Day Break

Tuesday, 26 January 2021

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Sector Update

IGI Coverage Companies EPS Estimates

	12/20 E	q/q	y/y
Banks	**39.1**	**-34%**	**1%**
HBL	5.5	-21%	20%
UBL	3.2	-15%	-17%
MCB	5.3	-35%	-18%
ABL	3.5	1%	-15%
NBP	2.1	-59%	-965%
BAFL	1.6	5%	-17%
BAHL	2.5	-52%	-32%
AKBL	2.0	-23%	-7%
FABL	0.7	-38%	-35%
HMB	1.7	-58%	10%
BOP	0.5	-38%	-35%
E&Ps	**43.7**	**-13%**	**-9%**
OGDC	4.7	-13%	-21%
POL	11.8	-8%	-27%
PPL	4.5	-15%	19%
MARI	57.5	-15%	5%
Power	**12.9**	**-12%**	**-3%**
HUBC	5.4	-5%	28%
KAPCO	6.2	-12%	-19%
NCPL	1.0	-60%	-63%
OMCs	**4.0**	**-39%**	**24%**
APL	7.5	-49%	2.1x
PSO	7.0	-36%	13%
Cements	**7.5**	**86%**	**6.1x**
ACPL	3.3	3.8x	11%
CHCC	2.5	55%	n.m.
DGKC	1.7	n.m.	29%
FCCL	0.7	37%	5x
KOHC	3.5	39%	n.m.
LUCK	9.5	38%	3.1x
MLCF	0.8	56%	n.m.
PIOC	1.0	n.m.	2.9x
Steel	**1.3**	**2x**	**n.m.**
ASTL	1.1	3x	n.m.
MUGHAL	2.6	84%	6.3x
ISL	2.3	82%	8.6x
Autos	**3.3**	**41%**	**2x**
HCAR	4.0	-12%	n.m.
INDU	31.0	33%	2.5x
PSMC	3.9	n.m.	n.m.
Chemicals	**2.9**	**53%**	**3.2x**
EPCL	3.1	53%	3.2x
Fertiliser	**12.7**	**-15%**	**70%**
EFERT	3.4	-35%	-28%
FFBL*	2.4	n.m.	n.m.
FFC	4.0	9%	9%

Source: Bloomberg, PSX & IGI Research,*actual

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Market

Dec–20 Qtr Earnings to Depict Double Digit Growth with Cyclicals Leading the Chart

- ✓ We review IGI coverage companies' earnings for Dec-20 end quarter. For period we expect a +11%y/y profitability following a 19%y/y decline in Jun-20 ending quarter.
- ✓ Excluding Banks and E&Ps, overall growth in profitability is expected to show a +5%y/y growth in quarter ending Dec-20 compared to a +11%y/y growth in quarter ending Sep-20.
- ✓ Sector wise, Cements, Chemical, Fertiliser and Automobile assembler will show a positive earnings growth owing to better volumetric growth, whereas Steel and E&P sector to post negative growth. We foresee flattish earning for Banks and Power sector.

Dec-20 earnings to depict a +11%y/y following a 19% decline in Jun-20 quarter

We review IGI coverage companies' earnings for Dec-20 end quarter. For period we expect a +11%y/y profitability following a 19%y/y decline in Jun-20 ending quarter. Excluding Banks and E&Ps, overall growth in profitability is expected to show a +5%y/y growth in quarter ending Dec-20 compared to a +11%y/y growth in quarter ending Sep-20. Sector wise, Cements, Chemical, Fertiliser and Automobile assembler will show a positive earnings growth owing to better volumetric growth.

Exhibit: EPS Preview for Dec-20 financial results
PKRbn

	12/20 E	09/20 A	q/q	12/19 A	y/y
Banks	39.1	59.3	-34%	38.8	1%
E&Ps	43.7	50.5	-13%	48.0	-9%
Power	12.9	14.6	-12%	13.2	-3%
OMCs	4.0	6.6	-39%	3.3	24%
Cements	7.5	4.0	86%	1.2	6.1x
Steel	1.3	0.7	2x	-0.1	n.m.
Autos	3.3	2.4	41%	1.7	2x
Chemicals	2.9	1.9	53%	0.9	3.2x
Fertiliser	12.7	15.0	-15%	7.5	70%

Commercial Banks

For our coverage banks, we expect overall profitability in 4q to grow by 1% y/y, led by reduced net interest

Exhibit: EPS Preview for Dec-20 financial results										
	EPS								DPS	
	12/20 E	09/20 A	q/q	12/19 A	y/y	2020e	2019a	y/y	4qe	2020e
Banks	**39.1**	**59.3**	**-34%**	**38.8**	**1%**	**190.9**	**140.3**	**36%**	**73.0**	**88.2**
HBL	5.5	6.9	-21%	4.6	20%	22.7	10.6	115%	9.8	11.0
UBL	3.2	3.8	-15%	3.9	-17%	16.4	15.6	5%	7.5	10.0
MCB	5.3	8.2	-35%	6.5	-18%	24.7	20.2	22%	15.0	20.0
ABL	3.5	3.5	1%	4.1	-15%	14.1	12.3	14%	6.0	8.0
NBP	2.1	5.1	-59%	-0.2	n.m.	14.4	7.4	94%	4.8	4.8
BAFL	1.6	1.5	5%	1.9	-17%	6.2	7.1	-12%	1.8	1.8
BAHL	2.5	5.3	-52%	3.7	-32%	14.4	10.0	43%	5.0	5.0
AKBL	2.0	2.5	-23%	2.1	-7%	8.4	5.6	51%	2.0	2.0
FABL	0.7	1.1	-38%	1.1	-35%	4.3	4.0	9%	0.0	0.0
HMB	1.7	4.0	-58%	1.5	10%	9.5	6.3	52%	1.5	3.5
BOP	0.5	0.8	-38%	0.8	-35%	2.7	3.2	-13%	0.8	0.8

- **Net Interest Income:** Overall banking sector deposit has risen by +22%y/y by Dec-20 with average sector deposit cost 4.9%. Mirroring the deposit trend, investments by banks is also up by +40% y/y taking Investment-to-Deposit ratio to ~65%. Loans growth has slowed down (ADR ~48% from ~56% last year) considerably due to weak demand and banks' conservative lending approach amid uncertainty on course of Covid19. As a result deposit and asset re-pricing benefit earlier taken in 2q will be less visible in 4q. Hence on a sequential basis, we expect net interest income for our coverage banks to contract.

- **Non-Interest Income and operating expenses:** During 2/3q both higher treasury income thanks to a robust dividend income and capital gains, along with stable fee income held up non-interest income relatively steady. However taking a conservative estimates on capital gains, and absence of major dividend income, we expect non-interest income to slow down during 4q. Moreover, fee income is expected to make up for the expected decline in treasury income during the qtr.

- **Provisions and Operating expenses:** We expect a reduction in overall loan provisions by during the 4q on a sequential basis, mainly as we see lower general provisioning charge, but will remain elevated on y/y basis. Major relief is expected on bank's opex, where we expect a sequential decline.

- **Earnings and Dividends:** Following a +66/64% y/y profitability growth in 2/3q 2020, we now expect overall growth to slowdown in 4q to 1%y/y. We estimate HBL and HMB to post y/y growth. Moreover, we expect cumulative payouts in HBL, UBL, MCB, and ABL due to earlier suspension of interim dividends directives by SBP.

Oil & Gas Exploration Companies

We expect IGI E&P Universe earnings to decline by 9%y/y to PKR 44bn during 2QFY21. Earnings are expected to plummet owing to 33%/y/y decline in oil price and drop in oil/gas (down by 8%/5%y/y) despite PKR depreciation. This brings total earning for 1hfy21e to PKR 94bn down by 7%y/y. On sequential basis earnings are estimated to decline by 13%q/q on the back on decline in oil/gas production and PKR appreciation of ~4%q/q.

Exhibit: EPS Preview for Dec-20 financial results

	EPS (PKR)								DPS (PKR)	
	2q'21e	**1q'21a**	**q/q**	**2q'20a**	**y/y**	**1h'21e**	**1h'20a**	**y/y**	**2q'21e**	**1h'21e**
E&Ps	**43.7**	**50.5**	**-13%**	**48.0**	**-9%**	**94.2**	**101.1**	**-7%**	**18.2**	**26.8**
OGDC	4.7	5.4	-13%	6.0	-21%	10.2	12.4	-18%	2.0	4.0
POL	11.8	12.8	-8%	16.1	-27%	24.6	30.2	-19%	20.0	20.0
PPL	4.5	5.3	-15%	3.8	19%	9.8	9.0	8%	1.3	1.3
MARI	57.5	68.0	-15%	54.6	5%	125.5	110.6	13%	4.1	4.1

- **Oil Prices**: Oil prices are down by 33%y/y while on sequential basis average oil prices remained flat. On y/y basis, oil prices are down owing to substantial drop in demand post Covid19 outbreak.

- **Oil & gas production:** Oil/gas production declined by 8%/5%y/y. Drop in oil production was primarily due to lower production from Nashpa and Tal block whereas gas production was down due to decline in flows from Sui, Kandhkot, Qadirpur and Uch.

- **Exploration Costs:** Exploration costs are likely to remain on the lower side due to lower seismic activity and only one dry well incurred during 2qfy21 compared to 5 in the same period last year. Dry well cost was incurred at Kohat block (OGDC'50% - MARI'33.3% stake) with an estimated cost of PKR 1.8-2bn.

- **Other income:** Other income is expected to remain on the lower side on the back of PKR appreciation which may result in marginal exchange losses for OGDC and PPL.

- **Profitability**: We estimated PPL and MARI to lead with earnings growth of 19%y/y and 5%y/y, whereas POL and OGDC are likely to post earnings decline of 27%y/y and 21%y/y respectively. PPL is likely to post healthy growth on the back hefty dry well cost book in 2qfy20.

- **Dividend**: We foresee OGDC to announce cash dividend of PKR 2.0/share taking total cash payout to PKR 4/share for 1hfy21. POL is expected to payout cash dividend of PKR 20/share, whereas MARI to payout PKR 4.1/share for 1hfy21. PPL is estimated to payout cash dividend of PKR 1.25/share for 21fy21.

Oil & Gas Marketing Companies

We expect IGI OMC Universe earnings to incline by +24%y/y to PKR 4.0bn during 2qfy21e. Earnings growth during 2qfy21e is primarily attributable to higher sales and absence of hefty inventory and exchange losses. On a sequential basis earnings are expected to drop by 39%q/q likely on the back of flattish volumes for PSO while sales for APL posted a decline during 2qfy21. This brings total profitability to PKR 10.7bn for 1hfy21 up by +33%y/y.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	2q'21e	1q'21a	q/q	2q'20a	y/y	1h'21e	1h'20a	y/y	2q'21e	1h'21e
OMCs	**4.0**	**6.6**	**-39%**	**3.3**	**24%**	**10.7**	**8.0**	**33%**	**1.0**	**1.0**
APL	7.5	14.9	-49%	3.6	111%	22.5	15.9	41%	10.0	10.0
PSO	7.0	11.0	-36%	6.2	13%	18.0	13.7	31%	0.0	0.0

- **Volumes:** PSO led the charts by posting +13%y/y growth in volumes whereas HASCOL and APL recorded 22%y/y and 3%y/y decline in total sales. PSO reported 21%/15%y/y incline in HSD/MS sales whereas APL witnessed 19%/11%y/y contraction in HSD/MS volumes.

- **Delays in margin increase:** OMC margins which were due for increase from Jul-20 have been delayed which is likely to keep OMC sector's profitability growth in check.

- **Profitability - PSO:** The Company is estimated to post earnings of PKR 7.0/share up by +13%y/y during 2qfy21 on the back of +13%Y/y rise in total volumes, lower finance cost and absence of hefty inventory loss. However, growth in earnings is likely to be restricted by 30% drop in profitability from LNG due to substantial drop in prices, lack of substantial inventory gains, lower FO prices and lower other income as we expect penal income to remain on the lower side. This bring PSO earnings for 1hfy21 to PKR 18/share up by +31%y/y.

- **Profitability - APL:** The Company is expected to post profitability of PKR 7.5/share up by +2.1xy/y during 2qfy21 on the back of +heavy inventory losses booked in the same period last year despite 3%y/y drop in volumes. However, FO volumes are up by +42%y/y which is likely to lift margins for APL. This takes APL profitability for 1hfy21 to PKR 22.5/share up by +41%y/y.

- **Dividend:** We foresee APL to payout cash dividend of PKR 10/share for 2qfy21 whereas PSO is likely to skip cash payout due to substantial rise in receivables from SNGP and power sector.

Cements

Earnings for our coverage companies are expected to post combined NPAT of PKR 7,448mn as against NPAT of PKR 1,225mn in the same period last year. Due to higher volumes and higher local and export prices, companies' such as DGKC and PIOC are likely to return to profits.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	2q'21e	1q'21a	q/q	2q'20a	y/y	1h'21e	1h'20a	y/y	2q'21e	1h'21e
Cements	**7.5**	**4.0**	**86%**	**1.2**	**511%**	**11.5**	**0.0**	n.m.	**0.0**	**0.0**
ACPL	3.3	0.9	n.m.	2.9	11%	4.1	5.6	-25%	0.0	0.0
CHCC	2.5	1.6	n.m.	-1.1	n.m.	4.1	-2.9	n.m.	0.0	0.0
DGKC	1.7	-0.8	n.m.	1.3	29%	0.9	-1.9	n.m.	0.0	0.0
FCCL	0.7	0.5	37%	0.1	405%	1.2	0.3	242%	0.0	0.0
KOHC	3.5	2.5	39%	0.0	n.m.	6.0	0.4	1246%	0.0	0.0
LUCK**	9.5	6.9	38%	3.0	212%	16.4	6.0	173%	0.0	0.0
MLCF*	0.8	0.5	56%	-0.7	n.m.	1.3	-1.6	n.m.	0.0	0.0
PIOC	1.0	-0.2	n.m.	0.3	194%	0.8	-0.5	n.m.	0.0	0.0

*Consolidated Earnings

** Consolidate earnings of PKR 15.80/sh for 2qfy21

- **Dispatches:** During 2qfy21, IGI cements are expected to record dispatches growth of 13% y/y to 12.8mn tons largely on the back of government backed pro-construction macro theme.
- **Gross margin**s: Increasing demand, combined with higher retention prices amid lower FED and Discounts resulted in a significant jump in company's gross margins. Wherein, LUCK is expected to lead with 32% gross margins led by enhanced volumes and higher prices followed by FCCL, MLCF, DGKC, KOHC, PIOC, CHCC, and ACPL. However, higher energy prices during the period marred potential margin accretion for the industry.
- **Finance cost**: During 2qfy21 finance cost are expected to decline by a material 25% y/y reflecting impact of substantial monetary policy rate cut.
- **Earnings& Dividends:** DGKC & PIOC is likely to return to profit from loss led by enhanced volumes, and higher retention.

Power

We expect IGI IPP Universe earnings to decline by 12%y/y to PKR 12.9bn during 2qfy21e. Decline in earnings is attributable to lower penal income for KAPCO and drop in earnings for NCPL owing to cessation of long term debt component in tariff from Jul-20. On sequential basis earnings are expected to drop by 12%q/q. This brings total profitability to PKR 27.5bn for 1hfy21e up by +10%y/y.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	2q'21e	1q'21a	q/q	2q'20a	y/y	1h'21e	1h'20a	y/y	2q'21e	1h'21e
Power	**12.9**	**14.6**	**-12%**	**13.2**	**-3%**	**27.5**	**24.9**	**10%**	**0.0**	**6.5**
HUBC	5.4	5.7	-5%	4.2	28%	11.2	8.5	31%	0.0	4.0
KAPCO	6.2	7.0	-12%	7.6	-19%	13.2	13.3	-1%	0.0	1.5
NCPL	1.0	2.6	-60%	2.8	-63%	3.7	5.7	-36%	0.0	0.0

- **Generation:** HUBCO's base plant remained shut whereas generation from Narowal remained low. Similarly for KAPCO, generation dropped substantially whereas not generation was recorded from Block-III. Generation for NCPL remained flat during 2qfy21.
- **Earnings:** We estimate HUBC to lead by posting earnings growth of +28%y/y likely due to loss booked on share transfer to Government of Balochistan during 2qfy20. KAPCO is likely to post earnings decline of 19%y/y likely on the back of lower other income. NCPL's earnings are foreseen to decline by 63%y/y likely owing to removal of debt repayment component in tariff after completion of 10 years. We don't expect any cash payout during 2qfy21.

Automobile Assemblers

For automobile assemblers INDU, PSMC and HCAR we anticipate, auto sector earnings increase by 2x y/y for Dec-20 ending qtr. The increase in earnings is mainly attributable to:

Exhibit: EPS Preview for Dec-20 financial results										
	EPS								DPS	
	2q'21e	1q'21a	q/q	2q'20a	y/y	1h'21e	1h'20a	y/y	2q'21e	1h'21e
Autos	**3.3**	**2.4**	**41%**	**1.7**	**101%**	**2.7**	**1.0**	**161%**	**1.2**	**2.1**
HCAR	4.0	4.6	-12%	-0.3	n.m.	5.1	5.0	2%	0.0	0.0
INDU	31.0	23.4	33%	12.5	148%	54.4	29.2	86%	15.0	27.0
PSMC	3.9	-1.7	n.m.	8.8	-56%	-27.8	-24.0	n.m.	0.0	0.0

- **Sales:** A +22% y/y increase in sales for 12m’21 on the back of improving economic situation spurred by decrease in interest rates kept consumer interest alive. Company wise, INDU sales came across with a massive increase of 93% y/y during the month, attaining 14.4k unit’s sales during the 3 month period. Likewise, for HCAR total sales up by 69% y/y to 6.2k units. However, PSMC sales on a bumpy track again, total sales for 4q2020 down by 3% y/y to 26k.

- **Gross margins**: Increasing demand, combined with stability in PKR and price hikes resulted in a significant jump in company’s gross margins. Wherein, INDU is expected to lead with 7% gross margins led my enhanced volumes, and higher prices followed by 6.3% HCAR & PSMC 5.5%.

- **Earnings & Dividend:** INDU is expected to post earnings of PKR 31.15/share up by 1.48x. In conjunction, with the result we expect INDU to announce an interim cash dividend of PKR 15.6/share. This increase is mainly attributable to massive increase in sales volume wherein, INDU managed to sell 14.4k units during the quarter. However, HCAR is expected to post earnings of PKR 4.05/share, while PSMC, after posting losses in 8 consecutive quarters, are all set to post an earnings of PKR 3.84/share taking full year LPS of PKR27.73/share.

Fertiliser/Chemicals

Earnings for our coverage fertiliser companies, FFC, FFBL & EFERT are expected to post combined NPAT of PKR 12.7bn (up by +70%y/y) mainly due to FFBL posting profit during last qtr.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	12/20 E	09/20 A	q/q	12/19 A	y/y	2020e	2019a	y/y	4qe	2020e
Fertiliser	**12.7**	**15.0**	**-15%**	**7.5**	**70%**	**27.7**	**13.9**	**99%**	**6.5**	**28.7**
EFERT	3.4	5.3	-35%	4.8	-28%	8.7	7.3	20%	2.0	11.0
FFBL*	2.4	2.6	-6%	-2.7	-188%	5.0	-3.1	-261%	0.0	0.0
FFC	4.0	3.6	9%	3.7	9%	7.6	6.5	18%	3.0	11.0

*FFBL Result Announced

- **Volumetric sales:** On a q/q basis Urea sales saw a +18% growth to 1.8mnTon (Dec-20: 881kTon) while, DAP saw a +4% increase to 800kTons during the 4q. This takes 2020 total estimated Urea sales close to 6.0mnTon (down by ~3%y/y) and 2.1mnTons (+~7%y/y) for DAP.

- **One-offs GIDC re-measurement gains**: Moreover we suspect high likelihood of one-offs re-measurement gains on account of GIDC payables. Using an 8.1% average discount rate, we calculate re-measurement gains of PKR 6.1/share for FFC and PKR 1.81/share for EFERT after tax.

- **Earnings & Dividends**: In our coverage companies, FFBL expected to outshine others due to better DAP margins and higher off-takes (increased by 35% y/y to 926k tons). However, FFC is expected to post an eps of PKR 4.0, whereas for EFERT we expect an eps of PKR 3.4. Along with the result we expect FFC and EFERT to announce cash dividend of PKR 3.0 & 2.0/share taking full year dividends to PKR 11/share respectively for both companies.

Engro Polymer & Chemicals Limited: For EPCL, we expect 4q we expect eps of PKR 3.1/share (up by 53%q/q) taking CY20 total eps to PKR 5.4/share. This is mainly due to the improved PVC margins during the 4qtr, USD ~630/ton. Along with the result we expect a cash dividend of PKR 2/share.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	12/20 E	09/20 A	q/q	12/19 A	y/y	2020e	2019a	y/y	4qe	2020e
Chemicals	**2.9**	**1.9**	**53%**	**0.9**	**224%**	**4.7**	**2.2**	**117%**	**1.8**	**1.8**
EPCL	3.1	2.1	53%	1.0	224%	5.2	2.4	117%	2.0	2.0

Steel/Engineering

For our coverage engineering sector companies, we expect overall profitability to increase by ~2x q/q led by higher demand, and higher prices.

Exhibit: EPS Preview for Dec-20 financial results

	EPS								DPS	
	2q'21e	1q'21a	q/q	2q'20a	y/y	1h'21e	1h'20a	y/y	2q'21e	1h'21e
Steel	**1.3**	**0.7**	**101%**	**-0.1**	**n.m.**	**2.0**	**0.2**	**13x**	**0.0**	**0.0**
ASTL	1.1	0.4	200%	-0.8	n.m.	1.5	-1.1	n.m.	0.0	0.0
MUGHAL	2.6	1.4	84%	0.4	534%	4.0	1.5	173%	0.0	0.0
ISL	2.3	1.3	82%	0.3	761%	3.6	1.1	238%	0.0	0.0

Gross margins: Increasing demand combined with higher selling prices resulted in a significant jump in company's gross margins. Wherein, in flat steel manufacturer ISL is expected to lead with double digit gross margins led by higher volumes and higher prices. On the other hand, long steel manufacturer MUGHAL and ASTL are all set to report higher gross margins in 2q2021.

Earnings and Dividends: With in flat steel manufacturer, ISL is expected to post earnings of PKR 2.34/share as against PKR 0.3 in the corresponding period last year. Whereas, the players of long steel manufacturers, ASTL and MUGHAL are all slated to report an earnings of PKR 1.1 (loss of PKR 0.8 in SPLY) and PKR 2.57 as compared to an earnings of PKR 0.41.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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