

KSE-100 Index Profitability

CY22 Earnings up by 9.4% YoY
4QCY22 PAT up by 12.8% YoY / 5.1% QoQ

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Best Investment Bank: 2022



Best Investment Bank: 2022



Best Equity House: 2022



Best Equity Advisor: 2021



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Best Economic Research House: 2022
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Top 25 Companies
(2019, 2018 & 2017)



Excellence Award
Leading Brokerage House for RDA 2021



Best Money Market Broker
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Earnings growth holds up

- The domestic economic slowdown has been excruciating undoubtedly. History repeated itself in Pakistan as the GDP grew too much, too fast, which put our external sector at risk; imported inflation charged up local CPI, exerting pressure on the currency and necessitating interest rate hikes to curb demand and anchor rising price levels. While all this came into play, lack of access to external financing and floods further devastated the economy, eroding any previous signs of growth. Temporary administrative measures such as restrictions set by the SBP on imports and LC opening also triggered supply side issues in the country, and as a result, local industries augmented prices unhinged. Meanwhile the government also imposed a hefty super tax on corporates, to bridge some of its financing needs. Despite this, profitability of the KSE-100 index has held up, posting a growth of 9.4% YoY in CY22 and 12.8% YoY in 4QCY22. Barring the impact of super tax, growth could have been much higher since PBT jumped up by 29.8% YoY in CY22.
- Earnings jump in CY22 was led by the 15.5% growth in the index-heavy Commercial Banks sector to PKR 302bn, owed to a striking increase in interest rates; however, the PBT growth was much more impressive at 42.6% as the bank booked a heavy super tax charge during the year, which shrunk PAT growth. This was followed by another heavy weight, the Oil and Gas Exploration sector (+33.3% YoY to PKR 300bn) given higher oil prices post Russia-Ukraine conflict, and exchange gains booked amid PKR depreciation. The cement sector also impressed with an 14.5% jump in earnings to PKR 61bn in lieu of higher retention prices and use of cheaper coal from Afghan and local market during the year, which offset the impact of volumetric decline (-16% YoY), hike in energy tariff as well as PKR depreciation. The 11.4% jump in earnings of the Oil and Gas Marketing sector (to PKR 68bn) was supported by inventory gains. Whereas profitability of the Chemical sector (+2.2% YoY to PKR 38bn) was aided by higher PTA margins and PKR depreciation. While the Refinery sector displayed a 4x surge in profitability to PKR 25bn due to inventory gains and higher GRMs.
- On the other hand, sectors that remained laggards in CY22 include the Fertilizer sector (-16.7% YoY to PKR 64bn) as DAP sales were impacted (-36% YoY) by high prices, coupled with imposition of super tax, which axed the bottom-line. In addition, the Technology sector witnessed a 10.8% YoY contraction in profitability to PKR 11bn, particularly given loss booked by PTC. Earnings of the Power sector shrunk by 42.8% YoY to PKR 24bn as KEL posted a loss in CY22. Finally, the Automobile and Steel (Engineering) sectors came under pressure as margins were slashed due to LC issues and high input (scrap and HRC) prices, PKR depreciation, and augmented energy tariff, as well as increase in borrowing costs (interest rate hikes), which eroded the PAT by 45.1% and 75.4% YoY to PKR 18bn and PKR 5bn, respectively.
- With that said, profitability during 4QCY22 posted a growth of 12.8% YoY / 5.1% QoQ to PKR 275bn attributable to jump in earnings of index-heavy sectors. It is pertinent to mention that on a PBT basis, the KSE-100 index earnings showed a decline of 8.1% QoQ which turned to growth in PAT as some sectors booked tax reversals such as Fertilizer and Chemical (retrospective 6% super tax reversal), whereas the heavy-weight Banks booked lower taxes in 4Q against the last quarter on account of ADR compliance.
- Impressive results were posted by Commercial Banks (+49.5% YoY in 4QCY22) given massive surge in net interest income. This was followed by Fertilizer sector (+32.9% YoY) amid super tax reversal on a retrospective basis as PBT was down by 28.1% owed to lower DAP offtake and higher finance costs, Oil and Gas Exploration sector (+28.6% YoY) led by higher realized oil prices and PKR depreciation, Technology sector (profit of PKR 3bn vs. loss in SPLY) given USD appreciation which aided dollar denominated revenue, and Cement sector (+44.6% YoY) due to augmented retention prices and use of cheaper coal from neighbouring and local markets. Whereas other sectors succumbed to high-cost pressures and / or volumetric decline which eroded margins, as well as levy of 4% super tax, such as Oil and Gas Marketing sector (loss in 4Q of PKR 3bn), Chemical (-4.5% YoY), Automobile (-52.9% YoY), Pharmaceutical (-38.7% YoY), and Engineering (loss of PKR 0.5bn in 4Q).
- On a sequential basis, KSE-100 index earnings posted a QoQ surge of 5.1%, led by Banks (+20.8 QoQ) primarily due to lower tax charge (ADR compliance) while it was subdued on PBT basis (+2.7%) given higher provisioning which partially offset the impact of higher NII. While the Fertilizer sector earnings were down on PBT basis (-11.2% QoQ) as EFERT's base plant was closed for annual turnaround together with higher gas prices, they depicted a jump of 45.1% QoQ on PAT basis amid retrospective super tax reversal. Cement sector's PAT rose by 59.8% QoQ owed to strong margins on the back of augmented retention prices and use of cheaper coal. This was followed by a growth in the Power sector (profit of PKR 4bn in 4Q against loss in 3Q) given massive jump in earnings of HUBC. Chemical sector showed a decline on a PBT basis (-20.4% QoQ) in lieu of lower volumetric sales and higher gas prices, however, PAT depicted a jump of 12.5% QoQ as the sector booked a retrospective super tax reversal.
- On the flipside, E&P sector posted earnings decline of 19.7% QoQ amid lower realized oil prices, absence of exchange gains, and higher exploration expense on dry wells recognition. Technology sector also displayed a profitability decline of 22.6% QoQ attributable

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to loss of PTC, while the OMC sector registered a loss in 4Q amid inventory losses. Whereas earnings of the Textile composite sector posted a dip of 80.0% QoQ as NCL and ILP displayed losses amid volumetric decline and inventory losses.

- During CY22, the KSE-100 index went down by -9.4% (-4,176 points). Banking sector remained the worst performing sector, eroding 1,844 points followed by Cement (-1,391 points), Pharmaceuticals (-494 points), Engineering (-301 points), and Food (-295 points). Whereas key gainers were Fertilizer (619pts), Power (312pts), Technology & Communication (287pts), and Chemical (103pts).
- On a sequential basis, during 4QCY22 the KSE-100 index went also down by -1.7% (-708 points). Cement sector remained the worst performing sector, eroding 405 points followed by Banks (-282 points), Autos (-271 points), Pharmaceuticals (-236 points) and Chemicals (-203 points). However, E&P sector added 407 points to the index followed by Fertilizer (+370 points), Power (+208 points), Technology & Communication (+203 points) and Tobacco (+29 points).
- We have based our analysis on KSE-100 index companies. We have included the result of 83 companies while the remaining 17 companies have not disclosed their results yet. The companies which have been included in our analysis represent almost 86.6% of the market capitalization of the benchmark bourse.

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Dec'22: Earnings up by 13% YoY | 5% QoQ

Exhibit: Sector Wise KSE-100 Index Profitability

(PKR mn)	Weight	4QCY22	YoY	QoQ	CY22	CY21	YoY
KSE100 Index		274,819	12.8%	5.1%	1,046,566	956,920	9.4%
Commercial Banks	20.3%	99,577	49.5%	20.8%	302,429	261,863	15.5%
Fertilizer	15.1%	22,844	32.9%	45.1%	64,426	77,321	-16.7%
Oil & Gas Exploration Companies	13.0%	81,133	28.6%	-19.7%	300,407	225,364	33.3%
Technology & Communication	9.2%	2,741	nm	-22.6%	11,442	12,827	-10.8%
Cement	6.6%	21,386	44.6%	59.8%	61,071	53,322	14.5%
Power Generation & Distribution	5.5%	3,647	-57.3%	nm	24,204	42,338	-42.8%
Oil & Gas Marketing Companies	3.5%	(3,310)	nm	nm	68,138	61,189	11.4%
Chemical	3.4%	10,011	-4.5%	12.5%	37,689	36,863	2.2%
Automobile Assembler	3.3%	3,947	-52.9%	84.6%	18,102	32,956	-45.1%
Food & Personal Care Products	3.1%	7,999	40.0%	22.8%	28,134	22,881	23.0%
Miscellaneous	2.5%	542	-33.2%	151.4%	1,318	1,540	-14.4%
Inv. Banks / Inv. Cos. / Securities Cos.	2.4%	104	-14.0%	92.8%	285	679	-58.1%
Pharmaceuticals	2.3%	3,591	-38.7%	77.9%	10,674	16,643	-35.9%
Textile Composite	1.6%	2,164	-80.0%	-80.0%	35,514	37,412	-5.1%
Refinery	1.1%	8,199	197.4%	nm	25,393	6,823	272.1%
Engineering	1.0%	(469)	nm	-124.2%	4,781	19,461	-75.4%
Paper & Board	0.9%	(48)	nm	-120.0%	1,320	2,532	-47.9%
Glass & Ceramics	0.9%	3,434	2.7%	127.8%	9,697	7,926	22.3%
Tobacco	0.7%	4,538	-2.6%	-45.1%	21,321	18,862	13.0%
Real Estate Investment Trust	0.5%	1,443	-43.2%	50.7%	8,917	8,437	5.7%
Automobile Parts & Accessories	0.5%	573	-49.8%	235.0%	2,914	3,977	-26.7%
Property	0.4%	44	nm	-98.9%	5,852	(61)	nm
Transport	0.2%	206	123.6%	nm	(1,220)	587	nm
Sugar & Allied Industries	0.2%	(186)	nm	nm	(28)	(1,492)	nm
Textile Spinning	0.1%	575	-55.7%	-53.9%	3,997	6,223	-35.8%
Modarabas	0.1%	127	14.3%	22.5%	434	378	14.8%
Vanaspati & Allied Industries	0.0%	(39)	nm	nm	28	(25)	nm
Woollen	0.0%	48	1.0%	1095.9%	(686)	75	nm
Textile Weaving	0.0%	1	-88.1%	-46.2%	15	19	-21.8%

Source (s): Company Financials, AHL Research

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Exhibit: Sector Wise KSE-100 Index Profit before Tax

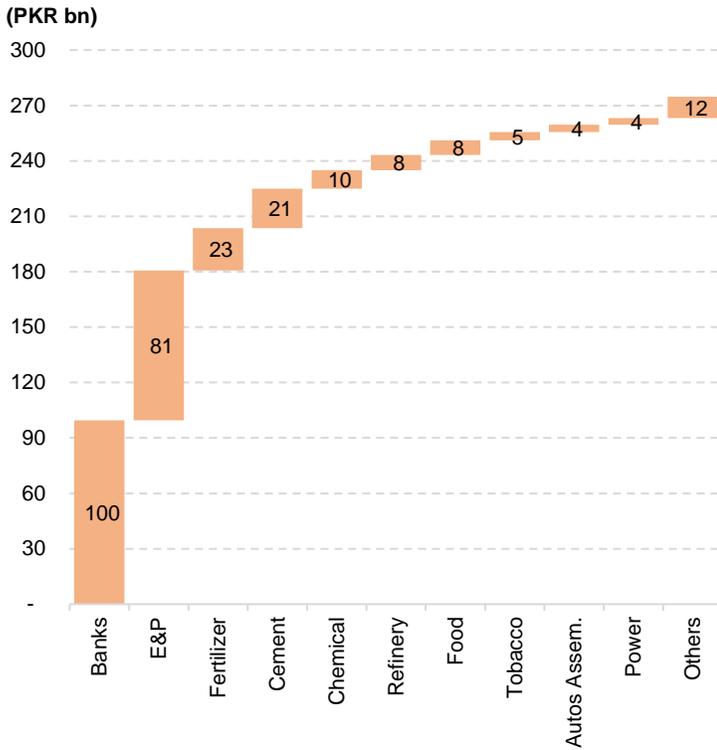
(PKR mn)	Weight	4QCY22	YoY	QoQ	CY22	CY21	YoY
KSE100 Index		422,750	11.6%	-8.1%	1,870,403	1,441,511	29.8%
Commercial Banks	20.3%	175,667	50.7%	2.7%	636,852	446,542	42.6%
Fertilizer	15.1%	26,553	-28.1%	-11.2%	136,954	142,994	-4.2%
Oil & Gas Exploration Companies	13.0%	123,177	29.2%	-24.7%	515,256	323,504	59.3%
Technology & Communication	9.2%	391	nm	-86.9%	(145)	16,038	nm
Cement	6.6%	28,779	31.2%	40.8%	99,704	77,827	28.1%
Power Generation & Distribution	5.5%	9,803	-6.6%	nm	38,663	52,010	-25.7%
Oil & Gas Marketing Companies	3.5%	(2,103)	nm	-120.1%	130,258	90,314	44.2%
Chemical	3.4%	10,112	-29.0%	-20.4%	55,352	51,469	7.5%
Automobile Assembler	3.3%	5,904	-48.4%	47.7%	32,286	46,013	-29.8%
Food & Personal Care Products	3.1%	9,734	28.8%	12.6%	39,154	30,099	30.1%
Miscellaneous	2.5%	724	-32.5%	77.3%	1,768	1,961	-9.9%
Inv. Banks / Inv. Cos. / Securities Cos.	2.4%	124	-24.7%	124.3%	312	728	-57.2%
Pharmaceuticals	2.3%	5,286	-30.8%	76.3%	18,068	23,122	-21.9%
Textile Composite	1.6%	4,557	-63.4%	-64.1%	44,653	42,897	4.1%
Refinery	1.1%	11,393	849.9%	nm	40,479	4,583	783.1%
Engineering	1.0%	(1,143)	nm	-138.9%	9,147	31,145	-70.6%
Paper & Board	0.9%	(87)	nm	-124.5%	1,994	3,650	-45.4%
Glass & Ceramics	0.9%	3,951	1.4%	148.7%	11,634	9,297	25.1%
Tobacco	0.7%	6,923	11.5%	-42.8%	34,734	26,207	32.5%
Real Estate Investment Trust	0.5%	1,443	-43.2%	50.7%	8,917	8,437	5.7%
Automobile Parts & Accessories	0.5%	764	-50.6%	207.0%	4,159	5,238	-20.6%
Property	0.4%	78	nm	-98.1%	6,029	77	7747.0%
Transport	0.2%	(62)	nm	nm	(752)	1,062	nm
Sugar & Allied Industries	0.2%	(223)	nm	-297.5%	191	(1,201)	nm
Textile Spinning	0.1%	749	-49.5%	-52.5%	4,612	6,913	-33.3%
Modarabas	0.1%	163	61.7%	17.8%	600	395	51.8%
Vanaspati & Allied Industries	0.0%	(11)	nm	-128.9%	145	69	109.6%
Woollen	0.0%	97	35.0%	1354.2%	(651)	91	nm
Textile Weaving	0.0%	5	-56.2%	-22.1%	34	30	13.2%

Source (s): Company Financials, AHL Research

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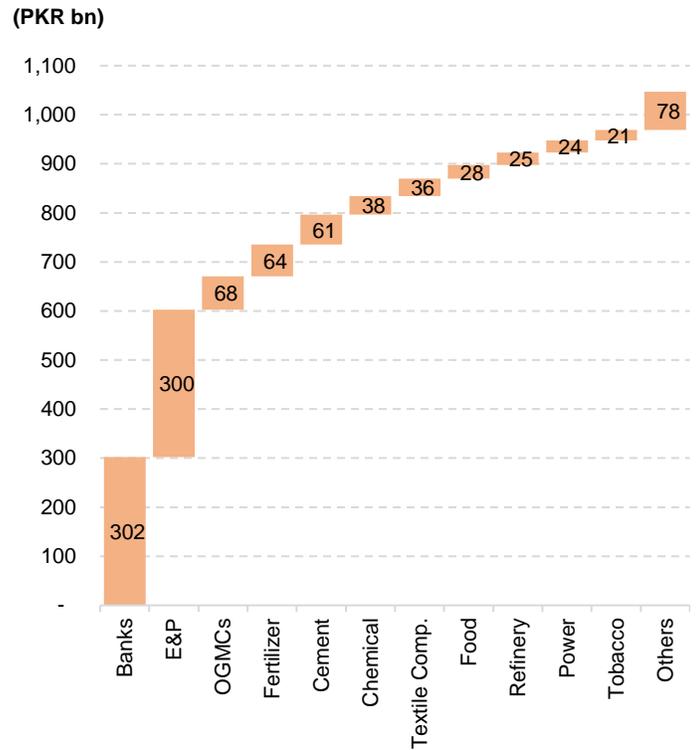
KSE-100 Index Profitability Graphs

Fig: KSE100 Profitability Contribution (4QCY22)



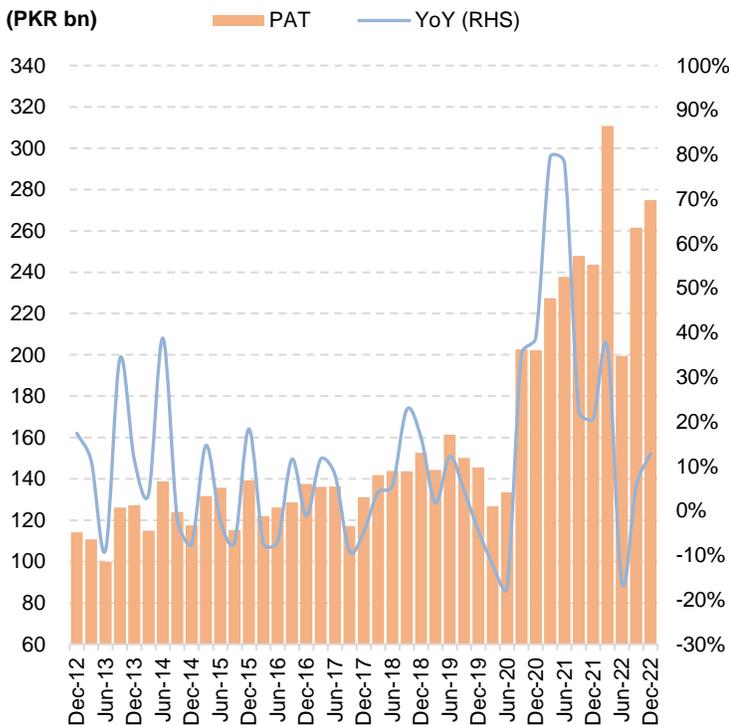
Source (s): Company Financials, AHL Research

Fig: KSE100 Profitability Contribution (CY22)



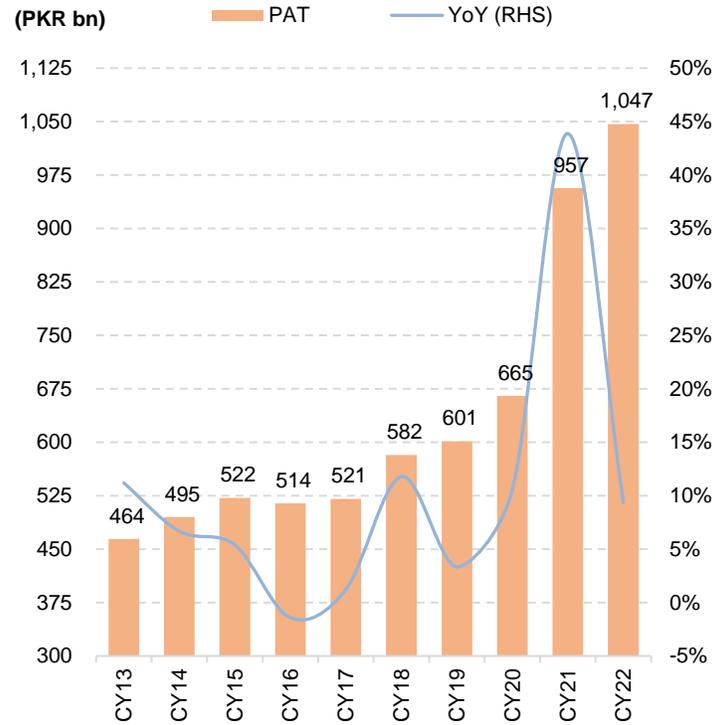
Source (s): Company Financials, AHL Research

Fig: KSE100 Historical Profitability (Quarterly)



Source (s): Company Financials, AHL Research

Fig: KSE100 Historical Profitability (CY)



Source (s): Company Financials, AHL Research

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SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

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- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

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- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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