Friday, December 27, 2024

BMA CAPITAL

# PAKISTAN'S INVESTMENT STRATEGY 2025

## ANOTHER STELLAR YEAR ON OFFER

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## Executive Summary – Reforms trigger Equities rerating; KSE100 Index Target of 151,000 points

After a stellar 2024 for Pakistan Equities, which saw the KSE100 index post a return of 78% YoY (USD-based return of 79%) and becoming the second-best performing market globally, we believe the stage is set for another robust performance in 2025. Despite the index **crossing the symbolic 100k mark**, equity valuations remain cheap. We believe the rally is yet to encapsulate improving macroeconomic fundamentals, including major structural shifts to address Pakistan's long-standing issues. Given ample domestic liquidity, medium-term macroeconomic clarity, record corporate profitability, lucrative foreign investment pipelines, and the increasing importance of Pakistan in the geopolitical landscape, we think equities will remain the go-to investment for CY25.

Our target for the KSE100 index in **CY25 is 151,000 points**, with Pakistan equities **potentially offering a return of 38%.** This projection assumes a re-rating of the index to its 10-year **historical average multiple of 7.7x**, up from the current level of 5.6x. Energy stocks and cyclical companies will likely drive the index's next leg as they are likely to capitalize on the improving macroeconomic backdrop. Furthermore, we believe the KSE-100 Index has the **potential to double within three years** as a consistent policy setting will allow companies to leverage opportunities arising from Pakistan's rapidly growing young population.

**A larger IMF program with a longer horizon:** Pakistan entered a three-year USD 7.0bn EFF program, building upon the macroeconomic stability achieved during the SBA. The new IMF program targets the country's low tax-to-GDP ratio, addressing the tax inefficiencies in Pakistan's agriculture, retail, and real estate sectors. Moreover, the program also necessitated controlled external and fiscal imbalances, building a solid foundation for sustainable long-term growth. The effects of the structural decisions under the program have begun to materialize. The Pak Rupee and external account balances have stabilized, inflation has cooled, and fiscal accounts are within limits. We think the IMF will remain a necessary anchor to ensure that Pakistan's economy is on the path to long-term economic stability.

**Easing inflation leading to an expedited easing cycle:** With significant structural adjustments behind us, including the sharp rise in energy tariffs, monthly inflation figures have stabilized. Given the high inflation base, monthly CPI figures may fall below the 4% mark, a level last seen over six years ago in May 2018. This disinflationary trend allowed the State Bank of Pakistan (SBP) to aggressively reduce interest rates, cutting the policy rate by 900bps to 13%. With disinflation expected to persist, we anticipate monetary easing to extend well into 2025, making single-digit interest rates increasingly probable. Falling treasury yields will continue to unlock equity valuations and induce the flow of capital towards the Pakistan equities market.

# Another stellar year on offer as reforms trigger index rerating

**External stability back on the table:** A tight monetary and fiscal stance has kept a check on Pakistan's external account balances. Based on the available data, 6 out of the 10 months during the year have posted a current account surplus. Moreover, we estimate that **the entire calendar year will likely close in a surplus**, aided by controlled economic activity and rising remittances. The country, in turn, shored up its foreign exchange reserves from USD 4.4bn in June 2023 to USD 11.3bn in November 2024. External stability enabled the Pak Rupee to exhibit stability and hold its level for over a year. A stable Pak Rupee has instilled confidence amongst investors.

**Market flush with liquidity:** The post-IMF increase in market participation was evident through a surge in average daily traded value (ADTV). The ADTV for 2024 has averaged around USD 70mn, 3.5x higher than the six-month average ADTV before the IMF program. Moreover, recent market activity shot up considerably, with average ADTV hovering around the **USD 120mn mark in November 2024 and over USD 200mn in December 2024.** This trend was most evident with the **domestic market easily absorbing Vanguard's USD 150mn liquidation** without denting the market's rising trend.

**Promoting FDI via the SIFC:** Pakistan plans to leverage the Special Investment Facilitation Council (SIFC) to catalyze Foreign Direct Investment (FDI) into the country. SIFC's initial focus would be towards incentivizing investment in agriculture, mining, energy, and technology. The council aims to foster an investment-friendly environment to attract investments **exceeding USD 50.0 billion.** The main purpose of the SIFC is to reduce Pakistan's reliance on foreign loans to fund its economic growth. The formation of SIFC has been well-received with multi-billion-dollar investment MoUs being signed by Saudi Arabia, Kuwait, and the UAE.

**Privatization of SOEs to support fiscal balances:** Pakistan's government is actively advancing its privatization program under the IMF's umbrella. The initiative aims to restructure loss-making state-owned enterprises (SOEs) to prepare them for potential privatization. These SOEs impose a significant fiscal strain, with annual **losses of approximately 1.0% of GDP**. Over the past decade, cumulative losses have exceeded PKR 6.0tn, underscoring the urgency of reform. Moreover, the government plans to sell stakes in profitable entities to enhance revenue collection. Notably, PPL and OGDC have been short-listed for a potential government-to-government deal with Saudi Arabia.

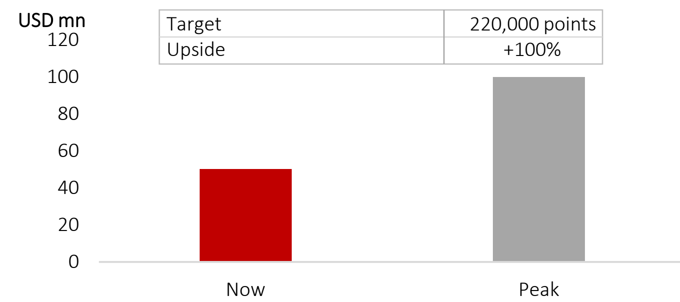
# Another stellar year on offer as reforms trigger index rerating

**Market capitalization considerably below peak levels in USD terms:** The PSX has rallied to a market capitalization of USD 50bn, yet the index has remained 50% below the peak levels seen in May 2017. The market capitalization of notable blue-chip stocks continues to trade at heavy discounts. Pakistan's largest company, OGDC (USD 3.3bn), **is 57% below peak**. Habib Bank (USD 825mn), Pakistan's largest bank by deposit base, is **81% below its peak valuation of USD 4.3bn.** Even Lucky Cement (USD 1.2bn), Pakistan's largest cement company, **trades at a 61% discount** to its peak valuation of USD 3.0bn. A rally to peak market capitalization of USD 100bn would **entail an index target of 220k points (Upside: 100%)**

**Trading at a 30% discount to historical averages:** Despite the recent rally that has taken the KSE100 index to record-high levels, Pakistan equities continue to offer attractive valuations. The BMA universe trades at a CY24 PE of 5.6x, a 30% discount to the 10-year average PE multiple of 7.7x for the KSE100 index. Additionally, comparing current market multiples to FY14-18 levels, we see **the KSE100 index trades at a discount of 42%.** Reversion to the 10-year average multiple would **entail an index target of 151k points (+38% upside**). Moreover, a reversion to the FY14-18 market multiples would **entail an index target of 190k points (+73%).**

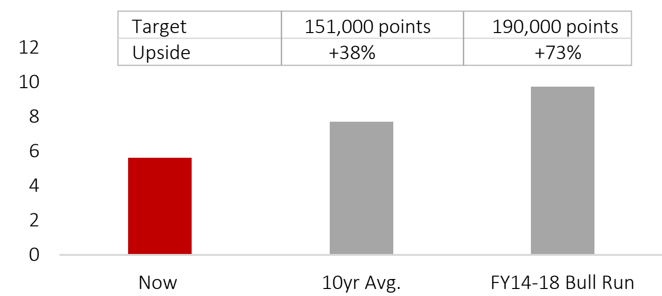
**High discounts to regional peers persist:** The KSE100 index trades at a 45% discount to the MSCI FM index. During the FY14-18 bull run, the discount averaged around 18%. At its peak, the KSE100 index **traded at a 10% premium** to the MSCI FM index. A reversion to the discounts seen during the FY14-18 run would **entail an indicative target of 162k points (upside: 47%).**

### Recovery in Market Capitalization



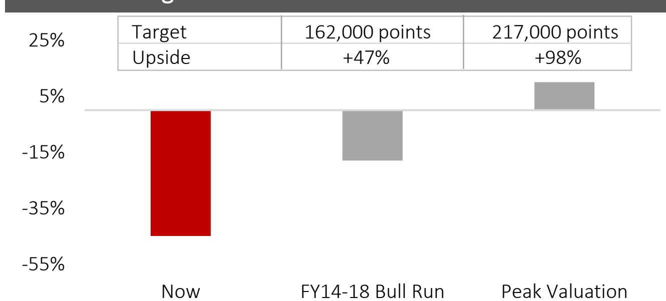

*Source: PSX, Bloomberg, BMA Research*

### Recovery in Market Multiples




*Source: PSX, Bloomberg, BMA Research*

### Decline in Regional Discounts



**Cyclical Stocks and Energy plays to lead 2025:** We believe cyclical stocks and energy plays will drive the index's rally in 2025. Cyclical stocks will likely benefit from falling interest rates and rising economic activity, allowing the sector to improve its sales outlook and profitability. Energy stocks will likely benefit from structural adjustments, particularly the sharp increase in domestic gas prices. Higher collection rates will allow the energy industry to revive its production growth trajectory through increased exploration activity. Moreover, as the federal fiscal space improves, we think the government may have the capacity to clear the stuck circular debt of the energy chain, allowing for large one-off cash payouts.

| Stock | Sector | Price (PkR/sh) | Target (PkR/sh) | Upside (%) | Yield (%) | TSR (%) | Reasoning |
|---|---|---|---|---|---|---|---|
| **THCCL** | Cement | 208 | **396** | 90 | 1 | **91** | THCCL's focus on electricity independence will enable the company to become a cost leader in the cement industry. Its venture into the tractor business will add further upside to our valuations. |
| **LUCK** | Cement | 1,116 | **1,822** | 63 | 2 | **65** | LUCK's focus on production efficiencies allows the company to benefit from one of the highest margins in the industry. Moreover, the company has diversified its revenue stream into various industry, including energy and automobile. |
| **ISL** | Steel | 86 | **135** | 56 | 8 | **64** | ISL is set to benefit from the recovery in the demand for appliances and construction. The monetary easing cycle will further benefit the company by inducing consumer financing-led sales. |
| **LCI** | Chemical | 1,079 | **1,654** | 53 | 7 | **60** | LCI offers a diversified portfolio, providing exposure in the polyester, soda ash and pharmaceuticals. Its pharmaceutical industry is expected to benefit from the recent price hikes. Moreover, the soda ash segment may saw higher demand from the glass industry as construction activity recovers. |
| **MLCF** | Cement | 45 | **71** | 58 | 0 | **58** | MLCF's focus on production efficiencies through the use of PET coke allows the company to benefit from robust margins. Revenue diversification through entering the healthcare industry will further benefit valuations. |
| **DOL** | Chemical | 26 | **37** | 43 | 8 | **51** | The anticipated implementation of WACOG will support DOL's margins through a reduction in gas prices. Moreover, the company is working in identifying new export markets to support its topline growth. |
| **SAZEW** | Automobile | 1,120 | **1,608** | 44 | 3 | **47** | SAZEW has benefitted from a favorable duty structure, allowing the company to benefit from the highest gross margins in the industry. Its offering is also well received, allowing the company to grow in a competitive environment. |
| **FCCL** | Cement | 37 | **50** | 35 | 5 | **40** | FCCL's expansion and focus on production efficiency will enable it to offer the highest growth within the cement industry. The company is set to benefit from the expected reversal in the interest rate cycle because of its leveraged balance sheet. |
| **MUGHAL** | Steel | 77 | **108** | 40 | 0 | **40** | MUGHAL is set to benefit from the anticipated recovery in construction activity. Moreover, the easing interest rate cycle will reduce the debt-servicing burden for the company's heavily leveraged balance sheet. |
| **FFC** | Fertilizer | 384 | **491** | 28 | 12 | **40** | FFC will benefit from strong pricing power in 2025 after its amalgamation with FFBL. Moreover, the company's plan to purchase AGL will further improve its market share. |
| **OGDC** | Energy | 230 | **285** | 24 | 7 | **31** | OGDC is set to benefit from the recent hike in gas prices, enabling a healthy improvement in its cash collection. Moreover, potential cash injection to clear circular debt arrears may result in large one-off dividends. |
| **PPL** | Energy | 200 | **245** | 22 | 5 | **27** | PPL is expected to benefit from the hike in gas prices, resulting in sharp improvements in its cash collection. |

# PSX one of the best-performing asset classes globally in 2024

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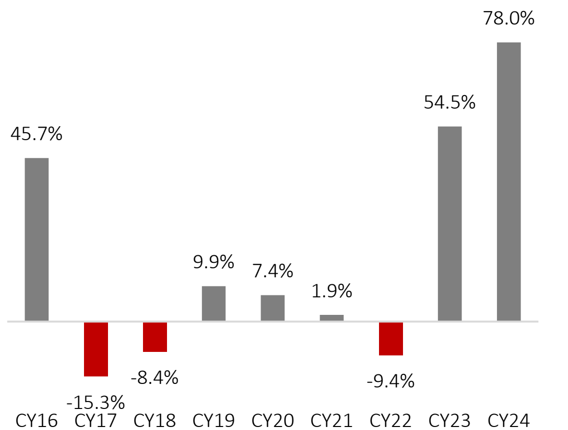
The PSX outperforms other asset classes: The PSX witnessed another stellar year, outperforming most other asset classes. Its return of 78% comfortably eclipsed fixed income securities, global commodities and most other indices. In 2024, the **PSX was the second-best performing equities index globally**, only behind Argentina. The PSX's market capitalization also **crossed the USD 50bn mark** from lows of USD 21bn in CY23. Yet, the equities market remains **50% below its peak capitalization of USD 100bn in 2017.**

KSE100 Annual Returns

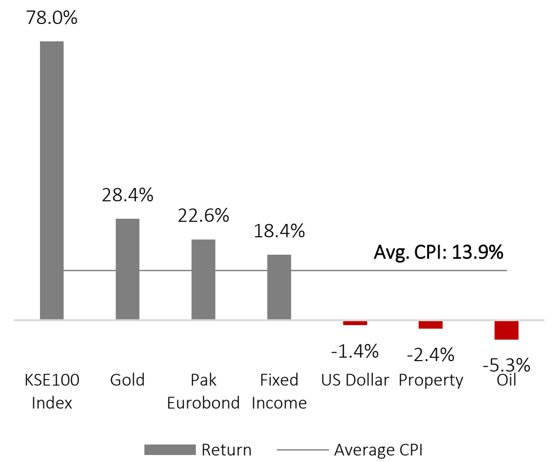



*Source: PSX, BMA Research*

*The KSE100 index returned 78% in CY24TD as against a return of 54.5% in CY23. The equities market was able to secure two consecutive years of robust returns because of a stabilizing macroeconomic backdrop.*

*We believe the market is catching up and will continue converging towards its fair value.*

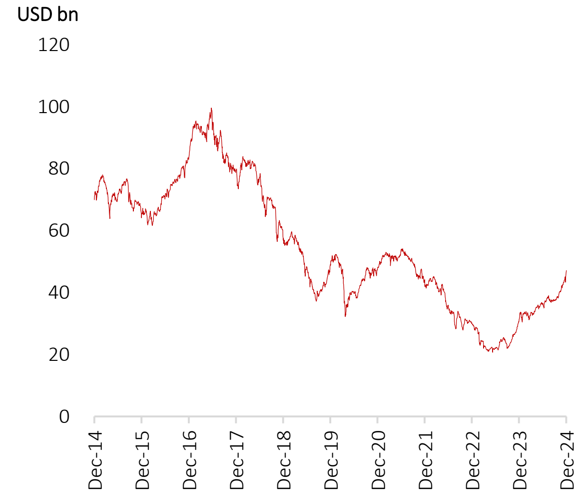
KSE100 return comparison




*Source: PSX, Bloomberg, BMA Research*

*The KSE100 index was one of the best-performing investments during CY24 with a USD-based return of 78%. Pakistan equities comfortably outpaced inflation, marking its second-consecutive year in which the KSE100 index returns outpaced both inflation and fixed-income securities. Notably, the **PSX was the second-best performing market in 2024.***

PSX Market Capitalization (USD bn)



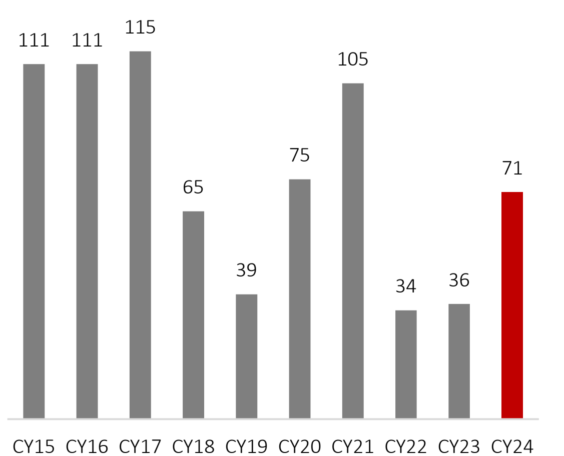

*Source: PSX, Bloomberg, BMA Research*

*The PSX's market capitalization presently stands at USD 50bn, recovering from lows of USD 21bn during the CY23. Despite the rally, the index trades at a 50% discount to its peak capitalization of USD 100bn back in CY17.*

# Foreign investor participation rising

**Sharp increase in market activity:** The PSX also saw a healthy increase in investor participation during 2024. Most notably, the ADTV doubled to USD 71mn during the year. Moreover, in December 2024, the ADTV averaged around USD 200mn. Even foreign investor participation saw **an increase as gross activity doubled to USD 4.0bn.** Mutual funds and insurance companies were the largest net purchasers of equities, building positions to capitalize on falling interest yields.

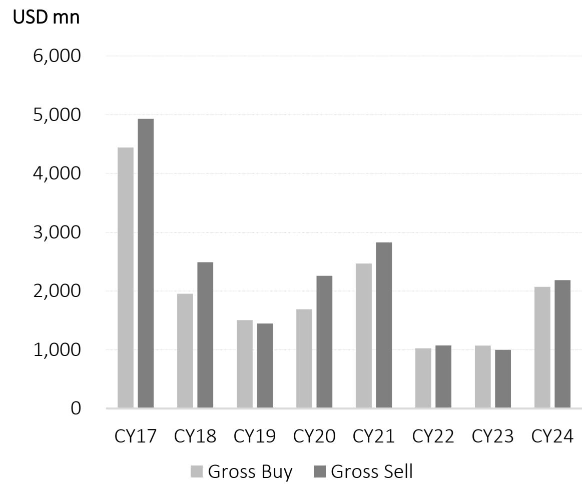
**Value Traded – Daily Average (USD mn)**




*Source: PSX, BMA Research*

*The average daily traded value (ADTV) nearly doubled to USD 71mn in CY24 compared to USD 36mn witnessed during CY23. Notably, December 2024's ADTV has surged to USD 210mn, signifying a sharp increase in investor participation.*

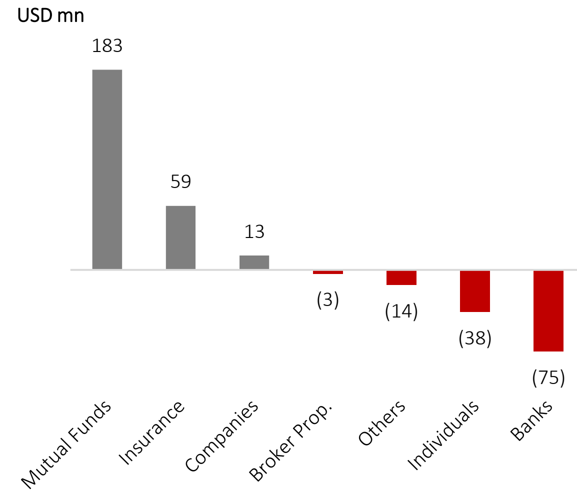
**Gross Foreign Participation**




*Source: NCCPL, BMA Research*

*Gross foreign participation is also on a considerable rise, nearly doubling to over* ***USD 4.0bn in CY24****. Foreign investors turned net sellers during CY24, offloading positions over USD 100mn. The sell-off, however, stemmed from Vanguard's liquidation of its USD 150mn portfolio after Pakistan's downgrade.*

**Local Participation (CY24)**



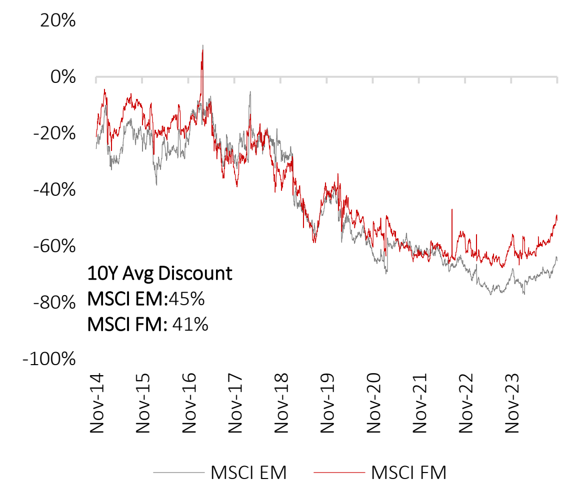

*Source: NCCPL, BMA Research*

*Mutual Funds turned net buyers in CY24, with net purchases of USD 183mn. Mutual Funds were largely compelled to build positions because of accelerated conversions from fixed-income securities to equities. Insurance companies also built positions of USD 59mn during the year.*

# Undemanding valuation despite rally

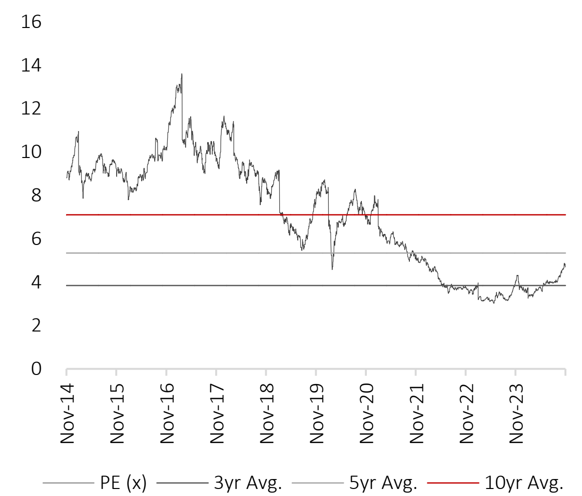
**Valuations still cheap:** Despite the index's rally, market valuations remain considerably below historical averages. The current market PE of 5.6x stands around 27% below its 10-year average. Moreover, the index stands at a 42% discount to market multiples seen during the FY14-18 economic bull cycle.

KSE100 Discount to MSCI EM & FM



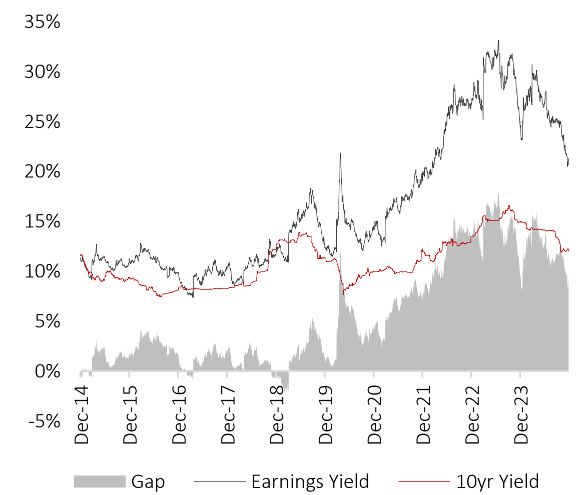

*Source: Bloomberg, BMA Research*

KSE100 PE Multiples Trend




*Source: PSX, Bloomberg, BMA Research*

Earnings Yield vs. Bond Yield




*Source: PSX, Bloomberg, BMA Research*

*Our BMA universe trades at a 51% discount to the MSCI FM index and a 65% discount to the MSCI FM index. These discounts averaged 41% for the FM index and 45% for the EM index, suggesting ample room for a potential re-rating. A potential rerating to FY14-18 levels would **imply an index of 162,000 points.***

*Over the past 18 months, the KSE100 index has rerated from lows of 3.0x to **around 5.6x**. Despite the rally, the index remains 27% below its 10-year historical average of 7.7x. A potential revaluation to its historical average would imply an **index level of 151,000 points.***

*During the previous bull cycle between FY14 and FY18, the KSE100 index **averaged a PE multiple of 9.7x, implying a potential index level of 190,000 points.***

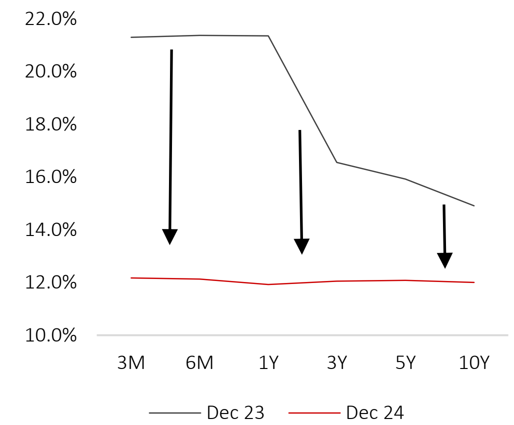
*Despite the index's rally, the KSE100 index's earnings yield is at a 9.3pps premium to the 10-year treasury yield. During the index's bull cycle, the earnings yield premium averaged around 1.6pps.*

*A potential re-rerating to historical averages would **suggest index levels of 156,000 points***

# 1. The Monetary Easing Cycle

Macroeconomic indicators point towards the continuance of the monetary easing cycle in 2025, driven by the disinflationary trend. Based on our estimates, CPI inflation is projected to average around 7% for 1HCY25, implying real interest rates of 6%. We **project the policy rate to reach 12% by June 2025,** given that the SBP has ample room on the domestic and external front. The continuous monetary easing cycle has wide-reaching implications for Pakistan's equities market and the economy.

Secondary Market Yields




*Source: SBP, BMA Research*

## Potential Implications of the Easing Cycle

a) **Further shift in the investment portfolio mix:** Falling interest rates have usually incentivized investments into equities. The equity mix of mutual funds hovered around 40% at the previous low-interest-rate cycle, compared to 9% currently. Moreover, the equity mix of privately owned insurance companies was also significantly higher at 33% compared to 9% currently. While Mutual Funds and Insurance companies were the largest buyers in 2024, building net positions of USD 180mn and USD 53mn, respectively, we think the trend will continue as treasury yields decline.

b) **Catalyst for Economic Activity and High Demand**: A monetary easing cycle is generally a precursor to heightened economic activity. Cyclical sectors are seen benefitting from higher economic activity through an increase in demand. Industries expected to benefit include cement, steel, oil & gas marketing, automobiles, and FMCGs. **The cement and steel industry benefits from the resumption of construction activity**. The automobile industry sees heightened demand **emanating from automobile financing**. OMCs witness higher demand from the transportation sector as economic activity picks pace while FMCGs see a general rise in demand.

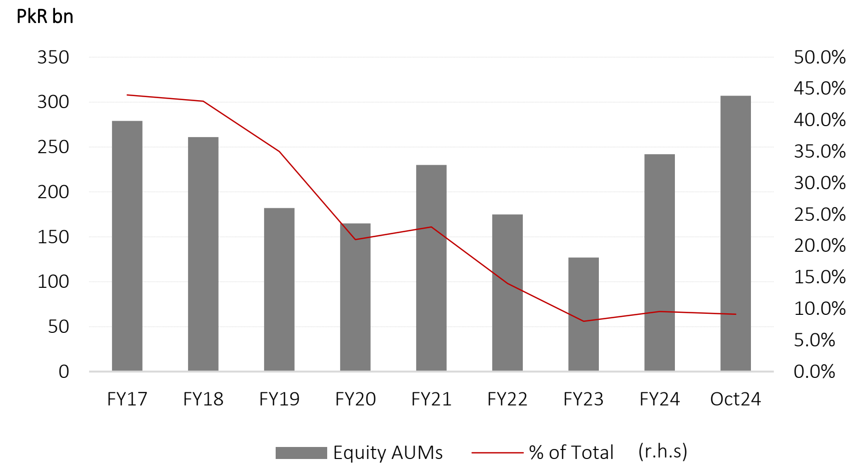
c) **The creation of fiscal space:** Mark-up servicing has made a major dent in the government's fiscal space, eating into nearly 100% of the net federal revenue. This, in turn, has compelled the government to shelve many developmental projects because of a lack of funding. The reduction in interest rates would reduce the government's debt servicing cost with every 1pps decline likely **generating savings of PkR 250-300bn annually**. For 2025, the central bank estimates savings of **around PkR 1.3tn (or 1.2% of GDP)** because of declining rates.

# 2. Asset transition towards equities will accelerate

**Mutual funds turned net buyers:** Mutual Funds turned net buyers in Pakistan equities during the calendar year. Most notably, the sector accumulated positions of around **USD 217mn** since the start of the fiscal year, driven by conversions for fixed income securities to equities. We anticipate this trend to continue as secondary yields fall further.

**Insurance companies yet to fully enter the market:** The equity AUMs of the insurance companies have also remained low at 9.0% of assets compared to a peak level of around 14% witnessed back in CY18. Notably, the equity AUMs of the **privately owned insurance companies also stand at around 9.0% of total assets, down from 32% in CY18**. As treasury yields fall, insurance companies may continue shifting their assets towards equities to maximize portfolio returns. We have conducted a sensitivity in which we assessed that a 1% shift would induce flows of **around PkR 63bn (USD 225mn) towards equities (or 100% of the recent ADTV).**

Mutual Funds Equity AUMs



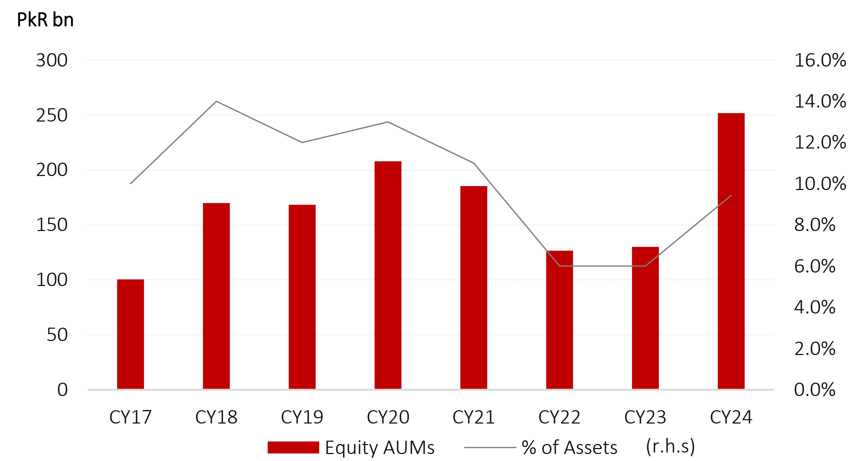

*Source: Fund Reports, BMA Research*

Sensitivity of Asset Reallocation towards Equities

| | AUMs | Equity | Equity | Sensitivity to Asset Reallocation | | | | |
|---|---|---|---|---|---|---|---|---|
| | PkR bn | PkR bn | % | +1% | +2% | +3% | +4% | +5% |
| Mutual Funds | 3,500 | 307 | 9% | 35 | 70 | 105 | 140 | 175 |
| Insurance | 2,800 | 251 | 9% | 28 | 56 | 84 | 112 | 140 |
| | | Net Equity Flow (PkR bn) | | 63 | 126 | 189 | 252 | 315 |

*Source: Fund Reports, Company Accounts, BMA Research*

Insurance Companies Equity AUMs




*Source: Fund Reports, Company Accounts, BMA Research*

# 3. Improving Pakistan's Energy Chain Dynamics

Pakistan's energy chain has usually been the country's Achilles heel with notable chronic issues spanning decades. The IMF program has always prioritized addressing the sector's core issues, including its inefficient infrastructure, ineffective pricing mechanisms, lucrative guaranteed ROEs, and high reliance on subsidies. These inefficiencies have caused a major cash crunch for the entire energy chain, resulting in circular debt.

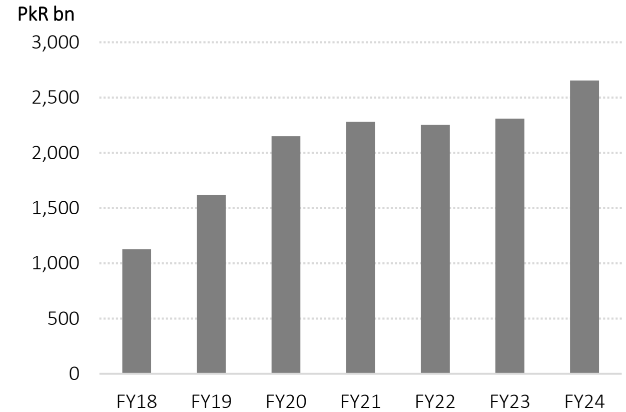
**Issues largely addressed:** Under the IMF program, the government took major steps to alleviate the sector's problems. The energy tariffs were raised considerably to improve the revenue collection of the chain, reducing its reliance on subsidies. Most notably, the sharp rise in gas tariffs improved the collection rate of Sui Utilities in their most recent quarter. This effect trickled down to the upstream industry and improved its **cash-collection rate to over 100% in its most recent quarter.** This trend is anticipated to continue over the coming quarter given the enhanced flexibility of the new pricing mechanism.

Moreover, a long-term plan has been devised to **upgrade the country's network infrastructure to reduce line losses**. Presently, the country's transmission and distribution (T&D) losses stood at 18.3%, higher than the allowed 11.8% set by NEPRA. Companies dealing in the manufacture of infrastructural equipment will benefit (discussed below).

## Potential stocks to look out for

- **Energy companies:** As highlighted, Pakistan's energy companies will benefit from an improved cash-collection rate, likely resulting in increased cash payouts by the industry. **Our top picks for this theme include OGDC (Target: PkR 285/sh), PPL (PkR 245/sh), PSO (PkR 535/sh), and SNGP (Target: PkR 154/sh).**
- **Electricity infrastructure equipment manufacturers:** The government plans to upgrade the electricity infrastructure to reduce inefficiencies. We think several stocks may benefit from network upgrades including **PAEL (current price: PkR 40.6/sh)** (transformers), **PCAL (current price: PkR 154.2/sh)** (transmission cables), and **EMCO (current price: PkR 33.1/sh)** (ceramic insulators). **CSAP (current price: PkR 106.3/sh)** may see higher sales as gas utility companies would have cash to expand their network.

Gas-based Circular Debt




*Source: OGRA, BMA Research*

# 4. Fixing the tax discrepancies

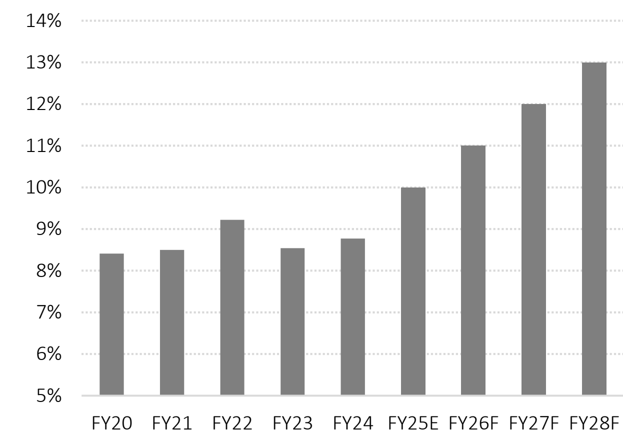
Under the IMF's EFF, Pakistan is responsible for enhancing its tax collection to **13% of GDP** over the program's 37-month duration. The program's MO would require increasing the tax base and **eventually loosening the nooses around the high-taxed documented** sector, including large corporates and the salaried class.

**Tax exemptions crossing PkR 4.0tn in FY24**: Potential tax exemptions likely crossed the PkR 4.0tn mark (4.0% of GDP) in FY24. The bulk of the exemptions originated from the sales tax exemption on Petroleum Products (~30% of the total). Talks of reinstating the sales tax on the petroleum sector have begun making rounds to resolve the issues refineries face. Based on our estimates, 18% GST on MS and HSD will enhance tax collection by PkR 850bn (0.8% of GDP). The IMF also wants the government to phase out incentives under SEZs to promote a level playing field and improve tax collection.

**Retail and Agriculture sector targeted**: The government plans to fix the discrepancies between taxes on the corporate sector and the retail/agriculture sector. For FY24, withholding tax collected from retailers stood at PkR 17bn, and tax collected from the agriculture sector stood at PkR 8.0bn. As of Jan 01, 2025, the provinces will enhance the taxation levies to 45% on the agriculture segment (against 15% currently), **targeting the collection of PkR 300bn**. The World Bank estimates that the agri-segment has the potential for collecting PkR 1.3tn (1.2% of GDP) if the levies are enforced effectively. Moreover, the finance minister ensured that the country would reinforce the taxes on retailers under the Tajir Dost Scheme, bringing 3.3mn retailers under the scheme and **targeting collection of PkR 300-400bn.** This figure may increase to **over PkR 1.0tn (0.9% of GDP)** if enforced.

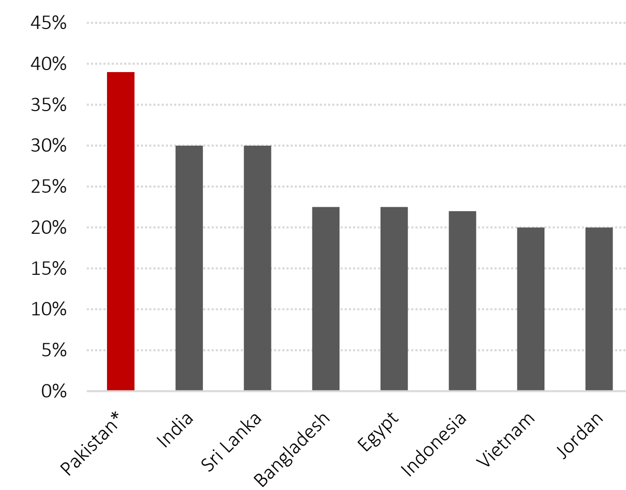
**Potential relief to squeezed segments**: We think increased diversification of the taxation base may allow the government to provide relief to the corporate sector and the salaried class. We believe the government may do away with **the 10% super tax** once other revenue sources are streamlined. Moreover, a lower corporate taxation structure may be necessary to induce new investments without the existing incentive structure (particularly after the abolishment of SEZs). Currently, **Banking and Energy companies record the highest effective tax rates** and may see some relief with a diversified taxation base.

**Pakistan Tax to GDP ratio (%)**




*Source: FBR, BMA Research*

**Corporate Taxation Structure by Country**




*Source: BMA Research*
** Includes 10% super tax*

# 5. MSCI Advance FM index may be the next step

Pakistan equities' stellar performance over the past few weeks significantly increased its weight in the MSCI FM index. During the previous MSCI review, Pakistan's free-float-based market capitalization stood at USD 5,873mn. This figure has now **increased by 25% to USD 7,326mn**. Moreover, the country's weight in the MSCI FM index rose by **over 150bps to 6.0%.** In addition, the market liquidity has witnessed a sharp rise over the past few weeks. At the previous MSCI review, Pakistan's six-month ADTV was USD 70mn. Since November 2024, the ADTV rose to over USD 150mn, averaging around USD 210mn in December 2024.

**Pakistan's capitalization still be too low for EM markets:** Entry to the MSCI EM index requires 3 companies with **market capitalization exceeding USD 2.55bn** and **free-float capitalization exceeding USD 1.27bn**. Presently, only two companies (OGDC & MARI) meet the market capitalization threshold, and no companies meet the free-float threshold.

**Could Advance FM status be in Pakistan's future:** The MSCI is gathering feedback for the potential development of an **"Advanced Frontier Markets"** category by 2QCY25. The category will be for countries exhibiting higher levels of market accessibility than other FM countries.

**Pakistan meets all the mandatory conditions:** Pakistani Markets face no issues on the Market Accessibility criteria. Moreover, Pakistan also faces no concerns related to capital flows. Pakistan, however, is currently not under consideration for the Advance FM status because of issues related with Clearing and Settlement, Market Regulations, and FX market liberalization. In Pakistan, the clearing and settlement process is done on a t+2 basis while countries up for Advance FM consultation offer more frequent clearances.

**Issues with Pakistan's Market for Advance FM status**

| Category | Status |
|---|---|
| Clearing and Settlement | Improvements Needed |
| Market Regulations | Improvements Possible |
| Investor Registration | Improvements Possible |
| FX Market Liberalization | Improvements Possible |

*Source: MSCI, BMA Research*

**MSCI Pakistan Performance**

| Stock | FIF-based Cap (USD mn) | | % |
|---|---|---|---|
| | 6-Nov-24 | 24-Dec-24 | Δ |
| FFC | 521 | 686 | 32% |
| UBL | 562 | 640 | 14% |
| MARI | 358 | 610 | 70% |
| OGDC | 391 | 513 | 31% |
| HUBC | 405 | 495 | 22% |
| LUCK | 416 | 476 | 14% |
| ENGRO | 303 | 417 | 38% |
| PPL | 288 | 404 | 40% |
| MCB | 366 | 399 | 9% |
| EFERT | 376 | 387 | 3% |
| BAHL | 300 | 358 | 19% |
| HBL | 275 | 337 | 23% |
| PSO | 182 | 332 | 83% |
| SYS | 292 | 325 | 11% |
| MTL | 239 | 258 | 8% |
| POL | 207 | 230 | 11% |
| BAFL | 152 | 184 | 21% |
| SNGP | 85 | 111 | 31% |
| NBP | 91 | 92 | 1% |
| ILP | 65 | 72 | 10% |
| | 5,873 | 7,326 | 25% |

*Source: PSX, MSCI, BMA Research*

*"An increase in MSCI Pakistan's weight benefits companies with higher free-float based market capitalization as investors remain concerned on the liquidity of stocks. We think FFC, UBL, MARI, OGDC, HUBC and LUCK will likely benefit from increased foreign flows. Moreover, these stocks could be the likely candidates for a potential listing on the MSCI Advanced FM index"*

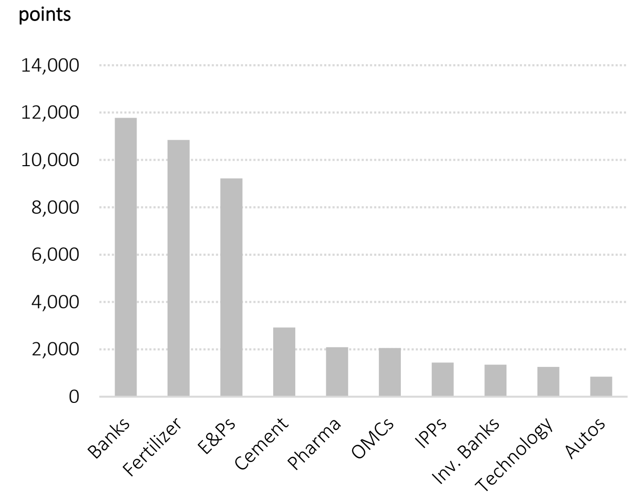
**Banks led the rally:** The KSE100 index's performance was primarily driven by the banking sector with a **cumulative contribution of 11,777 points, or** 25% of the total rally. The industry found support from a favorable interest rate cycle, which saw the policy rate hike to a record-high level of 22%. Moreover, record profitability enhanced the balance sheets of most major banks, improving their CAR and creating room to increase their cash payouts. The sector has been under pressure recently because of the anticipated taxation levies.

**Yield plays gaining traction:** High-yielding sectors also contributed to the index's rally. Most notably, the fertilizer industry (10,844pts), particularly Fauji Fertilizer (6,555pts) and Engro Fertilizer (1,950pts), benefitted from improved fundamentals, including a sharp improvement in pricing power. As domestic treasury yields fell, many investors felt compelled to build positions in high-yielding stocks to lock in a steady income stream.

**Oil Exploration companies also performed: Pakistan's oil exploration companies (9,220pts)** also benefitted from improved sentiments, driven by developments to control the flow of the circular debt. Sharp rises in the gas tariffs ensured high cash collection from gas sales. Improved cash collection was evident in recent balance sheets of energy companies, **highlighting a cash collection rate of over 100%.** Moreover, talks of potential clearances of the circular debt arrears garnered investors' interest in anticipation of large one-off cash payouts from OGDC and PPL. MARI (+3,757pts) particularly outperformed the market in recent weeks.

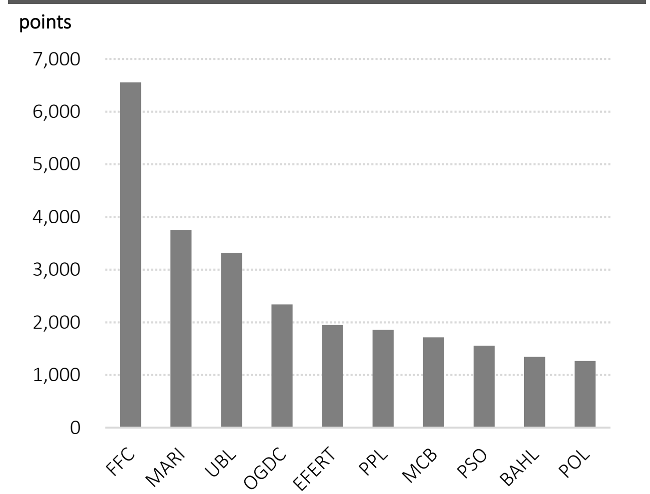
**Cement sector rallies in anticipation of improving fundamentals: The cement industry (2,925pts)** also benefitted from improving fundamentals amidst a sharp reduction in the policy rate and anticipation of recovering economic activity. The sector maintained its margins and profitability despite an unfavorable environment.

Top-performing Sectors

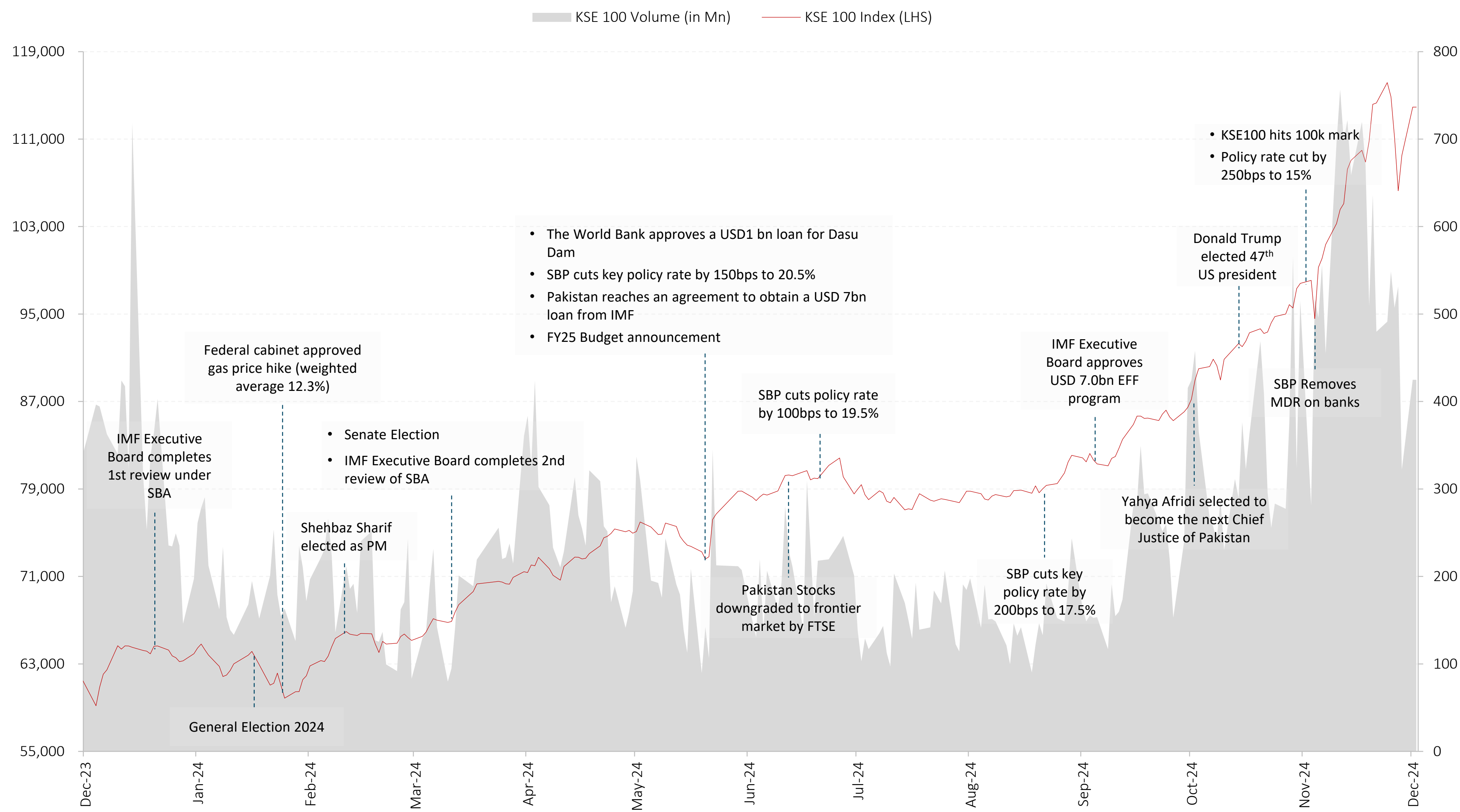



*Source: PSX, BMA Research*

Top-performing Stocks



# PSX Events Recap




*Source: PSX, BMA Research*

# New Listings Gaining Traction

Improving market sentiments resulted in a sharp rise in new listings during 2024. The year saw seven new IPO listings raising around PkR 8.4bn. In contrast, 2023 saw a single IPO listing raising PkR 435mn. Moreover, all of the IPOs during the year were oversubscribed, indicating increasing investor appetite. For CY25, we see an increase in IPO listings as market multiples improve and economic activity recovers.

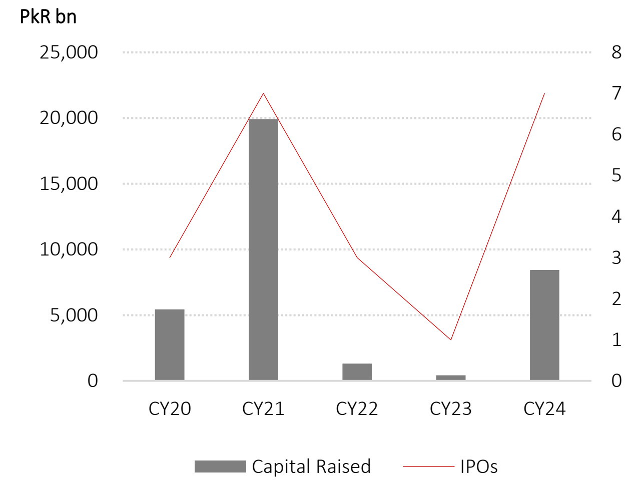
**IPO transactions still below FY21 and FY22 levels:** Despite a sharp recovery in IPO transactions, FY24's figure stood 21% below FY22's level and 62% below FY21's figure of PkR 17.2bn, indicating significant room for growth once the economic environment normalizes.

| Stock | Sector | Capital Raised (PkR bn) |
|---|---|---|
| **Main Index** | | **8,010** |
| Secure Logistics (SLGL) | Logistics | 600 |
| TPL REIT Fund-I (TPLRF1) | REIT | 589 |
| International Packaging (IPAK) | Packaging | 1,767 |
| Fast Cables (FCL) | Cables | 3,130 |
| BF Biosciences (BFBIO) | Pharma | 1,925 |
| **GEM Board** | | **425** |
| Mughal Energy (GEMMEL) | Energy | 325 |
| Burj Clean Energy (GEMBCEM) | Modarbas | 100 |

*Source: PSX, BMA Research*

**GEM Board unable to garner interest:** Even five years after its incorporation, the GEM board has not been able to garner investor interest. After two additional listings in 2024, the total stocks on the GEM board increased to five. Moreover, investor participation remained significantly low with an **ADTV of PkR 2.0mn (USD 7k) during the year.**

IPOs by Year




*Source: PSX, BMA Research*

| Sector | Outlook | Stance & Top Picks |
|---|---|---|
| Automobile | Pakistan's automobile industry is anticipated to recover in the current fiscal year, supported by **macroeconomic stability, lower interest rates, increased purchasing power, and easing inflationary pressures**. As a result, we project automobile sales to grow by 60% YoY, driven by these favorable factors.<br><br>Furthermore, improved farm economics is expected to contribute to volumetric growth. Additionally, a **further reduction in interest rates may stimulate demand through increased automobile financing**. Notably, despite the decline in interest rates, automobile financing remains at PkR 236bn, reflecting only a modest increase from PkR 228bn at the start of FY25. | Sector Stance<br>POSITIVE<br><br>Top Pick<br>SAZEW |
| Cements | Pakistan's cement industry has been experiencing subdued demand due to the rising cost of construction, increased taxes, and reduced government infrastructure spending. Domestic **cement consumption is projected to decline by approximately 10% YoY**, keeping **utilization levels around the 50% mark in FY25**. However, firm cement prices, lower coal costs, and a growing share of renewables in the power mix are expected to support the sector's profitability metrics.<br><br>Looking ahead, we **anticipate that lower inflation, declining interest rates, and a backlog of construction projects** will drive a recovery in domestic cement demand. We **project a 5% growth in cement demand for FY26**. Additionally, the sector has **demonstrated pricing discipline** despite low utilization rates, which has helped sustain industry margins. We believe that resilient profitability, despite subdued demand, combined with the **central bank's expansionary policy stance, will support the industry's valuations in aligning with historical averages**. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>THCCL, FCCL, MLCF, LUCK |
| Chemical | Pakistan's chemical companies have been impacted by the broader economic slowdown, resulting in weakened demand. Additionally, multiple increases in gas prices have significantly raised production costs for the sector. A global decline in commodity prices has further compressed primary margins. However, the sector remains relatively insulated from volatility in the Pakistani Rupee and stands to benefit as the economy begins to recover, supported by the ongoing monetary expansion cycle. | Sector Stance<br>NEUTRAL<br><br>Top Picks<br>DOL, LCI |

| Sector | Outlook | Stance & Top Picks |
|---|---|---|
| Fertilizers | Pakistan's fertilizer industry is expected to benefit from the packaged announced by the Punjab government. Notably, urea and DAP demand is expected to clock in at 6.6mn (10% higher than historical peaks) tons and 1.7mn tons (+8% YoY) in CY25. Moreover, agriculture is further being **promoted under SIFC's umbrella**, further improving the sector's prospects over the longer horizon. The **industry has depicted ample pricing power to pass on nearly all cost pressures**, including the recent surge in gas prices. We think the sector will remain **under the investors' radar**, given its high dividend yield. | Sector Stance<br>POSITIVE<br><br>Top Pick<br>FFC |
| Glass | The **glass sector showed resilience in the tough macroeconomic environment, exhibiting strong pricing power because of the duopoly** in the float glass segment (only TGL and GHGL are in the market). As the economy recovers and construction activity picks pace, the increased sales outlook and high industry margins will push the industry to record-high profitability. The float glass industry will also be able to clear the PkR 24bn build-up of inventory levels. | Sector Stance<br>POSITIVE<br><br>Top Pick<br>TGL |
| Steel | The steel industry in Pakistan is highly fragmented, comprising over 300 players. The sector has faced significant challenges in recent years due to a slowdown in construction activity, high-interest rates, and competition from dumped products from FATA/PATA region. Looking ahead, we expect that **lower inflation, declining interest rates, and a backlog of construction projects will support a recovery in steel demand**. Furthermore, companies with **leveraged balance sheets are likely to benefit from reduced KIBOR rates**. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>ISL, MUGHAL |

| Sector | Outlook | Stance & Top Picks |
|---|---|---|
| Oil & Gas Exploration | Pakistan's oil and gas exploration companies have benefitted from recent developments to address the energy chain's long-standing issues, particularly the proliferating circular debt. Notably, gas prices were hiked by over **100% to enhance the sector's cash collection and reduce its reliance on subsidies**. Moreover, the energy ministry has plans to clear circular debt arrears through cash injection, potentially enabling high one-off cash payouts from the sector. These developments are expected to significantly improve the balance sheet of energy companies, ensuring sustainable cash payouts. E&P companies plan to diversify their revenue stream via international ventures by acquiring offshore exploration licenses in Abu Dhabi. Moreover, they have also ventured into mining by acquiring stakes in Reqo Diq. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>OGDC, PPL |
| Oil & Gas Marketing | Pakistan OMCs are expected to benefit from the anticipated economic recovery, supported by falling interest rates. Moreover, recovery in automobile financing may also push the demand for automobile, and in turn, Motor Gasoline. The lower interest rate environment will reduce the working capital financing of the industry. Moreover, the recent hike in gas prices will improve control gas-based circular debt, allowing for an enhanced cash collection rate. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>PSO |
| Textile | Pakistan textile companies have been affected by the withdrawal of fiscal incentives, including low energy tariffs and reduced interest rates. Moreover, the sector is being affected by the global economic slowdown, particularly in the US and EU regions.<br>The sector, however, is expected to benefit from bumper cotton crops, reducing the industry's reliance on imported cotton. Moreover, BMA's textile universe has increased its focus on **low-cost electricity through renewable projects**, particularly solar. | Sector Stance<br>NEUTRAL<br><br>Top Picks<br>ILP, GATM |

# Sectors in Brief

| Sector | Outlook | Stance & Top Picks |
|---|---|---|
| Refineries | Pakistan refineries are expected to avail the approved refinery policy to **expand their production capacities, improve product quality, and tilt their slates towards high-margin products**, such as MS and HSD. The refinery policy incentivizes the upgrades through enhanced duty protection, **to cover 25% of the upgrade cost**. The sector's margins are trending higher than historical averages, benefitting the profitability prospects of refineries. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>PRL |
| Technology | Technology companies are expected to continue benefitting from the global surge in demand for technology products. The sector predominantly benefits from USD-hedged revenues through its export of services. Moreover, employee costs remain comparatively lower, allowing Pakistani technology companies to offer better **pricing on projects compared to regional competitors**. These factors allow the technology industry to sustain a high growth trajectory while maintaining lucrative margins. | Sector Stance<br>POSITIVE<br><br>Top Picks<br>SYS |
| Commercial Banks | Pakistan's banking industry has greatly benefitted from the favorable interest rate cycle, which saw the policy rate hiked to a record-high level of 22%. Higher profitability allowed the industry to expand its balance sheets and increase its potential for higher payout. The recent 900bps decline in interest rates will compress the banking sector's NIMs. The bulk of the fall will be visible from September 2025. We think investors have largely incorporated the improved fundamentals after the recent rally in the sector. Moreover, concerns on newer taxes will keep the sector's performance under check in CY25. | Sector Stance<br>NEUTRAL<br><br>Top Picks<br>BAHL, HBL |

#### What Trump's USA entails?

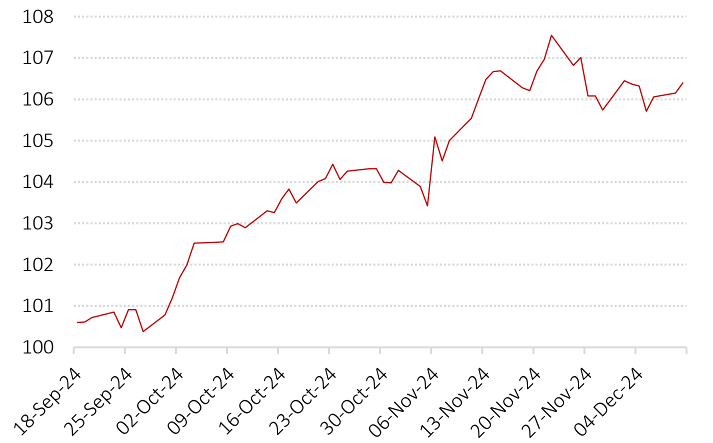
Donald Trump's successful election bid reverberated across global economies. As anticipated, the US President-elect plans to support the US's industrial sector through protectionist policies. Additional measures will likely be introduced to reduce the US's reliance on trading partners.

**Rising tariffs on key trading partners:** Donald Trump plans to impose a 25% tariff on imports from Canada and Mexico. Moreover, he plans to increase tariffs by an additional 10% on imports from China. Under the anticipated protectionist policies, the US Dollar gained around 6% against a basket of currencies over the past two months.

**A stronger dollar may accelerate the flight of capital away from emerging economies:** A strong dollar impacts emerging economies, causing currencies to come under pressure and affect global trade. A stronger dollar may also accelerate the flight of capital away from emerging economies and towards the developed markets. Notably, the S&P 500 has considerably outperformed the MSCI EM and the MSCI FM index. **Over the past six years, the S&P500 index provided an annualized return of 16% against a 2% return for the MSCI EM and MSCI FM index.**

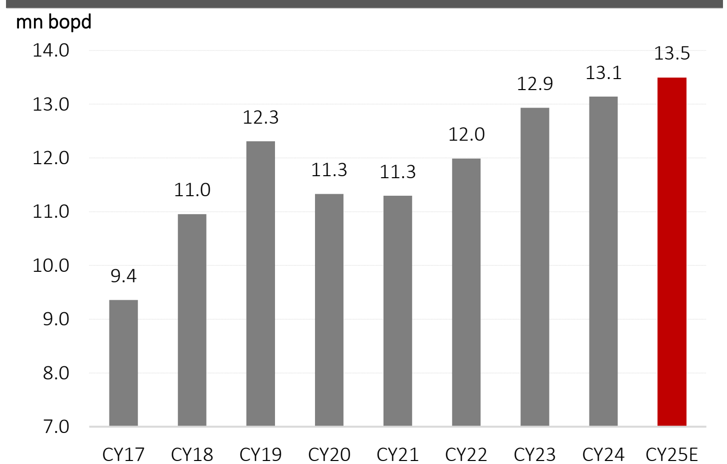
**Oil prices may come under pressure:** Trump's US-first policies will also affect global oil prices. We anticipate supportive policies may be introduced to push crude oil production from the world's largest oil producer. Notably, the US's oil production is up nearly 2.0mn bopd since CY21 and is slated to rise by an additional 2.5-3.0mn bopd by 2028. This fact in tandem with the planned trade tariffs will have considerable ramifications for the demand-supply dynamics for the commodity.

**US Dollar Index (DXY)**




*Source: Bloomberg, BMA Research*

**US Crude Oil Production**




*Source: Bloomberg, BMA Research*

# Pakistan's Top Trading Partners

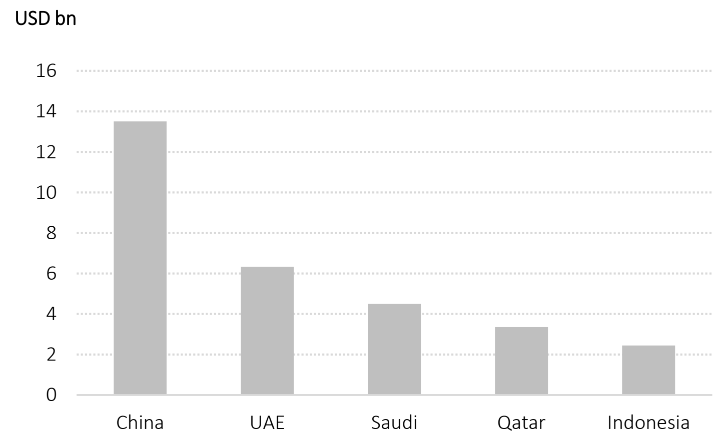
**China:** China is Pakistan's largest trade partner with **imports of USD 13.5bn and exports of USD 2.7bn in FY24**. Pakistan's largest import categories included steel, textile, chemicals, and electronic products. On the export front, the largest categories included textile, mineral ores, and food products. Many Chinese investors have shown interest in setting up plants in Pakistan to benefit from cheap labor and favorable tariff structures. Rising Chinese investors may enhance trade volumes between the two countries because of **higher reliance on the developed supply chains.**

**The United States:** The United States was Pakistan's largest export market in 2024 with trades worth nearly USD 5.5bn. The bulk of the exports were textile goods. The US consumer spending data shows robust signs of recovery with **real growth anticipated at 3.5% in December 2024**, improving from 1.5% in June 2024. With reduced rates supporting higher disposable incomes, we anticipate a further recovery in consumer spending, supporting the demand for textile products.

**The GCC:** We foresee increased collaboration between Pakistan and the GCC. These countries are responsible for the bulk of Pakistan's energy imports. Pakistan has been exporting food products to the GCC, particularly Rice and Meat products. With GCC investors planning investments in Pakistan's agriculture sector, the export potential will likely rise.

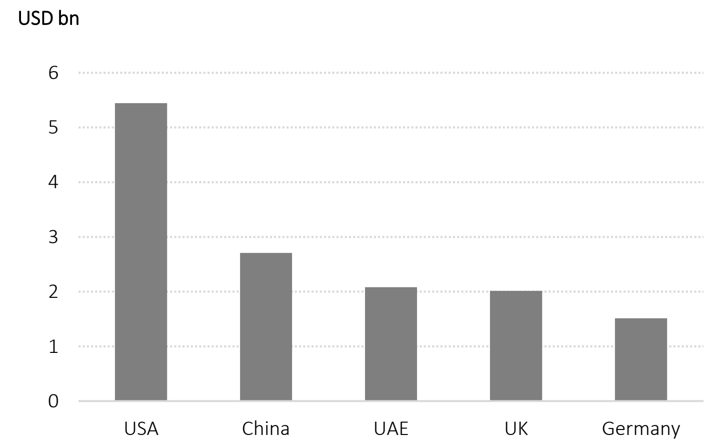
Moreover, the GCC houses the largest number of Pakistani expatriates, responsible for 55% of Pakistan's remittance inflows. In FY25, we project **remittance inflows amounting to USD 20bn** from the GCC countries and anticipate the trend to continue as the number of expatriates rises.

Top Import Markets (FY24)




*Source: SBP, BMA Research*

Top Export Markets (FY24)



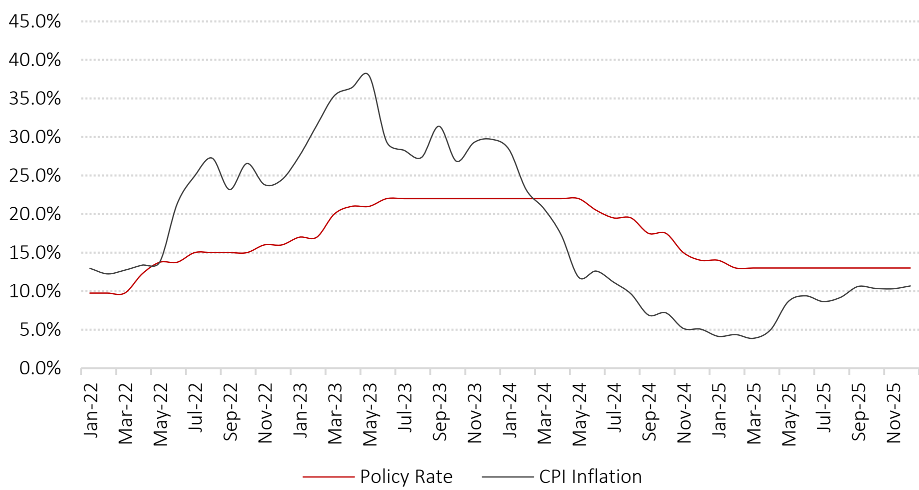

*Source: SBP, BMA Research*

**The worst inflationary spell in Pakistan's history is behind us:** The post-COVID commodity price rally, coupled with the Russo-Ukranian war, exacerbated Pakistan's domestic woes and took inflation to 38% in mid-2023. The SBP's response, delayed but aggressive, took the Policy Rate (PR) to 22%. Since then, entry into the IMF SBA (followed by the EFF) and its triage of currency stability, fiscal austerity & monetary tightening, and FX reserve stability has led to inflation expectations, and inflation, receding. The wheat price crash since February 2024 led to sharp deflation and consequently, the SBP has cut the PR from 22% to 13% over several meetings this year.

**Looking beyond the upcoming positive base effect:** We expect the base effect to lead to further de-acceleration in inflation until March 2025. Inflation is expected to trough in the mid-single digits before recovering to 8% and stabilizing at that level. While the SBP has a medium-term target of 5 – 7%, we believe, the current period of disinflation and currency stability is atypical and not representative of the future. Nevertheless, even if the magnitude of further disinflation is up for debate, it is almost certain the rates should read the low double digits in 2025. We believe the policy rate of 12% would provide the SBP ample room to keep real rates at adequate levels, manage inflation, and support economic recovery.

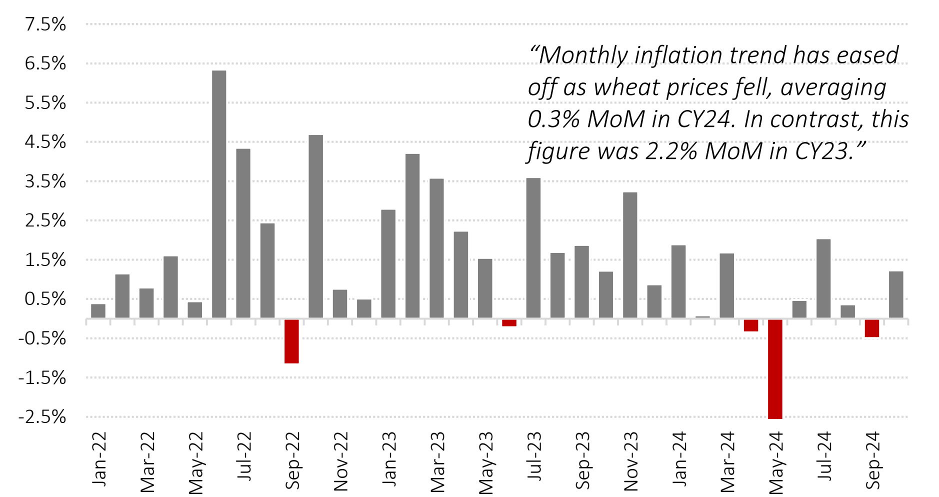
**The level of real interest rates maintained is the real question:** In our view, the debate should now shift to the level of real interest rates the SBP decides to maintain and what this portends for the terminal Policy Rate. Between 1996 – 2024, the median differential (to the Discount Rate) has been 2.3% with differentials being larger under the tutelage of the IMF. We believe a 3 – 4% differential to the DR, which results in a 2 – 3% differential to the PR; therefore, **terminal rates should decline to 11 – 12%.**

**Inflation de-acceleration has led to sharp rate cuts**




*Source: PBS, BMA Research*

**MoM readings have been benign since the wheat price crash**




*Source: PBS, BMA Research*

# Currency stability to follow fundamentals

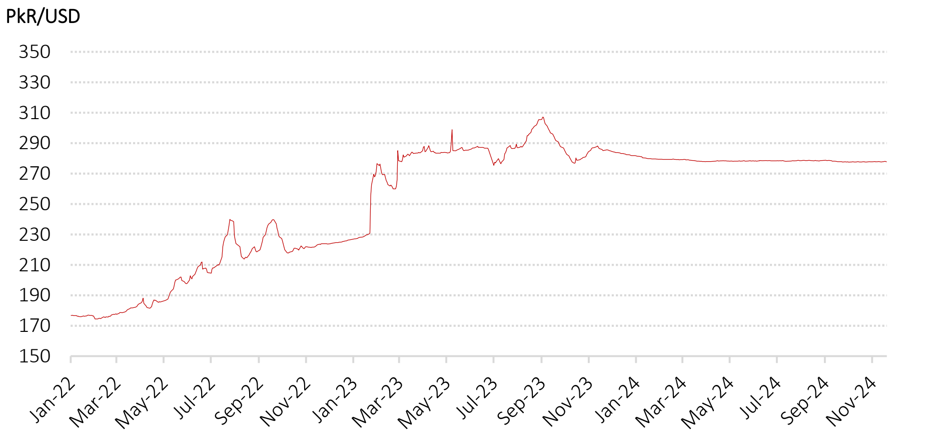
**Currency has remained stable in a narrow 276 – 280 range:** After significant and persistent devaluation since 2017, the currency has remained stable for its longest period, (since 2013 – 2016) buoyed by record high interest rates and a strengthening Balance of Payments position in recent months. A recession in FY23 followed by modest real growth in FY24 has kept the lid on imports and hence, allowed reserves to strengthen.

**SBP reserves have risen from USD 3.6bn to USD 11.2bn between May 2023 and October 2024:** Pakistan repeated an SBA with the IMF in July 2023 with reserves having bottomed 2 months earlier in May 2023 at USD 3.6bn. Since then, austerity measures and management of currency outflows vs. inflows kept a lid on imports and allowed the Balance of Payments position to strengthen. Reserves currently stand at USD 11.2bn and may reach USD 13bn by calendar year-end. In terms of import cover, reserves barely covered imports in May 2023 and currently cover around 2.8 months' worth of imports.

**Some currency devaluation is always a welcome 'risk':** Previous episodes have taught us that the mirage of economic stability conjured by currency stability is always a ticking time bomb. While the current stability is warranted by fundamentals – high interest rates and positive Balance of Payments have provided the impetus – with growth and recovery, come rising imports and the currency must adjust to maintain terms of trade.

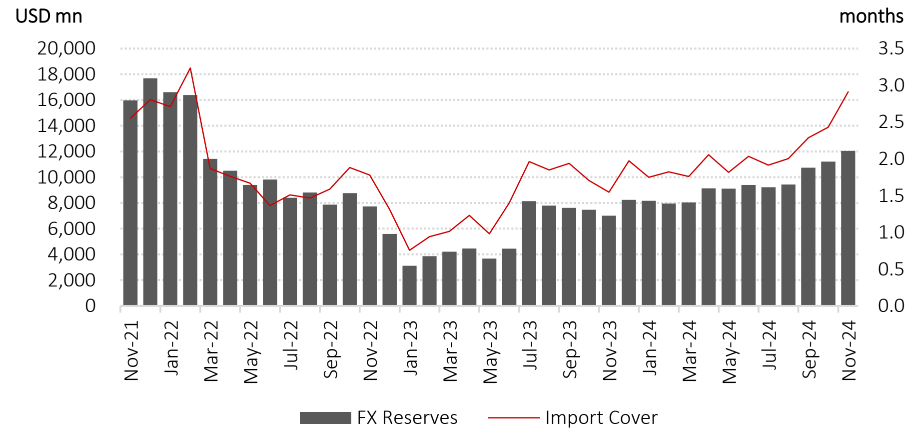
**Inflation differential warrants 6 – 8% devaluation:** Given developed market inflation recedes to 2% and Pakistan's terminal inflation rate reaches 8%, a **6 – 8% devaluation should be par for the course**. Geopolitical risks and Pakistan's elevated debt risks make it critical that the mistakes of the past are not repeated. We foresee some currency devaluation to resume in 2025 followed by a more consistent pace thereon.

Pak Rupee Parity




*Source: SBP, BMA Research*

SBP Foreign Current Reserves




*Source: SBP, BMA Research*

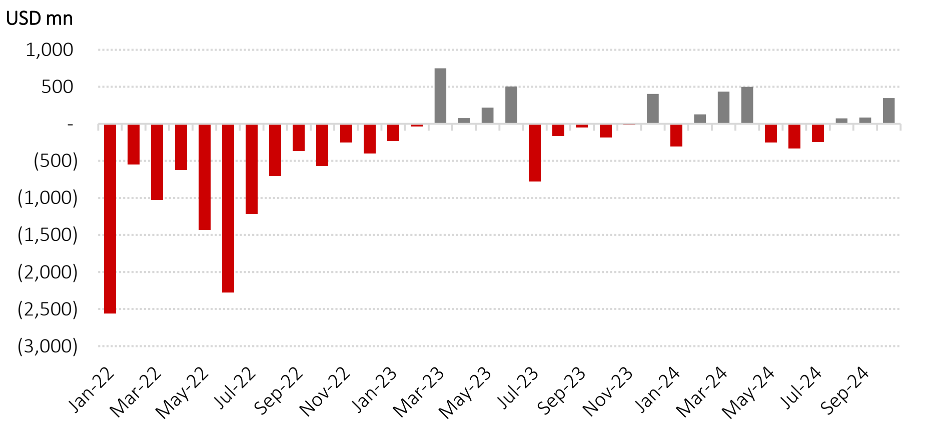
# External Accounts – Strong remittances are key

**Remittances to the rescue:** Political and economic instability, beginning in 2022, led to a drop in monthly remittances from USD 2.7-3.0bn during early 2022 to a range of USD 2.1-2.3bn during 2023. Since the entry into the IMF SBA in July 2023, and now the EFF, remittances have rebounded sharply and now **regularly hit the USD 3.0bn/month range**. A record number of Pakistanis have emigrated during the last few years which may continue to provide further impetus to remittances growth, should economic woes remain subdued.

**Trade deficit has declined considerably since 2022:** Over the calendar year 2022, the monthly trade deficit averaged USD 2.8bn. Imports started declining from a high of USD 6.0bn in 2022 as the monetary tightening and fiscal austerity took effect. Inflow/outflow management by banks also contributed to reduced imports. The trade deficit bottomed at USD 1.5bn per month during 2023 and currently averages USD 2.0bn in 2024. It is important to note that, despite the trade deficit recovering from its lows, the Current Account Balance totaled USD 506mn in 2023 and currently totals USD 445mn CYTD. The resurgence in the trade deficit was expected as the economy bounced back however that has been fully financed by improved remittances.

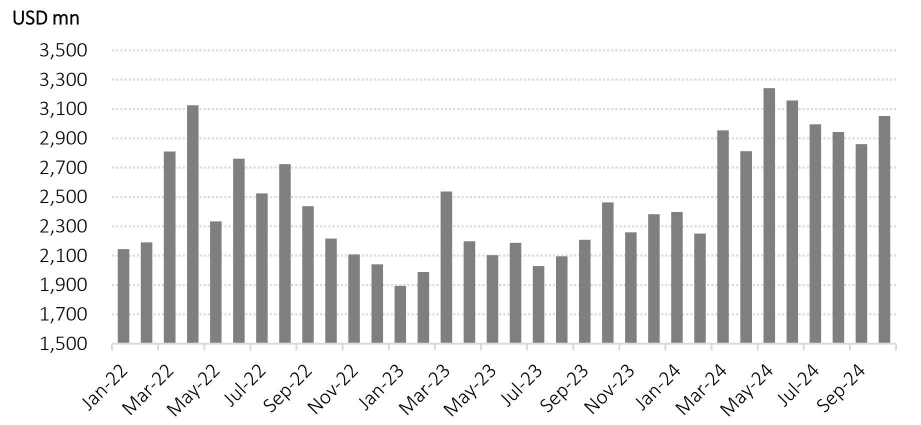
**CA Surpluses likely to continue for some time:** Pakistan has witnessed historic declines in real incomes over the past two years and there is no doubt that this has had an impact on demand for imports in addition to the impact of direct import curtailment measures. A slow and gradual recovery over the medium term should be unlikely to stoke significant growth in imports however caution is warranted. Unlike 2023, further growth in the trade deficit is unlikely to be financed by even further growth in remittances and the BOP can easily slip back into a deficit. We believe some currency devaluation would help stabilize the BOP and reduce the chances of another BOP mess, barring unforeseen events. For FY25 we foresee the current account balancing out while a marginal uptick to around USD 4.0bn (1.0% of GDP) may be warranted in FY26.

**Current Account Deficit**




*Source: SBP, BMA Research*

**U-shaped recovery in remittances**




*Source: SBP, BMA Research*

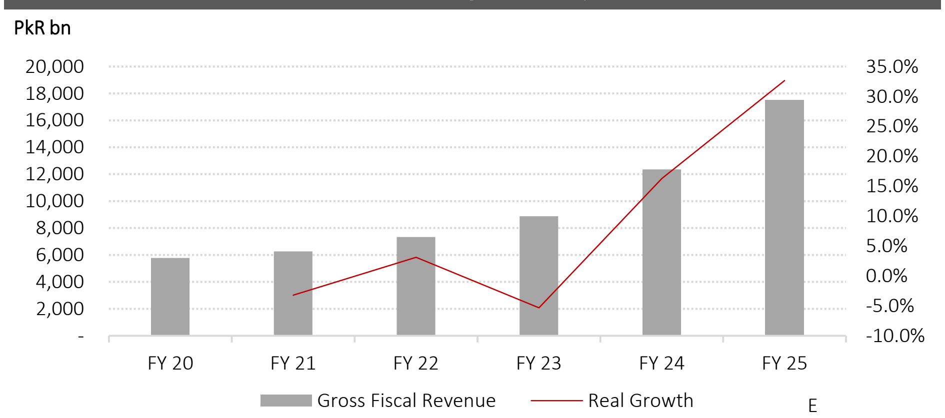
# Fiscal Accounts – Tax shortfall remains concerning

**Breaking down FY24 fiscal revenue growth:** Between FY21-23, real-term growth in Federal Gross Fiscal Revenue (GFR) was -2.0%. During FY24, nominal revenues grew by 39% to PKR 12.3tn; however, note that the GDP deflator during this year was 23%. Therefore, more than 50% of the revenue growth came from inflation. Another 6-7% each came from higher SBP profits and higher PDL collections.

**IMF envisages 33% growth in Federal Gross Fiscal Revenue, in real terms, in FY25:** The Federal GFR target for FY25 is PKR 17.5tn. This represents 42% nominal growth whereas inflation is expected to average 9%. Therefore, real growth should be ~33%. We were skeptical of this number after the Article IV consultation and continue to maintain our skepticism. Revenue shortfalls of PKR 190bn have already emerged which led to an unusual IMF visit in November 2024. Around 10% of the 33% growth will come from the higher SBP profit (PKR 2.5tn booked in 1QFY25) while it remains to be seen if the remainder can be achieved.

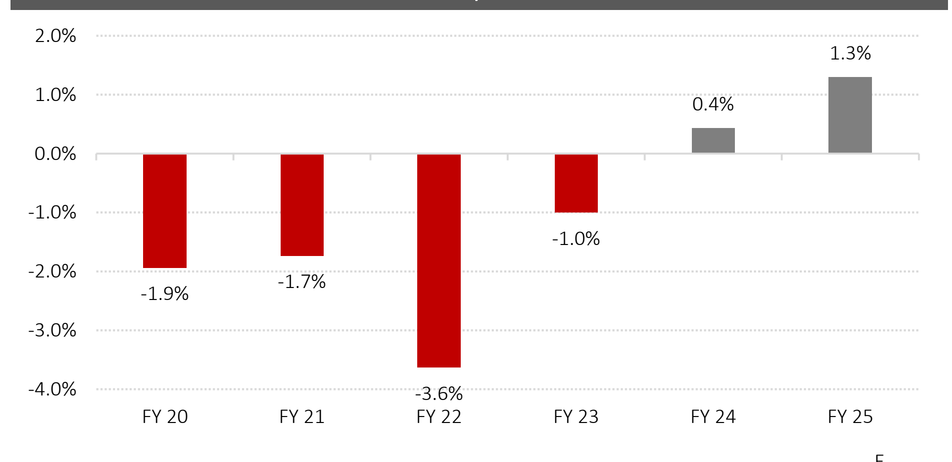
**Ability to levy taxes is contingent on confidence in the government:** We believe political stability is key to the government's ability to expand the tax base. While the IMF is naturally focused on quantitative targets being met, the quality of the measures adopted in recent times (relying excessively on SBP profit, indirect taxes, and taxing the salaried class) has fallen. The recent IMF visit in November underscores the sensitivity of Pakistan's investment case (from an international debtor standpoint) to the worsening fiscal accounts and the saturation of the willingness and ability of the populace to absorb more taxes amid political uncertainty. This does not leave any room for unforeseen climate-related events and/or external shocks which may require government support. Given this, we do not completely rule out the possibility of a mini-Budget in FY25.

Real Gross Fiscal Revenue growth may not materialize




*Source: SBP, BMA Research*

Pakistan's Primary Balance Forecast




*Source: MoF, BMA Research*

# IMF policies need a rethink

**Pakistan does not have an acute domestic debt problem:** Pakistan's domestic debt to GDP has gone from 47.2% in FY19 to 44.6% in FY24. During these years, the fiscal deficit has averaged 7.6%, traditionally considered a danger zone by the IMF (previous programs have aimed for 5 – 6% deficits). The reality is that domestic debt deleveraging has been achieved through debt deflation rather than austerity. This has been the case across most countries; especially the US and Europe during the inter-war years.

**External debt is an entirely different story:** In addition to public external debt, Pakistan has built up USD 45bn of private external debt through private borrowing (including CPEC). We look at aggregate external debt as this is relevant for debt servicing. This debt / GDP measure rose from 40% in FY20 to 42.2% in FY23. It has since then declined drastically to 34.5% in FY24 due to 1) Improved current account, and 2) Limited depreciation which has not inflated external debt in PKR terms. These variables are unlikely to remain positive, going by the historical record, and the specter of external debt leveraging is only another crisis away.

**IMF-driven 'austerity' measures window dress country performance during the program period and worsen export competitiveness:** The IMF's free market policies assume that export competitiveness develops naturally, without government intervention, and that if external and domestic accounts are in order, everything else will be sorted out. This flies in the face of the reality of the 20$^{th}$ century and how export powerhouses such as South Korea, China, India, and Vietnam have developed through intentional industrial policy (and the absence of the IMF!). While we believe, the IMF is markedly positive for medium-term stock market performance, the long-term prospects for Pakistan are contingent on a viable industrial and export policy being developed that delivers economic stability, a stable regulatory regime, and low electricity and gas rates.

**Focus on the external and the domestic will sort itself out:** While an argument can be made, based on high debt servicing payments as a proportion to fiscal revenue in FY24, that domestic debt is indeed high, we opine that this was a function of unusually high interest rates and a lack of confidence in the economy which hinders tax collection. In Pakistan's case, external weakness feeds into currency depreciation, higher inflation, higher interest rates, and then worsening fiscal accounts. Assuming a long-term export and industrial policy is established, an escape from the cycle of boom-bust type growth would allow Pakistan's economy to grow at a consistent rate. This would cancel out any domestic borrowing in Debt / GDP terms.

**Pakistan's investment case remains predicated on multiple re-rating and a mean reversion in earnings growth for cyclical sectors:** Investors need to take advantage of low earnings multiples and the next cycle of the rally where cyclical stocks should exhibit earnings growth. Beyond this, we would remain cautious in a long-term 'story' for Pakistan until political woes are sorted and a credible economic plan is formulated.

# Improving cash flows strengthening investment case

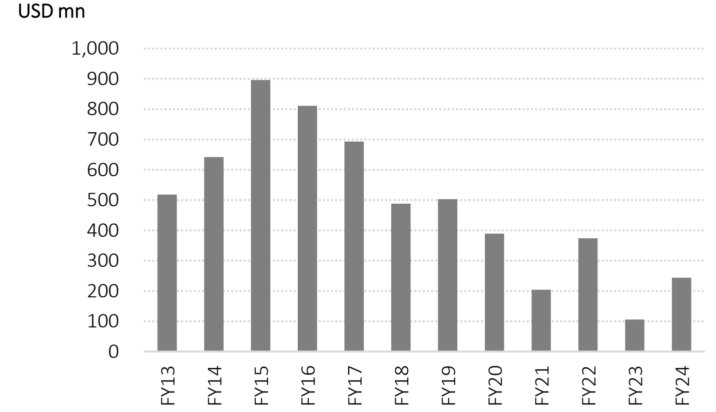
Pakistan's Oil & Gas exploration companies are showing evidence of improving cash flows based on their recent financial statements. The sector's Achilles heel has been stuck cash from its gas sales to the Sui Utilities. A robust cash conversion cycle will likely enhance the sector's cash yields and allow the industry to arrest declining production flows from heightened exploration activities.

**Revived focus on exploration activities:** Improving cash collection allowed E&P companies to enhance their exploration activities in FY24. PPL and OGDC's **capital expenditure increased by 130% YoY to USD 244mn** during the fiscal year. This figure, however, remains considerably lower than the levels seen between FY14 and FY17 **(annual average: USD 761mn)** before the RLNG-based circular debt emerged.

**High cash yields on offer:** The two energy companies also have the potential to enhance their cash yields amidst improving collection and rising cash balances. OGDC's cash payout ratio averaged 90%, and PPL's payout averaged 49% during FY05-08. Amidst improving fundamentals, the two companies may see their **cash payout levels revert to 40-50% (even setting aside large capital expenditures).** At a 50% payout rate, the two companies' **dividend yield would register at 15%.** Moreover, we must consider the **potential for large one-off cash payouts upon settling the overdue circular debt balance.**

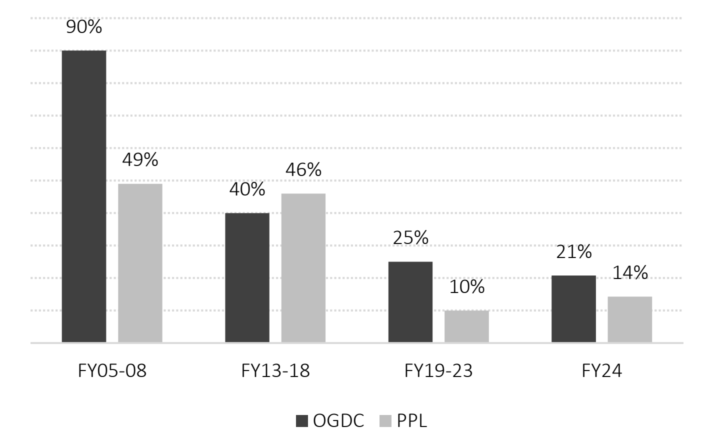
**Sector rerating on offer:** Pakistan's E&P space warrants another look led by solid evidence of improving cash flows. Healthy cash generation potentially alleviates concerns of low cash yields and depleting reserves. As we highlighted earlier, the E&P sector traded **at a 20% premium to the market** compared to a current **discount of around 20%**. Given that E&P companies also offer effective hedges against macroeconomic volatility, investors may re-examine the sector through the lens of regular energy companies and focus on sustainable earnings and payouts.

Annual Capital Expenditure (PPL & OGDC)




*Source: Company Accounts, BMA Research*

Historical Dividend Payout Ratio (%)




*Source: Company Accounts, BMA Research*

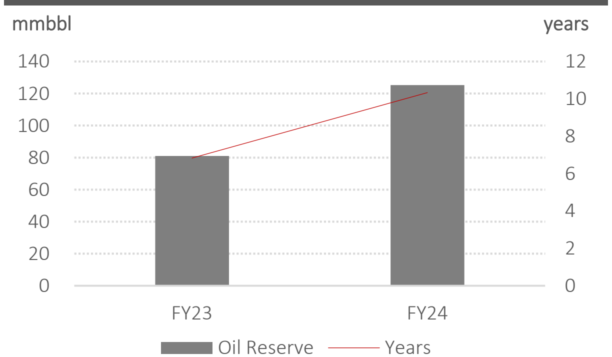
# Oil & Gas Development Company (OGDC) – Target: PkR 285/sh

**Sharp Improvement in Cash Collection:** OGDC's cash collection also considerable improvements in FY24, as highlighted by its financials. The company's cash collection rate of gas sales improved to 76% in FY24 compared to 42% in FY23. Consequently, its monthly build-up of overdue receivables slowed by 28% YoY to PkR 5.8bn per month. Moreover, 4QFY24 saw OGDC's overdue balance grow by under PkR 2.0bn per month, suggesting that the impact of the gas price hike has begun to materialize.

**Robust balance sheet:** Healthy cash generation allowed OGDC to amass considerable cash balances on its books. As of September 2024, the company's Cash Balance and ST investment balance stood at PkR 376bn (PkR 87.5/sh). Moreover, the company's overdue receivable balance amount is registered around PkR 547bn (PkR 127/sh). Potential clearance of this balance coupled with the robust cash balance potentially enables OGDC to enhance its cash payouts in the coming quarters.

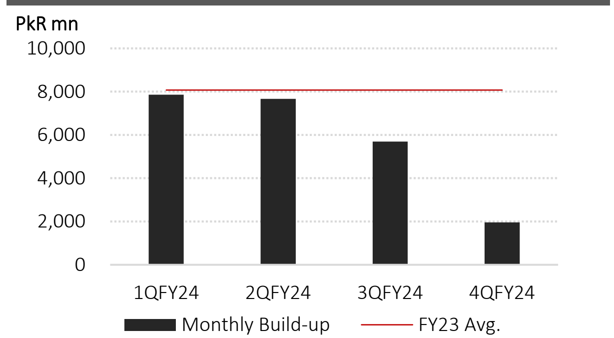
**Production catalysts to revitalize hydrocarbon flows:** Increased focus on exploration activities increased OGDC's recoverable reserve balance by 55% to 125mn bbl. Consequently, its oil reserve life increased from 7 years to over 10 years. Moreover, the company's gas recoverable reserves also increased to 5,627bcf (+4% YoY), increasing the reserve life to over 20 years. For FY25, OGDC is working on 10 exploratory wells and 6 development wells to further enhance its recoverable reserve balance. With anticipated improvement in cash flows, we foresee the company's reserve life to increase further.

### OGDC Oil Reserves



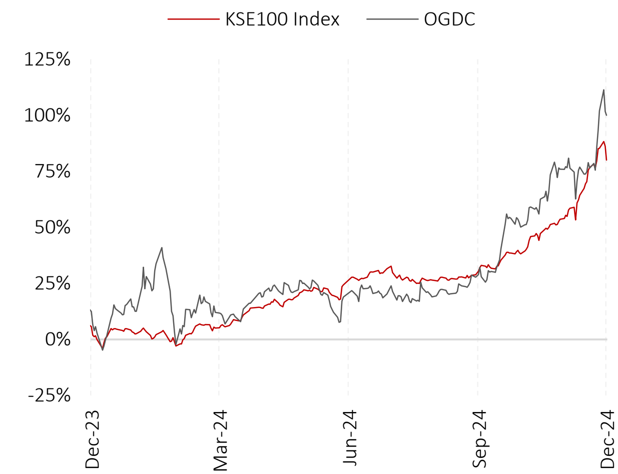

*Source: Company Accounts, BMA Research*

### OGDC Overdue Receivables Build-up (FY24)




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. OGDC Performance




### OGDC Financial Overview

| | FY24 | FY25E | FY26E |
|---|---|---|---|
| EPS (PkR) | 48.59 | 45.26 | 44.23 |
| DPS (PkR) | 10.10 | 15.0 | 20.0 |
| PE (x) | 4.54 | 4.88 | 4.99 |
| PB (x) | 0.76 | 0.76 | 0.76 |
| Yield (%) | 5% | 7% | 9% |
| ROE (%) | 17% | 14% | 13% |

*Source: PSX, Company Accounts, BMA Research*

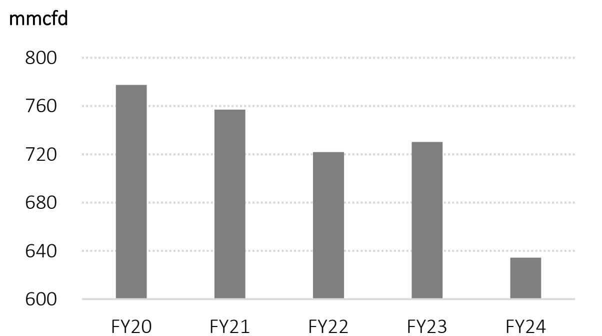
# Pakistan Petroleum (PPL) – Target: PkR 245/sh

**PPL's cash collection rate sees a sharp rise:** PPL has benefitted from FY24's gas price hikes, evidenced by a sharp improvement in its cash collection. The company's cash collection rate from **customers improved to 81%** compared to 53% in FY23. Consequently, the monthly build-up of **overdue receivables fell by 43% YoY to PkR 6.5bn per month** in FY24. Notably, 4QFY24 saw PPL's overdue balance decline by **PkR 575mn per month**, highlighting significant improvement in cash collection.

**Focus on reviving production flows:** PPL has made plans to arrest its declining production trend (past five-year CAGR: -4%) through increased exploration activities, **targeting a five-year production growth CAGR of 2.0%.** For 2025, the company is planning 2 exploratory wells and 1 development well. Moreover, the company has potential production triggers from its Kandkoth field in case PPL is allowed to sell directly to end consumers. Presently, the field is producing below capacity because of low demand from gas turbines.

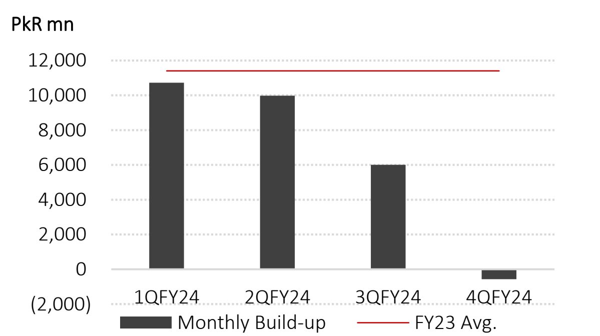
**The planned sale of Reko Diq to KSA:** Based on news reports, Saudi Arabia has proposed to purchase a 15% stake in Reko Diq. This 15% share would likely come from the 25% stake held by E&P companies. Based on our estimates, Reko Diq may generate cash flows of USD 2.8bn during its first year. Over its estimated life, the project potentially offers an IRR of 41% and has an NPV of USD 14.5bn. PPL's stake, in turn, amounts to around USD 1,225mn (PkR 126/sh) in case it sells its stake. Its share of cash flows would amount to PkR 24.4/sh.

### PPL Annual Gas Flows



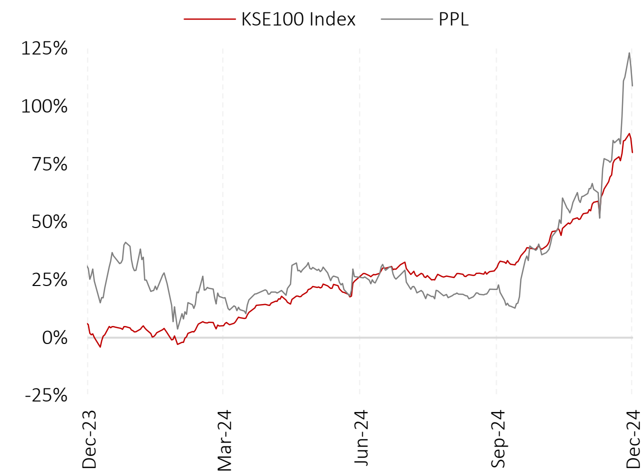

*Source: Company Accounts, BMA Research*

### PPL Overdue Receivables Build-up (FY24)




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. PPL Performance




### PPL Financial Overview

| | FY24 | FY25E | FY26E |
|---|---|---|---|
| EPS (PkR) | 42.01 | 39.06 | 38.23 |
| DPS (PkR) | 6.00 | 10.00 | 12.00 |
| PE (x) | 4.71 | 5.07 | 5.18 |
| PB (x) | 0.84 | 0.75 | 0.68 |
| Yield (%) | 3% | 5% | 6% |
| ROE (%) | 18% | 15% | 15% |

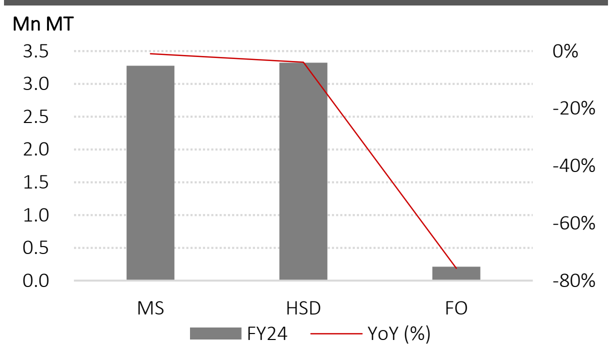
*Source: PSX, Company Accounts, BMA Research*

**Cash collection improving:** The sharp increase in domestic gas prices also aided PSO in improving its cash collection. In FY24, its receivable balance declined by PkR 20bn to 488bn. Moreover, 1QFY25 saw the company's trade debts fall by an additional PkR 20bn to PkR 468bn. Enhanced cash collection rates will considerably aid PSO in managing its working capital and reduce its reliance on debt financing. Moreover, its debt servicing will further reduce as interest rates fall.

**Off-take recovery anticipated:** PSO's off-take came under pressure in FY24 because of the slowdown in economic activity, high inflation, and increasing smuggling. For FY25, we anticipate recoveries in off-take as economic activity increases. Moreover, we believe the government will continue tackling issues related to undocumented smuggled petroleum to enhance tax collection. As interest rates fall, we think that auto financing will push the demand for cars, and in turn, assist in the recovery of MS sales.

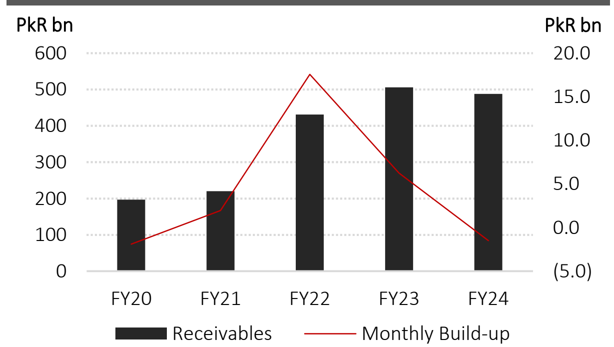
**OMC margin revision on the horizon:** News reports suggest that OMC's margin revision is being proposed for a 17% increase. Based on our estimates, the PkR 1.35/liter revision will improve PSO's annual earnings potential by PkR 14.5/sh. The OMC body, however, is asking for a higher revision given the anticipated increase in general inflation.

### PSO OMC Off-take




*Source: Company Accounts, BMA Research*

### PSO Receivables Build-up




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. PSO


### PSO Financial Overview

| | FY24 | FY25E | FY26E |
|---|---|---|---|
| EPS (PkR) | 33.79 | 64.23 | 75.32 |
| DPS (PkR) | 10.00 | 15.00 | 20.00 |
| PE (x) | 5.86 | 3.08 | 2.63 |
| PB (x) | 2.33 | 1.47 | 1.04 |
| Yield (%) | 5% | 8% | 10% |
| ROE (%) | 40% | 48% | 40% |

*Source: PSX, Company Accounts, BMA Research*

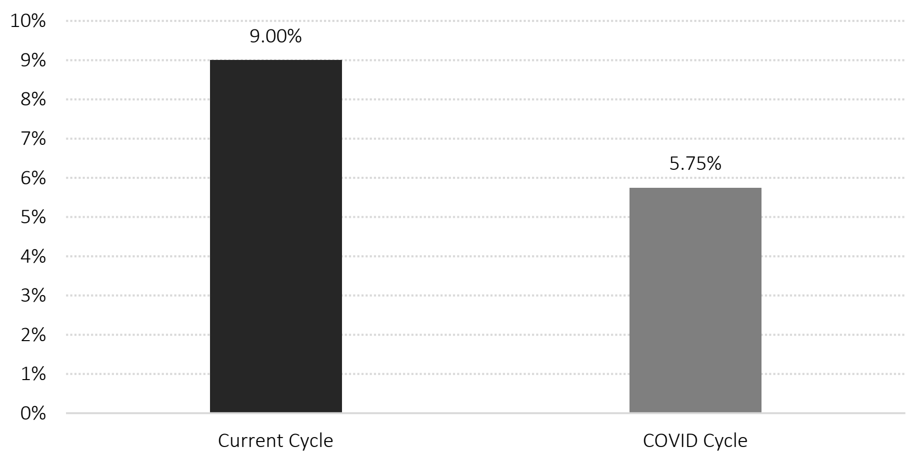
# Historic fall in PR is a negative for bank earnings

**The magnitude of the rate cuts is twice the COVID cycle cuts:** Assuming rates settle at a PR of 13% (14% DR), rates are expected to fall 9% over this cycle vs. 5.75% over the COVID cycle. Previous interest rate cycles such as the post-2008 monetary easing were slow enough that the impact of lower NIMs was offset by asset growth. This will not be the case in this cycle. Normally, given Pakistan's regulatory regime, banks face a small window of earnings growth as rates decline followed by a period of no growth that then leads to earnings growth as asset growth takes over from NIM compression. We foresee this cycle to be different given 1) the magnitude of rate cuts in a small period and 2) Banks are actively shedding deposits till 2024 end to avoid ADR tax.

**Banks are a dividend play, and yields are unattractive at current levels:** Within our coverage, banks are mostly trading at around 11 - 12% yields except for BAHL which has a 14% yield. Sharp price appreciation for UBL has also led to its yield declining to 13%. Given the PR is currently 15%, we believe banks do not offer a positive risk/reward trade-off vs. the overall index.

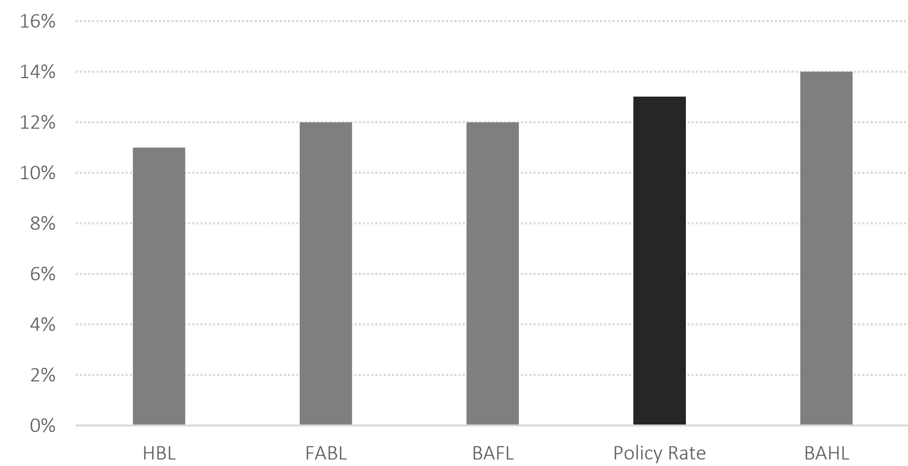
**We are market-weight on banks:** Given the low dividend yields and the expected decline in earnings in 2025 due to sharp NII contraction (we expect earnings to then recover in 2026), we move to a **Market Weight** stance on Pakistan banks. This implies that we expect banks to perform in line with the KSE 100 index; stock returns will mainly be a function of declining dividend yields as the PR declines further.

Largest DR drop in 2 decades (assuming 13% terminal PR)




*Source: SBP, BMA Research*

Bank dividend yields are unattractive




*Source: Company Accounts, BMA Research*

Executive Summary



Top Picks



PSX Graphical Overview



Themes for 2025



PSX Performance Recap



Sectors in Brief



Geopolitical Overview



Pakistan Economy



**Sector Outlook & Top Picks**



Alpha Stocks



List of Abbreviations



Contact Details

# Robust pricing power strengthens case



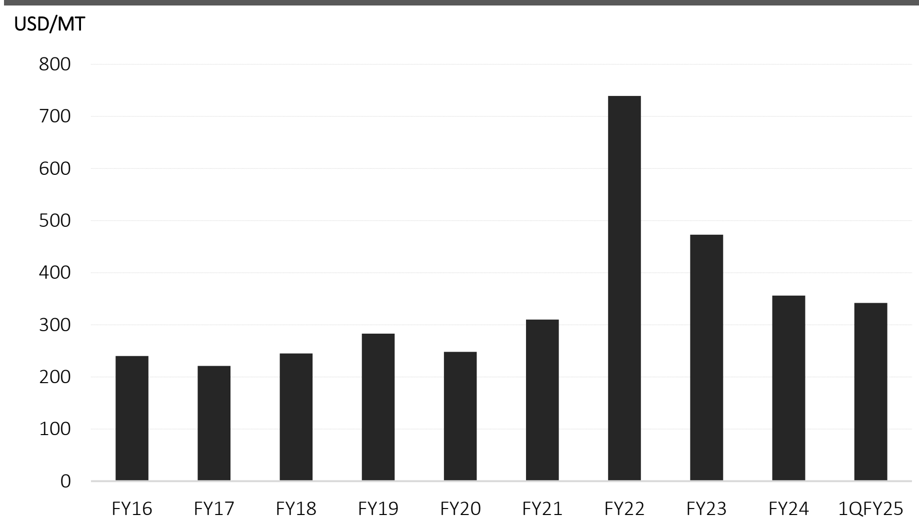
**Weak agronomics impacting offtake:** Urea sales dropped 9% YoY to 4.9mn tons in 10MCY24 due to weak farm economics and a 58-day shutdown at EFERT's EnVen plant, while DAP sales rose 3% YoY to 1.2mn tons on expected price hikes. By CY24-end, urea and DAP offtake are projected at 6.1mn and 1.6mn tons, stabilizing at 6.6mn and 1.7mn tons in CY25.

**Kissan Card Program may alleviate demand concerns:** On October 29, 2024, the Punjab government announced the PkR 400bn Kisan Card Program to support farmers. As part of this initiative, the number of Kisan Cards will be increased from 500,000 to 750,000. The program offers free laser levelers for farmers with 12.5–25 acres and tractors for those with over 25 acres, along with no-profit rental access to agricultural machinery. Cardholders will also benefit from subsidies, enabling them to purchase seeds, fertilizers, and pesticides at a reduced cost of approximately PkR 150,000.

**Gas Price Revision on the horizon:** In February 2024, under IMF conditions, the government raised feedstock gas prices by 2.8x to PKR 1,597/mmbtu and slightly increased fuel stock prices by 1% to the same rate. Fertilizer makers like EFERT and FFBL, reliant on SNGP and SSGC, passed these costs to consumers by raising urea prices. However, FFC, using MARI gas, continues to benefit from unchanged rates.

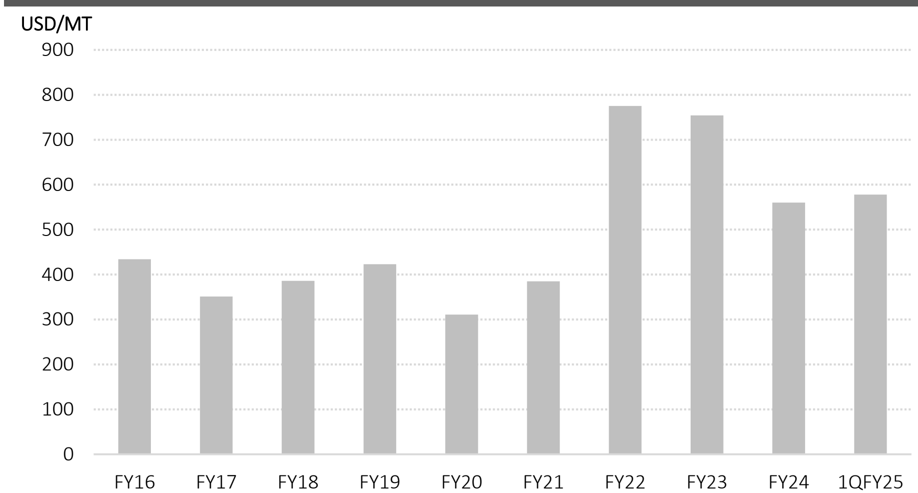
**Urea prices stabilizing:** After over a year of price disparities, urea prices among manufacturers aligned at PkR 4,308/bag by Nov'24, from PkR 4,435/bag (EFERT) and PkR 3,652/bag (FFC) in Feb'24. Meanwhile, international urea prices fell 26% YoY to USD 293/ton in Nov'24 due to weaker global demand. Local urea prices are expected to rise in CY25 with anticipated gas price hikes.

Urea (USD/Ton)




*Source: NFDC, Bloomberg, BMA Research*

DAP (USD/Ton)




*Source: NFDC, Bloomberg, BMA Research*

# Fauji Fertilizer Company (FFC) – Target: PkR 491/sh

Our liking of the stock stems from i) low gas price, ii) 5-year earnings CAGR of 26%, iii) acquisition of Agritech Limited (AGL) and amalgamation of Fauji Fertilizer Bin Qasim Limited (FFBL), and iv) payout ratio reverting to its historical levels.

**Lower gas price:** FFC is procuring feed and fuel gas at a lower rate of PkR 580/mmbtu, and PkR 1,580/mmbtu, respectively while consumers on SNGP and SSGC are receiving feed and fuel at PkR 1,597/mmbtu each. Due to this, FFC has a competitive edge over other major urea producers in the industry, which will keep the gross margins higher until revised gas prices are notified.

**5-yr earnings CAGR of 26%:** FFC's profitability to grow at a 5-Yr CAGR of 26%, arriving at PkR 52.7/share in CY25, taking into consideration diversified portfolio of business in banking, energy, and FMCG sectors. For CY24, we expect earnings to clock in at PkR 46.0/share. The major growth driver for the company is higher margins in the core business, coupled with dividend income from AKBL, FFBL, FFCEL, FWEL I, and FWEL II.

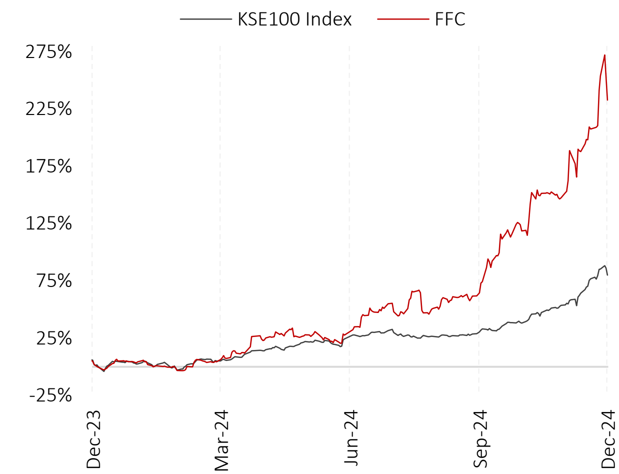
**Acquisition of AGL:** The company recently acquired a stake in AGL from BOP and NBP, bringing its total holding to 30%. Management expects this transaction to be completed by the end of January 2025. Additionally, FFC has allocated CAPEX for AGL's turnaround based on due diligence findings.

**FFC-FFBL merger swap ratio finalized at 4.29:** FFC-FFBL merger swap ratio finalized at 4.29, implying that every 4.29 shares of FFBL will be allotted one (1) share of FFC. Additional FFC shares given to existing FFBL shareholders (excluding FFC) will be 150.87mn, taking FFC's outstanding shares to 1,423.11mn. After the merger, FFC's urea production capacity will increase to 2.6mn MT (41% of Pakistan's capacity). Moreover, FFC will also acquire FFBL's DAP capacity of 0.65mn MT.

**Payout ratio reverting to its historic levels:** The payout ratio of the company in the past 4 years has averaged 46%, which is way lower than its 15-years average payout ratio of 85% (2005-2019). FFC payout ratio in CY23 settled at 42%. FFC in its recent financial result of 2QCY24 announced a cash dividend of PkR 10.0/share, translating into a payout ratio of 82%. We believe FFC to maintain its payout ratio amid a significant boost in profitability.

**Valuation:** The stock is offering a potential upside of 28% with an **SOTP value of PkR 490.8/sh** along with the **dividend yield of 8%.** The stock is currently trading at a CY25 PE 8.3x against its 10-year average PE of 7.3x.

**KSE100 Index Vs. FFC Performance**



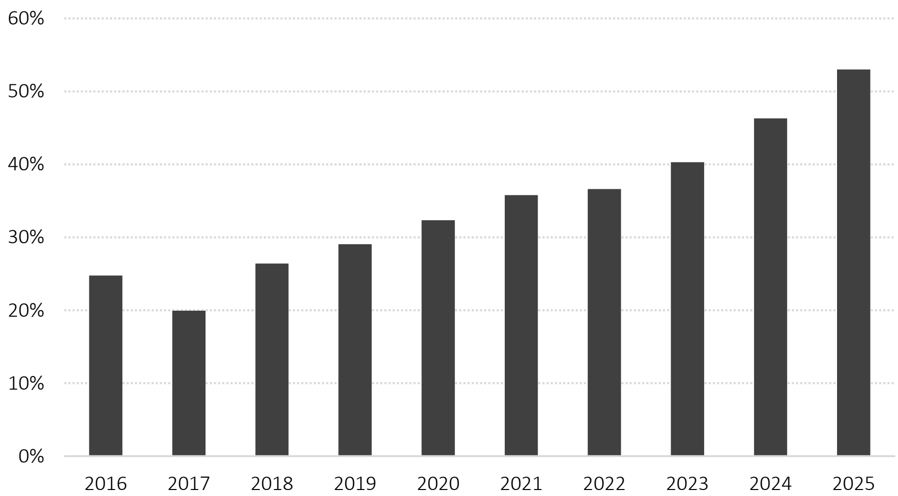

**FFC Financial Overview**

| | CY23 | CY24E | CY25F |
|---|---|---|---|
| EPS (PkR) | 23.3 | 46.0 | 52.7 |
| DPS (PkR) | 15.5 | 30.6 | 45.0 |
| PE (x) | 16.5 | 8.3 | 7.3 |
| PB (x) | 7.9 | 6.0 | 5.4 |
| Yield (%) | 4% | 8% | 12% |
| ROE (%) | 48% | 72% | 73% |

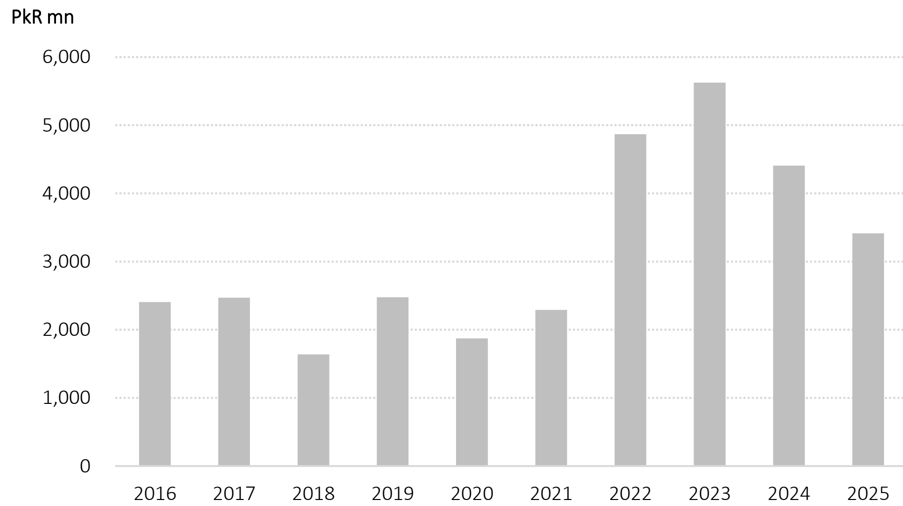
*Source: PSX, Company Accounts, BMA Research*

# FFC Graphical Overview

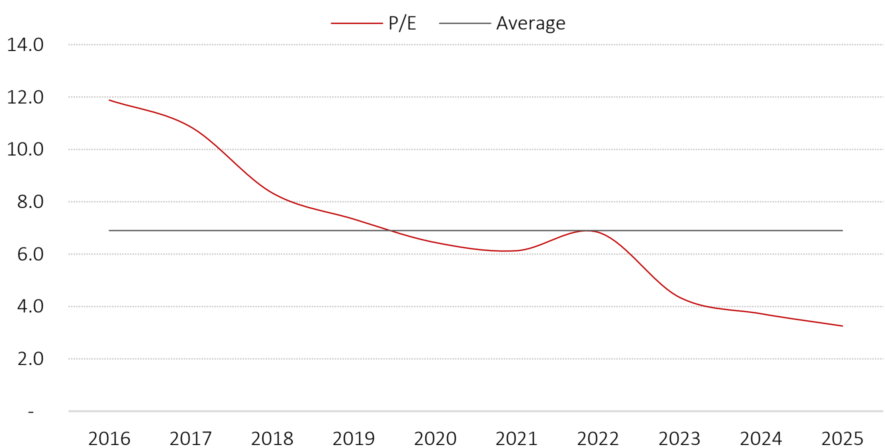
## Gross Margin




## Finance Cost (PkR mn)

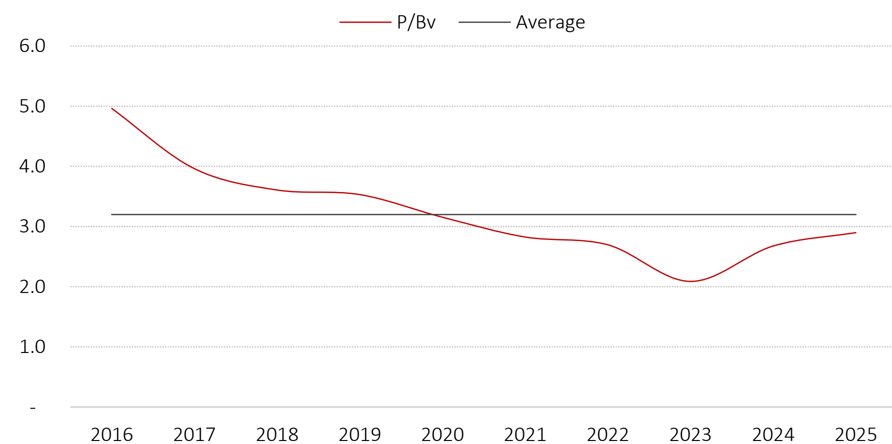



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

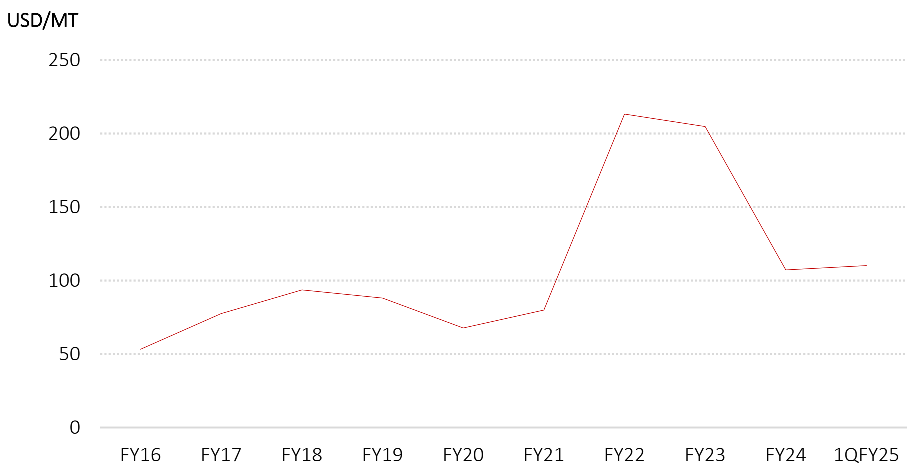
# Economic recovery to bode well for construction

**Cement growth outlook:** Inflation eased to 7.2% in Oct'24 from 26.8% in Oct'23, prompting a 900bps policy rate cut from 22% in Jun'24 to 13%. With disinflation expected to continue, further rate cuts are likely supporting economic recovery. The real interest rate in Nov'24 was 7.8%, unsustainable, reinforcing the case for more cuts. Local cement dispatches fell 15% YoY in 4MFY25 due to fiscal measures and royalties in Punjab but are projected to decline by 9% for FY25. By FY26, low inflation and reduced rates are expected to boost demand, with a 5% YoY rise in local dispatches.

**Coal is the largest cost contributor:** Coal, comprising 40%-45% of cement production costs, heavily influences cement prices. After peaking at USD 460/ton in Mar’22, coal prices averaged USD 202.4/ton in FY23, ending at USD 100/ton due to global slowdowns and excess supply. In FY24, soft demand, particularly from China, kept coal prices low, averaging USD 108/ton, boosting cement margins and profitability. Cement companies diversified fuel sources, using Afghan and local coal to mitigate price and currency fluctuations.

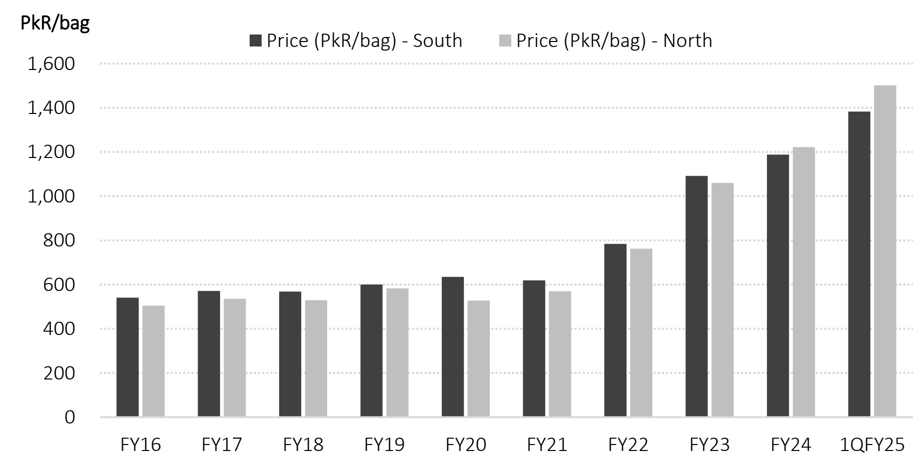
**Raising renewables share in power mix:** In July 2024, the government raised consumer base tariffs by PKR 5.72/kWh, sparing industrial tariffs, but grid electricity costs for industries remain regionally uncompetitive. To cut energy costs, cement companies have adopted solar, waste heat recovery, wind power, and coal plants, reducing grid reliance. The sector’s energy mix now comprises 24% grid, 32% waste heat recovery, 25% captive, and 18% renewables, aiding profitability and margins.

Coal (USD/Ton)




*Source: Bloomberg, BMA Research*

Cement Price (PkR/bag)




*Source: Bloomberg, BMA Research*

# Thatta Cement Company (THCCL) – Target: PkR 396/sh

Our liking of the stock stems from i) utilization levels on the rise, ii) entry into the tractor business, iii) healthy cash flows, iv) efficient fuel and power mix to enhance margins, and v) production efficiencies.

**Utilization levels on the rise:** Thatta Cement's plant operating rates rose sharply over the past two years compared to industry peers. Historically, its capacity utilization stood around 20pps below the southern region's cement industry. During FY23 and FY24, its utilization rates came on par with the region. Given the company's exit from the APCMA forum, we foresee its utilization rates remaining higher in the coming years.

**Entry into tractor business:** Minsk Tractor (100% owned by THCCL) plans to import 2,500 CBU tractors in its first year, with the LC already opened and the initial shipment expected this year. Additionally, the company has an assembly plant in place for SKD and CKD units and aims to sell 6,000 tractors annually. These tractors are positioned at a premium price (PkR 6.5mn) compared to local models, with expected net margins of around 15%. Our back-of-the-envelope calculations suggest that this would add PkR 2.4bn to earnings (PkR 28.7/sh).

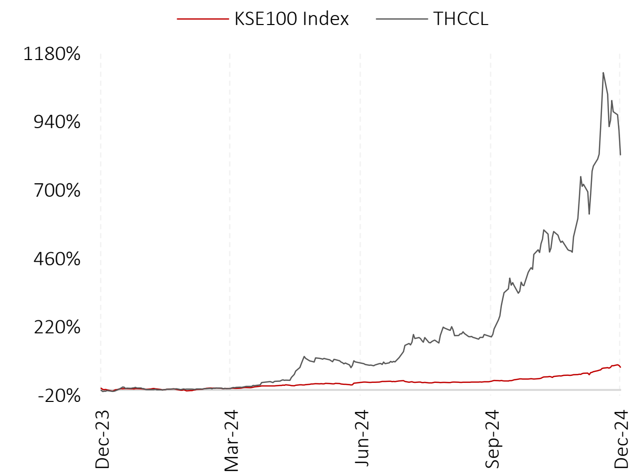
**Healthy cash flows may expedite efficiency projects or improve cash yields:** THCCL's improved cash flows may support the company's plan to enhance its efficiency dynamics. Increased cash generation may also raise the company's potential cash yields. Notably, the company concluded its stock buyback of 15 million shares, signaling perceived undervaluation for its company.

**Heightened focus on production efficiencies:** Thatta Cement is enhancing efficiency through green technologies, installing 3.5MW solar panels and a 4.8MW windmill to reduce reliance on the national grid. The company's current solar capacity is 3.4MW, and its waste heat recovery (WHR) stands at 4.0MW, contributing PkR 3.3/share to its bottom line.

**Efficient fuel and power mix to enhance margins:** THCCL's gross margins may rise from 29% in FY24 to 38% in FY25-FY27. EBITDA margins may also increase to 47%, driven by greater reliance on local coal, declining coal prices, higher utilization rates, and improved power efficiencies.

**Valuation:** The stock is currently trading at an FY26F PE of 7.1x, as compared to its 5-year average PE of 8.0x, representing a discount of 11%. THCCL offers a potential upside of 90% with Target Price of **PkR 395.5/sh (Cement operations PkR 228/sh + Tractors PkR 167.5/sh).**

### KSE100 Index Vs. THCCL Performance



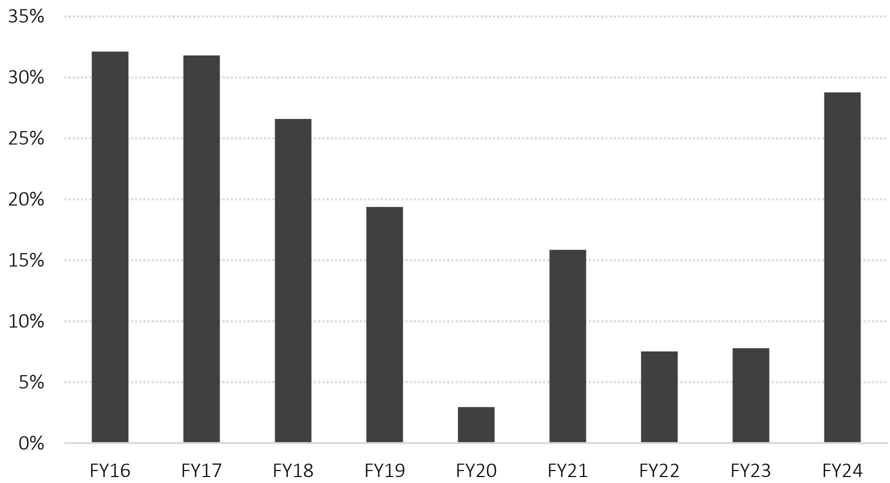

### THCCL Financial Overview

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 17.7 | 26.4 | 29.1 |
| DPS (PkR) | 1.0 | 2.0 | 4.0 |
| PE (x) | 11.7 | 7.9 | 7.1 |
| PB (x) | 4.2 | 8.5 | 4.2 |
| Yield (%) | 0% | 1% | 2% |
| ROE (%) | 36% | 36% | 29% |

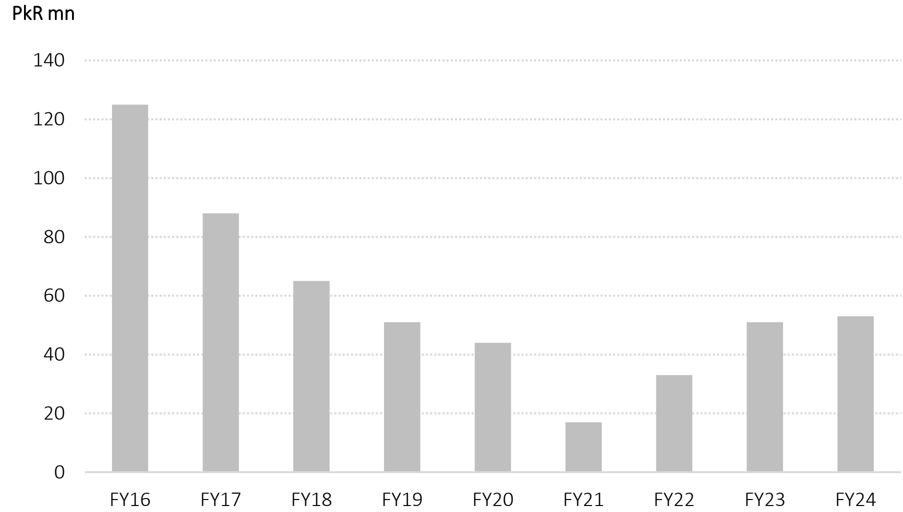
*Source: PSX, Company Accounts, BMA Research*

# THCCL Graphical Overview

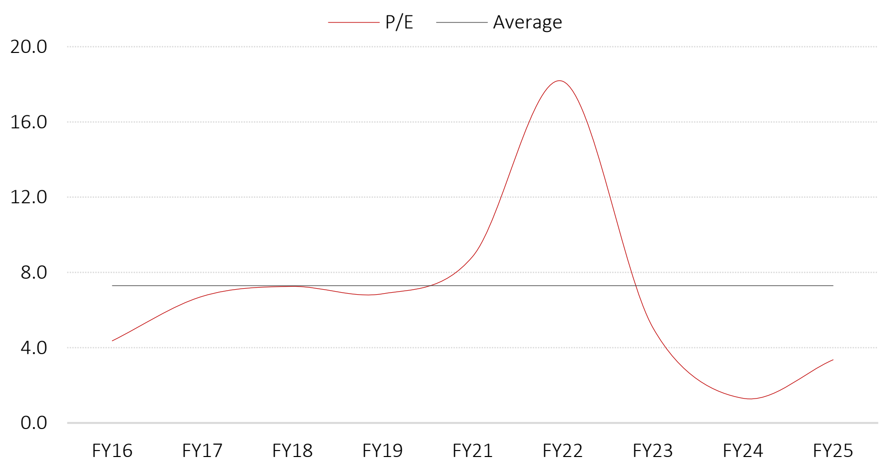
## Gross Margin




## Finance Cost (PkR mn)

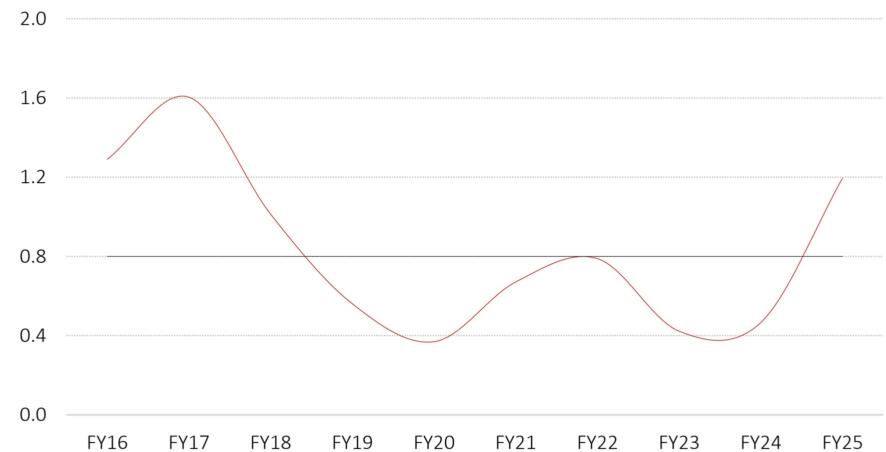



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Lucky Cement (LUCK) – Target: PkR 1,822/sh

Our liking on the stock stems from i) robust profitability from cement operations, ii) largest cement player, iii) rising share of renewables, and v) diversified business portfolio.

**Profitability of cement operations to remain robust:** LUCK's profitability is anticipated to remain robust on an unconsolidated basis, driven by expected growth in cement demand in FY26. This outlook is further supported by the company's cost reduction initiatives and dividend income from its subsidiary and associate companies.

**Largest cement player:** LUCK's 3.15mn ton brownfield expansion in the North, commissioned in FY23, solidified its position as the largest cement producer in the country, with a total capacity of 15.3mn tons. In FY24, the company's market share grew by 2.2%, reaching 18.7%. LUCK also benefits from an extensive distribution network comprising over 200 dealers and distributors.

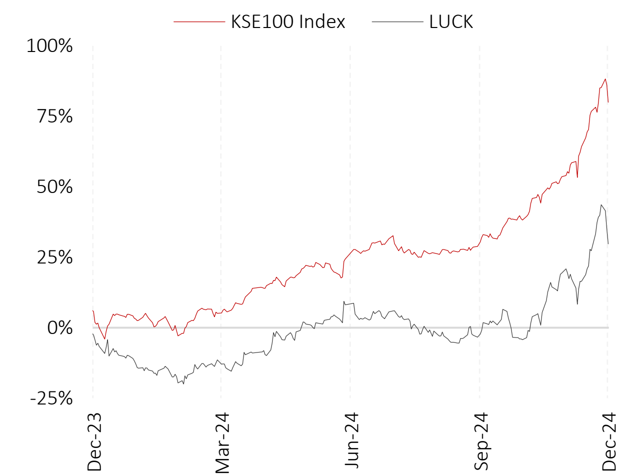
**Rising share of renewables in energy mix:** After successfully commissioning a 25 MW solar plant in 1QFY24, the company expanded its renewable energy portfolio with two additional solar plants, with capacities of 6.3 MW and 6.0 MW, located in Karachi and Pezu, respectively. These additions bring its total solar energy capacity to 74.3 MW.

Alongside this, LUCK operates a 56 MW waste heat recovery plant. Recently, the company further enhanced its renewable energy mix by commissioning a 28.8 MW wind power project at its Karachi plant, enabling nearly 50% of its energy requirements to be met through renewables, significantly reducing production costs.

**Diversified business portfolio:** LUCK has strategically diversified its revenue streams through investments across multiple sectors. Its portfolio includes an automobile assembly venture producing Kia and Peugeot vehicles, a cell phone assembly plant in partnership with Samsung, and a wind power project. The company also operates overseas cement plants in the Democratic Republic of Congo and Iraq. In the energy sector, LUCK invested in a 660MW coal power plant (LEPCL), which commenced commercial operations in March 2022 and is now running at full capacity. Additionally, LUCK has allocated PkR 1.0bn to National Resources Private Limited for copper and gold mining projects.

**Valuation:** The stock is currently trading at FY25E PE of 4.3x and an FY26F PE of 3.9x, as compared to its 10-year average PE (Ex. FY20 Covid Year) of 9.1x, representing a discount of 53% and 57%, respectively. **Our target for the stock is PkR 1,822/sh, offering an upside of 63%.**

### KSE100 Index Vs. LUCK Performance



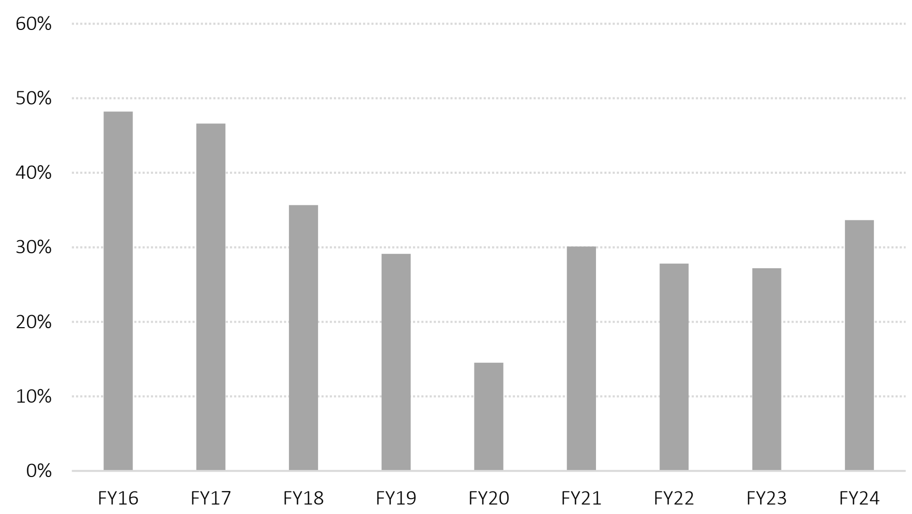

### LUCK Financial Overview

| | FY23 | FY24E | FY25F |
|---|---|---|---|
| EPS (PkR) | 223.7 | 260.4 | 286.9 |
| DPS (PkR) | 15.0 | 17.5 | 19.2 |
| PE (x) | 5.0 | 4.3 | 3.9 |
| PB (x) | 1.2 | 0.9 | 0.8 |
| Yield (%) | 1% | 2% | 2% |
| ROE (%) | 24% | 22% | 20% |

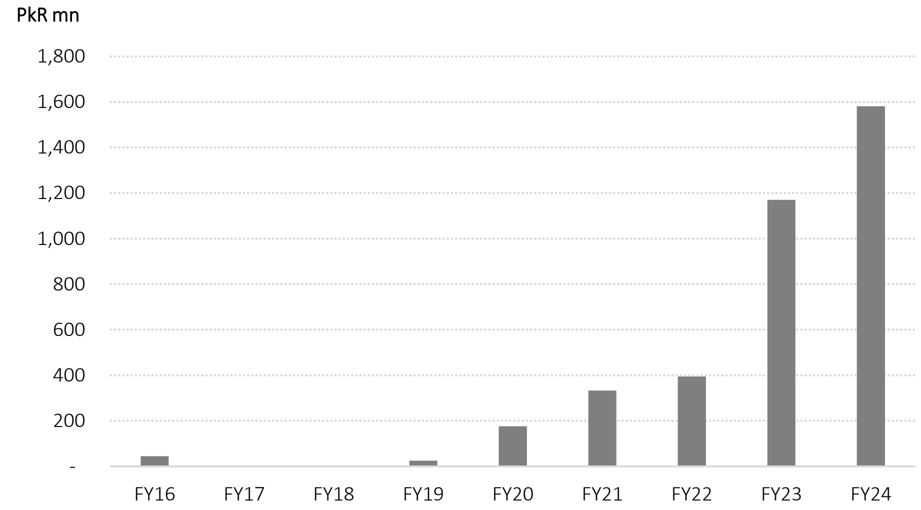
*Source: PSX, Company Accounts, BMA Research*

# LUCK Graphical Overview

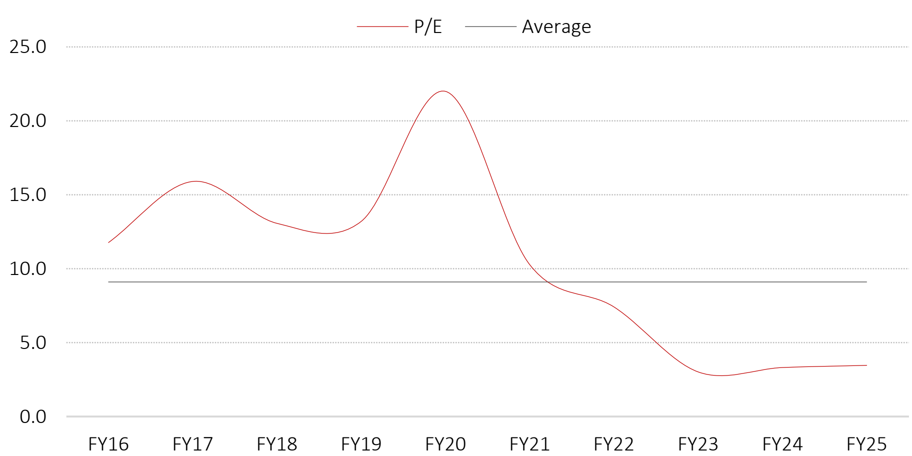
## Gross Margin




## Finance Cost (PkR mn)

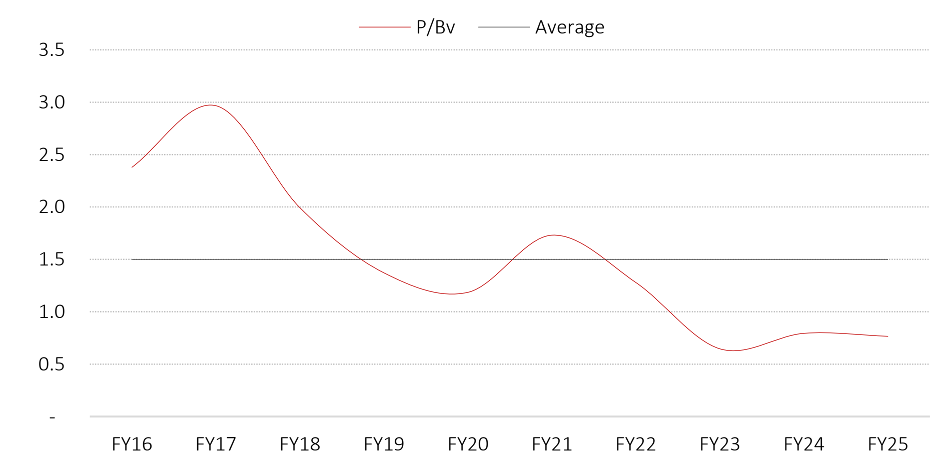



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Fauji Cement Company (FCCL) – Target: PkR 50/sh

Our liking of the stock stems from i) local demand to pick up from FY25, ii) timely expansion to strengthen market share, iii) heightened focus on production efficiencies, iv) strong pricing power, and iv) efficient fuel and power mix.

**Local demand to pick up from FY25:** We expect local cement demand to grow at 5% in FY26 owing to improved economic conditions. Onwards, we have assumed a 7% growth in local sales amidst expectations of economic and political stability in the country.

**Timely expansion to strengthen market share**: Fauji Cement has become the 3rd largest cement player in the country. Its amalgamation with Askari Cement along with additional capacities of 4.1mn MT has enhanced the company's cumulative capacity to 10.5mn MT. The expansion raised FCCL's capacity-based market share from 10.5% to 13.1% in Pakistan. In the North region, its capacity-based market share increased by 3.2pps to 16.4%.

**Heightened focus on production efficiencies:** Fauji Cement also strives to become one of the most efficient cement players in the industry by using green technologies. Presently, the company's solar generation capacity stands at 40MW and its WHR stands at 55MW. These efficiencies yield potential savings of PkR 100/bag for the company.

**Efficient fuel and power mix to enhance margins:** We expect FCCL gross margins to improve from 32% in FY24 to 34-37% over FY25-FY27. Similarly, EBITDA margins are expected to improve from 30% in FY24 to 35-38% over the same period. The anticipated improvement in margins is on account of decline in coal prices, efficient fuel mix and power efficiencies.

**Strong pricing power to support bottom-line despite low utilization rates:** Despite low utilization rates, we believe that domestic cement prices will not come under pressure. The industry is expected to keep margins at sustainable levels to ensure its debt-servicing capacity. We have assumed a 5% increase in retail cement prices for FY25 and 4% for FY26. We believe strong pricing power will enable the sector to sustain its profitability despite low operating rates.

**Valuation:** FCCL offers a potential **upside of 35% to our target price of PkR 49.5/share**. The stock is currently trading at an FY25E PE of 6.9x and an FY26F PE of 5.6x, as compared to its five-year average PE of 8.9x, representing a discount of 29% and 43%, respectively.

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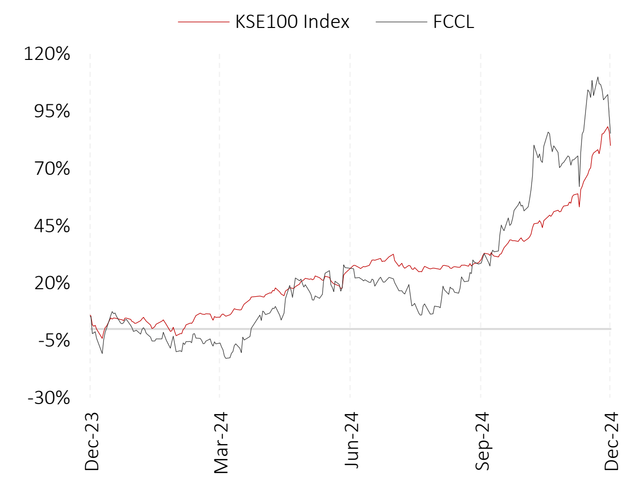
### KSE100 Index Vs. FCCL Performance



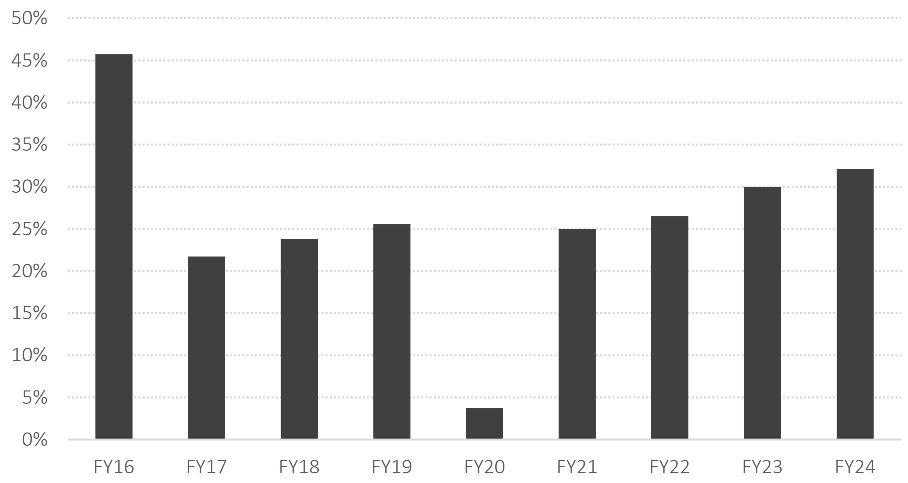

### FCCL Financial Overview

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 3.4 | 5.3 | 6.6 |
| DPS (PkR) | 1.0 | 1.6 | 2.0 |
| PE (x) | 10.9 | 6.9 | 5.6 |
| PB (x) | 1.2 | 1.1 | 1.0 |
| Yield (%) | 3% | 4% | 5% |
| ROE (%) | 11% | 16% | 17% |

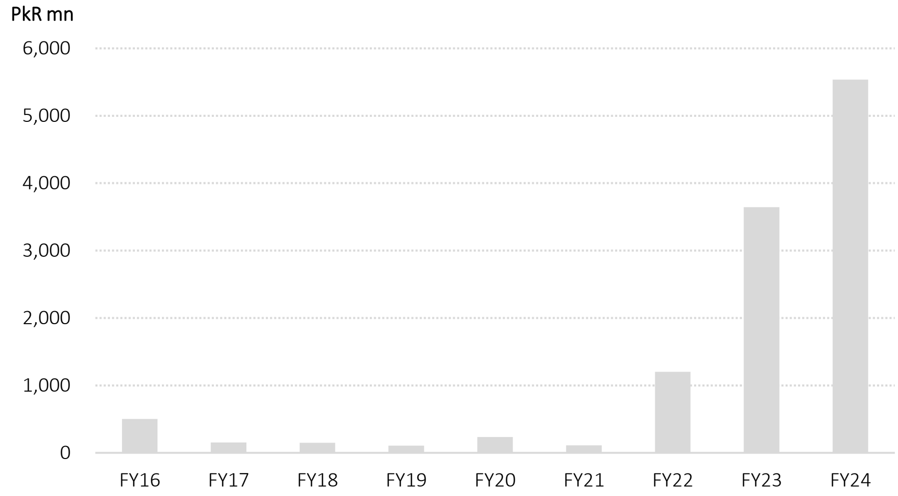
*Source: PSX, Company Accounts, BMA Research*

# FCCL Graphical Overview

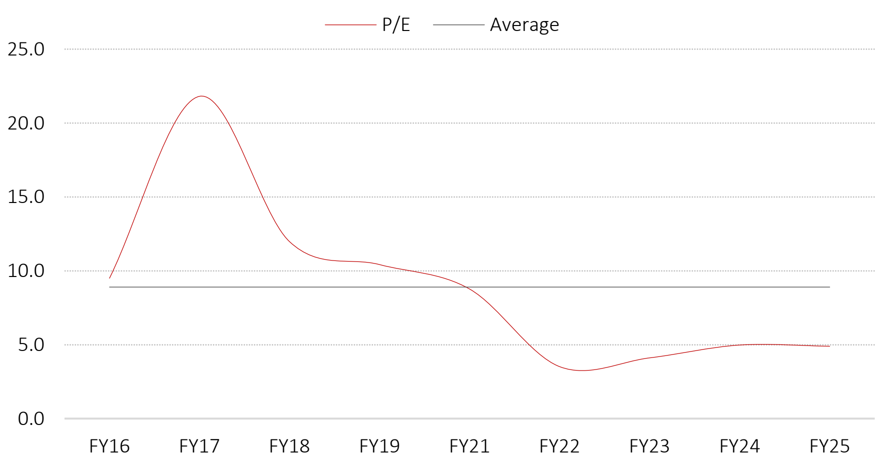
## Gross Margin




## Finance Cost (PkR mn)

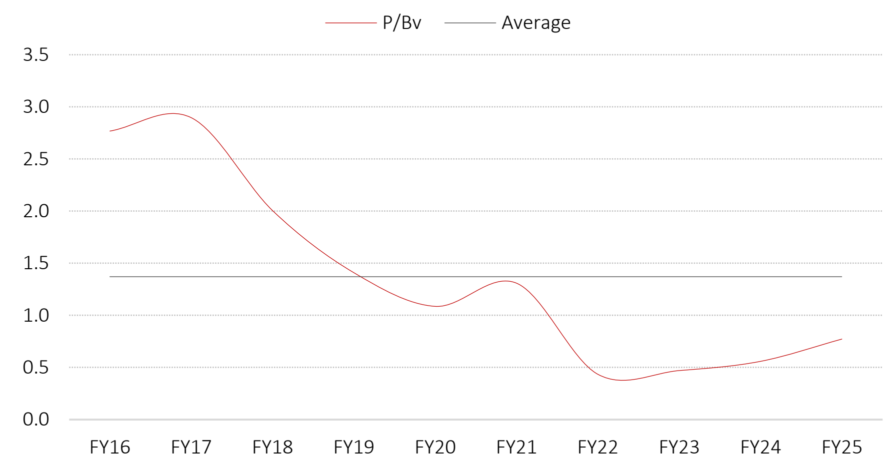



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Maple Leaf Cement Factory (MLCF) – Target: PkR 71/sh

Our liking of the stock stems from: i) timely expansion to get a higher market share, ii) efficient fuel and power mix, iii) strong pricing power, and iv) strong cash generation to support future investments.

**Timely expansion to get higher market share:** MLCF was one of the cement companies that embarked on its fourth expansion cycle with a capacity of 2.1mn tons to 7.8mn tons. With the addition of a new production line, MLCF is the fourth largest player in the North region. This timely expansion raised MLCF's market share in the North from 11% in FY22 to 12% in FY23 and we expect the company to maintain its market share in the coming years.

**Efficient fuel and power mix to improve margins:** We expect MLCF gross margins to improve from 34% in FY24 to 35-37% over FY25-FY27 mainly due to a decline in coal price, and improvement in power and fuel mix. We expect international coal prices of USD 110/ton based on our discussions with industry players. MLCF is one of the most efficient players in the sector.

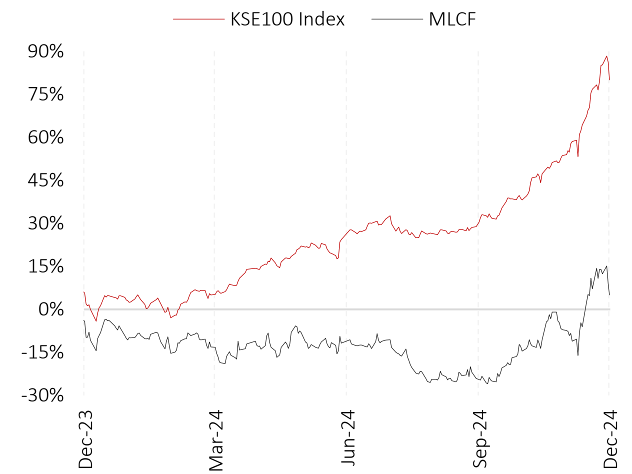
MCLF utilizes local coal with a higher sulfur content and benefits from a favorable power mix, including a coal-fired power plant, WHR (Waste Heat Recovery), and a solar plant.

**Strong pricing power despite low utilization:** Our discussion with industry players suggest that cement prices will not change significantly on either side. Furthermore, MLCF's superior quality product has enabled it to charge higher prices, leading to a higher retention price

**Strong cash generation to future investments:** MLCF announced an equity investment of PkR 4bn in Novacare Hospital (Pvt.) Limited. The company is planning to build 3 state of the art equipped with the latest machinery hospitals in 3 main cities of Pakistan at an estimated cost of PkR 30bn. The company is planning to finance this project with a debt-to-equity ratio of 50%. MLCF management expects to generate a 40% ROI on this investment.

**Valuation:** MLCF offers a **potential upside of 57% to our target price of PkR 70.7/share**. The stock is currently trading at an FY25E PE of 6.4x and an FY26F PE of 5.3x, as compared to its 10-year average PE (Ex. FY20 Covid Year) of 8.6x, representing a discount of 26% and 39%, respectively.

**KSE100 Index Vs. MLCF Performance**



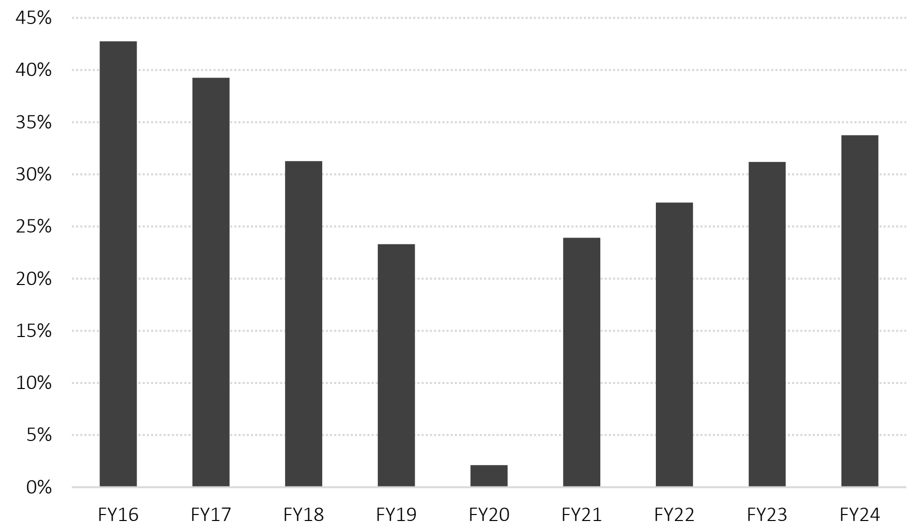

**MLCF Financial Overview**

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 6.6 | 7.1 | 8.5 |
| DPS (PkR) | 0.0 | 0.0 | 1.5 |
| PE (x) | 6.8 | 6.4 | 5.3 |
| PB (x) | 0.8 | 0.7 | 0.6 |
| Yield (%) | 0% | 0% | 3% |
| ROE (%) | 12% | 11% | 12% |

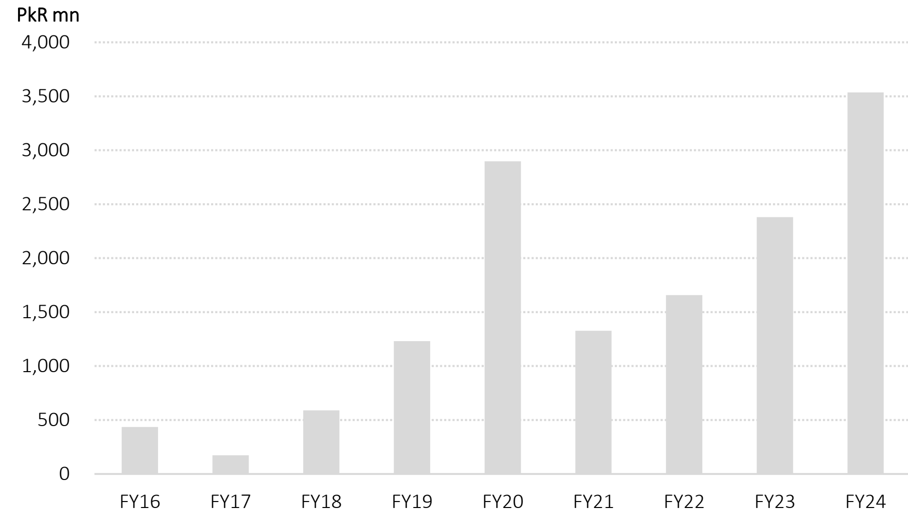
*Source: PSX, Company Accounts, BMA Research*

# MLCF Graphical Overview

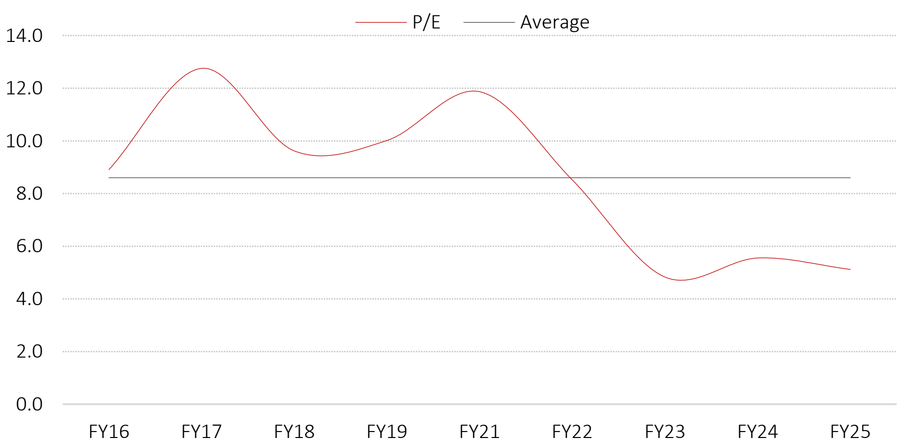
## Gross Margin




## Finance Cost (PkR mn)

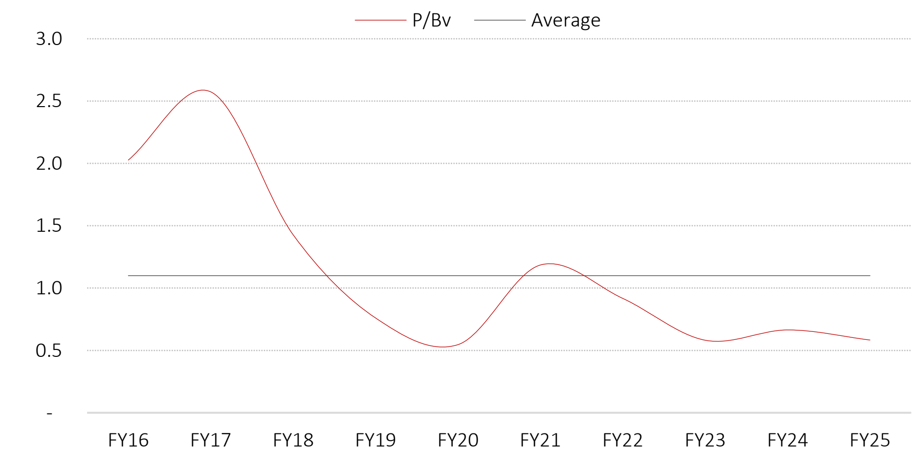



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Economic recovery to bolster sales outlook

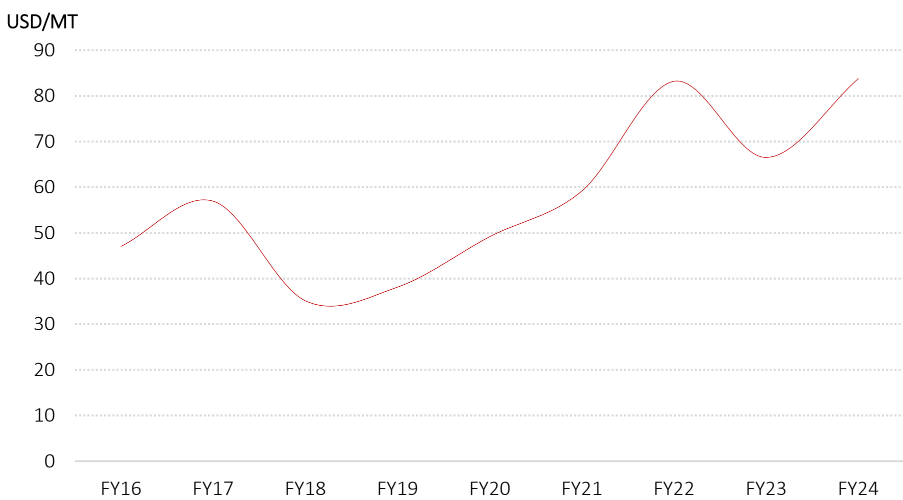
**Domestic steel industry:** The steel industry is divided into two sub-sectors based on product type: (1) Flat Products and (2) Long Products. Flat Products, such as hot-rolled and cold-rolled coils, are primarily used in industries like automotive, electronics, and construction. In contrast, Long Products, including rebars, girders, and channels, are predominantly utilized in the construction sector.

**Pakistan remains one of the lowest per capita steel:** Pakistan remains an under-penetrated market for steel, with per capita consumption at just 40 kg—one of the lowest globally—compared to the world average of 219 kg. It also trails behind regional peers such as India and Sri Lanka. This presents a significant growth opportunity for local players.

**Steel demand moves in tandem with cement demand:** Rebar, a key construction material, is closely linked to cement consumption, with high-rise projects requiring a higher rebar-to-cement ratio. Experts estimate 1 ton of steel is used for every 8 tons of cement in construction. Historical data shows a correlation of 0.56 between cement demand and GDP growth. With Pakistan's GDP projected to grow at ~4% annually over the next five years, driven by improved macros and CPEC projects, steel demand is expected to rise by an average of 5% per year.

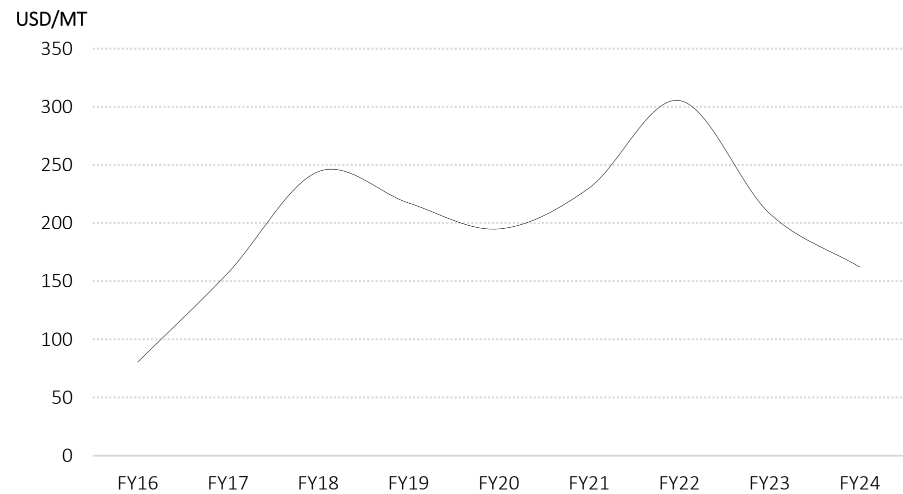
**The rebar industry is highly fragmented:** Pakistan's long steel sector is fragmented, with over 300 players and an estimated capacity of 5mn tons. It includes graded steel manufacturers and smaller ungraded re-rollers sourcing materials from the shipbreaking industry. Amreli Steel is the market leader, with a capacity of 605,000 tons.

**CRC-HRC (USD/Ton)**




*Source: Bloomberg, PSX, BMA Research*

**Rebar-Scrap (USD/Ton)**




*Source: Bloomberg, PSX, BMA Research*

# International Steels (ISL) – Target: PkR 135/sh

Our liking of the stock stems from i) relatively resilient demand for 2/3 wheelers, ii) appliances demand trending higher, iii) rise in crop yields bodes well for flat steel demand, and iv) monetary easing cycle to further bolster profitability.

**Relatively resilient demand for 2/3 wheelers:** Relatively resilient demand for 2/3 wheelers: The 2/3-wheeler industry is responsible for around 50% of ISL's sales. The segment has shown relative resilience in Pakistan's volatile macroeconomic environment, with the industry's sales falling by 35% over two years. In comparison, the passenger car segment fell by 66% within the same timeframe. Going forward, with easing inflationary pressures and recovering economic activity, the demand for 2/3 wheelers may inch toward historical averages.

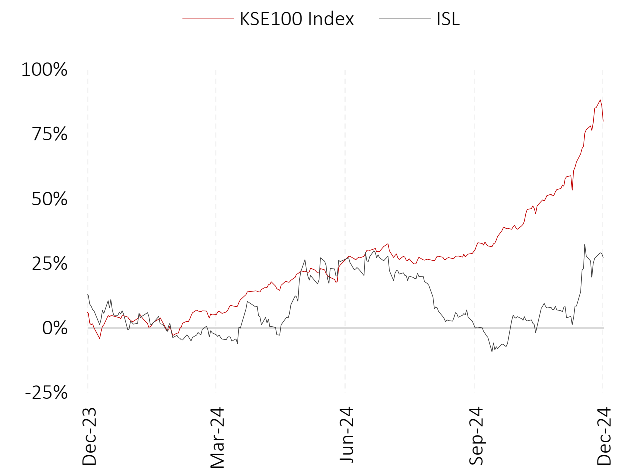
**Appliance demand trending higher:** The appliance industry is responsible for around 20% of ISL's sales. Our market assessment suggests that the demand for appliances has recovered considerably during 2HFY24, supported by a backlog of orders and lax LC restrictions. Given Pakistan's high-inflation environment, we think consumer preferences will incline towards cheaper locally assembled appliances rather than their imported counterpart. The local appliance industry may continue its recovery trend well into FY25.

**Rise in crop yields bode well for flat steel demand:** Pakistan's agriculture industry is responsible for around 10% of ISL's sales. The sector saw robust growth of 6.3% in FY24. Particularly, important crops witnessed a growth of 16.8%. FY25 may see the trend continue, driven by supportive policies. Notably, agriculture remains a strong part of the SIFC to induce foreign investment in the industry. As crop yields rise further, we may see the demand for storage silos rise, and in turn, induce demand for CRC from the agriculture industry.

**Monetary easing cycle to further bolster profitability:** Easing inflationary pressures have enabled the SBP to commence the monetary easing cycle. Notably, borrowing costs have come off by nearly 5pps from peak level, reducing the debt servicing burden for ISL. Moreover, monetary easing is likely a precursor to the recovery in Pakistan's economic cycle, benefitting most of the industries ISL caters. Moreover, ISL will also benefit from reduced servicing on its debt.

**Valuation:** The stock is offering a **potential upside of 56% with a Target Price of PkR 135.0/sh** along with a dividend yield of 5%. Stock is currently trading at FY25 PE 8.6x vs 5-year average PE 9.1x.

**KSE100 Index Vs. ISL Performance**



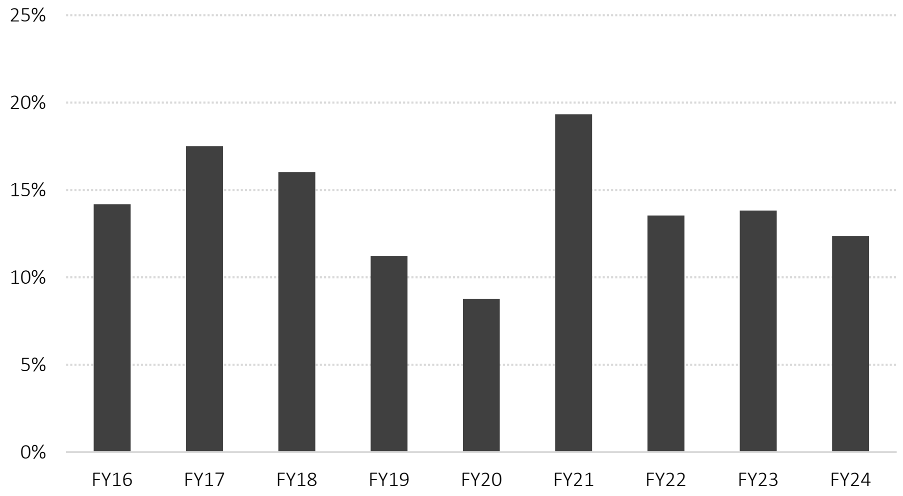

**ISL Financial Overview**

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 8.4 | 6.1 | 10.1 |
| DPS (PkR) | 5.5 | 4.0 | 6.6 |
| PE (x) | 10.3 | 14.2 | 8.6 |
| PB (x) | 1.6 | 1.6 | 1.5 |
| Yield (%) | 6% | 5% | 8% |
| ROE (%) | 16% | 11% | 17% |

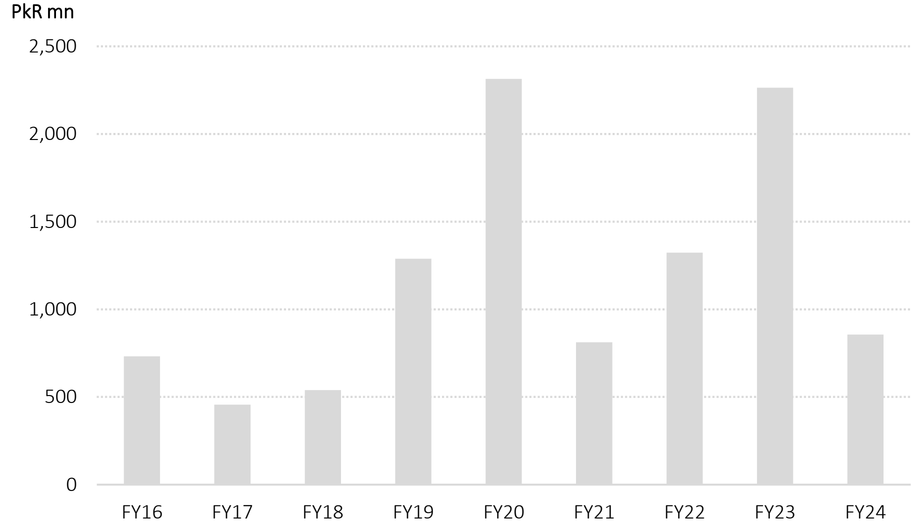
*Source: PSX, Company Accounts, BMA Research*

# ISL Graphical Overview

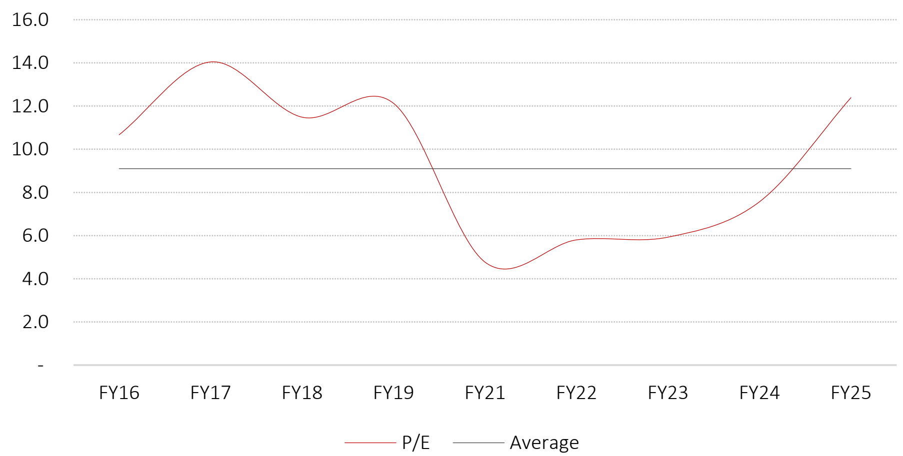
## Gross Margin




## Finance Cost (PkR mn)

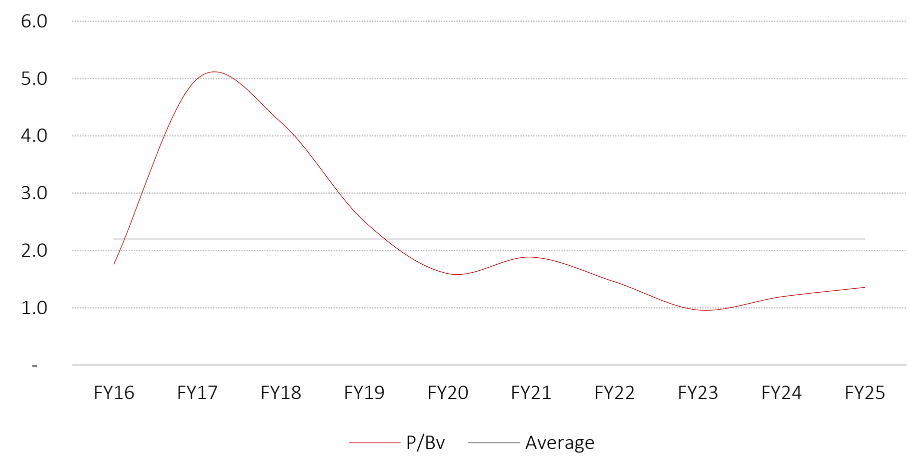



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Mughal Iron & Steel Industries (MUGHAL) – Target: PkR 108/sh

Our liking of the stock stems from i) construction sector demand set to increase, ii) declining interest rate and improved cash cycle, iii) coal plant to drive energy savings, and iv) identification of new export markets.

**Construction sector demand set to increase:** Domestic steel sector consumption is projected to grow by 4–5% in FY26, driven by improved macroeconomic conditions resulting in lower inflation and interest rates. Additionally, enhanced economic stability is expected to enable the government to boost spending on infrastructure projects, further supporting demand.

**Declining interest rates and improved cash cycle:** Lower interest rates, combined with an improved cash cycle driven by the automated recycling plant and increased local procurement, are expected to benefit Mughal significantly, given its highly leveraged position.

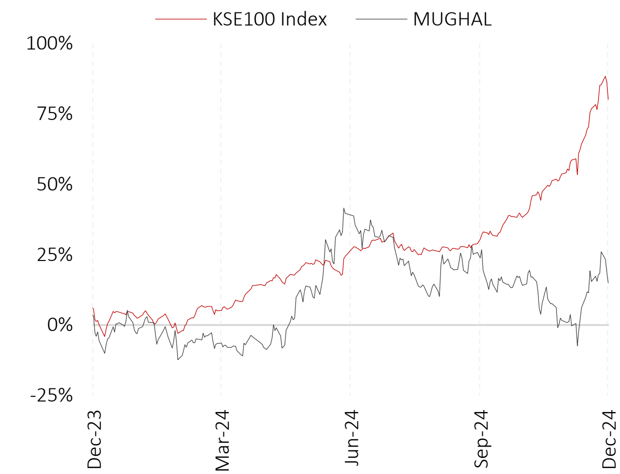
**Coal plant to drive energy savings:** Mughal is currently installing a 36.5 MW coal-fired power plant through its subsidiary, Mughal Energy Ltd., with the plant expected to commence commercial operations by the end of the third quarter of FY25. Consequently, we anticipate an improvement in gross margins, rising from 8.4% in FY24 to 11.0% in FY25 and 12.0% in FY26, driven by reduced dependence on the grid.

**Automation of non-ferrous operations to boost earnings:** Since July 2023, the company has transitioned to an automated copper recycling plant with a capacity of 90,000 tons per annum. This facility enables the production of premium copper granules while also reducing costs by generating steel scrap raw material for the ferrous segment.

**Copper prices expected to remain elevated:** The World Bank forecasts copper prices at USD 8,900 per ton for 2025 and USD 8,800 per ton for 2026, driven by increased demand from emerging technologies such as renewable energy, electric vehicles, and artificial intelligence. These projections are significantly higher than the long-term average of USD 7,000 per ton, reflecting a supply-demand gap of 3–4mn tons. Mughal exports copper ingots and granules, contributing 20% to revenue in FY24. As the pricing of these products is benchmarked to global copper prices, the anticipated rise in international copper prices is expected to benefit Mughal in the coming years.

**Valuation:** The stock is offering a potential **upside of 40% with a target of PkR 108.0/sh**. MUGHAL is currently trading at FY25 PE 6.5x against five-year average PE 9.7x.

KSE100 Index Vs. MUGHAL Performance



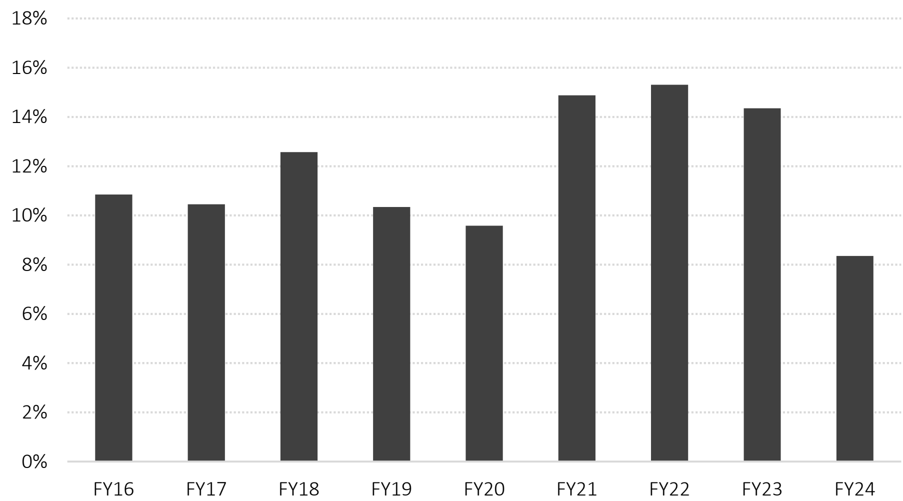

MUGHAL Financial Overview

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 6.0 | 6.4 | 11.9 |
| DPS (PkR) | 0.0 | 0.0 | 3.5 |
| PE (x) | 12.9 | 12.0 | 6.5 |
| PB (x) | 1.0 | 0.9 | 0.8 |
| Yield (%) | 0% | 0% | 5% |
| ROE (%) | 8% | 8% | 13% |

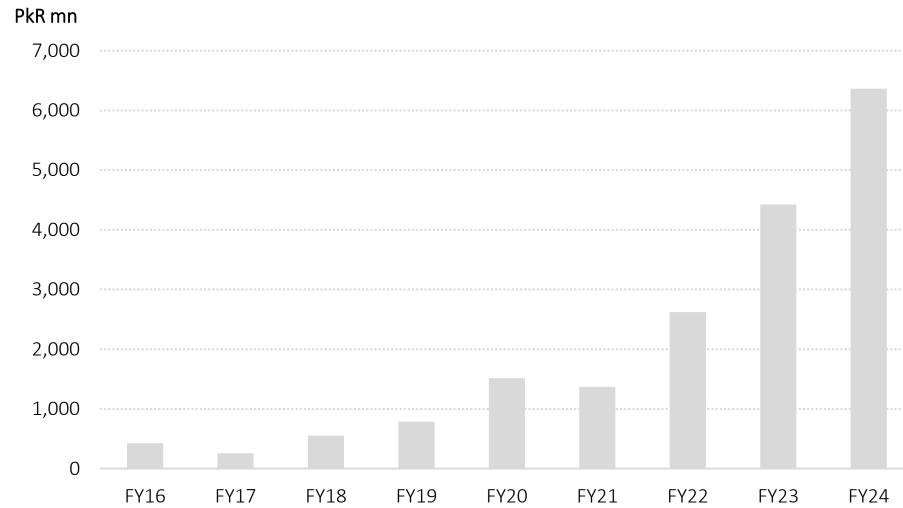
*Source: PSX, Company Accounts, BMA Research*

# MUGHAL Graphical Overview

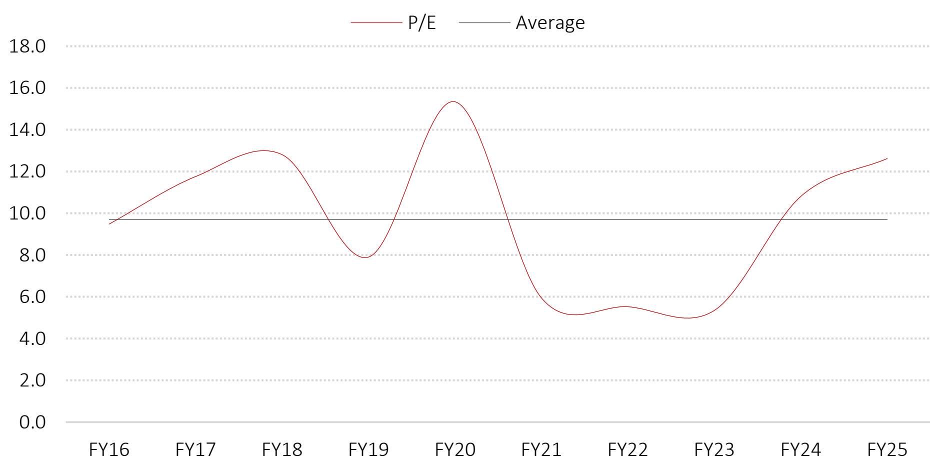
## Gross Margin




## Finance Cost (PkR mn)

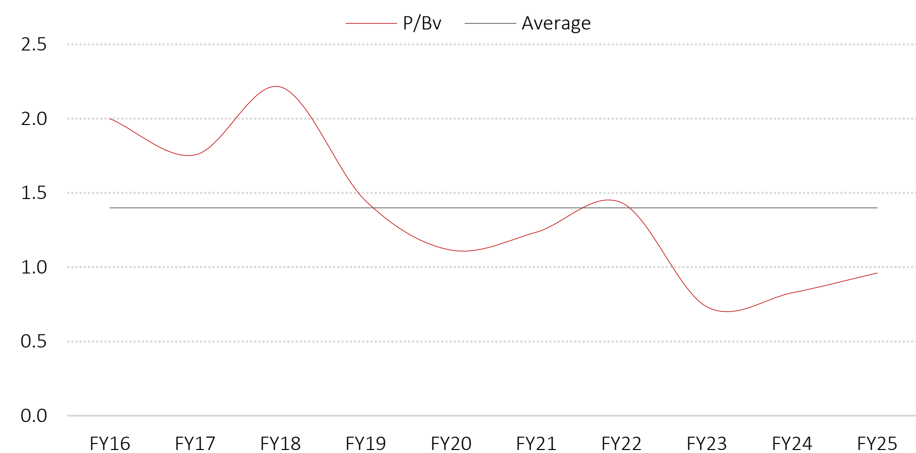



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Monetary easing cycle to support sales outlook

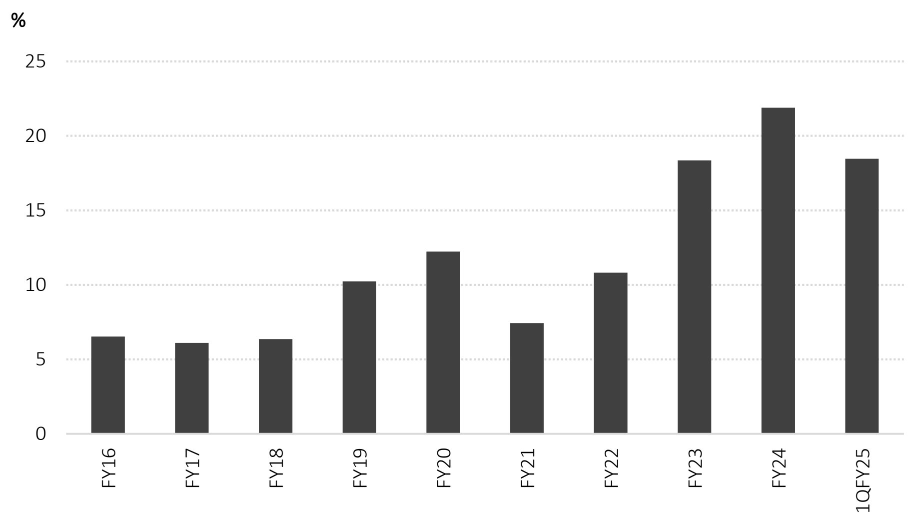
**Volumetric sales are expected to rise due to improved macros:** With improving macroeconomic indicators, the auto assembly sector is set for recovery in FY25. Key factors driving this include single-digit inflation, lower interest rates, PKR-USD stability, government support for hybrids and EVs, and falling fuel prices. These trends are reflected in 4MFY25 auto sales, which rose 50% YoY to 40.7K units. We expect FY25 auto sales to increase by 60% YoY, reaching around 166K units.

**Auto financing to provide much-needed push:** The SBP cut the policy rate by 900bps to 13% since Jun'24, easing auto financing rates. As a result, auto financing increased to PkR 228bn after 27 months of decline. With FY25, more attractive EMI plans from auto assemblers are also boosting volumes. We expect cheaper financing and better EMI options to drive growth in the auto sector.

**Stable PKR parity to improve margins:** The auto sector faced challenges in the past two years due to PKR depreciation, raising dollar-denominated costs, and pressuring margins. However, in FY24, the PKR improved by 2.7% against the USD, easing margin pressures. With further PKR stability expected, lower import costs could attract new players, boosting competition and aiding sector recovery.

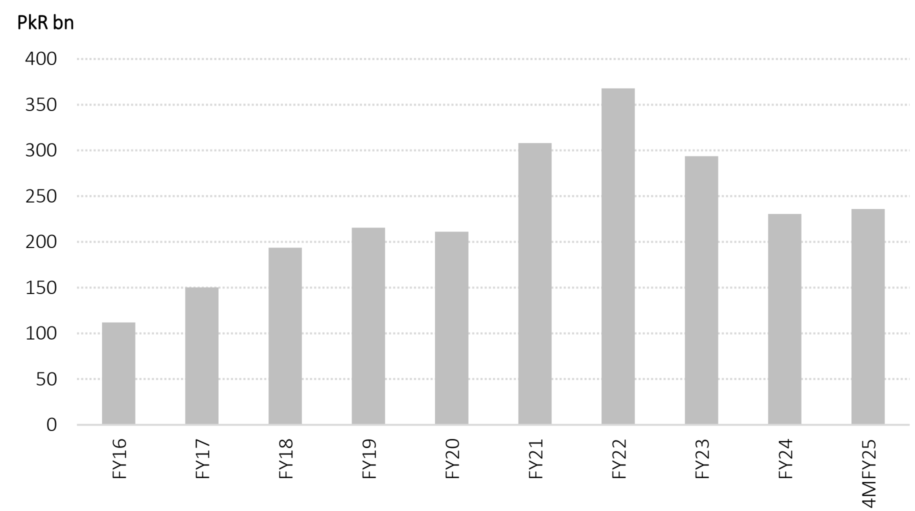
**New EV policy on the cards:** The government plans to finalize its electric vehicle policy by year-end to boost EV adoption. It will install 40 charging stations along motorways and 300 nationwide, with a power tariff of PkR 39.75/unit to keep charging affordable. These initiatives are part of a broader push to promote electric mobility in Pakistan.

6M KIBOR




*Source: SBP, BMA Research*

Financing (PkR bn)




*Source: SBP, BMA Research*

# Sazgar Engineering Works (SAZEW) – Target: PkR 1,608/sh

Our liking on the stock stems from i) growing four-wheeler sales to drive earnings growth, ii) Higher gross margins in the industry, iii) Potential launch of new energy vehicles, and iv) Preparedness for the competitive landscape.

**Growing four-wheeler sales to drive earnings growth:** SAZEW is currently selling over 700 units per month, and management expects the potential to reach over 40% utilization, which could increase monthly sales to 800 units, in our view. For FY25, we have projected monthly sales of 833 units, resulting in annual sales of 9,996 units, an 88% increase from the FY24 level of 5,364 units. For both FY26 and FY27, we have assumed a 5% growth in SAZEW's 4-wheeler volumes.

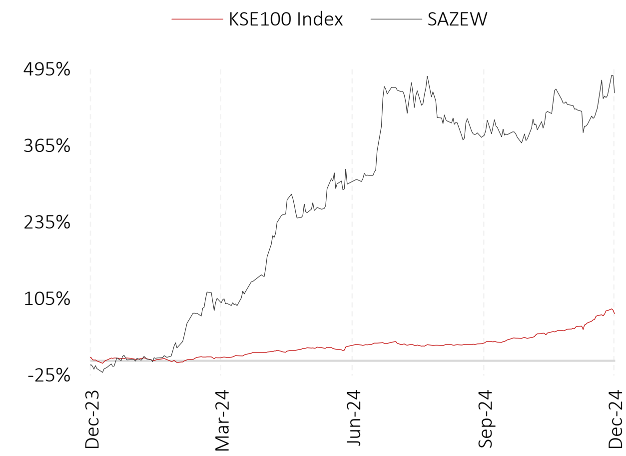
**Higher gross margins in the industry:** SAZEW reported gross margins of 27% in FY24 vs 12% of the industry gross margin. Management expects gross margins to remain strong, driven by (1) tax benefits under the Auto Policy until 2026, and (2) the company's presence in the SUV segment, which is relatively less price-sensitive. We expect gross margins of 29% and 27.6% for FY25 and FY26, following gross margins of 27.1% reported in FY24. Post FY26, or after the conclusion of the tax benefits, we anticipate gross margins to normalize to 16.9% in FY27 and 17.0% in FY28.

**Potential launch of new energy vehicles (NEVs):** The company plans a PkR 4.5bn investment to expand paint operations, build parts warehouses, install a 4MW solar system, and establish NEV assembly facilities. With strong interest in ORA EVs and Tank HEVs, these models may feature in the December 2025 rollout. Additionally, the dealership network will grow from 16 to 25 nationwide.

**Prepared for the competitive landscape:** SAZEW management expects sales to grow with the industry and is confident in tackling EV/HEV competition, including BYD, through testing models like ORA and Tank HEV. While their PkR 1mn EV rickshaw targets niche buyers, the PkR 425,000 traditional model remains dominant. They plan to expand exports to Africa and Southeast Asia amid gradual EV adoption.

**Valuation:** The stock is currently trading at an FY25E PE of 4.2x and an FY26F PE of 3.9x, as compared to its 5-year average PE (Ex. FY20 Covid Year) of 38.2x, representing a discount of 89% and 90%, respectively. The stock is offering a potential upside of **44% with a target of PkR 1,608/sh**.

### KSE100 Index Vs. SAZEW Performance



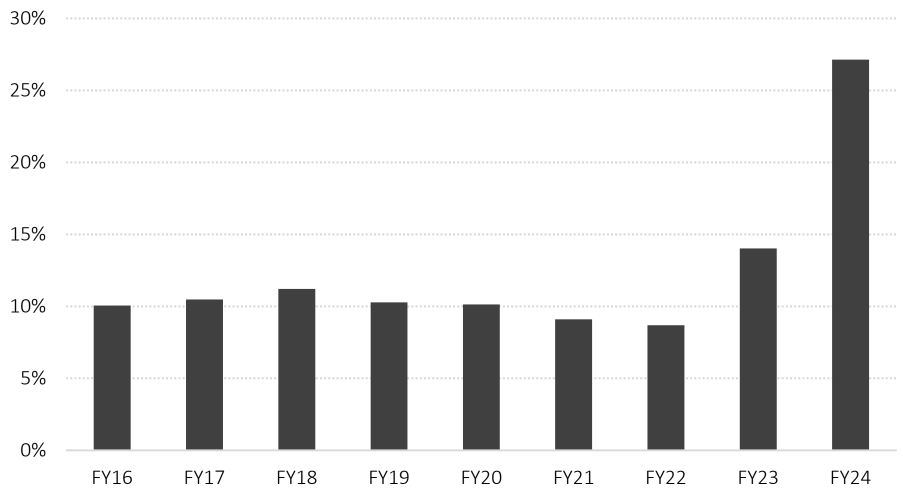

### SAZEW Financial Overview

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 131.3 | 268.0 | 285.8 |
| DPS (PkR) | 20.0 | 40.8 | 43.5 |
| PE (x) | 8.5 | 4.2 | 3.9 |
| PB (x) | 6.7 | 2.8 | 1.8 |
| Yield (%) | 2% | 4% | 4% |
| ROE (%) | 79% | 68% | 45% |

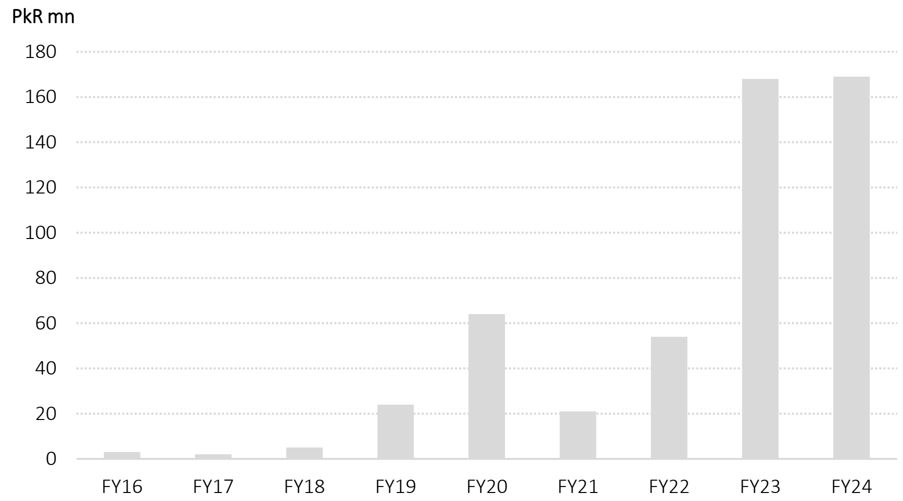
*Source: PSX, Company Accounts, BMA Research*

# SAZEW Graphical Overview

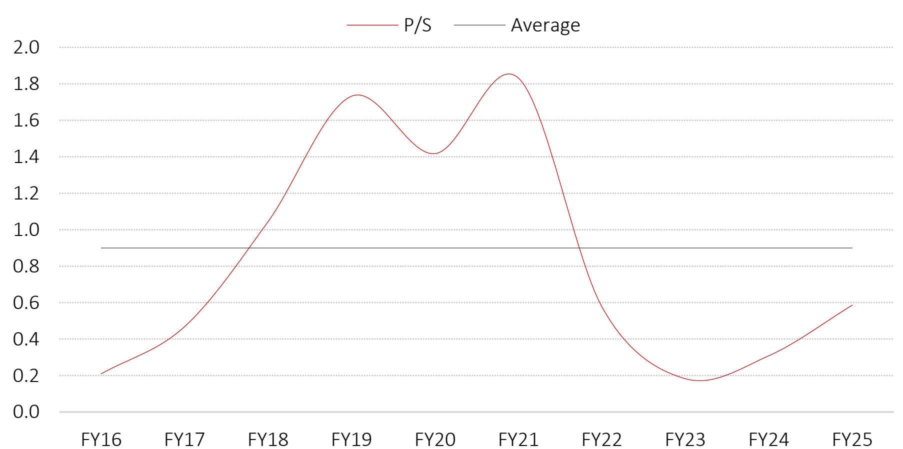
Gross Margin




Finance Cost (PkR mn)

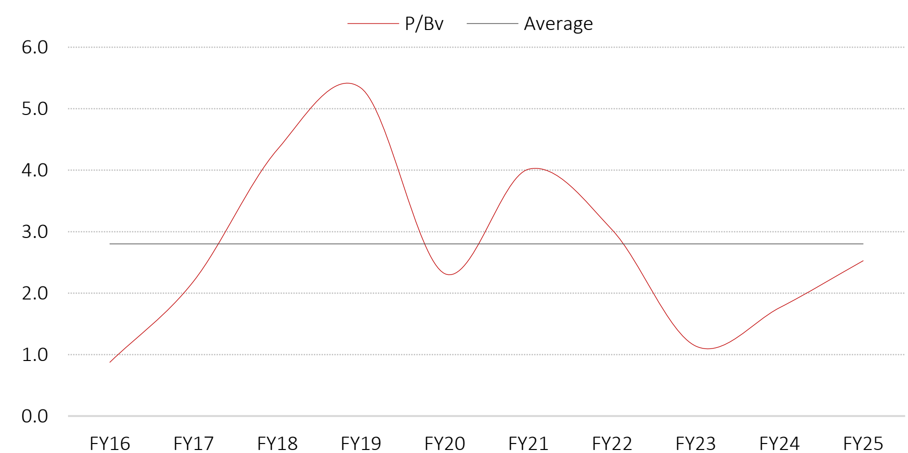



PS Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

Executive Summary



Top Picks



PSX Graphical Overview



Themes for 2025



PSX Performance Recap



Sectors in Brief



Geopolitical Overview



Pakistan Economy



**Sector Outlook & Top Picks**



Alpha Stocks



List of Abbreviations



Contact Details

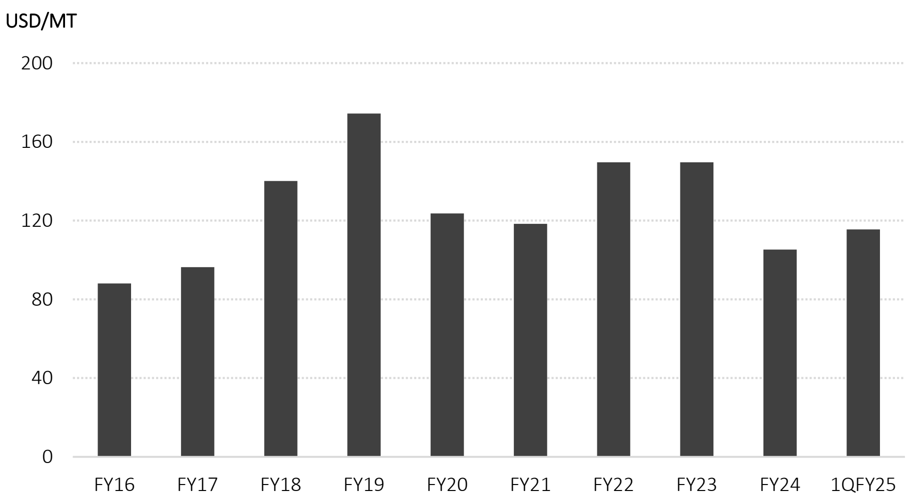
# Economic recovery to support sales outlook

Import substitution: Government efforts to curb imports have put the chemical sector in well position to benefit from it. Pakistan has been paying billions of dollars on unnecessary imports, resulting in the depletion of forex reserves of the country. In the past, the chemical sector's profitability had suffered due to the dumping of chemical products. In the case of PVC, PTA, hydrogen peroxide (H2O2), and some other chemical products. To restrict it, the National Tariff Commission (NTC) has imposed anti-dumping duties on the import of different chemical products. It bodes well for domestic producers to reap benefits from the protectionism act of NTC.

Margins: In November 2024, PVC-ethylene margins dropped to USD 275/ton, primarily due to a decline in PVC prices, which fell to USD 734/ton. The onset of the winter season reduced demand for piping in the construction sector, contributing to this price drop. Additionally, demand was further impacted by Diwali celebrations and elevated container freight costs from China. Meanwhile, PTA-PX margins increased to USD 103/ton, driven by a decline in PX prices amid weak buying sentiment. PTA prices also faced downward pressure during the month, falling to USD 660/ton. This decline can be attributed to weak demand from the downstream polyester sector, abundant supply, and lower feedstock costs.

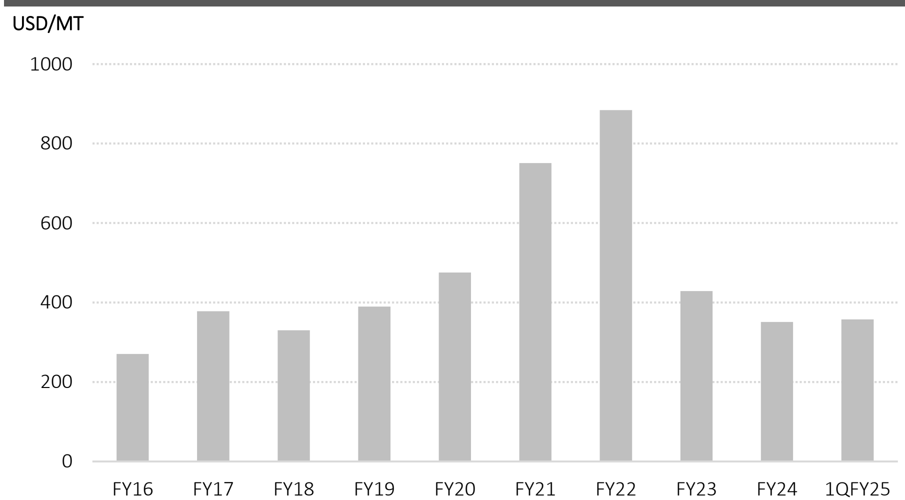
Margins likely to remain low: The outlook remains bearish, with the approaching New Year holidays and an expected rise in Chinese domestic production adding to the pressure. PVC demand is likely to remain muted during the winter months, keeping prices within a limited range. However, India's implementation of an anti-dumping duty on PVC could support an upward trend in prices.

PTA-PX (USD/Ton)




*Source: Bloomberg, BMA Research*

PVC-Ethylene (USD/Ton)




*Source: Bloomberg, BMA Research*

# Descon Oxychem (DOL) – Target: PkR 37/sh

Our liking of the stock stems from i) falling RLNG rates, ii) potential WACOG implementation, iii) Market share on the rise, and iv) identification of new export markets.

**Falling RLNG rates:** RLNG rates have reduced by 37% from their peak witnessed during CY22. Moreover, global oil prices continue to remain under pressure amidst falling global demand, further supporting the reduction in the expected RLNG rates.

**WACOG likely to be implemented:** Under the upcoming IMF program, the government is making progress in potentially implementing WACOG-based pricing. Given that 100% of DOL's raw material is procured through RLNG, the implementation of WACOG has the potential to reduce gas rates by 12-15%.

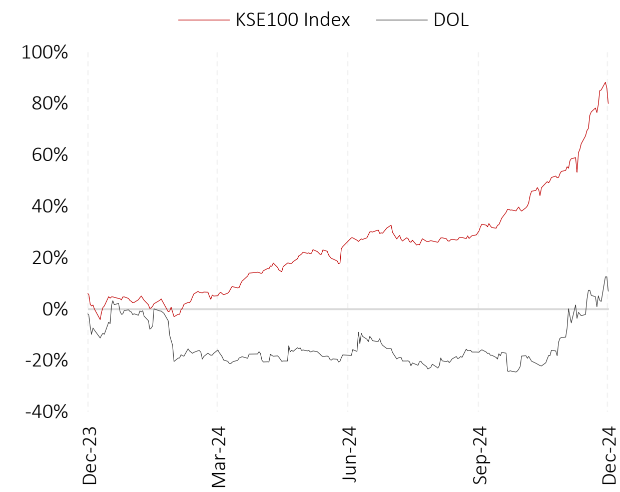
**Market share on the rise:** DOL's market share has risen by 15pps since FY19 to 64% presently. Improvement in share stems from the weakness of the Pak Rupee, disincentivizing imports. Moreover, operational issues faced by DOL's main competitor, Sitara Peroxide, further allowed the company to enhance its market share.

**Identification of new export markets:** The company is identifying new export markets for its products to diversify its revenue stream. FY23 saw the company export nearly 4kT, supporting its operating rates. Moreover, new export markets have the potential to alleviate domestic supply glut and support prices.

**Valuation:** We have used the Discounted Cash Flow (DCF) valuation methodology to calculate the fair value of the company. We have assumed a risk-free rate of 12%, an equity risk premium of 6%, a 2% commodity risk premium, and an adjusted beta of 1.20. Using a terminal growth rate of 3%, our target arrives at PkR 37.28/sh, offering an upside of 43%.

DOL is trading at an FY25F P/E of 5.7x, portraying a discount of 34% from its historic 10-year average P/E of 8.6x.

### KSE100 Index Vs. DOL Performance




### DOL Financial Overview

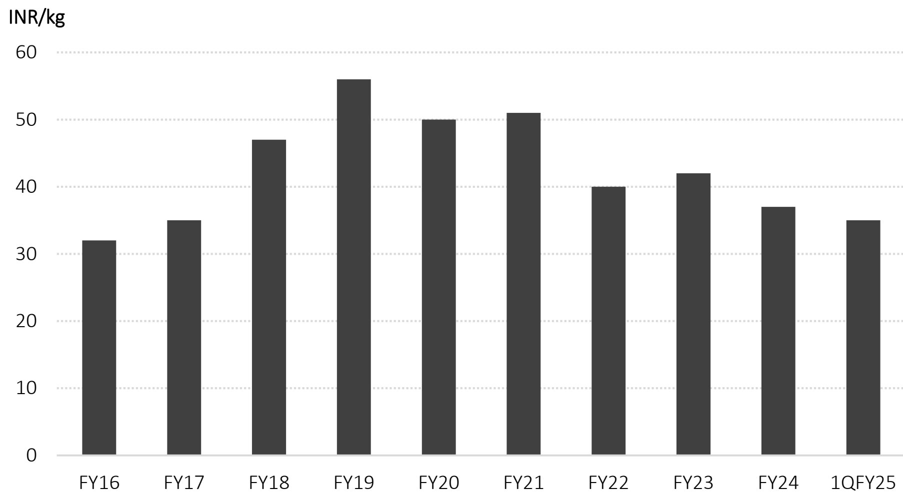
| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 2.7 | 4.6 | 4.9 |
| DPS (PkR) | 2.0 | 3.4 | 3.6 |
| PE (x) | 9.7 | 5.7 | 5.3 |
| PB (x) | 1.4 | 1.3 | 1.3 |
| Yield (%) | 8% | 13% | 14% |
| ROE (%) | 15% | 24% | 24% |

*Source: PSX, Company Accounts, BMA Research*

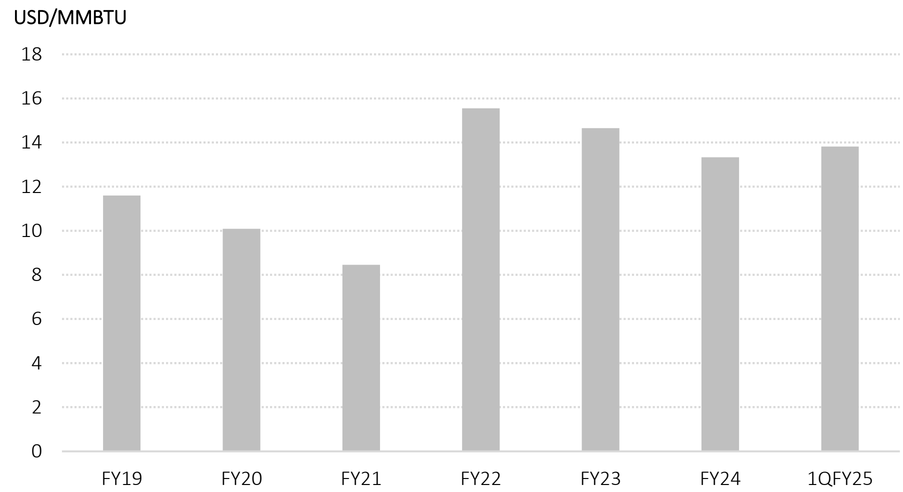
# DOL Graphical Overview

BMA CAPITAL

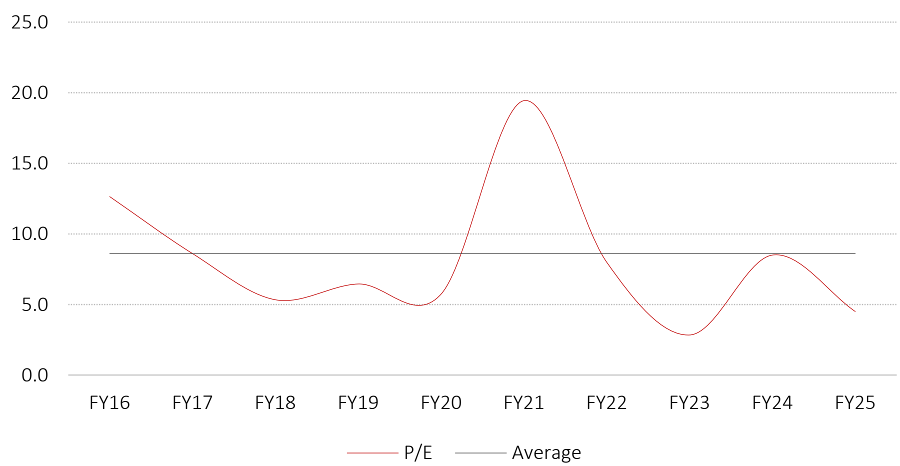
## Hydrogen Peroxide (INR/Kg)




## RLNG (USD/mmbtu)

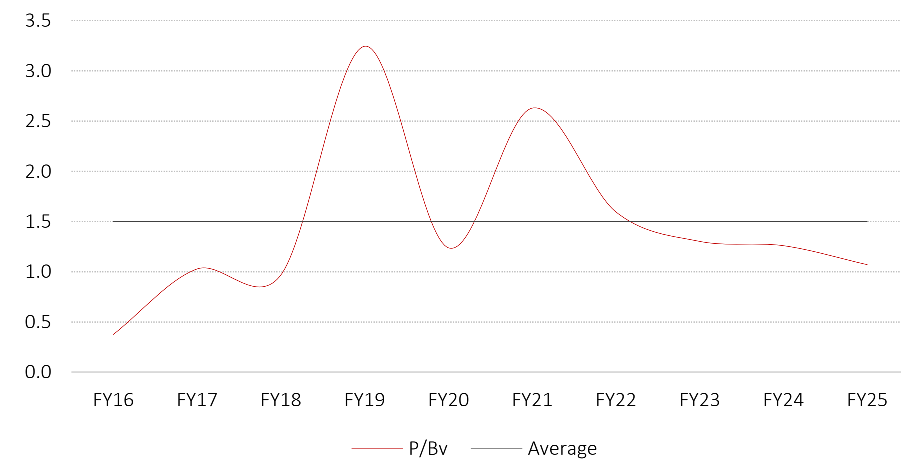



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Lucky Core Industries (LCI) – Target: PkR 1,654/sh

Our liking of the stock stems from i) diversified business portfolio, ii) deregulation of pharma to the extent of nonessential drugs to support pharma segment profitability, iii) acquisition of seven brands of Pfizer, iv) soda ash expansion and setting up nonessential Greenfield veterinary medicine manufacturing facility.

**Diversified business portfolio:** LCI is operating multiple business segments including pharma, soda ash, chemicals, polyester, and animal health. In FY24, the topline of the company clocked in at PkR 120.6bn, up 10.1% YoY majorly driven by 33% growth in Pharma sales. Whereas Chemical and Soda Ash reported growth of 33% and nonessential, respectively. Moreover, Polyester and Animal health segment sales remained flattish.

**Deregulation of pharma (nonessential):** To recall, the company raised prices of non-essential drugs by around 20% following the court's decision on deregulating non-essential drugs. It's important to note that these price increases took effect in April/May 2024, so the full impact will be reflected in FY25.

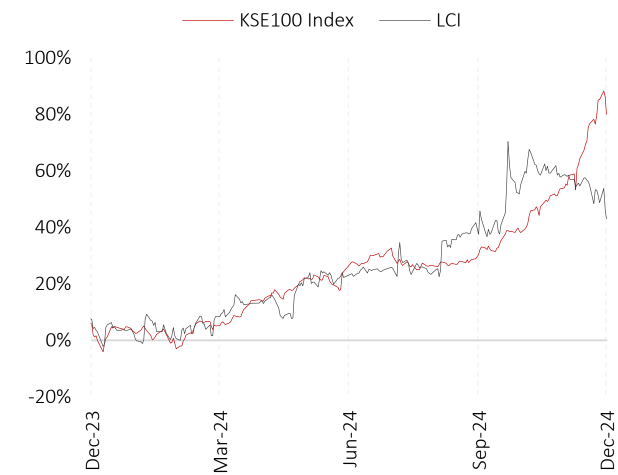
**Acquisition of seven brands of Pfizer:** According to management, the pharma segment's portfolio consists of 65% nonessential drugs. With the addition of the Pfizer portfolio, the non-essential drug mix will increase to approximately 75%, as most Pfizer brands are non-essential. Furthermore, Pfizer's acquisition has already been completed, with the company acquiring seven Pfizer brands.

**Soda ash expansion and setting up a greenfield vet medicine facility:** LCI holds a 65% market share in the local soda ash market. Total industry capacity of soda ash is 910k tons with LCI at 560k tons. Soda ash capacity expansion by around 200k is expected to be completed in 2-3 years' time, however it also depends on the demand. The project is currently in the design phase which will take 1 year and then construction will take 1-2 years.

Additionally, the company is also in process to set up Greenfield veterinary medicine manufacturing facility, which will cost around PkR 723mn. Civil work on the project has already commenced, with operations expected to begin in FY26.

**Valuation:** Stock is offering potential **upside of 53% with Target Price of PkR 1,654/sh**. The stock is currently trading at an FY25 P/E 7.7x vs 5-year average P/E 15.8x.

**KSE100 Index Vs. LCI Performance**



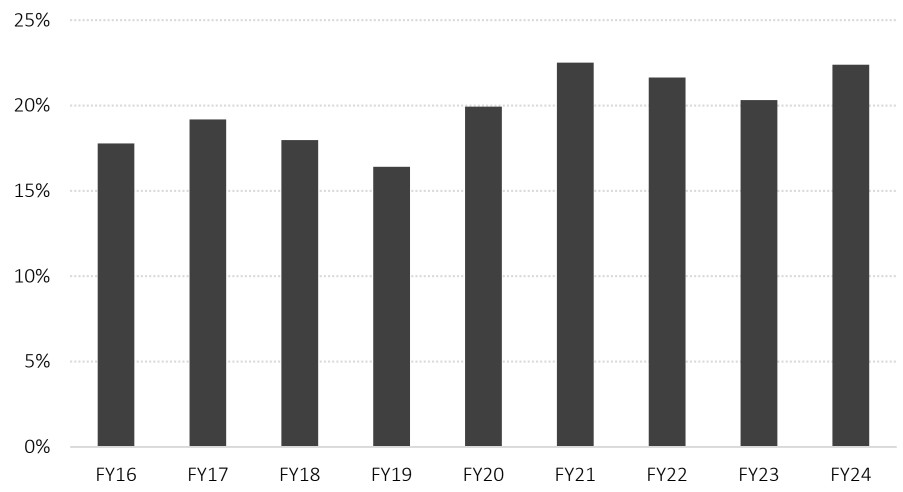

**LCI Financial Overview**

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 120.7 | 140.6 | 166.4 |
| DPS (PkR) | 60.0 | 70.0 | 80.0 |
| PE (x) | 8.9 | 7.7 | 6.5 |
| PB (x) | 2.0 | 1.8 | 1.6 |
| Yield (%) | 6% | 6% | 7% |
| ROE (%) | 23% | 23% | 24% |

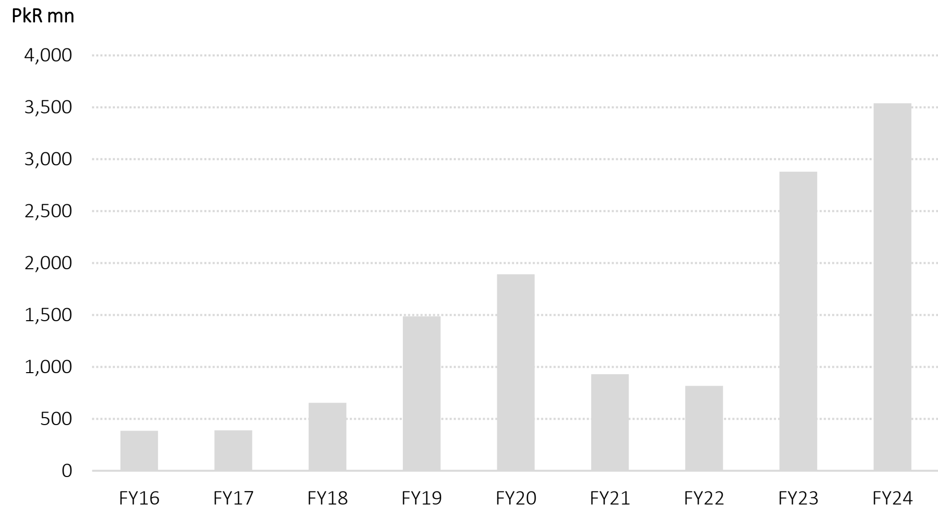
*Source: PSX, Company Accounts, BMA Research*

# LCI Graphical Overview

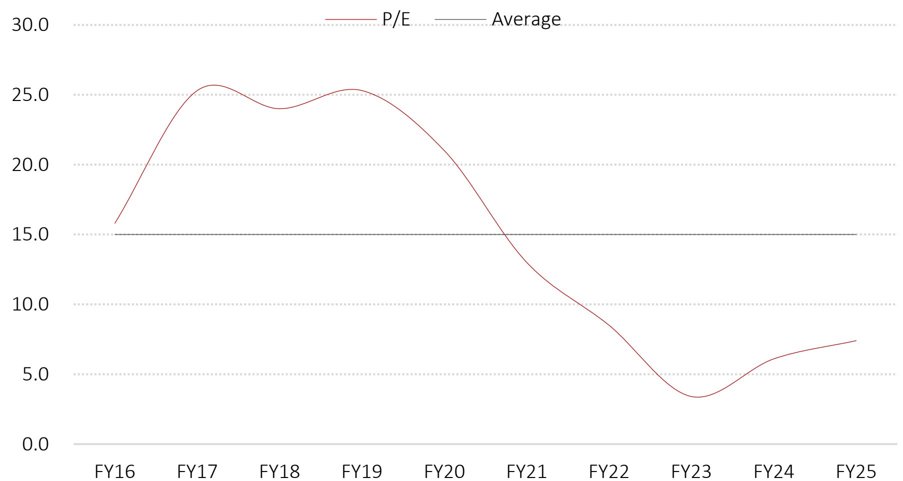
## Gross Margin




## Finance Cost (PkR mn)

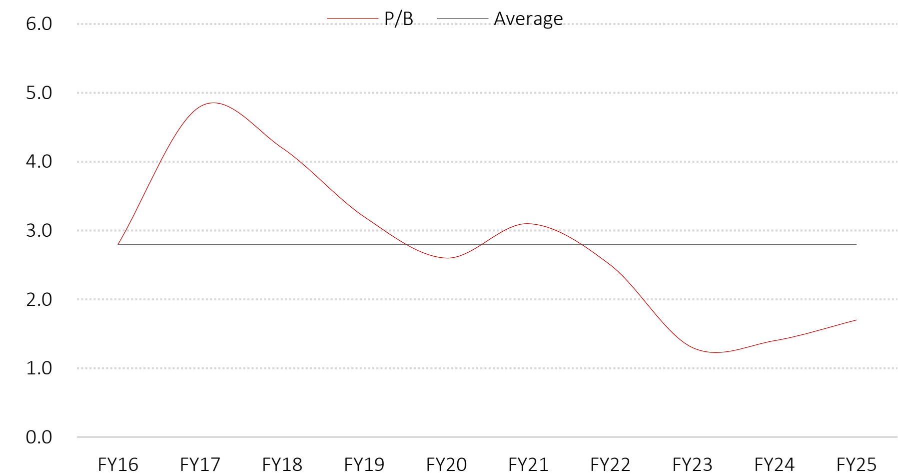



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Economic recovery to aid sales growth

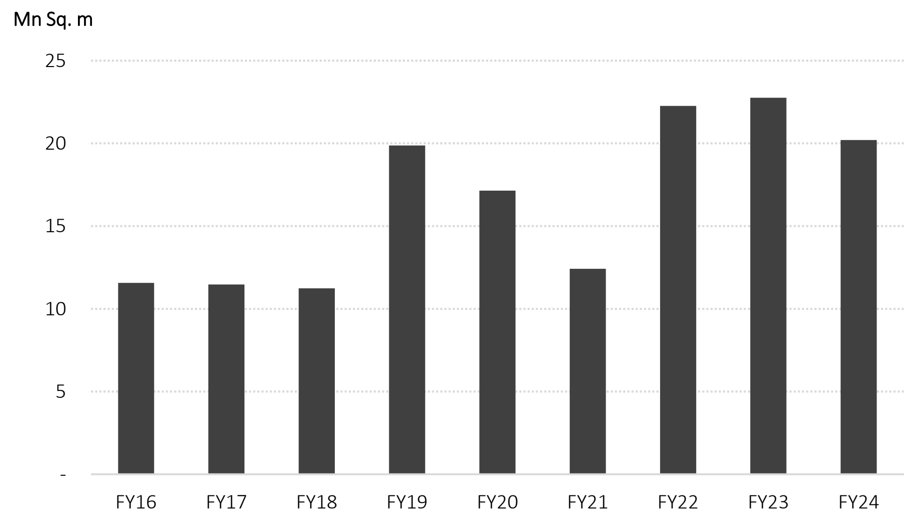
**Changing consumer preferences:** The use of glass in high-rise buildings is gaining popularity in Pakistan. To be more specific, reflective glass is being used in most high-rise buildings as it provides better heat insulation than regular glass. Most corporate buildings in Pakistan use curtain wall formation, which serves as a non-structural outer covering of the wall, and glass used in the process undergoes double glazing to make it UV resistant and heat insulated.

Additionally, glass usage in furniture has increased due to changing consumer preferences, with households increasingly opting for furniture made of both wood and glass rather than purely wood-based furniture.

**Benefit to come with time lag:** We expect improved fiscal position to benefit the construction and allied sectors, unlike cement and steel, which are consumed at the start of the construction cycle, float glass consumption increases with a time lag.

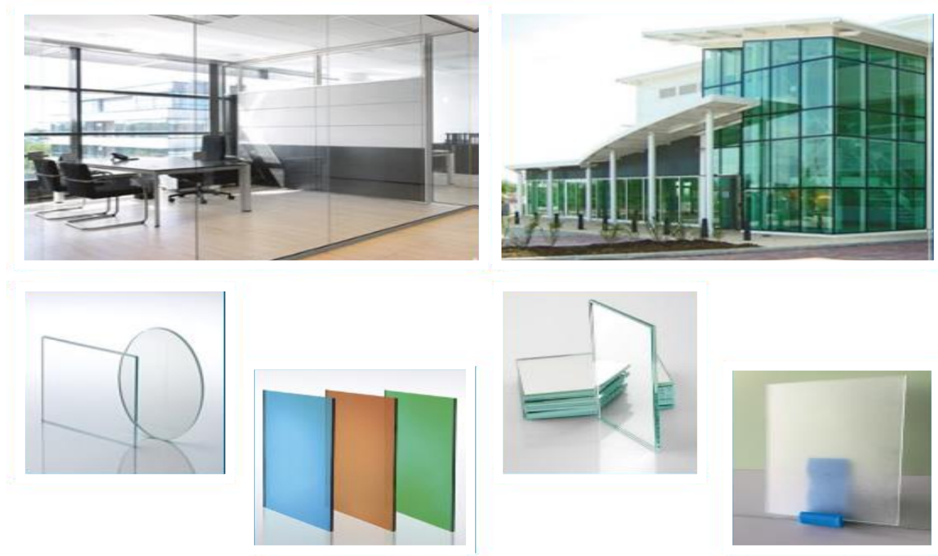
Cement and steel are primarily used by the construction industry to lay down the foundation and structure, whereas float glass is used in the outer structure (such as façades and windows) and interior (such as furniture and mirrors) once the building is near completion. Resultantly, volumes can be expected to regain lost ground from FY26 as the macroeconomic overhang subsides.

Glass Production (Mn Sq M)




*Source: PBS, BMA Research*

Float Glass Products



# Tariq Glass Industries (TGL) – Target: PkR 193/sh

Our liking of the stock stems from i) leveraging its dominance in the float glass segment, ii) procurement of raw material is not a concern, iii) enhanced product portfolio, iv) well placed to benefit from the construction sector theme.

**Leveraging its dominance in the float glass segment:** TGL and GHGL together control more than ~98% of the domestic demand for float glass, giving them significant pricing power which is evident by sticky gross margins (TGL/GHGL: 5-Yr average GMs are 20/24% respectively) these companies have enjoyed over the past. Any cost pressures have been passed on to consumers as a result.

**Procurement of raw material is not a concern:** Raw material procurement is one aspect that clearly works in favor of TGL as its major raw materials including Soda Ash, Limestone, and Silica, are all procured locally which cushions the company from exchange rate volatility, bank charges, risk of shortage and helps to better maintain its gross margins.

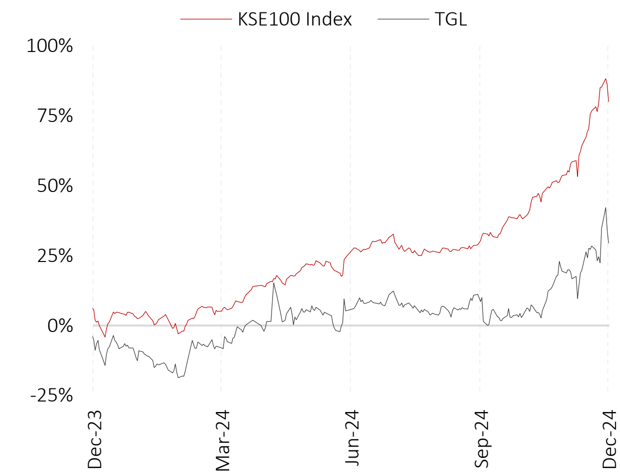
**The enhanced product portfolio has limited competition from imports:** TGL has established strong brand equity in the tableware segment through continuous improvement in value-added products. The segment is divided into average-quality products for daily household use, which form TGL's primary market, and high-quality products preferred by high-end restaurants, caterers, and event halls. TGL's product portfolio includes Toyo Nasic, Omroc, Nova, and Gemware (high-end). While previously facing stiff competition from Chinese imports in the high-end segment, the launch of 'Gemware' has mitigated this challenge. In the average-quality glassware segment, TGL holds a robust market share of ~44%.

**Well placed to benefit from the construction sector theme:** Multi-decade high inflation and increased input prices have marred construction activities in Pakistan. This alongside the country's poor fiscal space has scaled back construction projects and the private sector is feeling the heat too. The trickle-down effect has impacted the construction and allied industries, and the glass sector is no exception.

However, the IMF program is expected to bring stability on the macroeconomic front and will likely result in higher PSDP spending in the subsequent years, in our view.

**Valuation:** The stock is offering a potential **upside of 34% with a Target Price of PkR 192.9/sh**. The stock is currently trading at FY25 PE 7.0x vs. its five-year average PE 6.6x.

### KSE100 Index Vs. TGL Performance



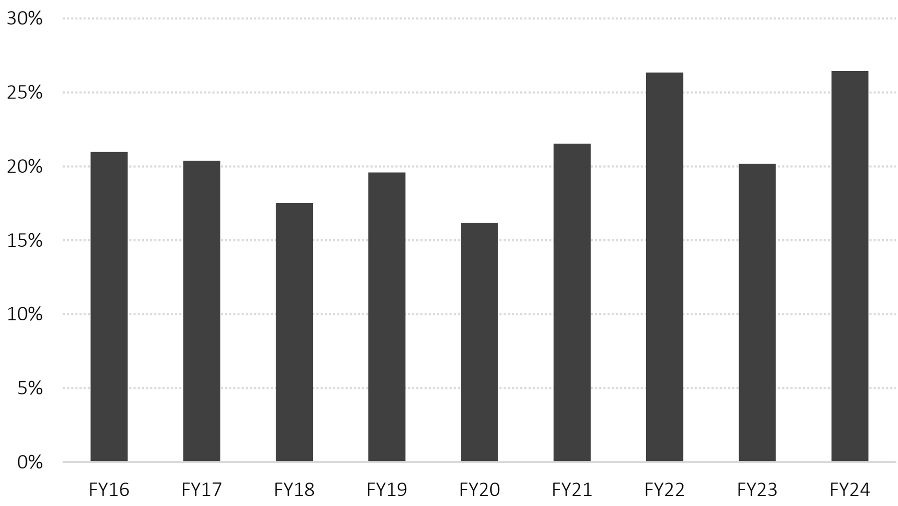

### TGL Financial Overview

| | FY24 | FY25E | FY26F |
|---|---|---|---|
| EPS (PkR) | 25.4 | 20.5 | 24.5 |
| DPS (PkR) | 0.0 | 5.0 | 7.0 |
| PE (x) | 5.7 | 7.0 | 5.9 |
| PB (x) | 1.3 | 1.2 | 1.0 |
| Yield (%) | 0% | 3% | 5% |
| ROE (%) | 23% | 17% | 17% |

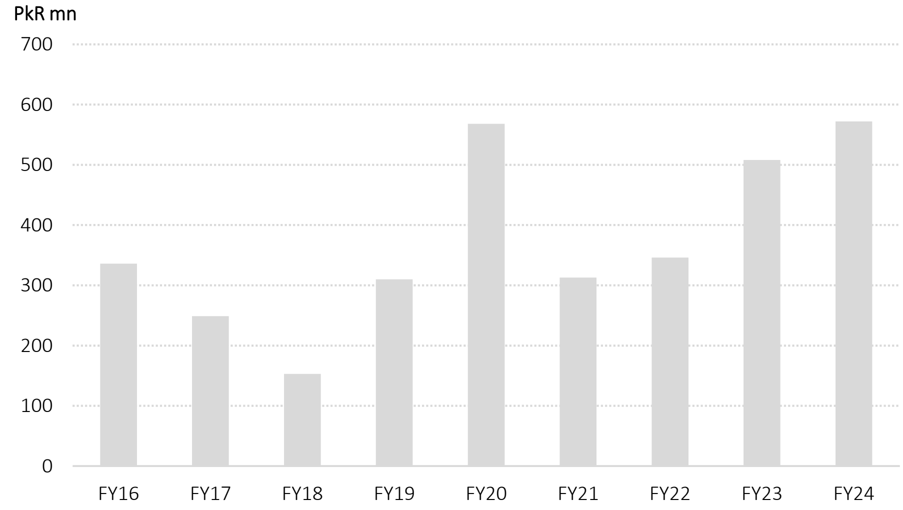
*Source: PSX, Company Accounts, BMA Research*

# TGL Graphical Overview

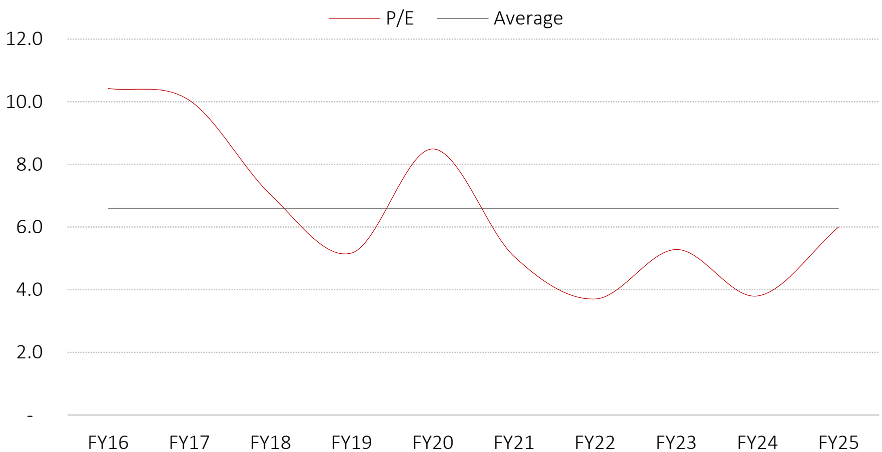
## Gross Margin




## Finance Cost (PkR mn)

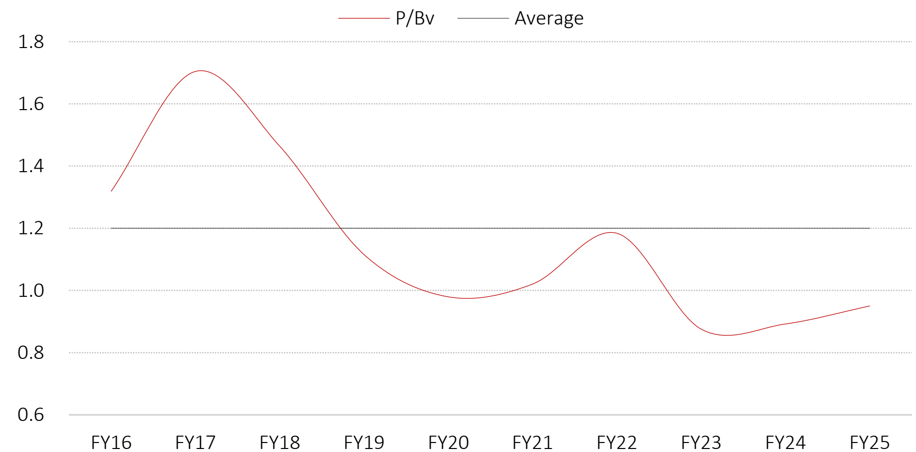



## PE Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

## PB Multiple Trend




*Source: Bloomberg, PSX, BMA Research*

# Top Alpha Picks for 2025

**Top Alpha picks to outperform the market:** We have highlighted stocks we believe have the potential to outperform the broader index. Most of these stocks will benefit from Pakistan's improving macroeconomic backdrop. Many exhibit a very high sales CAGR, benefitting from the anticipated increase in economic activity and increasing demand from international markets.

| Stock | Sector | Price (PkR/sh) | Reasoning |
|---|---|---|---|
| **TOMCL** | Meat Processing | 35.3 | The Organic Meat Company (TOMCL) will benefit from its entry to the Chinese market, allowing the company to benefit from the country's fast-rising demand. Expansion to the GCC reason for halal offerings is also in progress. |
| **INIL** | Steel | 177.5 | INIL may benefit from the anticipated recovery in economic activity. The company anticipates a healthy stream of revenue from the Reko Diq mining project. |
| **CSAP** | Steel Pipes | 103.6 | Crescent Steel is expected to benefit from the improvement in the Sui Gas Utility Companies' balance sheets after the gas price hikes. The company may see a sharp recovery in pipeline orders for the its primary customers. |
| **IMAGE** | Apparel | 18.8 | Image Pakistan has grown rapidly over the past few years, growing its retail outlets to 13. Moreover, the company's demand remains insensitive to economic volatility. |
| **PABC** | Consumer | 130.0 | PABC anticipates robust growth as the company sees its can penetration may increase sales to 650mn cans by 2025. Operating income to remain firm owing to the dollar-based cost-plus pricing model. |
| **SNGP** | Gas Utility | 110.8 | Improving the collection rate has the potential to enhance SNGP's capital expenditures. Given that the company's operating margins are based on its asset size, a higher capital expenditure enhances its profitability potential. |
| **PRL** | Refinery | 39.1 | Pakistan Refinery (PRL) is in the process of upgrading its refinery to a deep-conversion process. The upgrade will double PRL's production capacity to 100kbopd and tilt its production slate towards the higher-margin Motor Gasoline (MS). |

*Source: Company Accounts, BMA Research*

# The Organic Meat Company (TOMCL)

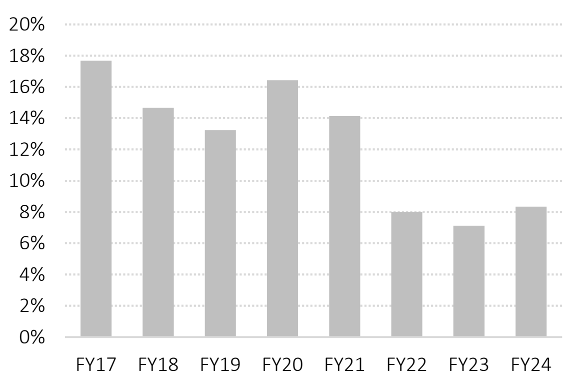
**TOMCL is one of the largest processors of red meat:** The Organic Meat Company Limited (TOMCL) is one of the largest processors of red meat and related by-products in Pakistan. The company has an extensive portfolio of meat and offal products. Notably, TOMCL is the first company from Pakistan to receive approval from the General Administration of Customs of China (GACC) to export cooked beef to China.

**Growing trend of meat exports likely to continue:** In FY24, country meat exports grew by 20% YoY, reaching USD 512mn compared to USD 425mn in FY23. Moreover, meat exports over the last 5 years grew by an encouraging 16%. As per channel check, a growing trend of meat exports is likely to continue, however, the growth percentage is expected to normalize.

**Export expansion with new markets & product line growth:** The company is exporting offal to Hong Kong, Vietnam, and China as well. The company is using a cost-plus-fixed margins model with its exports to China. Larger meat markets for company exports are Uzbekistan, UAE, KSA, and China to name a few. The company is exporting pet chews to Canada and the USA.

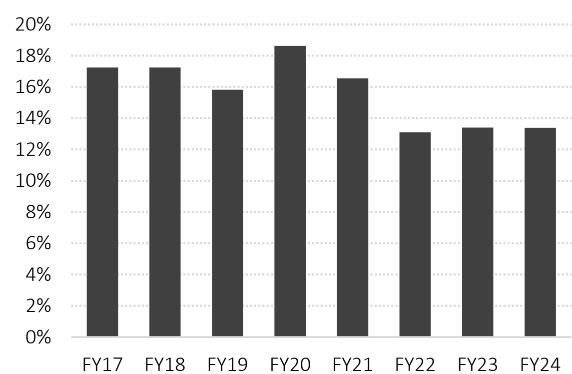
As per channel checks, the company is in the process of getting approval for meat export to Lebanon and Kirgizstan. Moreover, TOMCL is also in the process of expanding its product line-up in already approved export destinations.

### EBITDA Margins Trend



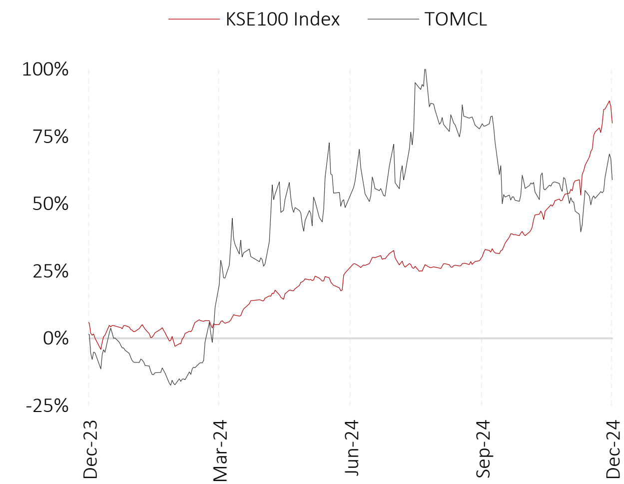

*Source: Company Accounts, BMA Research*

### Gross Margins Trend




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. TOMCL Performance




### TOMCL Financial Overview

| | FY22 | FY23 | FY24 |
|---|---|---|---|
| EPS (PkR) | 2.8 | 4.9 | 3.3 |
| DPS (PkR) | 0.0 | 0.0 | 0.0 |
| PE (x) | 12.8 | 7.3 | 10.6 |
| PB (x) | 1.7 | 1.2 | 1.1 |
| Yield (%) | 0% | 0% | 0% |
| ROE (%) | 13% | 16% | 10% |

*Source: PSX, Company Accounts, BMA Research*

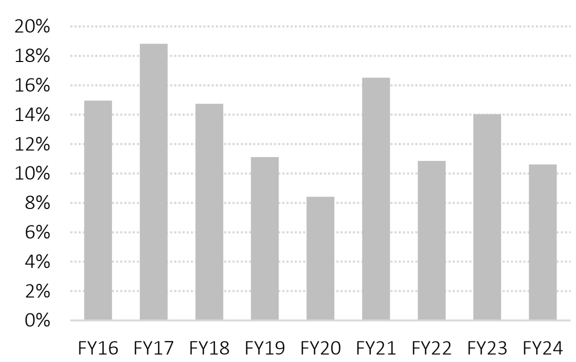
# International Industries (INIL)

**INIL a holding company of ISL and PCAL:** International Industries (INIL) is a holding company of International Steels (ISL PA: 56.3% owned) and Pakistan Cables (PCAL PA: 17.1% owned). The Principal business of the INIL is to manufacture and market galvanized steel pipes, precision steel tubes, API line pipes, polymer pipes and fittings.

**US and China trade war bodes well for INIL:** The US-China trade war has led the Biden administration to increase tariffs on Chinese imports, affecting USD 18bn worth of products including steel, aluminum, semiconductors, EVs, and batteries more tariffs are expected under regime of newly elected US president Trump. This development is likely to boost exports for INIL and its subsidiary ISL, as they can substitute the restricted Chinese products.

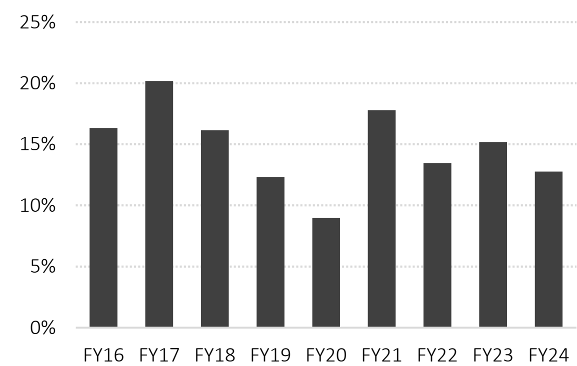
**Diverse range of product line:** INIL produces galvanized steel pipes, polymer pipes, and structural hollow sections used in energy, water infrastructure, 2/3-wheelers, appliances, construction, and furniture (INIL's market share: 40-70%). Upgrades in gas distribution, water transmission, and ongoing projects like the K-IV Project, along with trends towards PVC pipes, are favorable for INIL. Additionally, investments in refinery projects, RLNG terminals, and mining activities (e.g., Reko Diq) will sustain demand for INIL's products.

### EBITDA Margins Trend



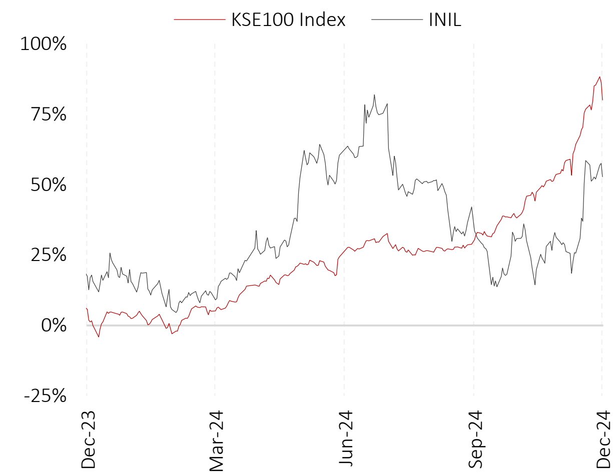

*Source: Company Accounts, BMA Research*

### Gross Margins Trend




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. INIL Performance




### INIL Financial Overview

| | FY22 | FY23 | FY24 |
|---|---|---|---|
| EPS (PkR) | 13.7 | 17.4 | 12.2 |
| DPS (PkR) | 8.0 | 7.5 | 5.5 |
| PE (x) | 13.0 | 10.2 | 14.5 |
| PB (x) | 1.3 | 1.2 | 1.1 |
| Yield (%) | 5% | 4% | 3% |
| ROE (%) | 10% | 12% | 7% |

*Source: PSX, Company Accounts, BMA Research*

# Crescent Steel & Allied Products (CSAP)

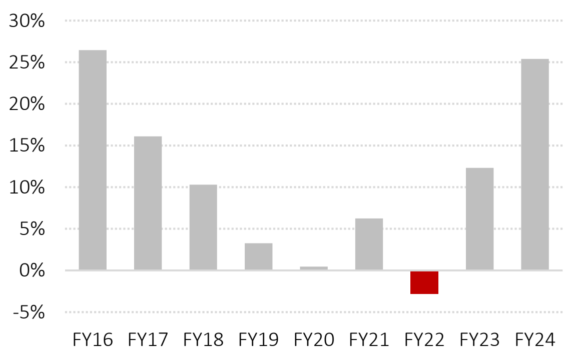
**A leading large diameter pipes producer:** Crescent Steel and Allied Products Limited (CSAP) is a leading large diameter producing company. The company has diversified businesses in four defined sectors, including i) engineering, ii) textile, iii) capital markets, and iv) power.

**Sizable contracts in hand:** CSAP has secured an order for delivering 65km of line pipes for the K-IV Project. The order size is estimated at PkR 2.7bn with an estimated delivery date during 1QFY26. Moreover, the company expects that projects allied with K-IV will continue to keep them occupied over the next three years, including the K-IV Augmentation Project and the K-IV Project, Phase II.

**Contracts from Sui companies:** CSAP received an order worth PkR 2.74bn for the delivery of 12- and 18-inch diameter pipes to SNGP. The estimated delivery time for this project is 3QFY25. Additionally, CSAP has orders in hand from both gas utilities for FY25. Given the material improvement in the Suis financial position, we anticipate CSAP to receive additional orders from the companies as they focus on network expansion.

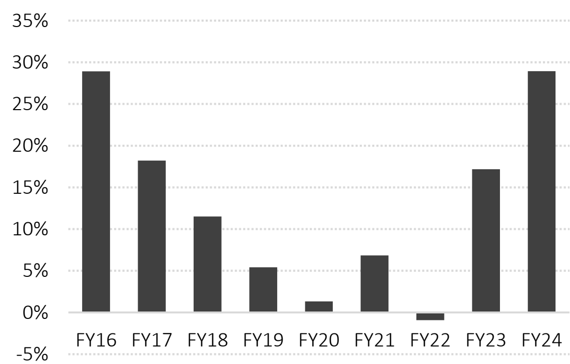
**Substantial dividend to benefit CSAP:** Rousch (Pak) Power Limited (RPPL), an Independent Power Producer, has approved the early termination of its long-term agreements with the government. Company receivables as of Sep'24 will be paid by the central power purchasing agency by Dec'24 end this may allow the company to announce a substantial cash dividend. RPPL is a subsidiary of Altern Energy Limited (ALTN), and the Company holds 16.69% shares of ALTN.

## EBITDA Margins Trend



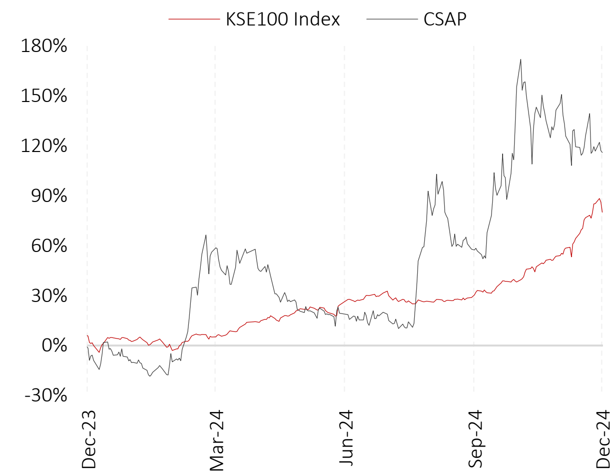

*Source: Company Accounts, BMA Research*

## Gross Margins Trend




*Source: Company Accounts, BMA Research*

## KSE100 Index Vs. CSAP Performance




## CSAP Financial Overview

| | FY22 | FY23 | FY24 |
|---|---|---|---|
| EPS (PkR) | 4.7 | 2.3 | 20.7 |
| DPS (PkR) | 0.0 | 0.0 | 5.5 |
| PE (x) | 21.9 | 45.5 | 5.0 |
| PB (x) | 2.3 | 2.3 | 1.8 |
| Yield (%) | 0% | 0% | 5% |
| ROE (%) | 6% | 3% | 21% |

*Source: PSX, Company Accounts, BMA Research*

# Image Pakistan (IMAGE)

**Stellar growth trajectory:** Image Pakistan's top line will likely exhibit a five-year CAGR of 67% to PkR 5.2bn by FY25, significantly outpacing inflation and the general textile industry trend. The company capitalized on its brand equity to pass on inflationary costs without a material dent in its demand.

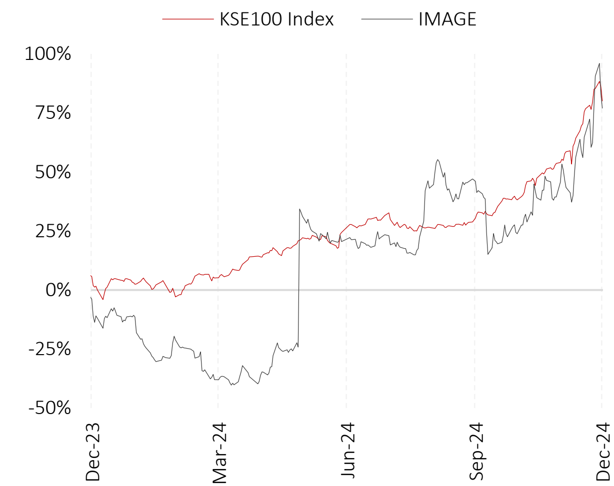
**Aggressive outlet expansion:** The company expanded its retail base to 13 outlets by March 2024. Moreover, IMAGE has plans to open two additional outlets, further expanding its brand reach.

**Enhancing in-house stitching capacity:** Image Pakistan plans to strengthen its in-house stitching capacity through investments in machinery. Presently, IMAGE outsourced 30% of its production during peak demand, and the management anticipates 100% in-house production after the investment. The investment may improve margins and allow the company greater control over quality.

**Cost optimization is also a priority:** IMAGE plans to optimize its cost through solar panels. The company's 1.0MW solar capacity recently became operational and may yield savings of PkR 40mn annually at the prevalent grid rates.

The management also anticipates reducing fabric costs given the unfavorable textile industry dynamics affecting demand. This scenario may further strengthen the company's robust margins.

### KSE100 Index Vs. IMAGE Performance

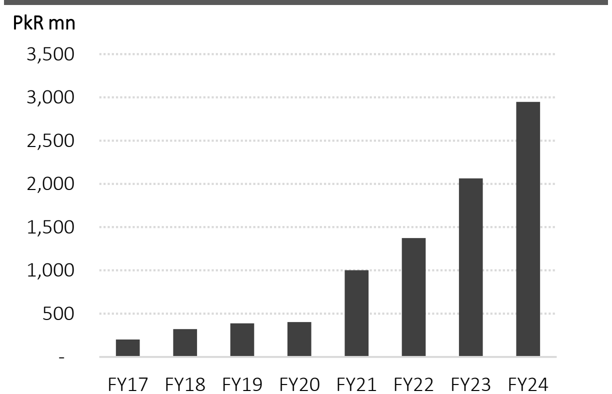



### IMAGE Financial Overview

| | FY22 | FY23 | FY24 |
|---|---|---|---|
| EPS (PkR) | 1.2 | 1.4 | 1.8 |
| DPS (PkR) | 0 | 1.3 | 0 |
| PE (x) | 15.2 | 13.6 | 10.6 |
| PB (x) | 2.4 | 1.8 | 1.2 |
| Yield (%) | 0% | 7% | 0% |
| ROE (%) | 10% | 9% | 8% |

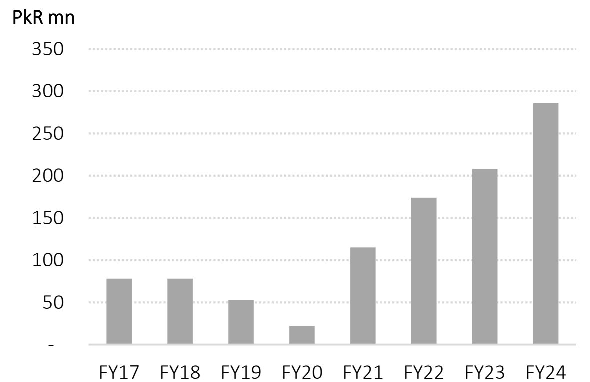
*Source: PSX, Company Accounts, BMA Research*

### Sales Trend (PkR Mn)




*Source: Company Accounts, BMA Research*

### PAT Trend (PkR Mn)




*Source: Company Accounts, BMA Research*

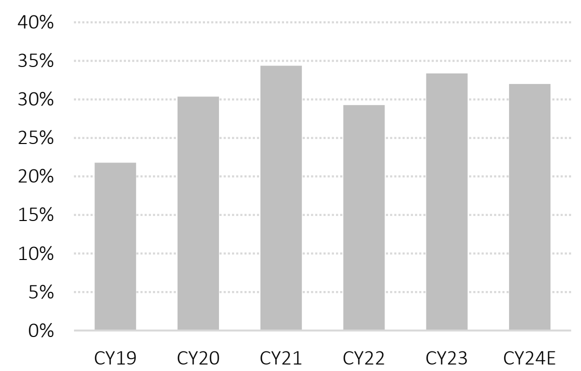
# Pakistan Aluminum Beverage Cans (PABC)

**PABC is one of the leading aluminum can manufacturers:** Pakistan Aluminum Beverage Can Limited (PABC) is engaged in the manufacturing of aluminum cans. The stock has potential upside from i) capacity additions from 700mn cans to 1,200mn cans (+71%), ii) market penetration through better positioning, iii) revenue mix more tilting towards export, iv) long-term contract with Bangladesh (same contract with Afghanistan as well) and v) expansion to help catering increasing domestic demand amid economic recovery.

**Major supplier to leading beverage companies:** PABC supplies bottlers of all major carbonated drinks, including PepsiCo and Coca-Cola, in both Pakistan and Afghanistan. As per the company, growing Can penetration may increase sales to 650mn cans by 2025. PABC will be its key beneficiary, as imports are virtually non-existent due to high costs and duties.

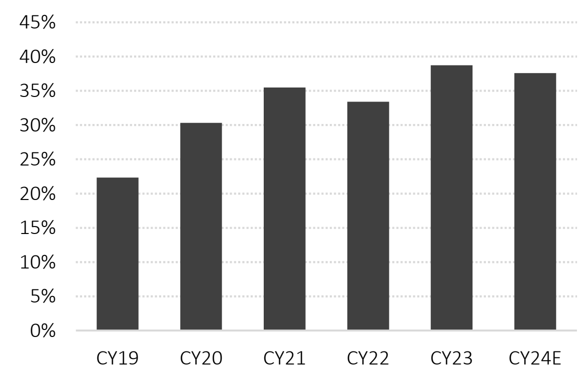
**Dollar-based cost-plus pricing model:** Operating income to remain firm owing to the dollar-based cost-plus pricing model. Strong operating income due to dollar-based cost-plus pricing, increasing export contribution, and improved margins enable PABC to report higher profitability in 2025, in our view. Moreover, easing inflationary pressure has enabled the central bank to reduce the policy rate by 900bps and further reduction is also expected in upcoming monetary policy. Interest rate reversal has allowed PABC to reduce finance costs. It is important to mention the company has a debt of around PkR 8.4bn as of Sep’2024.

### EBITDA Margins Trend



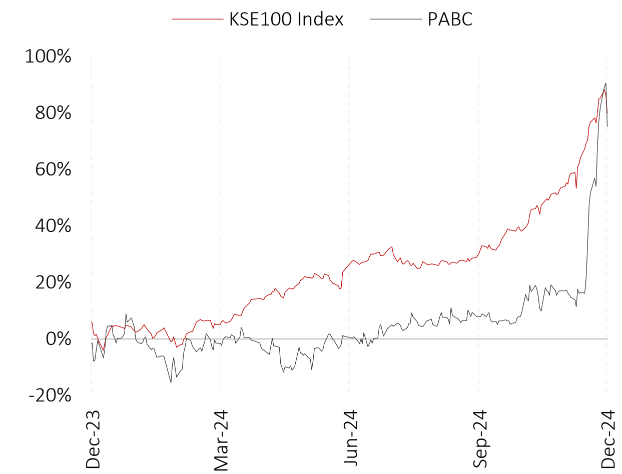

*Source: Company Accounts, BMA Research*

### Gross Margins Trend




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. PABC Performance




### PABC Financial Overview

| | CY22 | CY23 | CY24E |
|---|---|---|---|
| EPS (PkR) | 7.5 | 13.9 | 17.1 |
| DPS (PkR) | - | 3.5 | 4.5 |
| PE (x) | 17.4 | 9.4 | 7.6 |
| PB (x) | 6.8 | 4.4 | 3.1 |
| Yield (%) | 0% | 3% | 3% |
| ROE (%) | 39% | 47% | 41% |

*Source: PSX, Company Accounts, BMA Research*

# Sui Northern Gas Pipelines (SNGP)

BMA CAPITAL

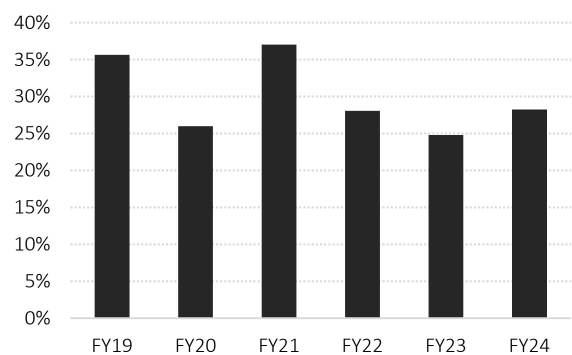
**Largest integrated gas company:** Sui Northern Gas Pipelines Limited (SNGPL) is the largest integrated gas company serving more than 7.22 million consumers in North Central Pakistan through an extensive network in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

**Improving payable clearances of suppliers:** Recent financial accounts of OGDC and PPL, the two main suppliers for SNGP, depict an improving collection ratio. PPL's collection ratio improved to 81% (vs. 53% in FY23) and OGDC's collection rate improved to 76% (vs. 42% in FY24). Moreover, 4QFY24's figures suggest a collection rate exceeding 100%.

**Capital expenditures expected to rise:** Between FY20 and FY23, SNGP's annual capital expenditures averaged USD 150mn. Before issues caused by RLNG sales, the figure hovered around USD 350mn annually (FY16-18 period). Improving the collection rate has the potential to enhance SNGP's capital expenditures. Given that the company's operating margins are based on its asset size, a higher capital expenditure enhances its profitability potential.

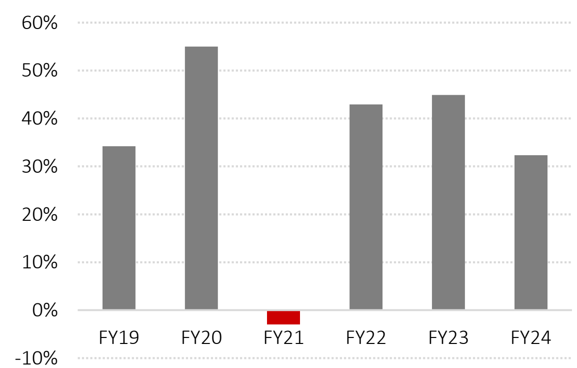
**Considerable improvements in UFG losses:** SNGP's management conveyed that the company reduced its UFG losses to 5.15% during FY23, a significant improvement from around 8.0% a year prior. News reports suggest that SNGP brought its UFG losses down even further to below the allowable benchmark, indicating limited penalties for UFG losses.

### Return on Equity (%)



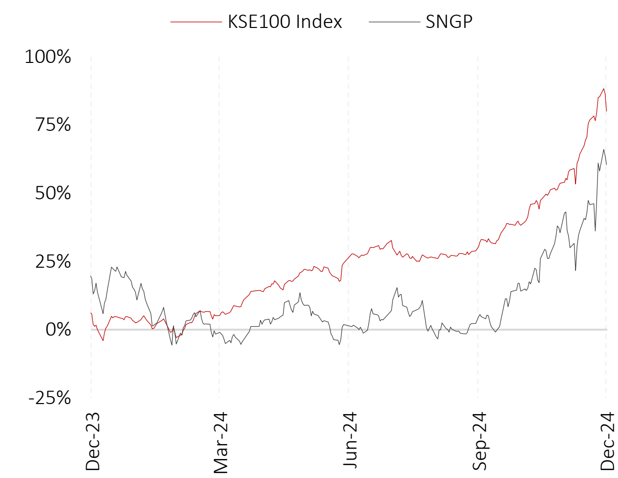

*Source: Company Accounts, BMA Research*

### EBITDA Growth (%)




*Source: Company Accounts, BMA Research*

### KSE100 Index Vs. SNGP Performance




### SNGP Financial Overview

| | FY23 | FY24E | FY25F |
|---|---|---|---|
| EPS (PkR) | 16.7 | 22.7 | 32.6 |
| DPS (PkR) | 4.5 | 7.0 | 3.3 |
| PE (x) | 5.8 | 4.3 | 3.0 |
| PB (x) | 2.5 | 2.1 | 2.1 |
| Yield (%) | 2% | 4% | 4% |
| ROE (%) | 23% | 26% | 26% |

*Source: PSX, Company Accounts, BMA Research*

# Pakistan Refinery (PRL)

Pakistan Refinery (PRL) is in the process of upgrading its refinery to a deep-conversion process. The upgrade will double PRL's production capacity to 100kbopd and tilt its production slate towards the higher-margin Motor Gasoline (MS).

**Financial Incentives on the Brownfield Refinery:** PRL benefits from the financial incentives based on the approved Brownfield Refinery policy. The policy allows incremental benefits of 2.5% on the sale of Hi-Speed Diesel (HSD) and 10% on the sale of Motor Gasoline (MS) for seven years. Moreover, the existing 7.5% production will continue for an additional 20 years.

In FY24, the company transferred PkR 4.6bn to the Escrow account, which will finance the expansion. Based on current prices, we estimate PRL's GRMs will improve by USD 1.4/bbl, resulting in an annualized incremental benefit of PkR 6.7bn (EPS: PkR 10.8/sh) in FY25.

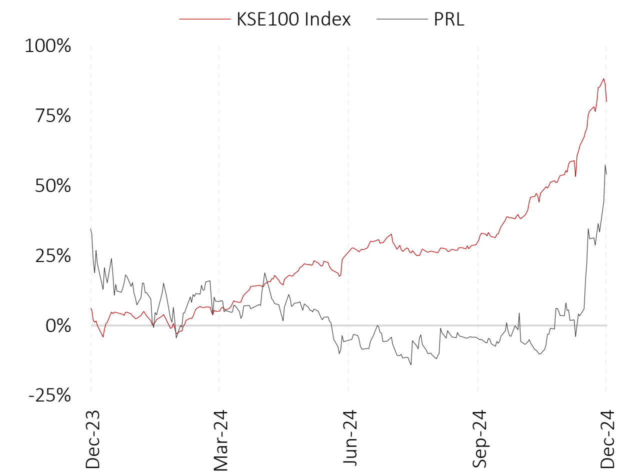
**Considerable improvements in production slate as FO is phased out:** After the upgrade to a deep conversion refinery process, PRL will be able to phase out a large portion of Furnace Oil (FO) from its production slate. FO general offers a negative refining spread of around USD 18/bbl. Amidst low demand for the commodity, the company was compelled to export 142kT of FO, likely registering a loss of PkR 5.0bn (EPS: PkR 7.9). FO's removal may enhance PRL's GRMs by around USD 2.4/bbl, leading to an annualized benefit of around USD 50mn (EPS: PkR 13.5).

**Impact of Refinery Policy Incentives**

| | GRM Benefit (USD/bbl) | | Production Slate (%) | | Benefit | |
|---|---|---|---|---|---|---|
| | HSD | MS | HSD | MS | PkR bn | PkR/sh |
| PRL | 2 | 7.7 | 40% | 17% | 6.7 | 10.82 |

*Source: OGRA, BMA Research*

**KSE100 Index Vs. PRL Performance**




**PRL Financial Overview**

| | FY22 | FY23 | FY24 |
|---|---|---|---|
| EPS (PkR) | 20.0 | 2.9 | 6.5 |
| DPS (PkR) | 0.0 | 0.0 | 2.0 |
| PE (x) | 2.0 | 13.4 | 6.0 |
| PB (x) | 1.0 | 1.0 | 0.8 |
| Yield (%) | 0% | 0% | 5% |
| ROE (%) | 53% | 7% | 14% |

*Source: PSX, Company Accounts, BMA Research*

| List of Abbreviations | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1H | First Half | FATA | Federally Administered Tribal Areas | kW | Kilowatt | PS | Price to Sales Ratio |
| 2Q | Second Quarter | FBR | Federal Burueau of Revenue | kWh | Kilowatt Hour | PSDP | Public Sector Development Program |
| ADB | Asian Development Bank | FCFE | Free Cash Flow to Equity | l.h.s | Left-hand Side | PSX | Pakistan Stock Exchange |
| ADR | Advance to Deposit Ratio | FCFF | Free Cash Flow to the Firm | LC | Letter of Credit | pts | Points |
| ADTV | Average Daily Traded Value | FIF | Foreign Inclusion Factor | LIBOR | London Interbank Offered Rate | QoQ | Quarter over Quarter |
| APCMA | All Pakistan Cement Manufacturer's Association | FIPI | Foreign Investor Portfolio Investment | LIPI | Local Investor Portfolio Investment | r.h.s | Right-hand Side |
| AUM | Asset Under Management | FM | Frontier Markets | MDR | Minimum Deposit Rate | REIT | Real Estate Investment Trust |
| bn | Billion | FMCG | Fast Moving Consumer Goods | mmbtu | Million British Thermal Unit | RIR | Real Interest Rate |
| BoP | Balance of Payment | FMR | Fund Managers Report | mmcfd | Million Cubic Feet per Day | RLNG | Regasified Natural Gas |
| bopd | Barrel of Oil per Day | FO | Furnace Oil | mn | Million | ROA | Return on Asset |
| bps | Basis Points | FX | Foreign Exchange | mo | Month | ROE | Return on Equity |
| CA | Current Account | FY | Fiscal Year | MoM | Month over Month | S&P 500 | Standard and Poor's 500 Index |
| CAD | Current Account Deficit | FYTD | Fiscal Year to Date | MPC | Monetary Policy Committee | SBA | Stand-by Arrangement |
| CAGR | Compound Annual Growth Rate | GCC | Gulf Cooperation Council | MPS | Monetary Policy Statement | SBP | State Bank of Pakistan |
| Capex | Capital Expenditures | GDP | Gross Domestic Product | MS | Motor Gasoline | SC | Supreme Court |
| CAR | Capital Adequacy Ratio | GEM | Growth Enterprise Market | MSCI | Morgan Stanley Capital International | SEZ | Special Economic Zone |
| CBU | Completely Built Unit | GENCO | Generation Companies | MT | Metric Ton | sh | Share |
| CKD | Completely Knocked Down Unit | GFR | Gross Fiscal Revenue | MW | Megawatt | SIFC | Special Investment Facilitation Council |
| CPEC | China Pakistan Economic Corridor | GM | Gross Margin | NEPRA | National Electric Power Regulatory Authority | SKD | Semi Knocked Down Unit |
| CPI | Consumer Price Index | GST | General Sales Tax | NII | Net Interest Income | SME | Small and Medium Enterprises |
| CY | Calendar Year | GW | Gigawatt | NIM | Net Interest Margin | SOE | State-owned Enterprises |
| CYTD | Calendar Year to Date | GWh | Gigawatt Hour | NM | Net Margin | ST | Short Term |
| DAP | Diammonium Phosphate | HEV | Hybrid Electric Vehicle | NPL | Non-performing Loans | SUV | Sport Utility Vehicle |
| DCF | Discounted Cash Flows | HSD | Hi-Speed Diesel | NPV | Net Present Value | T&D | Transmission and Distribution |
| DISCOs | Distribution Companies | IDB | Islamic Development Bank | NTC | National Tariff Commission | Target | Target Valuation |
| DPS | Dividend per Share | IDR | Investment to Deposit Ratio | OEM | Original Equipment Manufacturer | tn | Trillion |
| DR | Discount Rate | IMF | International Monetary Fund | OGRA | Oil & Gas Regulatory Authority | TP | Target Price |
| E&P | Energy and Petroleum | IPO | Initial Public Offering | OMC | Oil Marketing Company | UFG | Unaccounted for Gas |
| EBITDA | Earnings before Interest Depreciation and Tax | IPP | Independent Power Producers | PAT | Profit After Tax | UK | United Kingdom |
| ECC | Economic Coordination Committee | IRR | Internal Rate of Return | PATA | Provincially Administered Tribal Areas | USD | United States Dollar |
| EFF | Extended Fund Facility | JPY | Japanese Yen | PB | Price to Book Ratio | UV | Ultraviolet |
| EM | Emerging Markets | k | Thousand | PDL | Petroleum Development Levy | WACC | Weighted Average Cost of Capital |
| EPS | Earnings per Share | kg | Kilogram | PE | Price to Earnings Ratio | WACOG | Weighted Average Cost of Gas |
| EU | European Union | KIBOR | Karachi Interbank Offered Rate | PkR | Pakistan Rupee | WHR | Waste Heat Recovery |
| EV | Electric Vehicle | KSA | Kingdom of Saudi Arabia | pps | Percentage Points | x | Times |
| EV | Enterprise Value | KSE100 | KSE100 Index | PR | Policy Rate | YoY | Year over Year |

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### Old rating system

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)