

# Market Strategy

## The recent correction is a window of opportunity for investors

20-Dec-2024

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## The recent correction is a window of opportunity for investors

- The KSE100 index has declined by 9,894 points (-8.5%) from its peak of 116,169 (16-Dec-2024) to 106,275.
- The sharp decline can be attributed to profit-taking combined with redemptions in mutual funds.
- During the last three trading sessions, mutual funds have sold securities worth PKR 17.6bn, with a net sale of PKR 9.8bn.
- Individuals remained the largest buyers, with a net buying of PKR 6.1bn, followed by banks and companies with a net buying of PKR 2.1bn and 1.7bn respectively.
- The KSE100 2025 forward PE ratio of 5.7x is still substantially below the 10-year average P/E of 8.2x. This discount signals a sharp undervaluation of the index, suggesting that the market has 44% room for appreciation to 153k points when it aligns closer to historical valuation multiples.
- The market cap to GDP ratio is currently at 11.9%, well below the 17.6% average for the last ten years. A normalization of this ratio would imply a 48% upside for the KSE-100 index to 158k points.
- We reaffirm our view that after-tax fixed income returns for 2025 will remain in single digits, prompting a potential reallocation of funds from fixed-income instruments to equities.
- Our estimation suggests that with every 1% reallocation from fixed income to equities, mutual funds and insurance companies could potentially deploy PKR 33.6bn and PKR 14.4bn, respectively, into the market.
- The recent market correction presents a compelling buying opportunity for investors to establish new positions.
- Our preferred stocks include PSO, OGDC, PPL, FFC, FCCL, MLCF, DGKC, AKBL, BOP, HUMNL, SYS, and HTL.

**Exhibit:** Companies with the largest price drops since the market peak

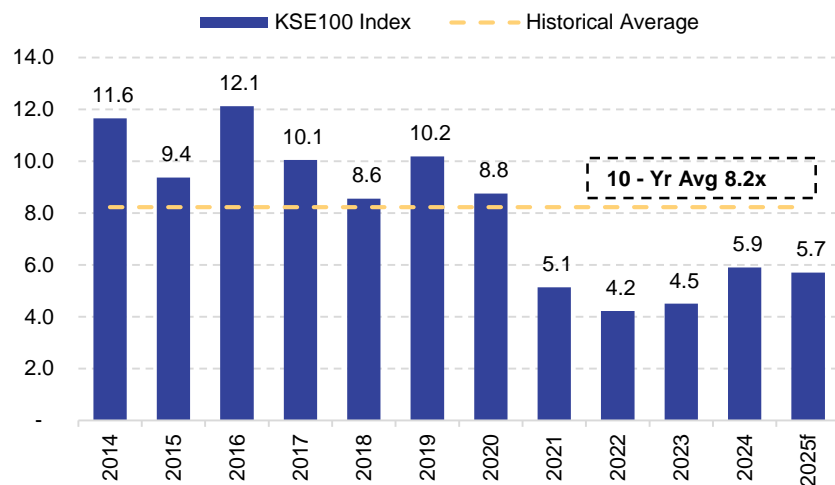
Index/Company	Index Level / Price		Change	LTM PE (x)
	16-Dec-24	19-Dec-24		
<b>KSE100 Index</b>	<b>116,169</b>	<b>106,275</b>	<b>-8.5%</b>	<b>5.95</b>
MARI	899.73	655.90	-27.1%	10.18
NML	125.19	101.04	-19.3%	4.59
KOSM	7.99	6.52	-18.4%	nm
CENERGY	7.12	5.84	-18.0%	16.43
FCEPL	93.45	76.71	-17.9%	30.13
NBP	72.43	59.81	-17.4%	7.35
SHEL	245.10	203.13	-17.1%	348.22
GHGL	33.89	28.49	-15.9%	4.54
MLCF	49.98	42.11	-15.7%	6.68
DGKC	109.82	92.54	-15.7%	59.10
KEL	6.19	5.22	-15.7%	nm
AVN	64.88	54.91	-15.4%	28.98
TRG	62.00	52.87	-14.7%	nm
SEARL	114.80	97.94	-14.7%	30.73
FFBL	96.26	82.30	-14.5%	4.70
BWCL	377.31	323.46	-14.3%	13.07
PABC	136.84	117.44	-14.2%	9.50
HCAR	342.89	294.48	-14.1%	17.58
PIOC	218.29	188.07	-13.8%	8.11
PIBTL	9.36	8.07	-13.8%	6.72
TGL	153.63	132.81	-13.6%	5.29
THALL	452.60	395.80	-12.5%	14.08
LUCK	1,238.84	1,084.18	-12.5%	4.83
FATIMA	80.16	70.41	-12.2%	4.51
YOUW	4.49	3.95	-12.0%	nm

Source (s): Company Financials, PSX, AHL Research

# Market Strategy

## Valuations are still compelling

**Figure:** KSE100 PE is at 31% discount from its 10Y average PE of 8.2x



Source (s): Bloomberg, AHL Research

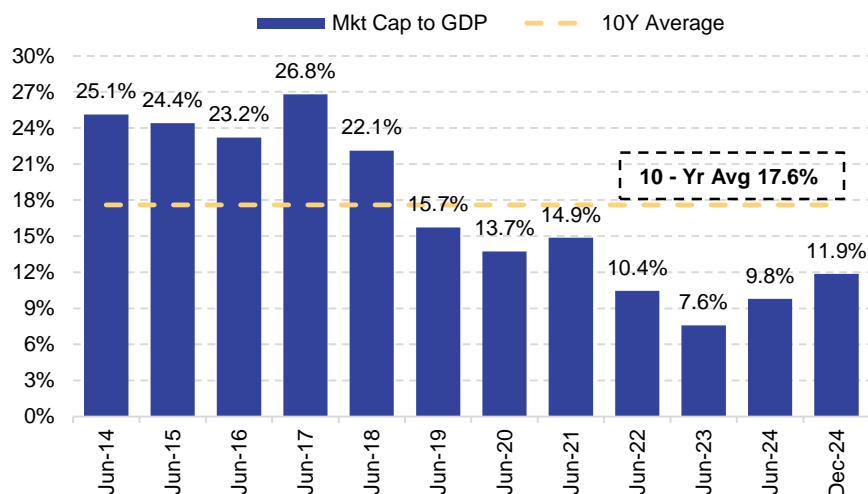
**Exhibit:** KSEALL Ownership

	KSE ALL Ownership		Equity % of AUMS
	2017	2024	2024
Mutual Funds	12.0%	9.4%	9.6%
Banks	7.7%	5.5%	0.7%
State Life Insurance (SLIC)	4.2%	5.6%	15.8%
Insurance (ex. SLIC)	4.0%	1.2%	11.9%
Foreign	28.1%	2.6%	na
Other*	44.0%	75.8%	na

Source (s): MUFAP, FMR, Company Financials, AHL Research

\*Others include; Individuals, Companies, NBFCs, Other Organizations, and Brokers

**Figure:** Historical trend of market cap to GDP



Source (s): Bloomberg, PBS, AHL Research

**Exhibit:** Sensitivity of additional funds allocation in equities

PKR bn	Additional			
	Current	1.0%	3.0%	5.0%
Mutual Funds	356.0	33.6	100.9	168.2
<b>Equity AUMs %</b>	<b>9.6%</b>	<b>10.5%</b>	<b>12.3%</b>	<b>14.1%</b>
State Life Insurance Corporation	209.6	11.2	33.5	55.8
<b>Equity AUMs %</b>	<b>15.8%</b>	<b>16.7%</b>	<b>18.3%</b>	<b>20.0%</b>
Insurance (Ex. SLIC)	43.7	3.2	9.7	16.2
<b>Equity AUMs %</b>	<b>11.9%</b>	<b>12.8%</b>	<b>14.5%</b>	<b>16.3%</b>
<b>Total</b>	<b>609.3</b>	<b>48.0</b>	<b>144.1</b>	<b>240.2</b>
<b>% of FF Mkt Cap</b>	<b>18.2%</b>	<b>1.4%</b>	<b>4.3%</b>	<b>7.2%</b>

Source (s): MUFAP, FMR, Company Financials, AHL Research

# Market Strategy

## Prices of 91 companies have fallen

**Exhibit:** Companies with the largest price drops since the market peak

Prices					Prices					Prices				
Company	16-Dec-24	19-Dec-24	Change	LTM PE (x)	Company	16-Dec-24	19-Dec-24	Change	LTM PE (x)	Company	16-Dec-24	19-Dec-24	Change	LTM PE (x)
MARI	899.73	655.90	-27.1%	10.18	FCCL	38.16	33.97	-11.0%	9.41	AGP	170.27	161.04	-5.4%	31.58
NML	125.19	101.04	-19.3%	4.59	LOTCEM	21.35	19.06	-10.7%	9.96	SRVI	1,536.01	1,453.43	-5.4%	881.56
KOSM	7.99	6.52	-18.4%	nm	KOHC	404.24	361.28	-10.6%	7.00	JDWS	724.31	689.64	-4.8%	4.40
CNERGY	7.12	5.84	-18.0%	16.43	PKGS	640.20	573.13	-10.5%	20.26	NCPL	28.04	26.73	-4.7%	1.97
FCEPL	93.45	76.71	-17.9%	30.13	SNGP	106.81	96.04	-10.1%	5.21	MEHT	709.81	677.29	-4.6%	135.30
NBP	72.43	59.81	-17.4%	7.35	PPL	211.40	190.32	-10.0%	4.78	NESTLE	7,586.36	7,241.37	-4.5%	25.29
SHEL	245.10	203.13	-17.1%	348.22	PTC	26.04	23.45	-9.9%	nm	ABOT	1,243.07	1,189.84	-4.3%	23.28
GHGL	33.89	28.49	-15.9%	4.54	LCI	1,135.15	1,025.42	-9.7%	8.43	FABL	47.10	45.35	-3.7%	2.43
MLCF	49.98	42.11	-15.7%	6.68	OGDC	233.29	211.17	-9.5%	4.52	NATF	189.93	183.06	-3.6%	37.60
DGKC	109.82	92.54	-15.7%	59.10	AKBL	37.45	33.92	-9.4%	2.33	JVDC	55.00	53.07	-3.5%	8.70
KEL	6.19	5.22	-15.7%	nm	GLAXO	416.97	378.66	-9.2%	26.76	HINOON	925.81	895.00	-3.3%	16.11
AVN	64.88	54.91	-15.4%	28.98	APL	551.82	502.34	-9.0%	5.71	HGFA	10.86	10.50	-3.3%	nm
TRG	62.00	52.87	-14.7%	nm	ENGRO	425.88	387.89	-8.9%	20.30	HBL	159.63	154.49	-3.2%	3.85
SEARL	114.80	97.94	-14.7%	30.73	SAZEW	1,172.58	1,074.47	-8.4%	5.65	FHAM	18.80	18.20	-3.2%	2.91
FFBL	96.26	82.30	-14.5%	4.70	DCR	23.49	21.54	-8.3%	5.90	POL	642.77	623.42	-3.0%	5.53
BWCL	377.31	323.46	-14.3%	13.07	NPL	36.52	33.61	-8.0%	2.13	EFUG	119.36	116.00	-2.8%	4.87
PABC	136.84	117.44	-14.2%	9.50	NRL	312.39	288.77	-7.6%	nm	BAHL	122.50	119.07	-2.8%	3.26
HCAR	342.89	294.48	-14.1%	17.58	UNITY	35.57	32.96	-7.3%	14.74	ATRL	734.46	713.95	-2.8%	4.45
PIOC	218.29	188.07	-13.8%	8.11	DAWH	217.44	201.51	-7.3%	nm	BAFL	76.10	74.14	-2.6%	2.64
PIBTL	9.36	8.07	-13.8%	6.72	AICL	52.92	49.09	-7.2%	5.09	PSEL	812.36	791.76	-2.5%	63.68
TGL	153.63	132.81	-13.6%	5.29	ISL	89.26	83.12	-6.9%	13.31	UBL	341.39	333.84	-2.2%	6.36
THALL	452.60	395.80	-12.5%	14.08	ATLH	859.91	801.61	-6.8%	7.79	SCBPL	52.55	51.50	-2.0%	4.56
LUCK	1,238.84	1,084.18	-12.5%	4.83	BNWM	37.41	35.00	-6.4%	nm	BOP	9.51	9.32	-2.0%	2.34
FATIMA	80.16	70.41	-12.2%	4.51	HUBC	128.83	120.61	-6.4%	2.17	COLG	1,534.69	1,505.65	-1.9%	19.55
YOUW	4.49	3.95	-12.0%	nm	EPCL	39.76	37.30	-6.2%	26.94	PSO	386.68	380.69	-1.5%	nm
CHCC	295.47	259.94	-12.0%	7.38	MEBL	224.47	211.40	-5.8%	3.61	KAPCO	37.50	37.06	-1.2%	7.60
FFC	420.11	370.59	-11.8%	9.43	MUREB	704.93	664.19	-5.8%	6.24	PKGP	107.00	105.96	-1.0%	5.65
INIL	187.83	165.82	-11.7%	12.94	ILP	73.06	68.88	-5.7%	4.20	UPFL	20,820.00	20,625.42	-0.9%	17.06
MUGHAL	85.57	75.96	-11.2%	17.09	EFERT	204.51	192.90	-5.7%	8.84	HMB	82.74	82.13	-0.7%	3.53
SYS	622.28	552.77	-11.2%	23.13	MTL	627.60	592.82	-5.5%	14.07	MCB	258.79	257.08	-0.7%	4.38

Source (s): Company Financials, PSX, AHL Research

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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 0% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than 0% 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;

- 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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