

# KSE-100 Index Profitability

A remarkable triumph: FY23 posts an all-time high profits

28-Sep-2023

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## KSE-100 Index Profitability

### Highest ever profitability recorded in FY23

- In spite of the dismal economic circumstances, external account pressures, highest-ever inflation reading in FY23, and lower demand across major sectors, the profitability of the KSE-100 index showcased an upward trend, posting a healthy growth 20.6% YoY in FY23 and 70.3% YoY in 4QFY23.
- The growth in profitability (PAT) in FY23 was attributable to a massive jump of 69% YoY in index-heavy Commercial Banks sector, arriving at PKR 428bn owing to higher interest rates. This was followed by another heavy weight, the Oil and Gas Exploration sector (+68.5% YoY to PKR 415bn) given higher oil prices, and exchange gains booked given the sharp Pak Rupee devaluation. The cement sector also posted a notable jump of 28.4% YoY in the bottom line to PKR 71bn in lieu of higher retention prices and use of relatively cheaper coal from Afghan and local market during the year, which offset the impact of volumetric decline (-15.6% YoY), hike in energy tariff as well as PKR depreciation. Meanwhile, earnings of the Chemical sector increased by 14.5% YoY to PKR 44bn, which was primarily on account of one-off gain booked by Lucky Core Industries Limited (LCI and formerly ICI Pakistan Limited) owing to sale of NutriCo Morinaga. Food & Personal Care Products sector's profitability ascended by 34.8%, clocking in at PKR 42bn amid better margins. Lastly, Refinery sector's net profit augmented by 30.3% YoY to PKR 25bn, led by ATRL (amid higher gross refining margins).
- However, sectors that underperformed in FY23 include the Fertilizer sector (-1.0% YoY to PKR 77bn) mainly due to dismal results by the FFBL amid exchange and inventory losses coupled with super tax impact on the sector. Meanwhile, Power sector posted profit after tax of PKR 31bn in FY23, witnessing a decline of 34.8% YoY since KEL recorded a loss in FY23. The earnings of the Oil and Gas Marketing sector dropped by 87.6% YoY to PKR 14bn on the back of higher inventory losses across the board and absence of penal income during the period. Steel (Engineering) sector depicted a fall in earnings by 23.9% YoY to PKR 10bn, given margins were slashed because of LC issues, high input (scrap and HRC) prices, PKR depreciation, and augmented energy tariff, alongside higher interest rates. While the Technology sector posted a loss of PKR 2bn due to a hefty loss registered by PTC. The automobile sector posted earnings of PKR 2bn (down by 94% YoY) given demand erosion due to higher price of passenger vehicles tagged with restrictions on imports of CKD.
- On a quarter basis, KSE-100 profitability climbed up by 70.3% YoY to PKR 337bn attributable to growth in earnings of index-heavy sectors. Commercial Banks posted a robust growth of 3.0x YoY in 4QFY23 given a substantial surge in net interest income. This was followed by Oil and Gas Exploration sector (+2.8x YoY) led by OGDC (owing hefty exchange gains) and PPL (due to the absence of expensive dry wells), and Fertilizer sector (+3.0x YoY) due to higher urea prices along with higher super tax charged last year. Moreover, Steel sector profitability swelled up by 5.8x YoY to PKR 4.6bn led by ISL amid better margins. The automobile assembler sector showcased a jump of 2.6x YoY due to the realization of higher prices of passenger vehicles. Lastly, the Power sector managed to post profitability growth of 107.3% YoY to PKR 30.5bn since HUBC registered a higher share of profit from associates and joint ventures. Whereas, the other sectors were adversely affected by high-cost pressures and / or volumetric decline and exchange losses which weaken the margins, such as Cement (-46.3% YoY), Chemical (-86.5%), Oil and Gas Marketing sector (-81.6% YoY), Textile Composite (-12.8% YoY), Pharmaceutical (loss of PKR 0.9bn vis-à-vis net profit during SPLY), and Refinery (-41.2% YoY).
- On a sequential basis, KSE-100 index earnings posted a QoQ decline of 13.3%, led by Oil and gas exploration sector (-21.1% QoQ) primarily due to higher exchange gains in prior quarter. Fertilizer sector PAT plummeted by 10.7% QoQ owed to the imposition of additional super tax tagged with declined urea and DAP offtake. This was followed by a plunge in Cement profitability by 77.9% QoQ, which is owed to higher interest rates. Chemical sector plummeted by 96.3% QoQ, which was led by LCI amid tax charged on the sale of shares and re-measurement of the remaining shareholding of NutriCo Morinaga (Pvt) Ltd. Lastly, textile composite and refinery sector earnings tumbled by 39.8% and 16.2% QoQ, as profitability of ILP and ATRL dwindled (which reported growth during the last quarter).
- On the other hand, Commercial Banks sector earnings witnessed an uptick of 3.3% QoQ due higher interest income. Steel (Engineering) sector bottom line registered jump of 12.1% QoQ owing to better margins. Similarly, Power sector posted PAT of PKR 32.5bn amid absence of losses in KEL.

## KSE-100 Index Profitability

- Dividends of KSE-100 companies increased by 21.8% YoY to PKR 511bn in FY23, whereby the index-heavy sectors Commercial Banks and Oil and Gas Exploration Companies announced 57.1% YoY and 17.6% YoY higher dividends, respectively. In addition, the dividend of Fertilizer and Power and Distribution reported growth of 27.9% and 199.8% YoY, respectively. Meanwhile, dividends of Chemical, Automobile Assemblers, and Oil & Gas Marketing contracted by 22.1%, 35.8% and 26.3% YoY, respectively.
- During FY23, the KSE-100 index remained flattish at 41,453 points (-88 points | -0.21% YoY). The Pharmaceuticals sector remained the worst-performing sector, eroding 561 points followed by Miscellaneous (-435 points), Automobile Assembler (-310 points), Refinery (-159 points), Food (-145 points), and OGMCs (-123 points). Whereas key gainers were Fertilizer (+802pts), Power (+535pts), Technology (+357pts), Cement (+356pts) and Chemical (+198 points).
- On a sequential basis, during 4QFY23 the KSE-100 index increased by 3.6% (+1,451 points). Cement sector remained the best-performing sector, adding 557 to the points followed by Fertilizer (+486 points), Chemical (+466 points), and Banks (+280 points). However, the Technology sector eroded 444 points from the index followed by E&P (-167 points), Pharma (-110 points), and Glass (-59 points).
- We have based our analysis on KSE-100 index companies. We have included the result of 87 companies while the remaining 13 companies have not disclosed their results yet. The companies that have been included in our analysis represent almost 93.6% of the market capitalization of the benchmark bourse.

## KSE-100 Index Profitability

### Jun'23: Earnings up by 70% YoY; down 13% QoQ

#### Exhibit: Sector Wise KSE-100 Index Profitability

(PKR mn)	Weight	4QFY23	YoY	QoQ	FY23	FY22	YoY
<b>KSE100 Index</b>		<b>337,198</b>	<b>70.3%</b>	<b>-13.3%</b>	<b>1,269,180</b>	<b>1,052,743</b>	<b>20.6%</b>
Commercial Banks	22.2%	125,221	203.2%	3.3%	428,340	253,360	69.1%
Oil & Gas Exploration Companies	13.2%	102,783	177.8%	-21.1%	415,136	246,328	68.5%
Fertilizer	11.9%	14,007	201.0%	-10.7%	76,548	77,300	-1.0%
Cement	8.1%	6,576	-46.3%	-77.9%	71,169	55,411	28.4%
Technology & Communication	7.3%	(1,180)	nm	nm	(1,916)	3,842	nm
Power Generation & Distribution	6.4%	32,468	107.3%	nm	30,530	46,835	-34.8%
Food & Personal Care Products	4.4%	9,701	38.7%	-32.9%	41,603	30,870	34.8%
Chemical	3.7%	969	-86.5%	-96.3%	44,267	38,647	14.5%
Automobile Assembler	3.6%	10,057	161.3%	nm	1,896	30,688	-93.8%
Oil & Gas Marketing Companies	3.5%	6,303	-81.6%	-52.4%	14,155	114,583	-87.6%
Inv. Banks / Inv. Cos. / Securities Cos.	2.6%	(127)	-94.9%	nm	7,339	3,456	112.4%
Pharmaceuticals	1.9%	(974)	nm	nm	5,894	14,423	-59.1%
Textile Composite	1.7%	8,983	-12.8%	-39.8%	38,731	36,274	6.8%
Refinery	1.4%	6,787	-41.2%	-16.2%	24,762	19,010	30.3%
Miscellaneous	1.3%	1,372	42.0%	2.2%	3,840	2,354	63.1%
Engineering	1.0%	4,550	477.5%	12.1%	10,080	13,248	-23.9%
Paper & Board	0.8%	53	-97.3%	-96.1%	3,242	6,509	-50.2%
Glass & Ceramics	0.8%	328	11.0%	-63.6%	2,519	4,141	-39.2%
Insurance	0.7%	(87)	nm	nm	3,933	4,749	-17.2%
Tobacco	0.6%	4,298	18.5%	-36.3%	23,851	17,927	33.0%
Automobile Parts & Accessories	0.6%	1,103	32.6%	22.1%	2,751	4,257	-35.4%
Leather & Tanneries	0.4%	497	14.0%	68.0%	662	652	1.5%
Property	0.3%	2,323	1863.6%	560.9%	6,742	1,505	347.9%
Cable & Electrical Goods	0.3%	491	-41.0%	1213.1%	451	1,711	-73.6%
Synthetic & Rayon	0.3%	(125)	nm	nm	7,072	11,210	-36.9%
Sugar & Allied Industries	0.1%	323	-42.6%	-53.8%	1,674	7,146	-76.6%
Textile Spinning	0.1%	457	-34.4%	-55.0%	3,292	5,714	-42.4%
Modarabas	0.1%	111	-4.5%	-38.0%	520	382	36.0%
Vanaspati & Allied Industries	0.0%	(70)	nm	nm	43	67	-36.1%
Leasing Companies	0.0%	(0)	nm	nm	57	147	-61.5%

Source (s): Company Financials, AHL Research

## KSE-100 Index Profitability

### Exhibit: Sector Wise KSE-100 Index Profit before Tax

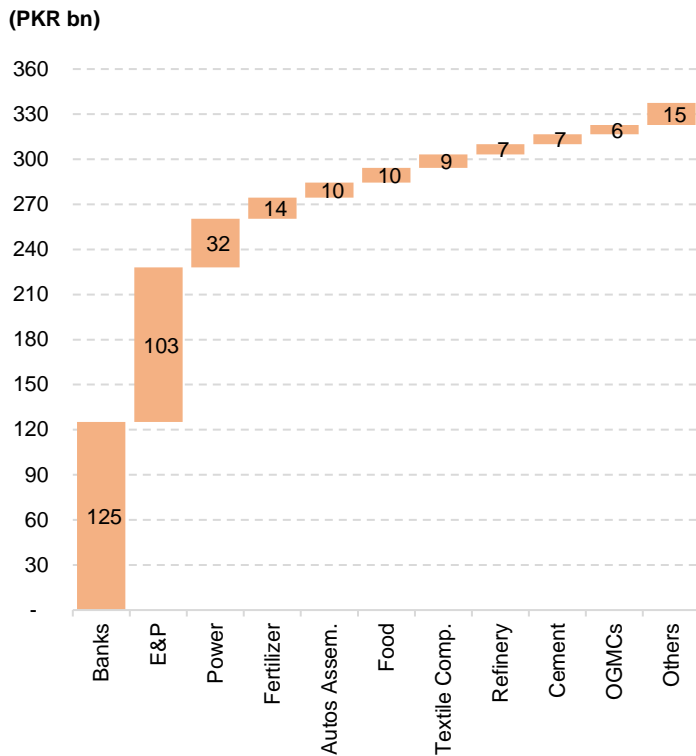
(PKR mn)	Weight	4QFY23	YoY	QoQ	FY23	FY22	YoY
<b>KSE100 Index</b>		<b>698,762</b>	<b>23.9%</b>	<b>9.7%</b>	<b>2,246,214</b>	<b>1,905,688</b>	<b>17.9%</b>
Commercial Banks	22.2%	265,690	68.1%	26.1%	823,178	520,941	58.0%
Oil & Gas Exploration Companies	13.2%	205,199	89.5%	6.4%	684,880	419,752	63.2%
Fertilizer	11.9%	84,661	27.2%	75.3%	232,435	252,872	-8.1%
Cement	8.1%	16,648	-43.2%	-64.3%	112,557	93,505	20.4%
Technology & Communication	7.3%	(803)	nm	nm	(6,588)	2,959	nm
Power Generation & Distribution	6.4%	22,227	29.2%	426.5%	34,742	56,409	-38.4%
Food & Personal Care Products	4.4%	17,490	36.7%	-10.3%	60,076	44,974	33.6%
Chemical	3.7%	(93)	nm	nm	54,672	58,251	-6.1%
Automobile Assembler	3.6%	18,268	60.4%	nm	19,794	49,219	-59.8%
Oil & Gas Marketing Companies	3.5%	9,156	-88.3%	-68.6%	37,171	194,755	-80.9%
Inv. Banks / Inv. Cos. / Securities Cos.	2.6%	45	6.5%	78.9%	250	460	-45.7%
Pharmaceuticals	1.9%	977	-77.8%	-57.9%	11,585	22,084	-47.5%
Textile Composite	1.7%	11,294	-14.5%	-31.1%	46,403	43,375	7.0%
Refinery	1.4%	15,111	-27.0%	29.2%	41,072	27,098	51.6%
Miscellaneous	1.3%	1,532	44.9%	9.3%	4,380	2,234	96.0%
Engineering	1.0%	8,395	130.8%	27.5%	16,771	22,772	-26.4%
Paper & Board	0.8%	1,264	-48.8%	-26.0%	7,385	8,014	-7.9%
Glass & Ceramics	0.8%	1,085	11.9%	-16.2%	4,118	6,268	-34.3%
Insurance	0.7%	329	-63.2%	-84.9%	5,274	7,456	-29.3%
Tobacco	0.6%	11,196	24.4%	14.1%	40,031	28,793	39.0%
Automobile Parts & Accessories	0.6%	1,752	28.0%	40.5%	4,012	5,925	-32.3%
Leather & Tanneries	0.4%	844	30.9%	66.9%	1,579	1,068	47.9%
Sugar & Allied Industries	0.1%	137	-83.5%	-89.4%	(7,843)	7,014	nm
Property	0.3%	2,400	1204.1%	480.6%	6,967	1,756	296.6%
Cable & Electrical Goods	0.3%	824	-33.7%	376.7%	1,664	2,552	-34.8%
Synthetic & Rayon	0.3%	2,064	-58.8%	-10.4%	4,054	18,114	-77.6%
Textile Spinning	0.1%	814	32.7%	-44.0%	4,591	6,224	-26.2%
Modarabas	0.1%	267	41.2%	31.9%	771	495	55.6%
Vanaspati & Allied Industries	0.0%	(59)	nm	nm	153	181	-15.8%
Leasing Companies	0.0%	46	-6.9%	nm	79	168	-53.0%

Source (s): Company Financials, AHL Research

## KSE-100 Index Profitability

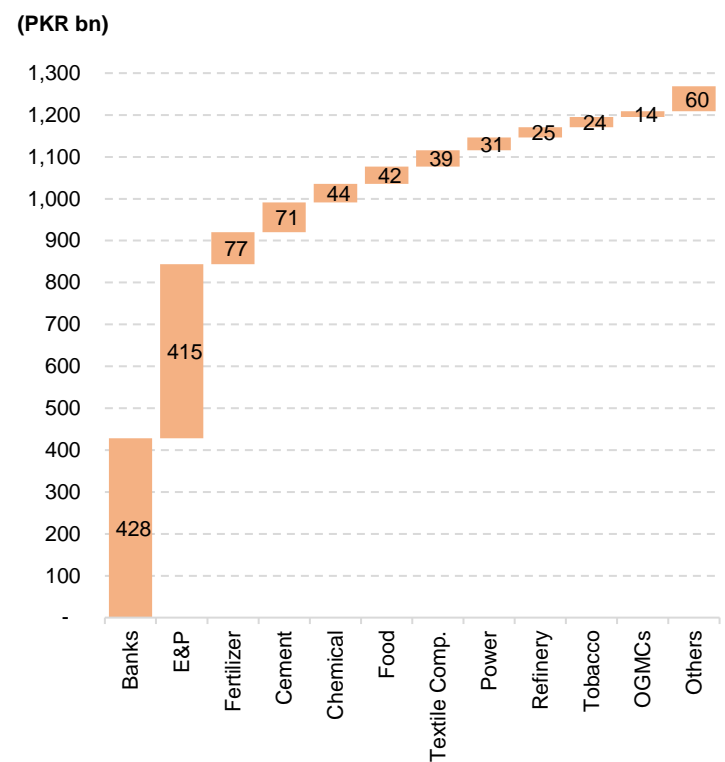
### KSE-100 Index Profitability Graphs

Fig: KSE100 Profitability Contribution (4QFY23)



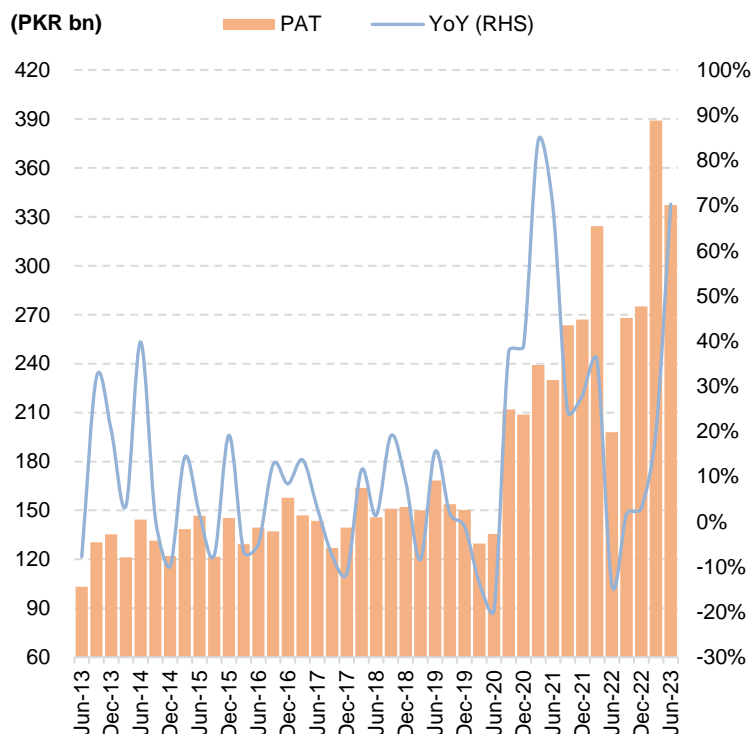
Source (s): Company Financials, AHL Research

Fig: KSE100 Profitability Contribution (FY23)



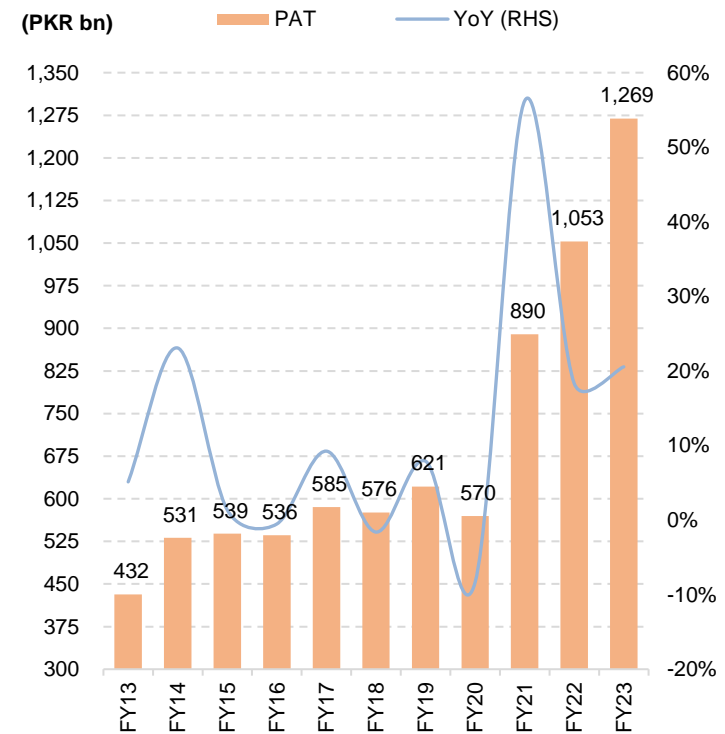
Source (s): Company Financials, AHL Research

Fig: KSE100 Historical Profitability (Quarterly)



Source (s): Company Financials, AHL Research

Fig: KSE100 Historical Profitability



Source (s): Company Financials, AHL Research

## KSE-100 Index Profitability

### Exhibit: Sector Wise KSE-100 Index Dividends

(PKR mn)	Weight	4QFY23	YoY	QoQ	FY23	FY22	YoY
<b>KSE100 Index</b>		<b>179,065</b>	<b>36.4%</b>	<b>69.9%</b>	<b>511,095</b>	<b>419,719</b>	<b>21.8%</b>
Commercial Banks	22.2%	66,699	123.3%	115.1%	179,844	114,458	57.1%
Oil & Gas Exploration Companies	13.2%	40,678	17.6%	425.4%	85,894	73,035	17.6%
Fertilizer	11.9%	12,762	48.8%	-59.6%	76,309	59,672	27.9%
Power Generation & Distribution	6.4%	12,184	246.0%	241.6%	46,397	15,474	199.8%
Chemical	3.7%	2,577	-84.4%	-84.6%	33,308	42,773	-22.1%
Food & Personal Care Products	4.4%	7,360	-17.6%	962.4%	17,508	25,609	-31.6%
Automobile Assembler	3.6%	5,156	1918.5%	46.0%	13,417	20,885	-35.8%
Inv. Banks / Inv. Cos. / Securities Cos.	2.6%	481	nm	-93.3%	10,588	5,294	100.0%
Textile Composite	1.7%	8,765	108.2%	nm	8,765	7,281	20.4%
Oil & Gas Marketing Companies	3.5%	5,387	-36.1%	nm	7,585	10,293	-26.3%
Cement	8.1%	6,224	509.6%	2035.5%	6,515	1,021	538.1%
Engineering	1.0%	2,425	nm	19.5%	4,456	4,889	-8.9%
Insurance	0.7%	825	0.0%	175.0%	3,050	3,050	0.0%
Tobacco	0.6%	-	nm	nm	2,555	16,352	-84.4%
Paper & Board	0.8%	-	nm	nm	2,458	2,458	0.0%
Property	0.3%	2,285	nm	nm	2,285	1,523	nm
Sugar & Allied Industries	0.1%	867	nm	nm	2,167	1,444	nm
Pharmaceuticals	1.9%	-	nm	nm	1,620	7,415	-78.2%
Technology & Communication	7.3%	-	nm	nm	1,456	1,833	-20.5%
Refinery	1.4%	1,333	-41.2%	nm	1,333	2,266	-41.2%
Miscellaneous	1.3%	1,264	nm	nm	1,264	542	133.3%
Glass & Ceramics	0.8%	1,033	200.0%	nm	1,033	344	200.0%
Automobile Parts & Accessories	0.6%	527	160.0%	nm	648	608	6.7%
Leather & Tanneries	0.4%	-	nm	nm	235	352	-33.3%
Modarabas	0.1%	222	nm	nm	222	222	nm
Leasing Companies	0.0%	-	nm	nm	173	49	nm
Vanaspati & Allied Industries	0.0%	12	-25.0%	nm	12	16	-25.0%
Textile Spinning	0.1%	-	nm	nm	-	561	nm

Source (s): Company Financials, AHL Research

## KSE-100 Index Profitability

### Exhibit: Pakistan Macros

		FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>PSX Performance</b>											
KSE100 Index	Index	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	41,541	41,453
KSE100 Index	▲YoY	41.16%	16.01%	9.84%	23.24%	-10.00%	-19.11%	1.53%	37.58%	-12.28%	-0.21%
<b>Gross Domestic Product</b>											
Nominal GDP	PKR bn	27,953	30,426	32,725	35,553	39,190	43,798	47,540	55,836	66,624	84,658
GDP Growth (real)	▲YoY	3.56%	3.81%	4.07%	4.61%	6.10%	3.12%	-0.94%	5.77%	6.10%	0.29%
<b>Currency and Inflation</b>											
USD/PKR	Average	103.0	101.4	104.3	104.9	110.1	136.1	158.3	160.2	177.8	247.1
	PKR App / (Dep.)	-5.9%	1.5%	-2.8%	-0.5%	-4.8%	-23.0%	-14.0%	-1.2%	-9.9%	-28.0%
	Closing	98.8	101.8	104.8	104.9	121.5	160.1	168.1	157.5	204.8	286.0
	PKR App / (Dep.)	0.9%	-3.0%	-2.8%	-0.1%	-13.7%	-34.5%	-4.8%	6.7%	-23.1%	-28.4%
CPI Inflation	Average	8.62%	4.56%	2.85%	4.15%	4.70%	6.80%	10.75%	8.90%	12.15%	29.18%
	▲bps	122	(406)	(171)	130	55	264	395	(185)	325	1,703
Policy Rate	Average	9.75%	8.83%	6.04%	5.75%	5.96%	9.85%	11.75%	7.00%	9.67%	17.33%
	▲bps	(17)	(92)	(279)	(29)	21	410	190	(475)	267	767
	Closing	10.00%	7.00%	5.75%	5.75%	6.50%	12.25%	7.00%	7.00%	13.75%	22.00%
	▲bps	100	(300)	(125)	-	75	650	(525)	-	675	825
<b>External Sector</b>											
<b>Balance of Payments</b>											
Exports of Goods	USD bn	25.1	24.1	22.0	22.0	24.8	24.3	22.5	25.6	32.5	27.9
Exports of Goods	▲YoY	1.1%	-3.9%	-8.8%	0.1%	12.6%	10.2%	-7.1%	13.8%	26.7%	-14.1%
Imports of Goods	USD bn	41.7	41.4	41.1	48.0	55.7	51.9	43.6	54.3	71.5	52.0
Imports of Goods	▲YoY	3.8%	-0.7%	-0.6%	16.7%	16.0%	8.1%	-15.9%	24.4%	31.8%	-27.4%
Trade Balance of Goods	USD bn	(16.6)	(17.3)	(19.1)	(26.0)	(30.9)	(27.6)	(21.1)	(28.6)	(39.0)	(24.0)
Trade Balance of Goods	▲YoY	8.0%	4.1%	10.9%	35.8%	18.9%	6.2%	-23.6%	35.6%	36.4%	-38.4%
Remittances	USD bn	15.8	18.7	19.9	19.4	19.9	21.7	23.1	29.4	31.2	27.0
Remittances	▲YoY	13.8%	18.2%	6.4%	-2.8%	2.9%	12.3%	6.4%	27.3%	6.1%	-13.5%
Current Account Balance	USD bn	(3.1)	(2.8)	(5.0)	(12.3)	(19.2)	(13.4)	(4.4)	(2.8)	(17.5)	(2.4)
Current Account Balance	% of GDP	-1.2%	-0.9%	-1.6%	-3.6%	-5.4%	-4.2%	-1.5%	-0.8%	-4.7%	-0.7%
Foreign Exchange Reserves	USD bn	14.1	18.7	23.1	21.4	16.4	14.5	18.9	24.4	15.5	9.2
Foreign Exchange Reserves	▲YoY	28.3%	32.2%	23.5%	-7.3%	-23.5%	-32.3%	30.4%	29.2%	-36.7%	-40.6%
With SBP	USD bn	9.1	13.5	18.1	16.1	9.8	7.3	12.1	17.3	9.8	4.5
With Banks	USD bn	5.0	5.2	5.0	5.3	6.6	7.2	6.8	7.1	5.6	4.7
<b>Foreign Investment</b>											
Foreign Direct Investment	USD bn	1.7	1.0	2.4	2.4	2.8	1.4	2.6	1.8	1.9	1.5
Foreign Direct Investment	▲YoY	16.6%	-39.1%	131.5%	0.6%	15.5%	-43.4%	90.7%	-29.9%	6.3%	-24.8%
<b>Central Government Debt</b>											
External Debt	PKR bn	4,877	4,775	5,418	5,919	7,796	11,055	11,825	12,439	16,747	22,031
External Debt	% of GDP	17.4%	15.7%	16.6%	16.6%	19.9%	25.2%	24.9%	22.3%	25.1%	26.0%
Domestic Debt	PKR bn	10,907	12,193	13,626	14,849	16,416	20,732	23,283	26,265	31,085	38,809
External Debt	% of GDP	39.0%	40.1%	41.6%	41.8%	41.9%	47.3%	49.0%	47.0%	46.7%	45.8%
Total Debt	PKR bn	15,784	16,968	19,044	20,768	24,212	31,787	35,107	38,704	47,832	60,840
Total Debt	% of GDP	56.5%	55.8%	58.2%	58.4%	61.8%	72.6%	73.8%	69.3%	71.8%	71.9%
<b>Fiscal</b>											
Total Revenue	PKR bn	3,637	3,931	4,447	4,937	5,228	4,901	6,272	6,903	8,035	9,634
Total Expenditure	PKR bn	5,026	5,388	5,796	6,801	7,488	8,346	9,648	10,307	13,295	16,155
Budget Deficit	PKR bn	1,389	1,457	1,349	1,864	2,260	3,445	3,376	3,403	5,260	6,521
Budget Deficit	% of GDP	5.0%	4.8%	4.1%	5.2%	5.8%	7.9%	7.1%	6.1%	7.9%	7.7%

Source (s): PSX, SBP, PBS, MoF, AHL Research

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### Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2023 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

### Equity Valuation Methodology

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

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

### Risks

The following risks may potentially impact our valuations of subject security (ies);

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

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