

Pakistan Economy

Exodus of Foreign Investment – Myth not Reality

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Exodus of Foreign Investment – Myth not Reality

- Contrary to widespread narrative, we are not witnessing an exodus of foreign investment, rather some foreign companies are being replaced by new players.
 - Reality check- over the past 18 months, while 11 companies have exited or signaled their intent to exit, what really is striking, is that around 16 fresh foreign firms are in the process of taking over stakes in the local businesses.
 - The truth? Pakistan's foreign direct investment is not witnessing an exodus, —but it is evolving.
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- The narrative of a mass corporate exodus is not only misleading but also completely contrary to the reality of the growing interest from international investors.
 - With the government introducing reforms and the establishment of the SIFC, the country is prepping for flows of fresh foreign investment.
 - The future of FDI in Pakistan looks increasingly positive. Several global players are focusing on tapping into sectors like energy, mining, refineries, corporate farming, and exploration.
 - As Pakistan's macroeconomic conditions improve, we anticipate an acceleration in the inflows of foreign investments.
 - During FY24, net FDI inflows rose by 17% YoY to USD 1.9bn, compared to an inflow of USD 1.6bn in FY23.
 - China emerged as the leading contributor to net FDI, with USD 568mn, followed by Hong Kong at USD 359mn.

Companies making investments in Pakistan since Jan'23



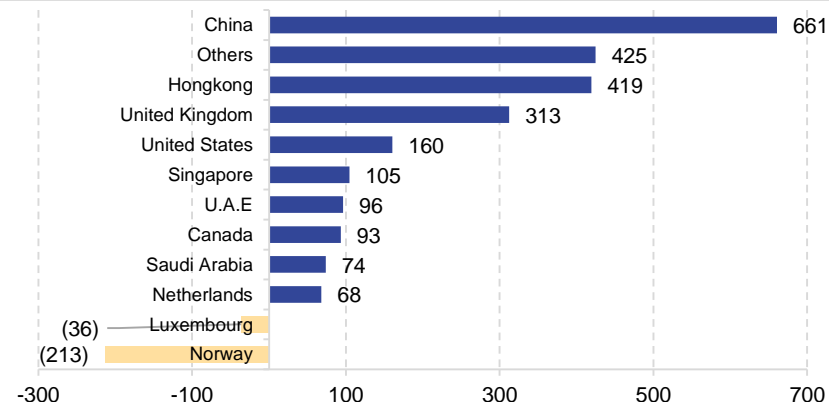
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Exodus of Foreign Investment – Myth not Reality

- Sector-wise, the power sector attracted the most significant investment during FY24, totaling USD 800mn, while the oil and gas exploration sector attracted USD 304mn.
- With Pakistan's population reaching 241.5mn in 2023—up 31% from 184.4mn in 2013—the consequent surge in demand for commodities is expected to continue, drawing even more foreign companies to the market.
- Moreover, the government has recently de-regulated non-essential medicine prices and is considering similar moves for petroleum pricing.
- In the technology sector, plans for several IT parks and tech-cities are underway.
- These measures are likely to ignite foreign interest and investment in pharmaceuticals, OMCs, and technology sectors.

Exhibit: Net FDIs from major countries during last 14 months



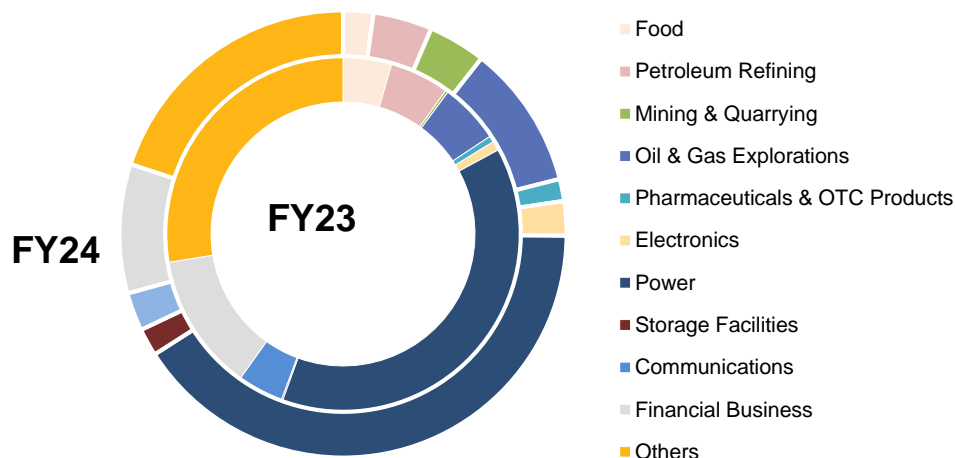
Source (s): SBP, AHL Research

Exhibit: Net FDI in major sectors

Major Sectors (USD in mn)	FY24	FY23	YoY	FY22	FY21
Mining and quarrying	530.56	-42.58	nm	157.43	298.68
Manufacturing	396.13	427.83	-7%	145.06	155.95
Electricity, gas, steam & a/c supply	613.05	876.96	-30%	749.52	790.93
Wholesale/retail trade; vehicles/motorcycles repair	114.43	109.48	5%	173.58	144.78
Information & communication	-122.94	-167.61	-27%	64.92	41.21
Financial & insurance activities	184.55	292.58	-37%	431.23	236.29
Construction	24.87	33.82	-26%	76.68	155.13
Real estate	37.88	10.45	4x	-6	-0.53
Transportation and storage	56.57	-3.15	nm	40.4	-107.66
Others	66.45	89.22	-26%	103.07	105.72

Source (s): SBP, AHL Research

Exhibit: Sector-wise FDI inflows



Source (s): SBP, AHL Research

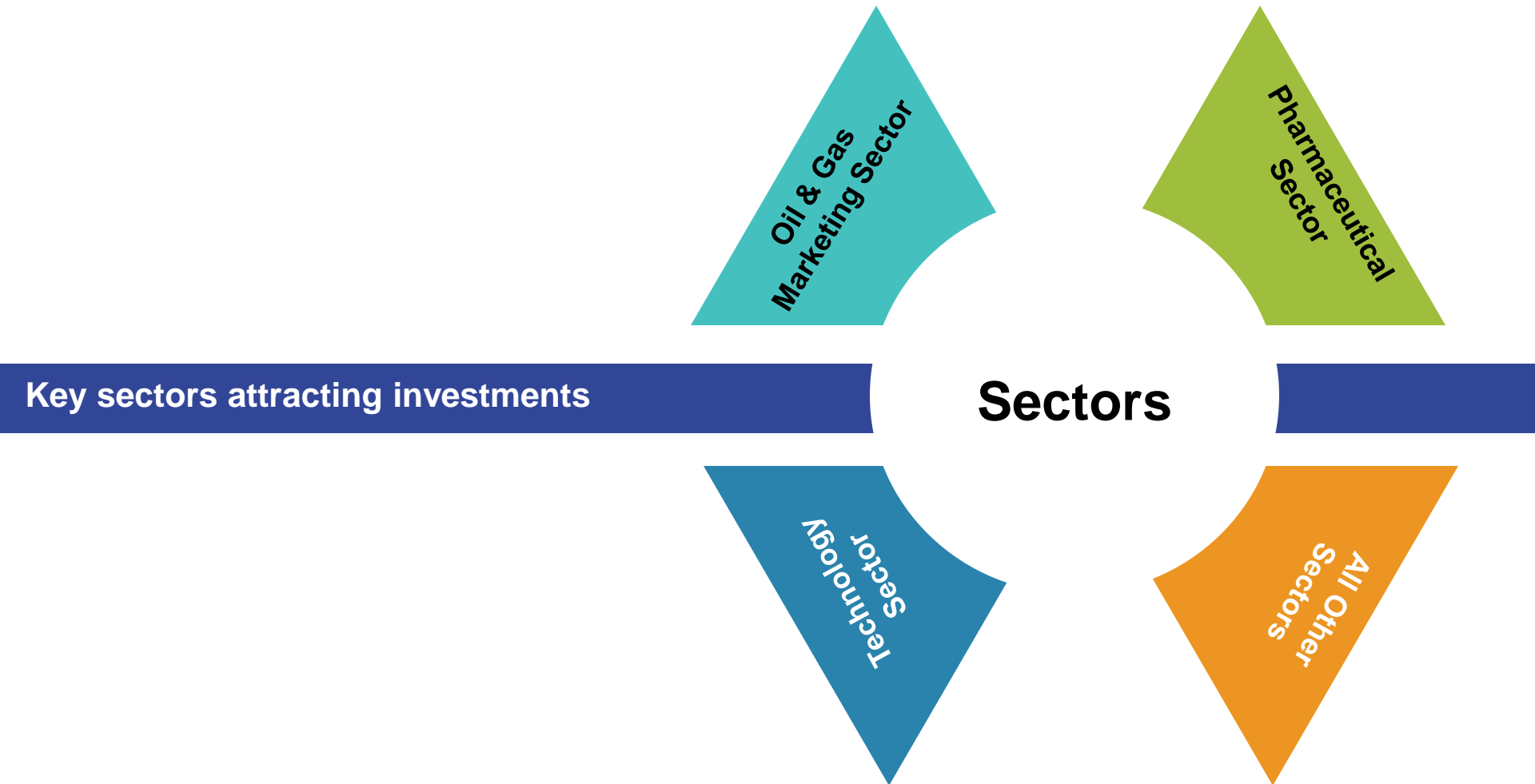
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Merger and Acquisitions since Jan'23

Exhibit: Acquisition filed by companies since Jan'23

Target Company	Sector	Seller	Origin of Seller	Acquirer	Origin of Acquirer	Interest	Status	Transaction size (PKR in bn)
Foreign to Foreign								
Total PARCO Pakistan Ltd	Oil Marketing Company	TotalEnergies	France	Gunvor Group Ltd.	Switzerland	50%	Pending	n/a
Shell Pakistan	Oil Marketing Company	Shell Petroleum Company	UK	Wafi Energy Holding Ltd.	Saudi Arabia	78%	Complete	20
Telenor Pakistan	Technology	Telenor Group	Norway	Etisalat / PTC	UAE / Pakistan	100%	Pending	108
Orion Towers	Technology	Telenor Group	Norway	Etisalat / PTC	UAE / Pakistan	100%	Pending	
Coca-Cola (Pakistan)	Food Products	Atlantic Industries	Cayman Islands	Coca-Cola İçecek (Türkiye)	Turkey	50%	Complete	83
Tabeer Energy Pvt Ltd	Gas Terminal	Diamond Gas International Japan Ltd.	Japan	Bison Energy FZCO	UAE	100%	Pending	n/a
SadaPay Pvt Ltd	Bank/Technology	SadaPay Technologies Ltd.	UAE	PPR Holding A.S	Turkey	100%	Complete	n/a
Ontex Pakistan Pvt Ltd	Personal Care Products	Ontex Group NV	Belgium	Asaia Holding FZ	UAE	100%	Complete	n/a
Advans Pakistan Microfinance Bank Ltd	Bank/Technology	Advans S.A SICAR	Luxembourg	MNT Halan Pak B.V	Egypt/Netherlands	100%	Complete	n/a
Foreign to Local								
Assets of six products of Pfizer Pakistan Ltd	Pharmaceuticals	Pfizer Pakistan Ltd	USA	Lucky Core Industries Ltd.	Pakistan	100%	Complete	n/a
Safe Guard Soap business	Personal Care Products	Procter & Gamble	USA	Nimar Industrial Chemicals Ltd.	Pakistan	100%	Complete	n/a
Assets of Bayer Pakistan Pvt Ltd	Pharmaceuticals	Bayer AG	Germany	OBS Pakistan	Pakistan	100%	Complete	7
Local to Foreign								
Gas and Oil Pakistan Ltd	Oil Marketing Company	Gas and Oil Pakistan Ltd	Pakistan	Saudi Aramco	Saudi Arabia	40%	Complete	22
ZIL Ltd.	Personal Care Products	ZIL Ltd.	Pakistan	New Future Consumer International	UAE	85%	Complete	2
Reon Energy Ltd	Power	Dawood Lawrencepur Ltd	Pakistan	Juniper International FZ LLC	UAE	100%	Complete	n/a
Unity Foods Ltd.	Food Products	Unity Foods	Pakistan	Wilmar Pakistan Holdings	Singapore/Pakistan	6%	Complete	n/a
Gamalux Oleochemicals Ltd	Personal Care Products	Shareholders	Pakistan	SNA Equity SDN BHD	Malaysia	51%	Complete	1
Alif Innovations	Technology	Shareholders	Pakistan	Alif Holdings	UK	100%	Complete	n/a
Tez Financial Services Ltd	Bank/Technology	Shareholders	Pakistan	OrientSwiss S.A	Switzerland	100%	Complete	n/a
Assets of Quixel Pakistan Ltd.	Technology	Quixel Pakistan Ltd.	Pakistan	Epic Games Scanning Service	UK	100%	Complete	n/a
Eon Onebyte Pvt Ltd	Technology	Shareholders	Pakistan	Matrix Analytics Inc	USA	100%	Complete	n/a

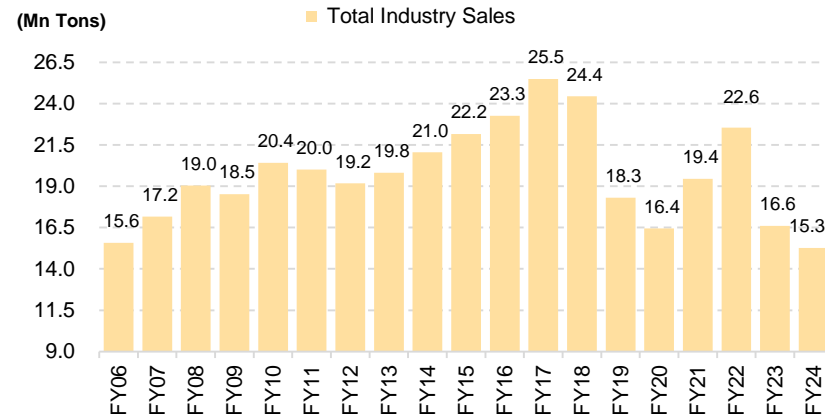
Source(s): CCP, AHL Research



OMC: Shifting dynamics of the industry

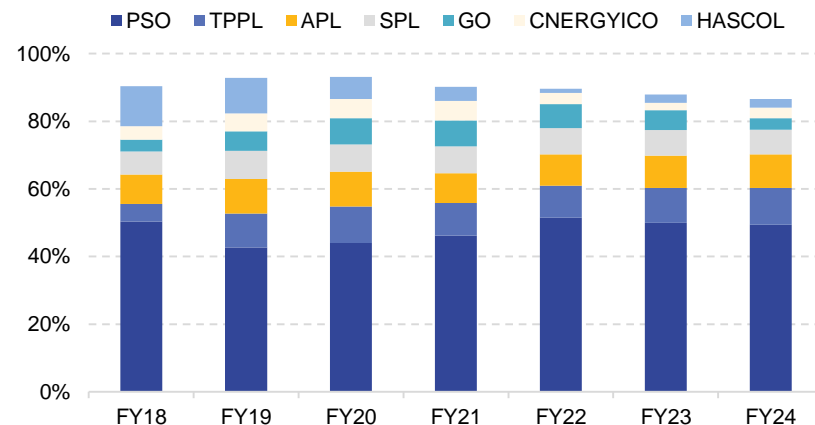
- Pakistan's oil marketing industry is thriving, marked by an exciting transformation driven by a series of mergers and acquisitions.
- While some established foreign players like Shell Petroleum and TotalEnergies are transitioning out, this shift opens the door for new entrants engaged in capturing the space so created in this sector.
- Prominent newcomers such as Wafi Energy Holding, Gunvor Group, and Saudi Aramco are stepping in to fill the gaps, as well as bring in fresh investment.
- In May'24, Kingdom of Saudi Arabia's Aramco, which, with a market capitalization of USD 2trn, and one of the most influential energy companies of the world, has made its first investment in Pakistan, by acquiring a 40% stake in Gas and Oil Pakistan Ltd (GO) for approximately PKR 56bn (USD 200mn) signifying its strong confidence in the Pakistan.
- Wafi Energy Holding successfully purchased a 77% stake in Shell Pakistan (SHELL) from Shell Petroleum Company Ltd for PKR 118/share, totaling 166mn shares, and is now looking to expand further with an additional 11.29% stake at PKR 155.11/share.
- TotalEnergies is collaborating with Gunvor Group to sell 50% of its stake in Total PARCO Pakistan, highlighting the dynamic nature of foreign investment in the region.
- With Pakistan's population rising to 241.5mn in 2023—a remarkable 31% increase since 2013—the demand for petroleum products is poised for significant growth, especially as Pakistan currently has a fairly low per capita consumption, when compared with several developing countries.
- On average, around 48% of petroleum products are sourced by Oil Marketing Companies (OMCs) from local refineries, while the remaining 52% are imported.

Exhibit: OMC sales volumes



Source (s): OCAC, AHL Research

Exhibit: Market Share major OMCs



Source (s): OCAC, AHL Research

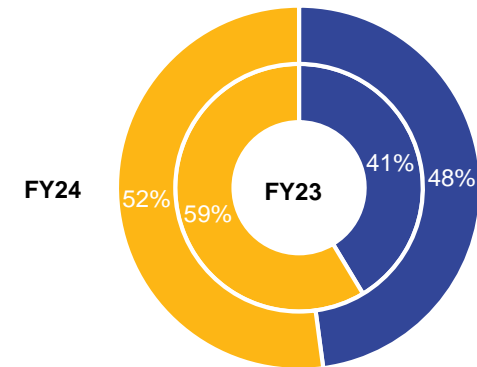
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OMC: Shifting dynamics of the industry

- The existing local refineries are currently unable to meet domestic demand, not only in quantitative terms, but the product range and specifications required; the new refinery policy is set to enhance investment in state-of-the-art refining capacity.
- KSA has indicated its intention to set up a modern refinery, which is likely to take about 5-6 years to come online, allowing for a significant reduction in imported petroleum products over time.
- The government's consideration of deregulating petroleum prices is a forward-thinking move that will empower OMCs to set their own prices, further attracting foreign investors to the vibrant local market.

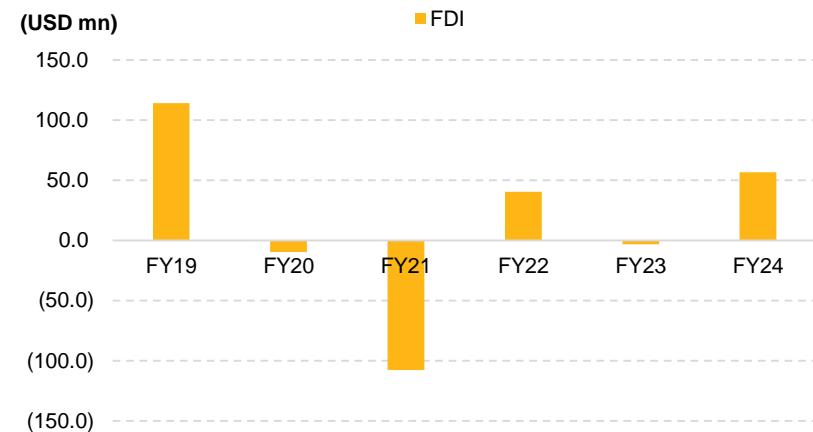
Exhibit: Percentage sale of locally refined and imported petroleum

■ Locally Refined Petroleum ■ Imported Petroleum



Source (s): PBS, OCAC, AHL Research

Exhibit: FDI in Transportation & Storage Sector

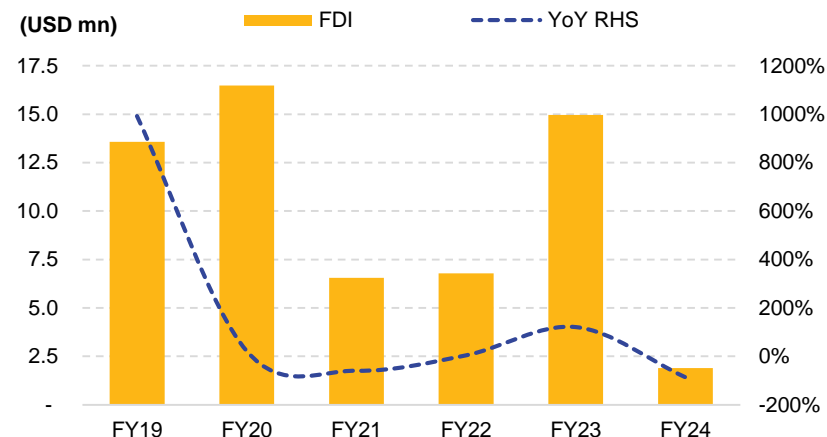


Source (s): SBP, AHL Research

Pharmaceutical: De-regulation to attract FDI

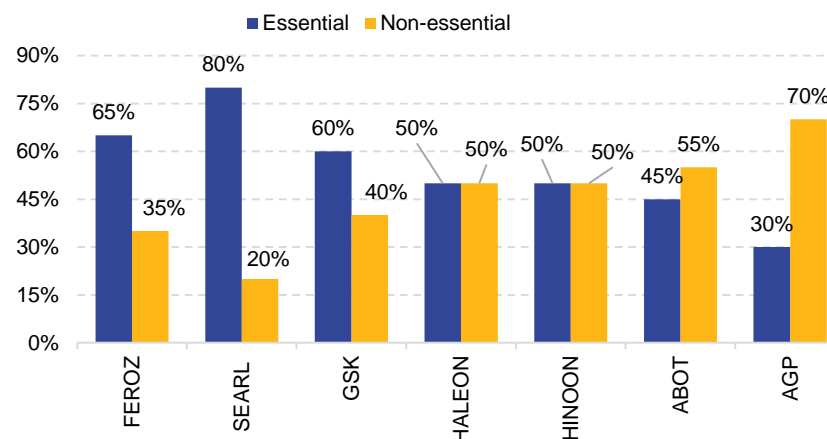
- Most of the foreign pharmaceutical companies which entered the Pakistan market several decades ago, were involved in relative simplistic conversions of imported formulations, with an insignificant composition of locally manufactured basic chemicals. On the other hand, some home-grown pharmaceutical companies are already into the production of APIs.
- Over past two years, the old pharmaceutical companies working on imported ingredients, have been exiting, with the domestic companies taking over the space.
- Recently, Pfizer Pakistan Ltd (subsidiary of Pfizer Inc.) has sold off six of its assets to Lucky Core Industries Limited. With this, Lucky Core Industries Limited will now have the rights to manufacture products such as Ansaïd, Ponstan, Ponstan Forte, Basoquin, Deltacortril, Lysovit, Corex-D, and Mycitracin.
- Moreover, Japanese based pharma company Eisai Co Limited has sold off two product categories such as Methycobal and Myonal.
- Furthermore, Bayer Pakistan (subsidiary of German company Bayer AG) has also sold off its assets along with rights to produce and distribute 12 of its products to OBS Pakistan for PKR 7bn.
- In the view of de-regulation of non-essential medicines by the Govt. during 2024 and the growing size of Pakistan's population, more pharmaceutical companies are expected to enter into the market instead of divesting.

Exhibit: Human health and social work activities



Source (s): SBP, AHL Research

Exhibit: Sales mix of essential and non-essential medicines



Source (s): Company reports, corporate briefings AHL Research

Pharmaceutical: De-regulation to attract FDI

- We have also witnessed the recent listing of Biosciences, a joint venture between Freozsons Laboratories and Grupo Empresarial Bago specializing in the manufacture of Hepatitis and Oncology medicines. In addition, there are unlisted companies such as Bio-Labs (Private) Limited which has been, without any fanfare, producing for 100% export, since the advent of Covid-19, Nirmatrelvir and Ritonavir (Trade names Plaxovid and Bioxovid).

Exhibit: Production of Pharmaceutical Products

Products	Unit	FY24	FY23	YoY
Tablets	`000' Nos.	15,681,875	15,317,263	2%
Liquids/syrups	`000' Litres	200,153	153,288	31%
Injections	`000' Nos.	951,978	937,374	2%
Capsules	`000' Nos.	2,890,933	2,753,694	5%
Galenicals (tincture)	`000' Litres	27	38	-29%
Ointments	`000' Kgs.	2,402	3,381	-29%

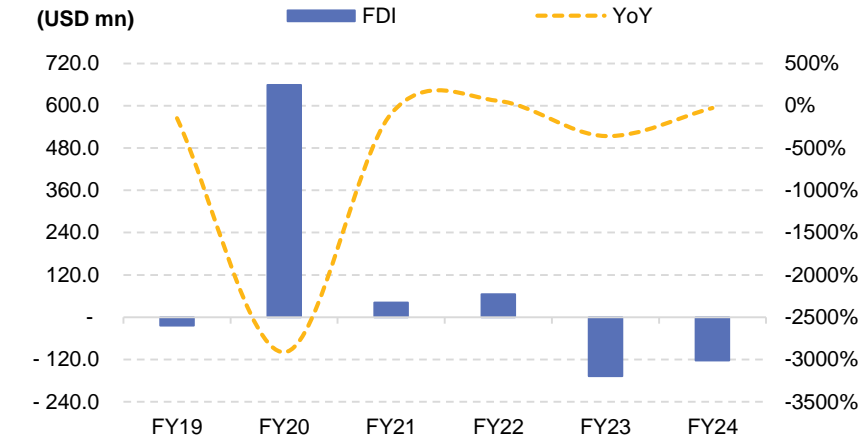
Source (s): PBS, AHL Research

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Technology Sector: Untapped potential

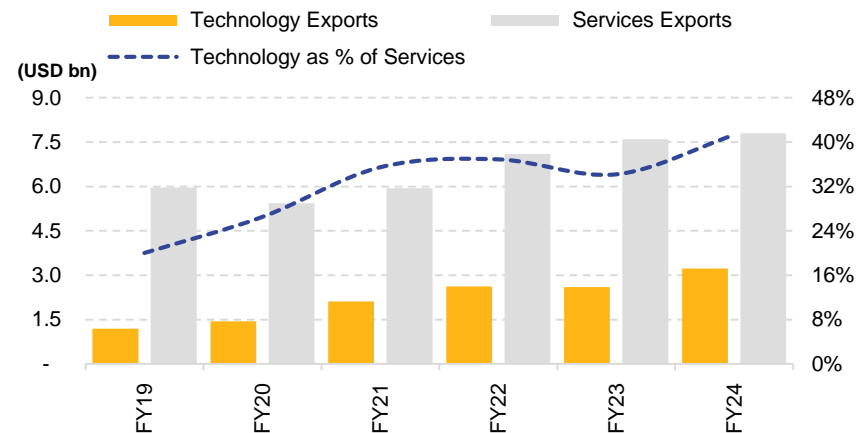
- Since Jan'23, foreign investors have shown keen interest in IT sector of Pakistan, especially Fintech segment.
- Turkish Fintech company Papara has acquired 100% in Fintech SadaPay Pvt Ltd in Pakistan.
- Moreover, a micro finance bank Advans Pakistan Microfinance Bank Ltd owned by Luxembourg company in Pakistan was off to Netherland company MNT Halan.
- While the Norwegian company Telenor is selling off Telenor Pakistan to UAE's Etisalat run Pakistan Telecommunications Ltd. Important to mention that, Telenor has already exited from 9 countries over the last 7 years.
- The government of Pakistan is focusing on developing IT Parks in order to promote and grow the sector. In addition, the State Bank of Pakistan has taken several important facilitating measures, in response to the requirements of foreign Tech companies.
- The Punjab Government is building its first IT City in Lahore in which, some major Tech companies have shown an interest.
- Keeping these facts in perspective, there is a potential of further new investments from Tech companies from across the world.
- With the imminent introduction of 5G in the country, we should expect to attract further foreign investments going forward.

Exhibit: FDI in information & communication



Source (s): SBP, AHL Research

Exhibit: Technology exports



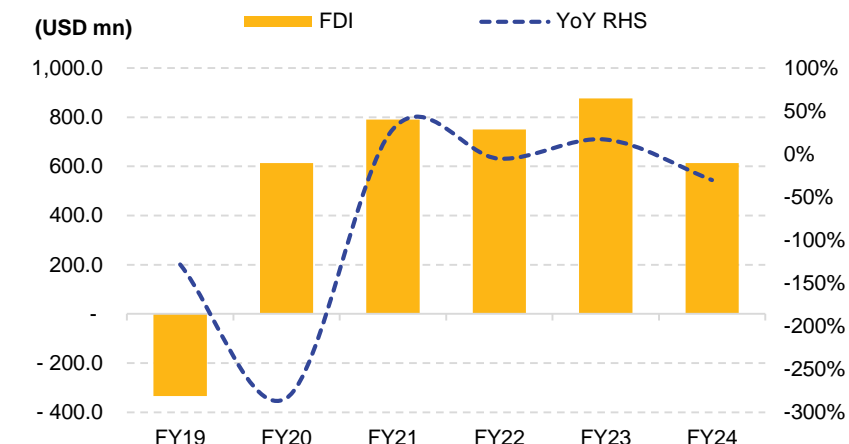
Source (s): SBP, AHL Research

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Other Sectors

- **Personal care products:** This sector had historically been dominated by some foreign companies. However, over the period, several high-quality domestic players have emerged in this sector, which has created significant competitive challenges for the traditionally dominant players.
- Two major transactions were witnessed during the said period. A USA based company Procter and Gamble has sold off the soap manufacturing unit, which produced Safeguard Soap, to domestic company Nimir Industrial Chemicals Limited, granting the latter rights to manufacture Safeguard soap.
- Likewise, Pakistan company Gamalux Oleochemicals Ltd was sold off to Malaysian company SNA Equity SDN BHD for ~PKR 1bn.
- Also, UAE based company New Future Consumer International acquired 85% stake in the well-run domestic soap producer Zil Limited.
- The Belgian company Ontex ES Hold Co has decided to sell Ontex Pakistan Pvt Ltd to UAE based company Asaia Holding FZ. The sale of the company is in the final stages. Ontex Pakistan Pvt Ltd produces and sells Infant Diapers, Wet Wipes, Adult Incontinence products, and Feminine hygiene products.
- This sector is likely to witness continuing foreign interest given the nature of the products and the growing per capita income, as well as urbanization on the significant change in the exchange rate, has helped create the demand of local manufactured products, to replace imported products.
- **Power:** Foreign companies have shown interest in renewable power companies during the period. One such transaction involves Pakistani group Dawood Lawrencepur Ltd selling off Reon Energy Ltd to UAE based company Juniper International FZ LLC for PKR 300mn.
- The foreign investors are more inclined towards renewable energy in the power sector alongside investment in transmission and distribution infrastructure.

Exhibit: FDI in Electricity, gas, steam, and air conditioning supply



Source (s): SBP, AHL Research

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