equity multiple has historically been supported by low interest rates…
A look back, suggests, periods of high interest rate are generally followed by low market multiples. During 2012-13 interest rates averaged ~13%, while average P/E stood at 7.4x or 13.5% with respect to earning yield. But later in 2014, market multiple was quick to recover 8.6x along with volumes thanks to ultra-low interest rates supported by lower oil prices and a follow up recovery in growth cycle.

We expect GDP growth to slow down in 2019 to 3.9% (previous 5.2%) owing to tighter fiscal and monetary conditions. However, we expect subdued recovery from 2020 onwards, taking the next 5-years average GDP growth cycle to 4.5% (2019-23E) from previous 5.5% achieved in 2014-18. Historically, decelerating economic and earnings growth has been associated with contracting market valuations. Periods of high growth, 2013-18 market multiple averaged 9.2x compared to 7.4x during weak growth cycle of 2008-13.

2019 market P/E to recover at 7.6x
Based on our earnings estimates for 2019, market P/E for 2019 comes at 6.9x, which takes it near to a ~5-year low level and below to its historic average of 8.8x. Our implied P/E based on interest rates and GDP growth comes at 7.6x indicating a ~10% P/E expansion.

Base case: Index target of 42,000; offering a modest +13% growth
For 2019, we eye index target of 42,000, generating modest growth of ~13% from its current index level of 37k. We have taken market P/E multiple approach as our basis for index estimation. We view markets are likely to stay volatile and risks on growth and earnings remain high. Our baseline assumption is that economic growth will be depressed, however growth in corporate earnings will be positive in 2019.

Contents

A year to forget

2018 remained a volatile and lacklustre year for the Pakistan equity market. The benchmark KSE 100 recorded a decline of 8.2% making it the second consecutive year of negative returns (~15.3% in 2017). Regionally too, KSE100 failed to impress, which barring a few EM countries, MSCI Pakistan underperformed MSCI EM by 21%.

Exhibit: Second consecutive year of negative returns

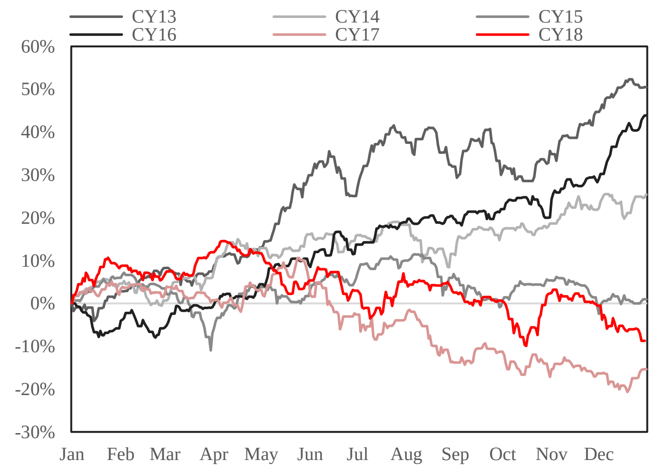
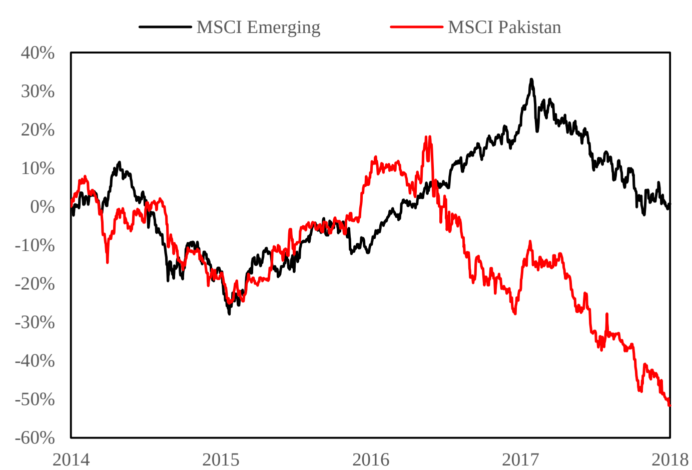


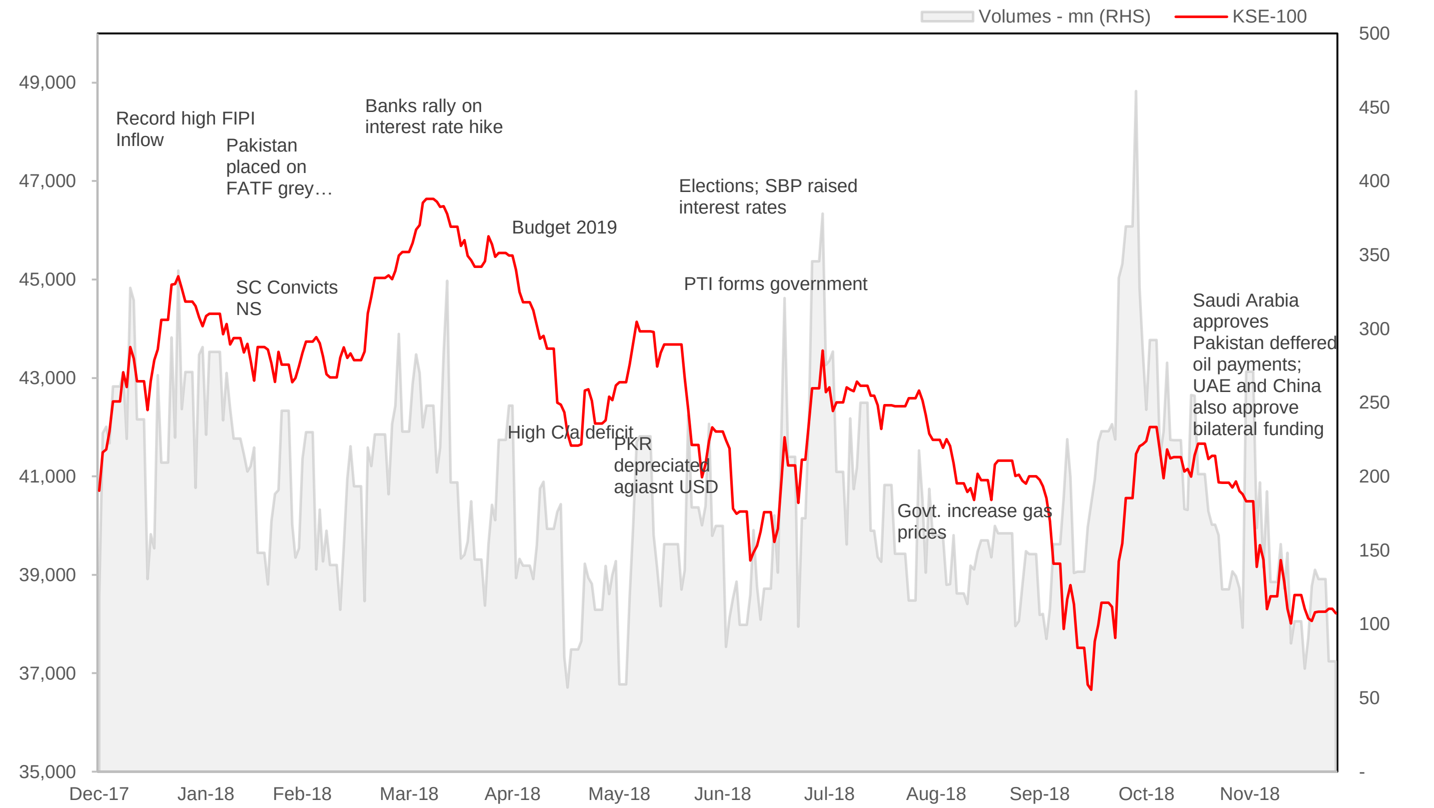
Exhibit: MSCI Pakistan underperformed MSCI EM during 2018



Breaking down the year in two halves, 1HCY18 started off with increased optimism over smooth political changeover as the country headed towards its third consecutive democratic election. As a result, index touched a high of ~46k, stretching P/E multiple to 10.5x. However, the optimism was rather short-lived. With the new government in place by mid-year, a string of disappointing macroeconomic data, high debt levels, widening c/a deficit, low reserves and rising inflation began to weigh on country's growth and corporate earnings outlook.

Given a weak macro starting point, the new government macroeconomic policy framework started to slew towards, contracting fiscal and tighter monetary policy so as to curb overall domestic demand, reduce inflation and ease pressure on country's dwindling FX reserves. The first of these measure started off with rise in gas prices, restrictions on certain non-oil import, minor tweaks to improve tax revenue and government reluctance over re-entering IMF program. Market took this rather negatively and finally entered the bear territory by Sep-18. Later in Nov-18 MSCI free-float factor adjustment led to exit of UBL and LUCK from MSCI EM index, reducing country's share in MSCI EM.

Exhibit: Market event Graph



Market volumes dried as the year concluded

Uncertainty over government policy to tackle widening C/a deficit and lack of business friendly policies, kept investors at bay. Market volumes rapidly started to fade starting Sep-18. Average daily volumes declined to ~187mn compared to last 3-years of ~255mn. Investors driven by macro theme of rising interest rates, declining oil prices and growth slowdown kept volumes concentrated in Commercial banks, Chemicals and Cements.

Record foreign net outflow

In addition to sluggish domestic volumes, 2018 also saw record foreign net outflow of USD 537mn. Subsiding EM outflow, on domestic level delayed response by policy makers on both PKR depreciation and support from IMF, along with exclusion of UBL and LUCK, were some key triggering factors which led to extended selling. However, local institutions in particular Insurance sector and companies were quick to fill the in the gap, by pouring in roughly USD 423mn, while local individuals remained net buyer of USD 153mn.

2018 Market Graphs

Exhibit: Market volumes lowest in 5-years

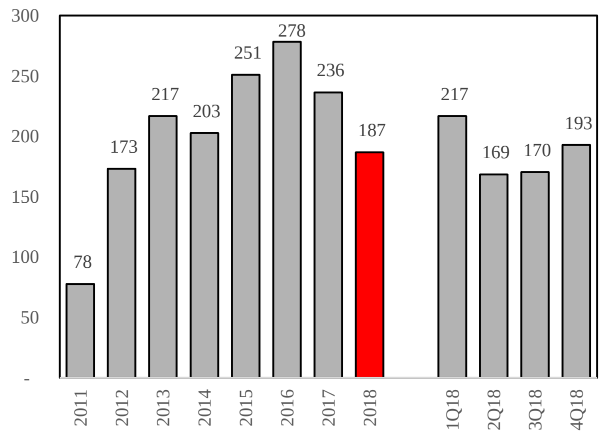


Exhibit: 2018 saw highest Foreign investment outflow

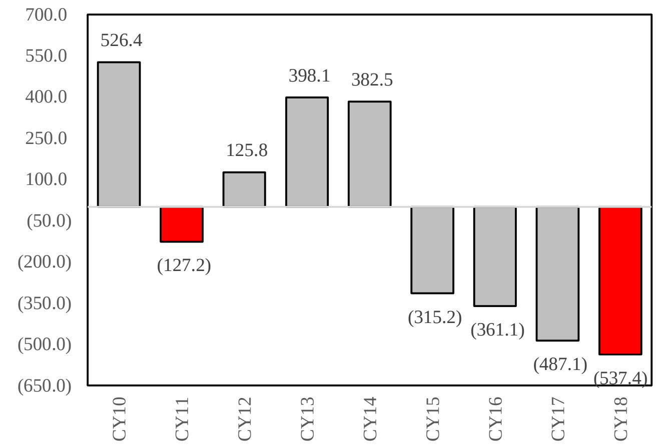


Exhibit: Banks and E&Ps saw largest Foreign sell

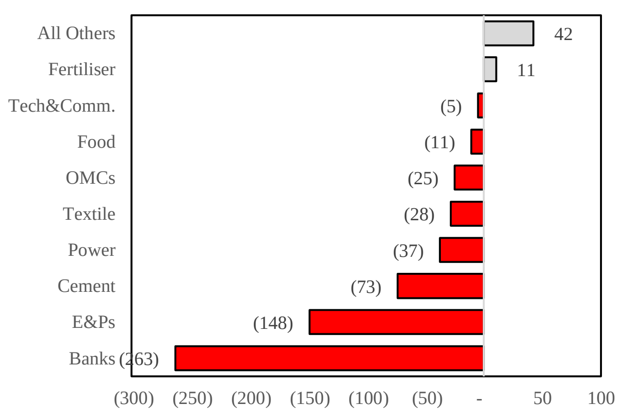


Exhibit: Insurance and Individuals were prime buyer duirng 2018

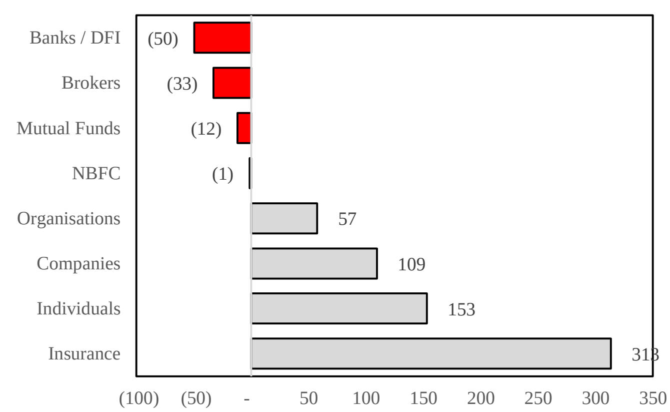


Exhibit: Key market movers during 2018

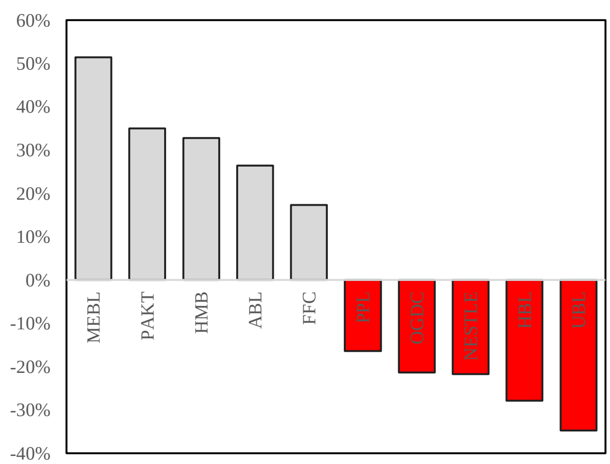
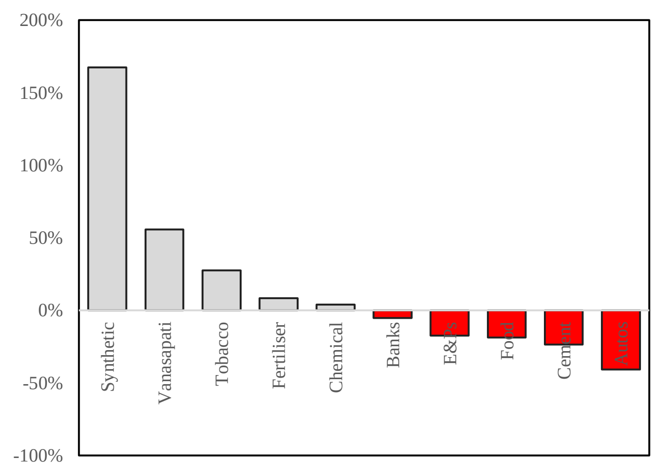


Exhibit: Sector performance during 2018



Earnings performance

Earnings recovered in 2018 by +13% after period of subpar performance
Despite a host of weak macroeconomic data, corporate earnings for companies under IGI coverage (taken as a proxy for market earnings) registered a healthy growth of +13% in 2018, to PKR 448bn.

Much of earnings contributions were from E&Ps and banks…
For market heavy sector, E&Ps, 2018 was yet another positive year with profitability up by +28%, owing to rise in oil prices and increased production. Alternatively, Commercial Banks earnings grew by +6%, as the sector recovered from last year one-off losses in HBL.

…while manufacturing sector earnings started to wane following compressing margins and slowing demand
Under industrial sectors, engineering and fertiliser took the lead in terms of earnings growth as demand and margins both remained favourable for the sector as a whole.

However, cements and oil marketing companies depicted negative earnings growth as rising commodity prices squeezed sector margins and demand was impacted due to halt in infrastructure spending by the caretaker setup, rising interest rates and domestic oil prices.

Strong demand from ride-hailing services and auto-financing kept volumetric growth on the high side for automobile assembler, (+17% growth in passenger car segment). However, earning performance remained subpar as rising input costs and compressing margins, limited earnings to a +4%YoY growth rate (29% last year).

Fertiliser sector witnessed major earnings upswing during 2018 wherein stable demand and favourable product pricing gave the much needed breather to manufacturers. As a result, sector profitability in 2018 is estimated to show a +30% YoY growth, (+4% last year). For chemicals, favourable domestic pricing and low input prices helped recover sector margins. On textiles, competitive exchange rate and rising prices along with government supportive policies improved sector profitability by +10% in 2018.

Two Competing Macro themes

Heading into 2019, we view two competing macro themes that emerged in 2018 and will steer market performance in the upcoming year

I. Interest rates
II. Economic growth

Interest Rates – Further Hikes?

SBP raised policy rate by +425bps; one of the highest in a decades' time…

In yester years, monetary policy remained relatively business conducive whereby policy rate reached a record low level of 5.75%. Back then, SBP and policy makers had a simple objective to push forward private investment and stimulate growth. And rightly it did so, private sector credit reached an all-time high of PKR 5.6trn (+13% in 2013-18, compared to +2% in 2008-13) and growth picked up –GDP growth closed just shy of 6.0% in FY18 after nearly a decade of laggard growth of ~3.7%.

However, things were quick to change, starting FY18 as oil prices began to rise sharply and non-oil imports continued to climb up. As a result, country's trade deficit as a percentage of GDP reached ~10%, a level last witnessed in 2008. The central bank was quick to respond and stepped on with tighter monetary policy. Till date, the SBP has hiked the policy rate by +425bps to 10.0% (discount rate (10.5%), a level last seen back in 2012.

… as C/a deficit widened and inflation creeped up

A series of macro events starting with weakening current account deficit (~6.0% of GDP), episodes of sharp PKR depreciation against USD (+26% since CY18 highest in a years' time), causing core (NFNE) to rise from +5.4% in CY17 to +7.0% by CY18. If this was not enough the administrative energy price increase (gas prices during the month of Sep-18) along with tighter fiscal reforms - increases in taxes, were introduced through mini-budget. Monthly inflation started to climb and SBP revised inflation targets to 6.5-7.5% and this prompted central bank to further tighten up monetary belt.

Exhibit: Trade deficit widened to a decade high level

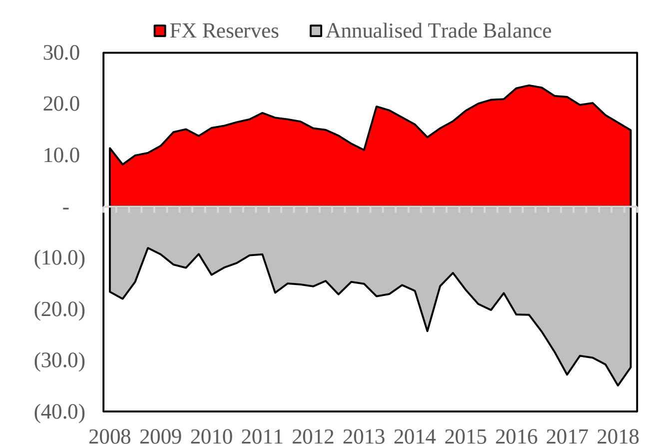
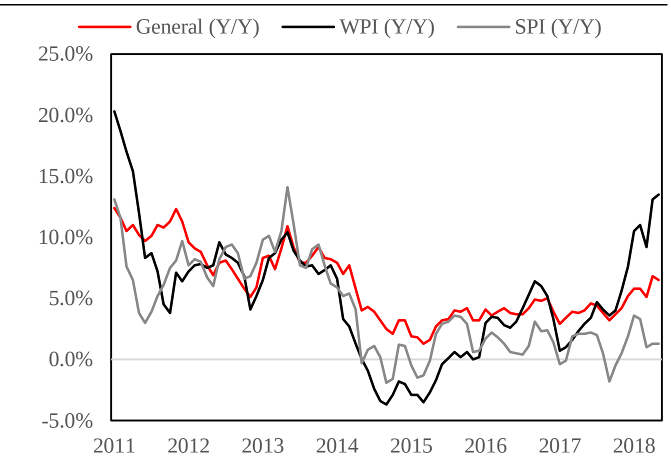


Exhibit: Rising oil prices kept WPI high, but had less of an impact on headline inflation



With inflation and C/a deficit risks looking to subside in the remainder of 2019; we see less chances of further rate hikes

We see two appraisal factors for determining interest rates trend ahead, i) inflation and ii) C/a balance. A key factor anchoring inflation expectations are international oil prices, which lately have come down by ~35% from its high in Oct-18 to USD 54/bbl. Not only has it reduced overall import bill (~21%MoM drop in petroleum import), recent government efforts to reduce imports has also been fruitful in bringing down non-oil imports (8% decline in 2QFY19). As a result, overall current account balance with help of remittances improved, albeit marginally. External account has been much of an appraisal factor of monetary policy committee in recent times, while SBP acknowledges this positive development but is cautious in appreciating this improvement as yet.

Moreover, administrative price increase of gas, has led to energy prices seeing largest increase after nearly a period of 4-years, which going forward we suspect will be less of a concern given oil price direction. However, prices for house rent and services (education, clothing, medicine etc.) have remained downwards sticky in recent times and are showing no sign of slow down. While government is keen to address the issue and tame down prices, it's profound impact is likely to take some time.

Exhibit: Non-oil imports increased during 2014-18, but is likely to rest in 2019 as govt. steps up import restriction on non-essential items

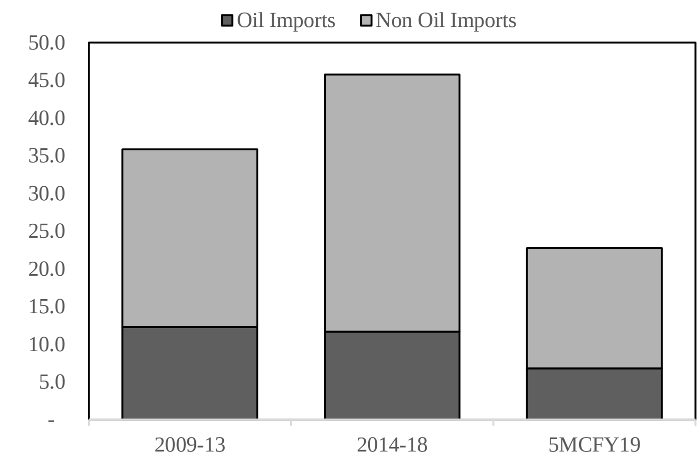
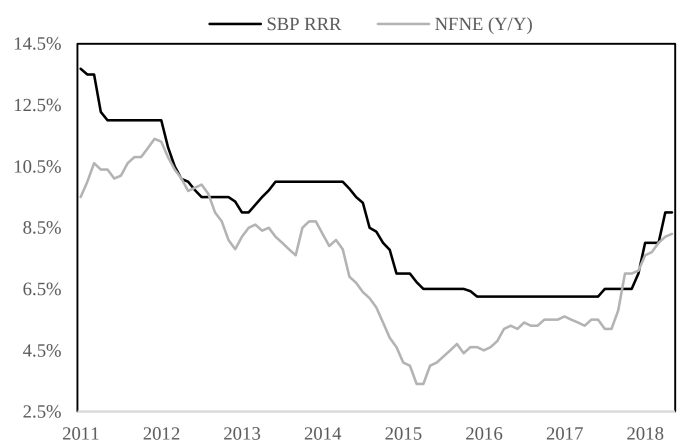


Exhibit: Monetary policy has been chasing core inflation lately, govt. efforts to bring down prices of non-food items will take time to reflect



Nevertheless, we expect inflation to range 7.5-8.5% in FY19, which is slightly higher than SBP target. Adjusting for inflation expectation, this brings real interest rate in the territory of 2.5%-3.0% which is historic high. Hence, keeping up with the growth objective, we suspect no further rate hikes in FY19, in fact we may see monetary easing going in FY20 onwards.

Economic Growth – Ebb and Flow?

Long-term growth cycle finally coming off

Pakistan's economy grew at a CAGR of ~5.5% during 2014-18, in line with country's long-term average growth rate. This growth was accompanied by a sharp increase in private consumption and improving investment to GDP ratio. More importantly, lower oil prices helped keep interest rates low, which with the flow of CPEC led investments and easing security concerns helped breakout country's ailing investment to GDP indicator.

However, the economic surprise starting 2018, hit a five-year low, after a string of disappointing macroeconomic data, high debt levels, widening C/a deficit, low reserves and rising inflation.

Hence given a weak macro starting point for FY19, as a cautionary measure, the new government's macroeconomic policy framework started to slew towards contracting fiscal and tighter monetary policy so as to curb overall domestic demand, reduce inflation and ease pressure on country's dwindling FX reserves.

Rightly so, this pervasive cautiousness started to grip investors and businesses alike. Macro indicators, typically led by GDP, have remained sub-par as 1HFY19 concludes. The trailing indicators of manufacturing sector, Large-scale Manufacturing (LSM) production index and excise tax (a proxy for production) are already showing signs of weakening. Moreover, production misses on major cash crops such as wheat in FY19, suggests a hard landing on agricultural sector (~25% of the GDP size). In crux, the country's aggregate demand is poised to slowdown in FY19 with policy impacting both public and private sector consumption along with a slowdown in new investments, similar to what country had experienced during 2008-09. As a result, SBP has revised down its economic growth forecast to 4.0% for FY19, compared to 5.8% projected earlier.

Exhibit: Consumer expectations were relatively high pre-election, however post-election things have turned other the other way

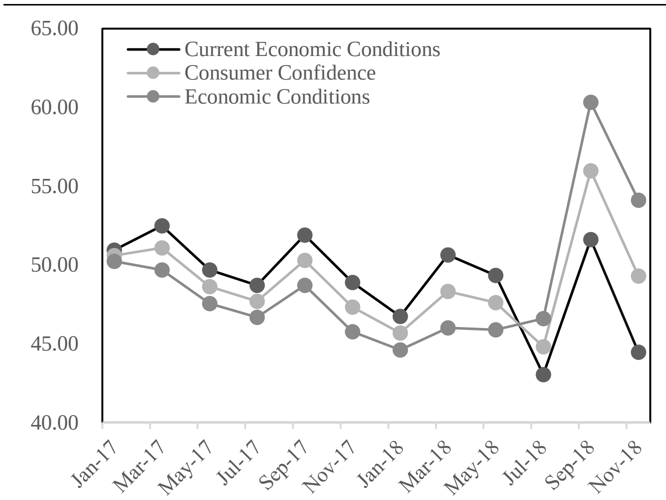


Exhibit: GDP growth cycle finally take a rest starting 2019

Key Macroeconomic indicators

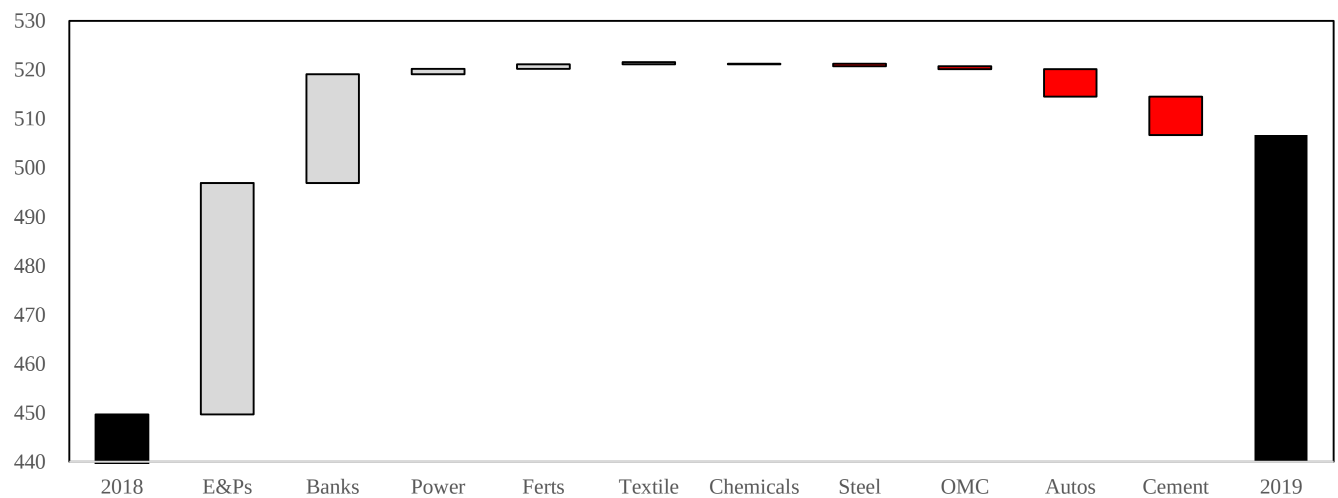
Pakistan Economics										
FY= (Jun)	Unit	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Real										
GDP Growth	%	3.68	4.1	4.1	4.6	5.4	5.8	3.9	4.5	5.0
Service Sector	%	2.7	2.5	2.1	0.2	2.1	3.8	1.5	2.1	2.1
Industrial Sector	%	0.75	4.5	5.2	5.7	5.4	5.8	3.0	3.5	4.5
Agricultural Sector	%	5.1	4.5	4.4	5.7	6.5	6.4	5.0	5.5	6.0
Investment to GDP	%	14.96	14.6	15.7	15.7	16.1	16.4	12.5	13.3	12.8
GDP	(PKRtn)	22.4	25.2	27.4	29.1	32.0	34.4	38.1	42.3	45.9
GDP	(USDbn)	243	259	287	296	322	329	298	301	311
Population	mn	189.0	193.5	198.1	202.9	207.8	212.8	217.9	223.1	228.5
GDP per capita	(USD)	1,288	1,336	1,451	1,459	1,550	1,546	1,367	1,348	1,360
Monetary										
CPI	%	7.40	8.6	4.6	2.8	4.2	3.9	8.0	7.5	7.0
Discount Rate - Per. end	%	9.4	10.0	7.0	6.3	6.3	7.0	10.5	9.5	9.5
Broad Money (M2)	%	16	13	13	14	14	13	10	11	12
External Sector										
Current Account Bal.	(USDbn)	(2.50)	(3.1)	(2.8)	(4.9)	(12.6)	(18.1)	(14.8)	(14.0)	(14.3)
Exports	(USDbn)	24.8	25.1	24.1	22.0	22.0	24.8	26.0	27.3	28.6
Imports	(USDbn)	40.16	41.7	41.4	41.3	48.7	55.8	54.0	55.3	57.9
Trade Bal. - Goods	(USDbn)	(15.4)	(16.6)	(17.3)	(19.3)	(26.7)	(31.1)	(28.0)	(28.0)	(29.4)
Remittances	(USDbn)	13.92	15.8	18.7	19.9	19.4	19.6	21.1	22.3	23.4
Capital Account Bal.	(USDbn)	0.3	1.9	0.4	0.3	0.4	0.4	0.3	0.3	0.4
Net (+)lend/ (-)borrow	(USDbn)	(2.23)	(1.3)	(2.4)	(4.6)	(12.2)	(17.8)	(14.5)	(13.7)	(14.0)
Current Account Bal. / GDP	%	(1.0)	(1.2)	(1.0)	(1.6)	(3.9)	(5.5)	(5.0)	(4.7)	(4.6)
Trade Bal. / GDP	%	(6.31)	(6.4)	(6.0)	(6.5)	(8.3)	(9.4)	(9.4)	(9.3)	(9.5)
Import Cover (months)	x	2.2	3.0	4.3	5.7	4.3	2.4	3.0	3.5	3.5
Disbursement / GDP	%	1.04	1.7	1.5	2.1	2.9	2.6	3.2	2.7	2.7
Repayment / GDP	%	0.9	1.1	1.0	0.9	1.4	1.2	3.2	2.7	2.7
Exchange rate										
USD		96.73	102.9	101.3	104.2	104.7	110.1	136.6	150.5	158.2
SBP Gross Reserves	(USDbn)	6.0	9.1	13.5	18.1	16.1	11.4	13.5	16.1	16.9
FX Reserves	(USDbn)	11.02	16.0	18.7	23.1	19.6	14.9	17.0	19.6	20.4
Fiscal (%age of GDP)										
Tax Revenue	%	9.82	10.2	11.0	12.6	12.4	12.6	12.7	12.9	13.0
Current Expenditure	%	16.4	15.9	16.1	16.1	16.3	16.3	17.6	17.6	17.6
Development Expenditure	%	5.09	4.9	4.2	4.5	5.3	5.4	4.9	5.1	5.2
Fiscal Balance	%	8.2	5.5	5.3	4.6	5.8	6.6	6.2	6.0	5.9
Debt (%age of GDP)										
Gross Public Debt	%	72.98	72.4	72.3	77.3	78.4	76.0	74.0	71.7	70.4

Earnings Outlook

Market earnings to remain robust despite macro headwinds…
We estimate 3-year forward annualised earnings growth of +16% and excluding Banks and E&Ps of +4%. We have revised our base assumptions to reflect changes in interest rates, slowdown in GDP and international commodity prices.

Exhibit: IGI earnings highlights

PKRbn	2015	2016	2017	2018	2019	2020	3YR CAGR
Earnings	434	394	396	448	508	625	**16%**
Earnings Growth	-4%	-9%	0%	13%	13%	23%	
Earnings (ex-Banks and E&Ps)	140	146	157	170	160	178	**4%**
P/E	8.0	8.7	8.7	7.7	6.8	5.6	
Dividend Yld(%)	7.00%	6.60%	6.40%	6.50%	7.70%	9.30%	
ROE	19%	16%	15%	16%	16%	18%	
ROA	3.30%	2.70%	2.30%	2.60%	2.50%	2.80%	



…E&Ps and Banking sector should drive earnings in 2019
E&Ps stocks have been stuck in sideways range owing to volatile crude oil prices. In 2019, rise in oil price assumption, PKR devaluation and higher exploration are expected to drive sector earnings by +31%. We have revised our crude oil price assumption to USD 70/bbl for FY19 while our long term assumption stays put at USD 50/bbl.

For banks, multiple of one-off negatives during 2018 kept sector earnings at bay. Heading into 2019, we estimate earnings growth of +17%YoY propelled by rise in sector NIMs (+425bps rate hike during 2018), stable operating expenses and low provisioning charge. However, we do not expect further rate hikes in in the remainder of FY19.

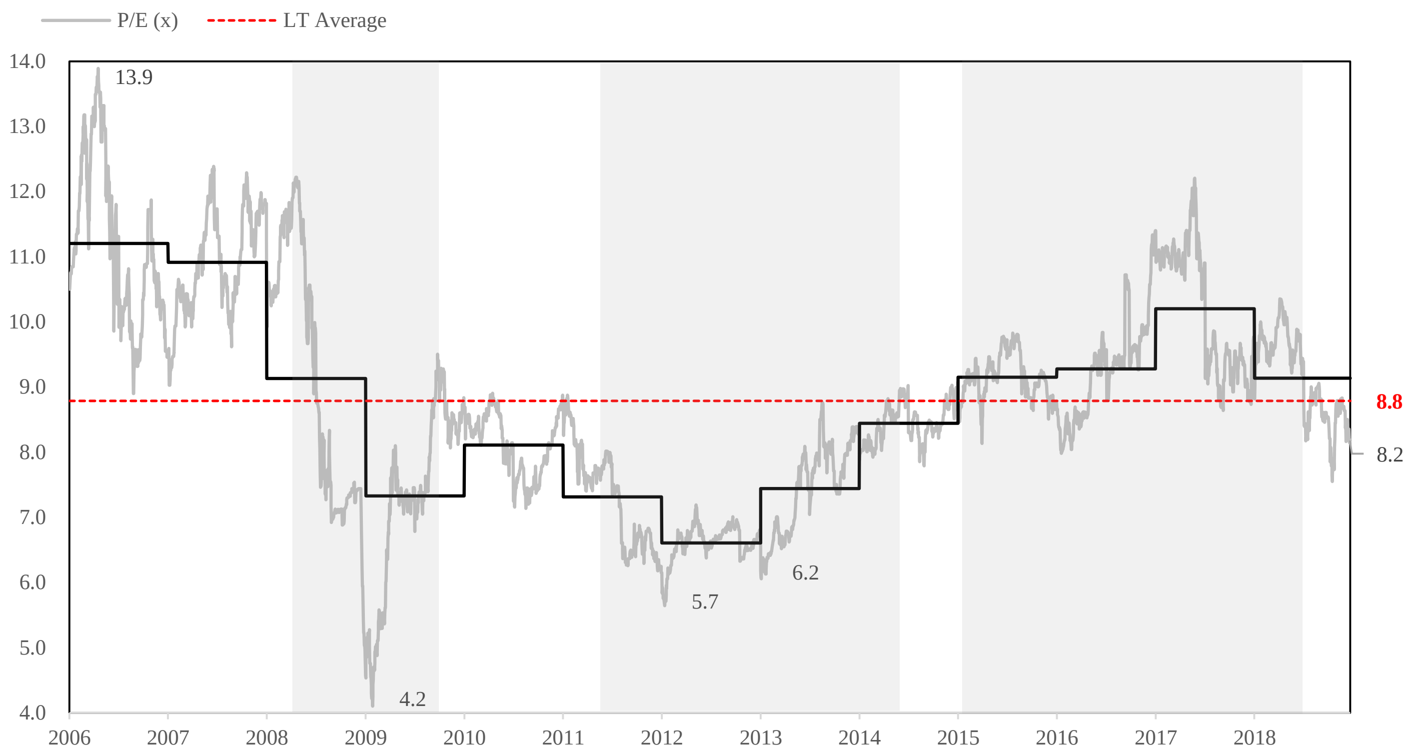
Higher earnings dispersion to fuel uncertainty
For manufacturing sector, changing macro environment will keep overall demand sub-par, while companies with higher debt/equity ratio will be affected to rising interest rates. While automobile assemblers sector is relatively debt free, rising

competition, USD/JPY exchange rate volatility and rising interest rate environment, manufacturers will be left with limited pricing power and will likely face a demand pullback. Our auto sector earnings growth is estimated to depict a 24% decline in 2019 and 6% over the next 3-years. For cement curtailed infrastructure be federal government and reduced private lending due to rising interest rates are expected to pull over demand in the near-term. While higher coal prices inception of expansion and ancillary costs, limited sales price flexibility and increased finance cost are expected to present a bleak earnings outlook. likely so, we expect a ~16% earnings decline in FY19. Similarly, we also expect a weak outlook for steel sector provided it largely dependent on cement and auto sector demand that are already expected to face the brunt.

Market Valuation Outlook

Market P/E corrected to weak macro data in 2018
Responding to weaker macro and corporate earnings outlook in 2018, market multiple after touching a high 10.4x corrected by ~21% to 8.2x by Dec-18. For the whole year the average multiple stands at 9.1x.

Exhibit: Market historic P/E



Periods of sustained low P/E under 8.8x are very rare historically
The lowest in 10yrs history market P/E averaged 6.6x in 2012. These periods, were marked by high interest rates, high oil prices and a sustained low GDP averaging ~3.5% (2010-12).

Stretched equity multiple has historically been supported by low interest rates…
A look back, suggests, periods of high interest rate are generally followed by low market multiples. During 2012-13 interest rates averaged ~13%, while average P/E stood at 7.4x or 13.5% with respect to earning yield. But later in 2014, market multiple was quick to recover 8.6x along with volumes thanks to ultra-low interest rates supported by lower oil prices and a follow up recovery in growth cycle.

…and high earnings growth
We expect GDP growth to slow down in 2019 to 3.9% (previous 5.2%) owing to tighter fiscal and monetary conditions. However, we expect subdued recovery from 2020 onwards, taking the next 5-years average GDP growth cycle to 4.5%

(2019-23E) from previous 5.5% achieved in 2014-18. Historically, decelerating economic and earnings growth has been associated with contracting market valuations. Periods of high growth, 2013-18 market multiple averaged 9.2x compared to 7.4x during weak growth cycle of 2008-13.

Exhibit: Earnings yields reflects to changing interest rates

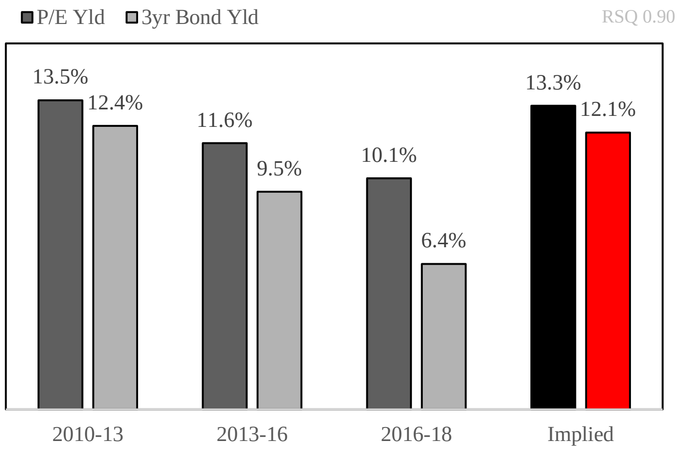
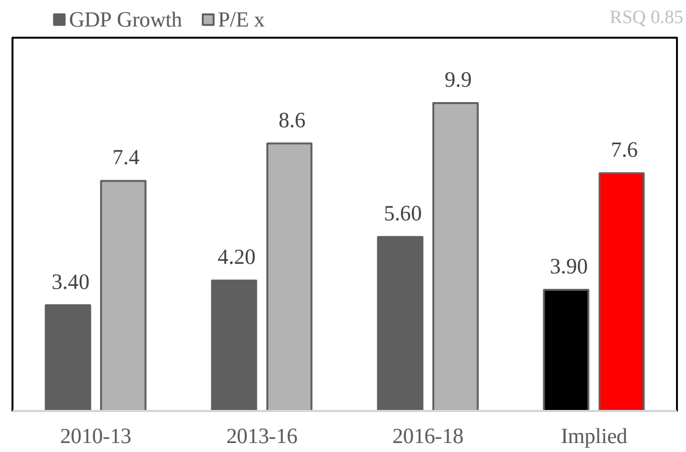


Exhibit: And so to GDP growth



2019 market P/E to recover at 7.6x

Based on our earnings estimates for 2019, market P/E for 2019 comes at 6.9x, which takes it near to a ~5-year low level and below to its historic average of 8.8x. Our implied P/E based on interest rates and GDP growth comes at 7.6x indicating a ~10% P/E expansion.

Market regional discount justifies weak growth outlook to its peers

Our implied market multiple of 7.6x is relatively in-line with its historic regional discount of ~40% and MSCI EM ~30% (MSCI EM 2019fwd P/E of 12.5x). We think market will continue to trade at elevated discounts to region, given country's weak macros compared to region.

Exhibit: Pakistan P/E relative performance

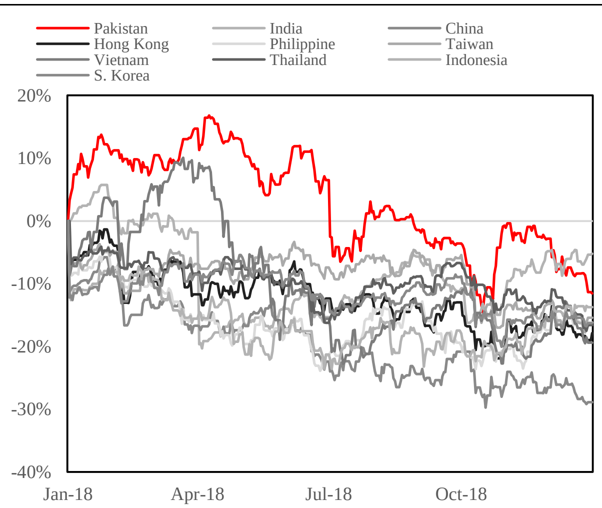


Exhibit: Regional P/E and DY (%)

	P/E			DY (%)		
	2017	2018	2019f	2017	2018	2019f
India	19.9	20.1	16.7	1.5	1.5	1.7
China	13.7	11.6	9.2	2.0	2.6	3.4
HK	12.5	11.6	9.8	3.4	3.6	4.1
Philippine	19.0	17.6	15.6	1.6	1.7	1.8
Taiwan	14.4	13.7	12.5	3.9	4.2	5.0
Vietnam	15.0	17.7	13.6	2.4	1.5	1.7
Thailand	15.9	15.8	13.5	2.9	3.0	3.6
Indonesia	16.8	16.0	14.5	2.0	2.2	2.4
S. Korea	10.1	9.2	8.6	1.7	2.1	2.4
Region Average	**15.3**	**14.8**	**12.7**	**2.4**	**2.5**	**2.9**
Pakistan	**5.3**	**5.9**	**6.8**	**5.3**	**5.9**	**7.8**
MSCI EM Index	13.1	12.5	10.6	2.3	2.9	

Index target of 42,000

Base case: Index target of 42,000; offering a modest +13% growth
For 2019, we eye index target of 42,000, generating modest growth of ~13% from its current index level of 37k. We have taken market P/E multiple approach as our basis for index estimation. We view markets are likely to stay volatile and risks on growth and earnings remain high. Our baseline assumption is that economic growth will be depressed, however growth in corporate earnings will be positive in 2019.

Case	P/E	Index Target
Bear	6.5	37,000
Base	**7.6**	**42,000**
Bull	8.5	46,000

Interest Rates	GDP Growth 3.25%	3.50%	3.90%	4.25%	5.00%
9.0%	8.5	8.9	9.6	10.2	12.0
9.5%	7.9	8.2	8.8	9.3	10.8
10.0%	7.4	7.6	8.1	8.6	9.8
10.5%	6.9	7.1	7.6	8.0	9.0
11.0%	6.5	6.7	7.1	7.4	8.3
11.5%	6.1	6.3	6.6	7.0	7.7
12.0%	5.8	6.0	6.3	6.5	7.2

P/E	Decline% - Earnings (PKRbn) - %Growth: -10%	-5%	508	+5%	+10%
6.0	33,000	34,000	35,000	35,000	38,000
6.5	35,000	36,000	38,000	37,000	40,000
7.0	37,000	38,000	40,000	39,000	43,000
7.6	39,000	41,000	42,000	42,000	46,000
8.0	41,000	42,000	44,000	44,000	48,000
8.5	43,000	45,000	46,000	46,000	50,000
9.0	45,000	47,000	49,000	48,000	53,000

Bull case: Index target of 46,000
Even if economic growth slows down, equity valuation could still re-rate to higher multiples. For that, we highlight declining oil price will be a catalyst for monetary cycle to reverse, which could drive stronger economic and corporate earnings growth than our baseline forecast. Moreover, external funding sources be it from friendly countries or IMF to support external accounts stability may instil confidence in both local and foreign investors. If materialised, this could stretch equity valuations to its long-term average of 8.5x, implying a target index of 46,000.

Bear case: Index target of 37,000
The bear case in our view rest on IMF conditions that may include stringent tax policies and further policy rate tightening. However, in our view market has already priced in these oncoming macro headwinds. Hence our downside multiple of 6.5x implies an index target of 37,000.

Wild card

We highlight three market catalyst, that could potentially re-rate market to higher valuation multiples;

Oil

The resurgence in crude oil prices starting 2018 is of particular significance. Crude oil prices after reaching a historic low of USD 30/bbl in 2015, jumped back to USD 86/bbl by Oct-18. As result 10MCY18 average oil prices stood at USD 83/bbl compared to USD 53/bbl in 2017. Similarly, rising oil prices led to rise in international commodity prices, whereby Oct-18, GSCI index grew by 10%. Market was quick to cut its valuation multiple by almost ~26% as market P/E touched a high of 10.5x in Apr-18 and was down to 7.7x by Oct-18,

Exhibit: Market P/E extended on lower oil prices

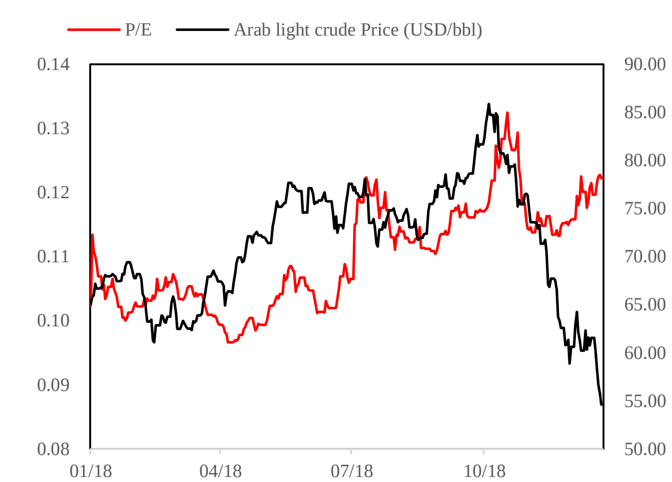
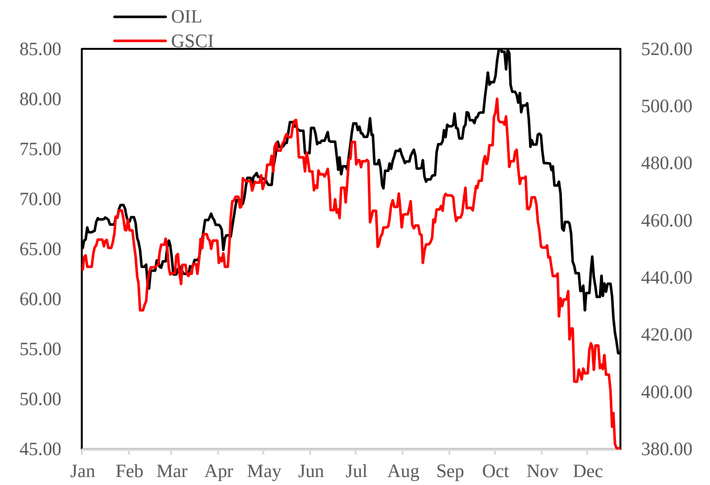


Exhibit: Oil prices and Commodity index



However, post Oct-18, crude oil prices started to descend, (~27% decline to USD 58/bbl by Dec-18), bringing down 2018 average to USD 71/bbl. We view this drop in oil prices if persistent to be a potential catalyst for a rebound in economic activity in 2019 and subsequent market valuation. Starting with C/a balance, a USD 10/bbl drop in oil prices could have annualised savings of USD ~2.0bn or reduce C/a deficit roughly by 0.6% of the GDP (FY18 deficit of 5.5%), easing pressure on country's weak FX reserves and subsequently arresting further depreciation of PKR. Moreover, this also has a positive impact on domestic inflation basket with a direct impact of 7-8% and 15-20% indirectly. consequently, this could halt further monetary tightening and provide government some fiscal space with respect to borrowing requirements.

On the backdrop of lower oil prices, we view corporate earnings growth could recover rather strongly than is currently estimated, hence driving stronger equity returns and stretching market multiple than our base case of 7.6x. Reflecting just that, market multiple expanded from 7.7x in Oct-18, to 8.2x by Dec-18.

IMF

The upcoming external debt repayment and already high C/a deficit has led to country's economic managers seeking support from IMF. However, being aware of strict conditions that an IMF program may follow, the incumbent government has been rather cautious in pursuing outright IMF bail-out. Though the government has shied away from admitting its requirement for an IMF bail-out package, its economic team has been rather pre-emptive in putting the country's house in order to avoid lender harsh restrictions.

Measures	Objective
Front-end Conditions	
Raise Interest rates to 13.0%	Positive impact on inflation, but negatively impact aggregate demand, cost of funding and thus low investments.
Increase power tariffs	Primary objective is to reduce country's bulging circular debt.
Objective Conditions	
Free float exchange rates	
Restrict fiscal deficit	Through imposition further taxes and curtailment of fiscal spending, and support to export-oriented sectors.
State-owned Enterprises	Reform or Privatisation of SOE as to reduce fiscal drag

However, given the quantum of funding needs and slim FX reserves size, it seems government has finally in admittance to approach IMF by mid-January. This if materialises this will be country's 13th support program with IMF. As per news flow Pakistan is likely to see harsher conditions in the program, but we believe recent bilateral funding from China, UAE and Saudi Arabia has not only reduced dependence on IMF program but has also put country's economic advisors in better negotiations over possible conditions. Moreover, another mini-budget is around the corner, through which the government maybe be able to alleviate much of the pressure from IMF funded bail-out.

Market have performed better when 'In-the Program'

Though uncertainty still prevails whether the outcome ends up in a win situation for Pakistan, given government in its best efforts to circumvent IMF conditions which may deem infeasible for the industries. However, dismal economic outlook and the ensuing widening twin deficits necessitates borrowing package. Historically, market has performed better when 'In-the IMF program', largely due to fiscal discipline it dictates and the confidence it offers to foreign investors.

Bilateral funding

Alternatively, the government has also been seeking financial aid from friendly nations in order to materially dilute the dominance of IMF in a possible multi funded bail-out package. The government has so far approached China, Saudi Arabia and UAE for bilateral funding.

Saudi Arabia – USD 6.0bn (50% on deferred oil payments)
China – USD 5.0bn (in form of additional investments)
UAE – USD 3.0bn (to financing country funding gap)
Others – USD 1.0-1.2bn

Strategy

Favour Defensive Sector as GDP Growth Slows down

Companies with attractive forward multiples

From a market strategy standpoint, we have a strong preference for blue-chip stocks owing to their attractive valuation discount. For our coverage company's blue-chip companies forward 2019 P/E comes at 6.3x compared to market multiple of 6.8x. OGDC, UBL and PPL stands out the most with average P/E of 5.7x in 2019.

		P/E			DY	
Sym	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
OGDC	7.0	5.5	5.3	7.8	8.6	9.0
PPL	7.3	5.9	5.4	3.7	6.8	7.4
UBL	12.2	5.9	4.7	7.8	8.4	10.5
HBL	14.1	6.3	4.4	3.3	10.0	15.0
MARI	9.8	6.3	5.2	0.5	0.5	0.5
MCB	11.5	7.3	6.5	8.4	9.0	9.9
LUCK	12.1	12.7	12.0	1.8	1.6	1.8
Average	**8.8**	**6.3**	**5.5**	**5.5**	**7.1**	**8.2**

Major misses on earnings during 2017-18 (mainly for banks) has kept valuation multiple high. However, going forward blue-chip stocks are expected to register +21% earnings growth in next 3-years, compared to market +16%. As result

P/E (x)	**2018**	**2019**	**2020**	**3-years CAGR**
Blue-Chip Stocks	8.8	6.3	5.5	21%
Others	6.7	7.4	5.4	12%
Market	7.6	6.8	5.5	16%

Moreover, as for market volatility concerns, we encourage a defensive play with companies offering higher dividend yields. Here we have a preference for E&Ps, Power and fertilisers offering on average +11.4% dividend yield in 2019.

			Dividend yield (%)		
Sym	**2016**	**2017**	**2018**	**2019**	**2020**
NCPL	31.7	10.9	6.6	21.9	30.6
KAPCO	18.2	19.2	18.5	19.2	22.2
POL	8.4	9.6	10.2	14.4	14.4
EFERT	10.0	12.2	15.0	14.3	14.3
FATIMA	8.9	9.8	12.3	12.9	14.0
Average	**10.8**	**11.6**	**13.0**	**14.8**	**15.7**

Sectors and Company overview

Over-weight

Commercial Banks

Macro tailwinds to up sector performance

We turn positive on Pakistan Banks in 2019 from a previous cautious stance and reiterate our more positive view despite the recent rally witnessed. We continue to see banking sector performance as mainly dependent on favourable macro tailwinds with limited risk arising from NPL accretion. While fundamentals still favour mid-tier banks over large banks, foreign selling in large banks during 2018 has opened up valuations gap. ROE for large banks is expected to average ~17% by 2021 with P/b still languishing at 1.2x (ex NBP).

Key Theme

i) Sector to register an impressive +17% earnings growth on average for 2018-2021

ii) Asset quality risk limited

iii) Sector offers a decent dividend yield and trades at attractive P/E

We raise our EPS estimates for banks; expected earnings growth of +17% by an average over 2018E-21E

We analyse the implications of the changed macro situation and given attractive bank valuations. We believe any sustained re-rating of the sector which is now trading at 5.5x F2019 P/E, 0.96x P/BV for 18 % ROE is mainly dependent on: a) 425bps interest rate hike in 2018 hinting to better NIMs ahead, b) normalised operating expenses supporting revenue growth, and c) lower risk of NPL accretion.

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
HBL	159	33%	BUY	5.3	8.5	19.2	27.4	8.0	4.0	12.0	18.0	14.1	6.3	4.4	3.3	10.0	15.0
NBP	47	10%	NEUTRAL	10.8	13.4	(6.4)	17.5	-	-	-	7.0	3.2	(6.6)	2.4	-	-	16.4
MCB	209	10%	BUY	18.9	16.4	26.0	28.9	16.0	16.0	17.0	18.8	11.5	7.3	6.5	8.4	9.0	9.9
UBL	165	29%	BUY	20.8	10.5	21.7	27.2	13.0	10.0	10.8	13.5	12.2	5.9	4.7	7.8	8.4	10.5
ABL	104	-3%	NEUTRAL	11.1	12.5	16.1	18.9	7.0	6.8	10.5	12.3	8.6	6.6	5.7	6.3	9.8	11.5
BAFL	65	54%	BUY	4.7	6.3	7.8	9.7	1.0	2.0	2.8	3.5	6.7	5.4	4.4	4.7	6.5	8.3
BAHL	89	30%	BUY	7.8	6.6	11.4	13.3	3.0	3.3	5.7	6.6	10.4	6.0	5.1	4.8	8.3	9.7
FABL	27	10%	BUY	3.0	3.2	4.5	5.6	-	1.0	2.0	2.5	7.6	5.4	4.4	4.0	8.1	10.1
AKBL	33	37%	BUY	4.2	4.0	5.9	6.0	1.0	1.0	1.8	2.0	6.0	4.1	4.0	4.2	7.3	8.4
HMB	41	-8%	NEUTRAL	5.3	5.3	6.8	6.7	3.0	3.0	4.0	4.0	8.3	6.5	6.6	6.8	9.0	9.0
BOP	18	44%	BUY	(1.3)	2.1	4.1	5.0	-	-	-	-	5.9	3.0	2.5	-	-	-
Banks		**20%**										**8.4**	**7.2**	**4.5**	**5.4**	**7.8**	**11.1**

NIMs to recover following better earning yield; but funding cost to limit

Starting 2018, the SBP (State Bank of Pakistan) has hiked discount rate by 425bps taking the key policy rate to10%, owing to rise in inflation and weak external account balances. While this has helped lift yield on earning assets, but overall NIMs remained relatively stable ~3.6-3.7% in 2018 as cost of funding also tagged along. Stepping into 2019 we believe much of the monetary tightening is now behind us given recent decline in international oil prices, stable exchange rate and country's narrowing trade deficit. However, despite the initial macro improvements, we see government borrowing requirement will remain elevated in 2019-21. Hence, we see demand for government securities picking up while credit growth will show a moderate growth. In terms of NIMs guidance, high yield spread will be breather but we see cost of funding to also stay downwards sticky, which may lead to a careful NIM expansion.

Investments to dominate asset base; while advances growth to slow down with minimal NPL formation risk

Banks' loan sheet has expanded by nearly ~18% on average over the past 3yrs. However, from 2019 onwards we expect banks' loan sheet expansion to remain restricted, primarily due to slowing credit growth (GDP target under 4.5%) and slower recovery rate against NPLs. Alternatively, we also do not see risk of NPL formation stepping up, since i) corporate and consumer still constitutes 76% of total outstanding loans with 7.8% infection ratio, ii) SME sector with highest infection ratio makes up only ~5% of total loans, and iii) higher coverage of ~88% means net NPL/advances at a historic low level of ~1.1% in 2018 (~4.5% in 2009-13). Having said that, compliance with IFRS9 will pour in its effects from 2020 onwards, which in our view will prompt up general provisioning charge but overall earnings impact will be relatively lesser. Nevertheless, under investments head we expect rising government funding requirement and high yield spread to improve banks' IDR from current ~55% in 2018E to ~58-60% in 2019-2020.

Exhibit: NPLs ratio for sector coming off

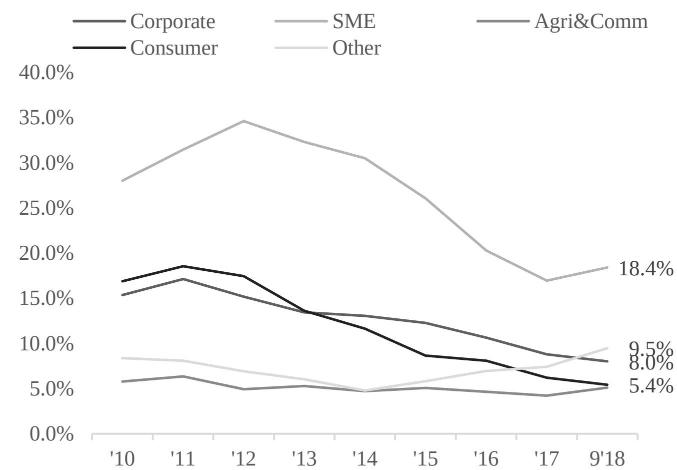
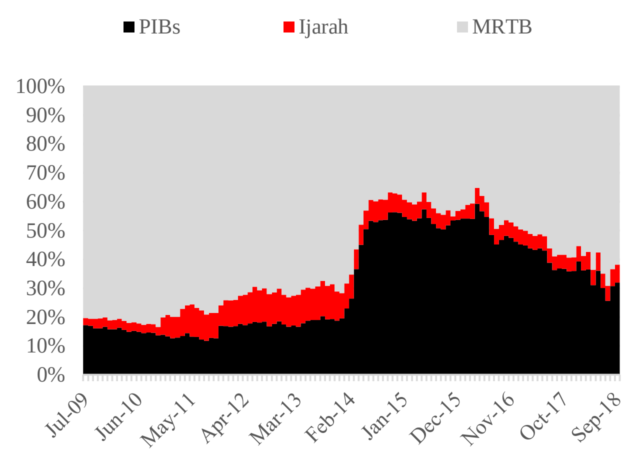


Exhibit: High treasury bill exposure



Deposit growth to slow down, CASA growth will be limited

Deposit growth for banks' is likely to slow down in 2019 as we see overall credit demand to pull back along with rising trend witnessed in cash transactions. Moreover, the past 3-years expansionary monetary regime has allowed banks to keep overall fixed deposits growth in check, leaving enough room for non-remunerative deposits size to grow. However, given the rising interest rate environment, we think banks' will struggle to keep up with growth in overall non-remunerative deposits.

Large cap valuation cheaper to mid-small banks (based on P/E and DY)

In terms of 2018 performance mid and small tier out performed large banks (HBL, UBL, NBP, MCB and ABL). One-off expenses related to pension liability in HBL, UBL and MCB, ongoing repayments of earlier regulatory penalty in HBL on it NY branch and UBL international loan provision dented large banks profitability, with 9mCy18 pre-provision operating profits dropped by 16% compared to 9% growth in mid/small banks. Moreover, along with these one-offs large banks also witnessed heavy foreign selling during CY18 to date, an estimated USD ~255mn (including MSCI liquidity factor adjustment in UBL during Nov-18), while fears of hefty pension related expense in NBP kept stock performance dull. As a result of these factor large banks' P/B suffered losing their premium of ~25-30% over mid/small banks. Moreover, we think worst is behind us in terms of operating expenses, which going forward are likely to depict moderate growth trend ahead.

Recommendation

We recommend that investors to add to UBL and AKBL positions going into 2019. Our Overweight (OW) rating already reflects our favourable macro view on overall sector. We premise this on four points below, both stock trade close to their historic low P/E of 5.1x and 3.9x 19E, P/B of 1.0x and 0.7x 19E, DY of 12.6% and 7.6% 19E, with BVPS for 17-19% ROE.

Key Risks

The key downside risks to our rating and price target relate to;

i) Adverse asset quality developments on corporate loan exposures.
ii) Net Interest Margin headwinds as funding costs increase
iii) Ongoing uncertainty around regulatory capital
iv) Concerns of further one-off penalty in HBL and pension related expense still lingers on NBP.

Recommendation		**BUY**
Target Price:		165.5
Last Closing:	28-Dec-18	128.3
Upside:		29.0
Valuation Methodology:		Residual Income / Asset based Valuation / Dividend
Time Horizon:		Dec-19

Market Data

Bloomberg Tkr.		UBL PA
Shares (mn)		1,224.2
Free Float Shares (mn)		489.7
Free Float Shares (%)		40.0%
Market Cap (PKRbn | USDmn)	157.0	1,122.8
Exchange		KSE 100

Price Info.	90D	06M	12M
Abs. Return	(16.7)	(24.2)	(30.9)
Lo	128.3	128.3	128.3
Hi	154.0	186.0	215.2

Key Company Financials

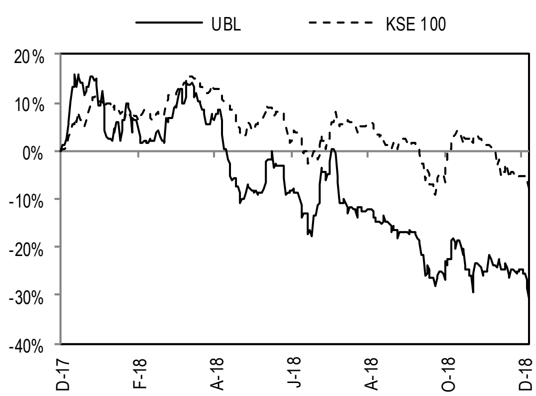
Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	78.6	82.4	99.5	109.4
Net Income	25.4	12.9	26.6	33.3
EPS (PKR)	20.8	10.5	21.7	27.2
DPS (PKR)	13.0	10.0	10.8	13.5
Total Assets	1,578	2,007	1,870	2,178
Total Equity	159	154	167	183

Key Financial Ratios

ROE (%)	16.0	8.4	15.9	18.1
P/E (x)	6.2	12.2	5.9	4.7
P/B (x)	0.4	1.0	1.0	0.9
DY (%)	10.1	7.8	8.4	10.5

Relative Price Performance



About the Company

The Bank was incorporated in Pakistan and is engaged in commercial banking and related services. The Bank is a subsidiary of Bestway (Holdings) Limited which is incorporated in UK and listed on LSE Professional Securities Market.

Source: Bloomberg, PSX & IGI Research

United Bank Limited (UBL)

UBL underperformed on low earnings and hefty sell-offs

UBL missed out on its 9MCY18 earnings call, clocking in at EPS of PKR 7.9 (down ~49%YoY), mainly as the bank struggled to hold back its cost of funding and operating expenses (one-off pension related cost). Further increasing coverage of its international (GCC) non-performing loans to ~74% meant higher provisioning charge during the period. Moreover, exist from MSCI EM resulted in hefty foreign sell-off, as a result the bank underperformed the broader index and banking sector index by ~25%.

However, 9MCY18 also gave an opportunity to gauge the progress it has made toward restructuring its international loan sheet and its deposit composition. Bank's domestic CASA deposit improved to ~87% from ~85% in CY17 with Current account having a share of ~48% compared to 44% in CY17 (a growth of +~16%). On its international loan book, in 9MCY18 total NPL inched up by ~41% to USD 236mn from USD 207mn while coverage ratio increased to 74% from previous 58%, leaving a net NPL ratio of 1.4% against 1.9% back in CY17.

Overweight on multiple improvements

Our Overweight recommendation for UBL not only acknowledges the macro tailwinds in play but also appreciates bank's strong differentiated cost side structure and its work to reduce the risk across its loan sheet, should provide a valuable growth driver.

i) Improving deposit structure – increasing share of non-remunerative deposit (Current account deposits up by +16% to make up 48% of total deposit size) and ~22% of total deposits are international (having an effective cost of ~<2.5%) which in domestic rising interest environment will keep overall cost of funding lower.

ii) Higher coverage on international loans (USD 236mn, infection ratio of 19.8% and Coverage of 74%) has greatly reduced future provision charge risk. While on domestic front, loan quality has improved to 5.6% from 6.8% in CY17.

iii) Tier 1 capital build-up – Bank after issuing PKR 6.12bn tier 1 capital is eyeing additional PKR 1.0-1.5bn tier capital, takings its total CAR to ~18% in 2018E (vs ~15% in 2017) and CET 1 to ~13.5% (~11% in 2017). This will adequately help bank to maintain dividend stream and continue with its asset expansion.

iv) Operating expense growth to ease – Bank booked in a one-off expense of PKR 8.7bn (PKR 7.0/share) to accommodate rise in minimum existing pension payable, which jacked up banks operating cost. We expect from 2019 onwards overall growth in operating expense would normalise, taking down its cost/income ratio from current 58% in 2018E to 43% on average in 2019-21F.

Recommendation

We value UBL stock on a Gordon growth model assuming cost of equity at 17.6%, normalized ROE 21% and a growth rate ~10%, giving a Dec-19 fair value of PKR 165.5/share (29% upside). We apply exit multiple of 1.4x, derived using above assumptions, to the CY19E core equity base of UBL which is PKR 167.3bn (vs. PKR 159bn in 2017 prev.). The stock is currently trading at CY19E P/E of 5.9, P/B of 1.0 and a DY of 8.4%.

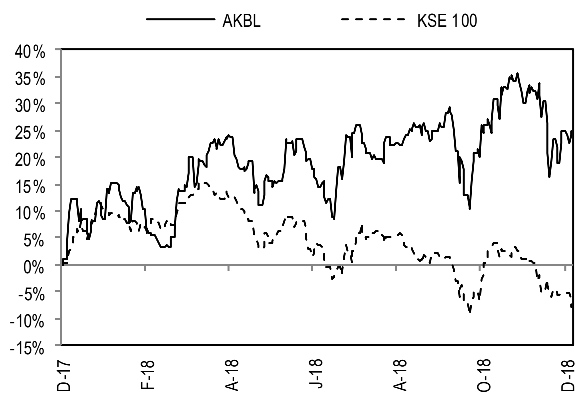
Recommendation			**BUY**
Target Price:			32.7
Last Closing: 28-Dec-18			23.9
Upside:			37.0
Valuation Methodology:			Residual Income / Asset based Valuation / Dividend Discount
Time Horizon:			Dec-19
Market Data			
Bloomberg Tkr.			AKBL PA
Shares (mn)			1,260.3
Free Float Shares (mn)			378.1
Free Float Shares (%)			30.0%
Market Cap (PKRbn | USDmn)		30.1	215.3
Exchange			KSE 100
Price Info.	90D	06M	12M
Abs. Return	(2.6)	7.7	25.0
Lo	21.1	20.7	19.1
Hi	25.9	25.9	25.9

Key Company Financials

Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	22.5	24.3	29.5	32.6
Net Income	5.3	5.1	7.4	7.6
EPS (PKR)	4.2	4.0	5.9	6.0
DPS (PKR)	1.0	1.0	1.8	2.0
Total Assets	619	657	747	838
Total Equity	32	36	41	46
Key Financial Ratios				
ROE (%)	16.2	14.0	17.8	16.3
P/E (x)	5.7	6.0	4.1	4.0
P/B (x)	0.4	0.9	0.8	0.7
DY (%)	4.2	4.2	7.3	8.4

Relative Price Performance



About the Company

AKBL is a commercial and retail bank in Pakistan It was founded in 1991, as a Public Limited Company. On June 21, 2013 the bank was acquired by Fauji Group. The Asian Banker awarded AKBL twice as "Best Retail Bank in Pakistan" in 2004 and 2005.

Source: Bloomberg, PSX & IGI Research

Askari Bank Limited (AKBL)

Investment losses spoiled the day; to what could have been the unsurpassed year for AKBL

AKBL had a disappointing 3QCY18, with earnings reported at PKR 0.87/share (down by 7%) taking 9MCY18 cumulative earnings to PKR 2.9/share compared to PKR 3.4/share same period last year, a decline of 14%. However, major beating came from loss provision on investment book whereby bank reported a charge of PKR 768mn or PKR 0.61/share, taking its total provisioning charge to PKR 843mn during the 3QCY18 alone. The rest of the growth numbers speak well of AKBL's on-going operational efficiencies. Its fee income grew by a staggering +25%, FX income almost doubled and interest income increased by +15% during the 9MCY18 period compared to 5% for the sector, owing to careful asset mix and contained deposit costs.

Overweight on favorable asset mix

i) Careful yet aggressive take on loan sheet expansion – Although the company's investment and deposit portfolio is nicely positioned to benefit from rising rates. But it's the bank's rising loan book is what separate it from the rest. Bank's interest earning yield reached 7.8% with second best being FABL and BAFL at 7.5% average. Primarily this is down to bank's aggressive yet careful lending approach. Gross advances during 9MCY18 increased by PKR ~60bn while non-performing loans remained flat during the same period at PKR 26.7bn bringing down bank's infection ratio to 7.8% from 9.4% in Dec-17. In fact, starting from 2013 to 2017, AKBL has been the fastest in terms of shredding bad loan on its book, bringing down NPL/loan ratio from 17% to 9.4% in 2017 and now to 7.8% by Sep-18.

ii) More capital to keep asset growth steady – In order to keep up with the advances growth the bank recently raised PKR 6.0bn under tier 1 capital, which as per our calculation will raise its tier 1 capital by ~200bps to 11.5% and subsequently taking its CAR close to ~16%. As a result, we expect bank advance growth to average 10% for the next 5yrs compared to 12% achieved in past 5yrs.

iii) Deposit restructuring a key catalyst – Moreover, with the rising interest rates, deposit environment is worsening for all banks and deposit market is becoming increasingly competitive. While AKBL deposit portfolio is adequately positioned, however there has been less improvement in overall portfolio since Dec-17 onwards as we have hoped for. Bank's CA deposit by 9MCY18, represented only 27% of total deposit size, compared to CY17 at 28% a 97bps decline. Moreover, AKBL offered relatively attractive deposit rates compared to larger and competitor banks, as a result expensive deposit poured in. This however was a necessity given thin capital and the asset growth bank trying to achieve. With additional capital in backing, we think bank's expensive deposit growth is finally going to fade.

Recommendation

AKBL shares currently trade at P/E 4.1x 2019 EPS and P/B 0.8x. We have raised our target price to now PKR 32.7/share.

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Over-weight

Oil & Gas Explorations Companies

Macro tailwinds to Favour bottom-line growth

We maintain our 'Overweight' stance on the E&P sector on the back of weak PKR against greenback, heavy exchange gains and aggressive exploration. Opening of bidding process against applications filed by E&P companies since 2013, should provide new avenues to explore with higher potential of substantial discovery. Based on moderate growth in oil & gas flows, devaluation of PKR and substantial rise in LPG production, we estimate IGI E&P universe to post +31%YoY growth in earnings in FY19 with a 3Yr forward earning CAGR of +9%. We estimate, MARI and POL to lead earnings growth during FY19 with a +55%YoY and +54%YoY jump in earnings in FY19. We maintain MARI and PPL as our top picks based on substantial earnings growth and addition of new oil & gas reserves to enhance flows for the company. MARI and PPL also remain less sensitive to oil price movement due to higher revenue contribution from gas production.

Key Theme

i) E&P sector to record 31%YoY growth in profitability for FY19 with 3yr CAGR of +9%

ii) PKR depreciation along with production up lift to drive earnings growth

iii) Valuation are attractive amid oil price volatility offering cheaper multiples and healthy dividend yield

E&P sector underperformed despite healthy earnings growth

IGI E&P universe has so far underperformed KSE-100 index by 2% posting a negative return of 7%. This was led by recent drop of nearly 30% in oil price during touching high in Oct-2018, despite a +30%YoY rise in total sector earnings in 9MCY18. The rise in profitability was primarily led by 12%YoY depreciation of PKR against USD, 41%YoY rise in oil prices and 1%YoY growth in gas production. Earnings accretion was further fueled by hefty exchange gains of PKR 8.1bn in 9MCY18 posting a +39%YoY growth. However, profitability was marred by substantial dry wells and prospecting expense amid aggressive drilling activities leading to a +65%YoY incline in exploration cost to PKR 27.9bn.

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
OGDC	189	48%	BUY	14.8	18.3	23.2	24.0	6.0	10.0	11.0	11.5	7.0	5.5	5.3	7.8	8.6	9.0
PPL	230	55%	BUY	15.7	20.1	25.2	27.4	9.0	5.5	10.0	11.0	7.3	5.9	5.4	3.7	6.8	7.4
POL	567	37%	BUY	34.1	40.1	61.7	61.4	40.0	42.5	60.0	60.0	10.4	6.7	6.8	10.2	14.4	14.4
MARI	1,921	54%	BUY	75.3	126.8	196.6	240.3	5.6	6.0	6.3	6.7	9.8	6.3	5.2	0.5	0.5	0.5
E&Ps		**50%**										**7.6**	**5.8**	**5.4**	**5.9**	**7.6**	**8.0**

Oil shredded more than 12 month gains in 4QCY18 on oversupply concerns and global economic slowdown

2018 has turned yet another year of high volatility for oil prices, with prices rising to a 3-years high to USD 85/bbl in Oct-18, only later to see a drop of 30% in just to reach USD 54/bbl by Dec-18. Key reasons oil price rally in the first 9M of CY18 were a) extension and compliance with production cuts by OPEC and Non-OPEC post Dec-17 meeting, b) drop in US crude oil inventories, c) Trump administration's plan to re-impose sanctions on Iran, d) supply disruptions in Libya and deteriorating production due to weakened economy in Venezuela and, e) rise in demand especially from China.

However, post Oct-18 oil prices retreated by nearly 30% on the back of a) rise in oil crude oil inventories, b) US President Donald Trump demanding oil producers to lower oil prices which would benefit US economy, c) US oil production hitting record high of 11.7mn bopd (a rise of 1.92mn bopd only in 2018), d) rise in US rig count, e) US allowing waiver to 8 countries to continue buying Iranian oil for next 6 months, f) Russia hinting towards exit from production cut deal with OPEC and, g) expected slowdown in global economy in 2019. However, we still maintain our oil price forecast for Arab light crude fir FY19 stands at USD 70/bbl, USD 60/bbl for FY20, USD 55/bbl for FY21 and long term price assumption at USD 50/bbl thereon.

Exhibit: Oil price performance

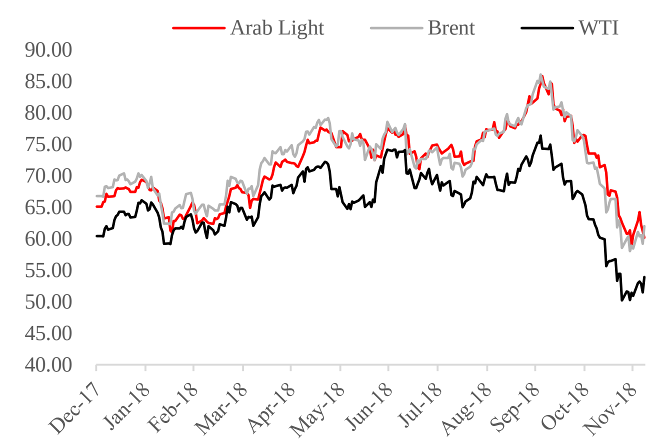
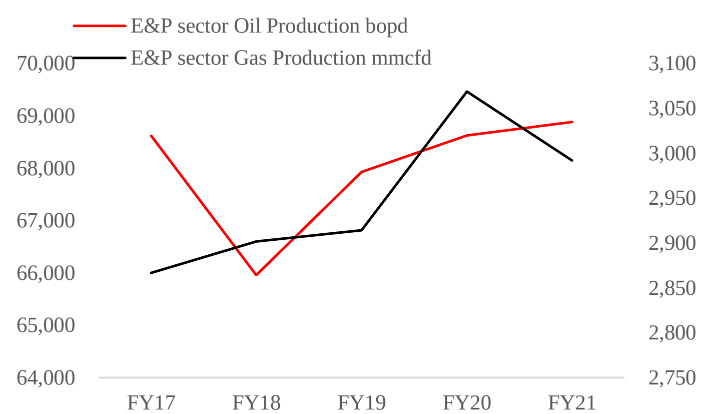


Exhibit: Sector gas and Oil production



Production struggles as new discovery quantum is insufficient for reserve sustainability

IGI E&P Universe oil production is down by 6.5% in 9MCY18 (down 3.9% in FY18) while gas production is up by +0.6%YoY in 9MCY18 (up by +1.2%YoY in FY18). Oil production declined on account of drop in flows for OGDC, PPL and MARI. Flows for OGDC and PPL dropped on account of lower flows from Nashpa, Kunner, Tal block and Rajian despite inclusion of new fields for OGDC such as Resham, Kunner South and Moolan. For MARI production remained depressed owing to drop in flows from Ghauri and Halini. However, POL reported rise in production of +3.9%YoY in 9MCY18 (up by +7.8%YoY in FY18) owing to commencement of flows from Jhandial (up from low of 400bopd to 900bopd currently) and increase in production from Adhi field. Gas production is up by +0.6%YoY in 9MCY18 led by POL and MARI recording +10.9%YoY and +5.0%YoY growth in flows respectively on account of higher production from Mari field and inclusion of Tolanj, Tolanj East and Jhandial. However, PPL and OGDC registered 2.9%YoY and 0.1%YoY decline in production on account of lower flows from Qadirpur, Uch and Sui.

PPL likely to lead production growth in FY19

Going forward, we foresee IGI E&P universe to post +3.0%YoY and +0.4%YoY rise in oil & gas flows in FY19 respectively. Growth in oil production is likely to be led by POL and PPL, estimated to record +11.0%YoY and +5.9%YoY rise in oil production for FY19 respectively. Rise in production for PPL is likely attributable to commencement of production from Gambat South and Adhi South, while flows from Nashpa field are likely to increase on account of development project coming online. POL is likely to report increase in flows on the back of higher flows from Adhi, Jhandial and Khaur North. Gas flows are expected to remain stagnant with OGDC likely to report 2.5%YoY drop in gas flows in FY19 while POL and MARI are likely to report +8.4%YoY and +5.0%YoY rise in gas flows respectively in FY19.

Exhibit: Blocks opened for bidding

Block name	Zone	Location
Cholistan	2	Punjab
Shakar Ganj West	2	Punjab
Punjab	2	Punjab
Musakhel	2	Balochistan
Desert	1	Balochistan
Block-28 North	2	Balochistan
Wali West	1	KPK
Sorah	3	Sindh
Taung	3	Sindh
Khuzdar South	2	Sindh

Bidding of new blocks starts

After a delay of more than 5 years, GoP has accepted applications submitted by E&Ps for grant of generation license and bidding for the said blocks has been initiated. This in our view should bode well for local E&Ps as in recent years there has been lack of discovery of substantial oil and gas reserves. Thus, these new blocks which are mostly concentrated in Zone 2 will enhance the acreage covered by E&Ps. The list of new blocks also includes Sorah and Taung which lie in Zone 3 and are strategically located near fields with already discovered oil and gas reserves.

Drilling in Indus-G offshore may be a game changer for OGDC and PPL

One of the recent key developments in oil & gas exploration in Pakistan is the potential of substantial reserve base in Indus-G offshore block, where in Mar-18 oil giant ExxonMobil acquired stake from ENI, OGDC and PPL. As per news flow, ExxonMobil through different methods has acquired data substantiating sizeable oil and gas reserves. The drilling will start in Jan-19 up to a depth of 5000 meters which would likely take around 6 months. In our view, due to advanced technology ExxonMobil's entry will likely make recovery of these reserves feasible. If the reserve size is as sizeable as estimated and recovered cost effectively, we highlight PPL and OGDC to remain prime beneficiary.

Recommendation

We maintain our preference for PPL and MARI with our Dec-19 target prices of PKR 229.6/share and PKR 1,920/share offering 55% and 54% upside from last close respectively. PPL and MARI are currently trading at FY19 P/E of 5.9x and 6.3x. Considering earnings growth and higher revenue contribution from gas sales, we recommend PPL and MAR as our top picks.

Key Risks

The key downside risks to our rating and price target relate to:

i) Substantial drop in international oil prices.
ii) Higher dry well costs amid lack of new blocks on offer
iii) Delays in bidding and allocation of new blocks for exploration
iv) Lower demand from refineries effecting fields production for prolonged periods

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Recommendation		**BUY**
Target Price:		229.6
Last Closing:	28-Dec-18	147.8
Upside:		55.4
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)	
Time Horizon:		Dec-19

Market Data

Bloomberg Tkr.		PPL PA
Shares (mn)		2,267.5
Free Float Shares (mn)		554.1
Free Float Shares (%)		24.4%
Market Cap (PKRbn | USDmn)	335.0	2,395.8
Exchange		KSE ALL

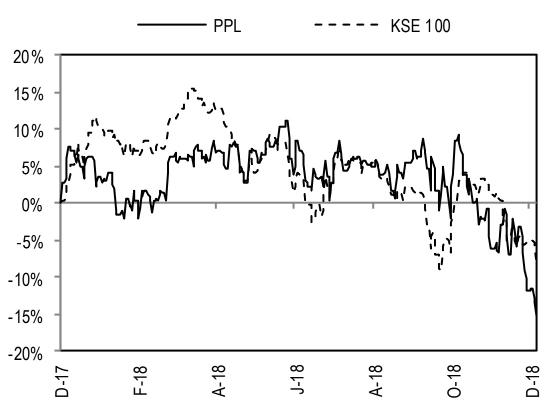
Price Info.	90D	06M	12M
Abs. Return	(20.4)	(21.8)	(15.3)
Lo	147.8	147.8	147.8
Hi	190.8	190.8	193.9

Key Company Financials

Period End: Jun

PKRbn	**FY18A**	**FY19E**	**FY20F**	**FY21F**
Total Revenue	126.2	169.8	183.4	176.9
Net Income	45.7	57.2	62.2	57.6
EPS (PKR)	20.1	25.2	27.4	25.4
DPS (PKR)	5.5	10.0	11.0	10.0
Total Assets	283	367	415	453
Total Equity	240	278	315	350
Key Financial Ratios				
ROE (%)	19.0	20.6	19.8	16.5
P/E (x)	7.3	5.9	5.4	5.8
P/B (x)	0.4	1.4	1.2	1.1
DY (%)	3.7	6.8	7.4	6.8

Relative Price Performance



About the Company

The Company was incorporated in Pakistan in 1950 with the main objectives of conducting exploration, prospecting, development and production of oil and natural gas resources.

Source: Bloomberg, PSX & IGI Research

Pakistan Petroleum Limited (PPL)

We maintain PPL as one of our top picks with our Dec-19 Target price of PKR 229.6/share, offering 55.4% upside from last close. PPL is currently trading at FY19 P/E of 5.9x compared to market and E&P sector P/E of 8.0x and 6.0x respectively. We base our investment case on +25%YoY earnings growth in FY19 with a 3yr profitability CAGR of +9% over FY19-21.

i) Gambat south to start production post completion of GPF III & IV – New discoveries in Gambat South going back to 2015 have yet to commence production which were primarily gas based. This was due to lower handling capacity of GPF due to which PPL enhanced its capacity in GPF I/II and III/IV were likely to be completed by 1QFY19. However, due to likely delays with EPC contractor, the GPF III & IV are likely to be completed by 4QFY19 which will enhance Gambat South’s handling capacity to 110mmcfd which would allow for old discoveries to commence production. As a result, we have moved our expectation for Gambat South fields to start commercial production from May-19 to 1QFY20.

ii) Realized oil price better than OGDC and MARI as new fields fetch higher price: Compared to OGDC and MARI, PPL’s realized oil price stood at USD 61.6/bbl in FY18 which was due to higher number of new fields fetching higher oil price under Petroleum Policy 2012. This was due to commencement of production from Rizq, Sharf, Makori Deep, Tolanj and Tolanj West. As a result, total proportion of oil production under PP12 has increased to 12% from pervious 6% in FY17 which will further increase to 21% by post FY20.

iii) Expanding retail network and storage capacity to sustain market share: 8-10 wells planned for drilling in FY19: The Company drilled 11 exploratory wells and 7 appraisal/development wells during FY18 against target of 14 exploratory and 7 appraisal/development wells which yielded 8 discoveries (both exploratory and development/appraisal) in FY18 with a success ratio of 53%. PPL has planned to spud 11 exploratory and 11 appraisal/ development wells in FY19 out of which 2 exploratory wells have been spudded so far in FY19TD while 3 exploratory wells from FY18 are still under drilling phase.

iv) PPL leads with 7 new discoveries in FY19TD: So far, PPL has encountered five new discoveries (2 wholly and 5 jointly owned) namely Bolan East (Ziarat: 40%), Talagang (Karsal (100%), Yasar (Kotri: 100%), Gulsher (Digri: 25%), Hadaf (Gambat South: 65%), Benari (Shah bandar: 63%) and Badeel (Gambat South: 65%). These discoveries are expected to add 1,489bopd and 32.0mmcfd of oil and gas production from FY20 onwards with cumulative annualized earnings impact of PKR 1.58/share. Furthermore, PPL has been aggressive to develop its mature fields such as Adhi, Kandhkot, Sui and Kotri blocks which will allow the company to sustain production levels from these field and arrest natural depletion. However, Sui has been constantly facing natural depletion despite development efforts to sustain flows from the field which has diluted the impact of new discoveries coupled with delay in production from those fields.

Recommendation

We value PPL stock on a reserve based-discounted model assuming cost of equity at 17.6%, giving a Dec-19 target price of PKR 229.6/share (55.4% upside). The company is currently trading at FY19E P/E of 5.9x and offers a dividend yield of 6.8%. Key risks to our thesis includes further delays in commencement of production from Gambat south, drop in oil prices, depletion in Sui field and lack of sizeable discovery.

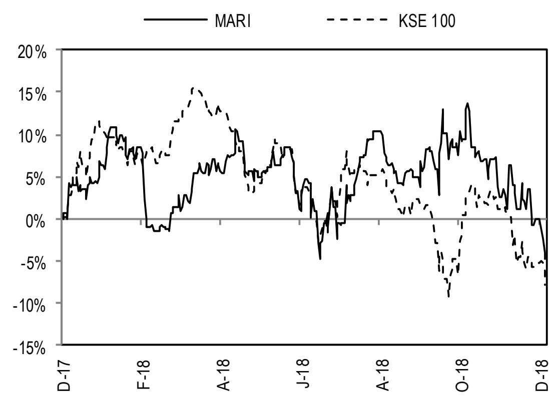
Recommendation			**BUY**
Target Price:			1,920.5
Last Closing:	28-Dec-18		1,246.9
Upside:			54.0
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:			Dec-19
Market Data			
Bloomberg Tkr.			MARI PA
Shares (mn)			121.3
Free Float Shares (mn)			24.3
Free Float Shares (%)			20.0%
Market Cap (PKRbn | USDmn)		151.2	1,081.4
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(12.0)	(8.3)	(4.8)
Lo	1,246.9	1,246.9	1,246.9
Hi	1,487.9	1,487.9	1,487.9

Key Company Financials

Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	40.7	61.3	72.7	72.0
Net Income	15.4	23.8	29.1	28.2
EPS (PKR)	126.8	196.6	240.3	232.2
DPS (PKR)	6.0	6.3	6.7	6.7
Total Assets	81	144	210	265
Total Equity	40	53	81	108
Key Financial Ratios				
ROE (%)	38.3	45.2	35.9	26.0
P/E (x)	9.8	6.3	5.2	5.4
P/B (x)	25.8	3.8	2.9	1.9
DY (%)	0.5	0.5	0.5	0.5

Relative Price Performance



About the Company

The Company is a public limited company incorporated in Pakistan in 1984. The principal activity of the company exploration, production and sale of hydrocarbons. The company was listed on all stock exchanges in Pakistan when GoP divested 50% of its stake to Fauji Foundation.

Source: Bloomberg, PSX & IGI Research

Mari Petroleum Company Limited (MARI)

We maintain MARI as one of our top picks with our Dec-19 target price of PKR 1920.5/share, offering 54.0% upside from last close. MARI is currently trading at FY19 P/E of 6.3x compared to market and E&P sector P/E of 8.0x and 6.0x respectively. We base our investment case on +55%YoY earnings growth in FY19 with a 3yr profitability CAGR of +23% over FY19-21.

i) Mari field gas price incentive impetus to earnings growth – MARI has reported on average 3%-5% annual rise in gas production on account of higher flows from Mari field as production from Mari HRL grabs Petroleum Policy 2012 (PP12) price for 10% rise in production over and above 525mmcfd. As a result, the Company has enhanced flows from Mari field to utilize the price benefit. Furthermore, Mari field which contributes nearly 96-98% to total gas production and 88% to total revenues, will reach 100% of the wellhead gas price under the gas price mechanism offered to Mari field.

ii) MARI HRL field to sustain post drilling of development wells – During FY18, the Company reported that Mari HRL field production will face natural depletion and to arrest this issue MARI planned to drill 19 developments wells to sustain flows from HRL reservoir around (610-640mmcfd). As a result, we estimate MARI HRL to sustain gas production at 610mmcfd for the next 5 years with production growth emanating from new discoveries in Mari deep and SML reservoir. However, through drilling in other wells in Mari Development and Production lease, we expect production from MARI field to touch 725mmcfd by FY22 (currently at 697mmcfd). The Company plans to drill 8-10 wells in FY19, Shaheen-2 (Mari D&P lease), Surghar (Karak Block), Tipu-2 (Mari D&P lease), Miraj-1 (Ghauri Block) and first exploratory well in Bannu West Block.

iii) Exploring avenues apart from Mari field to diversify – MARI along with JV partners has focused on aggressive drilling in new block where the Company has so far encountered success in Benari (Shah Bandar) and Bolan East (Ziarat). We foresee MARI to continue the aggressive drilling to diversify and reduce reliance on Mari field for revenue growth.

iv) MARI heavily dominated by gas revenues –Mari field generates almost 90% of its revenues through gas production. As a result, the Company remains less sensitive to oil price volatility compared to its peers as gas prices have floor and cap on oil prices. Based on this, MARI takes comparatively lesser hit to revenues to changes in international oil price.

v) Diversification into power production, food grade liquid carbon dioxide and investment in Mid/downstream petroleum sector: MARI in its financial statements reported that the Company is in the advanced stages of diversifying in to low BTU power plant which is expected to yield return at the rate of 15-20% annually. Assuming 180MW power plant with an estimated cost of USD 180-200mn, we estimate annualized earnings accretion of PKR 27-29/share with anticipated value addition of PKR 147.1/share. The Company had planned to complete the feasibility study by Sep-18. The company has also expressed interest in investing in mid/down-stream petroleum sector which is the refinery/ oil pipelines / oil & gas marketing sector. Plans are also in place to diversify in to commercial production of food quality liquid carbon dioxide for sale to beverage industry. The management has targeted for commercial operations by summer 2019

Recommendation

We value MARI stock on a reserve based-discounted model assuming cost of equity at 17.6%, giving a Dec-19 target price of PKR 1,920.5/share (54% upside). The company is currently trading at FY19E P/E of 6.3x and offers a dividend yield of 0.5%. Key risks to our thesis includes changes in oil prices, downgrade in Mari field recoverable reserve size and HRL production unable to sustain at 610-640mmcfd.

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Over-weight

Oil & Gas Marketing Companies

Challenging environment to limit earnings growth

Based on slowdown in MS sales, lower FO demand and grey market effecting HSD sales alongside exchange losses, we estimate IGI OMC universe to post 1%YoY decline in earnings in FY19 with a 3Yr forward earning CAGR of +2%. We estimate, HASCOL and APL to lead earnings growth in FY19 each with a +1% jump in earnings in FY19 respectively.

Key Theme

i) OMC sector to record 1%YoY decline in profitability for FY19 with 3yr CAGR of +2%

ii) Slowing demand amid higher prices, falling automobile sales and grey market to limit volumetric growth

iii) APL offers attractive P/E multiple and dividend yield with lowest exposure to exchange losses

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
PSO	311	36%	BUY	46.6	39.5	38.7	41.1	25.0	15.0	15.0	16.0	5.8	5.9	5.6	6.6	6.6	7.0
HASCOL	224	48%	BUY	7.7	10.3	10.4	11.3	7.0	6.0	8.0	9.0	14.6	14.5	13.4	4.0	5.3	6.0
APL	564	31%	BUY	53.2	56.8	57.7	63.4	43.0	40.0	40.0	45.0	7.6	7.5	6.8	9.3	9.3	10.5
SHEL	303	3%	NEUTRAL	29.7	24.1	21.2	23.6	24.0	19.5	17.1	19.1	12.2	13.9	12.5	6.6	5.8	6.5
OMC		**31%**										**7.5**	**7.6**	**7.1**	**6.8**	**6.9**	**7.5**

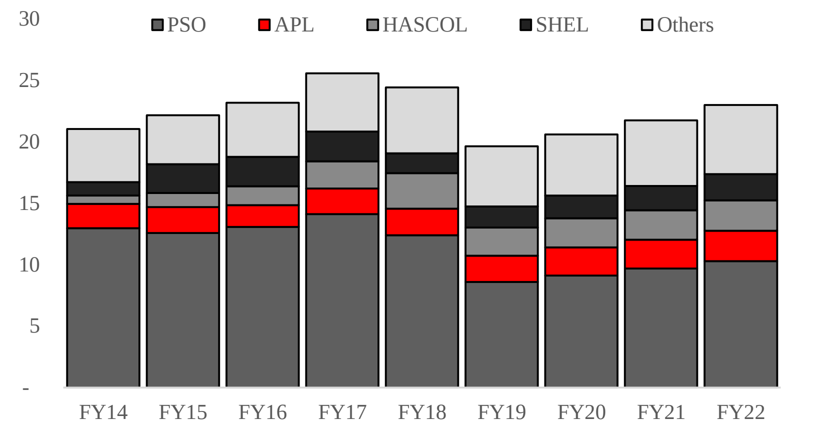
OMC sector performance marred by exchange losses

IGI OMC universe has so far underperformed KSE-100 index by 1%, posting negative return of 6%. The under performance of the sector was primarily due to risks associated with currency devaluation, drop in demand due to rise in domestic prices, decline in automobile sales and uncertain outlook on FO. Furthermore, OMC sector earnings are down by 4.4%YoY in 9MCY18 which is primarily led by substantial exchange losses for PSO and HASCOL, drop in FO sales post government of Pakistan decision to move FO based plants lower in the merit order list and aggravated grey market sales especially for HSD.

Volumes to take a hit in FY19, but recover gradually there onwards

As the GoP focuses on monetary tightening and fiscal consolidation, we believe demand for POL products to witness slow down as domestic prices still remain on the higher side and restrict to under double digit growth. High interest rates and tax measures implemented by GoP may also restrict growth in automobile sales while lower demand may likely limit commercial transportation. Thus we foresee MS volume growth to remain at 8%YoY during FY19, while HSD sales are estimated to drop by 12%YoY in FY19 which will has already taken a hit by grey market sales. FO demand in our view is likely to remain muted however may likely improve from Mar-19 onwards on account of seasonal demand. Thus total OMC volumes are expected to drop by 20%YoY in FY19. However, post FY19 we expect OMC volumes to pick up on account of pick-up in demand as measures by GoP to resolve economic issues take effect. As a result, we expect total industry volumes to grow at 3Yr CAGR of +5% from FY20-22.

Exhibit: Total OMC volumes to witness decline of 20%YoY in FY19, but recover post FY20 onwards



FO demand may remain subdued but margins to improve to allow for devaluation passover

With almost 9.4mn tons of FO sales in FY14 the changing energy mix has led to a drastic drop and is expected to clock in at 3.1mn ton. Going forward, we expect FO demand to pick up during summer season and settle at ~2.5-3.0mn ton. FO imports on the other hand are foreseen to be brought down to zero as announced by the GoP recently. However, due to currency devaluation despite lower international prices, FO domestic prices are estimated to lift FO margins for OMCs. FO margins are up by +83% in Oct-18 to PKR 2,362/ton compared to PKR 1,291/ton in Sep-17.

OMC margins to rise substantially as CPI jacks up

Average CPI for 5MFY19 currently stands at 6.0%YoY while for the month of Nov-18 only CPI stands at +6.5%YoY. CPI inflation for FY19 is estimated to average 7.5%-8.0% considering no further drop in oil prices. As a result, OMC margins are likely to witness an increase of 7.5-8.0% during FY20 as against 4.2% and 3.9% for FY17 and FY18 respectively. This in our view, is likely to benefit HASCOL and APL the most.

Exhibit: Domestic POL prices rise substantially in FY19TD to stand at FY14 levels

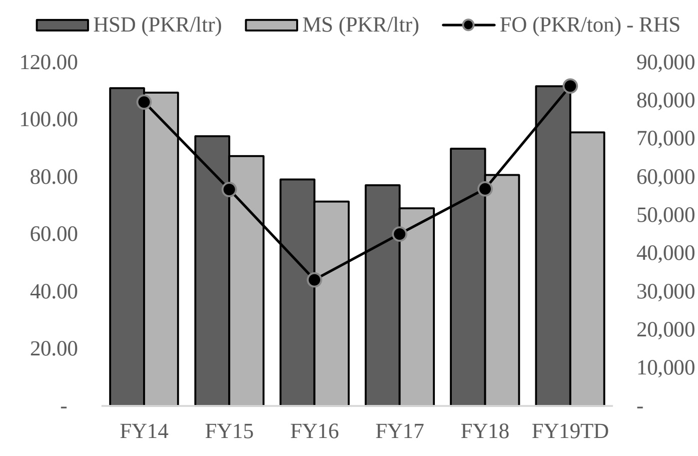
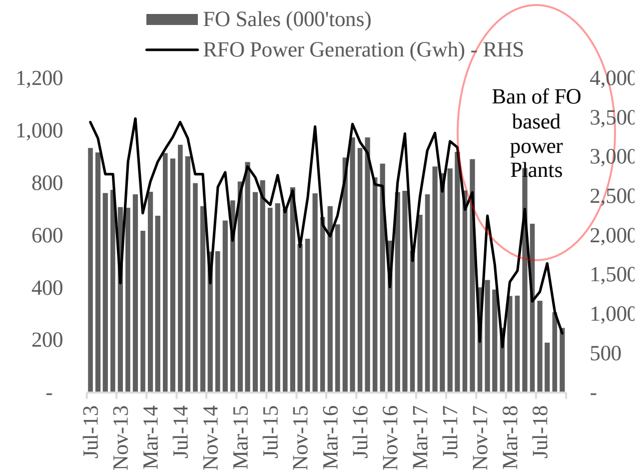


Exhibit: Shift in energy mix leading to lower FO demand



Measures underway to address circular debt issue

As circular debt has once again reached record levels with PSO's receivables piling up to PKR 321bn by Sep-18 and total circular debt including PESCO crossing PKR 1,200bn, GoP has recently announced to arrange credit line from Islamic Bank worth PKR 200bn to sustain energy chain. Similarly, reforms in power sector to recover outstanding dues and prevent theft to reduce transmission and distribution have been initiated by GoP which in our view would provide ease in cash flow constraints for power and OMC sector. These factors in our view are a step towards controlling the circular debt which has been a concern for Pakistan's Energy Chain. With any sort of resolution of piled up circular debt, we highlight PSO to benefit most. Furthermore, once FO plants are phased out post change in energy mix, we expect further ease in cash flows for OMC's especially PSO.

Rising Competition acting as a dampener to market share sustainability

Overall market shares of other OMCs excluding (PSO/ APL/ SHEL/ HASCOL) has increased from 19% in FY15 to nearly 22% in FY18. Thus despite robust demand for MS and HSD in the last few years, IGI OMC universe has witnessed limited growth in market share excluding HASCOL. We expect due to high competition, OMCs with smooth supply chain and expansion in retail network are likely to sustain market share. Thus we prefer APL due to its storage capacity expansion and additions of new retail outlet. PSO may also regain market share on the back of MS storage capacity expansion.

Recommendation				**BUY**
Target Price:				563.8
Last Closing:	28-Dec-18			430.1
Upside:				31.1
Valuation Methodology:				Discounted Cash Flow (DCF)
Time Horizon:				Dec-19

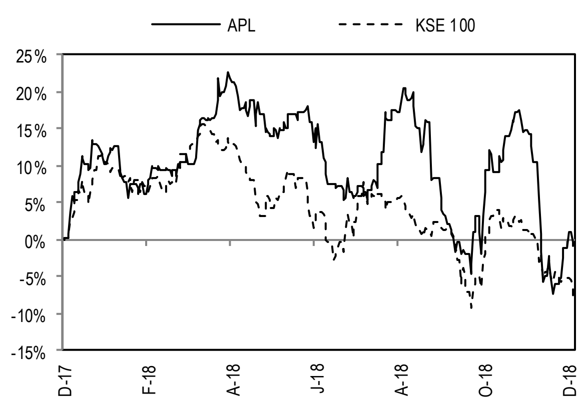
Market Data				
Bloomberg Tkr.				APL PA
Shares (mn)				99.5
Free Float Shares (mn)				24.9
Free Float Shares (%)				25.0%
Market Cap (PKRbn | USDmn)			42.8	306.2
Exchange				KSE ALL
Price Info.		90D	06M	12M
Abs. Return		(3.1)	(14.3)	(1.0)
Lo		403.1	403.1	403.1
Hi		510.3	523.8	532.8

Key Company Financials

Period End: Jun

PKRbn	**FY18A**	**FY19E**	**FY20F**	**FY21F**
Total Revenue	177.3	217.7	242.2	253.6
Net Income	5.7	5.7	6.3	6.5
EPS (PKR)	56.8	57.7	63.4	65.8
DPS (PKR)	40.0	40.0	45.0	48.0
Total Assets	38	46	51	57
Total Equity	18	20	22	24
Key Financial Ratios				
ROE (%)	30.7	28.3	28.5	27.4
P/E (x)	7.6	7.5	6.8	6.5
P/B (x)	13.9	2.3	2.1	1.9
DY (%)	9.3	9.3	10.5	11.2

Relative Price Performance



About the Company

The Company was incorporated in Pakistan as a public limited company on December 3, 1995 and it commenced its operations in 1998. The principal activity of the Company is procurement, storage and marketing of petroleum and related products. Pharaon Investment Group Limited Holding s.a.l holds 34.38% (2016: 34.38%) shares of the

Source: Bloomberg, PSX & IGI Research

Attock Petroleum Limited (APL)

We maintain APL as one of our top picks with our Dec-19 target price of PKR 563.8/share, offering 31.1% upside from last close. APL is currently trading at FY19 P/E of 7.5x compared to market and E&P sector P/E of 8.0x and 6.0x respectively. We base our investment case on a 3yr profitability CAGR of +5% over FY19-21. Furthermore, APL's relatively immune to circular debt and foreign exchange losses.

i) Earnings to accrete at 3yr CAGR of 5%: We foresee APL to post a 3yr CAGR of 5% in earnings from FY19-21F on the back of a) expansion in retail outlets and storage facility to keep retail segment growth healthy, b) FO volumes to take minimum dent owing to demand from Attock Refinery to utilize local crude, c) rise in oil prices and PKR depreciation to keep FO and Asphalt margins on the higher end along with likely inventory gains and, d) cash rich balance sheet with no debt to provide immunity as Monetary tightening continues.

ii) Cash rich balance sheet with no debt poses no risk to earnings during monetary tightening cycle: APL currently holds cash of PKR 4.12bn or PKR 42.2/share as of Jun-18 with no long-term or short-term debt obligation. As a result, the Company earnings stand immune to rise in interest rate (150bps hike in last two months) and would not stand as a hurdle in the way of storage facility and retail outlet expansion. With a negative cash cycle of 2.4 days, APL working capital stands healthy compared to its peers. Furthermore, with no reliance on direct imports, Company also stands relatively immune to foreign exchange losses compared to HASCOL and PSO.

iii) Expanding retail network and storage capacity to sustain market share – APL has aggressively pursued expansion in retail outlets with number of retail outlets increasing to 629 as at Jun-18 compared to 604 in FY17. The company has increased its retail network by an average of 40 outlets annually and by FY19 we expect retail outlet to cross 650 which in our view will further boost MS and HSD sales. APL has also expanded its storage capacity to smoothen the supply chain in order to fully utilize the growth in sale of POL products. Construction of storage terminals at Sahiwal, Tarujabba and Daulatpur is underway while the management has acquired land to establish bulk oil terminals to enhance its storage capacity

iv) Volumes likely to remain stagnant in FY19 – We estimate APL's total volumes to remain stagnant in FY19 on the back of 25%/4%YoY decline in FO/HSD sales while posting nearly +28%YoY growth in MS sales. Higher domestic prices along with grey market sales are likely to restrict growth in HSD sales while drop in automobile sales are likely to limit MS growth in coming years. To note, in FY18 FO sales of APL remained flat at 0.64mnT compared to 0.65mnMT in the same period last year, depicting drop of only 2%YoY compared to 24%YoY for industry.

v) FO and Asphalt prices on the rise – FO prices have increased by nearly ~26% on average basis in FY18 on the back of PKR depreciation and rise in international oil prices. In 1QFY19, FO prices have further escalated and consequently margins averaged PKR 2,297/ton compared to FY18 average of PKR 1,415/ton, up by +62%YoY. As a result, APL has benefited most as it only witnessed 2%YoY drop in sales in FY18 while margins escalated by +62%YoY. APL witnessed depressed FO sales only during Nov-Dec'17 as it supplies most of its FO to Attock Gen Power plant which resumed operations due to its high efficiency and to meet demand and supply gap. Furthermore, asphalt prices have also been on the rise due to higher demand amid rise in infrastructure development. Asphalt prices are up by ~18% and 39% on average basis in FY18 and 1QFY19 respectively

Recommendation

We value APL stock on discounted cash flow model assuming cost of equity at 17.6%, giving a Dec-19 target price of PKR 563.8/share (31% upside). The company is currently trading at FY19E P/E of 7.5x and offers a dividend yield of 9.3%. Key risks to our thesis includes drop in FO sales, inventory losses and drop in infrastructure development.

Market-Weight

Power Generation & Distribution

PKR devaluation a breather amid rising circular debt as outlook of FO remains bleak

We maintain our 'Market weight' stance on the IPP sector on the back of bleak outlook of RFO based power plants and rise in circular debt. However, PKR depreciation may boost earnings while dividend payout from HUBC and NCPL is likely to remain limited. Based on PKR depreciation, we estimate IGI IPP universe to post +5%YoY growth in earnings in FY19 with a 3Yr forward earning CAGR of +12%. We estimate, HUBC to lead earnings growth in FY19 with a +11%YoY jump in earnings respectively.

Key Theme

i) IPP sector to record +5%YoY incline in profitability for FY19 with 3yr CAGR of +12%

ii) Depressed generation on FO to continue while PKR depreciation to provide uplift in earnings

iii) Dividend pay-out to remain restricted owing to substantial rise in circular debt

iv) We prefer HUBC based on 3yr earnings CAGR of +11% post commencement of new projects

IPPs sector outperformed KSE 100 on account of PKR depreciation and higher dividend yield: IGI OMC universe has so far outperformed KSE-100 index by 1% by posting negative return of 4%. Sector out performance was primarily due to rise in profitability amid PKR depreciation and lower maintenance cost. IPP sector earnings are up by +14.8%YoY in 9MCY18 which is primarily led by devaluation of PKR against greenback, lower maintenance cost and exchange rate adjustment for KAPCO.

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
KAPCO	63	28%	BUY	10.7	12.1	12.0	14.8	9.5	9.2	9.5	11.0	4.1	4.1	3.3	18.5	19.2	22.2
HUBC	120	40%	BUY	9.2	9.6	10.6	16.5	7.5	7.4	6.0	12.0	9.0	8.1	5.2	8.6	7.0	14.0
NCPL	30	30%	BUY	8.2	9.3	9.2	10.4	2.5	1.5	5.0	7.0	2.5	2.5	2.2	6.6	21.9	30.6
Power		**36%**										**6.0**	**5.8**	**4.2**	**11.3**	**11.3**	**17.3**

Generation to remain depressed amid changing energy mix

Total generation for 10MCY18 stood at 108,763Gwh, up by +9.7%YoY on the back of +16.0%YoY and +4.3xYoY rise in LNG and coal generation respectively. The rise in coal and LNG based power generation is due to addition of new coal/LNG plants and supply of LNG to current plants operating on gas. IGI IPP sector generation dropped by 31%YoY in 9MCY18 on the back of substantial drop in generation from Hub plant. Going forward we expect FO based power generation to gradually phase out as new coal/LNG plants commence operations. Based on this, we expect generation for NCPL and HUBCO (Hub and Narowal) to remain depressed while KAPCO to operate on higher gas quantity in fuel mix.

Rising in circular debt to keep IPPs in cash constraints
For our coverage IPPs, receivables have seen a sharp increase reaching PKR 88bn by Sep-18 (up by +32%). As a result, overall sector pay-out has been restricted, 70% in FY18 (including HUBC @77% as the company is in the process of financing its upcoming projects through equity) compared to 98% in FY16.

Going forward, government has shown intention of injecting PKR 200-300bn through Islamic Banks as to finance circular debt, this in our view would improve overall IPPs' cash position, albeit the quantum remains a key question. Moreover, other measures to curtail theft and losses, could also improve sector cash position. Nevertheless, we suspect payout ratios could remain low in FY19, while for HUBC we expect payout to improve once projects are operational.

Recommendation
We maintain our preference on HUBC with our Dec-19 target prices of PKR 120/share offering 45% upside from its last close. The company is currently trading at FY19E P/E of 8.1x and offers a dividend yield of 7.0%.

Key Risks

i) lower than expected PKR devaluation,
ii) substantial rise in circular debt leading to further dividend curtailment,
iii) delays in commencement of new power projects

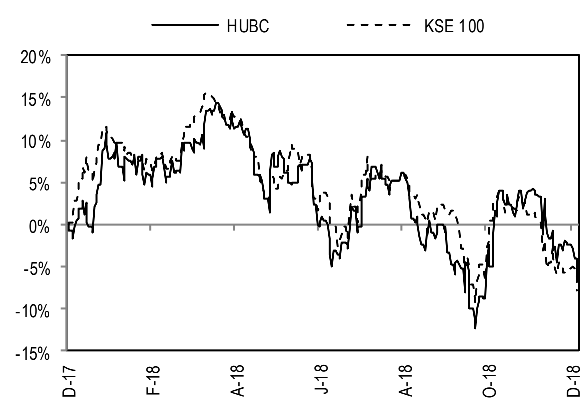
Recommendation			BUY
Target Price:			120.2
Last Closing:	28-Dec-18		85.9
Upside:			40.0
Valuation Methodology:			
			Dividend Discount Model (DDM)
Time Horizon:			Dec-19
Market Data			
Bloomberg Tkr.			HUBC PA
Shares (mn)			1,157.2
Free Float Shares (mn)			694.3
Free Float Shares (%)			60.0%
Market Cap (PKRbn | USDmn)		99.4	710.6
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(1.8)	(7.3)	(6.4)
Lo	80.4	80.4	80.4
Hi	95.7	98.1	104.9

Key Company Financials

Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	100.0	85.3	80.4	84.3
Net Income	11.1	12.3	19.1	19.7
EPS (PKR)	9.6	10.6	16.5	17.0
DPS (PKR)	7.4	6.0	12.0	14.0
Total Assets	160	186	158	128
Total Equity	35	36	37	38
Key Financial Ratios				
ROE (%)	31.2	33.8	51.3	51.9
P/E (x)	9.0	8.1	5.2	5.0
P/B (x)	1.4	2.8	2.7	2.7
DY (%)	8.6	7.0	14.0	16.3

Relative Price Performance



About the Company

The Company was incorporated in Pakistan on August 01, 1991as a public limited company. Its GDR are listed on the Luxembourg Stock Exchange. The principal activities of the Company are to develop, own, operate and maintain power stations.

Source: Bloomberg, PSX & IGI Research

The Hub Power Company Limited (HUBC)

We maintain HUBC as our top picks with our Dec-19 Target price of PKR 120.2/share, offering 40.0% upside from last close. HUBC is currently trading at FY19 P/E of 8.1 compared to market and E&P sector P/E of 8.0x and 6.0x respectively. We base our investment case on a 3yr profitability CAGR of +21% over FY19-21. For year 2018, current yield stands at 9.6% which is comparable to 12m T-bill. However, considering CPHGC commencing operation in 2020, we see dividends propping up to PKR 12/share, which at current rate offers a healthy 14% dividend yield.

i) Earnings to grow at 3yr CAGR of 21% - We foresee HUBC to post a 3yr CAGR of +21% in earnings from FY19-21F on the back of a) commencement of CPHGC and SECMC, b) PKR devaluation to lift earnings and, c) lower repair and maintenance cost as major overhauls ended in FY17.

ii) Diversification key to earnings growth - As FO based power plants face bleak outlook, HUBC has diversified in to coal projects. These projects include CPHGC (1,320MW with 46% stake). SECMC (8% stake), Thar Energy (330MW with 60% stake) and Thal Nova (330MW with 37% stake). Projects excluding Thal Nova are likely to add PKR 46.5/share to HUBC's value.

iii) Dividend pay-out to increase post financing of new projects - HUBCO dividend pay-out stood at 77% in FY18 as compared to 107% in FY16 owing to financing of new projects in Thar Coal. Dividend pay-out is further expected to deteriorate in FY19 to 56%. The project time lines for commencement of production starts from Aug-2019 and goes up till Jun-2021. As a result, we expect dividend pay-out to remain between 70%-80% till FY22 and there on improve gradually over 90%. However, due to commencement of production of CPHGC, we expect DPS to increase from PKR 6 in FY19 to PKR 12 in FY20 due to +55%YoY rise in earnings in FY20.

iv) Lower FO generation to limit growth in receivables: HUBC's receivables have surged by nearly +32% since Jun-2015 and short term borrowings are higher by +2.6x. However, post commencement of Coal projects and lower generation from Hub and Narowal plant, we expect receivable pile up to slow down and reduced reliance on short term borrowings for HUBC.

Recommendation

We value HUBC stock on dividend discount model assuming cost of equity at 17.6%, giving a Dec-19 target price of PKR 120.0/share (40% upside). The company is currently trading at FY19E P/E of 8.1x and offers a dividend yield of 7.0%. Key risks to our thesis includes depreciation of PKR against green back, delays in commencement of new projects and rise in circular debt leading to short term borrowings.

Market-weight

Fertilisers

The coast is clear either way

The Fertiliser sector witnessed major upswings during the second half of 2018, wherein positive measures implemented in the budget presented earlier in Apr-18 gave much needed breather to the manufacturer. Measures such as removal of Urea subsidy and tight supply situation during Kharif season gave manufacturers sufficient pricing edge. However, later in Oct-18 increase in gas prices (feed and fuel), limited manufactures to increase urea prices on average by a slim margin of PKR 130/bag taking average urea price to PKR 1,700/bag (DTP).

With regards to price performance, the sector outperformed the broader KSE 100 index by +13%. Although, the sector's valuation offers limited upside but consistent pay-outs with high yield and limited risks on horizon warrants a buy position on the sector.

Key Theme

i) Sector to register an impressive +9% earnings growth on average for 2018-2021.

ii) Sector provides a decent Dividend yield and trades at attractive P/E

iii) Urea prices to maintain current level

Strong pricing power to maintain the growth trajectory, rising interest rates acts as a drag

On profitability front, the sector's profitability surged by +63%YoY to PKR 45.3bn during the 9MCY18 as major industry players reported remarkable increase in their earnings. Accretion to earnings was primarily due to sustained offtakes of urea and DAP, increased prices, and low finance cost. Given ensuing pricing dynamics to continue and demand for urea to stay afloat with demand for DAP seemingly bleak (rising international prices and PKR depreciation may hinder sales) we expect sector's profitability to increase by +9% (3YR CAGR) to PKR 47bn by CY21. However, rising interest rate environment acts as a drag for some players (FFC and FFBL) profitability, having high debt to equity ratio, and therefore will be affected by interest rate hikes.

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
EFERT	80	15%	BUY	8.4	12.1	11.2	11.4	8.5	10.5	10.0	10.0	5.8	6.2	6.1	15.0	14.3	14.3
FFC	100	9%	NEUTRAL	8.4	9.8	11.1	11.2	7.0	7.5	10.0	10.0	9.4	8.3	8.2	8.1	10.9	10.9
FFBL	41	9%	NEUTRAL	1.1	1.0	1.2	1.4	0.9	0.8	1.0	1.1	37.9	30.3	27.3	2.1	2.7	2.9
FATIMA	38	3%	NEUTRAL	5.0	6.6	6.7	7.2	3.6	4.5	4.7	5.1	5.6	5.5	5.1	12.3	12.9	14.0
Fertiliser		**9%**										**7.4**	**7.3**	**7.0**	**10.5**	**11.5**	**11.7**

Exhibit: Local urea prices (PKR/bag)

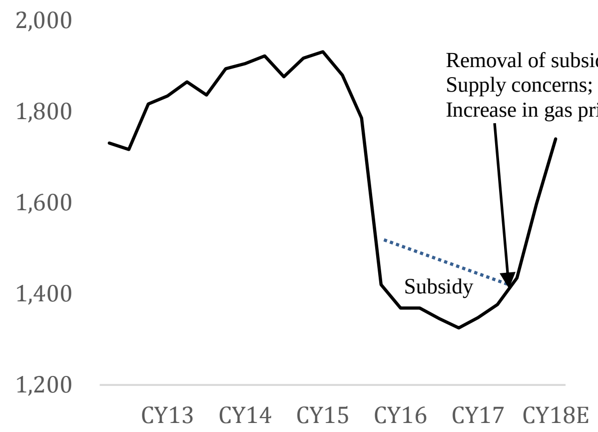
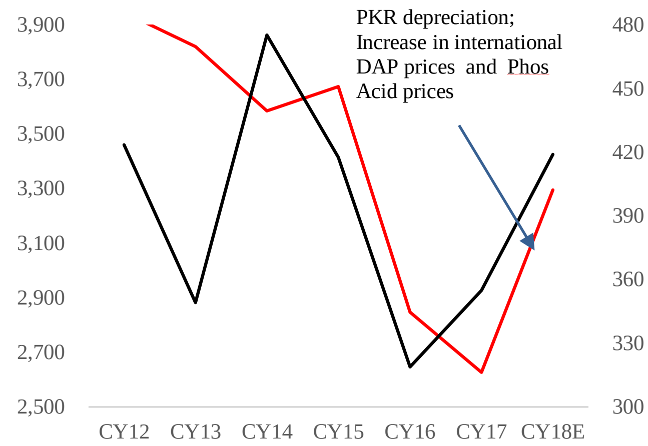


Exhibit: DAP local and international prices (RHS)



Resumption of fertiliser plants and imports to curb urea shortage

To curb supply shortfall, the government imported 100k tons of urea, and has set the price to PKR 1,712/bag. Also, the government allowed to run two fertiliser plants (Fatimafert and Agritech) on RLNG for the period of 2 months, at a subsidized rate (in the form of subsidy to SNGPL). The additional urea supply in the system could reach ~150k tons given these plants to run in full capacity for the two months surpassing existing industry capacity of 6mn tons. With the demand for the next year to hover around 5.8mn tons, ensuing additional supply do not pose any significant risk in our view to pricing power as the additional supply will be for limited period and is short-lived.

Exhibit: Urea offtake and production (K tons)

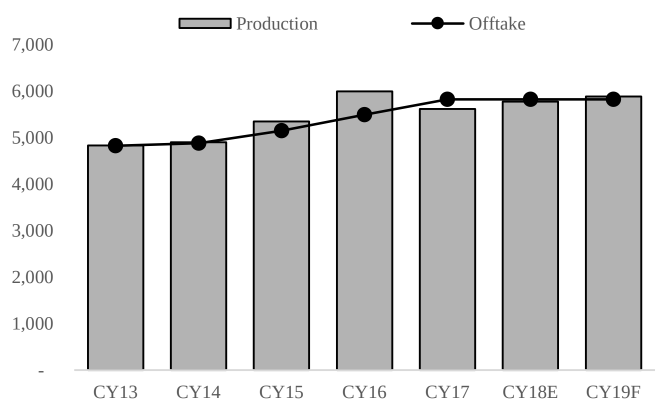
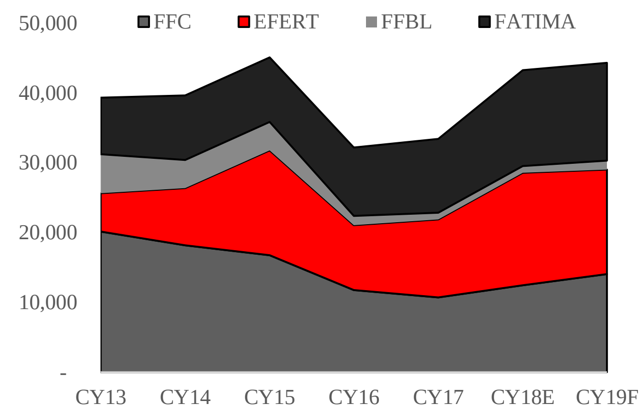


Exhibit: Company's Profitability (PKR Mn)



Recommendation

We maintain our preference on EFERT with our Dec-19 target price of PKR 80.2/share offering 15% upside from its last close respectively. The company is currently trading at CY19 E P/E of 6.2x and offers attractive dividend yield of 14%.

Key Risks

i) The key downside risks to our rating and price target relate to;

ii) Increase in gas prices, interest rates and PKR depreciation

Recommendation			BUY
Target Price:			80.2
Last Closing:	28-Dec-18		69.8
Upside:			15.0
Valuation Methodology:			Blended Valuation
Time Horizon:			Dec-19

Market Data

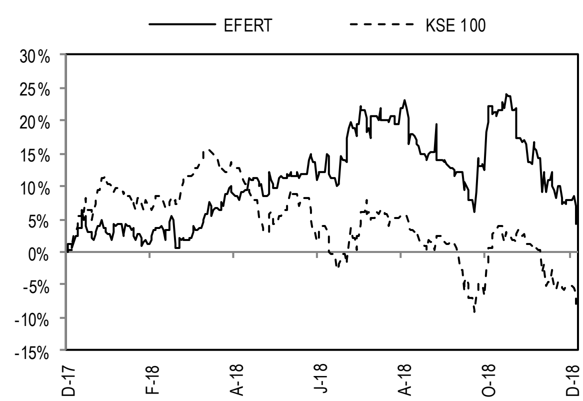
Bloomberg Tkr.			EFERT PA
Shares (mn)			1,335.3
Free Float Shares (mn)			600.9
Free Float Shares (%)			45.0%
Market Cap (PKRbn | USDmn)		93.2	666.2
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(7.6)	(6.9)	4.3
Lo	69.8	69.8	66.9
Hi	82.9	82.9	82.9

Key Company Financials

Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	77.1	107.1	93.1	97.9
Net Income	11.2	16.2	15.0	15.2
EPS (PKR)	8.4	12.1	11.2	11.4
DPS (PKR)	8.5	10.5	10.0	10.0
Total Assets	102	112	117	94
Total Equity	42	45	46	48
Key Financial Ratios				
ROE (%)	26.3	36.2	32.4	31.6
P/E (x)	8.4	5.8	6.2	6.1
P/B (x)	0.9	2.2	2.1	2.0
DY (%)	12.2	15.0	14.3	14.3

Relative Price Performance



About the Company

The Company is a public limited company incorporated on June 29, 2009 in Pakistan as a wholly owned subsidiary of Engro Corporation Limited. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers.

Source: Bloomberg, PSX & IGI Research

Engro Fertiliser Company Limited (EFERT)

Impressive growth in earnings; stock over performed by +13%YoY

EFERT's earnings showcased impressive performance throughout 9month period, attaining hefty growth of +76%YoY (EPS: PKR 9.18) higher amongst other companies in our coverage. With respect to stock performance, the scrip over performed by +13%YoY against the bench mark index-KSE 100 as high pay-outs (PKR 8.00/share) and high dividend yield triggered bullish stance.

We are overweight on EFERT currently trading at P/E of 5.8x. Offering at a discount of 30% with respect to market P/E of 8.3x the company also pays out dividend consistently. We expect company to maintain its pay-out while offering a yield of 14%, higher compared to its peers. In addition, multiple factors support our thesis:

i) Low input costs keeping margins steady – The Company has low cost structure owing to concessionary feed gas rate for its enVen plant as per Fertiliser Policy 2001. While, other players in the industry increased their product prices to offset incremental gas costs, EFERT in this regard has margin to charge at increased prices (increase in gas costs stands low compared to industry average), thereby reaping additional margins.

ii) Steady growth in earnings – +8% at 3Yr CAGR by CY21: The company reported earnings of PKR 12.2bn (EPS: PKR 9.18), up by +76%YoY led by increased urea offtake and prices. In addition, one of tax benefits and decreased finance cost (12%YoY) also lifted profitability of the company. In line with trend we expect company to post earnings of PKR 16.1bn (EPS: PKR 12.11) for CY18 while going forward given prices for urea to remain at current levels and with DAP offtake to take a dip, we expect profitability to increase by +8.7%YoY at a 3YR CAGR to PKR 15.6bn (EPS: PKR 11.68) by CY21.

Recommendation

We value EFERT stock on blended valuation (free cash flow to the equity and dividend discount model) assuming cost of equity at 16.1%, and a growth rate ~3%, giving a Dec-19E fair value of PKR 80.2/share (15% upside) from its last closing.

Under-weight

Automobile Assemblers

Off to a rocky path

We are under weight on Automobile assemblers, as we believe emerging headwinds such as rising competition, ban on non-filers and exchange rate volatility will keep profitability subdued. More so, rising interest rate environment will also keep consumer financing limited affecting sales growth.

Key Theme

i) Sector's profitability to fall on average by 4% for 2018-2021.

ii) Demand slowdown inhibiting volumetric growth

Exchange rate volatility to remain unsettled

Stock prices tumbled as earnings lost strength

Overall IGI sector has underperformed by 46%YoY with respect to benchmark index-KSE100 as aforesaid factors loomed over the period. On individual front, INDU under performed by 32%, while HCAR and PSMC under performed by 64% and 60%, respectively. On profitability front, performance was dull for players such as PSMC and HCAR, having witnessed drop of 55%/44%YoY to PKR (16.92/16.98)/share during their respective financial periods, perturbed by dwindling margins. While INDUs profitability inched down by a mere 2%YoY to PKR 44.6/share during 1QFY18

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
INDU	1,485	26%	BUY	165.4	200.7	163.7	172.1	115.0	140.0	114.2	120.1	5.9	7.2	6.9	11.9	9.7	10.2
HCAR	194	13%	BUY	43.0	45.5	24.7	24.9	17.2	22.8	9.9	10.0	3.8	7.0	6.9	13.3	5.8	5.8
PSMC	201	15%	BUY	46.5	19.3	22.3	22.2	19.0	4.0	4.0	4.0	9.1	7.8	7.9	2.3	2.3	2.3
Autos		**22%**										**5.5**	**7.2**	**7.0**	**11.1**	**8.1**	**8.5**

Restriction on non-filers and rising interest rates will curtail demand

The ban imposed will provide major hit to the company's sale volumes, having significant portion of non-filer customer base. However, till what period the policy measure deems effective and resultant outcome (non- tax filers converting to tax filer) churns out well is debatable, for the big three companies this is another major blow amidst rising competition. As such, from 2020 onwards with competition (KIA, Renault, Hyundai and Volkswagen) to become active, we see auto sector becoming largely fragmented. Therefore, we see IGI auto sector volumes facing tough challenge in keeping volumetric growth intact, which we expect to restrain (market share to shrink slightly).

Pricing power and gross margins to turn weak; volatility in exchange rate to blame

The exchange rate volatility persisted with PKR slipping irresistibly to 135 against USD, which weakened sectors margins. Company wise, INDU was relatively safeguard with its better sales mix while HCAR and PSMC margins remained in doldrums. With macroeconomic situation seems unsettled and reserves at their lowest levels, PKR volatility remains unnerved. Hence, we opine, margins may also remain under pressure over the upcoming years. On top of that, limited pricing power, as a consequence of competition will further erode margins in our view. As per se, price pass-over capacity of existing players will be the defining criteria in keeping margins less pressurized. We therefore expect PSMC to suffer the most followed by HCAR, while INDU to capitalize on it.

Exhibit: Margins and USD/PKR movement (RHS)

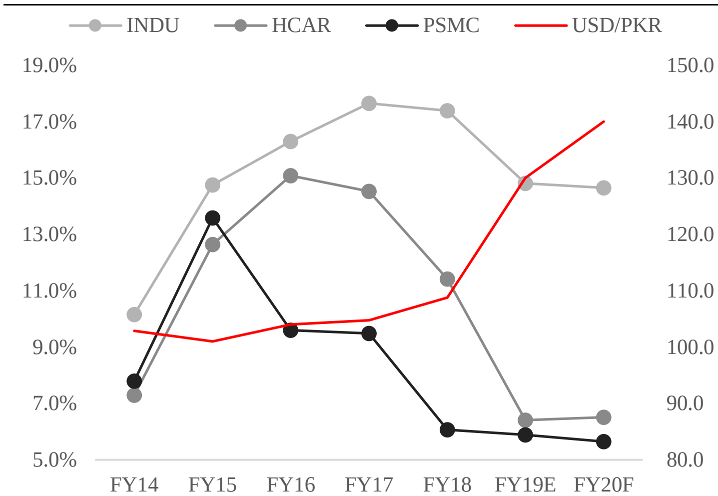
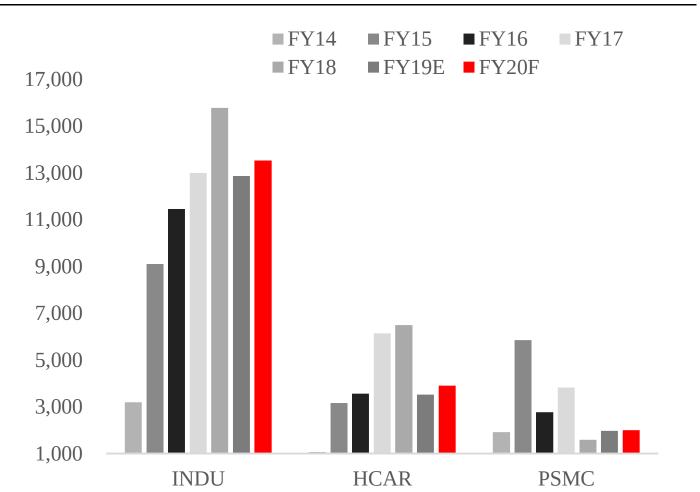


Exhibit: Company's Profitability (PKR Mn)



Recommendation

We maintain our preference on INDU with our Dec-19 target price of PKR 1,458/share offering 26% upside from its last close. The company is currently trading at FY19E P/E of 7.2x and offers dividend yield of 9.7%.

Key Risks

The key downside risks to our rating and price target relate to;

i) Slowdown in volumes.
ii) PKR depreciation leading to high inputs costs.
iii) Interest rate hike

Recommendation			BUY
Target Price:			1,485.0
Last Closing:	28-Dec-18		1,181.3
Upside:			25.7
Valuation Methodology:			Discounted Cash Flow (DCF)
Time Horizon:			Dec-19

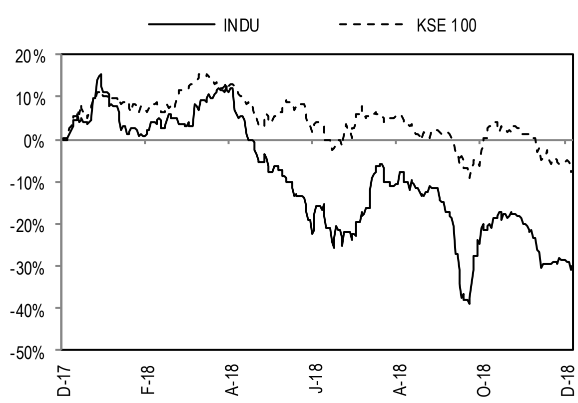
Market Data			
Bloomberg Tkr.			INDU PA
Shares (mn)			78.6
Free Float Shares (mn)			13.4
Free Float Shares (%)			17.0%
Market Cap (PKRbn | USDmn)		92.8	664.0
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(15.5)	(16.7)	(30.0)
Lo	1,030.6	1,030.6	1,030.6
Hi	1,398.7	1,589.9	1,942.0

Key Company Financials

Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	140.2	121.9	130.5	138.3
Net Income	15.8	12.9	13.5	14.5
EPS (PKR)	200.7	163.7	172.1	184.3
DPS (PKR)	140.0	114.2	120.1	128.6
Total Assets	64	82	75	80
Total Equity	37	41	45	49
Key Financial Ratios				
ROE (%)	42.9	31.7	30.2	29.5
P/E (x)	5.9	7.2	6.9	6.4
P/B (x)	20.0	2.5	2.3	2.1
DY (%)	11.9	9.7	10.2	10.9

Relative Price Performance



About the Company

The Company was incorporated as a public limited company in Pakistan in December 1989 and started commercial production in May 1993. The company is the sole distributor of Toyota vehicles in Pakistan.

Source: Bloomberg, PSX & IGI Research

Indus Motors Company Limited (INDU)

INDU's profitability rose significantly by +21%YoY to PKR 200.7/share as impressive growth in volumes was seen. Moreover, better sales mix leading to improved margins and sufficient cash buffer in investments lifted profitability. However, INDUs earnings for 1QFY19 witnessed meek performance with earnings inching down by 3%YoY to PKR 44.6/share as gross margin dwindled. With respect to stock performance, the stock underperformed by 29%YoY against the benchmark index, KSE-100 as exchange rate volatility and unsupportive policy measure (ban on non-filer) triggered bearish stance

i) Slowdown in sales but new launch in the offing – Although the impact of ban on non-filers is yet to be translated, sales number for the past 4MFY19 shows growth of +8%YoY to 21.9k units. This is indicative of the healthy growth (11%YoY) of company's flagship product, Corolla maintaining it 80% share in sales mix. In high margin segment, sales have normalized as Hilux showcased stagnant sales with Fortuner witnessing negative growth of 23%. A kick-back in sales amid ban imposed and rising interest rate environment will keep growth on the hook with utilization level reaching 80%. While this may pose a risk to the company's profitability, new product launches such as Corolla (expected in late 2019) serves an upside in the medium term supported by strong consumer base. However, with foreign entrants approaching, this poses challenge for the company in keeping its sales upbeat.

ii) Pricing power resisting margin compression to a limited extent – With the recent PKR depreciation (40%) and the prevailing uncertainty, we expect company's margins to remain sensitive over the upcoming years. However, since INDU enjoys high pricing power coupled with strong brand value (Corolla being the flagship model), it may pass-over the impact to the customers. But, with the price wars stemming from increased competition (2020 onwards) it would be tough for the company to keep its pricing power strong. Nevertheless, we expect gross margins to remain under pressure.

iii) Capacity expansions on the cards – The company is planning to undergo capex of PKR 3.3bn (42/share) to enhance its capacity further to 76k units. As per the management, the investment is planned to be made in various production areas to debottleneck and improve productivity which will yield benefits during the FY20-21. To recall, the company recently expanded its capacity to 65k units which became operationalized during the period, 3QFY18. The recent expansion initiative will strive to keep company's production capacity in pace with new offerings on the portfolio amid competition seeping in.

Recommendation

We value INDU stock on a Discounted Cash Flow model assuming cost of equity at 16.7%, and a growth rate ~3%, giving a Dec-19 target price of PKR 1,485.3/share (26% upside). The company is currently trading at FY19E P/E of 7.2x and offers dividend yield of 9.7%.

Under-weight

Steel

Losing strength amid weak outlook

We have a 'Underweight' stance on steel sector in 2019, wherein bleakish a demand outlook amid deteriorating macro fundamentals, limited sector pricing power while high borrowing costs are likely to keep sector net margins rather tricky.

Key Theme

i) We estimate sector to register +18% earnings growth on average for 2018-2021

ii) Demand is likely to stay suppressed in FY19 owing to decline in public sector led projects

iii) However, we think much of the growth expectation has already been incorporated in current price. With that our coverage companies provide subpar dividend yield and trades at above market multiple.

Slowdown in demand amid deteriorating macros

While limited fiscal space amid a bailout situation has already put the PSDP allocation on the back seat, making infrastructure steel consumption a bit wary, mounting inflation and rising interest rates are expected to further curtail household consumption. Likely so, we expect a flattish demand situation

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
ISL	107	63%	BUY	7.0	10.0	9.0	11.1	1.0	4.5	2.0	2.3	6.5	7.3	5.9	6.9	3.0	3.4
ASTL	55	15%	BUY	3.6	5.3	5.1	6.8	2.0	2.0	2.0	2.8	8.9	9.4	7.0	4.2	4.2	5.8
Steel		**47%**										**7.2**	**7.9**	**6.3**	**6.0**	**3.4**	**4.2**

Weak PKR, flattish demand and fierce competition to limit pricing power

Relying extensively on imported raw materials, the sector is highly susceptible to volatilities in the exchange rate. With PKR having already lost substantial ground against the greenback and awaiting further brunt in the coming months, the cost of production is becoming inevitably high. Additionally, given a flattish demand outlook and a fierce competition from smuggled products in such a situation, the pricing power of the sector becomes quite limited, thus resulting in deteriorating margins in the upcoming year.

Leveraged balance sheet amid weakening PKR and rising interest rates to hamper profitability

Similar to cement sector, the steel sector has also been undergoing an expansion phase, wherein players including ASTL, MUGHAL, ISL and ASL are all major participants. With notable amount of debt borrowing obtained to fuel its expansion plans and given a rising interest rate scenario, cost of borrowing is to rise substantially, resulting in disturbed net margins.

PM's New Pakistan Housing Scheme and Dam construction initiatives

Despite facing stiff economic challenges, the newly elected government boasts some immensely ambitious economic reforms and a massive human development program which includes provision of housing units and resolution of an imminent water crisis. Stated to begin in Jan-19, the PM's New Pakistan Housing Scheme and construction of Mohmand Dam, can add tremendous stimulus to both cement and steel sector. Though we have not made it a part of our assessment due to lack of adequate clarity on government's part, it can be a positive surprise if it is able to live up to its expectations

Recommendation
Dwindling demand, narrowing margins and high leveraged positions all discourage taking exposures in steel sector currently.

Key Risks:
The key downside risks to our rating and price target relates to;

i) Adverse volatility in international scrap and rebar prices.
ii) Unfavorable movements in PKR/USD exchange rate

Under-weight

Cements

Multiple risks on horizon to restrict sector performance

The cement sector has come across a rather precarious situation; wherein multiple risks have surfaced up in a simultaneous manner. Though most of the risks have been priced in by the market, there still remains room for generating alpha returns in selective stocks. Accordingly, we present an underweight stance on the sector in large, albeit hold a strong preference over LUCK and PIOC meanwhile.

Multiple risks overshadowing sector performance
During CY18, IGI Cement Sector continued to remain under pressure ascribed to multiple sector wide macro headwinds. Sector performance remained modest amidst substantial PKR devaluation, buoyant coal and FO prices globally and hike in gas prices, which by large kept gross margins on the softer side. This was coupled with rapid reversal of the monetary cycle (SBP Target Rate up by +74%YoY) resulting in uplifted borrowing costs which comes at a time when the sector is engaged in its third expansionary phase and has piled up a significant debt portfolio. Though overall cement dispatches during the period remained strong (11MFY18 total dispatches up by +9%YoY), deteriorating macro headwinds further shook investor confidence with respect to demand outlook in the near future.

Key Theme

i) Sector's profitability to fall on average by 2% for 2018-21.
ii) Macro headwinds to curtail domestic demand by 2% in FY19.
iii) Exports to rise amid a declining PKR and underutilization of fresh capacities; special preference to South players.

				EPS				DPS				P/E			Div. Yld		
SYM	Target Price	Upside (%)	Recom.	2017	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
ACPL	236	105%	BUY	22.1	32.0	16.4	24.7	13.5	8.0	3.5	7.5	3.6	7.0	4.7	6.9	3.0	6.5
CHCC	93	37%	BUY	11.1	12.1	15.2	14.0	4.5	5.0	3.3	3.0	5.6	4.5	4.9	7.3	4.8	4.4
DGKC	100	22%	BUY	18.2	20.2	6.9	9.3	7.5	4.3	1.5	2.0	4.1	11.9	8.8	5.2	1.8	2.4
FCCL	18	-11%	SELL	1.9	2.5	2.5	2.4	0.9	2.0	2.0	2.0	8.3	8.2	8.8	9.6	9.6	9.6
KOHC	150	78%	BUY	17.6	14.8	13.6	18.1	14.0	5.0	5.0	9.0	5.7	6.2	4.7	5.9	5.9	10.7
MLCF	45	8%	NEUTRAL	8.0	6.1	7.4	3.2	3.8	2.5	3.0	1.3	6.8	5.6	13.1	6.0	7.2	3.0
PIOC	66	54%	BUY	12.8	7.2	5.6	15.4	5.5	4.1	1.3	3.3	5.9	7.6	2.8	9.5	2.9	7.6
LUCK	597	31%	BUY	42.3	37.7	35.8	38.1	12.0	8.0	7.5	8.0	12.1	12.7	12.0	1.8	1.6	1.8
Cement		**32%**										**7.4**	**9.3**	**8.4**	**4.3**	**3.4**	**3.8**

Deteriorating macros to suppress domestic demand
Mounting inflation, rising finance cost and slowdown in government's infrastructural spending amid narrowing fiscal spending options are all expected to contribute towards a flattish domestic dispatches growth for FY19. Accordingly, we expect demand in North, representing ~80% of the total demand pull, to drop by 5%YoY, while South to display 15%YoY growth, taking total domestic demand down by 2%YoY.

Exhibit: Utilization levels are expected to drop given expansion plants are in the pipeline

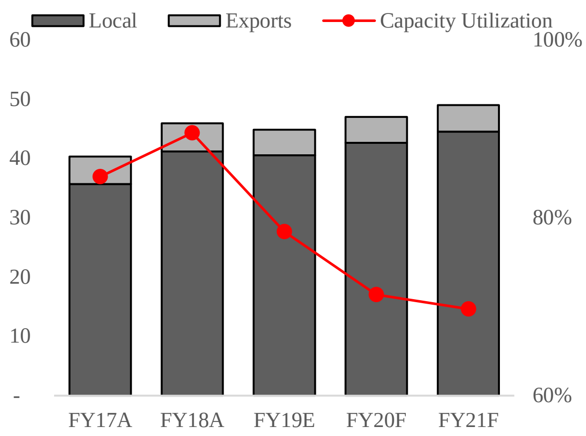
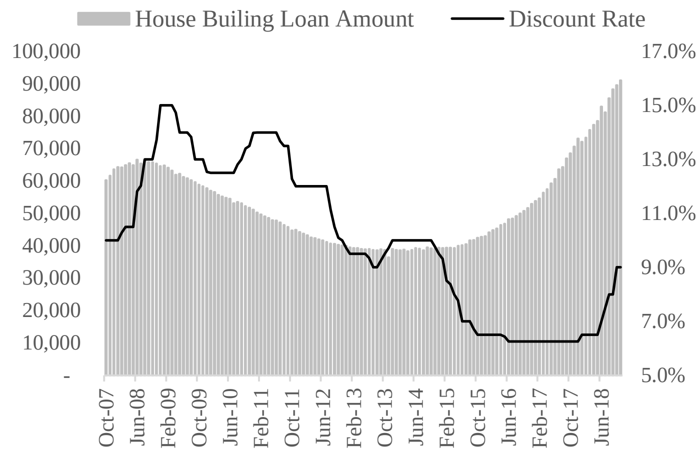


Exhibit: Rising interest rates are expected to slow down house building loans going forward



Exports to rise amid dwindling PKR and wobbly domestic demand
Provided a modest domestic demand outlook is expected in the near term and given fresh capacities are to gradually come online in the meanwhile and given further that PKR has depreciated substantially, exploitation of cements exports has become rather more attractive. Laying our focus on South players, especially LUCK and ACPL who maintain a strong international presence, we expect national cement exports to rise by ~30% during the current financial year.

Exhibit: Interest rates have risen in order to curb PKR devaluation, which has already hurt the cost structure

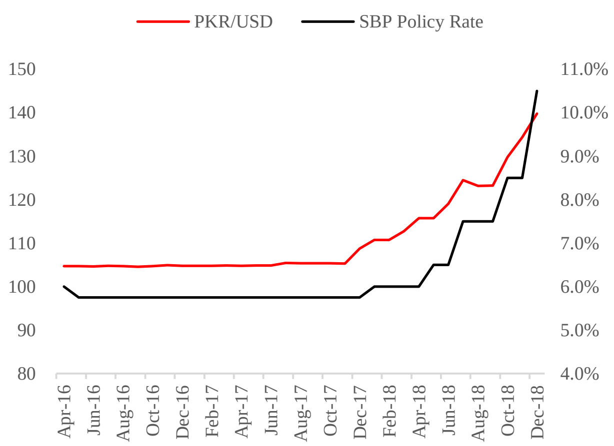
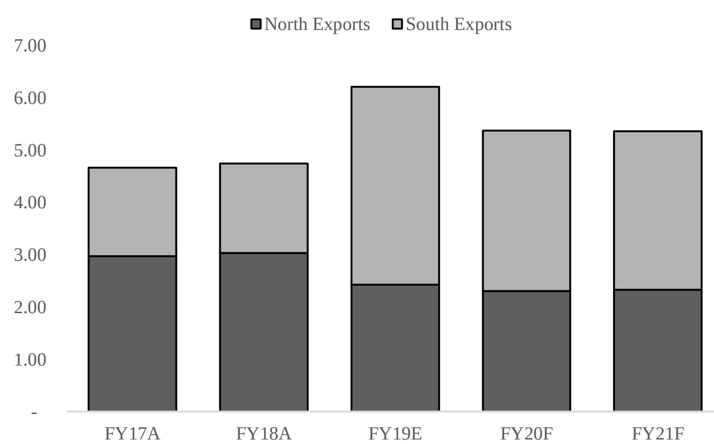


Exhibit: Weakened PKR and flattish local demand are expected to propel export dispatches, specially via south



Earnings Performance
With respect to earnings performance, we expect IGI cement coverage to display a 3Yrs cumulative earnings growth of -2%, which is largely due to substantial increase in depreciation charge, a notional cost. Alternatively, we divert our investor's focus towards EBITDA as a more accurate measure in such a situation, since it is free from notional costs and unbiased with respect to financing arrangements of the Company (however finance cost cannot be ignored completely in our scenario). In contrast to earnings display, the EBITDA growth

of all the Companies is quite healthy with PIOC, CHCC, KOHC and ACPL leading the charts, since their relatively large expansion sizes are expected to uplift their market share.

Recommendation

Though long term sector dynamics remain pretty strong, the emergence of short term macro headwinds and industry specific risks refrain us from encouraging an all-out buy for the sector. Alternatively, we present a selective stock picking strategy wherein we recommend LUCK and PIOC as our preferred picks.

Key Risks

The key downside risks to our rating and price target relate to;

iv) Adverse volatility in inflation and interest rates.

v) Unfavourable movements in PKR/USD exchange rate.

vi) Imposition of restrictive conditions by IMF on fiscal spending.

Recommendation	**BUY**
Target Price:	596.9
Last Closing: 28-Dec-18	455.6
Upside:	31.0
Valuation Methodology:	
	Discounted Cash Flow (DCF)
Time Horizon:	Dec-19

Market Data	
Bloomberg Tkr.	LUCK PA
Shares (mn)	323.4
Free Float Shares (mn)	129.4
Free Float Shares (%)	40.0%
Market Cap (PKRbn | USDmn)	147.3 | 1,053.5
Exchange	KSE ALL

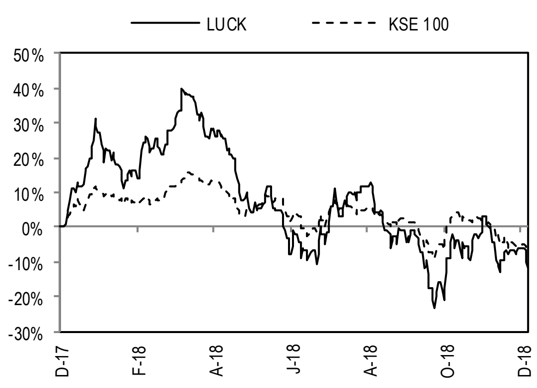
Price Info.	90D	06M	12M
Abs. Return	(11.2)	(11.0)	(12.0)
Lo	395.9	395.9	395.9
Hi	532.4	583.7	723.2

Key Company Financials

Period End: Jun

PKRbn	**FY18A**	**FY19E**	**FY20F**	**FY21F**
Total Revenue	47.5	52.3	56.5	63.6
Net Income	12.2	11.6	12.3	13.4
EPS (PKR)	37.7	35.8	38.1	41.4
DPS (PKR)	8.0	7.5	8.0	8.5
Total Assets	97	109	118	128
Total Equity	86	96	105	116
Key Financial Ratios				
ROE (%)	14.1	12.1	11.7	11.5
P/E (x)	12.1	12.7	12.0	11.0
P/B (x)	3.0	1.7	1.5	1.4
DY (%)	1.8	1.6	1.8	1.9

Relative Price Performance



About the Company

Lucky Cement Company Limited was incorporated in Pakistan on September 18, 1993. The Company manufactures and markets Cement. The Company has also issued GDRs which are listed and traded on the Professional Securities Market of the LSE.

Source: Bloomberg, PSX & IGI Research

Lucky Cement Limited (LUCK)

While the sector has come across a slowdown phase wherein a combination of weak macro-economic fundamentals and inflated cost structure has kept sector performance on check, LUCK's characteristics of being the lowest cost producer, having greater penetration in both local and domestic markets and maintaining unleveraged balance sheet has enabled it to keep overall sector stock performance at a fair distance. Going into CY19, we reiterate our preference for the stock based on strong fundamentals and quality of its earnings.

i) Zero debt and significant cash resources to anchor the way in turbulent times: Having a debt free position and a huge chunk of cash reserves when the entire industry has piled up a substantial debt level to finance its expansion activities is the luckiest position to be in. With zero debt and a cash balance of PKR 25bn when IGI cement coverage is having a D/E ratio of 47% (LUCK excluded), LUCK stands the tallest among its peers with respect to safety. Moreover, with such huge cash resources and a rising interest rate scenario, incremental other income is another unique advantage at LUCK's disposal.

ii) Presence in South and greater international marketability to provide better export position in a possible local demand hangover situation: Located in both North and South demand centres, LUCK is able to manoeuvre the best out of both the domestic and international markets according to changing demand patterns in the respective locations. Moreover, with intra group grinding capacities built in Iraq where exports of clinkers are encouraged (as against cements exports) and with considerably softer dumping duty structure on its products in African markets as against the rest, LUCK is to remain one of the dominant cement exporters of the country. With devalued PKR encouraging exports and concerns of hangover in domestic demand emerging, LUCK remains relatively safe as against other players.

iii) Brownfield expansion in North to sustain domestic market share: After failing to obtain necessary regulatory approvals to expand its operations in Punjab, which in turn threatened loss in North market share since approximately all North players have initiated their respective expansion plans, the Company eventually shifted its expansion plans back to Khyber Pakhtunkhwa. With credit lines established and civil works in progress, the Company aims to inaugurate the plant by Dec-19. The new plant is expected to sustain LUCK's market share post settlement of expansion phase.

iv) International projects generating desirable results: In addition to Pakistan, LUCK has also established cement manufacturing facilities in DR Congo and Islamic Republic of Iraq in order to reap benefits of the booming construction activities there. While operations in Congo have gradually become profitable, those of Iraq have been tremendously successful. Such has been the response that LUCK doubled its grinding capacity to 1.8mn tons in FY18 and has also initiated construction of clinker facilities due to come online by Dec-19.

Recommendation

We value LUCK on a discounted cash flow basis assuming cost of equity at 18.2%, giving a Dec-19E target price of PKR 596.9/share (31% upside). The company is currently trading at FY19E P/E of 12.7x and offers a dividend yield of 1.6%.

Recommendation			**BUY**
Target Price:			66.5
Last Closing:	28-Dec-18		43.0
Upside:			54.4
Valuation Methodology:			
			Discounted Cash Flow (DCF)
Time Horizon:			Dec-19

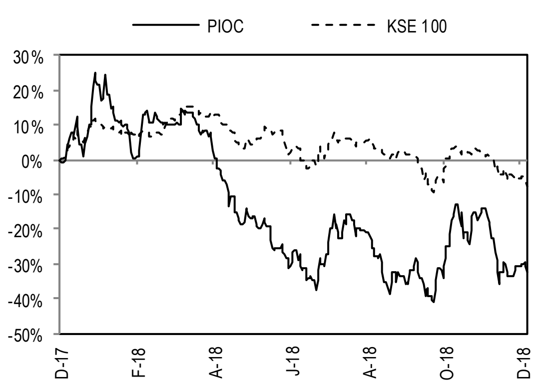
Market Data			
Bloomberg Tkr.			PIOC PA
Shares (mn)			227.1
Free Float Shares (mn)			124.9
Free Float Shares (%)			55.0%
Market Cap (PKRbn | USDmn)		9.8	69.9
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(1.0)	(7.7)	(32.3)
Lo	37.6	37.6	37.6
Hi	55.2	55.2	79.3

Key Company Financials

Period End: Jun

PKRbn	**FY18A**	**FY19E**	**FY20F**	**FY21F**
Total Revenue	10.1	10.9	12.9	21.5
Net Income	1.6	1.3	3.5	2.4
EPS (PKR)	7.2	5.6	15.4	10.4
DPS (PKR)	4.1	1.3	3.3	2.3
Total Assets	18	29	35	42
Total Equity	14	15	17	19
Key Financial Ratios				
ROE (%)	12.1	8.7	20.1	12.3
P/E (x)	5.9	7.6	2.8	4.1
P/B (x)	1.9	0.7	0.7	0.6
DY (%)	9.5	2.9	7.6	5.2

Relative Price Performance



About the Company

The Company was incorporated in Pakistan on February 09, 1986 as a public limited company. The principal activity of the Company is manufacture and sale of cement.

Source: Bloomberg, PSX & IGI Research

Pioneer Cement Limited (PIOC)

Compressed sector wide margins amid rising input costs and volatile domestic sales prices coupled with lower clinker dispatches and negative returns generated from equity based mutual fund's investments led to a massive 44%YoY earnings downfall for PIOC during FY18. Taking lead from earnings performance and given interest rates have been on the rise provided the Company is expected to pile up heavy debt in order to fuel its ambitious expansion plans, stock performance also remained quite depressing with the scrip underperforming the benchmark KSE-100 index by a substantial 23%YoY.

However, despite anticipating a bleakish sector outlook in the very short term based on weak macro-economic fundamentals and initiation of expansion ancillary costs, we expect a strong recovery by PIOC from FY19 onwards based on the following:

i) 2.5mn tons per annum expansion plant to come online by Dec-19 – To enhance market, share to 8% as against existing 4.5%: Envisioning a total expansion plan of PKR 26bn which includes both a 2.5mn tons per annum cement manufacturing plant and a 24MW coal power plant, PIOC has already incurred a total capex of PKR 15bn (58% of total cost) and is progressing smoothly towards its completion by mid of FY20. Contrary to other players of the industry whose expansions are expected to more or less maintain their existing market share post settlement of the expansion cycle, PIOC's expansion is expected to materially uplift its market share to >8% once the expansion phase settles out as against its existing share of 4.5% and propel a 5-years earnings CAGR of 15%.

ii) Expansion ancillary tax benefit to provide 3-fold increase in FY20F earnings – In addition to permanently enhancing its market share, the expansion facility is also expected to bring in substantial one-time tax credit worth PKR 8.30/share, taking total estimated earnings for FY20F to PKR 15.40/share, which is 2.7 x more than FY19E EPS of 5.63/shares.

iii) Investment in 24MW coal captive power plant to generate earnings upside of PKR ~4/share – In tandem with achieving an incremental market share, the 24MW coal power plant is also expected to generate considerable operational cost savings to PIOC. With coal being the cheapest non-renewable fuel in sourcing power, we expect the CPP to draw incremental earnings of PKR ~5/share/yrs. after successful commissioning during FY20.

iv) Earnings and EBITDA growth – With an uplifted market share and an efficient cost structure going forward, we expect PIOC to spearhead sector growth trajectory both with respect to dispatches and earnings growth. Accordingly, we expect PIOC to register a 3Yr earnings CAGR of 13% and a phenomenal 38% 3Yr EBITDA CAGR.

Recommendation

Currently trading at a FY19 Forward P/E of 7.6x and based on a Dec-19 based target price of PKR 66/share, the scrip offers a substantial 54% upside opportunity driven by a strong earnings and EBITDA growth.

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Valuation summary

SYM	Target Price	Upside (%)	Recom.	EPS 2017	EPS 2018	EPS 2019	EPS 2020	DPS 2017	DPS 2018	DPS 2019	DPS 2020	P/E 2018	P/E 2019	P/E 2020	Div. Yld 2018	Div. Yld 2019	Div. Yld 2020
INDU	1,485	26%	BUY	165.4	200.7	163.7	172.1	115.0	140.0	114.2	120.1	5.9	7.2	6.9	11.9	9.7	10.2
HCAR	194	13%	BUY	43.0	45.5	24.7	24.9	17.2	22.8	9.9	10.0	3.8	7.0	6.9	13.3	5.8	5.8
PSMC	201	15%	BUY	46.5	19.3	22.3	22.2	19.0	4.0	4.0	4.0	9.1	7.8	7.9	2.3	2.3	2.3
Autos		**22%**										**5.5**	**7.2**	**7.0**	**11.1**	**8.1**	**8.5**
ACPL	236	105%	BUY	22.1	32.0	16.4	24.7	13.5	8.0	3.5	7.5	3.6	7.0	4.7	6.9	3.0	6.5
CHCC	93	37%	BUY	11.1	12.1	15.2	14.0	4.5	5.0	3.3	3.0	5.6	4.5	4.9	7.3	4.8	4.4
DGKC	100	22%	BUY	18.2	20.2	6.9	9.3	7.5	4.3	1.5	2.0	4.1	11.9	8.8	5.2	1.8	2.4
FCCL	18	-11%	SELL	1.9	2.5	2.5	2.4	0.9	2.0	2.0	2.0	8.3	8.2	8.8	9.6	9.6	9.6
KOHC	150	78%	BUY	17.6	14.8	13.6	18.1	14.0	5.0	5.0	9.0	5.7	6.2	4.7	5.9	5.9	10.7
MLCF	45	8%	NEUTRAL	8.0	6.1	7.4	3.2	3.8	2.5	3.0	1.3	6.8	5.6	13.1	6.0	7.2	3.0
PIOC	66	54%	BUY	12.8	7.2	5.6	15.4	5.5	4.1	1.3	3.3	5.9	7.6	2.8	9.5	2.9	7.6
LUCK	597	31%	BUY	42.3	37.7	35.8	38.1	12.0	8.0	7.5	8.0	12.1	12.7	12.0	1.8	1.6	1.8
Cement		**32%**										**7.4**	**9.3**	**8.4**	**4.3**	**3.4**	**3.8**
HBL	159	33%	BUY	5.3	8.5	19.2	27.4	8.0	4.0	12.0	18.0	14.1	6.3	4.4	3.3	10.0	15.0
NBP	47	10%	NEUTRAL	10.8	13.4	(6.4)	17.5	-	-	-	7.0	3.2	(6.6)	2.4	-	-	16.4
MCB	209	10%	BUY	18.9	16.4	26.0	28.9	16.0	16.0	17.0	18.8	11.5	7.3	6.5	8.4	9.0	9.9
UBL	165	29%	BUY	20.8	10.5	21.7	27.2	13.0	10.0	10.8	13.5	12.2	5.9	4.7	7.8	8.4	10.5
ABL	104	-3%	NEUTRAL	11.1	12.5	16.1	18.9	7.0	6.8	10.5	12.3	8.6	6.6	5.7	6.3	9.8	11.5
BAFL	65	54%	BUY	4.7	6.3	7.8	9.7	1.0	2.0	2.8	3.5	6.7	5.4	4.4	4.7	6.5	8.3
BAHL	89	30%	BUY	7.8	6.6	11.4	13.3	3.0	3.3	5.7	6.6	10.4	6.0	5.1	4.8	8.3	9.7
FABL	27	10%	BUY	3.0	3.2	4.5	5.6	-	1.0	2.0	2.5	7.6	5.4	4.4	4.0	8.1	10.1
AKBL	33	37%	BUY	4.2	4.0	5.9	6.0	1.0	1.0	1.8	2.0	6.0	4.1	4.0	4.2	7.3	8.4
HMB	41	-8%	NEUTRAL	5.3	5.3	6.8	6.7	3.0	3.0	4.0	4.0	8.3	6.5	6.6	6.8	9.0	9.0
BOP	18	44%	BUY	(1.3)	2.1	4.1	5.0	-	-	-	-	5.9	3.0	2.5	-	-	-
Banks		**20%**										**8.4**	**7.2**	**4.5**	**5.4**	**7.8**	**11.1**
EFERT	80	15%	BUY	8.4	12.1	11.2	11.4	8.5	10.5	10.0	10.0	5.8	6.2	6.1	15.0	14.3	14.3
FFC	100	9%	NEUTRAL	8.4	9.8	11.1	11.2	7.0	7.5	10.0	10.0	9.4	8.3	8.2	8.1	10.9	10.9
FFBL	41	9%	NEUTRAL	1.1	1.0	1.2	1.4	0.9	0.8	1.0	1.1	37.9	30.3	27.3	2.1	2.7	2.9
FATIMA	38	3%	NEUTRAL	5.0	6.6	6.7	7.2	3.6	4.5	4.7	5.1	5.6	5.5	5.1	12.3	12.9	14.0
Fertilizer		**9%**										**7.4**	**7.3**	**7.0**	**10.5**	**11.5**	**11.7**
OGDC	189	48%	BUY	14.8	18.3	23.2	24.0	6.0	10.0	11.0	11.5	7.0	5.5	5.3	7.8	8.6	9.0
PPL	230	55%	BUY	15.7	20.1	25.2	27.4	9.0	5.5	10.0	11.0	7.3	5.9	5.4	3.7	6.8	7.4
POL	567	37%	BUY	34.1	40.1	61.7	61.4	40.0	42.5	60.0	60.0	10.4	6.7	6.8	10.2	14.4	14.4
MARI	1,921	54%	BUY	75.3	126.8	196.6	240.3	5.6	6.0	6.3	6.7	9.8	6.3	5.2	0.5	0.5	0.5
E&Ps		**50%**											**5.8**	**5.4**	**5.9**	**7.6**	**8.0**
PSO	311	36%	BUY	46.6	39.5	38.7	41.1	25.0	15.0	15.0	16.0	5.8	5.9	5.6	6.6	6.6	7.0
HASCOL	224	48%	BUY	7.7	10.3	10.4	11.3	7.0	6.0	8.0	9.0	14.6	14.5	13.4	4.0	5.3	6.0
APL	564	31%	BUY	53.2	56.8	57.7	63.4	43.0	40.0	40.0	45.0	7.6	7.5	6.8	9.3	9.3	10.5
SHEL	303	3%	NEUTRAL	29.7	24.1	21.2	23.6	24.0	19.5	17.1	19.1	12.2	13.9	12.5	6.6	5.8	6.5
OMC		**31%**										**7.5**	**7.6**	**7.1**	**6.8**	**6.9**	**7.5**
KAPCO	63	28%	BUY	10.7	12.1	12.0	14.8	9.5	9.2	9.5	11.0	4.1	4.1	3.3	18.5	19.2	22.2
HUBC	120	40%	BUY	9.2	9.6	10.6	16.5	7.5	7.4	6.0	12.0	9.0	8.1	5.2	8.6	7.0	14.0
NCPL	30	30%	BUY	8.2	9.3	9.2	10.4	2.5	1.5	5.0	7.0	2.5	2.5	2.2	6.6	21.9	30.6
Power		**36%**										**6.0**	**5.8**	**4.2**	**11.3**	**11.3**	**17.3**
NML	154	18%	BUY	12.1	11.7	14.4	16.7	5.0	4.8	6.0	7.0	11.2	9.0	7.8	3.6	4.6	5.4
NCL	56	10%	NEUTRAL	6.7	9.8	7.4	6.3	2.8	4.0	3.0	2.6	5.2	6.8	8.1	7.9	6.0	5.0
Textile		**16%**										**9.0**	**8.5**	**7.9**	**4.5**	**4.9**	**5.3**
EPCL	47	26%	BUY	2.3	5.3	5.2	5.2	1.3	2.5	2.0	2.5	7.0	7.2	7.2	6.7	5.3	6.7
DOL	33	12%	BUY	2.0	3.2	5.1	5.5	-	-	1.3	2.0	9.4	5.8	5.4	-	4.2	6.8
Chemical		**25%**											**7.0**	**7.0**	**6.1**	**5.2**	**6.7**
ISL	107	63%	BUY	7.0	10.0	9.0	11.1	1.0	4.5	2.0	2.3	6.5	7.3	5.9	6.9	3.0	3.4
ASTL	55	15%	BUY	3.6	5.3	5.1	6.8	2.0	2.0	2.0	2.8	8.9	9.4	7.0	4.2	4.2	5.8
Steel		**47%**										**7.2**	**7.9**	**6.3**	**6.0**	**3.4**	**4.2**

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Research Team			
Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales			
Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	**Abbottabad Office** Ground Floor, Al Fatah Shopping Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44
Peshawar Office 2nd Floor, The Mall Tower, 35 The Mall Saddar Cantt. Tel: (92-91) 5273035, 5223882	**Sialkot Office** Suite No. 10 & 11, 1st Floor, Soni Square, Mubarik Pura Tel: (+92-52) 3258028

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009