

2024

Pakistan Investment Strategy

Stage set for a sustained Bull Run

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Table of Content

Executive Summary	3
Top Picks	5
PSX in Charts	6
Themes for 2024	9
Equity Portfolio Mix	14
Bets on the SIFC	15
Key Trading Partners	16
Buybacks	17
PSX Recap	18
Sectors in Brief	19
Politics	23
Pakistan Economy	25
Sector Outlook	32
Oil & Gas	33
Pakistan Banks	37
Pakistan Fertilizer	42
Pakistan Cement	46

Executive Summary

We think that recent developments on the macroeconomic and geopolitical front have laid the foundation for a sustained bull run in the Pakistan equities market. The KSE100 index's unprecedented rally to record-high levels signals revitalized investor confidence, driven by developments taken to address the country's longstanding issues. Moreover, record-high profits amidst attractive valuations, ample domestic liquidity, the resurgence of foreign investor interest, and the increasing importance of Pakistan in the geopolitical landscape will likely make equities the go-to investment in CY24 and beyond.

Our index target of **78,500 points** is based on target price mapping and a **projected dividend yield of 9.5%**. The target suggests an upside of 22% from current levels.

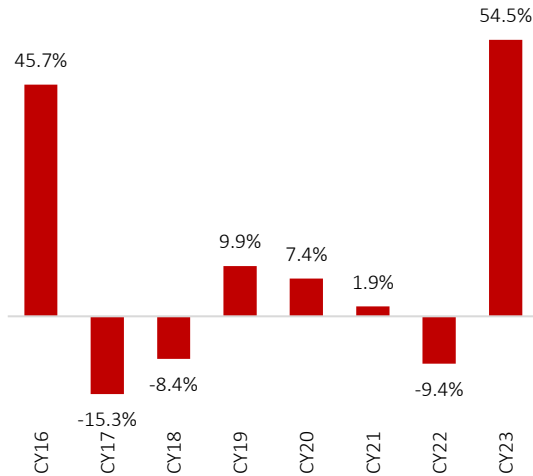
- **Trading at nearly 50% discount to historical averages:** Pakistan's equities market continues to trade at attractive valuations despite the index's recent rally to record-high levels. Our BMA universe trades at a **CY24 PE of 4.5x**, a **discount of 45%** to the KSE100 index's average 10-year PE multiple of 8.0x. Moreover, Pakistan's equities undervaluation is even more pronounced when compared to regional peers. Notably, the KSE100 index multiple trades at a 68% discount to the MSCI EM index and a 55% discount to the MSCI FM index. These **discounts averaged 36% for the FM index and 39% for the EM index**, suggesting ample room for a potential rerating.
- **IMF-led reforms addressing chronic issues:** The IMF's USD 3.0bn standby arrangement was one of Pakistan's most stringent programs, focused on addressing the country's chronic issues, including fiscal indiscipline, circular debt, and the inefficient foreign currency market. The IMF tasked the Pakistan government to significantly raise energy tariffs to enhance the cash collection of the energy chain. Moreover, the government is actively focused on enhancing its tax base to address Pakistan's fiscal issues, potentially targeting the relatively untapped agriculture, real estate, and retail space. These developments offer investors clarity on the economic direction of the country, potentially unlocking the equity markets' depressed valuations.
- **Clarity on the external front revitalizing investor sentiments:** Pakistan's economy was able to escape the default narrative since its reentry into the IMF program. The program instantly released funding of USD 4.0bn from the IMF and allied countries (KSA and the UAE), allowing the State Bank of Pakistan (SBP) to double its foreign currency reserves. Apart from the additional financing avenues, this development raised investor confidence in the Capital markets. Consequently, the country's import cover increased from a critically low level of 2.5 weeks to 6.0 weeks. Improved investor sentiment was also evident in the sudden surge of prices for Pakistan's International Bonds, which rose by nearly 80% instantaneously.

- **Resilient earnings despite macroeconomic headwinds:** Corporate profitability has been on a continuous ascent despite the macroeconomic headwinds. Notably, the **KSE100 index's profitability rose by a three-year CAGR of 42% to PkR 1.57tn** in FY23, exhibiting resiliency against the high inflation and low growth environment. Many of Pakistan's equities benefit from macroeconomic hedges through their USD-linked revenues. Moreover, several industries, including cements, fertilizer, and FMCGs, have depicted a high ability to pass on cost pressures through price hikes without a significant dent in their demand.
- **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.
- **Adopting a more flexible foreign policy stance:** The past two years have witnessed a significant shift in the geopolitical landscape, with the World transitioning from the US to a more multipolar orientation. Pakistan's foreign policy approach also saw a major shift over the past year, with the country open to strategic partnerships with all global powers. This shift was evident in General Asim Munir's visit to the US to mend fences and enhance strategic collaborations. Moreover, Pakistan's geography allows the country to play a major role in regional stability.
- **PSX back on foreign investors' radar:** Pakistan's resumption into the IMF program revitalized foreign investor interest. Since the start of the fiscal year, **foreign investors have net purchases of USD 71mn** as against negligible levels during the same period last year. Moreover, gross foreign investor **activity also surged by 60% YoY to USD 1.3bn** during the first half of the fiscal year. Our discussions with foreign institutions have highlighted the perceived undervaluation of Pakistan's equity markets and we believe a smooth political transition under the IMF program will lead to sustained foreign interest in the coming months.
- **Buybacks reinforcing stock valuations:** Since CY22, companies have purchased around **PkR 41bn (USD 170mn) worth of shares from the PSX via buybacks**. Moreover, notable sponsors have also opted to enhance their stake in their stock, and some have even announced plans to de-list the company from the stock exchange. We think stock buybacks and sponsor purchases have enhanced investor confidence and reinforced the Pakistan equity market's undervaluation.

Stock	Target	Total Return	Reasoning
OGDC	PkR 175/sh	50%	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.
MARI	PkR 2,770/sh	46%	Our preference for MARI stems from its robust earnings growth trajectory, improvement in cash flows, and diversification of revenue streams.
FFC	PkR 145/sh	42%	FFC benefits from low-cost gas from the Mari field. Moreover, improved farm economics, along with SIFC-led corporate farming projects, will keep the demand for fertilizer high.
ENGRO	PkR 375/sh	37%	ENGRO offers a lucrative and diversified stream of revenues. It stands as the market leader and pioneer in several industries, including agriculture, petrochemical and energy.
HUBC	PkR 155/sh	33%	HUBC's tariffs offer a diversified, lucrative USD-hedged ROE, enabling the company to benefit from a sustained stream of revenues..
FCCL	PkR 27/sh	32%	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.
AKBL	PkR 33/sh	32%	AKBL is likely to announce a cash dividend after three years because of an improvement in its balance sheet, benefitting from enhanced the capital buffers of the bank.
MEBL	PkR 203/sh	32%	MEBL is the face of Islamic Banking in Pakistan, benefitting from one of the highest deposit growth rates in the industry. Moreover, the bank registers one of the highest NIMs because of its low-cost Islamic deposits.
SYS	PkR 550/sh	30%	SYS has benefitted from the global increase in demand for technology products, with its USD revenues rising at a CAGR of 37%. It leverages its low-cost personnel to tap into large markets and maintain high margins.
LUCK	PkR 1,000/sh	28%	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.
PPL	PkR 155/sh	25%	PPL is also expected to benefit from the hike in gas prices, resulting in sharp improvements in its cash collection. The company will also benefit from a potential cash injection to clear the circular debt arrears.

PSX one of the best-performing asset classes

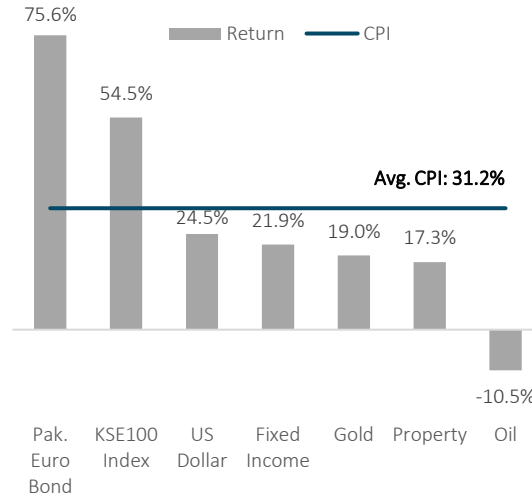
KSE100 Annual Returns



Source: PSX, BMA Research

The KSE100 index offered a return of 54.5% in CY23 as against a return of -9.4% in CY22. The bulk of the return was witnessed in the 2nd half of the fiscal year, during which the index rose by 51%. The index's momentum benefitted from the resumption of the IMF program, extinguishing the default narrative that was prominent during the first half of the year. Improved confidence allowed the subdued index valuations to converge towards their historical averages.

KSE100 return comparison



Source: PSX, Bloomberg, BMA Research

The KSE100 index was one of the best-performing investments during CY23 with a return of 54.5%. Pakistan equities were one of the two assets that outpaced inflation. This was the first time in seven years that the KSE100 index's return exceeded both interest rates and inflation. Pakistan International Bonds (Eurobond-2024 expiry) provided a USD-based return of 75.6% in CY23, benefitting from the improvement in investor sentiments after the resumption of the IMF program.

PSX Market Capitalization (USD bn)

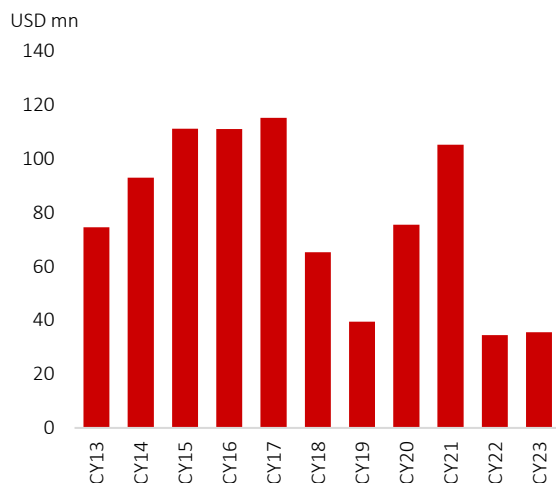


Source: PSX, Bloomberg, BMA Research

The PSX's market capitalization presently stands at USD 32bn, recovering from lows of USD 21bn during the CY23. Despite the rally, the index still trades at nearly a 70% discount to its peak capitalization of USD 100bn witnessed back in CY17.

Foreign investors back in the mix

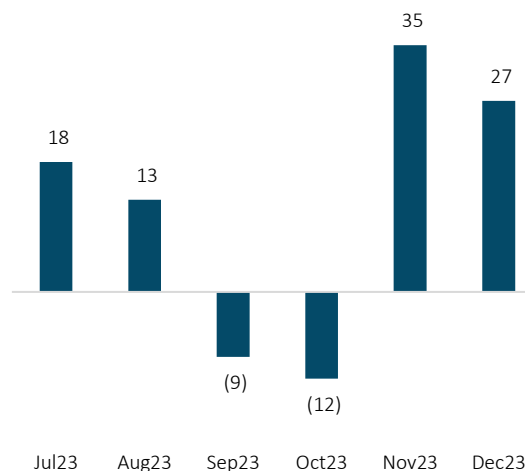
Value Traded – Daily Average (USD mn)



Source: PSX, Bloomberg, BMA Research

The average daily traded value (ADTV) remained relatively low at USD 36mn in CY23 compared to USD 105mn witnessed during CY21. ADTV picked up considerably over the 2nd half of the fiscal year, registering at USD 50mn against USD 20mn witnessed in the first half. Notably, ADTV rose to around USD 100mn during Dec 23, signaling improved confidence.

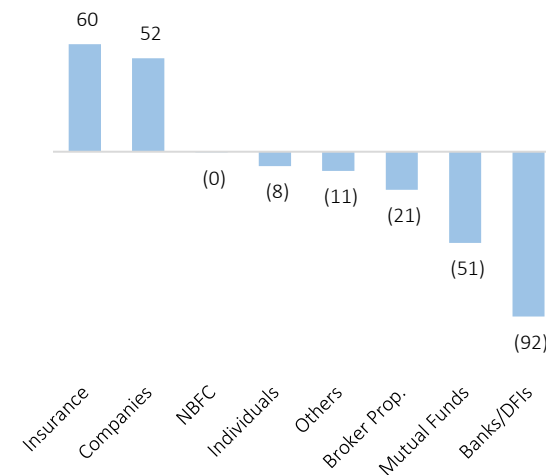
Foreign Participation (2HCY23)



Source: NCCPL, BMA Research

Foreign investors became net buyers during the 2nd half of the calendar year, with net purchases of USD 70mn. Moreover, gross foreign activity surged by 88% during the 2nd half of the year, rising to USD 1.35bn. A significant uptick in foreign activity has been witnessed during Nov23 and Dec23 with net purchases of USD 62mn.

Local Participation (2HCY23)

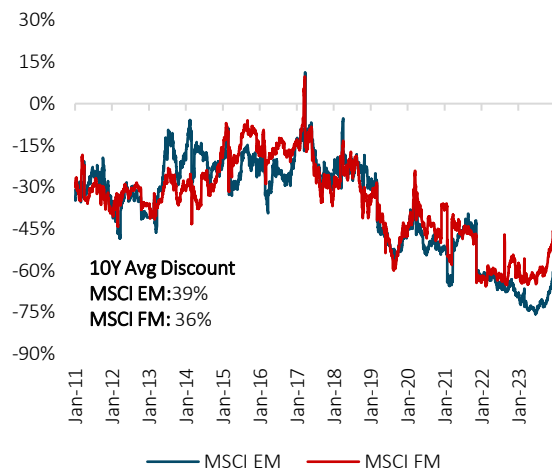


Source: NCCPL, BMA Research

The local investor base emerged as net sellers during 2HCY23 with banks and mutual funds cumulatively offloading USD 143mn worth of shares. Insurance and other companies were net buyers with flows of USD 112mn.

Undemanding valuation despite rally

KSE100 Discount to MSCI EM & FM



Source: Bloomberg, BMA Research

Our BMA universe trades at a 55% discount to the MSCI FM index and a 68% discount to the MSCI EM index. These discounts averaged 36% for the FM index and 39% for the EM index, suggesting ample room for a potential rerating. A potential rerating to the ten-year average discount levels would imply an index level of 98,000pts.

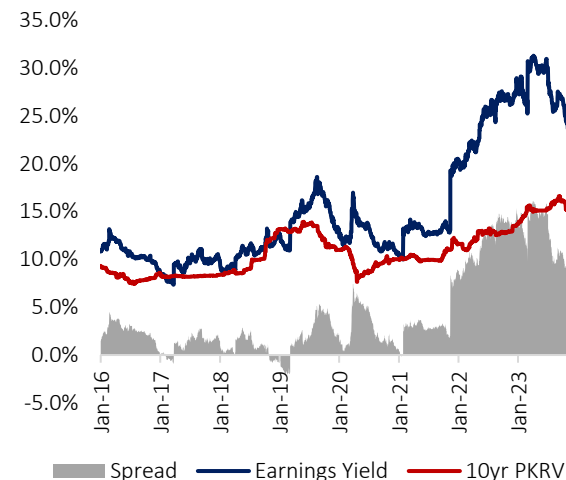
KSE100 PE Multiples Trend



Source: PSX, Bloomberg, BMA Research

The recent rally allowed the KSE100 index to emerge out of rock bottom valuations to the current PE multiple of 4.5x. Despite the rally, we think the index remains attractively priced, given the historical 10-year average PE multiple of around 8.0x. Moreover, peaks of bull cycles have witnessed the index cross multiples of 10.0x. A potential rerating to the ten-year average multiples would imply an index level of 113,000pts.

Earnings Yield vs. Bond Yield



Source: PSX, Bloomberg, BMA Research

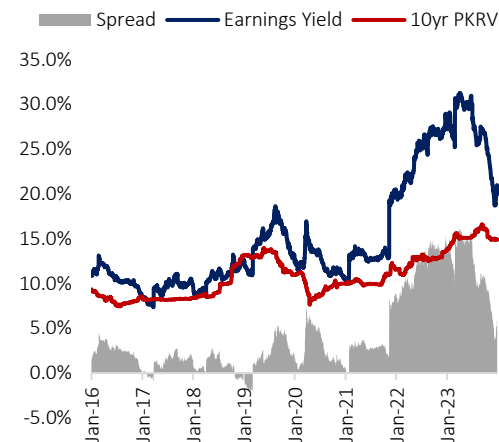
The KSE100 index's earnings yield of 22% remains 7pps ahead of the 10-year PKRV rate of 15.0%. Historically, this spread has hovered between 2.0% and 3.0%, suggesting that the index still has ample room for additional repricing, particularly after the expected reduction in the interest rates. A potential rerating to the ten-year average spread would imply an index level of 84,000pts.

Nearly all macroeconomic indicators point towards the commencement of a monetary easing cycle in 2024, largely driven by the anticipated disinflationary trend. Based on our estimates, CPI inflation is projected to hover around 20% by March 2024, implying real interest rates of 2%. Moreover, on a 12-month forward basis, real interest rates would hover around 7.0%, giving the SBP ample room to commence monetary easing. We project **a 200bps cut in interest rates in March's monetary policy meeting and another 200bps by June 2024**. While the most obvious benefit of reduced interest rates is the reduction in debt servicing costs, a monetary easing cycle has wide-reaching implications for Pakistan's equities market and the economy.

Potential Implications of the Monetary Easing Cycle

- a) **A 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 8% presently. Moreover, the equity mix of privately owned insurance companies was also significantly higher at 33% compared to 6% currently. Given that the recent index's rally was notable for the absence of many institutional participants, we think the turn of the interest rate cycle may trigger a significant influx of liquidity into Pakistan's equity markets.
- 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 that are expected to benefit include cement, steel, oil & and 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.**

Earnings Yield vs. Bond Yield



Source: Bloomberg, SBP, BMA Research

2) The Agriculture Boom

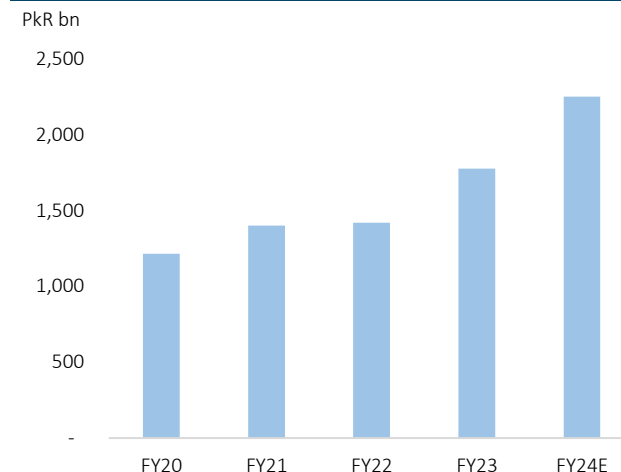
Pakistan's agriculture industry has rebounded from the lows witnessed back in 2022. The post-flood dynamics have witnessed a sharp improvement in agriculture economics with farm income reaching record-high levels. Important crops have witnessed a sharp rise in production, particularly cotton, which is expected to see a two-fold rise in its yield. The central bank further facilitated agricultural growth by implementing agriculture financing initiatives. These programs resulted in **disbursements amounting to PkR 1,776 billion (USD 7.0 billion) in FY23**, with plans to increase the allocation to PkR 2,250 billion (USD 8.0 billion) in FY24. Improving agriculture prospects is evident in the high demand for fertilizer in the country. Notably, the prevalent shortage of urea has created a black market, in which the commodity is sold at 10-15% premium to the official rate.

SIFC a catalyst for long-term agriculture development: Agriculture is a key part of the SIFC as it plans to promote investments towards corporate farming ventures. Notably, Pakistan has seen interest from Saudi Arabia, China, and the Middle East for potential investments in corporate farming, likely in a bid to achieve food security.

Potential stocks to look out for

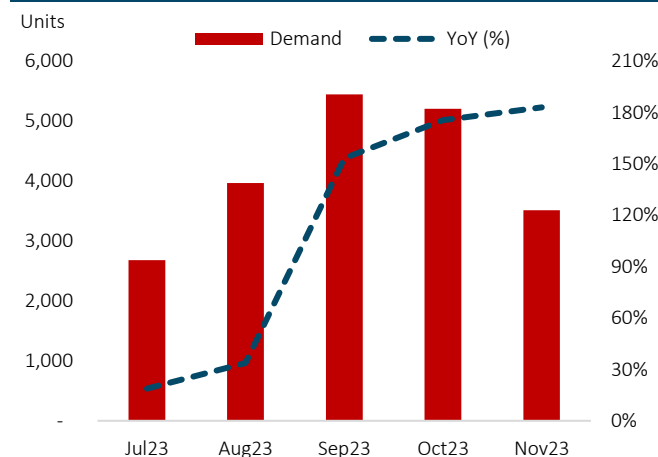
- **Fertilizer producers:** Pakistan's fertilizer producers are likely to emerge as key stakeholders to push for the development of Pakistan's agriculture landscape. The industry may benefit from a sustained increase in demand for fertilizer, enabling a higher pricing power. **Our top picks for this play would include FFC (Target: PkR 145/sh), EFERT (Target: PkR 125/sh), and FFBL (Target: PkR 33/sh).**
- **Tractor Assemblers and Parts Manufacturers:** The demand for tractors is likely to remain high during the agriculture boom. Notably, tractor sales are up by 100% in FY24 because of high demand. Moreover, the sector is likely to bypass import restrictions because of its importance in the development of agricultural land. Notably, the SIFC has reportedly earmarked 1.0 million acres of land for development, likely inducing significant demand for tractors over the long run. **Our top picks for this play include MTL, BCL, and AGTL.**

SBP Agriculture Financing



Source: SBP, BMA Research

Tractor Demand



Source: PAMA, BMA Research

3) Revitalization of Pakistan's Energy Sector

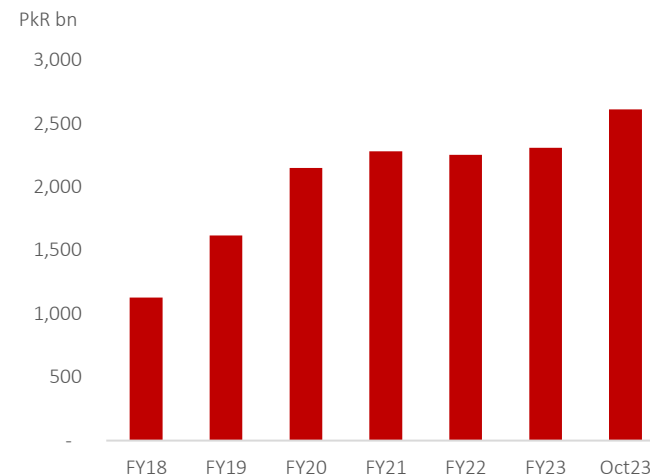
Pakistan's energy chain has usually been the country's Achilles heel with chronic issues spanning decades. The IMF program has always prioritized addressing the sector's core issues, including its inefficient infrastructure, ineffective pricing mechanisms, lucrative guaranteed ROEs, and high reliance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

Issues being addressed through major steps: Recent months, however, saw major steps being taken to address these long-standing issues. The energy tariffs were hiked significantly to improve the cash collection of the energy chain and to reduce its reliance on subsidies. Notably, **gas tariffs were raised by over 100%** and the **base electricity tariff increased by 20%**. Moreover, administrative steps were taken to control the rampant theft prevalent in certain regions of the country, resulting in significant recoveries. Moreover, a long-term plan has been devised to **upgrade the country's network infrastructure to reduce line losses**. Presently, the country's distribution losses stood at around 16.45%, higher than the allowed 13.41%.

Potential stocks to look out for

- **Energy companies:** Pakistan's energy companies are likely to emerge as the key winners in this development. Notably, improved cash collection would likely result in increased cash payouts by the industry. **Our top picks for this play include OGDC (Target: PkR 175/sh), PPL (PkR 155/sh), HUBC (PkR 155/sh), PSO (PkR 224/sh), and SNGP.** Moreover, **CSAP** may witness a high demand for steel pipes as gas utility companies would have cash to expand their network.
- **Electricity infrastructure equipment manufacturers:** The government, under the IMF program, has made concrete plans to upgrade the network infrastructure to enhance the sector's efficiencies. There are several stocks that investors may keep an eye on that would benefit from this development. **PAEL** may benefit from an increase in demand for electric transformers. **PCAL** may also witness enhanced demand as older inefficient cables are replaced. **EMCO**, a producer of porcelain ceramics, may also see high demand as the infrastructure is upgraded.

Circular Debt by Year



Source: NEPRA, BMA Research

4) Geopolitical Developments

The evolution of the geopolitical landscape over the past few years has seen a shift away from the US towards a multipolar orientation. The developments have seen the emergence of India as a regional power. Moreover, India has also become a vital strategic partner for the US, likely to keep a check on China's growing prominence in the global landscape. Given US's increasing reliance on India, we feel the **United States would likely prioritize regional stability and push for restoring relations between India and Pakistan.**

Pakistan and Indian elections a chance to mend fences: Elections are scheduled to take place in both India and Pakistan during the first half of CY24. Pakistan's political landscape and early polls strongly suggest PML-N emerging with the majority, leading to Nawaz Sharif accepting his 4th stint at the helm. On India's side, pre-election polls suggest that it is almost a given inevitability that BJP will win with Narendra Modi securing his 3rd consecutive term.

Historically, the PML-N government and India have enjoyed amicable relations, **marked by high trading activity.** During its peak in FY18, Pakistan imported USD 1.8bn and exported USD 420mn worth of goods. The two countries' relation, however, soured after the BJP revoked the special status granted to Kashmir. Consequently, trade between India and Pakistan plummeted with imports falling by nearly 90% from their peak and exports reaching negligible levels.

Improved relations may reopen the trade routes: Improving relations with India has the potential to reopen the currently closed trade routes between the two countries. Historically for Pakistan, India was responsible for supplying agricultural produce. Since the import ban from India, Pakistan's food prices have witnessed heightened volatility, with prices of many food commodities surging multifold. Potential resumption of trade may stabilize domestic food prices by reducing their vulnerability to domestic supply shocks.

On the export front, prior to the ban, Pakistan's cement industry enjoyed a large export market. The resumption of exports could potentially allow the cement industry to cater to the Indian market and support the industry's falling utilization rates.



Source: SBP, BMA Research

4) Geopolitical Developments (cont'd)

Pakistan diversifying from China: Recent developments have suggested that Pakistan plans to diversify its dependence on China and rely on other countries for enhanced strategic collaboration. Most notably, Pakistan has increasingly relied on Middle Eastern countries for financial support and major investments. We saw KSA and UAE deposit USD 3.0bn at the start of the fiscal year. Moreover, the interim Prime Minister has highlighted **potential investments of up to USD 50bn** from Saudi Arabia and the UAE, including the **USD 10-12bn greenfield refinery complex**. Notably, KSA also plans strategic investments with Pakistan's private sector, with potential acquisitions of local OMCs evident in this development.

Consensus reportedly reached for an FTA with the GCC: Pakistan and Saudi Arabia have reportedly reached a consensus on a proposed free trade agreement (FTA) with the GCC countries. The FTA has been under discussion for nearly two decades and would mark the first time in 15 years that such an agreement was secured by any country. The FTA would provide Pakistani exporters with a large, accessible, and high-income market for their goods. Currently, notable exports to the GCC include meat (TOMC, ASC), rice (MFL), and textile. Moreover, the FTA would have the potential to further enhance strategic collaboration and boost investments for Pakistan.

Potential entry into BRICS: Last month saw Pakistan formally requesting to join BRICS, a five-nation bloc to promote strategic collaboration. BRICS has seen its influence increase considerably with its member nations accounting for 30% of the global GDP. Most notably, the alliance saw the addition of five new countries, Saudi Arabia, UAE, Egypt, Iran, and Ethiopia. Trade between **BRICS nations has been reportedly rising annually by 9.3%**, evidence of increased collaboration. Moreover, the use of domestic currencies for trade between member nations reduces their reliance on US Dollars.

Strained relations with India appear to be the major roadblock for Pakistan's entry into the bloc. The country, however, is likely to approach China and Russia for their support. We think a potential entry into the bloc would open major trade opportunities for Pakistan and promote investments.

Notable Developments with the Middle East

Saudi Arabia

USD 2.0bn Deposit Support
Planned USD 25bn investments
USD 10-12bn Greenfield Refinery
Planned investment in Rejo Diq
Planned investment in Local OMCs

United Arab Emirates

USD 1.0bn Deposit
KPT Concessions Agreement
Multi-Billion Dollar MoUs Signed

Kuwait

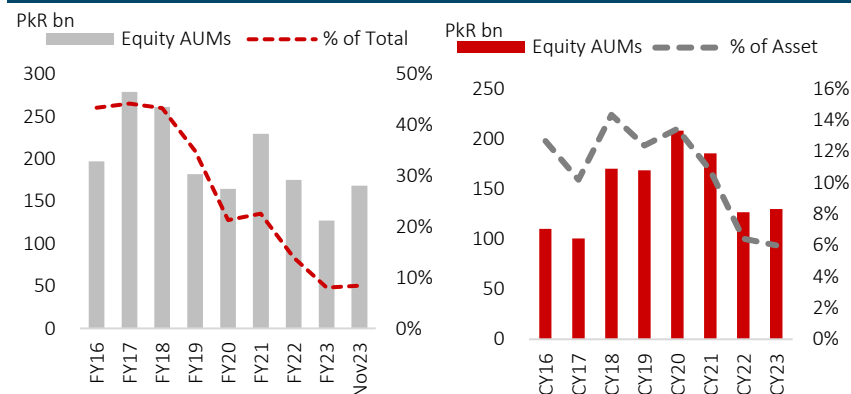
Multi-Billion Dollar MoUs Signed

Source: News Reports, BMA Research

Asset mix yet to transition towards equities

- Asset allocation towards equities yet to materialize:** Despite the index's rally, we have yet to see a significant shift in assets towards equities. For the mutual fund industry, equity AUMs stood at PkR 168bn as of Nov 30'23, constituting around 8% of the total AUMs. Notably, this figure hovered around **45% back in FY17** when interest rates were at 5.75% and the market was at its historical peak. Our discussions with mutual fund industry personnel suggest that investors have yet to shift away from fixed income because of the high risk-free yields it offers. Moreover, the mutual funds have been subject to equity redemptions, compelling the industry to **liquidate its equity holding (net selling: USD 51mn)** despite favorable prospects.
- Insurance companies yet to fully enter the market:** The equity AUMs of the insurance companies have also remained low at 6.0% of assets compared to the peak level of around 14% witnessed back in CY18. Notably, the equity AUMs of the **privately owned insurance companies stand at around 6.0% of total assets, down from 32% witnessed back in CY18**. The privately owned insurance companies have been notably absent from the equities market, leading to their AUMs witnessing an 80% fall over the past three years.
- General elections and monetary easing cycle to trigger the asset shifting:** We think a smooth election cycle and the commencement of the monetary easing cycle will compel many in the industry to start building positions in Pakistan's equity markets. We are likely to see a focus on **cyclical industries** as they have usually provided multi-fold returns over the turn of an economic cycle.
- Significant inflows to equities can materialize:** Investment AUMs are hovering at record levels whereby a small shift in AUMs has the potential to generate billions in liquidity into the equity market. Based on the our estimates a 5pps shift in AUMs could generate capital flows of PkR 180bn.

Equity AUMs – Insurance and Mutual Fund Industry



Source: Fund Reports, BMA Research

Sensitivity of Asset Reallocation towards Equities

	AUMs PkR bn	Equity PkR bn	Equity %	Sensitivity to Asset Reallocation				
				+1%	+2%	+3%	+4%	+5%
Mutual Funds	1,998	168	8%	20	40	60	80	100
Private Insurance	358	22	6%	4	7	11	14	18
State Insurance	1,270	108	8%	13	25	38	51	63
Net Equity Flow (PkR bn)				36	73	109	145	181

Source: Company Reports, BMA Research

Long-term bets on the SIFC

The flagship project of the military and the government: SIFC is a venture between the government and the military establishment to promote foreign direct investment (FDI) into the country. Investment catalysts would include fostering a favorable investment climate with a long-term policy framework. Potential benefits for investors would include tax incentives, tariff indexations, and high IRR. **The SIFC aims to attract USD 50bn** in investments in the fields of agriculture, mining, technology, and energy. The SIFC aims to reduce Pakistan's reliance on foreign financing to fund its economic growth.

- **Agriculture:** Agriculture is one of the main components of the SIFC as reportedly over 1 million acres of agricultural land has been earmarked for corporate farming ventures. The goal of the SIFC would be to attract investors from China and the Middle East to offer long-term food security. **Presently, 50,000 acres** of farmland have been allotted for corporate farming.
- **Mining:** Mining is another important part of the SIFC, with a focus on metal exploration and developing the Thar Coal Fields. A notable example is the Rejo Diq owned by Barrick Gold, which aims to invest upwards of **USD 10.0bn to develop the mine**. Moreover, Saudi Arabia has also shown keen interest in acquiring a stake in the mining facility.
- **Energy:** The SIFC also aims to promote the use of indigenous resources for Pakistan's energy needs. The SIFC would focus on developing the Thar Field for local coal-based power plants. Moreover, several projects include the development of hydropower projects. A key investment under the **umbrella would be the USD 10-12bn refinery complex** by Saudi Aramco.

Notable Projects of SIFC

Agriculture

50,000 acres corporate farming (Cholistan)

Corporate Dairy Farms (20,000 Animals)

Energy

Greenfield Refinery Complex

1320MW Thar Coal Based Project

Diamer Basha Dam Project

132MW Rajdhani Hydro Project

Mining

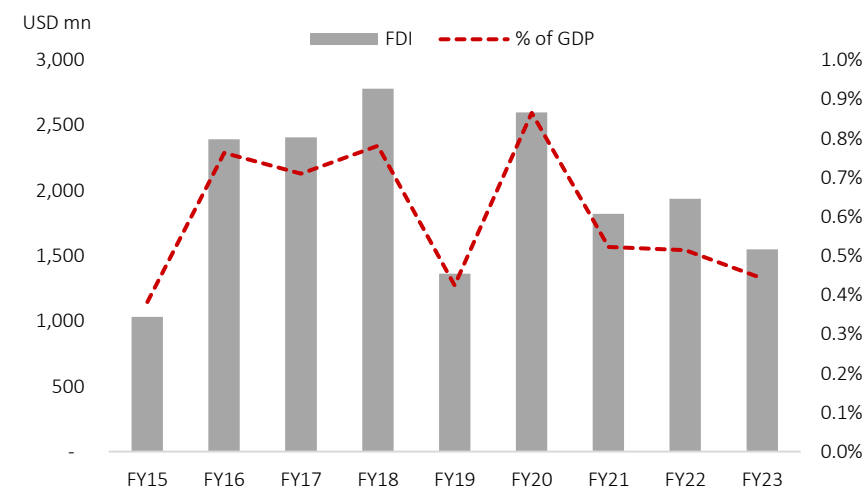
Copper and Gold Mining - Chagai

Lead and Zinc Mining, Khuzdar

Thar Coalfield Regasification

Source: SIFC, BMA Research

Pakistan Annual Net FDI

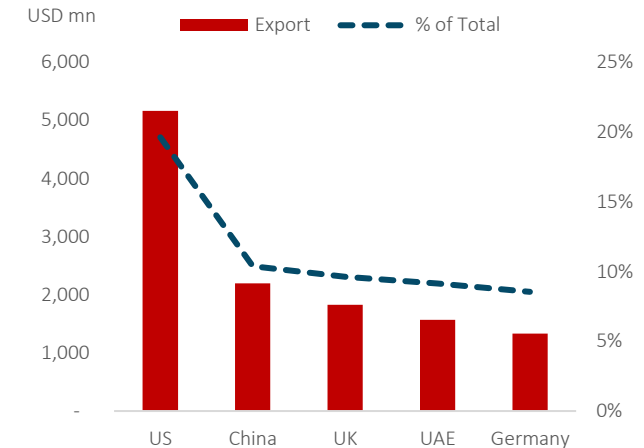


Source: SBP, BMA Research

Pakistan's Key Trading Partners

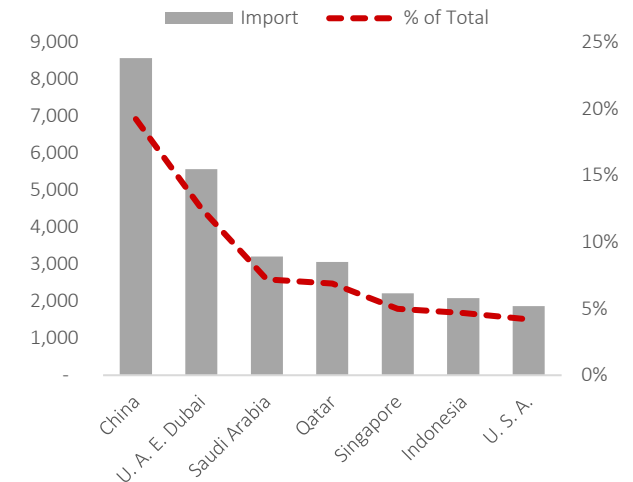
- **China:** China stands as Pakistan's biggest trading partner, being responsible for 19% of the country's imports and 10% of its exports. China's economic trajectory has slowed down in recent years with its growth expected to slow down to 4.5% in CY24. Domestic demand within the country has come under significant pressure, reeling from the fallout of its property crisis. Low domestic demand is evident by the deflationary trend, with **monthly CPI figures averaging -0.1% since April 2023**. China's slowdown has been key in driving down global commodity prices, particularly coal and oil.
- **United States:** The US stands as Pakistan's largest export partner, being responsible for 20% of the country's exports. The US economy has been grappling with high inflation for the past two years, compelling the US Fed to raise interest rates to 5.5%. The country has been witnessing low growth and economic activity as GDP growth has averaged around 2.0%. This slowdown has taken a considerable toll on Pakistan's exports to the country, **with export figures falling by 15% YoY**. With the recent decline in monthly inflationary figures, however, the US Fed has shown comfort in kickstarting a monetary easing cycle in 2024.
- **The United Kingdom:** The United Kingdom (UK) stands as Pakistan's 3rd largest export market, being responsible for 10% of the country's exports. Soaring interest rates led by high inflation have significantly dented domestic demand. Concerns of an all-out recession have come to the forefront with **recent quarterly GDP figures depicting a fall of 0.1%**. Moreover, unlike the US, inflation appears to be sticky in the UK, and therefore the Bank of England may not be able to follow the US Fed's eventual monetary easing cycle. The BoE has already conveyed that interest rates in the UK would need to stay high for extended periods, further fueling the recessionary speculation.

Top Export Destinations (11MCY23)



Source: SBP, BMA Research

Top Imports by Country (11MCY23)



Source: SBP, BMA Research

Buybacks reinforcing the index's undervaluation

- **Share buybacks picking pace from CY22 onwards:** Since CY22, companies have purchased shares worth PkR 40.4bn (USD 170mn). We think the prevalence of buybacks largely stemmed from the equity markets' undervaluation. Notably, most of the stocks purchased were trading at significant discounts to their fair value or asset replacement value.
- **Sponsor activity also picked up significantly:** Company Sponsor activities have also picked up significantly over the past 18 months as company insiders have purchased shares worth PkR 44bn. Notable sponsor purchases include HBL's shares worth PkR 7.0bn and TRG's shares worth PkR 8.1bn. Sponsor purchases have generally reinforced investor confidence, resulting in price discovery for most stocks.
- **Some even opting to delist from the market:** Pak Suzuki (PSMC) announced its plan to delist from the Pakistan Stock Exchange (PSX), citing operational issues and stock underperformance for its decision. The delisting announcement resulted in a sharp surge in the stock's price, which saw PSMC climb by nearly 500%.
- **Some, however, are concerned about the ramifications of low float:** Company buybacks or sponsor purchases reduce the float of said stocks. A key concern for investors about Pakistan's equity market is the low depth it offers. Low float will make the **market susceptible to volatility induced by the flow of capital**. Moreover, foreign investors and the MSCI place particular emphasis on a country's free-float market capitalization. We think Pakistan needs a more concerted effort to address this issue to ensure it **remains more than a tracking error** for foreign portfolios. Notably, Pakistan's weight in the MSCI FM index stands at 3.1% compared to 8.8% back in 2016.

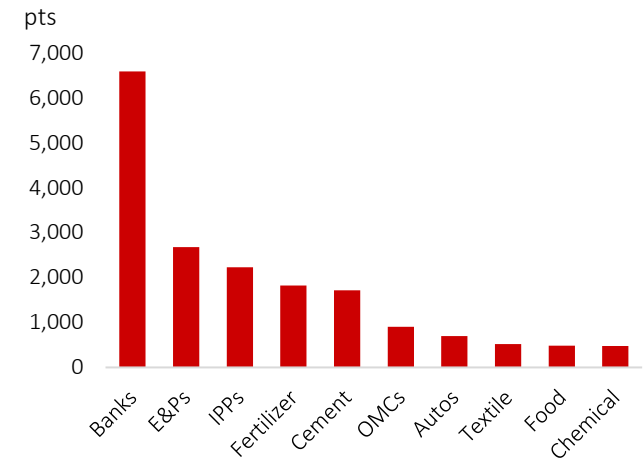
Share Buybacks picking pace from CY22 onwards					
Company	Buyback mn shares	Paid-up %	Free Float %	Shares Purchased mn shares	Purchase Value PkR mn
MLCF	125	11.6%	25.8%	44.3	1,420
THCCL	15	15.0%	30.1%	10.0	176
TPLP	50	8.8%	21.9%	8.7	113
LUCK	34	10.7%	30.5%	30.4	17,246
SPEL	10	5.0%	20.0%	10.0	115
KTML	30	10.0%	33.4%	30.0	1,772
KOHC	5	2.5%	8.3%	5.0	870
ENGRO	70	12.2%	22.1%	39.5	11,610
BAFL	200	11.3%	32.2%	200.0	6,043
JDWS	2	3.4%	22.3%	2.0	879
NETSOL	2	2.2%	6.4%	2.0	184

Source: PSX, BMA Research

PSX Performance Recap

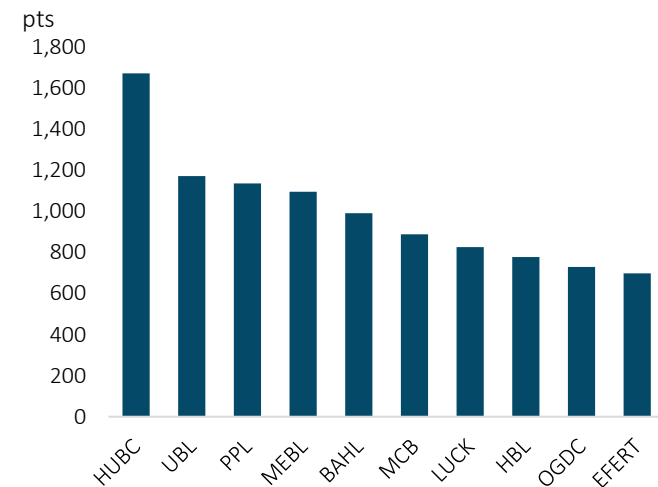
- **PSX outperforms all asset classes:** The KSE100 index was able to outperform all asset classes in CY23 with a return of 55%. It marked the first time in 7 years that the index was able to outperform CPI inflation and the returns of fixed income. The bulk of the index's performance was seen during the 2nd half of the calendar year, after the resumption of the IMF program. Moreover, the index also found support from the administrative efforts taken to address the country's long-standing issues, including the illicit currency trade and circular debt.
- **Banks led the show:** Dissecting the index's performance during the 2nd half of the year, banks led the show as they contributed nearly 6,600 points towards the index's rally. Banks likely benefitted from the favorable interest rate cycle, which caused a sharp improvement in NIMs and bottom-line profitability. Moreover, the cash payouts of the sector also improved, garnering investor interest.
- **Energy companies also outperform:** Pakistan's energy companies benefitted from administrative efforts to address the circular debt. Notably, gas prices were hiked by over 100% to improve the sector's cash collection. Investors, in turn, anticipated an improvement in the sustainable dividend yields of the energy chain. Moreover, talks of a potential cash injection to clear the circular debt arrears were also under discussion.
- **Yield plays a key focus:** Pakistan's dividend yield plays were one of the key contributors to the index's rally. Apart from banks and energy companies, the fertilizer sector also performed well as investors built their positions to benefit from the sector's high yields. With investors pricing in rate cuts during 1QCY24, dividend yield plays are likely to be repriced in tandem.
- **Cyclicals also gaining traction:** Pakistan's cyclical stocks, particularly cement, steel, and automobiles also contributed towards the rally as many investors expect a repricing in cyclical industries at the turn of the interest rate cycle. Cyclical stocks are also expected to benefit from a reduction in debt servicing and an increase in demand as economic activity picks pace after the reduction in the policy rate.

Top-performing Sectors



Source: PSX, BMA Research

Top-performing Stocks



Source: SBP, BMA Research

Sector	Outlook	Stance & Top Picks
Automobile	<p>Pakistan's automobile industry is expected to continue to face a rough patch, driven by the macroeconomic slowdown, high-interest rates, record-high vehicle prices, and restrictions on imports. We think automobile sales will remain under pressure and fall by around 50% YoY because of said reasons.</p> <p>A potential uptick in demand may, however, materialize during the wheat harvest season amidst the significantly improved farm economics. Moreover, the expected reduction in interest rates may induce demand emanating from automobile financing. Notably, despite price hikes, automobile financing stands at PKR 257bn, down from 368bn at the start of FY23.</p>	<p>Sector Stance NEUTRAL</p> <p>Top Picks INDU, SAZEW</p>
Cements	<p>Pakistan's cement industry has been witnessing a rough patch, driven by the general macroeconomic slowdown affecting the country. The country's domestic cement consumption is expected to fall by around 5% YoY, maintaining utilization levels around the 60% mark in FY24. Moreover, record-high interest rates are expected to exert pressure on the sector's profitability metrics because of the highly leveraged balance sheets.</p> <p>Onwards, however, we see bumper agriculture income, a reduction in interest rates, and a backlog of construction projects to catalyze domestic demand. Moreover, the sector has shown pricing discipline despite low utilization rates, enabling the industry to maintain its margins. With its profit trajectory intact, we think the turn of the interest rate cycle will allow the industry's depressed valuations to converge toward historical averages.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks MLCF, FCCL, KOHC, LUCK</p>
Chemical	<p>Pakistan's chemical companies have been affected by the general slowdown in economic activity, leading to reduced demand. Moreover, the recent hike in gas prices has significantly increased the sector's cost of production. The normalization of the global commodity upcycle has eased, leading to a sharp reduction in primary margins over the past two years. The sector, however, remains hedged to volatility in the Pak Rupee and may benefit once the economy moves out of its stabilization phase.</p>	<p>Sector Stance NEUTRAL</p> <p>Top Picks EPCL</p>

Sector	Outlook	Stance & Top Picks
Commercial Banks	<p>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%. Banks are also focused on actively managing their deposit costs by enhancing their CASA ratios. Consequently, several banks have witnessed around a 300bps improvement in their NIMs over the past year. Record profitability of the industry has considerably improved the balance sheets of most Pakistani banks, enhancing their potential for high payouts in the coming quarters. The industry is also managing its lending portfolio well with minimal increases in NPLs despite high interest rates and low economic growth. We think banking stocks will remain under investors' radar, given their attractive valuations and the potential for sustained yields.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks MEBL, BAFL, Bahl, UBL, AKBL, HBL, HMB</p>
Fertilizers	<p>Pakistan's fertilizer industry has greatly benefitted from the post-flood improvement in farm economics. Notably, the yields of all major crops, particularly cotton, are expected to rise considerably during the fiscal year, inducing the demand for fertilizer in the country. This scenario is evident by the domestic shortage of fertilizer, with the black-market rates hovering at a 10-15% premium over the retail rates. 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, without denting demand. We think the sector will remain under the investors' limelight, given its high cash yield and earnings quality.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks FFC, EFERT, FFBL</p>
Glass	<p>Pakistan's glass industry is witnessing a tough patch because of low domestic demand and rising energy costs. Low demand has resulted in a significant buildup of inventory, hovering around PkR 20bn between the two players. This buildup has the potential to affect the sector's pricing power, a concerning development in the high-inflation environment. Over the medium term, we see demand normalizing as construction activity resumes.</p>	<p>Sector Stance NEUTRAL</p> <p>Top Picks TGL</p>

Sector	Reasoning	Stance & Top Picks
Oil & Gas Exploration	<p>Pakistan's oil and gas exploration companies have benefitted from recent developments undertaken 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. The sector also plans to diversify its revenue stream via international ventures through the acquisition of offshore exploration in Abu Dhabi. Moreover, it has also ventured into mining by acquiring stakes in Rejo Diq.</p> <p>The sector benefits from a cash-rich balance sheet, benefitting from the high-interest rate cycle. Moreover, its revenue stream remains linked to the US Dollar, allowing for an organic hedge against the Pak Rupee volatility.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks MARI, OGDC, PPL</p>
Oil & Gas Marketing	<p>Pakistan OMCs are expected to benefit from the recent 31% hike in primary margins to PkR 7.87 per liter. Moreover, the government has taken steps to curb the smuggling of petroleum, allowing the industry to benefit from an increase in demand. Moreover, the government has taken steps to control the flow of circular debt, including a sharp rise in energy tariffs. These developments would enhance the cash collection of OMCs, allowing for a reduction in outstanding debt.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks PSO, APL</p>
Independent Power Producers	<p>Pakistan Independent Power Producers (IPPs) benefit from a sustained stream of revenues. With plans to reduce circular debt arrears, the sector has witnessed an influx of cash. The cash injection reduces outstanding liabilities and enables a high cash payout from these IPPs. We anticipate Pakistan IPPs to garner investor interest once the monetary easing cycle commences and yields are repriced to the lower interest rates.</p>	<p>Sector Stance POSITIVE</p> <p>Top Picks HUBC</p>

Sector	Reasoning	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 POSITIVE Top Picks ATRL, NRL, 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 POSITIVE Top Picks SYS
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. 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 NEUTRAL Top Picks ILP, GATM

The image shows the interior of a grand, semi-circular legislative chamber. The ceiling is a large, ornate dome with a central circular medallion and radiating patterns. The walls are covered in wood paneling. The seating is arranged in a semi-circle, with rows of desks and chairs. A central aisle leads to a raised platform at the front, where a framed picture is displayed. The overall atmosphere is formal and majestic.

Politics

Pakistan's political landscape is shaping up for the upcoming general elections **scheduled for February 08'24**. Familiar faces have come to the forefront for another chance at the helm. Moreover, legal troubles have cast doubt over the former Prime Minister, Imran Khan's, eligibility to participate in the elections.

- **Different from past election years:** Election years are usually marked by heightened expenditures as the incumbent government focuses on building political capital through expediting developmental projects. The current election year, however, was marked by limited fiscal space because of elevated debt servicing. Notably, the federal PSDP expenditure stood at **PkR 40bn during 1QFY24, implying utilization of just 13%**.
- **Political clarity a prime concern for investors:** Our discussions with domestic and foreign investors highlighted the importance of political clarity in building Pakistan's investment case. These investors unanimously agreed that Pakistan's equity market is significantly undervalued, even when compared to equities in distressed economies. They, however, **deemed successful general elections a necessary requisite** for them to enter the equities market.
- **SIFC's long-term success likely hinges on successful elections:** We think a stable political climate is necessary to induce foreign investment via the SIFC. We believe investors will require a long-term policy framework before we see any of the planned investments materialize.
- **Clarity on the next IMF program and external funding avenues:** We think Pakistan is likely to negotiate another IMF program after the current SBA expires in April 2024. We believe **the larger EFF would require an elected government** to negotiate with the IMF so that discussions could revolve around long-term reforms. Moreover, an elected government would be able to approach multilateral institutions for additional funding options. Pakistan's bilateral allies have also hinted that an IMF program may be necessary before lending support funds or deposits.

KSE100 Index Return - Pre and Post Elections

Year	6M Before	3M Before	1M Before	1M After	3M After	6M After
1993 Elections	21.1%	8.2%	4.8%	16.1%	70.8%	78.5%
1997 Elections	8.7%	4.3%	19.7%	-0.8%	-5.3%	14.5%
2002 Elections	8.1%	14.2%	3.8%	8.6%	36.4%	40.1%
2008 Elections	10.3%	8.4%	3.7%	4.8%	0.9%	-31.0%
2013 Elections	24.9%	15.4%	7.9%	9.4%	15.8%	14.7%
2018 Elections	-5.5%	-7.4%	2.7%	1.2%	-6.7%	-6.0%
Average	11.3%	7.2%	7.1%	6.5%	18.6%	18.5%

Source: PSX, BMA Research

Political Party-wise Economic Performance – Last Tenure

Party	GDP Growth %	Fiscal Deficit % of GDP	CPI %	CAD % of GDP	KSE100 Return %
PPP	2.81%	5.86%	12.96%	1.92%	26.91%
PML-N	4.67%	4.95%	4.80%	2.53%	136.03%
PTI	3.52%	7.24%	9.78%	2.78%	7.85%

Source: SBP, PBS, PSX, BMA Research

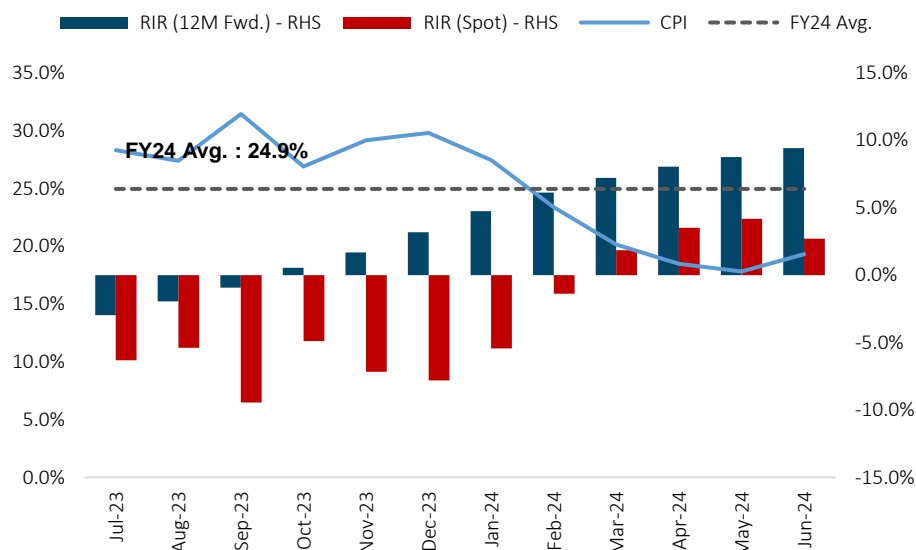
The background is a complex, semi-transparent collage. At the top, a globe shows the Americas. Below it, a city skyline with a prominent tower is visible. Overlaid on these are various financial and economic symbols: a candlestick chart on the left, a line graph with green dots in the lower left, several tall stacks of gold and silver coins in the center, a circular clock-like gauge in the lower center, and a small circular inset map of the world in the lower right. A horizontal grey band runs across the middle, serving as a backdrop for the title.

Pakistan Economy

Policy easing likely on the cards

- **Gas price hike leading to unexpected surge in inflation:** The industry's inflation projections witnessed an **unexpected uptick of around 200bps**, led by the higher-than-anticipated impact of the gas price hike. Recall, gas prices were hiked by over 100% to improve the cash collection of gas utilities and reduce their reliance on subsidies. Notably, another gas hike is on the cards, compelling many to revise their inflation estimates for FY24.
- **High base and falling commodity prices to reduce inflation readings:** Monthly inflationary readings are likely to ease off from January 2024 because of the high-base effect. Moreover, the government's action against commodity hoarding and smuggling has alleviated supply pressures, leading to a reduction in prices. Moreover, global commodity prices have also eased off considerably with many falling by over 50% from their peaks witnessed during the past three years. With no major inflationary catalyst on the horizon, we see positive real interest rates materializing by March 2024.
- **Policy easing likely from March 2024:** We project CPI inflation to hover around 20% in March 24 and average 24.9% in FY24. We maintain our stance of monetary easing commencing from March 2024 onwards. Real Interest Rates (RIR) on a 12M-forward basis would increase to 7.2%, providing the central bank ample room to cut the policy rate. **We project a 200bps cut in March 2024's monetary policy meeting and another 200bps by the end of the fiscal year.**

Monthly Inflation Projections (FY24)

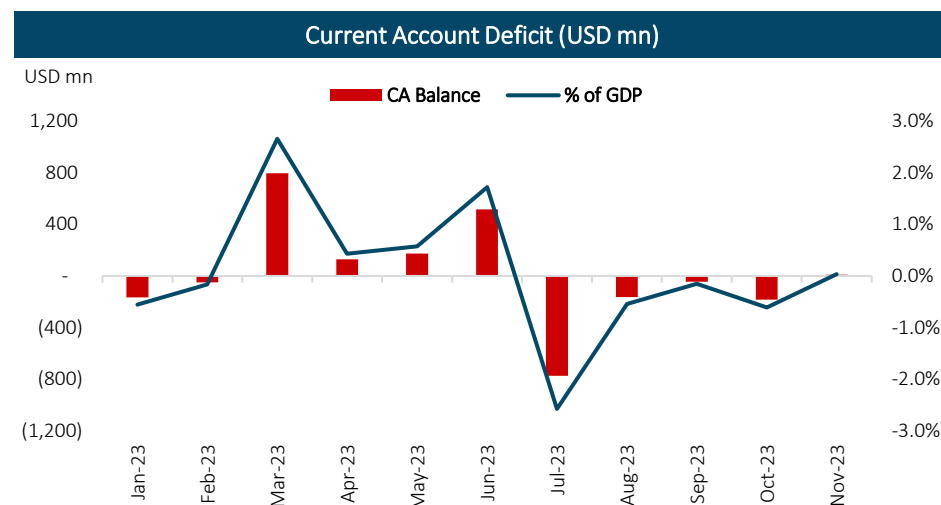


Past Easing Cycles

Period	Discount Rate			RIR from Peak		RIR from Bottom	
	Peak	Bottom	%Δ	Spot	12M FWD	Spot	12M FWD
May97-Jan00	20.00%	11.00%	(9.0)	7.1	11.0	7.6	6.6
Jun01-Nov02	14.00%	7.50%	(6.5)	11.5	11.2	4.5	4.9
Mar09-Nov09	15.00%	12.50%	(2.5)	(4.1)	2.3	2.0	(0.5)
Jul11-Jun13	14.00%	9.00%	(5.0)	1.6	3.0	3.2	0.6
Oct14-May16	10.00%	6.25%	(3.8)	4.2	6.9	3.1	2.3
Mar20-Jun20	13.75%	8.00%	(5.8)	1.4	5.0	(0.6)	(0.8)

- **Administrative restrictions keeping a check on external trade balance:** Pakistan's external accounts have been kept under control since CY22 because of dwindling foreign currency reserves amidst limited inflows. The situation was exacerbated by the Russia-Ukraine conflict, which caused a surge in the prices of several commodities, including oil. In a desperate bid to manage reserves, the government placed a blanket restriction on the imports of non-essential products.
- **Falling commodity prices leading to controlled deficits:** The restrictions in tandem with falling commodity prices have significantly reduced the country's external account imbalances. Notably, global commodities have since eased off considerably since their peaks, with many falling by over 50% over the past two years. These developments, in turn, allowed **Pakistan's current account deficit (CAD) to fall by 87% YoY to USD 2.24bn in FY23.**
- **Remittances may find support from the control of the illicit currency market:** The government has taken steps to address the issues caused by illicit currency trade by cracking down on unauthorized currency markets. The State Bank (SBP) also supported the cause by requiring banks to open currency exchange outlets for the public. Consequently, the gap between the unofficial and interbank currency rates converged. Given that the main reason expatriates utilized the unofficial market was because of
- **CAD figure expected to remain despite IMF's condition:** The USD 3.0bn IMF SBA required Pakistan to withdraw its restriction on imports to enhance tax collection from the economy. These restrictions, however, are still in place albeit at a reduced scrutiny. We see **Pakistan's CAD registering around the USD 3.0bn mark in FY24** because of reduced commodity prices, low economic growth, and the restrictions on imports.

Global Commodity Prices			
Commodity	3yr high	Current	%Δ
Brent (USD/bbl)	128	78	-39%
Coal (USD/MT)	301	101	-66%
Urea (USD/MT)	965	375	-61%
DAP (USD/MT)	995	575	-42%
Rebar (USD/MT)	913	582	-36%
CRC (USD/MT)	1,119	669	-40%
Copper (USD/MT)	10,674	8,625	-19%
PVC (USD/MT)	1,850	770	-58%



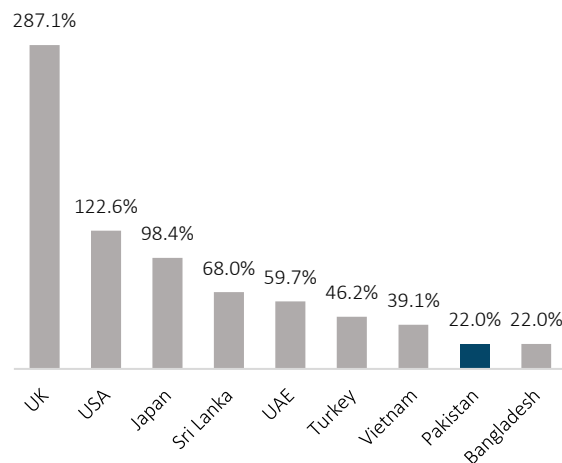
External Liabilities – Manageable with the IMF program

- **External liabilities at 22% of GDP:** Pakistan's external debt liabilities stood at around USD 84bn as of June 30'23. This figure stands at 22% of the country's GDP, relatively low when compared to developed economies or countries that recently defaulted. Notably, 83% of the country's debt was acquired through multilateral or bilateral sources, both of which are likely to rollover or refinance. FY25's projected debt servicing burden is estimated at USD 20.0bn or 5.2% of GDP.
- **Market debt a low part of total external debt:** Pakistan's market debt only stands at USD 7.8bn or 9% of its total outstanding external debt. Moreover, commercial loans also stood at USD 5.6bn as of Jun 30'23, or 7% of the total debt. Notably, the bulk of the commercial loans originate from Chinese commercial banks and are likely to be refinanced.
- **IMF program a necessity:** We think Pakistan is likely to enter another IMF program after the expiry of its USD 3.0bn SBA. Multilateral and bilateral sources have hinted that their financial support largely hinges upon the continuation of the IMF program. Moreover, the success of the SIFC and the planned multi-billion-dollar investments would also require Pakistan being under the IMF program.

Pakistan External Debt		
	USD mn	%
External Public Debt	84,050	100%
Multilateral	44,648	53%
The World Bank	19,220	23%
ADB	15,183	18%
IMF	7,124	8%
Others	3,121	4%
Bilateral	25,473	30%
Paris Club	7,901	9%
Non-Paris Club	17,572	21%
Commercial	13,929	17%
Commercial Loans	5,564	7%
Eurobond/Sukuk	7,800	9%
Others	565	1%

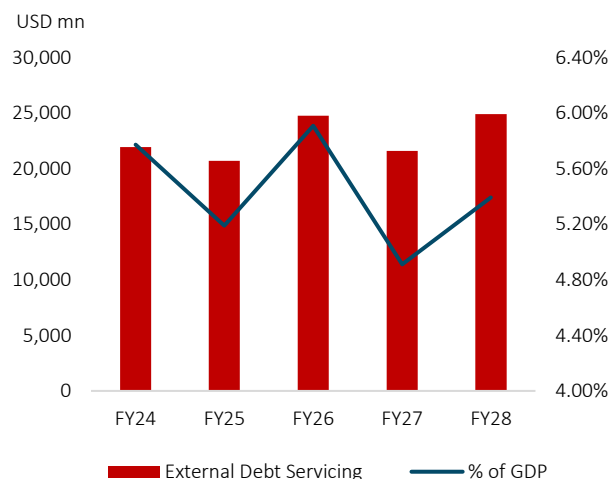
Source: MoF, BMA Research

External debt (% of GDP)



Source: Bloomberg, BMA Research

Debt Servicing Burden



Source: IMF, BMA Research

Financial Assistance Received by Pakistan

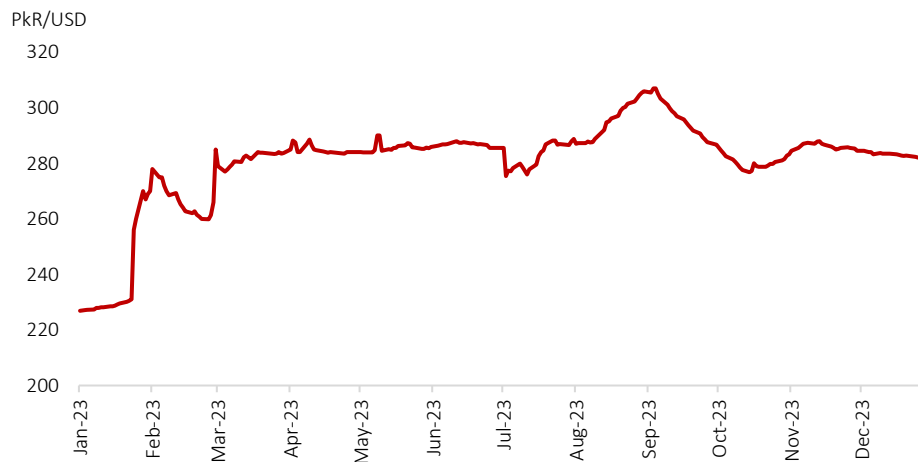
USD mn	Category	Date	Amount
Saudi Arabia	Deposit	02-Dec-22	3,000
UAE	Deposit	19-Jan-23	2,000
CDB	Commercial	24-Feb-23	700
ICBC	Commercial	4-Mar-23	500
ICBC	Commercial	18-Mar-23	500
China	Deposit	24-Mar-23	2,000
ICBC	Commercial	14-Apr-23	300
Saudi Arabia	Deposit	11-Jul-23	2,000
UAE	Deposit	12-Jul-23	1,000
IMF	SBA	13-Jul-23	1,200

Source: SBP, BMA Research

Pak Rupee – May sustain amidst prevalent restrictions

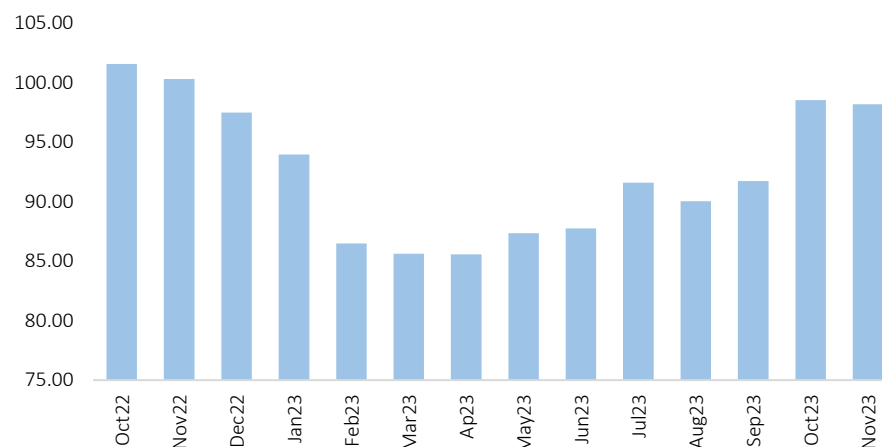
- **High volatility during CY23:** The Pak Rupee exhibited heightened volatility during CY23, driven by macroeconomic, administrative, and political factors. The initial depreciation was driven by the illicit currency market, which was converting the US Dollar at a significant premium to the official rate. Even the resumption of the IMF program was unable to sustain the Pak Rupee as it depreciated to a record-low level of PkR 307/USD.
- **Administrative efforts bore fruit:** The government, in tandem with the military, cracked down on the illicit currency market and stopped the illegal flow of US Dollars outside its borders. Moreover, major steps were taken to address the rampant smuggling that was driving illicit currency trade. These developments made a significant dent in the demand for US Dollars from the grey market, causing the Pak Rupee to recoup a large chunk of its value. There was reportedly a significant shift in sentiments about the trajectory of the Pak Rupee, causing exporters and even currency hoarders to exchange their US Dollars to avoid potential losses in value.
- **Recovery likely over as REER inching back towards 100:** The recent recovery in Pak Rupee amidst high inflation has caused the Pak Rupee's REER to inch back towards 100 from lows of 85.5 witnessed back in April 2023. We think a REER under 100 may be necessary to support the country's trade balance and build foreign currency reserves.
- **Low reserves amidst high debt another concern:** The SBP's foreign currency reserves stand at around USD 7.5bn, a precarious level compared to the projected debt servicing burden of over USD 100bn over the next five years. Market debt, however, stands at USD 7.8bn, under 10% of its total outstanding external liabilities. We think Pakistan would be able to manage its external accounts by rolling over or refinancing its remaining debt.

Pak Rupee Parity



Source: SBP, BMA Research

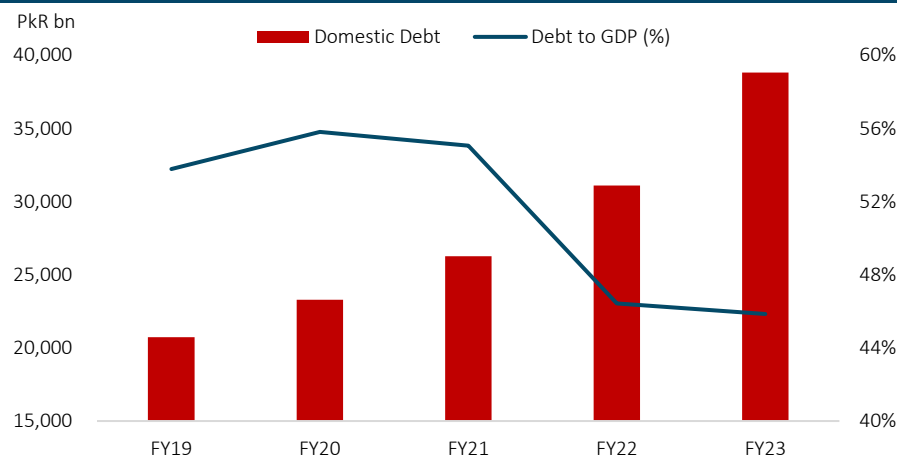
Real Effective Exchange Rate (REER)



Source: SBP, BMA Research

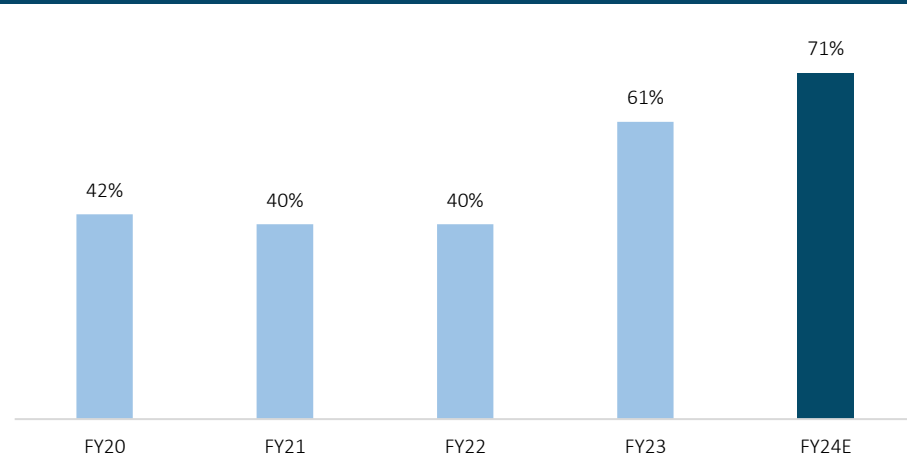
- **Fiscal deficit likely at 7.6% of GDP:** Pakistan's fiscal deficit is projected at 7.6% of GDP in FY24, a slight improvement from 7.7% of GDP recorded in FY23. The improvement is likely to be supported by a higher federal tax collection of around PkR 9.5tn (+33% YoY) and reduced development expenditures. Major dent to the deficit figure will likely be caused by surging debt servicing, which is estimated to cross the PkR 8.5tn mark (+50% YoY). Despite being an election year, we do not foresee any major fiscal slippages because of limited fiscal space.
- **Mark-up servicing outpacing federal revenues:** As mentioned, mark-up servicing for FY24 is estimated at PkR 8.5tn. When adjusting for the provincial transfers of federal revenues, mark-up servicing is likely to cross the net federal revenue receipts. This trend was evident during the first quarter of the fiscal year which saw debt servicing consume 98% of the federal revenue receipts, leaving little room for developmental spending.
- **Downside risks to federal spending:** The planned federal development expenditure of PkR 1,150bn is likely to be revised downwards during the fiscal year because of the limited fiscal space. Notably, 1QFY24 saw federal PSDP utilization of PkR 40bn or utilization rates of just 14%. This reduction in fiscal spending is compelling the government to cancel or postpone many development projects.
- **Interest rate reduction could provide some breathing space:** As mentioned, we anticipate interest rates will reduce by 200bps by March 2024 and another 200bps by June 2024. Notably, reduced rates will lower the government's cost of borrowing to finance their debt. We estimate that every 1pps reduction in borrowing costs yields annual interest rate savings of PkR 250-300bn for the government. Moreover, the government is also diversifying its lending sources by utilizing the PSX for raising debt. The most recent auctions saw borrowing costs stand around 150-200bps lower than the prevalent rate. Increasing reliance on alternative avenue may further reduce the government's cost and enhance fiscal space.

Pakistan Domestic Debt



Source: SBP, BMA Research

Mark-up to Revenues Ratio



Source: MoF, BMA Research

Pakistan Economic Overview					
	FY21	FY22	FY23	FY24E	FY25E
GDP Growth (%)	5.7%	6.0%	0.3%	2.80%	3.20%
Pkr/USD Parity (end)	168.1	157.7	285.5	314	335
Interest Rate (%)	7.0%	7.0%	22.0%	18.0%	12.0%
CPI (%)	10.7%	8.9%	29.2%	24.9%	11.0%
Imports (USD mn)	42,417	54,273	51,979	51,368	56,500
Exports (USD mn)	22,507	25,639	27,903	28,985	30,500
Remittances (USD mn)	23,134	29,450	27,027	29,524	31,000
CA Balance (USD mn)	(3,123)	(2,820)	(2,387)	(3,127)	(4,500)
Fiscal Deficit (% of GDP)	-8.10%	-7.10%	-7.70%	-7.60%	-6.60%
Primary Deficit (% of GDP)	-1.80%	-1.40%	-0.80%	0.20%	0.40%

Source: BMA Research, SBP, PBS

Sector Outlook & Top Picks

A background image of an oil and gas refinery at night, featuring numerous tall distillation columns, complex piping, and bright industrial lights that create a hazy, atmospheric effect. The scene is illuminated by a mix of warm yellow and cool blue light sources.

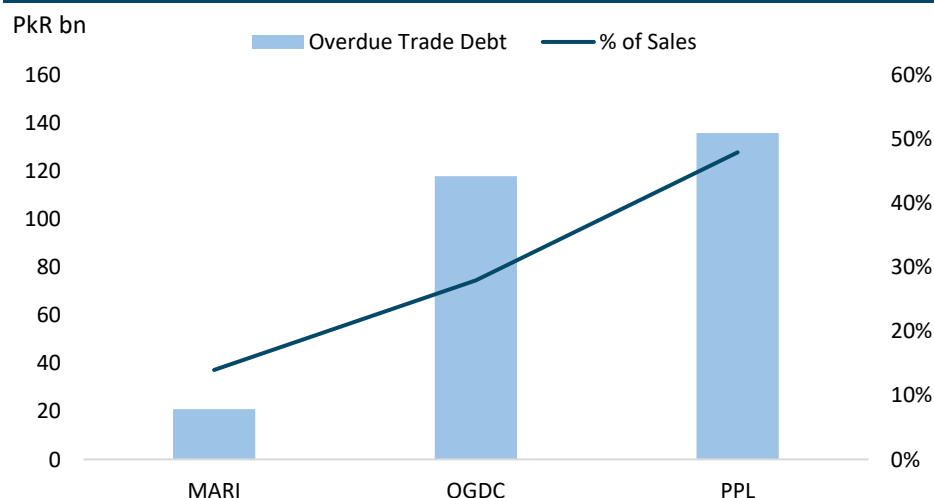
Oil & Gas Exploration

Circular Debt Control to unlock Valuations

Gas price hike a necessary impetus to unlock valuations

- **Gas price hike to unlock the sector's valuations:** The gas price hike is expected to significantly improve the cash collection of Pakistan's energy chain, particularly the oil and gas exploration companies. The improvement in cash collection will allow said companies to focus on enhancing their exploration activities and increasing their energy reserves. Notably, Pakistan's energy sector has been witnessing an average attrition rate of 5% over the past five years because of a lack of developmental spending.
- Notably, the new pricing mechanism entails automatic adjustment of gas prices based on the actual cost of procuring the commodity. This mechanism would ensure that the flow of circular debt would remain contained despite any sudden changes in energy prices or the value of the Pak Rupee.
- **Clearance of circular debt arrears another impetus for growth:** The Ministry of Energy has discussed plans to potentially clear the circular debt arrears through cash injections. Notably, the overdue balance **emanating from gas-based sales has crossed PkR 1.0tn**, significantly affecting the cash position of the E&P companies. We think potential cash injection to clear the circular debt would allow the energy companies to offer large one-off dividends. Moreover, the bulk of the **injection would be routed back to the government** through their stakes in the companies and dividend tax liabilities. As these energy companies are part of the sovereign wealth fund, we think the government is likely to address these issues to attract potential investments into the companies.

Incremental Trade Debts (FY23)



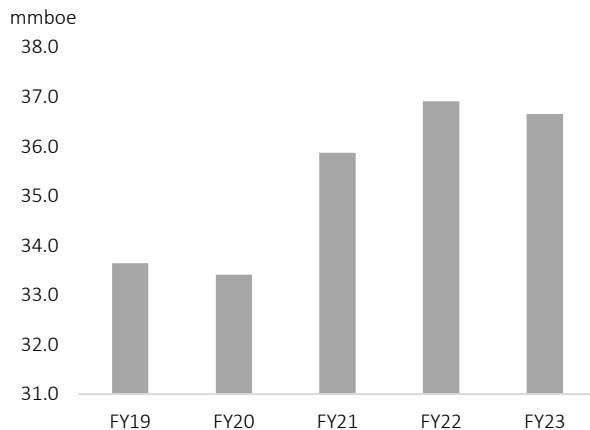
Overdue Balance

Stock	Overdue Balance		Monthly Incremental	
	PkR bn	PkR/sh	PkR bn	PkR/sh
OGDC	411	95.53	8	1.88
PPL	489	179.79	12	4.55
MARI	42	316.59	2	12.57

Mari Petroleum (MARI) – Target 2,770/sh (Upside 32%)

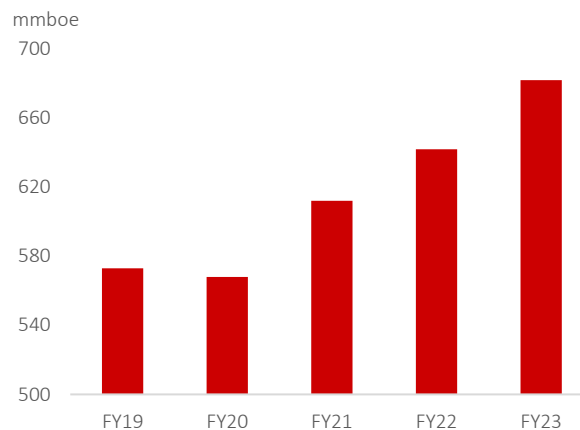
- **Stellar growth trajectory:** Mari Petroleum offers the highest growth trajectory in Pakistan's E&P space with a two-year earnings **CAGR of 23% to PkR 84.9bn (EPS: PkR 636.0)** by FY25. Recent developments have allowed MARI to enhance its production flows and benefit from improved pricing. Its USD 250mn investment in developing the Sachal Gas Processing Complex (SPGC) has allowed MARI to further tap into its low btu reserves from Mari deep fields. The gas is converted into pipeline quality and benefits from PP-12's pricing. Moreover, the company has made significant discoveries in the untapped regions of Waziristan, further enhancing its flows.
- **The gas price hike to improve cash collection from SNGPL:** The Pakistan's government has approved the long-overdue gas price hike. The government aims to plug the differential between the Sui Utilities' cost of procuring gas and their selling prices. The hike would improve the cash collection of the Sui Utilities and enable them to clear their receivables in the timely manner. Improved cash would likely allow MARI to enhance its payout.
- **Focus on revenue diversification:** Mari Petroleum has focused on diversifying its revenue stream. The company has incorporated Mari Mining Company to identify avenues for mining, even partnering with Barrick Gold for strategic collaboration. Notably, the company has secured a mining license for mineral exploration in Baluchistan.

Production Flows



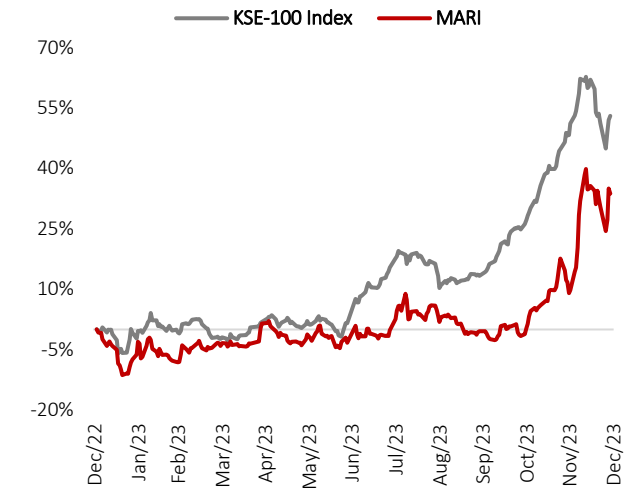
Source: Company Accounts, BMA Research

Reserves (MMBOE)



Source: Company Accounts, BMA Research

KSE100 Index Vs. MARI Performance



MARI Financial Overview

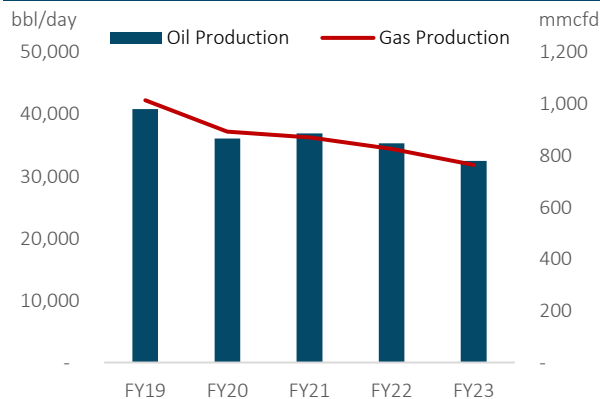
	FY23	FY24E	FY25F
EPS (PkR)	420.75	577.50	573.36
DPS (PkR)	147.00	205.00	287.00
PE (x)	5.0	3.6	3.7
PB (x)	1.6	1.2	1.0
Yield (%)	7%	10%	14%
ROE (%)	31%	34%	28%

Source: Company Accounts, BMA Research

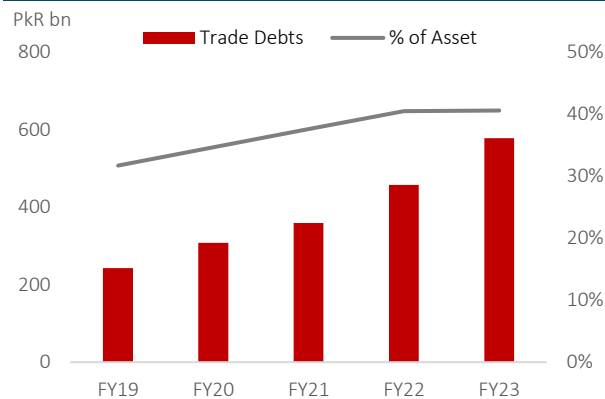
Oil & Gas Dev. Co (OGDC) – Target 175/sh (Upside 41%)

- **Gas price hike to improve sustainable cash flows and yields:** Oil & Gas Development Company (OGDC) stands to benefit from the hike in gas prices through an improvement in cash flows. As per the company, OGDC's cash collection from Sui Utilities may cross the 90% mark, allowing the company to enhance its payout and potential increase exploration activities.
- **Clearance of overdue receivables to offer one-off payouts:** Clearance of the circular debt has been under discussion by the ministry of energy. Given that OGDC's overdue balance is hovering around PkR 100/sh, any cash injection would likely result in a large one-off cash payouts from the company.
- **New production triggers:** The past year saw OGDC address its declining production flows through enhanced exploration and developmental activity. Notably, OGDC has installed Early Production Facilities (EPF) at Bettani Field to expedite the flow of hydrocarbons. Moreover, the company earmarked USD 150mn for Uch and KPD compression projects, hinting at a 5-7% increase in its total production flows.
- **Revenue diversification:** OGDC has undertaken major projects to diversify its revenue stream. It made investments in the Rejo Diq mine. Moreover, it is part of a consortium for offshore exploration activity in Abu Dhabi. Additionally, the company has signed an MoU for a greenfield refinery complex being set up in Pakistan.

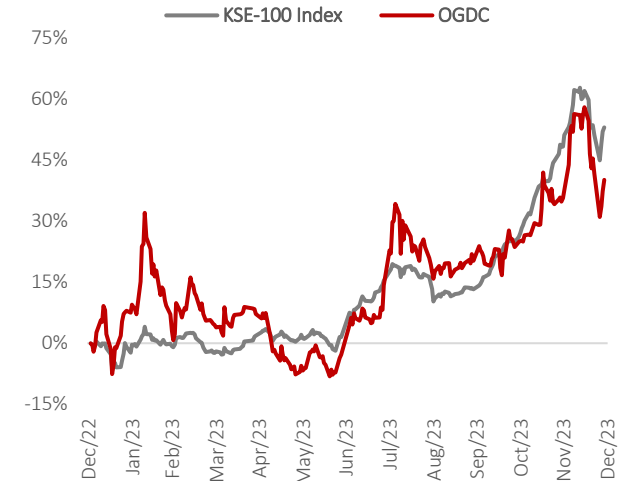
Production Level



Receivable Trend



KSE100 Index Vs. OGDC Performance (CY-23)



OGDC Financial Overview

	FY23	FY24E	FY25F
EPS (PkR)	52.23	44.53	42.32
DPS (PkR)	8.55	8.50	12.00
PE (x)	2.4	2.8	2.9
PB (x)	0.5	0.4	0.4
Yield (%)	7%	7%	10%
ROE (%)	20%	15%	13%



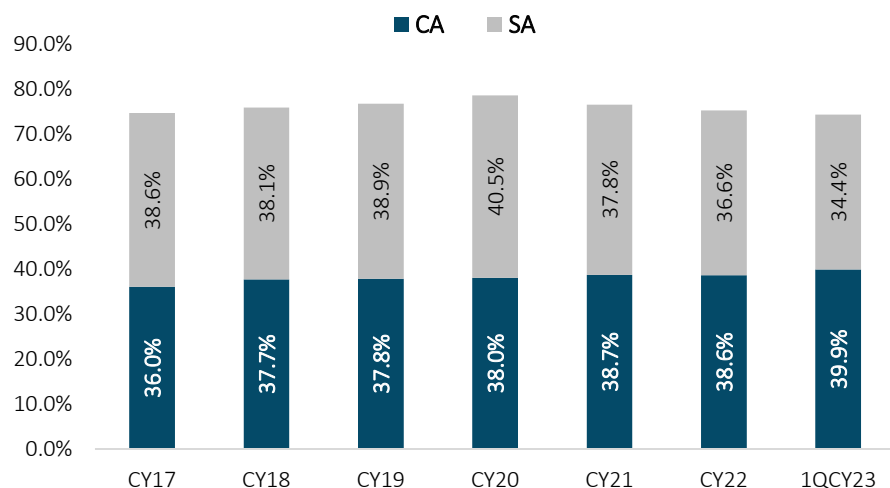
Pakistan Banks

Capitalizing on the Favorable Interest Rate Cycle

Focus on deposit cost supporting NIMs

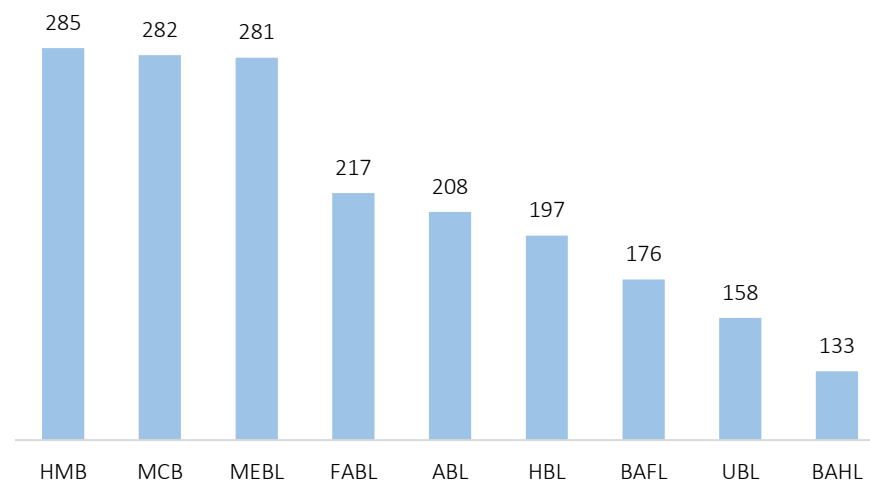
- **Enhanced focus on managing deposit costs:** Pakistan's banking industry enhanced its focus on managing its deposit costs through its tilt towards low-cost savings and current account deposits. Notably, the mix of non-remunerative current accounts saw an increase to 40% of the total deposit mix, up from 36% witnessed back in CY16. Benefitting from the favorable interest rate cycle, the industry's NIMs have crossed the 6.0% mark.
- **Monetary easing likely to normalize NIMs from CY25 onwards:** We anticipate a 200bps cut in the policy rate by March 2024 and another 200bps cut in June 2024. Moreover, we anticipate the policy rate to reduce to 15% by December 2024. Given that the banking industry's assets may take upwards of six months to reprice, we anticipate NIMs to stay healthy during CY24. From CY25 onwards, we estimate that the industry's NIMs would normalize down to 5.0%.
- **Healthy deposit growth to support earnings trajectory:** The Banking industry's deposits have grown by around 17% during CY23. Moreover, deposits have grown by a five-year CAGR of 15.5%. The recent growth was largely driven by high saving rates, incentivizing many to deposit excess cash in banks. Despite an expected reduction in the policy rate, we think this trend is likely to continue as banks focus on increasing their penetration to the untapped segment.

Banks CASA Ratio



Source: Company Accounts, BMA Research

Growth in NIMs vs last year (bps)

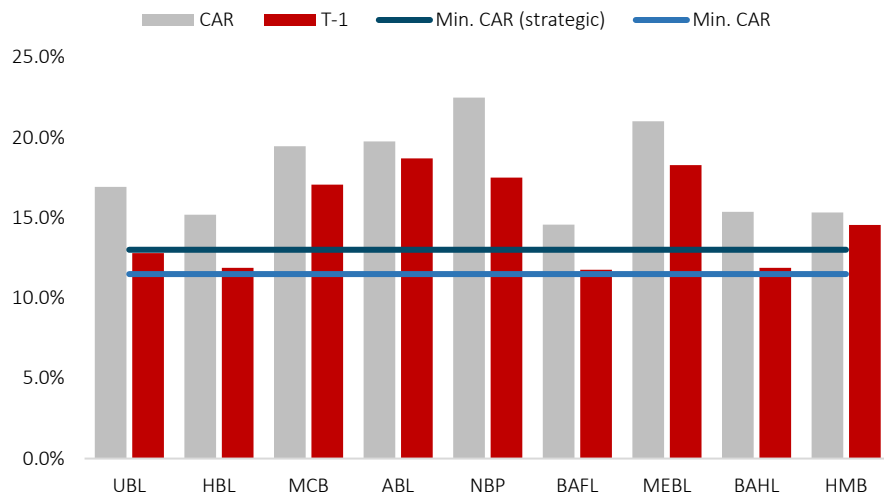


Source: Company Accounts, BMA Research

Adequate buffers to support high payouts

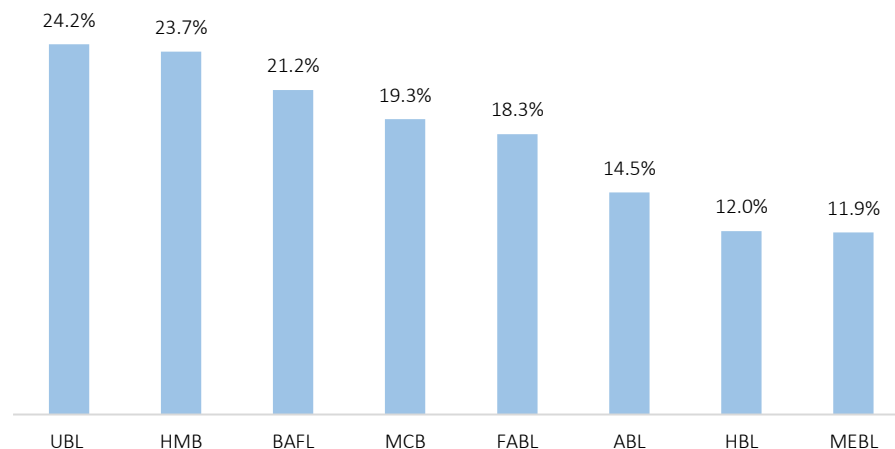
- **Offering one of the highest dividend yields:** Pakistan's banking industry offers one of the highest cash payouts, with many banks still offering upwards of 20% yields. High yields have largely been supported by record profitability and improving balance sheet metrics. Notably, the CARs of many banks have witnessed a significant improvement, creating adequate buffers to support the industry's payout potential.
- **Asset quality high despite high interest rates:** Pakistan's banking industry has been able to sustain a high asset quality benchmark despite a low-growth and a high interest rate environment. Notably, NPL's have hovered around the 6% market with limited growth seen over the past few quarters. We think the industry's tilt towards investments has allowed banks to bypass the potential infection cycle witnessed during the past macroeconomic downcycles.

Pakistan Bank CAR



Source: Company Accounts, BMA Research

Pakistan Bank Dividend Yields on offer

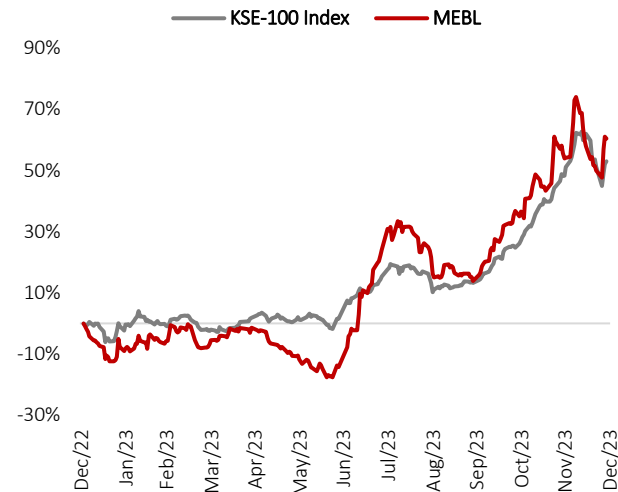


Source: Company Accounts, BMA Research

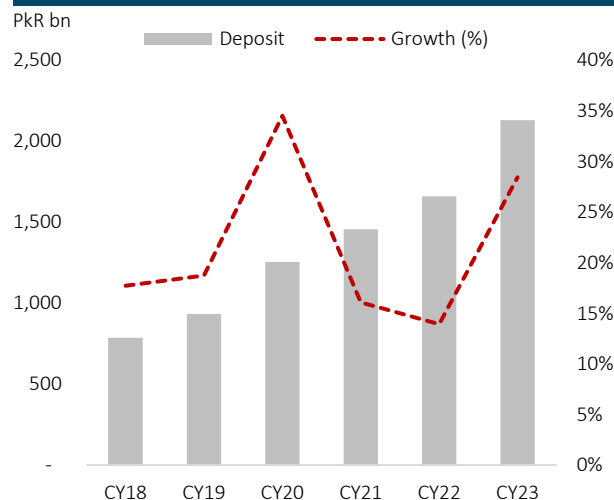
Meezan Bank (MEBL) – Target 203/sh (Upside 22%)

- **Capitalizing on its status as the go-to Islamic Bank:** Meezan Bank has capitalized on its status as the pioneer of Islamic Banking in Pakistan, benefitting from high low-cost deposit growth. The company's deposits have outpaced the conventional industry by 8pps, growing at a five-year CAGR of 23%.
- **Unmatched ROE led by low deposit costs:** Meezan Bank's CY24's PB of 1.3x suggests a premium to the industry. We, however, believe the premium is warranted given that the bank offers an unmatched ROE of 51%, benefitting from its low-cost deposit base. The bank was able to register the industry's highest profits of PkR 59bn during 9MCY23.
- **Strong asset quality:** MEBL also benefits from an unmatched asset quality with a significantly low NPL ratio of around 1.7% against the industry average of around 6.0%. Its coverage ratio also stands significantly above the industry average at 160%.
- **Strong CAR may open room for dividends:** MEBL's CAR stands at 23.37%, considerably above the minimum level of 11.5%. We think MEBL's balance sheet has ample capacity to enhance its payouts, above its historical payout levels of around 40%.

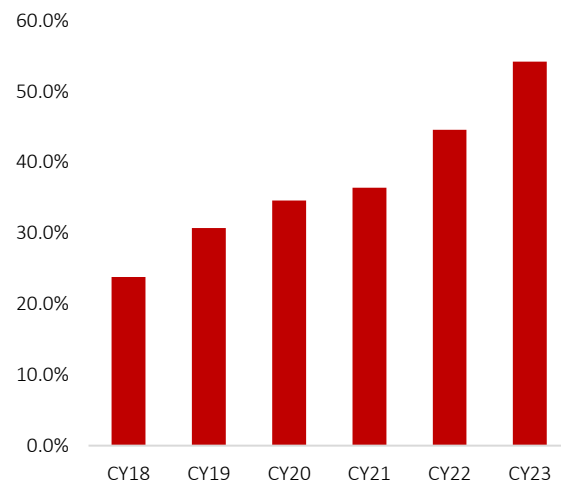
KSE100 Index Vs. MEBL Performance (CY-23)



Deposit Growth Trend



ROE Trend



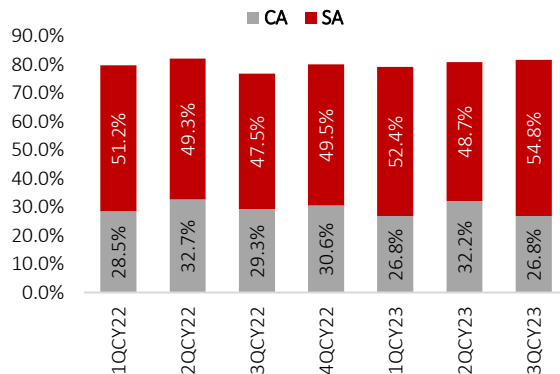
MEBL Financial Overview

	CY23E	CY24E	CY25F
EPS (PkR)	48.22	55.36	50.47
DPS (PkR)	18.00	22.00	22.00
PE (x)	2.5	2.2	2.4
PB (x)	1.4	1.0	0.8
Yield (%)	15%	18%	18%
ROE (%)	54%	49%	34%

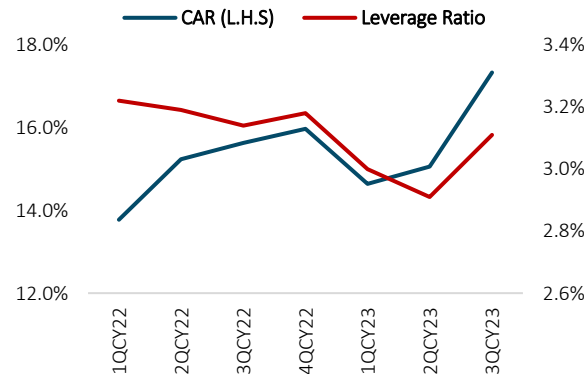
Askari Bank (AKBL) – Target 33/sh (Upside 32%)

- **Cash payouts likely back on the table:** An unfavorable environment exerted significant strain on the company's balance sheet. The SBP, in turn, allowed AKBL some relaxation as they built their capital buffers. Record-high profits during the past few quarters have allowed AKBL to generate adequate capital buffers. As of Sep 30,23, its Capital Adequacy Ratio (CAR) has improved to 17.33% from 14.64% two quarters prior. We believe the bank is well-equipped to announce a **cash payout at its CY23 annual result** after a period of three years. Historically, the bank has maintained an average payout ratio of 30%, suggesting a **potential cash payout of PkR 4.0/sh**.
- **Deposit optimization a priority as NIMs expand:** Askari Bank is focused on optimizing its deposit costs through effective management of its CASA. The bank's CASA has improved to 81.6% as of Sep 30'23 from recent lows of 76.8% witnessed a year prior. We think the bank will continue to focus on low-cost deposits to ensure a high NIMs generating capacity. Benefitting from a favorable interest rate cycle and an improving deposit mix, ABKL's NIMs have expanded to 3.81% during 3QCY23, an increase of over 50bps from the previous quarter.
- **Operational cost optimization also a priority:** The company continues to focus on optimizing its operational costs through enhancing the efficiencies of its branch network. The bank has repeatedly invested in technologies to aid digitalization, supporting its cost structure. Its efforts have begun paying off as its cost-to-income ratio has improved to 38.6% during Sep 30'23 as against 45.8% at the start of the calendar year.

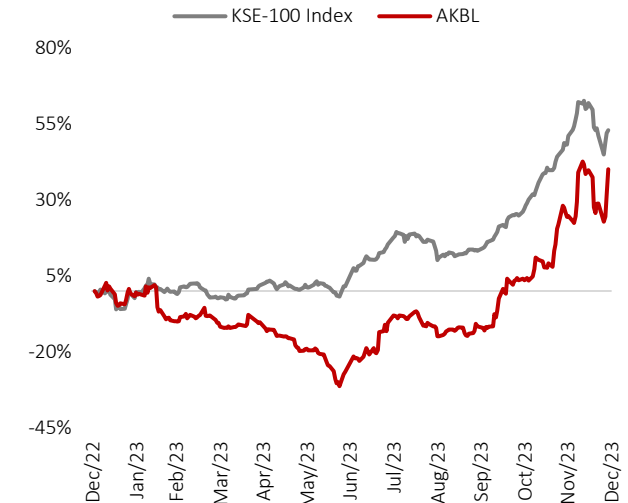
Improving CASA



AKBL CAR and Leverage Ratios



KSE100 Index Vs. AKBL Performance (CY-23)



AKBL Financial Overview

	CY23E	CY24E	CY25F
EPS (PkR)	12.80	17.23	15.36
DPS (PkR)	3.00	4.00	4.00
PE (x)	2.0	1.5	1.6
PB (x)	0.4	0.3	0.3
Yield (%)	12%	16%	16%
ROE (%)	22%	24%	18%

A tractor with a long horizontal bar, likely for fertilizer application, is moving through a field of green crops. The tractor is dark-colored and has a large cab. The bar is long and thin, extending across the width of the field. The crops are green and appear to be corn or a similar grain. The sky is bright and hazy.

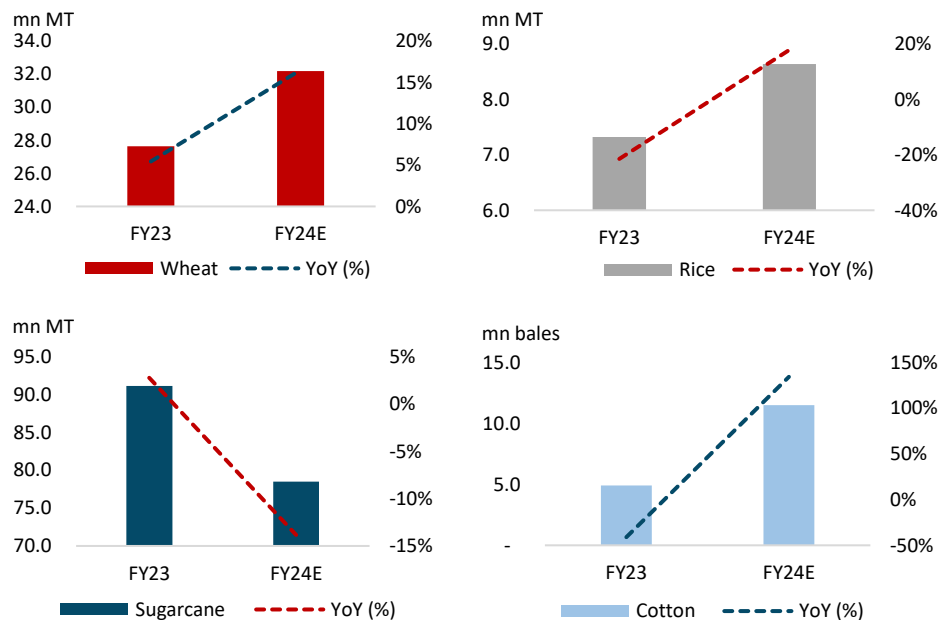
Pakistan Fertilizer

Improving Agriculture Dynamics Supporting Profitability

Strong farmer economics to support demand

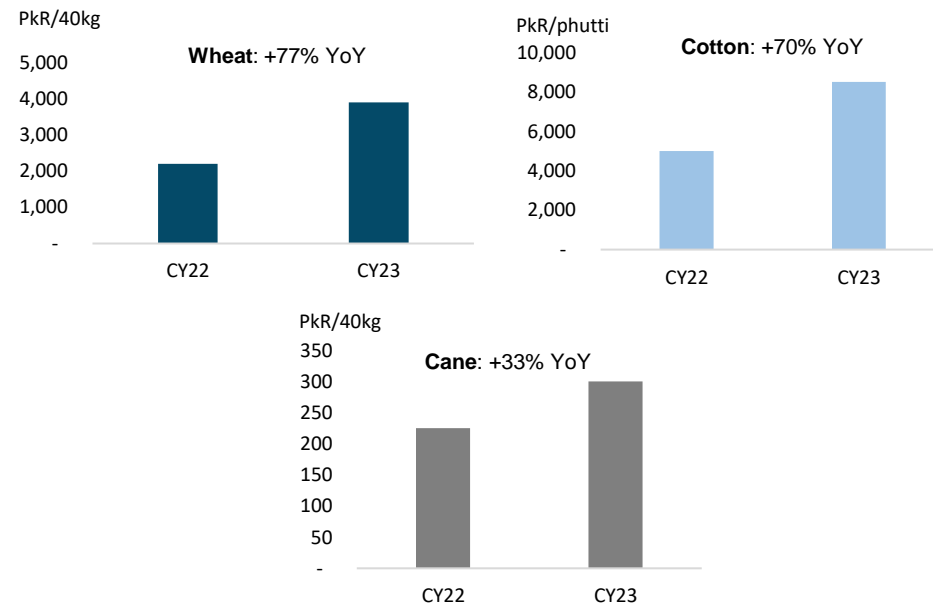
- **Improved farm economics:** Pakistan's agricultural industry has rebounded from the devastating floods witnessed back in CY22. Notably, the yields of several of the country's important crops have grown considerably. Most notably, cotton output is likely to more than double during the calendar year, supported by favorable weather patterns and high product margins.
- **Support prices increased substantially:** The supported prices of major crops saw a considerable increase compared to the previous year, with the support price of wheat rising by 77% YoY, the support price of cotton phutti rising by 70% YoY and the support price of Sugar Cane rising by 33% YoY. Higher support prices further incentivized farmers to increase their crop yields to maximize their revenues.
- **SIFC another boost for the industry:** Agriculture remains an important part of the SIFC with around 1 million acre reportedly being earmarked for agriculture. We anticipate major investments in agriculture from The Middle East and China to enhance their long-term food security. We anticipate a significant increase in the demand for fertilizer as these projects materialize.

Crop Yields Rising



Source: NFDC, PBS, BMA Research

Rising support prices and margins

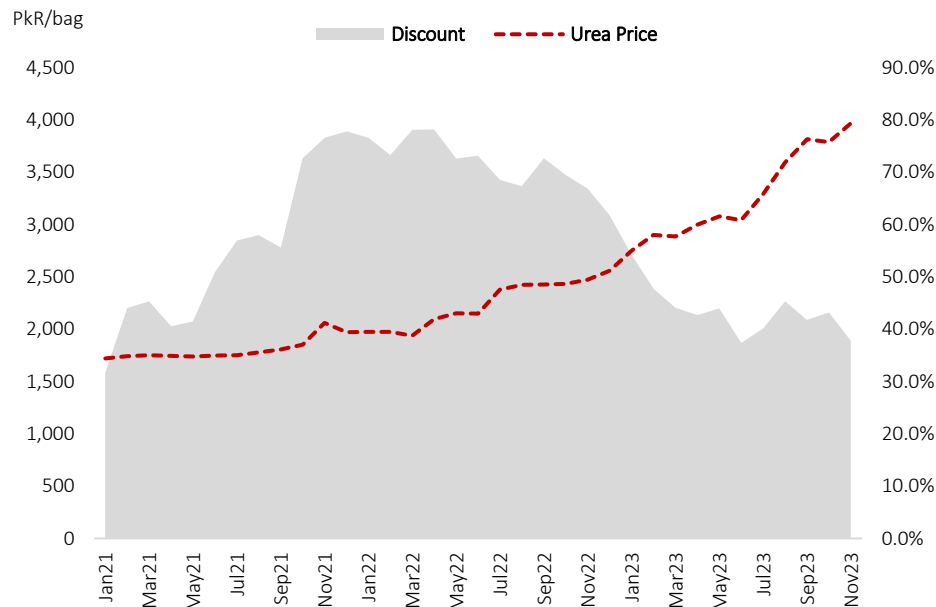


Source: NFDC, BMA Research

Prices hikes enabling high margins

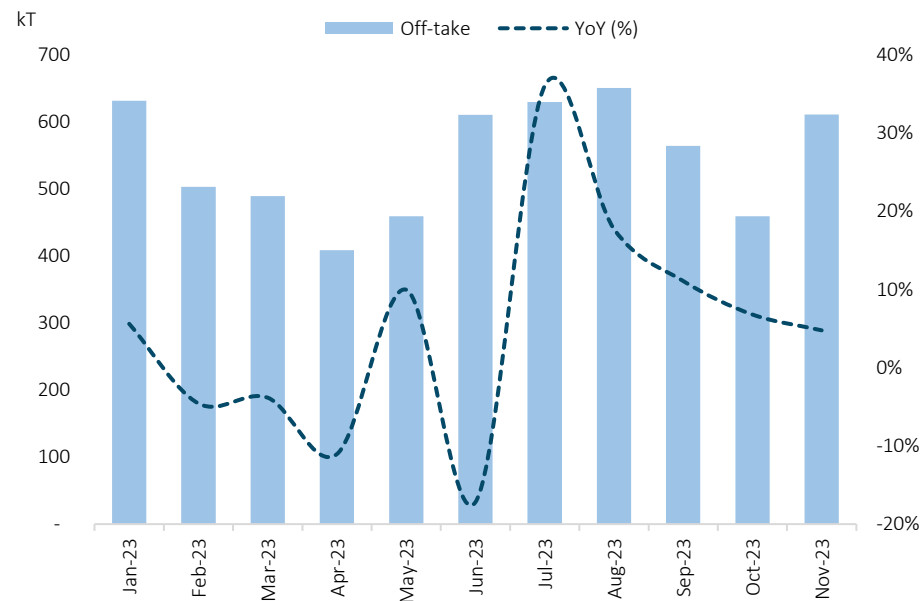
- **High urea demand creating a shortage of the commodity:** The demand for fertilizer has picked up considerably during the calendar year with shortages affecting the industry. Notably, the government not only provided RLNG to smaller fertilizer players but was also compelled to import the commodity to alleviate the supply concerns.
- **Urea prices surging:** Urea prices have increased by over 100% over the past two years as the industry has passed on inflationary pressures, including higher gas prices, via price hikes. The demand for urea, however, remains unaffected evident by urea off-take growing by 5% YoY to 6.0mn MT. Notably, the domestic urea still trades at a 40% discount to its imported counterpart despite the price hike, further strengthening the industry's pricing power.
- **Black market rates highlighting significant demand-supply gaps:** Urea is being sold at a premium of over 10% in the black market because of the shortage. Farmers are willing to buy urea at premium rates because of the improved farm economics. Notably, the presence of the parallel market suggest a significant imbalance between the commodity's supply and demand.

Urea Price vs. Imported



Source: NFDC, PBS, BMA Research

Urea Off-take

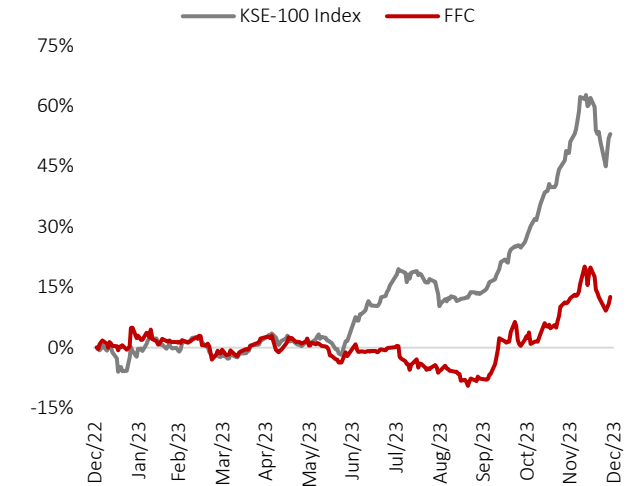


Source: NFDC, PBS, BMA Research

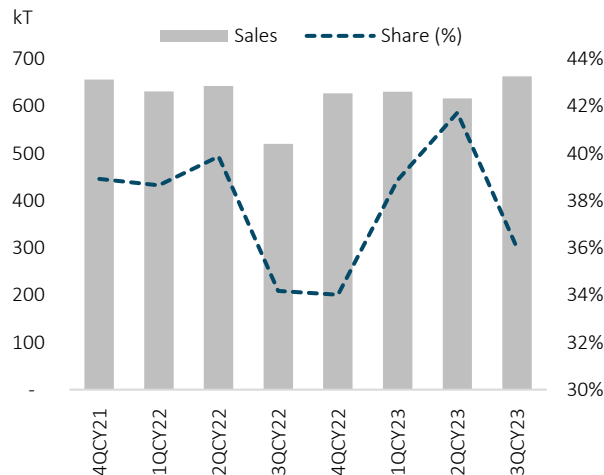
Fauji Fertilizer (FFC) – Target 145/sh (Upside 35%)

- **Rising urea prices improving profitability prospects:** Domestic retail urea prices have increased considerably over the past few months, with recent figures highlighting a surge of 56% YoY to PKR 3,900/bag. Sharp price hikes were driven by general and industry-specific inflationary pressures, allowing the company to bolster its margins.
- **Improved pricing power likely enhances ability to pass on gas hikes:** The fertilizer industry is able to easily pass on incremental costs through price hikes on account of high pricing. Notably, domestic shortage of fertilizer has caused the parallel black market to sell the commodity at a PKR 500/bag premium to the official retail rate. Moreover, despite the hike in urea prices, local urea still stands at a 40% discount to its imported counterpart. We think FFC has ample room to pass on the expected gas price hike without affecting demand.
- **High yield on offer:** We project that FFC offers one of the highest yields in the PSX at 18%. Both of its subsidiaries, FFBL and FFL, have become cash flow positive on account of structural overhauls and improved industry dynamics. FFBL particularly has the potential to announce cash payouts, likely enhancing FFC's cash position and its capacity to improve its dividend payout in tandem.

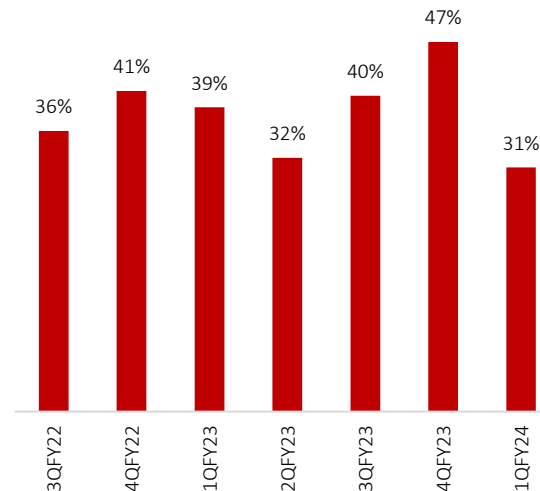
KSE100 Index Vs. FFC Performance (CY-23)



Urea Sales and Market Share



Quarterly Margin Trend (%)



FFC Financial Overview

	CY23E	CY24E	CY25F
EPS (PKR)	24.22	27.36	30.24
DPS (PKR)	18.00	22.00	24.00
PE (x)	4.8	4.3	3.8
PB (x)	2.8	2.5	2.2
Yield (%)	15%	19%	21%
ROE (%)	59%	59%	57%



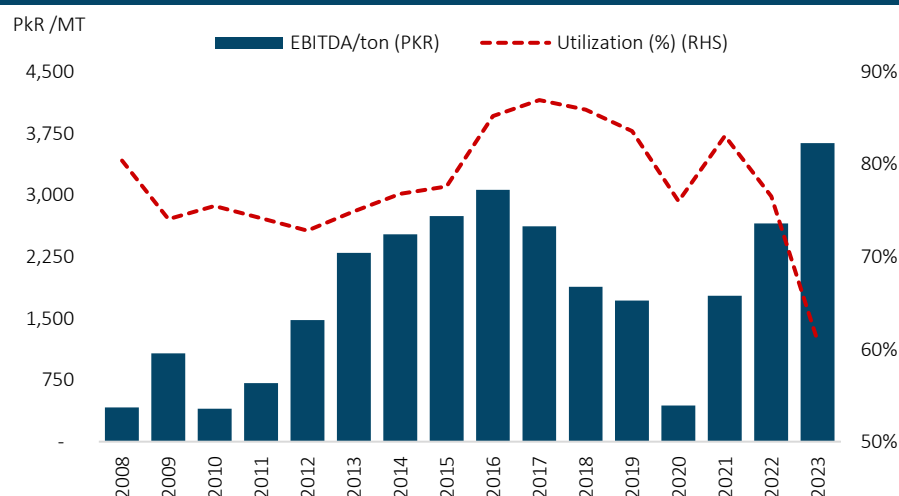
Pakistan Cement

Turn of the Interest Rate Cycle to Unlock Valuations

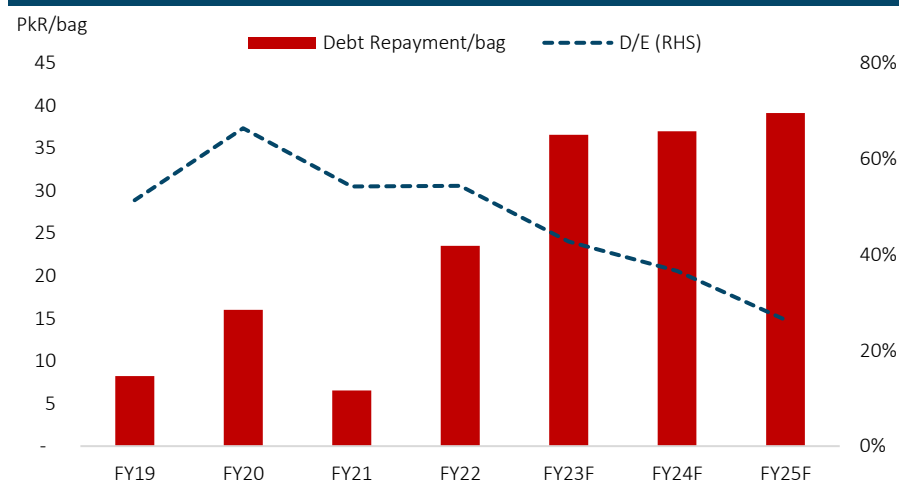
Valuations to unlock as the economic cycle turns

- **Reversal in the Interest Rate cycle to unlock valuations:** Pakistan's cement industry is set to benefit from the anticipated reduction in rates because of its highly leveraged balance sheet. Moreover, a reduction in the policy rate would induce economic activity, and likely catalyze construction activity. Historically, cement off-take has outpaced Pakistan's GDP growth rate by a factor of 2.0. As such, we anticipate double-digit growth by FY25 once economic activity normalizes.
- **Demand may pick up after the wheat harvesting season:** Pakistan's cement off-take has remained low during CY23 because of several factors, including record-high construction costs, high interest rates, limited fiscal space and low economic activity. We, however, anticipate a rebound in during 1HCY24, supported by the wheat-harvest season. Driven by bumper crops, we anticipate high agriculture income to induce construction activity, particularly in the rural region.
- **Pricing power healthy despite low utilization rates:** The cement industry has maintained its pricing power despite low utilization rates of under 60%. We think the high debt servicing burden has compelled the industry to remain cash-flow positive and not reduce prices in a fight for market share.
- **Low energy cost and efficiency projects to keep margins high:** The industry's main energy source, coal, has declined significantly from peaks witnessed during the past two years. Moreover, despite a hike in the electricity tariff rates, the industry was able to insulate itself by utilizing alternative energy sources, including Waste Heat Recovery (WHR) plants, Solar, and other captive plants.

EBITDA generation high despite low utilization



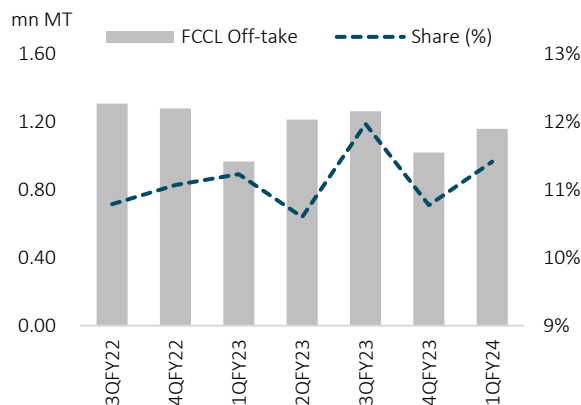
Debt Repayment



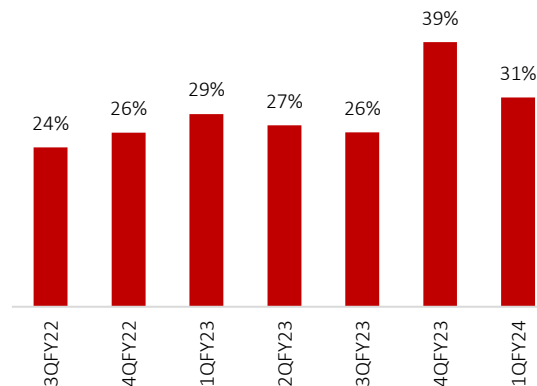
Fauji Cement (FCCL) – Target 27/sh (Upside 32%)

- **The 3rd largest cement player:** After its recent expansion at its DG Khan site and its amalgamation with Askari Cement, FCCL has become Pakistan's 3rd largest cement player with a capacity of 10.5mn MT. The company has been able to capture the northern market and plans to tap into the export market through the Afghan border.
- **Increased focus on production efficiencies:** Fauji Cement also strives to become one of the most efficient cement players in the industry using green technologies. Presently, the company's solar generation capacity stands at 20MW and has plans to expand the capacity to 40MW after newer installations at its Wah and Nizampur production sites. Additionally, Fauji Cement has a cumulative Waste Heat Recovery (WHR) capacity around 50MW, further support the company's margins.
- **Monetary easing cycle to support growth:** FCCL stands as one Pakistan's most leveraged cement companies with a debt balance of around PkR 45bn. Despite benefitting from low-cost loans, the company's financial charges more than doubled during the recent quarter. As we anticipate a reduction in interest rates, FCCL is likely to benefit from a reduced debt-servicing burden.
- **Potential for payouts once debt levels reduce:** FCCL has a track record of high payouts during periods of profitability. We think strong profits in FY25 may allow FCCL to resume its cash payouts, likely garnering investor interest towards the stock.

Sales and Market Share



Quarterly Margin Trend



KSE100 Index Vs. FCCL Performance (CY-23)



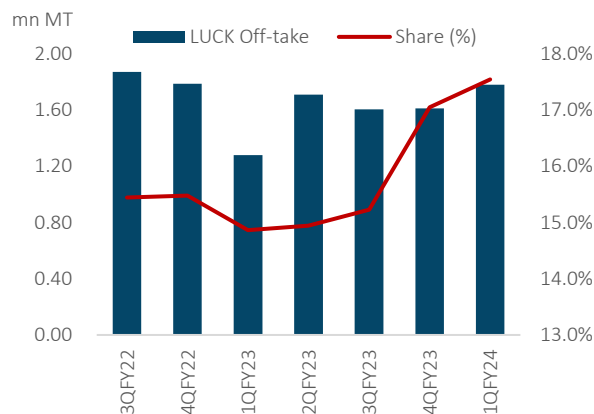
FCCL Financial Overview

	FY23	FY24E	FY25F
EPS (PkR)	3.16	4.46	5.96
DPS (PkR)	0.00	0.00	2.00
PE (x)	6.4	4.6	3.4
PB (x)	0.7	0.6	0.6
Yield (%)	0%	0%	10%
ROE (%)	11%	14%	17%

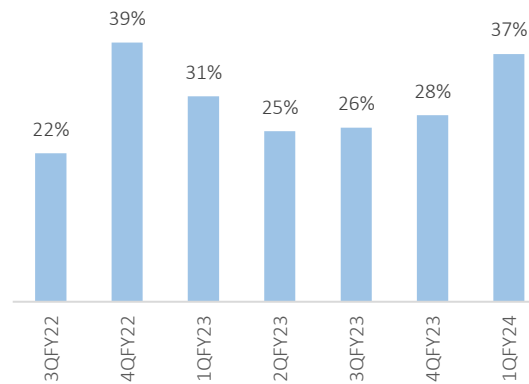
Lucky Cement (LUCK) – Target 1,000/sh (Upside 25%)

- **Pakistan's largest cement company:** Lucky Cement (LUCK) stands as Pakistan's largest cement company with presence in both the North and South region of the country. The company has a track record of timely expansions, financed through equity. Its strong balance sheet allows the company to bypass the impact of high interest rates and Pak Rupee devaluation that other cement players have to remain wary of.
- **International ventures also performing:** Lucky Cement offers a 1.2mn MT plant in Congo and 3.0mn MT of cement grinding facility in Iraq. The profitability of these ventures benefitted from recovering cement demand in the region. Moreover, Pak Rupee weakness further enhanced their profitability on LUCK's balance sheets.
- **A diversified stream of revenues:** Lucky Cement also has made investments that offer a diversified stream of revenues. Apart from its cement facility, its business ventures include Automobile, Chemicals, Pharmaceuticals, Telecommunication and Energy. Most of its investments offer lucrative ROEs, significantly enhancing Lucky Cement's bottom-line potential.
- **Buybacks reinforcing undervaluation:** Lucky Cement has been at the forefront of the buyback trend witnessed in the PSX. The company has purchased 34mn of its shares from the market, spending north of PkR 17bn through multiple buybacks. We think the management's decision to buyback its shares further reinforces the undervaluation of the stock.

Sales and Market Share



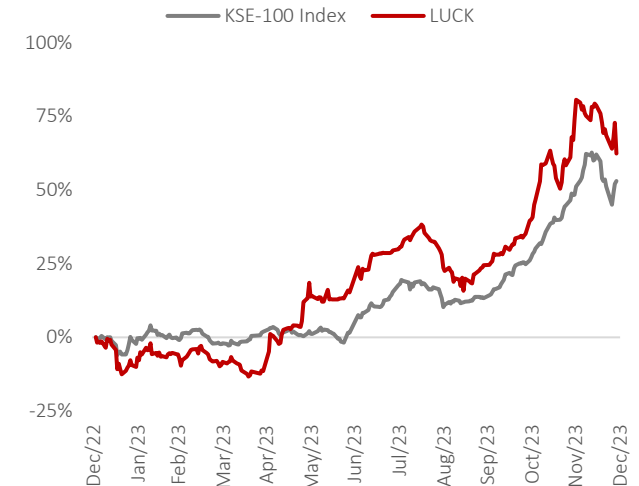
Quarterly Margin Trend



Source: Company Accounts, APCMA, BMA Research

Source: Company Accounts, BMA Research

Pakistan External Debt



LUCK Financial Overview

	FY23	FY24E	FY25F
EPS (Pkr)	166.40	204.36	224.63
DPS (Pkr)	18.00	20.00	25.00
PE (x)	4.8	3.9	3.6
PB (x)	1.8	1.3	1.0
Yield (%)	2%	2%	3%
ROE (%)	37%	32%	27%

Source: Company Accounts, BMA Research

Management

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Centre, Paris Road, Sialkot, Adjacent to
Sialkot Chamber of Commerce.
Tel: (052) 4260091-94

Multan Branch:

Office No. 607/A, 6th Floor,
The United Mall, Plot No. 74
Abdali Road, Multan
Tel: (061) 457 6611-15
Fax: (061) 457 6615

Sargodha Branch:

Ground floor, Shan Plaza, Block No 16,
Main Khushab Road, Near Allied Bank
Limited, Sargodha.
Tel: (048) 3767 817-18

Faisalabad Branch:

Mezzanine Floor, State Life Building #2,
Plot No. 833 Liaquat Road, Faisalabad.
Tel: (041) 2612261-5.

Gujranwala Branch:

51-H block Near Standard Chartered Bank
Trust Plaza GT road Gujranwala.
Tel: (055) 3848501-05

Chakwal Branch:

Office No. 12, 1st Floor, Ejaz Plaza,
Talagang Road Chakwal.
Tel: (0543) 553850, 0543-543720, 0543-
543721.

Jhelum:

2nd Floor, Khalid Plaza, Plot#7/89,
Kazim Kamal Road, Jhelum, Punjab.
Tel: (054) 4620594-97

Peshawar Branch:

Shop No.F1 & F2, 1st Floor Mall Tower 35,
The Mall Peshawar Cantt.
Tel: (091) 5274770-72

Abbottabad Branch:

Gohar Son's Arcade 1st Floor Office# 4,
Supply Bazar Sikandarabad Abbottabad,
KPK.
Tel: (0992) 400346-47

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1st Floor, Office# 101 & 102, Akbar Kayani
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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.)