# Equity Outlook 2023

Monday, January 9, 2023

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Strategy

## Balancing On the Brink

**2022: Inflation, Monetary Policy, and Lower Growth:** 2022 has been a difficult year for investors due to rising global commodity prices and the start of the war in Ukraine, leading to high levels of global inflation Central banks have implemented tight monetary policy to combat inflation, but this has resulted in lowered global growth forecasts for 2023.

**Challenges for Investors in 2022:** In Pakistan too, inflation has significantly risen, prompting the State Bank of Pakistan (SBP) to raise interest rates by 9%. The September 2022 floods has further complicated economic issues. Political gridlock and a lack of consensus among political parties have made it difficult for the government to address these problems, resulting in negative market returns and a contraction of equity market valuations in 2022.

**2023 A Year of Greater Complexity:** In 2023, the challenges of 2022 are expected to persist and a successful negotiation with the IMF will be necessary to address them.

**Eyeing index target of 45,000:** For 2023, our target for the index is 45,000, which is slightly lower than the market consensus estimate of 47,000. This would represent a total return of approximately 17% from its current level of 40,000. 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 4.25, which is below its long-term historical average of 8.0x and its current ratio of 3.5x.

**Two halves of the market**: For market the story will be of two halves. First half investors concerned about the results of IMF negotiations and potential currency adjustments, which may impact inflation and key policy rates. At this time, there may also be more clarity on domestic politics. We recommend MCB and FFC during this period. Once adjustment are done, we recommend shift to cyclicals and growth-oriented sectors, preferably MARI, HUBC, FABL, and LUCK. In addition, resolution of circular debt could potentially make PSO, PPL and OGDC stocks attractive.

## Contents

## Global Economic Headwinds in 2022: Inflation, Monetary Policy, and Lower Growth

2022 has been a challenging year for investors. Rising global commodity prices and the start of the war in Ukraine have pushed global inflation to decade-high levels. As a result, central banks around the world have resorted to tightening monetary policy in an effort to reduce inflation. However, these aggressive hikes have resulted in lowered global growth forecasts for 2023.

Pakistan has not been an exception to the global race to tame inflation. Since September 2021, inflation has risen by nearly 15% in absolute terms, prompting the State Bank of Pakistan (SBP) to raise interest rates by nearly 9%.

### Navigating Economic Hurdles: High Debt, Current Account Deficit, and Fiscal Deficit in Pakistan

In addition, the September 2022 floods have created a host of complications in other areas of the economy, leading to a distressed financial position and an increased risk of default. Domestically, the fiscal deficit, which annually consumes around 7-8% of total GDP, is another area of concern. Tax revenues are falling short, squeezing public development expenditure.

### Challenges to Sustainable Growth: Political Gridlock and Tough Economic Choices

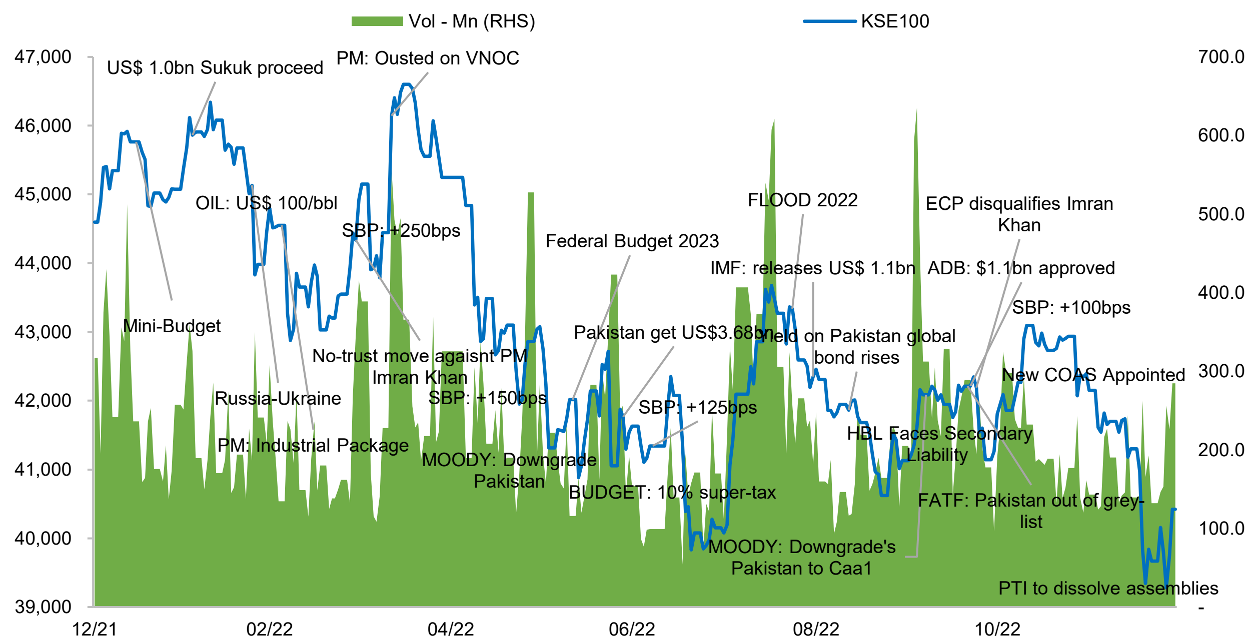
All of these factors are now raising questions about the country's long-term sustainability. To address these issues, tough decisions need to be made quickly. However, with an upcoming election and minimal consensus among political parties, the government appears hesitant to act.

# Market Review

## Navigating Uncertainty and Negative Returns: Challenges for Investors in 2022

This layer upon layer of uncertainty has not been well received by investors, as evidenced by the negative market returns of 9.4% (US$: -33%) in 2022 and the contraction of equity market valuations. Market participation has nearly halved, averaging around 230 million shares traded compared to 457 million shares traded last year. Valuations have hit rock bottom, with a P/E ratio of 3.5x, lower than levels seen during the 2007-08 crisis.

## Key Market Events During 2022



# 2023: A Year of Greater Complexity

In 2023, the challenges of 2022 will not be left behind, but rather will become even more pronounced. To turn things around, a successful negotiation with the IMF will be a necessary first step, followed by a readjustment of the currency and eventually domestic inflation and interest rates.

## The IMF: A Necessary but Complicated Solution

However, matters with the IMF have not been smooth sailing either. Decisions to increase tax revenues, reduce fiscal subsidies, and resolve structural issues such as the energy chain have been shaky in recent months. The government's lack of progress in implementing the IMF's proposed economic adjustments is understandable, as these economic recalibrations will take a toll on an already struggling economy and could result in a "super-hard landing".

## Inflation Outlook for 2023: Persistence or Retraction?

Headline inflation is still high, and it remains uncertain whether it will remain stubborn for an extended period in 2023. This is because the outcome depends on a multitude of factors, such as global commodity prices, domestic administrative price decisions, and exchange rate and policy rates.

## Inflation to stay persistent in First Half of 2023, but Relief May Come thereon

For our base case assumption, we expect inflation for fiscal year 2023 (Fy23) to average 24%, in line with the market consensus and the State Bank of Pakistan's (SBP) target range of 20-23%. Beyond 1HCY2023, inflation is likely to decline as the low base effect wears off and the impact of previous policy rate hikes comes into play.

**Exhibit: National CPI Heat Map**

| | 12/22 | 11/22 | 10/22 | 09/22 | 08/22 | 07/22 | 06/22 | 05/22 | 04/22 | 03/22 | 02/22 | 01/22 | 12/21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **General** | **24.5** | **23.8** | **26.6** | **23.2** | **27.3** | **24.9** | **21.3** | **13.8** | **13.4** | **12.7** | **12.2** | **13.0** | **12.3** |
| Food | 35.5 | 31.2 | 36.3 | 31.7 | 29.5 | 28.8 | 25.9 | 17.3 | 17.0 | 15.3 | 14.7 | 12.8 | 10.3 |
| Transport | 41.2 | 44.2 | 53.4 | 64.5 | 63.1 | 64.7 | 62.2 | 31.8 | 28.3 | 26.2 | 25.0 | 23.0 | 24.1 |
| Utility/Rent | 6.9 | 9.9 | 11.9 | 3.4 | 27.6 | 21.8 | 13.5 | 5.8 | 7.1 | 8.3 | 9.0 | 15.5 | 16.6 |
| Essentials | 14.4 | 15.1 | 14.7 | 13.7 | 13.4 | 11.7 | 11.2 | 9.9 | 9.3 | 8.7 | 7.7 | 8.2 | 8.1 |
| Disc. | 28.6 | 27.2 | 27.2 | 26.1 | 23.6 | 20.8 | 18.7 | 14.7 | 13.2 | 12.7 | 11.8 | 11.2 | 11.0 |

## Lack of Fiscal Support could potentially entrench Inflation

However, the steepness of the inflation downturn cycle depends on how well the government can delay utility price hikes is contingent on how well the government can extend its fiscal support and sustain pressure from IMF, which at current seems a far-fetch hope. Under IMF program there is an added pressure to revise up gas tariff, increase Petroleum Development Levy (PDL), and sales tax on petroleum prices, to make up for the tax revenue. This lack of fiscal support could potentially make inflation more persistent and entrenched.

### SBP Changing course: Focuses on Core Inflation as Rising Inflation Emerges as a Challenge

Rising inflation will make rate increase more imminent, albeit this time around tightening won't be as sharp. The State Bank of Pakistan (SBP) has shifted its policy language from targeting headline inflation to targeting core inflation. Targeting core inflation aligns well with the SBP's dual objectives of growth and inflation, as it filters out the volatile and unpredictable components such as food and energy.

### SBP Can Adopt a More Hawkish Stance and Increase Their Rhetoric on Inflation

Even focusing on core inflation, we still think there is room for another 100-200 basis points, taking the current policy rate to 17-18%. This is mainly because we expect to see second round effects of persistently high inflation, pass-through of oil prices, and expected increases in electricity and gas tariffs eventually seeping into the core price index.

### Growth Expected To Remain Weak In 2023

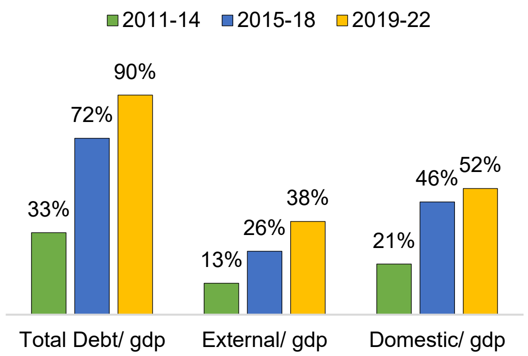
These tighter monetary and restrictive fiscal policy will certainly weigh on country's growth. But, growth was already expected to slow down in 2023, from initial forecast of a 4-5% growth rate from ~6.0% in 2022. Floods in July-September (report) has further derailed the growth, causing SBP to revise down its growth forecast down to 2%, significantly lower than the previous estimate of 3-4%.

### Lower than market consensus

Our growth estimates differ and are slightly below 2%. The main reasons for this are: a) slowing economic growth in major markets such as the UK, EU, and USA, which together account for nearly 45% of exports and remittances, will lead to a decrease in local demand; b) tighter monetary and fiscal policies, along with rising prices, will reduce liquidity; c) recent floods have caused damages of approximately $14bn, and d) poor performance in the agricultural sector is expected to affect the manufacturing and services sectors.

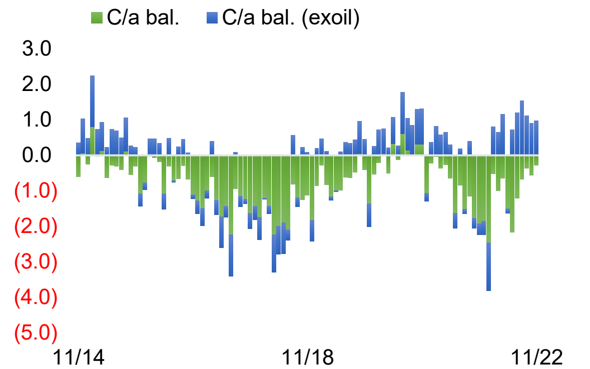
### Exhibit: Pakistan Debt / gdp

Pakistan debt to gdp has risen sharply since 2015, to now ~90%; with external 38% and domestic debt accounting for 52% of gdp.



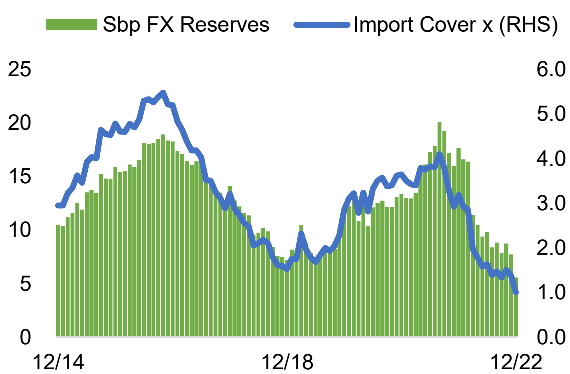

### Exhibit: Current Account Balance

Major current imbalances during 2021 and 2022 is created due to oil prices.



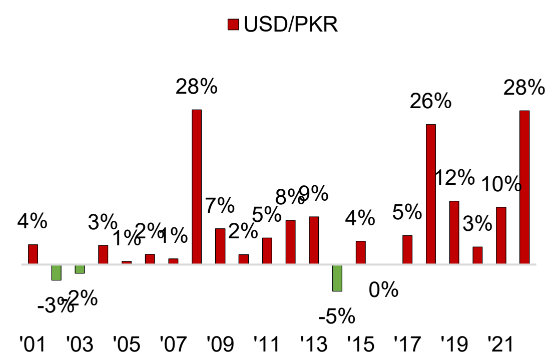

### Exhibit: SBP Foreign Exchange (FX) reserves and Import coverage

SBP FX reserves declined to a multi-year low US$ 5.8bn, leaving close to a month of import cover.



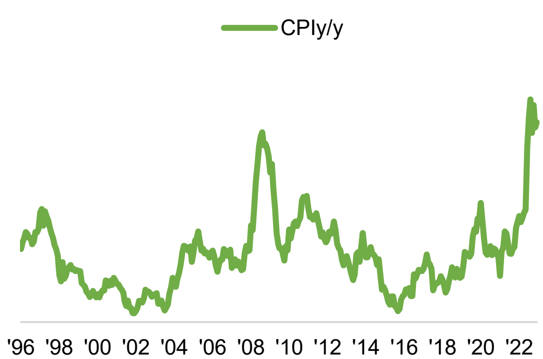

### Exhibit: PKR had one of the roughest year

PKR depreciated by almost 28% during the year, similar to 2008.



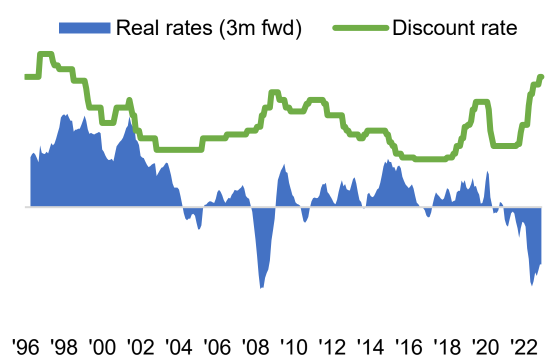

### Exhibit: Pakistan CPI Historical

(BASE=2015-16) Headline Inflation Pakistan hit close to an all-time high in Oc-22 (27%y/y).




### Exhibit: Policy rate

Policy rates are at all-time high level, but despite this, higher inflation is keeping real-rates in negative territory.



# Key macroeconomic forecasts

| Exhibit: Pakistan key economic forecasts | | 2020a | 2021a | 2022a | 2023f | 2024f | 2025f |
|---|---|---|---|---|---|---|---|
| **Real Sector** | | | | | | | |
| GDP (growth rate) | % | -0.9% | 5.7% | 6.0% | 1.8% | 3.3% | 4.6% |
| GDP (in US$) | US$bn | 300.8 | 348.7 | 377.3 | 368.8 | 379.3 | 418.6 |
| GDP per Capita | US$ | 1,365.0 | 1,551.2 | 1,738.7 | 1,666.2 | 1,679.9 | 1,817.1 |
| **Prices and Policy Rate** | | | | | | | |
| CPI (National) | %y/y | 11% | 9% | 12% | 25% | 15% | 12% |
| Policy Rate (Target) | % | 12% | 7% | 10% | 18% | 15% | 12% |
| **External Accounts** | | | | | | | |
| Current Account Balance | US$bn | (4.4) | (2.8) | (17.4) | (10.1) | (8.5) | (7.3) |
| Exports (G) | US$bn | 22.5 | 25.6 | 32.5 | 30.4 | 32.2 | 35.5 |
| Imports (G) | US$bn | 43.6 | 54.3 | 72.2 | 59.9 | 64.1 | 69.1 |
| Trade Balance | US$bn | (21.1) | (28.6) | (39.7) | (29.5) | (31.9) | (33.5) |
| Remittances | US$bn | 23.1 | 29.5 | 31.3 | 28.8 | 29.6 | 31.1 |
| Curr. Acc Bal. / GDP | % | -1% | -1% | -5% | -3% | -2% | -2% |
| Trade Balance / GDP | % | -7% | -8% | -11% | -8% | -8% | -8% |
| Total: Import Cover | x | 4.3 | 5.4 | 4.0 | 3.0 | 3.3 | 3.5 |
| Fx Reserves | US$bn | 18.9 | 24.4 | 15.5 | 15.0 | 17.4 | 20.2 |
| USD (avg.) | | 158.0 | 160.0 | 177.5 | 230.0 | 265.0 | 280.0 |
| **Fiscal Accounts** | | | | | | | |
| Total Revenue | %age of GDP | 13% | 12% | 12% | 11% | 11% | 12% |
| Current Expenditure | %age of GDP | 18% | 16% | 17% | 13% | 12% | 12% |
| Budget Deficit | %age of GDP | -7% | -6% | -8% | -7% | -6% | -6% |

Source: SBP, PBS, IGI Research

**Exhibit: Global growth outlook (IMF)**

Hard-landing for global economies, mainly advanced countries. However, growth will remain flattish for emerging and developing countries. (IMF WEO Nov-22)

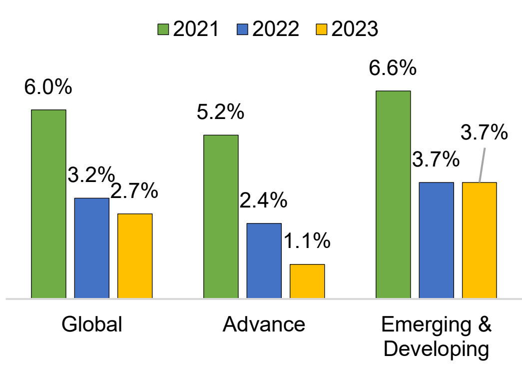
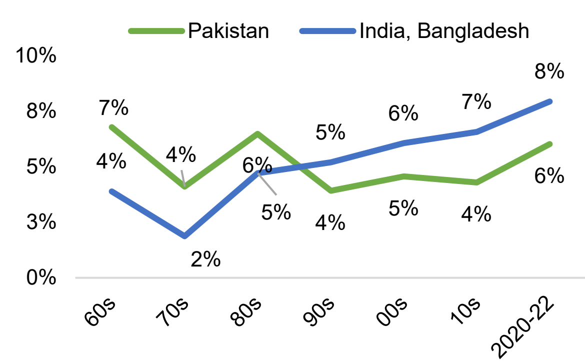



**Exhibit: Pakistan Decades of Growth**

Pakistan economic growth has lagged its peer regional economies, Bangladesh and India consistently since the 90's.



# Key Risks and Catalysts

## Domestic Politics: Too cloudy

Domestic politics has been highly tumultuous in 2022 and is expected to continue in 2023, which is an election year. The current coalition government, led by PML-N, is facing challenges due to its poor economic performance following the ousting of former Prime Minister Imran Khan and his party, PTI, through a vote of no confidence. Talks of possible formation of technocratic government to take up corrective economic measures for a short period of time, has already gather an uproar from opposition party.

## IMF: Mending US-Pakistan Relations Have the Potential for a Soft Negotiations

On the better part of the picture is Pakistan relations with US are finally on the mending evident from the series of diplomatic interactions, visits and meetings. This narrowing relation gap between the USA and Pakistan, can be impactful for a softer approach in negotiations with IMF over release of remaining tranches of US$ 6.0bn Extended Fund Facility (EFF) taken back in 2018. To meet the IMF's demands, a "mini-budget" is also on the government’s agenda. This includes several front-loaded inflationary measures such as increasing taxes on various consumer products and removing tax exemptions. The privatization of state-owned enterprises (PSEs) is also under consideration to help fill the significant fiscal gap, but remains in the hanging for now.

**Exhibit: Timeline of Pakistan and IMF reviews under US$ 6.0bn EFF**

| Date | Comments |
|---|---|
| 3-Jul-19 | IMF Approves US$6 billion 39-Month EFF Arrangement |
| 8-Nov-19 | 1st Review Staff-Level Agreement |
| 19-Dec-19 | 1st Review Concludes |
| 27-Feb-20 | 2nd Review Staff-Level Agreement |
| 16-Apr-20 | US$ 1.386bn Disbursement to Pakistan to Address the COVID-19 Pandemic |
| 16-Feb-21 | 2nd, 3rd, 4th and 5th Review Staff-Level Agreement |
| 24-Mar-21 | 2nd, 3rd, 4th and 5th Review Concludes |
| 21-Nov-21 | 6th Review Staff-Level Agreement |
| 2-Feb-22 | 6th Review Concludes |
| 13-Jul-22 | 7th and 8th Reviews Staff-Level Agreement |
| 29-Aug-22 | 7th and 8th Reviews Concludes; Pakistan Receives US$ 1.1bn |
| 18-Nov-22 | 9th review (on-going) |

Source: IMF, IGI Research

## With IMF in picture Pakistan will have no difficulty meeting its financing needs

Successful negotiations with IMF, is deemed important given Pakistan will be repaying roughly US$ 22bn in form debt repayment during 2023. Lack of FX reserves (US$ 6.0bn by Dec-22) and absence of IMF program has led to market participants anticipating a Pakistan to likely default on its external debt. However, the State Bank of Pakistan and the Finance Minister, Mr. Ishaq Dar, have repeatedly refuted such claims and to which we tend to agree. Below table as per IMF highlights Pakistan financing needs in coming years, which suggests Pakistan will be able to meet its financial obligations.

We note,

a) Reduction in C/a deficit will alone generate a saving of US$ 8.2bn, while expected rollover of external ST Debt will create a space of US$ 12.8bn. This two factors combine will cover up nearly 100% of the loan repayments

b) While floods did complicated the situation, flood related financial assistance estimated at US$ 850mn for 2023 will giver additional breathing space

c) Including IMF US$ 3.8bn reserves total FX Reserve size will be comfortably at US$ 15-16bn

d) d) Recent negotiations with Russia on discount oil facility and Saudi Arabia for extension of US$ 3.0 deferred oil payments along with investment loans of US$ 4.0-4.5bn will improve US$ liquidity

**Exhibit: Pakistan Gross Financing Need**

| In US$bn | 2019A | 2020A | 2021A | 2022A | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|
| **Financing Requirements** | **25.6** | **23.4** | **21.6** | **34.3** | **30.8** | **36.6** | **35.7** |
| Current Account Deficit | 13.4 | 4.4 | 1.9 | 17.5 | 9.3 | 10.0 | 10.6 |
| Loan Repayments | 12.1 | 19.0 | 19.6 | 16.9 | 21.5 | 26.7 | 25.1 |
| -- Public + Private | 11.7 | 18.2 | 18.6 | 15.9 | 20.5 | 25.0 | 23.6 |
| -- IMF | 0.4 | 0.7 | 1.1 | 1.0 | 1.0 | 1.7 | 1.6 |
| **Available Financing** | **21.1** | **25.5** | **26.2** | **25.8** | **33.3** | **37.8** | **37.4** |
| FDI | 1.4 | 2.7 | 1.8 | 2.5 | 2.2 | 2.8 | 4.6 |
| Disbursements (ex-rollover) | 11.4 | 10.2 | 15.4 | 11.4 | 18.3 | 22.0 | 19.2 |
| Rollover | 8.2 | 12.6 | 8.9 | 11.8 | 12.8 | 13.1 | 13.6 |
| | | | | | | | |
| **Net Financing Need** | **4.4** | **(2.1)** | **(4.6)** | **8.5** | **(2.6)** | **(1.2)** | **(1.7)** |
| IMF Borrowing | - | 2.8 | 0.5 | 1.1 | 3.8 | - | - |
| | | | | | | | |
| FX Reserves (Add. / Del.) | | 4.9 | 5.1 | (7.5) | 6.4 | 1.2 | 1.7 |
| **FX Reserves (End)** | **7.3** | **12.2** | **17.3** | **9.8** | **16.3** | **17.5** | **19.2** |

Source: IMF, IGI Research

## Resolution of circular debt

Apart from this, structural adjustments particularly in energy sector is also under consideration. So far country's circular debt arrears has been accumulated to PKR 4.18trillion or roughly ~6% of gdp. Rationalization of gas and electricity tariffs along with balloon payment to clear the outstanding debt amount is also in the offing.

## Commodity Prices: The good Omen?

The increase in global commodity prices at the beginning of 2022 was particularly notable. The S&P GSCI Energy Index, which tracks the prices of key energy commodities, rose 68% from the start of 2022 through June 2022. However, the energy price index has corrected itself by 33% since June. If this correction continues, it could significantly improve current economic condition.

**Exhibit: Global Energy Index**

After touching a high in Jun-22, S&P GSCI Energy index has corrected nearly 33% by 2022 end. (S&P Index)

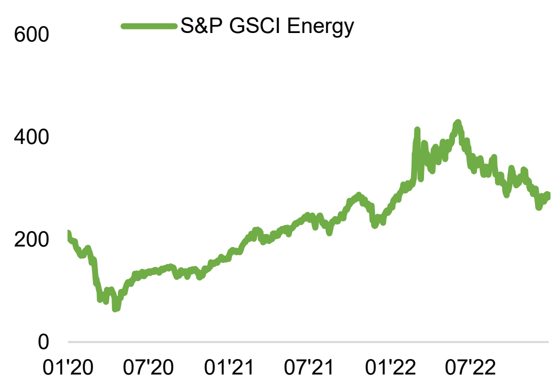
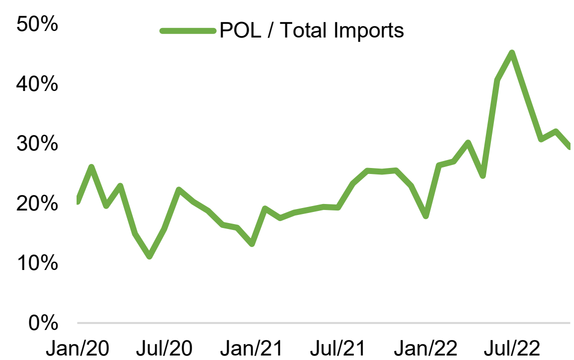



**Exhibit: Pakistan Petroleum imports as a percentage of total import bill**

Petroleum imports accounted for nearly 45% of the total import back in Jun-22. However, with global prices coming down, Petroleum imports now account for 30% of total import bill.



# Market Outlook

Building upon, 2022 economic and market background, we look at three factors;

### Corporate earnings: Profitability to Remain under Pressure…

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 807bn up by 8%y/y. However, upon closer examination, excluding oil & gas and banking, core manufacturing sectors, have struggled to maintain their footing posting a 17% decline during the 9mCy22.

| Exhibit: KSE100 Profitability | | | |
|---|---|---|---|
| In PKRbn | 9mCY22 | 9mCY21 | y/y |
| Oil & Gas | 319.9 | 213.6 | 50% |
| Banks & Financials | 211.7 | 201.3 | 5% |
| **Total** | **531.6** | **415.0** | **28%** |
| Other | 275.5 | 332.1 | -17% |
| **KSE100** | **807.1** | **747.0** | **8%** |

Source: PSX, IGI Research

### …Amid Elevated Cost and Slowing Demand

It seems unlikely that the situation will improve for these sectors in 2023, as gross profit margins are expected to shrink due to slowing demand, rising material costs, and higher financial costs for companies that borrowed heavily during the period of low interest rates. As a result, we can expect weak corporate earnings and overall sales in the manufacturing sector.

**Exhibit: KSE 100 Profitability**

Profitability in sectors other than banks and exploration and production companies has suffered significantly.

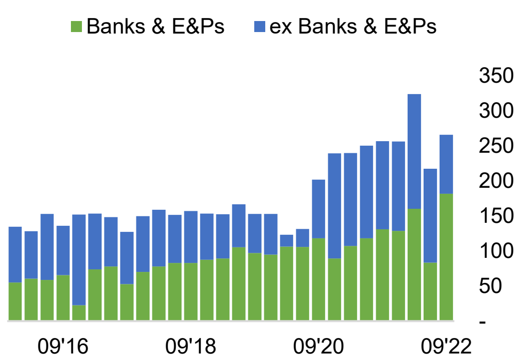
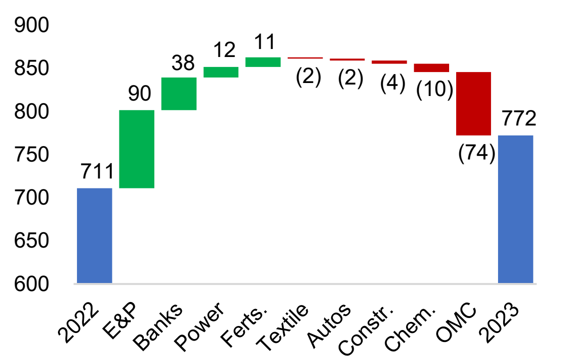



**Exhibit: 2023 sector-wise earnings forecast**

***(IGI Coverage companies only)**

In 2023, earnings are expected to grow by 8% year-over-year. This growth is primarily expected to come from exploration and production companies and banks, while oil marketing companies and the chemical sector are likely to see a slowdown.



## Market liquidity: Drying up fast; pinning hopes on local players

In 2022, the market experienced a foreign pullout similar to global equity drawdowns, leading to net selling of around $48 million. The technology sector (TRG) attracted nearly $77 million in foreign investment, while the banking sector (MCB, HBL, and BAFL) saw a net sell of $127 million. This void was largely filled by local banks and retail/individual investors, who invested roughly a total of $270 million. Looking ahead to 2023, we are pinning our hopes on local individuals, banks, and mutual funds for market liquidity. Despite attractive market valuations, we are less optimistic about foreign investment.

## The Discount: Market Valuation

The market price-to-earnings ratio has almost corrected by 23% to 3.5x compared to the index. This is the lowest sustained markings we have seen, even compared to the 2007-08 period. At current market earnings, there is a ~27% yield compared to a 10-year bond offering 15%, which creates a spread of 12%. This is much higher than the 15-year historic average of 2%. While the market does appear to be in a deep discount territory, lower multiples are somewhat justified due to thinning volumes, the adjustment to rate hikes, circular debt, and a weak investor outlook for the macro economy.

## Circular debt resolution

One event that could lead to a re-rating of the market is the resolution of the circular debt in gas (PKR 1.4trillion by Dec-22). The IMF has also repeatedly called in Pakistan authorities for rationalization of gas tariffs, a circular debt management plan, and the clearing of gas circular debt arrears.

If resolved, we may see multiple re-rating in index heavy stocks, OGDC, PSO and PPL trading at below or close to P/E of 3.5x (discussed under PPL).

**Exhibit: Pakistan Market P/E (KSE100)**

Market P/E corrected by almost 23% to touch a low of 3.5x, which is even below 2007-08 period and to its historic average of 8.0x.

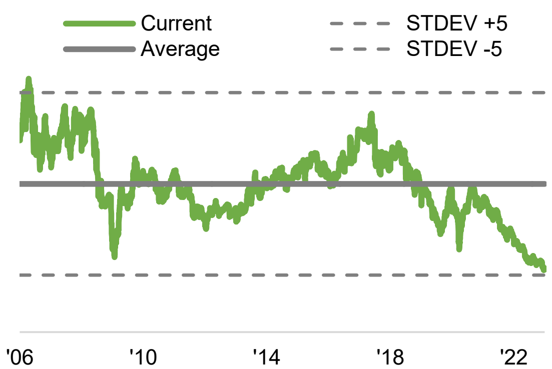



**Exhibit: Spread between market earnings and long-term 10year bond yield**

Spread between market earnings yield and LT bond (10yr) has widened up significantly to 26%, compared to a historic average of 2%.

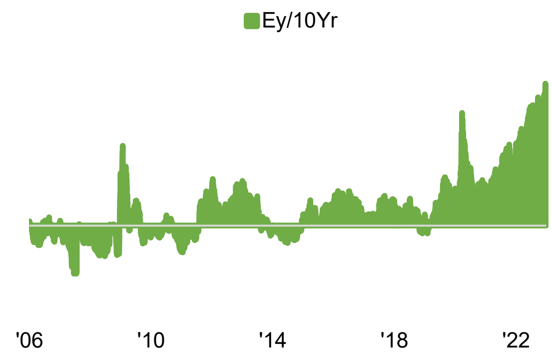



**Exhibit: Market Volumes (in million shares)**

Daily market volumes shrink to 275mn almost half of last year, with 4th quarter experiencing a major squeeze.

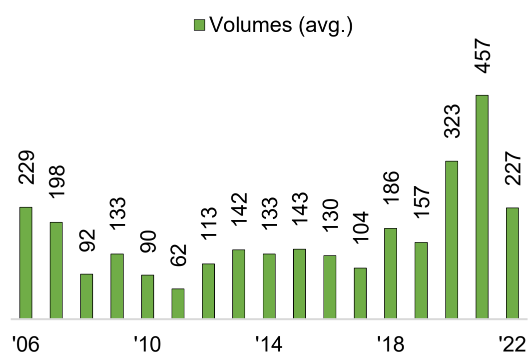



**Exhibit: Foreign portfolio investments**

Foreign investors remain a net seller, while quantum reduced to US$ 48mn compared to previous year US$ 360mn and US$ 571mn in 2020.

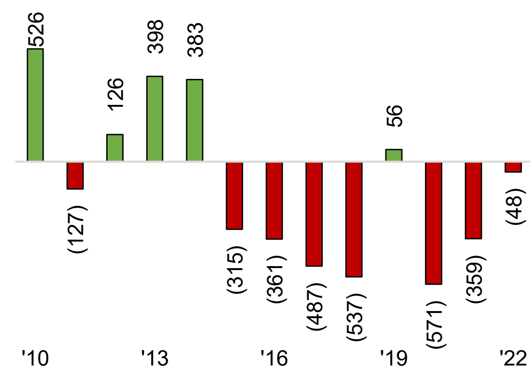



**Exhibit: Foreign holding of Pakistan Equity as percentage of Market Capitalisation**

Pakistan seems to offer superior dividend yields at significantly low P/E compared to regional and other markets

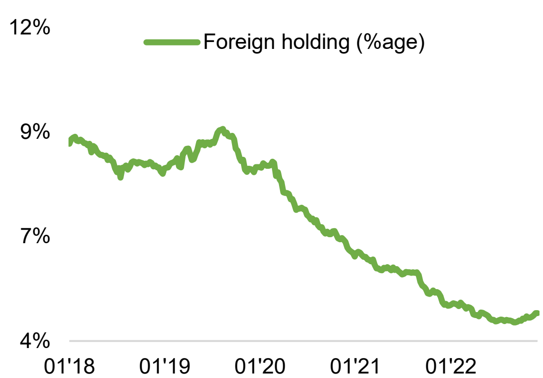
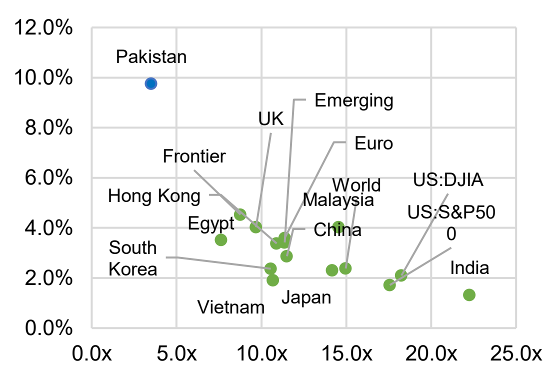



**Exhibit: Pakistan market P/E and dividend yield to regional and global markets**

Pakistan seems to offer superior dividend yields at significantly low P/E compared to regional and other markets



## Market Strategy: Two Halves of 2023

For 2023, we think market performance can be divided into two halves.

### Stable, Low-Leverage Companies during Adjustment Phase

Investors will initially be concerned about the outcomes of International Monetary Fund (IMF) negotiations and the potential currency adjustments that may follow. This may also be decisive on prolonged period of inflation and changes in key policy rates maybe. At the same time, there may be some clarity on domestic politics. During this period, we believe that companies with stable, if not rising, earnings, low leverage, high cash, and a positive correlation to changes in interest rates and currency devaluation will perform well. Our preferences for this period include stocks such as MCB, and FFC.

### Shift to Cyclicals and Growth-Oriented Sectors Once Adjustments are completed

Once negotiations with the IMF and currency adjustments are completed, the fear of further rate tightening is likely to dissipate. At this time, we would recommend investing in sectors that are sensitive to changes in interest rates and have a focus on growth. We prefer MARI, HUBC, FABL, and LUCK. In addition, resolution of circular debt could potentially make PSO, PPL and OGDC stocks attractive.

| KSE 100 index target | Market P/E | Dividend Yield | Total Return |
|---|---|---|---|
| **45,000** | **4.25x** | **6%** | **~17%** |

## Index

### Base case: Index target of 45,000; offering a total return of +17%

For 2023, we eye an index target of 45k which is slightly below market consensus index target of 47k, generating a total return of ~17% from its current index level of 40k. 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 4.25x which below its LT historic average 8.0x and current 3.5x.

| **Market P/E and Index Target** | | | |
|---|---|---|---|
| **Case** | **P/E** | **Index Target** | **Total Return** |
| Bear | 3.75 | 38,000 | 0% |
| Base | 4.25 | 45,000 | 17% |
| Bull | 5.00 | 47,000 | 21% |

**Exhibit: Sensitivity to earnings growth**

| Price-to-Earnings (P/E) | Earnings Growth | | | | |
|---|---|---|---|---|---|
| | -20.0% | -10.0% | **0.0%** | 10.0% | 20.0% |
| 3.75x | 32,000 | 36,000 | 40,000 | 44,000 | 48,000 |
| 4.00x | 34,000 | 38,000 | 43,000 | 47,000 | 51,000 |
| **4.25x** | 36,000 | 41,000 | 45,000 | 50,000 | 55,000 |
| 4.50x | 38,000 | 43,000 | 48,000 | 53,000 | 58,000 |
| 4.75x | 41,000 | 46,000 | 51,000 | 56,000 | 61,000 |
| 5.00x | 43,000 | 48,000 | 53,000 | 59,000 | 64,000 |

### Bull case: 47,000 – upside 21%

For our bull case we have factored lower than expected inflation, amid decline in international commodity prices and subsequent early start of rate easing cycle. 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, successful and timely IMF reviews, and continued financial support from uni/bi-lateral funding will continue to support external accounts and thus FX reserve build-up, which will instil confidence in both local and foreign investors. If materialized, this could stretch market multiple above 5.0x, implying a target index of 47,000.

## Bear case: 38,000 – flat return

For our bear case, we factored in higher and persistent inflation leading to aggressive monetary tightening and postponements in regulatory and structural adjustments on energy circular debt, imports and subsequently de-railing IMF program. Our implied market multiple comes at 3.75x giving an index target of 38,000.

## Sector Outlook and Preferred Stocks

| Sector | Stance | Comments | Picks |
|---|---|---|---|
| Banks | Over-weight | Sector tailwinds, are likely to get additional boost from rate hikes, which should help further confirm robust earnings. However, despite a strong outlook sector stock performance has been marred, primarily as key regulatory risks looms, including TSA, IFRS9, super tax and minimum ADR maintenance tax. Moreover, higher formation of NPLs amid economic slowdown is also a concern. At present, we believe that banks have sufficient capital reserves to mitigate these regulatory risks to some extent. | MCB, FABL |
| E&Ps | Over-weight | In the short term, elevated oil prices, depreciation of the PKR, and a modest increase in production are expected to drive earnings growth. The settlement of dues by the Government of Pakistan could also serve as a catalyst. | MARI, PPL |
| Power | Market-weight | Power sector has been marred by circular debt for long. The Government cleared outstanding payments of IPPs under Power Policy 1994 and 2022 during 2022 which helped improved cash position of the sector. However, this came at the expense of reduced tariff which will dent profitability going forward. Moreover, Government hiked power tariff by PKR 7.9/kwh during 2022, and with further hike expected, it will further strengthen cash position of IPP sector. We maintain HUBC as our top pick owing to addition of coal plants and further diversification projects under consideration. | HUBC |
| OMCs | Market-weight | Elevated POL prices alongside slowdown in economic activity has already taken a toll on POL volumes. In 2023, while international oil prices have decreased, higher taxes and levies under the IMF program will keep domestic POL prices elevated. Additionally, demand may decline further due to a slowdown in the automobile industry. Therefore, we expect volumes to continue to decline in 2023 before recovering in 2024. The key catalysts for sector include the resolution of circular debt and higher margins for oil marketing companies (OMCs). | PSO |
| Cement | Market-weight | Reduced construction and infrastructure projects by the government and private sector will keep sector volumes subdued. A correction in coal prices is likely to support earnings. | LUCK |
| Engineering | Market-weight | Similar to cements, we expect sluggish demand outlook for steel manufacturers (rebar). Additionally, high levels of debt and energy costs are expected to put pressure on net margins. | |
| Glass | Market-weight | Under coverage company, TGL demand for float and table ware both are affected due to reduced construction activity and economic demand. | |
| Autos | Market-weight | Looking into 2023, economic slowdown will weigh on sector sales. Most of the automobile manufactures have shut down temporarily their production. | |
| Fertilizers & Chemicals | Market-weight | Under fertiliser sector we have liking for FFC mainly due to stable urea prices, demand recovery post-flood and dividend income. Reduce chemical margins along with hit on construction sector will impact sector earnings. | FFC |

Cement

# Lucky Cement Ltd. (LUCK)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| EPS | 43.5 | 47.3 | 45.1 | 43.6 |
| DPS | 0.0 | 0.0 | 0.0 | 8.5 |
| BVS | 350.1 | 397.5 | 442.6 | 482.4 |
| ROE | 12.4 | 11.9 | 10.2 | 9.0 |
| P/E | 10.3x | 9.4x | 9.9x | 10.2x |
| DY | 0.0 | 0.0 | 0.0 | 1.9 |
| P/B | 1.3x | 1.1x | 1.0x | 0.9x |

Target Price: PKR 730/share; Upside: 63.5%, 2023: DY: 0%, P/E: 9.9x
Market Price: PKR 446.6
52 weeks: 407 — 705
Return (1year): -35%
Outstanding Shares: 0.32bn (FF%: 35%)
Market Cap.: PKR 144bn, US$ 636mn
Exchange: KSE100, KSEALL, KMI
Company Financial Year end: Jun

## Investment case

- **Cement sector; stuck in rut:** Amid expansion cycle rising costs, and slowdown in demand cement sector has been stuck in bit of rut. LUCK, one of the largest cement companies with operations in both the north and south regions, had a rough start to FY23 (1QFy23, volumes by ~27%y/y). However, given LUCK efficient power mix, it has been able to absorb higher energy cost pressures during Fy22, keeping margins steady. For Fy23 and onwards, additional investments in WHR and Solar plants will work well for its upcoming brownfield expansion of 3.15mnt plant in north.
- **Diversified income to act as counter:** LUCK over the period has diversified itself into multiple of segments of economy, including automobile (Lucky Motors), Chemicals (ICI), international cement projects (Congo, Iraq), Mobile (Samsung) and Power (Lucky Electric, Yunus Energy). This diversification has allowed LUCK to weather challenges in its core cement business. The outlook for the automobile and mobile phone businesses is facing stiff economic challenges, similarly, is true for its chemical division. However, we think company will be able to generate positive cash flows (PKR 32/share eps contribution in FY24) via its 660mw coal power project, LEPCL which achieved cod back in Mar-22.

## Recommendation

Using sotp valuation, our Dec-23 target price for LUCK comes at PKR 730/share offering 64% upside. The company is sitting on a pile of cash & cash equivalents, adding nearly PKR 83/share to our value.

Commercial Banks

# MCB Bank Ltd. (MCB)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| EPS | 23.9 | 24.3 | 29.3 | 33.3 |
| DPS | 19.0 | 19.0 | 23.0 | 26.0 |
| BVS | 162.7 | 157.9 | 165.8 | 174.7 |
| ROE | 14.7 | 15.4 | 17.6 | 19.0 |
| P/E | 4.9x | 4.8x | 4.0x | 3.5x |
| DY | 16.4 | 16.4 | 19.8 | 22.4 |
| P/B | 0.7x | 0.7x | 0.7x | 0.7x |

Target Price: PKR 155/share; Upside: 33.4%, 2023: DY: 20%, P/E: 4x
Market Price: PKR 116.2
52 weeks: 109 — 166
Return (1year): -25%
Outstanding Shares: 1.19bn (FF%: 35%)
Market Cap.: PKR 138bn, US$ 607mn
Exchange: KSE100, KSEALL
Company Financial Year end: Dec

## Investment case

- **Well positioned deposit mix:** The bank is attractively positioned in terms of its deposit mix where its Casa deposits stands at 93.7% (3qCY22), providing maximum push to its Nims. Moreover, its Non-interest income is catching up fast, and is now forming crucial support to its revenues base, which the bank lacked earlier. Fee income now alone accounts for nearly ~15% of the revenues, having a posting a 3year cagr of 10%. In addition, the bank has one of the lowest cost-to-income ratios in the industry, average 42% in the past 3years, capped due to shift away from branch banking.
- **Asset quality remains adequate:** Bank's loan book increased by 24% in 2021 while Npls are down by 2%. Having said that, bank's infection ratio is relatively on the higher side, at ~8%, and could be a problem when adopting IFRS9. However, it remains well covered (9MCY22: 85%). Management is looking to aggressively grow its loan book (current ADR at ~40%) while maintaining high IDR (65%).
- **High capital ratios to keep payout ratios above industry:** MCB is well capitalized (CAR: ~18%) giving it the potential to be a high dividend payers, averaging +80% payout ratio, and which explains its high Roe (~16% in 3 years). For CY23, we estimate bank's eps to top PKR 29.3/share and pay a PKR 23/share dps translating to a forward P/E of 4.0x and 1close to 20% dividend yield.

## Recommendation

Using dividend discount model, our Dec-23 target price for MCB comes at PKR 155/share offering 33% upside. Combing the dividend payout total return comes to 53%. Key Risks: i) lower ADR will increase tax, ii) npls accretion, iii) IFRS9 implementation, iv) higher taxation and v) other regulatory changes

Commercial Banks

# Faysal Bank Ltd. (FABL)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| **EPS** | 5.4 | 7.4 | 9.5 | 10.6 |
| **DPS** | 1.5 | 6.0 | 2.0 | 2.0 |
| **BVS** | 43.4 | 45.9 | 53.9 | 63.1 |
| **ROE** | 12.3 | 16.1 | 17.5 | 16.8 |
| **P/E** | 4.8x | 3.5x | 2.7x | 2.4x |
| **DY** | 5.8 | 23.2 | 7.7 | 7.7 |
| **P/B** | 0.6x | 0.6x | 0.5x | 0.4x |

Target Price: PKR 40/share; Upside: 54.9%, 2023: DY: 8%, P/E: 2.7x
Market Price: PKR 25.8
52 weeks: 20 — 32
Return (1year): 5%
Outstanding Shares: 1.52bn (FF%: 25%)
Market Cap.: PKR 39bn, US$ 173mn
Exchange: KSE100, KSEALL
Company Financial Year end: Dec

## Investment case

- **Successful conversion to full-fledged Islamic Bank:** The bank has successfully converted to a full-fledged Islamic bank starting 2023. By Sep-22, bank's deposits have already has crossed PKR 700bn mark, posting a 22% cagr over the past 3 years. Given its retail presences (640 branches) and transition, we expect deposits growth pour-in heavy.
- **Top margins to propel further, supported by rising benchmark yields and MDR exemption:** Moreover, bank's assets are skewed heavily towards advances (Adr 67%) and has been building its investment portfolio with high yielding sukuk. This has already started to reflect on bank's NIMs which increased from 3.6% back in 2021 to current ~4.6% in 2022, and thereon raising above 5.0% by CY23.
- **ROE to cross 17% from current 13%:** The bank is expected to deliver above ~17% ROE by CY23 and is experiencing rapid growth. Moreover, FABL is likely to attract institution investment given few listed Islamic banks.

## Recommendation

Our Dec-23 target price for FABL comes at PKR 40/share offering 55% upside. Combing the dividend payout total return comes to 63%. Key Risks and catalyst: Key Risks: i) lower ADR will increase tax, ii) npls accretion, iii) IFRS9 implementation, iv) higher taxation and v) other regulatory changes (including implementing MDR limits on Islamic banks)

Oil & Gas Exploration Companies

# Mari Petroleum Company Limited (MARI)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| **EPS** | 235.7 | 247.8 | 396.0 | 470.0 |
| **DPS** | 141.0 | 122.0 | 180.0 | 230.0 |
| **BVS** | 866.1 | 980.9 | 1,160.7 | 1,395.7 |
| **ROE** | 27.2 | 25.3 | 34.1 | 33.7 |
| **P/E** | 6.6x | 6.2x | 3.9x | 3.3x |
| **DY** | 9.1 | 7.9 | 11.6 | 14.9 |
| **P/B** | 1.8x | 1.6x | 1.3x | 1.1x |

Target Price: PKR 2,580/share; Upside: 66.8%, 2023: DY: 12%, P/E: 3.9x
Market Price: PKR 1,547
52 weeks: 1,510 — 1,815
Return (1year): -7%
Outstanding Shares: 0.13bn (FF%: 20%)
Market Cap.: PKR 206bn, US$ 909mn
Exchange: KSE100, KSEALL, KMI
Company Financial Year end: Jun

## Investment case

- **Production enhancement to driver earnings growth:** MARI is expected to post 3yr earnings CAGR of 20% on the back of a) higher gas prices owing to PKR depreciation, b) increased flows post completion of Sachal Gas Processing Complex (SGPH) which will bring incremental flows of 90mmcfd priced at Petroleum Policy 2012 (PP12) and c) incremental production from Mari field post discovery from Horizontal drilling and commencement of production from Bannu West which will fetch higher price.
- **Production could rise further:** MARI currently stands reserves life of 18 years (primarily led by high reserve life of Mari gas field) with potential to enhance flows are further horizontal drilling is planned in Mari field. Furthermore, with post completion of SGPH leading to incremental flows of 90mmcfd and commencement of production from Bannu West along with award of 5 new blocks in 2022, production is further expected to rise going forward.
- **Circular debt exposure negligible compared to OGDC/PPL:** The Company has remained immune to circular debt owing to supply of gas to fertilizer sector. MARI's total trade debts stand at 18% of total assets while nearly 4% of total sales during 1QFY23 was tied under circular debt. However, as more untilized gas is diverted to SNGP network, the risk of receivables piling up with increase. Nevertheless, this risk would be mitigated if gas prices are hiked and brought in line with actual cost.

## Recommendation

MARI is expected to post 3yr earnings CAGR of ~20% with average cash flow yield of 22% as Company remains largely immune to circular debt. MARI also offers healthy dividend yield of ~12% and is currently trading at FY23/24 P/E of 3.9/3.3x. Thus, we maintain MARI as our top pick in E&P sector with our Dec-23 target price of PKR 2,580/share offering 67% upside from last close.

Oil & Gas Exploration Companies

# Pakistan Petroleum Limited (PPL)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| EPS | 19.3 | 19.7 | 32.2 | 30.7 |
| DPS | 3.5 | 2.0 | 3.0 | 3.5 |
| BVS | 143.5 | 159.8 | 189.1 | 216.3 |
| ROE | 13.4 | 12.3 | 17.1 | 14.2 |
| P/E | 3.5x | 3.5x | 2.1x | 2.2x |
| DY | 5.1 | 2.9 | 4.4 | 5.1 |
| P/B | 0.5x | 0.4x | 0.4x | 0.3x |

Target Price: PKR 113/share; Upside: 65.1%, 2023: DY: 4%, P/E: 2.1x
Market Price: PKR 68.1
52 weeks: 50 — 89
Return (1year): -10%
Outstanding Shares: 2.72bn (FF%: 24.5%)
Market Cap.: PKR 185bn, US$ 817mn
Exchange: KSE100, KSEALL, KMI
Company Financial Year end: Jun

## Investment case

- **Circular debt resolution key to unlocking value**: PPL's receivables as at Sep-22 stood at PKR 401bn (or PKR 147/share) compared to PKR 491bn (or PKR 114/share for OGDC. As a result, PPL's payout ratio has dropped from 50% in FY17 to 10% in FY22. Thus, if gas prices are hiked and overdue receivables are cleared, it will potentially lead to multiple re-rating and higher cash payout. Government is considering multiple options to clear gas circular debt which also includes non-cash payment options. One of the proposal is routing hefty dividends from OGDC and PPL to Sui Companies and clearing their receivables against it on PPL and OGDC's balance sheet. This may benefit minority shareholders of OGDC and PPL.
- **Diversification in to mining**: PPL is also pursuing diversification in to other business such as mining. Recently Government has signed Definitive Agreement Reko Diq project where PPL is partner with OGDC and Government Holdings Private Limited.
- **Production to increase from existing wells:** Production from Kandhkot is expected to increase post maintenance carried out and improved off-take from GENCO-II. Furthermore, production from Dhok Sultan has resumed post commissioning of Oil Handling and Condensate Stabilisation Facility. GPF-III rehabilitation and commissioning of GPF-IV would further enhance gas flows for PPL.

## Recommendation

We maintain BUY stance on PPL with our Dec-23 target price of PKR 113/share offering 65% upside from last close. The Company is currently trading at FY23/24 P/E of 2.1/2.2x. Although dividend payout remains low as PPL's cash position is marred by circular debt, we highlight that any resolution of gas circular debt and increase in gas prices would improve cash position of the Company leading to higher cash payout.

Power Generation & Distribution

# The Hub Power Company Limited (HUBC)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| EPS | 26.0 | 22.0 | 30.9 | 37.6 |
| DPS | 12.0 | 6.5 | 18.0 | 14.0 |
| BVS | 77.7 | 88.5 | 104.6 | 129.4 |
| ROE | 33.4 | 24.8 | 29.5 | 29.0 |
| P/E | 2.4x | 2.9x | 2.0x | 1.7x |
| DY | 19.0 | 10.3 | 28.5 | 22.2 |
| P/B | 0.8x | 0.7x | 0.6x | 0.5x |

Target Price: PKR 112/share; Upside: 77.6%, 2023: DY: 29%, P/E: 2x
Market Price: PKR 63.1
52 weeks: 59 — 83
Return (1year): -17%
Outstanding Shares: 1.3bn (FF%: 75%)
Market Cap.: PKR 82bn, US$ 361mn
Exchange: KSE100, KSEALL, KMI
Company Financial Year end: Jun

## Investment case

- **New coal projects to boost earnings:** We expect HUBC to post 3yr earnings CAGR of 22% on the back of higher share of profit from China Power Hub Generation Company (CPHGC) and commencement of production from Thar Energy Limited (TEL) in Oct-22 and ThalNova in Dec-22. We expect TEL and ThalNova to contribute nearly PKR ~6/share to HUBC's FY24 earnings.
- **Coal plants facing liquidity issues:** CPHGC has witnessed substantial rise in receivables which stand at PKR 70bn. As HUBC's new coal projects commence operations, risk of receivables pile up will increase. Government recently cleared outstanding dues of IPPs under Power Policy 1994 and 2002 in 2 tranches with total amount of PKR 385bn and recently ECC has also approved change of title of revolving account which was demanded by coal based IPPs. Thus, if further measures are taken this would improve liquidity concerns of coal based IPPs.
- **Diversification in to E&P sector:** Recent completion of ENI transaction, the Company has acquired ENI business in Pakistan with a 50% stake alongside ENI Employees Buy-out Group through Prime International Oil & Gas Company Limited (Prime). Although fields acquired from ENI are not sizeable in nature, however, potential expenditure in the fields may result in higher production.

## Recommendation

We maintain BUY stance on HUBC with our Dec-23 target price of PKR 112/share offering 78% upside from its last close. The Company is trading at FY23/24 P/E 2.0/1.7x and offers a healthy dividend yield of 22%.

Oil & Gas Marketing Companies

# Pakistan State Oil Company Limited (PSO)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| **EPS** | 62.1 | 183.7 | 47.8 | 75.6 |
| **DPS** | 15.0 | 10.0 | 10.0 | 15.0 |
| **BVS** | 298.2 | 459.3 | 497.6 | 558.0 |
| **ROE** | 20.8 | 40.0 | 9.6 | 13.6 |
| **P/E** | 2.3x | 0.8x | 3.0x | 1.9x |
| **DY** | 10.4 | 6.9 | 6.9 | 10.4 |
| **P/B** | 0.5x | 0.3x | 0.3x | 0.3x |

Target Price: PKR 220/share; Upside: 52.8%, 2023: DY: 7%, P/E: 3x
Market Price: PKR 144
52 weeks: 122 — 199
Return (1year): -24%
Outstanding Shares: 0.47bn (FF%: 45%)
Market Cap.: PKR 68bn, US$ 298mn
Exchange: KSE100, KSEALL, KMI
Company Financial Year end: Jun

## Investment case

- **Various measures under consideration to resolve gas circular debt:** PSO's receivables more than doubled since Jun-21 to stand at PKR 458bn as at Sep-22. However, this time around this relates mainly to gas based circular debt emanating from LNG supplies to SNGP with overdue receivables of PKR 254bn. Government is considering multiple options to clear overdue receivables on gas and bring in reforms as IMF remains stringent on gas sector reforms as part of remaining reviews. Thus, in our view, Government will have to hike gas prices and resolve overdue receivables which would improve cash position substantially for PSO.
- **Storage Expansion to further boost sales:** During FY22, PSO increased its storage of MS and HSD by 113k tons with rehabilitation of 44k tons. The Company is also planning to develop further 90K ton of storage at Faisalabad, Mehmoodkot and Faqirabad. This would further enhance storage for PSO and allow growth in sales going forward.
- **Increase in margins to support earnings as volumes drop:** During 1HFY23, industry volumes are down by 19%y/y while PSO has witnessed 17% drop in sales amid demand slow down. As further imposition of levy and taxes are expected to form part of local prices, we don't expect domestic prices to reflect recent decline in international oil prices. However, recent revision in OMC margins to PKR 5/liter each on MS and HSD is likely to support earnings decline in FY23 in the absence of hefty inventory gains and decline in sales volume.

## Recommendation

We base our liking for PSO on the back of potential resolution of gas circular debt and rise in gas prices. We have a BUY stance on PSO with our Dec-23 target price of PKR 220/share offering 53% upside from its last close. The Company is trading at FY23/24 P/E 3.0/1.9x and offers dividend yield of 10%.

Fertiliser

# Fauji Fertilizer Company Ltd. (FFC)

Recommendation: Buy

| PKR/ Share | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|
| **EPS** | 17.2 | 16.5 | 23.0 | 24.3 |
| **DPS** | 14.5 | 12.5 | 17.5 | 18.0 |
| **BVS** | 37.3 | 41.3 | 46.8 | 53.1 |
| **ROE** | 46.1 | 39.9 | 49.1 | 45.7 |
| **P/E** | 5.7x | 6.0x | 4.3x | 4.1x |
| **DY** | 14.7 | 12.7 | 17.7 | 18.2 |
| **P/B** | 2.6x | 2.4x | 2.1x | 1.9x |

Target Price: PKR 135/share; Upside: 36.8%, 2023: DY: 18%, P/E: 4.3x
Market Price: PKR 98.7
52 weeks: 98 — 129
Return (1year): 0%
Outstanding Shares: 1.27bn (FF%: 55%)
Market Cap.: PKR 126bn, US$ 553mn
Exchange: KSE100, KSEALL
Company Financial Year end: Dec

## Investment case

- **Post-flood demand recovery**: We expect FFC to post earnings growth of ~40% in CY23 on the back of a) demand recovery post recent floods, b) favorable Urea prices to keep margins upbeat, c) higher dividend income and d) share of profit from Thar Energy Limited (TEL).
- **Dividend income to support bottom-line**: The Company has a diversified portfolio of investments which translates in to substantial dividend income from AKBL, FCEPL and FFBL. Furthermore, dividend from recently acquired Foundation Wind Energy Limited (I & II) will further strengthen other income going forward. We expect dividend income to continue to support bottom line going forward.
- **TEL to further contribute to earnings growth**: TEL was commissioned in Oct-22 and is likely contribute positively to CY23 earnings where we expect annualized earnings impact of PKR 1.7/share.
- **Gas supply sustainability**: Gas supply has always been a concern as Pakistan's gas reserves are depleting, recently fertilizer manufacturers have entered into an agreement with MARI petroleum to maintain MPCL's Habib Rahi Limestone (HRL) gas production, which will help FFC to maintain a sustainable gas supply.
- **New projects in pipeline**: FFC is considering coal gasification project which is utilize Thar coal to meet gas requirement. Alongside, Company has long-term plans to establish new DAP plant. These projects once materialized will improve earnings sustainability.

## Recommendation

We maintain FFC as our preferred pick with our Dec-23 target price of PKR 135/share offering 37% upside. The Company is currently trading at CY22/23 P/E of 6.0/4.3x and offers a healthy dividend yield of 18%.

# Recommendation Summary

| Symbol | Target Price | Upside | Recom. | Mkt. Cap. PKrbn \| US$mn | EPS | | | DPS | | | P/E | | | DY | | | P/B | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 22 | 23f | 24f | 22 | 23f | 24f | 22 | 23f | 24f | 22 | 23f | 24f | 22 | 23f | 24f | 22 | 23f | 24f |
| **Automobile Assembler** | | | | | | | | | | | | | | | | | | | | | | |
| INDU | 1,330 | 32% | Buy | 79 \| 348.1 | 201.1 | 128.3 | 183.6 | 93.8 | 60.0 | 86.0 | 5.0x | 7.8x | 5.5x | 9.3% | 6.0% | 8.6% | 1.5x | 1.3x | 1.2x | 29.3% | 17.0% | 21.5% |
| HCAR | 130 | -22% | Sell | 23.7 \| 104.6 | 17.6 | 12.5 | 18.8 | 7.0 | 4.5 | 6.5 | 9.4x | 13.3x | 8.9x | 4.2% | 2.7% | 3.9% | 1.2x | 1.2x | 1.1x | 13.1% | 8.8% | 12.1% |
| PSMC | 150 | -12% | Sell | 14.1 \| 61.9 | -43.0 | 11.5 | 16.5 | 0.0 | 0.0 | 0.0 | -4.0x | 14.8x | 10.3x | 0.0% | 0.0% | 0.0% | 0.6x | 0.6x | 0.5x | -15.2% | 3.9% | 5.3% |
| **Cement** | | | | | | | | | | | | | | | | | | | | | | |
| LUCK | 730 | 63% | Buy | 144 \| 636 | 47.3 | 45.1 | 43.6 | 0.0 | 0.0 | 8.5 | 9.4x | 9.9x | 10.2x | 0.0% | 0.0% | 1.9% | 1.1x | 1.0x | 0.9x | 11.9% | 10.2% | 9.0% |
| KOHC | 200 | 35% | Buy | 30 \| 131 | 25.0 | 30.3 | 31.2 | 0.0 | 0.0 | 0.0 | 5.9x | 4.9x | 4.7x | 0.0% | 0.0% | 0.0% | 1.1x | 0.9x | 0.7x | 18.4% | 17.8% | 15.3% |
| FCCL | 20 | 66% | Buy | 29 \| 130 | 2.9 | 3.1 | 3.3 | 0.0 | 0.0 | 0.0 | 4.2x | 3.9x | 3.7x | 0.0% | 0.0% | 0.0% | 0.5x | 0.4x | 0.4x | 12.3% | 11.4% | 10.7% |
| MLCF | 35 | 55% | Buy | 24 \| 107 | 3.4 | 4.6 | 4.3 | 0.0 | 0.0 | 0.0 | 6.7x | 4.9x | 5.3x | 0.0% | 0.0% | 0.0% | 0.6x | 0.5x | 0.5x | 8.9% | 10.7% | 8.9% |
| DGKC | 63 | 21% | Buy | 23 \| 100 | 6.8 | 7.3 | 8.7 | 1.0 | 0.0 | 0.0 | 7.6x | 7.1x | 6.0x | 1.9% | 0.0% | 0.0% | 0.3x | 0.3x | 0.3x | 4.2% | 4.2% | 4.7% |
| CHCC | 168 | 64% | Buy | 20 \| 87 | 22.9 | 25.2 | 26.2 | 3.0 | 0.0 | 0.0 | 4.4x | 4.0x | 3.9x | 2.9% | 0.0% | 0.0% | 1.1x | 0.9x | 0.7x | 25.7% | 21.8% | 18.3% |
| PIOC | 75 | 46% | Buy | 12 \| 51 | 4.6 | 9.5 | 10.6 | 0.0 | 0.0 | 0.0 | 11.1x | 5.4x | 4.9x | 0.0% | 0.0% | 0.0% | 0.4x | 0.4x | 0.3x | 3.5% | 6.7% | 6.8% |
| ACPL | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR |
| **Chemical** | | | | | | | | | | | | | | | | | | | | | | |
| ICI | 785 | 22% | Buy | 59 \| 262 | 91.7 | 81.5 | 95.5 | 35.0 | 30.0 | 35.0 | 7.0x | 7.9x | 6.7x | 5.4% | 4.7% | 5.4% | 2.1x | 1.8x | 1.5x | 29.7% | 22.4% | 22.3% |
| LOTCHEM | 25 | -3% | Neutral | 39 \| 173 | 6.7 | 4.0 | 3.9 | 4.0 | 1.3 | 1.3 | 3.9x | 6.6x | 6.7x | 15.4% | 4.8% | 4.8% | 1.7x | 1.4x | 1.3x | 43.8% | 22.1% | 18.8% |
| EPCL | 45 | 6% | Neutral | 38 \| 170 | 11.9 | 6.2 | 7.8 | 10.5 | 5.5 | 7.0 | 3.6x | 6.8x | 5.4x | 24.8% | 13.0% | 16.5% | 1.2x | 1.2x | 1.2x | 34.6% | 17.7% | 21.7% |
| DOL | 25 | 13% | Buy | 4 \| 17 | 2.7 | 5.7 | 3.8 | 2.0 | 4.3 | 2.8 | 8.2x | 3.9x | 5.8x | 9.1% | 19.3% | 12.5% | 1.6x | 1.5x | 1.4x | 20.0% | 38.2% | 23.7% |
| **Commercial Banks** | | | | | | | | | | | | | | | | | | | | | | |
| MCB | 155 | 33% | Buy | 138 \| 607 | 24.3 | 29.3 | 33.3 | 19.0 | 23.0 | 26.0 | 4.8x | 4.0x | 3.5x | 16.4% | 19.8% | 22.4% | 0.7x | 0.7x | 0.7x | 15.4% | 17.6% | 19.0% |
| UBL | 145 | 44% | Buy | 123 \| 544 | 22.5 | 29.9 | 37.1 | 17.0 | 19.0 | 21.0 | 4.5x | 3.4x | 2.7x | 16.9% | 18.9% | 20.8% | 0.6x | 0.6x | 0.5x | 14.1% | 17.3% | 19.5% |
| HBL | 115 | 80% | Buy | 93 \| 412 | 24.3 | 29.2 | 31.9 | 6.8 | 7.5 | 8.3 | 2.6x | 2.2x | 2.0x | 10.6% | 11.8% | 12.9% | 0.3x | 0.3x | 0.3x | 12.6% | 13.5% | 13.1% |
| ABL | 100 | 56% | Buy | 73 \| 323 | 16.2 | 19.5 | 23.7 | 8.0 | 10.0 | 10.0 | 3.9x | 3.3x | 2.7x | 12.5% | 15.6% | 15.6% | 0.6x | 0.6x | 0.5x | 15.4% | 16.8% | 18.1% |
| BAHL | 90 | 63% | Buy | 61 \| 271 | 17.4 | 18.7 | 23.2 | 8.0 | 9.0 | 11.0 | 3.2x | 3.0x | 2.4x | 14.5% | 16.3% | 19.9% | 0.6x | 0.5x | 0.5x | 19.1% | 18.4% | 20.2% |
| BAFL | 45 | 49% | Buy | 54 \| 236 | 11.2 | 14.3 | 15.0 | 5.0 | 6.0 | 6.0 | 2.7x | 2.1x | 2.0x | 16.6% | 19.9% | 19.9% | 0.5x | 0.4x | 0.4x | 18.4% | 20.4% | 18.8% |
| NBP | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR | UR |
| FABL | 40 | 55% | Buy | 39 \| 173 | 7.4 | 9.5 | 10.6 | 6.0 | 2.0 | 2.0 | 3.5x | 2.7x | 2.4x | 23.2% | 7.7% | 7.7% | 0.6x | 0.5x | 0.4x | 16.1% | 17.5% | 16.8% |
| AKBL | 30 | 49% | Buy | 25 \| 112 | 12.3 | 13.8 | 15.8 | 0.0 | 3.0 | 3.0 | 1.6x | 1.5x | 1.3x | 0.0% | 14.9% | 14.9% | 0.5x | 0.4x | 0.3x | 30.0% | 26.5% | 24.1% |
| **Engineering** | | | | | | | | | | | | | | | | | | | | | | |
| ISL | 60 | 32% | Buy | 20 \| 87 | 12.4 | 5.3 | 8.8 | 6.5 | 2.0 | 3.0 | 3.6x | 8.6x | 5.2x | 14.3% | 4.4% | 6.6% | 0.9x | 0.9x | 0.8x | 25.1% | 9.9% | 14.9% |
| MUGHAL | 75 | 55% | Buy | 16 \| 71 | 12.4 | 7.1 | 10.7 | 3.0 | 1.5 | 2.5 | 3.9x | 6.9x | 4.5x | 6.2% | 3.1% | 5.2% | 0.8x | 0.7x | 0.6x | 20.0% | 10.6% | 14.3% |
| ASTL | 25 | 39% | Buy | 5 \| 23 | 4.5 | 2.8 | 3.9 | 0.0 | 0.0 | 0.0 | 4.0x | 6.5x | 4.7x | 0.0% | 0.0% | 0.0% | 0.3x | 0.3x | 0.3x | 8.7% | 5.1% | 6.6% |
| **Fertilizer** | | | | | | | | | | | | | | | | | | | | | | |
| FFC | 135 | 37% | Buy | 126 \| 553 | 16.5 | 23.0 | 24.3 | 12.5 | 17.5 | 18.0 | 6.0x | 4.3x | 4.1x | 12.7% | 17.7% | 18.2% | 2.4x | 2.1x | 1.9x | 39.9% | 49.1% | 45.7% |
| EFERT | 93 | 20% | Buy | 103 \| 452 | 10.9 | 14.3 | 16.5 | 10.0 | 13.5 | 15.5 | 7.1x | 5.4x | 4.7x | 13.0% | 17.6% | 20.2% | 2.1x | 2.1x | 2.0x | 30.0% | 38.7% | 43.5% |
| FFBL | 23 | 47% | Buy | 20 \| 87 | 4.3 | 3.0 | 3.2 | 0.0 | 0.0 | 0.0 | 3.6x | 5.2x | 4.9x | 0.0% | 0.0% | 0.0% | 0.8x | 0.7x | 0.6x | 21.2% | 12.8% | 12.0% |
| **Glass & Ceramics** | | | | | | | | | | | | | | | | | | | | | | |
| TGL | 108 | 65% | Buy | 11 \| 49 | 24.1 | 12.8 | 18.1 | 2.0 | 2.0 | 3.0 | 2.7x | 5.1x | 3.6x | 3.1% | 3.1% | 4.6% | 0.9x | 0.8x | 0.6x | 31.6% | 14.7% | 17.8% |
| **Oil & Gas Exploration Companies** | | | | | | | | | | | | | | | | | | | | | | |
| OGDC | 132 | 66% | Buy | 343 \| 1510 | 31.1 | 39.5 | 36.2 | 7.3 | 8.3 | 7.5 | 2.6x | 2.0x | 2.2x | 9.1% | 10.4% | 9.4% | 0.4x | 0.3x | 0.3x | 15.3% | 16.8% | 13.7% |
| MARI | 2,580 | 67% | Buy | 206 \| 909 | 247.8 | 396.0 | 470.0 | 122.0 | 180.0 | 230.0 | 6.2x | 3.9x | 3.3x | 7.9% | 11.6% | 14.9% | 1.6x | 1.3x | 1.1x | 25.3% | 34.1% | 33.7% |
| PPL | 113 | 65% | Buy | 185 \| 817 | 19.7 | 32.2 | 30.7 | 2.0 | 3.0 | 3.5 | 3.5x | 2.1x | 2.2x | 2.9% | 4.4% | 5.1% | 0.4x | 0.4x | 0.3x | 12.3% | 17.1% | 14.2% |
| POL | 572 | 46% | Buy | 112 \| 491 | 91.4 | 93.0 | 88.6 | 70.0 | 80.0 | 70.0 | 4.3x | 4.2x | 4.4x | 17.8% | 20.4% | 17.8% | 2.2x | 2.0x | 1.9x | 50.8% | 48.2% | 41.9% |
| **Oil & Gas Marketing Companies** | | | | | | | | | | | | | | | | | | | | | | |
| PSO | 220 | 53% | Buy | 68 \| 298 | 183.7 | 47.8 | 75.6 | 10.0 | 10.0 | 15.0 | 0.8x | 3.0x | 1.9x | 6.9% | 6.9% | 10.4% | 0.3x | 0.3x | 0.3x | 40.0% | 9.6% | 13.6% |
| APL | 400 | 38% | Buy | 36 \| 159 | 149.0 | 70.0 | 48.3 | 45.0 | 35.0 | 30.0 | 1.9x | 4.1x | 6.0x | 15.5% | 12.1% | 10.4% | 1.0x | 0.9x | 0.8x | 49.7% | 20.8% | 13.6% |
| **Power Generation & Distribution** | | | | | | | | | | | | | | | | | | | | | | |
| HUBC | 112 | 78% | Buy | 82 \| 361 | 22.0 | 30.9 | 37.6 | 6.5 | 18.0 | 14.0 | 2.9x | 2.0x | 1.7x | 10.3% | 28.5% | 22.2% | 0.7x | 0.6x | 0.5x | 24.8% | 29.5% | 29.0% |
| NCPL | 20 | 41% | Buy | 5 \| 23 | 6.8 | 8.4 | 8.2 | 10.0 | 2.0 | 2.5 | 2.1x | 1.7x | 1.7x | 70.3% | 14.1% | 17.6% | 0.2x | 0.2x | 0.2x | 10.4% | 11.9% | 10.3% |
| **Textile Composite** | | | | | | | | | | | | | | | | | | | | | | |
| ILP | 83 | 46% | Buy | 53 \| 233 | 13.2 | 11.5 | 13.8 | 4.0 | 3.5 | 4.3 | 4.3x | 4.9x | 4.1x | 7.1% | 6.2% | 7.5% | 1.7x | 1.4x | 1.1x | 39.7% | 27.8% | 27.1% |

Source: IGI Research, Company Financials, PSX

UR=Under review

Prices as of: 30 December, 2022; Stock target prices for the period: 31 December, 2023

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