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REP-110

PAKISTAN STRATEGY REPORT 2025

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ECONOMY

CY24: Stabilization Takes Root

ECONOMY – CY24: Stabilization Takes Root

Setting the Stage: A Year of Contrasts

CY24 was a year of recalibration for Pakistan, marking a shift from the acute economic vulnerabilities and political uncertainties that defined CY23. The year offered glimpses of stability and recovery, despite persistent structural challenges. Progress made during this period has laid the groundwork for potential economic revitalization, though the road ahead remains fraught with hurdles.

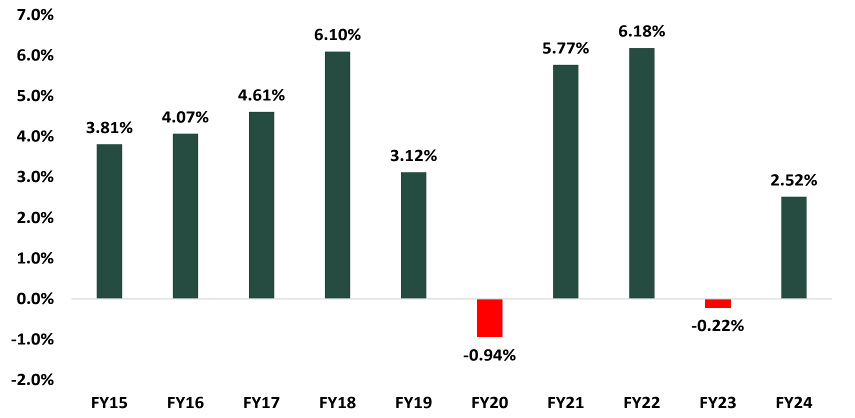
Early Hurdles: Inflation, Policy Rates, and Political Instability

The year began on precarious footing, with the economy grappling a record-high policy rate of 22%, inflation exceeding 27%, and political instability undermining investor confidence. However, restoration of political clarity post general elections proved a turning point, setting the stage for policy continuity and much-needed investor optimism.

Global Tailwinds and Domestic Stabilization

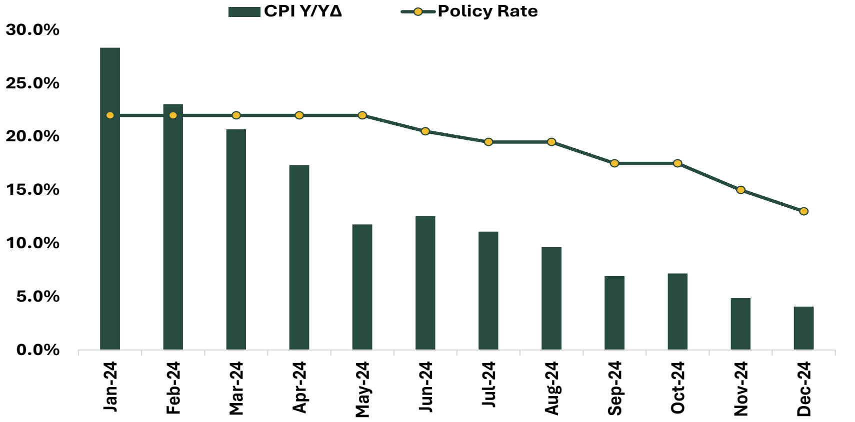
Proactive measures by enforcement agencies, alongside the SBP's mandate requiring banks to offer currency exchange facilities, significantly enhanced transparency in foreign exchange transactions.

GDP Growth



Source: SBP, HMFS Research

CPI vs Interest Rates



Source: SBP, PBS, HMFS Research

ECONOMY – CY24: Stabilization Takes Root

These steps curbed grey-market currency activity and provided vital support to the stabilization of the USD/PKR exchange rate. The Pakistani Rupee, which had previously faced severe depreciation pressures, regained stability against the US Dollar. Amid easing global commodity prices, this stabilization further reduced import costs and contributed to a broader decline in inflation. Thus began the State Bank of Pakistan's (SBP) initiation of its monetary easing stance, cutting the policy rate by 150 basis points to 20.5% by mid-year, signaling a shift toward fostering economic recovery.

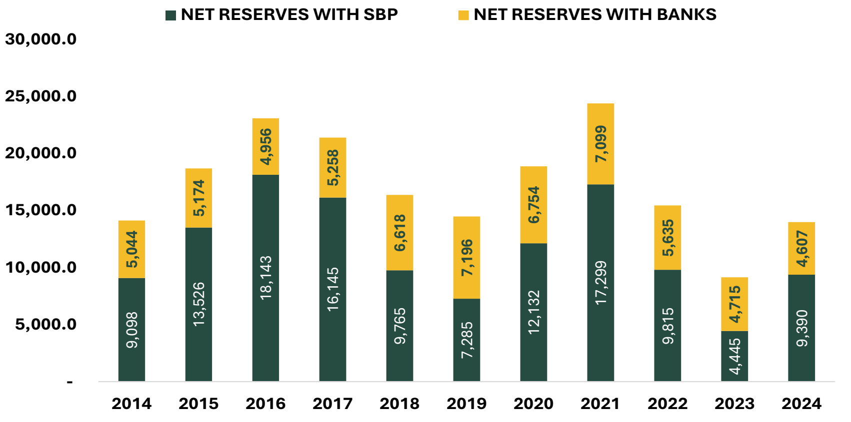
Restoring Investor Confidence and Economic Momentum

Investor confidence was further bolstered by Pakistan's compliance with IMF-mandated reforms, which attracted foreign capital back into the domestic market. The narrowing of the CAD, combined with strengthened fiscal discipline, drove a substantial decline in Pakistan's Country Risk Premium, which fell from a peak of 14.13% in June 2023 to 4.36% by October 2024. These gains translated into broader macroeconomic stability, with economic growth rebounding to 2.4% in FY24 and inflation moderating into single digits. By year-end, the SBP further reduced the policy rate to 13%, signaling a pro-growth stance amid easing inflationary pressures.

USD / PKR Rates

Source: SBP, HMFS Research

Foreign Exchange Reserve (USD / Mn)



Source: SBP, PBS, HMFS Research

ECONOMY – CY24: Stabilization Takes Root

Reforms Gain Momentum

CY24 saw progress on structural reforms, though challenges persisted. The Special Investment Facilitation Council (SIFC) prioritized refinery upgradation under the Pakistan Refining Policy, addressing a critical gap in energy infrastructure. Privatization efforts gained mixed results, with the government's attempt to divest a 60% stake in Pakistan International Airlines (PIA) falling short due to a sole bidder offering just PKR10 bn—well below the PKR 85bn reserve price. Despite the setback, the government remained committed to privatizing key assets, including airports in metropolitan cities and power distribution companies, to foster competition and efficiency. In the energy sector, the early termination of Power Purchase Agreements (PPAs) with five aging Independent Power Producers (IPPs) targeting PKR 411bn in future savings and shift of eighteen IPPs to hybrid take and pay model marked a pivotal move. While these measures aimed to lower electricity costs and ease fiscal pressure, concerns over energy supply and legal implications added complexity to the reform narrative.

Structural Challenges: The Roadblocks Ahead

Despite these improvements, Pakistan's economic trajectory remains constrained by deep-rooted structural inefficiencies. Investment levels remain among the lowest in the region, stymied by an unfavorable business environment and governance shortcomings. The economy continues to grapple with a narrow tax base, which undermines fiscal sustainability and curtails developmental expenditures. Meanwhile, inadequate infrastructure investment not only limits growth potential but also exacerbates vulnerability to climate change impacts.

ECONOMY – CY24: Stabilization Takes Root

The IMF Deal: A Game-Changer

A pivotal development in CY24 was the finalization of a 37-month ~USD 7bn EFF with the IMF, significantly larger than the ~USD 3bn SBA negotiated in CY23. This deal acted as a catalyst for unlocking additional bilateral and multilateral funding, shoring up foreign exchange reserves and providing a crucial financial buffer. The improved external position, coupled with political stabilization, spurred a resurgence in foreign inflows, which played a key role in narrowing the CAD to USD 665mn in FY24, a sharp improvement from USD 2.1bn in FY23.

In CY24, Pakistan received ~USD 1.03bn from the IMF, with a ~USD 1.1bn tranche review set for March 2025. While prospects appear positive, a PKR 386bn revenue shortfall in 1HFY25 poses a key challenge to meeting IMF conditions and securing future funding.

IMF Loan History

Facility	Date of Arrangement	Expiration Date	Amount Agreed (‘000)	Amount Drawn (‘000)
Extended Fund Facility	Sep 25, 2024	Oct 24, 2027	5,320,000	760,000
Standby Arrangement	Jul 12, 2023	Apr 29, 2024	2,250,000	2,250,000
Extended Fund Facility	Jul 03, 2019	Jun 30, 2023	4,988,000	3,038,000
Rapid Financing Instrument	Apr 16, 2020	Apr 20, 2020	1,015,500	1,015,500
Extended Fund Facility	Sep 04, 2013	Sep 30, 2016	4,393,000	4,393,000
Standby Arrangement	Nov 24, 2008	Sep 30, 2011	7,235,900	4,936,035
Extended Credit Facility	Dec 06, 2001	Dec 05, 2004	1,033,700	861,420
Standby Arrangement	Nov 29, 2000	Sep 30, 2001	465,000	465,000
Extended Fund Facility	Oct 20, 1997	Oct 19, 2000	454,920	113,740
Extended Credit Facility	Oct 20, 1997	Oct 19, 2000	682,380	265,370
Standby Arrangement	Dec 13, 1995	Sep 30, 1997	562,590	294,690
Extended Credit Facility	Feb 22, 1994	Dec 13, 1995	606,600	172,200
Extended Fund Facility	Feb 22, 1994	Dec 04, 1995	379,100	123,200
Standby Arrangement	Sep 16, 1993	Feb 22, 1994	265,400	88,000
Structural Adjustment Facility Commitment	Dec 28, 1988	Dec 27, 1991	382,410	382,410
Standby Arrangement	Dec 28, 1988	Nov 30, 1990	273,150	194,480
Extended Fund Facility	Dec 02, 1981	Nov 23, 1983	919,000	730,000
Extended Fund Facility	Nov 24, 1980	Dec 01, 1981	1,268,000	349,000
Standby Arrangement	Mar 09, 1977	Mar 08, 1978	80,000	80,000
Standby Arrangement	Nov 11, 1974	Nov 10, 1975	75,000	75,000
Standby Arrangement	Aug 11, 1973	Aug 10, 1974	75,000	75,000
Standby Arrangement	May 18, 1972	May 17, 1973	100,000	84,000
Standby Arrangement	Oct 17, 1968	Oct 16, 1969	75,000	75,000
Standby Arrangement	Mar 16, 1965	Mar 15, 1966	37,500	37,500
Standby Arrangement	Dec 08, 1958	Sep 22, 1959	25,000	-
Total			**32,962,150**	**20,858,545**

Source: IMF, HMFS Research

** Amount in SDR ≈ USD 278.67*

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PAKSITAN EQUITIES

CY24: PSX's Best Year Yet!

PAKISTAN EQUITIES – CY24: PSX's Best Year Yet!

The year 2024 recorded as a defining moment in the history of the Pakistan Stock Exchange (PSX), marked by exceptional volatility and an unprecedented rally. The KSE-100 index reached a remarkable milestone, celebrating the 100,000 mark on November 28th—a feat unthinkable just two years ago amid economic challenges. The index continued its upward momentum, before ending the year on a high note of 115,126.90 level, depicting the bullish sentiment for the second consecutive year.

- **Intraday Plunge to Unmatched Peak:**

The journey to the 100k level in CY24 was not without drama. After facing significant initial turbulence and reaching an intraday low of 59,191.85 level on February 19th, 2024, the market, subsequently, bounced back with leaps and bounds. By December 17th, 2024, the PSX achieved an intraday peak of 117,039.17 level, capping off a year that outperformed all previous gains.

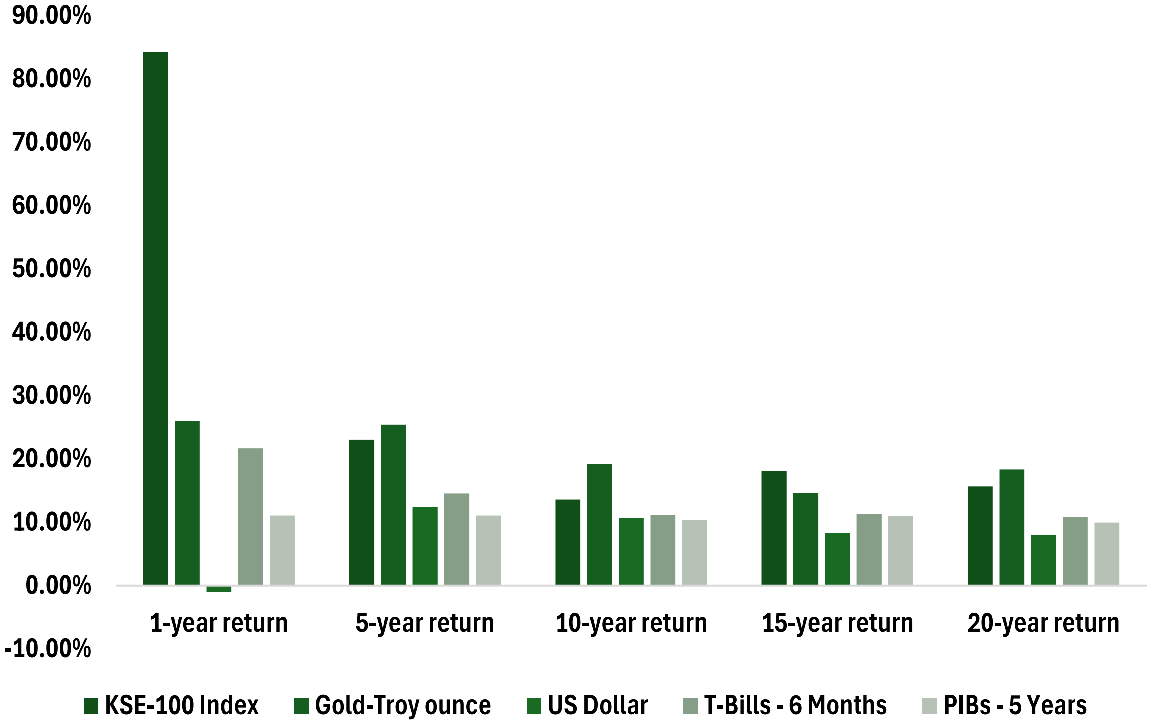
- **Sharpest Drop Meets Biggest Surge:**

In 2024, PSX experienced its steepest single-day decline and largest single-day gain. On November 27th, the market surged by 4,695.09 points (+4.96%), marking the largest single-day gain in history. However, on December 19th, the index plummeted by -4,795.32 points (-4.32%), recording the sharpest drop ever.

PAKISTAN EQUITIES – CY24: PSX's Best Year Yet!

- **Dominating Returns Across All Asset Classes:**

Even in comparison with other asset classes, KSE-100 index outperformed all others, achieving a notable 84.35% return in CY24. This strong rebound was underpinned by improved macroeconomic indicators and firmly establishing a record-breaking performance in the capital market's history of the country.



CAGR - CY24	1-Year Return	5-Year Return	10-Year Return	15-Year Return	20-Year Return
KSE-100 Index	84.35%	23.07%	13.61%	18.17%	15.70%
Gold-Troy ounce	26.06%	25.46%	19.21%	14.60%	18.37%
US Dollar	-0.06%	12.46%	10.69%	8.29%	8.03%
T-Bills - 6 Months	21.71%	14.59%	11.14%	11.31%	10.85%
PIBs - 5 Years	11.09%	11.09%	10.37%	11.04%	9.95%

Source: PSX, SBP, HMFS Research

PAKISTAN EQUITIES – CY24: PSX’s Best Year Yet!

- **Sector Big Guns in CY24:**

The PSX’s rally was fueled by strong sector performances, with the Pharmaceutical leading at ~195.93%, followed by E&P at ~115%, fertilizer at ~113%, technology and communication at ~68.54%, cement at ~66%, and banking at ~65%. These sectors played a pivotal role in driving the index to new milestones, marking a transformative year for the market.

- **Index 86% Return in USD Puts Pakistan on the Map:**

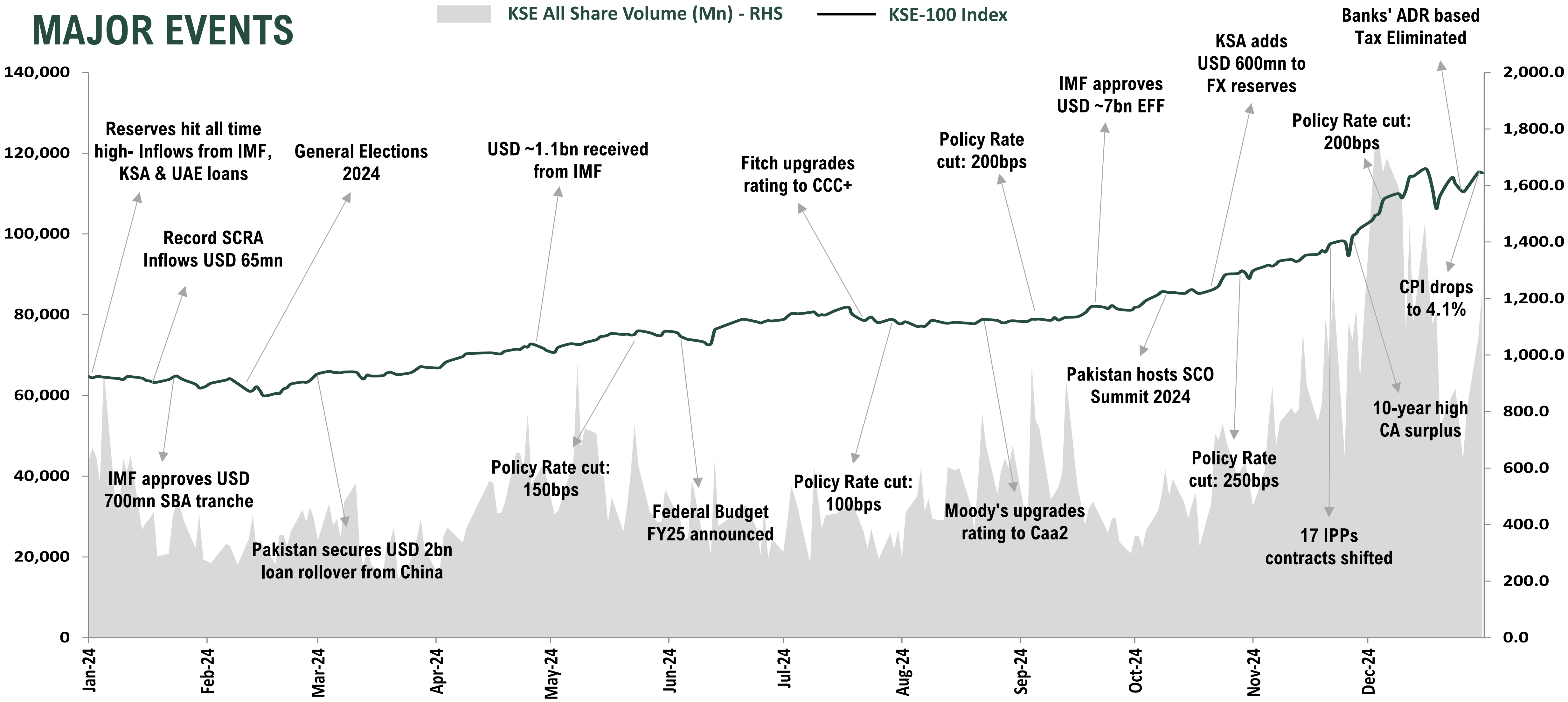
By December 31, 2024, the KSE-100 Index posted a ~86% return in USD, representing its strongest annual performance in 21 years and ranking as the second-best performing market globally.

PAKISTAN EQUITIES – CY24: PSX's Best Year Yet!

Following are the developments which were the main reasons combined to witness a surge this year:

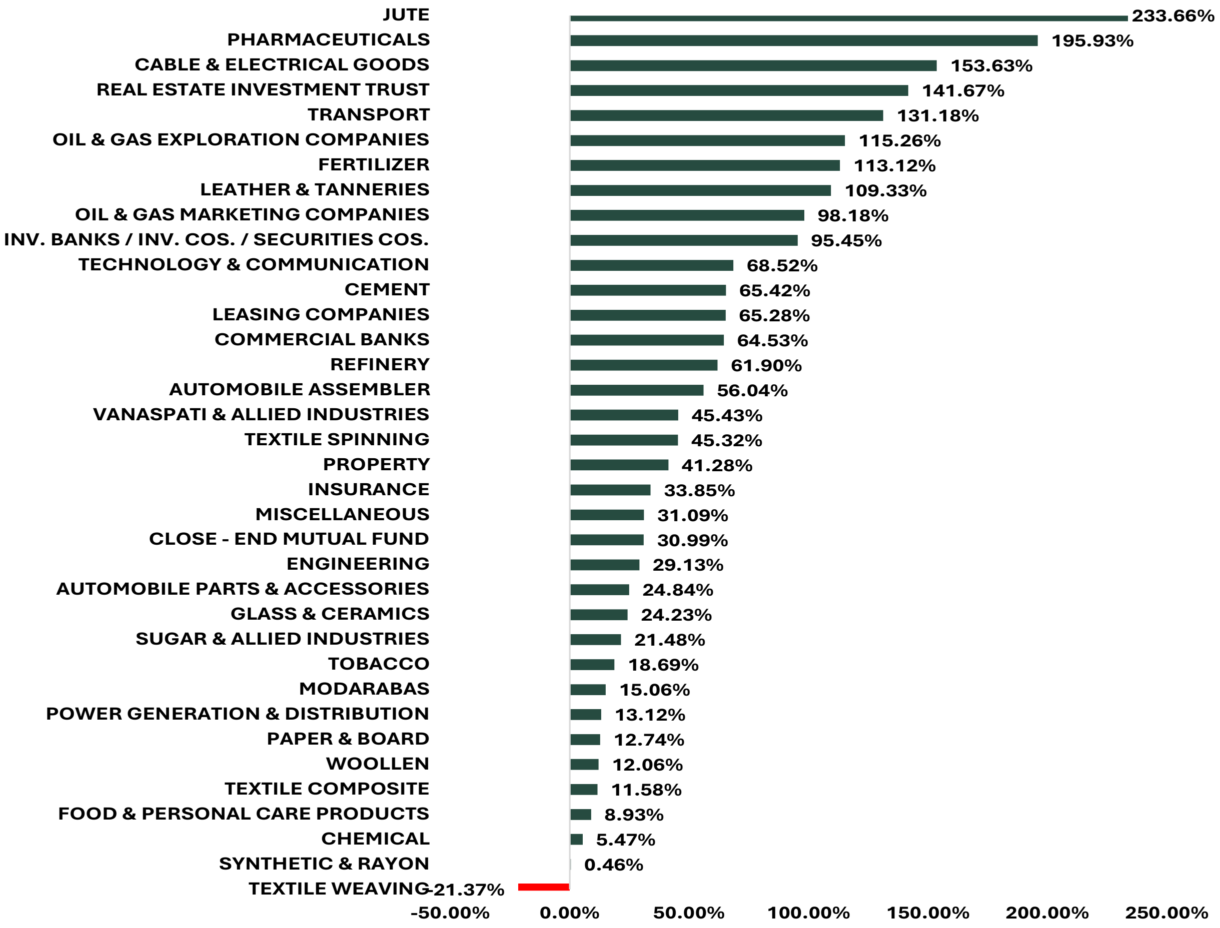
- IMF disbursed USD 700mn under the USD 3bn Stand-By Agreement in Jan 2024.
- Second SBA review completed in April 2024, enabling SDR 828mn (~USD 1.1bn) disbursement and program conclusion.
- Index rose in mid-June following the Federal Budget FY25, driven by unchanged capital gains tax for filers and no tax on dividends.
- SBP initiated monetary easing in June 2024 with a 150bps rate cut to 20.5%, marking the start of a rate-cutting cycle.
- IMF approved a 37-month new EFF worth ~USD 7bn (SDR 5,320mn) in July 2024, critical for stabilizing Pakistan's economy.
- State Bank received SDR 760mn (~USD 1.03bn) first EFF tranche in Sept 2024, supporting forex reserves and economic stability.
- Pakistan's policy rate fell from 22% in January to 13% by December 2024, following a 900bps reduction through the year, including a 250bps record cut in November.
- Inflation dropped to 4.1% in December 2024, a 7-year low, easing cost pressures and strengthening market sentiment.
- Pak Rupee appreciated by 1.17% against the USD in CY24, marking its first gain in a decade.
- In FIPI, highest contribution was from the Overseas Pakistanis segment with inflows of USD 414mn in CY24 by Dec 30, 2024, from USD 186mn in 2023, a YoY growth of ~123%.

MAJOR EVENTS



PAKISTAN EQUITIES – CY24: PSX's Best Year Yet!

KSE All Share Sector Returns CY24



Source: PSX, HMFS Research

Major Gainers of KSE100 Index (CY24)

S.No	Symbol	Current	Δ PKR	% Gain
1	SAZEW	1,118.38	940.52	528.80%
2	GLAXO	396.91	313.92	378.26%
3	AIRLINK	220.00	159.24	262.08%
4	FFC	366.32	253.13	223.63%
5	PSX	27.75	17.66	175.02%
6	FHAM	19.25	12.10	169.23%
7	ABOT	1,237.86	777.65	168.98%
8	PGLC	21.04	13.04	163.00%
9	SRVI	1,584.53	956.17	152.17%
10	PSO	440.69	263.98	149.39%

Source: PSX, HMFS Research

Major Losers of KSE100 Index (CY24)

S.No	Symbol	Current	Δ PKR	% Loss
1	LOTCHEM	20.91	-6.08	-22.53%
2	PSEL	797.81	-213.19	-21.09%
3	EPCL	37.07	-9.52	-20.43%
4	TRG	70.67	-8.40	-10.62%
5	RMPL	8,999.98	-998.02	-9.98%
6	NESTLE	7,450.00	-753.00	-9.18%
7	COLG	1,503.30	-78.70	-4.97%
8	ILP	68.72	-3.28	-4.56%
9	IBFL	350.61	-13.29	-3.65%
10	NRL	321.13	-11.69	-3.64%

Source: PSX, HMFS Research

PAKISTAN EQUITIES – CY24: PSX's Best Year Yet!

PSX's Historical Performance

	YEARLY PERFORMANCE	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	49.4%	2.0%	5.4%	-0.7%	5.2%	15.0%	-3.7%	11.0%	-4.9%	-1.5%	4.3%	6.7%	3.9%
2014	27.2%	6.0%	-3.7%	5.3%	6.5%	2.9%	-0.3%	2.2%	-5.8%	4.1%	2.2%	2.7%	3.0%
2015	2.1%	7.2%	-2.4%	-10.1%	11.6%	-2.0%	4.1%	3.9%	-2.8%	-7.0%	6.1%	-5.9%	1.7%
2016	45.7%	-4.6%	0.2%	5.6%	4.8%	3.9%	4.8%	4.6%	0.8%	1.8%	-1.6%	6.8%	12.2%
2017	-15.3%	2.0%	-0.5%	-0.8%	2.4%	2.6%	-8.0%	-1.2%	-10.4%	2.9%	-6.6%	1.0%	1.2%
2018	-8.4%	8.8%	-1.8%	5.4%	-0.2%	-5.8%	-2.2%	1.9%	-2.3%	-1.8%	1.6%	-2.8%	-8.5%
2019	9.9%	10.1%	-4.3%	-1.0%	-4.8%	-2.2%	-5.8%	-5.8%	-7.1%	8.1%	6.6%	14.9%	3.7%
2020	7.4%	2.2%	-8.8%	-23.0%	16.7%	-0.5%	1.4%	14.1%	4.7%	-1.3%	-1.7%	3.0%	6.5%
2021	1.9%	6.0%	-1.1%	-2.8%	-0.7%	8.2%	-1.1%	-0.6%	0.8%	-5.3%	2.9%	-2.4%	-1.1%
2022	-9.4%	1.7%	-2.0%	1.1%	0.7%	-4.8%	-3.6%	-3.3%	5.5%	-2.9%	0.3%	2.6%	-4.6%
2023	54.5%	0.6%	-0.4%	-1.3%	3.9%	-0.6%	0.3%	15.9%	-6.3%	2.7%	12.3%	16.6%	3.2%
2024	**84.3%**	**-0.8%**	**4.2%**	**3.8%**	**6.1%**	**6.7%**	**3.4%**	**-0.7%**	**0.8%**	**3.3%**	**9.7%**	**13.9%**	**13.6%**

Source: PSX, HMFS Research

KSE-100 Continues to Lead with an 84.35% Surge

The KSE-100 once again outshined top Asian indices in CY24, recording a remarkable 84.35% gain by December 31, 2024. This stellar performance far surpassed the gains of Japan's Nikkei 225 (20%) and Hong Kong's HSI (17%), while leaving China's SSE Composite (13%) and India's SENSEX (8%) trailing.

KSE-100 Outpaces Regional Peers

The KSE-100's stellar performance was underpinned by sustained investor confidence driven by favorable macroeconomic developments, including the successful IMF bailout package and a sharp decline in inflation to single digits. These factors stabilized the economic environment, creating positive sentiment across sectors. Additionally, a series of policy rate cuts improved liquidity, driving robust corporate earnings and attracting significant foreign portfolio inflows. Meanwhile, the Nikkei's moderate growth was supported by yen depreciation (↓ ~10% y/y vs. USD), bolstering export competitiveness. HSI and SSE indices witnessed measured recoveries, buoyed by China's gradual economic reopening and policy support. However, concerns over slower-than-expected growth capped upside potential. In India, SENSEX's single-digit rise was underpinned by a mixed corporate earnings season and cautious investor sentiment.

	KSE-100	N225	HSI	SSE Com. Index	SENSEX 30
Open (1-Jan-24)	62,451	33,193	17,135	2,973	72,333
Close (31-Dec-24)	115,127	39,895	20,060	3,352	78,139
% Change	**84%**	**20%**	**17%**	**13%**	**8%**

Source: Yahoo Finance, HMFS Research

Capital Market Activity in CY24 – Right Shares

In CY24, the capital market saw robust activity with PKR 18.3bn raised through right shares by 10 companies, indicating strong demand for capital expansion across various sectors. The top contributors included Bawany Air Products (PKR 6,000mn), Gatron (Industries) Ltd. (PKR 5,600mn), and Stylers International (PKR 2,329mn).

Company	Amount (PKR Mn)
Bawany Air Products	6,000
Gatron (Industries) Ltd	5,600
Stylers International	2,329
KSB Pumps Company Ltd	1,947
Image Pakistan Ltd	987
Faran Sugar	551
Mirpurkhas Sugar Mills Ltd	500
Allawasaya Tex & Finishing Mills Ltd	200
Tariq Corporation Ltd	199
The Pakistan General Insurance Company Ltd	36
Total	**18,349**

Source: PSX, HMFS Research

Capital Market Activity in CY24 – Mergers

The year also witnessed increased listings on the Pakistan Stock Exchange (PSX) via mergers. Four companies were listed, compared to three in CY23, with a combined post-issue paid-up capital of PKR 9.5bn. Significant listings included Stylers International (PKR 4,353 mn) and Big Bird Foods (PKR 2,989mn).

Sr. No.	Company Name	Symbol	Type of Issue / Listing	Date of Formal Listing	Post-Issue Paid up Capital	
					Number of Shares (Mn)	Amount (PKR Mn)
1	Stylers International Limited	STYLERS	Due to Merger	22/Jan/2024	435.287	4,352.874
2	LSE Capital Limited	LSECL	Due to Merger	24/May/2024	181.153	1,811.533
3	UDL International Limited	UDLI	Due to Merger	10/Jul/2024	35.121	351.205
4	Big Bird Foods Limited	BBFL	Due to Merger	05/Aug/2024	298.906	2,989.058

Source: PSX, HMFS Research

Capital Market Activity in CY24 – Initial Public Offerings

The Pakistan Stock Exchange (PSX) experienced a contrasting year for IPOs in CY24 compared to the previous year, raising PKR 8.01bn, a significant increase from PKR 435mn in CY23.

Sr. No.	Company Name	Symbol	Date of Publication	Date of Public Subscription	Bidding Period	Date of Formal Listing	Par Value	Strike / Issue Price	Total (PKR Mn)
1	Secure Logistics Group Limited	SLGL	22/Mar/2024	02 - 03 Apr 2024	27 - 28 Mar 2024	22/Apr/2024	10.00	12.00	600.00
2	TPL REIT Fund - I	TPLRF1	16/Apr/2024	02 – 03 May 2024	-	20/May/2024	10.00	17.59	588.80
3	International Packaging Films Limited	IPAK	26/Apr/2024	15 – 16 May 2024	08 - 09 May 2024	03/Jun/2024	10.00	25.20	1,766.66
4	Fast Cables Limited	FCL	05/May/2024	22 – 23 May 2024	15 - 16 May 2024	10/Jun/2024	10.00	24.45	3,129.60
5	BF Biosciences Limited	BFBIO	19/Sep/2024	02 – 03 Oct 2024	25 - 26 Sep 2024	21/Oct/2024	3.00	77.00	1,925.00
									8,010.00

Source: PSX, HMFS Research

Corporate Realignments and Forward Strategies

Roundup of some key announcements during the year along with some upcoming developments:

- MARI Petroleum **(MARI)** announced a bonus issue of 800% to its shareholders.
- Netsol Technologies **(NETSOL)** announced a buyback of 10mn ordinary shares, with the purchase period being between January 03, 2025, and June 29, 2025.
- Fauji Fertilizer Limited **(FFC)** approved a merger with Fauji Fertilizer Bin Qasim Limited **(FFBL)**, with the swap ratio of 1:4.29 (FFC:FFBL).
- United Bank Limited **(UBL)** is pursuing a merger with Silk Bank **(SILK)**, which remains subject to regulatory approvals. If approved the swap ratio decided is 1:325 (UBL:SILK).
- Fauji Fertilizer Limited **(FFC)** and Maple Leaf Cement Factory **(MLCF)** announced competing bids to acquire a total of 35.57% and 37.86% in Agritech Limited (AGL).
- Engro Corporation **(ENGRO)** has announced plans to merge with Dawood Hercules **(DAWH)**, at an agreed swap ratio of 1:2.244 (ENGRO:DAWH).
- **Zarea**, an agri-tech platform, is preparing for an Initial Public Offering (IPO), targeting PKR 1bn, through offering 62.50mn shares.
- **Barkat Frisian Agro Ltd.**, a joint venture between Buksh Group and the Netherlands-based Frisian Egg Group, is planning for an IPO, targeting PKR 1.2bn.

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OUTLOOK

A Balanced Approach to Growth

OUTLOOK: A Balanced Approach to Growth

In 2025, the KSE-100 Index is set to sustain its upward trajectory, supported by several favorable developments. Declining interest rates, driven by easing inflation and an anticipated gradual reduction in the policy rate, are expected to enhance market valuations. Corporate earnings are projected to grow by an average of 13.35%, while an improved GDP growth rate adds further momentum. A stable currency, alongside a reduced country risk premium, is strengthening investor confidence, while improved foreign investor perception is likely to attract fresh inflows. Additionally, the reallocation of funds from fixed-income instruments to equities could further boost market activity, with market capitalization projected to rise by 35% to 50%. Furthermore, we anticipate that scrips in the HMFS universe will offer an attractive dividend yield of approximately 8%, further enhancing the total return outlook for investors. Together, these factors create a strong foundation for robust performance in Pakistan’s equity market.

Inflation Easing: A Path to Economic Revival

Easing inflation continues to pave the way for economic stabilization, with expectations of single-digit CPI levels supporting the SBP's gradual easing strategy. This improvement is likely to revive economic activity, spurring demand growth in key segments such as autos and housing loans. A direct beneficiary of this demand uptick will be the banking sector, while the auto industry also stands to gain. Additionally, the anticipated recovery in cement and steel sectors—driven by a resurgence in housing activity—will strengthen the overall construction and real estate ecosystem, bolstering growth in related industries.

OUTLOOK: A Balanced Approach to Growth

Stable PKR/USD and Oil Prices: Boosting External Sector Stability

The stability of the PKR/USD exchange rate and balanced global oil prices contribute to a favorable environment for Pakistan's external sector. These factors are key to attracting foreign investment, particularly from emerging market-focused funds. Stable currency dynamics also play a vital role in managing Pakistan's fiscal position, as significant foreign exchange reserves are directed toward petroleum imports. Additionally, currency and oil price stability will aid export competitiveness, supporting GDP growth and enhancing investor sentiment.

Remarkable CDS Spread Recovery: A Step Towards Global Capital Markets

Pakistan's improved macroeconomic indicators have bolstered foreign investor perception, evident in the remarkable recovery of its Credit Default Swap (CDS) spread. By December 2024, the CDS spread 505bps, down significantly from 12,388bps in November 2022 marking an improvement of 11,883 points. This decline, alongside a reduced country risk premium, improves Pakistan's position relative to emerging and frontier markets. Consequently, Pakistan will now be better equipped to access global capital markets, paving the way for Eurobond and Panda Bond issuances to diversify its financing sources. Strengthened foreign investor confidence is expected to bring fresh inflows, further fueling equity market performance.

OUTLOOK: A Balanced Approach to Growth

Investment Shift: From Fixed Income to Equities

As policy rates decline, a significant shift in investment behavior is expected, with funds flowing from fixed-income instruments to equities. This reallocation of capital will bolster market multiples and improve valuations across listed companies. Enhanced sentiment, combined with the anticipated growth in corporate earnings, will provide further impetus for equities to outperform.

Remittances Growth, Strengthening the Current Account

With improved credit ratings and a more favorable investment climate, the country is also likely to experience growth in remittances, which have been expanding at a robust CAGR of 4.72%. This growth, coupled with a more balanced import-export position, will positively impact Pakistan's current account. The country's focus on reducing imports while boosting exports, supported by currency stability and improved fiscal management, will help bring greater stability to the external sector, mitigating vulnerabilities.

FERTILIZER

MARKET CAP = PKR1,351.84bn

SECTOR RETURN CY24 = ~113%

KSE100 WEIGHTAGE = ~17%

P/E MULTIPLE = ~7.15x

FERTILIZER – Overview:

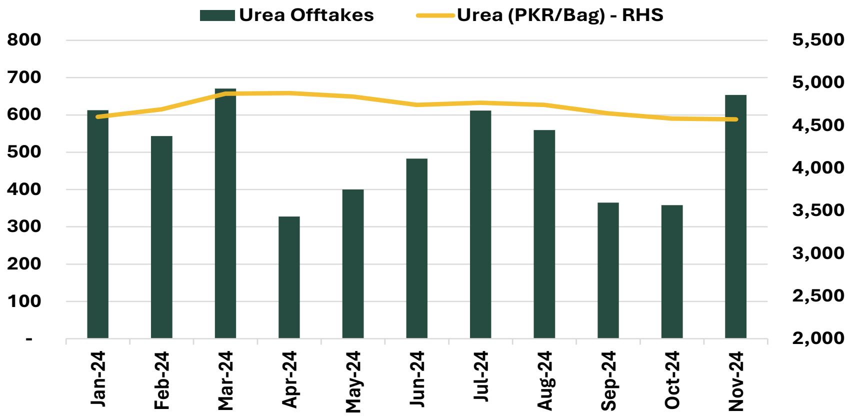
A Pillar of Agrarian Resilience

As an agrarian economy, Pakistan's reliance on fertilizers is integral to ensuring food security for its expanding population and enhancing crop productivity.

- The agriculture sector, a cornerstone of the economy, contributed 24% to GDP in FY24 and recorded impressive growth of 6.25% during the year, according to the latest Economic Survey.
- Categorized under Large-Scale Manufacturing (LSM), the fertilizer sector accounted for 3.9% of LSM growth in FY24.
- The five major listed players in the industry collectively commanded a market capitalization of PKR 1,083bn as of 2024, reflecting the sector's significance in the broader equities landscape.

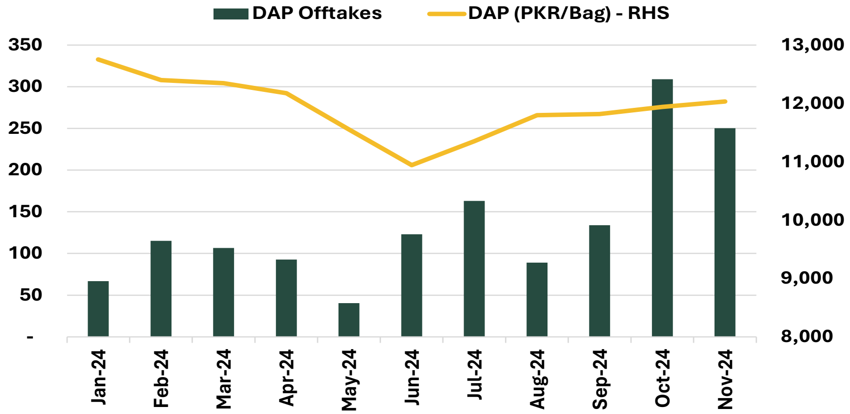
The industry's mature dynamics, strong investments, coupled with its reputation for delivering high dividend payouts, make it an attractive proposition for investors seeking stable returns.

UREA Prices (PKR/bag) and Offtakes



Source: NFDC, HMFS Research

DAP Prices (PKR/bag) and Offtakes



Source: NFDC, HMFS Research

FERTILIZER – Developments and Outlook:

Fertile Ground for Growth

The fertilizer sector's outlook remains stable, underpinned by improving macroeconomic conditions and strategic government interventions. Soil cultivation post-monsoon significantly enhances land fertility, and this seasonal boost, coupled with easing inflation and declining interest rates, is anticipated to reduce farmers' input costs, improve their purchasing power, and support fertilizer offtake growth. Moreover, recent government measures aimed at streamlining fertilizer distribution, including encouraging manufacturers to establish direct sales channels to end users, are expected to reduce reliance on middlemen and further expanding bottom-lines.

Gas Pricing: Leveling the Playing Field - Costs vs. Consumers

The unresolved gas pricing disparity continues to weigh heavily on the sector's competitiveness. As of the publication of this report, producers reliant on the SNGPL/SSGC gas network (EFERT, FATIMA) incur substantially higher gas costs—PKR 1,597/MMBtu for both feedstock and fuel gas—compared to those using the MARI network (FFC), which benefits from lower rates of PKR 580/MMBtu for feedstock and PKR 1,580/MMBtu for fuel gas. This cost advantage allows MARI-based producers to maintain healthier margins despite limited variation in per-bag fertilizer prices across the industry.

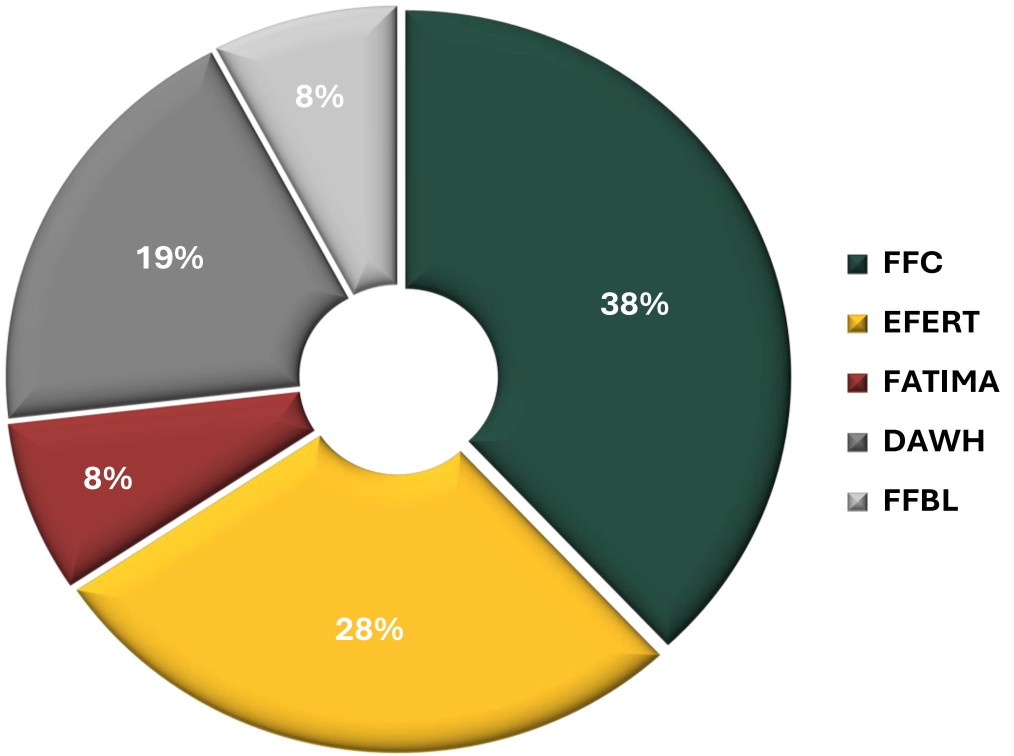
Looking ahead, the anticipated revision of MARI's wellhead gas prices to establish a level playing field could lead to higher input costs for all producers. Such increases are likely to be passed on to consumers through higher fertilizer prices. In this scenario, EFERT is well-positioned to benefit from industry-wide price adjustments, leveraging its operational scale and market presence to maintain its competitive edge.

FERTILIZER – Outlook:

Risks to Valuation

- Delayed crop cultivation due to prolonged monsoon rains,
- Reduced farmer incomes,
- Discontinuation of support prices by the government,
- Restrictions imposed by China on export of fertilizers,
- Hoarding and cross border smuggling of fertilizers,
- Far-reaching impacts of climate change.

UREA Market Share – CY24



Source: NFDC, HMFS Research

Fauji Fertilizer Company Limited – The Next Frontier: FFC's Path to Fertilizer Supremacy

FFC stands at the brink of a transformative era, poised to redefine the fertilizer landscape in Pakistan. The imminent merger with Fauji Fertilizer Bin Qasim Limited (FFBL) and the ‘possible’ strategic acquisition of Agritech Limited (AGL) will elevate FFC’s urea capacity to an unprecedented 3mn tons annually—meeting over half of Pakistan’s total demand. To note, the merger is expected to bring operational efficiencies, with FFBL’s unleveraged balance sheet and significant cash reserves enhancing the liquidity of the combined entity. The anticipated synergies include lower trading expenses, unified pricing of urea and DAP, and potential unification of gas tariffs, strengthening FFC’s margins further. Additionally, FFC will become the sole DAP manufacturer in the country. Fauji’s expected market share in the urea category is expected to cross ~48% in the upcoming year, whereas DAP’s market share is poised to cross the significant ~61% mark.

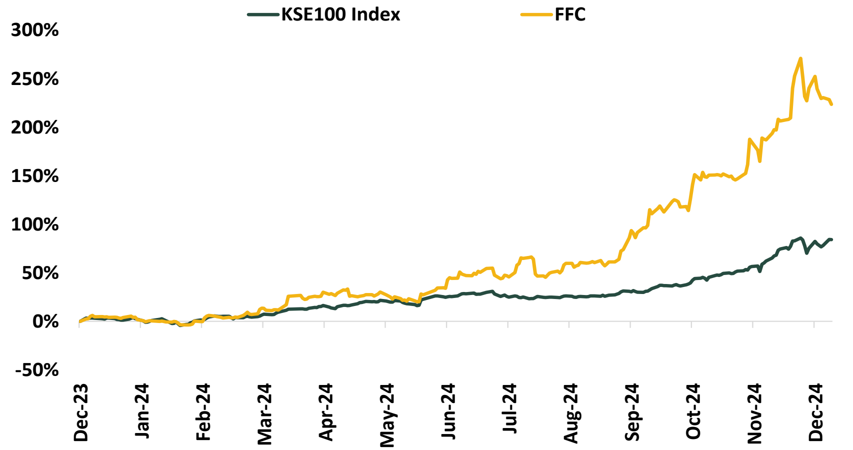
We maintain a positive outlook on FFC as it transitions from a mature business model to a growth-driven leader in the sector.

Fauji Fertilizer Company Limited

Symbol	FFC
Bloomberg Code	FFC PA
Mkt Cap (PKR mn)	521,313.00
Mkt Cap (USD mn)	1,871.66
No Of Shares (mn)	1,423.11
High (52 Weeks)	435.00
Low (52 Weeks)	108.00
Avg. Volume (52 Weeks)	2,157,020.12
Avg. Value in PKR (52 Weeks)	406,294,731.10

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Fauji Fertilizer Company Limited – The Next Frontier: FFC's Path to Fertilizer Supremacy

Our investment case for FFC is underpinned by a discounted FCFE fair value estimate of PKR465, offering an impressive return of 22.6% at current levels. Post-merger, FFC's payouts are expected to improve further, adding more to an already strong dividend yield of 12% (CY25E).

1. **Market Dominance through Strategic Mergers and Acquisitions**
   a) FFC's merger with FFBL is expected to increase DAP market share to ~61%.
   b) Additionally, should FFC acquire a controlling stake in AGL, it is expected to add ~433K tons (annually) of urea production to its already existing capacity of ~2,048K tons. Thereby granting FFC a combined fertilizer market share of over ~70%, along with cost efficiencies and reduced trading expenditure.

2. **Earnings Growth Supported by Gas Price Advantage**

As mentioned earlier FFC benefits from lower gas prices due to being on the MARI network, resulting in industry-leading gross margins. Gross margins improved to ~43% in 9MCY24 and are expected to exceed 50% in CY25/26.

3. **Robust Investment Portfolio and Other Income**

FFC's diversified investment portfolio spans energy, banking, and food sectors, providing resilience against industry cyclicality.

4. **Financial Strength and Operational Efficiency**

Post-merger, FFC's debt-to-equity and debt-to-asset ratios are expected to improve to 0.22x and 0.06x, respectively. The combined entity's unleveraged balance sheet and strong cash reserves will provide a solid foundation for future growth.

Engro Fertilizers Limited – Positioned for Payoff: The EFERT Investment Case

EFERT, a key player in Pakistan's urea market, and currently trading at an attractive P/E multiple of 5.2x presenting a significant discount to its historical average and peers. Our discounted FCFE based fair value estimate for the stock stands at PKR 250, along with an expected dividend yield expectation of 14.6%, implying a combined potential upside of 28.6% from current levels. With robust operational efficiency, a track record of generous dividends, and a favorable shift in investor sentiment towards defensive stocks, EFERT offers a compelling investment opportunity.

1. Potential Resolution of Gas Tariff Disparity

The upcoming year may bring either a standardized gas tariff or a transition of all fertilizer manufacturers to the MARI network, both scenarios positioning EFERT advantageously.

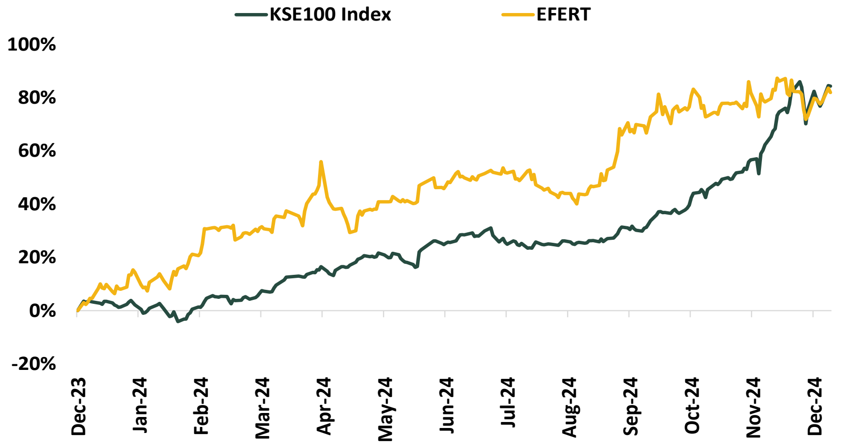
a) **Scenario A:** Under uniform pricing, higher gas costs for MARI-network producers could push urea prices higher, allowing EFERT to align prices without additional costs, boosting margins.

Engro Fertilizers Limited

Symbol	EFERT
Bloomberg Code	EFERT PA
Mkt Cap (PKR mn)	272,655.00
Mkt Cap (USD mn)	978.91
No Of Shares (mn)	1,335.30
High (52 Weeks)	215.00
Low (52 Weeks)	114.00
Avg. Volume (52 Weeks)	2,033,264.33
Avg. Value in PKR (52 Weeks)	335,855,015.17

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Engro Fertilizers Limited – Positioned for Payoff: The EFERT Investment Case

b) **Scenario B:** Alternatively, a shift to MARI gas for EFERT would directly lower input costs, enhancing cost efficiency and profitability. Both outcomes underscore EFERT's resilient positioning amidst ongoing policy developments.

2. Prominent Market Player with Efficient Operations

EFERT has cemented its position as a dominant player in the urea market. Its ENVEN plant, boasting a capacity of 1.3mn tons, stands out for its superior efficiency, consuming ~22 MMBTU per ton of feed gas—significantly below the industry average of ~24 MMBTU per ton.

3. Dividend Yield Leader

With an impressive average payout ratio of ~98.5% over the last five years, EFERT is a prime choice for dividend-focused investors. This track record reinforces its appeal as a reliable income-generating asset.

EXPLORATION & PRODUCTION (E&P)

MARKET CAP = PKR2,574.55bn

SECTOR RETURN CY24 = ~115%

KSE100 WEIGHTAGE = ~15%

P/E MULTIPLE = ~6.7x

EXPLORATION & PRODUCTION – Overview:

Foundations for Recovery

Pakistan's E&P sector is set to rebound in 2025, supported by targeted reforms and strategic policy interventions:

- **Tight Gas Policy 2024:** Offering a 40% premium on zonal prices under the Petroleum Policy 2012, this policy incentivizes the development of untapped tight gas reserves. With significant reserves, it aims to reduce import dependency while sustainably meeting domestic energy demand.
- **Recent Developments:** Discoveries in new gas fields and increased drilling activity highlight the government's commitment to revitalizing the sector and addressing past inefficiencies.

Financial Landscape

- Higher gas prices have enhanced liquidity for E&P companies, boosting payout ratios and reinforcing their appeal to investors.
- Macroeconomic stability—characterized by stable global oil prices and exchange rates—offers a chance for financial optimization. If redirected, cost savings from these trends can reduce circular debt, easing cash flow pressures.

EXPLORATION & PRODUCTION – Global and Domestic Trends:

In 2024, global oil markets experienced significant volatility due to:

- **Geopolitical Tensions:** Middle East conflicts and the Russia-Ukraine war pushed oil prices higher intermittently, benefiting local E&Ps through increased revenue from higher realized crude prices.
- **Economic Slowdowns:** Concerns in major markets like the U.S. and China applied downward pressure, posing risks of lower earnings for local E&Ps due to reduced global demand and price volatility, resulting in Brent crude fluctuating widely (USD 69.60 – 90.63/bbl).

Domestic Production Trends

- **Oil Production:** Increased slightly by 1.5% YoY to 70,536 bpd in FY24.
- **Gas Production:** Declined by 4.4% YoY to 3,116 mmcfd, driven by natural field declines and reduced industrial demand.

Despite these headwinds, the recent upward revision in gas price has bolstered liquidity, enabling companies to focus on operational improvements and infrastructure upgrades.

Policy Reforms to Boost Recovery

- The caretaker government's decision to allow 35% of gas sales through competitive third-party bidding marks a major shift, creating new revenue streams for E&P companies.
- Amendments to the Petroleum Policy 2012 incentivize exploration in underexplored areas, including Zone-I(F), to expand resource availability and attract investment.

EXPLORATION & PRODUCTION – Strategic Outlook:

A Sector Poised for Recovery

Structural reforms and policy-driven incentives are reshaping the E&P landscape, creating opportunities for:

- Enhanced exploration and production through favorable pricing structures like those in the Tight Gas Policy 2024.
- Development of previously underutilized zones, promoting resource diversification and growth.

Tackling Key Challenges

- **Circular Debt:** Unresolved issues continue to pressure the sector. Redirecting financial gains from stable oil prices and currency rates toward debt reduction could unlock liquidity and operational flexibility.
- **Operational Efficiency:** Investment in infrastructure and modern techniques is necessary to maintain competitiveness and reduce dependency on imports.

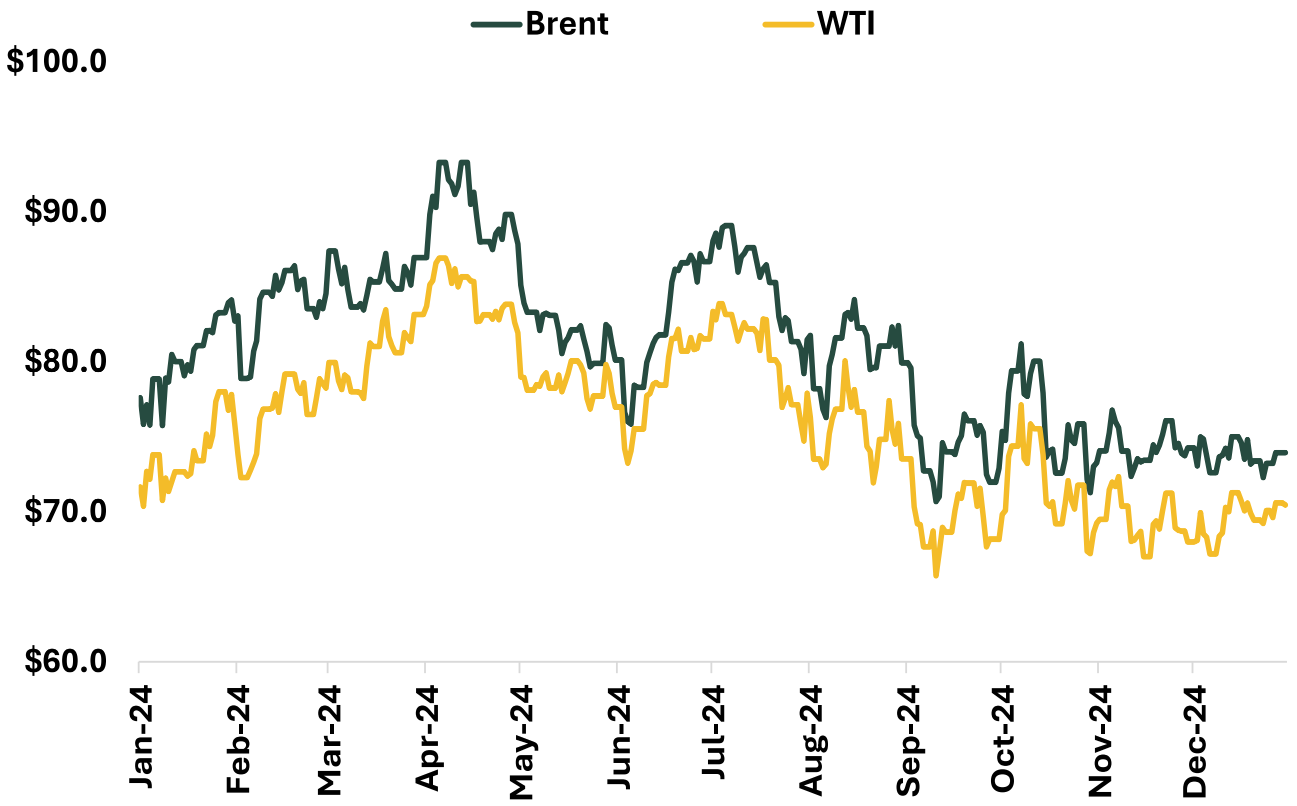
The E&P sector is well-positioned for growth, supported by a blend of policy initiatives, resource potential, and market stability. Addressing financial and operational constraints remains key to ensuring a sustainable and resilient energy future for Pakistan.

EXPLORATION & PRODUCTION – Strategic Outlook:

Risks to Valuation

- Decline in global crude oil prices.
- Lower than expected production and exploration activities.
- Liquidity constraints due to circular debt.
- Lack of reforms resulting in increase in receivables.
- Unexpected government intervention.

Oil Prices - Brent & WTI (USD/bbl.)



Source: Bloomberg, HMFS Research

Pakistan Oilfields Limited – Dividend Majesty, Reserves Fortitude

We maintain a BUY stance on POL with our Reserves Based NAV (DCF of 2P* reserves) value of PKR 688/share, indicating a potential capital upside of 9% relative to the current market price, in addition to a dividend yield of 9% (DPS FY25F: PKR 60/share). Our valuation is supported by the following developments that are anticipated to boost the company's future performance:

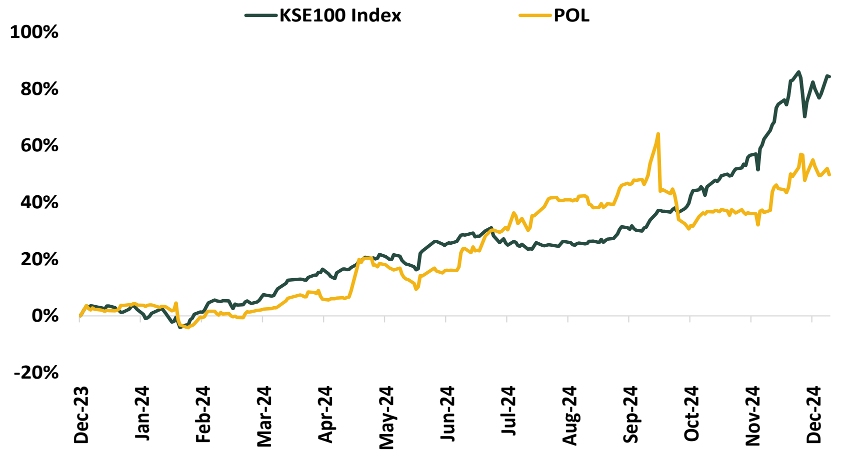
- Known as the "king of dividends," POL aims to maintain its strong payout ratio, offering consistent returns to investors.
- Successful production from Jhandial-3 and the ongoing evaluation of Jhandial-4 could enhance reserves and long-term output.
- Production from Razgir-1 is expected to commence in April 2025, with potential contributions to revenues depending on reservoir performance.
- Planned exploratory and development wells in the Tal Block, along with seismic surveys in Pindori, aim to unlock new reserves.

Pakistan Oilfields Limited

Symbol	POL
Bloomberg Code	POL PA
Mkt Cap (PKR mn)	179,289.00
Mkt Cap (USD mn)	643.70
No Of Shares (mn)	283.86
High (52 Weeks)	699.00
Low (52 Weeks)	403.00
Avg. Volume (52 Weeks)	274,203.17
Avg. Value in PKR (52 Weeks)	142,534,767.26

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Pakistan Oilfields Limited – Dividend Majesty, Reserves Fortitude

- With zero exposure to circular debt due to 100% consistent recovery from SNGPL, POL ensures smooth operations and reliable cash flows.
- POL's substantial cash reserves of ~PKR 70bn as of 1QFY25 provide ample support for its planned CAPEX for development and exploration of ~PKR 8-12bn in FY25, ensuring smooth execution of growth initiatives.
- One-time write-off of PKR 7,660mn for the unsuccessful Balkassar Deep-1A well in 1QFY25 eliminates a major expense, paving the way for improved profitability in future quarters, assuming no significant exploration setbacks.

Pakistan Petroleum Limited – Unlocking Growth with Strategic Excellence

We uphold a BUY recommendation for Pakistan Petroleum Limited (PPL), by our Reserves Based Net Asset Value (DCF of 2P* reserves) assessment, valuing the stock at PKR 230/share. This underscores a potential capital appreciation of approximately 13% relative to the prevailing market price, coupled with a dividend yield of around 3% (Estimated DPS for FY25F: PKR 7/share). Our positive valuation is underpinned by the following anticipated developments poised to enhance the company's future performance:

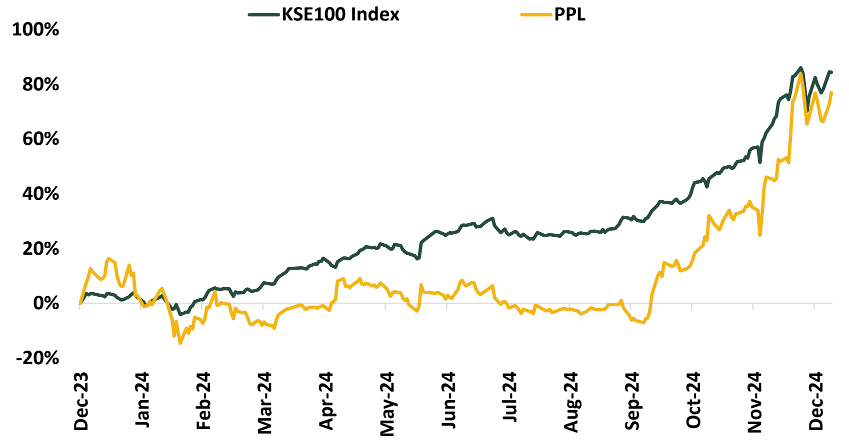
- Achieved 100% collection from gas sales in FY24 and recovered PKR 1.7bn from receivables, significantly improving liquidity.
- Expansion of Abu Dhabi operations underway, with two appraisal wells scheduled for drilling in FY25.
- Successfully installed the Sui SML compressor station, increasing gas production capacity by 19 MMscfd.

Pakistan Petroleum Limited

Symbol	PPL
Bloomberg Code	PPL PA
Mkt Cap (PKR mn)	553,853.00
Mkt Cap (USD mn)	1,988.49
No Of Shares (mn)	2,720.97
High (52 Weeks)	216.50
Low (52 Weeks)	94.00
Avg. Volume (52 Weeks)	7,686,608.81
Avg. Value in PKR (52 Weeks)	971,112,096.57

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Pakistan Petroleum Limited – Unlocking Growth with Strategic Excellence

- Rig-less campaign contributed to enhanced output, adding 37 MMscfd of gas and 630 barrels of oil per day (bopd) of condensate.
- Completed seven development wells, strengthening reserves and boosting operational capacity.
- Plans set for FY25 to drill eight exploration wells and two development wells, reflecting an ambitious growth strategy.

COMMERCIAL BANKS

MARKET CAP = PKR2,646.79bn

SECTOR RETURN CY24 = ~65%

KSE100 WEIGHTAGE = ~23%

P/BV MULTIPLE = ~1.1x

COMMERCIAL BANKS – Overview:

Economic Shifts and Banking Dynamics: The Evolution of CY24:

In a year of sweeping changes, Pakistan's banking sector found itself at the crossroads of shifting economic dynamics and evolving regulations. CY24 brought both opportunities and challenges as banks navigated lower interest rates, new deposit trends, and innovative strategies to adapt to changing government policies and regulatory environment.

Deposit Growth and Trends

- The expansion of broad money (↑9% y/y) and the persistent Higher interest rates in CY23 and early CY24 drove deposits to grow by nearly 19% y/y by 3QCY24.
- However, deposit growth is expected to slowdown in CY25, reflecting the impact of lower inflation, falling interest rates and slower M2 growth.
- As the State Bank of Pakistan slashed the policy rate by a cumulative 900 basis points in CY24, the banking sector faced a dual-edged sword. Lending rates fell to ~18% by September, down from ~20% a year earlier, and deposit rates dropped to ~10%.
- Lower interest expenses and capital gains supported steady profitability.
- Inflation is projected to ease to single digits (~9%) in FY25, down from 13% in CY24. This shift is expected to compel banks to reassess their portfolio mix, with a greater focus on earning higher spreads by increasing lending to the private sector.

COMMERCIAL BANKS – Overview:

ADR-Related Tax Implications

Recent developments have significantly reshaped the tax environment for banks. The federal cabinet, under the Prime Minister, approved the abolition of the 15% additional tax on profits banks earned by lending to the government. To recoup the tax losses, the standard income tax rate for banks was increased from 39% to 44% for the current tax year ending December 31, 2024.

- The standard income tax rate for banks will gradually reduce to 43% in 2026 and to 42% in 2027 and onwards.
- The new tax structure aims to simplify compliance while maintaining government revenue targets, with an estimated incremental PKR 65bn expected to be collected before year-end.

This adjustment of tax follows an agreement between the government and the Pakistan Banks Association (PBA), offering legal cover to past transactions. However, challenges persist, including potential concerns about the higher taxes on banking sector and the reliance on negotiated resolutions for policy shifts.

Sector Stability and Performance Indicators

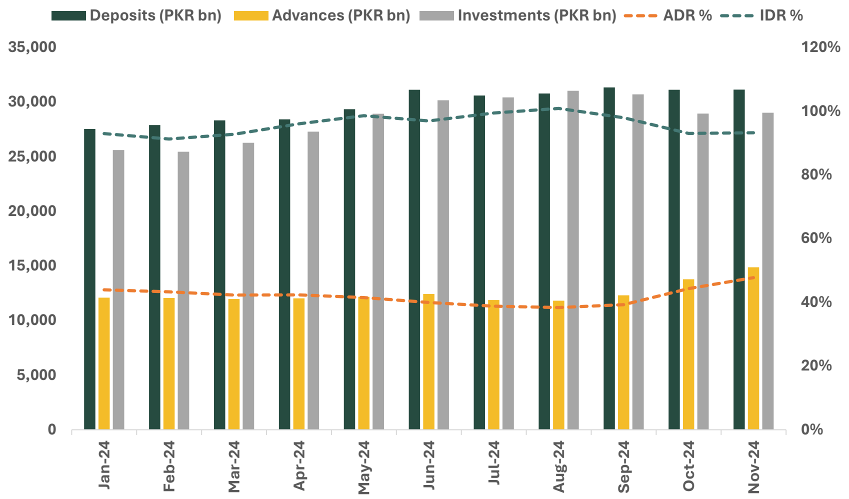
- Capital Adequacy Ratios (CAR): Robust at ~21%, well above regulatory thresholds.
- Dividend payouts: Increased by 25% y/y to PKR 191bn in 9MCY24.
- Coverage ratios: Improved to 112.8%, but infection ratios ticked up to 6.8%.

COMMERCIAL BANKS – Outlook:

Broader Implications and Future Outlook

- The banking sector in CY24 demonstrated remarkable resilience amid a landscape of economic shifts and regulatory adjustments. As we look toward CY25, the sector's trajectory will hinge on its ability to adapt to evolving macroeconomic conditions, particularly lower interest rates, moderated deposit growth, and a streamlined tax framework.
- The government's collaborative approach with the PBA seeks to eliminate ADR-related tax adjustments while implementing higher taxes on banks. This highlights the critical importance of aligning policies to maintain sectoral stability and ensure sustainable growth.

Banks Deposits, Advances & Investments



Source: SBP, HMFS Research

- With robust Capital Adequacy Ratios, improved coverage, and sustained dividend payouts, the sector remains well-positioned to tackle upcoming challenges. However, infection ratios and slower M2 growth warrant cautious optimism.
- As CY25 unfolds, strategic adaptability, operational efficiency, and a focus on innovative solutions will define the sector's ability to sustain its growth momentum in a transforming economic environment.

COMMERCIAL BANKS – Outlook:

Risks to Valuation

- Unexpected interest rate changes may disrupt net interest margins.
- Slower economic growth could limit credit and deposit growth.
- Higher taxes and policy shifts might pressure earnings.
- Exchange rate volatility could result in exchange losses for banks.
- Elevated inflation and interest rates could increase Non-Performing Loans (NPLs).
- Geopolitical risks may affect trade financing, foreign deposits, and investor confidence.

Bank Al Habib Limited – Continued Expansion Sets The Stage for Strong Performance

We recommend a BUY stance on Bank Al Habib Limited (BAHL) with our RIM based Fair Value estimate of PKR 158/share offering an upside of ~17% against the current price of PKR 135.67/share. The stock currently trades at a P/BV multiple of ~0.9x against the banking sector P/BV of ~1.1x and offers an expected dividend yield of ~12% (DPS CY25F: PKR 17). Our valuation of the bank is underpinned by several factors, mainly BAHL's strong asset growth, impressive earnings and margins, impressive earnings and margins, accelerated expansion of branch network and efficient asset management.

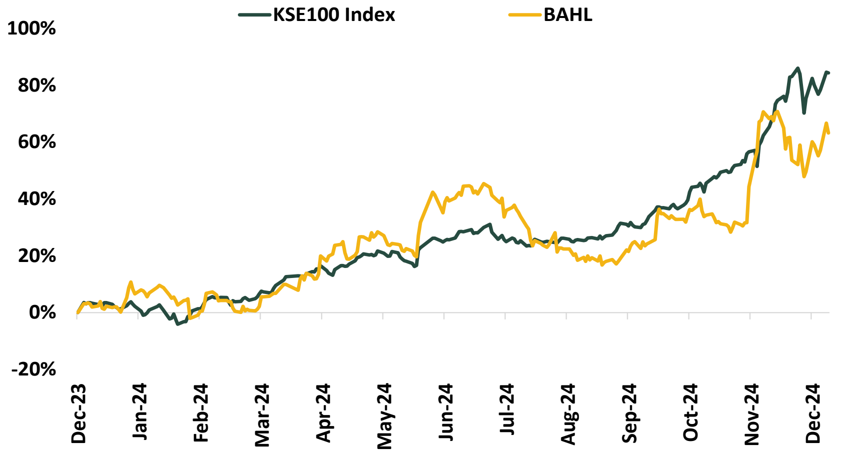
- The bank reported consolidated PAT of PKR 34.323bn (EPS: PKR 30.88) in 9MCY24, recording y/y rise of 16%.
- The bank experienced a ~16% y/y growth in deposits during 9MCY24, primarily driven by the rapid expansion of branches and customer base.
- With one of the industry's highest Return on Equity (ROE), the bank is well-positioned to capitalize on its financial strength, supported by high asset quality, a low infection ratio of 1.5%, and a robust capital buffer.
- BAHL's market share in total deposits stood at 6.89% as of Sep-2024.

Bank AL Habib Limited

Symbol	BAHL
Bloomberg Code	BAHL PA
Mkt Cap (PKR mn)	146,075.00
Mkt Cap (USD mn)	524.45
No Of Shares (mn)	1,111.43
High (52 Weeks)	140.00
Low (52 Weeks)	77.90
Avg. Volume (52 Weeks)	769,165.41
Avg. Value in PKR (52 Weeks)	77,271,451.08

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

CEMENT

MARKET CAP = PKR1,045.93bn

SECTOR RETURN CY24 = ~65%

KSE100 WEIGHTAGE = ~7%

P/E MULTIPLE = ~13x

CEMENT – Overview:

The cement sector remains a vital contributor to Pakistan's economy and the Pakistan Stock Exchange (PSX), housing several industry giants. Despite subdued local demand and significant power cost hikes, the sector recorded substantial earnings growth in 2024. This resilience reflects the industry's adaptability, as leading companies employed cost-optimization strategies to navigate economic challenges. Additionally, construction activity trends across the country reflect the performance of these companies, underscoring their pivotal role in driving economic progress.

Below are the key highlights of the year that positively impacted the sector:

International Coal Prices Fall Sharply from 2022 Peak

- International coal average prices dropped to USD 204.65/ton in FY23 and further to USD 107.23/ton in FY24, a sharp correction from peak levels of USD 460/ton in March 2022 due to subdued demand from China, which kept downward pressure on commodity prices.
- 1HFY25's average of USD 110.28/ton indicates favorable international prices for the local cement market.
- Lower international and Afghan coal prices improved cement manufacturers' margins through price adjustments and higher retention rates.

CEMENT – Trends:

Cement Dispatch Trends: Domestic Dip, Export Boost

- Domestic cement dispatches declined by 4.6% y/y to 38.18mn tons in FY24, with a sharper drop of 10.4% y/y to 18.12mn tons in 1HFY25, reflecting subdued demand amid economic challenges.
- Exports provided a boost to the cement sector, rising by 56% y/y to 7.11mn tons in FY24 and 32% y/y to 4.81mn tons in 1HFY25, significantly supporting industry profitability.

Cement Sector's Move to Renewable Power

- The cement industry has shifted to renewable energy to offset escalating power costs.
- Many companies have adopted renewable solutions such as solar, waste heat recovery, and wind energy, while some have installed coal power plants to reduce reliance on the National Grid.
- With subsidized loans and low debt, most cement players are positioned to invest in energy initiatives, reducing costs and mitigating rising electricity tariffs.

Government initiatives and Global Aid Poised to Revitalize

- The Mohmand Dam, the 5th highest concrete-face-rock-fill dam (CFRD) globally and the tallest in Pakistan, is expected to be completed by 2026-27, benefiting cement companies with plants near Khyber Pakhtunkhwa.

CEMENT – Outlook:

- The green initiative aims to construct 800,000 houses, with 350,000 completed in Sindh, will benefit cement companies in south region.
- The PSDP budget for FY25 is set at PKR 1.5tn, reflecting a 101% increase from the previous year.
- Government initiatives and international funding, including ADB support, are expected to drive a construction boom from 2HFY25.
- ECNEC has approved development projects totaling PKR 172.7bn, expected to provide a significant boost.

Royalty on Cement Sales: Price Hike

- In August 2024, the Punjab government imposed a 6% royalty on the net sales of cement bags, targeting cement factories within the province. Punjab-based manufacturers have obtained a court stay order, conditional upon furnishing bank guarantees.
- Punjab cement prices rose by up to PKR 75/bag, to offset the financial burden of this levy benefiting region-focused players with strong market presence.
- The price hike reflects a focus on profitability over volumes amid weak local cement demand.

Outlook

The cement sector outlook remains positive, supported by expectations of a domestic recovery, fueled by lower interest rates and single-digit inflation, which are likely to boost mortgage activity and stimulate infrastructure development. While local demand has been subdued this year, a rebound is anticipated as purchasing power improves, reviving construction activity and increasing property prices. Exports are also

CEMENT – Outlook:

expected to rise as global demand recovers post-conflict. Additionally, funding for key infrastructure projects is expected to position the sector favorably for investment opportunities in the coming year. Companies leveraging WHR and renewable energy adoption ensure resilience and cost efficiency amid potential government interventions, maintaining production efficiency and mitigating the impact of rising costs.

Risks to Valuation

- Volatility of commodity prices.
- Sharp increase in energy prices.
- Expansion projects face delays, with a reduced PSDP budget.
- High interest rates.

Cement Dispatches (Mn tons)	South		North		Total	
	6MFY25	6MFY24	6MFY25	6MFY24	6MFY25	6MFY24
Local	2.94	3.46	15.19	16.77	18.13	20.23
Export	3.82	2.88	0.99	0.77	4.81	3.65
	6.76	**6.34**	**16.18**	**17.54**	**22.94**	**23.88**

Source: APCMA, HMFS Research

Maple Leaf Cement Factory Limited: White Cement Bold Moves

We maintain a BUY rating on MLCF with a DCF-based fair value estimate of PKR 57, offering an upside of ~24% at current levels. We forecast FY25E EPS of PKR 5.79 per share, although the company is likely to prioritize investment over dividend payouts in the coming years. Our positive outlook is supported by key initiatives expected to drive future performance.

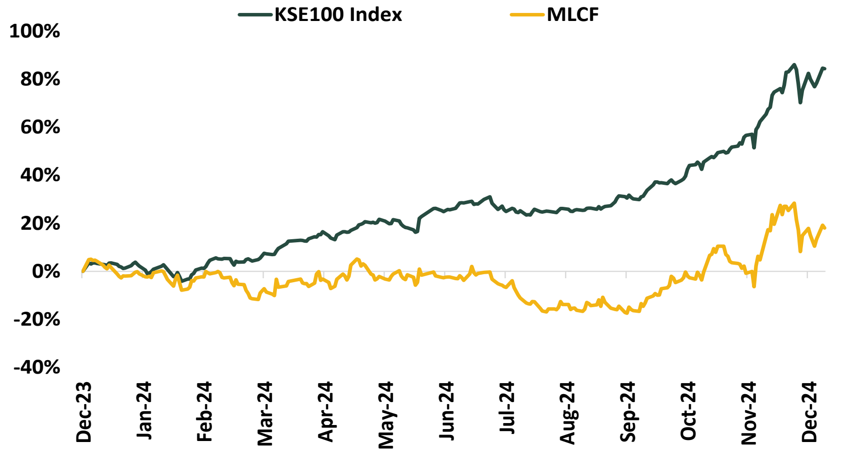
- MLCF's 2.1mn-ton expansion raises total capacity to 7.8mn tons, secured a top position in the northern market.
- Exclusive direct railway links and 80% Pet coke usage makes substantial cost savings and operational efficiency.
- Holds a dominant 90% domestic market share in white cement and is the country's largest exporter.
- Optimizes energy costs with a 12.5 MW solar plant, a 37 MW WHR Plant reduce the expenses, and a 40 MW coal-fired plant operated by subsidiary Maple Leaf Power.

Maple Leaf Cement Factory Limited

Symbol	MLCF
Bloomberg Code	MLCF PA
Mkt Cap (PKR mn)	48,125.00
Mkt Cap (USD mn)	172.78
No Of Shares (mn)	1,047.56
High (52 Weeks)	51.40
Low (52 Weeks)	31.50
Avg. Volume (52 Weeks)	5,893,454.41
Avg. Value in PKR (52 Weeks)	223,541,121.35

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Maple Leaf Cement Factory Limited: White Cement Bold Moves

- MLCF benefits from MLPL's tax exemption on profits, resulting in a reduced effective tax rate.
- Plans to diversify its portfolio and enter in healthcare and fertilizer sector.
- PKR 30bn investment in Novacare Hospital, with a 67% stake, with operations expected by Sep 2026.
- MLCF plans to acquire 161mn Agritech shares, aiming to capitalize on stable gas rates and operational synergies, if finalized.
- MLCF in FY24 repurchased 25.8mn shares at an avg rate of PKR 38.67 per share, reflecting undervaluation of the scrip and strong long-term growth prospects.

Fauji Cement Company Limited: Bricks, Bags, and Breakthroughs

We have a BUY recommendation for Fauji Cement Company Limited (FCCL) as it is trading at an attractive P/E of ~6.92x, as compared to its competitors. We project FY25E EPS of PKR 5.28 per share and a DPS of PKR 1.00 (DY: 2.73%), with our DCF-based fair value estimate of PKR 49, offering a composite upside of ~36.73% at current levels. FCCL is actively expanding its capacity, focusing on not only meeting current demand but also positioning itself to increase market share and strengthen its foothold in the cement industry. As local demand picks up, FCCL is well-positioned to capitalize on this growth. Our positive outlook is supported by these strategic initiatives, which are expected to enhance the company's future performance.

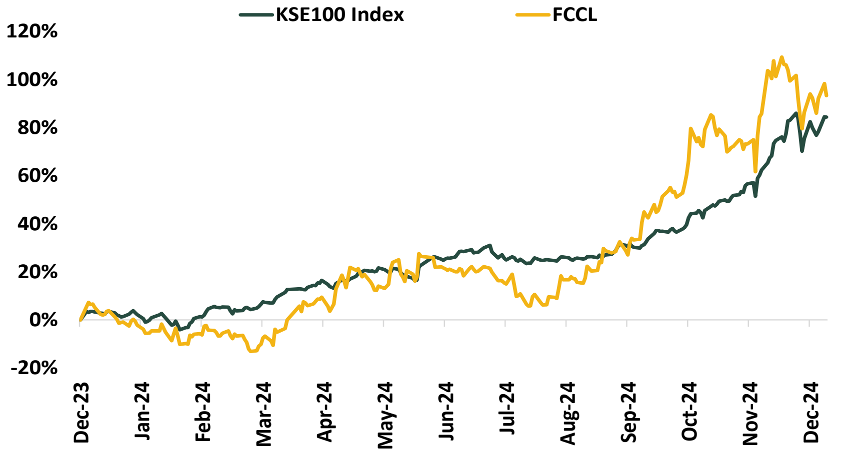
- Third largest in country and second largest player in the northern region.
- FCCL added a 12.5 MW solar plant and a 12 MW WHR plant in FY24, boosting total energy capacity to 52.5 MW and 64.5 MW, respectively, to mitigate rising tariffs.
- It further plans to add 15MW solar in 2HFY25, which will boost renewable energy capacity to 67.5MW.

Fauji Cement Company Limited

Symbol	FCCL
Bloomberg Code	FCCL PA
Mkt Cap (PKR mn)	89,725.00
Mkt Cap (USD mn)	322.14
No Of Shares (mn)	2,452.85
High (52 Weeks)	40.73
Low (52 Weeks)	16.20
Avg. Volume (52 Weeks)	9,710,290.48
Avg. Value in PKR (52 Weeks)	232,932,500.51

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

Fauji Cement Company Limited: Bricks, Bags, and Breakthroughs

- Leads the grey cement segment with the highest retention prices.
- The fuel mix comprised of ~Local coal 59%, Afghan coal 31%, and alternate fuel 5%; targeting 11% to increase alternative fuel usage by FY25.
- Strategically passed on 50% royalty increase impact to safeguard margins.
- To boost market share, FCCL commissioned its 6,500 tons/day Greenfield plant in D.G. Khan in FY24, completing the project in a record 13 months.
- It also plans to invest PKR 1.0bn in a Polypropylene bag manufacturing plant, which will meet 90% of its packaging needs and reduce dependency on external suppliers.

HMFS ALPHA STOCKS

citi PHARMA

AIRLINK

HUBCO

fauji foods

MPCL

faysalbank

Bank Alfalah

PHARMACEUTICAL – CPHL

Sector Overview

The Pakistan pharmaceutical sector performed well in FY24 achieving PKR 916bn (USD 3.3bn) in sales for FY24, a 22% y/y growth in PKR terms and 7% in USD terms. Driven by population growth and health problems. In 2024, the Lahore High Court approved deregulation of non-essential drugs, enabling companies to adjust prices independently, restoring gross margins, and enhancing cost-pass-through efficiency. Supported by favorable demographics and government initiatives, the sector holds strong potential for domestic expansion and future export opportunities.

Citi Pharma Limited – A Global Expansion Leader in Healthcare Solutions

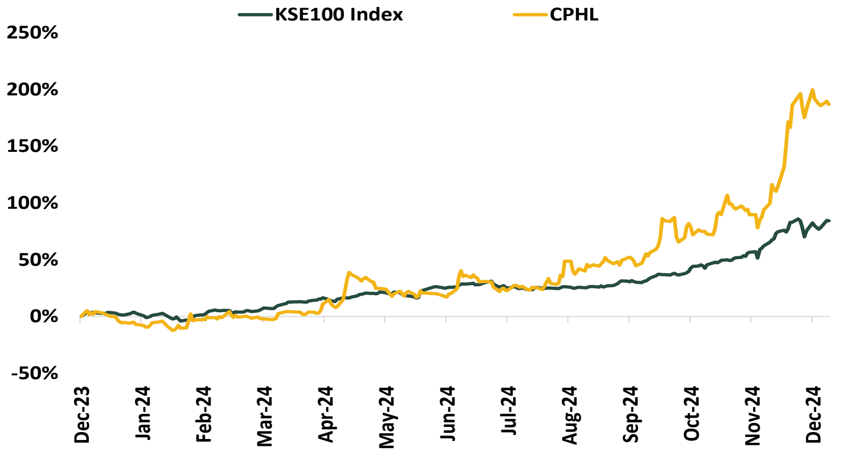
We maintain a buy on CPHL, trading at a P/E of ~14.24x, significantly below the sector average of ~30.3x. We anticipate an FY25E EPS of PKR ~4.78 per share and a DPS of PKR 3.5 (DY: 5%). As the country's largest Active Pharmaceutical Ingredient (API) manufacturer, CPHL also produces a diverse range of pharmaceuticals, medical chemicals, nutraceutical and botanical products. Under its Vision 2030, "From Care to Cure," launching January 2025, CPHL aims for global expansion through MOUs, partnerships, and JVs to enhance healthcare solutions.

Citi Pharma Limited

Symbol	CPHL
Bloomberg Code	CPHL PA
Mkt Cap (PKR mn)	15,560.00
Mkt Cap (USD mn)	55.86
No Of Shares (mn)	228.46
High (52 Weeks)	73.79
Low (52 Weeks)	20.01
Avg. Volume (52 Weeks)	3,199,519.53
Avg. Value in PKR (52 Weeks)	106,844,833.31

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

PHARMACEUTICAL – CPHL

Key Growth Drivers

- CPHL became the first Pakistani company to export to the U.S. nutraceutical market with a USD 109,500 shipment in September 2024.
- Launched FDA-approved products in the U.S. for fertility, weight, stress, hair & skin care, and joint pain, projecting USD 3mn revenue.
- Partnered with Murli Krishna Pharma Pvt Ltd for exclusive rights to market, distribute & sell premium APIs in Pakistan, with plans to expand supply to Saudi Arabia and the U.S
- Formed Etaci Ltd., a joint venture with Hangzhou Newsea owning 35% and CPHL holds 65% stake, to produce 30 new APIs, reducing import reliance.
- CPHL to Establish 200-Bed Hospital and Medical University in Lahore as Part of Diversification.
- Expanded into Saudi Arabia through a JV with All Care Group of Investment to create an advanced API and formulation facility.
- Entered the Indonesian market with Martin Dow and Kingbo Pharmatec to develop biotech products and establish a manufacturing facility.
- Partnered with Mersi Farma to set up API plants and further expand into the Indonesia nutraceutical market.

PHARMACEUTICAL – CPHL

Risks to Valuation

- Price controls.
- Regulatory delays.
- Currency depreciation.
- Inflation.
- Import restrictions.
- Supply chain disruptions.
- Intense competition.

TECHNOLOGY & COMMUNICATION – AIRLINK

Sector Overview

Pakistan's telecom and consumer electronics sector is evolving rapidly, driven by increasing digitalization, rising smartphone penetration, and growing demand for affordable technology solutions. With an annual demand of over 2.0mn laptops, 0.8mn Smart TVs, and a steadily growing mobile phone market, the sector presents substantial opportunities for growth. Favorable government policies promoting local assembly and export potential further amplify the sector’s prospects. With several global and local players entering the market, competition is intensifying, driving innovation and affordability.

Air Link Communication Limited – Capitalizing on Pakistan’s Technology Growth Potential

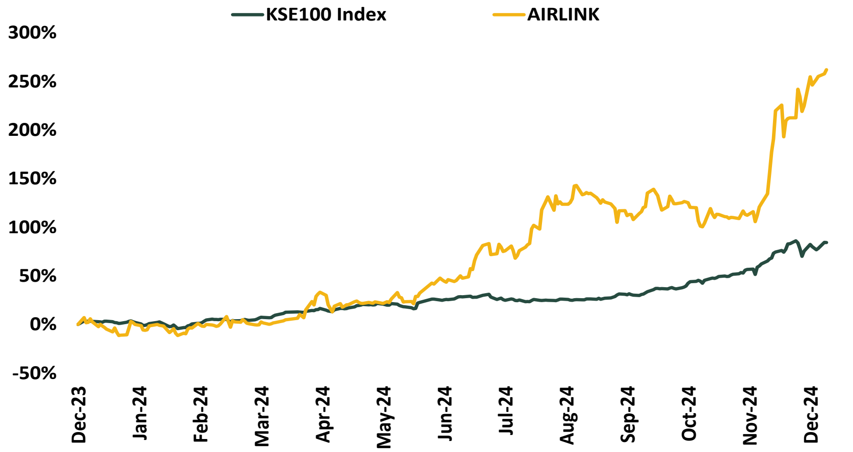
We initiate coverage on Air Link Communication Limited (AIRLINK) as our top pick in the technology and communication sector, driven by its attractive P/E multiple of ~16x (FY25E EPS: ~PKR 13.75), offering substantial upside compared to the industry average of ~24x. AIRLINK has established itself as a leading distributor, manufacturer, and retailer in Pakistan’s telecom and consumer electronics sector.

Air Link Communication Limited

Symbol	AIRLINK
Bloomberg Code	AIRLINK PA
Mkt Cap (PKR mn)	86,959.00
Mkt Cap (USD mn)	312.21
No Of Shares (mn)	395.27
High (52 Weeks)	228.49
Low (52 Weeks)	51.90
Avg. Volume (52 Weeks)	7,696,597.90
Avg. Value in PKR (52 Weeks)	793,534,574.36

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



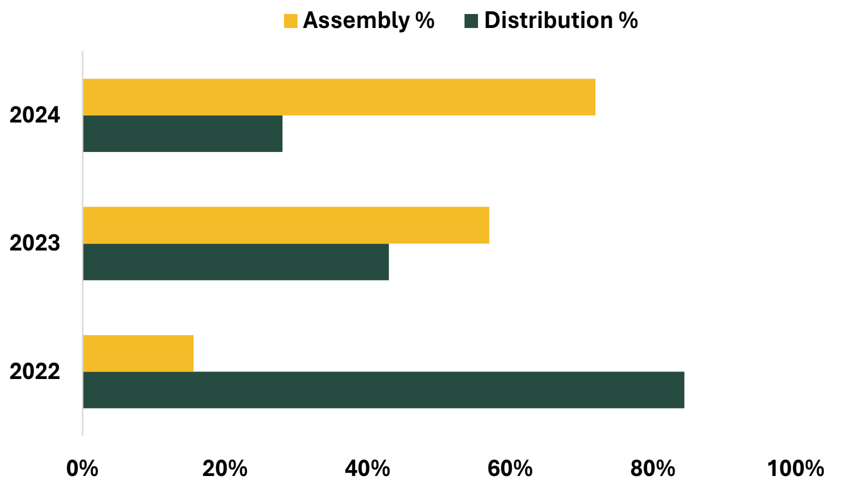
Source: PSX, HMFS Research

TECHNOLOGY & COMMUNICATION – AIRLINK

With strategic initiatives in smartphone production, TV manufacturing, and laptop assembly, coupled with a focus on operational efficiency, AIRLINK is poised to capture Pakistan's growing demand for technology-driven solutions. We base our view on the back of the following key growth drivers:

- Diversified product portfolio, including smartphones, TVs, and laptops, ensures a steady revenue stream.
- Strategic partnership with Xiaomi to manufacture and launch Smart TVs in Pakistan from December 2024.
- Entering the laptop market with Acer products, priced under PKR 100,000, launching by February-March 2025.
- Reliance on SKD assembly enables 30% cost savings over CBUs, with capacity utilization at 40%, offering significant scalability.
- Imported Xiaomi SU7 electric vehicles for testing, with no formal agreement yet, exploring new market avenues.
- In discussions with the government to develop mobile phone export strategies, unlocking growth opportunities.

Segment Wise Revenue Collection Mix – FY24



Source: Company Financials, HMFS Research

TECHNOLOGY & COMMUNICATION – AIRLINK

Risks to Valuation

- Economic slowdown impacting consumer demand.
- Import restrictions delaying raw material availability.
- Regulatory changes altering the business environment.
- Inflationary pressures reducing consumer purchasing power.
- Intense competition eroding market share.

POWER GENERATION AND DISTRIBUTION – HUBC

Sector Overview

Pakistan's power sector is evolving, with reforms addressing circular debt, efficiency, and energy security. Focus has shifted towards renewable energy and innovative solutions to reduce reliance on traditional sources, aligning with global trends. HUBC is at the forefront of this transition, diversifying into sustainable and transformative ventures to redefine its role in the sector.

The Hub Power Company Limited – Redefining Energy, Leading Innovation

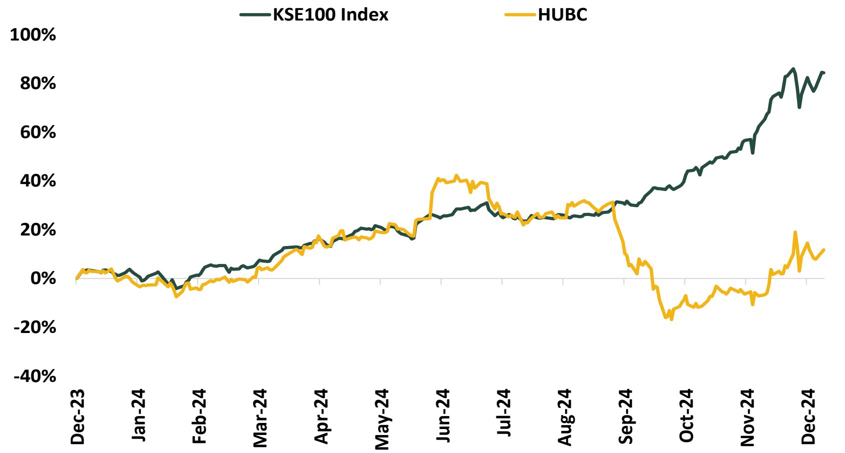
We maintain a BUY stance on Hub Power Company Limited (HUBC) with an Absolute Enterprise Value (EV) Based Valuation of PKR 149.12 per share, reflecting significant upside potential (↑14%) compared to the current market price of PKR 130.89. HUBC is transitioning beyond its legacy as Pakistan's first IPP by venturing into sustainable energy and mobility projects, positioning itself as a key player in global sustainability trends. With the following strategic initiatives in the pipeline, we anticipate further valuation appreciation, reinforcing our positive outlook on the company's long-term growth trajectory.

The Hub Power Company Limited

Symbol	HUBC
Bloomberg Code	HUBC PA
Mkt Cap (PKR mn)	169,785.00
Mkt Cap (USD mn)	609.58
No Of Shares (mn)	1,297.15
High (52 Weeks)	169.90
Low (52 Weeks)	93.00
Avg. Volume (52 Weeks)	7,276,900.52
Avg. Value in PKR (52 Weeks)	940,098,045.28

Source: PSX, HMFS Research As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

POWER GENERATION AND DISTRIBUTION – HUBC

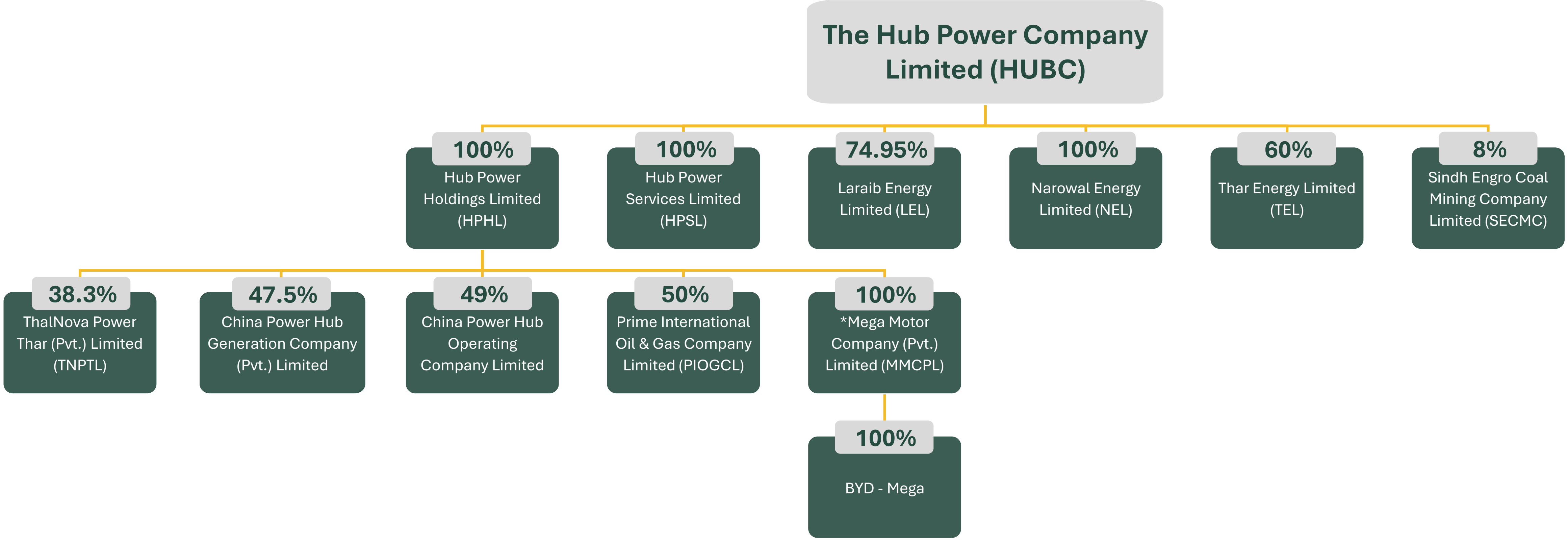
Key Growth Drivers

- HUBCO, known for its strong dividend yields, is expected to resume dividend payouts by 3QFY25, with gradual increases as its strategic initiatives materialize.
- Mega Motors' BYD launch, targeting 50,000 Electric Vehicles annually with exports to Africa and Australia, is set to boost earnings by FY25.
- HUBC's entry into lithium mining and battery manufacturing aims to address growing EV and tech sector needs, though financial impact pending.
- Collaboration with PSO to establish a nationwide EV charging network positions HUBC to benefit from future growth and incentives.
- A significant 78% reduction in trade payables to PKR 8.5bn in 1QFY25 has improved liquidity.
- Oil and gas exploration through Prime International focuses on the Southwest Miano III block and other growth opportunities.
- Increasing its stake in SECMC from 8% to 17% will enhance HUBC's energy security and diversify its portfolio.

Risks to Valuation

- Potential delays and cost overruns in upcoming ventures.
- Policy shifts like "take and pay" and ROE reductions.
- Circular debt and currency depreciation.
- Reliance on debt for growth initiatives.
- Competition in EV and renewables.

POWER GENERATION AND DISTRIBUTION – HUBC



**50% stake of MMCPL will be transferred to Mega Conglomerate (Pvt.) Limited (MCPL)*

FOOD & PERSONAL CARE – FFL

A Pillar of Economic Growth

The food sector, contributing ~20% to Pakistan's GDP, is poised for growth, driven by rising demand for processed foods domestically and internationally. Food exports, led by a 75% surge in rice and notable growth in fruits, vegetables, and spices, strengthen Pakistan's trade position. Domestically, easing inflation has boosted food product sales by 9.08%, reflecting improved consumer purchasing power. With demand expected to peak by 2029, alongside a USD 24mn U.S.-backed agricultural investment supporting local brands, the sector is set to drive long-term economic development.

Fauji Foods Limited – Underrated Gem of the Dairy Sector

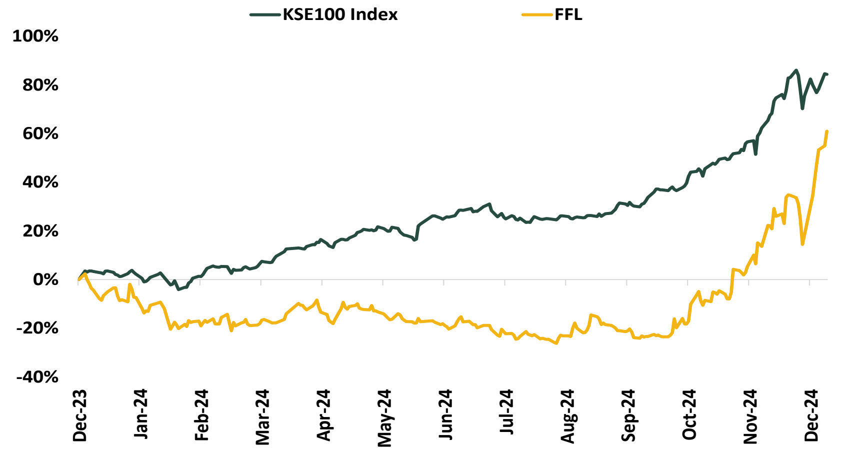
We project an EPS of PKR 0.86 per share for FY25, with a P/E multiple of 20.84x compared to the sector's ~26x. While payouts may remain unlikely in the near term, FFL offers a strong capital gains potential. Operating in the non-cyclical dairy market, FFL benefits from consistent demand for essential products, making it resilient to economic downturns. FFL stands as it is in a sweet spot at the moment, it holds potential to add value to investors' portfolios for the reasons outlined below.

Fauji Foods Limited

Symbol	FFL
Bloomberg Code	FFL PA
Mkt Cap (PKR mn)	45,183.00
Mkt Cap (USD mn)	162.22
No Of Shares (mn)	2,519.96
High (52 Weeks)	18.74
Low (52 Weeks)	8.18
Avg. Volume (52 Weeks)	13,894,028.24
Avg. Value in PKR (52 Weeks)	138,034,911.37

Source: PSX, HMFS Research As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

FOOD & PERSONAL CARE – FFL

Key Growth Drivers

- In February 2024, FFL acquired the Fauji Cereals and Fauji Infraavest businesses, expanding into pasta manufacturing.
- The company launched its pasta range under the brand name OPA.
- It introduced additional product lines in 2024, including Desi Ghee.
- It also plans to scale its operations to achieve PKR 100bn in revenue by 2029.
- FFL signed an agreement with China's Royal Group for buffalo milk exports, with the Chinese partner already installed and commissioned a packing machine at FFL's facility.
- Milk exports to China are expected to commence before the end of CY2024.
- FFL serves as the exclusive manufacturing partner for the Chief Minister Punjab Milk Program.
- Geopolitical tensions and boycotts of major giants provide FFL with a competitive edge in the market.

FOOD & PERSONAL CARE – FFL

Risks to Valuation

- PKR devaluation.
- Disease Outbreaks.
- Increased competition.
- Supply Chain Disruptions.
- Fluctuating Consumer Preferences.

OIL & GAS EXPLORATION – MARI

Mari Petroleum Company Limited – A Steady Growth Story

Mari Petroleum stands tall as a transformative force in Pakistan's energy sector, blending financial resilience with forward-thinking growth strategies. With a compelling ~9x P/E multiple and a projected FY25E EPS of ~PKR 78, Mari offers an attractive investment opportunity. The company's appeal is further amplified by its FY25E DPS of ~PKR 31, translating to a dividend yield of 4.5%, solidifying its reputation as a reliable choice for market participants seeking consistent and steady returns.

Several Key Developments further reinforce the Company's Position

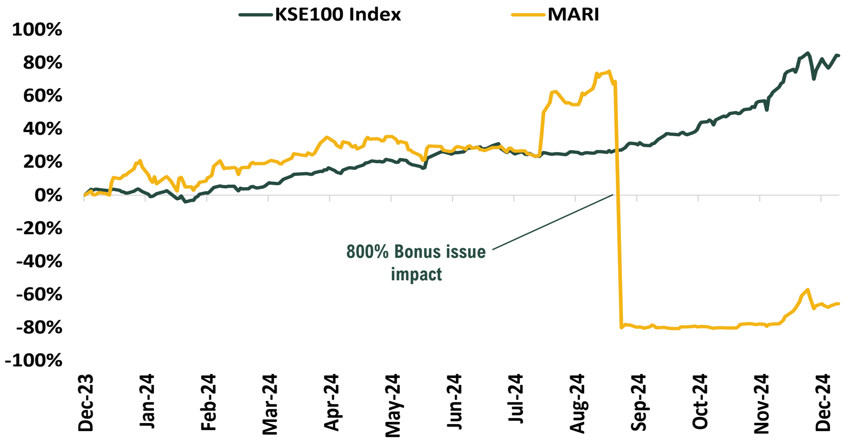
- Dominant Market Capitalization: At PKR 864bn, Mari remains a cornerstone of Pakistan's energy sector.
- Unmatched Exploration Success: With a success rate of ~70%, Mari significantly outperforms domestic (~30%) and global (~14%) benchmarks, highlighting its technical expertise and operational excellence.
- In a sector plagued by cash flow constraints, Mari's minimal exposure to circular debt underscores its financial resilience.

Mari Petroleum Company Limited

Symbol	MARI
Bloomberg Code	MARI PA
Mkt Cap (PKR mn)	863,980.00
Mkt Cap (USD mn)	3,101.93
No Of Shares (mn)	1,200.62
High (52 Weeks)	3,718.00
Low (52 Weeks)	379.00
Avg. Volume (52 Weeks)	870,245.30
Avg. Value in PKR (52 Weeks)	1,745,975,792.05

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

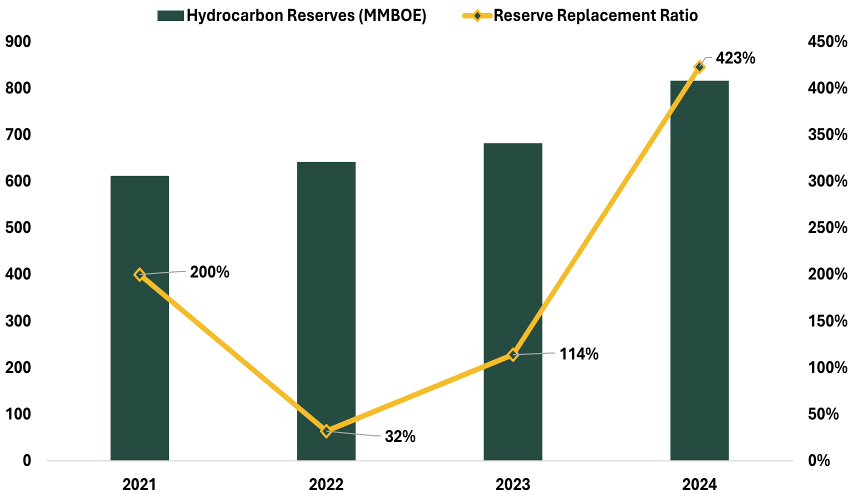
OIL & GAS EXPLORATION – MARI

- Recent finds in Sindh and Baluchistan are set to deliver near-term production gains, driving incremental revenue growth.
- MARI's Reserve Life of 17 Years, ensures long-term sustainability.
- A Reserves Replacement Ratio (RRR) of 423% (↑2.17x y/y), demonstrates the company's ability to outpace resource depletion.
- MARI is poised to redefine its growth trajectory through strategic diversification. Its foray into mineral exploration, including licenses for gold, copper, and potential lithium, sets the stage for future profitability. The company has also incorporated a technology venture, paving a way for multi-dimensional revenue streams that extend beyond hydrocarbons.

Risks to Valuation:

- Fluctuations in global oil and gas prices
- Changes in government policies, regulations, or taxation
- Inherent risks in its exploration projects
- Political instability and regional tensions

Hydrocarbon Reserves & RRR



Source: Company Financials, HMFS Research

COMMERCIAL BANKS – FABL

Faysal Bank Limited – The Islamic Banking Growth Story

We highlight Faysal Bank Limited (FABL) as one of our top picks for FY25. FABL is Pakistan's second-largest Islamic bank, with a robust network of ~800 branches serving more than 1.5mn customers. FABL is currently trading at an attractive Price-to-Book (P/B) ratio of ~0.7x, compared to the banking sector's average P/B of ~1.1x. The bank's strong financial performance and consistent deposit growth position it as a standout player in the Islamic banking space.

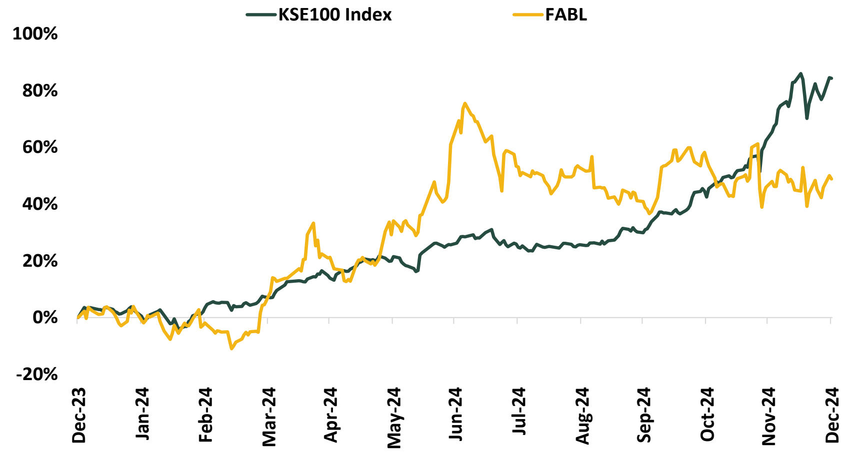
- During 9MCY24, the bank reported a ~65% y/y increase in PAT to PKR ~20bn (EPS: PKR 13.4), driven by higher policy rates, strong growth in other income, and an expanding balance sheet.
- Dividend payouts have been consistent, with PKR 4.5/share announced in 9MCY24, and a total dividend of PKR 7/share anticipated for CY24, offering a dividend yield of ~14%.
- Deposits grew by 23% YoY to PKR 1.164tn as of October 2024, maintaining a market share of ~3.8%.

Faysal Bank Limited

Symbol	FABL
Bloomberg Code	FABL PA
Mkt Cap (PKR mn)	73,578.00
Mkt Cap (USD mn)	264.17
No Of Shares (mn)	1,517.70
High (52 Weeks)	58.10
Low (52 Weeks)	28.50
Avg. Volume (52 Weeks)	3,193,449.75
Avg. Value in PKR (52 Weeks)	136,927,466.11

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

COMMERCIAL BANKS – FABL

- FABL's deposit mix underscores its stability, with current accounts comprising 32% and savings accounts contributing 47%.
- This growth has been supported by favorable policy shifts for Islamic banking, reflecting FABL's competitive edge in the sector.
- The bank's operational efficiency continues to improve, with its cost-to-income ratio dropping to 48%, while ROE reached an impressive 26%.
- FABL's Capital Adequacy Ratio (CAR) stands at a solid ~21%, ensuring robust financial stability.

COMMERCIAL BANKS – BAFL

Bank Alfalah Limited – A Stable Performer With Attractive Valuations

We highlight Bank Alfalah Limited (BAFL) as one of our top picks for FY25. BAFL has more than PKR 2tn in deposits, with a robust network of ~1,058 branches. BAFL is currently trading at an attractive Price-to-Book (P/B) ratio of ~0.8x, compared to the banking sector's average P/B of ~1.1x. The bank's strong financial performance and consistent deposit growth position it as a standout player in the banking space.

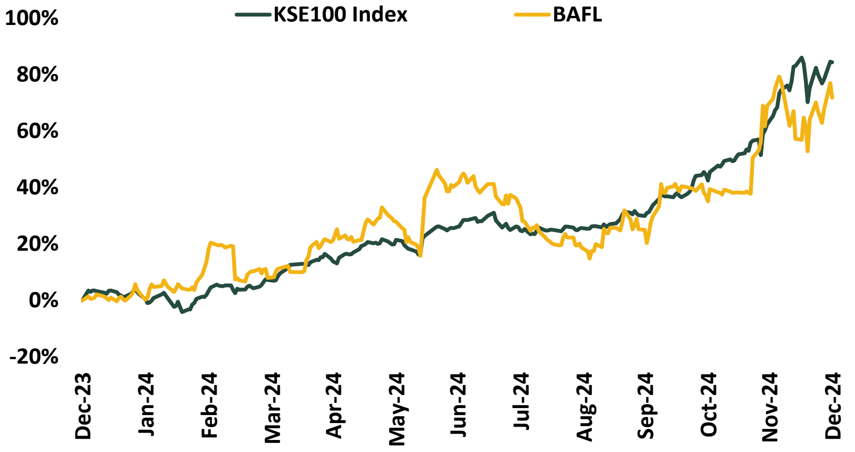
- During 9MCY24, the bank reported a ~23% y/y increase in PAT to PKR ~27.3bn (EPS: PKR 21.32), driven by higher non-interest income and an expanding balance sheet.
- Dividend payouts have been consistent, with PKR 6/share announced in 9MCY24, and a total dividend of PKR 11/share anticipated for CY24, offering a dividend yield of ~13%.
- Deposits grew by 17% YoY to PKR 2.136tn as of September 2024, maintaining a market share of ~6.8%.

Bank Alfalah Limited

Symbol	BAFL
Bloomberg Code	BAFL PA
Mkt Cap (PKR mn)	131,425.00
Mkt Cap (USD mn)	471.85
No Of Shares (mn)	1,577.17
High (52 Weeks)	88.42
Low (52 Weeks)	48.00
Avg. Volume (52 Weeks)	1,445,936.03
Avg. Value in PKR (52 Weeks)	89,325,637.30

Source: PSX, HMFS Research — As of 31-Dec-2024

Relative Performance



Source: PSX, HMFS Research

COMMERCIAL BANKS – BAFL

- BAFL’s deposit mix underscores its stability, with current accounts comprising 40% and savings accounts contributing 35%.
- BAFL’s Capital Adequacy Ratio (CAR) stands at a solid ~19%, ensuring robust financial stability.

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HMFS RATING GUIDE	
BUY	*More than 15% Upside*
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