2024

IGI Securities

Pakistan Equity Market Outlook 2024

Economic Tailwinds to Fuel Bullish Sentiment

Thursday, 21 December 2023

Research Entity Number: BRP 009

Contents

Topic	Page
Summary	3
Market Performance during 2023	5
Market Activity during 2023	9
Economy… Inflation	11
Economy… External and PKR	12
Economy… Fiscal and Growth	13
Key Macroeconomic Forecast	15
IMF and Pakistan	16
Politics	17
Key Catalyst and Risks	18
Market Outlook; Earnings	19
Market Outlook; Investment Strategy 2024	20
Market Outlook; Index Target	21
Sector Outlook	23
Top Picks;… *OGDC, MARI, PPL, FABL, UBL, MCB, HUBC, PSO, FFC, LUCK, FCCL, ILP*	25-37
Alpha Stocks	38
Potential Stocks from Sales Desk	40
Recommendation Summary	42
Disclaimer and Analyst Certification	43
Contact Details	44

Summary

2023 Recap…

- **Stock Market:** KSE100 index had gained 24,784 points by 18th-December in 2023 to reach 65,205 points, translating in to a positive return of ~61%, compared to decline of 9% in CY22. Market posted marginal gain of 2% in 1HCY23 led by hike in interest rate, PKR depreciation and Pakistan's default risk. However, post signing of new IMF SBA in Jul-23 followed by crackdown on flow of foreign currency through illegal channels lifted market sentiment which was reflected by a positive return of 58% in 2HCY23 (till 18-Dec-2023).
- **Economy:** On economic front, in CY23 Pakistan's foreign reserves continued to decline leading to default risk. CPI remained elevated end of 1HCY23 leading to a major correction in PKR. C/a turned in to surplus during 1HCY23 owing to imports restrictions. However, once restrictions were softened in Jul-23, C/a turned in to deficit but still remained manageable. Post SBA with IMF in Jul-23, foreign exchange reserves improved owing to release of first tranche by IMF and rollover of loans by friendly countries. PKR also appreciated and stabilized owing to crackdown which resulted in higher remittances. Inflation receded during 2HCY23 owing to high base effect, lower POL prices and slowdown in increase in food prices, however, gas price hike countered this decline in Nov-23.

…2024 Outlook

- **In 2024, Focus to remain on Economic Recovery, Fiscal Discipline and Political Stability**: In our view, focus is likely to remain on new IMF Program, Economic Recovery and Political Stability. Elections to be held on 08-Feb-24 which would lead to stability on political front whereas slowdown in inflation is likely to keep interest rate reversal in limelight. We expect interest rates to start coming down from 2QCY24.
- **Expecting 700bps cut in Policy Rate**: We expect total 700bps cut in Policy rate to stand at 15% by end of 2024. We estimate inflation to average 24.4% in FY24 and continue its declining trend in FY25. We estimate PKR to average 298/USD in FY24 and FX reserves to stand at US$ 14.8bn as at Jun-24. We forecast GDP growth at 2.7% in FY24 against negative 0.2% in FY23. C/a deficit is expected to settle at 1% of GDP while Fiscal deficit is likely to be at 7% of GDP.
- **Eyeing an Index Target of 78,000:** For 2024, our target for the index is 78,000. This would represent a total return of approximately 31% from its current level of ~65,200. Our target is based on a market price-to-earnings multiple approach. At our target, the market would trade at a forward price-to-earnings ratio of 5.0x, which is below its long-term historical average of 7.7x but higher than current ratio of 4.6x.
- **Top Picks**: First half of 2024 is likely to be focused on interest rate reversal, elections and conclusion and signing of new IMF program. Considering energy sector reforms for resolution of circular debt, we prefer PPL, OGDC and PSO. Among cyclical and growth based companies we prefer MARI, FABL, MCB, UBL, LUCK, FCCL, HUBC, FFC, INDU and ILP.

Market Outlook Snapshot

Inflation to gradually start receding; Expecting 700bps rate cut in 2024! Index Target of 78,000

KSE 100 index target	Policy Rate	Earnings Growth	Market P/E	Dividend Yield	Total Return
78,000	**15%**	**13%**	**5.0x**	**11%**	**~31%**

Sector	Stance	Top Picks*	Alpha Stocks**	Potential Stocks from Sales Desk***
Commercial Banks	Over-weight	UBL, FABL, MCB		NBP, BOP
Oil & Gas Exploration Companies	Over-weight	OGDC, MARI, PPL		
Oil & Gas Marketing Companies	Over-weight	PSO	SNGP	SSGC
Power Generation & Distribution	Market-weight	HUBC		KEL, NCPL
Cements	Market-weight	LUCK, FCCL		MLCF
Automobile Assemblers	Market-weight	INDU	SAZEW	PSMC
Fertilizers & Chemicals	Market-weight	FFC		EFERT
Textile	Market-weight	ILP		NML
Engineering	Market-weight			MUGHAL, PAEL
Glass & Ceramics	Market-weight			GHGL
Technology & Communication	Market-weight		AIRLINK, PTC	OCTOPUS, SYS, HUMNL
Refinery	Market-weight		PRL	
Pharmaceuticals			SEARL	
Food & Personal Care Products				FFL

* Top picks from IGI Research Universe. For Target Prices please refer pages 25-37
** In light of potential triggers, these scrips are expected to remain in the limelight in 2024
*** Our sales team anticipates interest of investors in these scrips in 2024 and hence price movement in these can not be ruled out

Market Performance 2023

2023; Recap

Jittery First Half followed by upbeat Second Half

- KSE100 index gained 24,784 points during CY23 (18-Dec-23) to reach ~65,200 index level, translating in to a positive return of 61%, and compared to decline of 9% in CY22.
- At the start of CY23, SBP hiked interest rates by 400bps during 1QCY23 as inflationary pressures increased due to increase in petrol, diesel, electricity and gas prices. Moreover, PKR depreciation contributed towards these hikes as exchange rate was allowed to be market determined as per IMF condition. Foreign currency reserves continued to decline and default risk remained high, which led to downgrade in Pakistan's sovereign bond rating to Caa3 by Moody's in Mar-23. As a result, market performance remained jittery during 1QCY23.
- From Apr-23 onwards, PKR was relatively stable while Current account balance remained in surplus till Jun-23. However, inflation continued to rise and peaked at 38% in May 2023, which led to a further hike of 100bps each in Apr-23 and Jun-23. The Government announced Budget for 2023-24 in Jun-23. Although ongoing IMF EFF worth US$ 6.5bn expired on June 30, 2023, the Government successfully negotiated new Standby Agreement of USD 3bn with IMF towards the end of Jun-23 for a period of 9 months after meeting all the conditions of IMF.
- During 3QCY23 market performance improved on account of new IMF agreement, appreciation of PKR due to crackdown on illegal channels, drop in commodity prices, increased weightage and addition of new companies in MSCI Frontier Market and 1st review with IMF in Nov-23.
- During Nov-23, Pakistan successfully concluded its first review under the newly signed SBA with IMF in Jun-23. Investor's confidence was further boosted by expectation of interest rate reversal owing to slowdown in inflation. IMF board meeting is scheduled on 11-Jan-2024 to approve 1st Review under SBA and post approval Pakistan is expected to receive disbursement of US$ 0.7bn from IMF.

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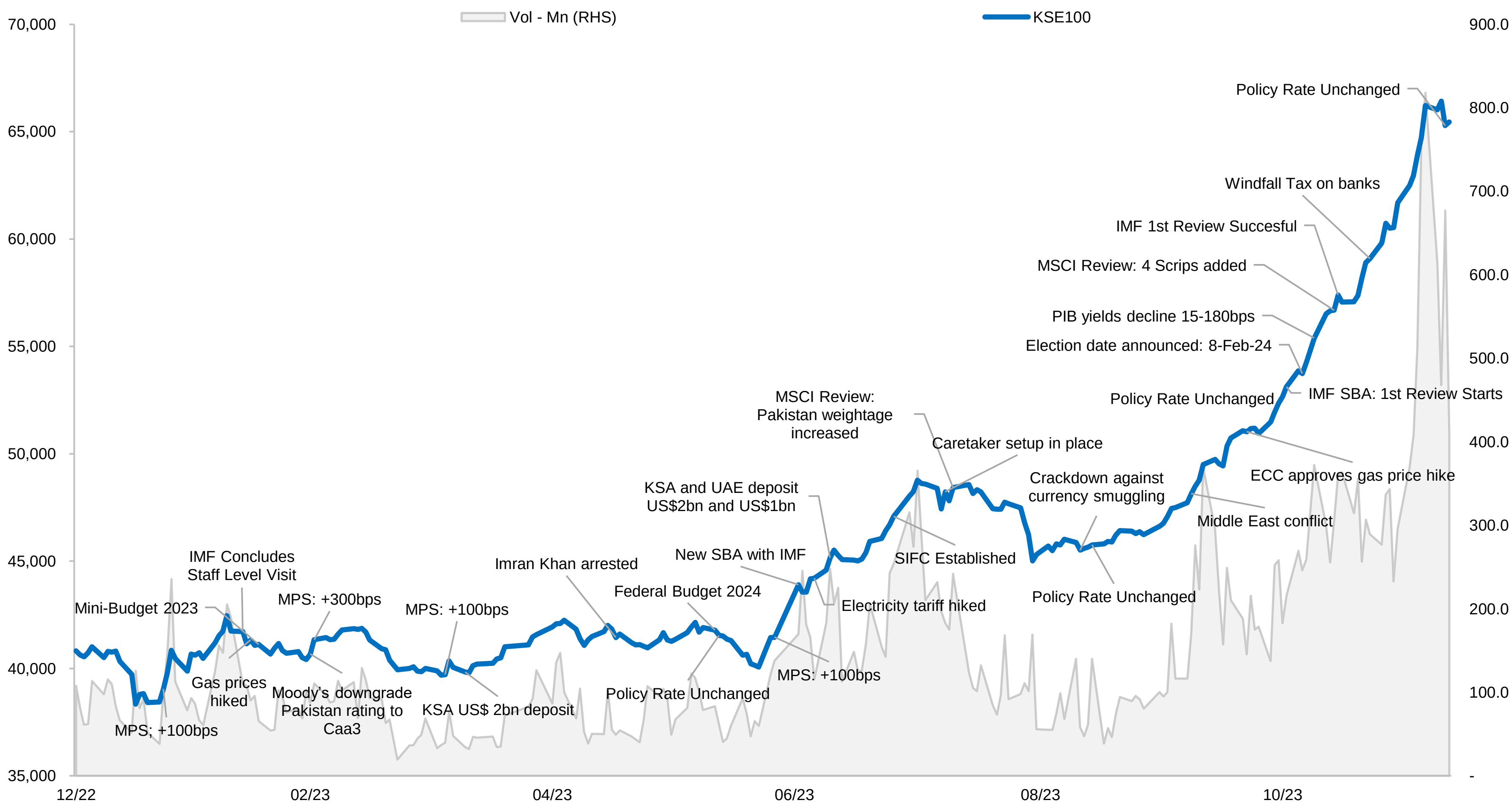
Market Performance 2023

Key Events during 2023



Source: PSX, CapitalStake, IGI Research

Market Performance

Banks/E&Ps major contributors to robust market performance

Exhibit: KSEALL volumes (mn shares) – 3rd highest volumes in 2023 since 2010

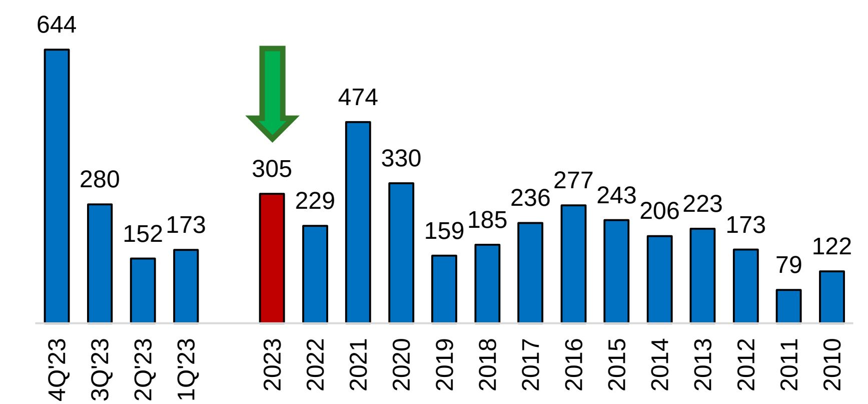


Exhibit: Sector-wise performance – Banks/E&Ps led the charts

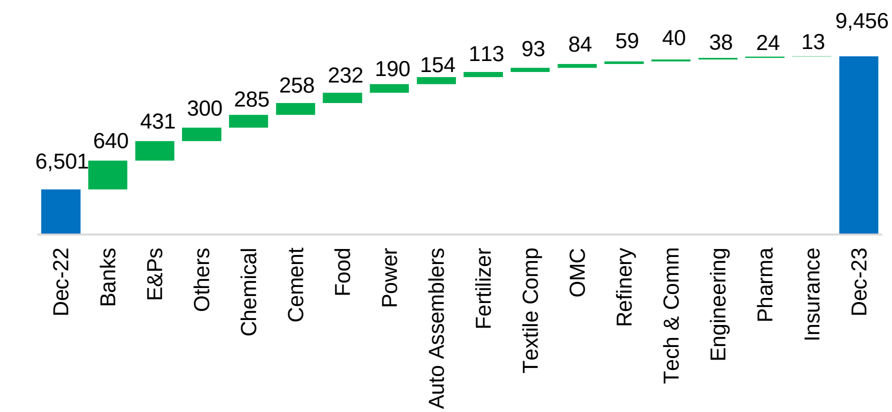


Exhibit: Leaders and Laggards

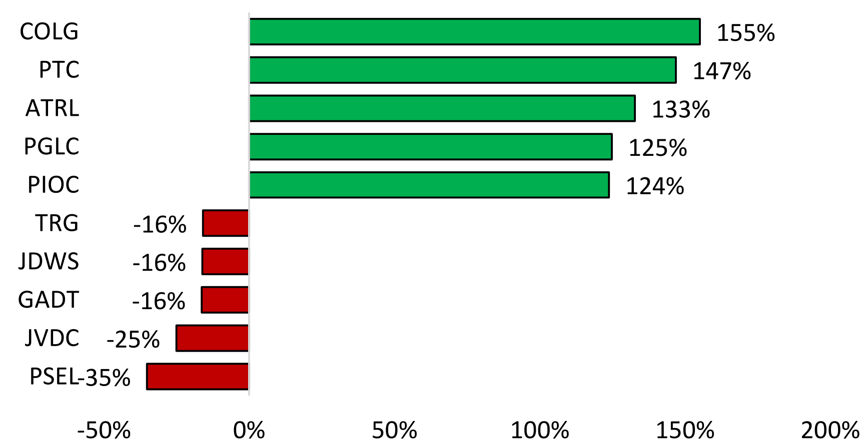
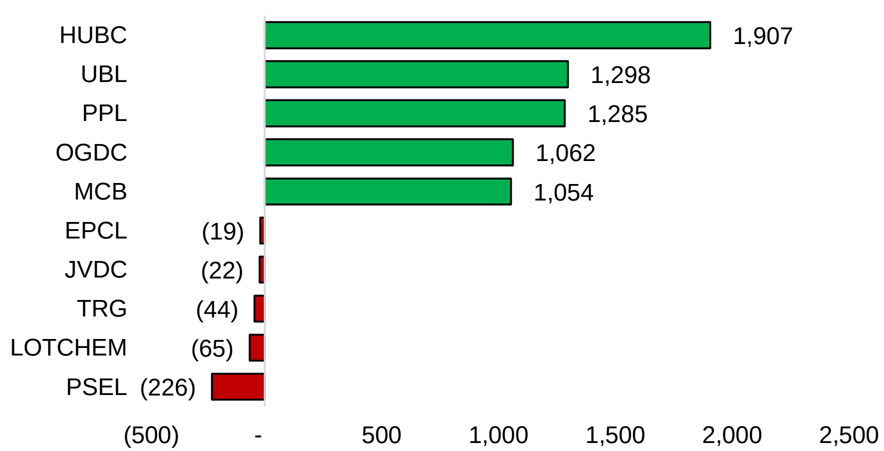


Exhibit: Top index contributors – Banks E&Ps led the way



Source: PSX, CapitalStake, Bloomberg, IGI Research, (*Data and Prices as at 18-Dec-2023*)

Market Performance Review

Monthly Historical Market Performance

Upbeat 2H Performance as Market Registers Highest Monthly Returns post Covid-19

Year / Month	**2023****	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Jan	0.6%	1.7%	6.0%	2.2%	10.1%	8.8%	2.0%	-4.6%	7.2%	6.0%	2.0%
Feb	-0.4%	-2.0%	-1.1%	-8.8%	-4.3%	-1.8%	-0.5%	0.2%	-2.4%	-3.7%	5.4%
Mar	-1.3%	1.1%	-2.8%	-23.0%	-1.0%	5.4%	-0.8%	5.6%	-10.1%	5.3%	-0.7%
Apr	3.9%	0.7%	-0.7%	16.7%	-4.8%	-0.2%	2.4%	4.8%	11.6%	6.5%	5.2%
May	-0.6%	-4.8%	8.2%	-0.5%	-2.2%	-5.8%	2.6%	3.9%	-2.0%	2.9%	15.0%
Jun	0.3%	-3.6%	-1.1%	1.4%	-5.8%	-2.2%	-8.0%	4.8%	4.1%	-0.3%	-3.7%
Jul	15.9%	-3.3%	-0.6%	14.1%	-5.8%	1.9%	-1.2%	4.6%	3.9%	2.2%	11.0%
Aug	-6.3%	5.5%	0.8%	4.7%	-7.1%	-2.3%	-10.4%	0.7%	-2.8%	-5.8%	-4.9%
Sep	2.7%	-2.9%	-5.3%	-1.3%	8.1%	-1.8%	2.9%	1.8%	-7.0%	4.1%	-1.5%
Oct	12.3%	0.3%	2.9%	-1.7%	6.6%	1.6%	-6.6%	-1.6%	6.1%	2.2%	4.3%
Nov	16.6%	2.6%	-2.5%	3.0%	14.9%	-2.8%	1.0%	6.8%	-5.9%	2.7%	6.7%
Dec*	7.7%	-4.6%	-1.1%	6.5%	3.7%	-8.5%	1.2%	12.2%	1.7%	3.0%	3.9%
CY**	**61%**	**-9%**	**2%**	**7%**	**10%**	**-8%**	**-15%**	**46%**	**2%**	**27%**	**49%**

Source: PSX, CapitalStake, IGI Research,
**Return as at 18-Dec-2023, ** Return till 18-Dec-2023*

Foreign Investors net Buyers in 2023

- **Market activity has improved significantly:** Market average volumes during CY23 (18-Dec-2023), increased to average 305mn shares compared to 229mn shares traded in same period last year. During 1HCY23, market volumes averaged 163mn as overall economic condition were on weak footing and default remained high alongside delays in IMF review. However, volumes picked up sharply during 2HCY23 to average 462mn as Pakistan successfully entered new IMF SBA program. Average daily traded value increased by 39% in CY23 (18-Dec-23) to stand at PKR 9.7bn compared to PKR 6.9bn in CY22.
- **Foreign Investors net buyers after 3 years:** In terms of value activity, foreign investors were net buyer. Cumulative net buying recorded during CY23 (18-Dec-2023) was US$ 74.2mn.
- **E&Ps and Banks witnessed highest activity by Foreign Investors:** Sector wise, Oil & Gas Exploration, Power sector, Cements, OMCs and Commercial Banks saw a cumulative Buy of US$ 94.6mn whereas Food, Technology/Communication and other sectors attracted an outflow of US$ 27.6mn.
- **Local selling was led by Banks and Mutual Funds:** On the local front Companies, NBFC and Individuals poured in nearly US$ 168mn worth of liquidity, while Banks, Mutual Funds, Insurance Companies, Other Organization and Brokers cumulatively sold US$ 242mn.

Market Activity

Foreign investors net buyer; Banks and Mutual Funds were major sellers

Exhibit: Historical Net FIPI (US$ mn)

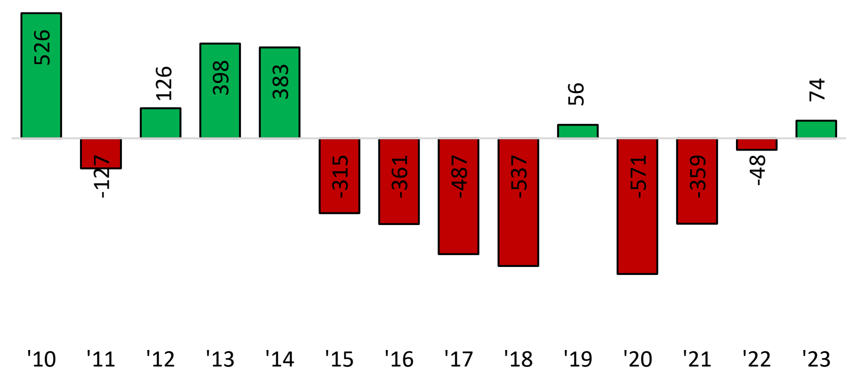


Exhibit: Net FIPI sector wise (US$ mn) in CY23TD

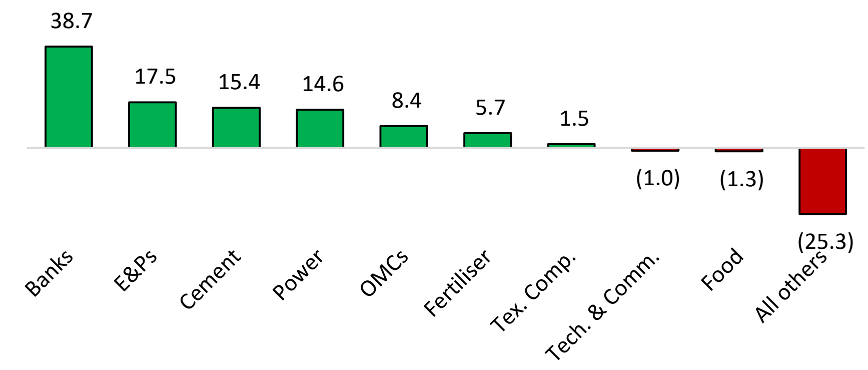


Exhibit: LIPI (US$mn) in CY23TD

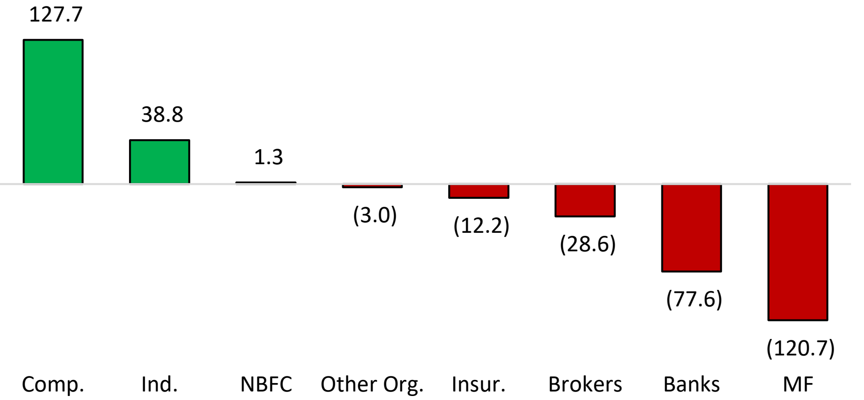
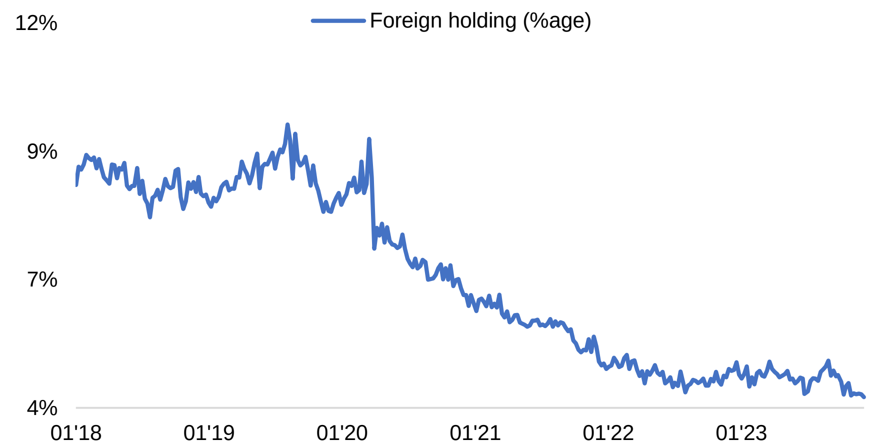


Exhibit: Foreign holding of Pakistan Equity as percentage of Market Capitalization

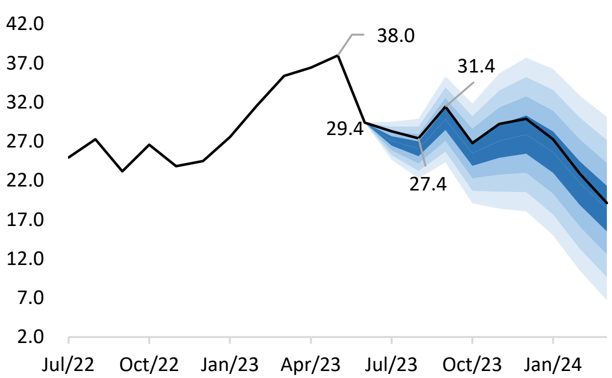


Source: NCCPL, SBP, IGI Research (*Data as at 18-Dec-2023)*

Economy

Inflation to gradually start receding; Expecting 700bps rate cut in 2024!

Exhibit: Headline inflation to start coming down from Jan-24 (%)



- **Inflation remained persistent during 1HFY24…:** Headline inflation has remained on the higher side during 5MFY24 averaging 28.6% compared to 25.2% in same period last year. CPI remained elevated owing to higher food prices and energy prices. Inflation increased in Nov-23 owing to recent gas price hike although slowdown in food and transport index provided some respite.
- **…However, Inflation to start falling from 2HFY24:** For our base case assumption, we expect inflation for FY24 to average 24%, slightly above the State Bank of Pakistan's (SBP) target range of 20-22%. CPI is likely to witness a spike in Dec-23 and thereon continue its declining trend from Jan-23 on the back of low base effect, stability in PKR and declining POL prices. Pressure on food prices is likely to ease owing to expected higher agriculture output.
- **Policy rate unchanged**: MPC in its latest meeting on 12-Dec-23, kept Policy Rate unchanged as per expectation. Key reason behind status quo was higher than expected gas price increase which is likely to keep CPI elevated. SBP cited that current Monetary Policy stance is adequate to bring inflation down to SBP target range.
- **Interest rate reversal from 2024:** As inflation is expected to come down from 2HFY24 and continue its declining trend, we expect interest rates to start coming down from 4QFY24 to stand at 18% by end of FY24. Based on declining CPI expectation, we expect Policy Rate to come further down in 1HFY25 to stand at 15% by Dec-24.

Exhibit: National CPI Heat Map

	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
General	**29.2**	**26.8**	**31.4**	**27.4**	**28.3**	**29.4**	**38.0**	**36.4**	**35.4**	**31.5**	**27.6**	**24.5**
Food	28.0	26.8	33.1	38.5	39.5	39.5	48.7	48.1	47.2	45.1	42.9	35.5
Transport	26.5	30.1	31.3	23.0	13.6	20.3	52.9	56.8	54.9	50.4	39.1	41.2
Utility/Rent	33.0	20.5	29.7	6.2	10.8	11.6	20.5	16.9	17.5	13.6	7.8	6.9
Essentials	18.9	18.6	18.2	16.5	16.7	16.7	17.5	16.9	16.7	14.7	14.4	14.4
Disc.	37.4	39.2	40.8	43.1	43.5	44.9	49.4	46.4	43.5	35.8	31.0	28.6

Source: PBS, IGI Research

Current account to remain manageable

- **External Accounts**: With 5MFY24 current account down by ~64%YoY to stand at US$ 1.2bn compared to US$ 3.3bn in the same period last year. Current account recorded a surplus of US$ 9mn in Nov-23. Last reported surplus was recorded in Jun-23. We expect deficit to settle at US$ 4bn (or 1.2% of GDP) in FY24. C/a deficit is likely to be on the lower side owing to drop in imports while improvement in exports and remittances are likely to support external side.

Support from Multilateral and Bilateral Partners

- **Flows from friendly countries**: In our view, support from friendly countries remains critical in building up Foreign Exchange reserves which currently stand at US$ 12.1bn. In this regard, continuation of IMF program remains critical and Pakistan will likely have to sign a new IMF agreement in 2QCY24 post Elections in Feb-24 and conclusion of current SBA in Mar-24. Pakistan had to repay total of US$ 20.7bn in FY24 out of which US$ 4bn has been repaid and US$ 9.3bn has been confirmed for rollover. Out of the remaining US$ 7.4bn, US$ 3.1bn is likely to rolled over while US$ 4.3bn has to be repaid in the remaining 7M of FY24. At current SBP reserves of US$ 7bn, Pakistan has sufficient room to cover these payments. However, Pakistan has to pay nearly US$ 30bn each year over the next 3 years therefore support from friendly countries remains critical to avoid pressure on FX reserves.

PKR to remain under pressure

- **Currency to remain under pressure**: PKR remained under pressure during 1HCY23 owing to default risk as forex reserves continued to slide. C/a deficit along with lack of inflows led to pressure on currency which depreciated by 27% between Jan-23 to Jun-23. However, post signing of new SBA with IMF and rollover of loans from friendly countries averted the default risk. Furthermore, crackdown on illegal channels of currency movement led to appreciation of PKR in Sep-23. In our view, we expect currency to average at PKR 293/USD in FY24 and close at PKR 313/USD in Jun-24 depicting a depreciation of 18%y/y and 9%y/y respectively. We expect exchange rate to stand at PKR 325/USD at Dec-24. In our view, Pakistan is likely to conclude current SBA with IMF successfully followed by a new IMF program in 2QCY24 along with stability in remittances. To note, sustainability of remittances, manageable C/a deficit (1-1.5% of GDP) and support from friendly countries, Multilateral and Bilateral Partners remain critical for stability of PKR.

Fiscal discipline key to sustainability

- **Fiscal Discipline key to manage inflation and current account:** Budget Deficit stood at PKR 963bn during 1QFY24 which is higher than PKR 752bn in the same period last year. However, primary balance stood at a surplus of PKR 416bn which is roughly 0.4% of GDP. As per IMF Pakistan has to maintain primary surplus and restrict Fiscal Deficit. As per IMF requirement Pakistan has to minimize unbudgeted subsidies, restrict spending and increase its revenue. In order to contain fiscal deficit, Government has reduced PSDP spending on various projects and has also maintained Petroleum Levy at optimum level. We expect fiscal deficit at 7.4% of GDP for FY24. However, fiscal discipline remains key to avoid spike in inflation and manage C/a deficit.

Growth to rebound but at a slower pace

- **GDP for FY23 revised down**: In a recent development, National Accounts Committee (NAC) revised down provisional GDP growth of 0.29% in FY23 to negative growth of 0.17%. The Committee also introduced Quarterly National Accounts in the statistical system of Country to meet structural benchmark of IMF. GDP numbers will now be reported quarterly. GDP growth for FY22 was revised to 6.17% from previous 6.10%.
- **GDP growth in 1QFY24 led by agriculture**: As per recently published quarterly accounts, GDP grew by 2.13% in 1QFY24 compared to 0.96%y/y in the same period last year. This was led by growth in agriculture of 5.06% (1QFY23: 0.3%), Industry 2.48% (1QFY23: -1.63%) and Services sector 0.82% (1QFY23: 2.11%).
- **GDP likely to settle at 2.7% in FY24**: We expect Pakistan GDP growth to settle at 2.7% in FY24 mainly led by growth in agriculture. Higher crop area and improved yields are likely to lead to growth of 4% in agriculture in FY24. Most importantly, cotton output increased by 74%y/y in Dec-23 to 8mn bales which is likely to support higher agriculture growth in 2024. Some improvement is expected in industrial sector, however, higher interest rates and cost of doing business is likely to keep growth subdued. However in FY25, we expect industrial sector growth to pick up sharply.

Economy

Macroeconomic indicators indicating path to recovery

Exhibit: Current Account Balance (US$ bn)

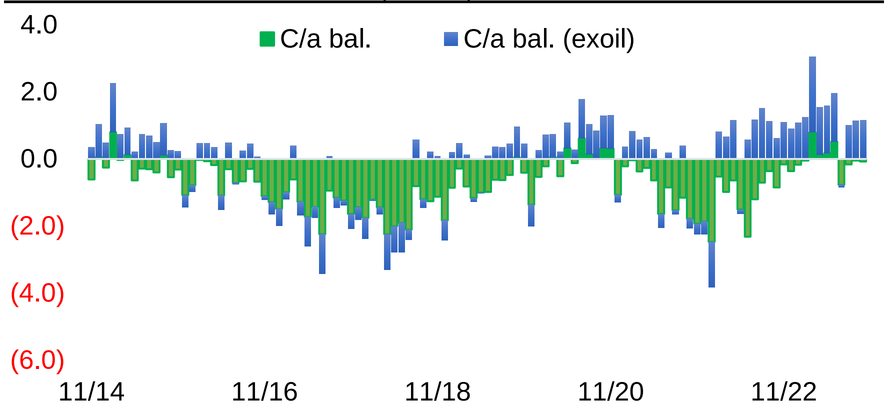


Exhibit: SBP Foreign Exchange (FX) Reserves and import Coverage (x)

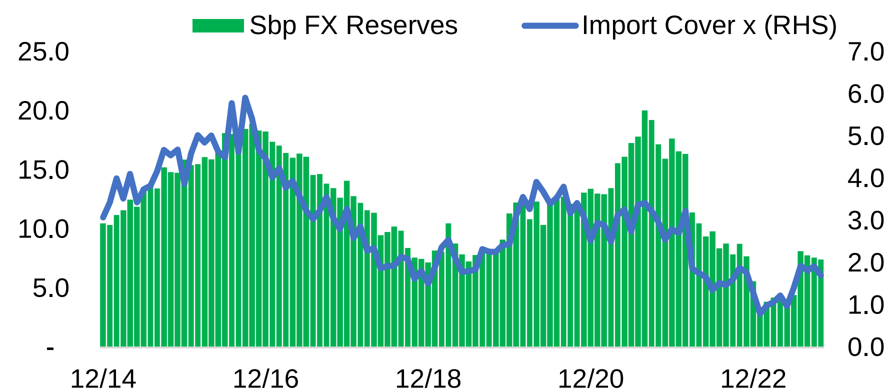


Exhibit: Pakistan CPI Historical – Inflation depicting signs of slowdown in 2023-24

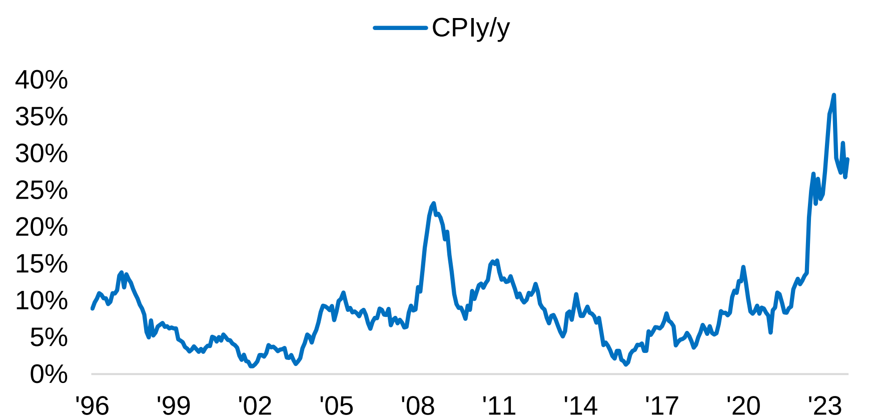
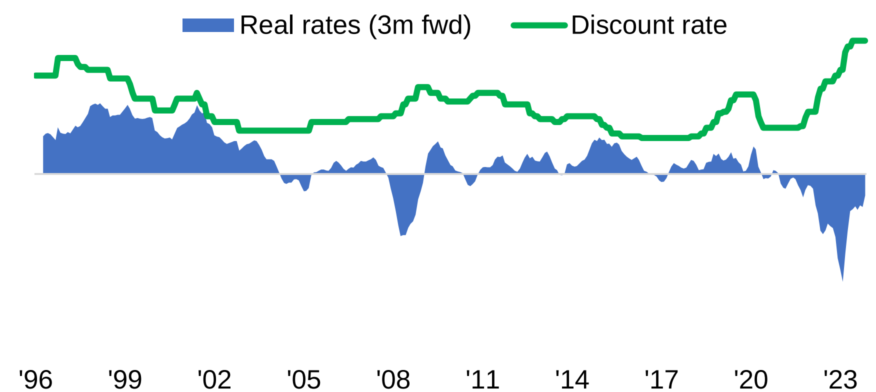


Exhibit: Policy Rate and 3M forward Real Rates



Source: PBS, SBP, IGI Research

Economy

Key macroeconomic forecast

		2020a	2021a	2022a	2023a	2024f	2025f
Real Sector							
GDP (growth rate)	%	-0.9%	5.8%	6.2%	-0.2%	2.7%	4.0%
GDP (in US$)	US$bn	300.8	348.9	375.5	339.0	342.5	364.5
GDP per Capita	US$	1,380.0	1,564.7	1,654.4	1,467.5	1,456.8	1,523.9
Prices and Policy Rate							
CPI (National)	%y/y	11%	9%	12%	29%	24%	13%
Policy Rate (Target)	%	12%	7%	10%	20%	18%	14%
External Accounts							
Current Account Balance	US$bn	(4.4)	(2.8)	(17.5)	(2.2)	(4.0)	(4.9)
Exports (G)	US$bn	22.5	25.6	32.5	27.9	29.6	31.0
Imports (G)	US$bn	42.5	53.8	72.3	52.0	50.7	55.2
Trade Balance	US$bn	(19.9)	(28.2)	(39.8)	(24.1)	(21.0)	(24.3)
Remittances	US$bn	23.1	29.4	31.3	27.0	29.2	30.6
Curr. Acc Bal. / GDP	%	-1%	-1%	-5%	-1%	-1%	-1%
Trade Balance / GDP	%	-7%	-8%	-11%	-7%	-6%	-7%
Total: Import Cover	x	4.4	5.5	4.0	2.0	3.5	3.6
Fx Reserves	US$bn	18.9	24.4	15.4	9.2	14.8	16.6
USD (Closing)		165.1	156.2	204.4	286.0	312.5	345.0
Fiscal Accounts							
Total Revenue	%age of GDP	13%	12%	12%	11%	11%	12%
Current Expenditure	%age of GDP	18%	16%	17%	17%	17%	15%
Budget Deficit	%age of GDP	-7%	-6%	-8%	-8%	-7%	-7%

Source: SBP, PBS, IGI Research

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Economy

IMF; Long Term Program Critical for Sustainable Economic Recovery

- **SBA with IMF**: Pakistan in Jul-23 signed a new SBA of US$ 3bn with IMF for a period of nine months ending Mar-24. To note, Pakistan's EFF program remained incomplete after failure to successfully conclude 9th review. Upon approval of SBA by IMF board, Pakistan received US$ 1.2bn. Pakistan also successfully completed 1st review under SBA in Nov-23 and post approval of IMF Board Pakistan will receive US$ 0.7bn which is scheduled on 11-Jan-24.

- **New long term IMF program likely in 2QCY24**: As current SBA will expire in Mar-24, we expect Pakistan to sign another long term agreement with IMF in 2QFY24. The new agreement would most likely be followed by elections in Feb-24. We believe, a long term IMF program would improve inflows from Multilateral and Bilateral partners and would allow Pakistan to issue international Sukuk. However, IMF program would mean strict adherence to IMF conditions. Under the IMF program, Pakistan will likely have to contain fiscal deficit by reducing expenditure and increasing tax. Furthermore, Monetary Policy is also expected to remain data driven and cater any risks if materialized. Thus, if Pakistan is able to maintain Fiscal discipline and keep external side in check, we expect economic recovery to be more prominent in 2024. However, any slippages or delays may result in deteriorating economic situation and bring PKR under pressure.

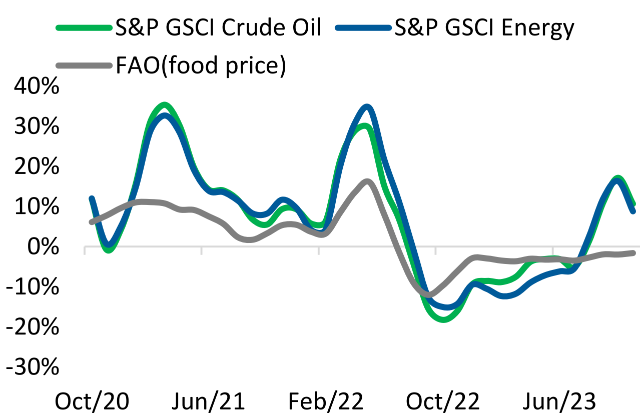
Politics; 2024 Elections to bring in Political Stability

- **Political Stability to follow post 2024 elections:** Political instability has been one of the key reasons behind lackluster stock market performance and weakening economy. Political noise remained prominent over the last couple of years. The PDM led Government completed its term and Caretaker Government took over in Aug-2023. As election date has been announced and is scheduled on 08-Feb-2024, we expect stability on Political front in 2024 which will likely drive investors confidence. However, any delays in election or Policy shift around elections may bring Political noise to the forefront.
- **Market has already witnessed pre-election rally!** Other than 2018 elections, stock market has generally posted positive return leading up to elections. However, post election market performance has been mixed with positive returns on 17% and 37% in next 3 months following 2013 and 2022 elections whereas market registered negative return of 4%, 1% and 3% following 2018, 2008 and 1997 elections.

Key Catalyst and Risk

Exhibit: Oil prices (USD/bbl) – Arab Light

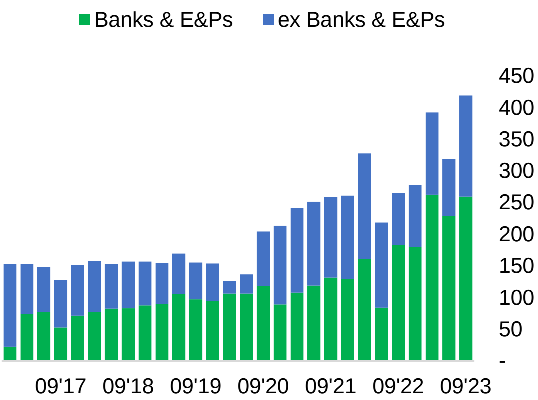
Exhibit: S&P Crude and Energy Price Index



Source: Bloomberg, S&P, IGI Research

- **Oil Prices:** Oil prices (Arab Light) have declined by nearly 5% in CY23TD to stand at US$ 79.8/bbl (18-Dec-2023). Oil prices average nearly US$ 85.1/bbl in CY23TD compared to average of US$ 103/bbl in CY22. Decline in oil prices during CY23TD has been mainly led by lower demand from US and China despite deeper production cuts by OPEC+. Oil prices witnessed a spike during Oct-23 owing to escalation of tension in Middle East. However, prices soon retreated on expectation that the conflict will not spread to oil producing nations and thus not impact oil supply. Decline in oil prices coupled with stability in PKR has led to a slowdown in domestic price increase. This has also translated in to lower import bill and supported CPI in recent months. We expect oil prices to remain on the lower side (USD 80-85/bbl) during 2024 owing to weaker demand outlook from US and China. However, any escalation in middle east conflict may cause oil prices to drift higher.
- **Resolution of circular debt:** The Government hiked gas prices during Oct-23 to curb future build up in circular debt. To note, government had increased gas prices in Feb-23 also for six months ending Jun-23. As Pakistan was under IMF program in Feb-23 and is also currently in IMF SBA program, the increase in gas prices was implemented to meet IMF condition to pass over cost for gas and electricity prices to end consumers. Based on this, we expect cash flow position for energy chain to improve going forward if timely gas prices (bi-annually) are notified. As a result, OGDC, PPL, PSO, SNGP and SSGC are likely to be the prime beneficiaries of gas price hike. This in turn would translate in to better payouts for these companies. Furthermore, if Government decides to clear outstanding dues through cash or non cash settlement, these companies are likely to benefit further in terms of cash flow position.
- **Pakistan's Sovereign Rating may be revised:** In Feb-23, Moody's revised down Pakistan's Sovereign Rating to Caa3 with a negative outlook following previous downgrade to Caa1 in 2022 (after 2022 floods). If new long term program with IMF is signed, we expect rating agencies such as Moody's may improve Pakistan's Sovereign Rating which may also facilitate Pakistan in issuing its international Sukuk which has been put on hold.

Earnings Outlook



Source: CapitalStake, PSX, IGI Research

2023; Corporate earnings: Banks/Financials and E&Ps drove market earnings in 9MCY23

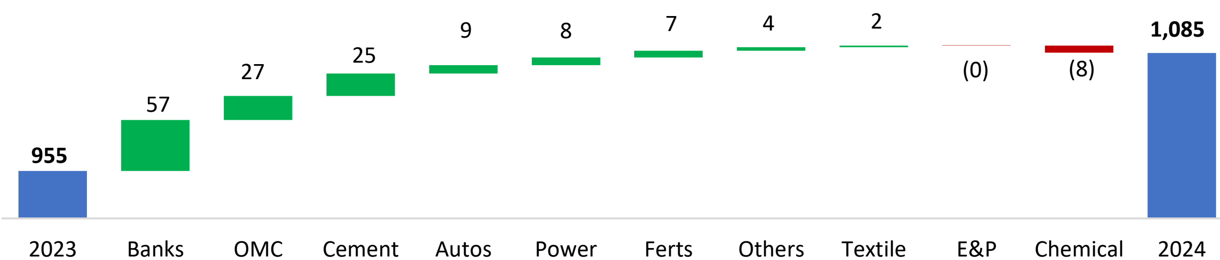
Overall, the market's earnings during the first nine months of the year appear to be in good shape despite the impact of higher taxes. KSE100 posted earnings of PKR 1,131bn up by 39%y/y. However, excluding oil & gas and banking, core manufacturing sectors, have posted only 5%y/y growth during the 9MCY23 owing to higher interest rates and slowdown in economic activity.

Exhibit: KSE100 Profitability

In PKRbn	9mCY23	9mCY22	y/y
Oil & Gas	409.7	314.3	30%
Banks & Financials	422.8	214.6	97%
Total	**832.5**	**528.9**	**57%**
Other	298.2	283.6	5%
KSE100	**1,130.7**	**812.5**	**39%**

2024; Corporate Earnings to post 13%y/y growth

In 2024, Corporate earnings are expected to grow by nearly 13%y/y primarily led by Banks, OMCs and Cements. E&P sector earnings are likely to remain flattish owning to one off income of PKR 75bn booked by OGDC in 4QFY23. Excluding that, E&P sector is likely to post earnings growth of 7%y/y. OMC sector is likely to post 148%y/y growth owing to lower earnings for PSO in FY23 on account of inventory losses. For Banks, profitability is likely to sustain growth momentum in 2024, however, earnings are expected to decline in 2025 on account of interest rate decline. Construction sector earnings are likely to improve on account of improved economic activity, stable PKR, lower raw material costs and interest rates. Growth in auto sector is likely to backed by higher tractor sales owing to agriculture demand, stable PKR and improvement in auto financing.



Investment Strategy for 2024

Stock Market remained undervalued despite recent rally

KSE100 has posted a return of 58% since Jul-23 with market earnings rising by 39%y/y in 9MCY23 and P/E re-rating from 3.0x to 4.7x as at 14-Dec-2023. This robust performance has been on account of newly signed IMF SBA and successful 1st review, improved macroeconomic indicators, expectation of rate cuts in 2024 and Political stability. However, despite recent rally, KSE100 remains cheap in terms of valuation where P/E stands at 4.6x, which is at a discount of 40% to long term P/E average of 8x. Market Cap to GDP stands 11% compared to historic average of 20%. Thus, we believe market can further re-rate on account of resolution of circular debt, interest rate reversal, recovery in growth, political stability post elections and long term program with IMF.

Energy sector to remain in limelight

Recent reforms in energy sector under IMF program have addressed long standing issues of cash constraints owing to recent hike in gas and electricity prices. This has led to potential re-rating of companies within energy sector. In 2024, we expect energy sector companies exposed to circular debt such as OGDC, PPL, PSO, SNGP, SSGC and IPPs to benefit in terms of improved cash position owing to timely notification of gas and electricity prices for cost recoveries. This will also translate in to multiple re-rating and improved cash payouts for these companies going forward. However, continuation of IMF program and sustainable policy under said reforms remains key for energy sector.

Interest rate reversal to benefit cyclical and highly leveraged companies

In 2024, we expect total 700bps reduction in interest rates on the back of slowdown in inflation which is likely to benefit highly leveraged companies. We expect cyclical sectors to benefit from modest recovery in demand, drop in oil prices and reduced finance cost. Based on this theme, we expect construction, textile and auto sector to witness improved profitability in 2024 and beyond. Some of the highly leveraged companies are ACPL, DGKC, NCL, FFBL, ASTL, ILP, MUGHAL and PSO. Auto sector is likely to benefit from higher tractor sales owing to demand from agriculture, however, once interest rates start to come down auto financing may lift demand.

Risks to our investment thesis

We highlight that our risk to our investment strategy emanates from derailment of IMF program, lack of fiscal discipline, higher C/a deficit, delay in elections and unfavorable exchange rate movement. Escalation in middle east conflict may push oil prices higher and lead to pressure on external side.

Market Outlook

KSE 100 index target	Market P/E	Dividend Yield	Total Return
78,000	**5.0x**	**11%**	**~31%**

Index Target of 78,000

Market P/E and Index Target			
Case	**P/E**	**Index Target**	**Return**
Bear	4.00	53,000	-19%
Base	5.00	78,000	20%
Bull	6.00	96,000	47%

Base case: Index target of 78,000; offering a total return of +31%

For 2024, we eye an index target of 78k, generating a total return of ~31% from its current index level of 65.2k. We have taken a market target P/E multiple approach as our basis for index estimation. Based on our index target market would trade at a forward P/E of 5.0x which is below its LT historic average 7.5x and current 4.6x.

Bear case: 53,000 – downside 19%

For our bear case, we factored in higher and persistent inflation leading to lower than expected rate cuts, delays in energy sector reforms and subsequently build up in circular debt, drain on FX reserves amid higher imports and lack of committed inflows, fiscal indiscipline and PKR volatility. Our implied market multiple comes at 4.0x giving an index target of 53,000. However, further downside could emanate from worsening macroeconomic conditions and delays in election.

Bull case: 96,000 – upside 47%

For our bull case we have factored lower than expected inflation, amid decline in international commodity prices leading to higher than expected rate cuts. For that, we highlight declining oil price could act as a catalyst, which could drive stronger economic and corporate earnings growth than our baseline forecast. Moreover, continuation of IMF program, and continued financial support from uni/bi-lateral funding will continue to support external accounts and thus FX reserve build-up. If materialized, this could stretch market multiple above 6.0x, implying a target index of 96,000.

Exhibit: Sensitivity to earnings growth

Price-to-Earnings (P/E)	**Earnings Growth**				
	7.0%	**10.0%**	**13.0%**	**16.0%**	**19.0%**
4.00x	59,000	61,000	63,000	64,000	66,000
4.50x	67,000	69,000	70,000	72,000	74,000
5.00x	74,000	76,000	78,000	80,000	82,000
5.50x	82,000	84,000	86,000	88,000	91,000
6.00x	89,000	91,000	94,000	96,000	99,000
6.50x	96,000	99,000	102,000	105,000	107,000

Market remains cheap compared to historic average and among regional markets

Exhibit: Pakistan Market P/E (KSE100)

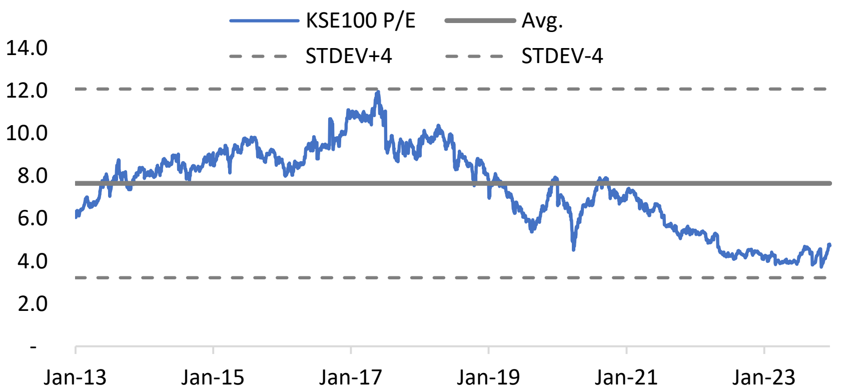


Exhibit: Pakistan Market P/E and Dividend Yield to Regional and Global Markets

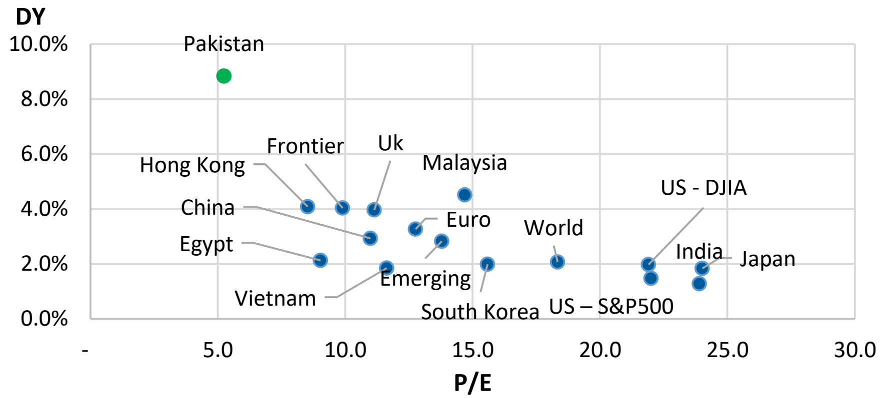


Exhibit: Pakistan Market P/B and ROE to Regional and Global Markets

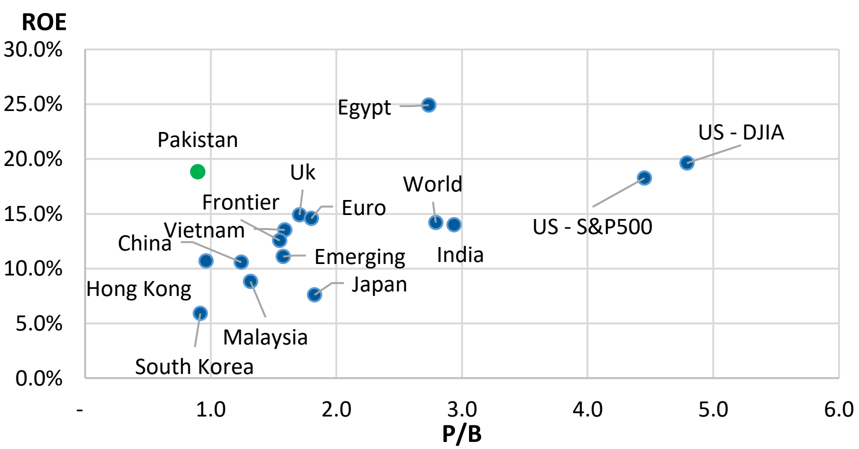
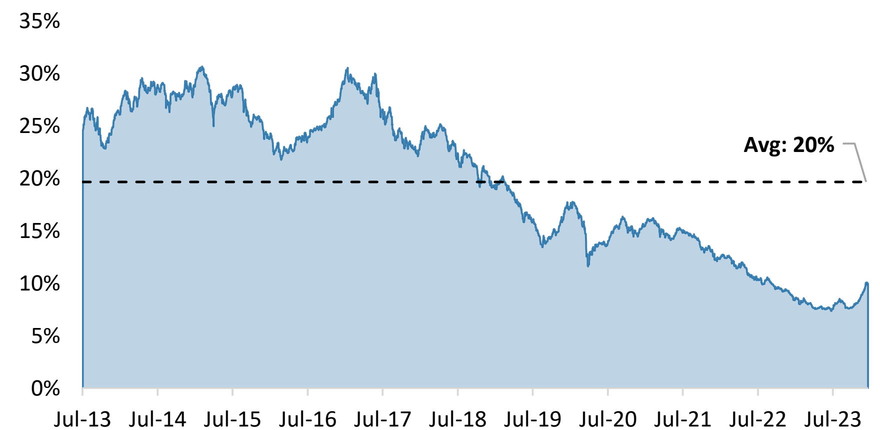


Exhibit: Market Cap / GDP (%) stands at a steep discount to historic average



Source: Bloomberg, SBP, PBS, IGI Research

Sector Outlook

Sector	Stance	Comments	Picks
Commercial Banks	Over-weight	Though interest rates have peaked, but NII should continue to grow in the mid-teens even as margins gradually taper off. Domestic asset quality is strong with most banks maintaining coverage levels of +100% while sector NPLs are at a manageable 6-7%. Core profitability will continue to impress in CY24, with strong payouts to continue over the next 12mths. IGI Banks are still trading at attractive valuations (2024 P/E of 2.6x, P/B of 0.7x) while offering a D/Y of 17%, rounding up our liking for Pakistan Banks.	UBL, FABL, MCB
Oil & Gas Exploration Companies	Over-weight	Recent gas price hikes should stop further build-up of circular debt and improve cashflow position of the energy chain and resultantly translate into higher payouts. However, profitability is likely to grow albeit at a slower pace owing to decline in crude prices and stability in PKR. We prefer OGDC, PPL and MARI.	OGDC, MARI, PPL
Oil & Gas Marketing Companies	Over-weight	High domestic POL prices will weigh down on OMC sector volumes in FY24f. However, recent increase in OMC margins will support earnings, where we expect a gradual pick-up in volumes in FY25 as the impact of declining interest rates materializes. We prefer PSO due to recent gas price hikes which should lead to an improved cash position and consequently higher payouts.	PSO
Power Generation & Distribution	Market-weight	Power sector has been marred by circular debt, which has now reached ~PKR 2.4tn. There has been notable push on energy sector reforms under the ongoing IMF program – Government hiked power tariff by PKR 5.0/kwh during Jul'23 to PKR 30/kwh. While this should improve the sector's liquidity, additional steps are required to reduce line losses alongside timely tariff adjustment. We maintain HUBC as our top pick owing to addition of coal plants and further diversification projects under consideration.	HUBC
Cements	Market-weight	Demand uptick should remain in line with growth in economic activity where we expect cement manufacturers to maintain pricing discipline given the industry's high leverage (particularly as interest rates come-off). Expect profitability to improve in line with higher retention prices and lower international coal prices.	LUCK, FCCL
Automobile Assemblers	Market-weight	Autos are coming off a low base, where gradual demand uptick should translate into better profitability vs. 2023 (where most plants opted for temporary shutdown). Additionally, lower interest rates should spearhead growth in auto financing. However, price decline remain essential for major pickup in demand.	INDU
Fertilizers & Chemicals	Market-weight	Higher urea prices following the recent massive gas price hikes should improve pricing power allowing them to pass on cost pressures. This, together with strong uptick in urea demand and lower international DAP prices should lift sector profits and dividends.	FFC
Textile	Market-weight	Textile sector is likely to benefit from increase in export demand owing to easing inflation in export countries. Higher cotton arrival during 2023-24 harvesting season is likely to benefit textile sector. Interest rate reversal is likely to support earnings growth amid decline in finance cost.	ILP
Engineering	Market-weight	Similar to cements, demand outlook for steel manufacturers (rebar) is tied in with economic activity, increased farmer income and easing inflationary pressures. Ease in import restrictions should offer further support. High leverage players have the largest room to grow given the expected decline in interest rates.	
Glass & Ceramics	Market-weight	Under coverage company, TGL demand for float and table ware both should pick-up in line with construction activity and economic demand.	
Technology & Communication	Market-weight	Majority of the revenue of technology sector is USD denominated while most of costs are in PKR. Governments focus is on incentivizing and promoting technology sector which provides growth potential in the sector.	
Refinery	Market-weight	The recently announced Refinery Policy 2023 is likely to benefit refineries in terms of better product mix and incentive of deemed duty. Only PRL has signed the agreement with Government while negotiations are underway to resolve concerns of other refineries. However, upgradation and expansion is likely to take around 5 years to complete.	

Top Picks

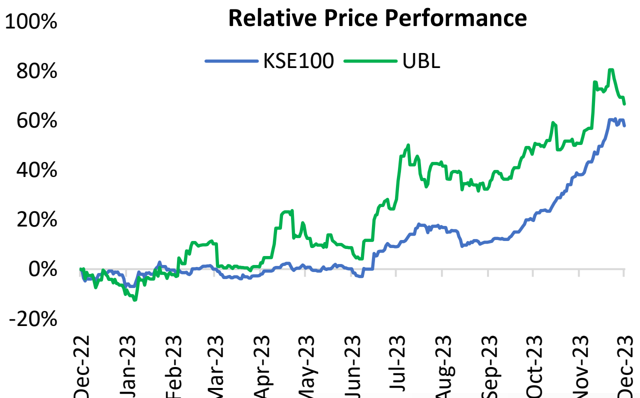
IGI Securities

BUY | **Commercial Banks**

United Bank Limited (UBL)

Target Price: PKR 256/share; Upside: 46%				
2024: Dividend yld: 24%, P/E: 3.1x				
Market Price: PKR 175.56 (18-Dec-2023)				
52 weeks: 190.05 — 92.11				
Abs. Return: (3M) 23%, (6M) 59.4%, (12M) 66.7%				
Outstanding Shares: 1.22bn (FF%: 40)				
Market Capitalisation: PKR 214.9bn, US$ 0.76bn				
Exchange: KSE100, KSE30, MSCI				

PKR/ Share	2022a	2023e	2024f	2025f
EPS	26.2	45.9	56.6	51.0
DPS	22.0	42.0	43.0	40.0
BVPS	170.7	174.6	188.2	199.2
ROE%	16%	26%	30%	26%
P/E	6.7x	3.8x	3.1x	3.4x
DY	12.5%	23.9%	24.5%	22.8%
P/B	1.0x	1.0x	0.9x	0.9x



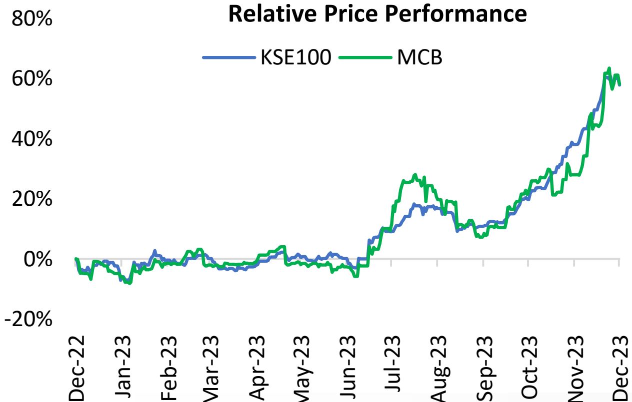
- **High capital ratios to help sustain payouts above industry:** UBL has focused on optimizing the business mix, maximizing profits and ultimately payouts. UBL has paid out PKR 42/share in the last 12Ms, translating into a 12M trailing D/Y of 23%. This has been achieved while maintaining a comfortable buffer over the minimum CAR requirement (3QCY23 CAR: 17.4% against 12.0% SBP requirement).
- **Deposit mix remains optimum:** Focus on the business mix is evident with UBL growing its low cost depositor base to 43% (third largest in the listed banks). There is also focus on maintaining an efficient investment mix with much of the investments skewed towards shorter tenure.
- **Asset quality is strong:** Macroeconomic pressures have eased, following the signing of IMF's SBA facility. UBL's legacy issues are settled and domestic asset quality is strong, with UBL posting net provisioning reversals of PKR 3.0bn in 9MCY23. Coverage levels of more than 100% add comfort with limited consumer and SME loan exposure.
- **Cost control is evident:** UBL has also made concerted efforts to lower costs – core admin expenses have grown by 25%YoY in 9MCY23 (compared to ~35% for listed banks). This, together with better revenues has helped maintain the cost-to-income under 50%.
- **Dividend is best-in-class:** UBL is poised for further growth where its strong profitability pipeline should sustain the ongoing high payouts into CY25f. We estimate DPS of PKR 47.0/43.0 in CY24/25f translating into an average payout of 85%. This translates into a stellar D/Y of 24%/22% for CY24/25f. The payout ratio normalize to +60% over the medium-term as the rate cycle turns and CAR buffer runs out.
- **Recommendation**: We recommend a 'BUY' call on UBL with Dec-24 target price of PKR 256/share, offering a 46% upside from last close. The company is currently trading at CY23/24 P/B of 1.0/0.9x with 25% dividend yield.

BUY | **Commercial Banks**

MCB Bank Limited (MCB)

Target Price: PKR 253/share; Upside: 36%				
2024: Dividend yld: 17%, P/E: 3.4x				
Market Price: PKR 185.29 (18-Dec-2023)				
52 weeks: 191.57 — 107.56				
Abs. Return: (3M) 46.8%, (6M) 64.2%, (12M) 58.1%				
Outstanding Shares: 1.19bn (FF%: 35)				
Market Capitalisation: PKR 219.6bn, US$ 0.78bn				
Exchange: KSE100, KSE30, MSCI				

PKR/ Share	2022a	2023e	2024f	2025f
EPS	27.6	47.5	54.1	52.3
DPS	20.0	29.0	32.0	32.0
BVPS	159.9	178.4	200.5	220.8
ROE%	18%	27%	27%	24%
P/E	6.7x	3.9x	3.4x	3.5x
DY	10.8%	15.7%	17.3%	17.3%
P/B	1.2x	1.0x	0.9x	0.8x



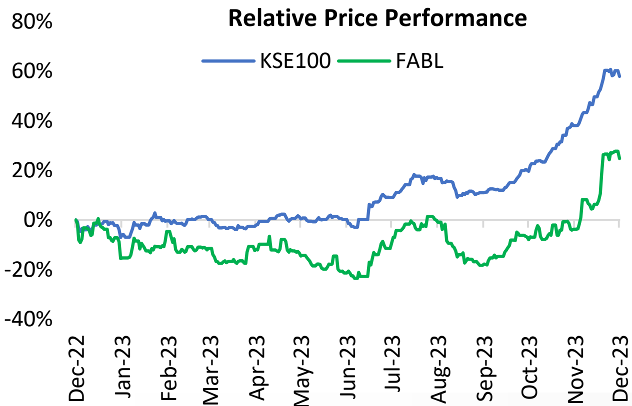
- **A defensive play:** MCB's conservative lending strategies are bearing fruit. The bank has reported a massive 134%YoY profit growth in 9MCY23 which has helped beef up its capital base (9MCY23 CAR: 19.6%). More importantly, MCB has also ramped up its absolute dividends (12M DPS: PKR 28/share – translating into a D/Y of 15%).
- **Strong deposit franchise:** The Bank operates a very strong deposit franchise with a high CASA ratio of 89% (CA: 46%). This has translated in strong NIMs of 9.1% in 3QCY23. As such we expect MCB to post strong double digit growth in NII with NIMs to sustain at current levels well into CY25.
- **Asset quality is decent:** MCB maintains strong asset quality with an NPL ratio of 7.6% against which coverage stands at 82%. MCB's operations are solely domestic and is therefore shielded by global issues, unlike other banks. MCB has also been prudent in its lending strategy, where ADR of 36% is lower than the peer average.
- **Profitability growth to continue:** We expect the profit trajectory to remain strong in the double digits. Additionally, the bank's ROE is expected to clock over 30% in CY23f, as full impact of repricing occurs and interest rates peaks.
- **Recommendation**: We recommend a 'BUY' call on MCB with Dec-24 target price of PKR 253/share, offering a 36% upside from last close. The company is currently trading at CY23/24 P/B of 1.0/0.9x and offers a healthy dividend yield of 17%.

BUY | **Commercial Banks**

Faysal Bank Limited (FABL)

Target Price: PKR 50/share; Upside: 52%	
2024: Dividend yld: 18%, P/E: 2x	
Market Price: PKR 32.64 (18-Dec-2023)	
52 weeks: 33.29 — 20	
Abs. Return: (3M) 52.1%, (6M) 61%, (12M) 24.8%	
Outstanding Shares: 1.52bn (FF%: 25)	
Market Capitalisation: PKR 49.5bn, US$ 0.17bn	
Exchange: KSE100, KMI, MSCI	

PKR/ Share	2022a	2023e	2024f	2025f
EPS	7.4	11.3	16.3	14.8
DPS	7.0	4.0	6.0	5.8
BVPS	46.2	53.5	64.0	73.6
ROE%	17%	21%	25%	20%
P/E	4.4x	2.9x	2.0x	2.2x
DY	21.4%	12.3%	18.4%	17.6%
P/B	0.7x	0.6x	0.5x	0.4x



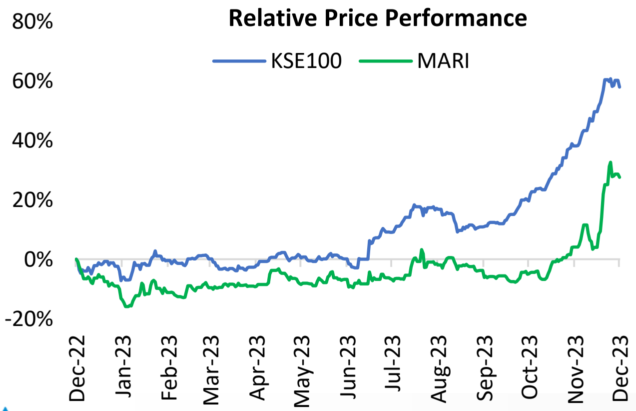
- **A success story from conventional to Islamic:** FABL surrendered its conventional banking license and became a full-fledged Islamic bank effectively from Jan-2023. It is the first bank to successfully convert from a conventional bank to an Islamic bank. FABL's branch network of 700 make it the second largest bank in Pakistan. FABL has a strong capital profile (CAR: 20.0%).
- **Asset quality is strong:** FABL's infection ratios is one of the lowest in the industry, where recent macroeconomic headwinds have had little impact on overall asset quality. NPL ratio stands at just 4% and coverage levels of +100%.
- **Efficient mix:** The bank is focused on maintaining an efficient deposit mix with current accounts of ~35% which continues to grow. The CASA is also a high 76%. Moreover, with the absence of Minimum Deposit Rate (MDR) requirement on its saving deposits, FABL enjoys a low cost of deposit. This has helped drive a 57%YoY growth in profits in 9MCY23. Even if interest rates come off, strong balance sheet growth should help support the bottom line.
- **Comfortable capital profile can lift payouts**: CAR is at a comfortable level of 20% with opportunity for improved payouts. Branch expansion and diversifying its portfolio can help contribute to sustained growth.
- **MDR applicability remains a key risk**: Any changes in Minimum Deposit Rate (MDR) for Islamic Banks remains a key risk for FABL as currently Islamic Banks are exempt from MDR.
- **Recommendation:** We recommend a 'BUY' call on FABL with Dec-24 target price of PKR 50/share, offering a 52% upside from last close. The company is currently trading at CY23/24 P/B of 0.6/0.5x with 18% dividend yield.

BUY | **Oil & Gas Exploration Companies**

Mari Petroleum Company Limited (MARI)

Target Price: PKR 2,695/share; Upside: 28%
2024: Dividend yld: 12%, P/E: 3.7x
Market Price: PKR 2,106.93 (18-Dec-2023)
52 weeks: 2,191.83 — 1,389.7
Abs. Return: (3M) 35.2%, (6M) 40.6%, (12M) 27.5%
Outstanding Shares: 0.13bn (FF%: 20)
Market Capitalisation: PKR 281.1bn, US$ 0.99bn
Exchange: KSE100, KSE30, KMI, MSCI

PKR/ Share	2022a	2023a	2024e	2025f
EPS	247.8	420.7	563.9	581.4
DPS	122.0	147.0	250.0	290.0
BVPS	980.9	1262.5	1538.1	1828.8
ROE%	27%	33%	37%	32%
P/E	8.5x	5.0x	3.7x	3.6x
DY	5.8%	7.0%	11.9%	13.8%
P/B	2.1x	1.7x	1.4x	1.2x



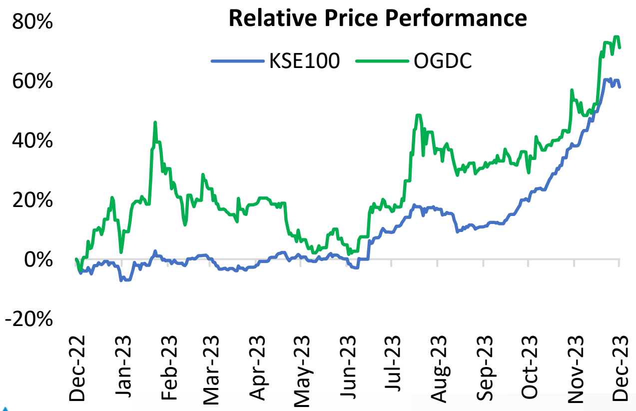
- **Incremental production to support earnings growth**: We expect MARI to post earnings growth of 34% in FY24 on the back of higher gas production from Mari field owing to new discoveries and swing volumes, commencement of incremental gas production and higher gas pricing.
- **Production enhancement and New discoveries from Mari field**: MARI Ghazij-1 commenced production in Mar-23 with current production of 6mmcfd while Ghazij-2 was successfully drilled with initial flows of 11.1mmcfd. The well is currently on extended well testing and is supplying 8mmcfd of gas to SNGP. In Dec-23, MARI also reported discovery from development well (Mari-124H) in Mari HRL of 17mmcfd which is expected to commence production in Dec-23. Moreover, the Company is working with Fertilizer companies on HRL Pressure Enhancement Facilities Project to conduct debottlenecking of pipelines and improve flows. These discoveries and pressure enhancement measures in Mari field are likely to support earnings in FY24 and beyond and fetch higher gas price.
- **SGPC and swing volumes to further improve gas flows**: Sachal Gas Processing Complex (SGPC) Phase 2 was completed in FY23 bringing total supply from complex to 100mmcfd while third ASU complex was commissioned in 1QFY24 which will further enhance capacity. The Company is also planning on routing new discoveries such as Ghazij to SPGC. Furthermore, the Company expects to divert unused gas from Mari field to SNGP through Swing Volume Processing Facility (SVPF) which will further allow to achieve incremental volumes for Mari field.
- **New blocks and mining business key for sustainable growth**: MARI acquired 5 new blocks in Oct-22 bidding while mineral exploration license was also granted for 3 years. The Company has also been allotted area in Balochistan for mining and has also signed MoU with Barrick Gold for mining projects.
- **Recommendation**: We recommend a 'BUY' call on MARI due to its attractive valuation with Dec-24 target price of PKR 2,695/share, offering a 28% upside with 12% dividend yield.

BUY | **Oil & Gas Exploration Companies**

Oil & Gas Development Company Limited (OGDC)

Target Price: PKR 175/share; Upside: 41%				
2024: Dividend yld: 8%, P/E: 2.7x				
Market Price: PKR 124.09 (18-Dec-2023)				
52 weeks: 125.38 — 69.77				
Abs. Return: (3M) 29.2%, (6M) 67.7%, (12M) 71.1%				
Outstanding Shares: 4.3bn (FF%: 15)				
Market Capitalisation: PKR 533.7bn, US$ 1.88bn				
Exchange: KSE100, KSE30, KMI, MSCI				

PKR/ Share	2022a	2023a	2024e	2025f
EPS	31.1	52.2	46.6	41.9
DPS	7.3	8.6	9.5	9.0
BVPS	203.5	251.8	289.0	322.1
ROE%	16%	21%	16%	13%
P/E	4.0x	2.4x	2.7x	3.0x
DY	5.8%	6.9%	7.7%	7.3%
P/B	0.6x	0.5x	0.4x	0.4x



- **Circular Debt Resolution to unlock valuations**: The Government remains committed to resolve gas based circular debt which is also a requirement of IMF. The Government increased gas price in Feb-23 which led to a buildup of only PKR 8bn in receivables of OGDC during 1QFY24 to stand at PKR 519bn as at Sep-23. The Government has also increased gas prices in Nov-23 and is expected to revise gas prices again in Jan-24. Considering these measures, we expect OGDC's cash position to improve significantly in FY24 allowing better liquidity for exploration activities and increase in cash payouts. Based on this we expect OGDC's free cash flow yields are likely to improve leading to multiple re-rating. Furthermore, on account of piled up circular debt, a proposal is under consideration to reduce outstanding circular debt through cash or non-cash settlement. However, IMF approval is required.
- **RekoDiq and offshore block**: OGDC along with PPL and GHPL hold ~8% stake in RekoDiq mining project. RekoDiq holds substantial mineral reserves which would provide incremental revenue stream for the Company. However, as per media reports Government is also planning to sell SOEs stake to KSA which is expected to be finalized in Dec-23. If OGDC's stake is sold, Company can book substantial capital gains. 5 wells are expected to be drilled in Abu Dhabi Offshore Block-5 with first well planned in Jan-24.
- **New Discoveries and development projects to address production decline**: Wali field is currently producing 880bopd and 13mmcfd of oil and gas respectively whereas the Company is actively drilling in Bettani-2 well to improve production flows. During the last year, OGDC has also added 4 new wells which are expected to support decline in production during FY24. The Company was also able to enhance flows from development well such as Nashpa X-10, Siab-1, Chak 2-1 and Chak 5 Dim South-3. Over the next 2 years, development projects at Dakhni, KPD-TAY and Uch are also likely to enhance oil and gas production.
- **Recommendation**: We maintain 'BUY' stance on OGDC with our Dec-24 target price of PKR 175/share offering 41% upside from last close. The Company is currently trading at FY24/25 P/E of 2.7/3.0x. Company offers dividend yield of 8%.

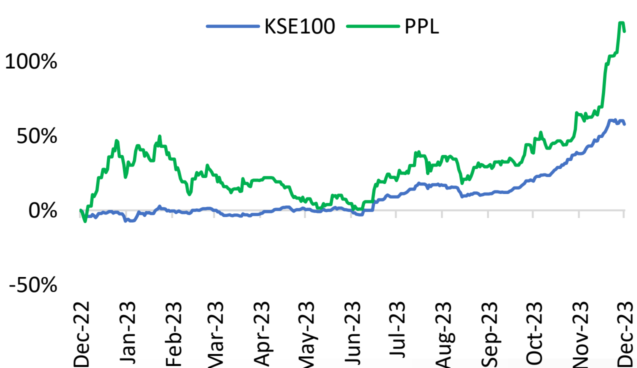
BUY | **Oil & Gas Exploration Companies**

Pakistan Petroleum Limited (PPL)

Target Price: PKR 148/share; Upside: 20%
2024: Dividend yld: 4%, P/E: 3.2x
Market Price: PKR 123.07 (18-Dec-2023)
52 weeks: 120.77 — 51.73
Abs. Return: (3M) 68.3%, (6M) 116.8%, (12M) 120%
Outstanding Shares: 2.72bn (FF%: 24.5)
Market Capitalisation: PKR 334.9bn, US$ 1.18bn
Exchange: KSE100, KSE30, KMI, MSCI

PKR/ Share	2022a	2023a	2024e	2025f
EPS	19.7	36.0	38.6	40.0
DPS	2.0	2.5	5.0	7.0
BVPS	159.8	198.7	233.9	269.3
ROE%	13%	18%	17%	15%
P/E	6.3x	3.4x	3.2x	3.1x
DY	1.6%	2.0%	4.1%	5.7%
P/B	0.8x	0.6x	0.5x	0.5x

Relative Price Performance



- **Circular debt resolution key to higher payout and re-rating**: PPL's overdue receivables stood at PKR 489bn as at Sep-23 (PKR 180/share). Total receivables from SNGP and SSGC stand at PKR 264bn and PKR 255bn respectively. Considering recent gas price hikes in Feb-23 and Nov-23 and another revision expected in Jan-24, we expect PPL's cash position and cash based earnings to improve significantly in FY24. As a result, we expect PPL to increase its cash dividend payout in FY24 which stood at 7% in FY23 and lower than OGDC's payout ratio of 16% in FY23. Improved free cash flow yields are likely to lead to a multiple re-rating for the Company.
- **RekoDiq**: PPL holds nearly 8% stake in RekoDiq project along with other SOEs. The mining project has substantial reserves which would allow separate revenue streams for the Company. However, as per media reports, Government plans to divest SOEs stake to KSA, the Company in that case can book capital gains and exchange rate adjustment.
- **Drilling activities and development projects to sustain flows**: The Company plans to drill 9 exploratory wells and 6 development wells in FY24 with plans to acquire further blocks. PPL won 4 new blocks through bidding in FY23. PPL is also considering re-allocation of gas to customers to maintain production levels. Furthermore, 5 new wells are planned for drilling in Abu Dhabi Block-5 with first well to be drilled in Jan-24. Debottlenecking at Sui fields and link up of SML and SUL surface network has resulted improved gas flows. The Company also plans to upgrade Sui Compression over the next year. Moreover, development work at Kandhot, Adhi, Nashpa and Rehman is likely to further improve gas production in FY24.
- **Recommendation**: We maintain 'BUY' stance on PPL with our Dec-24 target price of PKR 148/share offering 20% upside from last close. The Company is currently trading at FY24/25 P/E of 3.2/3.1x and offers dividend yield of 4.1%. Payouts are likely to improve post recent gas price hikes.

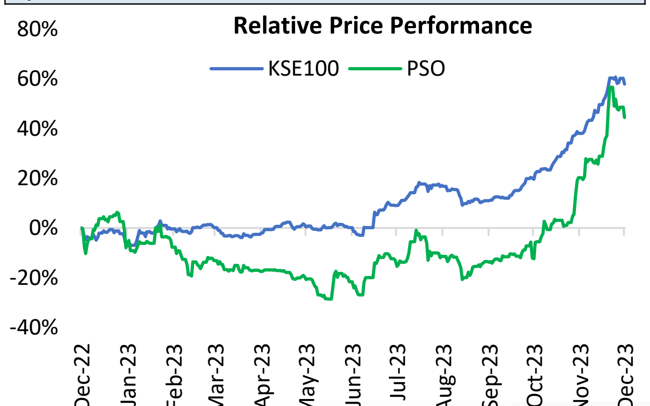
IGI Securities

BUY | **Oil & Gas Marketing Companies**

Pakistan State Oil Company Limited (PSO)

Target Price: PKR 265/share; Upside: 32%				
2024: Dividend yld: 6%, P/E: 2.8x				
Market Price: PKR 200.49 (18-Dec-2023)				
52 weeks: 217.22 — 99.03				
Abs. Return: (3M) 67%, (6M) 93.7%, (12M) 44.5%				
Outstanding Shares: 0.47bn (FF%: 45)				
Market Capitalisation: PKR 94.1bn, US$ 0.33bn				
Exchange: KSE100, KSE30, KMI, MSCI				

PKR/ Share	2022a	2023a	2024e	2025f
EPS	183.7	12.1	71.2	83.9
DPS	10.0	7.5	12.0	17.0
BVPS	459.3	461.3	508.4	575.5
ROE%	48%	3%	14%	15%
P/E	1.1x	16.6x	2.8x	2.4x
DY	5.0%	3.7%	6.0%	8.5%
P/B	0.4x	0.4x	0.4x	0.3x



- **Higher margins to Support Earnings**: OMC margins have been revised upward by PKR 4.19/ltr to PKR 7.87/ltr for MS and HSD since Nov-22. This is likely to support earnings growth in FY24 and onwards amid decline in volumes. In FY24 we expect PSO to post +6xy/y growth in earnings on account of recovery in volumes (especially HSD due to higher demand during sowing season), higher OMC margins and lower finance cost. PSO reported 93%y/y decline in earnings in FY23 on account of inventory losses , lower volumes and higher finance cost. PSO's volumes dropped by 29%y/y in FY23 and are down by 19%y/y in FY24TD owing to higher domestic prices and slowdown in economic activity.
- **Cash flows to improve amid hike in gas prices:** PSO's receivables more than doubled since Jun-22 to stand at PKR 511bn as at Sep23. This substantial increase in receivables is mainly attributable to gas based circular debt emanating from LNG supplies to SNGP with overdue receivables of PKR 401bn. Recent hike in gas prices effective 1-Nov-23 is likely to curb further build up in receivables for PSO and improve cash position and reduce reliance on short term borrowings going forward. This is likely to translate in to better payouts as well where we expect PSO to pay out cash dividend of PKR 12/share in FY24.
- **Drop in interest rates to support earnings**: As interest rates are expected to drop in 2024, we expect markup cost related to short term borrowing to come down in FY24 and FY25 which will further support earnings growth.
- **Recommendation**: We have a 'BUY' stance on PSO with our Dec-24 target price of PKR 265/share offering 32% upside from its last close. The Company is currently trading at FY24/25 P/E of 2.8/2.4x and offers dividend yield of 6%. We base our liking for the stock on the back of increase in gas prices which is likely to improve cash position for PSO and resultantly translate in to higher payouts.

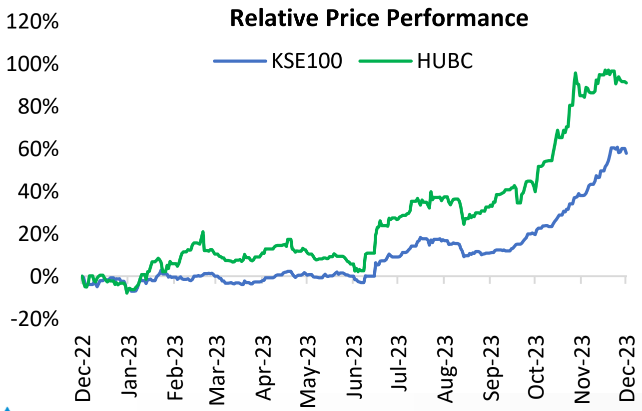
IGI Securities

BUY | **Power Generation and Distribution**

The Hub Power Company Limited (HUBC)

Target Price: PKR 162/share; Upside: 35%				
2024: Dividend yld: 22%, P/E: 2.4x				
Market Price: PKR 119.83 (18-Dec-2023)				
52 weeks: 123.69 — 57.75				
Abs. Return: (3M) 43.6%, (6M) 86.9%, (12M) 91%				
Outstanding Shares: 1.3bn (FF%: 75)				
Market Capitalisation: PKR 155.4bn, US$ 0.55bn				
Exchange: KSE100, KSE30, KMI, MSCI				

PKR/ Share	2022a	2023a	2024e	2025f
EPS	22.0	44.4	50.4	56.5
DPS	6.5	30.0	26.0	24.0
BVPS	88.5	109.5	136.4	171.3
ROE%	26%	41%	37%	33%
P/E	5.5x	2.7x	2.4x	2.1x
DY	5.4%	25.0%	21.7%	20.0%
P/B	1.4x	1.1x	0.9x	0.7x



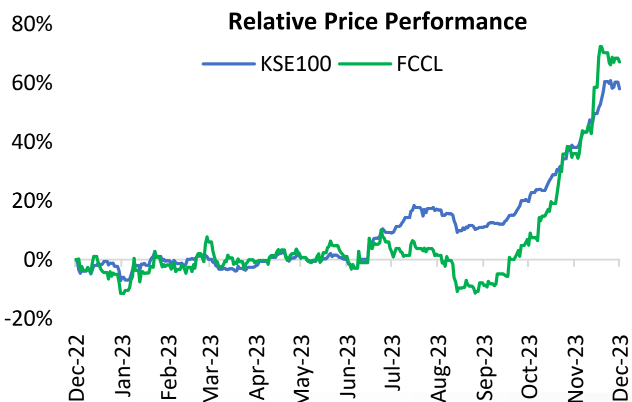
- **Addition of new plants**: During FY23, Thar Energy Limited (TEL) and ThalNova (TNPTL) achieved COD which supported an earnings growth of +2xy/y for HUBC. These plants are likely to add cumulatively PKR 8/share and PKR 9/share to HUBC's earnings in FY24 and FY25 respectively. These plants are also high in merit order list and will consequently receive priority in term of their due payments.
- **Diversification into oil & gas exploration**: HUBC completed the acquisition of Prime International in FY23. The newly formed Company is a joint venture between HUBC and Employee Buyout Group which acquired ENI Pakistan's exploration assets. As a result, Prime International contributed nearly PKR 0.7/share to HUBC's earnings in 1QFY24 and is expected to contribute nearly PKR 3.3/share in FY24.
- **Dividend payout to remain healthy**: HUBC's payout has improved over the last couple of years and in FY23 the Company paid out PKR 30/share cash dividend. We expect dividend payouts to remain healthy as HUBC expects dividends from CPHGC in FY24 as project completion date (PCD) was announced in Feb-23 releasing the Company to maintain Standby Letter of Credit (SBLC) worth US$ 150mn. Furthermore, Government is committed to resolve liquidity issues within power sector through timely notification of QTAs and FPAs. Moreover, Pakistan is required to curb circular debt buildup and maintain stock at PKR 2.3tn by Jun-24 as per IMF requirement. As per newsprint reports, HUBC has asked CPPA to pay PKR 13.4bn dues including interest matured through arbitration which is likely to further improve cash flows for the Company. As a result, we expect improved cash position for HUBC going forward leading to expected cash dividend of PKR 26/share in FY24.
- **Recommendation**: We recommend a 'BUY' call on HUBC due to its attractive valuation with Dec-24 target price of PKR 162/share, offering a 35% upside from last close. The Company is currently trading at FY24/25 P/E of 2.4/2.1x and offers healthy dividend yield of 22%.

BUY | **Cements**

Fauji Cement Limited (FCCL)

Target Price: PKR 33/share; Upside: 66%				
2024: Dividend yld: 0%, P/E: 5.1x				
Market Price: PKR 19.87 (18-Dec-2023)				
52 weeks: 20.51 — 10.51				
Abs. Return: (3M) 83%, (6M) 72.6%, (12M) 67%				
Outstanding Shares: 2.45bn (FF%: 35)				
Market Capitalisation: PKR 48.7bn, US$ 0.17bn				
Exchange: KSE100, KMI, MSCI				

PKR/ Share	2022a	2023a	2024e	2025f
EPS	2.9	3.1	3.9	6.8
DPS	0.0	0.0	0.0	1.5
BVPS	23.5	27.0	30.9	36.2
ROE%	18%	11%	13%	19%
P/E	6.9x	6.4x	5.1x	2.9x
DY	0.0%	0.0%	0.0%	7.5%
P/B	0.8x	0.7x	0.6x	0.5x



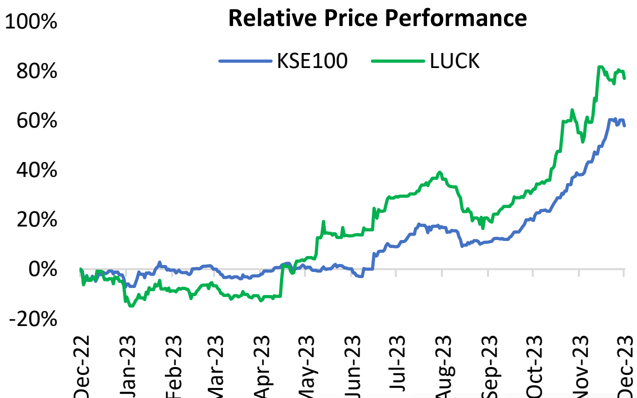
- **Third largest cement manufacturer post Askari merger:** FCCL is the second largest player in the north with the third largest market share after its merger with Askari Cement Limited. The most recent addition of its 2.1mn ton green field project (commissioned in Nov-23), takes the total installed capacity to 10.5mn tons.
- **Efficient energy mix to reduce fuel and power cost:** In order to improve its power and fuel efficiency FCCL is also installing 7 MW WHR taking total capacity to 47.5MW. FCCL has also installed 20MW solar power plant taking total solar capacity to 40MW. FCCL is also using Afghan coal (c. 50%) helping save costs while also opting for alternate fuels.
- **Recent expansion to further consolidate market share:** FCCL's most recent 2.1mn ton Greenfield expansion has been commissioned at D.G. Khan with a production capacity of 6,500 tons/day completed in the shortest amount of time (13 months). This positions FCCL as the 3rd largest player in the country with a capacity of 10.5mn tons. This should help consolidate market share and open up international avenues as well.
- **Payouts likely to resume from FY25:** We expect Company to resume payouts from FY25 onwards post commissioning of its Greenfield project along with efficient energy mix which will likely increase profitability. We expect FCCL to payout cash dividend of PKR 1.5/share in FY25.
- **Recommendation**: We recommend a 'BUY' call on FCCL with our Dec-24 target price of PKR 33/share, offering a 66% upside from last close. The Company is currently trading at FY24/25 P/E of 5.1x/2.9x.

BUY | **Cements**

Lucky Cement Limited (LUCK)

Target Price: PKR 1,120/share; Upside: 40%
2024: Dividend yld: 3%, P/E: 10.7x
Market Price: PKR 797.34 (18-Dec-2023)
52 weeks: 818.48 — 383.9
Abs. Return: (3M) 48.4%, (6M) 55.5%, (12M) 77%
Outstanding Shares: 0.3bn (FF%: 30)
Market Capitalisation: PKR 241.2bn, US$ 0.85bn
Exchange: KSE100, KSE30, KMI, MSCI

PKR/ Share	2022a	2023a	2024e	2025f
EPS	50.6	45.4	74.8	103.3
DPS	0.0	18.0	20.0	38.0
BVPS	424.9	454.1	508.9	574.2
ROE%	13%	10%	15%	18%
P/E	15.8x	17.6x	10.7x	7.7x
DY	0.0%	2.3%	2.5%	4.8%
P/B	1.9x	1.8x	1.6x	1.4x



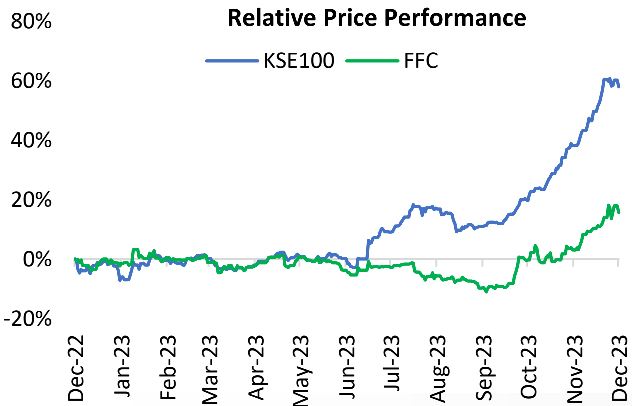
- **Fuel efficiency to improve margins:** LUCK has one of the lowest cost of production as it enjoys most diversified energy resources in the industry. LUCK's 25MW solar plant achieved COD in 1QFY24 with another 28.8MW solar to be added further in Karachi. This is in addition to its 34MW solar in Pezu which is being further expanded by additional 6MW. LUCK also has a 56MW WHR plant, which contributes 20% to the energy mix.
- **LTFF/TERF continues to keep a lid on finance cost:** LUCK is the largest cement manufacturer in the listed space with an annual production capacity of 15.3mn tons. LUCK is one of the most deleveraged stocks in the cement sector while it reaps the rewards of concessionary financing through LTFF/TERF – a particular advantage in a high interest rate backdrop. On an unconsolidated basis, LUCK has nearly PKR 15bn long term loan which is at concessionary rate ranging between 1.5%-8% while short term borrowing of PKR 7bn is also at reduced rates under Export Refinance Facility (ERF).
- **Diversified portfolio to support earnings:** LUCK holds list of diversified assets in its portfolio of business including automobile assemblers (Kia and Peugeot), mobile phone business (Samsung), power generation (LCEPL), overseas cement operation in Iraq and Congo and wind power plant. Contribution from all these projects are likely to support earnings growth going forward. The Company through is wholly owned subsidiary Lucky Core Ventures (LCV) has entered in to share purchase agreement to acquire nearly 75% stake in LOTCHEM.
- **LCEPL contribution to increase after setback:** Lucky Electric Power (LCEPL) is now operating at full capacity after teething issues were resolved which incurred in 1QFY23. As a result dividends from LCEPL are likely to improve going forward.
- **Second Buyback completed:** LUCK has completed its second buyback of 20.4mn shares (6.5% of its paid-up capital/21.8% of free float).
- **Recommendation**: We recommend a 'BUY' call on LUCK with Dec-24 target price of PKR 1,120/share, offering a 40% upside from last close. The Company is currently trading at FY24/25 P/E of 10.7/7.7x and offers 2.5% dividend yield.

BUY | **Fertilizer**

Fauji Fertilizer Limited (FFC)

Target Price: PKR 149/share; Upside: 26%				
2024: Dividend yld: 18%, P/E: 4.2x				
Market Price: PKR 118.22 (18-Dec-2023)				
52 weeks: 118.22 — 90.97				
Abs. Return: (3M) 28.7%, (6M) 22.2%, (12M) 15.6%				
Outstanding Shares: 1.27bn (FF%: 55)				
Market Capitalisation: PKR 150.4bn, US$ 0.53bn				
Exchange: KSE100, KSE30, MSCI				

PKR/ Share	2022a	2023e	2024f	2025f
EPS	15.8	25.1	27.9	28.7
DPS	12.1	20.0	21.0	22.0
BVPS	40.0	45.1	52.0	58.7
ROE%	41%	56%	54%	49%
P/E	7.5x	4.7x	4.2x	4.1x
DY	10.3%	16.9%	17.8%	18.6%
P/B	3.0x	2.6x	2.3x	2.0x



- **Healthy cash position to drive growth:** FFC's strong cash position, consistent earnings growth trajectory and strong dividend yield firm up our liking for the stock. FFC is sitting on cash reserves of over PKR70bn which should eventually be deployed in growth projects.
- **Competitive edge on pricing:** The Company enjoys competitive edge amongst urea manufacturers since it is on the Mari network. This is leading to better gross margins compared to incumbents. FFC's urea price is discounted compared to peers where we estimate GMs ranging between 35-40% in CY24 depending on a gas price hike and FFC's ability to pass on the impact to final consumers while maintaining price competitiveness.
- **Diversified business portfolio:** FFC's profitability is bolstered by very high other income where its short term investments are largely deployed in GoP bonds yielding high rates. FFC's business portfolio is diverse with businesses in energy, FMCG and banking. Dividend income from FFBL, AKBL and Fauji Wind Energy projects offer sustainable growth.
- **Growth projects in pipeline:** There are several projects in the pipeline given FFC's large cash reserves of +PKR 70bn. FFC in addition to other fertilizer companies is involved in Pressure Enhancement Facilities project, which will supply gas to fertilizer plants.
- **Thar Energy to drive earnings growths:** FFC holds nearly 40% stake in Thar Energy Limited (TEL) alongside HUBC (60% stake). The plant commenced operations in 2023 and is likely to contribute PKR 2.8/share on annualized basis from CY24 onwards.
- **Recommendation**: We recommend a 'BUY' call on FFC with our Dec-24 target price of PKR 149/share, offering a 26% upside. The Company is currently trading at CY24/25 P/E of 4.2/4.1x with 18% dividend yield.

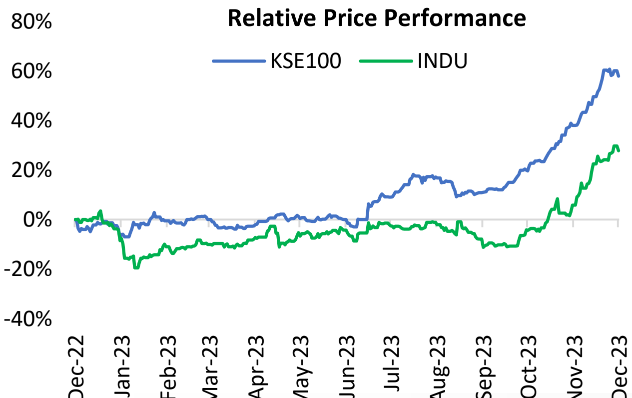
IGI Securities

BUY | **Automobile Assemblers**

Indus Motor Company Limited (INDU)

Target Price: PKR 1,556/share; Upside: 22%
2024: Dividend yld: 9%, P/E: 10.1x
Market Price: PKR 1,273.32 (18-Dec-2023)
52 weeks: 1,268.01 — 802.45
Abs. Return: (3M) 43.1%, (6M) 36.8%, (12M) 27.7%
Outstanding Shares: 0.08bn (FF%: 17.6)
Market Capitalisation: PKR 100.1bn, US$ 0.35bn
Exchange: KSE100

PKR/ Share	2022a	2023a	2024e	2025f
EPS	201.0	123.0	125.5	186.1
DPS	123.0	71.8	109.0	133.0
BVPS	687.2	738.3	754.8	807.9
ROE%	31%	17%	17%	23%
P/E	6.3x	10.4x	10.1x	6.8x
DY	9.7%	5.6%	8.6%	10.4%
P/B	1.9x	1.7x	1.7x	1.6x



- **Lower domestic prices and interest rate reversal to lift demand:** INDU's passenger car sales (Corolla and Yaris) declined by 67% in FY23 to 18.8k units whereas volumes are down by 54%y/y in 5MFY24 to 4.7k units. However, we expect total volumes to pick up from FY25 owing to anticipated decline in interest rates and POL prices. We estimate volumetric growth of 25% on average during CY24-26.
- **Entering Hybrid Crossover market:** INDU had made an investment of US$100mn in Sep'21 towards the hybrid vehicle market and this set to pay off. The Company launched Corolla Cross in Dec-23 with price range of PKR 9.4-9.9mn. The vehicle should lead to a substantial jump in sales – as has been the case for 11th generation corolla models.
- **Income from short term investments to support earnings:** The Company's cash and ST investment portfolio, has shifted strategy – its once cash rich position has been shaved off to PKR 45bn in order to settle outstanding customer advances (declined to under PKR10bn in Sep'23). This has however, led to a decline in other income.
- **Competitive advantage in rural areas:** INDU is better placed among peers given its high market share in the rural space. Interest rates will come off gradually and with rural segment's preference for cash sales, INDU is likely to benefit from higher growth in sales going forward.
- **Stable PKR to keep margins afloat:** Margins have thinned due to significant PKR devaluation (decline of 4.8% from 2021-2023), but the worst is behind us. Gross margins are expected to improve as the exchange rate and commodity prices stabilize.
- **Recommendation**: We recommend a 'BUY' call on INDU with our Dec-24 target price of PKR 1,556/share, offering a 22% upside from last close. The Company is currently trading at FY24/25 P/E of 10.1x/6.8x.

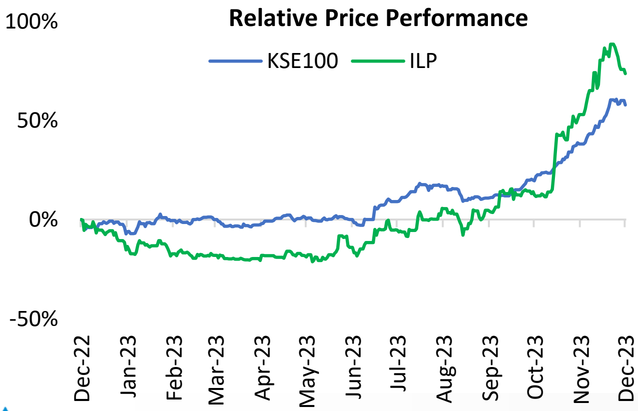
IGI Securities

BUY | **Textile**

Interloop Limited (ILP)

Target Price: PKR 93/share; Upside: 34%	
2024: Dividend yld: 8%, P/E: 4.4x	
Market Price: PKR 69.32 (18-Dec-2023)	
52 weeks: 75.25 — 31.45	
Abs. Return: (3M) 67.4%, (6M) 112.7%, (12M) 73.7%	
Outstanding Shares: 1.4bn (FF%: 20)	
Market Capitalisation: PKR 97.1bn, US$ 0.34bn	
Exchange: KSE100, KMI	

PKR/ Share	2022a	2023a	2024e	2025f
EPS	8.8	14.4	15.7	19.9
DPS	4.0	5.0	5.5	7.5
BVPS	21.4	31.3	41.5	53.8
ROE%	41%	46%	38%	37%
P/E	7.9x	4.8x	4.4x	3.5x
DY	5.8%	7.2%	7.9%	10.8%
P/B	3.2x	2.2x	1.7x	1.3x



- **Revenue growth to be driven by Hosiery segment**: ILP is a dominant player in the global sock export market with a production capacity of 796mn pairs of socks per annum. While utilization levels took a hit in FY23 due to import restrictions, we expect these to normalize in FY24 (indicated by the ~30%YoY growth in 1QFY24). Moreover, Cotton output during Dec-23 increased by 74%y/y which will ensure price stability and will be positive for textile sector. Further improvement in the hosiery order flow can emerge from normalizing inflation levels in export markets. ILP has had a consistent sales track record with a 5-year CAGR of +30%. Recent acquisition of Top Circle Hosiery Mills, USA, positions ILP to tap hosiery demand in Asian markets and achieve its robust order backlog.
- **Denim capacity to double by 2025:** The denim segment remains profitable. This is the first time since its inception in FY20 that denim business has reported profit with revenues increasing more than two folds. Margins have improved to 13% in FY23 compared to a loss in FY22. ILP will be doubling its denim production capacity from 6mn pieces currently to 12mn pcs by 2025.
- **Knitwear capacity expansion:** ILP has invested USD100mn in a knitwear apparel segment which is expected to commence in 2QFY24, taking total capacity of the apparel segment from 26mn to +50mn garments annually.
- **Limited impact of gas price hike:** Gas price hikes will have limited impact on gross margins given ILP's reliance on concessionary grid electricity. Entry into renewable energy (biomass boilers for steam generation and 12.6MW solar – thin includes upcoming 4.6MW addition) should help counter the impact of rising electricity costs.
- **Recommendation**: We recommend a 'BUY' call on ILP with our Dec-24 target price of PKR 93/share, offering a 34% upside from last close. The Company is currently trading at FY24/25 P/E of 4.4x/3.5x and offers a dividend yield of 8%.

Alpha Stocks

Alpha Stocks

Although prices of the following companies may have performed, however in light of potential triggers, these scrips are expected to remain in limelight during 2024:

Scrips	Sector	Triggers	Last Close *	52W High	52W Low	52W Avg Vol (mn)
SNGP	Oil & Gas Marketing Companies	- Recent gas price hike is likely to improve cash flow position for the Company. - The Company is actively working on reducing line losses through GIS Technology. - SNGP is also working on various new pipeline construction projects of E&P companies.	76.31	79.40	34.80	4.22
PRL	Refinery	- PRL is undertaking Refinery Expansion and Upgradation Project to double its capacity to 100Kbopd and upgrade to deep conversion. - Refinery Policy 2023 offers incentives of deemed duty on MS and HSD for 6 years. PRL is the only refinery which has signed the new Refining Policy Agreement with Government	33.64	36.15	11.83	10.42
AIRLINK	Technology & Communication	- The production has restarted and Government's focus is again back to local assembling as there is big demand for cellphones. - AIRLINK has recently partnered with Xiaomi to produce Smart TVs. The Company is currently assembling phones of different brands such as Xiaomi, iTel, Tecno, TCL and Alcatel. - Apart from assembling, it has also got a strong distribution network with global partners such as Tecno, Huawei, Samsung, Apple, TCL, Itel and Alcatel.	60.01	72.00	17.95	2.88
PTC	Technology & Communication	- It has recently acquired Telenor and post acquisition PTC will become equivalent to Mobilink in terms of market share. PTC has singed Share Purchase Agreement to acquire Telenor Pakistan for PKR 108bn.	15.06	15.06	5.43	3.37
SEARL	Pharmaceuticals	- SEARL has received approval from DRAP for first Monoclonal Antibody drug to be manufactured in Pakistan which is in collaboration with BioRay (China). The drug will be available in the market in next 3- 6 months.	59.05	64.09	34.22	2.99
SAZEW	Automobile Assemblers	- The Company has introduced EV Rickshaw which can also help the Company to expand its exports. - SAZEW is the only company which is assembling car of 2 different Chinese Brand (BAIC and Great Wall Motors) - The Company continues to do well on 4-wheeler segment. - SAZEW also produces tractor rims demand for which is expected to increase in 2024.	187.39	228.97	44.00	0.70

Source: Bloomberg, PSX, IGI Research

*Prices as of 18-Dec-23

Potential Stocks from Sales Desk

Potential Stocks from Sales Desk

Our sales team anticipates interest of investors in following scrips in 2024 and hence price movement in these can not be ruled out:

Scrips	Sector	Last Close *	52W High	52W Low	52W Avg Vol (mn)
National Bank of Pakistan (NBP)	Commercial Banks	35.11	38.50	18.31	1.51
The Bank of Punjab (BOP)	Commercial Banks	7.57	8.20	3.17	6.69
Sui Southern Gas Company Limited (SSGC)	Oil & Gas Marketing Companies	12.90	14.24	8.37	2.79
Nishat Chunian Power Limited (NCPL)	Power Generation & Distribution	30.78	33.44	12.70	1.97
K-Electric Limited (KEL)	Power Generation & Distribution	5.83	5.95	1.55	19.56
Maple Leaf Cement Factory Limited (MLCF)	Cements	40.61	43.30	19.00	6.18
Pak Suzuki Motor Company Limited (PSMC)	Automobile Assemblers	572.01	592.99	82.00	0.36
Engro Fertilizers Limited (EFERT)	Fertilizer & Chemicals	110.93	115.40	74.60	1.40
Nishat Mills Limited (NML)	Textile	82.80	86.24	49.00	1.23
Mughal Iron & Steel Industries Limited (MUGHAL)	Engineering	71.59	75.48	40.90	0.74
Pak Elektron Limited (PAEL)	Engineering	24.28	26.60	8.75	5.00
Ghani Glass Limited (GHGL)	Glass & Ceramics	30.61	36.60	23.15	0.60
Octopus Digital Limited (OCTOPUS)	Technology & Communication	47.49	55.25	34.14	0.43
Systems Limited (SYS)	Technology & Communication	447.60	520.55	388.50	0.43
Hum Network Limited (HUMNL)	Technology & Communication	7.60	8.55	5.25	3.62
Fauji Foods Limited (FFL)	Food & Personal Care Products	11.10	11.41	4.33	6.33

Source: Bloomberg, PSX, IGI Research

* Prices as at 18-Dec-2023

Recommendation Summary

Symbol	Target Price	Upside - Downside (%)	Recom.	Market Cap.	EPS			DPS			P/E			DY			P/B			ROE		
				PKRbn | USDbn	'23	'24	'25	'23	'24	'25	'23	'24	'25	'23	'24	'25	'23	'24	'25	'23	'24	'25
Automobile Assembler																						
INDU	1,556	22%	Buy	100.1 | 0.35	123.0	125.5	186.1	71.8	109.0	133.0	10.4	10.1	6.8	5.6	8.6	10.4	1.7	1.7	1.6	16.7	16.6	23.0
HCAR	243	15%	Buy	30.1 | 0.11	1.8	19.4	27.8	0.0	8.0	11.0	117.3	10.9	7.6	0.0	3.8	5.2	1.5	1.4	1.3	1.3	13.1	16.9
Cement																						
LUCK	1,120	40%	Buy	241.2 | 0.85	45.4	74.8	103.3	18.0	20.0	38.0	17.6	10.7	7.7	2.3	2.5	4.8	1.8	1.6	1.4	10.0	14.7	18.0
KOHC	306	40%	Buy	42.9 | 0.15	29.0	41.2	43.1	0.0	6.0	8.0	7.6	5.3	5.1	0.0	2.7	3.7	1.3	1.1	0.9	17.7	20.7	18.4
FCCL	33	66%	Buy	48.7 | 0.17	3.1	3.9	6.8	0.0	0.0	1.5	6.4	5.1	2.9	0.0	0.0	7.5	0.7	0.6	0.5	11.5	12.6	18.7
MLCF	58	42%	Buy	43.6 | 0.15	5.4	7.1	8.9	0.0	2.0	2.5	7.5	5.7	4.6	0.0	4.9	6.2	1.0	0.9	0.8	12.7	15.0	16.5
DGKC	96	18%	Buy	35.5 | 0.13	-8.3	10.4	17.6	0.0	0.0	4.0	NM	7.8	4.6	0.0	0.0	4.9	0.5	0.5	0.4	-5.3	6.2	9.7
CHCC	189	13%	Buy	32.6 | 0.11	22.7	29.7	41.2	4.5	5.5	7.5	7.4	5.6	4.1	2.7	3.3	4.5	1.6	1.3	1.0	21.1	22.6	24.9
PIOC	158	37%	Buy	26.2 | 0.09	11.5	16.9	27.7	0.0	0.0	0.0	10.0	6.8	4.2	0.0	0.0	0.0	0.6	0.6	0.5	6.4	8.7	12.4
Chemical																						
LCI	912	15%	Buy	73.2 | 0.26	191.1	86.8	113.1	43.0	40.0	50.0	4.1	9.1	7.0	5.4	5.1	6.3	1.7	1.6	1.4	41.4	17.1	19.8
EPCL	54	10%	Buy	44.5 | 0.16	6.6	8.6	10.6	5.5	6.0	7.5	7.4	5.7	4.6	11.2	12.3	15.3	1.6	1.5	1.4	22.0	26.4	29.7
Commercial Banks																						
MCB	253	36%	Buy	219.6 | 0.78	47.5	54.1	52.3	29.0	32.0	32.0	3.9	3.4	3.5	15.7	17.3	17.3	1.0	0.9	0.8	26.6	27.0	23.7
UBL	256	46%	Buy	214.9 | 0.76	45.9	56.6	51.0	42.0	43.0	40.0	3.8	3.1	3.4	23.9	24.5	22.8	1.0	0.9	0.9	26.3	30.1	25.6
HBL	154	25%	Buy	181.3 | 0.64	41.3	49.4	42.2	8.0	10.0	10.0	3.0	2.5	2.9	6.5	8.1	8.1	0.5	0.5	0.4	18.1	18.5	14.1
ABL	115	33%	Buy	99.3 | 0.35	33.1	39.4	34.0	11.0	13.0	12.0	2.6	2.2	2.6	12.7	15.0	13.8	0.6	0.5	0.5	24.7	24.6	18.7
BAHL	108	34%	Buy	89.3 | 0.32	35.7	38.3	36.2	13.5	15.5	14.5	2.3	2.1	2.2	16.8	19.3	18.0	0.7	0.6	0.5	32.9	28.5	22.9
BAFL	66	31%	Buy	79.6 | 0.28	22.5	26.6	24.3	6.0	7.3	6.5	2.2	1.9	2.1	11.9	14.4	12.9	0.6	0.5	0.4	28.1	26.8	20.8
FABL	50	52%	Buy	49.5 | 0.17	11.3	16.3	14.8	4.0	6.0	5.8	2.9	2.0	2.2	12.3	18.4	17.6	0.6	0.5	0.4	21.1	25.5	20.1
Engineering																						
ISL	88	13%	Buy	33.8 | 0.12	8.1	11.3	16.9	5.5	6.0	7.5	9.6	6.9	4.6	7.1	7.7	9.6	1.6	1.4	1.2	16.2	20.5	26.1
MUGHAL	83	16%	Buy	24 | 0.08	10.4	12.9	18.7	3.2	3.0	3.8	6.9	5.5	3.8	4.5	4.2	5.3	0.9	0.8	0.7	13.7	15.1	18.6
ASTL	28	7%	Neutral	7.8 | 0.03	-2.3	1.6	5.4	0.0	0.0	2.0	NM	16.2	4.8	0.0	0.0	7.6	0.5	0.5	0.5	-4.6	3.1	9.9
Fertilizer																						
FFC	149	26%	Buy	150.4 | 0.53	25.1	27.9	28.7	20.0	21.0	22.0	4.7	4.2	4.1	16.9	17.8	18.6	2.6	2.3	2.0	55.7	53.7	49.0
EFERT	118	6%	Neutral	148.1 | 0.52	16.4	17.7	18.3	17.5	20.0	21.0	6.8	6.3	6.1	15.8	18.0	18.9	3.4	3.6	4.0	49.7	57.7	65.2
FFBL	31	4%	Neutral	38.4 | 0.14	2.1	4.2	5.1	0.0	0.0	1.0	14.2	7.0	5.8	0.0	0.0	3.4	1.6	1.3	1.1	11.4	18.7	19.2
Glass & Ceramics																						
TGL	137	34%	Buy	17.7 | 0.06	14.6	18.6	21.2	6.0	6.0	7.0	7.0	5.5	4.8	5.9	5.9	6.8	1.2	1.0	0.9	16.4	18.3	18.3
Oil & Gas Exploration Companies																						
OGDC	175	41%	Buy	533.7 | 1.88	52.2	46.6	41.9	8.6	9.5	9.0	2.4	2.7	3.0	6.9	7.7	7.3	0.5	0.4	0.4	20.7	16.1	13.0
MARI	2,695	28%	Buy	281.1 | 0.99	420.7	563.9	581.4	147.0	250.0	290.0	5.0	3.7	3.6	7.0	11.9	13.8	1.7	1.4	1.2	33.3	36.7	31.8
PPL	148	20%	Buy	334.9 | 1.18	36.0	38.6	40.0	2.5	5.0	7.0	3.4	3.2	3.1	2.0	4.1	5.7	0.6	0.5	0.5	18.1	16.5	14.8
POL	558	24%	Buy	127.4 | 0.45	128.4	120.3	110.2	80.0	75.0	70.0	3.5	3.7	4.1	17.8	16.7	15.6	1.9	1.6	1.4	53.9	42.4	34.0
Oil & Gas Marketing Companies																						
PSO	265	32%	Buy	94.1 | 0.33	12.1	71.2	83.9	7.5	12.0	17.0	16.6	2.8	2.4	3.7	6.0	8.5	0.4	0.4	0.3	2.6	14.0	14.6
APL	427	7%	Neutral	49.6 | 0.18	100.2	92.7	84.0	27.5	55.0	60.0	4.0	4.3	4.7	6.9	13.8	15.1	1.1	1.0	0.9	27.6	23.2	19.8
Power Generation & Distribution																						
HUBC	162	35%	Buy	155.4 | 0.55	44.4	50.4	56.5	30.0	26.0	24.0	2.7	2.4	2.1	25.0	21.7	20.0	1.1	0.9	0.7	40.5	36.9	33.0
NCPL	28	-10%	Neutral	11.3 | 0.04	10.8	12.6	9.4	0.0	3.5	3.0	2.9	2.4	3.3	0.0	11.4	9.7	0.5	0.4	0.3	17.6	14.7	10.2
Textile Composite																						
ILP	93	34%	Buy	97.1 | 0.34	14.4	15.7	19.9	5.0	5.5	7.5	4.8	4.4	3.5	7.2	7.9	10.8	2.2	1.7	1.3	46.1	37.9	36.9

Source: PSX, Bloomberg, Company Financials, IGI Research, Prices as at 18-Dec-2023

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