



HABIBMETRO

Financial Services

*Unlocking Success -
HMFS's Top Picks*

25-July-2024

HABIB METROPOLITAN FINANCIAL SERVICES LIMITED

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Fauji Cement Company Limited

- FCCL's financial outlook is quite promising. For FY25F, the company is projected to achieve an EPS of ~PKR 5.6 (↑ 46.2% y/y) compared to the FY24E EPS of PKR 3.83. The dividend of FY25F is expected to be around PKR 2 (dividend yield: ~9.09%) Currently, FCCL's stock is trading at an FY25F P/E ratio of about 3.94x, significantly lower than the industry average of ~11x, indicating that FCCL's stock is potentially undervalued compared to its peers.
- FCCL is now among the top three largest cement producers in the country.
- In FY24, FCCL commissioned its Greenfield Expansion Plant at D.G. Khan, boosting clinker capacity by 2mn tons annually and total capacity to 10.5mn tons, making it the second-largest player in the northern region.

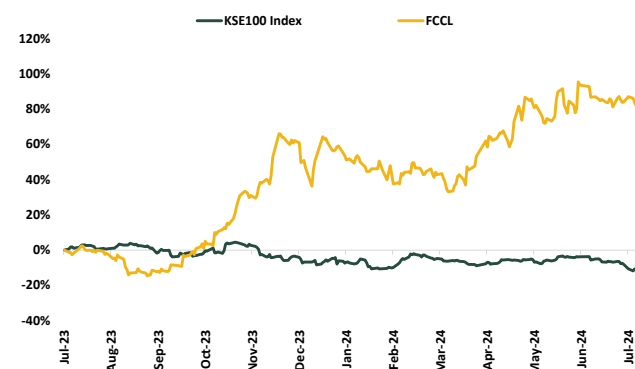
Fauji Cement Company Limited

Symbol	FCCL
Bloomberg Code	FCCL PA
Mkt Cap (PKR mn)	53,963.00
Mkt Cap (USD mn)	190.52
No Of Shares (mn)	2,452.85
High (52 Weeks)	24.67
Low (52 Weeks)	10.42
Avg. Volume (52 Weeks)	7,939,921.37
Avg. Value in PKR (52 Weeks)	137,434,484.31

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Fauji Cement Company Limited

- *The new cement plant in DG Khan diversifies the company's Punjab-centric portfolio, enhancing export potential and access to cheaper Afghan coal.*
- *Notable surge in exports to Afghanistan is expected in FY25.*
- *FCCL's effective cost-cutting, including adding 40.02MW of solar and 52.5MW of waste heat recovery power, boosted self-generation to 49% in FY23, reducing National Grid reliance to 51%.*
- *As of FY23, the company's PKR 38bn long-term debt includes 36% concessional loans (LTFF, TERF, REFF), benefiting from favorable interest rates over conventional market rates.*
- *Despite being highly leveraged due to capacity expansions since FY22, FCCL's optimal debt structure and declining financial charges are set to boost its bottom line.*
- *Enhanced profitability is anticipated next year due to rise in domestic dispatches as PSDP budget for FY25 set at PKR 1.5tn, 101% higher than the last year.*

Pioneer Cement Limited

- PIOC's outlook is highly favorable, with a projected EPS of PKR 30 for FY25F, (↑ 42.8% y/y) compared to the FY24E EPS of PKR 21. For FY25F, the expected dividend is ~PKR 11 per share, offering a dividend yield of 6.33%. PIOC's stock is currently trading at an FY25 P/E ratio of ~5.79x, which is substantially lower than the industry average of around 11x, highlighting its attractive valuation.
- PIOC is expected to offer dividend yield of 6.25% (DPS: PKR 11/ share FY25F).
- PIOC's strategic management of power sourcing through Waste Heat Recovery (18MW) and Coal Fired Power Plants (24MW) effectively mitigates the impact of electricity tariff changes and volatile fuel prices.

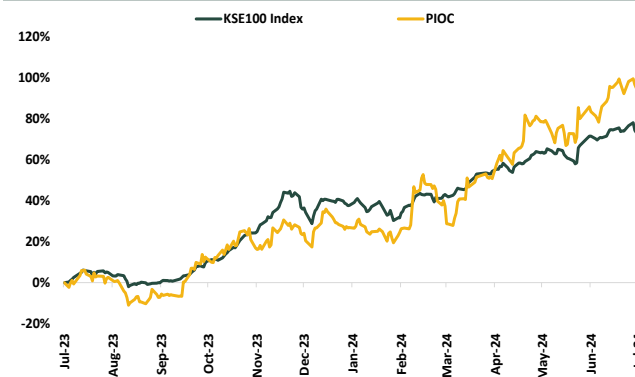
Pioneer Cement Limited

Symbol	PIOC
Bloomberg Code	PIOC PA
Mkt Cap (PKR mn)	39,465.00
Mkt Cap (USD mn)	139.33
No Of Shares (mn)	227.15
High (52 Weeks)	185.40
Low (52 Weeks)	78.65
Avg. Volume (52 Weeks)	883,350.99
Avg. Value in PKR (52 Weeks)	107,006,594.51

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Pioneer Cement Limited

- *PIOC strategically shifted to cost-effective local and Afghan-origin coal, mitigating the adverse impact of imported (Richard Bay) coal costs.*
- *The reduction in debt; interest rate cuts and construction activity revival will help boost profitability.*
- *PIOC's proactive debt reduction strategy, highlighted by a PKR 5.7bn cut in long-term debt in FY23, shielding the company from high policy rates and reducing future interest payments.*
- *Operating at a low-capacity utilization of 53%, PIOC has ample room to explore new markets.*
- *Prioritizing both, the domestic market and export markets when margins are favorable, whilst effective cost management is expected to yield tangible benefits in FY25 and beyond for PIOC.*

Maple Leaf Cement Factory Limited

- Maple Leaf Cement Factory Limited (MLCF) presents a promising financial outlook, with an anticipated EPS of PKR 7.5 for FY25F. This depicts a 44.2% y/y growth from the FY24E EPS of PKR 5.2. Currently, MLCF's stock trades at an FY25 P/E ratio of ~7x, notably lower than the industry average of around 11x.
- MLCF has a robust national presence, boasting a 90% market share in white cement segment, primarily targeting the North and Central regions of Pakistan.
- The company also holds a significant 13% share in cement exports, supplying primarily to Afghanistan, the Middle East, and various African countries.

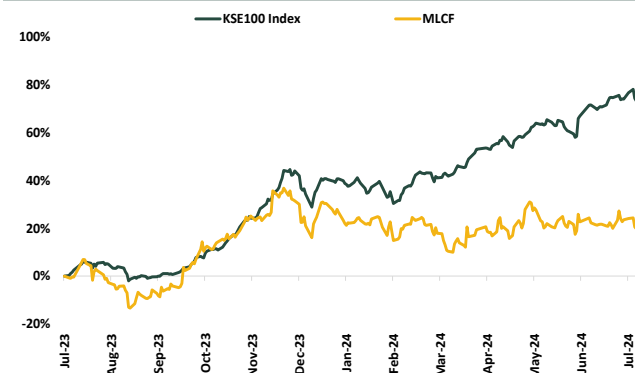
Maple Leaf Cement Factory Limited

Symbol	MLCF
Bloomberg Code	MLCF PA
Mkt Cap (PKR mn)	38,686.00
Mkt Cap (USD mn)	136.58
No Of Shares (mn)	1,047.56
High (52 Weeks)	43.30
Low (52 Weeks)	26.52
Avg. Volume (52 Weeks)	6,054,705.77
Avg. Value in PKR (52 Weeks)	219,401,856.41

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Maple Leaf Cement Factory Limited

- *On the profitability front, MLCF is poised to experience significant growth, which is primarily attributed to expected higher cement demand, energy cost optimization, low debt, and higher anticipated margins.*
- *The company prudently reduced a portion of its long-term debt and currently holds no short-term borrowings in FY23. This strategic financial maneuver mitigated exposure to the potential adverse impacts of elevated interest rates.*
- *As things started to ease out, with stable PKR against USD, a diminishing inflationary trend and relaxation in imports, it is anticipated that the cement sector will experience resurgence, particularly in tandem with the recovery of complementary industries, especially construction sector.*

International Steels Limited

- For FY25F, ISL is projected to deliver an EPS of PKR 14, a 49.4% increase compared to the FY24E EPS of PKR 9.37. The company is expected to distribute a dividend in FY25F for PKR 8.5 per share (10.4% dividend yield). Currently, ISL's stock is trading at an FY25F P/E ratio of ~5.84x, which is notably below the industry average of around 6.32x. This suggests significant potential for value appreciation.
- International Steel is the market leader in CRC Segment.
- It has expanded its product portfolio to cater to diverse segments including Auto, Engineering and Agriculture.
- The 2/3-wheeler industry, responsible for half of ISL's sales, is poised to rebound towards historical averages amid easing inflation and recovering economic activity.

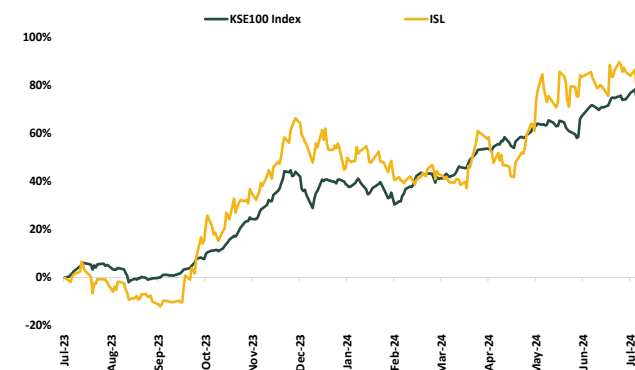
International Steels Limited

Symbol	ISL
Bloomberg Code	ISL PA
Mkt Cap (PKR mn)	35,579.00
Mkt Cap (USD mn)	125.61
No Of Shares (mn)	435.00
High (52 Weeks)	91.00
Low (52 Weeks)	41.50
Avg. Volume (52 Weeks)	912,719.26
Avg. Value in PKR (52 Weeks)	60,215,582.66

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

International Steels Limited

- The appliance industry, accounting for around 20% of ISL's sales, has seen a significant recovery in 2HFY24 with high inflation likely shifting consumer preferences towards more affordable locally assembled appliances.
- Pakistan's agriculture sector, responsible for 10% of ISL's sales, grew 6.3% in FY24, with key crops surging 16.8% y/y, and supportive policies and SIFC initiatives may sustain this trend into FY25.
- As global GDP rises and inflation eases, ISL's export potential remains significantly higher, poised to surpass its FY21 peak of 93k tons despite a dip to 48k tons in FY23.
- Chinoy Engineering & Construction Pvt Limited (CECL), an ISL associate, has secured a contract with Reko Diq Copper Gold Mines (RDMC) to design and construct a Permanent Accommodation Camp at RDMC, Baluchistan, positioning ISL for substantial gains.
- The National Tariff Commission (NTC) has extended the 19.15% anti-dumping duty on Chinese steel rebars for 5 years, effective Oct. 17, 2022, to shield local players from import competition.
- In budget FY25, exempting Iron and Steel Scrap from sales tax levy is likely to significantly boost the steel sector's growth, going-forward.

The Hub Power Company Limited

- HUBC, is currently valued at an attractive P/E multiple of ~2.5x compared to the industry average of ~5.2x. The company's earnings are projected to improve, driven by new ventures and high revenue from associates, with FY25F EPS of ~PKR 60 and a projected dividend distribution of ~PKR 20/share in the upcoming year. (FY25F DY: 13%)
- As of June 2023, HUBCO's power generation capacity is 3,581MW, primarily from RFO, coal, and hydropower.

Key growth drivers include:

- The initiation of commercial operations of Thar Energy Ltd. and Thal-Nova Power,
- Coal capacity expansion, and
- Potential reduction in circular debt influenced by the IMF.

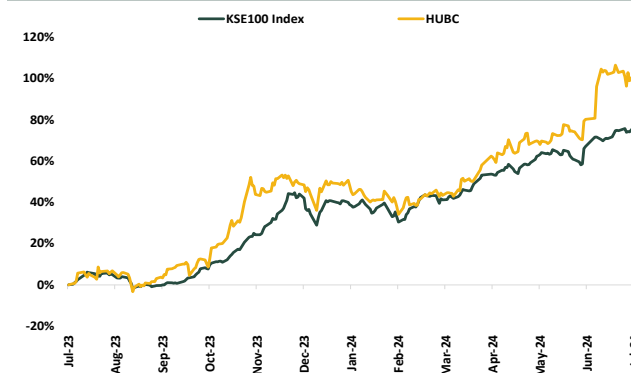
The Hub Power Company Limited

Symbol	HUBC
Bloomberg Code	HUBC PA
Mkt Cap (PKR mn)	195,118.00
Mkt Cap (USD mn)	688.88
No Of Shares (mn)	1,297.15
High (52 Weeks)	169.90
Low (52 Weeks)	77.10
Avg. Volume (52 Weeks)	4,041,800.69
Avg. Value in PKR (52 Weeks)	467,566,481.23

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

The Hub Power Company Limited

- *HUBC future ventures include wastewater recycling, renewable energy projects, and entering the electric vehicle market in partnership with BYD Auto Industry Company Limited.*
- *Risks to valuation include potential changes in government policies, rising circular debt, regulatory environment, and project completion delays.*
- *The company is branching out from just energy production. It recently acquired a significant portion of Sindh Engro Coal Mining Company (SECMC), Pakistan's top coal producer. This makes them the second biggest owner of SECMC.*
- *HUBC is also on the hunt for new areas to explore for oil and gas. To achieve this, HUBC bought Eni Pakistan's operations in 2023 through a newly established company formed by former Eni's local employees' team and Hub Power Company Ltd, Prime International Oil and Gas Ltd. (PIOGL).*

Fauji Fertilizer Company Limited

- We maintain our coverage for Fauji Fertilizer Company Ltd. (FFC) with a BUY stance, having an FCFE based intrinsic value of PKR 178/ share for CY24E. The company is projected to offer a total return of ~24% arising from a dividend yield of ~15% (DPS CY24E: PKR ~25/ share) and a capital upside of ~9% against the current market price (PKR 163/ share).
- FFBL's potential amalgamation into FFC could create synergies that are likely to enhance FFC's bottom line – by virtue of FFBL's DAP fertilizer segment becoming part of FFC's fertilizer portfolio and enhanced operational efficiencies.
- We anticipate FFC to post an EPS in the range of PKR 32-34/, for CY24. Lastly, we base our view on the back of:
- Market leadership (CY23 ~40%); offtakes surpass competitors' figures by improved margins due to better pricing & volumes

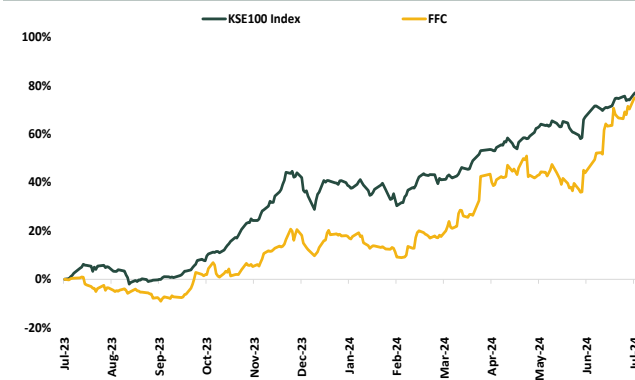
Fauji Fertilizer Company Limited

Symbol	FFC
Bloomberg Code	FFC PA
Mkt Cap (PKR mn)	207,324.00
Mkt Cap (USD mn)	731.97
No Of Shares (mn)	1,272.24
High (52 Weeks)	177.10
Low (52 Weeks)	90.45
Avg. Volume (52 Weeks)	1,350,263.52
Avg. Value in PKR (52 Weeks)	161,043,207.10

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Fauji Fertilizer Company Limited

- *The Company holds a formidable position in the Punjab region, leveraging its extensive reach and influence to solidify its market share.*
- *FFC has witnessed a noteworthy surge in other income channels, bolstering its financial stability, while concurrently implementing successful strategies to curtail short-term borrowings*
- *Healthy dividend income from AKBL & PMP (Pak Maroc Phosphor S.A - a JV of FFC, FFBL and Fauji Foundation)*

Engro Fertilizers Limited

- We maintain our coverage for Engro Fertilizers Ltd. (EFERT) with a BUY stance, having an FCFE based intrinsic value of PKR 182/ share for CY24E. The Company is anticipated to offer a consolidated return of ~22% in CY24E, with a DY of ~16% (DPS CY24E: PKR ~27-29/ share), along with capital upside.
- We anticipate EFERT to post an EPS in the range of PKR 30-32 for CY24. We base our optimistic view on the back of:
 - Ongoing improvements in operational efficiencies
 - Favorable position as increase in gas prices doesn't affect EFERT's urea plants because of PP12 (Petroleum Policy 2012 which enables EFERT's EnVen plant to get subsidized gas)

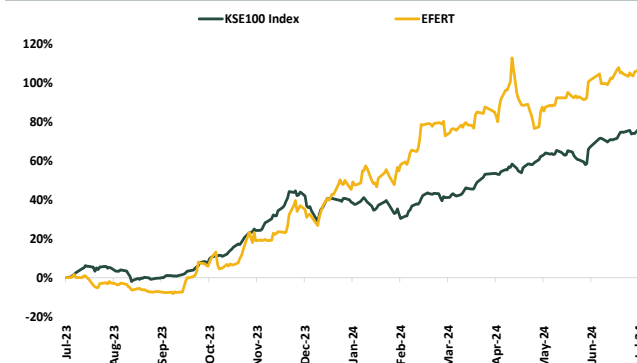
Engro Fertilizers Limited

Symbol	EFERT
Bloomberg Code	EFERT PA
Mkt Cap (PKR mn)	226,921.00
Mkt Cap (USD mn)	801.16
No Of Shares (mn)	1,335.30
High (52 Weeks)	176.99
Low (52 Weeks)	75.30
Avg. Volume (52 Weeks)	2,087,997.67
Avg. Value in PKR (52 Weeks)	251,391,052.90

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Engro Fertilizers Limited

- *Additionally, EFERT is expected to sustain its stable revenue stream which coupled with its strong cash position indicates the potential of a consistent payout policy in the future.*
- *If gas prices are revised for the fertilizer sector, it is expected that the increased costs will be passed on to consumers, as has historically been the case.*

Pakistan Oilfields Limited

- We maintain a BUY stance on Pakistan Oilfields Limited (POL) with our Reserves Based NAV (DCF of 2P* reserves) value of PKR688/ share, indicating a potential capital upside of ~26% relative to the current market price (PKR 547/ share), in addition to an anticipated dividend yield of ~14.6% (DPS FY25F: PKR80/ share). It trades at an attractive PE of 3.3x (FY25F EPS: 161.5) as compared to sector PE of 4x.
- POL maintains zero exposure to circular debt
- Is recognized as the king of dividends
- POL possesses substantial cash reserves to PKR 79bn bn in FY24

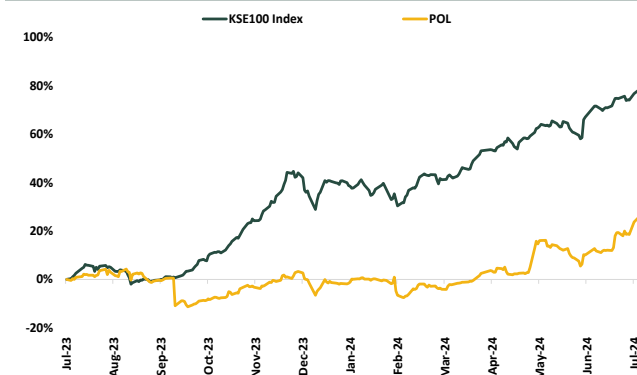
Pakistan Oilfields Limited

Symbol	POL
Bloomberg Code	POL PA
Mkt Cap (PKR mn)	155,019.00
Mkt Cap (USD mn)	547.31
No Of Shares (mn)	283.86
High (52 Weeks)	561.90
Low (52 Weeks)	381.00
Avg. Volume (52 Weeks)	251,286.11
Avg. Value in PKR (52 Weeks)	111,513,618.32

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Pakistan Oilfields Limited

- *POL, with an 11% interest, along with PPL and OGDC, has started oil and gas production from the Adhi South-8 well, producing 550 bpd of oil and 0.8 Mmscfd of gas as of 18 July 2024, expected to enhance bottom line.*
- *Pakistan Oil Fields achieved a significant breakthrough in its Jhandial Field, Ikhlas Block, discovering 715 bpd of oil and 9.0 mmcfd of gas, with the Jhandial-3 well appraisal commenced in October 2023, having a working interest of 80% (EPS impact: ~PKR12).*

Bank AL Habib Limited

- We recommend a BUY on B AHL. The stock currently trades at a P/BV multiple of ~0.9x against the HMFS banking sector P/BV of ~1.1x and offers an expected dividend yield of ~13% (DPS CY24F: PKR15).
- Our optimism regarding the bank is underpinned by several factors, mainly B AHL's strong asset growth, impressive earnings and margins, accelerated expansion of branch network and efficient asset management.
- The bank experienced a 21% y/y growth in deposits in 1QCY24, primarily driven by the rapid expansion of branches and customer base.

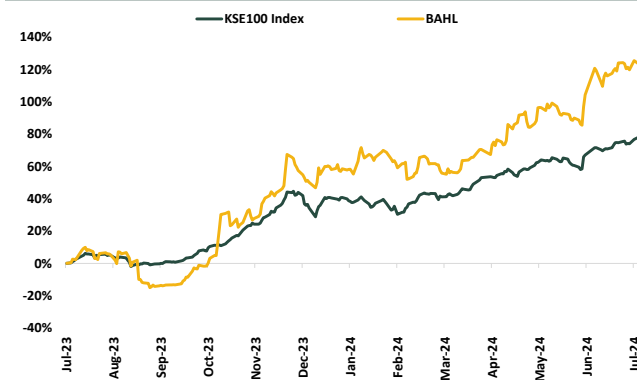
Bank AL Habib Limited

Symbol	B AHL
Bloomberg Code	B AHL PA
Mkt Cap (PKR mn)	124,635.00
Mkt Cap (USD mn)	440.03
No Of Shares (mn)	1,111.43
High (52 Weeks)	120.87
Low (52 Weeks)	43.61
Avg. Volume (52 Weeks)	939,446.74
Avg. Value in PKR (52 Weeks)	73,389,309.09

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Bank AL Habib Limited

- *Bank AL Habib (BAHL) announced its 1QCY2024 results with consolidated earnings of PKR10.2bn (EPS of PKR 9.21), down 4% y/y but up 62% q/q. The higher-than-expected Net Interest Income (NII) of PKR 37bn (↑50% y/y) contributed to the better-than-expected results despite increased provision expenses.*
- *With one of the industry's highest Return on Equity (ROE), the bank is well-positioned to capitalize on its financial strength, supported by high asset quality, a low infection ratio of 1.5%, and a robust capital buffer.*

Faysal Bank Limited

- We recommend BUY on FABL. The stock currently trades at a P/BV of ~0.8x against the HMFS banking sector P/BV of ~1.1x and offers an expected dividend yield of ~13% (DPS CY24E: PKR7). Moreover, FABL's P/BV is also cheaper in comparison to MEBL's P/B value of 1.2x, making it more attractive in the Islamic banking space.
- In 1QCY24, FABL reported a profit after tax of PKR 6.61bn (EPS: PKR 4.35) that doubled y/y. The bank declared an interim cash dividend of PKR 1 per share.
- Net Spread Earned increased by 43% y/y. Additionally, other income rose by 86% y/y. Moreover, the bank booked a minimal net charge of PKR 36mn for expected credit loss allowance under IFRS-9, compared to a net reversal of PKR 2.8bn in the previous quarter.

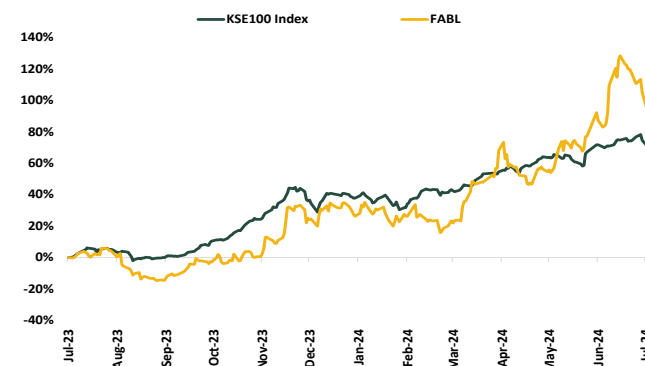
Faysal Bank Limited

Symbol	FABL
Bloomberg Code	FABL PA
Mkt Cap (PKR mn)	73,957.00
Mkt Cap (USD mn)	261.11
No Of Shares (mn)	1,517.70
High (52 Weeks)	58.10
Low (52 Weeks)	21.28
Avg. Volume (52 Weeks)	2,807,215.39
Avg. Value in PKR (52 Weeks)	91,168,536.29

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Faysal Bank Limited

- *Currently, Ithmaar Holding, parent company of FABL, is looking to sell 66.67% stake in FABL, owned collectively by Ithmaar Holding, Ithmaar Bank, and IB Capital, to a special purpose vehicle (SPV). Subsequently, 75% of the SPV's issued capital will be transferred to GFH Financial Group, resulting in an indirect transfer of approximately 50% of FABL. Ithmaar Holding will receive USD 225mn for this stake, valuing the bank at USD 450 mn, equivalent to PKR ~125bn.*
- *With the anticipated increase in demand for Islamic banking products, FABL is set to expand. The bank's focus on growth and innovation through new Shariah-compliant offerings aims to enhance its bottom line in the short term.*
- *While policy rates are expected to decline, a potential medium-term reduction of up to ~3% could shrink the bank's spread and impact profitability.*

Fauji Foods Limited

- FFL achieved a milestone in CY23 by posting its first-ever profit, reporting an EPS of PKR 0.26. We anticipate a substantial growth in its annual EPS for CY24, projecting it to reach PKR 0.5 per share—an increase of 69.2%. This expected growth is largely attributed to the recent acquisitions of new businesses. The company's rapid operational recovery driven by a debt-free, equity-financed model, which offers a prime investment opportunity for investors.
- Although the company may not distribute dividends in the immediate future, there is potential for payouts in the years going forward, as trends within their group companies reflect an inclination towards returning value to investors.

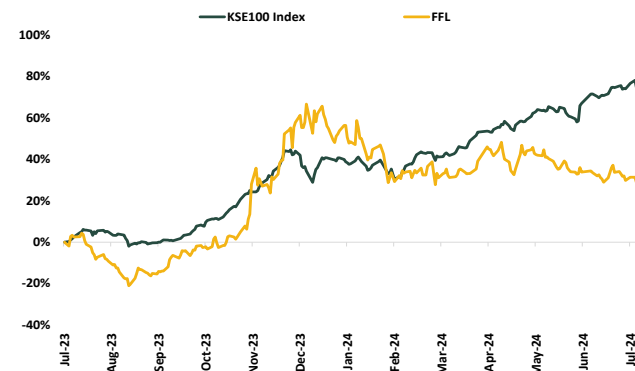
Fauji Foods Limited

Symbol	FFL
Bloomberg Code	FFL PA
Mkt Cap (PKR mn)	21,646.00
Mkt Cap (USD mn)	76.42
No Of Shares (mn)	2,519.96
High (52 Weeks)	11.86
Low (52 Weeks)	5.37
Avg. Volume (52 Weeks)	10,196,188.83
Avg. Value in PKR (52 Weeks)	87,570,995.79

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Fauji Foods Limited

- *Specializing in the non-cyclical dairy products market, FFL remains resilient during economic downturns, as these essential products maintain steady consumer demand.*
- *Fauji Foods Limited has successfully completed the acquisition of Fauji Cereals (Flakes & coated cereals, Porridges, Desserts) and Fauji Infraavest Foods (pasta business), enhancing its product portfolio and market presence.*
- *FFL's shift to a local 1500ml Packmat (a kind of specialized packaging) reduced production costs and expanded their distribution network by 14,000 outlets.*
- *FFL's twin 1 MW solar and biomass projects, launched in 1QCY23, provided it respite in energy costs and boosted efficiency by transitioning to locally sourced biofuel.*
- *FFL has strategically positioned itself to export its products, driving growth in the burgeoning dairy industry.*
- *The recent Israel-Palestine conflict has created a unique market opportunity for FFL to expand its consumer base as consumers boycott major international FMCG giants.*

Fauji Foods Limited

- *Despite past challenges with substantial debt, FFL, under Fauji Group, retired all its debt in CY23 through a pivotal PKR 11.7bn capital injection, raising the group's total investment to PKR 30bn in just seven years. This measure has insulated the company from the burden of finance costs, positioning it advantageously in the high interest rate situation.*
- *Despite the introduction of 18% GST on packaged milk in the budget FY25, the company is expected to sustain margins through growth in its cereals portfolio and the new pasta launch, which will further enhance profitability going forward.*

Ghani Glass Limited

- We recommend a BUY stance on Ghani Glass Limited (GHGL) as it trades at an attractive current P/E multiple of 4.0x (FY25F EPS: ~PKR 12) as compared to the sector P/E of ~6x. GHGL is expected to distribute ~PKR 2.5/ share (DY: 10%) in FY25F.
- GHGL has a significant holding in RAK Ghani, a UAE based company that manufactures pharmaceutical glass containers. GHGL's notable 10x surge in their 'Share of Profit from Associates' is attributed to their investment in RAK (PKR 299mn during 1QFY24. PKR 20mn in 1QFY23). Going-forward, Ghani's investment in RAK is certain to lock in long-term benefits to the company.

Ghani Glass Limited

Symbol	GHGL
Bloomberg Code	GHGL PA
Mkt Cap (PKR mn)	25,313.00
Mkt Cap (USD mn)	89.37
No Of Shares (mn)	999.71
High (52 Weeks)	36.60
Low (52 Weeks)	23.15
Avg. Volume (52 Weeks)	856,953.76
Avg. Value in PKR (52 Weeks)	22,948,974.76

Source: PSX, HMFS Research

As of 22-Jul-2024

Relative Performance



Source: PSX, HMFS Research

Ghani Glass Limited

- *As of FY23, company exports accounted for 14.46% of the total sales, amounting to PKR 5.89bn out of a total revenue of PKR 40.7bn. International exposure would allow them to not be vulnerable to currency fluctuations.*
- *A strong positive for GHGL is that the Company doesn't have any debt in terms of huge borrowings from banking entities. Thereby leaving very little room for leverage payments, and the repercussions they bring with them especially in our high interest environment.*
- *Since the Federal Budget FY25 has removed exemption on imported glass, this is expected to encourage local glass industry, thereby positively impacting GHGL's topline.*

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