

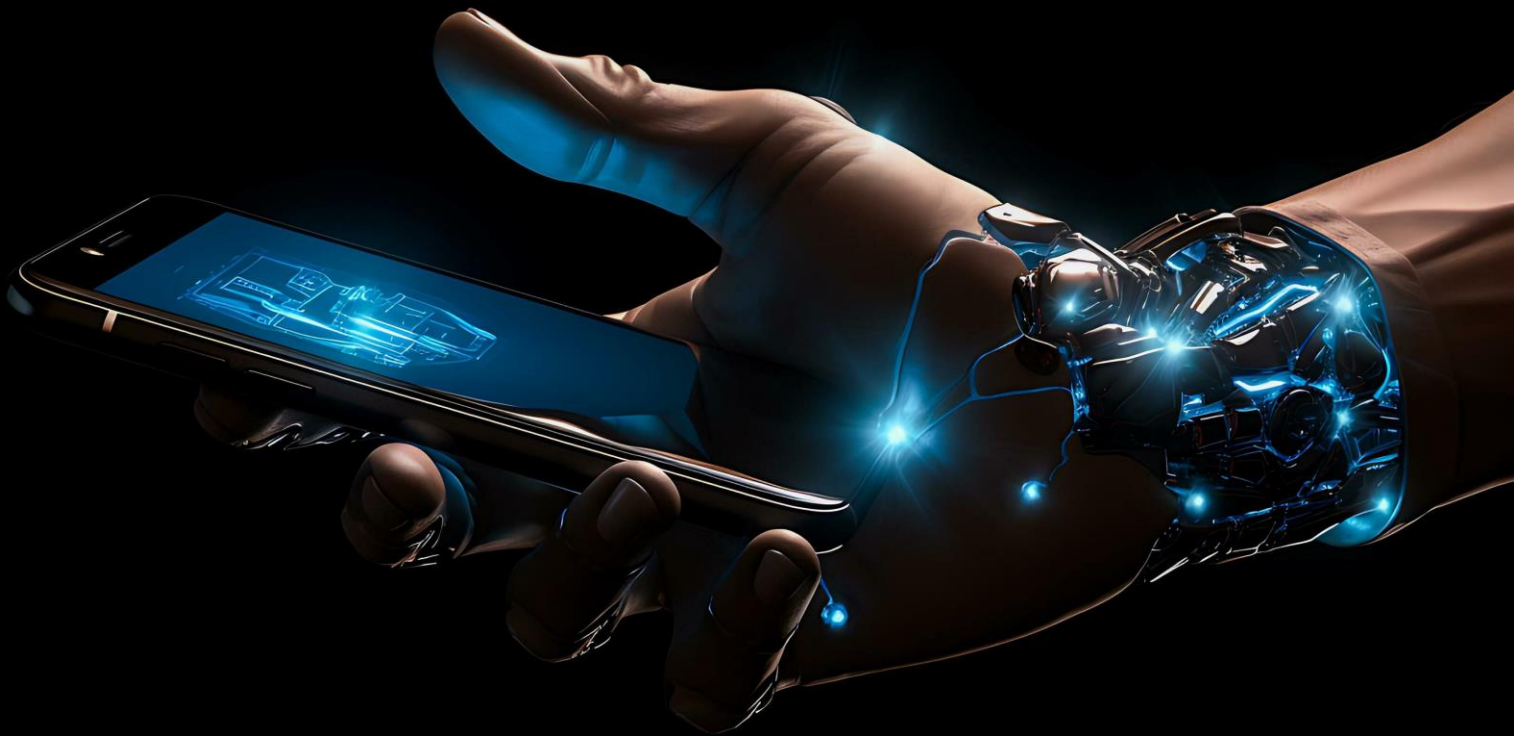
Pakistan Technology & Communciation

Air Link Communication Limited

Shaping the future

30-Sep-2024

REP - 300



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Shaping the future

We initiate coverage on Air Link Communication Limited (AIRLINK) with a “BUY” call and a Jun’25 target price of PKR 186.9/share, implying a 47.9% upside from current levels. Our call is hinged upon i) affordable price range to drive locally assembled phone demand ii) rising smartphone adoption, spurred by population growth and technological advancements, iii) local assembly of Xiaomi TVs reflecting the company’s expanding product portfolio and revenue diversification and iv) significant export potential. We project the company to generate a 4-year forward earnings CAGR of 28%. Currently, the stock is trading at an attractive FY25 / FY26 PE(x) of 7.4x / 6.6x as compared to its last 3-yr avg PE(x) of 9.9x.

Made in Pakistan vision

The government's initiative to promote local mobile phone assembly has been highly successful, with 93% of domestic demand met through local production in 2023. The Device Identification Registration and Blocking System (DIRBS) played a crucial role by imposing duties on imported phones and reducing smuggled devices, making imports expensive and locally assembled phones more affordable. As one of the leading local assemblers, Airlink is well-positioned to capitalize on this trend, consequently, we project Airlink's assembly segment revenue to grow at a 3-year forward CAGR of 18% by FY28.

Key drivers behind the surge in smartphone usage in Pakistan

Smartphone demand in Pakistan is expected to grow annually by 10% due to a growing population, technological advancements, and the expansion of 4G and 5G networks. Local assembly and government policies like DIRBS have made smartphones more affordable and accessible. Additionally, the rise of e-commerce, remote work, online education, and social media has further fueled demand, making smartphones essential for connectivity and digital engagement.

Mastering the partnerships game

Airlink’s partnership with Xiaomi through its subsidiary, Select Technologies, has allowed it to manufacture Xiaomi handsets in Pakistan since 2022. This venture has led to other opportunities opening up as well, with Airlink now set to begin assembling Xiaomi Smart TVs and potentially introducing Xiaomi electric vehicles to the Pakistani market. Airlink has also recently announced a strategic partnership with Acer Gadget to enter an exclusive assembling agreement.

Exploring potential export opportunities

Pakistan's local mobile phone manufacturers now meet the entire ~32 million unit annual demand, creating potential export opportunities. However, actual exports will depend on factors like government incentives and market conditions. Although export sales are not part of our base case, the potential upside is significant. Exporting 400,000 phones could generate additional PKR 26.7bn in revenue, and a 4% government rebate combined with these sales could boost EPS by PKR 5.2/share, enhancing FY25 EPS by 30%.

Exhibit: Valuation Snapshot

		FY24a	FY25e	FY26f	FY27f	FY28f
EPS	PKR	11.70	17.11	19.12	24.79	31.28
D/Y	%	4.75	5.54	5.94	7.92	9.90
P/E	x	10.79	7.38	6.61	5.10	4.04
ROE	%	30.69	35.48	31.95	33.21	33.48
ROA	%	11.42	15.04	14.90	16.95	18.60
D/E	x	1.69	1.36	1.14	0.96	0.80

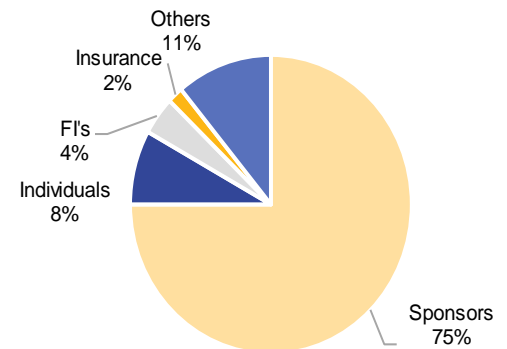
Source (s): Company Financials, AHL Research

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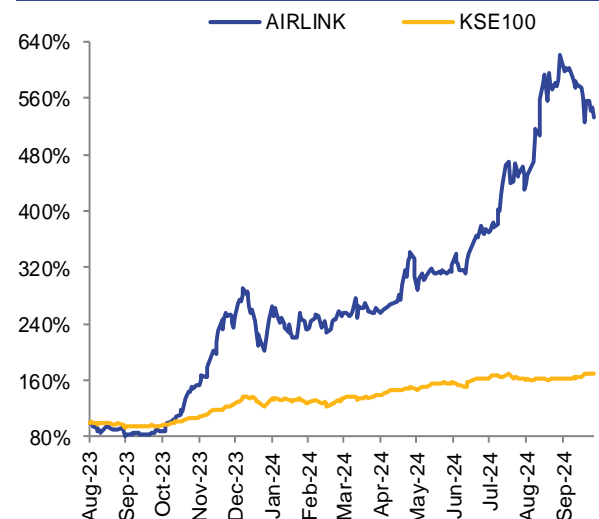
Recommendation			Buy
Target Price (Jun-25)			186.9
Last Closing			126.3
Upside (%)			47.9
Shares (mn)			395.3
Free float (%)			25.0
Market Cap. (PKR mn)			49,930.4
Market Cap. (USD mn)			179.8
Price Performance			
	3M	6M	12M
Return (%)	82.6	129.8	538.3
Avg. Volume (000)	8,756	8,679	7,741
ADTV (mn) - PKR	987	821	603
ADTV (000) - USD	3,544	2,948	2,156
High Price - PKR	147.7	147.7	147.7
Low Price - PKR	73.7	59.1	19.3

Source: PSX, AHL Research

Shareholding Pattern



Source: Company Financials, AHL Research



Source: Bloomberg AHL Research

Valuation

We have valued AIRLINK using DCF-based valuation whereby our Jun'25 target price is set at PKR 186.9/share, which translates into an upside of 47.9% from the last closing of PKR 126.3/share. Our valuation parameters include a 5-year adjusted beta of 1.55, a risk-free rate of 15.0%, and a risk premium of 6.0%, which gives a cost of equity of 24.3%. Currently, the stock is trading at FY25, FY26, and FY27 P/E of 7.4x, 6.6x and 5.0x, respectively. Hence, we recommend a **'BUY'** stance on the scrip.

Exhibit: Valuation Snapshot

PKR mn	FY25e	FY26f	FY27f	FY28f	FY29f
EBIT after tax	7,547	8,092	10,149	12,724	16,051
Add: Depreciation	461	723	805	886	967
Capital Expenditure	(369)	(640)	(903)	(984)	(1,065)
▲ in Working Capital	(1,107)	(1,316)	(1,557)	(1,207)	(1,094)
FCFF	6,532	6,859	8,493	11,419	14,858
Discounted Factor	1.00	0.85	0.71	0.59	0.48
Discounted Cash Flows	6,532	5,845	6,071	6,740	7,158
PV of Future Cash Flows	32,346				
PV of Terminal Value	50,050				
Net Debt	8,538				
Equity Value	73,858				
Outstanding shares (mn)	395				
Target price per share	186.9				

Source (s): Company Financials, AHL Research

About the Company

Air Link Communication Limited (AIRLINK) is a technology & communication company incorporated in 2014. The company operates as a distributor and assembler of mobile phones in Pakistan and holds the official distribution rights for major brands including Samsung, Huawei, TCL, Tecno, Itel, Realme, and Xiaomi.

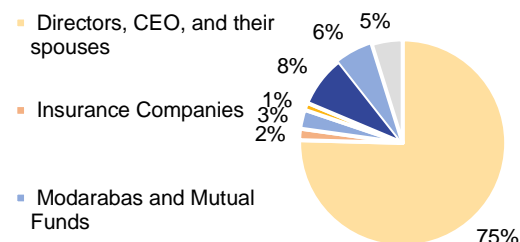
The company's state-of-the-art assembly plant in Lahore has an annual production capacity of 8 million handsets, covering both smartphones and feature phones. In addition, the facility includes a television production unit, capable of manufacturing between 120,000 and 180,000 TV sets each year.

Airlink has partnered with Xiaomi to produce Xiaomi Smart TVs following their success in local production of Xiaomi smartphones – as well as a recent collaboration with Acer to produce laptops and tablets in Pakistan.

Shareholding Pattern

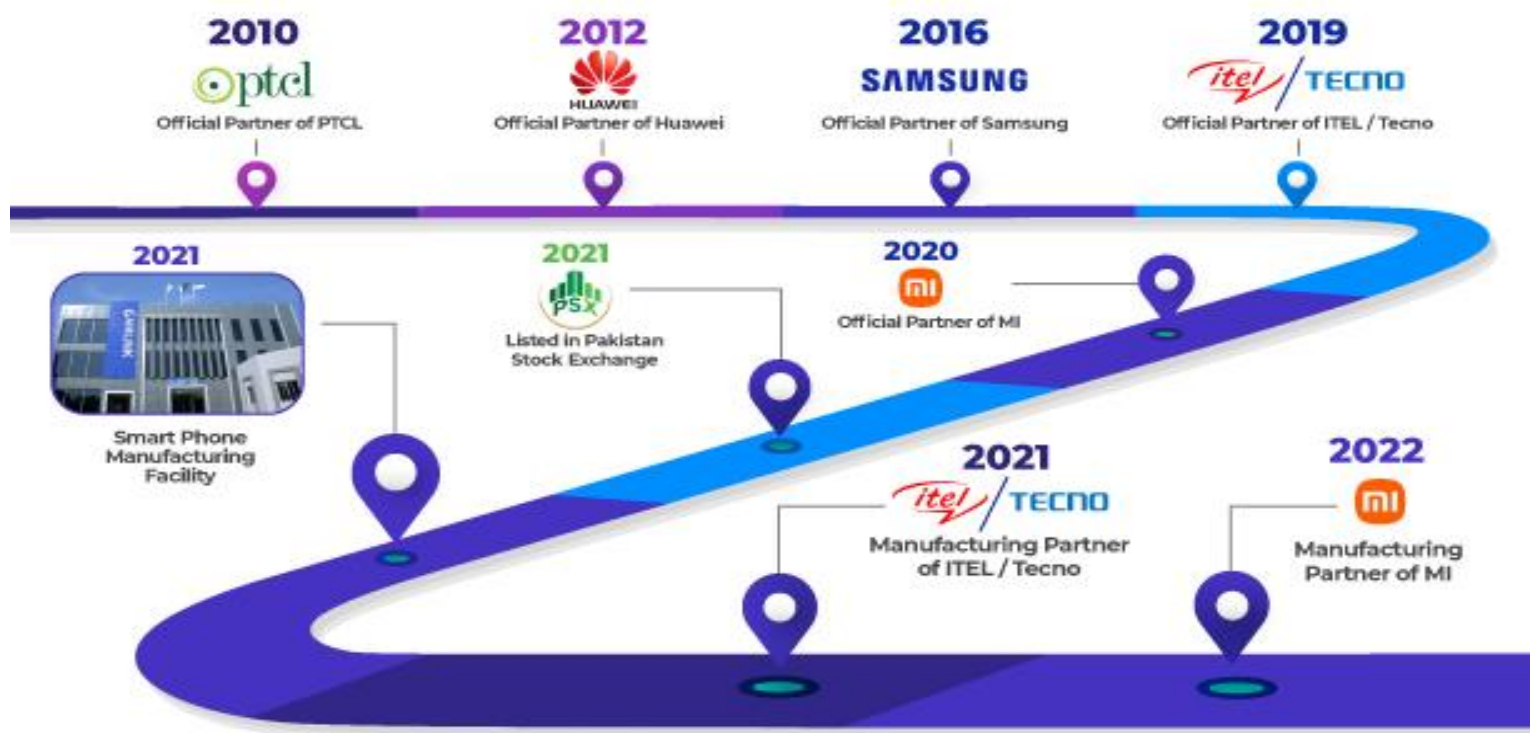
AirLink boasts a shareholder base of 4,908 individuals, collectively holding 395.269mn outstanding shares. The largest stake of 75.4% belongs to Directors, CEOs, their spouses, and minor children. The general public follows with an ownership stake of 8.08% of the shares. Banks Development Finance Institutions & Non-Banking Financial Institutions, Others, and Insurance companies hold smaller portions, with 1.15%, 4.83%, and 1.78% of AIRLINK shares respectively.

Exhibit: Shareholding pattern



Source (s): AHL Research

Exhibit: Airlink's milestones



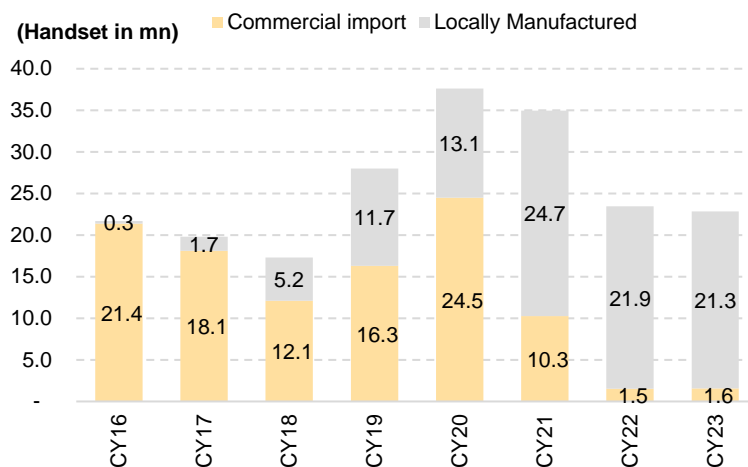
Source (s): Company Financials, AHL Research

Made in Pakistan vision!

Airlink Pakistan has emerged as a key beneficiary of the government's strategic initiatives aimed at reducing mobile phone imports and nurturing local assembly and manufacturing. In a dramatic shift, the local assembly now fulfils 93% of the domestic mobile phone demand as of 2023, a significant leap from just 1% in 2016, where the market was almost entirely dependent on imports.

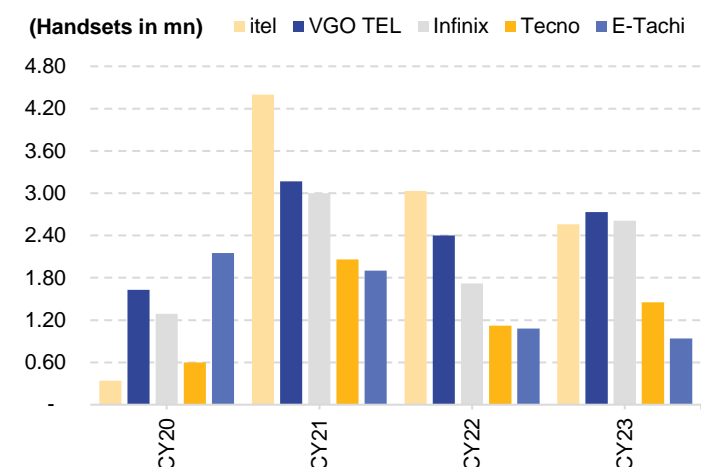
A vital driver of this transformation is the implementation of the Device Identification Registration and Blocking System (DIRBS), which has played a pivotal role in enforcing import duties and curbing the influx of unregistered and smuggled phones. These stringent regulations have shifted consumer preferences toward locally assembled and officially imported devices, directly benefiting Airlink. With its robust local production capabilities, the company is well-positioned to capitalize on this growing demand, which is expected to significantly boost its earnings.

Exhibit: Commercial import vs Local manufacturing/assembly



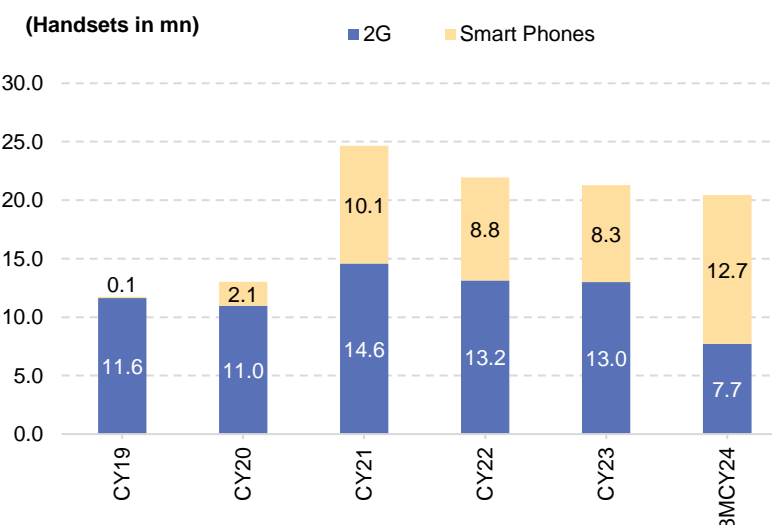
Source (s): PTA, AHL Research

Figure: Locally assembled top brands (Volumetric sales-wise)



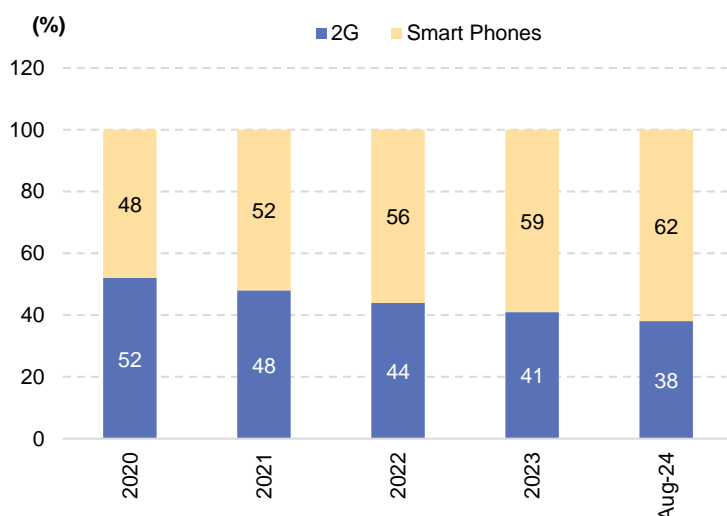
Source (s): PTA, AHL Research

Exhibit: Local assembly of 2G and Smartphones



Source (s): PTA, AHL Research

Figure: Total mobile devices on Pakistan network



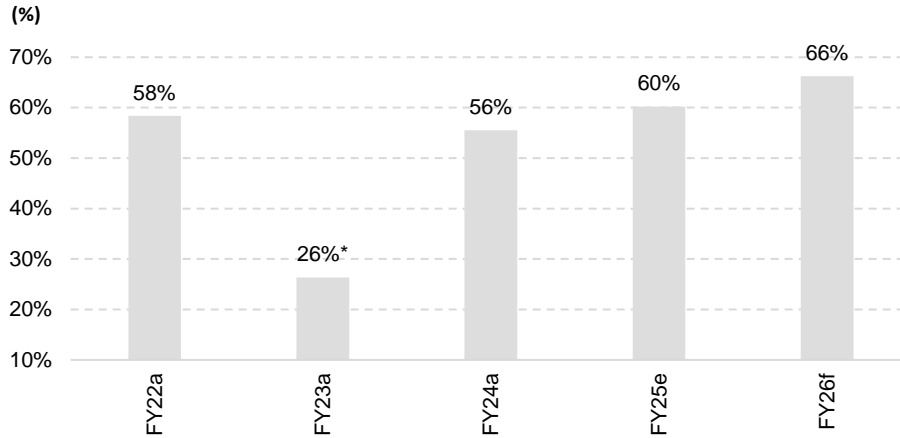
Source (s): PTA, AHL Research

Assembly segment set to shine...

Airlink Pakistan's assembly segment is set for robust growth, underpinned by its substantial production capacity of 5.7 million mobile phones (on single shift basis), which includes the capacity from Select Technologies. While capacity utilization in 2023 was relatively low at 26% (based on a total capacity of 3.2 million units) due to import-related challenges, the anticipated revival in demand, coupled with the growing preference for locally assembled products, is expected to drive a significant turnaround as we have already witnessed during FY24 with utilization clocked in at 56%. Subsequently, we project capacity utilization to increase to 66% by FY26, positioning this segment for notable outperformance.

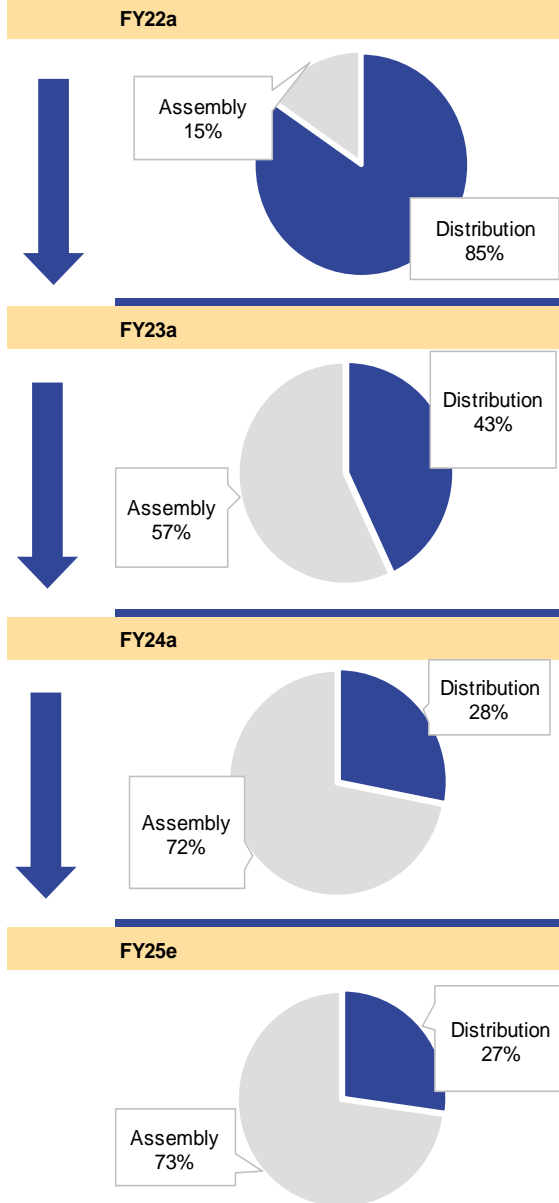
Importing raw materials and adding value through local assembly is more lucrative compared to importing finished products due to incremental margins. In FY24, the assembly segment accounted for 72% of Airlink's total sales, a substantial increase from 15% in FY22. This growth is expected to continue, with production projected to surge to 3.5mn units by FY25, driven by rising mobile phone demand and the easing of import restrictions.

Exhibit: Capacity Utilization of assembly segment



Source (s): Company financials, AHL Research, *3.2mn total capacity

Exhibit: Assembly segment revenue contribution

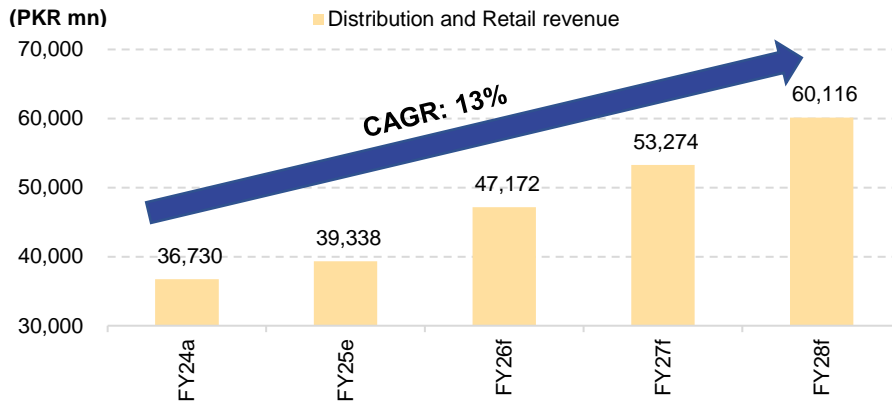


Source: Company Financials, AHL Research

Distribution segment won't be any less performer

With a rich history in its distribution segment, the company is expected to generate an average of 24% of its revenue from this segment over the next five years. Airlink holds official distribution rights for major brands, including Samsung and Xiaomi. Despite the robust performance of the assembly segment, this segment is anticipated to grow at a 4-year CAGR of 13% by FY28.

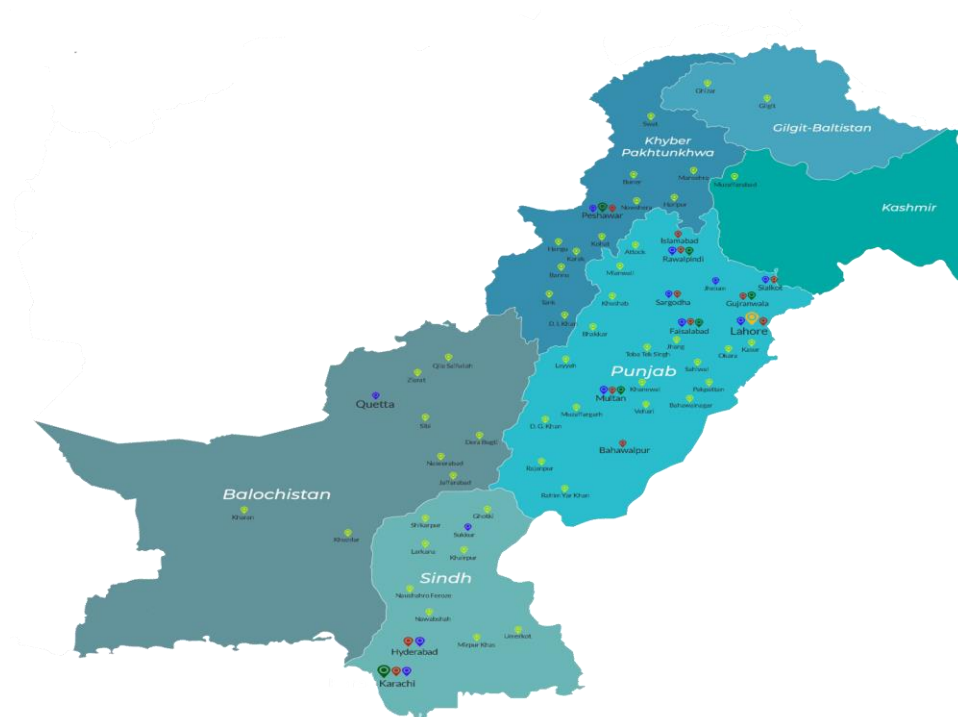
Exhibit: Distribution segment revenue



Source (s): AHL Research

As Airlink continues to innovate and expand, its distribution segment is poised to play a pivotal role in driving the company's top-line growth, while simultaneously contributing to Pakistan's broader economic development. With a nationwide presence spanning over 5,000 retailers and operations in more than 300 cities, Airlink's extensive reach ensures that it remains a key player in the mobile phone and electronics distribution landscape across the country.

Exhibit: Distribution and retail network



Source (s): Company financials, AHL Research

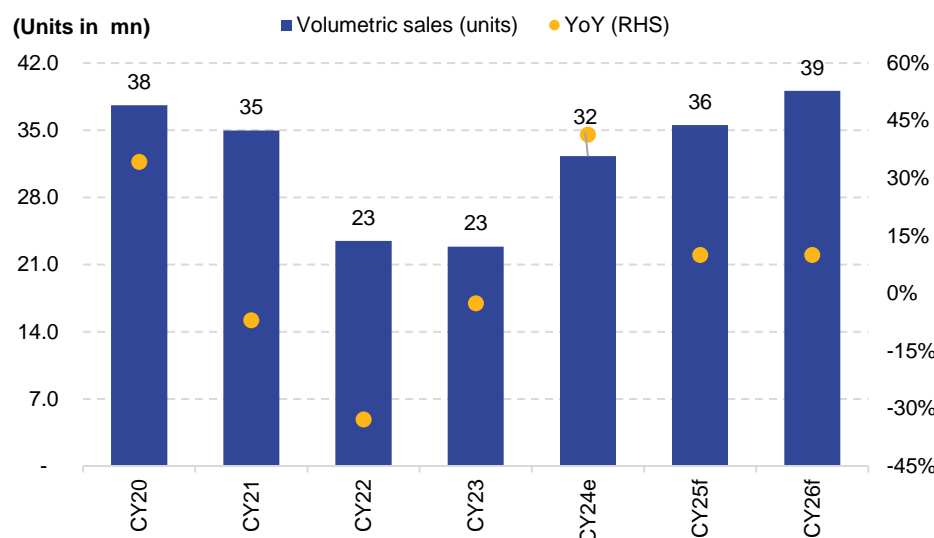
Smartphone demand expected to surge

In recent years, Pakistan has witnessed a significant shift in mobile phone demand, with consumers increasingly transitioning from 2G devices to smartphones. According to the Pakistan Telecommunication Authority (PTA), the percentage of smartphone users rose from 41% in 2018 to 57% by 2023, while the share of 2G users declined from 59% to 43%.

Pakistan's population is growing rapidly, currently exceeding 240 million people. This rapid demographic expansion is creating a larger consumer base for mobile phones, particularly smartphones. The country's population growth rate, which stands at approximately 2% annually, translates into millions of new potential smartphone users each year. As more people enter the market and existing users upgrade their mobile phones, the overall demand for mobile devices is expected to increase to 39mn units by CY26.

The rising urbanization and a youthful demographic, with a significant proportion of the population under the age of 30, further drive the demand for smartphones. Young consumers are more likely to embrace digital technologies, Ecommerce, and mobile applications, accelerating the shift from basic phones to smartphones.

Exhibit: Smartphones gaining market share

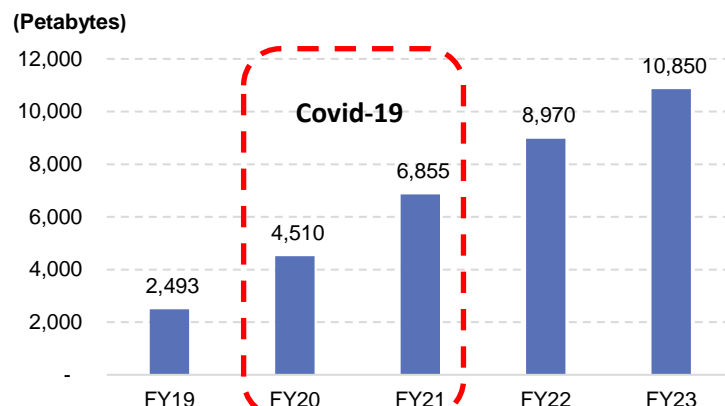


Source (s): PTA, AHL Research

Covid-19 has been a shift of the gear

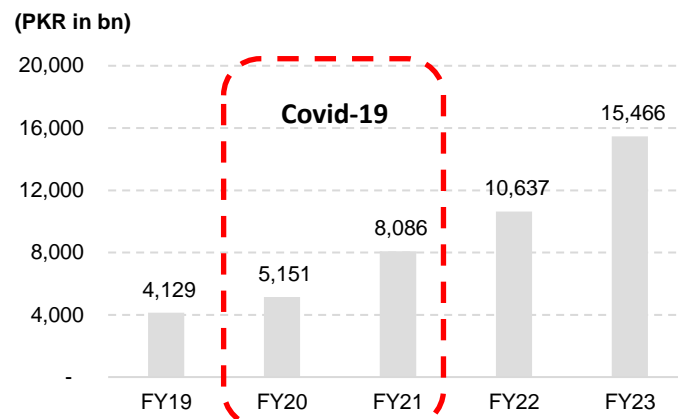
The pandemic accelerated the adoption of smartphones as remote work, online schooling, and virtual meetings became essential. Smartphones have become a necessity for accessing digital services, which has had a lasting impact on consumer behaviour. With more people relying on smartphones for everyday tasks, the demand for these devices has surged.

Exhibit: Mobile data usage



Source (s): PTA, AHL Research

Exhibit: Mobile banking transaction



Source (s): PTA, AHL Research

Looking ahead, the potential rollout of 5G technology could further boost smartphone demand. The introduction of 5G is expected to replicate the demand surges seen with previous 3G and 4G rollouts, positioning Airlink to benefit from these trends given its substantial market share.

As of Mar'24, Pakistan has 192.07 million cellular subscribers – a substantial market with growth potential. The country's 54.5% mobile broadband penetration figure also displays the expanding demand for smartphones, with the increasing adoption of mobile banking services and other e-commerce activities enticing consumers to shift towards smartphones.

PM announces distribution of one million smartphones

Prime Minister Shehbaz Sharif has announced the distribution of one million smartphones to high-achieving students across Pakistan, including regions such as Azad Jammu and Kashmir, Gilgit-Baltistan, and remote areas of Balochistan. This initiative aligns with the government's vision to empower youth by providing access to Information Technology and Artificial Intelligence education, with the ultimate goal of driving a transformative revolution in Pakistan, similar to China's technological advancements.

Given Airlink's position as a leading local assembler, the company stands to benefit significantly from this initiative. The large-scale distribution of smartphones is expected to bolster demand for locally assembled devices, providing Airlink with a substantial opportunity to capture market share and further solidify its leadership in the domestic mobile phone assembly sector. This program could act as a catalyst for revenue growth in the coming years, aligning well with our projected 3-year forward CAGR of 18% for Airlink's assembly segment.

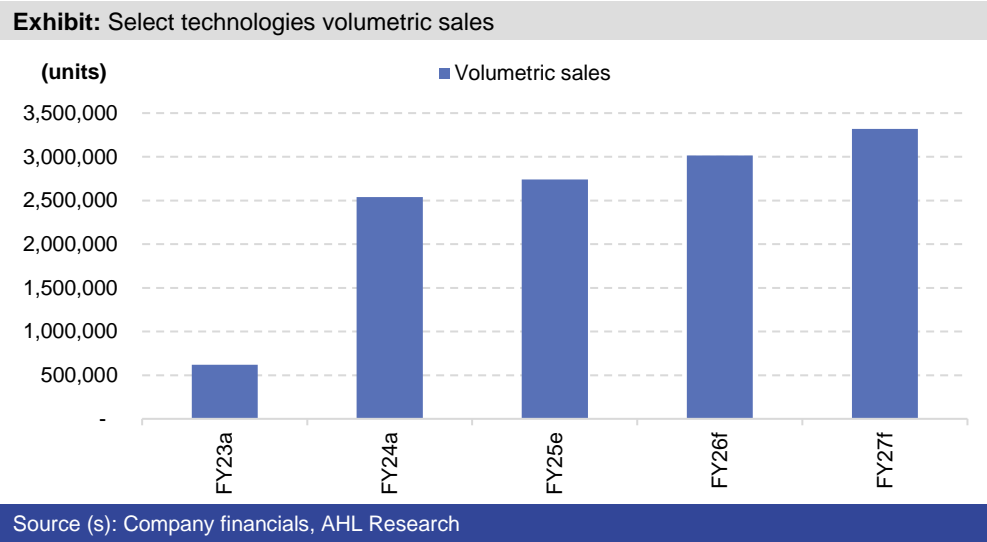
Mastering the partnerships game

Expanding beyond its core smartphone business, Airlink is strategically diversifying its product portfolio by venturing into the manufacturing and assembly of Smart TVs, laptops, and smart wearable devices. These new initiatives are poised to capitalize on emerging market opportunities and further enhance the company's profitability and market presence.

Xiaomi collaboration – smart phones

Airlink operates as a manufacturer, distributor, and retailer of smartphones, holding official distribution rights for major brands such as Xiaomi, Samsung, Huawei, TCL, Tecno, Itel, and Realme. In 2022, Airlink strategically partnered with Xiaomi to locally assemble Xiaomi handsets in Pakistan through its subsidiary, Select Technologies. This collaboration has proven to be a commercial success, significantly contributing to Airlink's growth. In FY24, net sales of Airlink's assembly segment surged by 343% YoY, largely driven by the assembly of Xiaomi mobile phones by Select Technologies.

The partnership operates on a carefully structured agreement, where Xiaomi Pakistan Private Limited and Select Technologies Limited engage in monthly capacity planning over a six-month horizon, aligning production with forecasted demand. Xiaomi provides a demand forecast three months in advance, and Select Technologies is required to produce up to 130% of the agreed capacity if demand exceeds expectations. Conversely, if demand falls below 70%, Xiaomi compensates for the idle production lines.



Apple iPhone

Air Link Communication Limited has been appointed as a Premium Partner of GNEXT, the Apple Authorized Distributor for Pakistan, in a strategic move that will significantly expand the availability of Apple products across the country. This partnership strengthens Air Link's product portfolio by incorporating Apple's premium devices such as iPhones, iPads, MacBooks, and accessories. Leveraging Air Link's extensive reseller network, the collaboration will provide broader access to Apple's latest innovations through structured retail channels. With a substantial market of Apple users in Pakistan, predominantly from the upper-middle and affluent segments, the absence of an official Apple outlet has long created a gap in product accessibility. This enhanced distribution network will address that gap, offering Apple enthusiasts greater convenience in purchasing their desired products, thus positioning Air Link to capture more market share in the high-end consumer electronics space.

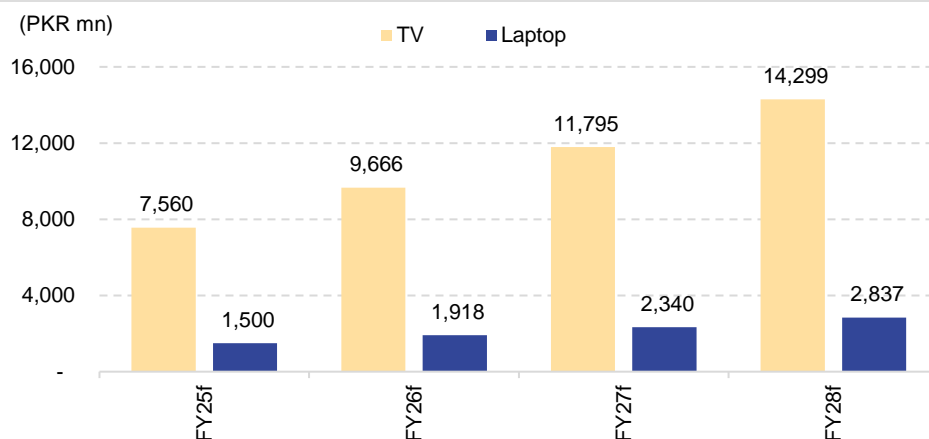
Smart TVs

Building on its successful partnership with Xiaomi, Airlink is set to commence the manufacturing of Xiaomi Smart TVs in the second quarter of FY25. This diversification addresses the existing demand gap in Pakistan's Smart TV market, which has been impacted over the past two years by higher import duties and stringent restrictions on smuggled televisions. By offering locally assembled, high-quality Smart TVs, Airlink aims to provide consumers with more affordable options while capturing a significant share of this growing market segment. The TV segment is projected to contribute PKR 9.6bn (5.2%) to total revenue by FY26.

Laptops

Airlink has recently forged a strategic partnership with Acer Gadget Inc., a globally renowned leader in innovative and affordable technology solutions. This collaboration involves an exclusive assembling agreement, wherein Airlink will manufacture Acer Gadget e10 laptops, tablets, and all-in-one devices at its advanced facility in Lahore, Pakistan, in partnership with Acer Gadget's manufacturing affiliate, Shanghai Sixunited Intelligent Technology Co. Ltd. Additionally, Airlink has secured the distribution rights for these products within Pakistan, positioning the company to effectively market and distribute Acer Gadget's devices across the country. This partnership is poised to significantly enhance Airlink's profitability by meeting the rising demand for affordable and reliable computing devices, particularly in Pakistan's rapidly growing education and business sectors amid accelerating digital transformation.

Exhibit: TV's and Laptop revenue contribution



Source (s): Company Financials, AHL Research

Electric vehicle possibility?

Given Airlink's partnership with Xiaomi across its tech product range, there's a strong potential for this collaboration to extend into Pakistan's burgeoning electric vehicle (EV) market. With BYD's recent entry and the rising trend of EVs in Pakistan, launching Xiaomi's EVs could significantly boost Airlink's revenue.

In 2023, Xiaomi's first EV, the SU7, made a spectacular debut, securing over 50,000 orders within the first 27 minutes of its launch. This rapid success highlights the strong market interest and Xiaomi's ambitions to compete with leading brands like Tesla and Porsche.

Our initial estimates suggest that selling 600 units annually of the Xiaomi SU7 at a price of PKR 15.0 million, with net margins of 12%, could add approximately PKR 3.7 per share to Airlink's earnings. This move could be a strategic expansion, tapping into the growing demand for EVs in the region.

Exhibit: Sensitivity analysis of incremental EPS

		Net margins				
Volume (units)		10%	12%	14%	16%	18%
	600	2.31	2.77	3.23	3.69	4.15
	800	3.08	3.69	4.31	4.92	5.54
	1,000	3.85	4.62	5.38	6.15	6.92
	1,200	4.62	5.54	6.46	7.38	8.31
	1,400	5.38	6.46	7.54	8.62	9.69

Source (s): AHL Research

Exploring potential export opportunities

Pakistan's annual mobile phone demand stands at ~34 million units, a level that is now largely met by local manufacturers. This shift towards local assembly, except for premium brands like iPhone, is a positive development for the country's foreign exchange reserves. In addition to this, there is ample opportunity for local companies to maximize their potential by exploring export markets.

Airlink is well-positioned to capitalize on this opportunity. Although the company's capacity utilization was only 26% in FY23 due to import barriers driven by a foreign currency shortage, it has shown a strong recovery this year as utilization surged to 56% in FY24 while company's profitability also skyrocket by 382% YoY. With the easing of import restrictions, Airlink has ramped up local production, utilizing Semi-Knocked Down (SKD) kits to assemble mobile phones domestically. This shift not only supports the local market but also positions Airlink to expand into international markets, leveraging its enhanced production capabilities.

Sensitivity analysis of potential export sales

Pakistan is strategically positioned to become a key player in the global mobile phone market, thanks to its lower labor costs compared to China and its advantageous geographical location.

Although we have not factored export sales into our base case assumptions, the potential upside is significant. If 400,000 mobile phones are exported, it could generate additional revenue of PKR 26.7bn. Moreover, should the government announce a 4% export rebate, it would add PKR 1.1bn to the bottom line, translating to an incremental impact of PKR 5.2/share. This would represent a 30% boost to our base case EPS of PKR 17.1 in FY25. The sensitivity analysis below highlights the potential impact of export sales on Airlink's financial performance.

Sensitivity Analysis of Incremental EPS (PKR) and Target Price

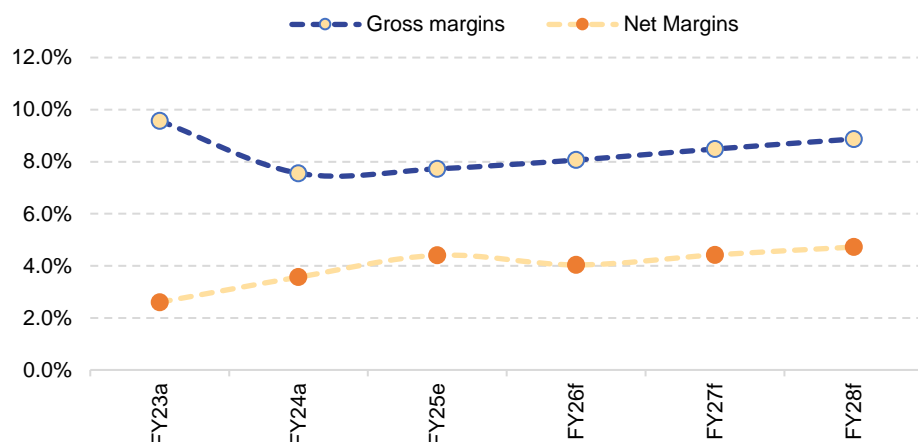
FY25	Units	Exports revenue	Exports rebate	Exports EPS (if no rebate)	Total incremental impact on EPS	Total EPS	Target price
Mobile phones	200,000	13,346	534	1.2	2.6	19.7	197.4
	300,000	20,018	801	1.9	3.9	21.0	202.8
	400,000	26,691	1,068	2.5	5.2	22.3	208.2
	500,000	33,364	1,334	3.1	6.5	23.6	213.6
	600,000	40,037	1,601	3.7	7.8	24.9	219.0

Source: AHL Research

Strong profitability going forward

As revenue continues to show a solid growth momentum, margins of the company are expected to climb up from 7.6% in FY24 to 8.1% in FY26. We expect them to remain stable over the next few years.

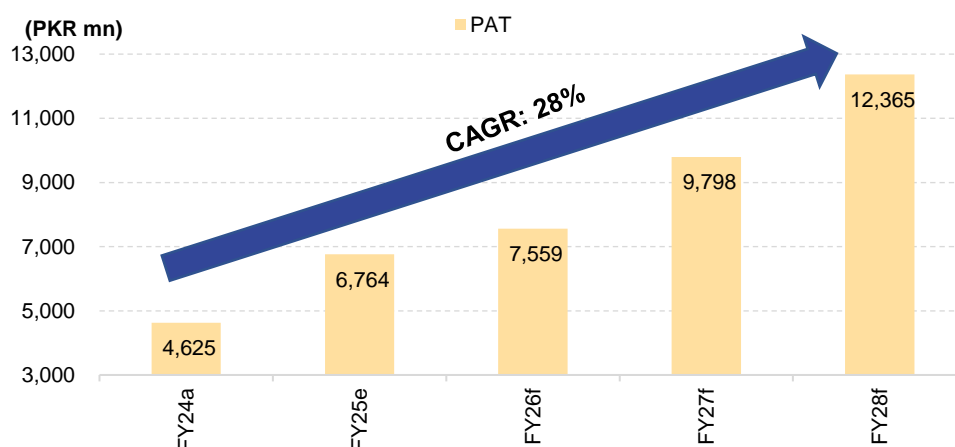
Exhibit: Gross margins & Net margins



Source (s): Company Financials, AHL Research

With all said, we project Airlink's bottom line in FY25 and FY26 at PKR 6,764mn (EPS: PKR 17.1) and PKR 7,559mn (EPS: PKR 19.1), while earnings are forecast to achieve a 4-yr forward CAGR of 28% till FY28. We also expect the company to payout dividends for FY25 and FY26 expected at PKR 7.0/share and PKR 7.5/share, respectively.

Exhibit: Profitability is expected to grow at a CAGR of 28%



Source (s): Company Financials, AHL Research

Key risk (s)

- Slow down in demand for locally assembled phones,
- No export rebate,
- Restrictions on the import of raw materials,
- Amnesty for used or smuggled phones,
- Entry of new competitor(s),
- Outbreak of disease or occurrence of disaster/natural calamity that could restrict the mobility of consumers to the market,
- Cancellation of partnership with joint venture partners due to economic slowdown.

Exhibit: Key financial highlights

PKR mn	FY24a	FY25e	FY26f	FY27f	FY28f		Unit	FY24a	FY25e	FY26f	FY27f	FY28f	
Income Statement Items (PKR mn)						Per Share							
Revenue	129,742	153,599	187,313	221,648	261,947		Earnings	PKR	11.7	17.1	19.1	24.8	31.3
Cost of Sales	119,937	141,734	172,209	202,837	238,708		Dividend	PKR	6.0	7.0	7.5	10.0	12.5
Gross Profit	9,806	11,865	15,103	18,812	23,239		Book Value	PKR	38.1	48.2	59.9	74.6	93.4
Distribution Cost	319	378	460	545	644		Valuation						
Administrative Expenses	993	1,176	1,434	1,697	2,006		P/E	x	10.8	7.4	6.6	5.1	4.0
Other Expenses	479	568	692	819	968		Dividend Yield	%	4.7	5.5	5.9	7.9	9.9
Other Income	563	656	749	888	1,238		P/B (x)	x	3.3	2.6	2.1	1.7	1.4
Finance Cost	2,974	1,078	873	576	588		Payout Ratio	%	51.3	40.9	39.2	40.3	40.0
PBT	5,603	9,322	12,392	16,062	20,271	RoE	%	30.7	35.5	31.9	33.2	33.5	
PAT	4,625	6,764	7,559	9,798	12,365	RoA	%	11.4	15.0	14.9	17.0	18.6	
Balance Sheet Items (PKR mn)						D/E	x	1.69	1.36	1.14	0.96	0.80	
Paid-up Capital	3,953	3,953	3,953	3,953	3,953	Turnover & Activity							
Total Equity	15,069	19,067	23,662	29,507	36,931	Asset Turnover	x	3.8	3.6	3.9	4.1	4.2	
Current Liabilities	23,223	24,414	25,836	27,276	28,706	Current Ratio	x	1.3	1.4	1.6	1.8	2.0	
Non-Current Liabilities	2,226	1,483	1,226	1,020	855	Margins							
Current Assets	30,545	35,083	40,926	47,906	56,497	Gross Margin	%	7.6	7.7	8.1	8.5	8.9	
Non-Current Assets	9,973	9,881	9,798	9,897	9,996	EBITDA Margin	%	7.0	7.1	7.5	7.9	8.3	
Total Assets	40,518	44,964	50,724	57,803	66,493	Net Profit Margin	%	3.6	4.4	4.0	4.4	4.7	

Source (s): Company Financials, AHL Research

Disclaimer

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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 Jun'25 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)

* Upside for Power Generation Companies is upside plus dividend yield.

Equity Valuation Methodology

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

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted 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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