BMA CAPITAL

Bearish spell unlocks a compelling opportunity

Monday, March 2, 2026

The recent escalation in the US–Iran conflict is likely to weigh heavily on investor sentiment toward Pakistan's equity markets. Global markets have reacted with a **broad sell-off, with key indices down 2-5%.** At the time of writing, Pakistan's equity market was down 9%. Commodity markets also reacted sharply, with crude oil **rising nearly 10% to USD 80/bbl.**

Investors already priced in an escalation: The KSE-100 Index was already in a corrective phase, declining from its peak of around 190k points to the previous day's close of 168k points, a drop of 12% over a 5-week period. This phase was driven by escalating geopolitical tensions in Iran and Afghanistan, as well as rising internal unrest in Baluchistan. Today's sell-off pulled the index down to 153k points, **bringing its total correction to 21%.**

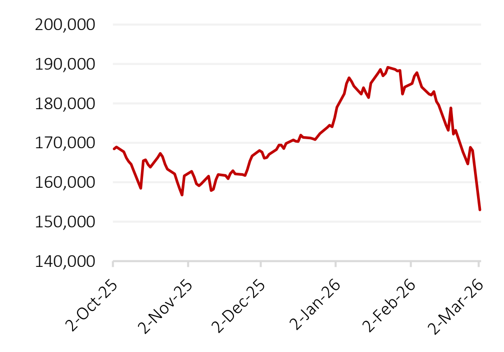
Upside risks to oil prices may affect the broader macroeconomic picture: As mentioned, oil prices rose rapidly because of concerns affecting the Strait of Hormuz. The route is responsible for over 20mn barrels of crude or around 20% of the global supply. The route is also responsible for handling 20% of the global LNG supply. Recent reports suggest that most global shipping companies are avoiding routes following attacks on ships. Marine insurance costs are likely to increase along with rising premiums, further pushing the landed cost of oil for the country.

Impact of rising oil prices on Pakistan's economy: Pakistan imports around 450k barrels of oil daily, suggesting a USD 10/bbl increase in oil prices would enhance the **country's import bill by USD 135mn each month or USD 1.6bn annually.** Additionally,

Inflation outlook would also be affected, given that petroleum products constitutes 3% of the inflation basket. Additionally, based on our estimates, the second-round impact of rising oil prices affects around 50% of the inflation basket.

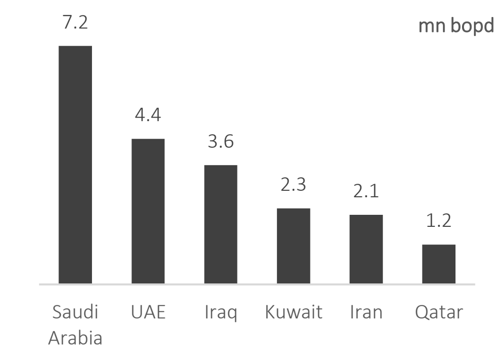
The interest rate outlook is also likely to shift, considering rising inflation risks and escalating geopolitical tensions. Bond yields had already increased by around 30bps over the past month, and based on our discussions, have **risen by a further 20–30bps today.**

KSE100 Index



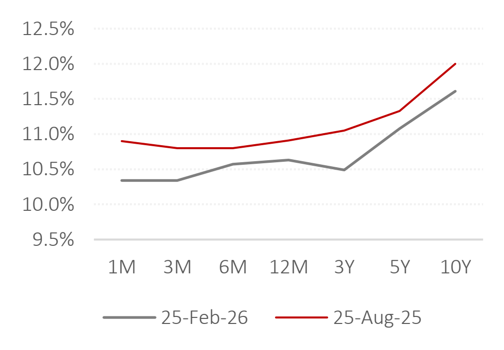
Source: PSX, BMA Research

Country-wise supply – Strait of Hormuz



Source: Bloomberg, BMA Research

Secondary Market Yields



Source: SBP, BMA Research

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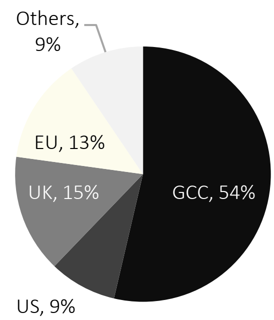
The ongoing IMF talks may be influenced by the geopolitical climate

The 3rd review of the IMF EFF and the 2nd review of the RSF are underway for potentially unlocking funds of around USD 1.2bn. The discussions are expected to center on Pakistan's fiscal performance, with particular emphasis on tax collection and subsidies. Notably, FBR's tax collection has **undershot its target by PkR 430bn over 8MFY26.**

The potential disruption of external trade will likely impact Pakistan's ability to achieve its tax collection target. Risks to achieving the IMF's CA balance target have also emerged as oil prices rise **and remittances flows are affected**. Notably, 54% of Pakistan's remittance inflows originate from GCC countries, which have become victims of the conflict.

Remittance Inflows by Region



Source: SBP, BMA Research

High oil prices may support the energy chain's earnings outlook: Higher oil prices benefit E&P companies. Based on our estimates, a USD 5 increase in oil prices enhances **OGDC's profit potential by PkR 6bn or PkR 1.4/sh**. For MARI, earnings would **increase by Rs. 2.7bn or PkR 2.25/sh**.

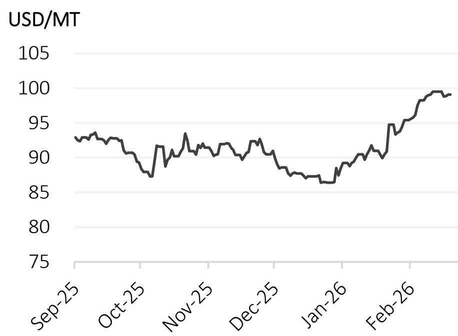
OMCs will likely benefit from positive inventory revaluations. During the Russian-Ukrainian conflict, during which oil prices shot past the USD 100/bbl mark, we saw domestic OMCs hold back sales to benefit from inventory gains. **PSO's profits surged 3x YoY in 2022, and APL's profits surged 3.5x.**

International Oil Price Trend

Source: Bloomberg, BMA Research

Coal prices may increase, affecting the profitability of the cement industry: LNG cargo disruptions via the Strait of Hormuz may support global coal prices as LNG consumers switch to alternative fuels. During the Russia-Ukraine conflict, we saw coal prices surge nearly 5x to USD 400/MT as global LNG supply was curtailed. As coal constitutes a key raw material for cement production, we estimate a USD 10/MT rise would increase cement production **cost by an average of PkR 20/bag.**

International Coal Price Trend



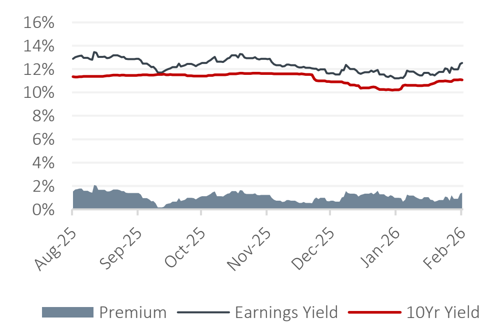
Source: Bloomberg, BMA Research

Projects with a foreign investment component may get delayed: Planned foreign investments from the Middle Eastern countries may get cut if the political climate intensifies. Projects hinging on foreign investments, including the Reko Diq mine, may also get delayed due to an adverse security environment. This delay would affect companies investing in mining ventures, **including OGDC, PPL, MARI, LUCK and FATIMA.**

The long-term investment case remains intact: Despite the elevated geopolitical volatility, we believe Pakistan's long-term investment case remains intact. Pakistan's economy has stabilized on all fronts with inflation averaging around 7% (vs. 29% in FY23), fiscal deficit likely falling under 5% against nearly 8% two years before, and the SBP's import cover rising to 2.5 months from under 1.0 month. A robust policy-setting under the IMF will ensure a stable macroeconomic backdrop, allowing the index to recover lost ground once the geopolitical volatility subsides.

The KSE100 is trading at a 30% discount to historical runs: The KSE100 index has corrected to a **forward PE multiple of around 7.0x, a discount of 30%** from multiples seen during periods of macroeconomic stability. We believe **stocks with high payouts will likely find investor support** as their recent price corrections have opened compelling yields.

Earnings Yield vs. 10yr Bond Yields



Source: Bloomberg, BMA Research

High-dividend Paying Stocks

Stock	Yield
BWHL	11.1%
EFERT	10.9%
NBP	10.5%
HMB	10.4%
HUBC	10.0%
MCB	9.9%
BAHL	9.7%
FFC	9.6%
UBL	8.0%

Source: BMA Research, PSX

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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.)