HABIBMETRO Financial Services

Strategy Report - 2024

Strategy 2024: Emerging Stronger

HABIB METROPOLITAN FINANCIAL SERVICES LIMITED

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Year 2023: Pendulum Shifts and Polarizing Perspectives

Much like its predecessor, 2023 emerged as another arduous chapter for Pakistan's economic landscape. It echoed the persistent challenges of forex limitations, trade deficits, political volatility, alongside enduring ramifications from other economic challenges, both domestically and globally. The year was dominated by mounting country's debt, hefty external repayments, high fiscal deficit, and a pressing need for the vital IMF tranche to alleviate the country's ongoing liquidity crisis. Consequently, governmental decisions pivoted extensively on meeting IMF stipulations to secure the crucial USD 3bn bailout tranche and also because the Fund's approval would unlock other bilateral lenders as well. These IMF-driven measures encompassed a spectrum of actions, including the removal of the Pak rupee cap, intensified tax collection efforts, policy rate hikes, reduction of blanket subsidies, and a concerted focus on managing circular debt crisis.

Rates Fluctuate, Costs Rise

The removal of the rupee cap resulted in a significant devaluation against the US dollar, plummeting to approximately PKR 307 per USD in early September 2023. However, a confluence of factors,

Year 2023: Pendulum Shifts and Polarizing Perspectives

including reduced inflows, stringent actions against illicit currency operations, and intensified governmental initiatives, collectively contributed to its stabilization, ultimately driving it down to PKR 282 per USD by year-end. These measures were in addition to IMF's directive to maintain the average premium between interbank and open market USD rates within a 1.25% bandwidth over any consecutive 5 business day period. Global tensions further spiked commodity prices, intensifying Pakistan's import-dependent situation and resulting in significant hikes in food, fuel, and gas costs. Pakistan closed the year with a record CPI of ~30% (Dec 2023), a notable leap from the previous year's ~24.5% (SPLY).

IMF Directives, Economic Impact

To adhere to IMF directives on maintaining positive real interest rates, the SBP implemented a historic increase of 600 bps in the benchmark rate, a first in the country's 76-year history. Tax hikes and subsidy halts were also implemented in line with IMF guidelines. Midway through the year, the departing coalition government secured an initial USD 1.2bn IMF tranche, complemented by fiscal backing

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from amicable nations and lenders. This infusion facilitated a partial removal of import restrictions, mitigating supply chain disruptions and offering some respite to Large Scale Manufacturing (LSM), which still encountered a -0.44% yearly growth from July to October 2023. Additionally, the FY23 Current Account deficit reduced to USD 2.2bn, a significant decline from the previous year's substantial USD 17.4bn, chiefly due to the curtailment of imports.

Initiatives Bolster Investor Sentiment

Despite these economic tremors, initiatives like the Special Investment Facilitation Council (SIFC) and Pakistan Sovereign Wealth Fund (PSWF) heralded positive sentiment. Moreover, the nation's renewal of GSP+ status for the subsequent four years, granting duty-free or minimal-duty access to European markets, along with reaching consensus on the investment modalities of the Free Trade Agreement (FTA) with the GCC, significantly bolstered the business landscape. Notably, government disbursements totaling above PKR 800bn played a pivotal role in curbing circular debt within the financially strained energy sector, with the total circular debt amounted to PKR 5.5tn in CY23.

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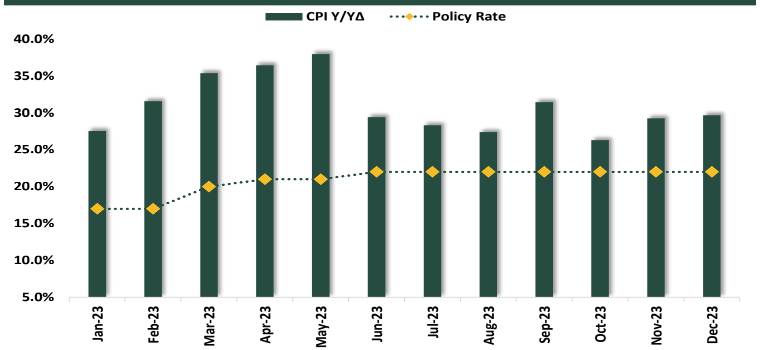
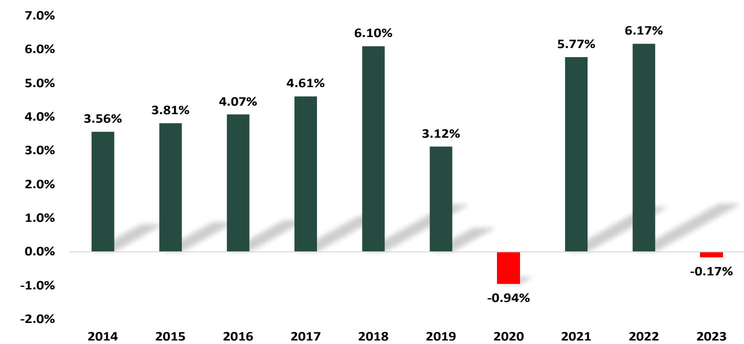
CPI vs Interest Rates



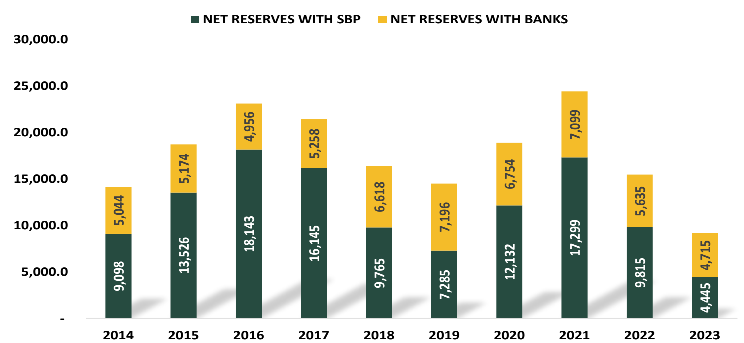
Source: PSX, HMFS Research

GDP Growth



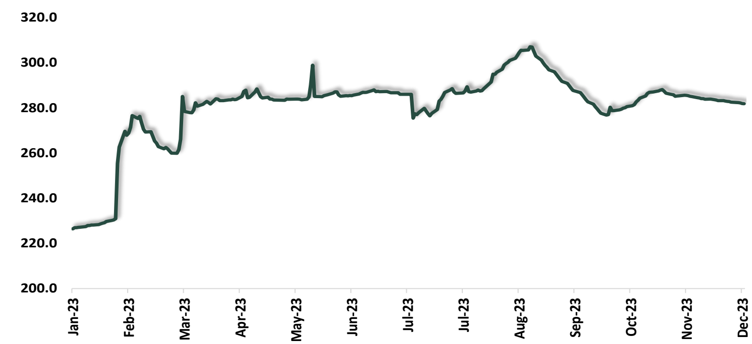
Source: PSX, HMFS Research

Foreign Exchange Reserve (USD / Mn)



Source: PSX, HMFS Research

USD / PKR Rates



Source: PSX, HMFS Research

Pakistan Equities: Milestone Momentum

Recap of 2023: PSX's Rise – Navigating Volatility, Conquering Peaks

In the dynamic landscape of 2023, the Pakistan Stock Exchange (PSX) witnessed a tale of resilience and optimism amid fluctuations. Despite facing initial volatility and hitting an intraday low of 38,138.53 level on January 23, 2023, the bourse demonstrated a recovery throughout the year. Surpassing the 67,093.96 level on December 12, 2023, as intraday high, the PSX showcased a substantial upward rally, marking a historic zenith. This striking rebound was propelled by strategic market forces and enhanced earnings across major sectors, instilling a renewed sense of confidence among investors. Notably, the KSE 100 outshone all other asset classes in CY23, delivering a return of 55%. The energy and banking sectors played pivotal roles in leading this unprecedented rally, making it a historical milestone for the index. The year 2023 unfolded as a unique chapter in the PSX's history, where resilience, strategic forces, and sectoral improvements converged to create an extraordinary performance, establishing a new benchmark for market dynamics.

Pakistan Equities: Milestone Momentum

In CY23, the Karachi Stock Exchange (KSE-100) witnessed a surge in trading activity, reaching a one-day high volume of 984mn on December 15th, marking a 184% increase, attributed to the positive momentum injected by the IMF review. However, in the previous calendar year, 2022, the peak daily trading volume on KSE-100 was 346mn on August 17th.

Key events shaping the bourse movement include:

IMF Intervention Sparks Market Renaissance

In June, the escalation of Pakistan's financial crisis spurred the IMF to intervene with a USD 3bn Standby Agreement, injected hope into the market, leading to a turnaround. The PSX experienced two notable upswings during the year—first in June, post the IMF deal's finalization and the USD 1.2bn initial tranche, and the second in November-December, propelled the market to its zenith, reaching all time high on December,2023. The catalyst for the latter surge was the delayed yet positive IMF Staff-Level First Review for the ~USD 700mn second tranche, set for January 11, 2024.

Pakistan Equities: Milestone Momentum

IMF Loan History

Facility	Date of Arrangement	Expiration Date	Amount Agreed (SDRs '000')	Amount Drawn (SDRs '000')
Standby Arrangement	Jul 12, 2023	Apr 11, 2024	2,250,000	1,422,000*
Extended Fund Facility	Jul 03, 2019	Oct 02, 2022	4,268,000	1,044,000
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	0
Total			**23,656,650**	**14,839,045**

Note: * SDR 894mn disbursed, while SDR 528mn approved till date
Currency Units per SDR (Conversion): USD 1.33/ SDR
Source: IMF, HMFS Research

Pakistan Equities: Milestone Momentum

Election Euphoria: Bourse Swirls with Anticipation as Elections Loom

The Bourse, has experienced a nuanced dance with political currents. The announcement by the Election Commission of Pakistan (ECP) on February 8, 2024, as the potential date for general elections, coupled with the Finance Ministry's disbursement of PKR 17.4bn for electoral processes, initially spurred an optimistic uptrend.

Cracking the Currency Code & The FIPI Symphony

Another key factor driving the index's upward trajectory was a surge in Foreign Institutional Portfolio Investment (FIPI) during the year. Despite a 19% depreciation of the domestic currency in CY23, the final months saw stable appreciation, which attracted foreign investors. This culminated in November 2023 marking the highest Net FIPI for the PSX in six years, totaling USD 73mn and significantly elevating the overall bourse.

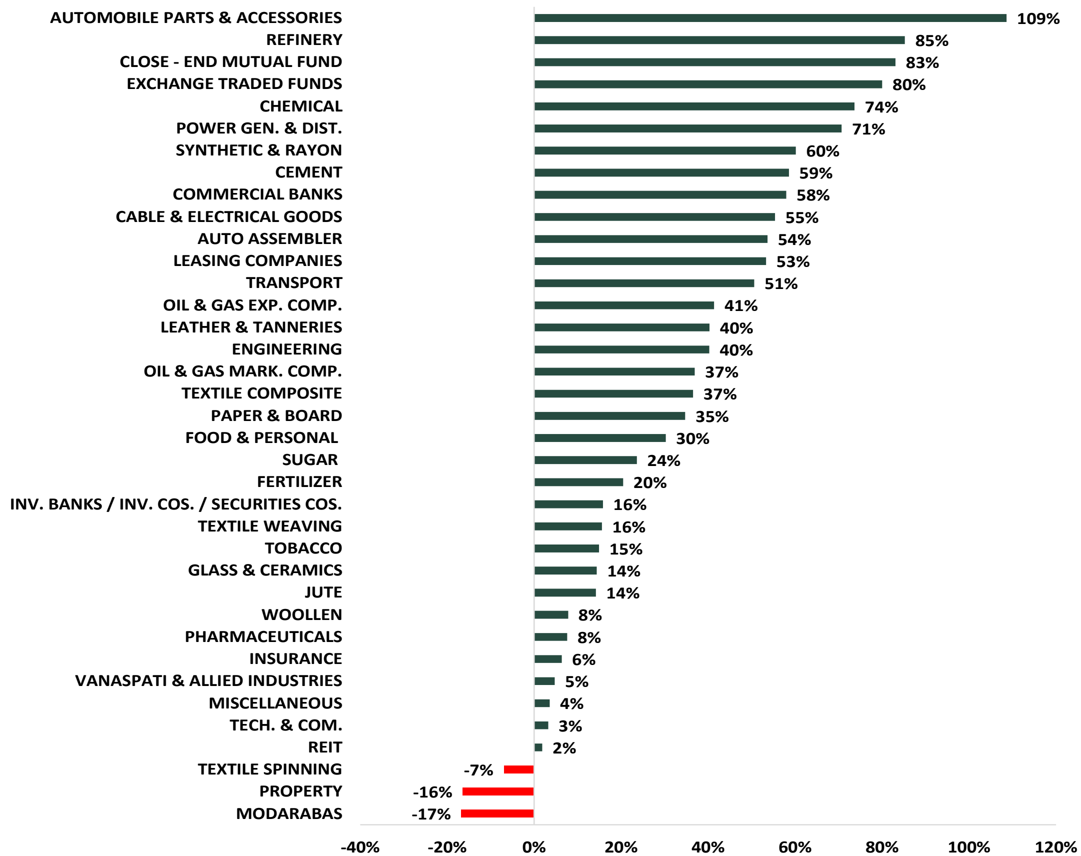
Pakistan Equities: Milestone Momentum

Rate Rise Ballet: From 16% to 22%

The Monetary Policy Committee (MPC) played a decisive role in shaping the movements of the benchmark KSE-100 index throughout the year. Despite a scheduled plan of 7 meetings, the State Bank held a total of 8 meetings, resulting in a noteworthy increase in the policy rate by 600 basis points compared to the previous year—rising from 16% in CY2022 to 22% by the end of CY2023. The index consistently reacted to MPC meetings, both in anticipation and in response to rate announcements. The policy rate held significant sway over the country's Consumer Price Index (CPI), directly impacting investor sentiments and market dynamics.

Pakistan Equities: Milestone Momentum

KSE All Share Sector Returns CY23



Source: PSX, HMFS Research

Top Gainers of CY23 (KSE-100 Index)

S.No	Symbol	Current	Δ PKR	% Gain
1	ATRL	327.47	183.91	128.11%
2	PIOC	114.94	63.51	123.49%
3	FFBL	31.90	16.57	108.09%
4	KTML	94.75	47.50	100.53%
5	PTC	12.23	6.13	100.49%
6	SNGP	73.52	35.97	95.79%
7	KEL	5.26	2.56	94.81%
8	PABC	75.57	36.74	94.62%
9	HUBC	117.09	54.01	85.62%
10	SRVI	628.36	288.59	84.94%

Source: PSX, HMFS Research

Top Losers of CY23 (KSE-100 Index)

S.No	Symbol	Current	Δ PKR	% Loss
1	PSEL	1,011.00	-655.21	-39.32%
2	CEPB	32.56	-16.92	-34.20%
3	TRG	79.07	-29.35	-27.07%
4	JVDC	37.36	-11.64	-23.76%
5	GHGL	29.31	-8.49	-22.46%
6	GADT	208.06	-49.44	-19.20%
7	COLG	1,582.00	-268.00	-14.49%
8	JDWS	376.00	-62.00	-14.16%
9	AVN	57.34	-8.69	-13.16%
10	SEARL	51.48	-7.39	-12.55%

Source: PSX, HMFS Research

Pakistan Equities: Milestone Momentum

KSE-100 Index Ten Year 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%

Source: PSX, HMFS Research

Crisis Chronicles: Industry Shutdowns

In the economic landscape of 2023, Pakistan found itself grappling with an unprecedented wave of shutdowns that cast a dark shadow over major companies. This tumultuous year proved to be a formidable adversary, striking a blow to thriving industries, notably the automotive sector, which bore the brunt of subdued demand, inflationary pressures, and stringent import restrictions. The once-resilient players, like Pakistan Suzuki Motor Company (PSMC), were compelled to take drastic measures to weather the storm. PSMC's decision to delist from the Pakistan Stock Exchange (PSX) served as a stark symbol of the industry's struggles, leaving analysts and investors pondering the implications. Moreover, Toyota Indus Motors, a major player, grappled with an unprecedented one-month shutdown, marking a formidable challenge in an already tumultuous year. The cascading effect of these shutdowns rippled through the economy, triggering a domino effect on employment, investor confidence, and overall economic growth.

Crisis Chronicles: Industry Shutdowns

Symbol	Shutdown Start	Shutdown End	Duration
AGIL	04/04/2023	31/05/2023	57
AGIL	03/07/2023	31/07/2023	28
AGIL	01/09/2023	31/12/2023	121
			206
BNWM	06/05/2023	12/05/2023	6
CNERGY	02/02/2023	09/02/2023	7
EFERT	04/03/2023	09/03/2023	5
HCAR	09/03/2023	15/05/2023	67
HCAR	24/10/2023	09/11/2023	16
			83
INDU	24/03/2023	27/03/2023	3
INDU	25/08/2023	06/09/2023	12
INDU	28/09/2023	09/10/2023	11
INDU	17/10/2023	17/11/2023	31
			57

Symbol	Shutdown Start	Shutdown End	Duration
LOTCHEM	18/10/2023	29/10/2023	11
PSMC	09/01/2023	20/01/2023	11
PSMC	13/02/2023	21/02/2023	8
PSMC	07/04/2023	16/06/2023	70
PSMC	22/06/2023	19/07/2023	27
PSMC	01/09/2023	12/09/2023	11
PSMC	12/09/2023	15/09/2023	3
PSMC	25/10/2023	14/11/2023	20
PSMC	01/12/2023	16/12/2023	15
PSMC	20/09/2023	22/09/2023	2
			167
SPL	10/07/2023	16/09/2023	68
SPL	10/12/2023	31/12/2023	21
			89

Source: PSX, HMFS Research

PSX's Sole IPO: Symmetry's Debut

PSX had a lackluster IPO year with only one listing (Symmetry Group), which raised a minimal PKR 435mn. This single listing pales in comparison to the number of IPOs seen in the recent past. In 2022, only three IPOs were conducted, raising a total of PKR 1.3bn. This number sharply contrasts with the previous year, 2021, which saw seven IPOs raising a substantial PKR 19.2bn. Symmetry Group officially entered the stock exchange on September 1, 2023. Their IPO sold 101.24mn shares at PKR 4.30 per share, featuring a PKR 3.30 premium.

Global IPO Decline Echoes at PSX

The lackluster IPO activity at PSX was largely influenced by political instability, escalating inflation, and prevailing financial risks. Globally, a similar trend of dwindling IPOs has emerged, according to EY Global IPO Trends latest report (Q4CY23), the year was marked by a decrease of 8% in IPO activities and a 33% y/y decline in the funds raised through IPOs. This drop is attributed to mounting macro challenges, tighter liquidity, and increased capital costs.

PSX 2024: New IPOs Await

Global IPO's vs PSX IPO's Comparison

Period	Amount Raised (USD bn)	Number of IPOs held
9MCY23	968	101
9MCY22	1018	148

Source: HMFS Research

Anticipating a surge in IPOs, buoyed by KSE-100 gains and an enhanced, streamlined process ensuring swift SECP regulatory approvals in late CY23. Looking ahead to potential IPOs in Pakistan for 2024, Sui Southern Gas Company (SSGC) LPG subsidiary SSGC LPG (Private) Limited (SLL) plans to join the PSX, aiming to issue 33.3mn shares. Additionally, Secure Logistics Group intends to raise PKR 750mn by listing on the PSX.

Company Name	Date of Publication	Date of Public Subscription	Bidding Period	Date of Formal Listing	Par Value	Strike / Issue Price	Total (PKR Mn)
Symmetry Group Limited	27/Jul/2023	17 - 18 Aug 2023	08 - 09 Aug 2023	01/Sep/2023	1.00	4.30	435.332

Source: PSX, HMFS Research

PKR 36bn Buybacks: CY23

During CY23, eight buybacks, valued at PKR ~36bn, were successfully executed. The pronounced surge in buyback activity can be largely attributed to the appealingly low P/B ratios of the relevant company scrips. These low ratios stem from persistent macroeconomic challenges within the country. This dual role of buybacks involves not only addressing economic hurdles but also function as a mechanism to effectively enhance the value of remaining shares. Moving forward, there is an anticipation of increased buyback activity, with ongoing buybacks underway for companies such as TPLP, MLCF, and THCCL.

Buybacks CY23					
Company Name	Announce Date	Purchase period		No. of shares accepted (mn)	Total Amount (PKR)
		Start	End		
Lucky Cement	26-May-23	2-Jun-23	20-Nov-23	20	12,889
Lucky Cement	22-Sep-22	29-Sep-22	17-Mar-23	10	4,356
Kohat Cement	22-Feb-23	1-Mar-23	3-Aug-23	5	870
Engro Corporation	27-Jan-23	3-Feb-23	25-Jul-23	40	11,610
Habib Bank Limited	1-May-23	22-May-23	3-Jul-23	35	3,484
JDW Sugar Mills	4-Oct-22	11-Nov-22	2-May-23	2	881
Kohinoor Textile Mills Limited	6-Mar-23	13-Mar-23	29-Aug-23	30	1,775
Synthetic Products Enterprises Limited	25-Mar-23	31-Mar-23	20-Sep-23	10	115

Source: PSX, HMFS Research

KSE-100's Stellar 55% Surge

The KSE-100 outperformed top Asian Indices in CY23 including Nikkei, recording a staggering 55% rise. This stellar performance stands in stark contrast to the Nikkei's 28% gain, while the Hong Kong's HSI and China's SSE suffered declines of 14% and 4%, respectively. Moreover, India's premier index, SENSEX, also joined the positive parade, registering a noteworthy 19% increase.

KSE-100 Outperforms Nikkei, HSI, SSE

The KSE-100's robust performance, outshining its counterparts, can be primarily attributed to a low base effect. The index, previously at a significantly low point, benefited from the stability provided by the IMF bailout, acting as a catalyst for its resurgence. Key sectors with robust earnings growth not only bolstered the index but also instilled confidence in investors, leading to an overall improvement in trading activity. Nikkei's rise links to a slight yen depreciation (↓7% y/y vs. USD), which attracted foreign investors. SENSEX surged on strong fundamentals, political stability, and a positive corporate outlook. In contrast, HSI declined amid concerns over China's economy and the U.S. trade war.

	KSE-100	Nikkei 225	HSI 73	SSE Com Index	SENSEX 30
Start (02-Jan-23)	40,420	26,095	19,781	3,089	60,841
End (29-Dec-23)	62,451	33,464	17,047	2,975	72,240
% change	55%	28%	-14%	-4%	19%

Source: Yahoo Finance, HMFS Research

Year 2024: Emerging Stronger

Equities' Outlook: Transformative Triggers

Anticipating the landscape for Pakistan's equities in 2024, a series of pivotal events are poised to exert positivity. At the forefront, the potential for political stability post-elections in the initial quarter, combined with the awaited receipt of the final IMF tranche, holds promise to inject much-needed clarity into investor sentiment and instigate positive momentum across the stock market. Moreover, the inclusion of government debt securities on the PSX will provide additional investment avenues, further diversifying opportunities for investors. The advent of the Special Investment Facilitation Council (SIFC) is also expected to usher in a wave of constructive impact, attracting foreign investments through strategic partnerships and bolstered management.

Balancing Flows, Shaping Policies

Efforts aimed at curbing smuggling and maintaining a sustained USD-PKR parity will bear significance. An anticipated strengthening of the rupee, alongside improved inflows, could pave the way for policy rate normalization. This trajectory is likely to alleviate inflationary pressures and steer the nation toward economic revival.

Year 2024: Emerging Stronger

Global Winds, Local Challenges

Should global tensions persist six months into CY24, certain industries within Pakistan stand to benefit from such a situation. Sectors like pharmaceuticals, cement, steel, and textiles, which manufacture PPEs and surgical apparel, could experience growth as export opportunities expand. This growth would be particularly advantageous for the cash-strapped nation, providing a much-needed boost to its economy. Furthermore, in parallel with the aforementioned scenario, the ongoing domestic boycott of Israeli-led businesses could continue to bolster local business revenues. This movement has the potential to empower domestic enterprises, enabling them to expand their portfolios and reduce reliance on imported products.

Along with the catalysts for recovery, it's crucial to acknowledge potential impediments that might hamper the index's trajectory and the broader economic landscape. Chiefly, the nation's vulnerabilities, intertwined as they are with the global geopolitical terrain, could experience a surge if such tensions cause commodity prices to shoot up. Given Pakistan's import reliance, such price

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escalations could pose serious challenges. Moreover, while debt repayments are nothing new for the country, the year 2024 presents a unique challenge since these obligations ballooned significantly in 2023. To navigate this unprecedented burden, Pakistan may have to seek further IMF bailout programs to bolster its liquidity position.

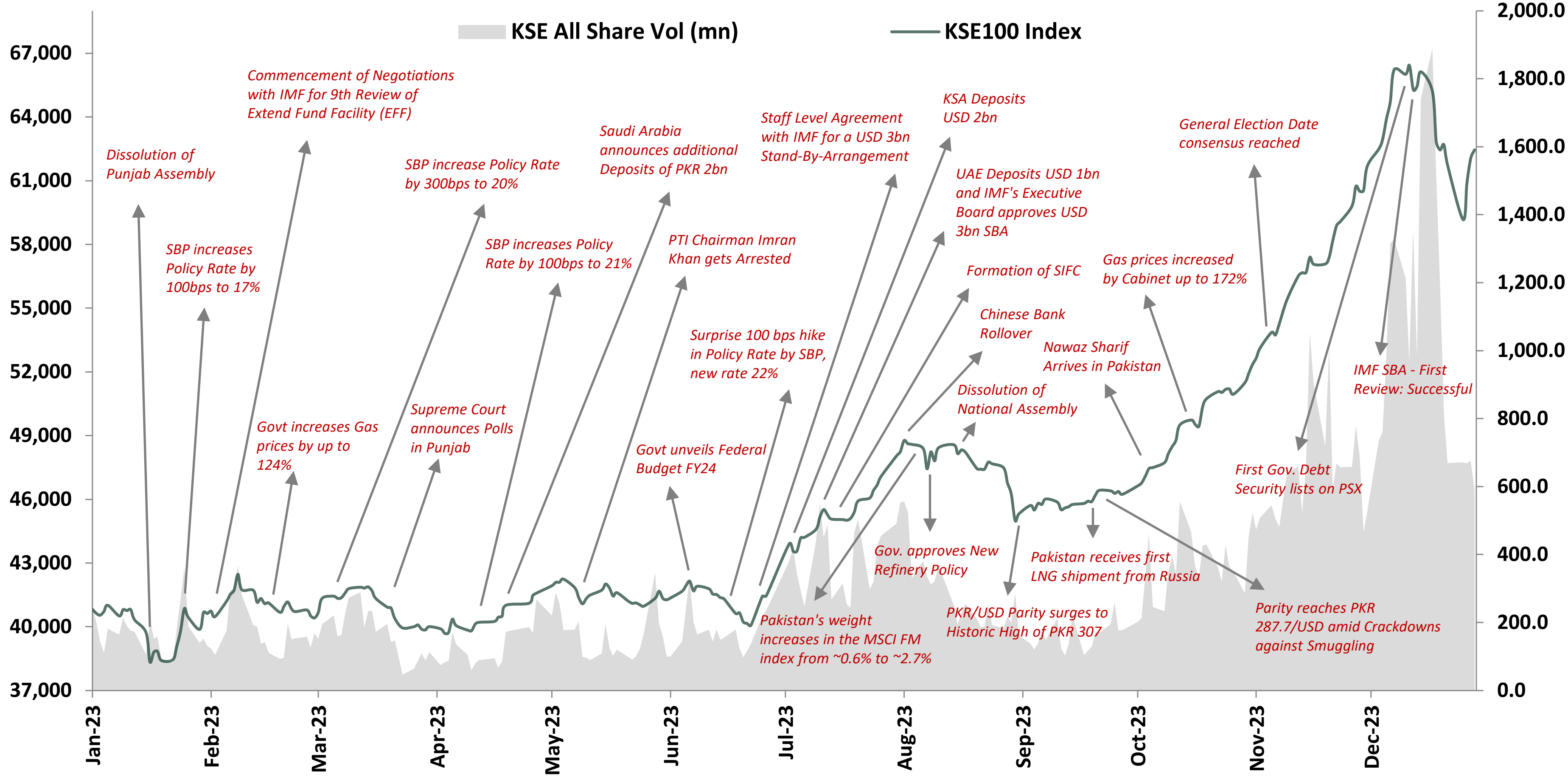
On the flip side, a potential departure from USD-based trading by major nations such as Russia, China, or India might weaken the greenback's dominance, offering advantages to a nation where the greenback serves as a benchmark. Furthermore, natural calamities loom as threats to the nation's economic stability. A recurrence of disastrous floods could prolong downturns and impede needed progress.

As we step into 2024, the first quarter is anticipated to be subdued due to global geopolitical tensions, casting a shadow on demand and impacting industry output globally. The unreliability of prices in this tumultuous environment is expected to play a significant role. However, as the months progress, there's

Year 2024: Emerging Stronger

optimism that the nation will slowly emerge from these challenges. The macroeconomic situation is projected to stabilize, accompanied by a gradual retreat of monetary policy to its previous levels. A noteworthy development that could serve as a financial cushion is the successful conclusion of the IMF agreement. This achievement not only provides a safeguard against global shocks but also positions the nation's economy to steadily pull itself out of the woods.

Major Events of CY23



E&P Sector: Wealth Wells

E&P Sector: Wealth Wells

Gas Surge, Profit Surge: E&P Sector Upturn

Our bullish outlook on the E&P sector is supported by several factors. Firstly, the sector boasts low P/E ratios, signaling attractive investment opportunities. Additionally, government efforts to maintain the circular debt accumulation contributes positively, reducing financial strain within the sector. Simultaneously, the recent surge in gas prices is anticipated to bolster liquidity and augment payout ratios for E&P companies, potentially enhancing investor returns. Notably, government initiatives towards formulating a tight gas policy offer promising prospects, with estimated reserves of approximately 100tn cubic feet, hinting at future growth avenues.

Volatility Ventures: E&P's Oil Price Odyssey

Challenges in FY23, particularly liquidity constraints, hindered drilling plans, leading to a shortfall in well targets. This resulted in a tangible impact on gas production, reflecting a decline in daily throughput. Addressing the lingering issue of gas circular debt, we believe, could trigger a re-rating of the sector, fostering improved market perception and investor confidence.

E&P Sector: Wealth Wells

Additionally, analyzing the volatility in Brent oil prices from approximately USD 76/bbl. in Dec '23 to a peak of USD 96.5/bbl. in Sep '23 reflects market dynamics driven by increased inventory and weakened demand prospects. Geopolitical tensions continue to influence price fluctuations, with anticipated ongoing volatility in oil prices. Our analysis aligns with the Energy Information Administration's (EIA) projection of an average brent oil price of USD 82/bbl. in CY24.

Recovery Horizons: E&P's Bullish Stance

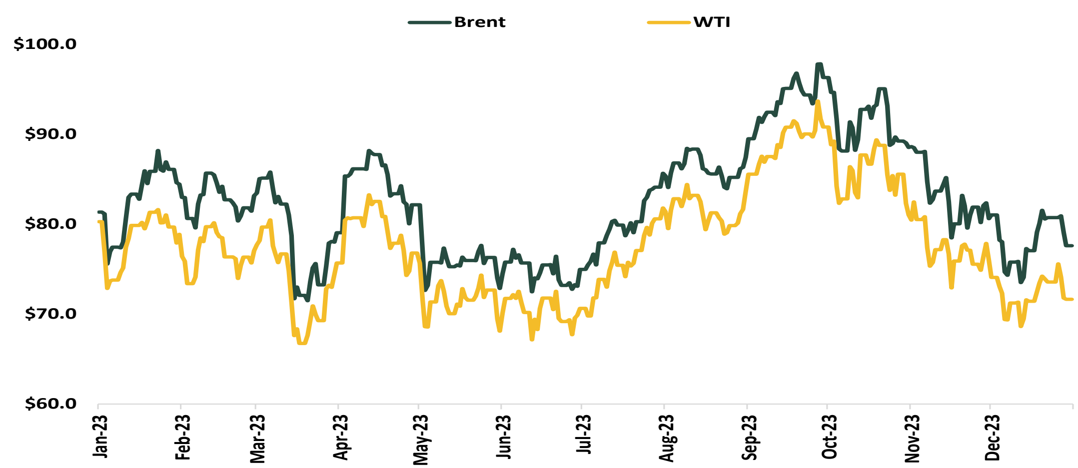
Amidst these challenges and price fluctuations, the anticipated improvements in cash flow might rekindle exploration activities, offering potential growth avenues and recovery prospects. Our bullish stance on the E&P sector is firmly anchored in the potential for upcoming policy changes, and the scope for growth and resilience within the sector, despite the hurdles encountered.

E&P Sector: Wealth Wells

Risks to Valuation

- *Decline in global crude oil prices*
- *Lower than expected production and exploration activities*
- *Lack of reforms resulting in increase in receivables*
- *Unexpected government intervention*

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



Source: Bloomberg, HMFS Research

E&P Sector: Wealth Wells

Pakistan Petroleum Limited – Future-Focused Ventures, Yielding Resourceful Gains

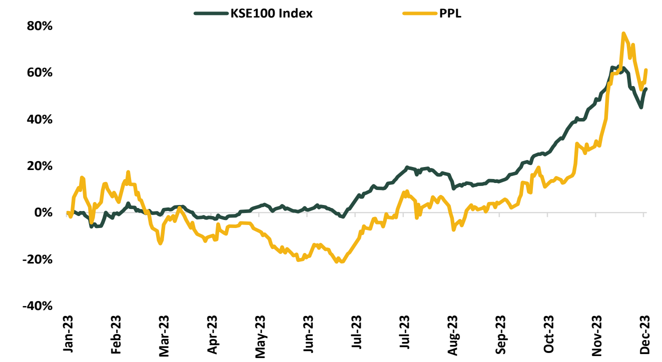
*We uphold a **BUY** recommendation for Pakistan Petroleum Limited (PPL), by our Reserves Based Net Asset Value (DCF of 2P* reserves) assessment, valuing the stock at PKR 157/ share. This underscores a potential capital appreciation of approximately 29% relative to the prevailing market price, coupled with a dividend yield of around 2% (Estimated DPS for FY24F: PKR 3/ share). Our positive valuation is underpinned by anticipated developments poised to enhance the company's future performance.*

- *In FY24, PPL has allocated a Capex of PKR 35bn*
- *PPL aims to drill 9 exploratory and 6 development wells in FY24*

Pakistan Petroleum Limited	
Symbol	PPL
Bloomberg Code	PPL PA
Mkt Cap (PKR mn)	340,339.00
Mkt Cap (USD mn)	1,213.95
No Of Shares (mn)	2,720.97
High (52 Weeks)	131.50
Low (52 Weeks)	55.90
Avg. Volume (52 Weeks)	7,666,454.54
Avg. Value in PKR (52 Weeks)	573,965,324.40

Source: PSX, HMFS Research *As of 29-Dec-2023*

Relative Performance



Source: PSX, HMFS Research

E&P Sector: Wealth Wells

Pakistan Petroleum Limited – Future-Focused Ventures, Yielding Resourceful Gains

- *Current projects : BLZ mining, Compression revamp in Sui, GPF IV compression and the continuation of Zafir project to add value in the company.*
- *Vigorous initiatives have been undertaken to address the circular debt issue, with an optimistic outlook for improvements in circular debt receivables for PPL*
- *The persistent hike in consumer gas prices continues to serve as a beneficial factor for the company*

E&P Sector: Wealth Wells

Pakistan Oilfields Limited – Dividend Majesty, Reserves Fortitude

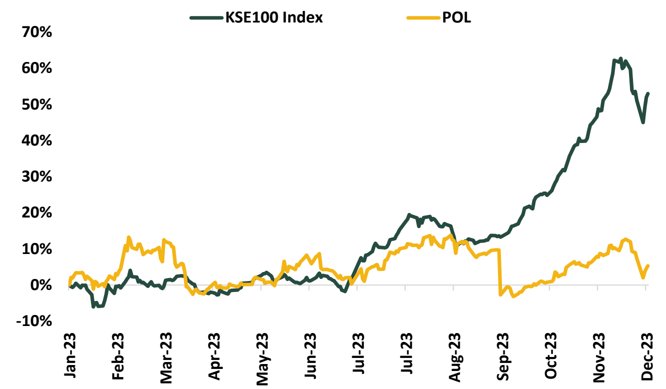
*We maintain a **BUY** stance on Pakistan Oilfields Limited (POL) with our Reserves Based NAV (DCF of 2P* reserves) value of PKR688/ share, indicating a potential capital upside of 57% relative to the current market price, in addition to a dividend yield of ~18.5% (DPS FY24F: PKR80/ share). Our valuation is supported by the following developments that are anticipated to boost the company's future performance:*

- *FY24 Capex allocation for POL stands at PKR 18bn.*
- *POL targets drilling 2 exploratory & 6 development wells in FY24.*
- *Maintaining zero exposure to circular debt.*
- *Recognized as the king of dividends.*
- *POL possesses substantial cash reserves to PKR 70 bn in FY23.*

Pakistan Oilfields Limited	
Symbol	POL
Bloomberg Code	POL PA
Mkt Cap (PKR mn)	122,194.00
Mkt Cap (USD mn)	435.85
No Of Shares (mn)	283.86
High (52 Weeks)	460.00
Low (52 Weeks)	381.00
Avg. Volume (52 Weeks)	266,761.22
Avg. Value in PKR (52 Weeks)	112,532,734.19

Source: PSX, HMFS Research — As of 29-Dec-2023

Relative Performance



Source: PSX, HMFS Research

Fertilizer Sector: Growth Grounds

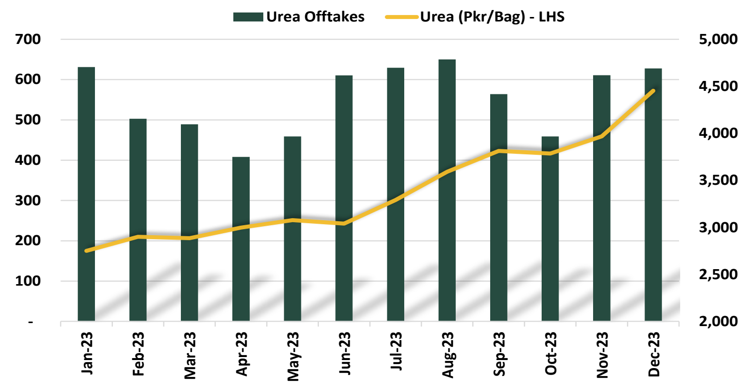
Fertilizer Sector: Growth Grounds

Fertilizer Frontiers: Cultivating Prosperity

The fertilizer industry's trajectory and future prospects hinge on pivotal developments. Its significant contribution not only to the national GDP but also in ensuring food security places this sector in the spotlight, attracting attention from both investors and the government. Highlighting the positives, the aftermath of catastrophic floods saw a remarkable increase in Rabi season crop yields owing to improved soil water retention, resulting in healthy harvests. This sustained demand for fertilizers is anticipated in the foreseeable future.

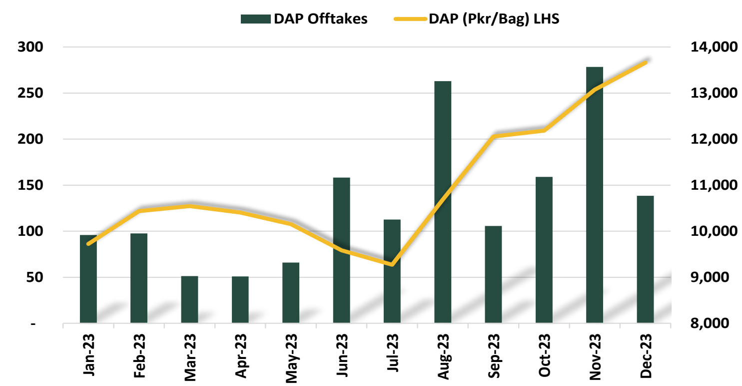
Furthermore, the SIFC's efforts in promoting the agricultural sector aim to shift from traditional farming methods to

UREA Prices (PKR/bag) and Offtakes



Source: NFDC, HMFS Research

DAP Prices (PKR/bag) and Offtakes



Source: NFDC, HMFS Research

Fertilizer Sector: Growth Grounds

innovative, high-tech, high-yield, and cost-effective community based corporate farming. This initiative seeks to revolutionize the agricultural sector, presenting promising prospects for the fertilizer industry, which serves as a backbone of the country's thriving agro economy. Lastly, the latest development in the fertilizer landscape is the possibility of imported and local urea fertilizer to be incorporated in one basket, which could result in price hikes of domestic urea bag. According to Ministry of Industries and Production (MoIP) these could be the price adjustments, (i) Agritech PKR 159 per bag; (ii) Engro PKR 171 per bag; (iii) FFC PKR 171 per bag; (iv) FFBL PKR 158 per bag ;(v) Fatima PKR 168 per bag; (vi) Pak Arab PKR 160 per bag and; (vii) Fatima (SHP) PKR 160 per bag.

Gas Pricing Pivot: Fertilizer Forecast

Persistent bottlenecks throughout the year revolved around the disparity in prices due to the lack of unified gas pricing for fertilizer plants. The majority of these plants rely on gas supplied by MARI, which remained largely unchanged for most of the year (except in late CY2023/early CY24).

Fertilizer Sector: Growth Grounds

However, plants using gas from the SSGC and SNGPL networks experienced price hikes, leading them to raise fertilizer prices to pass on the impact to consumers. Consequently, the urea price range fluctuated between PKR 3,400/bag to PKR 3,900/bag. Yet, due to market intermediaries manipulating supply and demand, urea was trading at approximately PKR 4,700 to 5,000/bag. We foresee a probable resolution in 2024 through the ongoing government initiative to standardize gas prices. This initiative aims to ensure that major plants (EFERT, FFC, FATIMA) supplied by MARI will be subjected to the same gas rates as those linked to the SSGC & SNGP networks. This equalization of pricing across the board could benefit plants connected to the SNGP and SSGC networks, levelling the playing field for all.

Dividend Delight: Fertilizer Investment Picks

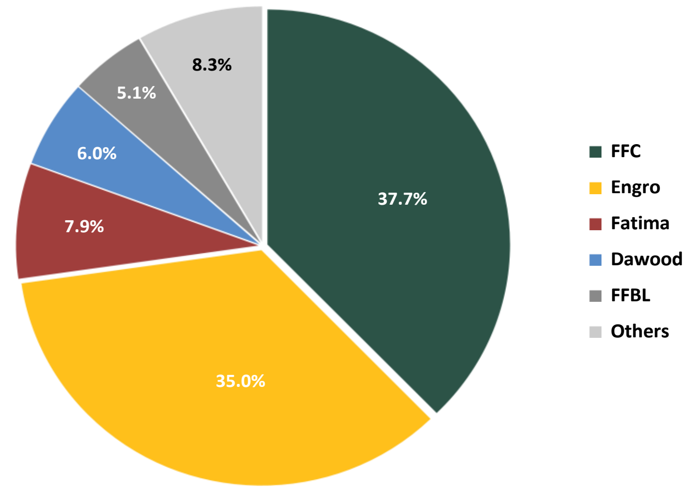
We see the fertilizer sector as a secure investment owing to its consistent urea demand and appealing dividend yield. Within our fertilizer portfolio, our top preferences are EFERT and FFC, driven by their steady operational frameworks and enticing payout ratios.

Fertilizer Sector: Growth Grounds

Risks to Valuation

- *Crop damage because of natural disasters, such as floods, locust attacks, impacting fertilizer offtakes*
- *Further increase in gas prices*
- *Unfavorable decision over GIDC verdict /payments*
- *Economic Slowdown*
- *Unfavorable government intervention*
- *Removal of Gas Subsidy*

UREA Market Share of Companies (CY23)



Source: NFDC, HMFS Research

Fertilizer Sector: Growth Grounds

Fauji Fertilizer Company Limited – Revenue Surge, Debt Demise

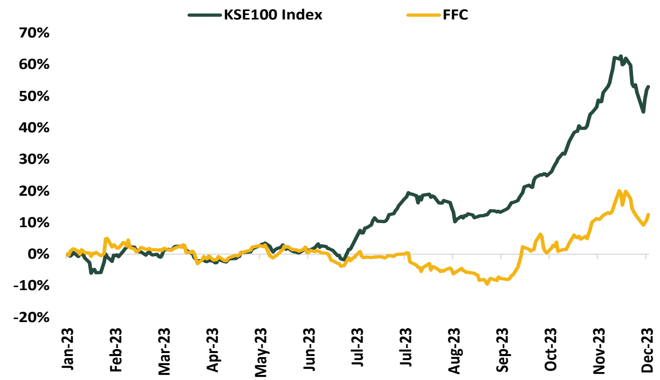
We maintain our coverage for Fauji Fertilizer Company Ltd. (FFC) with a **BUY** stance, having an FCFE based intrinsic value of PKR 148/ share for CY23E. The company is projected to offer a dividend yield of ~23% (DPS CY24F: PKR ~27/ share) showing a capital upside of ~25% against the current market price (PKR 118/ share). We base our view on the back of:

- Established market leadership (CY23 ~40%), offtakes surpass competitors' figures by impressive margins due to pricing and volumes
- The Company holds a formidable position in the Punjab region, leveraging its extensive reach and influence to solidify its market share

Fauji Fertilizer Company Limited	
Symbol	FFC
Bloomberg Code	FFC PA
Mkt Cap (PKR mn)	151,027.00
Mkt Cap (USD mn)	538.70
No Of Shares (mn)	1,272.24
High (52 Weeks)	122.25
Low (52 Weeks)	90.45
Avg. Volume (52 Weeks)	758,373.52
Avg. Value in PKR (52 Weeks)	76,977,593.95

Source: PSX, HMFS Research | As of 29-Dec-2023

Relative Performance



Source: PSX, HMFS Research

Fertilizer Sector: Growth Grounds

Fauji Fertilizer Company Limited – Revenue Surge, Debt Demise

- *FFC has witnessed a noteworthy surge in other income channels, bolstering its financial stability, while concurrently implementing successful strategies to curtail short-term borrowings*
- *Decent dividend income from FFBL, AKBL & PMP (Pak Maroc Phosphor S.A - a JV of FFC, FFBL and Fauji Foundation)*

Fertilizer Sector: Growth Grounds

Engro Fertilizer – Navigating Gas Waves, Sowing Growth

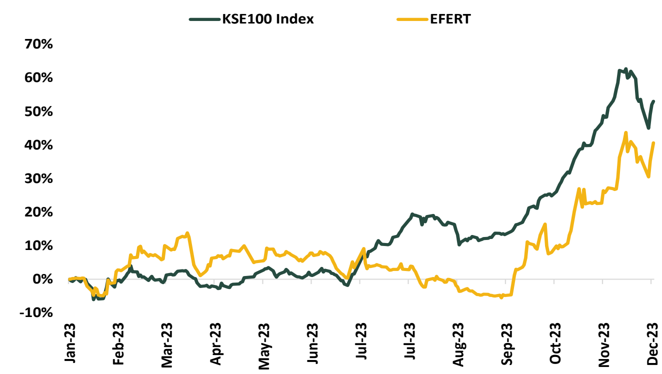
We maintain our coverage for Engro Fertilizers Ltd. (EFERT) with a ***BUY*** *stance, having an FCFE based intrinsic value of PKR 137/ share for CY24F. The Company is anticipated to offer a consolidated return of 32% in CY24, with a DY of~19% (DPS CY24F: PKR ~23/ share), and a capital upside of ~13% (current price PKR 121.5). We base our view on the back of:*

- *Ongoing improvements in operational efficiencies*
- *Favorable position as increase in gas prices doesn't affect EFERT's urea plants because of PP12 (Petroleum Policy 2012 which enables EFERT's EnVen plant to get subsidized gas)*
- *Additionally, EFERT is expected to sustain its stable revenue stream which coupled with its strong cash position indicates the potential of a consistent payout policy in the future*

Engro Fertilizers Limited	
Symbol	EFERT
Bloomberg Code	EFERT PA
Mkt Cap (PKR mn)	162,292.00
Mkt Cap (USD mn)	578.88
No Of Shares (mn)	1,335.30
High (52 Weeks)	124.39
Low (52 Weeks)	75.00
Avg. Volume (52 Weeks)	1,456,766.47
Avg. Value in PKR (52 Weeks)	125,234,600.90

Source: PSX, HMFS Research *As of 29-Dec-2023*

Relative Performance



Source: PSX, HMFS Research

Banking Sector: Defying the Economic Woes

Banking Sector: Defying the Economic Woes

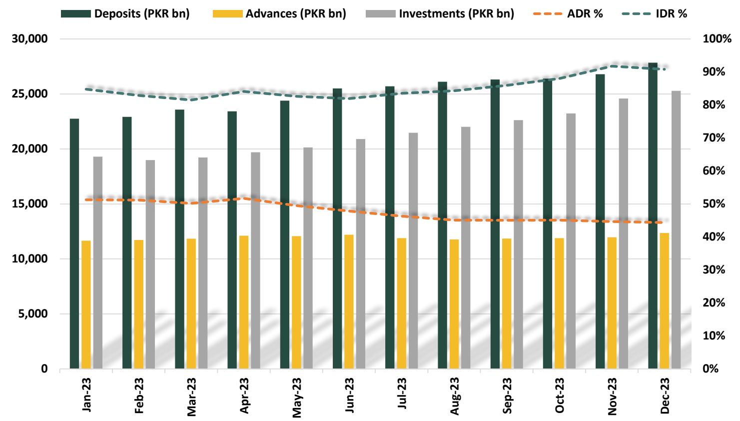
Interest Rate Surge: The Banking Triumph of CY23

In spite the struggling economy, the banking sector thrived in CY23, recording improved profits primarily attributed to rising interest rates and exceptional gains from Foreign Exchange.

Policy Shifts, Profits Soar: A CY23 Banking Chronicle

During CY23, the State Bank of Pakistan increased the policy rate from ~16% to 22% p.a. resulting in a substantial 600bps cumulative surge. Due to the high profitability, Banks have been focusing on paying out larger and more frequent dividends. Post-IMF agreement, improved economic conditions and solid profitability have bolstered banks' capital buffers, supporting continued payouts.

Banks Deposits, Advances & Investments



Source: SBP, HMFS Research

Banking Sector: Defying the Economic Woes

In 2023, cautious lending amid a tough economic landscape is anticipated to shift in 2024, with increased advances driven by lower interest rates and a more relaxed monetary policy, mitigating Non-Performing Loan risks. Looking ahead, Net Interest Income (NII) is projected to rise YoY, while non-mark-up income is expected to decrease due to the absence of significant forex income. Operating expenses will likely grow in line with inflation.

Banks, including Microfinance institutions, have expanded their presence in the digital realm. As of the end of 3QCY23, a total of 16 banks have broadened their offerings in Branchless Banking, thereby increasing the reach and accessibility of their services.

Anticipating Advances: Banking Strategies for CY24

Moving forward, despite expected rate cut on the anticipation of ease in inflation, banks' earnings are estimated to grow. This is supported by the delayed adjustment of asset pricing and the increase in deposits. Moreover, due to the banks' prudent lending practices and elevated coverage levels,

Banking Sector: Defying the Economic Woes

it is anticipated that the resilience of their asset quality will persist. However, minor deterioration is expected in NPLs. Simultaneously, advances growth is expected to increase in CY24, driven by economic recovery and declining policy rates.

Key Risks

- *Policy rate fluctuations*
- *Imposition of super/ windfall taxes*
- *Changes in legal or regulatory environment*
- *Credit risk*
- *Government borrowing decline*

Banking Sector: Defying the Economic Woes

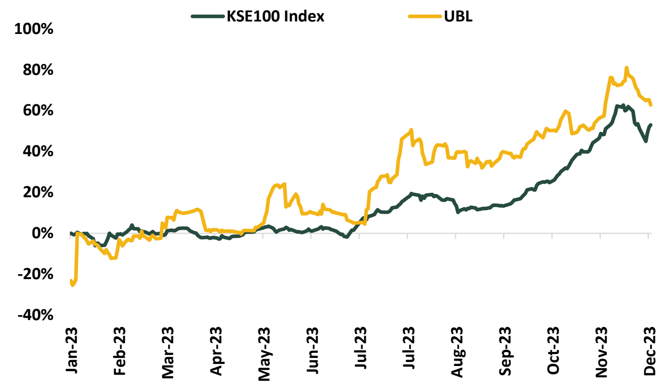
United Bank Limited – Shines Bright with Stellar Payouts

*We recommend a **BUY** stance on United Bank Limited (UBL) with our RIM based Fair Value estimate of PKR 201/ share which offers a total upside of 35% including the dividend yield of 24% (DPS CY23E: PKR 43), against the current price of PKR 181.5/ share. The stock currently trades at a P/BV multiple of ~0.7x as against industry P/BV of ~0.6x. Our valuation of the bank is underpinned by several factors, mainly UBL's impressive earnings, high dividend yield, strong asset growth, and efficient asset management.*

United Bank Limited	
Symbol	UBL
Bloomberg Code	UBL PA
Mkt Cap (PKR mn)	219,642.00
Mkt Cap (USD mn)	783.44
No Of Shares (mn)	1,224.18
High (52 Weeks)	191.99
Low (52 Weeks)	91.50
Avg. Volume (52 Weeks)	1,309,869.98
Avg. Value in PKR (52 Weeks)	173,711,974.35

Source: PSX, HMFS Research — *As of 29-Dec-2023*

Relative Performance



Source: PSX, HMFS Research

Banking Sector: Defying the Economic Woes

United Bank Limited – Shines Bright with Stellar Payouts

- *The bank has remained prominent during the year primarily due to its high payout ratio and impressive growth in earnings (9MCY23: 1.3x Y/Y)*
- *The bank is expected to remain resilient with healthy buffer well above the requirement*
- *Additionally, its international business profile has demonstrated resilience, characterized by significant returns*
- *With the on-going economic revival in GCC economies, the bank is anticipated to achieve even better performance, coupled with robust asset quality*

Banking Sector: Defying the Economic Woes

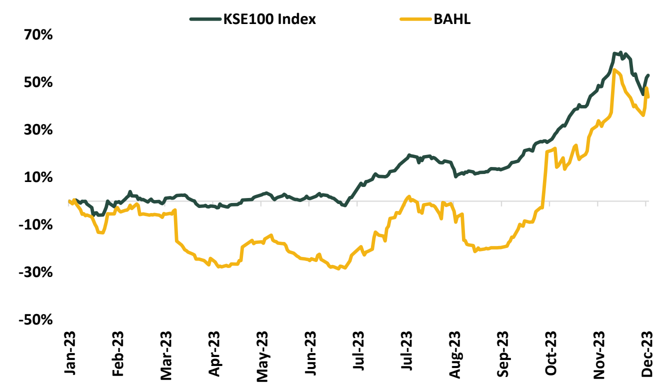
Bank Al Habib Limited – Rapid Expansion sets the stage for Strong Performance

We recommend a **BUY** stance on Bank Al Habib Limited (BAHL) with our RIM based Fair Value estimate of PKR 103/ share which offers a capital upside of ~26% against the current price of PKR 81.59/ share. The stock currently trades at a P/BV multiple of ~0.5x against the banking sector P/BV of ~0.6x and offers an expected dividend yield of ~15% (DPS CY23F: PKR12). Our valuation of the bank is underpinned by several factors, mainly BAHL's strong asset growth, impressive earnings and margins, accelerated expansion of branch network and efficient asset management.

Bank Al Habib Limited	
Symbol	BAHL
Bloomberg Code	BAHL PA
Mkt Cap (PKR mn)	91,626.00
Mkt Cap (USD mn)	326.82
No Of Shares (mn)	1,111.43
High (52 Weeks)	87.98
Low (52 Weeks)	39.99
Avg. Volume (52 Weeks)	864,862.24
Avg. Value in PKR (52 Weeks)	45,771,849.86

Source: PSX, HMFS Research — As of 29-Dec-2023

Relative Performance



Source: PSX, HMFS Research

Banking Sector: Defying the Economic Woes

Bank Al Habib Limited – Rapid Expansion sets the stage for Strong Performance

- *The bank experienced a 12% growth in deposits during 9MCY23, 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*

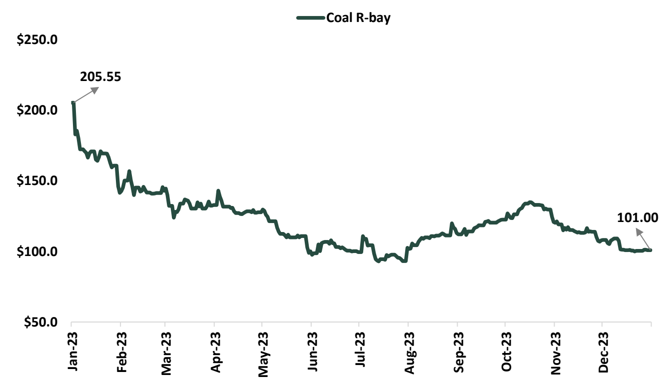
Cement Sector: Concrete Gains

Cement Sector: Concrete Gains

Navigating Soaring Costs and Global Fallout

In 2023, the cement industry confronted persistent challenges characterized by subdued demand, amplified by soaring construction expenses and a surge in energy and commodity prices. The fallout from the Russia-Ukraine conflict in FY22 displayed in an unprecedented spike in international coal prices, reaching an alarming USD 460/ton on March 08, 2022 (SPLY: USD 87.20/ton, a massive increase of 427.5%). The sector grappled with the compounding effect of continuous PKR devaluation, exacerbating coal importation burdens and precipitating a surge in cement prices. Industry stakeholders navigated these challenges by exploring alternatives, turning to Afghan coal and locally sourced coal.

Coal (R-Bay) Prices Trend (USD/M.T)



Source: Bloomberg, HMFS Research

Cement Sector: Concrete Gains

Export Flourish Amidst Gas Peaks: Cement Sector's Stalwart Stand

Although the cement sector was subjected to the highest percentage increase of 193% in gas prices, the impact will not be very significant on cement stocks as they mostly rely on coal to meet their fuel requirements. However, certain companies will bear the hit of gas prices, including Cherat Cement translates into an impact of (~PKR 7)/ share, and Lucky Cement's` per share impact is estimated to be (~PKR 4)/ share. Despite these hurdles, recent numbers indicate by 111% growth in cement exports, totaling 3.653mn tonnes in 1HFY24 while local sales uptick by 1% to 20.223mn tonnes. Export were mainly led by LUCK, POWER, DGKC, CHCC and MLCF in 1QFY24 .

Cementing Tomorrow: A Revival in the Mix

Looking forward, the cement sector anticipates a potential revival, buoyed by the projected decline in interest rates and inflation, coupled with the utilization of the Public Sector Development Programme (PSDP). As inflation is forecasted to abate during CY24, Pakistan stands on the cusp of economic resurgence. Anticipated factors contributing to this include heightened local cement

Cement Sector: Concrete Gains

dispatches driven by economic stability, an upswing in exports, and the injection of USD 400mn by the World Bank for flood-affected construction. These elements collectively signal a revival of both cement demand and the construction sector.

Risks to Valuation

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

Cement Sector: Concrete Gains

Maple Leaf Cement Factory Limited – White Elephant Firm's Cemented Commitment

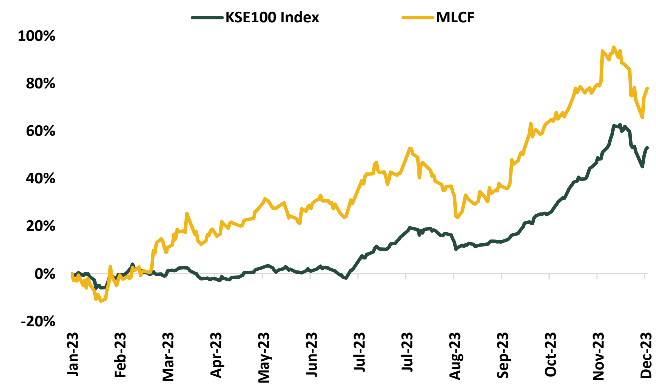
*We support Maple Leaf Cement Factory Limited (MLCF) with a **BUY** call, our DCF-based valuation at PKR 52 per share suggests a significant capital upside of ~38% relative to the prevailing market price. Our positive outlook is underpinned by several key initiatives expected to enhance the company's future performance:*

- *Completed brownfield plant (2.1mn tons), solidifying the position as the largest player in North*
- *Power generation capabilities, exclusive direct railway links, and use of Pet coke makes substantial cost savings and operational efficiency*

Maple Leaf Cement Factory Limited	
Symbol	*MLCF*
Bloomberg Code	*MLCF PA*
Mkt Cap (PKR mn)	*42,859.00*
Mkt Cap (USD mn)	*152.87*
No Of Shares (mn)	*1,073.35*
High (52 Weeks)	*43.30*
Low (52 Weeks)	*19.00*
Avg. Volume (52 Weeks)	*6,431,953.76*
Avg. Value in PKR (52 Weeks)	*189,933,241.38*

Source: PSX, HMFS Research ***As of 29-Dec-2023***

Relative Performance



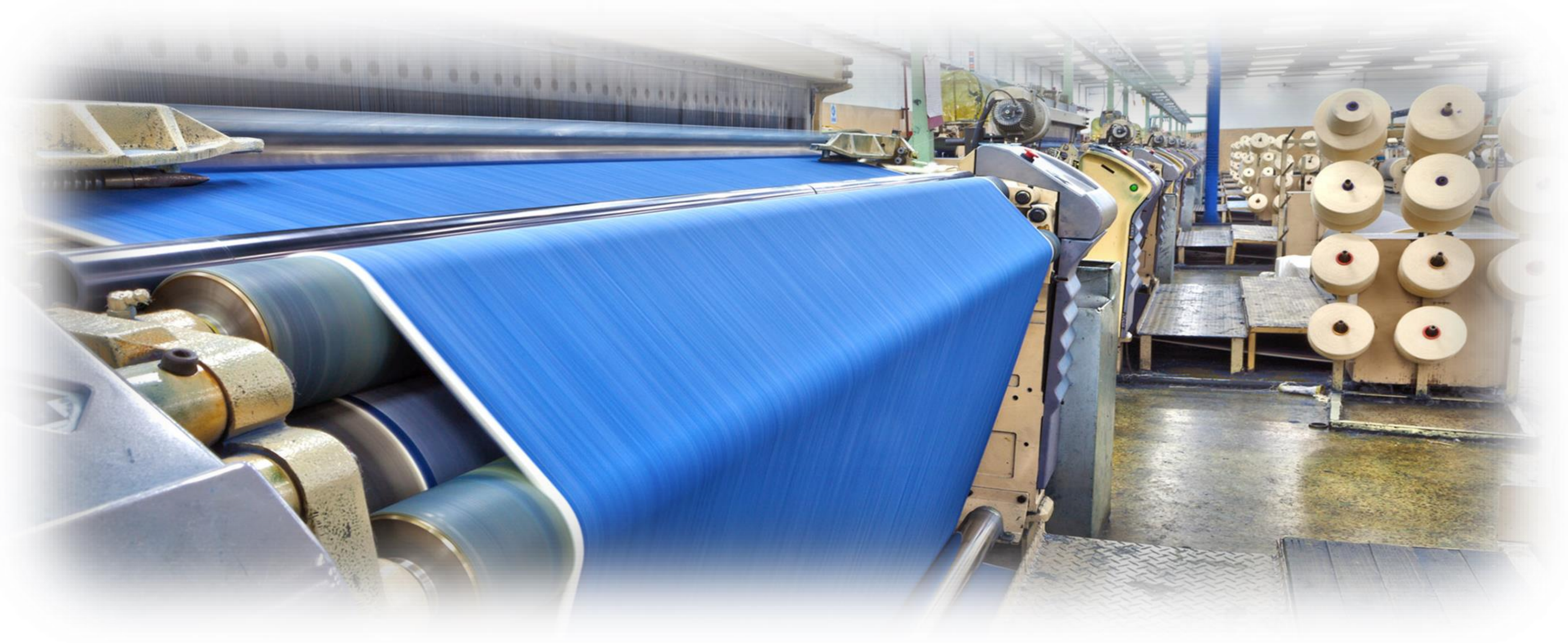
Source: PSX, HMFS Research

Cement Sector: Concrete Gains

Maple Leaf Cement Factory Limited – White Elephant Firm's Cemented Commitment

- *Planned to diversify its portfolio and enter in healthcare sector*
- *Favorable financial position, with low debt and a notable surge in short-term investments*
- *Commanding a remarkable 90% market share in white cement*
- *Seizing opportunities for export expansion*
- *Announced of another buyback program of 100mn shares*

Textile Sector: Looming Gains



Textile Sector: Looming Gains

Navigating Headwinds: Textile Tango

The textile industry, a pivotal force in Pakistan's export landscape, continues to command attention, contributing to ~60% to the nation's total exports. However, this sector has weathered challenges, primarily stemming from elevated electricity prices, gas tariffs, and heightened policy rates. Additionally, shifts in financing rates, notably in LTFF and ERF, from a fixed to a policy rate-linked system with a modest 300 basis point discount, have further compounded industry challenges.

Despite the hurdles mentioned above, the sector bounced back and was able to witness significant acquisitions during the year 2023. To quote, ILP securing a substantial 64% stake in the esteemed US company Top Circle Hosiery Mills. Additionally, NML has achieved a milestone by completing the full acquisition of WERNERFELT A/S Company, marking a noteworthy advancement for the textile sector.

Textile Sector: Looming Gains

Textile Revival: Reduced Tariffs, Surging Cotton Propels Sector

Moving forward, a glimmer of hope emerges with a notable upswing in the cotton crop, promising potential improvements in industry margins. During Dec 23, cotton arrivals experienced a 77.14% y/y rise. Furthermore, the gradual depreciation of the Pakistani Rupee against the US Dollar is expected to benefit export-oriented textile enterprises in Pakistan. Furthermore, the government's proactive measures, 'Winter Package', including subsidized financing and plans to reduce electricity tariffs from 14 cents to 9 cents per unit for export-oriented businesses, is subject to the approval of IMF.

Total Export vs Textile Export

Source: PSX, HMFS Research

Textile Export vs Textile Import

Source: PSX, HMFS Research

Textile Sector: Looming Gains

Anticipating a rebound, the textile sector holds promise, supported by the government's prioritization during periods of low reserves. Kazakhstan's interest in increasing textile imports from Pakistan, with a substantial market of USD 2bn, adds to the sector's growth potential. The abundant cotton supply, coupled with measures to aid export-oriented companies, positions the textile industry as a key focus for improvement in exports, making it a pivotal sector to watch in CY24.

Key Risks

- *Unforeseen natural disasters may disrupt local cotton production*
- *Steep fluctuations in Rupee*
- *Imposition of new taxes has the potential to influence production costs*
- *Increased energy costs and interest rates pose challenges to the sector*
- *Inflationary pressure may lead to cascading downward effects*
- *Intense competition adds another layer of challenge*

Textile Sector: Looming Gains

Nishat Mills Limited – Beyond the Threads

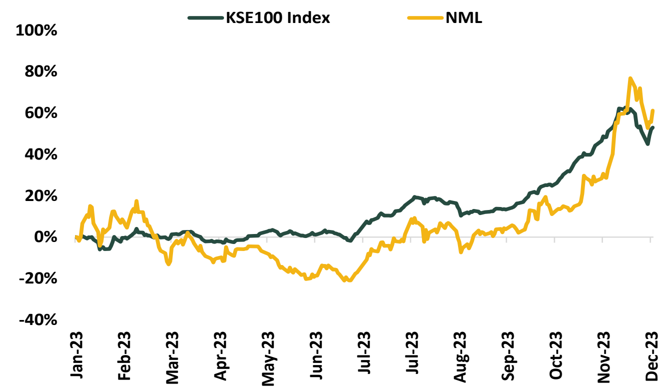
We advocate a **BUY** position on NML, supported by a FCFF-based valuation of PKR 145/ share, offering a substantial capital upside of ~89% relative to the current market price of PKR 76.85/ share. With an expected DPS of PKR 6.5 (DY: 8%) for FY24. The anticipated surge in profitability is attributed to compelling factors, underscoring the attractiveness of this investment opportunity.

- Complete (100%) acquisition of WERNERFELT A/S, a Denmark based textile company, is poised to significantly enhance profitability
- Positioned as one of the most diversified textile enterprises in the country

Nishat Mills Limited	
Symbol	NML
Bloomberg Code	NML PA
Mkt Cap (PKR mn)	28,240.00
Mkt Cap (USD mn)	100.73
No Of Shares (mn)	351.60
High (52 Weeks)	86.24
Low (52 Weeks)	49.00
Avg. Volume (52 Weeks)	1,229,147.02
Avg. Value in PKR (52 Weeks)	74,875,039.42

Source: PSX, HMFS Research *As of 29-Dec-2023*

Relative Performance



Source: PSX, HMFS Research

Textile Sector: Looming Gains

Nishat Mills Limited – Beyond the Threads

- *NML is planning to invest in Denim and expand in Workwear Sector*
- *Commissioning of 9.86 MW Solar Power Projects, ensuring a cost-effective approach*
- *Capitalizing on a robust cotton bumper crop this year, mitigating the need for imports*
- *A major chunk of revenue is derived from exports to diverse regions, underscoring the company's substantial presence in the global market*

Engineering Sector: Iron Heights

Engineering Sector: Iron Heights

Engineering Doldrums: Trials of CY23

During CY23, the Engineering sector significantly underperformed, trailing behind KSE-100 by 11%. The slowdown in construction work led to the decrease in cement and steel consumption. Additionally, macroeconomic indicators such as rising inflation, PKR devaluation against USD and restrictions on import eroded purchasing power ultimately affecting the industry's performance.

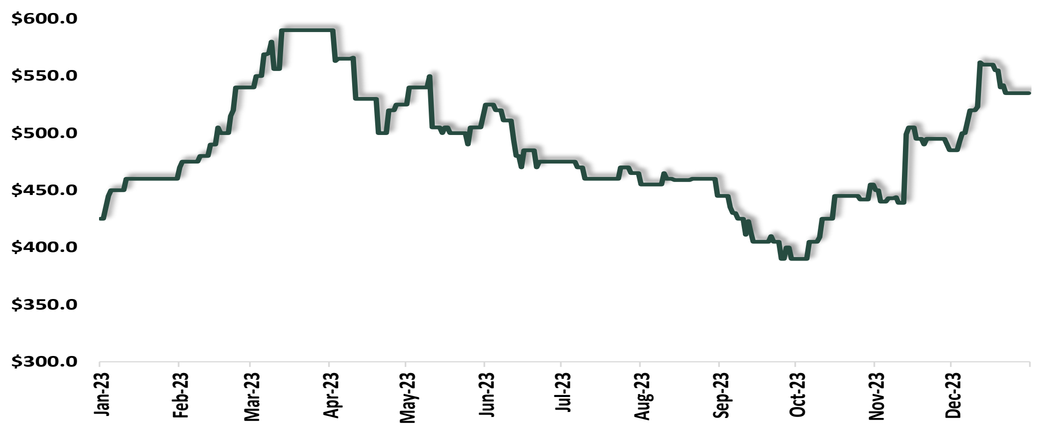
Navigating Uncertainties: Import Dependencies and Global Economic Trends

Long steel manufacturers in Pakistan, including MUGHAL, ASTL, and AGHA, remained vulnerable to international steel price fluctuations during the year, due to heavy reliance on imported steel scrap. The 2023 average scrap price was USD 550 per ton (SPLY: USD 633 per ton, ↓13%). We anticipate a sluggish scrap market (volume wise) in FY24 amidst global economic slowdown and China's growth targets shortfall. To note, the sector encounters challenges arising from import restrictions, which exert a notable impact similar to that experienced in the Auto sector.

Engineering Sector: Iron Heights

The price of international scrap steel is expected to witness a decline due to increased scrap supply arising from the destruction amid geopolitical tensions. On the flip side, the local steel industry is poised for a positive turn on the back of resurgence in construction activities, driving up demand for finished steel products. In response to heightened demand and inflationary pressures, steel rebar prices are expected to rise sizably in CY24, contributing to an improvement in the overall margins of the steel industry.

Scrap Steel Price Trend (USD/M.T)



Source: Bloomberg, HMFS Research

Engineering Sector: Iron Heights

Long Steel Demand Rebound with Government Backed Projects

Moving forward, we anticipate a recovery in the consumption of long steel, primarily driven by a modest rise in construction activity as World Bank approved USD 400mn for five projects in flood-affected areas in Sindh, while the Executive Committee of the National Economic Council (ECNEC) sanctioned nine projects worth PKR 371bn across different sectors. This encompasses the expected prioritization by the government to resume work on dams, promote industrialization, and facilitate the development of housing societies.

Key Risks

- *Import restrictions by the government of Pakistan*
- *Unfavorable fluctuations in the prices of steel and steel scraps*
- *Shifts in government policies, tariffs, and trade regulations*
- *Currency devaluation concerns*

Engineering Sector: Iron Heights

Mughal Iron & Steel Industries Limited – Durability Beyond Rust

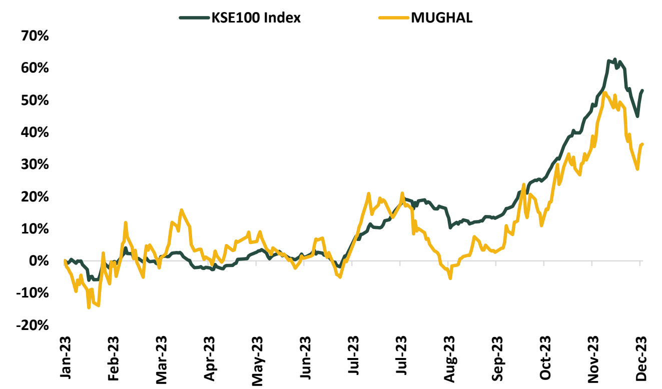
*We maintain a **BUY** stance on Mughal Iron & Steel Industries Limited (MUGAL) supported by a FCFF-based valuation of PKR 101/ share, offering a substantial capital upside of 52% relative to the current market price of PKR 67/ share. In anticipation of increased profitability in FY24, the Company is expected to distribute a dividend of PKR 5/ per share, exhibiting a DY 7.5%. To note, the surge in profitability is attributed to the following factors.*

- *Successfully acquired Mughal Energy Limited (MEL), enhancing the presence in the energy sector,*
- *Diversified Product portfolio in the sector to mitigate risks,*
- *Introduced "copper granules" to broaden the product line*

Mughal Iron & Steel Industries Limited	
Symbol	*MUGHAL*
Bloomberg Code	*MUGHAL PA*
Mkt Cap (PKR mn)	*23,296.00*
Mkt Cap (USD mn)	*83.09*
No Of Shares (mn)	*335.63*
High (52 Weeks)	*75.48*
Low (52 Weeks)	*40.90*
Avg. Volume (52 Weeks)	*758,486.16*
Avg. Value in PKR (52 Weeks)	*40,538,587.72*

Source: PSX, HMFS Research ***As of 29-Dec-2023***

Relative Performance



Source: PSX, HMFS Research

Engineering Sector: Iron Heights

Mughal Iron & Steel Industries Limited – Durability Beyond Rust

- *Actively exporting copper ingots and granules to China, capitalizing on the growing market demand (copper export to China from Pakistan crossed USD 1bn in CY23)*
- *Optimization of the supply chain for increased efficiency*
- *Anticipating the completion of a 36.50MW coal power plant in the next 15-16 months, catering to 30-40% of MUGHAL's core electricity requirements*

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- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

HMFS RATING GUIDE	
BUY	*More than 15% Upside*
HOLD	*Between 15% Upside & 15% Downside*
SELL	*More than 15% Downside*

Note: All fair value estimates are for a twelve month time horizon unless specified otherwise in the report
Upside/Downside represents the difference between the stated "Fair Value" & the prevailing "Market Price"
Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes