HABIBMETRO
Financial Services

REP-110

PAKISTAN STRATEGY REPORT

Earnings, Efficiency, Expansion

2026

OUTLOOK

TABLE OF CONTENTS

PAKISTAN ECONOMY

Stability Achieved, Constraints Intact

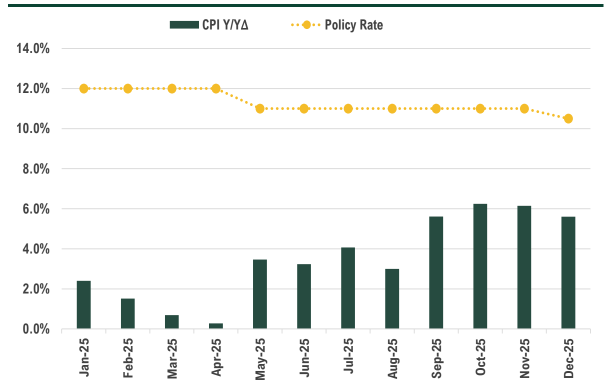
ECONOMY – STABILITY ACHIEVED, CONSTRAINTS INTACT

Macro Framework: Stabilization Achieved, Growth Still Constrained

CY25 represented a critical inflection point for Pakistan's macroeconomic environment, marking a transition from crisis management toward relative stabilization. Inflation decelerated sharply into the mid-single-digit range by year-end, supported by favourable base effects, controlled domestic demand, and improved currency management. In response, the SBP initiated a gradual easing cycle, lowering the policy rate to 10.5%, signalling growing confidence in the disinflation trend while maintaining a cautious policy stance.

External indicators improved materially. Pakistan recorded a current account surplus of ~USD 2.1bn (FY25)— the first in over a decade — driven largely by import compression, resilient remittance inflows, and selective export recovery. Foreign exchange reserves strengthened to the USD ~21bn range, supported by IMF inflows and disciplined FX interventions, anchoring USD/PKR stability through most of the year.

CPI vs Policy Rates



Source: PBS, SBP, HMFS Research

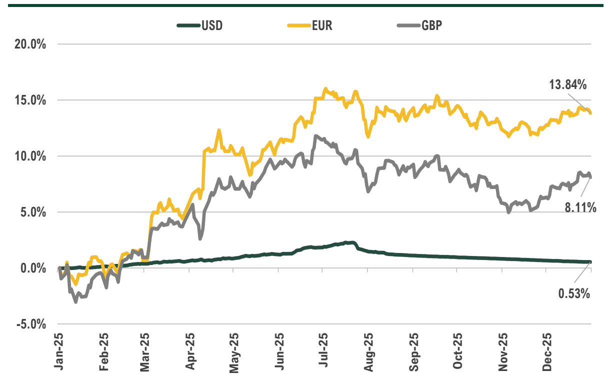
Reform Agenda: Structural Pivots & SIFC Oversight

While macro stability has been achieved, the focus in CY26 shifts to structural durability. The Special Investment Facilitation Council (SIFC) has emerged as the primary vehicle for streamlining large-scale investments in agriculture, mining, and energy.

This 'Single Window' model effectively de-risks the entry of Gulf capital into Pakistan's core sectors. A defining milestone of this transition was the signing of the Strategic Mutual Defense Agreement (SMDA) with Saudi Arabia in September 2025.

The SIFC played a critical role in this pact by institutionalizing the 'Security-for-Investment' model. By centralizing the interests of both the civilian and military leadership, the SIFC provided the sovereign guarantees necessary to formalize a decades-old alliance into a binding defense commitment. This alignment has directly paved the way for the Pak-Saudi Economic Corridor, a multi-billion dollar framework that links Gwadar's maritime potential with Saudi Vision 2030.

PKR Exchange Rates Comparison



Source: SBP, HMFS Research

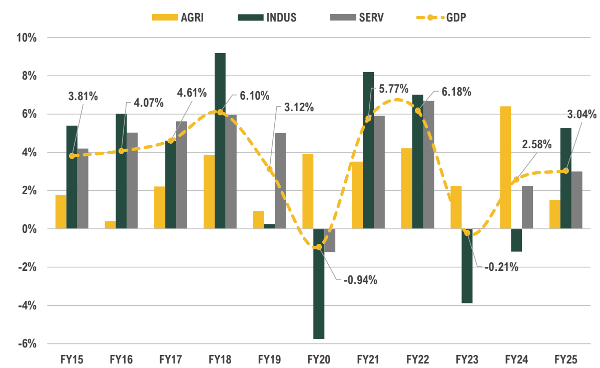
SOE Reforms & Privatization: A landmark milestone was achieved in late December 2025 with the successful sale of a 75% stake in Pakistan International Airlines (PIA) to a private consortium for PKR 135bn. This serves as a critical signalling event for the broader privatization agenda, including the upcoming divestment of power distribution companies (DISCOs).

ECONOMY – STABILITY ACHIEVED, CONSTRAINTS INTACT

Energy Sector Governance: The transition towards a hybrid "Take-and-Pay" model and successful renegotiations with several Independent Power Producers (IPPs) have aimed at curtailing the circular debt overhang (PKR ~5.5tn). These measures are expected to yield long-term fiscal savings, PKR ~3.5tn over the remaining life of the revised IPP contracts and agreements, as quoted by the PD (Power Division), though the sector's financial health remains sensitive to implementation lags.

Fiscal Discipline (Budget FY26): The FY26 budget reinforces this stabilization path, targeting a Tax-to-GDP ratio of ~14%. While providing incentives for SMEs and the IT sector, the fiscal framework remains tight, with a heavy emphasis on revenue documentation and meeting primary surplus targets mandated by the IMF.

GDP Growth

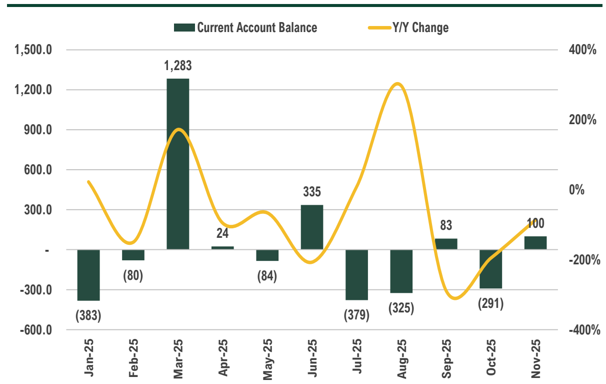


Source: SBP, HMFS Research

"Digital Frontier" & Economic Documentation

Legitimization of Virtual Assets & Blockchain Infrastructure: 2025 marked a watershed year for Pakistan's digital economy with the promulgation of the Virtual Assets Ordinance 2025. This led to the creation of the Pakistan Virtual Asset Regulatory Authority (PVARA), a dedicated body under a multi-stakeholder board (including SBP and SECP) tasked with licensing exchanges and monitoring virtual asset service providers (VASPs). In a strategic move to monetize surplus power, the government has also diverted 2,000 MW of excess electricity toward regulated crypto mining and AI data centers, effectively converting energy liabilities into a foreign-currency-earning asset class. Discussions are underway regarding the creation of a national sovereign wallet to manage mining yields and tokenized assets.

Current Account Balance (USD 'mn)



Source: SBP, HMFS Research

Fintech & Cashless Transition: The adoption of Raast and QR-based transaction frameworks has accelerated the documentation of the informal economy. Enhanced regulatory clarity has also paved the way for blockchain-based solutions and improved engagement with global fintech platforms.

Tech Infrastructure: Strategic initiatives, including the localized assembly of Chromebooks and expanded satellite-based connectivity, are expected to strengthen digital access, potentially boosting IT exports which showed a resilient 14-15% growth trajectory in late CY25.

However, while macro stability has improved, it remains externally supported and policy-dependent. Import compression continues to play a disproportionate role in external balance, while growth momentum remains constrained by fiscal limitations, climate vulnerability, and sensitivity to global commodity and financial cycles.

ECONOMY – STABILITY ACHIEVED, CONSTRAINTS INTACT

Key Macro Events & Shocks Shaping CY25

Floods & Climate Shocks

Flood-related disruptions during CY25 posed a meaningful downside risk to economic momentum. Damage to agricultural output and rural infrastructure (estimated losses of PKR 822bn) affected food supply chains, contributing to temporary inflationary pressures and elevating fiscal burdens through rehabilitation spending. Beyond near-term disruption, the episode reinforced Pakistan's structural vulnerability to climate shocks, underscoring the need for climate-resilient infrastructure and agricultural reform.

Geopolitical Developments

Global and regional geopolitical tensions influenced Pakistan's macro environment primarily through energy prices, trade flows, and investor sentiment. Escalating Middle East & Russia tensions heightened oil price volatility, amplifying fuel-led inflation and balance-of-payments risks. Meanwhile, persistent India–Pakistan frictions limited prospects for trade normalization, while Pakistan–Afghanistan border issues intermittently disrupted cross-border trade and logistics.

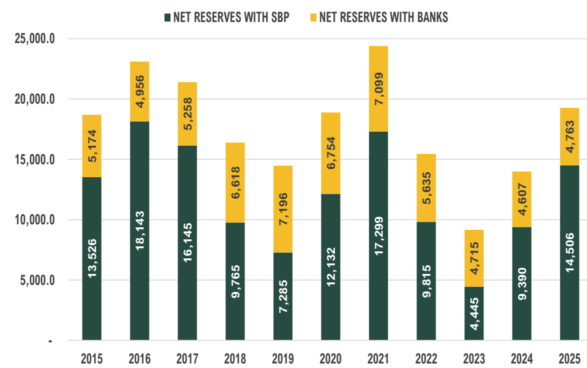
IMF Programme & Policy Signalling

IMF engagement remained the cornerstone of macro credibility during CY25. Tranche disbursements helped stabilize reserves, anchor FX expectations, and reinforce policy discipline. However, IMF conditionality also constrained fiscal flexibility, limiting the pace of growth recovery. As such, the IMF programme functioned less as a growth catalyst and more as a stability anchor, a distinction critical for setting realistic expectations.

External Financing & Capital Market Access

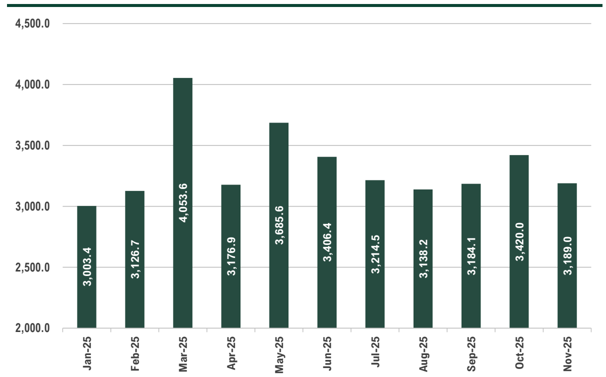
Pakistan made notable progress in restoring credibility in international debt markets, its Credit Default Swap (CDS) dropped by 2,200 basis points in Sep 2025. As a market-derived measure of the cost to insure against a sovereign default, the CDS serves as a vital proxy for investor confidence; this sharp contraction signals a significant reduction in the country's perceived default risk. The successful repayment of a USD 500mn Eurobond enhanced sovereign credibility, while upcoming maturities — most notably the USD 1.3bn Eurobond due in April 2026 — appear manageable under current reserve dynamics. Planned Panda bond issuance (Jan 2026) and expanded use of Sukuk instruments aim to diversify funding sources and reduce reliance on conventional external borrowing.

Foreign Exchange Reserves (USD 'mn)



Source: SBP, HMFS Research

Remittances (USD mn)



Source: SBP, HMFS Research

ECONOMY – STABILITY ACHIEVED, CONSTRAINTS INTACT

IMF PROGRAMS: A HISTORICAL PERSPECTIVE

Facility (SDR '000)	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
Extended Fund Facility	Sep 25, 2024	Oct 24, 2027	5,320,000	2,434,000
Resilience and Sustainability Facility	May 09, 2025	Oct 24, 2027	1,000,000	154,000
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 19, 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

Source: IMF, HMFS Research **1 SDR = ~1.4 USD**

PAKISTAN EQUITIES

From Re-Rating to Delivery

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

Equity Market Recap: Strong Returns, Elevated Volatility

Pakistan equities delivered a robust performance in 2025, with the KSE-100 Index rising ~51% y/y. Gains were underpinned by improving macroeconomic visibility, a notable rebound in blue-chip earnings, and more easing monetary policy signalling. Together, these factors rekindled the momentum in discretionary spending, reinforcing investor confidence in the wake of the 2024 rally. Market breadth remained supportive, with banks, E&Ps, cements, and other domestic cyclicals leading performance amidst earnings and balance-sheet improvement. However, the year was also marked by pronounced volatility, reflecting the market's sensitivity to geopolitical and policy shocks.

KSE-100 Index Performance

	2025	2024	2023	2022	2021
Jan	-0.8%	-0.8%	0.6%	1.7%	6.0%
Feb	-0.9%	4.2%	-0.4%	-2.0%	-1.1%
Mar	4.0%	3.8%	-1.3%	1.1%	-2.8%
Apr	-5.5%	6.1%	3.9%	0.7%	-0.7%
May	7.5%	6.7%	-0.6%	-4.8%	8.2%
Jun	5.0%	3.4%	0.3%	-3.6%	-1.1%
Jul	11.0%	-0.7%	15.9%	-3.3%	-0.6%
Aug	6.6%	0.8%	-6.3%	5.5%	0.8%
Sep	11.4%	3.3%	2.7%	-2.9%	-5.3%
Oct	-2.3%	9.7%	12.3%	0.3%	2.9%
Nov	3.1%	13.9%	16.6%	2.6%	-2.4%
Dec	4.4%	13.6%	3.2%	-4.6%	-1.1%
Full Year	**51.2%**	**84.3%**	**54.5%**	**-9.4%**	**1.9%**

Source: PSX, HMFS Research

Event-Driven Equity Shocks: Stress Tests for Market Depth

Geopolitical Shock and Historic Rebound

2025's most severe drawdown occurred during escalating India–Pakistan border tensions, where reports of drone activity and cross-border security incidents triggered heavy selling. The benchmark dropped 6,482 points in a single session, reflecting heightened risk-off sentiment and fears of broader escalation.

This episode was followed by the most dramatic reversal in the market's history. As diplomatic channels swiftly calmed tensions after May 7th, the KSE-100 staged an unprecedented 10,123-point surge, buoyed by relief surrounding the de-escalation and the announcement of a USD 1bn IMF tranche. Together, these developments restored confidence in both Pakistan's macro stability and external financing trajectory.

US Tariff Announcement: Trade Policy Shock

The U.S. tariff announcement on Pakistan's key export categories triggered a sharp negative reaction in the equity market. The KSE-100 opened deep in the red, dropped over 3,500 points, as investors priced in risks to export competitiveness and external account stability. While textile-heavy names bore the brunt of the sell-off, the broader market also came under pressure amid concerns of policy spillovers.

Stability returned in the following sessions as the government-initiated engagement with U.S. trade officials, early corporate updates suggested no immediate order cancellations, and clarity emerged that tariff implementation would be phased rather than abrupt. Consequently, the index recovered more than half of the initial decline within a week, led by banks, E&Ps, and domestic

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

cyclicals, while export-oriented sectors remained under relative pressure.

This episode underscored the market's sensitivity to external trade policy shifts but also highlighted the increasing depth and resilience of the KSE-100 as it absorbed and repriced risk more efficiently than in prior years.

What Drove the 2025 Rally: Rerating Over Earnings

It is important to note that a large part of the 2025 rally wasn't just about companies making more money; it was about the market finally breathing a sigh of relief. For a long time, stock prices were held down by extreme uncertainty, but as the economic "optics" improved, investors became willing to pay a fairer price for those same earnings. This shift was fueled by three main factors:

A Better Global Image: Compared to other markets in the region, Pakistan began to look like an undervalued opportunity rather than a risk to avoid. This shift is backed by the top three global agencies—Moody's, Fitch, and S&P—who all upgraded Pakistan's credit rating outlook. Additionally, our standing in the MSCI Frontier Markets Index has improved, as our market size and trading volumes have grown.

Local Cash Moving In: With real estate cooling down and bank deposit rates falling, local investors flooded the stock market with fresh liquidity.

Sector Catch-up: Cyclical industries saw their stock prices jump as people bet on a smoother road ahead, even before their financial reports fully reflected the recovery.

Monetary Easing & Equity Transmission

Falling interest rates were acting as a tailwind for the stock market by lowering borrowing costs and making corporate profits look more attractive. However, this boost wasn't hitting every sector the same way. For industrial "cyclicals" like Cement and Steel, the impact was immediate: lower interest expenses and a pickup in construction activity are directly helping their bottom lines.

On the flip side, for the Banking sector, lower rates were starting to squeeze the wide profit margins they enjoyed during the high-rate period. This means that while the market has momentum, it's no longer a "rising tide lifts all boats" scenario. Sustainable growth now depends on businesses actually improving their operations and efficiency, rather than just relying on the central bank to do the heavy lifting.

Major Gainers (KSE100 Index)

S.No	Symbol	Current	Δ PKR	% Gain
1	SSOM	428.44	344.39	409.74%
2	NBP	242.18	175.26	261.89%
3	BOP	38.56	27.75	256.71%
4	AKBL	100.56	62.29	162.76%
5	MLCF	117.43	71.49	155.62%
6	UBL	424.59	233.48	122.16%
7	DGKC	229.91	124.99	119.13%
8	PTC	59.47	32.20	118.08%
9	LUCK	474.96	254.86	115.79%
10	NATF	396.21	202.93	104.99%

Source: PSX, HMFS Research

Major Losers (KSE100 Index)

S.No	Symbol	Current	Δ PKR	% Loss
1	MEHT	300.02	-369.54	-55.19%
2	DHPL	33.99	-30.90	-47.62%
3	KTML	64.78	-56.18	-46.45%
4	PKGP	60.96	-38.14	-38.49%
5	UNITY	21.26	-13.28	-38.45%
6	TPLRF1	10.41	-4.83	-31.69%
7	PGLC	15.40	-5.64	-26.81%
8	SSGC	35.92	-13.04	-26.63%
9	AIRLINK	169.40	-50.60	-23.00%
10	IBFL	284.60	-66.01	-18.83%

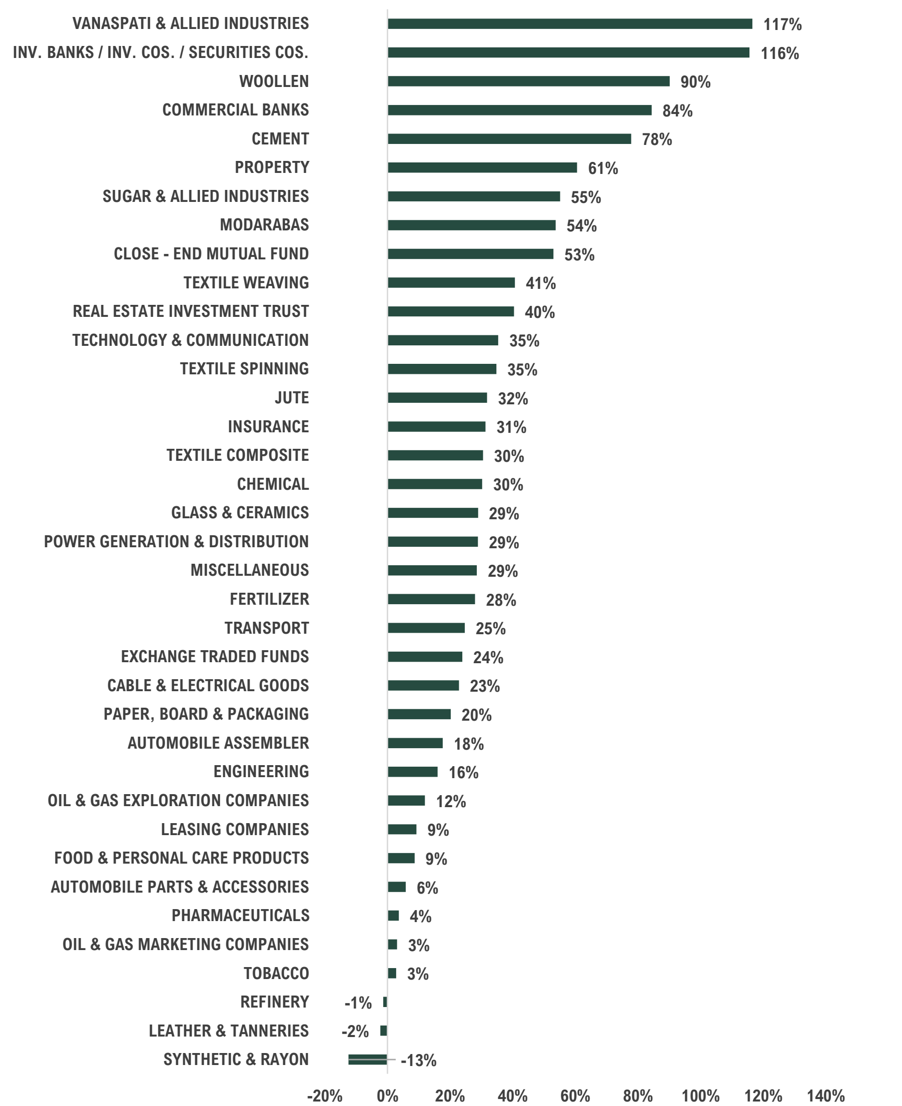
Source: PSX, HMFS Research

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

Valuations & Market Positioning

While stocks are still fairly priced, the days of finding "dirt cheap" bargains across the board are over. The market is still trading below its long-term average, but the recent rally means the gap between price and value is closing. We are now seeing a split in the market: investors are moving away from general buying and are instead focusing on high-quality companies—specifically those that can control their own pricing, carry little debt, and generate steady cash.

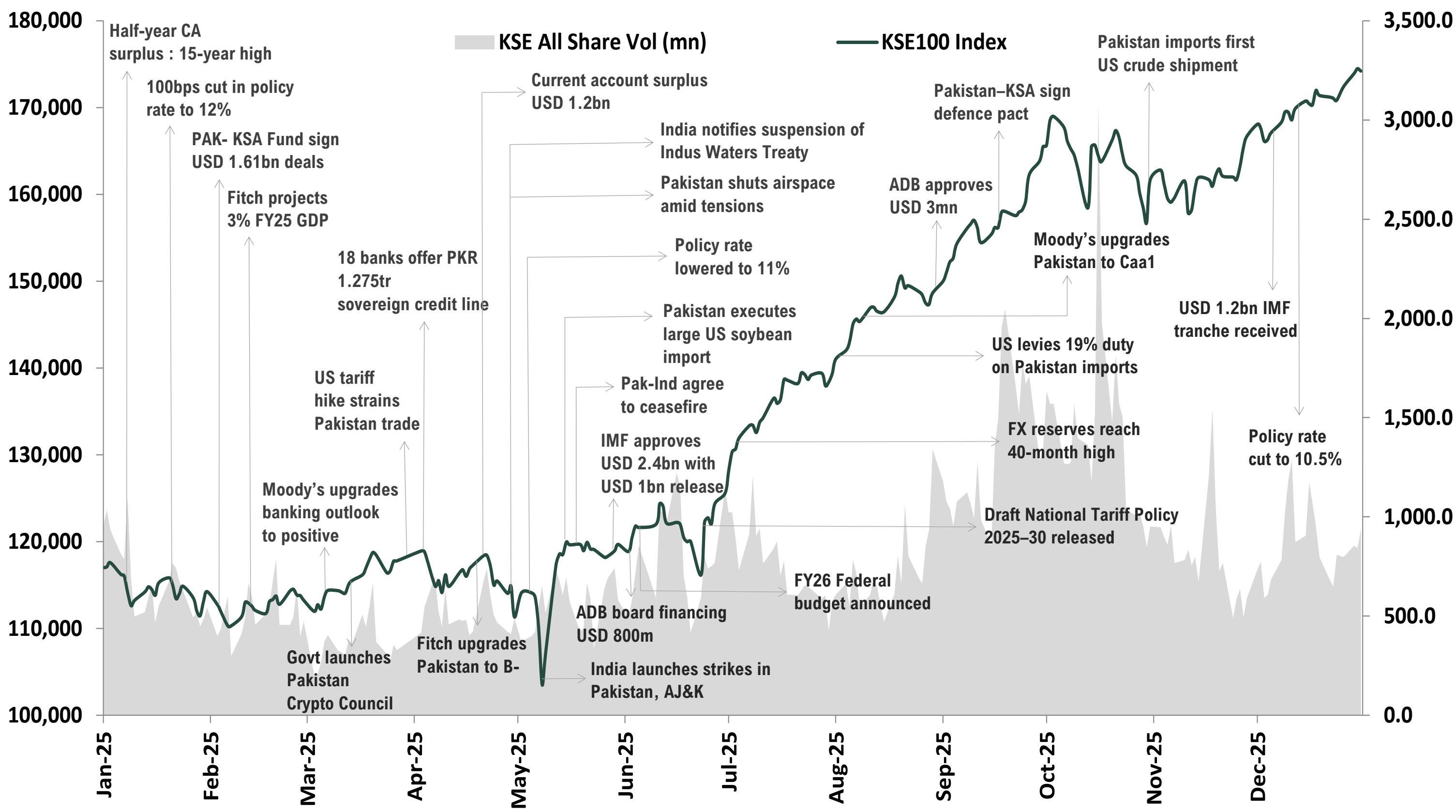
Sector Returns (ALLSHR Index)



Source: PSX, HMFS Research

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

MAJOR EVENTS - CY25



Source: PSX, HMFS Research

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

UPCOMING EVENTS OF 2026

Event	Tentative Date
MPC meeting	January 26, 2026
MSCI review announcement	February 10, 2026
IMF Program Review Mission (3rd Review)	Feb / Early March 2026
MPC meeting	March 9, 2026
IMF Spring Meetings	April 13 – April 18, 2026
MPC meeting	April 27, 2026
MSCI review announcement	May 12, 2026
ADB 59th Annual Meeting	May 3 – May 6, 2026
FY27 budget discussions with IMF	May/June 2026
MPC meeting	June 15, 2026
Economic Survey	June, 2026
Budget Presentation	June, 2026
OIC- 16th Islamic Summit Conference	June 23, 2026
MSCI review announcement	August 12, 2026
MPC meeting	August 3, 2026
SCO- Heads of State (CHS) Summit	August, 2026
MPC meeting	September 14, 2026
IMF Program Review Mission (4th Review)	Sep / Early Oct 2026
Major IMF-wide Event (Annual Meetings)	October 12 – October 18, 2026
MPC meeting	October 26, 2026
SCO- Heads of Government (CHG) Council	October, 2026
MSCI review announcement	November 11, 2026
IMF Executive Board Meeting (4th Review)	Nov / Dec 2026
MPC meeting	December 7, 2026

Source: HMFS Research

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

MERGERS, DEMERGERS, & ACQUISITIONS (CY25)

Sr. No.	Company Name(s)	Symbol	Nature of Transaction	Key Details	Status
1	Matco Foods Limited / Matco Corn Products (Pvt.) Ltd.	MFL	Demerger & Merger	Demerger of corn starch business from MFL and merger into wholly owned subsidiary Matco Corn Products	Approved / Pending Execution
2	Jahangir Siddiqui & Co. Ltd.	JSCL	Internal Merger	Quality Energy Solutions (Pvt.) Ltd. merged into Energy Infrastructure Holding (Pvt.) Ltd.	Completed
3	Global Haly Development Ltd. / Bank Makramah Ltd.	BML	Merger	Global Haly merged into Bank Makramah under Scheme of Arrangement; shares issued to GH shareholders	Completed (Court Sanctioned)
4	National Bank of Pakistan / SME Bank	NBP	Demerger/Transfer	Transfer of defined SME lending portfolio from SME Bank to NBP	Approved / In Process
5	Supernet Limited / Supernet Technologies Ltd.	GEMSPNL / STL	Proposed Merger	Board approved exploration of merger with STL	Under Evaluation
6	Shifa International Hospitals Ltd.	SHFA	Merger	Amalgamation of wholly owned subsidiary SNSI into SHFA	Approved / Pending Completion
7	Ghani Chemical Industries Ltd. / Ghani ChemWorld Ltd.	GCIL	Demerger	Calcium carbide project transferred to wholly owned subsidiary	Completed
8	KAPCO / Fauji Foundation / Attock Cement Pakistan Ltd.	KAPCO / ACPL	Acquisition	Acquisition of 84.06% stake in ACPL (42.03% each by KAPCO & Fauji Foundation)	Offer Announced / Pending Regulatory Approvals
9	Nishat Power Ltd. / Nishat Chunian Power Ltd.	NPL / NCPL	Strategic Investment	Investment of up to PKR 2.5bn in NexGen Auto (EV-focused)	Approved
10	Fatima Fertilizer Company Ltd.	FATIMA	Acquisition	Acquisition of 100% shares of Fatima Petroleum Company Ltd.	Completed
11	Mitchell's Fruit Farms Ltd.	MFFL	Public Offer	Acquisition of up to 26.26% stake via Public Announcement of Offer	Offer in Progress
12	TPL Insurance Ltd.	TPLI	Acquisition	Jazz International Holding confirmed as acquiring entity	Pending Regulatory & Transaction Closure
13	Calcorp Limited / Helios Resol Technology	CAL	Acquisition	Acquisition of 100% stake in solar energy company	Approved / Pending Completion
14	Thatta Cement Company Ltd. / Pakistan Services Ltd.	TCCL / PSL	Strategic Stake	Acquisition of 28% shareholding in PSL	Completed
15	Nimir Resins Limited	NRSL	Acquisition	Rudolf Pakistan acquired ~21% stake (30mn shares)	Completed
16	Crescent Cotton Mills Ltd.	CCML	Asset Acquisition	Sale of land, equipment, and machinery to Sultan Spinning Industries	Completed
17	Nishat Hotels & Properties Ltd.	NHPL	Asset Acquisition	Acquiring assets of Hotel Margala (Pvt.) Ltd.	Completed

Source: PSX, HMFS Research

PAKISTAN EQUITIES – FROM RE-RATING TO DELIVERY

IPOs, LISTINGS & BOARD MIGRATION (CY25)

Sr. No.	Company Name	Symbol	Key Details	Amount Raised (PKR)
1	Image REIT	IMAGEREIT	Shariah-compliant hybrid REIT backed by commercial & residential assets	~920mn
2	Blue-Ex Limited	BLUEX	Migration via IPO; offer price PKR 65/share	~65mn
3	Pak-Qatar Family Takaful Ltd.	PQFTL	50mn shares via book building at up to PKR 21/share	~1,050mn
4	Zarea Limited	ZAL	B2B digital commodities platform	>1,000mn
5	Barkat Frisian Agro Limited	BFAGRO	JV of Frisian Egg Group & Buksh Group; listed at 10% premium	~1,230mn

Source: PSX, HMFS Research

DE-LISTINGS & CORPORATE EXITS (CY25)

Sr. No.	Company Name	Symbol	Nature of Action	Key Details
1	Philip Morris (Pakistan) Ltd.	PMPK	Voluntary Delisting	Buyback accepted at PKR 1,300/share
2	Engro Corporation Ltd.	ENGRO	Delisting	Scheme of Arrangement with Engro Holdings Ltd.

Source: PSX, HMFS Research

OUTLOOK
2026

Constructive, But Not Unconditional

OUTLOOK 2026: CONSTRUCTIVE, BUT NOT UNCONDITIONAL

The 2026 Narrative: From Stabilization to a New Growth Horizon

The story of the Pakistani economy in 2026 is one of a hard-won "firm footing". After years of navigating high-stakes uncertainty, the country has emerged from the shadow of external debt distress, guided by the disciplined hand of successive IMF programs. This isn't just a recovery; it is a structural re-rating that the market is only just beginning to price in.

Credit Ratings Summary (2025)

Agency	Date	Rating (Long-Term)	Outlook	Prior Rating
Fitch Ratings	15 Apr '25	B-	Stable	CCC+
S&P Global Ratings	24 Jul '25	B-	Stable	CCC+
Moody's Ratings	13 Aug '25	Caa1	Stable	Caa2

Source: HMFS Research

A World in Transition: The Global Backdrop

The global stage is setting a favorable scene for Pakistan's next act. We see a significant shift as major central banks pivot from aggressive tightening toward a more growth-focused easing cycle. For a net importer like Pakistan, the "bearish" turn in global commodities is the ultimate tailwind. With crude oil projected to average ~USD 55/bbl and coal prices dipping further, the pressure on the national import bill is finally subsiding, creating much-needed breathing room for the external sector.

Even on the trade front, a strategic realignment is visible. By securing a specialized trade deal with the US that caps tariffs at 19%—at a discount compared to regional competitors—Pakistan is positioning its textile giants to capture a larger share of the global recovery.

The Domestic Engine: Growth Finds its Rhythm

At home, the "normalization" of the economy is becoming tangible. Inflation, which once peaked at a staggering ~30% (CY23), has been reined in this year (~4% in CY25) and is expected to settle comfortably within the 5%–7% range for FY26. This victory over rising prices has allowed the State Bank to aggressively lower the policy rate, which we expect to hold steady between 9.5%–10.5%—a level that finally makes private sector borrowing attractive again.

This monetary easing is the spark for a broad-based recovery. We are seeing the Industrial sector shake off its slumber as LSM demand rebounds, while Agriculture—boosted by post-flood recovery and new incentive schemes—is set to perform strongly on a lower base. With real GDP growth projected at ~4% for FY26, the narrative is shifting from "how do we survive?" to "how do we grow?".

OUTLOOK 2026: CONSTRUCTIVE, BUT NOT UNCONDITIONAL

The Fiscal Guardrails: Discipline under the IMF

The "Director's Cut" of this economic story is still being written by the IMF. The ongoing Extended Fund Facility (EFF) remains the bedrock of stability, ensuring that the government stays the course on difficult but necessary reforms. The focus for 2026 is on the tax-to-GDP ratio, with the FBR aiming for an ambitious ~14%, to finally break the cycle of fiscal deficits.

Structural Benchmarks: The Roadmap for Reform

For the IMF, the success of the EFF depends on meeting strict structural benchmarks—the non-negotiable milestones that trigger the release of tranches. Beyond simple tax collection, these benchmarks are now focused on long-term fiscal health:

- **The Energy Clean-up:** A primary benchmark is the curtailment and settlement of circular debt, which has long acted as a black hole for the national budget.
- **Provincial Responsibility:** The Fund is pushing for a revision of the National Finance Commission (NFC) Award. The goal is to create more fiscal space for the Center by devolving more expenditures to the provinces, ensuring that those who receive the bulk of the revenue also bear a fair share of the developmental and administrative costs.
- **The Exit from Business:** Privatization of State-Owned Entities (SOEs) remains a core requirement to stop the bleeding of public funds and improve economic efficiency.

The Diagnostic Report: A Mirror to Governance

Perhaps the most significant addition to the 2026 agenda is the integration of the Governance & Corruption Diagnostic Assessment Report. This wasn't just a routine check; it was a deep-dive audit conducted by the IMF to identify the "leakages" in the Pakistani system.

- **The Outcome:** The findings of this diagnostic are expected to lead to governance-based reforms aimed at strengthening anti-corruption frameworks and improving the transparency of public procurement.
- **Why it matters:** For the first time, the IMF is tying economic tranches to the quality of governance, signaling that structural durability is impossible without addressing the root causes of institutional inefficiency.

OUTLOOK 2026: CONSTRUCTIVE, BUT NOT UNCONDITIONAL

While the road remains steep—with shortfalls in tax collection potentially triggering contingency measures like GST hikes—the underlying fiscal health is improving. For the third year running, Pakistan is on track to maintain a Primary Surplus, a testament to a new era of fiscal sobriety.

The Conclusion: A Market Ready to Break Out

As we look toward the end of 2026, the prospect of a sustained bull run is no longer a matter of speculation, but a reflection of a country that has successfully navigated a "perfect storm." With SBP's foreign exchange reserves having already surged to an impressive USD 21bn—surpassing earlier targets—and a Rupee that has found its floor through months of rock-solid stability, the stage is set for a historic re-rating. For the investor, the message is clear: the risk that haunted the market is a ghost of the past; the future is about capturing the "Alpha" in a stabilizing, growth-oriented Pakistan.

Unlocking Value: The Multiplier Effect of Tax Reforms

The next leg of this rally is expected to be underpinned by a fundamental "Fiscal Reset." While policy priorities remain anchored around meeting IMF-mandated revenue targets, investor sentiment is increasingly supported by expectations of a gradual shift toward more growth-oriented taxation. A key potential catalyst could be the reduction or removal of the Super Tax, which has remained a persistent drag on corporate profitability. Even a 1% reduction in super tax could translate into an estimated ~2% uplift in earnings for index heavy weights, materially improving earnings visibility.

In addition a transition towards a lower and more competitive corporate tax regime would not only enhance bottom-line performance but also encourage incremental capital reinvestment, supporting industrial expansion and medium-term growth.

The Outlook: A Leap Toward New Heights

Our high-conviction outlook suggests that the KSE-100 index is poised to settle ~35-40% higher than current levels by the close of 2026. This projection is contingent upon fundamental value unlocking and execution of strategic institutional reforms that are only now reaching their inflection point.

This capital upside, combined with a projected ~7% dividend yield , offers a total return profile that stands head and shoulders above other asset classes. If structural benchmarks are met and the SIFC-driven investment cycle kick into high gear, we are of the opine the market will reward this transition from a recovery-led rally to a structural growth story. Furthermore, our projections re-

OUTLOOK 2026: CONSTRUCTIVE, BUT NOT UNCONDITIONAL

-main conservative regarding fiscal policy; should the anticipated reduction in super tax materialize, it would serve as a powerful tailwind, potentially expanding this capital upside even further through enhanced corporate earnings.

FERTILIZER SECTOR

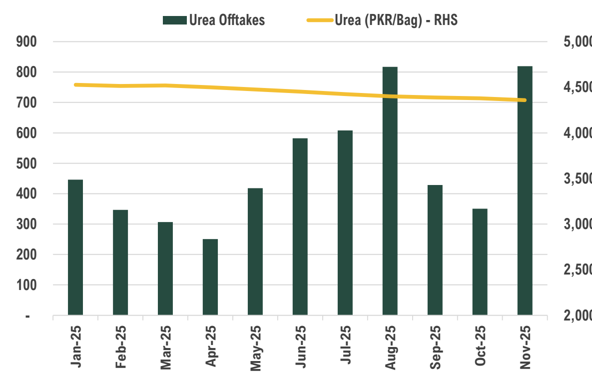
Navigating Climate Shocks Toward Structural Re-Rating

FERTILIZER SECTOR – NAVIGATING CLIMATE SHOCKS TOWARD STRUCTURAL RE-RATING

Sector Outlook: Bullish on Convergence of Demand & Gas Reform

We maintain a constructive (Bullish) stance on the Pakistan fertilizer sector for CY26. Despite a tumultuous CY25 defined by climate-induced demand destruction and policy flip-flops, the sector is entering a "normalization" phase. Our thesis is predicated on a liquidity-led demand rebound in the agricultural heartland and a structural margin expansion following the landmark shift of key players to the indigenous Mari gas network.

UREA Offtakes (‘000ton) & Prices



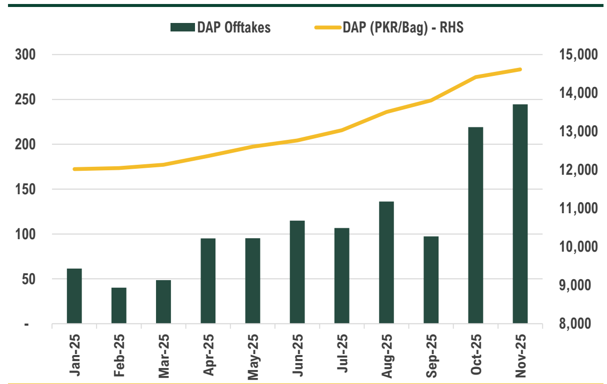
Source: NFDC, HMFS Research

The Agri-Backdrop: Recovery from the 2025 Floods

Agriculture remains the linchpin of Pakistan’s economy, contributing ~24% to GDP. However, CY25 tested the sector’s resilience as severe monsoon flooding (June–September) submerged over 2.2mn hectares of prime farmland in Punjab and Sindh.

- **The Fallout:** The floods resulted in localized crop failures (specifically Rice and Cotton) and induced a significant inventory overhang for fertilizer manufacturers, as application windows were missed.
- **Current Status:** While the damage was substantial, the early-CY26 outlook suggests a recovery in soil moisture levels, which, coupled with government-led tractor schemes and increased agri-credit (up 18.6% y/y), sets the stage for a robust Rabi and Kharif cycle in 2026.

DAP Offtakes (‘000ton) & Prices



Source: NFDC, HMFS Research

The Wheat Policy Pivot: Restoring Farmer Economics

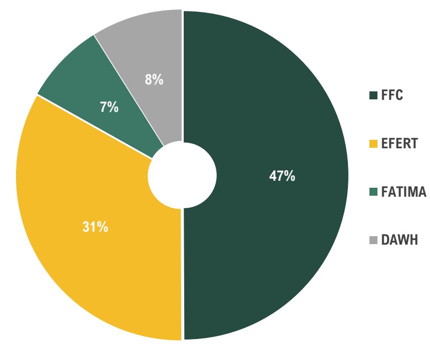
A critical risk factor in early-CY25 was the federal government’s initial move to abolish the Minimum Support Price (MSP) for wheat in a bid to satisfy IMF deregulation mandates. This policy vacuum, combined with high input costs, threatened a "planting strike" among farmers, posing a systemic risk to national food security and the country’s FX reserves.

- **The Course Correction:** Recognizing the potential for a massive wheat import bill, the Cabinet approved the National Wheat Policy 2025-26 in October 2025.

FERTILIZER SECTOR – NAVIGATING CLIMATE SHOCKS TOWARD STRUCTURAL RE-RATING

- **The Catalyst:** By setting a procurement price of PKR 3,500 per maund for a strategic reserve of 6.2mn tons, the government has effectively re-injected liquidity into the rural economy. This floor price provides the necessary "break-even" confidence for farmers, which we expect will translate into a sharp uptick in Urea and DAP offtake during the CY26 planting seasons.

UREA Market Share



Source: NFDC, HMFS Research

The Inventory Overhang: A Case for Export Liberalization

The industry enters CY26 with record-high urea stockpiles exceeding 1.0mn tons. While "the big guns" (FFC and EFERT) utilized strategic discounting in late CY25 to protect market share, the sheer volume of carry-over stock remains a drag on working capital.

- **The "Food Security" Cushion:** The latest data as of Dec 2025 confirms that Pakistan has achieved over 91% of its national wheat sowing target for the ongoing Rabi season. We anticipate the industry will aggressively lobby the ECC in Q1-2026 for a one-time export window. At current international price deltas, even a partial offloading of surplus (0.3–0.5mn tons) could significantly de-leverage balance sheets and provide a massive FX boost to the manufacturers.

The Mari Transition: Protecting the Bottom Line

On the manufacturing side, the structural "crown jewel" of CY26 is the cabinet-approved shift to the Mari standalone gas supply system.

- **The "Mari" Breakthrough:** By diverting indigenous gas from new discoveries (Ghazij/Shawal) and de-allocating HRL (Habib Rahi Limestone) gas from inefficient Gencos, the government has provided uninterrupted, dedicated gas to major plants (FFC Port Qasim, Agritech, and Fatima).
- **The Impact:** This move mitigates the "RLNG price volatility" risk and moves producers away from the SSGC/SNGPL networks. While the industry is committing ~USD 200mn in processing infrastructure, the elimination of "curtailment risk" and the stability of indigenous gas pricing provide a clear path for dividend sustainability and long-term re-rating.

FERTILIZER SECTOR – NAVIGATING CLIMATE SHOCKS TOWARD STRUCTURAL RE-RATING

The fertilizer sector is currently a 'coiled spring.' While high inventories are a near-term optics challenge, they represent a latent export opportunity that could redefine CY26 earnings. Fauji Fertilizer Company (FFC) remains our Top Pick in the sector. With its dominant market share, successful integration of FFBL, and the highest sensitivity to the Mari network's cost-efficiencies, FFC is best positioned to lead the sector's re-rating and sustain its industry-leading dividend payout profile.

FERTILIZER SECTOR – NAVIGATING CLIMATE SHOCKS TOWARD STRUCTURAL RE-RATING

Fauji Fertilizer Company Limited (FFC) – Defensive Anchor with Growth Alpha

Fauji Fertilizer Company (FFC) remains our Top Pick for CY26, based on DCF-based fair value of PKR 635, offering a rare combination of defensive resilience and aggressive growth optionality. As the largest player in the sector with a market capitalization exceeding PKR 830bn, FFC's scale allows it to dictate market dynamics while its recent strategic moves provide significant earnings visibility.

Key Investment Pillars

The Mari Network Advantage: FFC's cost leadership is anchored by its reliance on indigenous Mari gas, which provides stable and uninterrupted supply at competitive rates compared to the circular-debt-prone SSGC/SNGPL networks. The shift of its Port Qasim plant to the dedicated Mari system after 2025 is a definitive margin-protector for CY26.

M&A Synergy & Consolidation: The successful amalgamation of FFBL into FFC and the acquisition of a controlling stake in Agritech (AGL) have consolidated FFC's market share to ~47%. As a flagship entity under the Fauji Foundation umbrella, the company leverages significant group synergies, which bolster its "other income" and overall dividend stability. These consolidatory moves have effectively eliminated internal competition and streamlined operational efficiencies, positioning FFC as the primary beneficiary of urea price adjustments and long-term structural industry shifts.

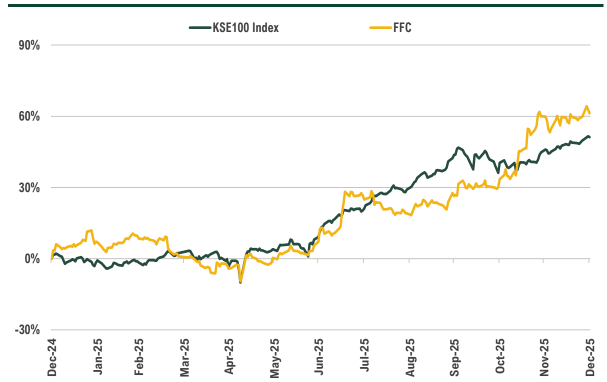
Agricultural Rebound: While CY25 was marred by floods, the 2026 outlook is bright. With 91% of the wheat sowing target met as of December 2025 and a set MSP of PKR 3,500/maund, farmer liquidity is recovering, which will drive strong fertilizer offtake in the coming planting cycles.

The Export Trigger: FFC is sitting on substantial urea stockpiles. With national food security now stable (following the successful Rabi sowing), we expect the government to grant an export window in H1-CY26. FFC, with its superior production efficiency (currently ~109%), is best positioned to capture high international margins and boost its FX-denominated income.

Fauji Fertilizer Company Limited	
Symbol	FFC
Bloomberg Code	FFC PA
Current Price	590.71
Mkt Cap (PKR Mn)	832,519.00
Mkt Cap (USD Mn)	2,961.02
No Of Shares (In Mn)	1,423.11
52 Weeks High	599.00
52 Weeks Low	314.18
Avg Volume (52 Weeks)	2,428,079.95
Avg Value	1,055,675,842.49

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

FERTILIZER SECTOR – NAVIGATING CLIMATE SHOCKS TOWARD STRUCTURAL RE-RATING

Fauji Fertilizer Company Limited (FFC) – Defensive Anchor with Growth Alpha

Financial Snapshot (CY26 Projection)

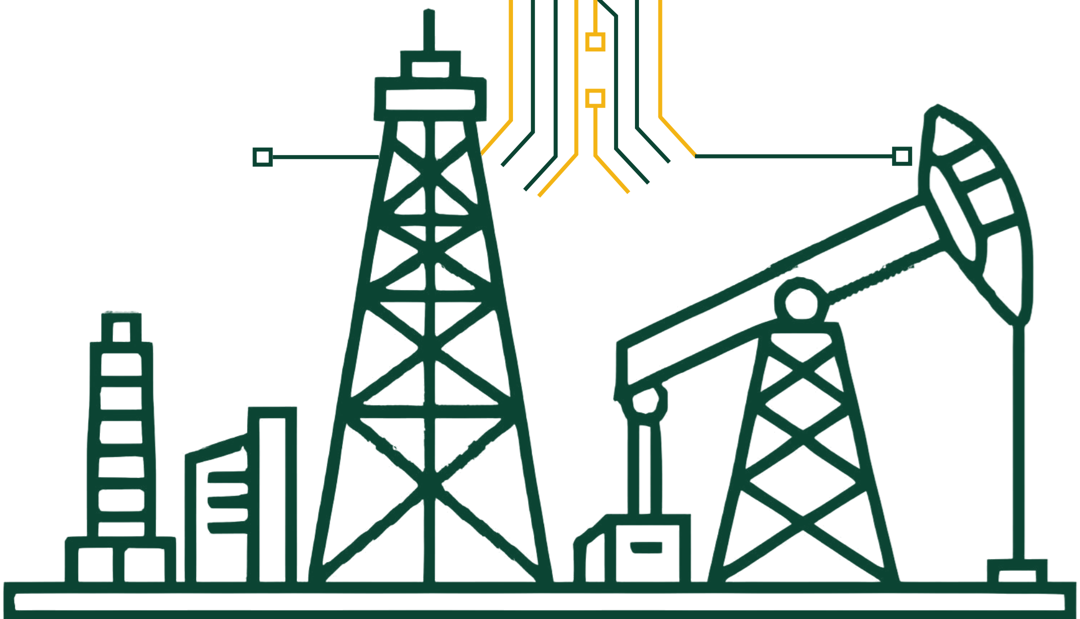
- **DCF-Derived Fair Value:** PKR 635 per share.
- **Market Capitalization:** Greater than PKR 830bn.
- **Projected CY26 Earnings Per Share (EPS):** PKR 60.5.
- **Projected CY26 Dividend Per Share (DPS):** ~PKR 43.0.
- **Projected CY26 Dividend Yield:** Approximately 7.3%.
- **Current P/E Multiple:** ~10.3x (reflecting a justified premium for earnings visibility).
- **Dividend Payout Ratio:** Maintained at approximately 70%.
- **Debt-to-Equity Ratio:** Strong at 15:85 as of September 2025.
- **Market Dominance:** Approximately 47% market share in the fertilizer sector.
- **Operational Efficiency:** Plants running at an optimal utilization rate of ~109.45%.

Near-Term Catalysts

- **ECC Export Permission:** A potential one-time export of 300k–500k tons of surplus urea.
- **Strategic Diversification:** Progress on the Coal Gasification project and stake in the national carrier (PIA), which could add significant "Long-Call" value to the scrip.
- **DAP Margin Recovery:** Stable phosphoric acid supply through its JV with Morocco's OCP.

Risks to Valuation

- Policy flip-flops, weather events, policy & subsidy risk, execution risk.



E&P
SECTOR

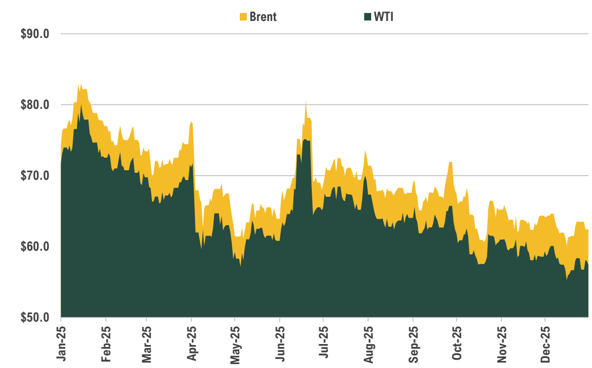
Cash Flows Reignite, Volatility Per-
sists

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

Fueling Growth Amidst Challenges

The Oil & Gas Exploration (E&P) sector in Pakistan, with a market capitalization of ~PKR 288 bn on the Pakistan Stock Exchange, remains a cornerstone of domestic energy supply, producing crude oil, natural gas, and LPG. In 2025, the sector faced notable volatility, driven by fluctuating international oil prices, high exploration activity, and structural constraints. These factors contributed to subdued performance across the four major listed E&P companies, primarily due to forced gas curtailments of ~270–400 mmcfd, as excess RLNG inflows displaced domestic gas demand under rigid take-or-pay arrangements. Nevertheless, ongoing exploration successes and relative stability in global oil prices provide a cautiously optimistic outlook for 2026, underpinning potential operational and revenue growth.

Oil Prices (WTI vs Brent) - USD/bbl



Source: Bloomberg, HMFS Research

Production Trends: Stabilization Emerging Amidst Operational Challenges

The sector's profitability declined by approximately 19–20% y/y in 2025, reflecting a 12% drop in oil production and a 7% decline in gas output, primarily from aging fields such as Sui and Nashpa. A key drag on performance was forced gas curtailment, as utilities like SNGPL prioritized high cost imported RLNG over cheaper domestic gas amid subdued industrial demand.

Following a trough in 4QFY25, early indicators point to gradual stabilization in sector volumes. 1QFY26 witnessed a modest recovery:

- Oil production increased ~8% q/q
- Gas production rose ~3% q/q

While recovery remains tentative, these trends suggest that the worst of curtailment-driven contraction may be behind the sector, contingent on sustained policy support.

Despite lower production, exploration activity remained robust. Companies spudded new wells and reported new discoveries in FY25, adding ~300 MMSCFD of gas and ~3000bopd of oil condensate potential to the national reserves base, highlighting the sector's ongoing commitment to long-term resource development.

Daily Production Levels

	Oil Production (BOPD)	Gas Production (MMCFD)	LPG Production (M.Tons/DAY)
January	65,589	3,165	2,217
February	62,232	2,735	1,858
March	62,486	2,920	1,925
April	59,352	2,744	2,070
May	56,612	2,684	1,839
June	56,433	2,746	1,873
July	60,337	2,866	1,955
August	62,538	2,785	1,868
September	63,386	2,760	1,970
October	64,806	2,806	1,942

Source: PPIS, HMFS Research

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

Gas Curtailment & RLNG Overhang: Policy-Driven Resolution Underway

Pakistan's LNG imports from Qatar, initiated in 2015–2016, were designed to address the country's severe energy shortages, which had triggered widespread industrial shutdowns and domestic gas load-shedding. Long-term take-or-pay contracts with Qatar Energy aimed to bridge a supply-demand gap of 2–4 BCFD, offering a cheaper, stable alternative to furnace oil for power generation.

By 2025, structural shifts—including greater solar and hydropower generation and slowing industrial activity—resulted in demand destruction, leaving Pakistan with a significant surplus of imported LNG that it was contractually obligated to pay for. Consequently, 200–400 MMSCFD of domestic gas was effectively "kept in the ground" to accommodate expensive imported molecules.

To manage this surplus and mitigate financial strain, the government has secured agreements to divert 24 LNG cargoes scheduled for 2026 to international markets, along with 21 cargoes from ENI across 2026–2027. Deferring just two cargoes per month is sufficient to free pipeline capacity to restore nearly 50% of curtailed domestic gas, directly boosting production and revenues for local E&P players.

Starting January 2026, reopened domestic wells are expected to contribute approximately 200 MMSCFD back into the national grid. Given that domestic gas costs around PKR 1,000/MMBTU compared with imported RLNG at ~PKR 3,500/MMBTU, a return to predominantly local gas utilization will lower costs for industrial and power consumers, stimulating demand. This creates a stable, high-demand market for E&P companies, enhancing both volume and top-line revenue without the need for additional drilling.

Regulatory & Policy Overhaul

Key reforms in 2025 aim to enhance efficiency, liquidity, and exploration incentives in the E&P sector:

- **DGPC Restructuring:** The Directorate General of Petroleum Concessions underwent a major overhaul to remove bureaucratic delays, reducing exploration license approval times from 6–12 months.
- **Third-Party Sales (Rule 35):** E&P companies can now sell up to 35% of production directly to private industrial buyers at market-driven prices, bypassing cash-strapped state utilities and improving cash flows.

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

- **Tight Gas Policy 2024–25:** Incentives for unconventional "tight gas" reserves were finalized, enabling companies like OGDC to commence Phase-2 horizontal fracturing, unlocking new production potential.

Cashflow Dynamics: Circular Debt Resolution Gains Traction

The E&P sector has historically faced a cashflow bottleneck due to circular debt, where government and gas utilities (SNGPL/SSGC) owe billions to exploration companies for gas sold but fail to recover costs from end-users. As of late 2025, circular debt stood at PKR 2.6–3.2tn. However, the focus has shifted from uncontrolled accumulation to structured resolution.

Key Developments:

- **Structured Settlements:** For the first time, the government initiated actual cash repayments rather than "paper adjustments."
- **Gas Pricing Reforms:** Transition from biannual to quarterly gas price notifications in Nov 2025, with potential monthly adjustments in 2026, ensures timely pass-through of costs and prevents fresh receivables buildup.
- **Enhanced Recovery:** Partial circular debt repayments during FY25 and early FY26, combined with improved tariff mechanisms, have lifted receivable recovery ratios of leading upstream producers to ~90%, marking a notable improvement versus historical trends.
- **ECC Payment Framework:** Structured measures include:
    - Prioritized settlement of current gas invoices to prevent new debt accumulation.
    - Phased clearance of legacy circular debt, including late payment surcharges.
    - Better coordination between gas utilities, power producers, and upstream suppliers for timely monthly recoveries.

These reforms collectively enhance cash flow visibility and liquidity for E&P companies, providing a more predictable financial environment going into 2026.

Discoveries During The Year

Well Name	Discovery Date	Block / Location	Operator	Working Interest (WI)
Baragzai X-01 (Slant)	Dec-25	Nashpa, KP	OGDCL	OGDCL (65%), PPL (30%), GHPL (5%)
Bitrism East-1	Oct-25	Bitrisim, Sindh	OGDCL	OGDCL (95%), GHPL (5%)
Razgir-1 (Onstream)	Oct-25	TAL Block, KP	MOL	OGDCL/PPL (27.8), POL (25%), MOL (8.4%)
Mari Ghazij CFB-1	Oct-25	Mari D&PL, Sindh	MARI	MARI (100%)
Shawal-1	Oct-25	Mari D&PL, Sindh	MARI	MARI (100%)
Dhok Sultan-03	Sep-25	Dhok Sultan, Punjab	PPL	PPL (75%), GHPL (25%)
Bolan East-2	Sep-25	Ziarat, Balochistan	PPL	PPL (100%)
Faakir-1	Jun-25	Bitrisim, Sindh	OGDCL	OGDCL (95%), GHPL (5%)
Chakar-1	Jun-25	Tando Allah Yar, Sindh	OGDCL	OGDCL (95%), GHPL (5%)
Spinwam-1	Apr-25	Waziristan, KP	MARI	MARI (55%), OGDCL (35%), OPI (10%)
Mari Ghazij-1	Apr-25	Mari D&PL, Sindh	MARI	MARI (100%)
Soghri North-1	Mar-25	Soghri, Punjab	OGDCL	OGDCL (100%)
Wana-1 (Appraisal)	Mar-25	Waziristan, KP	MARI	MARI (100%)
Shewa-2	Feb-25	Waziristan, KP	MARI	MARI (55%), OGDCL (35%), OPI (10%)

Source: PPIS, HMFS Research

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

Major Discoveries and Licensing Developments in 2025

The year 2025 was transformative for Pakistan's upstream sector, driven by both high-impact discoveries and strategic licensing activity. Notable exploration successes included OGDCL's Kingriali formation discovery in Nashpa, PPL's unconventional gas find in Kandhkot, and Mari Petroleum's Waziristan developments, collectively adding meaningful production potential and de-risking previously underexplored reservoirs. "

Complementing these technical achievements, the Offshore Bid Round 2025 marked a landmark moment—the first major offshore auction in nearly two decades—with 23 blocks provisionally awarded. Mari Energies emerged as the dominant player, securing 18 blocks as operator and 5 in joint ventures alongside Turkish Petroleum Corporation (TPAO), OGDC, and PPL. PPL secured eight blocks (two as operator, six as JV partner), while OGDC acquired two blocks as operator and participated in six others. Select blocks were also awarded to other strategic investors, signaling renewed confidence in Pakistan's offshore potential.

These combined exploration and licensing developments underscore a more dynamic upstream landscape, providing strong momentum for drilling activity, resource expansion, and sector growth in 2026.

Turkish Investment: Reviving Pakistan's Offshore Potential

In late 2025, the entry of Turkish state-owned TPAO (via **Turkish Petroleum Overseas Company-** TPOC) marked a pivotal development for Pakistan's offshore E&P sector, ending nearly two decades of stagnation. Turkey committed over USD 300mn in investments, bringing advanced technology and deep-water expertise.

Key Project: Eastern Offshore Indus Block-C

- Operatorship transferred from PPL to TPOC in Nov 2025.
- Ownership structure: TPAO 25%, PPL 35%, OGDCL 20%, MARI 20%.
- Block-C is drill-ready with prior seismic mapping indicating high-probability hydrocarbon prospects.

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

Strategic Implications:

- Access to advanced Turkish seismic vessels scheduled for 2026.
- Knowledge transfer and modern deepwater exploration techniques from Turkey, following their success at the Sakarya Gas Field (Black Sea).
- Strengthens Pakistan's offshore capabilities and diversifies exploration risk, providing potential high-impact discoveries for the sector.

Diversification & Minerals Expansion

Leading E&P companies are increasingly diversifying beyond hydrocarbons, targeting minerals and strategic resource plays to enhance long-term growth and mitigate sector-specific risks:

Mineral Ventures:

- Mari Petroleum and other upstream players are exploring gold, copper, and lithium projects, leveraging existing exploration expertise and geological data.
- These initiatives provide an alternative revenue stream, reduce dependence on hydrocarbon price cycles, and strengthen their investment appeal.

Reko Diq Project:

- The Reko Diq copper-gold project, operated by Barrick Gold and Antofagasta with government participation, represents one of the world's largest undeveloped copper-gold deposits.
- The project offers significant fiscal benefits through royalties, taxes, and potential energy supply opportunities for local E&P companies involved in infrastructure and logistics.
- Successful commissioning will support Pakistan's strategic resource diversification, providing long-term industrial and export-oriented growth.

These diversification initiatives position E&P players to benefit from non-hydrocarbon revenue, align with global commodity trends, and create a more resilient business model in a volatile energy landscape.

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

2026 Outlook

For CY26, Pakistan's E&P sector is transitioning from forced stagnation toward operational recovery, albeit remaining a hedged investment amid global oil price volatility. A projected softening in Brent crude prices toward the USD 55–60/bbl range is expected to weigh on topline performance, given the sector's linkage to international benchmarks. However, this price headwind is partially offset by a volume-led recovery, underpinned by technical interventions and production optimisation initiatives executed during CY25, positioning the sector for earnings stabilisation rather than contraction.

Risks to Valuations

- Global oil price volatility impacting revenue and profitability.
- Circular debt resolution remains contingent on disciplined government cash management.
- Delays in policy execution or offshore exploration may hinder production gains.
- Industrial demand recovery slower than expected could limit domestic gas absorption.
- Explorations resulting in drywells

E&P SECTOR – CASH FLOWS REIGNITE, VOLATILITY PERSISTS

Pakistan Petroleum Limited (PPL) – Harnessing Hydrocarbon Potential Through Disciplined Execution

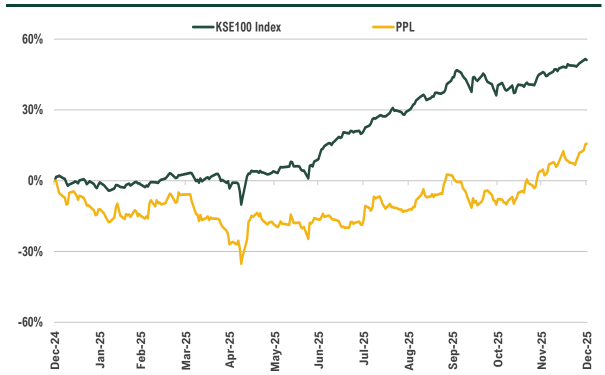
We uphold a BUY recommendation for Pakistan Petroleum Limited (PPL), by our Reserves Based Net Asset Value (DCF of 2P* reserves) assessment, valuing the stock at PKR 260/share. This underscores a potential capital appreciation of approximately 13% relative to the prevailing market price, coupled with a dividend yield of around 3.4% (Estimated DPS for FY26F: PKR 8/share). Our positive valuation is underpinned by the following anticipated developments poised to enhance the company's future performance.

- Cash balance of PKR 92bn (PKR 34/share) provides flexibility for capex and higher payouts
- Collection ratio improved to 91% in FY25 (vs. 81% last year); gas CF reform under IMF program supports further recovery
- Resolution of circular debt (PKR 595bn exposure) remains key to liquidity normalization and valuation rerating
- Four development wells drilled in Tal, Miano, Ziarat, and Qadirpur to optimize output and slow natural decline
- 11 exploration & appraisal wells drilled in FY25, resulting in eight discoveries; 15 wells targeted in FY26
- Production outlook improving post LNG cargo deferrals; volumes expected to recover to 600–650 mmcfd
- Offshore upside via Abu Dhabi Block-5; development approved with first production expected in FY28
- Long-term value optionality from Reko Diq; first production expected in FY29 and inflows projected by FY32

Pakistan Petroleum Limited	
Symbol	PPL
Bloomberg Code	PPL PA
Current Price	235.55
Mkt Cap (PKR Mn)	465,013.00
Mkt Cap (USD Mn)	1,653.91
No Of Shares (In Mn)	2,720.97
52 Weeks High	235.55
52 Weeks Low	131.91
Avg Volume (52 Weeks)	7,417,873.36
Avg Value	1,358,218,842.50

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

BANKING SECTOR

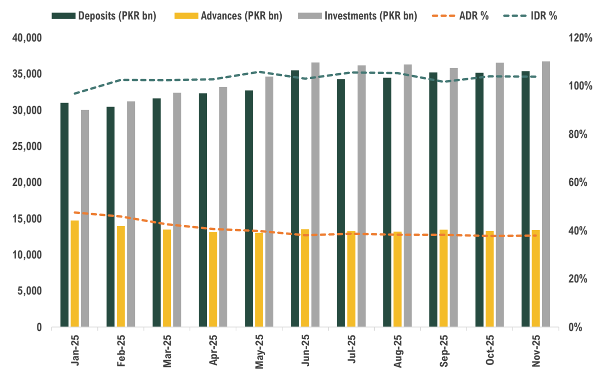
Through the Easing Cycle

BANKING SECTOR – THROUGH THE EASING CYCLE

Investment Thesis

The banking sector is transitioning from a period of "extraordinary spreads" to one defined by volumetric growth and liability management. With the monetary easing cycle now in full swing, the narrative for 2026 focuses on banks that can successfully protect their Net Interest Margins (NIMs) through superior deposit mixes while capitalizing on the resurgence of private sector credit demand. We maintain a BULLISH stance on the sector, led by dominant franchises with sticky, low-cost deposit bases.

Banks Deposits, Advances & Investments



Source: SBP, HMFS Research

Resilient Bottom Lines Amid Easing Monetary Policy

As the policy rate settles near 10.5%, the "easy yield" from government papers is thinning out. However, top-tier banks are mitigating this margin pressure through aggressive liability optimization. By shifting their deposit mix toward non-remunerative Current Accounts, banks are successfully lowering their overall cost of funds. This structural change ensures that Net Interest Income (NII) remains supportive even as asset yields decline, providing a cushion for sustained profitability through 2026.

Transition Toward Private Sector Credit Growth

With the economy projected to grow by ~4.0% in FY26, we are seeing a long-awaited pivot back to private sector intermediation. After years of crowding out, lower borrowing costs are stimulating credit demand in the manufacturing and agriculture sectors. Banks with clean books and established credit cultures are primed to translate the recovering loan demand into sustainable, core-banking profitability

The Islamic Banking Advantage

The sector continues to benefit from the systemic shift toward Shariah-compliant finance. While the SBP recently introduced a floor for Islamic retail savings—now requiring a payout of at least 75% of the gross yield of their investment pools—Islamic banks still maintain a structural advantage in managing funding costs. Unlike conventional banks, they are not bound by the fixed Minimum Profit Rate (MPR) linked directly to the SBP's policy rate for corporate and institutional deposits, allowing for more flexible, negotiated spreads in a declining rate environment. With the national mandate to complete the Islamic transition by the end of 2027, these institutions are seeing consistent deposit inflows from a Shariah-conscious public.

BANKING SECTOR – THROUGH THE EASING CYCLE

NFI Diversification & Fee Income Growth

Banks are increasingly relying on Non-Funded Income (NFI) to diversify their revenue streams. The rapid formalization of the economy and the expansion of digital payment platforms like Raast P2M are driving significant growth in transaction-based fee income. Additionally, increased formal remittance inflows—supported by government incentive schemes—continue to provide a steady and predictable boost to the sector's non-interest revenue.

Our top picks for the banking sector in 2026 are **Meezan Bank (MEBL)** and **MCB Bank (MCB)**. Meezan is the undisputed leader in Islamic banking, and is on track to maintain industry-leading deposit growth, with total deposits already surpassing PKR 3.18tn. Furthermore, we favor MCB for its best-in-class liability profile, characterized by a historic 54% Current Account concentration, which provides a superior low-cost funding base to protect margins as interest rates normalize.

BANKING SECTOR – THROUGH THE EASING CYCLE

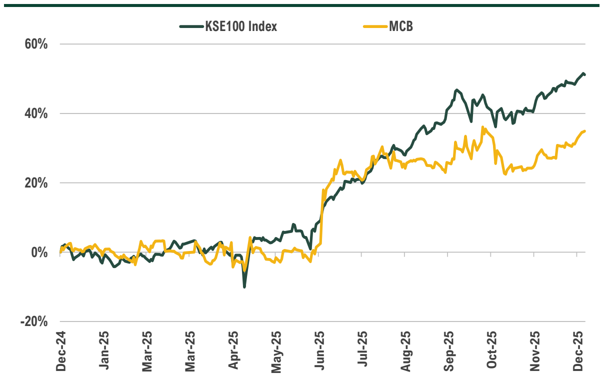
MCB Bank Limited (MCB) – Unrivaled Cost Leadership in an Easing Cycle

MCB Bank stands out as the sector's premier defensive play, boasting the "stickiest" and most cost-effective funding base in Pakistan. In a monetary cycle where margin protection is paramount (Policy Rate: 10.5%), MCB's historic focus on non-remunerative deposits provides it with a unique armor against falling interest rates. We maintain a BUY on MCB for its best-in-class efficiency and legendary dividend consistency, with a RIM-based fair value estimated at ~PKR 476.

MCB Bank Limited	
Symbol	MCB
Bloomberg Code	MCB PA
Current Price	385.06
Mkt Cap (PKR Mn)	456,319.00
Mkt Cap (USD Mn)	1,622.99
No Of Shares (In Mn)	1,185.06
52 Weeks High	400.00
52 Weeks Low	247.37
Avg Volume (52 Weeks)	585,190.70
Avg Value	187,313,972.05

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

Key Investment Pillars

Industry-Leading Liability Franchise (CASA of 97.5%): MCB possesses a liability profile that is virtually unmatched in the industry. Its Current Account (CA) concentration surged to a historic 54% in 9MCY25 (up from 49% at Dec-24), with management now eyeing a 60% concentration within two years. This nearly pure CASA base acts as a structural hedge, allowing the bank to slash its cost of deposits to ~5.0% and protect margins as industry-wide yields compress.

Resilient NIMs & Strategic Investment Book: Despite industry-wide pressure on spreads, MCB continues to post some of the highest Net Interest Margins (NIMs) in our coverage universe. Its PKR 2.0tn investment portfolio is strategically positioned—with 85% in PIBs—allowing the bank to sustain yields while capturing substantial revaluation surpluses (PKR 57.2bn as of Sep-25) as interest rates normalize.

Superior Asset Quality & Islamic Growth: MCB continues to distinguish itself with one of the most resilient asset quality profiles among its peer group, supported by a disciplined risk-management framework. Beyond its conventional strength, the bank is aggressively scaling its footprint—commanding one of the largest branch networks in the country—while strategically accelerating the growth of its subsidiary, MCB Islamic Bank. This dual-track approach allows MCB to capture the systemic shift toward Shariah-compliant banking and tap into a rapidly expanding pool of Islamic liquidity without compromising its core conventional dominance.

Income Play: High Yield & Payout Consistency: MCB remains the "gold standard" for dividend investors. With a forward dividend yield of ~7.5% for CY26 and a total 9MCY25 dividend of PKR 27/share, the bank offers an attractive mix of capital gains and sustainable income. Its fortress Capital Adequacy Ratio (CAR) ensures this payout remains safe even under stress.

BANKING SECTOR – THROUGH THE EASING CYCLE

MCB Bank Limited (MCB) – Unrivaled Cost Leadership in an Easing Cycle

Financial Snapshot (CY26 Projection)

- **Fair Value:** PKR ~476 (offering a 27% upside).
- **Forward P/B Multiple:** 1.7x (justified by high sustainable ROE).
- **Forward Dividend Yield:** ~7.5%.
- **Projected Deposit Growth:** >20% (driven by aggressive hiring and direct sales).
- **Current Account Concentration:** Targeted to reach 56% in CY26.
- Cost-to-Income Ratio: Best-in-class efficiency at ~31–33%.

Key Risks to Investment

- Higher-than-expected NIM compression in a rapid rate-cut cycle.
- Slower rollout of digital services compared to aggressive tech-focused peers.
- Asset quality shocks in the SME or consumer lending segments.

BANKING SECTOR – THROUGH THE EASING CYCLE

Meezan Bank Limited (MEBL) – Unmatched Growth Momentum & Margin Resilience

Meezan Bank (MEBL) remains our high-conviction top pick, continuing to redefine the banking landscape through its dominant Shariah-compliant franchise. While the broader sector faces margin compression in a 10.5% policy rate environment, MEBL's "Islamic Alpha"—characterized by a ~33% deposit CAGR since inception—allows it to outpace conventional peers. With superior Return on Equity (ROE) and a structural cost advantage in a declining rate cycle, we estimate a RIM-based fair value of PKR 565, reinforcing MEBL as the premier long-term value play in Pakistan's banking sector.

Meezan Bank Limited	
Symbol	MEBL
Bloomberg Code	MEBL PA
Current Price	451.83
Mkt Cap (PKR Mn)	813,545.00
Mkt Cap (USD Mn)	2,893.53
No Of Shares (In Mn)	1,800.55
52 Weeks High	490.00
52 Weeks Low	230.00
Avg Volume (52 Weeks)	1,412,234.86
Avg Value	479,217,383.34

Source: PSX, HMFS Research

Key Investment Pillars

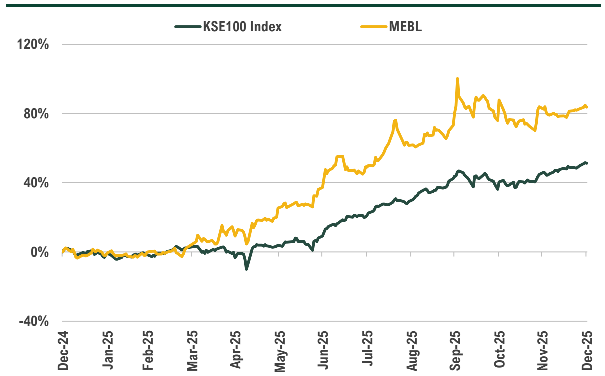
Industry-Leading Deposit Mobilization & Low Cost of Funds: MEBL has achieved a major milestone, with total deposits reaching PKR 3.18tn as of Sep-25 (a 23% YTD growth). Its Current Account (CA) ratio stands at a robust 49%, and management is aggressively targeting the 50%+ mark in 2026. This high concentration of non-remunerative deposits enables MEBL to maintain a projected cost of funds of just 4.5% in CY25, providing a critical buffer against moderating interest rates.

Exceptional Asset Quality & Prudent Risk Management: MEBL maintains one of the cleanest balance sheets in the country, outperforming industry benchmarks with an infection ratio of only 2.5–2.6%. This is supported by a formidable coverage ratio of 146%, reflecting a conservative lending strategy that prioritizes asset integrity. As private sector credit demand returns in 2026, MEBL's well-provisioned book allows for aggressive yet safe financing growth.

NFI Diversification & Digital Leadership: The bank is successfully diversifying its revenue streams through Non-Funded Income (NFI), which grew 42% y/y to PKR 25.8bn in 9MCY25. This growth is fueled by a doubling of market share in home remittances (to 6.5%) and a ~27% market share in Roshan Digital Accounts (RDA). Furthermore, MEBL is scaling its cards business and digital suite, including a strategic partnership with Visa to enhance its premium debit card portfolio.

Robust Capitalization & Consistent Shareholder Returns: With a Capital Adequacy Ratio (CAR) of ~19.6%–23.2% (well above the 11.7% regulatory floor), MEBL is perfectly positioned to sustain its attractive dividend profile. Despite a cooling rate environment, MEBL is projected to deliver an EPS of PKR ~52.5 in CY26, supporting an expected annual cash dividend of PKR 28.0 per share.

Relative Performance



Source: PSX, HMFS Research

BANKING SECTOR – THROUGH THE EASING CYCLE

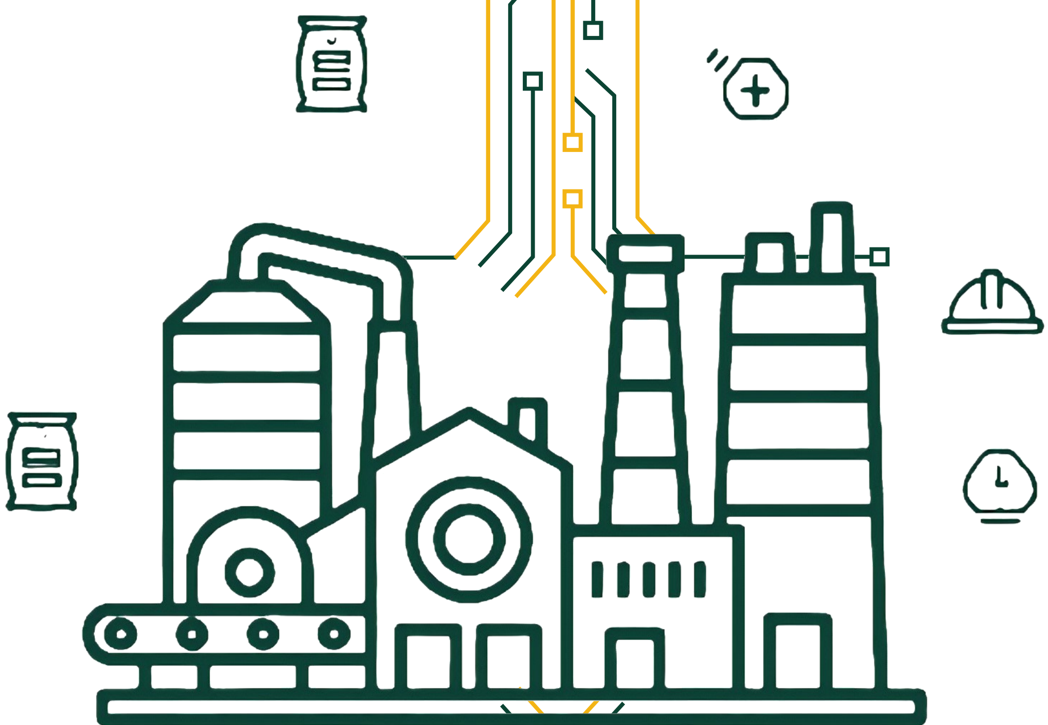
Meezan Bank Limited (MEBL) – Unmatched Growth Momentum & Margin Resilience

Financial Snapshot (CY26 Projection)

- **Fair Value:** PKR 565.0 (offering a ~28% total upside).
- **Forward P/E Multiple:** 8.4x (CY26F).
- **Forward P/B Multiple:** 2.5x (justified by sector-leading sustainable ROE).
- **Sustainable ROE:** ~32%–34%.
- **Projected EPS:** PKR 52.5.
- **Dividend Yield:** ~5.0%

Key Risks to Investment

- Unexpected pressure on net spreads if deposit mobilization shifts away from CA.
- Hike in the cost-to-income ratio (currently ~30.5%–37.5%) due to rapid branch expansion.
- Sudden asset quality deterioration in the private sector financing book.



CEMENT SECTOR

Efficiency, Discipline & Durability

CEMENT SECTOR – EFFICIENCY, DISCIPLINE & DURABILITY

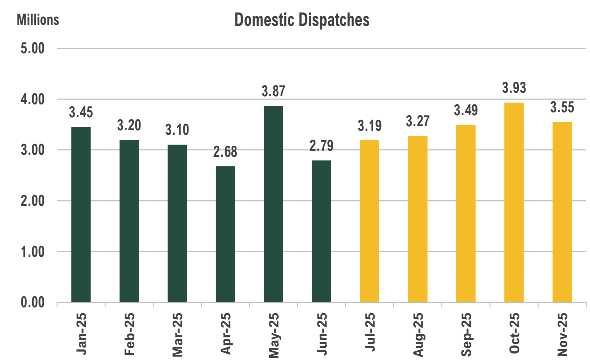
Valuations Lag the Sector's Earnings Sensitivity

Cement remains an underrated constituent of the KSE-100, despite delivering a return of 78% in CY25. The sector's performance has largely been overshadowed by investor preference for cyclicals with near-term visibility, even as cement offers a compelling medium-term re-rating opportunity. Valuations remain below historical averages, indicating limited growth expectations priced in by the market. Given the sector's high fixed-cost structure, even a modest recovery in demand could translate into disproportionately strong earnings rebound, creating an attractive asymmetric risk-reward profile.

Structurally, Pakistan's cement industry has undergone a significant capacity expansion over the past decade, with installed capacity increasing from 45.62mn tonnes in FY16 to 84.58mn tonnes in FY25, reflecting sustained capital deployment across the sector. However, capacity utilization has declined sharply to 52.97% from a peak of 94.4% in FY18, primarily due to muted domestic construction activity amid elevated input costs and macroeconomic constraints. In response, cement producers have increasingly pivoted toward exports, which have shown a steady upward trajectory—highlighting the sector's operational resilience and Pakistan's improving competitiveness in regional markets as external demand conditions stabilize.

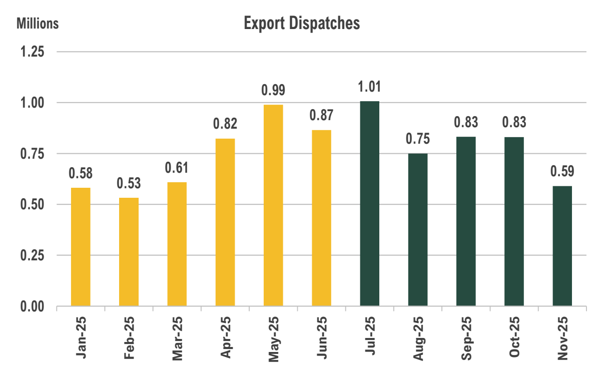
Against this backdrop, the following are the key components to monitor for CY26.

Cement Dispatches - Local (tonnes)



Source: Zakheera, HMFS Research

Cement Dispatches - Export (tonnes)



Source: Zakheera, HMFS Research

Cement Offtakes:

- Domestic cement dispatches moderated in FY25, declining by ~1.22% y/y to 37 mn tons, reflecting macroeconomic headwinds. However, 1QFY26 volumes grew by ~19.9% y/y to 12 mn tons, signaling underlying demand resilience. Supportive factors include elevated government infrastructure spending, ongoing post-flood rehabilitation projects, and the SBP's recently introduced housing subsidy scheme, which is likely to provide an additional boost to construction activity in the near term.
- Exports provided a boost to the cement sector, rising by ~29.5% y/y to 9.2 mn tons in FY25 and 20.4% y/y to 2.58 mn tons in 1QFY26, significantly supporting industry profitability.

CEMENT SECTOR – EFFICIENCY, DISCIPLINE & DURABILITY

Cement Prices:

- In 1QFY26, cement prices averaged PKR 1,442 per bag in the South region, marking a 3.6% increase, while in the North region, prices declined by 6.23% to PKR 1,368 per bag.

Raw Material Prices:

- International coal average prices dropped to USD 107.23/ton in FY24 and further to USD 101.49/ton in FY25.
- 4QFY25's average of USD 90/ton indicates favorable international prices for the local cement market.

PSDP FY26 at PKR 1tn (↓33% y/y):

- Despite the cut, multi-year hydropower and water projects remain funded, providing a stable base for construction activity and cement offtake.

Mohmand Dam – KP Demand Support:

- Fast-tracked works for FY26–27, including quarry development and dam filling, will sustain cement consumption in KP. The 800MW CFRD (Concrete-Faced Rockfill) dam (Pakistan's tallest, world's 5th-largest) also includes irrigation expansion for 18k+ new acres, support for 160k acres, 300MGD drinking water for Peshawar, and 2.86bn annual units of hydropower—ensuring continuous heavy civil works.

Diamer Basha Dam – Peak Cement Phase Ahead:

- Roller-compacted concrete (RCC) placement begins early 2026 as trials and foundation excavation finish in 2025. With 13 active work fronts and full diversion system operation, the project—soon to be the world's tallest RCC dam at 272m—anchors multi-year cement demand as it targets 8.1MAF storage and 4,500MW (18bn units) of clean power.

SIFC's USD28bn Project Pipeline:

- Clearance of 28 proposals for Gulf partners (energy, minerals, IT, agri) strengthens infrastructure visibility. Key projects—Diamer Basha, Reko Diq, USD10bn Aramco refinery, livestock zones, Thar Coal rail link—signal a broad investment cycle supportive of cement demand.

CEMENT SECTOR – EFFICIENCY, DISCIPLINE & DURABILITY

Tarbela 5th Extension – Steady Institutional Demand:

- The World Bank's USD390mn financing for the 1,530MW extension (lifting capacity to 6,418MW, generating 1.3bn units by 2026) ensures continued structural and tunneling works, adding incremental cement needs.

Federal Excise Duty (FED)- Tax:

- Under the FY25 federal budget, the government doubled the FED on cement to PKR 4/kg from PKR 2/kg. This sharp increase materially raises industry cost structures and is likely to weigh on cement demand and broader construction activity.

2026 Outlook

The sector's outlook remains constructive, with exports continuing to act as a key earnings stabilizer amid volatile local demand. Domestically, construction activity is gradually gaining traction, supported by ongoing infrastructure projects, dam construction, and post-flood rehabilitation works, all of which are expected to underpin cement offtake. In addition, an anticipated pickup in real estate activity in the coming year should further support volumes, while a relatively stable and easing interest-rate environment provides breathing space to this highly leveraged industry.

Despite improving fundamentals, sector performance remains sensitive to demand recovery timelines and external disruptions. In particular, restrictions at the Afghan border pose a material risk for northern producers with high exposure to Afghan exports, highlighting persistent uncertainty despite an otherwise improving outlook.

Risks to Valuations

- Slower demand recovery, limiting utilization & operating leverage
- Interest rate hikes, increasing financing costs for expansion projects
- Structural overcapacity (North), constraining pricing power
- Energy cost volatility, reversing margin tailwinds
- Policy and tax uncertainty, raising earnings volatility
- Export dependence, exposing earnings to FX and geopolitical risks
- Seasonality, with monsoon or construction slowdown impacting sales

CEMENT SECTOR – EFFICIENCY, DISCIPLINE & DURABILITY

Maple Leaf Cement Factory Limited (MLCF) – White Cement Bold Moves

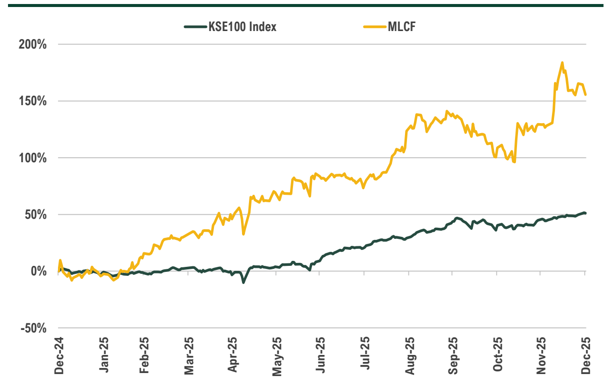
We continue to rate MLCF as BUY, with our DCF-derived fair value of PKR 147/share indicating ~25% upside. We forecast FY26E EPS of PKR ~12.98, while the company is expected to reinvest in strategic expansion rather than prioritize dividends. Our positive outlook is supported by initiatives aimed at consolidation, operational efficiency, and market leadership.

- **Market Positioning:** Proposed acquisition of Pioneer Cement (PIOC) will lift capacity-based market share to ~15%, making MLCF the third-largest cement producer nationally and largest in the North region.
- **Cost Synergies:** Post-acquisition, synergies expected via higher alternative fuel usage, optimized rail logistics, and pet coke utilization, enhancing cost efficiency.
- **White Cement Leadership:** Dominates white cement segment (~90% market share), priced at a ~1.6x premium over grey cement, contributing ~6% of total revenue.
- **Fuel Mix Advantage:** Only cement producer utilizing biomass at scale (~35% of fuel mix, targeting 40%). Remaining fuel largely pet coke. Coal transported via rail reduces inland freight costs to ~USD 20/ton, vs. USD 30/ton for peers.
- **Lowest Fuel Cost:** Fuel cost stands at PKR 32,000/ton, the lowest in the industry.
- **Power Efficiency:** Electricity sourced 95% from captive power plants (62% coal, 6% solar, 22% WHR, 5% national grid), with coal-fired plant 40MW capacity, ~50% utilized, generation cost PKR 21–22/kWh vs. grid PKR 33/kWh, boosting margins and efficiency.
- **New Ventures:** MLCF has acquired a 34.4% stake in Agritech Limited (AGL) and is now expanding into healthcare through NovaCare Hospitals, planning three facilities in major cities. The first, in Islamabad, is expected to open by end-2026, with a total capex of USD 100mn (50% debt, 50% equity, ~USD 25mn already invested), marking Pakistan's first hospital network affiliated with an international healthcare association.

Maple Leaf Cement Factory Limited	
Symbol	MLCF
Bloomberg Code	MLCF PA
Current Price	117.43
Mkt Cap (PKR Mn)	48,125.00
Mkt Cap (USD Mn)	171.17
No Of Shares (In Mn)	1,047.56
52 Weeks High	130.38
52 Weeks Low	42.22
Avg Volume (52 Weeks)	10,060,802.01
Avg Value	814,860,171.08

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

CEMENT SECTOR – EFFICIENCY, DISCIPLINE & DURABILITY

Fauji Cement Company Limited (FCCL) – Cash-Rich Growth Engine

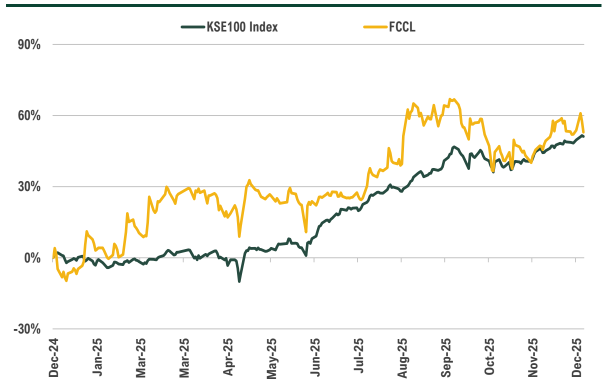
We have a BUY recommendation for Fauji Cement Company Limited (FCCL) as it is trading at a P/E of ~8.5x. We project FY25E EPS of PKR 6.54 per share and a DPS of PKR 1.5 (DY: ~2.7%), with our DCF-based fair value estimate of PKR 72, offering a composite upside of ~28.7% at current levels. Our positive outlook is supported by these strategic initiatives, which are expected to enhance the company's future performance

- **Balance Sheet Strength:** Net cash of PKR 19bn as of Sep'25 enables value-accretive acquisitions, including a planned 42.03% stake in Attock Cement Limited (ACPL).
- **Capacity Expansion:** Total capacity increased to 10.6mn TPA, with FY25 utilization at 51%. Local market share grew from 11.0% in FY23 to 13.3% in FY25, expected to stabilize around 13% through FY28.
- **Pricing Leadership:** FCCL commands the highest retention prices in the grey cement segment due to strong brand equity and corporate sales.
- **Packaging Integration:** FY25 acquisition of a PP bag manufacturing plant in Hattar, KPK, with annual capacity of 72mn bags, now largely meeting in-house cement packaging needs.
- **Fuel Cost Optimization:** Local coal now represents 75% of the fuel basket (~25% cheaper than imports), while alternative fuel usage rose to ~7%, targeting 10–15% over the medium term.
- **Power Cost Visibility:** Grid electricity costs declined 9% YoY, and ~40% of power is expected from the grid in FY26E. The 15MW captive solar plant commissioned in FY25 raised in-house generation to 59% (FY24: 48%), enhancing cost visibility and earnings resilience.
- **Margin Sustainability:** Diversified energy mix, cost-efficient packaging, and strong pricing power support structural margin improvements and reinforce FCCL's position as a market leader.

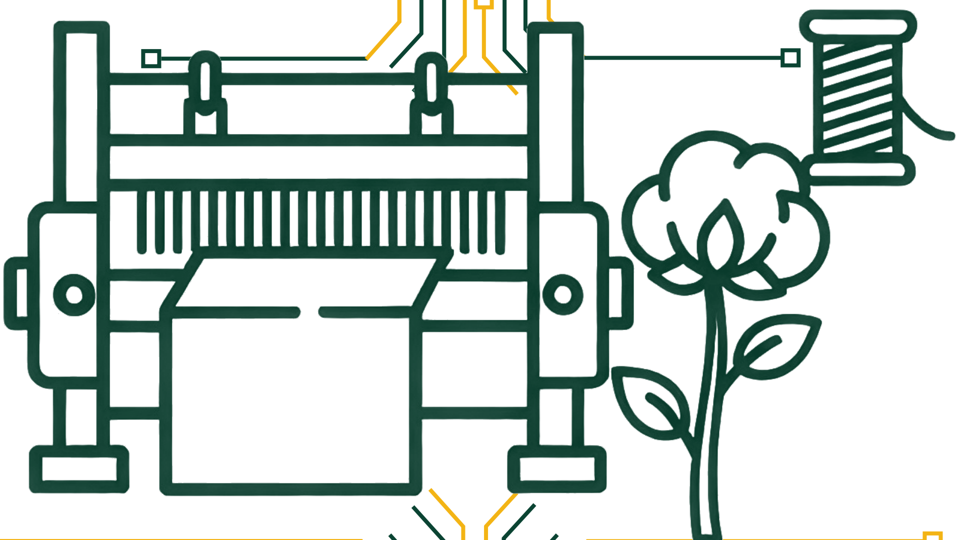
Fauji Cement Company Limited	
Symbol	FCCL
Bloomberg Code	FCCL PA
Current Price	55.95
Mkt Cap (PKR Mn)	89,725.00
Mkt Cap (USD Mn)	319.12
No Of Shares (In Mn)	2,452.85
52 Weeks High	61.05
52 Weeks Low	33.02
Avg Volume (52 Weeks)	12,300,485.76
Avg Value	593,639,155.28

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research



TEXTILE SECTOR

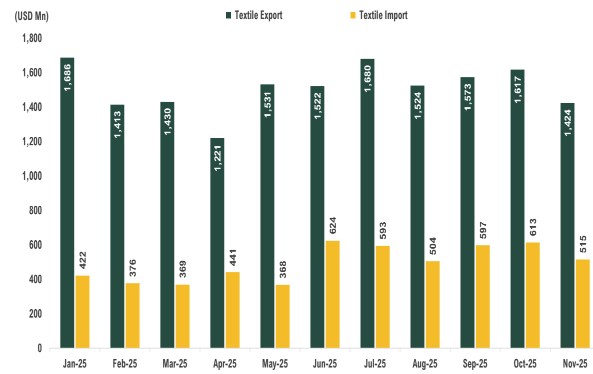
From Stress to Structure

TEXTILE SECTOR – FROM STRESS TO STRUCTURE

CY25 Review: Navigating Cost Pressures Amid Export Resilience

During FY25, Pakistan's textile sector experienced pronounced volatility, primarily driven by elevated raw material and energy costs, which continued to exert pressure on operating margins across the value chain. Despite these headwinds, the sector demonstrated notable resilience, underpinned by steady export demand and improving product mix. Textile exports grew by 7% y/y in FY25, and the momentum extended into 4MFY26, with textile exports reaching USD 6.4bn, up 4% Y/Y, led by broad-based growth across key categories. Export performance was particularly strong in raw cotton (up ~100% y/y), knitwear (+8% y/y), bedwear (+7% y/y), tents & canvas (+32% y/y) and ready-made garments (+5% y/y), reflecting improving order inflows, selective pricing power in value-added segments, and a gradual recovery in global demand.

Textile Exports & Imports



Source: PBS, HMFS Research

Tariff Developments: From Sentiment Shock to Competitive Advantage

Monthly export performance, however, remained uneven during the year, largely due to uncertainty surrounding the imposition of higher reciprocal tariffs by the US. The initial announcement of a 29% tariff triggered negative sentiment across the textile sector, given Pakistan's heavy reliance on textile exports and the risk of price competitiveness erosion. This translated into a temporary correction in textile stocks on the PSX.

Subsequently, the outlook improved materially following government-led trade engagement with the US, resulting in a reduction of the tariff rate to 19%. This adjustment repositioned Pakistan favorably relative to regional peers—including China, Bangladesh, Vietnam and India—which remained subject to higher reciprocal tariffs. The revised tariff structure restored investor confidence, improved order visibility, and supported a rebound in textile sector valuations on the local bourse.

Budgetary Measures & Cotton Dynamics: Structural Shift for Spinning Segment

In the FY26 Federal Budget (June 2025), the government extended the 18% GST—previously applicable only to locally produced cotton—to imported cotton and yarn. This policy measure materially improved the competitive lands -

TEXTILE SECTOR – FROM STRESS TO STRUCTURE

cape for domestic cotton and provided structural support to the spinning segment, which had historically faced pricing distortions due to tax asymmetry.

While domestic cotton production remains constrained due to declining cultivation area and yield challenges over the years—keeping demand for imported cotton structurally intact—the pricing parity has increased the usability and attractiveness of locally produced cotton. As a result, local cotton competitiveness has improved, partially mitigating import reliance and supporting margins for integrated players.

Policy Outlook: Textile & Apparel Policy 2025–30

The Ministry of Commerce has reportedly finalized a draft Textile and Apparel Policy (2025–30), pending submission to the Economic Coordination Committee (ECC). The policy targets textile and apparel exports of USD 29.4bn by FY29–30, in line with the National Export Development Board (NEDB) objectives under the Uraan Pakistan framework and the broader "Made in Pakistan" initiative.

Key strategic pillars include:

- Scaling exports of value-added segments (apparel, made-ups, home textiles),
- Maximizing utilization of locally produced raw materials and intermediates,
- Encouraging export-oriented investments, with emphasis on high-value, high-tech, and environmentally sustainable projects,
- Creating a more predictable and business-friendly operating environment for the textile value chain.

National Cotton Plan 2025: Addressing Supply-Side Constraints

Complementing the export-focused policy framework, the Ministry of National Food Security & Research announced the National Cotton Plan 2025, aimed at enhancing crop yields, improving fiber quality, and lowering production costs. Going forward, the plan emphasizes adoption of improved seed varieties, modern farming techniques, and better agricultural practices, with the broader objective of import substitution and supply-side stability.

TEXTILE SECTOR – FROM STRESS TO STRUCTURE

Conclusively, the outlook for the textile sector remains firmly positive, underpinned by improving cotton production frameworks, more targeted export strategies, and resilient global demand for Pakistan's textile products. The accelerating shift toward captive and solar-based power generation is structurally lowering production costs, positioning the sector for margin recovery and a sustained earnings turnaround in the year ahead.

Risks to Valuations:

- Higher gas and power costs could compress sector margins.
- Import reliance exposes earnings to global cotton prices and FX.
- PKR swings may raise input costs and working capital needs.
- Delayed reforms could dilute earnings and valuation upside.
- Weak US/EU retail demand may pressure export realizations.
- Elevated financing costs may weigh on leveraged players.

TEXTILE SECTOR – FROM STRESS TO STRUCTURE

Interloop Limited (ILP) – From Compression to Comeback

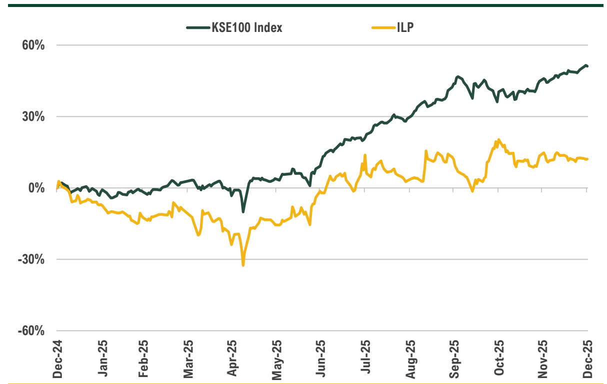
ILP is weaving a compelling turnaround story, transforming global market headwinds into strategic opportunities. With a DCF-based fair value of PKR ~109, the stock offers ~39.7% upside, underpinned by projected FY26E EPS of PKR ~7.88 (~2.05x y/y growth) and an expected dividend of PKR ~2.5 (DY 3.9%). The company's combination of elite global clientele, sustainability-driven efficiencies, and strategic international expansion positions it to out-perform peers while reinforcing its role as a key player in Pakistan's textile export landscape.

- **Export-driven growth:** Serves global brands including Nike, Adidas, H&M, ZARA, and Primark.
- **Sustainability advantage:** 17 MW solar installed, targeting 25 MW by FY26 to lower energy costs.
- **Egypt expansion:** USD 35.2mn new facility; lower tariffs enable exports to US, UK, and EU.
- **Operational scale:** Exports constitute 93% of revenue, ~3.2% of Pakistan's textile exports.

Interloop Limited	
Symbol	ILP
Bloomberg Code	ILP PA
Current Price	77.08
Mkt Cap (PKR Mn)	108,044.00
Mkt Cap (USD Mn)	384.28
No Of Shares (In Mn)	1,401.71
52 Weeks High	88.00
52 Weeks Low	45.00
Avg Volume (52 Weeks)	897,321.93
Avg Value	61,056,153.18

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

HABIBMETRO
Financial Services

HMFS ALPHA STOCKS

8 SCRIPS FOR HIGH GROWTH POTENTIAL

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DG CEMENT

HMFS ALPHA STOCKS

National Bank of Pakistan (NBP) – The Sovereign Balance Sheet at a Deep Discount

National Bank of Pakistan (NBP), the country's largest public sector commercial bank and a Domestic Systemically Important Bank (D-SIB), stands out as a compelling alpha opportunity within Pakistan's banking sector. With an investment-grade 'AAA/A1+' credit rating and a dominant ~13% share in domestic deposits, NBP plays a central role in government transactions and the broader financial system, positioning it as the sovereign anchor of Pakistan's banking architecture.

Despite a sharp earnings recovery, NBP continues to trade at a deep valuation discount, with a P/B of ~1.0x versus the sector average of ~1.2x. Following the normalization of one-off pension-related expenses in CY24, 9MCY25 EPS rebounded strongly to PKR 30.88, reaffirming the bank's underlying earnings power. With robust capital buffers, margin resilience, and dividend visibility, NBP offers meaningful re-rating potential from current levels.

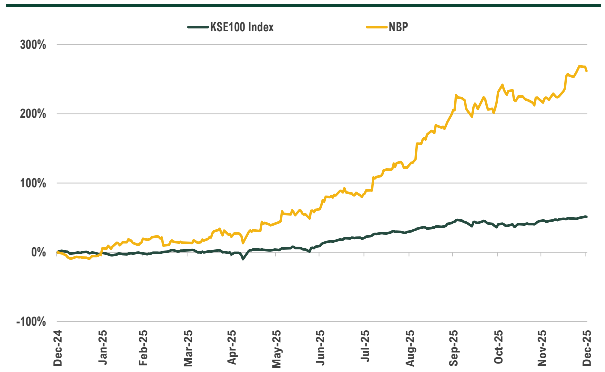
National Bank of Pakistan	
Symbol	NBP
Bloomberg Code	NBP PA
Current Price	242.18
Mkt Cap (PKR Mn)	515,241.00
Mkt Cap (USD Mn)	1,832.55
No Of Shares (In Mn)	2,127.51
52 Weeks High	250.50
52 Weeks Low	59.00
Avg Volume (52 Weeks)	7,254,161.72
Avg Value	974,843,269.12

Source: PSX, HMFS Research

Investment Case

- **Structural Earnings Rebound:** 9MCY25 PAT surged 15x y/y to PKR 66.3bn following normalization of one-off pension expenses.
- **Capital & Liquidity Strength:** Tier-1 CAR 21.27%, with LCR 207% and NSFR 191%, ensuring superior balance-sheet safety.
- **Margin Protection via PIBs:** NII up 75% y/y, supported by faster CoF (Cost of Funds) decline and high-yield PIB portfolio in a rate-cut cycle.
- **Dividend Upside:** Expected PKR 18–20/share dividend in CY26 (~8% yield) to enhance shareholder returns and support valuation re-rating.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Prolonged decline in policy rates pressuring Net Interest Margins.
- MTM risk on the fixed-income investment book amid policy volatility.
- Elevated sovereign exposure linking performance to Pakistan's macro stability.
- Regulatory or policy intervention risk due to public sector ownership.
- FX volatility impacting foreign currency assets and revaluation reserves.

HMFS ALPHA STOCKS

GlaxoSmithKline Pakistan Limited (GLAXO) – Undervalued Market Leader

GlaxoSmithKline Pakistan Limited is the country's largest multinational pharmaceutical company, with a dominant presence in branded medicines and leading franchises across high-volume therapeutic categories. After facing severe policy-induced margin compression in CY23, the company has entered a clear earnings recovery phase, supported by regulatory reform, pricing flexibility, and operational efficiency.

At ~PKR 389.8, GLAXO trades at ~14x forward P/E versus the sector average of ~25x, despite visible earnings normalization. With CY26E EPS of ~PKR 28 and a ~4% dividend yield, the stock offers ~80% upside, with the valuation discount reflecting past regulatory distortions rather than structural weakness.

Investment Case

- **Margin & Earnings Normalization:** Pricing deregulation and CPI-linked adjustments have restored cost pass-through, lifting margins to mid-30% levels and driving earnings recovery.
- **Operating Leverage & Balance Sheet Strength:** Fixed-cost absorption and a zero-debt balance sheet enhance earnings quality and cash flow visibility.
- **Supportive Cost Environment:** Stable PKR and softer global API prices continue to support margins and reduce volatility.
- **Optional Upside Levers:** Export reactivation and API localization provide incremental medium-term growth and diversification upside.

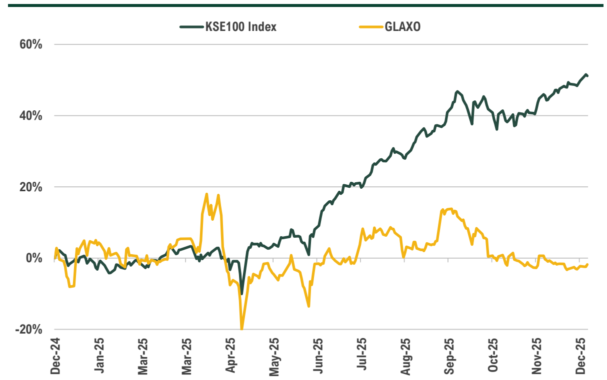
Risks to Valuation

- Imported APIs expose earnings to PKR depreciation.
- Inflation or rising raw material costs could pressure margins.
- Smuggled/counterfeit drugs may hurt market share and brand trust.
- Low-cost local generics could constrain volumes or pricing.

GlaxoSmithKline Pakistan Limited	
Symbol	GLAXO
Bloomberg Code	GLAXO PA
Current Price	389.78
Mkt Cap (PKR Mn)	124,132.00
Mkt Cap (USD Mn)	441.50
No Of Shares (In Mn)	318.47
52 Weeks High	481.00
52 Weeks Low	301.00
Avg Volume (52 Weeks)	395,950.17
Avg Value	159,208,143.15

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

HMFS ALPHA STOCKS

Pakistan Aluminium Beverage Cans Limited (PABC) – Export -Led Growth with Policy Shield

Pakistan Aluminium Beverage Cans (PABC) is the country's sole aluminium can manufacturer, serving major domestic bottlers and an expanding export base. With capacity expansion, operational efficiency, and policy protection via anti-dumping duties, the company is well-positioned to capture rising domestic and regional demand.

Trading at ~6x forward P/E versus the industry average of ~11x, PABC offers substantial re-rating potential. CY26E EPS is projected at ~PKR 21, supported by capacity expansion, export growth, and protective policies, while a broad customer base and strong order visibility mitigate near-term risks.

Investment Case

- **Capacity & Operational Upside:** Debottlenecking project adds 100mn cans/year to capacity, enhancing throughput, efficiency, and utilization.
- **Export-Led Growth:** Exports contribute >50% of revenue, with rising demand across Afghanistan, Central Asia, and Bangladesh.
- **Policy Protection:** Anti-dumping duties shield domestic margins from low-cost imports.
- **Capacity Expansion:** Plans to construct a new beverage can manufacturing facility with a capacity of 1.3bn cans in Afghanistan.
- **Domestic Demand Expansion:** New bottlers and cola/energy brands increase structural demand for aluminium cans.

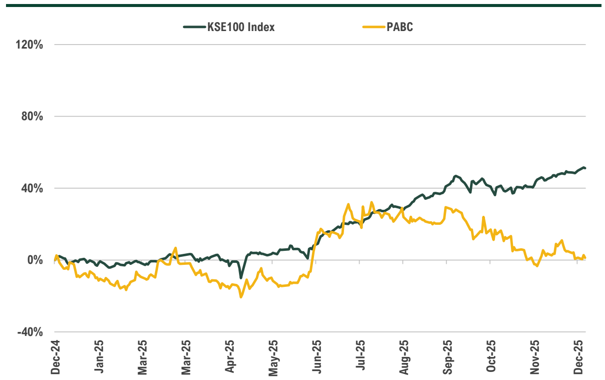
Risks to Valuation

- PKR depreciation may raise imported raw material costs.
- New regional capacity (e.g., Uzbekistan) could intensify price pressure.
- Slower adoption in new export markets may limit growth.
- Domestic demand may fluctuate due to consumer trends or brand disruptions.
- Changes in SEZ tax treatment could affect net margins.

Pakistan Aluminium Beverage Cans Limited	
Symbol	PABC
Bloomberg Code	PABC PA
Current Price	126.69
Mkt Cap (PKR Mn)	45,749.00
Mkt Cap (USD Mn)	162.72
No Of Shares (In Mn)	361.11
52 Weeks High	170.85
52 Weeks Low	96.00
Avg Volume (52 Weeks)	269,511.61
Avg Value	35,113,610.92

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

HMFS ALPHA STOCKS

Barkat Frisian Agro Limited (BFAGRO) – Operational Efficiency Fuels Re-Rating

BFAGRO is a Dutch-affiliated egg products manufacturer supplying leading domestic and international food companies. With strong export credibility, a disciplined balance sheet, and ongoing expansion into value-added egg powder production, the company is positioned for sustained growth and margin improvement.

Trading at ~10.7x FY26E P/E versus a sector average of ~23x, BFAGRO offers attractive upside. Earnings growth is underpinned by higher capacity utilization, margin expansion, backward integration, and tax incentives under SEZ, while expansion into egg powder and value-chain integration strengthens long-term revenue streams.

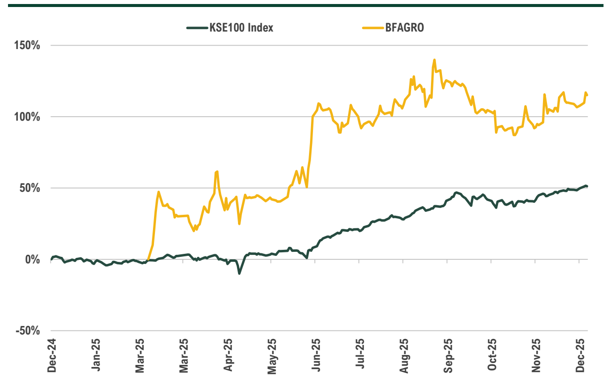
Barkat Frisian Agro Limited	
Symbol	BFAGRO
Bloomberg Code	BFAGRO PA
Current Price	43.06
Mkt Cap (PKR Mn)	13,348.00
Mkt Cap (USD Mn)	47.47
No Of Shares (In Mn)	309.99
52 Weeks High	49.25
52 Weeks Low	20.02
Avg Volume (52 Weeks)	2,733,273.88
Avg Value	100,293,867.36

Source: PSX, HMFS Research

Investment Case

- **Strong Earnings Momentum:** FY25 PAT nearly doubled to PKR 741.7mn on higher sales, improved margins, and enhanced utilization.
- **Capacity Expansion & Egg Powder Entry:** PKR 500mn investment into dried egg powder production to capture higher-margin, value-added segment.
- **Backward Integration:** PKR 690mn initiative with layer farms and feed facility to secure supply chain, cut costs, and improve financial quality.
- **Robust Export Footprint:** Serving international clients like Mondelez and Kerry, enhancing revenue stability.
- **Tax & Balance Sheet Advantage:** SEZ-based tax holiday and prudent debt-capital structure enhance profitability and financial resilience.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Rising input and feed costs could compress profitability.
- Any lag in plant or farm development may impact growth timelines.
- PKR depreciation could inflate import and financing costs.
- Changes in taxation or food safety regulations may affect operations.
- Lower-than-expected local or export demand could strain sales.

HMFS ALPHA STOCKS

Ghani ChemWorld Limited (GCWL) – Import Substitution Drives Early-Phase Growth

Ghani ChemWorld Limited, part of Ghani Group, is Pakistan's first large-scale calcium carbide (CaC_2) manufacturer. Strategically located in Hattar SEZ, GCWL aims to drive import substitution, expand into value-added chemicals, and serve both domestic and export markets, positioning itself as a key industrial chemicals player.

Trading at ~8x forward P/E versus an industry average of ~12x, GCWL offers early-phase upside. FY26E EPS of PKR 2.2–2.5 reflects only six months of operations, supported by tax exemptions, import-substitution potential, and planned exports to GCC and Africa, providing margin support and cash-flow visibility.

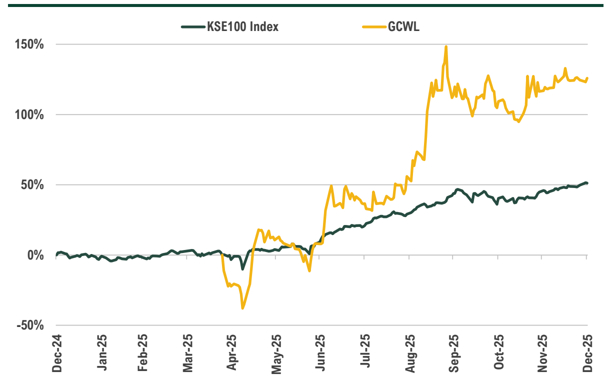
Ghani ChemWorld Limited	
Symbol	GCWL
Bloomberg Code	GCWL PA
Current Price	20.33
Mkt Cap (PKR Mn)	5,085.00
Mkt Cap (USD Mn)	18.09
No Of Shares (In Mn)	250.14
52 Weeks High	23.00
52 Weeks Low	5.35
Avg Volume (52 Weeks)	5,379,263.80
Avg Value	79,795,195.48

Source: PSX, HMFS Research

Investment Case

- **Import Substitution & Market Share:** GCWL to capture ~90% of Pakistan's CaC_2 market (~95% import-dependent).
- **Phased Product & Export Expansion:** Phase 2 products (PCC, CaO, carbon black, gases) plus planned exports to GCC & Africa diversify revenue and enhance margins.
- **Capacity & Production Visibility:** 25,000 tons/year plant, commercial production from Dec'25, targeting 80% utilization in FY27.
- **Financial & Tax Strength:** 10-year SEZ tax exemption and Ghani Group backing support early-phase profitability and cash-flow stability.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Economic Downturn
- Slower-than-expected plant ramp-up
- Volatility in coke and lime prices
- Lower utilization impacting FY26 earnings
- Delay in Phase-2 capex execution
- Weaker export demand outlook

HMFS ALPHA STOCKS

Sazgar Engineering Works Limited (SAZEW) – Positioned for the Next Growth Cycle

Sazgar Engineering Works Limited is a leading automotive manufacturer that has successfully transitioned from rickshaws to the premium SUV segment through exclusive assembly of GWM's Haval brand. With upcoming CKD launches, a push into PHEVs/NEVs, and expanding localization, SAZEW is entering its next growth phase.

At ~4.7x FY26E P/E versus the auto sector average of ~9x, SAZEW remains attractively valued. With FY26E EPS of PKR 360 and DPS of PKR 65 (~4% yield), improving earnings visibility and margin stabilization post-FY26 support a re-rating case.

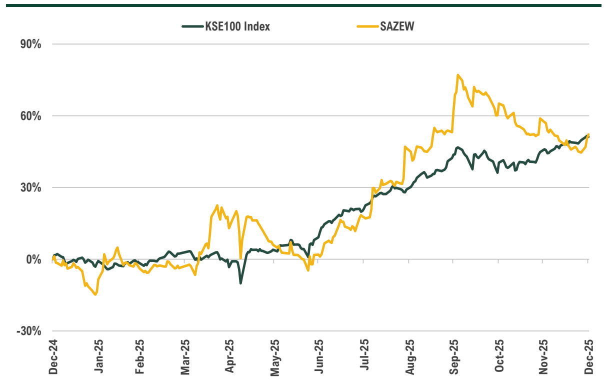
Sazgar Engineering Works Limited	
Symbol	SAZEW
Bloomberg Code	SAZEW PA
Current Price	1,701.90
Mkt Cap (PKR Mn)	102,873.00
Mkt Cap (USD Mn)	365.89
No Of Shares (In Mn)	60.45
52 Weeks High	2,050.00
52 Weeks Low	947.00
Avg Volume (52 Weeks)	256,235.74
Avg Value	355,648,135.01

Source: PSX, HMFS Research

Investment Case

- **Premium SUV & NEV Growth:** Strong Haval momentum, recent PHEV launch, and CKD rollout of upcoming TANK 500 and Canon ALPHA enhance product mix and margins.
- **Capacity & Scale Expansion:** Expanded PKR 11.5bn CAPEX lifts daily capacity from ~40 to ~90 units and improves operating efficiency.
- **Localization-Led Margin Support:** Gradual localization and NEV manufacturing expected to offset Auto Policy expiry, stabilizing margins around ~17% post-FY26.
- **Attractive Valuation & Yield:** Low earnings multiple with solid dividend yield offers favorable risk-reward.
- **Export Optionality:** Existing exports and planned expansion into the Philippines, Mexico, and Afghanistan provide incremental upside.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Auto Policy expiry post-FY26 may pressure margins if localization lags.
- Premium SUV and PHEV demand remains macro-sensitive.
- Delays in NEV ramp-up or expansion could affect earnings.
- PKR weakness may raise CKD and component costs.
- Intensifying competition could limit pricing power.

HMFS ALPHA STOCKS

The Organic Meat Company Limited (TOMCL) – Pakistan's Red Meat Industry Frontier

The Organic Meat Company Limited (TOMCL) is one of Pakistan's largest halal meat processors and exporters, commanding the widest international market reach in the industry. Listed on the PSX in 2020, TOMCL has pioneered processed red meat exports with first-mover advantages across chilled, frozen, cooked, and offal products, while maintaining a strong domestic presence.

At FY26E EPS of ~PKR 4.0, TOMCL trades at a forward P/E of ~13x versus the industry average of 23x. The stock offers attractive upside supported by strong export momentum, expansion-driven capacity growth, and reduced finance costs.

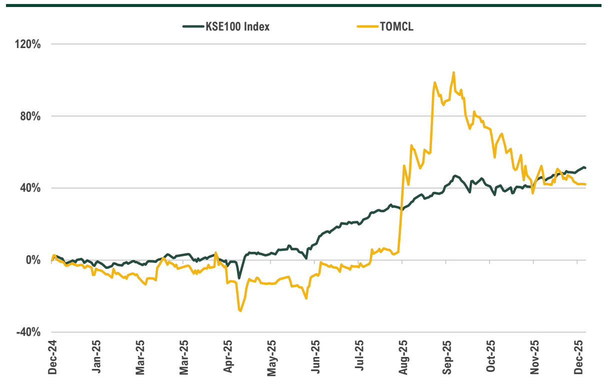
The Organic Meat Company Limited	
Symbol	TOMCL
Bloomberg Code	TOMCL PA
Current Price	50.74
Mkt Cap (PKR Mn)	9,962.00
Mkt Cap (USD Mn)	35.43
No Of Shares (In Mn)	196.34
52 Weeks High	75.85
52 Weeks Low	23.57
Avg Volume (52 Weeks)	4,139,946.60
Avg Value	174,926,157.11

Source: PSX, HMFS Research

Investment Case

- **Export Leadership:** Maintains a global footprint, with confirmed export contracts from China, Saudi Arabia, and UAE , supporting recurring high-value revenue.
- **Enhanced Production Capacity:** Phase-II expansion added 300 MT/month of frozen cooked beef, strengthening output and margin potential.
- **New Export Facilities:** Operations at the Karachi Export Processing Zone enhance processing efficiency and hygiene standards for international markets.
- **Retail Channel Expansion:** First Pakistani meat exporter approved for direct supply to Carrefour UAE, unlocking branded retail opportunities.
- **Geographic Diversification:** Entry into Tajikistan and other emerging CIS markets reduces dependence on traditional markets and spreads risk.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Rising livestock/feed costs may squeeze margins.
- PKR depreciation could affect profitability.
- Slower uptake in key markets may limit growth.
- Delays in expansion or new units could impact earnings.

HMFS ALPHA STOCKS

D.G. Khan Cement Company Limited (DGKC) – Driving Growth on Cost & Export Edge

DG Khan Cement Company Limited (DGKC), a flagship of the Nishat Group, emerges as an attractive alpha opportunity within Pakistan's cement sector, underpinned by improving fundamentals and discounted valuation. The company operates four strategically located plants across Dera Ghazi Khan, Chakwal, and Hub, holding an estimated ~11% market share nationwide.

Trading at ~9.5x forward P/E versus the industry average of ~15x, DGKC remains attractively valued. With FY26E EPS of PKR 24 and DPS of ~PKR 4 (~1.8% yield), the company offers strong upside potential, supported by operational efficiency and favorable cost dynamics.

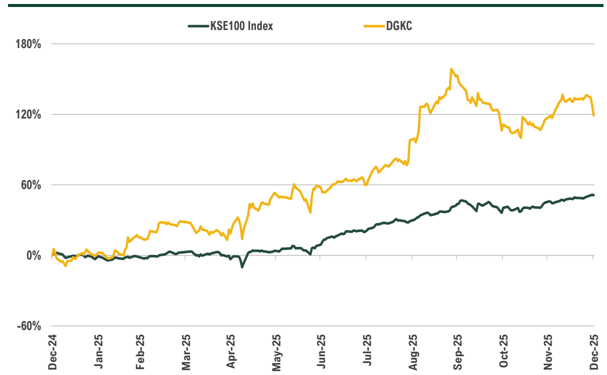
D.G. Khan Cement Company Limited	
Symbol	DGKC
Bloomberg Code	DGKC PA
Current Price	229.91
Mkt Cap (PKR Mn)	100,728.00
Mkt Cap (USD Mn)	358.26
No Of Shares (In Mn)	438.12
52 Weeks High	275.75
52 Weeks Low	94.50
Avg Volume (52 Weeks)	5,684,712.26
Avg Value	989,760,704.52

Source: PSX, HMFS Research

Investment Case

- **Record-Breaking Earnings Growth:** FY25 PAT surged 15x y/y to PKR 8.67bn on margin expansion and higher dispatches.
- **Cost Advantage from Coal:** International coal at multi-year lows reduces production costs and boosts margins.
- **Capacity Utilization & Operational Efficiency:** Clinker and cement plants operating at higher utilization enhances scale benefits.
- **Export Expansion:** Growing exports, including planned U.S. operations, diversify revenue and mitigate domestic demand weakness.
- **Energy Independence:** On-site power generation with solar and WHR integration lowers energy costs and strengthens resilience.
- **Business Diversification:** Through Nishat Group's acquisition of Rafhan Maize, DGKC is expected to hold a 32.71% stake, enhancing earnings.

Relative Performance



Source: PSX, HMFS Research

Risks to Valuation

- Volatility in coal prices.
- Slower-than-expected domestic cement demand.
- Regulatory and policy uncertainties.
- PKR depreciation impacting input costs.
- Rising competition or slowdown in construction activity.

TOP-PERFORMING HMFS RECOMMENDED SCRIPS – CY25

Scrip	Reported	Reported Date	Current	Current Date	Return
BNL	Rs. 3.22	May 02, 2025	Rs. 12.18	Dec 31, 2025	+278.1%
ZAL	Rs. 15.95	Jan 31, 2025	Rs. 47.59	Dec 31, 2025	+198.4%
BFAGRO	Rs. 20.02	Feb 14, 2025	Rs. 43.06	Dec 31, 2025	+115.1%
FECTC	Rs. 80.97	Apr 25, 2025	Rs. 148.19	Dec 31, 2025	+83.0%
GCIL	Rs. 18.68	Feb 07, 2025	Rs. 33.94	Dec 31, 2025	+81.7%
DGKC	Rs. 126.68	Mar 07, 2025	Rs. 229.91	Dec 31, 2025	+81.5%

TOP-PERFORMING HMFS RECOMMENDED SCRIPS – CY25

Scrip	Reported	Current	Return
WAVES	Rs. 7.44 May 23, 2025	Rs. 13.37 Dec 31, 2025	+79.7%
NATF	Rs. 222.34 May 09, 2025	Rs. 396.21 Dec 31, 2025	+78.2%
TOMCL	Rs. 30.25 Jun 20, 2025	Rs. 50.74 Dec 31, 2025	+67.7%
TREET	Rs. 19.85 May 30, 2025	Rs. 31.58 Dec 31, 2025	+59.1%

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To arrive at our fair value estimates, HMFS uses different valuation methodologies including but not limited to:

- •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